PitchBook

European Venture Report

3Q 2019

PitchBook

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Credits & contact

PitchBook Data, Inc.

John Gabbert Founder, CEO
Adley Bowden Vice President, Market Development & Analysis

Content

Nizar Tarhuni Director, Research & Analysis
Dominick Mondesir Analyst, EMEA Private Capital
Nalin Patel Analyst, EMEA Private Capital
Masaun Nelson Data Analyst II

Contact PitchBook

Research
reports@pitchbook.com

Cover design by Conor Hamill
Report design by Kelilah King

Click here for PitchBook's report methodologies.

Introduction

Through the first three quarters of 2019, European VC deal value has already reached a new annual record. Late-stage rounds are swelling in size and becoming more frequent as the ecosystem matures. Regionally, the UK & Ireland has continued to attract most of the VC investment in Europe, and Israel's soaring number of highly valued startups has attracted international attention, not least from the US. Unsurprisingly, software remains a robust area of investment as startups in the sector seek capital to grow rapidly.

CVC participation has also hit a new high in 2019. Deals involving CVC participation have increased in size as an expanding array of large corporations look towards VC for investment opportunities. International energy corporates, for example, are showing early signs of concerted venture investment efforts.

No VC-backed companies in Europe have clocked an exit over €1.0 billion YTD, which has significantly contributed to the lackluster exit environment. With one quarter left, 2019 European VC exit value is apace to post the lowest annual reading in seven years. Corporate acquisitions continue to account for the lion's share of VC-backed exits across the continent. IPO count continues to wane, set to record its lowest proportion of annual exit count in a decade. The UK & Ireland region saw a 15.0% YoY uptick in exit count, the largest of any European region.

Capital raised for the European VC ecosystem in 2019 will likely not surpass the €10.0 billion mark achieved in recent years. That said, it remains at a historically high level as LPs continue to commit capital to the asset class, with first-time fund closes apace to hit their highest reading in seven years. We expect fundraising activity to be buoyant in the near future as VCs look to fill coffers late in the cycle and close existing vehicles prior to a potential downturn. This is highlighted by the median fund closing time, which is apace to clock its lowest annual reading in over a decade.

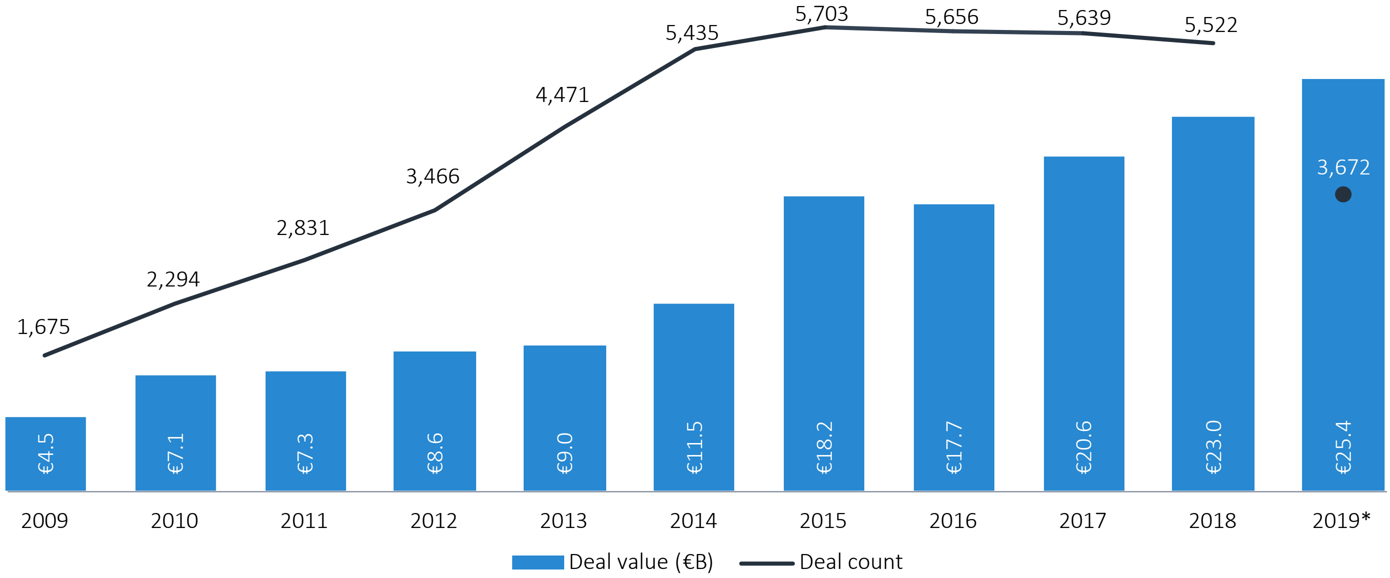
Dominick Mondesir
EMEA, Private Capital Analyst

Nalin Patel
EMEA, Private Capital Analyst

PitchBook

Overview

VC deal activity



Source: PitchBook | Geography: Europe
*As of September 30, 2019

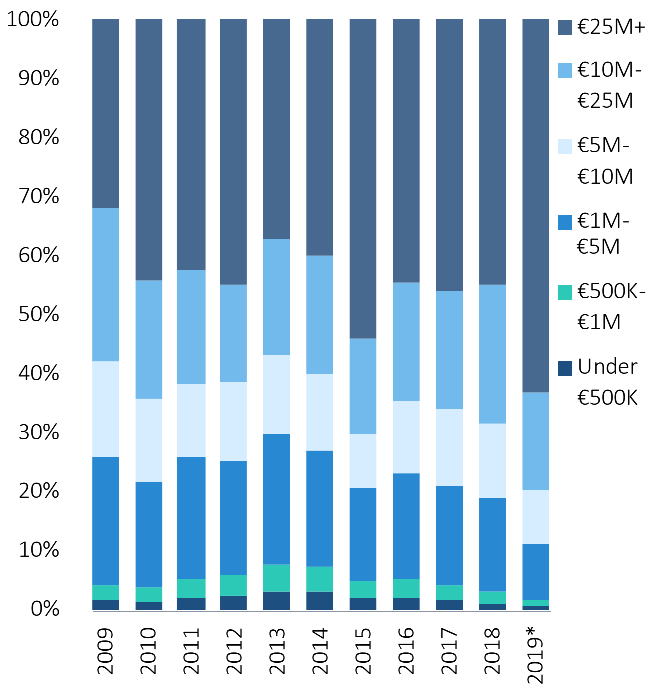
European VC deal activity has continued to strengthen. Total deal value in 2019 has already beaten 2018's total with one quarter left to go, producing a new annual milestone of €25.4 billion. We could easily see this figure reach north of €30 billion by year end.

The dynamics causing the growth in deal value are shifting. As the continent's ecosystem matures, deals are becoming larger. The proportion of total deal value generated from deals over €25 million currently stands at 63.3% YTD, on track to be the highest annual proportion ever. Klarna, Europe's most highly valued VC-backed company, was a major contributor to deal value in 3Q, raising its largest round at €411.2 million. We think while unicorns with multibillion-euro valuations remain in the ecosystem, deals of this magnitude will continue to be the norm.

Deals are also frequently skewing towards the late stage. Late-stage deals have accounted for 22.2% of European VC deal count YTD and have accumulated a high of €15.2 billion, comprising 59.8% of deal value—apace to log record proportions since 2011.

