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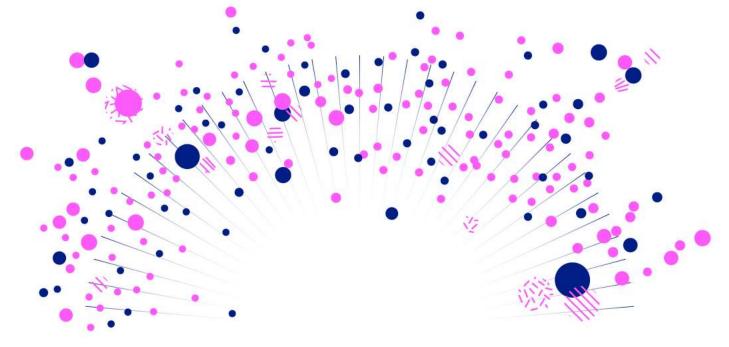
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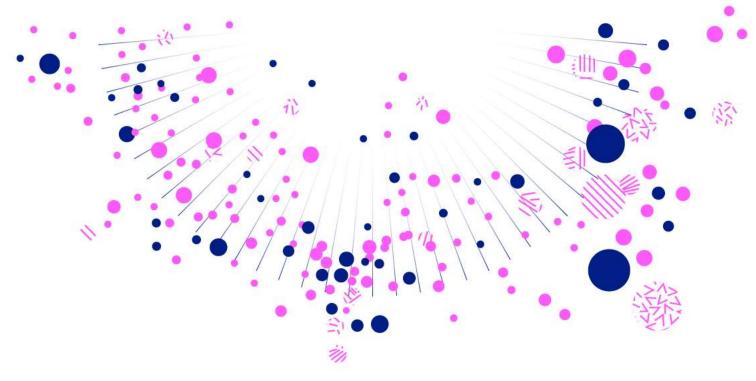
EIF Research and Market Analysis Working Paper 2022/82



With the support of

EIF VC Survey 2022: EUROPE Market sentiment and impact of the current geopolitical & macroeconomic environment

Helmut Kraemer-Eis, Joern Block, Antonia Botsari, Walter Diegel, Frank Lang, Davide Legnani, Solvej Lorenzen, Filip Mandys, Ioannis Tzoumas



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European Investment Fund 37B, avenue J.F. Kennedy, L-2968 Luxembourg Tel.: +352 248581 394 <u>http://www.eif.org/news_centre/research/index.htm</u> Luxembourg, October 2022



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We would like to thank the respondents to the EIF surveys. Without their support and valuable replies, this project would not have been possible. This paper benefited from comments and inputs by many EIF colleagues, for which we are very grateful; we would like to express particular thanks to Oscar Farres and the EIF Research & Market Analysis colleagues. Moreover, we would like to express our gratitude for fruitful collaboration, support and advice to our Invest Europe colleagues Julien Krantz, Sofian Giuroiu and Lucrezia Lo Sordo. All errors are attributable to the authors.

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Preface

Dear Reader,

While the European VC/PE ecosystem has survived the COVID-19 crisis without major damage, the Russian invasion of Ukraine, the geopolitical situation, and the macroeconomic environment have started to **negatively affect the VC and PE markets**. In particular in the case of European VC, there are signs that the rising interest rates contributed to a deterioration of the fundraising climate, decreasing company valuations and subsequent portfolio write-downs. **The fundraising sentiment of the VC market is at a record low** since the launch of our equity surveys and the **exit environment has become particularly challenging** in 2022. Portfolio companies thus face significant obstacles, in particular in their access to finance, for which respondents' expectations reached the lowest level since the start of the EIF VC Survey in 2018.

Nevertheless, the vast majority of the surveyed VC fund managers consider their current state of business to be good or very good, despite the Russian invasion and the ensuing crisis. Most fund managers still expect a positive or neutral state of their business in the next 12 months, seeing opportunities arising even in this difficult year. However, as respondents' expectations are at record lows for most of our market sentiment indicators, there is a high risk that the worst part of this new crisis is yet to come. Despite the optimistic market growth in the recent years, creative policy solutions will be crucial for strengthening the ability of the European VC ecosystem to absorb shocks. This includes a deeper involvement of private long-term investors who stay in the market even during downturns, initiatives to encourage the financing of European scale-ups, and an improved exit environment in order to support a thriving and resilient 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 and anonymous 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 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. The respondents of the *EIF VC Survey*, VC fund managers from all over Europe, revealed very interesting insights, providing a **unique picture of the developments and the market sentiment in 2022**.

I thank *Invest Europe* for their support, and I also thank all the contributors for this insightful project and analysis. In order to facilitate the reading, we offer a hybrid slide document instead of the 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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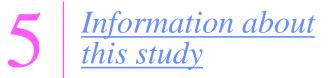
Market sentiment

- Investments
- Portfolio
- ► <u>Exits</u>
- Challenges

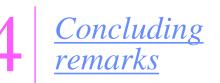
Prospects



- VCs' investment selection criteria and strategy
- Challenges for portfolio companies
- Challenges for VC funds











EIFVC Survey

Executive summary

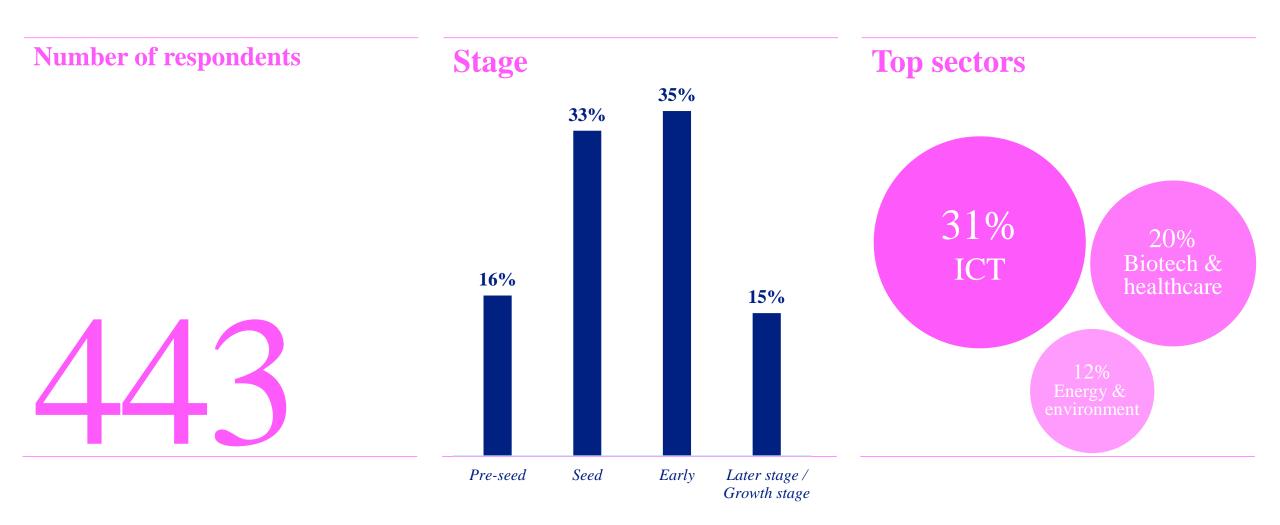
EIF Research & Market Analysis

Survey wave 2022





The EIF VC Survey





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 Private Equity Mid-Market Survey, and the EIF Business Angels Survey. In addition, the EIF Private Debt Survey has also been launched in 2021. All surveys are conducted on an anonymous basis.
- 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 a **cooperation with Invest Europe** from 2021 onwards.

The EIF surveys provide a unique source of information and insight

- 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 VC Survey* and *EIF PE MM Survey* currently represent the **largest regular survey exercise among GPs in Europe**.
- The 2022 wave of the *EIF VC Survey* and the *EIF PE MM Survey* focused on the **impact of the Russian invasion in Ukraine and the geopolitical and macroeconomic implications on the European VC and PE market sentiment**. This enabled us to look at the current situation, developments in the recent past, and expectations for the future. We also summarised and compared the findings over time across crises. Several related publications are under preparation as well, such as the results of the new wave of the *EIF PE MM Survey*.
- The EIF survey results are published in the **EIF Working Paper series**: <u>www.eif.org/research</u>.



EIF VC Survey results: Key highlights (1/2)

The VC market sentiment perceptions significantly deteriorated compared to 2021

- The VC perceptions of the **fundraising environment are worse than during the COVID-19** crisis, with the vast majority of surveyed VCs expecting it to further worsen over the next year. In addition, **finding coinvestors has become more difficult** for VCs, and is also expected to further worsen.
- The number of new investments and investment proposals received is affected less by the current crisis compared to the COVID-19 crisis. Nevertheless, 1 in 4 VCs expect investments to decrease over the next year a value quadrupling since 2021.
- The competition among investors for investee companies has decreased strongly, and many expect it to further decline. About half of VCs report that entry prices decreased more than during the COVID-19 crisis and the majority expect them to further decrease next year. In the same vein, high investee company valuations is no longer a significant issue for VCs, even though in 2021 it was perceived as the first most important challenge facing the VC business.
- **Portfolio companies developed mostly as expected**, but worse than in 2021, with only about 1 in 3 VCs rating their investees' access to finance as good. **Expectations for both future portfolio development and portfolio companies' access to finance in the next 12 months are at an all-time low** since the launch of our equity surveys.

The VC exit environment suffered from a shock, in some elements even worse than during COVID-19

- In 2022, the majority of VCs' portfolio companies **exited via trade sales to strategic buyers**, of which more than half were headquartered outside the EU.
- According to half of VCs, the **exit environment worsened significantly** after a recovery in 2021. More than 50% expect it to **further deteriorate over the next year** twice the percentage recorded during the COVID-19 crisis.
- The VC exit prices have decreased because of the current crisis. While only 6% expected exit prices to decrease in 2021, the percentage has increased tenfold in 2022 for the coming year.
- The key challenges with regard to the exit environment are **insufficient IPO market liquidity** and **difficulties in finding potential buyers**.
- Securing equity financing and recruiting high quality professionals are the biggest challenges for VCs' portfolio companies. For almost 1 in 4 VCs, securing equity financing has even become a **survival-threatening problem** for their investees.
- Geopolitical uncertainty and related consequences, including the difficult macroeconomic environment, and the overall exit environment are currently the most important challenges in VC business. Geopolitical uncertainty and related (macroeconomic) consequences in particular saw a sharp spike in importance due to the war.



EIF VC Survey results: Key highlights (2/2)

The war in Ukraine and its economic implications have substantially affected many aspects of the VC market

VC investment selection criteria and strategy

- VCs changed the relative importance of their **investment selection criteria** as a response to the current geopolitical and macroeconomic situation.
- Alongside the management team, scalability potential, and technology, financial criteria such as valuation and deal terms, cash generating capacity, and profitability became more important. At the same time, the importance of ESG considerations increased considerably too.
- VCs also changed their **investment strategy** to some extent. Changes occurred in particular with regard to the **required experience of the entrepreneur** and the **preferred sector/industry**.

Portfolio companies

- Securing equity financing, securing liquidity, and shortage of skilled labour are overall currently the most survival-threatening issues for portfolio companies.
- Going deeper into **financing-related challenges**, securing equity financing, securing liquidity, reduced exit opportunities, and rising inflation levels seem to be most important ones.
- Among the **market-related challenges**, customer acquisition and retention appears to be the most pressing issue.
- As for **operational challenges**, shortage of skilled labour, rising labour costs, and supply chain disruptions are particularly worrying for VC-backed companies.

VC funds

- VCs report severe fundraising issues. These are mostly related to greater risk aversion of LPs, LPs leaving the market, rising interest rates, and rising levels of inflation.
- In particular banks, insurances, high-networth-individuals, pension funds, but also family offices and corporate investors seem to have a (much) lower willingness to invest in VC. By contrast, the willingness of government funds to invest in VC has changed only little.
- VCs also report **severe operational issues**. These are mostly related to **liquidity needs** of portfolio companies, **reduced** set of divestment and **exit opportunities**, more regulation and bureaucracy in fund management, and decreased operational performance of portfolio companies.

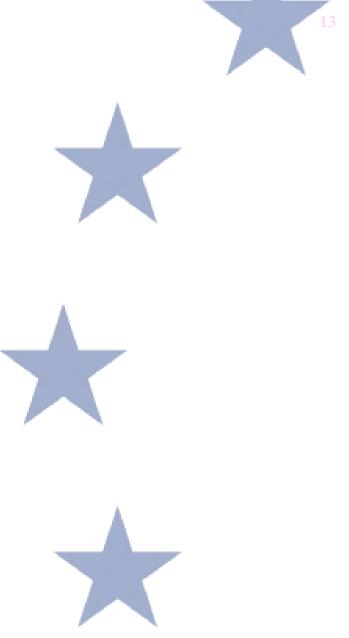


EIF VC Survey

2 Market sentiment

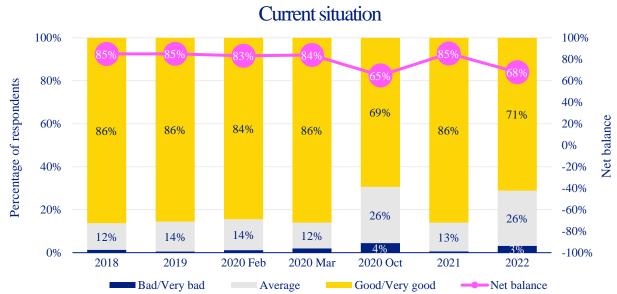
EIF Research & Market Analysis

Survey wave 2022





State of business



Expectations for the next 12 months



The current crises are reflected in the VC fund managers' perception of their state of business.

- After a strong surge in 2021, VC fund managers' perception of their state of business declined to a level comparable to the COVID-19 crisis in 2022.
- The "net balance" **decreased strongly** by 17 percentage points. (See the Annex for an explanation of the term "net balance" <u>here</u>.)

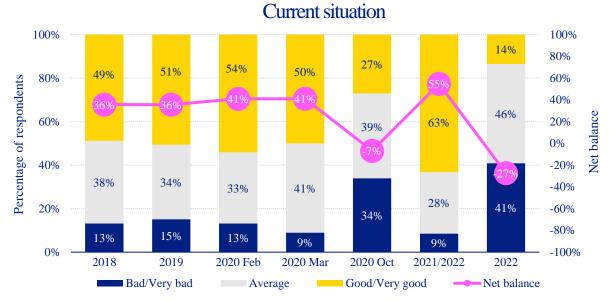
Q: "How would you assess the current state of your business?"

