PitchBook

European VC Valuations Report

Q1 2021

PitchBook

Contents

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Introduction

European VC valuations rose across the board in Q1 2021, climbing further from the record figures in 2020. Valuations have grown across all financing stages and at each quartile, despite macroeconomic uncertainty stemming from intermittent lockdowns, rising unemployment, and unpredictable economic growth. COVID-19 variants, new waves, and lumpy vaccination supplies persist in Europe; however, such challenges have not hampered VC valuations broadly speaking. Tech-based businesses and startups intrinsically linked to technological disruption across funding stages have shown strong potential.

Nontraditional investors have increased their presence in the European VC ecosystem. The flood of capital pouring into the VC ecosystem has driven up round sizes and valuations to heights never witnessed before. Meanwhile, the pursuit of growth, slashed interest rates, and low return profiles in other investment strategies have led backers to pump capital into VC. Numerous nontraditional investors have invested heavily in the VC ecosystem to seek lucrative returns or leverage innovation that could help their own businesses.

The quantity and aggregate value of unicorns grew in Q1 2021. Unicorns continue to be minted at a healthy rate despite the prolonged pandemic. Dealmaking for unicorns has increased, and there are now several VC-backed companies that carry multibillion-euro valuations far in excess of €1 billion. Late-stage capital options have revolutionised unicorn valuations in Europe during the last six years.

Post-money valuations upon exit trended upwards from 2020 figures. Strong exit value in Q1 was reflected at the upper quartile, where valuation rises were substantial. Although fluctuations are expected during 2021, the staggering increase indicates that exits for the most valuable VC-backed companies in Europe have grown in stature. Companies are generally carrying higher valuations when deciding to IPO.

Nalin Patel
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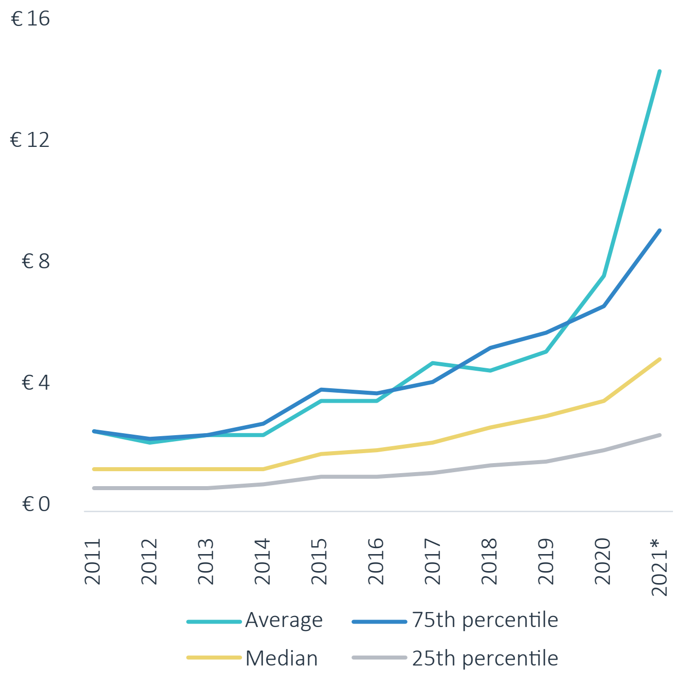
Overview

European VC valuations at each quartile and across all financing stages were up and to the right in Q1 2021, climbing further from the record figures in 2020. The pace set in Q1 2021 has been astounding as valuations have grown despite macroeconomic uncertainty stemming from intermittent lockdowns, rising unemployment, and unpredictable economic growth. COVID-19 variants, new waves of the disease, and lumpy vaccination supplies persist in Europe; however, this has not hampered VC valuations broadly speaking. Big tech-based businesses and startups across funding stages have shown strong growth as traditional sectors such as food, retail, and healthcare have shifted online. VC is intrinsically linked to technological disruption, and newly founded startups and VC-backed companies have witnessed higher active user rates, resulting in increased recurring revenues and subsequent improvement in CAGRs and valuations. Robust valuations have also been pushed upwards by continued investment from nontraditional and international investors, as huge rounds tied to swelling valuations have closed regularly.

Angel & seed

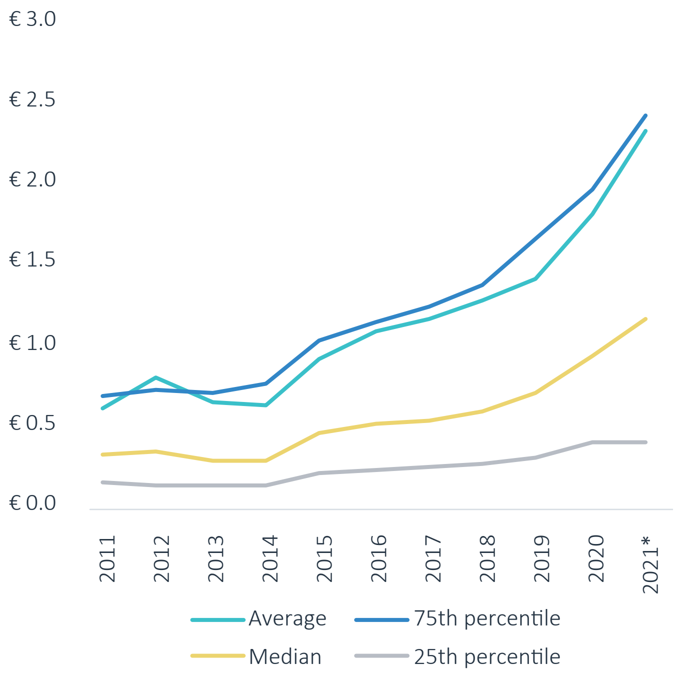
Angel & seed startups have continued to command strong valuations as companies and individuals have settled into remote pandemic life. Investors have continued to seek startups that are tackling evolving issues in popular areas such as sustainability and healthcare, and that are demonstrating early promise in markets with large total addressable markets. The pandemic has been present in Europe for more than a year, and we are now seeing businesses that were founded before or during the pandemic that have shown growth in the last 12 months receive substantial backing. The median angel & seed pre-money valuation reached €4.7 million in Q1 2021, currently pacing 39.0% higher than 2020's record figure. Further, angel & seed deal sizes across all quartiles are trending higher relative to 2020 with the median reaching €0.9 million in Q1 2021.

Angel & seed pre-money valuations (€M)



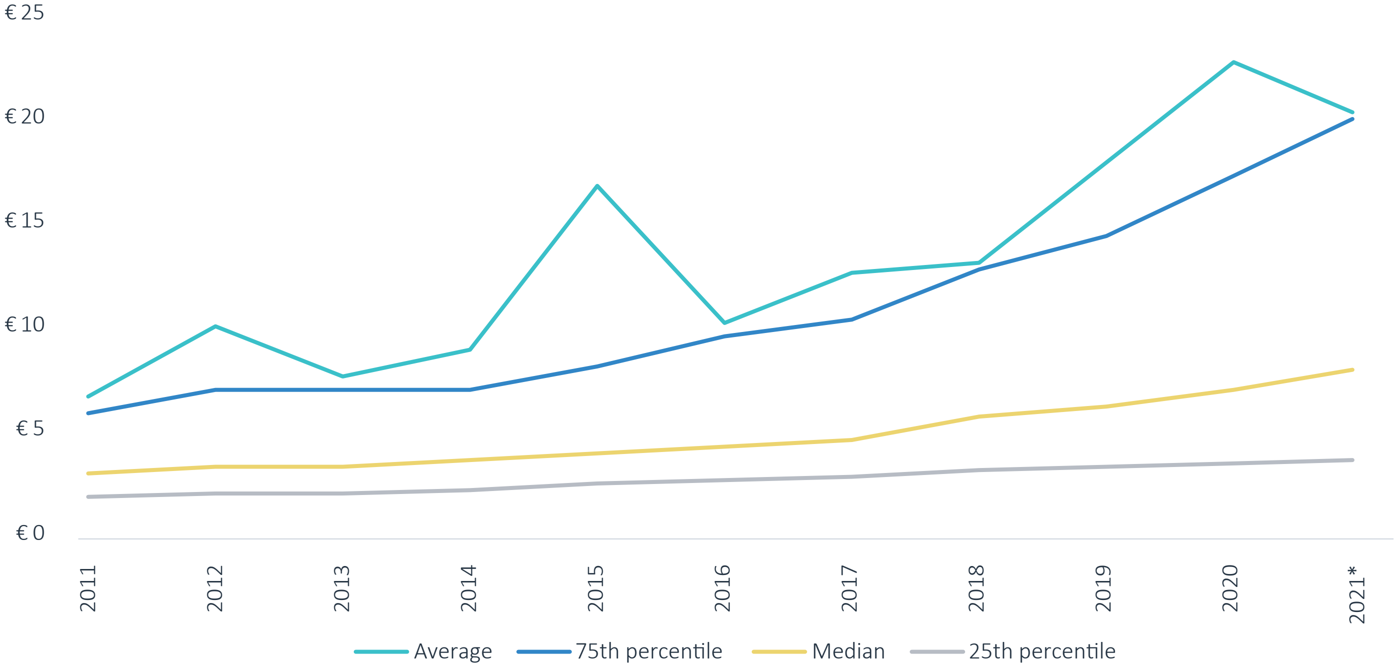
Source: PitchBook | Geography: Europe
*As of March 31, 2021

