

KfW Research

**>>> KfW Venture Capital
Dashboard
Q4 2023**

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Overview

The German venture capital market in Q4 2023

1

Start-ups in Germany raised just under EUR 1.5 billion in 204 financing rounds in the fourth quarter of 2023. That means deal volume remained roughly on the previous quarter's level (-2.9% QoQ), while the number of deals fell again significantly (-19% QoQ). Overall, the year 2023 closed with a deal volume of EUR 7.2 billion in 1,088 financing rounds. This shows that funds flowed into German start-ups more slowly yet again than in the previous year. In a historic comparison, however, investment activity was still strong in 2023. Furthermore, invested funds stabilised on the current level in the course of the year.

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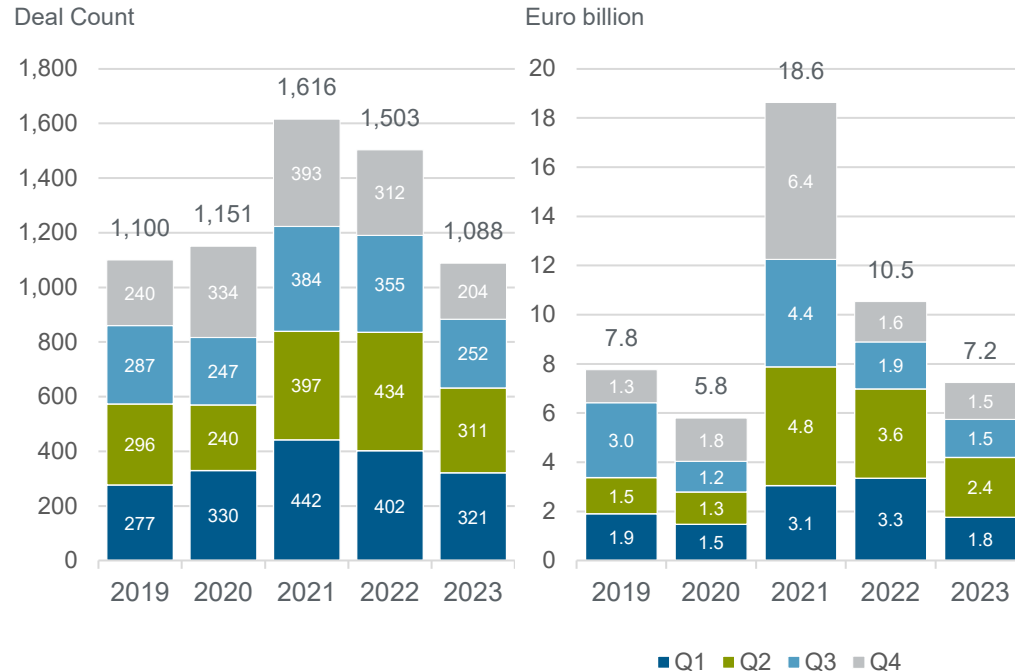
Key features that shaped the market already in 2022 continued in 2023. Investors from abroad continued to withdraw from the financing of German start-ups last year. By contrast, the share of domestic investors in the Q4 2023 deal volume rose to a record level of 38%. Investors again showed the greatest restraint in regard to scale-up finance in 2023. For the first time, however, it was evident that the more challenging financing conditions also impacted on early financing stages. Thus, across 2023, investments in the seed segment were on the decline again for the first time in a long while.

3

Various factors can potentially help improve the situation in the German VC market in 2024. The prospects of falling interest rates in the second half of 2024 are likely to be a silver lining. This could benefit company valuations and, hence, exit options and improve fundraising conditions. Given the very successful fundraising from the past years, the German VC industry also remains very well capitalised and investors are currently benefiting from more favourable entry valuations. Not least, one of the largest European VC funds of funds, the 'Wachstumsfonds Deutschland', announced its final closing at the end of 2023.

