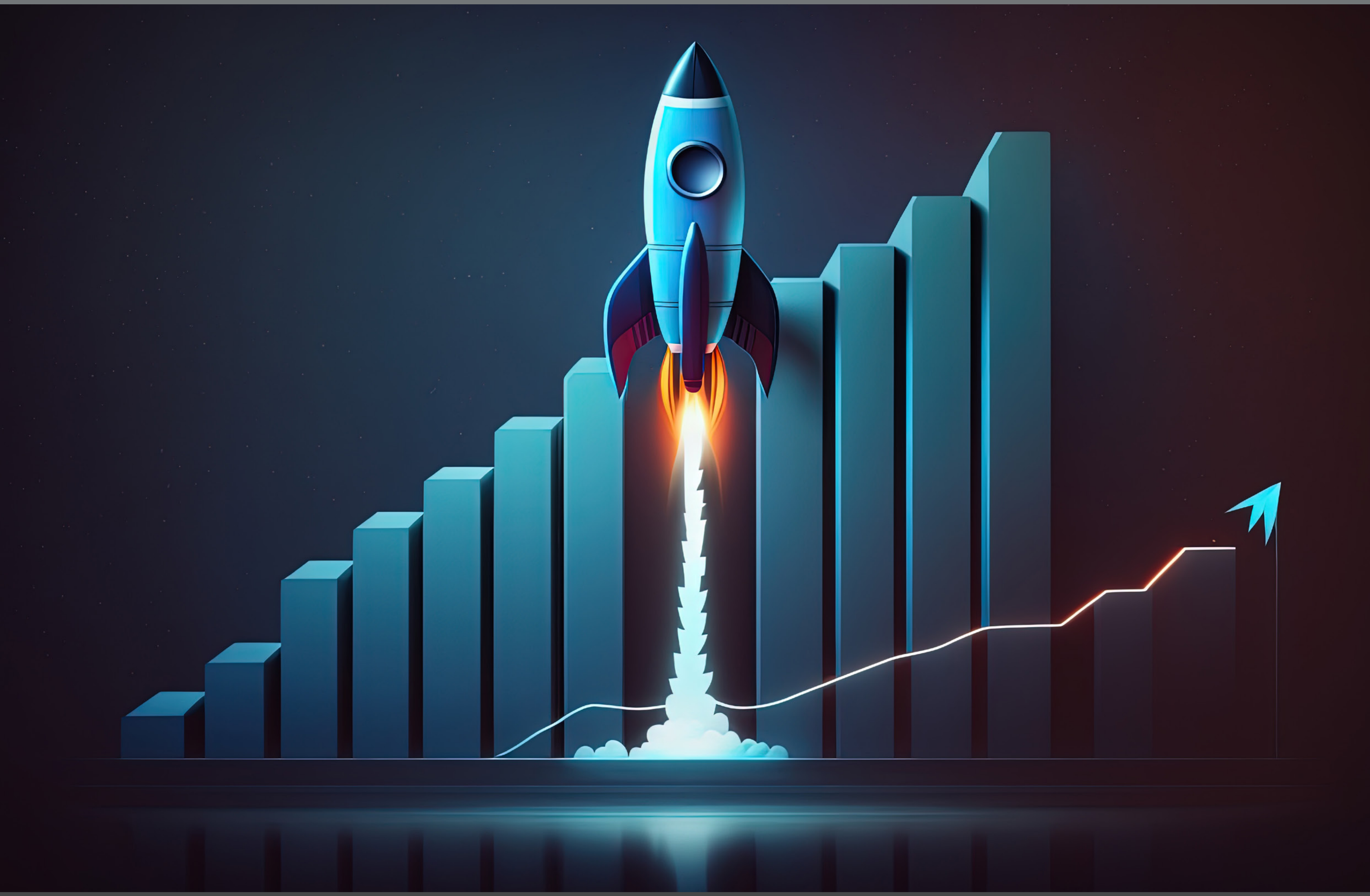


EUROPEAN INVESTOR SENTIMENT INDEX

Quaterly Survey

Q1/2024

April 3, 2024

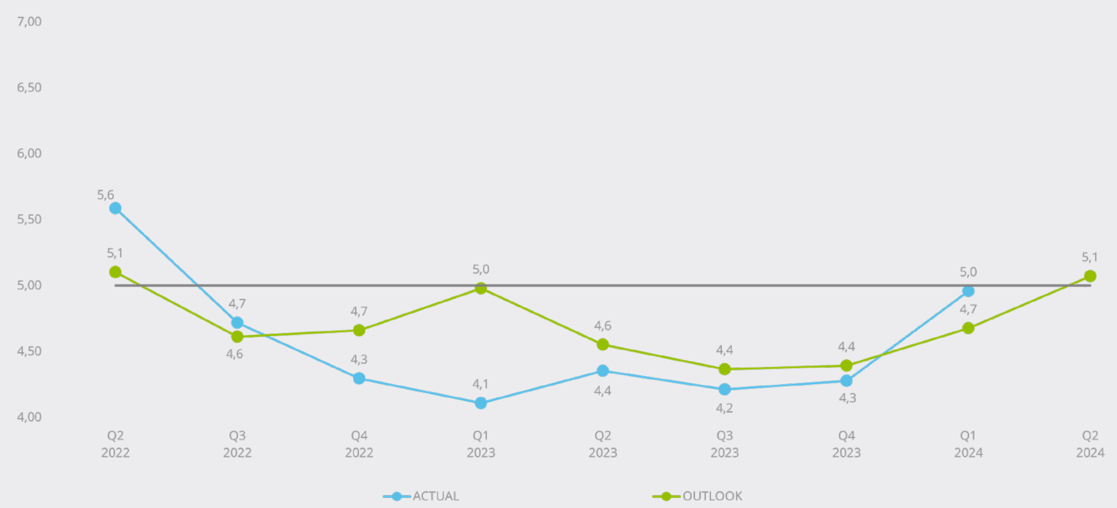
PERSISTENCE AND RECOVERY OF EUROPEAN MARKETS SLOWER THAN EXPECTED.

After significant stagnation in the Euro Area in 2023, caused by tightened financial conditions, the European economy continues to show signs of recovery in Q1 2024. Despite the recovery process being slower than anticipated in Q4 2023, additional factors such as the growth of disposable income, stronger wage growth, and improved trade conditions are expected to accelerate economic growth in the area. However, achieving these improvements has increased the cost burden for European ventures. This has led to an increase in layoffs, as a greater number of businesses opt to reduce their workforce or freeze hiring to focus on cost minimisation. This trend has been observed across various industries, including Automobile (e.g., Polestar), Banking (e.g., Deutsche Bank, Banco BPM, BNP Paribas), and Technology (e.g., SAP). Yet, it is the Technology sector that has suffered the most, with approximately 260k layoffs in 2023 and already 35k layoffs in January-February 2024 (TechCrunch, 2024).

Furthermore, another substantial geopolitical disruption has undermined the European recovery. Namely, the Red Sea crisis, started at the end of 2023 when numerous commercial vessels were attacked when approaching Suez Canal. The crisis has resulted in shipping disruptions and increased prices since numerous commercial vessels were rerouted through South Africa. Nonetheless, the current supply chain disruptions in the Red Sea have not managed to significantly disrupt European ventures, as export growth is still anticipated to pick up with increasing demand from overseas. Following recent updates, investors are maintaining a cautious investment strategy, correcting in terms of investment volume in the first quarter of 2024, which is typical for the beginning of a year. Furthermore, the European VC market seems to be recovering at a slower pace than expected, yet the market has not fallen below similar results as after the start of the Russia-Ukraine war. Accordingly, we note that the slower-than-expected recovery in European markets is directly related to the deterioration in financing conditions and is thus particularly damaging for early-stage businesses, which are highly sensitive to changes in economic conditions.

