PitchBook

2023 ANNUAL

EUROPEAN VC Valuations Report

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Published on February 20, 2024

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Introduction

2023 was a year of correction, while 2024 will be the year of the three Rs. The decline in valuations in 2023 was well documented as macroeconomic conditions changed across the globe and had several ramifications for financial markets. Looking forward, we believe three Rs will shape the level and nature of activity in venture capital (VC) markets in 2024: rates, recovery, and rationalisation. Despite the overall decline in VC activity in 2023, the median pre-money valuation increased year over year (YoY) across all stages apart from seed and venture growth. There may be some quality bias in the sample, and we think valuation multiples would still have significantly compressed, as willingness to pay for companies with higher revenue growth waned in 2023. However, certain areas of the market are showing more resilience. In this report, we spotlight artificial intelligence (AI) and cleantech for their resilience in 2023.

The proportion of venture deal value with nontraditional investor participation slightly declined in 2023, but several industry stakeholders continued to tap venture markets for nascent technologies. Deals specifically with corporate venture capital (CVC) participation increased their proportion of overall VC deal value in 2023 to 50.9%, up from 48.8% in 2022. The median CVC deal value and median valuation also showed resilience. In 2023, we saw several corporates take stakes and invest into new venture-backed technologies. Such deals enable large, mature corporations to grow inorganically through acquired technologies, a trend we expect to continue through 2024.

Unicorn deal value unsurprisingly declined in 2023; however, the aggregate post-money valuation of active unicorns only slightly decreased. Unicorns in Europe have undergone significant growth over the long term. Despite the tripling of the aggregate post-money valuation in 2021 and a further increase in 2022, we are surprised by the resilience in the cumulative valuation in 2023. We expect the number of private-backed unicorns to decrease going forward as listing markets open up. However, because we expect public listings to remain muted this year, we anticipate unicorns to have to continue to find operational efficiencies in an effort to extend cash runways.

The median exit valuation sat at €23.0 million in 2023, down 28.7% YoY, with the median public listing valuation underperforming the median acquisition valuation. For public listings, the median exit valuation declined 60.3% YoY, compared with a 25.2% decline for acquisitions. Public listings saw a large compression across the valuation dispersion. However, the acquisition market showed more resilience, with the top decile of exit valuations broadly flat and the bottom quartile in fact higher YoY. Looking forward, we see the most question marks over the public listing space. As noted in our 2024 outlook, we expect no meaningful recovery in the value or count of public listings in 2024.

Overview

2023 was a year of correction. The decline in valuations in VC was well documented as macroeconomic conditions changed across the globe and had several ramifications in financial markets. For private capital, the decline in activity and valuations seen in 2023 followed almost two years of "hype." The lower cost of capital, public asset yields, and some COVID-19-pandemic beneficiaries caused a surge in inflows into private asset strategies—and in startup valuations. VC specifically saw the entrance of several "tourist investors": nontraditional parties that made a foray into VC to capitalise on high returns and valuations, putting dry powder to work. As market conditions turned, such parties walked away from VC, exiting investments and less familiar markets, resulting in a large correction in inflated valuations.

Despite the overall decline in VC markets in 2023, we saw the median pre-money valuation increase YoY in all stages apart from seed and venture growth. Similarly, all stages apart from venture growth saw a higher median deal value in 2023. There may be some quality bias in the sample, as financing conditions were tougher in 2023, meaning that higher-quality companies were the ones to secure equity financing. Despite median valuations mostly increasing, we think valuation multiples would still have significantly compressed, as the willingness to pay for companies with higher revenue growth waned in 2023. Whilst median figures looked broadly higher YoY, we saw the majority of declines in the top decile of dispersions within stages, evidencing that the more highly inflated part of the market saw the greatest correction in values YoY. Of course, there are still areas with highly valued companies, with verticals such as AI still showing robust activity and growing appetite for deals. We spotlight cleantech and AI later in this report to look into the resilience both industries showed in 2023.

What to look for in 2024? The three Rs. Going forward, we believe stakeholders in VC markets, particularly investors, will be looking for changes to rates, recovery, and rationalisation. Macroeconomic factors, namely interest rates, are still driving activity and how portfolio companies are valued. With "higher for longer" set to play out in 2024, we believe rates will be the first pillar of important factors to shape venture valuations going forward. This will determine the extent of the recovery that valuations—and general activity in VC—undergo this year. There are green shoots indicating that trough valuations have been reached, but given the lag at which private markets correct to public markets, on top of low visibility, the extent of the recovery remains to be seen. Lastly, lower valuations, although challenging for startups themselves, do create opportunities in the market, often leading to rationalisation. Especially after a period of overinflated values, we believe cheaper assets are proving attractive for various investors. Fragmented sectors are therefore likely to consolidate, which could lead to more rational behaviour by industry players amid more rational valuations in the market.

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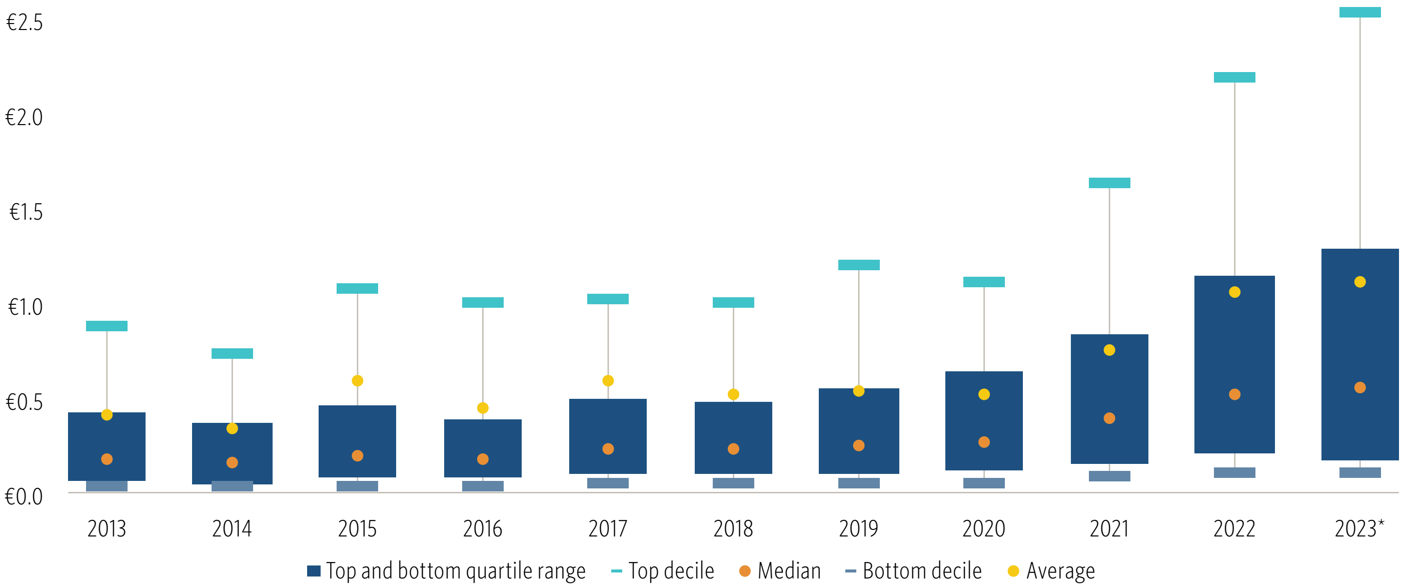
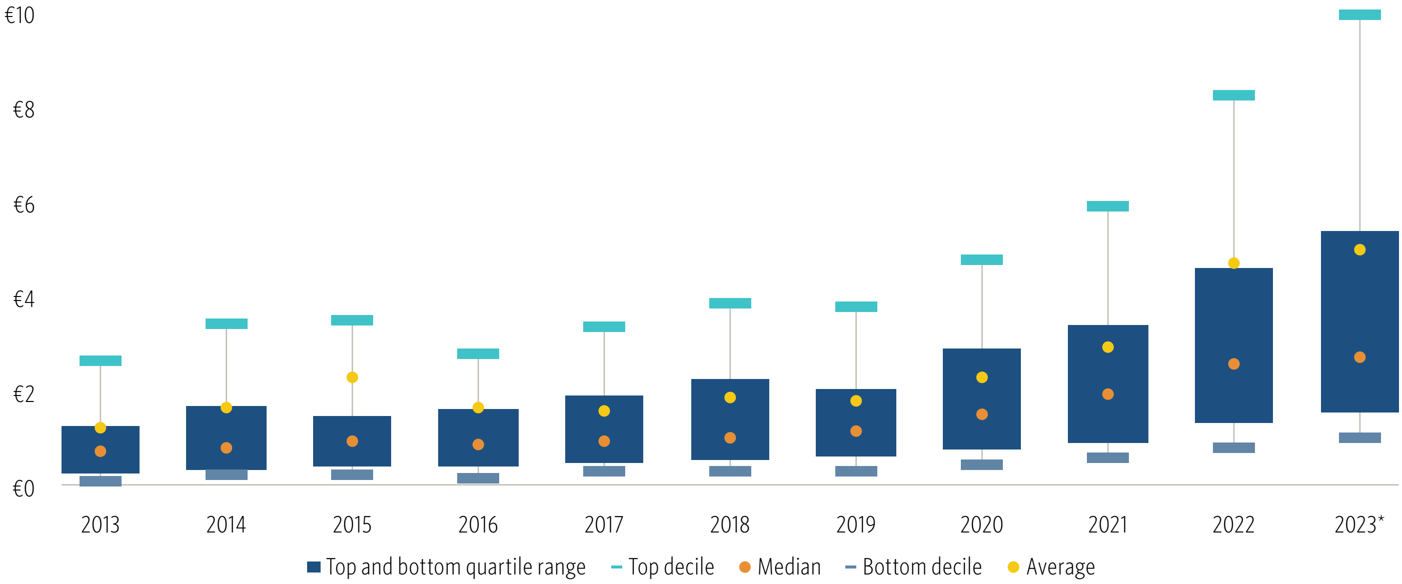
Pre-seed deal value (€M) dispersion