With around EUR 1.5 billion in Q4, the year closed on the level of the previous quarter, with investors continuing at a slow pace in 2023

Number of deals and deal volume



Start-ups in Germany raised just under EUR 1.5 billion in 204 financing rounds in the fourth quarter of 2023. That means deal volume remained roughly on the previous quarter's level (-2.9% QoQ), while the number of deals fell again significantly (-19% QoQ). Overall, the year 2023 closed with a deal volume of EUR 7.2 billion in 1,088 financing rounds. This shows that funds flowed into German start-ups more slowly yet again in 2023 than in the previous year. On the back of a strong first half-year, 1,500 rounds with a volume of EUR 10.5 billion could still be realised in 2022.

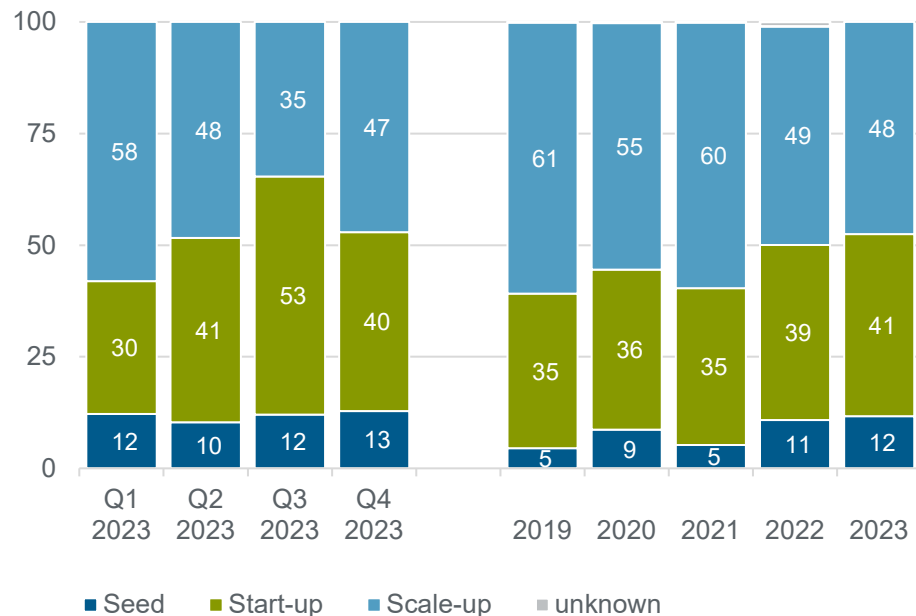
Overall, the past year was difficult for both investors and start-ups. In addition to the market's successive adjustments to the new interest rate environment, the weak economy and new political risks around the Middle East conflict created a challenging environment. With a view to deal volume, the market's adaptation to the new conditions has slowed considerably and the development in the past quarters rather resembled a rollercoaster ride. Invested funds remained on the same level in the past two quarters. This gives hope for a market rebound in the course of 2024.

The figures for 2023 will likely yet increase as a result of late notifications. Deal volume will therefore be roughly on the level of the pre-crisis year 2019. Given the significantly more difficult environment, this result should definitely be regarded as positive and is an expression of an ongoing process of maturation which the German VC ecosystem has undergone in the past years.

Source: Dealroom.co, KfW Research (current as at 15 January 2024).

As in the previous year, investors continued to be more cautious particularly in the scale-up segment

Deal volume by phases (in per cent)



