

# *Private Equity and markets in the COVID-19 context*

*Online debate  
Florence School of Banking and Finance  
25 March 2021*

*Helmut Kraemer-Eis, EIF, Chief Economist*

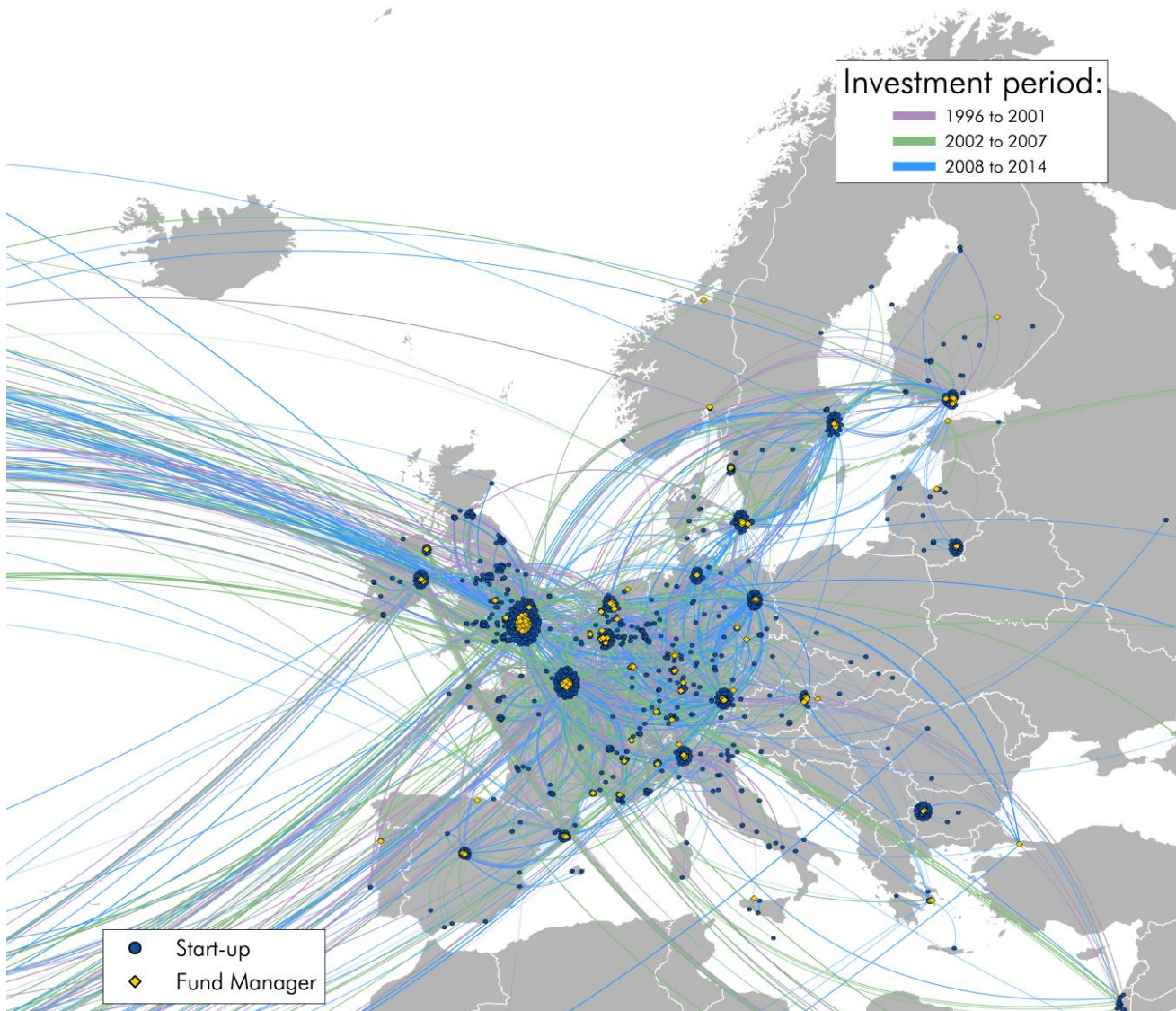
# The market pre COVID-19





# Geolocation

## EIF-backed VC investments



Geolocation of EIF-backed seed and start-up companies and the VC firms' headquarters.

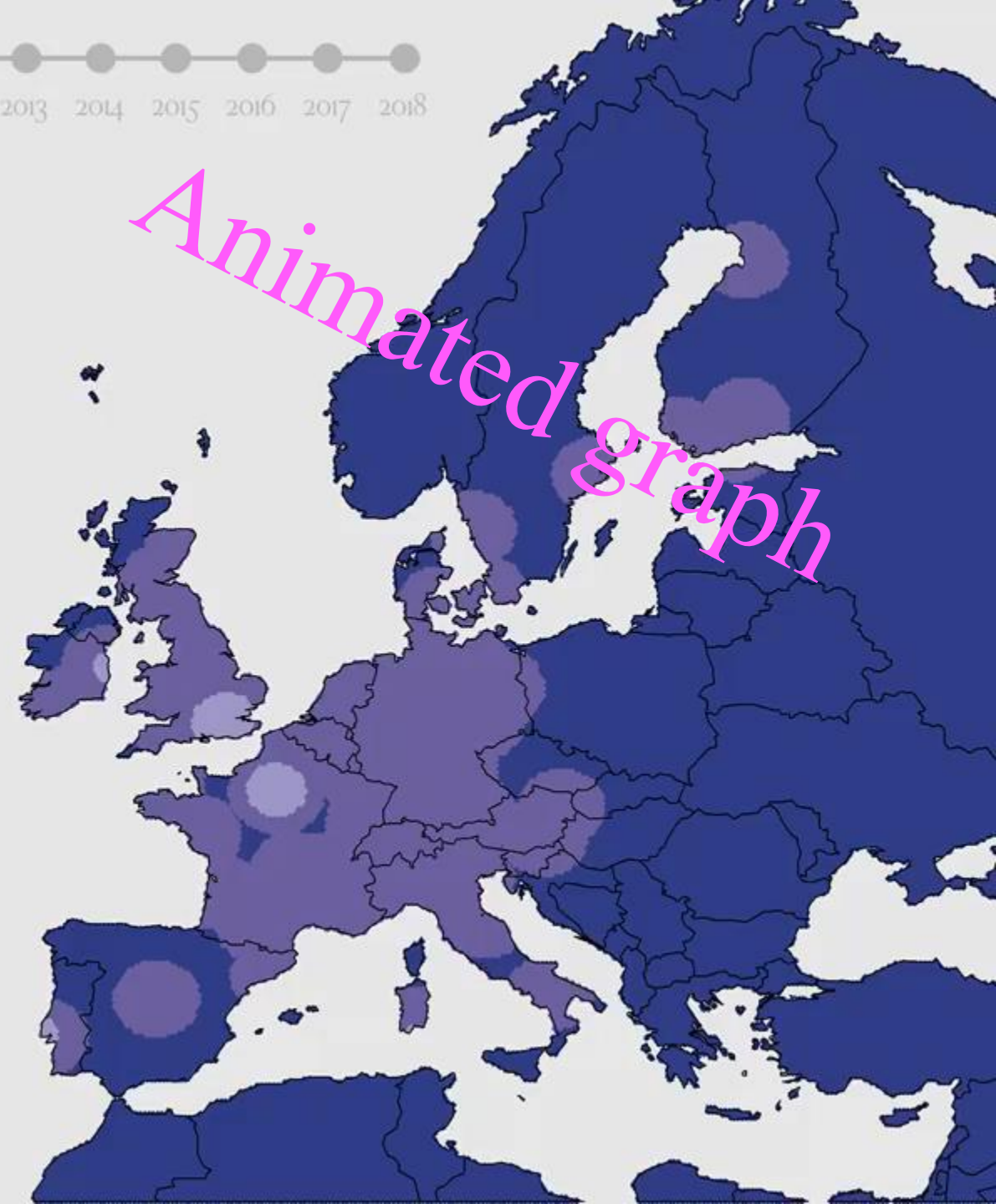
EIF supported a dense network of VC firms and start-ups, spanning throughout Europe and evolving over time.

Remarkable features of this network relate to both concentration and dispersion.



