PitchBook

European Venture Report

Q1 2021

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Introduction

European VC deal value soared to a new quarterly record in Q1 2021. Q1 2021 sustained 2020's record-breaking momentum, and annual records could be surpassed later this year. Throughout the quarter, enormous late-stage rounds closed as highly valued companies attracted ample investment. First-time deal activity started the year off strongly as investors targeted trends accelerated by the COVID-19 pandemic. Robust dealmaking capabilities were exhibited in the UK & Ireland region and financial technology (fintech) sector across Europe.

Deal value with nontraditional investor participation grew during Q1; it is on track to beat the annual record set in 2020. High-profile brands and fashionable tech-based sectors have turned VC into an important strategy for nontraditional investors. Potentially lucrative return profiles, integration via synergies, and startups in nascent markets have been fundamental drivers of nontraditional investment.

In Q1 2021, VC exit value surpassed the exit value total from all of 2020. Companies pressed ahead with exits to take advantage of encouraging market conditions stemming from pandemic-driven shifts in spending and excess liquidity in the system. General exit activity was propelled by substantial exits of highly valued VC-backed companies. Public listing quantities—including IPOs and special purpose acquisition companies (SPACs)—have resurged and may fuel future activity.

VC fundraising had a solid start in 2021. Capital from international LPs poured into European funds targeting a variety of investment opportunities involving fast-growing companies across several sectors and countries. Travel restrictions have not dampened fundraising, and specialist VC funds have continued to close. Healthcare and sustainability remain key areas for VC funds looking to attract capital commitments.

Nalin Patel
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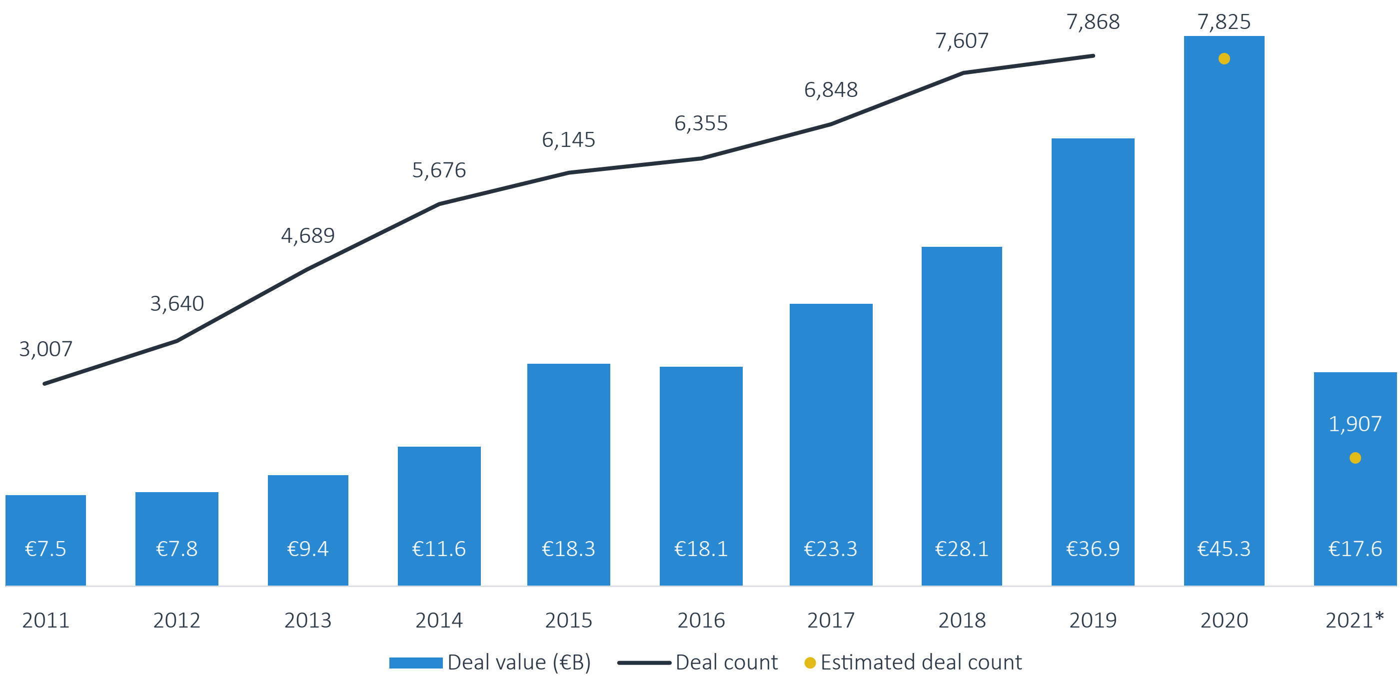
PitchBook

Overview

VC deal activity

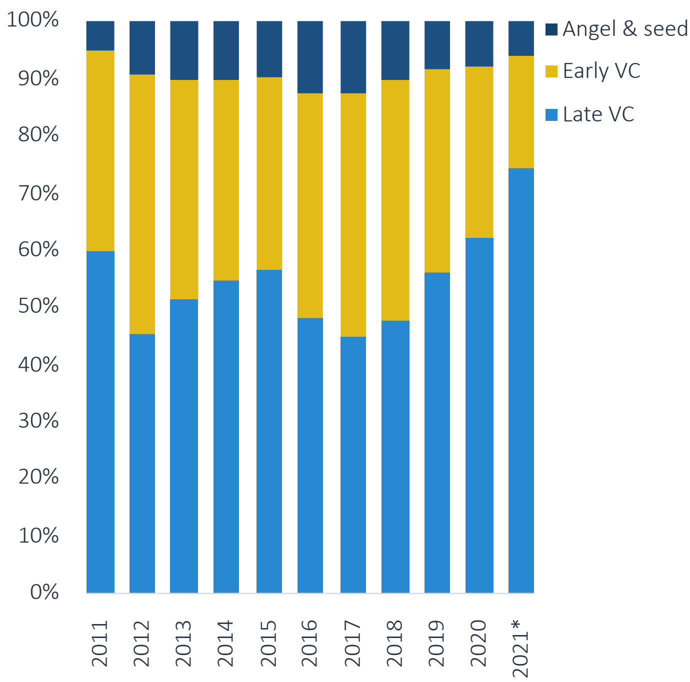


Source: PitchBook | **Geography:** Europe
*As of March 31, 2021

Q1 2021 sustained 2020's record-breaking momentum by notching a new VC deal value quarterly high of €17.6 billion. Capital poured into a range of European startups. Given the strong pace set in Q1, annual records will likely be surpassed again as the year progresses. Despite the associated political unrest concerning vaccination supplies, rising COVID-19 cases in Europe, and ever-evolving restrictions on daily life, the COVID-19 pandemic and precarious macroeconomic outlooks both failed to dampen VC appetite.

Also in Q1, late-stage deal value reached €13.0 billion, which equates to 74.0% of the quarter's overall deal value. Initiating a trend that will likely continue throughout 2021, enormous late-stage rounds closed with regularity in Q1 despite lockdowns and rising unemployment. In recent years, late-stage VC options developed rapidly in Europe, while outsized rounds tied to the most-developed VC-backed companies increased in frequency. If a healthy pipeline of late-stage companies continues emerging, European records will continue being broken. In one of the largest VC rounds ever witnessed in Europe, Klarna's latest financing round totalled a staggering €1.1 billion, which swelled its valuation to €25.6 billion. However, rounds of this magnitude may raise questions about the sustainability of such growth, overheated private market valuations, and the blurring between VC, PE, and M&A, among other large investment strategies.

