PitchBook

European Venture Report

Q2 2020

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Introduction

European VC deal value registered the third largest quarterly figure on record in Q2 2020, an incredible achievement amid widespread economic uncertainty. Strong deal value generated across financing stages and regions highlighted the resilience and independence of the VC ecosystem. Dealmaking within the software, food delivery and mobility sectors has continued to garner attention in Europe.

VC deals with CVC participation in H1 2020 kept pace with the tear away record set in 2019, as tech-focused businesses continued to draw corporate attention. Cybersecurity has experienced increased usage and we expect investment into the space to surge.

Despite COVID-19 woes, the UK & Ireland remains the largest VC ecosystem in Europe in terms of deal value. Mature startups continue to attract sizable rounds to drive deal value in the region. We consider fintech, cybersecurity and healthcare strong fields that have continued to bring in considerable VC investment in the ecosystem.

After a sluggish start to the year, VC exits recovered commendably in Q2 2020 as the coronavirus pandemic has had limited impact on certain sectors. Overall pace has remained slow compared to 2019, but outlooks could improve as sectors such as video conferencing thrive. Recent virtual listings could pave the way for future pandemic-proof liquidity events.

VC fundraising has defied lockdowns and a record annual total could be within reach with the pace set in H1 2020. France & Benelux VC fundraising has been strong and North America-headquartered GPs continue to raise Europe-based funds. We expect specialist funds targeting individual sectors such as pharma & biotech to proliferate going forward.

Nalin Patel
Analyst, EMEA Private Capital

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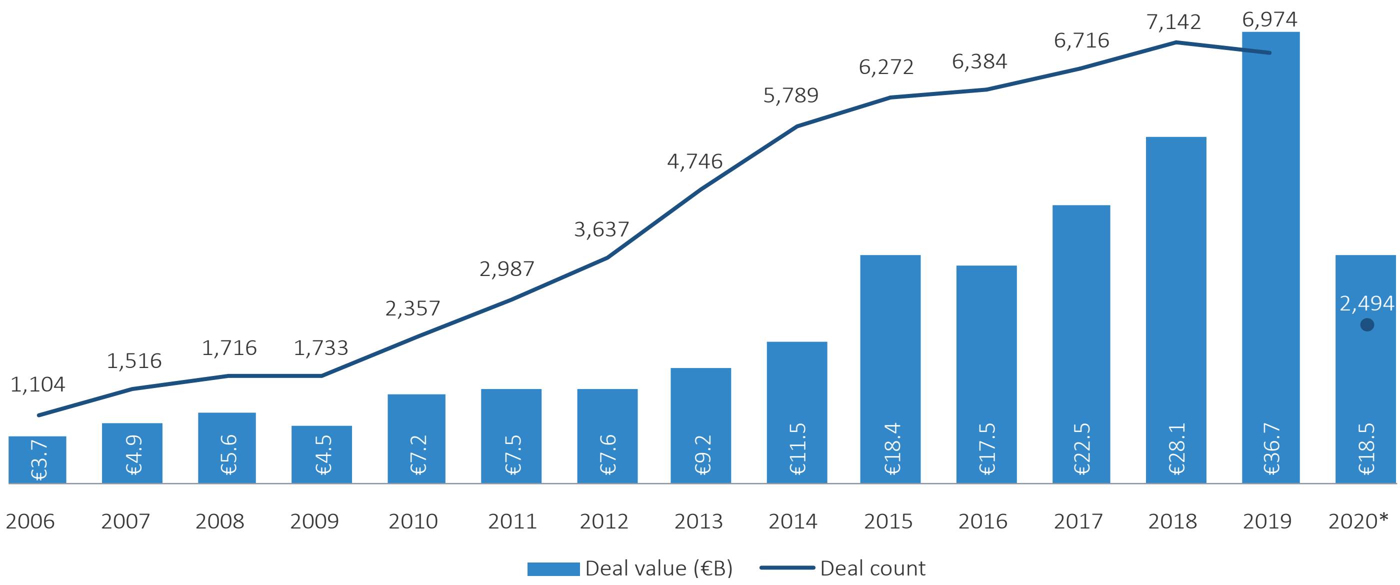
Overview

VC deal activity

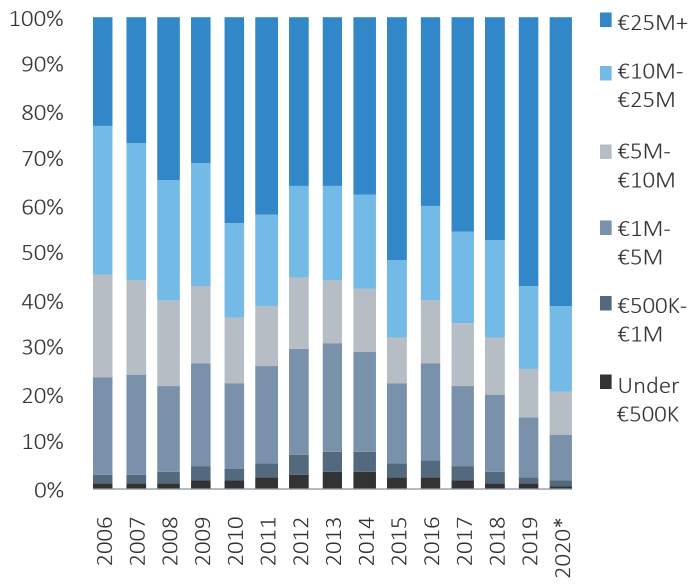


Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

VC deal activity in Europe reached €9.5 billion in Q2 2020—the third largest quarterly figure on record—a remarkable figure amid the widespread economic uncertainty caused by COVID-19. Although deal count slightly dropped off in comparison to the last four quarters, deal value managed to grow 5.7% QoQ despite certain sectors having to adapt operations, have employees work from home, or shut down completely across major European venture ecosystems. Given how the coronavirus has wrecked broader macroeconomic indicators, few would have expected H1 2020 deal value to be on course to match and potentially surpass the annual record set in 2019. But, strong VC deal value emphasizes the resilience and independence of the venture ecosystem considering the macro-level and sector-specific challenges facing Europe. Tech-heavy businesses, long-term return horizons, near-term illiquidity and growth in capital resources in recent years could have all led to the unexpectedly strong VC deal value in Q2.

In H1 2020, deals over €25 million comprised 61.2% of overall deal value, building upon the shift towards larger rounds we have witnessed in the last decade. Ecosystems and startups have matured, and traditional and unorthodox investors have facilitated outsized rounds with bigger cheques, contributing to the extension of funding runways for startups. In the COVID-19 climate, cash-rich investors have not shied away from substantial late-stage VC rounds either, and this has helped deal value remain robust. The

VC deals (€) by size



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

largest deal to close in Q2 was Deliveroo's delayed €527.6 million round led by Amazon (NASDAQ: AMZN). The deal has been under investigation by the Competition and Markets Authority (CMA) for over a year and was finally cleared. It was reported that the threat of a potential collapse of Deliveroo, which has been in limbo without the investment since the CMA intervention, was a contributing factor to a swift resolution of the investigation.

