



 PitchBook®

European Venture Report

2017
3Q





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Introduction

In a major change to this report series, we have added Israel to our Europe dataset. This addition was made in order to capture the importance of the country's venture capital industry, especially as its current stage of development puts it on par with most European countries' venture statistics. Consequently, few datasets will align with those from reports of past quarters. However, the addition of Israel creates a more comprehensive view of the venture capital industry in the region as a whole. To make comparisons easier, Israeli VC activity will be reported in euros throughout this report.

Key takeaways:

- » Overall VC invested in 2017 is set to surpass last year to be second highest in a decade
- » Companies are staying private longer, with hold periods extending by 43% since 2008
- » On pace to surpass €8 billion in capital committed, European fundraising is robust

Both Europe and Israel have seen distinct shifts in investment within their borders over recent years. Capital availability is higher than it has been for some time after several years of strong fundraising, and the benefits are reaching every stage of VC. Deal sizes continue to grow across the board, and late-stage companies have more opportunities to raise growth capital than before as fund sizes have increased. Despite the overall declines in deal count, Europe and Israel continue to develop into strong VC markets.

We hope this report is useful in your practice. As always, feel free to send any questions or comments to reports@pitchbook.com.



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Analyst

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Deal value high despite slow activity

Overview

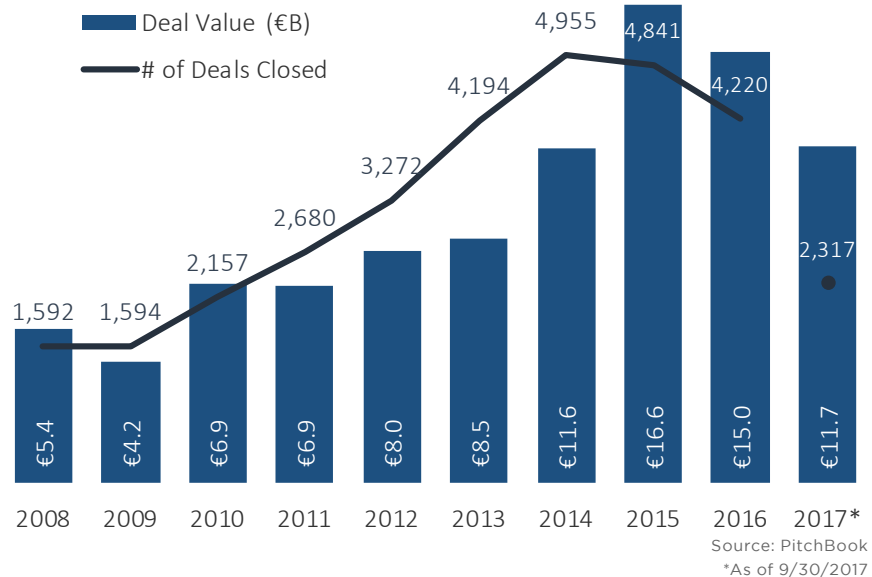
VC activity across Europe and Israel continued to decline last quarter, with just 2,317 financings closing during the period. At the current pace, 2017 European/Israeli deal flow is pacing to come in lower by roughly 27% YoY. Much like in the US, a large portion of that decline in deal count can be traced to the angel/seed markets as early investors stay disciplined and look for more traction before investing. The median age of startups raising a seed round has surpassed two years post-launch, the highest we have seen in the last decade. Quarterly angel/seed investment has also fallen considerably since the 763 angel/seed rounds completed in 1Q 2015—just 218 such transactions occurred last quarter.

Juxtaposed with deal count, the aggregate deal value of VC investments in Europe has continued to climb. 2017 is paced to finish with near €16 billion in capital invested, which

would mark the second-highest yearly total of the decade. The high levels of fundraising on the continent, as well as the continued support of the ecosystem by foreign investors has provided plenty of investment capital for startups, as well as late-stage companies. 39

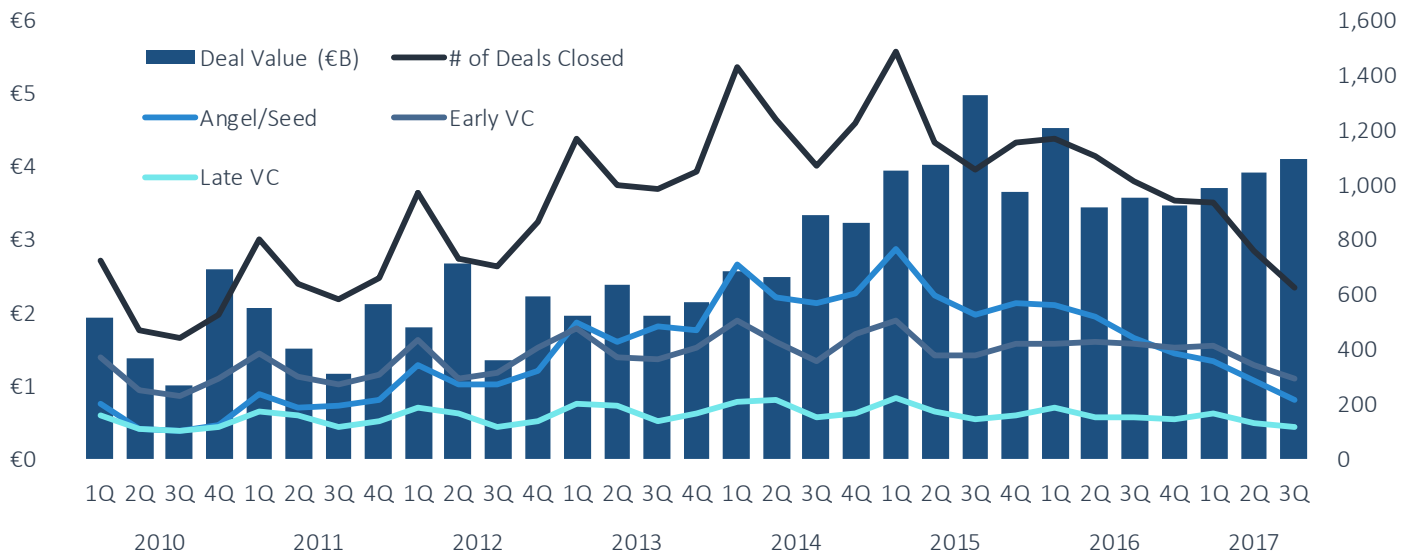
companies completed VC rounds on €25 million or higher last quarter, the highest quarterly total of such deals in at least the past decade. This points to the continued evolution of the VC ecosystems in Europe and Israel, regions that have historically been void of domestically

2017 set to be third consecutive yearly decline in deals Europe and Israel VC activity



Quarterly deal value on the rise in contrast to slowdown in deals

Europe and Israel VC activity



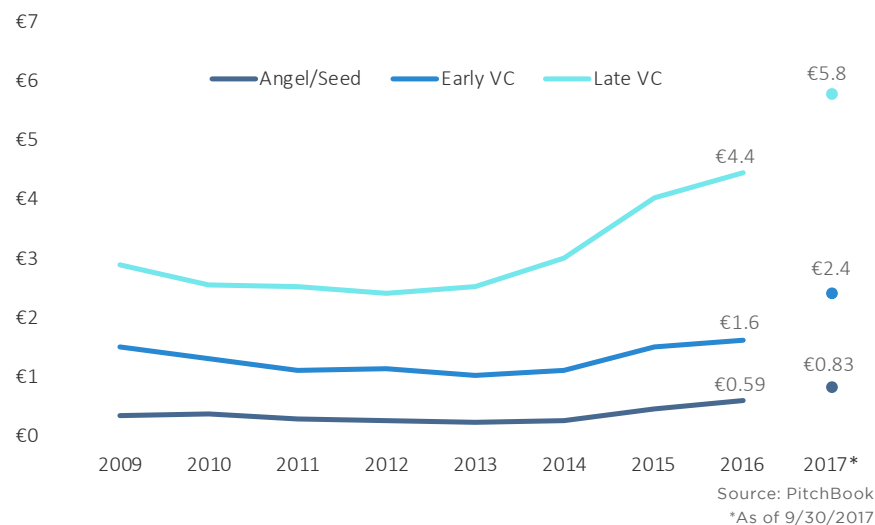
headquartered large funds to provide capital to late-stage growth companies.