Angel & seed deal sizes (€M)



Source: PitchBook | Geography: Europe
*As of March 31, 2021

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



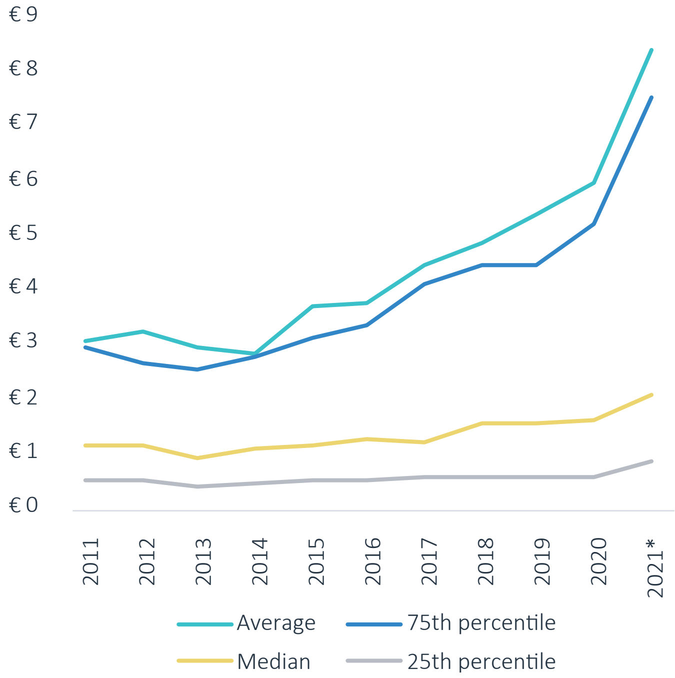
Source: PitchBook | Geography: Europe
*As of March 31, 2021

Early-stage VC

The maturation of the VC ecosystem has continued as early-stage startups are now carrying valuations and closing rounds similar to late-stage startups five years ago. Capital has flooded into early-stage startups to ignite rapid growth in competitive sectors. Macroeconomic uncertainty did not hamper early-stage VC valuations, and deal sizes across the lower, middle, and upper quartiles were higher in Q1 2021 than 2020 figures. The median early-stage valuation reached €7.1 million, while the median deal size rose to €2 million. At the upper quartile, early-stage valuations are pacing 17.2% higher than 2020. The very best investment opportunities continue to draw considerable attention as investors seek out the next big opportunity.

On-demand grocery delivery startup Gorillas closed a €242.2 million early-stage round in Q1, further highlighting that capital is being invested rapidly into startups able to pivot quickly in light of shifting spending patterns. Gorillas' latest funding round illustrates the selective effects the pandemic has had on growth and valuations in the past year. We expect further funding in industries such as online deliveries, especially in younger startups looking to emerge and dominate a particular region or niche subsector.

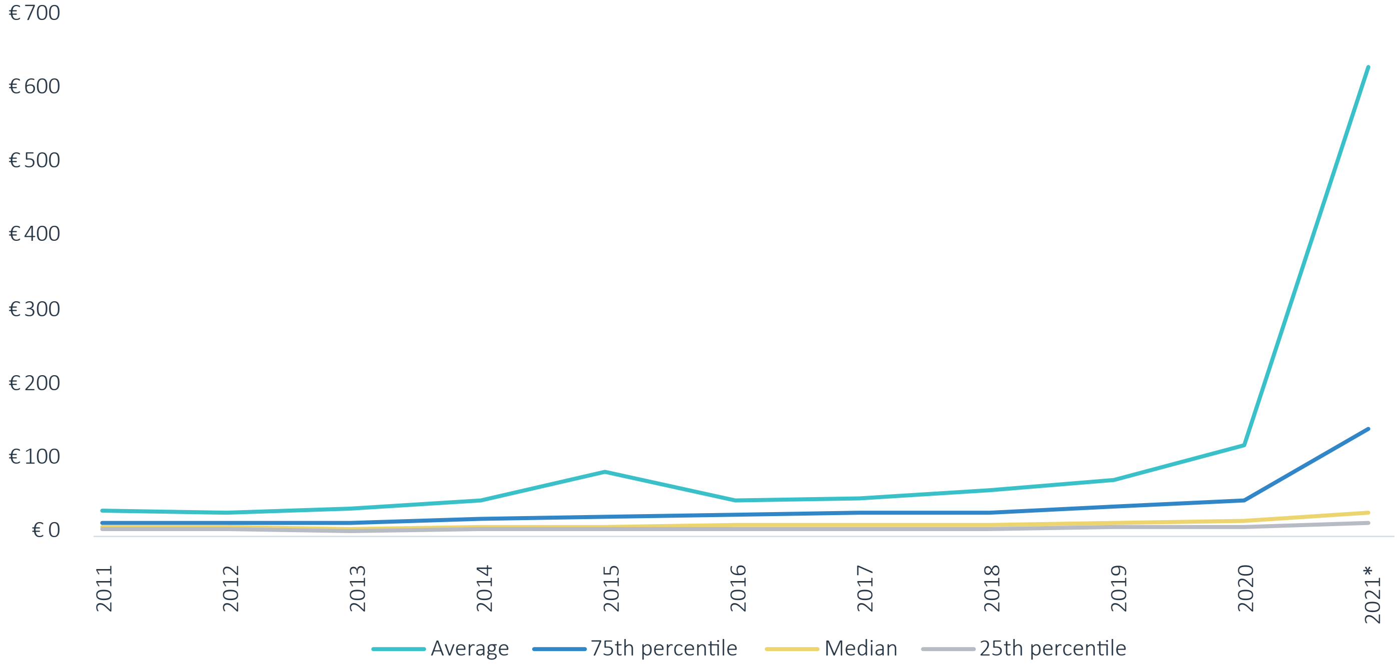
Early-stage VC deal sizes (€M)



Source: PitchBook | Geography: Europe
*As of March 31, 2021

Overview

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



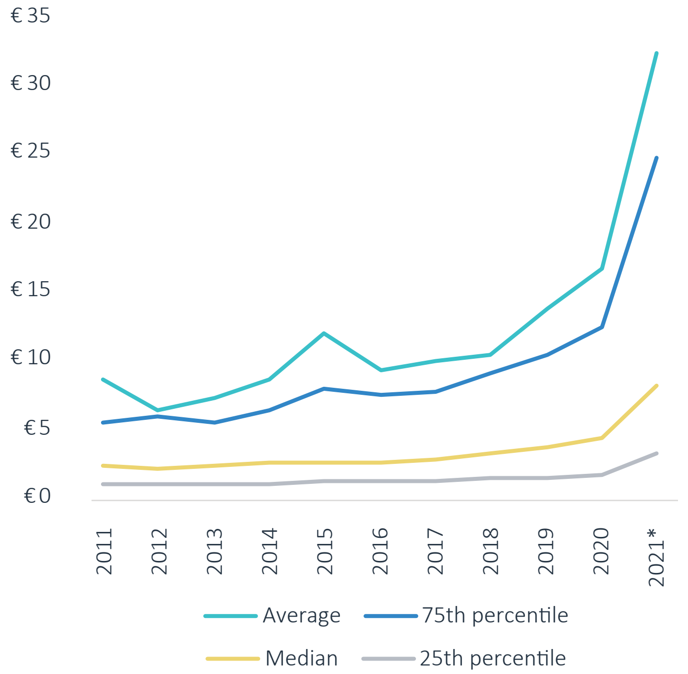
Source: PitchBook | Geography: Europe
*As of March 31, 2021

Late-stage VC

Late-stage rounds such as Klarna's colossal €1.1 billion funding in Q1 2021 have revolutionised the concept of late-stage valuations and deal sizes in Europe in recent years. Overall VC deal value is on course to surpass 2020's record total, largely driven by late-stage rounds for Europe's biggest VC-backed companies. In Q1 2021, there were late-stage rounds exceeding €250.0 million for well-known VC-backed companies including LendInvest, Glovo, Wolt, Checkout.com, and Hopin. The median late-stage deal size was €7.8 million, while the upper quartile is double its 2020 figure and stands at €24.4 million through Q1 2021. The deviation in deal sizes across quartiles at the late stage has crystalised in recent years as leading portfolio companies have completed huge rounds with increased frequency.

