EIF Venture Capital Survey 2021: Market sentiment

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Dear Reader,

The European PE/VC ecosystem has survived the COVID-19 crisis without major damage so far. In particular in the case of European VC, this reveals a newfound resilience. The VC industry’s activity did not show signs of “long COVID” and quickly bounced back from the measurable harm of the first wave of lockdowns across Europe. The series of swift COVID-19 public support measures, including many deployed by the EIF, played an instrumental role in the bounce-back of the European VC industry. That is not to say, however, that the VC ecosystem is set to face a smooth road ahead: for example, structural issues surrounding the European VC exit and scale-up markets have been further exacerbated by the COVID-19 recession. New and creative policy solutions, making the best of digital technologies, will be pivotal in developing an increasingly interconnected and thriving European VC ecosystem, capable of nurturing the tech champions of tomorrow.

EIF’s Research & Market Analysis strives to support this process by improving the availability of information for evidence-based policy interventions, which are needed especially during and in the aftermath of crises. With three regular equity surveys, the EIF VC Survey, the EIF Private Equity Mid-Market Survey, and the EIF Business Angels Survey, the EIF’s Research & Market Analysis team provides unique market insight, typically on an annual basis. The EIF Surveys provide a detailed overview of the respondents’ state of business, market activity and their general perception of the current market situation.

The study at hand looks at the current situation, developments in the recent past, and expectations for the future. In this publication, the main results are summarised and compared over time. It provides a unique picture of the developments and the market sentiment in 2021. Despite a strong recovery of the VC market and a mixed, but limited impact of the COVID-19 crisis, our survey results show that several challenges continue to weigh on the VC market and ultimately hinder a stronger push for young innovative enterprises with high growth potential. We as EIF continue to work on further developing the ecosystem and on mitigating market weaknesses.

I thank Invest Europe for their support. I also thank all contributors a lot for this insightful project and analysis. In order to facilitate the reading, we offer a hybrid slide document instead of a traditional Working Paper style. I hope you will enjoy it.

Kind regards,

Helmut Kraemer-Eis

EIF Chief Economist and Head of Research & Market Analysis
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Executive summary

EIF Research & Market Analysis
Survey wave 2021
The EIF VC Survey

Number of respondents: 479

Stage:
- Pre-seed: 14%
- Seed: 31%
- Early: 37%
- Later stage / Growth: 19%

Top sectors:
- ICT: 35%
- Biotech & healthcare: 25%
- Energy & environment: 7%

Executive summary

Key EIF survey topics 2021

This paper

Impact of COVID-19

Market sentiment

Forthcoming soon

Gender diversity

Environment and Climate
European VC in 2021 and beyond: Key survey highlights

Strong recovery in 2021

- In 2021, the European VC market activity has recovered from its COVID-19 crisis slump. According to the EIF VC Survey, a survey of VC General Partners investing in European ventures, VC fund managers have become very optimistic again. The current market situation is perceived even better than before the crisis. Expectations for the period until mid-2022 are very positive across several categories, displaying the highest values since the EIF VC Survey launch in 2018.

- After a strong decline in Autumn 2020, VC fund managers’ perception of their state of business is back to the levels reached in the preceding 4 survey waves. The expectations regarding the state of business in the next 12 months are generally positive.

Even record highs in some areas

- The percentage of respondents reporting an increase in their number of new investments is larger than before the COVID-19 crisis. During the COVID-19 crisis, investment expectations had undergone only a small slump. In 2021, expectations for the next 12 months even reached record high levels.

- Following a slump in the COVID-19 crisis in 2020, valuations and exit prices have increased again, on average. A vast majority of VC fund managers expects a further increase in exit prices for the next 12 months.

Mixed impact of COVID-19

- The crisis had a heterogeneous impact on VC-supported companies, with the direction depending, for example, on the activity sector of the portfolio company.

- The largest share of respondents view the impact of COVID-19 on the current performance of their fund(s) / portfolio as neutral. When looking at the impact of COVID-19 on the expected final performance of their fund(s) / portfolio, respondents are more positive. Expected NAV development was more positive in 2021 than in 2020.

- In general, VCs are confident in the long-term growth prospects of the VC industry in Europe and in their own market.

EIF VC Survey results: A more detailed summary (i/ii)

Improved environment for fundraising and investment

- The perception of the fundraising environment reached an all-time high. Expectations for the future fundraising environment are more optimistic in 2021 than they were in Autumn 2020.

- Most respondents reported more investments, and a further increase is expected. VCs can select from an increased number of incoming investment proposals, which is even expected to accumulate further.

- Less VC fund managers invested exclusively in follow-ons in portfolio companies.

- Finding co-investors has become less difficult, and most VCs are expecting no change over the coming months.

Increased transaction prices, valuations and competition

- Exit prices have developed upwards and are expected to increase further.

- Portfolio company valuations increased after the crisis year 2020. Most respondents expect a further increase.

- Entry prices have rebounded upwards; VCs expect even higher entry prices for the near future.

- VCs report increased competition for investee companies in the recent past and expect this development to continue.

Exit environment recovered, while the share of non-EU buyers is high

- The exit environment has recovered since last year. Expectations have improved, but are below 2018 levels.

- In 2021, the relative importance of insolvencies/liquidations decreased, while IPOs have become more relevant.

- A large part of exits happened outside the EU, in particular in the case of IPOs / sale of listed stocks.

Executive summary

EIF VC Survey results: A more detailed summary (ii/ii)

Portfolio companies developed better, but challenges remain

- Portfolio companies developed better than expected for most VCs. A large majority of respondents expects further improvement.
- Portfolio companies’ access to finance is at a record high and expected to (at least) stay similar in the near future.
- “Recruiting high quality professionals” has remained the biggest challenge faced by portfolio companies throughout the years, except in Autumn 2020, when more immediate challenges became more prevalent due to the COVID crisis.

