

VC sentiment maintained previous record level at the end of the year

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- Assessments of current business situation rose to all-time high, expectations remained just under previous quarter's record high level
- Fundraising climate virtually unchanged on highest level for the third consecutive quarter
- Strength and quality of deal flow received top scores

VC sentiment unchanged at year-end

In the fourth quarter of 2021 German venture capital market sentiment continued on the record high of the previous quarter. The sentiment indicator for the early-stage segment continued on 41.6 balance points, ending the year 2021 on an all-time high. On average for the year, business sentiment was clearly the highest after 2018 since the barometer was launched. The new high was primarily the result of assessments of the current business situation, which improved all throughout the year. At the end of the year the corresponding indicator rose by 4.5 points to 45.4 balance points, while the indicator for business expectations fell moderately by -4.5 points to 37.9 balance points.

Only few improvements in sentiment components

Of the individual sentiment components, assessments of the quality of deal flow changed the most and rose strongly in the final quarter. As the level of deal flow was also assessed slightly more positively, both deal flow components ended the year with top scores. Both indicators also achieved higher levels on average for the year than in all previous years. Demand for VC from promising start-ups was thus higher in 2021 than ever before. For the year as a whole, the fundraising environment was also better than it has ever been. Assessments of the fundraising environment were on the highest level in all four quarters. The exit environment was different, however, with assessments climbing to the highest level in the second quarter but deteriorating again over the course of the year. On average for the year, scores for the exit environment were thus just barely above the previous top level of the years 2017/2018, when assessments were also much less volatile. Within the exit channels, however, the IPO environment was outstanding in 2021. Assessments have never been better since the barometer was launched. This reflects the high number of actual IPOs. On the flipside, satisfaction with entry valuations in Q2/2021 fell to a record low. On average for the year, however, it was hardly any worse than in the pre-coronavirus years – although start-up valuations in 2021 were even more aggressive based on unicorn growth. Thus, the number of billion-dollar start-ups in Germany doubled last year despite several exits of existing

Development of VC business climate indicator



Key data of VC sentiment components

Values in balance points

	Q4/21	Δ vs. Q3/21	High	Low
Business climate	+41.6	+0.0	+41.6	-63.4
Business situation	+45.4	+4.5	+45.4	-58.9
Business expectations	+37.9	-4.5	+42.3	-72.0
Fundraising	+70.5	+1.9	+70.5	-70.9
Entry evaluations	-42.8	+0.7	+51.2	-52.9
Exit opportunities	+29.2	-9.7	+69.4	-76.5
New investments	+15.8	-5.4	+31.1	-72.5
Dealflow quantity	+34.7	+3.4	+34.7	-44.0
Dealflow quality	+30.3	+13.8	+30.3	-22.0
Funding	+7.1	-5.6	+38.0	-57.5
Taxation framework	+48.0	-2.3	+50.3	-28.2
Write-down pressure	+13.8	-9.4	+28.0	-50.3
Interest level	-10.8	-8.2	+34.8	-51.0

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.

KfW Research German Venture Capital Barometer 4th Quarter 2021

unicorns. German start-ups are popular with international investors, which should keep valuations competitive. However, the US has initiated the interest turnaround. The sentiment indicator for the interest level fell sharply as a result. The last time VC investors assessed the expectation component for the interest level more negatively than now

was in Q3/2008. Higher interest rates have different effects on different parameters of the investment process (e.g. fundraising, valuation level, exit opportunities etc.). In what way the currently high investment appetite of VC investors will be affected in the future is uncertain. That raises the question of what will come after the year of superlatives.

Comments on the current trend

‘Given the record investment we saw in 2021, the VC business environment was set to remain very good at the end of the year’, said Dr Fritzi Köhler-Geib, Chief Economist of KfW. ‘The fact that the record level was maintained marks a fitting culmination. However, the prospect that the VC market will continue with a similarly strong volume in 2022 has dimmed. After all, the approaching central bank interest rate moves might cause investment activity to cool off. The German market might be slightly less affected by this as local start-ups meet with high international interest because of their innovative strength and entrepreneurial talent. Our dependence on foreign investors for large financing rounds, however, illustrates how important it is to continue building and expanding the local VC ecosystem.’

‘2021 was a record year for the German venture capital market with a view to market sentiment and market figures. The start-up ecosystem and all of Germany as a technology and business hub took a big step forward’, added Ulrike Hinrichs, Managing Director of the German Private Equity and Venture Capital Association (BVK). ‘The strong assessments of deal flow demonstrate start-ups’ enormous demand for venture capital. Encouragingly, this demand is also being met with a growing supply of capital thanks to the outstanding fundraising environment. We are optimistic for 2022. The moderate decline of the indicator for business expectations signals a certain degree of stabilisation, which is actually healthy given the dynamic upswing in sentiment since the start of the pandemic.’

Calculation of the German Venture Capital Barometer

The **German Venture Capital 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 the business climate in the German venture capital market on the basis of assessments provided by private equity firms with a focus on young 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 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.



The **Deutsche Börse Venture Network (DBVN)** was launched in 2015 and is now Europe’s largest network for growth finance and ‘Capital Market Readiness’. It focuses on providing efficient access to capital and has an extensive range of networking and training services. The network of more than 200 fast-growth businesses and more than 450 investors has already enabled 13 IPOs and numerous trade sales.

Deutsche Börse
Venture Network