PitchBook

European Venture Report

2021 Annual

PitchBook

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Published on January 19, 2022

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Introduction

2021 was a remarkable year for the European venture capital (VC) ecosystem, culminating with deal value reaching a new record. The increase in late-stage VC activity has proven fundamental to the maturation of the European VC ecosystem, and a glut of outsized rounds for highly valued businesses occurred in 2021. The broad software umbrella dominated VC deal value, and cloud-based businesses thrived in 2021. Despite uncertainty stemming from the COVID-19 pandemic, first-time deal value increased, and local ecosystems matured in Europe in 2021. We anticipate new records will be set as VC-backed companies maximise their investment runways and growth objectives in 2022.

VC deal value with nontraditional investor participation notched a new record in 2021. Capital deployment was relentless as nontraditional investors sought long-term outlier returns from high-growth areas. Nontraditional investors were drawn to emerging startups for strategic partnerships and synergistic opportunities. Emerging industries including food delivery and production enticed nontraditional investment in 2021.

In 2021, exit value jumped to a new peak, which was more than triple the previous best set in 2018. Amid frothy market valuations and conducive market conditions, investors and founders pushed ahead with liquidity events. VC-backed companies linked to tech rushed to exit to capture maximum value and deliver substantial returns to LPs. VC-backed public listings set a record in terms of both exit quantity and value in 2021.

Capital raised in 2021 increased and fund count declined from 2020 figures. Healthy capital commitments for both emerging and established GPs led to the creation of larger vehicles in the ecosystem. Strong return profiles and high-growth investment opportunities attracted capital, with GPs and LPs fostering relationships to bolster capital deployment into startups. As we transition into 2022, we believe VC fundraising will increase in Europe given the excess liquidity generated in 2021.

Nalin Patel
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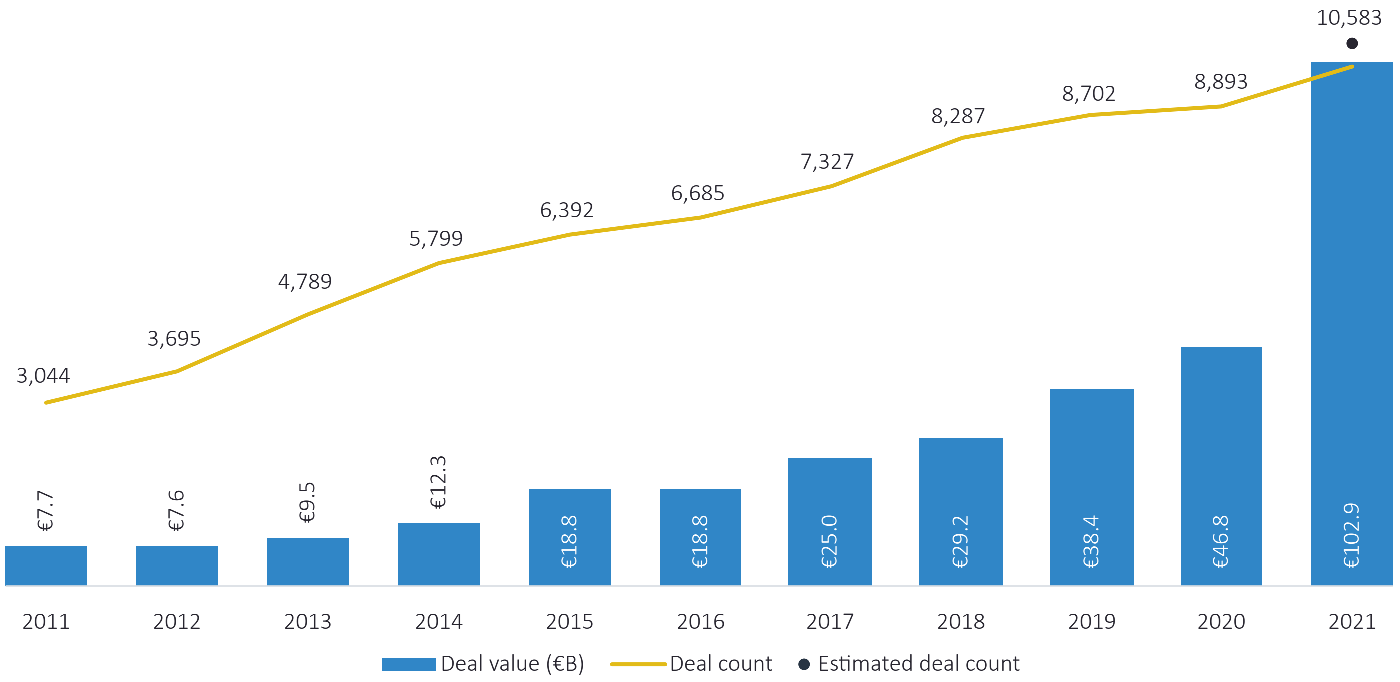
Overview

VC deal activity

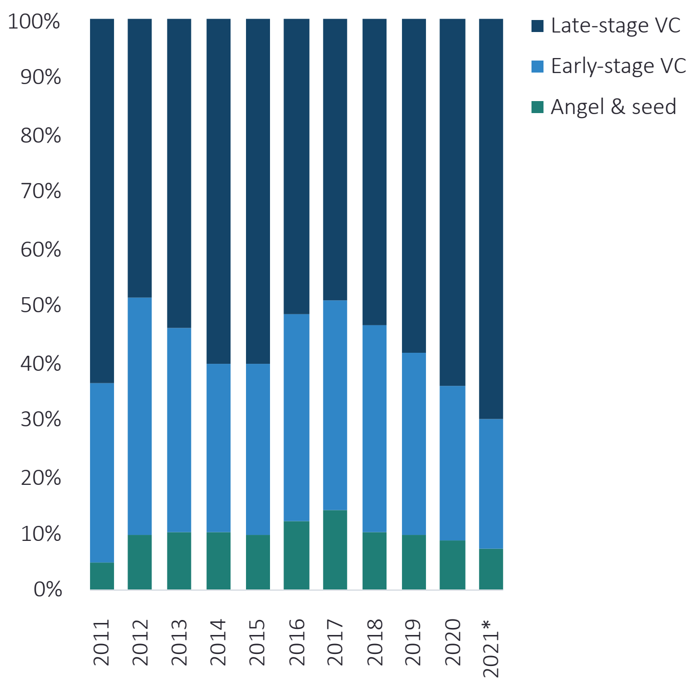


Source: PitchBook | **Geography:** Europe
*As of December 31, 2021

2021 was a remarkable year for the European VC ecosystem, culminating with deal value reaching a record €102.9 billion. It was the first calendar year in which deal value surpassed the €100 billion mark, as investors and startups closed substantial rounds throughout a bumper 12-month period for VC. Despite uncertainty stemming from the COVID-19 pandemic and macroeconomic volatility, particularly rising inflation, VC-backed companies have attracted copious amounts of capital from wealthy backers. The number of completed VC deals reached a record 10,583, thus indicating that rounds are growing in frequency as well as magnitude across the European VC landscape. As willing investors back highly skilled talent who leverage technology to create cutting-edge startups, both deal value and count have surged, and local ecosystems in Europe have thus matured.