Challenges in VC business do not weigh on long term growth prospects

- “Fundraising”, “high investee company valuations” and “number of high quality entrepreneurs” have consistently been among the most important challenges in the VC business.
- In 2021, “high investee company valuations” has become the most important challenge currently seen in VC business.
- VCs are confident in the long-term growth prospects of the VC industry in their own market and in Europe.

Optimism prevails despite COVID-19 impact

- The majority of VCs does not expect any insolvencies due to the impact of COVID-19. This respondent category was slightly bigger in the 2021 survey wave than during autumn 2020.
- The median respondent views the impact of COVID-19 on the current performance of their fund(s)/portfolio as neutral. When looking at the impact of COVID-19 on the expected final performance of their fund(s)/portfolio, respondents are even more positive.
- VCs are also optimistic about the NAV evolution. The optimism has even increased, compared to autumn 2020. Expected NAV development was more positive in 2021 than in 2020.

Exceptional times require unique market insight

Evidence-based policy intervention to address challenges and opportunities

- The EIF concentrates on supporting the necessary private sector VC infrastructure to address market gaps and challenges as well as to support opportunities with the aim to further enhance the attractiveness of European VC as an alternative asset class.

- In order to improve the availability of information for evidence-based policy interventions, the EIF performs, on a regular basis, the EIF VC Survey, the EIF Private Equity Mid-Market Survey, and the EIF Business Angels Survey. In addition, a new EIF Private Debt Survey has recently been launched.

A unique source of information

- The EIF VC Survey, the EIF Private Equity Mid-Market Survey, and the EIF Business Angels Survey provide the opportunity to retrieve unique market insight. To the best of our knowledge, the combined EIF PE MM Survey and EIF VC Survey currently represent the largest regular survey exercise among GPs in Europe.

- The already large outreach of the EIF surveys, which are coordinated by EIF’s Research & Market Analysis (RMA), and the high relevance of the questionnaire topics for both market participants and policy makers have further increased through cooperations with Invest Europe and the Joint Research Center (JRC) of the European Commission.

Results dissemination

- In addition to the sections on market sentiment and the impact of COVID-19, the 2021 wave of the EIF VC Survey and the EIF PE MM Survey allowed us to look into recent changes with respect to gender diversity and considerations related to climate and the environment. Several related publications are under preparation. Additional analyses will look at ESG considerations in the European PE/VC market, based on our survey results. A new wave of the EIF BA Survey is also under preparation.

EIF VC Survey

Market sentiment

EIF Research & Market Analysis
Survey wave 2021
VC fund managers’ perception of their state of business is back to pre-crisis levels.

- After a strong decline in Autumn 2020, VC fund managers’ perception of their state of business is back to the levels reached in the preceding 4 survey waves.

- The “net balance” increased strongly by 20 percentage points. (See the Annex for an explanation of the term “net balance” here.)

Q: “How would you assess the current state of your business?”

- Expectations for the next 12 months have become very optimistic again.

- The percentage of respondents that have a negative vision for the next 12 months is back to their lowest levels reached in 2018.

Q: “Over the next 12 months, how do you expect the state of your business to develop?”

The perception of the fundraising environment reached an all-time high.

- The pessimistic picture observed in Autumn 2020 has been replaced by a positive market perception in 2021.
- The share of respondents rating the current fundraising environment as (very) good reached a record high in 2021. At the same time, the share of negative perceptions decreased strongly.

Q: “How would you rate the current fundraising environment?”

- Respondents’ expectations for the future fundraising environment are more optimistic in 2021 than they were in Autumn 2020.
- While the share of optimistic respondents reached a record high in the history of the EIF VC Survey waves, the share of pessimistic respondents fell to an all-time low.

Q: “Over the next 12 months, how do you expect the fundraising environment to develop?”
Easiness in finding co-investors

Finding co-investors has become less difficult, and most VCs are expecting no change over the coming months.

- After becoming considerably more difficult for many respondents between March 2020 and October 2020, finding co-investors has become less difficult in 2021.

- The share of respondents that did not look for co-investors to syndicate decreased to a record low.

Q: “How easy/difficult is it currently to find co-investors to syndicate?”
Note: The “Average” response option was only provided in the 2021 Survey wave.

- While the expectations of VC fund managers regarding the future easiness in finding co-investors had become more optimistic before the crisis, the sentiment deteriorated between March and October 2020, due to the impact of the COVID-19 crisis.

- The expectations have strongly recovered in 2021, with 35% expecting it to become easier to find co-investors over the next 12 months and only 6% expecting it to become more difficult. A majority of 56% are expecting the situation to stay the same.

Q: “Over the next 12 months, how do you expect finding co-investors to become?”
Despite the already positive current situation, most fund managers expect a further increase in the number of investment proposals to their VC firm. Only a small share of respondents perceived a drop in the number of investment proposals.

Q: “Over the last 12 months, how has the number of venture investment proposals to you/your firm developed?”

VCs can select from an increased number of incoming investment proposals, which is even expected to accumulate further.

- The number of investment proposals received increased for almost two thirds of responding VC fund managers.
- Only a small share of respondents perceived a drop in the number of investment proposals.

Despite the already positive current situation, most fund managers expect a further increase in the number of investment proposals to their VC firm.

- These perceptions confirm a high demand for VC investments.
- However, a high number of incoming investment proposals does not necessarily mean that these proposals are of sufficient quality for VCs to invest.

Q: “Over the next 12 months, how do you expect the number of investment proposals to you/your firm to develop?”

Number of new investments

Current situation

- The percentage of respondents reporting an increase in their number of new investments is larger than before the COVID-19 crisis.
- The share of respondents reporting a decrease in the number of new investments undertaken in the last twelve months is at a record low.

