

# EIF VC Survey 2018

Fund managers' market sentiment  
and views on public intervention

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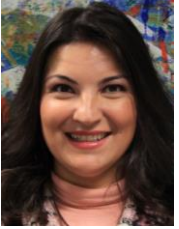




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## Executive summary<sup>1</sup>

This study presents results of the EIF's first *VC Survey*, a survey among venture capital general partner (GP)/management companies headquartered in the EU-28 and some additional countries (mainly Norway, Switzerland and Turkey). The surveyed population includes both companies in which EIF invested as well as companies in which EIF has not (or not yet) invested.

The *EIF VC Survey* consisted of questions covering three main topics:

- The *VC market sentiment*,
- *Market weaknesses and public intervention*, as well as
- *The value added, products and processes of the EIF*.

This EIF Working Paper summarises the findings of the first two parts, mentioned above. The study provides a detailed overview of the respondents' state of business and market activity as well as their general perception of the European VC market. In doing so, we look at the current situation, developments in the recent past, and expectations for the future.

### Market sentiment

#### *State of business*

- The **state of business** is perceived positive, with the vast majority of the fund managers reporting an improvement over the last year and a positive outlook for 2018.

#### *Availability of funding and fundraising environment*

- A large majority of the fund managers consider that there is a **lack of funding** to finance VC-supported companies' prospects *in general*; but fewer believe that this is an issue affecting *their own* portfolio companies in particular.
- Fewer than half of the fund managers consider the **fundraising environment** over the last year to have been good; with only one third of the respondents expecting an improvement in 2018.
- **Finding co-investors to syndicate** is perceived relatively easy by the majority of respondents; with expectations remaining largely the same for 2018. However, two fifths of the fund managers did report difficulties in finding co-investors.

#### *Investments and portfolio development*

- The number of qualified **investment proposals** received and of **new investments** undertaken are both expected, on balance, to increase in 2018.
- **Portfolio development** during the last year has been at least in line with expectations; with further improvement expected for 2018.

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<sup>1</sup> We would like to thank the anonymous respondents to the survey. 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 also would like to express particular thanks to Oscar Farres. We would also like to thank colleagues from Invest Europe and from the Trier University for their support. All errors are of the authors.

- Trade sales dominated the exit activity in 2017, while improved **exit opportunities** are expected for 2018.

### *Important challenges in the European VC business*

- Exit environment, fundraising, and IPO market are perceived as the three **biggest challenges in the European VC business**.
- Recruiting high-quality professionals is perceived as the **biggest challenge faced by VC-supported companies**; securing financing is ranked second.
- The extent of the **regulatory requirements** applied in the European VC business is largely expected to remain the same, bringing no significant change to the VCs' state of business.

### *Overall prospects of the European VC market, promising countries and industries for future VC investments*

- The **overall VC market in Europe** and **investment activities** in the European VC market are both expected to improve in 2018.
- Fund managers are rather confident about the **long-term growth prospects** of the VC industry in their market and in Europe altogether.
- While Germany, UK and France are still perceived as the three **most promising countries for VC investments** in 2018, the UK might lose ground, in particular to Germany.
- ICT and Life Sciences are perceived as the two **most promising industries for VC investments** in 2018.
- Alongside traditional industries, the importance of relatively **newer sectors** such as Cybersecurity, Fintech and Deep Technology is also expected to rise in the future.
- Variations across countries and industries do exist in certain aspects of the survey. In particular, the uncertainty surrounding the **Brexit** implications seems to have negatively affected the market sentiment of UK-based fund managers.

### *Role of the public sector*

- Public support in general is perceived crucial for the European VC market.
- The VC managers are especially calling for an improved public role for **increasing investment volumes** and **targeting different stages** in venture capital financing.
- The vast majority of the respondents (64%) indicated governmental support should be increased for **early stage** businesses.
- The fund managers are **more satisfied with the European programs** than with national or regional programs.
- **Involvement of pension funds as investors** appeared to be the most important element that is currently underdeveloped.
- The respondents perceive the **readiness of large private institutional investors** to invest in European VC to be poor and they appreciate governmental programs that encourage other private LPs to invest.

## Policy implications:

- **The lack of funding to finance portfolio companies' prospects is still perceived significant.** The challenges relating to fundraising and exit opportunities prevent European venture capital from becoming a more attractive asset class. At the level of the portfolio companies, securing financing is perceived as the second most important challenge (after "recruiting high-quality professionals").
- The VC managers still perceive the European VC market as underdeveloped in some parts and not dynamic enough. In particular, the **large private institutional investors are not ready to invest in European venture capital.** European VC funds are too small to be attractive to large private institutional investors. Moreover, cultural attitudes as regards risk perception play a big role. The European VC market seems to lack **risk appetite** and LPs state not to be well informed about the track records of VC funds' performance.
- In general, the market needs to **raise awareness about the social and economic impact of VC.** It needs more success stories, which according to the respondents, can be supported by **data-driven research.** The market needs to demonstrate that the European VC companies are viable, that they have **strong financial returns and successful exits.**
- To stimulate the ecosystem, public support can play a role in two ways: (i) by **tax incentives** and **simplified and harmonised regulatory systems,** and (ii) by **the provision of more public resources** to increase investment volumes and encouraging other private LPs to invest.
- The survey respondents stated that the provision of more public resources could help in order to **crowd in large private institutional investors.** Currently, the **involvement of pension funds as investors** appeared to be the most important element of the VC ecosystem that is underdeveloped. Moreover, **the VC market needs to be more harmonised across Europe.** The fund managers called for supporting pan-European funds, more cross-border investments, and a harmonisation of legal frameworks and tax systems. It also appears that the full picture of the public VC supply is unknown to many funds. The respondents think that **better coordination is needed among the governmental programs** targeting the same instrument/product/sector/country and **mapping investors** would also be helpful.
- In general, the respondents expressed their appreciation regarding the governmental support programs. Compared to national or regional programs, the **European programs appear to be more appreciated.**

The insights from the *EIF VC Survey* will help to further improve EIF's product offer and the European VC ecosystem in line with markets' needs. Moreover, the project forms part of EIF's work to assess the impact of its activities and complements the recent and ongoing quantitative analyses of the **economic effects of EIF's VC operations.** It is envisaged to repeat this study regularly. Moreover, based on this survey, a **venture capital market sentiment index** (barometer) is in development and will provide the possibility to track the VC market sentiment over time. Furthermore, additional, precise policy recommendations are expected to emerge from future waves. As such, this project contributes to establishing a sustainable venture capital ecosystem in Europe – a key objective of the EIF.

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# 1 Introduction

Venture capital is an essential source for start-up and young companies to achieve growth and create value through innovation. The relevance of venture capital financing, not only for young and innovative companies but also for the economy as a whole is very high.

The European Investment Fund (EIF) is a specialist provider of risk finance to benefit small and medium-sized enterprises (SMEs) across Europe. By developing and offering targeted financial products to its intermediaries (such as banks, guarantee and leasing companies, micro-credit providers and private equity funds), the EIF enhances SMEs' access to finance.

The EIF is a leading institution in the European venture capital (VC) market, focussing on the establishment of a sustainable VC ecosystem in Europe in order to support innovation and entrepreneurship. The EIF concentrates on building the necessary private sector VC infrastructure to address market gaps and opportunities with the aim to further enhance the attractiveness of European venture capital as an alternative asset class.

The EIF works with VC funds, which act as intermediaries and invest into innovative high-tech SMEs in their early and growth phases. The particular focus is on disruptive early-stage technology enterprises that typically face financing challenges but also provide outstanding investment opportunities. The EIF has built a strong expertise in setting-up, managing or advising tailored fund-of-funds, mostly with resources entrusted to the EIF by third parties such as the European Investment Bank (EIB), the European Commission, national and regional authorities.

EIF's Research & Market Analysis (RMA) supports EIF's strategic decision-making, product development and mandate management processes through applied research, market analyses, and impact assessments. In order to facilitate EIF's activities in European VC and to provide additional benefit for market participants, RMA aims at gathering and providing relevant information that can shed more light on this important but still relatively opaque part of the SME financing market. This EIF Working Paper forms part of that exercise.

In this study, we present results of EIF's first *VC Survey*, a survey among venture capital general partner (GP)/management companies headquartered in the EU-28 and some additional countries (mainly Norway, Switzerland and Turkey). The surveyed population includes both companies in which EIF invested as well as companies in which EIF has not (or not yet) invested. See Chapter 2 for a more detailed overview of the population and the respondents.

The *EIF VC Survey* consisted of questions covering three main areas:

- The *VC market sentiment*,
- *Market weaknesses and public intervention*, as well as
- *The value added, products and processes of the EIF*.

This EIF Working Paper summarises the findings of the first two parts, mentioned above.

The study provides a detailed overview of the respondents' state of business and market activity as well as their general perception of the European VC market. In doing so, we look at the current situation, developments in the recent past, and expectations for the future.

More generally, the insights from the *EIF VC Survey* will help to further improve EIF's product offer in line with markets' needs. Moreover, the project forms part of EIF's work to assess the impact of its activities and complements the recent and ongoing quantitative analyses of the economic effects of EIF's VC operations.<sup>2</sup>

It is envisaged to repeat this study regularly in order to improve the availability of information about this important market segment. As such, this project contributes to establishing a sustainable venture capital ecosystem in Europe – a key objective of the EIF.

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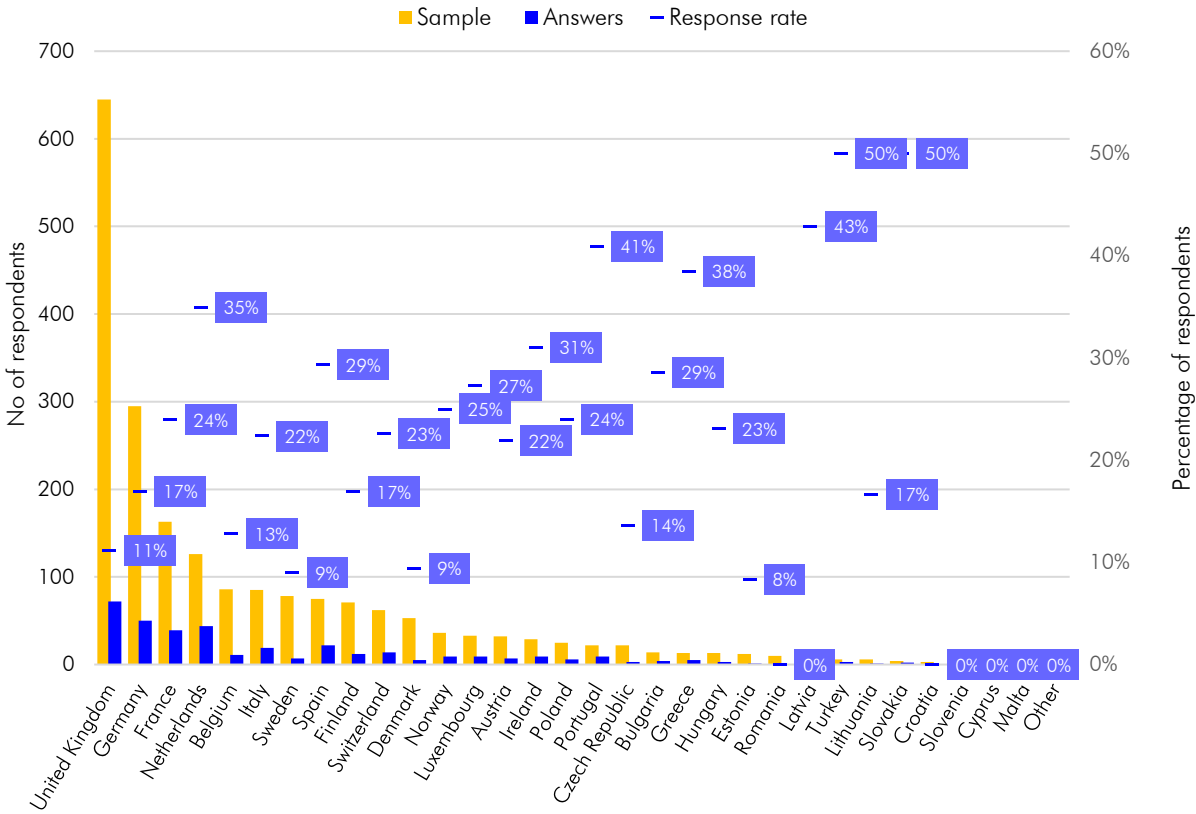
<sup>2</sup> In this context, four studies have been presented so far. See for details Vol I to IV of the series "The European venture capital landscape: an EIF perspective"; available at [http://www.eif.org/news\\_centre/research/index.htm](http://www.eif.org/news_centre/research/index.htm)

## 2 Overview of the sample

The online survey, of which the results are presented in this report, was conducted between 7 November and 18 December 2017. The online questionnaire was received by 2,032 individuals (managing/investment directors, CEOs, Partners etc.) representing 1,453 different companies headquartered in the EU-28 and some additional countries (mainly Norway, Switzerland and Turkey). Out of this group, 379 individuals from 316 different VC companies completed the survey, leading to response rates of 18.7% at individual level and 21.7% at company level.

The set of 379 complete answers gives a good indication of the overall European VC market state. Moreover, a significant number of responses come from the UK (72), Germany (50), the Netherlands (44), France (39) and Spain (22), while the response rates range from 9% in Spain, to as high as 35% in the Netherlands, which allows us to derive a national level analysis for those countries.

Figure 1: Sample and respondents' distribution by headquarter country



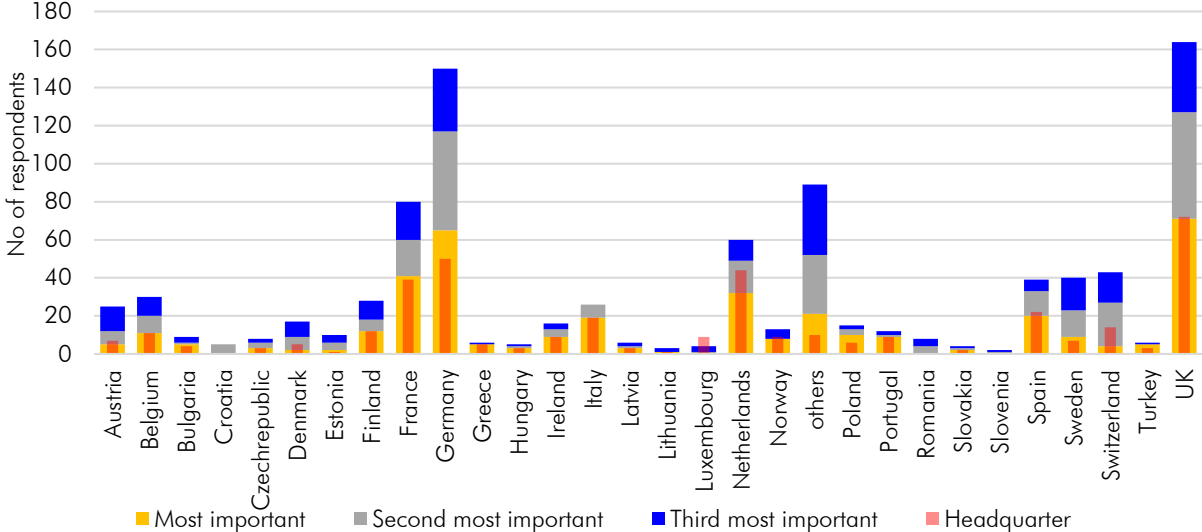
**Q. In which country is your investment firm headquartered?**

The most frequently mentioned target countries for VC investments (see Figure 6) are the UK, Germany, France and the Netherlands, which was not a very surprising result, as most of the firms in this survey are headquartered in those countries. Moreover, the firms of 80 respondents<sup>3</sup> invest only domestically (i.e. only in the country of their firm's headquarter). The vast majority (263) invest both domestically and abroad. Among them, 229 respondents indicate the country of their firm's

<sup>3</sup> The terms "respondents", "VC managers", "fund managers" and "VCs" are used interchangeably throughout the report.

headquarter as their number one most important target country for VC investments. Only 36 fund managers reported that their firms undertake cross-border investments and don't invest domestically.

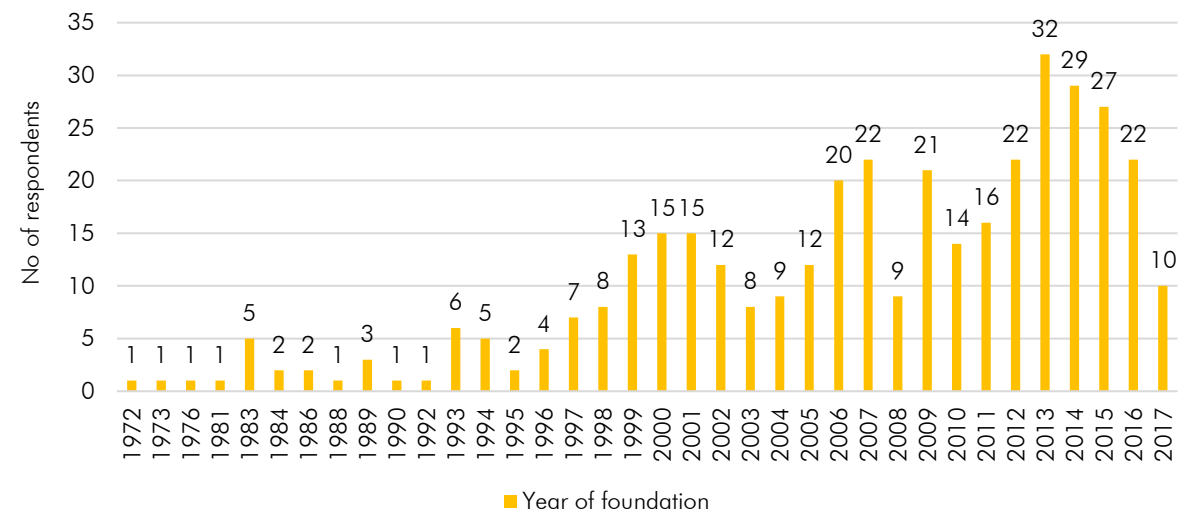
**Figure 2: Firms' investment country focus and headquarter country**



**Q. Select up to three of the most important countries in which your firm invests, in order of importance.**

The majority of the VC firms (60%) are relatively recently founded, since they are less than 10 years old (see Figure 3).

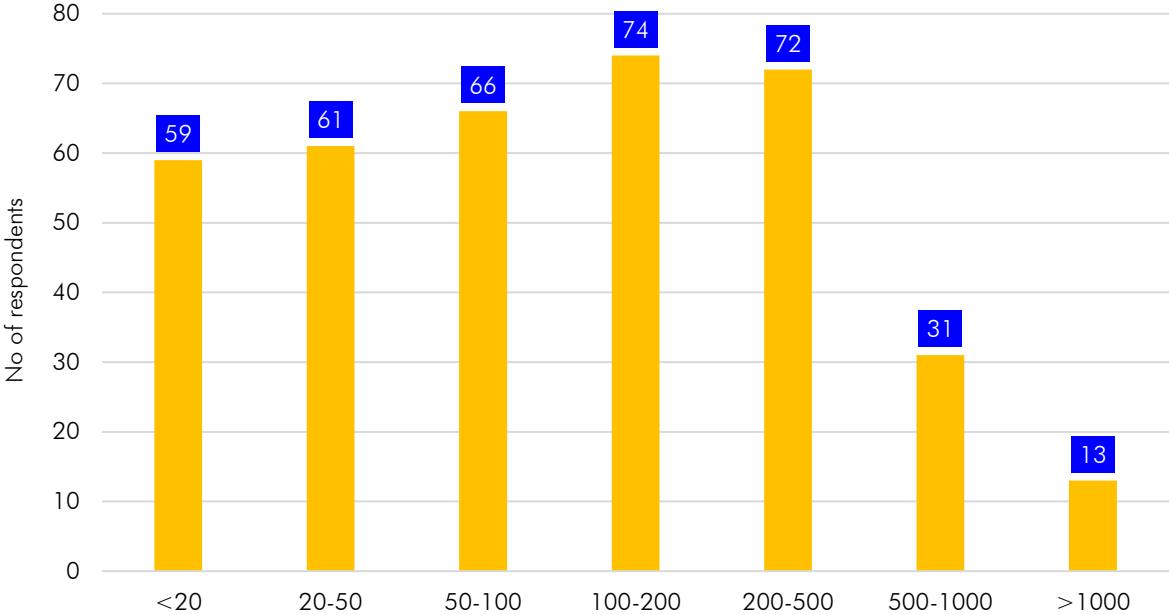
**Figure 3: Firms' distribution by foundation year**



**Q. In what year was your investment firm established?**

Almost half of the respondents indicated that their firms are managing total assets under EUR 100m. The other half reported their total assets to be equal or higher than EUR 100m and a few firms reported their total assets to be more than a billion euros (see Figure 4).

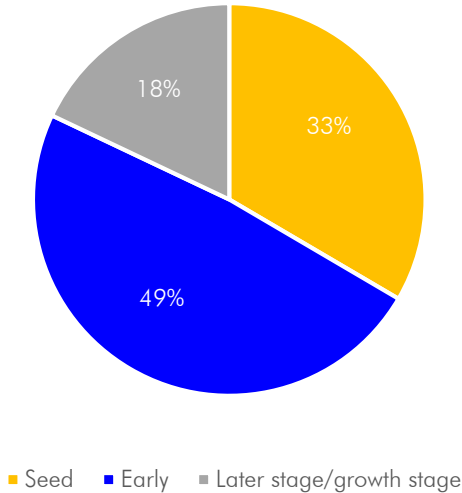
Figure 4: Firms' total assets



Q. What are your firm's total approximate assets under management (in m EUR)?

For almost 50% of respondents<sup>4</sup> the most important stage in which they invest is early stage businesses, followed by seed (33%) and later/growth (18%) stages (see Figure 5).

Figure 5: Firms' investment stage focus



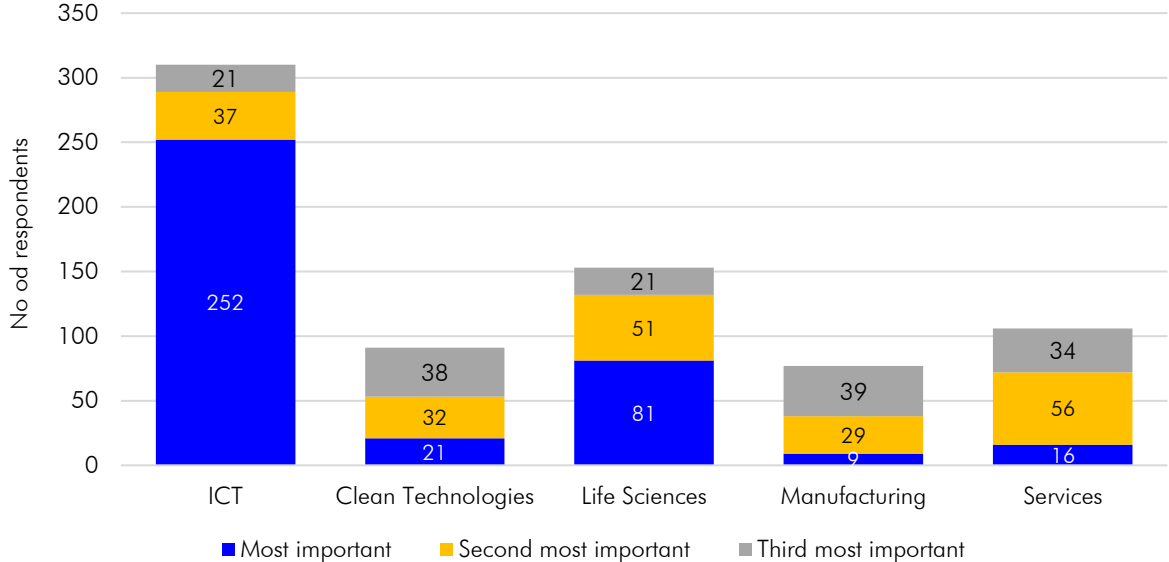
Q. What is (are) the most important stage(s) in which your firm invests? (Multiple selection possible)

As shown in Figure 6, more than two thirds of respondents indicated ICT as their most important industry of investment. The second most frequently invested industry is Life Sciences, followed by

<sup>4</sup> Due to rounding, percentages may not always add up to 100%.

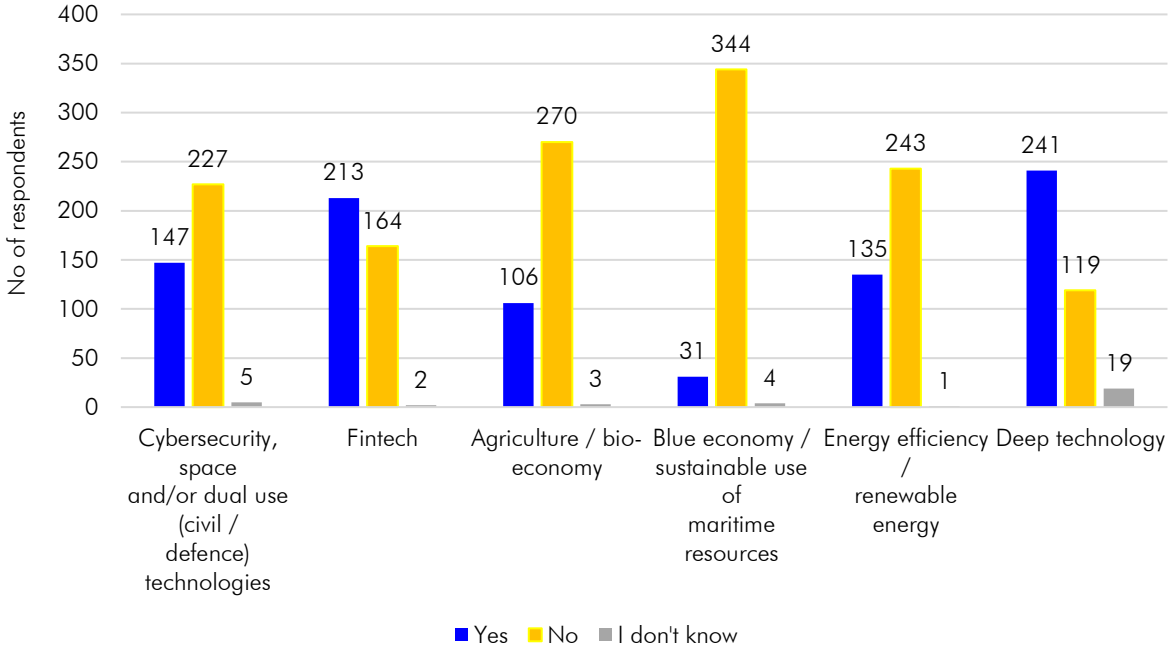
Services, Clean Technologies and Manufacturing. Respondents were also asked about some more specific areas of investment (see Figure 7). Here, Deep Technology and Fintech take clearly leading positions.

**Figure 6: Firms' investment industry focus**



**Q. Select up to three of the most important industries in which your firm invests.**

**Figure 7: Firms' current portfolio including an investee in specific industries**



**Q. Does your current investment portfolio include an investee in the area of ...**

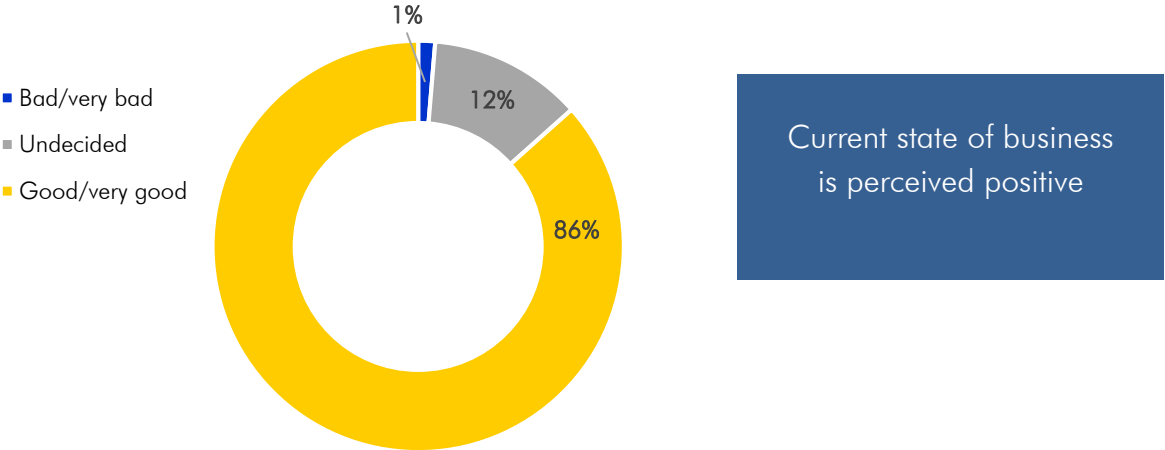
### 3 Market sentiment

As discussed in the Introduction of this report, one part of the survey focused on market sentiment and aimed at identifying participating VC managers' perception of the current market situation as well as of future outlook. Therefore, a significant number of questions covered a range of topics relating to the state of business, the availability of funding and the fundraising environment, portfolio development, the challenges in the European VC business, the overall prospects of the VC market in Europe as well as countries and industries considered promising for future VC investments.

#### 3.1 State of business

VC managers generally appear to be very optimistic regarding both the current and the future state of their business. An overwhelming majority of 86% consider their current state of business to be "good" or "very good" (see Figure 8); with 72% of the respondents stating an improvement in comparison to the previous 12 months (see Figure 9).

