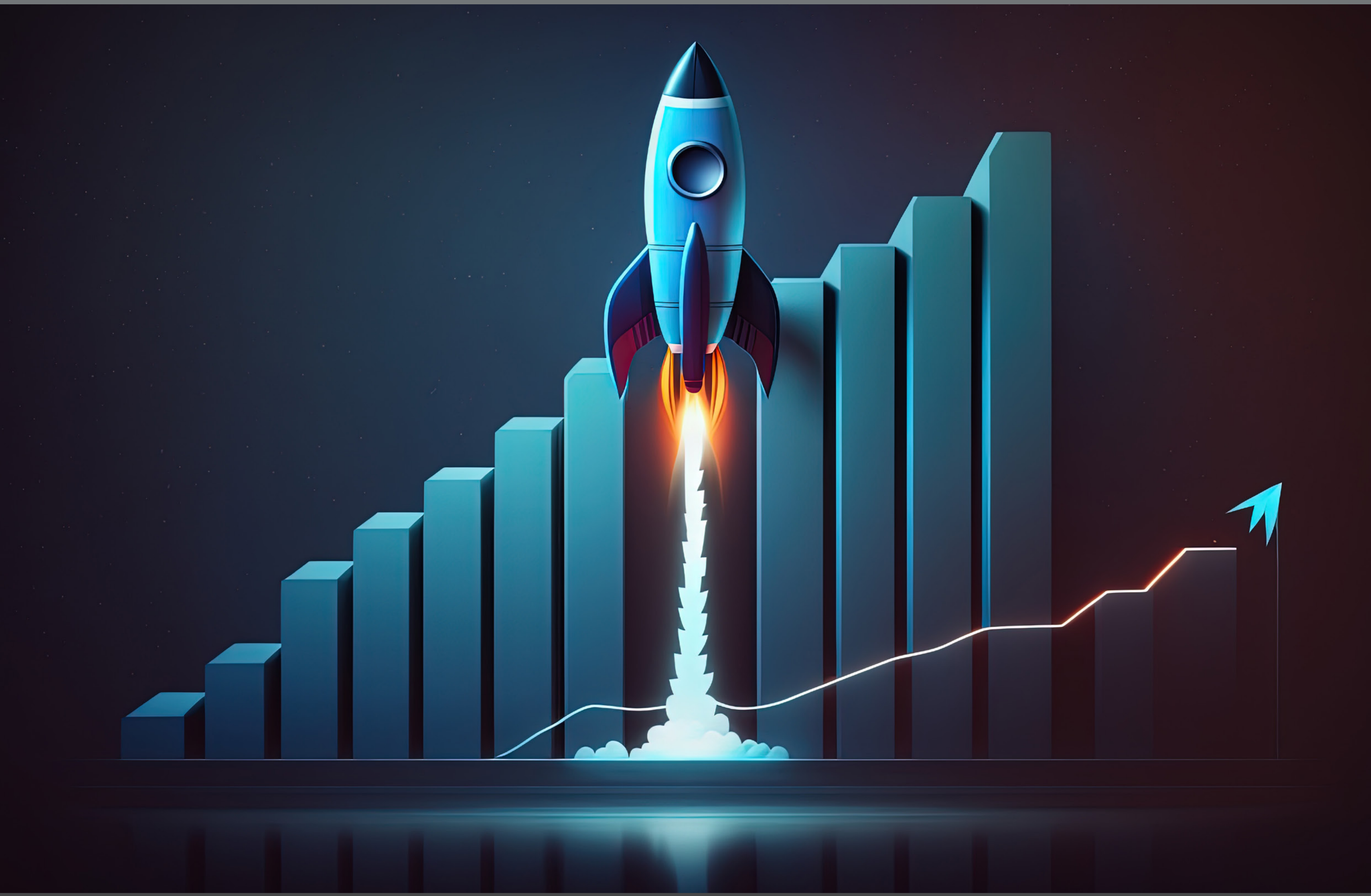


EUROPEAN INVESTOR SENTIMENT INDEX

Quaterly Survey

Q3/2024

September 30, 2024

EUROPEAN INVESTOR SENTIMENT INDEX

Q3/2024

INFLATION DECLINE AND INTEREST RATE CUTS AHEAD OF THE U.S. ELECTION.

