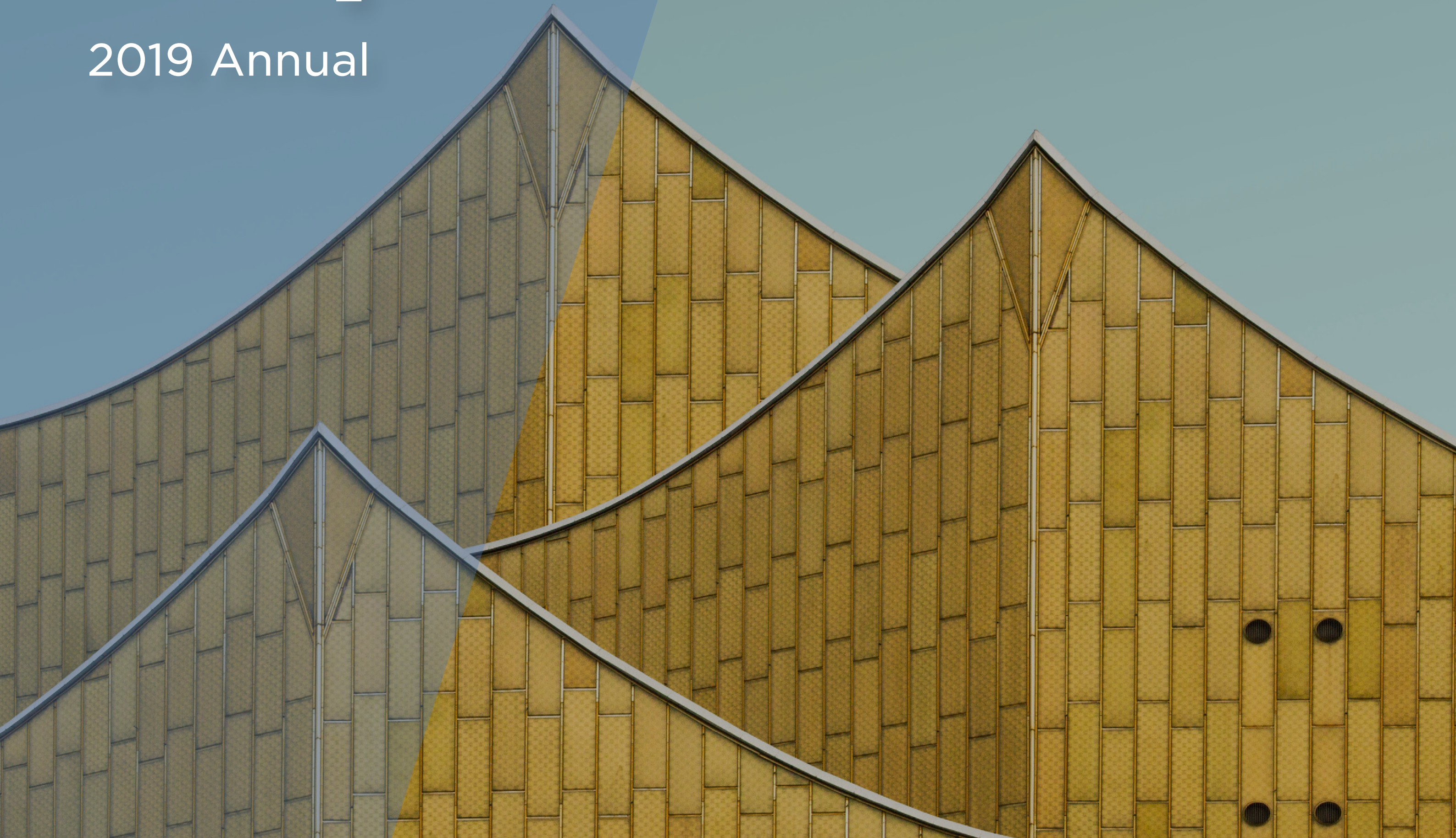
PitchBook

European VC Valuations Report

2019 Annual



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Introduction

Valuations across VC financing stages flourished in 2019. The rich profusion of capital in the ecosystem has steered valuations to new highs. Maturation in Europe has meant outsized late-stage VC deals are occurring with increased regularity. Pre-money valuation growth appears to be gaining unstoppable momentum.

Nontraditional investor participation has intensified. These investors have upped their supply of capital into the VC market, increasingly seeking and funding mature startups. This has resulted in lofty round sizes and inflated valuations.

There have never been more unicorns in the European ecosystem. In 2019, value derived from unicorns was at its greatest ever, and a record number of unicorns were minted. Unicorns have been completing rounds at higher multibillion-euro valuations.

Exit valuations cooled in 2019 as liquidity events returned to typical readings. Late-stage capital availability has meant startups are analysing the costs and benefits of an exit more. Despite this, the median time from founding to exit dropped in 2019. Less frequent outlier exits could soon be occurring on a regular basis.

Nalin Patel
Analyst, EMEA Private Capital

Angel & seed

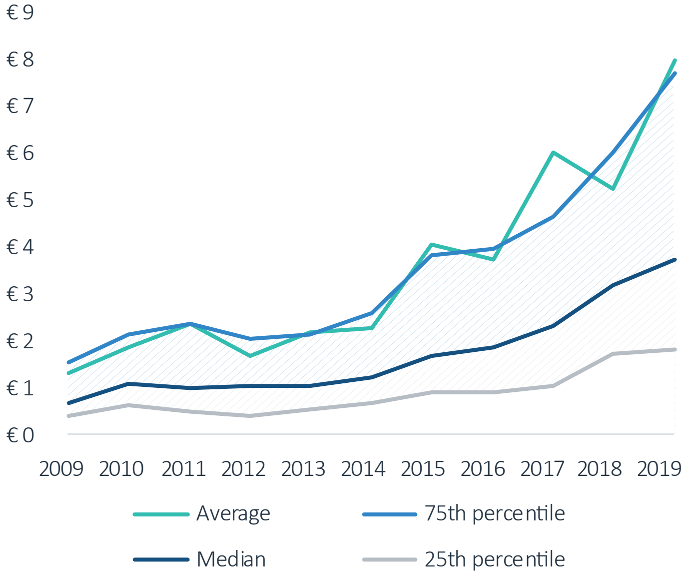
The median angel & seed pre-money valuation in Europe continued its decade-long climb, climbing to €3.7 million in 2019, a 16.7% YoY increase. This is double what it was three years ago, and the gap between the top- and bottom-quartile valuations has never been bigger at this investment stage. Investors have been targeting more mature businesses and willing to back the highest-performing startups with greater sums of capital.

In 2019, the angel & seed stage recorded its lowest deal count in seven years. Deal value slightly increased at €2.3 billion, however, providing only 7.0% of the total value in Europe. Dispersing capital across fewer deals caused deal sizes across the lower, middle and upper quartiles to leap. The median deal size crested €900,000 and demonstrated the largest YoY uptick across the quartile range of pre-money valuations at 60.2%.

We believe many startups have been able to scale to a greater extent and command superior angel & seed rounds at premium valuations. Capital needed to found a startup has declined concurrently with the reduced cost of infrastructure required to foster growth. This means many startups have been more developed by the time they receive an angel or seed round. The median age from founding to the receipt of such a round increased from 1.1 years in 2011 to a new peak of 2.8 years in 2019.

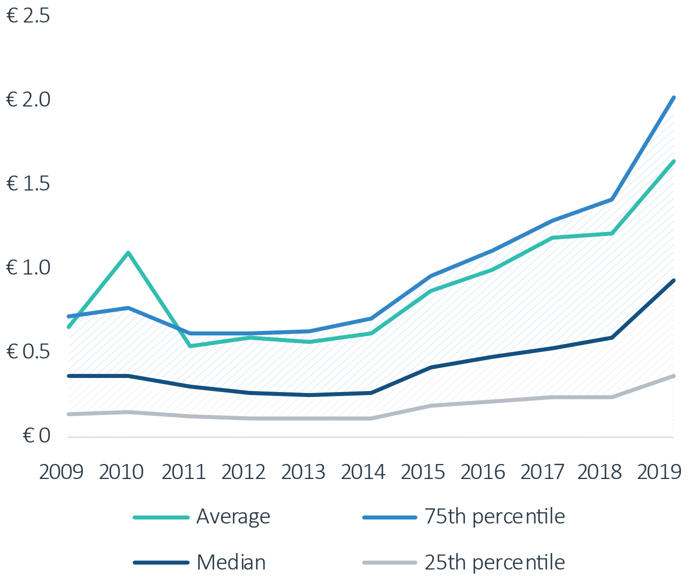
2019 marked the third year in a row in which the quantity of early-stage VC rounds was higher than that of angel & seed. We believe some startups may be bypassing the angel & seed stage altogether. Many have been able to fulfil their capital needs with limited angel & seed support, instead funding expansion internally or externally with alternative sources of capital. Newfound capital and support resources have had a pronounced impact on the embryonic stages of the VC ecosystem, and valuations have benefitted as a result. Startups can now gain access to widespread assistance from tech hubs, accelerators and government initiatives. Capital from wealthy tech entrepreneurs is reentering the ecosystem too. These individuals may be backing startups directly, establishing their own specialist VC funds or committing capital to vehicles as LPs through newly formed family offices.