Source: PitchBook • Geography: Europe • *As of December 31, 2023

Pre-seed pre-money valuation (€M) dispersion



Source: PitchBook • Geography: Europe • *As of December 31, 2023

Pre-seed

Pre-seed emerged as one of the most resilient parts of the market in 2023. In terms of pre-money valuation medians, the stage was the strongest, with its median up 4.0% YoY. The median deal value of €0.6 million, which increased 8.4% YoY, was the second-biggest gainer out of all the stages in 2023. We expect to see resilience in such an early-stage part of the market, which tends to be more insulated from short-term volatility. As discussed in the following section, the trends were similar to those of seed, with YoY increases across the various quartiles and deciles of valuations. In the top decile, where we would have anticipated more of a correction given the higher probability of inflated values, valuations still increased 20.9% (whereas all other stages saw decreases in the top decile).

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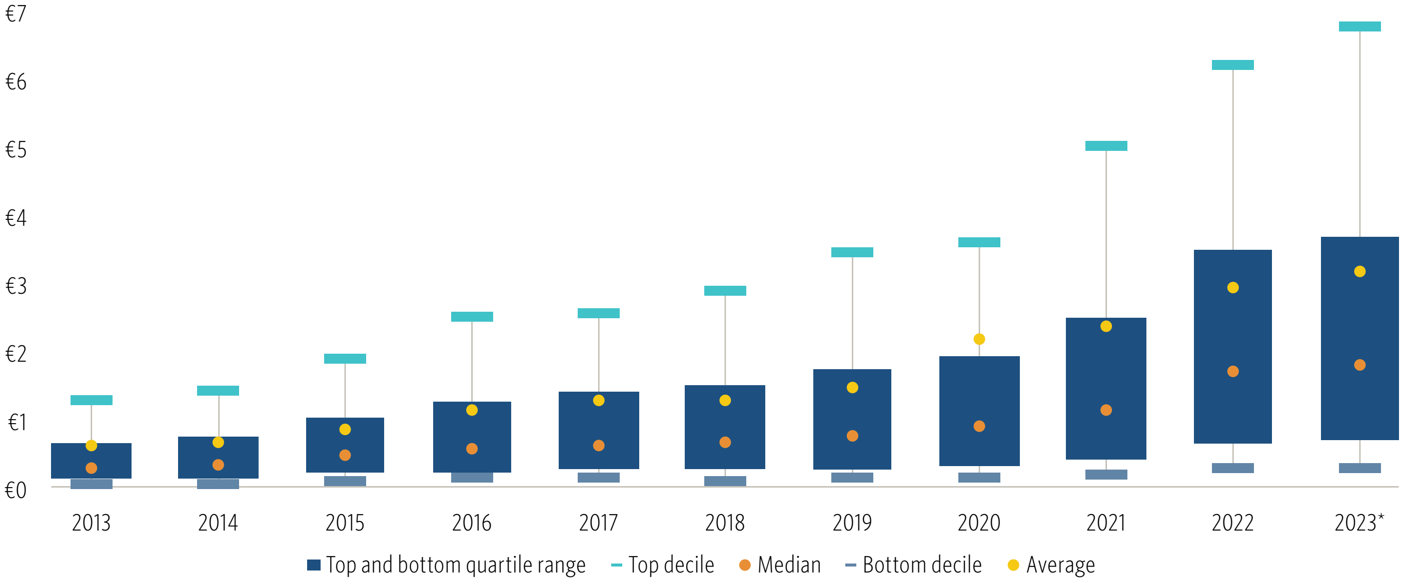
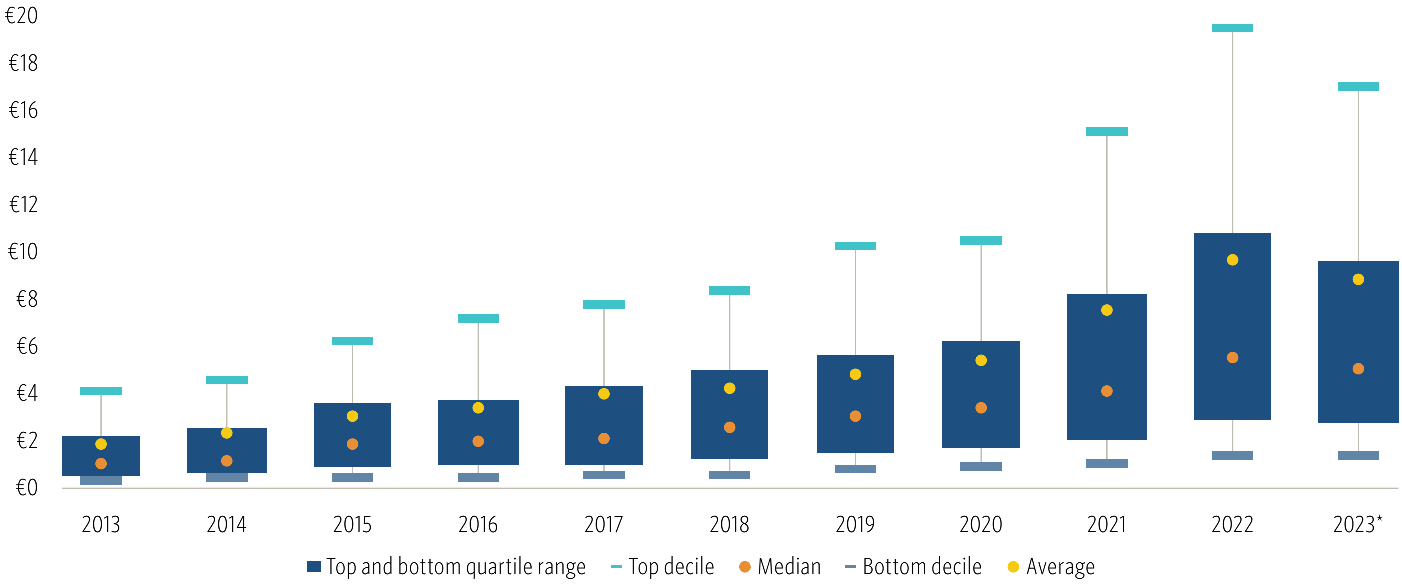
Seed deal value (€M) dispersion