Mature, well-established startups aren't the only companies attracting larger sums. One such early-stage company was relatively unknown OneTrust. The risk tech platform provides compliance services covering hundreds of global privacy and security laws, most notably the California Consumer Privacy Act (CCPA) and General Data Protection Regulation (GDPR). OneTrust's huge €177.0 million Series A in 3Q is one of the largest Series A deals ever closed in Europe, catapulting the company's valuation to €1.2 billion, making it one of Europe's latest unicorns. The round is a microcosm of the VC environment in Europe in which software-based solutions looking to rapidly scale and establish market share continue to draw the bulk of VC from investors.

VC deals (€) by size



Source: PitchBook | Geography: Europe
*As of September 30, 2019

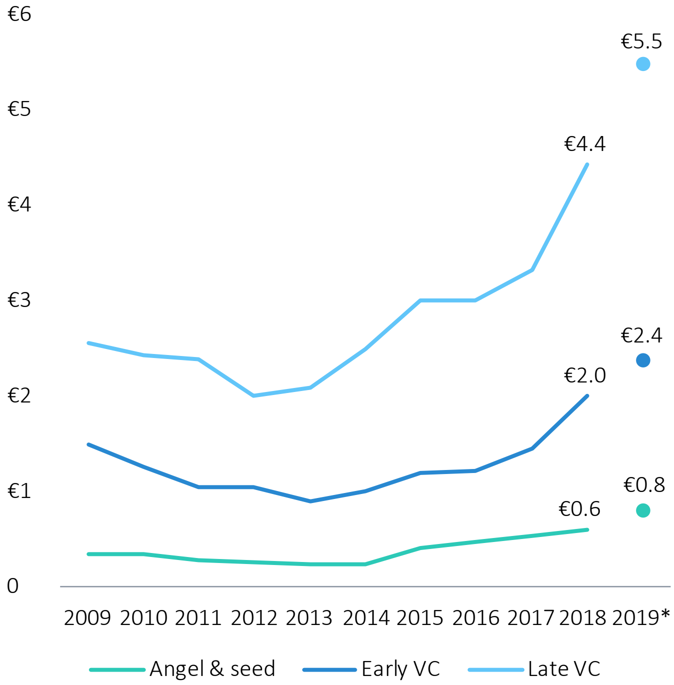
Overview

The median angel & seed round size has also spiked, roughly tripling in the last six years as of 3Q 2019. London-based Wi-5 completed a €9.2 million seed round in 2019, one of the more substantial seed rounds ever to be conducted in Europe. It provides an inventive wifi platform for in-venue and in-store customer engagement without having to download a temporary app, a traditional headache for consumers. Furthermore, businesses do not need to spend time and money developing, marketing and updating an app, which usually serves as an unnecessary hinderance to customer service.

The largest deal to close in 3Q was FlixMobility's €500.0 million Series F round, co-led by Permira and TCV, which pushed the transport app company's valuation to €2.0 billion. The Germany-based company was originally founded as a startup called FlixBus in 2013 and provided long-distance national bus services after the deregulation of the bus market in the country. It has now grown into an ecommerce mobility services platform covering over 2,000 international destinations in 30 countries. Similar to US-based Uber (NYSE: UBER) and India-based RedBus, the company doesn't possess a transportation fleet; it merely acts as a facilitator between those seeking and those providing transportation. With so much attention on the mobility sector internationally, companies have still been able to attract large cheques that boost valuations, which have been under increasing scrutiny in recent months. Given the disappointing public debuts of Uber and Lyft (NASDAQ: LYFT) in the US, observers are taking private valuations with a pinch of salt.

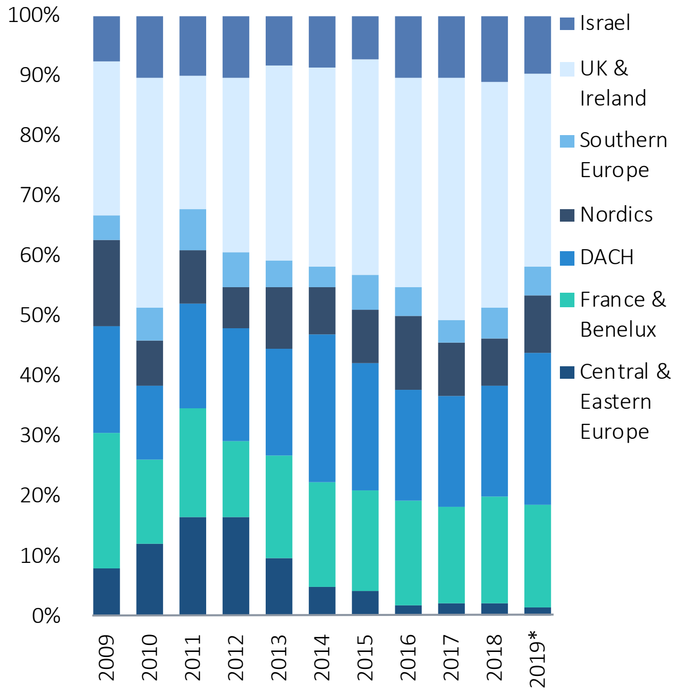
As has been the case throughout the year, the VC ecosystem in the UK & Ireland has not yet shown signs of distress. Deals continue to close despite political ambiguity, currency fluctuations and purported Brexit effects. In the UK, deal value has climbed to €7.7 billion YTD and should easily surpass last year's €8.1 billion. One of the biggest rounds to close in the region in 3Q was CMR Surgical's €216.2 million Series C, crowning another Cambridge-based unicorn. Investors included Cambridge Innovation Capital, the venture fund set up by Cambridge University; LGT Group from Liechtenstein; Escala Capital from Norway; and Zhejiang United Investment Group. Although investing in surgical robotics is a complex, capital-intensive and comparatively longer-term strategy, investors have retained faith in the UK's leading position in the medical field. Furthermore, we are seeing greater quantities of startups founding themselves in tech cluster locations in the UK outside of London. The rising cost of living in London has encouraged numerous companies to seek out other home bases in the UK where they can still take advantage of cutting-edge academic research combined with local expertise. The resulting effect is a growing number of startups attracting significant funding in locations such as Cambridge, Oxford and Bristol.