Q: “Over the last 12 months, how has the number of your new investments developed?”

Expectations for the next 12 months

- During the COVID-19 crisis, investment expectations had undergone only a small slump.
- In 2021, expectations for the next 12 months even reached record high levels.

Q: “Over the next 12 months, how do you expect the number of your new investments to develop?”

Most respondents reported more investments, and a further increase is expected.

Market sentiment – Investments

Competition among investors for potential investee companies

VCs report increased competition for investee companies in the recent past and expect this development to continue.

- Alongside with an increase of entry prices, competition among investors for potential investee companies increased as well.
- The share of respondents indicating increased competition reached its highest level since this survey question is presented to VCs (Feb 2020).

Q: “Over the past months, how have the following items developed?” Graph shows the responses for “Competition among investors for potential investee companies”

- Respondents expect, on average, a further increase in competition among investors for potential investee companies over the next 12 months.
- The percentage of VCs expecting less competition is at its minimum (1%) since the start of the survey early 2020.

Q: “When you consider your market over the next 12 months, how do you expect the following items to develop?” Graph shows the responses for “Competition among investors for potential investee companies”

Entry prices

Entry prices have rebounded upwards; VCs expect even higher entry prices for the near future.

- Following a slump in the COVID-19 crisis in 2020, entry prices have increased again, according to three quarters of responding VCs.
- While the upward trend in prices is visible overall, the share of VC fund managers reporting increased entry prices (76%) is higher than for increased exit prices (62%).

Q: “Over the past months, how have the following items developed?” Graph shows the responses for “Entry prices of portfolio companies”

- Entry prices are expected, on average, to further increase.
- After decreasing from March 2020 to October 2020, the entry price expectations rebounded strongly in 2021. Two thirds of our survey participants expect increasing entry prices over the subsequent months.
- The percentage of VC managers expecting a decrease in entry prices is at a record low (4%). The net balance reached a record level of 62%.

Q: “When you consider your market over the next 12 months, how do you expect the following items to develop?” Graph shows the responses for “Entry prices”

Investment strategy

October 2020
Since March, have you...

- invested in new deals only?
- invested in follow-ons in portfolio companies only?
- invested in both new deals and follow-ons in portfolio companies?
- not invested?

2021
Over the last 12 months, have you...

- invested in new deals only?
- invested in follow-ons in portfolio companies only?
- invested in both new deals and follow-ons in portfolio companies?
- not invested?

Fewer VC fund managers invested exclusively in follow-ons in portfolio companies.

- In 2020, many respondents did **not invest at all** (8%) or limited themselves to **follow-on investments** in portfolio companies (17%). In 2021, these categories decreased to 5% and 9%, respectively.

- In 2021, almost 80% of respondents invested in both new deals and follow-ons in portfolio companies over the past 12 months.

Portfolio development

Current situation

- Portfolio development significantly deteriorated from the beginning of the COVID-19 crisis until Autumn 2020.
- In 2021, portfolio development recovered substantially, reaching a record-high, with portfolio companies developing above expectations for over half of respondents.

Expectations for the next 12 months

- Expectations for future portfolio development gradually decreased between 2018 and 2020, although they remained very positive throughout that period.
- 2021 saw a significant improvement in sentiment compared with 2020, with almost 8 in 10 respondents expecting an improvement over the next 12 months and only 1% expecting a deterioration.

Q: “Over the past months, how did your portfolio companies develop?”
Note: The 2020 Autumn wave asked about developments since March 2020, while the other waves asked about developments over the last 12 months.

Q: “Over the next 12 months, how do you expect your portfolio to develop?”

NAV of fund(s) / value of portfolio: Q4 2021 vs. Q4 2020

The median category of respondents expects a positive NAV impact of 10% to 25% (33% of respondents).

In 2021, only 4% of respondents expect a reduction in the NAV of the portfolio. In 2020 the number was consistently higher (24.6%)
Overall, VC respondents are positive regarding access to external finance of their portfolio companies, after a deterioration in respondents’ perception of access to external finance in the October 2020 Survey wave, in 2021 the perception reaches record levels.

The share of respondents who see the access to finance as (very) bad is at its lowest level since the survey has been performed the first time.

After a constant deterioration in 2020, survey participants expect the access to external finance of their portfolio companies to either stay the same (46%) or even improve (45%) in the next 12 months.

Expectations are even more optimistic than respondents’ perception reported before the crisis in February 2020.

Q: “How would you rate the access to external finance of your portfolio companies?”

Q: “Over the next 12 months, how do you expect the access to external finance of your portfolio companies to develop?”

The valuations of portfolio companies increased for four fifths of VC fund managers, which denotes a record share since the first EIF VC Survey wave.

At the same time, the net balance reached its pre-crisis level again, following slumps in March and in October.

Q: “Over the past months, how have the following items developed?” Graph shows the responses for “Current valuations of portfolio companies”

Q: “Over the next 12 months, how do you expect the valuation of portfolio companies to develop?”

The valuations of portfolio companies are expected, on average, to further increase.

More than three quarters of respondents expect an increase in valuations over the subsequent 12 months.

Only a tiny fraction (2%) of VCs expects lower valuations in the near future.

After reaching a record high of 30% in our March 2020 survey wave, the percentage of total exits composed of insolvencies/liquidations has steadily decreased, falling to 15% in 2021.

The percentage of total exits made up of IPOs reached a record-high of 18% in 2021, compared with 10% in early 2020.

Trade sales are still the most frequent exit route. Sales to financial investors, secondary sales to third parties and MBOs have remained relatively stable over the past years. The share of management/owner buybacks has decreased since early 2020.


Q: “Over the last 12 months, how many of your portfolio companies exited via the following exit routes?”