Late-stage valuations across all quartiles are pacing higher in Q1 2021 relative to 2020 figures, as the economic fallout from COVID-19 has not caused widespread valuation haircuts for Europe's largest VC-backed companies. The median late-stage valuation reached €24.8 million in Q1 2021, and if the pace is maintained, at the year's end it will nearly double the record set in 2020. Late-stage valuation growth has been driven by companies maximising their investment runways in the ecosystem by closing record rounds. Consequently, these rounds, which contain a rich diversity of investors, have led valuations to rise further at the late stage. Capital options have expanded for businesses as investors—both nontraditional and overseas—have been willing to pump capital into late-stage companies to maximise their growth in the VC ecosystem before a subsequent exit.

Late-stage VC deal sizes (€M)



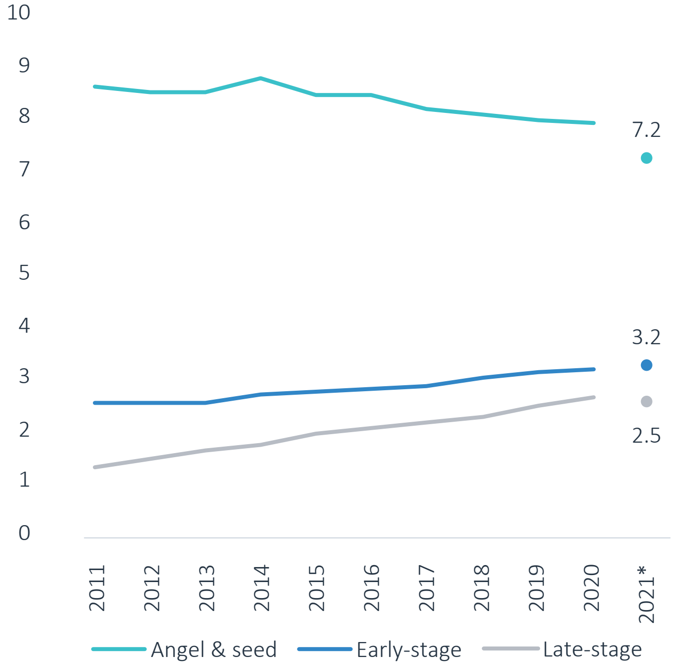
Source: PitchBook | Geography: Europe
*As of March 31, 2021

Time between rounds

While newly founded startups and mature VC-backed companies have maximised their investment runways in the VC ecosystem in recent years, the time between rounds has not reflected vast changes. Thus, it is clear that companies have been able to grow their valuations, attract more capital, and develop at a faster rate in the VC ecosystem. Companies have become far more valuable, especially at the late stage, yet time periods have remained relatively flat. In Q1 2021, the median time from founding to complete a late-stage round was 7.2 years, in line with figures during the past decade. In the same period, the median late-stage valuation has gone from €3.7 million in 2010 to €13.9 million in 2020, as valuations have grown rapidly despite time periods remaining flat.

We believe time between rounds in the last decade has been predominantly affected by the velocity of value creation for tech startups that rapidly scaled after securing initial backing or bootstrapping. Startups such as Hopin, which has become a multi-billion-euro company in less than two years, typify how growth and trends accelerated by the pandemic can create some of the most valuable entities in a very short space of time. We expect further outlier startups to emerge in the coming years, as investors heavily invest in and target companies that show potential to rapidly scale across countries—especially in sectors that possess limited barriers to entry.

Median time (years) from founding by stage



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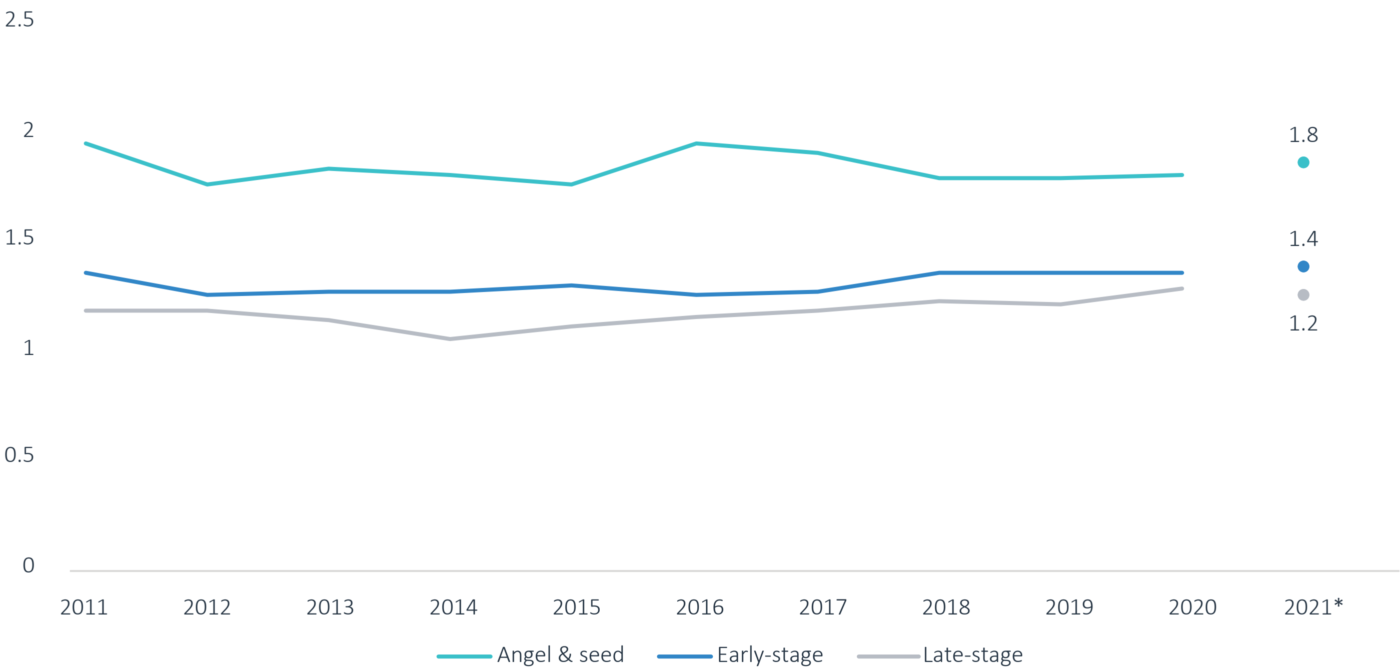
Median time (years) between rounds by VC stage



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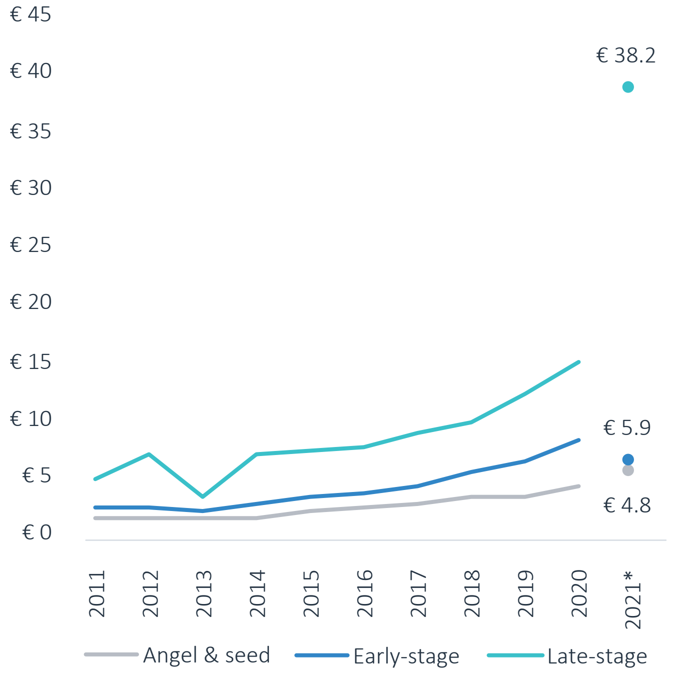
Sectors

Software pre-money valuations at the late stage climbed to €38.2 million in Q1, as some of Europe's most valuable companies such as Klarna closed monumental rounds. Late-stage software companies disrupting a wide variety of industries have been a key component of the VC ecosystem, and we believe they will remain core drivers of growth in valuations and deal sizes moving forward. Subsectors such as ecommerce, on which Klarna focuses, have exhibited increased usage during the last year, translating into larger valuations tied to outsized rounds. Klarna's €1.1 billion round in Q1 also helped the software late-stage median deal size pace higher relative to 2020 figures at €8.2 million in Q1 2021.

