

VC sentiment indicator is back in the green, offsetting coronavirus losses

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Author: Dr Georg Metzger, phone +49 69 7431-9717, georg.metzger@kfw.de

Press contact: Wolfram Schweickhardt, phone: +49 69 7431 1778, wolfram.schweickhardt@kfw.de

- Sentiment in VC market rose sharply at year-end to break through the closing level of 2019, offsetting coronavirus-induced drastic slump in confidence
- Sentiment indicators have generally rebounded but satisfaction with entry valuations has dipped
- Satisfaction with promotional environment reaches new high

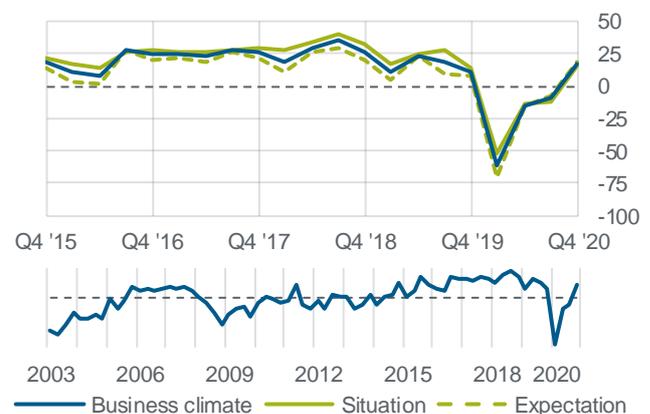
VC market is leaving coronavirus blues behind

Sentiment in the VC market improved significantly at the end of 2020, fully offsetting the coronavirus-induced drastic confidence loss of the start of the year. In the final quarter, the business climate indicator of the early-stage segment rose by 26.7 points to 17.0 balance points. Business situation and expectations assessments improved at similar rates. The indicator for the current business situation rose by 28.3 points to 16.1 balance points, while the indicator for business expectations increased by 25.2 points to 17.8 balance points. The three business climate indicators thus appear to be unimpressed by the renewed lockdown and even exceed the previous pre-coronavirus level. Evidently, the experience from the spring was that the start-up scene is less widely affected by the coronavirus restrictions than initially feared.

Market environment assessed more positively than before the coronavirus crisis

Mirroring the business climate, most indicators for the market environment exhibited higher levels at the end of the coronavirus year of 2020 than a year before. Thus, the indicators for the quality and strength of deal flow are now clearly in the green zone, whereas they were negative at the end of 2019. Also encouraging is how the 'price indicator' evolved, as the coronavirus-induced reduction in entry valuations appears to be continuing. Satisfaction with entry valuations is currently much higher than at the end of 2019, when the indicator was deep in the red zone. The improvement of the market environment is also becoming palpable in indicators that were not able to fully compensate the losses for the year. Thus, although the fundraising climate is below the level at the end of 2019, it is again clearly in the green zone despite the coronavirus slump. Furthermore, satisfaction with the promotional and tax environment improved. This is likely due to the continuation of the coronavirus support for start-ups, the allocation of resources to the 'future fund' under the federal budget for 2021 and the presentation of the draft bill for the new Fund Location Act. Assessments of the promotional environment even reached a new high.

Development of VC business climate indicator



Sources: KfW Research and BVK.

Key data of VC sentiment indicators

Values in balance points

	Q4/20	Δ vs. Q3/20	High	Low
Business climate	● +17.0	▲ +26.7	▶ +35.1	▶ -61.1
Business situation	● +16.1	▲ +28.3	▶ +40.6	▶ -58.8
Business expectations	● +17.8	▲ +25.2	▶ +29.6	▶ -69.8
Fundraising	● +24.3	▲ +9.3	▶ +71.0	▶ -66.9
Entry evaluations	● +1.5	➡ -4.2	▶ +48.9	▶ -51.3
Exit opportunities	● +1.4	▲ +31.4	▶ +53.1	▶ -73.9
New investments	● +8.0	▲ +31.9	▶ +23.1	▶ -69.4
Dealflow quantity	● +22.2	▲ +19.8	▶ +29.0	▶ -42.9
Dealflow quality	● +21.2	▲ +15.6	▶ +27.0	▶ -22.3
Funding	● +39.1	▲ +18.1	▶ +39.1	▶ -56.9
Taxation framework	● +18.6	➡ +5.6	▶ +37.7	▶ -26.8
Innovation	● +11.1	▲ +15.7	▶ +38.6	▶ -44.8
Write-downs	● -5.3	▲ +7.9	▶ +28.8	▶ -49.5

The colour coding of the balances and the variations is based on the historical values of the respective indicator (1st tercile 'red', 2nd tercile 'amber' and 3rd tercile 'green'). Indicator design may lead to deviations from previous publications.

Sources: KfW Research and BVK.

KfW Research

German Venture Capital Barometer 4th Quarter 2020

Comments on the current trend

'The venture capital year of 2020 ended on a positive note. The progress made towards future funds and with the Fund Location Act were two important mood enhancers in the final quarter which, unimpressed from the new lockdown, provided a good basis for the start of the year', said Dr Fritzi Köhler-Geib, Chief Economist of KfW. 'So far, the coronavirus shock of the beginning of 2020 has been digested faster than expected, so that business sentiment in the final quarter of 2020 was even higher than the pre-coronavirus level. What is pleasing is that important indicators such as fundraising and deal flow have recovered noticeably without entry prices rising by the same rates. That is a good basis for new investments. Here in particular, start-ups that have demonstrated during the coronavirus crisis that their innovative business ideas meet demands can be tomorrow's big winners.'

'The newly introduced lockdown measures have so far weighed less on venture capital providers' sentiment than was the case in the spring. VCs and their start-ups have learned to deal with the situation and assert themselves in a challenging environment', said Ulrike Hinrichs, Managing Director of the German Private Equity and Venture Capital Association (BVK). 'The rapid sentiment rebound attests to the increased robustness and maturity of the market and makes us optimistic for 2021. The coronavirus has not dented demand for venture capital, quite the reverse is true. Moreover, this year we also expect important impetus from the individual measures of the future fund. With this fund the German Federal Government has made an important contribution to supporting the German start-up and venture capital ecosystem.'

Calculation of the German Venture Capital Barometer

The German Venture Capital Barometer is based on a quarterly survey of the approx. 200 members of the German Private Equity and Venture Capital Association (Bundesverband Deutscher Kapitalbeteiligungsgesellschaften – BVK) and further German private equity companies. The German Venture Capital Barometer has been published as a separate sentiment indicator for the German venture capital market since the second quarter of 2019. It was previously part of the German Private Equity Barometer, the sentiment barometer for the overall private equity market in Germany. It reports the business climate in the German venture capital market on the basis of assessments provided by private equity firms with a focus on investments in start-ups and young technology companies. 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 value.