

EUROPEAN INVESTOR SENTIMENT INDEX

Q2/2022

QUARTERLY SURVEY



EUROPEAN STARTUPS STRUGGLE AMID ECONOMIC AND POLITICAL CRISIS.

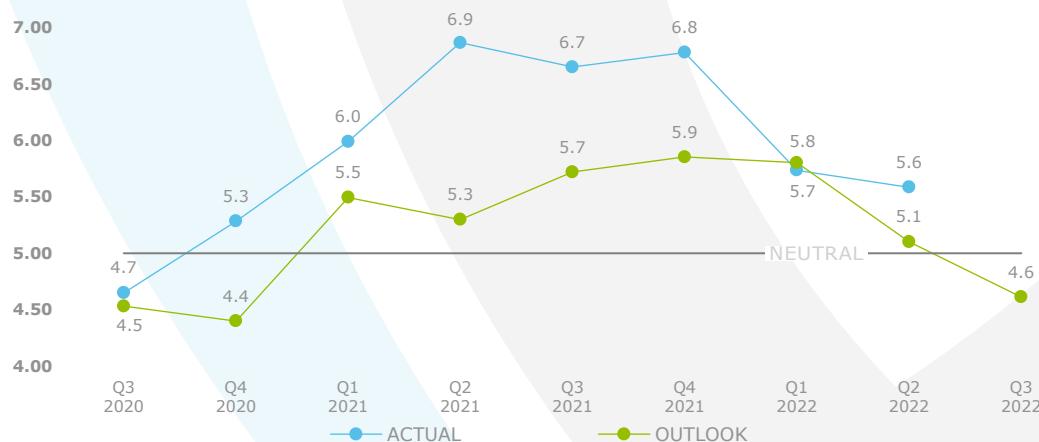
The state of the global economic and political environment has a strong negative impact on the overall economic activity in Europe but especially on ventures. The main reason for that is the supply-chain crisis caused by the pandemic and reinforced by the war in Ukraine, at the beginning of which, it was not yet clear that the Russian aggression would extend to such severe consequences. The military conflict, which started at the end of February by Russia, has not only continued but even taken on a larger scale considerably damaging European economies. The inflation rates in the EU are continuing to reach their high in Q2 2022, especially in the energy sector. The annual inflation rate in that sector went up from 37.5% in April to 41.9% in June 2022. At the same time, the overall inflation rate increased from 7.4% to 8.6% (Eurostat, 2022). From 2021, traditional institutional investors have dedicated funds to VC & PE sectors. In Q2 2022 their exposure to the asset class has decreased but they see private equity as a hedge against inflation. As a result, the total volume invested has not increased in Q2 and the decrease stems mainly from late stage investment (Crunchbase, 2022). As the overall market sentiment is negative and many participants are waiting for the market to reach a floor to start deploying funds. Such a floor is on the way. Fundraising in Q2 has become more difficult and this has strongly impacted startup valuations. An example is the recent down round of the "buy now – pay later" solution provider Klarna whose valuation dropped by 85% within a year - from USD 45.6b in June 2021 to USD 6.7b in July 2022 (Browne, 2022). Another sign of correction in the market is that Unicorns have started laying off large parts of their workforce. For example, an Austrian centralized trade platform Bitpanda laid off 34% of workers due to the current downturn in the crypto market, and a Turkish grocery delivery service Getir cut 14% of its employees, which totalled 4,500 people (O'Brien, 2022 & Reporters, 2022).

The global tech sector has suffered the most, as it was one of the most developed industries in Ukraine, where many were outsourcing tech and IT activities (PitchBook, 2022). However, as mentioned in the EVSI Report from Q1 2022, another sector, namely, renewable energy, has received a significant opportunity to grow and develop due to the limiting and ceasing trade relations with Russia. Furthermore, Europe has started implementing a plan to cut GHG emissions by 55% by 2030. An interesting deal from the sector was the environmentally sustainable energy provider Newcleo which raised USD 316m in a Series A investment round in June 2022. This was the ninth biggest equity deal in Europe (Dealmatrix & CBInsights, 2022). Due to the current EU green policies as well as the Russian sanctions, we expect to see it as a key trend for startups to address energy stability, green energy and climate neutrality.

"The current economic and political crisis has strongly impacted startups in Q2 2022. Later stage rounds suffered the most, as institutional investors reduced their activities in comparison to last year. However, the funds remain committed and PE and VC sectors are widely considered a hedge against inflation. Investors appreciate lower valuations today - as the market corrected. Early stage funding remained on a similar level as in Q1 on the continent and did not experience such a drastic drop as in other big regions such as Asia and the US. This coupled with the overall decrease in valuations might bring a healthy boost to innovation and the startup ecosystem. Looking forward it would be critical for investors to shift their focus, toward companies that can effectively solve problems related to the current crisis. Europe is so far the leader in climate-, impact- and energy-startups. With the current energy crisis, we are looking forward to seeing what deep-tech and academia have to offer in terms of innovation on the entrepreneurial battleground."