Along with the growth of large deals, the median deal size at each stage has continued its upward movement. The median angel & seed deal crossed €800,000 for the first time this decade. Similar to the US venture industry, this growth in round sizes can at least in part be explained by the fact that companies are entering the VC lifecycle later, opting to bootstrap or develop in incubators and pre-seed programs before raising their first round. The growth in deal sizes is also a product of the continued development and maturation of new and innovative technologies. Over the past decade, investment in tech has grown by roughly 20%, and now accounts for more than three-quarters of VC activity in Europe and Israel as newer technologies such as fintech and artificial intelligence move through the business cycle.

US investment will continue to play a large part in the growth of the European and Israeli VC industry. So far in 2017, more than 17% of completed transactions in the region have contained participation from a US-headquartered investor. While fundraising levels have been historically high over the past several years, the sheer amount of capital available for deployment by US investors far outweighs the capital available domestically. Since 2013, European and Israeli investors have raised a combined 36 VC funds with €250 million or more. During that same time, 188 US venture funds have been closed on \$250 million or more, including 71 that raised at least \$500 million in commitments.

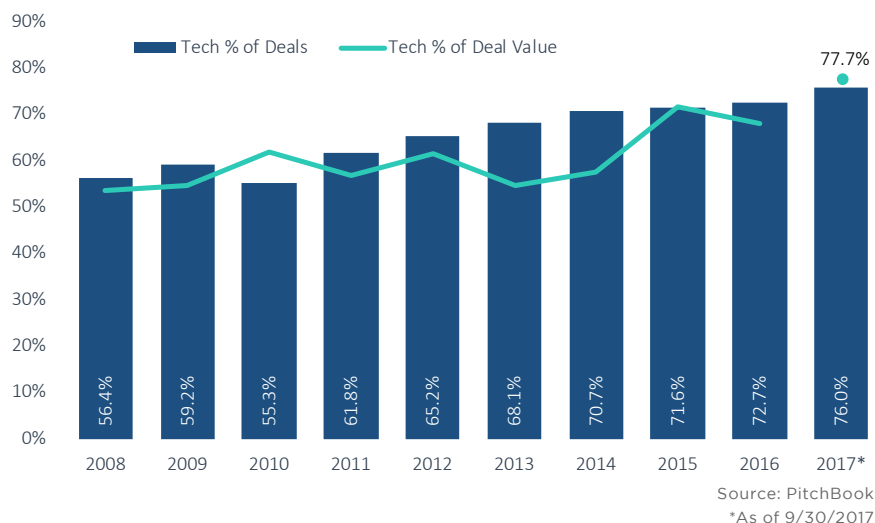
Deal sizes reach decade highs

Median size of Europe and Israel VC deals (€M) by stage



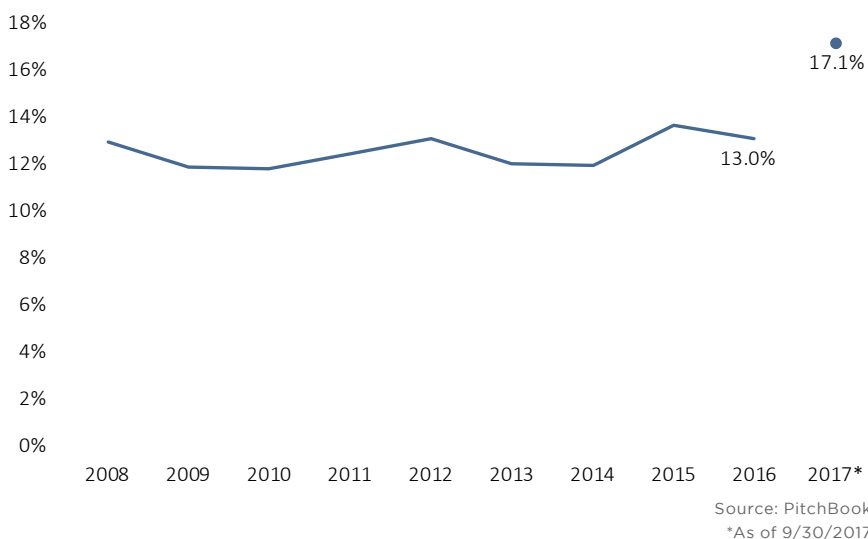
Tech has consistently increased in VC activity

