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2023 ANNUAL

EUROPEAN Venture Report

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Introduction

Venture capital (VC) deal value in 2023 landed at €57.1 billion, 45.6% lower year over year (YoY). This is in line with trends seen through the year and therefore comes as little surprise, as venture markets in 2023 corrected from highly inflated activity seen in 2022 and 2021, coupled with a tougher macroeconomic backdrop. Despite the lower total, our narrative remains the same as in earlier quarters in 2023: Excluding the prior two years of hype, deal value in 2023 still remains higher than in previous years and the 10-year average. The top 10 deals in 2023 involved various industries, with cleantech attracting the top tier of capital. France & Benelux emerged as the winner of regional trends in 2023. By sector, biotech & pharma showed the most resilience in 2023, with media and software lagging the most. For the software sector, the impact of regulation that came to the fore in 2023 will be key to determining the development of the sector in 2024.

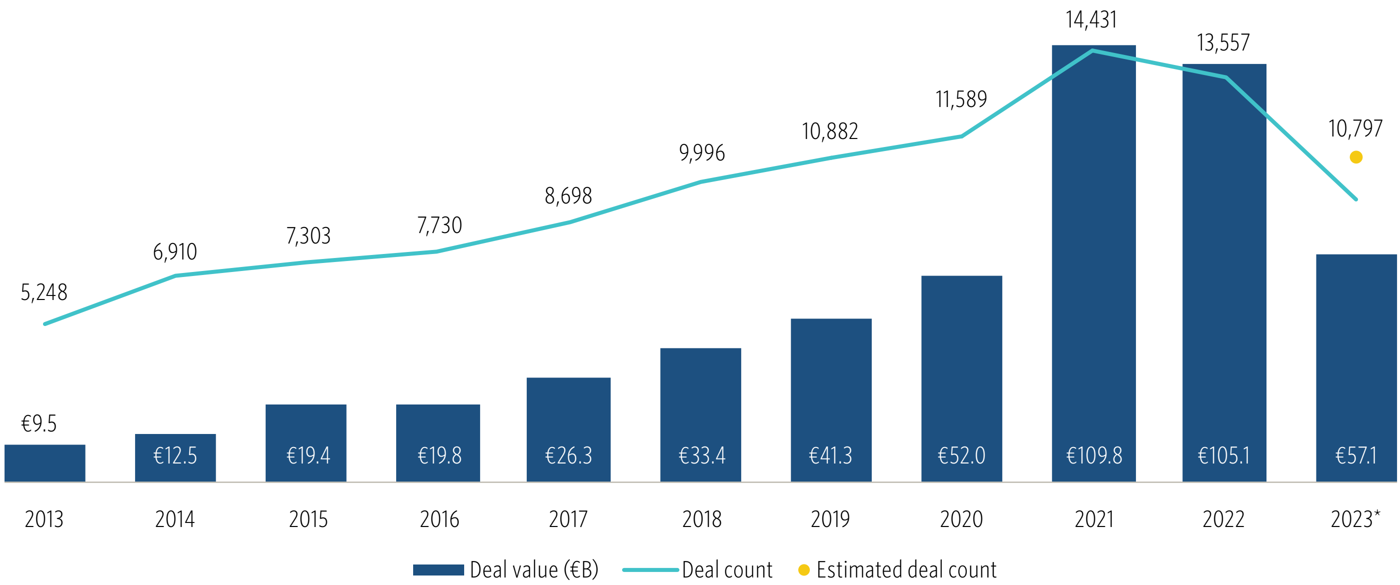
In 2023, nontraditional investor participation declined in line with the overall market. VC deal value with nontraditional investor participation declined by a similar magnitude to deal value for the wider VC ecosystem. The proportion of nontraditional involvement in Europe stayed broadly flat YoY at 73.4% of deal value. The ability to stay on top of the latest technologies has been a key driver of corporate participation in venture markets. In 2023, we saw several corporates take stakes and invest into new venture-backed technologies. However, other players also want to take part in VC. Alongside corporates, activity from other nontraditional participants, particularly PE firms, was evident in 2023. The more conservative valuations seen in 2023 support an investor market that may continue to encourage external participation in deals.

Exits remain the weakest area in venture. Exit value in 2023 sat at €11.8 billion, down 70.9% YoY and the lowest level since 2013. Continued weakness in the market weighed on activity, with Q4 value and count the lowest quarterly totals in 2023. A large part of exit value declines has been driven by weak public listing activity, which was 90.2% lower YoY and sits at a decade low. Looking into 2024, we expect no meaningful recovery in public listings activity. More broadly, cash generation will be integral to company survival, and startups will need to rationalise cost bases and increase profitability to recalibrate to a tougher funding environment. Those that cannot may need to exit at lower valuations as the impact of a tougher year for funding continues into 2024. In a later section, we spotlight the UK & Ireland and discuss exit markets in the region.

Venture capital raised in 2023 amounted to €17.2 billion, down 39.0% YoY. Fundraising in 2023 was more a matter of volume than value, with fund sizes at the higher end of the spectrum increasing their proportion of the total capital raised. Notable closes included the North Atlantic Treaty Organization's (NATO's) Innovation Fund and Highland Europe Technology Growth V, both at €1.0 billion in size. By region, France & Benelux showed the most resilience in 2023, with capital raised declining only 16.1% YoY. Closes in 2023 brought the region to be on par with incumbent leader the UK & Ireland, as its share of capital raised reached 29.3%, while the UK & Ireland just maintained its share YoY at 29.8%. As mentioned, we highlight the UK & Ireland across various parts of VC activity in the "Spotlight" section of this report. Regarding fundraising, experienced firms continued to gain share of limited partner (LP) capital. We are more optimistic on the outlook for VC fundraising in 2024. As noted in our 2024 European Private Capital Outlook, several funds remain open in Europe, which could support totals going forward.

