PitchBook

European VC Valuations Report

Q3 2020

PitchBook

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Introduction

VC valuations across the financing stages powered on amid the COVID-19 crisis. The pace set through Q3 2020 has been extraordinary and has been driven by healthy capital inflows into the ecosystem, as outsized rounds have closed despite macroeconomic uncertainty. Startups have demonstrated pandemic-proof growth in tech-enabled sectors. Investors have pumped in capital to ensure startups have the necessary funding earlier in their lifecycles to compete in hotly contested markets. Flagship startups have completed huge rounds, with investors safeguarding against failure by providing cash injections to manage challenges from COVID-19.

VC deals with nontraditional investor participation are on course to set a new annual record in 2020. Nontraditional investors have stuck with VC in recent months as deal sizes and valuations have thrived. We expect the VC ecosystem to entice nontraditional investors seeking synergies and pandemic-proof tech innovations that have strong long-term return profiles. Confidence in VC has remained high despite multiple sectors facing financial trouble, and investment could be stimulated further as nontraditional players recalibrate portfolios.

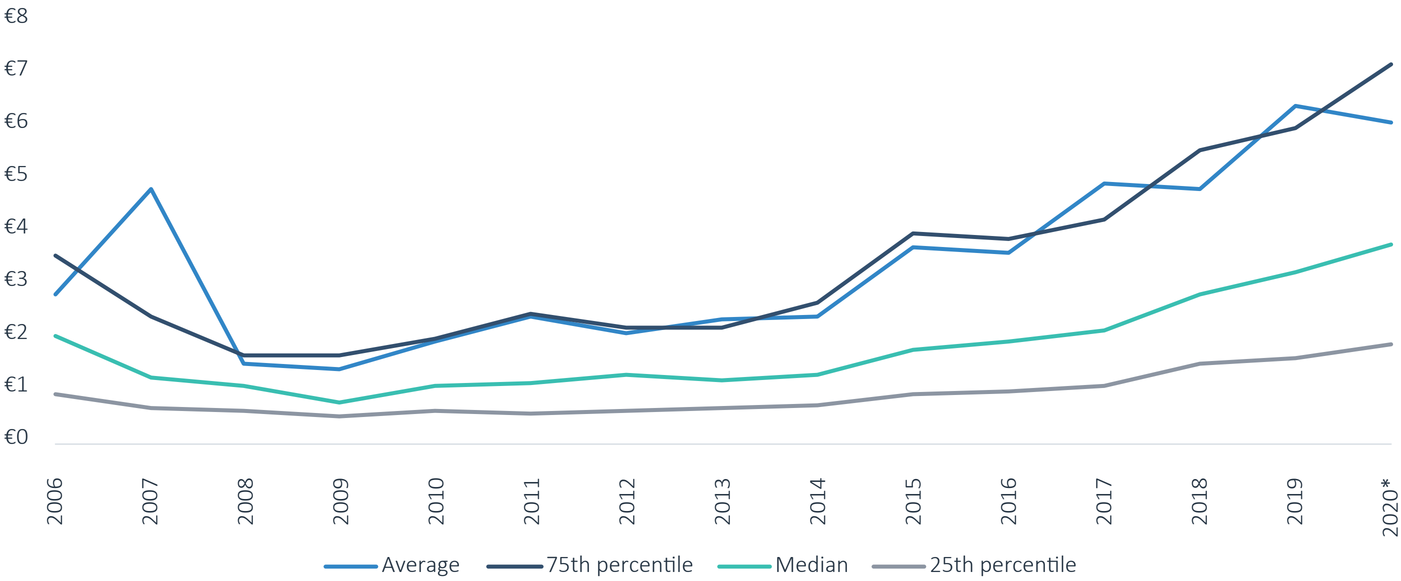
In Q3 2020, the aggregate post-money valuation of unicorns in Europe surpassed the €100 billion mark for the first time in history. Unicorn numbers have risen quickly during the last decade, and momentum has carried into the last six months despite COVID-19. Numerous highly valued companies have closed larger VC rounds with increased frequency in recent years. Europe-based fintech, software, and healthcare startups have led the way and gained international prominence via outsized rounds funding their rapid scaling efforts.

Divergent valuations have reflected a bumpy exit environment; however, exits have recovered admirably in the second half of the year in Europe. A cluster of pharma & biotech IPOs boosted valuations and led the recovery in Europe. Nonetheless, exit value could come in at its lowest figures since 2012 at the year's end. We feel events such as Brexit and the fallout from the US presidential election may influence global exit appetite in the coming months, potentially causing valuations to fluctuate.

Nalin Patel
Analyst, EMEA Private Capital

Overview

Angel & seed pre-money valuations (€M)



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

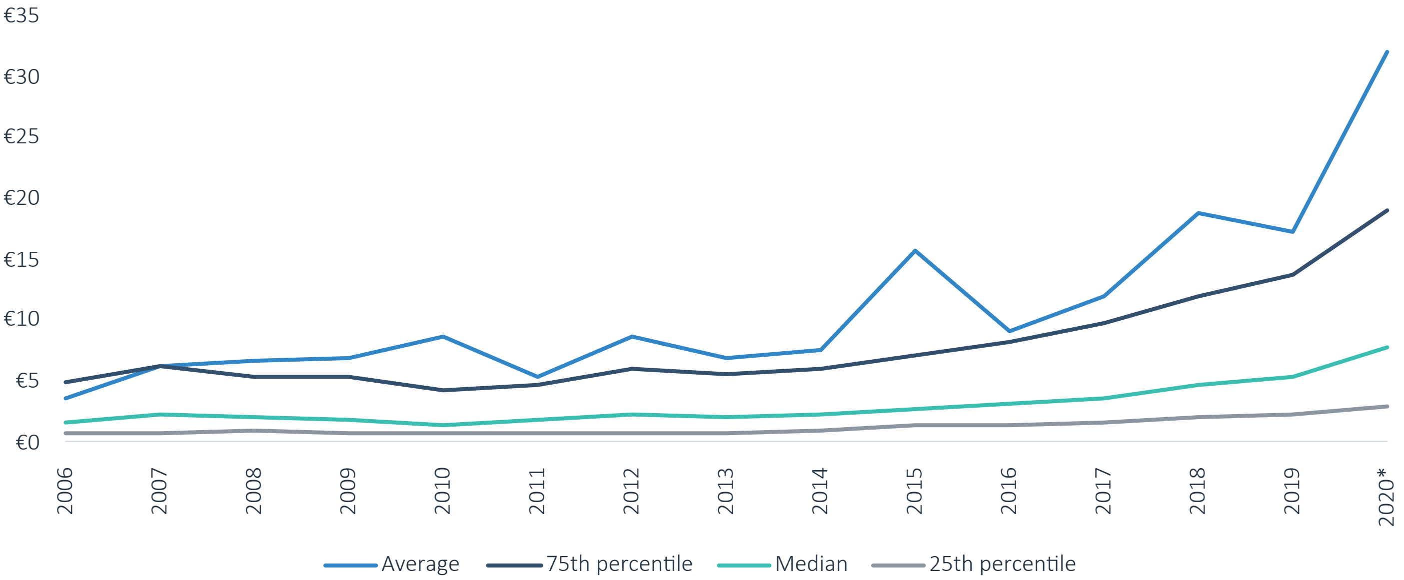
VC valuations in Europe across all financing stages are up and to the right through Q3 2020 relative to 2019 figures. The pace set in 2020 has been extraordinary as valuations have climbed despite macroeconomic chaos spreading across the continent because of COVID-19. Strong valuations have been driven by healthy capital inflows into the ecosystem from established investors as well as nontraditional sources, as outsized rounds have continued to close. Moreover, startups across the financing stages have been able to demonstrate pandemic-proof growth in tech-enabled sectors, culminating in the development of valuations and growth in revenues, while traditional industries have struggled. The pandemic has also highlighted the reliance on healthcare and the acceleration towards a digital future, both of which are crucial trends in the European VC ecosystem that have allowed startups to rapidly build enormous valuations in recent years.