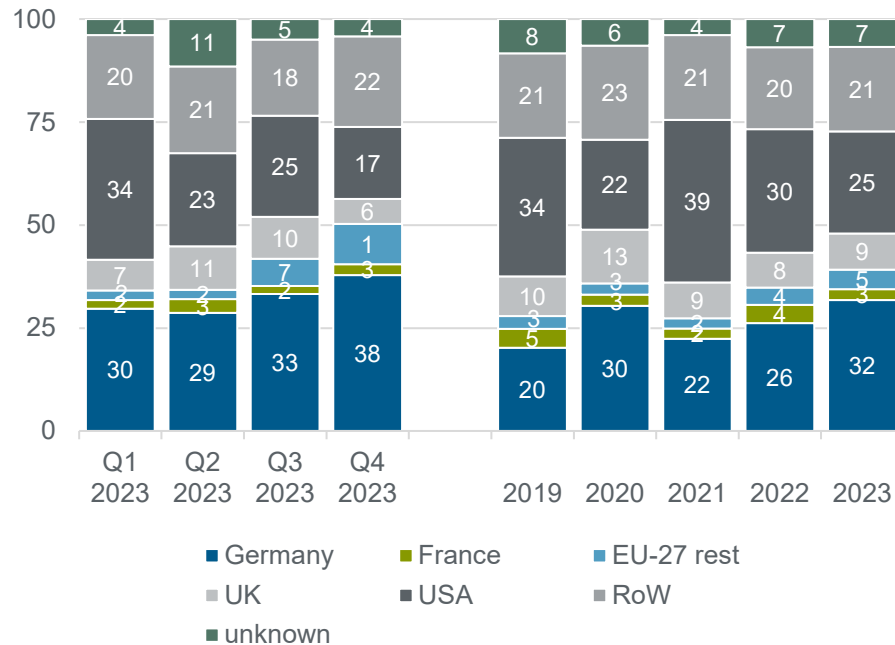
In the fourth quarter of 2023, funds for scale-up finance increased again slightly compared with the previous quarter, reaching EUR 705 million. After a particularly weak third quarter, 47% of the funds invested in the market again went to the scale-up segment in Q4. For 2023 as a whole, however, the less favourable conditions for follow-up finance for scale-ups remained a key feature of the current market situation. In total, 48% of the funds went to scale-up finance in 2023. In each of the the years 2019 and 2021 it was roughly 60% of funds and still a respectable 55% in the pandemic year 2020.

A look at deal volume in the individual financing phases throughout the year also reveals that the market downturn, which initially appeared primarily in later financing stages, also impacted on the seed segment for the first time last year. While deal volume in seed financing had still grown to more than EUR 1 billion, bucking the trend of the overall market (Appendix), it decreased in 2023, as it did in the other market segments, closing with a volume of EUR 845 million.

Source: Dealroom.co, KfW Research (current as at 15 January 2024).

Share of domestic funds continued to grow in Q4 2023

Volume by investor origin (in per cent)



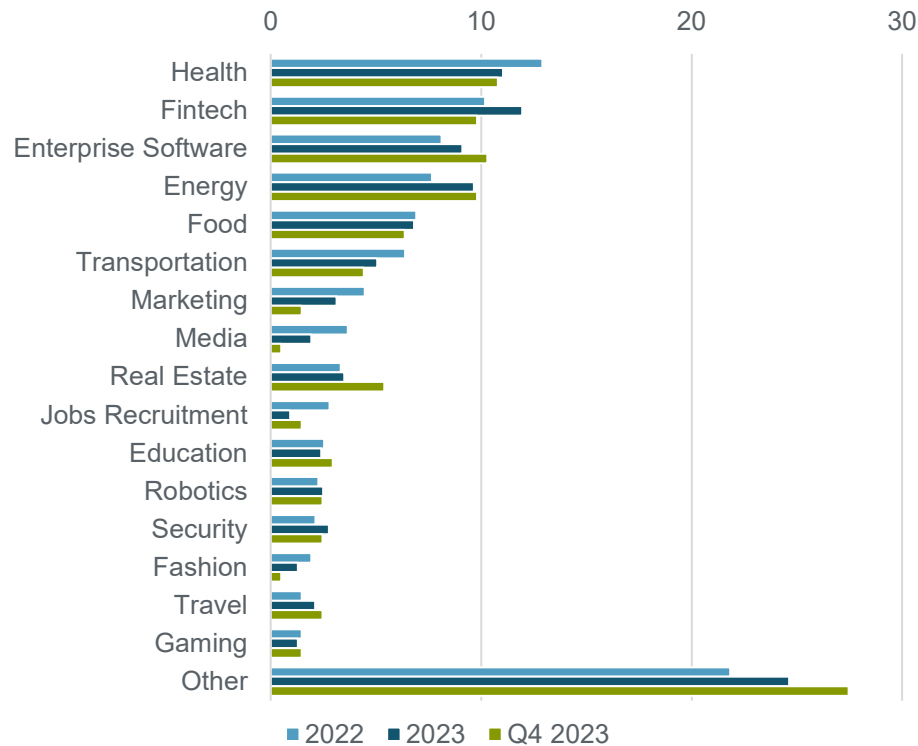
Since the global VC market began to cool off in early 2022, the share of venture capital invested in the German market by investors domiciled outside Germany has fallen. This development marked a temporary peak in Q4 2023. The share of funds from US investors in particular, which had temporarily risen to 39% of the market in the boom year 2021, dropped again in Q4 2023 to now 17%. By comparison, the share of funds from domestic investors grew to 38% (33% in the previous quarter).

