



EUROPEAN INVESTOR SENTIMENT INDEX

Quarterly Survey

Q2/2023

June 30, 2023

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EUROPEAN ECONOMY GAINS MOMENTUM AS INFLATION COOLS DOWN.

After a turbulent start of 2023, with raising inflation, a war in Ukraine, and an energy crisis, in Q1 2023 the European economy indicated slight signs of recovery.

A particular challenge for startups on the continent was the banking crisis, which also significantly impacted the VC investment landscape in the region by increasing uncertainty and, as a result, contributing to a negative investors' sentiment.

Nevertheless, the expected gradual recovery of the European economy could be noticed in this quarter, as the region seems to successfully adapt to the current period of unusual uncertainty, which can particularly be seen in the capital markets (LaSalle, 2023).

The headline inflation in the Euro Area reached 6.1% in May 2023, which represents a decrease of 12.9% MoM and a 24.7% decrease YoY (Eurostat, 2023). The main reason is the drop in energy inflation, which was recorded at -1.8% in May 2023.

Hence, core inflation may be an important indicator of the overall European economic recovery. Core inflation also decreased MoM by 5.3% in May 2023. However, this is still 39.5% higher on a YoY basis. Therefore, core inflation has not returned to normal levels yet, which might indicate potential further tightening measures from the European Central Bank.

Despite the prevailing concerns related to the banking crisis, the ECB continued to tighten monetary policy by announcing its eighth consecutive increase in short-term interest rates in June 2023,

reaching 4.0%, which is comparable with the ECB's interest rates from 2007.

Increasing short-term interest rates increases borrowing costs for businesses and consequently results in lower consumer spending and an overall decrease in economic growth. This has reduced the availability of funds on the market causing European startup valuations to decrease as a result. In Q1 2023, 18% of investment rounds were down rounds, while the up rounds represented 71% of all rounds.

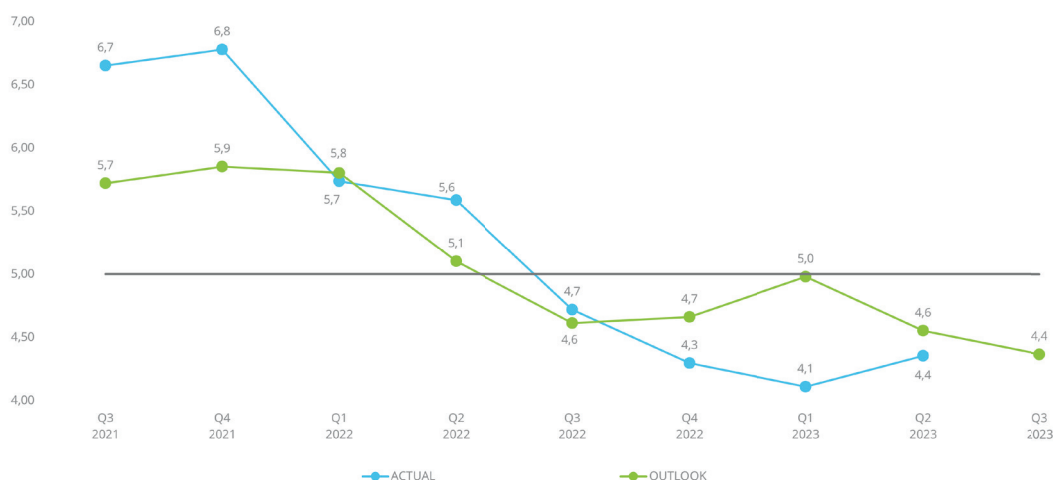
European startup valuations are expected to plummet following a further expected inflation decrease. Hence, due to potentially increased investors' purchasing power and more favourable investment conditions for various types of investors looking for greater returns, the European Venture Capital sector can become more alluring (Sifted, 2023).

