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Bank aus Verantwortung

KfW Research

# »»» KfW Venture Capital- Dashboard Q3 2023

Dr Steffen Viete, Dr Georg Metzger

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# Overview

## The German venture capital market in Q3 2023

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**German start-ups received almost EUR 1.8 billion in 232 financing rounds in the third quarter of 2023.** The volume of deals decreased by -28% on the previous quarter, as did the number of deals, which was down -22% QoQ. The decline in deal volume followed two consecutive increases in the first two quarters of the year.

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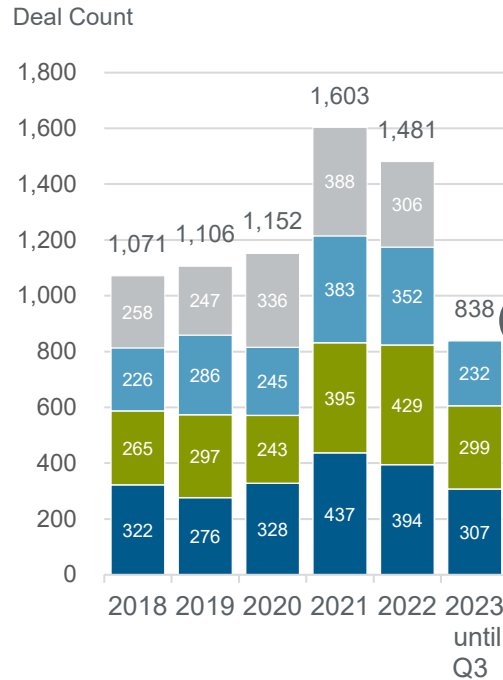
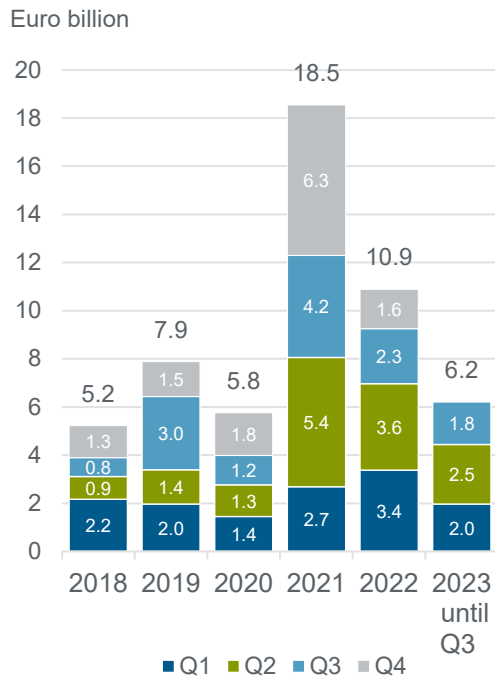
**The German VC market thus continues to struggle for direction in 2023.** The development somewhat deflates the hope that the market may have returned to a growth path again in 2023 after cooling off since early 2022. In particular, the renewed decline in investments in large deals in the scale-up segment indicates that market actors have not yet overcome challenges they already faced last year. What bolstered the VC market in Q3 2023, on the other hand, was the volume of investments in the start-up phase (Series A and B), which exceeded EUR 1 billion.

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**The longer-term perspective is more positive, especially compared with the years preceding the pandemic.** If the average investment activity of the past three quarters continues until the end of the year, 2023 would close with a deal volume of just over EUR 8 billion. That would be a significantly higher level than what was realised in some of the pre-pandemic years. Given the more challenging interest environment and an extended cyclical slowdown, the fact that such a level will probably be achieved indicates that the German VC market has matured in recent years and is set for trend growth at least in the long term. In the short term, however, the effects of the monetary policy reversal and renewed economic worries triggered by the crisis in the Middle East will continue to weigh on the market.