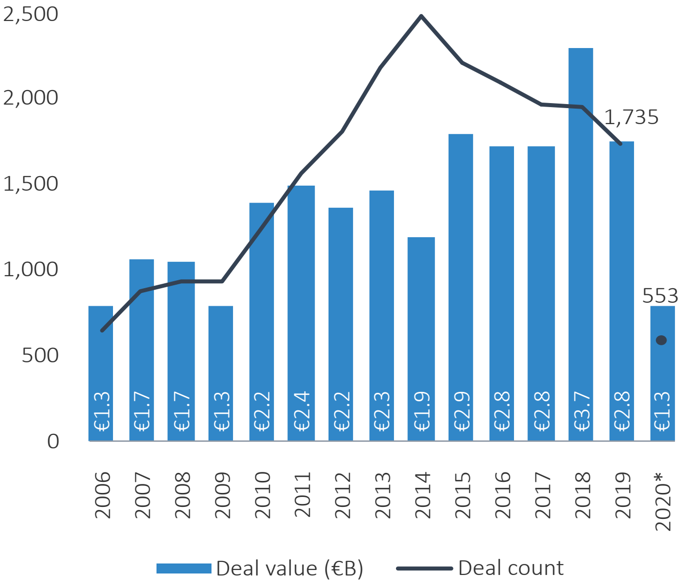
Fierce food delivery wars have ratcheted up in the last three years as consumer behaviour has altered and increasingly favoured convenience. COVID-19 has increased focus on the subsector in 2020 as dine-in restaurants have been forced shut, leading numerous establishments to shift to takeaway services and launch offerings on platforms with existing online delivery infrastructure. The short-term uptake in delivery services for prepared restaurant food and groceries during lockdowns may now result in long-term stickiness with online delivery startups, as social-distancing measures and fear of transmission persist.

The amalgamation of food delivery services has been a persistent topic of deliberation as it is a low-margin business area and requires huge scale to be lucrative. Following the merger of heavyweights Just Eat and Takeaway.com, the newly formed Europe-based Just Eat Takeaway (LON: JET) announced it’s intended acquisition of US-based Grubhub (NYSE: GRUB). Meanwhile, Uber Eats (NYSE: UBER) announced the acquisition of US-based Postmates. Although these players are not strictly within the European VC ecosystem, market leaders will cause trickle-down effects for startups and we believe delivery businesses such as Spain-based Glovo and Finland-based Wolt could attract attention from corporate food delivery giants across the globe. Consolidation is underway, and we believe this will continue as fortunes vary drastically for delivery startups dominant in a particular region relative to those with a limited foothold.

The quantity of first-time rounds has declined steadily since 2014 and is pacing to be the lowest annual total since 2009. Although dealmaking has been solid in H1 2020, we believe fewer first-time deals are closing due to a long-term shift in investment strategies, and this trend could be amplified by the effects of COVID-19. In Q2 2020, challenger bank N26 extended its latest round by €92.0 million to €523.5 million. The extension was funded by existing investors and underscores the long-term shift in devotion from backers to support their prized startups, which may be facing challenging circumstances and heightened cash demands. We believe extension rounds will proliferate in the current environment as investors focus inward on active portfolio companies that carry existing risk exposure, potentially leading to a decline in first-time deals through 2020.

Median VC deal sizes across all stages in Europe have paced higher in H1 2020 relative to 2019, which we believe points towards a healthy ecosystem with broad financing options for startups at different phases of their lifecycle. While this pace could also come from higher valuations, cash burns, and an abundance of capital in the ecosystem, we also believe the strong momentum in median deal sizes so far in 2020 indicates startups have been able to achieve funding and growth. Although fluctuations may occur during the rest of 2020 and an annual comparison will portray a clearer picture, it is an impressive feat in the face of the economic turmoil

First-time financing VC deal activity



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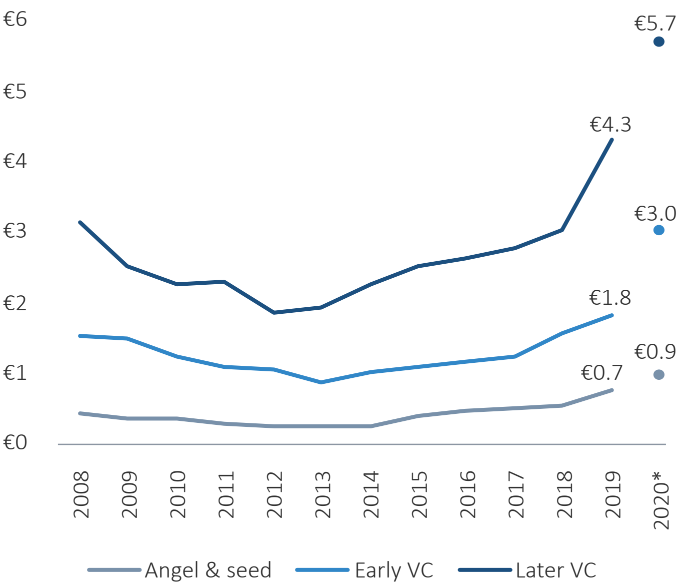
Median VC deal size (€M) by stage



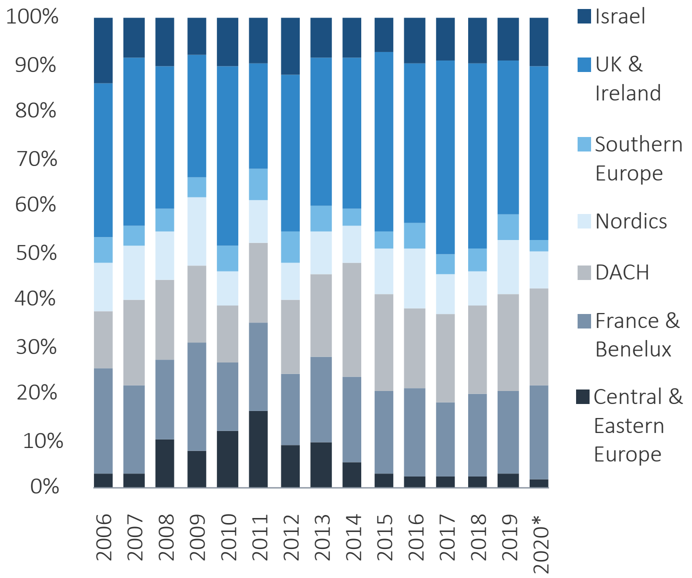
Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

facing European financial markets. Moreover, healthy median deal sizes are a cause for optimism heading into H2 2020 as European nations lift lockdowns and re-open borders for business and travel, which could further promote growth.