Berthold Baurek-Karlic

Managing Partner (CEO) Venionaire Capital
President European Super Angels Club



INDEX CONTINUES TO DECREASE. OUTLOOK FOR Q3 IN NEGATIVE TERRITORY.

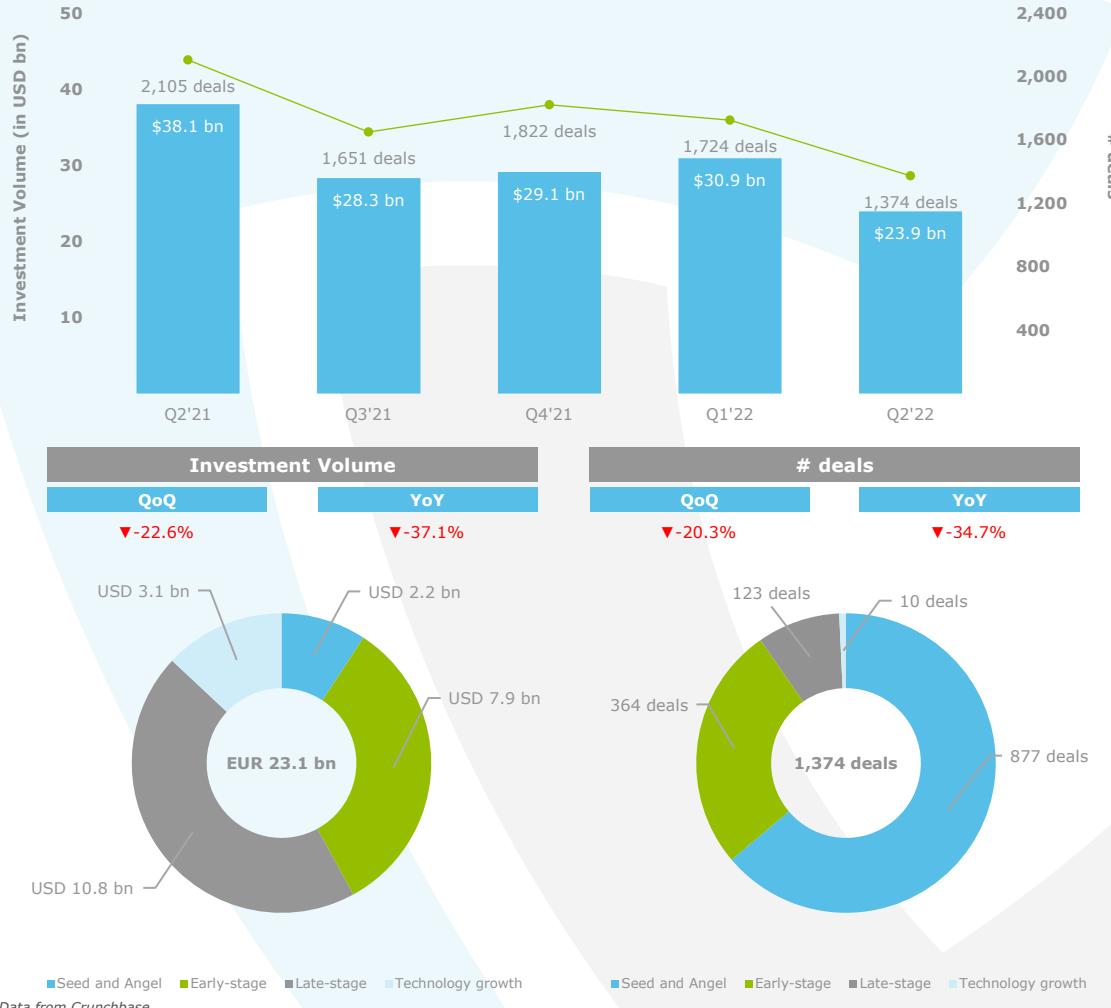
In Q2 2022 the index actual continued to decline. The index went from 5.7 in Q1 to 5.6 in Q2. This represents a 2.6% decrease on a QoQ basis as well as an 18.6% on a YoY basis. The actual in Q2 is the lowest since Q1 2021.

The actual is still higher than the outlook of 5.1 which was reported in Q1. The economic and political crisis continues to strongly impact investors' sentiment in a negative direction. The decrease in investment volume and number of deals are largely due to lower deal activity in later stages. However, the earlier stages continue to perform on seemingly good levels. Which has resulted in a lesser decrease in the index actual than anticipated. The strongest decrease in the index actual comes from a 12.85% lower perception of current valuations compared to the last quarter. Investors reported a slightly higher sentiment for deal flow quality and competition on

current deals in Q2 but lower sentiment about the fundraising. Interviewers from the focus group expressed concerns about follow-up rounds, later rounds and co-investment.

