

EUROPEAN INVESTOR SENTIMENT INDEX

Q4/2020

A QUARTERLY RECURRING SURVEY



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COMEBACK TO A NEW NORMAL

All over Europe and the world, the COVID pandemic continues to cause a loss of lives and puts cities or even entire countries under lockdown and other restrictions that are disrupting business activity. Government support within the European Union in the current extent has never been seen before. Following these mechanisms, we saw a jump back to a new normal. The European Venture Sentiment Index returned to positive territory in Q4 2020. Compared to the last quarter, it appears that (for the first time since the pandemic started) the market adjusted to current conditions across Europe.

"We are experiencing a noticeable improvement in investor confidence compared to the previous quarter, no doubt spurred by hopes of widespread COVID vaccinations. Venionaire has been supporting networks and funds to match high-quality deals throughout the crisis. We have experienced a change lately. Investors are returning for new deals (other than just existing portfolio support) across Europe. Government programs support these developments, digitalization and innovation definitely accelerated in all sectors and mark an additional driver for growth (in particular for tech)."

Berthold Baurek-Karlic
CEO / founder Venionaire Capital

Looking into the new year, the outlook for the first quarter remains positive. We project an additional slight increase in sentiment compared to the present - most likely propelled by positive vaccination expectations.

SENTIMENT INDEX BACK IN POSITIVE TERRITORY, DACH TAKES THE SPOTLIGHT

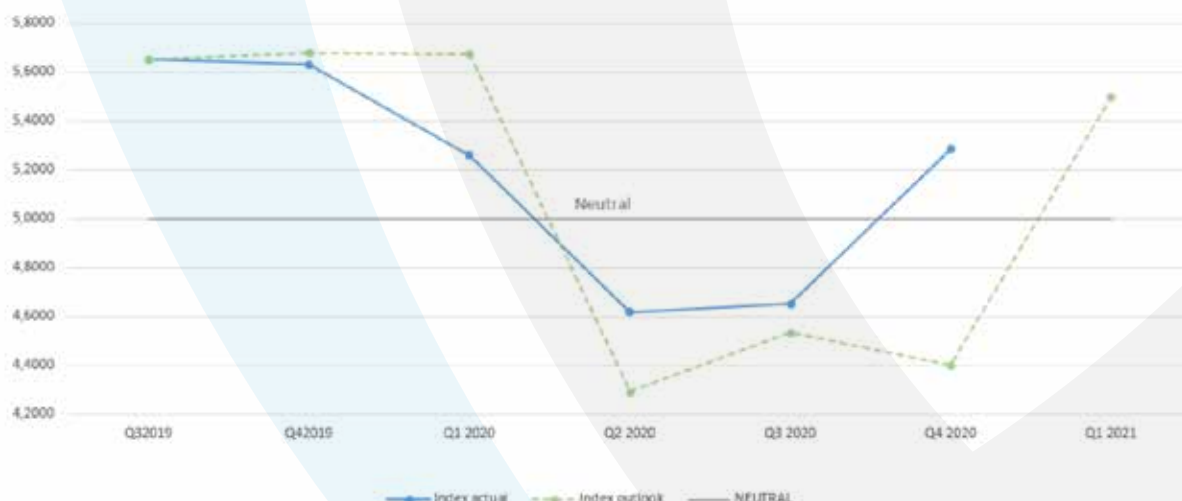
Our investors survey showed a more positive view on the European venture investment ecosystem than it has been in a long time. The European Venture Sentiment Index has significantly improved, from a level of 4.65 points in the previous quarter to 5.29 in Q4 2020. This exceeds expectations from our previous quarter's outlook, where investors had an even more negative view for the end of the year.

Despite the pandemic, 2020 has seen the highest levels of venture investment in Europe in history, while the total number of deals went down (PwC, 2021). This indicates investors doubled down on existing portfolio companies, focused on scale-ups, rather than new opportunities. On the flip side, up-and-coming early stage companies reported increased difficulties to raise seed capital.

The total amount invested, stand alone, is a misleading indicator and must be seen differentiated.

The ASG (aka DACH) region in particular has registered unprecedented levels of venture investment in the previous couple of quarters. DACH VCs have raised record amounts off new funds (Sifted, 2020). Despite Brexit, UK continues to be the strongest player in Europe (The Guardian, 2020). The Nordics have also been more active than its peers in Q4 2020.

Nevertheless, we have recognized a continuous trend - that later investment rounds are most often driven by North American and Chinese funds.



Valuations have mostly stagnated, as many startups are raising rounds at their previous valuations. Our survey indicates a wide range of startups (across sectors and regions) faced down rounds, while the few winners gained leverage in negotiations for better valuations. In our interviews, investors confirmed their personal participation in a larger number of bridge rounds.

POSITIVE OUTLOOK FOR Q1 2021, VACCINE HOPES

It is not surprising that the most common reason cited for the increase in investor confidence, is the hope of widespread adoption and distribution of COVID vaccines. As of the end of 2020, vaccines are being made available across Europe. Nevertheless, production and distribution bottlenecks limit the foreseen timeframe for a notable mass-immunity for the general public.

The pessimism that was prevalent throughout 2020 seems to have stepped aside for cautious optimism. For the first time, we are seeing a significant jump in investor confidence – back to a new normal. The European Venture Sentiment Index is expected to rise to a level of 5.5 in Q1 2021, which would put it near the higher levels of 2019. The most dramatic difference is in the fundraising environment, which was labeled as “very difficult” in Q4, but is showing significant signs of improvement going forward, in particular for scale-ups.

COLLABORATION ACROSS FUNDS, GOVERNMENT PROGRAMS EXPIRING

We noticed several startups having been founded to specifically target COVID-induced problems. Only time will tell how these “opportunity driven” companies will perform in the future, as long-term effects of the pandemic are still highly uncertain.

Currently, nearly all startups pay tribute to the COVID crisis in their pitches and documentation one way or another – whether it is how their business model has adapted to it, how they plan to outmaneuver their competition, or which new opportunities have presented themselves because of it.

One topic that has persistently come up during our interviews

is the emphasis on extremely tight and valuable collaboration between investors and founders.

Special governmental instruments stimulated co-investments as well, enabling startups to raise their full rounds.

European programs are stepping up to support recovery, as national startup support programs are coming to an end or have used up all their resources. European Innovation Council (EIC) or Digital Innovation Hubs (DIH) have been given enormous monetary backing by the EU to promote innovation, digitalization, and growth for a wide range of fields. Programs on European level are continuing to be complex and heavy on bureaucracy, looking from an application process angle.

In summary, the venture sentiment is back into positive territory in Q4 2020, following a large improvement compared to the previous quarter. Investors expect a further (albeit modest) improvement in Q1 2021, mainly fueled by hopes of a fast vaccination and return to a new normal.

METHODOLOGY

Over fifty highly-experienced investors (business angels, (corporate) venture fund managers and family offices) from 8 European countries were interviewed in December 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.

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.

AUTHORS



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 MOTECH 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), he writes regularly on various topics related to angel and venture investments, startups, and future technologies.



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ANALYST, VENIONAIRE CAPITAL

Igor holds a master's degree in banking and finance from Lauder Business School in Vienna. As an analyst, he is responsible for identification, screening, and evaluation of startups. Furthermore, Igor specializes in financial modelling; he supports Venionaire's clients with deal structuring, financial engineering and valuations.

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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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