PitchBook

European Venture Report

1Q 2018

PitchBook

Contents

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Key takeaways from the analysts

- European VCs invested €4.4 billion across 571 rounds in the first quarter of 2018, putting the year on pace to nearly match last year's decade-high value of aggregate capital invested. Deal count, however, saw a 49% decrease YoY, marking the fifth consecutive quarter deal count has trended downward.

€4.4B

invested across 571 rounds in 1Q 2018

- With 18 vehicles closed by European VCs totaling €2.1 billion in commitments, 2018 appears to be on track to just fall short of 2017's fundraising metrics. Should European VCs continue to raise larger funds as they have in recent years, however, capital raised in 2018 could still match or exceed 2017's total.

18

funds closed in 1Q 2018

- VC-backed exits started off slowly in the first quarter of 2018, with €1.5 billion of value exited across only 64 deals. We attribute much of the slowdown to sheer capital availability in the VC ecosystem, which has afforded some VC-backed companies the ability to scale without completing a traditional liquidity event.

€1.5B

1Q 2018 European VC-backed exits cumulative value

Overview

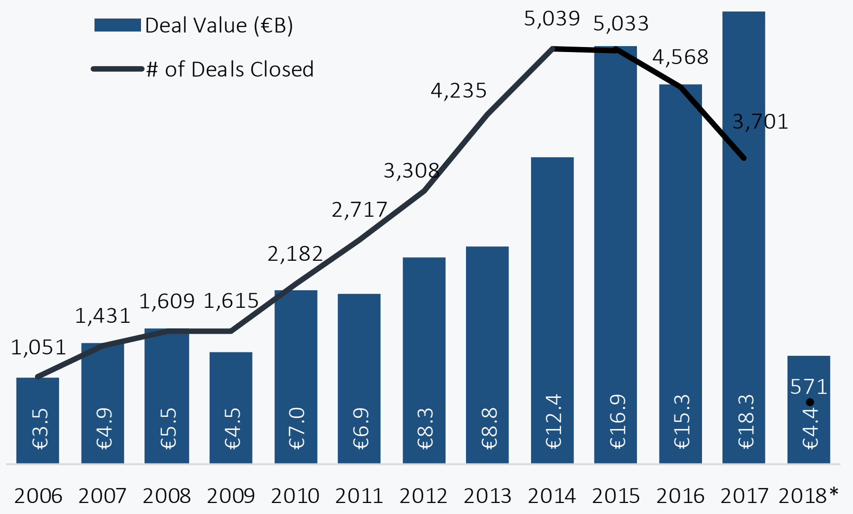
Deal count continues to slide, despite healthy levels of investment

Capital invested by European VCs continues to sustain elevated levels despite another quarter of sliding deal count. With €4.4 billion invested across 571 rounds, 2018 is on pace to nearly match last year's aggregate capital investment. However, the first quarter's 49% decrease in closed deals YoY marks the fifth consecutive quarter deal count has trended downward. We do note that as we continue to collect data after quarter-end, deal count will likely show greater numbers later in the year.

Both first-time financings and rounds closed at the angel & seed level have declined rapidly, accounting for much of the overall decrease in deal count.

Capital invested is on track to nearly match 2017 total

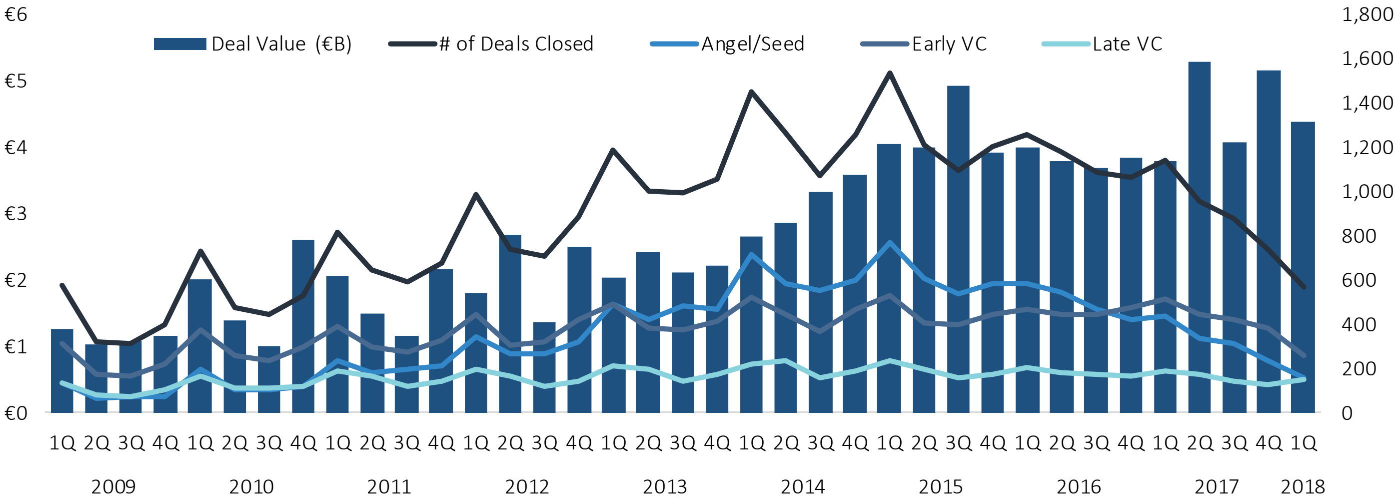
European VC deal activity



Source: PitchBook
*As of 3/31/2018

Fewer angel & seed and early-stage deals lead to overall decline in venture financings

European VC deal activity

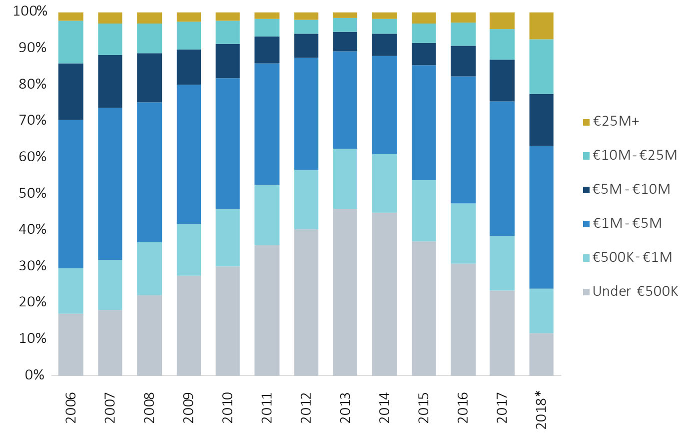


Source: PitchBook

While some of this decline can be accounted for by under-reporting by investors and startups, the data suggests that capital is being invested in fewer, more mature startups at the angel & seed stage. The number of years from company founding at time of angel & seed round has increased to 1.1 years in 2018, up from just six months in 2014. In the same period, median angel & seed deal size saw a 2.9x increase, reaching €981,000 in the first quarter of 2018, an indication that investors are also cutting larger checks to startups at this stage. The shift toward fewer, larger early financings (as well as the diminishing number of micro-funds raised in recent quarters) appears to be a driving factor in the depressed angel & seed deal count in recent years. This trend is having knock-on effects throughout the VC funding lifecycle, as companies are more mature at subsequent financing stages.