Europe and Israel VC activity percentage in tech



US investors remain important in Europe VC

Europe and Israel VC activity with US investor participation

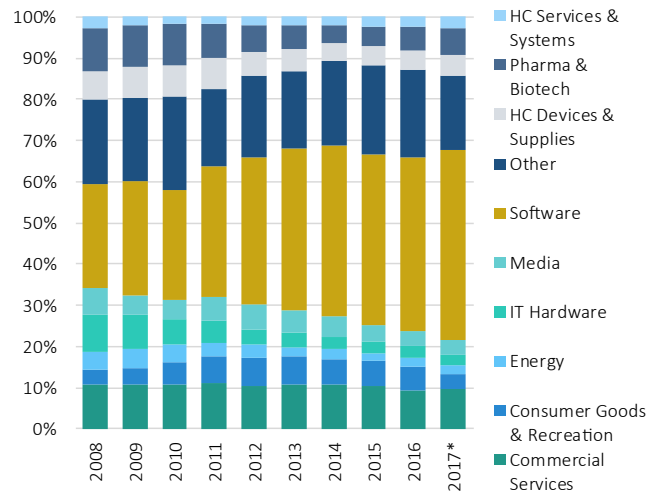


Tech growing alongside deal sizes

Activity by size & sector

Software attracting 45% of deals

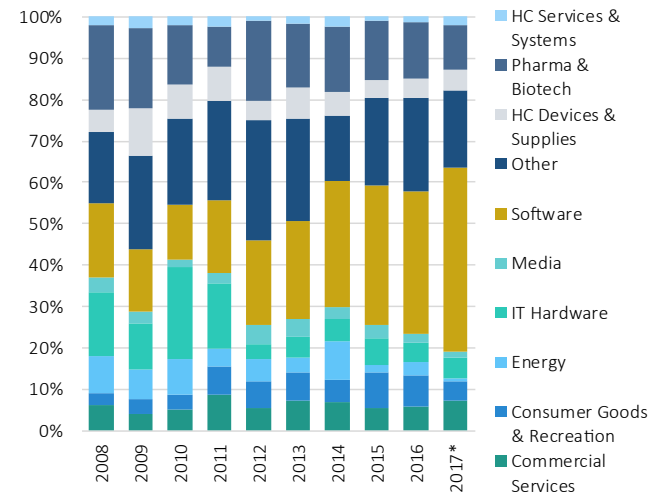
VC activity (#) by sector



Source: PitchBook
*As of 9/30/2017

Healthcare deal value slipping

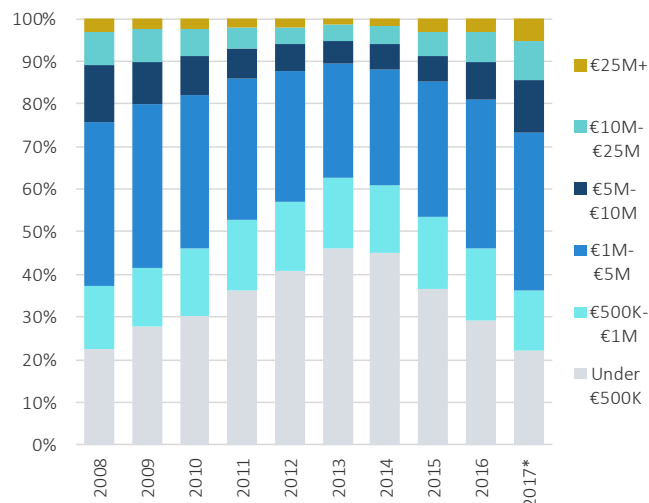
VC activity (€) by sector



Source: PitchBook
*As of 9/30/2017

More than 60% of deals closed on €1M+

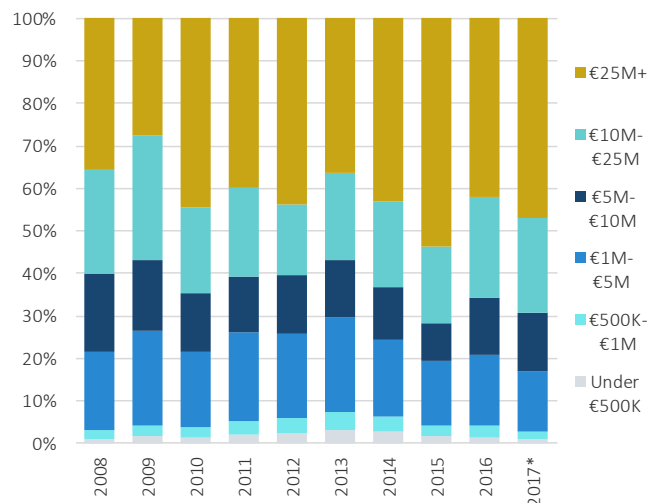
VC activity (#) by size



Source: PitchBook
*As of 9/30/2017

Capital invested trends unchanged

VC activity (€) by size



Source: PitchBook
*As of 9/30/2017

Pharma & biotech investment slows

VC activity in pharma & biotech

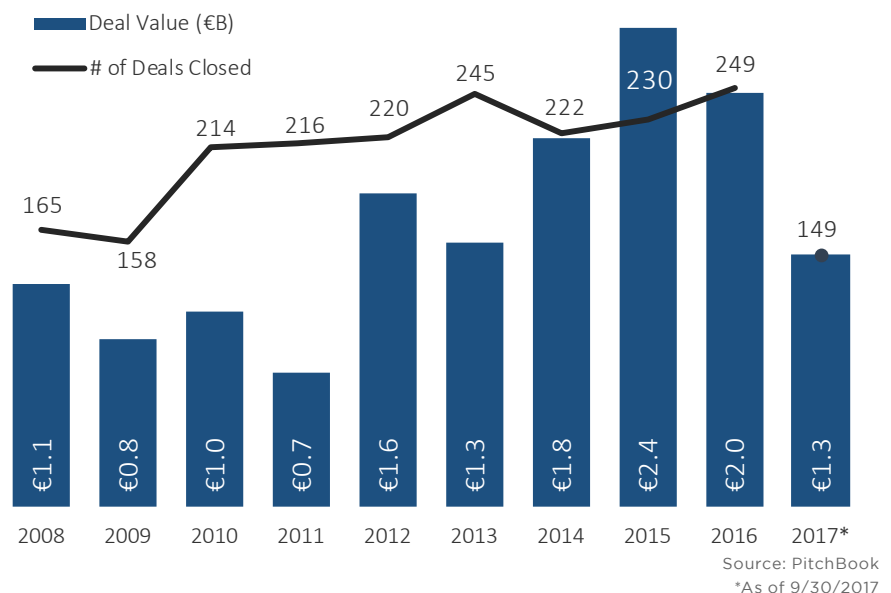
VCs in 2017 are on pace to complete fewer than 200 deals in pharma & biotech for the first time since 2009. After a robust 2015 and 2016, the sector has experienced a slowdown in deal counts in tandem with the broader VC market, especially in the early stage. Whether GPs are lacking targets or exercising increased selectivity, we see this dip as transitory.

On a historical basis, pharma & biotech remains a sector with strong capital investment. The euro-area is home to a multitude of major pharmaceutical corporations, including Novartis, Allergan, GlaxoSmithKline and Novo Nordisk. The presence of these corporations contributes to a climate for innovation, providing talent pools of highly skilled medical professionals and affording opportunities for partnerships. Furthermore, corporations can act as potential strategic acquirers of VC-backed companies. The CVC model has also been widely adopted by many of the majors as a lower-risk option of investing in promising companies without going forward with a full acquisition. Drug pipelines are often the focus of these deals which can either provide an instant supplement to the company's product offering or provide the startup with a more streamlined R&D and clinical trial process. For context, Novartis has been an active participant in the pharma & biotech VC space this year with their acquisition of VC-backed Ziarno in January to go along with 4 CVC investments.

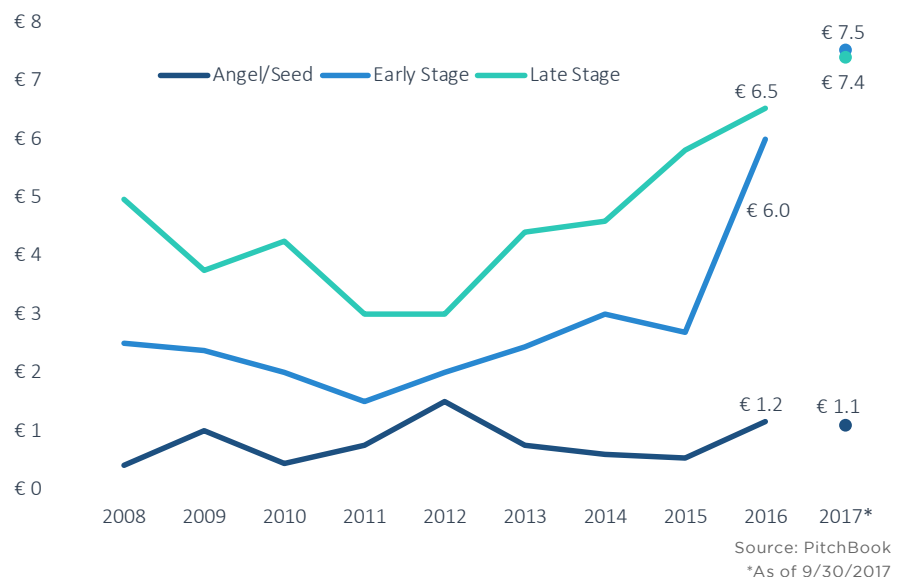
It has also become increasingly common for pharmaceutical companies to participate in the VC space through more non-traditional methods, with some even committing capital as LPs. The effect is further evidenced by the regional data, which shows epicenters

of large pharmaceutical activity recording the highest levels of VC deal counts through 3Q 2017. Additionally, with the inclusion of Israel in this report, the data now includes another geography with an extensive pharmaceutical pedigree (Teva, Taro) as well as a robust entrepreneurial culture.