The dispersion of deal value across European regions in Q2 2020 exhibited consistency with a pre-pandemic market, showing a distinct concentration from the UK & Ireland, DACH, and France & Benelux regions. One notable deal outside these regions involved Estonia-based mobility startup Bolt, which closed a €100.0 million round. Ridehailing has been one of the hardest-hit sectors across Europe due to COVID-19. Startups will now be looking to secure market share from struggling competitors and expand food delivery and micromobility services that could capture long-term upturns in demand. Individuals will be reevaluating how they safely commute to work and social gatherings as regions open, and this will present opportunities for startups presenting alternatives.

Long-term considerations highlighted by COVID-19—including environmental friendliness, cost, and growing population sizes—have also created challenges for mobility. For example, German-based TIER, which closed a €110.6 million round in Q2, is reportedly the first micromobility company to be fully climate-neutral as of January 2020. We feel the coronavirus pandemic could accelerate investment in the mobility sector. As movement picks up across transport networks, companies and consumers will require a wider variety of options to maintain social distancing while catering to demand. Electric vertical take-off and landing (eVTOL) aircraft developer Lilium extended its round closed earlier this year, highlighting strong long-term interest to innovate and bring new methods of transport to market, even as incumbent mobility companies face major short-term issues.

VC deals (€) by region



Source: PitchBook | **Geography:** Europe
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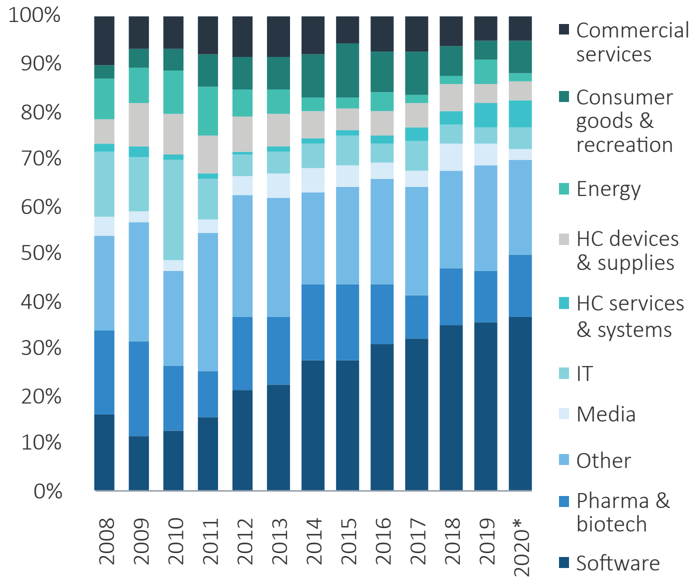
VC deals (€) by sector



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

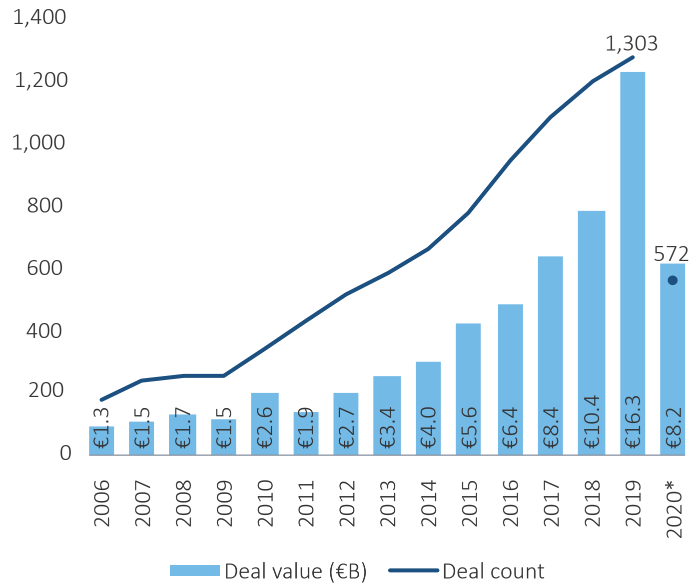
Corporate VC

VC deals with CVC participation reached €8.2 billion through H1 2020, keeping pace with the tear away record set in 2019. CVC participants were involved in sizable Q2 2020 rounds for Deliveroo, N26 and Lilium, resulting in a surprisingly high figure considering the muted corporate confidence we observed at the beginning of the quarter. Despite impending recessions and sweeping job cuts announced across Europe, VC dealmaking and subsequent portions of CVC investment within rounds have endured. We believe this is largely due to the sectors that startups in the ecosystem are targeting. Technology is fundamentally linked to VC and it has arguably been the corporate sector least affected by the coronavirus pandemic. For example, the growth between the market low and high during the Q2 recovery of the Stoxx 600 technology index was approximately 13.8% larger than the overall Stoxx 600. The illiquid, long-term and private nature of VC has also meant dips can be managed without quarterly scrutiny and could materialise later into the market cycle, compared to more liquid asset classes facing near-term volatility from the economic downturn.

Israel-based BioCatch's €132.9 million round was one of the biggest VC deals with CVC participation in Q2. BioCatch develops behavioural biometric technology to recognise cybersecurity threats and the round attracted participation from the CVC arm of American Express (NYSE: AXP), which uses BioCatch itself, along with other financial institutions such as NatWest and Itaú Unibanco (BSP: ITUB3). Identity fraudsters and cyber criminals have continued to prey on individuals and companies in the last decade, and we believe this has been especially prevalent during the coronavirus pandemic. Companies have placed greater importance on cybersecurity as online financial traffic has increased in the short term and is expected to continue in the long term. We expect corporates will increasingly invest in startups developing cutting-edge preventative measures to combat new and evolving cybersecurity threats.

UK-based cybersecurity startup Privitar also attracted CVC investment from financial institutions, and its €77.8 million round drew participation from HSBC (NYSE: HSBC) and the CVC arm of ABN AMRO (AMS: ABN). Privitar specialises in data privacy, offering enterprise-wide protection and regulatory compliance. All these areas have been under severe scrutiny as users, companies and cyber criminals have become more cognizant of data shared online. High-profile data breaches and sophisticated hackers have forced companies to invest heavily in technical infrastructure and we believe this will become more prevalent in the future.

