Venture capital market study 2023

Financing startups with venture capital and valuation of startups in real-life practice

pwc

Editorial

The financial ecosystem of startups is driven by venture capital from initial investment until exit, giving founders, managers and employees the space to pursue their passion and potential. Once again, we level-up transparency regarding private-law agreements between the parties by diving deep into financing, valuation and legal terms as well as the level of current resilience of the overall venture capital market.

Our 4th study of this kind, also supported by BVK*, allows us to provide all participants with a deeper insight into the financial ecosystem, in addition to the well-known statistics on the (corporate) venture capital market. Based on a broad and in-depth survey of investors, this study creates a unique database for Germany, enabling benchmarking and better decision-making.

This interdisciplinary ‘bridge’ between valuation practice and the legal framework of funding rounds in investment agreements also allows conclusions to be drawn about negotiation processes and the motivation behind them. Venture capitalists, together with founders and managers, can increase transparency and thus make a better contribution to the success of startups.

We hope you will find the information useful and would welcome any suggestions you may have.

Best wishes

Prof. Dr. Dirk **Honold**

Technische Hochschule Nürnberg

Enrico **Reiche**

pwc

Gerhard **Wacker**

pwc

*The study was supported by German Private Equity and Venture Capital Association (BVK)

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Executive summary

For this market study, Prof. Dr. Dirk Honold (TH Nuremberg, University of Applied Sciences) and PwC Germany surveyed German and Venture Capital investors in startups that focus on the German market in their investment strategy or have made deals in Germany. The entire study is focused on the German target market. Across all questions (except specific detailed questions), the number of participants increased to 63 investors at the peak. The number of participants is shown with each question.

Overall, the study shows a significant decrease in the number of deals and deal volume in 2023 compared to 2022. Underlying trends, such as investors' focus on B2B business models and impact investing, also continued in 2023.

In contrast to last year, expected IRRs have decreased compared to 2022, except for later-stage companies. For Early Stage investments, the average expected IRR for a single target company is 31% (2022: 36%), while for Growth Stage it is 25% (2022: 32%). Only for Late Stage does the IRR increase from 24% to 28%.

As a result, investors are also engaging in more negotiations on deal terms. For investors, flexibility, especially, has increased in the core parameters of target ownership stake, investment amount, and valuation.

Executive summary (I/IV)

General

1

In 2023 the number of deals as well as average round size decreased significantly by ~40%/~54% compared to 2022 (compare key insights 0.1)

2

The strong trend to B2B business models is ongoing within the VC ecosystem. Approximately 80% of participants place over 70% of their investments in B2B business models while close to 85% of participants report less than 30% B2C investments. (compare question 7)

3

Although market participants occasionally make investments > €50M in 2023, the majority of initial investments as well as follow up investments are still in a range from €1M to €5M. (compare question 12)

4

CVCs accept participation quotas below 10% five to six times more often than VCs. (compare question 13.2)

Executive summary (II/IV)

Valuation methods

5

Compared to 2022, the expected IRR related to the single target portfolio companies has decreased significantly for Early Stage investments: The average IRR expected is 31% (2022: 36%), while for Growth Stages it amounts to 25% (2022: 32%). Only for late stage investments has the IRR increased from 24% to 28%. (compare question 14.1)

6

The expected IRR in relation to the total fund performance has decreased. The average IRR is at 22% (-4% compared to 2022) for Early Stage while for Growth Stages it amounts to 20% (-4% compared to 2022). (compare question 15)

7

Despite the shifts in IRRs, the expected multiples associated with portfolio companies are only slightly decreasing, except for Late Stage. This could indicate that investors tend to have longer holding periods.

8

As deal flow has become less relevant compared to previous years, exit management across all stages and deal selection in Early Stage have become more important. (compare question 19.2)

9

For Early Stage investments, the investor's own experience remains the most relevant factor for company valuations, followed by the market logic, VC method and various multiple approaches. DCF methods only gain importance in the Later Stage. (compare question 20.1)

Executive summary (III/IV)

Drafting of agreement / legal terms

10

Investors are currently negotiating more on deal terms. In particular, flexibility is increasing around the core parameters of target ownership, investment amount and valuation. (compare question 26.2.)

11

The importance of liquidation preferences for investments remains high. In particular, the use of participating liquidation preferences has increased across all stages compared to last year. (compare question 27)

12

ESOP schemes have been extensively used in the past, but the frequency of application increased in the 2nd year in all phases, confirming the essentiality and the importance of ESOP for the ecosystem. (compare question 35)

13

The declining valuations observable in the market are accompanied by higher ESOPs for managers in later stages. (compare question 36.1)

14

Less than 17.1% of the participants still think about using the improvements of §19a EStG often when issuing real shares. The changes due to the „Zukunftsfinanzierungs-gesetz“ are still not clear to 60% of the marked participants. (compare question 37)

Executive summary (IV/IV)

Additional questions – VC-market resilience

15

Predominantly declining indicators of market resilience are leading to significant shifts in market metrics, showing a massive increase in bankruptcies, a sharp decline in exit valuations, as well as fewer trade sales and significantly fewer IPOs.
The majority of investors expect lower returns from their portfolio companies.
(compare question 40)

16

The reduction of downside risk is receiving increased attention from many investors.
Despite this, we see that investors are still committed to their portfolio companies and continue to finance them. That is reflected by an increased number of bridge-financing rounds, which are more frequent than before the crisis, with 95% of all participants.
(compare question 41)

17

Convertible loan agreements are currently the most popular choice for bridge financings. These are accompanied by less founder-friendly terms than in pre-crisis times.
(compare question 42)

18

The vast majority expects to see more startup IPOs not before H2 2024.
(compare question 44)

Testimonials

The current market situation in VC presents startups with further challenges in raising capital. Metrics are changing and investors are increasingly looking at strong KPIs instead of vision & story as they did some time ago. Accordingly, not only the raising of capital but also the right investors who support startups with their network or know-how in achieving the KPIs have become increasingly important for startups. This is why CVCs and corporate backed VCs are also becoming increasingly relevant on the cap table, as they often bring exactly that to the table.

Tanja Rosendahl – Managing Partner, F-LOG Ventures

The VC Market Study 2023 provides a robust analysis of the German venture capital landscape, offering invaluable insights into current investment trends and challenges.

The emphasis on capital efficiency and sustainable business models, as outlined in the study, aligns with our investment focus, making the insights provided quite pertinent. The projected market recovery timeline to H2 2024 underlines a cautious optimism that informs our strategic outlook. This study serves as a compass in these turbulent times, offering a lucid analysis that is instrumental for both investors and startups in adapting to the evolving market dynamics.

Thomas R. Villinger – Managing Director, Zukunftsfonds Heilbronn

The study again provides great insight into the German CVC and VC ecosystem. This 4th edition details how participants view and experience market shifts and it will be beneficial for founders, startups and policy makers to continue to collect data in the forthcoming years as well. While 2021 and 2022 were characterised by a somewhat overheated market the industry is now back to normal levels of 2020. A personal observation – due to large amounts of dry powder of many VC funds valuations of deals addressing hot topics are spiking. Also, the difference in multiples paid for perceived quality assets compared to „just“ good companies is increasing.

Christian Siegele – Founding Partner, Capnamic

In a challenging environment, both the German venture capital market and the startup ecosystem have proven their maturity. The growth of recent years is based on a solid and sustainable foundation. We believe that the local ecosystem is well positioned for the next upswing when the geopolitical and economic environment brightens up again. This is also demonstrated by this year's study with its comprehensive insight into venture capital practice. The German market still has huge potential compared to other European countries and even more to the USA or China. Transformation, innovation and technological sovereignty need a strong national venture capital sector. However, our dependence on international capital and the legal framework conditions remain our Achilles' heel.

Ulrike Hinrichs – Executive Member of the Board, BVK

B

General

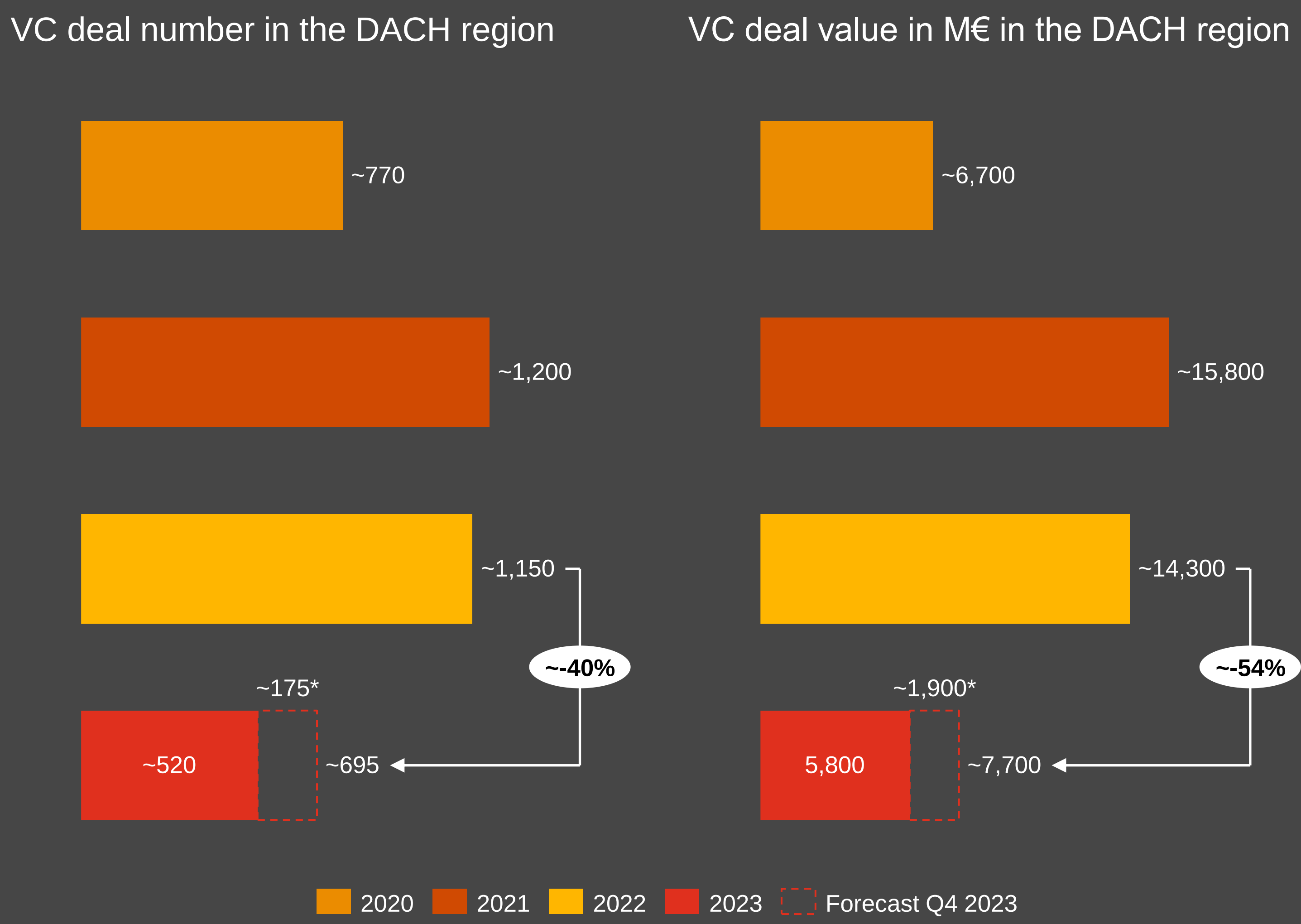
Market Overview – Secondary data

Key Insights

0.1

The total VC market measured by deal value has declined significantly compared to 2022 (~ -54%). The decline in the number of deals is also substantial (~ -40%), but not as significant as the deal value.

Comparison of VC landscape with previous years



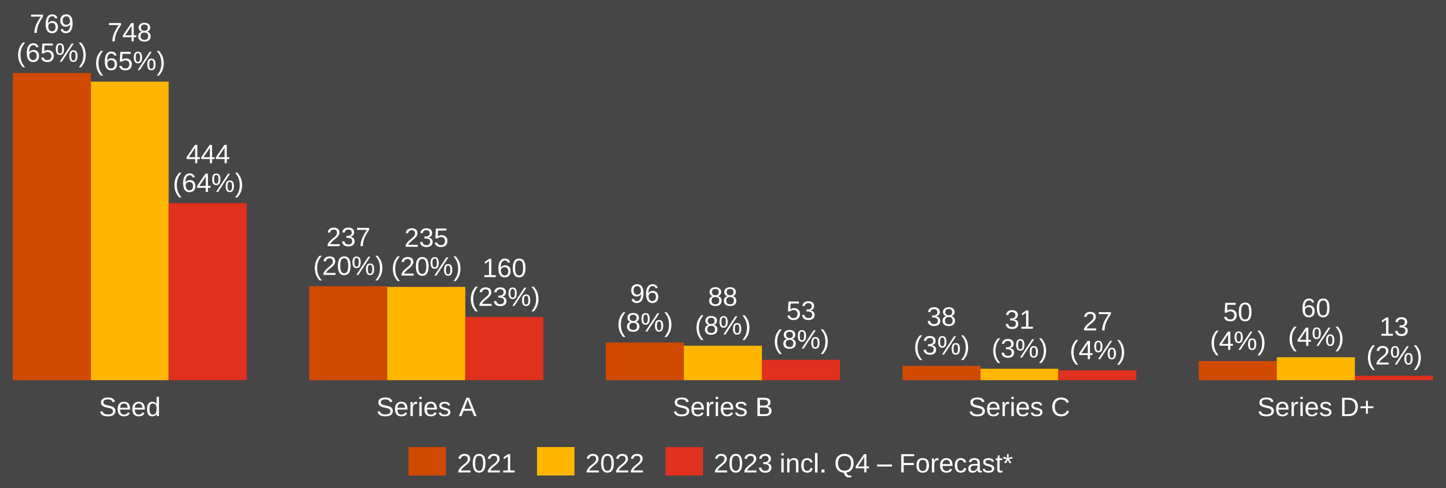
Source: PitchBook Data, Inc., 16th October 2023; Data has not been reviewed by PitchBook analysts; * Average of Q1-Q3 2023 (Forecast is done by PwC and not by PitchBook)

Key Insights

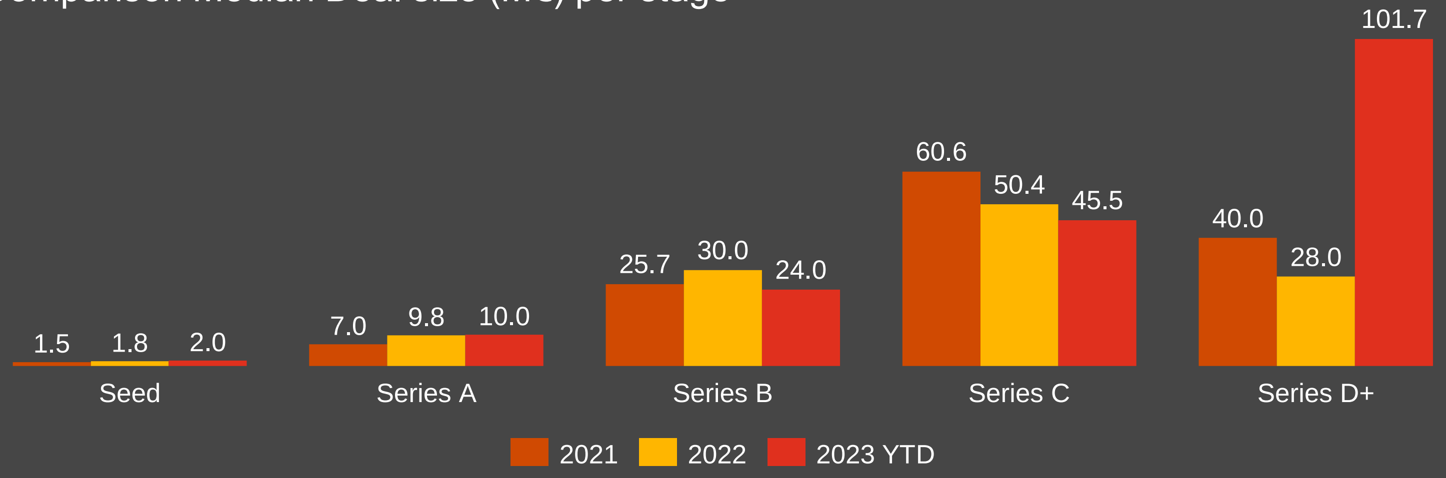
0.2

While the Seed round still accounts for the largest number of deals, the number of Series D+ Deals is decreasing in 2023 compared to 2022. Looking at the median deal size per stage, Series D+ deals are significantly higher in 2023 compared to 2022.

Comparison Number of Deals per stage**



Comparison Median Deal size (M€) per stage



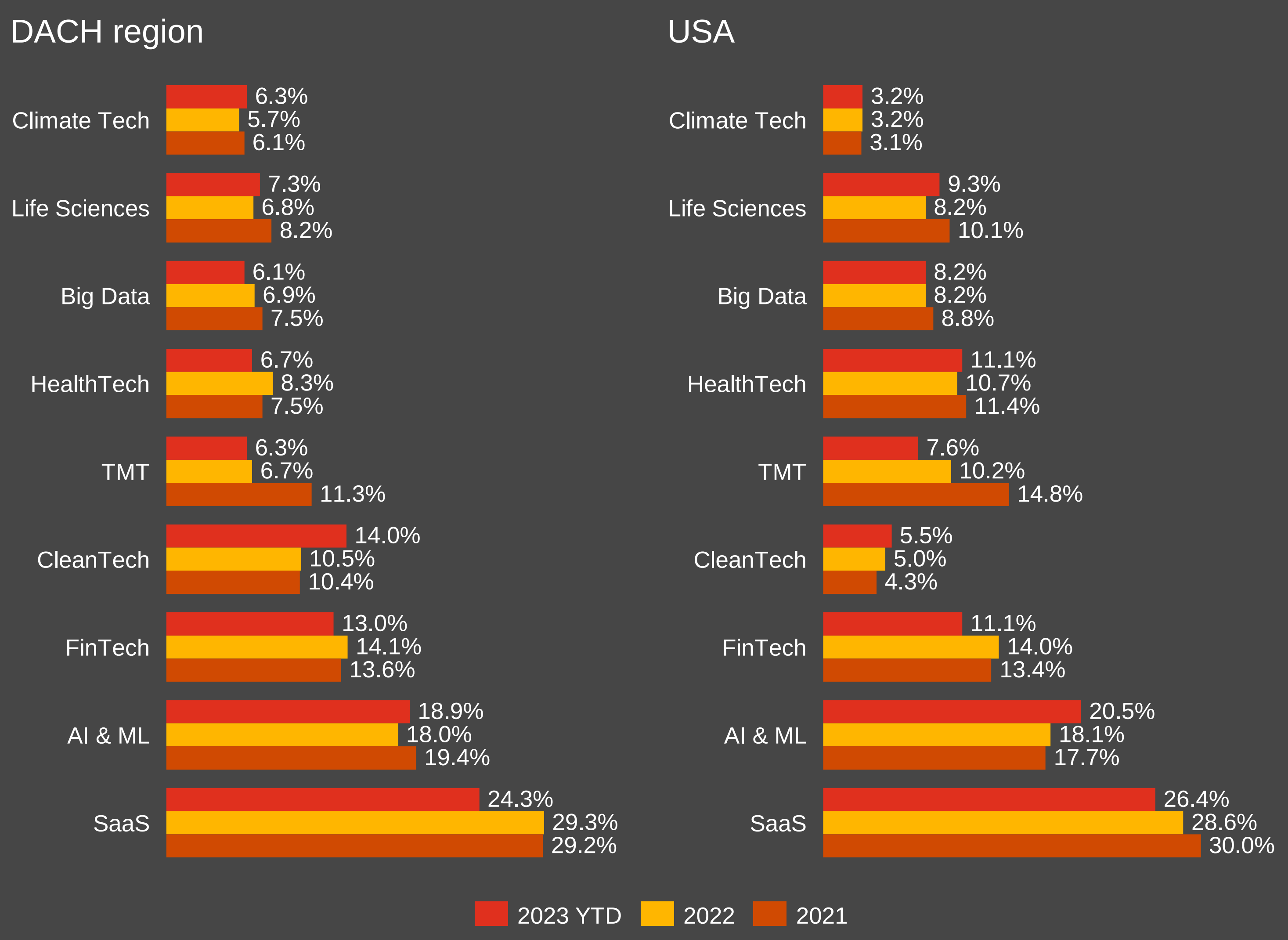
Source: PitchBook Data, Inc., 16th October 2023; Data has not been reviewed by PitchBook analysts; * Q4 Forecast equals average of Q1-Q3 2023 (Forecast is done by PwC and not by PitchBook); ** %-points refer to share of all VC deals in the year

Key Insights

0.3

SaaS, Artificial Intelligence & Machine Learning (AI &ML) and FinTech witnessed the largest number of deals in 2023. Compared to the USA, the DACH region has a stronger focus on the Climate Tech sector in particular (6% vs. 3%).

Distribution of number of Deals across sectors (% of total deals)



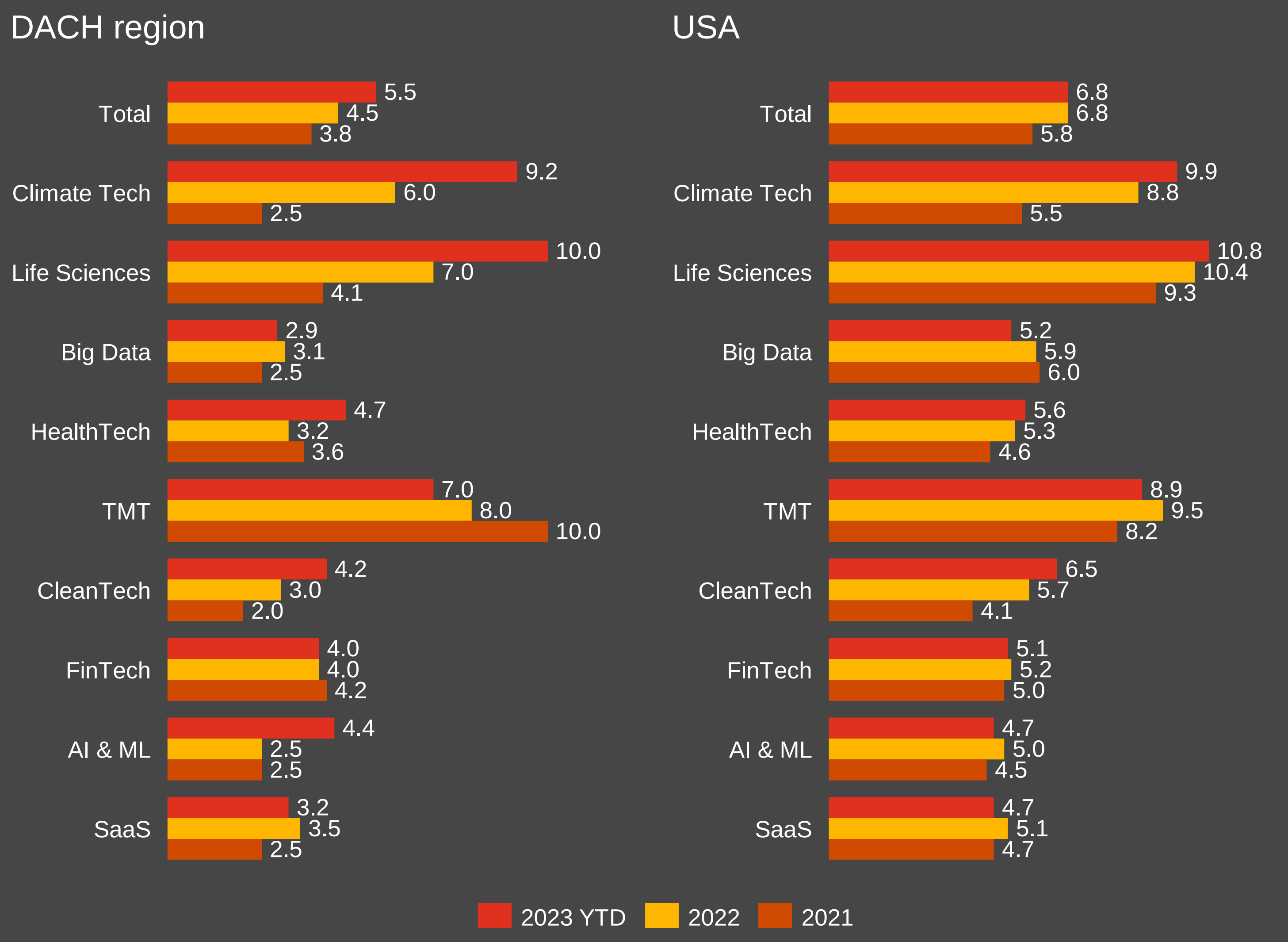
Source: PitchBook Data, Inc., 16th October 2023; Data has not been reviewed by PitchBook analysts

Key Insights

0.4

The sector of Life sciences stood out in the DACH region, with a median deal size of €10.0M during 2023, experiencing a significant increase compared to 2022. Compared to the USA, it can be seen that the median deal size in the USA is ~€1–2M higher across all sectors.

Median Deal size across sectors (in M€)



Source: PitchBook Data, Inc., 16th October 2023; Data has not been reviewed by PitchBook analysts

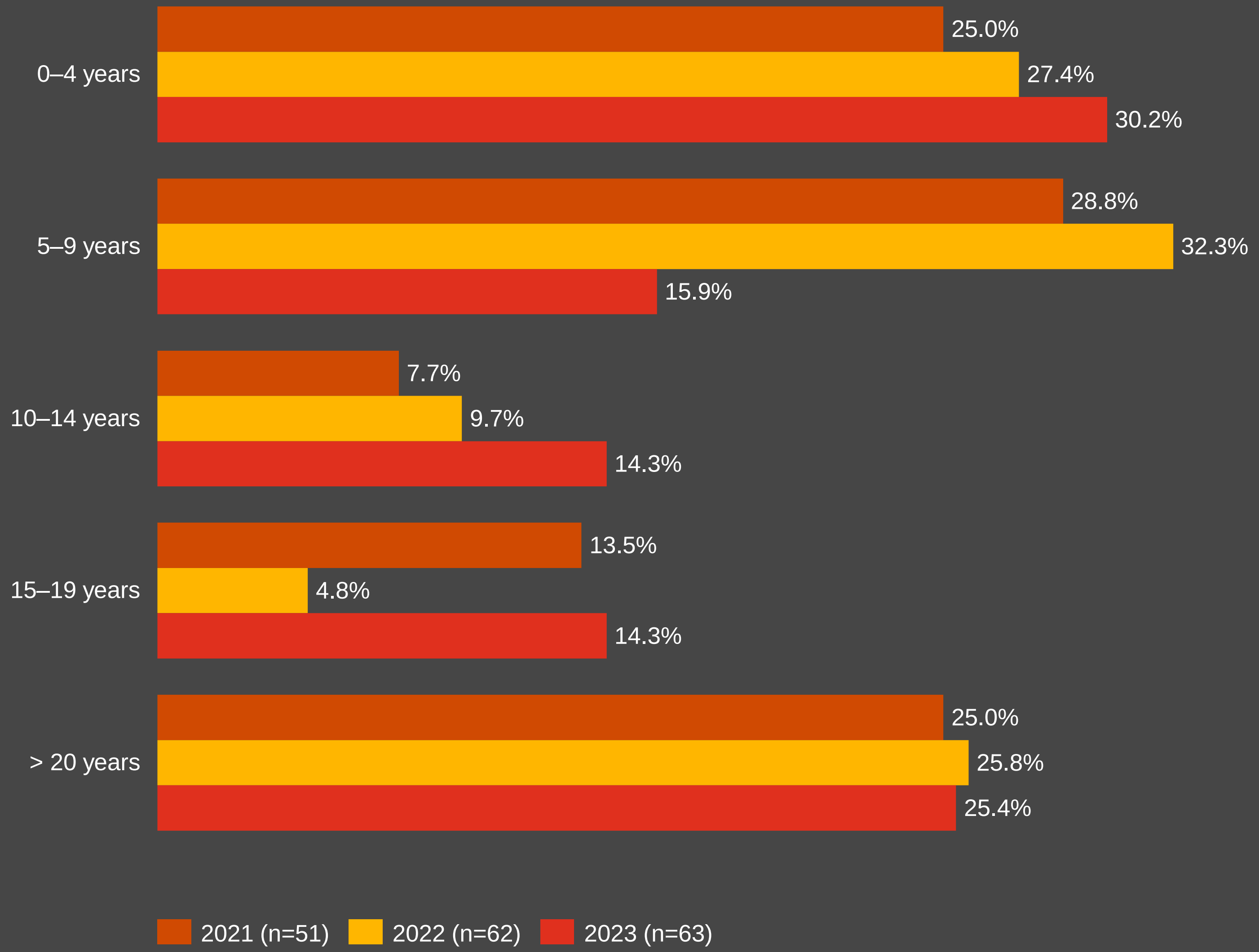
Start –
Primary data

General

1

Again, the number of new venture capital investors has increased from 2021 to 2023. On the other hand, more than 50% of the respondents have more than 10 years of experience in evaluating startups.

personal years of experience in the venture capital industry

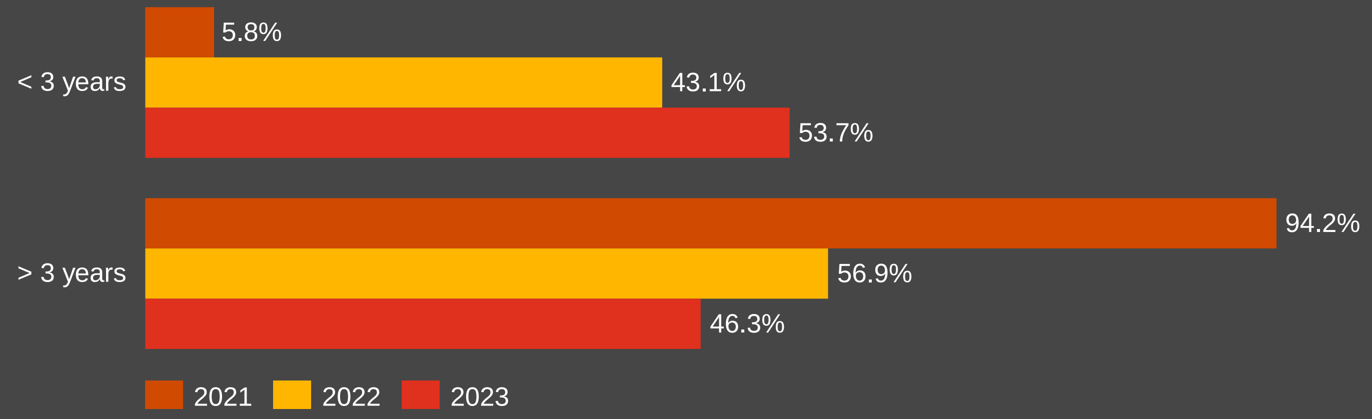


General

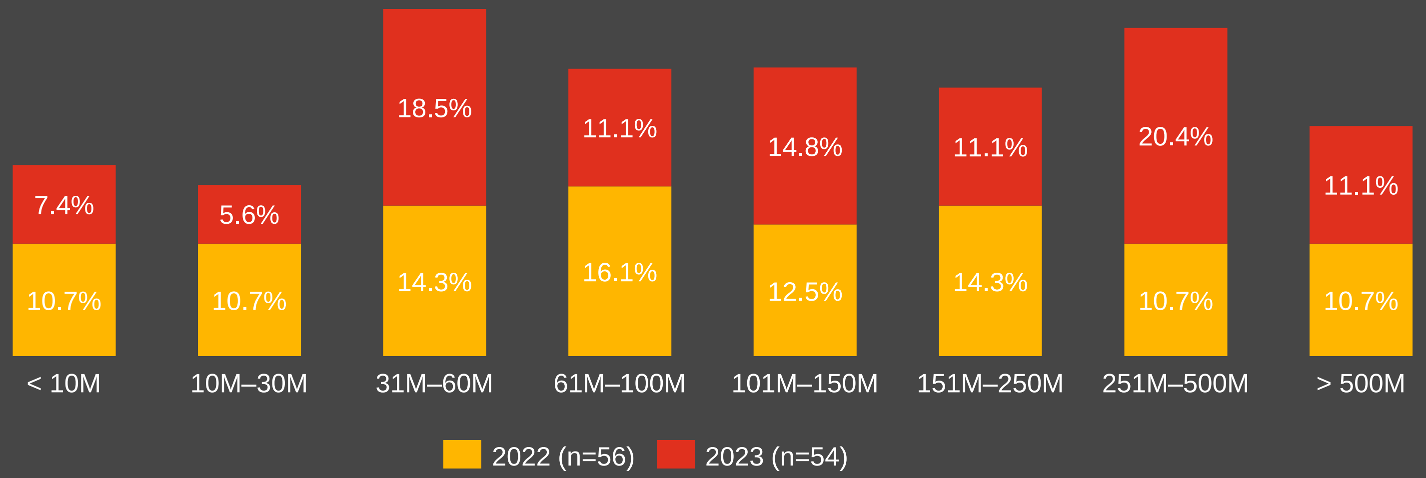
2

More than 20% of respondents manage funds between €251M–€500M – double last year's figure – while more than 50% of funds have been in existence for 3 years or less, a continuing trend.