There are three likely reasons for these developments. First, the German VC market grew on the investor side in the past years. Fundraising by German investors peaked in 2022, which likely contributed to an expansion in the supply of domestic funds in the year 2023. Second, US investors are very often involved in large financing rounds. But these have become increasingly absent in a cooling market. Third, in the current market situation some international (crossover) investors are concentrating on portfolio business in the domestic market while reducing their own exposure in the European tech sector. Thus, the developments we are observing are also partly driven by strategic decisions.

Source: Dealroom.co, KfW Research (current as at 15 January 2024).

Most deals in Q4 2023 were in health, enterprise software, FinTechs and energy

Share of deals by industry (in per cent)



German businesses in the fields of health / life sciences have been heavily sought-after by investors for years. These companies develop technologies such as medical devices, digital health platforms, innovations in the field of biotechnology and medicines. Even if their share in all deals in the German VC market was slightly lower overall in 2023 than in the previous year, they again accounted for the majority of deals at year-end in Q4. Historically, deals in the field of enterprise software also make up a large share of the VC market but were on the decline in relative terms up until 2022. In the past year they benefited particularly from the boom in artificial intelligence applications and grew their market share again.

In addition, the field of FinTechs, which even accounted for the largest number of deals in Germany in all of 2023, at 12%, is currently experiencing a significant revival as well, after slowing significantly in the year 2022. Finally, start-ups working in energy generation and storage as well as clean energy solutions have also been experiencing strong momentum for quite some time now. In 2023 they represented 10% of all deals in the market for the first time. The development in Q4 2023 points to further growth of market share, for which the energy crisis and the green transformation of the economy are likely to be long-term drivers.

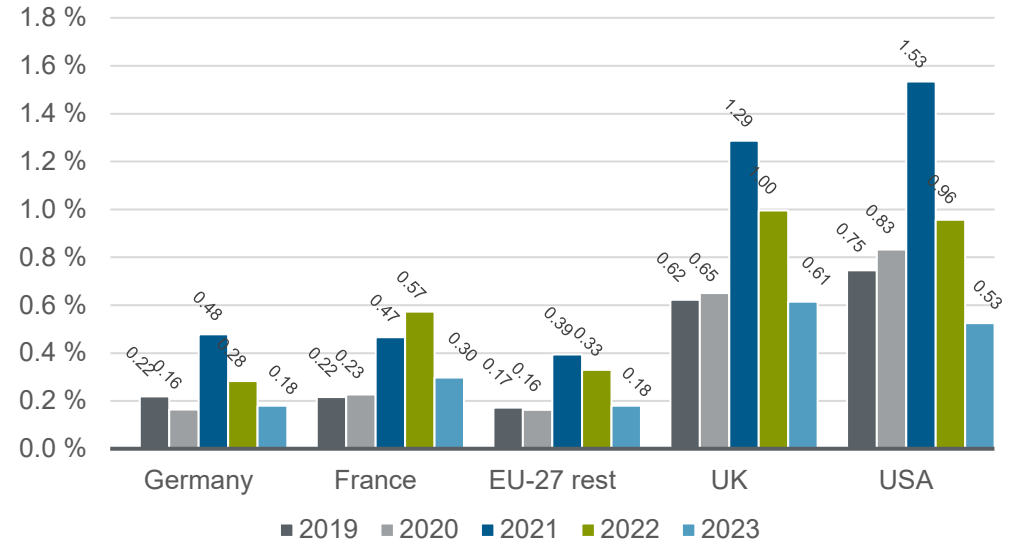
Source: Dealroom.co, KfW Research (current as at 15 January 2024).