VC deal activity with CVC participation



Source: PitchBook | **Geography:** Europe
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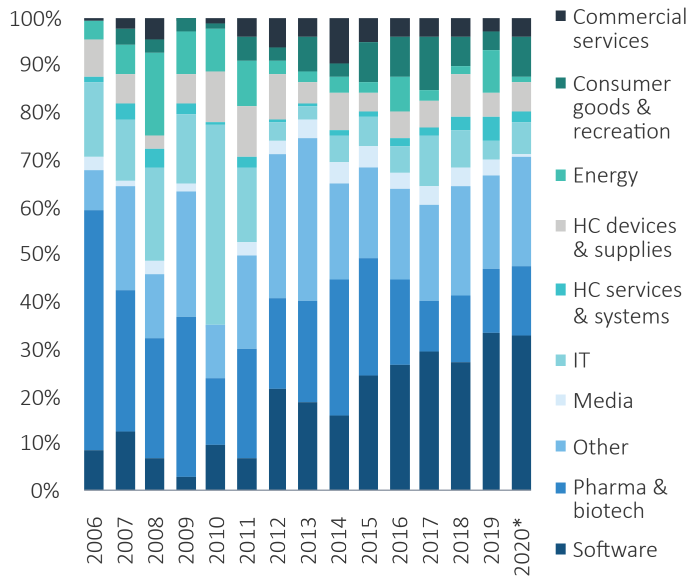
VC deals (€) with CVC participation by sector



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

We anticipate CVC investment strategies will continue to vary extensively between sectors in 2020. As has been the case during the last decade, we believe cash-rich tech companies will continue to invest capital primarily in software-based startups to remain competitive. This dominance in deal flow could extend throughout the year as corporate balance sheets in worse-off sectors such as energy, hospitality and mobility take longer to bounce back, ultimately hindering CVC investment opportunities for startups in those respective sectors.

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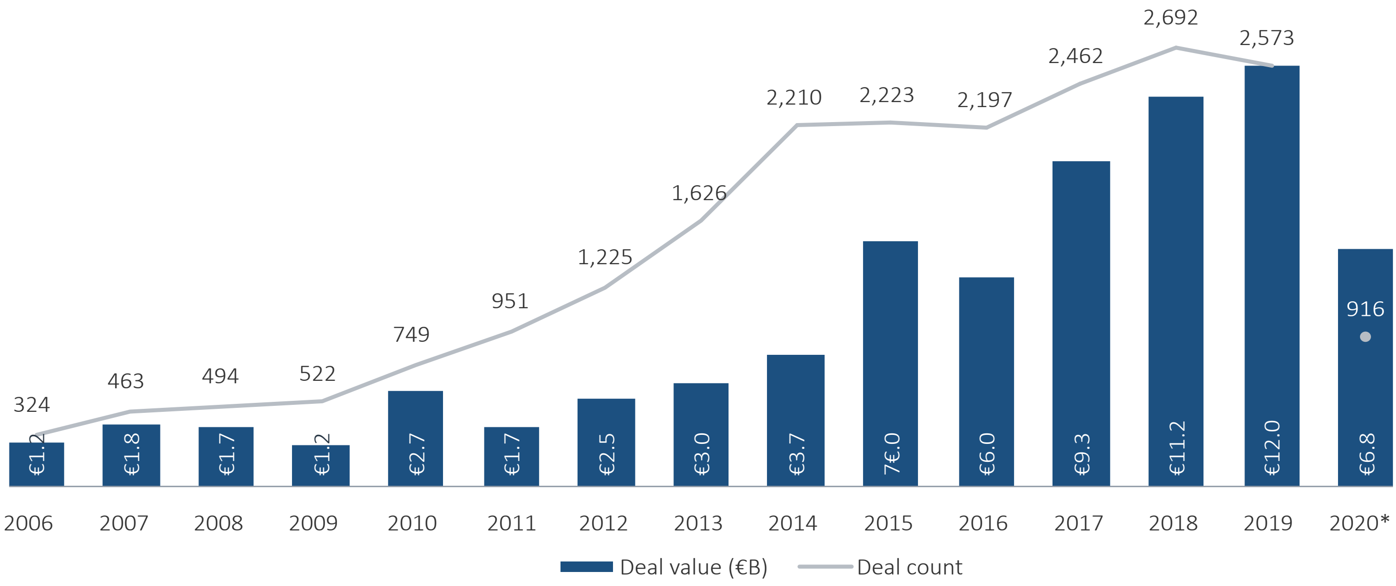
Spotlight: UK & Ireland

VC deal activity



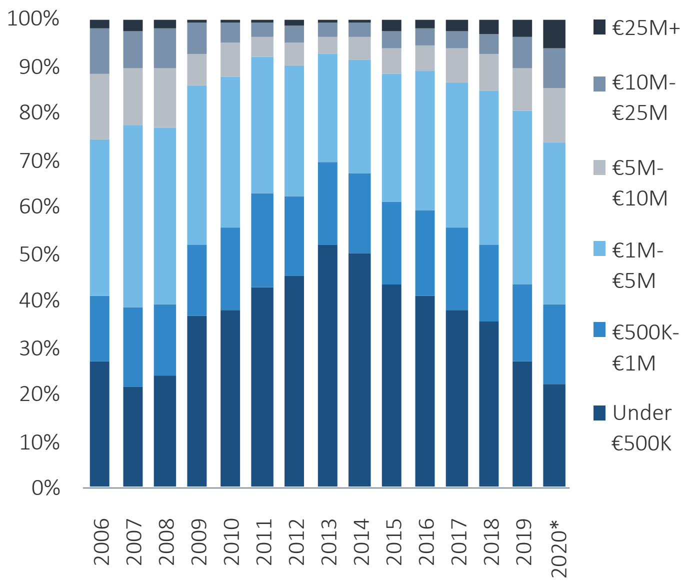
Source: PitchBook | **Geography:** UK & Ireland
*As of June 30, 2020

This section was originally featured in our 2020 UK & Ireland Private Capital Breakdown and has been updated to reflect Q2 2020 deals.

After setting a new record in 2019, VC deal value in the UK & Ireland has astonishingly paced higher in H1 2020. This feat was made more commendable as the UK has been the worst-hit European region in terms of fatalities from COVID-19, despite reporting methodologies varying between countries across the globe. Additionally, signs of the damaging economic fallout were reported as the UK economy shrank a record 20.4% in April 2020. Notwithstanding, VC deal value reached €6.8 billion in H1 2020, creating optimism that the ecosystem has negotiated the toughest period since the global financial crisis (GFC) and has stayed in solid shape. As portions of the UK's service-heavy economy such as hospitality and transport reopen, this may pave the way for greater VC investment heading into Q3 2020.

The UK & Ireland ecosystem has matured into the most developed European VC region with a multitude of international investors and founders targeting locations to nurture ideas. Enormous VC vehicles have funded larger rounds invested into startups, in turn leading to the emergence of highly valued businesses in the ecosystem in the last decade. This has continued in 2020 YTD despite COVID-19, with 64.7% of deal value in the UK & Ireland being channelled into deals over €25 million, pacing to reach a decade high. Late-stage and nontraditional capital availability has

VC deals (#) by size



Source: PitchBook | **Geography:** UK & Ireland
*As of June 30, 2020

been a huge factor driving this growth, as startups established in the UK & Ireland have been able to access a burgeoning variety of capital sources to scale and soar to record sizes in the last five years.