Quartile distribution of angel & seed pre-money valuations (€M)



Source: PitchBook | **Geography:** Europe

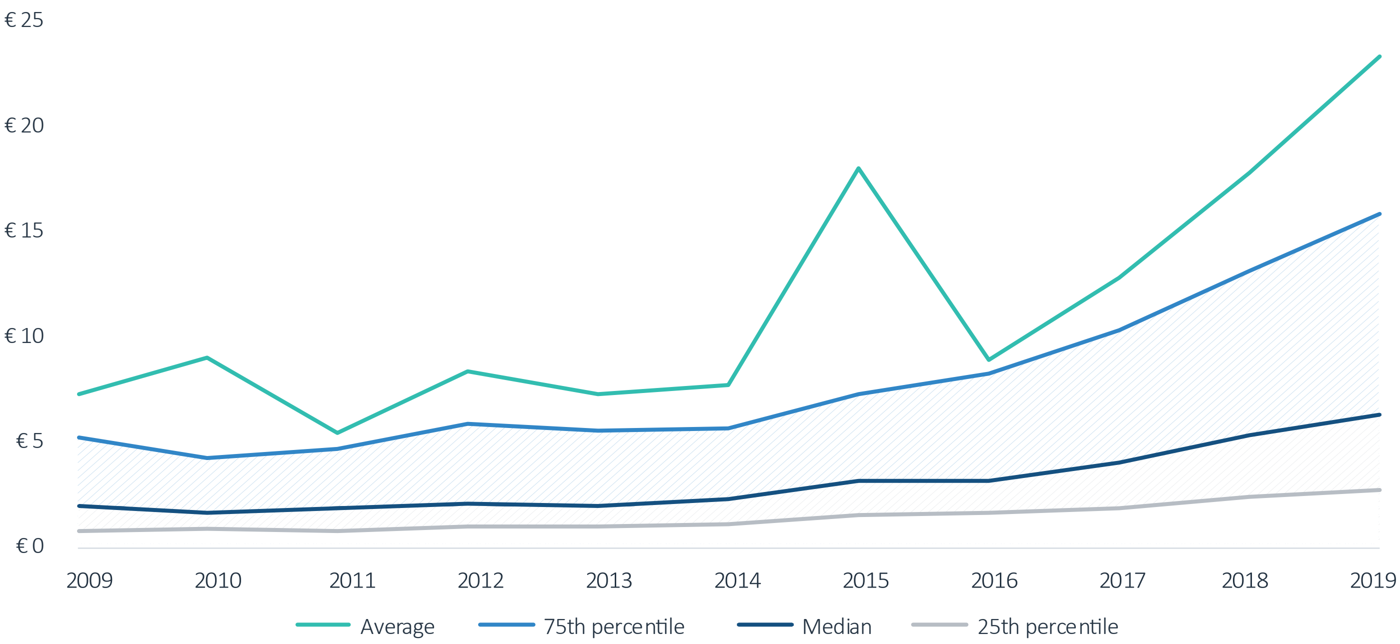
Quartile distribution of angel & seed deal sizes (€M)



Source: PitchBook | **Geography:** Europe

Early-stage VC

Quartile distribution of early-stage VC pre-money valuations (€M)

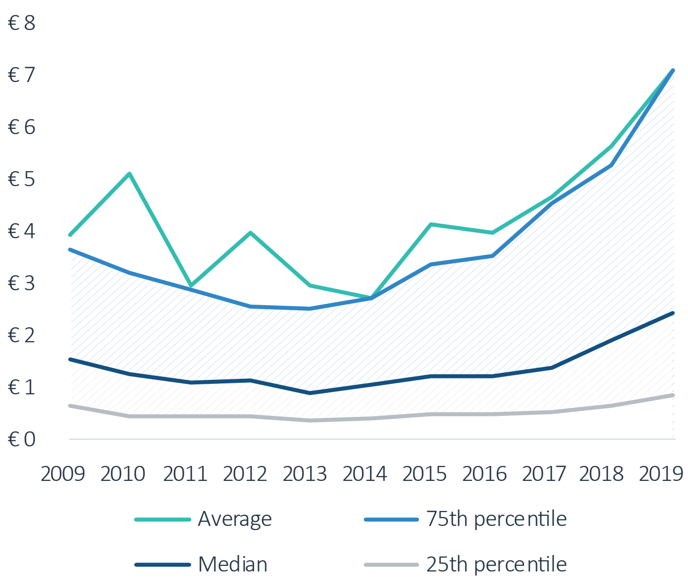


Source: PitchBook | **Geography:** Europe

Early-stage pre-money valuations in 2019 maintained double-digit growth across the bottom, middle and top quartiles for the third consecutive year. The spread between top- and bottom-quartile valuations expanded to €13.1 million, the largest on record. The median early-stage pre-money valuation reached a decade high of €6.2 million, and the top quartile increased the most YoY at 21.4%. We feel this spike is the result of expectations that outsized early-stage rounds will spark hypergrowth in leading startups.

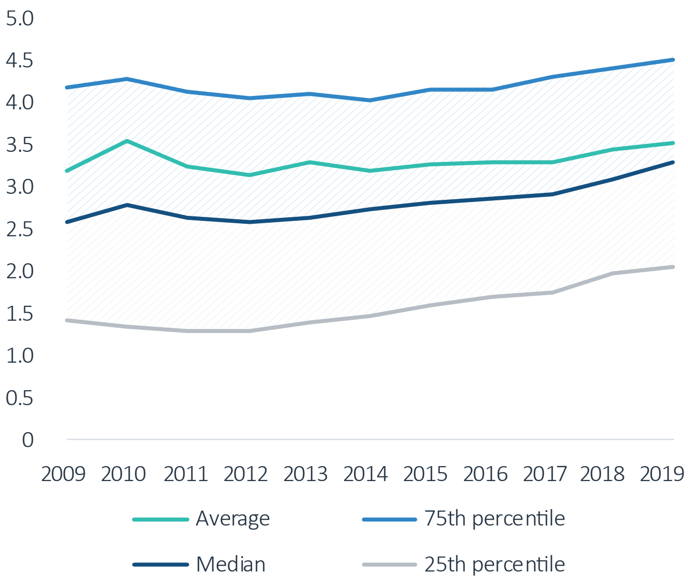
The median early-stage VC deal size rose 26.8% YoY to €2.4 million, having recovered from a dip in the middle of the decade. It is now approximately double its size from 2016. The top-quartile deal size had its largest uptick of the decade at 35.1% YoY in 2019. Early-stage deals accounted for a healthy 37.5% of total European deal value in 2019, indicating the stage continues to be the most popular for VC investors. Early-stage deal sizes typically land within the target range for most VC investors, suggesting they might be the most fiercely competitive rounds in the ecosystem. Nontraditional investors also typically enter at the early stage and create upward pressure on deal sizes. These investors include, but are not limited to, corporate venture arms (CVCs), pension funds, sovereign wealth funds (SWFs) and hedge funds.

