

KfW Research



»»» Venture capital market
in Germany
Dashboard Q1 2023

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Overview

The German venture capital market in Q1 2023

1

In the first quarter of 2023, **a total of EUR 1.9 billion was invested in 254 financing rounds** in the German VC market. That was an **increase in deal volume** of around 15% on the previous quarter. That means the gradual QoQ decline in VC investments of the second half of 2022 stopped again for the first time at the start of 2023. The number of deals closed, on the other hand, fell slightly on the previous quarter (-8%).

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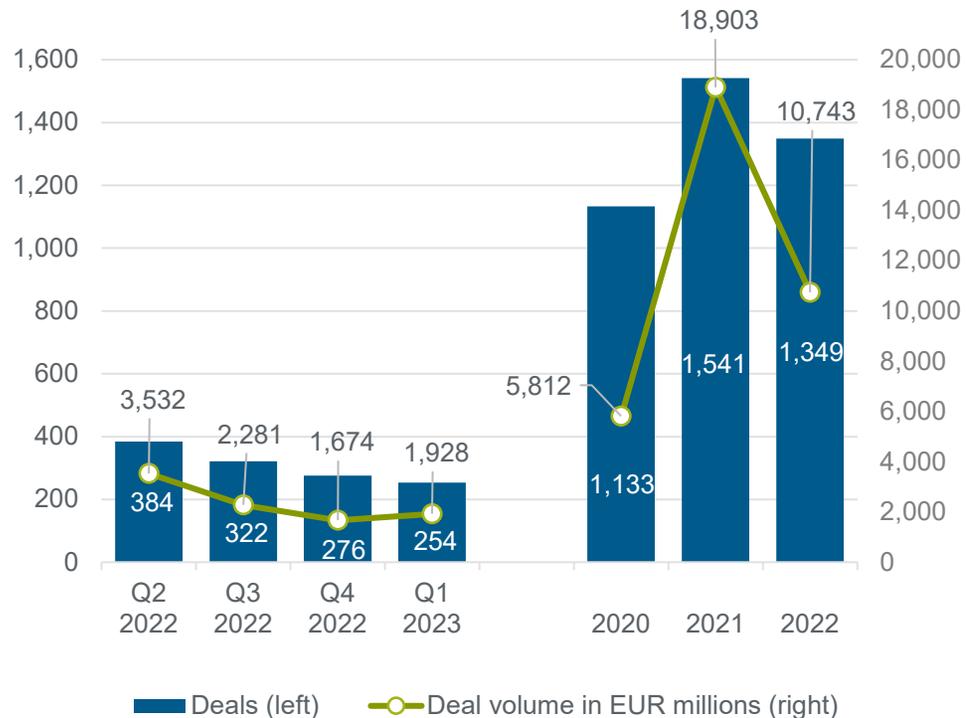
Successful financing rounds in the scale-up segment were a major driver of deal volume in Q1 2023. Before then, growth financing was hit particularly hard by the market downturn since the start of 2022. In Q1 2023, **the volume invested in German scale-ups grew again on the previous quarter**. With some EUR 1.2 billion, growth finance accounted for 63% of the funds invested in the first quarter of this year.

3

Overall, the German VC market thus defied the persistently unfavourable overall economic environment in Q1 2023, for now appearing unfazed by the collapse of Silicon Valley Bank (SVB) in the US in mid-March. At the moment, however, ongoing inflation, further tightening of monetary policy in the second quarter and the continued lack of open windows for IPOs are weighing on the market. Thus, **a clear trend reversal in investment activity is yet to arrive**.

Deal volume higher at the start of 2023 than in the previous quarter

Number of deals and deal volume



In the first quarter of 2023, a total of around EUR 1.9 billion was invested in 254 deals in the German VC market. Thus, deal volume was 15% higher than in the previous quarter. For now, that has put an end to the gradual QoQ decline in invested funds since the second half of 2022. The number of deals closed, on the other hand, fell slightly on the previous quarter (-8%).