# Germany's VC market continues to grapple for direction in 2023 – 3rd quarter deal volume fell again after previous rises

## Number of deals and deal volume



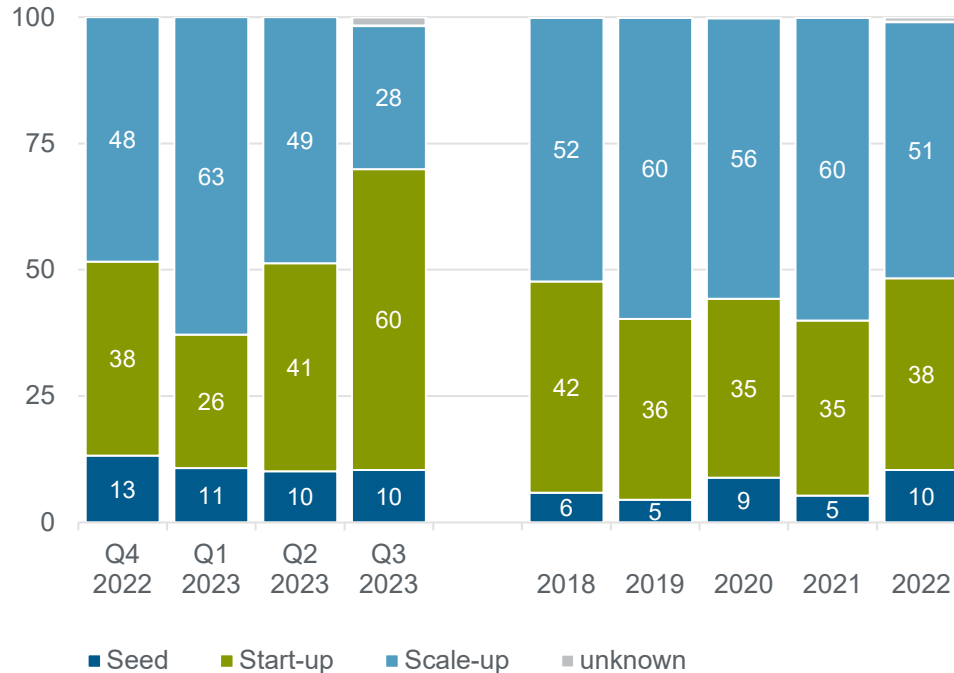
German start-ups received almost EUR 1.8 billion in 232 financing rounds in the third quarter of 2023. The volume of deals decreased by -28% on the previous quarter, as did the number of deals, which was down -22% QoQ. The decline in deal volume followed two consecutive increases in the first two quarters of the year. The development somewhat deflates the hope of a return to a growth path in 2023 after the market cooled off previously. However, seasonal and technical reasons also play a role in explaining weaker investment activity. Thus, the third quarter comprises summertime, when business is typically rather a bit slack. Besides, shortly after the end of the quarter the data does not yet capture all deals, especially smaller ones. Experience shows that the number of deals of the most recent quarter increases by another 10%-15% over time as a result of retroactive entries.

Broadly speaking, the German VC market continues to be in robust shape in 2023. If the average investment activity of the past three quarters continues until the end of 2023, the year would close with a deal volume of just over EUR 8 billion – a significantly higher level than what was realised in some of the pre-pandemic years. Given the more challenging interest environment and an extended cyclical slowdown, the fact that such a level will probably be achieved indicates that the German VC market has become more mature and is set for trend growth at least in the long term. Nonetheless, the macroeconomic outlook on the next quarter remains uncertain and the environment challenging for the time being.

Source: Dealroom.co, KfW Research (current as at: 12 October 2023).