# *The heatmap* EIF VVC investments since 1996

*#SmartMoney*



*Animated graph*



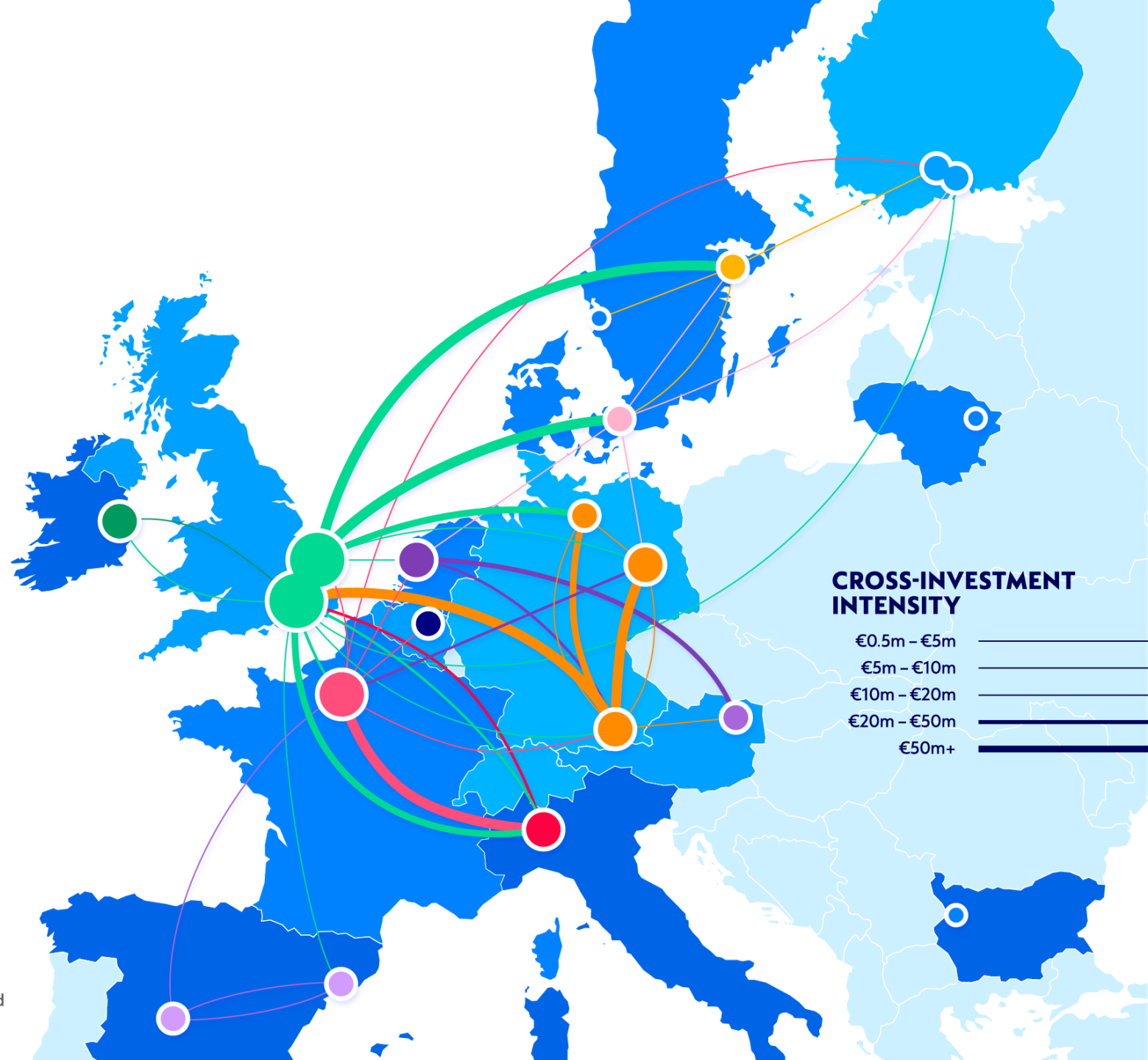
# European VC hubs

## The backbone of the ecosystem

VC hubs *communicate*: consistent cross-investment routes among mature hubs.

Hubs originated 83% of all invested amounts; 63% invested within national borders, 37% cross-border.

Through promotion of cross-border oriented VC firms, EIF supports the build-up of an European VC market.

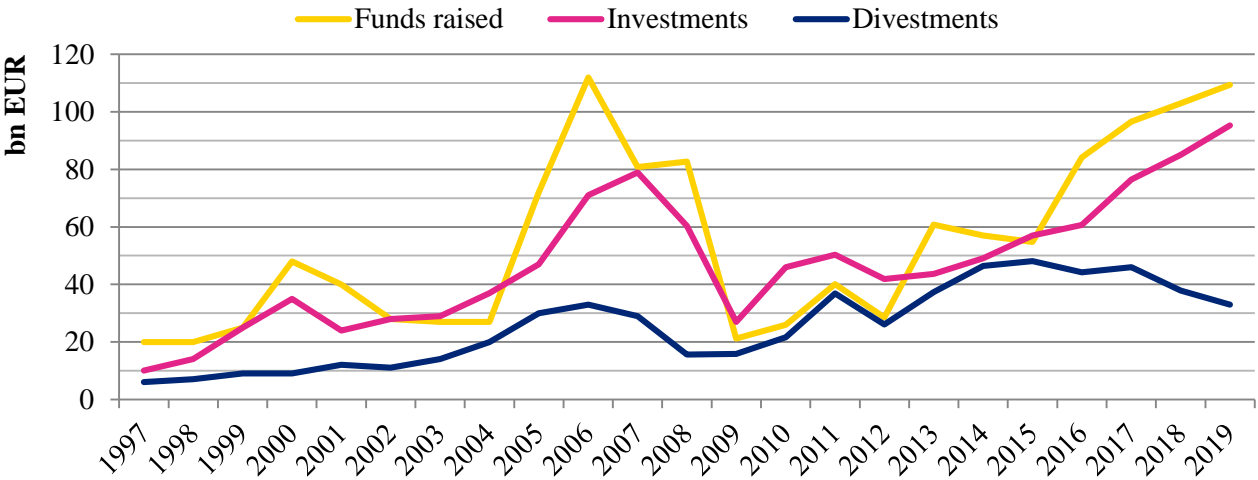


Cross-investment source: EIF Research, The European venture capital landscape: an EIF perspective — Volume I: The impact of EIF on the VC ecosystem, EIF Working Paper 2016/34.

Note: 'Spurious' links, (i.e. single investments over the analysed period) excluded from the representation.