Vintage year of latest fund



Fund size of latest fund

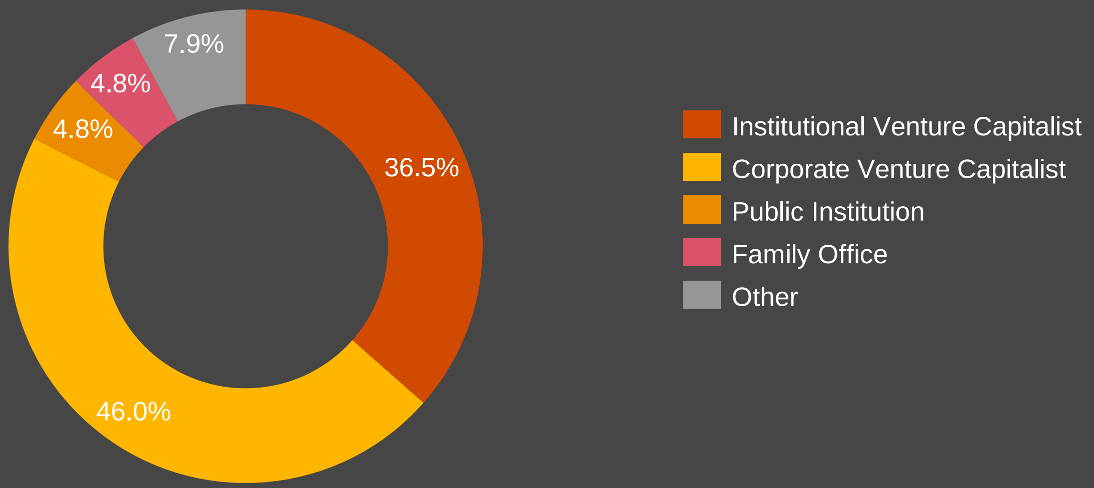


General

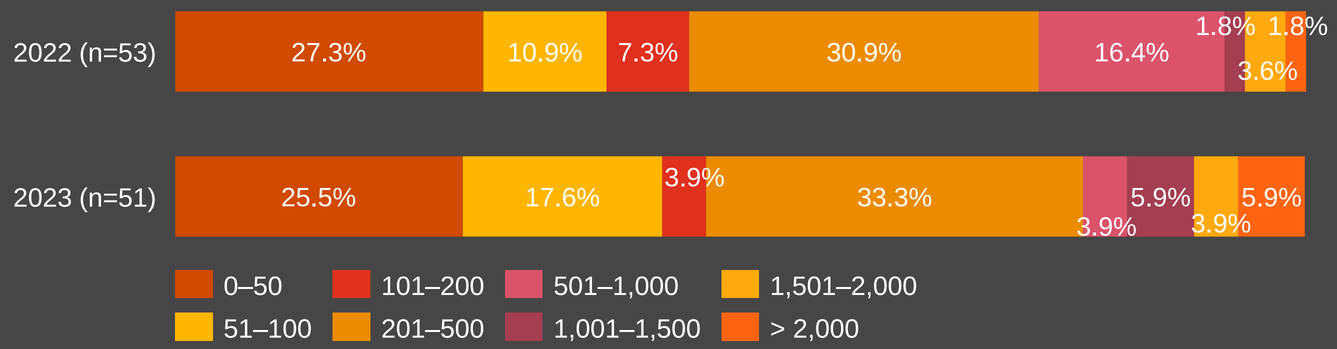
3

The respondents are divided into 37% institutional VCs, ~46% CVCs and 5% (semi)public funds. Almost 95% of funds have less than €1 billion under management. Most are in the €201M–€500M range, with a trend towards higher amounts.

Type of venture capitalist (n=63)



Total assets under management

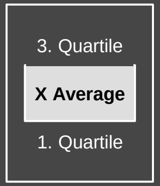


General

4

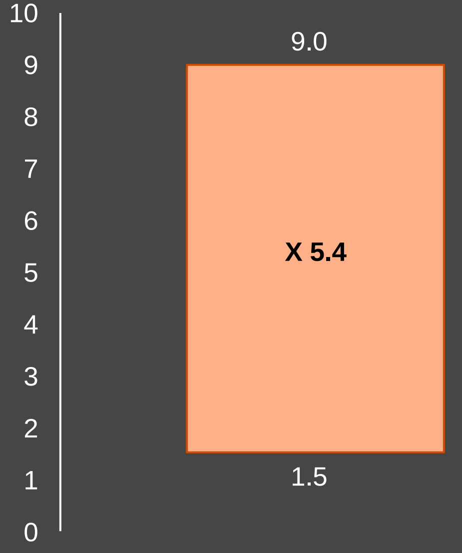
The investment volumes by VCs are almost 40% higher than by CVC. Compared to 2022 and 2021, investment volume of CVC and VC are even more similar.

Investment volume per deal on average



VC

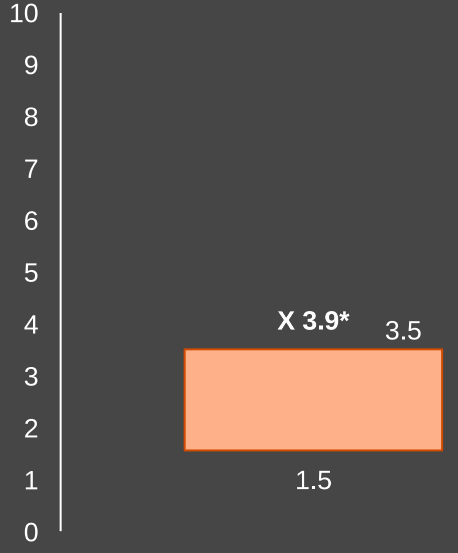
Investment volume per deal on average (in M€) (n=23)



On average (in M€)	VC
2023	5.4
2022	4.9
2021	10.1

CVC

Investment volume per deal on average (in M€) (n=27)



On average (in M€)	CVC
2023	3.9
2022	3.2
2021	3.7

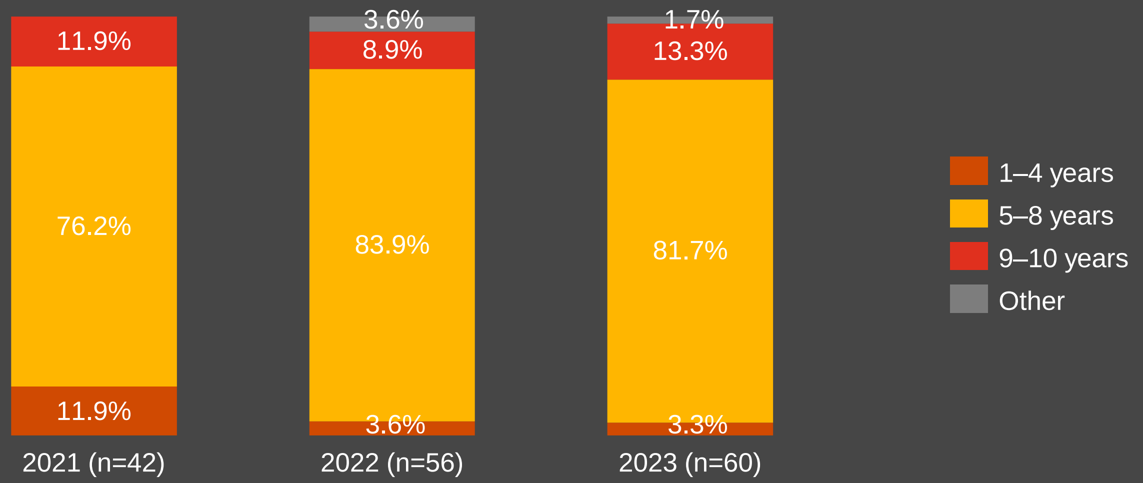
*Average includes outliers.

General

5

The holding period of investments remains in the usual range of 5 to 8 years. Other market players may extend the holding period in some cases. As VC funds tend to work in small teams, the number of deals per year remains relatively low.

Average investment holding period aimed for (in years clustered)



Average	6.2 years	6.7 years	6.6 years

deals aimed to be closed in one year

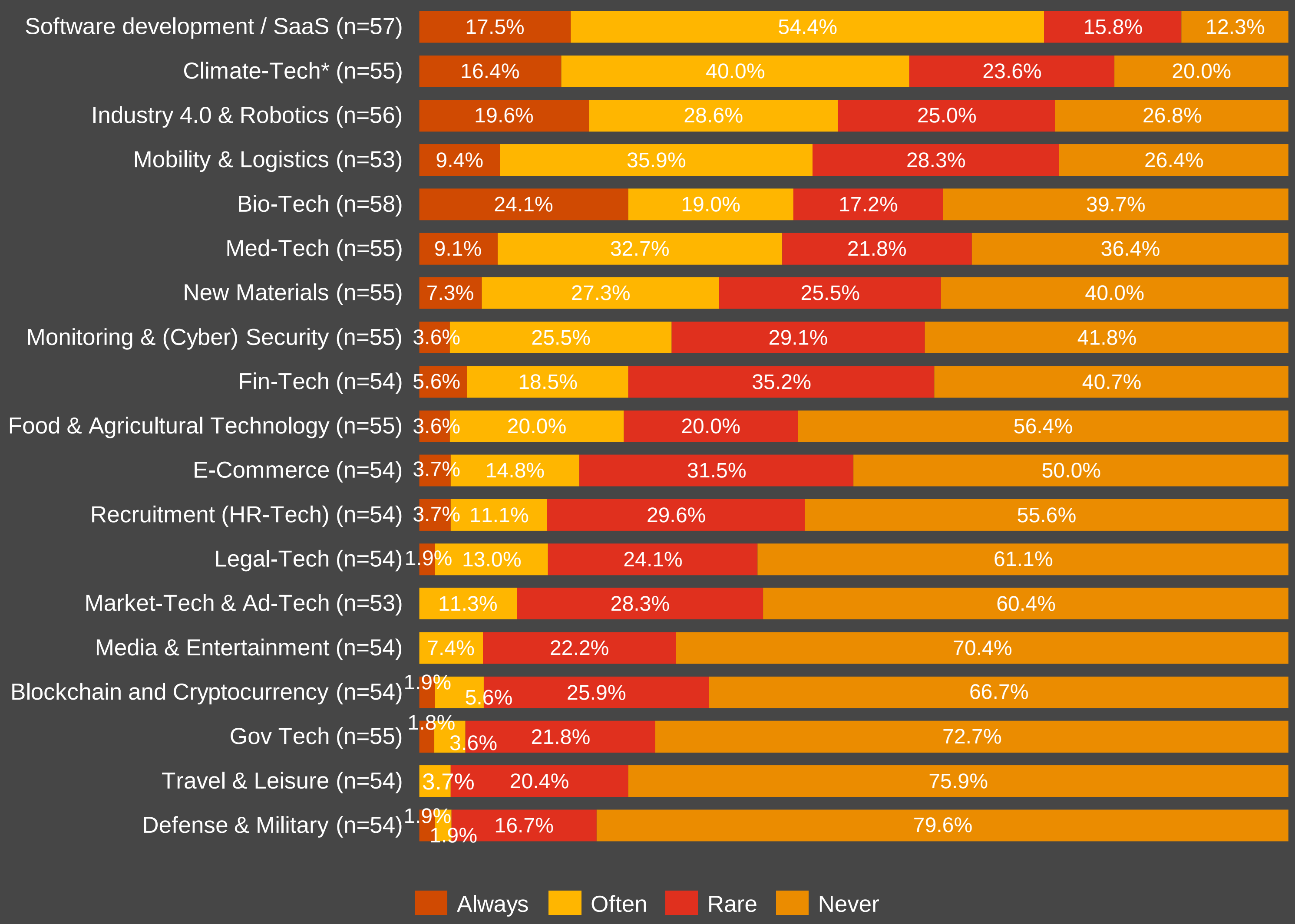
Deals aimed to be closed in one year	Value 2023 (n=60)	Value 2022 (n=56)	Value 2021 (n=42)
Lowest value	0	1	1
Highest value	50	25	50
Average	7.1	6.4	9.0
Median	5.0	5.0	5.0

General

6

The industry focus of participants is predominantly allocated on SaaS / Software Development and Climate Tech followed by Bio Tech and Med Tech. Industries such as Defence & Military, Travel & Leisure and Gov Tech are less well represented.

Industry investment focus



*New Energy & Green-Tech / Clean-Tech

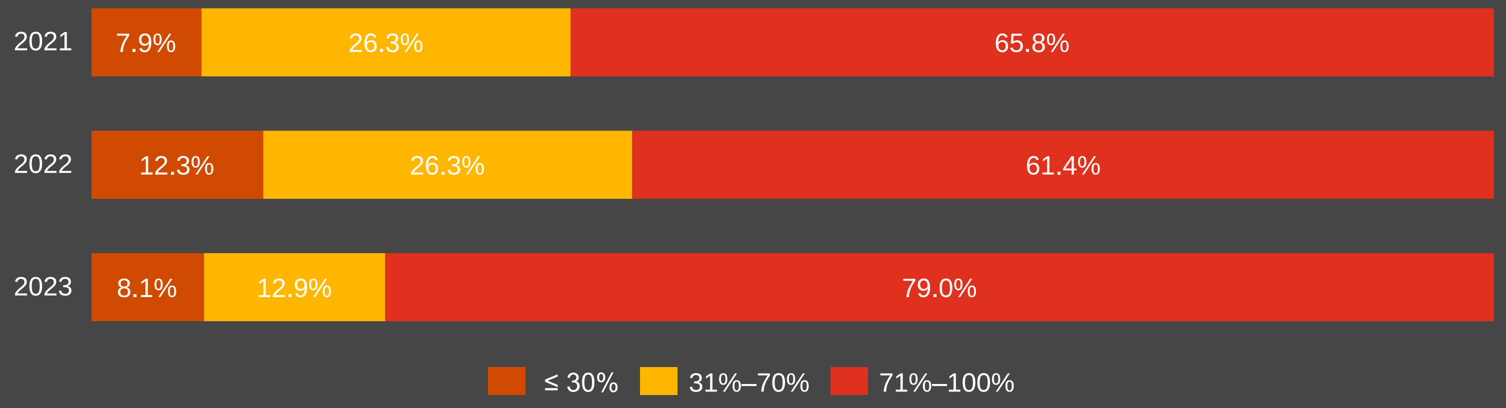
General

7

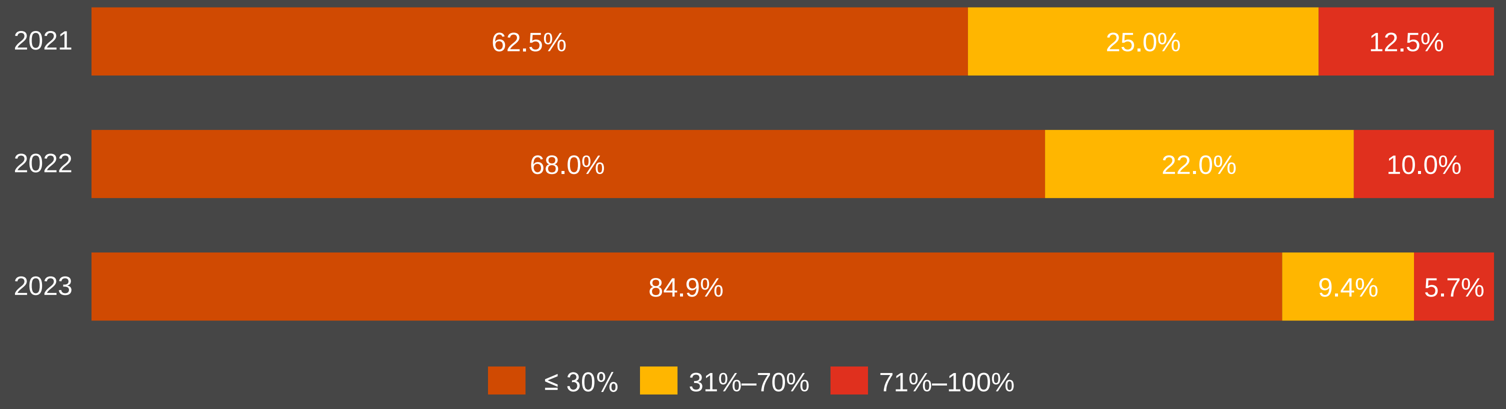
The trend to B2B business models is ongoing within the VC ecosystem. Approximately 80% of participants place over 70% of their investments in B2B business models, while close to 85% of participants report less than 30% B2C investments.

Investment focus regarding the business model of the portfolio companies

B2B – Type of market participants addressed by portfolio companies (n=62)



B2C – Type of market participants addressed by portfolio companies (n=53)

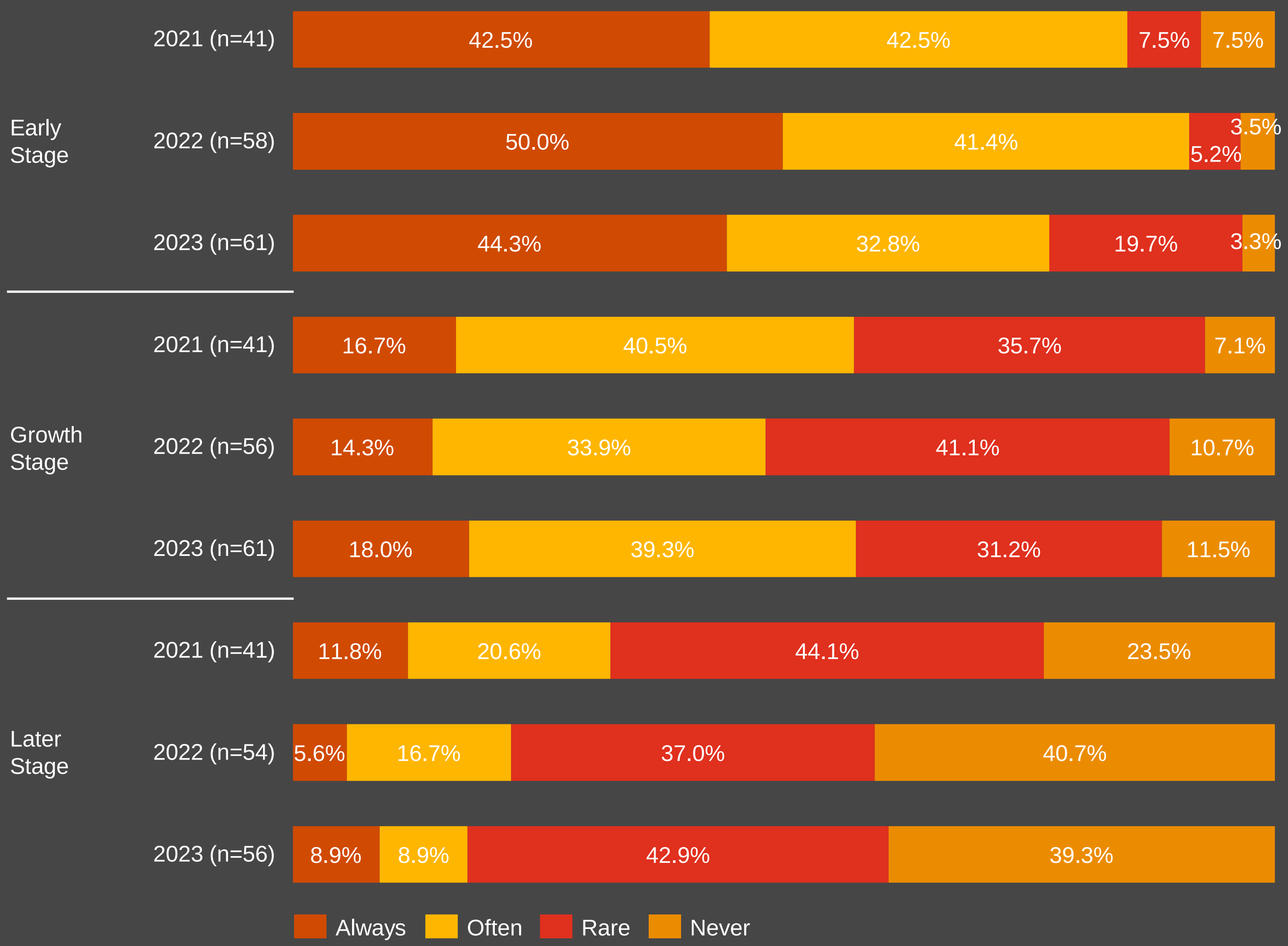


General

8.1

In 2023, the trend towards relatively less Later Stage focused funds continues.

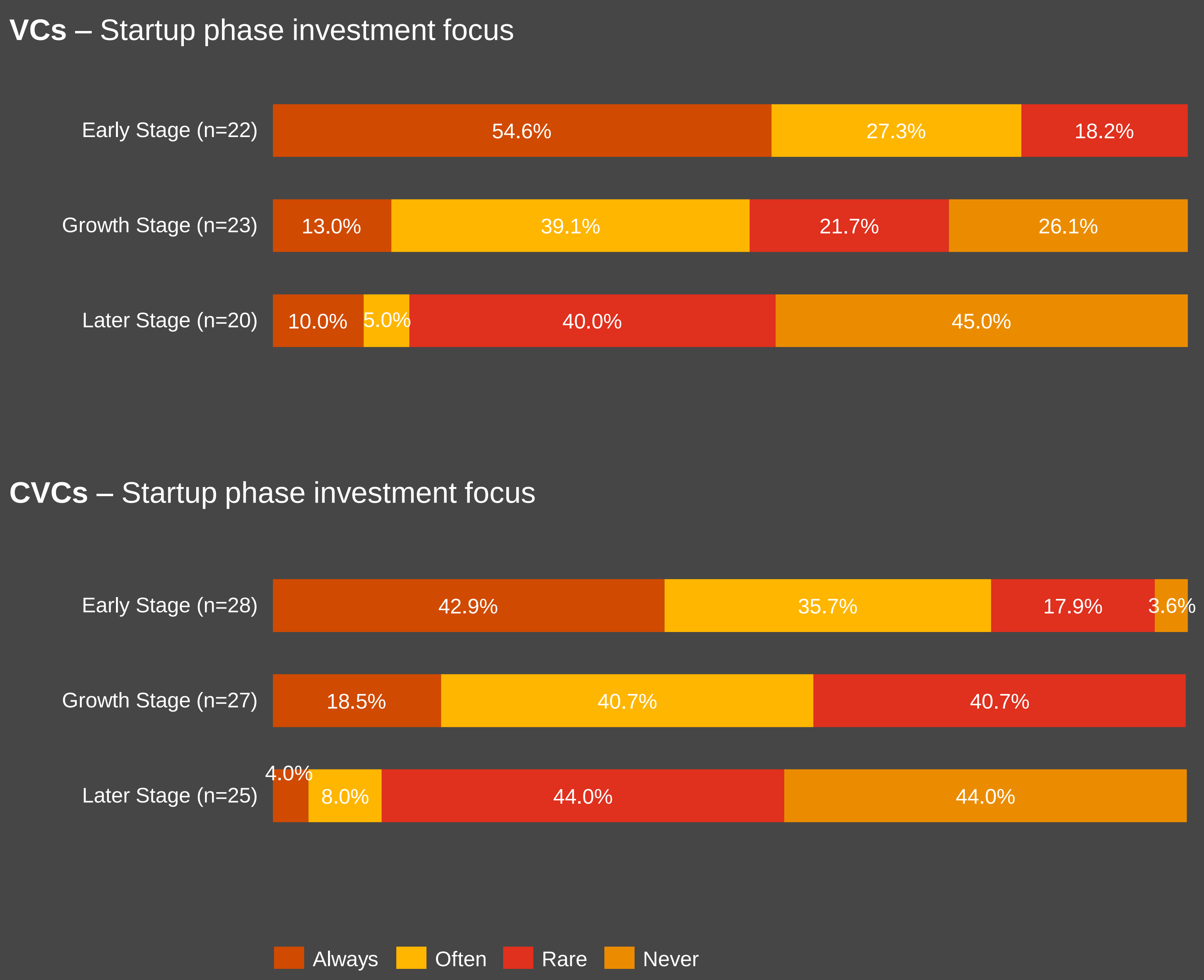
Startup phase investment focus



General

8.2

VCs take a slightly broader approach to investing at different stages than CVCs, with Later Stage CVCs in particular remaining rare.

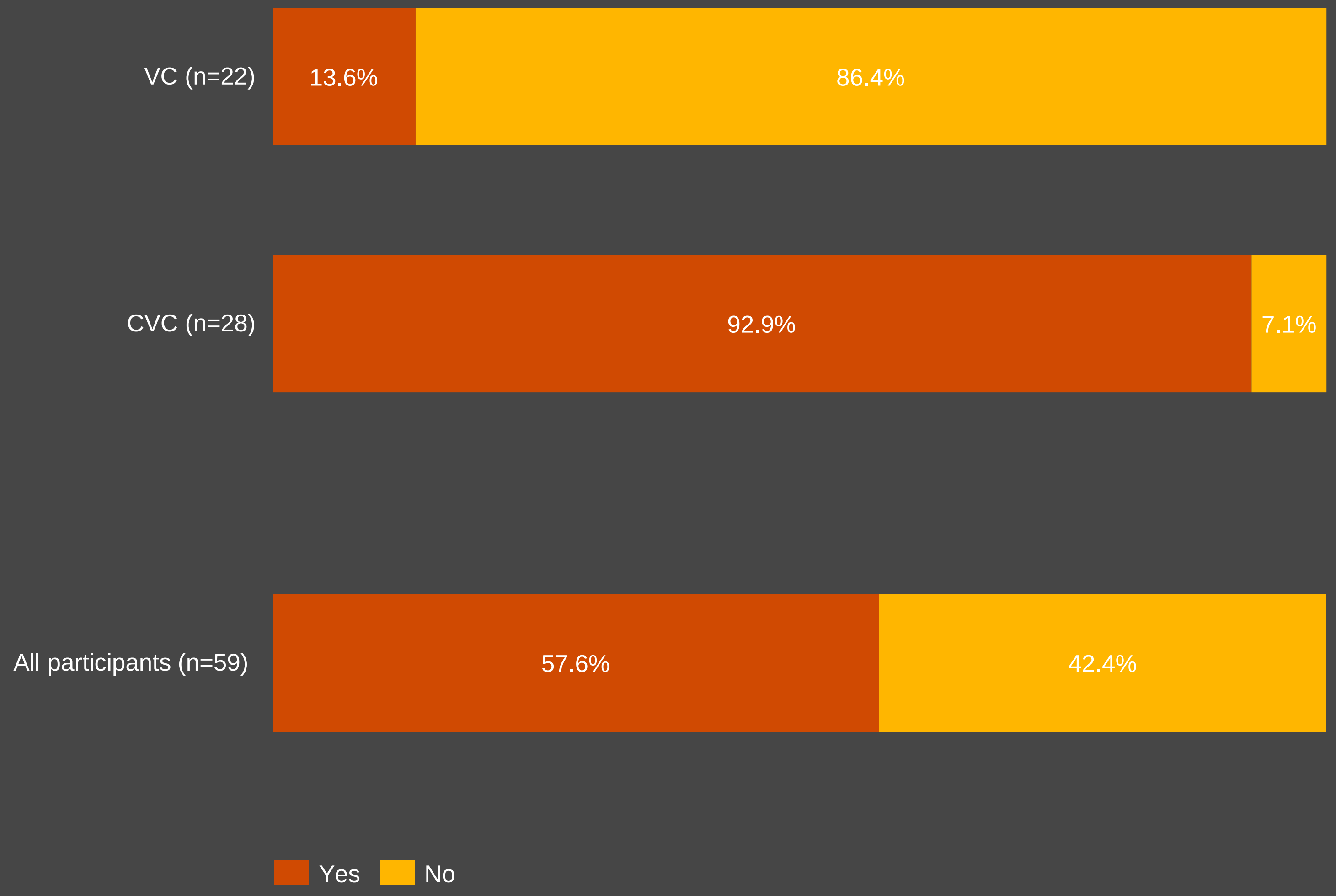


General

9

In line with last year, CVCs still require the additional approval of a supervising committee in over 90% of the cases, whereas VCs can act independently of their supervising committee in more than 85% of the cases.