Regarding inflation, as the impact of previous energy shocks and supply constraints fades, and monetary policy tightening continues, a decline in annual headline inflation was witnessed. In March 2024, the headline inflation reached 2.3%, representing a decrease of 20.7% QoQ and a significant 57.4% decrease YoY (Eurostat, 2024). As the headline inflation decline was mostly driven by the decrease in energy prices, its level is expected to remain below the core inflation rate. However, the latter has also shown a significant decrease for the seventh consecutive month. In February 2024, the core inflation in the Eurozone reached 3.1%, which is a decrease of 6.1% MoM and its lowest level since March 2022. This affected the projection for core inflation in 2024, which was revised and averaged at 2.6% (ECB, 2024).

As a result, the realistic approach to achieving a 2% headline inflation target makes the ECB believe that, if held at the current level, key interest rates will significantly help achieve the set target. The subsequent monetary policy decision since the last Governing Council meeting in March 2024 was to keep the three interest rates unchanged. As of the end of Q1 2024, the interest rates on the main refinancing operations, the marginal lending facility, and the deposit facility remain unchanged at 4.50%, 4.75%, and 4.00% respectively (Eurostat, 2024; ECB, 2024).



With the relatively high interest rates remaining, financing conditions are expected to continue being a significant obstacle to growth, and this effect will only gradually lessen with the ECB's projected relaxation of monetary policy starting in April. Venture Capital activities in the Euro area are expected to continue struggling, at least in the first half of 2024. Investors are maintaining conservative approaches to capital deployment, resulting in slow fundraising activity. This ongoing challenge has a significant effect on both venture capitalists and startups. It is particularly concerning those startups that raised their last funding round in the middle or end of 2022 and, thus, are now in urgent need of subsequent funding.

INDEX ACTUAL HITS NEUTRAL LINE AFTER 6 NEGATIVE QUARTERS. OUTLOOK REACHES POSITIVE FOR THE FIRST TIME IN 8 QUARTERS.

The expectations outlined in the previous quarterly report have been confirmed by the Q1 2024 index actual, which surpassed previous insights with a marginal increase from 4.3 in Q4 2023 to 5.0 in Q1 2024. This constitutes a QoQ rise of 16.0% and a significant YoY increase of 20.7%. Such changes signify a boost in investor confidence, despite the prevailing macroeconomic conditions, towards gradual economic growth.

The year began as a challenge for both investors and companies, with fundraising remaining a primary concern. The trend of VCs participating rather than leading rounds continues, alongside a selective approach by investors. However, the improved market conditions are likely to influence investor behaviour towards overcoming these challenges.

Compared to previous years, the Q1 2024 index actual represents its highest point since Q2 2022, facilitated by improved economic conditions. This may soon be reflected in investor behaviour regarding the fundraising challenge. The Q2 2024 index outlook of 5.1 indicates a rise of 8.5% compared to the preceding quarter and an 11.4% increase compared to the previous year. As a result, the index actual exceeded the expectations and reached the neutral line, while the index outlook slightly surpassed it. Based on these results, investors have observed gradual improvements and hold slightly more optimistic expectations for the European VC ecosystem in the second quarter of 2024.

All index actual components show positive QoQ development. Notable increases include a surge in investor activity with a 49.1% rise QoQ, improved perception of the current fundraising environment with a 5.8% increase QoQ, enhanced perception of startup valuations, up by 6.7%, and the current dealflow quality with a 2.8% increase QoQ. Estimated competition for deals also saw a slight increase of 1.3% QoQ.

For Q2 2024, respondents anticipate a 17.4% increase in investment activity compared to Q1 2024. Positive changes are also expected in the perception of startup valuations, with a forecasted 13.4% QoQ rise QoQ, and in the expectations regarding the fundraising environment, which saw a 5.0% increase QoQ. However, a 6.2% decrease QoQ in expected competition for deals and a 1.3% decrease QoQ in deal flow quality were noted in future sentiment.