As the global economy moves into the latter half of 2024, it continues to experience steady growth, underpinned by declining inflation, stronger-than-expected employment rates, and resilient consumer spending. In Q3 2024, global real GDP growth was projected at 3.0% for 2024, with a slight increase to 3.1% expected in 2025. Global inflation is anticipated to decrease to 6.6% in 2024 and moderate further to 3.9% in 2025. For developed economies, real GDP growth is forecast to remain relatively unchanged at 1.6% in 2024 and 1.7% in 2025, as compared to 2023 (Euromonitor International, 2024). Political uncertainty, volatile inflation, and declining demographics are key factors contributing to the lack of significant growth in major economies.

In the Eurozone, real GDP growth for 2024 is expected to remain stable at 0.9%, with a more optimistic outlook for 2025, where growth is projected to accelerate to 1.5%. This is driven by decreasing inflation, boosted exports, record-low unemployment levels, and rising tourist numbers (Euromonitor International, 2024). In comparison, the U.S. economy maintained its growth momentum in early 2024, supported by stable consumer spending, which led to an upgraded real GDP growth forecast of 2.3% for the year (CBRE, 2024). However, the U.S. is expected to face challenges in 2025 due to a cooling labour market, persistent inflation in services, and heightened political instability ahead of the November presidential election. Despite these headwinds, the consistent economic expansion observed in advanced economies in previous quarters has positively impacted the venture capital market, leading to higher valuations and larger average deal sizes.

During Q3 2024, the Eurozone experienced a notable decline in inflation, largely attributed to falling oil and energy prices. Stabilisation in housing markets contributed to an overall inflation rate of 2.5% across Western economies (S&P Global, 2024). According to the ECB, headline inflation is expected to average 2.2% in 2025 and 1.9% in 2026, gradually aligning with the target rate. Core inflation is predicted to decrease from 2.9% in 2024 to 2.3% in 2025 and 2% in 2026, though service sector inflation is surpassing expectations (ECB, 2024). Meanwhile, wages in the Eurozone continue to outpace consumer prices, with hourly labour costs rising by 4.7% in Q2 2024 compared to the same period in 2023 (Eurostat, 2024).

From September 2024, the ECB, BoE, and Fed began cautiously lowering interest rates. The ECB reduced its benchmark deposit rate by 25bp to 3.5% during its meeting on 12th September 2024, marking the second consecutive decrease. The ECB also announced a plan to cut rates by 25bp each quarter until the rate reaches 2.5%. This decision aligns with the Fed's move to reduce borrowing costs, by lowering the key rate by 50bp to a range of 4.75% - 5.0% (The Guardian, 2024). Bond yields have adjusted accordingly, anticipating further cuts.

The ultimate level of interest rates remains uncertain, influenced by fiscal policies, inflation expectations, and currency fluctuations. The U.S. election will likely provide greater clarity on the future direction of the Fed's monetary policy. However, these rate cuts are already affecting the venture capital ecosystem, potentially unlocking capital across various sectors and increasing funding opportunities for companies, while helping preserve employment.market seems to be shifting deliberately towards sectors and stages that promise a clear path to profitability over quick and expensive growth.

The European labour market has also seen significant developments, with many countries experiencing historically low unemployment

levels (S&P Global, 2024). However, while wage inflation continues to benefit employees, it is driving up operational costs for businesses. This trend poses challenges for companies, as rising wages could erode profit margins, particularly in sectors already struggling with inflationary pressures.

INDEX ACTUAL AT ITS HIGHEST POINT IN 3 YEARS. OUTLOOK IS ALL TIME HIGH SINCE Q4 2021.