Required additional approval from supervising committee for investment decisions in addition to the fund's management

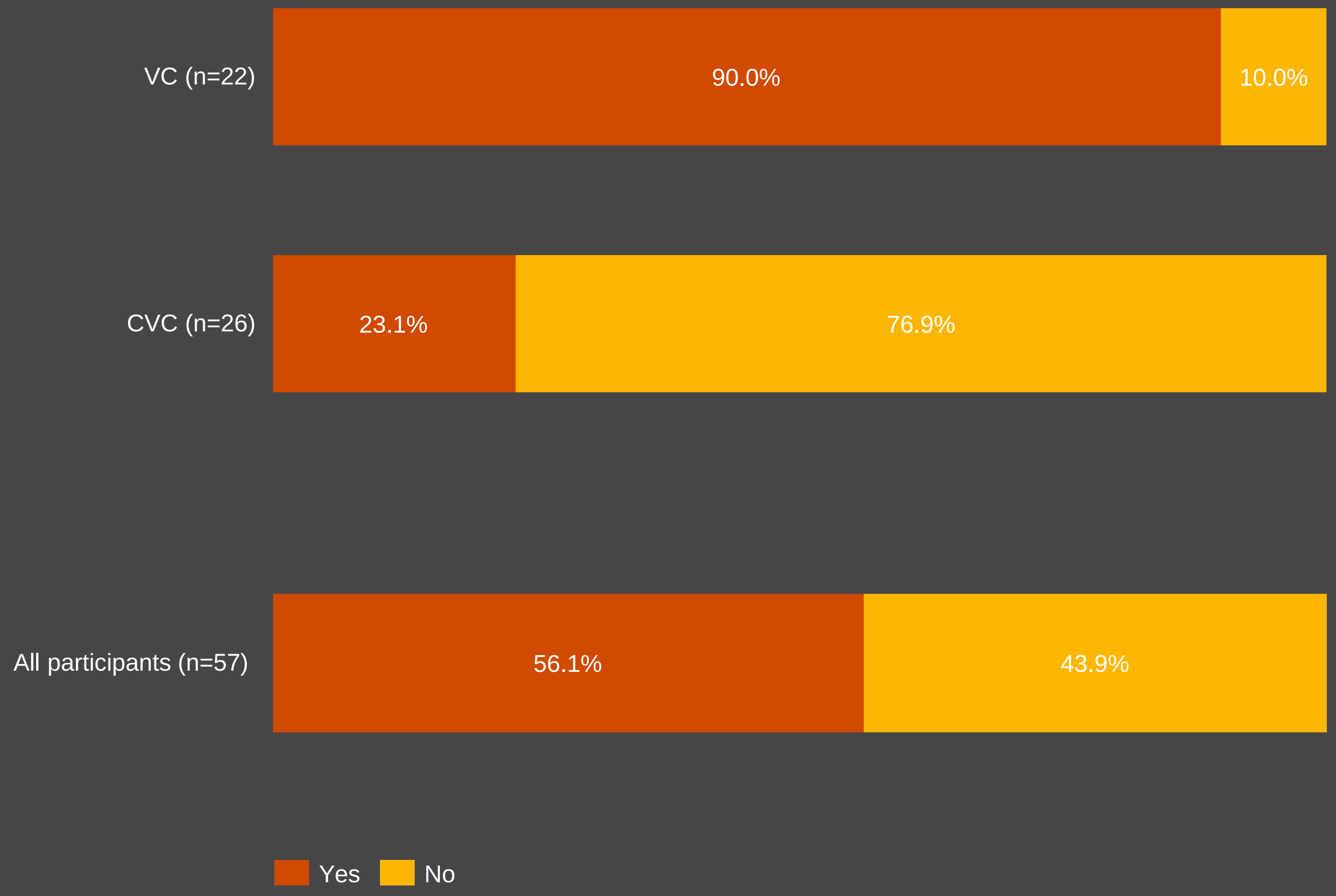


General

10

Similar to last year, CVC investment management is still not compensated with a carry in more than 75% of the cases, despite the fact that VCs as their syndicate partners are compensated with a carry model by default in 90% of the cases.

The investment management (GP) receives compensation with a carry*



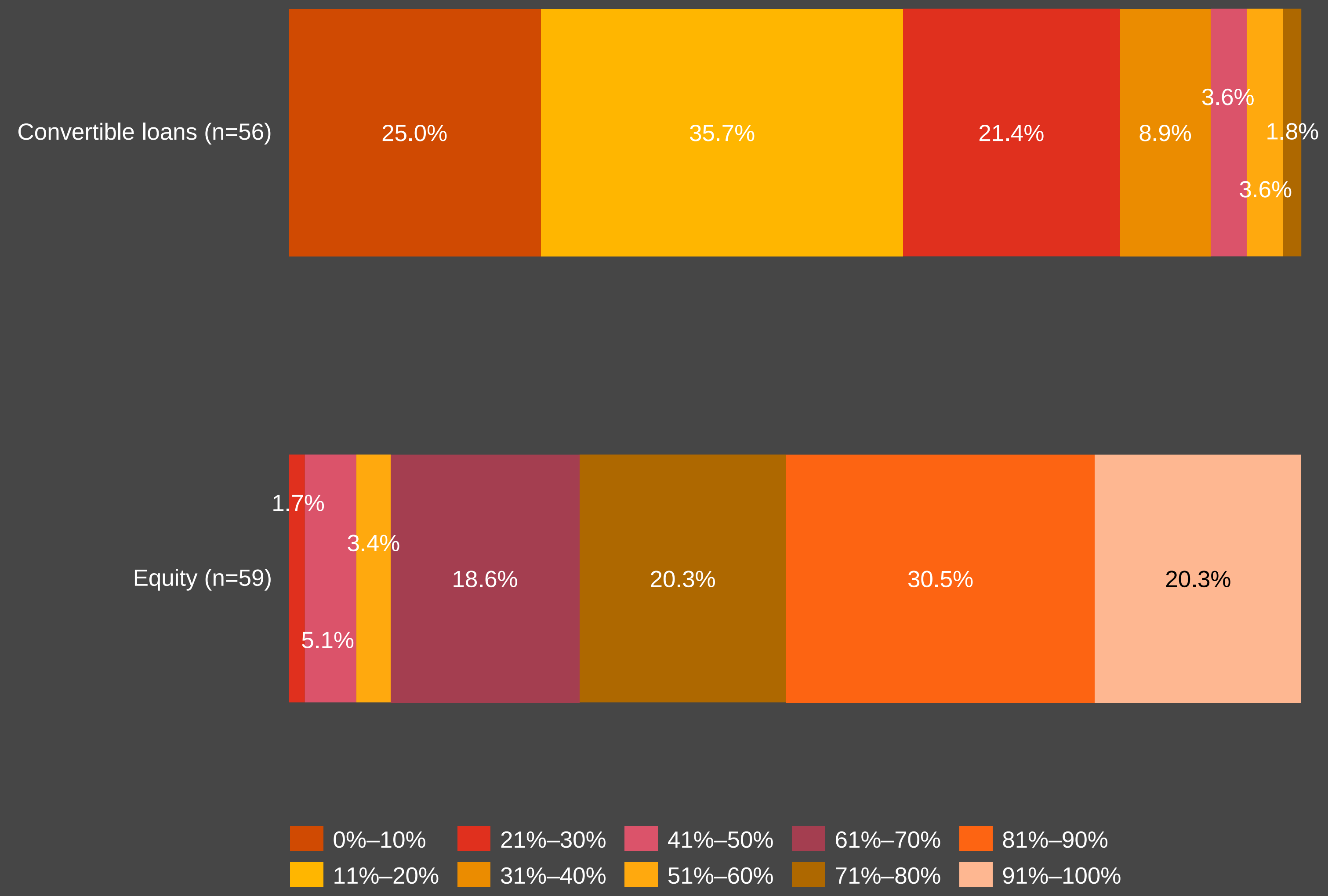
*Additional answers: „Yes per Investment“ with 3.5% in total and „Yes, virtual carry structure“ with 1.8% in total. Both included in answer category „Yes“.

General

11

As type of investment, straight equity investments dominate, whereas convertible loans are often used as an investment alternative (e.g. in bridge financings).

Type of investment instrument used to finance the portfolio companies (breakdown in %)



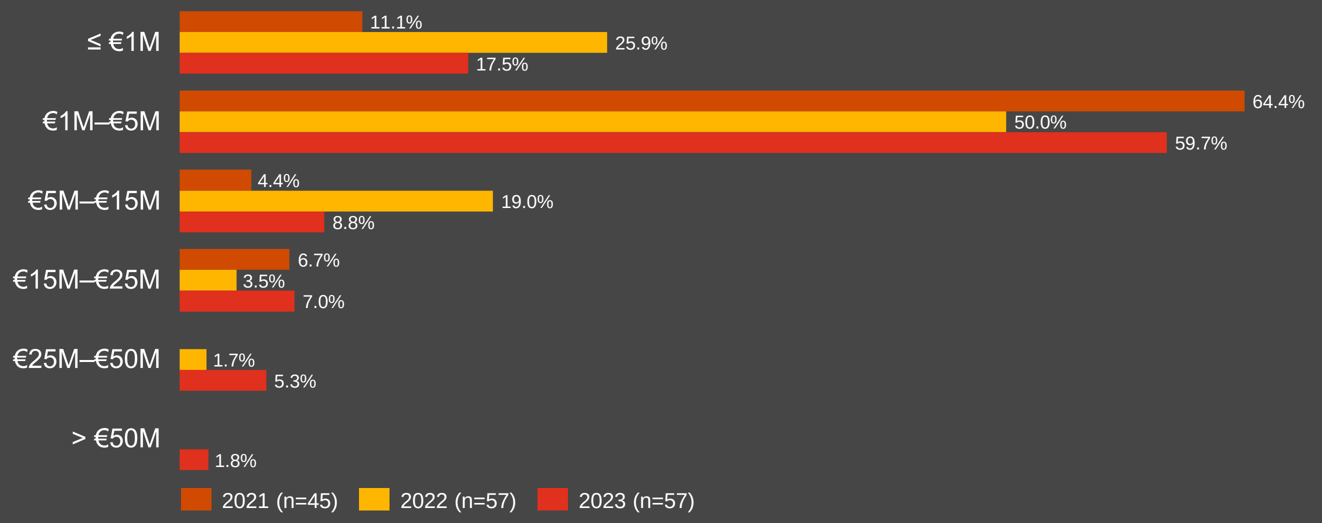
General

12

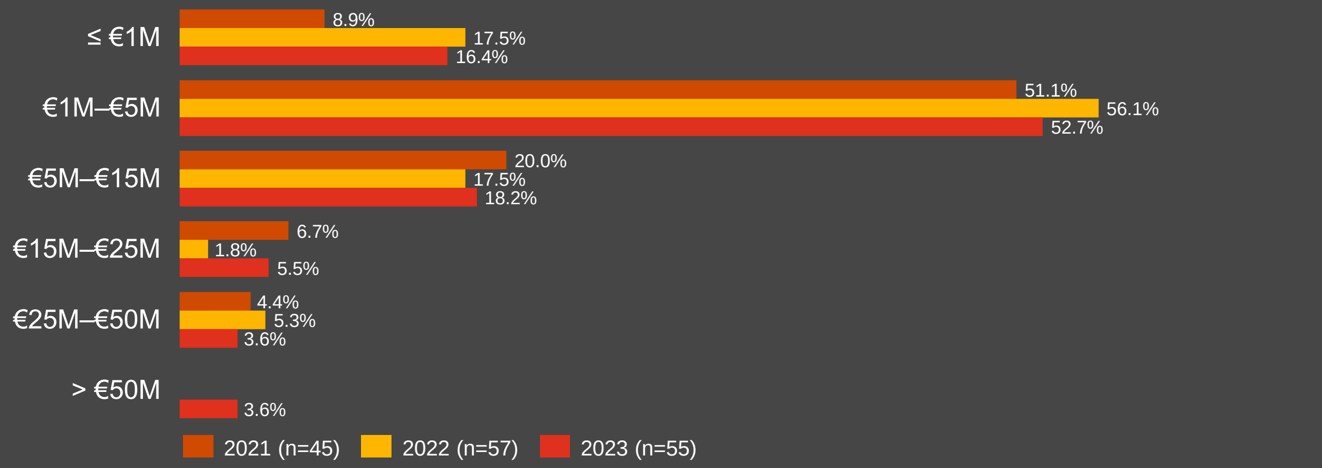
Although market participants occasionally make investments > €50M in 2023, the majority of initial and follow-on investments are still in the €1–5M range.

Amount invested in an individual financing round

Comparison initial investments



Comparison of follow-on investments

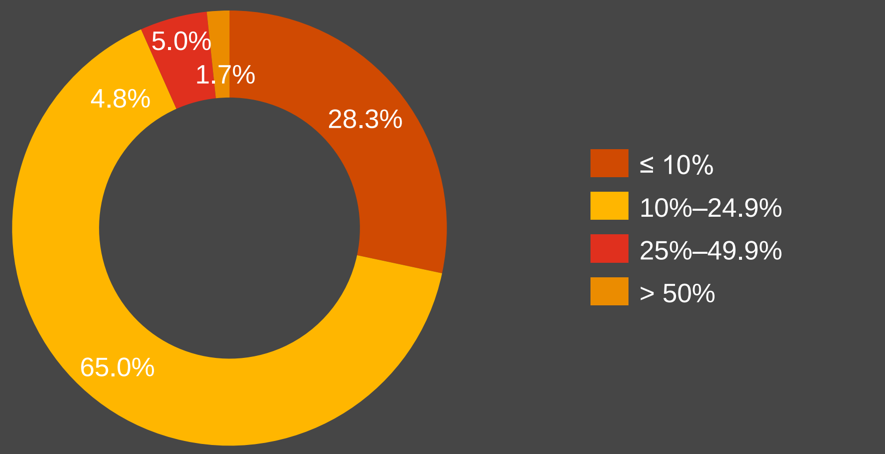


General

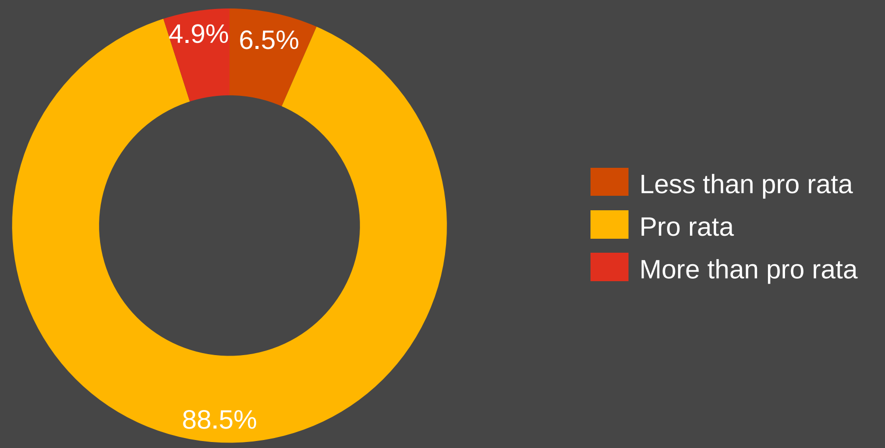
13.1

Target investor ownership levels remain between 10% and 24.9%, with almost 90% planning to make follow-on investments to maintain ownership levels in subsequent rounds.

Expected target participation quota at initial investment (n=60)



Planned participation in follow-on rounds (n=61)

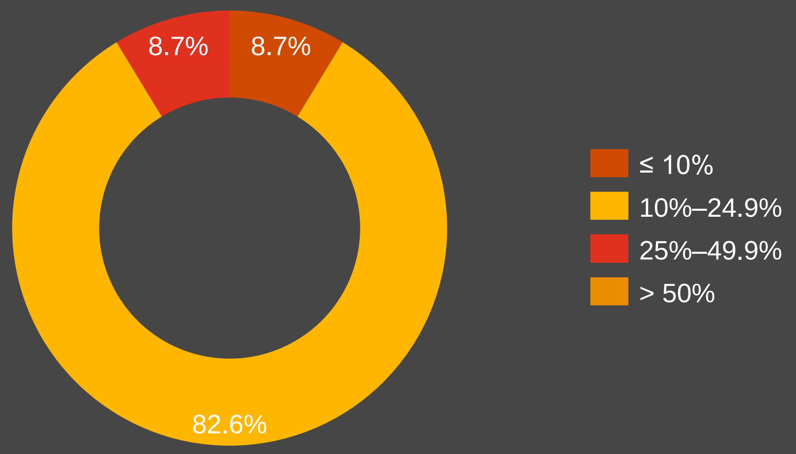


General

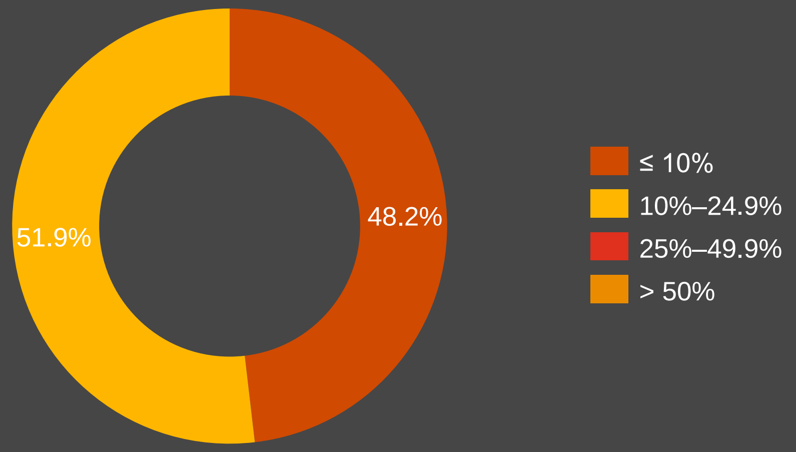
13.2

CVCs accept participation quotas below 10% five to six times more often than VCs.

VC – Expected target participation quota at initial investment (n=23)



CVC – Expected target participation quota at initial investment (n=28)

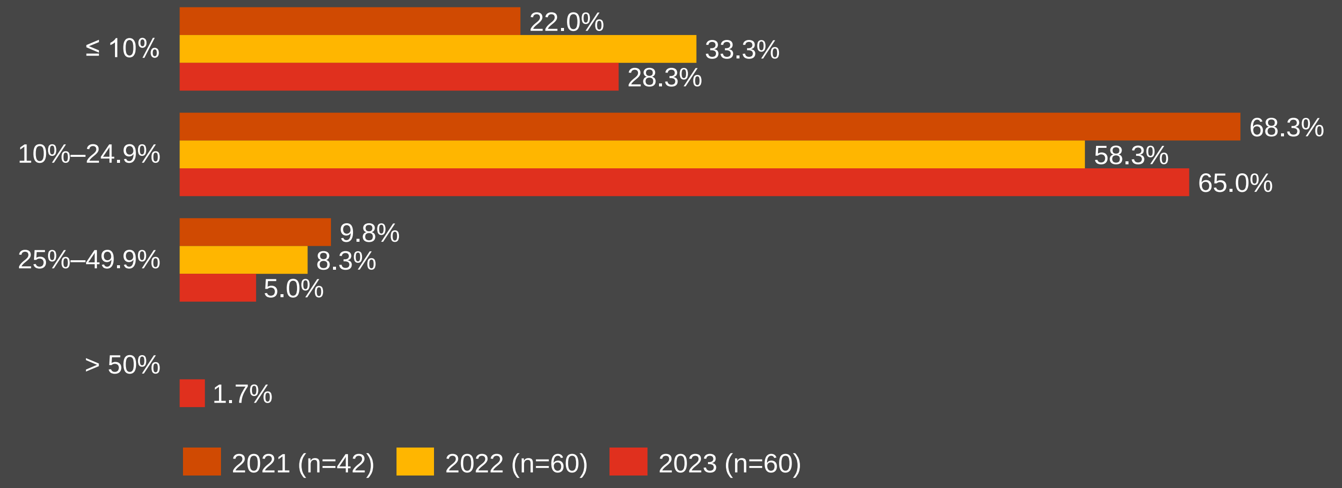


General

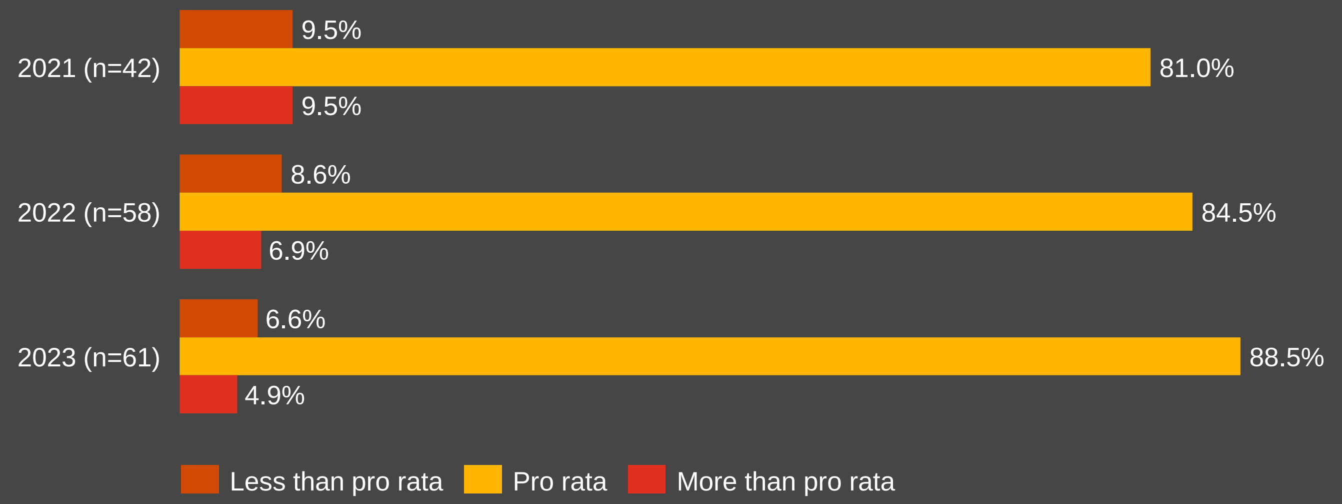
13.3

Overall, the target ownership rate at initial investments is almost constant compared to last year. The planned participation in follow-on rounds shows a trend towards fewer more than pro rata investments.

Expected target participation quota at initial investment



Planned participation in follow-on rounds



C

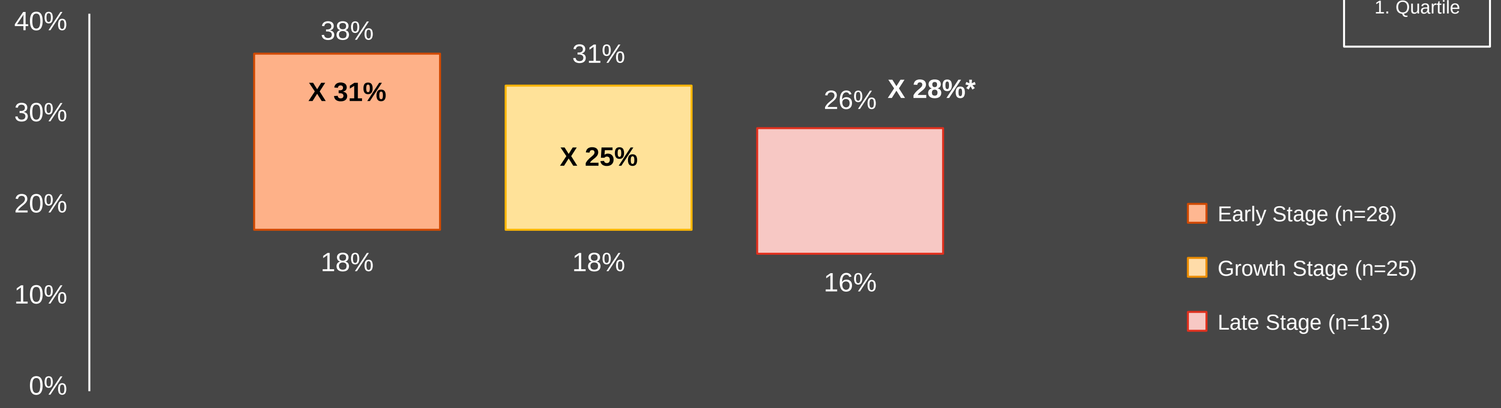
Valuation methods

Valuation methods

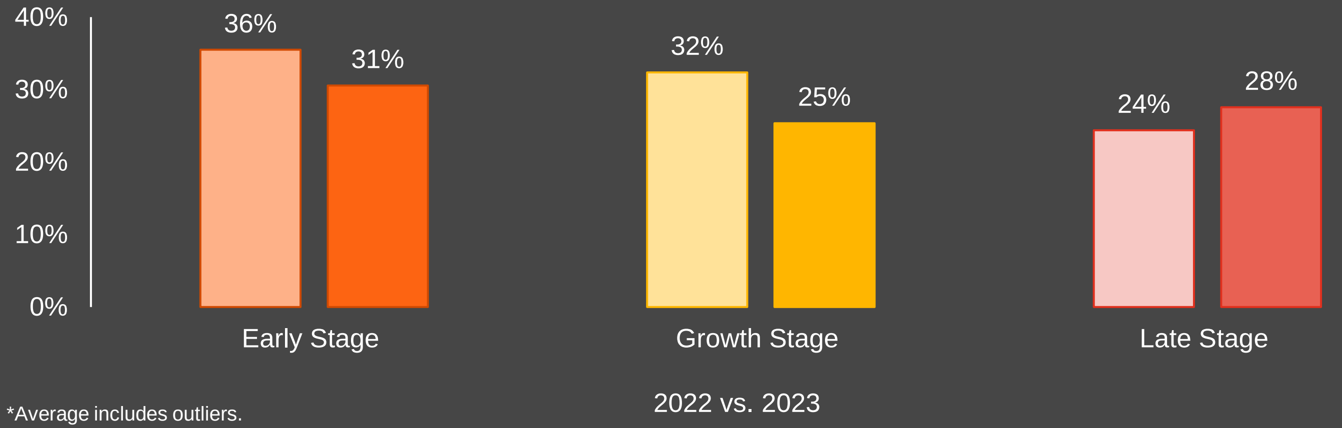
14.1

Compared to 2022, the expected IRR related to the single target portfolio companies has decreased significantly for Early Stage investments, the average IRR expected is 31% (2022: 36%) and for Growth Stages it amounts to 25% (2022: 32%). Only for Late Stage has the IRR increased from 24% to 28%.

What is the average IRR for a single target portfolio company per stage? (IRR individual portfolio company)



Average IRR for a single target portfolio company per stage 2022 vs 2023



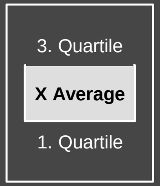
*Average includes outliers.

Valuation methods

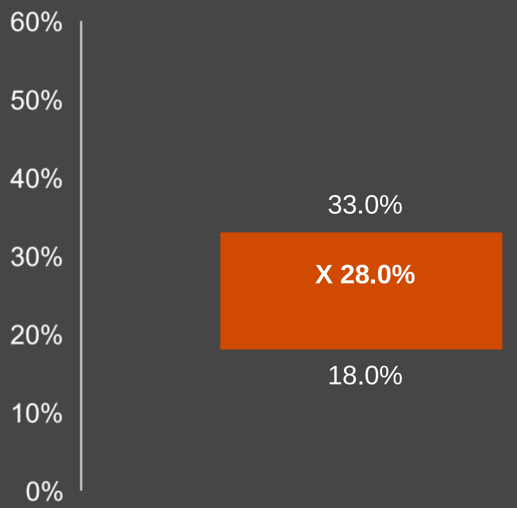
14.2

Compared to VCs, CVCs expect an IRR for the single target portfolio company to be more than 5 percentage points lower.
This gap could be explained by the attributed strategic value of the portfolio company, which compensates for the lower financial return.

What is the average IRR for a single target portfolio company?
(IRR individual portfolio company)

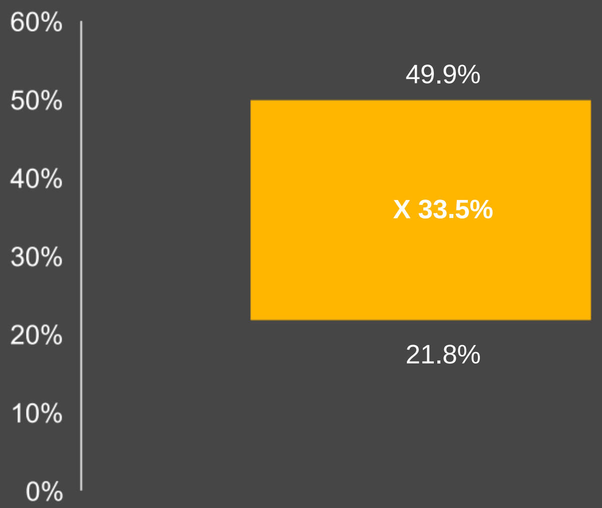


CVC



n=18

VC



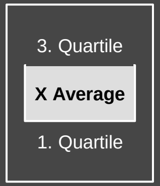
n=14

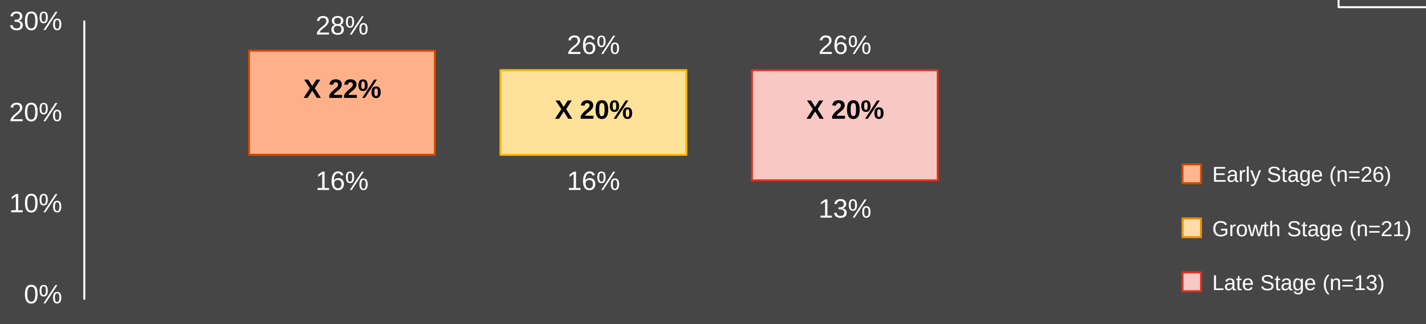
Valuation methods

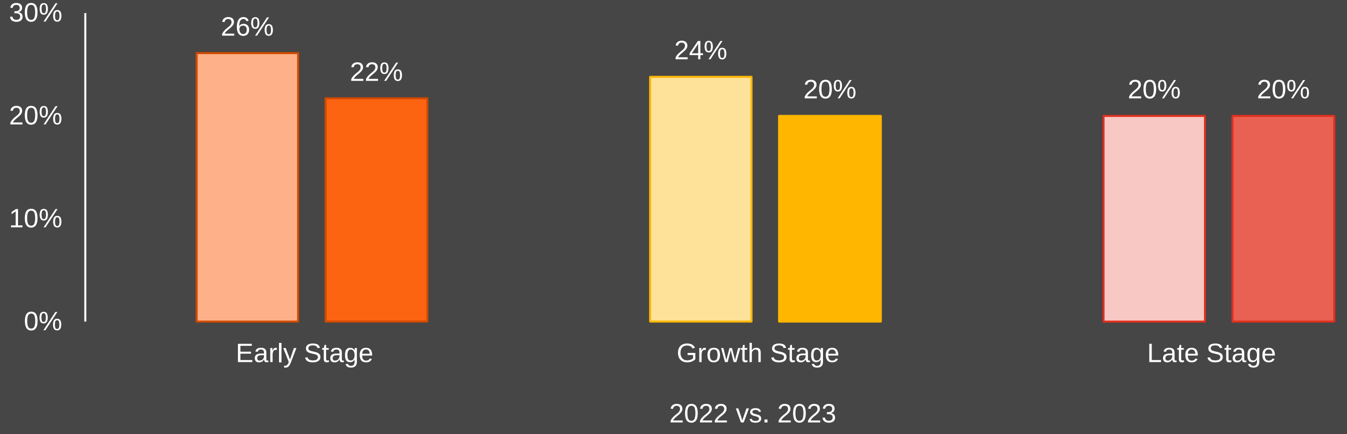
15

The expected IRR in relation to the total fund performance has decreased. The average IRR is at 22% (-4% compared to 2022) for Early Stage while for Growth Stages it amounts to 20% (-4% compared to 2022).

