KfW Research
German Venture Capital Barometer 4th Quarter 2024

In cooperation with the German Private Equity and Venture Capital Association (BVK) and the Deutsche Börse Venture Network

Recovery in German VC market sentiment suffered year-end setback

11 February 2025

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- Conditions were viewed much more negatively but expectations rose
- Fundraising climate continued to improve, expectations lifted sentiment above long-term average
- Deal flow increased slightly but so did dissatisfaction with quality

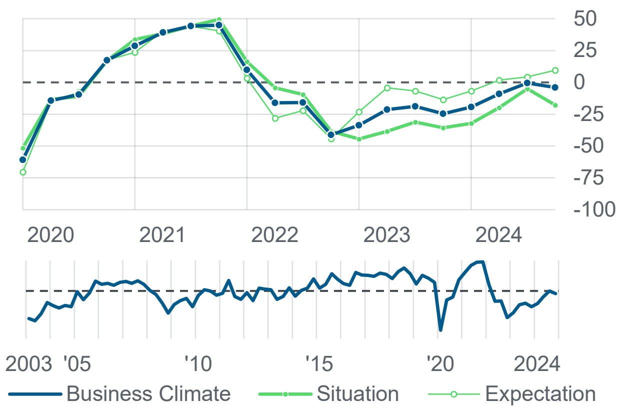
Sentiment recovery has dipped

After the slump in sentiment in the German venture capital market appeared to have been largely overcome, the business climate fell again in the final quarter. The VC market sentiment indicator fell by 3.7 points to -4.1 balance points in the fourth quarter of 2024. This drop is primarily an expression of the setback in the assessments of current business conditions, while expectations improved. The indicator for the current business situation dropped by 12.8 points to -17.9 balance points, while the indicator for business expectations gained 5.4 points to reach 9.6 balance points. After improving in the previous quarter, the indicator dot that illustrates the current business situation thus switched back to red again, while expectations for the next six months are now in the green.

Expectations lifted fundraising climate into positive territory

The fundraising climate developed positively for the eighth consecutive quarter. Rising by another 15.9 points, it was above its long-term average for the first time since the first quarter of 2022 and now sits at +5.3 balance points. What made the sentiment indicator turn positive were the fundraising expectations for the next six months. The expectations component surged by 20.0 points and, at 23.6 balance points, is now in its historically highest tercile again. The situation component rose by 11.9 points to -13.0 balance points. The fundraising climate appeared to have responded to the further interest rate cuts, since falling interest rates make VC fundraising easier. The ECB's key interest rate cuts of October and December 2024 also improved the interest environment by a further 8.8 points to -18.9 balance points. The indicator of interest rate expectations now stands at +0.9, significantly above the -38.7 balance points recorded for the situation indicator. Thus, investors are obviously expecting further key interest rate cuts.

Development of venture capital sentiment indicator



Venture capital 'traffic lights'

Values in balance points

	Q4 '24	Δ Q3 '24	Low	High
Business climate	-4.1	-3.7	-60.9	+44.9
Business situation	-17.9	-12.8	-55.5	+49.4
Bus. expectations	+9.6	+5.4	-70.3	+44.0
Fundraising	+5.3	+15.9	-67.5	+73.5
Interest rates	-18.9	+8.8	-101.5	+45.2
Exit opportunities	-22.8	+12.9	-71.4	+74.5
Trade-sales	-35.8	+16.2	-88.8	+59.1
Secondaries	-4.9	+15.9	-56.5	+56.8
IPOs	-11.4	+11.5	-52.1	+99.2
Buy-backs	+1.7	+23.8	-49.8	+47.1
Depreciations	+3.4	+14.3	-47.5	+30.8
New investment	+11.2	-0.1	-72.8	+30.7
Entry valuations	+17.0	-10.1	-55.6	+48.5
Dealflow quantity	+11.2	+4.3	-45.8	+32.4
Dealflow quality	-10.9	-10.7	-23.1	+28.6
DF innovativeness	-2.9	+10.2	-48.0	+36.0

Colour scheme of sentiment indicator dots: values in the lowest tercile are marked 'red', in the medium tercile 'amber' and in the highest tercile 'green'. Indicator design may lead to deviations from previous publications.

Source: KfW Research, BVK and DBVN.

Exit climate is thawing

The exit climate has improved with a solid gain of +12.9 points to -22.2 balance points but even so remains lacklustre. Stuck deep in the red over eleven consecutive quarters, sentiment around the exit environment has never been this bleak for so long. Still, it is encouraging that the exit climate reached its highest level at the end of 2024 since the first quarter of 2022. This is reflected in the secondary, IPO and buyback exit channels. The indicator dot has now returned to amber in all three. While the exit climate for secondaries and IPOs remains negative at -4.9 and -11.4 balance points, the exit climate for buybacks turned just barely positive again, at +1.4 balance points. Even though the exit climate has improved significantly for trade sales as well, the indicator dot for this exit channel remains deep red, at -35.8 balance points. On average for the year, the exit climate for trade sales in 2024 was similar to that of 2023, after falling to that level in 2022 from the high of 2021. Only in 2009 was it worse on average than in the past three years. This does not align with market observations since the number of exits via trade sales has actually grown since 2021. Thus, the sentiment trend has decoupled from the trend in the number of transactions. This is likely due to the exit proceeds. Unlike the number of exits, the exit volume appears to have fallen since 2021. Therefore, average proceeds per exit have likely fallen substantially. What continues to be a bright spot, including for trade sales, is that expectations remain significantly better than situation assessments. So, there continues to be hope that the still difficult exit environment for the most common and, thus, most important exit channel in European VC markets will improve.

