EIF Venture Capital, 
Private Equity Mid-Market 
& Business Angels Surveys 2020

Market sentiment – COVID-19 impact – Policy measures

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Preface

Dear Reader,

With three regular equity surveys, the EIF VC Survey, the EIF Private Equity Mid-Market Survey, and the EIF Business Angels Survey, our Research & Market Analysis team provides unique market insight, typically on an annual basis.

As everyone knows, 2020 was an unprecedented and remarkable year – also a year with high uncertainty and increased information needs. Therefore, exceptionally, the team ran the surveys a second time during the year, to shed more light on the impact of COVID-19 on the respective markets.

In this publication, instead of looking at these markets and survey waves one by one, the main results are summarised and compared – it provides a unique picture of the developments during 2020, the market sentiment, and also delivers insights into special selected topics.

There is no doubt: the pandemic has unprecedented negative consequences. However, let me finish this short preface with some positive observations: The confidence in the long-term growth prospects of the VC/PE industry has remained very positive and the acceleration of digitisation resulting from the crisis is seen as a substantial opportunity by all respondent groups. Moreover, COVID does not seem to have diverted GPs’ attention away from ESG considerations – on the contrary: all respondent groups will be retaining their focus and portfolio allocation to environment and climate. Looking forward, in the long-run, an even greater percentage of respondents indicate their intention to further increase their portfolio allocation in this area.

These selected findings are particularly important in the context of our strong ambition to support the new economy, greener and more digital!

I thank our Chief Economist, his Research & Market Analysis team, and all contributors a lot for this insightful project and analysis. In order to facilitate the reading, we offer a hybrid slide document instead of a traditional Working Paper style. I hope you will enjoy it.

Kind regards,

Alain Godard

EIF, Chief Executive
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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.
General survey information

EIF Surveys 2020

Key EIF survey topics 2020

- Human capital
- Market sentiment
- Impact of COVID-19 and policy responses
- ESG and impact investing
Executive summary

• The EIF VC Survey, the EIF Private Equity Mid-Market Survey, and the EIF Business Angels Survey provide the opportunity to retrieve unique market insight. To the best of our knowledge, the combined EIF PE MM Survey and 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 already large outreach of the EIF surveys, which are coordinated by EIF’s Research & Market Analysis (RMA), and the high relevance of the questionnaire topics for both market participants and policy makers have further increased through new cooperations with Business Angels Europe (BAE) and the Joint Research Center (JRC) of the European Commission.

• In addition to the sections on market sentiment, the impact of COVID-19 and market participants’ perception of policy responses, the latest 2020 EIF Survey wave allowed us to look into recent changes with respect to respondents’ human capital and their considerations related to ESG & impact investing.

• 2020 was an exceptional year. Therefore, EIF’s RMA performed, on an exceptional basis, two survey waves. Moreover, the responses of the first survey wave were split into two sets, based on the time of their submission. Our new and exceptional approach allows us to analyse and compare the situation in the European private equity & venture capital markets at three points in time: (i) Before the COVID-19 crisis, (ii) when the crisis started to spread across Europe in the first quarter of the year, and (iii) during a later phase in autumn.

• Looking ahead, 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.

• As usual, the survey results are published in the EIF Working Paper series which is available here: https://www.eif.org/news_centre/research/index.htm
Executive summary

Although VCs report less frequently than PE MM respondents to be negatively impacted by the COVID-19 crisis and a significantly higher percentage of VCs is even positively impacted (see page 11), this is not reflected in the (general) market sentiment – most likely as there are additional impacting factors. It also needs to be noted that even though the Autumn 2020 survey results for PE MM and VC fund managers are often relatively similar in a range of questions relating to market sentiment, the findings for PE MM respondents in the latest survey wave often reflect a V-shaped rebound in sentiment, following a sharp decline experienced in Spring 2020. In other words, compared to VCs, PE MM fund managers appear to have been much more severely impacted at the beginning of the COVID-19 crisis in Europe, with this initial shock dissipating to a large extent in the months that followed.

• PE MM respondents are the most positive regarding current access to finance of their portfolio companies, followed by VC and BA respondents. However, we observe a substantial decline in sentiment in October 2020 compared to February 2020 regarding how respondents perceive the access to finance to develop over the next 12 months. PE MM respondents are the most pessimistic regarding access to finance over the next 12 months.

• VC and PE MM respondents are optimistic regarding the current state of business and expectations for the next 12 months, including in the October 2020 Survey wave. BA respondents are less positive, especially regarding expectations for the next 12 months.

• Fundraising sentiment for VC and PE MM respondents deteriorated between February and March, and deteriorated further in October 2020. Sentiment regarding fundraising expectations for the next 12 months improved substantially in October compared to March, especially for PE MM respondents, among whom two-thirds expected a deterioration in March.

• While sentiment regarding the number of investment proposals received and new investments made deteriorated substantially in October across Survey groups, expectations for the next 12 months improved substantially, especially among VC and PE MM respondents.

• The COVID-19 crisis had less of an impact on the investment strategy of VC respondents than it did on PE MM and BA. Only 8% of VC respondents made no investments between March and October, while almost a third of PE MM and BA respondents made no investments during the same period. Almost two-thirds of VC respondents invested in both new deals and follow-ons in portfolio companies.
Executive summary

- **Portfolio development** has significantly deteriorated since the beginning of the COVID-19 crisis. Approximately 4 in 10 VC and PE MM fund managers, and 1 in 2 BAs state that their portfolio companies have developed below expectations since March 2020. For VC fund managers and for BAs, expectations regarding future portfolio development have been steadily deteriorating since the onset of the COVID-19 crisis. For PE MM fund managers, the initial COVID-19 shock on expectations has fully dissipated, with the outlook for portfolio development having been restored to the pre-crisis levels.

- **Exit routes** for VC respondents remained largely unchanged between February and October. PE MM respondents show a decline in the percentage of strategic sales and a slight increase in insolvencies, IPOs and MBOs. The percentage of insolvencies for BA respondents is substantial, increasing from 33% in February/March to 41% in October. The percentage of MBOs also increased substantially.

- The **exit environment** deteriorated substantially between March and October, with a majority of respondents reporting a deterioration across survey groups. Looking ahead, expectations for VC and BA are divided, with a roughly equal proportion expecting a deterioration as an improvement, while PE MM respondents are the most optimistic, with only very few respondents expecting a further deterioration.

- Across all three respondent groups, we document a substantial deterioration in the sentiment since the beginning of the COVID-19 crisis regarding **valuations of portfolio companies**, with an increasing percentage of respondents reporting a decrease in valuations; however, expectations for the next 12 months are more optimistic. A similar pattern of results is observed for **entry and exit prices**. Contrary to BAs, VC and PE MM fund managers have experienced an increase in competition among investors for potential investee companies since the beginning of the COVID-19 crisis; with all three respondent groups expecting a (further) increase in competition in the next 12 months.

- Germany, the UK and France are most frequently mentioned among the **most promising countries for VC and PE MM investments** over the next 12 months. Additionally, Italy is mentioned by a significant share of PE MM respondents, but only by very few VC respondents.

- Regarding the **most promising sectors/industries in the near future**, we find that across all three respondent groups the pandemic increased the perceived investment potential in the healthcare sector. This is coupled with a pattern towards the use of technology applications to enable greater digitisation of businesses and processes.

- **Confidence in the long-term growth prospects of the VC/PE industry** has remained very positive and largely unchanged since the beginning of the COVID-19 crisis.

Market sentiment (ii/ii)
Executive summary

COVID-19: Fund manager & portfolio impact

• All respondent groups are, on average, negatively impacted by the COVID-19 crisis.

• We observe some interesting differences however across the three respondent groups. Fewer VC respondents are negatively impacted by the COVID-19 crisis and a significantly higher percentage is positively impacted. Among the positive factors, digitalisation is by far the most important one for VC respondents, while for PE MM and BA respondents both healthcare and digitalisation play a similarly important role.

• The aforementioned pattern (of VCs being less severely impacted compared to PE MM fund managers and BAs) is evidenced in the following areas:
  • Qualitative impact of COVID-19 on their performance both in the short-term and in the long-term.
  • Short-term quantitative impact of COVID-19 in terms of Net Asset Value (NAV).
  • Percentage of portfolio companies negatively/not/positively affected by the COVID-19 crisis.
  • Insolvencies due to the impact of the COVID-19 crisis.

• In general, BAs are the most negative regarding the impact of COVID-19 on their portfolios.