Deals smaller than €1 million dwindle in 1Q

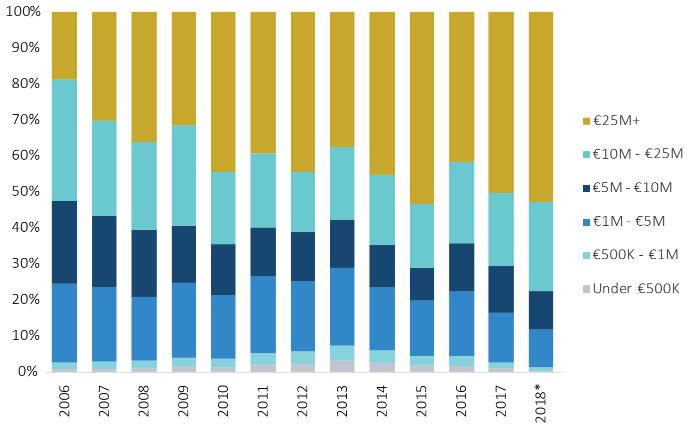
European VC deal activity by size (#)



Source: PitchBook
*As of 3/31/2018

Larger financings account for a growing share of capital invested

European VC activity by size (€)

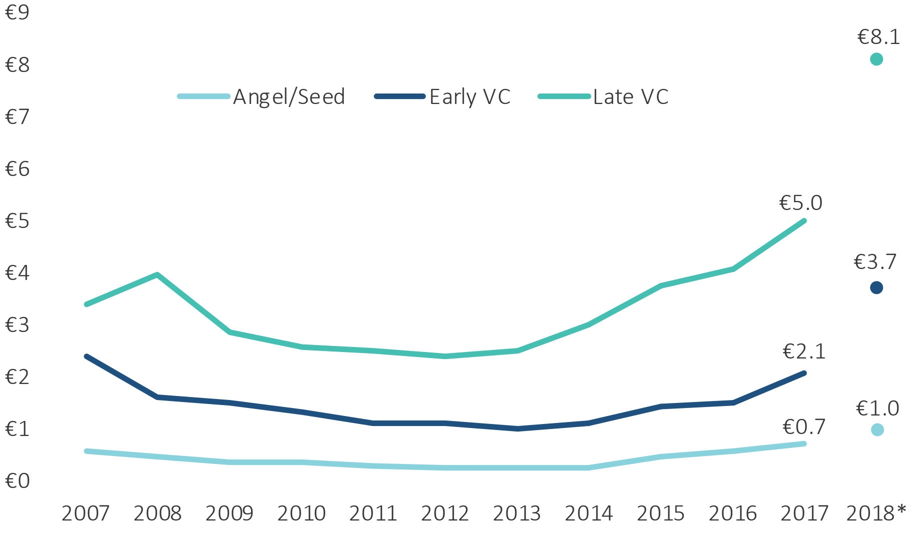


Source: PitchBook
*As of 3/31/2018

Consequently, larger check sizes have also become prevalent at the late stage, driving elevated levels of capital investment in recent years. The median late-stage deal size for European startups reached €8.1 million in the first quarter of 2018, a 62% jump from 2017. Additionally, the 10 largest deals in 1Q accounted for 34% of capital invested, up from 18% in 2017. German automobile marketplace platform Auto1 Group raised the largest round in 1Q, receiving a €460 million investment from industry titan SoftBank. With European and global VCs increasingly raising larger funds, we expect to see these trends proliferate throughout the rest of the year.

Round sizes continue to grow as the European VC ecosystem matures

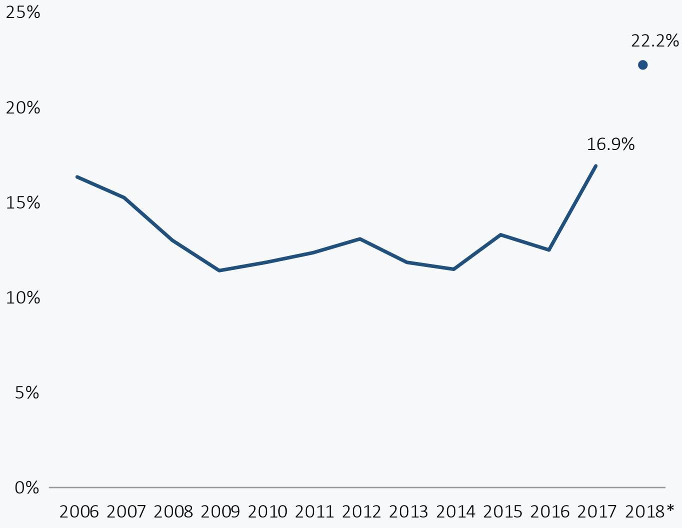
Median deal size by stage (€M)



Source: PitchBook
*As of 3/31/2018

US investors continue strong showing in Euro financings

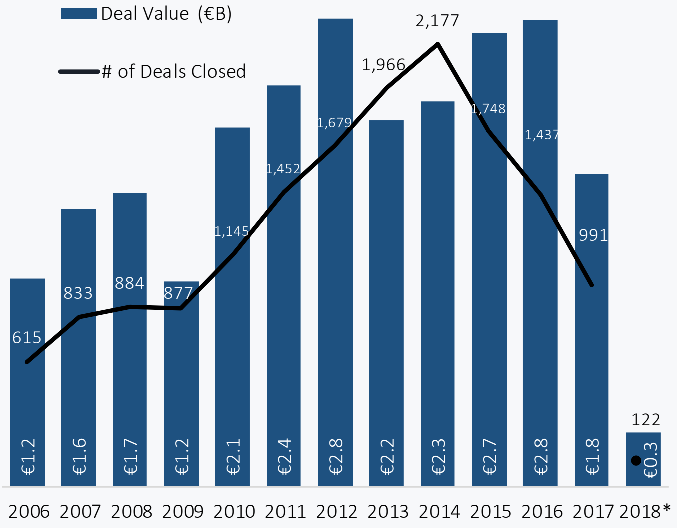
Percentage of VC deals involving US-based investors



