PitchBook

2022 ANNUAL

EUROPEAN

Venture Report

PitchBook

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Introduction

In 2022, capital invested into Europe-based startups fell from the record set in 2021. A combination of high inflation, rising interest rates, weak economic growth, and renewed geopolitical tension affected investor sentiment in Europe. Despite the pessimism surrounding financial markets, venture capital (VC) deal value remained broadly resilient. European VC deal value has been on an aggressive upward trajectory in the past three years, but 2022 signalled the end of the annual expansion in capital deployment within the asset class. Fewer large-scale deals at lofty valuations closed in H2 2022. Risk appetite has shifted as concerns around costs and growth rates of mature businesses have surfaced in the second half of the year. Nonetheless, investors have predominantly remained bullish in the current climate, citing lower valuations and a scarcity of competitors as dynamics that will improve opportunities, deal terms, and potential returns.

VC deals with nontraditional investor involvement remained solid in 2022. Although looming recessions have dampened appetite in financial markets, nontraditional investors have continued to pump capital into VC rounds, even with capital allocation requirements and competing primary investment strategies. VC ecosystems must continue to develop high-growth companies that can offer innovative technology, research and development (R&D) possibilities, or intellectual property (IP) that can be leveraged by nontraditional investors such as corporate VCs (CVCs) or generate significant returns upon exit for financial institutions. Nontraditional investors may look to younger companies several years away from an exit that are focusing on long-term industries to insulate from near-term volatility.

Despite a combination of challenges, exit value registered its third-largest total in 2022. Exits dried up as macroeconomic conditions and potential exit valuations worsened deeper into the year. VC-backed companies with high burn rates, which pursued aggressive growth targets in search of lofty valuations amid an overheated market, are now faced with tougher funding and tougher exit routes. Startups are looking to extend funding runways, cut costs, and ensure they are well positioned for a potential exit when markets rebound. Lower valuations in public markets and reduced appetite for listings from investors have meant general partners (GPs) and founders have avoided public listings in the current climate. With public listings halting in 2022 and expected to remain subdued in 2023, startups could seek corporate acquirers to fold their operations into instead of testing public markets alone.

In 2022, VC fundraising remained flat from 2021. Bear markets emerged in 2022; however, capital raised landed in a similar position to its performance in the past three years, illustrating that GPs were still able to attract sizeable limited partner (LP) commitments and close substantial VC funds. Fundraising could become challenging in 2023, as capital allocations tighten and portfolios are recalibrated due factors including the denominator effect. However, the robust showing in 2022 gives cause for optimism.

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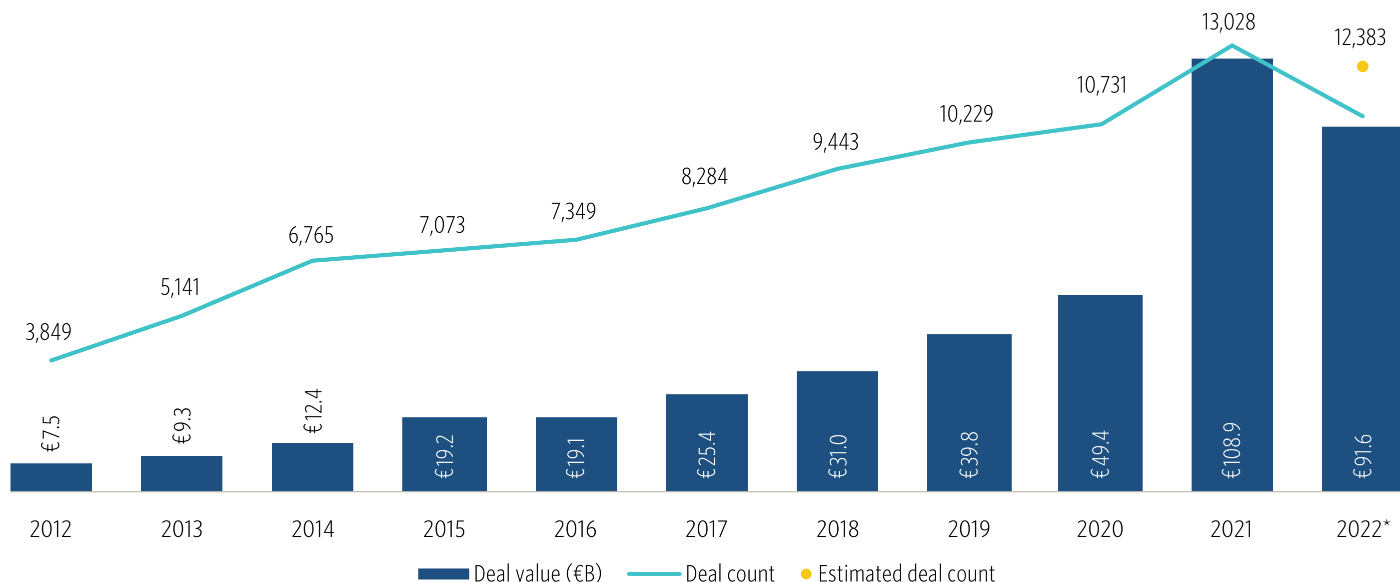
Deals

VC deal activity



Source: PitchBook | **Geography:** Europe
*As of December 31, 2022

Overview

In 2022, €91.6 billion was invested into Europe-based startups, representing a 15.9% year-over-year (YoY) decline from the record set in 2021. 2022 was a tricky year for startups and investors due to macroeconomic conditions worsening. A combination of high inflation, rising interest rates, weak economic growth, and renewed geopolitical tension affected investor sentiment in Europe. Fears of recessions have dampened spending as rising costs and weaker growth forecasts have penetrated several businesses. Startups that have been able to pursue growth at all costs and close rounds with aplomb in past two years have faced renewed scrutiny in 2022.

Layoffs have been announced at companies ranging from US-based big tech firms to Europe-based VC-backed startups. Market capitalisations of large tech stocks have been recalibrated and dampened valuations are filtering into the VC ecosystem as we enter 2023. Despite the pessimism surrounding financial markets, VC deal value remained resilient on an annual basis, even as it dropped on a quarterly basis throughout the year. European VC deal value has been on an aggressive upward trajectory in the past three years, but 2022 signalled the end of the expansion in capital deployment within the asset class.

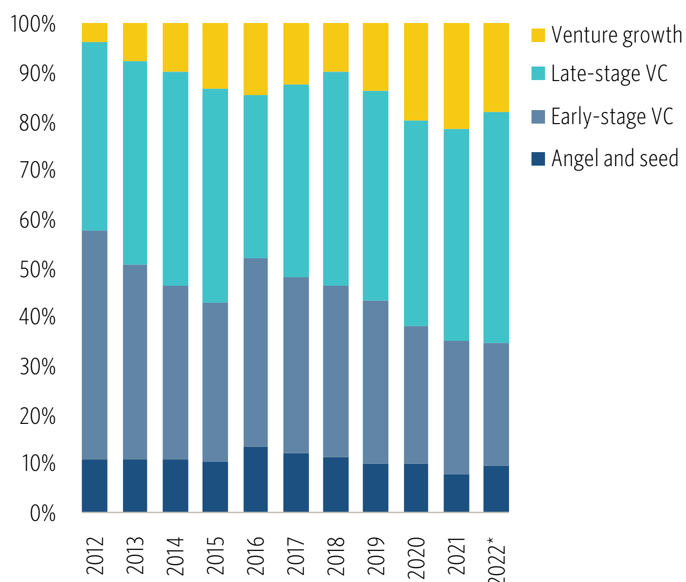
Financing stages

A host of mature VC-backed entities including Celonis, Northvolt, and SumUp closed substantial multimillion-euro rounds in 2022, as deal value landed higher than expected given the glut in activity witnessed during 2021. However, as the dealmaking landscape evolved throughout 2022, we saw fewer large-scale deals at lofty valuations close in H2 2022. Risk appetite has shifted, with concerns around costs and growth rates surfacing in the second half of the year. Layoffs at mature high-profile VC-backed businesses have begun across a range of sectors throughout the year with the latest reportedly at vertical farming startup Infarm, healthtech firm Kry, electric mobility provider Voi, and online tutoring service GoStudent. Startups are evidently curbing costs to extend funding runways amid the recessionary environment in Europe. Given the readily available capital and high burn rates associated with late-stage VC-backed entities in the ecosystem over the past two years, it is unsurprising that operators are now focusing on capital efficiency and streamlining resources to ensure business continuity amid the shift in the funding landscape.