What is the average IRR for your fund per respective stage? (IRR Total Fund)





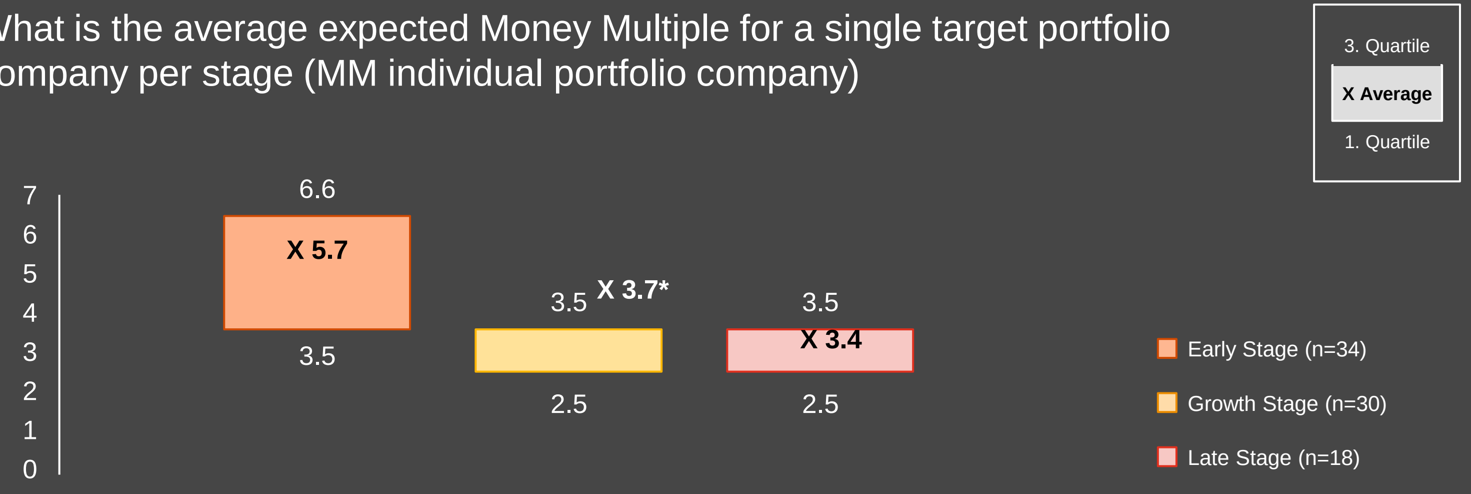


Valuation methods

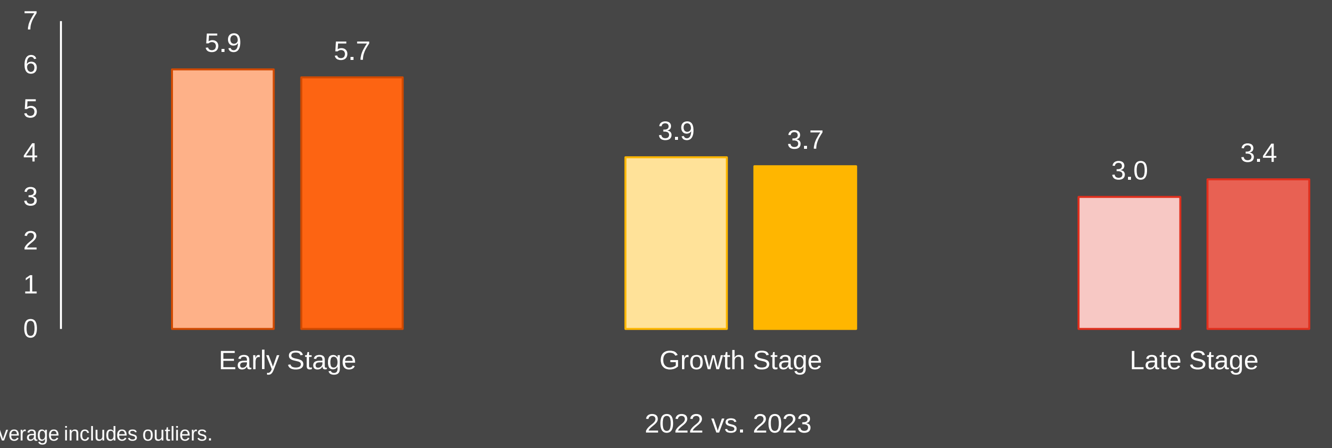
16.1

Despite the shifts in IRRs, the expected multiples associated with portfolio companies are only slightly decreasing, except for Late Stage. This suggests that investors implicitly expect longer holding periods.

What is the average expected Money Multiple for a single target portfolio company per stage (MM individual portfolio company)



Average expected Money Multiple comparison 2022 vs. 2023



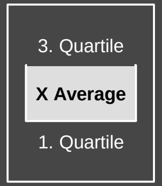
*Average includes outliers.

Valuation methods

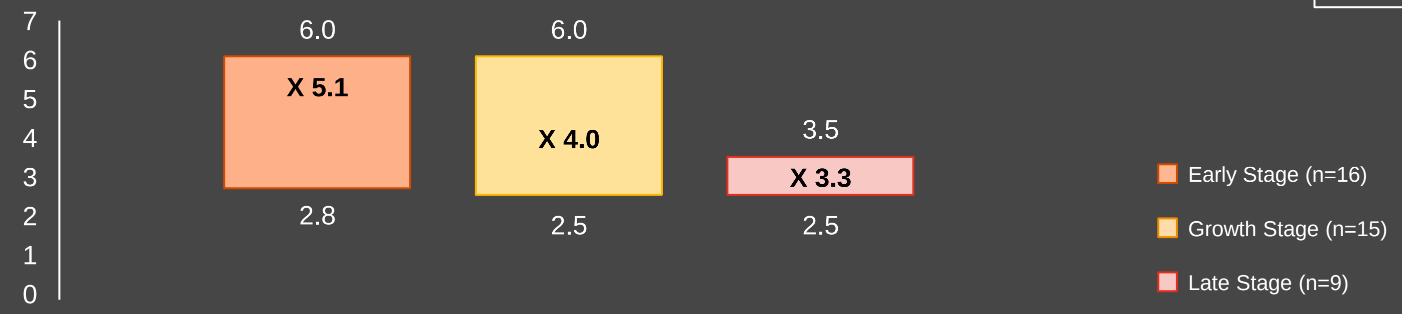
16.2

In comparison to VCs, CVCs show an increase in the expected Money Multiple for the single target portfolio companies over all stages.

What is the average expected Money Multiple for a single target portfolio company per stage? (MM individual portfolio company)

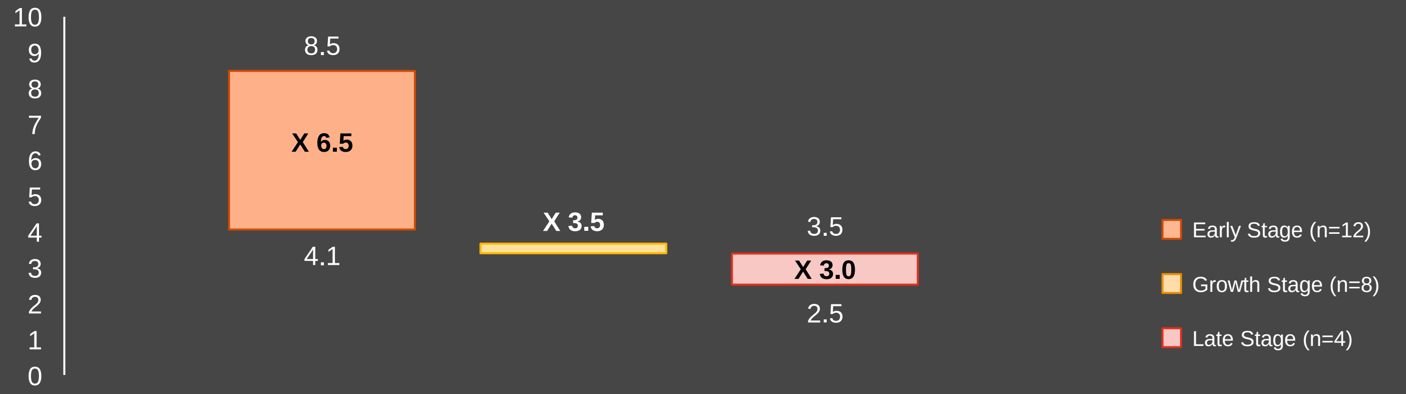


CVC



On average	Early Stage	Growth Stage	Late Stage
2022	4.5	3.3	3.0

VC



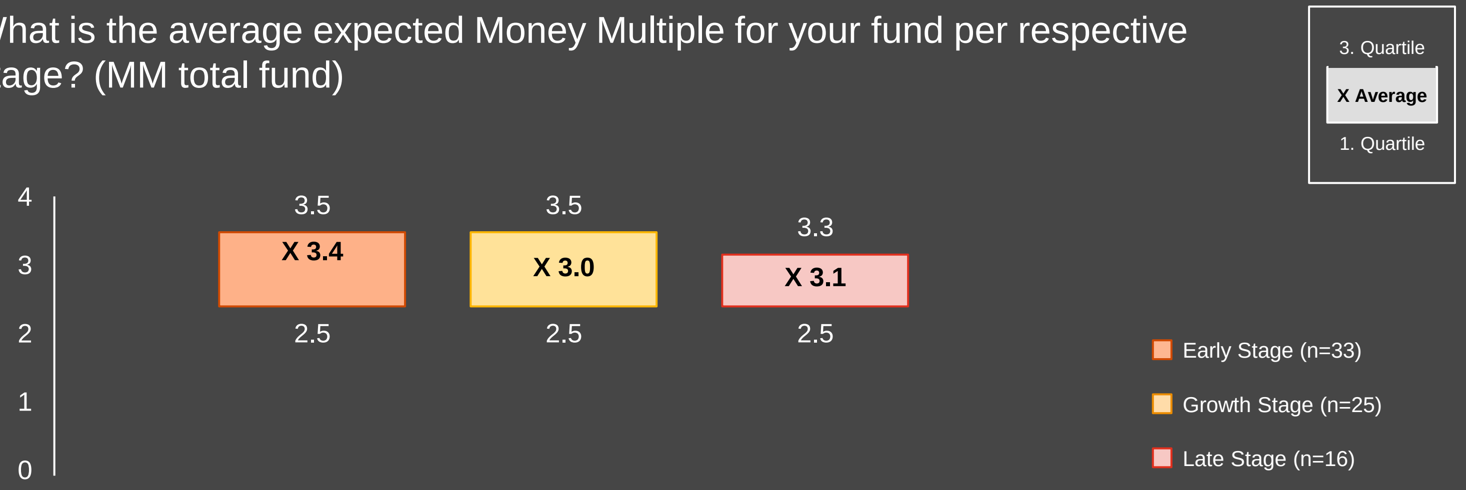
On average	Early Stage	Growth Stage	Late Stage
2022	7.2	4.5	3.4

Valuation methods

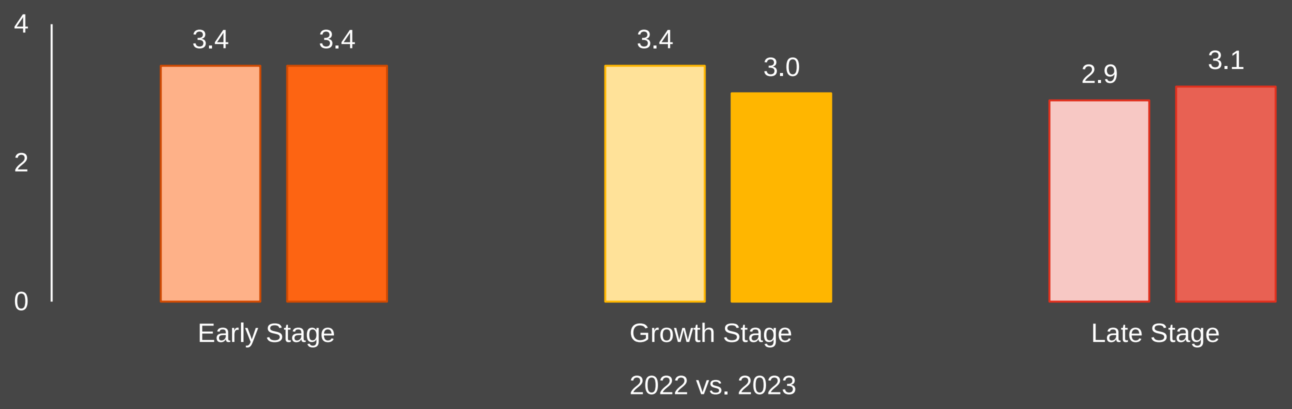
17

The expected average Money Multiple only changed when looking at the fund as a whole. The Growth Stage changed the most, moving from 3.4 to 3.0.

What is the average expected Money Multiple for your fund per respective stage? (MM total fund)



What is the average expected Money Multiple for your fund per respective stage? (MM total fund)

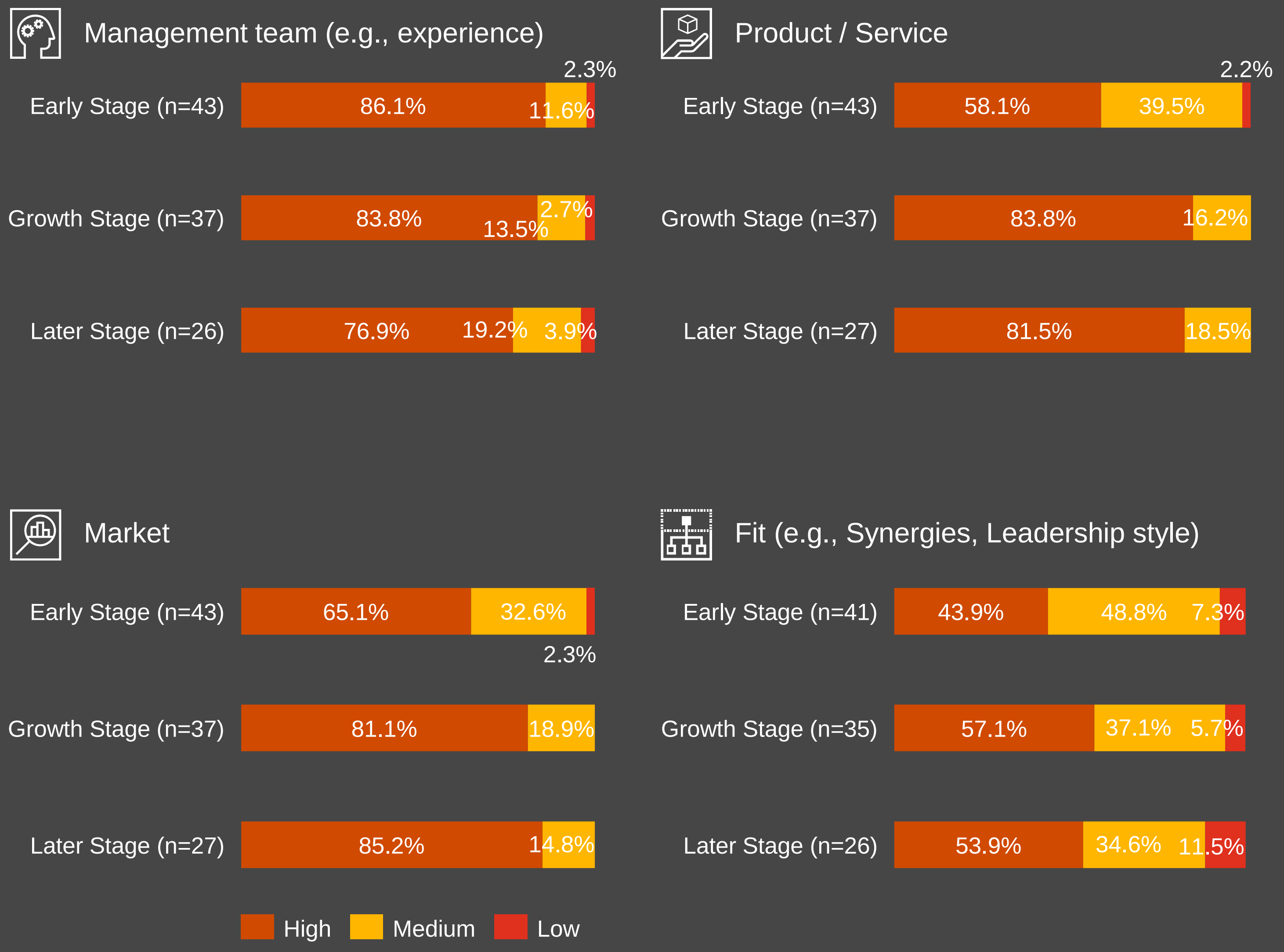


Valuation methods

18

In terms of qualitative valuation criteria, respondents focus on management teams, while in the Later Stage, the market and product / service is considered as most important. In Early Stage, the company fit has become more important, with 44% citing it, up from 24% last year.

How important are the following main qualitative categories for the valuation of a portfolio company?

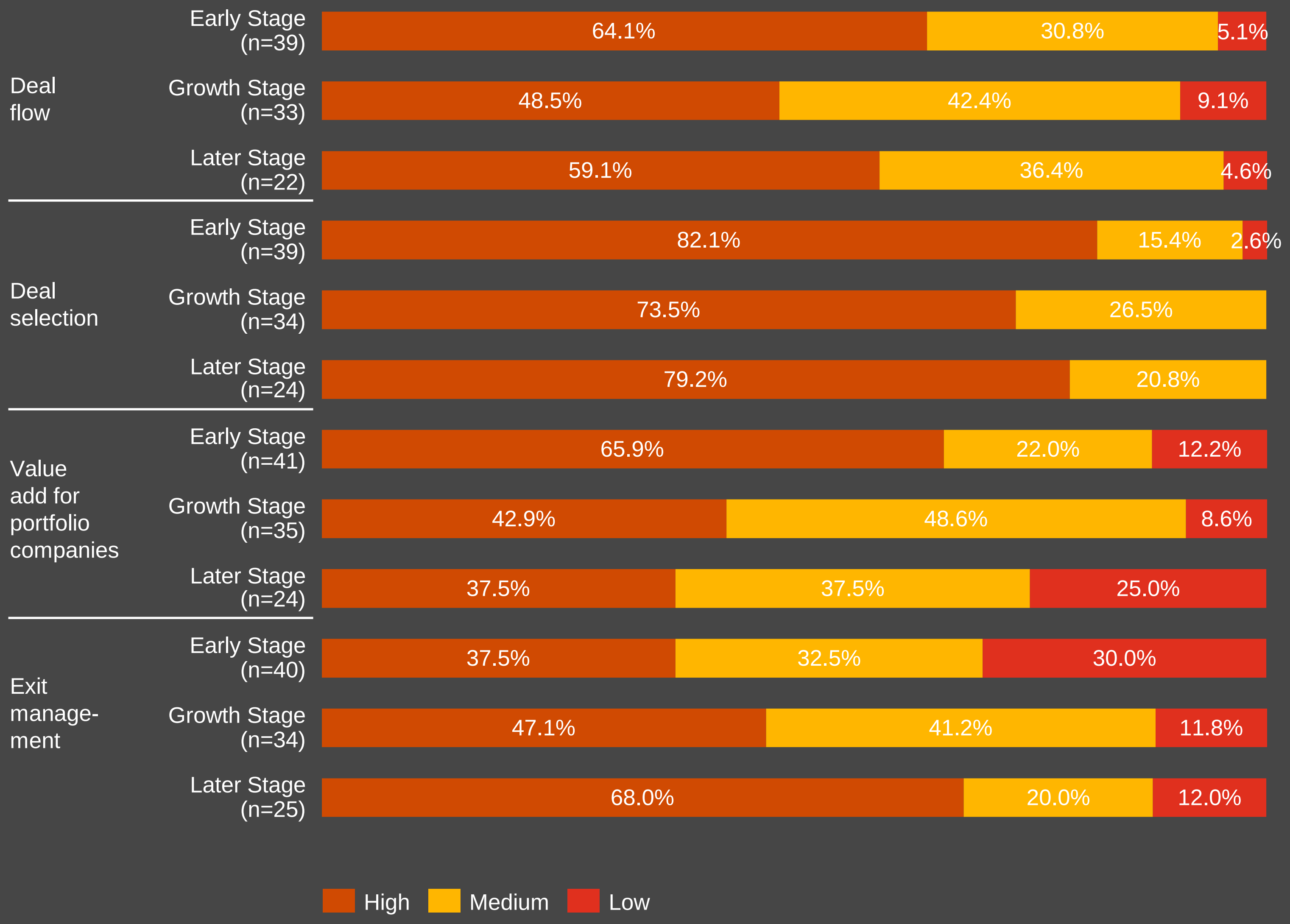


Valuation methods

19.1

Deal selection contributes the most to value creation, followed by deal flow. In Later Stage, however, exit management is more important than deal flow.

How important are the following criteria for your value creation?

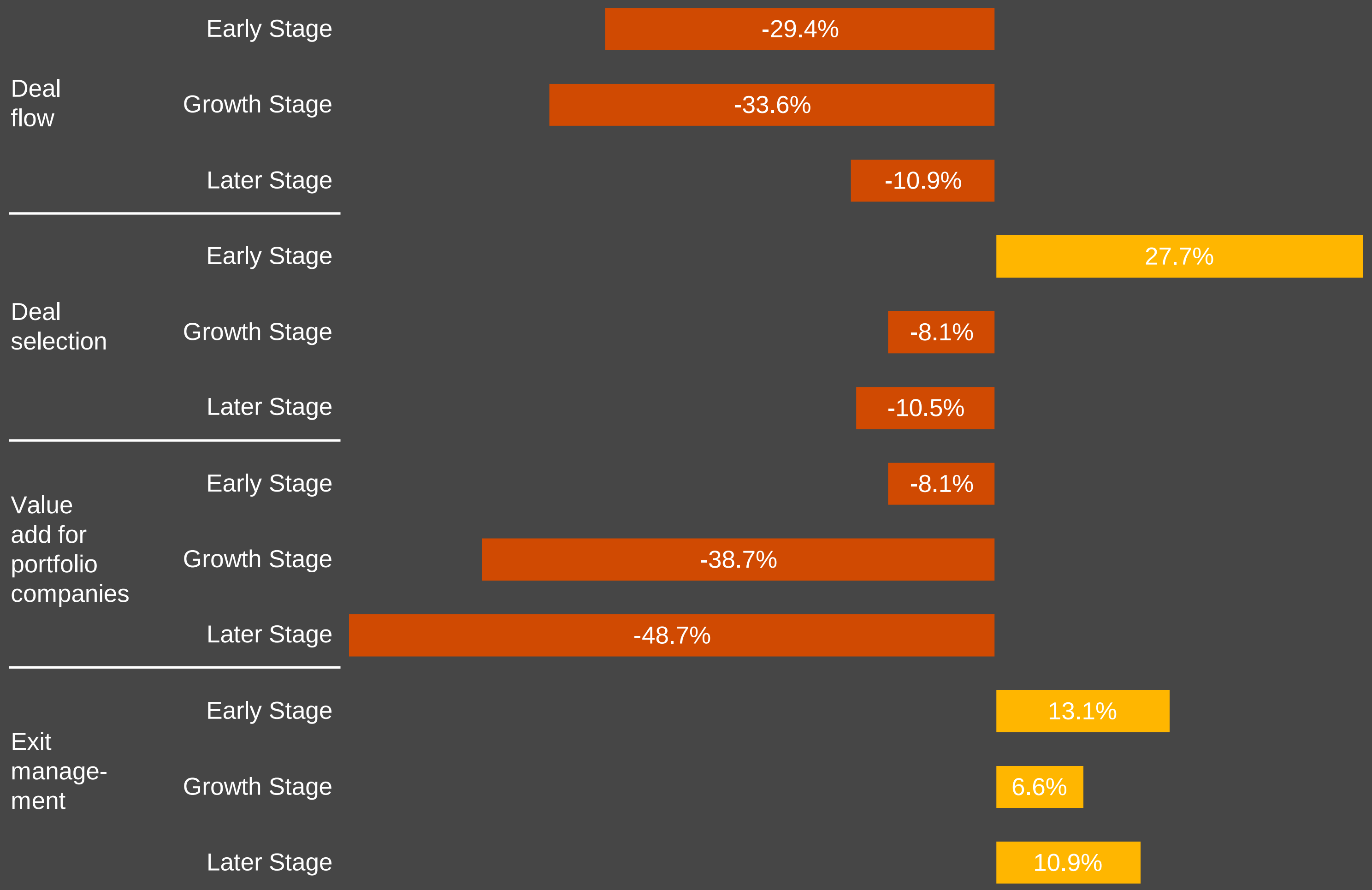


Valuation methods

19.2

Deal flow has become less relevant compared to last year, decreasing from Early Stage. The same trend is seen for value add, but decreasing from Growth Stage. Overall, exit management has become more relevant and deal selection is also more important in Early Stage.

Changes in importance of criteria for value creation from 2022 to 2023 (in %-points)*



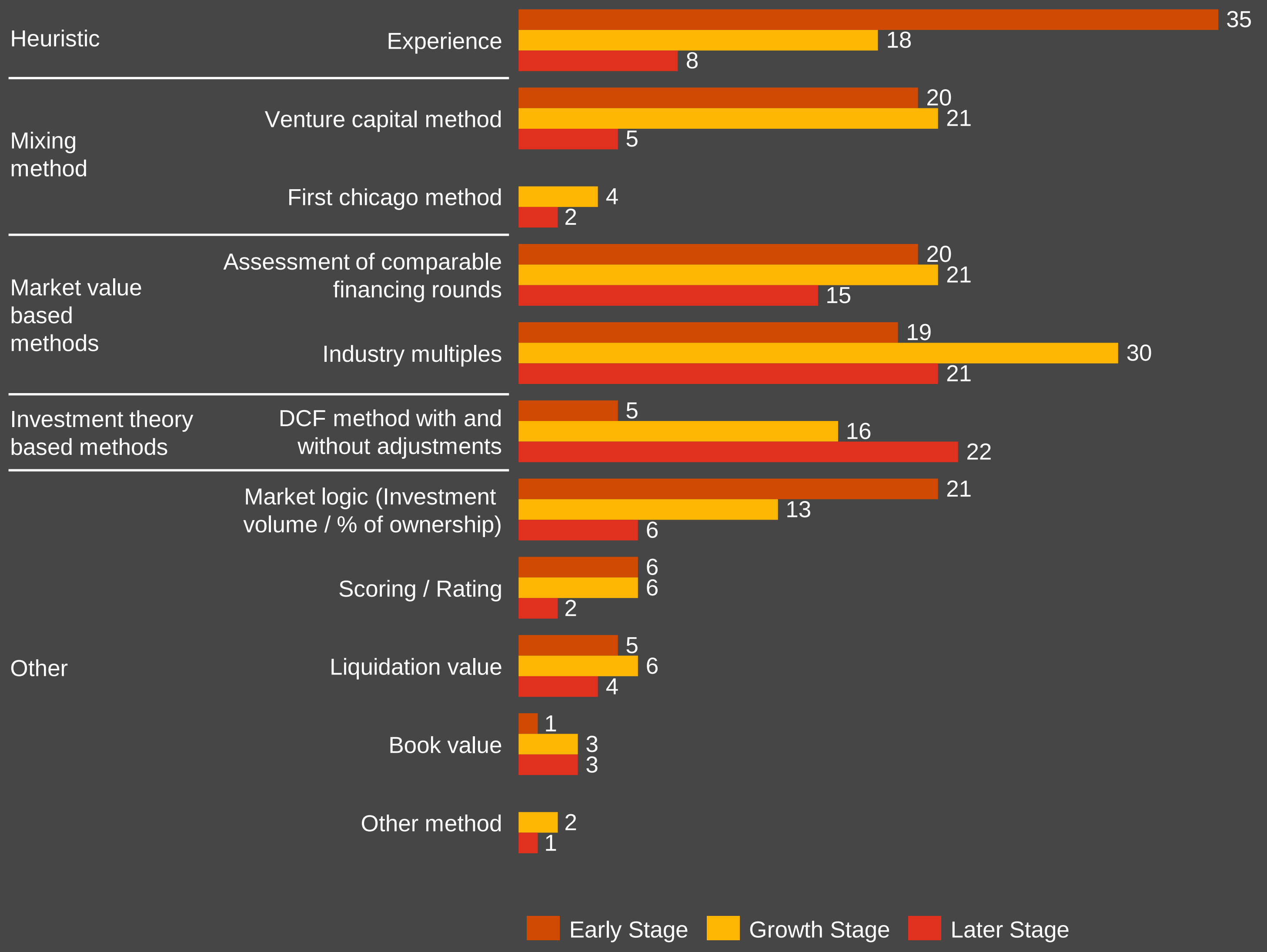
*Only responses to answer option "High" in 2023 and 2022 are taken into account here.