Investors' top concerns have remained consistent with previous quarters, with central banks' interest rate policies leading, followed by the banking crisis, the Russia-Ukraine war, and inflation levels. With a declining inflation rate, it has ceased to be the primary concern but is still mentioned. The misalignment between investor expectations and startup valuations, along with fundraising issues, continues to challenge the market. The special focus on AI and Deep Tech in Q1 2024 adds tension for other sectors seeking financing. However, with a more positive investment sentiment and a steadily recovering market, the challenges facing the European VC ecosystem are expected to be addressed in the near future.

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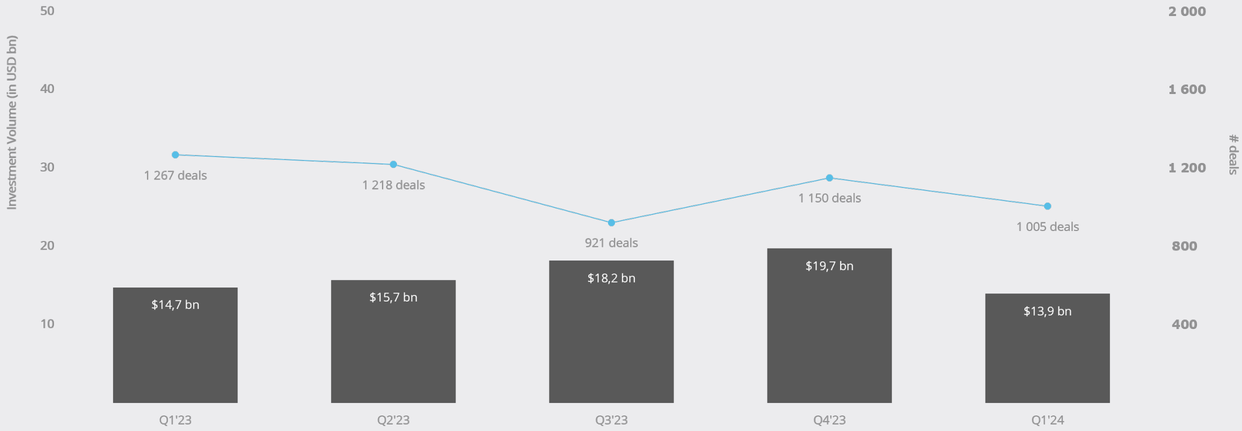
NAVIGATING EXITS AND FUNDRAISING CHALLENGES

Despite observing signs of a slow and steady economic recovery, the European venture capital ecosystem is confronted with numerous challenges. Investors adopt a particularly cautious approach, focusing on maintaining their portfolio startups and exploring potential exit opportunities for those nearing the exit window. Furthermore, with a positive outlook on M&A activity in 2024, we anticipate slightly improved exit conditions and possibilities for startups looking to pursue exits through the M&A route. The broader economic environment thus renders M&As a more appealing and feasible means of generating investment returns from startups, while IPOs appear to be back on track only for more established European companies and are not currently preferred as an exit strategy for startups.

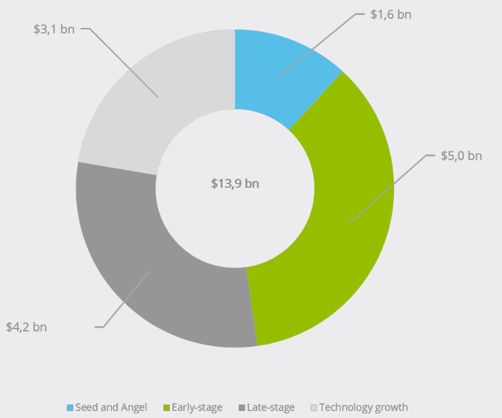
Moreover, one of the most significant challenges for the European venture capital market remains the complex fundraising environment. Throughout our expert interviews, we noticed that despite increased caution, LPs expect to gradually increase their investments in VC funds this year. This, in turn, is likely to slightly improve the fundraising environment for startups, as VCs would have more available capital to deploy

