PitchBook

European VC Valuations Report

Q2 2020

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Introduction

In Q2 2020, VC pre-money valuations across the financing stages displayed resilience during COVID-19. We believe valuations could still fluctuate considerably through the rest of the year, reflecting the disparate challenges companies in various sectors and stages in their lifecycles must face. Despite business confidence, job security, and growth forecasts taking hits, VC deal sizes have remained healthy. Pre-pandemic deals are still filtering through; however, valuations tied to software and late-stage investments continue to set an astonishing pace.

Deals involving nontraditional investors have been healthy during the economic downturn in 2020. Strong deal sizes and valuations in H1 2020 have continued the trend of recent years. Mature startups have attracted nontraditional backing from corporate venture capital (CVC) and sovereign wealth funds (SWFs), among others, even as capital allocations tighten up across different asset classes for investors. Nontraditional investors may feel it is a fitting time to put their money into long-term ventures that could generate improved returns when the market rebounds.

The aggregate valuation of current unicorns in the ecosystem grew in H1 2020. Unicorn numbers have risen too, but we believe the rate of newly minted unicorns could cool as it becomes difficult to capture growth opportunities in an uncertain macroeconomic environment. Under such conditions, companies seeking to mitigate risks posed by COVID-19 by taking advantage of surges in demand or concentrating on longer-term trends accelerated by the pandemic could still fuel unicorn dealmaking.

Exits are trending smaller relative to 2019. We do not foresee many startups with hefty valuations hurrying for an exit in the coming months, as an abundance of late-stage and nontraditional capital has eased pressure to exit in the European ecosystem. Exit outlooks could brighten in H2 2020 as pent-up investor demand and a scarcity of exit events stoke interest.

Nalin Patel
Analyst, EMEA Private Capital

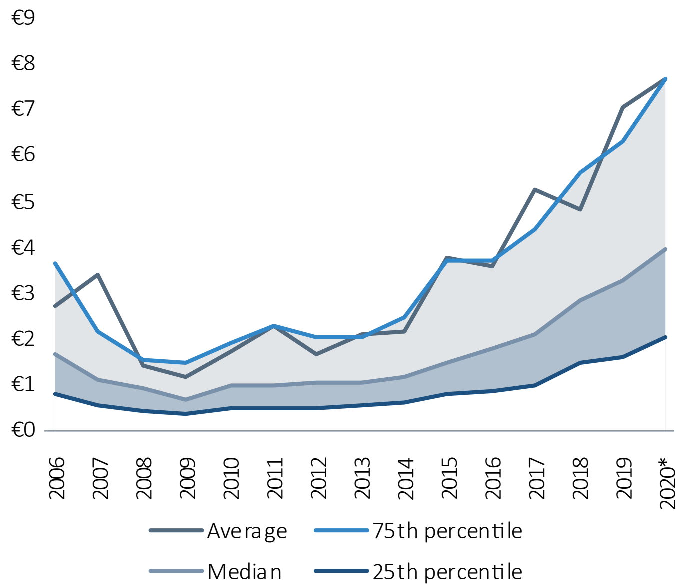
Angel & seed

The median angel & seed pre-money valuation reached €4.0 million, and the top- and bottom-quartile valuations also recorded increases in H1 2020 relative to 2019, as COVID-19 has appeared to have had limited effect on valuations in Europe. We believe valuations could still fluctuate because smaller companies that have had less time to accumulate capital reserves may fall into financial trouble as the pandemic continues to hammer the economy. Although the primary spike in COVID-19 cases in Europe has passed, regional fluctuations still occur and could create future instability as economies re-open and localised measures are enforced. Nonetheless, angel & seed valuations have been surprisingly strong in Q2 and will create optimism heading into H2 2020. In Q2 2020, angel & seed deal sizes remained flat QoQ, an impressive accomplishment considering the pandemic-related lockdowns. Deal sizes have clearly not been hampered, and we could see new highs at year end.

The median time from founding until an angel & seed round lengthened to 2.8 years in 2019 and stayed the same in H1 2020, having steadily risen in the last decade. In the long run, we believe the median time to financing could resume its upward course as repercussions from COVID-19 affect companies' ability to demonstrate growth and justify subsequent funding rounds. However, the lengthening time frames have largely been the result of startups scaling to larger sizes and avoiding upfront fixed costs by using tech solutions or sourcing capital via bootstrapping before they raise an angel or seed round. In the near term, as growth retracts and costs linger, we could see rounds for startups occurring earlier in their lifecycles, leading to shorter time periods until a round is completed.

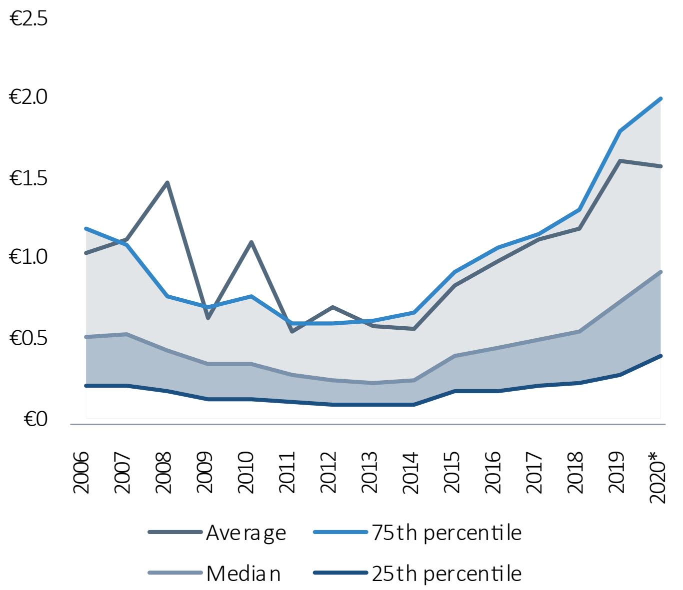
Few would have predicted such resilient angel & seed valuations and deal sizes in Q2 as business confidence, job security, and growth forecasts have been decimated by COVID-19. We could be seeing some pre-pandemic deals flowing through; however, stakeholders should by now have had sufficient time to assess the risks posed by brand-new deals and decide whether to proceed. Certain investors may feel it is an opportune time for deals with enhanced terms compared to recent years, as the market has been due for a correction. In particular, angel & seed rounds, which carry longer horizons than early- or late-stage deals, could be targeted. Angel & seed rounds occur earlier in a company's lifecycle, and in order to capitalise on a long-term rebound, investors may grant additional time for currently funded startups that will not be seeking exit returns for an extended period of time.

