

KfW Research

»» KfW Venture Capital Dashboard

Q2 2023

Dr Steffen Viete, Dr Georg Metzger



Contents

Overview	3
Market development	4
Benchmarks	7
Unicorns	8
Exits	9
Venture Debt	10
Annex	11

Overview

The German venture capital market in Q2 2023

1

For the time being, the German VC market clearly stabilised in the first half of 2023 after cooling off in the year 2022. Across the entire first half, deal volume was higher again than in the previous six months. German start-ups raised just under EUR 2.5 billion in 266 financing rounds in Q2 2023. The trend in deal volume thus continued from the previous quarter and the market increased for the second consecutive quarter (+25% compared with Q1 2023). The number of deals, however, decreased slightly in Q2 2023 (-8%).

2

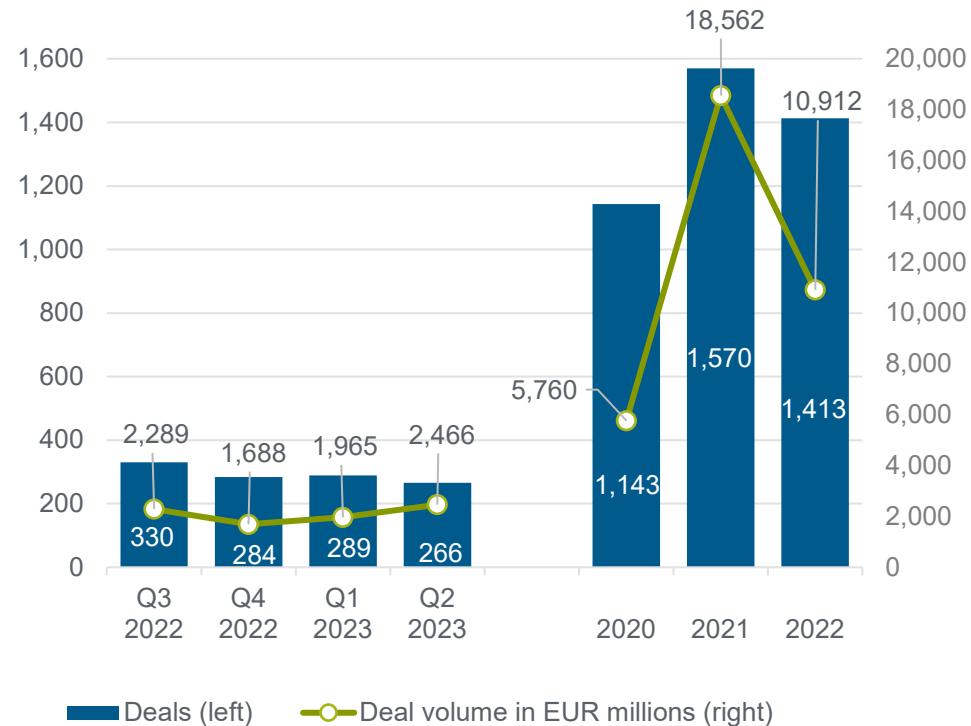
After the scale-up segment made up the largest share of deal volume in the previous quarter, a very strong **increase in funding in the start-up segment** (Series A and B) could be observed in Q2 2023. It accounted for some 42% of total deal volume in the market. Besides, the **share of funds from US investors increased again in Q2 2023**, approaching the level of the boom year 2021. The development in the German venture debt market suggests that it was able to quickly get over the **shock caused by the collapse of Silicon Valley Bank**.

3

In the first half of 2023 the German VC market thus proved to be **quite robust in its adaption to** the new environment of interest rate reversal, energy crisis and macroeconomic uncertainty. At the same time, the exceptional year 2021 with its global records in VC markets is not a suitable benchmark for assessing the current market situation. The historical comparison with the time before the exceptional year 2021 allows us to look back on a **solid first half of 2023**. The funds invested were above the average volumes of that period. However, **uncertainties** over the further development of the economic, monetary policy and geopolitical **market environment** may **continue to pose challenges** in the second half of 2023 as well.

First half of 2023 ends with renewed increase in deal volume in second quarter

Number of deals and deal volume



German start-ups raised almost EUR 2.5 billion in 266 financing rounds in the second quarter of 2023. That means deal volume increased on the previous quarter for the second time in a row (+25% QoQ). The number of realised deals, on the other hand, fell slightly by 23 financing transactions.

