PitchBook

European VC Valuations Report

2020 Annual

PitchBook

Contents

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Introduction

VC valuations climbed across VC financing stages in 2020 despite business disruption stemming from COVID-19. Startups linked to technological disruption have been able to build valuations and maintain growth. New angel & seed startups tackling rapidly evolving challenges have secured capital from investors seeking the next big opportunity. Early-stage startup valuations came in strongly as confidence stayed high regarding the long-term growth prospects of young businesses. COVID-19 showed few signs of decreasing upward pressure on soaring late-stage valuations in Europe.

As deal sizes and valuations flourished, nontraditional backers invested heavily in VC. The expanding variety of startups in the ecosystem has resulted in a wider pool of nontraditional investors entering VC at different stages aligned to their overarching operational sectors or investment areas.

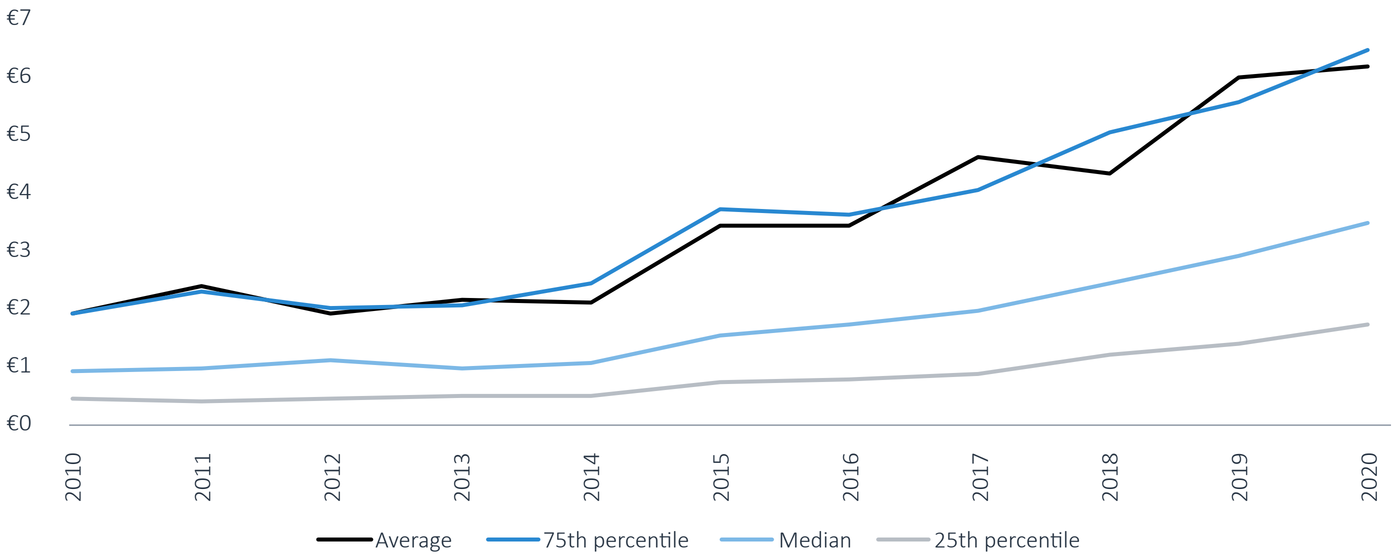
There are a record number of unicorns in the European ecosystem. The aggregate value and quantity of companies surpassing a €1 billion valuation has increased in the last decade, and growth did not slow in 2020. Multibillion-euro valuations have become increasingly common as capital inundates the VC market in Europe.

In line with higher valuations tied to funding rounds, companies are exiting the VC ecosystem at loftier valuations. At the start of 2020, VC-backed exit value in Europe was subdued. However, momentum gathered pace during the year. Once effects of the pandemic were identified, strong sectors carrying robust valuations emerged, and investors and companies moved to take advantage of market conditions.

Nalin Patel
Analyst, EMEA Private Capital

Overview

Angel & seed pre-money valuations (€M)



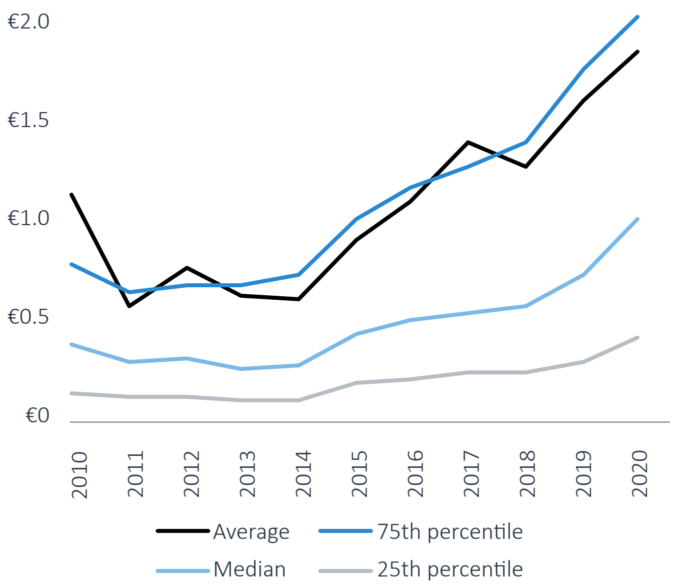
Source: PitchBook | **Geography:** Europe

European VC valuations across all financing stages maintained 2020's strong pace and finished the year above 2019's figures. Growth in 2020 was astonishing as valuations rose despite macroeconomic disruptions such as rising unemployment and stagnant economic growth. Various startups across financing stages demonstrated both pandemic-proof and pandemic-induced growth in sectors reliant on technology. VC is closely linked to technology-enabled disruption. Development has not decelerated for certain startups, while others have witnessed improved growth rates, which have resulted in increased revenues and subsequent valuation improvements. Furthermore, considerable and sustained capital inflows from traditional and nontraditional investors drove robust valuations as enormous rounds closed despite the pandemic-led uncertainty.

Angel & seed

As recessions commenced in 2020, younger companies with fewer capital reserves to insulate them from external black swan events such as the global pandemic were expected to struggle the most. Backers were expected to prioritise existing portfolio investments and avoid taking on new risk. Nonetheless, new angel & seed startups tackling rapidly evolving challenges demonstrated resilience as they built their valuations and secured capital from investors seeking the next big opportunity. The median angel & seed pre-money valuation reached €3.5 million in 2020, which represents a 19.6% YoY increase. Angel & seed deal sizes across all quartiles grew in 2020, with the median rising by 38.2% YoY to €1.0 million in 2020.

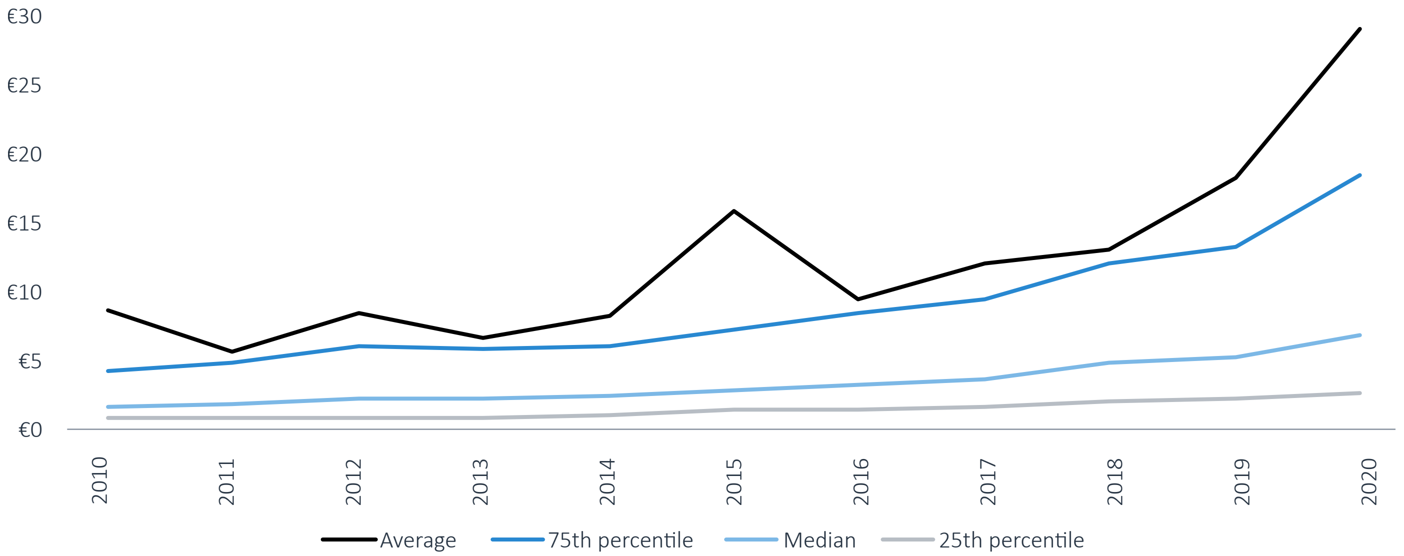
Angel & seed deal sizes (€M)