VC deals (€) by stage



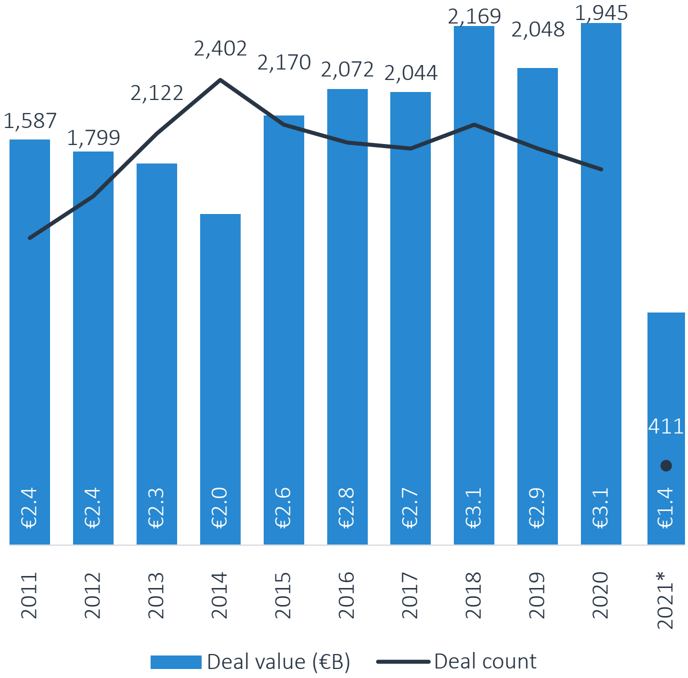
Source: PitchBook | **Geography:** Europe
*As of March 31, 2021

Q1's overall deal value growth did not depend solely on outsized follow-on rounds. First-time deal value reached €1.4 billion in Q1, which is well ahead of 2020's figures. Investors have been eager to bet on pandemic-accelerated trends that could have long-term viability. As spending habits shift and nascent trends develop, new startups will continue to attract investors fearful of missing out on the next big growth opportunity. One of the largest first-time rounds in Q1 involved Berlin-based e-commerce acquirer Branded, which totalled €123.9 million. E-commerce has boomed during the pandemic as shoppers have been forced online. Branded is well positioned to capitalise on the industry's growth, as it acquires and partners with top-performing businesses that sell on Amazon (NASDAQ: AMZN).

The UK & Ireland's startups had a strong start to 2021. €6.1 billion was invested into the region's startups, which is on course to surpass the record €15.4 billion invested in 2020. In this post-Brexit era, UK-based companies have generally been able to attract capital and conduct business as usual, although certain goods such as food and clothing have experienced increased pricing and logistical delays. The UK continues carving out its new role outside the EU while simultaneously remaining among the most competitive and attractive economies in the world. In the long run, prominent UK-based startups could play a key role in retaining talent and attracting new overseas investment. The UK is home to some of the most valuable VC-backed companies globally. For example, substantial Q1 rounds for payment specialist Checkout.com and events platform Hopin boasted strong valuation step-ups despite the region's near-term uncertainty caused by COVID-19 and Brexit.

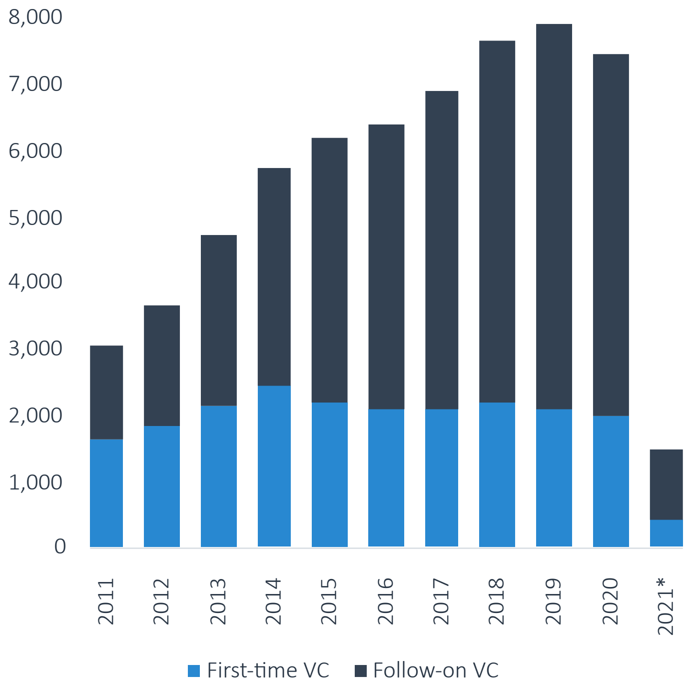
A healthy collection of fintech deals closed in Q1, thereby reinforcing Europe's interest and expertise in the subsector. Software has heavily disrupted finance in the past decade, and strong deal value in Q1 2021 indicates that technological innovation and the emergence of new players will likely persist into the 2030s. In Q1, cryptocurrency service Blockchain.com closed a €250.3 million round; fintech-as-a-service provider Rapyd completed a €245.9 million financing; challenger bank Starling Bank obtained €313.2 million; and property finance platform LendInvest secured €560.4 million from J.P. Morgan (NYSE: JPM). All of these VC-backed entities address different financial tasks and propose innovative solutions in competitive areas, thus illustrating the ways fintech companies have increased client bases and garnered attention and investment from incumbent financial institutions.

First-time VC deal activity



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

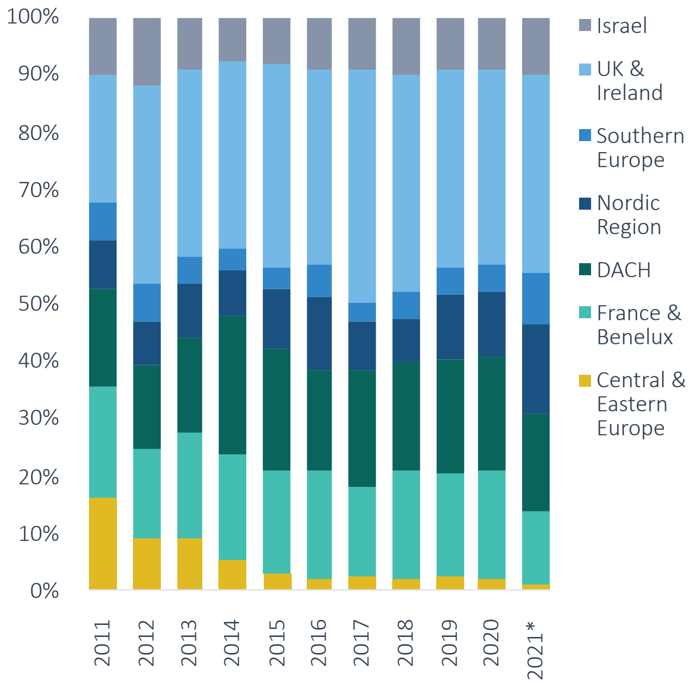
First-time and follow-on VC deals (#)