# Investment activity in the scale-up segment in Q3 2023 much more restrained again

Deal volume by phases (in per cent)



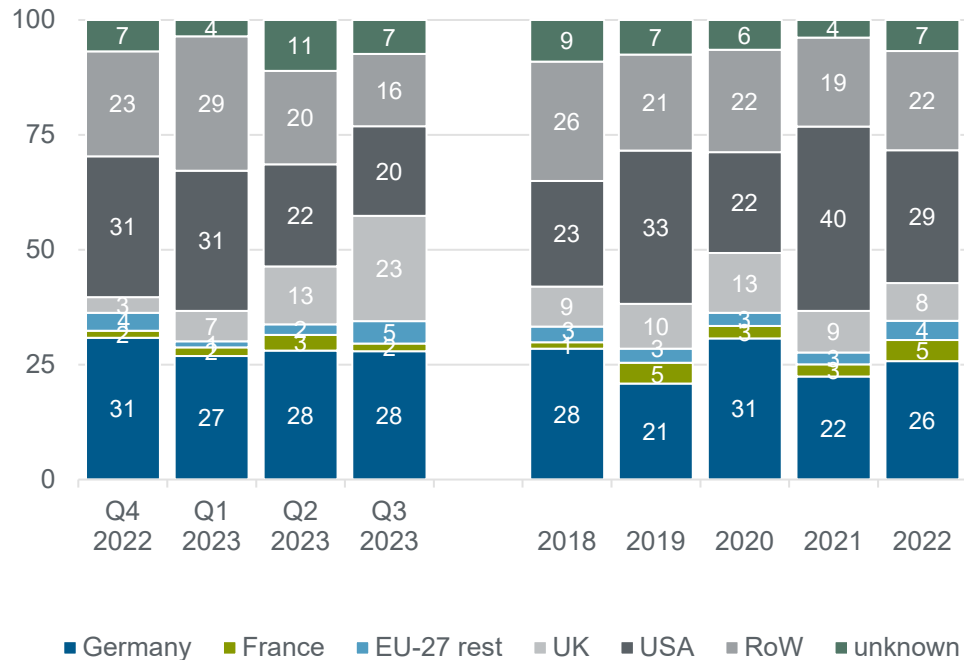
Investment activity in Q3 2023 highlighted that follow-up financing in the growth segment remains very challenging. Whereas comparatively more capital flowed into later funding rounds again at the beginning of 2023, only just under EUR 500 million was invested in the scale-up segment in Q3. Scale-up financing operations thus made up only 28% of the total market. In the past five years that share was consistently above 50%. In line with weaker investment activity in the scale-up segment, the number of megadeals totalling EUR 100 million and more decreased by more than half to just three in Q3 2023 compared with the two prior quarters.

Investors such as business angels also exercised restraint in their investment activity in the very early phase in Q3 2023. The funds invested in the seed phase decreased to EUR 184 million. Similarly as in the two previous quarters, however, this made up around 10% of the total market. By contrast, more funds were invested in the start-up phase (Series A and B) than in the previous quarter. Just under EUR 1.1 billion went to German start-ups here.