During the past decade, the increase in late-stage VC activity has been fundamental to the maturation of the European VC ecosystem. In 2021, late-stage capital accounted for a record 70.0% of overall VC deal value—equivalent to €72.0 billion. COVID-19 has hastened growth rates and capital invested into the majority of late-stage VC-backed companies in Europe in 2021. Investors and entrepreneurs alike have identified high-growth businesses, and consumers have had to rely on online products and services far more during the pandemic, which has translated into an acceleration

Share of VC deal value by stage



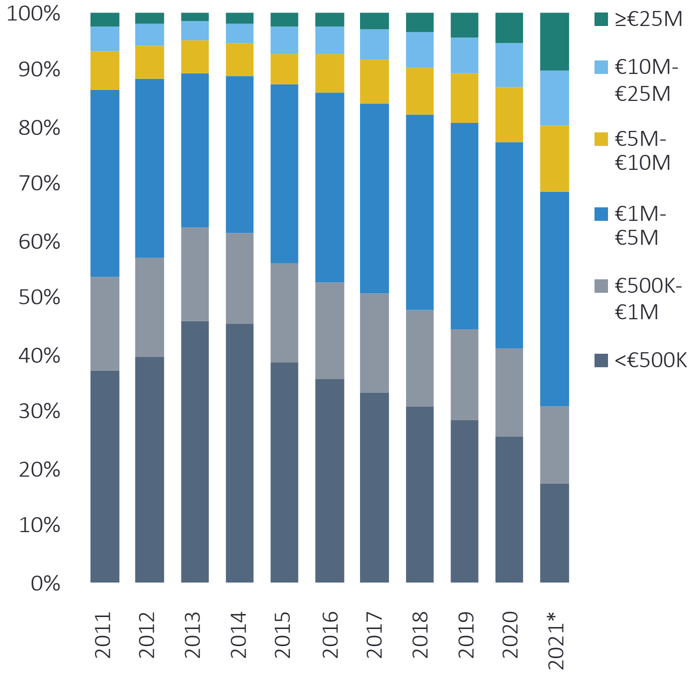
Source: PitchBook | **Geography:** Europe
*As of December 31, 2021

in the digitisation of economies. Consequently, both traditional and nontraditional VC investors have turned to new areas for growth and have invested heavily in VC-backed companies ingrained in the tech sector. Amid the wider, volatile investment backdrop and low interest rate environment, VC-backed companies demonstrating traction with the potential to deliver outsized returns in the long run were popular investment targets in 2021. With new coronavirus variants emerging in Europe towards the end of 2021 and certain restrictions reintroduced, 2022 could follow a similar path as the previous 18 months, with intermittent restrictions forcing remote-based work and online events. However, large percentages of populations have been inoculated, which should help flatten hospitalisations and avoid the strictest of lockdowns.

2021 was characterised by a glut of outsized rounds for highly valued businesses. Sweden-based battery developer Northvolt completed the year's largest round, at €2.3 billion. Other established companies securing considerable backing included buy now, pay later provider Klarna, communications tool MessageBird, data processing company Celonis, grocery delivery platform Gorillas, and challenger bank N26. Given the diversity of these enterprises, VC-backed companies with new solutions are clearly penetrating a range of sectors. As discussed in our recent analyst note, a flourishing group of unicorns (companies with a €1 billion+ valuation) exists in Europe, and they have drastically increased capital flows in 2021. Multibillion-euro companies are obtaining multimillion-euro rounds with greater regularity, which has underpinned the growth in overall deal value—particularly at the late stage in 2021.

The broad software umbrella dominated VC deal value in 2021, with €36.3 billion invested into the sector—equivalent to 35.2% of the total deal value. The benefits of software solutions have been evidently highlighted throughout 2021. Cloud-based businesses can scale rapidly across borders, with limited barriers to entry in different jurisdictions. Tools adopted can be rolled out to large workforces via business licenses or scaled via online referral schemes, social media, viral marketing campaigns, and/or targeted advertising. As individuals have spent more time online due to the pandemic, online businesses have bolted onto—and thrived in—areas that have historically required physical footprints, including pharma & biotech, retail, and health & wellbeing. Companies positioned to take advantage of lower costs associated with setting up cloud-based businesses that can hire, work, and grow remotely have been able to negotiate the pandemic the most effectively. As a result, impressive metrics for such companies—including active users, growth rates, and potential future or recurring revenues during periods when small businesses may otherwise have struggled—have enticed deep-pocketed investors.

Share of VC deal value by size bucket

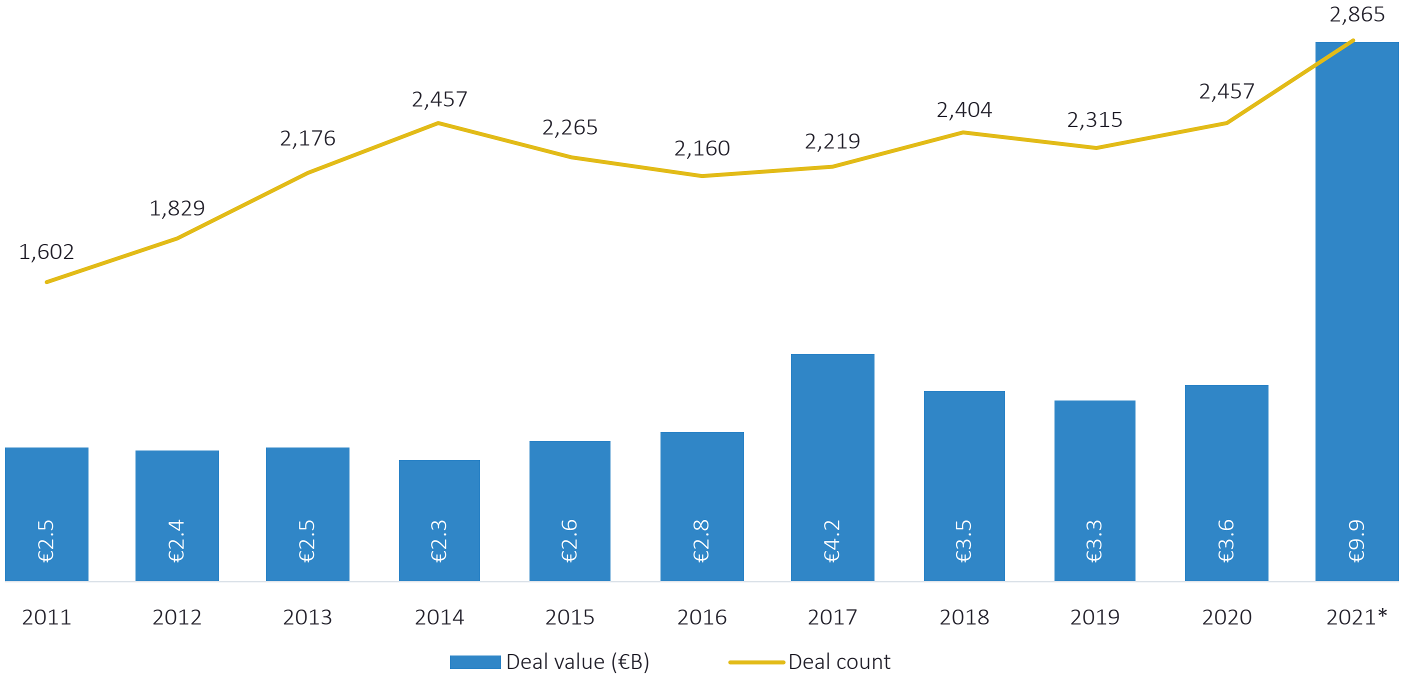


Source: PitchBook | **Geography:** Europe
*As of December 31, 2021

Innovation is necessary to the VC ecosystem to further development. Several VC deal records were set in 2021 as capital flooded into European VC. Throughout the year, record late-stage rounds tied to swelling valuations often grabbed headlines. However, growth appears robust across financing stages, regions, and sectors, with deal value hitting new records across the board. One area that points to a healthy ecosystem is first-time deal activity. At the start of 2021, observers across the VC ecosystem felt GPs would become risk averse and thus focus inwards on their existing portfolio companies. However, in 2021, after remaining relatively flat for past three years, capital in first-time rounds has tripled from 2020 figures. We feel the confidence in first-time rounds illustrates that the VC ecosystem is in great shape heading into 2022 and is producing healthy pipelines of new startups ready to fuel growth.

Looking to 2022, we expect VC dealmaking will remain strong in Europe despite the threat of COVID-19 variants, stagflation, and potentially hawkish monetary policy. Capital will be readily available for startups, and we believe investors will continue to compete fiercely to invest in the most promising deals. Capital options have expanded for startups, and tech clusters in new regional pockets have matured in 2021. We anticipate new records will be set as VC-backed companies maximise their investment runways and growth objectives in 2022.