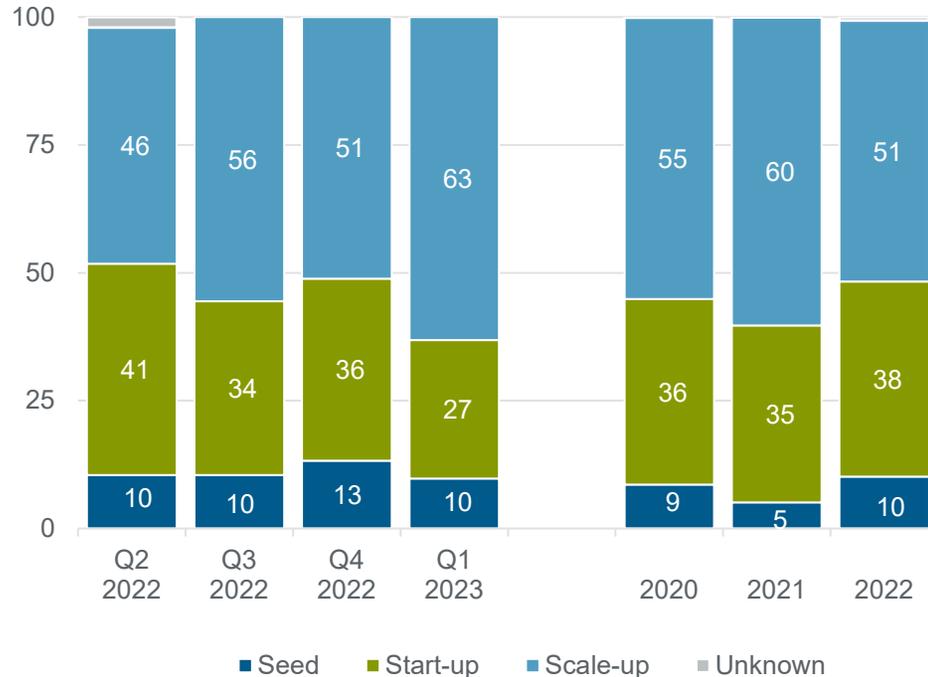
Investment activity in Q1 2023 has therefore taken a positive turn. Besides the continuing difficult macroeconomic conditions, the collapse of Silicon Valley Bank (SVB) in the US in mid-March created a short period of high uncertainty in the global VC market.

Even if the VC market defied the unfavourable conditions in the first quarter, ongoing inflation, further tightening of monetary policy and the continued lack of open windows for IPOs will continue to weigh on the market in the next quarter as well. A clear trend reversal in investment activity is therefore yet to arrive.

Source: Dealroom.co, KfW Research (current as at 17 April 2023).

Scale-up finance was an important pillar of investment activity in Q1 2023

Deal volume by phases (in per cent)



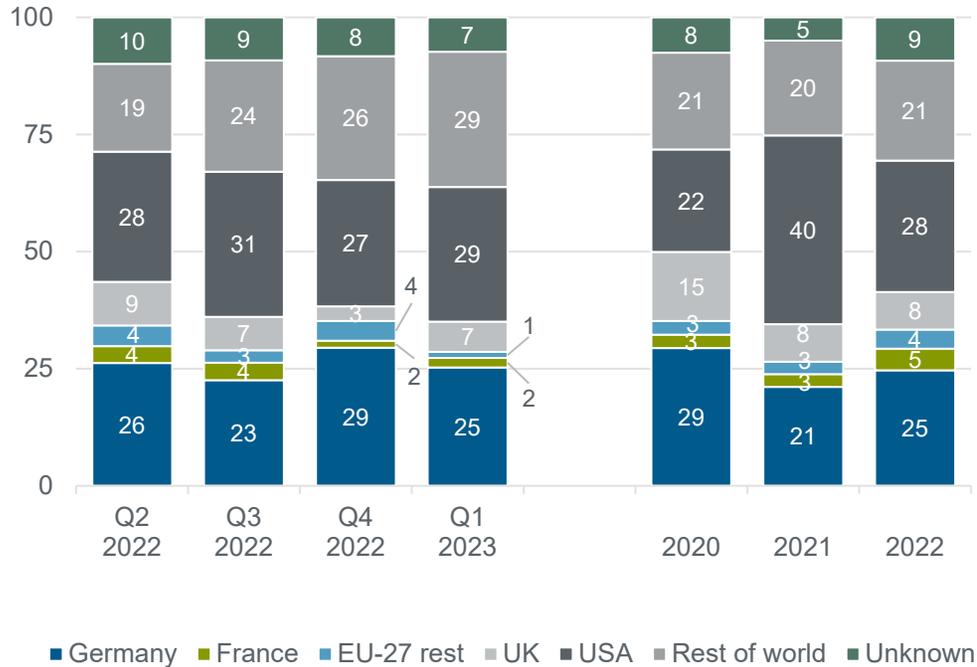
The growth in deal volume in the German VC market in Q1 2023 was primarily due to higher investment activity in the scale-up segment. With some EUR 1.2 billion, growth finance accounted for 63% of the funds invested. After a total of only 3 megadeals in excess of EUR 100 million during the whole of the second half of 2022, another 6 such deals with a particularly large volume were recorded again in Q1 2023.