Source: PitchBook | **Geography:** Europe

While brick-and-mortar small businesses with high overhead costs such as expensive rent have been hit hard by enforced closures, cloud-based angel & seed startups have been fortunate to carry on operating remotely. This has been a fundamental difference-maker for startups, as they are typically technology-based enterprises that benefit from software-as-a-

Early-stage VC pre-money valuations (€M)



Source: PitchBook | Geography: Europe

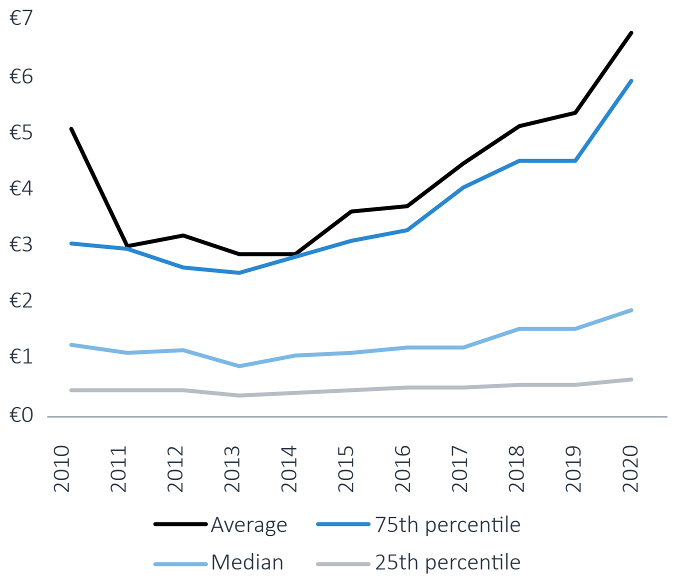
service (SaaS) business models. As a result, revenues and ensuing valuations remained consistent and illiquid, rather than immediately reflecting near-term volatility from demand-side collapses stemming from lockdowns. Digital SaaS adoption proved sticky for businesses and individuals, and investors pumped capital into the angel & seed stage in 2020 to ensure they did not miss out on newfound ideas that could ride the wave of growth as recovery commences.

Early-stage VC

Valuations of early-stage startups came in strongly in 2020. Backers exuded confidence in the long-term growth prospects of early-stage companies that may require significant amounts of capital to optimise business models and offset accruing losses. Macroeconomic headwinds did not hinder early-stage VC valuations or deal sizes across the lower, middle, and upper quartiles, all of which finished 2020 higher than 2019's figures. Swelling upper-quartile deal sizes at the early stage, which reached a record €5.9 million in 2020, drove healthy valuation growth. Top quartile early-stage VC valuations increased 39.3% YoY in 2020 as early-stage startups displaying great potential completed enormous rounds to boost valuations.

In 2020, early-stage startups such as London-based online events platform Hopin secured substantial backing to boost their valuations. Established in 2019, Hopin grew explosively in 2020—completing three financings, expanding from roughly 20 to 300

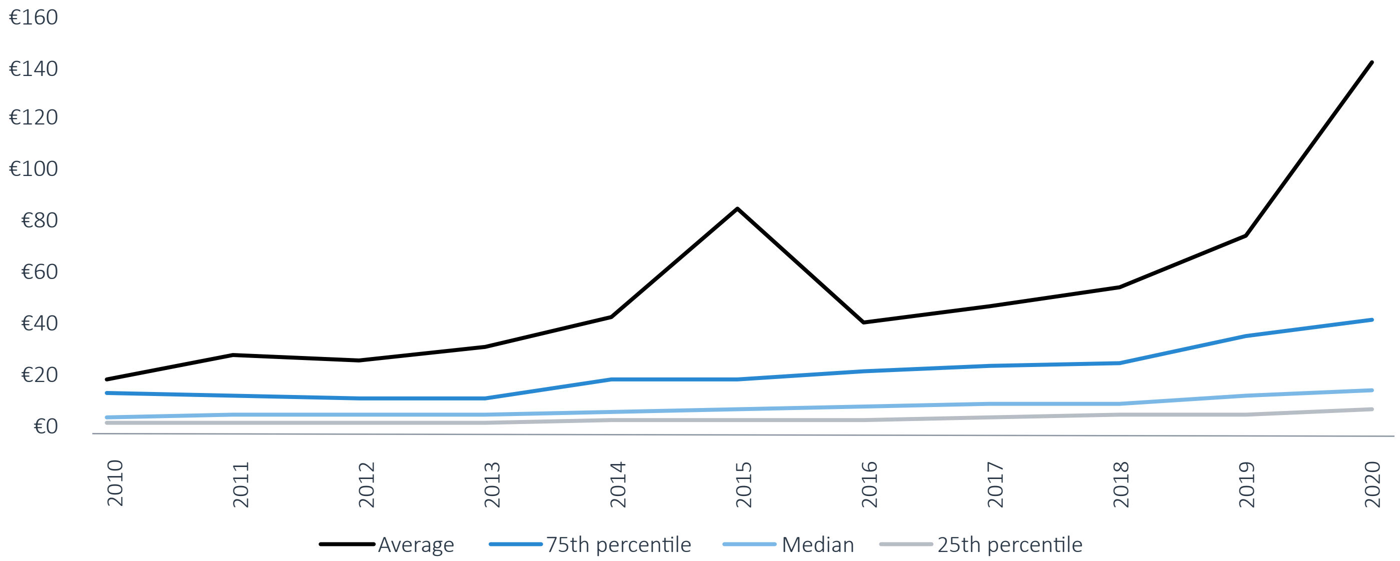
Early-stage VC deal sizes (€M)



Source: PitchBook | Geography: Europe

employees, and reaching a valuation of €1.8 billion. Certain aspects of the pandemic have affected growth and valuations in sectors with disparate outcomes in the last 12 months. Hopin's rise coincided with the pandemic-induced shift to online conferences and the spike in demand for related services. However, as more people are inoculated for COVID-19 and business travel resumes, the sustainability and pace of Hopin's valuation could come under pressure.

