The use of private market surveys at the EIF

EIF Research & Market Analysis
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SUERF-Banca d'Italia-ECB-EIB Conference “The use of surveys for monetary and economic policy”
Rome, 27 April 2023
EIF at a glance

We are an EU body dedicated to improving access to finance for small businesses.

Entrepreneurs are the backbone of the European economy and a key focal point for EU policy.
Our shareholders

We have a diverse public and private shareholder base

<table>
<thead>
<tr>
<th>European Union, represented by the European Commission (EC)</th>
<th>29.7%</th>
</tr>
</thead>
<tbody>
<tr>
<td>38 Financial Institutions from European Union Member States, the United Kingdom and Türkiye (F. I.)</td>
<td>10.5%</td>
</tr>
<tr>
<td>European Investment Bank (EIB)</td>
<td>59.8%</td>
</tr>
</tbody>
</table>

*As of April 2023, on the basis of the fully subscribed authorised capital of 7,370 shares.
Our products help small businesses at every stage of development

- Pre-seed phase: Higher risk
- Seed phase
- Start-up phase
- Emerging growth
- Development: Lower risk

- Social impact funds
- VC seed & early stage
- Inclusive finance
- Portfolio guarantees & credit enhancement
- VC funds, lower mid-market & hybrid debt equity & Private Debt
EIF’s Research & Market Analysis (RMA)
General market assessments, policy & strategy papers
Surveys (VC, PE MM, BA, Debt Funds)
Internal provider of market information

Quantitative Economic impact assessment (ex-post)
Surveys (VC, BA, PE MM) on EIF’s value added
Involvement in internal and external ex-post evaluations & audits
SME Access to finance market assessments (ex-ante)

EIF Working Papers
Third party papers for external positioning
Subscribers, web blogs, social media
Presentations, external working groups, etc.

Relationships with various EIB teams (Economics, Advisory, Institute, Evaluations etc.)
Cooperation / exchanges with external stakeholders / associations
Joint research projects with external researchers
EIF’s Private Market Surveys: The Context
European PE activity

Fundraising, investment and divestment amounts by PE firms located in Europe*

* In this diagram, investment and divestment data are based on the “industry approach” (or “office approach”), i.e. by PE firms located in Europe, in contrast to the “market approach”, which is based on the location of the portfolio companies.

European PE & VC activity: Recent trends

European PE/VC activity since the Covid-19 crisis vs during the global financial crisis: Indexed real PE/VC investments in Europe (Q4/2019 = 100), by data provider*

* Real investments mean nominal activity values deflated with the gross fixed capital deflator for the EU.
EIF’s Private Market Surveys: Introduction
EIF Private Market Surveys: Introduction

General survey features (i/ii)

- Project started 2017 with EIF VC Survey; extended to Business Angels and PE Mid-Market
- EIF Private Debt Survey in 2021
- Cooperation with academic researchers ensures high quality standards
- Online surveys
- Anonymous approach
- EIF & non-EIF counterparts
- Cooperation with key stakeholders enhances survey outreach
- High coverage of underlying survey population, good picture of the market
- Responses mainly from senior people
General survey features (ii/ii)

- Regular surveys: Typically once per year
- Exceptional waves and analyses in 2020 (Covid)
- Market sentiment as stable pillar + special topics
- Results are published online at https://www.eif.org/research

<table>
<thead>
<tr>
<th></th>
<th>VC</th>
<th>BA</th>
<th>PEMM</th>
<th>PD</th>
</tr>
</thead>
<tbody>
<tr>
<td>First wave</td>
<td>2018</td>
<td>2019</td>
<td>2020</td>
<td>2021</td>
</tr>
<tr>
<td>Number responses (latest)</td>
<td>443</td>
<td>246</td>
<td>224</td>
<td>146</td>
</tr>
<tr>
<td>Stakeholders</td>
<td>EIF-internal</td>
<td>EIF-internal</td>
<td>EIF-internal</td>
<td>EIF-internal</td>
</tr>
<tr>
<td></td>
<td>EIB</td>
<td>EC, BAE, EBAN</td>
<td>Academics</td>
<td>EIB</td>
</tr>
<tr>
<td></td>
<td>ECA</td>
<td>Academics</td>
<td></td>
<td>Academics</td>
</tr>
<tr>
<td></td>
<td>Invest Europe</td>
<td></td>
<td></td>
<td>Academic</td>
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<td></td>
<td>Academics</td>
<td></td>
<td></td>
<td>ACC</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>nat’l associations</td>
</tr>
</tbody>
</table>
Survey topics*