Late-stage healthcare companies have also attracted strong levels of capital support in the wake of the COVID-19 pandemic. The late-stage median deal size rose to €5.8 million in Q1, which will be a new annual peak if maintained throughout 2021. We expect investors and founders to focus on healthcare fields in forthcoming years to prevent future global healthcare disasters.

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



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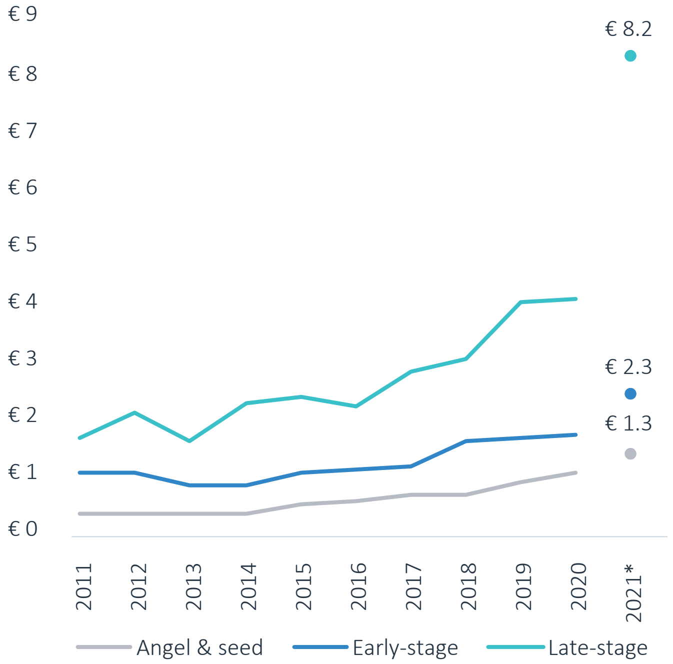
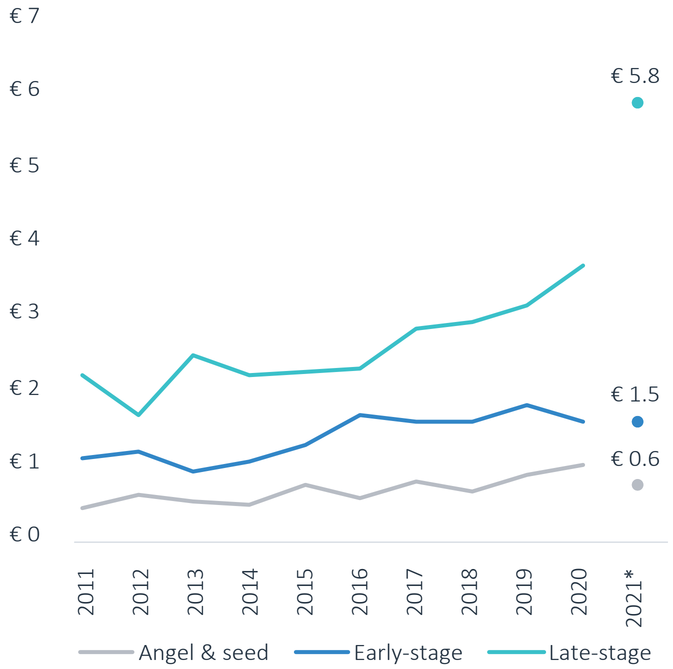
Median deal sizes (€M) by VC stage for software companies



Source: PitchBook | Geography: Europe
*As of March 31, 2021

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



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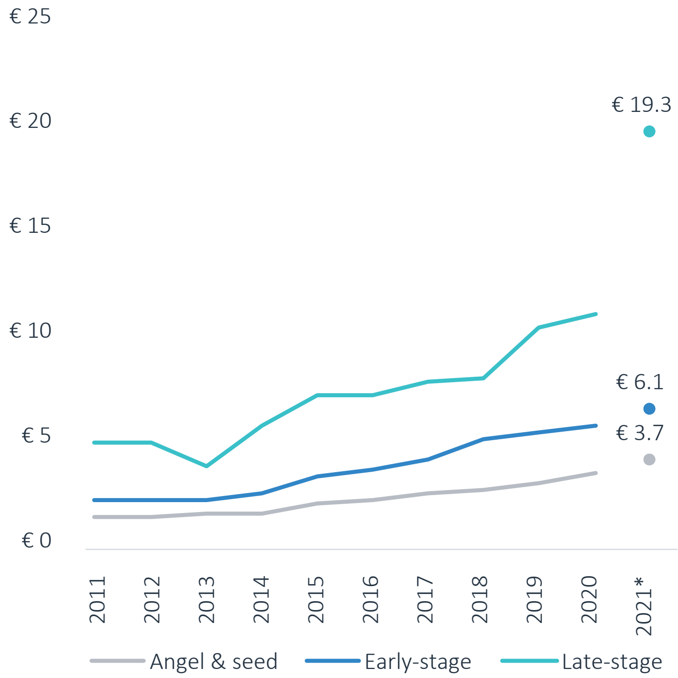
Regions

Valuations across all stages in the UK climbed further in Q1 2021 from record figures in 2020. Median late-stage valuations in the UK & Ireland were €19.3 million in Q1, equivalent to an 81.7% increase from 2020 figures. Companies in the region have been able to develop their valuations as the UK & Ireland has remained the largest VC ecosystem in terms of overall deal value in Q1. Challenges such as long-term implications from Brexit and the pandemic still linger. However, founders and investors can be bullish as the region continues to attract talent from diverse backgrounds and companies continue to develop impressive valuations and attract hefty investment.

Valuation growth across Europe has been strong, too. The median pre-money valuations across all stages in the France & Benelux region are pacing higher than 2020 figures, with the late-stage median reaching €11.2 million in Q1. Meanwhile, the late-stage median deal size in the Nordics rose to €8.4 million in Q1, as the region continues to develop into a major dealmaking area, which is further examined in our 2021 Nordics Private Capital Breakdown.

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



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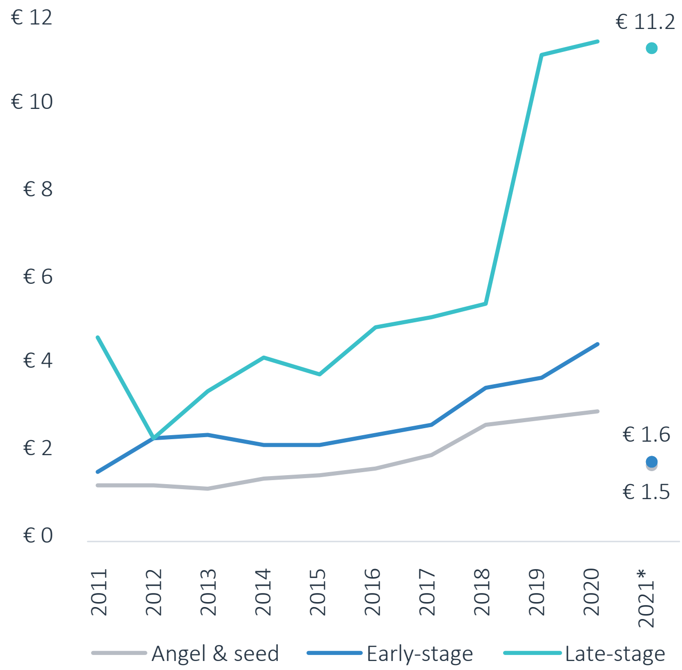
Median pre-money valuations (€M) by VC stage for the France & Benelux



