

VC market sentiment climbs to new record high, but increases are minimal

1 December 2021

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- Sentiment in the VC market improved slightly, marking a new record high
- Some of the sentiment components moved sharply: tax framework up, exit opportunities down
- Fundraising and deal flow continued to receive top marks

VC market sentiment continues to climb

Business sentiment in the German venture capital market continued to improve in the third quarter of 2021. The business climate indicator of the early-stage segment rose by 4.9 points to 42.2 balance points, slightly surpassing its previous high. Business situation assessments and business expectations both improved. The indicator for the current business situation rose by 6.1 points to 41.5 balance points, while the indicator for business expectations increased by 3.8 points to 42.8 balance points.

Assessments differed sharply: tax framework up, exit opportunities down

The sentiment components show a particularly striking variation of two indicators: exit opportunities and the tax framework. After the indicator of exit opportunities reached an all-time high in the previous quarter, it scored noticeably lower in the third quarter. Evidently, the decline was mainly triggered by a drop in sentiment regarding trade sales. The corresponding indicator nearly halved. The exit transactions of the third quarter, however, show nothing unusual to explain this slump – especially since the assessments of the remaining exit channels remained on or close to their all-time highs. But there is an explanation for the jump in the assessment of the tax framework. The Fund Jurisdiction Act (Fondsstandortgesetz), which also provides for improved tax regulations, entered into force in August. Furthermore, investors are much more satisfied with the development of defaults and write-downs. Thus, the assessment of write-down pressure has also seen a double-digit improvement. The indicator for entry valuations rose slightly from its record low of the last quarter. Nevertheless, it remained deep in 'red' territory, which reflects the persistently competitive entry valuations. The fundraising climate and assessments of the strength of deal flow changed little but continued to show very good levels, remaining at or near their all-time highs. At the same time, the indicators for the quality of deal flow and investment willingness remained steady in the 'green'.

Development of VC business climate indicator



Key data of VC sentiment components

Values in balance points

	Q3/21	Δ vs. Q2/21	High	Low
Business climate	+42.2	+4.9	+42.2	-62.9
Business situation	+41.5	+6.1	+41.5	-58.3
Business expectations	+42.8	+3.8	+42.8	-71.5
Fundraising	+69.5	-1.5	+71.1	-69.9
Entry evaluations	-44.2	+9.3	+50.6	-53.5
Exit opportunities	+39.3	-30.5	+69.8	-76.1
<i>Incl.: Trade sales</i>	+27.2	-24.8	+52.0	-95.8
<i>Secondaries</i>	+58.7	+6.0	+58.7	-60.6
<i>IPOs</i>	+89.3	-5.5	+94.8	-56.5
New investments	+21.7	+2.1	+31.6	-72.0
Dealflow quantity	+31.8	+1.7	+31.8	-43.5
Dealflow quality	+16.9	+1.1	+26.1	-21.6
Funding	+12.8	-9.9	+38.1	-57.4
Taxation framework	+50.9	+44.9	+50.9	-27.5
Write-down pressure	+23.4	+17.2	+28.2	-50.1

Colour scheme of sentiment indicator dots: values in the lowest tercile are marked 'red', in the medium tercile 'amber' and in the highest tercile 'green'. Indicator design may lead to deviations from previous publications.

Source: KfW Research, BVK and DBVN.

Comments on the current trend

“Although VC market sentiment has improved only marginally in the third quarter, the new record high is in line with the development of the market”, said Dr Fritzi Köhler-Geib, Chief Economist of KfW. “Thus, during the last quarter, VC deals were again realised in a volume we used to see only in a full year. The competitive valuations of VC deals are a reflection of this. They could pick up further in the next quarters as well, as German start-ups are also regarded as very promising among international investors, according to a recent survey. The league of domestic unicorns can therefore be expected to grow further.”

“Records are falling in the venture capital market this year. It is not just market sentiment that is at an all-time high. We also expect a record year in investment activity”, commented Ulrike Hinrichs, Managing Director of the German Private Equity and Venture Capital Association (BVK). “A growing number of unicorns and very large financing rounds on the one hand and numerous small early-stage financing transactions on the other hand currently exemplify a highly dynamic German venture capital market. Investors do not appear to be put off by scepticism towards the high valuation level either. We currently see very good times for start-ups and their investors.”

Calculation of the German Private Equity Barometer

The **German Private Equity Barometer** is based on a quarterly survey of the members of the German Private Equity and Venture Capital Association (Bundesverband Deutscher Kapitalbeteiligungsgesellschaften – BVK), the member investors of the Deutsche Börse Venture Network (since the 2nd quarter of 2021) and further private equity companies with registered offices in Germany. It reports on business sentiment in the German private equity market on the basis of assessments provided by private equity firms with a focus on mature small and medium-sized enterprises. All sentiment indicators represent the average of the balance of situation assessments (share of ‘good’ minus share of ‘bad’) and the balance of expectations identified at the same time for the coming six months, adjusted by their respective historical mean balance values. Because of the way the barometer is constructed, positive indicator values point to above-average sentiment and negative values to below-average sentiment.

The **German Venture Capital Association** is the voice in the face of the private equity industry in Germany. The association is committed to improving conditions and facilitating access to private equity so that even more businesses in Germany can benefit from private equity. It has some 300 members. These include around 200 private equity companies and investors as well as some 100 consulting firms and service providers of the industry.



Bundesverband Deutscher
Kapitalbeteiligungsgesellschaften e.V.

The **Deutsche Börse Venture Network (DBVN)** was launched in 2015 and is now Europe’s largest network for growth finance and capital market readiness. Focusing on efficient access to capital for high-growth companies with an extensive range of networking and training services. The network of 200+ companies and 450+ investors has already enabled 13 IPOs and numerous trade sales.

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