EUROPEAN INVESTOR SENTIMENT INDEX
Q4/2021

QUARTERLY SURVEY

January 28, 2022

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RECORD-BREAKING 2021 FOR EUROPEAN VENTURE CAPITAL, RISKY OUTLOOK AS INFLATION RISES

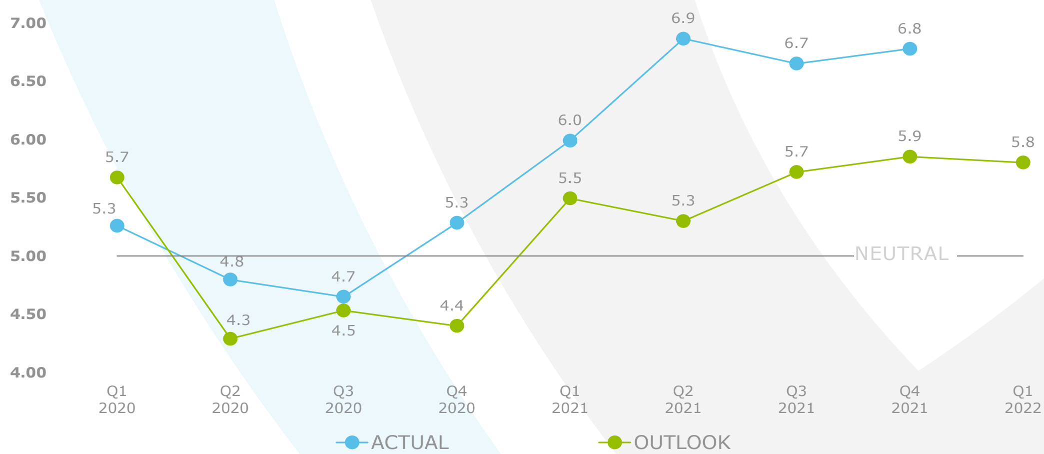
The past year was record-high for European Venture Capital. The European ecosystem has demonstrated that it is not only resilient to the ongoing pandemic but able to prosper and grow (KPMG, 2022). In 2021 we observed signs of maturity of the European VC ecosystem. We observed a significantly larger number of successful late-stage companies raising large rounds, attracting more Private Equity (PE) and institutional investors. The number of "mega-rounds" (deals of over USD 100m) for 2021 was 307 compared to 98 in 2020 (Crunchbase, n.d.). In 2021 we observed a substantial increase in the European unicorn count, which more than doubled, to 84 more companies breaking the one billion dollar mark (Teare, 2022).
Selective European states seem to return to some form of new normality despite the strong wave of the Omicron variant producing fewer hospitalisations. However, hopes for economic recovery appear to be increasingly undermined by the direct macroeconomic consequences of the pandemic and an extended period of very low-interest rates. The supply chain crisis and the recent sharp rise of inflation seem to be causing social fear, impacting stock markets, private equity and venture capital investments (S&P Global, 2021 & Pitchbook 2022). This is also reflected in a weaker outlook for Q1 2022 of our sentiment index. The spread between the index actual and the index outlook remains rather large for the third quarter in a row, indicating increased cautiousness of investors fearing a drop sooner or later.
Nonetheless, the index (actual) itself increased in Q4 to 6,78 points and remains in very positive territory. Even though investment activity was lower during Q4 than in the previous two quarters, it was still a major YoY increase of +78%. Valuations and funding rounds continued to grow, with the highest growth seen in larger and later-stage rounds (KPMG, 2022). Market exaggerations can hold up longer while increasing the risk of a bubble building up and making a burst harmful.

"Optimistic market sentiment seems to fade in outlooks, yet markets seem to stay strong in actual numbers. Is there a bubble building up or do we only need a healthy correction? On the one hand, we see large transactions and a rising number of European unicorn valuations throughout the European Union. Market leaders start to question if this is caused by cheap money and if the quality of today's unicorns is still comparable to earlier days. Early-stage transactions – at the same time - have become more difficult, as individual angel investors have become more restrictive. Having noticed this, current developments lead to inflated valuations, as startups aim higher in earlier stages of developments and seem to get away with it. In my humble opinion, we see a healthy correction in 2022, as the global phenomenon of cheap money, will end with increased interest rates tackling higher inflation – I would not call it a bubble yet."