• When it comes to the biggest challenges facing the respondents’ portfolio companies, customer acquisition and retention, disruption of business activity due to COVID-19, securing financing/liquidity and recruiting high-quality professionals are most frequently mentioned across respondent groups.

• Fundraising has become the most important challenge for the VC market in general, while investee company performance ranks first for PE MM. Identifying good investment opportunities is perceived as the most important challenge in BA activity.
Executive summary

COVID-19: Fundraising impact

• The overwhelming majority of VC and PE MM fund managers have not experienced any defaulting investor(s) in their fund(s) in 2020 due to COVID-19. However, almost 2 in 5 VCs report experiencing a potential investor not subscribing to their fund(s) in 2020 due to COVID-19. (This may include potential investors delaying subscription.) A much lower percentage of PE MM fund managers (1 in 4) have experienced the same issue.

• Both for VC and for PE MM fund managers, travel restrictions and the lack of face-to-face interaction led to limited networking opportunities, reduced the possibility to reach out to new LPs and created difficulties with remote pitching and due diligence.

• Both VC and PE MM fund managers stated that, due to uncertainty and market volatility, LPs have become more prudent and risk-averse, delayed investment decisions and focused on existing relationships.

COVID-19: Investment impact (i/ii)

• Since the onset of COVID-19, VC fund managers tend to focus more on companies with a longer financial runway, an experienced management team and recurring revenue business models. PE MM fund managers tend to focus more on companies with recurring revenue business models, strong cash generation, and an experienced management team. BAs tend to focus more on companies with an experienced management team, revenue generating capability, and recurring revenue business models.

• A majority of VC & PE MM fund managers have either not changed their investment strategy/focus or increased their focus on existing portfolio companies as a result of COVID-19. The most frequent change in BAs’ investment strategy as a result of COVID-19 was a decrease in the total amount available for BA investing.
Executive summary

COVID-19: Investment impact (ii/ii)

- **Most respondents have not changed their portfolio construction approach.** BAs were the respondents most prone to changing their portfolio construction approach. If at all, the most frequent change was an **increase in diversification.**

- Across all survey target groups, approximately two-thirds of respondents have **slowed down the pace of their investments** due to COVID-19.

- Increased **telework** for staff is the most frequently stated structural change in how VC and PE MM fund managers conduct their business, due to COVID-19. By contrast, BAs mainly reported **not** having **changed** the way they conduct their BA investment activities.

COVID-19: Investment impact - ESG

- **The crisis has not shifted attention away from ESG considerations.** 8 in 10 VCs, 9 in 10 PE MM fund managers and 7 in 10 BAs have at least maintained their focus on companies that have a positive environmental and/or social footprint.

- **The vast majority of VC and PE MM fund managers were already considering ESG issues, and the crisis reinforced the need to do so.** However, this is **to a lesser extent true for BAs.**

- In the short-term aftermath of the COVID-19 crisis, the majority of VC and PE MM fund managers and BAs will be retaining their focus and portfolio allocation to **environment and climate.** Looking forward in the long-run, an even greater percentage of respondents indicate their intention to further increase their portfolio allocation in this area.

- **The COVID-19 crisis seems to have heightened equity investors’ sensitivity to the S component of ESG.** Indeed, both in the short-term and in the long-run, the percentage of respondents who indicate their intention to increase their portfolio allocation in the area of social innovation is greater than the respective percentages for the environment and climate area.
Executive summary

COVID-19: Policy measures

- VC, PE MM, and BA Survey respondents consider regional and national PE/VC government programs to be relevant, but their implementation speed could be improved. Among the different respondent groups, BAs are the least satisfied with the implementation of regional and national government programs.

- Most respondents rate European-level programs and initiatives aimed at helping struggling startups/companies and promoting investments during the COVID-19 pandemic as “average”. PE MM fund managers are the most satisfied with these programs. The share of positive responses among VCs is only slightly lower. BAs are the least satisfied with European-level programs and initiatives.

- With respect to potential instruments to address post-COVID-19 needs, a facility that would top-up funds is considered most relevant by both VC and PE MM fund managers, followed by a facility to help reach minimum/target fund size and a portfolio protection product. A large share of PE MM managers also consider a turn-around/special situation funds facility as being of relevance.

- A large majority of respondents have applied or considered applying for a government support measure related to COVID-19, at least for some of their portfolio companies. Among all three respondent groups, PE MM managers show the largest share of respondents who applied/considered applying for a support measure. BAs are the group that has been the least prone to apply for support measures.

- The main factor that influenced the decision to apply for government support measures was the possibility to ease the financing burden of the portfolio company. For VCs and BAs, the second most important reason was the lack of access to finance from other sources for their portfolio companies. For PE MM fund managers, this factor was less relevant.

- Among VC and PE MM fund managers, the main factor that influenced their decision not to apply for government support was the absence of business need for any such measure. For BAs, this was the second most important reason to abstain from applying for public support. For BAs, the first most important reason were unsuitable requirements for target investments. For VC and PE MM fund managers, this was the second most relevant factor.
Executive summary

Policy recommendations

• The current situation in the PE/VC markets still requires policy attention.

• The surveys showed that the main concerns are the exit environment and the access to finance of portfolio companies.

• Apart from customer acquisition and retention, COVID-19 related business disruptions and securing financing / liquidity are the biggest challenges for respondents’ portfolio companies.

• Moreover, the implementation speed of public support programs could be improved.

• While VC and BA respondents face operational and financial challenges in roughly equal proportion, PE MM respondents are somewhat more affected by operational issues than by financial ones. Moreover, fundraising is the top challenge for VCs and the second most important one for PE MM managers. In line with these concerns, both VC and PE MM fund managers consider a policy instrument that would top-up (existing) funds most relevant, followed by a facility to help reach minimum/target fund size and a portfolio protection product. PE mid-market fund managers have become increasingly worried about investee company performance. A large share of PE MM managers also consider a turn-around/special situation funds facility as being of relevance. The strong appetite for a fund top-up facility, in particular, could be linked to fund managers’ increased focus on companies with a longer financial runway, due to the impact of COVID-19, which may mean higher financing needs to scale-up companies, but also a longer path to achieve targets.

• BAs showed a particularly pessimistic view in several of the survey questions. Despite the negative impact of COVID-19 on these investors, BAs are the respondent group that is the least satisfied with the implementation of the COVID-19-related policy programs (both on a European and on a national/regional level) and the least prone to apply for support measures, mainly because of unsuitable requirements for target investments. A stronger fine-tuning of policy programs for the needs of this investor group and their portfolio companies could address these issues.

• A crisis is also an opportunity, which needs appropriate policy instruments. The acceleration of digitisation resulting from the crisis is seen as a substantial opportunity across the three respondent groups. This creates a need for policy measures that appropriately ensure that companies which are implementing new opportunities will have sufficient access to finance.
EIF Surveys of VC, PE MM, BA

Respondents’ profile and VC/PE firm characteristics

EIF Research & Market Analysis
Survey waves 2020
Respondents’ profile and VC/PE firm characteristics

**EIF relationship**

**VC**
536 Respondents

- Applied for EIF funding: 391 (73%), 145 (27%) Never applied for EIF funding
- Successful application: 295 (55%), 96 (18%) Unsuccessful application
- Familiar with EIF: 98 (18%), 47 (9%) Unfamiliar with EIF

**PEMM**
257 Respondents

- Applied for EIF funding: 200 (78%), 57 (22%) Never applied for EIF funding
- Successful application: 164 (64%), 36 (14%) Unsuccessful application
- Familiar with EIF: 98 (18%), 47 (9%) Unfamiliar with EIF

**BAs**
324 Respondents

- Applied for EIF funding: 259 (80%), 65 (20%) Never applied for EIF funding
- Benefitting from EAF support: 117 (36%), 65 (20%) Unfamiliar with EIF

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*EAF: European Angels Fund*, an initiative advised by the EIF

Gender-related information

The share of female respondents is low

- VC: 13% Female, 86% Male
- PEMM: 12% Female, 87% Male
- BA: 10% Female, 90% Male

The average share of female partners in responding VC/PE MM firms is not much different

- VC: 15% Female
- PEMM: 9% Female

Experience as a VC/PE/BA investor

- Reflecting the survey target population, both VC and PE MM responding fund managers are experienced investors.

- On average, VC fund managers have 11 years of experience.

- PE MM respondents have, on average, 16 years of experience.

- The average BA in the sample has 10 years of experience in BA investing.