Since 2017, late-stage rounds have accounted for the largest chunk of deal value annually, and this theme continued in 2022. Due to the rise of late-stage capital

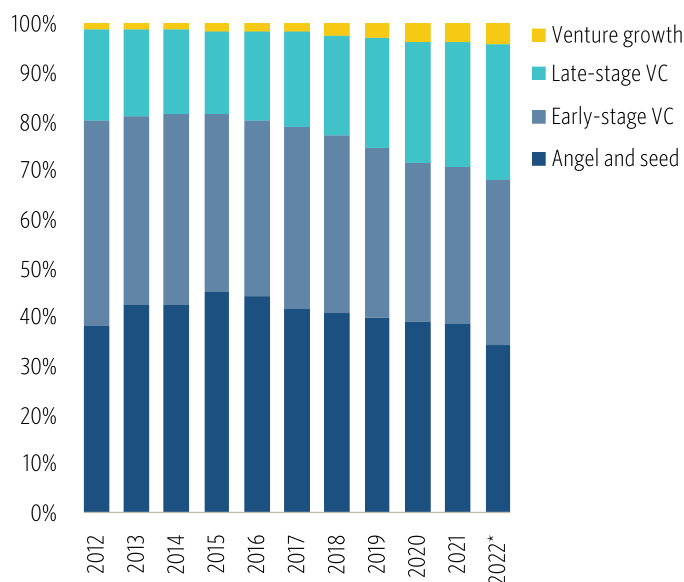
tied to swelling valuations and bigger rounds, we have introduced a new VC financing stage—venture growth.[1] The scope of late-stage VC has expanded over the past decade, and we believe venture growth will provide a more accurate representation of deal activity taking place at the top end of the VC ecosystem. In 2022, deal value at the late stage and venture growth stage reached €43.5 billion and €16.6 billion, respectively. Venture growth and late-stage capital combined represented 65.6% of deal value in 2022, marginally up from 64.8% in 2021. Despite concerns surrounding oversized VC-backed companies struggling to maintain growth rates and attract investment in 2022, capital infusions have remained strong.

Share of VC deal value by stage



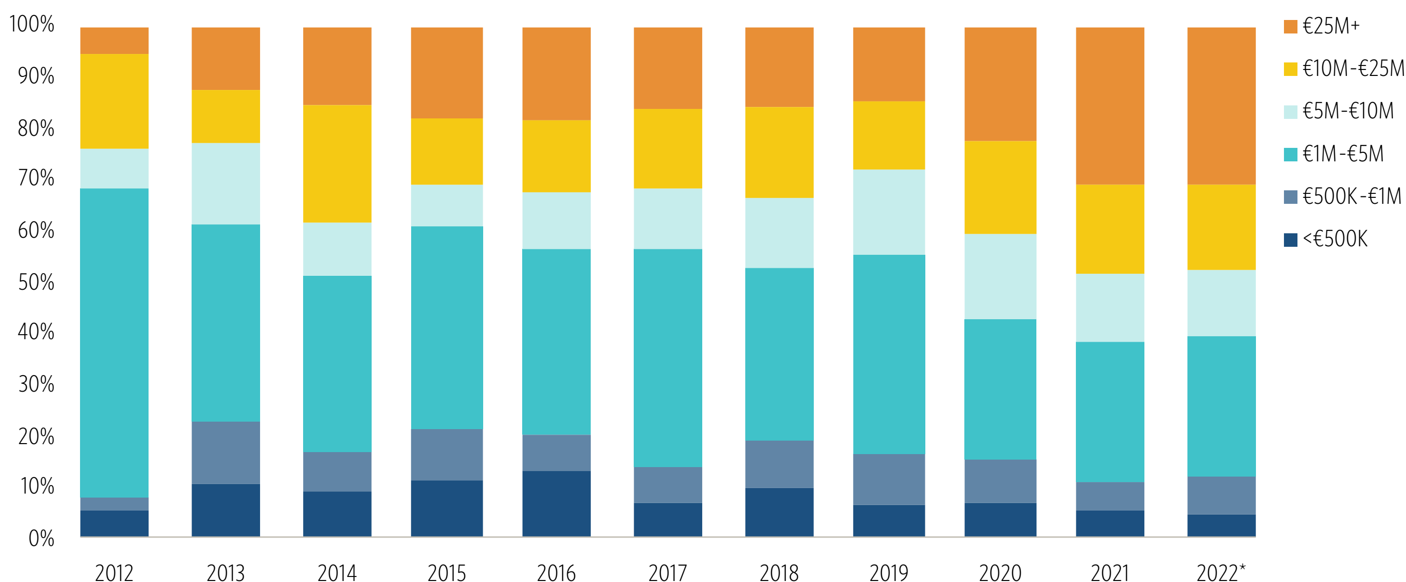
Source: PitchBook | **Geography:** Europe
*As of December 31, 2022

Share of VC deal count by stage



Source: PitchBook | **Geography:** Europe
*As of December 31, 2022

Share of venture growth deal count by size bucket



Source: PitchBook | **Geography:** Europe
*As of December 31, 2022

1: The venture growth category will include rounds tagged as Series E+ as well as deals involving companies that are at least seven years old and have raised at least six VC rounds. For more information please see our recent Introducing Venture Growth analyst note.

Sectors

VC is a long-term strategy with investments conducted for returns realised over multiyear horizons. Therefore, investors target companies that are likely to be at the forefront of their industry in the next five, 10, or 20 years. As a result, near-term volatility driven by black swan events, market shocks, and economic cycles has often been viewed as part of the process by seasoned VC investors. Investors have predominantly remained bullish in the current climate, citing lower valuations and fewer competitors providing capital options as dynamics that will improve opportunities, deal terms, and potential returns. Moreover, challenging circumstances will ensure only the best-in-class business ideas survive, obtain funding, and ultimately succeed.

Sector-focus can be a critical element for investors and portfolios in VC impacted by technological development, regulations, government policies, and changing demographics. For example, fintech has developed into the major VC subsector in Europe since the global financial crisis (GFC) as digital adoption, consumer preferences, and new players have disrupted the long-established and lucrative finance services industry. Capital invested into fintech companies has climbed and helped companies such as Checkout.com and Revolut become some of the most valuable VC-backed companies in Europe. During the past four years, fintech deal value has produced, on average, 20.2% of aggregate European deal value. However, the financial landscape has shifted considerably in 2022 with crippling inflation and rising interest rates ending favourable capital market conditions. Additionally, regulations regarding data, security, and the financial services industry are top-of-mind amid recent cryptocurrency investigations.