An encouraging sign is that a growing number of successful follow-up financings were recorded in the growth segment in Q1 2023. After all, the scale-up segment in particular was most severely impacted by the downturn of the market last year. Downward pressure on valuations was highest in this segment of the market because it was more easily comparable with public markets and the valuation level from the boom year 2021 was high.

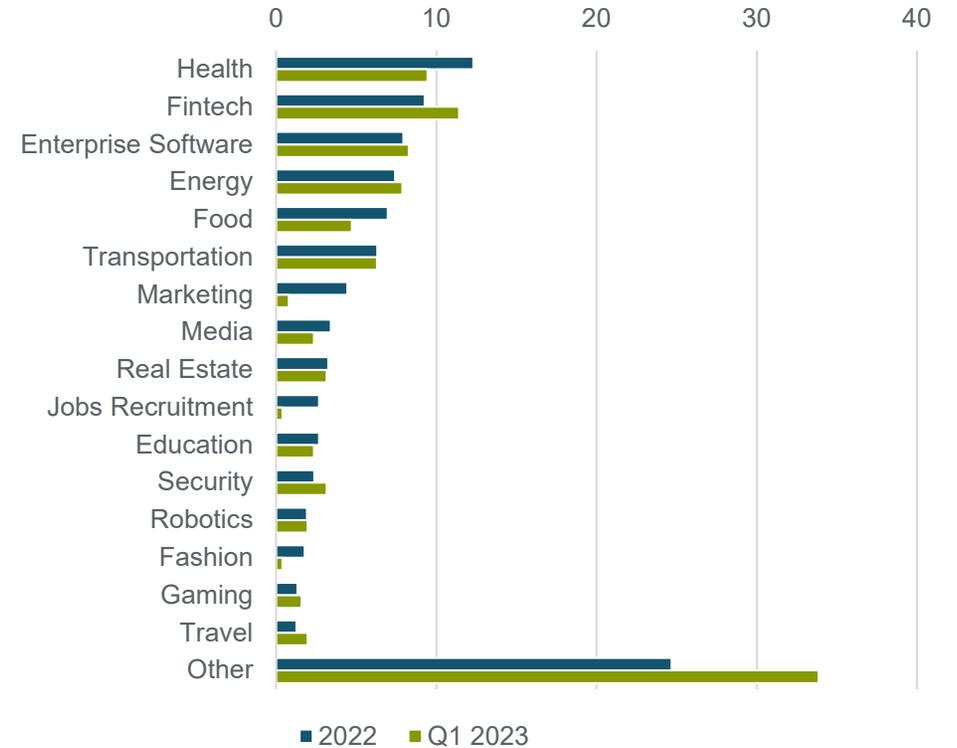
Source: Dealroom.co, KfW Research (current as at 17 April 2023).

Investors outside Europe and the US are taking a growing share of deal volume in Germany – FinTech is strongest technological field

Volume by investor origin (in per cent)



Share of deals by industry (in per cent)



Source: Dealroom.co, KfW Research (current as at 17 April 2023).