Angel & seed

As the pandemic hit and recessions commenced, many predicted the angel & seed stage of the ecosystem in Europe would struggle as GPs focused on the capital needs of existing portfolio companies. However, the median angel & seed pre-money valuation is pacing higher than 2019 at €3.7 million as of Q3 2020. Meanwhile, angel & seed deal sizes across the lower, middle, and upper quartiles all ticked upward from 2019 figures, with the median reaching €1.0 million through Q3 2020.

Investment and subsequent valuation growth at the angel & seed stage has not been hampered by COVID-19. Investors not wishing to miss out on the next big opportunity have participated in deals despite uncertainty facing smaller companies with minimal capital reserves and limited customer bases in newer markets. Capital has continued to pour into conceptual startups without a fully-fledged business model, a testament to the quality of products being developed, but also a byproduct of the success of the tech-based sectors they are likely to target, which have performed well during the pandemic. Investors remain bullish about the long-term resilience of newly founded ideas in the ecosystem and bringing them to market, as evidenced by healthy deal activity and valuations at the angel & seed stage in 2020.

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



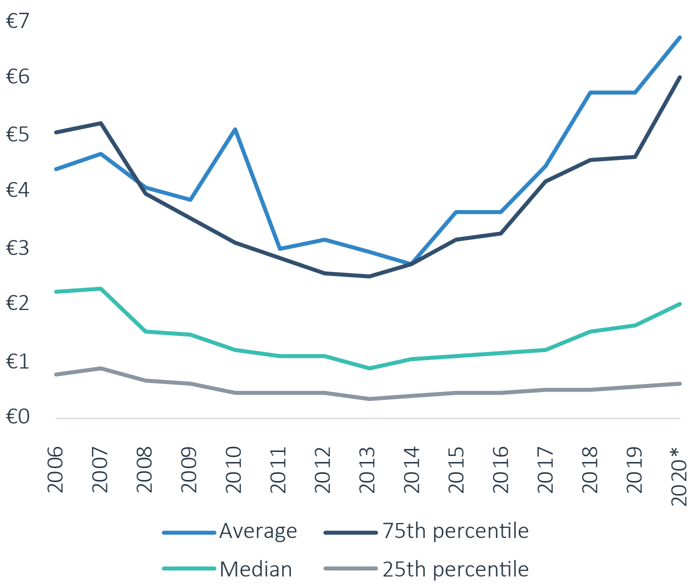
Source: PitchBook | **Geography:** Europe
*As of September 30, 2020

Early-stage VC

Early-stage startups that typically possess a proven business model and limited financial information have also demonstrated growth. Investors have not been deterred by early-stage startups that may carry negative cashflow profiles and require significant long-term backing during the pandemic. Early-stage VC valuations and deal sizes across the lower, middle, and upper quartiles are pacing higher through Q3 2020 in comparison to 2019 figures. Robust valuation growth has been driven by soaring upper quartile deal sizes at the early stage in recent years. Top quartile early-stage VC deal sizes have been 10 times larger than the lower quartile through Q3 2020, as the early-stage startups showing the best potential have closed enormous rounds to boost valuations.

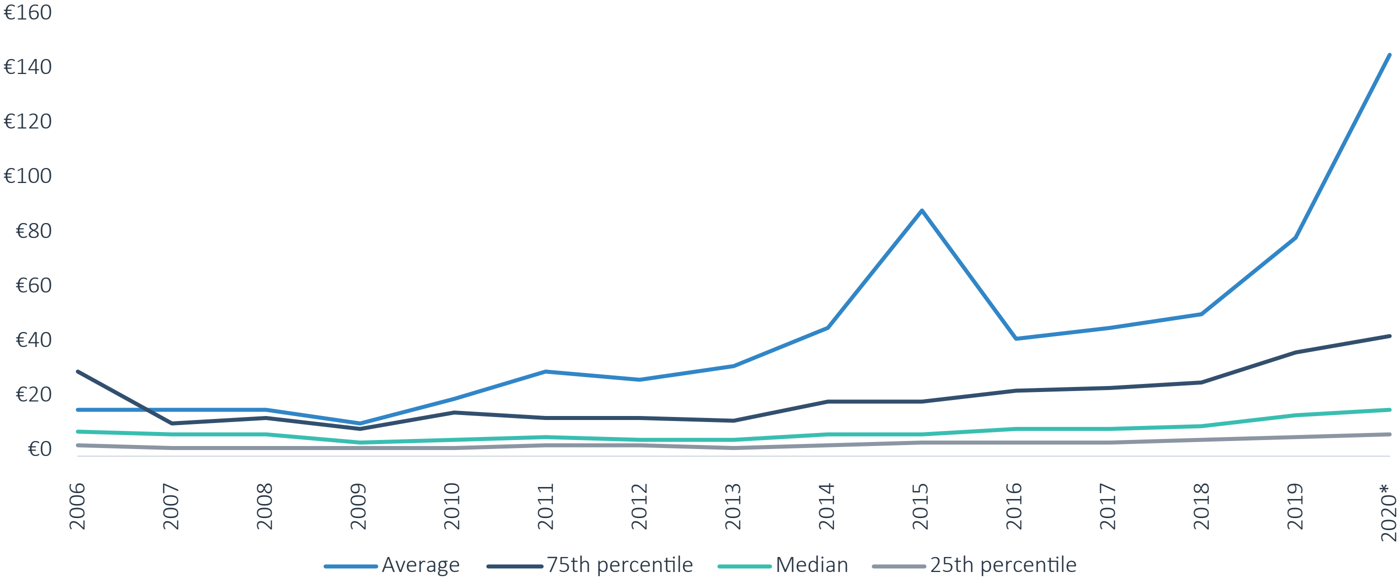
Investors have increased round sizes and have pumped in capital at the early stage to ensure startups have the necessary funding earlier in their lifecycles to compete in hotly contested markets. For example, London-based ghost kitchen provider Karma Kitchen completed a €279.4 million round in Q3, one of the largest early-stage rounds ever in Europe. Evidently, investors want to capitalize on momentum in the sector; with dine-in restaurants shuttered by the pandemic, the use of local ghost kitchens has accelerated. We expect deals of this magnitude to increase as investors pile capital into emerging areas benefiting from the pandemic's effects.