Subsectors such as fintech have been inundated with capital and increased scrutiny. As we enter a new economic cycle, investors may look to invest in new crops of startups in nascent and undercapitalised subsectors. In Q4 2022, two of the largest deals involved electric truck developers Einride and Volta Trucks securing €484.0 million and €290.0 million, respectively. Electric vehicle (EV) adoption is underway across Europe and investing in enterprises potentially years away from an exit makes sense for investors with capital to deploy for longer-term investment horizons. We believe capital invested into startups operating in emergent subsectors that are expected to grow their total addressable market (TAM) over the next decade will be more popular with investors than companies looking to conduct an exit in the next two years, given current market conditions.

Regions

In 2022, €27.0 billion, equivalent to 29.4% of European deal value, was invested into UK- & Ireland-based companies. The region has generated the largest deal value figure every year during the past decade as outsized late-stage rounds have helped push valuations and round sizes to new heights. However, markets have evolved during 2022, and new capital deployment records are unlikely in 2023 as valuations come under pressure. For example, London-based payment specialist Checkout.com completed a €883.8 million round at a €34.5 billion pre-money valuation in Q1 2022. In December 2022, it was reported Checkout.com was slashing its internal valuation to €11 billion.[2] A reduction in its internal valuation, which is different from a valuation established by investors tied to a funding round, reduces the cost of employee equity as staff exercise their stock options at a lower price. The recalibration illustrates the increasing likelihood of softer valuations permeating through the VC ecosystem. US-based Stripe and Instacart adopted a similar approach in 2022.

2: "Checkout.com Slashes Internal Valuation to $11bn," *Financial Times*, Ivan Levingston, December 12, 2022.

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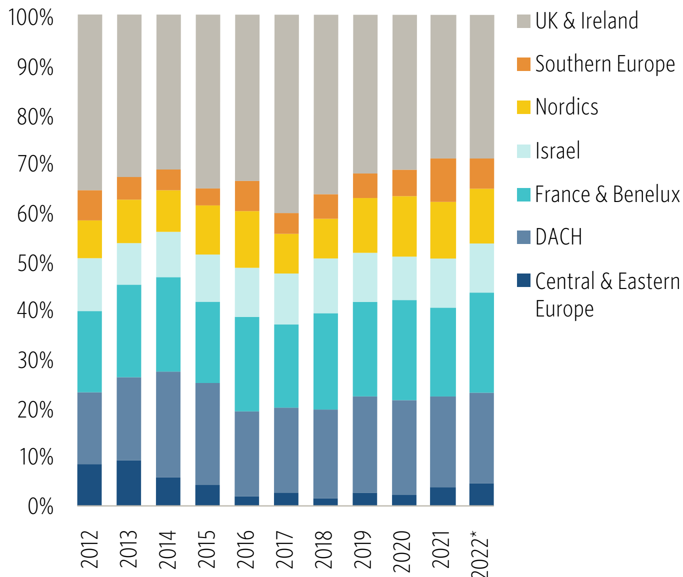
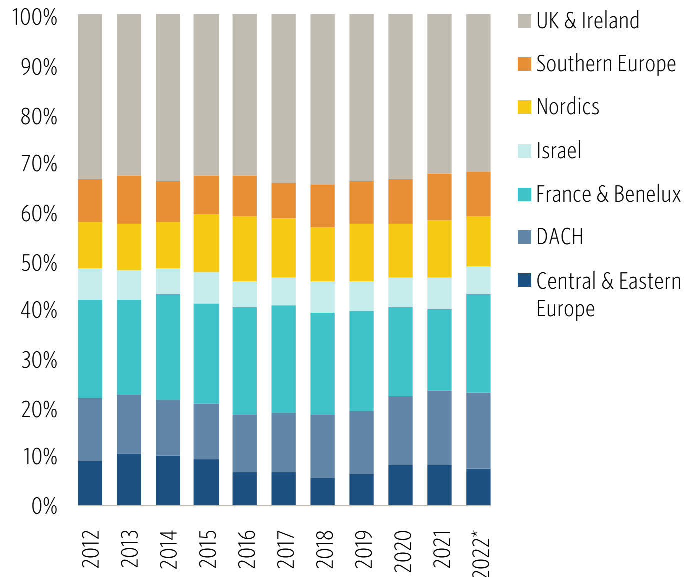
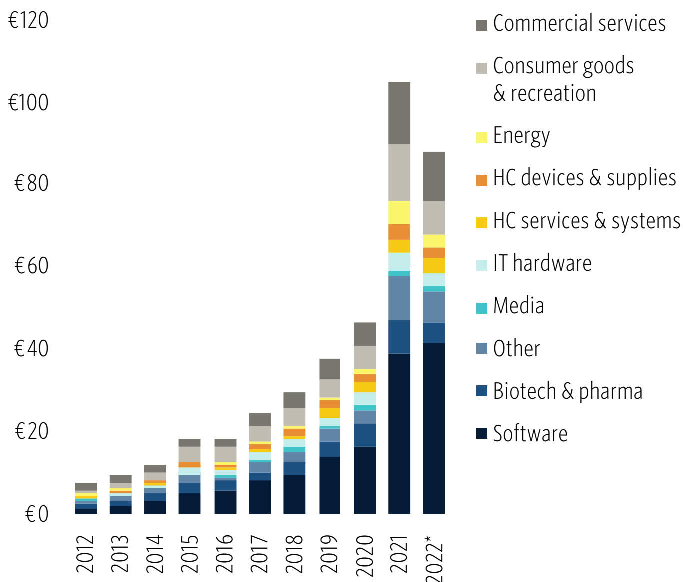
VC deals by region and sector



Source: PitchBook | **Geography:** Europe
*As of December 31, 2022



Source: PitchBook | **Geography:** Europe
*As of December 31, 2022



Source: PitchBook | **Geography:** Europe
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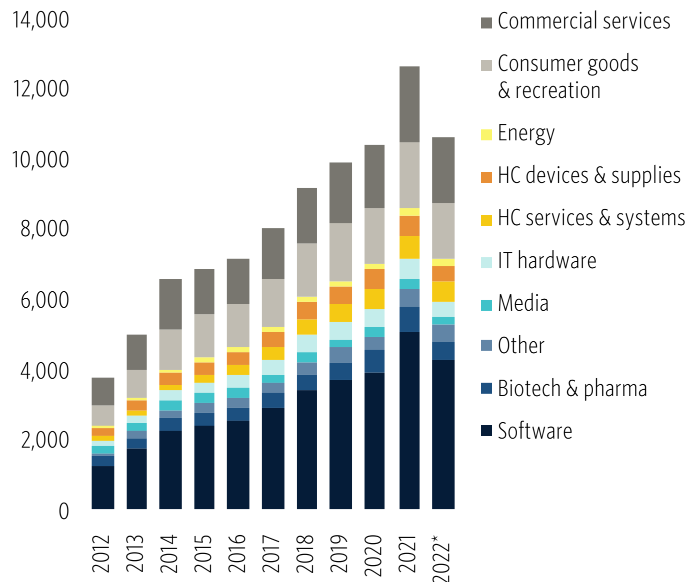