Valuation methods

20.1

For Early Stage investments, the investor's own experience remains the most relevant factor for company valuations, followed by the market logic, the VC method and various multiple approaches. DCF methods become more important only in the Later Stage.

What are the preferred valuation principles per company phase (n=46)?

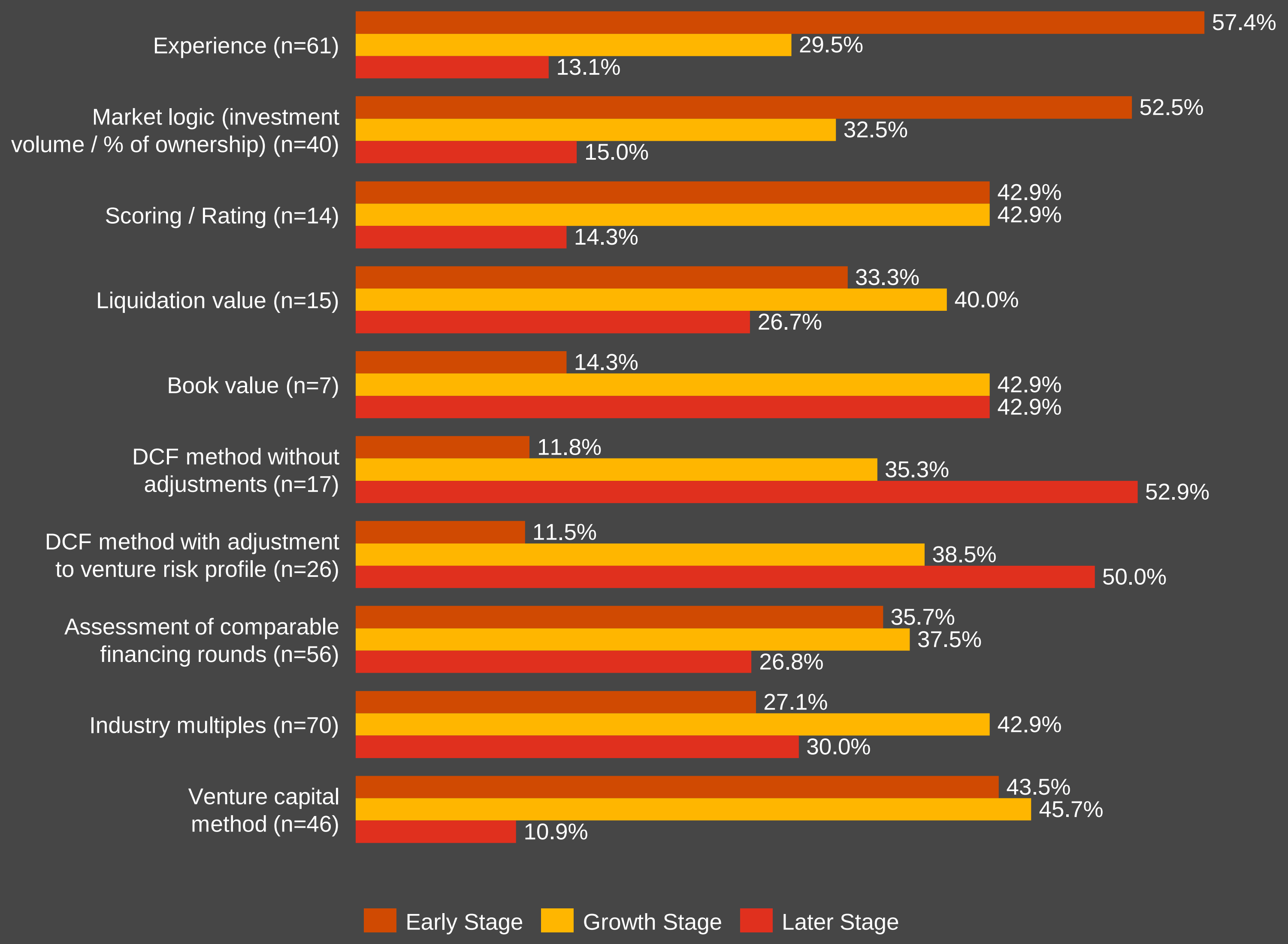


Valuation methods

20.2

Investor experience and market logic are again the most important influences on Early Stage valuations. In Later Stage, the DCF method has become even more dominant than before.

What are the preferred valuation principles per company phase?

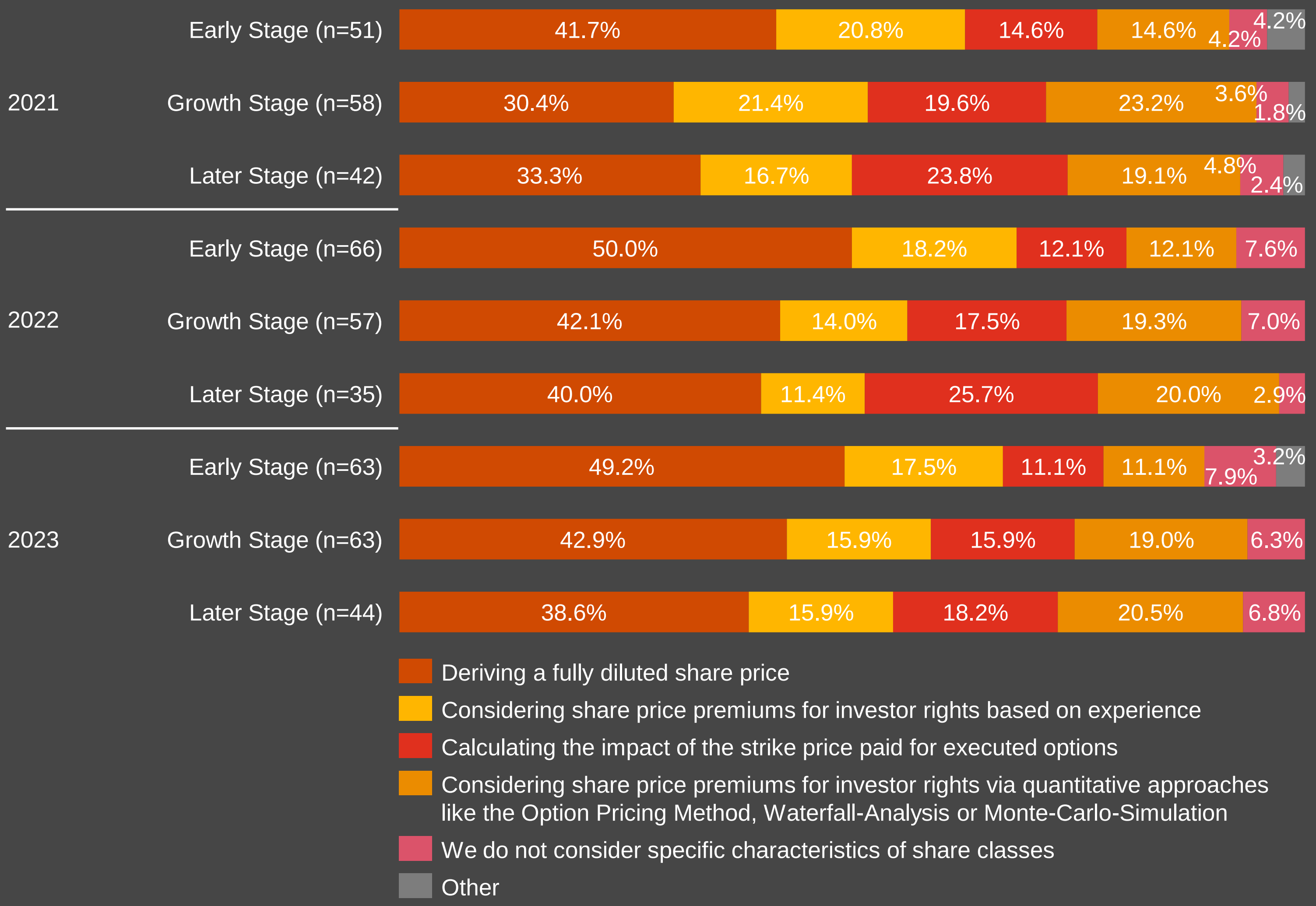


Valuation methods

21

The simple fully diluted share price is often derived in the Early Stage. In Growth and Later Stages, specific share characteristics are more often based on experience-derived premiums or quantified by approaches such as the Monte-Carlo-Simulation, waterfall analysis and option pricing method.

During the investment process, how do you consider the specific characteristics of the acquired share class in the valuation process (e.g. liquidation preferences, anti-dilution clauses)?

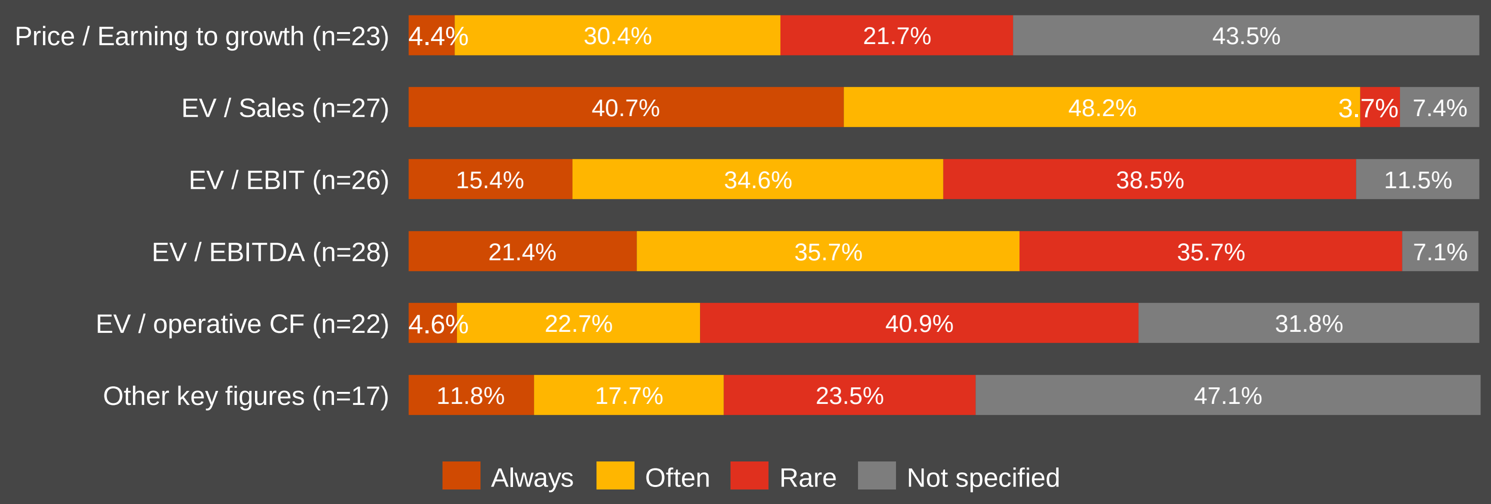


Valuation methods

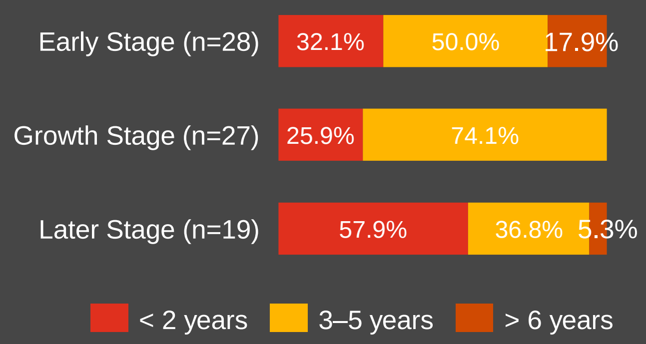
22.1

When applying the VC method, the EV / Sales multiple is the most relevant. In most cases, the multiples for Later Stage are based on expected financial figure < 2 years.

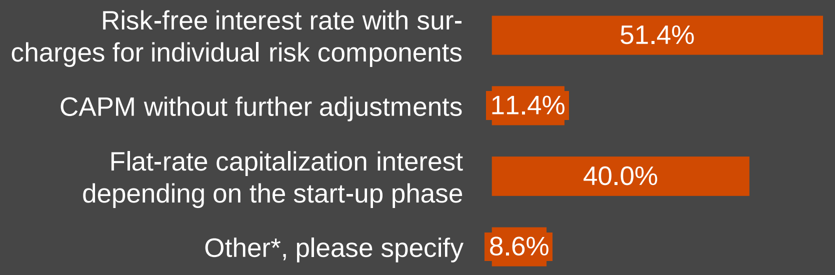
Which multiples do you usually apply?



Multiples: Which year (or range) is used as a basis?



How is the required yield or the discount rate determined? (n=33)

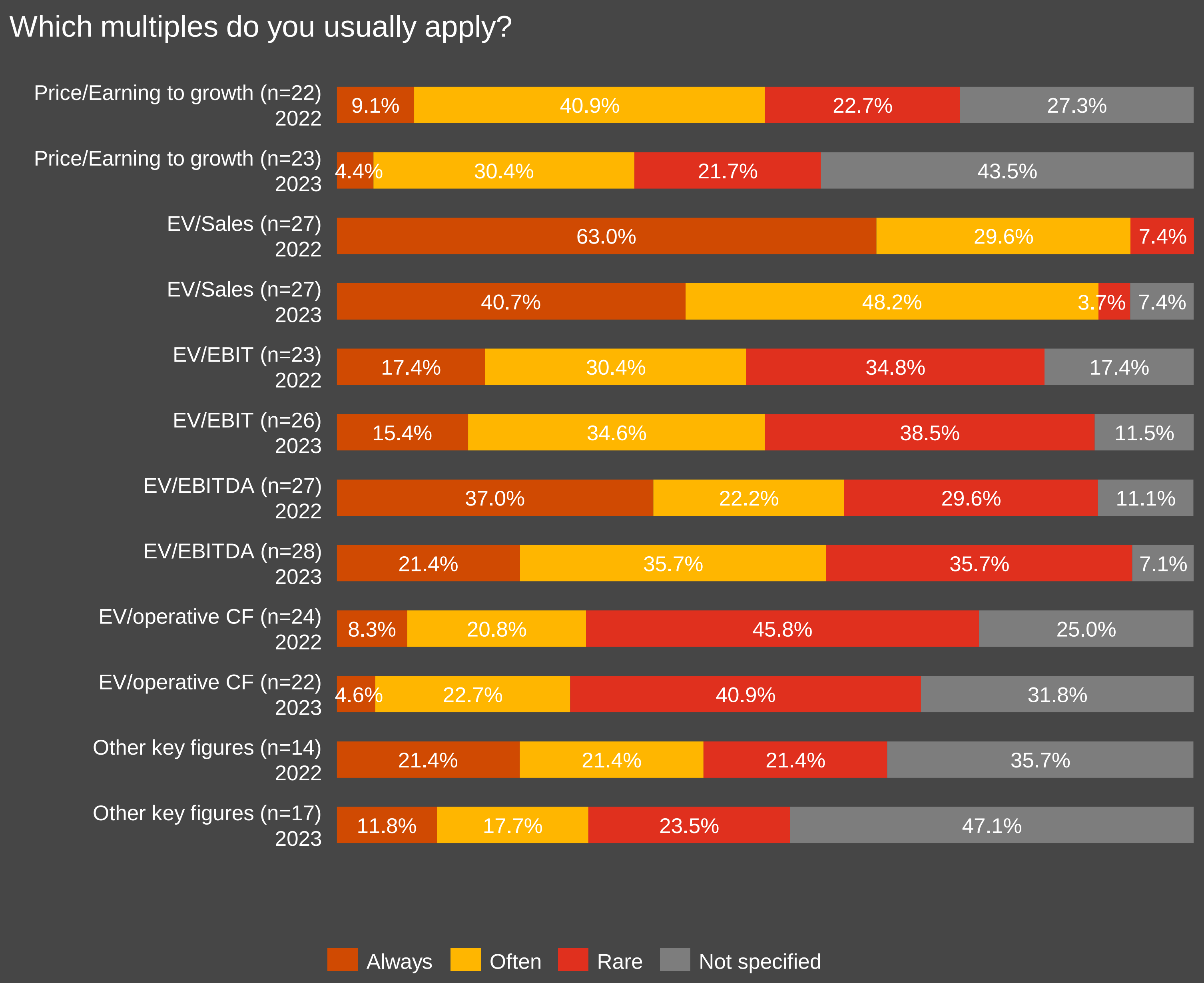


*Other: „Not used", „n/a"

Valuation methods

22.2

Compared to the previous study, EV / Sales Multiples for valuation purposes have decreased significantly.

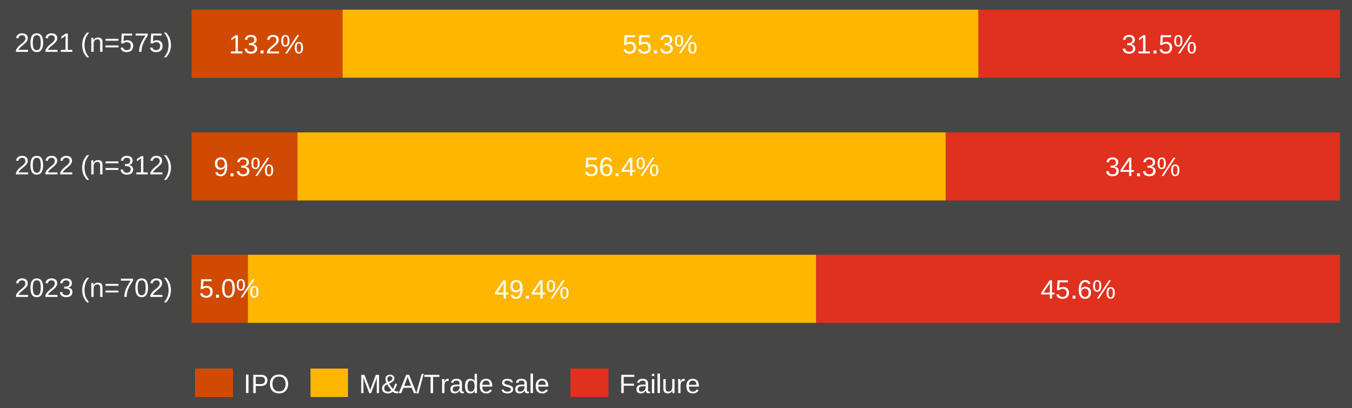


Valuation methods

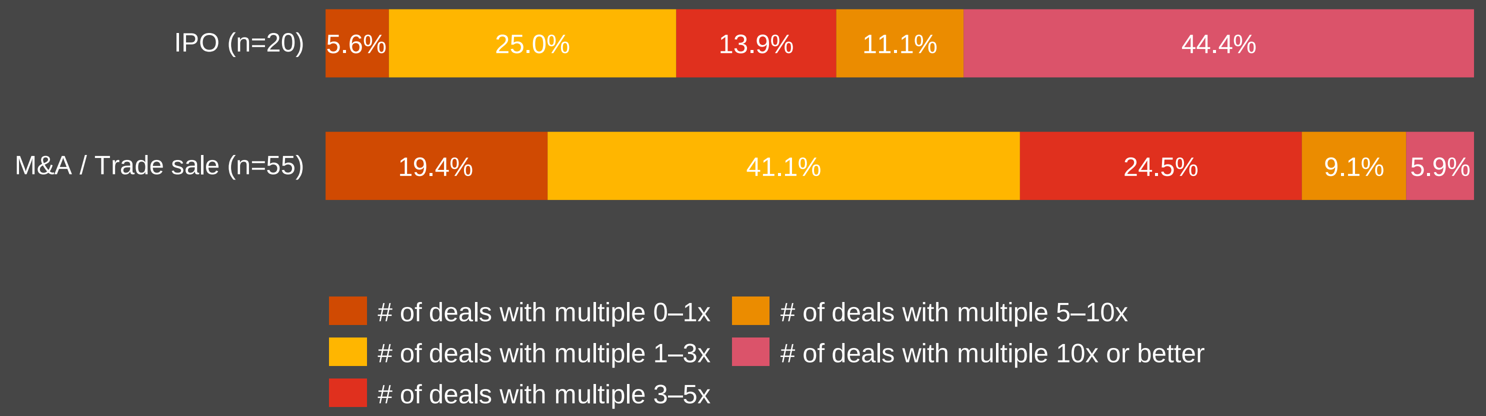
23

A trend toward more failures and even fewer IPOs is seen as the outcome for portfolio companies.
However, 44% of the participants see IPOs with multiples higher than 10x for IPOs. In contrast, only 40% of multiples for trade sales are higher than 3x.

With regards to past exits: times that investment reached following outcomes?



2023: # of participants = 23; 2022: # of participants = 25; 2021: # of participants = 31

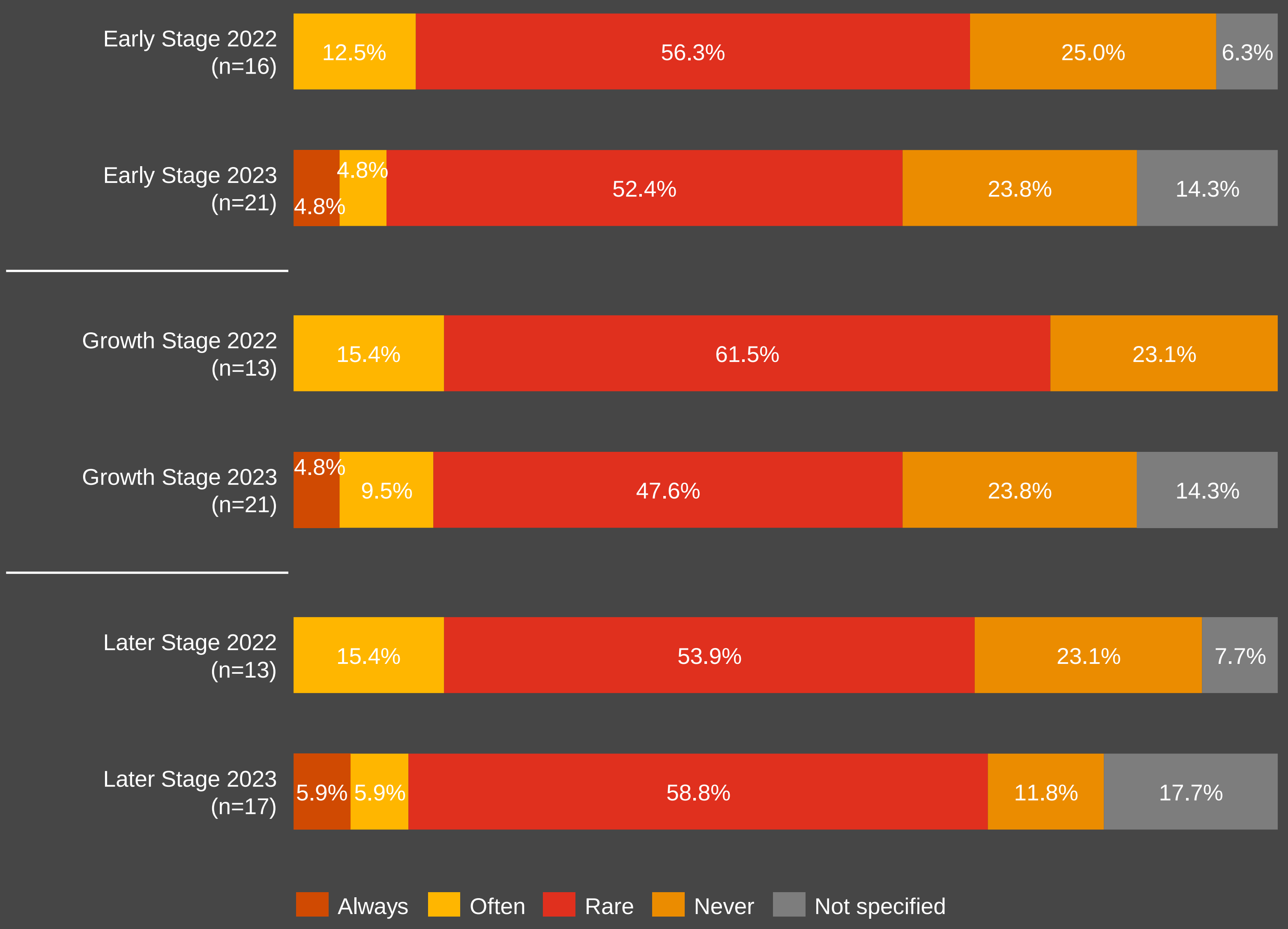


Valuation methods

24

In more than 70% of cases across all stages, CVC vehicles (or groups) never or rarely intend to exit to corporates.

Does your CVC vehicle (or group) intend to acquire all (or a majority) of the portfolio company in the course of an exit?



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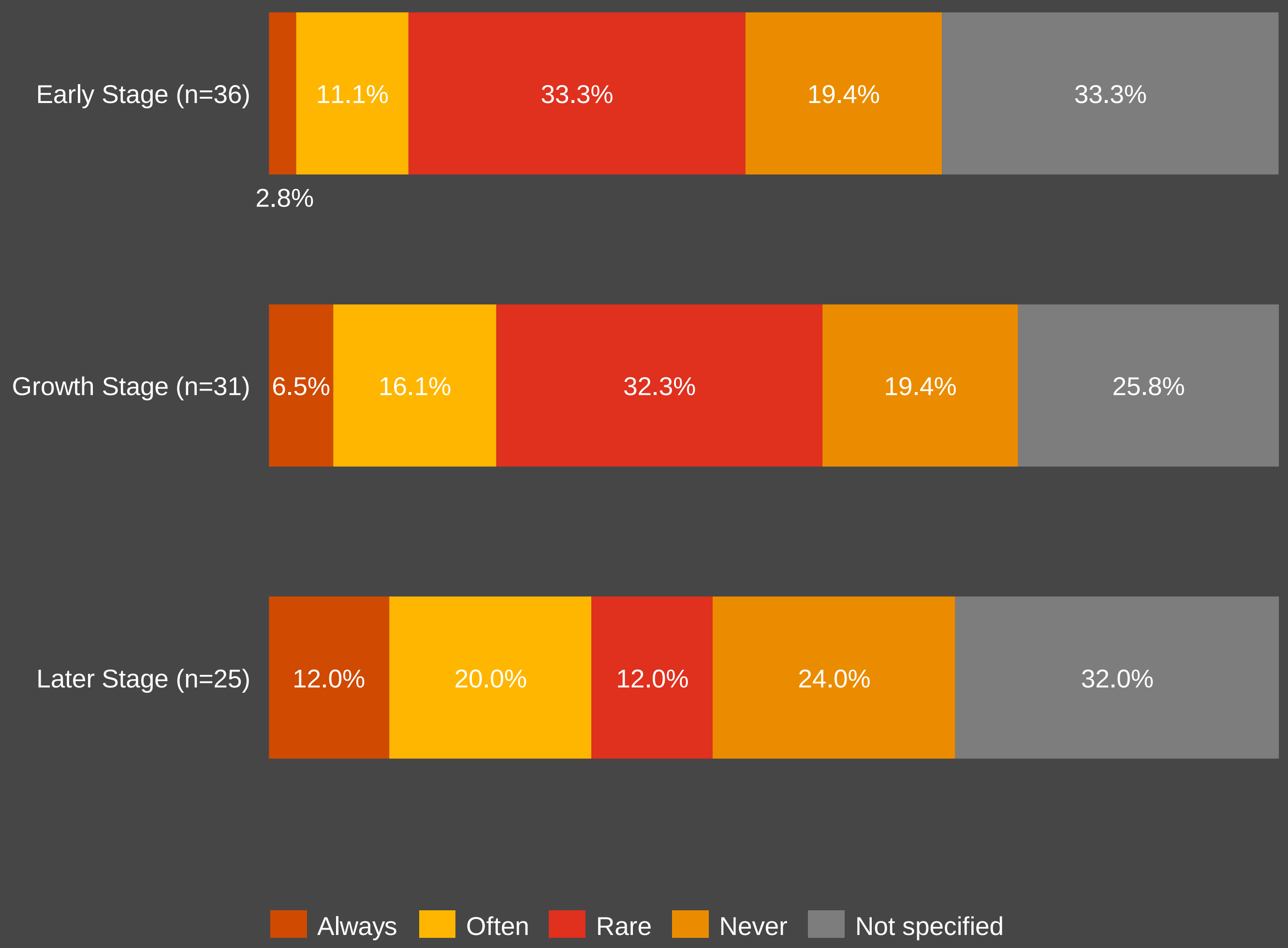
Legal terms

Legal terms

25

In more than 30% of the underlying cases, the investment restrictions of the German Foreign Trade Legislation are a decisive factor in the most relevant Later Stage and thus a relevant factor for investment decisions in the German ecosystem, which has increased across all stages compared to the previous year.

Are the investment control regulations of the German Foreign Trade Legislation a decisive factor for the selection of a buyer/investor in a trade sale exit (depending on the stage of the portfolio company at the time of the exit)?