Deals

VC deal activity



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

Venture deal value in 2023 landed at €57.1 billion, 45.6% lower YoY. This is in line with trends seen throughout 2023 and therefore comes as little surprise, as venture markets in 2023 corrected from highly inflated activity seen in 2022 and 2021, coupled with a tougher macroeconomic backdrop. Despite the lower totals, our narrative remains the same as in earlier quarters in 2023: Excluding the prior two years of hype, deal value in 2023 still remains higher than in previous years and the 10-year average. Venture capital activity in Europe therefore still shows structural growth in the long term. The recent declines in activity continue to be driven more by subdued valuations than by reduced volume, as 2023 deal count was only 20.4% lower YoY. We noted some signs of recovery throughout the year, with quarterly upticks in value through Q3. However, Q4 saw a dispersion in the trend, with deal value declining 21.9% quarter over quarter, providing more uncertainty on how quarterly activity, and therefore 2024, will recover.

The top deals in 2023 involved various industries, with cleantech attracting the top tier of capital. The largest deal in 2023 was in Sweden, where H2 Green Steel received a €1.5 billion investment to finance the construction of a flagship green plant in the region. Through a "green" electrolyser using electricity from renewable sources, the plant aims to deliver up to 95% less CO_2 emissions than steel produced with traditional blast-furnace technology. The electrolyser is likely to be the largest in Europe. The second-largest deal was in France, where low-carbon-battery production player Verkor received an investment of €1.45 billion. Sports streaming service provider DAZN came in third with a €920.6 million investment in December. Most of the top 10 deals in 2023 occurred in the first nine months of the year, whereas the top 10 cheque sizes in Q4 were much smaller than those in previous quarters. Apart from DAZN's deal, German artificial intelligence (AI) player Aleph Alpha also secured a large round in Q4, raising €459.0 million. The deal was led by the Innovation Park Artificial Intelligence (Ipai), which we wrote about in our Q3 2023 Germany Market Snapshot.

In 2023, biotech & pharma emerged as the winner of sector trends, while France & Benelux led regional trends. By sector, biotech & pharma showed the most resilience in 2023, with media and software lagging the most. Media deal value appeared the hardest hit, down 73.5% YoY, amassing only €1.4 billion in 2023. However, numbers are small within the sector, meaning mathematically, changes in absolute terms translate to larger shifts in percentages. Therefore, we see the biggest laggard to be software, with deal value down 61.4% YoY from the peaks of 2022. Regionally, France & Benelux showed the smallest decline in

Top 10 VC deals by deal value in 2023*

Company	Close date	Deal value (€M)	Deal type	Industry	Country
H2 Green Steel	September 7	€1,500.0	Early-stage VC	Materials & resources	Sweden
Verkor	September 14	€1,450.0	Late-stage VC	B2B	France
DAZN	December 11	€920.6	Venture growth	B2C	UK
YgEia3	May 1	€682.6	Late-stage VC	Healthcare	UK
Conigital	September 11	€583.4	Late-stage VC	B2C	UK
Abound	March 6	€564.1	Early-stage VC	Financial services	UK
Cacashop	April 1	€466.6	Late-stage VC	B2C	Malta
Ledger	March 30	€460.8	Venture growth	IT	France
Getir	September 8	€460.7	Venture growth	B2C	UK
Aleph Alpha	November 6	€459.0	Early-stage VC	IT	Germany

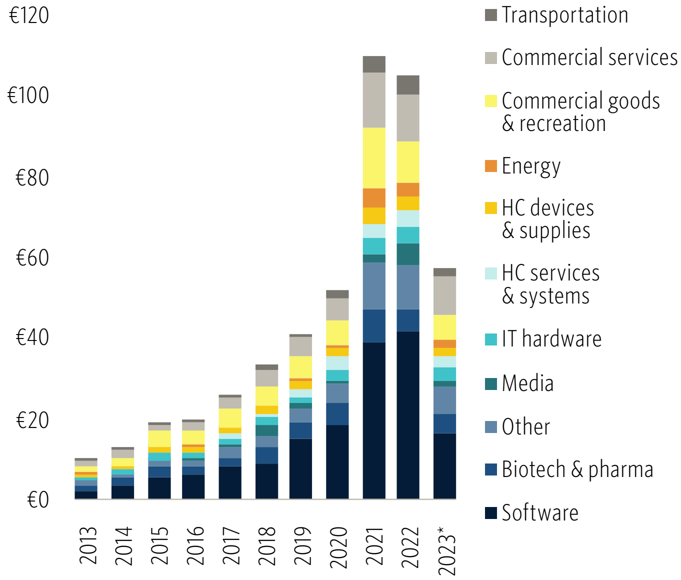
Source: PitchBook • Geography: Europe • *As of December 31, 2023

deal value, down 36.5% YoY. This was helped by top deals from Verkor, Ledger, and Mistral AI. On the other hand, Central & Eastern Europe showed the largest decline, with deal value 70.7% lower YoY.

What will drive sectoral trends in 2024? Regulation will be key. Software was one of the best-performing sectors in Europe for deal activity in 2021 and 2022; therefore, the larger decline in deal value in 2023 is not completely unexpected. However, software still makes up the lion's share of deal value in Europe, and given its pivotal role in the industry, recovery and growth for the sector will be critical for recovery in wider venture deal activity. Outside of structural trends that will drive the rise and fall of various sectors in 2024, regulation remains an important driving force for developments in the continent. Several key regulatory developments took place in 2023, and their impact will be seen in the year, or years, to come. For instance, the Digital Markets Act was the second large package of EU laws that tech firms faced in 2023,[1] targeted at large incumbents and aiming to decrease anticompetitive practices. The extent of how this legislation enables startups to compete with larger players in the market is yet to be determined, but it could support more activity at the grassroots level as more competition enters the tech industry.

