

EUROPEAN INVESTOR SENTIMENT INDEX

Q1/2022

QUARTERLY SURVEY



INVASION OF UKRAINE, SANCTIONS ON RUSSIA, AND THE IMPACT ON EUROPEAN VENTURE CAPITAL.

At the beginning of this year, it became clear that the post-pandemic recovery trend would likely not continue due to sudden and drastic changes in the geopolitical landscape. The consequences of the global COVID-19 pandemic receded into the background. Meanwhile, the war in Ukraine, the consequent sanctions on Russia, and supply shortages have shaken up Europe's economic, political and economic scene. There is outstanding pressure on Europe in terms of demand, inflation, and energy security which has given another push to sustainability startups (Dealroom, 2022). The price of Brent and the global price benchmark for crude oils experienced an unprecedented increase of 40%, reaching the USD 100 price per barrel which was long forgotten since 2013 (WorldBank, 2022).

However, the energy supply crisis has potential to accelerate the green energy sector and has had a positive impact on the development of start-ups in this sphere. In Q1 2022, clean energy dominated the category of impact investments. With tensions between Russia rising and the west putting further focus on energy security, more investment focus will likely be allocated to this sector in Q2 2022. Europe continues to be the "most impact-focussed ecosystem" with 15% of venture funding going to impact investments (Dealroom, 2022).

Large deals increased, while early stage deals became more challenging. There were 1.863 deals in Europe in the first quarter of 2022, which accounts for 21% of the total global deal flow. This represents 433 more deals compared to Q1 2021 but 178 less compared to Q4 2021 (CBInsights, 2022 & KPMG 2022). Furthermore, the number of "mega-rounds" (deals over USD 100m) rose from 46 in Q4 2021 to 67 in Q1 2022 (CBInsights, 2022). There were 17 new additions to the European unicorn list exactly as much as in Q4 of 2021. However, on a YoY basis, three are fewer newcomers compared

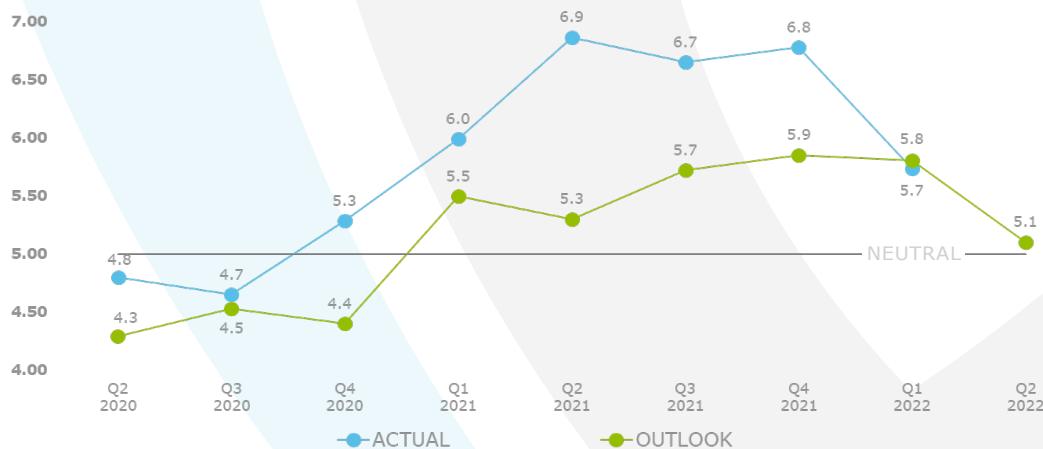
to Q1 2021 when 20 companies entered the list (Sifted, 2022; KPMG, 2022). Institutional investors continue to allocate higher proportions of their portfolios to private assets. According to a survey report by Goldman Sachs (2022 & 2021), 99% of global insurance asset managers are planning to either increase or maintain their allocation to private assets which in Q1 2021 was 81%.

Despite the European venture capital ecosystem exhibiting strong performance in Q1 2022 in terms of investment and exit activity, the sentiment at the end of Q1 and the index outlook have both experienced a sharp decrease, which signals investors' doubt and scepticism. The gap between the two metrics, which was a sign of potential market exaggeration and investor insecurity, has closed in Q1 2022.

The unexpected invasion of Ukraine in Q4 2021 shocked markets and accelerated inflation, due to supply shortages over many sectors (e.g. agricultural products, industrial supply, and energy). It is the first time since the beginning of the COVID-19 pandemic in Q1 2020, that the index actual in the current quarter is lower than what was anticipated in the previous quarter. The actual for Q1 2022 was recorded to be 5.74 as opposed to the 5.85 outlooks that were recorded in Q4 2021.