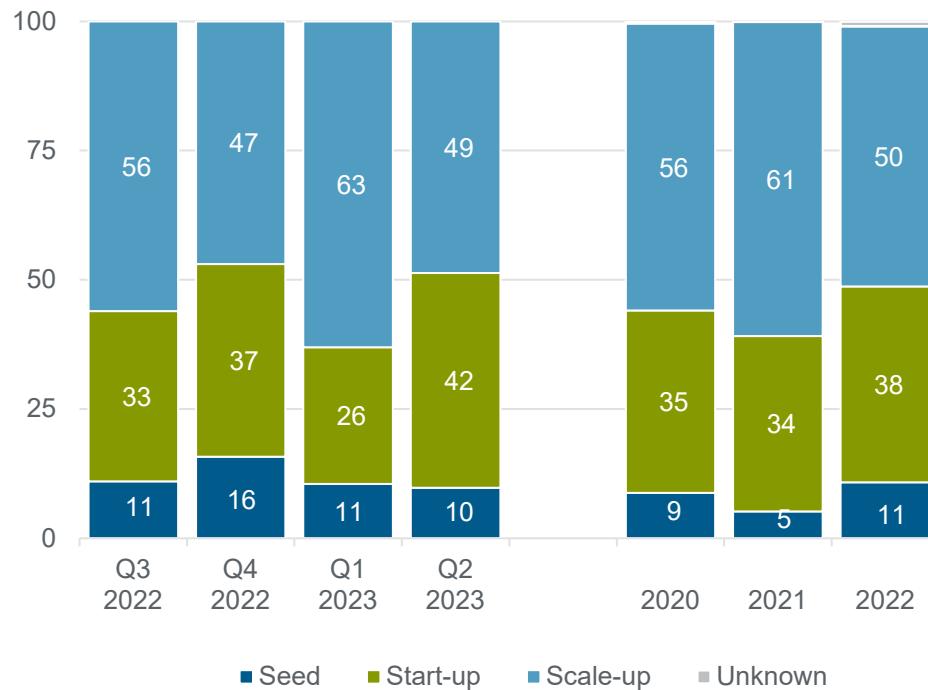
Across the first half of 2023, 555 financing rounds with a volume of EUR 4.4 billion were completed. After deal volume in the German VC market dropped sharply in the two halves of the previous year 2022, investment activity thus far this year has stabilised again for the time being.

The German VC market is showing itself to be quite robust in its adaption to the new market environment in 2023. Measured by funds invested, the first half of 2023 was above the average of all years that preceded the exceptional year 2021 in the world's VC markets. Overall, however, the environment remains challenging, which is reflected in the number of deals being completed. The further development of the economic, monetary policy and geopolitical environment will continue to be decisive for investment activity over the rest of the year. Promising technological trends, for example in the field of AI or climate technology, which currently offer a wide range of business opportunities, are likely to provide positive impetus.

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

Significantly more funds again for businesses in the start-up phase

Deal volume by phases (in per cent)



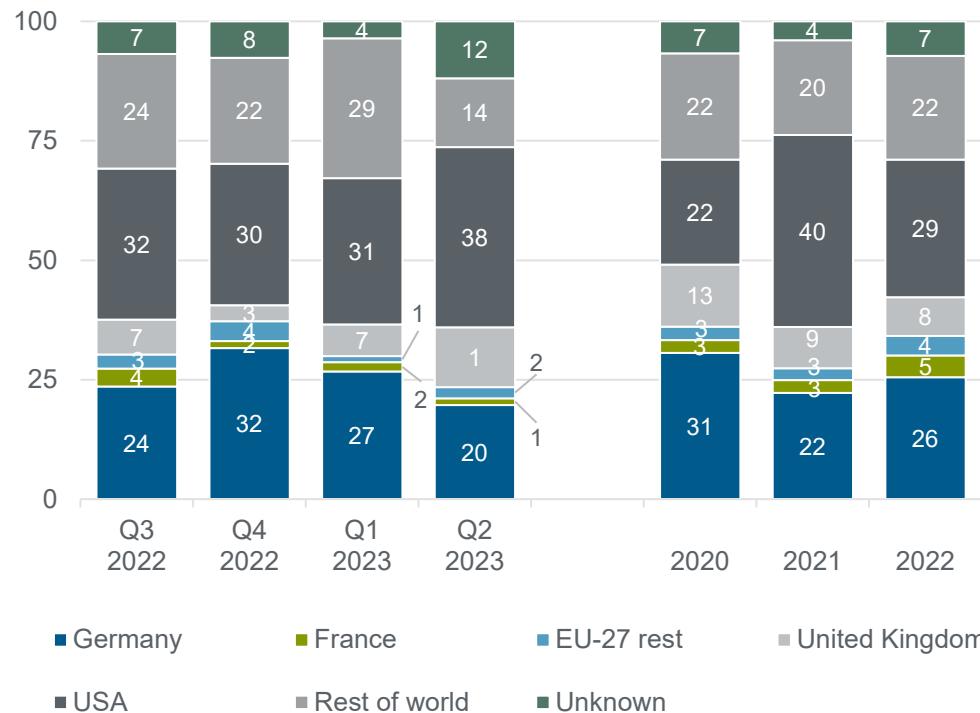
The start-up segment, that is, financing rounds in Series A and Series B, created positive movement in the market in Q2 2023. Just under EUR 1 billion was raised – nearly double the funds in the first quarter of the year (EUR 520 million). At around 42%, the percentage of financing for the start-up segment in total deal volume thus exceeded the previous years' level.