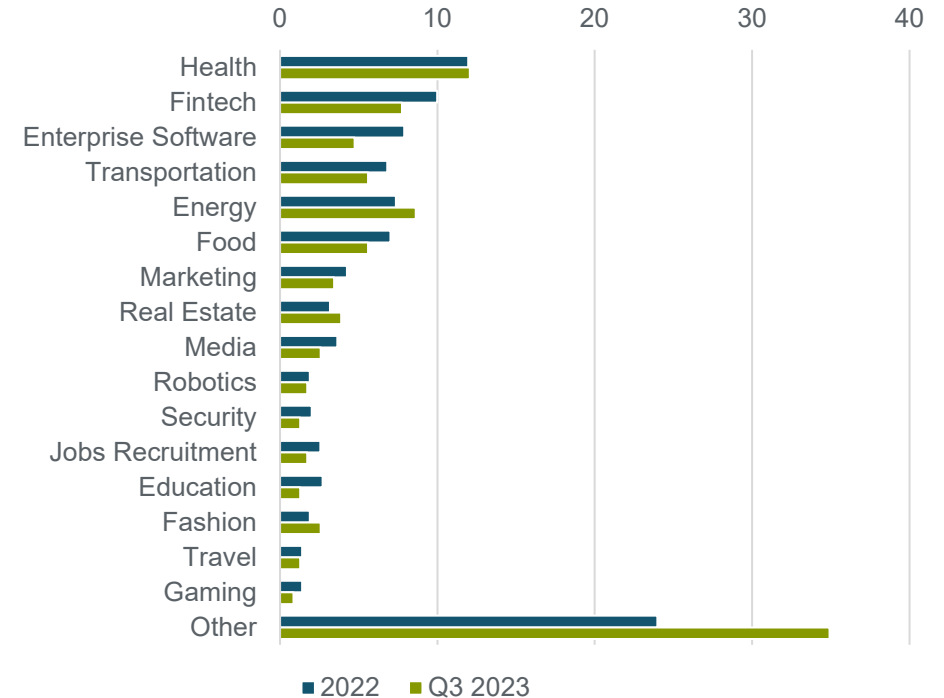
Source: Dealroom.co, KfW Research (current as at: 12 October 2023).

# More funds from UK investors – health and energy strongest technological fields in Q3 2023

Volume by investor origin (in per cent)



Share of deals by industry (in per cent)



Source: Dealroom.co, KfW Research (current as at: 12 October 2023).

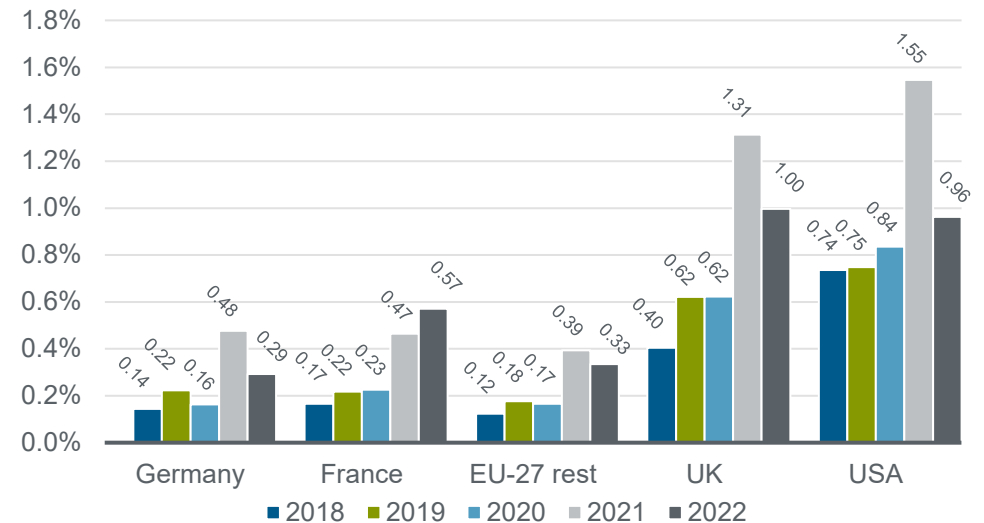
Quelle: Dealroom.co, KfW Research (current as at: 12 October 2023).

# In the first three quarters of 2023, international comparison markets exceeded their investment level of pre-pandemic years

Deal volume in USD million

	2022 Q4	2023 Q1	2023 Q2	2023 Q3
Germany	1,800	2,167	2,713	1,954
France	2,543	2,400	2,274	2,499
EU-27 rest	9,019	7,964	9,025	9,720
UK	4,613	4,074	4,237	6,042
USA	40,691	47,769	34,034	34,882