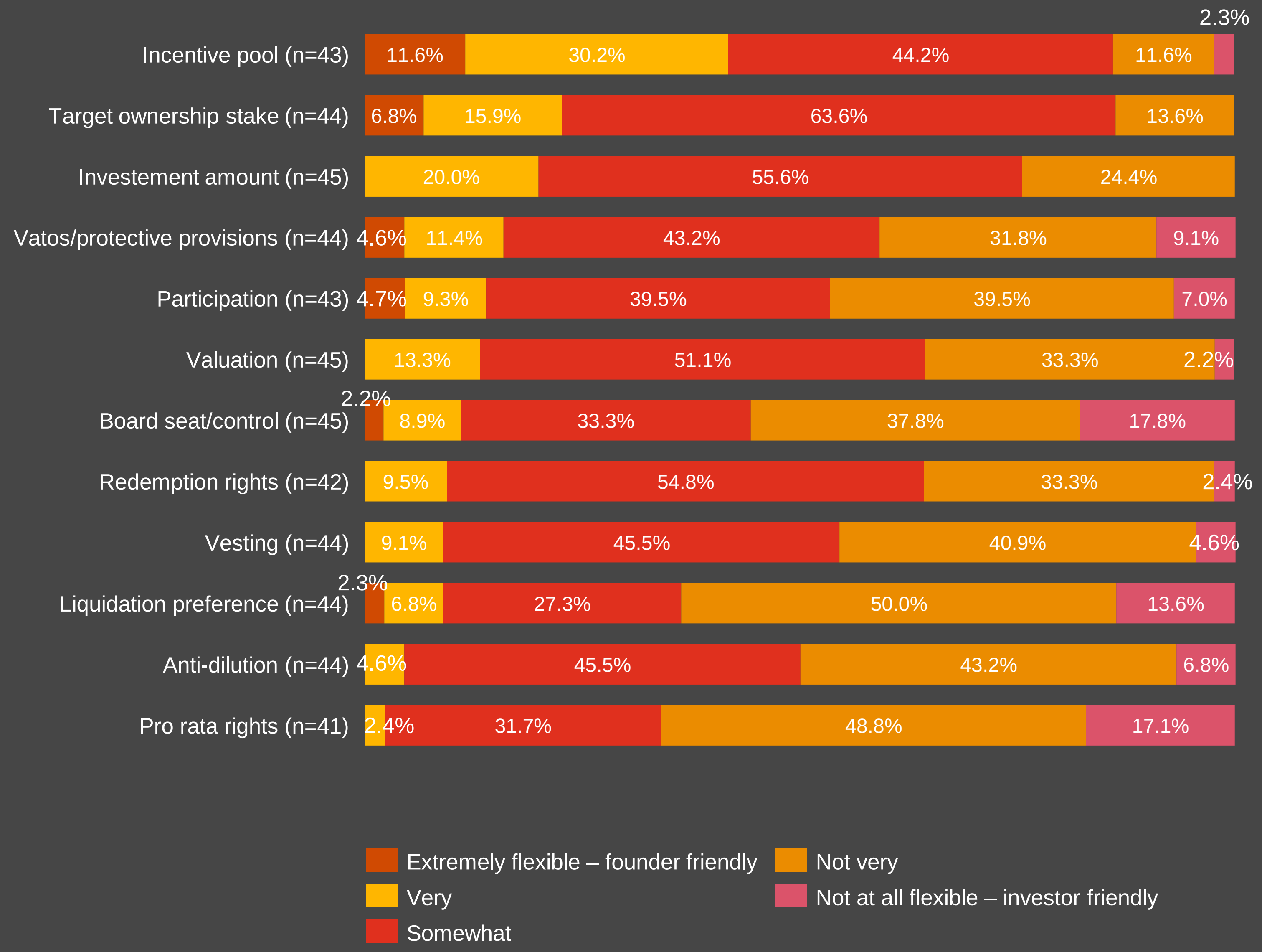


Legal terms

26.1

Incentive pools continue to offer investors the most flexibility in negotiating the term sheet of a new investment, followed by target ownership.

What term sheet items are you flexible on when negotiating a new investment?

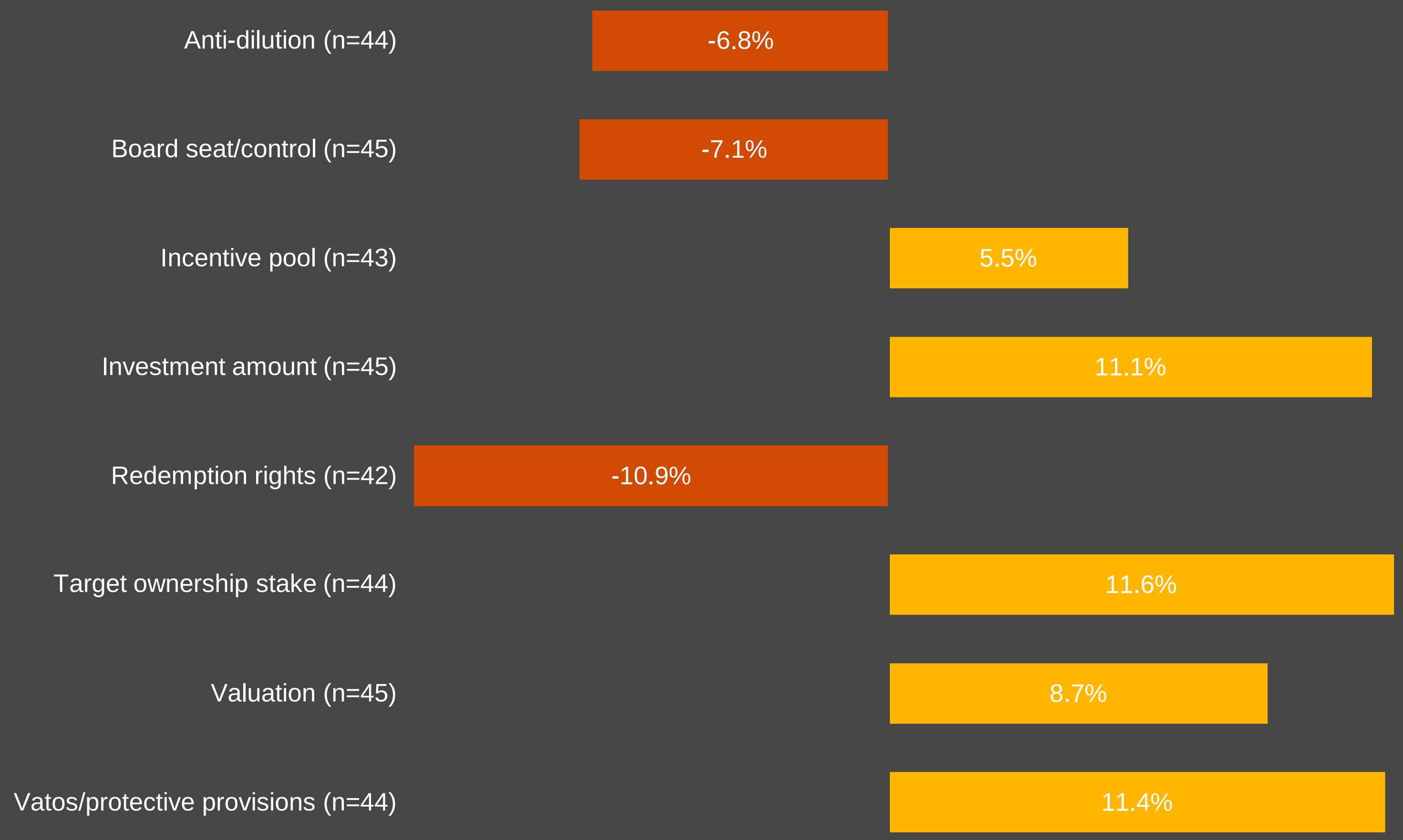


Legal terms

26.2

Investors are currently negotiating more on deal terms. In particular, flexibility is increasing around the core parameters of target ownership, investment amount and valuation.

Difference between 2022 and 2023 in %-points of extremely and very flexible



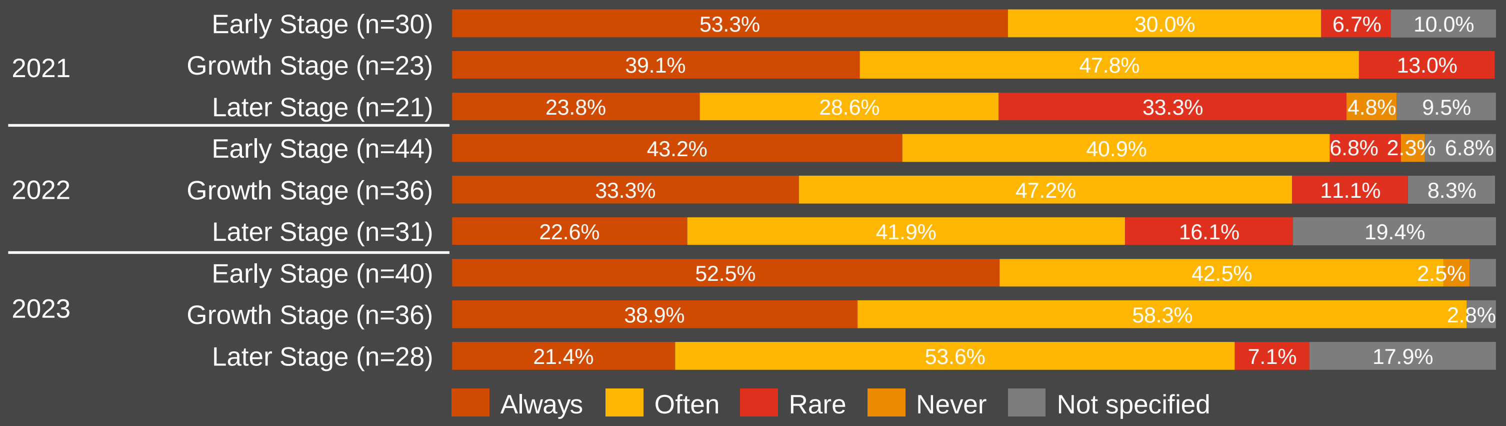
For the evaluation of this question, only deviations greater than 5% were included.

Legal terms

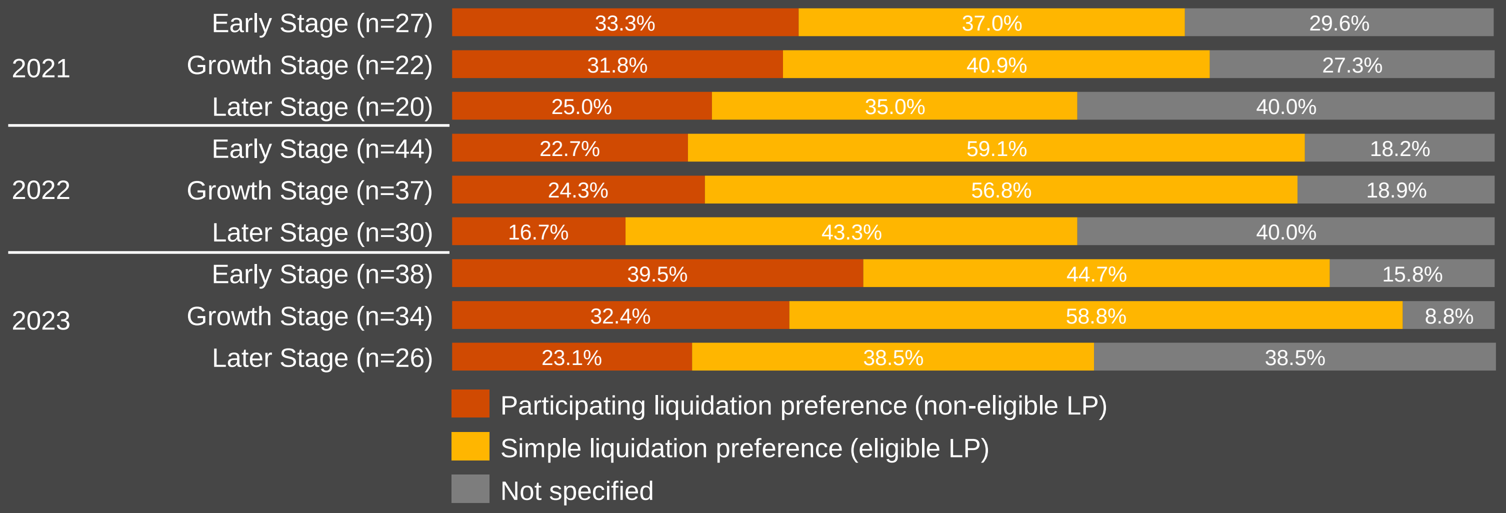
27

The relevance of liquidation preferences for investments remains at a high level. Participating liquidation preferences are being used more than in the previous year across all stages.

How often do you agree on liquidation preferences when you invest in a new portfolio company?



What kind of liquidation preferences do you agree on mostly in the different stages of the portfolio company?

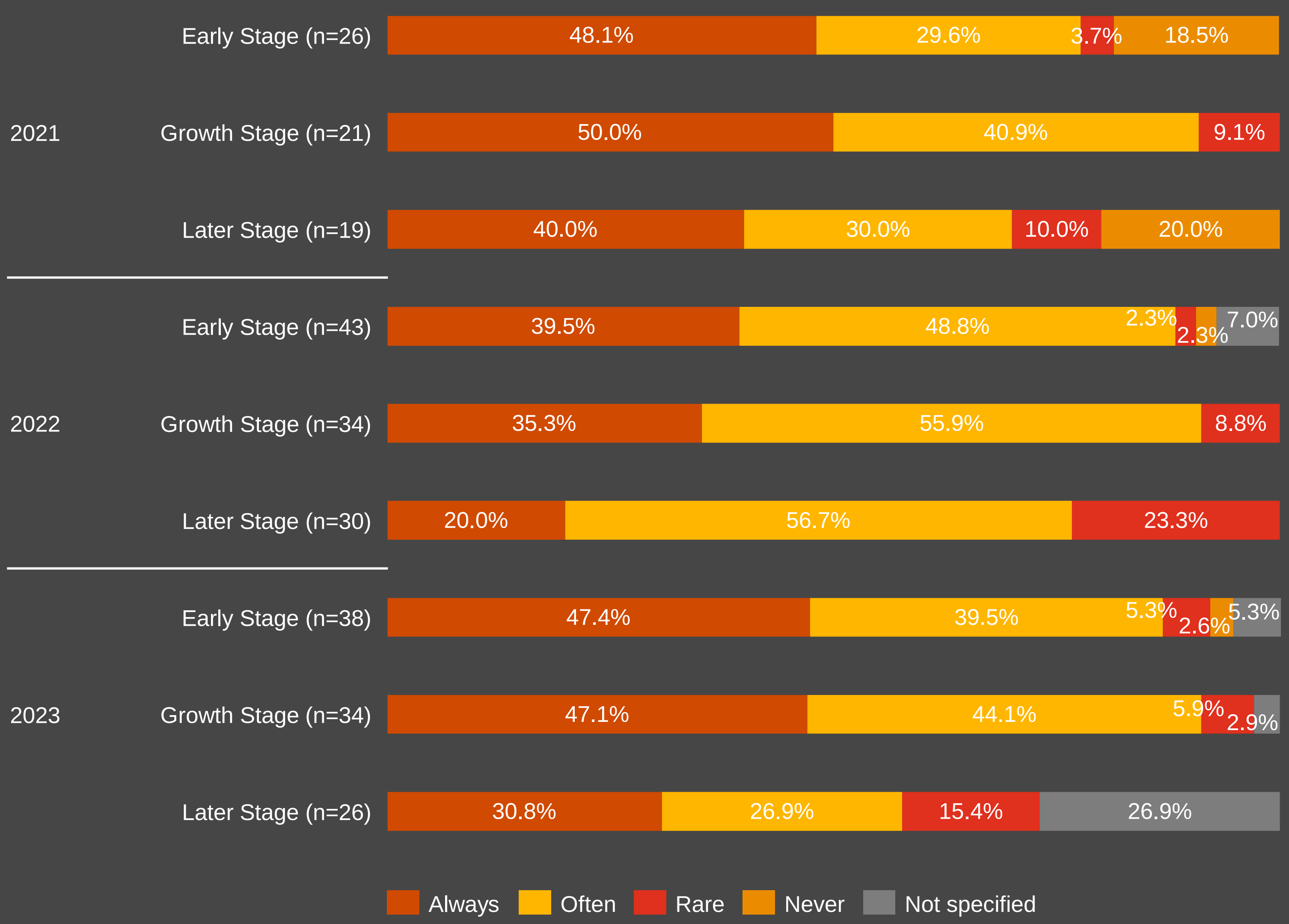


Legal terms

28

Except in later stages, LIFO (last-in-first-out) principles are set as standard.

Are the agreed liquidation preferences senior to previous preferences (= the last agreed liquidation preference is given priority)?

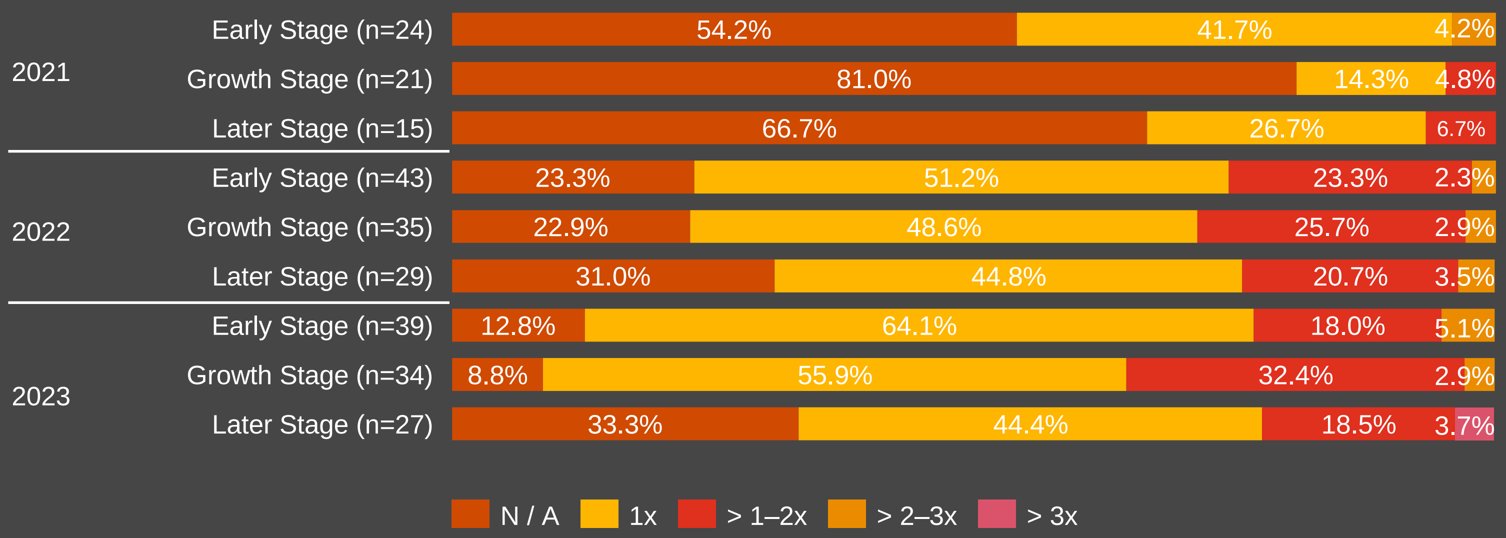


Legal terms

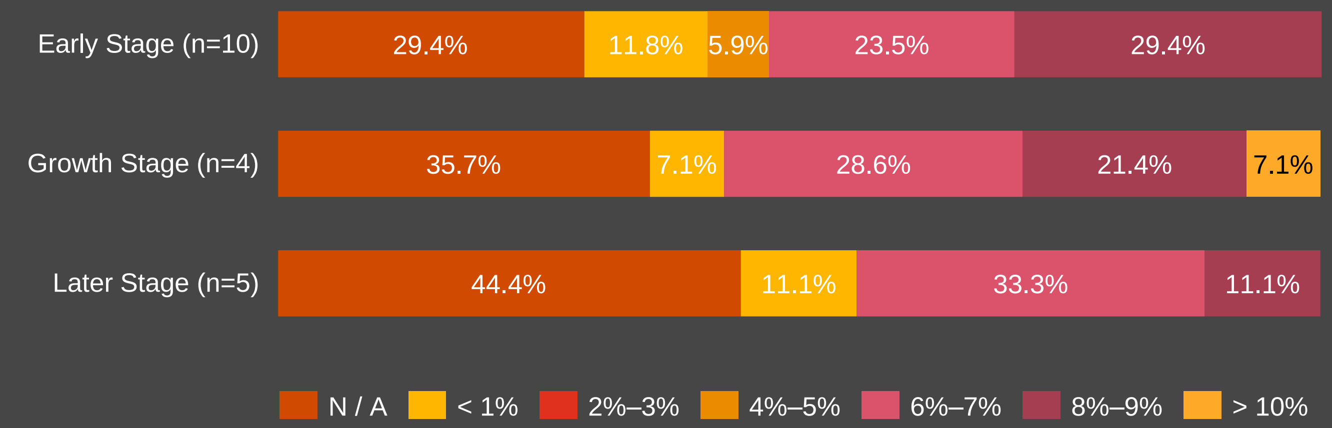
29

About 70% of the participants do not request for an additional multiple on the liquidation preference. About 50% of the participants apply interest rates to liquidation preferences, with an increase in the rates especially in the Early Stage.

Which multiple do you usually apply to liquidation preferences?



Which interest rate do you usually apply to liquidation preferences?



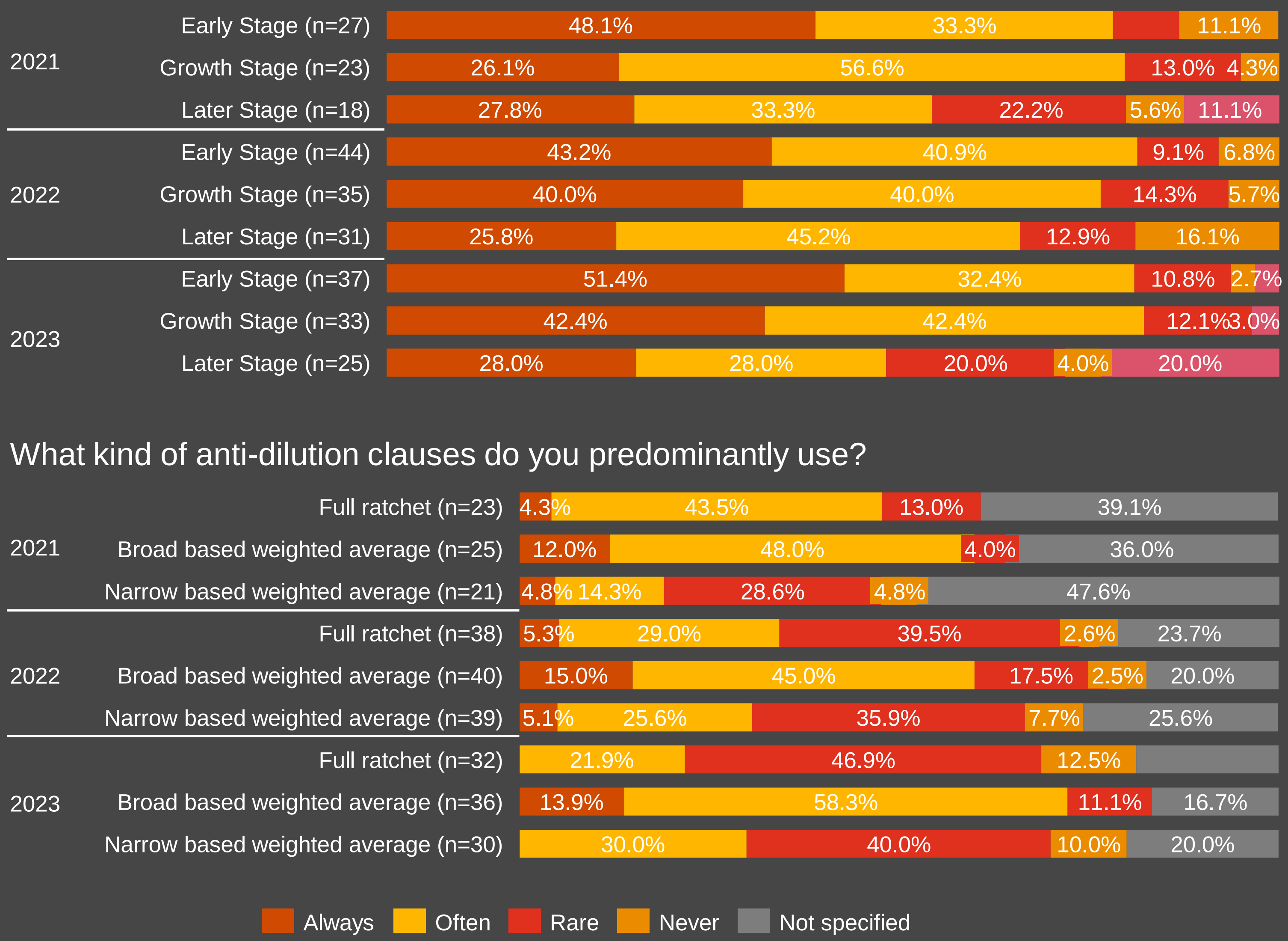
Legal terms

30

The importance of anti-dilution clauses for investments remains high and is slightly higher on average than in previous years. The use of the broad-based weighted average method has become even more prevalent, while the use of full ratchet anti-dilution clauses has decreased.

How often do you agree on anti-dilution (down round protection) clauses when you invest in a new portfolio company?

What kind of anti-dilution clauses do you predominantly use?

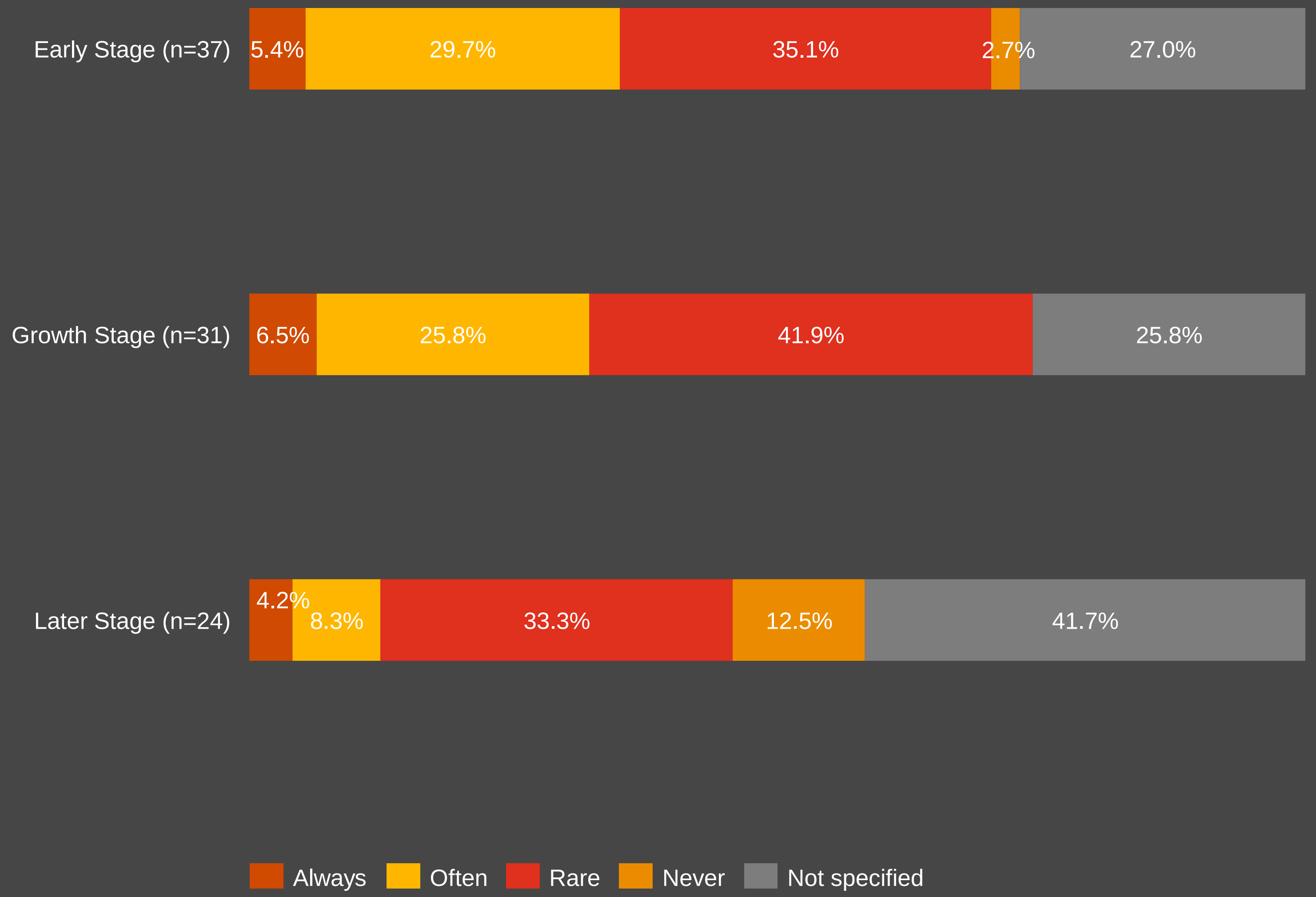


Legal terms

31

About 35% of the participants (declining to 12% in Later Stage) always or often fully enforce their rights under anti-dilution clauses.

How often do you fully enforce anti-dilution clauses?

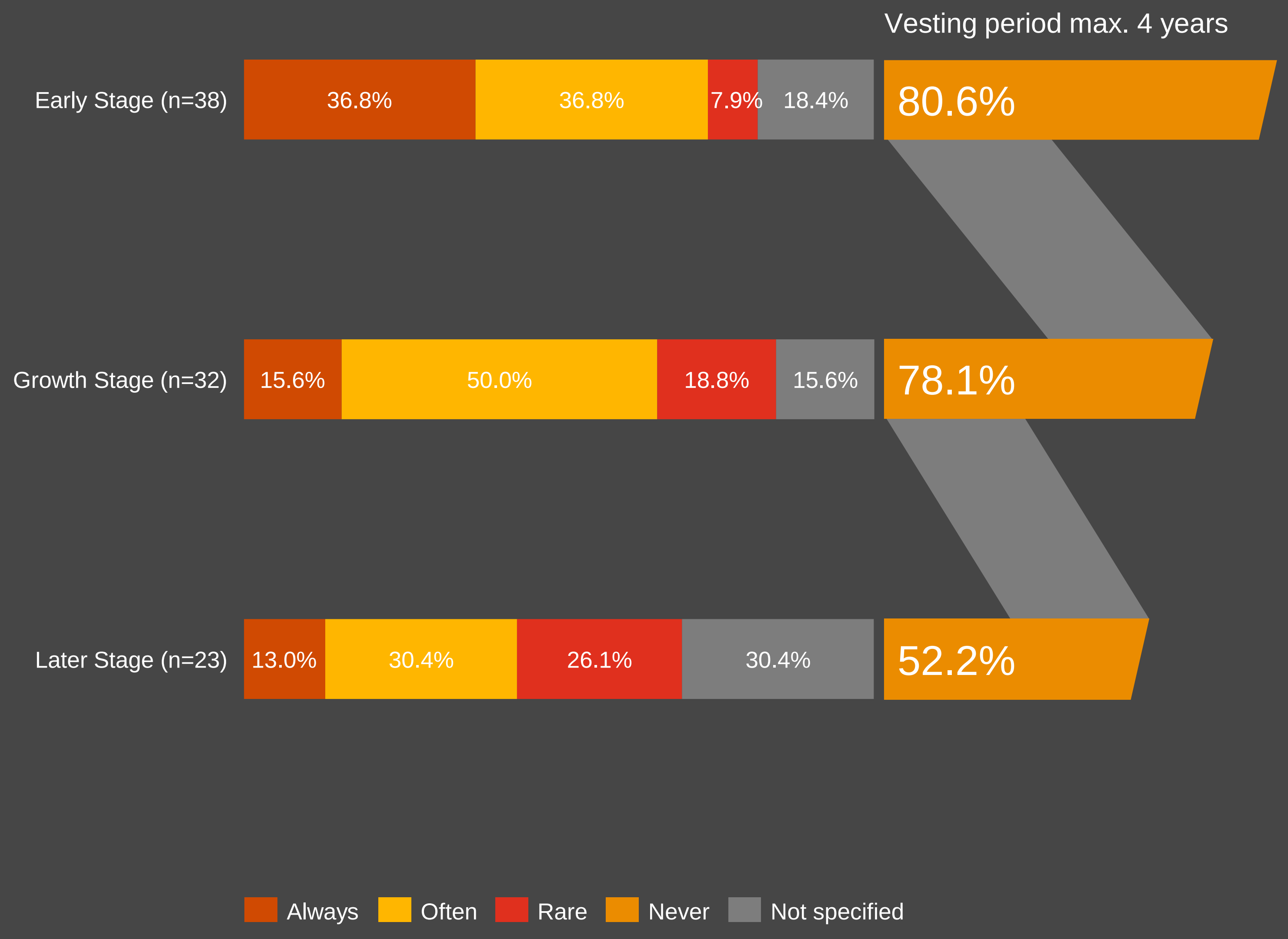


Legal terms

32

While vesting for founders is agreed upon in more than 3/4 of the cases in the Early Stage, the usage decreases to less than 50% in the Later Stage. The vesting period also decreases significantly from Early Stage to Later Stage.

