PitchBook

European Venture Report

Q2 2021

PitchBook

Contents

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Introduction

European VC deal value reached a new annual peak in H1 2021, beating the record set in 2020. European VC has developed strongly in 2021 as capital flows have increased dramatically despite uncertainty stemming from COVID-19 and macroeconomic volatility. This unrelenting pace could see deal value land near the €100 billion mark by year-end. Late-stage capital has continued to dominate and drive deal value upwards. Outsized deals are no longer outliers in the European VC ecosystem as multimillion-euro rounds are increasing in value and regularity, irrespective of financing stage.

Deal value with nontraditional investor participation set a new record in H1 2021, already surpassing the total from the entirety of 2020. Nontraditional investors did not hesitate to deploy capital, and we expect the pace to continue as economies open up and we move deeper into 2021. Nontraditional investors have been keen to back fast-growing businesses in trendy tech-based sectors that show potential for enhanced return profiles.

Through H1 2021, record exit value eclipsed the previous annual best set in 2018. VC exit activity has been frenzied in H1 as highly valued VC-backed companies have accelerated towards an exit to extract maximum value and returns available to investors, while taking advantage of soaring valuations. The exit environment has never been hotter in Europe, and we expect exit value to remain elevated for the remainder of 2021 as Europe's most valuable companies look for an exit route.

At the current pace, capital raised by VC funds is on course to exceed 2020 figures at the year's conclusion. LPs and GPs have been confident in their ability to find quality investment opportunities among a wide range of startups across sectors throughout Europe. US-headquartered GPs continue to double down on their capital-raising efforts in Europe. UK-based funds and specialist funds focusing on areas such as life sciences have attracted substantial commitments.

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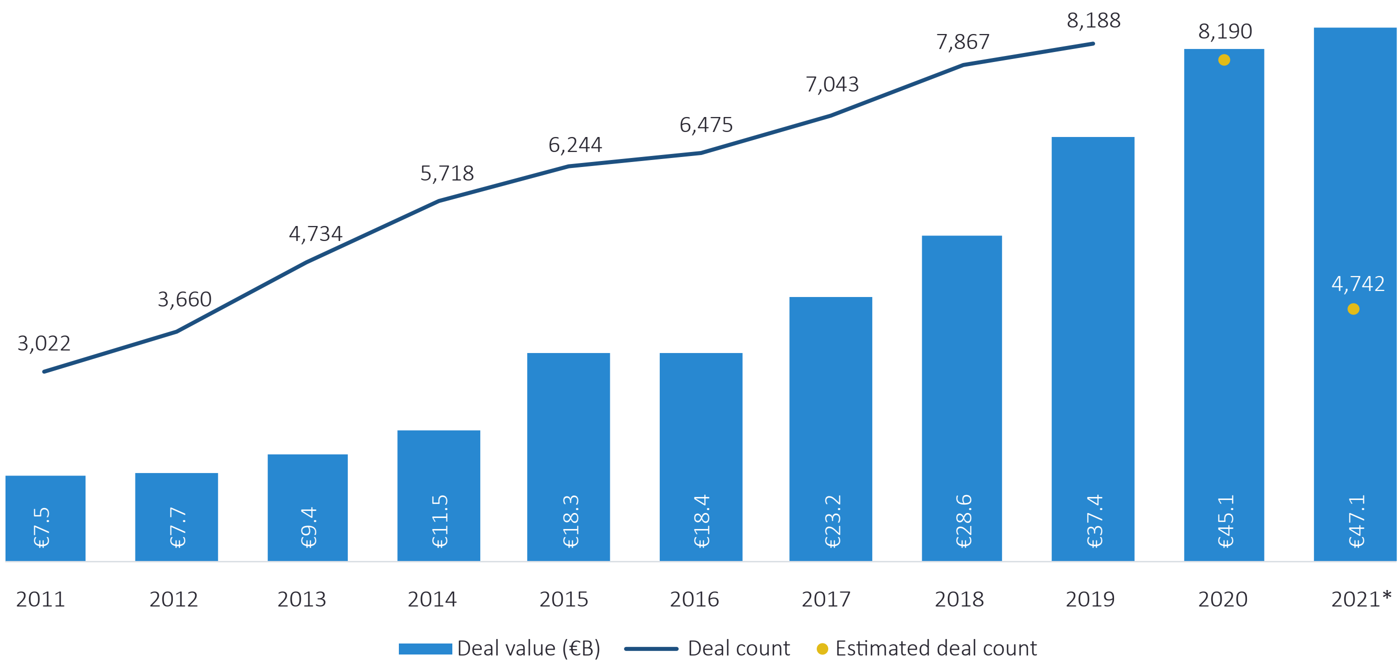
Overview

VC deal activity

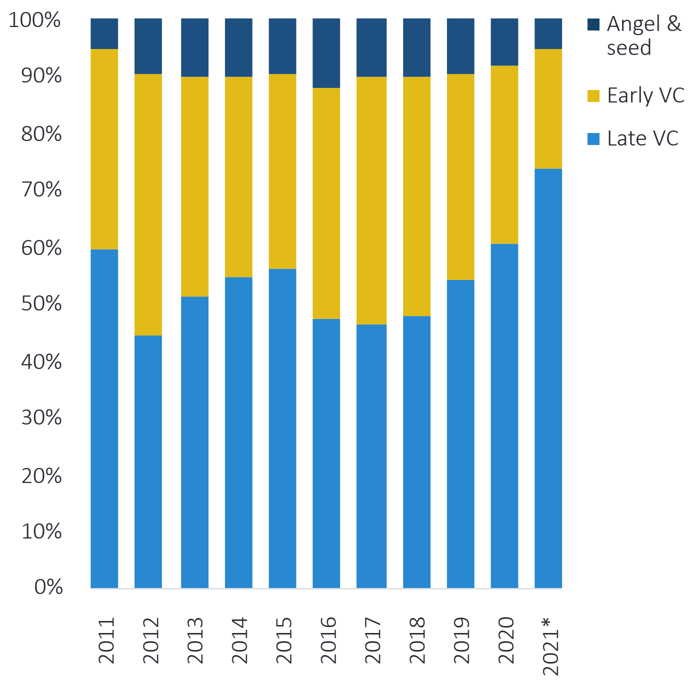


Source: PitchBook | **Geography:** Europe
*As of June 30, 2021

VC deal value reached a record €27.7 billion in Q2 2021 and immediately topped the previous quarterly peak set in Q1 2021. Through H1 2021, European VC deal value reached €47.1 billion and has already beaten the annual record of €45.1 billion set in 2020. If the current pace persists throughout the second half of the year, deal value could land near the €100 billion mark by year-end. European VC has developed strongly in 2021 as capital flows have increased dramatically despite uncertainty stemming from COVID-19 and macroeconomic volatility. Meanwhile, the quantity of deals remains healthy and should reach roughly 8,000 deals for the third consecutive year—signaling that the VC dealmaking environment in Europe has never been stronger.