Source: PitchBook
*As of 3/31/2018

First-time financings slide to the lowest quarterly value in more than six years

European VC first-time financing activity



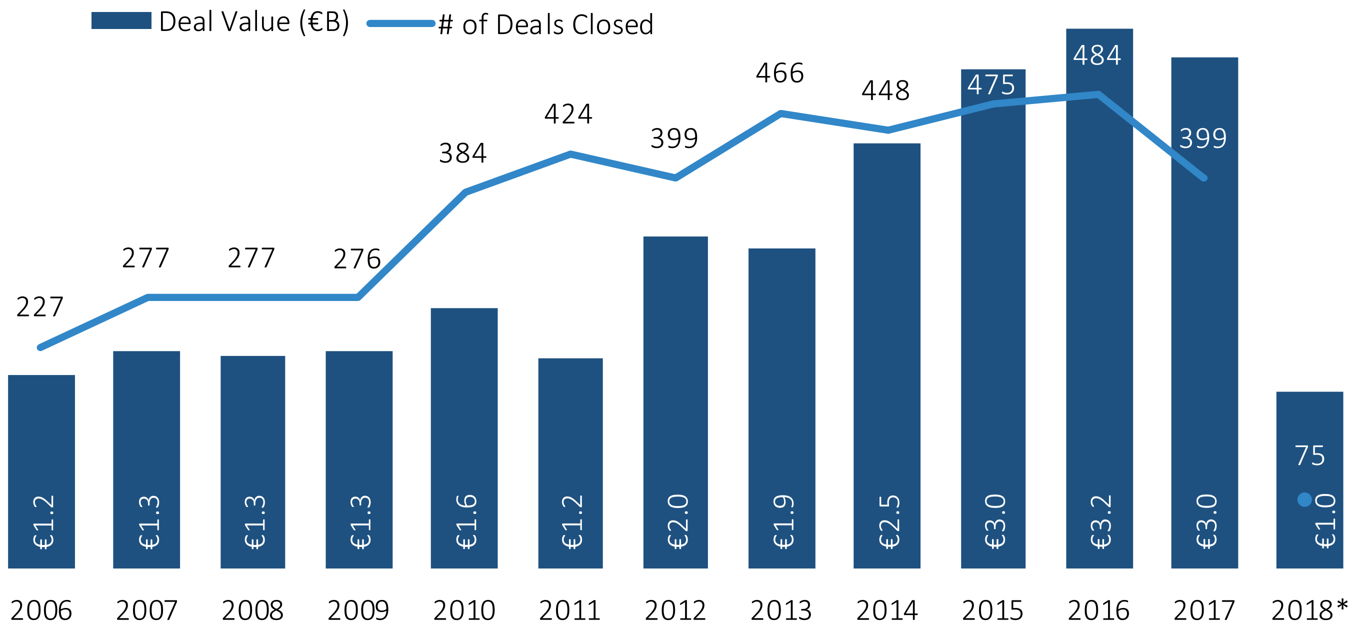
Source: PitchBook
*As of 3/31/2018

Spotlight: Life sciences

VCs financing opportunities in oncology and drug discovery

Capital invested in life sciences startups well on track to outpace 2017

European VC activity in life sciences



Source: PitchBook
*As of 3/31/2018

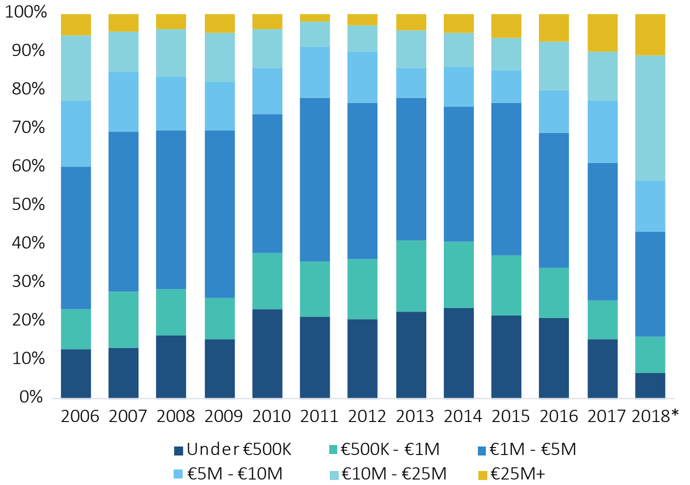
Life sciences startups continue to receive significant capital investment from VCs, with the €1 billion deployed across 75 venture financings making up 13% of total European VC deal count in the first quarter. This puts capital invested in the sector well on track to outpace last year's total, and will likely make 2018 the 13th consecutive year with at least €1.2 billion invested in the sector. With big data, artificial intelligence and other emerging technologies becoming an increasingly important aspect of healthcare development, startups are well-positioned to contribute to advances in life sciences technology. Because startups can often move faster and innovate more efficiently than large industry leaders, they are an attractive target for corporate investment or acquisition.

Funding in recent years has focused on developments in oncology and gene therapy, innovative software and hardware technologies, and drug development, particularly for rare diseases. German biopharma company BioNTech, for instance, develops a portfolio of cell- and gene-based cancer treatments that can be tailored to an individual's unique tumor. The company received $270 million (€222 million) in its January Series A financing, making it one of the largest rounds of the quarter. Another financing of note is Insightec's $150 million (€123 million) Series E, which will fund its innovative incisionless surgery technology that leverages ultrasound hardware to treat the brains of patients with essential tremor, a movement disorder.

Despite strong recent funding for these promising technologies, exits in the life sciences experienced a weak first quarter, with a 59% decline in exit value and 64% decline in exit count YoY. As large healthcare and pharma acquirers have opted to fold in companies based in the US rather than Europe, activity has lagged in comparison. Looking forward, the move of the European Medicines Agency (EMA) to Amsterdam following Brexit is expected to slow drug approval in the next 18 months, which may prove another headwind for European life sciences startups.

Over half of deal activity comes from deals under $10M...

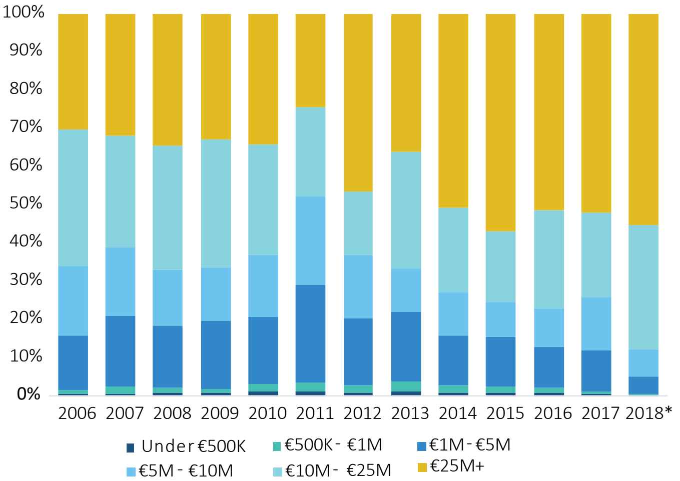
European VC activity (#) in life sciences by size



Source: PitchBook
*As of 3/31/2018

But such deals represent just 12% of deal value.

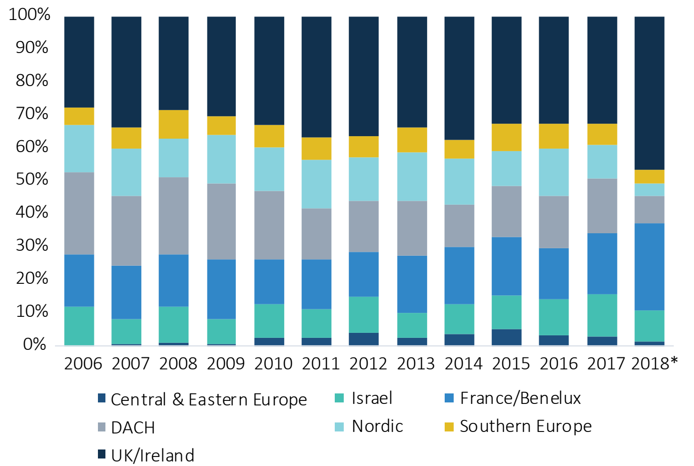
European VC activity (€) in life sciences by size



Source: PitchBook
*As of 3/31/2018

UK/Ireland activity off to a fast start

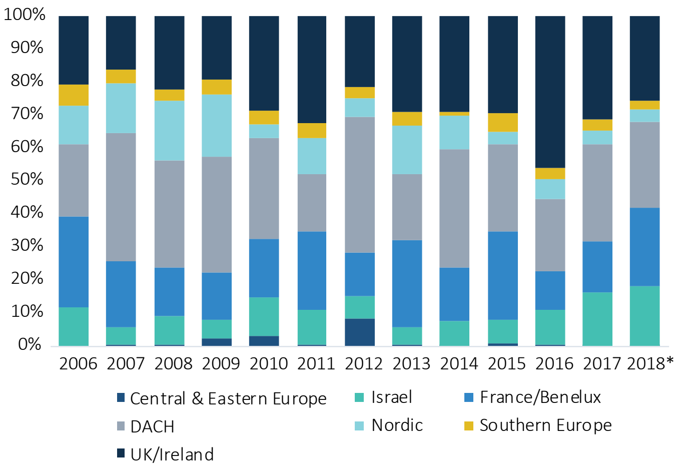
European VC activity (#) in life sciences by region