Source: PitchBook • Geography: Europe • *As of December 31, 2023

Seed pre-money valuation (€M) dispersion

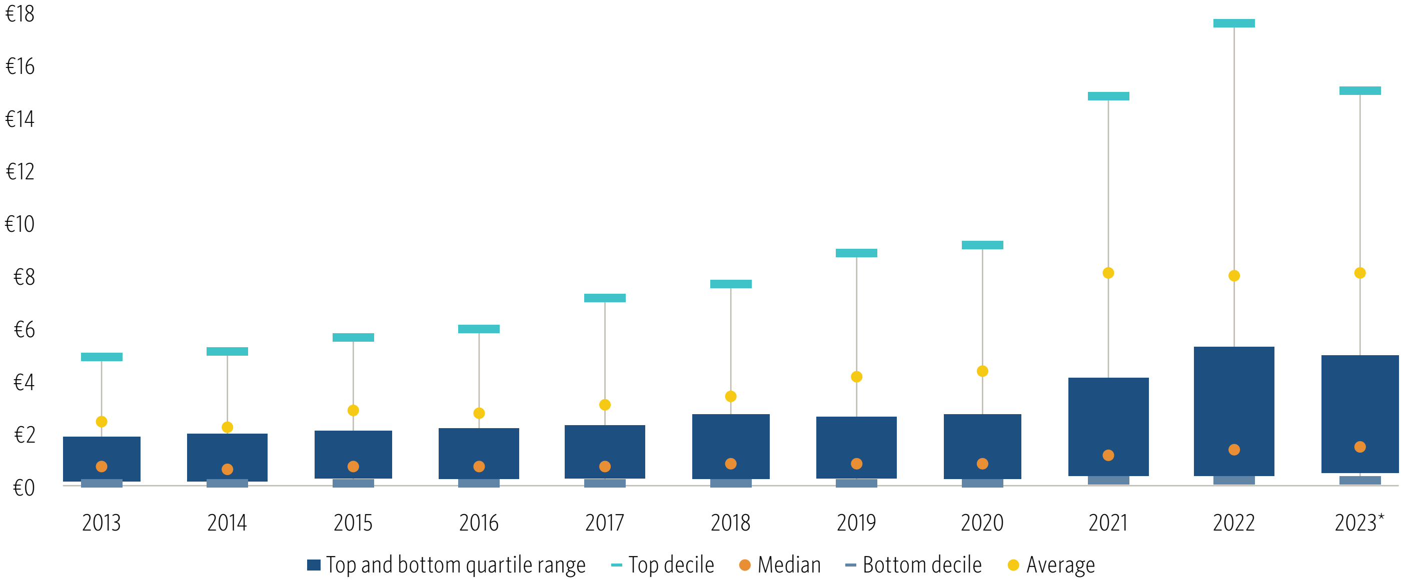


Source: PitchBook • Geography: Europe • *As of December 31, 2023

Seed

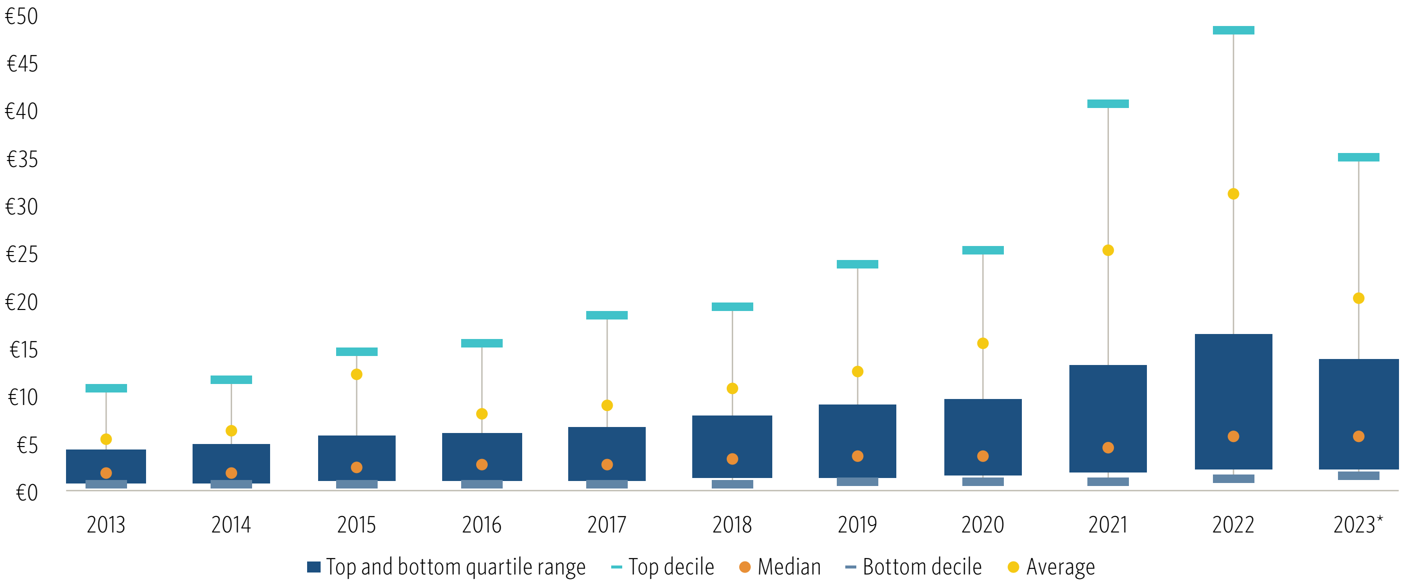
Trends within seed-stage deals were mixed. Whilst deal value trends were similar to those in pre-seed, with the median increasing 5.3% YoY, the stage saw more corrections in valuations. The median pre-money valuation declined 9.2% in 2023, with the top and bottom quartiles decreasing as well. This demonstrates that the dispersion of valuations within the stage declined overall, unlike pre-seed, where all areas of the dispersion increased YoY. We find this disparity between conventionally intrinsically linked parts of the market interesting given the similar nature of companies and investor outlook of both stages. Despite the declines in valuations, seed deal value showed more resilience with all tiers in the dispersion increasing YoY. This is also interesting to note, as decreasing deal values are usually expected with declining valuations.

Early-stage VC deal value (€M) dispersion



Source: PitchBook • Geography: Europe • *As of December 31, 2023

Early-stage VC pre-money valuation (€M) dispersion

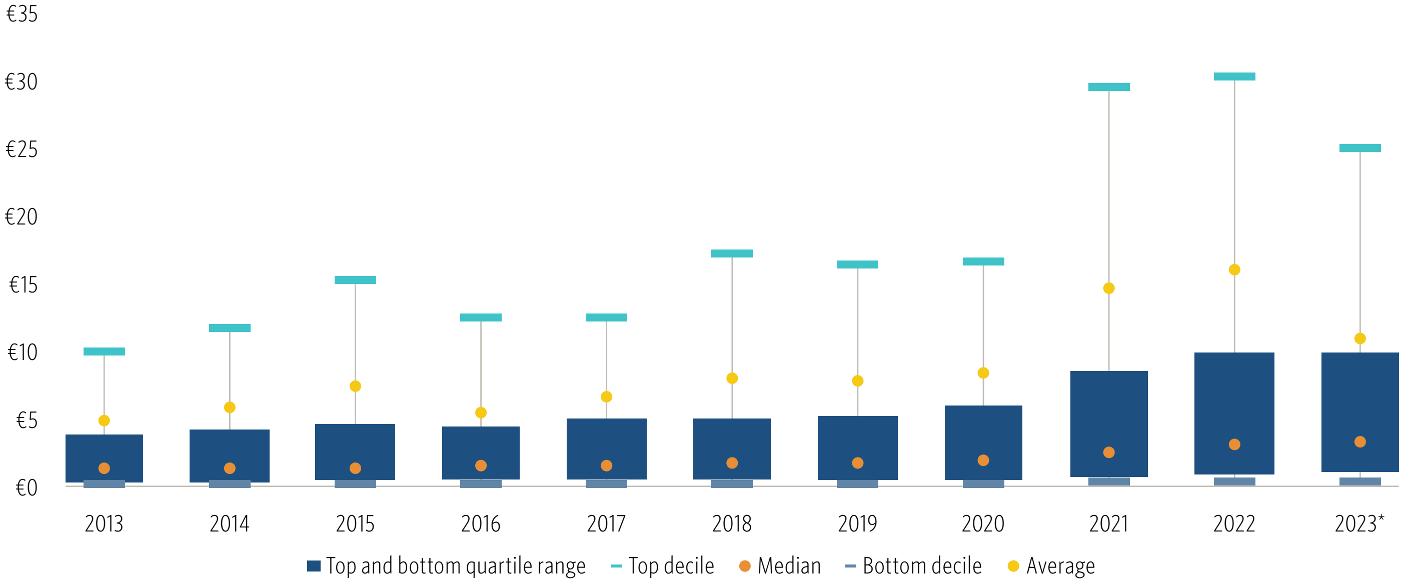


Source: PitchBook • Geography: Europe • *As of December 31, 2023

Early-stage VC

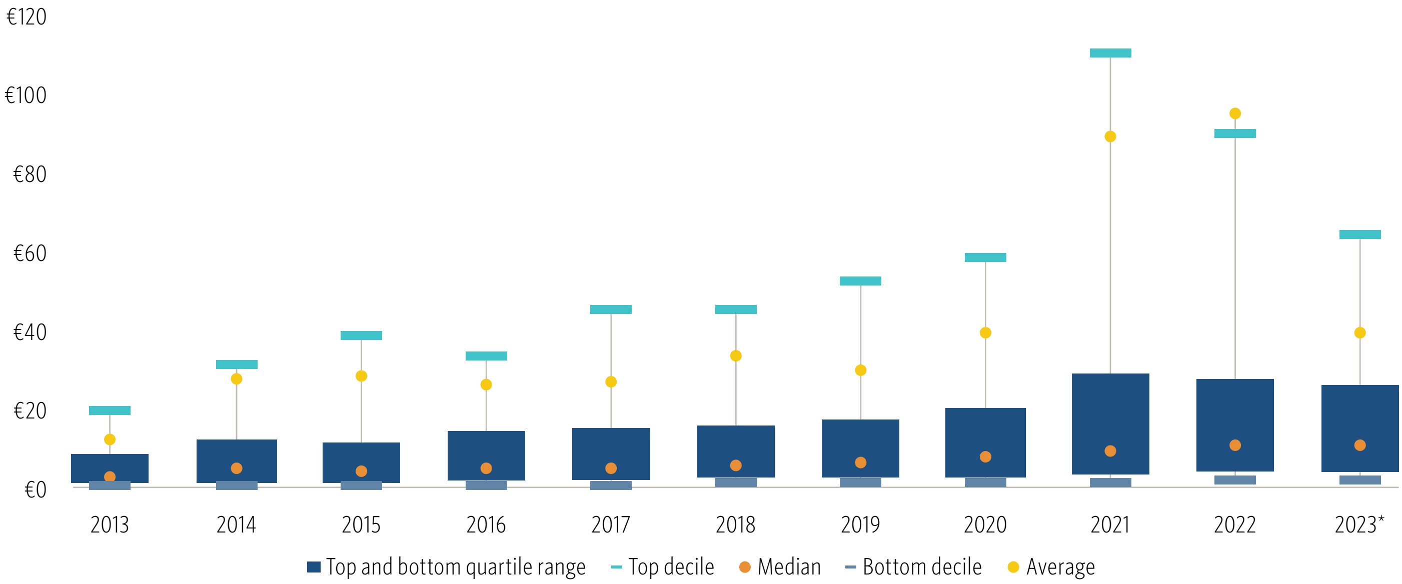
In the early stage, the median deal value increased 2.8% in 2023, and the median valuation increased 2.5%. Within the stage, we saw the higher end of the market decline the most, with the top decile of valuations decreasing 27.4%. It is no surprise that AI startups were among the largest and most highly valued early-stage companies, including Mistral AI and Helsing, both valued at more than €1 billion. Similarly, some of the largest deals involved AI companies—Aleph Alpha and Mistral AI both raised €400 million or more—as well as climate tech company H2 Green Steel, which raised €1.5 billion.