Broadly speaking, the COVID-19 pandemic has had little impact on dealmaking for the most developed VC-backed companies in Europe. In Q2, huge late-stage rounds closed frequently for companies looking to scale rapidly despite ever-changing travel restrictions, varying COVID-19 waves across European countries, and uncertainty from legislative changes. Late-stage capital has continued to dominate and drive deal value upwards. In H1 2021, overall capital was split between late-stage rounds with 73.8%, early-stage rounds with 20.8%, and angel & seed rounds

Share of VC deal value by stage



Source: PitchBook | **Geography:** Europe
*As of June 30, 2021

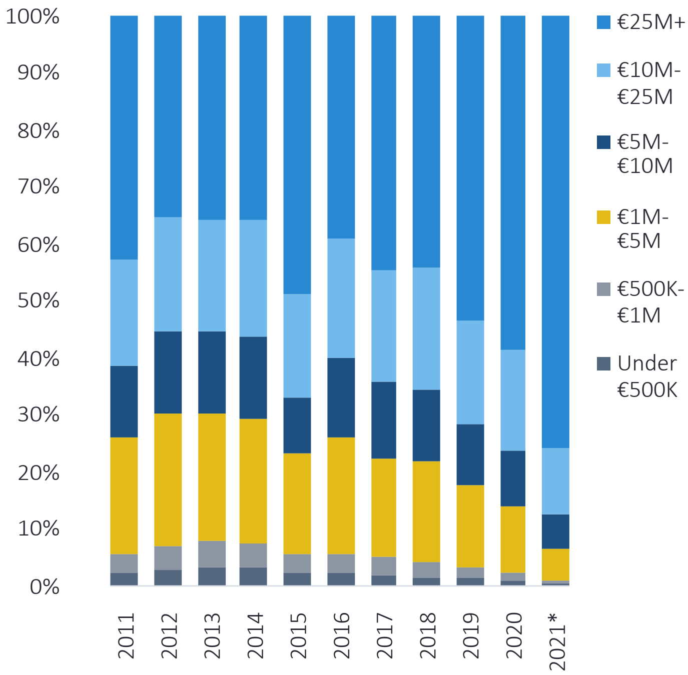
with 5.4%. By comparison, late-stage deals produced 60.5% of capital in 2020. Late-stage VC investors have expanded impressively in Europe, enabling VC-backed companies to complete substantial rounds in H1 2021.

The largest round in Q2 2021 belonged to Sweden-based battery developer Northvolt, which completed a €2.3 billion financing. Among other participating investors, the deal was co-led by Sweden-based AP pension funds 1-4, Canada-based pension fund OMERS, Goldman Sachs (NYSE: GS), and Volkswagen (ETR: VOW3). The diversity of the round's investor pool illustrates how VC has developed into a major investment strategy for institutions and organisations across geographies and sectors looking for strong long-term returns. The staggering size of the round follows Klarna's €1.1 billion financing in Q1 and raises questions around what is considered modern VC investing. Such deal sizes, which have never been seen before in Europe, are approaching the magnitude of capital and the types of nontraditional investors typically associated with PE and M&A transactions.

Furthermore, it appears that outsized deals are no longer rare outliers in the European VC ecosystem as multimillion-euro rounds are increasing in value and count, irrespective of financing stage. In H1 2021, deals over €25 million produced 10.6% of overall deal count and 75.8% of overall deal value—both expected to hit new annual highs if the pace sustains in H2 2021. As unicorn numbers have increased in Europe, so have the largest deal numbers. In Q2 2021, the five largest deals were in excess of €650 million and were all linked to established unicorns such as MessageBird, Celonis, Trade Republic, and Mollie. As highly valued companies continue to emerge and rapidly develop in countries and sectors across Europe, VC deal value is expected to skyrocket as well.

However, the ecosystem is not solely geared towards enormous follow-on rounds for flagship portfolio companies. The pipeline of new startups also remains strong, as evidenced by capital pouring freely into first-time rounds. While first-time deal value has remained consistent in recent years, it reached €2.7 billion in H1 2021 and is on course to set a new annual record at the end of 2021. One notable deal involved Luxembourg-based factory14, which secured €165.3 million. Startups emerging from stealth mode in lesser-known VC regions indicates that innovation continues to thrive in these areas. Factory14 acquires and partners with digital businesses to scale them in high-growth niches. We believe this is a burgeoning trend as tech companies increasingly plug into existing technical infrastructure sources, such as popular websites or apps that possess enriched user data, and leverage their customer base to scale rapidly.

Share of VC deal value by size



Source: PitchBook | **Geography:** Europe
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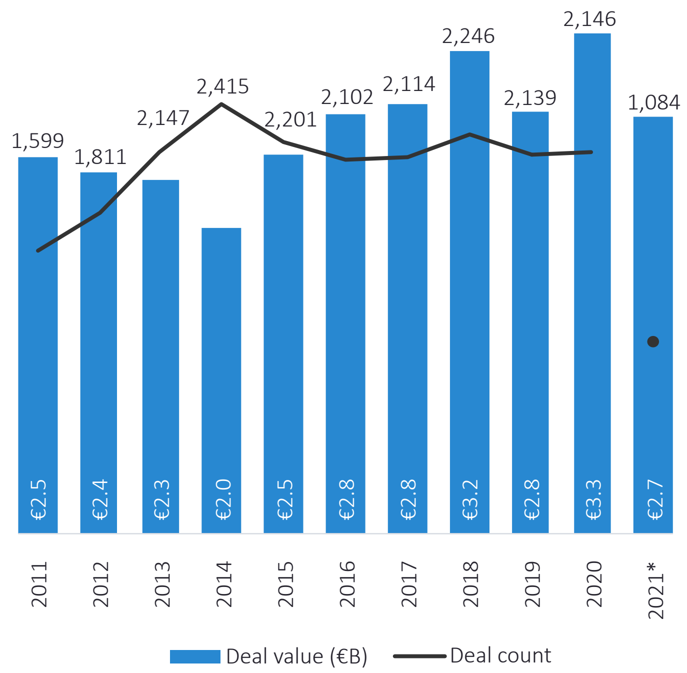
First-time VC deal activity



Source: PitchBook | **Geography:** Europe
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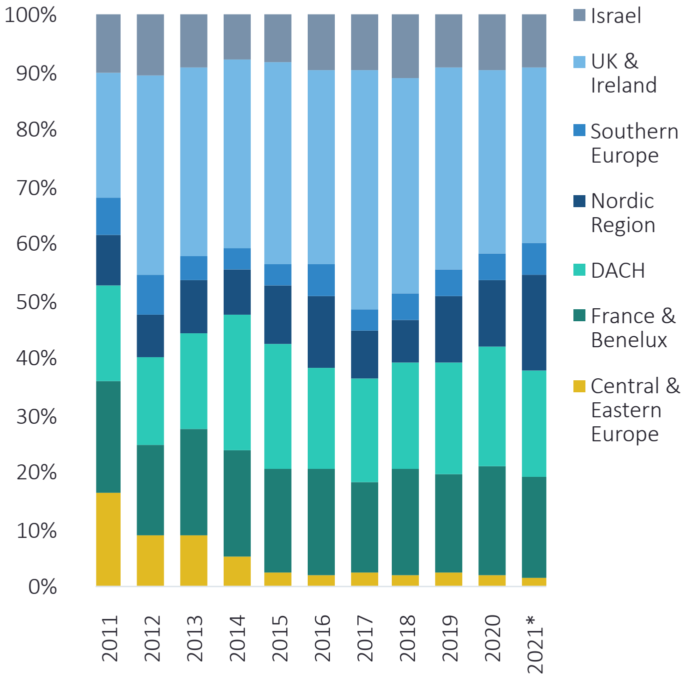
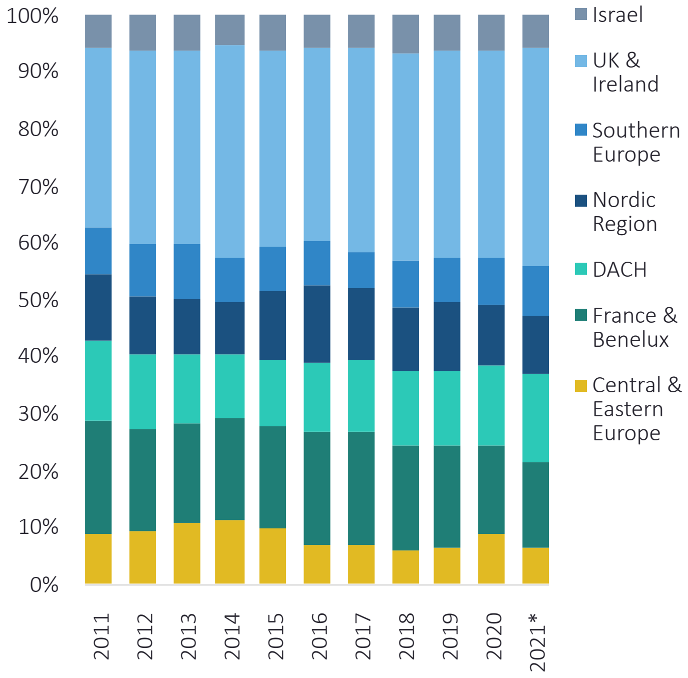
VC deals by region and sector