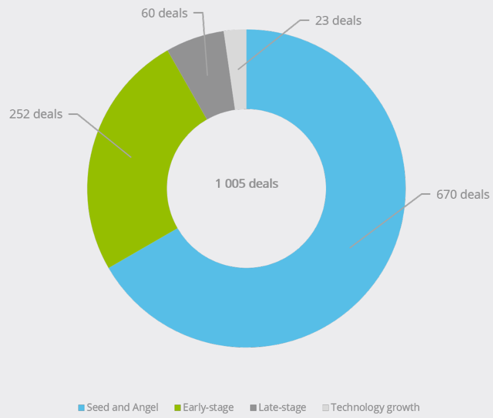
Berthold Baurek-Karlic
CEO @ Venionaire Capital
President European Super Angels Club

EUROPEAN VENTURE CAPITAL DASHBOARD



Investment Volume		# deals	
QoQ	YoY	QoQ	YoY
▼-29,4%	▼-5,6%	▼-12,6%	▼-20,7%





EUROPEAN VC MARKET SEES CORRECTION TYPICAL FOR Q1.

Within the first quarter of 2024, the European VC market experienced a decrease in both investment volume and deal count, marking a period of correction. Total cumulative funding for European ventures amounted to USD 13.9b, exhibiting sharp declines of 29.4% compared to Q4 2023 and 5.6% compared to Q1 2023. Furthermore, Q1 2024 saw the European VC sector closing 1005 deals, resulting in a significant decrease of 12.6% QoQ and a 20.7% dip YoY.

In Q1 2024, the Seed and Angel stage attracted USD 1.6b through 670 deals, dominating in terms of deal count across other funding stages. The average Seed and Angel stage deal size totalled USD 2.4m, showing a 9.1% increase QoQ and a 14.3% rise YoY. Early-stage enterprises received the most funding, securing USD 5b across 252 deals, with the average deal size reaching USD 19.8m, up by 12.5% from Q4 2023 and 39.4% compared to Q1 2023. Late-stage ventures were the second most funded, garnering USD 4.2b from 60 deals, with an average deal size of USD 70m, 12.7% more than the previous quarter and 10.9% more than in the first quarter of 2023. The technology growth stage obtained the third-highest overall funding, with 23 transactions totalling USD 3.1b. The average deal size during this phase was reported to be USD 134.8m, indicating a 68.2% decline from Q4 2023 but a significant gain of 62.6% from Q1 2023. The decrease in technology growth funding volume is attributed to investor hesitancy amid uncertain exit pathways, impacted by a challenging IPO market and a predicted reduction in large-scale deals.

The average deal size across all stages in Q1 2024 was USD 13.9m, representing an 18.7% decrease compared to the preceding quarter, yet a substantial increase of 19.8% compared to the previous year.

Such fluctuations in deal sizes across funding stages in Q1 2024 can be attributed to a complex situation in the European VC ecosystem. Despite a general decline in total average deal size, mainly due to a significant drop in investment into technology growth stages, Seed and Angel, Early, and Late stages demonstrated consistent growth in both QoQ and YoY. This growth indicates underlying confidence and resilience in these phases, particularly noteworthy given the typical Q1 slowdown. The overall decrease in average deal size signals normal cyclical conservatism in Q1, rather than a broader market downturn, highlighting specific challenges in the technology growth stage.

GERMANY SURPASSES FRANCE, WITH THE UK REMAINING ON TOP.

A notable shift in investment dynamics was observed in Q1 2024, with the total amount raised by the top three European VC ecosystems reaching USD 8b, which represents a significant decrease of 48.4% from the previous quarter. These geographies accounted for 57.2% of the overall investment volume in Europe, showcasing a 27% drop QoQ.