Late-stage VC deal value (€M) dispersion



Source: PitchBook • Geography: Europe • *As of December 31, 2023

Late-stage VC pre-money valuation (€M) dispersion

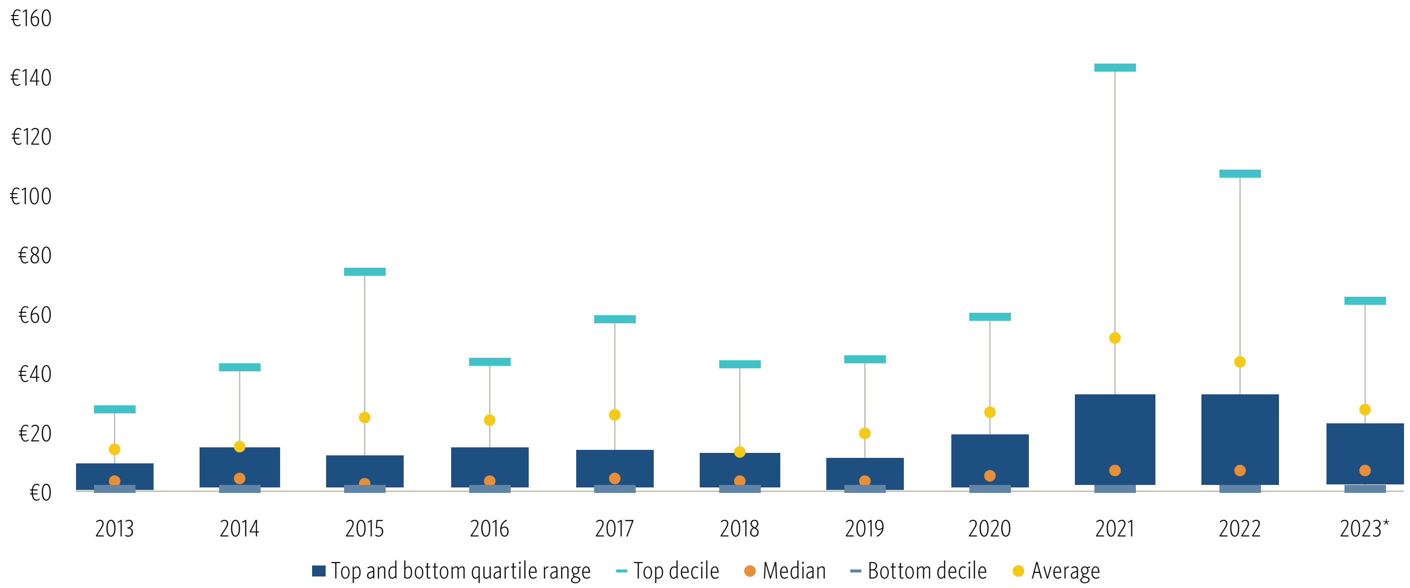


Source: PitchBook • Geography: Europe • *As of December 31, 2023

Late-stage VC

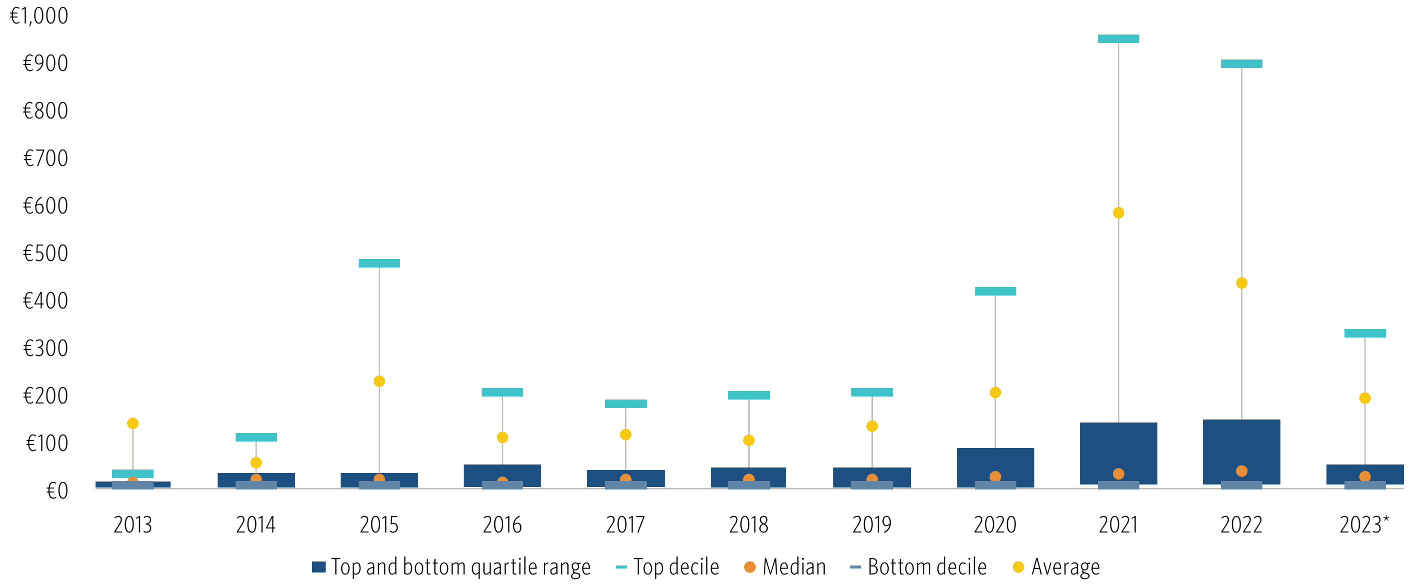
The late stage saw the largest increase in its median deal value out of all the stages, up 11.7% YoY. Whilst its median pre-money valuation increased by less, there have been encouraging signs of resilience in the short and long term, as late-stage valuations have increased consecutively in the last decade and have also maintained the large step-ups seen in the market in 2021. We saw some recovery in the second half of 2023, where the median valuation reached a decade high of €12.7 million in Q4. Similar to the early stage, the top tier of late-stage valuations declined the most YoY.