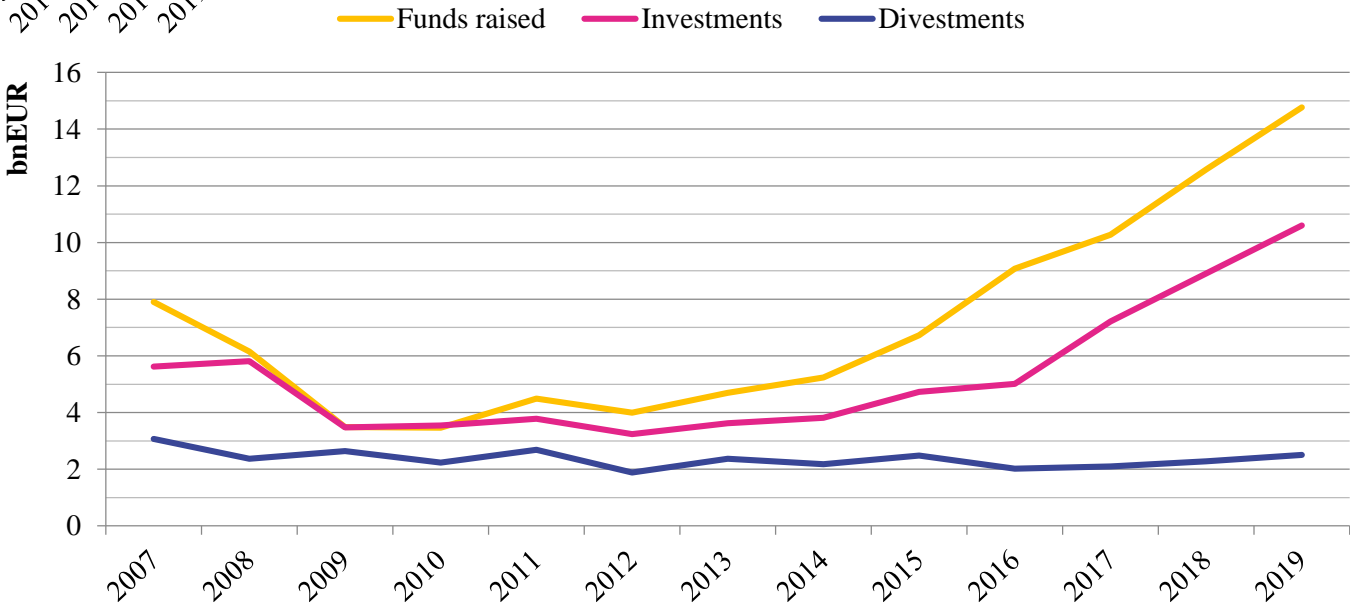
# Activity levels

Activity levels in the European PE market over time

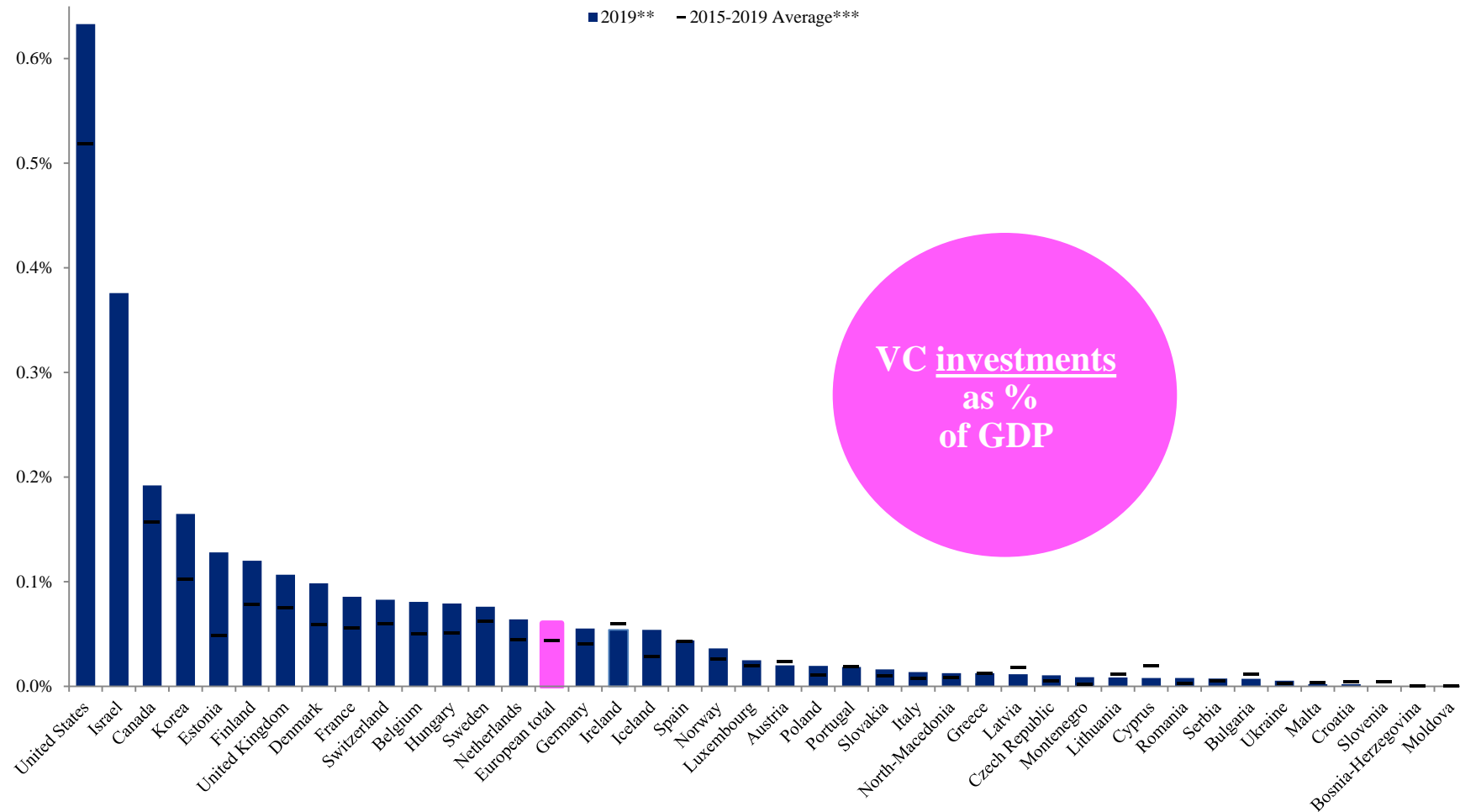


Source: EIF Working Paper 2020/67 (September-2020),  
based on data from Invest Europe

Activity levels in the European VC market over time



# An overview by geography\*



**Positive developments,  
but Europe still lagging  
behind key peers**

**European VC market  
is heterogeneous across  
countries**

**Untapped potential  
for VC in Europe**

Source: EIF Research & Market Analysis, based on data from Invest Europe and OECD

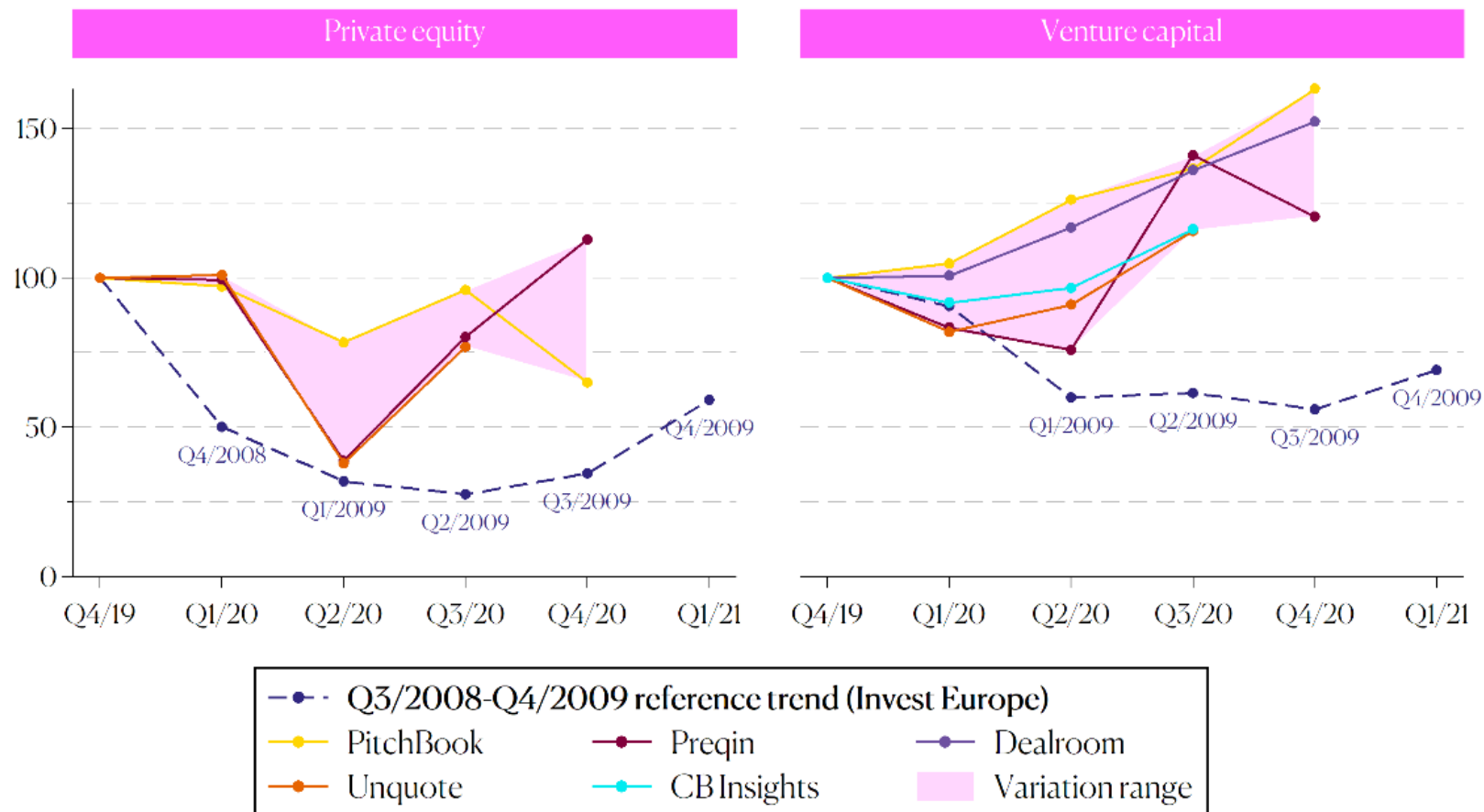
\*by country of portfolio company, if available

\*\*2019 or latest available year

\*\*\*2015-2019 average, if available

# Indexed PE / VC investments

Q4/2019 = 100



Source: EIF Working Paper 2020/67 (updated)