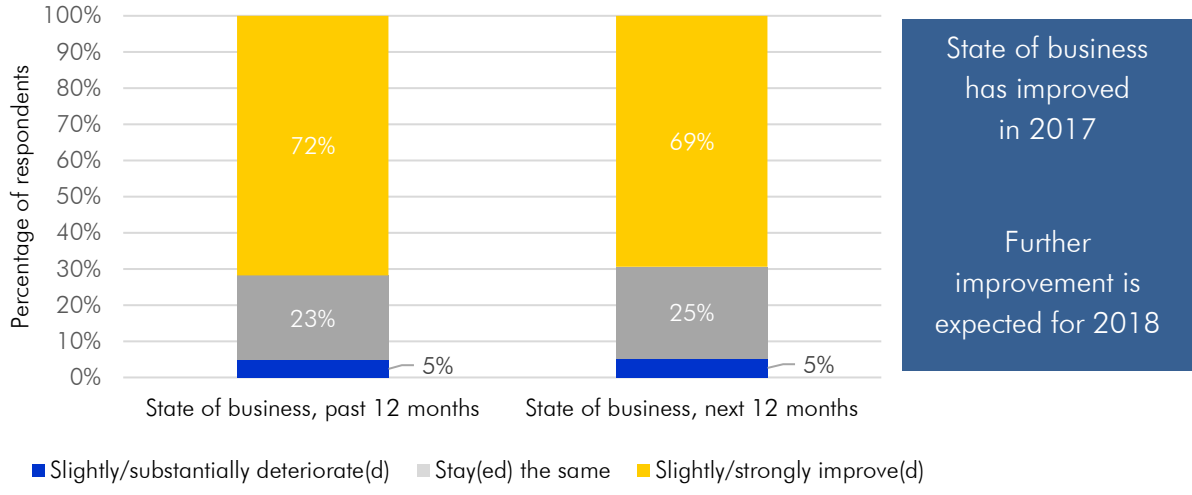
Figure 8: Current state of business



**Q. How would you assess the current state of your business?**

The outlook for 2018 continues to be optimistic, given that more than two thirds (69%) of VC managers expect a further improvement in their state of business over the coming 12 months (see Figure 9).

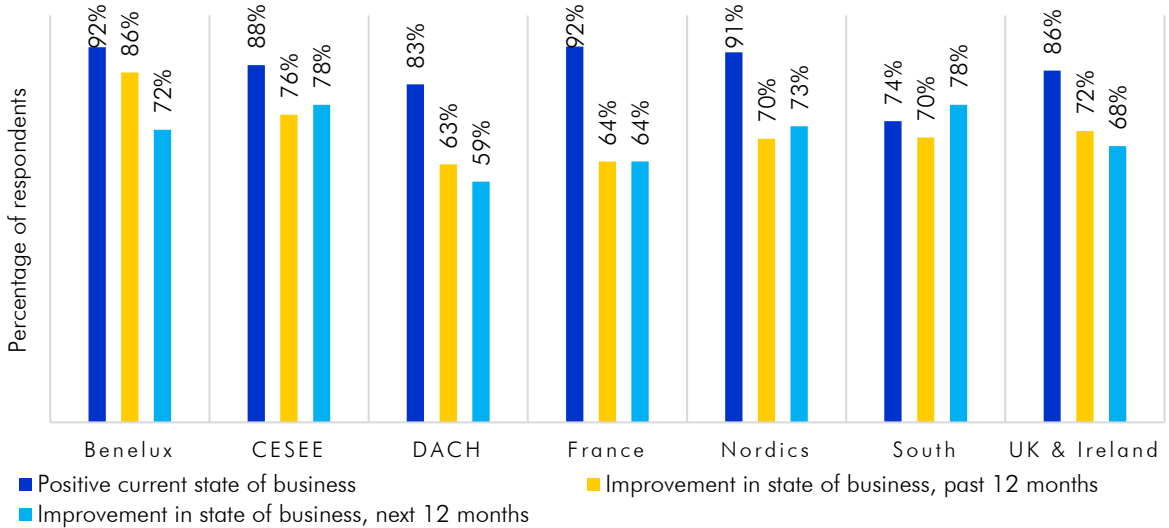
**Figure 9: Past and future state of business**



**Q. Indicate how the state of your business has changed over the past 12 months (in comparison to its previous condition)?**  
**Q. How do you expect the state of your business to change over the next 12 months?**

It needs to be noted, however, that a certain degree of heterogeneity across countries does exist (see Figure 10). Compared to the overall sample, the percentage of VC managers perceiving a positive current state of business is higher for VC firms headquartered in France (92%), Benelux (92%) and the Nordics (91%). On the other hand, VC managers based in CESEE and the South appear to be relatively more optimistic regarding the future prospects of their business, with the relevant percentages reaching 78%.

**Figure 10: Past, current and future state of business – by VC firm headquarter**



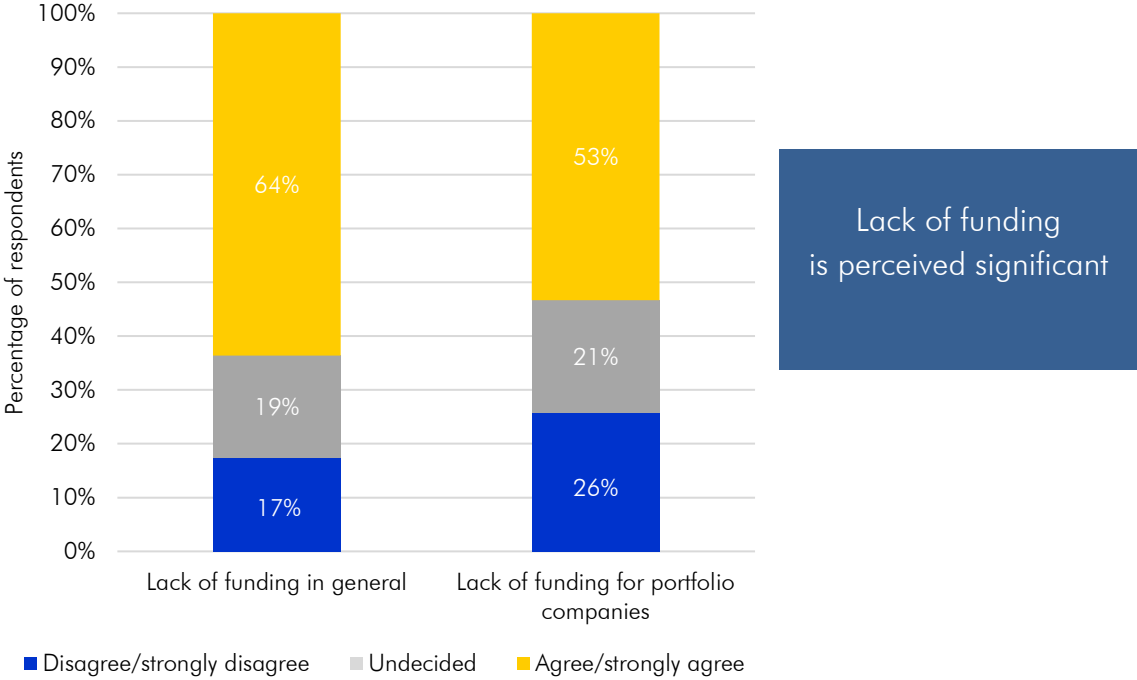
Note: "Positive current state of business" refers to the percentage of respondents perceiving their current state of business as "good" or "very good". "Improvement in state of business, past 12 months" refers to the percentage of respondents stating that their state of business has "slightly" or "strongly improved" over the past 12 months. "Improvement in state of business, next 12 months" refers to the percentage of respondents expecting that their state of business will "slightly" or "strongly improve" over the next 12 months.



### 3.2 Availability of funding and fundraising environment

A significant majority of VC managers (64%) agree that there is a lack of funding to finance VC-supported companies' prospects *in general*. At the same time though, fewer (53%) believe that this is an issue affecting *their own* portfolio companies in particular (see Figure 11).

Figure 11: Lack of funding, in general and at portfolio level

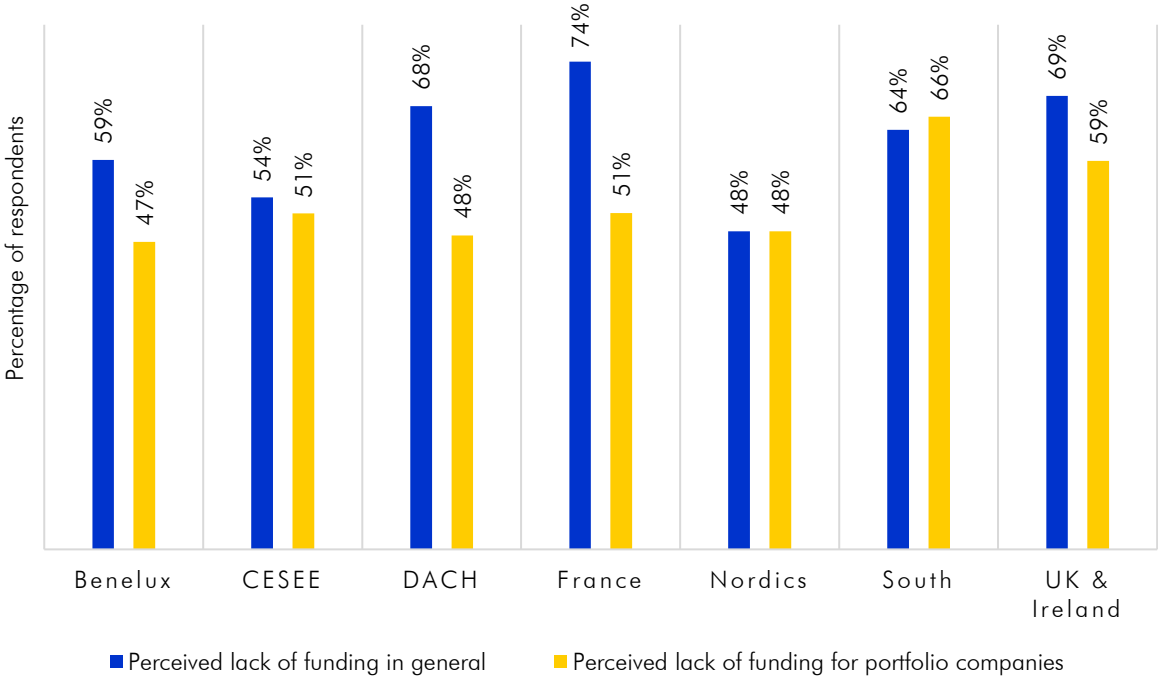


Q. From your perspective, in general, do venture capital funds lack funding to finance their portfolio companies' prospects?  
 Q. Do you perceive that there is a lack of funding to finance your portfolio companies' prospects?

Focusing on those VC managers who do perceive a lack of funding at the individual portfolio level (see Figure 12), the greatest percentages are encountered in the South (66%) as well as in the UK & Ireland (59%); while the lowest in the Nordics (48%), DACH (48%) and Benelux (47%).

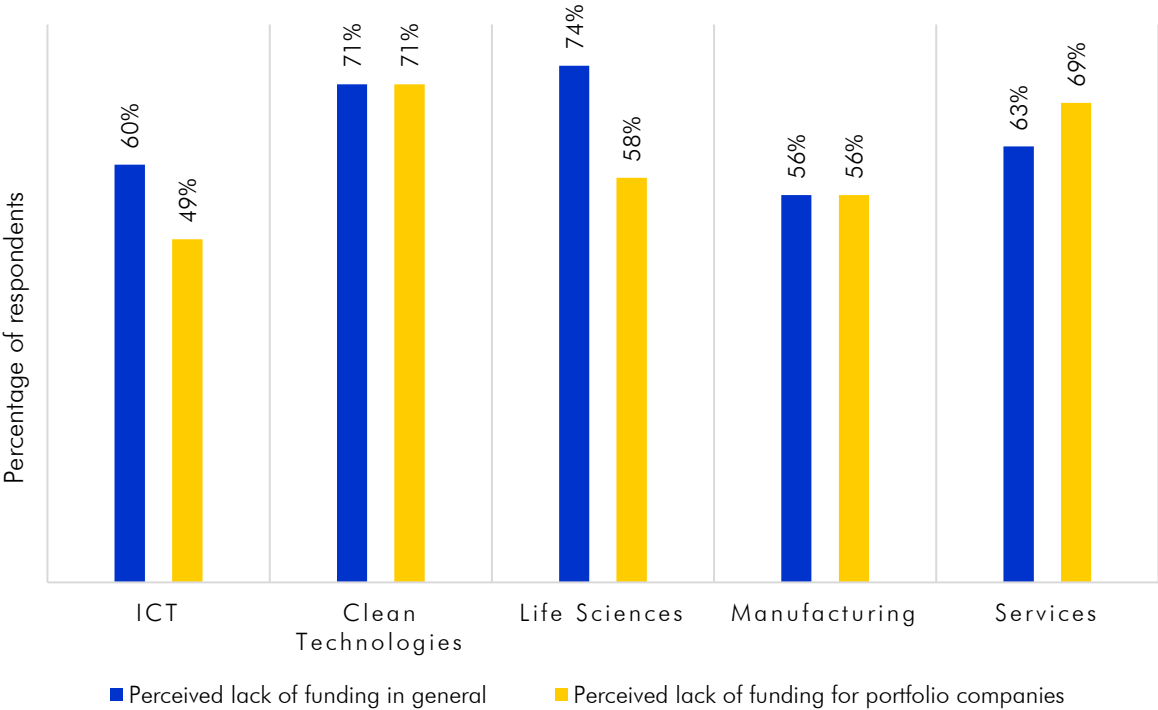
Furthermore (see Figure 13), the lack of funding to finance portfolio companies' prospects appears to be more severe for investee companies in Clean Technologies (71%) and Services (69%), and relatively less of a concern for ICT (49%).

Figure 12: Perceived lack of funding – by VC firm headquarter



Note: "Perceived lack of funding" refers to the percentage of respondents who "agree" or "strongly agree" that there is indeed a lack of funding.

Figure 13: Perceived lack of funding – by VC target industry

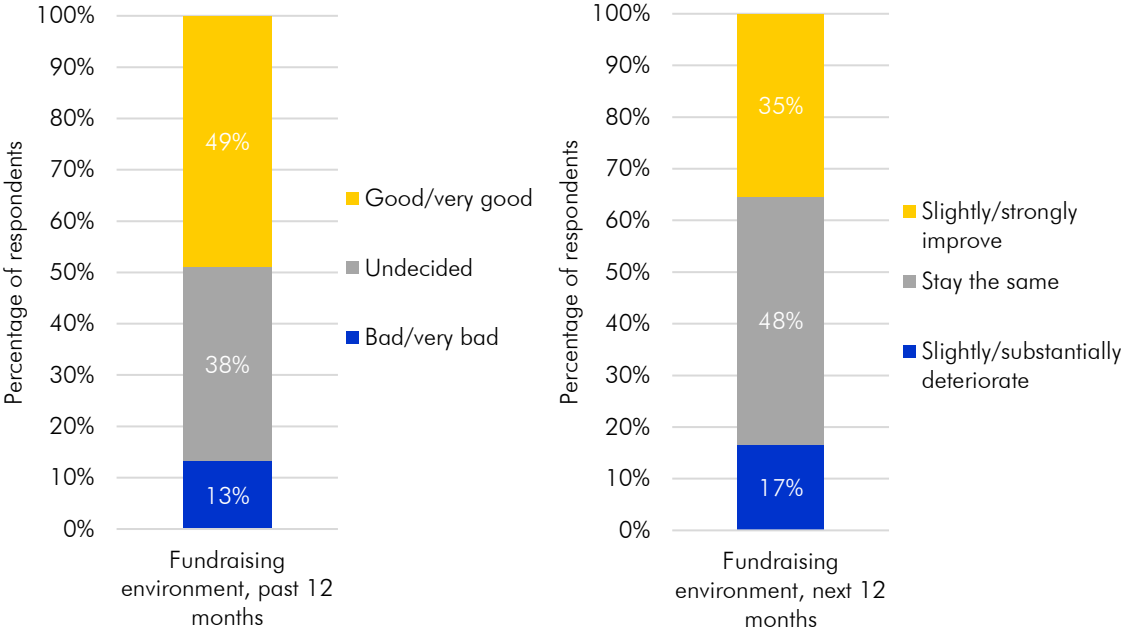


Note: "Perceived lack of funding" refers to the percentage of respondents who "agree" or "strongly agree" that there is indeed a lack of funding.

The aforementioned findings, which suggest that the majority of VC managers do indeed perceive a lack of funding, are also reflected in the current market conditions. In particular, fewer than half of the VC managers (49%) consider the fundraising environment over the past 12 months to have been “good” or “very good”; with only one third of the respondents (35%) expecting an improvement in the next 12 months (see Figure 14).

**Figure 14: Fundraising environment, past and next 12 months**

Fewer than 1 in 2 consider the fundraising environment to have been good in 2017; only 1 in 3 expect an improvement in 2018



Q. How would you rate the fundraising environment for VC funds over the past 12 months?  
 Q. Over the next 12 months, how would you expect the fundraising to develop?

Relative to the overall sample (see Figure 15), VC managers in France and Benelux are even more optimistic, with 72% and 59% of the respondents, respectively, rating positively the fundraising environment over the last year. On the contrary, only 38% of the VC managers in the South are in support of this view. In the same vein (see Figure 16), one third of the VC managers investing mainly in Clean Technologies also perceive the fundraising environment to be bad.

As regards future prospects (see Figure 17), VC managers in the UK & Ireland seem to be relatively more concerned, given that 35% (the highest proportion among all regions) actually expect the fundraising environment over the coming 12 months to deteriorate.

Figure 15: Fundraising environment, past 12 months – by VC firm headquarter

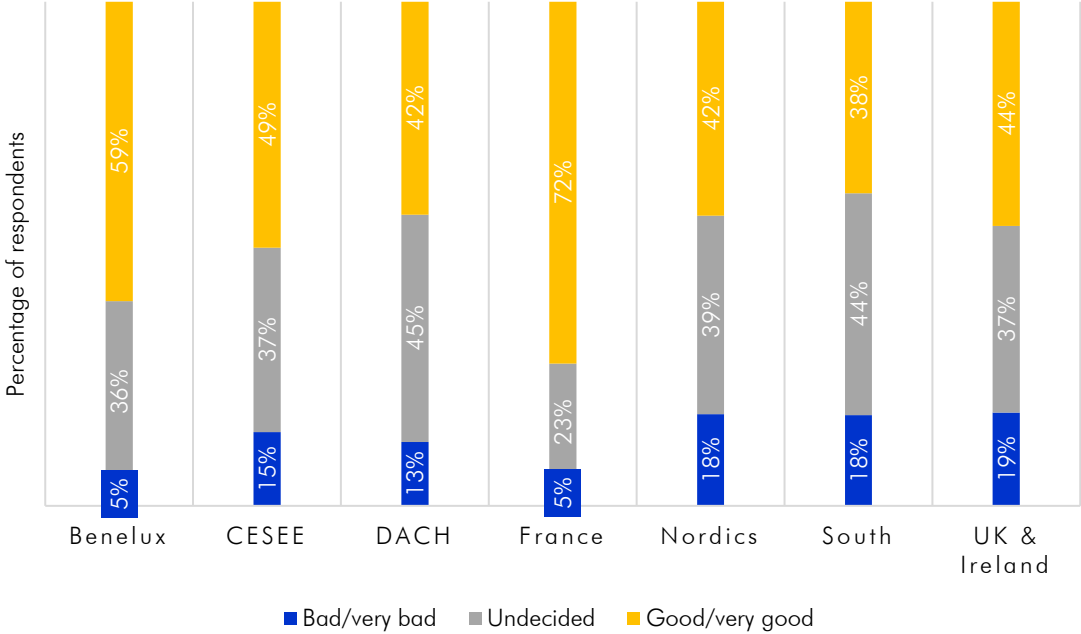


Figure 16: Fundraising environment, past 12 months – by VC target industry

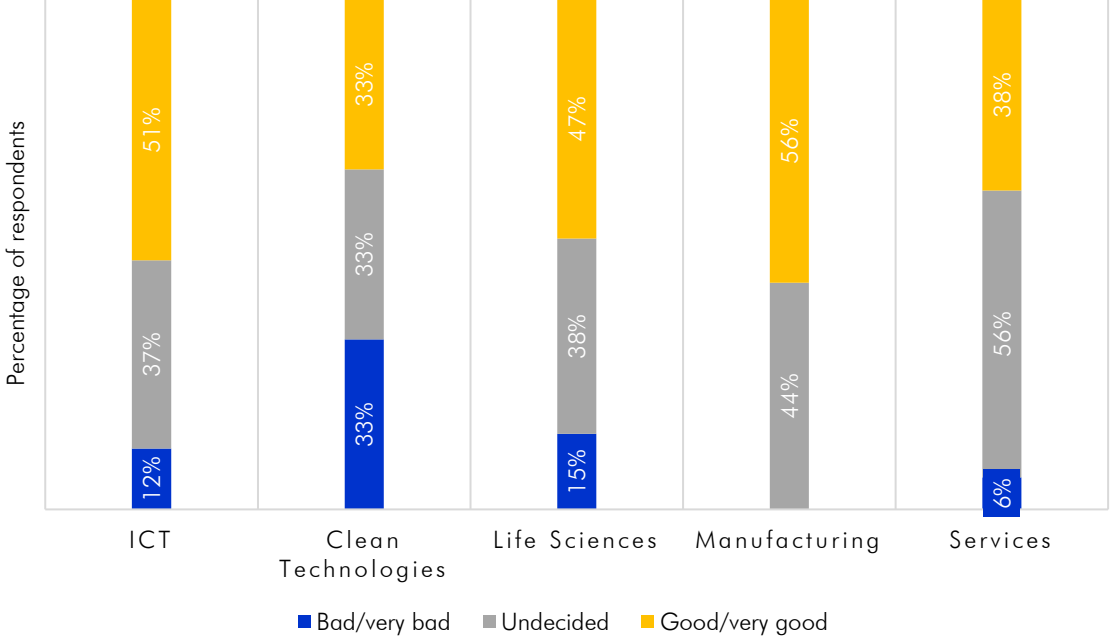


Figure 17: Fundraising environment, next 12 months – by VC firm headquarter

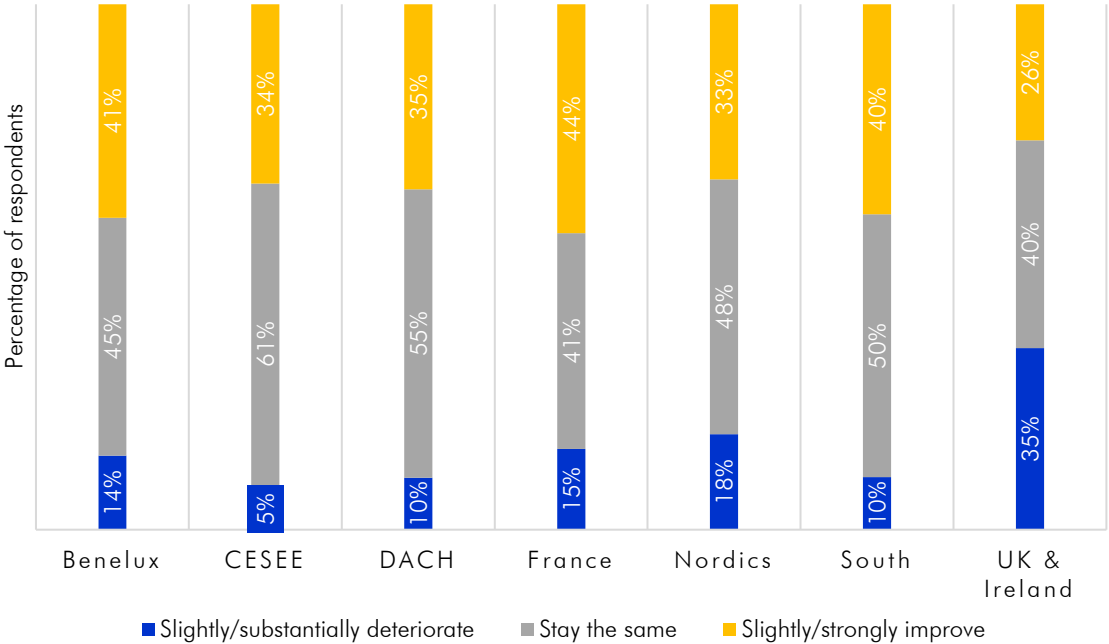
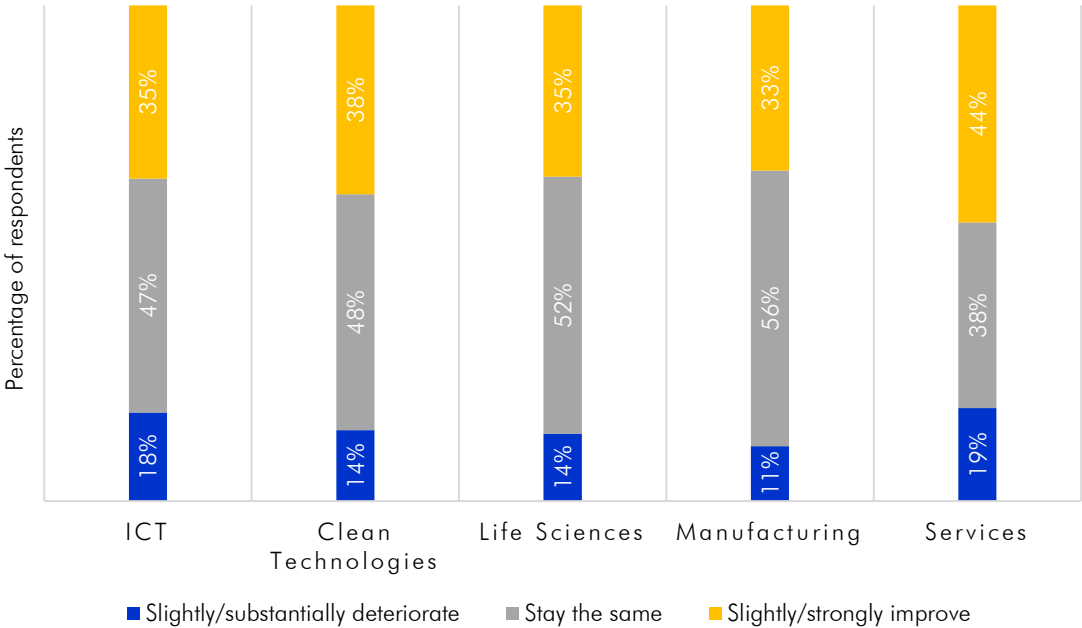


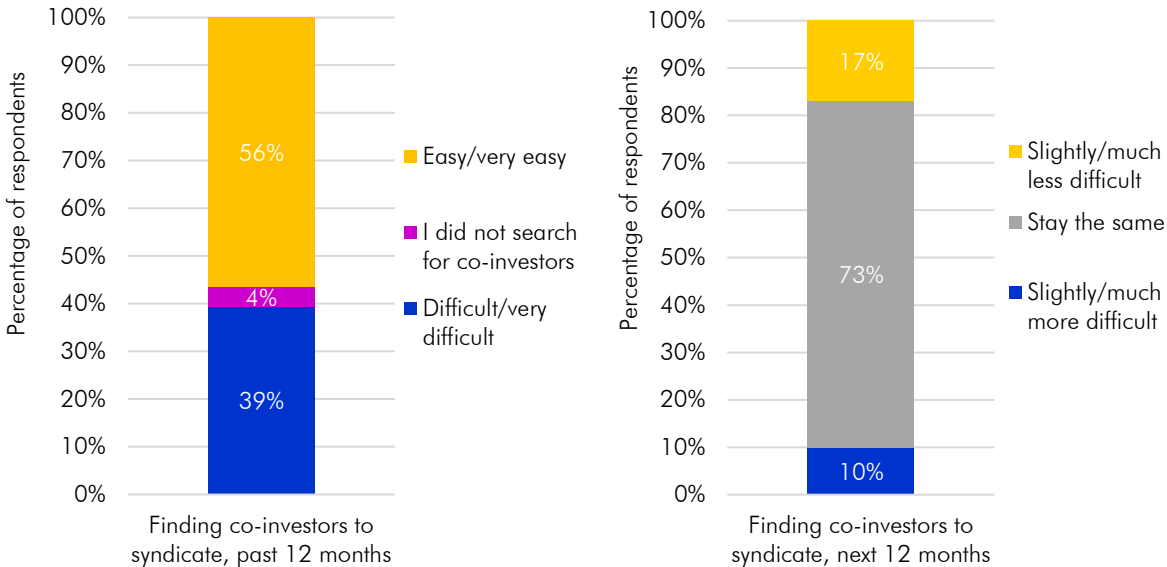
Figure 18: Fundraising environment, next 12 months – by VC target industry



The majority of VC managers (56%) found relatively easily co-investors to syndicate over the last year, while no significant changes are expected in the coming 12 months (see Figure 19). At the same time though, the responses suggest that two fifths of the fund managers did report difficulties in finding co-investors.

Figure 19: Finding co-investors to syndicate, past and next 12 months

Finding co-investors to syndicate is perceived easy; stable outlook for 2018



Q. How easy was it for you to find co-investors to syndicate over the last 12 months?  
 Q. Over the next 12 months, how difficult do you think it will be to find co-investors to syndicate compared to the current situation?

A more detailed analysis of the responses reveals however significant variations across regions and industries (see Figure 20). VC managers in France (74%) and the Nordics (67%) report greater easiness in finding co-investors to syndicate, as opposed to almost half of the VC managers in the UK & Ireland who found it rather difficult. Similarly (see Figure 21), VC managers investing in Clean Technologies (67%) and Services (63%) also report the greatest difficulties in finding co-investors, while the corresponding figures for ICT and Manufacturing are only 35% and 33%, respectively.

The outlook for the next 12 months remains stable regardless of firm headquarter or target industry, therefore, for the sake of brevity, the related figures are not presented.