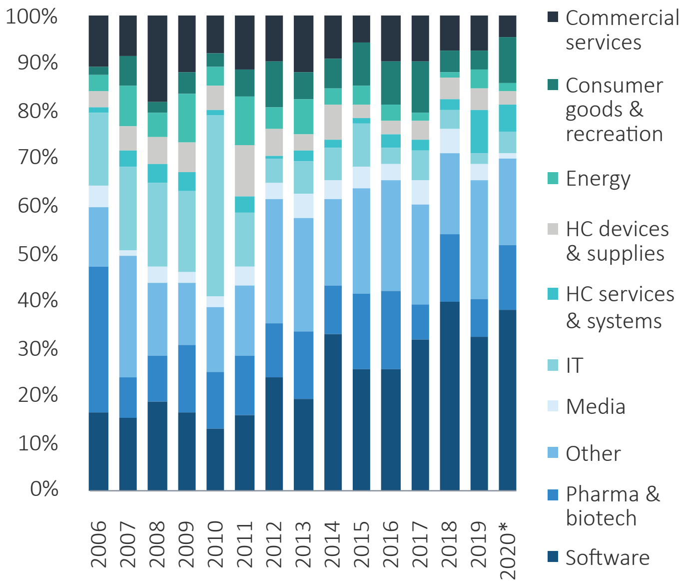
Software subsectors such as fintech have seen strong growth within the UK & Ireland in the last decade, as technological advances have revolutionised operations. However, in Q2, fintech startups have fared differently in light of COVID-19. For example, challenger bank Monzo's valuation took a 40% valuation haircut for its €81.0 million down round, and Starling Bank tapped existing backers for €44.5 million to extend a round to €112.9 million. Monzo is not the only bank facing issues, as in-person and cross-border card transactions have dried up during lockdowns, with consumers staying home and saving money or spending it online. We believe aggressive scaling efforts seen in recent years will be tapered, as fintech banks focus on building robust unit economics in a highly competitive and costly subsector.

In contrast, ecommerce payment specialist Checkout.com continued its rapid growth to close a €134.2 million round in Q2 2020, roughly tripling its valuation within a year to become one of the most valuable VC-backed companies in Europe. Checkout.com has reportedly been profitable since its founding in 2012, a unique circumstance given the sector and phase the company is in, and the funding will be used to strengthen its balance sheet and invest in R&D. The healthy financial condition of the company blended with precipitous growth in a sector notorious for being capital-intensive presents the ultimate opportunity for investors, and the size of the round and ensuing jump in valuation indicate those involved are assured momentum can be sustained.

Attention to cybersecurity has intensified as business, educational and recreational online service demand has spiked amid lockdowns. In Q2 2020, London-based Onfido, a developer of cloud-based identity verification tools, completed a €91.6 million funding round. We believe investment will continue to grow in the space as stakeholders look to consolidate the UK & Ireland's leading position in the sector. Companies are increasingly having to build and improve their defences against evolving cyberattacks, especially with personal networks carrying sensitive information. Increased traffic presents greater opportunities for protection against cyber criminals, and cybersecurity is less heavily affected by demand-side collapses in revenue generation from COVID-19.

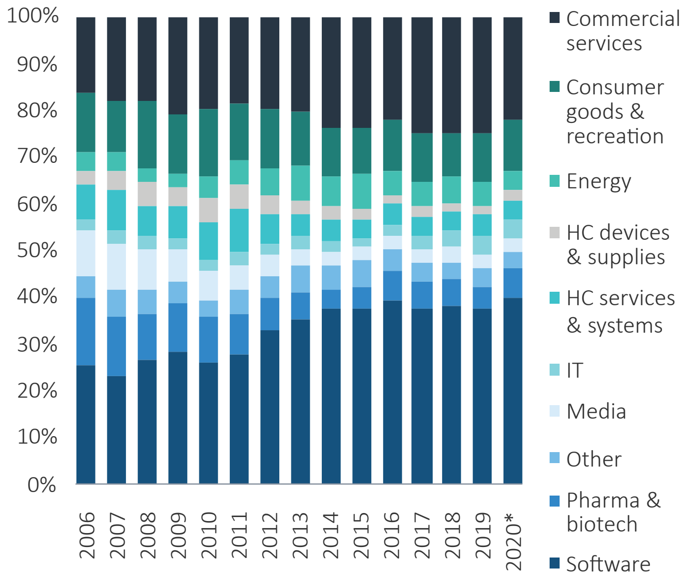
Diagnostic software developer LumiraDx completed a €276.9 million funding in Q2, one of the largest rounds of 2020 YTD. Healthcare startups based in the UK & Ireland have attracted substantial capital in the last decade, and we have seen expertise employed to help fight COVID-19. LumiraDx announced a strategic partnership with Chembio (NASDAQ: CEMI) to develop solutions for the detection of COVID-19, and IgG and IgM antibodies. The public health crisis has unearthed shortcomings, and as the recovery phase commences with the threat of a second wave, investment into startups able to pivot resources to help prevent or manage future pandemics could rise. Healthcare venture investment holds a lengthier time horizon, as widespread scale and extensive successful testing periods are required before commercialisation and subsequent returns. Therefore, in the short term, we believe investment into logistics, resource management and telemedicine will rise in the UK & Ireland, along with more traditional drug discovery and automation over the long term.

VC deals (€) by sector



Source: PitchBook | **Geography:** UK & Ireland
*As of June 30, 2020

VC deals (#) by sector



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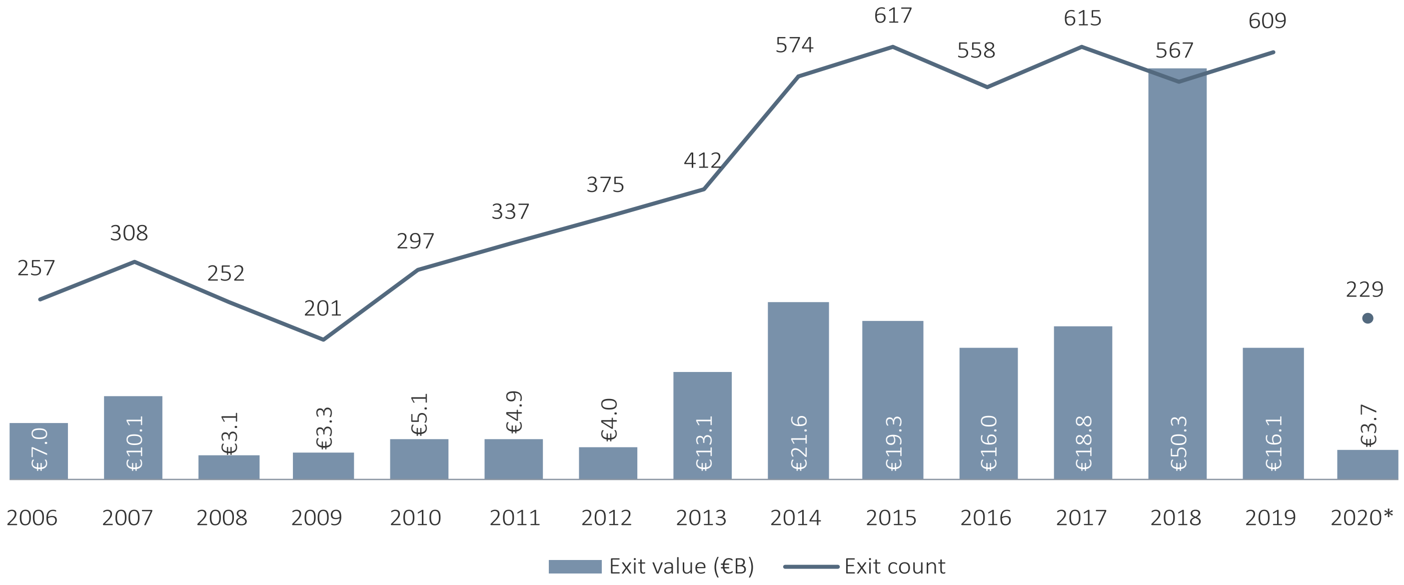
Exits