Europe VC activity in pharma & biotech



Median deal size (€M) in pharma & biotech by stage



Corporate VC continues strong path

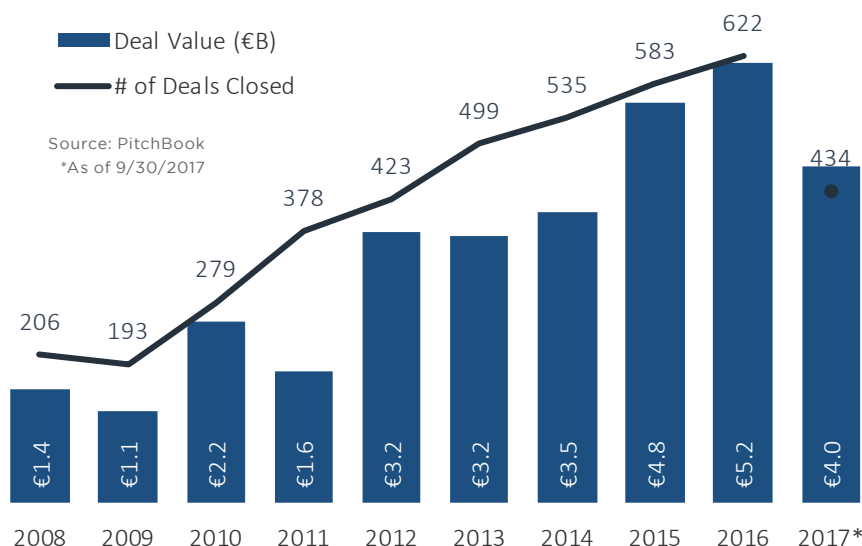
Corporate VC

Corporate VC dealmaking has been on an impressive growth trajectory from 2009-2016, as the number of deals with CVC participation has increased at an 18% compound annual growth rate. This period has been somewhat of a renaissance for CVC in Europe, as new entrants were enticed by the successes of early-adopters and drove volumes from a minimal level to a significant

portion of the VC market. While possible acquisitions of portfolio companies are certainly one motivation, we see CVC's potential for attractive returns and strategic advances as the main drivers of further CVC participation. In the current low-growth/low-return environment, CVC can be a compelling strategy for companies to diversify or invest their cash. For instance,

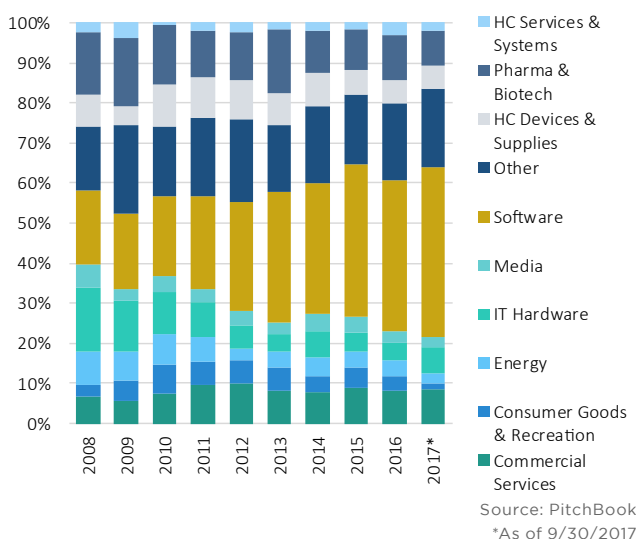
Daimler has made 16 CVC investments since 2000; however, the parent company has acquired only two of those portfolio companies. Yet, CVC investors can benefit without acquiring their portfolio companies or achieving investment returns. The parent company can leverage learnings to inform new products and business models, take advantage of synergies and reduce the risk of being disrupted.

VC activity with CVC participation

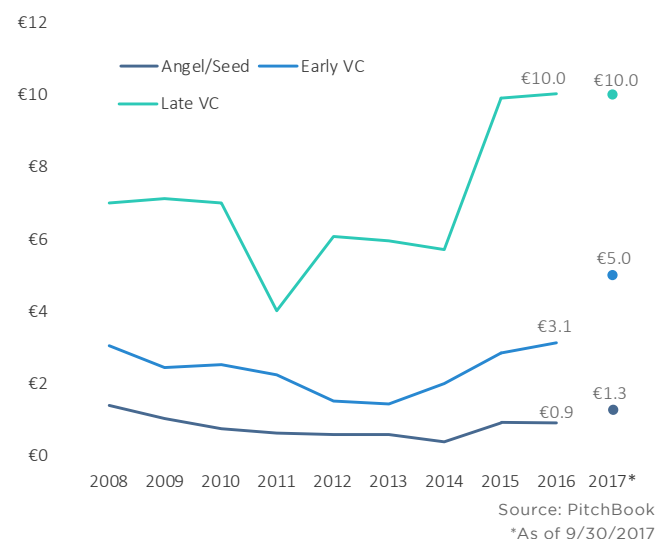


On a deal value basis, CVC participation through 3Q 2017 is higher than any full-year total prior to 2015. At the current pace, 2017 will set a new decade high of deal value with CVC participation of €5.36 billion across a projected 578 deals. This will represent the first year of decreasing deal counts since 2009. Logically, that means CVCs have been joining larger deals, even compared to 2016. The trend toward larger deal sizes does mirror the broader VC market, but the median deal sizes with CVC participation across all stages is €4.9 million, compared to €1.8 million for all deals.

VC activity (#) with CVC participation by sector



Median round size (€M) with CVC participation



Spotlight: Israel

Overview of Israel VC Activity

While Israel has supported a strong VC industry for some time, the past five years highlight the considerable growth that has been achieved. Already in 2017, more than €1 billion

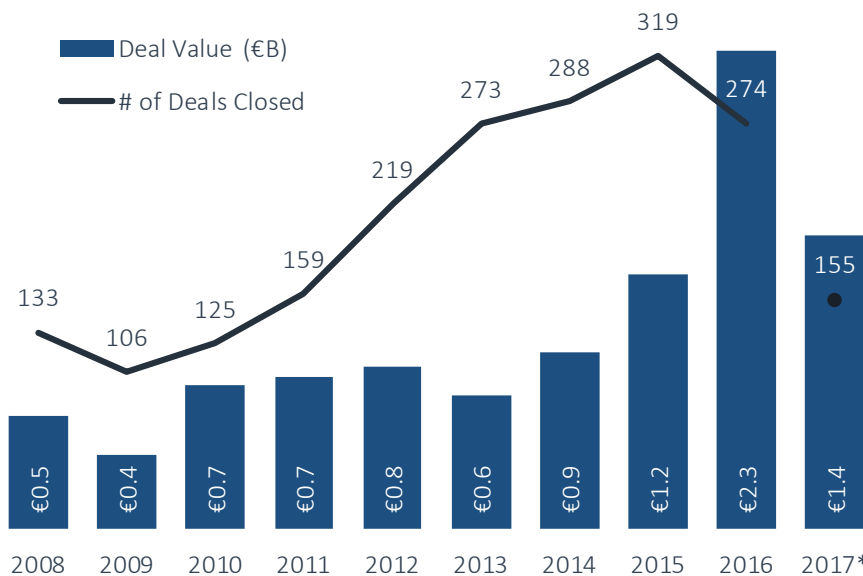
has been invested into Israeli -headquartered startups, the third consecutive year to reach that mark, and the year is on pace to reach 200 completed financings for the sixth straight year.

Israel has several unique characteristics that have afforded the country of just 8.5 million to become a major hub of VC activity. For one, the country has a very tight network of ideas and capital to flow through. Israel also showcases three universities with high rates of entrepreneurship. Tel Aviv University, Technion and Hebrew University each sit in the top 35 when schools are ranked by the number of founders to come out of undergraduate programs.

Strong ties to US investors have also afforded Israeli startups unique opportunities to scale internationally early on. Since 2014, several of the most active investors into the country have been Bessemer Venture Partners, Battery Ventures and 500 Startups, all of which have experience supporting startups at a global scale.