Angel & seed pre-money valuations (€M)



Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

Angel & seed deal sizes (€M)



Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

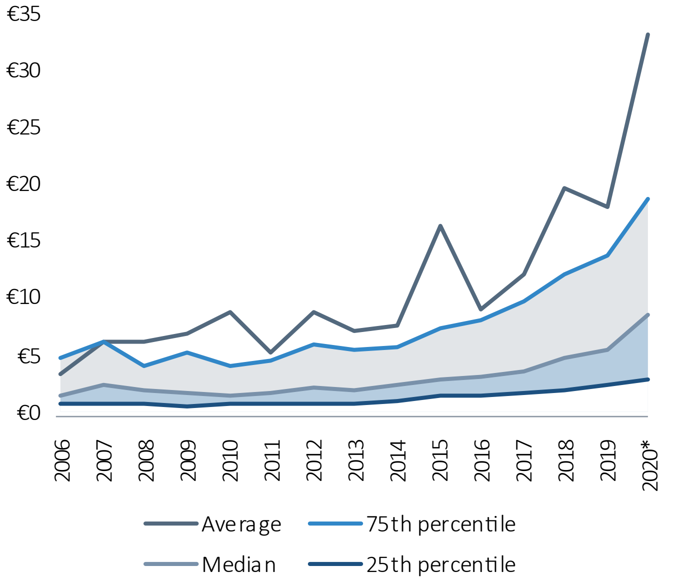
Early-stage VC

Valuations and deal sizes have not suffered in H1 2020, and confidence remains healthy at the early stage where fierce competition from expanding capital options has driven the highest deal counts among VC financing stages in the last three years. The diverse dealmaking environment pushed the median early-stage valuation to €8.8 million, while the top and bottom quartiles fell slightly QoQ to €17.5 million and €2.9 million, respectively, in Q2 2020. Despite mixed fortunes on a quarterly basis in 2020, early-stage pre-money valuations are pacing higher during H1 2020 than 2019's annual figures—another astonishing statistic given the record year for early-stage pre-money valuations in 2019 and challenges created by COVID-19 in 2020. Moreover, even as top- and bottom-quartile early-stage valuations declined QoQ in Q2, they were still higher than the 2019 full-year figures and bode well heading into Q3 even as wider economic uncertainty mounts.

However, we believe fluctuations could still occur in 2020 as deeper financial impacts become apparent and temporary stimulus incentives such as furlough schemes wind up. Early-stage deal sizes surprisingly ticked upwards in Q2 2020, alleviating fears dealmaking could falter due to COVID-19. Through H1 2020, the median early-stage deal size exhibited the largest increase across quartiles and is pacing at €2.5 million, 43.0% higher than its 2019 full-year figure. Early-stage VC deal sizes have continued to grow despite early-stage deal value contributing 29.3% of overall deal value in H1 2020, and the slower pace set in 2020 may lead early-stage deal value to come in lower than the last two years.

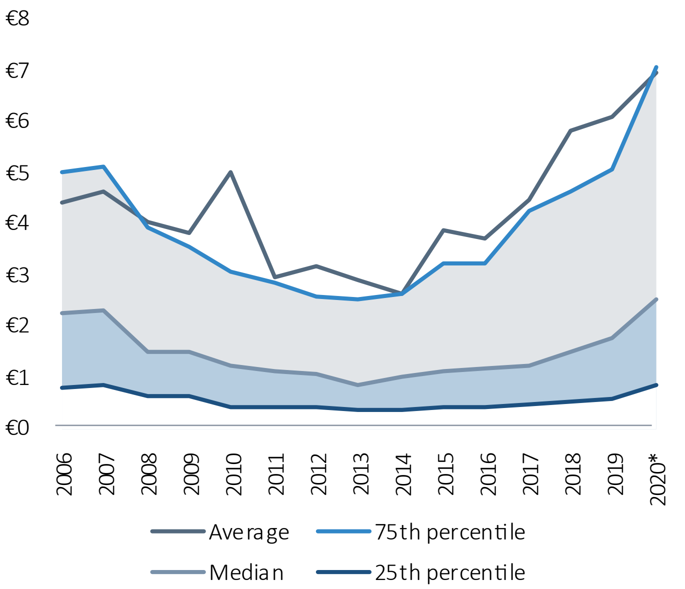
Median early-stage VC valuation step-up multiples have exhibited consistency and are pacing at 1.6x in H1 2020, in line with 2019's value. We believe this illustrates the majority of completed rounds have not been conducted with valuations that have had extensive haircuts, as broadly anticipated in Q2. In fact, early-stage startups have been able to keep pace with step-up multiples in recent years, demonstrating that growth has still been possible. However, time lags from pre-pandemic deals and growth could cause inaccurate valuations for early-stage startups with limited financial information. We expect step-up multiples could continue to vary drastically as certain sectors have either boomed or struggled during COVID-19 lockdowns and may recover differently.

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



Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

Early-stage VC deal sizes (€M)

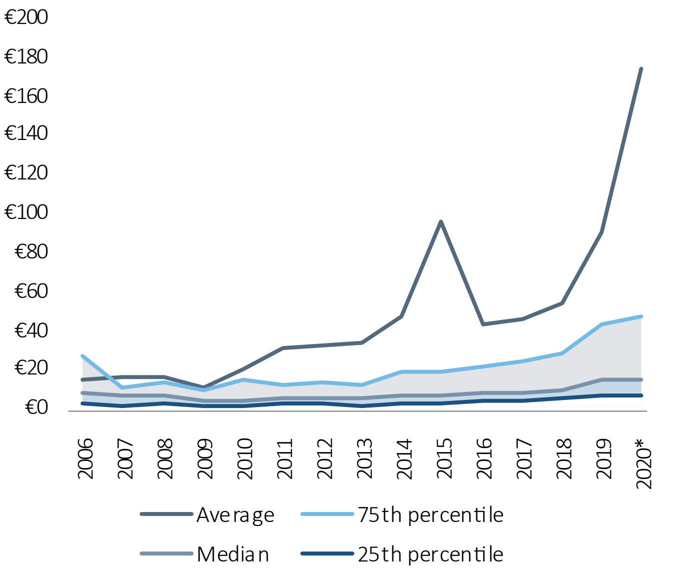


Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

Late-stage VC

In H1 2020, median and top-quartile pre-money valuations paced higher, while the bottom quartile dropped in comparison to 2019. The gap between top- and bottom-quartile late-stage valuations has continued to widen in recent years. We believe this is a consequence of investors ensuring their flagship late-stage startups sustain growth momentum in revenues and valuations via augmented late-stage rounds. Demand in certain sectors has dropped, economic growth has slowed, and unemployment has risen, but COVID-19 has surprisingly had limited impact on late-stage valuations in H1 2020, and we believe investors and management teams will now focus on ensuring existing late-stage portfolio companies do not fall into financial trouble as we move into H2. Attention will turn to equipping late-stage startups to capitalise on the recovery with their existing market penetration. Nevertheless, we still believe valuations could dampen as flat and down rounds are conducted with increased frequency, reflecting the wide variety of permutations needed to account for different business models and sectors.

