PitchBook

European Venture Report

2019 Annual

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Introduction

European VC deal value in 2019 recorded a record-breaking high as deal sizes swelled across the continent. The new peak was set with ease as international and alternative sources of capital flooded into the European ecosystem. Maturation was a key theme throughout the year as startups attracted larger rounds across the board, pushing up the median round size and pre-money valuation. Software deals attracted the most capital and led the way in Europe by a considerable distance.

Deals with CVC participation smashed the previous annual record as the strategy has continued to gain popularity. Rounds above €25 million attracted the most CVC interest, while fintech companies closed notable rounds that included CVC participation.

VC deal value in Germany set a new best after a selection of outsized rounds closed. Startups are being created in several innovative new sectors in the country. These startups are scaling internationally, closing multiple rounds and developing the ecosystem further.

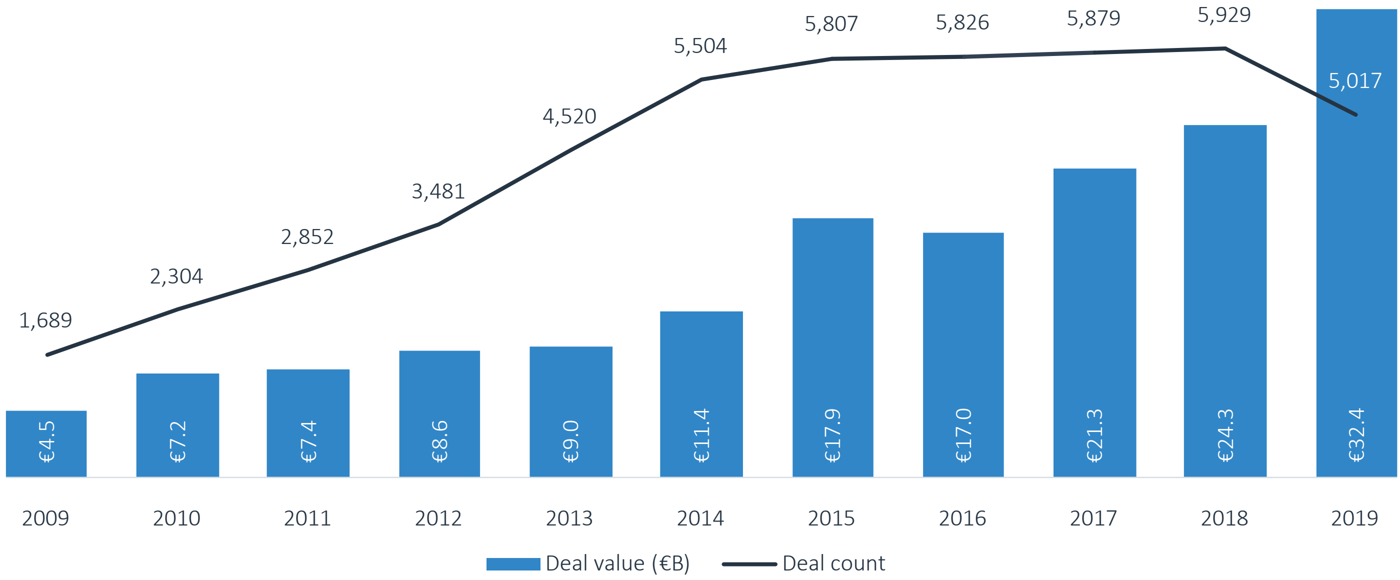
VC exits recovered in Q4 2019 to post a respectable annual exit total. Private market valuations and business models are facing heightened scrutiny. Emerging sectors such as biotech and adtech have helped to elevate exit flow in 2019. There are numerous unicorns in the ecosystem that could boost exit value going forward.

Venture fundraising in Europe reached a new peak even though counts sustained declines. The UK & Ireland and Nordic regions had strong fundraising campaigns in 2019. The median fund size rose, and the median time to close a VC fund fell in 2019 and seems likely to fall further in 2020.

Nalin Patel
Analyst, EMEA Private Capital

Overview

VC deal activity

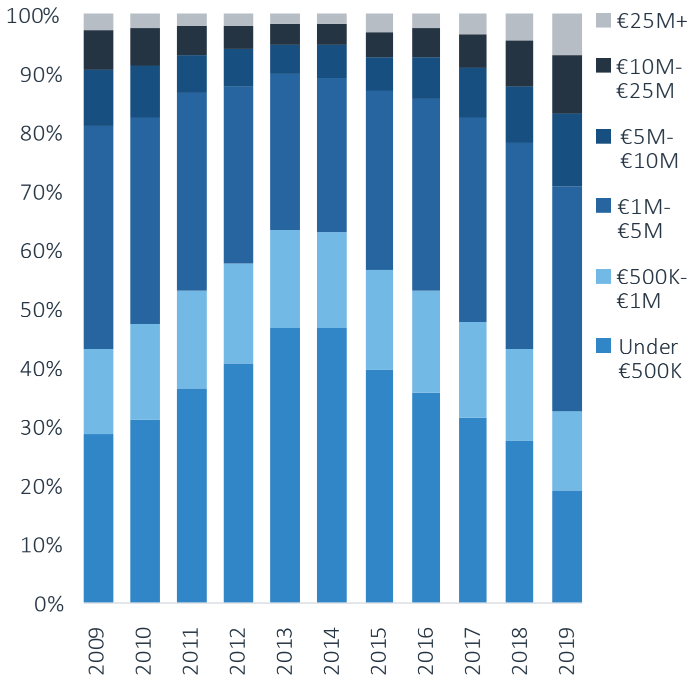


Source: PitchBook | **Geography:** Europe

The final quarter of 2019 saw a strong finish to a record-breaking year in which deal value reached €32.4 billion despite a lower count of deals. 2018's previous peak was surpassed easily as round sizes bulged. VC dealmaking in Europe appears in excellent shape heading into the new decade with new milestones likely to be set. The rising proportion of rounds sized €25 million or above was a key theme throughout 2019. In 2019, deals of this magnitude comprised 59.4% of total value and 7.0% of total count, the highest annual proportions on record. This signals a common feeling among VC stakeholders that companies, especially at the late stage, require more capital to develop in highly competitive and saturated sectors.