The Q3 2024 index actual fell short of previous expectations, landing at 5.1 compared to the projected 6.1. Despite this, the index reflects a QoQ rise of 0.7% and a YoY increase of 21.1%. These modest QoQ changes indicate a softening in growth momentum across advanced economies, along with the continued but gradual expansion of the VC ecosystem in Europe.

Since the in-depth interviews were conducted prior to the recent announcements by the Fed and ECB, the primary challenges for both VC investors and startups remained centred around high interest rates. One of the most significant hurdles for startups continues to be demonstrating traction — showing that their product, service, or idea is gaining measurable market interest.

Compared to previous years, the Q3 2024 index actual remains at its highest level for the past eight consecutive quarters and is expected to approach Q4 2021 levels shortly, buoyed by a steady, albeit gradual, economic recovery. The Q4 2024 outlook, standing at 6.1, reflects a continued return to a more favourable investment environment. This is further demonstrated by a modest 0.7% QoQ increase in the outlook, but more significantly, a 39.1% YoY rise. These trends suggest an increasingly optimistic outlook for the European VC ecosystem by the end of 2024.

The components of the index show a mixed picture of both positive and negative QoQ developments. On the positive side, startup valuations saw a 10.5% QoQ rise, and the quality of current deal flow activity increased by 14.9% QoQ. On the negative side, investor activity recorded a sharp decline of 15.4% QoQ, while competition for deals also decreased by 1.5% QoQ. Additionally, the perception of the current fundraising environment saw a slight decline of 1.0% QoQ.

Looking ahead to Q4 2024, respondents expect investment activity to increase by 2.7% compared to Q3 2024. A significant 16.1% QoQ rise in competition for deals is also anticipated. Furthermore, the fundraising environment is expected to see a notable 17.3% QoQ increase. However, startup valuations are forecasted to decline by 8.9%, accompanied by a 4.8% expected drop in the quality of deal flow for the upcoming quarter.
The primary concerns identified in the in-depth interviews have remained consistent with those in previous quarters, with global military conflicts continuing to dominate, followed by inflation, fundraising difficulties, and the interest rate policies of central banks. Respondents also highlighted that the European VC ecosystem is currently being influenced by a “fear of missing out” (FOMO), with an overemphasis on SaaS businesses and impact investments, which are often seen as overly capital-intensive.

Higher interest rates, which have been a longstanding issue, have placed significant pressure on venture capital and private equity markets, particularly in Europe. Although the economy is showing signs of stabilisation and steady growth, the environment remains challenging. However, with investor activity expected to rise by the end of 2024, and a more optimistic outlook on fundraising and deal competiti on, the European VC landscape is poised for further positive developments in the final quarter of the year.

RISING SEED VALUATIONS AMID AI BOOM.

