PitchBook

European Venture Report

2020 Annual

Contents

Credits & contact

PitchBook Data, Inc.

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

Research

Nalin Patel Analyst, EMEA Private Capital

reports@pitchbook.com

Data

Bailey York Data Analyst

Design

Julia Midkiff

Click here for PitchBook's report methodologies.

Introduction

VC deal value remained aloft despite COVID-19 and set a new annual record, a noteworthy achievement considering macroeconomic damage delivered by the pandemic. The deluge of capital deposited into larger rounds did not relent in 2020. Pandemic-induced opportunities and existing VC companies within technology and healthcare have been well positioned to grow. VC investment into the UK stayed robust despite Brexit, and capital from the US flowed freely into Europe in 2020.

European VC deal value with CVC participation set a new annual record in 2020. Corporates in flourishing industries such as e-commerce and remote-working tools have driven CVC investment. Potential synergies have been fundamental to CVC strategies, as corporates have invested in startups to leverage their expertise. We expect corporates that have triumphed during the pandemic to lead CVC investment for the next few quarters.

VC exit value in Europe showed incredible strength amid widespread volatility in 2020. After a lethargic start to 2020, exit value gathered momentum as the year progressed with one of the strongest quarterly showings ever in Q4. The pandemic created favourable market conditions for VC-backed companies seeking an exit in sectors such as biotech & pharma. We predict further lumpy exit flow in 2021 as exit decisions are influenced by news linked to restrictions, additional waves of COVID-19, vaccine rollouts, and underlying macroeconomic issues.

European VC fundraising achieved a record high in 2020 as LPs and GPs across the continent shrugged off long-term concerns posed by COVID-19. Fundraising processes have successfully adapted to remote tools, while larger VC vehicles have attracted burgeoning heaps of capital from existing and nontraditional investors to target pandemic-proof and pandemic-induced opportunities. Restrictions on travel, recessions, and battered sectors have not stifled commitments from LPs, as GPs have been supplied with record levels of capital to put to work heading into 2021.

Nalin Patel
Analyst, EMEA Private Capital

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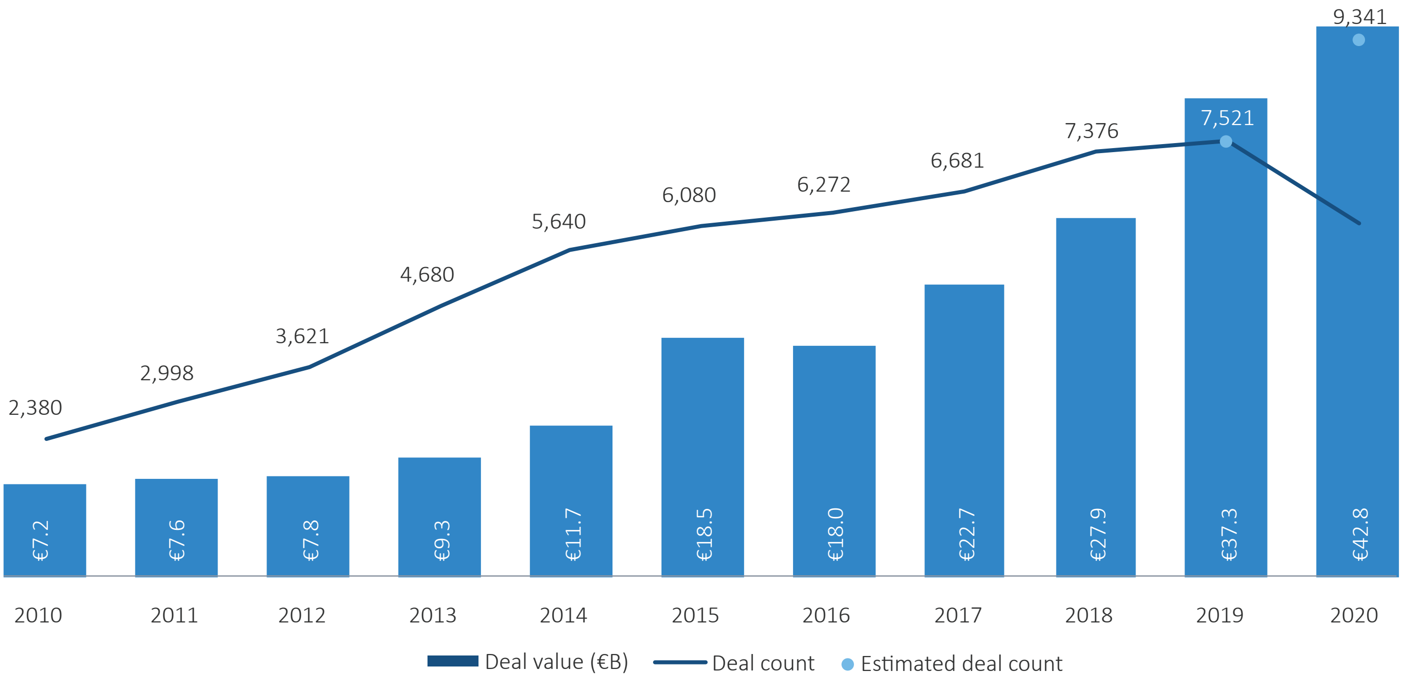
Overview

VC deal activity

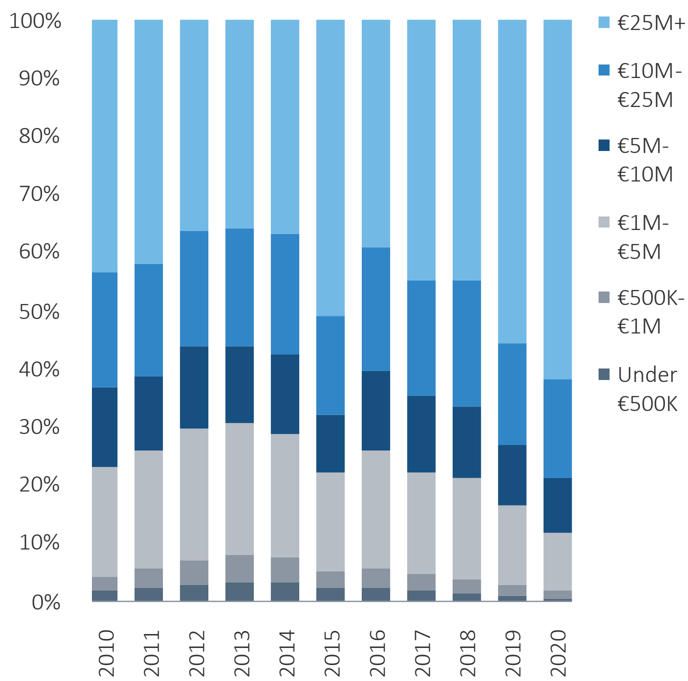


Source: PitchBook | **Geography:** Europe

Despite economic fallout from the rapid spread of COVID-19 and lockdowns across Europe, VC dealmaking was resilient on a broad level. VC deal value reached a new annual record of €42.8 billion, representing a 14.8% YoY increase from the previous record set in 2019 and renewed investor optimism.