Early-stage VC deal sizes (€M)



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

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

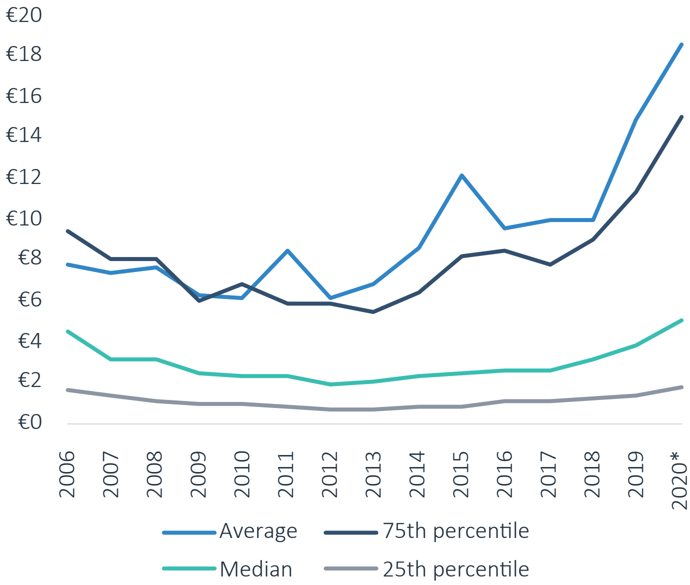


Source: PitchBook | **Geography:** Europe
*As of September 30, 2020

Late-stage VC

Late-stage startups have attracted copious amounts of capital through Q3 2020 and are expected to push overall deal value figures in Europe to new highs at year end. Not surprisingly, late-stage VC deal sizes have swelled with the median reaching €5.0 million through Q3 2020, and valuations across quartiles have followed with the median pacing at €14.6 million. The bifurcation across quartiles at the late stage in terms of valuations and deal sizes has persisted during 2020 as flagship startups have completed huge rounds—a result of investors safeguarding against failure and providing necessary cash injections to manage challenges from COVID-19. Investment has also stayed robust as some of the largest late-stage startups in Europe are predominantly geared towards industries such as software and pharma & biotech that have performed well and have exhibited growth during the pandemic.

Late-stage VC deal sizes (€M)



Source: PitchBook | **Geography:** Europe
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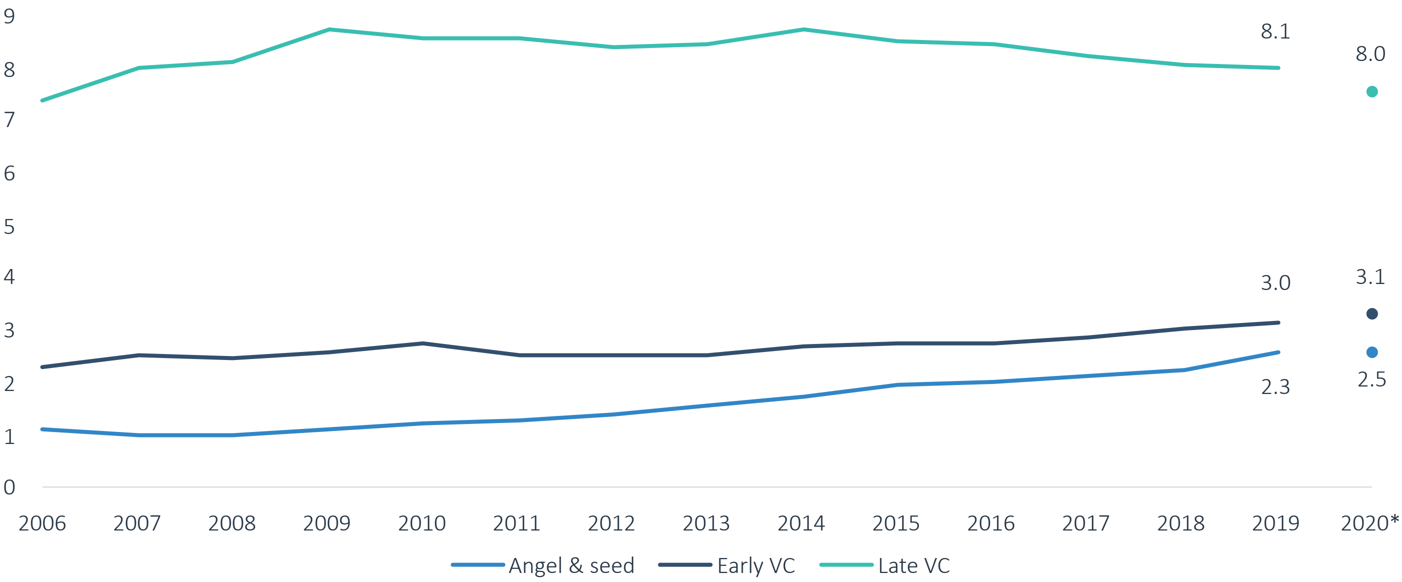
That said, valuation haircuts and job losses have been reported at high-profile late-stage startups as specific regional travel nuances and changing lockdown rules have affected business confidence and consumer spending. Fintech has been a strong subsector in Europe for a number of years with numerous highly valued late-stage startups such as N26, Revolut, and Monzo emerging and jostling for market share. However, COVID-19 has thrown up contrasting challenges in 2020 as physical card payments have plummeted, yet online ecommerce payments have risen. Despite rounds closing in recent months, late-stage startups that have been able to achieve healthy valuation growth YoY during the last decade may find it more difficult to grow in a recessionary environment. As economic growth slows, we could see late-stage valuation growth cool in the long-term as startups may need to restructure personnel and channel resources to core areas that could underpin future growth initiatives, rather than launching new business lines.

Median time (years) from founding by stage



Source: PitchBook | **Geography:** Europe
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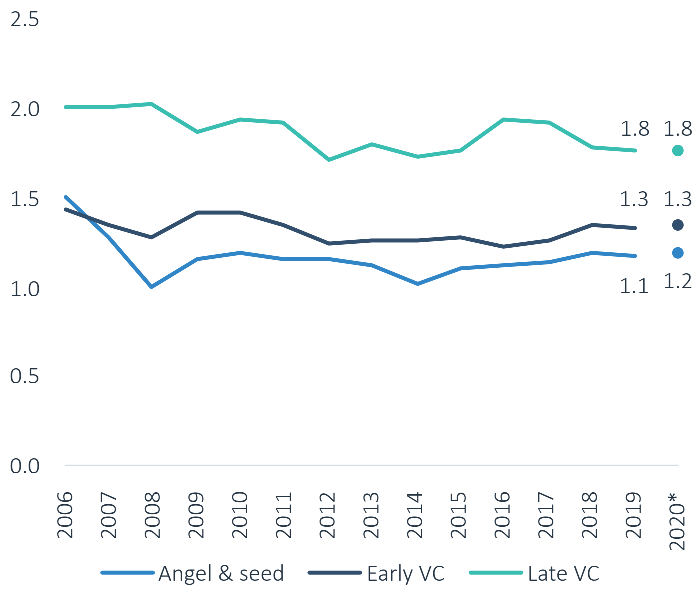
Time between financings

As we head into a new economic cycle, the time between financings for startups during the pandemic has reflected trends portrayed during the last decade. Through Q3 2020, the time from founding until an angel & seed round has been pacing consistently at 2.5 years, while the time until an early-stage round has slightly lengthened, and the time until a late-stage round has dropped further from 2019 figures. COVID-19 has narrowed the field of high-growth sectors during the last few quarters, and investors may feel acting early is appropriate to put capital to work in resilient startups so as to capture enhanced long-term returns. As a result, we could see volatility in time periods for different startups in the ecosystem. Startups perceived as winners from the pandemic could attract greater quantities of capital and accelerate their transition through financing stages. In contrast, startups unable to benefit from pandemic-induced disruption may find themselves postponing ambitious expansion plans and managing costs to ensure operations can continue, leading to slower growth and potentially longer time periods between financing stages.