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

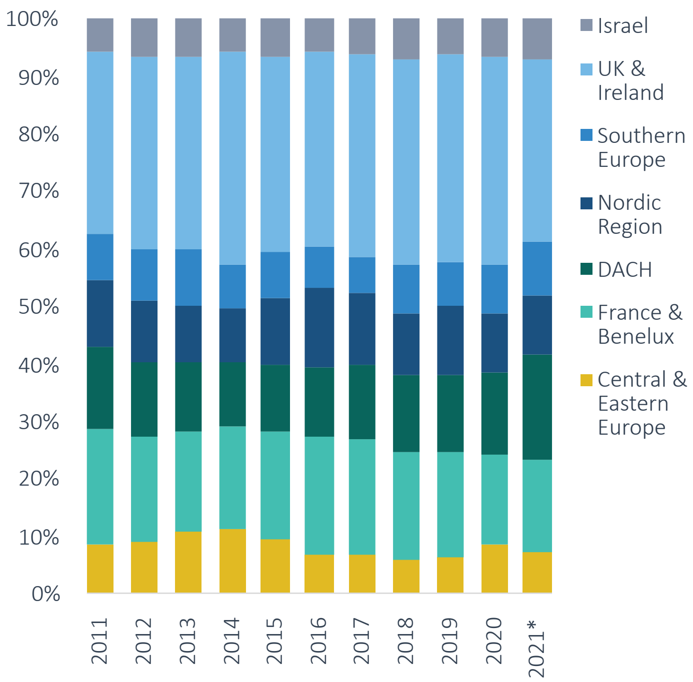
VC deals by region and sector

VC deals (€) by region



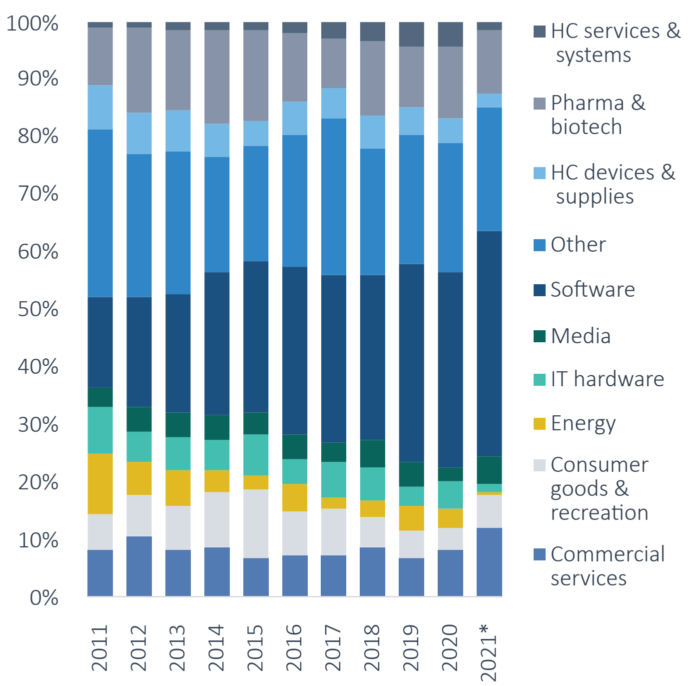
Source: PitchBook | **Geography:** Europe
*As of March 31, 2021

VC deals (#) by region



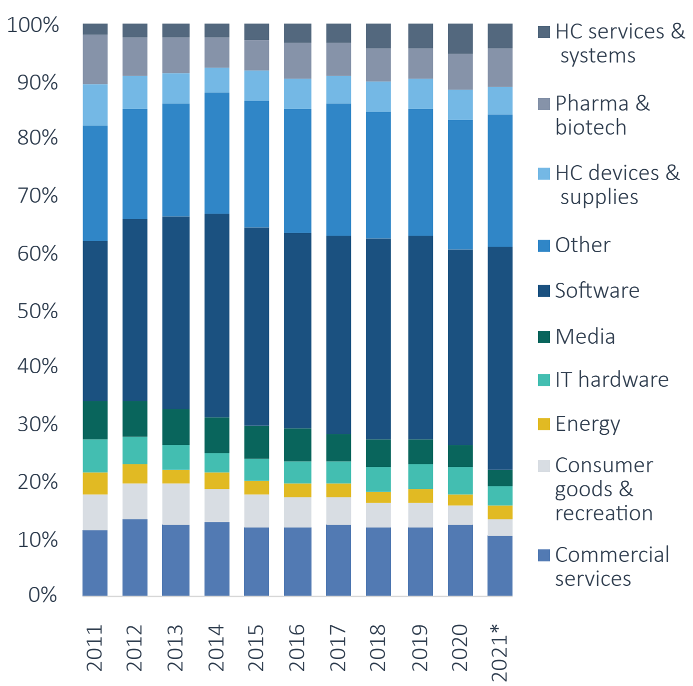
Source: PitchBook | **Geography:** Europe
*As of March 31, 2021