- Expectations for the next 12 months are at a record low.
- The percentage of respondents that have a negative vision for the next 12 months has reached the **highest value** since recording.

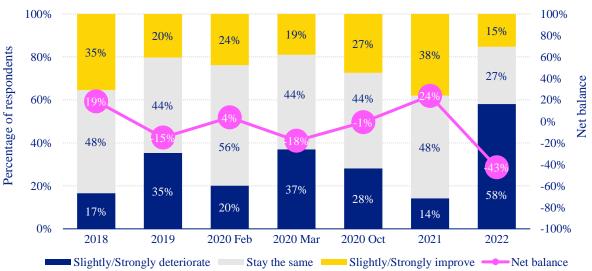
Q: "Over the next 12 months, how do you expect the state of your business to develop?"

Market sentiment

Fundraising environment



Expectations for the next 12 months



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

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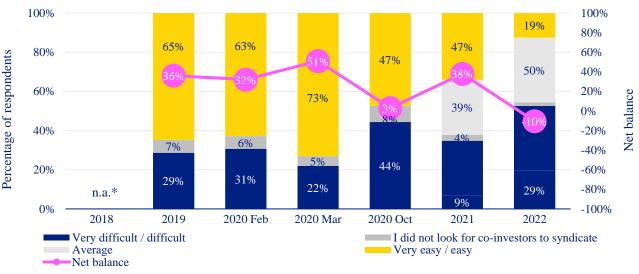
- The optimistic picture observed in 2021 has been replaced by a **very pessimistic market perception** in 2022.
- The share of respondents rating the current fundraising environment as (very) bad reached a record high in 2022. The net balance of -27% shows a high level of pessimism regarding the fundraising environment.
- Q: "How would you rate the current fundraising environment?"

- Respondents' **expectations** for the future fundraising environment have **declined to the lowest level** since recording.
- While **the share of pessimistic respondents reached a record high** in the history of the EIF VC Survey waves, the share of optimistic respondents fell to an all-time low.

Q: "Over the next 12 months, how do you expect the fundraising environment to develop?"

Market sentiment

Easiness in finding co-investors



Current situation

Expectations for the next 12 months



Finding co-investors has become more difficult, and most VCs are expecting it to become more difficult in the coming months.

- Following an improvement in 2021, finding co-investors has become much more difficult in 2022.
- The share of respondents who stated that it is **easy to find co-investors dropped 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 since the 2021 survey wave. *The question was not asked in 2018.

- The expectations regarding the easiness to find co-investors have dropped to an all-time low, with 43% of respondents expecting it to become more difficult.
- Only a small share of respondents expect the easiness to find co-investors to increase, leading to an **all-time low of the net balance**.

Q: "Over the next 12 months, how do you expect finding co-investors to become?"

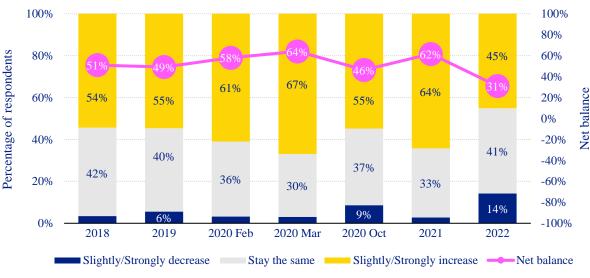
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Market sentiment – Investments

Number of investment proposals received



Expectations for the next 12 months



The number of investment proposals received kept growing, on average, and the situation is not expected to change.

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- The effects of the current crisis does not seem to affect the number of proposals received as negatively as during the COVID crisis.
- Nevertheless, the share of respondents reporting a growing number of incoming investment proposals declined in 2022.

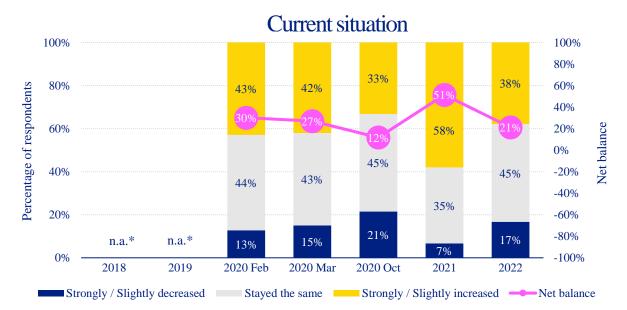
Q: "Over the last 12 months, how has the number of venture investment proposals to you/your firm developed?" *Note: The question was not asked in 2018 and 2019.

- VCs expect, on average, to receive an increasing number of investment proposals over the next 12 months.
- At the same time, 2 in 5 respondents expect no change in the number of investment proposals.
- In net balance terms, the expectations are at a record low.

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

Market sentiment – Investments

Number of new investments



Expectations for the next 12 months



On average, the number of new investments increased in 2022, while expectations dropped substantially.

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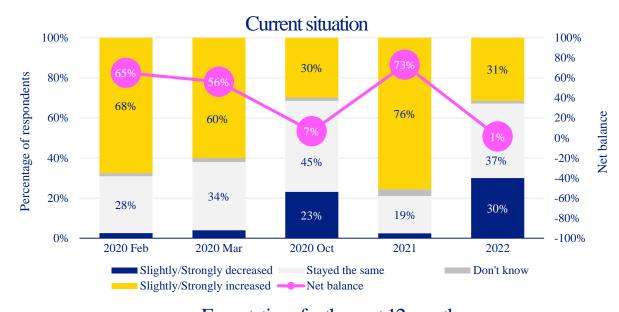
- Respondents reported, on average, growing investments in 2022.
- Despite a **strong drop in the net balance**, the results for the current situation are slightly better than at the all-time low that was recorded during the COVID-19 crisis in 2020.

Q: "Over the last 12 months, how has the number of your new investments developed?" *Note: The question was not asked in 2018 and 2019.

- The expected number of new investments decreased strongly, in net balance terms. At the same time, it is still positive, on average.
- A record-high share of respondents (25%) expect the number of new investments to decline.

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

Competition among investors for potential investee companies



Expectations for the next 12 months 100% 100% 19% 80% 44% 45% Percentage of respondents 80% 60% 48% 40% 66% 20% balance 60% 55% 41% 0% Net -20% 40% 39% 42% -40% 36% 20% -60% 38% 29% -80% 15% 12% 6% 0% -100% 2020 Feb 2020 Mar 2020 Oct 2021 2022 Don't know Slightly/Strongly decrease Stay the same Slightly/Strongly increase — Net balance

VCs report unchanged competition for investee companies and expect less competition in the next 12 months.

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- On balance, competition among investors for potential investee companies remained unchanged in 2022.
- Despite still being at a positive level, the net balance dropped strongly and reached a record low.

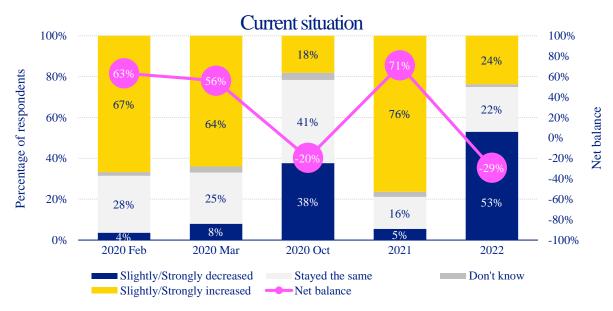
Q: "Over the past months, how have the following items developed?" Graph shows the responses for "Competition among investors for potential investee companies"

- Respondents expect less competition in the next 12 months, on average.
- The share of respondents that expect a decline in competition increased from 1% in 2021 to a record high of 38% in 2022.

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



Expectations for the next 12 months 100% 100% 9% 80% 27% 50% 35% Percentage of respondents 80% 60% 21% 40% 41% Net balance 60% 20% 65% 0% 69% -20% 40% 30% 37% -40% 20% -61% -60% 29% 32% 30% -80% 12% -100% 0% 2020 Mar 2020 Oct 2021 2022 2020 Feb Slightly/Strongly decrease Stay the same Don't know Slightly/Strongly increase — Net balance

Entry prices have decreased, on average, and are expected to decline further.

- After a strong recovery in 2021, entry prices have decreased in 2022, according to most VCs.
- At the same time, almost a quarter of the respondents still reported an increase in entry prices.

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 to decrease over the next 12 months by 69% of all respondents.
- Only 9% of respondents expect entry prices to increase over the next 12 months, which marks an all-time low.

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"

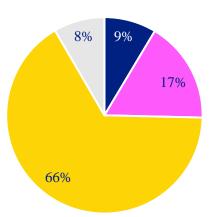
Market sentiment – Investments



Investment strategy

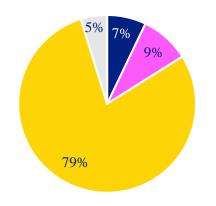


Since March, have you...



- ...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?





- ...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?





- ...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?

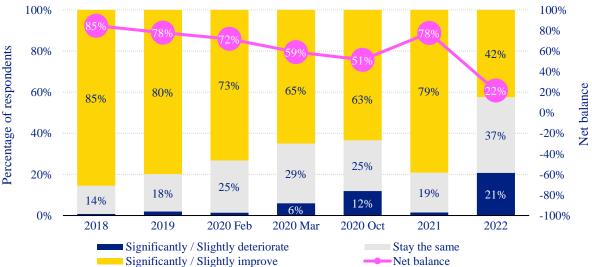
The share of VCs that did not invest reached a record low.

- In 2022, more than 80% of respondents invested in both new deals and follow-ons in portfolio companies over the past 12 months.
- While the number of VCs investing in both new deals and follow-ons increased since 2020, the number of those that have not invested decreased.

Portfolio development



Expectations for the next 12 months



Portfolio companies developed mostly as expected. On average, VCs expect their portfolio companies to improve.

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- In 2022, portfolio development was worse than in 2021, as shown by the strong decline of the net balance.
- Almost half of the respondents reported that their portfolio companies developed as expected.
- The net balance was less negative in 2022 than in October 2020, when the net balance had reached a record low.

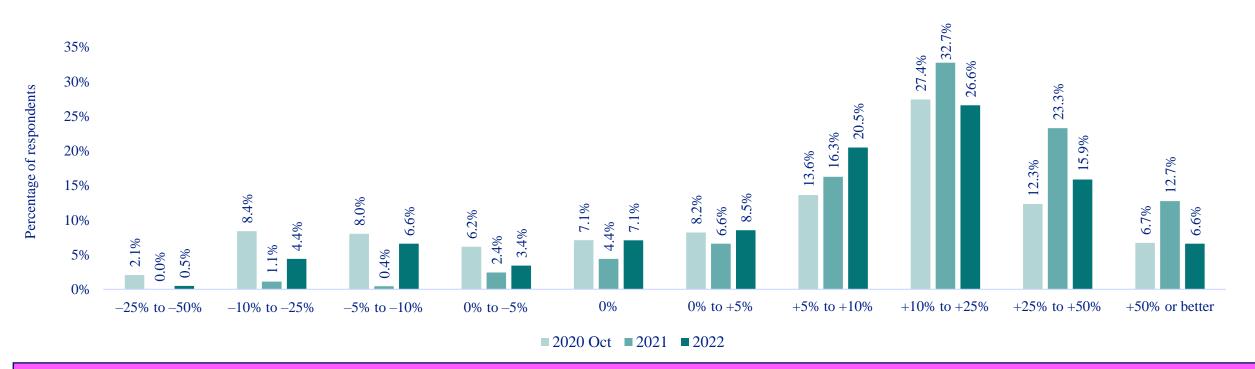
Q: "Over the past months, how did your portfolio companies develop?" Note: The 2020 Autumn wave asked about developments since March 2020, while the other waves asked about developments over the last 12 months.

- After a strong improvement of the expected portfolio development in 2021, expectations **deteriorated substantially in 2022.**
- Despite a still positive net balance, the share of VCs that expect their portfolio companies to improve decreased to an all-time low.

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



NAV of fund(s) / value of portfolio



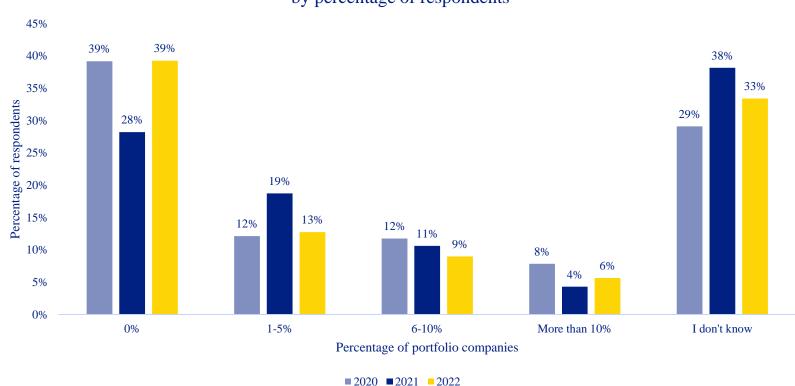
Although VC respondents expect a positive NAV evolution in 2022, the optimism is lower than in 2021.

- A large majority of respondents (78%) expect a positive NAV growth in 2022, but this share is lower than in 2021 (92%).
- At the same time, the share of respondents that expect the NAV of their fund(s) to decrease is higher than in 2021.

Q: "How do you expect the NAV (Net Asset Value) of your fund(s) to evolve until the end of Q4 2022 compared to the NAV as of Q4 2021? (measured as % change from Q4 2021 to expected NAV in Q4 2022)"

Market sentiment – Portfolio

Insolvencies



Percentage of portfolio companies that might file for insolvency,* by percentage of respondents

Q in 2022: "Please indicate the expected % of your active portfolio companies that might file for insolvency in 2022".

*Q in 2020 and 2021: "Please indicate the expected % of your active portfolio companies that might file for insolvency due to the impact of COVID-19".

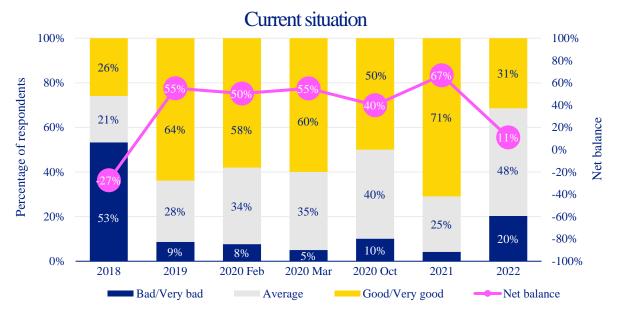
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28% of VCs expect that at least 1% of their portfolio companies might file for insolvency.