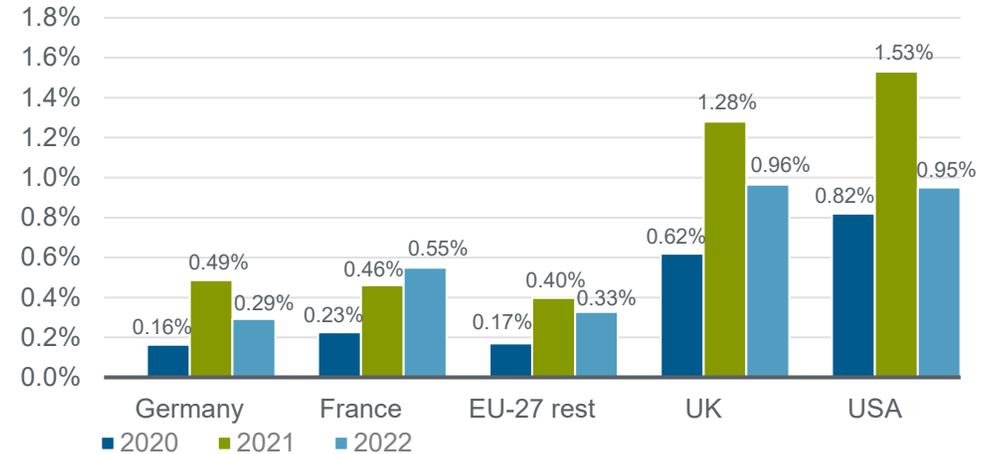
Source: Dealroom.co, KfW Research (current as at 17 April 2023).

Major comparison markets recorded a positive development at the start of the year – drop in deal volume in UK

Deal volume in USD million

	2022 Q2	2022 Q3	2022 Q4	2023 Q1
Germany	3,885	2,509	1,841	2,121
France	4,648	2,583	2,285	2,472
EU-27	16,388	11,364	8,700	8,580
United Kingdom	9,162	4,274	5,030	3,989
USA	64,658	45,633	38,835	46,681

Deal volume in per cent of GDP

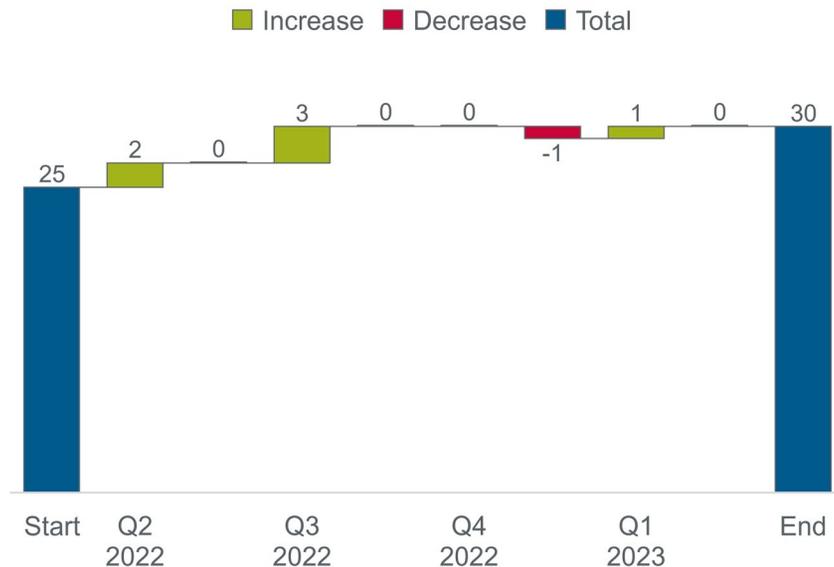


The German VC market bucked the EU-wide trend with a growth in deal volume at the start of the year (+15% QoQ). Deal volume here fell slightly in Q1 2023 on the previous quarter (-1.3%). The US market also appeared to be unimpressed with the collapse of SVB in the first quarter of 2023 and recorded a 20% rise in deal volume. The UK, however, is looking back on a weak first quarter (-21%). Investors in France were slightly more active than in the previous quarter (+8), as were their German counterparts.