Deals sized over €25 million have largely propelled the astonishing growth in European deal value over the last decade, steadily gaining share of total annual deal value. They represented a record 61.8%, or €26.5 billion, of capital invested in 2020. Enormous rounds attracting steep competition have closed with increasing regularity in Europe's maturing ecosystem, resulting in robust VC valuation growth with no signs of cooling, as discussed in our Q3 3030 European VC Valuations Report. CureVac, a Germany-based biotech & pharma company, closed the largest deal in 2020, securing a €560.0 million late-stage round in Q3. Klarna, Deliveroo, N26, Revolut, and Northvolt all closed deals over €500 million as well in 2020, whereas just two companies raised such a sum in 2019. We expect outsized deals will push deal value figures upwards as multi-billion-euro companies develop and remain in the European VC ecosystem.

VC deals (€) by size



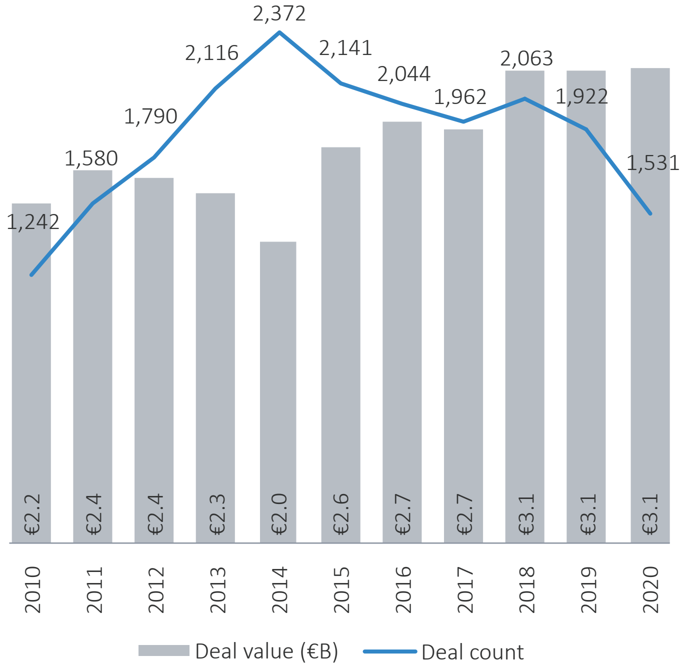
Source: PitchBook | **Geography:** Europe

At the beginning of the pandemic, many predicted that GPs would pivot focus to existing portfolios as capital allocations tightened at the expense of new investments. Yet, as the pandemic developed, companies in particular sectors emerged as benefactors, with the revenue gap widening from those struggling as lockdowns have prolonged. The shift to a digital economy has accelerated in 2020, and companies with online operations and capabilities have been well positioned to take advantage of surges in demand. European VC is weighted towards technology, allowing the vast majority of businesses to stay open remotely rather than close for large periods of 2020. In the last nine months of 2020, new pandemic-induced innovations and traditional opportunities have benefitted from the robust dealmaking capabilities within the VC ecosystem. New startups have attracted investor attention, with investors pouring a record €3.1 billion into first-time rounds in 2020. Capital deposited into first-time rounds has been consistent in recent years even as large swathes of capital have been placed into follow-on rounds, and healthy first-time financing activity will help the ecosystem remain diverse by nurturing a pipeline of fresh high-growth prospects.

Investors deployed €14.5 billion into the software sector across 2,123 deals, marking a marginal 7.9% YoY increase and more substantial 22.3% YoY decrease, respectively. The sector remains the most popular investment strategy, representing a third of total European VC deal value in 2020 with several massive rounds closed in the year, but we may be observing early signs of shifting investor interest as this industry is saturated with capital.

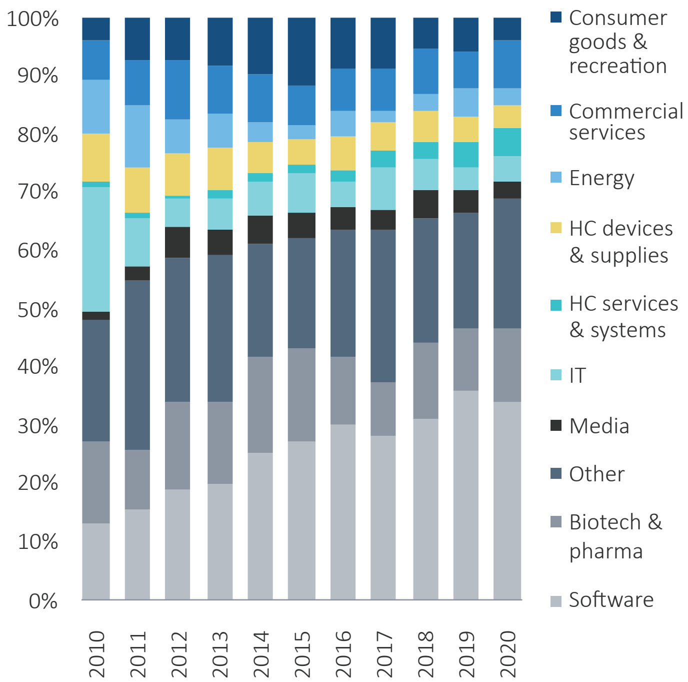
For example, investment into biotech & pharma startups jumped 41.1% YoY to €5.4 billion as COVID-19 held attention globally. Even with vaccine distribution underway, the pandemic has highlighted major shortcomings within global healthcare systems, creating entrepreneurial opportunities. For example, VC-backed telemedicine startups such as Babylon Health and Doctolib have enabled appointments to be conducted virtually during lockdowns, helping numerous individuals gain access to vital healthcare services without increasing the risk of transmission. In March, the Mercedes-AMG Petronas F1 racing team partnered with University College London engineers to reverse engineer and manufacture continuous positive airway pressure devices to help patients with lung infections avoid the need for a ventilator. Organisations and individuals fighting the pandemic have pulled together during a tumultuous year, and this could inspire founders, startups, and investors in sectors such as biotech & pharma to drive nations' rebuilding and future-proofing processes.