First-time VC deal activity



Source: PitchBook | **Geography:** Europe
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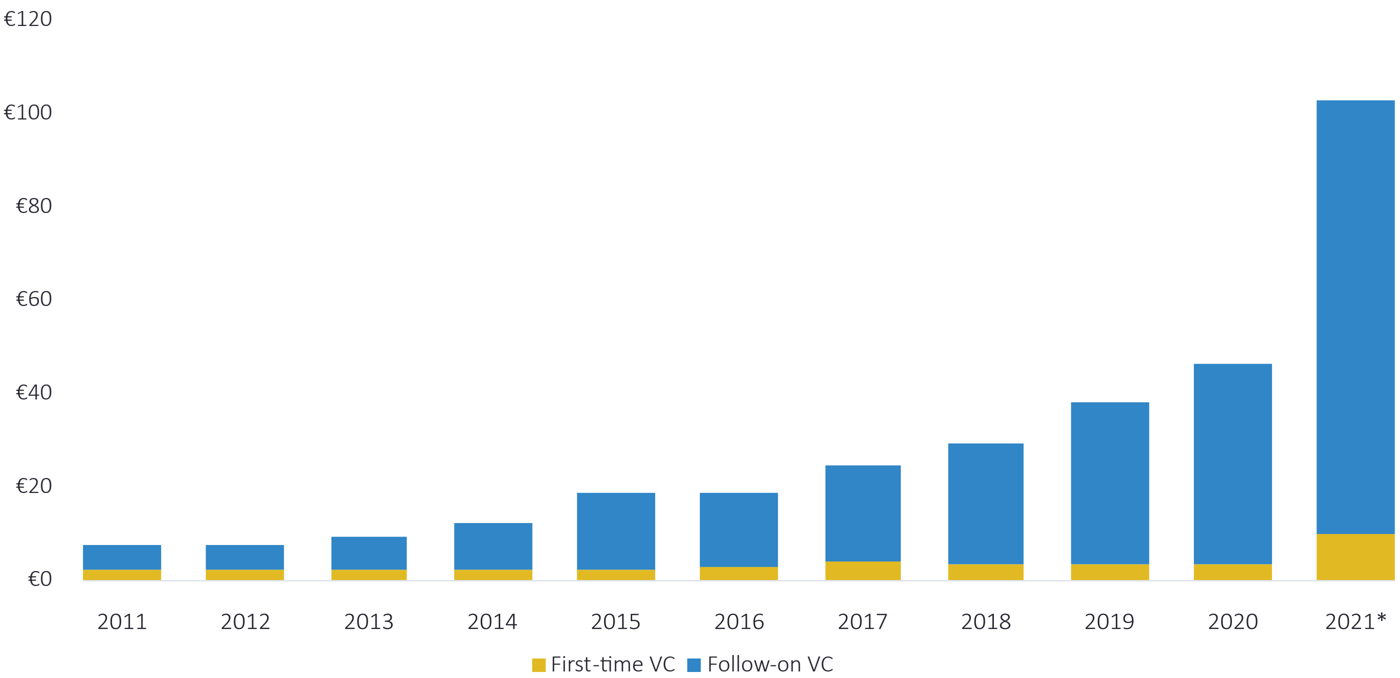
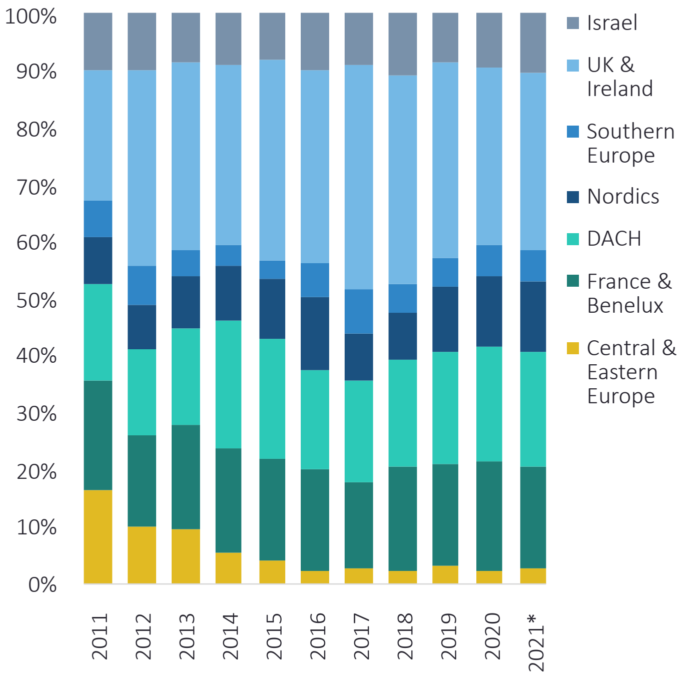
First-time and follow-on VC deal value (€B)



Source: PitchBook | **Geography:** Europe
*As of December 31, 2021

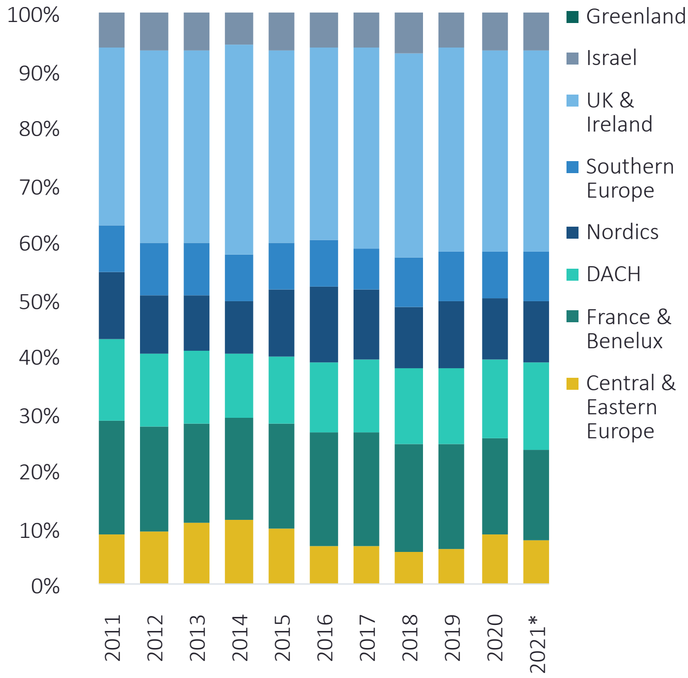
VC deals by region and sector

Share of VC deal value by region



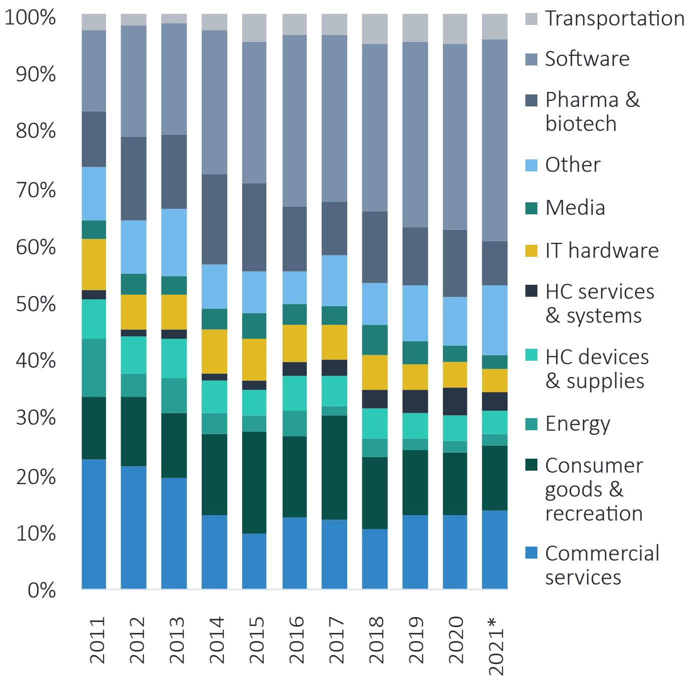
Source: PitchBook | **Geography:** Europe
*As of December 31, 2021

Share of VC deal count by region



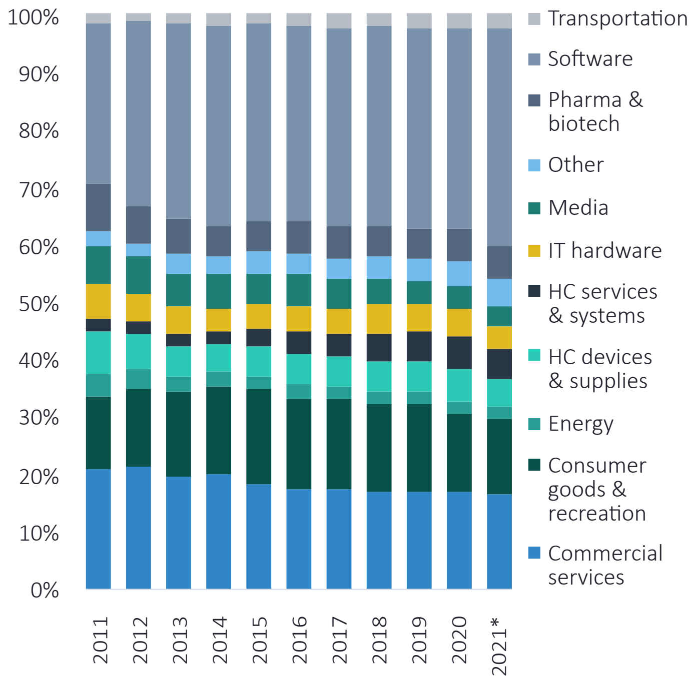
Source: PitchBook | **Geography:** Europe
*As of December 31, 2021
Note: Due to Greenland's low deal count, it does not show up on chart.