The strong underlying fear and insecurity are reflected in the continued strong decrease in the index outlook for Q3 which decreased for the third quarter in a row. This was a 9.6% decrease on a QoQ basis as well as a 19.36% decrease on a YoY basis with a decrease across all outlook composites besides deal flow quality. The sharpest decreases in sentiment outlook are in expectations for valuations of negative 20.1% and the future fundraising environment which has decreased by 14.8%. However, investors remain slightly positive about the future deal flow quality which has improved by 2.5%. Investors reported that they are mostly concerned by the ongoing war in Ukraine followed by the rising inflation, the energy crises and the supply-chain bottlenecks. Other concerns were related difficult fundraising environment and runway of portfolio startups. However, some expressed positivism that startup investments can be a hedge against the crisis and that the current situation would rather shift the investment focus to startups which address problems related to the crisis.

EUROPEAN VENTURE CAPITAL DASHBOARD



A STRONG DECREASE IN INVESTMENT VOLUME AND DEAL COUNT. LATER-STAGE INVESTMENT LOSES TRACTION.

The total investment volume in Europe saw a significant decrease of 22.6% on a QoQ basis and 37.1% on a YoY basis in Q2 2022. This was accompanied also by a 20.3% decline in deal count on a QoQ basis and a 34.7% decline on a YoY basis. Much of the growth over 2021 was due to large European companies such as Trade Republic, Klarna and Gorillas rising in later stage rounds also with the participation of traditional institutional investors (Dealmatrix). Due to the market turmoil, these investors have decided to decelerate and have not invested in Q2. However, this trend is global and is not specific to Europe. Other ecosystems such as North America also experienced the same development. With market changes, these investors will likely return (Crunchbase, 2022).

GERMANY IS SECOND INVESTMENT ECOSYSTEM IN Q2. GLOBAL FINTECH INVESTMENT CONTINUES TO DECELERATE.

The United Kingdom could not manage to overcome or repeat its all-time high achieved in the previous quarter, which totalled USD 9 billion. The total investment volume in that region reached USD 7.1 billion in Q2 2022, which is less than a year ago when in Q2 2021 the UK raised USD 7.7 billion. In Q2 Germany was once again the second ecosystem in Europe in terms of investment volume, attracting USD 3.5 billion. This is USD 600 million more on a QoQ basis, but still less than on a YoY basis when German startups raised USD 5.7 billion in Q2 2021. The third place was taken by France, which raised a total of USD 3.4 billion, which is less than in Q1 2022 and Q2 2021 by USD 1.3 billion and USD 1.6 billion respectively (CBInsights, 2022).

In Q2 2022, we observed three notable deals in Europe. Namely, the largest equity investment round in Europe was the Dutch-based integrated photonics accelerator PhotonDelta, which raised USD 681 million in an unknown venture series round in April. The second largest deal was a corporate minority round of the UK-based media service company Arqiva, which managed to attract USD 564 million in June. The third noteworthy deal was a Croatian racing car manufacturer Rimac Automobili, which raised USD 535 million in a Series D investment round in June (DealMatrix, 2022; CBInsights, 2022; Crunchbase, 2022).

SUMMARY

The venture sentiment index continued to decrease in Q2 2022 (-2.62%) following the sharp decrease from Q4 2021 to Q1 2022 (-15.38%). The outlook for Q3 is also much lower than the outlook for Q2 (-9.6%). The market exaggeration which started at the end of 2020 and lasted until Q1 2022 seems not to be relevant anymore. There is still a small gap between the index actual and the index outlook of 0.48 (9.5%) but both are declining and the pessimism and uncertainty for the future are heavily impacting the outlook. On the market this is reflected with a sharp decrease in the overall investment volume as well as the total deal count on both a quarterly and yearly basis as well as a long-anticipated drop in valuations. Investors are strongly concerned with the war in Ukraine, the rising inflation and the tightening supply chain bottlenecks. Investors are concerned about the current and future fundraising environment and are particularly worried about portfolio companies' runways and cash flow. There are subtle signs of optimism with regards to Greentech and Life Science startups. It is anticipated that there would be a shift in investment focus towards startups that address challenges related to the current crisis.

METHODOLOGY

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

He is also the founder, current president 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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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.

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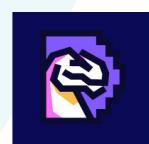
Denis supports our Analysts regarding deal flow, analyses business models and prepares investment decisions. He has gained professional experience working on international projects between Russia and China. Denis is currently pursuing an undergraduate degree in International Business Administration with a finance major in Lauder Business School.

ABOUT



OUR PARTNER NETWORK

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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