The composition of venture deals that closed in 2019 also indicate a shift away from angel & seed investments. The year marked the third-consecutive one in which the quantity of early-stage rounds was higher than that of angel & seed. Startups appear to be skipping the step altogether in favour of institutional backing. This has been made possible by alternative sources of capital and the fact that startups can be bootstrapped for longer and founded with smaller amounts of capital. The sunk capital cost of setting up and scaling a company has generally declined as third-party services and infrastructure such as AWS and shared working spaces have changed the way a startup can be created. This means that when a startup does raise its initial round, it may carry a higher valuation than companies typically have before and will ultimately

VC deals (#) by size



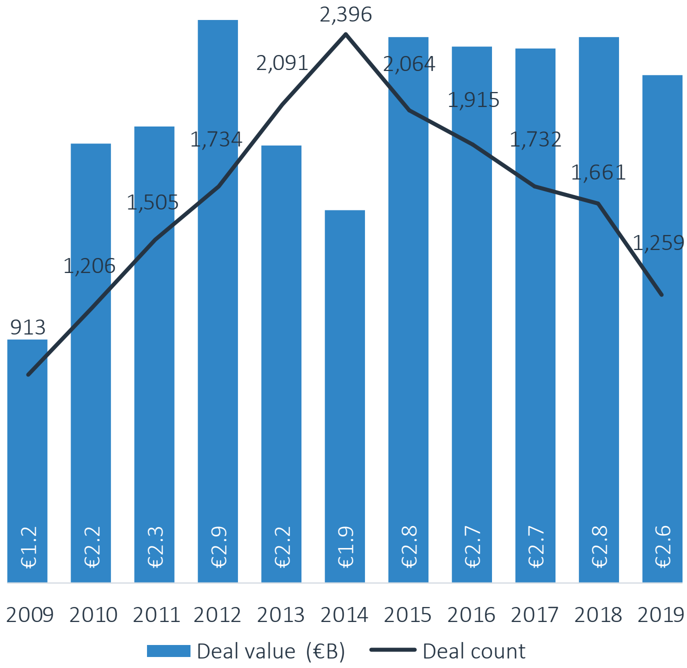
Source: PitchBook | **Geography:** Europe

justify a more substantial round in order to grow. Capital within first-time financings dipped slightly to €2.6 billion in 2019, having exhibited minor fluctuations in the preceding four years. However, the quantity of these rounds has halved from 2014, having declined each year since, which means these initial rounds have become more sizable in Europe. Furthermore, the strategies of VC investors are changing. They are backing fewer startups seeking a primary capital raise. We feel valuations at the earliest stage have been rising. As a result, we've seen swelling round sizes and valuations within the late stage of the ecosystem. If companies are raising outsized initial rounds at lofty valuations, we find that subsequent financings will keep apace accordingly, setting a precedent for exorbitant rounds in a given company's lifecycle. Conversely, startups and VC investors may feel more capital is required nowadays to meet ambitious growth targets and compete in rapidly changing sectors. There is also simply more capital available and a wider array of sources, especially from nontraditional investors, putting supply-side pressure on round sizes.

The European ecosystem has an intriguing geographical landscape with multiple countries possessing different languages and cultures addressing various regulatory, political, economic and environmental agendas. All regions set new deal value records in 2019, which speaks to a well-balanced and diverse ecosystem. One of the largest rounds of Q4 2019 crowned Lithuania's first tech unicorn. Vinted, an online marketplace for second-hand clothes, received €128.0 million in funding, elevating its valuation to €1.0 billion. It is the latest unicorn originating from the Baltic region (Estonia, Latvia and Lithuania), which most famously has links to companies such as Skype and TransferWise. The ecosystem in Vilnius, Lithuania's capital, is gaining prominence as a hotbed of entrepreneurial talent. The city now possesses three official sandboxes for fintech and one a piece for energy and proptech as well as numerous co-working hubs such as ROCKIT Vilnius and Blockchain Centre Vilnius.

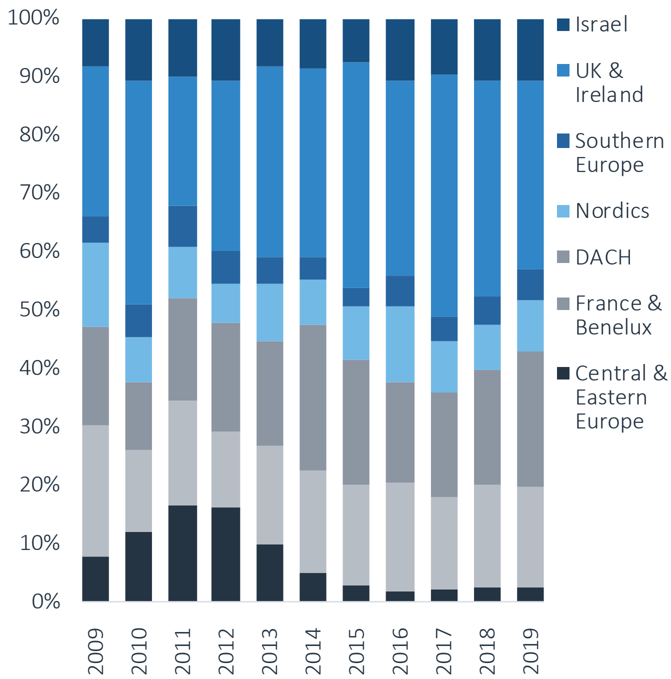
The value of deals with US VC investor participation hit a new high in 2019 at €16.6 billion, representing a 54.9% YoY jump. This figure accounted for 51.1% of total European VC deal value. The upsurge could be attributable to the decline in US activity in China amid escalated trade tensions, with Europe remaining a safe bet with reduced trade hostilities. However, overall sentiment is that the European ecosystem is maturing, closing in on and now rivalling the US and

First-time financing deal activity



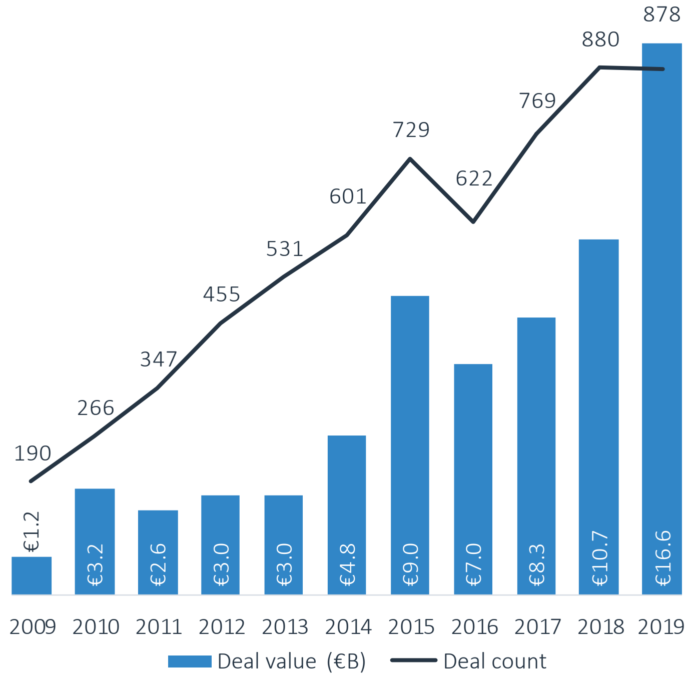
Source: PitchBook | **Geography:** Europe