Median VC deal size (€M)



Source: PitchBook | **Geography:** Europe
*As of September 30, 2019

VC deals (€) by region



Source: PitchBook | **Geography:** Europe
*As of September 30, 2019

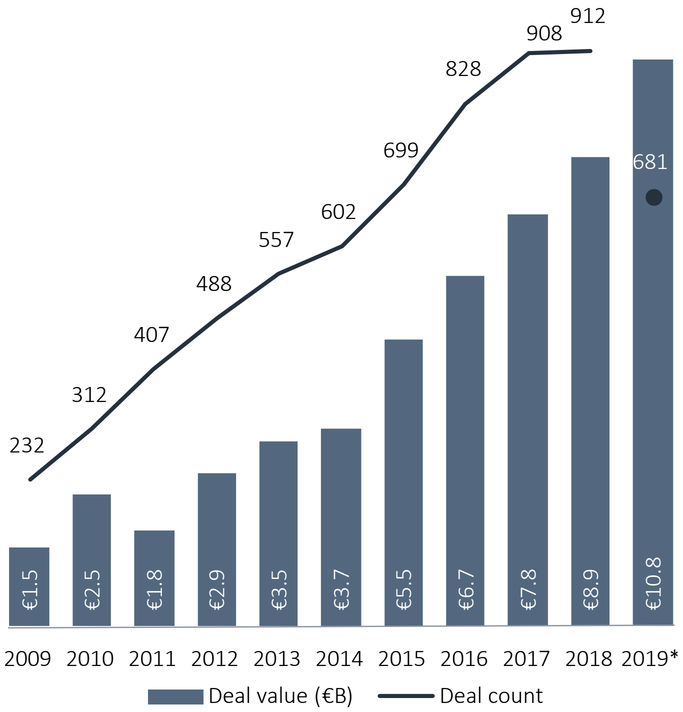
Corporate VC

Deals with CVC involvement in Europe have already set a new annual record, with €10.8 billion through 3Q, outdoing 2018's previous record. 42.5% of all European VC deal value YTD has had a CVC component, apace to post the highest proportion of total annual European deal value. Rather than pursue a few select companies, CVC investors are spreading themselves wide to explore an increasing number of startups and scale-ups, nullifying these companies as potential competitors and integrating them horizontally or vertically to better align their own strategies.

The characteristics of a typical corporate-backed deal are changing. The volume of €25 million+ rounds containing a portion of CVC has gradually increased YoY over the last decade. The total value of deals that size with corporate backing has also risen YoY since 2014, reaching a decade high of €8.0 billion YTD. In 3Q, many mega-rounds had CVC participation, including FlixMobility and Klarna. Germany-based N26, another VC-backed heavyweight, extended its Series D to €416.4 million in 3Q, taking its overall raised-to-date total to nearly €600 million. The challenger bank's CVC backers include Tencent Holdings (HKG: 00700) and Allianz X, the CVC arm of Allianz Group (ETR: ALV). The collaboration makes strategic sense for all three parties. Tencent is not only one of the most valuable companies in the world but also a market leader in mobile payments through its numerous product offerings. Furthermore, Allianz is well positioned to support N26 domestically and offer seasoned experience in a competitive European financial services environment.

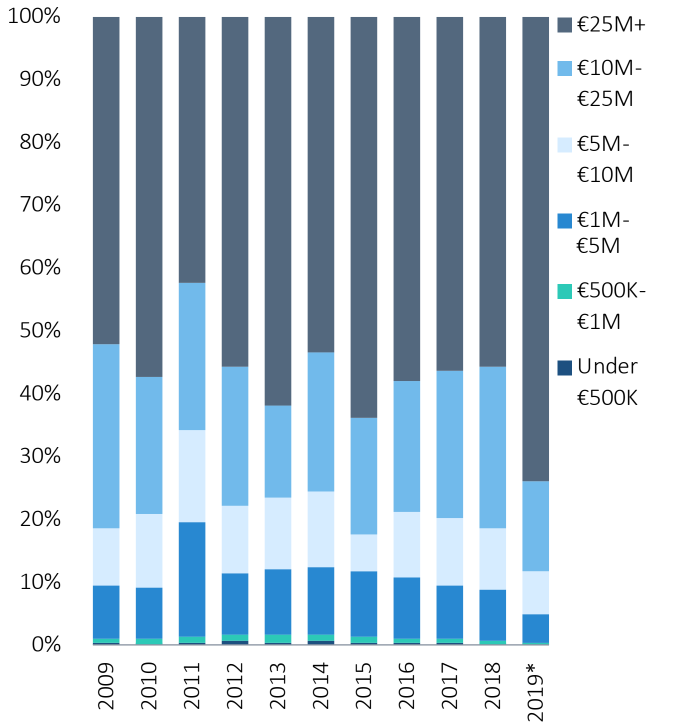
Thanks in large part to Ovo Energy's 1Q €246.9 million round, deal value with CVC participation in the energy sector has risen to €486.2 million YTD. This is significantly higher than the sector's previous best of €287.6 million set in 2016. Given this outlier, it's hard to say whether the energy sector is currently undergoing CVC upheaval. However, large energy companies are beginning to show signs of shifting towards CVC investments. The spotlight on ESG and impact investing is intensifying for international corporations with reputational challenges. Shell Ventures, BP Ventures and Total Ventures are all well-established, active CVC arms headquartered in Europe, and they have all completed numerous deals this year. An example in 2019 was Total Ventures' participation in Sunfire's €25.0 million Series C round. Sunfire, a Germany-based startup, develops and manufactures systems for renewable gas and fuel production using a steam electrolyser. This allows the company to eschew the use of electrical energy to generate steam to create power, which has traditionally been a fundamental aspect of power generation. The race for cleantech solutions is no doubt commencing in the sector, and deal activity with CVC participation in this sector is likely to only increase going forward as incumbents seek out solutions.

VC deal activity with CVC participation



Source: PitchBook | **Geography:** Europe
*As of September 30, 2019

VC deals (€) with CVC participation by size



Source: PitchBook | **Geography:** Europe
*As of September 30, 2019

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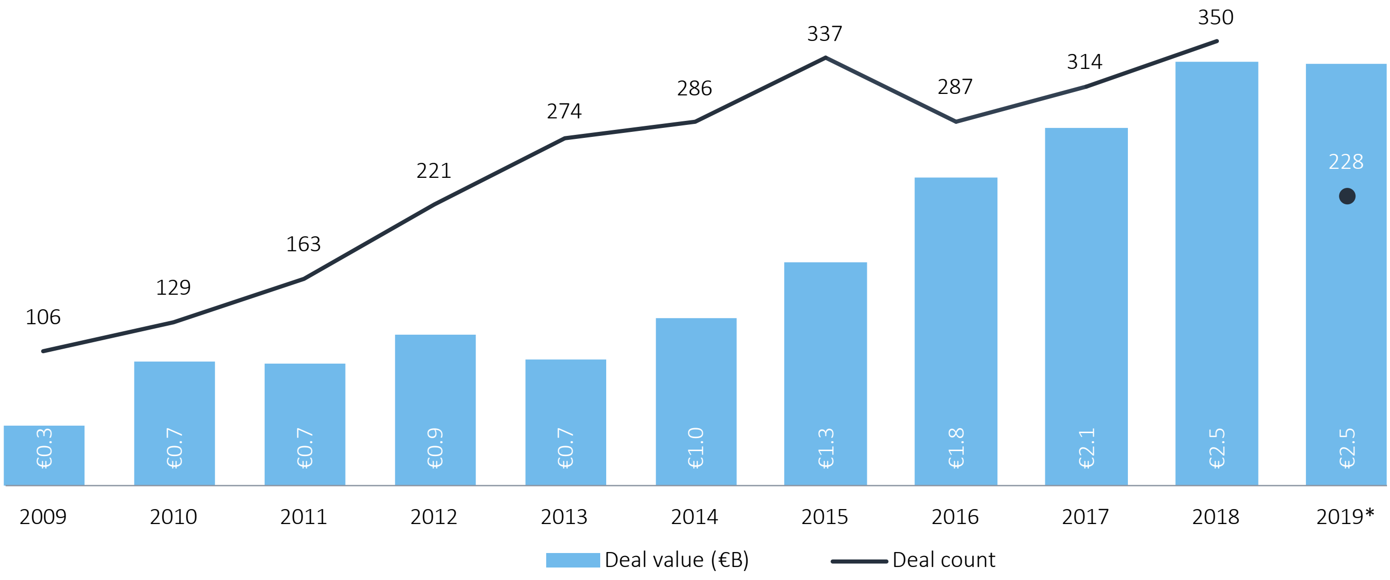
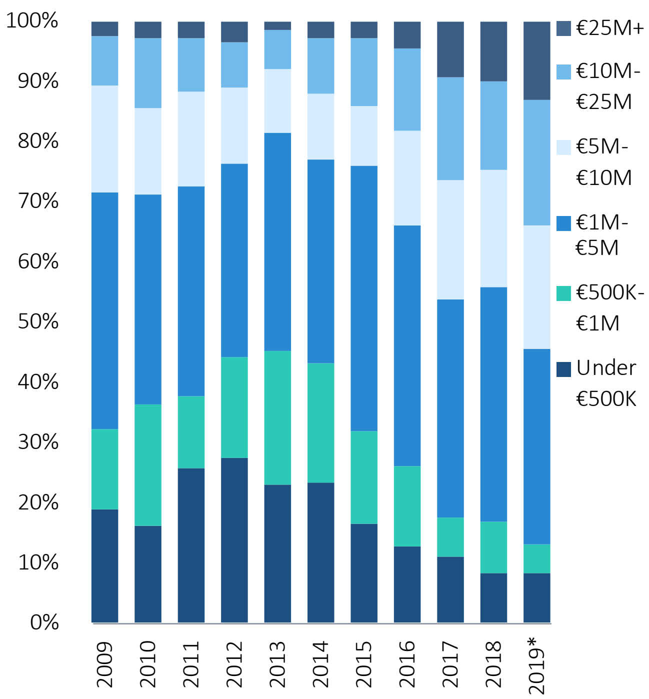
Spotlight: Israel