Share of VC deal value by region



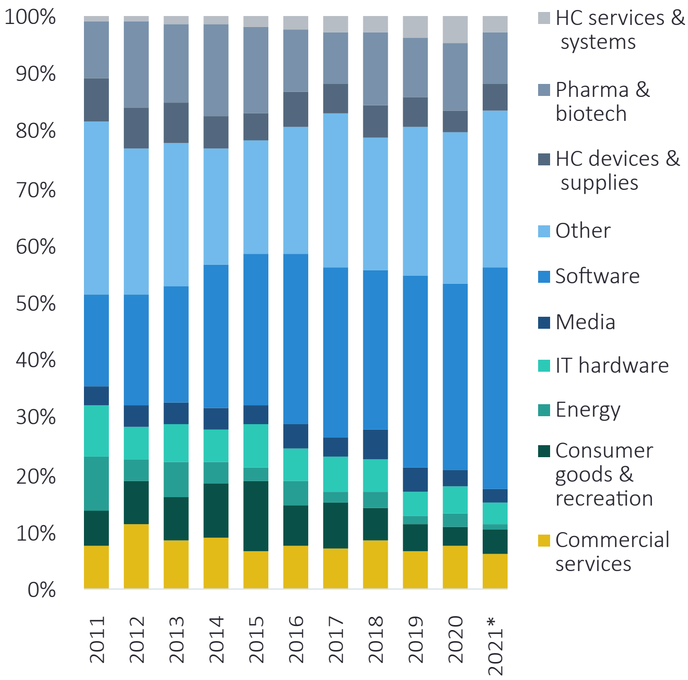
Source: PitchBook | **Geography:** Europe
*As of June 30, 2021

Share of VC deal count by region



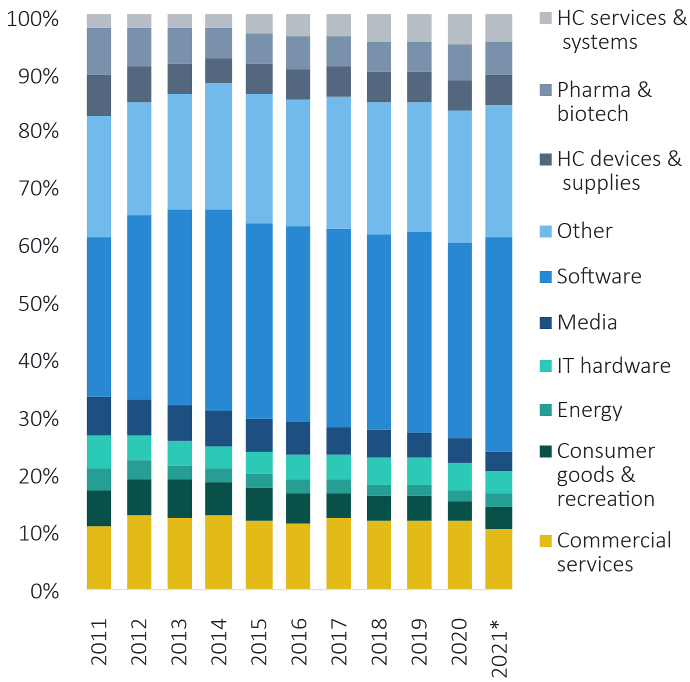
Source: PitchBook | **Geography:** Europe
*As of June 30, 2021

Share of VC deal value by sector



Source: PitchBook | **Geography:** Europe
*As of June 30, 2021

Share of VC deal count by sector



Source: PitchBook | **Geography:** Europe
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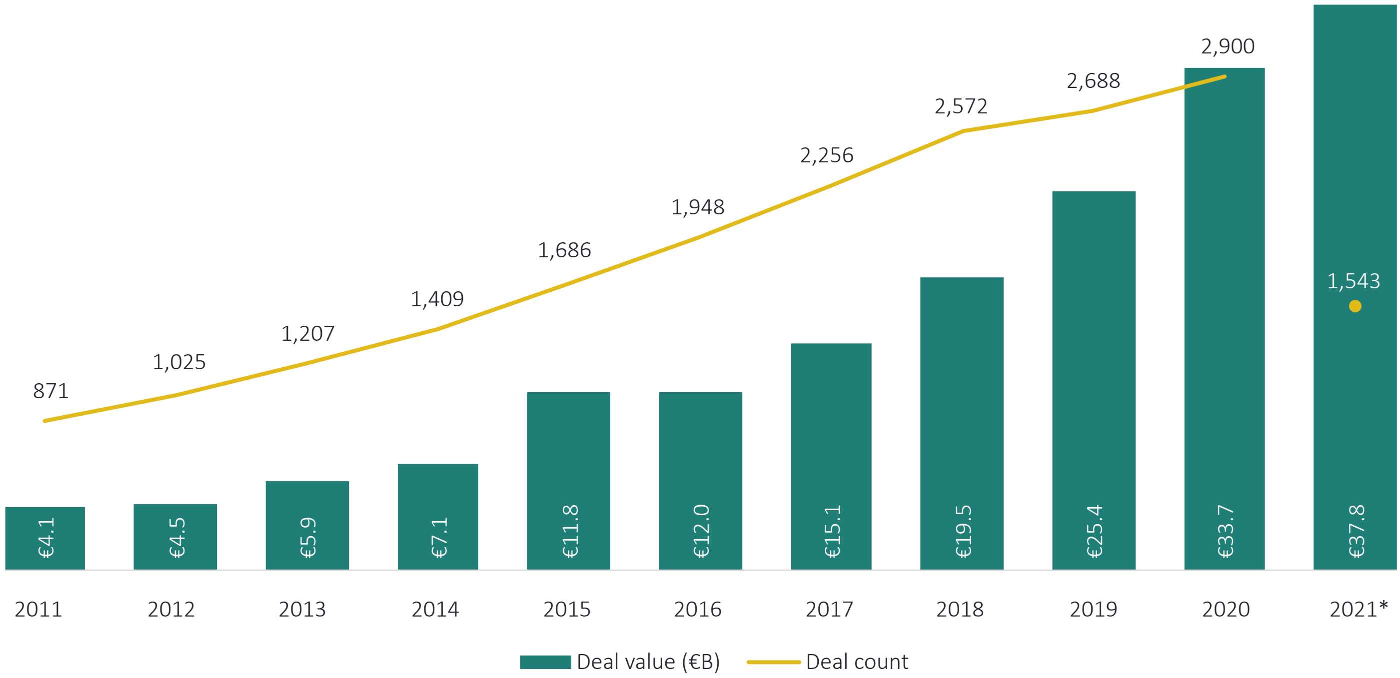
Nontraditional investors