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The economy continues to go through an enormous transformation in all sectors - the pressure for more automation and digitalization is immense due to the multi-crisis. Here, startups are filling a gap at a high level, which can be seen from the good order situation or the key figures of our portfolio companies across Europe”

Berthold Baurek-Karlic

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



FIRST INCREASE IN INDEX IN 4 QUARTERS. OUTLOOK CONTINUES TO DECLINE FOR THIRD QUARTER IN A ROW. INDEX AND OUTLOOK STILL IN NEGATIVE TERRITORY.

The second quarter of 2023 has shown signs of recovery in European markets, especially in the European VC sector. The index has reversed its trend, increasing from 4.1 in Q1 2023 to 4.4 in Q2 2023, marking a 6.0% QoQ increase but a 22.1% YoY decrease. This quarter's results indicate a gradual recovery of European ventures from macroeconomic challenges, considering Q1 had the lowest point and second-lowest index value since the inception of the index. However, the current macroeconomic situation continues to impact market perception among European investors, keeping the index actual and index outlook in negative territory. Q2 2023 has recorded the lowest index value (index value=average of actual and outlook) since the index's launch in Q3 2019.

Recorded in Q2 2023, the index outlook for Q3 2023 is 4.4, which represents a 4.1% decrease QoQ and a 5.3% decrease YoY. At the same time, this result represents the second-lowest index outlook point recorded since the launch of the index. Nevertheless, as this result matches the current quarter's index actual point, it signals that investors expect a difficult but rather stable VC environment.

The most significant increases in the index actual come from a 15.1% increase QoQ in the current investment activity of investors, an 11.0% QoQ increase in the sentiment about the current fundraising environment, and an 8.1% increase QoQ in the current perception of the startups' valuations. Nevertheless, respondents indicated a 9.8% lower sentiment for current deal flow quality and a 0.8% lower sentiment regarding deal competition compared to the previous quarter. This slightly positive development of the index could be indicating towards a recovery, which can be noticed in a 6.4% increase QoQ in the overall investment volume as well as an increase of 10.7% QoQ in average deal size in the region.

Regarding the index outlook for Q3 2023, the 4.1% decrease QoQ was mainly driven by a 15.9% decrease in the anticipation of the overall activity of European investors combined with a 10.5% decrease QoQ in the expectations regarding the dealflow quality. Additionally, respondents indicated slightly lower expectations concerning deal competition compared to the previous quarter.

Nonetheless, the outlook for other components was slightly more positive compared to Q2 2023, namely, a 7.3% increase QoQ in the anticipations about startups' valuations and a 3.6% increase QoQ in expectations about the fundraising environment. Investors indicated their primary concern with the interest rate policies of Central Banks, followed by the threat of continuing high inflation, the banking crisis, and the war in Ukraine.

In Q1, we estimated that the index reached the bottom point and that it is very likely to improve in the forthcoming quarters. Accordingly, signs of gradual improvement were visible in Q2. Despite both the current quarter's actual and outlook for Q3 2023 being below the neutral line, we expect them to continue the recovery due to investors accepting the current economic situation as well as successfully adapting and exploring new trends.

UNVEILING TRENDS IN EUROPE'S VC MARKETS.

After observing the negative trends in the development of the index over the course of several previous quarters, we could indicate that they may be seen as a healthy correction rather than a potential threat of collapse. One of the most significant macroeconomic obstacles for numerous investors – rising interest rates – may not be that critical for VC investors, which do not leverage their investments with bank loans unlike other traditional investment sectors, such as real estate.

Nevertheless, we estimate that the current macroeconomic environment could encourage both institutional and individual investors to be more selective, as well as substantially increase their ROI expectations. Consequently, the increased return requirements may direct individual investors towards smaller funds (Micro funds/ Micro VC). Meanwhile, we estimate that this could also trigger institutional investors to be more interested in funds of funds and secondary funds.

EUROPEAN VC ACTIVITY SHOWS SIGNS OF GRADUAL RECOVERY.