As a result of the upturn in the start-up segment, just barely half the funds invested in Q2 2023 went to the scale-up segment. With a view to the entire first half of 2023, however, investments in growth finance have very clearly stabilised, after this segment initially came under the greatest pressure during the market downturn in 2022. In the medium term, a brighter exit environment will be important for the financing prospects in the scale-up phase.

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

More active participation of US and UK investors in Q2 2023

Volume by investor origin (in per cent)



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

Share of deals by industry (in per cent)



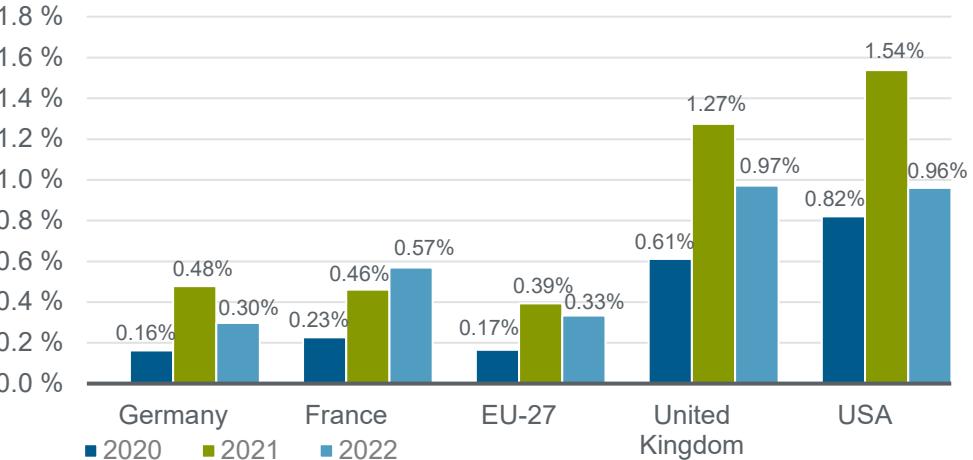
Source: Dealroom.co, KfW Research (current as at 17 July 2023).

Bucking the trend in important comparison markets, deal volume in Germany increased in the first half of 2023

Deal volume in USD million

	2022 Q3	2022 Q4	2023 Q1	2023 Q2
Germany	2,518	1,857	2,161	2,713
France	2,525	2,552	2,438	2,227
EU-27	11,281	8,927	8,080	9,435
United Kingdom	4,220	5,175	4,118	4,306
USA	45,695	39,490	47,348	34,010