Venture-growth deal value (€M) dispersion



Source: PitchBook • Geography: Europe • *As of December 31, 2023

Venture-growth pre-money valuation (€M) dispersion

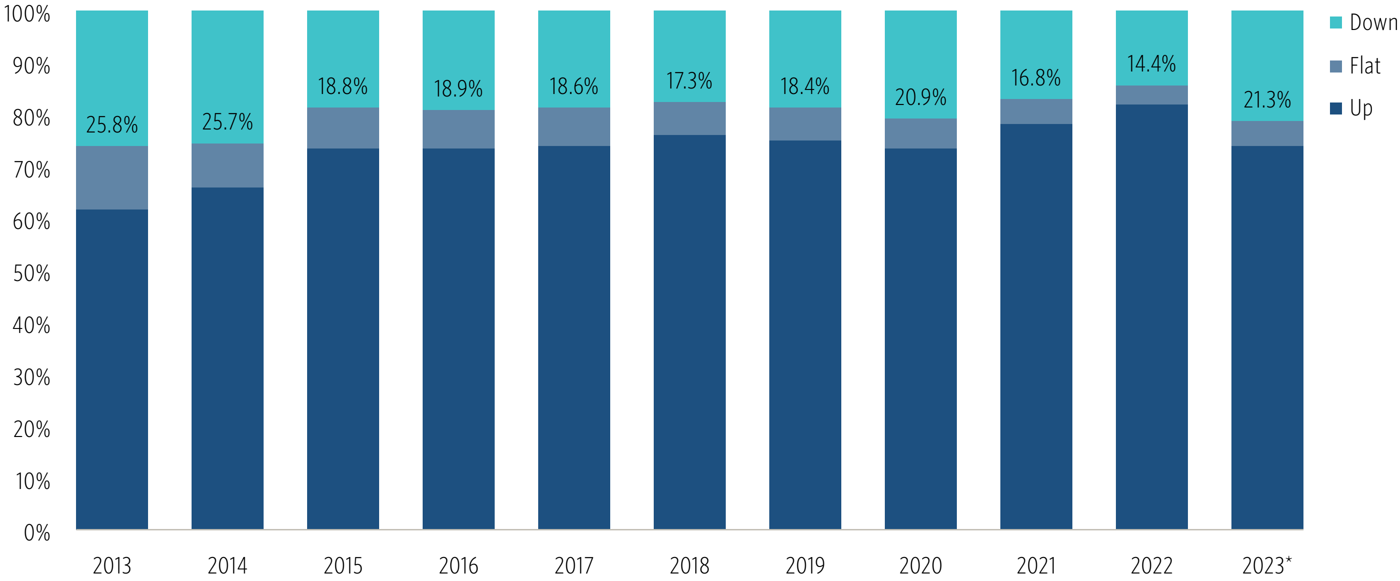


Source: PitchBook • Geography: Europe • *As of December 31, 2023

Venture growth

Venture growth had the most woes in 2023. In line with trends seen throughout the year and anecdotal news in the market, the most mature area of the market saw the largest declines in deal value and valuations. Venture-growth companies have suffered the most in the tougher environment given 1) the pullback from tourist investors in VC, which entered this area of the market in the peaks of 2021 but have exited investments due to higher volatility and lower returns; 2) weak exit markets, which venture-growth companies rely on to raise further rounds of financing; and 3) weak public market valuations, to which venture-growth companies are often benchmarked due to their broad similarity in size and operations. As a result, the stage was the only area of the market to see a weaker median deal value and valuation in 2023, down 4.7% and 26.2% YoY, respectively.

Share of VC deal count by up, down, and flat rounds



Source: PitchBook • Geography: Europe • *As of December 31, 2023

Up, down, and flat rounds

Up, down, and all around, there were little signs of respite among down rounds. The proportion of deals comprising down rounds sat at 21.3% in 2023, compared with 14.4% in 2022. Nearly a third of the cuts to valuations fell in the UK & Ireland, including well-known names such as Getir, Gousto, and eToro. This jump is large, but still not at the peak level seen in previous years, when down rounds accounted for 25.7% of deals. We do not expect any respite in the proportion of down rounds in the imminent future despite the apparent resilience in median valuations. There are still areas of the market that are largely correcting, and despite some decrease in the proportion of down rounds in Q3 2023, the proportion ticked higher in Q4. Another consideration to be made in the data is disclosure, as we expect a decrease in the number of companies disclosing less-than-favourable circumstances such as down rounds. Overall deal count in the market has declined YoY, with the number of down rounds decreasing by a smaller percentage, thus increasing their proportion of deals in 2023.

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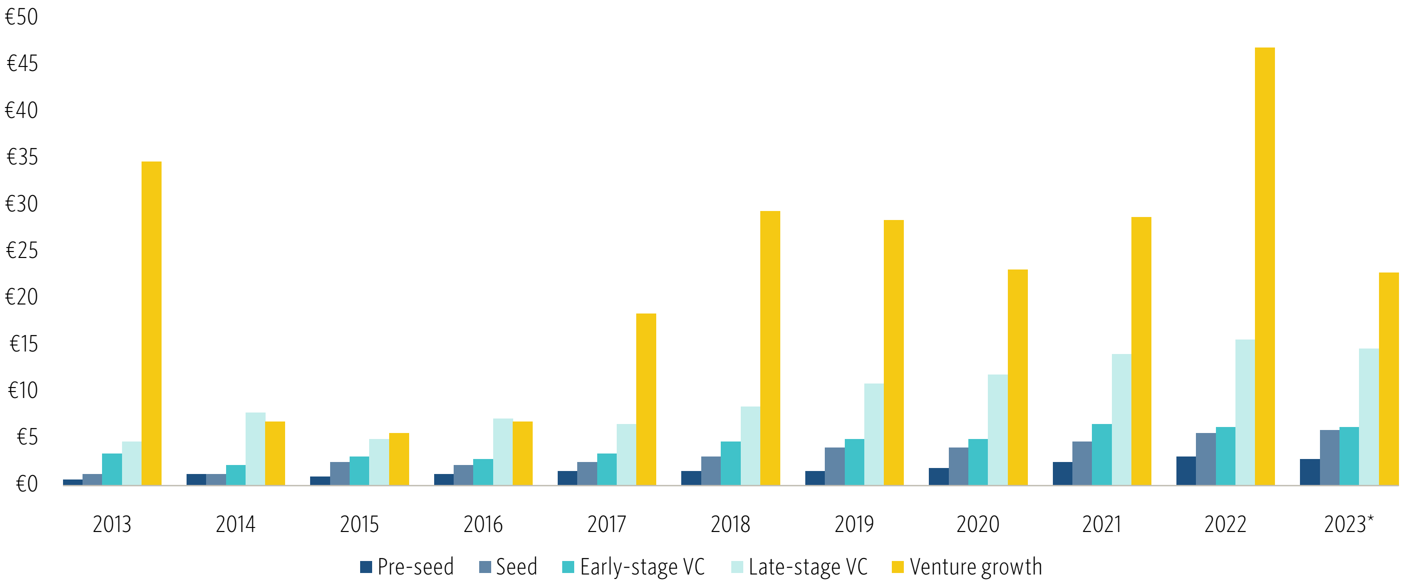
AI

Median AI VC pre-money valuation (€M) by stage



Source: PitchBook • Geography: Europe • *As of December 31, 2023

VC investors delved deeper into the world of AI. AI emerged as the hot area of the venture market in 2023, with generative AI (GenAI) taking centre stage and a high growth in startups servicing the space. Despite this, the supposed hype in the market did not fully translate to a large increase in valuation medians. Although taking the median of a sample aims to mitigate the impact of both large and small outliers, a rising tide should lift all boats. In 2023, we saw only marginal increases in median seed and early-stage valuations, with the median venture-growth valuation halving and the median pre-seed valuation down 14.0%. Deal value medians showed more signs of growth, with all stages increasing except for the early stage, which was flat. Given the still-nascent nature of the industry, we will be watching for developments in the space as the year progresses. The breakout year that the vertical had in 2023 led to a re-rating of AI-focused stocks; however, GenAI public pure plays did not maintain share price gains, underperforming the Nasdaq in Q4 2023. As private markets correct at a lag to public markets, it remains to be seen how much more of the benchmarking exercise is to come this year.

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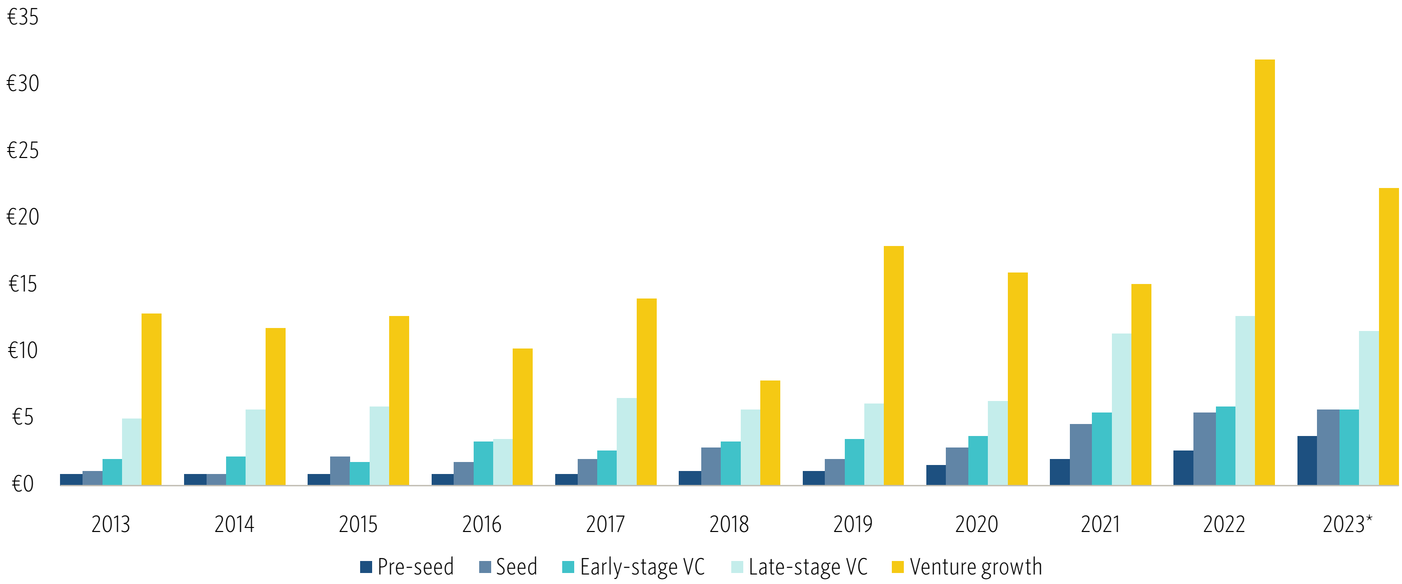
SECTORS

Cleantech

Median cleantech VC pre-money valuation (€M) by stage



Source: PitchBook • Geography: Europe • *As of December 31, 2023

Deal value and early-stage valuations showed resilience in cleantech. Cleantech deal sizes increased across the board, with the exception of the early stage, which decreased YoY. More mature companies in the vertical bucked broader trends, with the median venture-growth deal size increasing by 26.9%. The median venture-growth valuation, however, was lower by 30.5% YoY, with more resilience in valuations the earlier the stage. Pre-seed therefore showed the most gains in its median valuation, increasing 46.0% YoY. The late-stage part of the market still felt the strains, with its median valuation declining. However, cleantech generally showed more resilience amid the tougher year last year, as demand for technologies in structurally growing industries has been somewhat more insulated. The cleantech vertical spans many industries and is defined as companies with the primary purpose of developing new technologies related to clean energy production, transmission, storage, or use; water treatment and management; and/or efficiency in energy or resource management and use. We therefore expect the resilience to persist as the energy industry continues to transition to cleaner means of production and decarbonisation.