VC deal activity with nontraditional investor participation

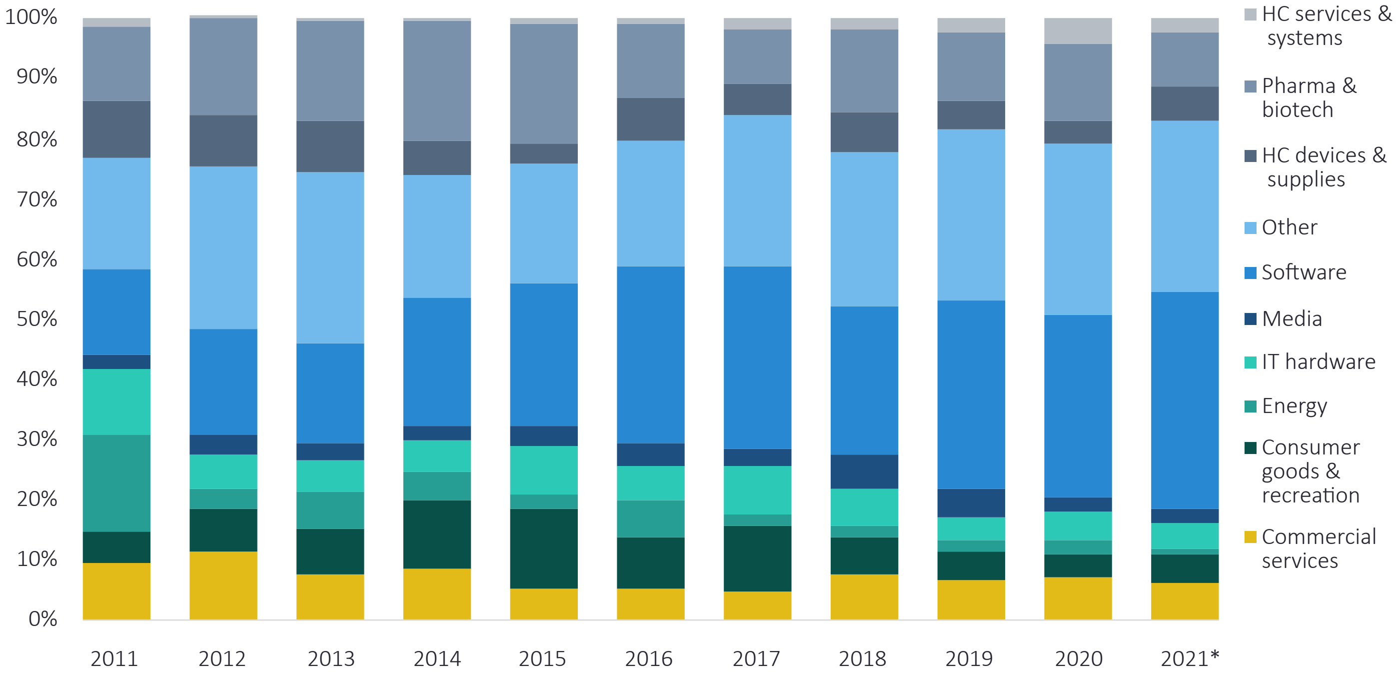


Source: PitchBook | **Geography:** Europe
*As of June 30, 2021

Nontraditional investors, including investment banks, PE firms, hedge funds, pension funds, sovereign wealth funds, and corporate VC (CVC) arms, have boosted capital flowing into European VC during the past decade. Deal value with nontraditional investor participation topped €37.8 billion in H1 2021, already surpassing the total from the entirety of 2020. Having set a new annual record with six months of 2021 left, nontraditional investors have not hesitated to deploy capital. We expect the pace to continue as economies open up and we move deeper into 2021. Nontraditional investors have been keen to back fast-growing businesses in trendy tech-based sectors that show potential for enhanced return profiles. The pandemic has not decelerated the influx of nontraditional capital, and as traditional sectors such as tourism and hospitality possibly rebound, we could see further investment from CVCs.

The aforementioned €2.3 billion financing for Northvolt was littered with nontraditional investors such as pension funds, investment banks, and international corporations. In fact, the majority of the largest rounds in Q2, including Northvolt's mega-round, received some form of nontraditional backing. For example, Amsterdam-based payment specialist Mollie completed a €665.0 million round that included participation from PE giants EQT (STO: EQT) and the Blackstone Group (NYSE: BX), alongside hedge funds Alkeon Capital Management and HMI Capital. We believe investors with portfolios across a range of traditional sectors, or who are exposed to poorly performing industries, may now focus resources more on technology and recalibrate their positions. European startups showing potential in evolving sectors such as e-commerce, which has boomed during the pandemic, are now prime investment targets for international financial institutions laden with capital. Big tech companies have grown robustly in the last decade; during the pandemic, new tech solutions have emerged as potentially sticky and crucial long-term high-growth areas. Moving forward, we expect more financial institutions to increase investments in smaller tech-based businesses.

Share of VC deal value with nontraditional investor participation by sector



Source: PitchBook | **Geography:** Europe
*As of June 30, 2021

International investors are now identifying and backing Europe-based startups to compete with more-developed US-based counterparts. The largest European deals may look more like US VC deals in terms of size, awareness raised, and investor scope. Amsterdam-based cloud communications provider MessageBird closed a €838.6 million round in Q2 that drew significant international and nontraditional attention. The funding had participation from US-headquartered investors including BlackRock (NYSE: BLK), Accel, and Y Combinator, as well as Europe-based investors Atomico and Eurazeo (PAR: RF). MessageBird competes with US-based Twilio (NYSE: TWLO) and used the funds to acquire email platform SparkPost for €503.2 million, which should help its presence in the US. US-based investors have backed Europe-based entities in recent years, hoping to introduce and scale them in the lucrative US market to ignite rapid growth.