VC deal activity



Source: PitchBook | **Geography:** Israel
*As of September 30, 2019

VC deals (#) by size



Source: PitchBook | **Geography:** Israel
*As of September 30, 2019

Israeli VC has steadily matured into a robust, self-sustaining ecosystem in the last 10 years, with annual deal value having grown steadily since 2013. Israeli VC deal value has reached €2.5 billion YTD, comprising 9.8% of Europe's total. While other European nations still contribute a greater share of that total, growing numbers of VC decision makers are looking towards Israel for opportunities. Israel has one of the highest startup per capita ratios in the world and invests a significant chunk of GDP into R&D annually. The Yozma programme founded in 1993, now rebranded as the Israel Innovation Authority (IIA), created the ecosystem in Israel. It has gone on to support thousands of projects geared towards innovation in the country. The government has been responsible for nurturing the ecosystem with tax cuts for tech companies, reducing bureaucracy for mergers and encouraging entrepreneurship via foreign visas and educational programmes.

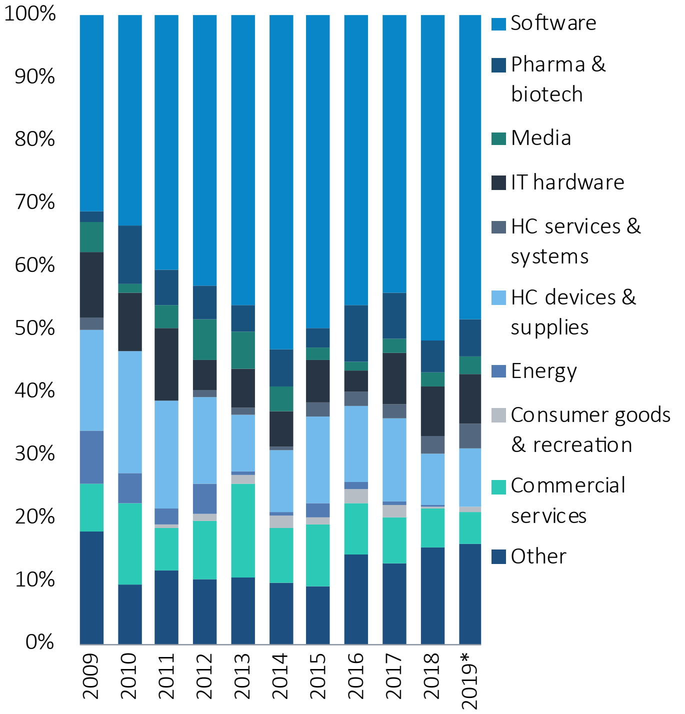
Overall exit value has been cyclical in the last decade, driven by sizable events, despite count remaining relatively steady. Exit value from Israeli companies stands at €1.6 billion as of 3Q 2019, predominantly driven by Fiverr's IPO. One of the most historically recognised exits by an Israel-based VC-backed company was Waze, the real-time road mapping platform, which Google (NASDAQ: GOOG) purchased for €884.7 million in 2013.

Another exit of note in 2019 was Dynamic Yield, an AI-powered personalisation platform that originated in Israel. The company, now headquartered in the US, was acquired for €290.8 million by McDonald's (NYSE: MCD). The exit gained significant attention as one of McDonald's largest tech acquisitions in 20 years. The iconic food giant has increased its investment into VC-based tech to adapt to the changing food services environment. Significant exit events in Israel such as Dynamic Yield's are no doubt inducing the formation of more startups. Serial entrepreneurs and VC investors are using capital from exits to found and invest in new startup ideas across a diverse group of sectors, recycling capital back into the ecosystem.

Israel is also home to some of the most highly valued VC-backed companies outside the US, portraying an ecosystem that is ready to compete for investment on the international stage. Gett, one of Israel's most valuable VC-backed companies, closed another mammoth €178.2 million round this year, boosting its valuation to €1.3 billion. The ridesharing company is planning to exit via IPO in early 2020 and reportedly indicated that this may be its last VC round. While Gett may be selecting a similar exit route to rivals, its business strategy is slightly different. It is aiming for profitability by year end and placing emphasis on targeting high-end business users in four specific countries: the UK, the US, Israel and Russia. This is a far cry from 2018 when long-term investor Volkswagen (ETR: VOW) was reportedly contemplating writing off the investment due to weak traction. The investor opted instead to lead Gett's latest round in 2019. How Gett fairs in bumpy public markets should be interesting, given disappointing ridesharing listings in the US in 2019.