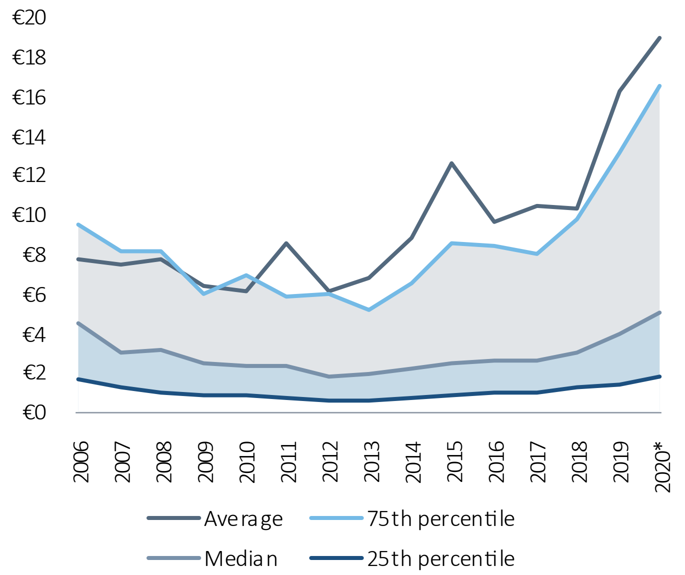
Late-stage VC pre-money valuations (€M)



Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

Late-stage VC deal sizes across the lower, middle, and upper quartiles all ticked upward from 2019 figures, with the median reaching €5.1 million in H1 2020. Although unicorns such as Deliveroo and N26 attracted outsized rounds in Q2, capital has been distributed across the late stage as smaller deals have also grown. Late-stage deals have contributed €12.0 billion in H1 2020, equalling the full-year 2018 figure and pacing to eclipse the 2019 total. This speaks volumes about the strength of the VC ecosystem, as COVID-19 has wrecked broader macroeconomic indicators in recent months. Late-stage capital has been provided from an expanding variety of sources, which has driven up deal sizes and competition in Q2. Now that the first peak of fatalities has passed in the majority of European countries, stakeholders could be cautiously optimistic that further records can be broken in H2 as businesses re-open.

Late-stage VC deal sizes (€M)



Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

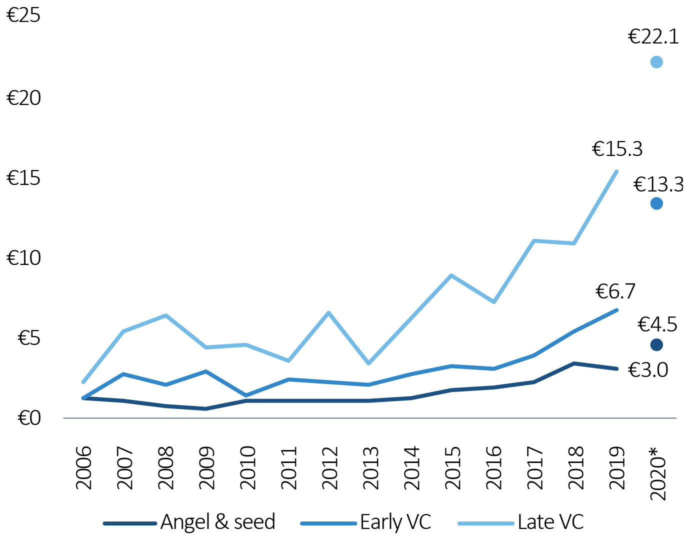
The median time from founding until a completed late-stage round (series C or beyond) paced lower at 7.4 years in H1 2020 in comparison to 8.0 years in both 2018 and 2019. While the slight drop may be a short-term flux, the median time from founding until a completed late-stage round has been trending downwards since 2016. In the last five years, startups have secured angel & seed or early-stage rounds later in their lifecycles and then scaled faster with late-stage rounds, aided by strong growth and demand for technological innovation. As recessions kick in, we could see volatility regarding time periods for startups in various sectors as consumer and business demand shifts. For example, investment in remote-based solutions has accelerated in recent months, which could encourage startups in these subsectors to raise late-stage rounds earlier in their lifecycles, causing hold times to fall.

Sectors

Software pre-money valuations across angel & seed, early-stage, and late-stage rounds showed no signs of slowing in H1 2020 and are pacing higher than 2019. We expect software valuations to remain strong, given the robustness shown in Q2 as tech-heavy businesses overall have performed well during COVID-19. Median software deal sizes have risen in H1 2020 as startups successfully fund growth and insulate from the downturn. Software deals have led overall deal value, and this trend will continue as businesses and employees move online.

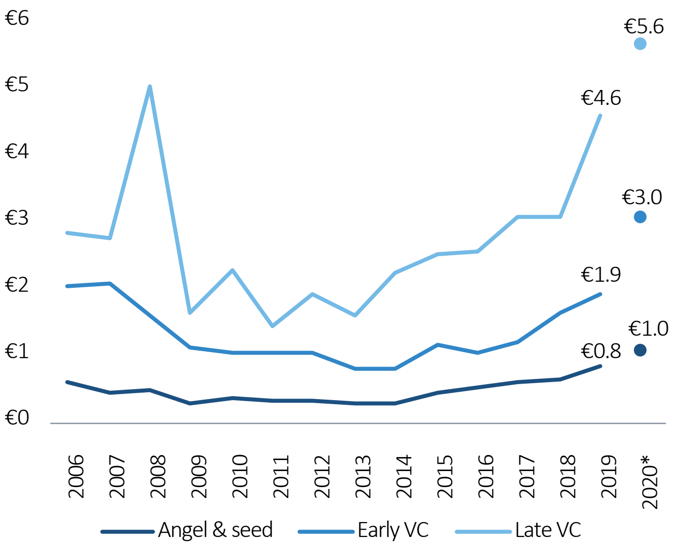
Median pharma & biotech deal sizes have also paced admirably in H1 2020, with early- and late-stage sizes trending higher and angel & seed sizes slightly lower than 2019. The sector has been pushed to the forefront as the financial implications of COVID-19 have become evident in recent months. While the race for a COVID-19 vaccine is underway with unparalleled vigour and investment, investors and entrepreneurs will be looking towards the sector for opportunities to fund the next batch of startups striving to prevent future public health disasters and mitigate lasting effects from the pandemic.

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



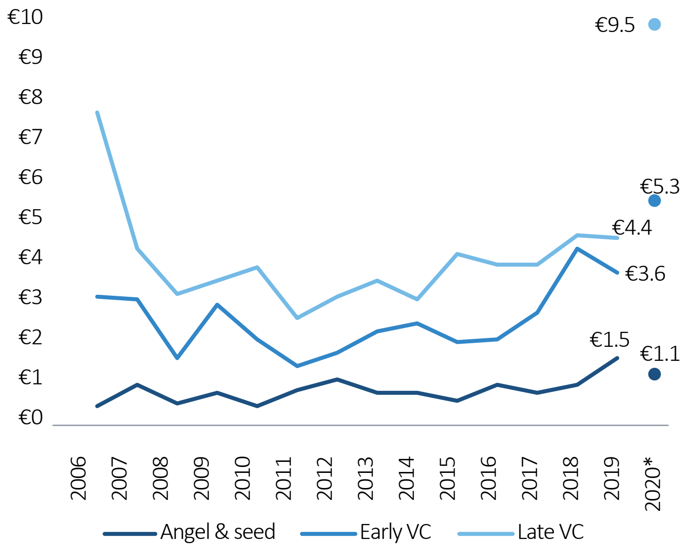
Source: PitchBook | **Geography:** Europe
*As of June 30, 2020
**Low sample size prior to 2010