Outside of more mature industries and companies within software/tech, the emergence of new industries has also brought their regulation into question. As a vertical, the rise

VC deal value (€B) by sector



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

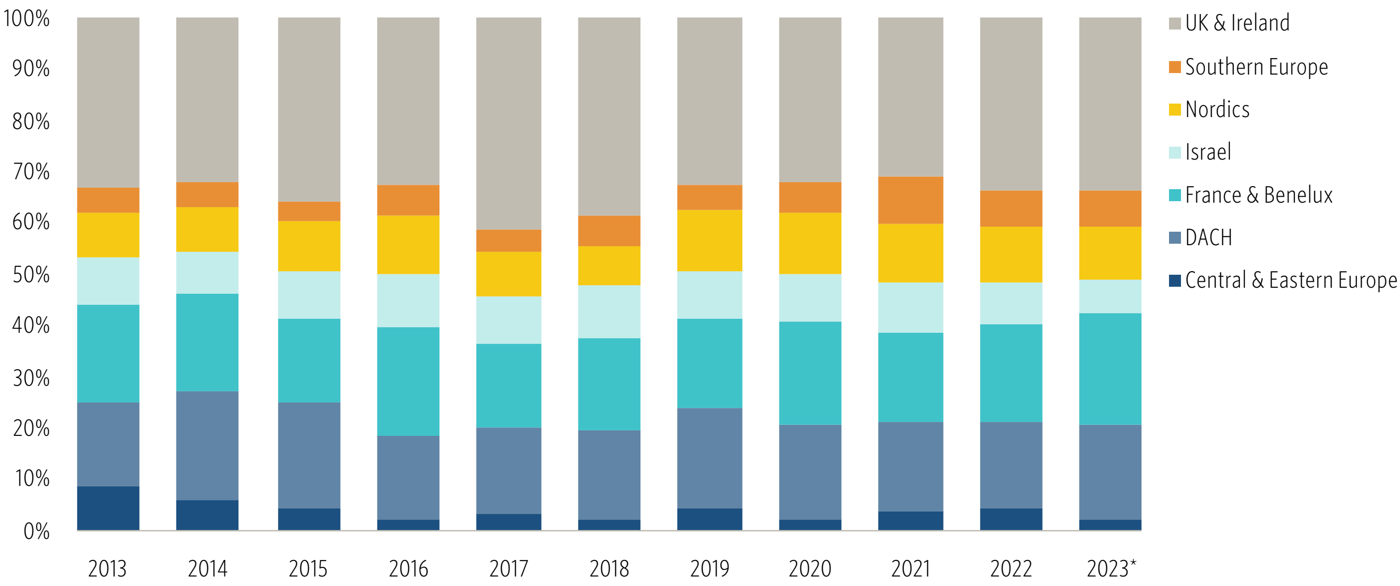
of AI (mostly software companies) in 2023 was significant, attracting large deals despite a weaker market environment. As a result, the EU agreed on a provisional deal on the use of AI, the first of its kind globally.[2] Such laws will be pivotal in ensuring the industry develops ethically and safely for consumers. However, they could also provide more red tape for companies and therefore slow down developments. We expect other world powers to follow suit in developing

1: "EU Unveils 'Revolutionary' Laws to Curb Big Tech Firms' Power," The Guardian, Lisa O'Carroll, September 6, 2023.
2: "AI: EU Agrees Landmark Deal on Regulation of Artificial Intelligence," BBC, December 8, 2023.

regulatory frameworks and therefore will wait and see how industry activity responds going forward.

By stage, resilience continued to be correlated with the lateness of the stage. We saw greater YoY declines in deal value in the later stages of financing, with the late stage exhibiting the largest decrease at 50.5% lower YoY. Late-stage deals continue to hold the lion's share of value in Europe, at 43.3% of the 2023 total; however, the stage has lost the most share YoY, with earlier stages gaining share of general partner (GP) capital. We believe this speaks to valuations and the tougher market environment, where earlier stages tend to be more insulated as investors look at longer time horizons and are less dependent on exit markets to crystallise returns. Exit markets, as discussed in a later section, were the weakest area of the VC ecosystem in 2023, meaning stages more tied to exit markets, such as venture growth, also significantly declined.

Share of VC deal value by region



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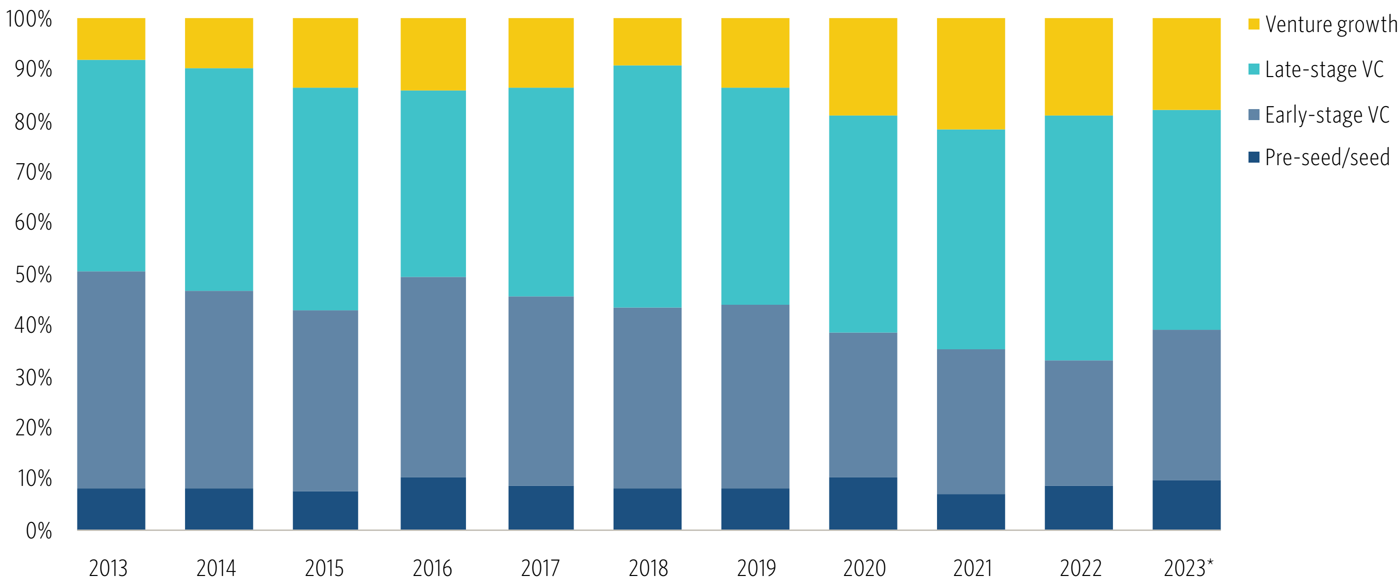
Share of VC deal value by stage