Median time (years) between rounds by stage



Source: PitchBook | **Geography:** Europe
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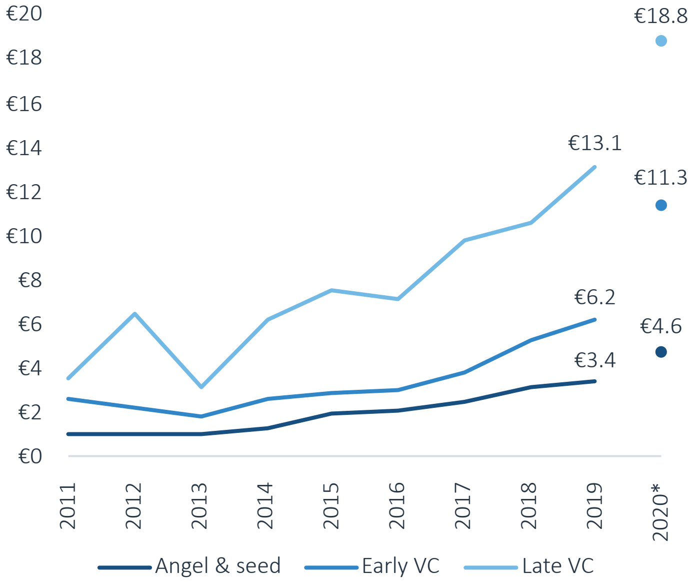
Sectors

Software pre-money valuations across all stages are pacing strongly through Q3 2020. European VC is heavily weighted towards software-based sectors, and we anticipate valuations will continue to grow, as startups have shown pandemic-proof growth in recent months. Median software deal sizes have risen too, as startups and investors have fast-tracked deals to exploit short-term growth opportunities in online working and ecommerce that could result in long-term stickiness. Divergent sector performance has widened as the coronavirus pandemic has spread across Europe, which could result in even more capital being injected into software in the coming quarters.

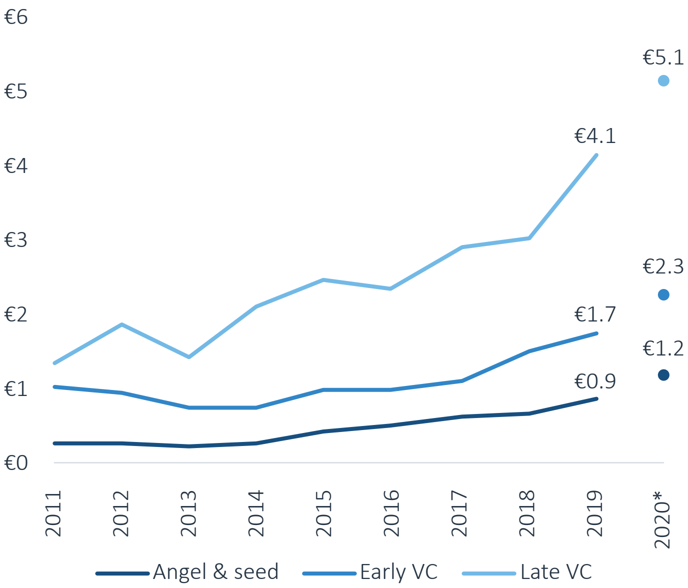
Median healthcare deal sizes are tracing higher through Q3 2020 in comparison to 2019 as the devastating effects of COVID-19 have highlighted shortcomings in global medical infrastructure. Interest in the sector has risen as the financial and public health impacts from a global pandemic have emerged. Investment is expected to stay fervent as entrepreneurs and investors prepare for second waves and look to rebuild for the future by developing the next batch of cutting-edge startups.

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



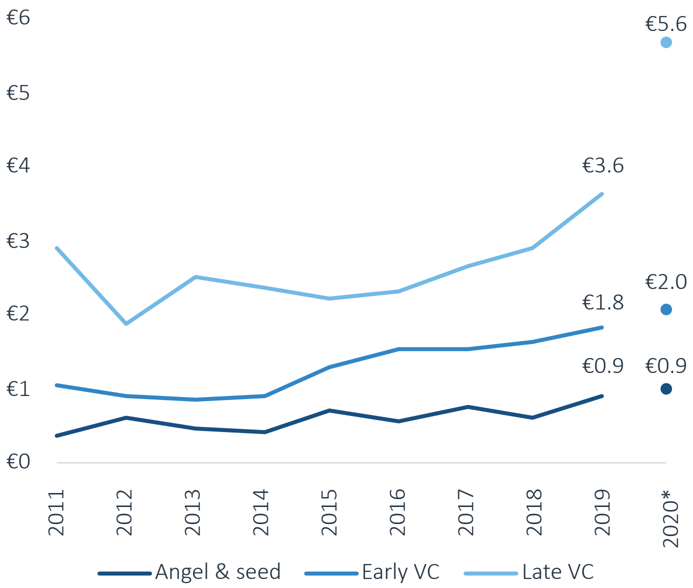
Source: PitchBook | **Geography:** Europe
*As of September 30, 2020

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



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

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



Source: PitchBook | **Geography:** Europe
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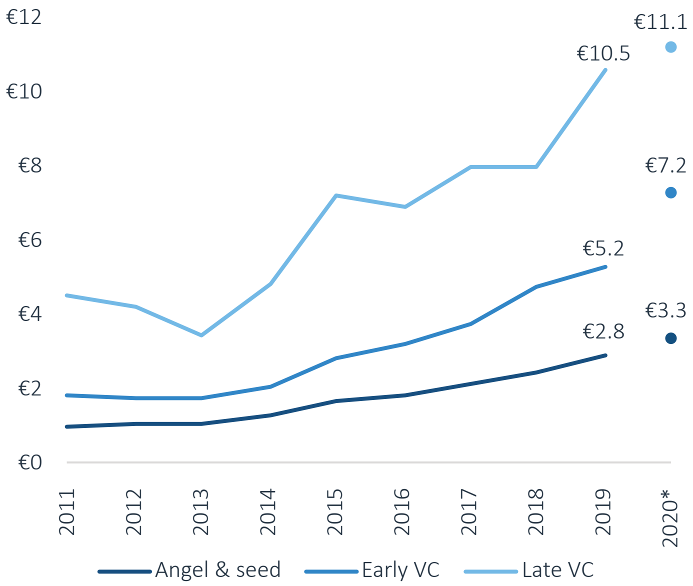
Regions

Median valuations across all financing stages in the UK & Ireland ticked higher through Q3 2020 relative to 2019. Valuations in the region have not cooled despite economic uncertainty mounting from the coronavirus pandemic and the impending Brexit deadline. Startups in the UK & Ireland have attracted capital from global sources and have developed their valuations, and the region has consolidated its position as the leading ecosystem in Europe in terms of deal value in 2020. Median deal sizes are pacing higher through Q3 2020 versus 2019, and we expect momentum to sustain as high-quality startups continue to emerge.