Figure 20: Finding co-investors to syndicate, past 12 months – by VC firm headquarter

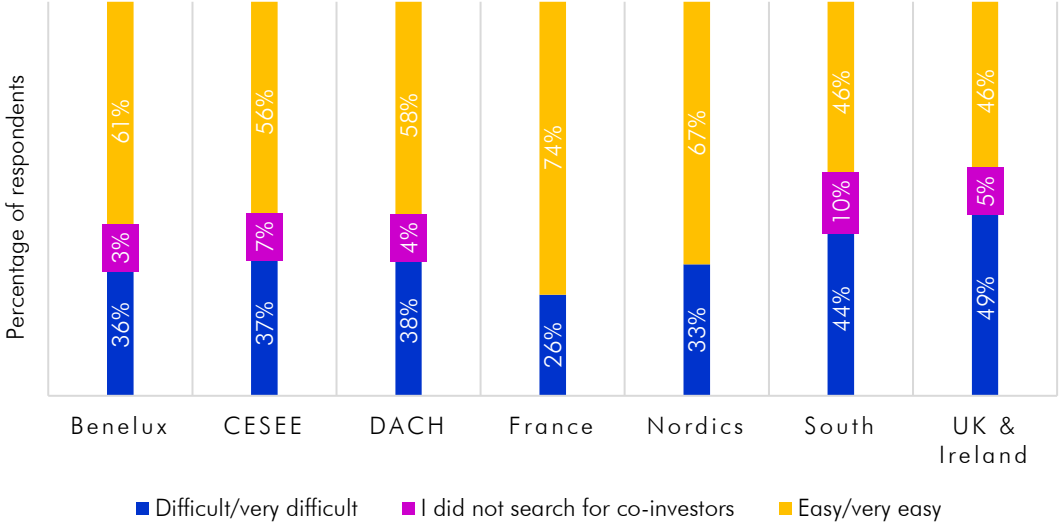
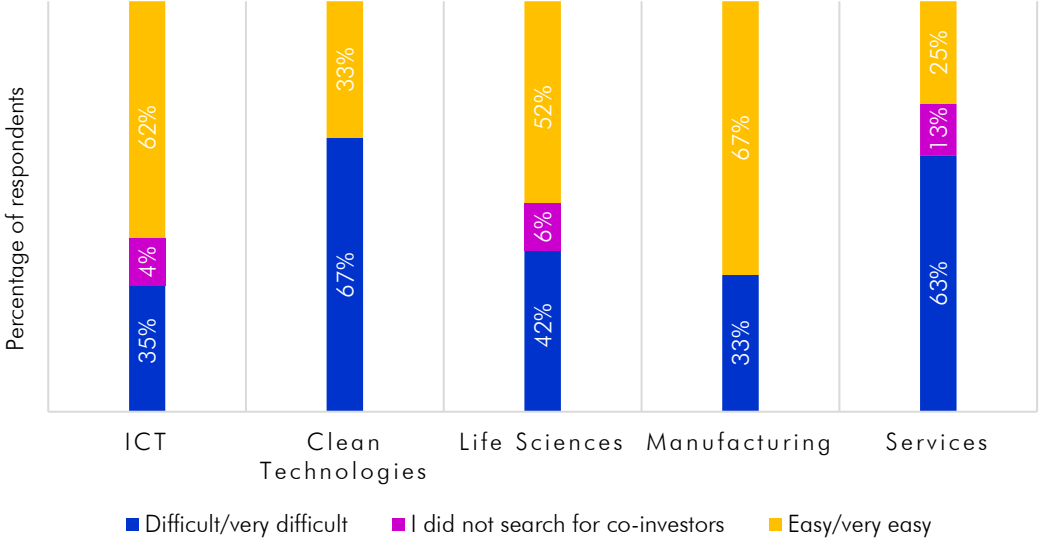
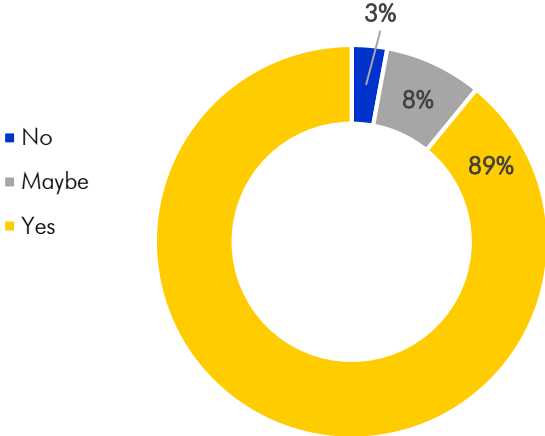


Figure 21: Finding co-investors to syndicate, past 12 months – by VC target industry



Finally, the overwhelming majority of VC managers (89%) state that they intend to raise another fund to make VC investments within the next five years – see Figure 22 (with equally high percentages noted across regions and industries).

Figure 22: Intention to raise another fund within the next 5 years



Most VCs intend to raise another fund within the next 5 years

Q. Do you intend to raise another fund to make venture capital investments within the next five years?

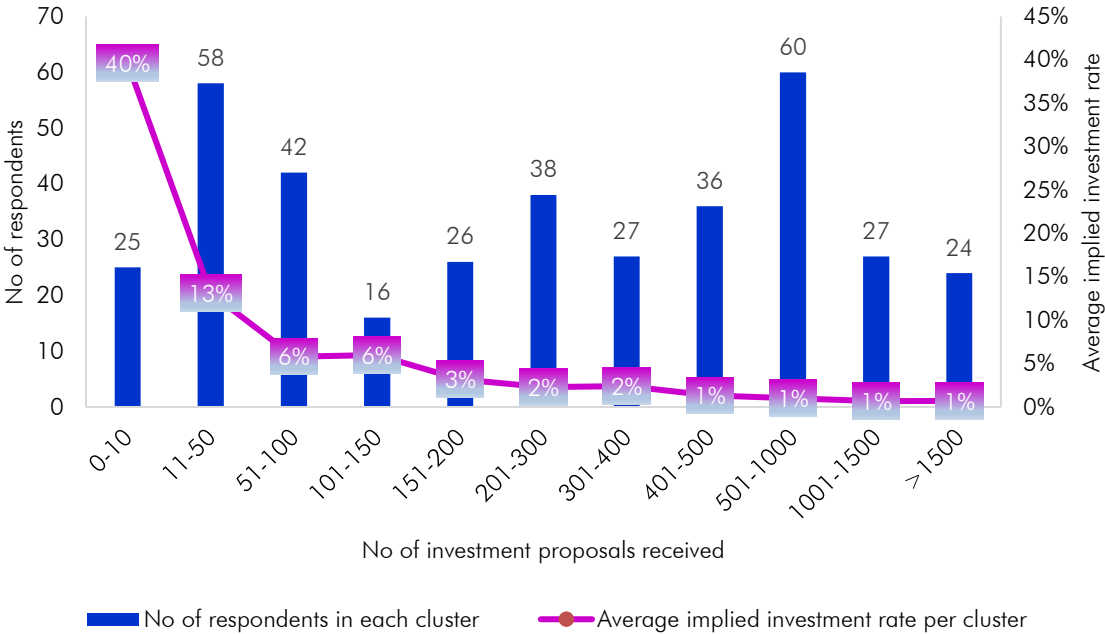


### 3.3 Investments and portfolio development

Almost one third (125 out of 379) of the VC managers that participated in the survey state that the number of qualified investment proposals they received over the last 12 months did not exceed 100 (see Figure 23). At the same time though, a considerable proportion (60 out of 379) report receiving between 500 and 1,000 proposals.

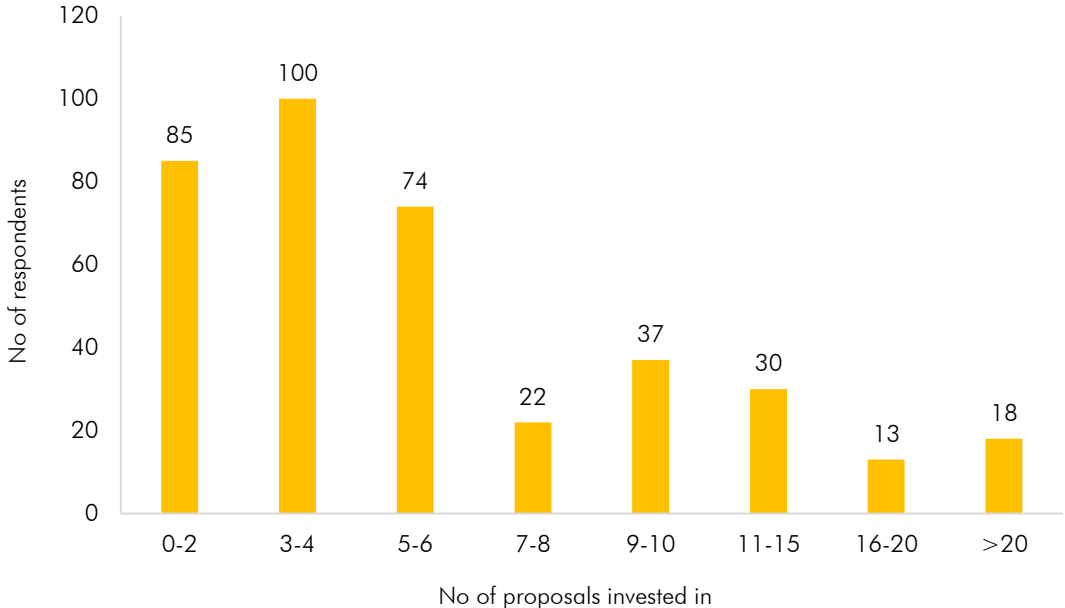
More than two thirds of the surveyed VC managers do not invest in more than 6 of these investment proposals (see Figure 24). The implied average investment rate (Number of proposals invested in/Number of qualified investment proposals received) for the entire sample is 5.5%; it does vary, however, across firms. For example, for VC firms not receiving more than 10 qualified investment proposals, the implied average investment rate reaches 40%, significantly decreasing thereafter the more proposals a firm receives.

Figure 23: Number of investment proposals received and implied investment rate



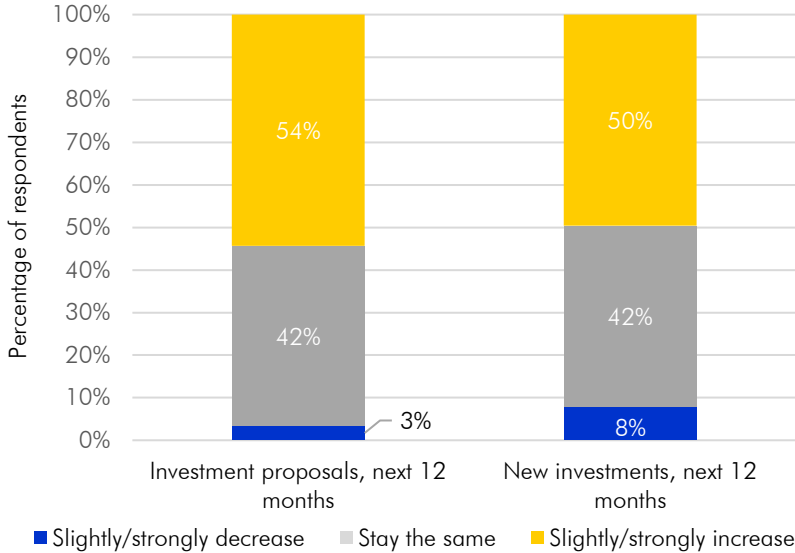
Q. Approximately, how many qualified investment proposals did you receive in the last 12 months?  
 Q. In how many investment proposals did your firm invest (absolute number of companies)?

Figure 24: Number of proposals invested in



VC managers expect, on balance, an increase in the next 12 months both in the investment proposals they will receive as well as in the number of new investments they will undertake (see Figure 25). Results not presented here for the sake of brevity reveal a very similar pattern across regions and industries.

Figure 25: Investment proposals and new investments, next 12 months



Investment proposals and new investments expected to increase in 2018

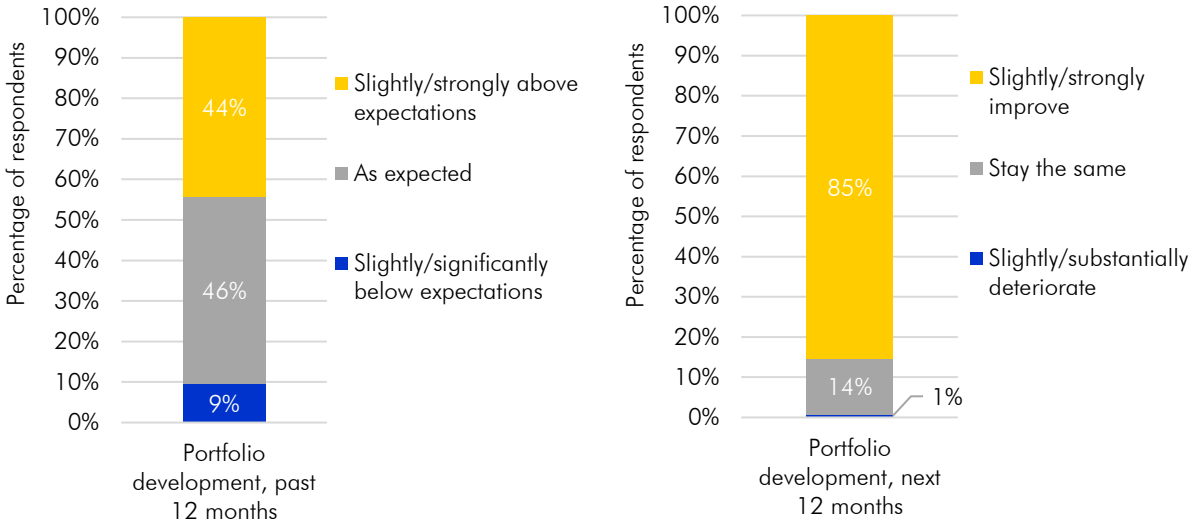
- Q. How do you expect the number of qualified investment proposals to your most recent fund to develop in the next 12 months?
- Q. How do you expect the number of your new investments to develop over the next 12 months?

When asked about the actual development of their portfolio over the last year (see Figure 26), most VC managers (46%) state that investee company performance was in line with expectations, while an equally significant proportion (44%) state that it even exceeded expectations. It is worth noting

that VC managers are even more optimistic when it comes to the future portfolio development, as 85% expect further improvement in the year ahead.

Figure 26: Portfolio development, past and next 12 months

Portfolio development during 2017 was in line with expectations;  
further improvement is expected in 2018

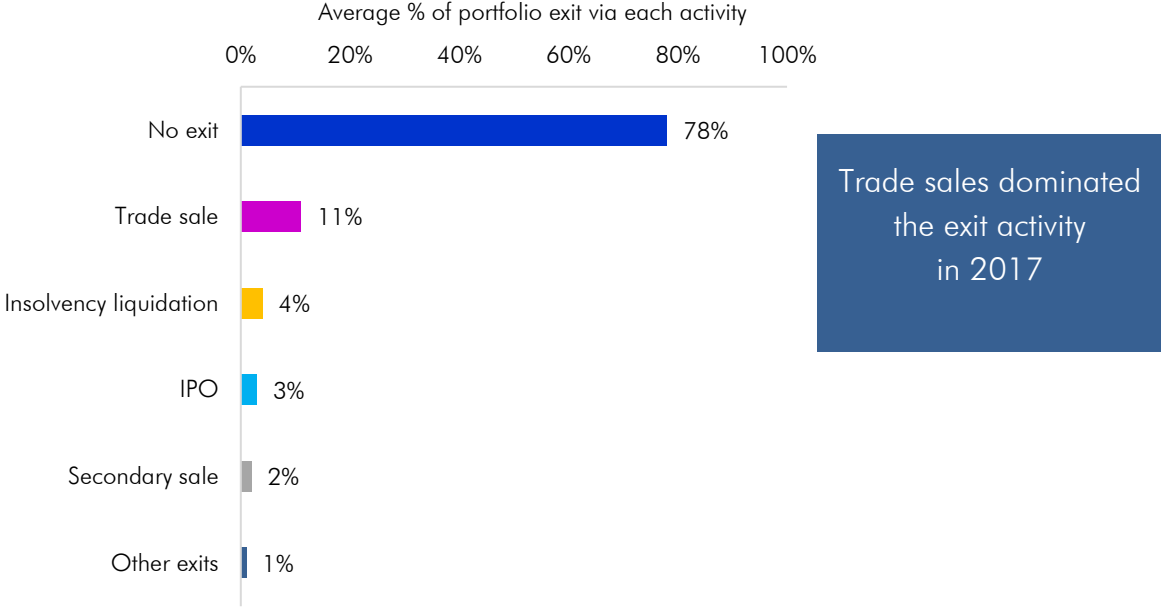


Q. How did your portfolio companies develop over the last 12 months?  
Q. Over the next 12 months, how do you expect that your overall portfolio will develop?

As will be seen in subsequent questions, the exit environment appears to be a major consideration. VC managers reported no exit activities (see Figure 27) in the last 12 months for the vast majority (78%, on average) of their portfolio companies.

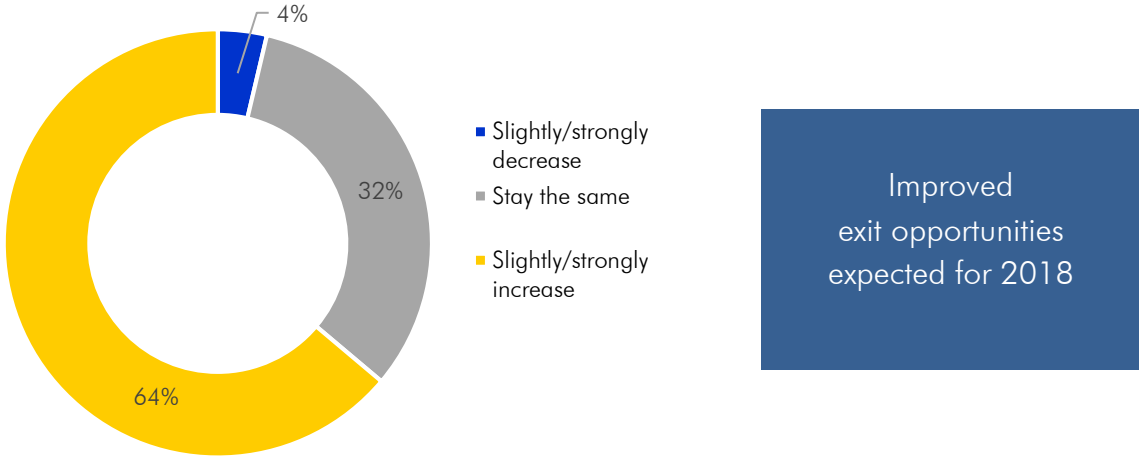
However, the prospects for 2018 are perceived positive (see Figure 28); almost two thirds (64%) of the VC managers expect an improvement in the exit opportunity development of their investee companies.

Figure 27: Exit activities of portfolio companies in the past 12 months



Q. Assess the exit activities in your portfolio during the last 12 months (fill in 0 if not applicable).

Figure 28: Exit opportunities for portfolio companies in the next 12 months

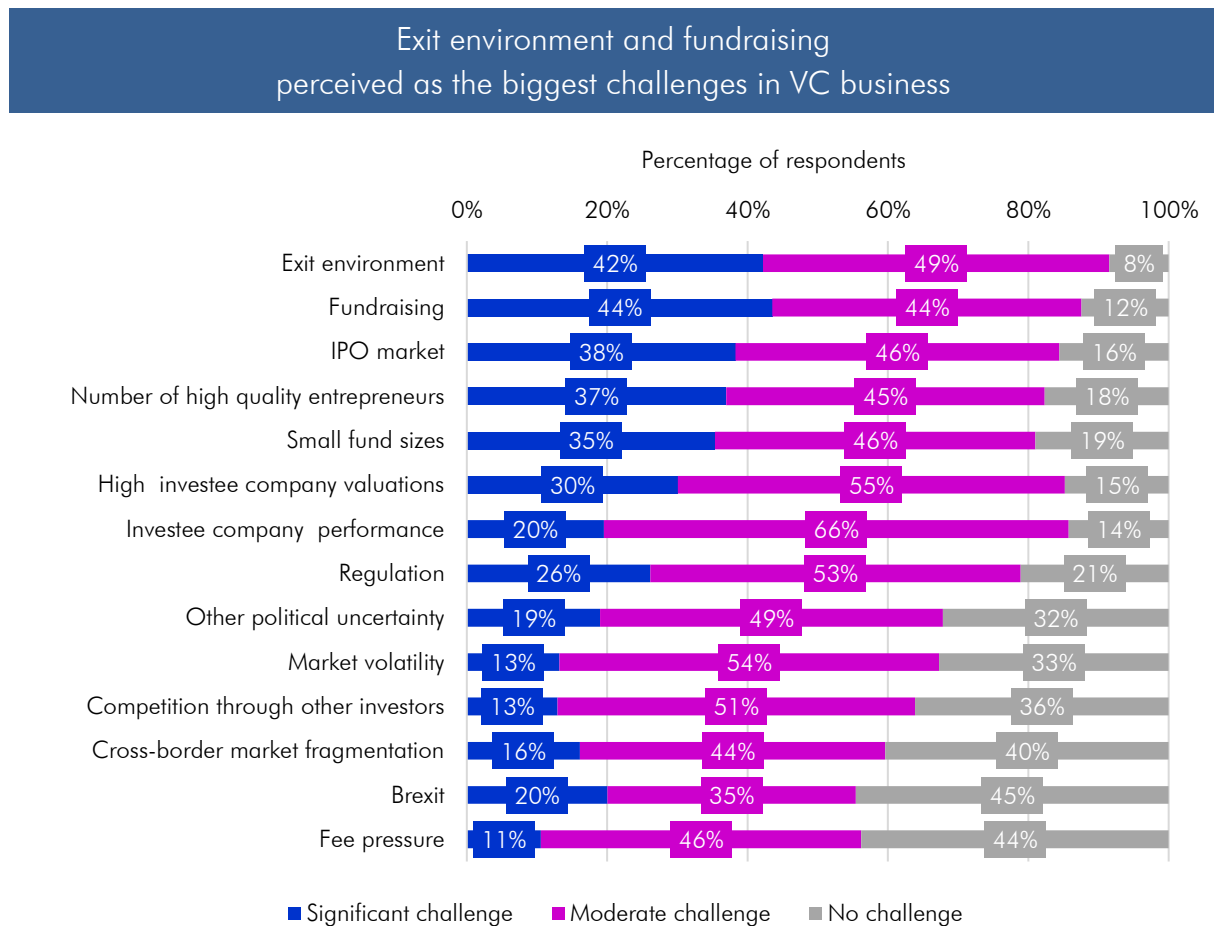


Q. What is your expectation regarding the exit opportunity development of your portfolio companies in the next 12 months?

### 3.4 Important challenges in the European VC business

The exit environment is currently perceived as the biggest challenge in VC business<sup>5</sup>. Fundraising and IPO markets (one aspect of the exit environment) complete the list of the top three challenges (see Figure 29).

Figure 29: Biggest challenges in VC business

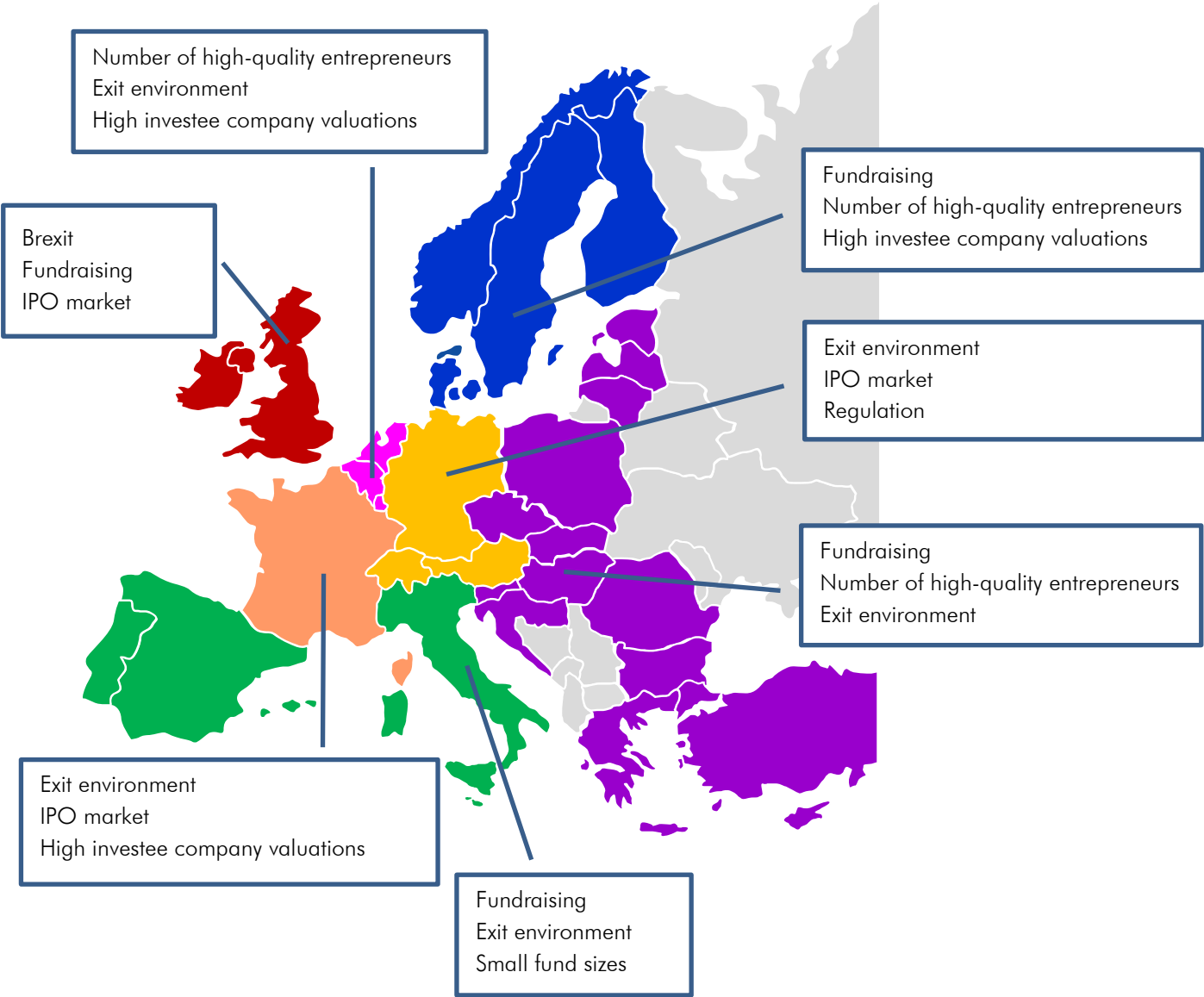


**Q. Where do you currently see the biggest challenges in venture capital business? Please indicate from significant challenge to no challenge.**

A certain degree of variation regarding the relative ranking of these challenges does exist across regions (see Figure 30). In this respect, a very interesting finding is the fact that while Brexit is ranked very low on the list of challenges facing the European VC business, it is nonetheless perceived as the most significant challenge for VC firms headquartered in the UK & Ireland (for a more detailed discussion on the Brexit implications please refer to Chapter 3.6).

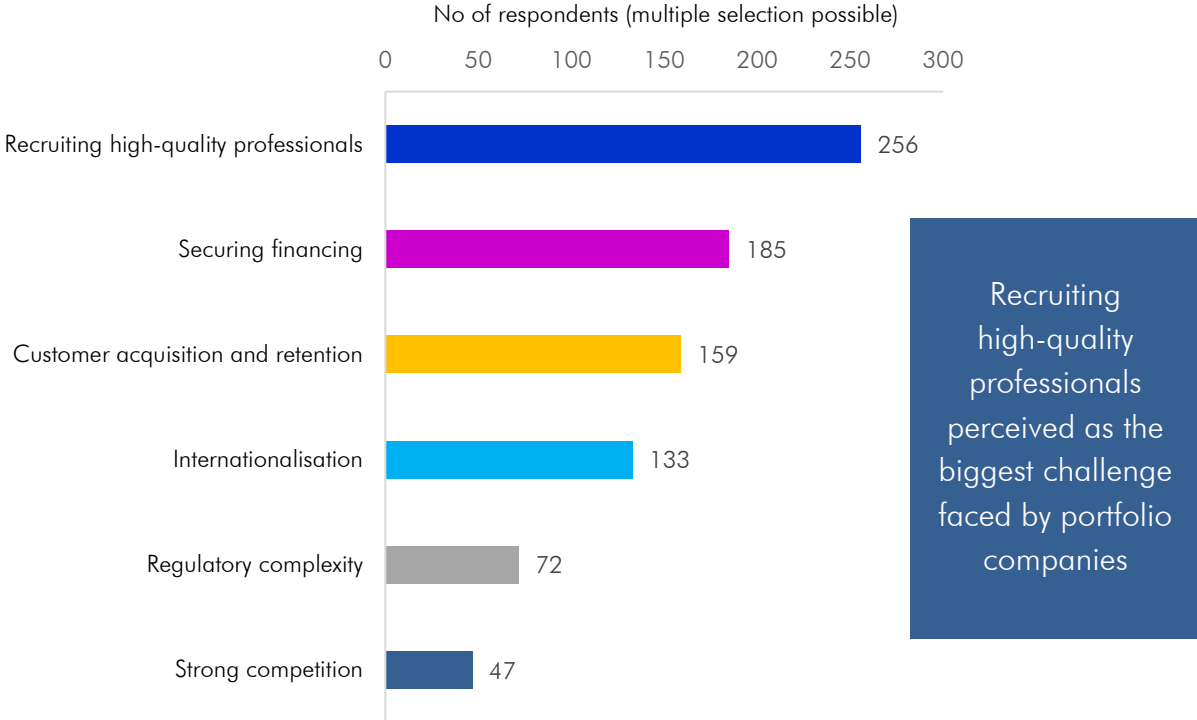
<sup>5</sup> VC managers who participated in the survey were asked to indicate whether each of the elements listed in Figure 29 constitutes a significant, moderate or no challenge in VC business. The ranking of challenges is based on the mean value for each item on a 1-3 scale, where "1" indicates "No Challenge" and "3" indicates "Significant Challenge".

Figure 30: Top 3 challenges in VC business – by VC firm headquarter



At the individual portfolio level, recruiting high-quality professionals is perceived as the number one challenge faced by investee companies (see Figure 31).