Share of VC deal value by sector



Source: PitchBook | **Geography:** Europe
*As of December 31, 2021

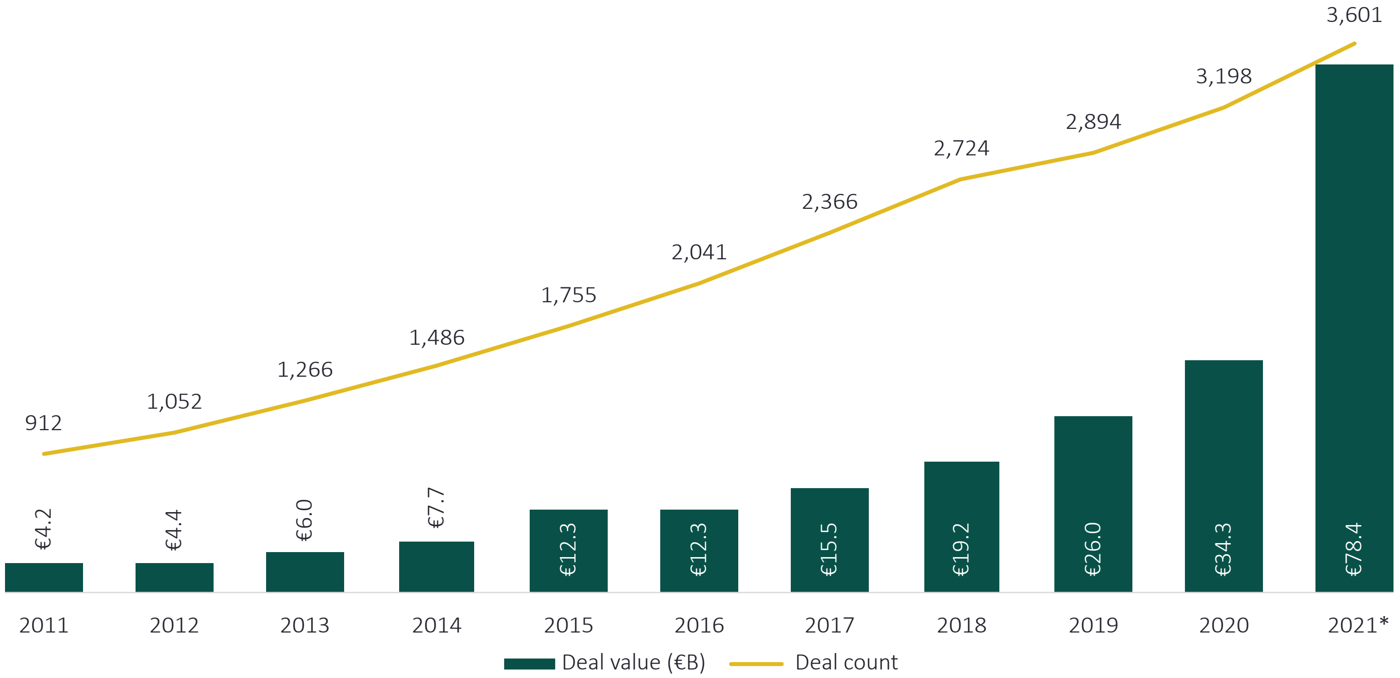
Share of VC deal count by sector



Source: PitchBook | **Geography:** Europe
*As of December 31, 2021

Nontraditional investors

VC deal activity with nontraditional investor participation

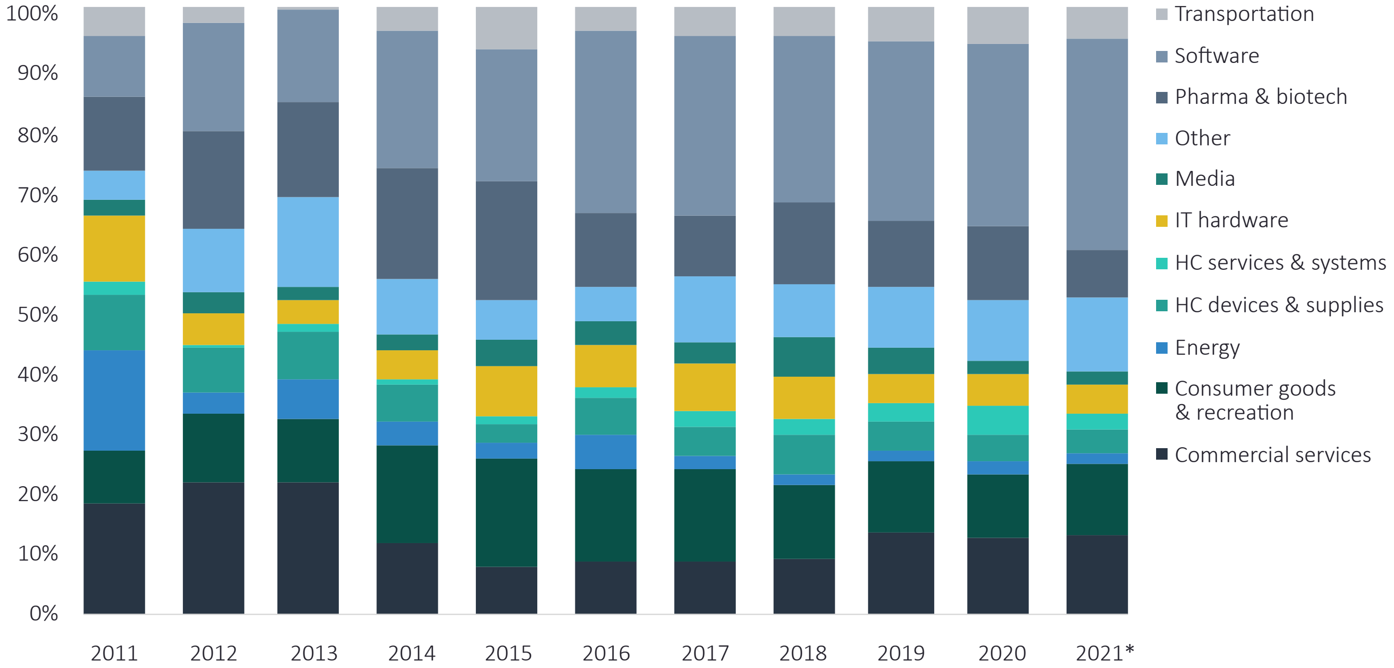


Source: PitchBook | **Geography:** Europe
*As of December 31, 2021

In recent years, nontraditional investors, including investment banks, PE firms, hedge funds, pension funds, sovereign wealth funds, and corporate VC (CVC) arms, have significantly increased their exposure to VC. 2021 was no exception, as VC deal value with nontraditional investor participation notched a record €78.4 billion. Capital deployment from nontraditional sources has been relentless as investors have sought long-term outlier returns from high-growth areas. VC-backed companies have offered pandemic resiliency and attractive growth prospects for investors that may have experienced downturns in other parts of their portfolios of financial assets during the pandemic. Global supply chain issues and rising prices have hampered international businesses and trade. But tech-enabled VC-backed companies have been less affected, thus creating an attractive investment proposition for nontraditional investors.