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



Source: PitchBook | **Geography:** Europe
*As of June 30, 2020
**Low sample size prior to 2010

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



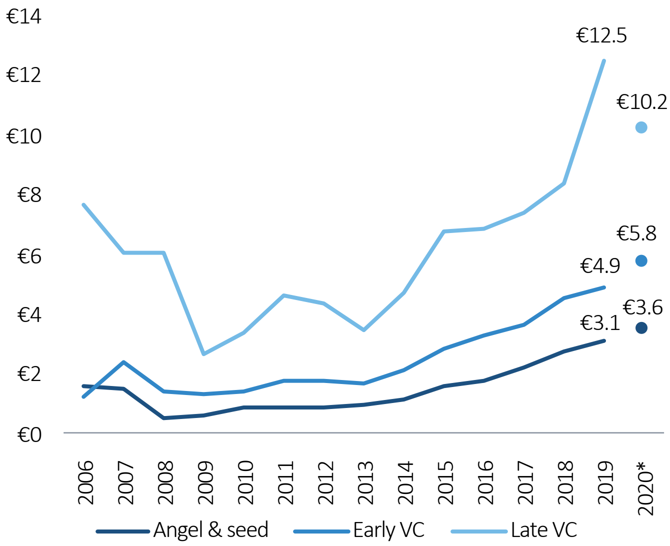
Source: PitchBook | **Geography:** Europe
*As of June 30, 2020
**Low sample size prior to 2010

Regions

Median late-stage valuations ticked lower, while angel & seed and early-stage valuations rose in the UK & Ireland in H1 2020 versus 2019. The drop off in valuations could be a result of timings of rounds for certain late-stage startups rather than underlying devaluations of multiple companies. In 2019, late-stage valuations soared 48.8% YoY to €12.5 million in the UK & Ireland, and we could be seeing valuations reflect the milder increase witnessed in the last decade, as the pace set in H1 2020 is still higher than 2018's full-year figure. Nonetheless, this tapering of late-stage valuation in the largest venture ecosystem in Europe could be an early indicator that tear away records set in 2019 may not be matched in 2020.

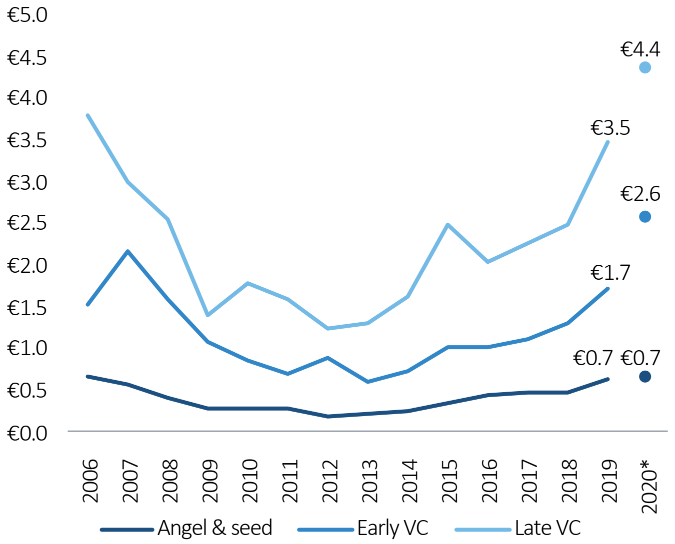
In H1 2020, median deal sizes in the UK & Ireland and the DACH region paced upwards from 2019. Venture activity in both regions has remained buoyant, and healthy deal sizes indicate startups have been able to attract sizable rounds from investors. Confidence exudes across both regions that VC, which is typically tech-heavy, remains a favourable asset class as COVID-19 casts its shadow on national economies.

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



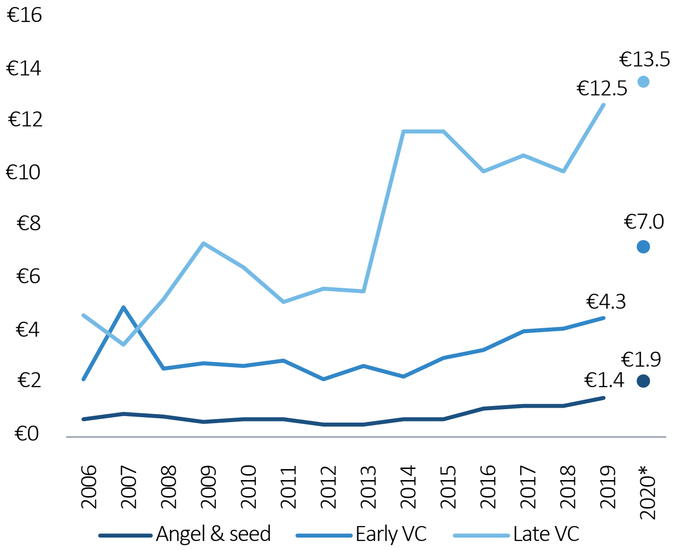
Source: PitchBook | **Geography:** Europe
*As of June 30, 2020
**Low sample size prior to 2010

Median deal sizes (€M) by stage for the UK & Ireland region**



Source: PitchBook | **Geography:** Europe
*As of June 30, 2020
**Low sample size prior to 2010

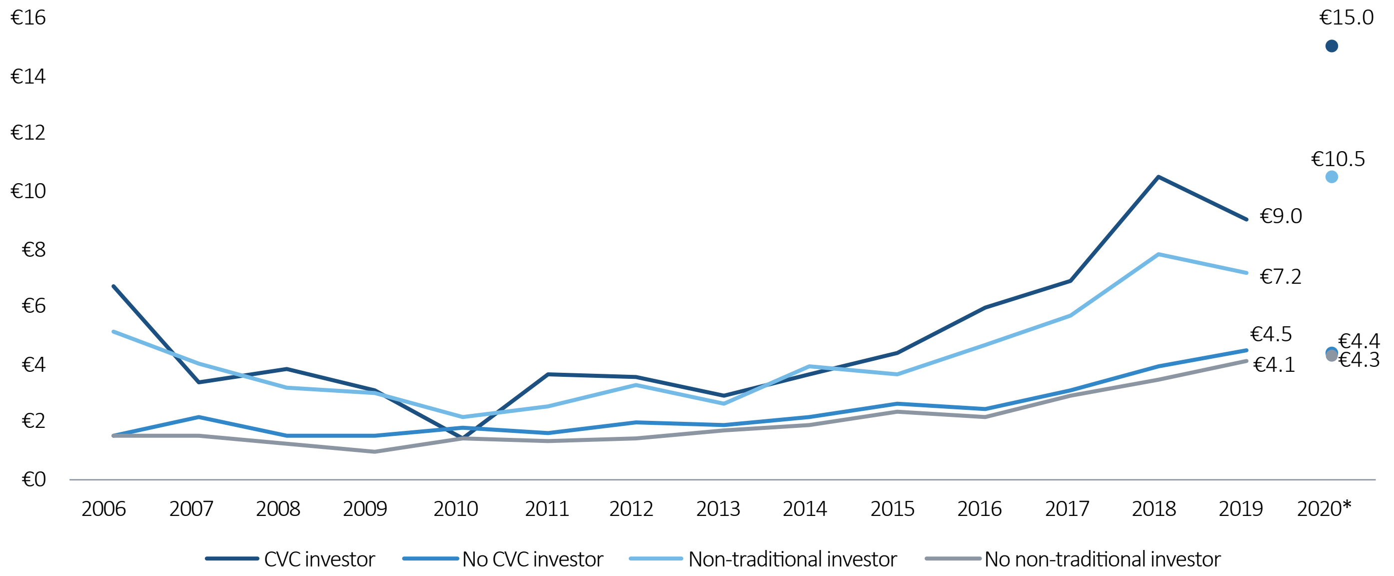
Median deal sizes (€M) by stage for the DACH region**