First-time VC deal activity



Source: PitchBook | Geography: Europe

VC deals (€) by sector



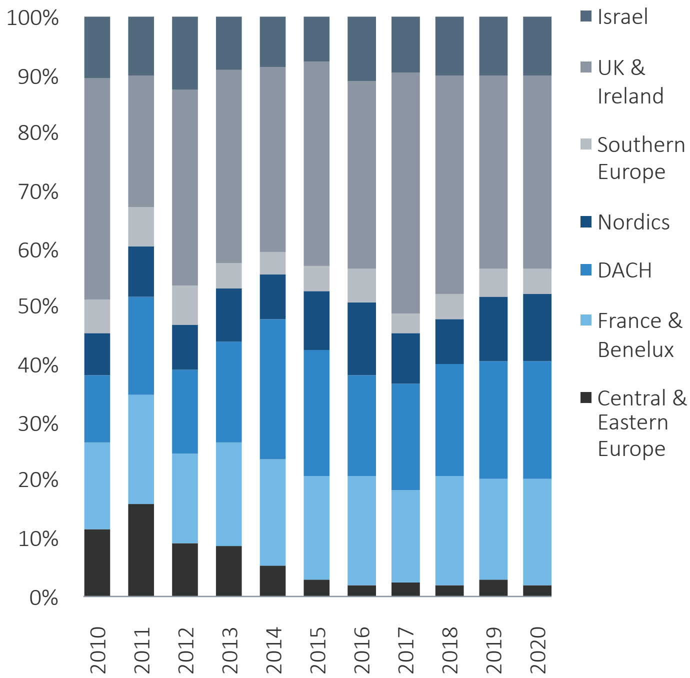
Source: PitchBook | Geography: Europe

Overview

Regional disparities in VC deal flow have been negligible in comparison to recent years amid intermittent lockdowns across European nations in 2020. News of a more infectious variant in the UK has tightened travel restrictions in recent weeks, but decentralised VC decision makers and founders have endured and adapted throughout 2020. Due diligence has shifted online, and video calls have temporarily replaced in-person meetings, with neither proving to be a significant hindrance or showstopper for dealmaking. In fact, a more remote approach has highlighted potential gains regarding time, logistics, and cost for certain VC stakeholders. In 2020, all regions apart from Central & Eastern Europe beat their respective deal value figures from 2019. The UK & Ireland remained the highest deal value provider and reached a record €14.3 billion in 2020, providing a third of the total in Europe. The UK remained an attractive destination for VC investment despite Brexit taking place, and we believe it will continue to be into the next decade.[1] However, with the transition complete and terms of the divorce agreement with the EU decided, other nations could explore possibilities to gain a greater share of VC invested into Europe.

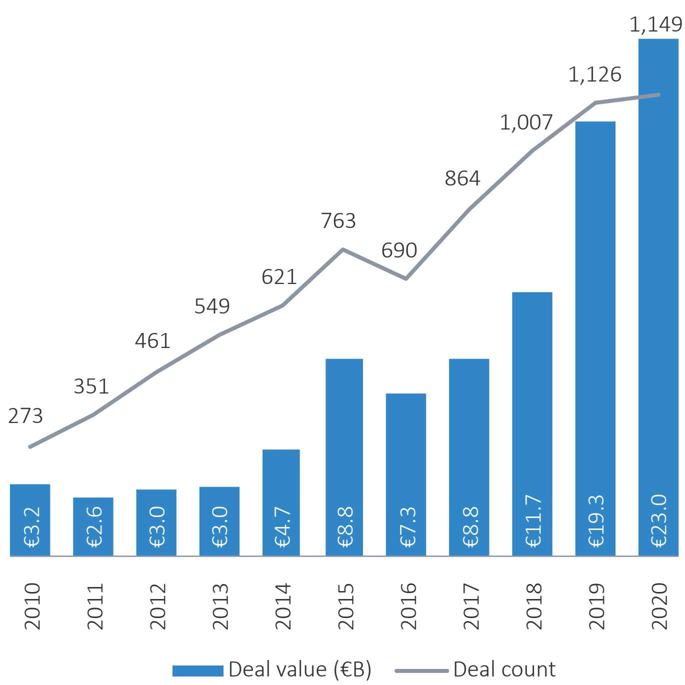
US investors pumped capital into Europe's VC-backed companies at a healthy rate in 2020. International travel restrictions and uncertainty surrounding Brexit and the US presidential election did not hamper activity, as total value of deals with US investor participation grew 19.4% YoY to a new annual peak of €23.0 billion. US investors participated in five out of the six largest deals in Europe, underlining their commitment to prioritise and participate in the biggest European deals in 2020. European startups have sought out deep-pocketed US investors with the ability to ignite rapid international growth. Concurrently, some Europe-based startups serve as cheaper investment alternatives to highly valued US-based startups, and we believe US investors will funnel even more capital into these assets in 2021. COVID-19 has proved remote working can be successful and could disband centralised VC city clusters. For example, as capital shifts from the expensive Bay Area region in the US, it may distribute instead to other US regions or outside of the country altogether, where costs could be even lower. Consequently, US-based investors could re-evaluate where to invest to glean the most value, which could result in greater flows of capital into emerging European regions in the coming years.

VC deals (€) by region



Source: PitchBook | **Geography:** Europe

VC deal activity with US investor participation



Source: PitchBook | **Geography:** Europe

1. Please see our Spotlight section for more information on our predictions for 2021, including further analysis on the UK's VC ecosystem.

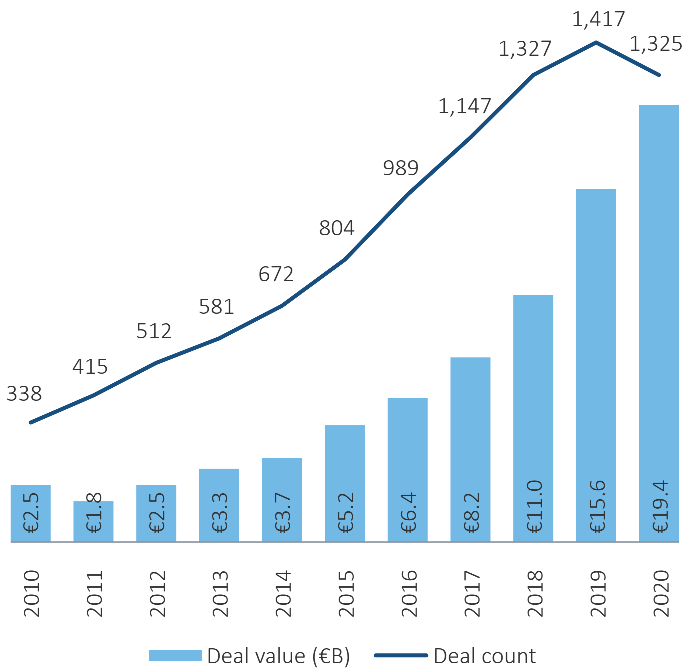
Corporate VC

European VC deals with CVC participation accrued €19.4 billion in value through 2020, easily surpassing the previous record of €15.6 billion set in 2019. CVCs have poured capital into many of 2020's largest rounds, including CureVac's €560.0 million round and Deliveroo's €527.6 million round. In the last nine months of the year, corporates faced contrasting fortunes as some flourished, such as those in the e-commerce, online recreation, and remote-working tools industries, while others struggled, such as those in the hospitality, tourism, and high-street retail industries. The benefactors have been driving CVC investment in recent months, and while the global vaccine rollout may help restore some normality in 2021, we expect them to continue dominating CVC investment for at least the next few quarters.

One startup that typifies divergent impacts from the pandemic is London-based online events platform Hopin, which completed a €106.2 million round with participation from CVC arm Salesforce Ventures in Q4. After forming in 2019, Hopin experienced explosive growth in 2020, completing three financings, expanding from roughly 20 to 300 employees, and hitting a valuation of €1.8 billion. Hopin's rise has coincided with the pandemic-induced shift to online conferences and the spike in demand for related services. The company's rapid growth is unusual as it can take years for startups to achieve similar milestones. As more and more people are vaccinated for COVID-19 and travel for meetings and conferences subsequently resumes in 2021, the sustainability and pace of Hopin's development could come under pressure. We believe many companies and individuals view in-person meetings as irreplaceable, and a reverse of pandemic-induced trends may occur. Additionally, many people will want to support local businesses that have suffered without in-person business, such as event spaces, hotels, and restaurants.