Quartile distribution of early-stage VC deal sizes (€M)



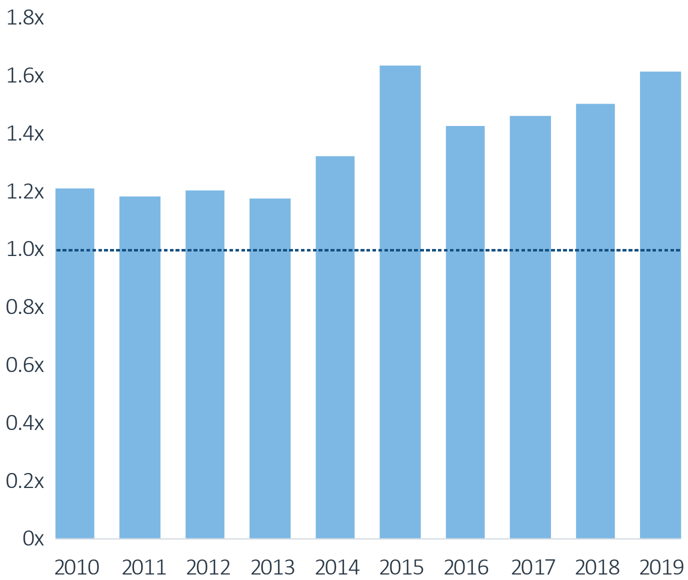
Source: PitchBook | **Geography:** Europe

Median age (years) of early-stage VC companies since founding



Source: PitchBook | **Geography:** Europe

Median early-stage VC valuation step-up multiples



Source: PitchBook | **Geography:** Europe

In 2019, Insight Partners led a €177.0 million round into London and Atlanta coheadquartered OneTrust, catapulting the startup to unicorn status at a €1.2 billion post-money valuation. It marked one of the largest early-stage VC deals ever to close in Europe. Founded in 2016, OneTrust provides a tech platform that helps companies comply with privacy and security laws. The company exemplifies how innovative startups can build and operate a SaaS business model to outsource and solve a challenge for a diverse group of clients. OneTrust achieved rapid growth and identified a robust total addressable market, both of which are fundamental to acquiring crucial financing and boosting a valuation at the early stage.

Interestingly, the median age of early-stage startups has increased slightly over the last decade. It reached a decade high of 3.3 years, just beating 3.1 years from 2018. The gentle incline of the early-stage median age has resulted in the convergence of the early and angel & seed stages in terms of time between a company's founding and its first financing. In 2019, the gap was a mere 0.5 years, in large part because the median time between founding and first angel & seed financing has tripled in the last decade. This poses the question of whether the boundary has blurred between angel & seed and early-stage round timelines. We won't be surprised if the delta between them continues to shrink in the near term.

Largest early-stage VC pre-money valuations in 2019

Company name	Close date	Deal size (€M)	Pre-money valuations (€M)	Sector	City
WeFox	December 12	€212.7	€1,493.9	Software	Berlin
OneTrust	July 3	€177.0	€973.4	Software	London
Pleo	May 14	€50.0	€396.2	Commercial products	Copenhagen
Juvenescence	August 19	€89.7	€358.6	Pharma & biotech	Douglas
Blade	January 15	€4.4	€330.6	Media	Paris

Source: PitchBook | **Geography:** Europe

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Late-stage VC

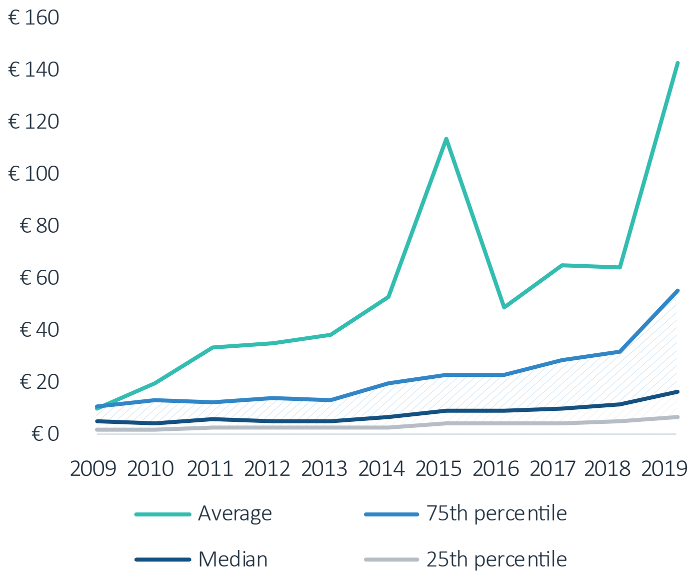
The median and top-quartile pre-money valuations at the late stage spiked in 2019. The top quartile surged 78.9% to €54.6 million, and the median rose 52.1% to €15.7 million. Both metrics highlight how late-stage capital is enabling companies to continue developing rather than seek liquidity from an exit. Maturation of the ecosystem was a key theme during 2019 as well, as startups, especially at the late stage, pushed up pre-money valuation runways due to extended capital availability. Inflated valuations at the late stage garnered considerable attention globally in 2019. A selection of US companies either postponed their IPOs or ended up trading below their late-stage pre-money valuations.

Late-stage VC deal sizes posted record YoY increases in 2019. The top quartile posted a 36.5% YoY increase, pulling further away from the median as top-performing startups attracted substantial capital inflows. These outsized deals propelled overall European VC deal value to a record €32.9 billion in 2019. The magnitude of venture reserves has increased over the past decade and led European GPs to raise a record €11.2 billion for venture funds in 2019. Furthermore, Europe-based startups have become targets for an influx of international VC funding.

In 2019, Sweden-based payments platform Klarna closed a €411.2 million late-stage round at a €4.5 billion pre-money valuation. The round pushed the company's total capital raised since it was founded in 2005 to approximately €888.8 billion. Klarna is one of several startups taking advantage of capital infusions at the late stage. Securing these late-stage rounds has propelled multiple Europe-based startups to unicorn status, some with multibillion-euro valuations. We believe companies will continue to pursue capital late into their venture lifecycles with many investors willing to bankroll scaling efforts. This may result in a tempering of the VC exit market as fewer, more significant exits occur.

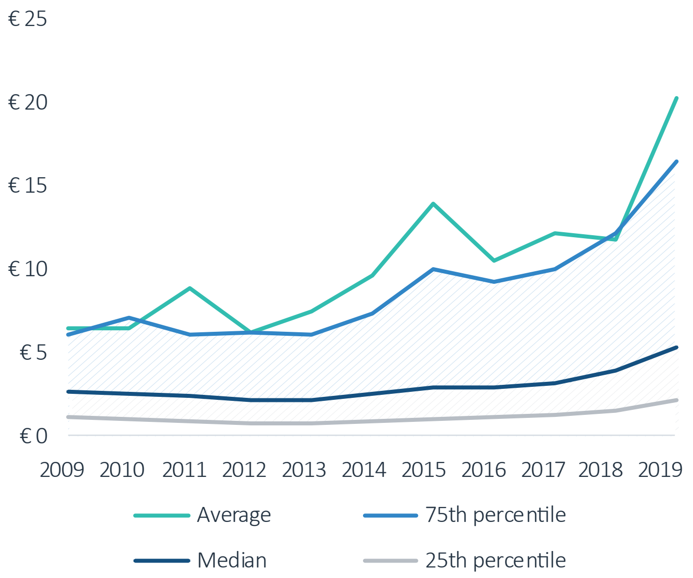
We attribute 2019's remarkable top-quartile growth in the late-stage VC pre-money valuation to a combination of factors. Firstly, startups are seeking larger rounds from VC investors. Many in the industry believe that startups simply need more cash to compete and stand out in overly populated sectors. However, VC investors also appear to be driving development of the top-quartile valuation. The late stage is where VC investors tend to select their winners, and we sense they will continue to inject copious amounts of capital into top-performing startups at this stage to ensure they can maintain constant valuation growth. It is also a critical stage for certain startups when costly and complex cross-border considerations emerge, and investors may be forced to participate in larger follow-on rounds.

Quartile distribution of late-stage VC pre-money valuations (€M)



Source: PitchBook | **Geography:** Europe

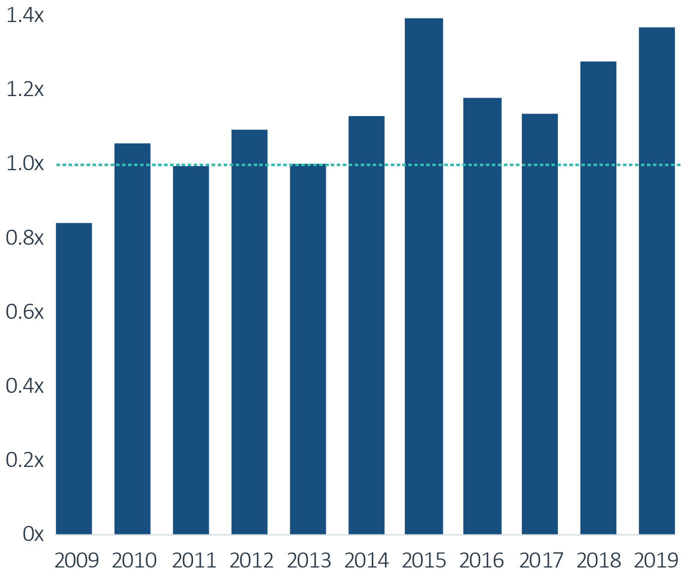
Quartile distribution of late-stage VC deal sizes (€M)