# COVID-19 impact on fund managers and business angels

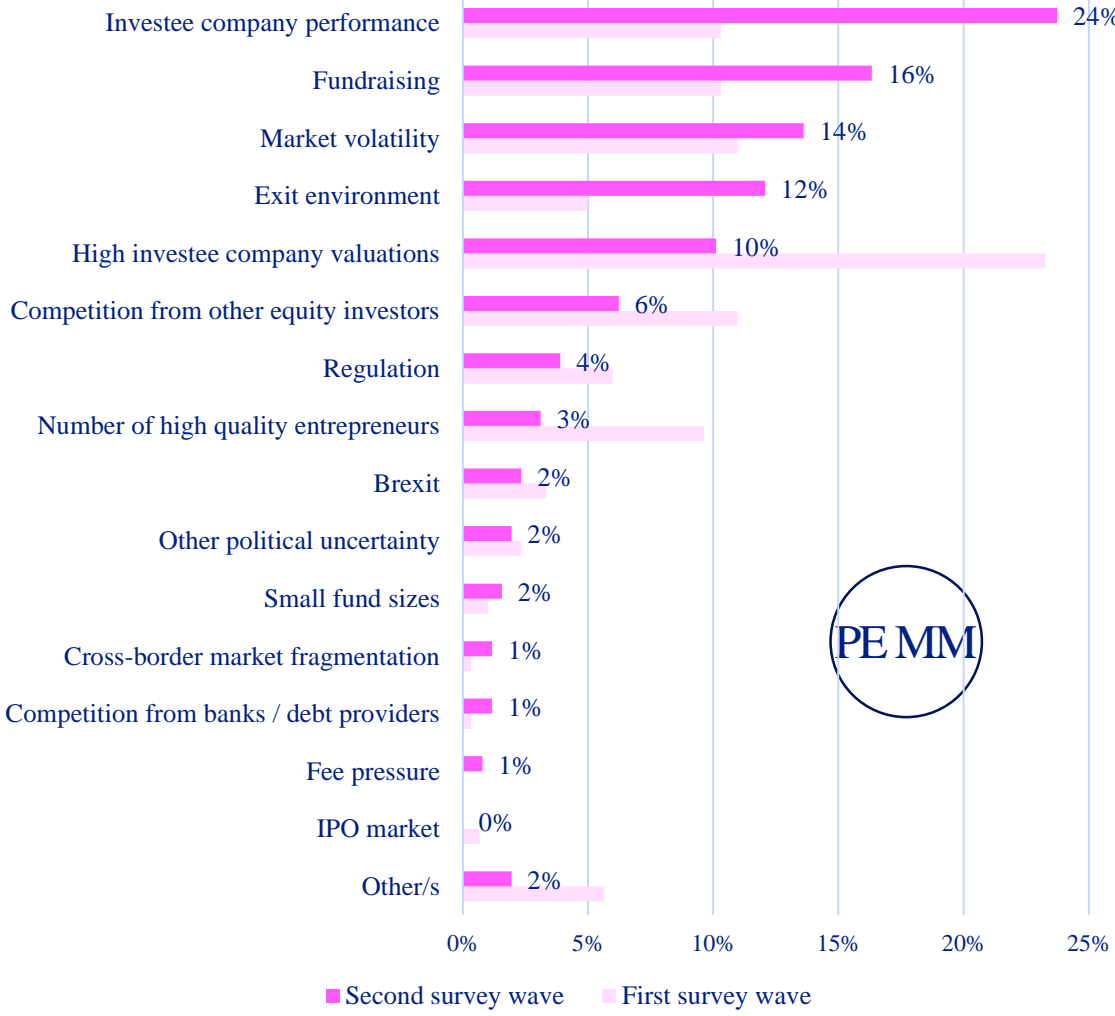
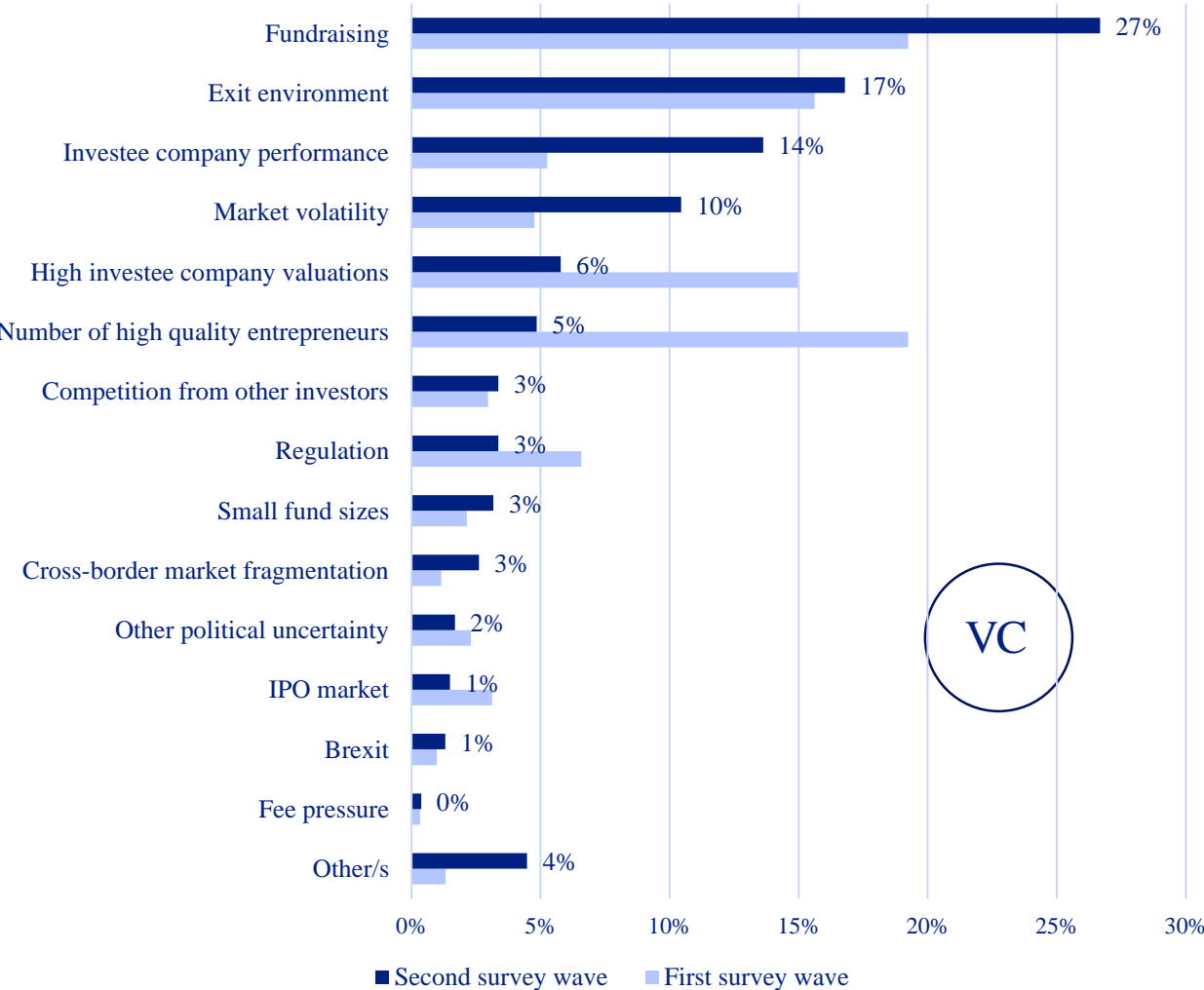
*Selected results from the EIF Venture Capital, Private Equity Mid-Market  
& Business Angels Surveys 2020.*

# General survey information

- Online surveys of PE Mid-Market (MM) and VC fund managers as well as of Business Angels (BAs) investing in Europe.
- The *second wave of 2020 surveys (2020-autumn wave)* includes (anonymised) responses from **257 PE MM fund managers** (from 239 PE firms), **536 VC fund managers** (from 495 VC firms) and **324 BAs**. Responses were received: PE - between 08 October and 03 November, VC - between 07 October and 03 November, and BA - between 30 September and 05 November.
- The EIF equity surveys *target* both EIF-supported as well as non-EIF supported PE/VC managers and BAs.
- To the best of our knowledge, the combined EIF PE MM Survey and the EIF VC Survey currently represent the *largest regular survey exercise* among GPs in Europe. The EIF BA Survey is unique in its pan-European coverage and multi-country approach.
- The *topics* covered in the second wave of 2020 surveys are market sentiment as well as the impact of COVID-19 and the related policy measures. Since the market sentiment topic was also covered in the first wave of 2020 surveys, we compare the results.
- The vast majority of the *respondents* in the PE MM and VC surveys hold the position of CEO or Managing/General Partner, suggesting that their responses reflect the views of the decision-makers in the respective PE/VC firms.
- The survey benefitted from *cooperations* with two partner organisations: A part of the survey questions is based on exchanges with the Joint Research Center (JRC) of the European Commission. A part of the sample for the EIF BA Survey 2020-autumn comprises Business Angels Europe (BAE) members.
- Some of the following analyses also use results from the *first 2020 survey wave*: In that wave, 301 responses from PE MM fund managers (from 249 PE firms), 608 responses from VC fund managers (from 493 VC firms) and 139 responses from BAs were received. Responses were received: PE - between 13 February and 26 March, VC - between 29 January and 10 March, and BA - between 05 February and 16 March. In order to analyse the immediate effects of the COVID-19 crisis, the results of that survey wave are split into two response sets: (i) responses received in February, and (ii) responses received in March. See EIF Working Paper 2020/064 for details.

# Biggest challenges in VC/PE M&A business

Items selected as first most important challenge in VC / PE M&A business in the current COVID-19 crisis