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

Nontraditional investors

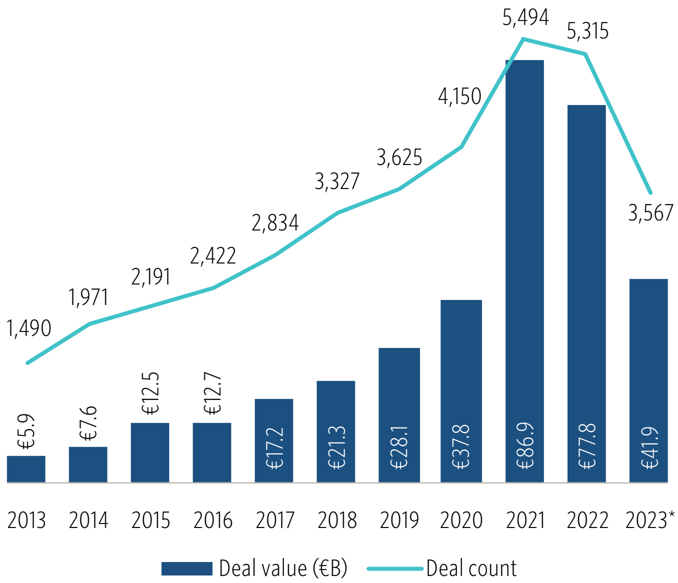
In 2023, nontraditional investor participation declined in line with the overall market. VC deal value with nontraditional investor participation sat at €41.9 billion, 46.1% lower YoY, declining by a similar magnitude to deal value for the wider VC ecosystem in 2023. Generally, we have seen nontraditional investors maintain their involvement in venture markets, as evidenced by their proportion of VC deal value. Nontraditional investors include private equity firms, sovereign wealth funds, and hedge funds, among others. In 2023, deals involving these players mostly fell in the €1-€5 million range, and the median deal value with nontraditional investor participation increased 4.6% to €4.1 million.

The ability to stay on top of the latest technologies has been a key driver of corporate participation in venture markets. We saw several corporates take stakes and invest into new venture-backed technologies in 2023. Notable transactions included Nestle's investment in meal replacement startup yfood, taking a 49.95% stake in the business.[3] Aerospace & defense player Saab entered a strategic partnership with Helsing, a defense company specialising in AI-based software. Saab now has a 5% stake in Helsing, enabling the company to evolve its portfolio, remain competitive, and grow within international markets. 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.[4] Such deals enable large, mature corporations to grow inorganically through acquired technologies, a trend we expect to continue through 2024.

Other players also want to take part in VC. Alongside corporates, activity from other nontraditional participants was evident in 2023. PE firms were prevalent within nontraditional deal activity in the year, with the likes of General Atlantic making notable investments in pet food startup Butternut Box and B2B software player Odoo. Other stakeholders in the market tapped into venture in 2023, as seen with Macquarie Asset Management's investment into green fertilizer business Atlas Agro and the Goldman Sachs Group leading e-commerce player Cacashop's €466.6 million deal earlier in the year. Such deals are examples of the breadth of opportunities that venture capital markets still provide for a wide range of stakeholders in financial markets despite the correction in broader deal activity seen throughout 2023. The more conservative valuations that followed support an investor market that may continue to encourage external participation in deals.

The proportion of nontraditional investor involvement in Europe stayed broadly flat YoY. Since peak participation in 2021, such market players saw their private market investments become a larger part of their allocations as public equity market valuations declined. As a result, these investors looked to rebalance their portfolios, resulting in less VC deal activity in 2022. Since then, whilst participation has declined somewhat, we are witnessing more resilience than the declines seen in 2022. As a proportion of overall European VC deal value, nontraditional participation has only marginally decreased, sitting at 73.4%. By stage, the greatest declines have been at the venture-growth stage, which also saw the most participation during 2021. The early stage showed the most resilience—in line with trends in the broader ecosystem.

VC deal activity with nontraditional investor participation



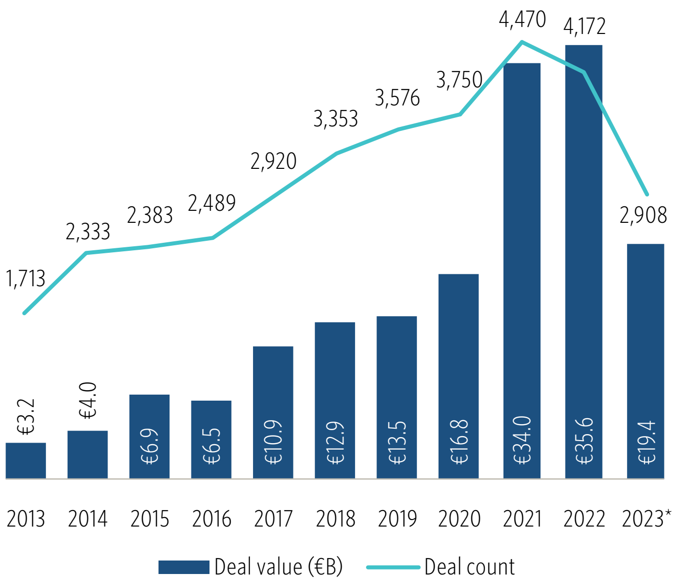
Source: PitchBook • Geography: Europe • *As of December 31, 2023

3: "Nestlé Takes a Big Swig of Yfood in a Deal That Values the Meal Replacement Startup at $469M," TechCrunch, Ingrid Lunden, April 6, 2023.
4: "Pulpex Completes Successful Series C Funding," Pulpex, n.d., accessed January 9, 2024.