Source: PitchBook | **Geography:** Europe

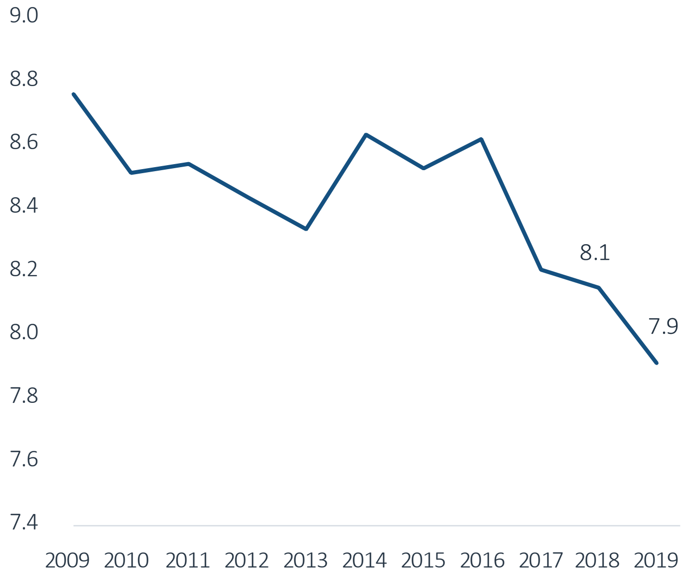
The median age of late-stage companies declined for the third consecutive year, dropping to a decade low of 7.9 years in 2019. It is the only median age across all stages that declined in 2019. This illustrates that once a startup completes its early rounds, its valuation is likely to accelerate at a faster rate, and it can obtain late-stage financing more quickly. This has been prominent in the

Median late-stage VC pre-money valuation step-up multiples



Source: PitchBook | **Geography:** Europe

Median age (years) of late-stage VC companies since founding



Source: PitchBook | **Geography:** Europe

last decade as technology has disrupted valuations in the VC ecosystem. For example, a software-based product can be built, developed and scaled at a much faster pace than a brick-and-mortar business. European VC is heavily skewed towards software enterprises in a range of sectors, which has affected the whole environment. Startups can be confident that if the minimum viable product is established, within a relatively capital-efficient model, it can be supercharged for expansion.

The median late-stage valuation step-up multiple increased by 7.3% YoY to 1.4x in 2019, the second-highest figure in the last decade. Median step-up multiples at the late stage have normally been volatile. Nevertheless, preliminary stages of an upward trend may be occurring, as 2019 registered the second successive year of growth. We sense competition between VC investors willing to participate in late-stage rounds could be the main force driving step-up gains. Corporates, family offices and SWFs have been well-publicised nontraditional investors in recent years. PE managers such as EQT (STO: EQT), which closed its €660.0 million EQT Ventures II vehicle in 2019, are now looking to diversify and pursue the returns on offer. PE managers can most naturally pivot to and target the late stage since it most closely resembles PE mechanics. There could be a power shift towards startups as rival investors could offer more lenient terms regarding equity stake demands and capital provisions to participate in rounds.

Largest late-stage VC pre-money valuations in 2019

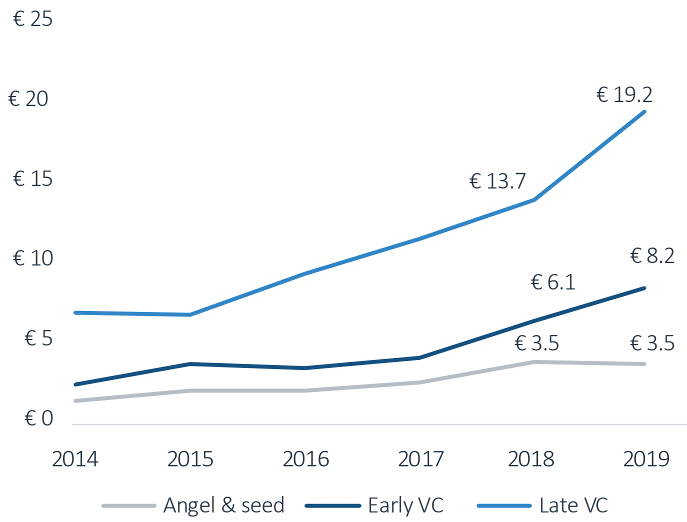
Company name	Close date	Deal size (€M)	Pre-money valuation (€B)	Sector	City
Klarna	August 6	€411.2	€4.5	Software	Stockholm
Klarna	March 10	€94.8	€2.9	Software	Stockholm
N26	July 18	€416.4	€2.7	Software	Berlin
OakNorth	February 7	€385.5	€2.1	Financial services	London
Celonis	November 21	€256.6	€2.1	Software	Munich

Source: PitchBook | **Geography:** Europe

Sectors

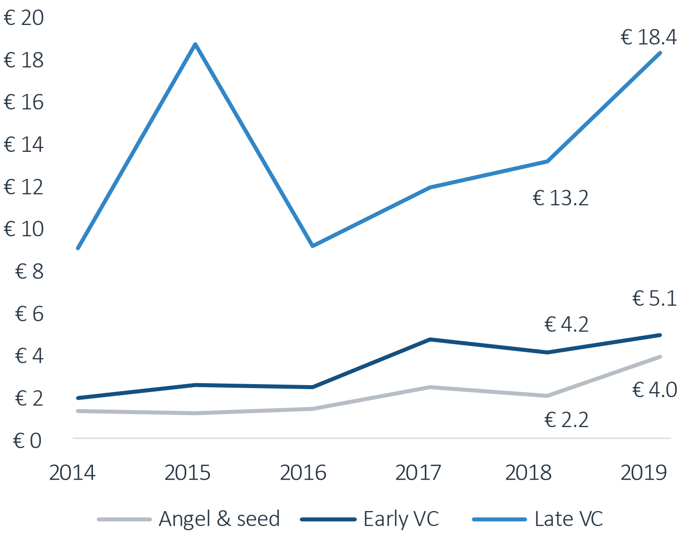
Unsurprisingly, software startups comprised 38.2% of European deal value in 2019. The sector has grown to be the force dominating deal value in the ecosystem. However, pre-money angel & seed software valuations unexpectedly shrunk by 1.7% YoY in 2019, the first decline in seven years. The decline may only be a blip as both early- and late-stage medians grew as expected. The latter landed at €19.2 million, which comes in above the overall late-stage median across all sectors. Moreover, the medians at all three stages for software companies have nearly doubled in the last three years. We predict that median software valuations will continue to rise in the next year or two, particularly at the late stage, where pools of capital are being put to work in hefty rounds. The median late-stage software round size swelled 42.2% to €6.0 million in 2019. However, the median angel & seed round size grew the most at 47.7% YoY even though pre-money valuations at this stage contracted. We believe this could be attributed to fewer, larger angel & seed deals occurring in 2019. These bigger rounds appeared to finance lower-valued and potentially less-developed companies at the angel & seed stage as the median valuation fell.

Median pre-money valuations (€M) by stage for VC software companies



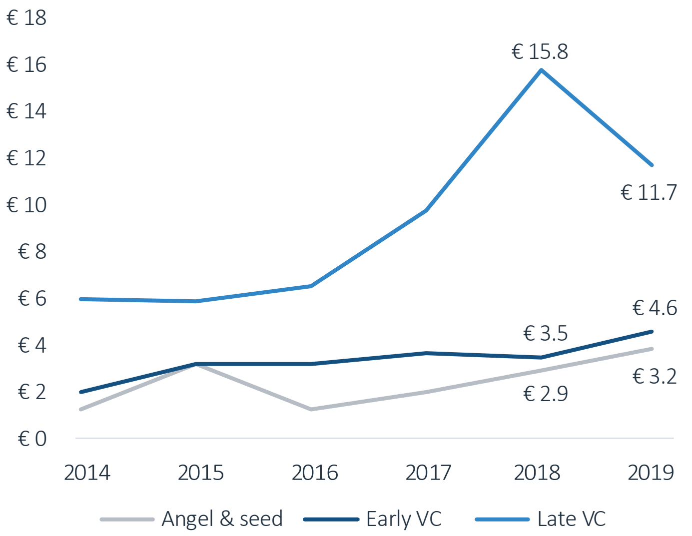
Source: PitchBook | **Geography:** Europe

