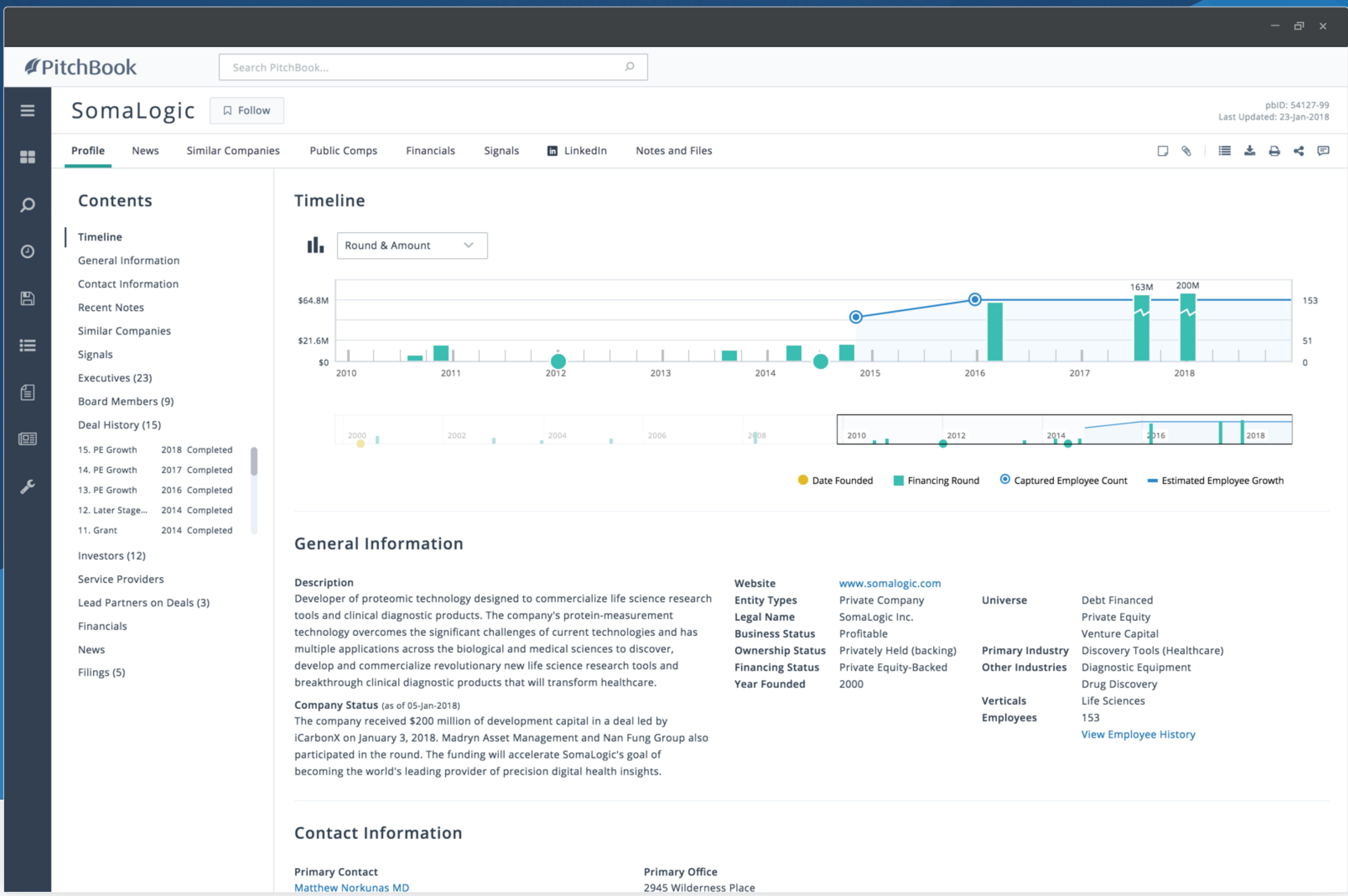
PitchBook

European Venture Report

2018 Annual

Make your next move the right move.



PitchBook provides comprehensive data on the private and public markets—including companies, investors, funds, investments, exits and people—to help global M&A professionals map the market, find target companies, execute deals and more.

Stop by our booth or visit pitchbook.com to see what our data can do for your firm.

Contents

Credits & Contact

PitchBook Data, Inc.

John Gabbert Founder, CEO
Adley Bowden Vice President, Market Development & Analysis

Content

Cameron Stanfill Analyst, VC
Joelle Sostheim Analyst, VC
Bryan Hanson Senior Data Analyst

Contact PitchBook

Research
reports@pitchbook.com

Cover design by Conor Hamill

Click here for PitchBook's report methodologies.

Introduction

In 2018, European VC saw:

•€20.5 billion of total deal value across 3,384 deals (a 4.2% YoY increase and a 25.9% YoY decrease, respectively)

•€47.5 billion of total exit value across 373 exits (a 164.8% YoY increase and a 30.5% YoY decrease, respectively)

•€8.4 billion of total capital raised across 62 funds (a 0.2% YoY increase and a 23.5% YoY decrease, respectively)

Driven by increased deal sizes and nontraditional investor participation, capital investment in VC continued to climb despite drops in deal counts. The uptick in deal value was propelled by larger deals across the board rather than by a few giant outliers. The sustained climb of median deal size displays both the competition for deals and the maturation of the VC ecosystem. Furthermore, deal count declines extended into another year, especially in the earlier stages of VC, as larger check sizes have pressured investors to be more selective.

Lack of €1 billion+ exits tempers the end of an enthusiastic year for liquidity. Only €2.6 billion of value was achieved across 77 liquidity events during 4Q 2018, illustrating the effect of a lack of outsized exits on exit value trends. Growth in exit value during 2018 was almost fully driven by the Spotify and Adyen public listings, and while this confined returns to only a handful of investors, capital return on this scale will likely have positive knock-on effects for the European VC ecosystem.