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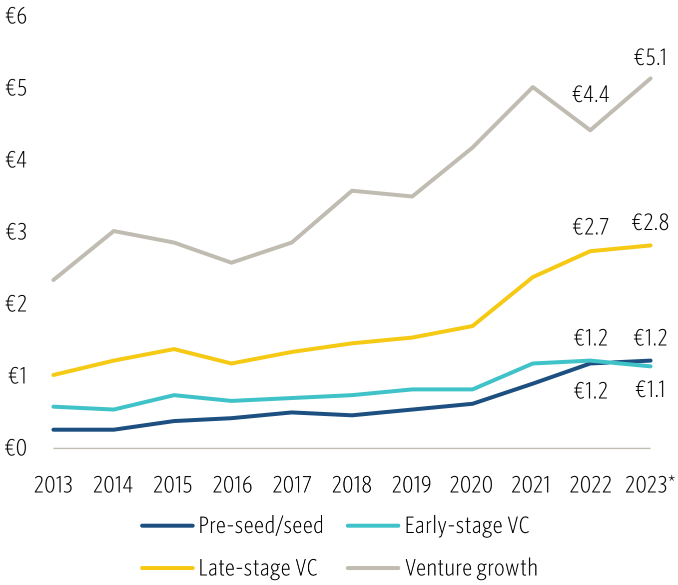
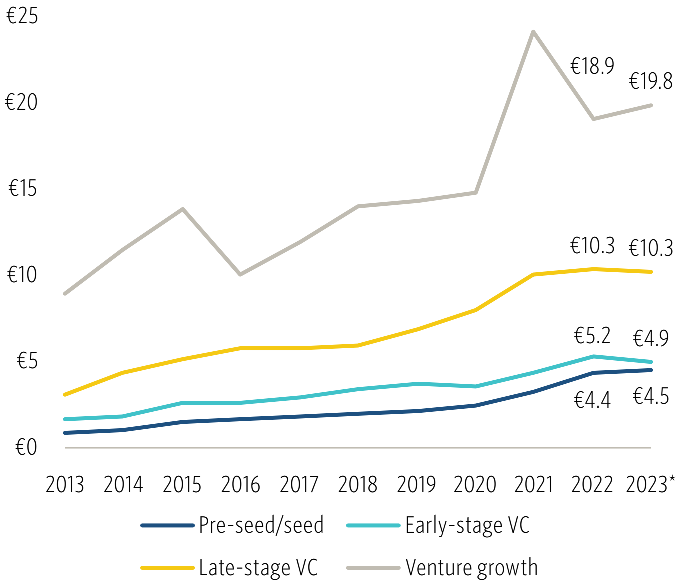
Regions

Median UK & Ireland VC deal value (€M) by stage



Source: PitchBook • Geography: UK & Ireland • *As of December 31, 2023

Median UK & Ireland VC pre-money valuation (€M) by stage



Source: PitchBook • Geography: UK & Ireland • *As of December 31, 2023

Dynamics in VC differed depending on the region. We look at two key regions for European venture markets: UK & Ireland and France & Benelux. Within the UK & Ireland, interesting valuation medians in the region have bucked trends in wider European markets, with venture growth showing the most resilience. The median venture-growth pre-money valuation in the region was up 4.8% YoY. Companies within the top tier of this mix include Blockchain.com, eToro, and Getir. At the other end of the market, the median pre-seed/seed valuation in the region was also up 2.5% YoY, and the median early-stage valuation was the biggest laggard, down 6.0% YoY. Regarding deal sizes in the region, dynamics were similar across the stages, with the median venture-growth deal size increasing the most at 16.5% YoY. Notable large deals in 2023 included rounds by DAZN, Getir, and Butternut Box.

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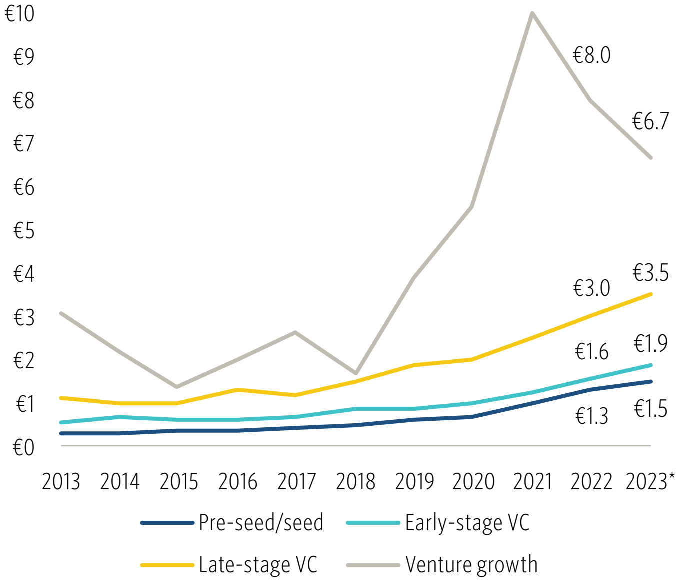
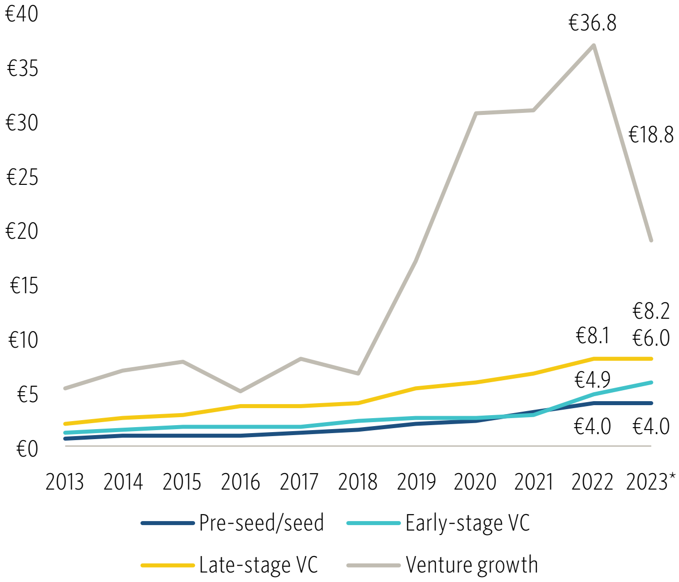
Median France & Benelux VC deal value (€M) by stage