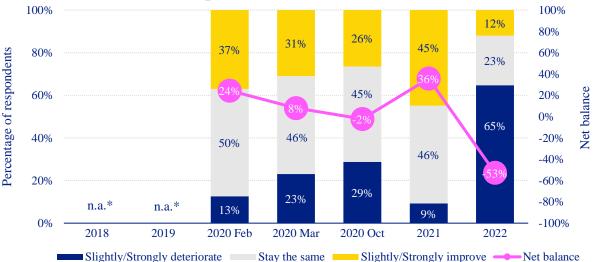
- Almost 2 in 5 VC fund managers do not expect any insolvencies in 2022.
- At the same time, 6% of VCs expect that more than 10% of their portfolio companies might file for insolvency.
- One third of VC fund managers do not know or prefer not to state expected insolvencies.

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Access to external finance of portfolio companies



Expectations for the next 12 months



Portfolio companies' access to finance has become worse and is expected to deteriorate

- While a majority of VCs reported the access to external finance of their portfolio companies to be average or better, the result is worse than in 2021, as shown by the development of the net balance.
- The number of respondents who stated a (very) bad access to finance of their portfolio companies increased strongly compared to the previous year.

Q: "*How would you rate the access to external finance of your portfolio companies*?" Note: In 2018, the wording of the question differed from the current wording and the response options have been recoded for the time series.

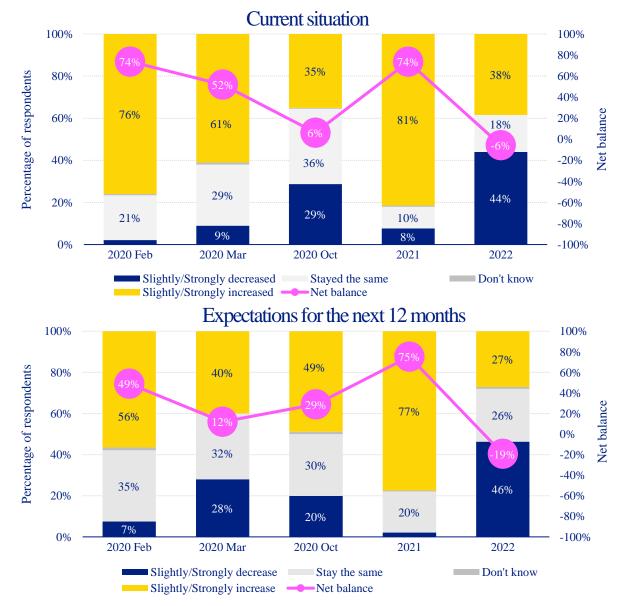
- After a record high in 2021, the expectations regarding future access to finance of portfolio companies declined dramatically in 2022.
- Almost **two thirds of VCs expect the access to external finance of their portfolio companies to deteriorate** in the next 12 months.

Q: "Over the next 12 months, how do you expect the access to external finance of your portfolio companies to develop?" *The question was not asked in 2018 and 2019.

Market sentiment – Portfolio



Valuations of portfolio companies



Portfolio company valuations decrease, on average. Almost half of all respondents expect a further decline.

- Almost half of all respondents see a decrease in current valuations of portfolio companies, which marks a record-low level since 2020.
- The share of respondents that reported increased valuations declined, but it is still higher than in October 2020.

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

- Almost half of all respondents expect a further decrease in valuations.
- This result contrasts significantly with the previous year, when only 2% expected decreasing valuations.
- Despite a high degree of pessimism, more than a quarter of respondents still expect increasing valuations.

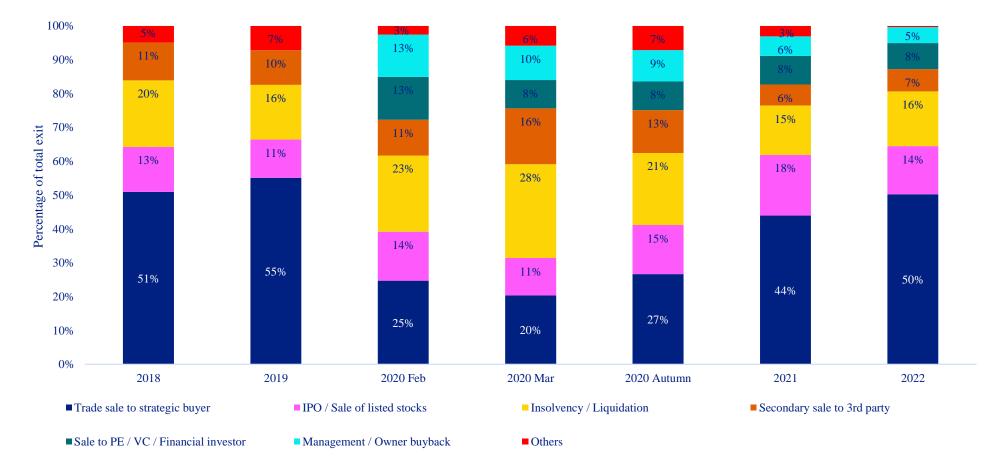
Q: "Over the next 12 months, how do you expect the valuation of portfolio companies to develop?"

Exit routes

Over the past 12 months, the relative importance of IPOs as an exit route decreased, while trade sales have become more relevant.

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

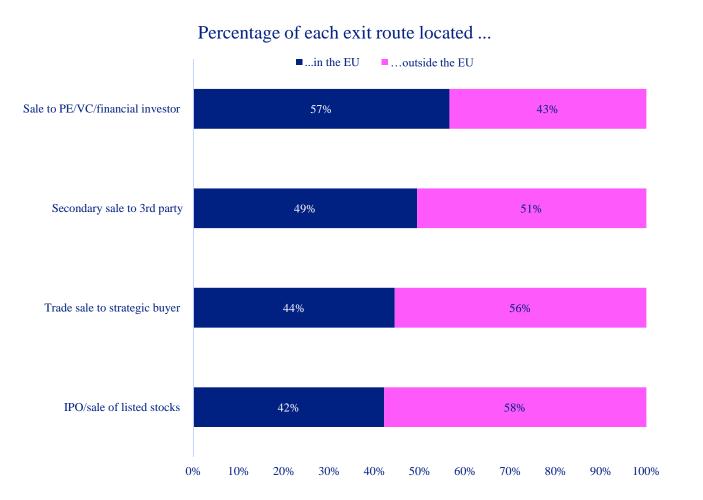
Note: The graph reports the resulting percentages of the respective exit routes, excluding the "no exit" option. The 2020 October wave asked about developments since March 2020.



- The percentage of total exits made up of trade sales increased to 50% in the 2022 survey wave, compared with 44% in the preceding wave.
- The share of **IPOs/sales of listed stocks** decreased, while the share of **insolvencies** slightly increased.
- Sales to financial investors and secondary sales to third parties have remained relatively stable over the past years.

Market sentiment – Exits

Exit routes – within or outside the EU?



A large part of exits is outside the EU, in particular in the case of IPOs / sales of listed stocks and trade sales to strategic buyers.

- The highest share of IPOs /sale of listed stocks is typically with primary listing outside the EU, but this share decreased in 2022.
- Sales to PE/VC/financial investors tend to be to acquirers headquartered in the EU. The share of respondents that report such intra-EU sales increased slightly, compared to the 2021 survey wave.
- These results could either indicate the growth of EU private markets and alternative investments or show increased difficulties to get access to counterparts outside the EU.

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"

Exit environment



100% 100% 20% 80% 52% 45% 80% 40% 39% 60% Percentage of respondents 40% 27% Net balance 64% 60% 20% 59% 0% 35% 35% -20% 40% 46% -40% 38% 34% 20% 32% -60% 25% 26% -80% 10%9% 7% -100% 2019 2020 Feb 2020 Mar 2020 Oct 2021 2022 2018 Slightly/Significantly deteriorate

The exit environment suffered from a shock comparable to the COVID-19 crisis, and VCs expect the exit environment to deteriorate even further.

- After a strong recovery of the exit environment in 2021, the situation in 2022 is considered similarly bad as during the COVID-19 crisis.
- The majority of respondents stated that the exit environment has deteriorated and only a small fraction of 14% sees improvements.

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. *The question was not asked in 2018 and 2019.

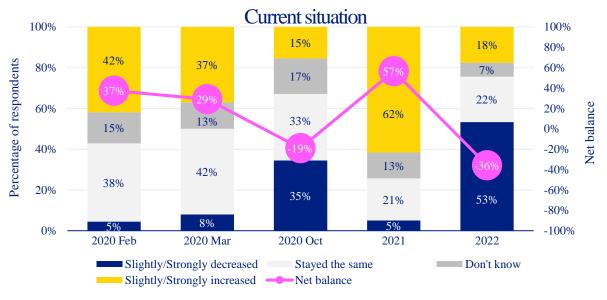
- Most VCs expect the exit environment to further deteriorate in the next 12 months.
- Compared to the results of the EIF VC Survey wave performed during the COVID-19 crisis in October 2020, the share of respondents expecting the exit environment to deteriorate more than doubled. This indicates that **the** negative effects of the current crisis on the exit environment are expected to last longer than the effects of the pandemic.

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

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Expectations for the next 12 months

Exit prices





Expectations for the next 12 months

Most VCs see a decrease in exit prices and expect them to further decline.

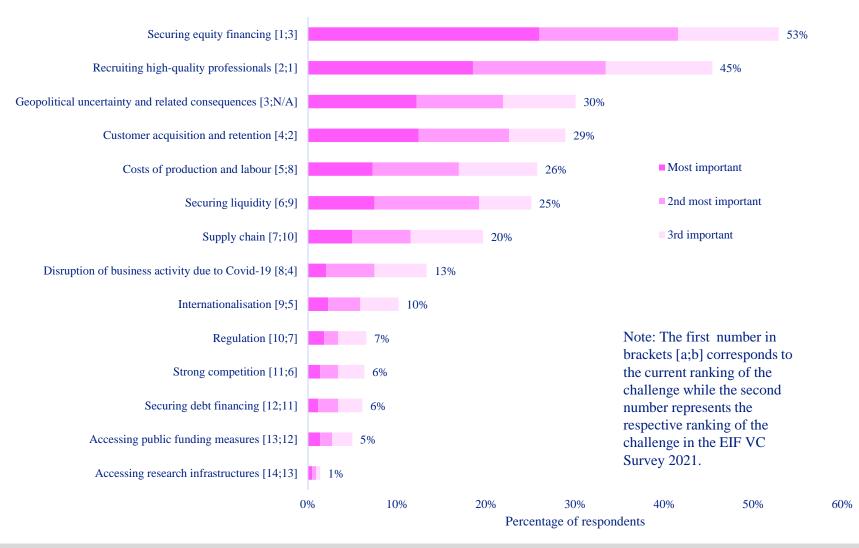
- After a strong recovery and increase in exit prices in 2021, the majority of VCs stated that exit prices decreased in 2022.
- Compared to the COVID-19 crisis, when 35% of VCs saw a decrease in exit prices in the October 2020 survey wave, the current crisis seems to have a more negative impact, with 53% of investors stating a decline in exit prices in 2022.

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

- Whereas only 6% of respondents expected exit prices to decrease in 2021, the share increased more than tenfold in 2022.
- During the COVID-19 crisis, VCs showed much less pessimistic expectations than in the current crisis. Responses in 2022 indicate a comparatively stronger and/or more longer-term decrease in exit prices.

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"

Biggest challenges faced by VCs' portfolio companies



"Securing equity financing" has become the key challenge currently seen for VC firms' portfolio companies.

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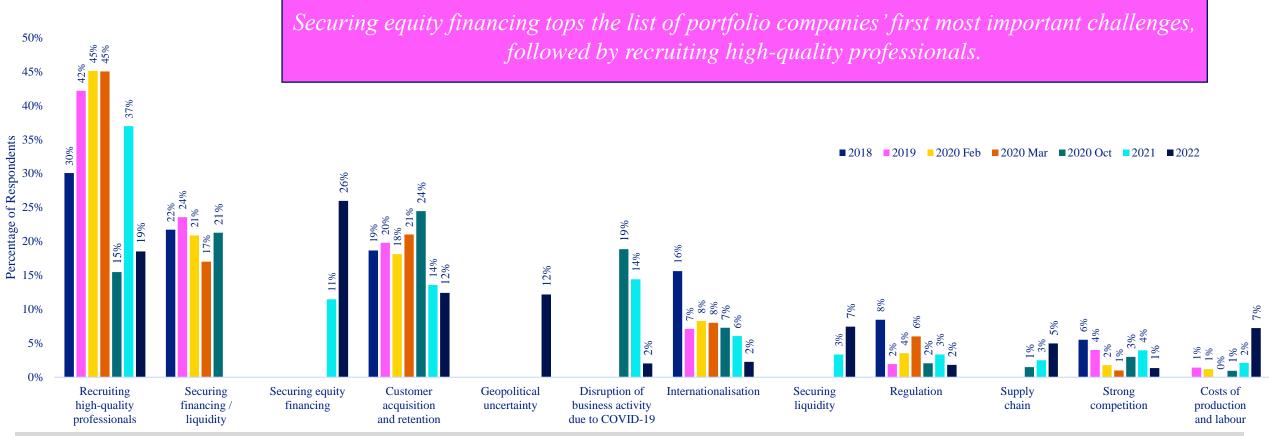
- Apart from "Securing equity financing", which has become the new top challenge for VCs' portfolio companies, "Recruiting highquality professionals" is still seen as a very important challenge for portfolio firms, albeit dropping from first place to second place.
- *"Geopolitical uncertainty and related consequences"* is the third most important challenge faced.
- Challenges previously considered important showed a decrease in importance this year, i.e., "Disruption of business activity due to COVID-19", "Strong Competition", "Internationalization", "Regulation". Contrary to this, "Costs of production and labour", "Securing liquidity", "Supply chains" have seen a rise from last year.

Q: "*Please select the biggest challenges you currently see for your venture portfolio companies*" Note 1: The graph shows the total percentage of responses with respect to the three most important challenges. Note 2: some categories were not available each year (e.g. the category "Geopolitical Uncertainty" was only available for the year 2022).

