

EUROPEAN INVESTOR SENTIMENT INDEX

Q2/2021

A QUARTERLY RECURRING SURVEY



EUROPE'S FIRST INTRODUCTION TO ITS "NEW NORMAL" LEADS TO RECORD HIGH INVESTMENTS

High vaccination rates throughout Europe and strict pandemic containment measures led to a sharp drop in new infections across the continent. The consequences are the easing of government-imposed restrictions to travel, tourism and the removal of pandemic-induced shutdowns of stores. The overall positive environment led to the highest "Economic Sentiment Indicator" (ESI) since the year 2000. (Eurostat, 2021)

The same is reflected in the Venture Sentiment Index, a new record high for the actual sentiment can be observed. The outlook for the next quarter is less optimistic than the actual, though still in the positive area. The latest months were characterized by substantive media coverage of huge investment rounds in European startups.

"At the moment, not a week passes without reading about European startup success stories. The trend in 2021 is clear: funding rounds get bigger, and the number of startups with a valuation exceeding EUR 1bn and are not older than ten years ("unicorns") is getting higher. The number of funds for early growth phases are also increasing. However, in big rounds, we observe familiar names - mostly from Asia and North America - that make the headlines. Europe still lacks large funds (filled with billions) investing in European start-ups."

Berthold Baurek-Karlic
CEO / founder Venionaire Capital

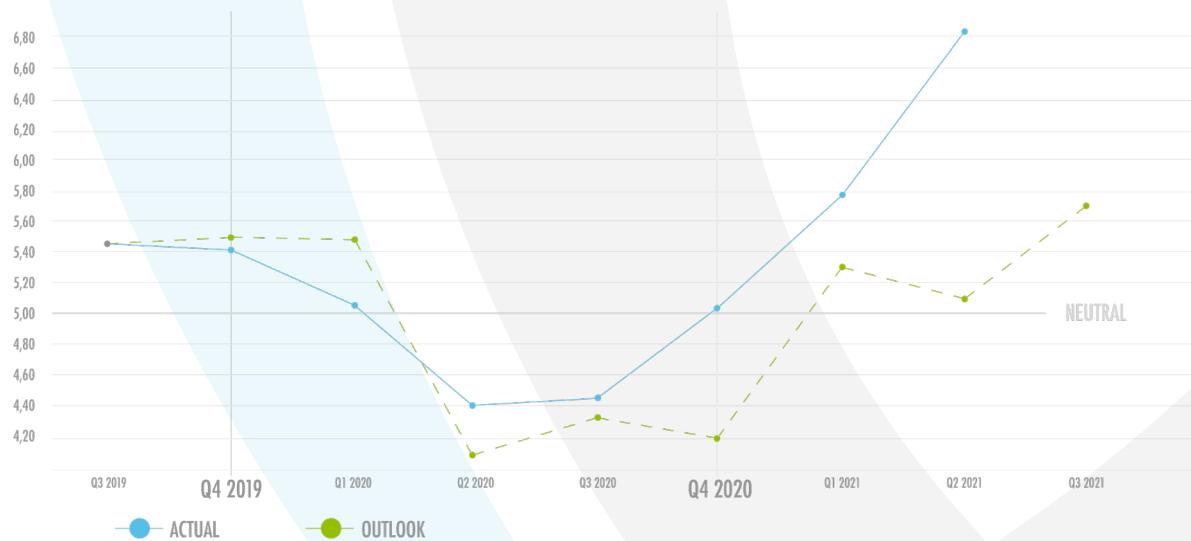
NEW SENTIMENT RECORD FOR Q2 ACTUAL, SIGNIFICANT INCREASES IN INVESTMENT VOLUMES

For Q2 2021 we have recorded the highest actual sentiment index for a quarter since its introduction. This quarter's index actual is higher than all previous actual and outlook values. Compared to the last quarter, the index stands at 6.87, increasing +14.6% from Q1 2021's 5.99.

The gap between the previous expectation versus the actual sentiment is enormous, with a deviation of +29.6%. This can be related to the high uncertainty surrounding the development of the ongoing pandemic at the end of the previous quarter. While Delta proves that the risk of more resistant and more contagious virus mutations is very real, the worst case of a new and completely resistant mutation has not materialized yet. Moreover, the economic pickup after the extreme situation during lockdown has been quite positive in the previous three months, leading to increased activity within the private investment sector.

Investment in European startups tracked at \$30.6 billion in 1,821 deals in the second quarter of the year, shattering the previous record quarter of \$20.2 billion in 1,649 deals invested in the private sector in Q1 2021. This figure is more than 3.8x the volume invested compared to its year-over-year counterpart (CB Insights, 2021).

On a global scale, funding at all investment stages has demonstrated considerable growth in terms of invested volume, with the number of deals staying on the same high level as in the previous quarter. Global seed funding is reported to be \$6.3 billion - the highest volume recorded for a single quarter for



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startups. This constitutes a 62% increase to Q2 2020 and 26% versus Q1 2021. Early-stage funding is recorded to be \$43.4 billion, which is another all-time high for young ventures. This represents an increase of 75% year-over-year (yoY) and 15% quarter-over-quarter (qoq). Late-stage and technology-growth funding came in at \$103.8 billion, a remarkable increase of 96% YoY and 13% qoq (Crunchbase, 2021). Considering that the number of deals closed stayed relatively flat, the average investment size and, therefore very likely also the average valuation within each stage increased. An increase in valuations could also be identified through the Venture Sentiment Index Survey. The perceived height of valuations increased by 9.8% compared to Q1 2021, and a staggering 37% versus Q2 2020. (Note that Q2 2020 was the quarter most affected by the brutal impact of the COVID pandemic).