Note: The graph reports the resulting percentages of the respective exit routes, excluding the “no exit” option. The 2020 October wave asked about developments since March 2020.
Market sentiment – Exits

Exit routes – within or outside the EU?

Of the strategic sales in 2021, 55% were to buyers located outside the EU, while 70% of the IPOs in 2021 were listed outside the EU.

When asked about the main challenges regarding the exit environment, many respondents report that the European IPO and M&A markets remain underdeveloped and that they face difficulties finding potential European buyers.

Some of these respondents report that there are too few potential buyers in Europe overall, some report that there are too few in their local markets or their sectors, while others report that there are too few large-ticket buyers.

Overall, this makes it increasingly difficult to achieve the required investment returns when exiting in Europe, especially in the context of rising entry prices, which show that the share of respondents reporting increased entry prices is higher than for increased exit prices, both for the past months and expectations for the coming months (see page 20 and page 29), which forces investors to consider exit options outside the EU.

This shows an important need for public policy to provide increased support for European buyers targeting these gaps and for the public markets.

Q: “Please tell us, if your trade sales (sales to financial investors; secondary sales) have been to strategic buyers (investors; 3rd parties) headquartered within or outside the EU”

Q: “Please tell us, if your IPOs / sales of listed stocks have been with primary listing within or outside the EU”

Q: “What are the main challenges regarding the exit environment?”

The exit environment has recovered since last year. Expectations have improved, but are below 2018 levels.

- After deteriorating significantly in between March and October 2020, the exit environment has recovered strongly since then.

- In 2021, almost 6 in 10 respondents perceived an improvement in the exit environment, while only 12% perceived a deterioration. Last year in contrast, only 15% had experienced an improvement while over 50% experienced a deterioration.

Q: “Over the last 12 months, how has the exit environment for your venture portfolio companies developed?” Note: The 2020 October wave asked about developments since March 2020, while the other waves asked about developments over the last 12 months.

- Expectations for future exit opportunities gradually deteriorated between 2018 and 2020, reaching their lowest point in October 2020, with the net balance dropping to 13%.

- In 2021, expectations have significantly improved, with almost 6 in 10 respondents expecting an improvement and only 7% expecting a deterioration.

- Despite the more optimistic sentiment, expectations for an improvement are, on balance, still below their 2018 levels.

Q: “Over the next 12 months, how do you expect the exit opportunities of your venture portfolio companies to develop?”

Exit prices have developed upwards and are expected to increase further.

- Following a slump in the COVID-19 crisis in 2020, exit prices have increased again, on average.
- In 2021, a vast majority of VC fund managers report that exit prices have increased. At the same time, only a small fraction (5%) of VCs observed decreasing exit prices.

Q: “Over the past months, how have the following items developed?” Graph shows the responses for “Exit prices of portfolio companies”

- The exit price perspective for the next 12 months is very positive.
- More than half of the VC fund managers expect an increase in exit prices.
- The net balance in 2021 reached 49%, a percentage that is more than twice as high as before the crisis (February 2020: 20%).

Q: “When you consider your market over the next 12 months, how do you expect the following items to develop?” Graph shows the responses for “Exit prices”

Relevance of SPACs for VCs

Half of VC respondents have considered SPACs as an exit route.

- Half of our VC respondents have considered using a **SPAC as an exit route** for their portfolio companies.
- At the same time, only 1 in 5 VCs have considered **setting up a SPAC**.

Q: “Have you considered ... setting up a special purpose acquisition company (SPAC)? / ... using a SPAC as an exit route for your portfolio companies?”

Advantages of SPACs as an exit route

VCs mainly consider the quicker and simpler path to a public listing to be an advantage of SPACs as an exit route.

• “Quicker and simpler path to a public listing” and “bridging the gap between private and public equity” are the main advantages of having SPAC as exit route

• “De-risking of the IPO process” in terms of the acquisition price and “useful alternative to a traditional IPO, which could increase returns” ranked in the third and fourth place of VCs’ perception of SPAC advantages.

Q: “Which advantages would you consider SPACs having as an exit route?”. Note: Multiple selection possible. The diagram does not show the percentages for the response options “I don’t know/ prefer not to say” (21%), “None of the above” (7%) and “Others” (1%).

Additional investment in portfolio companies due to COVID-19

COVID-19 forces a large share of VCs to provide additional investment to their portfolio companies.

- In the autumn 2020 survey, the majority of VCs stated that they had to provide additional investment to portfolio companies due to COVID-19.

- Looking ahead, respondents are equally split between a large share of respondents planning to provide additional investment to portfolio companies due to COVID-19 until the end of 2022 and a large share without such plans.

Q: “Have you provided additional investment to portfolio companies due to COVID-19, where such investment was not foreseen at the start of 2020?”

Q: “Are you planning to provide additional investment to portfolio companies due to COVID-19 until the end of 2022?”

Insolvencies due to impact of COVID-19

The majority of VCs does not expect any insolvencies due to the impact of COVID-19. This respondent category was slightly bigger in the 2021 survey wave than during autumn 2020.

- Almost 3 in 5 VC managers do not expect any COVID-induced insolvencies. At the same time, 32% of GPs expected that between 1% and 10% of their portfolio companies might file for insolvency due to the impact of COVID-19, while 8% of respondents expected a share of 11% to 20% of their portfolio companies.
- Only 1% of VCs expect that more than 20% of their portfolio companies might file for insolvency.

Q: “Please indicate the expected % of your active portfolio companies that might file for insolvency due to the impact of COVID-19”. Note: The diagram is based on the responses from 67% of all survey respondents, as 33% had selected the “I don’t know / Prefer not to say” response option.

Impact of COVID-19 on fund / portfolio performance

The median respondent views the impact of COVID-19 on the current performance of their fund(s) / portfolio as neutral.