Source: PitchBook | **Geography:** Europe
*As of December 31, 2022

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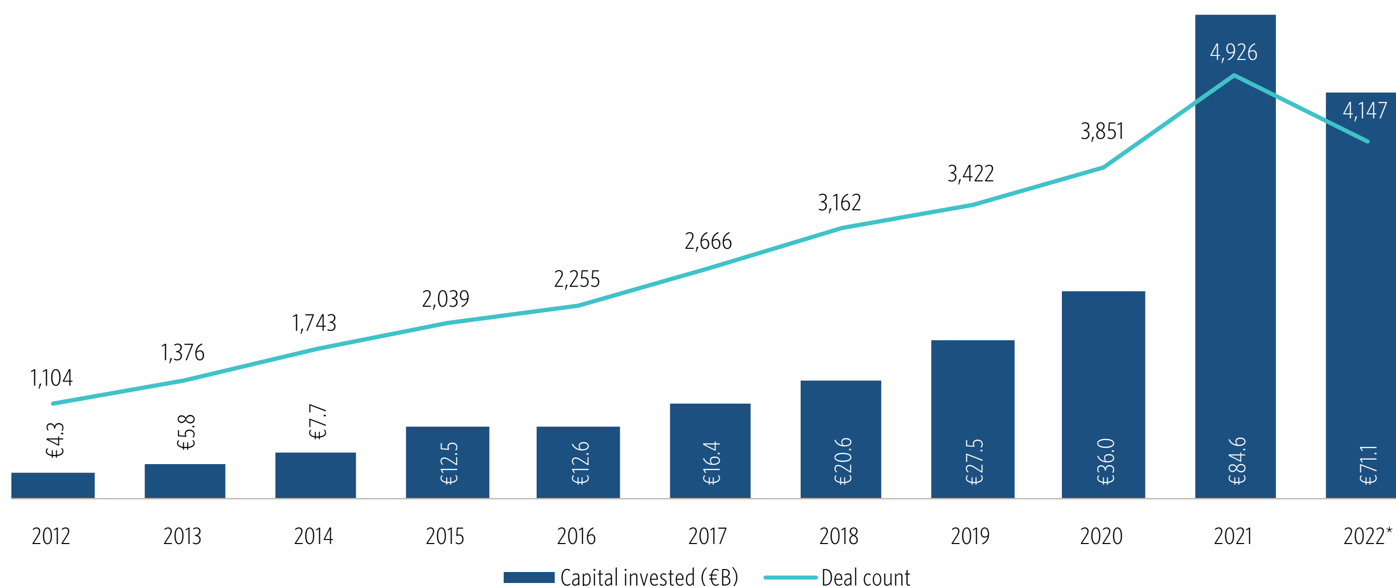
Nontraditional investors

VC deal activity with nontraditional investor participation



Source: PitchBook | **Geography:** Europe
*As of December 31, 2022

Overview

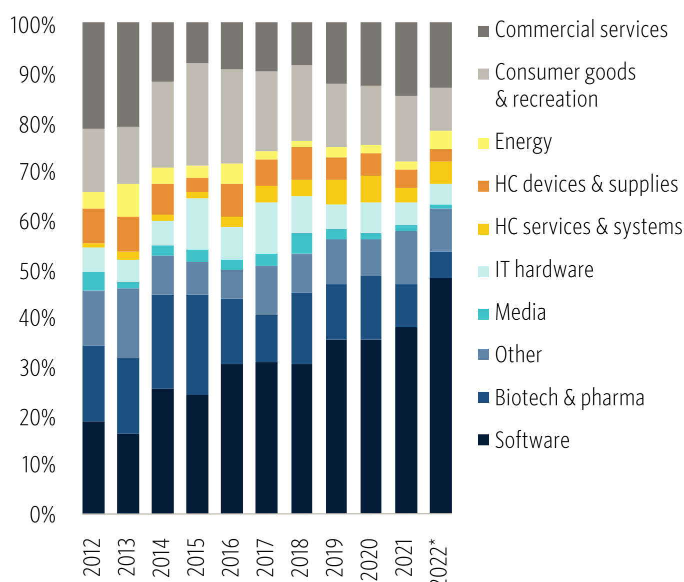
Nontraditional investors, which we define as CVCs and financial institutions including investment banks, private equity (PE) firms, sovereign wealth funds, hedge funds, and pension funds, among others, have increasingly participated in VC rounds during the past decade. Participation remained solid in 2022 as VC deal activity with nontraditional investor involvement reached €71.1 billion, reflecting a 16.0% YoY decline from the record set in 2021. Although looming recessions have dampened appetite in financial markets, nontraditional investors have continued to pump capital into VC rounds, even with capital allocation requirements and competing primary investment strategies that focus on other asset classes.

Nontraditional investor input is heavily skewed towards large deals, with investors preferring startups with business models in place and seeking strategic partnerships, access to networks, and capital to scale operations. In 2022, €54.9 billion, equivalent to 77.3% of overall VC deal value with nontraditional investor participation, was invested in rounds over €25 million. To continue attracting nontraditional investors, VC ecosystems must continue to develop high-growth companies that can offer innovative technology, R&D possibilities, or IP that can be leveraged by nontraditional investors such as CVCs or generate significant returns upon exit for financial institutions.

Sectors

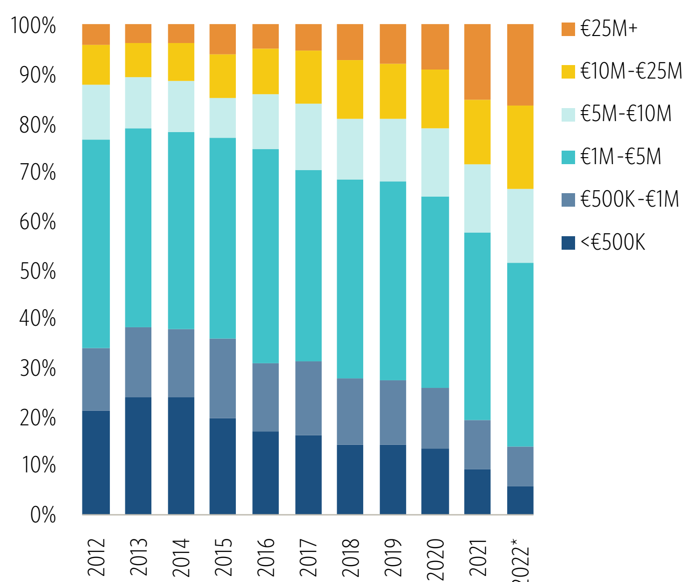
One notable deal in 2022 involved renewable energy producer Sunly securing €200.0 million from existing investors and Mirova, a sustainable investing affiliate of asset manager Natixis Investment Managers. Sunly will use the capital for the development of solar and wind power in the Baltic nations and Poland. The Russia-Ukraine war has created unease among neighbouring nations and has focused attention on the energy sector. The cost of oil & gas soared in 2022, and with global reliance on Russian energy under duress, finding innovative solutions has become a major priority for governments and nations across Europe. With the conflict expected to extend deep into 2023, investment into the energy space is likely to remain elevated as investors and founders seek solutions to solve energy demand issues and prevent future problems arising within supply chains from geopolitical tension.

Share of VC deal value with nontraditional investor participation by sector



Source: PitchBook | **Geography:** Europe
*As of December 31, 2022

Share of VC deal count with nontraditional investor participation by size bucket



Source: PitchBook | **Geography:** Europe
*As of December 31, 2022

Strategic partnerships

Cutting-edge technology that can have an underlying impact on operations for CVC investors may help entice capital flows. We have seen several startups receive minority equity injections from CVCs that subsequently turn into majority-corporate acquisitions. In Q4 2022, EV battery developer Verkor received €250.0 million from the European Investment Bank, among other investors, to develop an EV battery megafactory. In 2021, Verkor completed a €100.0 million funding round co-led by car manufacturer Renault and EQT Ventures. Verkor is one of a handful of battery startups trying to raise money and build a homegrown European EV battery industry to compete with the Asia-based giants that dominate global sales.[3] The megafactory will produce batteries for Renault to test and use in its EVs, further highlighting how strategic partnerships between startups and corporates can promote investment in the VC ecosystem.