Investment volume declined in Q4 2023 in many countries

Deal volume in USD million

	2023 Q1	2023 Q2	2023 Q3	2023 Q4
Germany	1,939	2,683	1,697	1,649
France	2,288	2,039	2,496	2,275
EU-27	7,423	8,424	9,334	7,962
United Kingdom	5,404	4,273	5,972	4,818
USA	47,827	33,555	33,708	26,584

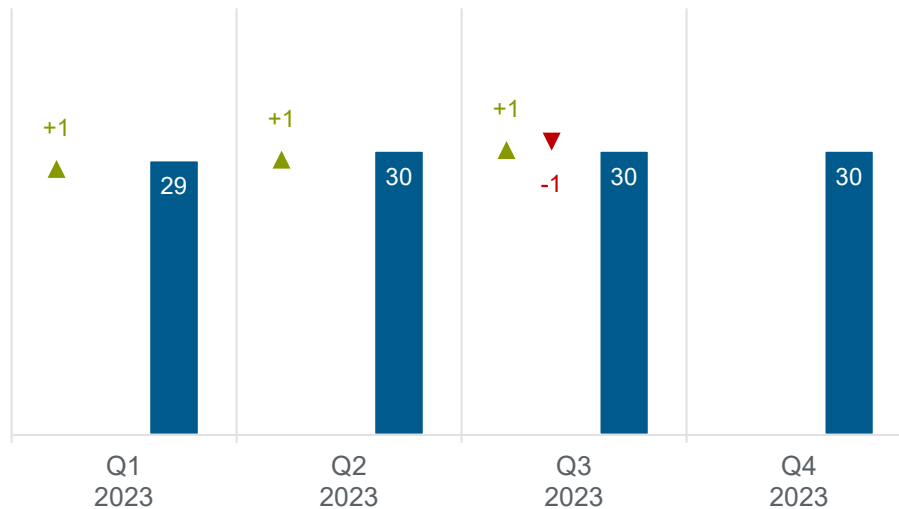
Deal volume in per cent of GDP



Important external market factors such as the interest rate turnaround and economic uncertainty are creating challenges for VC markets at international level. The slight downturn at the end of the financial year in Q4 2023 that was observable in Germany was shared by all international comparison markets reviewed here. In the US in particular, deal volume even fell more substantially than in Germany (-21% QoQ). That made 2023 the weakest year in a long while for the US VC market. Measured by economic performance, deal volume in the German VC market was in line with the EU average in 2023 (0.18% of GDP). The markets in the UK (0.61%) and the US (0.53%) thus remained significantly larger, but France, too, exhibited a larger market volume in the past two years (0.3% of GDP in 2023).