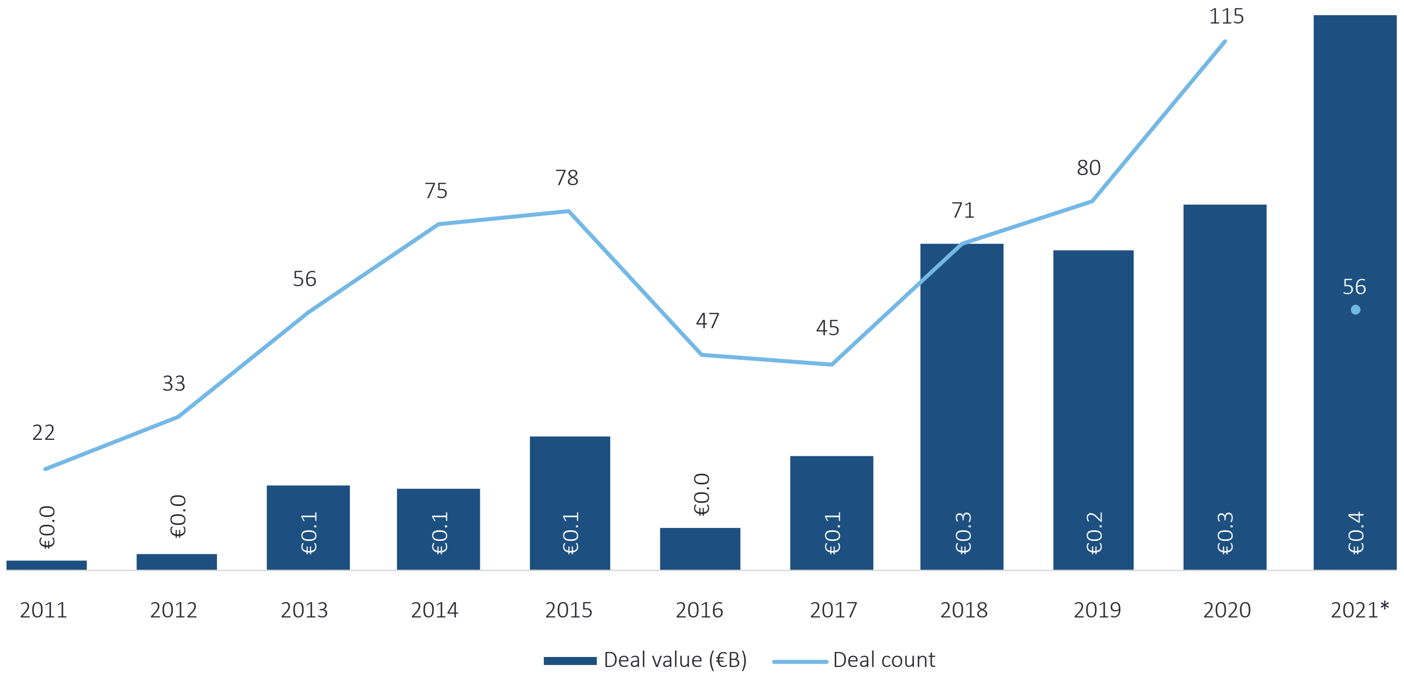
Q2 2021's top five VC deals with nontraditional investor participation

Name	Deal size (€M)	Deal type	Industry sector	Industry group	Location
Northvolt	€2,273.3	Late-stage VC	Business products and services (B2B)	Commercial products	Sweden
MessageBird	€838.6	Late-stage VC	IT	Software	Netherlands
Celonis	€822.6	Late-stage VC	IT	Software	Germany
Trade Republic	€744.0	Late-stage VC	IT	Software	Germany
Mollie	€665.0	Late-stage VC	IT	Software	Netherlands

Source: PitchBook | **Geography:** Europe

Spotlight: The emerging Baltic VC ecosystem

Baltic VC deal activity



Source: Pitchbook | **Geography:** Estonia, Latvia, and Lithuania
*As of May 31, 2021

This analysis was originally featured in our The Emerging Baltic VC Ecosystem analyst note.

Late-stage and nontraditional VC investors have poured capital into the continent's venture ecosystem, driving dealmaking figures upwards as established VC clusters in the UK, France, and Germany have developed highly valued VC-backed companies. In recent years, regions such as the Nordics have developed flagship startups including Spotify (NYSE: SPOT) and Klarna. In 2020 and 2021 YTD, startups based in the Baltic region have also completed sizable rounds. This region, containing Estonia, Latvia, and Lithuania, is becoming an attractive VC ecosystem for investors, founders, and startups.

In the last several years, valuations, round sizes, and capital flows have been inflated in more developed ecosystems within Europe and the US. As a result, individuals and organisations have looked to new regions, particularly in Europe, to leverage untapped areas brimming with resources promoting innovation, highly skilled talent, and better value for investment opportunities. Lesser-known regions can also host startups with huge potential, lower valuations, and larger total addressable markets in less-saturated sectors or cities, thus vastly increasing growth prospects and possible return profiles.

Key takeaways:

- Although the Baltic nations may not yet possess the financial clout of other VC powerhouse countries, record deal value in the last two years may be a sign that VC is growing as a strategy in the Baltic region. Government policies such as stock options and visa programmes within the Baltic nations appear to embrace VC and technological disruption as major growth areas. Low living and labour costs are also notable benefits for founders starting businesses, companies on hiring sprees, or investors with limited capital resources in the region.

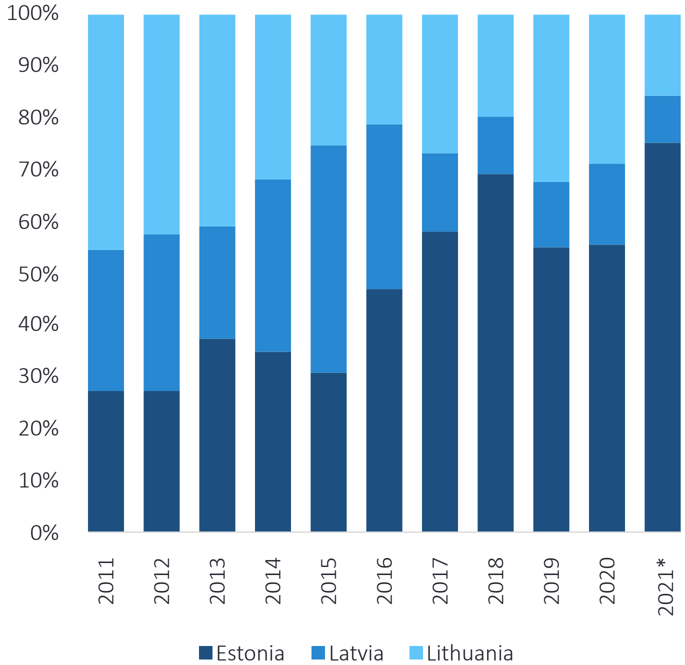
- We expect capital inflows to increase in the near term as the region continues to develop unicorns such as Bolt and Vinted. Both companies are growing rapidly and have been driving deal value upwards in the Baltic region in the last two years. Companies of these proportions have never been seen in the region before, and we expect the majority of dealmaking to continue involving these two players.

- As has been the case previously, only one or two major companies must emerge for healthy VC clusters to develop and rapidly attract capital. However, we believe it may take a few years for rapid growth to be ignited from large-scale exits, which would trigger mass capital inflows, and for the ecosystems to close the gap with the most established VC ecosystems in Europe.

- Through the first five months of 2021, deal value in the Baltic region surpassed the annual record from 2020 and sits at €431.9 million. Estonia has emerged as the main dealmaking country and has grown its proportion of deals closed in the last five years.

- An abundance of both digital and physical infrastructures, collaborative coworking spaces, accelerators, incubators, angel networks, and events have helped market the Baltic region and lure VC operators and investors. Visa programmes are an additional resource all three nations have utilised to invite individuals outside the Baltic region to start businesses or relocate. They are all members of the EU and could potentially act as a gateway to EU markets for international investors, founders, and corporations.