Source: PitchBook | **Geography:** Europe
*As of June 30, 2020
**Low sample size prior to 2010

Nontraditional investors

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

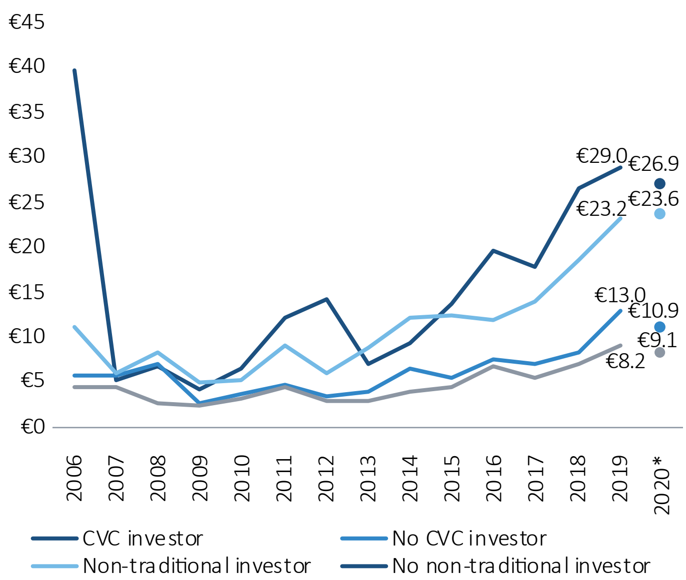


Source: PitchBook | Geography: Europe
*As of June 30, 2020
**Low sample size prior to 2010

As discussed in our Q2 2020 European Venture Report, few expected such fervent dealmaking in Q2 amid extensive pandemic-induced disruption to global financial markets. An influx of nontraditional investment into the European ecosystem has largely been credited with the rise in deal sizes and valuations of startups in recent years, and this has continued even as we enter an economic downturn in 2020. We believe it is too early to write off all the impacts from COVID-19, and despite astounding VC deal value in Q2, we expect the overall VC ecosystem to reflect some form of correction in H2 2020 as individuals, companies, and backers face unique and separate challenges.

In H1 2020, median early- and late-stage pre-money valuations have generally been in line with 2019 figures as diverse backers have continued to participate in rounds. In recent years, the type of investors participating in the round has not affected valuation growth across stages, and this has continued in 2020. However, nontraditional investors, including CVCs, typically participate in larger rounds linked to more valuable startups as this is where their investor preferences lie; they can potentially benefit from the synergies of operational, rather than conceptual, companies. In line with the last decade, we expect valuation sizes of nontraditional-backed startups to continue to be marginally higher, as they are usually more developed and are more suitable for nontraditional investors even as capital allocations tighten up across different asset classes.

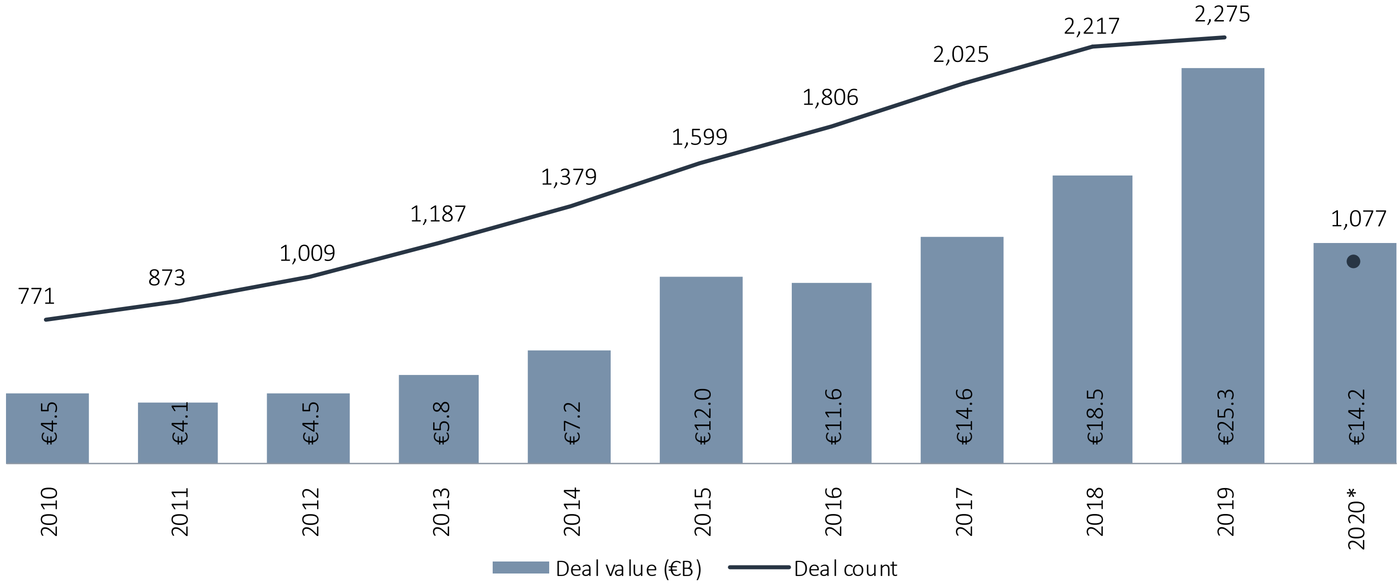
Median late-stage pre-money valuations (€M) by investor participation**



Source: PitchBook | Geography: Europe
*As of June 30, 2020
**Low sample size prior to 2010