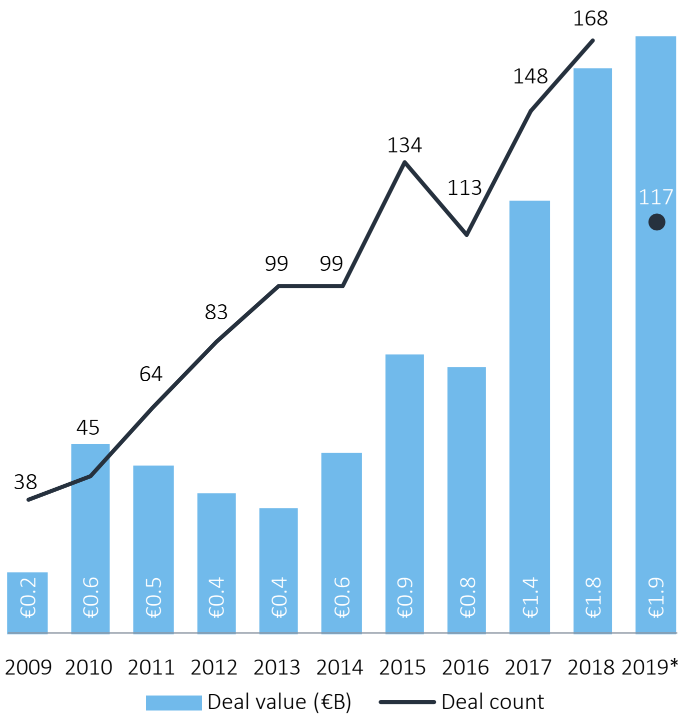
Israel's excellent relationship with US VC investors is also helping the country's startups scale and develop into global businesses. Through 3Q 2019, deals with participation from US investors reached a new high of €1.9 billion in Israel, contributing 75.6% of total deal value in the country YTD. US-based Sapphire Ventures led a €133.7 million Series D investment into Israel-based Monday.com in 2019, more than tripling the company's valuation from a year ago. Monday.com, founded in 2012, offers a SaaS-based project management tool intended to improve collaboration and productivity for rapidly growing businesses. It is one of the most recent unicorns originated in Israel with experienced US investors on board. The transition from startup to scale-up has been swift, and an exit is likely soon on the agenda.

VC deals (#) by sector



Source: PitchBook | **Geography:** Israel
*As of September 30, 2019

VC deal activity with US investor participation



Source: PitchBook | **Geography:** Israel
*As of September 30, 2019

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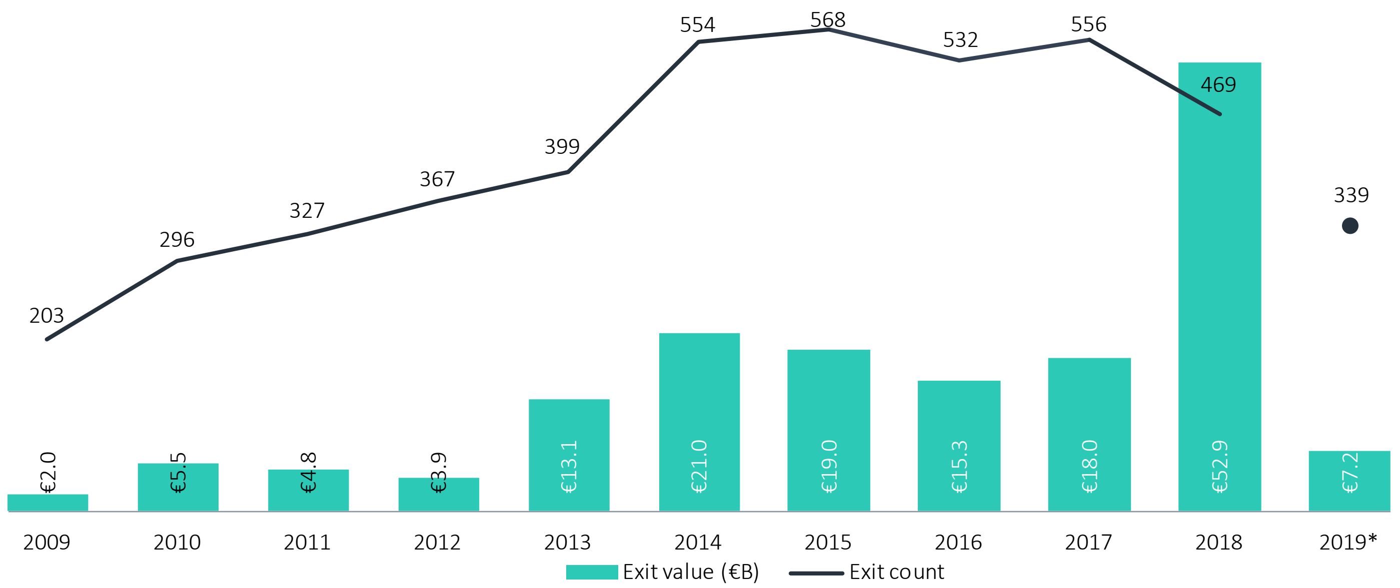
Exits

VC exit activity

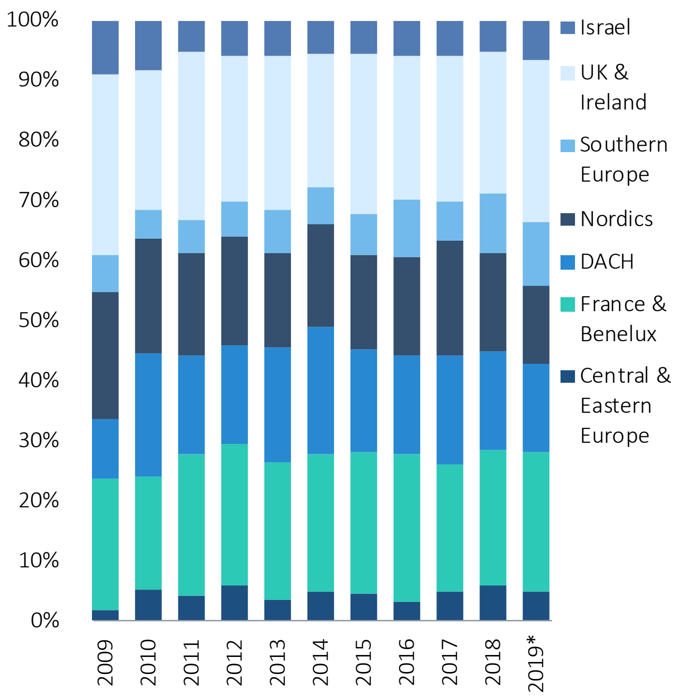


Source: PitchBook | **Geography:** Europe
*As of September 30, 2019

After a record 2018, European VC exit activity has been lackluster in 2019 with only 339 exits totaling €7.2 billion thus far. While exit value picked up 32.7% QoQ to €3.2 billion in 3Q, volume remained largely muted at 104 exits. In this current environment, exit value tends to be lumpy, with large unicorns having the capacity to skew totals significantly, exemplified by Spotify's €24.0 billion direct listing in 2Q 2018. For this reason, exit value through 3Q 2019 has substantially lagged prior years with no exits over €1.0 billion, apace to clock its lowest annual reading in seven years. At the same point in 2018, five European VC-backed exits over €1.0 billion had closed, attributing over €37.5 billion, or 80.1%, of total exit value and 1.4% of total count.

The largest European VC-backed exit to close YTD was the 3Q IPO of Luxembourg-based Global Fashion Group (GFG: DE). In a year littered with examples of cancelled or poorly performing VC-backed IPOs, it was not surprising GFG's listing drew weak investor demand and backing mostly from its existing shareholders. GFG reportedly considered postponing the IPO; however, in a last-ditch attempt to salvage investor appetite, the company cut the offering price from an initial range of €6-€8 per share to €4.50 and even extended the offer period. In spite of this, the company still raised less than half the sum it had originally targeted.