**Market sentiment**
- e.g., fundraising, investments, exits, portfolio development, valuations, challenges, etc.

**EIF product & mandate development**
- e.g., InvestEU, EIB Risk Enhancement Mandate (EREM), Institutional Asset Management

**EIF’s value added, products and processes**
- e.g., investor base & fundraising process, fund & market, fund structure, etc.

**Policy recommendations**
- e.g., possible tax-related and regulatory interventions in VC business

**Socio-economic characteristics of GPs and BAs**
- e.g., gender, age, education, professional background, entrepreneurial experience, etc.

**Investment preferences**
- e.g., geographies, industries, stage focus, co-investments, investment selection criteria, etc.

*Survey topics since inception.
Survey topics*

- Impact of COVID-19: e.g., fund & portfolio impact, fundraising impact, investment impact, policy measures, etc.
- ESG & impact investing: e.g., motivation & deterrents, ESG strategies, policies & procedures, impact on investment returns, etc.
- Environment and climate: e.g., KPIs, sectors, risks & opportunities, challenges, processes & practices, regulatory aspects (EU Taxonomy, SFDR), etc.
- Gender diversity: e.g., policies wrt gender diversity, gender diversity indicators at fund/portfolio level, gender smart investments, etc.

*Survey topics since inception.
Latest survey results
The EIF VC Survey 2022

Number of respondents: 443

Stage:
- Pre-seed: 16%
- Seed: 33%
- Early: 35%
- Later stage / Growth stage: 15%

Top sectors:
- ICT: 31%
- Biotech & healthcare: 20%
- Energy & environment: 12%
The EIF PE MM Survey 2022

Number of respondents: 224

Top sectors:
- Business services: 26%
- Business products: 18%
- Biotech & Healthcare: 13%
- ICT: 8%
- Consumer goods: 8%

Stage:
- Buyout: 63%
- Growth capital: 32%
State of business

Expectations for the next 12 months

Current situation

Percentage of respondents

Slightly/Strongly deteriorate  Stay the same  Slightly/Strongly improve  Net balance

Net balance

VC

MM

PE
Fundraising environment

Net % of respondents expressing a positive sentiment minus the percentage of respondents expressing a negative sentiment

Current situation

Expectations for the next 12 months


Net positive

36%  36%  41%  41%  55%  24%

Net negative

19%  -15%  4%  -18%  -1%  -7%  -27%  -43%

Latest survey results

Exit environment VC

Current situation

Expectations for the next 12 months

Net % of respondents

% of respondents expressing a positive sentiment minus the percentage of respondents expressing a negative sentiment


Net positive

Net negative

60% 42% 36% 29% 13% 53% 46%

n.a. n.a. 24% 15% -38% -34%

46% -38% -34%

n.a.

Biggest challenges currently seen in VC business

- Geopolitical uncertainty and related consequences [1:N/A] 48%
- Overall exit environment [2:5] 42%
- Fundraising your next vehicle [3:3] 39%
- Market volatility [4:10] 31%
- Investee company performance [5:8] 23%
- IPO market [6:11] 17%
- Number of high quality entrepreneurs [7:4] 16%
- Disruption of business activities and operations due to Covid-19 [8:9] 14%
- Small fund sizes [9:6] 12%
- High investee company valuations [10:1] 12%
- Regulation [11:7] 10%
- Competition from other investors [12:2] 8%
- Cross-border market fragmentation [13:12] 3%
- Fee pressure [14:14] 2%

Note: The first number in brackets [a;b] corresponds to the current ranking of the challenge while the second number represents the respective ranking of the challenge in the EIF VC Survey 2021.
### Latest survey results