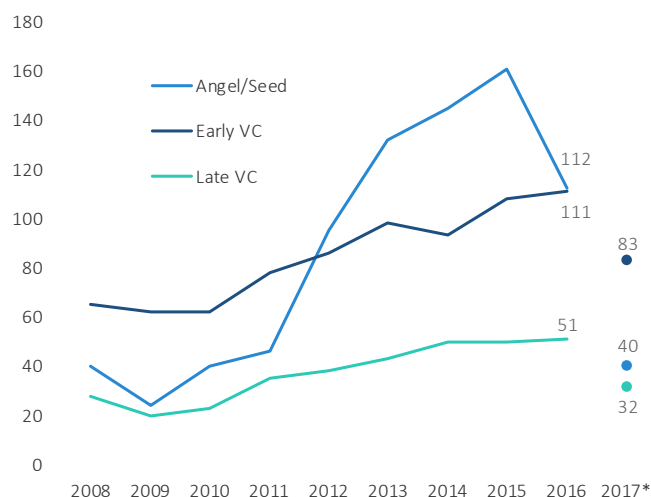
Much of VC activity in Israel is focused on tech-based sectors. Cybersecurity investment

Israel VC activity



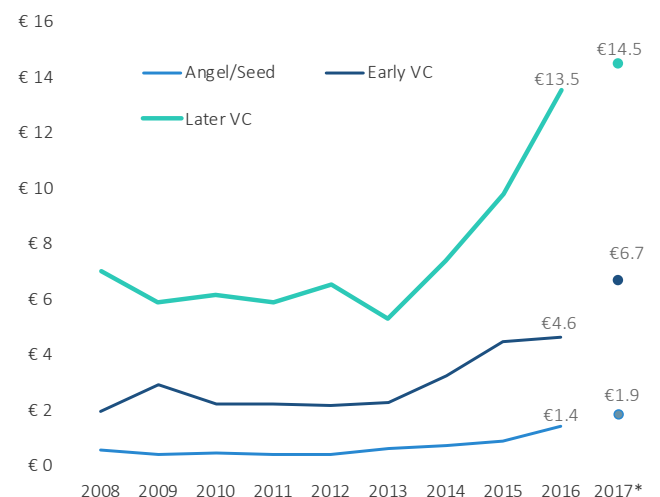
Source: PitchBook
*As of 9/30/2017

Israel VC activity (#) by stage



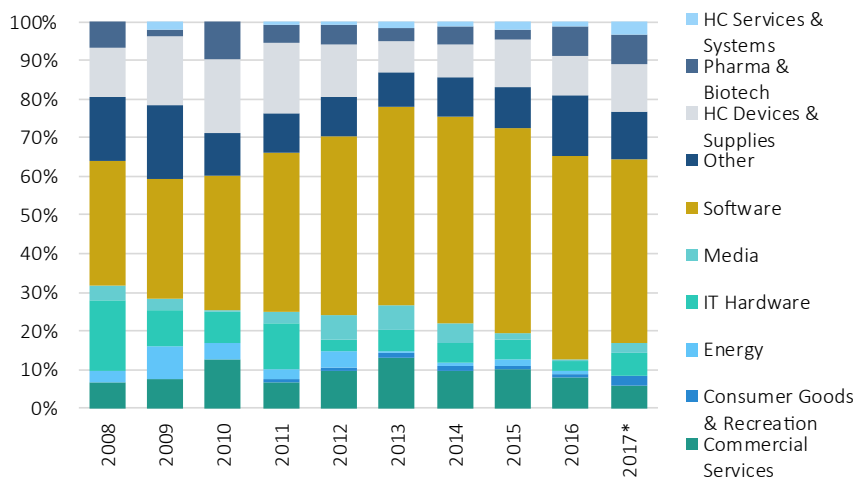
Source: PitchBook
*As of 9/30/2017

Median Israel VC round size (€M) by stage



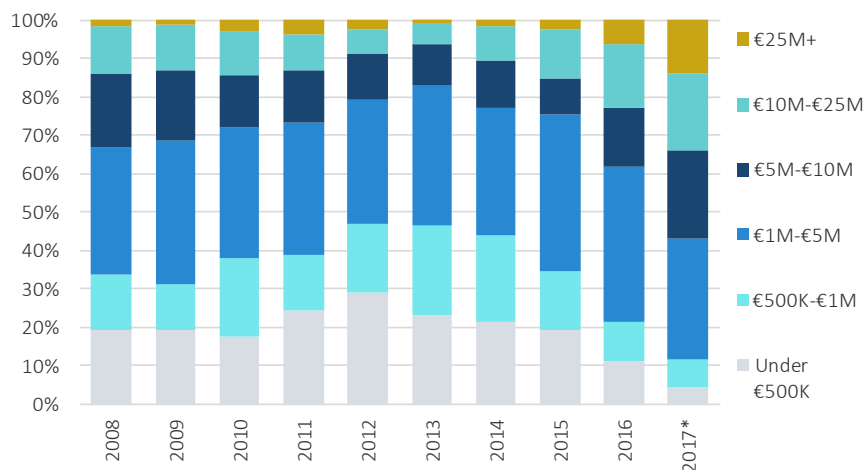
Source: PitchBook
*As of 9/30/2017

Israel VC activity (#) by sector



Source: PitchBook
*As of 9/30/2017

Israel VC activity (#) by size

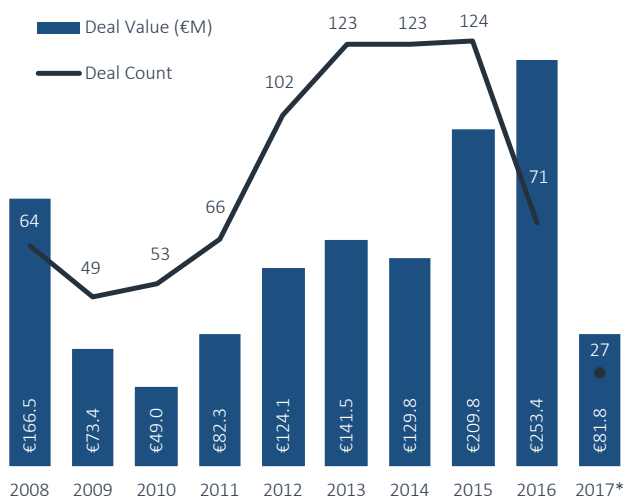


Source: PitchBook
*As of 9/30/2017

and development has grown significantly in recent years, with 2017 already becoming the third straight year that more than €180 million—just over 13% of deal value—has been invested in the space. And investment in SaaS and Mobile business models represent 35% of VC deal flow since 2014. The Israeli economy has grown at near 4% each year over the past decade, largely due to the overall growth within its tech sector.

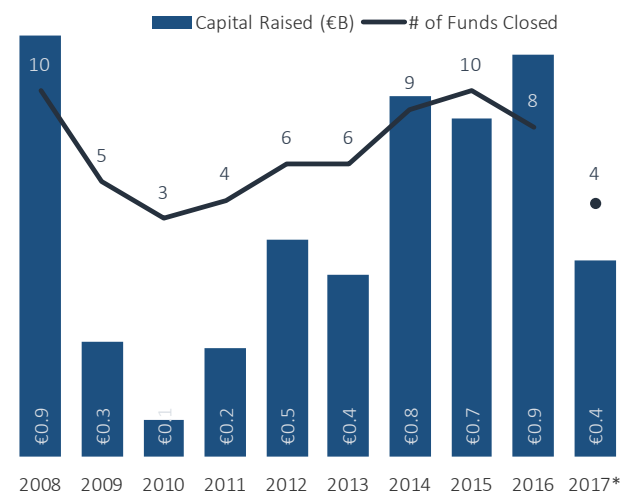
The overall growth of venture over the past several years in Israel has naturally translated into higher deal values across the industry. The median late-stage deal has reached over €14 million in 2017, a record high, and the median early-stage financing topped €6.7 million, higher than we track in Europe or the US, albeit through many fewer deals. In terms of capital invested per capita, Israel has one of the highest, if not the highest, figures worldwide. In 2016, roughly \$266 was invested in Israel-based startups. Recent domestic fundraising levels should continue to pump the Israeli VC ecosystem with plenty of capital moving forward. Almost €3 billion has been raised within the country since 2014.