POSITIVE OUTLOOK FOR Q3 2021, UNCERTAINTY AROUND NEW COVID-19 VARIANTS, AND FUTURE RESTRICTIONS

Similar to the previous quarterly report, the outlook for Q3 2021 remains significantly below the sentiment for the completed quarter. While the outlook for the next quarter is up by 8% compared to the previous outlook for Q2 2021, it would still imply an expected downturn of -17% compared to the actual sentiment.

The sharp increase in the observed index shows that the positive expectations for Q2 were justified but yet too low. This can be said to be tightly related to the success of the vaccination efforts. Nonetheless, there is a substantial uncertainty surrounding the newest developments of the COVID-19 crisis and many fear a new wave and followed by a set of restrictions. Exactly at the end of Q2, the US Department of Defence voiced out concerns regarding the new delta variant in an official report and that past vaccination efforts might not be an effective enough measure to stop the delta variant (Lopez, 2021, n.p.). Economies in Europe seem to have picked up speed ahead of the virus. Leading European startup hub – England seems to be strongly divided. Prime minister Boris Johnson has announced the country's intentions to withdraw most COVID-19-related restrictions as of July 19. This, however, has been met with strong criticism from English

health officials and other states from the United Kingdom (Walker & Sample, n.p.). This might to some extent explain why investors' expectations for next quarter even though positive seem to be much lower than the observed actual for this quarter. Another concern for the future is the fear of runaway inflation due to the unprecedented, expansive monetary policy of central banks worldwide. Runaway inflation would very likely lead to the introduction of tapering and increased interest rates, which in return make high-risk investments in growth companies less attractive, effectively discouraging LPs to take on more risk due to conservative investment strategies providing acceptable returns. (Bellavitis, 2017)

The most notable increases in the index stem from a 23% rise in investors' activity over Q2 compared to Q1, probably fueled by a substantial increase in the positive perception of the current fundraising environment, which increased by 25% compared to last quarter. Another notable change in the index is investors' expectations for competition on deals for Q3, where they anticipate a slight decrease of 8%. From Q1 2020 until Q1 2021 there was an increase in the expected competition for deals for the next quarter and Q2 2021 is the first quarter where this dimension is decreasing.

FINTECH AGAIN TAKES THE SPOTLIGHT. IMPRESSIVE NEW APPROACH TO SUSTAINABILITY STARTUPS

Globally the investment in FinTech has more than doubled for just two years. In Q2 the European FinTech companies managed to attract EUR 10.4B since the beginning of the year and thus broke the previously established annual record for the Old Continent in just half a year. Besides the strong presence of the crypto and DeFi companies from last quarter, InsureTech contributed significantly to the FinTech sector in Europe. This included the two mega-rounds of WeFox's and Brought By Many for USD 350M and USD 650M respectively. Another notable trend in the European FinTech area is that we can finally see a considerable competitive threat to English companies posed by continental startups (Woodford, 2021, n.p. & Deal Matrix, n.d.).

The success of fintech and healthcare is not a new trend. However, in the past quarter a rather interesting shift could be observed in startups' and VC's approaches in the cleantech and

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greentech space. In the past, sustainability-focused ventures seemed to centre around solutions for the personal aspects of life such as nutrition, energy consumption, and consumer behaviour. However, more modern sustainability startups seem to focus on utilizing new modern technologies to achieve sustainability and they might soon take the investment spotlight. This was outlined very concisely in a recent article by Forbes (Toews, 2021). Modern sustainability startups create much more sophisticated climate change solutions for purposes such as climate intelligence, climate insurance, and monitoring. This involves the use of complex modern technology such as artificial intelligence and Satellite data. Some similar startups have already picked up speed. The London-based Cervest that offers climate intelligence for physical assets has raised GBP 16M in May 2021 which more the company's total funding. Another representative of this hub is the French provider of environment insurance Descartes that uses machine learning and real-time data from satellites, stationary sensors, and IoT devices. It will be interesting to observe whether ecosystems in the European Union will manage to capitalize on this opportunity given the strong institutional focus on sustainability in recent years.

SUMMARY

The venture sentiment continues to be on the positive side. The outlook for Q3 is also positive but significantly lower than the actual index for Q2 2021. The positivity of the current quarter can be attributed to the relative success of the vaccination efforts, the effective re-opening of the economy and high valuation levels in both private and public markets. However, there is still a general uncertainty surrounding the impact of the delta variant as well as the future development of inflation rates for the future. Nonetheless, in the previous quarter we have observed record-high volumes of risk capital investment. Lastly, we observed increased interest in cleantech/greentech startups and record-breaking investment rounds in fintech and healthtech 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.

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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.

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

DAVID TEUFEL
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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.

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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.

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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