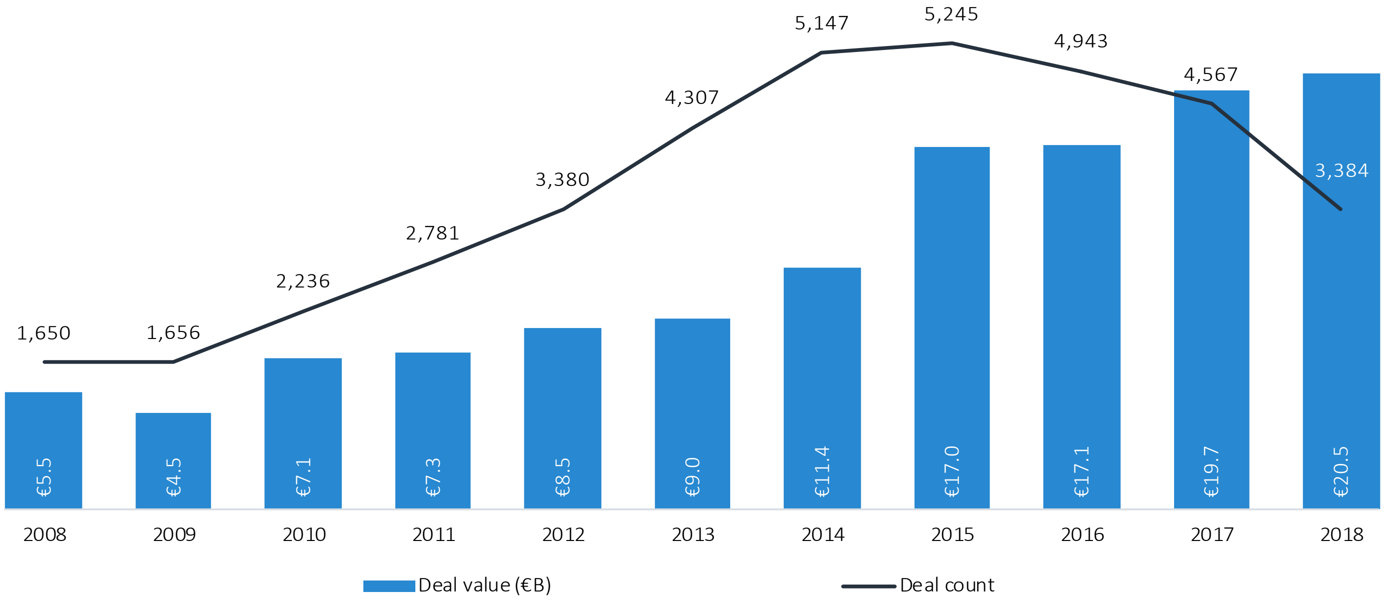
European VCs closed just 62 funds in 2018, representing a 23.5% decline from 2018. Capital continues to accumulate in larger vehicles as GPs focus investments in larger, more mature startups. While this may call into question capital availability for smaller and younger European startups, international investors, nontraditional investors, and government programs have grown in prominence as alternative sources of funding. Government support for early startups is an especially promising avenue of fundraising and can be seen across Europe.

Cameron Stanfill
Analyst, VC

Overview

Capital invested reaches decade high of €20.5 billion in 2018

European VC deal activity



Source: PitchBook

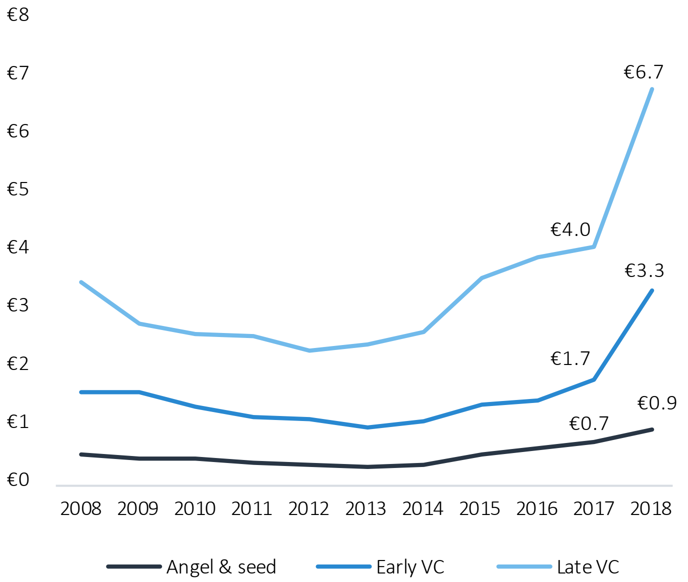
4Q 2018 European VC dealmaking ended the year on a high note, bringing in €5.1 billion of capital investment across 586 deals. This pushed annual capital invested over €20 billion for the first time ever. Given a 25.9% YoY decline in deal counts, swelling deal sizes and valuations across the VC landscape have been key to this sustained climb in deal value.

However, this uptick wasn't driven by a few outlier deals. Rather, 2017 and 2018 recorded an almost identical count of deals over €100 million, but those deals contributed only €2.8 billion in value compared to €4.3 billion in 2017. With less capital concentration in the upper range, the €10 million-€25 million size bucket made the largest relative YoY increase on a deal value basis. This trend displays the ability for larger numbers of startups to secure bigger deals and progress through the VC lifecycle.

With larger check sizes pervading the entire VC life cycle, we've seen the earliest stages of VC pressured by higher expectations from more selective investors. For example, the median early-stage deal size increased 86.9% YoY, with the median angel & seed deal advancing 32.8%. The bulk of YoY declines in deal counts have been mainly constrained to the early-stage and angel & seed spaces. With accelerating deal size growth, even upsized funds have struggled to keep GPs on top of new developments in the market.

2018 median deal sizes surge to new highs

Median European VC deal sizes (€M)



Source: PitchBook

Breaking down activity by region, we see similar YoY declines in absolute deal counts across geographies. However, on a relative basis, Israel and the DACH region both increased their proportions of the total more than 2%. While this was driven by strong dealmaking in technology and healthcare (in two regions regarded as hubs for those sectors), the relative increase can also be attributed to the Nordic region's dip in activity.