VC deals (€) by region



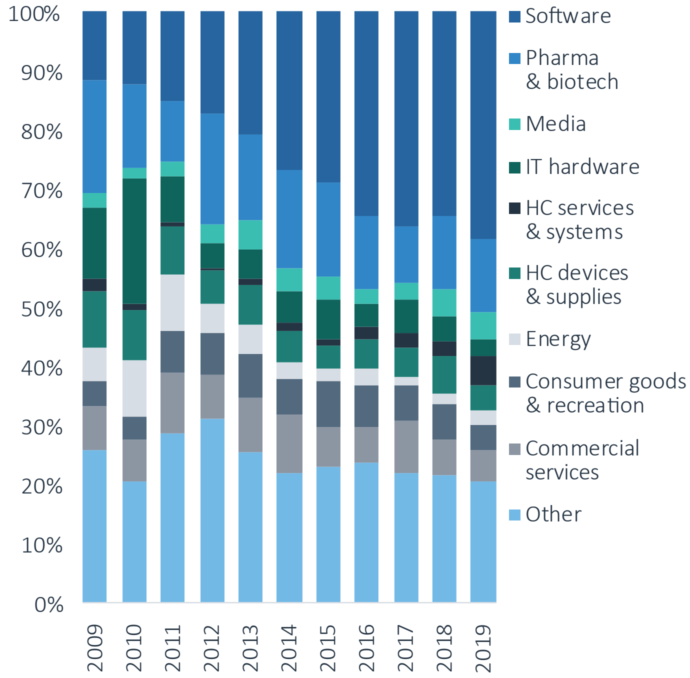
Source: PitchBook | **Geography:** Europe

VC deal activity with US investor participation



Source: PitchBook | **Geography:** Europe

VC deals (€) by sector



Source: PitchBook | **Geography:** Europe

Asian ecosystems with high-quality tech startups attracting investment. Riskified, an Israel-based ecommerce fraud-prevention tool, was one of the latest European cybersecurity SaaS startups to have a funding round with US participation, securing a €148.9 million investment. It is designed to turn fraud management into a growth engine for online retailers using ML algorithms and proprietary behavioural analytics. Investment in such startups is likely to only increase as the new year commences with fintech, cybersecurity and AI attracting worldwide attention in 2019.

Software deals, especially involving food delivery-based solutions, were consistently featured during 2019 as fierce competition, outlier rounds and sizable exits in the US grabbed headlines. The year ahead may not provide as much conjecture, but 2019 showed that European startups are flexing their international pulling power. Deliveroo's €519.7 million round led by Amazon (NASDAQ: AMZN) would have been the largest deal of the year, but it is still under investigation by the Competition and Markets Authority (CMA) heading into 2020. It also appears rivals took advantage of the uncertainty surrounding the deal and pressed on with funding rounds. Spain-based startup Glovo completed another €150.0 million round in Q4, having raised the same amount only seven months earlier. The on-demand delivery app competes with Uber Eats and Deliveroo and focuses on Latin America and Europe. The round was led by Abu Dhabi-based sovereign wealth fund Mubadala, further highlighting the expanding sources of capital European startups can obtain.

Top five VC deals in 2019 by size

Company name	Close date	Deal size (€M)	Deal type	Lead investors	Industry sector
FlixMobility	July 18	€500.0	Series F	Permira and TCV	B2C
Babylon Health	August 1	€490.8	Series C	SAPIF	Healthcare
GetYourGuide Deutschland	May 16	€432.1	Series E	SoftBank Investment Advisers	B2C
N26	July 18	€416.4	Series D2	Insight Partners	IT
Klarna	August 6	€411.2	Late-stage VC	Dragoneer Investment Group	IT

Source: PitchBook | **Geography:** Europe

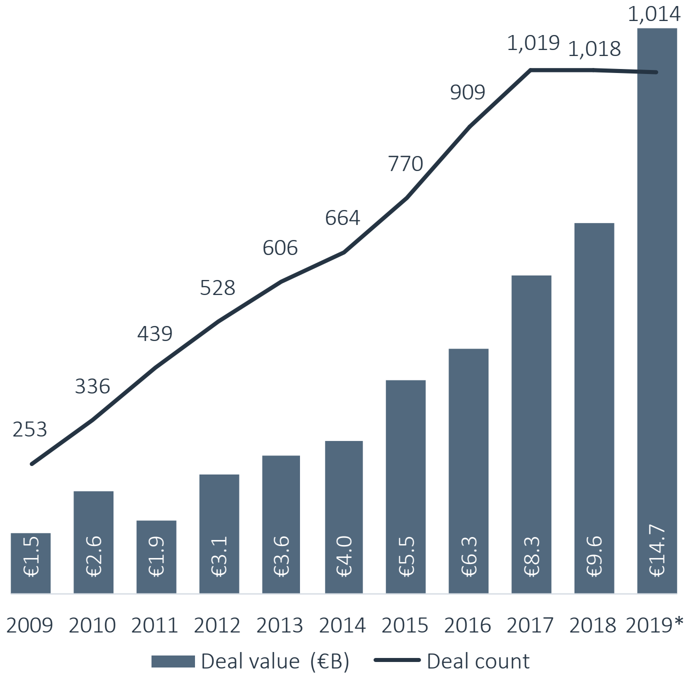
Corporate VC

In 2019, the total value of deals with CVC participation in Europe grew for the eighth-consecutive year, landing at €14.7 billion, a substantial 52.6% YoY increase. Corporates now appear to be investing more in startups, as sinking capital into internal R&D and creating new divisions could potentially affect existing core strategies and balance sheet performance. Looking ahead to 2020, we feel a growing number of corporates will carve out CVC arms and participate in additional rounds.