SPOTLIGHT

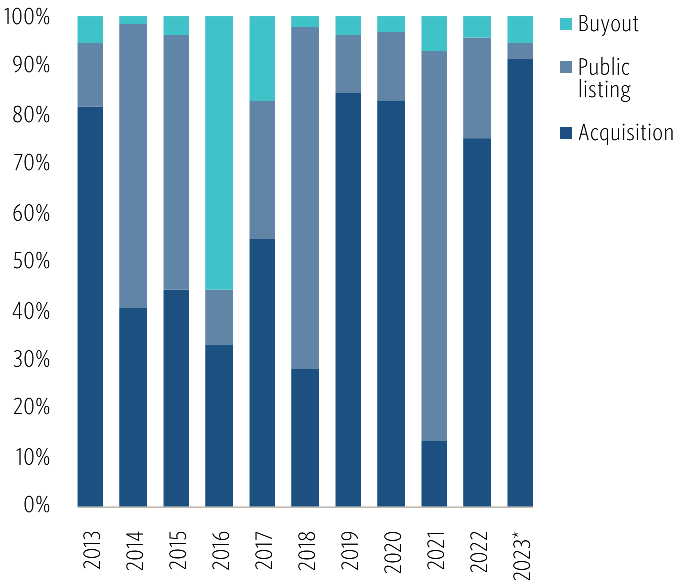
UK & Ireland

VC deal activity



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

Share of VC exit value by type



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

The UK & Ireland region remained core to European VC activity in 2023. Across the three areas of the ecosystem we track—deals, exits, and fundraising—the UK & Ireland remains a dominant region within Europe. In 2023, the region held its share of deal value at 33.9%. Key deals that supported totals in 2023 include those from YgEia3 and Conigital—two of the top deals of the year—as well as larger rounds from companies such as Getir and Abound. The top 10 deals in the UK & Ireland are dispersed across stages in the venture market, showing that multiple stages in the ecosystem are still attracting the top tier of GP capital.

Standout exits within the region in 2023 included the acquisitions of InstaDeep, YgEia3 (following its financing round), and Velocity Black. Outside of mergers & acquisitions, public listings continued to wane, with specific questions around the competitiveness of the London Stock Exchange (LSE) emerging. In 2023, we saw TUI consider delisting from the LSE and other UK companies, such as CVC, Arm, and Birkenstock, choose other global exchanges to list (read more in our 2023 UK Private Capital Breakdown).

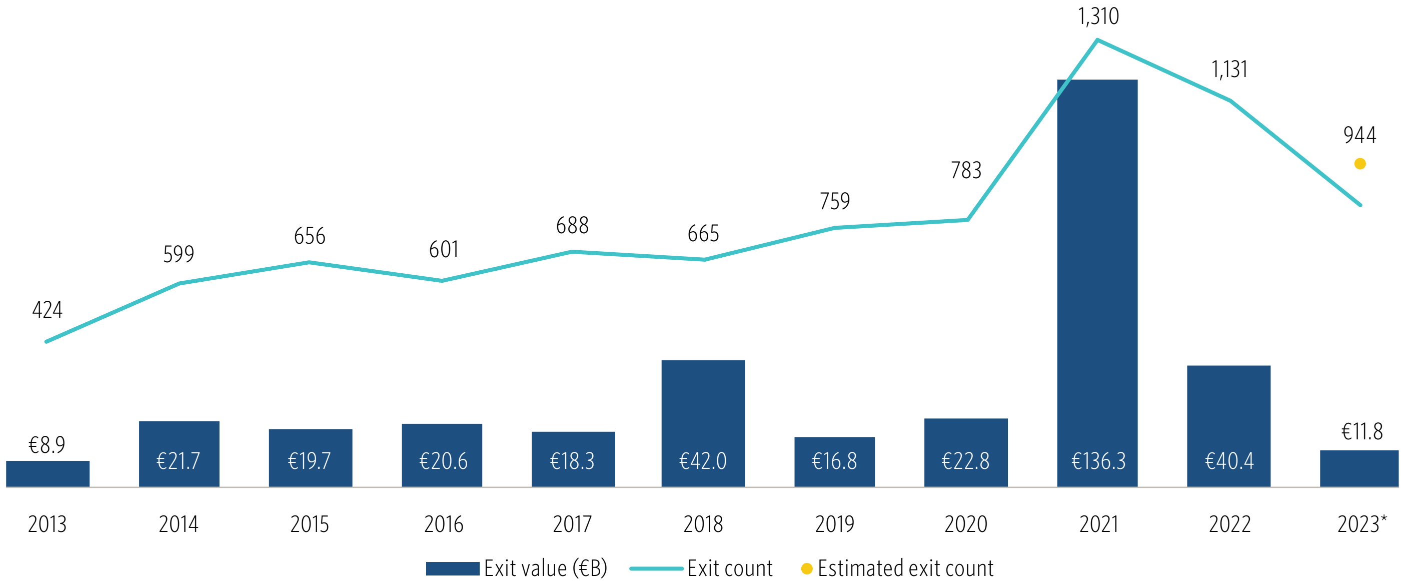
Whilst the region remained pivotal to activity in 2023, as noted in 2024 European Private Capital Outlook, we believe other core regions, such as France and Germany, may well close the gap to the UK & Ireland in 2024. A key milestone for the UK in 2024 is the general election, and changes to regulation could influence investor decisions. Outside of this, the UK government made several moves within private markets in 2023. As noted in our UK Market Snapshot, launched in 2023, these included a plan to direct £75 billion from pension funds to startups and the British Business Bank's subsequent development of vehicles to facilitate this.[5] The UK government also launched the Research Ventures Catalyst fund in Q3. The investment amount will be up to £50 million, focusing on science-based technologies in the early stage of the market. More broadly, the House of Commons Treasury Committee also published a report on UK venture capital, noting that "high-potential firms in other UK regions and nations struggle for access to capital."[6]

We believe the UK & Ireland will lead private capital deal value in the continent in 2024, but it will not be greater than France and Germany combined. European nations including France and Germany are looking to bolster their private capital activity, with the former focusing its policies on developing a strong tech ecosystem. Furthermore, investors may target less-saturated nations that possess fewer competitors to drive up asset prices, as seen in traditional private capital hubs such as the UK and US.