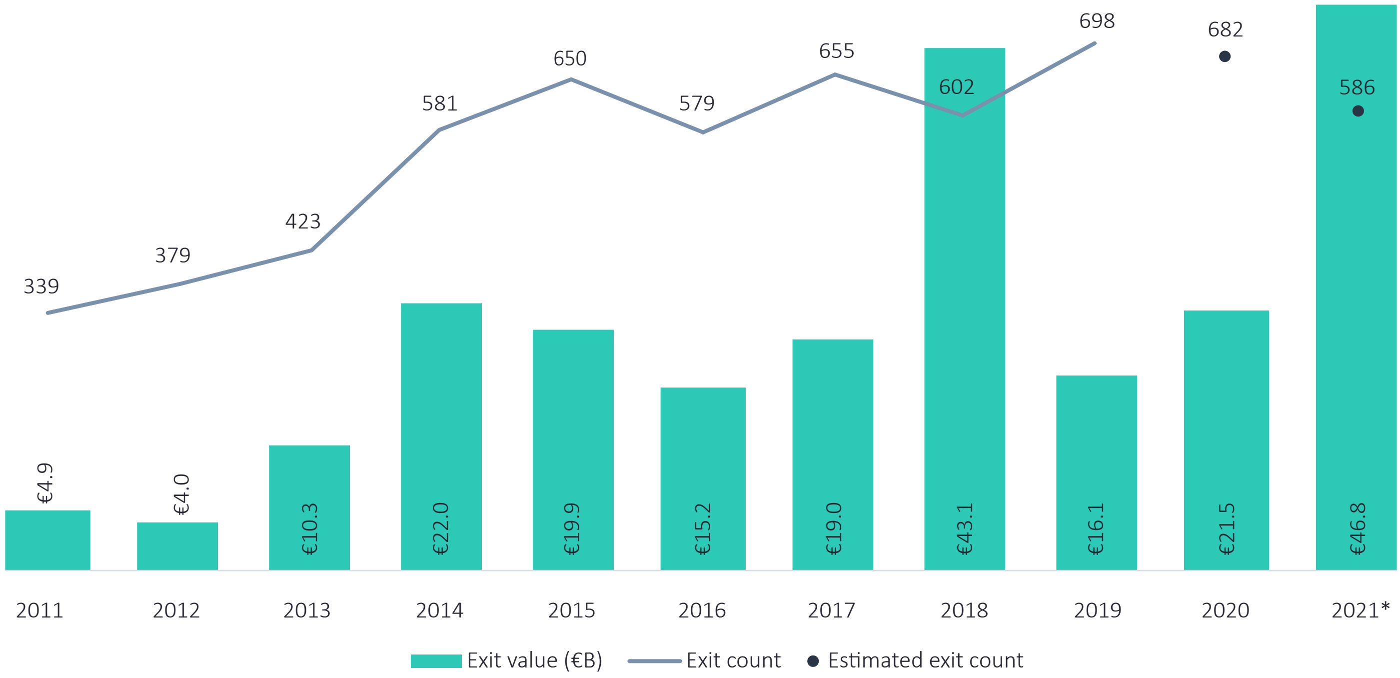
Share of Baltic VC deal count by country



Source: Pitchbook | **Geography:** Estonia, Latvia, and Lithuania
*As of May 31, 2021

Exits

VC exit activity

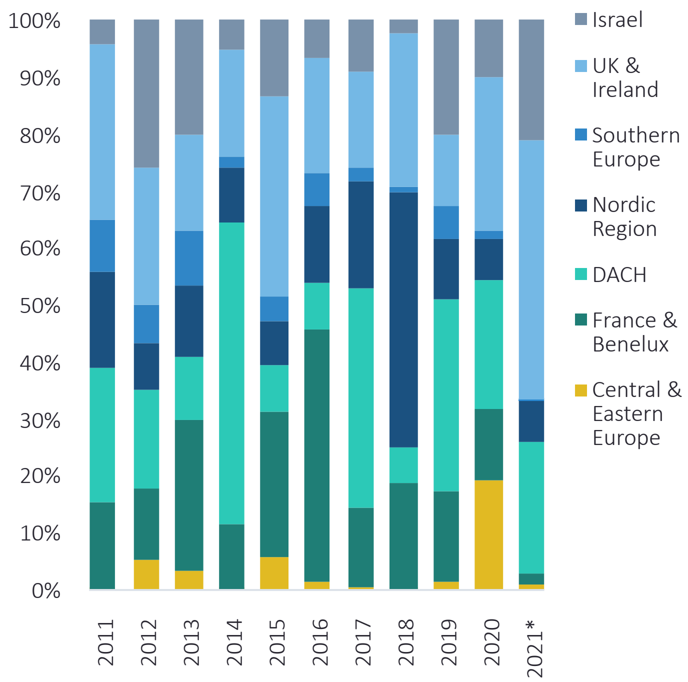


Source: PitchBook | **Geography:** Europe
*As of June 30, 2021

H1 2021 generated a remarkable record €46.8 billion in exit value, beating the previous annual best set in 2018. VC exit activity has been frenzied in H1 as highly valued VC-backed companies have accelerated towards an exit to extract maximum value and returns available to investors, while taking advantage of soaring valuations. The exit environment has never been hotter in Europe, and we expect exit value to remain elevated for the remainder of 2021 as Europe's most valuable companies look for an exit route.

Israel-based productivity tool Monday.com's (NASDAQ: MNDY) IPO at a €5.1 billion pre-money valuation was the largest exit in Q2 and pushed the quarter's overall exit value to €20.0 billion. Monday.com's exit follows the high-profile exits of Deliveroo (LON: ROO) and AUTO1 Group (FRA: AG1) in Q1, and we expect more companies with multibillion-euro valuations to seek liquidity in 2021. The COVID-19 pandemic has increased usage of such platforms, with record growth rates and increased client bases, combined with a scarcity of opportunities from other sectors, that have led many to seek an exit. Software-based VC-backed companies have identified 2021 as the perfect year to cash in on rapid growth ahead of a potential plateau in online traffic as millions of people leave their home

Share of VC exit value by region



Source: PitchBook | **Geography:** Europe
*As of June 30, 2021

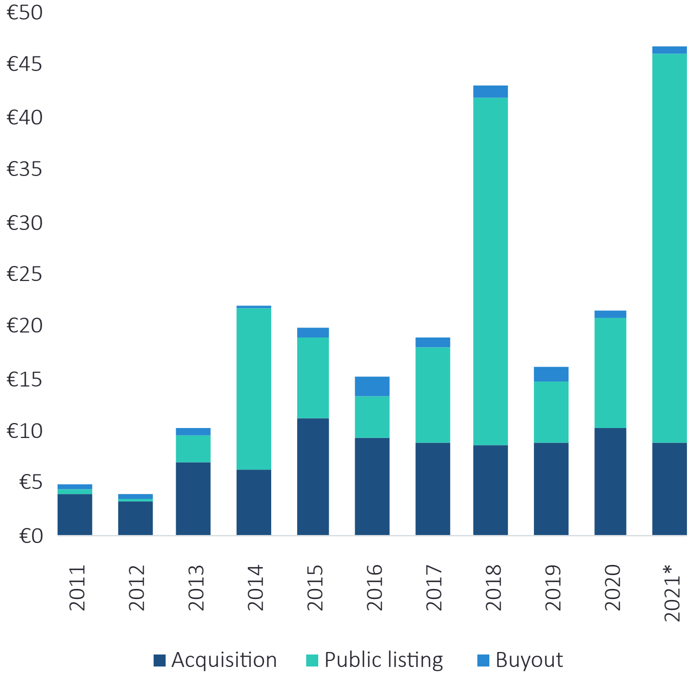
"offices" and return to the workplace. Nonetheless, certain aspects of pandemic life have demonstrated strong long-term stickiness and popularity—flexible remote working, for example. The longevity of these changes could prove fruitful for companies such as Monday.com that operate in these niches.