Median pre-money valuations (€M) by stage for VC pharma & biotech companies



Source: PitchBook | **Geography:** Europe

Median pre-money valuations (€M) by stage for VC healthcare companies



Source: PitchBook | **Geography:** Europe

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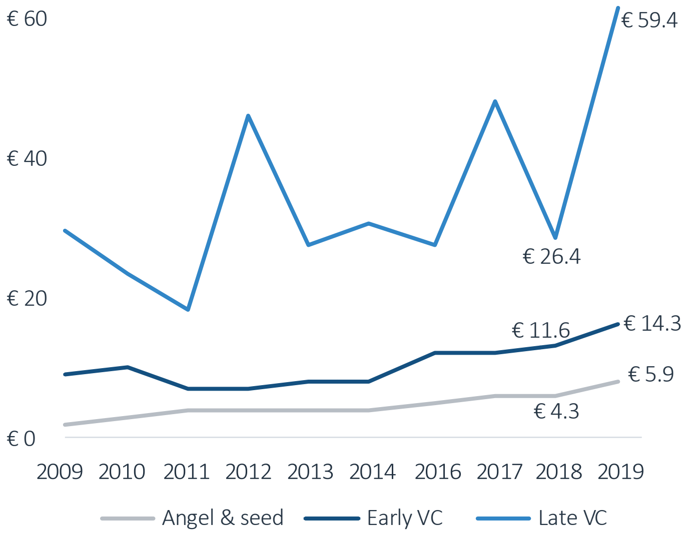
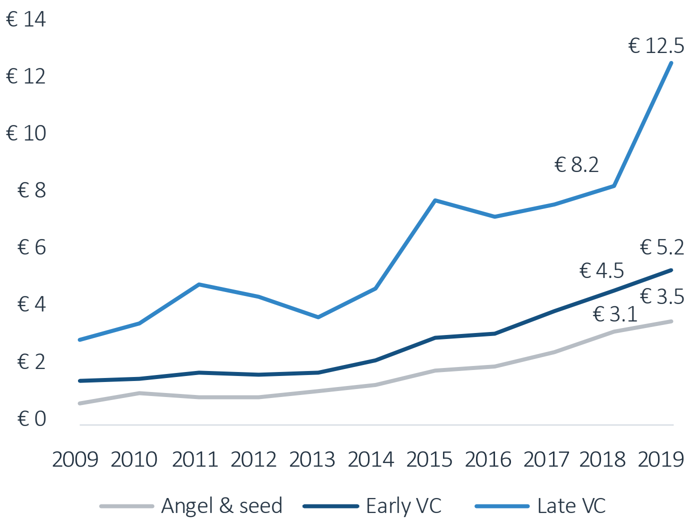
Regions

Median pre-money VC valuations (€M) by stage for the DACH region



Source: PitchBook | **Geography:** DACH
Note: Fewer than 15 data points recorded for 2015.

Median pre-money VC valuations (€M) by stage for the UK & Ireland region

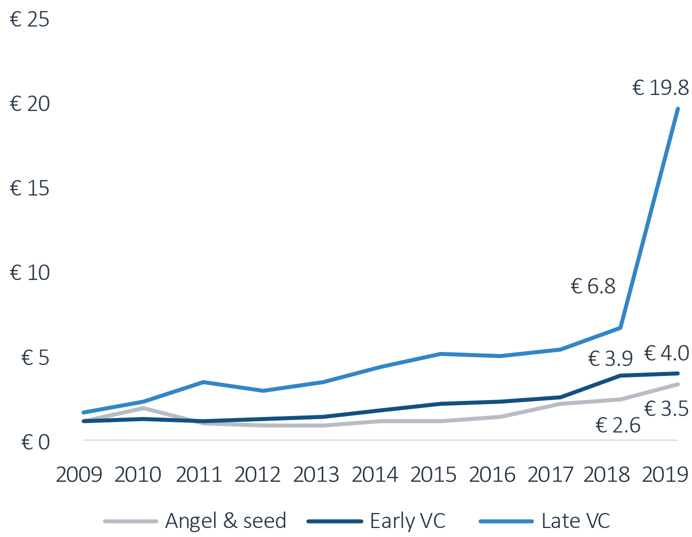


Source: PitchBook | **Geography:** UK & Ireland

From 2017 to 2018, the median pre-money valuations for companies based in the UK & Ireland at the earliest stages collectively grew 22.1%. This overshadowed the late stage's single-digit growth in the same period. In 2019, however, the late-stage median grew 53.1% from the year prior, and we believe it could sustain that high level through 2020. Venture funds in the UK & Ireland raised a record €4.6 billion in 2019, bolstered by numerous large funds that can seek out larger late-stage investments. Moreover, because Brexit's impact should be less pronounced on domestic deals than cross-border deals, these outsized vehicles may opt to invest more capital into domestic startups. This could push valuations in the region up even further. The Astonishingly, the median VC deal size for all stages grew over 50% YoY in the UK & Ireland in 2019. This speaks volumes about the quality of startups currently being developed in the ecosystem, and their ability to source and execute on larger deals. These startups are attracting capital from international investors from mainland Europe, North America and Asia as well.

In 2019, the median late-stage pre-money valuation spiked to set a new decade high in the France & Benelux region. In the DACH region, it climbed to its highest level since 2015, though we must note that the 2015 figure has a sample less than 15.

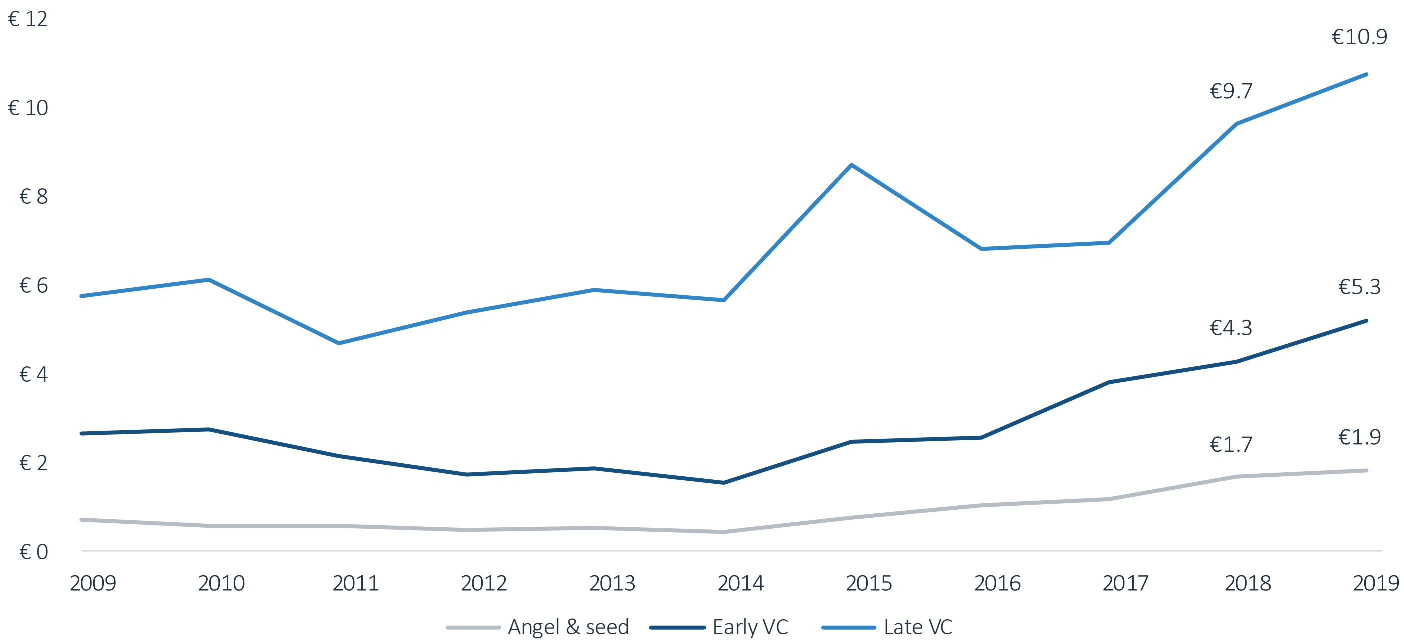
Median pre-money VC valuations (€M) by stage for the France & Benelux region



Source: PitchBook | **Geography:** France & Benelux

Nontraditional investors

Median VC deal sizes (€M) with CVC participation by stage



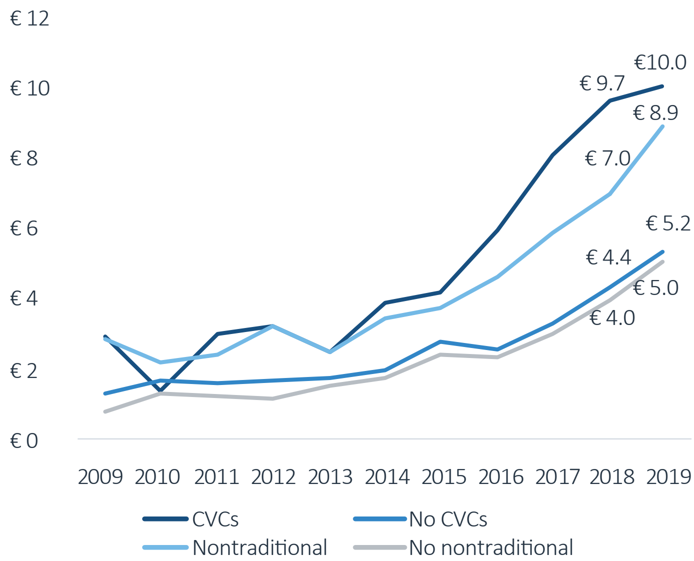
Source: PitchBook | **Geography:** Europe

The rising prominence of nontraditional investors has led valuations to hit new heights in 2019. These investors include, but are not limited to, CVCs, pension funds, SWFs and hedge funds. Nontraditional investors have expanded the stream of capital chasing a limited quantity of startups, resulting in lofty round sizes and inflated valuations. We believe this will continue, and the proportion of large rounds without their participation will likely fall.