Biggest challenges faced by VCs' portfolio companies over time

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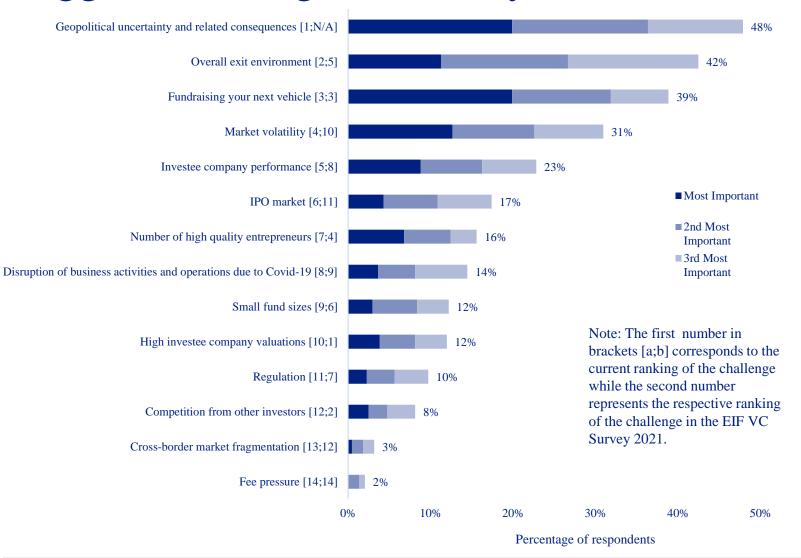
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Q: "Please select the biggest challenges you currently see for your venture portfolio companies." Note: The graph shows the percentage of respondents that selected the respective challenge as the first most important in each survey wave. Some categories were not available each year (e.g. the category "Geopolitical uncertainty" was only available for the year 2022).

- "Securing equity financing" tops the list of the first most important challenges faced by VCs' portfolio companies in 2022. It is followed by "Recruiting high-quality professionals", which has always been a key challenge for portfolio companies throughout the years.
- In 2022, "Geopolitical uncertainty" was selected by an important share of respondents as the first most important challenge for portfolio companies, while "Supply chain" and "Costs of production and labour" increased in importance.

Biggest challenges currently seen in VC business



"Geopolitical uncertainty and related consequences", which includes the macroeconomic environment, has become the most important challenge currently seen in VC business.

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- VCs' top challenge is "*Geopolitical uncertainty and related consequences*". The difficult macro-economic environment, which we refer to later, can easily be seen as one of these consequences. The difficult macroeconomic environment, in turn, weighs on the VC market, as shown by the subsequent challenges.
- The "Overall exit environment" increased in importance as a challenge and ranks second now. "Fundraising" has remained the third most important challenge faced. "Investee company performance" and the "IPO market" also increased in importance as a challenge. "Market volatility" jumped from 10th place last year to the 4th place in 2022 among VCs' key challenges.
- *"High investee company valuations"* and *"Competition from other investors"* became significantly less important as a challenge in 2022.

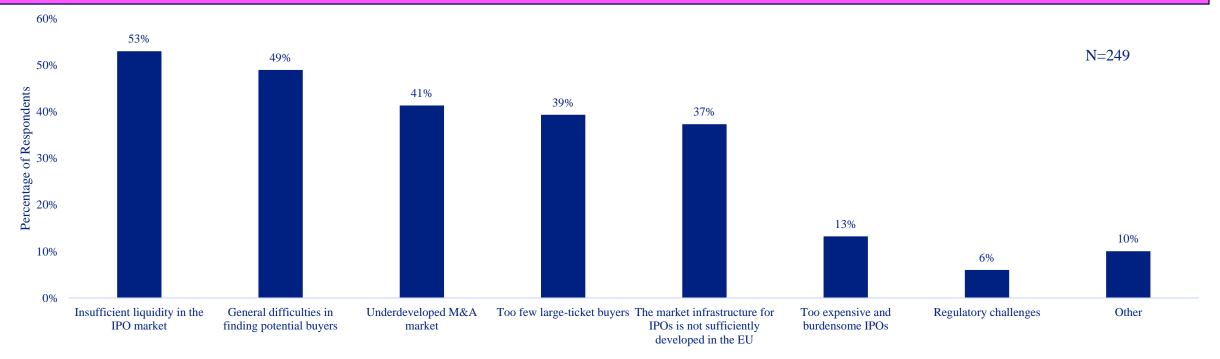
Q: "*Please select the biggest challenges you currently see in the venture capital business.*" Note 1: As of 2022 the "Fundraising" category has been reworded to "Fundraising your next vehicle". For 2022, the category "Political uncertainty" has been broadened to include "Geopolitical uncertainty and related consequences". Note 2: The graph shows the percentage of respondents that selected the respective item as their first, second or third most important challenge. Note 3: this graph is only for the year 2022.

Market sentiment – Challenges

Challenges faced by VC firms in regards to the exit environment

VCs mainly consider insufficient liquidity in the IPO market and general difficulties in finding potential buyers as the current main challenges regarding the exit environment.

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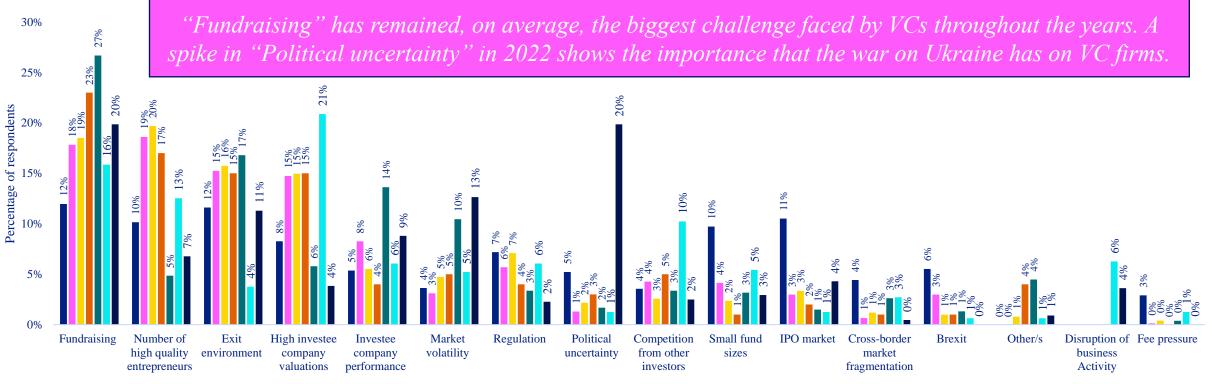


- "Insufficient liquidity in the IPO market" and "General difficulties in finding potential buyers" are the main challenges regarding the exit environment.
- Additional challenges that were frequently mentioned by respondents are "Underdeveloped M&A market", "Too few large-ticket buyers" and an insufficiently developed market infrastructure for IPOs in the EU.

Q: *"What are the current main challenges regarding the exit environment?*". Note: Multiple selection possible. This question was asked only to those respondents that selected the *"exit environment"* among the biggest challenges in VC business in the preceding question.

Market sentiment – Challenges

Biggest challenges faced by VC firms over time



2018 ■ 2019 ■ 2020 Feb ■ 2020 Mar ■ 2020 Oct ■ 2021 ■ 2022

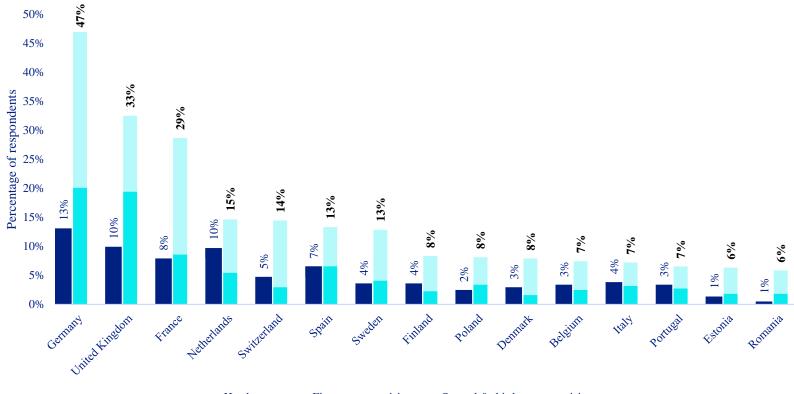
Q: "Please select the biggest challenges you currently see in the venture capital business." Note 1: As of 2022 the "Fundraising" category has been reworded to "Fundraising your next vehicle". For 2022, the category "Political uncertainty" has been broadened to include "Geopolitical uncertainty and related consequences". Note 2: The graph shows the percentage of respondents that selected the respective challenge as the first most important in each survey wave.

- "Fundraising" has remained, on average, the biggest challenge faced by VC firms throughout the years, followed by "number of high quality entrepreneurs" and the "Exit environment".
- "High investee company valuations" decreased in importance in 2022, similar to the development in the COVID-19 crisis year 2020.
- In 2022, a spike in "Political uncertainty" to the same level as "Fundraising", shows the importance that VC firms put on the war in Ukraine and its consequences (see also pages 33 and 51).

EIF VC Survey 2022: Market sentiment and impact of the current geopolitical & macroeconomic environment, EIF Working Paper 2022/82, EIF's Research & Market Analysis, available at www.eif.org/research



Headquarter & most promising countries for VC investments



■ Headquarter ■ First most promising ■ Second & third most promising

Percentages in **black font** on top of the green bars show the aggregate percentage of respondents who have ranked the respective country in their top-3 choices.

Q: "In which country/geography is your firm headquartered?"

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."

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

- Germany, the UK and France have been ranked as the most promising European countries in the next 12 months.
- For **Germany** and **the UK**, the difference between the share of respondents that selected the respective country as the most promising and the share of respondents headquartered in the same country is particularly high.
- Respondents' perception of key countries in **East Europe** has not changed much compared to the previous *EIF VC Survey* wave.



Most promising countries for VC investments – reasons

Germany	Size of marketTechnological innovationAvailability of entrepreneurial talent	Netherlands	 Strength in technology sector, including Biotech, MedTech and Deep tech Strong VC ecosystem 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 	Switzerland	 Good deal flow Strong universities; innovation potential Strength in the fields of life sciences, big pharma, biotech, and in the technology sector more generally
France	 Strong government/public support Entrepreneurship and founder talent Strong VC ecosystem and large start-up / scale-up scene Good access to funding 	Spain	 Low entry prices Significant growth potential for start-ups

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



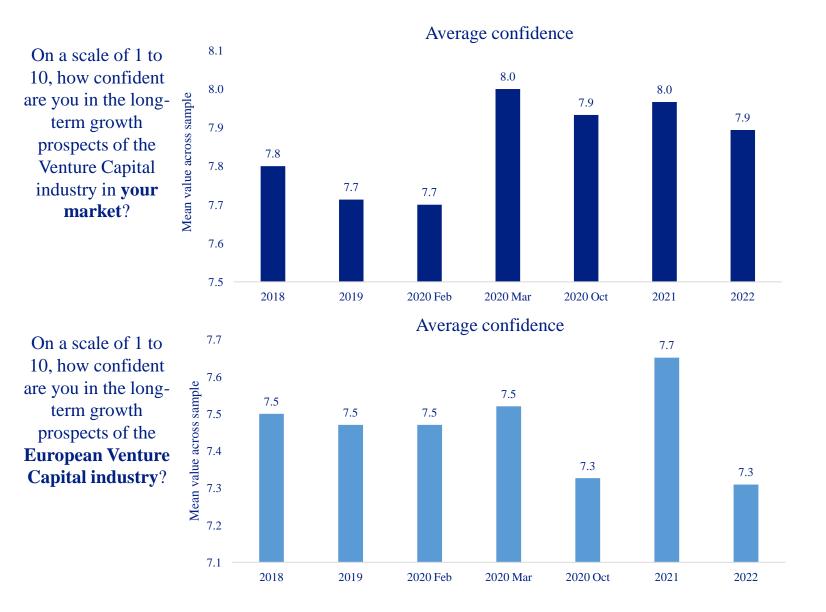
Key: AI: Artificial Intelligence; B2B: Business-to-Business; SaaS: Software as a Service.

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.

Healthcare & Biotech as well as Energy & Environment are perceived as the areas with the greatest investment potential.

- Alongside sectors that were mentioned as promising even during COVID (like Healthcare and Biotech), **new promising sectors emerge** in the current macroeconomic and geopolitical context.
- Energy (and Environment) are at the centre of fund managers' discussions, including technologies to facilitate sustainable energy transition and climate change mitigation.
- Technologies related to **Food and Agriculture** are also on the rise.

Venture Capital industry growth prospects



Fund managers' confidence in the long-term growth prospects of the VC industry declined in 2022.

- Fund managers' confidence in the long-term growth prospects of the VC industry declined both for their own market and, in particular, for Europe overall.
- At the same time, long-term growth prospects in VCs' own markets are at a higher level than before the COVID crisis.
- Most likely, this is mainly due to a stronger **market resilience** and to **opportunities** that fund managers see arising in the recent crises.



EIF VC Survey

Impact of current geopolitical & macroeconomic environment

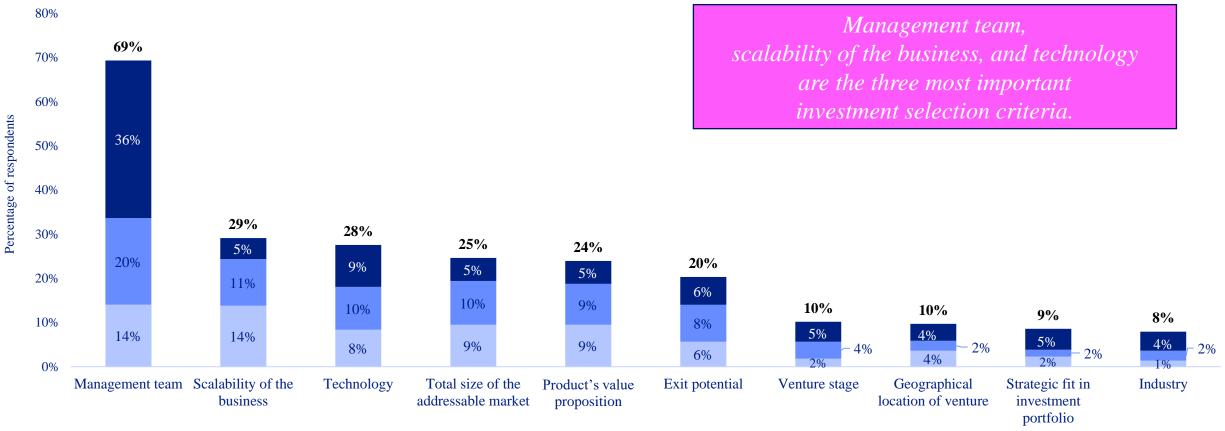


EIF Research & Market Analysis Survey wave 2022





VCs' investment selection criteria



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Most important Second most important Third most important

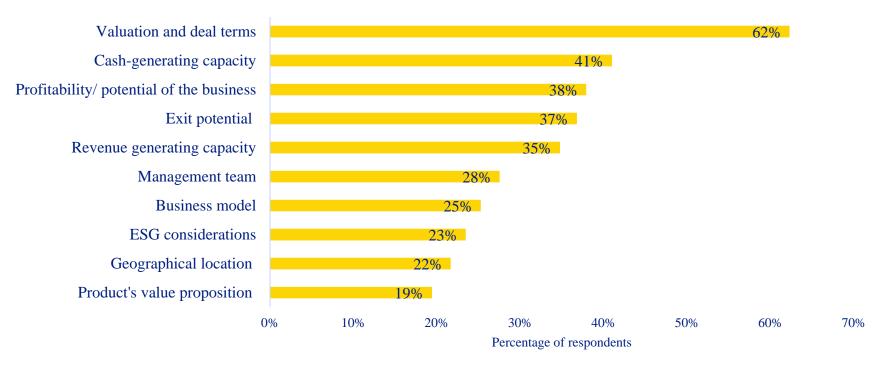
Note: Percentages in **black font** on top of the bars show the aggregate percentage of respondents who have ranked the respective criterion in their top-3 selections. Reading example: For 69% of VCs, "Management team" is among their top-3 criteria; for 36%, it is even the first most important criterion. The graph presents the 10 most important investment selection criteria as indicated by survey participants. For the full list of response options, please refer to the <u>Annex</u>.