Despite public equity volatility stemming from the pandemic, public listings continued to surge and produced €37.2 billion in exit value—equivalent to 79.4% of the overall exit value in H1 2021. Companies now possess multiple options to access the public equity markets via special purpose acquisition companies (SPACs), direct public offerings (DPOs), and more-traditional initial public offerings (IPOs). The SPAC frenzy has been less pronounced in Europe than in the US, where activity has exploded in 2021. Nonetheless, certain Europe-based companies continue to explore the SPAC exit route. One example is autonomous vehicle sensor startup Innoviz Technologies (NASDAQ: INVZ), which exited at a pre-money valuation of €867.6 million. Future-state mobility startups have been keen to exit via SPAC in recent months; this includes electric vehicle producer Arrival (NASDAQ: ARVL) and electric aircraft maker Lilium, which announced it will exit via this route.

Listing rules across Europe are typically less conducive to SPACs than rules in the US, and questions linger about the sustainability, performance, and inundation of capital in the SPAC market. In H1 2021, traditional IPOs remained the most popular route to public equities in Europe. The three largest exits of Q2 2021 were IPOs, one of which was Berlin-based mental health biotech startup ATAI Life Sciences (NASDAQ: ATAI) at a €1.7 billion pre-money valuation. Generally, the pharma & biotech industry has been at the forefront of attention during COVID-19, and its importance as an industry is evident, as vaccines could finally deliver the permanent removal of restrictions placed on daily life. We believe activity in the sector will remain strong in the near term as companies and investors seek solutions to COVID-19 fallout, which includes patient operation backlogs, long-term impacts on mental health and wellbeing, and future procedures for new healthcare challenges.

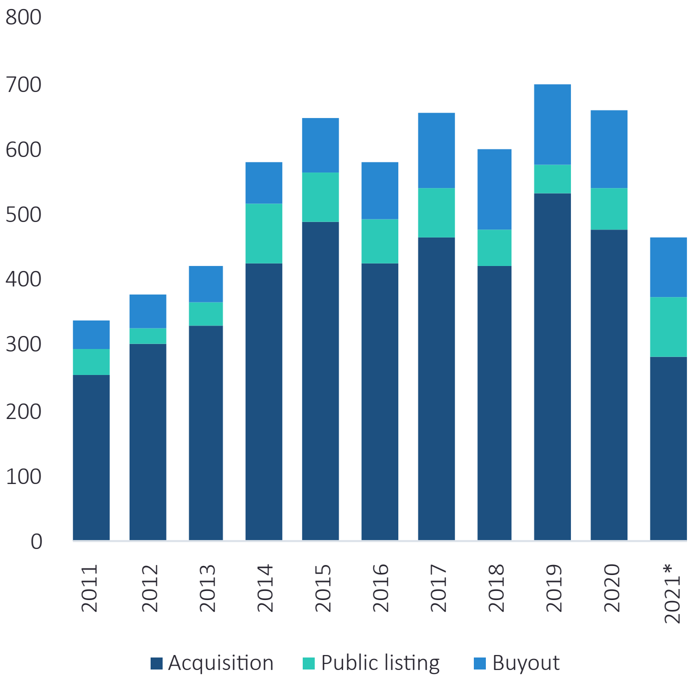
Regionally, exit value was typically lofty in the UK & Ireland and DACH regions, while Israel provided a robust €9.9 billion, largely driven by the IPOs of the aforementioned Monday.com and WalkMe (NASDAQ: WKME) at a €1.9 billion pre-money valuation. The ecosystem in Israel continues to develop strongly, and large exits show that companies are confident they can compete with more-mature global VC clusters for investment and talent. Companies such as Forter and INSIGHTEC, both of which closed large rounds in 2021, will also add to excitement in the region and could generate significant exit value in the future.