In 2019, CVC involvement in all VC deals rose to a new high of one in five. The quantity of €25 million+ deals with CVC participation climbed by 37.4% YoY, and in 2019, half of all €25 million+ deals contained a portion of CVC. The emphasis for CVC investors remains on joining larger VC rounds for the potential innovation and returns on offer. For example, Stripe, the San Francisco-based payment platform, participated in Rapyd's €90.8 million round in Q4. Rapyd provides Fintech-as-a-Service via a full stack of integrated payments, commerce and financial services that can be embedded into an application. Stripe has become one of the most active investors in VC-backed fintech globally having also been a part of Monzo's €127.2 million round in Q2 2019. Although Stripe remains VC-backed, its latest pre-money valuation was €31.9 billion, and it has become an active CVC investor in smaller startups even though it was founded only 10 years ago. This approach shows how quickly companies can turn towards VC buy-side activities in order to keep tabs on new startups in their own space.

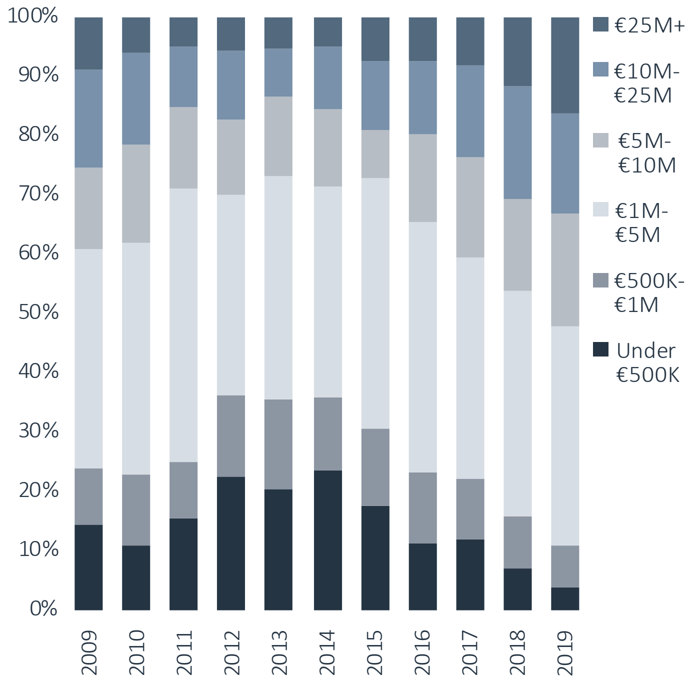
Software startups dominated corporate attention, comprising 38.2% of the total value of deals with CVC participation in 2019, primarily fueled by the appetite to disrupt financial processes and the subsequent growth in European fintech. In order to not be left behind, financial institutions are now realigning themselves either via launching new financial products or financing inventive new startups. Santander InnoVentures, the London-based CVC arm of Banco Santander (XMAD: SAN), has been involved in numerous deals during 2019, having successfully exited its investment in iZettle after it was sold to PayPal (NASDAQ: PYPL) in 2018. European fintech remained the key sector for Santander InnoVentures in 2019; the venture arm also participated in CrossLend's €35.0 million and Curve's €50.5 million round in 2019. Both startups have epitomised the revolutionary ways in which to approach finance. CrossLend is a tech platform connecting loan originators and institutional investors across borders and asset classes. Curve is a banking app that, without requiring the creation of a new bank account, consolidates all cards and accounts into one smart card with the ability to go back in time and change the card used to pay retrospectively.

VC deal activity with CVC participation



Source: PitchBook | **Geography:** Europe

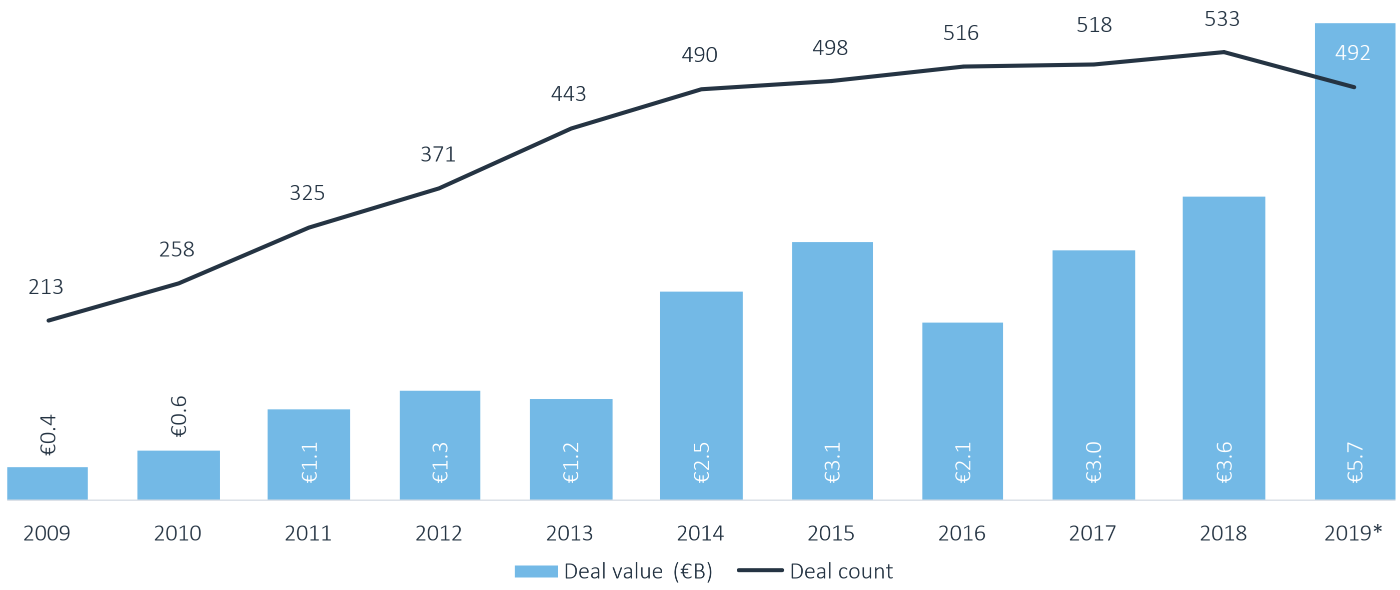
VC deals (#) with CVC participation by size