Source: PitchBook
*As of 3/31/2018

Israel continues to grow share of deal value

European VC activity (€) in life sciences by region



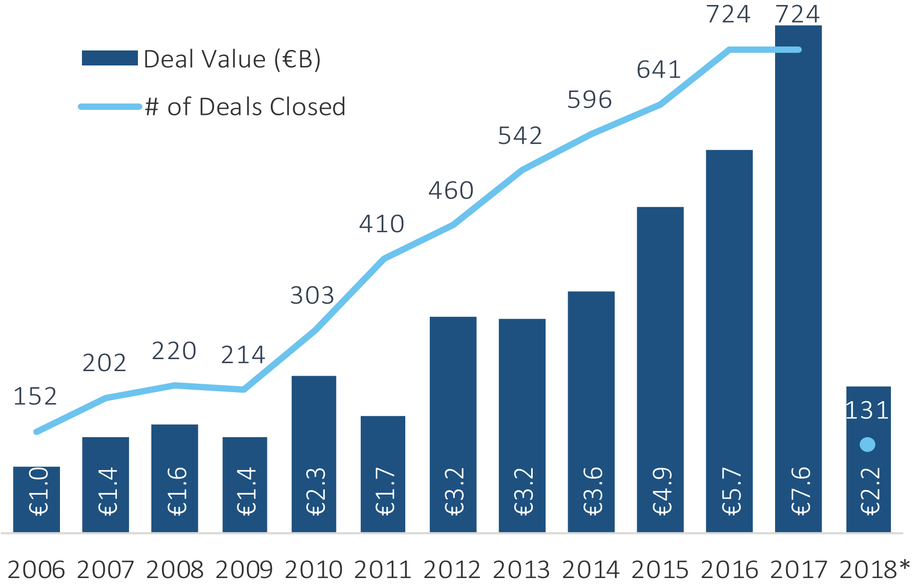
Source: PitchBook
*As of 3/31/2018

Corporate VC

CVCs participating in fewer, larger deals

CVC participation in venture financings is off to a strong start in 2018, following a record year in 2017. With €2.2 billion invested across 131 deals, capital invested by corporates is on pace to surpass last year's total, despite a decline in deal count. The first quarter saw a growing proportion of larger deals with CVC participation, as rounds of €25 million or more made up nearly 64.7% of all capital invested, up from 62.3% in 2017. Though Auto1 Group's €460 million financing makes up a large portion of this metric, N26, Cabify and Insightec also were able to secure rounds greater than €100 million.

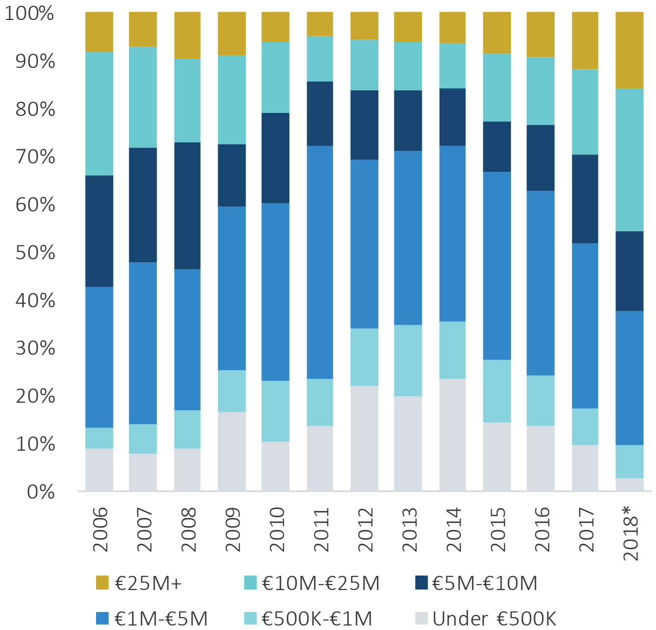
As startups look to scale and expand globally, rounds with CVC participation can offer valuable



CVC deal value participation pacing to reach new high

European VC activity with CVC participation

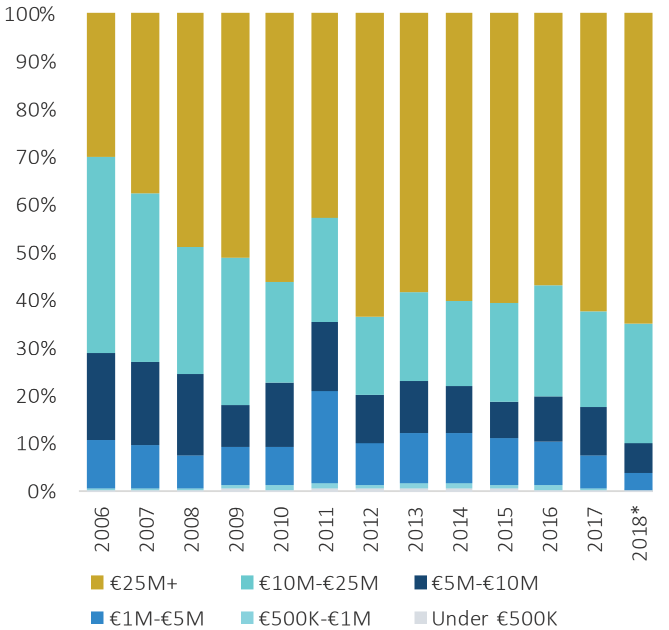
Source: PitchBook
*As of 3/31/2018



CVCs increasingly participating in larger deals

European VC activity (#) with CVC participation by size

Source: PitchBook
*As of 3/31/2018



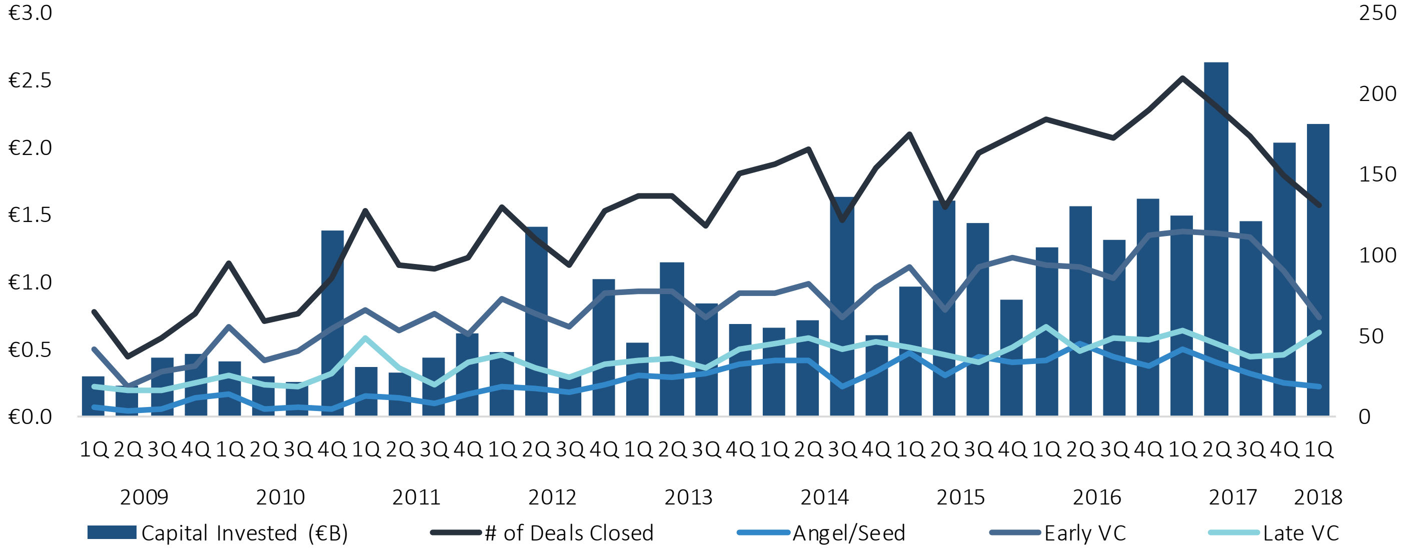
Outsized, late-stage financings make up majority of capital invested