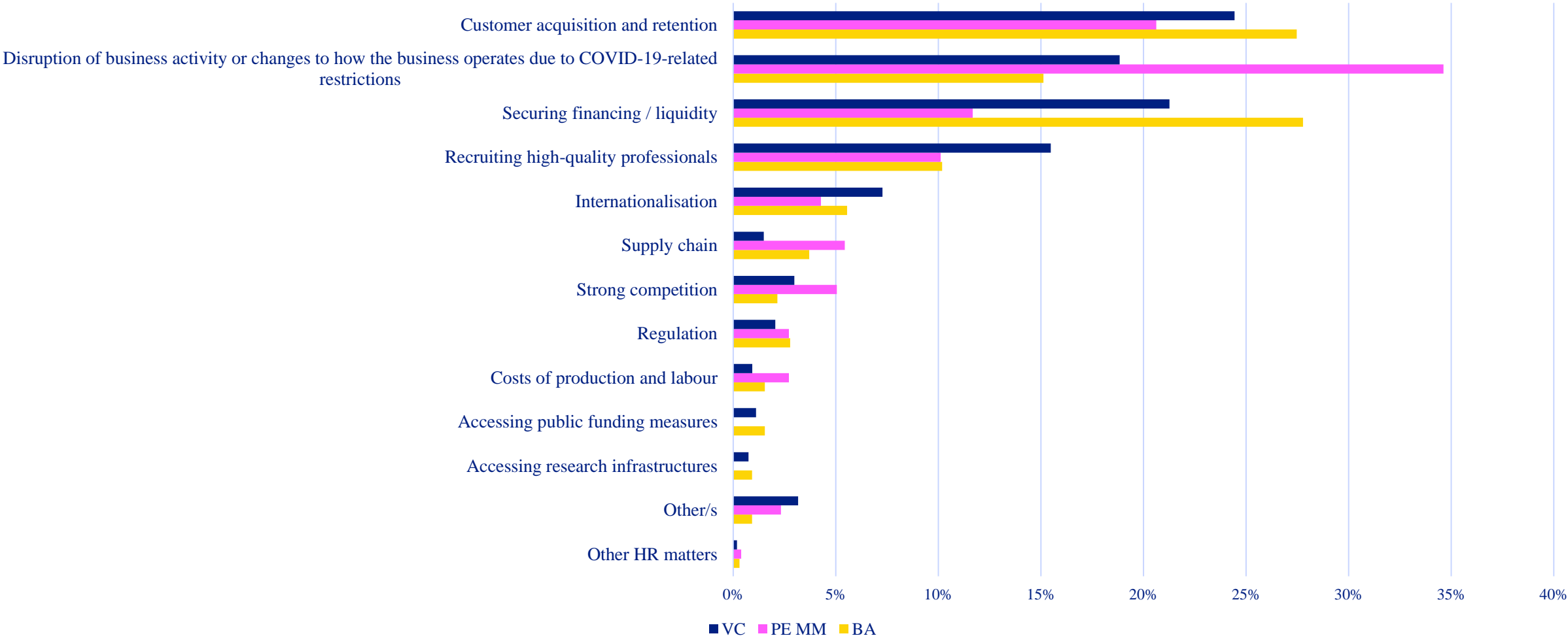


Source: EIF Surveys of VC & PE M&A 2020; published by EIF's Research & Market Analysis in the EIF Working Paper series, available at [https://www.eif.org/news\\_centre/research/index.htm](https://www.eif.org/news_centre/research/index.htm)



# Biggest challenges for portfolio companies

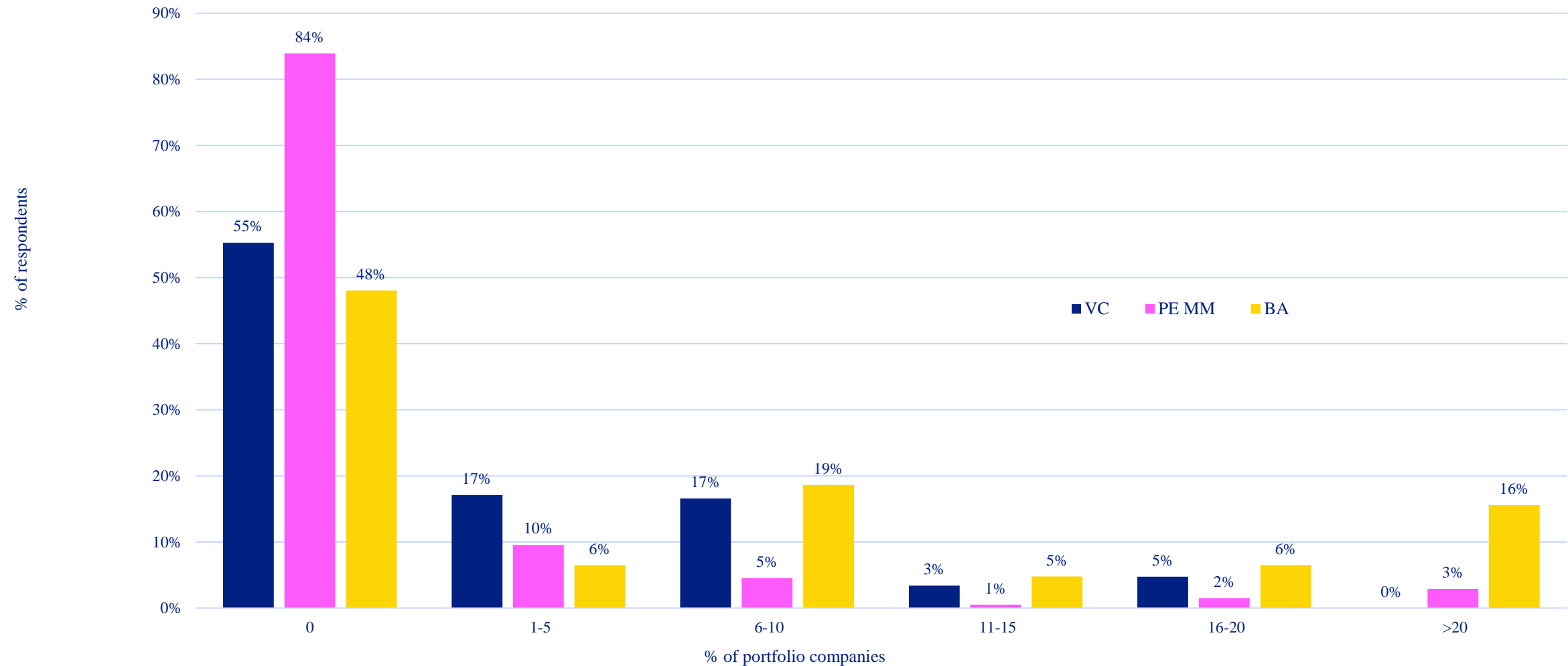
First most important challenges currently facing portfolio companies, by percentage of respondents



Source: EIF Surveys of VC, PE MM & BA 2020; published by EIF's Research & Market Analysis in the EIF Working Paper series, available at [https://www.eif.org/news\\_centre/research/index.htm](https://www.eif.org/news_centre/research/index.htm)

# Insolvencies due to impact of COVID-19

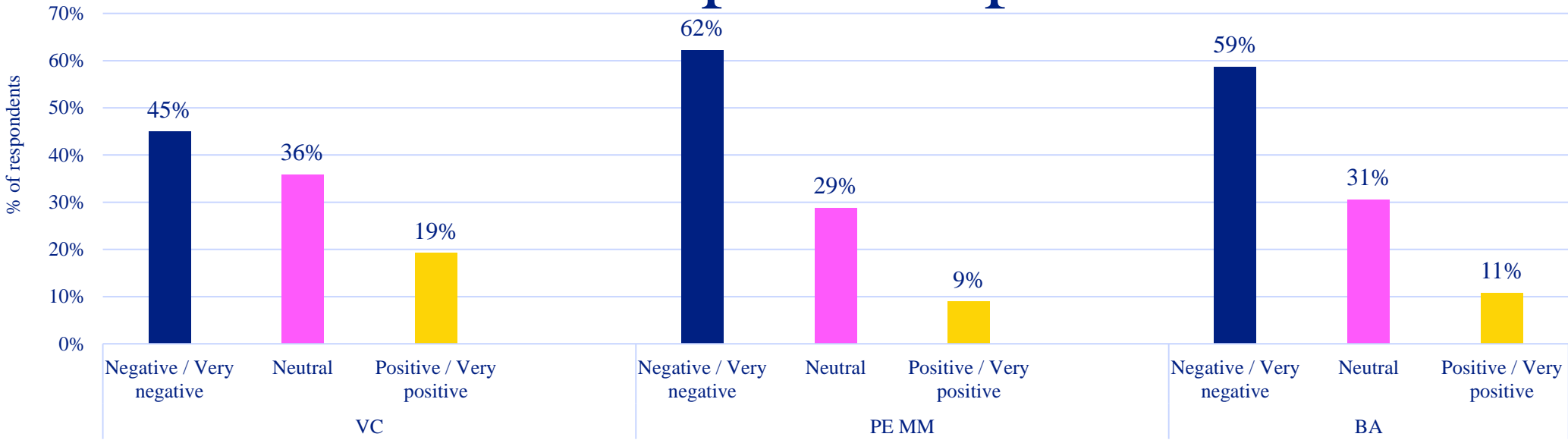
Percentage of portfolio companies which might file for insolvency due to COVID-19, by percentage of respondents



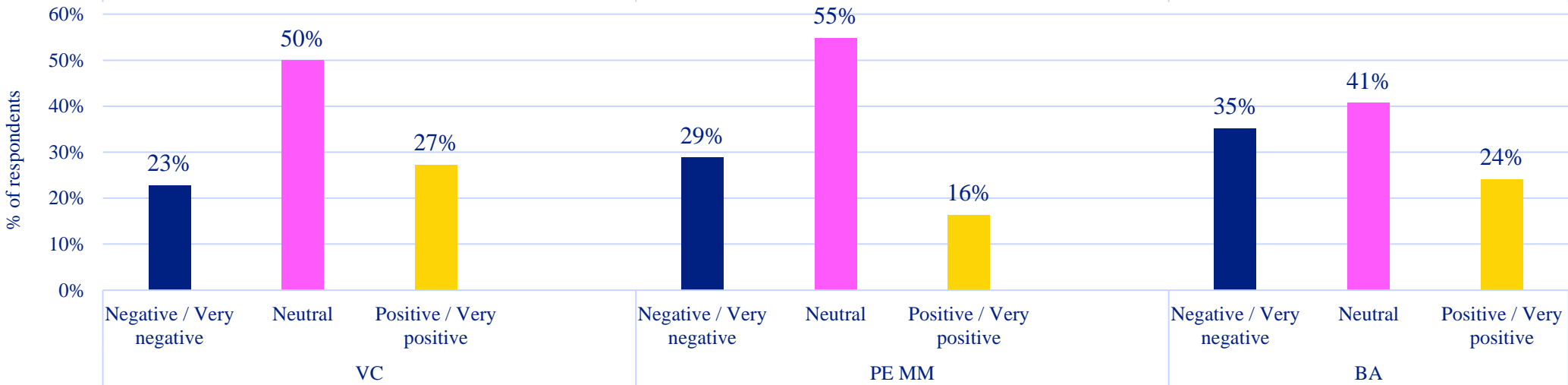
Source: EIF Surveys of VC, PE MM & BA 2020; published by EIF's Research & Market Analysis in the EIF Working Paper series, available at [https://www.eif.org/news\\_centre/research/index.htm](https://www.eif.org/news_centre/research/index.htm)