VC exits (#) by region



Source: PitchBook | **Geography:** Europe
*As of September 30, 2019

Breaking down VC exit activity by region, the UK & Ireland ecosystem continues to increase its share of European exits. The region has experienced a 15% uptick in exit count YoY, the largest of any European region. There are several potential reasons for this, including entrepreneurs and VC firms potentially deciding to exit investments in the current environment, as it may prove challenging divesting of investments in the short term if the UK leaves the EU and during a potential downturn. Moreover, valuations remain heightened, and as a result, exiting in today's environment and locking in profits can certainly be attractive. The largest exit to occur in the UK & Ireland region in 3Q was The Sage

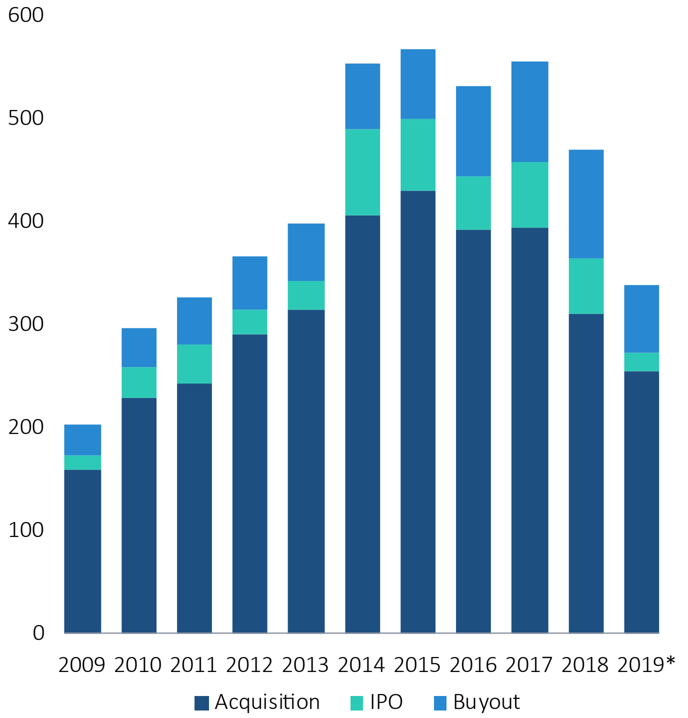
Group's (LON: SGE) corporate acquisition of the Dublin-based OCREX for €55.0 million. OCREX, which trades as AutoEntry, uses AI and character recognition to automate data entry. The company raised a €3.0 million round in 2017 led by ACT Venture Capital and Cathal McGloin.

Corporate acquisitions continue to account for the lion's share of VC-backed exits across Europe, comprising 75.2% of 2019's total exit count through 3Q. Acquisitions as a proportion of exit volume are currently at the upper end of their 10-year range (66.3%-79.3%), suggesting this exit route remains a critically important option for small, mid and large cap VC-backed entities. The largest acquisition in 3Q was Pfizer's (NYSE: PFE) purchase of clinical-stage biotechnology company Therachon Holding AG for €717.1 million. Other corporates are moving in the same direction, pursuing late-stage drug discovery companies. The Zambon Group acquired VC-backed Breath Therapeutics for €500.0 million, and Boehringer Ingelheim acquired Switzerland-based Amal Therapeutics for €325.0 million in 3Q 2019.

The IPO market has garnered considerable attention in 2019, due in part to historically lofty valuations, high-profile failures and the rise of DPOs. The disappointing performance of prominent VC-backed public listings, as well as multiple entities deciding to either postpone or cancel their listings, has led to a precipitous fall in IPO count. Over the past decade, the average count through the first three quarters of a given year has been 32. YTD, the total came in at a meagre 17, equating to 5.0% of exit count, set to be the lowest proportion in a decade. The median IPO size has fallen to €33.0 million YTD, its lowest figure since 2013, highlighting a lack of investor appetite, which has in turn caused VC-backed companies to reconsider pursuing IPOs. Switzerland-based biotechnology company ADC Therapeutics cancelled its €180.0 million public debut, citing adverse market conditions caused by the global manufacturing slowdown.

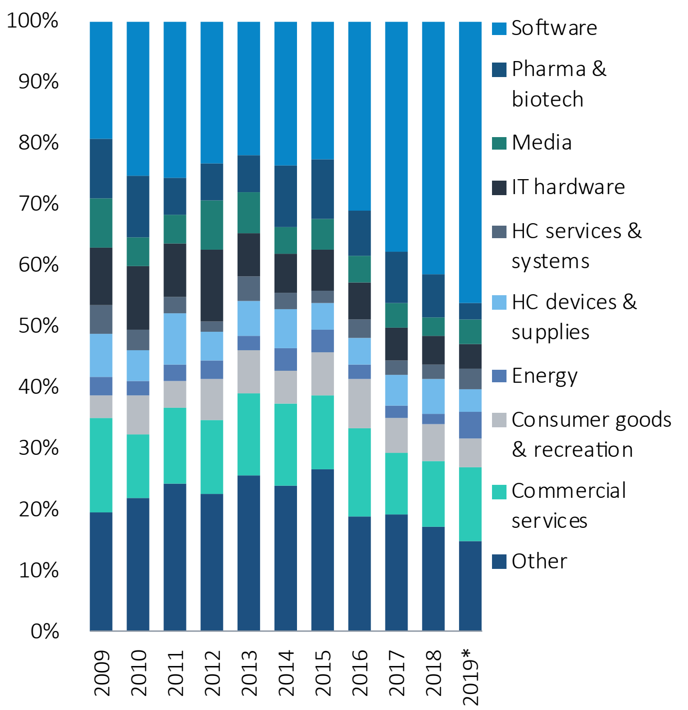
Analysing VC exit activity by sector, the energy space could be on track for a record year in terms of absolute exit count and proportion of that count. Through 3Q 2019, 15 VC-backed energy exits have closed, accounting for 4.4% of total volume, on track to eclipse all full-year proportions in our datasets. The largest energy exit of the quarter was digital solutions company Zyfra's €8.1 million acquisition of smart drilling company Geosteering Technologies. The age of vertical oil drilling without technology is fading. Smart drilling is driving greater efficiency, accuracy and speed in oil production. Geosteering's core product is Geonaft, a modular software package designed to provide engineering support for directional and horizontal oil drilling through optimal positioning of the well bore within its target horizon. Reportedly, over 4,000 horizontal and directional wells have been drilled using Geosteering's software, with an estimated €1.3 million financial impact per year in a single well. The digitization of oil production via the use of sensors, data interpretation and remote operations from smart drilling technology has transformed the subsector into a multibillion-euro industry.