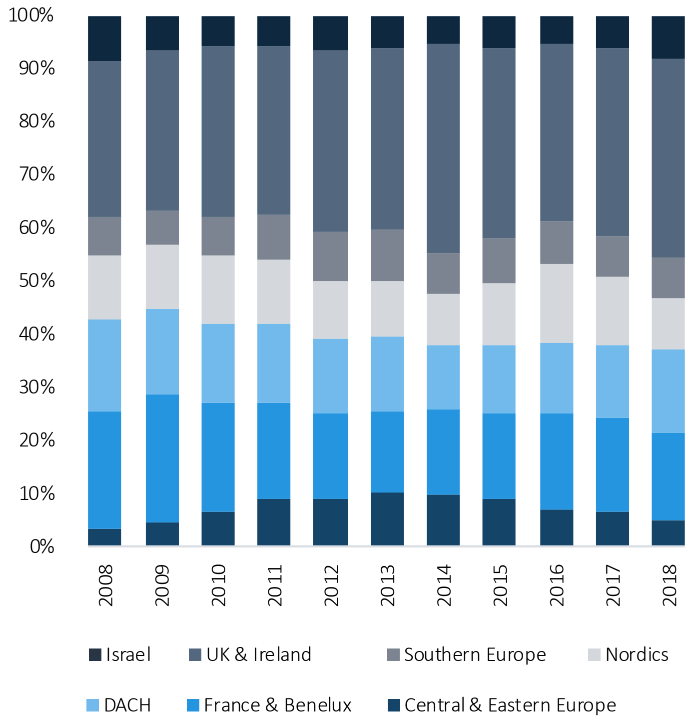
After reaching a decade high of 742 completed deals in 2016, the Nordic region has slipped to 320 or 9.5% of total deals, relegating it back down to the fourth most active region. While there has been a gap at the top of the Nordic's VC ecosystem left by the grouping of multi-billion-dollar exits over the last few years (Spotify, iZettle, Supercell), we still expect to see healthy investment activity going forward. As some of the recently liquid capital from these successful exits flows back into the region, local startups will likely face an attractive array of capital availability.

Outside capital remains a significant factor for the European VC market. Unlike the broader market declines in activity, participation by both US investors and corporates reached decade highs in deal value while posting flat deal counts YoY. This boosted the percentage of total deals with US investors to 20.9%, far above the 11%-14% range we've recorded over the past decade.

This current uptrend is partially a function of the capital availability and elevated valuations among US startups driving the search for attractive assets into Europe and other geographies. A change in economic or market conditions will inform longer-term capital availability from US investors in the European VC ecosystem.

DACH records strongest relative growth in deal activity

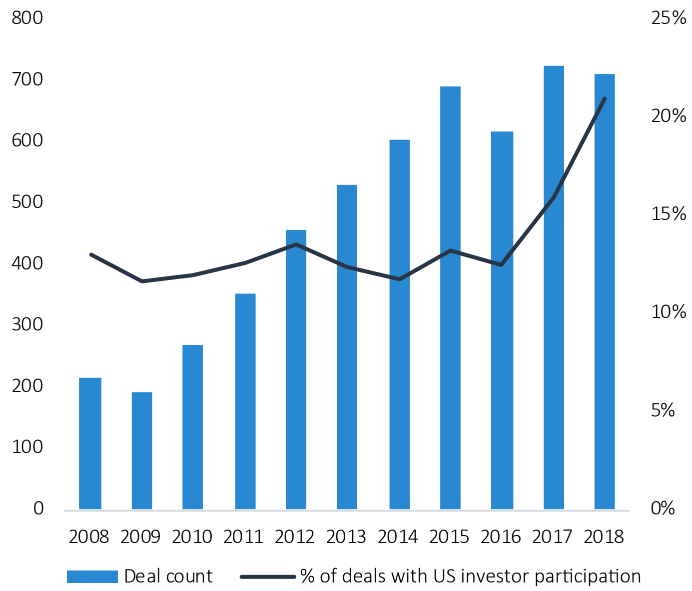
European VC deals (#) by region



Source: PitchBook

Proportion of deals with US participation spikes to 20.9%

European VC deals (#) with US investor participation

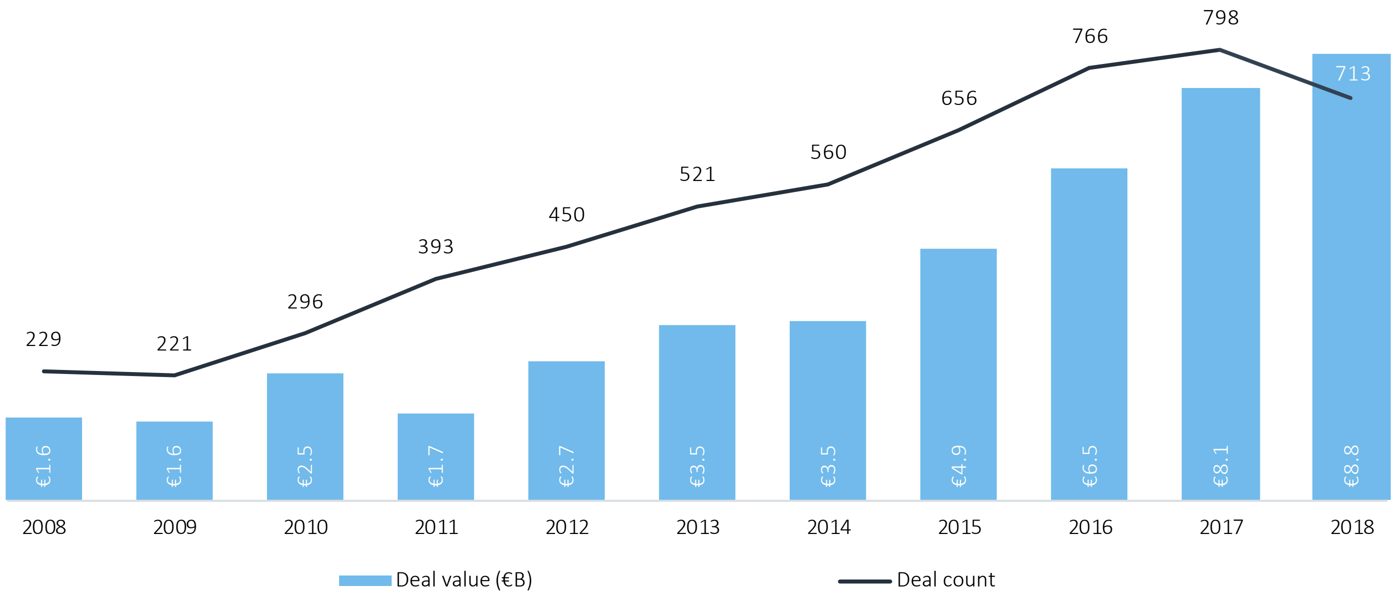


Source: PitchBook

Corporate VC

Deals with CVC participation reach a record-high value of €8.8B

European VC deal activity with CVC participation



Source: PitchBook

With CVCs participating in 713 venture financings totaling €8.8 billion, 2018 saw greater CVC presence in fewer but larger deals. As venture ecosystems throughout Europe have matured, so too has corporate investment, with CVCs shifting toward funding more late-stage investments. Late-stage deal count trended up approximately 20% from the previous year, countering the 25.8% decline in angel & seed rounds and 19.1% decrease in early-stage deals from 2017 levels.