Nontraditional investors have also been drawn to emerging startups for strategic partnerships and synergistic opportunities. As multiple players have jostled for market share amid evolving shifts in consumer spending, new, highly competitive, and fragmented industries such as food delivery have emerged. For example, US-based DoorDash (NYSE: DASH) led a €662.5 million funding round for Berlin-based grocery delivery provider Flink in Q4 2021. Having been previously VC backed, DoorDash publicly listed in 2020 and recently announced its acquisition of Finland-based Wolt for €7.0 billion. DoorDash is used predominantly in the US and, given its recent activity, is evidently looking to aggressively pursue the European market. DoorDash's strategy highlights how the food delivery space has changed in recent years to create large corporates that can provide opportunities for newer startups, and vice versa.

Share of VC deal value with nontraditional investor participation by sector

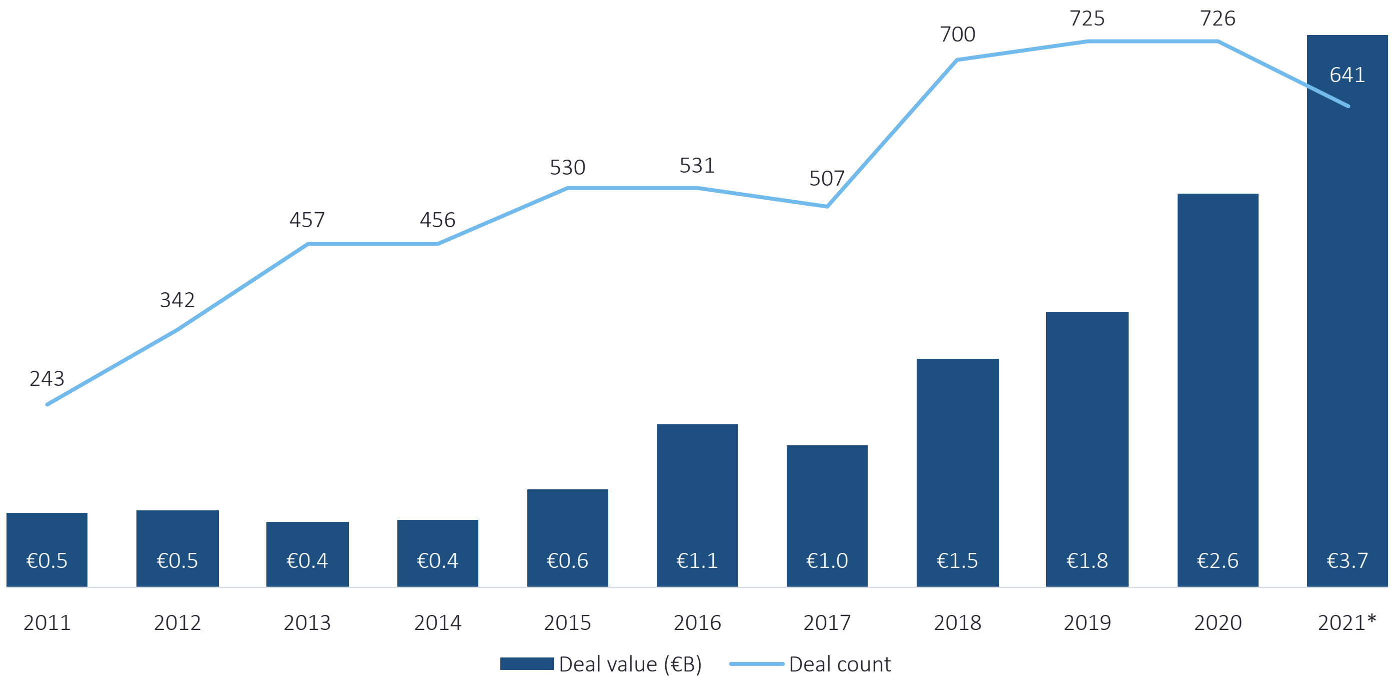


Source: PitchBook | **Geography:** Europe
*As of December 31, 2021

Sustainable and alternative food production is another sector that has blossomed in recent years. Many foodtech companies have emerged as developing research and technology have changed perceptions of healthy eating and illuminated the carbon footprint of the food industry. As global demand for certain foods increases, companies are pursuing ways to develop new products and future-proof revenues. In turn, companies inventing ways to more efficiently or healthily produce food via new technologies are gaining the attention of incumbent players. In Q4 2021, Israel-based Future Meat completed a €307.4 million round with participation from the VC arms of US-based food corporations Archer-Daniels-Midland (NYSE: ADM), Rich Products, and Tyson Foods (NYSE: TSN). We expect investment levels from nontraditional investors to develop across the VC ecosystem in 2022 as startups in nascent sectors attract attention and funding from backers in search of heightened returns and strategic opportunities.

Spotlight: VC in Southern Europe

Southern Europe VC deal activity

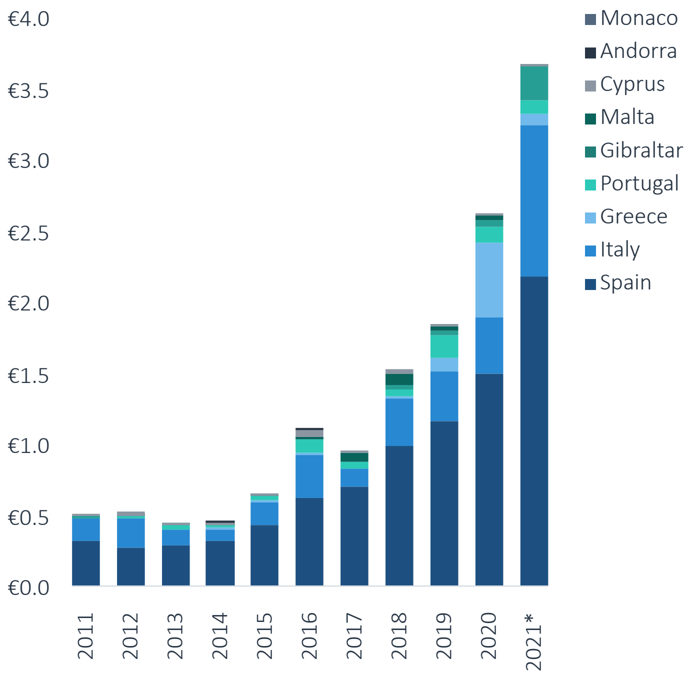


Source: PitchBook
*As of September 30, 2021

This analysis was originally featured in our VC in Southern Europe analyst note.

The Southern European ecosystem appears to be growing its reputation and has set new records in recent months as LPs, GPs, founders, and startups have been drawn to the region. In pursuit of the next big thing, individuals and organisations have cast a wider net in recent years. As a result, new regions and evolving industries have attracted capital from highly competitive and established VC ecosystems, which reflects their high valuations and abundance of capital. Southern Europe is a region that has all the characteristics of a major VC area—skilled talent, vibrant cities, large total addressable markets, and strong geographical infrastructure; however, it has lagged other European regions in VC growth.

Southern Europe VC deal value (€B) by country



Source: PitchBook
*As of September 30, 2021

Key takeaways

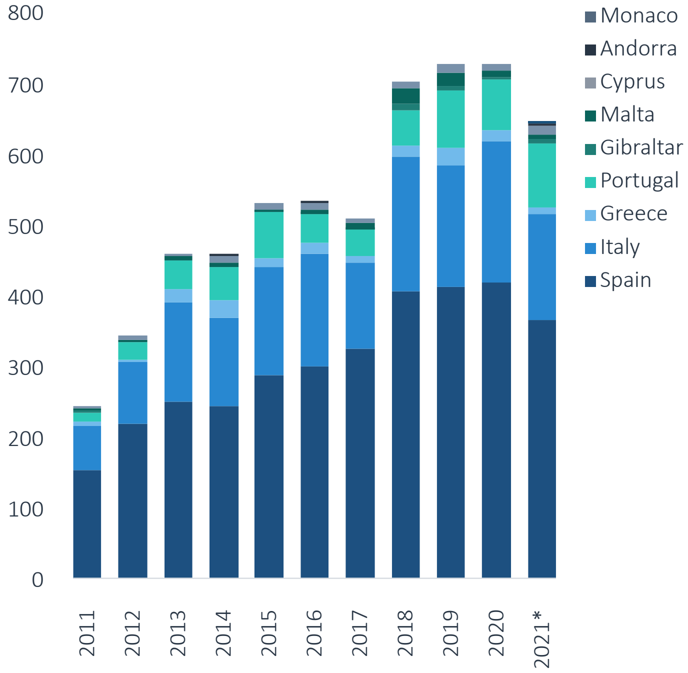
- The bulk of VC dealmaking in Southern Europe lies within Italy, Spain, and Portugal. During the past decade, Spain has consistently recorded the largest proportion of VC deal value in Southern Europe. Deal value in the region reached a record €3.7 billion through Q3 2021, a 40.3% uptick from the record set in 2020. We have seen fewer large late-stage VC-backed companies in Southern Europe in comparison with other European regions.