European VC activity (€) with CVC participation by size

Source: PitchBook
*As of 3/31/2018

First quarter off to a strong start, with a 47% increase in capital invested YoY

European VC activity with CVC participation



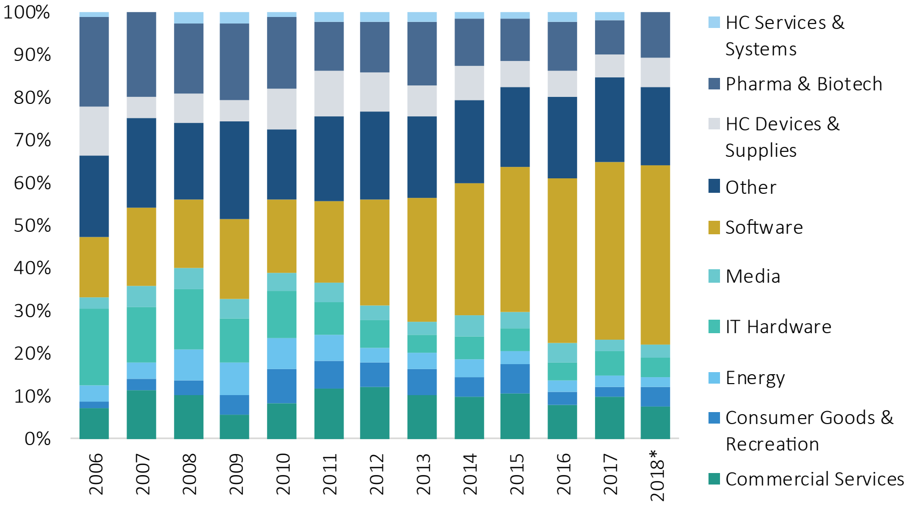
Source: PitchBook

expertise in addition to funding. German fintech company N26, for instance, raised €129.5 million ($160 million) from the venture arms of Chinese mobile conglomerate Tencent, and German asset management and insurance provider Allianz. The mobile banking startup cited strong alignment in terms of expertise with both corporations—Tencent's experience and success with mobile payments, and Allianz's longtime status as a financial services giant.

While strong industry alignment can prove a significant value-add for companies receiving corporate funding, the strategy also provides key benefits for corporations looking to grow and diversify. CVC allows traditional businesses to partner with fast-moving, innovative startups, while also developing another source of potential revenue should the company choose to acquire a startup. The data suggest more corporates have contributed more dollars to venture financings in the last few years than ever before, as CVCs look to access long-term strategic partnerships and partake in financial gains of high-growth companies.

CVCs focus investments in software, life sciences

European VC activity (#) with CVC participation by sector



Source: PitchBook
*As of 3/31/2018

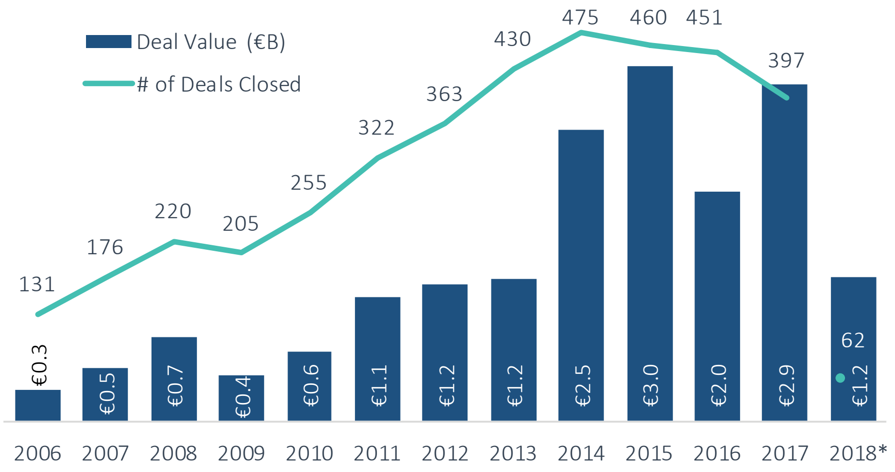
Regional Spotlight: Germany

Venture financings in Germany trend larger as ecosystem matures

Like many entrepreneurial hubs in Europe, Germany's venture ecosystem saw intense growth between 2013 and 2016, with activity highly concentrated in seeding early-stage startups. Following this activity, 2017 exhibited positive signals of continued growth in Germany, as venture funds have secured larger sums and startups have hit a string of exits, paving the way for further development. With €1.2 billion invested across 62 rounds, German financings constitute over one quarter of all capital invested in Europe in 1Q. Though deal count is down YoY,

2018 capital investment off to strong start

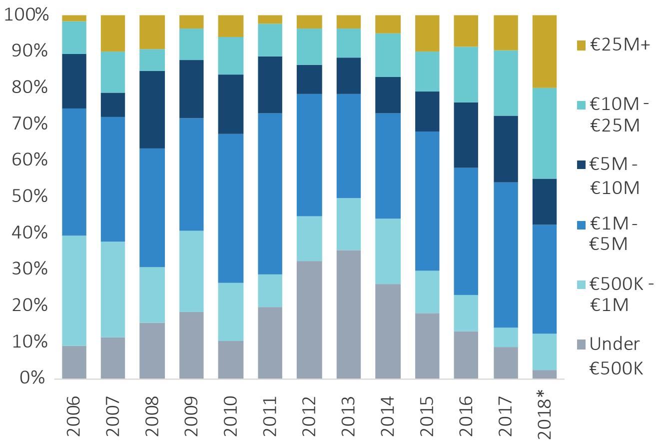
German VC activity



Source: PitchBook
*As of 3/31/2018

Germany sees more large deals

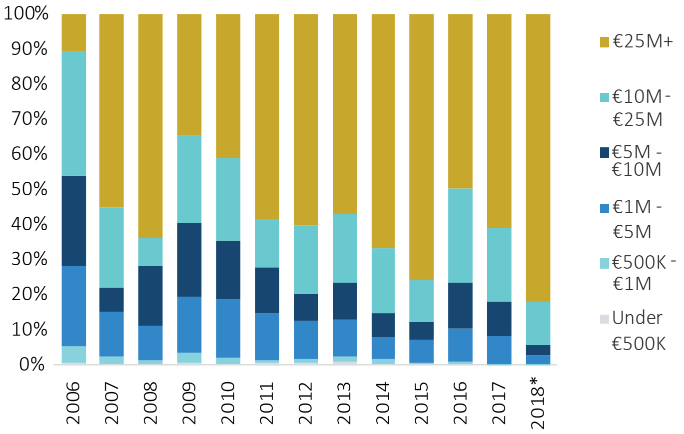
German VC activity (#) by size



Source: PitchBook
*As of 3/31/2018

Large deals dominate capital invested

German VC activity (€) by size



Source: PitchBook
*As of 3/31/2018

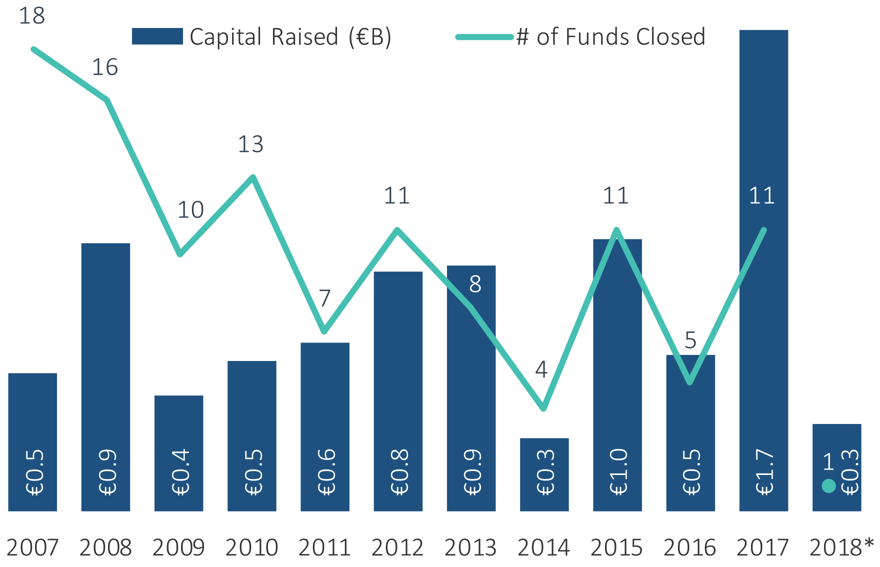
large rounds secured by late-stage unicorns indicate signs of hope for an ecosystem that has previously been lacking in late-stage capital.