The median sizes of deals involving nontraditional investors reached new decade highs across all stages in 2019. Having dipped in 2018, the median early-stage deal size with nontraditional investor participation rebounded by 82.6% YoY. In 2019, the total value of deals with CVC participation in Europe grew for the eighth consecutive year. CVCs participated in a quarter of all European VC deals and half of all deals sized €25 million and above. We anticipate CVC investors will remain focused on more developed startups and larger rounds for strategic synergies.

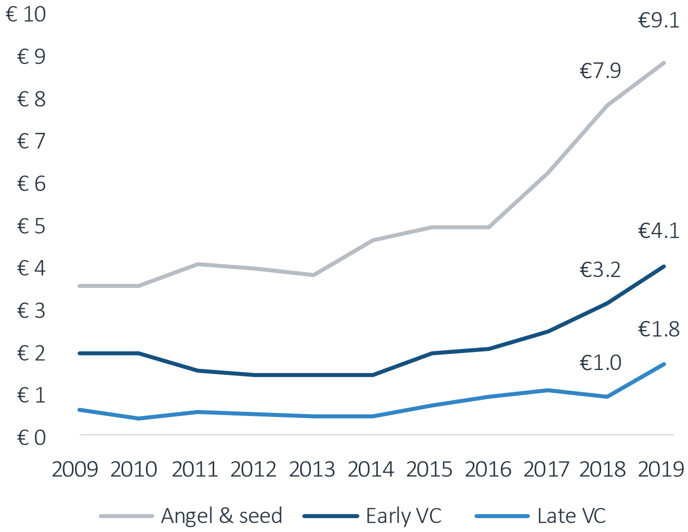
Across all VC stages, the YoY growth in median pre-money valuations for rounds without CVC participation outstripped rounds without it. At the angel & seed stage, only the median for rounds without CVC participation grew in 2019. The median for rounds involving nontraditional investors—and for rounds involving CVCs in particular—dropped for the first time

Median early-stage VC pre-money valuations (€M) with nontraditional investor participation



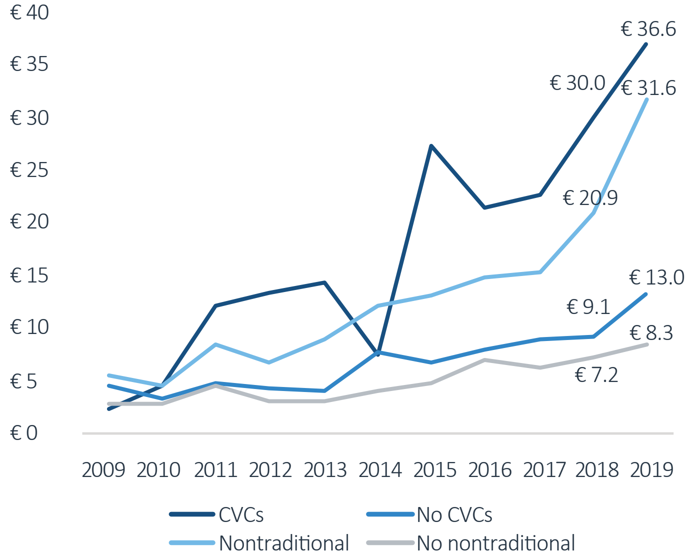
Source: PitchBook | **Geography:** Europe

Median VC deal size (€M) with nontraditional investor participation by stage



Source: PitchBook | Geography: Europe

Median late-stage VC pre-money valuations (€M) with nontraditional investor participation



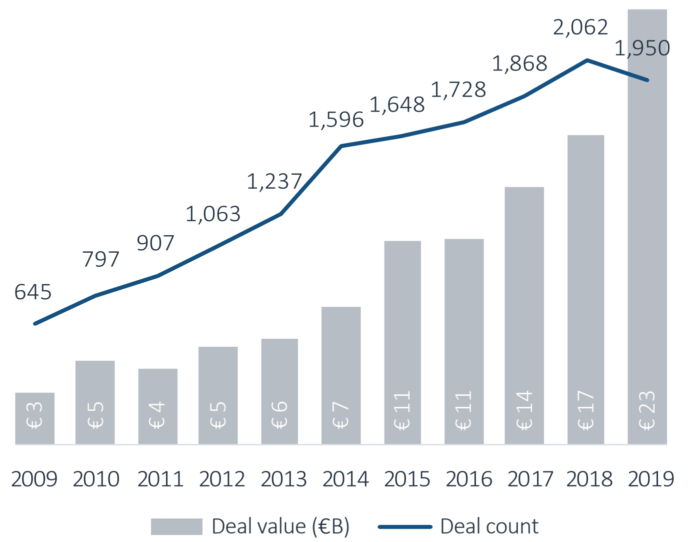
Source: PitchBook | Geography: Europe

since 2016. Median early-stage pre-money valuations were up and to the right regardless of investor type, mainly in line with recent growth rates.

Median pre-money valuations for late-stage deals exhibited strong growth in 2019 independent of whether there was nontraditional investor participation. However, deals with CVC participation garnered a median valuation of €23.6 million more than deals without, marking the largest disparity between the two on record. The difference in absolute terms between the two looks set to grow in the next decade. This doesn't necessarily dictate that startups are better off finding a CVC participant or that they are actively pursuing one. It does suggest that rounds with CVC participation will be much bigger and reflects the appetite of CVC arms for rounds in mature companies. Furthermore, it means CVC investors will be highly selective, culling their bets instead of spreading capital thinly across multiple opportunities.

Mitsubishi's (TKS: 8058) 20% equity stake in OVO Energy in 2019 was one example of how corporates are influencing the ecosystem. Mitsubishi injected €246.9 million of equity into the company, which brought its post-money valuation to €1.2 billion. While the deal was not part of a syndicated financing round, the investment demonstrates how corporates are building their portfolio of direct investments into startups.

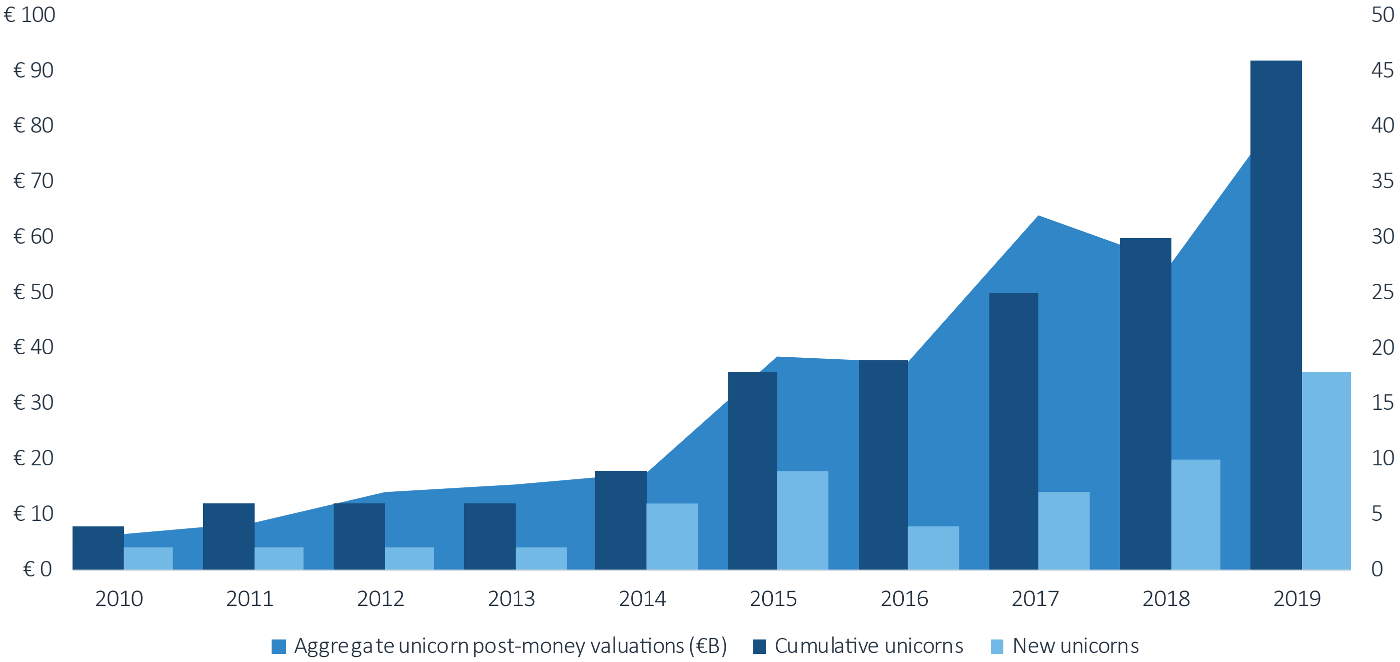
VC deal activity (€M) with nontraditional investor participation