Deal volume in per cent of GDP

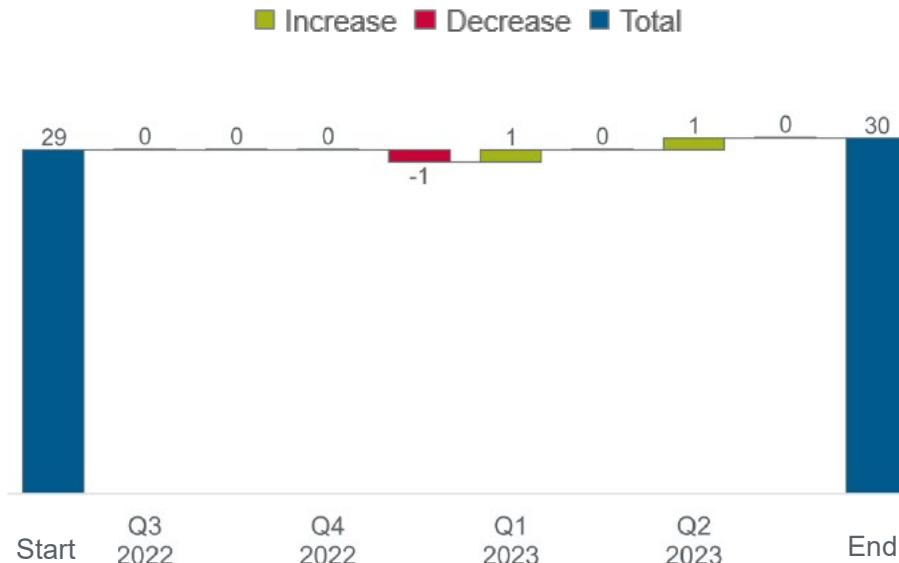


In Q2 2023, the overall market in the EU and the VC market in the United Kingdom exhibited moderate increases in funds invested. By contrast, the US market in particular dropped on the previous quarter. With a view to the first half of 2023 as a whole, the German market currently occupies a special position among important comparison markets. It is the only one of the economic regions under review where deal volume in the first half of 2023 increased on the preceding six months. In France, however, the past six months were also preceded by comparatively strong investment in the year 2022.

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

Second German unicorn in 2023 in the second quarter

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

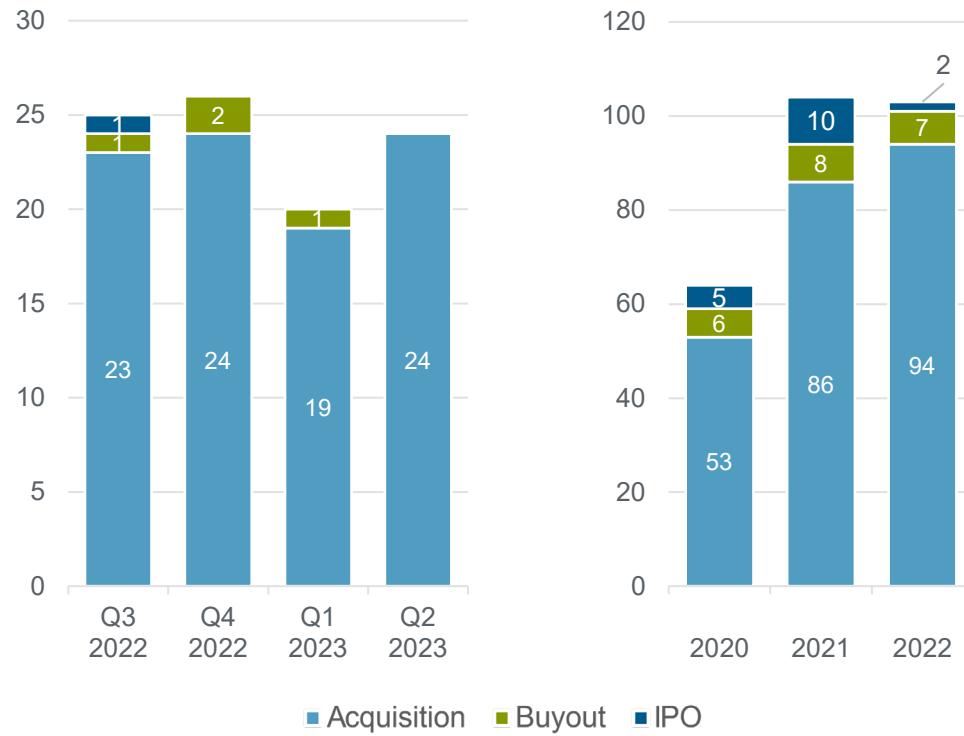


According to CB-Insights, the number of German unicorns grew again by one start-up in Q2 2023. A further German start-up, 1Komma5°, which offers products and infrastructure for climate-neutral homes, was able to reach a valuation of one billion euros. But given the valuation pressure in private markets, particularly in the scale-up segment, further additions will likely continue to be individual cases for now.

Source: CB Insights.

Few exits other than takeovers in the first half of 2023

Number of exits of VC-funded start-ups from Germany



The prospects for a successful sale of shares are decisive for investors' interest in start-ups. Indeed, a similar number of exits from VC-funded start-ups were observed in 2022 as in the boom year 2021. Exit activity remained on a similar level in Q2 2023 as well, with 24 transactions in Germany.