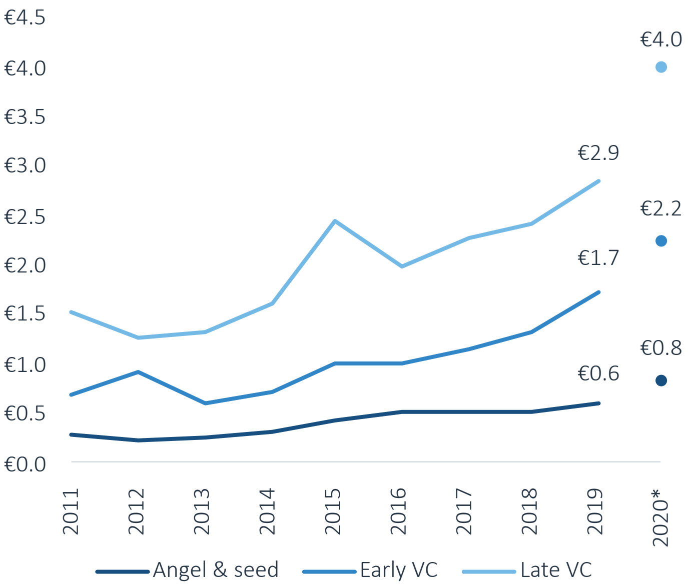
Median VC deal sizes across all financing stages in Israel through Q3 2020 are outstripping 2019 values. Israel has developed into a diverse ecosystem equipped with highly skilled talent and capital resources. This has enabled deal sizes to grow in the region as startups have been able to develop and scale. As discussed in our 2020 Israel Private Capital Breakdown, the VC ecosystem could be among the largest globally in the coming years.

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



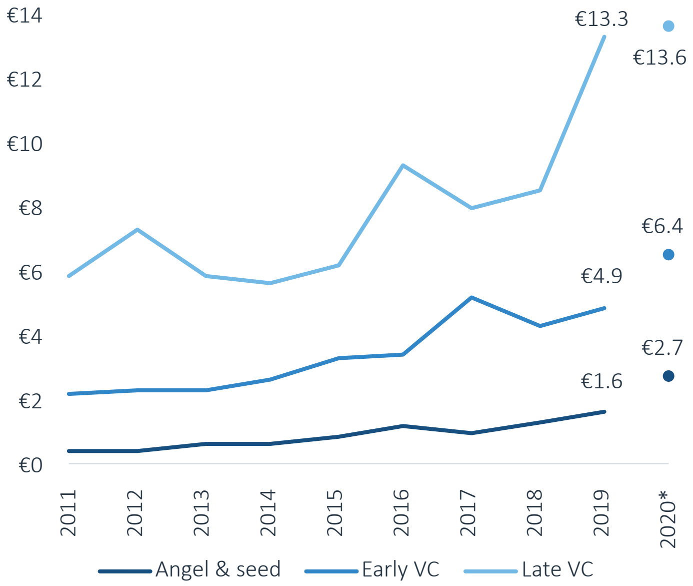
Source: PitchBook | **Geography:** UK & Ireland
*As of September 30, 2020

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



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

Median deal sizes (€M) by stage for Israel



Source: PitchBook | **Geography:** Israel
*As of September 30, 2020

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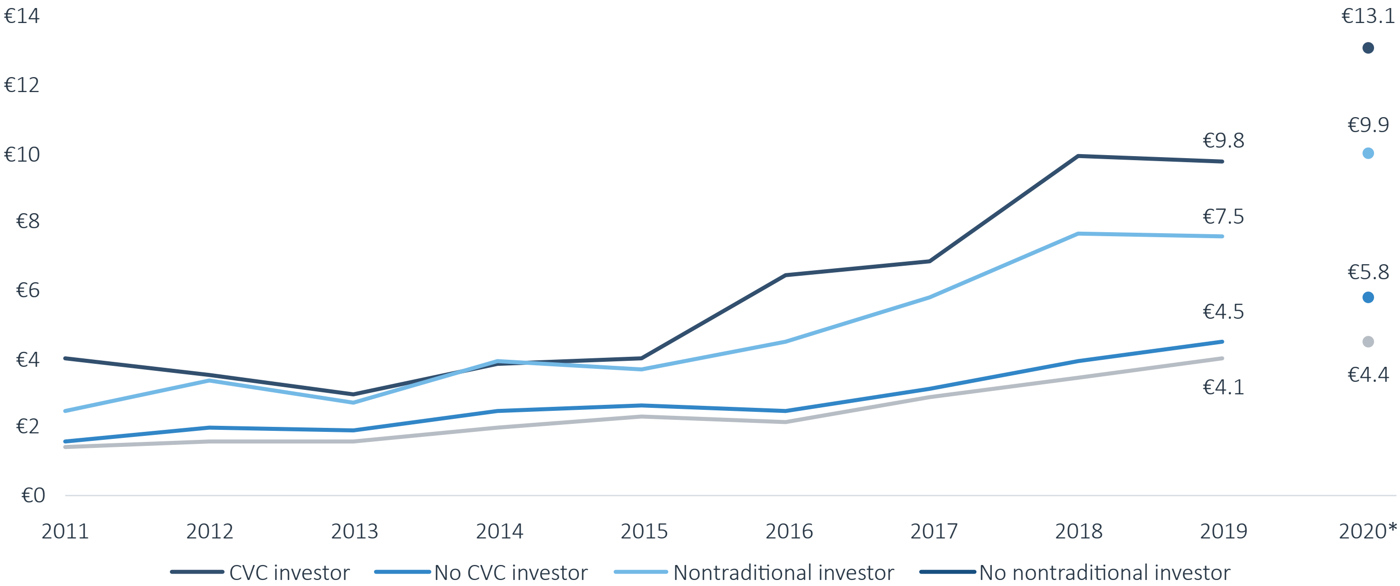
Nontraditional investors

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

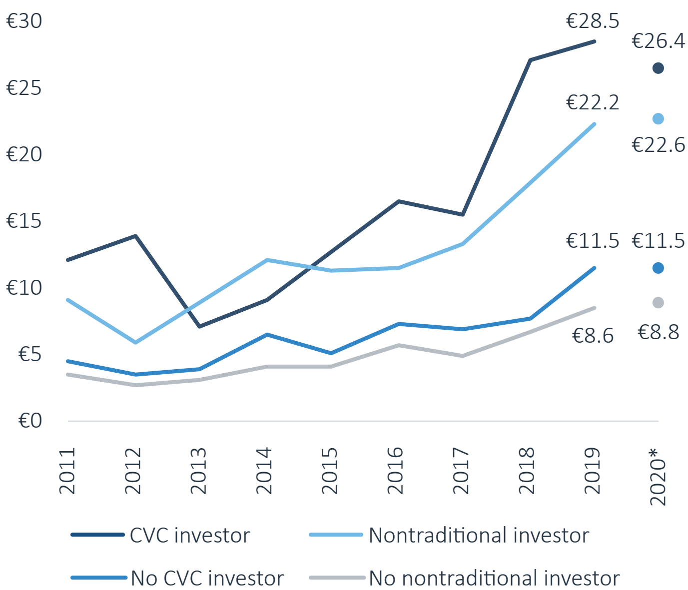


Source: PitchBook | **Geography:** Europe
*As of September 30, 2020

Despite a second round of lockdowns imposed across the continent, we expect the VC ecosystem to entice nontraditional investors seeking pandemic-proof innovations that have strong long-term return profiles. The role of nontraditional investors depositing capital into the European ecosystem has been extensively covered in recent years. The inflow of nontraditional capital has enabled deal sizes and valuations of startups to thrive as records have been broken on a regular basis. The coronavirus pandemic has wrecked economies in 2020, but nontraditional investors have stuck with VC investment, which has remained at an all-time high in recent months.