Israel first-financing VC activity



Source: PitchBook
*As of 9/30/2017

Israel VC fundraising activity



Source: PitchBook
*As of 9/30/2017

VC-backed exits take hit in Europe

Exits

Capital exited in 3Q 2017 slowed after strong exit value through the first half of the year, with VCs recording only €1.2 billion in exit value across 81 deals. This extends the decline in total deal count to three straight quarters, with a notable absence of exits at the large end of the spectrum during 3Q. We recorded only three deals of over €100 million last quarter, compared to 16 exits of that size collectively in the first two quarters of 2017. While it is the nature of VC to be driven by outliers, without a handful of outsized deals skewing the exit value statistics we begin to see a more extended decline in both count and value. This development qualifies for increased scrutiny as the ability to exit, and at an attractive valuation, is key for returning capital to LPs and in return re-committing to the asset class. Average time to exit has extended 43% since 2008 and begins to put pressure on the exit market, so the proportion of exits at a valuation lower than the company's last private valuation over the next few years will be a key indicator for the health of VC.

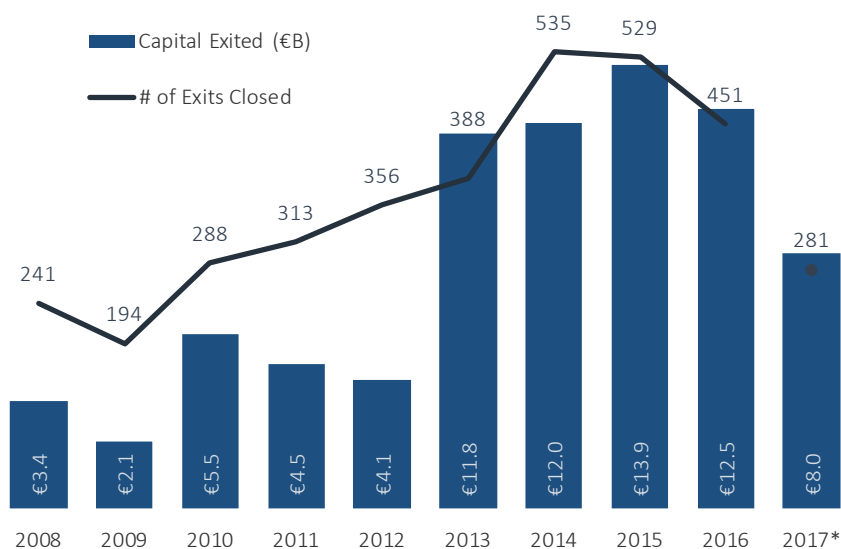
Although 2017 was assumed as the year many companies would finally IPO based on the age of some unicorns, IPO volume has remained sluggish. VC-backed companies continue to choose the comforts of the private markets to avoid the scrutiny of public investors and threats of activists. While capital availability in the private markets has been a major contributor to the slowdown in IPOs, we believe that operating as a public company serves as a primary deterrent. Factors such as quarterly reporting, real-time marking-to-market, and

more stringent accounting and regulatory requirements remain roadblocks for many private companies considering that route.

However, there has still been a trickle of highly valued companies debut on the public markets, including DeliveryHero in 2Q and Rovio's IPO in September, which

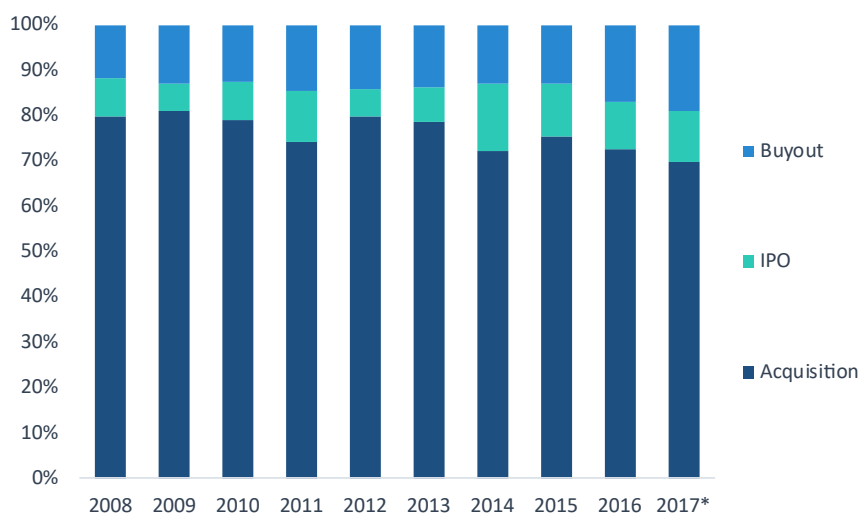
at €424.6 million was the largest exit in 3Q. The last few weeks of 3Q and the beginning of 4Q were very active for IPOs and IPO filings, with filings such as HelloFresh and Bakkavor coming to market, which adds a bit of optimism in the space heading into the final quarter of the year.

VC-backed exit activity



Source: PitchBook
*As of 9/30/2017

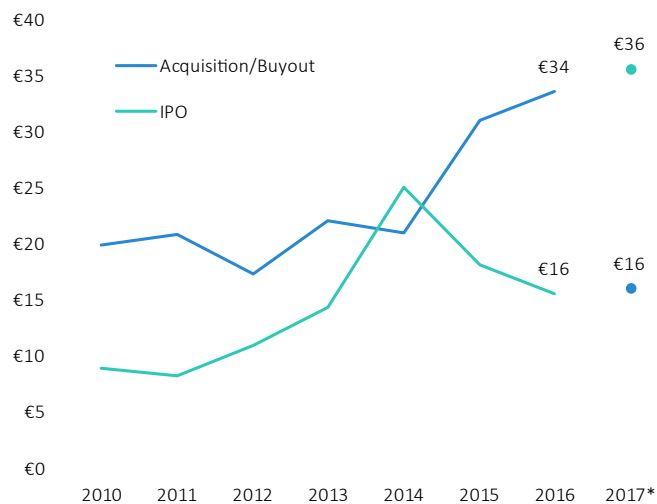
VC-backed exit activity (#) by type



Source: PitchBook
*As of 9/30/2017

Median IPO size nearly doubles

Median VC-backed exit size (€M) by type

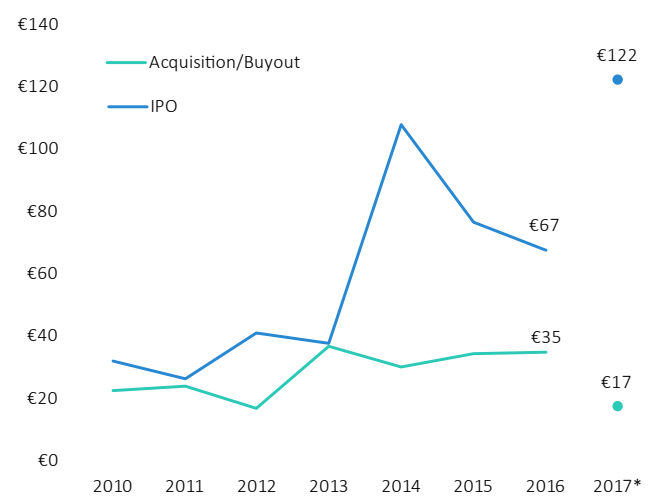


Source: PitchBook
*As of 9/30/2017

Several outsized offerings have taken IPO exit sizes to highest level in a decade, while acquisitions fall in size