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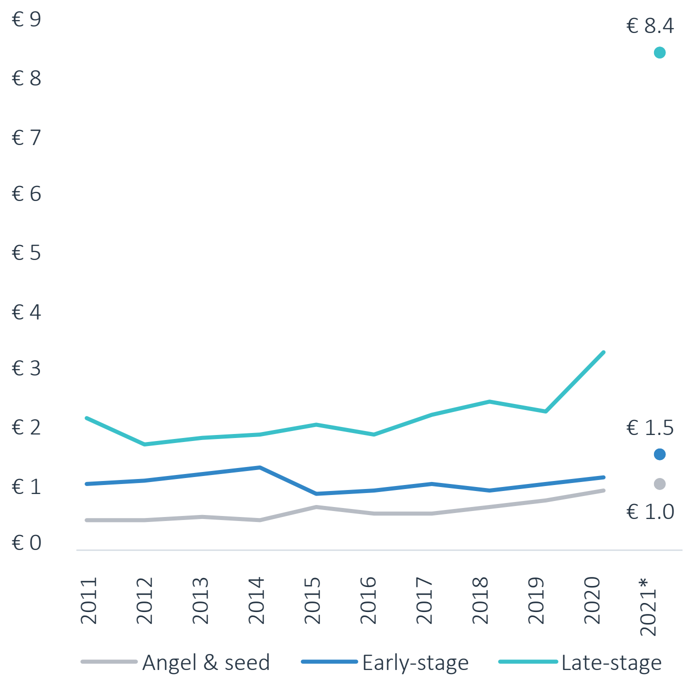
Median deal sizes (€M) by VC stage for Nordics



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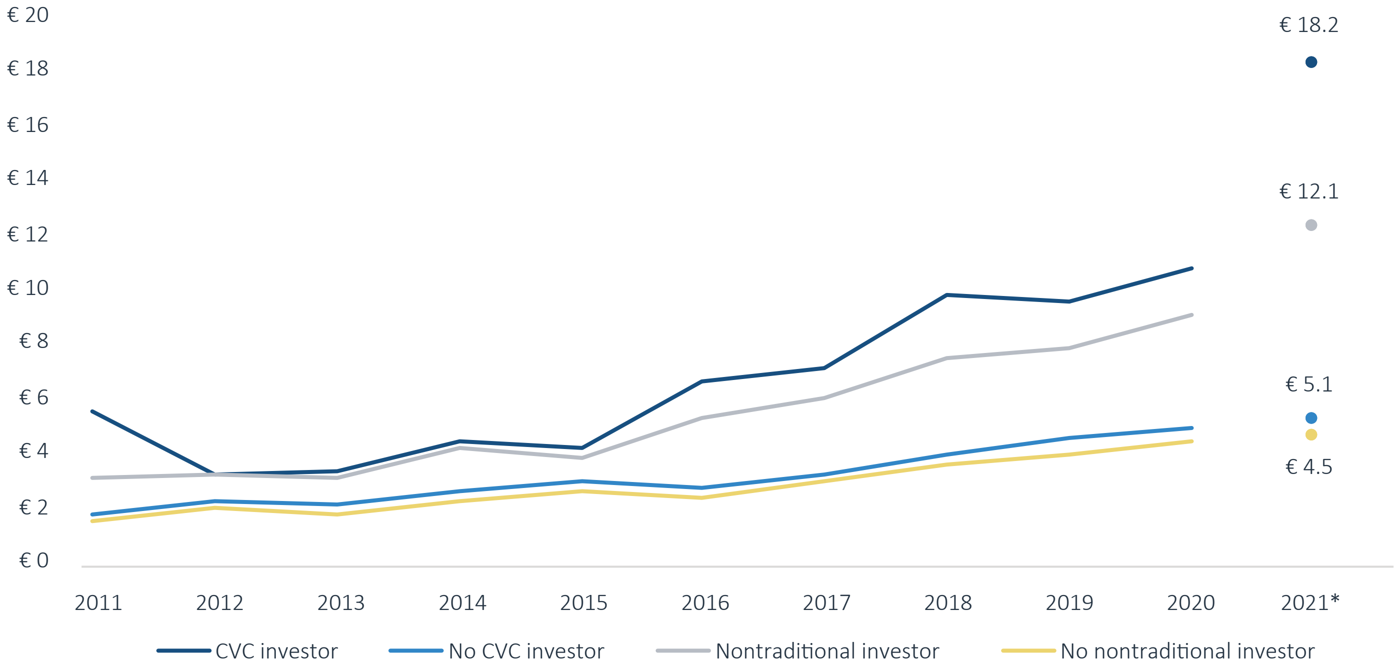
Nontraditional investors

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



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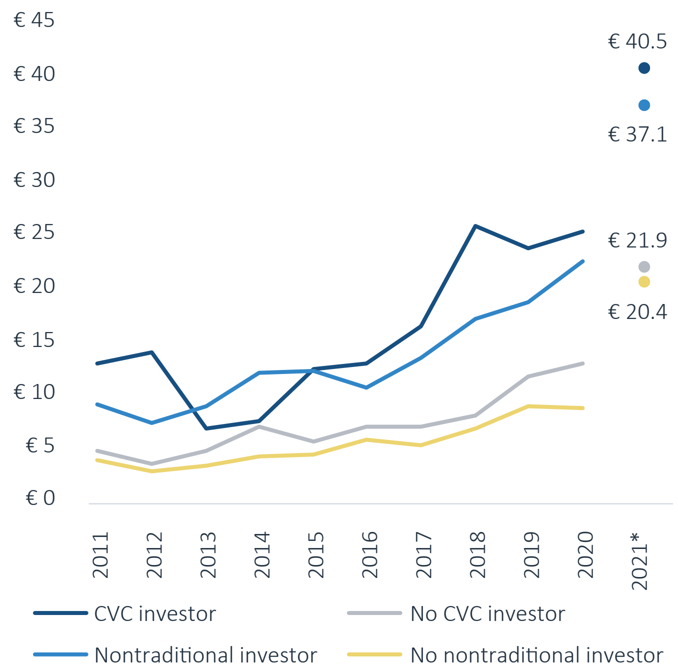
*As of March 31, 2021

Nontraditional investors—including financial institutions such as PE firms, hedge funds, pension funds, sovereign wealth funds, and investment banks along with LPs and corporate VC (CVC) arms, among others—have increased their presence in the European VC ecosystem during the past five years. The flood of capital pouring into the VC ecosystem has driven up round sizes and valuations to heights never witnessed before. Meanwhile the pursuit of growth, slashed interest rates, and low return profiles in other investment strategies have also led backers to pump capital into VC. Further, the pace set in recent years has not slowed despite macroeconomic issues such as volatile economic growth and rising unemployment created by the pandemic.

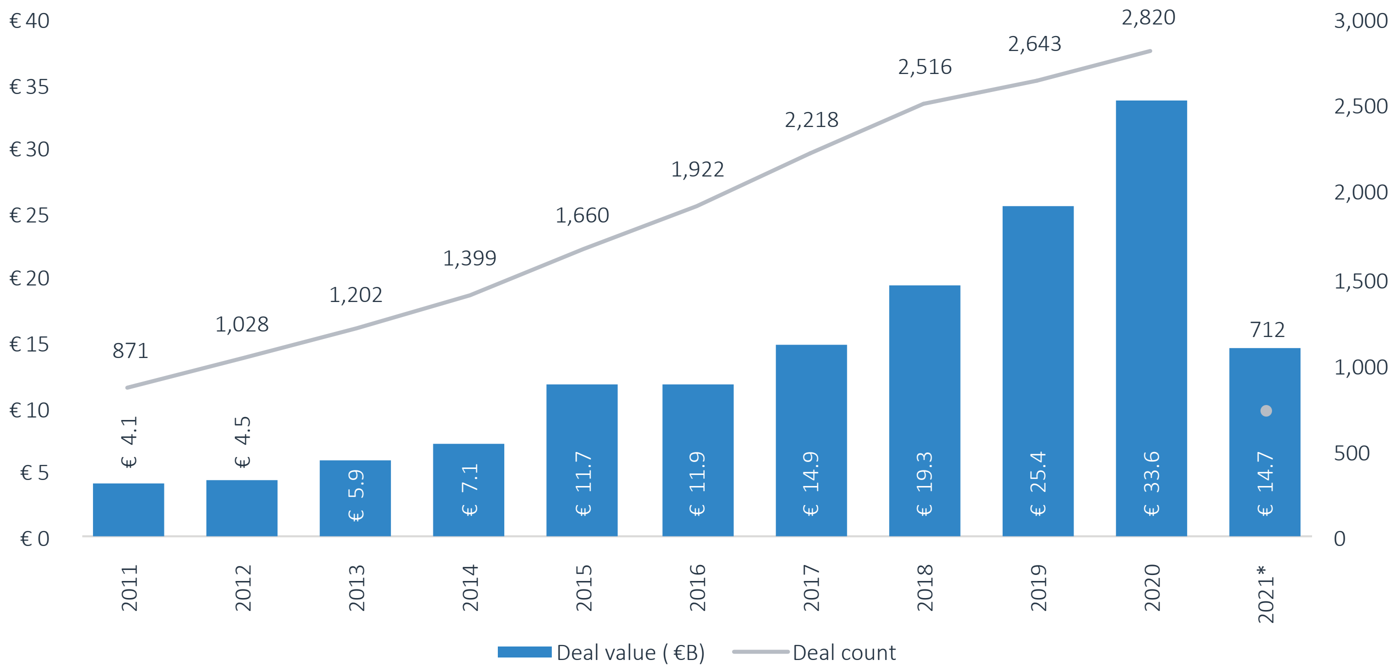
Regardless of the type of investor involved in a round, both median early- and late-stage pre-money valuations set a strong pace in Q1 2021 and were higher than 2020 figures. Given the record start to Q1 2021, new highs could be set at the year's end. Generally, startups appear to have been able to display growth and close rounds to boost their valuations. Capital options have been a huge factor enabling startups to grow in recent years. Companies now have access to accelerators and incubator programmes, wealthy tech angels, and traditional GPs as well as nontraditional investors to help provide support and capital.