Berthold Baurek-Karlic
Managing Partner (CEO) Venionaire Capital
President European Super Angels Club

POSITIVE INDEX FOR Q4 2021, DECREASE IN OUTLOOK FOR Q1 2022, BERLIN IS THE LEADING EUROPEAN HUB FOR 2021

In Q4 2021, we observed an increase in venture market sentiment. Even though investment volume in Europe decreased in Q4 compared to Q3, 2021 as a whole was a record-breaking year for European venture capital leading to positive sentiment. European Venture Sentiment Index (actual) for Q4 landed on 6.78 points, which is high in positive territory. This represents a slight increase of +1.92% from Q3. The Index outlook is comparably negative, yet also in positive territory at 5.80. In Q4, we observe a -0.86% decrease in the index outlook and a notably widening spread between actual market sentiment vs. outlook. While in previous quarters, pessimism was due to general economic and political uncertainty related to the pandemic, in Q4, investors are increasingly alert by economic consequences such as the increasing inflation rate. The global supply chain crisis and



less consumption double down on these indicative economic developments.

The gap between the current and the outlook index remains wide. The current index for Q4 stands at 6.78 and the outlook for Q4 which was measured in Q3 expected to come out at 5.83. We observe a widening gap since Q4 2020. As mentioned in our Q3 report this might be an indicator of a market exaggeration. There is a notable increase in deal competition in both the index actual for Q4 2021 and the outlook for Q1 2022. That confirms the index outlook from Q3 when there was a major relative increase of 7.68% of expected competition for deals in Q4. In Q4 major 14.8% increase was recorded in the perception of current deal competition parallel to a major 10.2% increase in the expected deal competition for Q1 2022.

In Q4 European startups attracted USD 22.1b in 1,841 deals. This is a minor decrease of -3.91% in investment volume but a notable +12.26% increase in the deal count compared to Q3. Compared to the previous year, this represents an +87.29% increase in investment volume for the last quarter of the year (CB Insights, 2022).

The UK once again was the leading ecosystem in Europe, with USD 6.7b in 484 deals, followed by Germany with USD 6.0b in 216 deals and France with USD 2.6b in 249 deals. However, there is an interesting change in market dynamics. Berlin seems to be steadily catching up to London as the leading startup hub regarding investment volume. Even though Berlin is the younger ecosystem, it is has grown rapidly in recent years. Brexit might have hurt London as a startup hub, but the German capital still has much lower costs of living and attractive cultural life which has attracted a great pool of talents and entrepreneurs. Some notable deals from the German ecosystem in Q4 were the online bank N26's EUR 775m series E in October and the grocery delivery startup FLINK which raised EUR 750m round led by December (Crunchbase, 2022).

Seed funding in Europe for Q4 is reported to be USD 2.8b – a +64.7% increase from USD 1.7b in Q3 and surpassing the record of USD 2.3b in Q2. However, the number of seed deals has continuously decreased since Q1 2021 and reached an annual low of 1,124. Early-stage funding also reached a new quarterly record. It increased moderately by +8.43% from USD 8.3b in Q3 to USD 9.0b in Q4. The number of early-stage deals clocked in at 431, a +5.38% increase over Q3 but still lower than Q2. Late-stage funding was recorded at USD 16.6b, an -11.59% decrease in investment volume with 152 deals, representing a -7.88% decrease (Crunchbase, 2022).

INFLATION MIGHT HURT VENTURE INVESTING, RISE OF CORPORATE VENTURE CAPITAL

In 2020 and 2021 venture capital proved that compared to other investment sectors, it can deliver returns in the conditions of a global pandemic. However, heading into 2022, there are concerns related to rising inflation rates. In a recent discussion on S&P Global (2021), experts were worried that rising inflation might lead to higher interest rates set by central banks, leading to a longer-yield sell-off, consequently making many private equity investors look for other investment opportunities. Additionally, higher inflation would also affect valuations through increasing discount rates. This impacts startups because they are typically valued with much higher discount rates. In the current environment, this can very negatively impact European ecosystems which were fundraising and exiting at high and growing valuations. Others believe that venture investing in Europe would continue to be strong over 2022 despite potential hawkish monetary policies. (Pitchbook, 2022).