VC exits (#) by type



Source: PitchBook | **Geography:** Europe
*As of September 30, 2019

VC exits (#) by sector



Source: PitchBook | **Geography:** Europe
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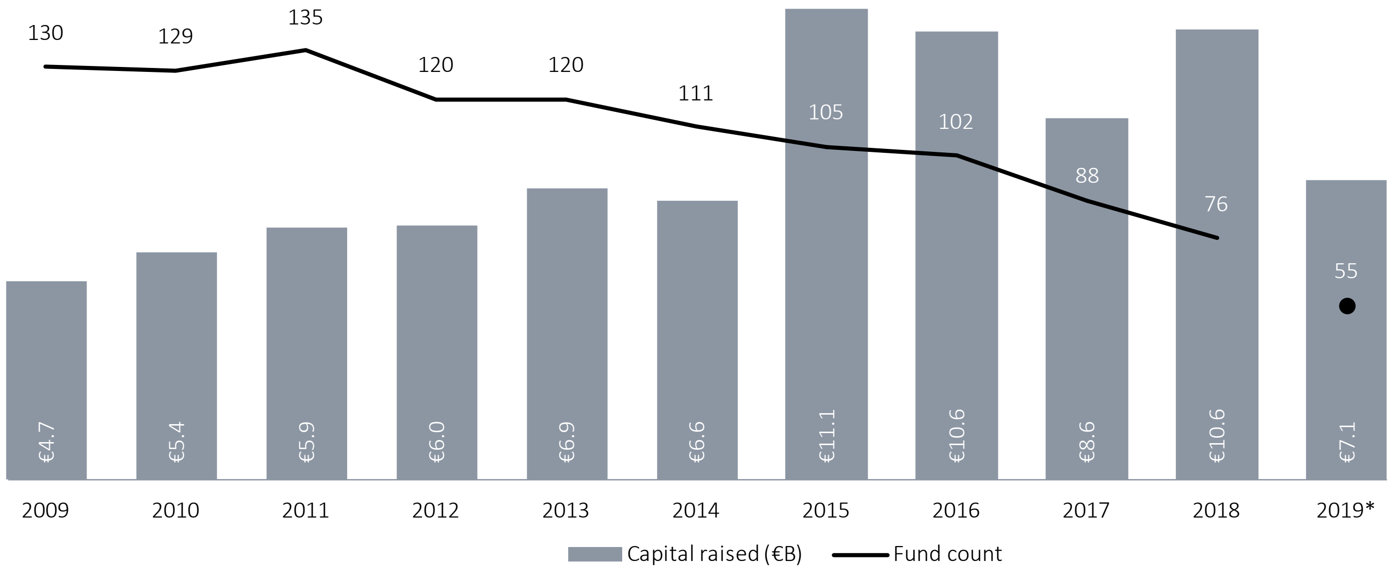
Fundraising

VC fundraising activity



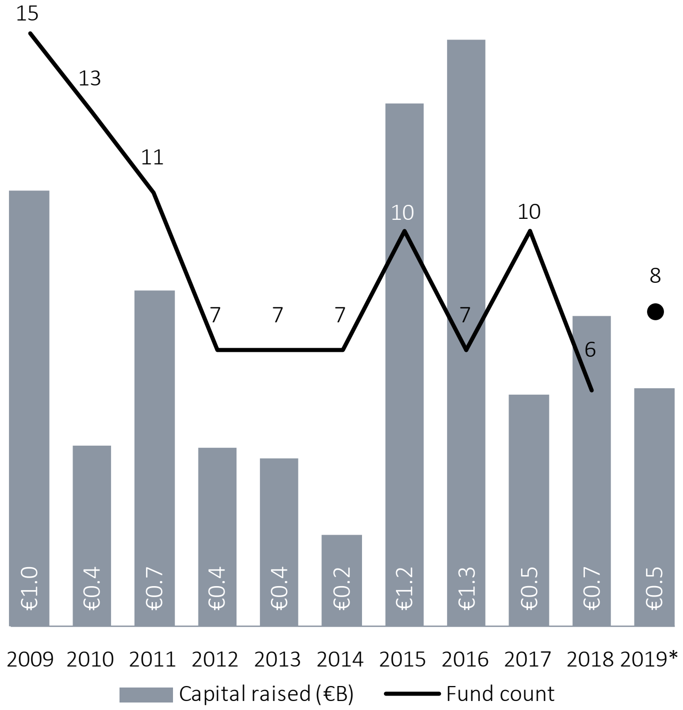
Source: PitchBook | **Geography:** Europe
*As of September 30, 2019

With €7.1 billion raised across 55 funds through the first three quarters of the year, total capital raised for European venture funds in 2019 may fall short of the €10.0 billion mark reached in recent years. Despite the slight cooldown, mega-funds (€500.0 million+) continue to close, which has helped keep capital raised at historically high levels. Three mega-funds have closed through 3Q 2019, surpassing the prior two years' annual totals with one quarter left to go. Chief among them was Generation IM Sustainable Solutions Fund III, which raised €893.9 million. The fund will focus on investments in growth-stage businesses with mature technologies and commercial traction in planetary health, people health and financial inclusion.

Although capital raised has remained at a healthy level, annual fund count has consistently decreased from 2013 to 2018, with 2019's total likely to fall short of the 76 vehicles closed the year prior. A large proportion of the decline is seen in the €250.0 million-€500.0 million fund size bucket, which closed only three funds YTD, an over 70% decrease from the same period in 2018. The trend of waning fund count against lofty levels of capital raised may signal LPs are committing larger amounts of capital to fewer vehicles in an attempt to consolidate GP relationships and focus on a core set of outperforming venture managers, including strong first-time GPs.

That said, LPs' appetite for first-time venture funds appears to be rising as competition soars in the industry. Through 3Q 2019, eight first-time venture

VC first-time fundraising activity



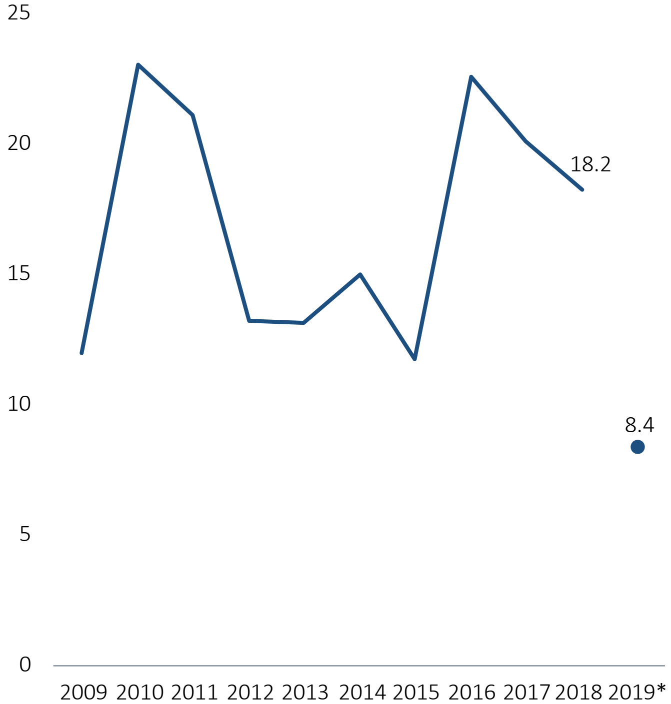
Source: PitchBook | **Geography:** Europe
*As of September 30, 2019

funds have closed, already more than 2018's total with a quarter left to go. If 2019's current pace sustains, the number of European VC first-time funds to close may hit the highest recording in seven years. LPs' desire to find successful first-time venture managers is palpable given these newer GPs often provide better fund terms. Establishing long-term, healthy relationships with GPs from their inception can also lead to extremely favourable economics for LPs in follow-on funds. Stride Capital Fund I was the largest first-time fund to close through 3Q 2019, raising €92.8 million, backed by London-based, Draper Esprit (LON: GROW), among others. Stride Capital Fund I has made one early-stage investment in the online used-car marketplace Cazoo for €27.3 million.