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



Source: PitchBook | Geography: Europe
*As of March 31, 2021

Deal activity with nontraditional investor participation

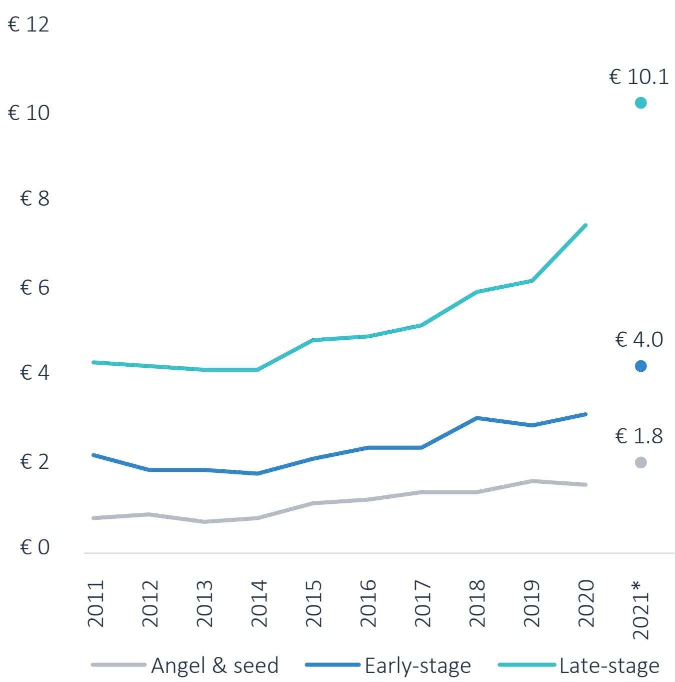


Source: PitchBook | Geography: Europe
*As of March 31, 2021

VC deals with nontraditional participation reached €14.7 billion in Q1 2021, on course to easily surpass the record €33.6 billion in 2020. Numerous nontraditional investors have invested heavily in the VC ecosystem to seek out lucrative returns or leverage innovation that could help their own businesses. For example, London-based LendInvest's €560.4 million round in Q1 was financed by J.P. Morgan (NYSE: JPM). Investment banks as well as corporations are constantly keeping abreast of innovation and disruption in respective industries. Such investments enable longstanding institutions to expand operations via investments and potentially reap the benefits of new customer bases and products, which can lead to increased revenues and growth areas for underlying investors, while startups can benefit from increased security and investors' deep expertise.

In Q1 2021, the median deal size with nontraditional investor participation across all stages ticked higher than 2020 figures. We expect deal sizes to sustain the levels seen in Q1 2021 despite macroeconomic uncertainty. VC-backed companies will remain keen to maximise the amount of capital they can raise in the ecosystem, and large rounds are expected to close regularly. Conversely, investors will want to continue to back flagship startups, many of which have shown strong growth during the pandemic, as they are aligned to cloud-based tech businesses.

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



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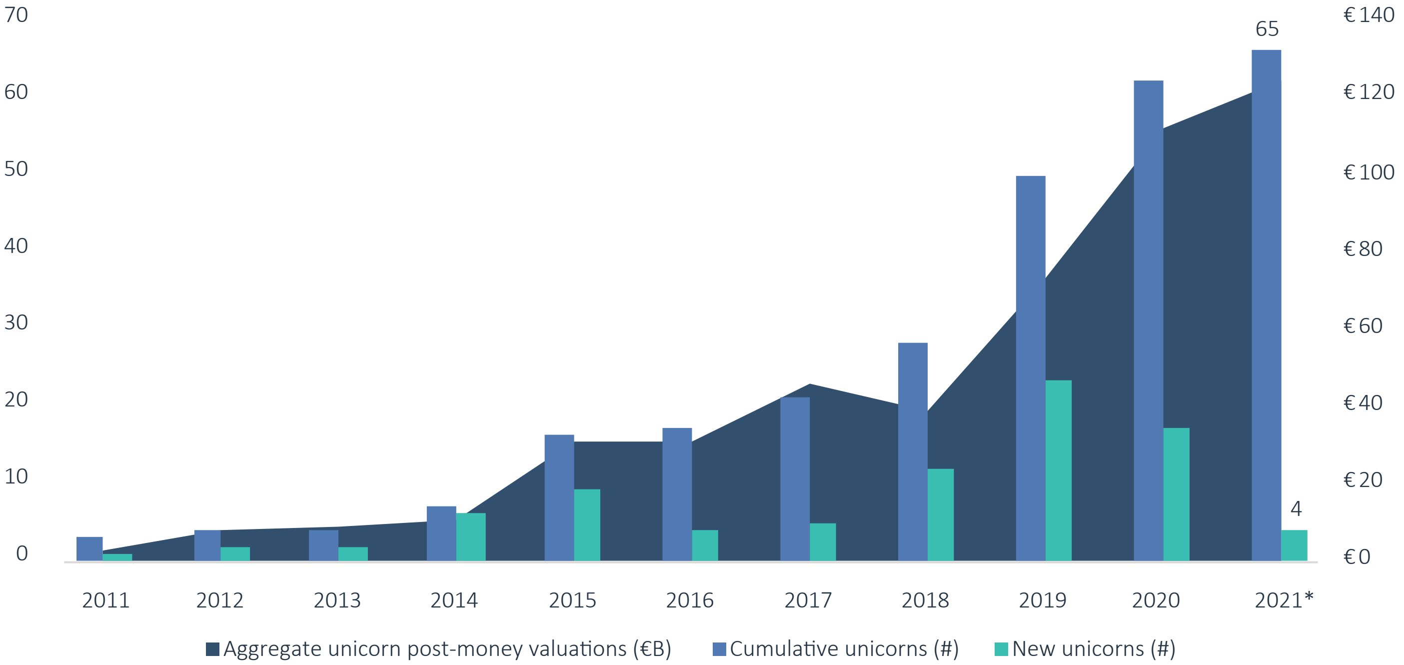
Unicorns

Unicorn count and aggregate post-money valuation



Source: PitchBook | Geography: Europe
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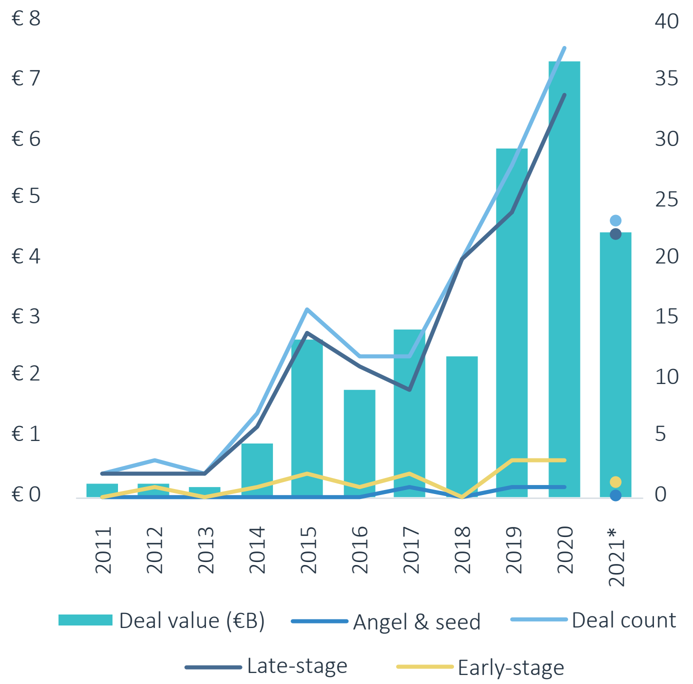
The aggregate post-money valuation of companies valued at €1 billion or more (commonly known as "unicorns") in Europe grew to €122.5 billion in Q1 2021. Aggregate value of unicorns continued upwards despite COVID-19, a testament to the steady influx of newly minted unicorns developing in the European ecosystem. There are currently 65 unicorns in Europe, slightly up from 61 in 2020, as four have been added in Q1 2021. The number of new unicorns in Q1 2021 is in line with 2020 figures when 17 were minted, illustrating that unicorns continue to be crowned at a healthy rate despite the prolonged pandemic.