- A large share of 41% of VCs considers the impact of COVID-19 on the current performance of their fund(s) to be neutral. The remaining respondents are almost equally split into a group of respondents stating a negative impact (27%) and another group assuming a positive impact (30%).

- When looking at the impact of COVID-19 on the expected final performance of their fund(s) / portfolio, respondents are more positive: 36% expect the COVID impact on the final performance to be as positive or very positive, while 12% view it as negative or very negative.

- Among respondents, 49% view the impact on the expected final performance as neutral.

Q: "How do you assess the impact of COVID-19 on the ... current ... expected final performance of your fund(s)/portfolio?"
Biggest challenges faced by portfolio companies

In 2021, “recruiting high-quality professionals” has again become the first most important challenge for the highest percentage of respondents.

- “Recruiting high-quality professionals” is by far the most important challenge for portfolio companies in 2021.
- “Disruption of business activity due to COVID-related restrictions” was the second most frequently selected by VCs as the first most important challenge faced by their portfolio companies.
- When adding also the items selected by VCs as the 2nd and 3rd most important challenge of portfolio companies, “Customer acquisition and retention” ranks in the second place.

Q: “Please select the biggest challenges currently faced by your portfolio companies.” The graph shows the total percentage of responses with respect to the three most important challenges.

Note: The number in brackets [ ] corresponds to the ranking of the respective challenge in the EIF VC Autumn Survey 2020. The second biggest challenge in that survey wave was “Securing financing/liquidity”.

“Recruiting high quality professionals” has remained the biggest challenge faced by portfolio companies throughout the years, except in October 2020.

- **Recruiting high quality professionals** has remained the biggest challenge faced by portfolio companies throughout the years, except in October 2020, when more immediate challenges become more prevalent due to the COVID crisis, including securing financing / liquidity, customer acquisition and retention and the business disruption due to COVID-19 related restrictions.
- In 2021, “recruiting high-quality professionals” has again become the most important challenge, although business disruption remains a challenge for many VC portfolio companies.

Biggest challenges currently seen in VC business

“High investee company valuations” has become the most important challenge currently seen in VC business.

- “High investee company valuations” and “Competition from other investors” have become more important as a challenge compared with the previous EIF VC Survey wave.

- “Fundraising” ranked in the first place of challenges in VC business during the October 2020 survey wave. In 2021, “Fundraising” ranks second (when considering only those items that VCs selected as the first most important challenge) and third (when considering the items selected by VCs as the three most important challenges), respectively.

Q: “Please select the biggest challenges you currently see in the venture capital business.” The graph shows the total percentage of responses with respect to the three most important challenges.


Note: The number in brackets [ ] corresponds to the ranking of the respective challenge in the EIF VC October Survey 2020.
In October 2020 “high investee company valuations” “number of high quality entrepreneurs” became considerably less important as a challenge, while “fundraising”, “investee company performance” and “market volatility” became a more immediate concern during the early stages of the crisis.

In 2021, the “exit environment” became considerably less important as a challenge, compared with previous years declining from 17% last year to 4%. At the same time, “competition from other investors” and “high investee company valuations” increased in importance.

Factors explaining the European scale-up gap

Most important factors in explaining the gap with the US

- Underdeveloped IPO market: 61%
- Smaller European VC industry / Shorter track record: 50%
- Lower average fund sizes: 46%
- Fewer large late-stage VC funds in Europe: 45%
- Insufficient follow-on financing options leading to sell earlier: 35%
- Entrepreneurial ecosystem not centred around scale-ups: 27%
- Lack of cross-over funds: 26%
- Limited awareness about the importance of scale-ups: 20%
- Underdeveloped market for venture debt: 12%
- Other/s: 9%

VCs most frequently stated the underdeveloped IPO market to be an important factor explaining the European scale-up gap compared to the US.

- Apart from the underdeveloped IPO market, VCs mainly considered the smaller European VC industry / shorter track record, lower average fund sizes and fewer late stage VC funds as important factors explaining the European scale-up gap compared to the US.

- Among those fund managers who selected the “Other/s” response option, many stated taxes, regulation/administrative burden and market fragmentation in Europe to be a main factor that explains the scale-up gap.

Q: “Which factors would you consider most important in explaining the European scale-up gap compared to the US?” Note: Multiple selection possible.

Bridging the European scale-up gap

Most effective factors in bridging the late stage financing gap

- Increased engagement by other large institutional investors: 53%
- Public support for late-stage VC funds: 46%
- Public support for cross-over funds: 30%
- Developing a European Sovereign Wealth Fund: 24%
- Other/s: 8%
- I don’t know / Prefer not to say: 14%

More engagement by large institutional investors is most often stated to be an effective factor in bridging the late stage funding gap for European scale-ups.

- Apart from increased engagement by large institutional investors, public support for late stage VC and cross-over funds was also highlighted as effective factor in bridging the late stage financing gap for scale-ups.
- Among those fund managers who selected the “Other/s” response option, many explained that the development of a strong IPO market and a Nasdaq-like stock exchange in Europe could contribute to bridge the gap.

Q: “Which factors would be most effective in bridging the late stage financing gap for European scale-ups?” Note: Multiple selection possible.

Q: “According to your expectation, please rank those European countries that will be most promising for VC investments over the next 12 months, in order of importance.” Note: the graph shows the percentage of respondents ranking the respective countries in the top-three places.

VCs expect Germany, the UK and France to be the most promising countries for VC investments in the coming months

- Germany, the UK and France have remained on top of VCs’ ranking of the most promising countries in the next 12 months.

- The Netherlands have surpassed Sweden as well as Spain and are now in the fourth place on the list of countries that VCs stated most frequently as their expected top 3 promising countries in the near future.