# Impact of COVID-19 on fund / portfolio performance

Impact of  
COVID-19 on  
current  
performance of  
fund(s) / portfolio



Impact of  
COVID-19 on  
final  
performance of  
fund(s) / portfolio

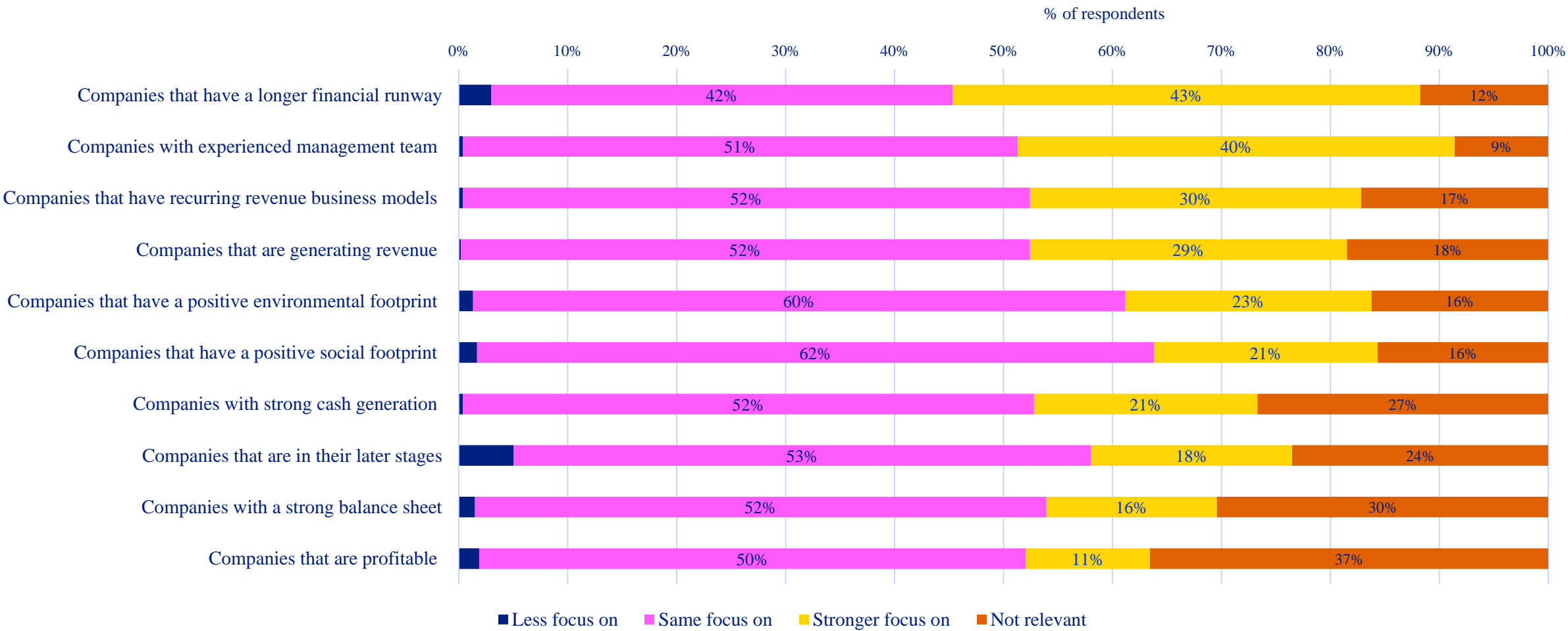


EIF VC, PE MM & BA Survey question: “How do you assess the impact of COVID-19 on the ... current ... expected final performance of your fund(s) / portfolio?”

Source: EIF Surveys of VC, PE MM & BA 2020; published by EIF’s Research & Market Analysis in the EIF Working Paper series, available at [https://www.eif.org/news\\_centre/research/index.htm](https://www.eif.org/news_centre/research/index.htm)



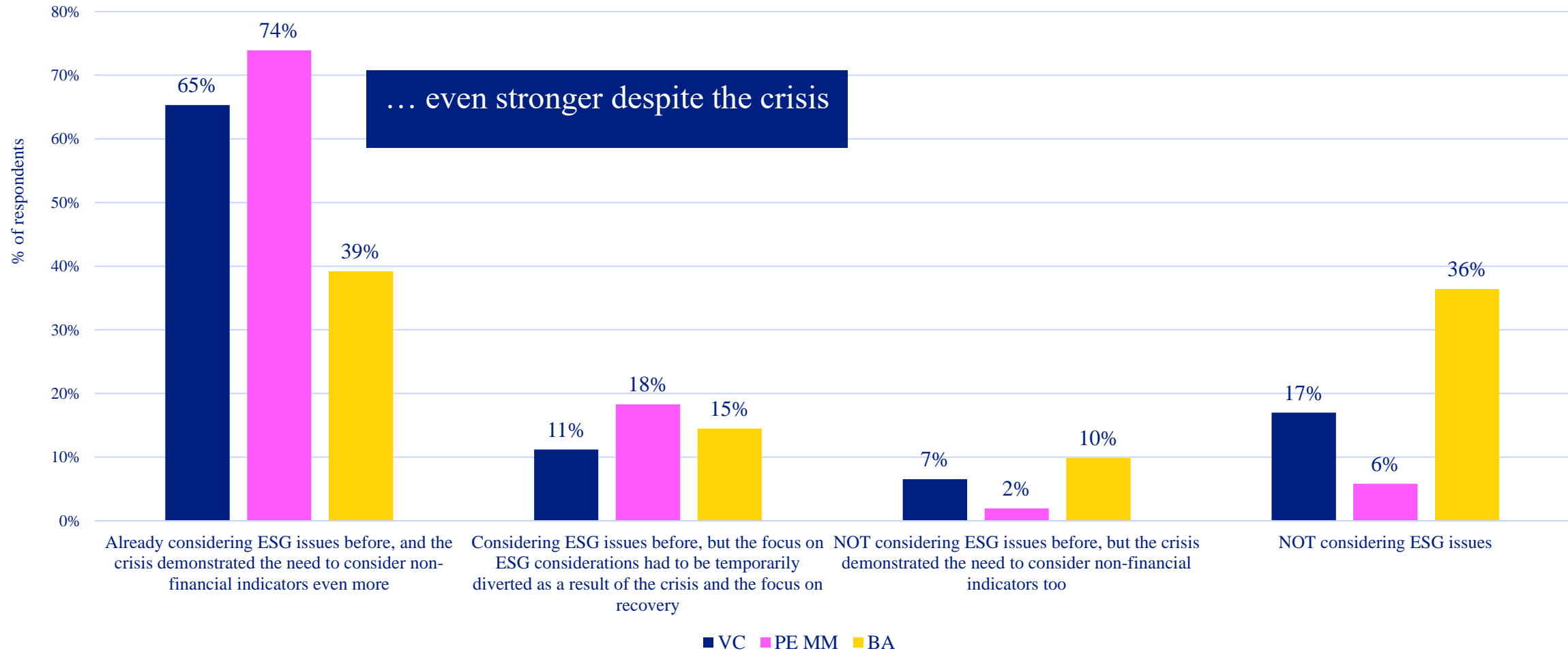
# Investment criteria



EIF VC Survey question: “Have you altered your investment criteria since the onset of COVID-19?”

Source: EIF Survey of VC 2020; published by EIF’s Research & Market Analysis in the EIF Working Paper series, available at [https://www.eif.org/news\\_centre/research/index.htm](https://www.eif.org/news_centre/research/index.htm)

# ESG considerations...



EIF VC, PE MM & BA Survey question: "How has the COVID-19 crisis affected ESG considerations in your investment decisions?"