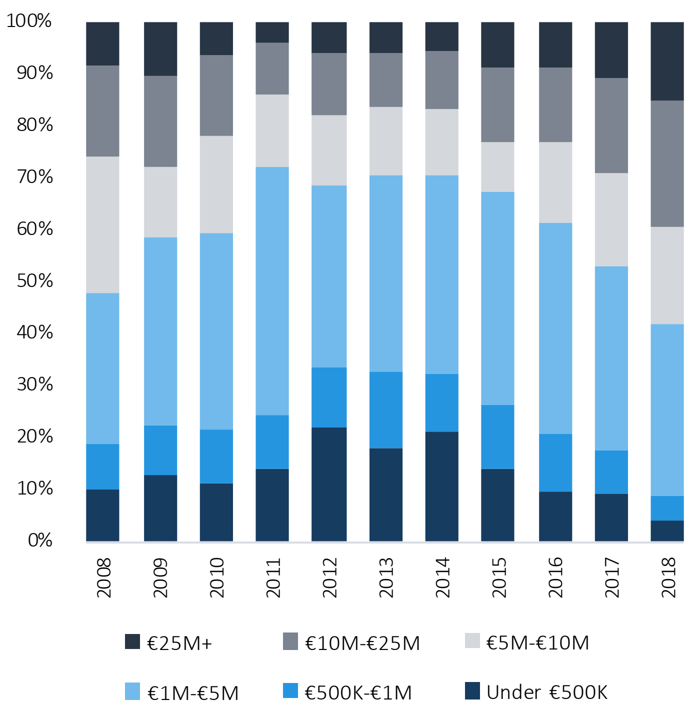
The sizes of late-stage deals with CVC participation continue to dwarf overall VC, with the median deal size hitting €11.8 million in 2018—well above the overall median late-stage deal size of €6.7 million. With stiff competition to secure stakes in leading tech companies, CVCs remain willing and able to provide substantial capital to startups, making them an increasingly important funding source for companies raising larger rounds.

Funding more mature, late-stage companies can be a key avenue to gaining insights into emerging technologies and quickly evolving markets, without bearing quite as much risk as early-stage deals. Artificial intelligence and machine learning (AI/ML) has seen hefty investment from strategics, as automation carries advantages in both cost-cutting and the development of new business lines.

For example, Bristol-based AI/ML hardware provider, Graphcore, closed its €171.7 million Series D with investment from both Microsoft and BMW i Ventures. The latter investor

CVC participation in €10M-€25M rounds increased 23.9% from 2017

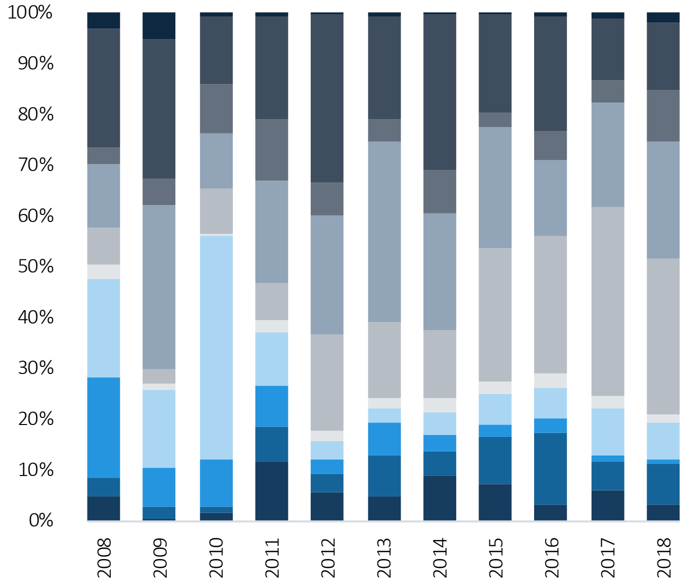
European VC deals (#) with CVC participation by size



Source: PitchBook

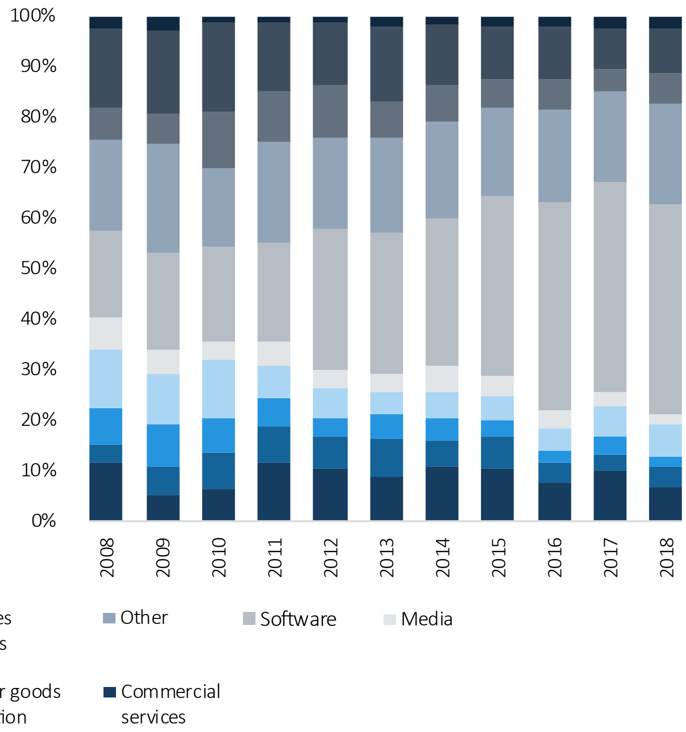
Larger deals in pharma & biotech boost its relative proportion of deal value