Acquisitions take deep haircut

Median VC-backed exit post-valuation (€M) by type

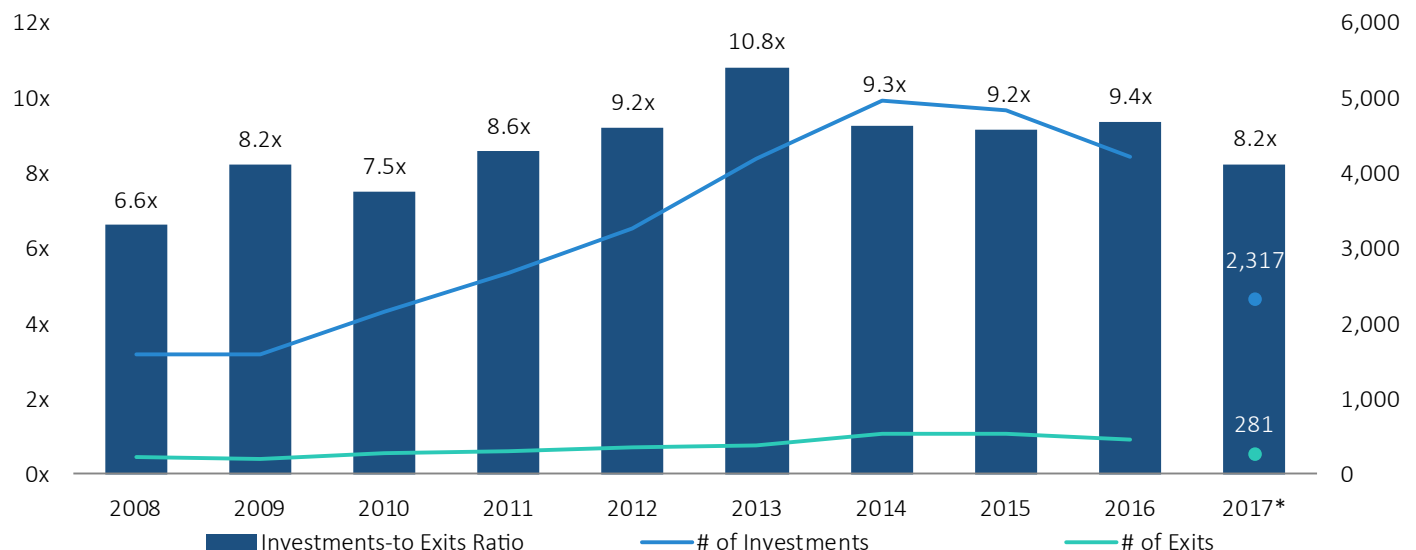


Source: PitchBook
*As of 9/30/2017

The number of investments for every exit has fallen to the lowest multiple since 2010

Investment-to-exit ratio declines amid heavy slowdown in deals

VC investment-to-exit ratio



Source: PitchBook
*As of 9/30/2017

Early investors raising larger funds

Fundraising

Similar to US trends, VC fundraising has slowed in 2017 following two consecutive years of over €9 billion raised, the highest totals reported since 2008. However, the market remains strong from a historical perspective, with the €6.1 billion raised so far in 2017 surpassing annual totals we saw in each year from 2009 to 2014. Regarding closed funds, 2017 is on pace to be the sixth consecutive year that fund count will trend downward, with just 42 funds closed as of 3Q, a 31% decrease from the same time last year.

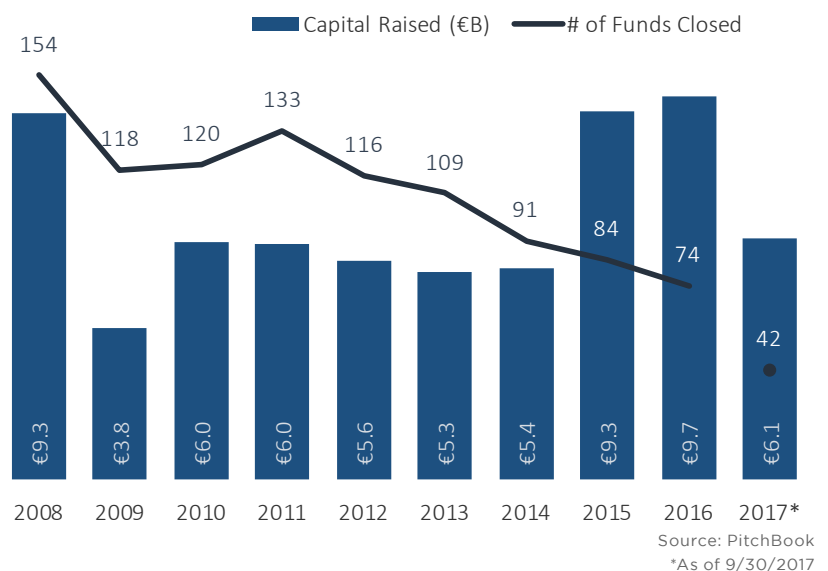
The bulk of this decrease is seen at the micro-fund level (funds sized €50M or smaller), with early stage capital being concentrated in fewer, larger funds. In 2014, 43 micro-funds were closed, whereas only eight have closed so far in 2017. In contrast, 47.5% of 2017 funds are small-cap (€50M-€100M) or mid-cap (€100M-€250M) vehicles, a significant uptick from just 12.5% in 2012. Given that median early stage deal size has jumped some 114% since 2012, fund sizes

have likely increased to support transactions as companies continue to seek larger rounds.

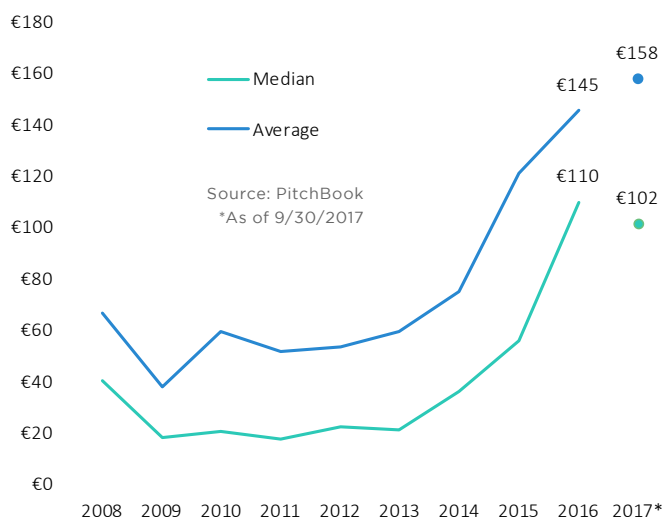
While these larger early stage funds still adhere to investing in Series A and B rounds, many are providing “life-cycle” funding with allowances for follow-on rounds and operational support. Though this strategy is not new,

it is relevant given the scarcity of late stage funding in Europe; European VCs have raised less than a fifth of what US VCs did for large-cap funds every year since 2010. Larger early stage funds will be a valuable resource for growing European startups hoping to compete with US giants and scale globally.