Source: Dealroom.co (current as at: 17 April 2023), IMF and own calculations.

One new German unicorn in the first quarter of 2023

Number of start-ups not publicly listed with valuation in excess of USD 1 billion

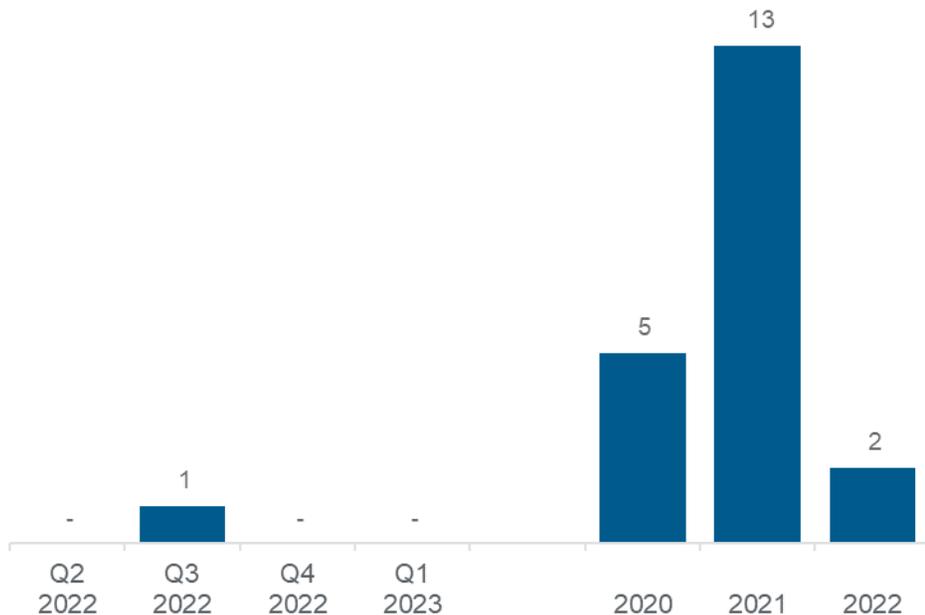


According to CB-Insights, the number of German unicorns grew by one start-up in Q1 2023. A further German start-up, the online translation service DeepL, was able to reach a valuation of one billion euros. Owing to the valuation pressure in the local markets and diminished investment activity in the scale-up segment, however, there will likely be few further additions for now. Given the more difficult economic environment for large-volume follow-up financings, the risk of exits has grown. Thus, the start-up Gorillas was acquired by the competitor Getir in the previous quarter.

Source: CB Insights.