European VC deals (€) with CVC participation by sector



Software leads CVC deals, though 2018 saw more HC devices & supplies deals

European VC deals (#) with CVC participation by sector



Source: PitchBook

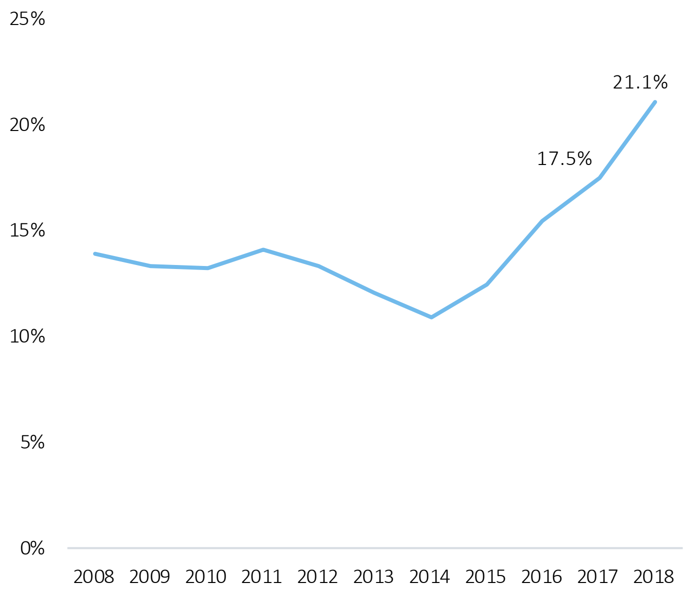
noted that Graphcore's processing chips are well suited to multiple ML use cases, "from intelligent voice assistants to self-driving vehicles," a market of growing interest and importance to corporates in the transportation industry.[1]

Startups in capital and research-intensive sectors also benefited from greater CVC participation in 2018. CVC investment in healthcare devices and supplies, for instance, showed a 148.2% increase in deal value and a 29.4% increase in closed financings.

While the medtech space has seen stagnant growth in recent years, innovative developments in surgical devices spurred sizable commitments throughout 2018. Israeli company Insightec, for example, secured €123.2 million to develop its ultrasound solutions for noninvasive surgical treatments, and Cambridge-based CMR Surgical raised €84.7 million to fund clinical trials of its robotic devices for surgical assistance. Such technologies aim to enhance treatment efficacy and increase successful outcomes, while reducing costs and risks borne by healthcare providers and operators, making them attractive investment opportunities and potential acquisition targets for industry incumbents.

More than one-fifth of European deals included a corporate investor in 2018

Proportion of European deals (#) with CVC participation



Source: PitchBook

1: "AI chip startup Graphcore closes $200M Series D, adds BMW and Microsoft as strategic investors," TechCrunch, Natasha Lomas, December 18, 2018

Regional spotlight: DACH

With startups securing €4.4 billion in investment, activity in the DACH region saw another year of healthy investment value despite declining deal count. 2018 numbers mark a decade high for capital investment in the region, showing a 13.5% increase from 2017's already strong activity. Similar to other geographies, the region saw deal count slide 13.8% to 535 closed financings. As a proportion of total European deal count, however, the region has remained resilient, making up 15.8% of all deals closed, up from 13.6% the previous year. Investment in the region has become concentrated in more mature ventures as VCs double down in larger, growth-oriented rounds. The decline in angel, seed, and early-stage rounds, coupled with an increase in late-stage rounds, suggests that the startups in the DACH ecosystem have seen a slow but healthy maturation.

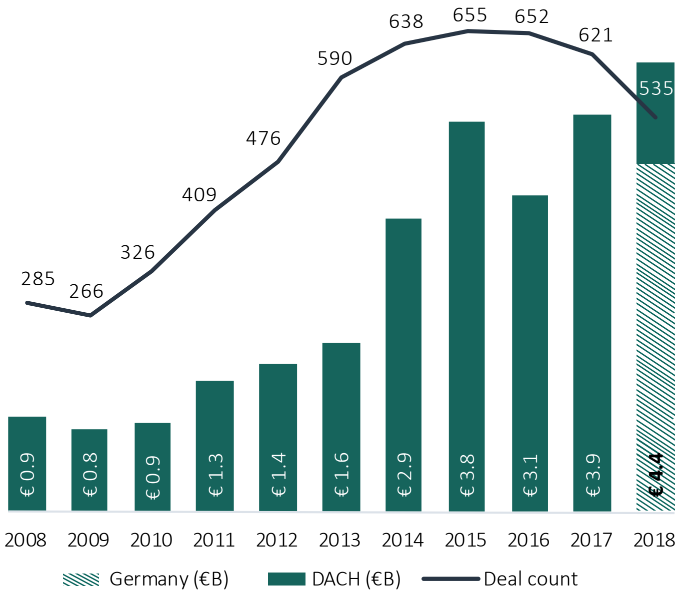
German startups, in particular, saw a sizable elevation in investment value, with the €3.4 billion raised by German startups marking a 16.8% increase YoY, despite a 15.6% decline in deal count. As aging companies enter later stages of maturity in burgeoning ecosystems across Germany, they have also come to command higher deal sizes. While median deal size for all European late-stage rounds sat at €6.7 million in 2018, median late-stage deal size for rounds closed in Germany reached €15.0 million in 2018.

With a strong population of homegrown and international tech talent, the increase in capital invested can be attributed in part to the country's supply of quality founders and operators in verticals such as fintech, ecommerce, and mobility. Larger pools of local capital have also contributed to the development of startup hotbeds across the country. German VCs secured close to €1.6 billion in commitments in 2018, the third highest fundraising value by country behind the UK and France, where VCs closed an aggregate €2.7 billion and €2.2 billion, respectively. Additionally, angel investors in Germany have received hefty financial support from governmental programs such as the €285 million European Angel Funds (EAF) Germany initiative, which pools capital from the European Investment Fund and the German Economic Affairs Ministry to support investment capacity of business angels via equity co-investments.