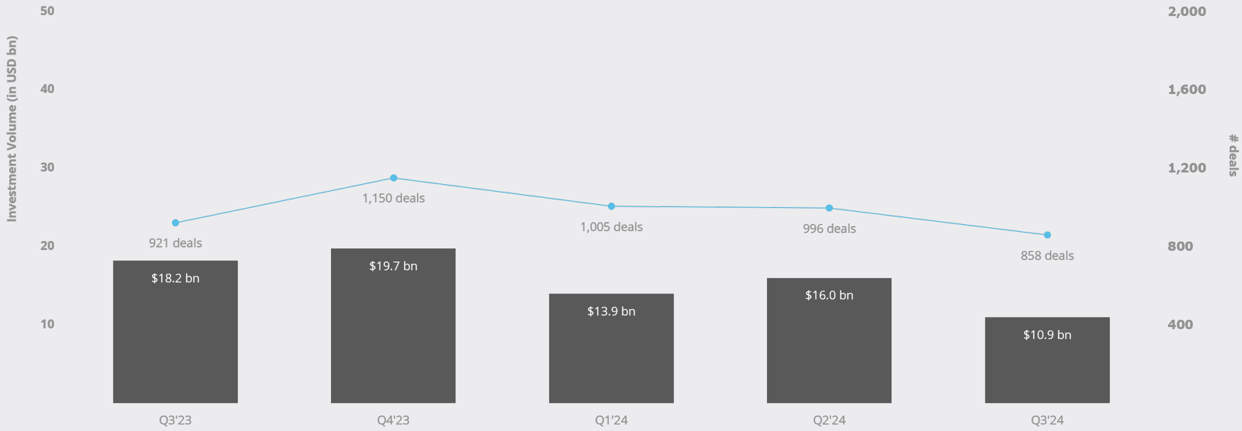
“This quarter has presented a complex landscape of recovery, innovation, and evolving priorities within the European VC ecosystem. Seed-stage startups have experienced a steady increase in valuations compared to Q2 2024 and the previous year, driven in part by the gradual decline in interest rates. Notably, the AI sector continues to dominate the funding landscape, shaping investment trends. As a result, many startups, even those with no direct connection to AI, are increasingly exploring ways to integrate AI technologies into their business models. While this reflects AI’s pervasive influence, it also raises concerns about the potential overreliance on a single technological trend.

The recent interest rate cuts by both, the ECB and the Fed, are expected to have a positive impact on the global IPO market. This influence will likely become more pronounced in the remaining quarters of 2024, as further rate reductions are anticipated. Consequently, we are likely to witness a more favourable exit environment, with IPOs becoming more accessible as a viable exit route for startups. However, alongside IPOs, the improving macroeconomic conditions are also expected to enhance exit opportunities through M&A, which are predicted to maintain their position as the dominant exit strategy for startups.”

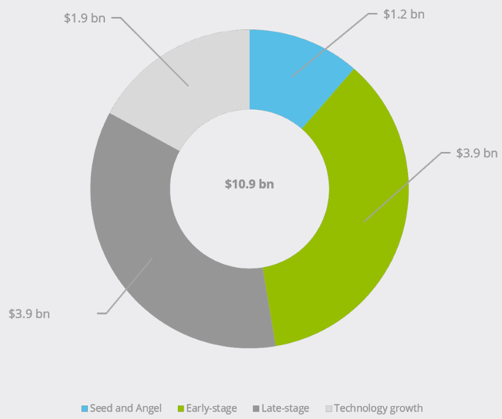
Berthold Baurek-Karlic
CEO @ Venionaire Capital
President European Super Angels Club

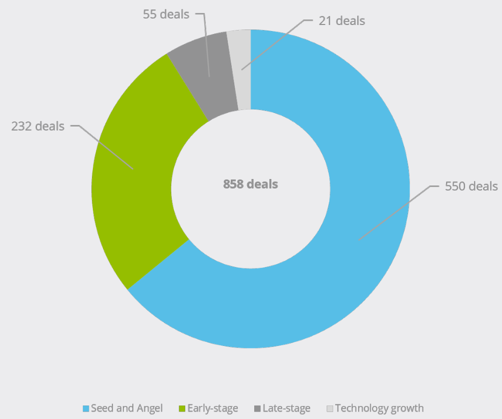
EUROPEAN INVESTOR SENTIMENT INDEX
Q3/2024

EUROPEAN VENTURE CAPITAL DASHBOARD



Investment Volume		# deals	
QoQ	YoY	QoQ	YoY
▼-31.5%	▼-39.8%	▼-13.9%	▼-6.8%





EUROPEAN VC MARKET SLOWS FOLLOWING PREVIOUS GROWTH IN Q2.