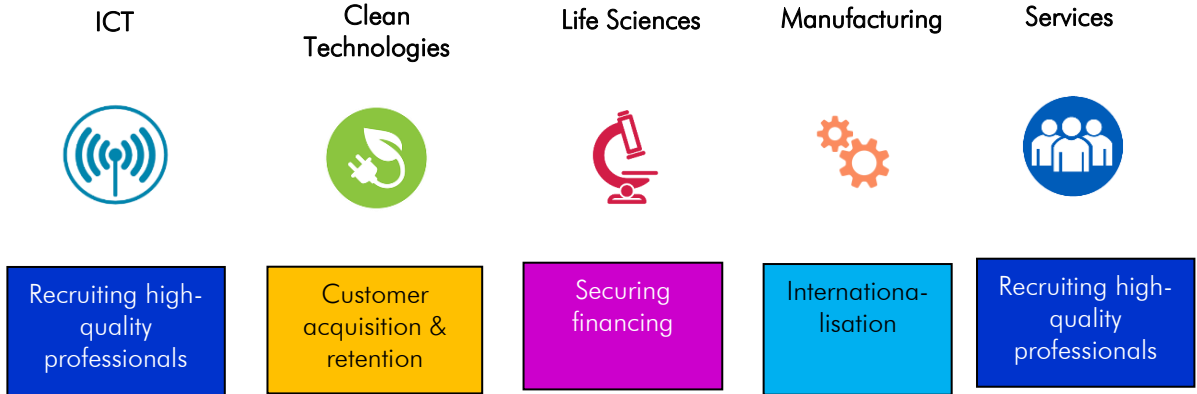
**Figure 31: Biggest challenges faced by portfolio companies**



**Q. What are the largest current challenges faced by your portfolio companies?**

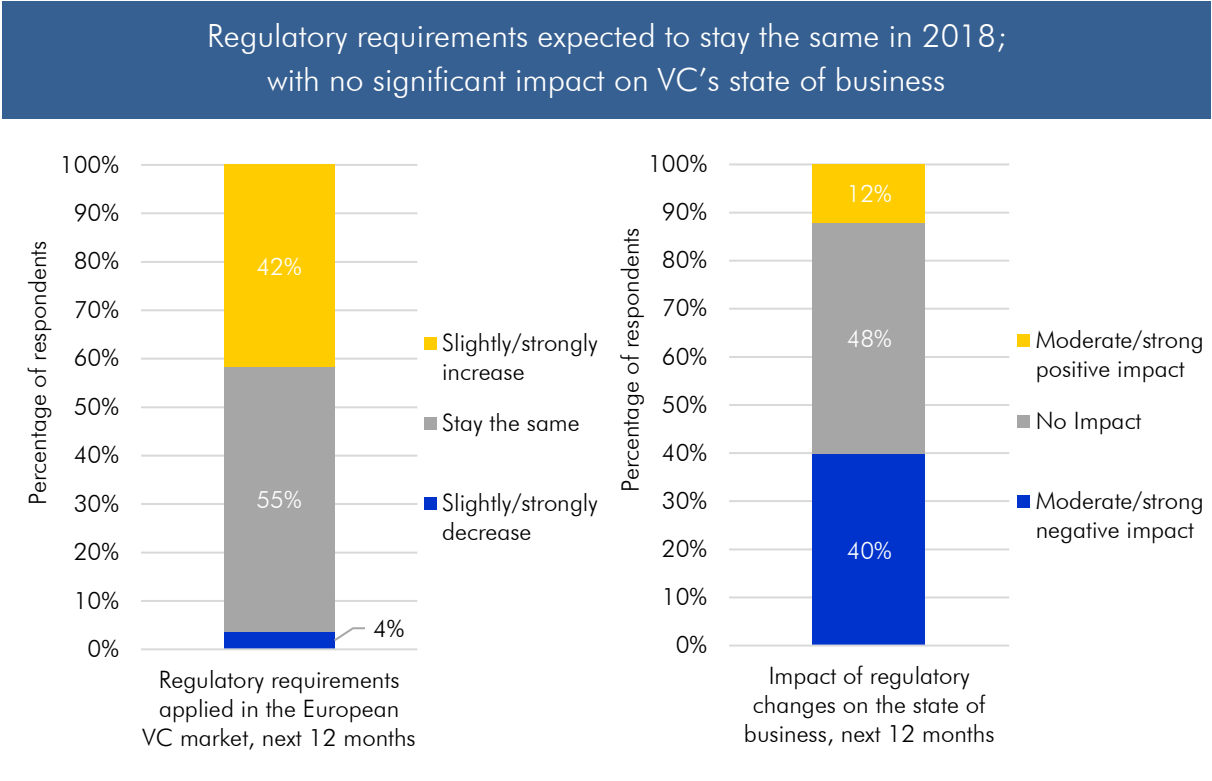
While this is a consistent pattern across regions, a certain degree of differentiation is observed depending on the industry focus (see Figure 32).

**Figure 32: Biggest challenges faced by portfolio companies – by VC target industry**



VC managers were also asked about regulatory requirements applied in the European VC market and the expected impact on their state of business. The majority of VC managers (55%) expect the extent of regulatory requirements to stay the same (see Figure 33). Consequently, most VC managers (48%) do not expect a significant impact on their state of business as a result of regulation. At the same time though, the responses suggest that a significant proportion of 42% of the surveyed VC managers do in fact expect an increase in the extent of regulatory requirements, with a consequent negative impact on their state of business (40% of the respondents) from any such regulatory changes.

**Figure 33: Regulation and its impact on the state of business, next 12 months**



- Q. Over the next 12 months, do you expect that the regulatory requirements applied in the European VC market will ...
- Q. What impact on the state of your business do you expect from any such regulatory changes?

Analysing the responses by region (see Figure 34) shows that it is mainly VC managers in the UK & Ireland (62% of the respondents) – and to a lesser extent VC managers in the Nordics (45% of the respondents) – who expect regulatory requirements applied in the European VC market to increase in the year ahead. These VC managers are also the ones who expect to see the strongest negative impact on their state of business (57% and 61% of the respondents, respectively) as a result of increased regulation (see Figure 35).



Figure 34: Regulatory requirements applied in the European VC market, next 12 months – by VC firm headquarter

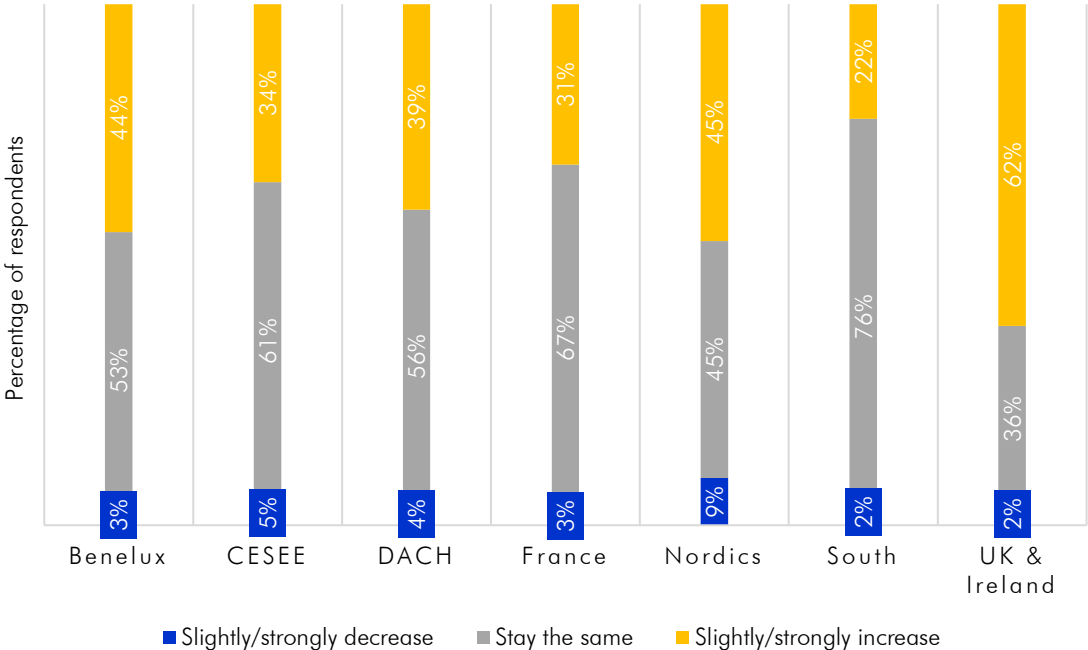
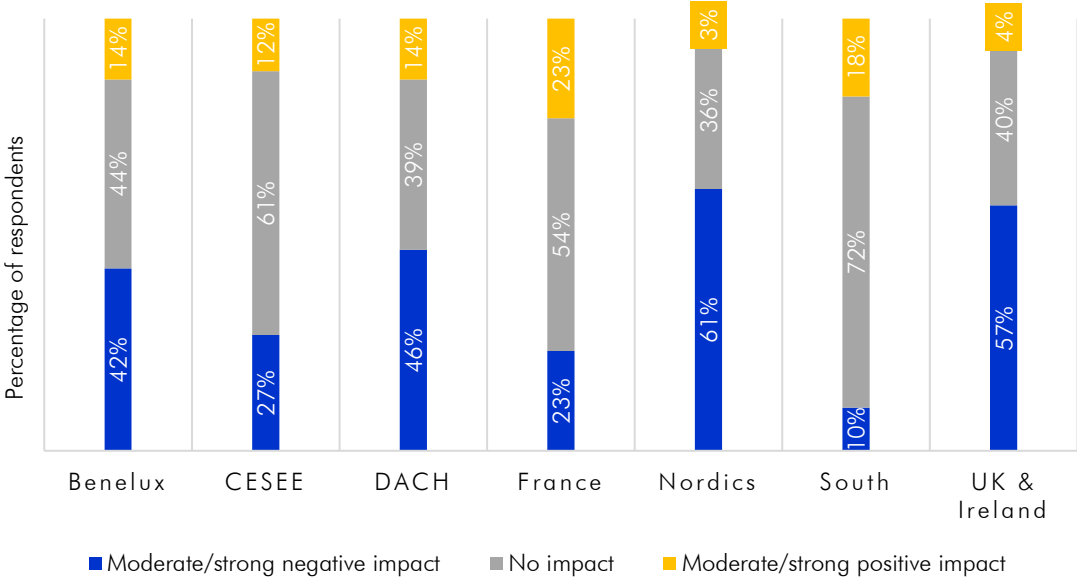


Figure 35: Impact of regulatory changes on the state of business, next 12 months – by VC firm headquarter



At the same time, and relative to other sectors, an increase in regulatory requirements and a subsequent negative impact on the state of business is mostly anticipated by VC managers investing mainly in Clean Technologies and in Life Sciences (see Figure 36 and Figure 37).

Figure 36: Regulatory requirements applied in the European VC market, next 12 months – by VC target industry

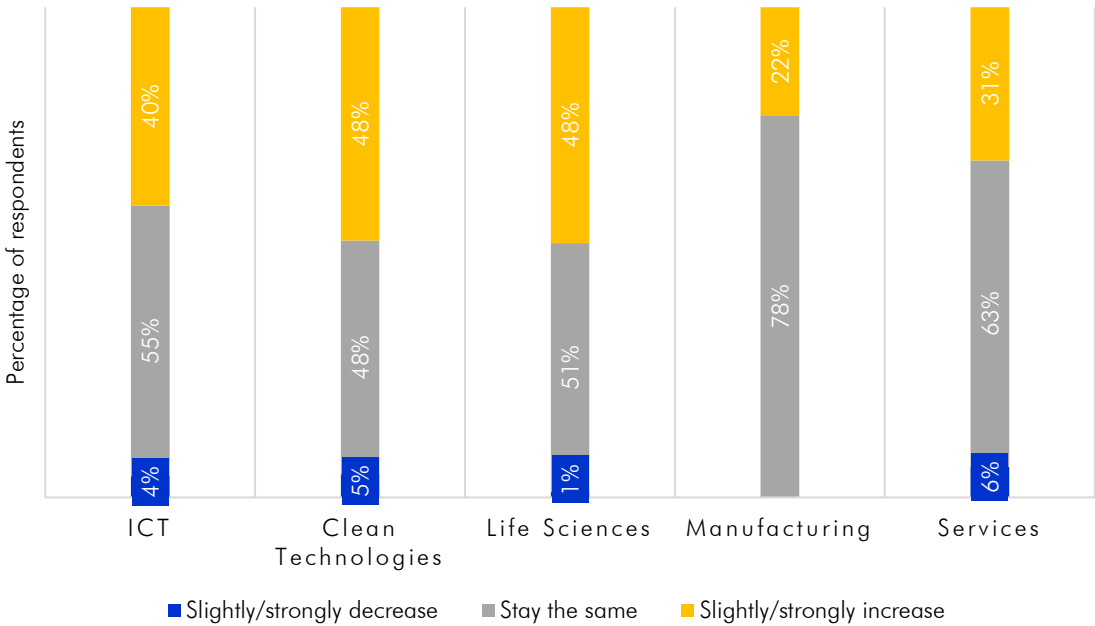
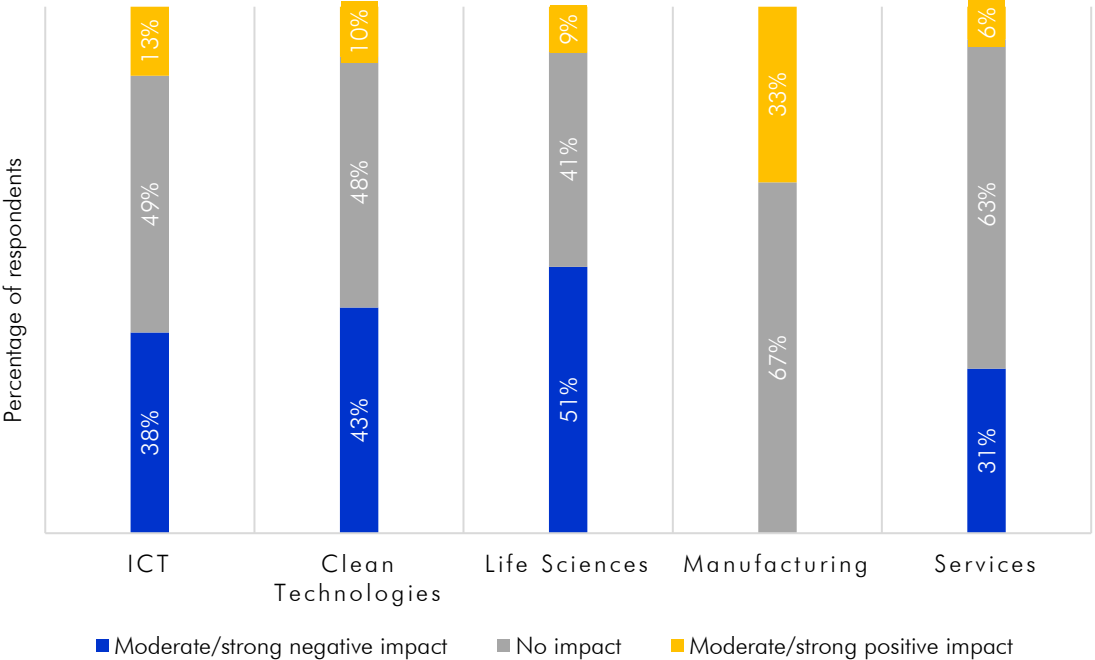


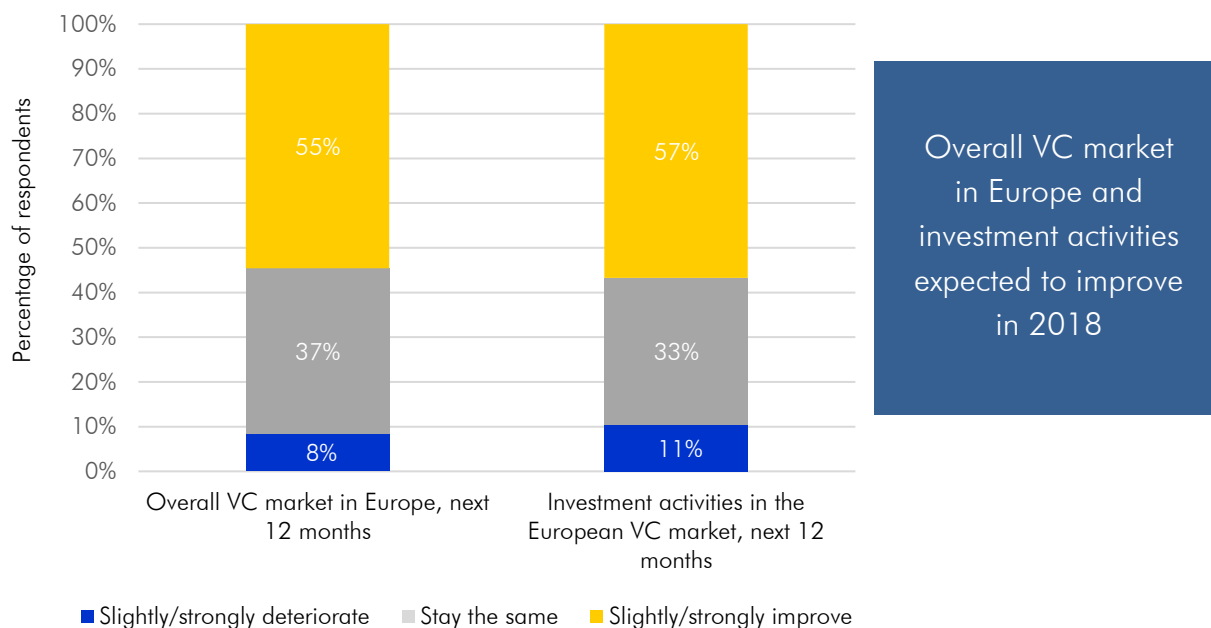
Figure 37: Impact of regulatory changes on the state of business, next 12 months – by VC target industry



### 3.5 Overall prospects of the European VC market, promising countries and industries

VC managers are generally quite optimistic regarding the prospects of the VC market in Europe. The majority of them expect that both the overall VC market in Europe (55% of the respondents) as well as investment activities in the European VC market (57% of the respondents) will improve in the next 12 months (see Figure 38).

**Figure 38: Prospects for the overall VC market in Europe and investment activities in the European VC market, next 12 months**



Q. Over the next 12 months: Do you expect that the overall VC market in Europe will ...

Q. Over the next 12 months: What do you expect to happen to investment activities in the European VC market?

In this respect, it is also interesting to look at the regional and sectoral differences. VC managers in the South (see Figure 39 and Figure 40) appear to be the most optimistic regarding future prospects, with 80% and 76% of the respondents, respectively, expecting an improvement in the VC market as a whole and in investment activities in particular. At the other end of the spectrum, VC managers in the UK & Ireland seem more sceptical, with one in five (20% and 23% of the respondents, respectively) stating that they expect the overall VC market in Europe and investment activities in the European VC market to deteriorate in the year ahead.

Figure 39: Prospects for the overall VC market in Europe, next 12 months – by VC firm headquarter

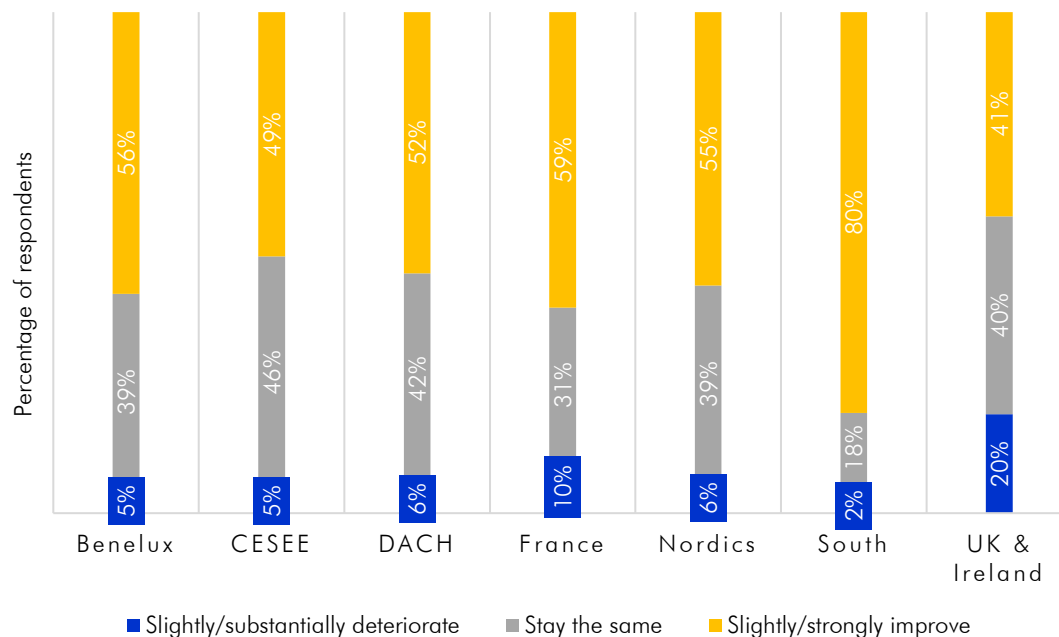
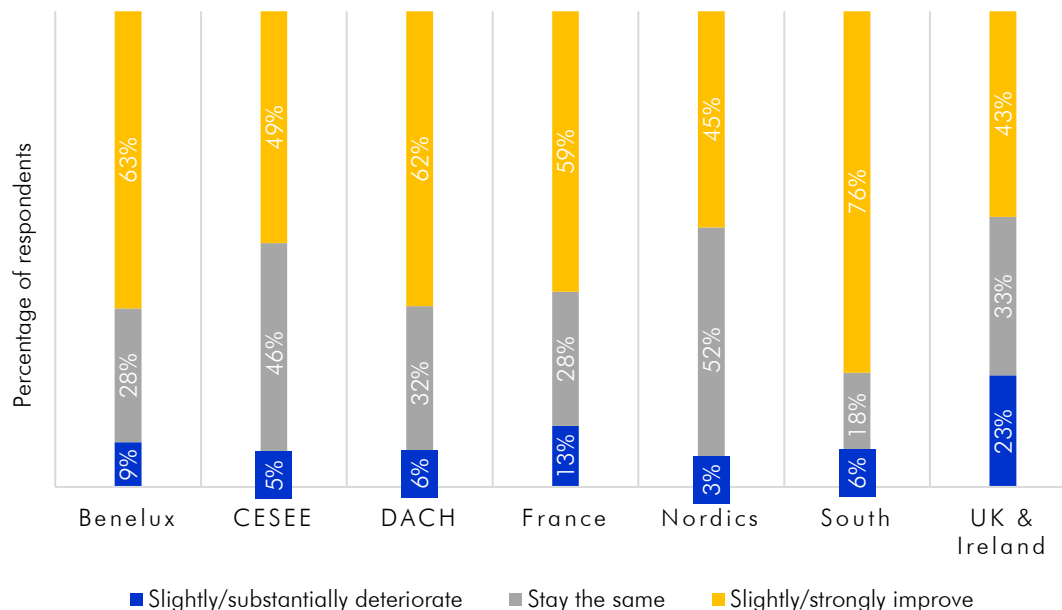


Figure 40: Investment activities in the European VC market, next 12 months – by VC firm headquarter



When industry focus is taken into account, VC managers investing mainly in Manufacturing are the most optimistic regarding the prospects of the European VC market (78% of the respondents expect an improvement), while 19% of the VC managers investing mainly in Services expect the exact opposite (see Figure 41). One in four VC managers investing mainly in Services also expect a deterioration in investment activities (see Figure 42).

Figure 41: Prospects for the overall VC market in Europe, next 12 months – by VC target industry

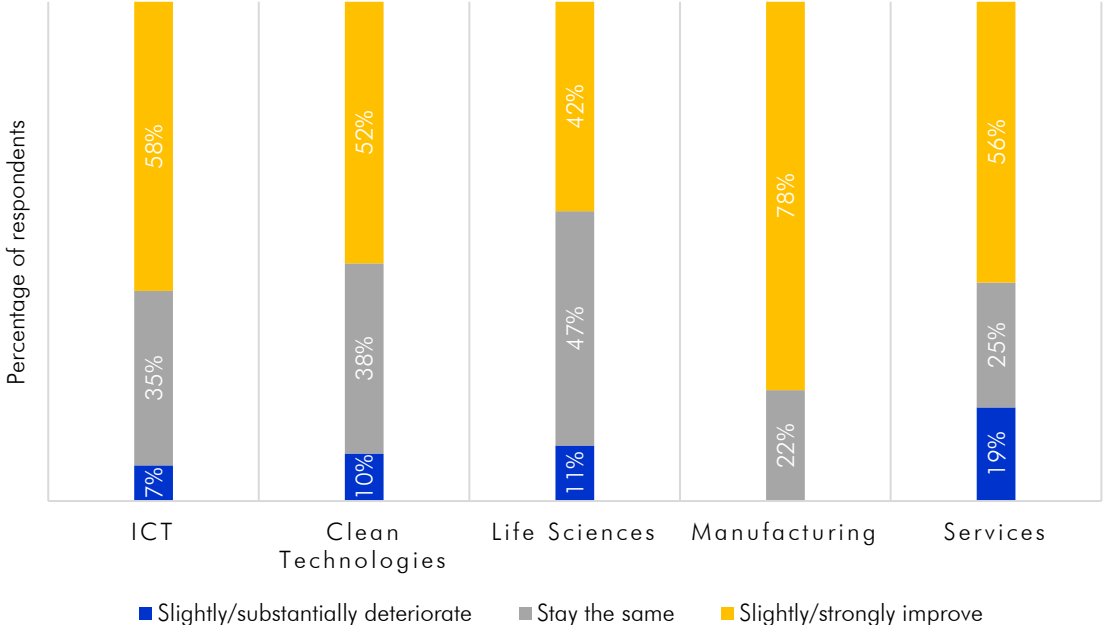
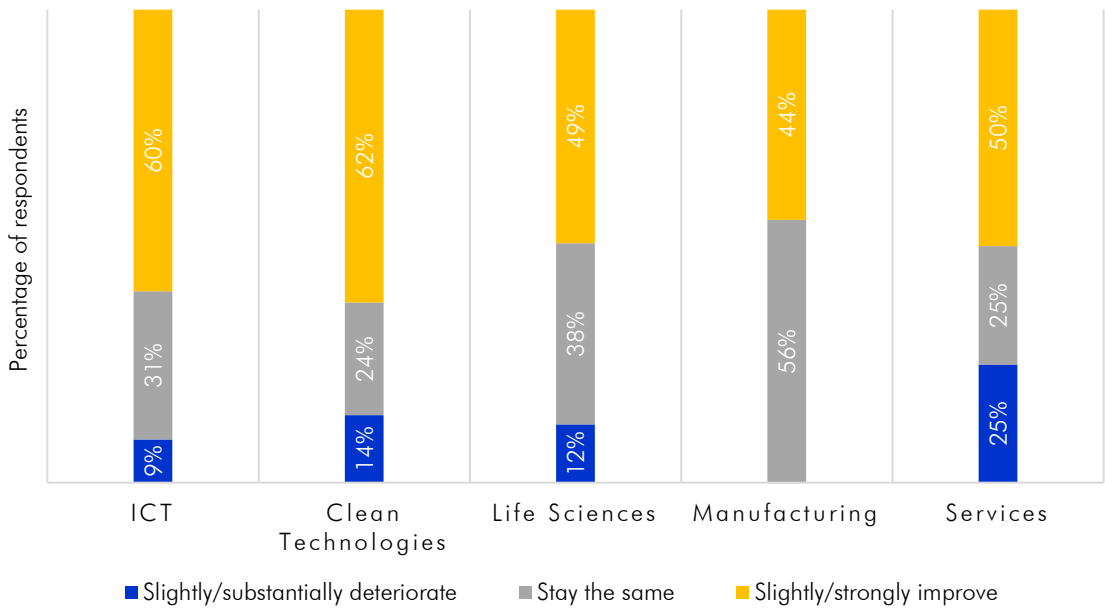


Figure 42: Investment activities in the European VC market, next 12 months – by VC target industry

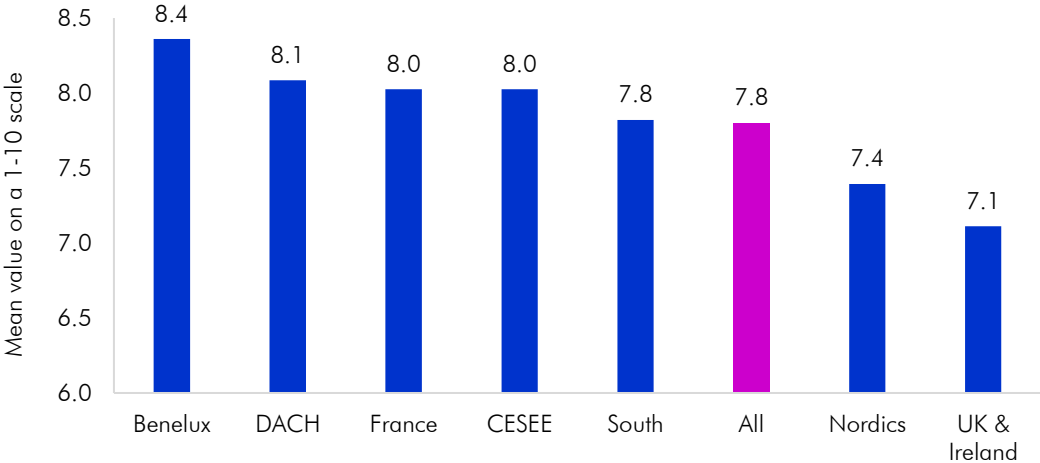


To a large extent, the earlier discussion is also reflected in the following questions where on a scale of 1 to 10, VC managers were asked to state their level of confidence in the long-term growth prospects of the VC industry in their market and in Europe altogether.

As far as confidence in the long-term growth prospects of the VC industry in their market is concerned, VC managers are relatively optimistic – mean value of 7.8 out of 10. However, variations do exist across regions and sectors.

In particular, VC managers in Benelux (8.4/10) and DACH (8.1/10) are on average more confident about the long-term prospects of their market (see Figure 43). By contrast, the level of confidence in the long-term growth prospects of the VC industry in the UK & Ireland (7.1/10) is on average the lowest among all regions.

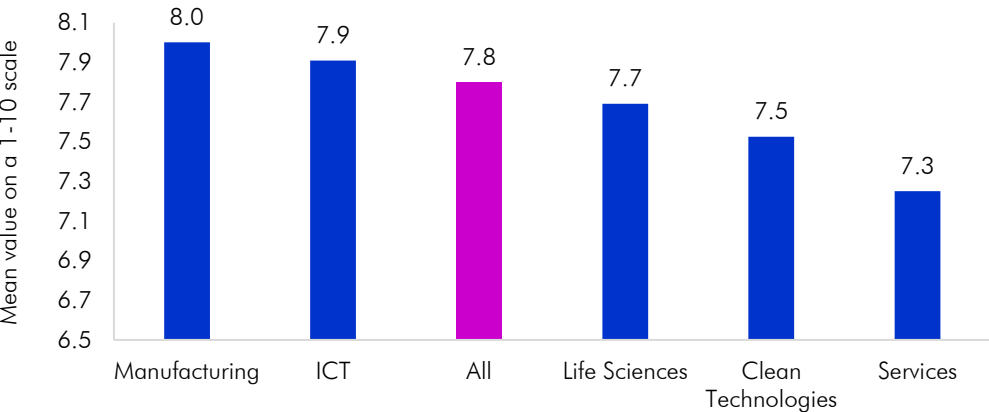
**Figure 43: Confidence in the long-term growth prospects of the VC industry in your market – by VC firm headquarter**



**Q. On a scale of 1 to 10 how confident are you in the long-term growth prospects of the venture capital industry in your market? (1 = Not confident at all; 10 = Very confident)**

Similarly, according to the responses of the surveyed VC managers, the long-term growth prospects appear to be higher on average for the Manufacturing (8.0/10) and the ICT (7.9/10) sectors, and the lowest for the Services sector (7.3/10), see Figure 44.