German startups have also seen success attracting US investors for larger late-stage deals. US investors participated in 84 German VC rounds totaling €1.8 billion in 2018, making up 41.2% of all capital invested in the DACH region. After 2017's row of strong exits, German startups showcased the globally minded, growth-oriented businesses characteristic of startups in the region. Despite a considerable dip in exit activity in 2018, sustained interest from international investors will likely keep startups well capitalized in the years to come.

€4.4B invested in DACH region in 2018

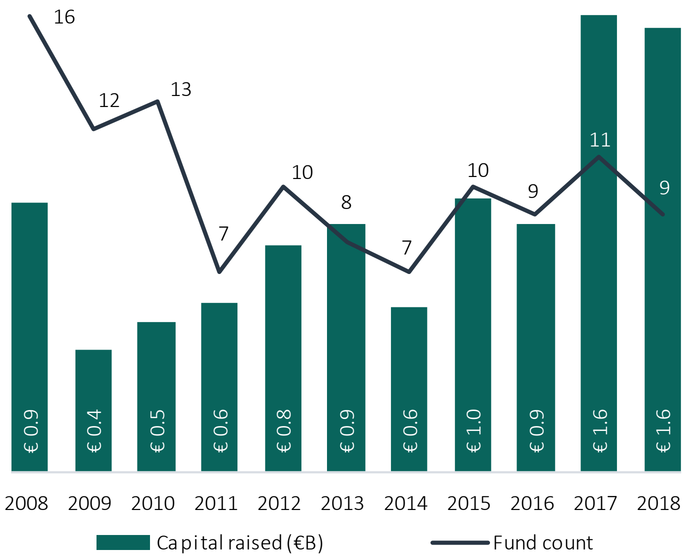
DACH VC deal activity



Source: PitchBook

German VCs closed 9 funds in 2018 worth 85.0% of all capital raised in DACH

German VC fundraising activity



Source: PitchBook

Exits

Driven by a combined €30.3 billion of exit value from the public listings of Spotify and Adyen, exit value in 2018 soared to €47.4 billion. Excluding these two exits from the data, the trend shows a more subdued pattern, posting a minor 4.2% YoY decline. That said, the idiosyncratic timing and outsized nature of venture-backed IPOs have historically been a primary driver of movements in exit value. For example, after two consecutive quarters of elevated VC exit activity in mid-2018, 4Q 2018 saw no liquidity events in VC exceeding €1 billion, which left the fourth quarter's exit value under €3 billion.

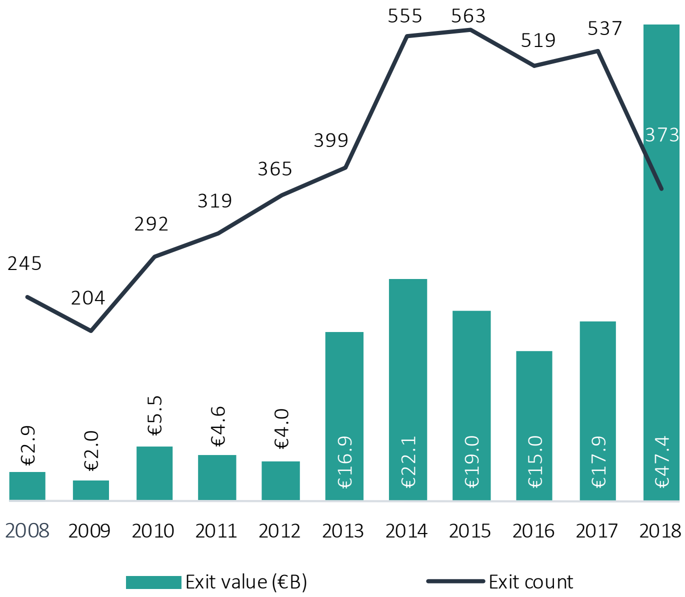
However, from a high level, the exit market's ability to support three multi-billion-dollar liquidity events in one year (Spotify, Adyen, and Farfetch) marks an important step for European VC ecosystem. These exits inspire investor confidence to sponsor companies through the later stages of growth, and the potential to spawn a plethora of spin-offs and new angel investors. The momentum of outsized exits needs to be carried forward to prove to VC participants that this year was more than a one-time event.

The recent uncertainty surrounding the economic and political climate in 2019, however, may make it more difficult to see the same successes that characterized 2018 as a boom year. It is important to note that VC-backed IPO activity relies heavily on the performance of broader public markets, bringing into question whether or not the IPO window will remain open given further volatility or weakness in the equity markets.

2018's surge in exit value was a boon for the shareholders of those outsized exits, but on aggregate, exit counts slid 30.5% YoY. With only 373 completed liquidity events during the year, 2018 posted the lowest count since 2012, the year before annual exit value began its yet unbroken streak of reaching €15 billion or more. A healthy exit market needs to support not only outsized deals, but their smaller counterparts to ensure robust capital returns to a broader swath of GPs and LPs. Exit volume dropped even more precipitously than deal counts in 2018, driving the investments-to-exits ratio back over 9.0x after a brief dip in 2017. Although that puts 2018 back in line with the 10-year average, a continued uptrend in this ratio over the next year may signal a broader slowdown, since exits are typically affected sooner and more severely than dealmaking.