- 4 in 10 surveyed VCs and 3 in 10 PE MM fund managers come from first-time teams.
• Approximately 4 in 10 VCs come from VC firms headquartered in Germany, the UK, the Netherlands and France.
• In the case of PE MM fund managers, it is the UK, France, Italy and Germany that feature prominently.
• Approximately 7 in 10 VCs invest in seed (33%) or early stage (39%) companies, while 8 in 10 surveyed BAs invest in the pre-seed (39%) or seed (42%) stage. For PE MM fund managers, the buyout stage (59%) takes clear precedence.

Respondents’ profile and VC/PE firm characteristics

Year of establishment of respondents’ VC/PE firm

- Approximately 6 in 10 VCs come from VC firms established over the last decade.
- The same applies to 4 in 10 PE MM fund managers.

EIF VC & PE MM Survey question: “In what year was your firm established?”

Respondents’ profile and VC/PE firm characteristics

Assets under management of respondents’ VC/PE firm

EIF VC & PE MM Survey question: “What are your firm’s total approximate assets under management?”

Volume of BA activity

1 in 4 surveyed BAs invest between 100K and 499K.

EIF BA question: “What is the total volume of your BA activity (including commitments from other parties), in Euro?”

To a large extent, the most important countries for VC/PE MM investments reflect the HQ location of the respondents’ VC/PE firm.

The high percentage of BAs indicating Germany as their most important target country for BA investments reflects the fact that 30% of surveyed BAs are members of Business Angels Netzwerk Deutschland (BAND).

EIF VC, PE MM & BA Survey question: “Please select the most important countries in which you (your firm) invest(s).” Note: the graphs show the first most important country.

**Respondents’ profile and VC/PE firm characteristics**

### Most important target industries

VC GPs target companies mainly in the **ICT** (39%) or in the **Biotech & Healthcare** (23%) sector. By contrast, PE MM fund managers mainly invest in **Services** (24%) or have no clear sector focus (20%), while for BAs, **ICT** (27%) and **Services** (16%) constitute the two main sectors for investments.

EIF VC, PE MM & BA Survey question: “Please select the most important industries in which you (your firm) invest(s).” Note: the graph shows the first most important industry.

Investment phase of current funds

- Almost half of the surveyed VC and PE MM fund managers report having no funds currently fundraising.

- Almost two-thirds of the VC and PE MM respondents report having 1 fund currently in the investment period.

**EIF VC & PE MM Survey question:** “In which phase(s) is (are) your current fund(s)?”

Respondents’ profile and VC/PE firm characteristics

Number of funds raised / companies invested

EIF VC & PE MM Survey question: “In total, how many funds has your firm raised to date?”

Approximately half of the surveyed VC and PE MM fund managers have raised **between 1 and 2 funds** to date.

EIF BA Survey question: “In total, in how many companies have you invested as a BA?”

Approximately one-third of the BAs have invested in **between 5 to 10 companies** in total.

EIF Surveys of VC, PE MM, BA

Market sentiment

EIF Research & Market Analysis
Survey waves 2020
Overall, PE MM respondents are the most positive regarding access to external finance of their portfolio companies, in both the February/March 2020 Survey and the October 2020 Survey.

Across all three respondent groups, there is a deterioration in respondents’ perception of access to external finance in the October 2020 Survey wave.

While the percentage of respondents perceiving access to external finance as (very) bad, remains largely unchanged across respondent groups between March and October 2020, there is a decline in the percentage perceiving it as (very) good.

*Net balance refers to the % of respondents rating the access to external finance of their portfolio companies as Good/very good minus the % of respondents rating the access to external finance as Bad/very bad.

A substantial deterioration over time is documented when survey participants are asked about how they expect the access to external finance of their portfolio companies to develop over the next 12 months.

The most significant deterioration across all three respondent groups was noted in the first weeks of March 2020.

Among PE MM and BA respondents, there is a significant improvement in the sentiment in October 2020, although it still remains below the February 2020 level.

For VC respondents, the sentiment declined further from March 2020 to October 2020.
• There are some interesting differences across respondent groups when comparing data for March 2020 to that of February 2020. For VC respondents, the net balance remains unchanged, for PE MM respondents there is a substantial decline, while BA respondents show a slight increase.

• Across all three respondent groups, a decline in the perception of the current state of business is documented between February/March 2020 and October 2020.

• The net balance shows a decline of 18-20 percentage points across all three respondent groups in the October 2020 Survey wave.

*Net balance refers to the % of respondents assessing the current state of their business as Good/very good minus the % of respondents assessing the current state of their business as Bad/very bad.

There is a decline in sentiment across respondent groups between February and March 2020. The decline is particularly substantial for PE MM respondents, followed by BA and then VC respondents.

For respondents in the October Survey, a substantial recovery in sentiment is observed for PE MM and BA respondents, with the sentiment being even better than in February 2020. By contrast, the sentiment for VC respondents continued to deteriorate slightly, albeit from a higher initial state.

*Net balance refers to the % of respondents expecting the state of their business to slightly/strongly improve minus the % of respondents expecting the state of their business to slightly/strongly deteriorate.

EIF VC & PE MM Survey question: “Over the next 12 months, how do you expect the state of your business to develop?”

EIF BA Survey question: “Over the next 12 months, how do you expect the business environment for BA activities in your main target country to develop?”

Among PE MM respondents, a substantial decline in the sentiment is seen from February 2020 to March 2020 and then again in October 2020.

The net balance declines from 50% in February 2020 to -8% in October 2020, meaning that the percentage that views the fundraising environment as (very) bad is higher than the percentage that views it as (very) good.

For VC respondents, the sentiment remains largely unchanged from February to March 2020 (net balance: 41%), but then declines substantially in October 2020, reaching a net balance of -7%.

The sentiment among VC and PE MM respondents in October 2020 is practically identical, suggesting that the impact of the COVID-19 crisis on the fundraising environment has been similar in VC and PE.

*Net balance refers to the % of respondents rating the current fundraising environment as Good/very good minus the % of respondents rating the current fundraising environment as Bad/very bad.

• A deterioration in expectations is observed between February and March 2020, followed by a substantial improvement in October 2020.

• PE MM respondents are more optimistic in October 2020 than they were in February 2020, although the net balance is still quite low, at 16%. The sentiment was particularly poor in March 2020, with a net balance of -60% and two-thirds of the respondents expecting a deterioration over the next 12 months.

• For VC respondents, the net balance decreases from 4% in February to -18% in March, before increasing to -1% in October.

Fundraising environment – next 12 months

![Graph showing fundraising environment from February to October 2020 for VC and PE MM respondents.]

- Net balance refers to the % of respondents expecting the fundraising environment to slightly/strongly improve minus the % of respondents expecting the fundraising environment to slightly/strongly deteriorate.

*Net balance refers to the % of respondents expecting the fundraising environment to slightly/strongly improve minus the % of respondents expecting the fundraising environment to slightly/strongly deteriorate.

Across all three respondent groups, there is a **substantial deterioration in the number of investment proposals received over the past months**.

The net balances decrease as follows between February and October:

- VC from **58%** to **12%**
- PE MM from **48%** to **-8%**
- BA from **47%** to **-2%**

On average, VC respondents still saw an increase in the number of investment proposals received between March 2020 and October 2020 (indicated by the still positive net balance), while PE MM and BA respondents saw a decrease.

EIF VC, PE MM & BA Survey question: **“Over the past months, how has the number of investment proposals to you/your firm developed?”** Note: The February/March wave asked about developments over the past 12 months, while the October/November wave asked about developments since March 2020.

*Net balance refers to the % of respondents stating that the number of investment proposals received has slightly/strongly increased minus the % of respondents stating that the number of investment proposals has slightly/strongly decreased.*

Among VC and BA respondents in the Autumn survey wave, investment proposals are expected to increase on average (the net balance is still positive); however, to a lesser extent compared to the Spring surveys.

By contrast, PE MM respondents in the Autumn survey wave are much more optimistic, with 7 in 10 expecting an increase in the investment proposals to be received in the near future.

The net balances change as follows between February and October:

- VC from 58% to 46%
- PE MM from 38% to 65%
- BA from 46% to 28%

*Net balance refers to the % of respondents expecting the number of investment proposals to slightly/strongly increase minus the % of respondents expecting the number of investment proposals to slightly/strongly decrease.

EIF VC, PE MM & BA Survey question: “Over the next 12 months, how do you expect the number of investment proposals to you/your firm to develop?”

Across all three respondent groups, an increasing percentage of respondents over time report a decrease in the number of new investments undertaken.

- The net balance for VC decreased from 30% to 12%, while the net balance for PE MM decreased from 39% to 11%.
- The net balance for BA becomes significantly negative in October 2020, decreasing from 13% to -20%.
- At the same time, a significant percentage of respondents across all respondent groups and survey waves have retained the number of new investments stable.