VC deals (€) by sector



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

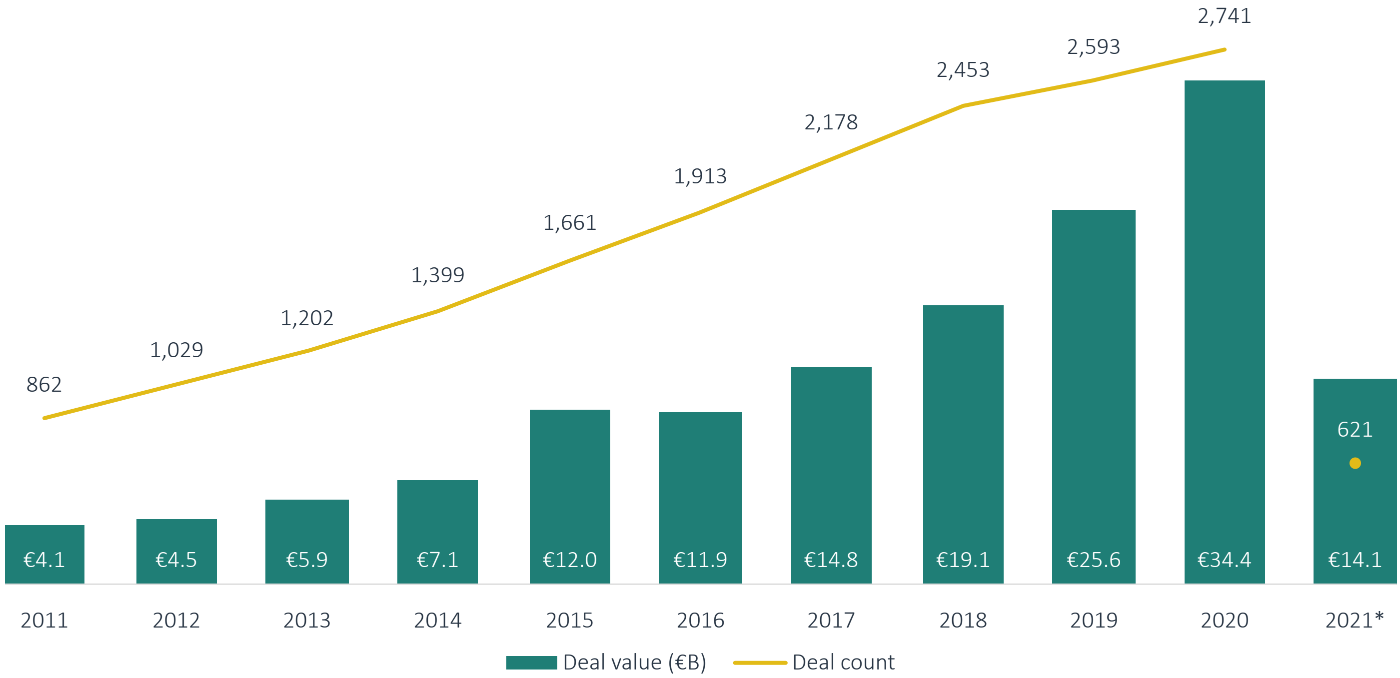
VC deals (#) by sector



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

Nontraditional investors

VC deal activity with nontraditional investor participation



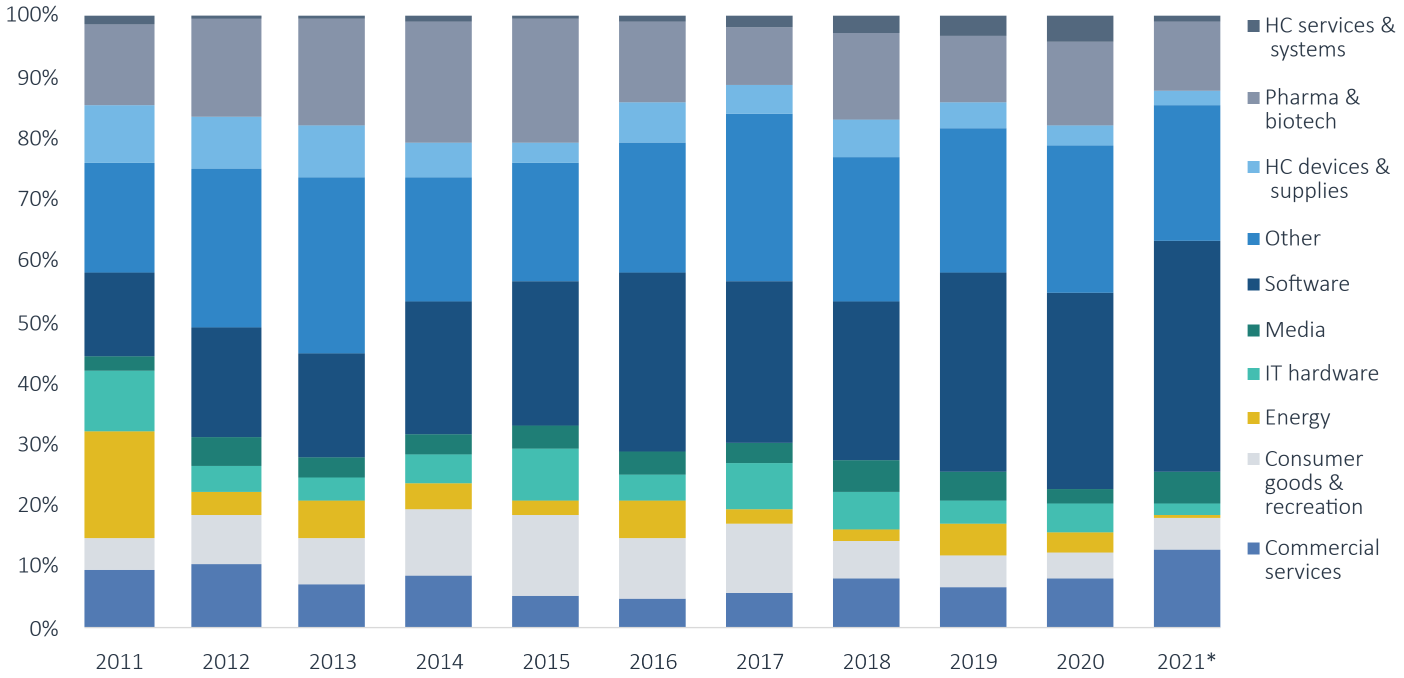
Source: PitchBook | **Geography:** Europe
*As of March 31, 2021

Nontraditional investors—including PE firms, hedge funds, pension funds, sovereign wealth funds, and corporate VC (CVC) arms, among others—have increased exposure in European VC during the past five years. The pace increased amid the pandemic, as deal value with nontraditional investor participation topped €14.1 billion in Q1 2021, which is on course to beat the annual record set in 2020. High-profile brands, potentially lucrative return profiles, and fashionable tech-based sectors have turned VC into an important strategy for nontraditional investors.

Integration via synergies is a crucial driver of CVC activity, as large-scale corporates readily identify and invest in smaller VC-backed companies that align with overarching business areas to help drive revenue growth. Most often, rather than a simple cash-generating investment activity, deals can be structured in strategically beneficial ways and aligned to long-term goals of both operating parties. In Q1, Spain-based delivery company Glovo received €100.0 million, with real estate investment company Stoneweg participating. In this partnership, Stoneweg will acquire properties identified by Glovo, which will then lease these properties to improve its offerings. Real estate targets include grocery, retail, and logistics properties that can be converted into dark stores and kitchens and last-mile fulfilment centres.

Startups operating in brand-new industries have also attracted nontraditional capital in recent years. Long-term shifts coupled with increased environmental and health awareness have led traditional companies to rethink priorities and invest in new technologies that could eventually be widely adopted. Established players could benefit from first-mover advantage in traditional markets facing uncertainty such as mobility and energy. In recent years, nontraditional investors have identified the need to diversify revenue streams and, as a result, have made huge efforts to become greener to future-proof business models. COVID-19 has also sharpened focus on both carbon footprints and the environmental life cycles of investments.

VC deals (€) with nontraditional investor participation by sector



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

As discussed in our recent analyst note, electric vertical take-off and landing (eVTOL) air taxis continue to attract hefty amounts of capital across the globe. They are perceived as a green solution to the mobility challenges faced by many nations. Carmakers have been scrambling to adapt to the shifting trends facing the mobility industry, and eVTOL aircrafts could prove to be a long-term solution. Many governments, especially in Europe, are disincentivising car ownership by tightening emissions guidelines and increasing taxes on vehicles to promote greener ways of travelling in oft-congested cities. Such policies could boost eVTOL startup dealmaking. For example, Germany-based mobility startup Volocopter closed a €200.0 million round in Q1 with China-based Geely (HKG: 00175) and Germany-based Daimler (ETR: DAI), among others. With limited growth expected for combustion engine car manufacturing, investing in mobility startups, which taps into a completely new market, could prove vital for the survival of long-standing automotive companies that face a shrinking market.