In the first quarter of 2024, the largest three ecosystems contributed to 497 deals overall, reflecting a decrease of 17.4% from the previous quarter. The aggregate share of the deal count was 49.5%, indicating a 5.5% reduction from Q4 2023. The changes observed in Q1 2024, including a decline in secured deals among the top three European VC ecosystems, highlight a possible recovery of the smaller European VC ecosystems, which has not been evident previously.

The United Kingdom's venture capital landscape led to a 50.5% decline QoQ in investment volume, with a total of USD 3.5b invested across 286 deals, representing a slight 6.3% rise QoQ in deals secured. The German VC ecosystem saw a 68.7% surge in funding, reaching USD 2.7b, coupled with a modest decline of 1.9% in the number of deals, amounting to 105 deals in this quarter, compared to the previous quarter (USD 1.6 billion; 107 deals). The French venture capital ecosystem, completing the top three, attracted USD 1.7b in this quarter, which represents a 74.5% decrease QoQ. Regarding the deal count, the ecosystem reported a total of 106 deals, reflecting a 53.1% decline QoQ.

During the quarter, the European VC sector witnessed three noteworthy financing rounds. The largest funding amount was raised by Monzo, a digital banking platform based in the United Kingdom, securing USD 430m in a funding round in March 2024. The second-largest deal involved Sunfire, a Germany-based startup specialising in industrial electrolysers for green hydrogen projects. The company completed a Series E investment round in March 2024, securing EUR 215m to build several gigawatts of electrolysis equipment by 2030. The third largest deal was by Tubulis, a German biotech company focused on developing antibody-drug conjugates for cancer treatment, which raised EUR 128m in a Series F investment in March 2024. The company utilises new patented technologies to generate ADCs with improved biophysical properties, offering substantial advancements in cancer therapies and beyond (Dealmatrix, 2024; Crunchbase, 2024).

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 2024 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 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), Homeppl (homeppl.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
CEO & FOUNDER, VENIONAIRE CAPITAL

Denis manages the dealflow, analyses intricate business models, and prepares investment decisions. He is accountable for spotting, screening, and evaluating startups, with an added focus on financial modelling, aiding Venionaire's clients with financial engineering and valuations. Additionally, Denis is responsible for evaluating the development of portfolio startups. He has gained professional experience working on international projects between Russia and China. Holding an undergraduate degree in International Business Administration with a finance major from Lauder Business School, he currently pursues a graduate degree in Strategic Finance & Business Analytics from the same institution.

DENIS VOLDMAN
LEAD INVESTMENT ANALYST, VENIONAIRE CAPITAL

Sofiya is responsible for the preparation of information for reports and manages various dealflow tasks, which encompass fundraising efforts and the ongoing updating of startup information. She is also actively involved in assisting with the identification, evaluation, and consideration of potential startups. Sofiya earned her Bachelor of Arts degree in the "Ethics Politics Economics" program from the Ukrainian Catholic University in Lviv, Ukraine, achieving the distinction of magna cum laude. Currently, she is pursuing her Master of Arts degree in Economic Policy in Global Markets at the Central European University. Additionally, she possesses valuable experience in international cooperation, garnered during her tenure at the Economic Department of the Ukrainian Embassy in Austria.

SOFIYA LYN
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.

VIENNA, AUT (HQ)
Babenbergerstraße 9/12,
A-1010 Vienna, Austria (EU)
office@venionaire.com

MUNSBACH, LUX
9A rue Gabriel Lippmann
5365 Munsbach
office@venionaire.com

LONDON, UK
Gable House, 239 Regents Park Road
London N3 3LF
office@venionaire.com

SAN FRANCISCO, USA
1355 Market St. #488
San Francisco CA 94103
sfo@venionaire.com

NEW YORK CITY, USA
122 East 37th Street, First Floor
New York, NY 10016
nyc@venionaire.com

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