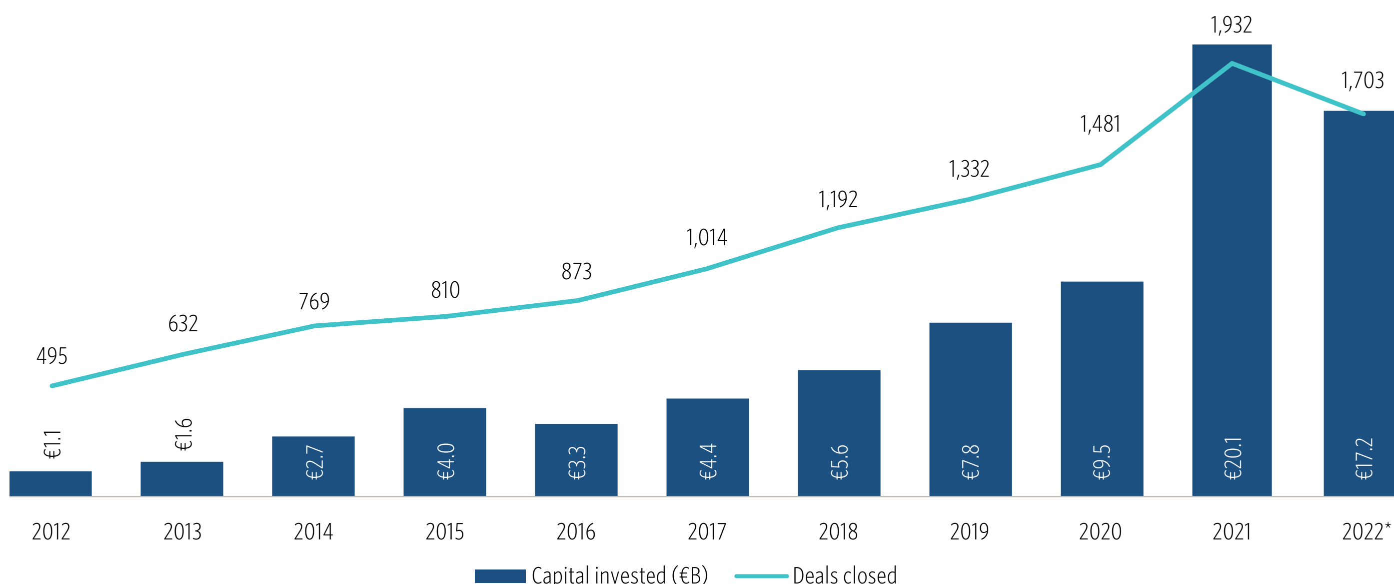
Looking ahead

As we transition into 2023, it will be tough for nontraditional investors to maintain the pace set during the past three years in terms of deal activity. We believe broader deal activity will flatten given market conditions, and deal activity with nontraditional participation will mirror that. Mature VC-backed businesses, which tend to attract nontraditional investment and are closer to public company business models, appear to be showing signs of the pressure facing public markets. Nontraditional investors may look to invest in younger companies in long-term industries that are several years away from an exit, to insulate from near-term volatility.

3: "Verkor Raises 250 Mln Euros to Fund EV Battery Megafactory," *Reuters*, Nick Carey, November 2, 2022.

Spotlight: DACH

DACH VC deal activity



Source: PitchBook | **Geography:** DACH
*As of December 31, 2022

This spotlight is abridged from our 2022 DACH Private Capital Breakdown. Please see the full report for the full analysis.

Deals

After a bumper 2021, VC activity in the DACH region and Europe has flattened as broader financial markets have slipped into correction territory. The DACH region has emerged as a prominent VC ecosystem during the past decade, with Germany regularly producing the bulk of deal activity. While the DACH ecosystem possesses unique characteristics, the area is experiencing similar challenges witnessed across Europe in recent months, and we expect VC deal activity to mirror trends across Europe.

Late-stage companies based in the region have increased in size, attracted greater sums of capital, and grown at faster rates. One notable deal involved Berlin-headquartered online broker Trade Republic. With markets shifting into bear territory in 2022, fintech companies such as Trade Republic that have launched expansive savings, trading, and investing products will likely be reassessing which customers to target. Demand for online financial services boomed during the COVID-19 pandemic, and the bull run in markets helped investments flow into the financial services sector. However, returns have become harder to come by in 2022, and with interest rates increasing across Europe, saving, rather than spending, has become more appealing. Competition between traditional financial institutions and disruptors has intensified, with new services, applications, and platforms vying for users. Companies with high burn rates, which previously invested significant amounts of cash to pursue growth at all costs, will now be adopting a more capital-efficient strategy.

Within the DACH region, Germany produces the lion's share of VC deal value. The VC ecosystem in Germany regularly features among the largest in Europe, along with France and the UK. VC deal activity in Germany is clustered within major cities including Berlin and Munich, as well as Hamburg, Frankfurt, and Düsseldorf. Germany also possesses a large financial services sector, which has helped capital trickle into VC.

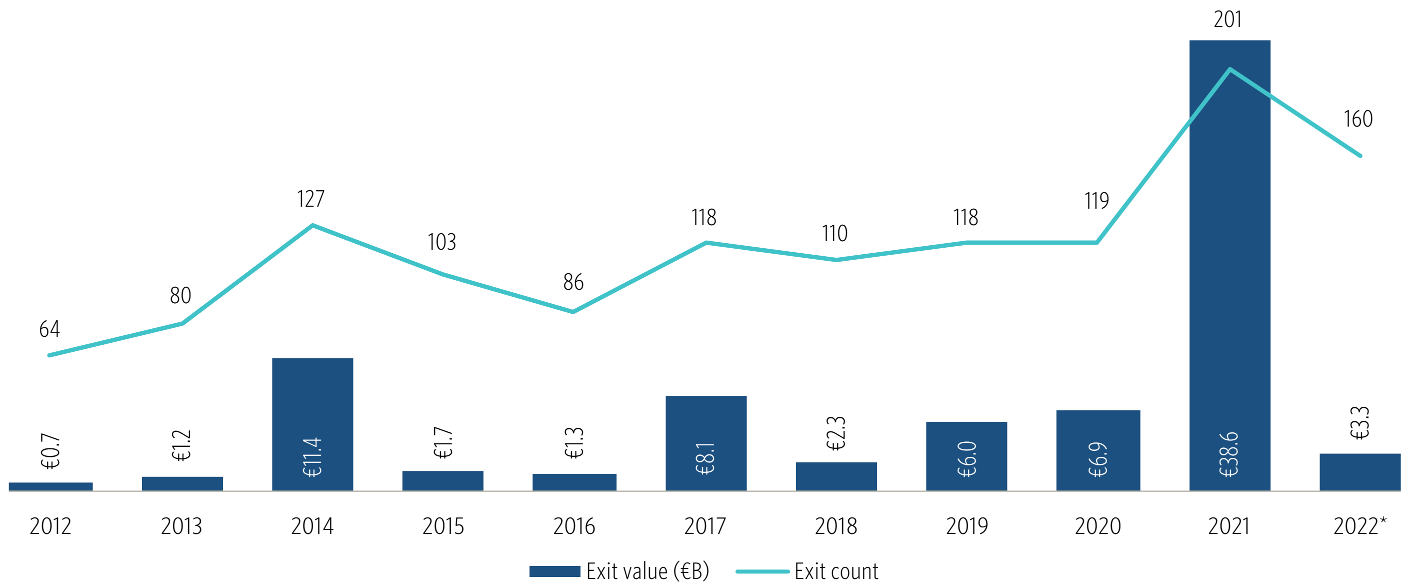
Exits

DACH-based exit activity has fallen sharply from the lofty levels in 2021, reflecting broader trends from the global VC ecosystem. Like their European and US counterparts, DACH-based companies rushed to exit amid conducive market conditions when there was an insatiable appetite for tech-enabled businesses displaying inflated growth metrics. Fast-forward to the bear markets of 2022, and companies, management teams, and investors are focusing on extending funding runways and maintaining business continuity instead of risking an exit.