Late-stage VC pre-money valuations (€M)



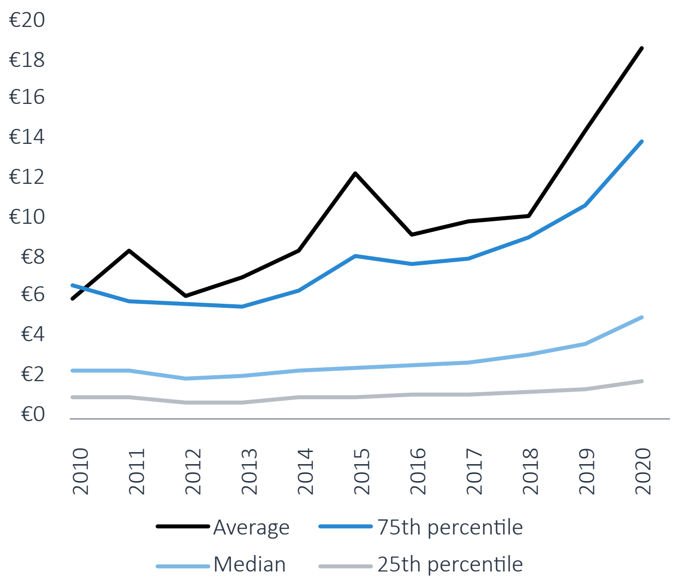
Source: PitchBook | **Geography:** Europe

Late-stage VC

Late-stage capital infusions pushed overall deal value in Europe to a new high in 2020. Late-stage deal sizes continued to flourish, with rounds over €500 million for big VC-backed names such as CureVac (NASDAQ: CVAC), Klarna, Deliveroo, N26, and Revolut. The median late-stage deal size increased 36.2% YoY to €4.8 million, and the upper quartile rose 29.7% YoY to €13.7 million. The increasing divergence in deal sizes across quartiles at the late stage was highlighted in recent years as flagship businesses completed big rounds. Nonetheless, growth appears to be strong across the range of quartiles at the late stage—a testament to smaller companies growing strongly and totals not being overtly skewed by large rounds.

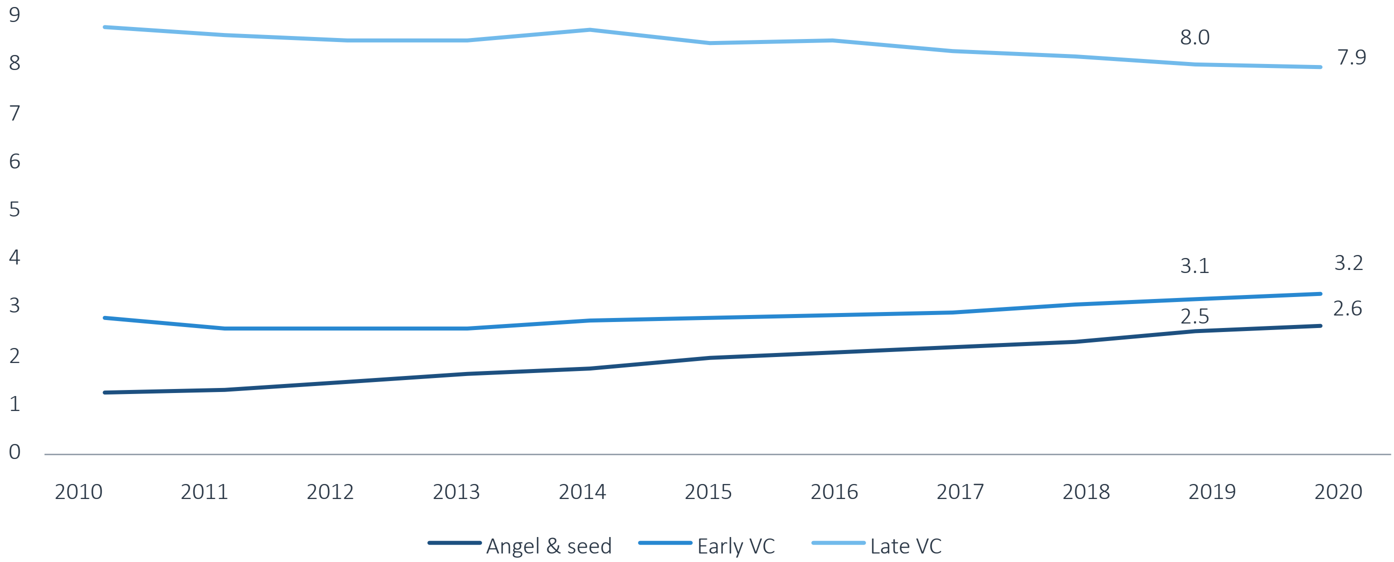
COVID-19 demonstrated few signs of reducing upward pressure on late-stage valuations in Europe as they grew across all quartiles in 2020. The median late-stage pre-money valuation reached a record €14.1 million, which represents a 17.9% increase YoY. Startups remaining in the ecosystem and raising rounds from an expanding array of investors drove late-stage valuation growth. This phenomenon in the ecosystem was particularly prevalent at the late stage, wherein multibillion-euro companies are regularly closing multimillion-euro deals. Capital options have increased for such startups that may have otherwise exited years ago. Investors have been willing to pump capital into portfolio companies to maximise their growth runways in the VC ecosystem before a more substantial exit event. Consequently, valuations have risen rapidly, and we expect this trend will persist as late-stage startups secure capital and their valuations continue on this upward trajectory.

Late-stage VC deal sizes (€M)



Source: PitchBook | **Geography:** Europe

Median time (years) from founding by VC stage



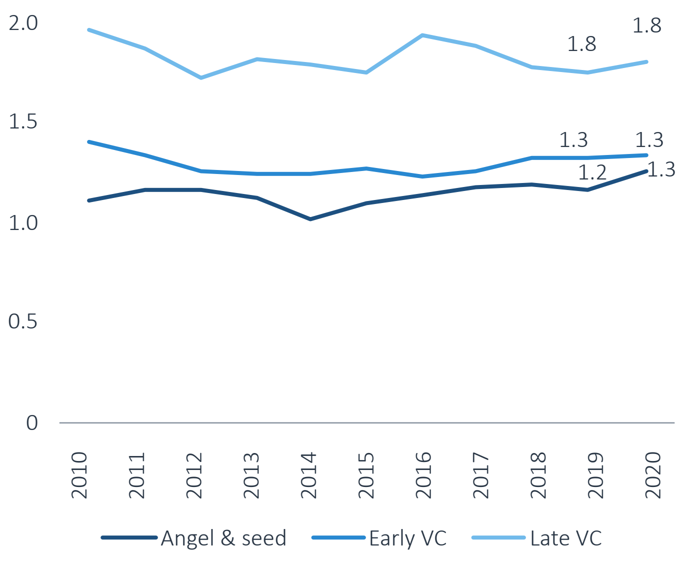
Source: PitchBook | **Geography:** Europe

Time between rounds

Although it is too early for muted macroeconomic confidence and the effects of the pandemic to feed into annual time periods between rounds, 2020's figures continued long-term trends and exhibited limited strain akin to the broader VC ecosystem. Time periods in the last decade have been characterised by the bootstrapping of founders for ventures such as cloud-based startups, as well as by the velocity of value creation (VVC) for startups after securing initial backing. In 2020, the time from founding until an angel & seed round ticked up marginally to 2.6 years, while the time until an early-stage round slightly lengthened to 3.2 years. The time until a late-stage round dipped below eight years.

Time periods remained relatively consistent during the last decade. Factors that could cause significant deviations to time periods in the future include faster growth rates, high cash burn rates, and capital availability for startups. In 2020, in the pursuit of increased revenues and scale, startups were able to close large deals and command lofty valuations across VC financing stages. COVID-19 did not cool valuation growth. Pandemic-linked innovations dominated attention during 2020, and emerging trends accelerated as industries shifted online. Investment remained strong across technology-based VC sectors, but some form of market correction will occur as normality resumes in the coming years, and pre-pandemic subsectors should re-emerge. Nonetheless, we believe pandemic-proof startups will attract the bulk of capital, develop quickly, and ultimately pull away in the long term from those companies that struggled during the pandemic—which could lead to contrasting growth rates and time horizons for financing.