### Most promising countries for VC investments – reasons

<table>
<thead>
<tr>
<th>Country</th>
<th>Reasons</th>
</tr>
</thead>
</table>
| Germany    | • Size of market
• Technological innovation
• Availability of entrepreneurial talent |
| UK         | • Mature VC and start-up ecosystem
• Entrepreneurship and founder talent
• Size of market and access to financing
• Strong pipeline of potential investments |
| France     | • Strong government/public support
• Entrepreneurship and founder talent
• Strong VC ecosystem and large start-up/scale-up scene
• Good access to funding |
| Netherlands| • Strength in technology sector, including Biotech, MedTech and Deep tech
• Strong VC ecosystem
• Availability of entrepreneurial talent |
| Spain      | • Low entry prices
• Significant growth potential for start-ups |
| Sweden     | • Availability of entrepreneurial talent
• High quality start-up community
• Strength in technology sector |

Q: “Why do you consider this/these country/countries promising?” Note: We provide reasons only for those six countries considered most promising in the previous question.

Most promising sectors/industries in the near future

Healthcare, Digitisation & Sustainability are the areas with the greatest investment potential.

- Amid the pandemic, the investment potential in the healthcare / life sciences sector continues to increase; with Biotech, Healthtech and Digital health featuring prominently.
- This is in line with a pattern towards the use of technology applications to enable greater digitisation of businesses and processes.
- Sustainability (including transition to greener energy and climate change-related investments) are also on the rise.

Q: “What sector/industry would you consider as the most promising for venture capital investments in the near future?” Note: The graph was generated using Wordcloud whereby the bigger the font size the more frequently the respective answer was mentioned in the free-text field.
Venture Capital industry growth prospects

On a scale of 1 to 10, how confident are you in the long-term growth prospects of the Venture Capital industry in your market?

**Average confidence**

- **2018**: 7.8
- **2019**: 7.7
- **2020 Feb**: 7.7
- **2020 Mar**: 8.0
- **2020 Oct**: 7.9
- **2021**: 8.0

**Mean value across sample**

- **2018**: 7.5
- **2019**: 7.5
- **2020 Feb**: 7.5
- **2020 Mar**: 7.5
- **2020 Oct**: 7.3
- **2021**: 7.7

VCs are confident in the long-term growth prospects of the VC industry in their own market and in Europe.

- With regard to the VC industry in their own markets, the majority of respondents is confident in the long-term growth prospects.

- When looking at the confidence on the long-term growth of the European VC Industry, the value reached a record high since the first EIF VC Survey publication in 2018.

EIF VC Survey

Concluding remarks

EIF Research & Market Analysis
Survey wave 2021
European VC market recovered, but challenges remain

Strong recovery in 2021

- In 2021, the European VC market activity has recovered from its COVID-19 crisis slump. According to the EIF VC Survey, a survey of VC General Partners investing in European ventures, VC fund managers have become very optimistic again. The current market situation is perceived even better than before the crisis. Expectations for the period until mid-2022 are very positive.

- The perception of the fundraising environment reached an all-time high and the exit environment has recovered. The percentage of respondents reporting an increase in their number of new investments is larger than before the COVID-19 crisis. Following a slump in the COVID-19 crisis in 2020, valuations and exit prices have increased again, on average, which is expected to continue.

Mixed, but limited, COVID-19 impact

- The crisis had a heterogeneous impact on VC-supported companies, with the direction depending, for example, on the activity sector of the portfolio company.

- The largest share of respondents view the impact of COVID-19 on the current performance of their fund(s) / portfolio as neutral. When looking at the impact of COVID-19 on the expected final performance of their fund(s) / portfolio, respondents are more positive. Expected NAV development was more positive in 2021 than in 2020.

- In general, VCs are confident in the long-term growth prospects of the VC industry in Europe and in their own market.

Challenges remain

- Despite the improved exit environment and the increased importance of IPOs in 2021, a large part of exits happened outside the EU, in particular in the case of IPOs / sale of listed stocks.

- “Fundraising”, “high investee company valuations” and “number of high quality entrepreneurs” have consistently been among the most important challenges in the VC business.

- “Recruiting high quality professionals” has remained the biggest challenge faced by portfolio companies throughout the years, except in Autumn 2020, when more immediate challenges became more prevalent due to the COVID crisis.

Policy implications

A crisis is also an opportunity

• In the aftermath of the COVID-19 crisis in autumn 2020, VC fund managers participating in the EIF VC Survey stated several positive developments. In particular, the acceleration of digitisation resulting from the crisis is seen as a substantial opportunity.

• COVID-19 accelerated the adoption of new technological solutions and business models, which benefitted portfolio companies across a wide range of industries offering such solutions.

Support through appropriate instruments

• The EIF VC Survey results support the notion that there exists an unprecedented opportunity to benefit from some of the strong tailwinds created by the crisis, for example in the digital transformation across sectors.

• These opportunities might not always be supported by the sufficient availability of financing sources. Previous survey results suggest that this is particularly relevant in the very initial stages and in the growth stage segment and financing of “scale-ups”. This creates a need for policy measures that appropriately ensure that companies which are implementing new opportunities will have sufficient access to finance.

Existing and new policy solutions

• New and creative policy solutions, making the best of digital technologies, will be pivotal in developing an increasingly interconnected and thriving European VC ecosystem, capable of nurturing the tech champions of tomorrow.

• Moreover, policy responses should entail a combination of new and existing measures. In the case of financial instruments, these should support both existing and new financing channels and market players.

Exceptional times require unique market insight

Evidence-based policy intervention to address challenges and opportunities

• The EIF concentrates on supporting the necessary private sector VC infrastructure to address market gaps and challenges as well as to support opportunities with the aim to further enhance the attractiveness of European VC as an alternative asset class.

• In order to improve the availability of information for evidence-based policy interventions, the EIF performs, on a regular basis, the EIF VC Survey, the EIF Private Equity Mid-Market Survey, and the EIF Business Angels Survey. In addition, a new EIF Private Debt Survey has recently been launched.