**Figure 44: Confidence in the long-term growth prospects of the VC industry in your market– by VC target industry**

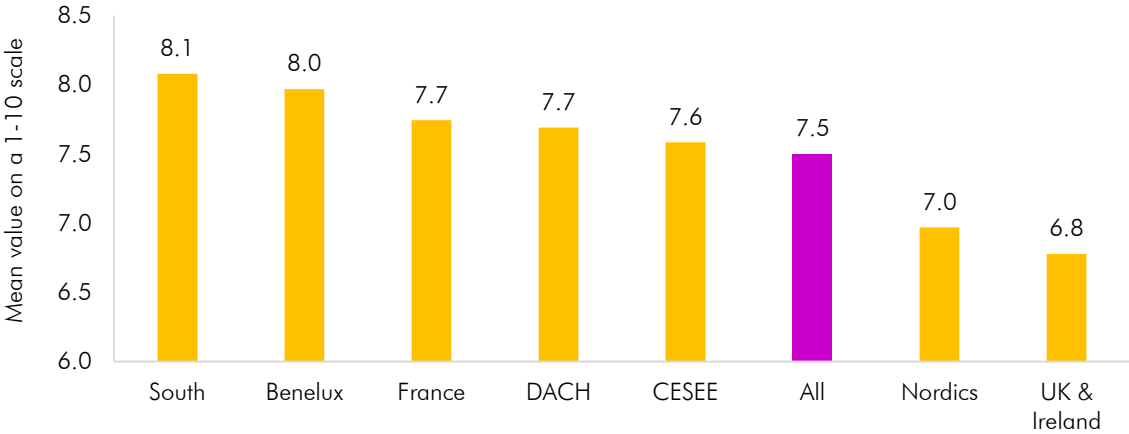


**Q. On a scale of 1 to 10 how confident are you in the long-term growth prospects of the venture capital industry in your market? (1 = Not confident at all; 10 = Very confident)**

Regarding the long-term growth prospects of the European VC industry altogether, it is VC managers in the South (8.1/10) and Benelux (8.0/10) who are, on average, relatively more optimistic, compared to a mean value of 7.5 out of 10 for the overall sample (see Figure 45). VC managers in

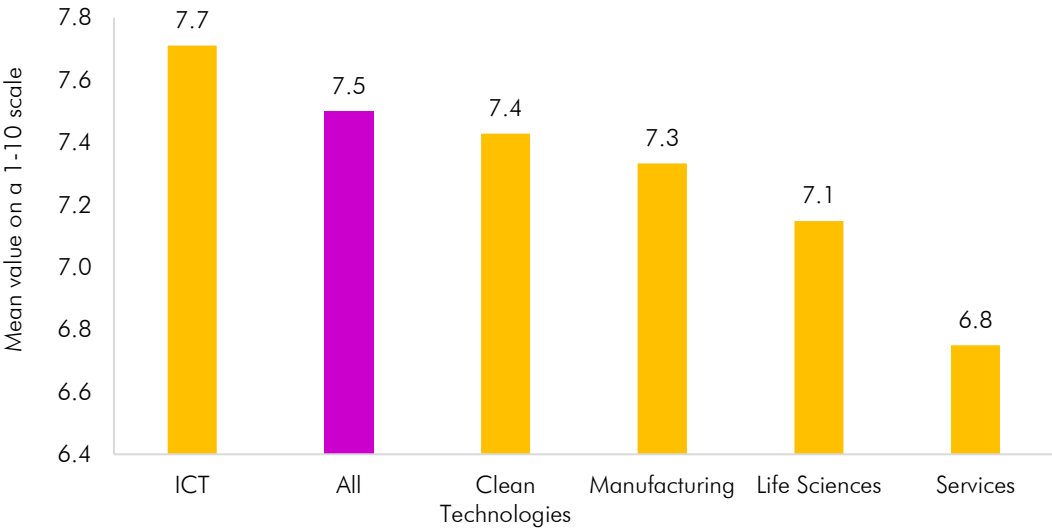
the UK & Ireland are once again much more conservative (6.8/10) in their perceptions. With regards to industry focus (see Figure 46), VC managers investing mainly in ICT exhibit on average the highest level of confidence (7.7/10), while those in Services the lowest (6.8/10).

**Figure 45: Confidence in the long-term growth prospects of the European VC industry – by VC firm headquarter**



**Q. On a scale of 1 to 10 how confident are you in the long-term growth prospects of the European venture capital industry? (1 = Not confident at all; 10 = Very confident)**

**Figure 46: Confidence in the long-term growth prospects of the European VC industry – by VC target industry**

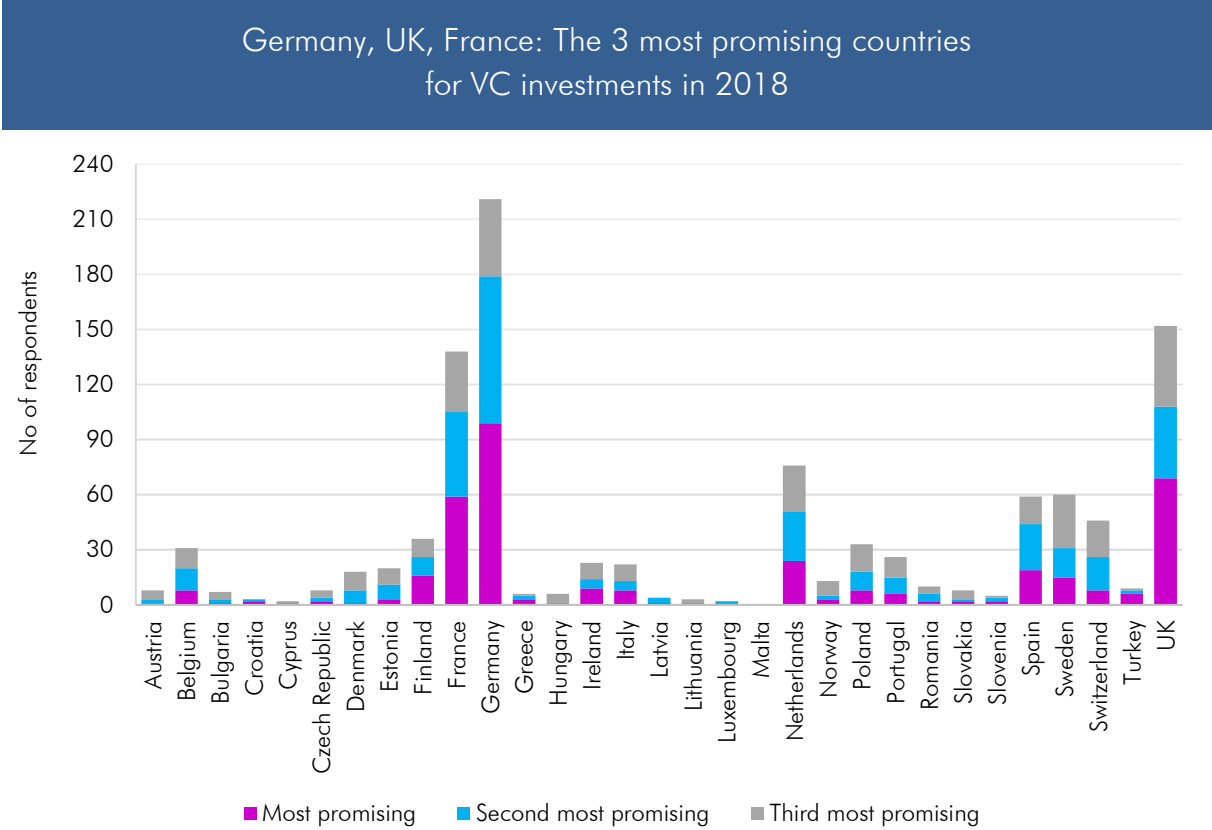


In the context of the overall prospects, VC managers were also asked to indicate the countries and industries that they would consider most promising for future VC investments.

Germany was flagged as a promising country for VC investments in the next 12 months by 221 of the 379 surveyed VC managers, followed by the UK (152 responses) and France (138 responses).

In fact, one in four VC managers indicated Germany as the number one most promising country (see Figure 47).

Figure 47: Most promising countries for VC investments in the next 12 months



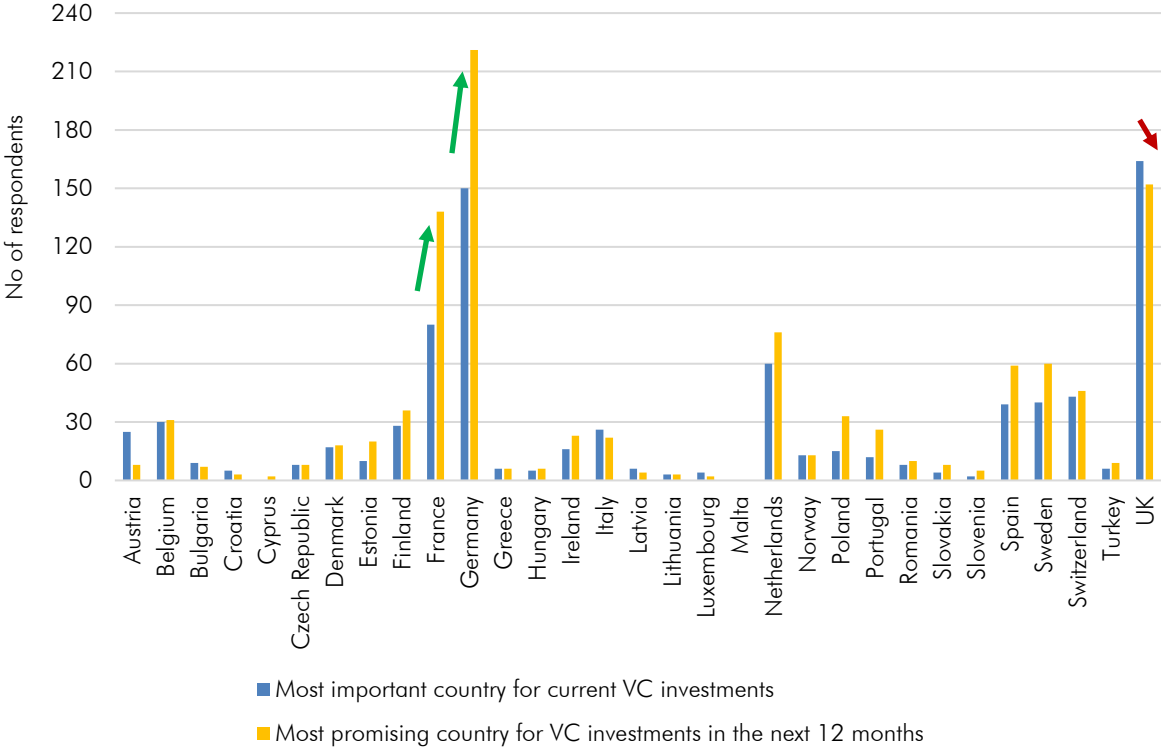
Q. According to your expectation, select up to three countries that will be the most promising for venture capital investments in the next 12 months.

Comparing the most important countries in which VC managers currently invest to those expected to be most promising for future VC investments enables us to reflect on the extent to which a change in country focus might take place. Indeed, while the UK, Germany and France currently are the most important countries and still expected to be the most promising in the European VC industry, their relative importance might change. In particular, it seems that the UK might lose ground in the European VC ecosystem, in particular to Germany, while the relative significance of France is also expected to rise strongly (see Figure 48).



Figure 48: Most important countries for VC investments – current vs. future portfolio

The UK might lose ground, in particular to Germany; the importance of France is expected to rise strongly



Q. Select up to three of the most important countries in which your firm invests, in order of importance.  
 Q. According to your expectation, select up to three countries that will be the most promising for venture capital investments in the next 12 months.

We also take into consideration the industry focus of the VC managers and present accordingly the countries perceived most promising for future VC investments by VCs investing mainly in ICT and in Life Sciences (the two sectors that make up almost 90% of the sample). The pattern observed for the entire sample (where Germany, the UK and France were identified as the three most promising countries) holds for the ICT sector too (see Figure 49). For Life Sciences, alongside these latter markets, two more countries emerge as important and promising, namely the Netherlands and Switzerland (see Figure 50).

Figure 49: Most promising countries for VC investments in ICT, next 12 months

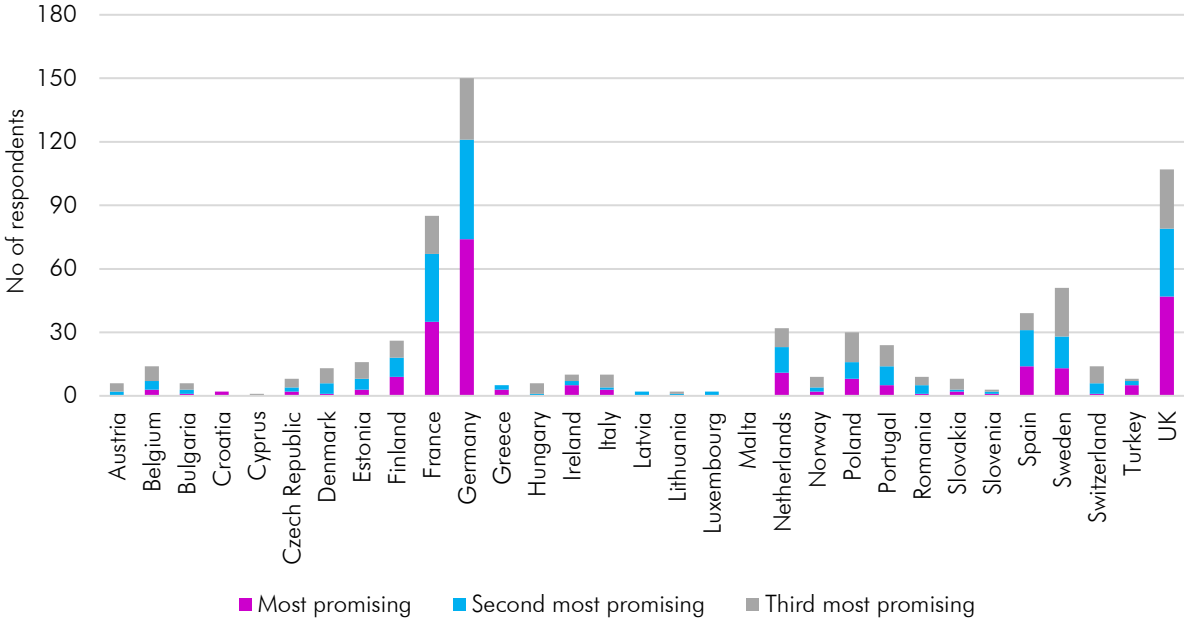
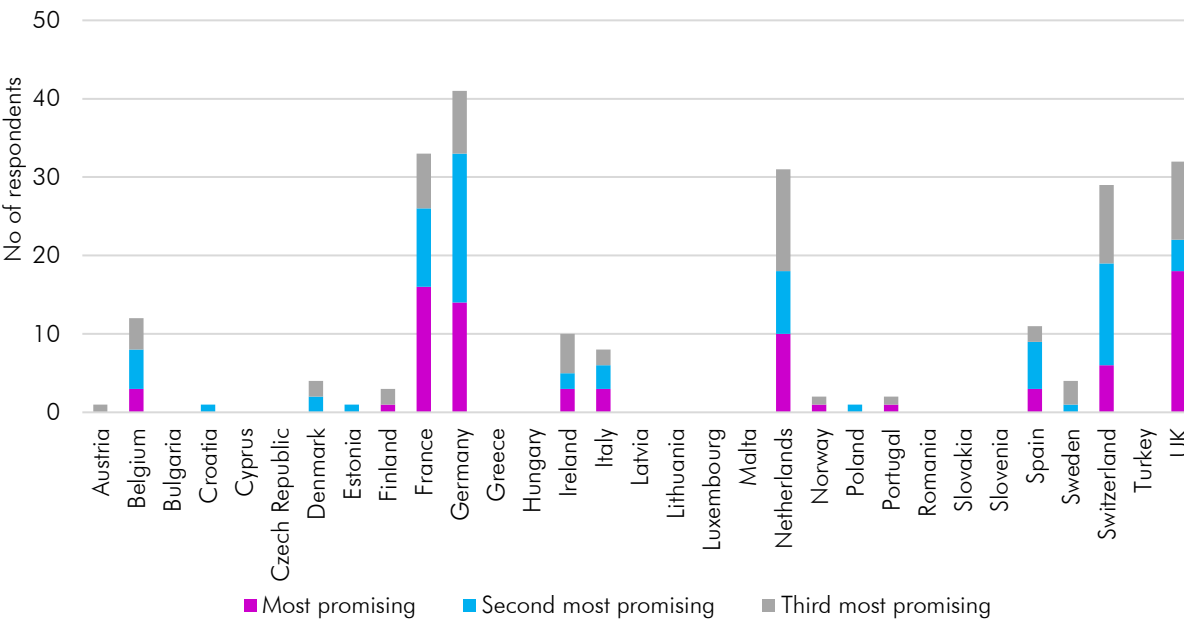
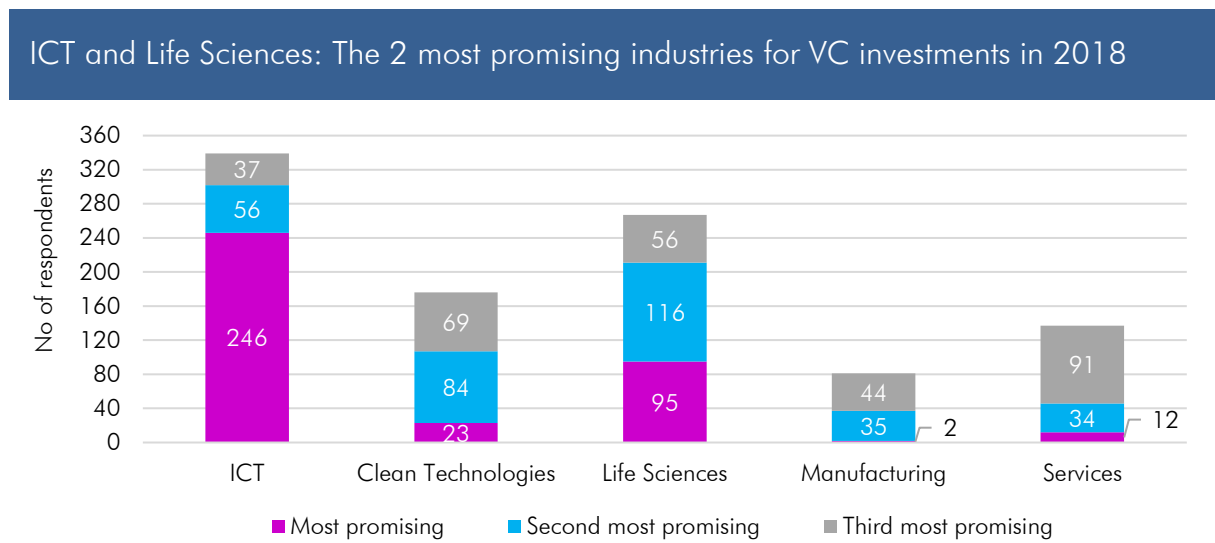


Figure 50: Most promising countries for VC investments in Life Sciences, next 12 months



In terms of the most promising industries for VC investments in the next 12 months, ICT and Life Sciences are in the lead, with 2 in 3 VC managers stating ICT as the number one most promising industry (see Figure 51). This is a consistent pattern across regions.

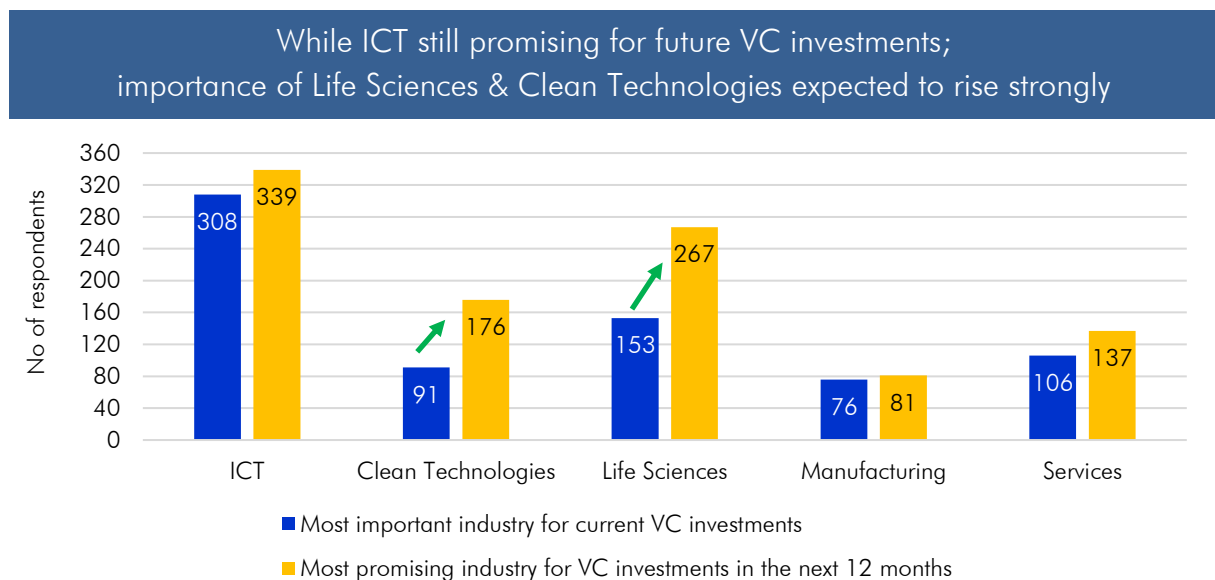
Figure 51: Most promising industries for VC investments in the next 12 months



Q. Select up to three industries that you expect to be the most promising for venture capital investments in the next 12 months.

To a certain extent this finding might be driven by the fact that the majority of the surveyed VC managers invest mainly in ICT. Despite this potential sectoral bias, however, it becomes evident that the relative importance of Life Sciences and Clean Technologies is expected to increase significantly (see Figure 52).

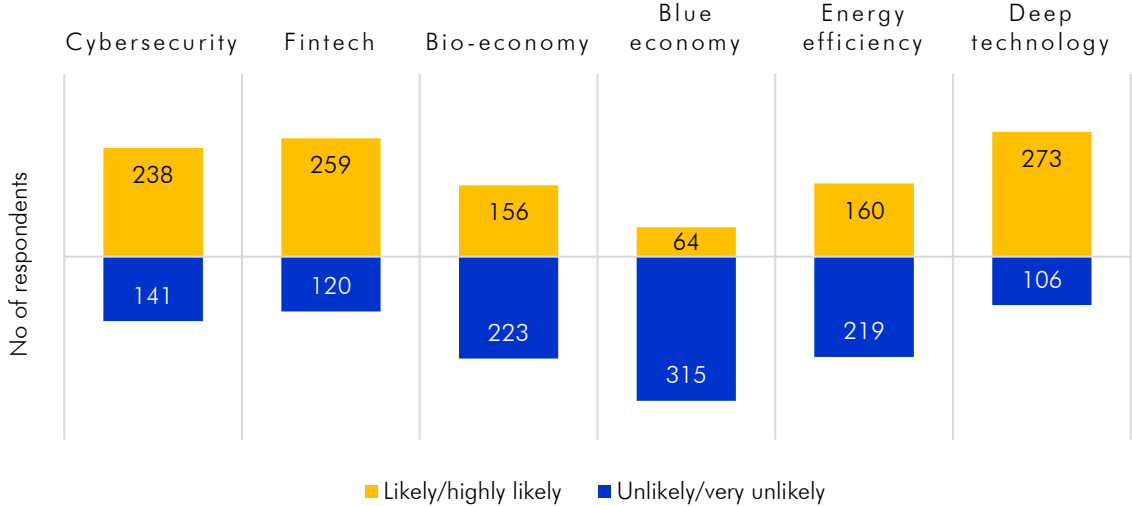
Figure 52: Most important industries for VC investments – current vs. future portfolio



Apart from the already established industries, VC managers were also asked to comment on a series of relatively newer sectors that are currently in the public discussion and whose importance is on the rise. More specifically, VC managers indicated how likely they consider it that their final portfolio will

include an investee in these areas. Based on the responses, it is more likely that future VC investments will involve portfolio companies in Deep Technology, Fintech and Cybersecurity (see Figure 53).

**Figure 53: Likelihood for future portfolio to include an investee in specific industries**



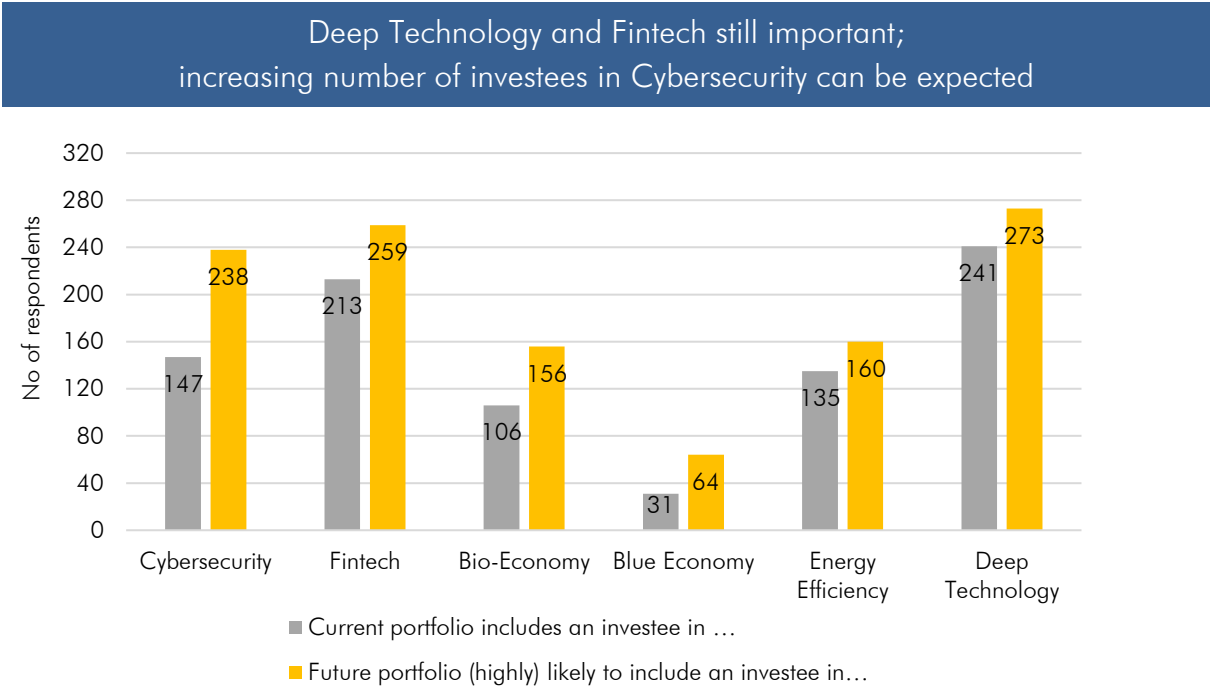
Note:  
 Cybersecurity: Cybersecurity, space and/or dual use (civil/defence) technologies.  
 Bio-economy: Bio-economy/Agriculture.  
 Blue-economy: Blue economy/Sustainable use of maritime resources.  
 Energy efficiency: Energy efficiency/Renewable energy.

**Q. How likely do you consider it that your final portfolio will include an investee in the area of ...**

The aforementioned trend is once again influenced by the current industry focus. Results not presented here for the sake of brevity show that VC managers investing mainly in ICT (the dominant sector in the sample) are more likely to include investee companies in the areas of Deep Technology and Fintech in their current portfolio; and to continue doing so in the future. By contrast, and not surprisingly, VCs currently investing mainly in Clean Technologies are more likely to include investee companies in the areas of Energy Efficiency and Bio-Economy in their future portfolios.

Taking everything into consideration, by comparing the number of respondents who state that their current portfolio includes an investee in a particular area to the number of those who consider it (highly) likely that their future portfolio will include an investee in that same area, we note that while a significant number of investees are and will continue to be in Deep Technology and Fintech, in the future an increasing number of investees in Cybersecurity and Bio-Economy can be expected (see Figure 54).

Figure 54: Likelihood for portfolio to include an investee in specific industries – current vs. future portfolio

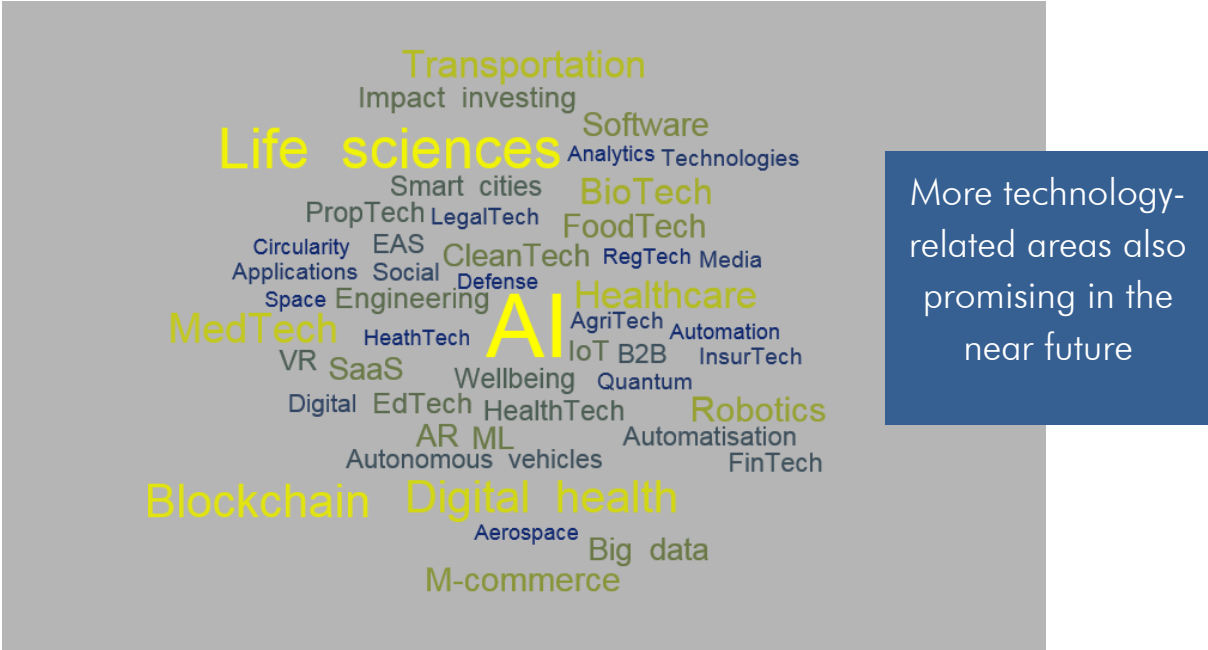


Note:  
 Cybersecurity: Cybersecurity, space and/or dual use (civil/defence) technologies.  
 Bio-economy: Bio-economy/Agriculture.  
 Blue-economy: Blue economy/Sustainable use of maritime resources.  
 Energy efficiency: Energy efficiency/Renewable energy.