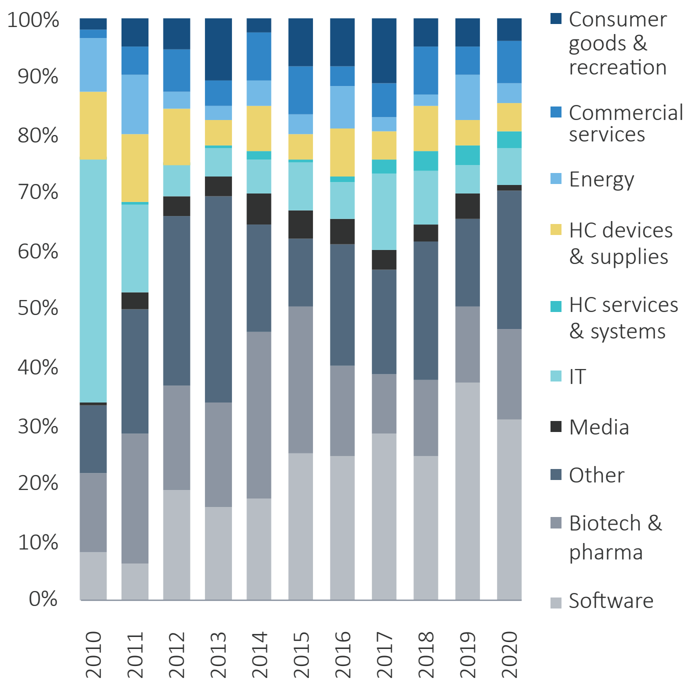
Synergies are a crucial aspect of CVC strategies as corporates are more likely to invest in startups that align with R&D efforts or complement existing operations. In Q4 2020, London-based commercial electric vehicle maker Arrival completed a €100.4 million financing with participation from UPS Ventures. Arrival has previously received CVC backing from carmakers Kia (KRX: 000270) and Hyundai (KRX: 005380) to assist with the development of its vehicles. The latest investment from the VC arm of UPS (NYSE: UPS) will see the logistics giant order 10,000 of Arrival's vehicles worth hundreds of millions of euros. UPS and Arrival co-developed the vehicles to meet UPS's requirements and will hasten its switch to a zero-emissions fleet. The relationship between UPS and Arrival portrays a strategy frequently observed, as large corporates have been willing to invest in startups and leverage their expertise instead of developing their own in-house solutions that could be more costly and time-consuming to launch, build, and roll out.

VC deal activity with CVC participation



Source: PitchBook | **Geography:** Europe

VC deals (€) with CVC participation by sector



Source: PitchBook | **Geography:** Europe

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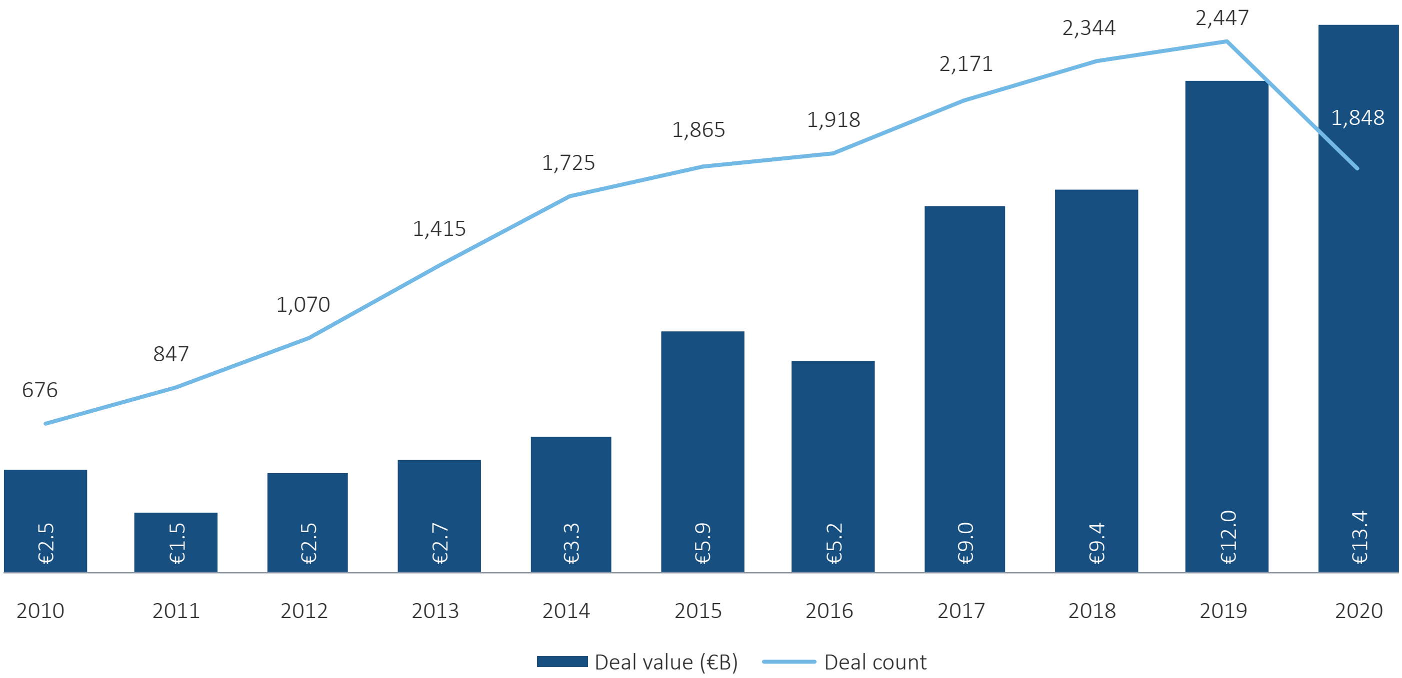
Spotlight: 2021 outlook

VC deal activity



Source: PitchBook | **Geography:** UK

These predictions were originally featured in the VC section of our 2021 European Private Capital Outlook.

Prediction: Brexit will not stifle VC deal value in the UK. The country will remain the largest contributor to aggregate European deal value, and startups will likely raise over €10 billion.

Rationale: The Brexit transition has finally taken place, and we predict VC deal value in the UK will remain strong as highly valued startups underpin investment into the region. Since the referendum in June 2016, Brexit uncertainty has not dampened VC deal value. Capital has flooded into specialist sectors, such as fintech, as ample opportunities ripe for investment have emerged in Europe's most developed ecosystem, and we do not foresee a collapse in 2021.

The timing of COVID-19 may have helped delay mass office relocations and a sharp exodus from the UK in light of Brexit as companies and individuals opt to move back into the EU bloc. However, the allure of vibrant and diverse clusters in cities such as London—equipped with academic institutions, job opportunities, and capital resources—should retain top-quality talent and will allow businesses that provide the foundation for VC investment to remain strong. The UK has been a natural stepping stone for US-based companies to invest or expand operations in Europe, and we do not anticipate that Brexit will alter these existing relationships, strong corporate ties, and cultural and logistical norms.

Caveat: Regulatory changes will affect how the UK interacts with the EU going forward, potentially forcing the hand of businesses and investors in the region. The UK could be competing for investment on a more level playing field with Asia and North America's much larger and more developed ecosystems. International investors may view startups in regions that are not facing Brexit-related costs and complexities as a better bet. Capital could instead flow into alternative European ecosystems such as Germany and France, which have both developed substantially in recent years.