- The desirable climate and unique location of Southern Europe provide attractive opportunities for entrepreneurs and investors looking to relocate or invest in the region. Southern Europe's shared cultures and languages with Latin America and proximity to Africa and the Middle East present distinct competitive advantages over other European regions. However, VC in Southern Europe has lagged comparable regions elsewhere in Europe, with factors hindering growth that include risk-averse investors, individuals going into traditional industries rather than entrepreneurship, and challenges developing new, ambitious companies.

- While the local VC ecosystems in Southern Europe are less well known than those in the UK, France, or the US, exceptional business schools and Europe's largest conferences have attracted top talent to collaborate and study in the region. As has been the case in Europe's more developed ecosystems, substantial investments by US-based Big Tech companies have promoted innovation in Southern Europe that should trickle down into its VC ecosystem.

- Widespread domestic investment programmes, largely through funds of funds, have been attempting to help local startups gain traction and develop. Incentives and fresh programmes will take time to feed into the ecosystem and generate returns. Shifts in perception towards VC and entrepreneurship have drawn more investors and individuals to the strategy since the dot-com bubble and global financial crisis. Favourable taxation rates in small territories in Southern Europe could entice greater VC flows moving forwards.

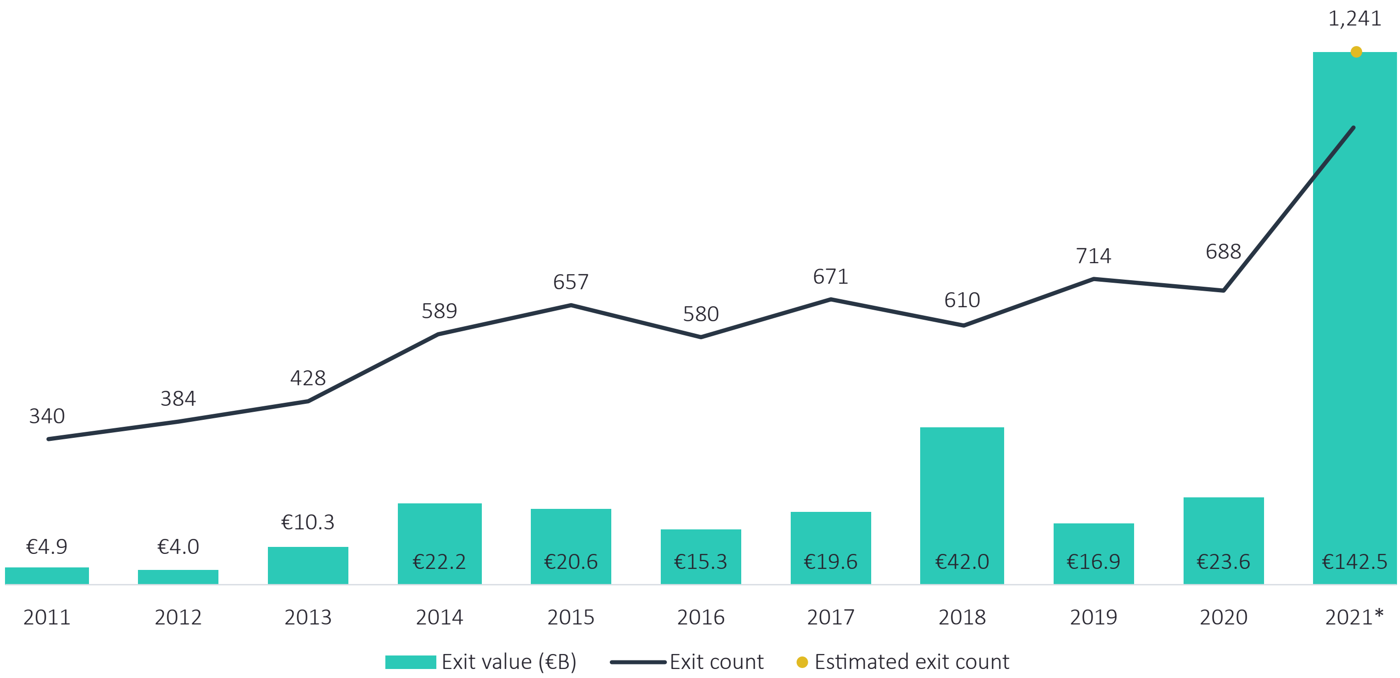
Southern Europe VC deal count by country



Source: PitchBook
*As of September 30, 2021

Exits

VC exit activity

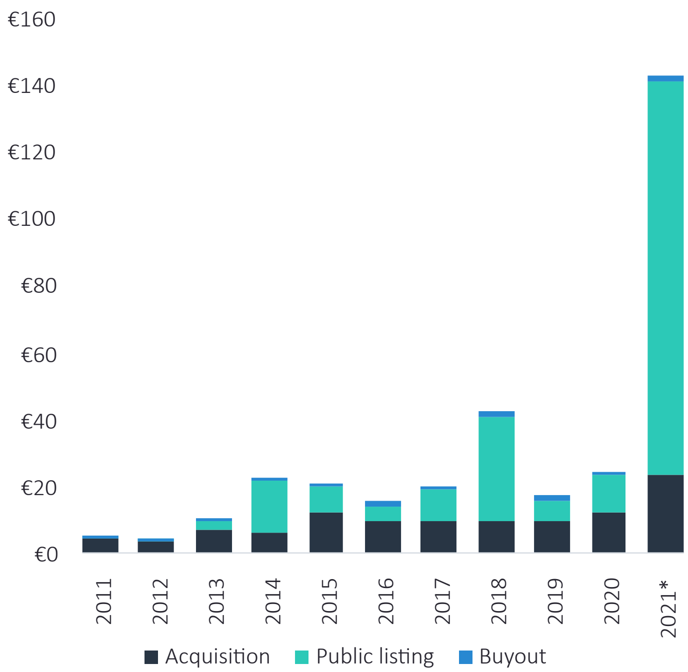


Source: PitchBook | **Geography:** Europe
*As of December 31, 2021

In 2021, exit value spiked to a staggering €142.5 billion—more than triple the previous best set in 2018—as investors and founders pushed ahead with liquidity events amid frothy market valuations and conducive market conditions. VC exit activity was unrelenting throughout 2021, as VC-backed companies linked to tech rushed to exit to capture maximum value and deliver substantial returns to LPs. In recent years, large liquidity events have shaped the European exit market. However, a record number of companies exited in 2021, at 1,241—nearly double the quantity from 2020.