Median time (years) between rounds by VC stage



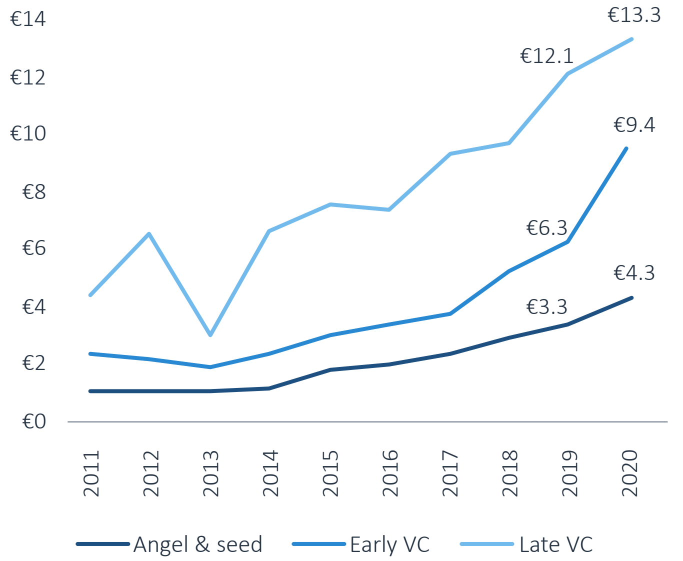
Source: PitchBook | **Geography:** Europe

Sectors

In 2020, software pre-money valuations across all stages reached new peaks. Software-based sectors such as financial technology (fintech) and cybersecurity have thrived in Europe, and we anticipate valuations will continue to mature because software-based startups have shown astonishing growth. Opportunities in the work-from-home economy such as collaborative tools, network infrastructure, productivity, and well-being present new areas for substantial investment and ensuing valuation development.

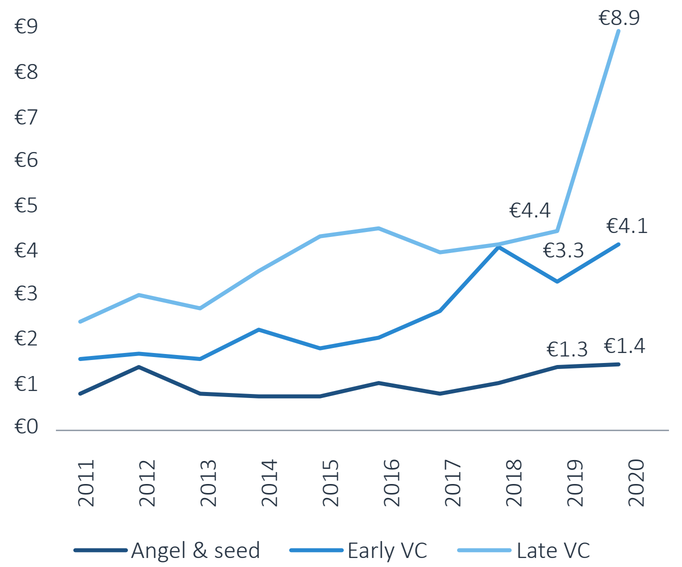
The global pandemic put unimaginable stress on medical services and revealed weaknesses that necessitate innovative long-term solutions. In 2020, resources were piled into vaccine development, and companies such as CureVac that have been researching candidates have also used capital to speed up their overall expansion. Median deal sizes for pharma & biotech and healthcare startups were driven up as larger sums of capital were deposited into rounds. We expect investors and founders will focus on medical sectors in the coming years as COVID-19 variants emerge and the multiyear rebuilding process commences globally. Startups researching and developing new healthcare products, services, or processes could play a vital role in getting ahead of new strains and helping nations finally defeat COVID-19.

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



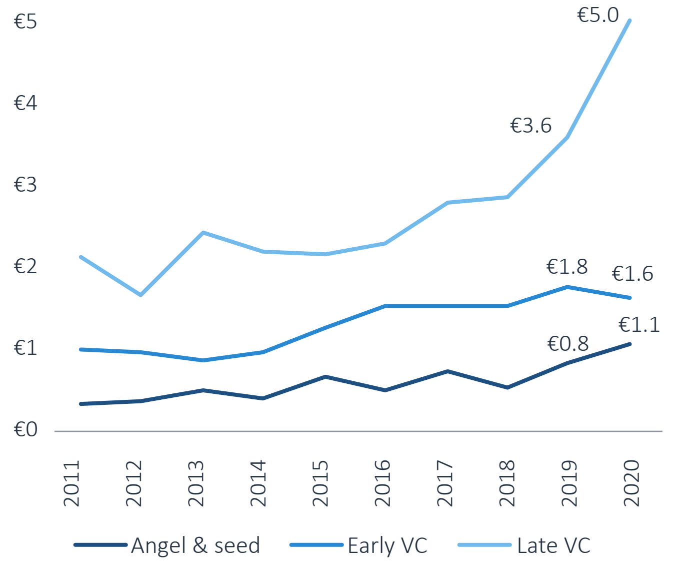
Source: PitchBook | **Geography:** Europe

Median deal sizes (€M) by VC stage for pharma & biotech companies



Source: PitchBook | **Geography:** Europe

Median deal sizes (€M) by VC stage for healthcare companies



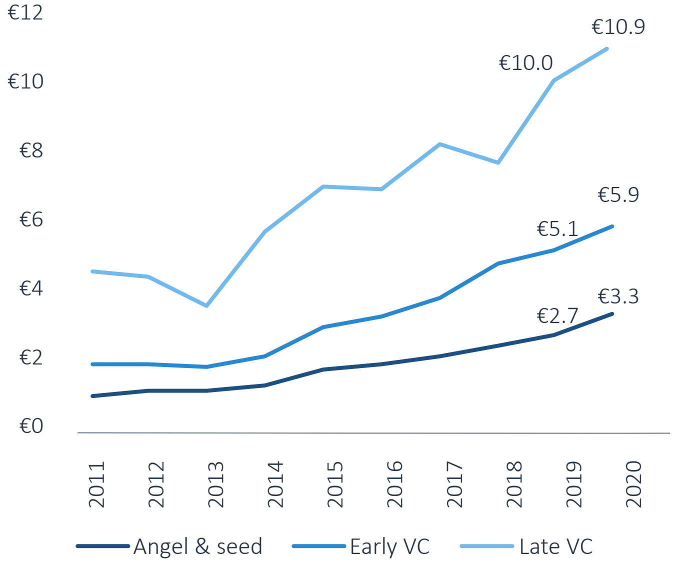
Source: PitchBook | **Geography:** Europe

Regions

Uncertainty stemming from the Brexit deadline at the turn of the year did not suppress valuations in the UK. Valuations grew impressively across all stages from 2019's figures. UK-based startups now outside the EU bloc have developed their valuations and garnered capital from international sources. In 2020, the region consolidated its position as the leading ecosystem in Europe in terms of deal value and alleviated concerns of reduced investment and a mass exodus of talent because of Brexit.

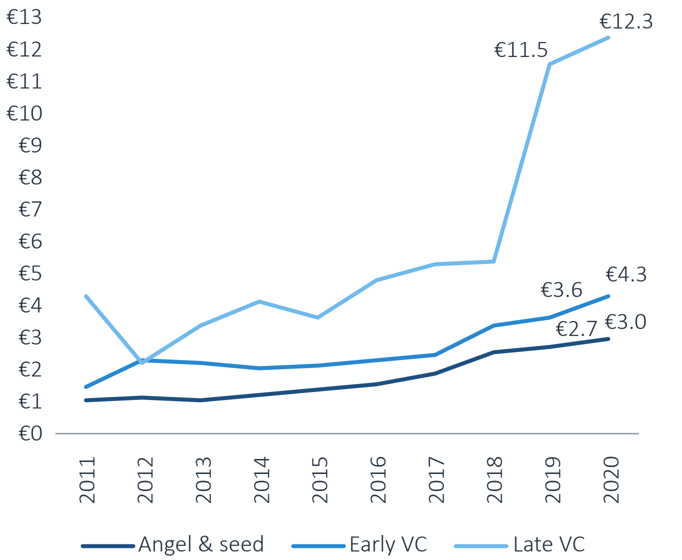
The median pre-money valuation across each stage in the France & Benelux region posted strong growth in 2020, with the early-stage median jumping 19.0% YoY to €4.3 million. Meanwhile, median deal sizes in the DACH region stayed consistent with 2019's figures, which indicates the region continues to be a key dealmaking area in Europe. As Brexit permutations develop, the France & Benelux and DACH ecosystems could look to close the gap and emerge as leading VC regions in Europe. As discussed in our 2020 DACH Private Capital Breakdown, the VC ecosystem is well equipped with capital and expertise to compete globally.