In Q1 2021, 23 deals involving unicorns have already been completed, in comparison to 38 for all of 2020. Dealmaking for unicorns has increased in frequency in 2021, and we expect a record quantity of deals involving €1 billion+ companies to be set at the end of the year. There are now several VC-backed companies such as Klarna, Checkout.com, Hopin, and Blockchain.com that carry multibillion-euro valuations. As long as companies of these proportions continue to develop in the ecosystem, unicorn dealmaking activity will continue to rise. Late-stage capital options—both traditional via enlarged VC funds and nontraditional sources such as financial institutions—have revolutionised unicorn valuations in Europe during the last six years in particular.

Unicorn deal activity by VC stage



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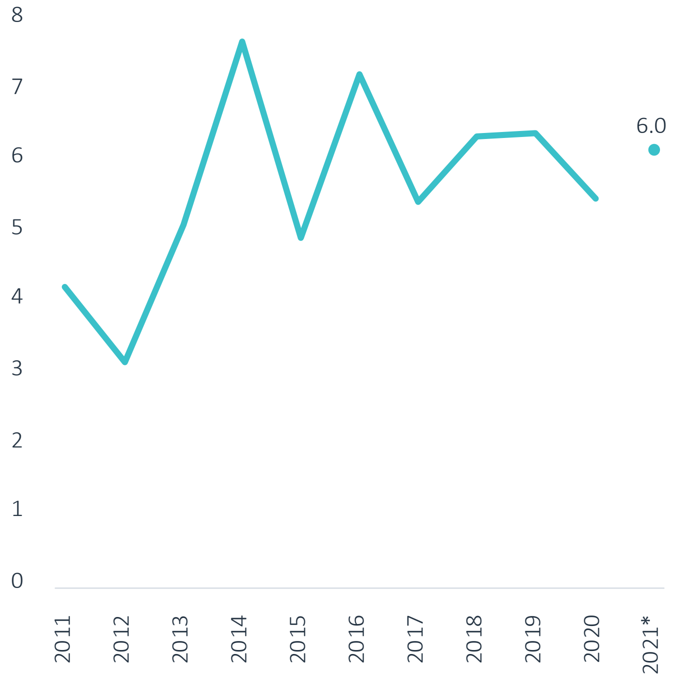
Deal value involving unicorns reached €4.5 billion in Q1 2021, well on track to beat the record €7.3 billion in 2020. It is increasingly common to see some of the most valuable companies in Europe achieve the unicorn milestone and then go on to close additional multiple large rounds. Historically, reaching unicorn status was reserved for a select few, and often companies that attained that lofty perch believed they had maximised their growth potential in the VC ecosystem and sought an exit. Nonetheless, with capital availability, high deal values, and unicorn numbers soaring, we expect increasing numbers of companies will cross the unicorn threshold and push towards valuations in excess of €5–€10 billion before they actively seek an exit.

Although European unicorns' valuations lag those in the US, we believe the effects of robust investment into Europe-based unicorns could create much larger valuations in future years. In recent years, US-based institutional investors have been actively targeting high-quality tech-focused companies in Europe that have carried lower valuations than their US counterparts. We expect transatlantic capital flows to continue to increase and strengthen valuations in Europe, as cash-rich US investors seek new companies showing strong potential that could be introduced to the US market. The biggest global tech firms are US-based, and investors may want to develop global portfolios as newer, less-developed companies could demonstrate strong potential combined with sharper growth rates.

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



Source: PitchBook | Geography: Europe
*As of March 31, 2021

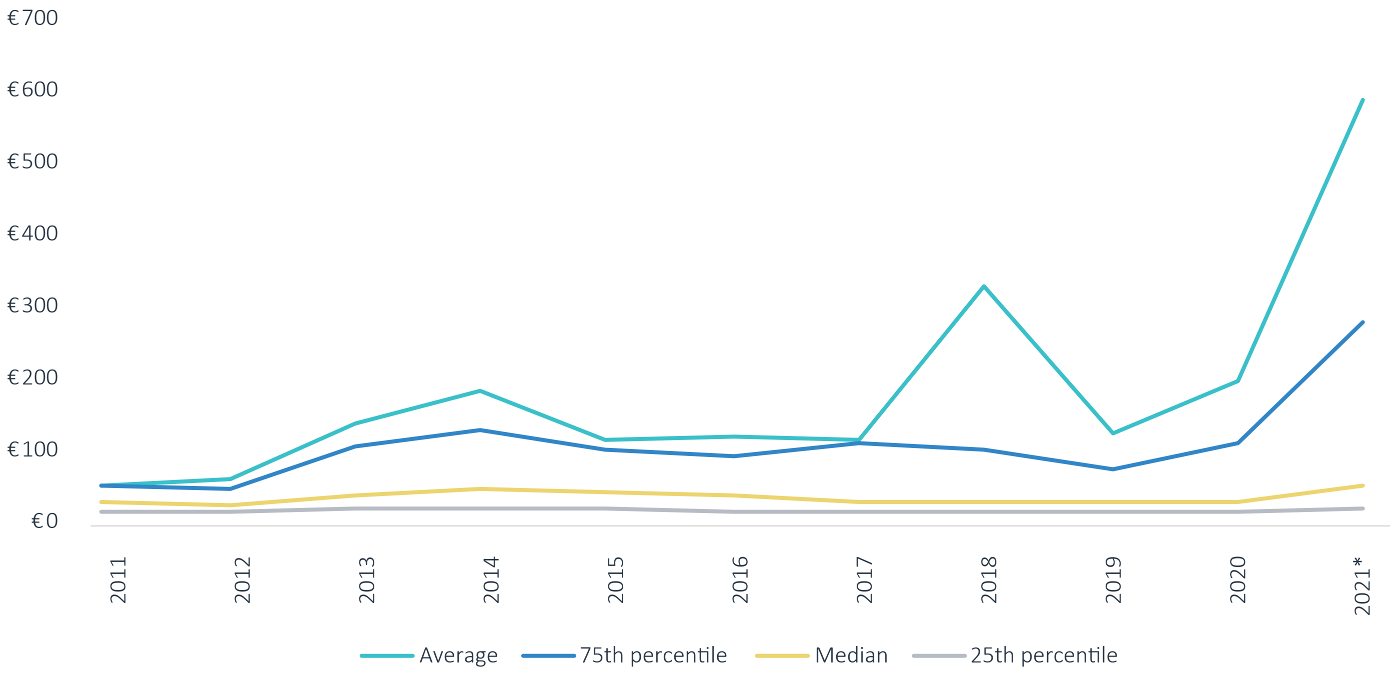
Top five largest rounds for unicorns in Q1 2021

Company name	Deal size (€M)	Deal type	Industry sector	Location
Klarna	€1,066.5	Late-stage VC	Information technology	Stockholm, Sweden
Wolt	€ 440.0	Late-stage VC	Consumer products and services	Helsinki, Finland
Checkout.com	€ 369.0	Late-stage VC	Information technology	London, UK
Hopin	€ 330.8	Late-stage VC	Business products and services	London, UK
Blockchain.com	€ 250.3	Late-stage VC	Financial services	London, UK