Deal volume in per cent of GDP

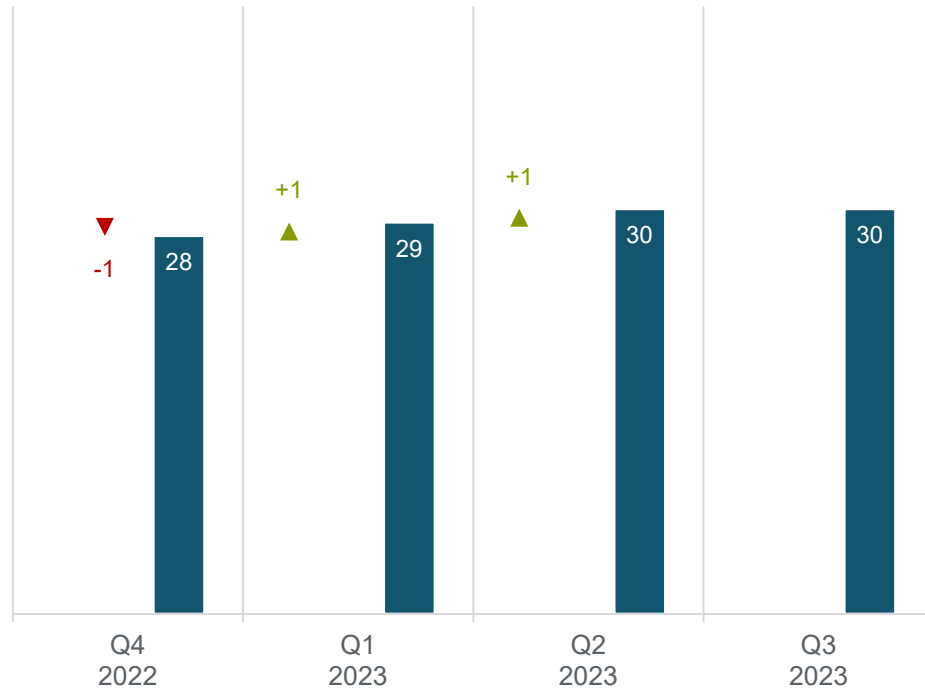


In Q3 2023, international comparison markets were able to roughly maintain or increase their investment level from the previous quarter. The United Kingdom experienced a particularly sharp rise in deal volume (+42% QoQ). The changed market conditions after the boom year 2021 continue to pose challenges for start-ups and investors around the world. However, the longer-term perspective paints a less gloomy picture: Even though conditions deteriorated at global level, the volume of deals thus far concluded in 2023 exceeded the level of pre-pandemic years in all markets under consideration here.

Source: Dealroom.co (current as at: 12 October 2023), IMF and own calculations.

# Number of unicorns unchanged in Q3 2023

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



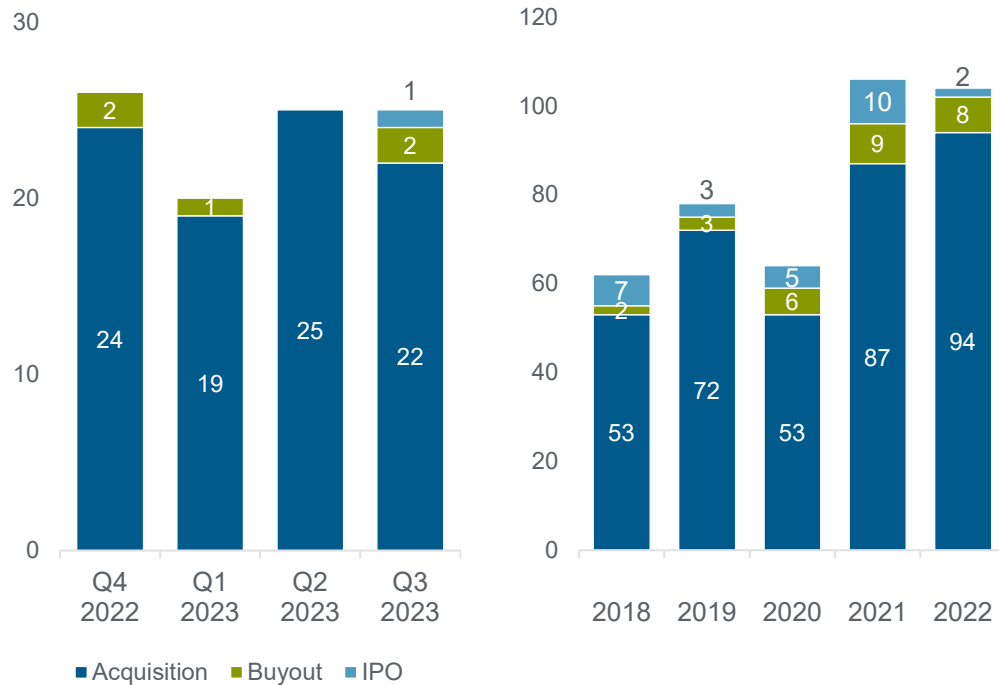
According to CB-Insights, the number of German unicorns was unchanged in Q3 2023. After DeepL, an online translation service in Q1 and 1Komma5°, a supplier of products and infrastructure for climate-neutral homes in Q2, no further German start-up succeeded in reaching a valuation of EUR 1 billion in 2023. Given the decreased valuations, especially in the scale-up segment, and the challenging economic environment, further additions will probably remain isolated cases.