Prediction: Follow-on rounds will remain above 90% of the overall VC invested across Europe.

Rationale: Investment runways for VC-backed companies have evolved during the last decade as capital deposited into first-time rounds has remained consistent, whereas capital within follow-on rounds has soared. Startups are fully maximising VC financing and valuation growth across different stages in their lifecycle before an exit, and this will likely continue in 2021. Capital has not been siphoned away from first-time rounds. Rather, there is a wider array of capital sources and greater amounts of capital flowing into the European VC landscape, with particular focus on the early and late stages.

Follow-on rounds represented over 90% of overall VC deal value for the first time in 2019 and then again in 2020. We expect late-stage companies to drive follow-on investment upwards as some capitalise on growth witnessed during the pandemic, while others seek capital to consolidate existing positions and commence rebuilding processes.

Caveat: COVID-19 has not cooled valuations or round sizes in the European VC ecosystem, and investors may view this as an opportune time to put capital to work in new startups that could demonstrate improved growth potential. We could see follow-on round investment flatten as growth becomes harder to capture during an uncertain period characterised by rising unemployment figures and limited sustainable macroeconomic growth. Startups targeting sectors that have experienced heightened growth during the pandemic have formed, and backers will attempt to unearth and nurture the next batch of new startups to generate improved returns.

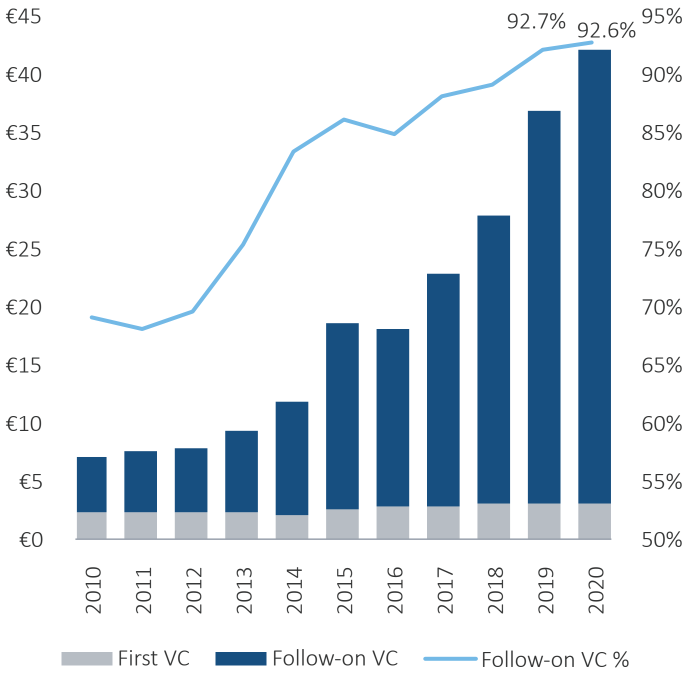
Prediction: Value generated by VC deals with nontraditional investor participation will reach a new record in 2021.

Rationale: VC has become a major financial instrument in Europe as global interest has been stoked and nontraditional investment has been drawn in from multiple sources—such as CVCs, sovereign wealth funds, PE firms, and family offices. Tech-enabled startups have demonstrated remarkable pandemic resilience as online reliance has propagated in 2020, further enticing capital from nontraditional investors.

The pandemic has ruthlessly highlighted that long-established companies, such as those on the high street, need to adapt and future-proof themselves ahead of black swan events. The pandemic accelerated sticky trends, with areas such as sustainability, online working, and e-commerce gaining significant attention. As a result, we expect nontraditional investors such as CVCs to take note and invest heavily heading into 2021 to leverage synergies with startups and stay ahead of competitors to ensure future revenues remain healthy.

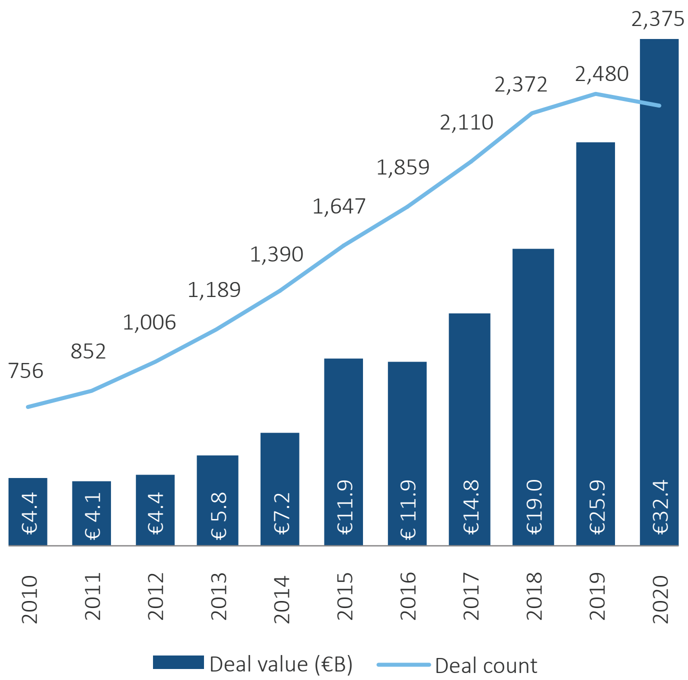
Caveat: The effectiveness of vaccination programmes and the subsequent rebuilding process earmarked for 2021 will shape macroeconomic trends and the wider financial market's appetite for VC moving forward. Volatility can trigger investment decisions and can cause disruption to capital flows from nontraditional sources into VC rounds. As nations emerge from restrictions, short-term pandemic winners such as video conferencing tools could see usage plummet. Nontraditional investors in battered sectors such as energy and airlines could reduce spending on investments as they evaluate the effects from cost-cutting measures and budgetary restraints.

First-time and follow-on VC deals (€B)