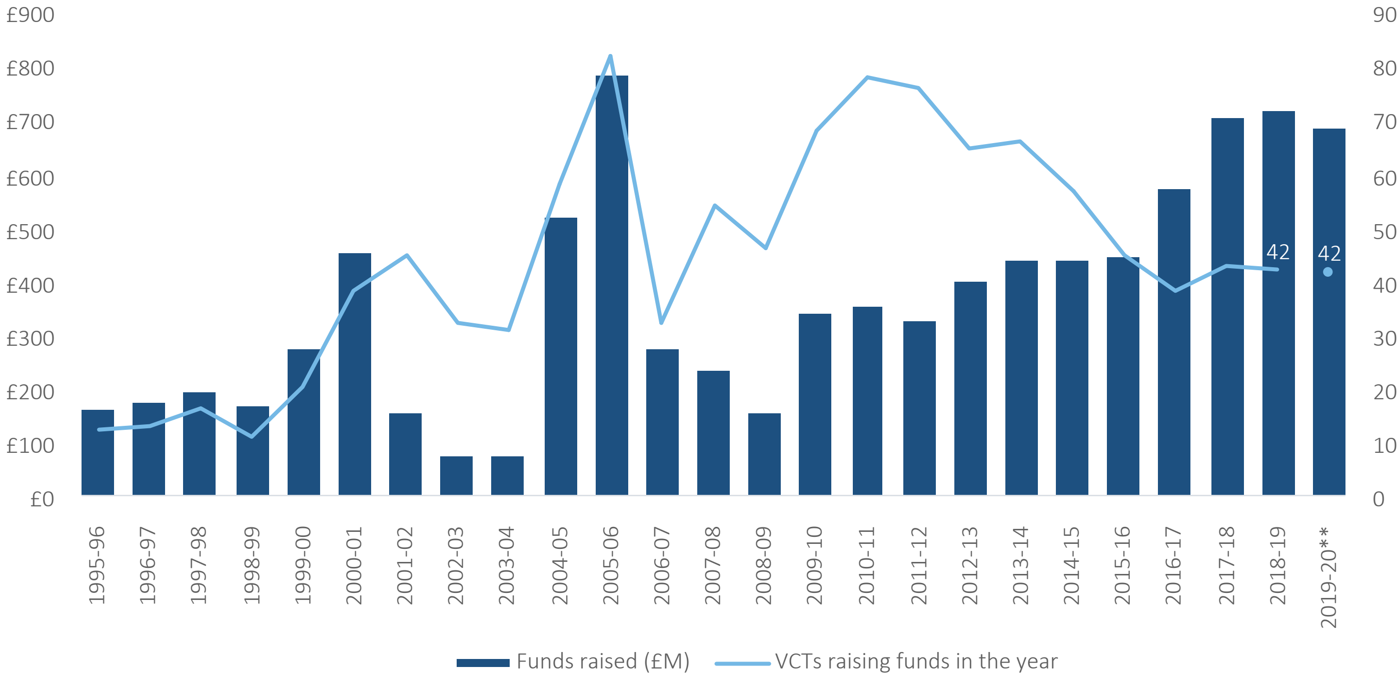
Q1 2021's top 5 VC deals with nontraditional investor participation

Name	Deal size (€M)	Deal type	Industry sector	Industry group	Location
Klarna	€1,066.5	Late-stage VC	IT	Software	Stockholm
LendInvest	€560.4	Late-stage VC	Financial services	Other financial services	London
Glovo	€450.0	Late-stage VC	Business products and services (B2B)	Commercial services	Barcelona, Spain
Wolt	€440.0	Late-stage VC	Consumer products and services (B2C)	Media	Helsinki
Checkout.com	€369.0	Late-stage VC	IT	Software	London

Source: PitchBook | **Geography:** Europe

Spotlight: Venture capital trusts

VCT activity*



Sources: PricewaterhouseCoopers, MJ Hudson Allenbridge, Trustnet, InvestEgate, and the LSE | **Geography:** UK
*As of November 2020
***Figures for 2018-2019 are revised, and figures for 2019-2020 are provisional. The amount of funds raised by VCTs in each tax year is rounded to the nearest £5 million for data prior to 2017-2018 and £1 million for 2017-2018 onwards.*

This analysis was originally featured in our Venture Capital Trusts Overview analyst note.

During the past decade, VCTs contributed to the UK ecosystem becoming Europe's main VC hub. The UK has a diverse set of startups attracting capital from an expanding array of sources. In 2020, a record £13.4 billion was invested into UK-based startups, and £5.0 billion was raised by UK-based VC funds, which illustrates the strength of VC in the region despite near-term macroeconomic turmoil from COVID-19.

In the 2019-2020 tax year, VCT funds raised £685.0 million. During that tax year, the VCT fundraising total equates to approximately 13.6% of aggregate capital raised by all UK-based VC funds in the 2020 calendar year.[1] Capital flowing into VCTs has generally risen in the past decade. Since inception, VCTs have raised £9.1 billion, with 23.2%—or £2.1 billion—raised in the past three tax years as capital entered VCTs at an increasing rate. Growing interest in VC, combined with changes affecting tax for individuals investing in VCTs, has driven up commitments. The UK government's 2017 Patient Capital Review also helped growth by recommending higher VCT investment limits for UK-based startups and emphasising the important role VCTs can play in bolstering UK entrepreneurship.

Similar to overall VC fundraising trends, VCTs grew in recent years as overall capital raised increased, while VCT count flattened as outsized funds skewed the annual capital raised total upwards. Launched in 2007, Octopus Titan VCT (LON: OTV2) is now the largest VCT in the market. In 2018, Octopus Titan raised a record £230.0 million—roughly one third of the market—and an additional £120.0 million in 2019, making its total fund size £957.8 million. Octopus Titan demonstrated that VCTs can swell to sizes tantamount to the largest conventional VC funds.

Fundamentally, VCTs provide founders with added opportunities to receive capital and guidance, though

1: This percentage is an estimate using two 12-month periods: capital raised by UK-based VCTs in the tax year of April 2019-April 2020 and aggregate capital raised by UK-based VC funds during the calendar year of January 2020-December 2020.

they also enable retail investors who have less capital than average angel investors to indirectly invest in startups. In recent years, late-stage companies grabbed headlines. However, VCTs invested in the pipeline of newly founded angel & seed and early-stage startups that developed into some the UK's largest companies. For example, after initially obtaining VCT backing, online property platform Zoopla was the first UK-based startup to reach a £1 billion+ valuation. Other well-known VCT-backed companies include snack box provider Graze, peer-to-peer shopping app Depop, and travel-booking platform Secret Escapes.

While VCTs may have backed prominent UK-based startups, investment limits in individual companies are one of several rules to which VCTs must adhere in order to maintain their status. Unlike typical VC fund investment areas that are defined solely by GP strategies, VCTs must adhere to rules while carrying out investments that align with their own strategic preferences. Conditions governing VCT investment pathways have become stricter in the past decade. We anticipate future modifications to rules will continue to affect investment from VCTs.

In 2015, as Her Majesty's Revenue and Customs (HMRC) clamped down on investment vehicles that were benefiting from subsidies and tax breaks on renewables, HMRC prohibited VCTs from investing in renewable energy companies. The Finance Bill 2017-18 introduced a risk-to-capital condition outlining that startups must have objectives to grow and develop over the long term, and the investment must carry a significant risk that the investor may lose more capital than they gain as a return. Startups eligible for funding have a limited window of opportunity to receive VCT backing before they are either too old or large to be considered. VCTs also have a three-year window to invest capital raised from investors, thereby increasing timely capital deployment and opportunities for startups.