*Net balance refers to the % of respondents stating that the number of their new investments has slightly/strongly increased minus the % of respondents stating that the number of their new investments has slightly/strongly decreased.*

EIF VC, PE MM & BA Survey question: “Over the past months, how has the number of your new investments developed?” Note: The February/March wave asked about developments over the past 12 months, while the October/November wave asked about developments since March 2020.
When asked about expectations for new investments in the next 12 months, the sentiment compared to Spring improves slightly among VC respondents, and more substantially among PE MM respondents.

BAs are the most pessimistic, with only one-third expecting an increase in the number of new investments to be undertaken. At the same time though, approximately half foresee to maintain the number of their new investments.

*Net balance refers to the % of respondents expecting the number of their new investments to slightly/strongly increase minus the % of respondents expecting the number of their new investments to slightly/strongly decrease.

**EIF VC, PE MM & BA Survey question: “Over the next 12 months, how do you expect the number of your new investments to develop?”**

A significantly higher percentage of VCs (almost twice the respective percentage for BAs and PE MM fund managers) had to provide additional, not initially foreseen, investment to their portfolio companies due to COVID-19.
Portfolio development has significantly deteriorated since the beginning of the COVID-19 crisis.

Approximately 4 in 10 VC and PE MM fund managers, and 1 in 2 BAs state that their portfolio companies have developed below expectations since March 2020.

EIF VC, PE MM & BA Survey question: “Over the past months, how did your portfolio companies develop?” Note: The February/March wave asked about developments over the past 12 months, while the October/November wave asked about developments since March 2020.

### Portfolio development – next 12 months

- For VC fund managers and for BAs, expectations regarding future portfolio development have been steadily deteriorating since the onset of the COVID-19 crisis.

- For PE MM fund managers, the initial COVID-19 shock on expectations has fully dissipated, with the outlook for portfolio development having been restored at the pre-crisis levels.

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**Market sentiment**

**Portfolio development – next 12 months**

![Bar chart showing the percentage of respondents expecting their portfolio development to slightly/significantly improve, stay the same, or deteriorate over the next 12 months for VC, PE MM, and BA, with data points for February 2020, March 2020, and October 2020.]

*Net balance refers to the % of respondents expecting their portfolio development to slightly/significantly improve minus the % of respondents expecting their portfolio development to slightly/significantly deteriorate.*

**EIF VC, PE MM & BA Survey question:** “Over the next 12 months, how do you expect your portfolio to develop?”

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For VC fund managers, the easiness in finding co-investors increased significantly at the beginning of the crisis in March, but has dramatically deteriorated since.

For PE MM fund managers, finding co-investors became much more difficult at the beginning of the crisis, and has remained so ever since.
Since the beginning of the crisis, BAs have found it increasingly difficult to co-invest with other BAs, but even more so with VCs.

By contrast, the possibility to co-invest with public investors has relatively improved – even though it is still perceived difficult on balance.

EIF BA Survey question: “How easy/difficult is it currently to find co-investors to syndicate? Please specify separately for each type of co-investor.”

While the perception of VC fund managers regarding the easiness in finding co-investors in the future had remained stable at the beginning of the crisis in March, the sentiment for the future has significantly deteriorated since.

By contrast, in the case of PE MM fund managers, a V-shaped change is observed, whereby expectations about co-investment opportunities fell dramatically at the beginning of the crisis, but have now rebounded at pre-crisis levels.

*Net balance refers to the % of respondents who expect finding co-investors to become slightly/much more difficult minus the % of respondents who expect it to become slightly/much easier.

**EIF VC & PE MM Survey question:** “Over the next 12 months, how do you expect finding co-investors to become?”

With the exception of corporates, co-investment prospects have improved since the start of the crisis across all types of co-investors; and the initial shock has almost fully been restored.

Easiness in finding co-investors

*Net balance refers to the % of respondents who expect finding co-investors to become slightly/much more difficult minus the % of respondents who expect it to become slightly/much easier.

EIF BA Survey question: “Over the next 12 months, how do you expect finding co-investors to become? Please specify separately for each type of co-investor.”

Exit routes

- Exit routes have remained **largely unchanged** in the October 2020 survey wave – with **trade sales to strategic buyer** continuing being the **most frequently mentioned exit type**.

- There is, however, a **slight increase in the percentage of insolvencies/liquidations** among PE MM respondents (increased to 7% in October 2020 from 3% in February/March) and **BA respondents** (reached 41%, up from 33% a few months before).

- Interestingly, there is also a **slight increase in the percentage of IPOs** among exit routes across all three respondent groups.

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Across all three respondent groups, there is a significant deterioration in the perception of the exit environment in the October 2020 Survey wave compared to Spring.

The net balances decrease from above 20% to around -40%, reaching as low as -52% in the case of BA respondents.

*Net balance refers to the % of respondents stating that the exit environment for their portfolio companies has slightly/strongly improved minus the % of respondents stating that the exit environment has slightly/strongly deteriorated.

**Note:** The February/March wave asked about developments over the past 12 months, while the October/November wave asked about developments since March 2020.

**EIF VC, PE MM & BA Survey question:** “Over the past months, how has the exit environment for your portfolio companies developed?”

When asked about expectations for the exit environment over the next 12 months, respondents are relatively more optimistic.

March 2020 saw a significant decrease compared to February 2020. In the case of PE MM respondents, the net balance decreased from 7% to -44%. In the October Survey, expectations became more optimistic, with PE MM net balance increasing to 46%.

The sentiment for VC respondents also decreased significantly in March and has remained relatively unchanged since.

*Net balance refers to the % of respondents expecting the exit opportunities of their portfolio companies to slightly/strongly improve minus the % of respondents expecting the exit opportunities to slightly/strongly deteriorate.

EIF VC, PE MM & BA Survey question: “Over the next 12 months, how do you expect the exit opportunities of your portfolio companies to develop?”

Across all three respondent groups, a substantial deterioration in the sentiment regarding current valuations of portfolio companies is observed.

The most significant deterioration is documented in the case of BA respondents, where the net balance decreased from 69% in February to -37% in October.

While very few PE MM and BA respondents had experienced a decrease in valuations in February, in October a majority of these respondents had experienced a decline since March.

**Current valuations of portfolio companies**

*Net balance refers to the % of respondents stating that the current valuations of portfolio companies in their market have slightly/strongly increased minus the % of respondents stating that the current valuations have slightly/strongly decreased.*

EIF VC, PE MM & BA Survey question: “Over the past months, how have the following items developed? (in this graph) Current valuations of portfolio companies” Note: The February/March wave asked about developments over the past 12 months, while the October/November wave asked about developments since March 2020.

The expectations for the next 12 months are more optimistic, with a positive net balance across respondent groups, in the October Survey wave.

VC and PE MM respondents are the most positive, as indicated by net balances of 29% and 47%, respectively, in the October survey.

BA respondents are relatively less optimistic, although a higher percentage expects an increase in valuations than a decrease (net balance: 5%).

*Net balance refers to the % of respondents expecting the valuations of portfolio companies in their market to slightly/strongly increase minus the % of respondents expecting the valuations to slightly/strongly decrease.

EIF VC, PE MM & BA Survey question: “When you consider your market over the next 12 months, how do you expect the following items to develop? (in this graph) Valuations of portfolio companies”

A significant decrease in entry prices is observed in the October Survey wave.

While net balances in the February/March Survey wave were all significantly positive (above 50%), in the October Survey wave, they are all significantly negative.

In the case of BA respondents, the decrease is particularly significant, with the net balance decreasing from 55% in February/March to -47% in October.

*Net balance refers to the % of respondents stating that the entry prices in their market have slightly/strongly increased minus the % of respondents stating that the entry prices have slightly/strongly decreased.

EIF VC, PE MM & BA Survey question: “Over the past months, how have the following items developed? (in this graph) Entry prices” Notes: The February/March wave asked about developments over the past 12 months, while the October/November wave asked about developments since March 2020. PE MM respondents were only provided with the response option “Transaction prices” – we use this as a proxy for entry prices.
When asked about expectations for the next 12 months, results vary considerably across respondent groups.

BA respondents, on average, expect a further decline in entry prices, as shown by a net balance of -15% in October. This is considerably lower than the net balance of 38% reported in February, albeit a slight improvement from March.

PE MM respondents, on the other hand, expect an increase, as indicated by a net balance of 20% in October, which is similar to the 18% reported in February 2020.