Following 11 funds closed by German VCs in 2017 (bringing in €1.7 billion in total), it appears German startups have growing access to capital from local sources. German startups have also had success fundraising from international investors—US investors participated in 16.6% of deals last year, and 19.4% of closed deals in 1Q 2018—though this may be an indicator of dependence on outside capital. These funding streams have helped late-stage companies close on larger rounds, with notable investment in 1Q 2018 in areas of ecommerce (Auto1 Group), biotech (BioNTech) and fintech (N26). This growth is an important indicator for the development of an ecosystem, as success stories (and accompanying strong exits) can assist in begetting greater entrepreneurialism and supplementary resources.

Looking to exits, steady economic growth and some political stabilization have eased public concerns and will likely set the stage for a navigable market environment for IPOs and acquisitions. After 2017's strong exits, including Delivery Hero's €865.75 million debut on the Frankfurt stock exchange, startups considering an IPO may find some confidence to take their company public. Between strong domestic fundraising and attractive exits in 2017 and the beginning of 2018, the German venture ecosystem appears poised for growth in 2018 and beyond.

German VCs raised a decade high €1.7B in 2017

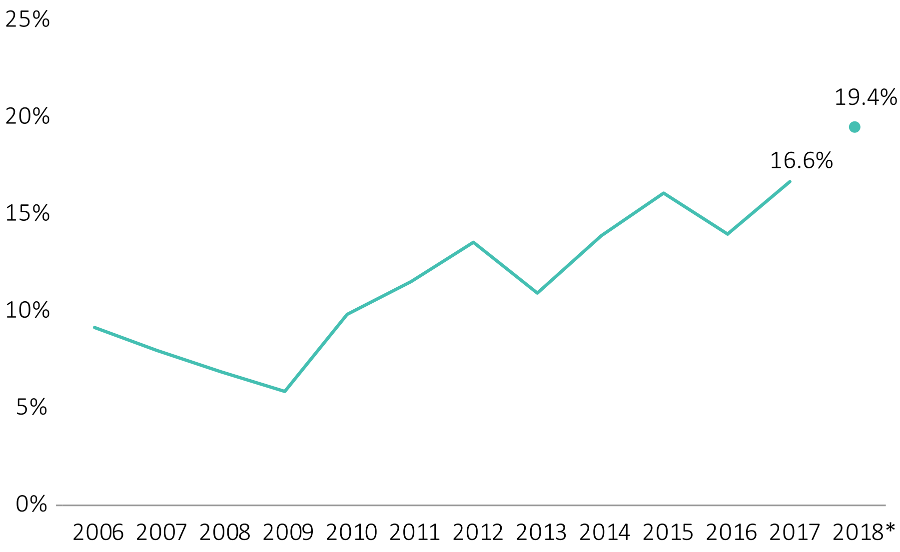
German VC fundraising



Source: PitchBook
*As of 3/31/2018

US investors maintain strong presence in German VC ecosystem

Percentage of German VC deals involving US-based investors



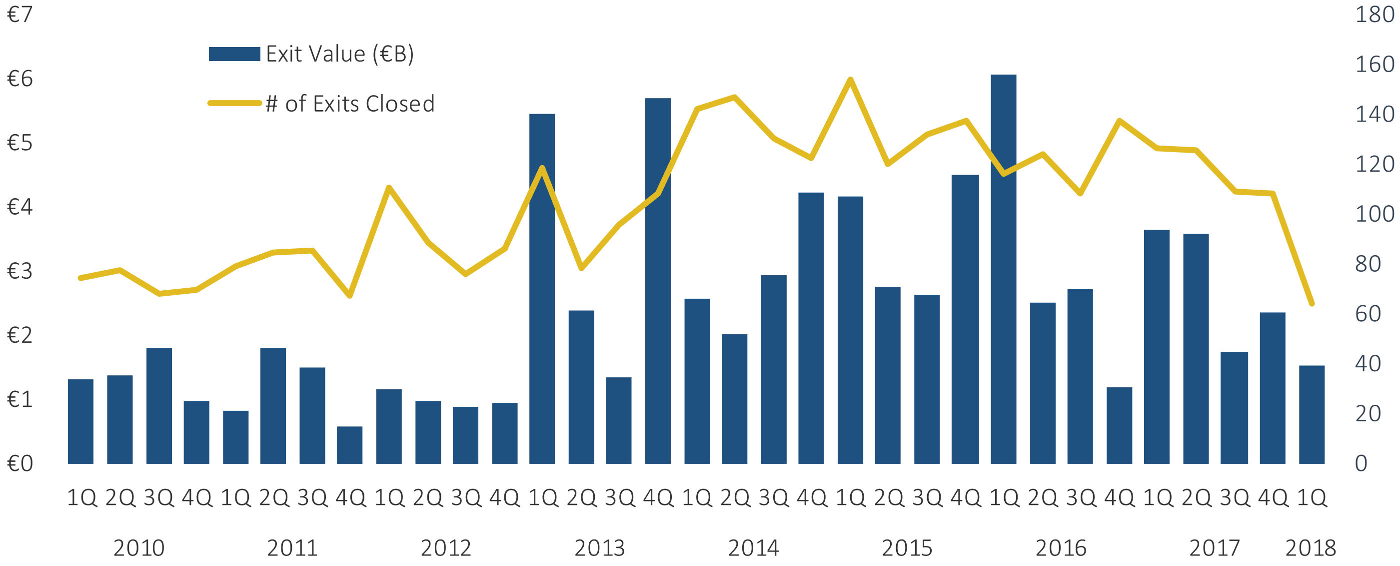
Source: PitchBook
*As of 3/31/2018

Exits

VC-backed exits tap brakes in 1Q

Subdued exit totals so far in 2018

European VC-backed exit activity



Source: PitchBook

VC-backed exits have started off slowly through the first quarter of 2018, with €1.5 billion of value exited across only 64 deals. This is a relatively low total for both exit value and count when compared to some of the more successful quarters over the past couple of years; however, we don't see any immediate source of worry due to the asymmetric timing of VC exits. Because acquisitions and IPOs require a mix of complex transaction structures, reliance on market conditions and long negotiations, these transactions can be prone to delays or long closing processes.

To highlight two of the largest deals that were completed in the first quarter, they saw the €905 million acquisition of Preston Therapeutics (developer of drugs to treat Parkinson's) by Danish pharma Lundbeck, and Integrated Financial Arrangements exiting via IPO, raising €201 million at a €735 million valuation. These deals illustrate the sustained strength of the exit ecosystem for software and pharmaceutical firms but also the outsized effect on total exit value, as these two deals make up 73% of our current recorded total.

Further depression of exit statistics can be partially attributed to capital availability, which has afforded some VC-backed companies the ability to scale into large multinational corporations without completing a traditional liquidity event.

The Spotify direct listing is a prime, though unconventional, example of this phenomenon. As the company opted to list publicly without raising any new capital, the transaction brought some excitement to the European VC exit environment and has the potential to significantly affect future exits.