# Survey - Key findings and policy implications

- **Due to COVID-19, market sentiment slumped** in the course of 2020. Despite **more optimistic expectations** and confidence in the long-term growth prospects of the VC and PE markets, **several concerns remain**.
- **COVID-19 impact differs by respondent type**. While BA respondents showed a particularly pessimistic view, fewer VC respondents reported a negative impact – and a comparatively high percentage even stated a positive effect. Among the **positive factors**, digitalisation is by far the most important one for VC respondents. For PE MM and BA respondents both healthcare and digitalisation play a similarly important role. **Investee company performance** is ranked as the first **most important challenge** by a high share of respondents overall, but especially by PE MM fund managers. **Fundraising** has become the most important challenge for VCs, while it ranks second for PE MM respondents. The **exit environment** is also increasingly perceived as a challenge.
- **The current situation in the PE/VC markets still requires policy attention**. However, the **implementation speed** of public support programs could be improved. Moreover, a **differentiated approach** is needed for the different target groups.
- **A crisis is also an opportunity that needs appropriate policy instruments**. Our survey supports the notion that there exists an unprecedented opportunity to benefit from some of the strong tailwinds created by the crisis, for example in digital transformation across sectors.
- **These opportunities might not always be supported by the sufficient availability of financing sources**. Our survey results suggest that this is particularly relevant in the very initial stages (e.g., as BAs show a comparatively negative perception of the market situation and policy measures and VCs might look more frequently for revenue-generating start-ups) and in the growth stage segment and financing of “scale-ups”. This creates a need for policy measures that appropriately ensure that companies which are implementing new opportunities will have sufficient access to finance.
- **Unique market insight:** The next wave of the EIF VC Survey, the EIF Private Equity Mid-Market Survey, and the EIF Business Angels Survey is already in preparation for mid-2021.



*Thank you  
For your attention*



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**Dr. Helmut Kraemer-Eis**

Head of Research & Market  
Analysis, Chief Economist

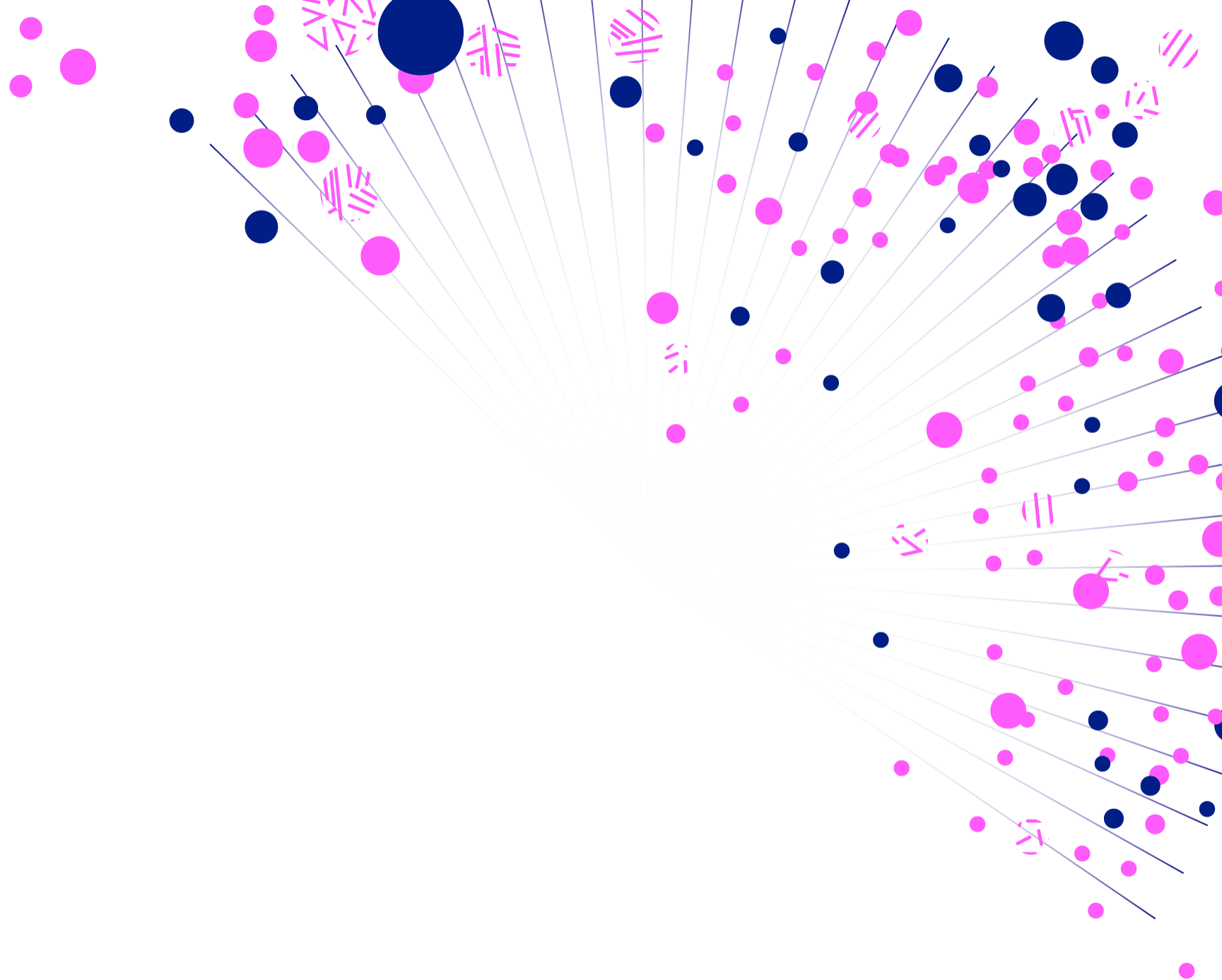
Find out more at:

[https://www.eif.org/news\\_centre/research/index.htm](https://www.eif.org/news_centre/research/index.htm)

European  
Investment Fund  
37B avenue J.F. Kennedy

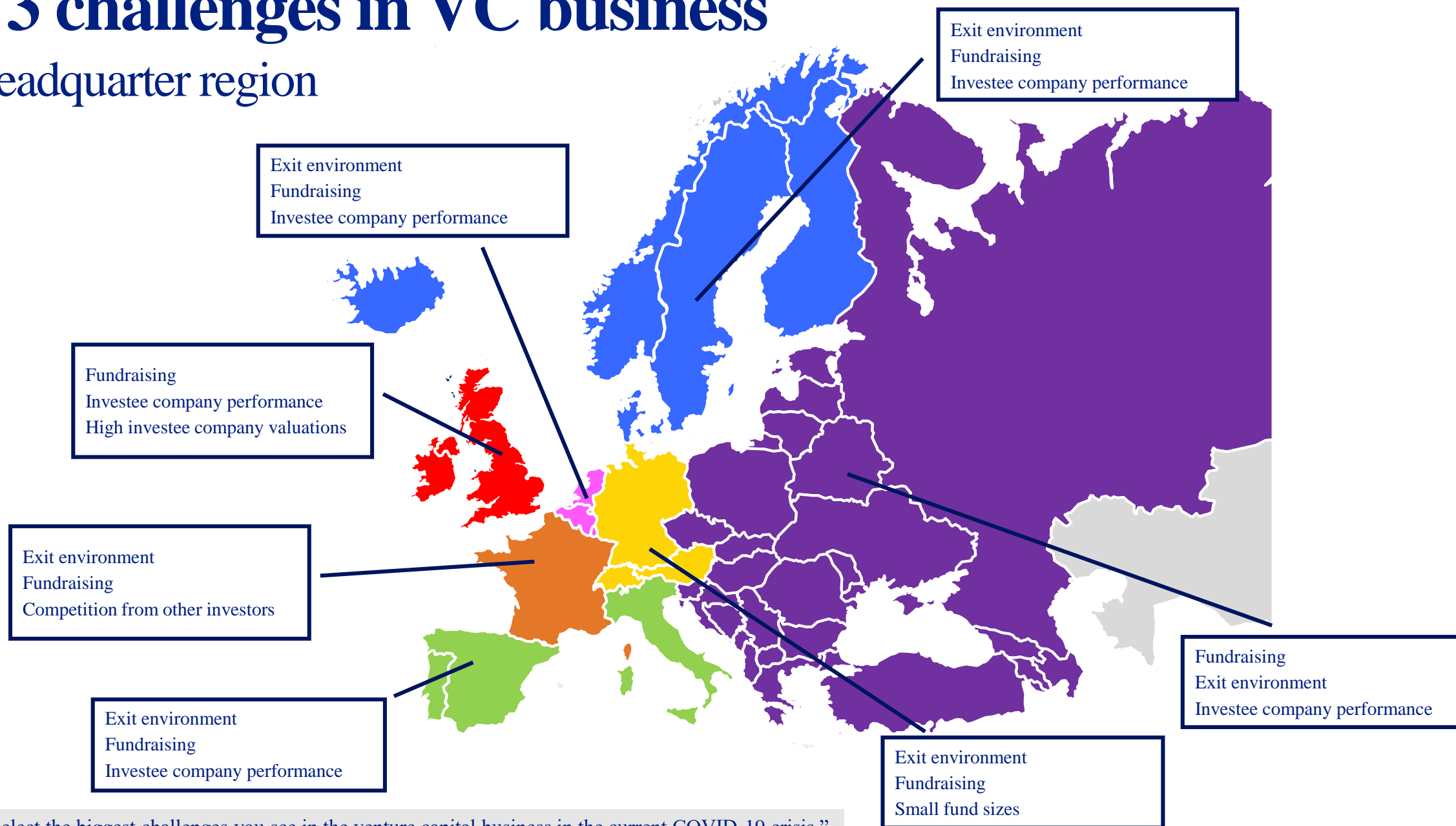
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Phone: +352 24851