Fundraising

The majority of large funds closed in 2022 were based in Germany, specifically Berlin. Although financial services are typically associated with Frankfurt, Berlin has emerged as the core VC hub in Germany, with the bulk of DACH VC funds and startups based in the city. It is a fashionable city within Europe, and, as evidenced with recent figures, both founders and investors view it as the optimal place for VC in the DACH region. Noteworthy exits for companies such as venture builder Rocket Internet, which publicly listed in 2014, have helped fuel the capital cycle within the city and distribute returns to investors and employees.

DACH VC exit activity



Source: PitchBook | **Geography:** DACH
*As of December 31, 2022

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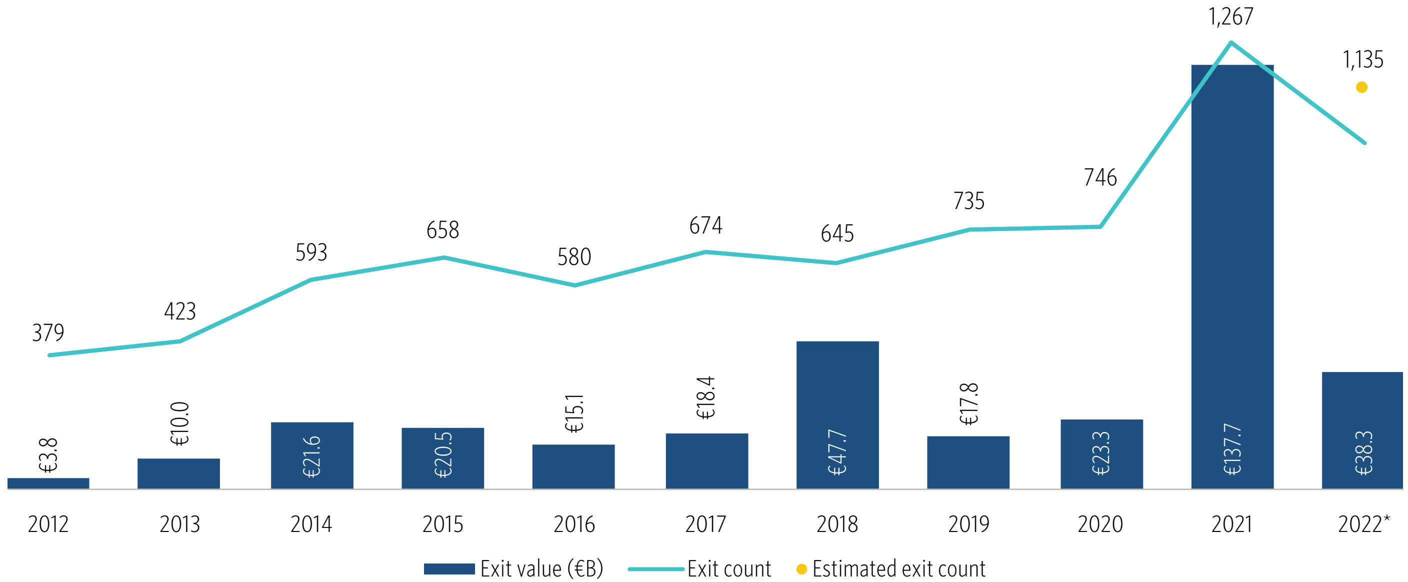
Exits

VC exit activity



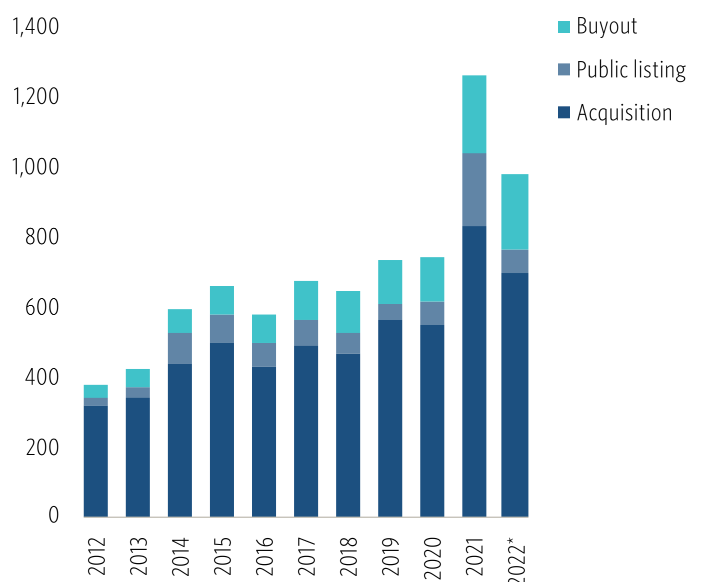
Source: PitchBook | **Geography:** Europe
*As of December 31, 2022

Overview

Despite a combination of factors including a rout of public equities and weakened growth forecasts that dampened appetite, exit value registered its third-largest total on record in 2022. When analysing exit activity during 2022, it has been a year of two halves: one of plentiful exits and one of very few at all. Exits have dried up as macroeconomic conditions and potential exit valuations have worsened deeper into the year. In 2022, €29.6 billion was exited in H1, whereas a miserly €8.6 billion in exit value was logged in H2. The boom in exit markets in 2021 enabled momentum to be carried through into H1 2022. The further we move away from the bumper showing in 2021, it is increasingly apparent that it was an outlier year for exits in the European VC ecosystem, which may not be eclipsed for several years.

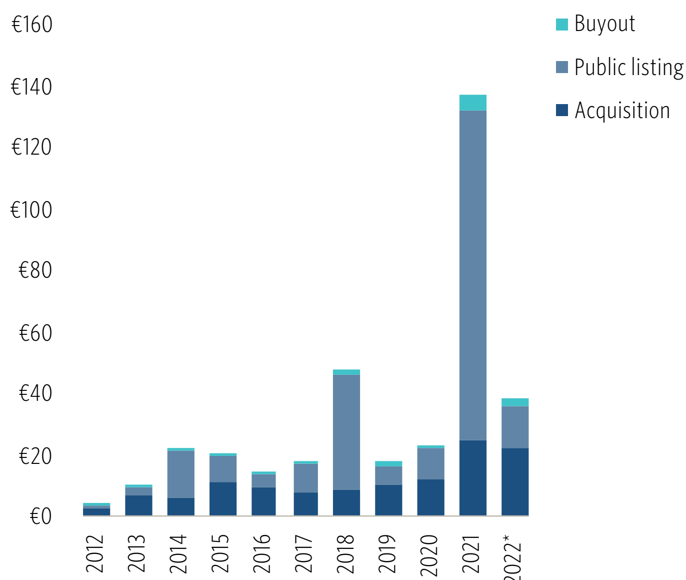
VC-backed companies with high burn rates, which pursued aggressive growth targets in search of lofty valuations amid an overheated market, are now faced with tougher funding access and exit routes. Startups are looking to extend funding runways, cut costs, and ensure they are well positioned for a potential exit when markets rebound. Consequently, we have seen reduced exit interest in 2022, and we expect muted activity to continue deep into 2023. Several mature businesses targeting an exit in 2022 have postponed their exit plans amid slower growth rates and recessionary fears. Late-stage companies may still opt to exit in 2023; however, we do not anticipate a rush of exits as investors, founders, and operators focus on ensuring businesses stay afloat.