Through Q3 2020, median early-stage valuations have paced higher, while late-stage valuations have flattened from 2019 figures as a broad variety of investor types have participated in rounds. Nontraditional investors typically enter the ecosystem and drive up competition at the early and late stage, and this has continued in 2020. Startups that can demonstrate traction in a niche area and highlight operational synergies for partners that include corporate VCs (CVCs) have become popular. Nontraditional investors feel early- and late-stage startups possess an optimum balance of maturity and growth potential for an investment as they may not have experience, time, or resources to spend years helping founders build a company from scratch. Therefore, developed startups with business processes in place (as opposed to pre-product companies that are merely a concept) capture a significant portion of nontraditional capital investment each year. Nonetheless, valuations are not wholly dependent on nontraditional investors and have demonstrated growth in recent years with backing from larger VC fund vehicles.

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



Source: PitchBook | **Geography:** Europe
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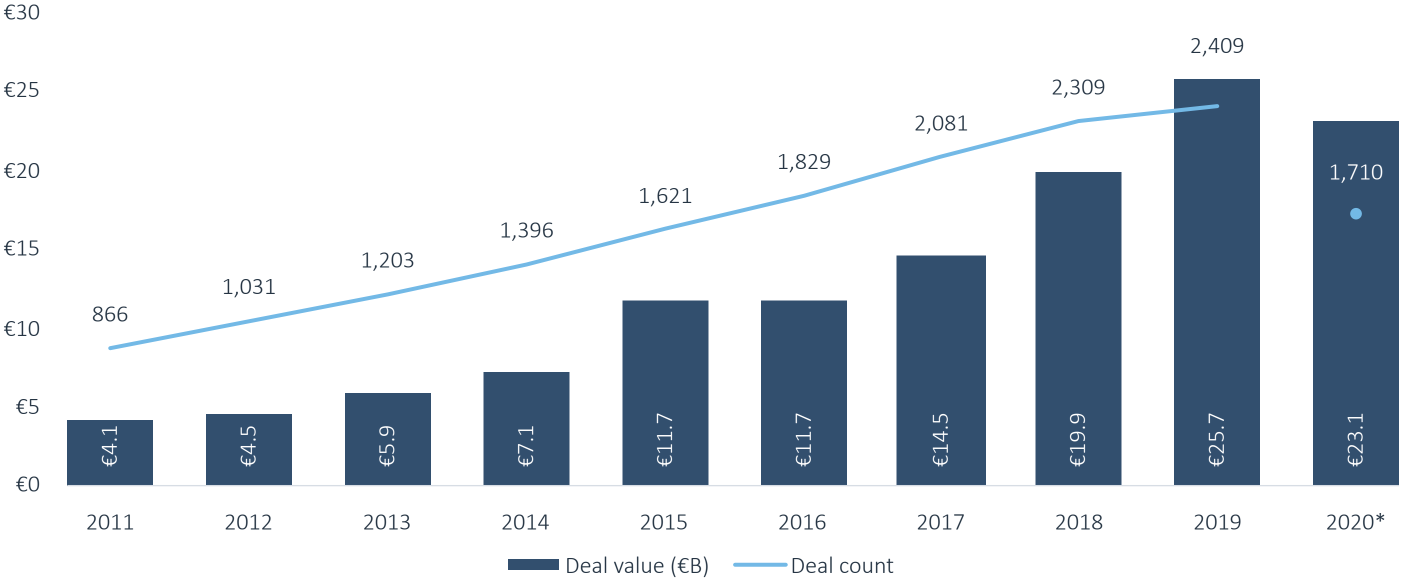
Deal activity with nontraditional investor participation

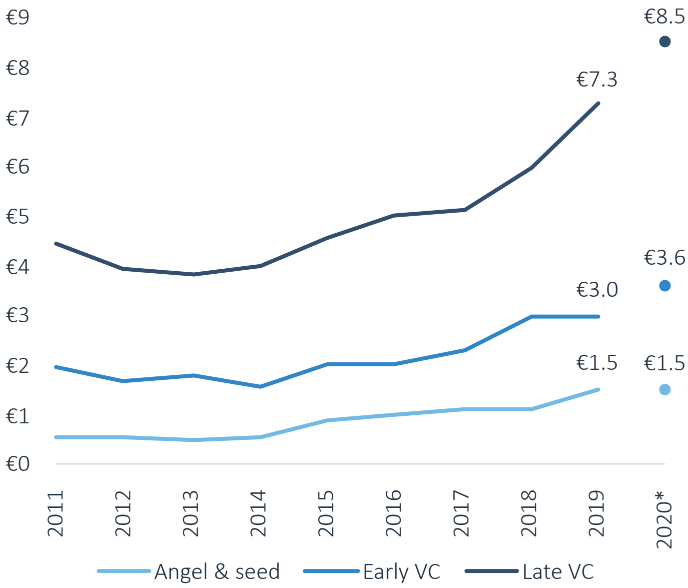


Source: PitchBook | **Geography:** Europe
*As of September 30, 2020

VC deals with nontraditional participation reached €23.1 billion as of Q3 2020, on track to surpass the record set in 2019. Nontraditional investment has never been bigger as confidence in VC has remained strong despite financial trouble facing multiple sectors. Investment could be stimulated as nontraditional players recalibrate portfolios and capital distributions across assets. Despite VC traditionally being viewed as high-risk, we feel it could become a long-term and less volatile option for investors whose existing investment strategies are facing uncertainty in the current climate.

Median early- and late-stage deal sizes with nontraditional investor participation are tracking higher, while the angel & seed median deal size has dropped slightly through Q3 2020 from 2019 figures. Deal sizes have been driven upwards by broadening and wealthier capital sources for startups. Trends exhibited during the last decade have endured during the coronavirus pandemic, and we expect deal sizes to climb heading into 2021, even as macroeconomic headwinds linger. Median late-stage deal sizes in particular are expected to continue to pull away, as startups maximise their growth potential by remaining in the ecosystem and closing substantial rounds, with no shortage of backers willing to invest ample amounts of capital.

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



Source: PitchBook | **Geography:** Europe
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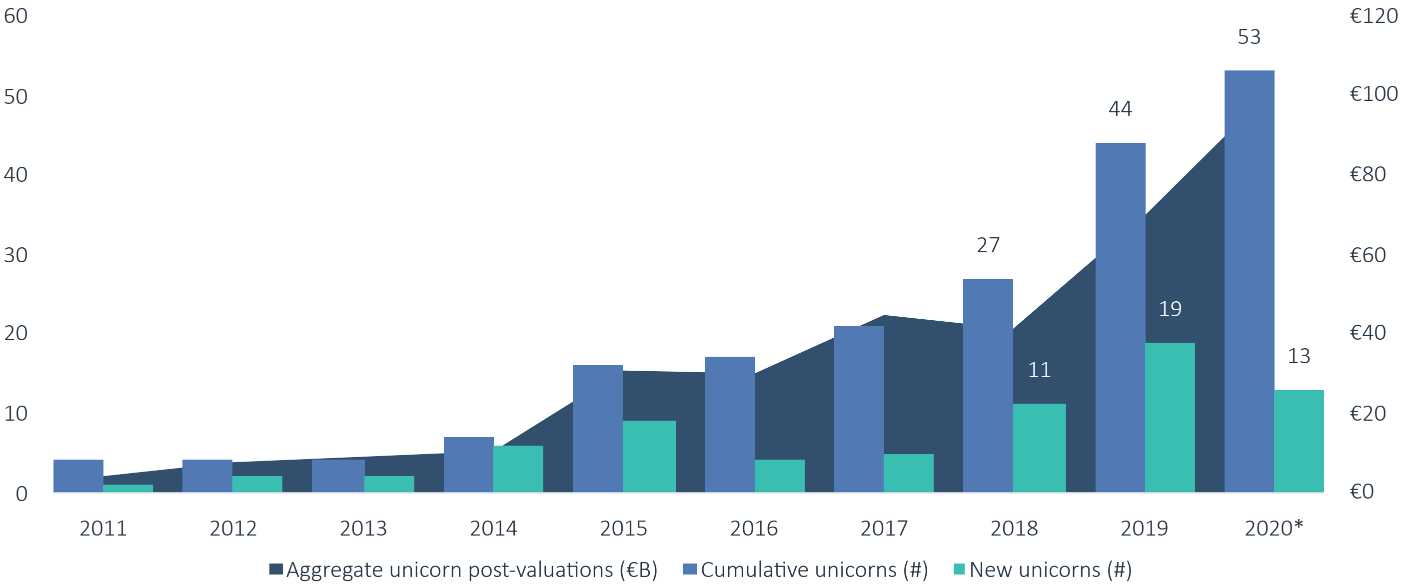
Unicorns