VC exit value (€B) by type



Source: PitchBook | **Geography:** Europe
*As of June 30, 2021

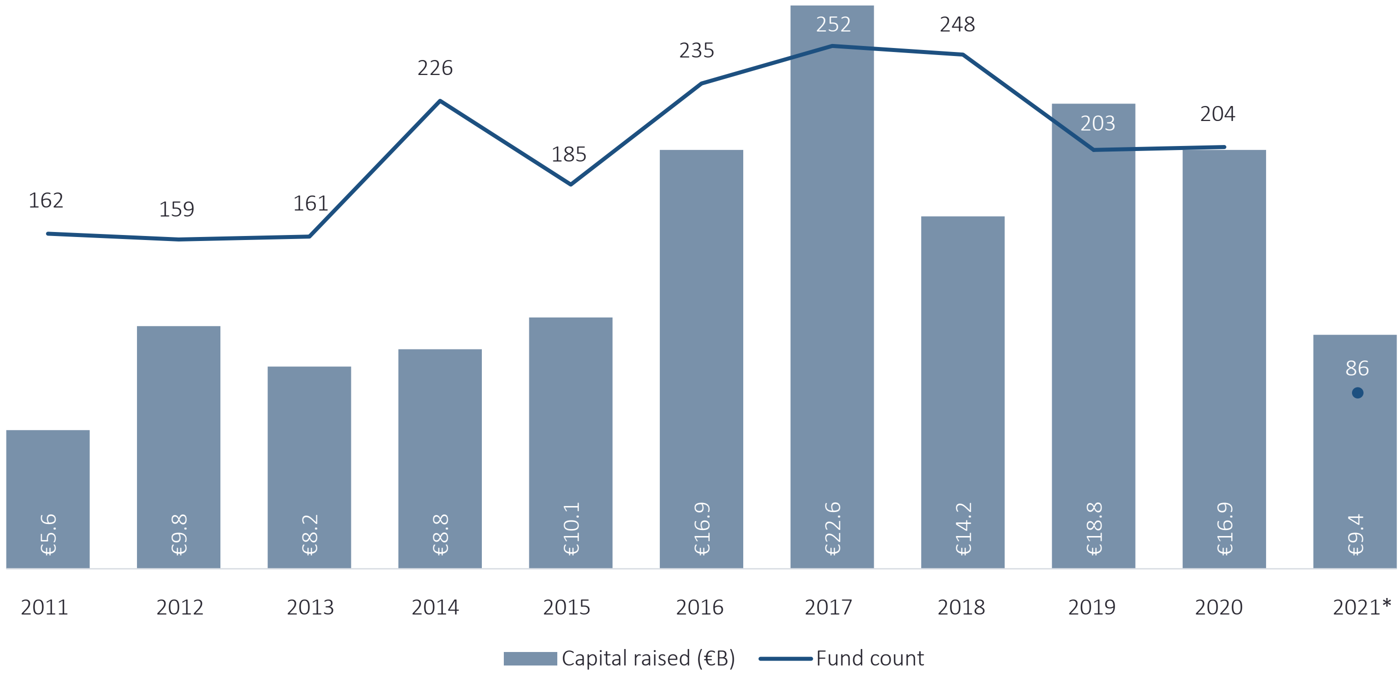
VC exit count by type



Source: PitchBook | **Geography:** Europe
*As of June 30, 2021

Fundraising

VC fundraising activity

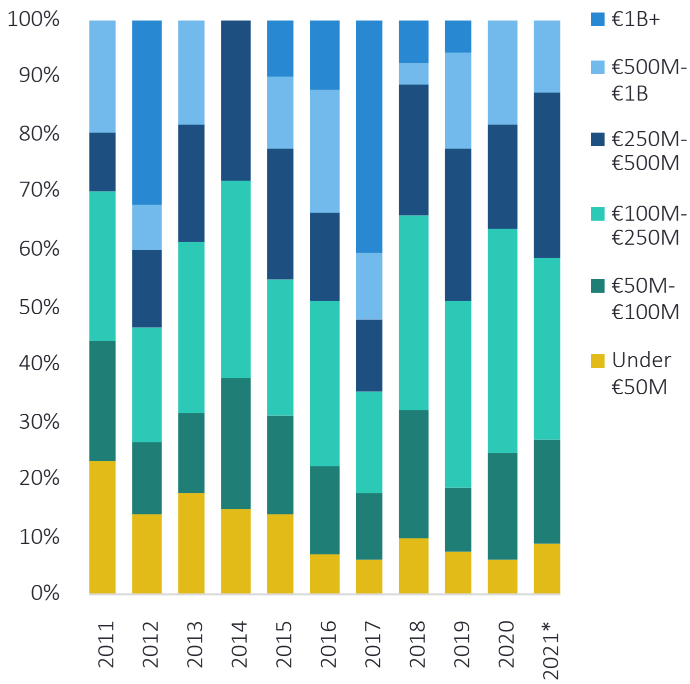


Source: PitchBook | **Geography:** Europe
*As of June 30, 2021

VC funds raised €9.4 billion in H1 2021, and if the current pace continues, capital raised will exceed 2020 figures at the year's conclusion. Meanwhile, 86 vehicles closed in H1 2021, pacing slightly lower than H1 2020. Since 2016, more than €14 billion has been raised each year by Europe-based funds, illustrating a reliable and consistent fundraising environment within the ecosystem. LPs and GPs have been confident in their ability to find quality investment opportunities among a wide range of startups across sectors throughout Europe. Given the strong fundraising figures in 2020 and H1 2021, despite a challenging period for many, we expect figures to land in a similar, if not higher, range later this year.

In Q2 2021, US-headquartered Accel closed a €539.2 million fund—one of the largest vehicles of the quarter—that focuses on startups in Europe and Israel. Accel has had a fund presence in Europe for decades, and its latest fundraise highlights its commitment to the continent despite travel disruption. Moreover, it shows how US investors continue to target assets across the pond in hope of landing a stake in a company they can scale into a global brand. Although Accel is a global household VC name, having a network and presence in London has helped Accel emerge as one of the major investors in Europe, as

Share of VC fund value by size



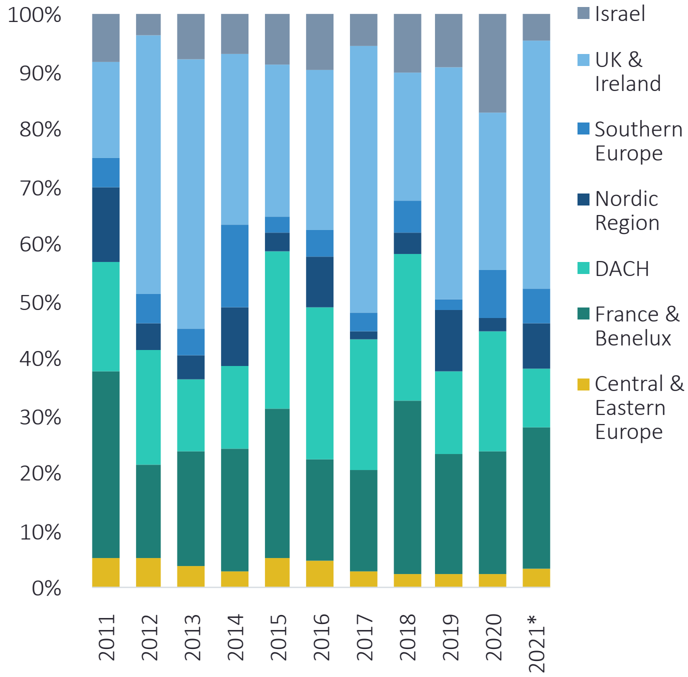
Source: PitchBook | **Geography:** Europe
*As of June 30, 2021

evidenced by numerous successful investments in Europe-based startups, including Deliveroo, Hopin, and Vinted. While virtual due diligence has largely been a successful tactic for VC investors during the pandemic, those with an existing footprint in a jurisdiction have benefitted from individuals with knowledge and experience working together and sharing similar time zones, cultures, expertise, and languages.

During H1 2021, funds based in the UK & Ireland raised €4.1 billion, equating to 43.2% of the H1 total. Fundraising figures indicate that UK-based funds in particular have had few issues launching and raising capital, despite Brexit. In Q2, seven out of the 10 largest funds, including the three biggest, were London based. Although it is still early days after Brexit, and outlier funds may skew totals, capital is not flowing away from post-Brexit London, which continues to solidify its position as one of the most attractive VC clusters globally. LPs remain confident that substantial commitments deposited into funds domiciled in the UK will have no issues cultivating healthy returns, even if they are invested domestically or across EU-based startups.

Sizeable funds focused on life sciences and drug development were among the largest to close in Q2 2021, underpinning the emergence of larger sector-focused funds in Europe. UK-based Abingworth Management’s €484.3 million fund and Belgium-based Droia Oncology Ventures’ €220.0 million fund were two examples of large-scale specialist funds in Q2 2021. Both GPs could be well positioned to capitalise on a subsector that has already grasped the attention of entrepreneurs, founders, operators, and investors, given the magnitude of the pandemic. We expect greater quantities of VC funds to close and more VC deals to occur in the pharma & biotech space as inoculation rates increase and wider healthcare issues are tackled with innovative solutions. The humanitarian and financial impacts from the pandemic have been enormous; therefore, individuals and organisations will look to VC for new ideas and in the future will be keen to mititgate the impacts of potential events.

Share of VC fund value by region



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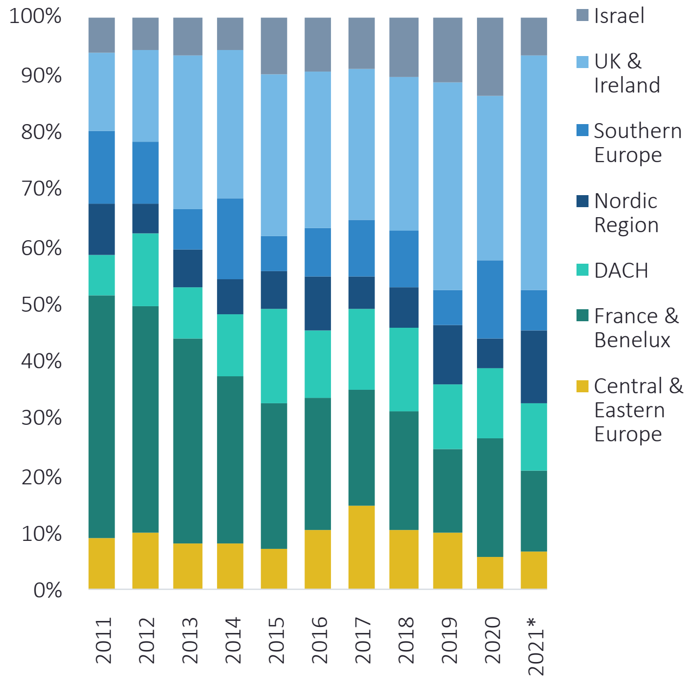
Share of VC fund count by region



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