Source: PitchBook | Geography: Europe

VC deal activity with nontraditional investor participation



Source: PitchBook | Geography: Europe

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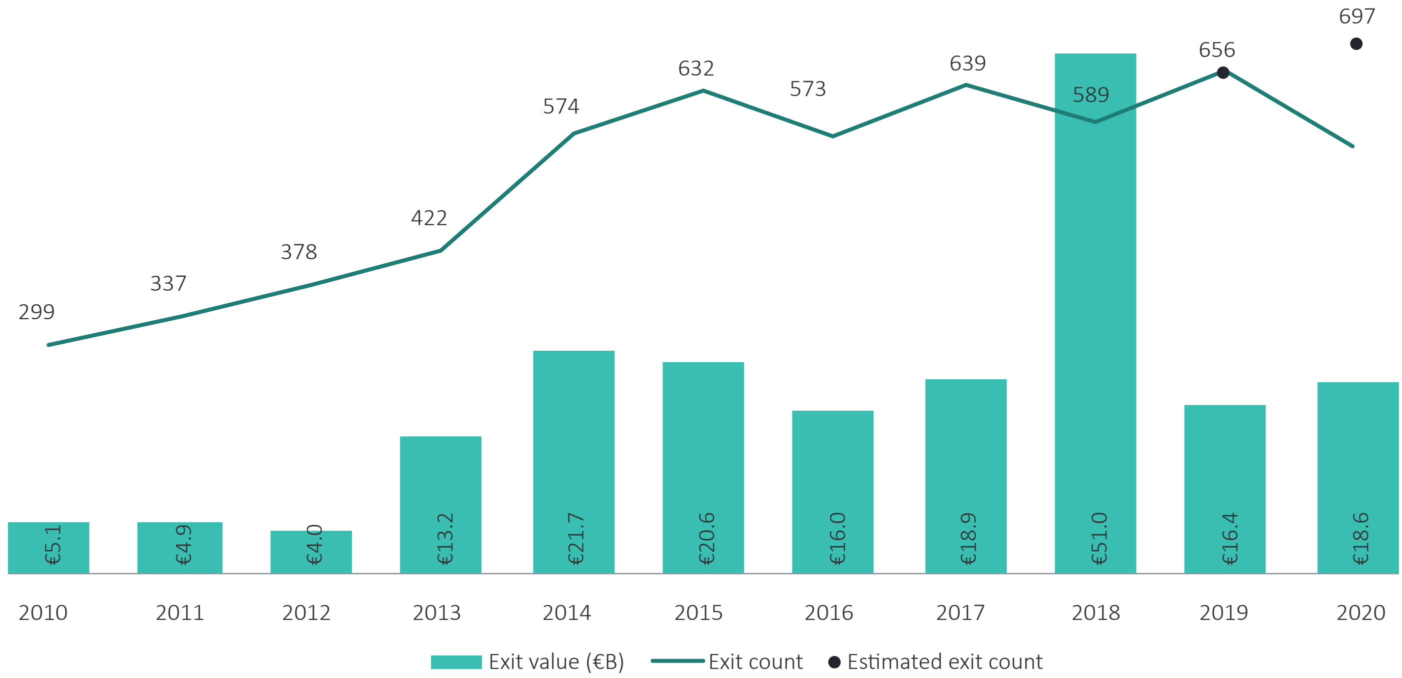
Exits

VC exit activity



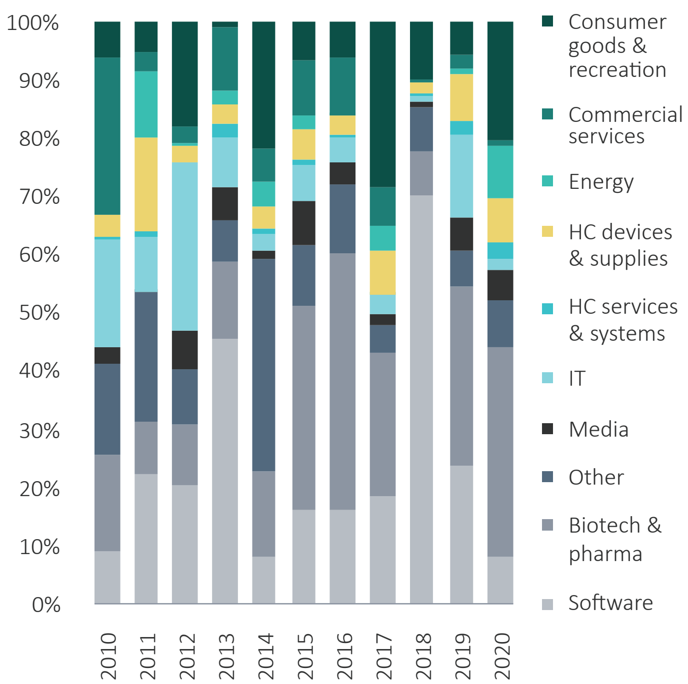
Source: PitchBook | **Geography:** Europe

Despite market volatility, total European VC exit value rose 13.9% YoY in 2020 to €18.6 billion. After a lethargic Q1, the European exit market gained momentum as the year progressed, closing on €7.6 billion in value in Q4. Appetite for exits remained healthy despite additional waves of COVID-19 and uncertainty arising from announced lockdowns. Management teams pushed ahead with announced plans, in some cases expediting exits given the strong performance of IPOs lately in comparison to recent years. The pandemic also meant the timing of an exit could not be better for certain industries such as healthcare and technology, with particular focus on sectors such as biotech & pharma, cybersecurity, and e-commerce. These sectors have seen huge growth in 2020, as companies have actively taken advantage of the short-term effects COVID-19 has thrust upon daily life.

Biotech & pharma companies capitalized on increased interest in the sector, securing €6.7 billion in venture exit value in 2020, or 35.9% of Europe's total. Notable exits in the sector include the IPOs of CureVac (NASDAQ: CVAC) and ADC Therapeutics (NYSE: ADCT), both of which totalled over €200 million, and the acquisition of Themis Bioscience, which sold for €1.1 billion.

Although the majority of large software companies generally benefitted from the pandemic, the sector generated only €1.5 billion in liquidity, the weakest

VC exits (€) by sector



Source: PitchBook | **Geography:** Europe

showing since 2014. Various software startups decided to maximize growth via VC funding and consolidate in 2020 rather than exit to volatile public markets. We believe software exits will bounce back in 2021, and that the showing in 2020 was an effect of interest being engrossed by COVID-19. However, it could also be an early indication that biotech & pharma startups could underpin exit value in the coming quarters as COVID-19 lingers.

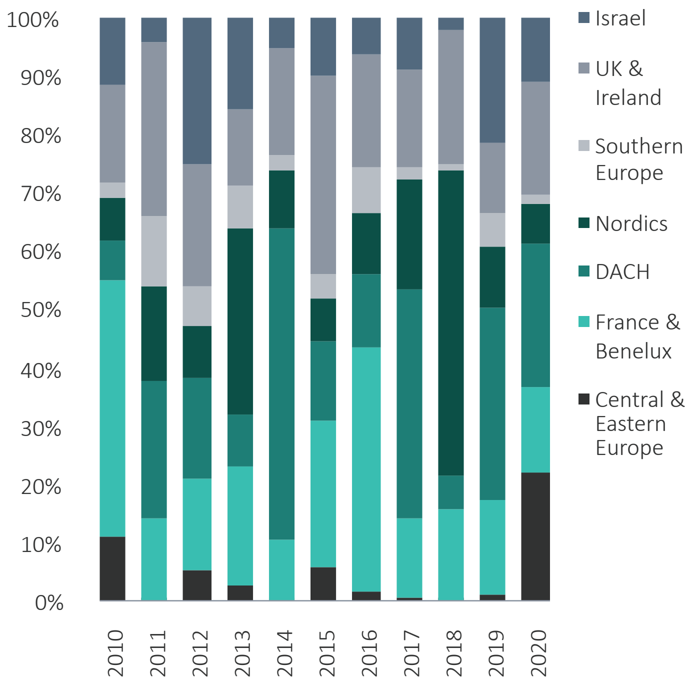
As was the case in 2019, the DACH region generated the most liquidity of any European ecosystem, closing on €4.6 billion in 2020, or 24.7% of the continent's total. The region's expertise in developing highly valued biotech & pharma companies bolstered exit figures, as discussed further in our 2020 DACH Private Capital Breakdown.

Central & Eastern Europe also produced robust exit value, reaching a record €4.1 billion, largely driven by Moscow-based e-commerce company Ozon's (NASDAQ: OZON) IPO at a €3.7 billion pre-money valuation. In the last five years, outsized exits of this nature have become more common in Europe, and they illustrate how significantly a small sample of VC-backed companies can skew liquidity figures each year. As mega-exit activity continues to rise in 2021, we'll begin to see in which sectors and regions major VC-backed companies congregate.