In the third quarter of 2024, the European venture capital ecosystem saw a downturn across all investment stages. Total investment volume fell sharply to USD 10.9b, marking significant declines of 31.5% QoQ and 39.8% YoY. The number of deals also dropped to 858, representing a 13.9% decline QoQ and a 6.8% drop YoY. This contraction reflects heightened caution among investors, driven by ongoing macroeconomic challenges and market volatility.
Seed and Angel investments totalled USD 1.2b, accounting for 11.4% of total funding, with 550 deals representing 64.1% of the total deal count. The average deal size at this stage was USD 2.3m. Early-stage investments amounted to USD 3.9b, or 36% of the total funding, across 232 deals, which comprised 27% of all deals. The average deal size for Early-stage was USD 17m. Late-stage investments also reached USD 3.9b, comprising 35.5% of total funding, with 55 deals accounting for 6.4% of the total deal count. The average deal size at this stage was USD 70.7m. Technology Growth investments amounted to USD 1.9b, or 17.1% of the total funding, across 21 deals, representing 2.4% of the total deal count, with an average deal size of USD 89.1m.

The average deal size across all stages was USD 12.8m, reflecting a decline of 20.5% QoQ and 35.4% YoY. This reduction points to a conservative shift in investment strategies, with investors potentially reallocating capital towards lower-risk ventures or postponing larger funding rounds.

These figures underline a significant slowdown in the European VC market during Q3 2024, in stark contrast to the mixed dynamics of the previous quarter. Despite some positive macroeconomic indicators, the sharp decreases in both, investment volume and deal count, suggest heightened caution among investors. Ongoing political uncertainties, including the upcoming U.S. presidential election, and concerns over volatile inflation rates — though decreasing — still present risks. Additionally, wage inflation in the Eurozone continues to elevate operational costs for startups, prolonging their path to profitability and reducing their attractiveness to investors.

UK REMAINS ON TOP, FOLLOWED BY GERMANY AND FRANCE.

In the third quarter of 2024, the United Kingdom maintained its position as the leading venture capital ecosystem in Europe, while Germany overtook France to become the second largest. Together, these three countries accounted for an investment volume of USD 7.8b, representing 71.3% of the total investment volume in Europe. However, this marks a notable decline of 34.2% compared to the previous quarter, with their combined share of the total investment volume decreasing by 3.9% QoQ.

The top three ecosystems were responsible for 452 deals in total, reflecting a 22.1% decrease from the previous quarter. Their combined share of the total number of deals also dropped, reaching 52.7%, a reduction of 9.5% QoQ.

The United Kingdom, while still Europe's largest VC ecosystem, saw its investment volume drop to USD 4.5b, a substantial 34.8% decrease QoQ, with 257 deals, down by 21.2%. Germany, in contrast, displayed resilience, with its investment volume increasing by 39.2% QoQ to USD 2.2b and the number of deals rising by 13.1% to 95. France faced the steepest decline among the top three, with investment volume falling by 66.4% QoQ to USD 1.2b, and the number of deals dropping by 41.2% to 100.

In Q3 2024, the European VC ecosystem saw three major funding rounds that drew significant attention. Leading the way was German AI defence company Helsing, which raised EUR 450m in a Series C round in July 2024. Specialising in AI-powered military solutions, Helsing's success highlights the growing interest in defence tech. The second-largest deal involved Flo Health, a popular women's health app offering cycle tracking, personalised health insights, and a private community. Flo Health secured GBP 156m in its Series C round, bolstering its leadership in the femtech sector. Lastly, in September 2024, fitness startup EGYM closed a Series G round, raising USD 200m (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 July, August and September 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.

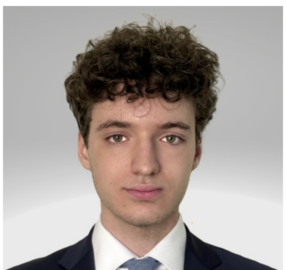
BERTHOLD BAUREK-KARLIC
CEO & FOUNDER, VENIONAIRE CAPITAL

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. 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.

SOFIYA LYN
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 Wirtschaftlicheuniversität 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.

MAKAR VERGOVSKIY
ANALYST, VENIONAIRE CAPITAL

ABOUT

VENIONAIRE
CAPITAL

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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