In 2021 start-ups proved that they are not only resilient to the changes brought by the pandemic but are also able to quickly adapt and outperform the status quo, delivering strong alpha for their investors. This resulted in a strong increase in the index in both actual and outlook. We still observe a big difference between positive market performance and increasing investor scepticism.

The index (actual) itself decreased in Q1 2022 to 5.74 points from 6.78 (-15.38%) which is a drastic decrease close to the neutral sentiment line (at 5 points). Investment volume in Q1 2022 was 20.18% higher than in Q4 2021 as well as 32.67% higher than in Q1 2021. Data shows increased demand from institutional investors willing to further their exposure to private equity and venture capital (Goldman Sachs, 2022). Valuations are likely to remain at current levels, or slightly lower. Inflation would favor an increase, but the crisis and (listed) market multiples would suggest for lower levels.



"Currently all market sectors face difficult times, increased uncertainty, and external supply shortages accelerated inflation. This toxic cocktail calls for shifts in portfolio allocations, where private equity seems to benefit from higher cash inflows for later stage, and in particular pre-IPO unicorn-mega-deals. On the other hand early-stage transactions remain difficult, and investors seem to stay more restrictive over time, while founder activity (launch of new companies) seems to increase. Valuations for early stage deals are getting lower, terms are getting tougher as a result. This healthy correction was needed to a certain extend, but it could slow down innovation in Europe in case the supply of early stage funding does not increase soon."

Berthold Baurek-Karlic

Managing Partner (CEO) Venionaire Capital
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A SHARP DROP IN THE INDEX ACTUAL AND THE OUTLOOK FOR Q2. STRONG START OF 2022 FOR FRANCE.

In Q1 2022, we observed a strong decrease in venture sentiment. Even though investment volume in Europe continued to grow on both YoY and QoQ basis. Q1 2022 marked the first time since the start of the COVID pandemic that the index actual (5.74) is lower than the corresponding index outlook. High inflation, supply chain crisis, and war in Ukraine have substituted investors' worries over the coronavirus and the index outlook has landed on 5.10, a -12.06% decrease and the lowest recorded value since Q4 2020. Even though the gap between actual and outlook has been closed for Q1 2022, there is still a gap between the current and the expected sentiment. The recorded actual for Q1 2021 of 5.74 is still 0.63 higher than the outlook sentiment of 5.10 for Q2 2022. This, paralleled by the growing valuations, investment volume, inflation and money supply can be considered to hint that there is still a market exaggeration. Both the index actual and the index outlook decreased across all index components. The most notable decrease was a -22.6% change in current investing activity and a -19.53% drop in expectations for valuations in the coming quarter. This follows the -6.78% drop in expectation for valuations in the coming quarter that was recorded in Q4 2021 further hinting toward a potential market exaggeration. Respondents have also reported that fundraising has been more difficult with a -19.05% drop in the index actual and -14.29% in the index outlook.

In the first quarter of 2022 European-based companies raised USD 26.8b in funding which exceeds the amount that was attracted during the previous quarter of 2021 by 13,81%. This amount was invested in 1863 rounds of European-based

companies and accounts for 19% of total global funding (CBInsights, 2022).

The United Kingdom is as usual remaining in its leading position as a venture capital investment ecosystem in Europe, with USD 9.2b in 538 deals, followed by France with USD 4.8b in 264 deals, and Germany with USD 2.9b in 216 deals (CBInsights, 2022). An interesting change in market dynamics seems to have appeared. Namely, Berlin has lost its second place in the race with London and was the third leading start-up hub in terms of investment volume while Paris was second. The success of France can largely be attributed to some extremely large deals such as the online payment institution for freelancers and SMEs Qonto's EUR 552m series D in January. Another deal was closed by an online marketplace for refurbished electronics Back Market which raised a USD 510m round in January. It is worth mentioning that the Paris-based space-tech startup E-space raised the largest seed round for the quarter of 50 million to develop a solution to clean space debris. (Dealmatrix, 2022).

Although Berlin experienced a decline in the investment volume in the first quarter of 2022, leading to the loss of its second position in Europe, it remains a resilient and attractive hub for the venture scene. Several remarkable investment rounds were made in Germany in the first quarter of 2022, namely, the digital freight forwarder and shipping management platform Forto's EUR 250m series D in March, the urban air mobility company that develops eco-friendly air taxis Volocopter that raised a USD 170m round in March, and a HealthTech company that empowers patients and doctors by leveraging data - Patient 21's EUR 142m series A in January (Dealmatrix, 2022). The median deal size across Europe equates to approximately USD 3m in the first quarter of 2022, whereas the median early, mid, and late-stage valuations come in at USD 14m, USD 868m, and USD 1b respectively. This represents a 2x increase in the overall median valuation when compared to prior financing (CBInsights, 2022). Globally, 67% of deals were early-stage, 10% mid-stage, 13% late-stage, and 10% other. European ventures in Q1 accounted for 23% of these early-stage deals, 16% of mid-stage, and 24% of late-stage deals around the globe (CBInsights, 2022).