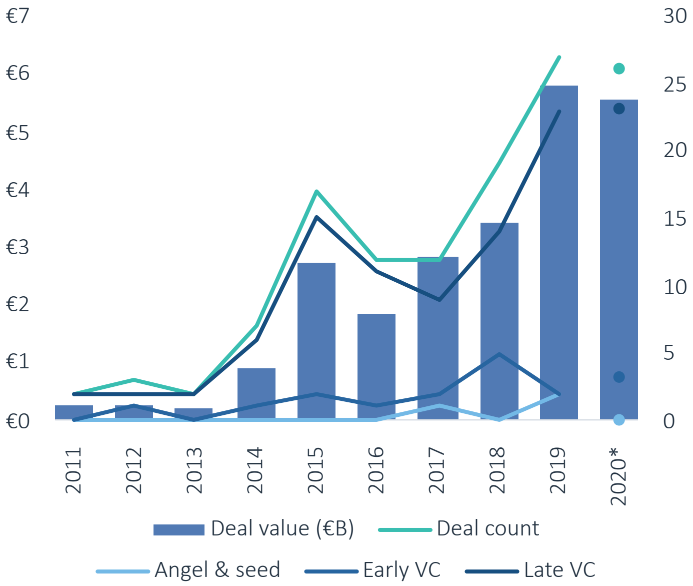
Unicorn count and aggregate post-money valuation



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

The aggregate post-money valuation of companies valued at €1.0 billion or more (commonly called "unicorns") in Europe surpassed the €100 billion mark in Q3 2020 for the first time in history. Thirteen new unicorns have been minted through Q3 2020, and the total number stands at 53 with a combined value of €102.1 billion. The number of companies to reach this threshold has risen quickly during the last decade, and the momentum has continued in the last six months despite the COVID-19 crisis. We largely attribute this to highly valued startups leveraging the heaps of capital that have flowed into the ecosystem in recent years to close larger VC rounds. Europe-based fintech, software, and healthcare startups have gained international prominence and improved unicorn numbers via outsized rounds funding their rapid scaling efforts. Multiple entities now possess valuations exceeding €1 billion, with many turning into multibillion-euro companies, a status that was rare in Europe five years ago and practically exclusive to US VC-backed companies.

Unicorn deal activity by stage

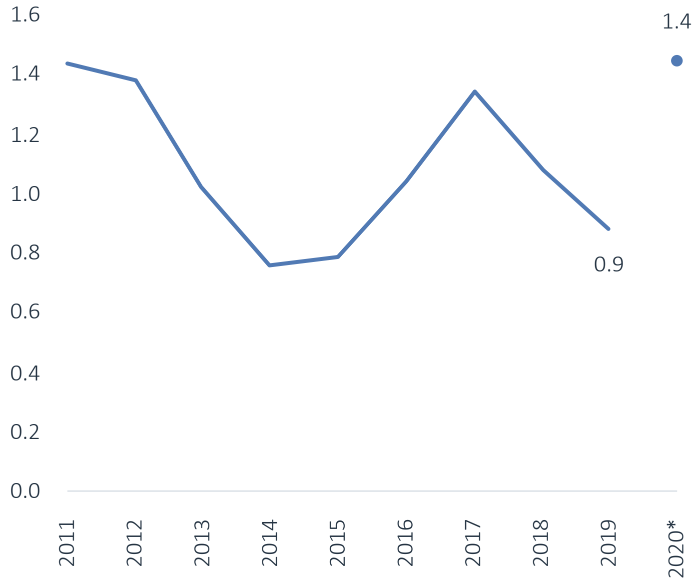


Source: PitchBook | **Geography:** Europe
*As of September 30, 2020

The European ecosystem has matured significantly in the last decade; however, with the coronavirus pandemic causing widespread disruption, growth could become difficult for the largest VC-backed companies. Unicorn valuation growth could slow in upcoming quarters as the macroeconomic environment evolves and loss-making companies with high cash-burn rates seek financing. For example, mobility firms such as Bolt and Gett will be facing reduced demand as individuals travel less during lockdowns, whereas telemedicine providers such as Doctolib have experienced surges in demand. Companies will utilise financing in different ways, either to manage cashflows or fuel growth, depending on how they have performed in recent months, as infection-control measures remain in place for the foreseeable future. As a result, fewer companies within a slimmer set of industries will be in a position to transition to unicorn status or grow at the same rate experienced during the last few years. This separating effect could also lead to a widening valuation gap as unicorns that have shown pandemic resilience draw capital towards them and away from struggling alternatives.

Despite financial hits to national economies from the coronavirus pandemic, capital has continued to flow in 2020 with €5.5 billion poured into unicorns, on track to easily surpass the annual record in 2019. High-quality companies have driven growth and have continued to attract capital as they are now more likely to close multiple rounds before an eventual exit. Existing VC-backed companies such as Klarna, Deliveroo, and Checkout.com are among the most valuable in Europe and have closed multiple rounds recently after achieving unicorn status, propelling their valuations to new multi-billion-euro highs. Although all three operate in different subsectors, they represent a microcosm of the ecosystem, in which new technology solutions for wider online audiences and shifting consumer trends have supported investment into VC and enabled steeper growth trajectories.