A unique source of information

• The EIF VC Survey, the EIF Private Equity Mid-Market Survey, and the EIF Business Angels Survey provide the opportunity to retrieve unique market insight. To the best of our knowledge, the combined EIF PE MM Survey and EIF VC Survey currently represent the largest regular survey exercise among GPs in Europe.

• The already large outreach of the EIF surveys, which are coordinated by EIF’s Research & Market Analysis (RMA), and the high relevance of the questionnaire topics for both market participants and policy makers have further increased through cooperations with Invest Europe and the Joint Research Center (JRC) of the European Commission.

Results dissemination

• In addition to the sections on market sentiment and the impact of COVID-19, the 2021 wave of the EIF VC Survey and the EIF PE MM Survey allowed us to look into recent changes with respect to gender diversity and considerations related to climate and the environment. Several related publications are under preparation. Additional analyses will look at ESG considerations in the European PE/VC market, based on our survey results. A new wave of the EIF BA Survey is also under preparation.

• The EIF survey results are published in the EIF Working Paper series: https://www.eif.org/news_centre/research/index.htm

EIF VC Survey

Information about this study

EIF Research & Market Analysis
Survey wave 2021
The EIF VC Survey

A unique source of information

- The EIF Venture Capital Survey, the EIF Private Equity Mid-Market Survey, and the EIF Business Angels Survey provide the opportunity to retrieve unique market insight.
- To the best of our knowledge, the combined EIF PE MM Survey and EIF VC Survey currently represent the largest regular survey exercise among GPs in Europe.
- The EIF BA Survey is unique in its pan-European coverage and multi-country approach.

General survey approach

- The EIF equity surveys are online surveys of VC and Private Equity (PE) Mid-Market (MM) fund managers as well as of Business Angels (BAs) investing in Europe.
- Our surveys target both EIF-supported as well as non-EIF supported fund managers and BAs.
- The vast majority of the respondents in the VC and PE MM surveys hold the position of CEO or Managing/General Partner, suggesting that their responses reflect the views of the decision-makers in the respective VC/PE firms.

Cooperation partners

- The already large outreach of the EIF surveys, which are coordinated by EIF’s Research & Market Analysis (RMA), and the high relevance of the questionnaire topics for both market participants and policy makers have further increased through cooperations with Invest Europe and the Joint Research Center (JRC) of the European Commission.
- A part of the sample for the EIF VC Survey 2021 comprises Invest Europe members.

This study and beyond

Respondents and survey period

- This study is based on the EIF VC Survey.
- The 2021 wave of the EIF VC Survey includes anonymised responses from 479 VC fund managers (from 379 VC firms).
- Responses were received between 2 July and 4 August 2021.

Topics

- The main topics covered in the 2021 survey are market sentiment, the impact of COVID-19, environment & climate, and gender diversity.
- The focus of this study is on the survey results for the topics market sentiment and the impact of COVID-19.
- Since the market sentiment topic was also covered in all previous survey waves, we compare the results using a time series.

Forthcoming

- Further results of the 2021 EIF equity survey waves are currently being analysed and will be published in the EIF Working Paper series over the coming months. The EIF Working Papers are available here: https://www.eif.org/news_centre/research/index.htm
- These forthcoming publications will be based on the EIF VC Survey and the EIF PE MM Survey and cover the topics Gender diversity and Investing in Environment & Climate. A publication about the market sentiment in the private equity mid-market is also in preparation.

How to read the results

General information

Some results shown in this publication are based on a number of respondents that is smaller than the overall number of EIF VC Survey 2021 respondents, either because the other respondents selected the “I don’t know / Prefer not to say” response option or because a filter question preceded the question under consideration. Further details are available upon request.

Terminology: Survey waves

- The following analyses also use results from the previous EIF VC Survey waves:
  - “2021”: 2 July – 4 August 2021
  - “2020 Oct”: 7 October – 3 November 2020
  - “2020 Mar”: 1 March – 10 March 2020
  - “2020 Feb”: 29 January – 28 February 2020
  - “2019”: 7 February – 18 March 2019
  - “2018”: 7 November – 18 December 2017

Please note that the survey results for “2020 Feb” and “2020 Mar” are based on the first 2020 EIF VC Survey wave, which was performed between 29 January and 10 March. In order to analyse the immediate effects of the COVID-19 crisis, the results of that survey wave were split into two response sets: (i) responses received in (January)/February, and (ii) responses received in March. See EIF Working Paper 2020/064 for details.

Terminology: “net balances”

- The “net balances” shown in graphs refer to the percentage of respondents reporting a positive response minus the percentage of respondents reporting a negative response. (For example: In the question “Over the next 12 months, how do you expect the number of your new investments to develop?”, the net balance refers to the %age of respondents expecting the number of their new investments to slightly/strongly increase minus the %age of respondents expecting the number of their new investments to slightly/strongly decrease.)

Information about this study

List of acronyms

- AUM: Assets Under Management
- BA(s): Business Angel(s)
- bn: billion
- CEO: Chief Executive Officer
- COVID(-19): Coronavirus disease pandemic
- EIB: European Investment Bank
- EIF: European Investment Fund
- ESG: Environmental, Social, Governance
- EU: European Union
- EUR: Euro
- Feb: February
- GP(s): General Partner(s)
- HQ: Headquarters
- ICT: Information and Communications Technologies
- IPO: Initial Public Offering
- JRC: Joint Research Center of the European Commission
- LP(s): Limited Partner(s)
- m: million
- M&A: Mergers and acquisitions
- Mar: March
- MBO: Management Buy-Out
- NAV: Net asset value
- Oct: October
- PE MM: Private Equity Mid-Market
- Q: Question
- Q4: Fourth quarter of a year
- RMA: Research & Market Analysis
- SME: Small and Medium-sized Enterprise
- SPAC: Special purpose acquisition company
- UK: United Kingdom
- USA: United States of America
- VC: Venture Capital
- VCs: Venture Capital fund managers
EIF VC Survey

Respondents’ profile and VC firm characteristics

EIF Research & Market Analysis
Survey wave 2021
**EIF relationship**

Among respondents, 61% are EIF-supported, while 39% have never received EIF funding.