Source: CB Insights.



# Exit activity continued to be sound through takeovers in Q3 2023

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



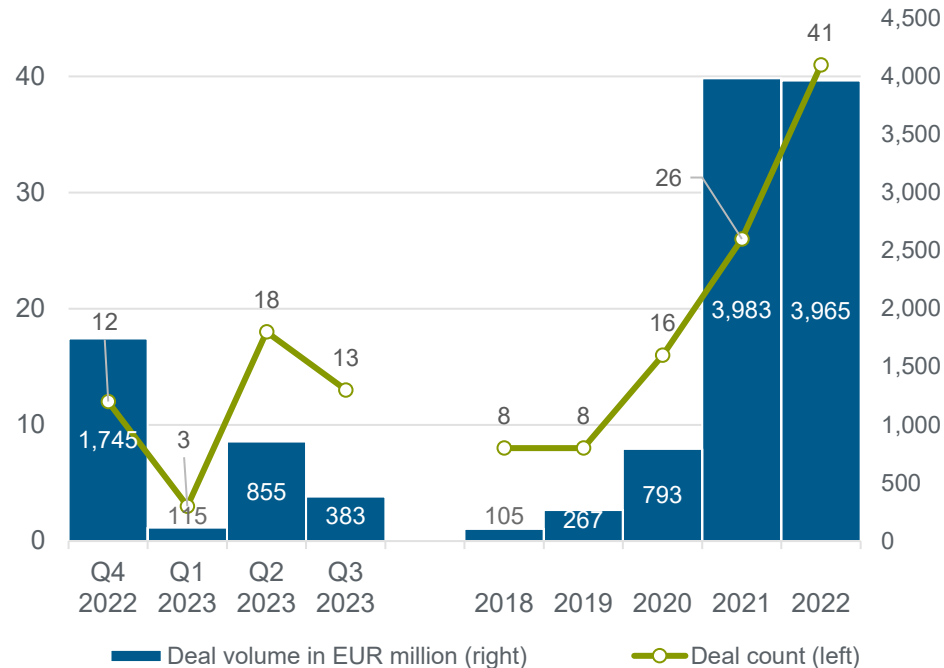
Exit activity of VC-backed start-ups in Germany continued to be bolstered by what was strong takeover activity by historical standards in Q3 2023. Buyers benefited from downward revisions in valuations in the current market phase. In addition to 22 acquisition, two buyout deals with German start-ups were recorded in the third quarter.

A new exit through an IPO in Q3 could be a first indicator that the window for IPOs that has been closed for some quarters now may open further towards the end of the year.