Q: "Considering your firm's overall activity in the VC market, what are your most important investment selection criteria?" (multiple selection possible)



Changes in VCs' investment selection criteria (criteria with highest increase in importance)

The investment selection criteria changed as a response to the current geopolitical situation and macroeconomic environment.



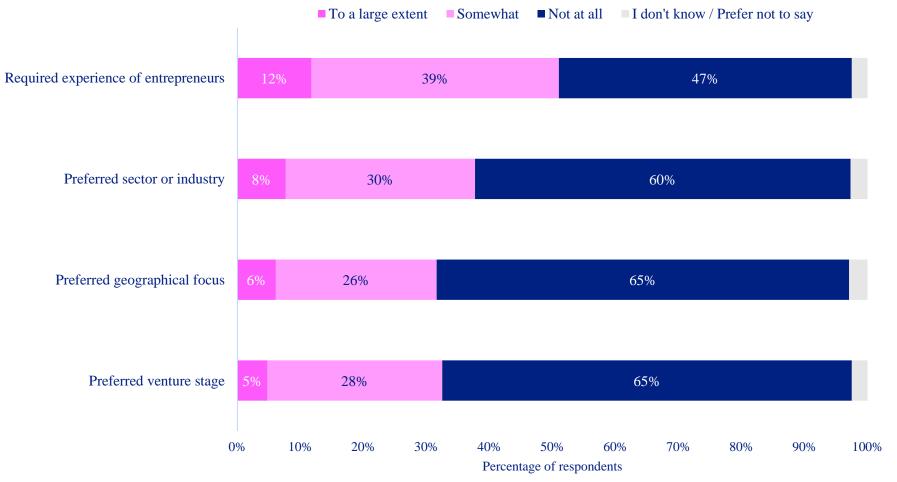
- The financial criteria in general became more important during the current crisis: valuation & deal terms, cash- and revenue-generating capacity, profitability and exit potential.
- But so did the management team, product value proposition and business model.
- Almost 1 in 4 VCs state that the importance of **ESG criteria** also increased in the context of the current environment.

Note: Reading example: 62% of VCs state that the importance of "Valuation and deal terms" has increased in the context of the current geopolitical situation and macroeconomic environment. The graph presents the 10 criteria with the highest increase in importance as indicated by survey participants. For the full list of response options, please refer to the <u>Annex</u>.

Q: "Considering the current geopolitical situation and macroeconomic environment, has the importance of the respective investment selection criteria changed?



Changes in VCs' investment strategy

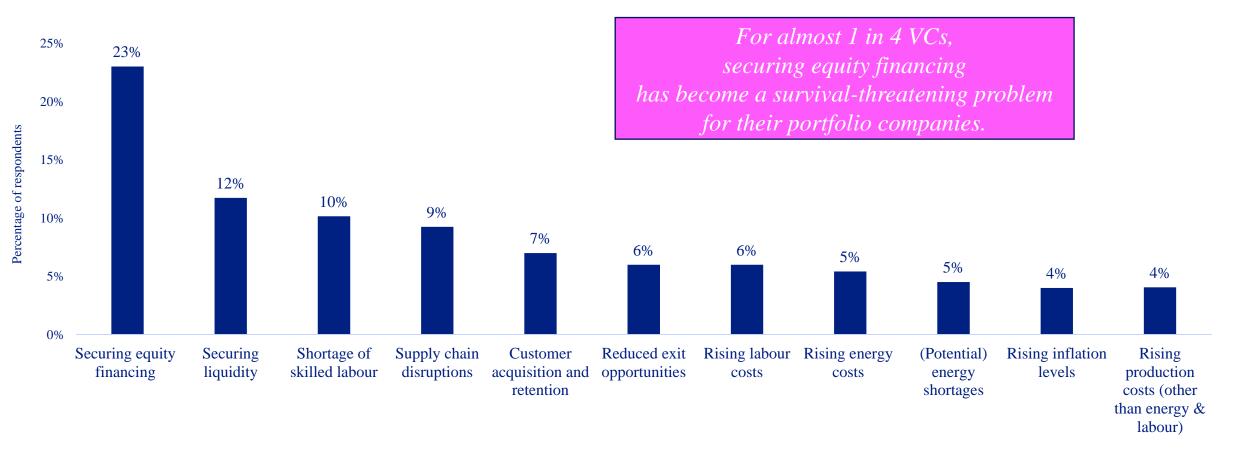


- VCs made some changes to their investment strategy due to the current geopolitical situation and macroeconomic environment.
- In particular, with regard to the **required experience of the entrepreneurs** and the **preferred sector or industry**.

Q: "To what extent does the current geopolitical situation and macroeconomic environment change your investment strategy regarding ...



Survival-threatening issues *for portfolio companies* in the current environment



Note: The graph presents the 11 issues that have been identified by survey participants as the most survival-threatening. For the full list of response options, please see pp. 45-47.

Q: "Considering the current geopolitical situation and macroeconomic environment, to what extent do the following issues constitute a problem for your venture portfolio companies?"

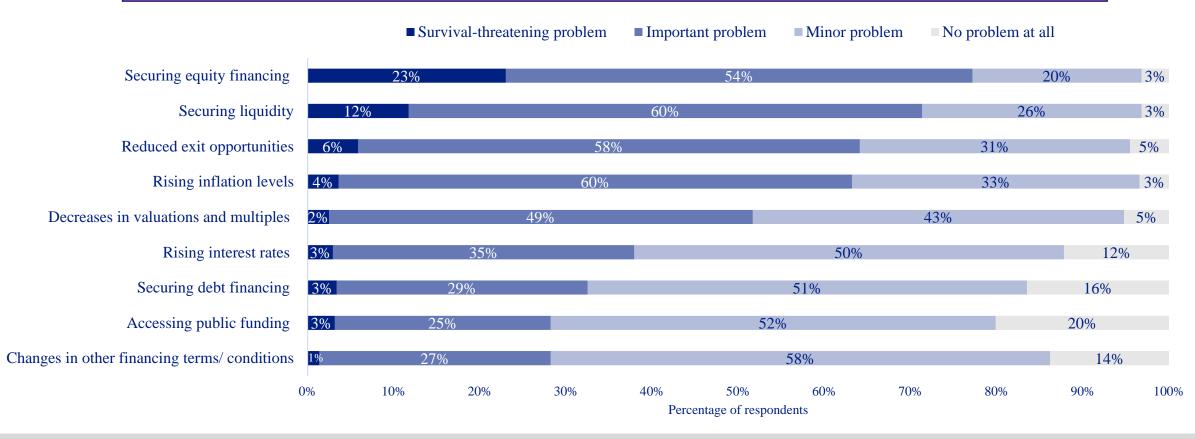
Deep dive: **Financing**-related challenges *for portfolio companies* in the current environment

Securing equity financing, securing liquidity, reduced exit opportunities, and rising inflation levels are currently the four most important financing-related challenges for portfolio companies.

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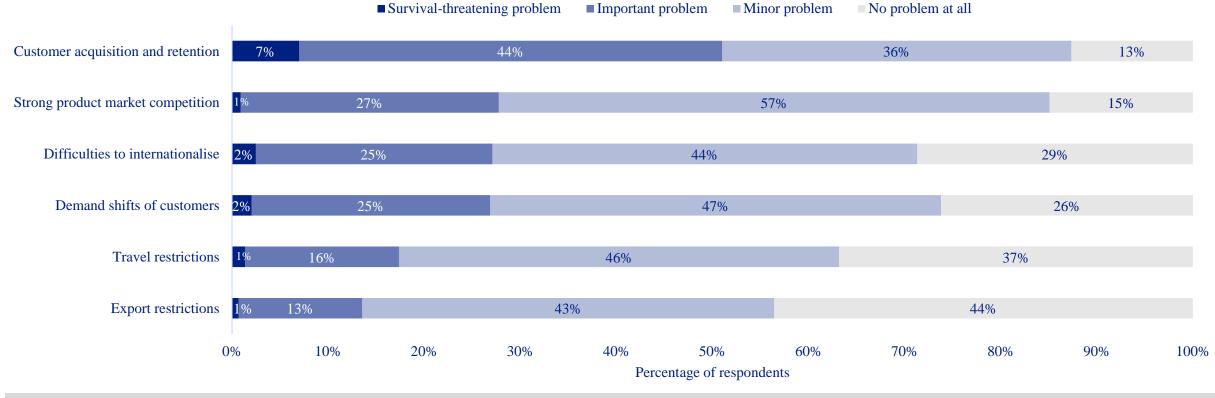


Q: "Considering the current geopolitical situation and macroeconomic environment, to what extent do the following issues constitute a problem for your venture portfolio companies?



Deep dive: Market-related challenges *for portfolio companies* in the current environment

Customer acquisition and retention, strong product market competition, difficulties to internationalise, and demand shifts of consumers are currently the four most important market-related challenges for portfolio companies.

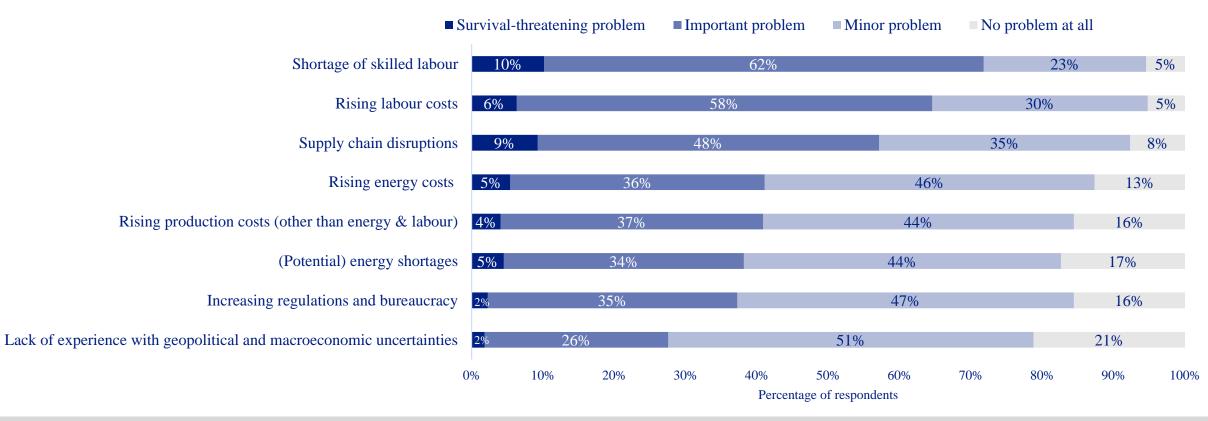


Q: "Considering the current geopolitical situation and macroeconomic environment, to what extent do the following issues constitute a problem for your venture portfolio companies?



Deep dive: **Operational** challenges *for portfolio companies* in the current environment

Shortage of skilled labour, rising labour costs, and supply chain disruptions are currently the three most important operational challenges for portfolio companies.

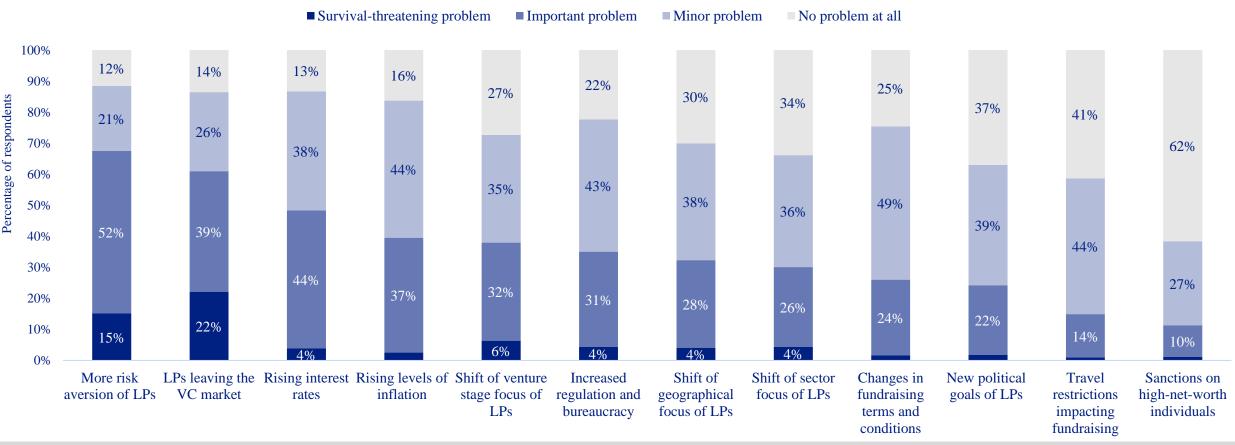


Q: "Considering the current geopolitical situation and macroeconomic environment, to what extent do the following issues constitute a problem for your venture portfolio companies?

