



EUROPEAN INVESTOR SENTIMENT INDEX

Quarterly Survey

Q2/2024

June 28, 2024

ENHANCED RECOVERY OF THE EUROPEAN ECONOMY FOLLOWING INTEREST RATE CUTS.

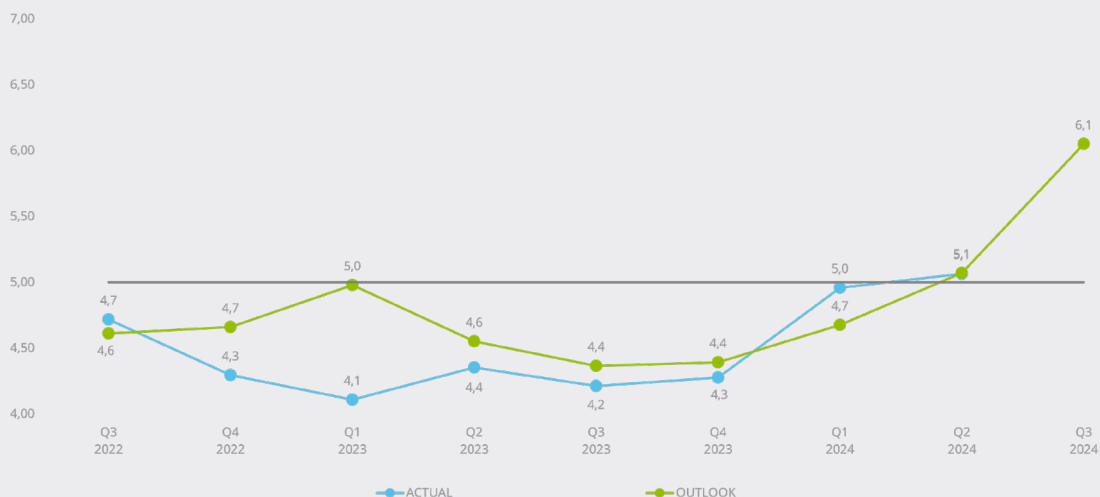
After Q1 2024 witnessed real income gains, increased consumer spending, reduced inflation, and robust labour markets, the annual real GDP growth estimates for advanced economies were updated to 1.4% in 2024 and 1.7% in 2025 (Euromonitor International, 2024). The primary reason for this upward revision is the improved performance of the U.S. economy, where the labour market remains strong, sustaining consumer income and spending growth. However, inflation in the country is unexpectedly persistent, leading to a postponement of the expected interest rate drop to December 2024 (CBRE, 2024). In comparison to the U.S., real GDP growth in the Eurozone is expected to be 0.9% in 2024, strengthening to 1.4% in 2025, despite the economic recovery being constrained by high interest rates and weak external demand, which hampers the export of manufactured goods (ECB, 2024). Despite inflation concerns, the ECB cut interest rates by 0.25 points, which was widely anticipated by European businesses, thereby reducing the cost burden for European ventures.

The geopolitical landscape in Q2 2024 remained uncertain with the election of a new European Parliament in early June, suggesting a blend of continuity and change for European ventures in the upcoming period. Additionally, the upcoming presidential elections in the U.S. could significantly impact European companies. This lingering uncertainty results in a higher risk premium and increased implied volatility for investors. Consequently, before committing substantial sums to new VC funds, institutional investors are still waiting for the market to stabilise.

The euro area experienced a stronger-than-expected recovery at the beginning of 2024, boosted by net trade and rising household spending. The headline annual inflation stood at 2.6% in May 2024, which represents a decrease of 11.5% compared to the beginning of 2024 (ECB, 2024). However, headline inflation in May 2024 showed a slight 8.3% increase compared to March 2024. This higher rate in May was driven by inflation in the energy sector and services. Following twelve months of negative rates, the annual rate of change for energy inflation increased to 0.3% in Q2 2024, due to an upward base effect following a notable decrease in May 2023 (ECB, 2024). Food inflation eased further to 2.6% in May 2024, reflecting the decrease in the annual rate of change for processed food prices. The stronger influence of labour costs led to a 4.1% service inflation rate in May 2024. Consequently, core inflation in May 2024 rose to 2.9%, with a revised average projection of 2.8% for 2024 (ECB, 2024).