Q. Does your current investment portfolio include an investee in the area of ...  
 Q. How likely do you consider it that your final portfolio will include an investee in the area of ...

VC managers were finally given the opportunity to provide their free-text response regarding other areas that they would consider promising for VC investments in the near future. In this case too, technology-related areas (Artificial Intelligence, Blockchain, MedTech, FoodTech, PropTech) featured prominently (see Figure 55).

Figure 55: Other promising areas for future VC investments<sup>6</sup>



Note:  
 AI: Artificial Intelligence; AR: Augmented Reality; EAS: Enterprise Application Software; IoT: Internet of Things, M-commerce: Mobile commerce, using devices for commercial transactions online; ML: machine learning; PropTech: technology related to Property, real estate; SaaS: Software as a Service; VR: Virtual Reality.

**Q. What other area do you consider promising in the near future?**

### 3.6 In focus: Brexit

While Brexit per se was not initially intended to be a focus area of the survey, it became evident when processing the results that UK-based VC managers had responded quite differently from the rest of the sample in a series of questions relating mainly to the challenges faced by the European VC market as well as the outlook for the year ahead.

To begin with, while almost 1 in 2 non-UK VC managers consider Brexit a (significant or moderate) challenge for the European VC business (see Figure 56) – with Brexit, however, ranked very low on the overall list of the relevant challenges (see Figure 29) – this proportion increases to a remarkable 87% for UK-based VCs. At the same time, for VC managers whose firms are headquartered in the UK, Brexit is perceived as the number one most significant challenge (see Figure 57).

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<sup>6</sup> The Figure was generated using Wordcloud whereby the bigger the font size the more frequently the respective answer was mentioned in the free-text field.

Figure 56: Brexit as a challenge in the European VC business – UK vs. rest of the sample

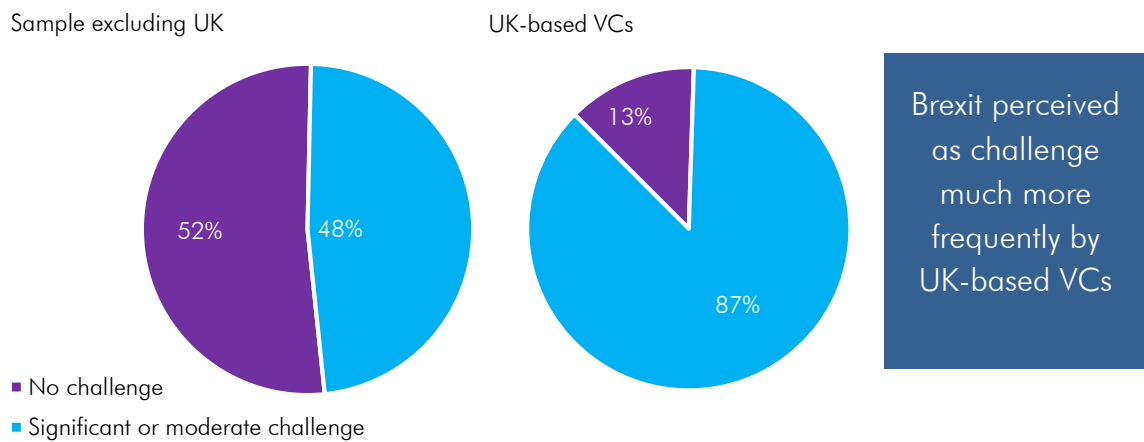
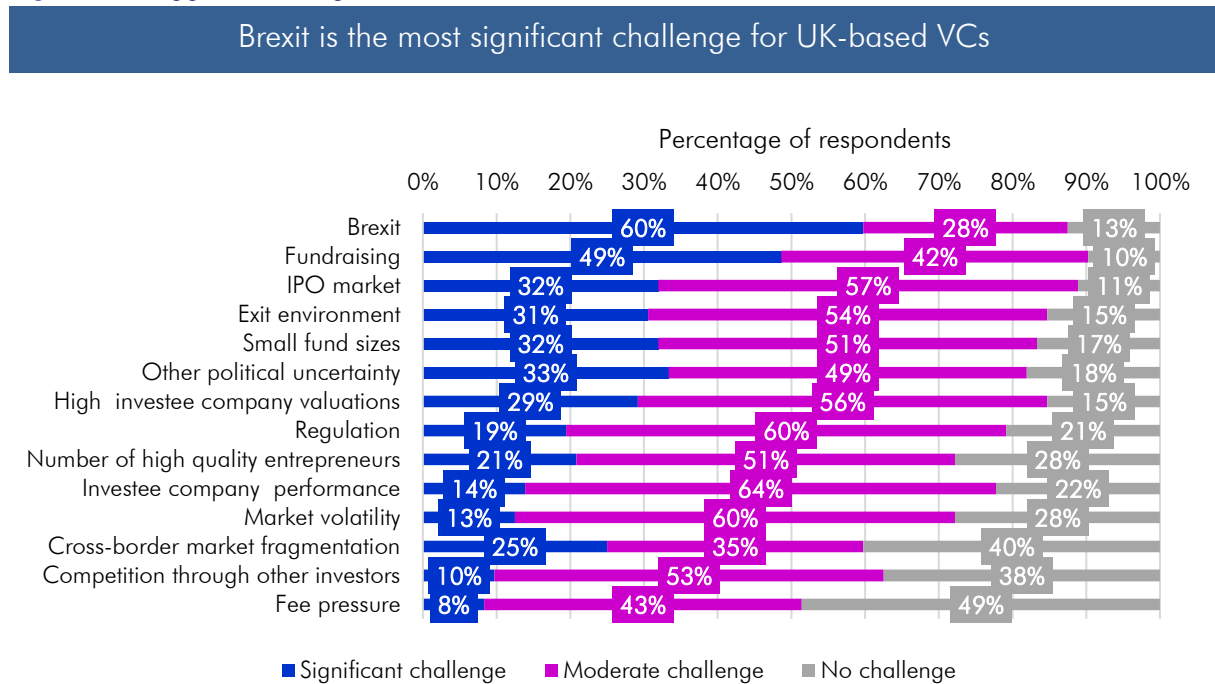


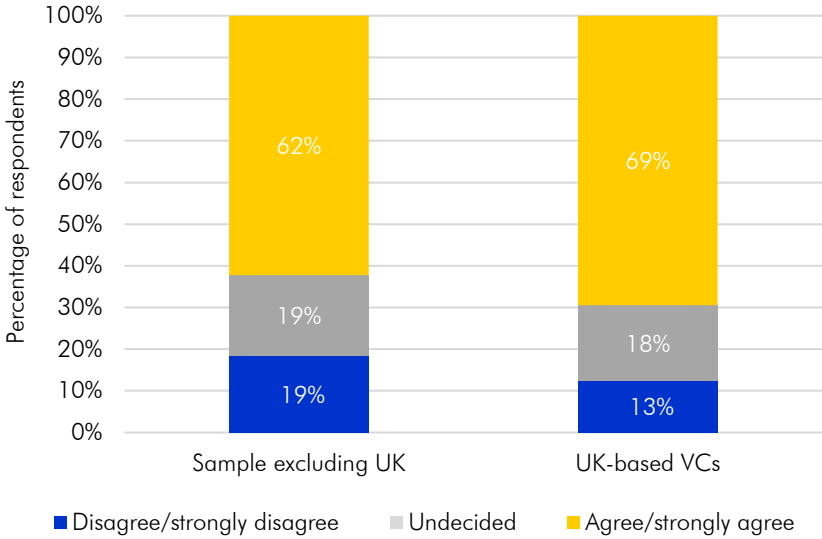
Figure 57: Biggest challenges in VC business – UK-based VCs<sup>7</sup>



The remainder of this section summarises the key findings where the uncertainty surrounding the Brexit implications seems to have affected the market sentiment of UK-based VC managers.

<sup>7</sup> VC managers who participated in the survey were asked to indicate whether each of the elements listed in Figure 57 constitutes a significant, moderate or no challenge in VC business. The ranking of challenges is based on the mean value for each item on a 1-3 scale, where “1” indicates “No Challenge” and “3” indicates “Significant Challenge”.

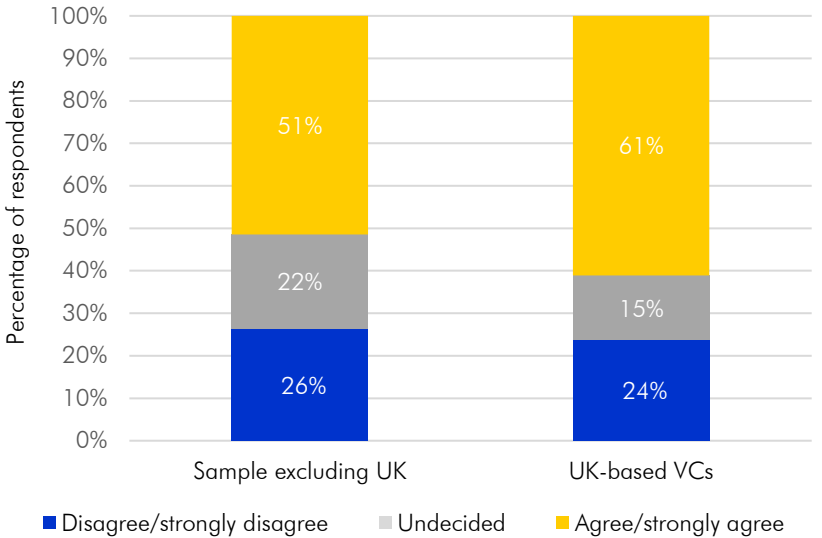
Figure 58: Lack of funding, in general – UK vs. rest of the sample



A greater proportion of UK-based VCs perceive a lack of funding, *in general*

Q. From your perspective, in general, do venture capital funds lack funding to finance their portfolio companies' prospects?

Figure 59: Lack of funding, at portfolio level – UK vs. rest of the sample



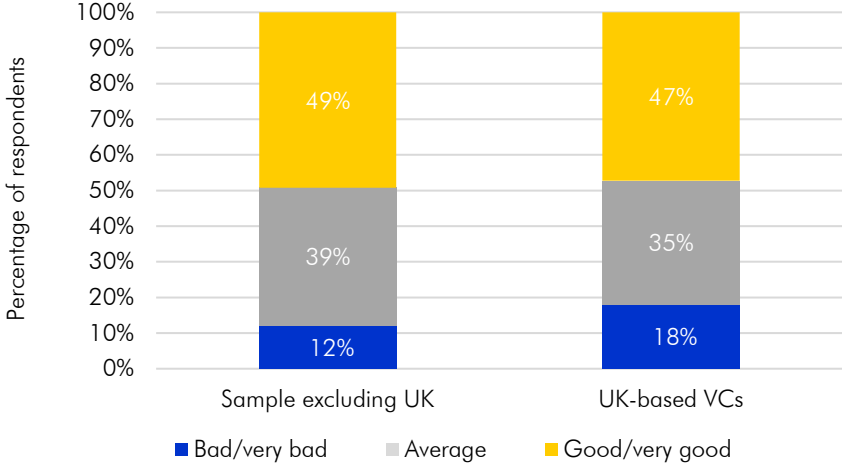
A greater proportion of UK-based VCs perceive a lack of funding, *in particular*, to finance *their own portfolio companies*

Q. Do you perceive that there is a lack of funding to finance your portfolio companies' prospects?



UK-based VC managers are more pessimistic in their perception of the fundraising environment over the last 12 months, with 1 in 5 perceiving the fundraising environment to have been “bad” or “very bad” (see Figure 60). In addition, 38% of the UK-based VCs expect the fundraising environment to further deteriorate in 2018 (see Figure 61).

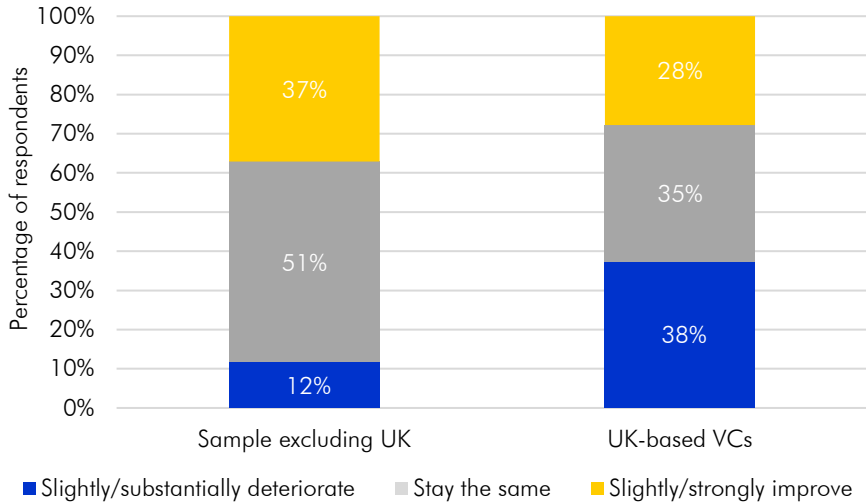
**Figure 60: Fundraising environment, past 12 months – UK vs. rest of the sample**



UK-based VCs are more pessimistic in their perception of the fundraising environment in 2017

**Q. How would you rate the fundraising environment for VC funds over the past 12 months?**

**Figure 61: Fundraising environment, next 12 months – UK vs. rest of the sample**

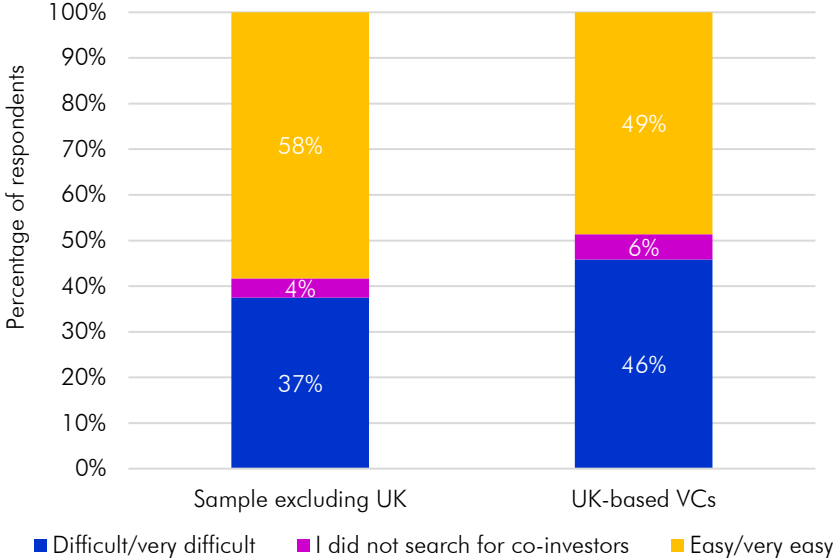


Relatively more UK-based VCs expect the fundraising environment to deteriorate in 2018

**Q. Over the next 12 months, how would you expect the fundraising to develop?**

Reflecting the aforementioned concerns is the fact that UK-based VC managers encountered greater difficulties than their other European counterparts in finding co-investors to syndicate over the past 12 months, with 1 in 2 reporting such difficulties (see Figure 62). Furthermore, no improvement in this regard is expected for 2018 (see Figure 63).

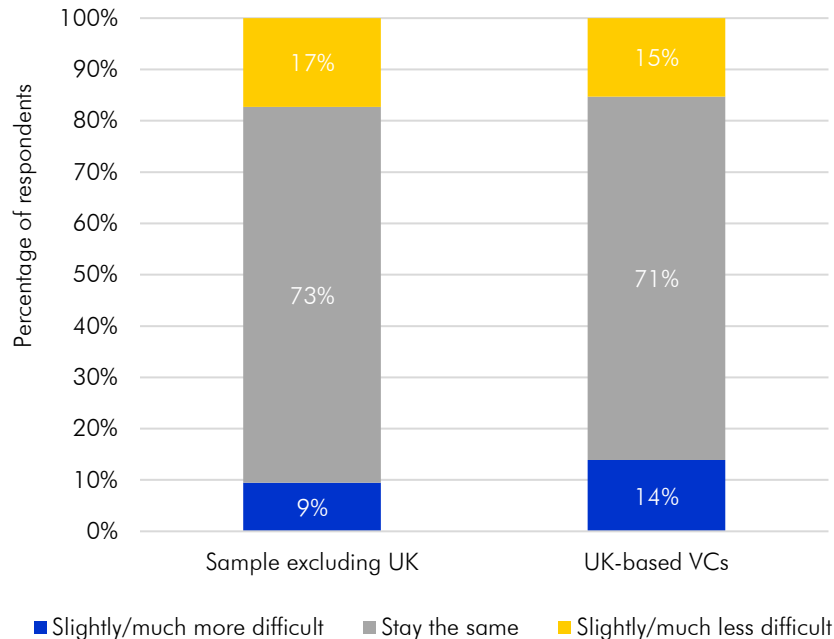
Figure 62: Finding co-investors to syndicate, past 12 months – UK vs. rest of the sample



More difficult for UK-based VCs to find co-investors to syndicate

Q. How easy was it for you to find co-investors to syndicate over the last 12 months?

Figure 63: Finding co-investors to syndicate, next 12 months – UK vs. rest of the sample

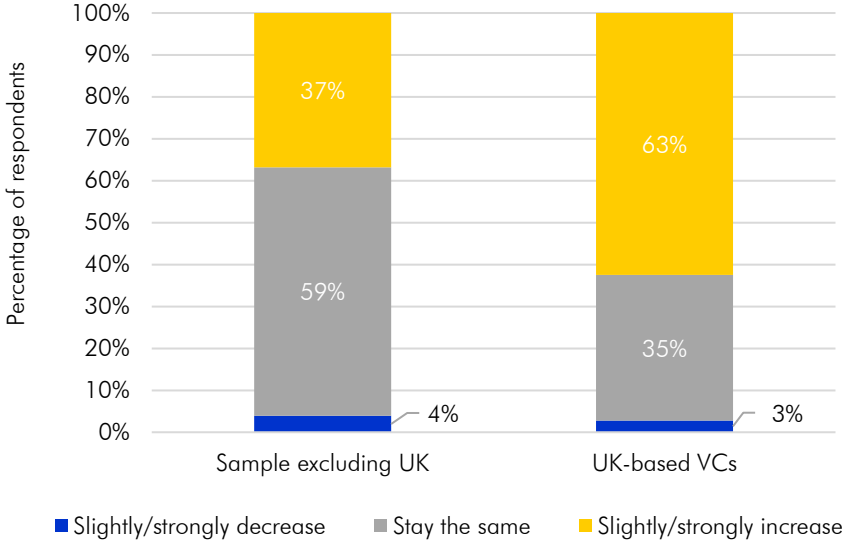


Difficulties expected to persist in 2018

Q. Over the next 12 months, how difficult do you think it will be to find co-investors to syndicate compared to the current situation?

Interestingly, a much greater proportion of UK-based VC managers expect the extent of regulatory requirements applied in the European VC market to increase in the year ahead (see Figure 64); with a significantly negative impact on their state of business as a result (see Figure 65).

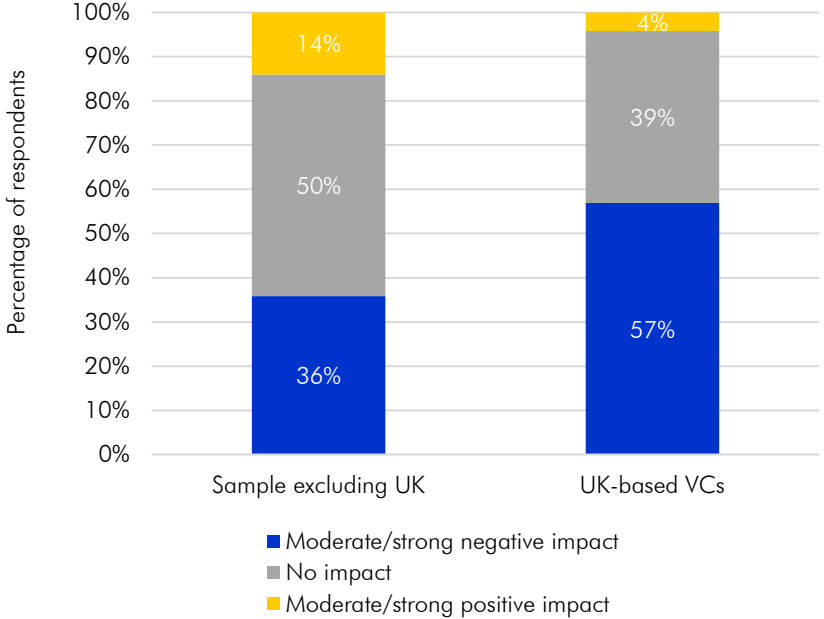
Figure 64: Regulatory requirements, next 12 months – UK vs. rest of the sample



2 in 3 UK-based VCs expect regulatory requirements to increase in 2018

Q. Over the next 12 months, do you expect that the regulatory requirements applied in the European VC market will ...

Figure 65: Impact of regulation on state of business, next 12 months – UK vs. rest of the sample

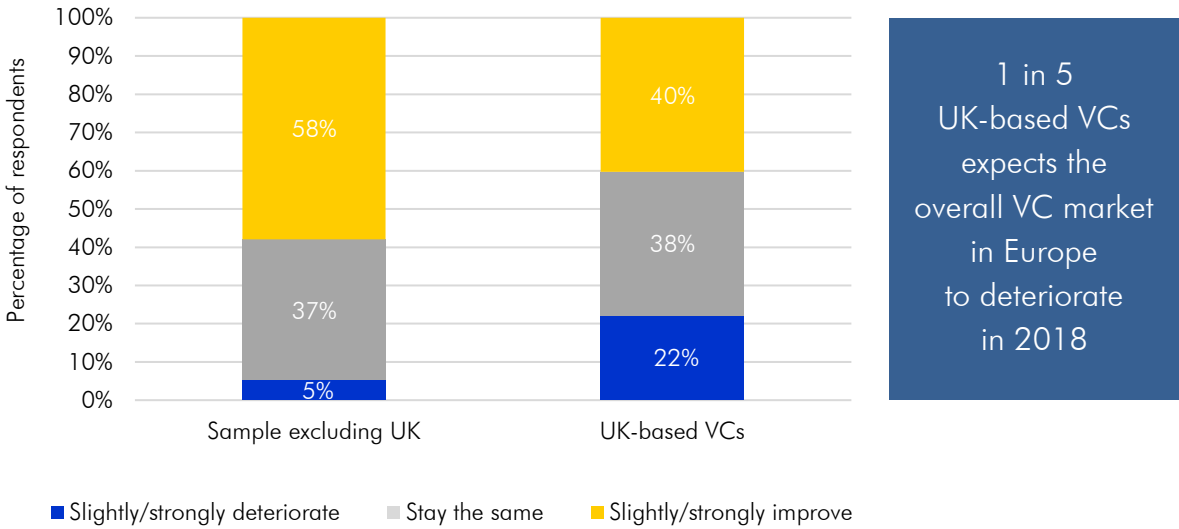


Most UK-based VCs expect a negative impact on their state of business as a result of increased regulation

Q. What impact on the state of your business do you expect from any such regulatory changes?

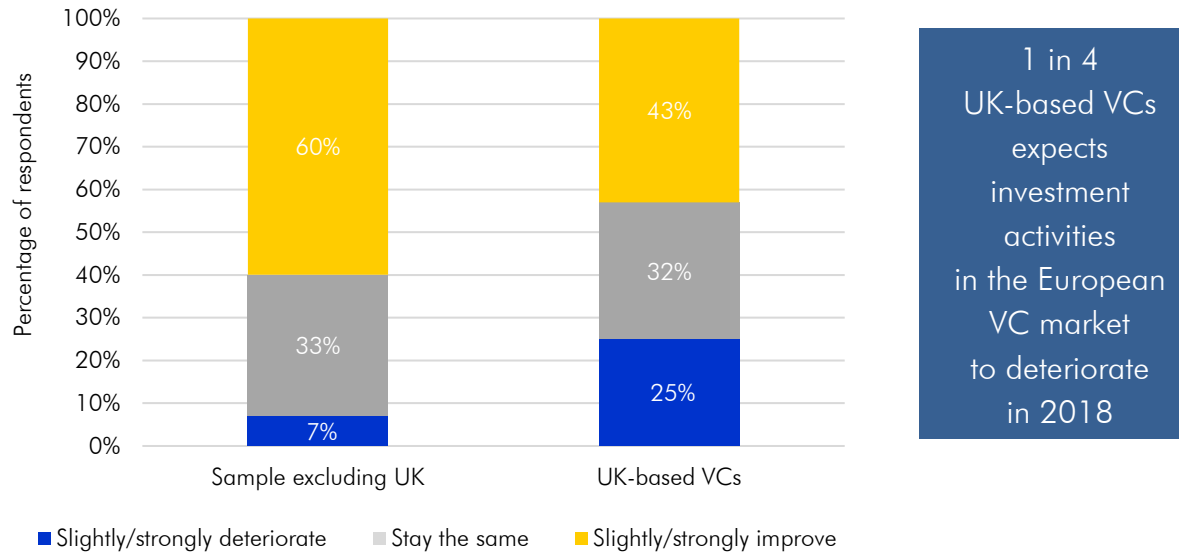
UK-based VC managers are much more pessimistic regarding the overall prospects of the European VC market in the next 12 months (see Figure 66 and Figure 67).

Figure 66: Overall prospects of the European VC market, next 12 months – UK vs. rest of the sample



Q. Over the next 12 months: Do you expect that the overall VC market in Europe will ...

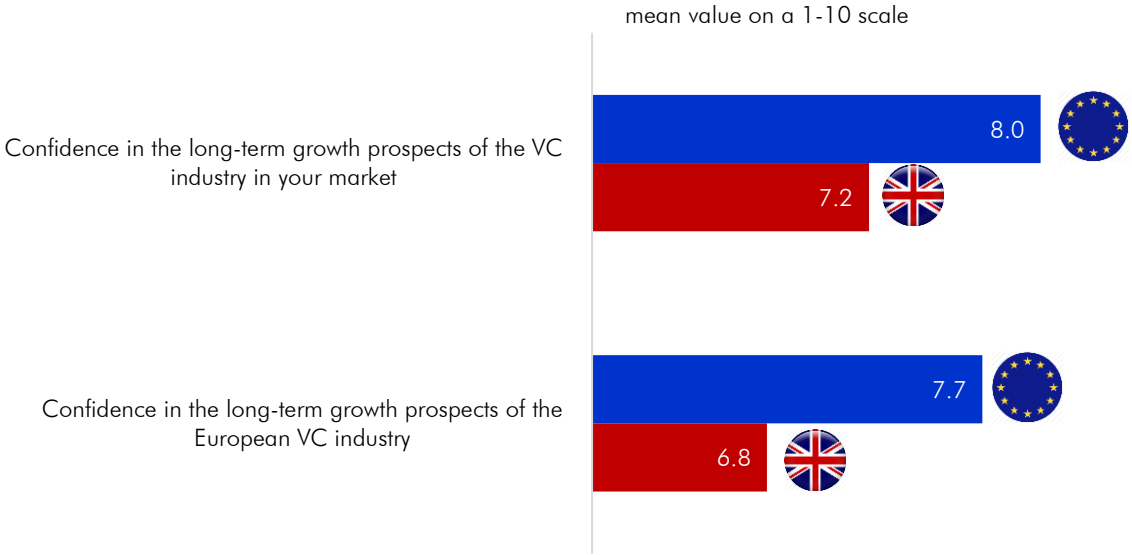
Figure 67: Investment activities in the European VC market, next 12 months – UK vs. rest of the sample



This is also reflected in the much lower confidence that UK-based VCs show, on average, in both the long-term growth prospects of the VC industry in their market as well as in the long-term growth prospects of the overall VC industry in Europe (see Figure 68).