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



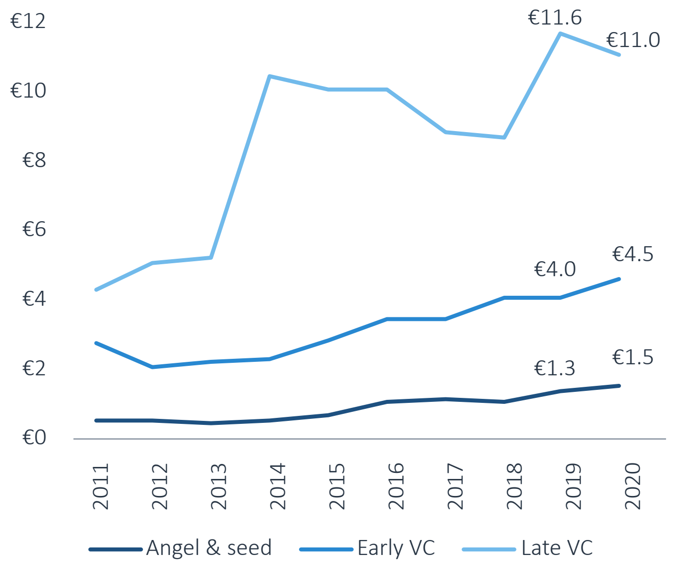
Source: PitchBook | **Geography:** UK & Ireland

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



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

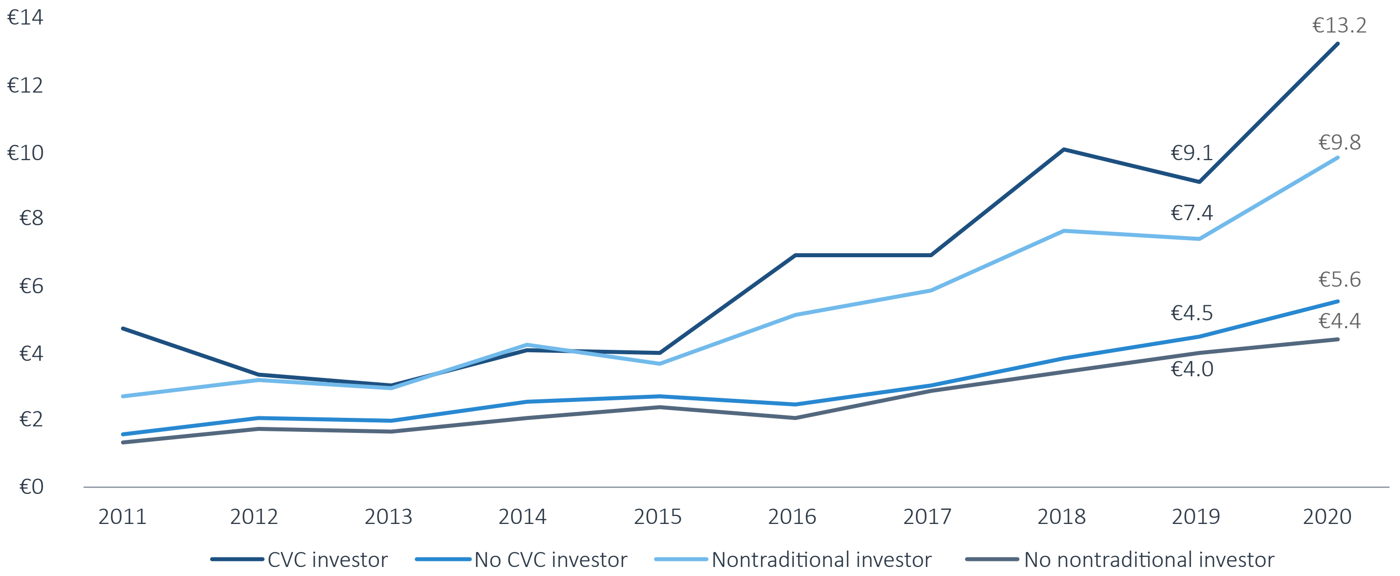
Median deal sizes (€M) by VC stage for DACH



Source: PitchBook | **Geography:** DACH

Nontraditional investors

Median early-stage pre-money valuations (€M) by investor participation

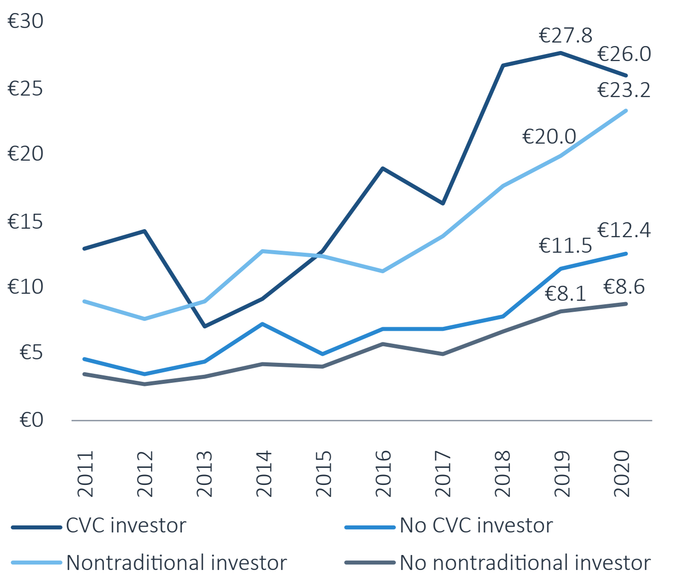


Source: PitchBook | **Geography:** Europe

In 2020, capital from nontraditional sources such as financial institutions, LPs, and asset managers supported VC deal sizes and valuations as a multitude of records were broken. The COVID-19 pandemic shattered economies as stimulus measures were introduced to combat rising unemployment and help businesses reliant on in-person consumer spending. Near-term volatility facing public equity returns, record low interest rates, and partial share price recoveries have also created challenges for multiple asset classes operating in financial markets. Nevertheless, a broadening group of nontraditional investors bolstered record investment into VC assets and kept valuations high, as the high-risk, high-reward strategy continued to attract euros and wider attention.

Median early- and late-stage pre-money valuations came in strongly irrespective of investor type in 2020. During the past decade, various investors injected increasing amounts of capital into more deals carrying loftier valuations. 2020 continued this trend, as startups were generally able to demonstrate growth in a recessionary environment and improve their valuations when closing a new round. VC-backed companies now have a comprehensive choice of nontraditional investors, traditional GPs, and other means such as established wealthy angels or accelerator programs to provide capital.