Despite rising inflation, the ECB is determined to bring the interest rate back to its 2% medium target shortly. Based on the updated assessment of the inflation outlook, the Governing Council decided to lower the three key interest rates by 25 basis points. Therefore, with effect from 12 June, the interest rates on the main refinancing operations, the marginal lending facility, and the deposit facility will be decreased to 4.25%, 4.50%, and 3.75%, respectively (Eurostat, 2024; ECB, 2024).

Decreased interest rates reduce the financial burden for European ventures, creating more opportunities for European companies to grow. However, the ECB has not indicated any further actions regarding interest rate cuts, making it possible that they will not follow in 2024. Another burden for European ventures in Q2 2024, as indicated in our previous report, is the increased labour cost, resulting in layoffs, especially in the tech industry, where the number of layoffs reached over 32k in April and May (TechCrunch, 2024). These challenges in labour costs complicate the fundraising and exit



EUROPEAN INVESTOR SENTIMENT INDEX

Q2/2024



environment for European startups. As a result, the European VC market seems to be shifting deliberately towards sectors and stages that promise a clear path to profitability over quick and expensive growth.

INDEX ACTUAL TURNS POSITIVE AFTER 7 QUARTERS. OUTLOOK REACHES ITS HIGHEST POINT.

The expectations outlined in the previous quarterly report have been confirmed by the Q2 2024 index actual, which precisely matched its forecast of 5.1. This represents a QoQ rise of 2.1% and a significant YoY increase of 16.3%. These changes indicate the anticipated gradual growth of the VC ecosystem in Europe, despite the ongoing period of uncertainty.

The primary challenge for both VC investors and startups continues to be concerns over fundraising. Additionally, the enormous excitement surrounding AI startups distorts valuations and intensifies competition for funds to secure stakes in promising AI ventures.

Compared to previous years, the Q2 2024 index actual remains at its highest point since Q2 2022 and nearly reaches the Q1 2022 level, facilitated by slow but steady economic growth. The Q3 2024 index outlook of 6.1, the highest result recorded since the inception of the index. This also indicates an outstanding rise of 19.3% compared to the preceding quarter and a 38.6% increase compared to the previous year. Consequently, the index actual shows a progressive positive development for the third consecutive time, a trend not seen for a long time. Based on these results, a more optimistic outlook for the European VC ecosystem is expected in the following quarters of 2024.

The majority of the index's actual components show positive QoQ development, except for investors' perception of the current fundraising environment, which decreased QoQ by 20.3%. The increases include investor activity with a 3.2% rise QoQ, improved perception of startup valuations, up by 2.8%, the quality of current deal flow activity with a rise of 6.9% QoQ, and the estimated competition for deals with a noticeable increase of 11.9% QoQ.

In Q3 2024, respondents expect a 19.2% increase in investment activity compared to Q2 2024. Positive changes are also anticipated in the perception of startup valuations, with a significant 24.5% QoQ increase, and in the expectations regarding the quality of deal flow, with a 21.7% rise QoQ. Positive changes are also noted for the increased competition for deals, with an 18.0% increase, and the expectations regarding the fundraising environment, with a 6.9% QoQ increase in future sentiment.

The top concerns of investors have remained consistent with previous quarters, with inflation levels leading, followed by central bank interest rate policies, global military conflicts, and the banking crisis. Inflation has returned to be among the primary concerns of investors. Despite fundraising being one of the main challenges for funds, the VC market still faces difficulties despite gradual economic recovery. An additional challenge is the continuous shift towards AI-related startups, which attract more focus and thus distort the market's competition. However, with a more positive outlook towards the fundraising environment and expected competition, the European VC ecosystem is on track for a healthy recovery.



CHANGE OF INVESTMENT FOCUS TOWARDS SUSTAINABLE BUSINESS MODELS

We are approaching an era where prioritising startups with sustainable business models is essential, as the period of massive investment rounds producing billion-dollar unicorns with a long path to profitability is coming to an end. Investors now prefer profitability over rapid expansion, favouring companies that demonstrate resilience amid the ongoing economic uncertainty. This shift has already influenced founders' approaches, prompting them to focus on a clear value proposition, a strong market position, and a well-defined path to financial profit.

Regarding the exits environment, there have been multiple successful European midsize IPOs this quarter, executed by mature companies. However, this exit strategy is still not preferred by European startups, with M&A remaining the predominant route. We expect this trend to continue for the rest of the year, as M&A provides an effective tool for investors and founders to achieve timely and sufficient exits amid the complex conditions of political instability, current valuations, and relatively high interest rates.