Figure 68: Confidence in the long-term growth prospects of the VC industry in your market and in the European VC industry – UK vs. rest of the sample

UK-based VCs are much less confident about the long-term growth prospects of the VC industry in their market and in Europe overall



Q. Over the next 12 months: What do you expect to happen to investment activities in the European VC market?

## 4 Role of the Public Sector in European VC

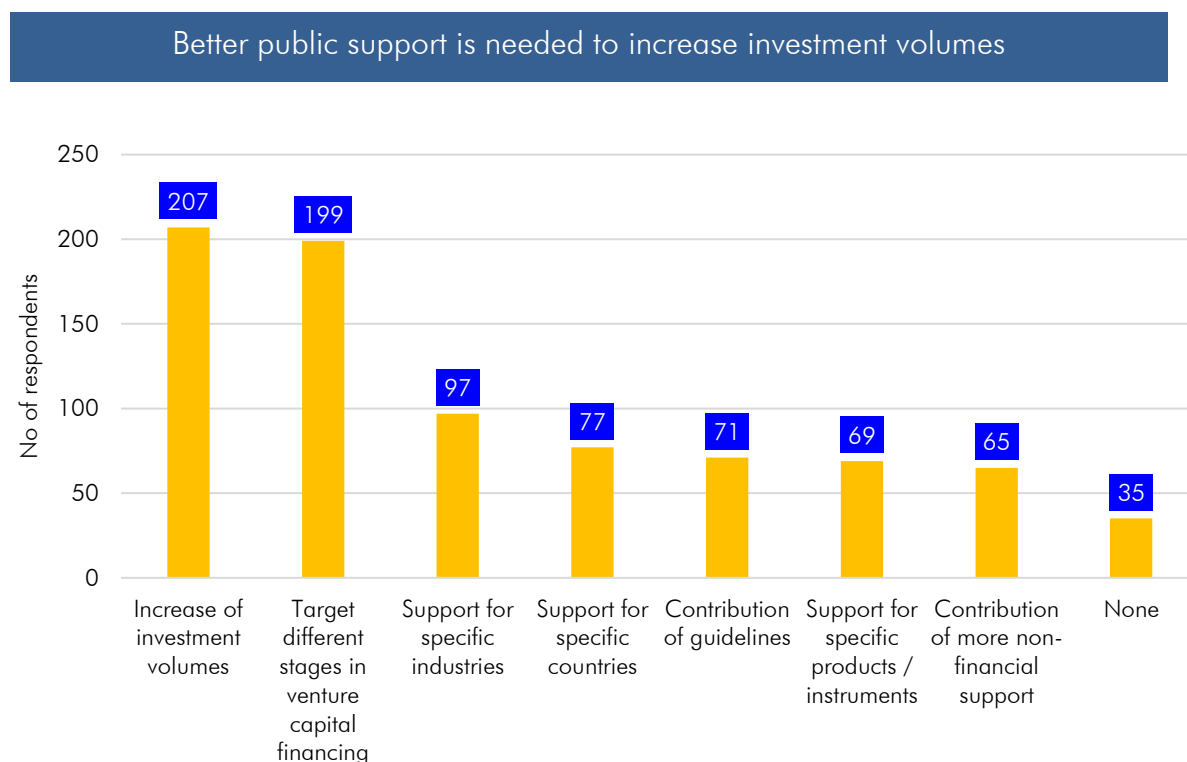
This chapter covers the section of the survey which asked fund managers for their views on the existing public interventions. The survey revealed that public support in general is crucial for the European VC market. The vast majority of surveyed VC managers would want to see more public support, both financial and non-financial, in most of the areas and elements of the VC markets.

The VC managers are especially calling for an improved public role for *increasing investment volumes* and *targeting different stages* in venture capital financing. More than half of the respondents (55% and 53% respectively) saw room for improvement in regards to public support measures in these two areas (see Figure 69).

Third most important area for VC managers was “support for specific industries”. However, this overall opinion did not seem to be shared by VC managers focused on the Service sector. For them, (see Figure 70), the third most important area where they would like to see a more dominant public role was “contribution of guidelines” and “contribution of more non-financial support”.

Regarding “support for specific countries”, relatively more VC managers from the CESEE and the South countries called for more public support, pointing at the underdeveloped market in their countries (see Figure 71).

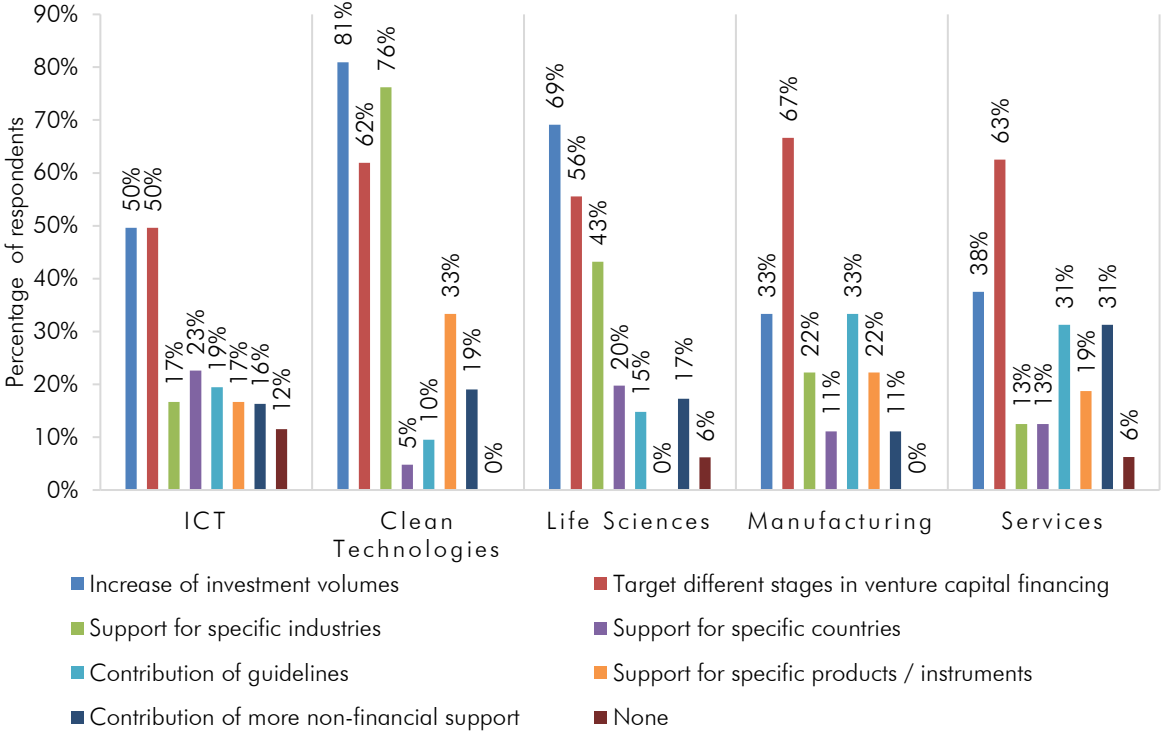
Figure 69: Improvement in public support measures



Note: “Other” excluded.

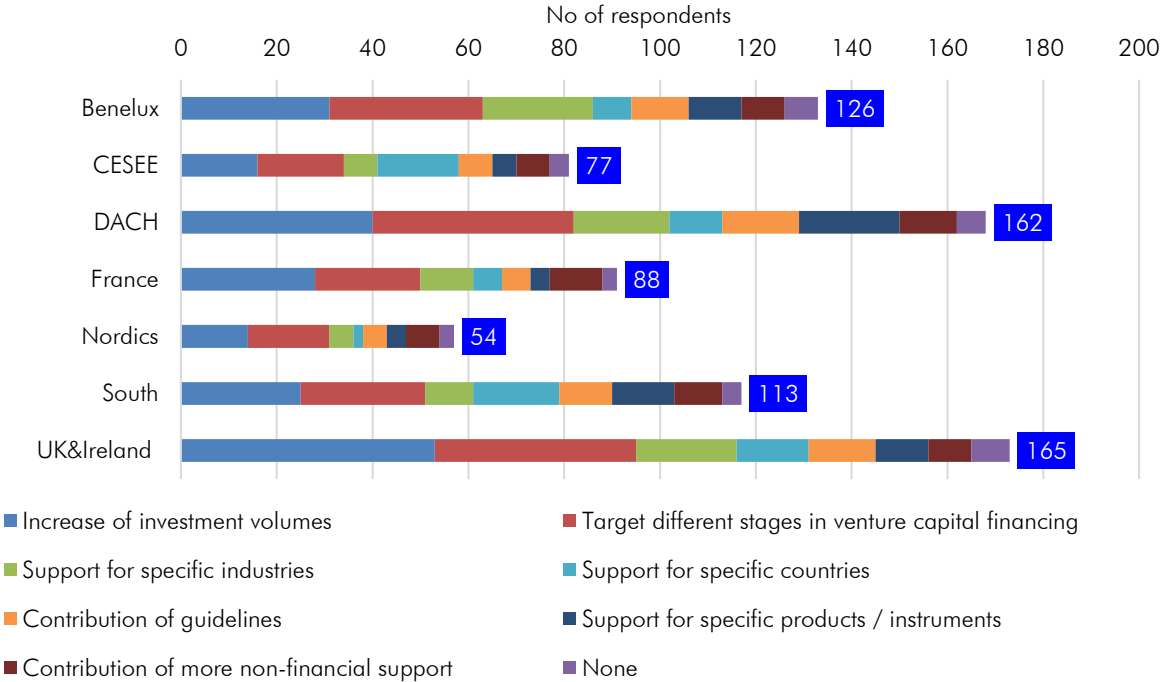
Q. In which areas do you see room for improvement in regards to public support measures in the VC markets? (Multiple selection possible)

Figure 70: Improvement in public support measures – by VC firm target industry



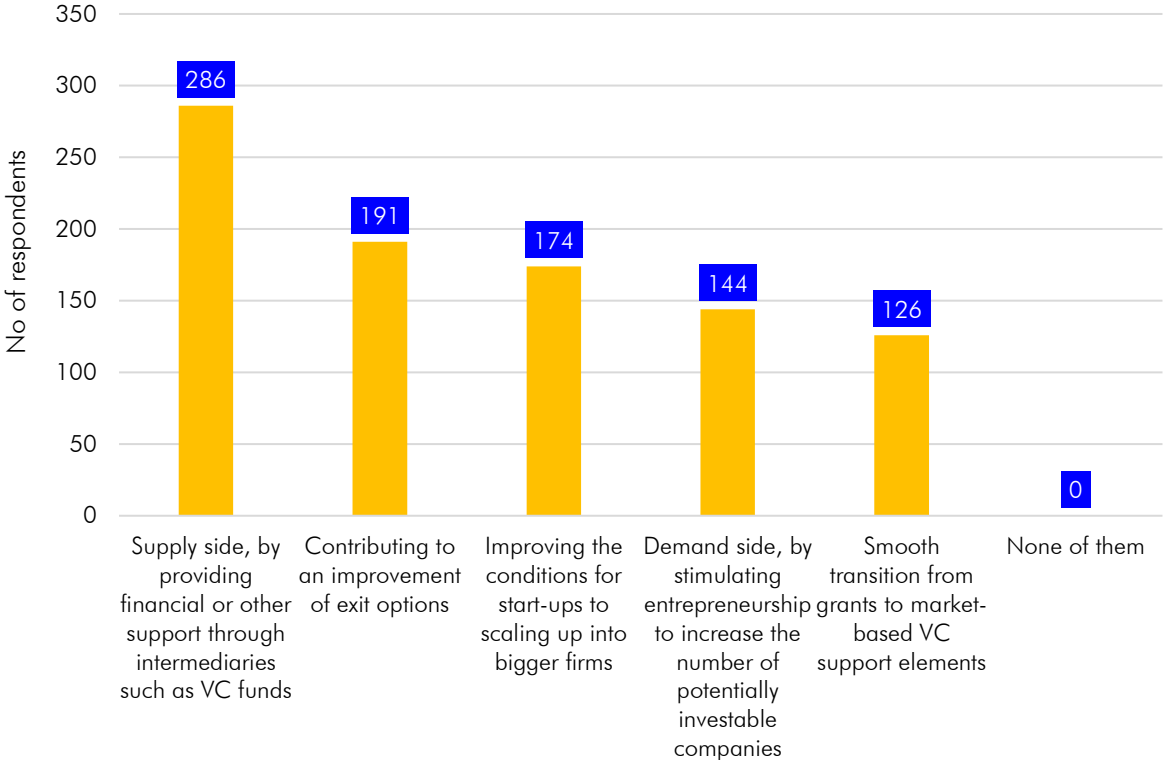
Note: Percentages are based on the number of respondents per industry (for the distribution see Figure 6). Total number of responses by sector: ICT (510), Clean Technologies (60), Life Sciences (185), Manufacturing (18), Services (34).

Figure 71: Improvement in public support measures – by VC firm headquarter



When asked about public *financial* intervention (see Figure 72), most of the respondents indicated that they want to see it on the supply side, by providing financial or other support through intermediaries such as VC funds. As we have seen from the previous section of the survey, the current VC market lacks exit opportunities and the exit environment is currently perceived as the biggest challenge, so perhaps it is not surprising that more than half of the respondents want to see the public sector contributing to an improvement of exit options. None of the respondents said that public support is not relevant.

**Figure 72: Areas for public financial intervention**



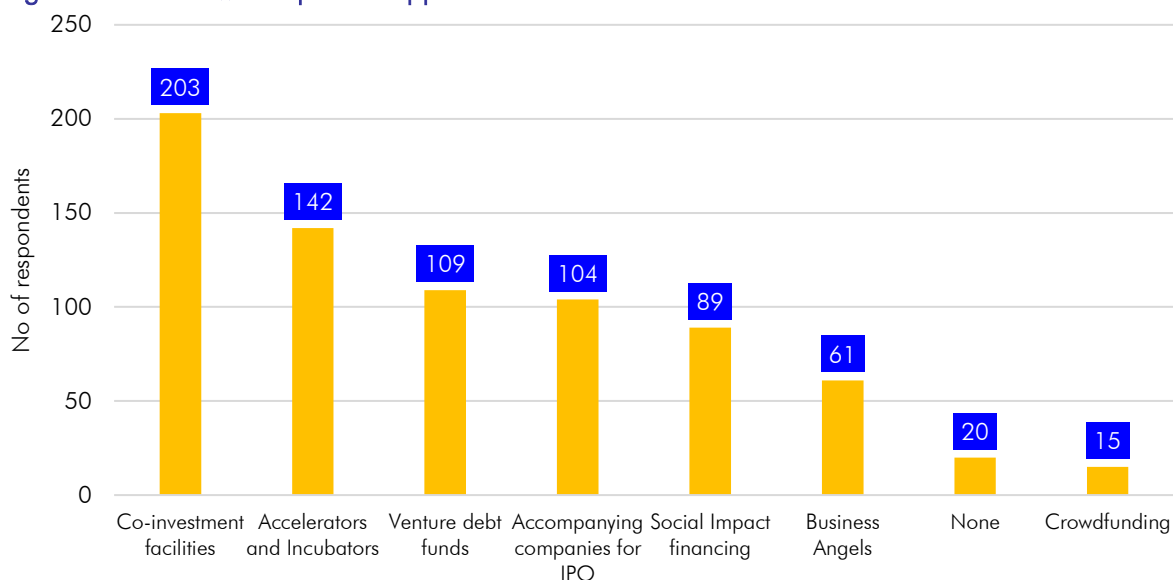
**Q. In which areas should public financial intervention focus to stimulate the European venture capital market? (Multiple selection possible)**

Co-investment facilities, accelerators and incubators were most widely mentioned by the fund managers when asked about financing areas where an increased public support is needed (see Figure 73).

Relative to the overall sample, venture debt funds seem to be more important for the CESEE countries. Almost half of the respondents (44%) marked this as a potential area for public support (the related figure is not presented for the sake of brevity).



Figure 73: Areas where public support should be increased



**Q. Indicate in which financing areas public support should be increased: (Multiple selection possible)**

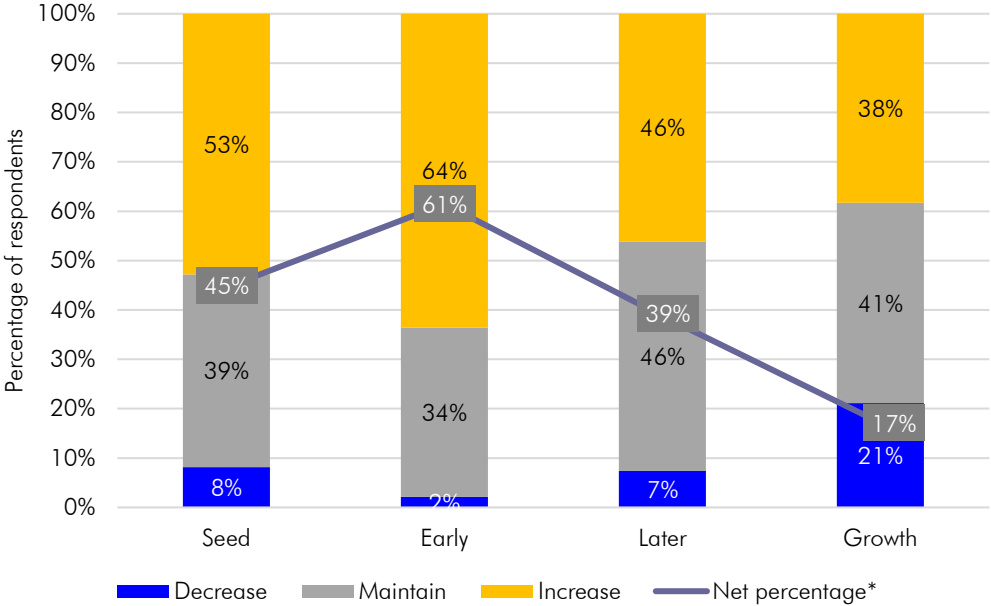
Fund managers were also asked in which direction should public support for different investment stages change. Here, the vast majority of the respondents (64%) indicated governmental support should be increased for early stage businesses. Only a handful of them suggested that governmental support should be decreased for this stage. The second most important stage for public support turned out to be the seed stage, followed by the later and growth stages.

The picture changes when looking at a more detailed analysis. The two figures below (see Figure 75 and Figure 76) show that the aggregates enfold a significant country and sector-level heterogeneity. For example, for VCs that are mainly targeting the manufacturing sector, the seed stage, on average, requires more public support than the early stage. While for VCs targeting the service sector, the growth stage is suggested for more public support, unlike the other sectors.

Regarding the geographical heterogeneity, the Nordics deviate significantly from the overall picture. In net terms, a higher percentage of fund managers from the Nordics chose seed stage (61%) over early stage. It seems that respondents from the Nordics were satisfied with the level of public support for growth stage businesses. The net percentage of them even proposed to decrease support for this stage.

It needs to be noted that respondents' VC investment target stage may affect their choice for this question. As we have seen in Chapter 2, for the majority of the respondents the most important stage in which they invest is seed or early stage businesses (82%), see Figure 5. Indeed, as shown in Figure 77, VCs that are mainly targeting the later/growth stage indicated that the later stage, on average, requires more public support than the seed or early stage.

Figure 74: Direction of public support for different investment stages



Q. In which direction should public support for different investment stages be changed?

Figure 75: Direction of public support for different investment stages – by VC target industry

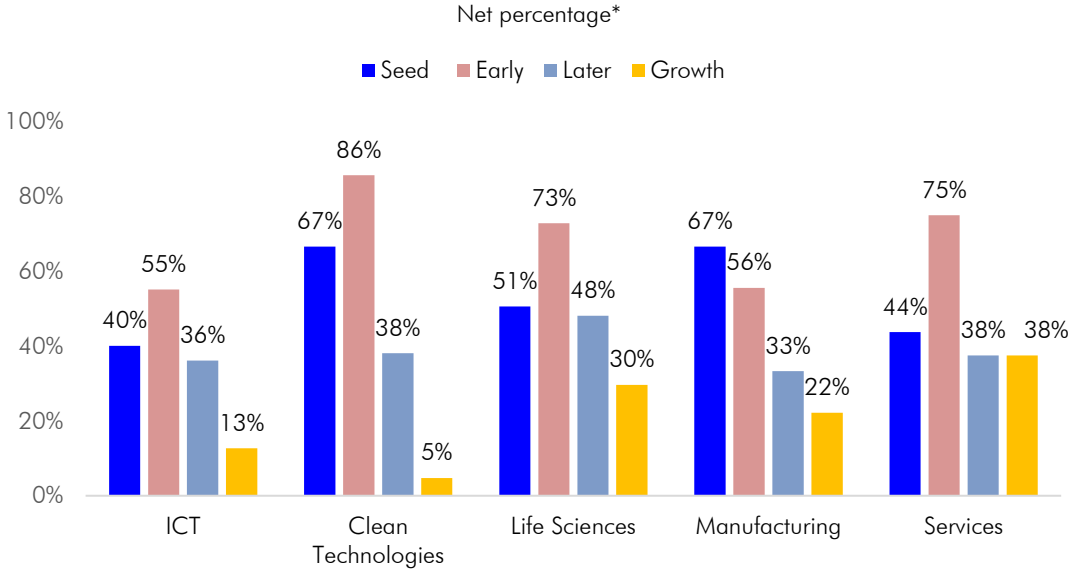
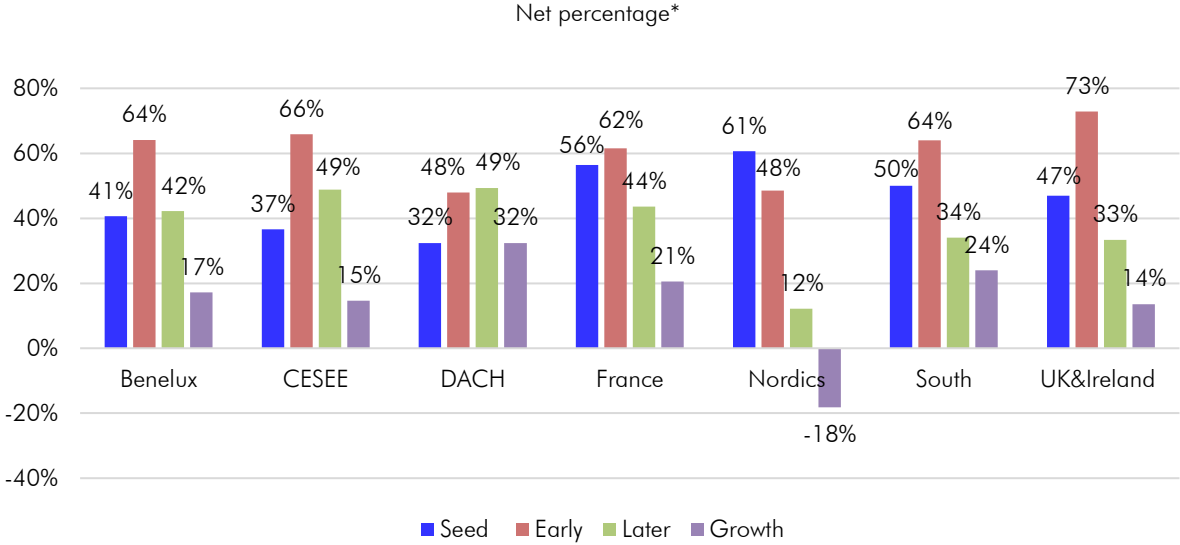
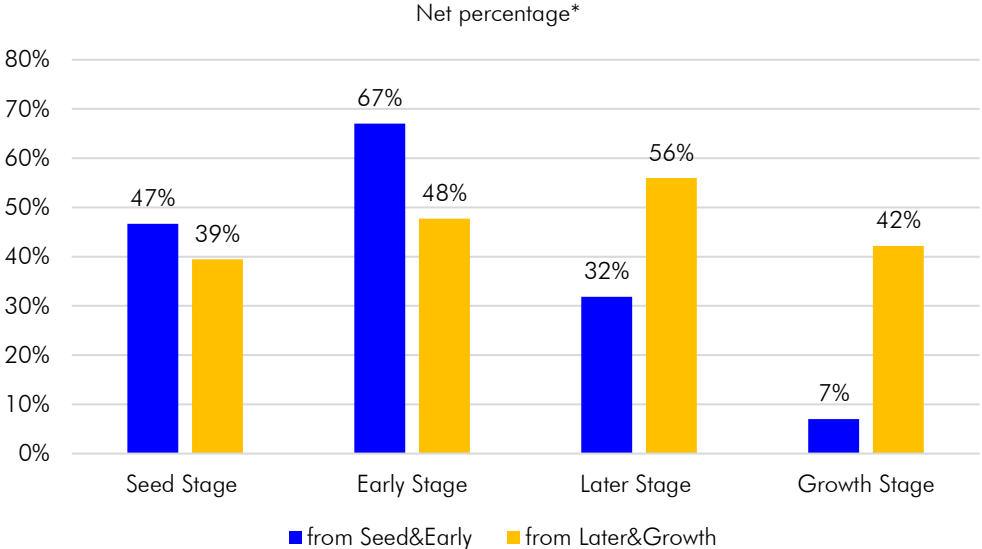


Figure 76: Direction of public support for different investment stages – by VC firm headquarter



Note: \*Number of positive responses minus number of negative responses. Please note that a negative net percentage means, on balance, decrease.

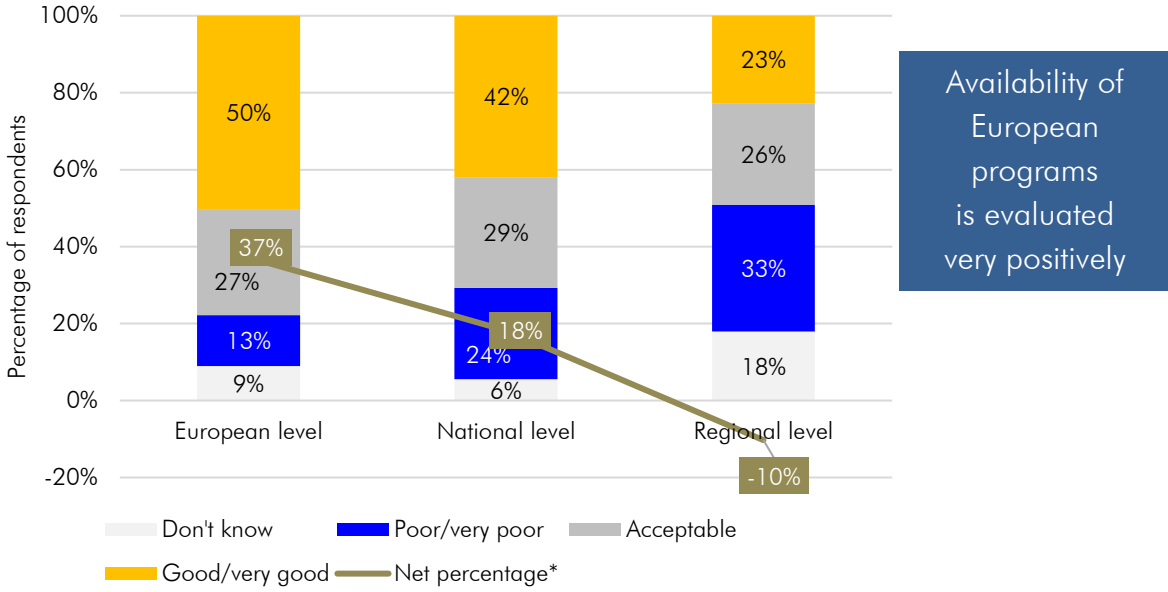
Figure 77: Direction of public support for different investment stages – by VC target stage



Note: \*Number of positive responses minus number of negative responses. Please note that a negative net percentage means, on balance, decrease.

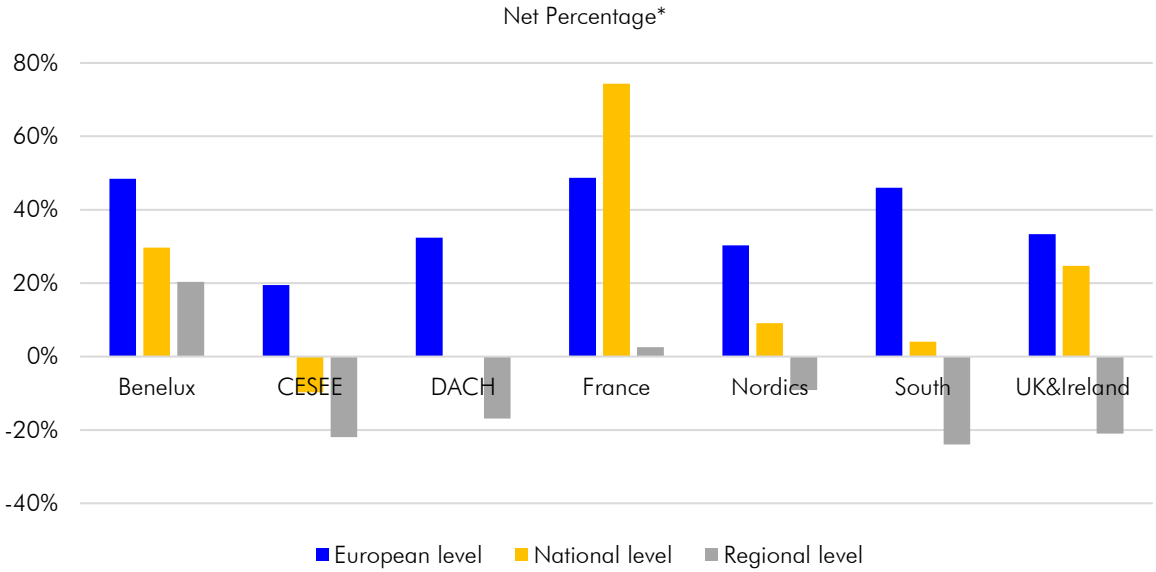
When asked about the existing governmental programs, fund managers seem to be more satisfied with the European programs than with the national or regional programs (see Figure 78), regardless of their country or industry focus. The only exception is France, where it appears that the availability of national programs, in net terms, is more satisfactory than the availability of European programs (see Figure 79). The availability of national programs seems to be the poorest in the CESEE. Except for the Benelux, all regions rate negatively the availability of regional programs, especially in the CESEE and in the South.

Figure 78: Availability of governmental programs



Q. How would you evaluate the availability of governmental programs in regards to venture capital funding in Europe?

Figure 79: Availability of governmental programs – by VC firm headquarter



Note: \*Number of positive responses minus number of negative responses. Please note that a negative net percentage means, on balance, "poor".

Respondents were given a chance to select up to five elements of the ecosystems helpful for venture capital that are particularly underdeveloped. Interestingly (see Figure 80), involvement of pension funds as investors appeared to be the most important element that is currently underdeveloped<sup>8</sup>.