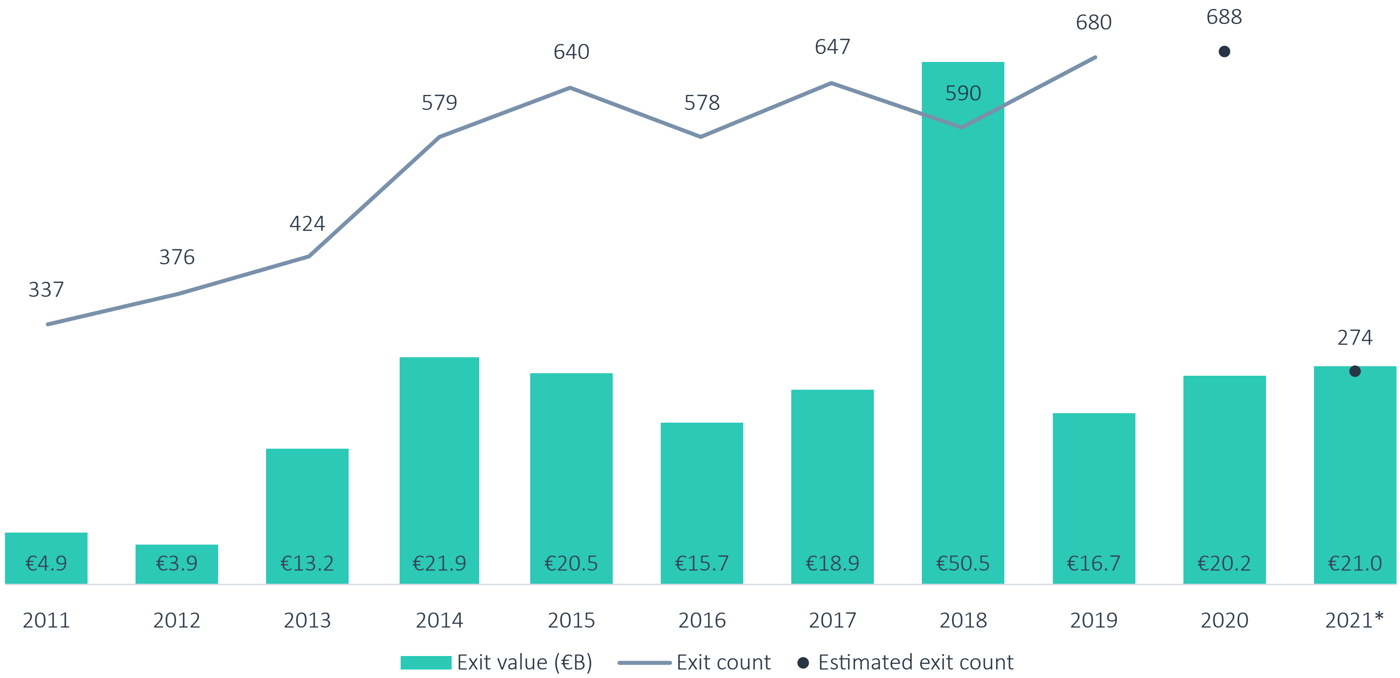
Top 10 VCTs by size*

VCT name	VCT manager	Launch date	Size (£M)
Octopus Titan VCT	Octopus	December 28, 2007	£957.8
Unicorn AIM VCT	Unicorn	April 11, 2007	£296.4
Amati AIM VCT	Amati	February 22, 2001	£236.6
Baronsmead Second Venture Trust	Gresham House	January 30, 2001	£215.2
Baronsmead Venture Trust	Gresham House	April 3, 1998	£196.5
Hargreave Hale AIM VCT	Hargreave Hale	October 29, 2004	£188.4
Octopus AIM VCT	Octopus	March 17, 2004	£175.6
Octopus Apollo VCT	Octopus	October 17, 2006	£155.2
Foresight VCT	Foresight	November 2, 1999	£141.7
ProVen Growth and Income VCT	Beringea	May 31, 2001	£127.9

Source: Morningstar Direct | **Geography:** UK
*As of December 31, 2020

Exits

VC exit activity

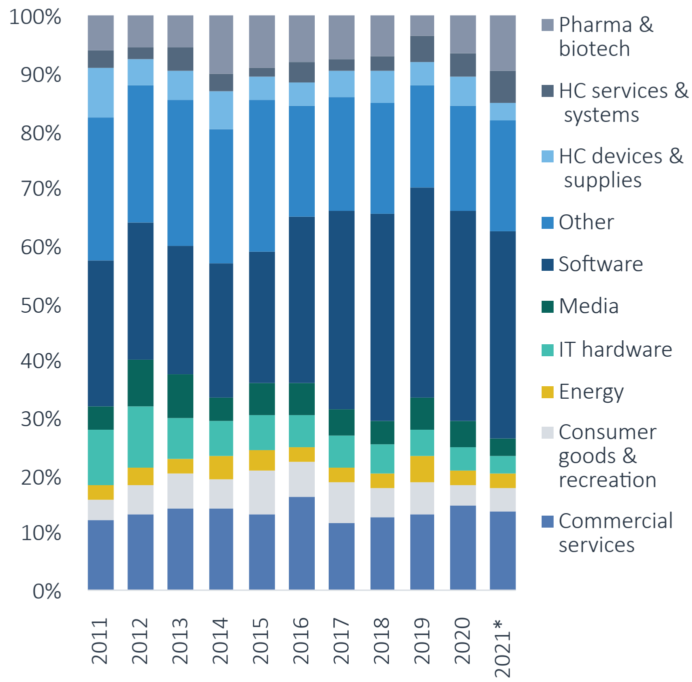


Source: PitchBook | **Geography:** Europe
*As of March 31, 2021

In stark contrast to one year ago, Q1 2021's VC exit value reached a remarkable €21.0 billion, thereby surpassing the exit value total from 2020 in its entirety. As during the past decade, Q1's exit activity was affected by much-anticipated exits for highly valued VC-backed companies. The emergence of SPACs as a mainstream exit route, coupled with frothy market valuations globally, has helped exit outlooks improve. Despite new COVID-19 variants, European pandemic waves, and irregular vaccination supplies, companies have pressed ahead with exits to capitalise on encouraging market dynamics stemming from 2020's pandemic-driven shifts in spending. After a robust Q1 2021, the record €50.5 billion exited in 2018 could be topped by year-end.

In Q1, two major IPOs took place: food delivery platform Deliveroo (LON: ROO) and used-car sales platform Auto1 (FRA: AG1), both at a €6.6 billion pre-money valuation. By creating innovative apps and leveraging data to expand and improve offerings in long-established consumer-facing-goods markets, both companies are proven disruptors in their respective industries. Since the pandemic forced restaurants and car dealerships to close, online traffic has increased, and exits have been orchestrated by tech companies looking to capitalise on growth within their online user bases.

VC exits (#) by sector



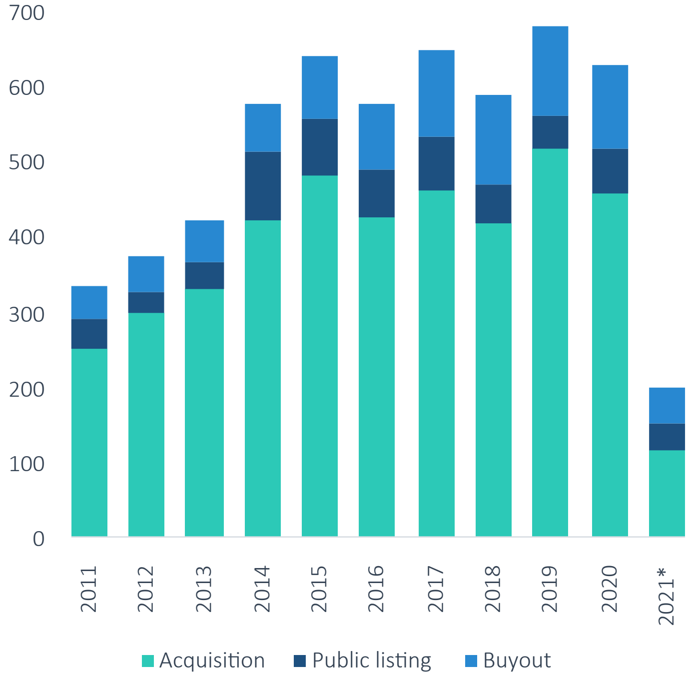
Source: PitchBook | **Geography:** Europe
*As of March 31, 2021

Nonetheless, in Deliveroo's case, challenges surfaced despite its impressive gross booking growth during the past 12 months. Near-term public equity volatility and workers' rights issues diminished its IPO pricing and investor participation from large asset managers. The recent Uber (NYSE: UBER) ruling to grant drivers employee rights may set a precedent in the UK and thus force gig economy startups such as Deliveroo to reimagine operations within their biggest market. Deliveroo's debut was among the largest on the London Stock Exchange (LSE) in nearly one decade—though it is worth noting that many European startups have been lured to list with US exchanges in recent years. Recent reforms surrounding UK listing rules, such as changes to dual-class share structures, equity listing requirements, and SPAC guidelines, could pave the way for future VC-backed tech companies to list on the LSE.