EIF VC, PE MM & BA Survey question: “When you consider your market over the next 12 months, how do you expect the following items to develop? (in this graph) Entry prices” Note: PE MM respondents were only provided with the response option “Transaction prices” – we use this as a proxy for entry prices.

Results for exit prices are very similar to those for entry prices. Once again, a substantial deterioration between February/March and October is observed.

Across all respondent groups, net balances go from being significantly positive to significantly negative, with the most negative results documented for BA respondents (net balance: -52%).

EIF VC, PE MM & BA Survey question: “Over the past months, how have the following items developed? (in this graph) Exit prices” Notes: The February/March wave asked about developments over the past 12 months, while the October/November wave asked about developments since March 2020; PE MM respondents were only provided with the response option “Transaction prices” – we use this as a proxy for exit prices.

• **BA respondents**, on average, expect a further decline in exit prices, as shown by a net balance of -9% in October. This is considerably lower than the net balance of 23% reported in February.

• **PE MM respondents**, on the other hand, expect an increase, as indicated by a net balance of 20% in October, which is similar to the 18% reported in February 2020.

EIF VC, PE MM & BA Survey question: “When you consider your market over the next 12 months, how do you expect the following items to develop? (in this graph) Exit prices” Note: PE MM respondents were only provided with the response option “Transaction prices” – we use this as a proxy for exit prices.

• BA respondents have experienced a decline in competition among investors for potential investee companies since March 2020.

• By contrast, VC and PE MM respondents have, on average, experienced an increase, as indicated by net balances of 7% and 10%, respectively.

EIF VC, PE MM & BA Survey question: “When you consider your market since March 2020, how have the following items developed? (in this graph) Competition among investors for potential investee companies” Note: The graph only provides results for the October/November Survey wave as this response option was not provided to all Survey respondents in the February/March Survey wave.

VC respondents expect competition to further increase over the next 12 months, as indicated by a net balance above 30% across Survey waves.

On average, PE MM and BA respondents expected declining competition in March 2020, but in the October Survey, their sentiment has shifted towards increasing competition.

EIF VC, PE MM & BA Survey question: “When you consider your market over the next 12 months, how do you expect the following items to develop? (in this graph) Competition among investors for potential investee companies”
Most promising countries for VC/PE MM investments – next 12 months

EIF VC & PE MM Survey question: “According to your expectation, please rank those European countries that will be most promising for VC/PE MM investments over the next 12 months, in order of importance.” Note: the graph shows the percentage of respondents ranking the respective countries in the top-three places.

### Most promising countries for VC/PE MM investments – reasons

<table>
<thead>
<tr>
<th>Country</th>
<th>VC</th>
<th>PE MM</th>
</tr>
</thead>
</table>
| France  | • Strong government/public support  
         | • Size and growth of ecosystem  
         | • Strong VC market | • Market dynamics  
         | • Government support and political environment  
         | • Strength of economy |
| Germany | • Size and growth of ecosystem  
         | • Size and strength of the economy  
         | • Less impacted by COVID-19 crisis than other countries | • Size and strength of economy  
         | • Good deal flow through mature SME market  
         | • Less impacted by COVID-19 crisis and expected to recover better than other countries |
| UK      | • Mature VC market  
         | • Entrepreneurship and talent  
         | • Potential opportunities through policy response to Brexit | • Potential opportunities through policy response to and market developments resulting from Brexit, including distressed opportunities  
         | • Fund focus on UK market |

In addition to the above, PE MM respondents see major opportunities in Italy, mainly due to a strong SME market and industrial base and due to factors related to the COVID-19 crisis (depressed valuations, strong financing needs, numerous companies for sale, recovery potential post-crisis).

EIF VC & PE MM Survey question: “Why do you consider this/these country/countries promising?” Note: We provide reasons only for those three countries considered most promising in the previous question, and for PE MM responses for Italy.

Across all three groups of respondents, the pandemic increased the perceived investment potential in the healthcare sector.

This is coupled with a pattern towards the use of technology applications to enable greater digitisation of businesses and processes.

VCs, in particular, mention Digital health, Biotech, Healthtech and Medtech.

Note: The graphs were generated using Wordcloud whereby the bigger the font size the more frequently the respective answer was mentioned in the free-text field.

In general, VCs are more confident than PE MM fund managers in the long-term growth prospects of the industry both in their own market and, particularly, at the European level.

Compared to the pre-crisis period (October 2020 vs. February 2020), the confidence of VCs in the long-term growth prospects of the VC industry in their own market has slightly increased (7.9 vs. 7.7), while the opposite is true for the long-term growth prospects of the European VC industry (7.3 vs. 7.5).

In the case of PE MM fund managers, no significant fluctuations are observed.

EIF Surveys of VC, PE MM, BA 2020

Impact of COVID-19: Fund manager / Portfolio impact

EIF Research & Market Analysis
Impact of COVID-19 on fund / portfolio performance

• A majority of respondents view the impact of COVID-19 on the current performance of their fund(s) / portfolio as negative.

• Of the three respondent groups, VC respondents are relatively more positive about the impact of COVID-19 on the current performance of their fund(s); 36% view it as neutral, while 19% even view it as (very) positive.

• When looking at the impact of COVID-19 on the expected final performance of their fund(s) / portfolio, respondents are considerably more positive.

• Across respondent groups, 40-50% view the impact as neutral, while 16-27% even view it as (very) positive.

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?”

Impact on NAV of fund(s) / value of portfolio: Q4 2020 vs. Q4 2019

• Overall, VC respondents are more positive compared to other respondent groups, while BA respondents are the most negative. PE MM responses are relatively widely split, with around half expecting a positive NAV impact and half expecting a negative NAV impact.

• Among VC respondents, the highest percentage expects a positive NAV impact of 10% to 25% (over a quarter of respondents).

• Among BA respondents, 7% expect a decline of 25% to 50%, while 18% expect a decline of 10% to 25%.

Impact of COVID-19 on portfolio companies

- The graph shows the average percentage of portfolio companies which are currently positively / not / negatively impacted by COVID-19.

- Overall, all respondent groups have, on balance, a higher percentage of portfolio companies which are negatively impacted than are positively impacted.

- A considerable percentage of portfolio companies are not impacted at all (33-38% across respondent groups).

- BAs report the highest percentage of portfolio companies being negatively impacted (44%), closely followed by PE MM respondents (41%).

- VC respondents are relatively less severely impacted.

How portfolio companies are positively impacted

- Digitalisation was by far the most frequently mentioned factor among VC and BA respondents and a significant factor for PE MM respondents.

- Respondents mentioned COVID-19 as accelerating the adoption of new technological solutions and business models, which benefitted portfolio companies across a number of industries offering such solutions.

- The most frequently mentioned factors by PE MM respondents were Healthcare (demand for COVID-19 related solutions) and Food (increased demand for food for home cooking).

- E-commerce was also mentioned frequently by all three respondent groups.

• “Customer acquisition and retention”, “disruption due to COVID-19”, “securing financing/liquidity” and “recruiting high-quality professionals” are most frequently mentioned as the first most important challenges across respondent groups.

• Disruption of business activity due to COVID-19 related restrictions is most frequently mentioned by PE MM respondents (35%, compared to 19% and 15% of VC and BA respondents, respectively).

• Securing financing/liquidity is considered most important by 21% and 28% of VC and BA respondents, respectively, compared to only 12% for PE MM.

• Customer acquisition and retention is most frequently mentioned overall, even more frequently than COVID-19 related restrictions, although it is likely indirectly related to the economic impact of these restrictions.

• Among the “other” responses, the vast majority of PE MM respondents mentioned declining demand due to the economic environment.
Insolvencies due to impact of COVID-19

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

- BA respondents are the most negative regarding the percentage of active portfolio companies that might file for insolvency due to COVID-19. 16% of BAs expect that more than 20% of their portfolio companies might file for insolvency due to COVID-19, with some even reporting as much as 50% or 60%.

- Among PE MM, 6% of respondents expect that more than 10% of their portfolio might file for insolvency, while the vast majority does not expect any insolvencies. Only 3% of PE MM respondents expect insolvencies for more than 20% of their portfolio.

- Among VC respondents too, the majority expects no insolvencies (55%), while 34% expect up to 10%.

**Biggest challenges in VC/PE MM business**

- "**Investee company performance**" is ranked as the first most important challenge by a high share of respondents overall, but especially for PE MM (24%). This is a considerable increase compared to our first 2020 survey wave, where only 10% of PE MM respondents ranked it as most important.