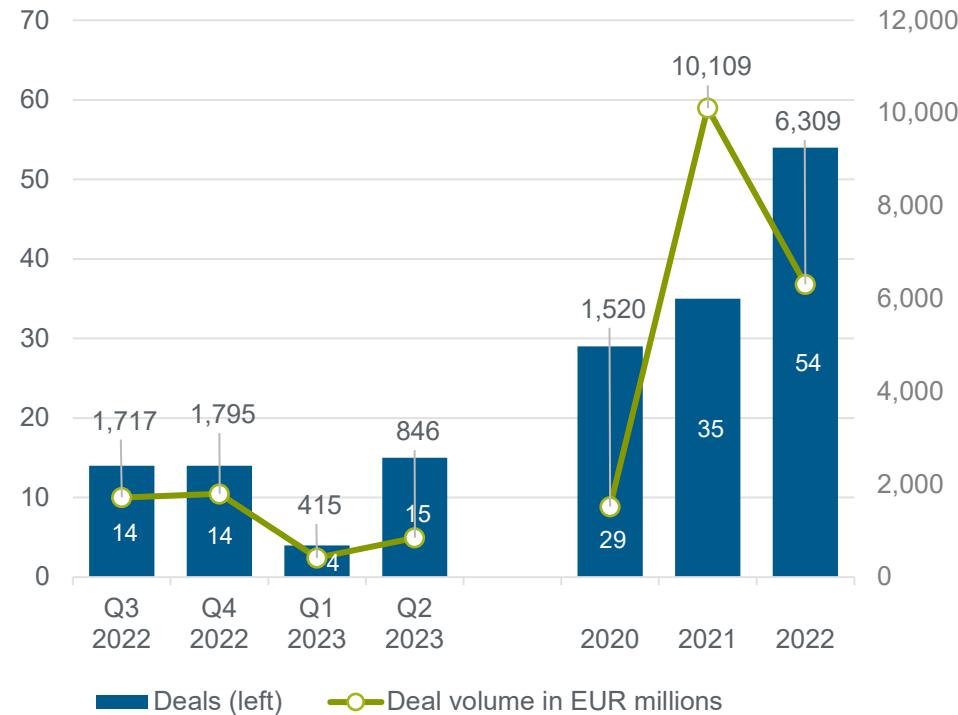
It became clear, however, that public listings – a particularly promising exit channel – failed to materialise in the past three quarters because the window for IPOs remained closed. Buyouts did not take place in Q2 2023 either. Here, the use of debt traditionally plays an important role but it has become more expensive.

As a result, takeovers were the only exit strategy in Q2 2023. They have become more attractive for buyers since last year because valuations were revised downward during the cooling of the market.

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

Data suggests that the German venture market quickly got over the collapse of Silicon Valley Bank

Number of deals and deal volume



Silicon Valley Bank (SVB) was one of the most important international suppliers of venture debt. Its collapse in March 2023 therefore caused great uncertainty, including in the German venture debt market. Players took a break and the provision of debt to VC-funded start-ups fell sharply in the first quarter of the year. The market for venture debt is still very young and therefore dynamic to begin with, but it appears to have absorbed this short-term shock very well.

Given the size of the market, the observable case numbers are very small, to be sure, and trends should therefore not be overrated. As measured by the number of closings, however, the German market in Q2 2023 returned to the path of growth of the previous quarter, with 15 recorded deals.

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



»»» Appendix

Appendix

Deals

	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2020	2021	2022
Market overall							
Volume (EUR millions)	2,289	1,688	1,965	2,466	5,760	18,562	10,912
Number of deals	330	284	289	266	1,143	1,570	1,413
Deal size* (Ø, EUR millions)	10	9	11	12	9	20	12
Stages (EUR millions)							
Seed	253	267	207	241	506	963	1,181
Start-up	754	629	520	1,025	2,032	6,302	4,133
Scale-up	1,282	792	1,238	1,201	3,199	11,281	5,496
Unknown	-	-	-	-	23	15	102
Mega-deals (number)							
<100 EUR million	232	177	177	192	629	883	922
≥ EUR 100 to 250 million	1	2	6	5	7	29	20
≥ EUR 250 million	2	-	-	1	1	11	4
Unknown	95	105	106	68	506	647	467
Deal volume by investor location (EUR millions)**							
Germany	540	533	526	486	1,763	4,127	2,789
France	86	26	37	36	156	499	492
EU-27 rest	68	70	25	57	160	467	449
United Kingdom	166	57	130	309	751	1,596	881
USA	724	500	601	930	1,265	7,461	3,148
Rest of world	549	374	575	356	1,279	3,680	2,361
Unknown	156	128	70	293	386	733	792