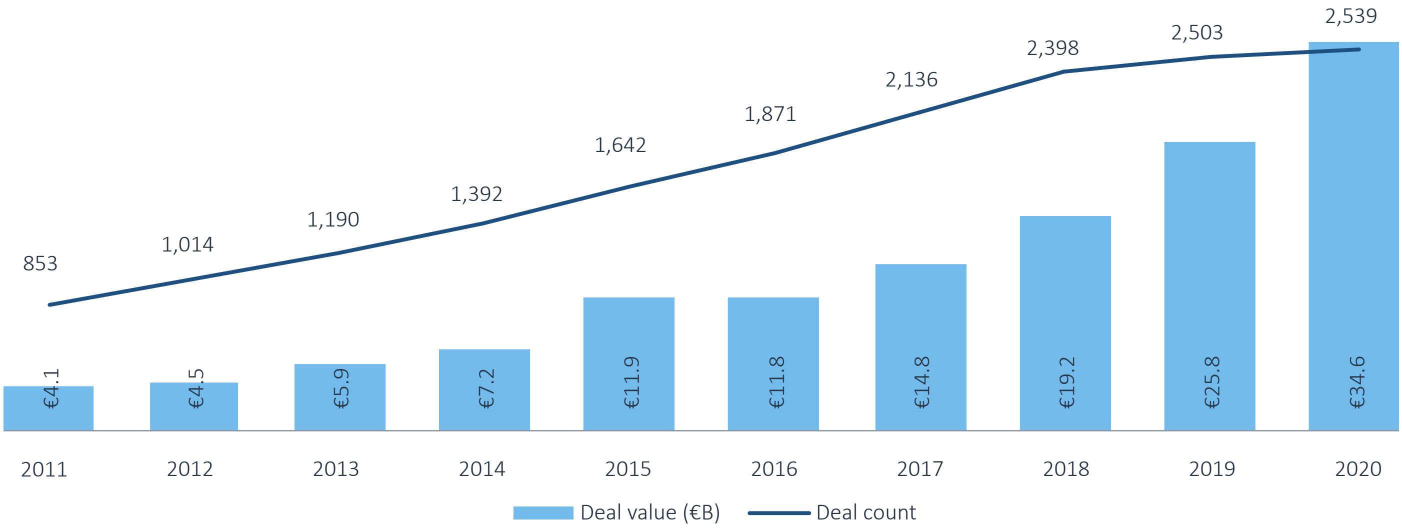
Median late-stage pre-money valuations (€M) by investor participation



Source: PitchBook | **Geography:** Europe

VC deals with nontraditional participation topped €34.6 billion in 2020, which represents a 34.0% increase YoY on the record set in 2019. Holdings in European VC have become integral parts of investment portfolios for many nontraditional investors. Corporate

Deal activity with nontraditional investor participation

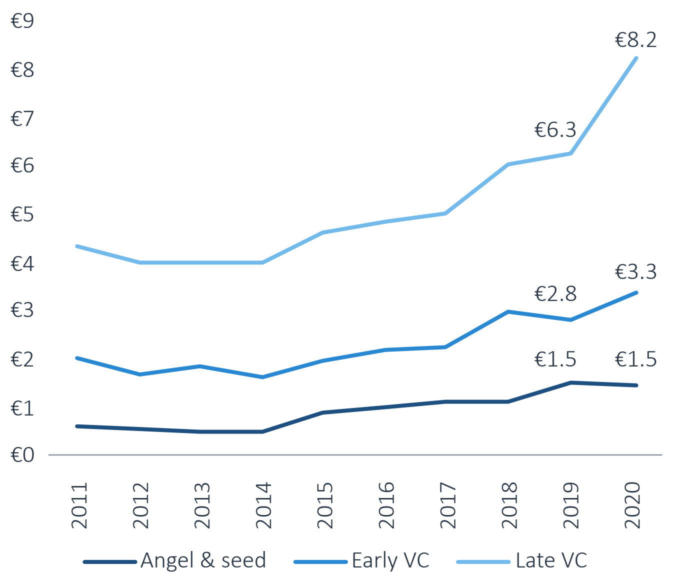


Source: PitchBook | **Geography:** Europe

VCs (CVCs) targeted new startups innovating in uncharted areas and showcasing potential synergies instead of developing in-house corporate solutions. Whereas larger late-stage startups with global pull typically close outsized rounds with international investors, which can include deep-pocketed financial institutions such as investment banks, PE firms, pension funds, hedge funds, and sovereign wealth funds. The diversity among the VC ecosystem's startups has resulted in a wider pool of nontraditional investors that are aligned with their underlying operational sectors or investment areas entering VC at different stages.

In 2020, the median early- and late-stage deal sizes with nontraditional investor participation rose by 19.1% and 31.4%, respectively, while the angel & seed median deal size remained flat from 2019's figures. Deal sizes increased via expanding and richer capital sources for startups. Following the last decade's bull run, capital flows into VC increased during the pandemic, and we expect deal sizes will climb further in 2021 despite persisting macroeconomic problems. Median late-stage deal sizes will continue on their tear, as late-stage startups maximise their investment runways in the ecosystem and close substantial rounds before contemplating an exit. There is seemingly no shortage of backers willing to invest ample amounts of capital. Given the resilience and growth displayed in 2020, we expect additional nontraditional investors will enter VC in 2021 to get both a foothold in the asset class and exposure to the return profiles it has to offer.

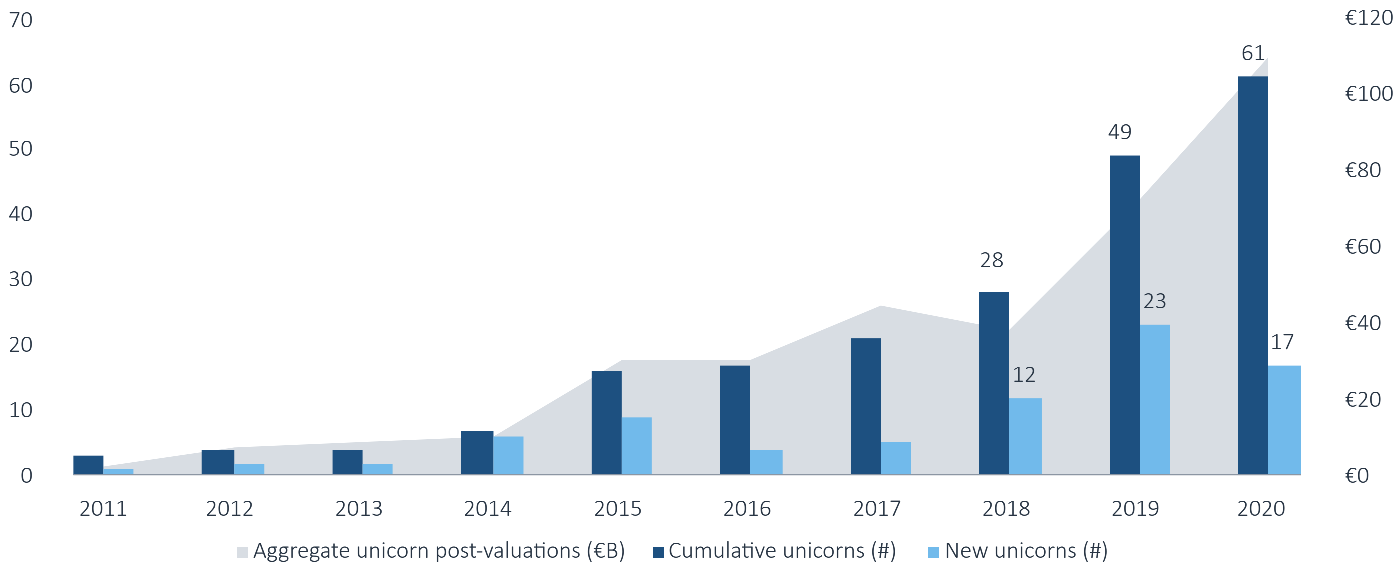
Median deal size (€M) with nontraditional investor participation by VC stage