- "**Fundraising**" has become the most important challenge for VC respondents (27%, compared to 19% in the first 2020 survey wave). Fundraising ranks second for PE MM respondents. “High investee company valuations” and “number of quality entrepreneurs” have become less immediate concerns in the second survey wave.

- The “**exit environment**” and “**market volatility**” are further important challenges for both respondent groups.

Biggest challenges in BA activity

Items selected as first most important challenge in BA activity in the current COVID-19 crisis

- “Identifying good investment opportunities” ranks first, followed by the “exit environment”, “market volatility” and “availability of own funding”.

- In our first 2020 survey wave, the “number of high-quality entrepreneurs” was ranked as the most important challenge by a significant margin. This factor has become considerably less important in this survey wave.

- The “market volatility” has become increasingly important since the last survey wave, increasing from 3% to 13%.

The graphs show the sectors in which those companies that develop / provide solutions addressing the COVID-19 challenge operate, by percentage of the total.

As expected, the highest percentage of these operate in health-care related sectors. For VC and BA respondents, these include “Digital health”, “Healthcare” and “Biotech and pharmaceuticals”.

E-commerce is also among the most frequently mentioned sectors.

Similarly, for PE MM respondents “Biotech and healthcare” is by far the most frequently mentioned sector (26%), followed by “ICT” (17%) and “Business services” (16%).

We also asked for the approximate share of companies in respondents’ portfolios which develop / provide solutions addressing the COVID-19 challenge (either directly or indirectly). The mean average is highest for PE MM respondents (26%), followed by VC (24%) and then BA (19%).

EIF Surveys of VC, PE MM, BA

Impact of COVID-19: Fundraising impact

EIF Research & Market Analysis
Survey waves 2020
The overwhelming majority of VC and PE MM fund managers have not experienced any defaulting investor(s) in their fund(s) in 2020 due to COVID-19.

However, almost 2 in 5 VCs report experiencing a potential investor not subscribing to their fund(s) in 2020 due to COVID-19. (This may include potential investors delaying subscription.)

A much lower percentage of PE MM fund managers (1 in 4) have experienced the same issue.

IF VC & PE MM Survey question: “Have you experienced any defaulting investor(s) in your fund(s) in 2020 due to COVID-19? / Have you experienced a potential investor not subscribing to your fund(s) in 2020 due to COVID-19?”

Specific difficulties encountered

- Both for VC and for PE MM fund managers, two main patterns emerged out of the free-text responses provided:

  - Travel restrictions
  - Lack of face-to-face interaction

  - Limited networking opportunities
  - Limited possibility to reach out to new LPs
  - Difficulties with remote pitching and due diligence

- Uncertainty

  - LPs delay their investment decisions
  - More prudent and risk-averse
  - Focus on existing relationships (i.e., greater difficulties for first-time teams and new investments)

- Market volatility

- Some GPs also mentioned:
  - Reduced interest in the asset class by institutional investors and family offices
  - Reduced commitments

EIF VC & PE MM Survey question: “Please briefly list any other specific difficulties you experienced in your fundraising in 2020.”

Impact of COVID-19: Fundraising impact

Issue of preferred shares

The overwhelming majority of VC and PE MM fund managers have **not raised money via preferred shares** since March 2020.

EIF VC & PE MM Survey question: “Has your firm raised money via preferred shares since March 2020?”

EIF Surveys of VC, PE MM, BA

Impact of COVID-19: Investment impact

EIF Research & Market Analysis Survey waves 2020
Since the onset of COVID-19, VC fund managers tend to focus more on companies with:

- A longer financial runway (43% of respondents)
- Experienced management team (40%)
- Recurring revenue business models (30%)

The crisis has not shifted VCs’ attention away from ESG considerations.

83% of VCs have at least maintained (or even increased) their focus on companies that have a positive environmental and/or social footprint.

**Impact of COVID-19: Investment impact**

**Investment criteria**

Since the onset of COVID-19, PE MM fund managers tend to focus more on companies with:

- **Recurring revenue business models** (50% of respondents)
- **Strong cash generation** (37%)
- **Experienced management team** (28%)

9 in 10 PE MM fund managers have at least maintained (or even increased) their focus on companies that have a positive environmental and/or social footprint.

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

Since the onset of COVID-19, BAs tend to focus more on companies with:

- Experienced management team (40% of respondents)
- Revenue generating capability (38%)
- Recurring revenue business models (37%)

Approximately 7 in 10 BAs have at least maintained their focus on companies that have a positive environmental and/or social footprint.

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

A majority of VC & PE MM fund managers have either not changed their investment strategy/focus or increased their focus on existing portfolio companies as a result of COVID-19.

PE MM fund managers, particularly, are also increasingly challenging entry valuations.

VCs are more frequently co-investing with other VC funds.

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EIF VC & PE MM Survey question: “Have you changed your investment strategy as a result of COVID-19?” (multiple selection possible; some response options were not asked to all respondent groups; percentages for the additional response item “Other/s” are comparatively low and therefore not shown)

### Impact of COVID-19: Investment impact

**Investment strategy**

<table>
<thead>
<tr>
<th>Category</th>
<th>BA</th>
<th>% of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decreased the total amount available for my BA investing</td>
<td>29%</td>
<td></td>
</tr>
<tr>
<td>Increased focus on existing portfolio companies</td>
<td>27%</td>
<td></td>
</tr>
<tr>
<td>No change</td>
<td>23%</td>
<td></td>
</tr>
<tr>
<td>Investing via smaller tickets</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td>Co-investing more frequently with other business angels</td>
<td>13%</td>
<td></td>
</tr>
<tr>
<td>Increasingly challenging entry valuations</td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>Increased the total amount available for my BA investing</td>
<td>8%</td>
<td></td>
</tr>
<tr>
<td>I have put on hold my BA investment activity</td>
<td>8%</td>
<td></td>
</tr>
<tr>
<td>Diversifying into new types of investments</td>
<td>7%</td>
<td></td>
</tr>
<tr>
<td>Investing closer to home</td>
<td>7%</td>
<td></td>
</tr>
<tr>
<td>Investing into new sectors</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>Co-investing more frequently with VC funds</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>Increased focus on new portfolio companies</td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>Investing via larger tickets</td>
<td>4%</td>
<td></td>
</tr>
</tbody>
</table>


- The most frequent change in Business Angels’ investment strategy as a result of COVID-19 was a **decrease in the total amount available for BA investing**.
- The second most frequently mentioned change was an **increased focus on existing portfolio companies**.
- The percentage of BAs that have **not implemented any change** in their investment strategy is only half the size of the share observed among VC and PE MM fund managers.
- **Investing via smaller tickets** due to COVID-19 is stated twice more often by BAs than by VC and PE MM fund managers.

*EIF BA Survey question: “Have you changed your investment strategy as a result of COVID-19?” (multiple selection possible; the percentage for the additional response item “Other/s” is comparatively low and therefore not shown)*
Most respondents have not changed their portfolio construction approach.

**BAs** were the respondents most prone to changing their portfolio construction approach.

If at all, the most frequent change was an increase in diversification.
Across all survey target groups, approximately two-thirds of respondents have slowed down the pace of their investments due to COVID-19.

The share of respondents who have slowed down their investment pace is the largest among PE MM fund managers.

The share of respondents who have frozen or completely stopped investment decisions is the largest among BAs – but still only 1 in 10.

For a considerably large share of respondents, in particular among VCs, COVID-19 has not slowed down their investment pace.

EIF VC, PE MM & BA Survey question: “Has COVID-19 slowed down the pace of your investments?”

## Structural changes

<table>
<thead>
<tr>
<th>Change to how investment due diligence is conducted (e.g., through virtual meetings)</th>
<th>VC</th>
<th>PE MM</th>
<th>BA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change to how you support and/or monitor portfolio companies</td>
<td>25%</td>
<td>40%</td>
<td>42%</td>
</tr>
<tr>
<td>No change, business as usual</td>
<td>15%</td>
<td>18%</td>
<td>34%</td>
</tr>
<tr>
<td>More decentralised decision-making to enable faster governance decisions</td>
<td>6%</td>
<td>9%</td>
<td>12%</td>
</tr>
<tr>
<td>Decreased employment</td>
<td>6%</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>Change in recruitment strategy</td>
<td>15%</td>
<td>18%</td>
<td>21%</td>
</tr>
<tr>
<td>Increased employment</td>
<td>14%</td>
<td>38%</td>
<td>51%</td>
</tr>
</tbody>
</table>

### Source:
EIF VC & PE MM Survey question: “In regard to your organisation, has COVID-19 led to any structural changes in how you conduct your business?”