VC exit count by type



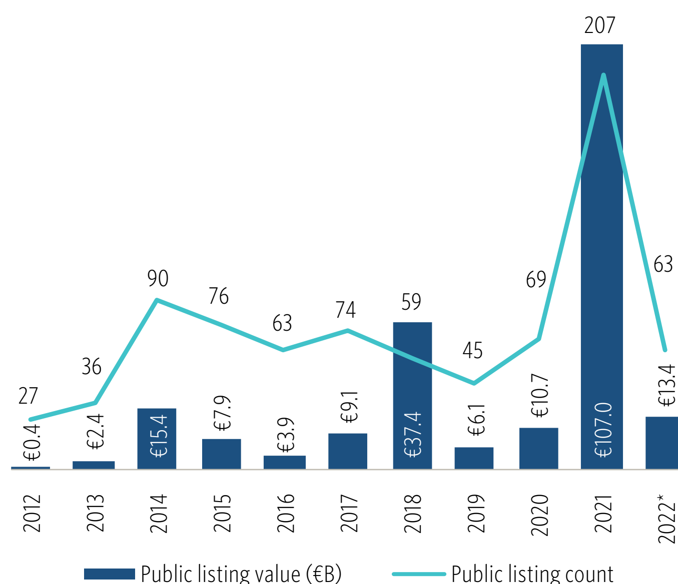
Source: PitchBook | **Geography:** Europe
*As of December 31, 2022

VC exit value (€B) by type



Source: PitchBook | **Geography:** Europe
*As of December 31, 2022

VC-backed public listing exit activity



Source: PitchBook | **Geography:** Europe
*As of December 31, 2022

Public listings

The success of VC as a strategy has consistently been associated with previously VC-backed, tech-enabled ideas that have become some of the largest corporations globally. Particularly in the US, big tech companies such as Facebook, now called Meta, Apple, Amazon, Netflix, Microsoft, and Google, collectively known as the FAAMNG group, have revolutionised market indexes and the corporate landscape. Publicly listed technology stocks have proven to be high-growth for more than decade. But over the course of 2022, nearly $3.8 trillion in market capitalisations was lost.[4] Although these companies are separate from the VC ecosystem, their revised valuations, revenue multiples, and profit margins serve as a benchmark when determining the value and long-term growth prospects of startups with limited financial information within the VC ecosystem. Therefore, tumbling valuations in liquid public markets have filtered into private market valuation calculations, especially for late-stage companies.

Lower valuations in public markets and reduced appetite for listings from investors have meant GPs and founders have avoided public listings in the current climate. In 2022, 63 public listings generated €13.4 billion. Although both metrics present significant declines from 2021, they are in line with pre-2021 exit activity. The main factors driving fewer listings are the price and market risk associated with exiting an investment that has been held over several years. Investors and founders will want the highest return achievable, attained by exiting with the highest valuation possible. Meanwhile, post-exit shareholders will not want to see their investment lose significant amounts of value in volatile public markets, which eats into their returns. Furthermore, the lowly share prices of recently listed companies have deterred stakeholders from debuting in public markets.

Corporate acquisitions

With public listings halting in 2022 and expected to remain subdued in 2023, corporate acquisitions have risen in prominence. Startups could pursue corporate acquirers to fold their operations into, instead of testing public markets alone. The safety and expertise offered by a corporate acquirer is attractive to several companies given market conditions and the highly competitive and crowded nature of certain sectors. Moreover, similar entities may feel that combining resources and sharing knowledge will better serve customers, ensure long-term survival, and enable growth against rivals.

For example, Getir bought rival food delivery provider Gorillas for €1.2 billion in Q4 2022. With reported layoffs and widening losses at both companies, the proposed acquisition made sense strategically given the recent struggles of the wider food delivery space in Europe. During COVID-19 restrictions, food delivery usage surged with Getir and Gorillas doubling down on growth efforts to capture market share. Throughout 2022, restrictions have been lifted throughout Europe, discretionary spending has fallen, and markets have entered bear territory. This combination of factors has meant fewer people are using these platforms, and growth has been much harder to achieve, particularly in a low-margin and crowded industry such as the food delivery space, which requires vast scale for profitability.

4: "5 Charts on Big Tech Stocks' Collapse," Morningstar, Jakir Hossain, December 14, 2022.

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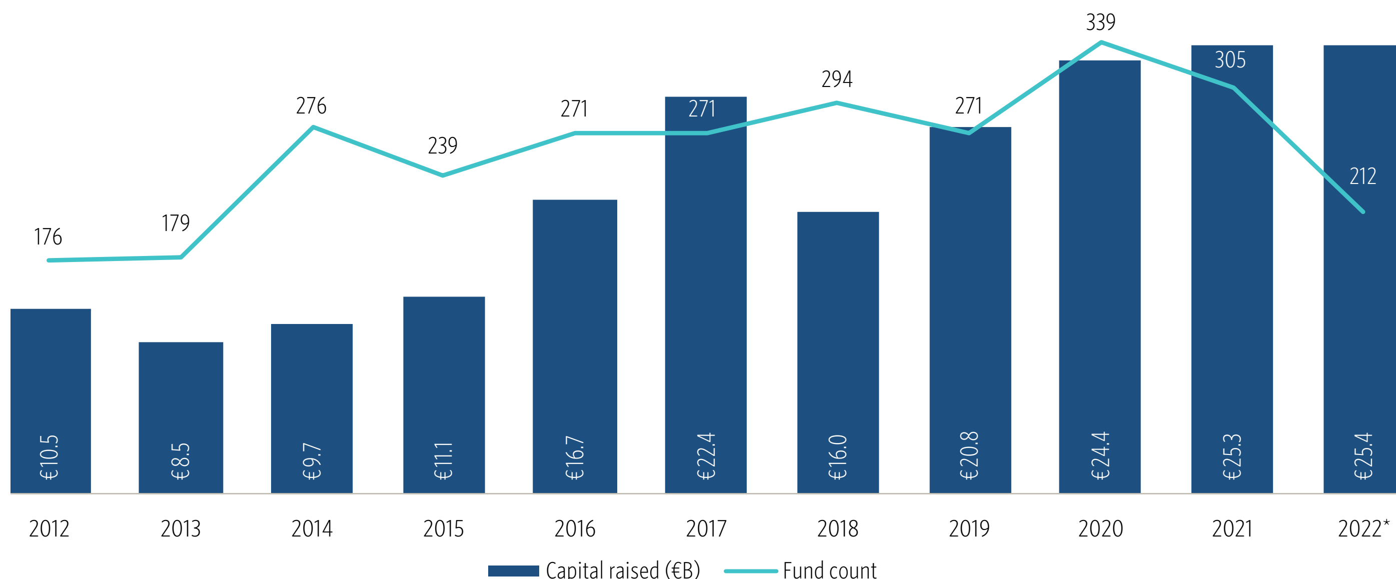
Fundraising

VC fundraising activity



Source: PitchBook | **Geography:** Europe
*As of December 31, 2022

Overview

In 2022, VC fundraising reached €25.4 billion, remaining flat from 2021. Bear markets emerged in 2022; however, capital raised landed in a similar position to its performance in the past three years, illustrating that GPs were still able to attract sizeable LP commitments and close substantial VC funds. Funds take several months to close with multiple LP relationships to manage, thus time lags could have been in effect throughout 2022. With that delay in mind, 2023 fundraising will provide a more accurate reflection of current fundraising conditions. We believe fundraising will flatten in 2023 and could become more challenging as capital allocations tighten from increased costs of borrowing, and portfolios are recalibrated due factors including the denominator effect. Our recent Allocator Solutions report provides further information on commitment schedules and cash flow expectations.