Number of unicorns in Germany rose despite difficult market environment and downward pressure on valuations

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

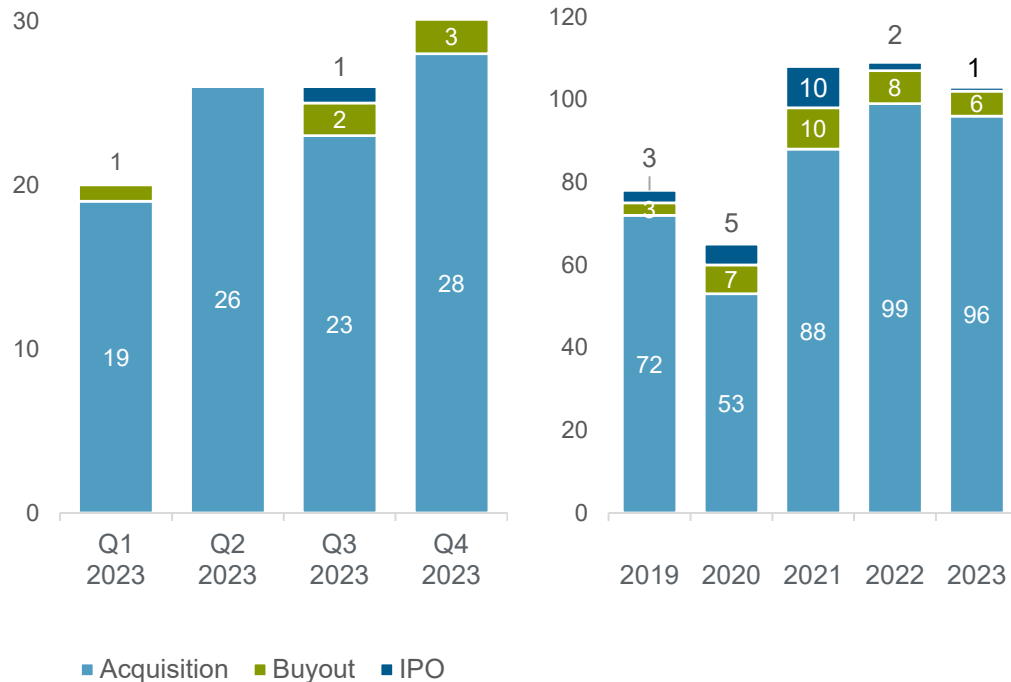


According to CB-Insights, no further unicorns were added in Germany in the fourth quarter of 2023. In return, there was a late notification for the third quarter of 2023. With the Munich-based start-up Helsing, the number of existing unicorns has grown to 30. That means three German start-ups were able to successfully achieve a billion-dollar valuation for the first time in 2023 despite the difficult market environment.

Source: CB Insights und and own research.

Takeovers remained the strong backbone of exit activity in Q4 2023

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



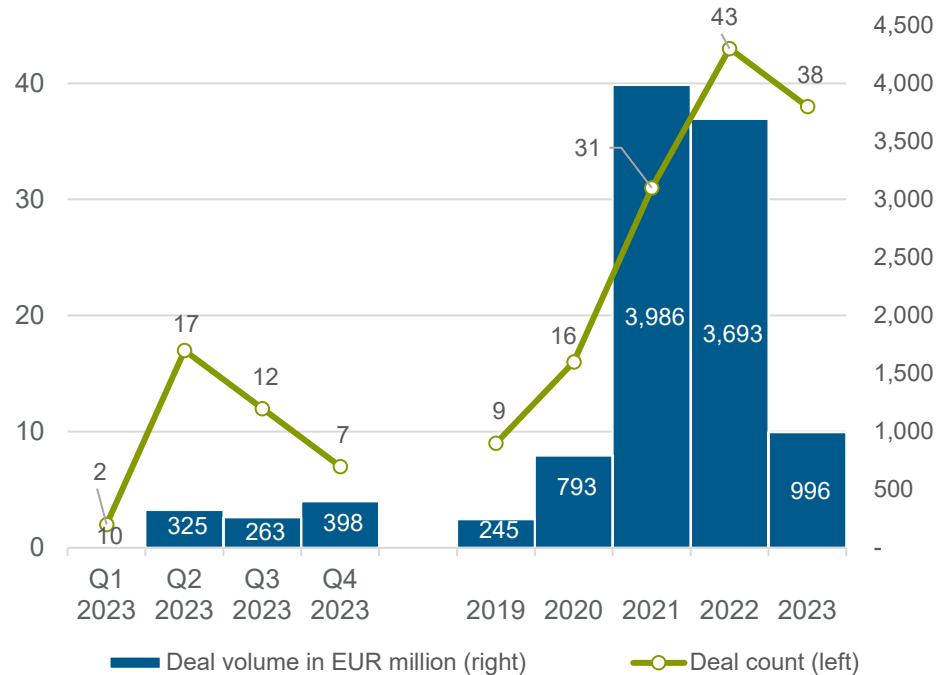
Measured by the number of exits, we can look back on a strong year 2023. In particular, the number of exits in the form of takeovers increased once again at the end of the year, with 28 transactions in Q4 2023. On the buyer side, one driver of the current lively takeover activity is likely to be the downward correction of the valuation level which, on the other side of the coin, reduces exit returns and, ultimately, the money available to fund investors for reinvestments. Exit activity in Q4 2023 was complemented by three buyout transactions.