EIF BA Survey question: “Has COVID-19 led to any structural changes in how you conduct your BA investment activity?”

- **Increased telework for staff** is the most frequently stated structural change in how VC and PE MM fund managers conduct their business, due to COVID-19.

- In contrast, **Business Angels** mainly reported not having **changed the way they conduct their BA investment activities**.

- While half of the surveyed **VCs** make investments remotely now, this was stated by only a quarter of **BAs** and a fifth of PE MM fund managers.

Impact of COVID-19: Investment impact

Structural changes expected to be maintained

- Among VC and PE MM fund managers, increased telework for staff and the focus on building a more digital workplace are the most often stated changes foreseen to be maintained.

- BAs less frequently expect to maintain COVID-19-related structural changes in their BA investment activities. If at all, they mainly consider to maintain the change in how investment due diligence is conducted (e.g., through virtual meetings).

The vast majority of VC and PE MM fund managers were already considering ESG issues, and the crisis reinforced the need to do so.

However, this is to a lesser extent true for BAs – given also the much higher percentage of BAs (36%) not considering ESG issues at all (neither before nor after the crisis).

Only 1 in 10 VCs and 2 in 10 PE MM fund managers had to divert attention away from ESG issues to focus on recovery.

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

Impact of COVID-19: Investment impact

ESG considerations: looking forward (i/ii)

COVID-19 impact on portfolio allocation to environment and climate

• In the short-term aftermath of the COVID-19 crisis, the majority of VC and PE MM fund managers and Business Angels will be retaining their focus and portfolio allocation to environment and climate.

• Looking forward in the long-run, an even greater percentage of respondents indicate their intention to further increase their portfolio allocation in this area.

Impact of COVID-19: Investment impact

ESG considerations: looking forward (ii/ii)

COVID-19 impact on portfolio allocation to social innovation (healthcare, education, …)

• The COVID-19 crisis seems to have heightened equity investors’ sensitivity to the S component of ESG.

• Indeed, both in the short-term and in the long-run, the percentage of respondents who indicate their intention to increase their portfolio allocation in the area of social innovation is greater than the respective percentages for the environment and climate area (see previous question).

EIF Surveys of VC, PE MM, BA

Policy measures

EIF Research & Market Analysis
Survey waves 2020
Regional and national PE/VC government programs are relevant, but their implementation speed could be improved.

PE MM respondents rate regional and national PE/VC government programs slightly better than VC respondents.

BAs are the least satisfied with government programs. While they consider, on balance, the programs relevant, BAs are the only respondent group that evaluate, on balance, the programs’ effectiveness and speed negatively.

EIF VC & PE MM Survey question: “Concerning the implementation of regional and national PE/VC government programs designed to support startups [companies] and stimulate investments during the COVID-19 pandemic in the countries you are investing in, how would you rate their...”
Most respondents rate European-level programs and initiatives aimed at helping struggling startups/companies and promoting investments during the COVID-19 pandemic as “average”.

PE MM fund managers are the most satisfied, with 39% of them rating European-level programs and initiatives as either “good” or “very good”. The share of positive responses among VCs is only slightly lower at 34%.

BAs are the least satisfied with European-level programs and initiatives. Among this respondent group, only 11% assigned a positive rating, while 37% rated European-level programs as “bad” or “very bad”.

EIF VC, PE MM & BA Survey question: “How would you rate European-level programs and initiatives aimed at helping struggling startups [companies] and promoting investments during the COVID-19 pandemic?”

Potential facilities to address post-COVID-19 needs

- A facility that would **top-up funds** is considered most relevant by both VC and PE MM fund managers, followed by a facility to **help reach minimum/target fund size** and a **portfolio protection product**.

- Almost 40% of **PE MM fund managers** also consider a **turn-around/special situation funds facility** as being of relevance.

- A facility **replacing defaulting LPs** would be the **least relevant** for the respondents’ reference markets. This is consistent with the survey finding that the majority of VC and PE MM managers have not experienced any defaulting investor(s) in their fund(s) in 2020 due to COVID-19.*

*This does not include the possibility of other secondary like transactions (such as GP-led solutions, aimed at providing both liquidity to existing LPs and follow-on financing to underlying portfolios) arising in PE funds for reasons other than replacing a defaulting investor.

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**EIF VC & PE MM Survey question:** “How relevant would the following facilities be for addressing post-COVID-19 needs in your reference market?” (response option “Turnaround/Special Situation Funds Facility” was asked to PE MM respondents only; see the Annex for more information about the response options)

In all survey target groups, a large majority of respondents have applied or considered applying for a government support measure related to COVID-19, at least for some of their portfolio companies.

Among all three groups, PE MM fund managers show the largest share of respondents who applied or considered applying for a government support measure.

BAs are the group that has been the least prone to apply for support measures.

EIF VC, PE MM & BA Survey question: “Have you / Has one of your portfolio companies applied or considered applying for a government support measure related to COVID-19?”

Government support measures – reasons to apply

- Among all three survey respondent groups, the **main factor** that influenced the decision to apply for government support measures was the possibility to **ease the financing burden of the portfolio company**.

- For **VCs and BAs**, the second most important reason was the **lack of access to finance** from other sources for their portfolio companies. For PE MM fund managers, this factor was less relevant.

EIF VC, PE MM & BA Survey question: “Please indicate the extent to which the following factors influenced your decision to apply for government support measures for any / some of your portfolio companies.” The graph shows the share of respondents indicating either “significantly” or “somewhat”. The remaining share of respondents (not shown here) indicated “not at all”.


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**Policy Measures**

**Government support measures – reasons to apply**

**Ease financing burden of the company (e.g. furlough)**
- VC: 94%
- PE MM: 89%
- BA: 89%

**No access to finance from other sources**
- VC: 77%
- PE MM: 54%
- BA: 79%

**Financing could be used to support portfolio companies without diluting existing investors**
- VC: 74%
- PE MM: 68%
- BA: 73%

**Financing is cheaper than other options**
- VC: 68%
- PE MM: 68%
- BA: 65%
Government support measures – reasons *not* to apply

- Among VC and PE MM fund managers, the **main factor** that influenced the decision *not* to apply for government support was the **absence of business need** for any such measure. For BAs, this was the second most important reason to abstain from applying for public support.

- For **BAs**, the first most important reason were **unsuitable requirements** for target investments. For VC and PE MM fund managers, this was the second most relevant factor.

EIF Surveys of VC, PE MM, BA

Concluding remarks

EIF Research & Market Analysis
Survey waves 2020
Due to COVID-19, market sentiment slumped …

• In the course of 2020, the market situation has substantially worsened. Across all target groups of the three EIF surveys (VC & PE MM fund managers as well as Business Angels), respondents reported, on average, a deterioration in their state of business. New investments have declined, on balance, and the exit environment has become particularly bad. Portfolio development was, on average, below expectations. Valuations, entry and exit prices decreased. VC and PE mid-market fund managers also reported a strong deterioration in the fundraising environment.

… but expectations have become optimistic again.

• After a slump in March, expectations have at least partially recovered across most areas. Expectations with respect to the future fundraising environment have also improved.

• The confidence in the long-term growth prospects of the VC and PE markets has remained relatively stable.

• And COVID-19 does not seem to have diverted GPs’ attention away from ESG considerations.

However, several concerns remain.

• Despite the prevailing optimism with regard to future expectations, the current situation is considered to be worse than before the crisis.

• Weak expectations with regard to future exit opportunities are still a major concern for VCs and BAs, but less so for PE MM respondents.

• The access to external finance of portfolio companies has deteriorated, on average, in the course of 2020. And the expectations for the future access to external finance of portfolio companies are worse than before the COVID-19 crisis.
COVID-19 impact differs by respondent type

• All respondent groups are, on average, negatively impacted by the COVID-19 crisis.

• However, 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, while for PE MM and BA respondents both healthcare and digitalisation play a similarly important role.

• Customer acquisition and retention, COVID-19 related disruptions and securing financing / liquidity are the biggest challenges for respondents’ portfolio companies. However, while VC and BA respondents face operational and financial challenges in roughly equal proportion, PE MM respondents are somewhat more affected by operational issues than by financial ones.

• 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.
Support is relevant, but could be more efficient

- Regional and national PE/VC government programs are relevant, but their implementation speed could be improved. Among all survey respondent groups, Business Angels are the least satisfied with the implementation of these programs.

- Most respondents rate European-level programs and initiatives aimed at helping struggling startups/companies and promoting investments during the COVID-19 pandemic as “average”. PE MM fund managers are the most satisfied with these programs. The share of positive responses among VCs is only slightly lower. BAs are the least satisfied with European-level programs and initiatives.