Source: PitchBook • Geography: France & Benelux • *As of December 31, 2023

Median France & Benelux VC pre-money valuation (€M) by stage

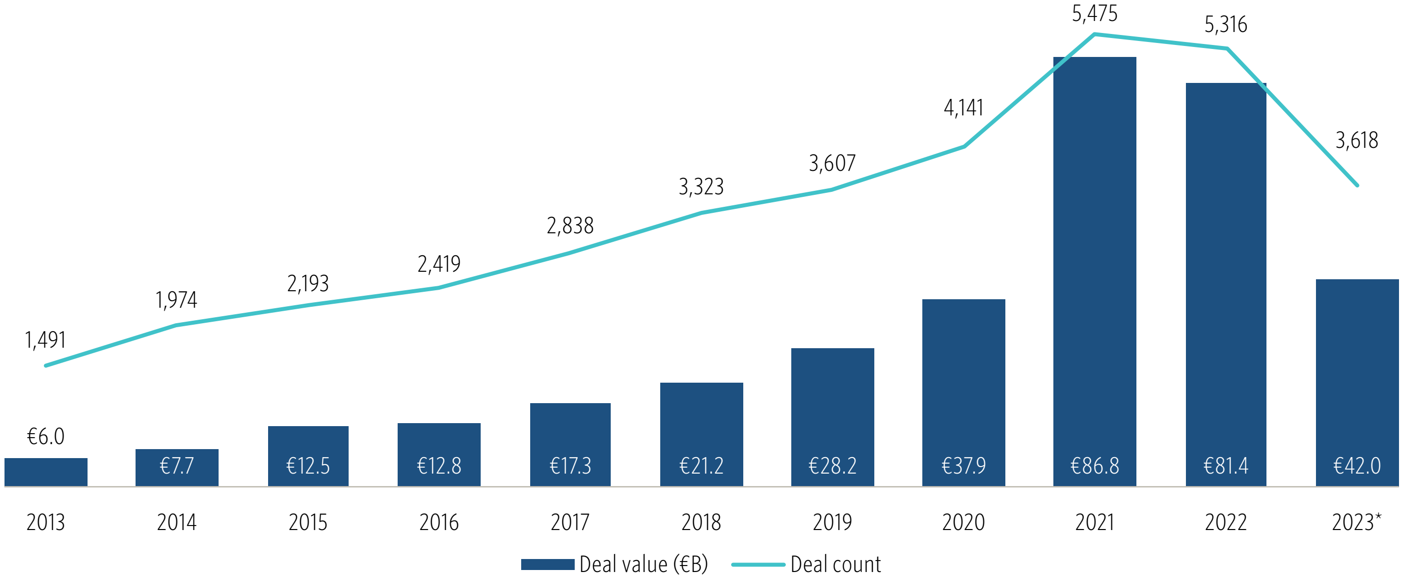


Source: PitchBook • Geography: France & Benelux • *As of December 31, 2023

On the other hand, trends in France & Benelux were more analogous to those in greater Europe, almost the inverse to trends in the UK & Ireland. The median venture-growth valuation in 2023 was therefore down 48.8%, and other stages were up. The greatest gainer was early-stage valuations, with the median up 22.2% YoY. The almost halving of venture-growth valuations in the region moved in tandem with deal sizes, as the median venture-growth deal value in 2023 was 16.8% lower YoY. Deal values in other stages in the region all increased by a similar magnitude YoY, showing that yet again it was the more mature part of the market—where company valuations are more tied to public markets—that underwent the greatest correction in 2023. It is therefore all the more interesting that the UK & Ireland has bucked these trends. This was supported by a strong recovery in median deal values in the second half of 2023, when the AI, fintech, and healthtech verticals dominated activity.

Nontraditional investors

VC deal activity with nontraditional investor participation



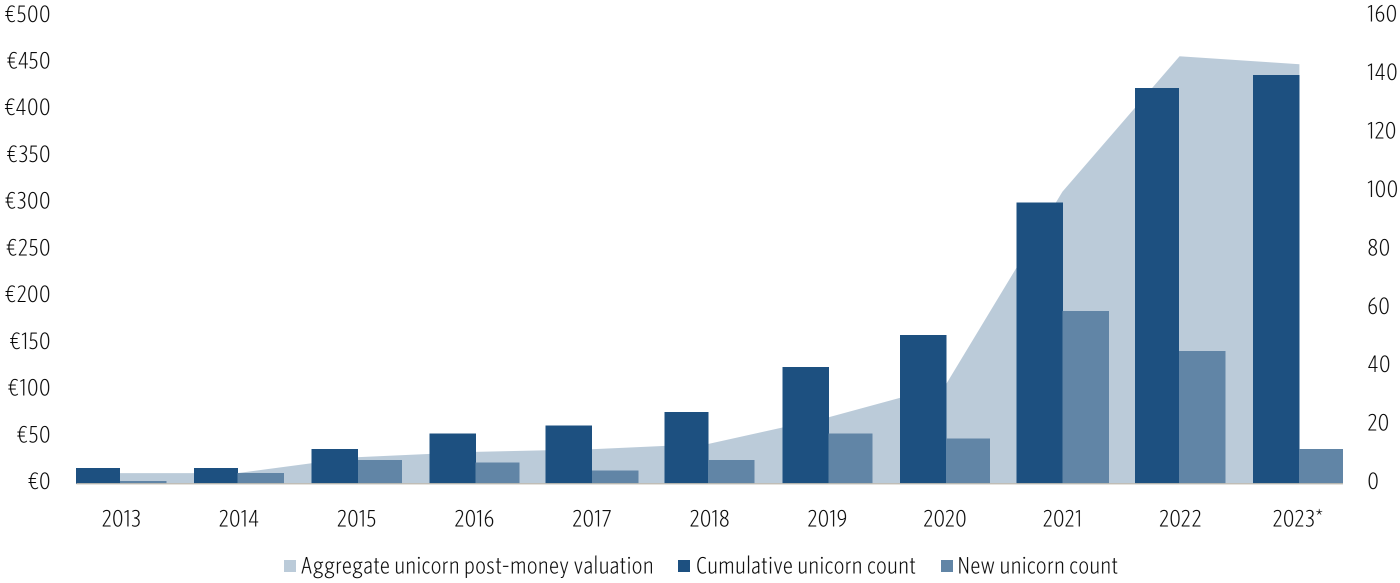
Source: PitchBook • Geography: Europe • *As of December 31, 2023

Nontraditional investor participation in Europe declined in 2023. This seemed to be more of a function of a greater decline in VC deal count, of which nontraditional investor participation sat at 43.5%, the lowest level since 2015. Deal value with nontraditional investor participation declined by less, and as a proportion of total VC deal value in Europe sat at 81.3%, slightly decreasing from 82.5% in 2022 and now sitting closer to 2020 levels. Therefore, whilst 2023 saw an overall slight decrease in the participation of nontraditional investors within venture markets as these investors retreated to better-known areas and strategies amid market volatility, the decline was not significant.

We still saw significant activity from specific investors such as CVC firms, where corporations continued to invest in higher-growth, adjacent technologies. Deals with CVC participation as a proportion of overall Europe VC deal value increased in 2023 to 50.9% from 48.8% in 2022. The median CVC deal value and valuation also showed resilience, broadly flat YoY. In 2023, we saw several corporates take stakes and invest into new venture-backed technologies. Notable transactions included Nestle's investment in meal replacement startup yfood, taking a 49.95% stake in the business. Aerospace & defense player Saab entered a strategic partnership with Helsing, a defense company specialising in AI-based software. Drinks conglomerate Diageo invested into Pulpex, a company created from a partnership with venture management company Pilot Lite. Pulpex aims to create the world's first-ever 100% plastic-free paper-based spirits bottle, made from sustainably sourced fibre. Such deals enable large, mature corporations to grow inorganically through acquired technologies, a trend we expect to continue through 2024.

Unicorns

Aggregate unicorn post-money valuation (€B) and count

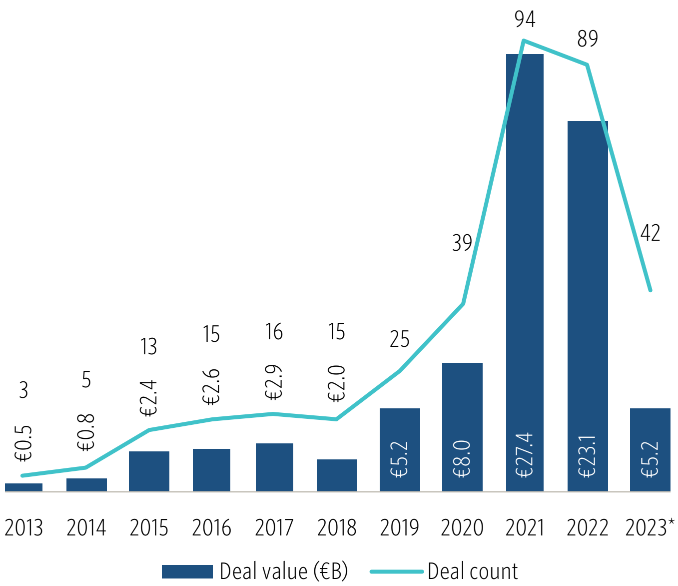


Source: PitchBook • Geography: Europe • *As of December 31, 2023

In 2023, unicorn deal value significantly declined as expected, down 77.5% YoY. As a result of the aforementioned trends in venture growth, it is little surprise that unicorns, which most often sit in this bucket, underwent a significant decline in deal activity. This most mature area of the market saw the largest uptick in nontraditional investors during 2021 and 2022, inflating demand for such deals and therefore valuations. When such tourist investors exited the market in 2022 and 2023 amid market volatility, we saw a large decline in the average venture-growth deal value and valuation.