Good prospects for growing investment activity

Optimism has also returned with a view to portfolio disposals due to possible losses. The indicator dot for depreciations jumped back to amber, turning positive again by gaining 14.3 points to reach +3.4 balance points. In the past years, a growing number of start-ups became insolvent at the end of their runway for lack of follow-up funding. The return to slightly above-average sentiment with regard to default-induced depreciations and write-downs in follow-on rounds suggest that follow-up funding is much easier to realise again.

The environment for new investments remained steady, rising by +11.2 balance points on the previous quarter. The situation component dipped slightly to 9.4 balance points, while the expectations component gained slightly to 13.0 balance points, which was again better than situation assessments. This bodes well for investment activity in the first half of 2025, also against the backdrop of diminished concern over defaults. Overall, the indicator dots for the investment climate, investment situation and expectations are green. The appetite for new investments is bolstered by what likely continues to be a favourable price environment. Assessments of entry valuations for new investments fell by 10.1 points but, at now 17.0 balance points, are still within their historically highest tercile, so that the indicator dot remains just barely green.

Mixed signals from deal flow

The demand environment improved slightly in the final quarter. Assessments of the levels of deal flow volume climbed by 4.3 points to 11.2 balance points. This was mainly driven by situation assessments, which rose by 7.3 points to 7.9 balance points, thereby improving more strongly than expectations, which posted an increase of +1.3 points to 14.4 balance points. As expectations were better than situation assessments, investors obviously continue to expect growing demand for funding from start-ups over the next six months.

In terms of demand, however, quality is an issue. Investors rated the quality of deal flow significantly lower in the past two quarters. At -10.9 balance points, the indicator dot – for business climate, situation and expectations – jumped to red for the first time since mid-2020. Sentiment around innovativeness has also cooled significantly. The sentiment indicator for deal flow innovativeness had slipped into negative territory and, despite gaining 10.2 points to reach -2.9 balance points, was unable to recover in the final quarter. Relevant expectations, however, were much better at +3.7 balance points than situation assessments at -9.6 balance points. This shows that investors are counting on start-up projects to become more innovative again.

Given that doubts have arisen about the quality of demand, now, more than ever, start-ups in search of VC are well advised to individualise their investment proposals and align them as well as possible to the specific investment criteria of the relevant investors.

Comments on the current trend

Georg Metzger,
Senior Economist at KfW Research
"The recovery in sentiment in the German venture capital market dipped at the end of the year. But the further improved expectations give reason to be optimistic that the business climate will soon gain new momentum. The fundraising and exit situation is showing signs of easing. Both are important elements of the VC funding cycle and are sure to be factors for the growing investment appetite. So, despite mixed signals from deal flow, the initial outlook for investment activity in 2025 is good."

Ulrike Hinrichs,
BVK Board Spokeswoman
"Although sentiment cooled off slightly at the turn of the year, the venture capital industry is optimistic about the new year. The current dip in sentiment was probably just a brief spell. Business expectations and more positive assessments of a number of sentiment factors rather point to investor optimism. The improving assessments of fundraising, exits and depreciations in particular give hope for a successful venture capital year 2025."

Calculation of the German Venture Capital Barometer

The **German Venture Capital Barometer** is based on a quarterly survey of the members of the German Private Equity and Venture Capital Association (Bundesverband Deutscher Kapitalbeteiligungsgesellschaften – BVK), the member investors of the Deutsche Börse Venture Network (since the 2nd quarter of 2021) and further private equity companies with registered offices in Germany. It reports the business climate in the German venture capital market on the basis of assessments provided by private equity firms with a focus on young companies. All sentiment indicators represent the average of the balance of situation assessments (share of 'good' minus share of 'bad') and the balance of expectations identified at the same time for the coming six months, normalised to their respective historical mean balance values as baseline level. As a result, the maximum or minimum value of the indicator may exceed or fall below +100 or -100 as the actual maximum or minimum. Because of the way the barometer is constructed, positive indicator values point to above-average sentiment and negative values to below-average sentiment.

The **German Private Equity and Venture Capital Association (BVK)** is the voice and the face of the private equity industry in Germany. The association is committed to improving conditions and facilitating access to private equity so that even more businesses in Germany can benefit from private equity. It has some 300 members. These include around 200 private equity companies and investors as well as some 100 consulting firms and service providers of the industry.

BVK
Bundesverband
Beteiligungskapital e.V.

The **Deutsche Börse Venture Network (DBVN)** was launched in 2015 and is now Europe's largest network for growth finance and 'Capital Market Readiness'. It focuses on providing efficient access to capital and has an extensive range of networking and training services. The network of more than 200 fast-growth businesses and more than 450 investors has already enabled 13 IPOs and numerous trade sales.

Deutsche Börse
Venture Network