VC exit activity

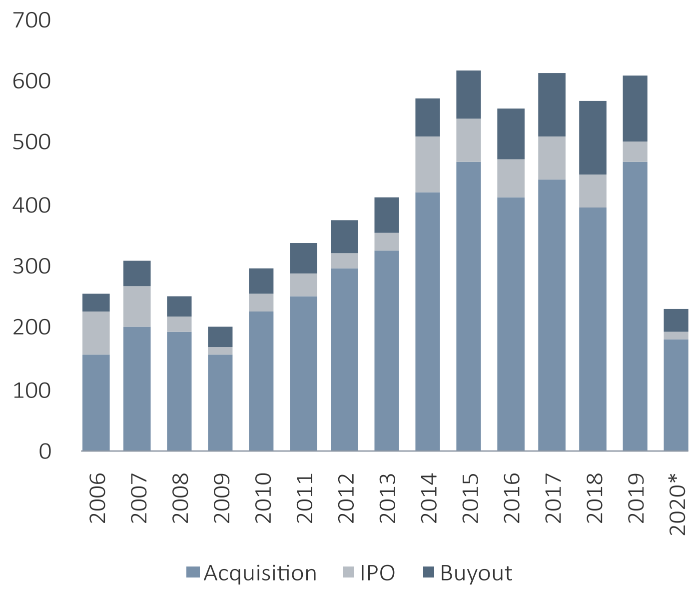


Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

After an exceptionally slow start to 2020, VC exits in Europe recovered commendably as sectors such as video conferencing saw surges in demand and focus on healthcare solutions remained top of mind for investors and companies. Although Q2 exit value was unexpectedly buoyant at €2.7 billion, exit value in 2020 is still on track to register the lowest figure since 2012. However, with the first coronavirus wave's peak under control in Europe, exit outlooks could brighten towards the latter half of the year as pent-up investor demand and a scarcity of exit events garner interest. For example, a shorter supply of companies willing to publicly list in recent weeks has generated heightened investor demand. Nonetheless, we do not expect several highly valued startups to rush for an exit as late-stage and nontraditional capital has largely alleviated pressure to exit in the maturing European ecosystem.

The largest exit in Q2 2020 was the IPO of Switzerland-based biotech company ADC Therapeutics (NYSE: ADCT), which exited at a €989.9 million pre-money valuation. Since listing in May 2020, the share price of ADC Therapeutics has steadily risen, and this success could influence other VC-backed companies to be bullish in the current market and press ahead with an IPO. However, we believe there is a disconnect with the staggering public equity rebound in recent months and the underlying financial health of companies and economies. We expect the full ramifications of COVID-19 to emerge during H2 2020 as furlough schemes end, businesses reopen, earnings during lockdowns are reported and revised valuations are calculated. Therefore, we believe IPOs will remain a risky option. Positive COVID-19 case statistics appear to be influencing stocks daily and this could continue until a vaccine is found. Moreover, a surge in speculative retail investors in public equities utilising platforms such as Freetrade and Robinhood has added to volatility, as demonstrated with a reported 800% rise in Hertz's share price after it filed for bankruptcy.[1]

VC exits (#) by type



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

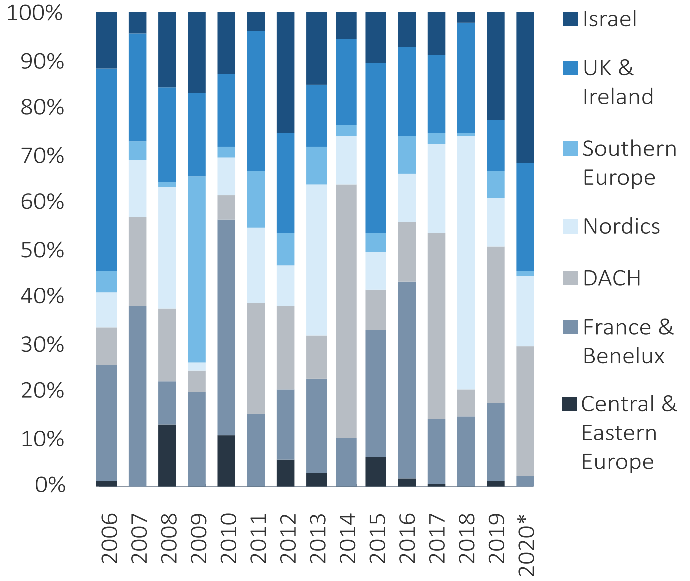
1: "Retail Investors Bet On Bankrupt US Companies Rising Again," The Financial Times, Richard Henderson, June 9, 2020.

Only 11 Europe-based startups have listed on the public market in H1 2020. At the current pace, the European VC ecosystem could notch the lowest number of listings since 2009 by the year's end. Despite a cautious IPO environment, listings are taking place and one IPO in Q2 involved Norway-based video-conferencing startup Pexip, which exited at a €350.5 million pre-money valuation. Demand for Pexip's services has increased during the coronavirus pandemic and the timing of the exit was designed to take advantage of increased attention. Pexip's IPO was conducted virtually using its own software for project management meetings and investor roadshows across multiple countries, while also demonstrating functionality of the underlying product. A novel virtual bell ceremony was carried out and involved employees ringing bells simultaneously on a video call. According to Pexip's CEO, it was estimated the process saved 1,700 hours of travel time and over 80 tonnes of CO_2 emissions. We believe companies could take note of these benefits and follow suit, mainly those who can transition to work-from-home arrangements and operate businesses with video conferencing. Virtual direct listings of tech companies could also grow in frequency, avoiding lengthy roadshows and costly IPO fees altogether, as discussed in our analyst note on Slack's DPO.