**Q:** “Has your investment firm ever applied to the EIF for funding for one of your venture capital funds?”

**Q:** “Are you familiar with the EIF and its activities?”

**Q:** “Did any of these applications result in EIF funding?”

Approximately 4 in 10 VC fund managers come from VC firms headquartered in Germany, the UK, the Netherlands and France.

Overall, the frequency with which a country is selected as the first most important country is closely correlated with the HQ country.

Germany is mentioned far more frequently as the first most important country, than would be expected from the frequency with which it is mentioned as a HQ country.

Approximately 7 in 10 VCs invest in seed (31%) or early stage (37%) companies.

Most important industry in which VCs invest

The most important industries in which responding VCs invest are ICT and Biotech, the less important ones are Chemicals/materials and Consumer Goods.

Q: “Please select the most important industries in which your firm invest in venture capital”

Respondents’ profile and VC firm characteristics

Over half of VC fund managers come from VC firms established over the last decade.

Two thirds of respondents’ VC firms have AUM between EUR 50m and EUR 499m.

Q: “In what year was your firm established?”

Q: “What are your firm’s total approximate assets under management?”

Fund-related information

Team Experience

- 31% Yes
- 2% No
- 67% I don’t know

Latest VC fund size

- 38% 0-50
- 30% 50-100
- 19% 100-200
- 6% 200-300
- 7% more than 300

VC fund raised up to date

- 2% 0
- 27% 1
- 21% 2
- 21% 3
- 8% 4
- 9% 5
- 10% 6 to 10
- 2% More than 10

Q: “Was your firm’s most recent fund also the first time that your team raised a fund?”

For one third of the firm the most recent fund was also the only one raised

Q: “What is your firm’s latest VC fund size”

7 out of 10 funds raised an amount between EUR 0 and 100m.

Q: “In total, how many venture capital funds has your firm raised to date?”

Almost one third of the VC teams raised only 1 fund up to date

EIF VC Survey

Annex

EIF Research & Market Analysis
Survey wave 2021
Regional analysis to be considered in the design of VC policy programs.

COVID-19 impact & policy measures
A crisis is also an opportunity, which needs appropriate policy instruments.

Scale-up financing & IPOs
Low scale-up focus of funds in Europe is one of the biggest challenges for VC/PE fund managers & BAs.

Market sentiment*
Unique insights into the impact of the COVID-19 crisis on the European PE and VC ecosystem.

ESG
First ever testimony on the integration of ESG considerations and impact investing in VC & BA.

Business Angels
Public programmes for BAs also foster VC ecosystem; European Angels Fund procedures are appropriate and help increase BA reputation.

Policy suggestions
Tax harmonisation, regulatory simplification and overcoming cross-border market fragmentation.

EIF’s value added, products and processes
EIF’s presence has high value-added and helps to crowd-in private investors, but red tape should be reduced.

Public intervention in VC
Fund managers more satisfied with European programs than with national or regional ones.

See also “Measuring Venture Capital Sentiment in Europe”, https://doi.org/10.1007/978-3-030-17612-9_6, for methodological notes.

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Annex

About …

… the European Investment Fund

The European Investment Fund (EIF) is Europe’s leading risk finance provider for small and medium sized enterprises (SMEs) and mid-caps, with a central mission to facilitate their access to finance. As part of the European Investment Bank (EIB) Group, EIF designs, promotes and implements equity and debt financial instruments which specifically target the needs of these market segments.

In this role, EIF fosters EU objectives in support of innovation, research and development, entrepreneurship, growth, and employment. EIF manages resources on behalf of the EIB, the European Commission, national and regional authorities and other third parties. EIF support to enterprises is provided through a wide range of selected financial intermediaries across Europe. EIF is a public-private partnership whose tripartite shareholding structure includes the EIB, the European Union represented by the European Commission and various public and private financial institutions from European Union Member States, the United Kingdom and Turkey. For further information, please visit www.eif.org.

… Invest Europe

Invest Europe (www.investeurope.eu) is the association representing Europe’s private equity, venture capital and infrastructure sectors, as well as their investors. The Invest Europe members take a long-term approach to investing in privately held companies, from start-ups to established firms. They inject not only capital but dynamism, innovation, and expertise. This commitment helps deliver strong and sustainable growth, resulting in healthy returns for Europe’s leading pension funds and insurers, to the benefit of the millions of European citizens who depend on them. Invest Europe aims to make a constructive contribution to policy affecting private capital investment in Europe. Invest Europe provides information to the public on its members’ role in the economy. The Invest Europe research provides the most authoritative source of data on trends and developments in our industry. Invest Europe is the guardian of the industry’s professional standards, demanding accountability, good governance and transparency from our members. Invest Europe is a non-profit organisation with 25 employees in Brussels, Belgium.

… EIF’s Research & Market Analysis

Research & Market Analysis (RMA) supports EIF’s strategic decision-making, product development and mandate management processes through applied research and market analyses. RMA works as internal advisor, participates in international fora and maintains liaison with many organisations and institutions.

… this Working Paper series

The EIF Working Papers are designed to make available to a wider readership selected topics and studies in relation to EIF’s business. The Working Papers are edited by EIF’s Research & Market Analysis and are typically authored or co-authored by EIF staff, or written in cooperation with EIF. The Working Papers are usually available only in English and distributed in electronic form (pdf).


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