PitchBook

Deal activity with nontraditional investor participation

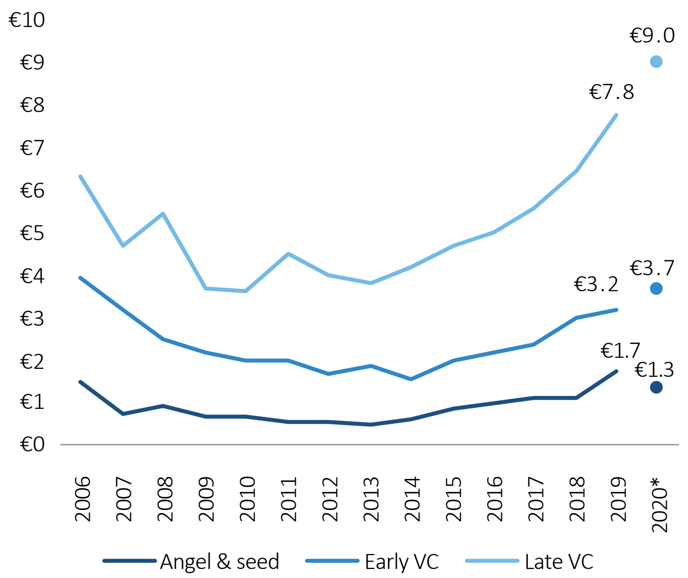


Source: PitchBook | Geography: Europe
*As of June 30, 2020

Median early- and late-stage deal sizes with nontraditional investor participation were higher in H1 2020 than the record highs set in 2019, while the angel & seed median dipped slightly. Nontraditional participation in late-stage median growth so far in 2020 has been relentless, and at its current pace could nearly double its 2015 figure. We believe the nontraditional investors from multiple regions pumping capital into late-stage rounds are the driving force behind records being broken in Europe.

In H1 2020, deals with some form of nontraditional participation reached €14.2 billion, on track to beat 2019's record. Although H1 2020 has continued 2019's momentum, we could still experience reduced appetite in the second half of the year as earnings and returns are calculated from lockdown periods. However, nontraditional investment has never been higher. We may see more activity as institutions react and re-allocate capital towards long-term, illiquid, tech-based investments in VC, having seen volatility and disruption caused by COVID-19 in traditional areas such as transportation, energy, and hospitality.

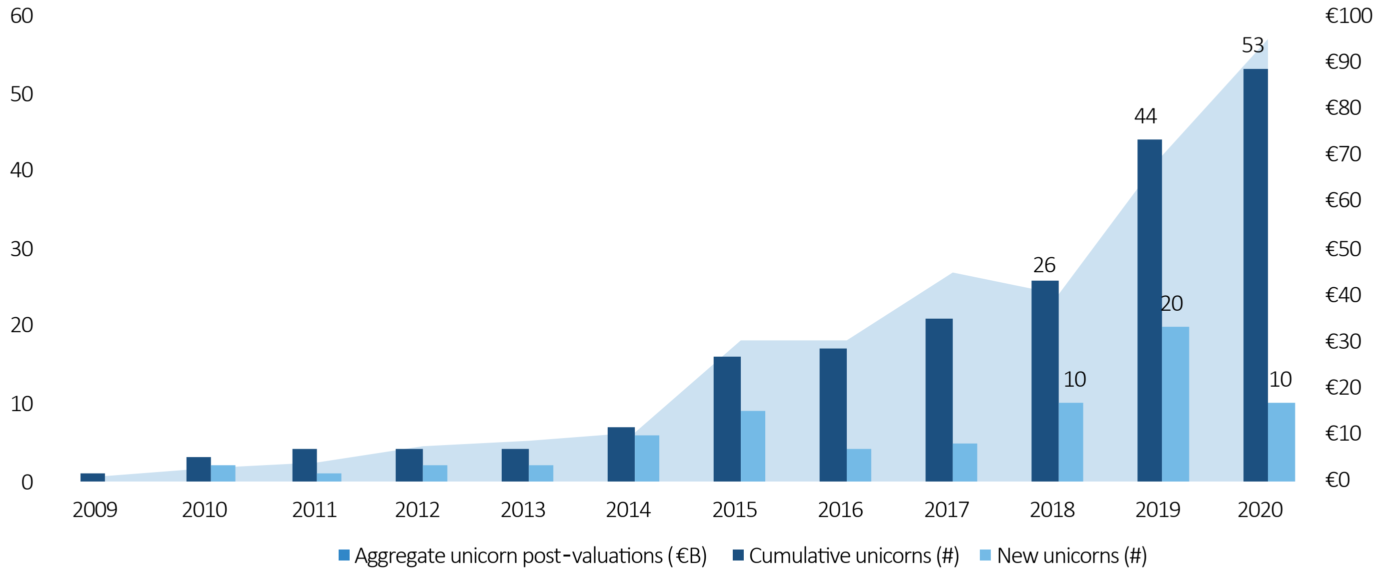
Median deal size (€M) with nontraditional investor participation by stage**



Source: PitchBook | Geography: Europe
*As of June 30, 2020
**Low sample size prior to 2010

Unicorns

Unicorn count and aggregate post-money valuation**

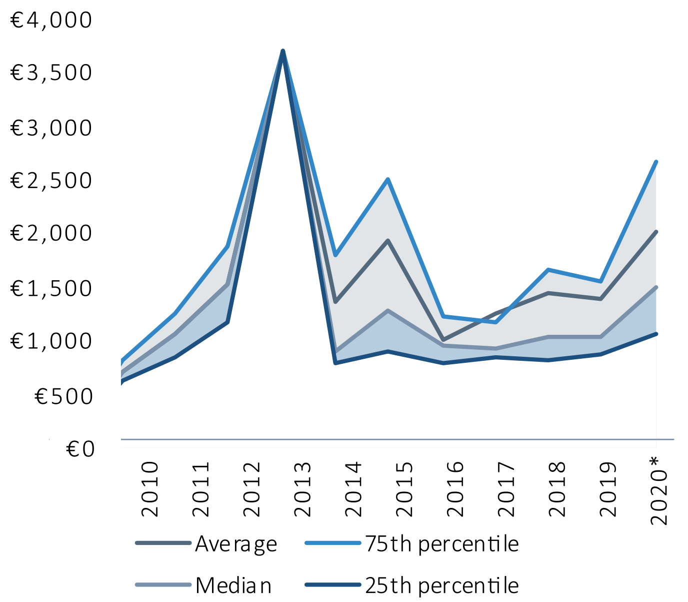


Source: PitchBook | **Geography:** Europe
*As of June 30, 2020
**Low sample size prior to 2010

Unicorns have continued to grow at a healthy rate with 10 added in H1 2020, taking the full number in Europe to 53. The aggregate post-money valuation of unicorns in the ecosystem has totalled €95.0 billion in H1, and we believe it will exceed the €100 billion mark in Q3 with ease. The emergence and ensuing development of companies worth nearly €1.0 billion or more in Europe has taken place in the last decade, during which the European VC ecosystem has matured at a rapid rate. The expansion has been a consequence of greater capital inflows into VC rounds via VC funds to finance startups that have commanded larger valuations by displaying increased revenues or innovation. However, we believe the rate of newly minted unicorns could taper in the long term as it becomes more difficult to capture growth opportunities in a more challenging macroeconomic environment in the coming months—or even years. Furthermore, valuations of numerous loss-making late-stage startups could come under scrutiny as revenue and cost squeezes occur during recessions.