Several high-profile exits occurred in 2021, ending multiyear VC investment runways for some of the most valuable VC-backed companies and creating newly minted millionaire founders, considerable carry for GPs, and significant return on investment for LPs. Notable exits that helped generate record aggregate exit value in 2021 included the public listings of Sportradar (NASDAQ: SRAD), On (NYSE: ONON), Wise (LON: WISE), Deliveroo (LON: ROO), and AUTO1 Group (FRA: AG1). Public equities were volatile during 2021, and a dearth of investment opportunities from sectors hindered by COVID-19 enabled tech solutions to prosper due to pandemic-induced growth. Businesses and consumers moved online, thus resulting in enhanced near-term growth, which provided the ideal opportunity for tech-enabled enterprises to exit. Moreover, as vaccines were rolled out in 2021 and restrictions were lifted, the threat

VC exit value (€B) by type



Source: PitchBook | **Geography:** Europe
*As of December 31, 2021

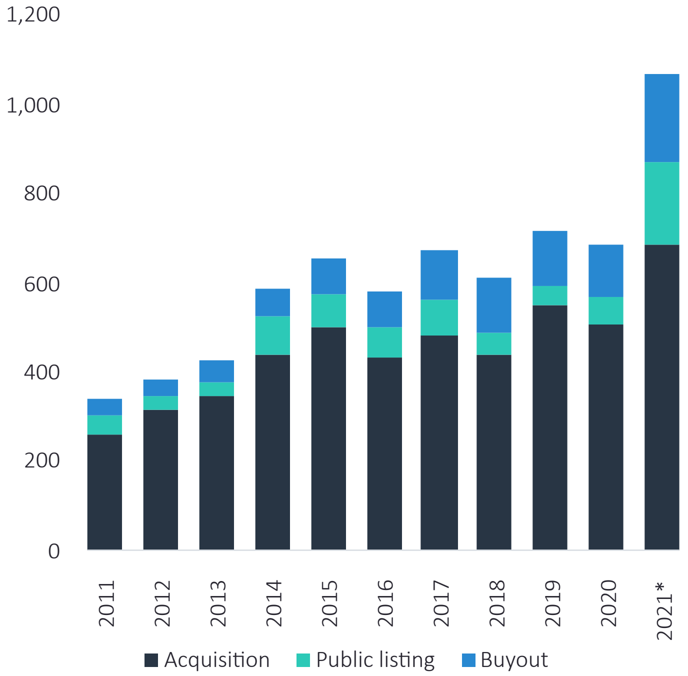
of slower growth for pandemic successes triggered companies to exit. Nonetheless, the omicron variant sweeping across Europe presents challenges heading into 2022, and certain businesses that have shown long-term stickiness during the intermittent COVID-19 restrictions of the past 18 months will deliver the highest sustainable profits.

Alternative exit routes and competition between exchanges further helped exit flow in 2021. The majority of European VC-backed companies were able to publicly list via traditional IPOs. Nowadays, however, reverse mergers via special purpose acquisition companies (SPACs) and direct public offerings present alternate paths to exit. Furthermore, European stock exchanges such as the London Stock Exchange reformed rules in 2021 to entice more tech listings, thereby aiding exit options for sought-after Europe-based tech companies, which have historically debuted on the popular US exchanges. In 2021, a record 186 public listings of Europe-based companies took place, which generated an astounding €117.3 billion—nearly four times larger than the previous peak set in 2018.

As discussed in our 2022 European Private Capital Outlook, we believe excess liquidity has been delivered to the market, and this could cause VC-backed listings to decline in 2022. While deal value has grown consecutively during the past seven years, exit value has remained relatively lumpy with a sharp uptick in 2021. GPs have delivered sizeable returns to LPs, which are now armed with fresh capital from recent exits and may look to deploy it in new, long-term ventures—thus leading the next wave of growth in VC. Furthermore, Q4 2021 produced only €13.4 billion in exit value—the weakest quarterly showing of the year after the record-setting Q3 2021. 2022 may reflect a cooler exit market as highly valued companies seek out further funding from well-capitalised backers. During the past three years, valuations in Europe have climbed impressively. Consequently, rather than risk a premature exit, founders, board members, and investors may feel companies have more room for growth in 2022.

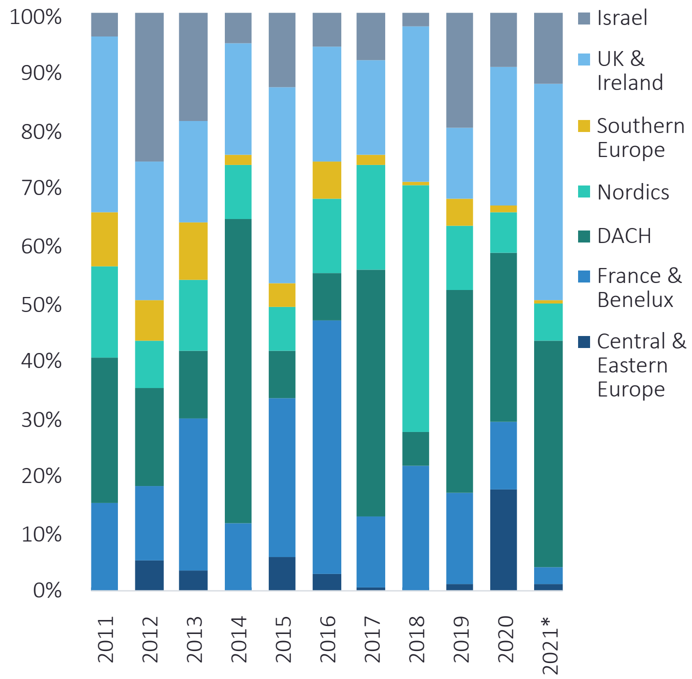
Regionally, VC-backed companies in the DACH and UK & Ireland regions led the way by generating over €50 billion each, followed by Israel with €17.1 billion. Enormous exits for productivity company Monday.com (NASDAQ: MNDY), aerospace company Lilium (NASDAQ: LILM), and online car marketplace Cazoo (NYSE: CZOO) helped the regions log record exit values. Moving into 2022, we expect the typically strong exit value from the most mature ecosystems will continue. Significant exit value may also originate in the CEE region, Southern Europe, and the more-developed Nordic ecosystem, all of which have experienced increased investment flows in recent years.

VC exit count by type



Source: PitchBook | **Geography:** Europe
*As of December 31, 2021

Share of VC exit value by region



Source: PitchBook | **Geography:** Europe
*As of December 31, 2021

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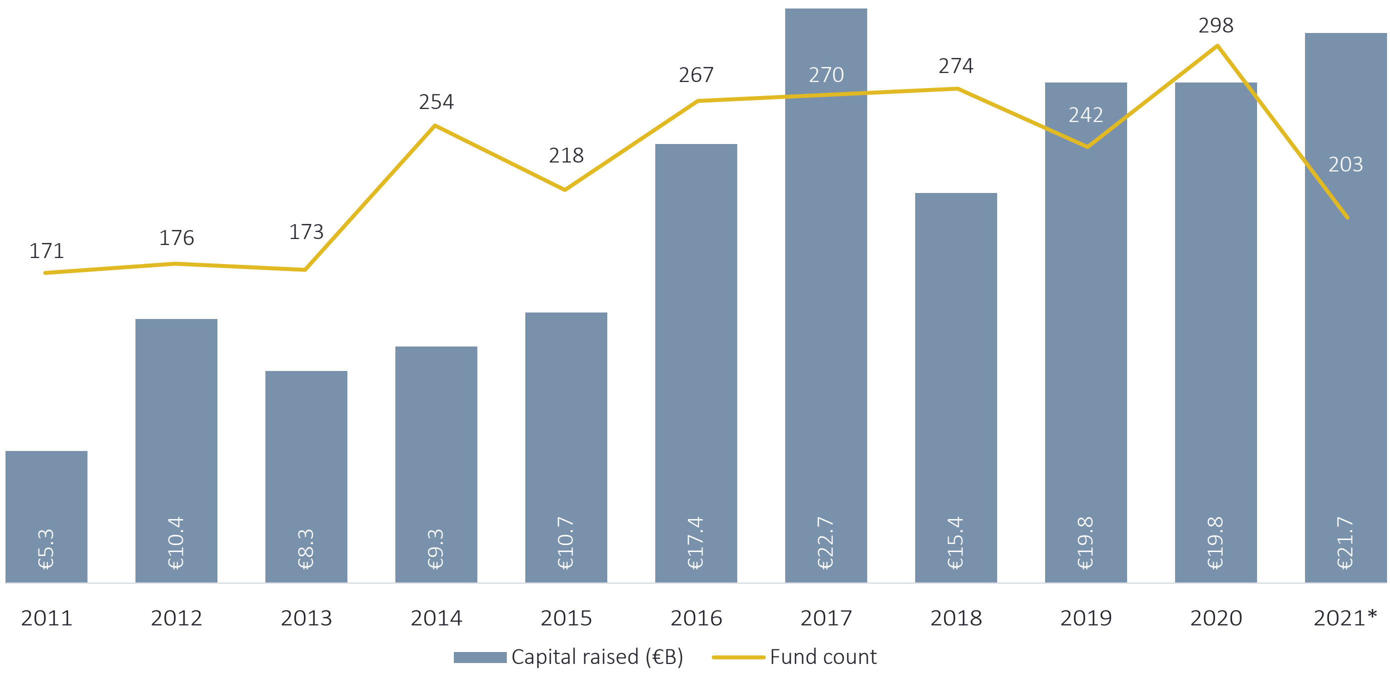
Fundraising