Source: PitchBook | **Geography:** Europe

Spotlight: Germany

VC deal activity

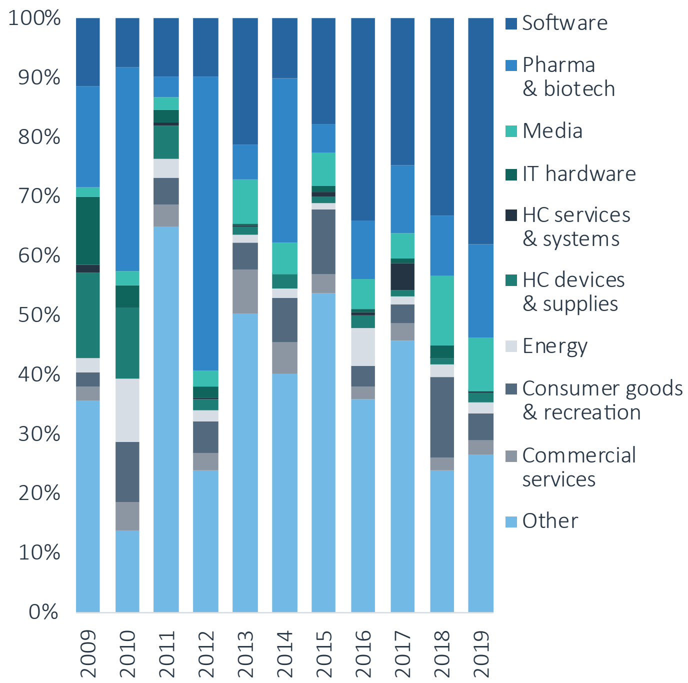


Source: PitchBook | **Geography:** Germany

The value of deals with Germany-based startups spiked to €5.7 billion in 2019, setting a new annual best. Deal count, on the other hand, dipped slightly to 492, a 7.7% YoY decline. Germany has typically been associated with having a strong corporate sector with expertise in industrial, automotive, financial and manufacturing industries. However, entrepreneurship in Germany has gained significant traction in the last 10 years, and the country has become one of the most popular places to create a startup in Europe. Factors including the deregulation of certain sectors, lower costs of living and established corporates investing in VC have all helped the ecosystem prosper.

Celonis closed the biggest round of Q4 2019 in Germany in 2019 at €256.6 million with a post-money valuation of €2.3 billion. It develops enterprise performance acceleration software using Big Data and process mining to drive process improvement. The technology Celonis develops can cut across multiple sectors and geographies, illustrating how VC-backed startups are using data to transform how conventional sectors operate. Companies in a variety of sectors such as Siemens (ETR: SIE), Airbus Group (PAR: AIR) and L'Oréal (PAR: OR) use the AI-based software. Celonis links to clients' existing legacy IT infrastructure to provide live control and visibility on process optimisation opportunities. This enables faster and improved decision making to drive efficiency. Although it may seem a novel concept, it's a highly repeatable and scalable product that could be leveraged by any industry.

VC deals (€) by sector

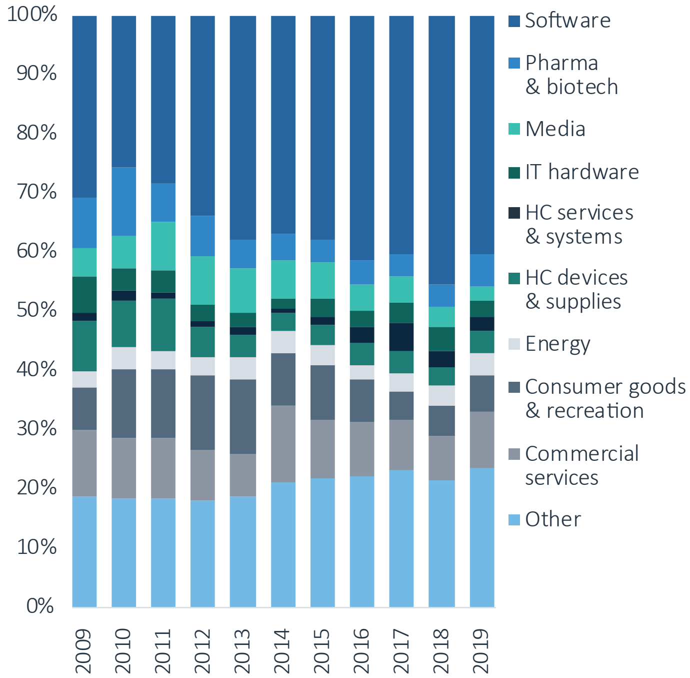


Source: PitchBook | **Geography:** Germany

Germany-based software startups attracted a record €2.2 billion in 2019 and comprised 40.2% of the country's deal count. Wefox's Series B, which was extended by €99.0 million to €212.8 million, resulted in one of Europe's largest early-stage rounds ever. Wefox is an insurtech platform connecting around 500,000 customers with insurance brokers and agencies. The first tranche of the round was led by Mubadala, with OMERS Ventures, the VC arm of Canadian pension fund OMERS, leading the extension. Additional VC investors from the US and Asia participated in the round, underscoring global enthusiasm to invest in Germany-based startups that target international expansion. However, Wefox is not alone in its domestic market as US-based insurtech platform Lemonade commenced European expansion by entering Germany in 2019. Lemonade closed a €265.9 million round to kickstart the move as overseas startups appear to be targeting the German market for growth opportunities too. The insurtech sector appears to be bubbling up as Lemonade plans to extend further across the US and into Europe, increasing competition for market share.

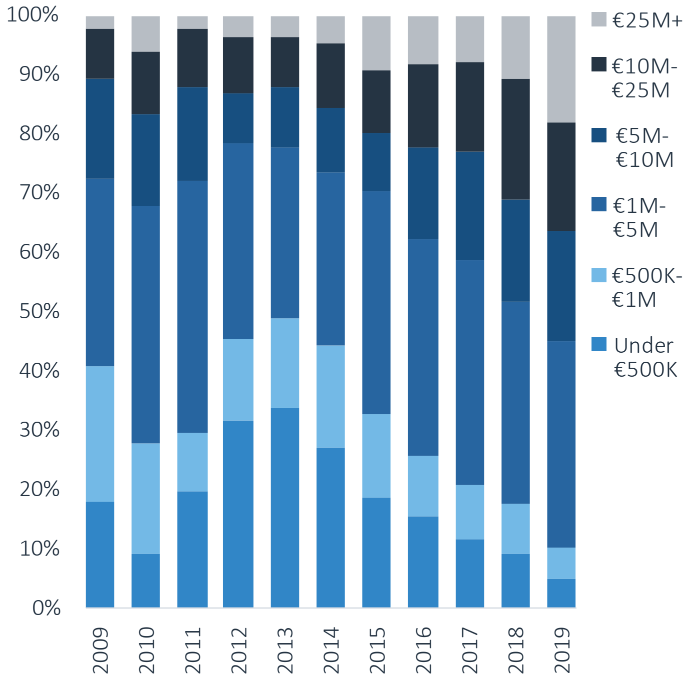
The diversity of sectors drawing funding to Germany-based companies has been expanding too. The largest round of the year belonged to mobility platform FlixMobility, which closed a €500.0 million round, boosting its valuation to €2.0 billion to become one of Germany's most highly valued VC-backed companies. However, alternative modes of transport are now emerging with Germany-based Lilium and Volocopter raising €53.6 million and €50.0 million respectively. Both develop electrical vertical take-off and landing (eVTOL) aircrafts designed for short-haul urban use. It seems startups aren't just revolutionising how we use a mobility service, but what we use as a mobility service. The challenges facing the cost, regulation and safety of such devices will no doubt come under scrutiny. The German government, however, is in favour of new mobility concepts and became one of the latest major EU nations to approve the use of e-scooters on roads in 2019. This decision will help startups in the sector flourish, such as Berlin-based e-scooter platform Tier Mobility, which received €54.5 million in funding in 2019.