**Biggest challenges currently seen in PE MM business**

- Geopolitical uncertainty and related consequences [1;N/A] 68%
- Market volatility [2;6] 40%
- Disruption of business activity or changes to how the business operates [3;3] 31%
- Fundraising your next vehicle [4;4] 30%
- Investee company performance [5;5] 21%
- Overall exit environment [6;12] 21%
- High investee company valuations [7;1] 17%
- Competition from other investors [8;2] 15%
- Number of high quality entrepreneurs [9;8] 9%
- Small fund sizes [10;11] 7%
- Regulation [11;9] 5%
- Fee pressure [12;13] 3%
- IPO market [13;15] 3%
- Competition from banks / debt providers [14;10] 2%
- Cross-border market fragmentation [15;16] 1%

**Note:** The first number in brackets [a;b] corresponds to the current ranking of the challenge, while the second number represents the respective ranking of the challenge in the EIF PE MM Survey 2021.

**Percentage of respondents**

[Bar chart with percentages]
Latest survey results

**Number of new investments**

- **Current situation**
  - 2018: 42%
  - 2019: 43%
  - Feb 2020: 38%
  - Mar 2020: 35%
  - Oct 2020: 41%
  - 2021: 55%
  - 2022: 51%

- **Expected for the next 12 months**
  - 2018: n.a.
  - 2019: n.a.
  - Feb 2020: 30%
  - Mar 2020: 27%
  - Oct 2020: 12%
  - 2021: 12%
  - 2022: 21%

**Net % of respondents**

% of respondents expressing a positive sentiment minus the percentage of respondents expressing a negative sentiment.
Most promising sectors/industries in the near future

Q: “What sector/industry would you consider as the most promising for venture capital investments in the near future?”

Note: The graph was generated using Wordcloud whereby the bigger the font size the more frequently the respective answer was mentioned in the free-text field.
Industry long-term growth prospects

On a scale of 1 to 10, how confident are you in the long-term growth prospects of the VC/PE MM industry in your market?

VC

Average confidence over time

PE MM

Average confidence over time

Mean value across sample

Year

2018
2019
2020 Feb
2020 Mar
2020 Oct
2021
2022

VC

7.8
7.7
7.7
8.0
7.9
8.0
7.9

PE MM

7.8
7.8
7.73
7.9
7.9
7.6
A more technical analysis
Most important *financing-related* challenges for VC and PE portfolio companies

<table>
<thead>
<tr>
<th>Financing-related challenges</th>
<th>I VC (N=443)</th>
<th>II PE (N=224)</th>
<th>III Test of equality of proportions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Securing equity financing</td>
<td>77.2%</td>
<td>11.2%</td>
<td>66.0%</td>
</tr>
<tr>
<td>Securing liquidity</td>
<td>71.3%</td>
<td>23.7%</td>
<td>47.6%</td>
</tr>
<tr>
<td>Reduced exit opportunities</td>
<td>64.1%</td>
<td>40.2%</td>
<td>23.9%</td>
</tr>
<tr>
<td>Rising inflation levels</td>
<td>63.2%</td>
<td>87.9%</td>
<td>-24.7%</td>
</tr>
<tr>
<td>Decreases in valuation &amp; multiples</td>
<td>51.7%</td>
<td>36.6%</td>
<td>15.1%</td>
</tr>
<tr>
<td>Rising interest rates</td>
<td>37.9%</td>
<td>48.7%</td>
<td>-10.8%</td>
</tr>
<tr>
<td>Securing debt financing</td>
<td>32.5%</td>
<td>23.7%</td>
<td>8.8%</td>
</tr>
<tr>
<td>Changes in other financing terms and conditions</td>
<td>28.2%</td>
<td>20.5%</td>
<td>7.7%</td>
</tr>
<tr>
<td>Accessing public funding</td>
<td>28.2%</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Note: The table displays the combined percentages for the ‘important’ or ‘survival-threatening’ challenges that the portfolio companies of VC and PE investors face. The question asked was: “Considering the current geopolitical situation and macroeconomic environment, to what extent do the following issues constitute a problem for your venture portfolio companies/ PE mid-market portfolio companies?”. We report the results separately for VC and PE investors (Column I or II, respectively). Column III displays the differences in percentages and the results of a statistical test of equality of proportions between the two types of investors. ***p < 0.01, **p < 0.05, * p < 0.1