Source: PitchBook | Geography: Europe
*As of March 31, 2021

Liquidity

Post-money valuations (€M) at VC exit

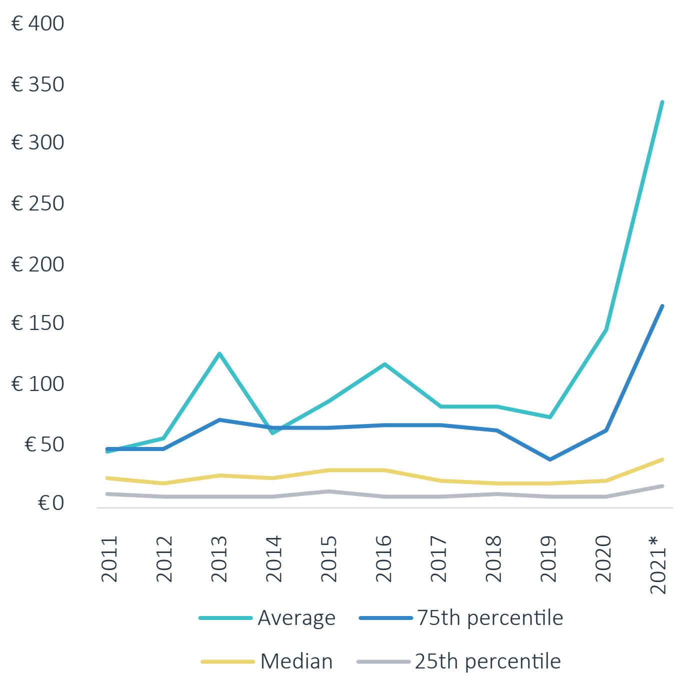


Source: PitchBook | Geography: Europe
*As of March 31, 2021

Post-money valuations upon exit at all quartiles trended upwards from annual 2020 figures, with the upper quartile pacing 165.9% higher at €271.3 million through Q1. Although fluctuations are expected during 2021, the staggering increase is noteworthy and indicates that exits relating to the most valuable VC-backed companies in Europe have grown in stature. The skewed figure can be attributed to a resurgent exit environment as high profile multi-billion euro exits for Arrival (NASDAQ: ARVL), Deliveroo (LON: ROO), and Auto1 (FRA: AG1) took place in Q1. European exit value has already eclipsed the total exit value from the whole of 2020 as highly valued companies looked to capitalise on conducive market conditions. The pandemic forced people online, and a scarcity of events in early 2020 generated pent-up investor demand. As companies experienced increased growth rates, they swiftly exited to take advantage of market drivers amid reduced competition.

Food delivery platform Deliveroo and used-car sales platform Auto1—both of which listed via IPO at a €6.6 billion pre-money valuation—epitomise how the pandemic has affected near-term exit appetite. Both companies had been well-established in the ecosystem as they grew valuations impressively YoY. Their eventual exits had been anticipated for some time and could easily have taken place earlier, yet

Post-money valuations (€M) at VC exit via acquisition



Source: PitchBook | Geography: Europe
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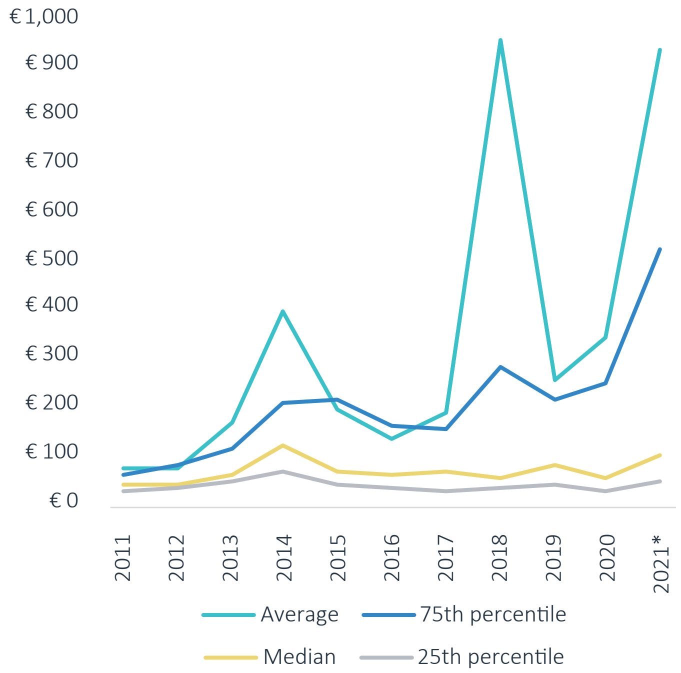
we believe the pandemic ultimately pushed both companies to pull the trigger on their respective exit strategies. Physical car dealerships and restaurants have been closed in multiple regions, causing consumers to shop online more often, using app services such as those offered by Deliveroo and Auto1. With vaccination rates increasing, however, growth could slow for online businesses as 2021 progresses; as a result, exits in tech sectors have become very popular to maximise valuations and potential returns to investors in recent months.

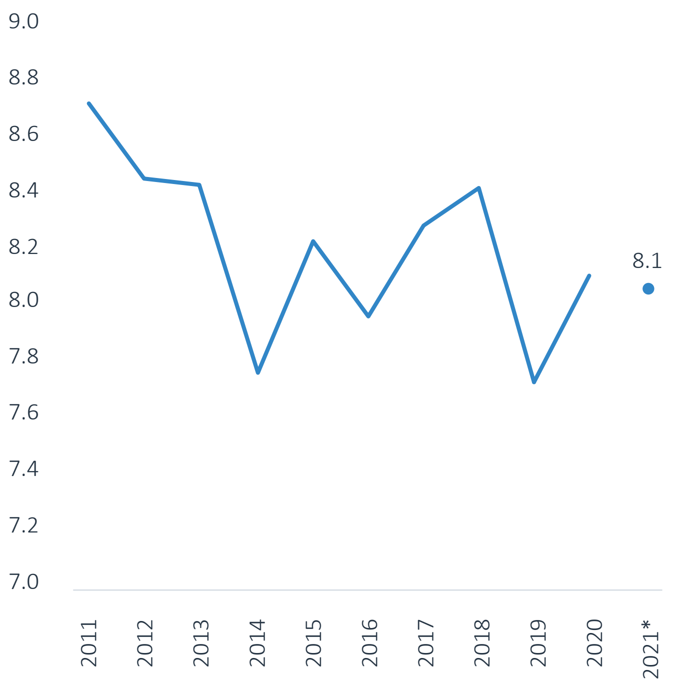
Exits via IPO reflected higher exit valuations across all quartiles in Q1 2021 in comparison to 2020. Public equities have been volatile during the pandemic, but VC-backed companies can take confidence from the fact that numerous exits at robust valuations have continued to take place despite concerns. The SPAC exit route is spreading to Europe and could offer an alternate exit option; however, questions remain concerning the performance and potential oversaturation of SPACs in global markets. Moreover, public equity sentiment can shift quickly given its liquid nature. As evidenced in the past year, news-driven swings can influence markets, and not all IPOs have been hugely successful in recent months. Nonetheless, record revenues, incredible growth, and bulging valuations for tech giants such as Apple (NASDAQ: AAPL) and Amazon (NASDAQ: AMZ) may help assuage concerns of tech companies that are considering public listings.

Post-money valuations (€M) at VC exit via IPO



Source: PitchBook | Geography: Europe
*As of March 31, 2021

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



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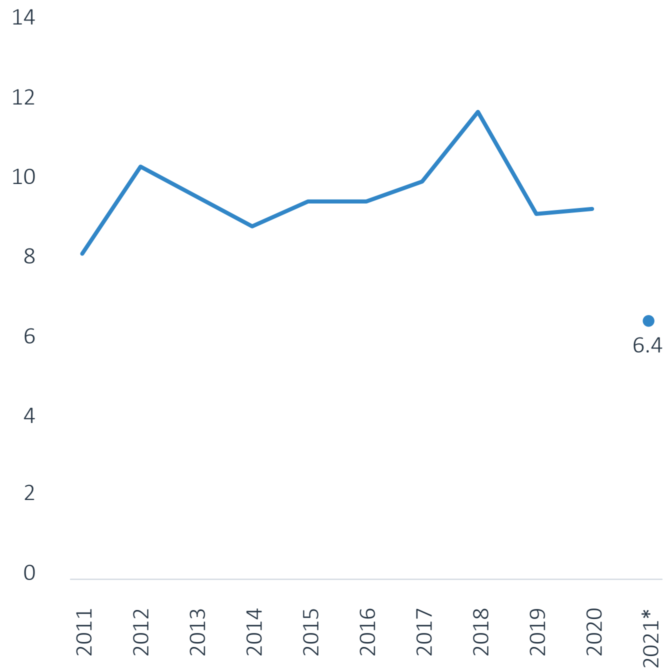
Median time (years) between founding and exit via IPO for VC-backed companies



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