Source: Dealroom.co, KfW Research (current as at: 12 October 2023).

# Deals in the double digits again in venture debt market in Q3 2023

## Number of deals and deal volume



After the damper in the first quarter of the year in the wake of the insolvency of Silicon Valley Bank, the activity in the German venture debt market picked up again quickly in the following quarters. A total of 13 venture debt deals were observed in Q3 2023.

A longer-term view of the market trend of the past five years highlights that the particularly high deal volumes of the last two years were primarily driven by very large individual deals. Thus, seven individual financings totalling EUR 250 million and more were counted in 2022.

From Q3 2023 we have transitioned the definition of venture debt deals to an alternative definition used by the provider Dealroom.co.<sup>1</sup> The values are therefore no longer directly comparable with older issues of the KfW Venture Capital Dashboard. The definition captures direct debt transactions of banks and non-banks with young growth-oriented enterprises that have become publicly known. It excludes post-IPO financing deals. In addition, we exclude loans to FinTechs and other platforms collateralised by assets (SME loans, real estate, etc.) (lending capital).

Source: Dealroom.co, KfW Research (current as at: 12 October 2023).

<sup>1</sup> Cf. Dealroom.co & Silicon Valley Bank (2020). [European VC Pulse Check H1 2022](#) and GP.Bullhound (2023). [Credit it. Step forward.](#)



# Appendix

# Appendix

## Deals

	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2018	2019	2020	2021	2022
<b>Market overall</b>									
Volume (EUR million)	1,636	1,970	2,466	1,777	5,232	7,884	5,756	18,547	10,894
Number of deals	306	307	299	232	1,071	1,106	1,152	1,603	1,481
Deal size* (Ø, EUR million)	9	10	12	12	9	13	9	20	11
<b>Stages (EUR million)</b>									
Seed	217	212	250	184	306	356	511	983	1,131
Start-up	627	520	1,016	1,058	2,189	2,820	2,036	6,428	4,136
Scale-up	792	1,238	1,201	504	2,734	4,703	3,199	11,122	5,528
unknown	-	-	-	31	3	5	10	14	100
<b>Mega-deals (count)</b>									
<100 EUR million	183	182	207	149	565	607	633	901	937
≥ 100 - 250 EUR million	2	6	5	2	4	7	7	29	20
≥ 250 EUR million	-	-	1	1	3	8	1	11	4
unknown	121	119	86	80	499	484	511	662	520
<b>Deal volume by investor location (EUR million)**</b>									
Germany	505	529	692	496	1,490	1,649	1,768	4,157	2,808
France	26	37	83	30	73	355	156	485	500
EU-27 rest	63	25	58	87	177	240	163	490	454
UK	57	131	311	407	459	769	751	1,677	894
USA	501	602	548	347	1,201	2,633	1,262	7,438	3,154
RoW	374	575	501	280	1,359	1,648	1,282	3,591	2,347
unknown	111	70	273	131	473	590	374	710	738

Source: Dealroom.co (current as at: 12 October 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 Q4	2023 Q1	2023 Q2	2023 Q3	2018	2019	2020	2021	2022
Health	40	27	33	28	11%	14%	13%	13%	12%
Fintech	18	41	24	18	13%	12%	12%	13%	10%
Enterprise Software	20	28	27	11	10%	10%	10%	9%	8%
Transportation	22	21	15	13	6%	7%	7%	6%	7%
Energy	27	27	26	20	5%	5%	5%	6%	7%
Food	16	18	20	13	5%	6%	5%	7%	7%
Marketing	10	3	12	8	4%	4%	5%	5%	4%
Real Estate	4	9	6	9	6%	6%	4%	4%	3%
Media	9	10	3	6	5%	3%	4%	4%	4%
Robotics	8	6	5	4	2%	2%	3%	3%	2%
Security	5	11	6	3	3%	4%	3%	3%	2%
Jobs Recruitment	9	1	3	4	3%	2%	3%	2%	3%
Education	10	8	9	3	2%	3%	3%	3%	3%
Fashion	7	2	1	6	3%	2%	2%	1%	2%
Travel	6	6	7	3	5%	3%	2%	1%	1%
Gaming	1	4	4	2	1%	3%	1%	1%	1%
Other	94	85	98	81	17%	16%	18%	20%	24%

Source: Dealroom.co (current as at: 12 October 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.