IPOs, the exit channel offering the highest returns, continued to be absent in Q4 2023. Thus, the temporary rally in public markets last year has not yet led to a sustained improvement in conditions for new issuers in the tech field. Possible interest rate reductions might provide a further boost to the IPO market in the second half of 2024.

Source: Dealroom.co, KfW Research (current as at 15 January 2024).

Venture debt remained important source of funding for German start-ups in Q4 2023

Number of deals and deal volume



Seven venture debt financing transactions of German start-ups were observed in Q4 2023. These had a total volume of EUR 398 million. Thus, 38 financing transactions with a volume of EUR 996 million are known to have taken place in 2023.

In the year 2022 in particular, venture debt was an attractive opportunity for start-ups with sufficient runway to secure further liquidity amid increasingly more difficult equity financing conditions. With increasing duration, however, demand for venture debt will likely also depend increasingly on the prospects for further successful equity rounds in the venture capital market.

Given the small size of the venture debt market, the data on the observed deal volume in particular is very volatile. A look at the past years shows that an extraordinarily large deal volume in 2021 and 2022 was mainly driven by very large individual financing transactions. These levels should not obscure the fact that, with 38 deals and a volume of just under EUR 1 billion, the German venture debt market continued its long-term trend growth in 2023. Up until 2015, the number of annual transactions did not exceed single-digit figures.

Source: Dealroom.co, KfW Research (current as at 15 January 2024).



Appendix

Appendix

Deals

	2023	2023	2023	2023	2019	2020
	Q1	Q2	Q3	Q4		
Market overall						
Volume (EUR million)	1,763	2,439	1,543	1,499	7,765	5,791
Number of deals	321	311	252	204	1,100	1,151
Deal size* (Ø, EUR million)	9	11	10	11	12	9
Stages (EUR million)						
Seed	215	252	186	192	352	501
Start-up	525	1,006	823	601	2,687	2,078
Scale-up	1,023	1,181	534	705	4,721	3,201
unknown	-	-	-	-	5	10
Mega-deals (count)						
<100 EUR million	185	213	156	136	610	631
≥ 100 - 250 EUR million	5	4	2	3	5	7
≥ 250 EUR million	-	2	-	-	8	1
unknown	131	92	94	65	477	512
Deal volume by investor location (EUR million)**						
Germany	524	700	513	567	1,571	1,762
France	37	81	30	40	355	156
EU-27 rest	40	55	102	147	242	160
UK	132	258	157	90	749	754
USA	603	552	379	262	2,612	1,268
RoW	359	513	285	329	1,594	1,323
unknown	67	280	77	63	641	369

Source: Dealroom.co (current as at 15 January 2024).