- With respect to potential instruments to address post-COVID-19 needs, a facility that would top-up (existing) funds is considered most relevant by both VC and PE MM fund managers, followed by a facility to help reach minimum/target fund size and a portfolio protection product. A large share of PE MM managers also consider a turn-around/special situation funds facility as being of relevance. The strong appetite for a fund top-up facility could be linked to fund managers’ increased focus on companies with a longer financial runway, as an impact of COVID-19, which may mean higher financing needs to scale-up companies, but also a longer path to achieve targets.

- A large majority of respondents have applied or considered applying for a government support measure related to COVID-19, at least for some of their portfolio companies. Among all three respondent groups, PE MM managers show the largest share of respondents who applied/considered applying for a support measure. BAs are the group that has been the least prone to apply for support measures.

- The main factor that influenced the decision to apply for government support measures was the possibility to ease the financing burden of the portfolio company. For VCs and BAs, the second most important reason was the lack of access to finance from other sources for their portfolio companies. For PE MM fund managers, this factor was less relevant.

- Among VC and PE MM fund managers, the main factor that influenced their decision not to apply for government support was the absence of business need for any such measure. For BAs, this was the second most important reason to abstain from applying for public support. For BAs, the first most important reason were unsuitable requirements for target investments. For VC and PE MM fund managers, this was the second most relevant factor.
Addressing the concerns ...

• The current situation in the PE/VC markets still requires policy attention.

• The surveys showed that the main concerns are the exit environment and the access to finance of portfolio companies.

• Apart from customer acquisition and retention, COVID-19 related business disruptions and securing financing / liquidity are the biggest challenges for the respondents’ portfolio companies.

• Moreover, the implementation speed of public support programs could be improved.

... with a differentiated approach.

• While VC and BA respondents face operational and financial challenges in roughly equal proportion, PE MM respondents are somewhat more affected by operational issues than by financial ones. Moreover, fundraising is the top challenge for VCs and the second most important one for PE MM managers. In line with these concerns, both VC and PE MM fund managers consider a policy instrument that would top-up funds most relevant, followed by a facility to help reach minimum/target fund size and a portfolio protection product. PE mid-market fund managers have become increasingly worried about investee company performance. A large share of PE MM managers also consider a turn-around/special situation funds facility as being of relevance.

• Business Angels showed a particularly pessimistic view in several of the survey questions. Despite the negative impact of COVID-19 on these investors, BAs are the respondent group that is the least satisfied with the implementation of the COVID-19-related policy programs (both on a European and on a national/regional level) and the least prone to apply for support measures, mainly because of unsuitable requirements for target investments. A stronger fine-tuning of policy programs for the needs of this investor group and their portfolio companies could address these issues.
A crisis is also an opportunity ...

- The acceleration of digitisation resulting from the crisis is seen as a substantial opportunity across the three respondent groups. Respondents mention COVID-19 as accelerating the adoption of new technological solutions and business models, which benefitted portfolio companies across a wide range of industries offering such solutions.

- A number of specific areas benefitting from this trend are mentioned:
  - Increased adoption of B2B software solutions (SaaS) and cloud based platforms due to expansion of home-office;
  - E-commerce and related IT tools due to shift towards online sales;
  - Accelerated digitisation in financial services and fintech and increased electronic spending;
  - Education tech and digital health benefitting from digitisation across education and health sectors;
  - Increased demand in specific consumer services incl. home food products, gaming and media content, with further digitisation potential.

... 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.
Exceptional times require unique market insight

• The *EIF VC Survey, the EIF Private Equity Mid-Market Survey, and the EIF Business Angels Survey* provide the opportunity to retrieve unique market insight. To the best of our knowledge, the combined EIF PE MM Survey and 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 already large outreach of the EIF surveys, which are coordinated by EIF’s Research & Market Analysis (RMA), and the high relevance of the questionnaire topics for both market participants and policy makers have further increased through new cooperations with Business Angels Europe (BAE) and the Joint Research Center (JRC) of the European Commission.

• In addition to the sections on market sentiment, the impact of COVID-19 and market participants’ perception of policy responses, the latest 2020 EIF Survey wave allowed us to look into recent changes with respect to respondents’ human capital and their considerations related to ESG & impact investing.

• 2020 was an exceptional year. Therefore, EIF’s RMA performed, on an exceptional basis, two survey waves. Moreover, the responses of the first survey wave were split into two sets, based on the time of their submission. Our new and exceptional approach allows us to analyse and compare the situation in the European private equity & venture capital markets at three points in time: (i) Before the COVID-19 crisis, (ii) when the crisis started to spread across Europe in the first quarter of the year, and (iii) during a later phase in autumn.

• Looking ahead, 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.

• As usual, the survey results are published in the *EIF Working Paper series* which is available here: [https://www.eif.org/news_centre/research/index.htm](https://www.eif.org/news_centre/research/index.htm)
EIF Surveys of VC, PE MM, BA

Annex

EIF Research & Market Analysis
Survey waves 2020
Potential facilities to address post-COVID-19 needs

EIF VC & PE MM Survey question: “How relevant would the following facilities be for addressing post-COVID-19 needs in your reference market?” (response option “Turnaround/Special Situation Funds Facility” was asked to PE MM respondents only)

Information about the response options provided to survey respondents:

**Fund Top-up facility:** Providing top-up funds to GPs that make follow-on investments and support companies in their existing portfolios.

**Investor protection product:** To partially protect LP commitments in a single fund or portfolio of funds.

**Minimum/Target Fund Size Facility:** Aiming at supporting funds that are likely to experience prolonged fundraising periods due to market uncertainty.

**Portfolio protection product:** To partially protect a manager’s investment portfolio.

**Preferred share investment:** To provide commitments to a fund manager but with a preference on distributions and capped return.

**Replacing Defaulting LPs Facility:** Selectively replace defaulting or distressed LPs, thereby ensuring that PE and VC funds can complete the initially envisaged investment strategy in terms of number of portfolio companies and capacity to do follow-ons.

**Turnaround/Special Situation Funds Facility:** Support the establishment of funds with dedicated turnaround and special situation strategies that help keep distressed companies active by providing capital injections and operational restructuring, thereby saving them from bankruptcy, preserving jobs, and restarting growth.

Information about facilities of the Pan-European Guarantee Fund (EGF) can be found on the EIF website: https://www.eif.org/what_we_do/egf/index.htm. Some EGF facilities share similarities with the response options of this survey question.

Annex

Survey publications and highlights

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

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

*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, for methodological notes.

List of acronyms

- AUM: Assets Under Management
- BA(s): Business Angel(s)
- bn: billion
- CEO: Chief Executive Officer
- EIB: European Investment Bank
- EIF: European Investment Fund
- ESG: Environmental, Social, Governance
- EU: European Union
- EUR: Euro
- GP(s): General Partner(s)
- ICT: Information and Communications Technologies
- IPO: Initial Public Offering
- LP(s): Limited Partner(s)
- m: million
- MBO: Management Buy-Out
- PE MM: Private Equity Mid-Market
- RMA: Research & Market Analysis
- SME: Small and Medium-sized Enterprise
- UK: United Kingdom
- USA: United States of America
- VC: Venture Capital
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About …

…the European Investment Fund

The European Investment Fund (EIF) is Europe’s leading risk finance provider for small and medium sized enterprises (SMEs) and mid-caps, with a central mission to facilitate their access to finance. As part of the European Investment Bank (EIB) Group, EIF designs, promotes and implements equity and debt financial instruments which specifically target the needs of these market segments.

In this role, EIF fosters EU objectives in support of innovation, research and development, entrepreneurship, growth, and employment. EIF manages resources on behalf of the EIB, the European Commission, national and regional authorities and other third parties. EIF support to enterprises is provided through a wide range of selected financial intermediaries across Europe. EIF is a public-private partnership whose tripartite shareholding structure includes the EIB, the European Union represented by the European Commission and various public and private financial institutions from European Union Member States, the United Kingdom and Turkey. For further information, please visit www.eif.org.

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Research & Market Analysis (RMA) supports EIF’s strategic decision-making, product development and mandate management processes through applied research and market analyses. RMA works as internal advisor, participates in international fora and maintains liaison with many organisations and institutions.

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The EIF Working Papers are designed to make available to a wider readership selected topics and studies in relation to EIF’s business. The Working Papers are edited by EIF’s Research & Market Analysis and are typically authored or co-authored by EIF staff, or written in cooperation with EIF. The Working Papers are usually available only in English and distributed in electronic form (pdf).

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