Outlier transactions push exit value higher despite drop in counts

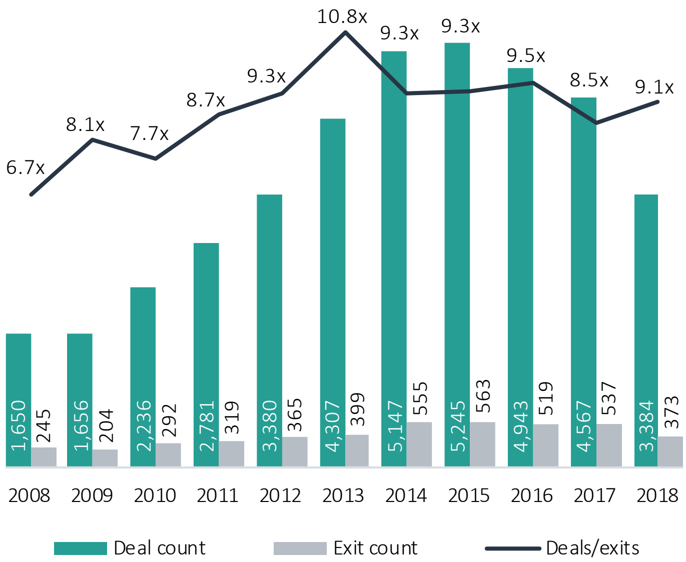
European VC exit activity



Source: PitchBook

Exit counts drop more severely than deal activity

European VC deals versus exits

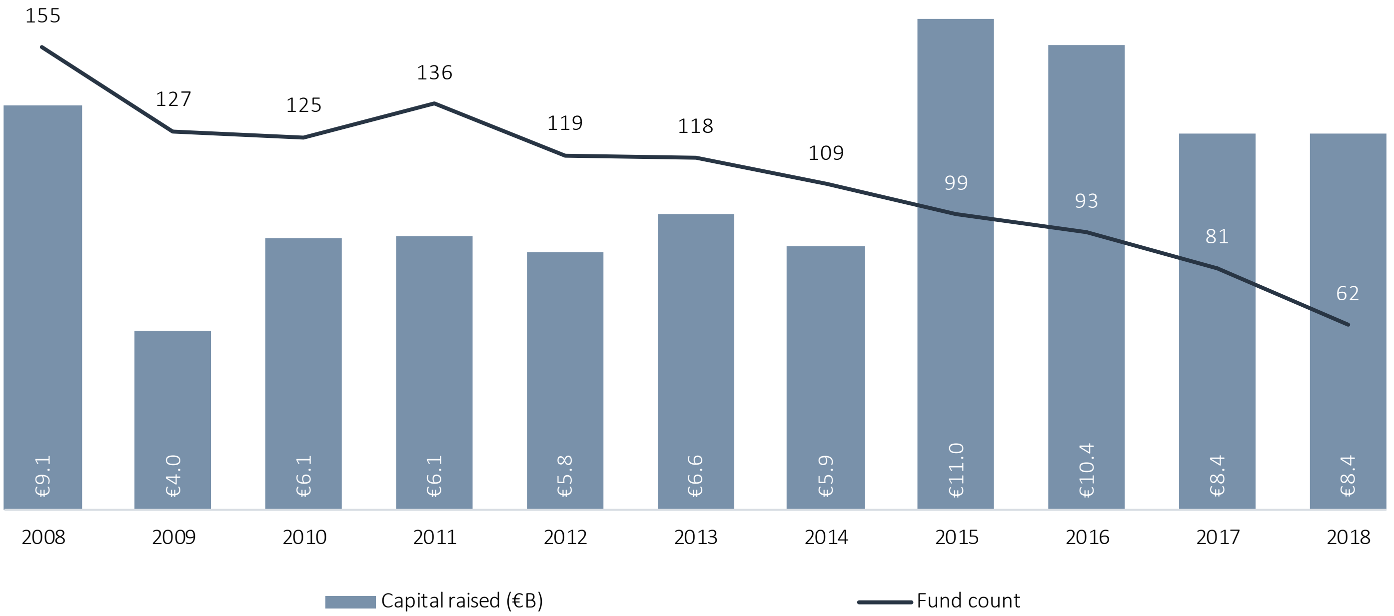


Source: PitchBook

Fundraising

European VCs closed only 62 vehicles in 2018, as capital accumulates in larger funds

European VC fundraising activity



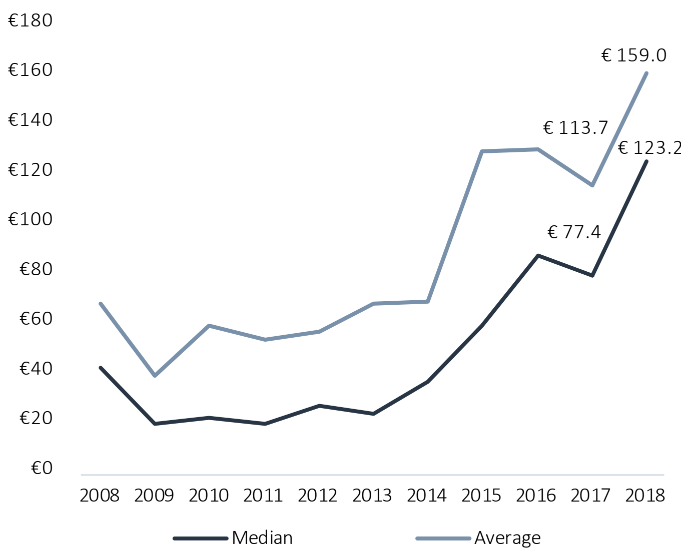
Source: PitchBook

The annual count of closed VC funds in Europe dropped to the lowest level in the last decade, with a mere 62 vehicles raised during 2018. This represents a 23.5% decline from 2017's fund count and a 43.1% decrease from five years ago. Total capital raised tells a different story, however, with the €8.4 billion raised by European VCs recording a 0.2% increase in capital raised YoY and a stark 42.9% increase from 2014 levels. Driving this development is the shift toward fewer, larger fundraises throughout Europe. Median fund size reached an all-time high of €123.2 million, a sizable 59.3% increase from the previous year.

Although low fund counts from recent years call into question capital availability for European startups, elevated investment levels illustrate that companies are still able to draw investments from the now concentrated powerhouse VCs, nontraditional investors, and international investors. 2018 saw the highest count of funds raised in the €250 million to €500 million size range, while micro-funds (vehicles €50 million or smaller) have dwindled to a count of just eight (a significant decline from 54 just five years ago). A lack of smaller funds may have a negative impact on smaller, developing startups in years to come. Startups raising rounds at traditional angel & seed or early-stage round sizes may be precluded from the investment profile of a €500 million vehicle with a minimum check size of €20 million or €50 million.