# ANNEX



# Top 3 challenges in VC business

- by headquarter region



Q. "Please select the biggest challenges you see in the venture capital business in the current COVID-19 crisis."

# Survey publications and highlights (1/2)



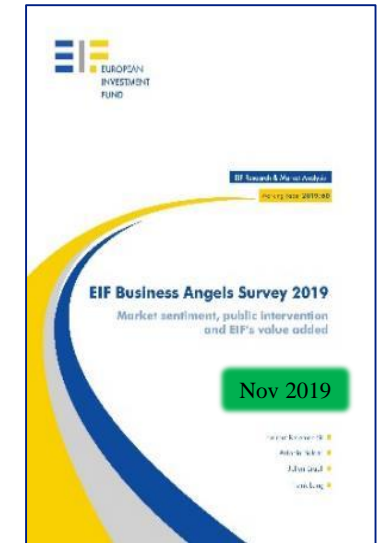
**Public  
intervention in  
VC**  
*Fund managers  
more satisfied  
with European  
programs than  
with national or  
regional ones*



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



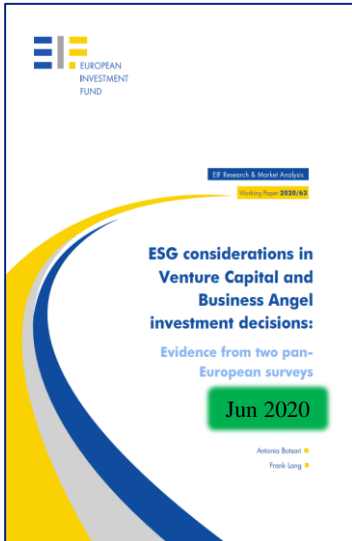
**Policy  
suggestions**  
*Tax  
harmonisation,  
regulatory  
simplification  
and overcoming  
cross-border  
market  
fragmentation*



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



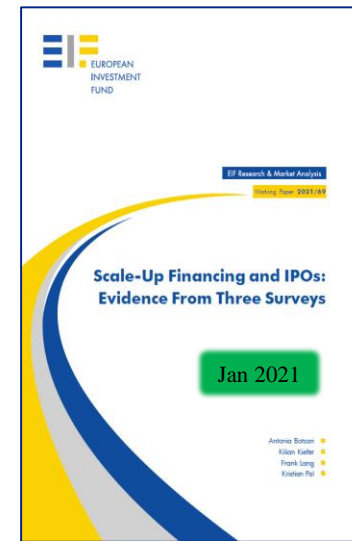
# Survey publications and highlights (2/2)



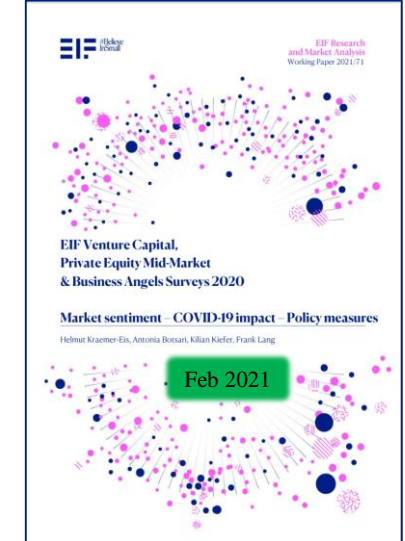
**ESG**  
*First ever  
testimony on the  
integration of  
ESG  
considerations  
and  
impact investing  
in VC & BA*



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



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



**COVID-19 impact**  
*Focus on VC/PE  
fund managers' and  
BAs' market  
sentiment and the  
impact of COVID-  
19 on investors,  
their portfolio,  
fund-raising and  
investments*

\*Latest market sentiment is published in the EIF Working Paper series; see also "Measuring Venture Capital Sentiment in Europe", [https://doi.org/10.1007/978-3-030-17612-9\\_6](https://doi.org/10.1007/978-3-030-17612-9_6), for methodological notes.

# Impact Assessment - EIF VC activities (1/2)



## *The European VC ecosystem*

*“EIF had a positive significant crowding-in impact on European VC in the aftermath of the recent economic crisis”*



## *Financial growth and cluster analysis*

*“20% of EIF-backed companies grew more than fourfold the first 5 years after investment”*



## *Exits, IPOs and unicorns backed by EIF*

*“EIF supported 50% of currently existing European unicorns”*



## *EIF-supported innovation*

*“In 1996-2012 EIF supported returns from patented innovations for a total estimated volume of EUR 22.3bn – 28.3bn”*

# Impact Assessment - EIF VC activities (2/2)



## *The economic impact of VC supported by the EIF*

*“Higher capitalisation levels, higher revenues and higher job creation of start-ups supported by the EIF compared to non-VC-backed firms.”*



## *The VC Factor*




*“Almost half of high-growth start-ups would have experienced significantly lower growth or defaulted without VC”*



## *Exit and innovation outcomes*

*“EIF VC-invested start-ups were three times more likely to participate in an M&A deal and/or experience an IPO”*

# VC investment helps start-ups grow more

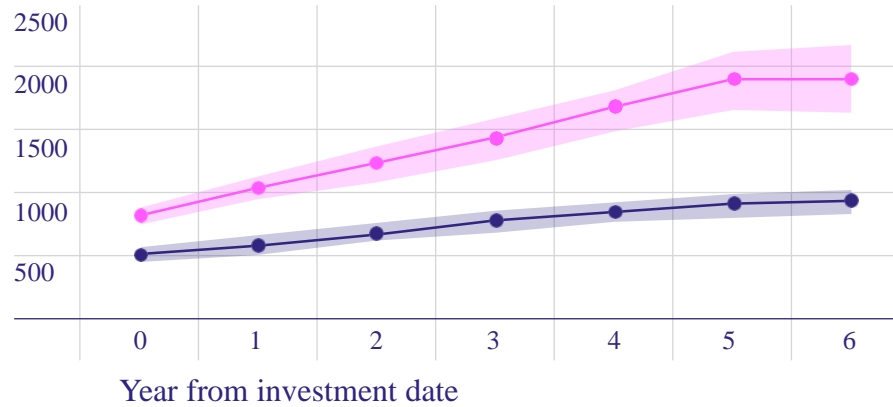
 Non-VC-backed  
 VC-backed  
 95% confidence interval



100% = non-VC-backed firms average performance at investment year.  
 Average performance of firms in a given group for a given financial indicator, expressed in terms of the performance of control firms at year 0 (investment year).  
 Source: EIF & Invest Europe. The VC Factor.

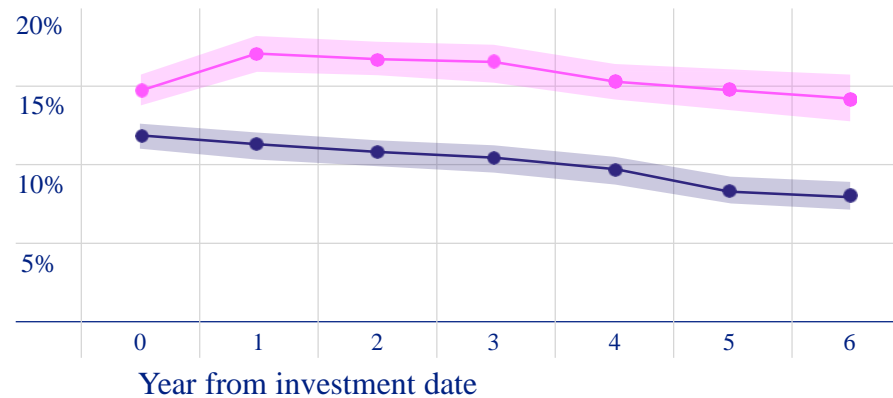
## Growth of assets

Median, EUR thousands



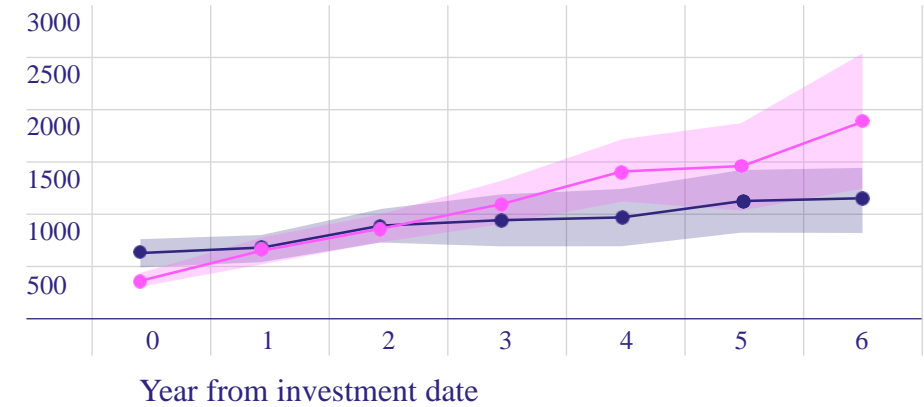
## Growth of intangibles (share of total assets)

Average percentage



## Growth of revenue

Median, EUR thousands



## Growth of staff

Average