The denominator effect arises when the value of one segment of a portfolio falls significantly, dragging down the value of the overall portfolio. As a result, the portions that did not decline represent a larger chunk of the total. As public equities have fallen sharply in 2022, LPs have experienced significant declines in their aggregate public equity holdings. Illiquid VC valuations are calculated with a lag compared to liquid public equites. Thus, private market holdings, such as allocations to VC, have increased as a proportion of the overall portfolio. Public equities are likely to recover in the long term; however, in the near term, the denominator effect can threaten VC fundraising and fresh commitment appetite from LPs. Rigorous target allocation frameworks are designed to ensure LPs are not excessively allocated to a particular strategy. Consequently, LPs may not have the capability to make new commitments that would tip beyond constraints.

Although tougher macroeconomic conditions indicate a challenging fundraising environment, notable funds were closed in 2022. One major fund to close in Q4 2022 was UK-based Plural, which closed at €250.0 million. Plural was set up by a selection of successful founders and operators, demonstrating the cyclical flow of capital in action within the VC ecosystem. Wealthy founders and employees often become mentors, board members, or investors within VC. The establishment of Plural and its ability to raise a considerable amount of capital indicate how previous successes can fuel future funding efforts for startups.

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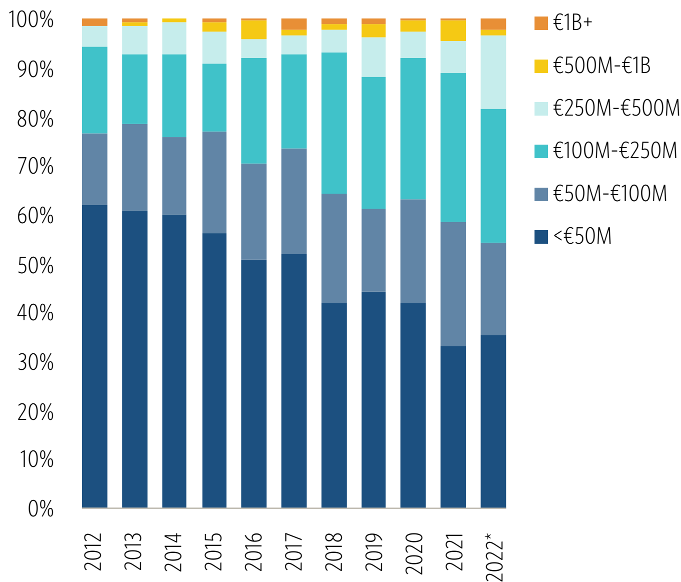
Fund sizes

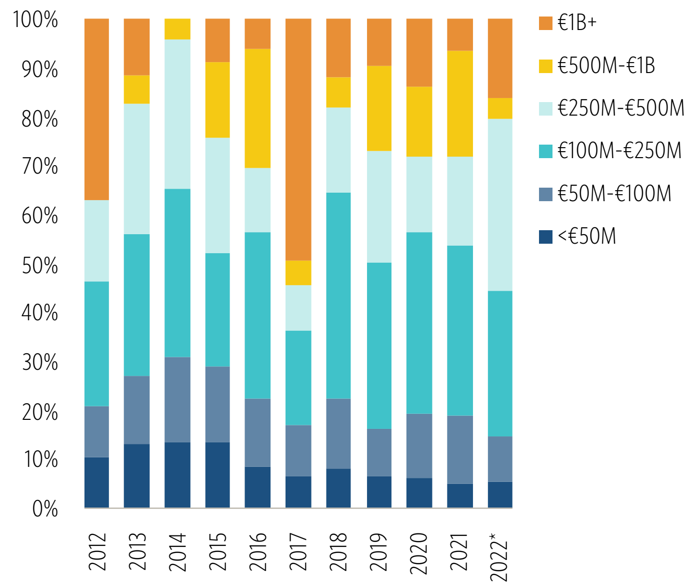
As capital raised remained flat in 2022, fund count dropped significantly with 212 funds closed, down from 305 in 2021 and 339 in 2020. Fund sizes have typically grown in Europe during the past decade, as larger commitments from LPs and capital requirements from startups have created bigger vehicles that have funded larger rounds. The composition of capital raised has shifted towards funds between €100 million and €500 million as GPs have been keen to ensure their portfolios have the capital needed to succeed. In 2022, roughly two-thirds of capital raised were allocated to these funds. Larger funds are also linked to experienced fund managers, as fund families tend to grow in size sequentially, and they are able to secure follow-on commitments from existing LPs and attract new LPs to freshly launched funds. We expect GPs with robust track records to continue to raise funds despite the market downturn.

Share of VC fund count by size bucket



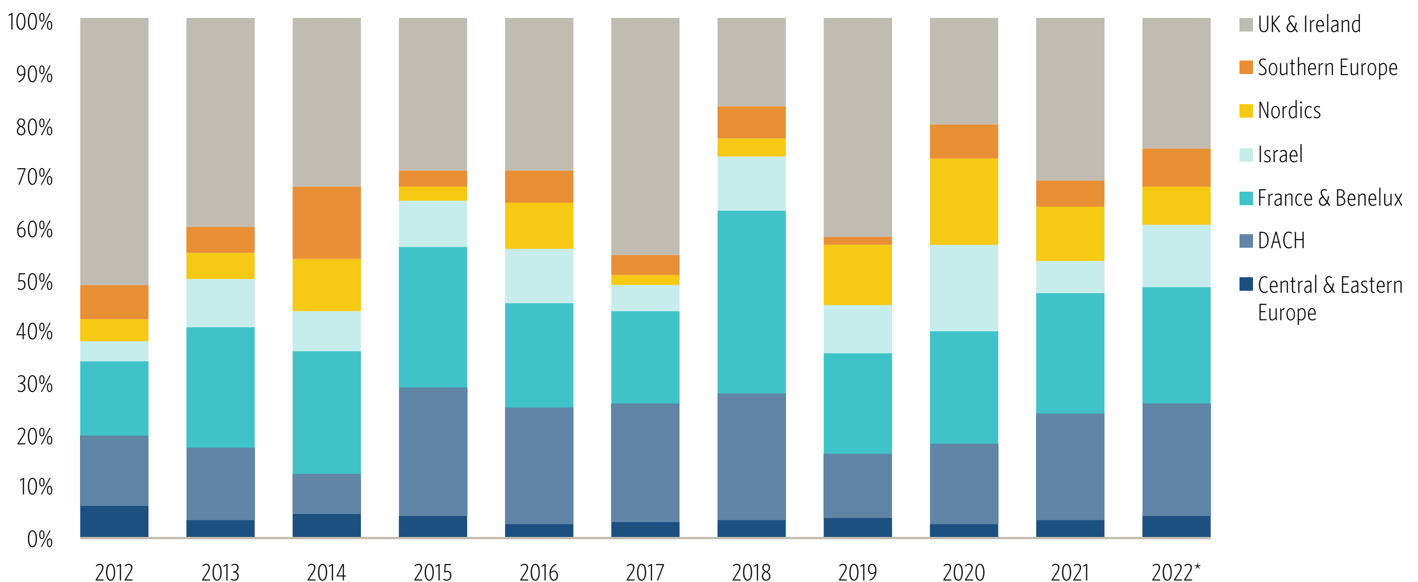
Source: PitchBook | **Geography:** Europe
*As of December 31, 2022

Share of capital raised for VC funds by size bucket



Source: PitchBook | **Geography:** Europe
*As of December 31, 2022

Share of capital raised for VC funds by region



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European private markets

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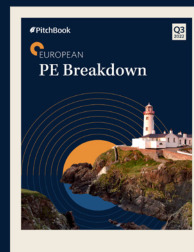

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