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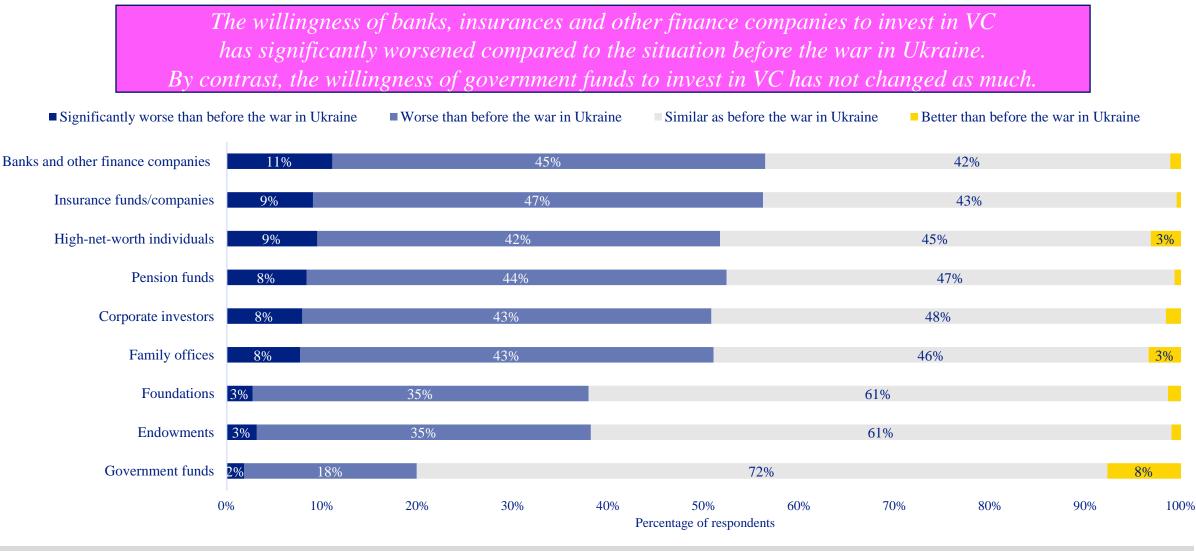
Fundraising challenges for VC funds in the current environment

More risk aversion of LPs, LPs leaving the market, rising interest rates, and rising levels of inflation are currently the four most important fundraising-related challenges for VC funds.



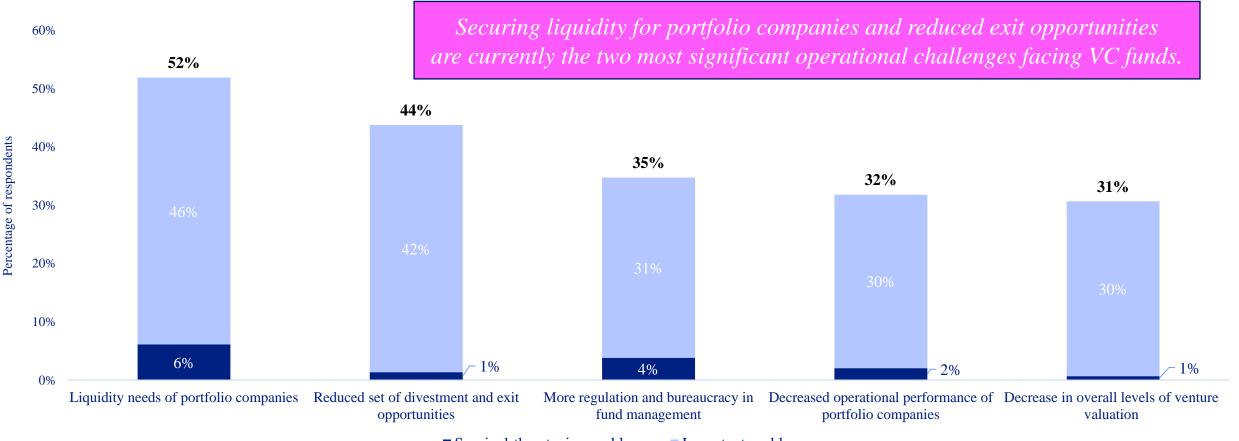
Q: "Considering the current geopolitical situation and macroeconomic environment, to what extent do the following issues constitute a fundraising problem for your venture capital fund(s)?

LPs' willingness to invest



Q: "How do you assess the current willingness of different LPs to provide funding for venture capital as an asset class?"

Operational challenges for VC funds in the current environment



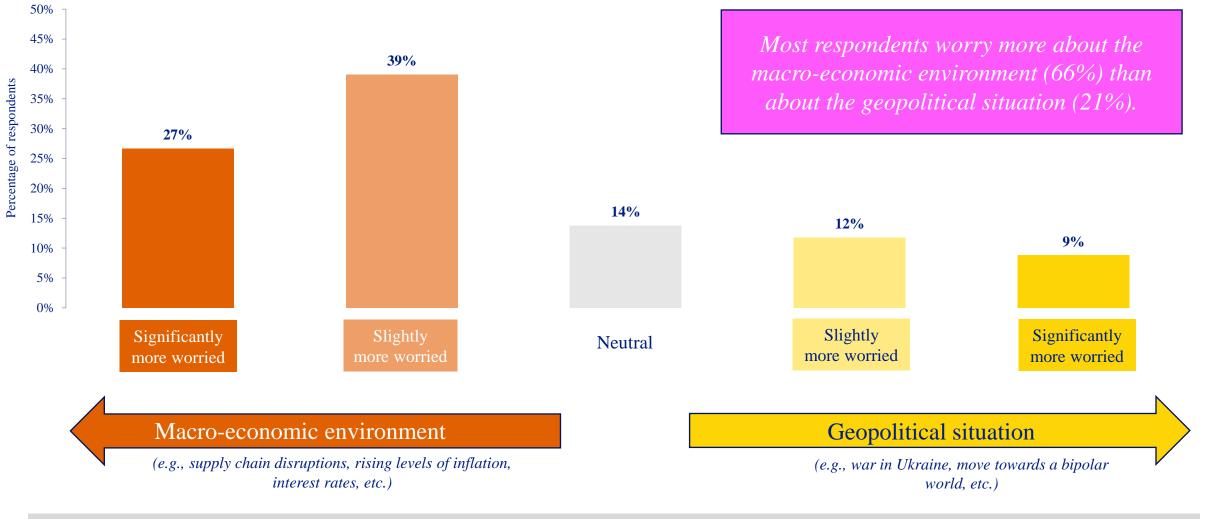
■ Survival-threatening problem ■ Important problem

Note: Percentages in **black font** on top of the bars show the aggregate percentage of respondents who have ranked the respective issue as either a survival-threatening or an important problem. Reading example: For 52% of VCs, the "Liquidity needs of portfolio companies" are considered a significant operational challenge; for 6%, they even constitute a survival-threatening problem. The graph presents the 5 most significant operational challenges as indicated by survey participants. For the full list of response options, please refer to the <u>Annex</u>.

Q: "Considering the current geopolitical situation and macroeconomic environment, to what extent do the following operational issues constitute a problem for your venture capital fund(s)?



Macro-economic environment vs. Geopolitical situation



Q: "Comparing the different impacts of the current geopolitical situation and macroeconomic environment, what worries you more?"

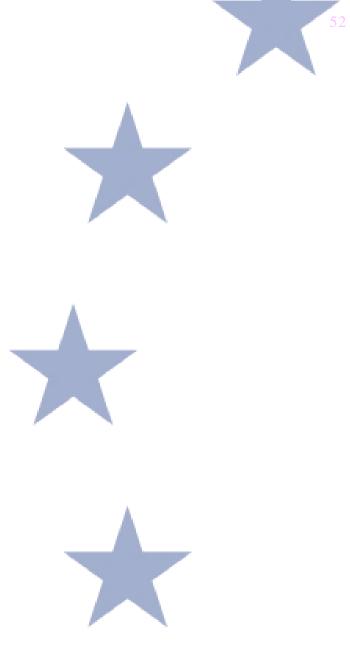


EIF VC Survey

4 *Concluding remarks*

EIF Research & Market Analysis

Survey wave 2022



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Negative developments in the VC market in 2022

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Market sentiment deteriorated

- The European VC markets **initially recovered quickly** from the first shock of the pandemic and showed no signs of "long COVID".
- Having said this, the sudden halt and resumption in demand following the COVID-19 confinement measures resulted in significant supply chain issues, igniting, in turn, a rising trend in import and producer prices, inflation as well as inflation expectations. These were further fuelled by the surge in energy prices in the aftermath of the war in Ukraine.
 - In light of these developments and even if yet to be reflected in "hard" market activity data, the survey findings clearly suggest that **market sentiment has turned around**; and that the current **geopolitical and macroeconomic uncertainties** have started to have a **considerably negative impact on** several aspects of the **European VC market**.

VCs face significant challenges...

- The fundraising sentiment in the VC market is at a record low since the start of our *EIF VC Survey* in 2018. The importance of the exit environment as a key challenge for VCs has increased substantially in 2022. Exit prices are expected to further decrease by the majority of VCs, who primarily suffer from insufficient liquidity in the IPO market, and difficulties in finding potential buyers.
- The **outlook** for the next 12 months **is also pessimistic**, with many VCs expecting the fundraising environment, finding co-investors, exit opportunities, and the access to finance of their portfolio companies to **deteriorate further**.
- Given that the expectations of surveyed VCs are at record lows for many of the market sentiment indicators in our survey, there is a high risk that we are perhaps yet to see the worst part of this new crisis.

... and maybe longer-run risks?

- VCs report important financing, market-related and operational issues for their investees, particularly with regard to **securing equity financing and liquidity.**
- At the fund level, alongside recurring challenges, VCs report severe fundraising issues, mainly related to a greater risk aversion of LPs and LPs even leaving the market.
- At the same time, a range of potential investors into the asset class (from banks and insurances to pension funds, family offices, and corporate investors) show a **much lower willingness to invest in VC**.
- These longer-term patterns hint towards structural issues, which could be interpreted as potential long-run risks.



Policy implications

A crisis is also an opportunity

- Although at the very beginning of the COVID-19 crisis it looked as if we would experience a doomsday scenario, the VC market realised the opportunities and finally even benefitted from the crisis, as many VC-backed companies provide innovative solutions, for example in the areas of Healthcare and Biotech.
- In the current environment too, **new promising sectors** emerge. **Energy and Environment** are at the centre of fund managers' discussions, including technologies to facilitate **sustainable energy transition** and **climate change mitigation**. Technologies related to **Food and Agriculture** are also on the rise.
- At the same time, the decrease in valuations and in the competition for investees (until recently perceived among the top challenges facing the VC business) could be a needed **market correction**, enabling more reasonable entry prices, reducing the risk of overfunding, and providing for new opportunities.

Permanent crisis mode?

- From the Great Financial Crisis to the COVID-19 crisis and the current crisis driven by the Russian aggression against Ukraine, it seems that since many years we are in a **permanent crisis mode**. From a public support perspective, the fact that the intervals of these external shocks have become very short or even overlapping constitutes a big challenge, **continuously having to introduce new emergency measures**.
- A crisis can also be an opportunity; but these **opportunities might not always be supported by sufficient availability of financing**. The current geopolitical and macroeconomic uncertainties may have far-reaching and long-lasting consequences, **changing the long-run framework conditions for SMEs**. The survey findings reveal indeed that fundraising and financing in general have become much more problematic.



Policy implications

New and existing policy solutions

- In a market downturn, efficient public support is even more important, to mitigate the impact of the crisis on the ecosystem.
- Creative policy solutions with different financial instruments will be crucial in this time of crisis, to respond to the financing problems and guide the VC market through this period of high uncertainty.
- The policy solutions should primarily focus on strengthening the ability of the European VC ecosystem to absorb shocks, both the current ones and the future ones.
- Examples of such policies include a **deeper involvement of private long-term investors**, who would not readily leave during a crisis, but rather stay in the market even during downturns, as well as **initiatives to encourage the financing of European scale-ups**.
- With the VC exit environment significantly worsening due to the current situation and the expectations of further deterioration in the next year, **improving the exit environment** should be one of the targets for future policy.

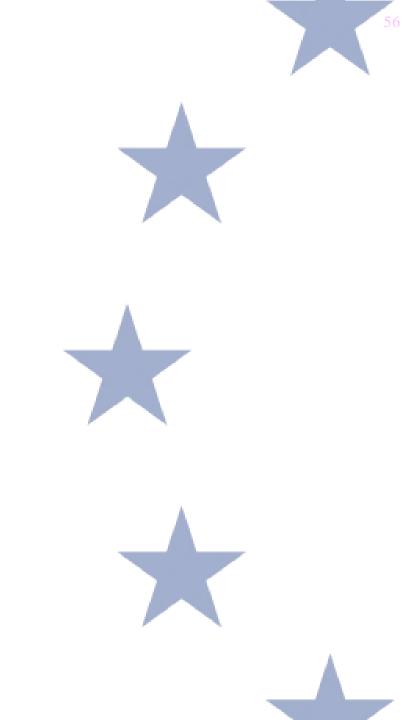
- Over the years and the various crises, the VC ecosystem has improved significantly and has proven its resilience, but there is still a lot of room for development.
- An efficient approach of providing public support and crowding-in private resources could help to eliminate structural issues.
- In such market conditions, an institution like the **EIF has an important role to play; intervening counter-cyclically** in case of market downturns and failures to **mitigate long-run risks**, in particular by designing and implementing financial instruments that **support longer-term Public Policy Goals**.



EIF VC Survey

5 Information about this study

EIF Research & Market Analysis Survey wave 2022



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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 VC Survey* and *EIF PE MM 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.
- All surveys are conducted on an **anonymous basis**.
- 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 decisionmakers** 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**, such as **with Invest Europe**.
- Indeed, a part of the sample for the *EIF VC Survey* 2022 comprises **Invest Europe members**.



This study and beyond

Respondents and survey period

- This study is based on the *EIF VC Survey*.
- The 2022 wave of the *EIF VC Survey* includes anonymised responses from *443 VC fund managers* (from 362 VC firms).
- The headquarters of the VC firms contacted were predominantly in the EU 27 countries. Firms with headquarters outside of Europe were still included in the sample if they had an office in Europe and were active in the European VC market.
- Responses were received between 13 July and 29 August 2022.

Topics

- The main *topics* covered in the 2022 survey are **market sentiment** as well as the **impact of the current geopolitical situation** and **macroeconomic environment**.
- Since the market sentiment topic was also covered in all previous survey waves, we compare the results using a **time series**.

