

# EUROPEAN INVESTOR SENTIMENT INDEX

Q1/2021

A QUARTERLY RECURRING SURVEY



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## OPPORTUNITIES, UNCERTAINTY & VACCINATION EFFORTS

The ongoing global vaccination efforts show first promising results, with leading countries being on track to normality. The pandemic's latest developments support optimistic forecasts for businesses and provide both ventures and investors with more confidence. This positivity is reflected by a record jump in the sentiment index in Q1 and all-time high transaction volumes in venture investments.

*"Europe is far away from unity. Local sentiments are extremely different. The overall improvement in investor confidence compared to the previous quarter, might be misleading in this regard and investors need to be conscious. Deal sizes increased, valuations increased, as competition for the best deals is higher than ever. On the flip side, many startups outside of Berlin and London face hard times when raising funds for a Series A."*

Berthold Baurek-Karlic  
CEO / founder Venionaire Capital

However, pandemic-related news are not exclusively positive. Almost every week, information about new mutations, disruption in vaccine supply chains and government interventions in their domestic vaccination programmes due to unknown side effects are released. This keeps uncertainty on a high level, as evidenced by a less optimistic outlook for Q2 in the sentiment index versus the actual sentiment.

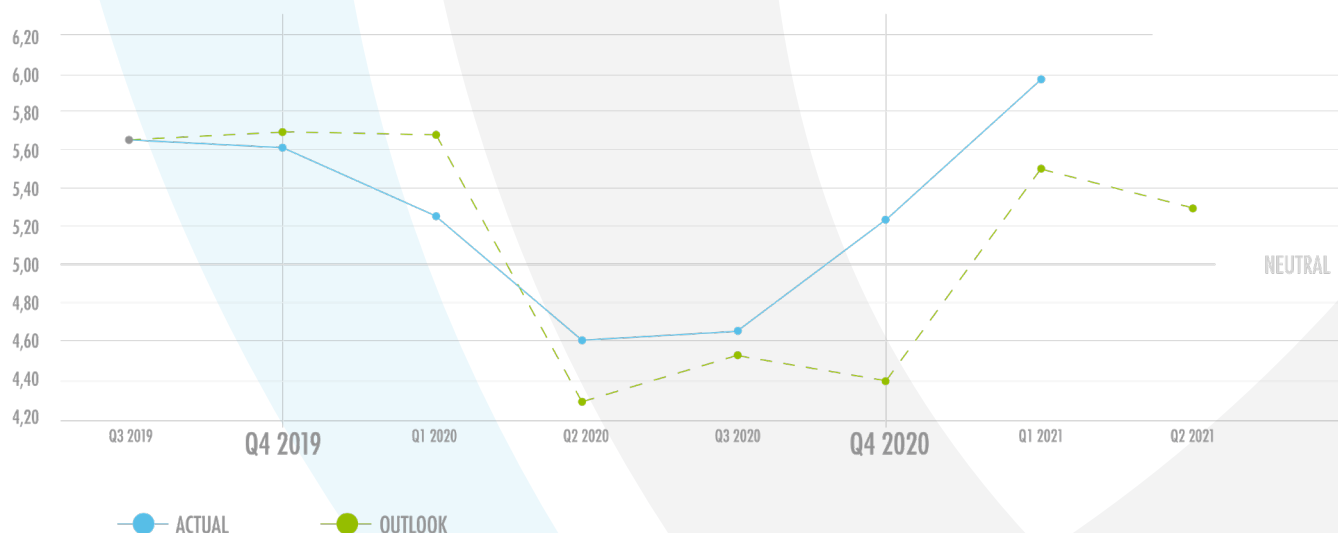
## SENTIMENT INDEX MOVING UP TO NEW HEIGHTS

### EUROPEAN VENTURE REACHES ALL-TIME HIGH IN Q1 2021

For Q1 2021 we have recorded the highest actual sentiment index for a quarter since its introduction of the study. This quarter's index actual is higher than all previous actual and outlook values. Compared to the last quarter, the index stands at 5.99, which is up by +13.4% from Q4 2020's 5.29.

The gap between the previous expectation versus the actual sentiment is significant, with a deviation of +36.2%. One major factor for this gap might be the high uncertainty surrounding the planned global vaccination efforts towards the end of 2020 and the currently observed positive effects.

Investment in European startups tracked at \$21.4 billion in the first quarter of the year. This figure is more than twice the size compared to its year over year counterpart. Funding at all investment stages has demonstrated considerable growth, with later-stage funding being at the front of the race. Seed funding is reported to be \$1.3 billion - the highest volume recorded for a single quarter for European startups. This constitutes a 26% yoy. and 10% qoq. Early-stage funding is recorded to be \$5.8 billion, which is another all-time high for young ventures on the old continent. This represents an increase of 62% yoy and 49% qoq. Late-stage and technology-growth funding came in at \$14.3 billion which is a remarkable increase of 202% yoy and 126% qoq (Crunchbase, 2021).