VC deals (#) by sector



Source: PitchBook | **Geography:** Germany

VC deals (#) by size



Source: PitchBook | **Geography:** Germany

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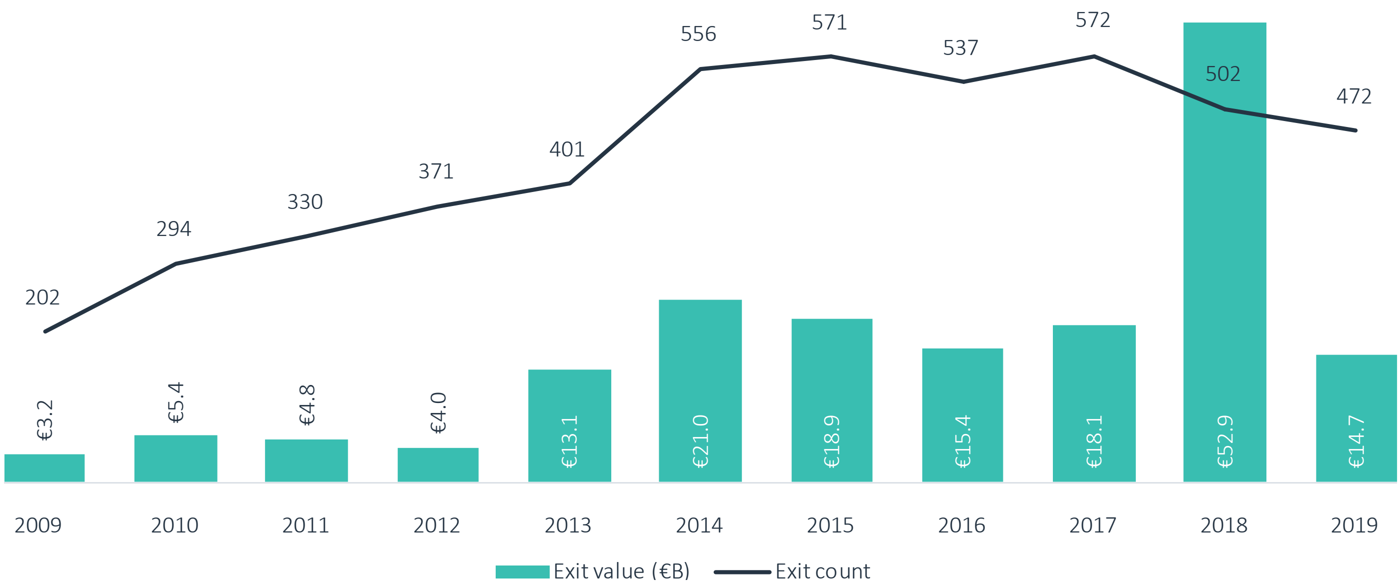
Exits

VC exit activity

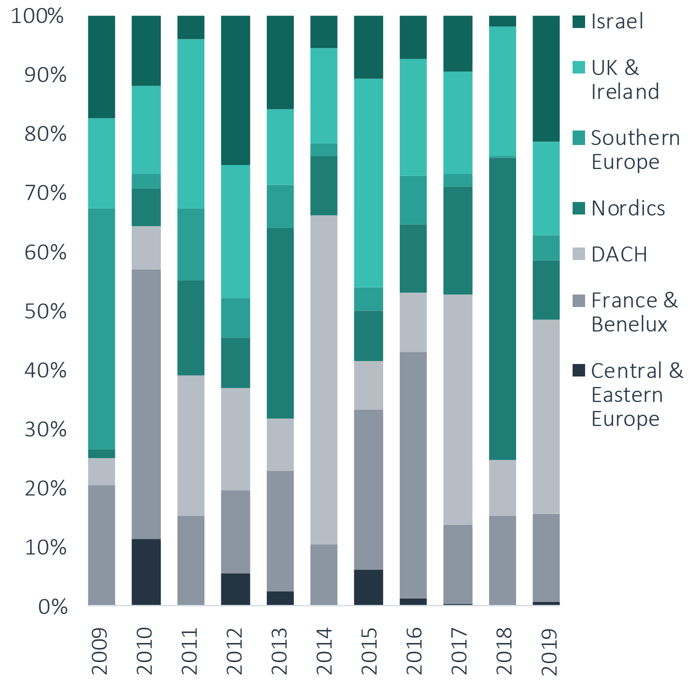


Source: PitchBook | **Geography:** Europe

Optimism surrounding the European VC exit market heading into the final quarter of 2019 was muted. The fallout from US-based WeWork's cancelled IPO increased focus on the veracity of private market valuations and governance globally. Although no European exits sized €1 billion or above closed in the first nine months of the year, Q4 2019 provided two such exit events driving exit value up to a respectable €14.7 billion in 2019. The severe regression in annual exit value in 2019 confirmed the year prior was anomalous given multiple outsized exits including Spotify (NYSE: SPOT), Adyen (AMS: ADYEN) and Farfetch (NYSE: FTCH).

Germany-based BioNTech's (NASDAQ: BNTX) IPO was the largest liquidity event in 2019, exiting the VC ecosystem at a €2.9 billion pre-money valuation. The company sold fewer shares at a lower price when it debuted as political uncertainty created volatility in public equity markets around the globe. This resulted in several disappointing or delayed listings of VC-backed companies, primarily in the US. The knock-on effects for Europe will mean unit economics and private market valuations will be front and centre of exit discussions heading into 2020. In addition, the ongoing debate regarding path to profitability and market share growth for rapidly developing startups will persist.