VC fundraising activity

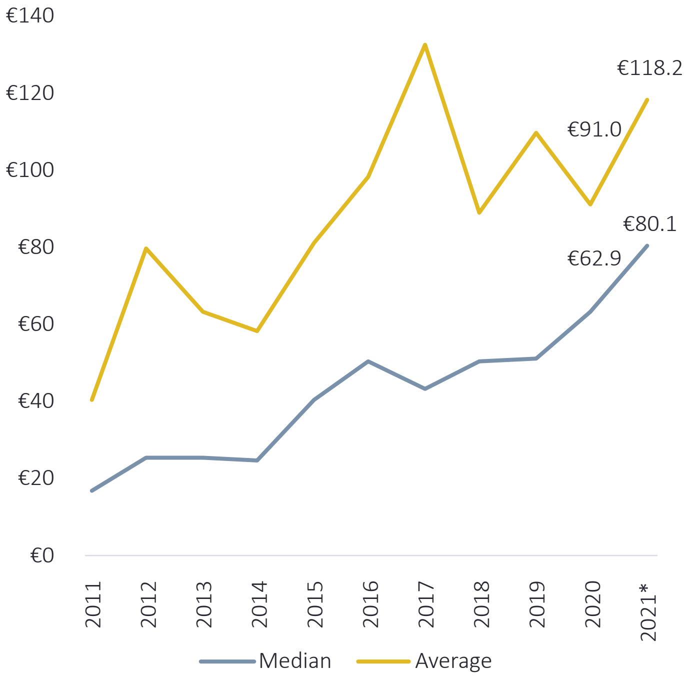


Source: PitchBook | **Geography:** Europe
*As of December 31, 2021

In 2021, 203 VC funds closed and raised €21.7 billion, which represents a 31.9% decline in fund count and 10.1% increase in capital raised from 2020 figures. Capital raised reached the second-largest calendar year total. However, 2021 had the lowest VC fund count since 2013. Healthy capital commitments for emerging and established VC GPs have led to the creation of larger vehicles in the ecosystem. As a result, GPs have been able to write larger cheques for VC rounds. While exit value and deal value swelled in 2021, VC fundraising was consistent with recent annual figures. Over the latest five-year-period, €99.4 billion was raised in Europe. Strong return profiles and high-growth investment opportunities have drawn in capital, with GPs and LPs fostering relationships to bolster capital deployment into startups. Despite COVID-19 creating macroeconomic volatility and high inflation, pandemic-induced growth in sectors such as software and pharma & biotech have aided fundraising drives.

Several established GPs closed a collection of outsized funds in 2021, including Index Ventures, which closed a €1.7 billion ($2 billion) growth-stage fund. Further notable fundraises include Cathay Innovation Fund II closing at €649.5 million, Balderton Capital raising €519.6 million for its latest fund,

Median and average VC fund size (€M)



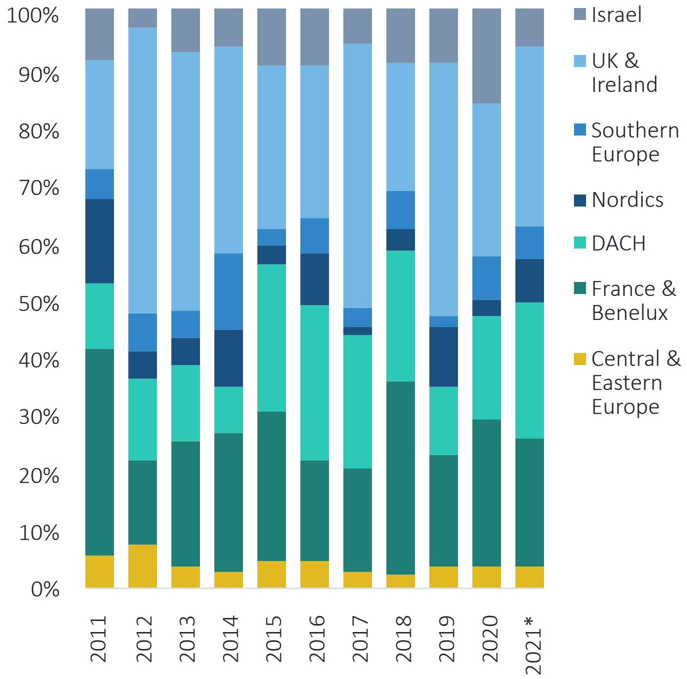
Source: PitchBook | **Geography:** Europe
*As of December 31, 2021

and Accel raising €539.1 million for investments in Europe and Israel as part of a larger €3.0 billion effort. Record-breaking fund sizes at the top end of the ecosystem resulted in the median European VC fund size reaching a new peak of €80.1 million in 2021—a 27.3% YoY rise. In 2021, GPs doubled down on fundraising efforts to take advantage of low interest rates and wealthy backers ready to invest capital in long-term strategies amid the near-term pandemic-induced uncertainty. LP capital commitments have accelerated during the pandemic, and fund sizes have increased to ensure GPs have sufficient resources to back fast-growing businesses that have high burn rates and are looking to scale rapidly.

Unsurprisingly, the bulk of VC fundraising in 2021 took place in the UK & Ireland, DACH, and France & Benelux ecosystems. The three regions contributed €16.7 billion—equivalent to 76.6% of the aggregate capital raised across Europe. Funds in the UK & Ireland led the way, with €6.7 billion. Brexit has had little impact on GP fundraising ability, particularly in London, which remains a major VC cluster in Europe and internationally. Post-Brexit, substantial funds have continued to close, and experienced talent has stayed put to fundraise, invest, build, and mentor first-rate startups that have attracted capital and lofty valuations.

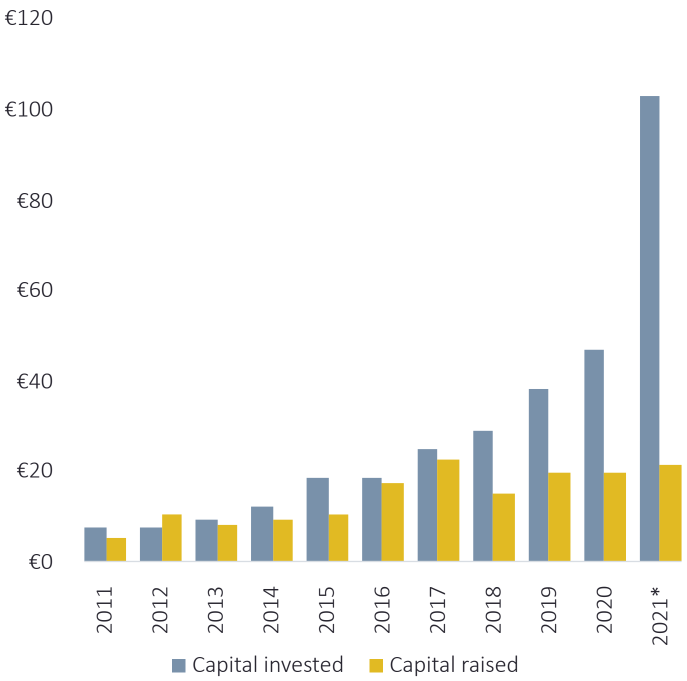
Transitioning into 2022, we believe VC fundraising will increase in Europe. 2021 was a record year for exit value, and surplus liquidity has been delivered to LPs. As a result, we feel capital commitments will increase and VC vehicles will expand in size, thus driving up overall fundraising totals. Capital invested into startups reached a record high in 2021, and GPs will be keen to raise fresh capital to ensure they are well equipped to compete for larger rounds. Given the challenges facing wider financial products during COVID-19, LPs will be eager to pump capital into investment strategies that can deliver returns. However, tighter monetary policy in 2022 could depress fundraising levels and reduce capital availability. In December 2021, UK interest rates were raised for the first time in three years, and this could lead other nations to follow suit. We anticipate the management of rising inflation, combined with maintaining sustainable economic growth amid the threat of COVID-19 variants, will be the biggest challenge for governments in 2022, and these factors could affect investor sentiment.

Share of capital raised for VC funds by region



Source: PitchBook | **Geography:** Europe
*As of December 31, 2021

Capital raised and invested (€B) for VC funds



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