Fund sizes grow substantially following 2017 dip

Median and average European VC fund sizes (€M)

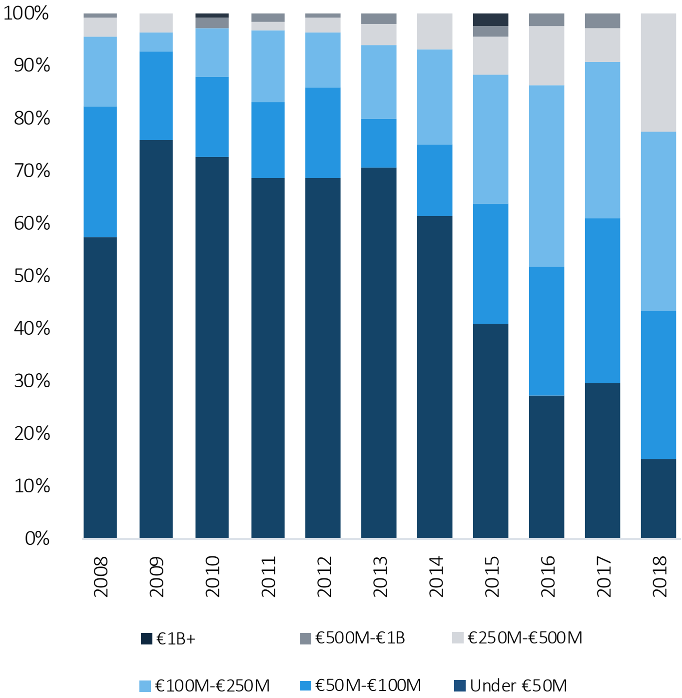


Source: PitchBook

That said, international investors, nontraditional investors, and government programs have grown in prominence as alternative sources of funding. Though international and nontraditional investors (e.g. mutual funds, pension funds, family offices) may still be looking to invest in more mature startups, government support for startups can be seen in regions across Europe.

Micro-funds dwindle as European VCs opt for larger funds

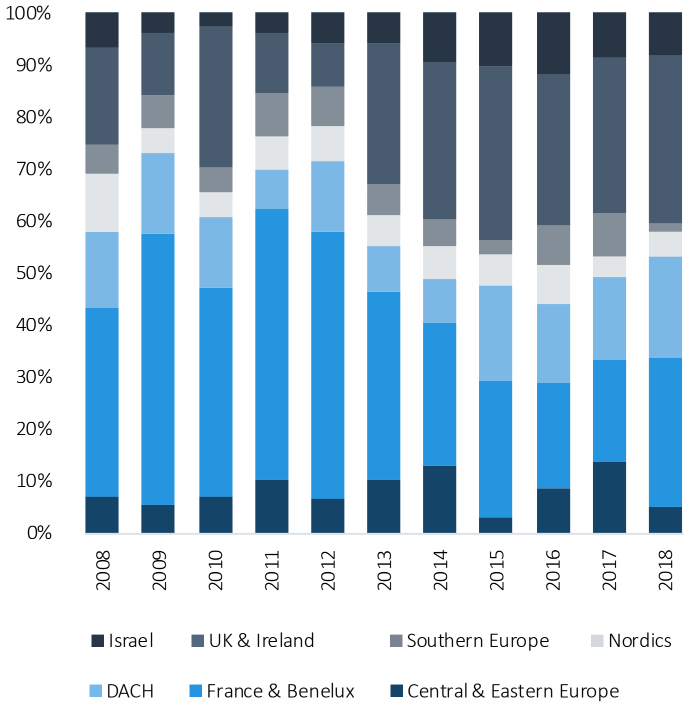
European VC fundraising activity (#) by size



Source: PitchBook

France & Benelux closed greater proportions of venture funds in 2018

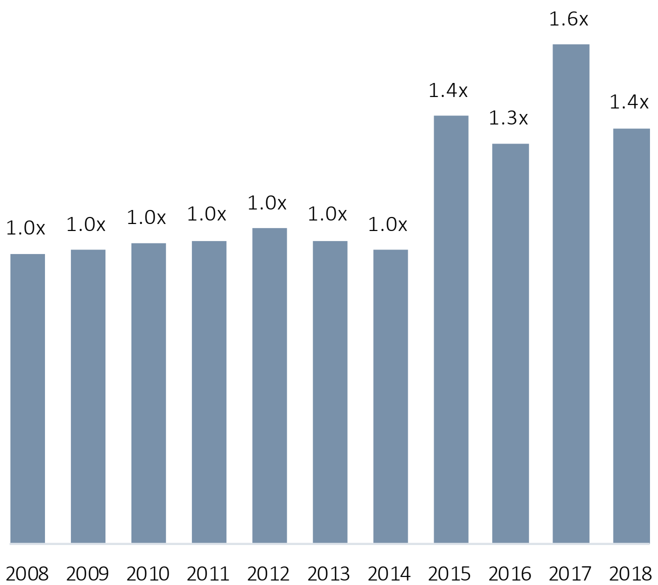
European VC fundraising activity (#) by region



Source: PitchBook

Fund size step-ups remain elevated in 2018

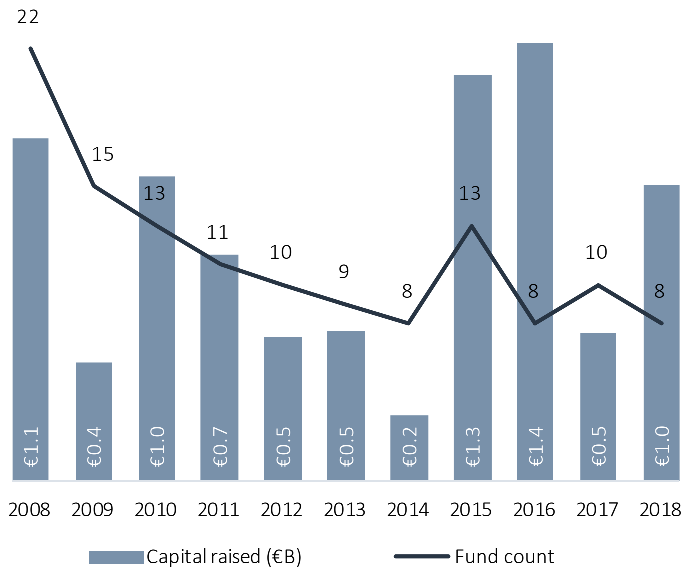
Median European VC fund size step-up



Source: PitchBook

First-time funds secured hefty commitments in 2018

European VC first-time fundraising activity



Source: PitchBook