

# EUROPEAN INVESTOR SENTIMENT INDEX

## Q2/2020

A QUARTERLY RECURRING SURVEY



## VENTURE INVESTORS EXPECT PARTICULARLY DIFFICULT SECOND HALF OF THE YEAR

The pandemic crisis has a tremendously negative impact on the overall economy. European innovation sector sentiment – also referred to as the startup or venture capital sector – fell into negative territory in Q2.

*"Almost all investors said, they are currently focusing on supporting their existing portfolio companies, rather than actively seeking new investment opportunities. This is of course understandable. On the other hand, it is a huge threat to growth startups seeking investments, which exceed the resources of existing shareholders. They may become Zombies, merge with peers, or give up (close or fire sale) the business. In case the European venture capital market receives the support of the European Union, the whole story might flip and bring a positive ending. We could increase our global position in innovation if we end up on the buyers' side of the table."*

Berthold Baurek-Karlic  
CEO / founder Venionaire Capital

Investors from all over Europe unanimously share concerns about the upcoming second half of the year. While investors generally felt that governmental aid programs had some impact, the sector would certainly need stronger support in the next period to save Europe's high-growth ecosystem.

## NEGATIVE SENTIMENT, SELECTIVE ENVIRONMENT

European venture markets remain under pressure due to the ongoing pandemic crisis. Second-quarter survey answers show a relatively small spread, indicating quite homogeneous market expectations across Europe. The European Venture Sentiment Index fell into negative range down to 4.62 points, compared to a positive 5.26 in Q1/2020. Even though we face currently this negative sentiment level of 4.62 that value still slightly exceeds the forecasted outlook in Q1 which was at the level of 4.29 points. In addition, in the last quarter an increase in the quality of dealflow was projected for Q2, however, the actual results show a significant drop in quality compared to Q1. One possible interpretation of this finding is that investors anticipate the COVID-19 situation to improve more rapidly in the future.

Those results indicate a rather high uncertainty among venture investors all over Europe. Undoubtedly, most investors focused on strengthening their existing portfolio in the last quarter, while letting new investment opportunities pass. Due to this, valuations and investment activities are expected to fall in the next quarters even further and most survey participants are cautious to increase their exposure to new investments. Less supply of investors and lower growth forecasts will ultimately lead to lower valuations, as fundraising is expected to become extremely difficult towards the end of the year.

To sum up, investors are lead currently by a rather "risk-off" sentiment – they wait and see what happens. Most investors forecast a further dropping economic growth in this sector, also a significant increase in mergers (consolidations), and



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## Q2/2020



eventually a drastic drop in valuations for new or follow-on investments, as fundraising is about to get very difficult. Views on these factors are much more homogeneous than last quarter. According to Venionaire Capital, it can be assumed that most investors will become even more selective in the third quarter and will very likely consider wisely which startup they invest in.

## STABLE OUTLOOK FOR Q3/2020, HIGH RISK OF DEPRICIATION

The outlook for Q3/2020 is located at 4.53 points, which is actually even lower (although slightly) than the sentiment for this quarter with 4.62 points. As stated, our analysts expect investors to be even more selective in the upcoming quarter than today. Lower growth forecasts, bad performance in 2020, and much less supply of available capital will result in a drop in valuations and a fuel of mergers among peers. Market consolidation may not be generally unhealthy, but a complete fallout of startups would be. A large number of write-offs would cause a severe dent into an emerging European innovation ecosystem and through the region back in time. Experts at Venionaire Capital expect a depreciation risk of up to 30% by the end of 2020 – taking a possible second wave of the pandemic into account.

## HEALTH- AND HIGH-TECH ARE THE WINNERS

Despite the negative outlook, there are winners in every crisis. According to the interviewed investors, the competition will continue in the health-tech and high-tech sectors. Investors mentioned startups in the field of vaccine research, bio- and life sciences as well as in digital health that are most likely to raise new investments. Consequently, those sectors are the most likely to see increasing deal numbers and are those with the best outlook. In general, fundraising for startups is expected to become very tough in Q3/2020, and in some

regions nearly impossible, due to governmental restrictions to contain the pandemic.

Governmental first aid programs, have been considered moderately positive. Investors stressed an increased need for equity financing support programs until the end of the year, as pockets of investors run dry. Analysts at Venionaire Capital monitored different kinds of economic support programs and even startup-rescue or co-investment schemes all over Europe. Those programs were important to stabilize the market sentiment and to keep confidence for a quick recovery.

In summary, it can be said that despite the rather stable venture sentiment environment, we are in negative territory and see investors alert. The outlook for the upcoming quarter clearly indicates that we have difficult times ahead, but also slight confidence for a slow recovery with the support of the governments, which is expected to increase by market participants. Investors and associations representing those, call for governmental programs for more equity financing all over Europe. The highest risk is a second wave of COVID-19 pandemic, leading to “lock-downs” or an even deeper dive of the overall economy, survey participants made clear.