Unicorn pre-money valuations are all pacing higher for deals in H1 2020 in comparison to 2019 figures. Valuations have fluctuated during the last decade, and unicorn numbers have only risen noticeably in the last three years; therefore, we expect volatility regarding unicorn valuations for the remainder of the year as outliers closing rounds can skew values. Moreover, given the current

Unicorn pre-money valuations (€M)

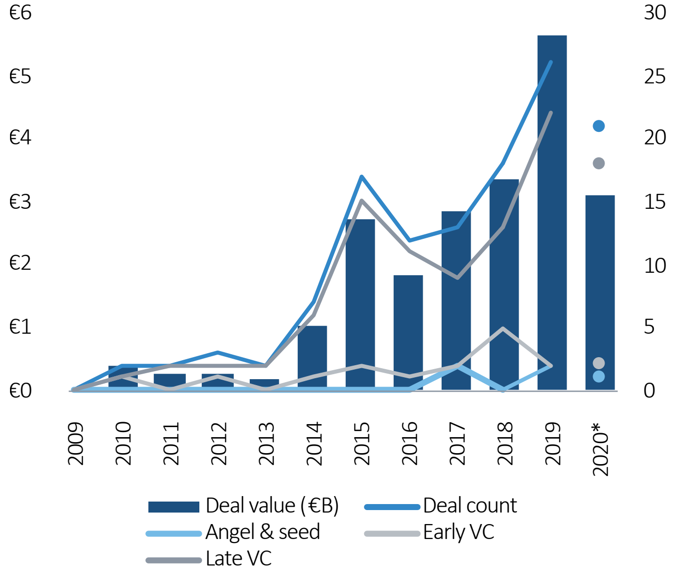


Source: PitchBook | **Geography:** Europe
*As of June 30, 2020
**Low sample size in 2013

climate we expect flat and down rounds to increase in frequency as the year progresses. For example, fintech unicorn Monzo completed a down round in Q2, and other high-profile companies may have to follow suit in Q3. Although VC dealmaking has been strong, growth becomes difficult for larger companies with high cash-burn rates, and unicorn valuations may need to be re-assessed based on short-term revenues during COVID-19 lockdowns. Consequently, valuation haircuts may still occur later this year and in 2021, even if business picks up in H2, as drops in revenue and funding gaps from H1 may still require cash to offset losses.

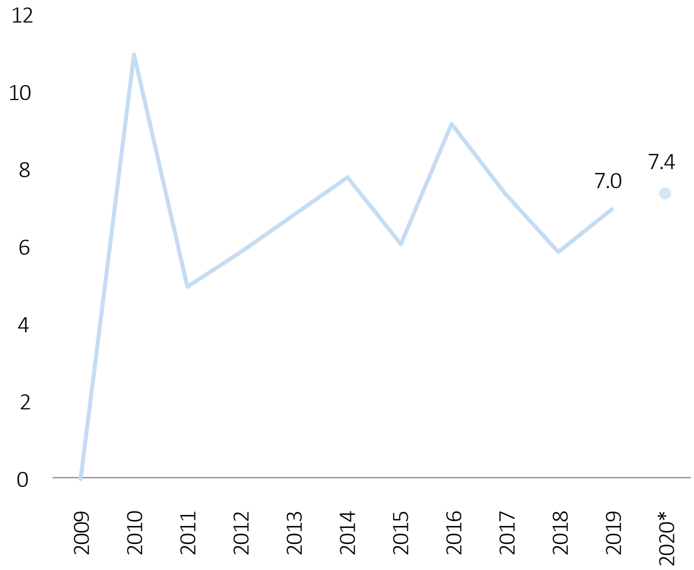
While it will still be possible for startups in certain sectors seeing increased usage to push ahead with ambitious growth plans, we anticipate large-scale dealmaking will be a mixture of companies that require financing to mitigate risks posed by COVID-19 and those also benefiting from increased focus and surges in demand. We also feel investors may want to quickly capitalise on incumbents that concentrate on longer-term trends accelerated by COVID-19, such as sustainability, health & wellbeing, and online commerce, which could see larger investment and competition in years to come. Investment in existing unicorns belonging to more-established sectors such as software has stayed strong, and overall unicorn VC deal value grew to €3.1 billion in H1 2020, on pace to surpass the €5.7 billion record set in 2019. Deliveroo and N26 both closed substantial rounds to contribute to deal value, and further dealmaking could occur as unicorns manage cashflow issues amid COVID-19.

Unicorn deal activity by stage**



Source: PitchBook | **Geography:** Europe
*As of June 30, 2020
**Low sample size prior to 2010

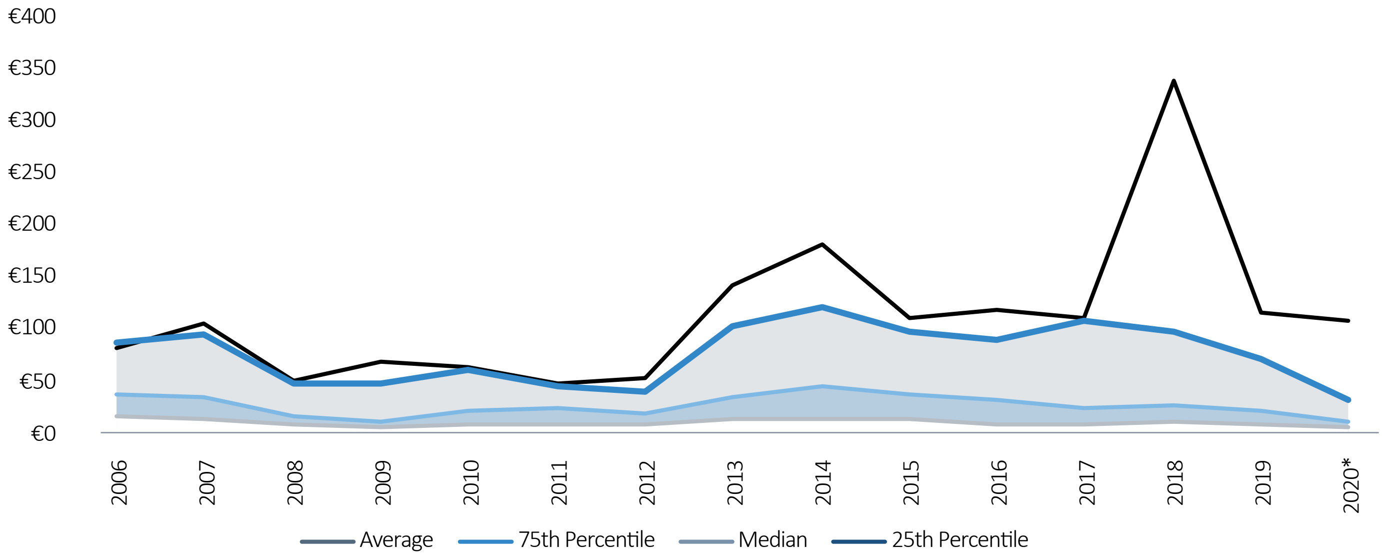
Median time (years) for VC-backed companies to achieve unicorn status**



Source: PitchBook | **Geography:** Europe
*As of June 30, 2020
**Low sample size prior to 2010