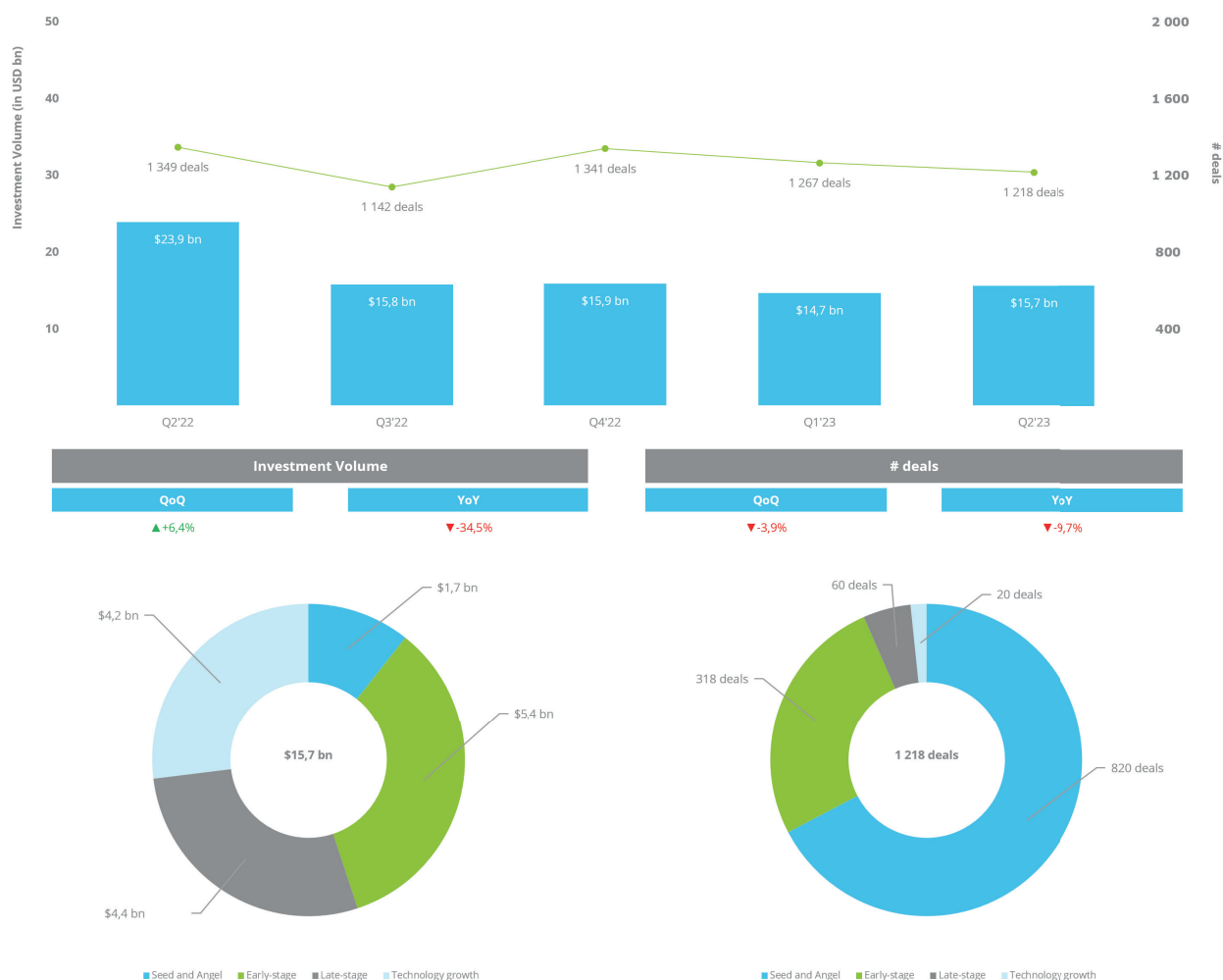
The European Venture Capital investment ecosystem seemed to have experienced a turnaround in the second quarter of 2023, leading to a total of USD 15.7 billion raised through 1218 deals. This represents a 6.4% increase in investment volume QoQ, but it is still a 34.5% decrease YoY. Unlike the investment volume, the total number of deals decreased by 3.9% QoQ and 9.7% YoY. This is driven by a higher average deal size. The average deal size was USD 12.9 million in Q2 compared to USD 11.6 in Q1. This represents a 10.7% increase QoQ and a 27.3% decrease YoY. As a result of the total investment volume going up, while the deal count goes down, we could notice a high level of “cherry-picking” behaviour between investors. This could indicate that investors prefer stronger and more stable investments, while they may pass on the higher-risk investment. Such factors as a higher runway, tangible profitability track, and stable and steady growth seem to become the most important investment criteria. Accordingly, this may lead to an overall decrease in the risk-taking level of startups in the long-term.