Source: PitchBook | **Geography:** Europe

Unicorns

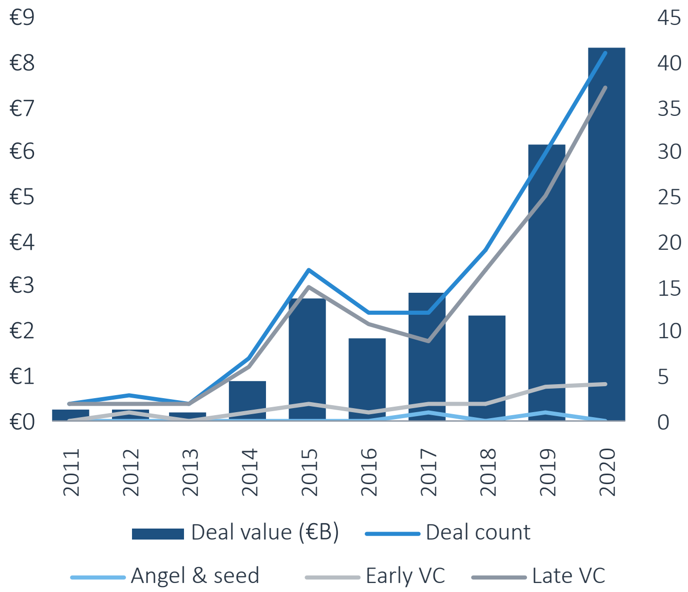
Unicorn count and aggregate post-money valuation



Source: PitchBook | **Geography:** Europe

In Q3 2020, the aggregate post-money valuation of companies valued at €1 billion or more—known as unicorns—in Europe surpassed the €100 billion mark for the first time in history and charged on to finish the year at €110.1 billion. 17 new unicorns were minted in 2020—down from the 23 added in 2019. However, the new additions pushed the total number of existing unicorns to a record 61 in Europe. The quantity of companies crossing a €1 billion valuation has grown in the past decade, and momentum has not lost pace in the past year despite uncertainty caused by COVID-19. Numerous VC-backed companies now possess multibillion-euro valuations as capital has inundated the European VC market. Valuations in the European VC ecosystem have a considerable way to go to match recent valuations in the US VC ecosystem from companies such as Uber (NYSE: UBER). Nonetheless, European unicorn numbers and their aggregate value have developed tremendously in the past decade, having been virtually nonexistent 10 to 15 years ago.

Unicorn deal activity by VC stage

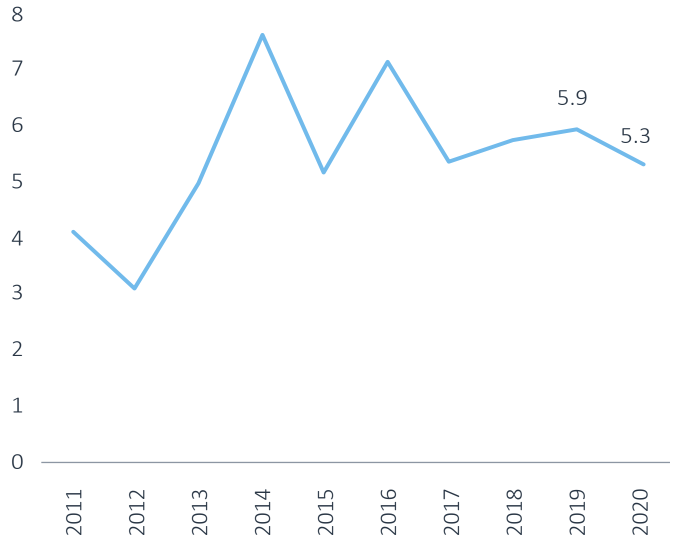


Source: PitchBook | **Geography:** Europe

We believe the improvement in unicorn valuations is a result of more established regional VC ecosystems in Europe. Regional ecosystems such as the UK, France, and Germany, among others, enticed top talent to VC and have developed highly valued startups. Consequently, in recent years, these startups drew mounting heaps of capital into large VC rounds. Europe-based pharma & biotech, fintech, and healthcare startups have gained international prominence and have provided potentially cheaper alternatives for international investors in comparison with more developed US-based startups carrying higher valuations. Moreover, Europe-based companies such as Checkout.com, Revolut, and Klarna are now closing larger rounds with increased frequency and maturing their valuations as much as possible before an exit because of the abundance of capital available to them.

Deal value involving unicorns reached a record €8.3 billion in 2020, which further illustrates the desire of investors and operators to close VC deals remotely during the pandemic. Investment horizons have shifted in Europe, and companies are far likelier to close multiple rounds after achieving a €1 billion valuation. Lockdowns have not stifled deal activity, and high-quality tech-focused companies have been able to obtain capital to pursue ambitious growth targets. Growth is almost always more challenging for larger companies, and it could become difficult during current recessions for large VC-backed companies that are loss making and have high cash burn rates to maintain the pace set in recent years. However, on a broad level, little indicates that the pace slowed in 2020, and we thus expect outsized rounds for the largest companies will occur regularly in 2021 and pump capital into the European VC ecosystem.

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



Source: PitchBook | **Geography:** Europe

Top 5 largest VC rounds for existing unicorns in 2020

Company name	Deal size (€M)	Deal type	Industry sector	City	Country
Revolut	€641.2	Late-stage VC	IT	London	UK
CureVac	€560.0	Late-stage VC	Healthcare	Tübingen	Germany
Klarna	€548.7	Late stage VC	IT	Stockholm	Sweden
N26	€523.5	Late-stage VC	Financial services	Berlin	Germany
Deliveroo	€522.6	Late-stage VC	B2C	London	UK

Source: PitchBook | **Geography:** Europe

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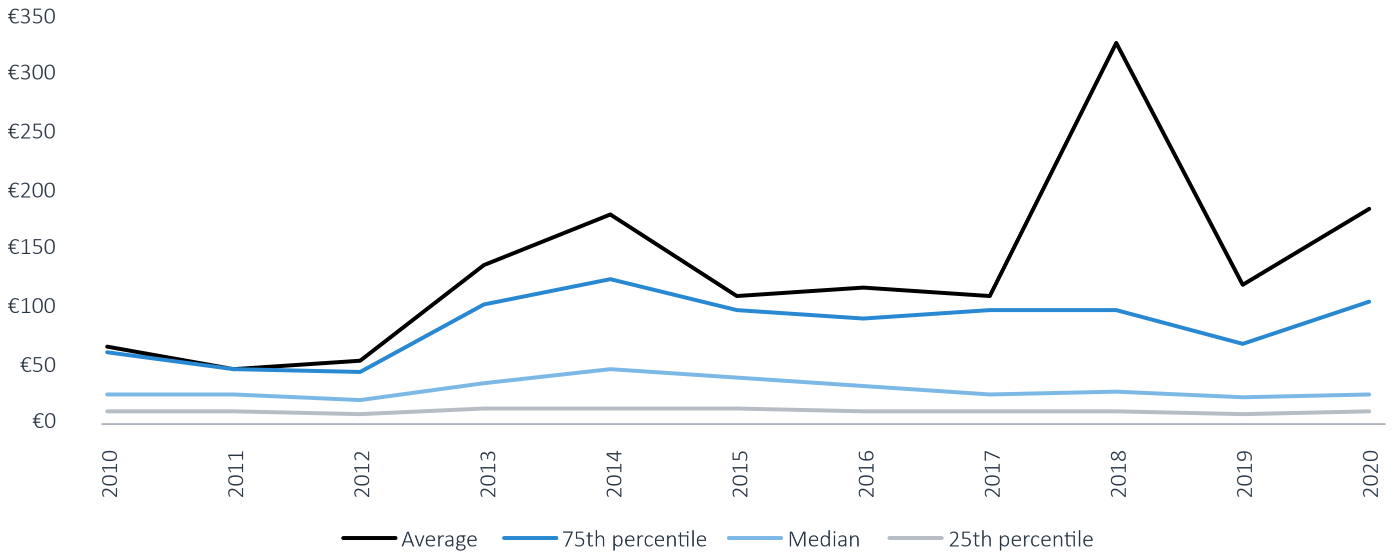
Liquidity