## METHODOLOGY

Over seventy highly-experienced investors (business angels, (corporate) venture fund managers and family offices) from ten European countries were interviewed in June 2020 as part of the European Venture Sentiment Survey, conducted by Venionaire Capital. Based on a quarterly recurring survey, Venionaire Capital collects answers from a focus group in the form of computer-assisted personal interviews, and of a much smaller control group to assess the indices. Those datasets are collected in two waves and finally merged. In both groups, Venionaire has aligned similar sets of investors, ranging from business angels to large corporate venture units as well as early- to later-stage venture capital funds from all over Europe (incl. Switzerland and the UK).

The indices for current sentiment and projected outlook are weighted indices, with emphasis on the ability / willingness of investors to invest, the perception of startup valuations and the quality of deal-flow.

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## Q2/2020



### COMPARABILITY

Sentiment surveys and indices are nothing new. They have been around for decades to quantify how a certain group of people feel about a market or economy. One of the most notable examples is the Consumer Confidence Index (CCI), which provides an indication of future consumption and saving of households. There are also surveys that focus on a specific market, or even an individual security. How can the results of these market sentiment surveys help market participants?

Let's look at the venture capital industry. This general economic information can greatly benefit both the investor and startups within a market. Investors can compare their own views and opinions to those of the general market or across different geographical regions and industry verticals. This will help them to adjust their investment behavior. Startups can use this information, when growing their business internationally, when they prepare for fundraising or to slow down their business (return to bootstrapping – ahead of time), if the economic environment worsens. Market sentiment indicators are important for us in all industries and markets. Nevertheless, there is a limited number of market sentiment indices for the venture capital or startup market available, which we found useful to work with.

Most indices available focus on a specific region, investors group or industry. Take EIF's VC Survey, which targets a highly professional group of regulated investors across Europe, but does not take accelerators or business angels into account. Our partners of Deutsche Börse Venture Network conducted a great report on market sentiment during the COVID-19 pandemic. It offers great insights, but it was a one time publication.

We have developed our own "European Venture Sentiment Index", which shows in one simple number the general state of sentiment today and shows the current outlook in a second number.

### THE EUROPEAN INVESTOR SENTIMENT INDEX

The index is based on feedback from different economic regions, as well as startup sectors and reflects the general European Venture Sentiment. The methodology of the index was designed by Venionaire Capital in mid-2019. The project was led by its founder and managing partner, Berthold Baurek-Karlic, a serial entrepreneur and leading venture capital expert from Vienna, Austria. Berthold started his career in the statistics department of the Austrian Central Bank (OeNB).

"We attach great importance to providing our investors with an actual overview of the current investment climate in the European startup sector. After this index has proven to be an important tool for our clients - including startups as well as investors - we have decided to make the results available to the public for the first time during the COVID-19 pandemic in the first quarter of 2020. Our aim was to draw public attention to the threatening situation of innovative young companies in Europe", explains Berthold Baurek-Karlic.



**BERTHOLD BAUREK-KARLIC**  
CEO AND FOUNDER, VENIONAIRE CAPITAL

Berthold Baurek-Karlic is the founder and managing director of Venionaire Capital, which specializes in M&A and venture capital. The Venionaire Group also includes the investment company MOTEC VENTURES (motec.vc) and the software provider DEALMATRIX (dealmatrix.com).

He is also the founder and secretary general of the Business Angel Institute (businessangelinstitute.org), board member of the European Super Angels Club (superangels.club), expert partner of various accelerators and consultants of various venture funds, and board member of the Austrian Private Equity and Venture Capital Association (avco.at), as well as external consultant in the EU programs Horizon2020 (today Horizon Europe) and Innovation Radar.

As a passionate blogger ([www.baurek-karlic.at](http://www.baurek-karlic.at)), he writes regularly on various topics related to angel and venture investments, startups, and future technologies.

# ABOUT



Venionaire is a entrepreneurial partner for investors, founders and institutionals. Our partners and team are specialized in venture capital and private equity investments, with an extensive track-record over more then a decade. We offer transaction and corporate advisory services – from due-diligence, valuation, deal structuring, (ghost) negotiating to alternative fund management – for investors, corporates, public entities and growth companies (startups / scaleups). Our track-record as entrepreneurs, advisors and investors shows deals in fields of corporate finance (M&A), (Corporate) venture capital, corporate startup engagement (CSE), digital transformation and high-tech innovation with a total volume of more than a billion Euros. In addition we serve as trusted partners for scouting, screening, technology-, market- and competitive analysis and valuation for bespoke investors and accelerators in Europe. We are proud of our performance within managed portfolios and increase our high-tech footprint everyday to support a future-proof economy.

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