Liquidity

Post-money valuations (€M) at exit

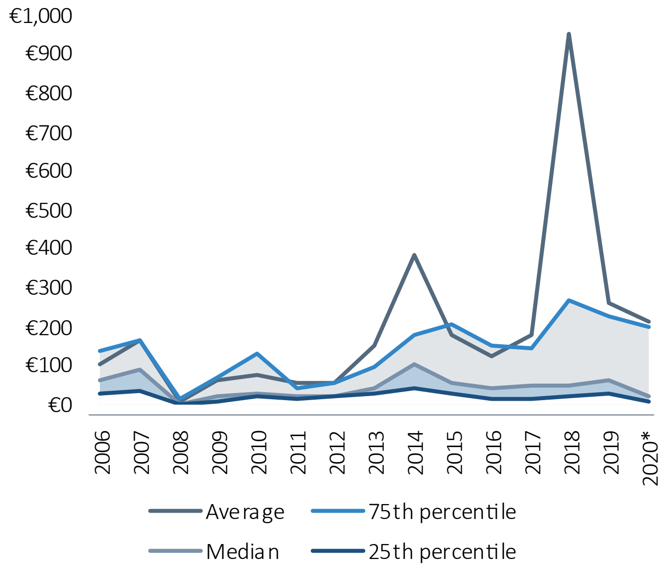


Source: PitchBook | **Geography:** Europe
*As of March 31, 2020

Post-money valuations upon exit are pacing significantly lower in H1 2020 relative to 2019, as a subdued exit environment has persisted. The median post-money valuation across all exit types was €11.0 million, 48.7% lower than 2019. The low valuations mirror muted sentiment regarding overall exit value in 2020. Although Q2 exit value was unexpectedly buoyant at €2.7 billion after an extremely sluggish Q1, exit value in 2020 is still on track to register the lowest figure since 2012. We do not foresee many startups with hefty valuations hurrying for an exit in the coming months as an abundance of late-stage and nontraditional capital has eased pressure to exit in the European ecosystem. However, exit outlooks could brighten in H2 2020 as pent-up investor demand and a scarcity of exit events create interest, as exemplified by a smaller pipeline of companies willing to publicly list in recent weeks.

We believe companies will seek financing rounds rather than cut exit prices in the bearish 2020 market. Caution was apparent at the start of 2020 as overheated exit valuations came under question. Uncertainty posed by COVID-19 could deter larger exits out of fear potential returns built over multiple years could erode. Companies and investors may feel conducting a flat or down round may be more beneficial for the long-term success and return profile of a startup that has been adversely affected by COVID-19. Contrastingly, startups that experience heightened focus and growth could take advantage of the pandemic to push ahead with an exit, while others adopt a wait and see approach. Videoconferencing has boomed,

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



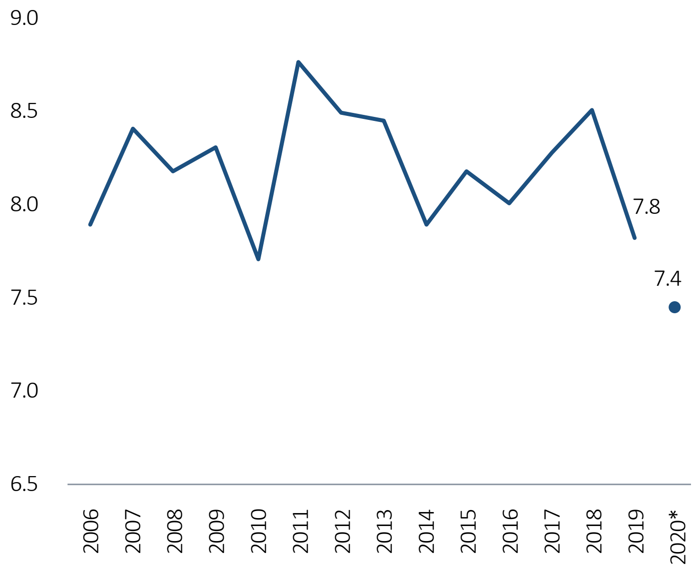
Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

and Pexip's virtual IPO in Q2 typifies how different sectors have adapted to COVID-19. The virtual IPO route may become more mainstream as benefits such as reduced time travelling and associated costs entice prospective startups.

In H1 2020, post-money valuations for IPOs across the lower, middle, and upper quartiles fell from 2019 figures. Although public equities have rebounded since sharp falls in Q2, we believe dislocations exist between index rallies and the underlying health of public companies. We expect greater volatility to ensue as earnings are reported for Q2 and stimulus such as grants and furlough schemes wind down. These risks, combined with quarterly scrutiny in public equity markets, will continue to deter most VC investors and operators attempting IPOs in the short term as they protect valuations, utilise dealmaking capabilities, and hold onto their assets rather than seek out liquidity. Near-term performance and valuations tied to recent IPOs in 2020 will also be crucial to assess appetite for listings in H2, as market sentiment and timing can be major factors when deciding to exit. We believe sector-specific considerations will influence listings because listed tech giants and a tech-laden European VC ecosystem have proven to be resilient in Q2 as traditional sectors have crumbled.

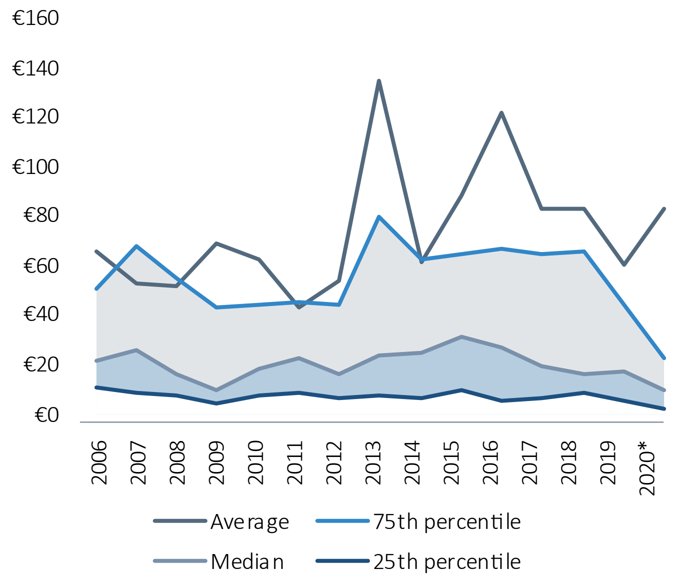
Post-money valuations for exits via corporate acquisitions paced lower in H1 2020, driven largely by corporates concentrating on internal businesses instead of capital outlays for new opportunities. Exit value could be further depleted as the financial stress created by a recession affects balance sheets throughout 2020, causing hunger for acquisitions to subside. We believe corporates will focus on their existing operations and work to ensure funding gaps created by rising costs and re-openings do not hamper recovery processes. Strategic acquirers may also be keeping tabs on intermittent lockdowns in localised regions to prevent spikes in COVID-19 cases, which could quickly impede supply chains or revenue streams. Cash-rich corporates will eye lower valuations too, though, as VC has generally been seen as an expensive growth strategy in recent years. We therefore believe many acquirers who have previously been priced out may try to exploit depressed valuations in the short-term.

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



Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

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



Source: PitchBook | **Geography:** Europe
*As of June 30, 2020