Post-money valuations (€M) at VC exit

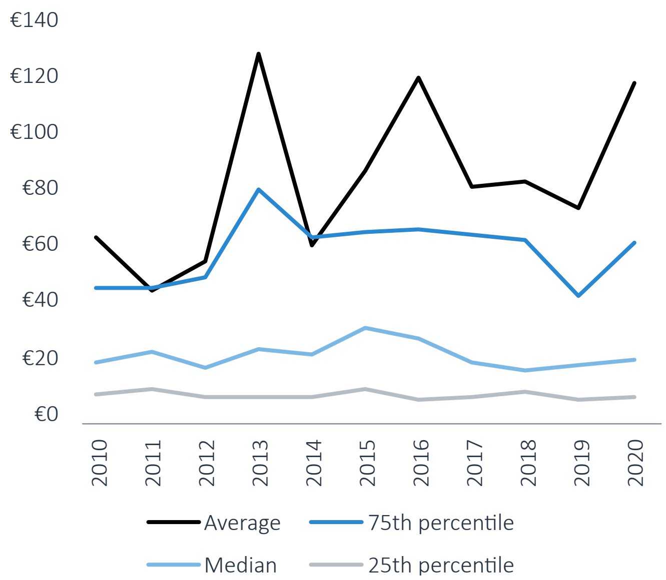


Source: PitchBook | **Geography:** Europe

In 2020, post-money valuations upon VC exit at all quartiles ticked upwards, with the upper quartile surging 53.6% YoY to €101.5 million. At the start of 2020, European VC-backed exit value generated was limited, but momentum gathered pace during the year. Q4 2020 was one of the strongest quarters for VC-backed liquidity in recent years. European exit value crested at €18.6 billion in 2020. Once effects of the pandemic were identified, strong sectors carrying robust valuations emerged, and investors and companies swiftly moved to take advantage of market conditions. A lack of listings created pent up demand from investors, and pharma & biotech listings supplied opportunities to drive exit values upward.

Fervent scrutiny surrounded opaque valuations of high-profile VC-backed companies at the start of 2020, but this attitude cooled as successful exits occurred and the COVID-19 pandemic dominated headlines. Furthermore, major macroeconomic events such as Brexit and the US presidential election did not thwart VC exit plans in 2020, which potentially caused valuations to fluctuate. The pandemic has created macroeconomic troubles for governments trying to maintain sustainable economic growth, as lockdowns have coincided with slashed output levels and reduced spending in certain sectors. We believe consumer spending patterns have shifted permanently—accelerating sticky online trends as brick-and-mortar shops sought rescue deals or were forced to shut down indefinitely. VC-backed companies founded upon technological disruption were well placed to capitalise on recent changes, which helped exit valuations flourish in 2020. For example, US-based food delivery platform DoorDash (NYSE: DASH) listed in 2020 amid increased usage. UK-based Deliveroo recently announced 2021 could finally be the year for its highly anticipated public listing, as it takes advantage of the growth it experienced in 2020.

Post-money valuations (€M) for VC-backed M&A

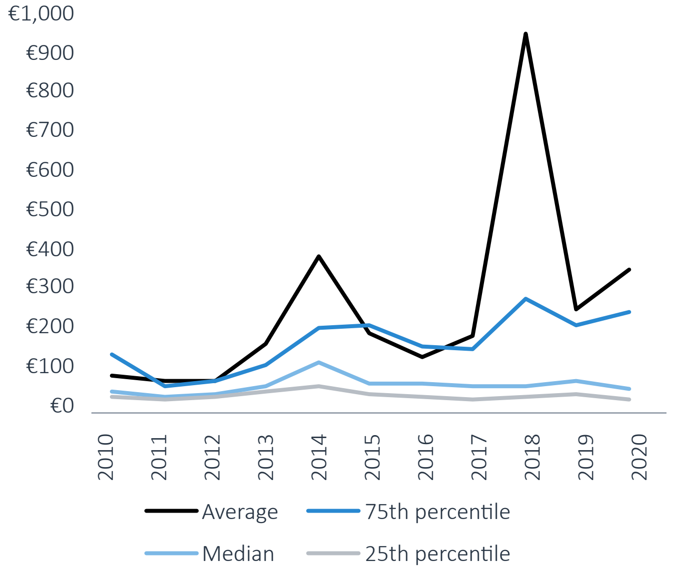


Source: PitchBook | **Geography:** Europe

We saw favourable market conditions and revived investor interest in specific sectors produce substantial VC exit events in 2020. Mainly driven by a collection of pharma & biotech listings, upper-quartile valuations via IPOs reached €239.2 million. One such company to skew the total upwards was CureVac, which exited at a €2.2 billion pre-money valuation. CureVac sped to an exit and also secured private capital backing in 2020, as companies moved quickly to adapt to pandemic-induced market conditions and push ahead with exit events.

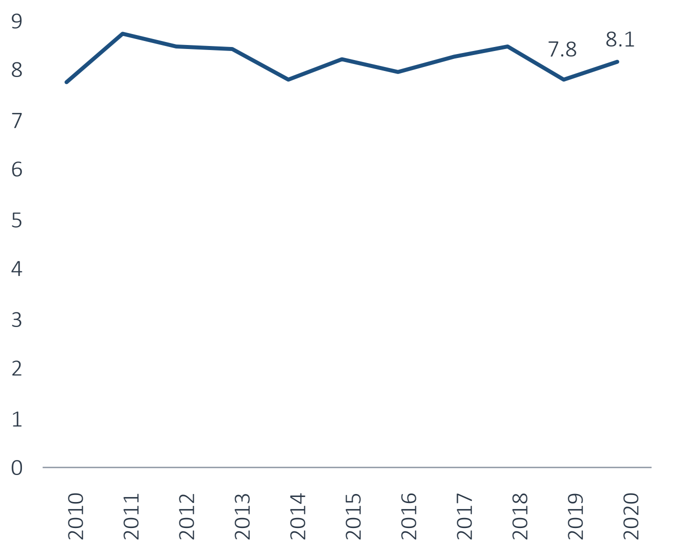
Middle- and lower-quartile valuations via IPOs fell in 2020, which indicates that valuations among differently sized companies operating in various sectors could experience diverging fortunes in 2021. The underlying financial health of individual companies and national economies is precarious in certain instances, and financial stress can still emerge as viral variants surface and vaccination supply chains ramp up. Volatility can also be a huge factor for exit valuations, especially IPOs. Recent events involving retail investors and US-based GameStop (NYSE: GME), as well as swelling valuations for big technology giants, have attracted global attention and could influence IPO appetites in 2021.

Post-money valuations (€M) for VC-backed IPOs



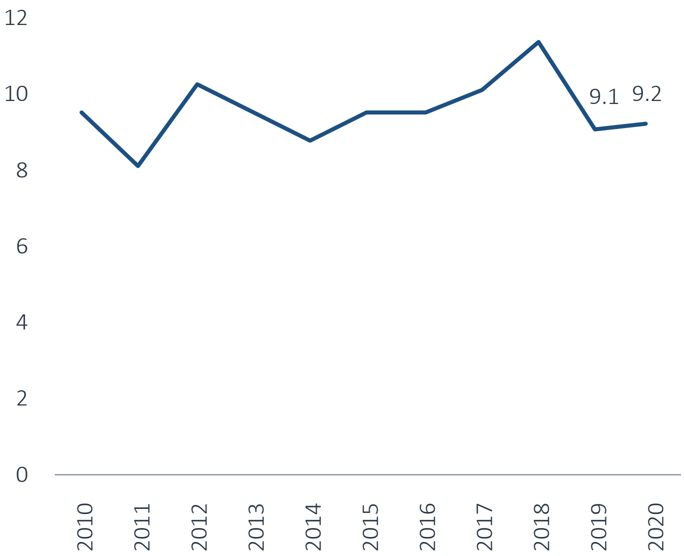
Source: PitchBook | **Geography:** Europe

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



Source: PitchBook | **Geography:** Europe

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



Source: PitchBook | **Geography:** Europe