During 2020, we observed how market conditions can quickly influence exits from the VC ecosystem, as a few successful liquidity events can make other founders and investors want to follow suit. As a result, exit value created from these periods can be sporadic across the year. In fact, the total number of VC-backed IPOs grew slightly to 50 in 2020 from 46 in 2019, suggesting that some startups were bullish and willing to list even after a painfully sluggish Q1 and amid such a turbulent year. The resurgence of public equities and lack of listings in the second and third quarters created pent-up demand for IPOs, and healthcare startups such as Compass Pathways (NASDAQ: CMPS), Freeline (NASDAQ: FRLN), and Nanox (NASDAQ: NNOX), among others decided it was the perfect time to exit.

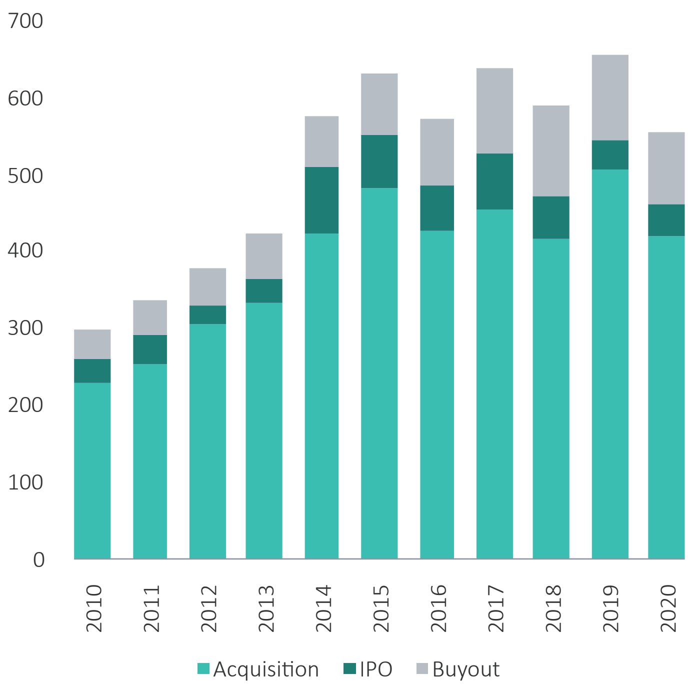
We predict further lumpy exit flow in 2021 as lockdowns, additional waves of COVID-19, vaccine rollouts, and underlying macroeconomic issues, including rising unemployment and stagnant economic growth, persist. Nevertheless, given the strong full-year showing in 2020, we believe the VC exit environment in Europe will remain buoyant in 2021. Individual companies may have faced challenges, but the overall VC ecosystem managed 2020 consummately, as the growth and resilience shown by many VC-backed companies created confidence that healthy returns can be generated, and the arrival of alternative liquidity options in Europe, such as SPACs, could provide further incentive for startups to exit in 2021.

VC exits (€) by region



Source: PitchBook | Geography: Europe

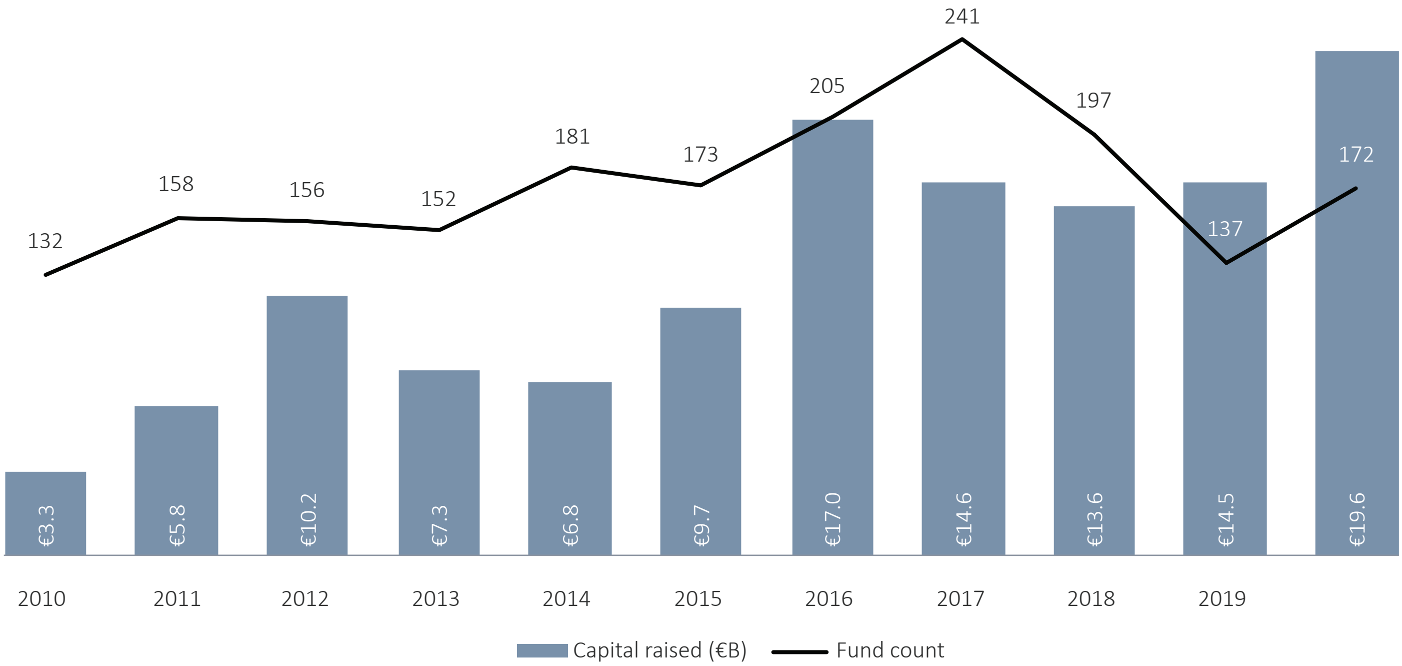
VC exits (#) by type



Source: PitchBook | Geography: Europe

Fundraising

VC fundraising activity

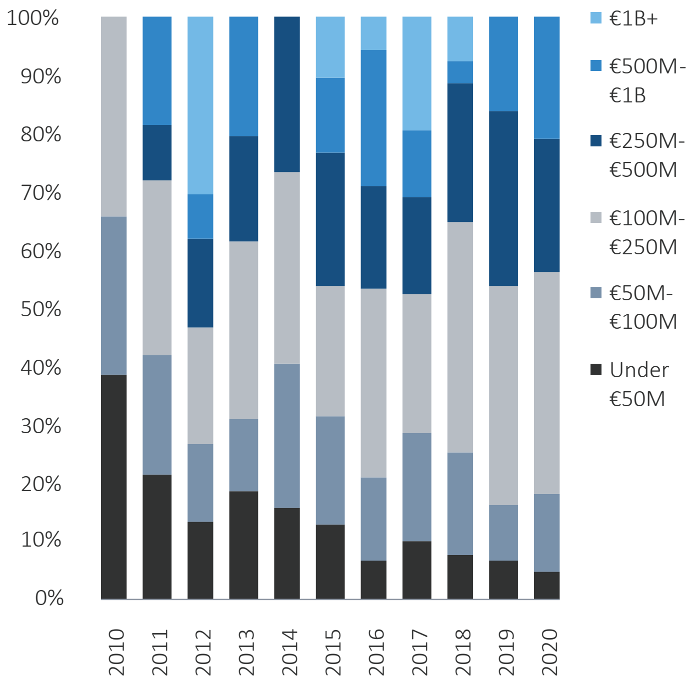


Source: PitchBook | **Geography:** Europe

European VC funds raised a record high of €19.6 billion in 2020, representing a 35.2% YoY increase as LPs and GPs across the continent shrugged off long-term apprehension posed by COVID-19. The quantity of closed VC funds ticked up to 172, reversing the decline observed during the last two years. Fundraising processes have successfully adapted to remote conditions, and restrictions on travel, recessions, and battered sectors have not stifled commitments from LPs. Heading into 2021, GPs are armed with record levels of capital to put to work.