Forthcoming

• All EIF survey-based studies (across all survey waves and asset classes) are regularly published in the EIF Working Paper series, available here:

https://www.eif.org/research

• Forthcoming publications, based on the *EIF VC Survey* as well as on the *EIF PE MM Survey*, will cover topics related to **Investing** in Environment & Climate and Gender diversity. 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 this • in publication (e.g., some results about VCs' human the capital characteristics) are based on a number of respondents that is smaller than the overall number of EIF VC Survey 2022 respondents. This is either because some respondents selected the "I don't know / Prefer not to say" response option or because a filter question preceded the question under consideration. In these cases, the final number of respondents is indicated in the respective graphs. Further details are available upon request.

Terminology: Survey waves

Several analyses draw on the results of multiple EIF VC Survey waves, as outlined below:
"2022": 13 July – 29 August 2022
"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 the refer percentage to 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 percentage of respondents expecting the number of their new investments to slightly/strongly increase minus the percentage of respondents expecting the number of their new investments slightly/strongly to decrease.)

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: Headquarter
- ICT: Information and Communications Technologies
- IPO: Initial Public Offering
- LP(s): Limited Partner(s)

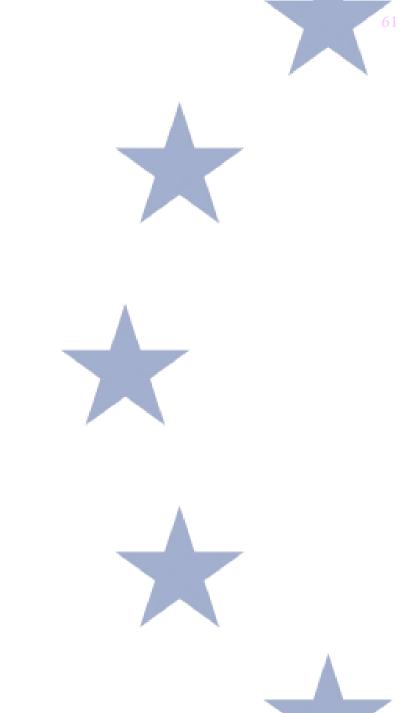
- m: million
- M&A: Mergers and acquisitions
- Mar: March
- MBO: Management Buy-Out
- NAV: Net Asset Value
- Oct: October
- PE MM: Private Equity Mid-Market
- Q: Question
- Q4: Fourth quarter of a year
- RMA: Research & Market Analysis
- SME: Small and Medium-sized Enterprise
- UK: United Kingdom
- USA: United States of America
- VC: Venture Capital
- VCs: Venture Capital fund managers
- WIFU: Witten Institute for Family Business



EIFVC Survey

6 *Respondents' profile and VC firm characteristics*

EIF Research & Market Analysis Survey wave 2022

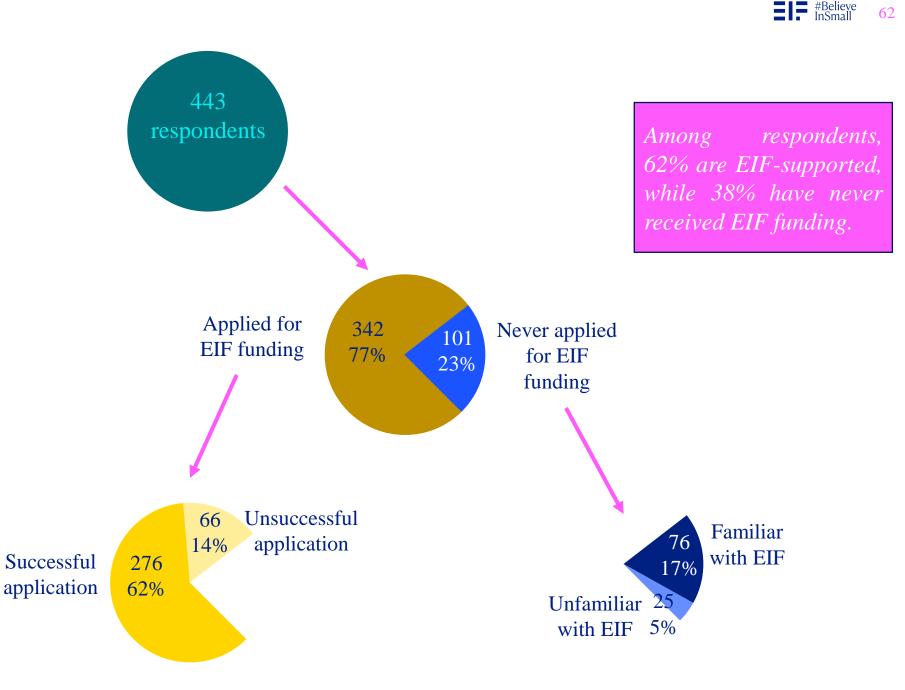


EIF relationship

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

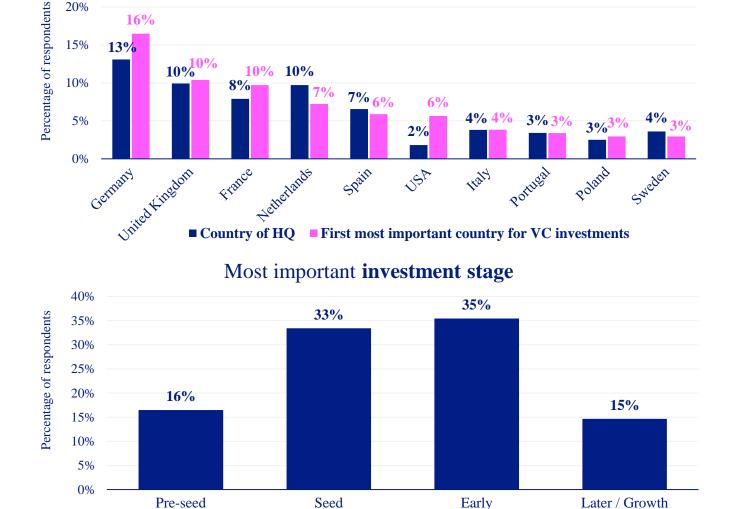
Q: "Are you familiar with the EIF and its activities?"

Q: "Did any of these applications result in EIF funding?"



Respondents' profile and VC firm characteristics

HQ & investment location / investment stage focus



Distribution of respondents by HQ country of VC firm

• Approximately **4 in 10 VC fund managers** come from VC firms headquartered in **Germany** (13.1%), the **United Kingdom** (9.9%), the **Netherlands** (9.7%), and **France** (7.9%). (For further details on the survey design and sample construction, please see *Information about this study*.)

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EIF.

- 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 more frequently as the most important country for investment than would be expected from the frequency with which it is mentioned as a HQ country.

Approximately 7 in 10 VCs invest in seed (33%) or early stage (35%) companies.

Q: "In which country/geography is your firm headquartered?"

Q: "Please select the most important countries in which your firm invests in ventures." (multiple selection possible); and then "rank them by importance."

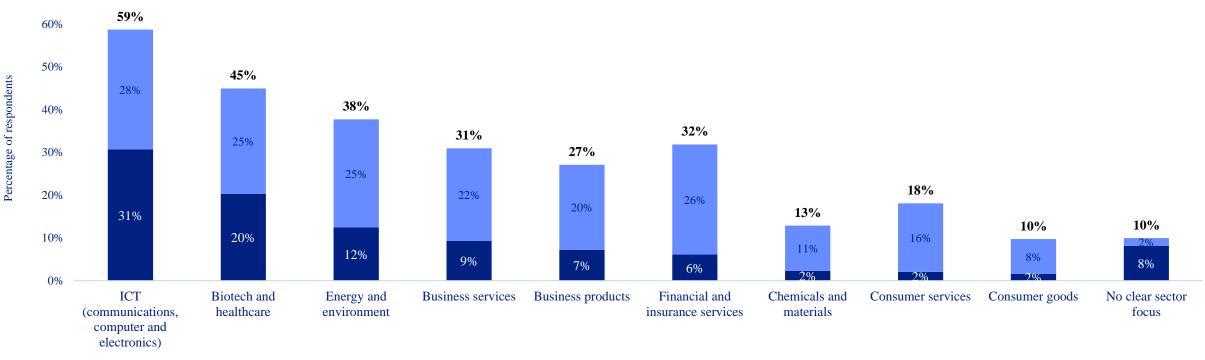
Q: "What is (are) the most important venture stage(s) in which your firm invests?"

#Believe 64

Most important industry in which VCs invest

The most important industry in which VCs invest is ICT, followed by Biotech & Healthcare.

Energy & Environment was selected more frequently as an important industry for VC investments compared to previous years.



First most important

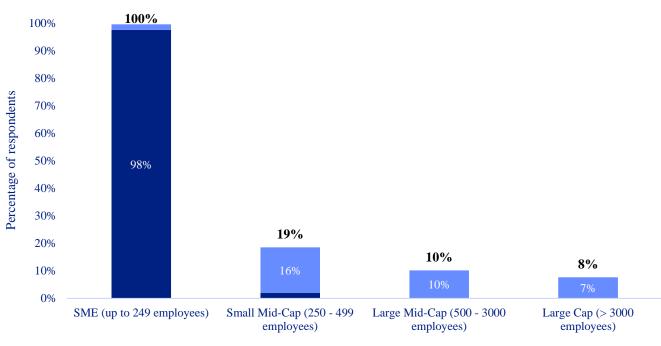
Second, Third ... most important

Note: Percentages in **black font** on top of the bars show the aggregate percentage of respondents who have selected the respective industry. Reading example: 59% of VCs invest in ICT; for 31%, it is even their first most important industry.

Q: "Please select the most important industries in which your firm invests in ventures." (multiple selection possible); and then "rank them by importance."



Sizes of companies in which VCs prefer to invest



First most important Second, Third ... most important

Note: Percentages in **black font** on top of the bars show the aggregate percentage of respondents who have selected the respective market segment. Reading example: 100% of VCs invest in SMEs; for 98%, it is even their first most important investment target.

Q: "What are the sizes of companies in which your firm prefers to invest (enterprise sizes, by number of employees at the time of the first investment)?" (multiple selection possible); and then "rank them by importance."

SMEs are VCs' predominant investment target.

- The majority of VCs tend to invest only in SMEs.
- Some VCs tend to invest also in Small Mid-Caps and Large Mid-Caps, probably indicating the participation in later funding rounds.

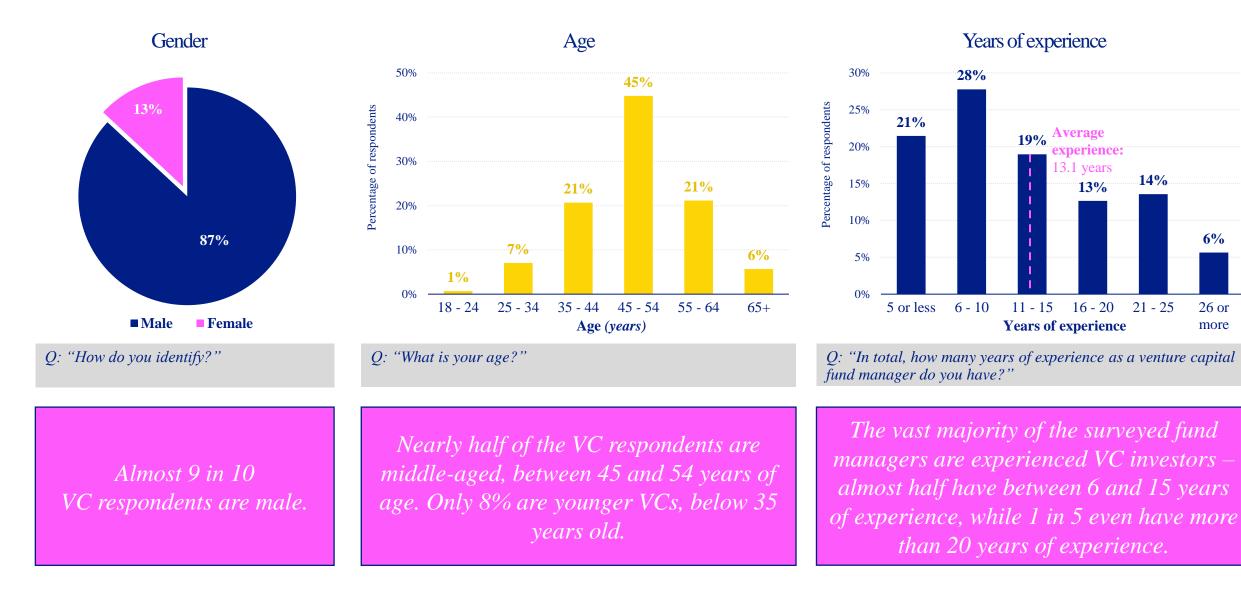


6%

26 or

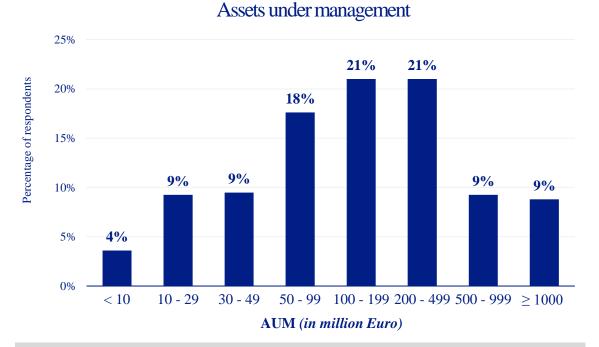
more

VCs' human capital characteristics



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VC firm characteristics



Q: "What are your firm's total approximate assets under management?"

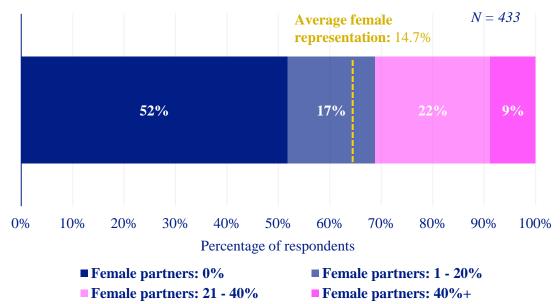
6 in 10 VC firms have assets under management between EUR 50m and EUR 500m.



Q: "In what year was your firm established?"

The average VC firm has been established in 2010, making it on average 12 years old.

Gender diversity



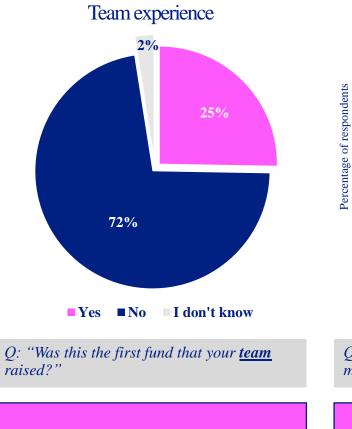
Gender diversity of investment team

Q: "How many partners (all types) are there in your firm?"Q: "How many female partners (all types) are there in your firm?"