Source: PitchBook | Geography: Europe

Unicorns

Unicorn count and aggregate post-money valuation



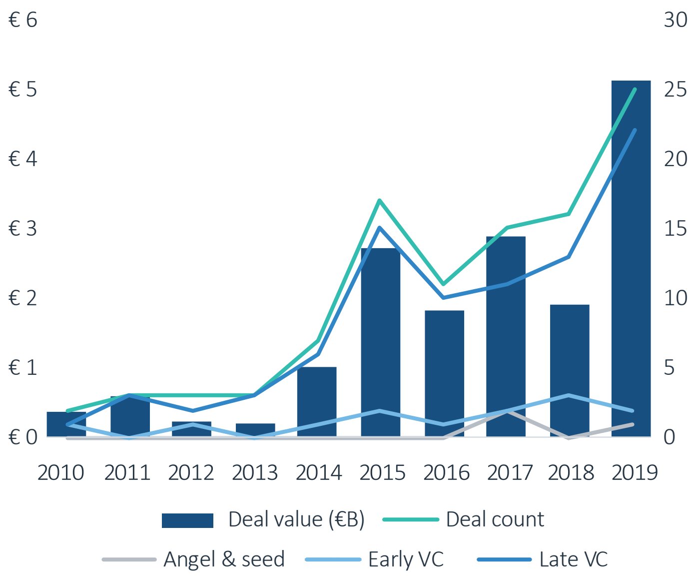
Source: PitchBook | Geography: Europe

During the last decade, the European VC landscape has evolved hugely in terms of value creation from unicorns. In 2019, 18 new unicorns were crowned in Europe, taking the cumulative total that haven't yet exited to 46. While the continent's quantity was significantly lower than it was in the US, it was over 10 times larger than at the start of the decade and more than twice the number in 2016. The cause for optimism is further encouraged as a record number of unicorns added to the aggregate total during 2019. In addition, the number of unicorns added to the cohort each year has been rising too.

In 2019, the aggregate post-money valuation for European unicorns increased 58.3% YoY and reached a new high of €87.9 billion. We believe it could exceed €100 billion in 2020 as companies pursue ample late-stage capital rather than raise capital through a liquidity event. The average value per unicorn remained steady at €1.9 billion in 2019, up marginally from 2018. This illustrates that individual unicorn value development has not eroded as the overall quantity has swelled.

Investors poured a record €5.1 billion into unicorn deals in 2019, accounting for 15.5% of the total European VC deal value, the highest proportion ever in a calendar year. The ability of unicorns to attract such monumental rounds with ease has meant that

Unicorn VC deal activity



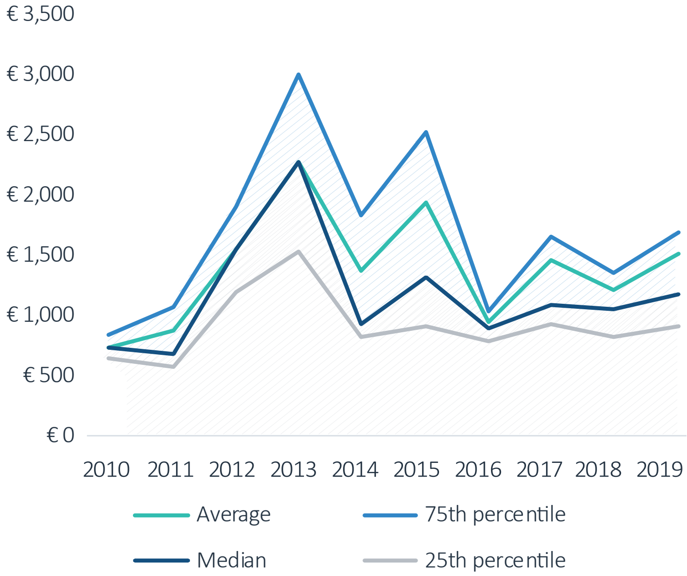
Source: PitchBook | Geography: Europe

deal sizes have been able to skew upwards and elevate valuations to new peaks. The largest deal in 2019 belonged to FlixMobility, which completed a €500.0 million round at a €1.5 billion pre-money valuation. We feel bulging rounds of this nature will continue to proliferate. VC fund counts have been dwindling YoY, yet the overall amount of capital raised has risen. Inevitably, VC fund vehicles have enlarged in size and are better equipped to write larger cheques for unicorns burning through cash, which has lifted unicorn valuations to new highs.

The pre-money valuations for rounds completed by unicorns have risen as well. The median grew to €1.2 billion and underscores that many VC-backed companies have continued to pursue larger and more frequent financings after reaching unicorn status as capital floods into the ecosystem. The range of deal sizes for unicorns underpins this theory. All deal size quartiles pertaining to unicorns increased in 2019. However, these ranges have been volatile in the last 10 years, due to the scarcity of unicorns earlier in the decade. Therefore, we will be monitoring how unicorn deal sizes develop in Europe over the next decade as more companies inevitably reach this status and provide a more reliable picture.

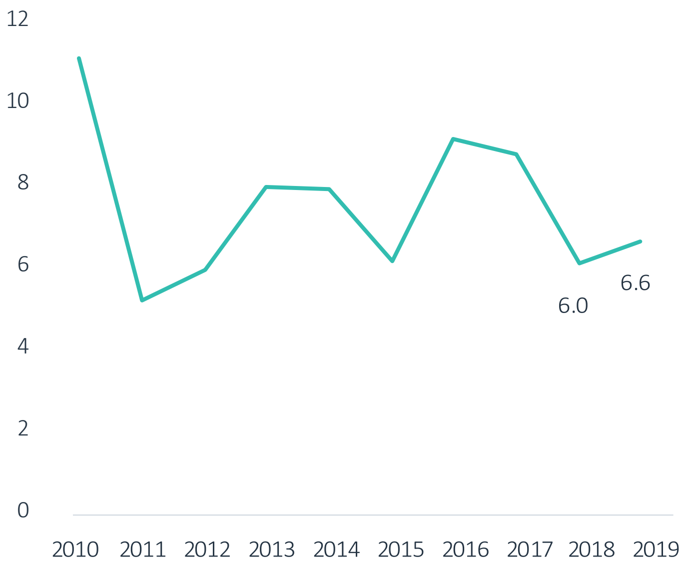
The median time from founding to reaching unicorn status has generally fallen since 2016 as unicorn counts improved in the second half of the last decade. However, in 2019 the figure rose slightly to 6.6 years. This may be a consequence of the growing number of unicorns in the market. Between 2010 and 2014, unicorn valuations were determined by a select few outlier companies. However, as the numbers have grown and continue to grow, we should see less volatility in time periods. As a result, we anticipate median ages flattening and potentially dropping over the next decade. Furthermore, we believe the median time between rounds for unicorns will fall as capital needs increase, growth rates accelerate and greater quantities of deals occur.