Most important operational challenges for VC and PE portfolio companies

<table>
<thead>
<tr>
<th>Operational challenges</th>
<th>I VC (N=443)</th>
<th>II PE (N=224)</th>
<th>III Test of equality of proportions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shortage of skilled labour</td>
<td>71.8%</td>
<td>73.7%</td>
<td>-1.9%</td>
</tr>
<tr>
<td>Rising labour costs</td>
<td>64.6%</td>
<td>79.0%</td>
<td>-14.4%</td>
</tr>
<tr>
<td>Supply chain disruptions</td>
<td>57.1%</td>
<td>74.6%</td>
<td>-17.5%</td>
</tr>
<tr>
<td>Rising energy costs</td>
<td>41.1%</td>
<td>80.8%</td>
<td>-39.7%</td>
</tr>
<tr>
<td>Rising production costs (other than labour and energy)</td>
<td>40.9%</td>
<td>71.9%</td>
<td>-31.0%</td>
</tr>
<tr>
<td>Potential energy shortages</td>
<td>38.1%</td>
<td>59.4%</td>
<td>-21.3%</td>
</tr>
<tr>
<td>Increasing regulations and bureaucracy</td>
<td>37.2%</td>
<td>28.6%</td>
<td>8.6%</td>
</tr>
<tr>
<td>Lack of experience with geopolitical and macroeconomic uncertainties</td>
<td>27.5%</td>
<td>19.6%</td>
<td>7.9%</td>
</tr>
</tbody>
</table>

Note: The table displays the combined percentages for the ‘important’ or ‘survival-threatening’ challenges that the portfolio companies of VC and PE investors face. The question asked was: “Considering the current geopolitical situation and macroeconomic environment, to what extent do the following issues constitute a problem for your venture portfolio companies/ PE mid-market portfolio companies?”. We report the results separately for VC and PE investors (Column I or II, respectively). Column III displays the differences in percentages and the results of a statistical test of equality of proportions between the two types of investors. *** p < 0.01, ** p < 0.05, * p < 0.1
A more technical analysis

Investor reaction: Increase in the importance of specific investment selection criteria

The table displays the investment selection criteria with the highest increase in importance for VC and PE investors. The question asked was: “Considering the current geopolitical situation and macroeconomic environment, has the importance of the respective investment selection criteria changed?” We report the results separately for VC and PE investors (Column I or II, respectively). Column III reports the differences in percentages and the results of a statistical test of equality of proportions between the two types of investors. *** p < 0.01, ** p < 0.05, * p < 0.1


<table>
<thead>
<tr>
<th>Investment selection criteria</th>
<th>VC investors</th>
<th>PE investors</th>
<th>Test of equality of proportions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(N=443)</td>
<td>(N=224)</td>
<td>Difference</td>
</tr>
<tr>
<td>Valuation and deal terms</td>
<td>62.3%</td>
<td>48.7%</td>
<td>13.6%</td>
</tr>
<tr>
<td>Cash-generating capacity</td>
<td>41.0%</td>
<td>42.9%</td>
<td>-1.9%</td>
</tr>
<tr>
<td>Profitability/profitability potential</td>
<td>37.9%</td>
<td>33.9%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Exit potential</td>
<td>36.8%</td>
<td>29.5%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Revenue-generating capacity</td>
<td>34.8%</td>
<td>28.1%</td>
<td>6.7%</td>
</tr>
<tr>
<td>Management team</td>
<td>27.5%</td>
<td>30.4%</td>
<td>-2.9%</td>
</tr>
<tr>
<td>Business model</td>
<td>25.3%</td>
<td>29.5%</td>
<td>-4.2%</td>
</tr>
<tr>
<td>ESG considerations</td>
<td>23.5%</td>
<td>43.8%</td>
<td>-20.3%</td>
</tr>
<tr>
<td>Geographical location of target company</td>
<td>21.7%</td>
<td>27.7%</td>
<td>-6.0%</td>
</tr>
<tr>
<td>Product’s value proposition</td>
<td>19.4%</td>
<td>28.1%</td>
<td>-8.7%</td>
</tr>
<tr>
<td>Industry</td>
<td>16.5%</td>
<td>44.6%</td>
<td>-28.1%</td>
</tr>
<tr>
<td>Scalability of the business</td>
<td>16.3%</td>
<td>21.9%</td>
<td>-5.6%</td>
</tr>
<tr>
<td>Past performance/track record</td>
<td>16.0%</td>
<td>14.3%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Our ability to add value</td>
<td>14.2%</td>
<td>23.7%</td>
<td>-9.5%</td>
</tr>
<tr>
<td>Diversity and inclusion considerations</td>
<td>14.2%</td>
<td>16.5%</td>
<td>-2.3%</td>
</tr>
<tr>
<td>Total size of the addressable market</td>
<td>11.5%</td>
<td>13.4%</td>
<td>-1.9%</td>
</tr>
<tr>
<td>Technology</td>
<td>10.8%</td>
<td>26.3%</td>
<td>-15.5%</td>
</tr>
<tr>
<td>Venture stage*</td>
<td>10.2%</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Market leadership*</td>
<td>n.a.</td>
<td>17.9%</td>
<td>n.a.</td>
</tr>
<tr>
<td>Strategic fit in investment portfolio</td>
<td>10.2%</td>
<td>12.1%</td>
<td>-1.9%</td>
</tr>
<tr>
<td>Referral by other GPs/investors</td>
<td>8.1%</td>
<td>2.7%</td>
<td>5.4%</td>
</tr>
</tbody>
</table>