The IPO market was bone-dry again at the start of 2023

Number of IPOs of VC-financed start-ups

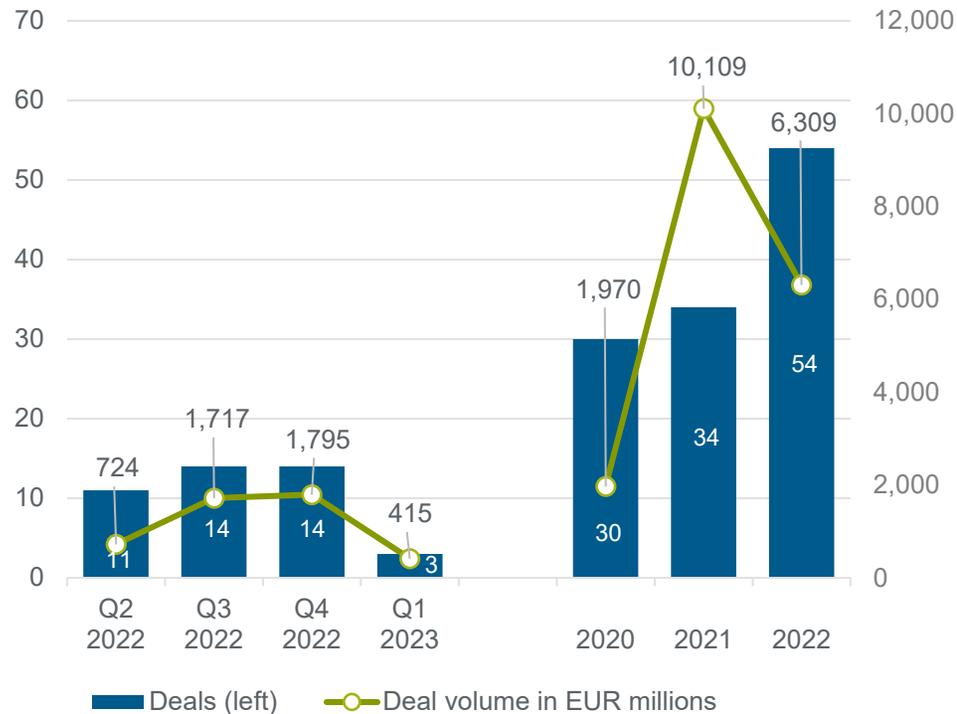


In Q1 2023, too, no initial public offerings (IPOs) by German VC-funded start-ups were recorded. The market environment for exits through public listings is yet to improve.

Source: Dealroom.co, KfW Research (current as at 17 April 2023).

Venture debt market received a dampener following the Silicon Valley Bank collapse

Number of deals and deal volume



In the wake of the collapse of SVB, once a major international player in the field of venture debt, the market in Germany temporarily suffered a dampener as well. As a consequence, no new venture debt deal was recorded in March 2023. Overall, three deals with a volume of EUR 415 million were recorded in Germany in Q1 2023.

As equity capital financing remains more challenging than it was just a year ago, however, venture debt will continue to be very attractive for start-ups. This suggests that the market will recover in the coming quarters. First deals that could now be observed in April indicate that the German market might be able to quickly overcome the temporary uncertainty.

Source: Dealroom.co, KfW Research (current as at 17 April 2023).



Appendix

Appendix

Deals

	2022	2022	2022	2023	2020	2021	2022
	Q2	Q3	Q4	Q1			
Market overall							
Volume (EUR million)	3,532	2,281	1,674	1,928	5,812	18,903	10,743
Number of deals	384	322	276	254	1,133	1,541	1,349
Deal size* (Ø, EUR million)	15	10	10	12	9	21	12
Stages (EUR million)							
Seed	369	238	222	189	500	963	1,093
Start-up	1,460	775	596	521	2,107	6,542	4,094
Scale-up	1,630	1,268	856	1,218	3,199	11,384	5,483
Unknown	73	-	-	-	8	14	74
Mega-deals (count)							
<100 EUR million	227	226	173	155	621	861	871
≥ 100 - 250 EUR million	10	1	2	6	7	32	20
≥ 250 EUR million	2	2	-	-	1	11	4
Unknown	145	93	101	93	504	637	454
Deal volume by investor location (EUR million)**							
Germany	924	514	493	486	1,710	3,989	2,644
France	129	85	26	40	166	508	497
EU-27 rest	156	59	70	24	169	501	443
UK	329	163	53	126	856	1,524	860
USA	981	707	452	553	1,272	7,618	3,011
Rest of world	663	542	442	557	1,203	3,829	2,294
Unknown	350	209	139	142	437	932	994

Source: Dealroom.co (current as at: 17 April 2023).

Note: The evaluations are based on Dealroom.co. The figures may differ from other data sources. They are based on the cut-off date and may even change retroactively through the addition of new data. The following financing stages/occasions are counted as venture capital deals: Angel and seed (phase: 'seed'), Series A / Round 1, Series B / Round 2 and early VC (phase: 'start-up'), Series C+ / Round 2+, growth, late VC and megarounds+ (phase: 'scale-up') and deals with unknown financing round. Grants, support programmes, media for equity and venture debt are not included.

* Only deals that specify deal volume; ** approximated under the assumption that investments are equally distributed among all investors in each deal.