# Appendix

## Benchmarks

	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2018	2019	2020	2021	2022
<b>USD million</b>									
Germany	1,800	2,167	2,713	1,954	5,756	8,672	6,332	20,402	11,984
France	2,543	2,400	2,274	2,499	4,626	5,954	5,992	13,758	15,884
EU-27 rest	9,019	7,964	9,025	9,720	19,676	27,716	25,567	68,094	55,910
UK	4,613	4,074	4,237	6,042	11,644	17,761	16,875	41,000	30,705
USA	40,691	47,769	34,034	34,882	151,243	160,108	175,881	360,620	245,199
<b>as share of GDP (%)</b>									
Germany					0.14%	0.22%	0.16%	0.48%	0.29%
France					0.17%	0.22%	0.23%	0.47%	0.57%
EU-27 rest					0.12%	0.18%	0.17%	0.39%	0.33%
UK					0.40%	0.62%	0.62%	1.31%	1.00%
USA					0.74%	0.75%	0.84%	1.55%	0.96%

Source: Dealroom.co (current as at: 12 October 2023), IMF and own calculations.

## Unicorns

	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2018	2019	2020	2021	2022
increase	-	1	1	-	5	5	1	17	5
decrease	1	-	-	-	-	1	1	5	1
total	29	-	-	30	8	12	12	24	28

Source: CB Insights

Note: Unicorns are start-ups not publicly listed that are valued by investors at USD1 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 USD1 billion came about (entry) or the exit was completed determines the date from which they are no longer included.

# Appendix

## Exits

	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2018	2019	2020	2021	2022
IPO	-	-	-	1	7	3	5	10	2
Buyout	2	1	-	2	2	3	6	9	8
Acquisition	24	19	25	22	53	72	53	87	94

Source: Dealroom.co (current as at: 12 October 2023).

Note: Purchases and majority stakes (50%-100%) are counted as acquisitions; Buyout: 30%-100% takeover by private equity firms, or "buyout" mentioned in the transaction.

## Venture Debt

	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2018	2019	2020	2021	2022
<b>Market overall</b>									
Volume (EUR million)	1,745	115	855	383	105	267	793	3,983	3,965
Number of deals	12	3	18	13	8	8	16	26	41
Deal size* (Median, EUR million)	20	50	35	28	15	23	30	85	20
<b>Mega-deals (count)</b>									
<100 EUR million	8	3	14	9	7	6	14	13	31
≥ 100 - 250 EUR million	-	-	-	1	-	1	2	5	1
≥ 250 EUR million	3	-	1	-	-	-	-	6	7
unknown	1	-	3	3	1	1	-	2	2

Source: Dealroom.co (current as at: 12 October 2023)

Note: The definition of venture debt follows Dealroom.co and SVB (2020): European VC Pulse Check H1 2022. Debt transactions from banks and non-banks directly to young growth companies are recorded. We exclude lending capital – loans to fintech and other platforms that are secured by assets (SME loans, real estate, etc.).

\* Only deals with deal volume details.

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## **Published by**

KfW

KfW Research

Palmengartenstrasse 5-9

60325 Frankfurt / Main

Phone+49 69 7431-0, Fax +49 69 7431-2944

[www.kfw.de](http://www.kfw.de)

## **Authors**

Dr Steffen Viete

Phone +49 69 7431-68019

Dr Georg Metzger

Phone +49 69 7431-9717

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