5: "UK Government Set to Unveil New Pensions Investment Vehicle," Financial Times, Laura Noonan and Josephine Cumbo, October 20, 2023.
6: "Venture Capital: Nineteenth Report of Session 2022-23," House of Commons Treasury Committee, July 18, 2023.

Exits

VC exit activity



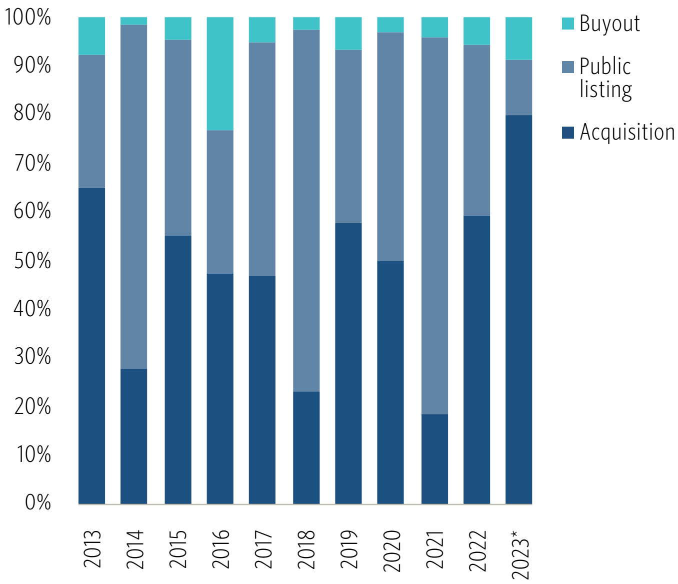
Source: PitchBook • Geography: Europe • *As of December 31, 2023

Exit activity in 2023 landed at €11.8 billion, down 70.9% YoY and the lowest level since 2013. Continued weakness in the market weighed on activity, with Q4 value and count the lowest quarterly totals in the year. As mentioned in previous reports, a large part of exit value declines has been driven by weak public listing activity, which sits 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 volume 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, as noted earlier, the number of investments occurring in the market are 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.

The list of top 10 exits speaks to wider trends. Of the top 10 exits in 2023, only one was a public listing (and a deSPAC), and only one was a buyout. The largest exit was the acquisition of biologics player Kerecis for €1.2 billion. The top 10 exits spanned a range of industries, with cybersecurity proving the most common but life science, AI, and gaming also included.

Share of VC exit value by type



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

Looking more broadly at sectors, most of exit activity in Europe was concentrated in software. Given exit value in total was thin, activity across several individual sectors can be considered negligible. In absolute terms, software continues to make up the lion's share of total exit value in Europe, followed by biotech & pharma and then IT hardware. For the software sector, 2023 exit value declined 68.8% YoY. Half of the top 10 exits in Europe sat in software, with three companies located in Israel. The sector is broad, meaning

Top 10 VC exits by exit value in 2023*

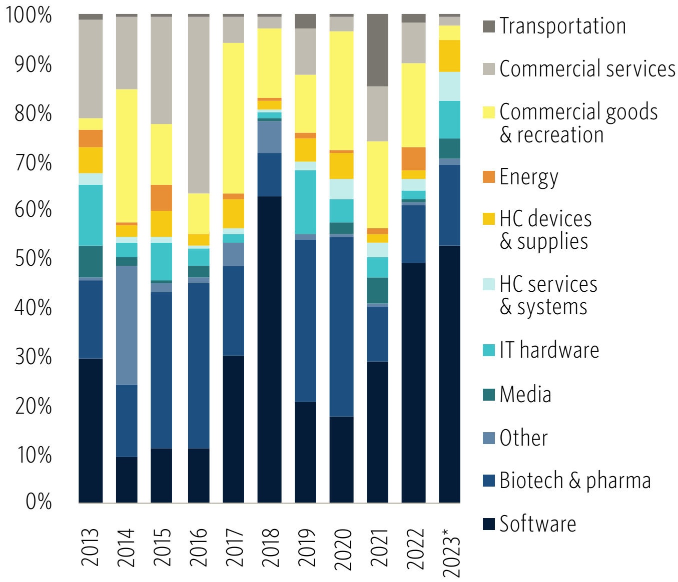
Company	Close date	Exit value (€M)	Exit type	Industry	Country
Kerecis	August 31	€1,194.7	M&A	Biotech & pharma	Iceland
HUB Security	January 1	€994.6	Reverse merger	Software	Israel
InstaDeep	July 31	€640.4	M&A	Software	UK
YgEia3	June 9	€631.4	M&A	Healthcare services	UK
Talon Cyber Security	December 28	€590.0	M&A	Software	Israel
Bynder	January 19	€577.3	Buyout/LBO	Software	Netherlands
Cubic Telecom	December 6	€513.0	M&A	Communications & networking	Ireland
T3 Pharmaceuticals	November 22	€468.2	M&A	Biotech & pharma	Switzerland
Perimeter 81	September 13	€453.1	M&A	Software	Israel
LimFlow	November 15	€392.7	M&A	Healthcare devices & supplies	France

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

various verticals are captured within it. However, looking at software as a service (SaaS) specifically, we note that this vertical has displayed significantly more resilience than others. In terms of deal value, SaaS was one of the strongest performers during 2021 and 2022; we believe investors may want to crystallise returns now by exiting investments made during these years.