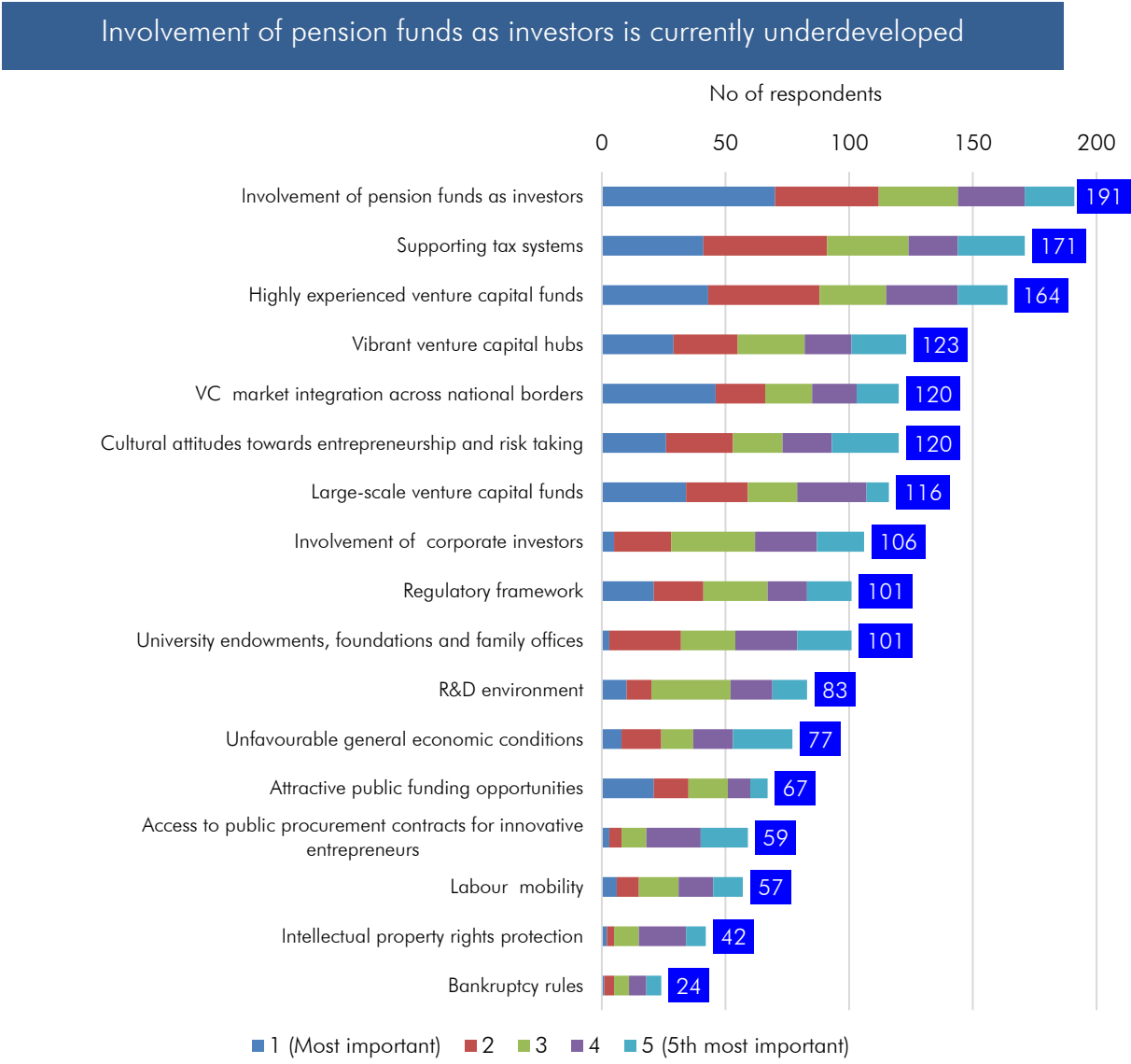
<sup>8</sup> In general, the respondents believe that the large private institutional investors are not ready to invest in European venture capital (see Figure 84 and related discussion).

“Supporting tax systems” and “highly experienced venture capital funds” were also frequently selected.

Regarding the other elements, “VC market integration across national borders” appeared to be relatively more important for Clean Technologies compared to all other sectors (see Figure 81).

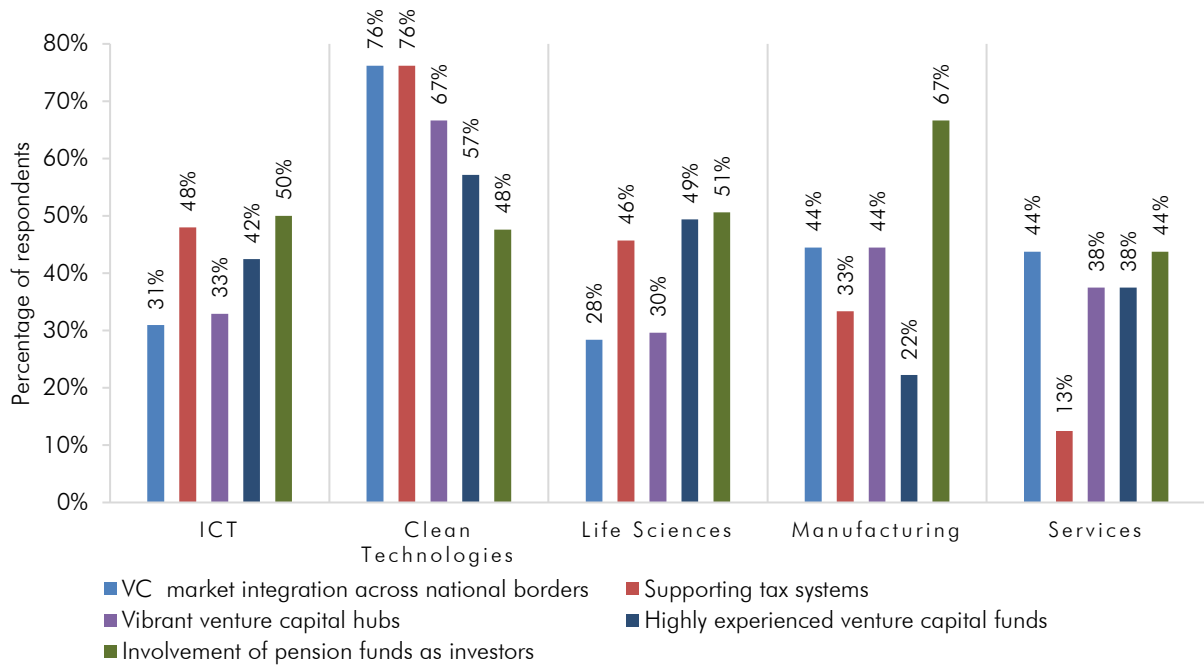
Regarding the regional differences (see Figure 82), “VC market integration across national borders” appeared to be a very important and currently underdeveloped element for the CESEE countries.

**Figure 80: Underdeveloped elements of VC ecosystem**



**Q. Select up to five important elements of the ecosystems helpful for venture capital that are particularly underdeveloped.**

Figure 81: Development of VC ecosystem – by VC target industry

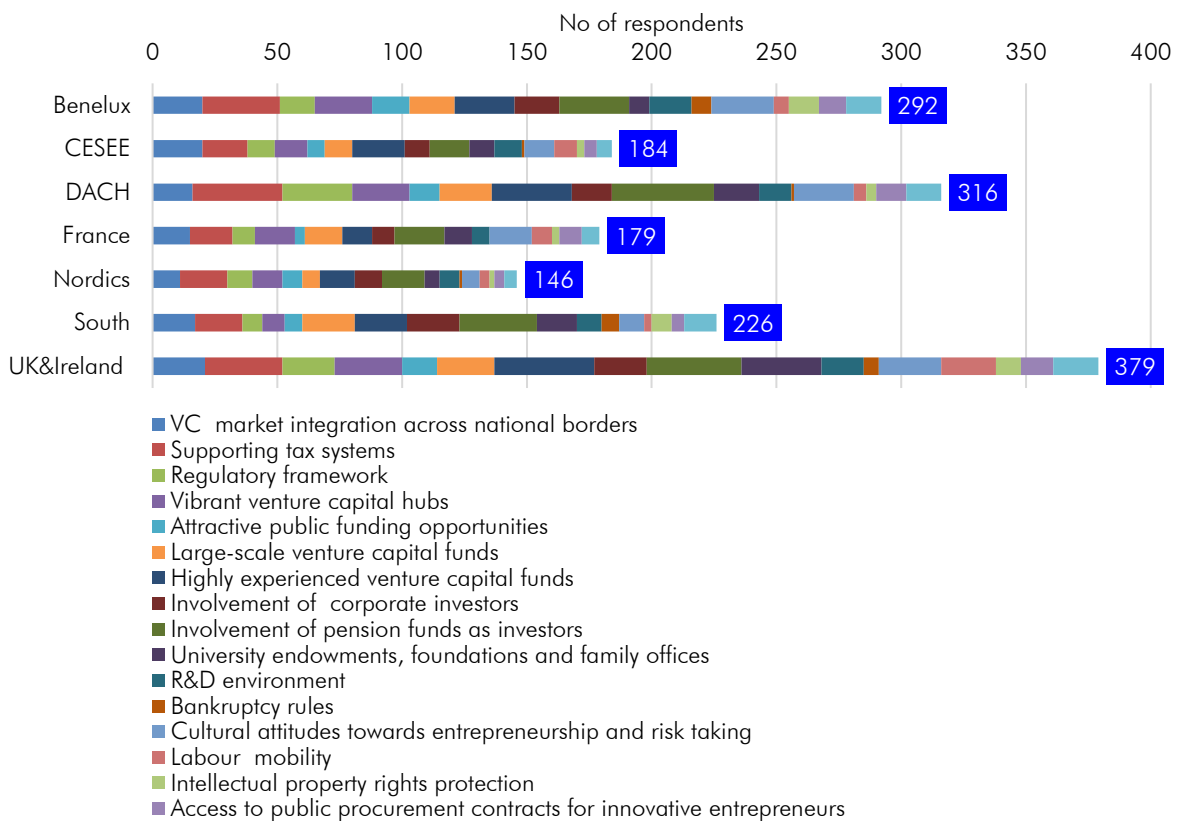


Note: For the sake of brevity, only the most frequently selected answers are presented.

Percentages are based on the number of respondents per industry (for the distribution see Figure 6).

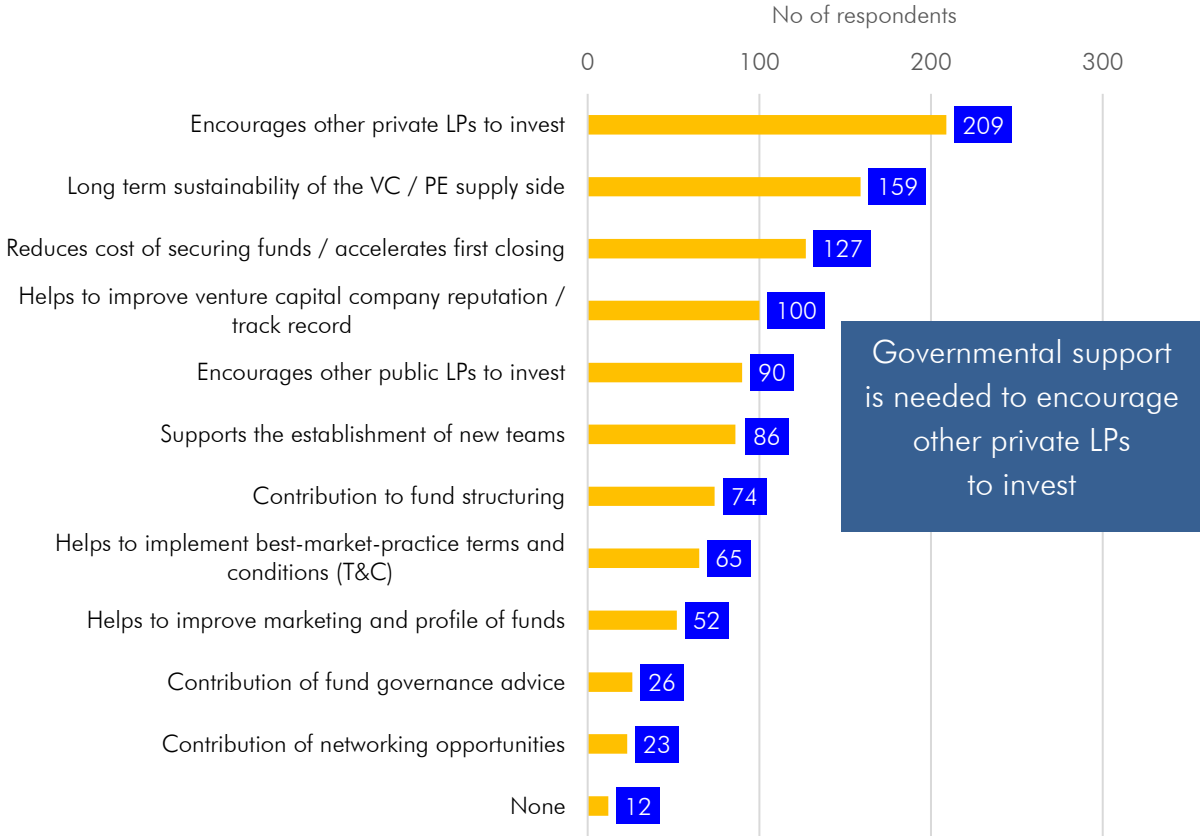
Total number of responses by sector: ICT (515), Clean Technologies (68), Life Sciences (165), Manufacturing (19), Services (28).

Figure 82: Development of VC ecosystem – by VC firm headquarter



The vast majority (97%) of fund managers are satisfied with at least one aspect of governmental support programs (see Figure 83). The governmental programs that encourage other private LPs to invest appear to be the most appreciated by the respondents. The governmental programs ensuring long-term sustainability are the second most frequently selected aspect.

**Figure 83: Appreciation of governmental support**



**Q. Indicate up to three of the most important aspects you appreciate from governmental support programs (by the EIF or others) in your specific market? (Multiple selection possible)**

As an addition to the previous question, surveyed VC managers were given the chance to add their own responses in a free-text field. Many responses from the previous questions were repeated, such as: “Encouraging private investors”, “More support for seed/early/late/growth stage”.

Besides those answers, the main sentiment that emerged from their free-text responses was that the European VC market needs to be more harmonised across the EU-28 countries. The fund managers called for supporting pan-European funds, more cross-border investments, and a harmonisation of legal frameworks and tax systems. It also appears that the full picture of the VC supply is unknown to many funds. The respondents think that better coordination is needed among the governmental programs targeting the same instrument/product/sector/country and mapping investors would also be helpful.

In addition to the cross-border investment, the respondents think that internalisation of the European VC market is crucial, therefore access to foreign investors should be facilitated.

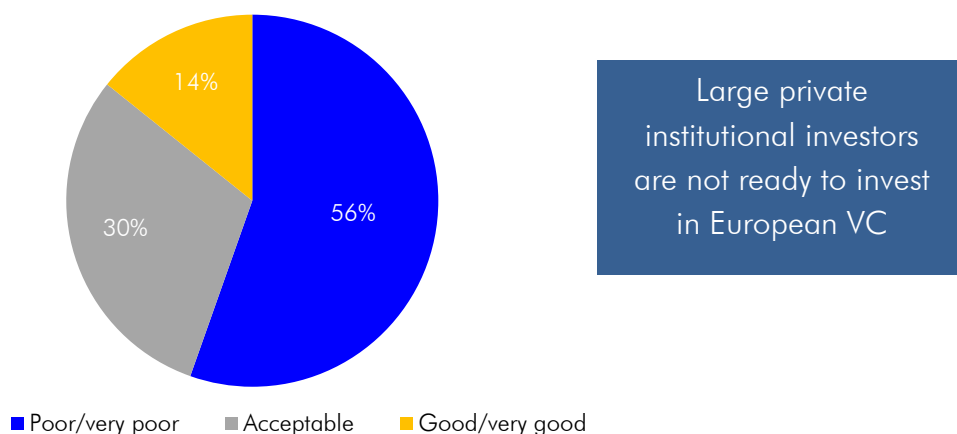
### Box 1: Governmental support activities that are currently missing. Free-text responses: main patterns

- Simplification and harmonisation of tax systems
- Harmonisation of legal framework
- Support for pan-European funds
- Cross-border investment
- Labour mobility
- More coordination in the programs available
- Mapping investors
- Foreign investors
- Entrepreneurial education
- More support for UK

#### Q. Which governmental support activities do you feel are currently missing in the European market?

The majority (56%) of the respondents believe that the large private institutional investors are not ready to invest in European venture capital (see Figure 84). Some sectors such as Manufacturing and Services (see Figure 85) are relatively more optimistic. In these two sectors, only around one third of the respondents assessed the readiness of large private institutional investors to be poor or very poor. Regarding the geographical heterogeneity, around one quarter of the fund managers from France and the Nordics perceived the readiness of large private institutional investors to be good or very good, which is the highest among all regions (see Figure 86).

Figure 84: Readiness of large private institutional investors



#### Q. How would you assess the readiness of large private institutional investors (European and non-European) to invest in European venture capital?



Figure 85: Readiness of large private institutional investors – by VC target industry

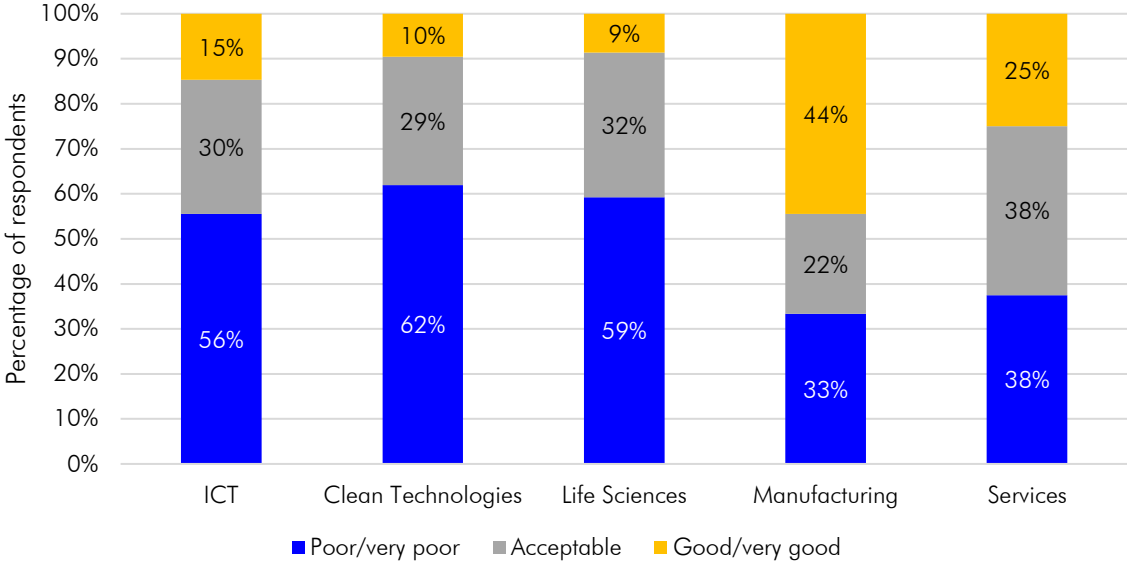
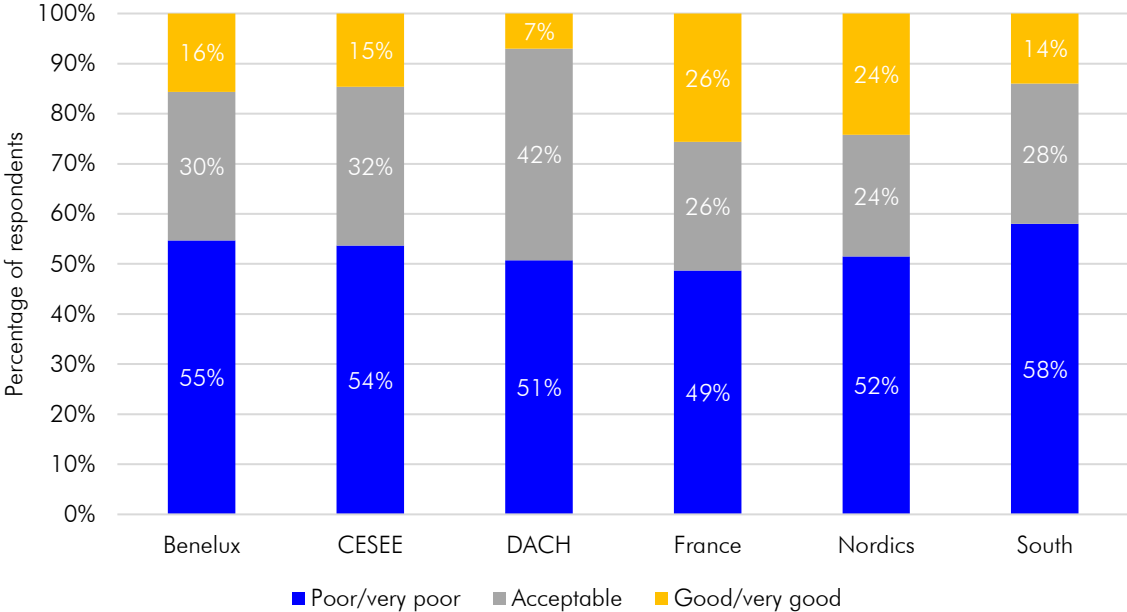
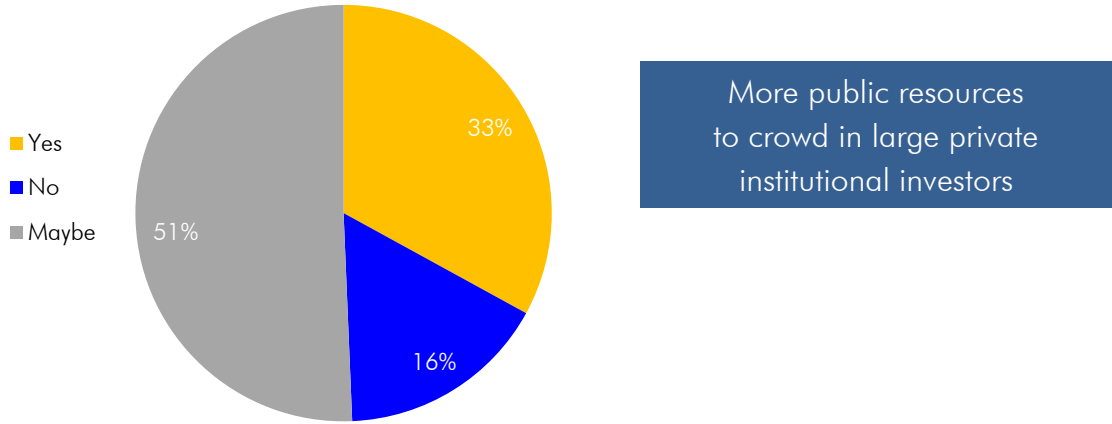


Figure 86: Readiness of large private institutional investors – by VC firm headquarter



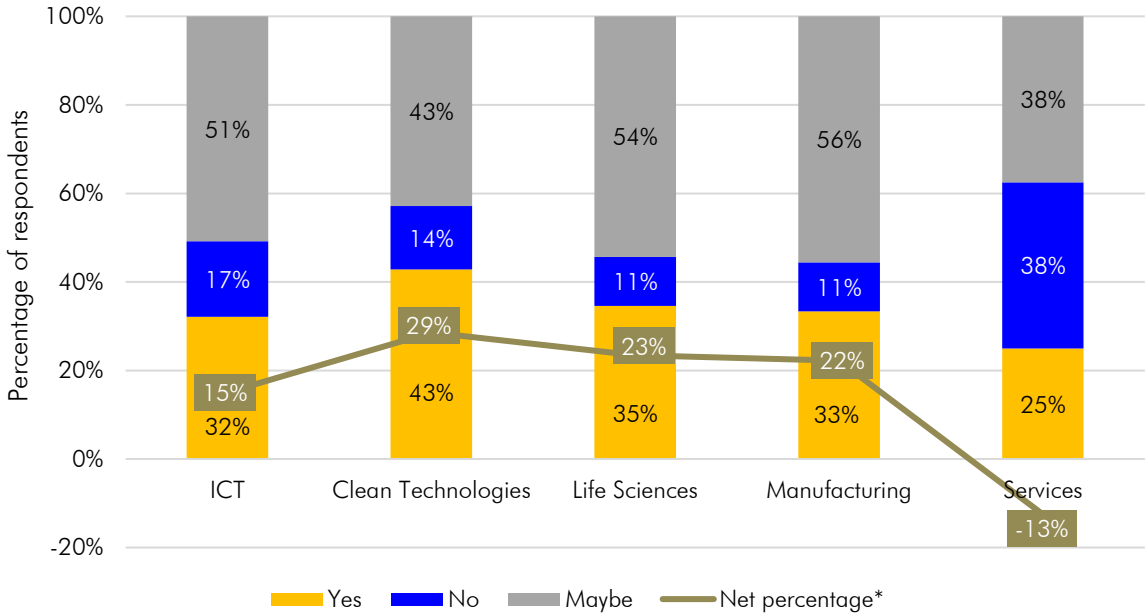
To follow up on the previous question, the respondents were asked whether the provision of more public resources would be enough to crowd in large private institutional investors. Given their answer on the previous question, it is not surprising that most VC managers gave affirmative or possibly affirmative answers (see Figure 87). Looking at sectoral differences (see Figure 88) fund managers investing in Services gave negative responses in net terms, while 43% of fund managers from Clean Technologies suggested that the provision of more public resources is required in order to crowd in large private institutional investors.

Figure 87: More public resources to crowd in large private institutional investors



Q. Would the provision of more public resources be enough to crowd them in?

Figure 88: More public resources to crowd in large private institutional investors – by VC target industry



Note: \*Number of positive responses minus number of negative responses. Please note that a negative net percentage means, on balance, No.

As we have seen above, one third of the respondents opted for the provision of more public resources in order to crowd in large private institutional investors. The rest of the respondents, who replied “no” or “maybe”, expressed their opinions in the free-text field. It is worth noting, that some of them still suggested more public involvement.

According to the analysis of the free-text fields, respondents believe that the European VC market is not dynamic enough and the European VC funds are too small to be attractive to large private

institutional investors. LPs should be given structuring options to be able to split larger deals into smaller fund allocations.

The respondents also stated in their free-text responses that the European VC market lacks the risk appetite and that LPs are often not well informed about the track records of VC fund performance. In general, the market needs to raise awareness about the social and economic impact of VC. It needs more success stories, which according to the respondents, can be supported by data-driven research. The market needs to demonstrate that the European VC companies are viable, that they have strong financial returns and successful exits.

In addition, the VC fund managers suggested that to crowd in LPs, they should be given tax and regulatory incentives.

#### **Box 2: Aspects needed to crowd in LPs. Free-text responses: main patterns**

- Track record of VC fund performance
- Raise awareness on the social and economic impact of VC
- Success stories
- Attractive VC companies
- Competent LPs
- Deals are too small
- Regulatory incentives
- Tax incentives
- Exit

Q. If you answered "maybe" or "no", what would be needed in addition?

## 5 Concluding remarks and summary of policy recommendations

The *EIF VC Survey* was designed to gain insights into the European VC market, its state of business and market activity. The survey's aim is to identify the current challenges faced by fund managers and VC-supported companies, including their barriers to access finance. Moreover, the project intends to provide possibilities to derive concrete policy recommendations.

The survey confirms that in general, VC managers are rather optimistic in their perception of the current market situation as well as of future outlook. The current and future state of business are evaluated positively, portfolio companies have been developing in line with expectations, most VCs intend to raise another fund in the near future and new investments are expected to increase in 2018. Moreover, fund managers are rather confident about the long-term growth prospects of the VC industry in their market and in Europe altogether, since they expect both the overall VC market in Europe and investment activities in the European VC market to further improve in 2018. However, it should be noted that there are sometimes substantial differences in the responses by country and sector focus.

At the same time though, the challenges persist. The lack of funding to finance portfolio companies' prospects is still perceived to be significant. Many fund managers do not rate positively the fundraising environment over the last year, while the expectations for improvement in 2018 remain limited. At a market-wide level, the challenges relating to fundraising and exit opportunities prevent European venture capital from becoming a more attractive asset class; while at the portfolio level, recruiting high-quality professionals is perceived as the biggest challenge faced by investee companies.

The VC managers do share general optimism about the European VC market, but they still perceive it as underdeveloped and not dynamic enough. The large private institutional investors are not ready to invest in European venture capital. European VC funds are too small to be attractive to large private institutional investors. Moreover, cultural attitudes as regards risk perception play a big role. The European VC market seems to lack risk appetite and LPs state not to be well informed about the track records of VC funds' performance.

In general, the market needs to raise awareness about the social and economic impact of VC. It needs more success stories, which according to the respondents, can be supported by data-driven research. The market should demonstrate that the European VC companies are viable, that they have strong financial returns and successful exits.

According to respondents, public support can play a role in two ways to stimulate the VC ecosystem: *(i) by tax incentives and simplified and harmonised regulatory systems, and (ii) by provision of more public resources to increase investment volumes and encouraging other private LPs to invest.*

The survey respondents stated that the provision of more public resources could help to crowd in large private institutional investors. Currently, the involvement of pension funds as investors appeared to be the most important element of the VC ecosystem that is underdeveloped. Moreover, the European VC market needs to be more harmonised across EU-28 countries. The fund managers called for supporting pan-European funds, more cross-border investments, and a harmonisation of legal frameworks and tax systems. It also appears that the full picture of the public VC supply is

unknown to many funds. The respondents think that better coordination is needed among the governmental programs targeting the same instrument/product/sector/country and mapping investors would also be helpful.

In general, the respondents expressed their appreciation regarding the governmental support programs. Compared to national or regional programs, the European programs appear to be more appreciated.

Venture capital is an essential source for start-up and young companies to achieve growth and create value through innovation. The relevance of venture capital financing, not only for young and innovative companies but also for the economy as a whole is very high. In order to improve the availability of information about this important market segment in Europe, it is envisaged to repeat this survey regularly. Moreover, based on this survey, a venture capital market sentiment index (barometer) is in development and will provide the possibility to track the VC market sentiment over time. Furthermore, additional, precise policy recommendations are expected to emerge from future waves. As such, this project contributes to establishing a sustainable venture capital ecosystem in Europe – a key objective of the EIF.

## ANNEX

### List of acronyms

- Benelux (countries): (countries of) Belgium, Netherlands and Luxembourg
- CEO: Chief Executive Officer
- CESEE (countries): (countries in) Central, Eastern and South-Eastern Europe
- DACH (countries): (countries of) Germany, Austria and Switzerland
- EIB: European Investment Bank
- EIF: European Investment Fund
- EU-28: the 28 EU Member States
- EUR: Euro
- GP: General Partner
- ICT: Information and Communications Technologies
- IPO: Initial Public Offering
- LP: Limited Partner
- m: million
- PE: Private Equity
- R&D: Research & Development
- RMA: Research and Market Analysis
- SME: Small and Medium-sized Enterprise
- UK: United Kingdom
- VC: Venture Capital

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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 and Turkey. For further information, please visit [www.eif.org](http://www.eif.org).

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