2021 also marked an important milestone for corporate venture capital. The changes brought by the COVID-19 crisis seemingly accelerated the ongoing corporate digitalization processes through venture investments and acquisitions. The total investment volume for corporate venture capital in Europe was USD 54.2b for 2021, a +127% increase compared to USD 23.9b in 2020.

FINTECH REMAINS THE MOST ATTRACTIVE SECTOR FOR 2021

FinTech globally and in Europe continues to exhibit strong growth. Globally, Fintech raised USD 35b in 1,256 deals for the last quarter of the year. For 2021, Fintech attracted a record sum of over USD 130b. Fintech ventures realized many exits, up from an average of 550 per year between 2018 and 2020 to almost double that with 997 in 2021. However, volume and exits are not the only factors that should be paid attention to. It is also important to mention that the share of early and mid-stage fintech rounds remains high at 82%. This suggests that even though the sector is well-developed and mature there is also fuel for future innovation and growth (CBS Insights, 2022).

In Europe, Q4 had three significant fintech deals. The Berlin-based online bank N26 raised the second biggest round for the quarter in a USD 775m series E with a valuation of USD 7.75b. The second is another online bank, UK's Monzo raised a USD 475m series H round at a valuation of USD 4.5b. The third deal was The Bank of London's USD 90m round at a USD 1.1b valuation (Dealmatrix, 2021). Other sectors that demonstrated strong development were food tech and marketplaces, driven by the changes brought by the pandemic.

A SLOWDOWN OF THE SPAC RENAISSANCE. ANDREESSEN HOROWITZ TO GO PUBLIC, SEQUOIA CAPITAL CHINA TO SEPARATE

Even though SPACs have been around for nearly 30 years they gained more popularity as an instrument to go public in 2020 and 2021. However, many companies that held SPAC exits experienced poor performance and left shareholders disappointed (KPMG, 2022). This attracted criticism for SPACs in Q4 of 2021 (Wilhelm, 2022). As a result, the SEC is preparing more regulations for SPACs in 2022 (CB Insights, n.d.). This is very likely to decrease the level of interest for SPACs in 2022.
Lastly, the leading technology news outlet "The Information" warns of two major events concerning leading venture capital investors in 2022. Andreessen Horowitz, also known as a16z, might go public in the coming year. The author refers to a16z's large size, which might be already in the way of effectively raising enough funds to stay on top of the VC game (Jin, 2021). Another important possible event is the potential split of Sequoia Capital China due to geopolitical frictions (Clark & Oster, 2021). Sequoia Capital China was consistently the most active investor in Asia in recent years, and a split would potentially bring political divisions in the way of innovation and technology growth.

SUMMARY

The venture sentiment increased from Q3 and remained in positive territory. The outlook for Q4 is also positive but significantly lower than the index actual. The gap between the two might indicate market exaggeration. The positivity of the current quarter can be related to the overall strong performance of venture capital during the pandemic. The supply chain crisis and the subsequent rising inflation is causing social fear and might seriously undermine startup valuations in the near future. These worries are also evident in the sentiment index for Q4 and the outlook for Q1 2022.
2021 was undoubtedly a record-breaking year for European venture capital across multiple indicators such as investment volume, number of deals, mega deals and birth of new Unicorns. Corporate venture capital also saw a sharp rise as large organizations push for digital innovations and transformation. Heading into 2022, investors are vigilant about rising inflation, high valuations and continue to face strong competition for current deals. Respondents are signalling for a decrease in deal flow quality for a second quarter in a row.

METHODOLOGY

Over 4000 highly experienced investors (business angels, (corporate) venture fund managers and family offices) from 8 European countries were invited to participate in December 2021 and January 2022 in the European Venture Sentiment Survey, conducted by Venionaire Capital. Venionaire Capital collects answers from a focus group in computer-assisted personal interviews and a much smaller control group to assess the indices based on a quarterly recurring survey. 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 start-ups 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. Start-ups 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 start-up 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 onetime 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 start-up 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 start-up sector. After this index has proven to be an important tool for our clients - including start-ups 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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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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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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ABOUT

The European Venture Sentiment Survey is conducted with the lead of Venionaire Capital. 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 over a decade-long track-record. 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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