How often do you agree on vesting clauses against founders?

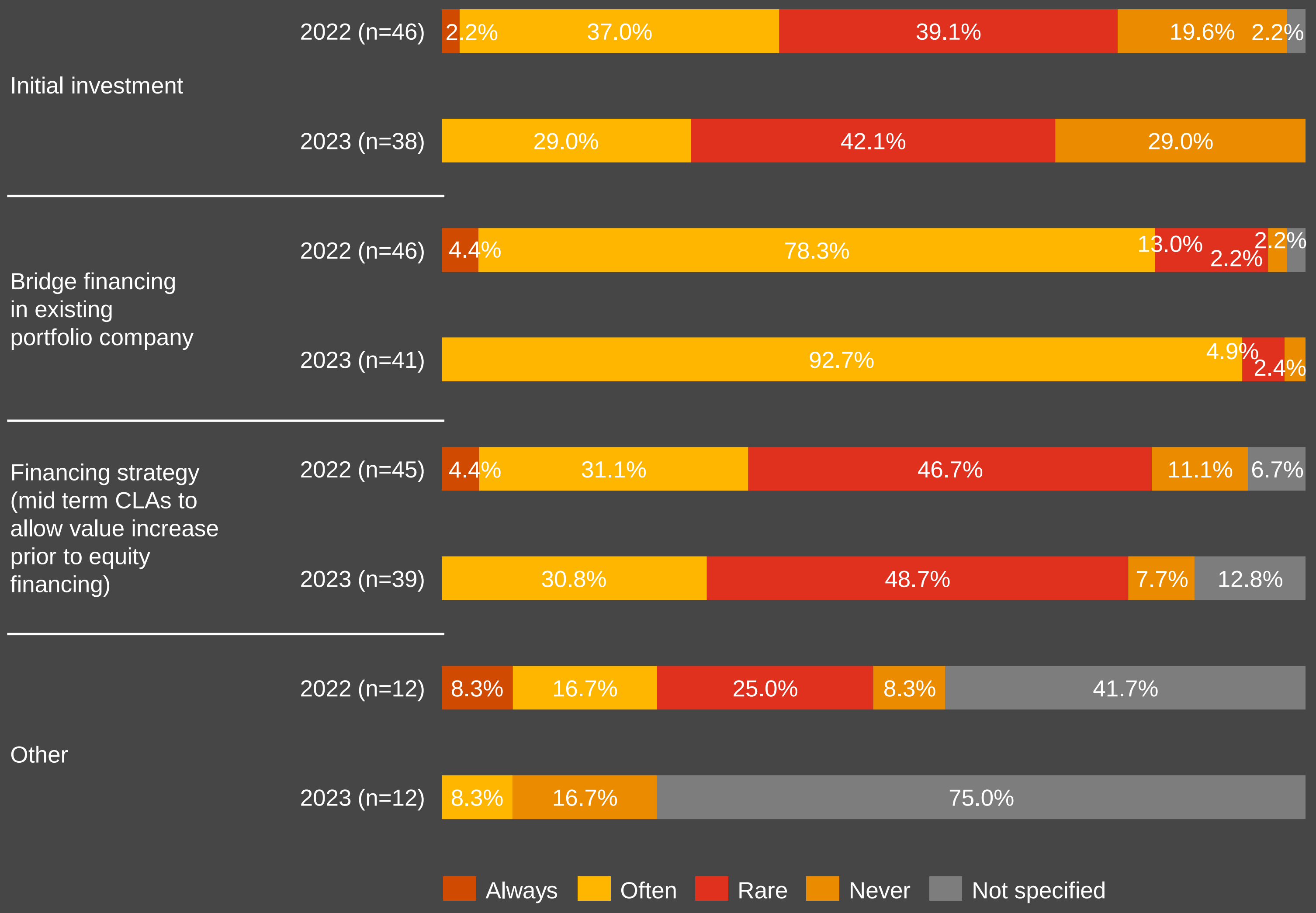


Legal terms

33.1

In most of the cases investors use convertible loans for bridge financing in existing portfolio companies. This trend has become even more significant in 2023 in comparison to the previous survey.

In what financing situations do you invest in portfolio companies through convertible loans?

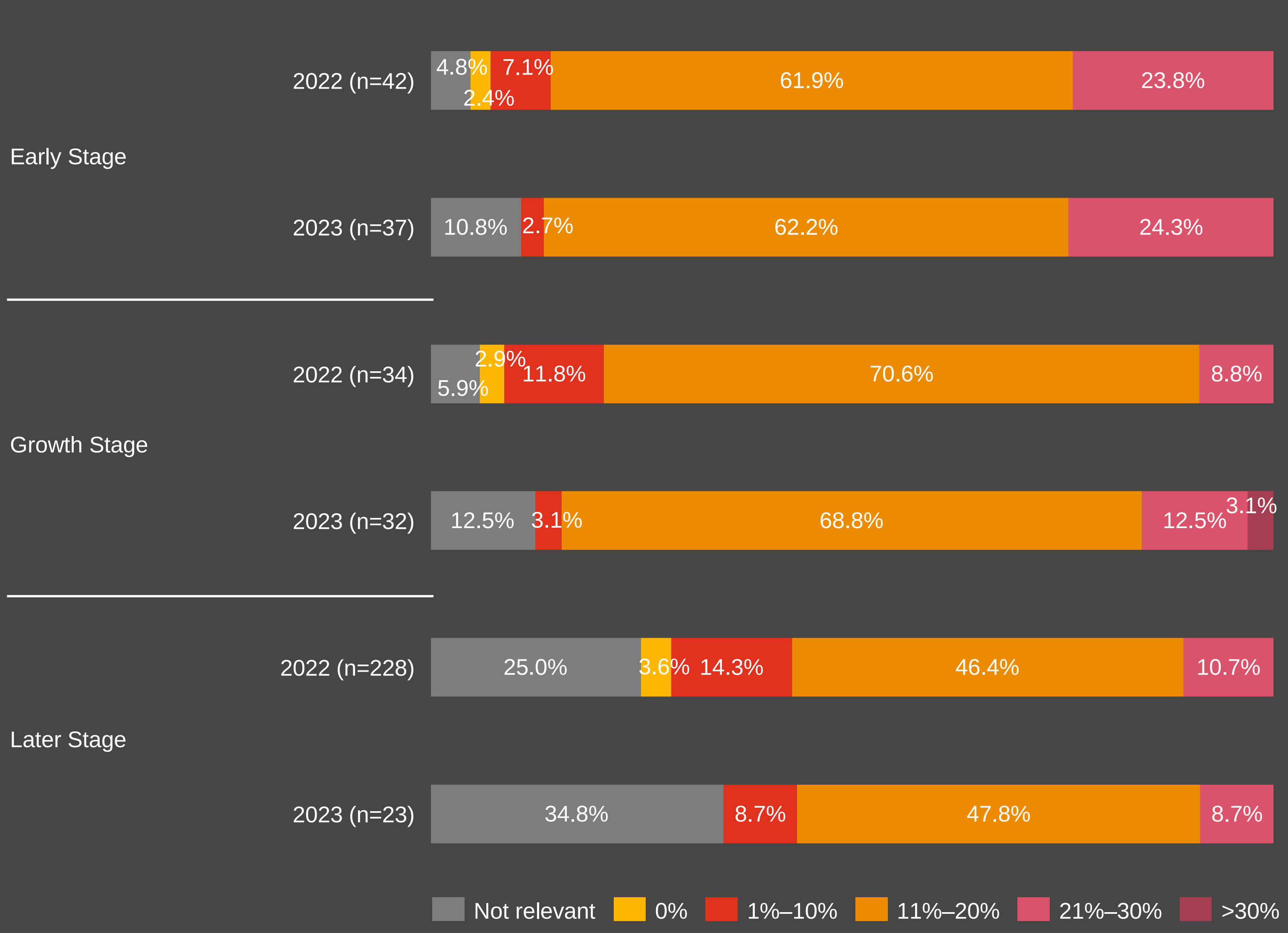


Legal terms

33.2

A discount in conversions between 11%–20% is prevalent across all stages. In the growth stage, there is a trend towards higher discounts compared with the previous year.

What discount (conversion in future equity financing round) do you typically agree to in convertible loans (average depending on stage)?

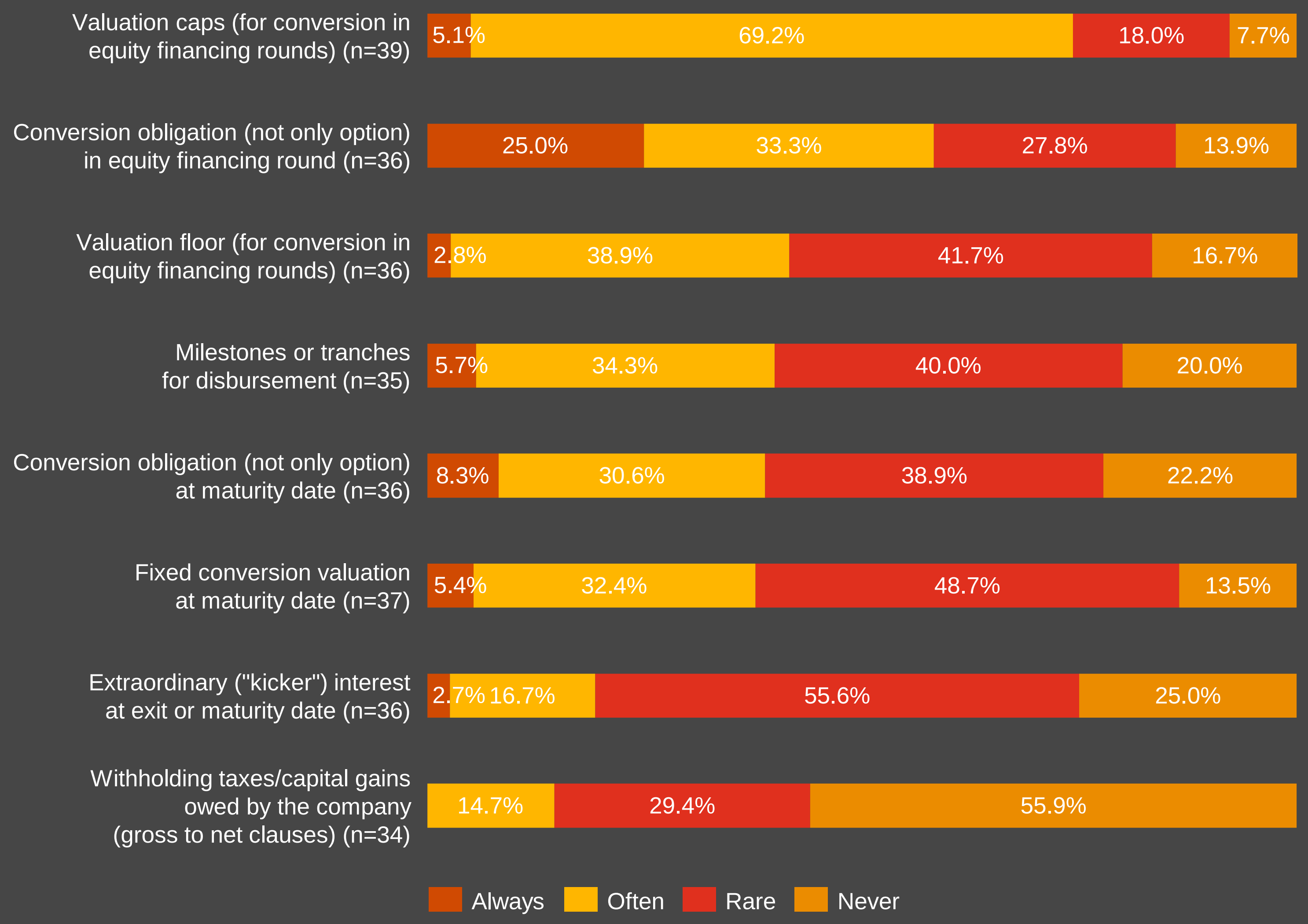


Legal terms

34

Valuation caps are common in convertible loans as an additional conversion term, followed by the conversion obligation in equity financing rounds and valuation floor.

What other conversion terms do you typically agree to in convertible loans?

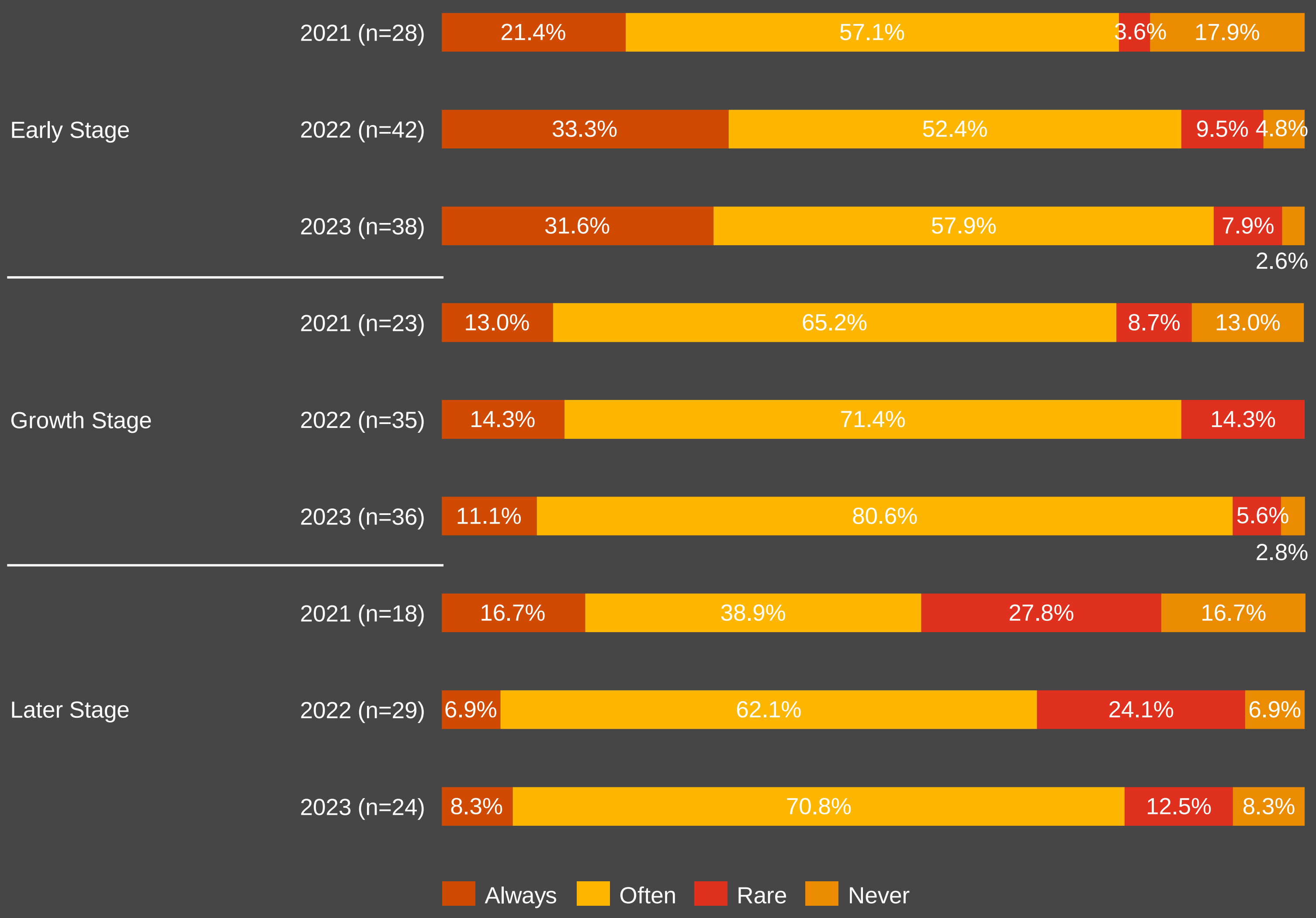


Legal terms

35

ESOP schemes have been extensively used in the past, but the frequency of application (always and often) increased the 2nd year in all phases, confirming the essentiality and the importance of ESOP for the ecosystem.

Do you (usually) expect the implementation of new ESOP pools or the set up of an existing ESOP pool in an initial investment in a portfolio company?

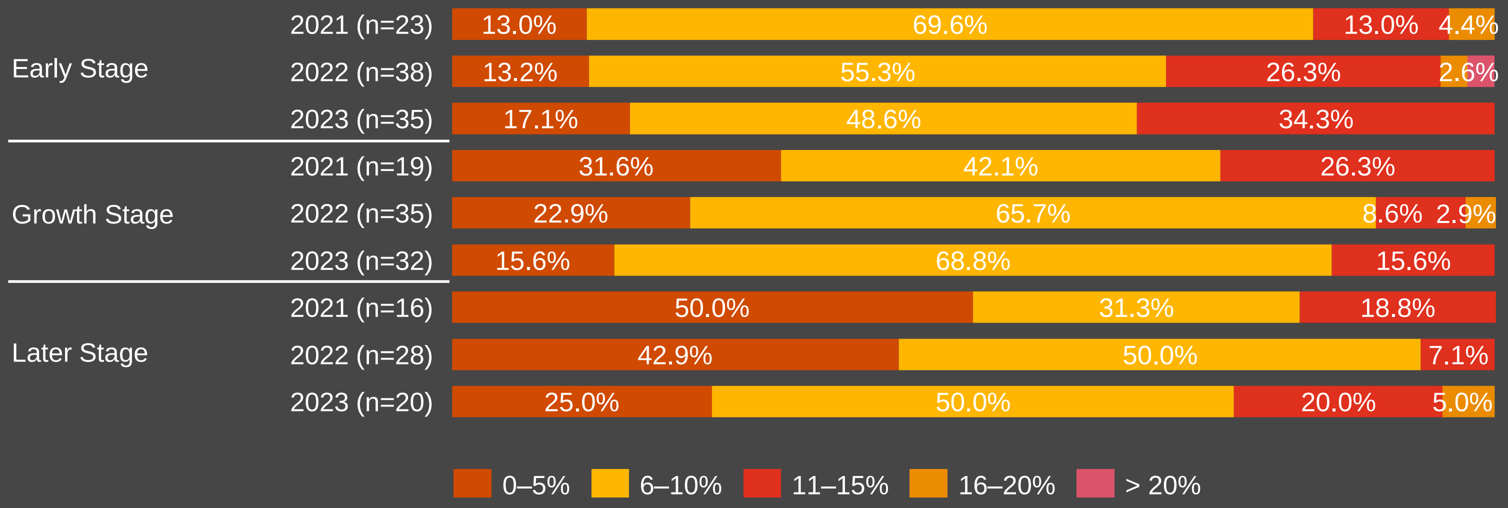


Legal terms

36.1

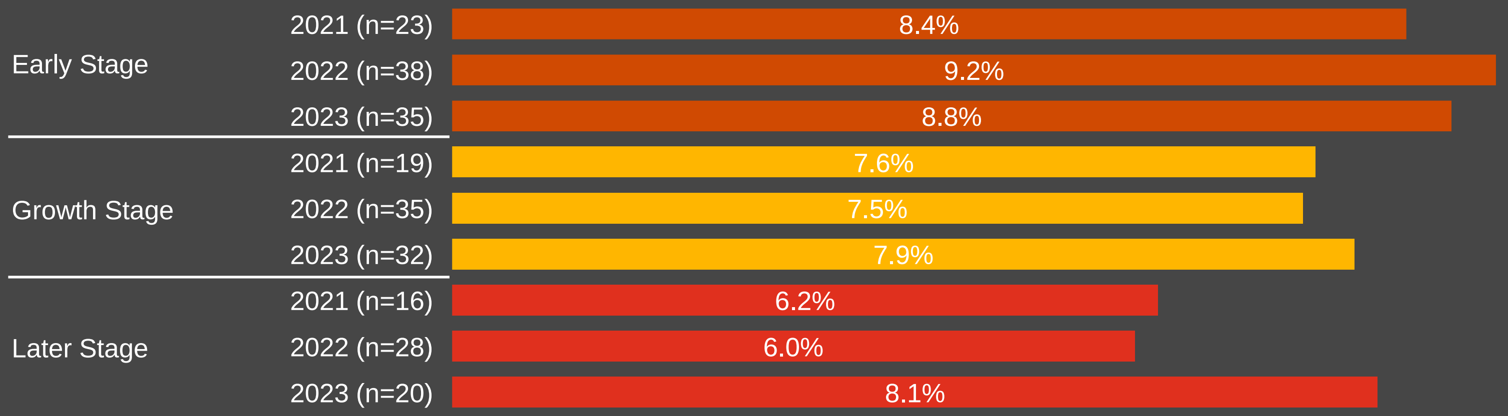
The declining valuations observable in the market are accompanied by higher ESOPs for managers in later stages.

What is the average size of an ESOP* pool (non-allocated; fully diluted post round) that you expect in an initial investment in a portfolio company?



*ESOP: Employee Stock Option Plans

Weighted average size for ESOP pools in a portfolio company in different stages

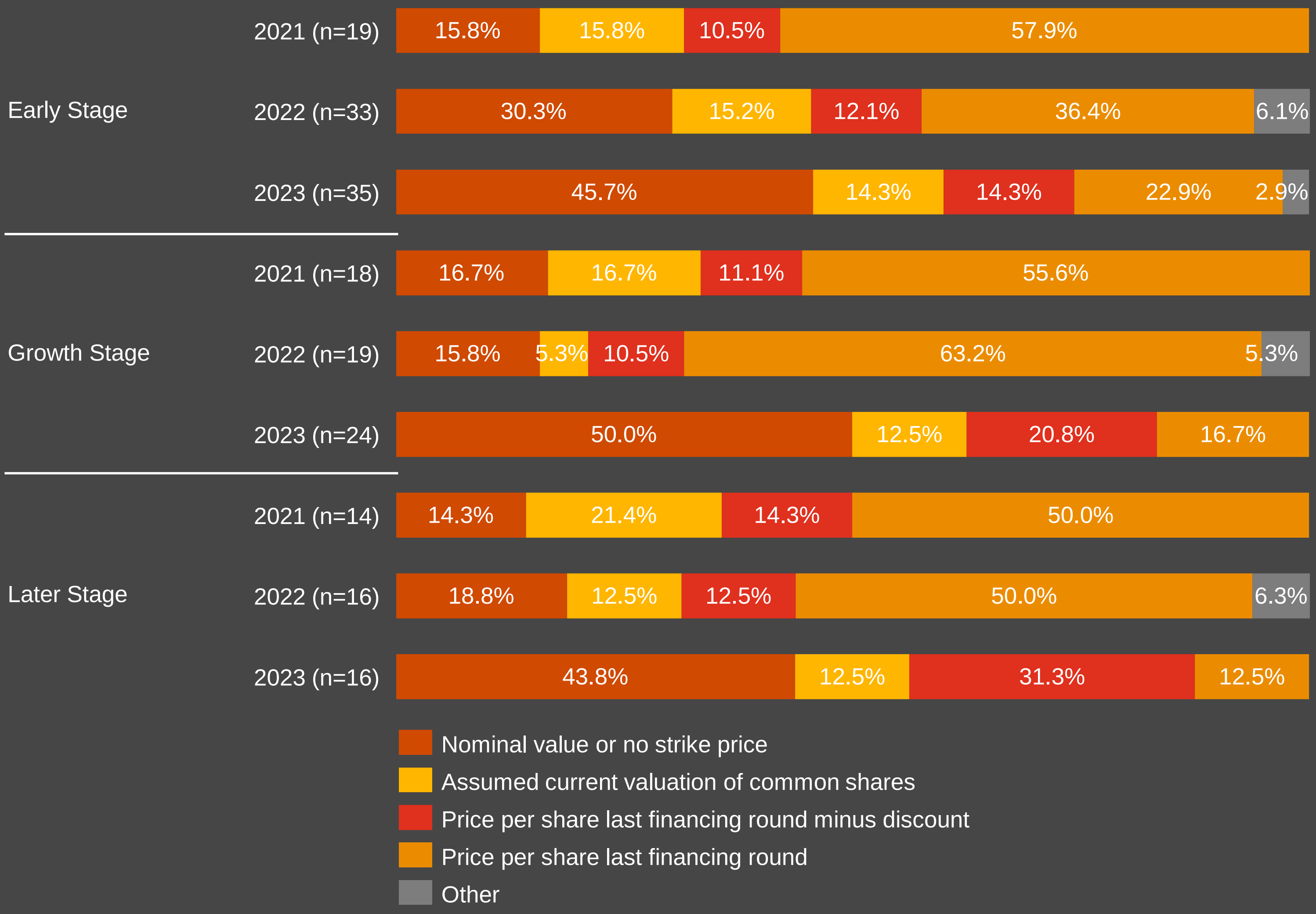


Legal terms

36.2

In all stages nominal value or no strike price became the most frequently used strike price in exchange of the price per share of the latest financing round.

Are you expecting strike prices to be agreed on in the issuance of ESOP and if so, what should the strike prices be based on?



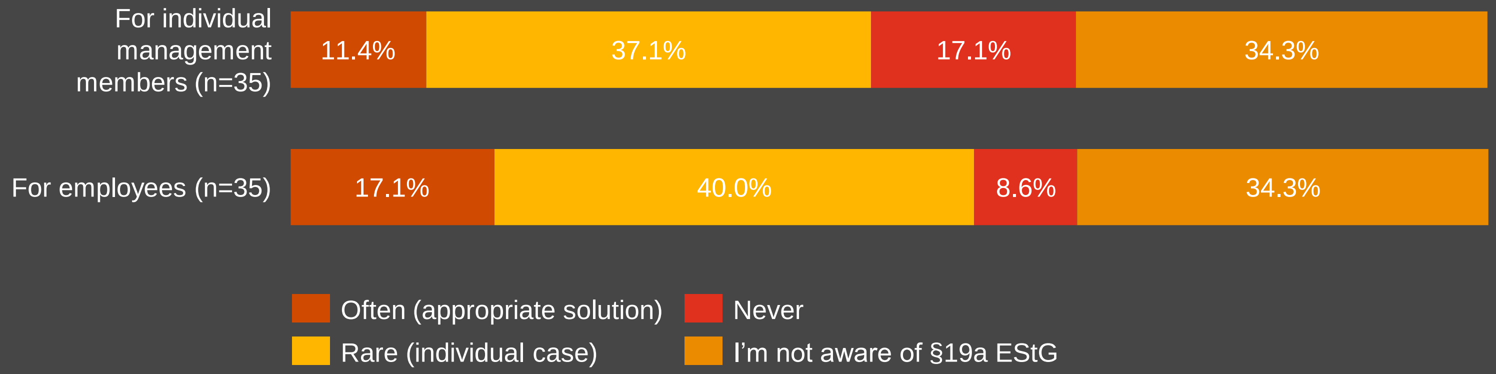
The answers "not relevant" are not shown in this analysis.

Legal terms

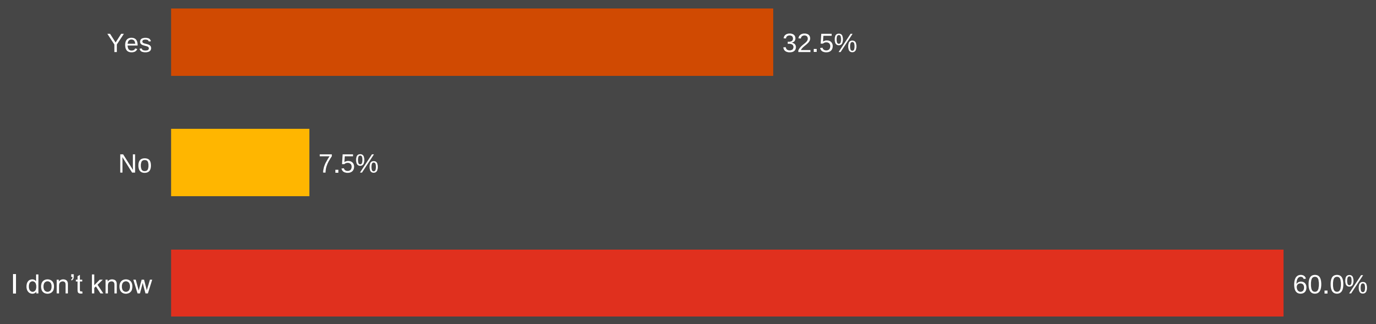
37

Still, only 11.4% or 17.1% of the participants consider using the improvements of §19a EStG frequently with the issue of real shares.The changes due to the "Zukunftsfinanzierungsgesetz" are still not clear to 60% of the marked participants.

Do you or your German portfolio companies expect to issue real shareholdings in the portfolio companies to beneficiaries based on the new regulation supposed to start 2023/2024 in §19a EStG (tax deferral regulation on wage taxes)?