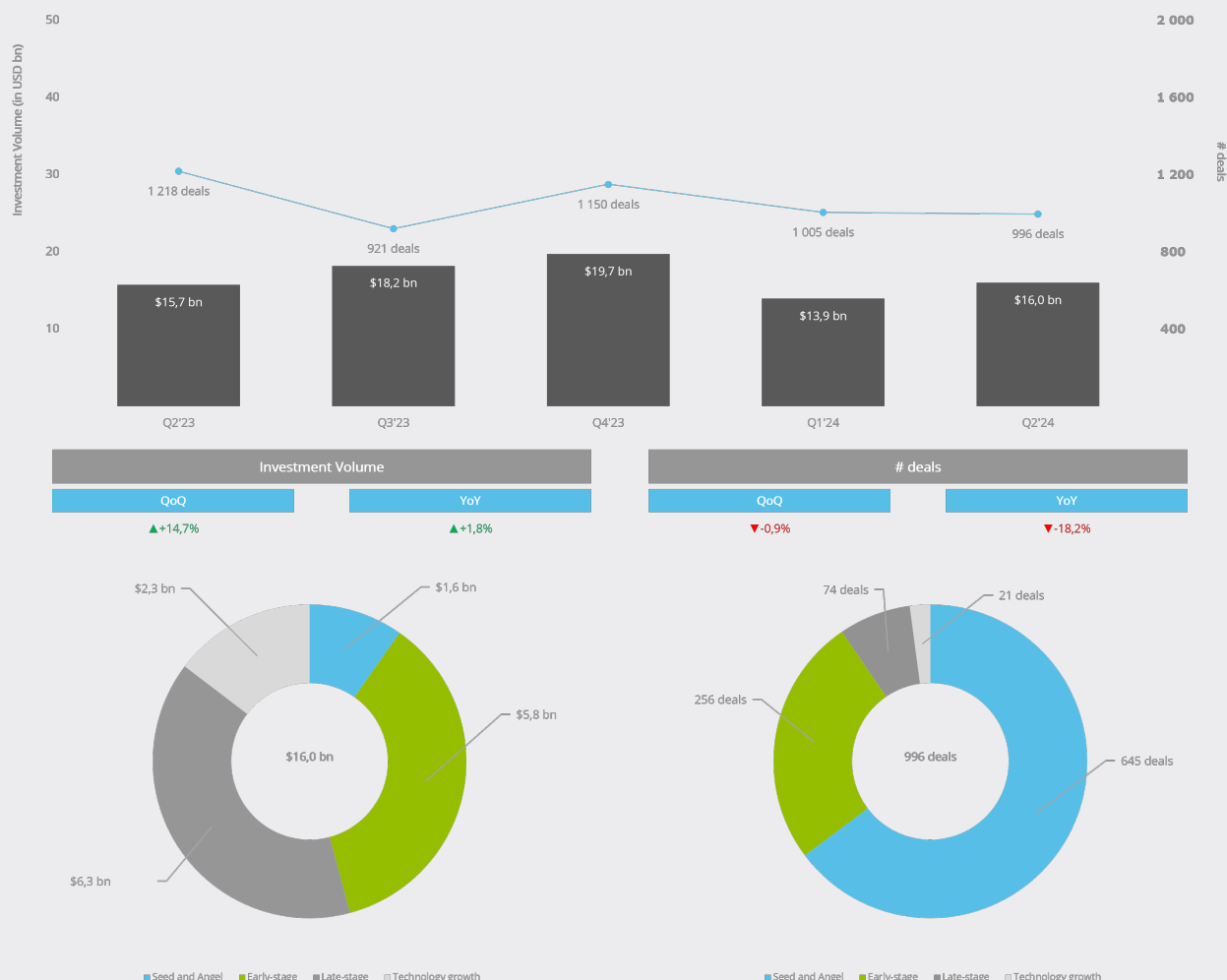
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EUROPEAN INVESTOR SENTIMENT INDEX

Q2/2024



EUROPEAN VENTURE CAPITAL DASHBOARD



EUROPEAN VC VOLUME SEES A DECENT INCREASE, YET INVESTORS BECOME MORE SELECTIVE.

In the second quarter of 2024, the European VC ecosystem displayed mixed dynamics across different stages of investment. The total investment volume reached USD 16b, reflecting a 14.7% rise QoQ and a 1.8% increase YoY. Despite this growth in investment volume, the total number of deals saw a slight decline, with 996 deals representing a 0.9% decrease compared to Q1 2024 and an 18.2% decline compared to Q2 2023.