As 2020 progressed, exits gathered speed. Successful public listings in the US and Europe, combined with pent-up investor demand during the pandemic, created favourable market conditions heading into 2021. Consequently, a glut of public listings—including IPOs and SPACs—focusing mainly on tech-based businesses recently decided to list to maximally benefit from the pandemic-induced growth. These listings sought to bypass possible declines in online activity, as consumers in certain regions may begin re-establishing pre-COVID-19 consumption patterns. In Q1 2021, an impressive 35 public listings took place, generating €17.3 billion in total exit value. If the current listing rate persists, we may see the highest quantity of European VC-backed companies publicly list within a single calendar year.

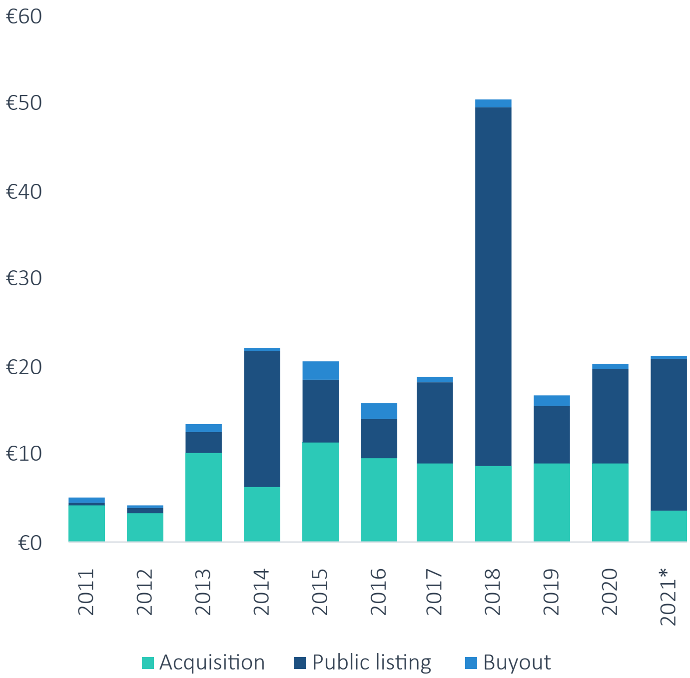
SPAC activity exploded in the US in 2020, and we expect exits via this strategy will spread quickly across Europe in 2021. SPACs have proven to be a fashionable and financially flexible choice for numerous US-based tech companies looking to exit. Electric vehicle maker Arrival (NASDAQ: ARVL) was one of Q1's first high-profile European exits via a US-based SPAC. Arrival's March 2021 exit has triggered others to follow suit: UK-based Cazoo and Germany-based Lilium announced exits via US-based SPACs in recent weeks.

VC exits (#) by type



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

VC exits (€B) by type



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

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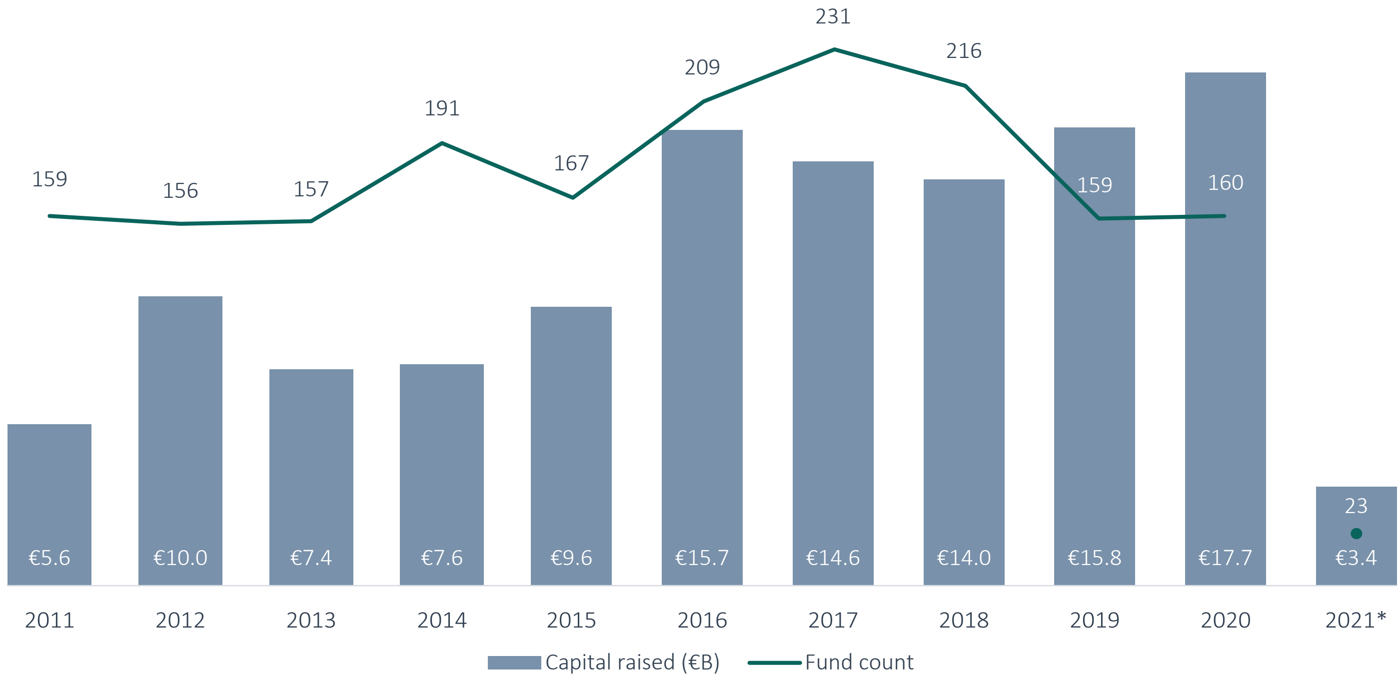
Fundraising