Do you expect to benefit from the new tax regulations for management and employee equity or equity-linked participation in Germany under the " Zukunftsfinanzierungsgesetz"? (n=40)

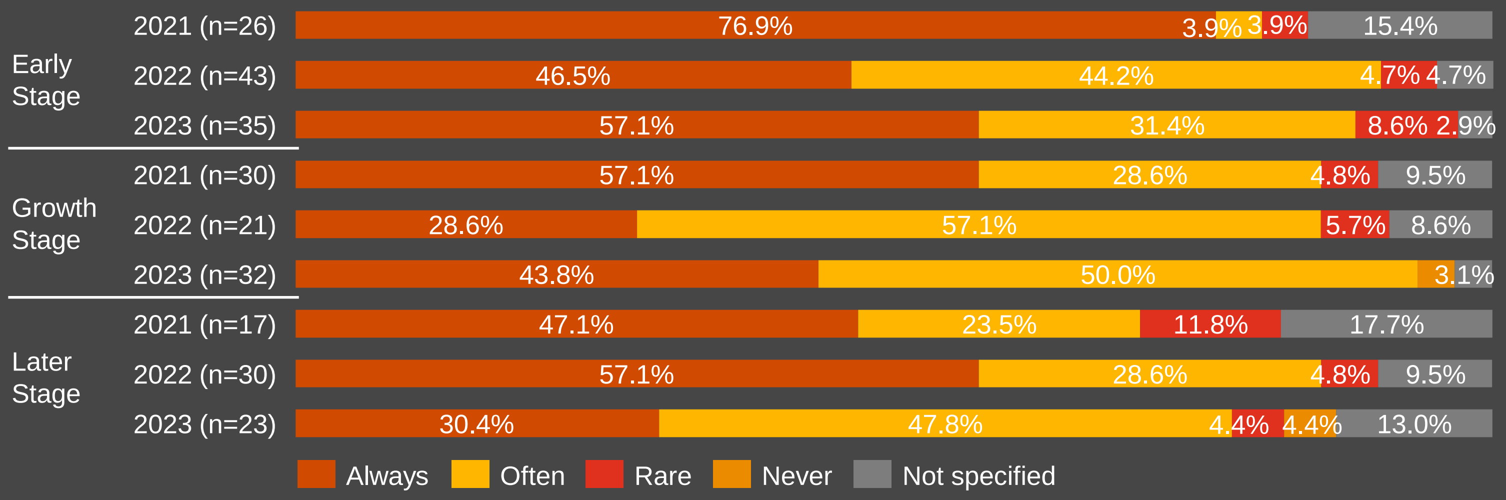


Legal terms

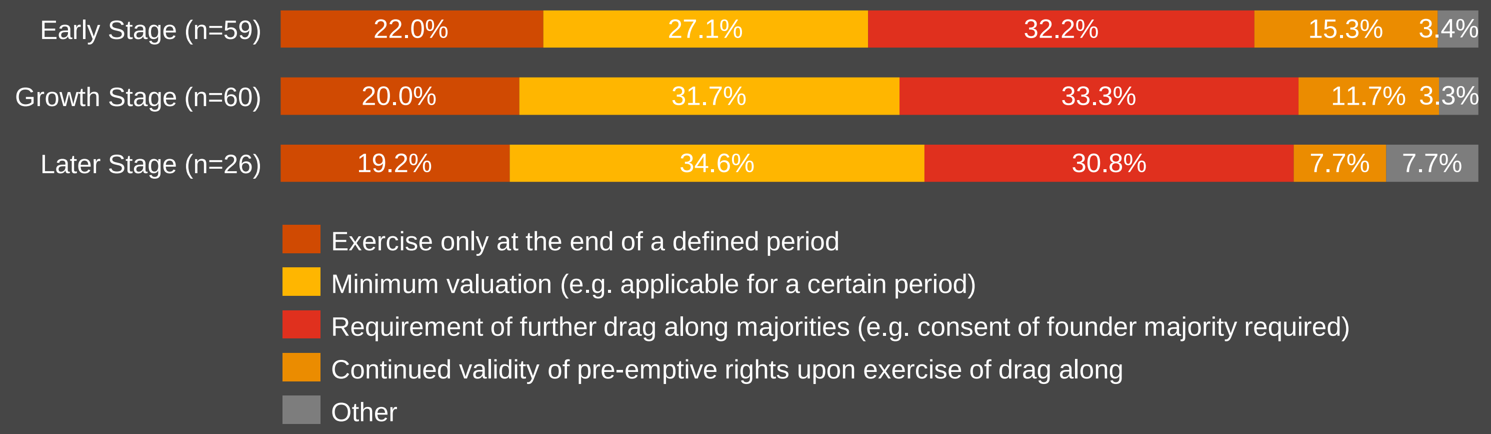
38.1

Drag along rights are requested by most of the investors, slightly decreasing in the Later Stage. However, limitations of the drag along by minimum valuations, majority requirements or time thresholds are often accepted.

Do you usually agree on drag along rights in favor of your venture capital company (as the case may be, to be exercised together with co-Investors)?



Which drag along terms do you accept in respect to drag along clauses in favor of your own venture capital company (as the case may be, to be exercised together with co-Investors)?

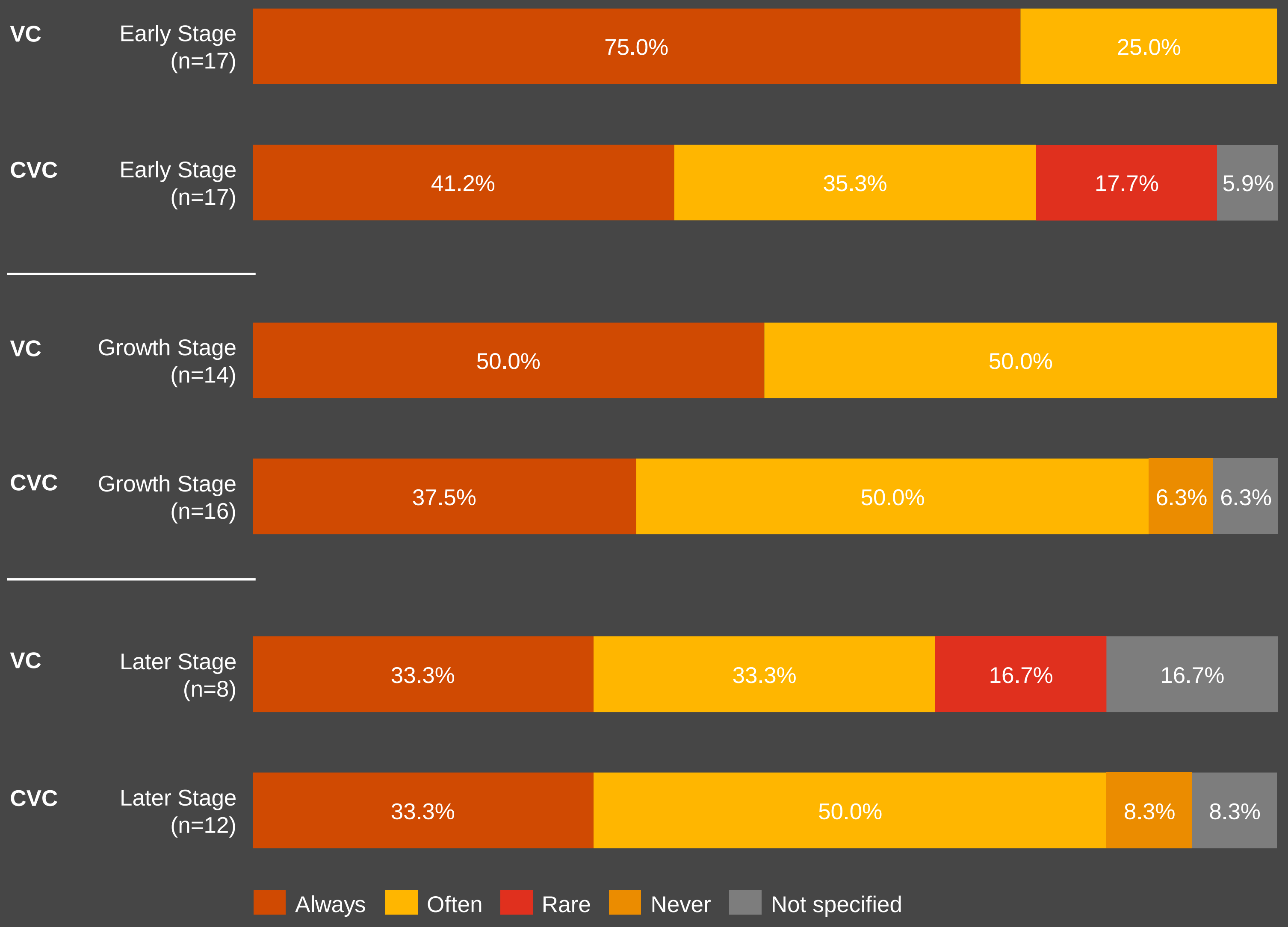


Legal terms

38.2

Institutional VCs and CVCs request for drag along rights to a similar extent, CVCs more in Later Stage and VCs more in Early Stage. Compared to last year, CVCs' request for drag along rights is decreasing.

Do you usually agree on drag along rights in favor of your venture capital company (as the case may be, to be exercised together with co-investors)?

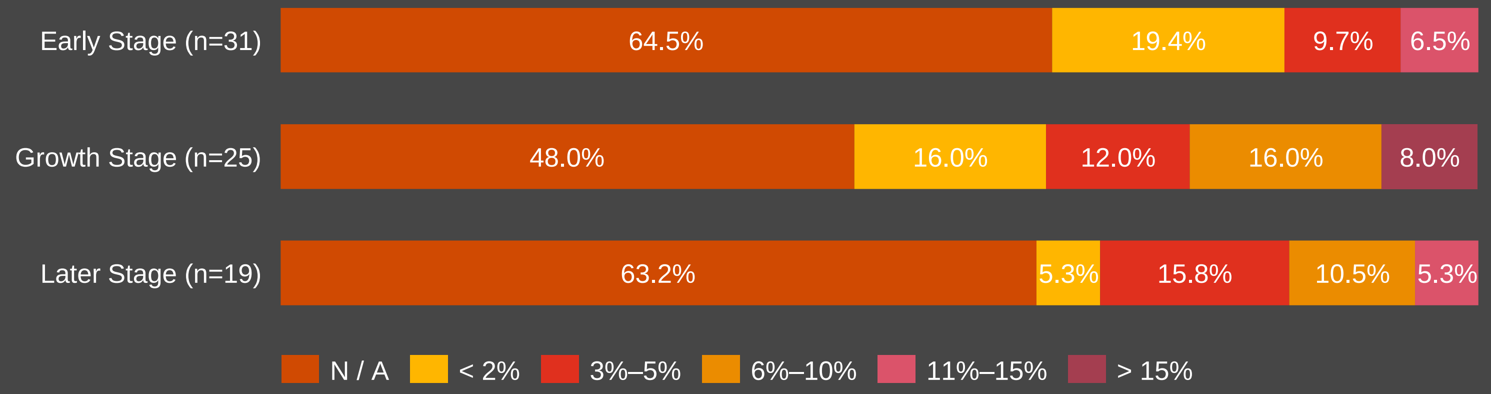


Legal terms

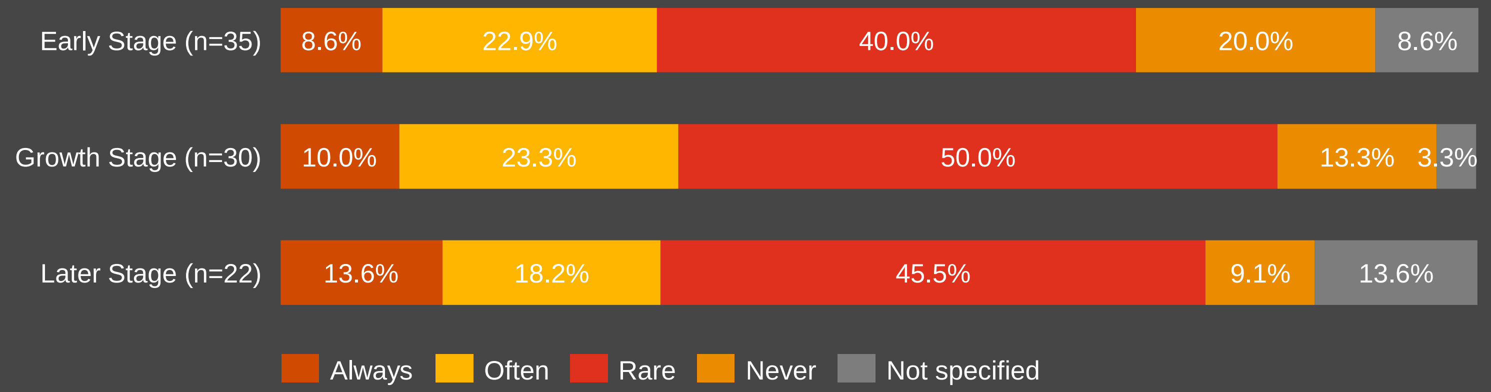
39

Exceptions to the founders' lock-up are still limited and not market standard. Even when an exception is accepted, it varies in its percentage of the total shares of the company. Less than a third of investors are willing to acquire shares in a secondary (e.g. from founders).

Do you agree that a certain portion of your initial investment in a portfolio company will be exempt from the lock-up (e.g. secondary entitlement of founders; in % of the total shares of the portfolio company)?



Is your venture capital company prepared to acquire existing shares in a portfolio company (e.g. of founders) in a secondary trade?



E

Additional
questions –
VC-Market Resilience

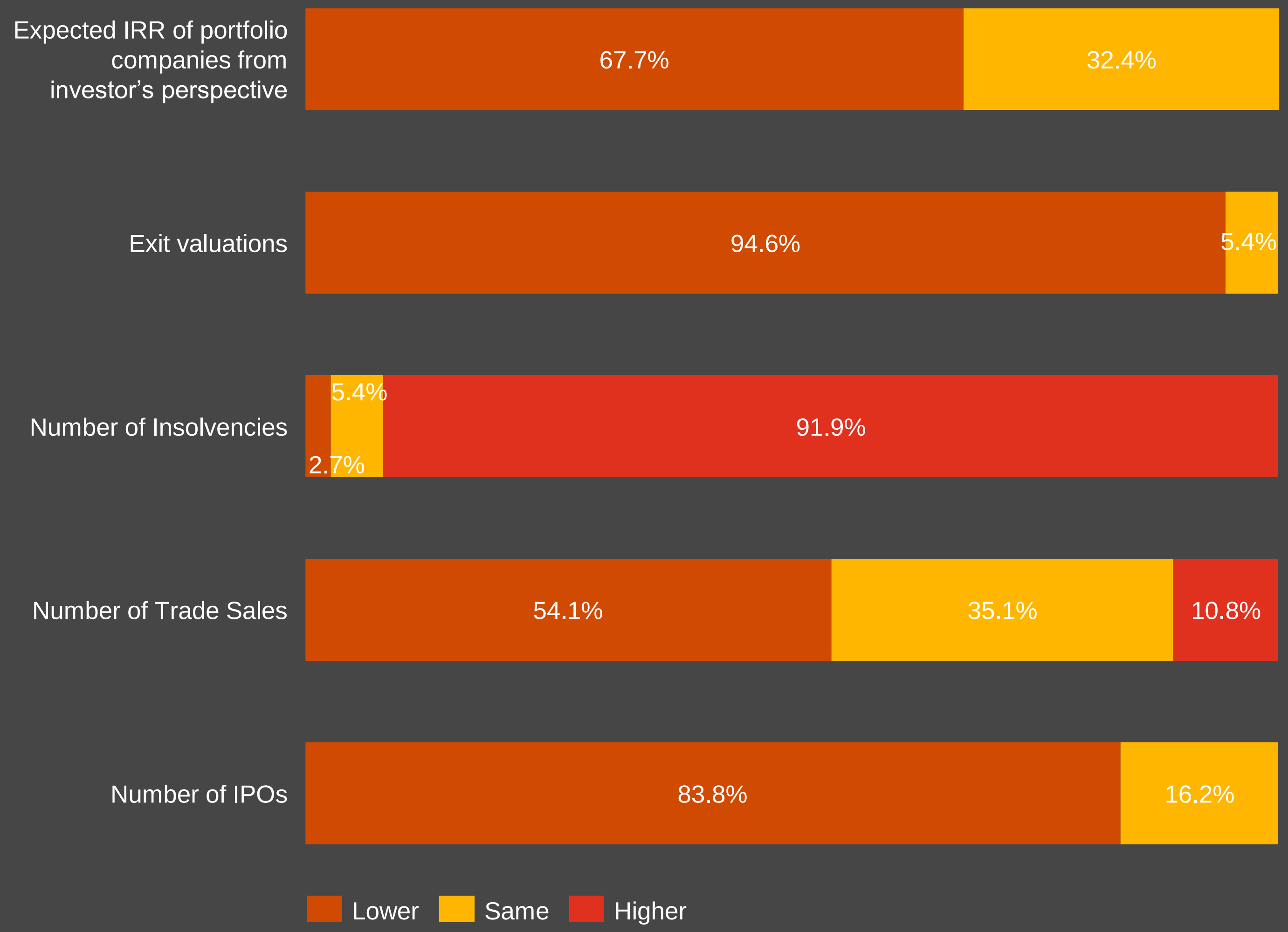
Additional questions– VC-Market Resilience

40

Predominantly declining indicators for market resilience lead to significant shifts in market metrics and show
- a massive increase of insolvencies,
- a high decline of exit valuations as well as,
- a lower occurrence of trade sales and significantly less IPOs.

The majority of investors expects lower returns of their portfolio companies.

Based on your current view of the market, which of the following developments regarding exits do you see as different from pre-crisis to the beginning of 2022? (n=37)

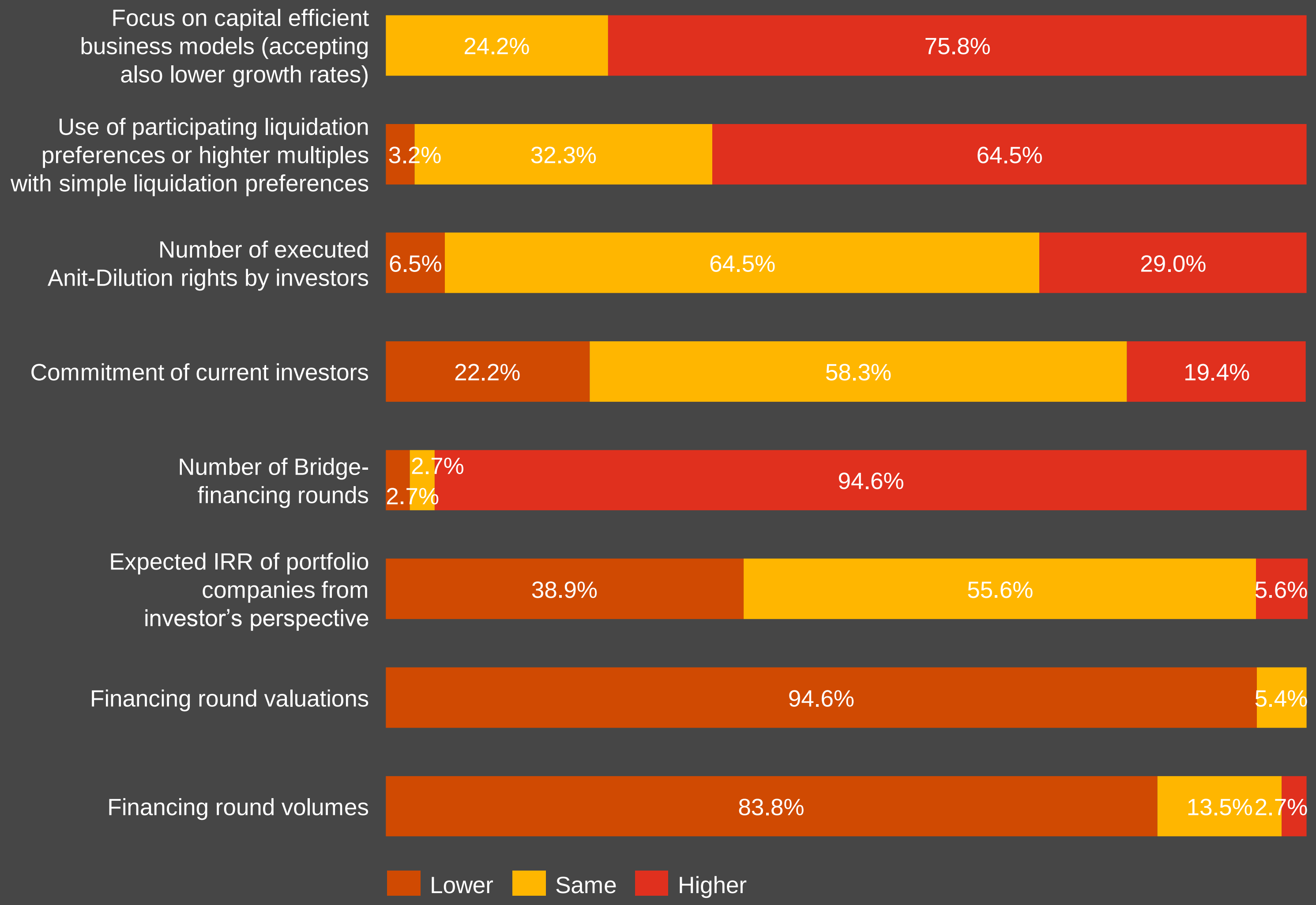


Additional questions– VC-Market Resilience

41

The reduction of downside risk is receiving increased attention from many investors. As a result, we are seeing more investor-friendly terms, smaller funding rounds and lower valuations.
Despite this, we see that investors remain committed to their portfolio companies and continue to fund them. This is reflected in the increased number of bridge financing rounds, which 95% of all participants see more frequently than before the crisis.

Based on your current view of the market, which of the following developments regarding financing rounds do you see as different recently compared to before the crisis? (n=37)



Additional questions– VC-Market Resilience

42

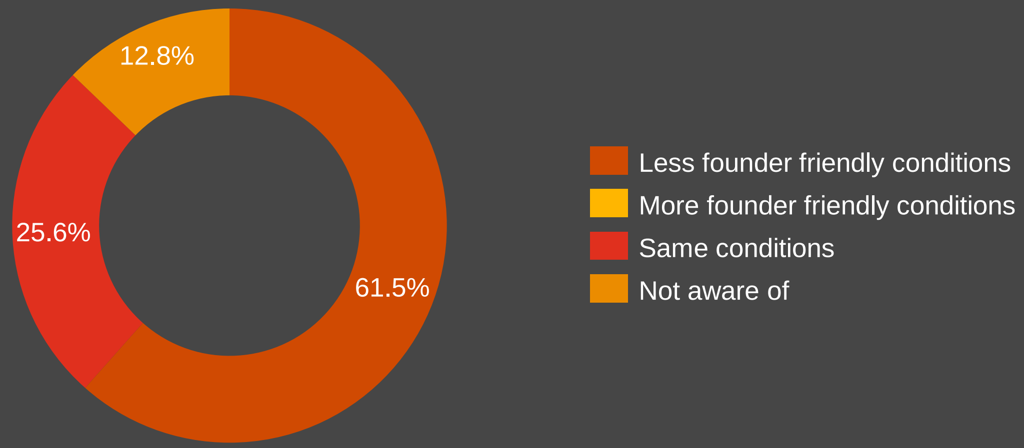
A bridge-financing round is more commonly applied by a convertible.

Less founder-friendly conditions tended to be realized from the perspective of more than 60% of all participants.

Regarding the 2022/23 bridge-financing rounds that you are aware of, which of the following aspects have you seen? (n=38)

I usually see the following instruments being applied in a bridge financing round (multiple answers possible):

Compared to the pre-crisis period at the beginning of 2022, bridge financing rounds tended to be realized in the market at …

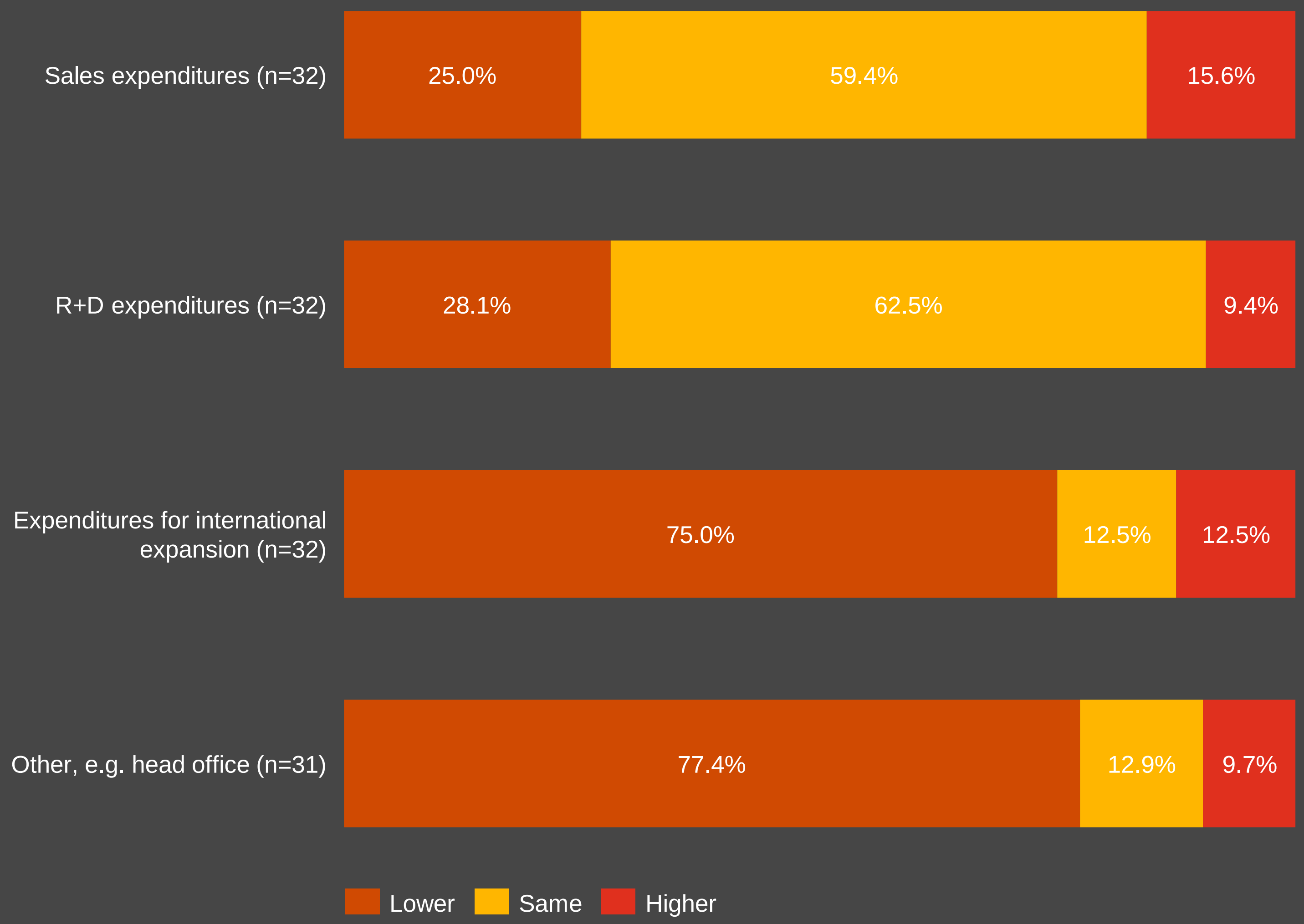


Additional questions– VC-Market Resilience

43

In terms of capital efficiency, sales and R+D expenditures hardly suffered at all. But internationalization and other expenses (such as headquarters) are lower for ¾ of all respondents.

When looking at your portfolio companies' management, which of the following aspects can you observe with regard to capital efficiency?

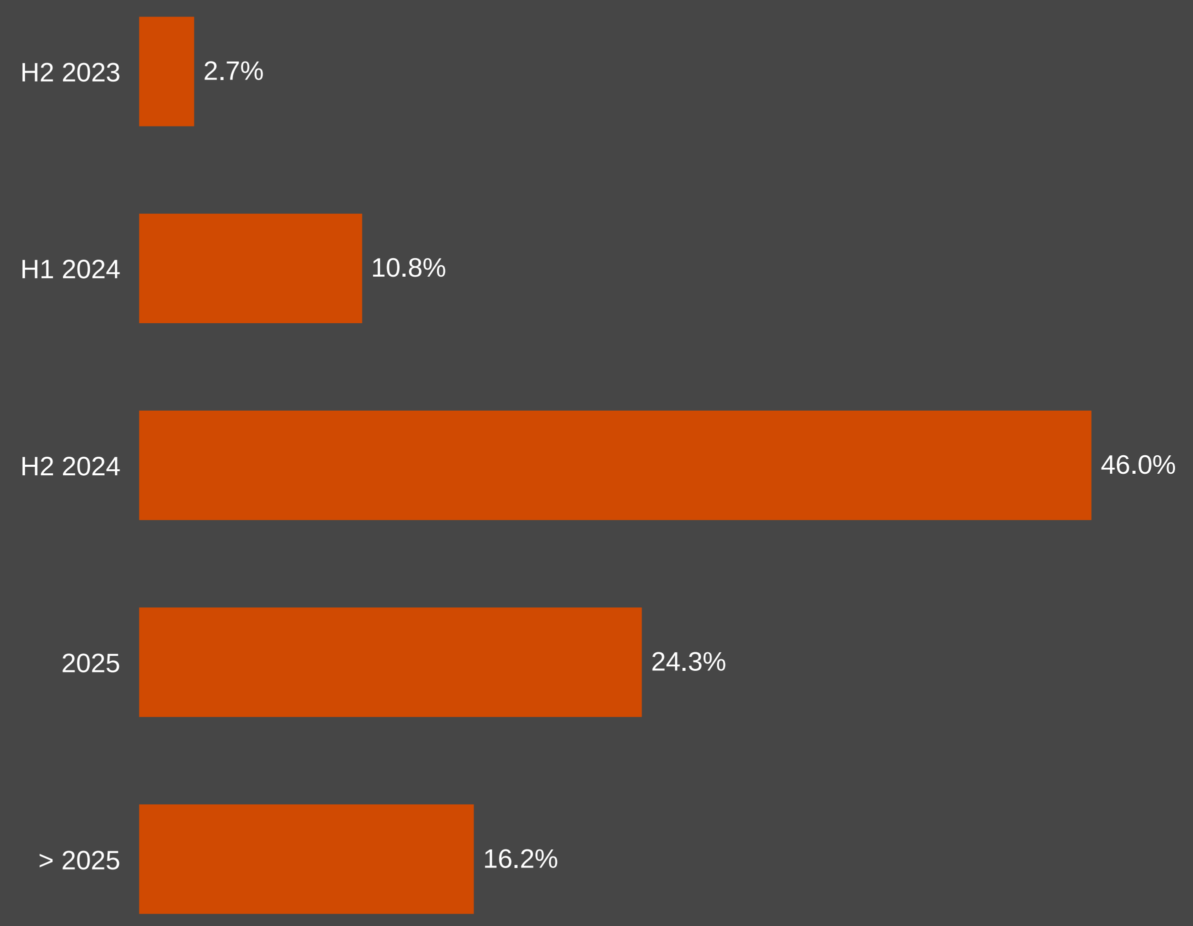


Additional questions– VC-Market Resilience

44

The vast majority expects to see more startup IPOs in H2 2024.

On a timeline, when do you expect to see more startup IPOs than today? (n=37)



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References

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