VC exits (€) by region



Source: PitchBook | **Geography:** Europe

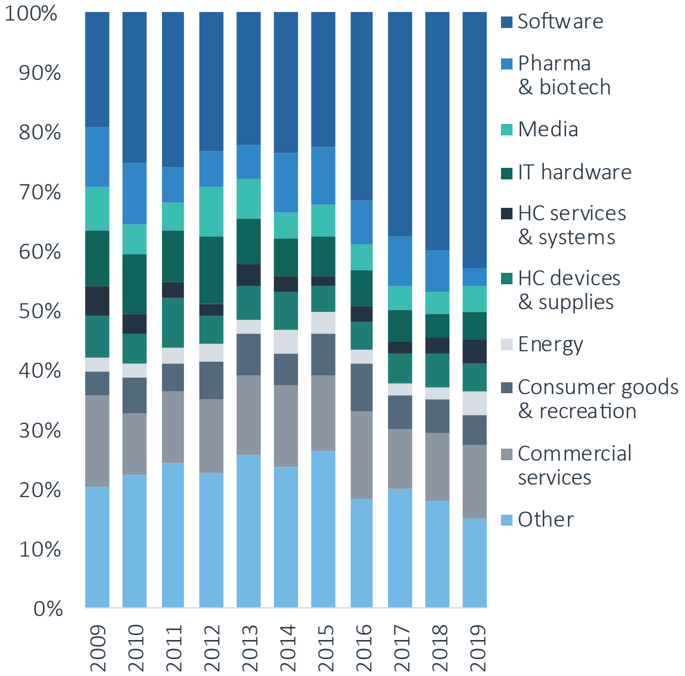
Intel's (NASDAQ: INTC) €1.8 billion acquisition of Habana Labs was the only other exit in 2019 that closed above €1 billion. The Israel-based startup was only founded in 2016 and produces AI processors designed to train neural networks and inference for production environments. The processors aim to drive performance and scalability while reducing cost and power consumption. The acquisition contributed to Israel's strongest year yet in terms of annual exit value, pushing the total to €3.1 billion.

Segmenting activity out by geography, the DACH region recorded its highest annual VC exit value with €4.8 billion across 69 exits, while the UK conversely logged its quietest year since 2013 with only €2.3 billion in exit value. Prolonged Brexit uncertainty, while not diminishing investors' interest in UK-based startups by any means, appears to have caused hesitancy around liquidating UK-based assets. Operators and investors instead opted for a more pragmatic approach to avoid risk caused by Brexit, the general election and currency fluctuations devaluing the pound.

The software sector provided 43.0% of all exits in the calendar year as an expanding range of sectors move towards software platforms for innovation. One of the largest exits in Q4 was Providence Equity Partners' acquisition of Finland-based adtech startup Smartly for €200.0 million. The SaaS company provides a platform that helps to automate aspects of online advertising campaigns. The exit is the latest in a longline of software companies disrupting industries using legacy technology. However, it is a finely balanced subsector with targeted online advertising and security surrounding personal data usage by giant tech companies under severe scrutiny. Regulatory changes facing digital taxation in the EU and cybersecurity may also weigh heavily on startups and investors in the space in 2020.

Looking towards 2020, there is cause for optimism within the European VC ecosystem. Currently there are over 30 unicorns and many more fast approaching that milestone. The importance of creating an ecosystem fit to develop startups was

VC exits (#) by sector

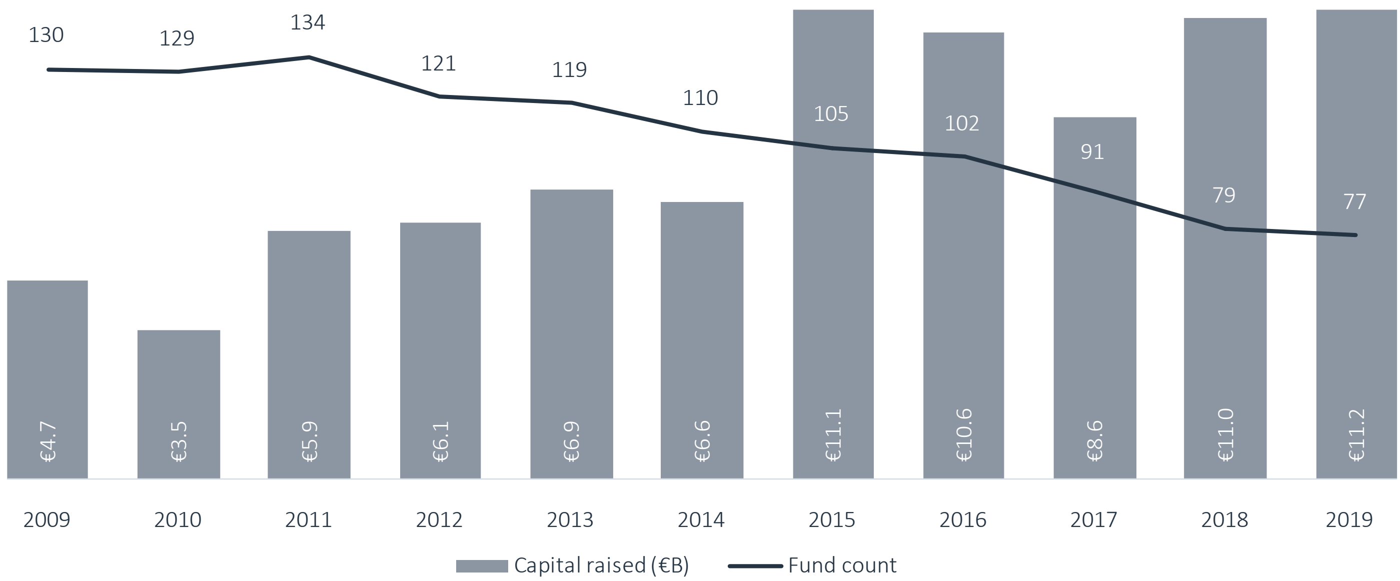


Source: PitchBook | **Geography:** Europe

evident in 2019 as two unicorns provided 32.4% of total exit value. 2019's exit value total was respectable, in line with annual figures prior to 2018's bumper year, and current conditions portend healthy venture activity in the coming years. It is widely understood that capital resources from LPs are expanding and companies can remain in the ecosystem without having to exit to raise capital. Consequently, the ecosystem is maturing with more valuable companies staying private and completing huge late-stage rounds. The speed at which €1 billion valuations are achieved has also shortened in the last decade. Multibillion-euro valuations are now increasingly attainable within a five- to 10-year window from founding. Nonetheless, certain investors remain apprehensive, sensing the market has become overheated as outsized funds pump excessive capital into the ecosystem and inflate valuations. It will be interesting to see how exits fare in the near term as attention intensifies on valuations.