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

	2023	2023	2023	2023	2019	2020	2021	2022	2023
Industries	Q1	Q2	Q3	Q4					
Health	30	38	30	22	14%	13%	13%	13%	11%
Fintech	48	33	29	20	12%	12%	14%	10%	12%
Enterprise Software	30	32	16	21	10%	10%	9%	8%	9%
Energy	30	28	27	20	5%	5%	7%	8%	10%
Food	21	26	14	13	6%	5%	7%	7%	7%
Transportation	17	14	15	9	7%	7%	5%	6%	5%
Marketing	8	12	11	3	4%	5%	5%	4%	3%
Media	9	4	7	1	3%	4%	4%	4%	2%
Real Estate	10	7	10	11	5%	4%	4%	3%	3%
Jobs Recruitment	1	2	4	3	2%	3%	2%	3%	1%
Education	9	9	2	6	3%	3%	3%	3%	2%
Robotics	9	9	4	5	2%	4%	3%	2%	2%
Security	12	7	6	5	4%	3%	3%	2%	3%
Fashion	3	3	7	1	2%	2%	1%	2%	1%
Travel	7	7	4	5	3%	2%	1%	1%	2%
Gaming	5	3	3	3	2%	1%	1%	1%	1%
Other	72	77	63	56	16%	18%	19%	22%	25%

Source: Dealroom.co (current as at 15 January 2024).

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

	2023	2023	2023	2023	2019	2020	2021	2022	2023
USD million	Q1	Q2	Q3	Q4					
Germany	1,939	2,683	1,697	1,649	8,541	6,370	20,488	11,583	7,968
France	2,288	2,039	2,496	2,275	5,911	6,001	13,800	15,943	9,098
EU-27 rest	7,423	8,424	9,334	7,962	27,043	25,045	68,157	55,174	33,142
UK	5,404	4,273	5,972	4,818	17,820	17,614	40,180	30,688	20,468
USA	47,827	33,555	33,708	26,584	159,370	175,254	357,711	243,625	141,673
as share of GDP (%)									
Germany					0.22%	0.16%	0.48%	0.28%	0.18%
France					0.22%	0.23%	0.47%	0.57%	0.30%
EU-27 rest					0.17%	0.16%	0.39%	0.33%	0.18%
UK					0.62%	0.65%	1.29%	1.00%	0.61%
USA					0.75%	0.83%	1.53%	0.96%	0.53%

Source: Dealroom.co (current as at 15 January 2024), IMF and own calculations.

Unicorns

	2023	2023	2023	2023	2019	2020	2021	2022	2023
	Q1	Q2	Q3	Q4					
Increase	1	1	1	-	5	1	17	5	3
Decrease	-	-	-	-	1	1	5	1	-
Total	28	0	0	31	12	12	24	28	31

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

	2023	2023	2023	2023	2019	2020	2021	2022	2023
	Q1	Q2	Q3	Q4					
IPO	-	-	1	-	3	5	10	2	1
Buyout	1	-	2	3	3	7	10	8	6
Acquisition	19	26	23	28	72	53	88	99	96

Source: Dealroom.co (current as at 15 January 2024).

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

Venture Debt

	2023	2023	2023	2023	2019	2020	2021	2022	2023
	Q1	Q2	Q3	Q4					
Market overall									
Volume (EUR million)	10	325	263	398	245	793	3,986	3,693	996
Number of deals	2	17	12	7	9	16	31	43	38
Deal size* (Median, EUR million)	5	21	25	53	11	30	67	15	25
Mega-deals (count)									
<100 EUR million	2	12	9	4	7	14	15	32	27
≥ 100 - 250 EUR million	-	-	-	1	1	2	5	1	-
≥ 250 EUR million	-	5	3	2	-	-	6	6	1
unknown	-	-	-	-	1	-	5	4	10

Source: Dealroom.co (current as at 15 January 2024).

Note: The definition of venture debt follows Dealroom.co and SVB (2020): European VC Pulse Check H1 2022. It captures debt capital transactions of banks and non-banks to young growth-oriented enterprises. We exclude lending capital – loans to FinTech and other platforms collateralised by assets (SME loans, real estate, etc.).

* Only deals that specify deal volume.

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