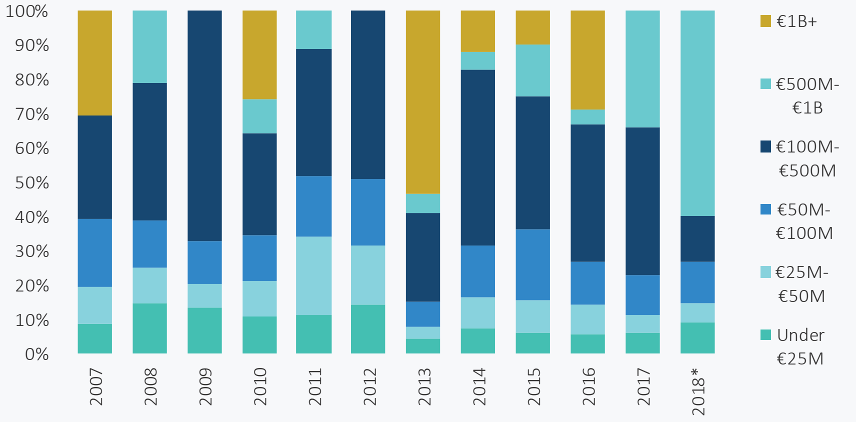
From the company's perspective, we categorize the transaction as a success. Though the first trade was delayed due to the scarcity of guidance prior to the price discovery process, Spotify priced 5.6 million shares at $165.90 each, clearing nearly a billion dollars of value at a price 25.7% higher than the reference price of $132 (provided by Morgan Stanley, based on recent private secondary trading).

Even though Spotify shares closed lower on both its first and second days of trading, the price has found some stability at around $150, easing worries about initial price volatility. Furthermore, this stability comes in the face of low trading volume relative to the percentage of shares that were eligible to sell immediately. For illustration, more than 90% of Spotify shares were and are eligible to be registered and trade at any time, but on the first day of trading volume representing less than 17% of shares changed hands, much lower than the long-term average first-day IPO turnover of 42%.

Private secondary market trading likely played a substantial role in both the volatility and volume of trading during the first few days, as these private trades allowed insiders with pressing liquidity needs the opportunity to lockin a price and allowed some new investors to begin building a position before the public debut. A direct listing will not be a solution for every company, however, as Spotify's situation was unique with regard to its global reach and financial position.

Outsized deals drive exit value

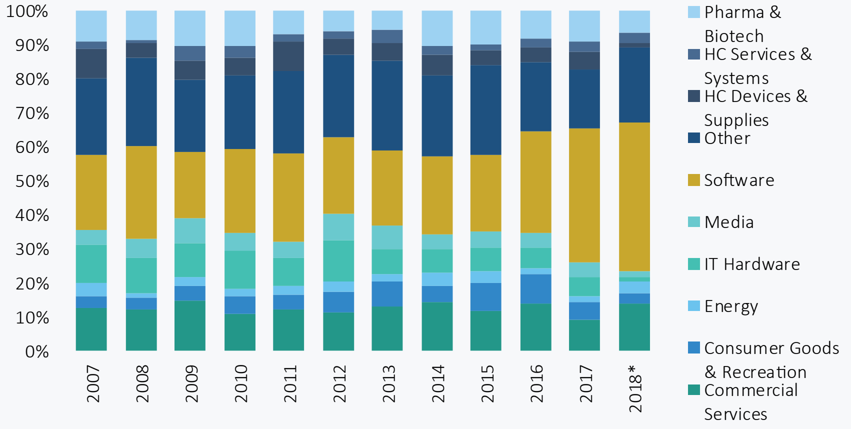
European VC-backed exit activity (€) by size



Source: PitchBook
*As of 3/31/2018

Software continues to draw increased attention

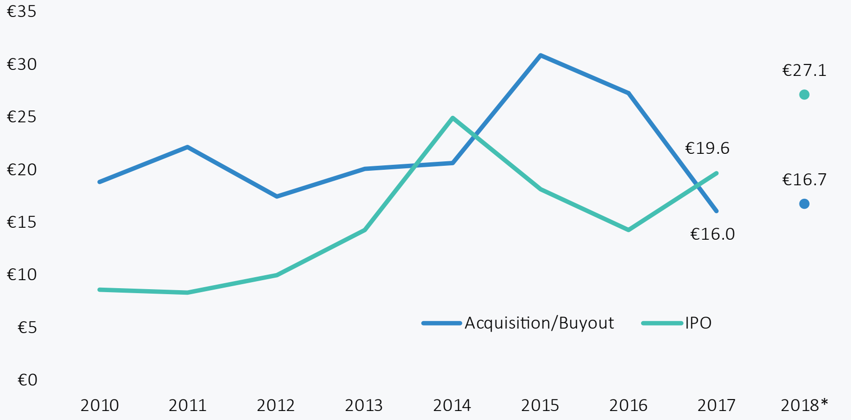
European VC-backed exit activity (#) by sector



Source: PitchBook
*As of 3/31/2018

Median IPO size moves to decade high

Median European VC-backed exit size (€M) by type



Source: PitchBook
*As of 3/31/2018

Fundraising

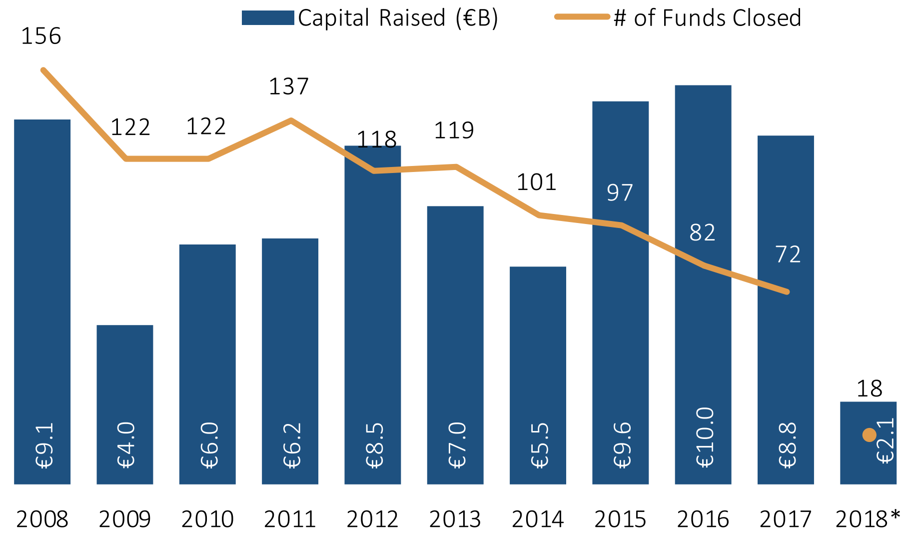
Closed fund count up from 1Q 2017, amidst larger fundraises

With 18 vehicles closed by European VCs totaling €2.1 billion in commitments, 2018 appears to be on track to fall slightly short of 2017's fundraising metrics. However, should European VCs close larger funds than they have in recent years, capital raised in 2018 could still match or exceed 2017's total. Median fund size has trended up to a decade high of €86 million in the first quarter of 2018, reflecting VCs' shift toward writing larger checks to mature companies. Additionally, a push by the European Commission and the European Investment Fund to seed European fund managers with their fund-of-funds program, VentureEU, will also provide a boost to fundraising. VentureEU estimates that after its aggregate commitment of €410 million, the select funds will aim to raise an additional €1.69 billion, which could boost fundraising by a total of €2.1 billion over the next few years.