Appendix

Deals

Industries	Deal count				Share of deals (%)		
	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2020	2021	2022
Health	52	30	38	24	12 %	13 %	12 %
Fintech	47	36	12	29	12 %	13 %	9 %
Enterprise Software	29	29	18	21	10 %	9 %	8 %
Energy	20	25	27	20	6 %	6 %	7 %
Food	32	25	16	12	5 %	7 %	7 %
Transportation	21	25	17	16	8 %	6 %	6 %
Marketing	14	19	11	2	5 %	5 %	4 %
Media	20	7	8	6	4 %	4 %	3 %
Real Estate	10	15	4	8	4 %	4 %	3 %
Jobs Recruitment	10	6	9	1	3 %	3 %	3 %
Education	8	8	8	6	3 %	2 %	3 %
Security	7	9	5	8	3 %	3 %	2 %
Robotics	5	5	7	5	3 %	3 %	2 %
Fashion	7	2	7	1	2 %	1 %	2 %
Gaming	6	5	-	4	1 %	1 %	1 %
Travel	6	3	5	5	2 %	1 %	1 %
Other	90	73	84	86	19 %	20 %	25 %

Source: Dealroom.co (current as at: 17 April 2023).

Note: The evaluations are based on Dealroom.co. The figures may differ from other data sources. They are based on the cut-off date and may even change retroactively through the addition of new data. The following financing stages/occasions are counted as venture capital deals: Angel and seed (phase: 'seed'), Series A / Round 1, Series B / Round 2 and early VC (phase: 'start-up'), Series C+ / Round 2+, growth, late VC and megarounds+ (phase: 'scale-up') and deals with unknown financing round. Grants, support programmes, media for equity and venture debt are not included.

* Only deals that specify deal volume; ** approximated under the assumption that investments are equally distributed among all investors in each deal.

Appendix

Benchmarks

	2022	2022	2022	2023	2020	2021	2022
USD million	Q2	Q3	Q4	Q1			
Germany	3,885	2,509	1,841	2,121	6,394	20,793	11,817
France	4,648	2,583	2,285	2,472	5,945	13,669	15,250
EU-27 rest	16,388	11,364	8,700	8,580	26,156	68,249	54,424
UK	9,162	4,274	5,030	3,989	17,075	40,823	30,836
USA	64,658	45,633	38,835	46,681	171,271	351,806	238,076
as share of GDP (%)							
Germany					0.16%	0.49%	0.29%
France					0.23%	0.46%	0.55%
EU-27 rest					0.17%	0.40%	0.33%
UK					0.62%	1.28%	0.96%
USA					0.82%	1.53%	0.95%

Source: Dealroom.co (current as at: 17 April 2023), IMF and own calculations.

Unicorns

	2022	2022	2022	2023	2020	2021	2022
	Q2	Q3	Q4	Q1			
Increase	2	3	-	1	1	11	5
Decrease	-	-	1	-	1	4	1
Total	25	-	-	30	21	25	25

Source: CB Insights

Note: Unicorns are start-ups not publicly listed that are valued by investors at USD 1 billion or more. Start-ups are not counted as unicorns anymore when they are liquidated, lose their independence or go public. The date of the financing round through which the valuation of at least USD 1 billion came about (entry) or the exit was completed determines the date from which they are no longer included.

Appendix

IPOs

	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2020	2021	2022
IPOs	-	1	-	-	5	13	2

Source: Dealroom.co (current as at: 17 April 2023).

Venture Debt

	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2020	2021	2022
Market overall							
Volume (EUR million)	724	1,717	1,795	415	1,970	10,109	6,309
Number of deals	11	14	14	3	30	34	54
Deal size* (median, EUR million)	12	30	20	60	18	85	20
Mega-deals (count)							
<100 EUR million	8	9	10	2	23	16	38
≥ 100 - 250 EUR million	1	1	-	-	3	6	3
≥ 250 EUR million	1	3	3	1	2	8	9
Unknown	1	1	1	-	2	4	4

Source: Dealroom.co (current as at: 17 April 2023).

Note: * Only deals that specify deal volume.

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