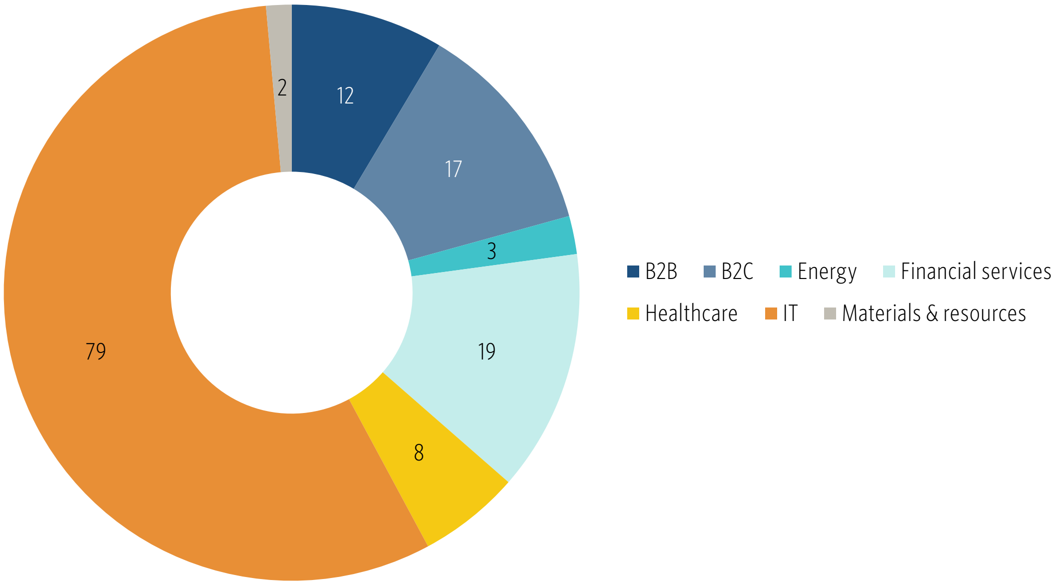
Despite this, 2023 saw 12 newly minted unicorns offset by eight unicorns that "de-minted," of which six fell out of status through a down round and two through bankruptcies. The number of unicorns facing a down round and thus de-minting sat at a decade high in 2023, speaking to the tough environment such late-stage players faced. As a result, the cumulative active unicorn count in Europe stood at 140 for the year, up YoY. The lion's share of this count still comprises information technology (IT) companies, with financial services and B2C being the next most prevalent sectors. The aggregate unicorn post-money valuation sat at €448.1 billion in Europe in 2023, only slightly down from the 2022 level of €458.8 billion. The unicorn part of the market,

Unicorn deal activity



Source: PitchBook • Geography: Europe • *As of December 31, 2023

Share of active unicorn count by industry (2013-2023)*



Source: PitchBook • Geography: Europe • *As of December 31, 2023

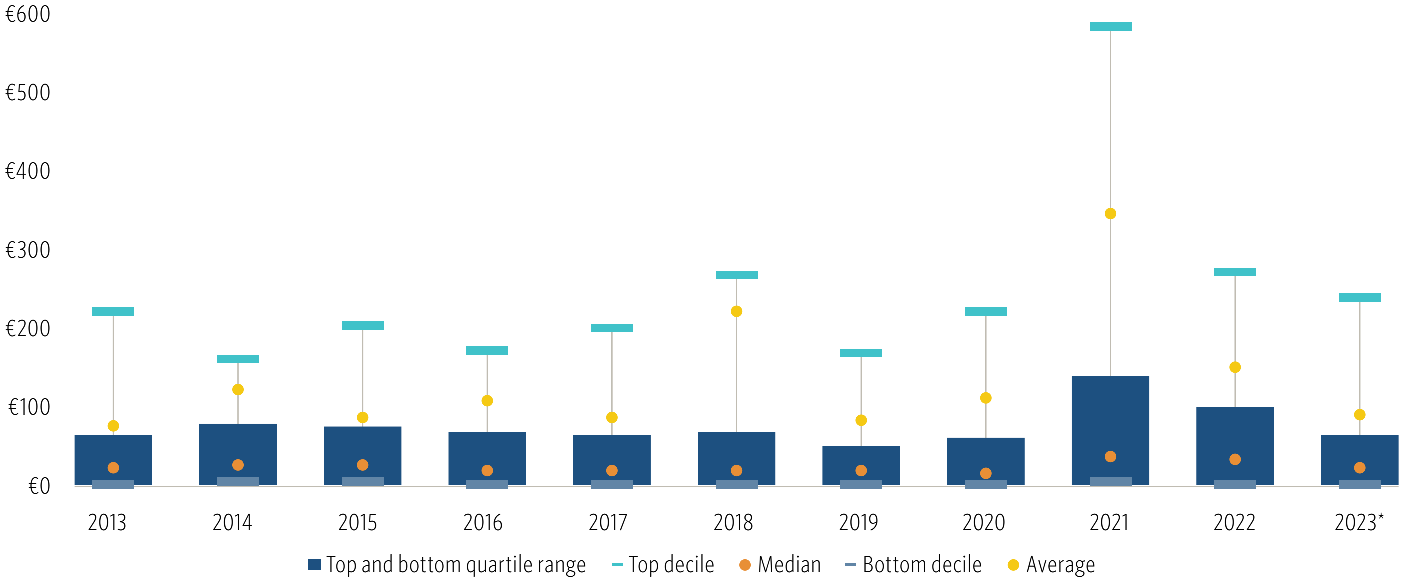
companies valued at €1 billion or more, has undergone significant growth over the long term in Europe. Despite the tripling of the aggregate post-money valuation in 2021 and a further increase in 2022, we are surprised by the resilience in 2023 in this cumulative number, which declined only 2.3% in 2023.

Although deal activity in the category understandably has shown less resilience than the broader market, there still prove to be areas of the market where deals are taking place. Notable unicorn deals in 2023 took place across an array of industries, including cryptocurrencies, e-commerce, and AI, by the likes of Ledger, Getir, and Mistral AI, respectively.

We expect the number of private-backed unicorns to decrease going forward when listing markets open up. In 2023, 1.8 VC-backed public listings occurred for every new unicorn, compared with 3.1 in 2021. Therefore, there may be companies (both inside and outside of unicorn land) that are looking to list but have not been able to do so due to weak market conditions, such as Huel and CVC. However, for such companies, market conditions continue to be tough, and maintaining cash runways and maximising operational efficiency will be key going forward. The arguments for profitability could be more easily made, as such larger players tend to have the size and economies of scale to maximise efficiency over fixed costs. However, larger operations also tend to have more inefficiencies and higher costs, meaning that such companies will and have needed to scale back on cost bases. We saw continued layoffs in 2023 as employee costs (a large part of fixed cost bases for tech companies) scaled down at big and small players in Europe, such as Checkout.com, Getir, and Deliveroo. Because we expect exit markets to remain largely muted this year, we anticipate unicorns to have to do more of the same in an effort to increase profitability and free cash flow generation.

Liquidity

VC exit valuation (€M) dispersion

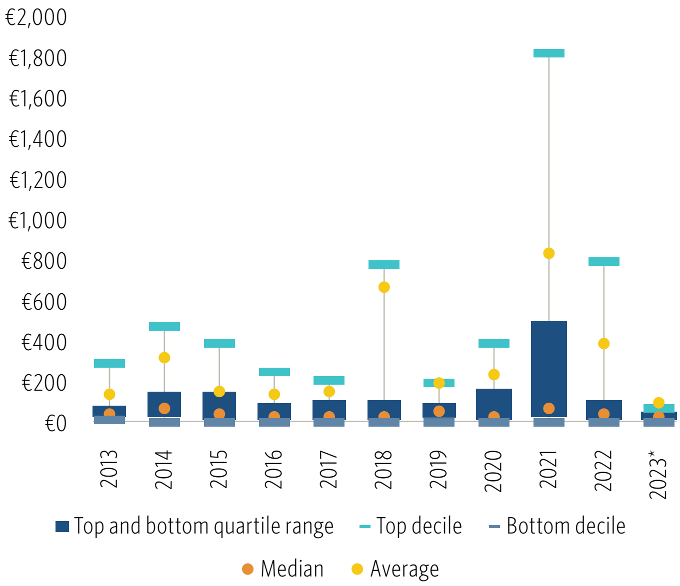


Source: PitchBook • Geography: Europe • *As of December 31, 2023

The median exit valuation in 2023 sat at €23.0 million, down 28.7% YoY. The median public listing valuation underperformed the acquisition median. For the former, the median exit valuation declined 60.3% YoY, compared with a 25.2% decline for acquisitions. As seen in the chart on the right, public listings saw a large compression in the valuation dispersion. However, the acquisition market showed more resilience, with the top decile of exit valuations broadly flat and the bottom quartile in fact higher YoY.

As mentioned in our 2023 Annual European Venture Report, a large part of exit value declines in 2023 was driven by weak public listing activity, which sat at a decade low of €1.4 billion, 90.2% lower YoY. Most of the exits that took place in 2023 were acquisitions, as the buyout market faced challenges from a higher cost of debt. Looking forward, we see the most question marks over the public listing space. As noted in our 2024 outlook, we expect no meaningful recovery in the value or count of public listings in 2024. The weak dynamics in listings activity do not mean the pipeline is thin. On the contrary, we think the backlog of companies, specifically venture-growth players, remains healthy and growing. Furthermore, the number of investments occurring in the market is outpacing the number of exits occurring. However, weaker macroeconomics and low visibility mean that companies will be cautious about pulling the listing trigger in the imminent future.

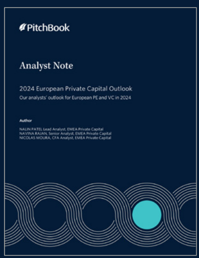
VC valuation at exit via public listing (€M) dispersion



Source: PitchBook • Geography: Europe • *As of December 31, 2023

Additional research

European private capital



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