Seed and Angel investments amounted to USD 1.6b, making up 9.7% of the total funding, with 645 deals accounting for 64.8% of the total deal count. Early-stage investments totalled USD 5.8b, comprising 36.1% of the total funding, across 256 deals, which represented 25.7% of all deals. Late-stage investments were the highest, reaching USD 6.3b, or 39.5% of the total funding, with 74 deals, making up 7.4% of the total deal count. Technology growth investments accounted for USD 2.3b, or 14.6% of the total funding, spread across 21 deals, representing 2.1% of the total deal count.

The average deal size varied significantly by stage, with Seed and Angel stages averaging USD 2.4m per deal, Early-stage deals averaging USD 22.6m, Late-stage deals averaging USD 85.3m, and Technology growth deals averaging USD 111.4m.

EUROPEAN INVESTOR SENTIMENT INDEX

Q2/2024



These figures highlight the robust investment activity in the European VC market, particularly in the later stages, despite a general decline in the number of deals. The substantial increase in investment volumes, especially compared to the previous year, suggests a growing confidence in the market and a recovery of the ecosystem. Investors and founders seem to increasingly question the typical lifecycle of startups, focusing more on achieving profitability earlier, responsible investment practices, and realistic exit strategies. The decline in deal count indicates a more cautious approach among investors, possibly focusing on more mature startups rather than early-stage ones.

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UK DOMINATES THE MARKET, SURPASSING FRANCE AND GERMANY COMBINED.

In Q2 2024, the European Big 3, including the United Kingdom, France, and Germany, maintained their leading positions from the previous quarter. Collectively, these three prominent VC ecosystems accounted for 74.2% of the total investment volume in Europe, reaching USD 11.9b, marking a significant 49% increase QoQ. The UK and France both nearly doubled their investment volumes, while Germany experienced a drastic decline of 43% compared to its performance in the preceding quarter.

The three major European VC landscapes were responsible for 580 deals in total, marking a 16.7% increase from the previous quarter. Their combined deal share was 58.2%, showing a 17.8% rise compared to Q1 2024. The notable increase in secured deals among these leading European VC ecosystems underscores their continued market dominance and highlights the current struggles of smaller ecosystems.

In the second quarter of 2024, the UK's VC ecosystem led the way with an impressive USD 6.9b in investment volume, reflecting a substantial 96.5% increase QoQ. This growth was achieved through 326 deals, indicating a 14.0% rise from Q1 2024. France followed,

showing a remarkable 99.2% surge in investment volume compared to the previous quarter, reaching USD 3.4b, with a significant 60.4% increase in deals, totalling 170. In contrast, Germany's VC ecosystem experienced a decline, with investment volume dropping by 43% to USD 1.6b and the number of deals falling by 20% QoQ, totalling 84.

Within the European VC sector, several financial rounds stood out in Q2 2024. The Series B consumer lending startup Abound and the Series C embodied AI technology developer for automated driving Wayve shared the top spot for the largest transaction value, each raising GBP 800m. Another notable deal was marked by Mistral AI, a French startup that provides developers and businesses with open and portable generative AI solutions, raising EUR 468m in Series B funding in June 2024. The fourth notable transaction was Germany-based DeepL's latest funding round, securing USD 300 million to build the best AI translation tool (Dealmatrix, 2024; Crunchbase, 2024).

EUROPEAN INVESTOR SENTIMENT INDEX

Q2/2024



METHODOLOGY

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

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.



DENIS VOLDMAN
LEAD INVESTMENT ANALYST, 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.



SOFIYA LYN
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. Recently, she has achieved 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.



MAKAR VERGOVSKIY
ANALYST, VENIONAIRE CAPITAL

Makar focuses on screening and evaluating startups. He contributes to the team by preparing quarterly reports and supporting fundraising efforts. He is also responsible for conducting risk monitoring for the Venionaire Web3 fund.

Makar is currently pursuing bachelor's degrees at two universities in Vienna: at Wirtschaftsuniversität Wien (WU) and Lauder Business School, maintaining strong academic performance. He holds the FMVA certification (Financial Modeling and Valuation Analyst). Prior to Venionaire, Makar worked as a Business Analyst, conducting business performance evaluation, legal and market research, and bearing accounting responsibilities.

Outside of work, Makar enjoys coding and runs a blog where he publishes interesting reports and articles from the financial world.

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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