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EUROPEAN VENTURE CAPITAL DASHBOARD



* The dashboard was based on the data available on June 28th, 2023.

UK LEADING EUROPEAN VC WITH GERMANY SECOND.

The three largest European VC ecosystems accounted for approximately 60% of the aggregate investment volume over the course of the second quarter of 2023, which is a 4% decrease QoQ. The United Kingdom, as the leading European VC ecosystem, attracted a total investment volume of USD 4.7 billion in Q2 2023, resulting in a minor decrease of 2.1% compared to the previous quarter. The second largest VC ecosystem in Europe was Germany with USD 2.38 billion money raised, which unlike other VC hubs demonstrated a 25.3% increase QoQ mainly driven by the higher number of large deals (1Komma5°, Isotopen Technologies, Jolt

Energy, Flink Food). The third leading European VC hub was France, which attracted a total investment volume of USD 2.37 billion, resulting in a 5.2% decrease compared to the previous quarter.

This quarter's investment volume distribution indicated the weakness of smaller European VC hubs, which we outlined in our previous report. Despite, the aggregate investment volume became slightly more fragmented towards smaller VC hubs in Europe, which could highly be related to the ability of larger VC ecosystems to manage their investments in the difficult economic environment, we suggest that smaller VC hubs would also continue the trend of recovering in the following quarters.

We observed three noticeable deals in the European Venture Capital market over the course of Q2 2023. The first and the largest

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deal in Europe was a private equity financing round of FCC Medio Ambiente, a Spain-based waste management operator, which raised EUR 965 million in June 2023. The second noticeable deal was a private equity investment round of Gigaclear, a UK-based broadband network provider, which raised GBP 420 million in June 2023. The third noticeable deal in the European VC sector was a series B financing round of 1Komma5°, a Germany-based provider of free electricity for owners of electric vehicles to refinance through GHG quotas, which raised EUR 430 million in June 2023 (Dealmatrix, 2023 & Crunchbase, 2023).

METHODOLOGY

Over 4000 highly experienced investors (business angels, (corporate) venture fund managers and family offices) from 8 European countries were invited to participate in January, February and March 2023 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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AUTHORS



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 founder and secretary general of the Business Angel Institute (businessangelinstitute.org), board member of the European Super Angels Club (superangels.club), Homepl (homepl.com), Flovtec (flovtec.com), Unmanned Life (unmanned.life) and chairman of the supervisory board of Blockpit (blockpit.io). Furthermore, he is an expert partner of various accelerators and consultants of various venture funds, as well as external consultant in the EU programs Horizon2020 (today Horizon Europe) and Innovation Radar.

BERTHOLD BAUREK-KARLIC

MANAGING PARTNER (CEO) & FOUNDER, VENIONAIRE CAPITAL



Victoria is a private equity expert with more than 10 years of experience in finance and private equity with an extensive international business network. She is leading deals and secondary transactions, supporting the setting up of new funds, and contributes her extensive operational expertise to our start-ups.

VICTORIA WOODLAND-FERRARI

ASSOCIATE PARTNER



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.

SAMUEL FRANCES

SENIOR ANALYST, VENIONAIRE CAPITAL



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.

DENIS VOLDMAN

ANALYST, VENIONAIRE CAPITAL

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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