The vast majority of the VC teams are male-dominated, with less than 20% females as partners.

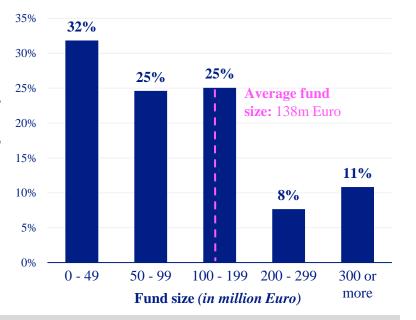
- More than **50% of VCs report no female partners at all** in the investment team of their respective VC firms.
- About 1 in 5 VCs report female representation at partner level between 20% and 40%.
- Only about 1 in 10 VCs report having a female partner share greater than 40% in their investment team.
- As such, the **average female representation** in the investment team of the surveyed VC firms is **14.7%**.

Fund-related characteristics



For 1 in 4 VC fund managers, their most recent fund was also the only one raised.

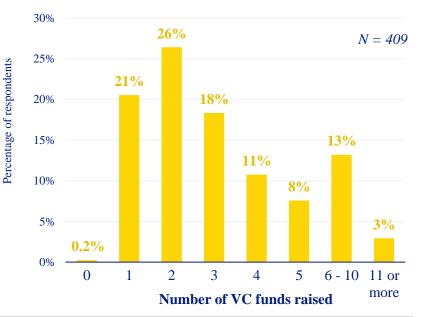
Latest VC fund size



Q: "What is your <u>firm's</u> latest venture capital fund size? (in million Euro)"

Almost 6 in 10 VCs raised less than EUR 100m in their latest fund.

Number of VC funds raised to date



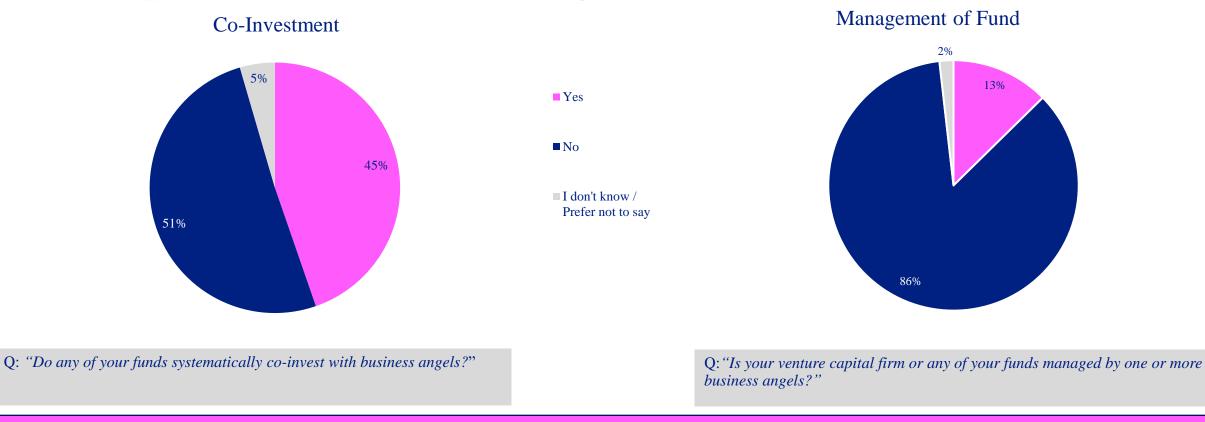
Q: "In total, how many venture capital funds has your <u>firm</u> raised to date?"

Almost half of the VC firms have raised between two and three funds to date.

69



VCs' cooperation with business angels



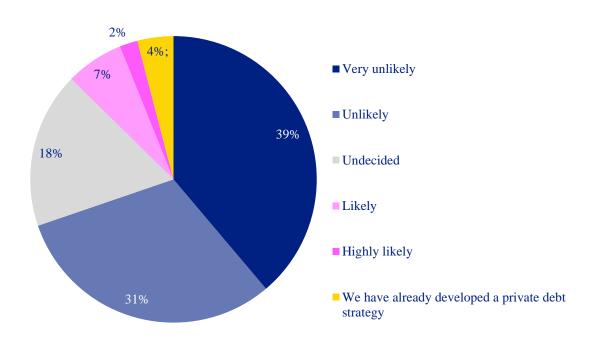
VCs' cooperation with business angels is high in terms of co-investing but not in terms of fund management.

- The majority of surveyed VCs state that they systematically co-invest with business angels.
- By contrast, the vast majority of surveyed VCs state that they do not cooperate with business angels with regard to the management of their VC fund(s).



Development of a private debt strategy

Probability of developing a private debt strategy.



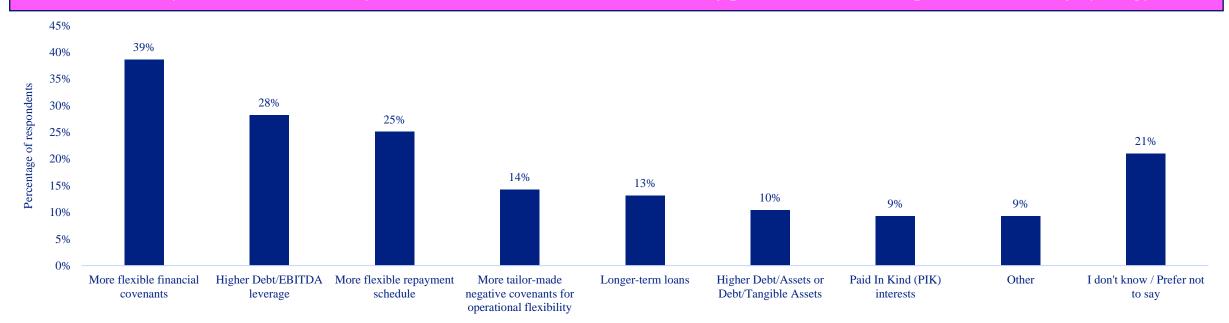
Q: "How likely would it be for your firm to develop a private debt strategy within the next 5 years?

7 in 10 VCs report that their respective firms do not intend to develop a private debt strategy within the next 5 years.

Synergies provided by private debt providers to private equity

VCs mainly consider the more flexible and tailor-made covenants of private debt as the prime sources of synergy.

#Believe

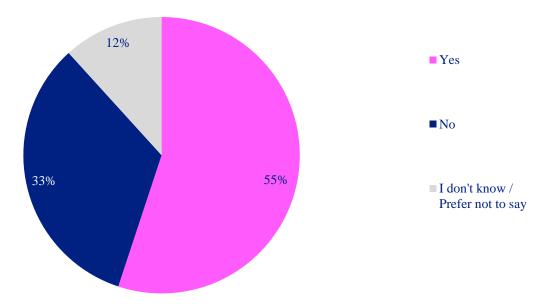


- "More flexible financial covenants" and "more willingness to lend against cash flow" (higher debt/EBITDA leverage) are the main sources of synergy of private debt to private equity as perceived by surveyed VCs.
- "More flexible repayment schedule" and "more tailor-made negative covenants for flexibility" are ranked third and fourth.
- Among VC respondents, 1 in 5 did either not know of any sources of synergy or did not wish to declare such.

Q: "In your view, what is the greatest synergy that private debt provides to private equity (that banks cannot / can no longer provide)?" (multiple selection possible)



Technology transfer in VCs' investment strategy



Technology Transfer is seen as an important strategic asset by the majority of VCs.

Q: "Does your investment strategy target Technology Transfer?"

• The majority of surveyed VCs state that their investment strategy does target Technology Transfer.



EIF VC Survey 7 Annex

EIF Research & Market Analysis

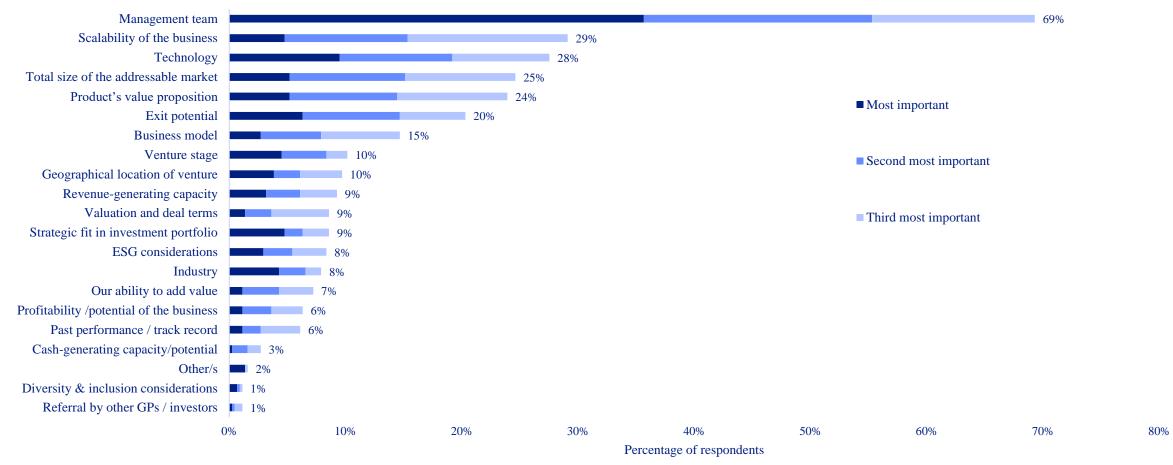
Survey wave 2022





VCs' investment selection criteria (full list of response options)

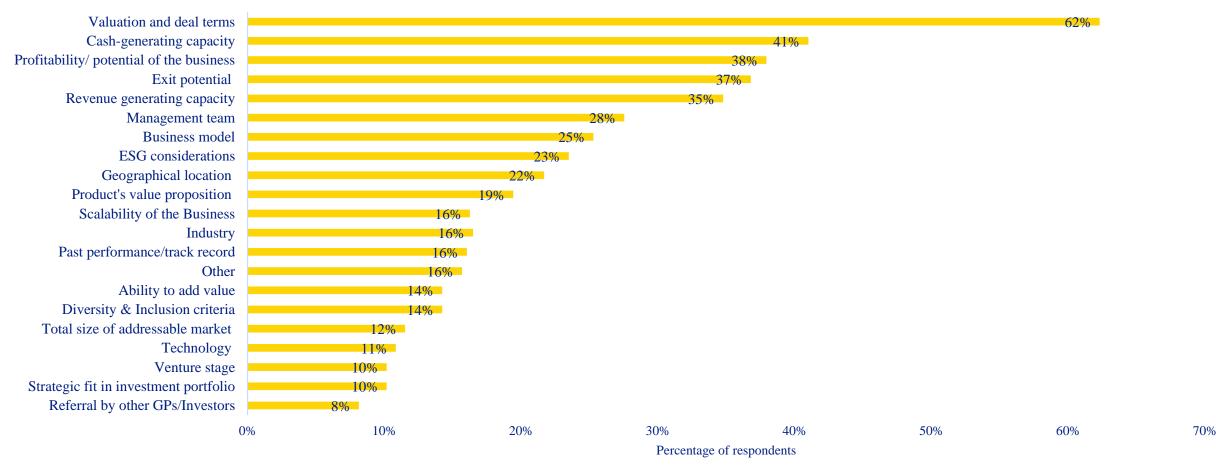
Annex



Note: The reported percentages show the aggregate percentage of respondents who have ranked the respective criterion in their top-3 selections.

Q: "Considering your firm's overall activity in the VC market, what are your most important investment selection criteria?" (multiple selection possible)

Changes in VCs' investment selection criteria (criteria with highest increase in importance – full list of response options)



Note: Reading example: 62% of VCs state that the importance of "Valuation and deal terms" has increased in the context of the current geopolitical situation and macroeconomic environment.

Q: "Considering the current geopolitical situation and macroeconomic environment, has the importance of the respective investment selection criteria changed?

100%

Operational challenges *for VC funds* in the current environment (full list of response options)

		Survival-threatenin	g problem	Important	problem	Minor problem	No proble	m at all	
Liquidity needs of portfolio companies	6%	46%			33%			15%	
Reduced set of divestment & exit opportunities		42%			37%			19%	
More regulation & bureaucracy in fund management	4%	4% 31%		41%				24%	
Decreased operational performance of portfolio companies	30%		48%				20%		
Decrease in overall levels of venture valuation		30%			53%)		16%	
Lack of qualified talent for fund management		24%		35%			40%		
Increasing volatility of fund performance		22%		43%			35%		
Lack of suitable inv. targets regarding investment topics	10%	10% 30%				59%	0		
Lack of suitable inv. targets regarding venture stage	8%	28%				63%			
Lack of own experience with geopolitical & macroeconomic uncertainties	9%		40%				50%		
Fund exposure to Russia, Ukraine & Belarus	3% 5%	14%				77%			
Lack of suitable inv. targets regarding geographical focus	7%	30%				62%			
Fund exposure to Eastern European EU countries	7%	21%				71%			
Defaulting LPs	7%	20%				73%			
Travel restrictions impacting portfolio monitoring	7%	31%				62%			
0	%	10% 20%	30%	40% Percentag	50% 6 ge of respondents	50% 70% s	80%	90%	

Q: "Considering the current geopolitical situation and macroeconomic environment, to what extent do the following operational issues constitute a problem for your venture capital fund(s)?

EIF VC Survey 2022: Market sentiment and impact of the current geopolitical & macroeconomic environment, EIF Working Paper 2022/82, EIF's Research & Market Analysis, available at www.eif.org/research

Annex

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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 <u>www.eif.org</u>.

... Invest Europe

Invest Europe is the association representing Europe's private equity, venture capital and infrastructure sectors, as well as their investors. Invest Europe has over 620 members, split roughly equally between private equity, venture capital and limited partners – with some 100 associate members representing advisers to our ecosystem. Those members are based in 57 countries, including 42 in Europe, and manage 70% of the European private equity and venture capital industry's EUR 846 billion of assets under management. Businesses with private capital investment employ 9.9 million people across Europe, 4.3% of the region's workforce. Invest Europe aims to make a constructive contribution to policy affecting private capital investment in Europe and provides information to the public on Invest Europe members' role in the economy. Invest Europe's research provides the most authoritative source of data on trends and developments in the PE/VC industry. Invest Europe is a non-profit organisation with 27 employees in Brussels, Belgium. For more information please visit <u>www.investeurope.eu</u>.



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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.

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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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