Israel-based startups exiting the ecosystem generated €1.2 billion in H1 2020, accounting for 31.8% of overall exit value. Mobility-as-a-Service (MaaS) startup Moovit was acquired by Intel (NASDAQ: INTC) for €826.9 million and was the major contributor to the jump in Israel exit value. Moovit will join Intel's Israel-based Mobileye business, which specialises in advanced driver-assistance systems, including robotaxi services, a market that Lilium is also looking to penetrate. Moovit's urban mobility app provides travellers with multimodal journey planning by linking public transport, bicycles, scooters, ridehailing and carsharing. This exit also coincided with recent rumours that London-based Citymapper, which offers a similar service, is in talks regarding a potential acquisition. We believe acquisitions and consolidation in mobility will persist, as scale and low margins remain obstacles in the path to profitability for smaller companies in the space.

Despite exit value across all sectors pacing significantly lower compared to 2019, pharma & biotech was the only sector to cross €1 billion in exit value through H1 2020. A collection of pharma & biotech exits occurred in Q2 including the IPO of Israel-based PolyPid and the acquisitions of Ireland-based PrecisionBiotics by Novozymes (CSE: NZYM B) for €80.0 million, and UK-based Nanna Therapeutics by Astellas Pharma (TKS: 4503) for €78.4 million. While other sectors struggle, we expect investors to be scouring pharma & biotech startups as COVID-19 has sharpened focus on broader hygiene, healthcare and personal well-being initiatives. Having observed the devastating impact of COVID-19, we believe individuals will become more health-conscious, and knock-on effects could permeate through other medical fields, giving rise to investments and resulting in exit opportunities in the long term.

VC exits (€) by region



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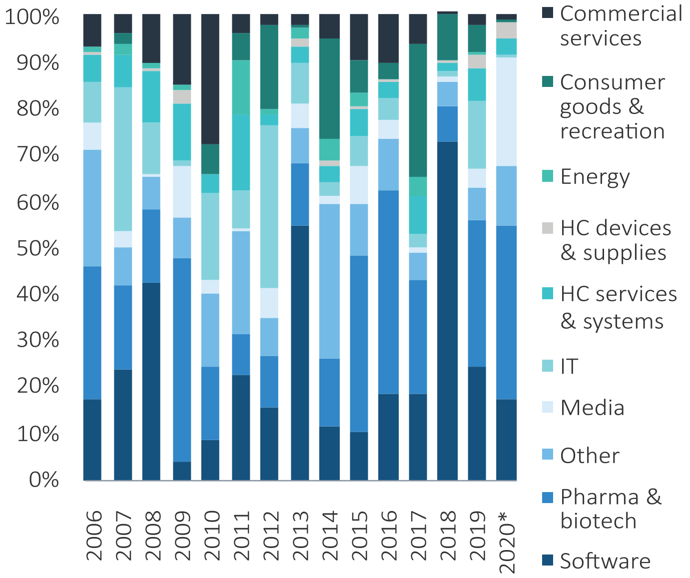
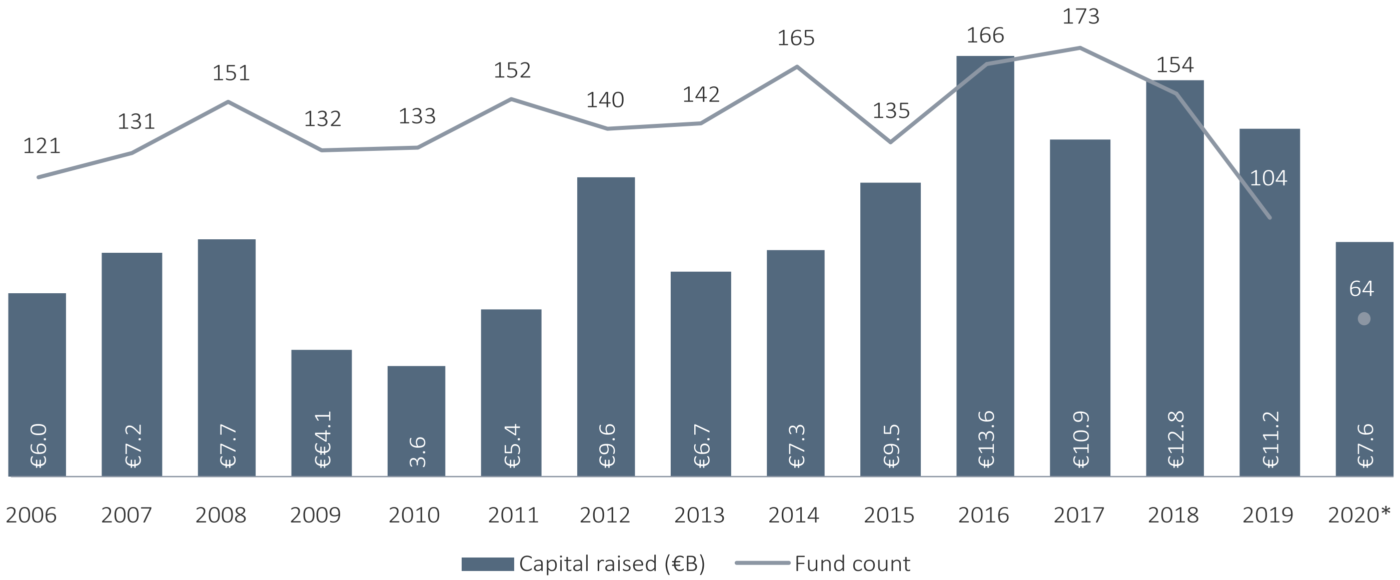
VC exits (€) by sector



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

Fundraising

VC fundraising activity

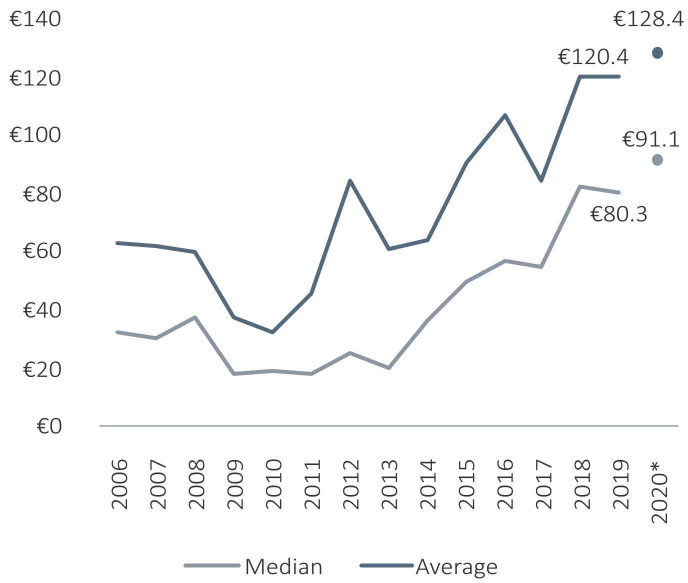


Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

COVID-19 does not appear to have adversely affected the fundraising environment in Europe, a testament to LPs' comfort committing to funds within the asset class. In fact, VC fundraising in Europe has totalled a defiant €7.6 billion halfway through 2020, setting the year on pace for a record annual total if momentum persists. Few would have expected such a strong figure in the front half of the year, but VC fundraising has continued to charge on and looks set to pass the €10 billion watermark for the fifth consecutive year. VC fund count has been stable too, and could tick slightly higher than the 104 closed vehicles in 2019.