VC fundraising activity

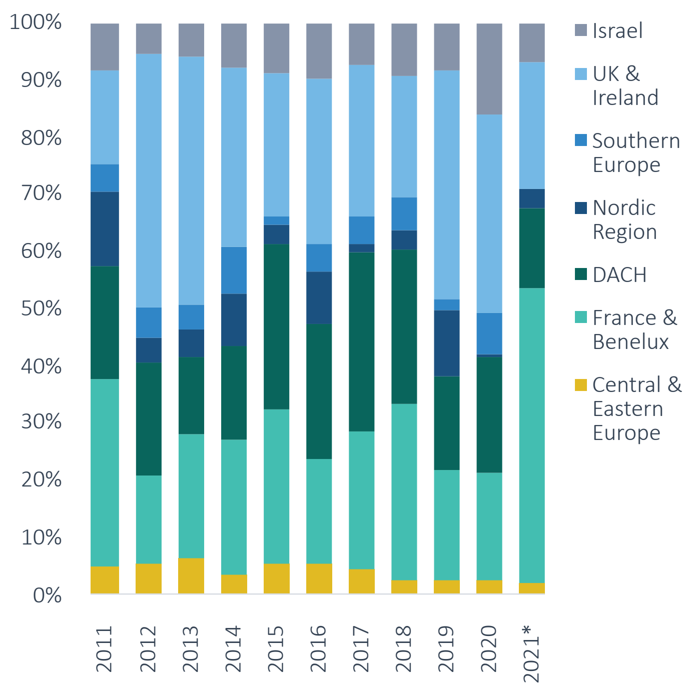


Source: PitchBook | **Geography:** Europe
*As of March 31, 2021

Fundraising started Q1 2021 with aplomb, with €3.4 billion raised across 23 VC funds. During the past five years, VC fundraising in Europe exhibited consistency, culminating in a record €17.7 billion raised in 2020. Capital invested in Europe-based funds has increased from LPs attracted to the diversity in investment opportunities involving fast-growing companies across sectors throughout the continent.

One of the largest funds to close was Cathay Innovation II at €649.5 billion, which helped the France & Benelux region raise the most capital in all of Europe in Q1, with €1.9 billion. Labelled a global VC platform, Cathay Innovation is affiliated with Cathay Capital and has strong ties to a global ecosystem via the US and China. We believe GPs with established global networks able to transcend potential nationalistic policies could be attractive propositions for LP commitments, especially with heightened sensitivity surrounding knowledge sharing, increased scrutiny of data privacy, and ongoing trade issues affecting wider financial markets worldwide. Furthermore, regions across the globe are at vastly different pandemic stages in terms of surging cases and lockdowns. Therefore, fund managers with existing global experience can act swiftly to mitigate or benefit from pandemic-driven macroeconomic changes in specific markets without the need for travel.

VC funds (€) by region



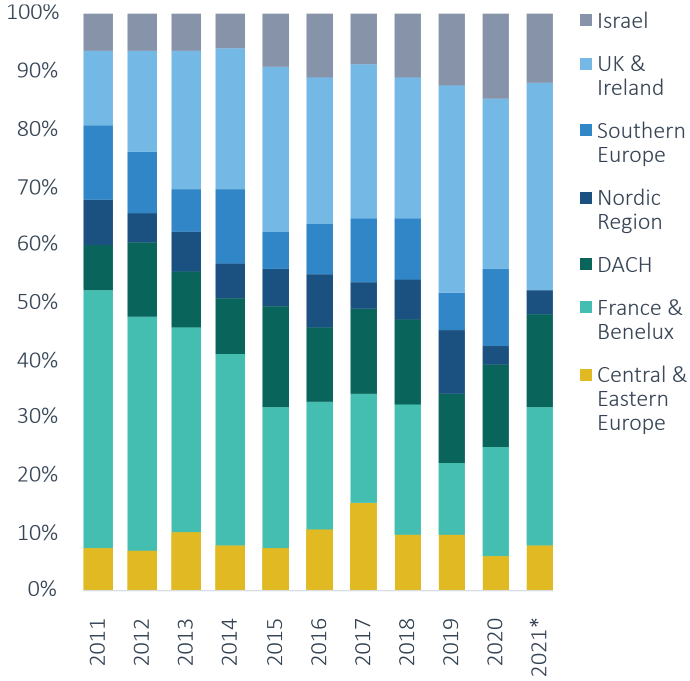
Source: PitchBook | **Geography:** Europe
*As of March 31, 2021

In recent years, sector-specific funds have also rapidly developed. Larger VC funds focused on environmental, healthcare, and technological subsectors have shown strong return profiles. One notable fund to close in Q1 was Sofinnova Crossover II at €445.0 million, which will concentrate on healthcare and sustainability. Such specialities have been core growth areas during the pandemic, and we expect capital will flood into vehicles that back startups tackling eco-related issues. Compared with 10 years ago, LPs, GPs, and startups are now far more conscientious of their holistic impacts. This triumvirate is actively partnering to spearhead the development of environmental, social, & governance-related (ESG) innovations.

Q1 was a relatively quiet quarter for UK-based funds. However, one significant fund that closed was Abingworth Bioventures VIII at €382.6 million. This transatlantic fund will invest in life science startups based in the UK, Europe, and the US that create therapeutics to enhance healthcare solutions. For the past year, healthcare has been at the forefront of global attention as funding and resources for medical applications ballooned. The healthcare sector itself, which has been a mostly human-led palliative sector for decades, may undergo disruption as stakeholders proactively manage future healthcare challenges. Throughout the pandemic, global political leaders have highlighted that data has been a crucial tool to suppress outbreaks and track cases. As a result, more data technology will likely be ingrained in the healthcare sector moving forward, especially given the past year's substantial capital inflows.

It is now widely accepted that some of the changes stemming from COVID-19, such as shuttered high-street brands and companies offering—or forcing—permanent work-from-home options, are here to stay. Individuals and companies are thus gearing up for permanent shifts to daily life. As 2021 progresses, we believe fundraising in Europe will remain bullish. The broad European ecosystem has attracted record capital while dealing with the pandemic, and it is clear that VC fund managers have several capital sources—including wealthy serial entrepreneurs, financial institutions, and corporations—from which to choose.

VC funds (#) by region



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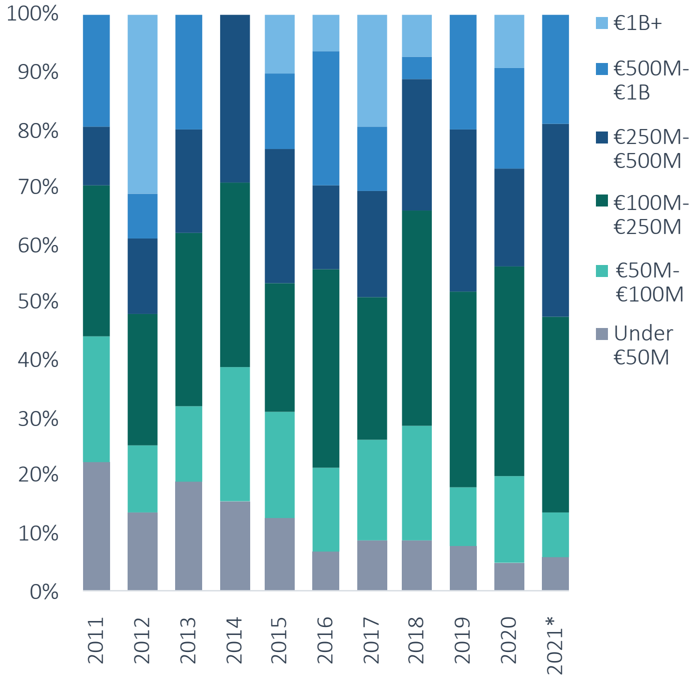
VC funds (€) by size



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