Note: The table displays the investment selection criteria with the highest increase in importance for VC and PE investors. The question asked was: “Considering the current geopolitical situation and macroeconomic environment, has the importance of the respective investment selection criteria changed?”. We report the results separately for VC and PE investors (Column I or II, respectively). Column III reports the differences in percentages and the results of a statistical test of equality of proportions between the two types of investors. *** p < 0.01, ** p < 0.05, * p < 0.1

*The investment selection criterion ‘venture stage’ (‘market leadership’) was only included in the VC survey (PE survey).
Concluding remarks
Negative developments in the VC & PE markets in 2022

Market sentiment deteriorated

No “long COVID”; but geopolitical and macroeconomic uncertainties had a negative impact on European VC & PE markets.

GPs face significant challenges …

Fundraising; Exit environment & exit prices; Finding potential buyers; Financing, market-related & operational issues; Rising costs.

… but also opportunities?
Exceptional times require unique market insight

Evidence-based policy intervention to address challenges and opportunities

- The EIF concentrates on supporting the necessary private sector VC infrastructure to address market gaps and challenges as well as to support opportunities with the aim to further enhance the attractiveness of European VC as an alternative asset class.

- In order to improve the availability of information for evidence-based policy interventions, the EIF performs, on a regular basis, the EIF VC Survey, the Private Equity Mid-Market Survey, and the EIF Business Angels Survey. In addition, the EIF Private Debt Survey has also been launched in 2021. These surveys are all conducted on an anonymous basis. An additional survey of National Promotional Institutions (NPIs) with VC activities is in preparation.

- 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 a cooperation with Invest Europe from 2021 onwards. Cooperation with academics ensures a high quality level of the surveys.

The EIF surveys provide a unique source of information and insight

- The EIF’s private market surveys provide the opportunity to retrieve unique market insight. To the best of our knowledge, the combined EIF VC Survey and EIF PE MM Survey currently represent the largest regular survey exercise among GPs in Europe.

- The 2022 wave of the EIF VC Survey and the EIF PE MM Survey focused on the impact of the Russian invasion in Ukraine and the geopolitical and macroeconomic implications on the European VC and PE market sentiment. This enabled us to look at the current situation, developments in the recent past, and expectations for the future. We also summarised and compared the findings over time across crises.

- The EIF survey results are published in the EIF Working Paper series: www.eif.org/research. Several new survey-related publications are under preparation or have been submitted to academic journals. Topics include Investing in Environment & Climate, Gender diversity, and the impact of the war in Ukraine and the macroeconomic environment on PE/VC.
Thank you for your attention!

If we believe in small big things can happen

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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.

… EIF’s Research & Market Analysis

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.

… this Working Paper series

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).

The EIF Working Paper series is available at www.eif.org/research

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