The median fund closing time has trended around 16 months over the past decade. YTD, it sits at 8.5 months, which is just less than half of 2018's full-year median of 18.2 months. Several undercurrents in the market lead us to believe the median fund closing time for top-quartile venture managers will remain in the high single digits moving into the final quarter. Buoyed by large exits in the US, the positive net cash flow position of global VC, meaning multinational LPs are receiving distributions more quickly, will foster an environment that enables LPs to recycle capital into new vehicles at a more rapid rate, which should hasten closing times for GPs. Moreover, VC tends to outperform, in large part due to its long-term holding period that allows the asset class to handle volatility in a more prudent fashion compared to many other investment options during downturns or any broader market hiccups. Adding to these factors is a shrinking fundraising timeline. The median time between funds has also been trending downwards since 2016. Through 3Q 2019, it sits at 3.1 years compared to 4.2 years in 2016. These evolving VC dynamics point towards favourable economic conditions, strong LP confidence in the European venture space and VC managers' heightened faith in closing follow-on funds more swiftly, all of which should keep VC fundraising levels in Europe high in the coming years.

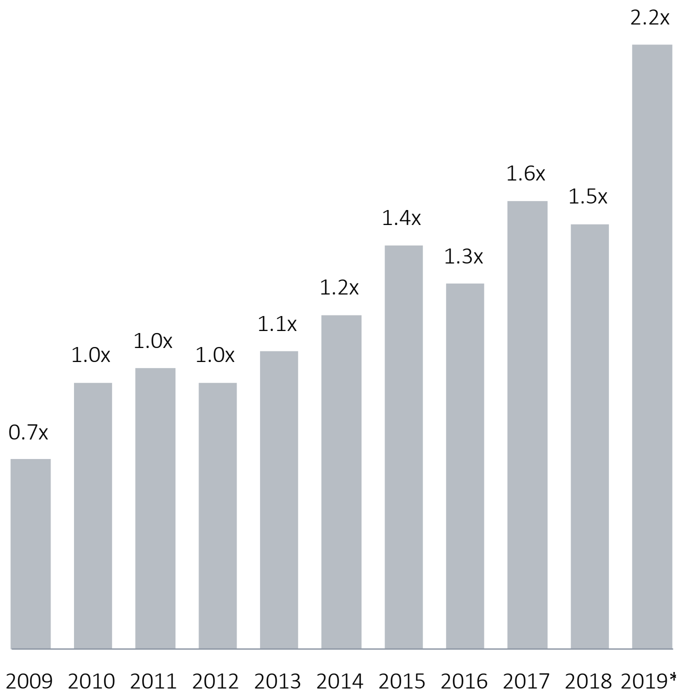
Through 3Q 2019, the median European VC fund step-up is 2.2x, currently beating all full-year figures in our datasets. If this pace is kept up through the end of the year, 2019 will set a new record for this metric. The median fund step-up size has been on an upward trajectory for over a decade, gradually increasing from 2009's 0.7x reading. This points to a maturing European VC ecosystem that is able and willing to fund larger rounds due to the uptick in fund step-up's each year. SoftBank coming to market with a record €89.6 billion venture fund has also forced European VCs to try and keep apace, compelling them to raise larger

Median time (months) to close for VC funds



Source: PitchBook | **Geography:** Europe
*As of September 30, 2019

Median VC fund size step-up



Source: PitchBook | **Geography:** Europe
*As of September 30, 2019

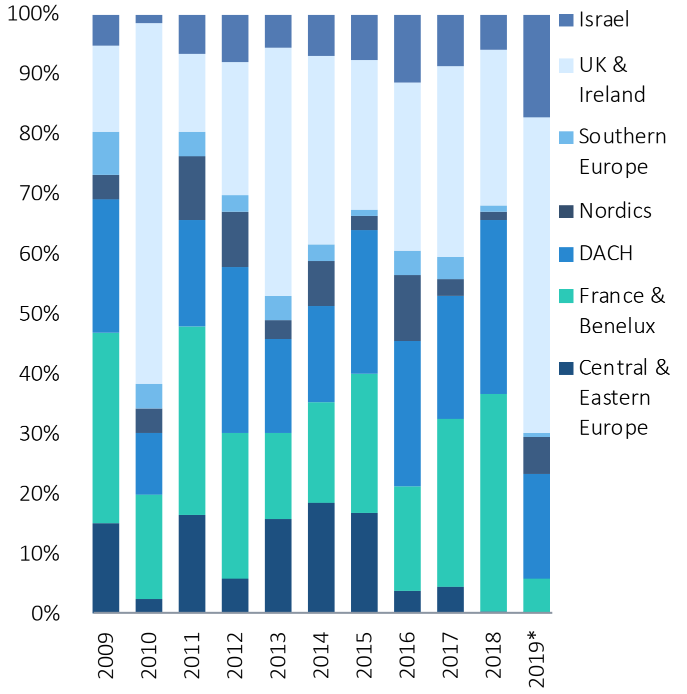
funds. In addition, the shift towards early- and late-stage funding, as opposed to angel & seed funding—as well as efforts to keep proportionate ownership in outperforming assets by funding follow-on rounds to avoid dilution—has also made it critical for GPs to continue raising more sizable vehicles in order to remain competitive in this high valuation environment.

One of the largest fund step-ups recorded in 2019 was by the Israeli-based aMoon Fund II (late-stage), which raised €582.2 million, a 9.2x step-up from aMoon Fund I (also late-stage), which raised €63.4 million in 2016. aMoon Fund II is the biggest VC vehicle operating in Israel, as well as the largest life sciences and healthcare fund ever set up in the jurisdiction. Backed by Credit Suisse, it has already started deploying capital, with investments in cartilage treatment company CartiHeal, drug development company Biolojic Design, targeted therapy company Ayala Pharmaceuticals and deep learning software company Zebra Medical Vision.

Through 3Q 2019, 24 VC funds have closed in the UK & Ireland, comprising 44.4% of total European funds closed in the year and taking significant market share from the French & Benelux region. In 2009, the French & Benelux region accounted for 52.3% of fundraising volume, but through the first three quarters of 2019, it stands at 13.0%. When comparing over the same period, the UK & Ireland accounted for an 11.5% proportion in 2009, but an impressive 44.4% through 3Q 2019. This shift in dynamic could be a reason Macron recently announced a €5 billion pledge to France's VC ecosystem. It's too early to tell if this initiative will have a significant impact, but the region could be one to watch in 2020 and beyond.

YTD, the UK & Ireland raised €3.7 billion, its highest recorded total in our datasets with one quarter remaining. The main driver of this lofty figure was the closure of two mega-funds (€500.0 million+): the aforementioned Generation IM Sustainable Solutions Fund III and Accel London VI (€513.4 million). The

VC funds (€) by region



Source: PitchBook | **Geography:** Europe
*As of September 30, 2019

largest fund to close in 3Q 2019 was also UK-based. Medicxi raised €400.0 million for Medicxi III, which closed in six weeks and has brought total capital raised by the VC firm to over €890.0 million in just three years. Medicxi will invest across the full spectrum of healthcare including drug discovery and late-stage clinical assets. A number of established hospital foundations and medical institutions committed to the vehicle, with Novartis (SWX:NOVN) and Johnson & Johnson (NYS:JNJ) returning as cornerstone investors. The size of Medicxi III and the speed at which it closed speak volumes about the maturity of the life sciences sector within the UK & Ireland and Europe more broadly, with investors prioritizing their support for healthcare companies and their endeavors to convert breakthrough science into a pipeline of new drugs.