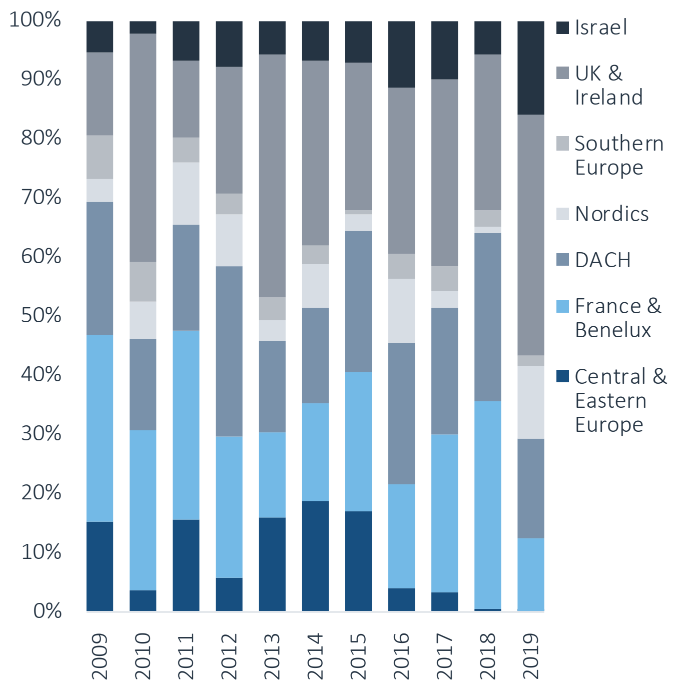
Fundraising

VC fundraising activity



Source: PitchBook | **Geography:** Europe

VC funds (€) by region



Source: PitchBook | **Geography:** Europe

Total capital raised across European funds crept up to a new record in 2019, posting €11.2 billion across 77 closed vehicles. Capital from LPs has been flooding into the ecosystem, with four of the past five years cresting the €10 billion mark. Not only has the depth of LP coffers increased over the past decade, but the breadth has expanded across the globe to include several alternative sources of VC. On the GP side, the number of closed funds continued to slide in 2019 as funds sized under €100 million dwindled in favour of larger VC funds. GPs appear to be revising their strategies to compete internationally and participate in bigger round sizes across the different financing stages. This strategy also makes sense for funds that invest in a startup and then participate in follow-on rounds regularly, providing a longer runway for GPs to return for follow-on rounds and startups to stay in the ecosystem.

The UK & Ireland region had its strongest fundraising year on record with €4.6 billion raised across 31 vehicles in 2019. Both Northzone Ventures and Balderton Capital closed substantial funds in 2019, with Northzone IX closing at €450.8 million and Balderton Capital VII closing at €360.4 million. Moreover, it is Northzone's largest vehicle to date and Balderton Capital's third-largest. Both showcase the growth in European VC fund sizes despite being dwarfed by their US- and Asia-based counterparts. We may even see €1 billion+ funds raised more frequently over the next few years, in turn inflating round sizes.

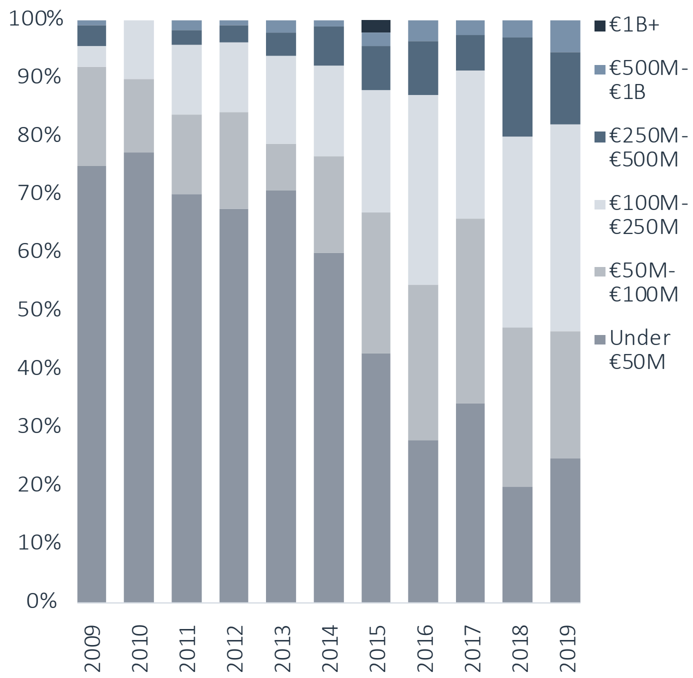
The Nordics also recorded its strongest year in terms of annual capital raised with a peak of €1.4 billion raised across six funds. The largest vehicle to close in the region was the €660.0 million Stockholm-based EQT Ventures II. It is the second fund to close for EQT Ventures, the European VC arm of PE group EQT (STO: EQT). EQT may have carried momentum from its successful listing in Q3 2019 to source commitments for its VC arm's latest and biggest vehicle. The firm began its foray into the VC asset class in 2016. A noteworthy investment the firm has made since was Small Giant, which exited via a sale to Zynga (NASDAQ: ZNGA) in 2018. EQT Ventures II is one of the largest VC funds ever to close in Europe and will maintain its predecessor's multi-stage, sector-agnostic approach. It will primarily partner with European founders at the early stage and US startups at the late stage that are looking to scale into Europe. Motherbrain, an AI-driven approach to the VC investment process, will also form a major part of the strategy for the fund. Due diligence is evolving as fund managers utilise data tools to track, select and evaluate potential portfolio companies for investments.

Overall, fundraising conditions appear to be healthy across Europe. In 2019, the median VC fund size hit a new peak of €105.0 million, and the median time to close a fund dropped to nadir of 9.7 months. Both measures indicate LP appetite for venture allocations remains fervent heading into the new year. If anything, competition between LPs for capital commitments is driving change within the fundraising landscape. Private wealth accumulated over the past decade from ultra-high-net-worth tech entrepreneurs has started funnelling back into the VC ecosystem. Nowadays, the technology sector is home to some of the most valuable international public companies, and founders have been able to set up family offices or conduct direct investments into funds. There has also been a rise in commitments from corporate investors not just through their own venture arms but through their own direct commitments into specialist VC fund manager vehicles. Additionally, as the European ecosystem matures, funds can move away from government-led funding initiatives and more towards private wealth. This could then benefit funds with increased bargaining power for their capital needs and improved terms for future returns. Newly created and existing capital-laden LPs look set to continue driving venture fundraising in 2020.

Median VC fund size (€M)

Source: PitchBook | Geography: Europe

VC funds (#) by size



Source: PitchBook | Geography: Europe