The largest closed fund in Q2 2020 was France-based Cathay Innovation II at €505.3 million. Cathay Innovation II qualified as one of the funds to finance France-based tech startups during their scale-up phase by the French Ministry of Economy & Finance and the French Ministry of Digital Economy. As discussed in our 2020 France & Benelux Private Capital Report, fundraising in the France & Benelux region has been refreshingly robust with €1.9 billion raised in H1 2020, accounting for 25.0% of the total across Europe. We believe freshly raised, undeployed funds will create optimism for forthcoming long-term dealmaking in the region and future capital deployment strategies from comparable vehicles could be geared towards opportunities emerging from COVID-19. For example, Cathay Capital recently invested in Medwing, which helps healthcare professionals solve staff shortages, and Owkin, which has built collaborative networks of medical research.

Median and average VC fund size (€M)



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Another notable fund to close in Q2 was Moscow-based Runa Capital III at €144.2 million. Palo Alto-headquartered Runa Capital has demonstrated how North American-founded fund managers continue to participate and supplement European VC fundraising efforts. Runa Capital III will target deeptech investments in Europe and the US and adds to the list of satellite European-based funds and offices with North American-headquartered GPs. Earlier in 2020, it was reported that Sequoia Capital would be opening

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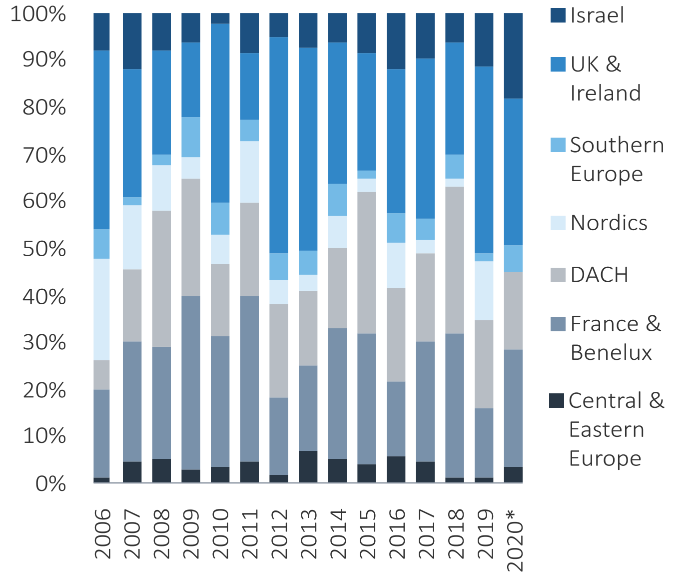
a London office, illustrating a growing interest in Europe from well-established GPs across the pond. We believe long-term expansion via European bases could increase fundraising efforts, as certain investors maintain the belief that the US VC ecosystem is overpriced. However, given global financial and travel uncertainty caused by COVID-19, we anticipate that market corrections will occur, and long-term location-specific expansion strategies could be delayed.

During H1 2020, the median and average VC fund size has been pacing slightly higher than in 2019, further underlining resolute fundraising conditions amid travel restrictions and lockdowns across Europe. Israel-based S Capital VC closed its S Capital Fund II at €110.0 million, one of the six €100+ million funds to close in Q2. S Capital VC was only founded in 2018 by Sequoia Capital Israel investor team members and displays the cyclical cluster effects produced by VC activity in a regional pocket. Well-known GPs moving into specific regions can attract impressive talent, but it can also spur serial investors to branch out and launch their own VC funds, similar to how successful founders often go on to become prolific angel investors. Furthermore, as GPs back startups in a region and generate returns, it can promote future commitments into local funds from LPs looking for new regions in which to invest.

Despite a projected tightening of global investment on the horizon, specialist funds continue to grow and execute successful fundraisings as LPs remain upbeat in the face of COVID-19. Netherlands-based BioGeneration Ventures (BGV) closed its fourth fund at €105.0 million in Q2 2020. Since its founding in 2006, BGV has become an established early-stage biotech & pharma GP in Europe with notable multibillion-euro exits such as Acerta Pharma and Dezima Pharma. BGV's latest fund attracted a commitment from Bristol Myers Squibb (NYSE: BMY), as big pharma companies have relentlessly invested in VC funds in recent years to maintain competitive advantages and stay abreast of emerging research. Although BGV invests in a sector less affected by the pandemic, strong market interest to commit to the fund ensured it was oversubscribed and only open for a few months in 2020, indicating appetite continues to be insatiable for recognised GPs that bring fund families to market.

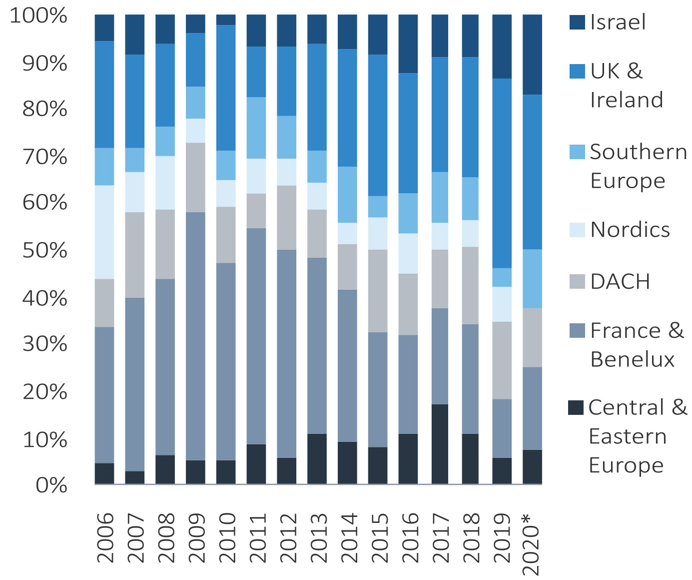
Strong VC fundraising in Europe during H1 2020 bodes well for the remainder of the year, as the divergent performance of portfolio companies in different sectors will put pressure on GPs allocating finite capital resources manging impacts from COVID-19. Fundraising has continued despite lockdowns, travel

VC funds (€) by region



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

VC funds (#) by region



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

restrictions and uncertainty as GPs and LPs have been able to adapt processes in the face of unique challenges. However, as economic issues continue to surface heading into the remainder of the year, fundraising levels could fluctuate as a clearer picture emerges at year-end.