PRESSING NEED FOR AN ENERGY TRANSITION IN EUROPE: A PATHWAY FOR GREEN ENERGY STARTUPS

Globally, climate-tech start-ups saw a strong improvement in traction already in the past years. In 2021 climate-tech globally raised the record USD 40b in 605 deals of which EUR 8.8b

were allocated in Europe. (EU Startups, 2022; ClimateTech VC, 2022). Mobility remains the most popular subsector in climate-tech but green-energy saw a big jump in traction over Q1 2022 and was the second most dominant subsector in terms of investment volume (Warp News, 2022). The raise in green tech can be attributed to two major factors. One is the European Union's ongoing environmental policies which have put a keen focus on the reduction of greenhouse gas emissions and the use of clean energy. The second major factor is the war in Ukraine and its accompanying sanctions on Russia. As a result of the conflict, the EU has stated that they will reduce Russian natural gas by 2/3 by the end of 2022 and to zero by 2030 (The New York Times, 2022). We are keen to believe that the European venture capital ecosystem will remain resilient and expect the sphere of sustainability, clean-tech start-ups, and green energy to experience high growth and capital inflow in the coming months.

FINTECH REMAINS THE NUMBER ONE SECTOR IN EUROPE. VISIBLE SIGNS OF DECELERATION.

Fintech start-ups raised USD 28.8b in Q1 which represented 20% of all funding received. In Europe USD 7.2b was allocated to fintech which is approximately 27% of the funding for the region. In Q4 2021 global fintech funding was USD 39.9b and USD 7b was allocated in Europe (Sifted, 2022; KPMG, 2022). The number of fintech deals closed in Europe was 220 which is the second-lowest quarterly figure since Q4 2015 (Sifted, 2022). The fact that 20% of fintech investment rounds globally appeared to be in Europe can be considered a notable achievement of the European ecosystem (CBInsight, 2022). Globally, we observed the birth of 34 new fintech Unicorns. In Q1 2022 fintech start-ups were relatively successful when realizing exits, namely, the number of M&A exits rose by 15 in the first quarter of 2022 compared to the last quarter of 2021 and reached 257. Nevertheless, the number of fintech IPOs decreased from 27 in Q4 2021 to seven in Q1 2022 while the exits via SPACs were just 2 as it was in Q4 2021 (CBInsight, 2022).

In Q1 2022, there were four noteworthy fintech deals in Europe. The UK-based global payments solution provider Checkout.com raised USD 1b in a Series D round in January which was the largest fintech round globally for Q1 2022. The second is a USD 552m series D investment round in January of the French-based online bank Qonto with a post-money valuation of USD 4.77b. The third one is the Italian-based payment solution provider Scalapay with a Series B investment round of USD 497m in February and a post-money valuation of approximately USD 1b. The fourth deal is the UK-

based payment company GoCardless with USD 312m raised in a Series G investment in February (CBInsights, 2022; Crunchbase, 2022; Dealmatrix, 2022). Other sectors that saw high levels of investment in Q1 were retail and healthcare.

SUMMARY

The venture sentiment decreased significantly from Q4 of 2021 but remained in positive territory. A similar change was observed in the outlook for Q2 which is currently just above the neutral line. It is the first time since the beginning of the pandemic in 2020 that the index actual is lower than the outlook that was previously recorded for the quarter. The outlook for Q2 is significantly lower than the recorded actual for Q1. Parallel to rising valuations and inflation, this might indicate market exaggeration. The recorded pessimism comes despite a very strong overall performance of the venture capital ecosystem. Over Q1, the investment volume grew, on both QoQ and YoY basis and the number of deals also remained high. The war in Ukraine has further deepened preexisting economic challenges related to supply chain bottlenecks and rising inflation. This has further solidified social fear and uncertainty and might potentially lead to a reduction in startup valuations. These worries are also evident in the sentiment index for Q1 and the outlook for Q2 2022. These global events are also introducing changes and opportunities in the venture scene such as the rise of green-tech and energy startups to increase independence and decrease the dependence on Russian natural resources.

METHODOLOGY

Over 4000 highly experienced investors (business angels, (corporate) venture fund managers and family offices) from 8 European countries were invited to participate in March, April and May 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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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).

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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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EUROPEAN INVESTOR SENTIMENT INDEX

Q4/2021



ABOUT



The European Venture Sentiment Survey is conducted with the lead of Venionaire Capital. Venionaire is a entrepreneurial partner for investors, founders and institutional. 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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