

# Coronavirus crisis has unsettled the VC market and changed the investor landscape



No. 202, 6 August 2020

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## VC business confidence returns after the coronavirus shock

The uncertain impact of the coronavirus crisis greatly unsettled the German VC market at the end of the first quarter of 2020. In the second quarter the initial shock passed for the time being. Business sentiment recovered significantly from the all-time low of the previous quarter. This was revealed by the German Venture Capital Barometer of KfW Research and BVK. Beyond that, what does the coronavirus crisis mean for Germany's VC market? How are market participants reacting and what are the consequences? In a special survey, 24 VC investors gave their views on specific aspects.

## The coronavirus crisis is putting pressure on start-ups

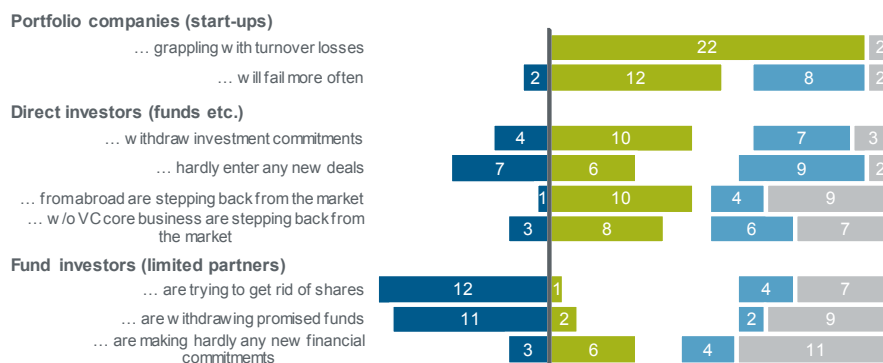
VC investors almost unanimously reported that the start-ups in their portfolios are grappling with crisis-induced losses in turnover. The majority also anticipate increased start-up failures. But many only partly agree with this statement, presumably because they have their eyes on various sectors that have been affected by the crisis in very different ways.

## Investor landscape in upheaval

Start-ups are also feeling the crisis on the financing side. Thus, most VC investors reported that approved deals were not closed after all because of the coronavirus crisis. Here as well, many investors agree only in part. Apparently, more deals were cancelled by investors with a high level of investment. The reason is that when available reserves are low, the priority is on supporting the existing portfolio. The same applies to the closing of new deals, although the picture here is much more balanced

## How has the coronavirus crisis affected Germany's VC market?

Number of mentions



Disagree Agree Agree in part Not sure / No answer

The responses from 24 VC companies were made on a five-point scale ranging from 1 for 'disagree completely' to 5 for 'agree fully'. The figure summarises assessments of 1 or 2 as 'disagree', 3 as 'agree in part' and 4 or 5 as 'agree'.

Source: KfW Research and BVK, Supplementary German Venture Capital Barometer Survey Q2/2020.

overall. In other words, there is still appetite for new investment. The German Venture Capital Barometer shows that the situation eased in this respect in Q2 2020, after investment appetite vanished in Q1. It appears that the great uncertainty caused by the coronavirus shock in Q1 was the main reason approved deals did not materialise in the end. But the risk of further cancellations because of the crisis should now have passed.

Start-ups are likely to also have been affected indirectly by the crisis in accessing VC – through a change in the investor landscape. Thus, foreign direct investors and non-traditional direct investors such as companies, endowment funds, hedge funds, state funds and investment banks appear to have reduced their activities in the market. A retreat to the domestic market and core business would be a normal crisis response. Whether the change in the investor landscape and, with it, the

supply of VC is a passing or a long-term phenomenon will probably depend on how well companies and economies get through the crisis.

## Investors remain loyal to VC funds

The outbreak of the coronavirus crisis has massively unsettled companies and investors. They responded by undertaking great efforts to secure liquidity. For example, investors retreated from existing investments, as illustrated by the collapse of international stock markets. There was concern that this would also affect VC funds. But that appears to have happened only sporadically. Only few VC investors confirmed that fund investors have attempted to exit from investments or withdrew commitments to fund investments. Those who were in the process of raising funds, however, will have more difficulty securing commitments from fund investors.