Who will be best placed in 2024? Despite our views on the impact of macroeconomics on general market sentiment, we believe specific areas of the ecosystem will still benefit from what has been a more challenging macro backdrop for most. For instance, after a rough year in fintech, revenue at Revolut showed promise as the company benefitted from higher interest rates.[7] Alphabet is also reportedly in talks to take a stake in Monzo, which would value the company at £4 billion.[8] However, as rates remain higher for longer, exits via public listings are likely to stay weak, especially because late-stage players tend to be more top-heavy on costs. Companies that will do well will be those that continue to increase profitability and organic cash generation. The road to such may continue to be tough as startups recalibrate to a much different funding environment, with several large players cutting workforces in 2023 (see the table on the right). We expect more companies that cannot rationalise cost bases, scale, and achieve free cash flow generation to be forced to exit at lower valuations as the impact of a tougher year for funding continues into 2024.

Share of VC exit value by sector



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

Notable layoffs in 2023*

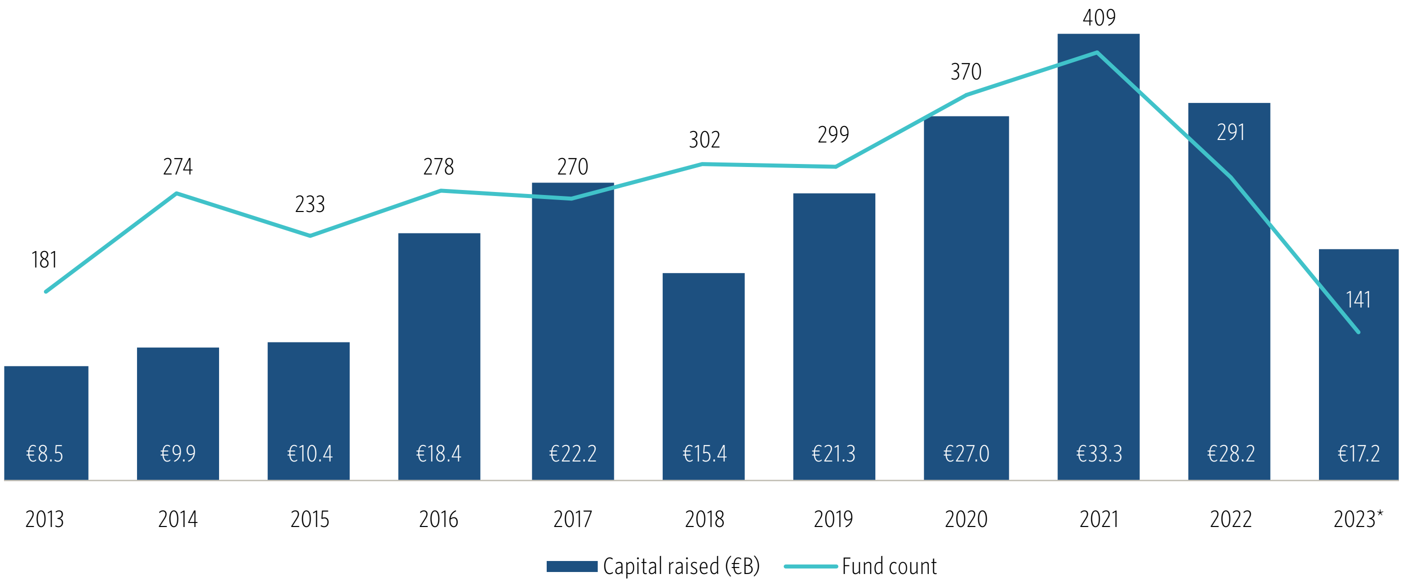
Company	Layoff count (share of workforce)
Google (Alphabet)	12,000 (6%)
Microsoft	10,000 (5%)
Salesforce	8,000 (10%)
Meta	10,000 (12%)
Amazon	27,000 (1.7%)

Sources: TechRound, Exponent, Justin Garrison • Geography: Global
*As of December 31, 2023

7: "Revolut Growth Buoys Investors After Bruising Year for Fintech," Bloomberg, Aisha S. Gani, December 20, 2023.
8: "Alphabet Fund Spells Bumper Valuation for UK Digital Bank Monzo," Sky News, Mark Kleinman, November 18, 2023.

Fundraising

VC fundraising activity



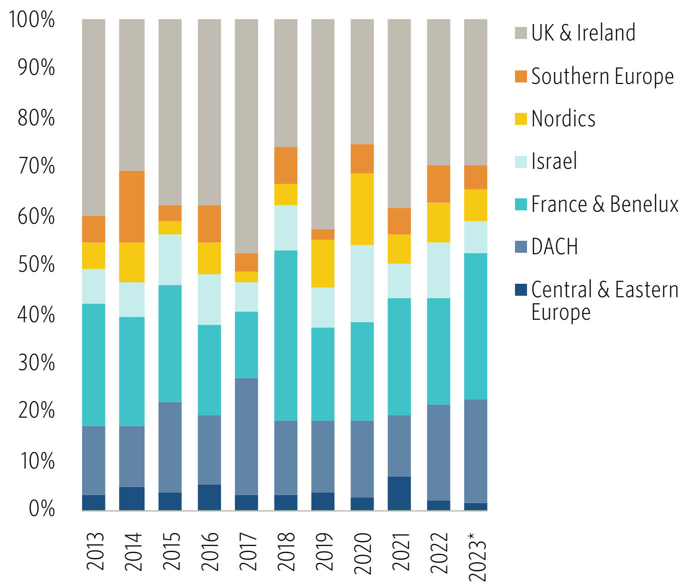
Source: PitchBook • Geography: Europe • *As of December 31, 2023

Venture capital raised in 2023 amounted to €17.2 billion, down 39.0% YoY. This occurred over 141 vehicles, representing an even greater YoY decrease of 51.5%. Interestingly, fundraising declines in 2023 were more a matter of volume than value, with fund sizes at the higher end of the spectrum increasing their proportion of the total capital raised. Specifically, funds over €500 million have gained share of capital raised from small-size vehicles, accounting for 28.4% of the 2023 fundraising total. This is nearly double the share in 2022, evidencing the increase of larger vehicles within the strategy. Notable closes included NATO's Innovation Fund and Highland Europe Technology Growth V, both at €1.0 billion in size.