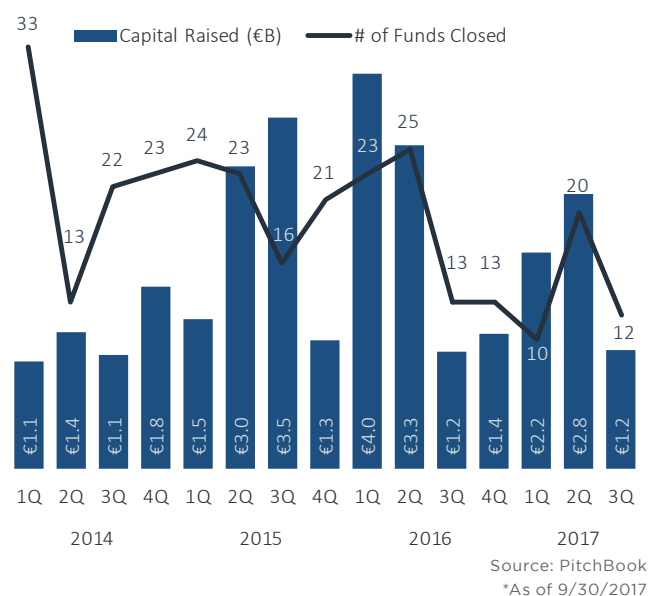
VC fundraising activity



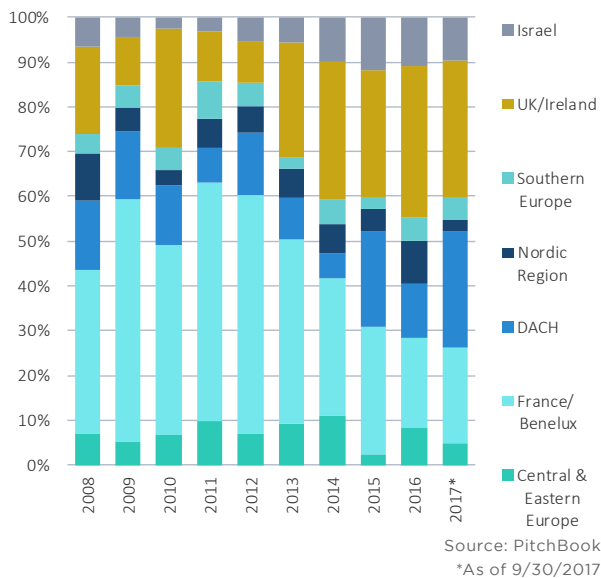
Median and average VC fund size (€M)



VC Fundraising activity

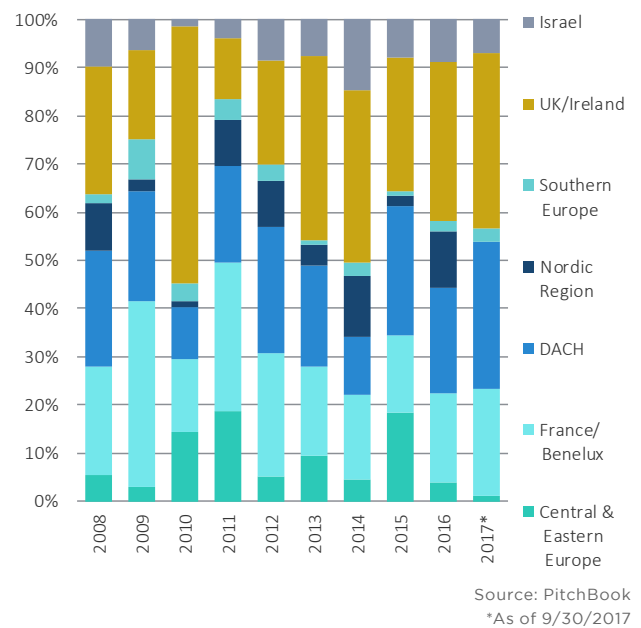


VC fundraising activity (#) by region



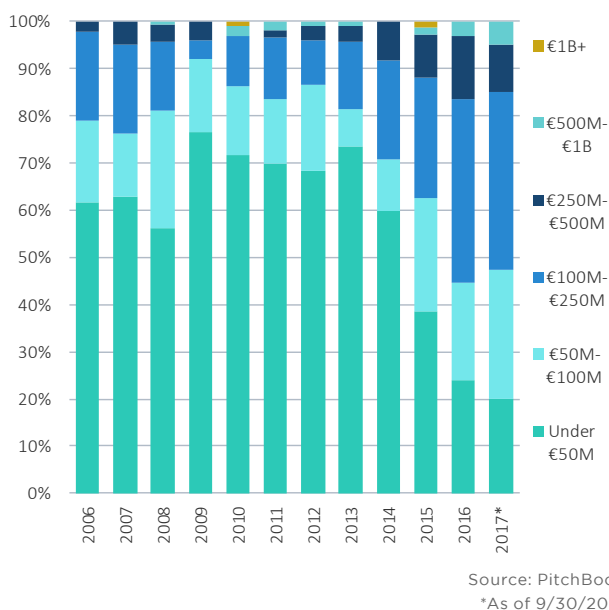
The DACH region is closing the gap with the UK and Ireland in terms of fundraising activity

VC fundraising activity (€) by region

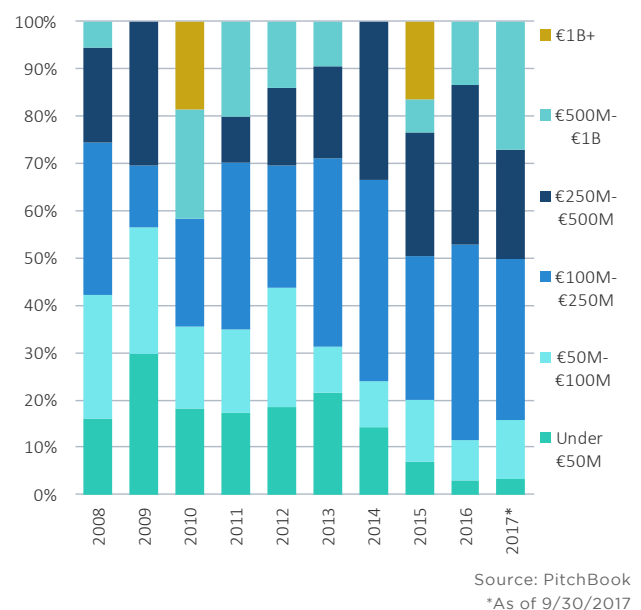


As larger funds are raised across Europe, late-stage companies will continue to benefit from domestic capital availability

VC fundraising activity (#) by size



VC fundraising activity (€) by size



League tables

3Q 2017

Select largest VC deals in 3Q 2017

Company	Date	Size (€M)	Series/Stage	Investor(s)	HQ	Sector
Deliveroo	9/24/2017	325.9	Series F	Accel, DST Global, Index Ventures	London	Consumer Goods & Recreation
Prodigy Finance	8/21/2017	203.2	Series C	Balderton Capital, index Ventures	London	Financial Services
SoundCloud	8/11/2017	143.5	Series F	The Raine Group, Temasek	Berlin	Software
Tricentis	8/3/2017	139.7	Series B	Insight Venture Partners, Wipro Ventures	Vienna	Software
Lilium	9/5/2017	76.192	Series B	Atomico, Obvious Ventures	Gilching	Transportation

Source: PitchBook

Select largest VC-backed exits in 3Q 2017

Company	Date	Size (€M)	Type	Former Investor(s)	HQ	Sector
Rovio	9/28/2017	424.6	IPO	Accel, Atomico, Felicis Ventures	Espoo	Software
Torqueedo	9/27/2017	100.0	Acquisition	Deutz	Gilching	Commercial Products
NuCana BioMed	9/28/2017	84.7	IPO	Sofinnova Ventures, Scottish Enterprise	Edinburgh	Pharma & Biotech
Huddle	8/6/2017	74.7	Buyout	Turn/River Capital	London	Software
NightstaRx	9/28/2017	72.8	IPO	Redmile Group, New Enterprise Associates	London	Pharma & Biotech

Source: PitchBook

Select largest closed VC funds in 3Q 2017

Fund name	Firm	Close date	Size (€M)	HQ
Partech International Ventures VII	Partech Ventures	7/10/2017	400.0	Paris
Felix Capital Fund II	Felix Capital	7/6/2017	130.3	London
Endeit Capital Fund II	Endeit Capital	7/11/2017	125.0	Amsterdam
Evolution Technology Fund	Evolution Equity Partners	7/17/2017	108.6	Zurich
Breega Capital Venture II	Breega Capital	7/7/2017	100.0	Paris

Source: PitchBook

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