The number of larger funds raised by European managers has been low historically, but recent activity suggests this trend is beginning to shift in 2018. Only in the peak fundraising cycle of 2016 have there been at least nine funds closed in the €250 million and €500 million range. This year, however, three funds in this echelon have closed already, almost halfway to 2017's count. These larger vehicles will no doubt be a vital resource for growing

Capital raised on track for another strong year

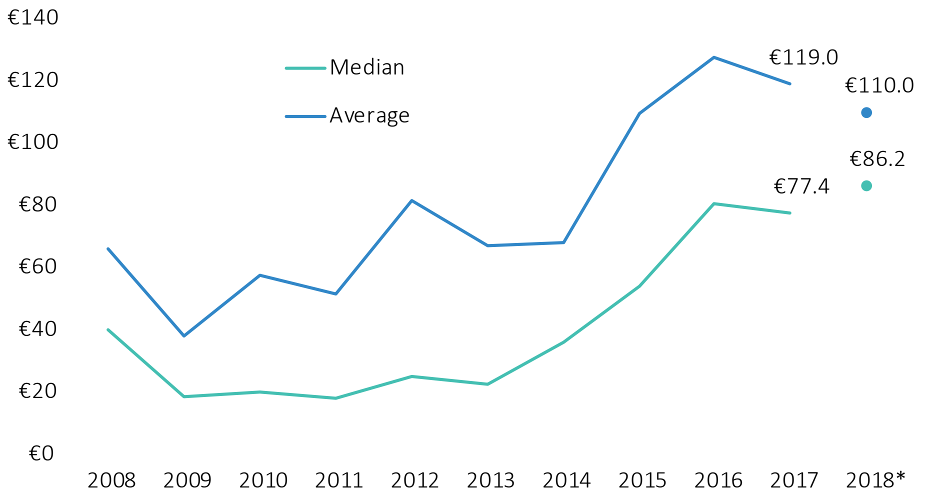
European VC fundraising activity



Source: PitchBook
*As of 3/31/2018

Median fund size hits decade high

Median and average European VC fund size (€M)



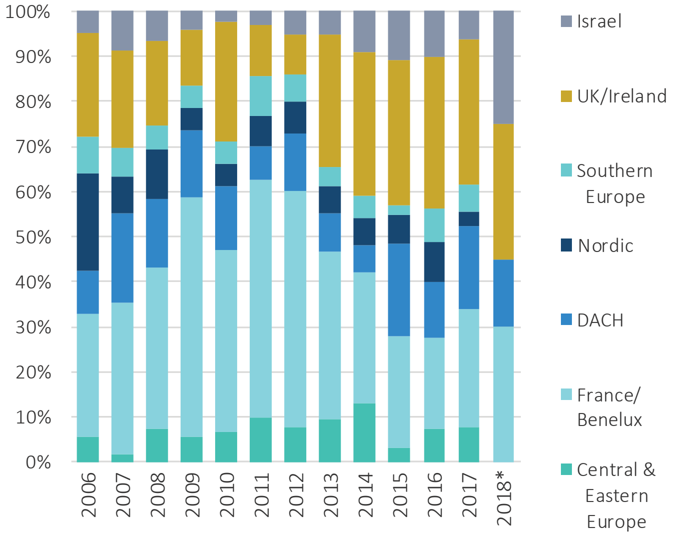
Source: PitchBook
*As of 3/31/2018

the European venture ecosystem. Eight Road Ventures Europe cites the large fundraise of its $375 million (€303 million) growth capital vehicle as necessary for filling the gap in funding to support ever-growing venture-backed startups.

While larger funds will be helpful to mature startups, the dearth of early-stage capital may hinder the development of next-generation entrepreneurs seeking out small funding rounds. In the first quarter of 2015, VCs raised 19 micro-funds (vehicles smaller than €50 million). In 2018, however, only four have been closed, as early-stage investors have continued to raise larger funds. London-based Kindred Capital, for instance, raised a €90 million seed investment vehicle—significantly larger than what traditional seed funds once looked like. While large funds are an important step forward for the maturing European venture ecosystem, a shortage of capital for smaller investments may create an imbalance in available funding sources.

UK & Ireland, Israel, and France/Benelux regions lead fund count

European VC fundraising (#) by region



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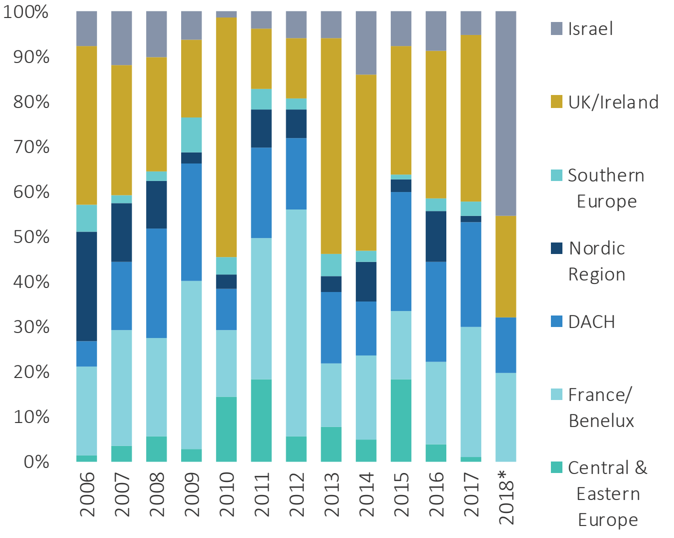
Israel buoyed fundraising totals in 1Q

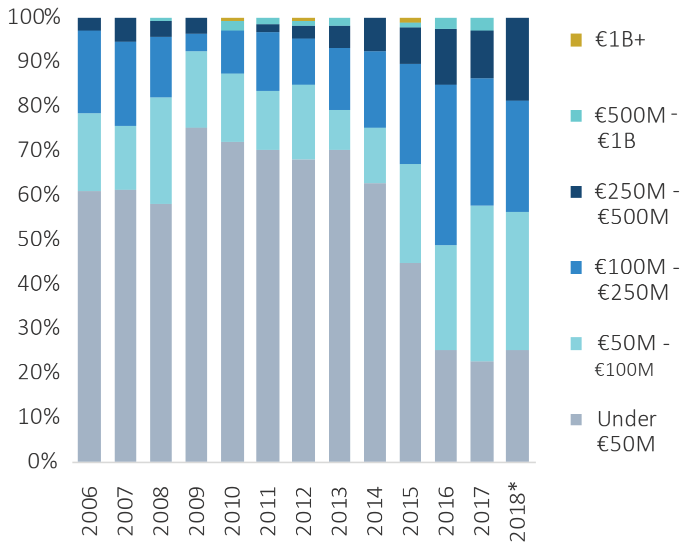
European VC fundraising (€) by region



Source: PitchBook
*As of 3/31/2018

European VCs raising fewer micro-funds

European VC fundraising (#) by size



Source: PitchBook
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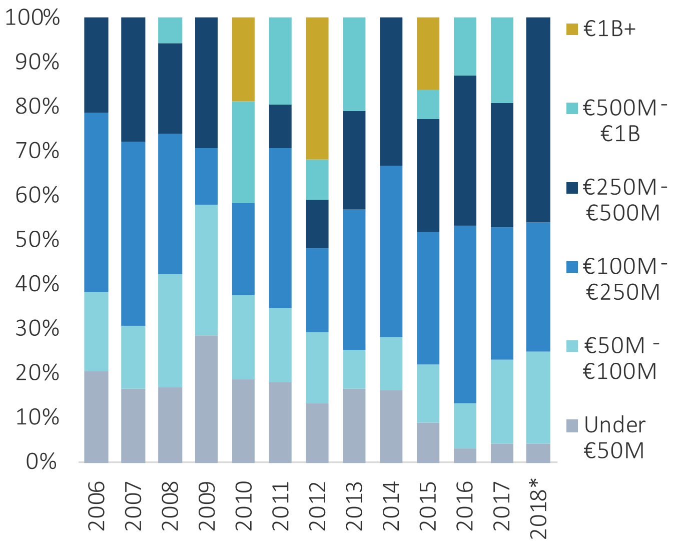
€1B+ funds have been absent in Europe

European VC fundraising (€) by size



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