Despite the optimistic expectations, it is also more rationale from an investor point of view to understand Europe as one market but also as a composite of different and even competing legislative bodies. Startups on the old continent often compete between one another, especially in their growth phases as they attempt to penetrate other European markets. In the conditions of the pandemic tech companies have enormously benefited from the rapid increase of demand for digital solutions. This led to many opportunities for these companies, but it also gave rise to higher competition levels. As pointed out in a research paper by Deloitte, some local ecosystems, such as the one in Austria, have flagged concerns over legislation and tax incentives, which might slow down local companies' development compared with other European competitors (Source: derbrutkasten, 2021).

## POSITIVE OUTLOOK FOR Q2 2021, PROMISING VACCINATION PROGRESS

The observed index actual shows that the previously observed positive outlook for Q1 2021 was justified and even beaten by a significant margin. Investors' hope regarding the vaccine's effectiveness also seems to be aligned with what was observed over the past three months. Vaccination has proven to work. By comparing the data charts for the share of the vaccinated population with at least one dose of vaccine and the charts for active cases, it becomes apparent that countries such as the UK and Israel with a high share of vaccinated population are experiencing a substantial decrease in active cases since February 2021 (Our World Data, n.d. & WHO, n.d.).

Investors' expectations remain positive for Q2 2021. However, there are some signs of scepticism compared to expectations for Q1 2021. Investors recognized a slight improvement in the current fundraising environment since last quarter, which had significantly decreased from Q3 to Q4 of 2020. The most notable increase in the current quarter seems to be in the area of valuation. Investors perceive startups to be pretty overpriced at the moment.

## A SHARP RISE IN INTEREST IN CRYPTO AND BLOCKCHAIN TECHNOLOGY, HIGHER COMPETITION FOR CURRENT DEALS

The pandemic has given an even stronger push to the mass global digitalization process, which was already in place.

In Q1 of 2021, we observed a strong cryptocurrency bull market. This backwind for blockchain solutions spurred investment rounds for industry-related ventures. We identified increasing investment activity levels in crypto venture vehicles, primarily investing purely in tokens at lower holding periods. Higher returns come at higher risks – yet if there is momentum in the market some investors will see more alpha in crypto than in traditional vc models. In the earlier stages of the pandemic, there was a decline in crypto investments, while there was an increase in VC investment (Source: Blockchain Venture Capital Report, 2021). If there is an asset shift on the short term, we expect a boomerang and reinvestment in less volatile tech ventures again by Sept. 2021 where experts see a new crypto bear market coming.

The English "Blockchain.com" raised a series C round for USD 350M in late March, and the Austrian "Bitpanda" successfully landed a USD 170M series B investment in mid-March (Deal Matrix, n.d.). Furthermore, there is a growth in other blockchain technology applications and crypto-related services such as Non-fungible tokens, commonly known as NFTs, DeFi applications, and liquidity providers for cryptocurrency exchanges. However, this has not been entirely new and unprecedented. The Blockchain Venture Capital Report (2021) has accurately predicted the rise of risk capital investment in crypto and blockchain technology due to the maturity of the blockchain infrastructure.

In Q1 2021 we observed an interesting development where VC investment increased drastically, but it was also strongly directed towards crypto and blockchain ventures.

## SUMMARY

The venture sentiment continues to be on the positive side. The outlook for Q2 is also positive but slightly lower than the actual index for Q1 2021. This positivity can be attributed to the relative success of vaccination efforts. However, there is still a general uncertainty surrounding the impact of the pandemic and the post-pandemic economic reality. The venture capital sector seems to flourish despite the ongoing pandemic. In Q1 2021 we have observed record-high levels of risk capital investment. Lastly, we observed rapid developments in the crypto- and blockchain technology followed by a strong cryptocurrency bull market and a sharp rise in investment in industry-related ventures.

## METHODOLOGY

Over fifty highly experienced investors (business angels, (corporate) venture fund managers and family offices) from 8 European countries were interviewed in March 2021 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 computer-assisted personal interviews and 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 specific 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 behaviour. 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](http://www.baurek-karlic.at)), he writes regularly on various topics related to angel and venture investments, startups, and future technologies.

**DAVID TEUFEL****ANALYST, VENIONAIRE CAPITAL**

David is responsible for the identification, screening, and evaluation of startups. Furthermore, David specializes in financial modelling; he supports Venionaire's clients with deal structuring, financial engineering and valuations. Before joining the team at Venionaire, he gained experience by accompanying a tyrolean startup in a leading position as Controller & Financial Analyst from early-stage through a Series A round up to a Share Deal exit. David has a Bachelor degree in Business Management & Entrepreneurship from the FHWien der WKW.

**SAMUEL FRANCES****INTERN ANALYST, VENIONAIRE CAPITAL**

Samuel manages deal flow, analyses business models and prepares investment decisions. Prior to Venionaire, Samuel has gained professional experience in London, Sofia, Vienna and Berlin.

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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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