By region, France & Benelux showed the most resilience in 2023, as capital raised declined only 16.1% YoY. Of the top 10 closes this year, two were domiciled in the Netherlands (including the largest). 2023 closes brought the region to be on par with incumbent leader the UK & Ireland, as its share of capital raised reached 29.3%, while the UK & Ireland just maintained its share YoY at 29.8%. The DACH region also showed more resilience, constituting a large part of the market in Europe (21.5%).

Experienced firms captured 54.5% of the capital raised in Europe in 2023. Such funds gained share of LP capital from 2022, where amid a tougher market backdrop and lower returns within the strategy, LPs gravitated towards larger funds with a more proven track record. This also

Share of VC capital raised by region

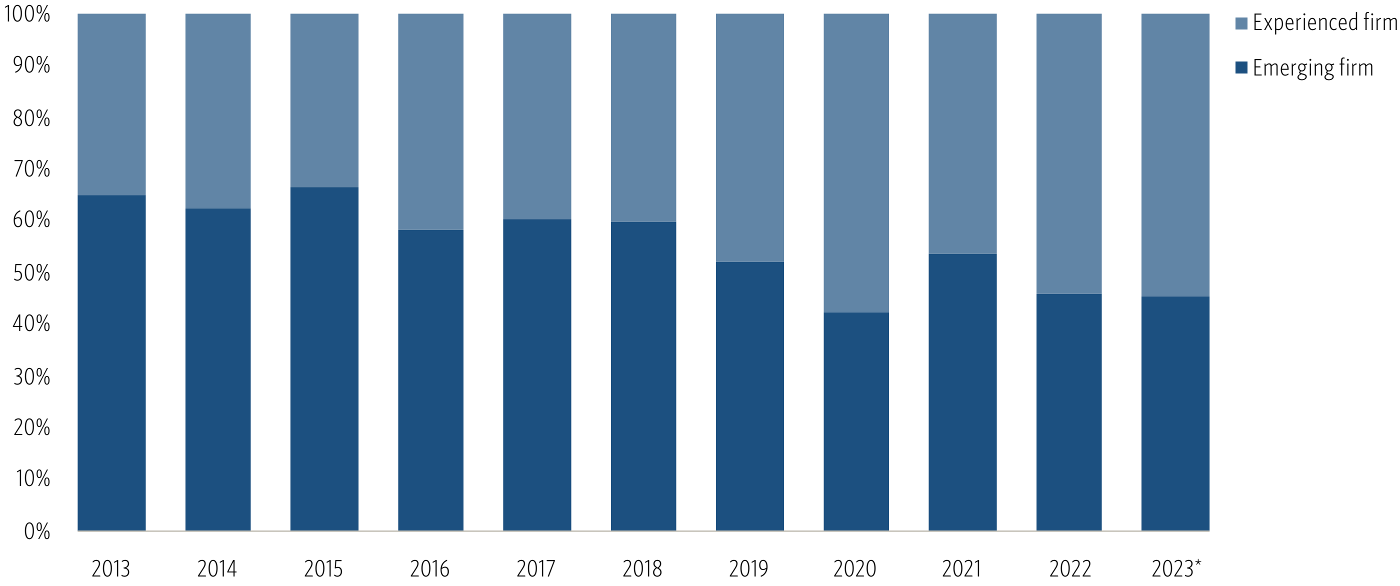


Source: PitchBook • Geography: Europe • *As of December 31, 2023

speaks to the aforementioned trends in fund size, where larger funds (often run by more experienced managers) have gotten bigger, representing a higher percentage of fundraising totals.

We are more optimistic on the outlook for VC fundraising in 2024. As noted in our 2024 European Private Capital Outlook, several funds remain open in Europe, which could

Share of VC capital raised by emerging and experienced firms



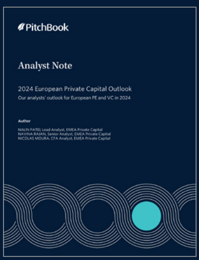
Source: PitchBook • Geography: Europe • *As of December 31, 2023

support totals going forward. The current top 10 open funds signify potential capital raised next year and appear to be higher than the top 10 closes that have occurred in previous years, meaning that, in theory, 2024 could see a stronger performance. The question remains whether or not these funds will close, as we have seen overall closing times increase. In Europe, the median closing time increased in 2023 to 16.8 months, almost double the 2022 median. There are also other areas of the private markets that may be more favourable regarding returns, liquidity, and the higher-for-longer rate environment, meaning that allocations to venture capital could remain strained and existing open funds could find it harder to reach target closes. However, we expect investors to continue to return to areas of more familiarity and lower risk, such as more experienced firms and regions that align with their area of expertise. Such has been the case for Coatue's exit of European markets in January 2024 and OMERS Ventures' exit in August 2023.[9] But European markets still show promise for players that have the capital, such as Andreessen Horowitz, which opened an office in London in 2023.

9: "Coatue Shuts Europe Venture Office as Startups Struggle," Bloomberg, Katie Roof and Mark Bergen, January 5, 2024.

Additional research

Private capital



2024 European Private Capital Outlook

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Q3 2023 European VC Valuations Report

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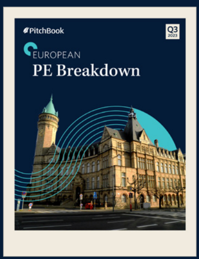

Q3 2023 European PE Breakdown

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2023 DACH Private Capital Breakdown

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Q3 2023 UK Market Snapshot

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