Fund sizes have climbed during the last decade, buoying overall capital raised year to year. GPs have been able to close larger vehicles as the pool of capital sources and commitment sizes expand. In 2020, VC funds over €100 million represented 82.0% of the total capital raised in Europe, just below the peak of 83.8% set in 2019, and we expect they will continue gaining share in 2021. VC has become more prominent within financial markets, leading to highly coveted and lucrative investment from nontraditional sources such as wealthy tech entrepreneurs, PE firms, pension funds, hedge funds, and sovereign wealth funds. Strong investment strategies geared towards the healthcare and software sectors have drawn commitments during the pandemic, as the VC ecosystem on a broad level has

VC funds (€) by size



Source: PitchBook | **Geography:** Europe

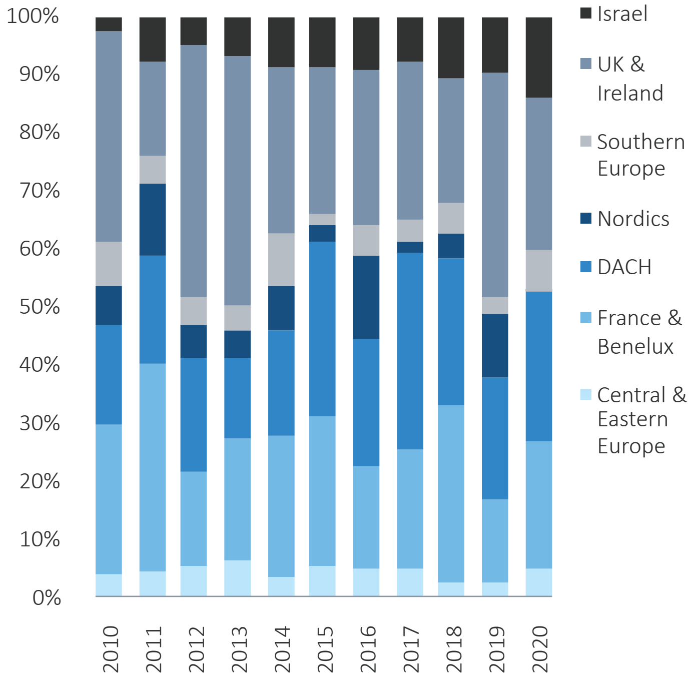
shown renewed toughness and innovation fighting the pandemic as well as the potential to assist the recovery process.

The regional split in capital raised across Europe was consistent with recent years, even though devastation from COVID-19 has varied country to country. Despite Brexit, the UK & Ireland raised the most capital for venture funds with €5.1 billion, narrowly topping the DACH region, which raised €5.0 billion in 2020, marking a new record for the region. As 2021 progresses, capital fundraising patterns may shift, and other EU-based regions may emerge as frontrunners in Europe with the Brexit transition period completed. Irrespective of Brexit, the Israeli VC ecosystem has emerged fiercely in recent years and developed its growing reputation with a record €2.7 billion raised in 2020. Israel-based VC funds have now raised over €1.0 billion in each of the last five years, and we believe GPs based in this region have the capital resources to develop their ecosystem even further and compete globally for commitments. Investment into Israel-based startups has soared in the last decade, and a thriving tech scene and substantial exits have raised awareness of the region as a major startup hub.

When analysing capital invested from VC funds into startups against capital raised by VC funds from LPs, it seems inconceivable that 2020 set new records, as it has been such a destructive and challenging year for many. The strength of both metrics showcases the high quality and potential of startups comprising Europe's maturing ecosystem. Furthermore, venture as a strategy has attracted ample capital due to macroeconomic impacts such as record low interest rates, disparate yields in public portfolios, and volatility disrupting long-term return targets for strategies such as pension funds. Few predicted the insatiable appetite to commit to and invest in VC in 2020, as other asset classes have crumbled. Nevertheless, employee layoffs, valuation haircuts, and startup collapses have occurred in 2020, and the longer COVID-19 lingers before herd immunity, the more likely additional companies and individuals will fall into financial trouble.

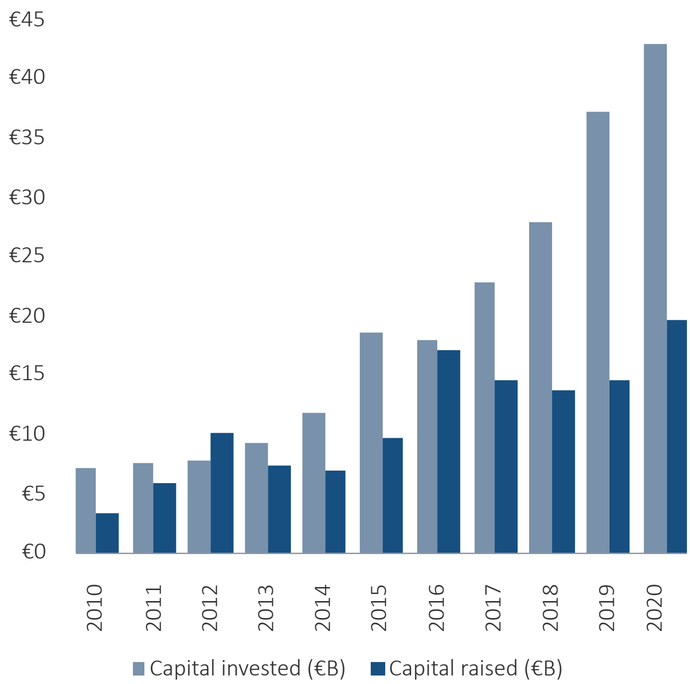
We anticipate European VC funds will carry momentum from 2020 into 2021, securing larger commitments as new funds come to market and as GPs put capital to work. 2020 has illustrated that the pandemic has not slowed capital flows into VC funds. Venture as an investment strategy has shown a resolute ability to be pandemic-proof as many investment opportunities have presented themselves in spite of and even as a result of COVID-19. We believe capital will continue to pour into pandemic-driven areas as recoveries commence, and the allure of a return to normality will push capital into resurgent pre-pandemic trends, both of which will combine to hold overall VC fundraising aloft in 2021.

VC funds (€) by region



Source: PitchBook | **Geography:** Europe

Capital invested (€B) from VC funds versus capital raised (€B) by VC funds



Source: PitchBook | **Geography:** Europe