Source: Dealroom.co (current as at 17 July 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	2022	2023	2023	2020	2021	2022
	Q3	Q4	Q1	Q2			
Health	28	40	25	30	12 %	13 %	12 %
Fintech	41	16	39	26	12 %	13 %	10 %
Enterprise software	28	18	27	24	10 %	9 %	8 %
Energy	27	27	27	24	6 %	6 %	8 %
Food	27	16	18	19	5 %	7 %	7 %
Transportation	26	19	20	15	8 %	6 %	6 %
Marketing	20	9	3	12	5 %	5 %	4 %
Media	10	9	9	3	4 %	4 %	4 %
Real estate	15	4	8	6	4 %	4 %	3 %
Education	8	9	8	8	3 %	3 %	3 %
Jobs recruitment	6	9	1	3	3 %	2 %	3 %
Security	9	5	11	5	3 %	3 %	2 %
Robotics	5	7	6	4	2 %	1 %	2 %
Fashion	3	7	2	-	3 %	3 %	2 %
Gaming	5	1	4	1	1 %	1 %	1 %
Travel	3	5	5	4	2 %	1 %	1 %
Other	69	83	76	82	18 %	19 %	23 %

Source: Dealroom.co (current as at 17 July 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

USD millions	2022	2022	2023	2023	2020	2021	2022
	Q3	Q4	Q1	Q2			
Germany	2,518	1,857	2,161	2,713	6,336	20,418	12,003
France	2,525	2,552	2,438	2,227	5,972	13,648	15,831
EU-27	11,281	8,927	8,080	9,435	25,477	67,556	55,558
United Kingdom	4,220	5,175	4,118	4,306	16,883	40,636	31,098
USA	45,695	39,490	47,348	34,010	171,644	353,819	240,331
% des BIPs							
Germany					0.16%	0.48%	0.30%
France					0.23%	0.46%	0.57%
EU-27					0.17%	0.39%	0.33%
United Kingdom					0.61%	1.27%	0.97%
USA					0.82%	1.54%	0.96%

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

Unicorns

	2022	2022	2023	2023	2020	2021	2022
	Q3	Q4	Q1	Q2			
Increase	-	-	1	1	1	17	5
Decrease	-	1	-	-	1	5	1
Total	29	-	-	30	12	24	28

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

Exits

	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2020	2021	2022
IPO	1	-	-	-	5	10	2
Buyout	1	2	1	-	6	8	7
Acquisition	23	24	19	24	53	86	94

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

Venture Debt

	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2020	2021	2022
Market overall							
Volume (EUR millions)	1,717	1,795	415	846	1,520	10,109	6,309
No. of deals	14	14	4	15	29	35	54
Deal size* (median, EUR millions)	30	20	60	37	15	80	20
Mega-deals (count)							
<EUR 100 million	9	10	2	13	23	17	38
≥ EUR 100 to 250million	1	-	-	-	3	6	3
≥ EUR 250 million	3	3	1	1	1	8	9
Unknown	1	1	1	1	2	4	4

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

Note: * Only deals that specify deal volume.

Publishers' details

Published by

KfW

KfW Research

Palmengartenstrasse 5-9
60325 Frankfurt / Main

Phone +49 69 7431-0, Fax +49 69 7431-2944
www.kfw.de

Authors

Dr Steffen Viete

Phone +49 69 7431-68019

Dr Georg Metzger

Phone +49 69 7431-9717

Disclaimer

This paper reflects the views of the authors and does not necessarily represent the position of KfW. All Research articles are provided to the public for information purposes only and only reflect KfW's assessment at the time of publication. All underlying information has been carefully researched and conscientiously compiled. Nevertheless, no guarantee can be given for correctness and completeness, unless the incorrectness or incompleteness is due to intent or gross negligence on the part of KfW. In addition, we refer to our general disclaimer.

This publication is based on data from Dealroom.co. The use and interpretation of this data, as well as conclusions and other uses, are made by KfW and are our sole responsibility.