Quartile distribution of unicorn post-money valuations (€M)



Source: PitchBook | **Geography:** Europe

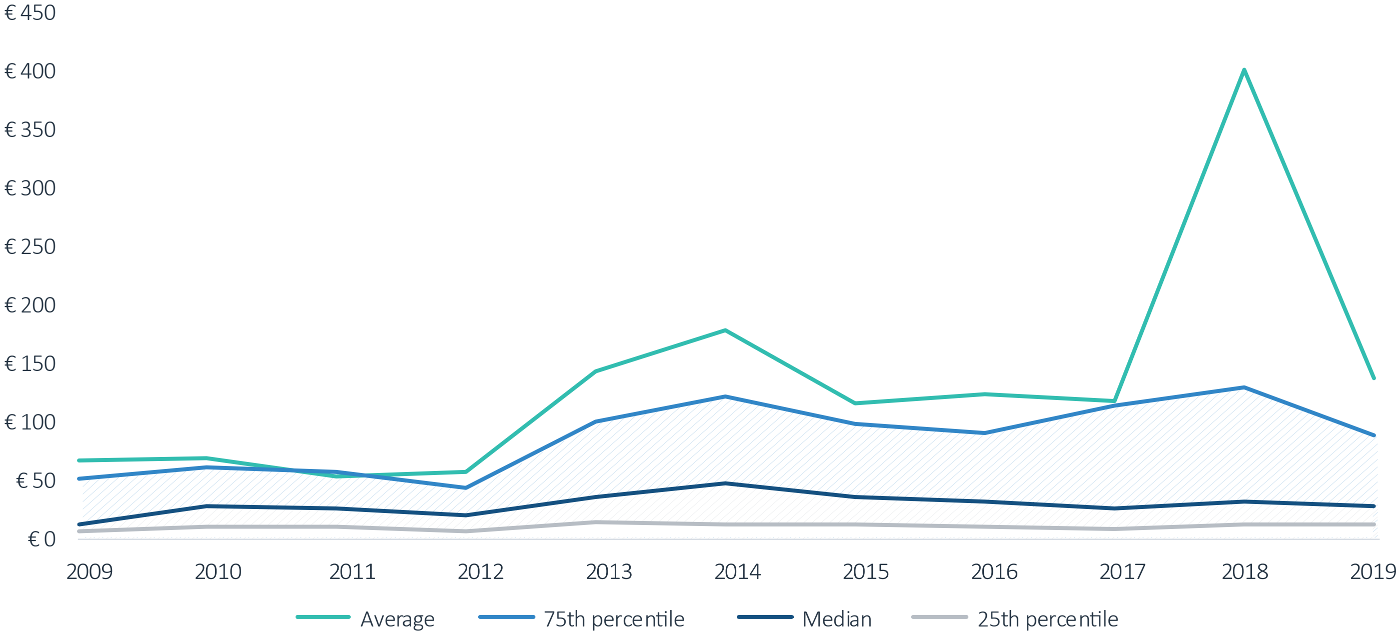
Median time (years) for VC-backed companies to achieve unicorn status



Source: PitchBook | **Geography:** Europe

Liquidity

Quartile distribution of VC post-money valuations (€M) at exit



Source: PitchBook | **Geography:** Europe

The median post-money valuation upon exit for European VC-backed companies fell slightly in 2019 to €27.0 million. The top quartile plummeted the most at 32.7% YoY as the exit environment subdued after 2018's bumper showing. We could argue post-money valuations were resilient as total exit value regressed to a respectable level in 2019. The collection of outsized exits in 2018 skewed the average post-money valuation, whereas the median increased by 19.6%, illustrating that the peak was caused by a selection of outliers rather than an underlying shift in exit dynamics.

The post-money valuation across all quartiles for companies that exited via acquisition sank in 2019. The decrease was most pronounced in the top quartile, which plunged 34.3% YoY. The most valuable startups may have been able to avoid absorption by a corporate acquirer and source capital via funding rounds instead. In contrast, corporates may have felt more comfortable acquiring minority equity stakes in high-performing startups to help promote growth rather than use a larger lump sum to fold them into existing operations. This strategy would result in a reduced initial capital outlay, less disruption and greater upside valuation growth potential for the startup.

Quartile distribution of VC post-money valuations (€M) at exit via acquisition

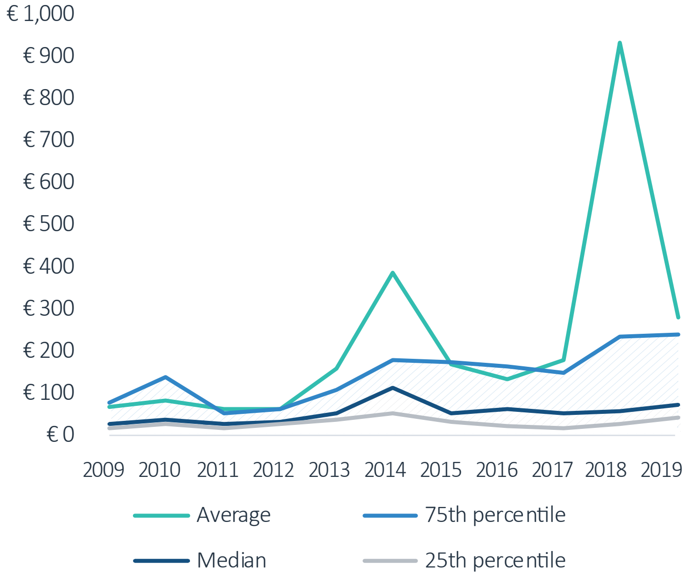
Source: PitchBook | **Geography:** Europe

VC-backed IPOs have drawn considerable attention in Europe after prominent 2018 exits including Spotify (NYSE: SPOT), Adyen (AMS: ADYEN) and Farfetch (NYSE: FTCH). Aggregate IPO exit value in 2019 retreated to pre-2018 readings, and count was its lowest since 2012. The underlying post-money valuations for each quartile grew even though far fewer IPOs took place. We expect the median post-money valuation of companies exiting via IPO to increase going forward, even though fewer companies listed publicly in 2019 due to tough market conditions. Startups now have access to an abundance of capital from an expanding array of investors. Therefore, the urge to liquidate has weakened, especially given recent VC-backed IPOs have not performed well and the process of engaging bankers can be lengthy and costly. However, we may see highly valued IPO events with more frequency, as companies eventually exit after prolonged periods of raising capital in the ecosystem. Nonetheless, IPOs with a sub-€1 billion pre-money valuation could be significantly reigned in as startups seek sources of liquidity that present less risk.

Germany-based BioNTech's (NASDAQ: BNTX) IPO was the largest liquidity event in the VC ecosystem in 2019, exiting at a €2.9 billion pre-money valuation. BioNTech raised approximately €1.1 billion as a VC-backed company, the majority of which was raised in the two years leading up to its listing, including a €227.6 million round in 2018 and rounds of €373.2 million and €287.8 million in 2019. Rather than exit to raise capital immediately, the company confidently raised multiple large rounds in a short span of time to boost its valuation ahead of a more sizable exit. A multitude of investors engaged in these rounds, indicating there was strong appetite to participate. Despite this, BioNTech sold fewer shares at a discounted price when it listed, further highlighting that investors are unconvinced regarding valuation reliability from highly valued VC-backed IPOs.

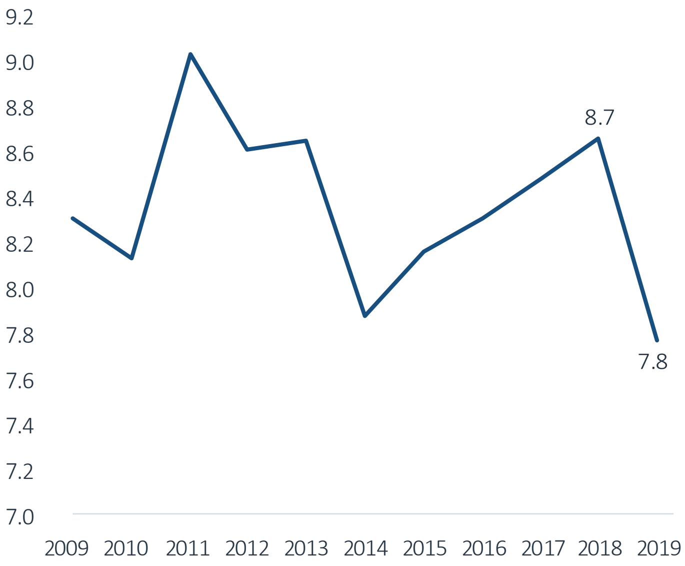
The median time between founding and exit for European VC-backed companies slumped for the first time since 2014 to a decade low of 7.8 years. Its previously steady growth in the past four years led the industry to believe that companies have been remaining in the ecosystem longer. However, the dip in 2019 could signal a change in the market after a sustained period of investment into startups, culminating in disparate exit returns. Startups may be hurrying through later stages of the VC ecosystem with an increased velocity of value creation towards an exit. We feel this may be due to increased pressure from investors seeking returns to provide distributions back to LPs. It will be interesting to see if the dip in the median time to exit is short-lived or if it continues through 2020.

Quartile distribution of VC post-money valuations (€M) at exit via IPO



Source: PitchBook | **Geography:** Europe

Median time (years) between founding and exit for VC-backed companies



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