Median time (years) between rounds for unicorns



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

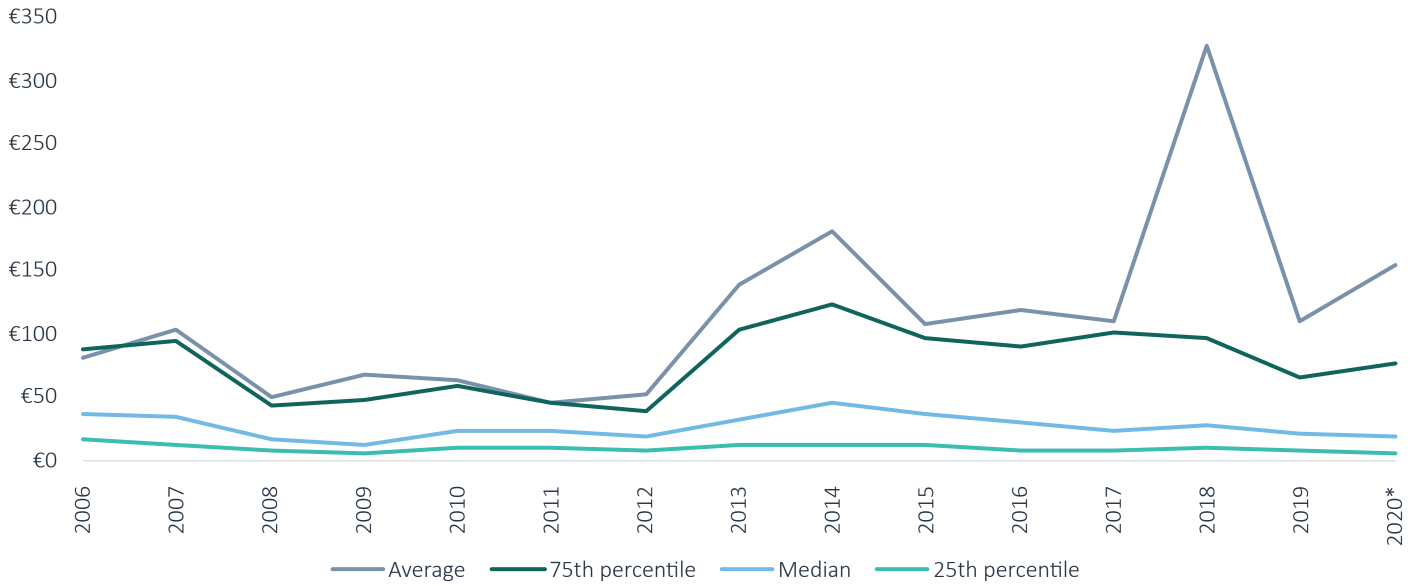
Top 5 largest rounds for existing unicorns in 2020*

Company name	Deal size (€M)	Deal type	Industry sector	City	Country
CureVac	€560.0	Later stage VC	Healthcare	Tübingen	Germany
Klarna	€548.7	Later stage VC	Information technology	Stockholm	Sweden
Deliveroo	€527.6	Later stage VC	Consumer products and services (B2C)	London	United Kingdom
N26	€523.5	Later stage VC	Financial services	Berlin	Germany
Revolut	€511.9	Later stage VC	Information technology	London	United Kingdom

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

Liquidity

Post-money valuations (€M) at exit

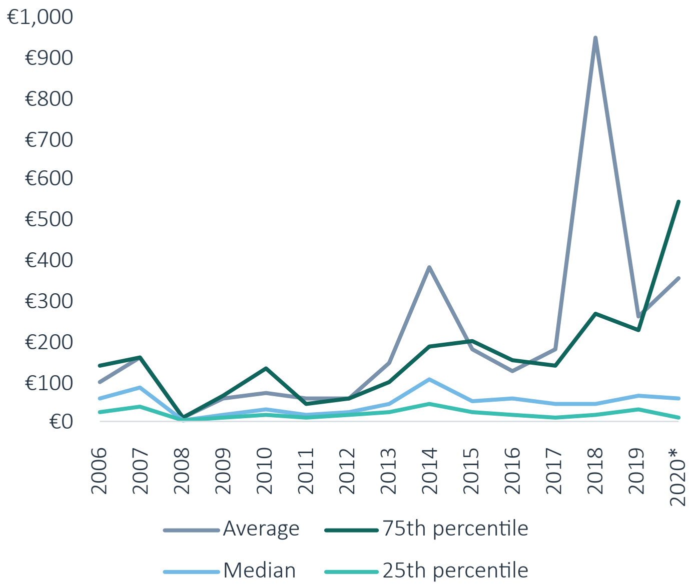


Source: PitchBook | **Geography:** Europe
*As of September 30, 2020

Through Q3 2020, VC-backed company post-money valuations upon exit at the upper quartile rose, while the lower and middle quartiles ticked downward from 2019. Divergent valuations have reflected a bumpy global exit environment that was characterized by disappointing US exits in 2019, as well as mounting scrutiny around valuations of high-profile VC-backed companies at the start of 2020. But scepticism has cooled as the coronavirus pandemic has consumed attention, and despite ensuing volatility, exits have recovered admirably in the second half of the year in Europe. Nonetheless, exit value at the year's end could come in at its lowest figures since 2012, and we feel huge macroeconomic events such as Brexit and the fallout from the US presidential election may influence exit appetite in the coming months, potentially causing valuations to fluctuate further.

However, favourable market conditions and renewed investor interest in certain verticals have stimulated exits in 2020. Upper quartile valuations via IPOs are pacing higher through Q3 2020 relative to 2019, largely driven by a selection of IPOs for pharma & biotech companies looking to exploit increased attention on the industry. One such company was CureVac, which exited at a €2.2 billion pre-money valuation. CureVac, which is involved in the race to find a COVID-19 vaccine, swiftly accelerated towards an exit after receiving a grant, loan, and VC financing in 2020 to assist with its candidate development. Valuations among companies of varied sizes, operating in different sectors, could still

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



Source: PitchBook | **Geography:** Europe
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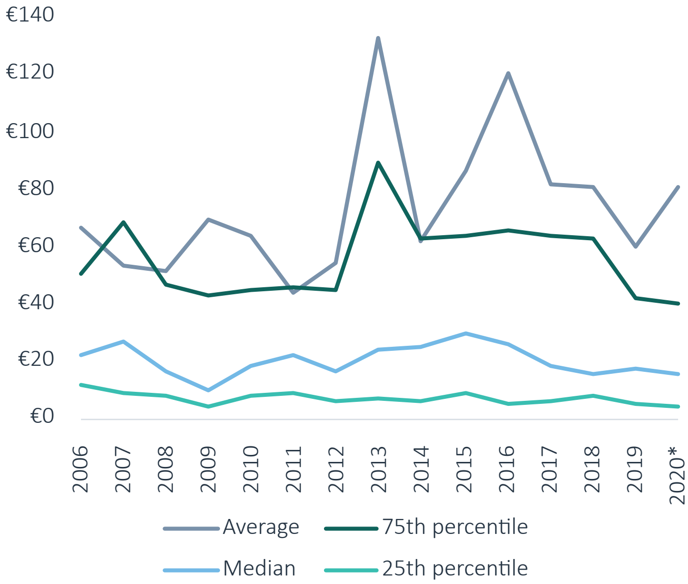
see contrasting fortunes in the coming months, as second waves develop and financial stress emerges. CureVac's path to exit, among others, highlights how quickly value can be generated and how a cluster of exits can drastically affect exit value and skew valuations in a short time.

The median time between founding and exit is pacing slightly lower at 7.7 years in 2020 relative to 2019. Time periods for exits—especially IPOs—have fluctuated in the last decade and have dropped in the last year, as startups have grown at a faster rate ahead of a targeted exit valuation. Startups have enjoyed a decade-long bull run in markets and have secured growth as technology-based businesses have thrived. As we enter a new economic cycle and growth slows, we could see longer time periods prior to an exit as growth becomes harder to capture. Startups may also increase time periods as they opt to raise VC financing and maximise growth in private markets instead of seeking liquidity. Nonetheless, VC dealmaking has continued to break records in 2020, showing little hinderance to ambitious growth plans for certain startups. Signs of a wider economic recovery have been evident as well, and it could take several years for current conditions to affect holding periods.

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



Source: PitchBook | **Geography:** Europe
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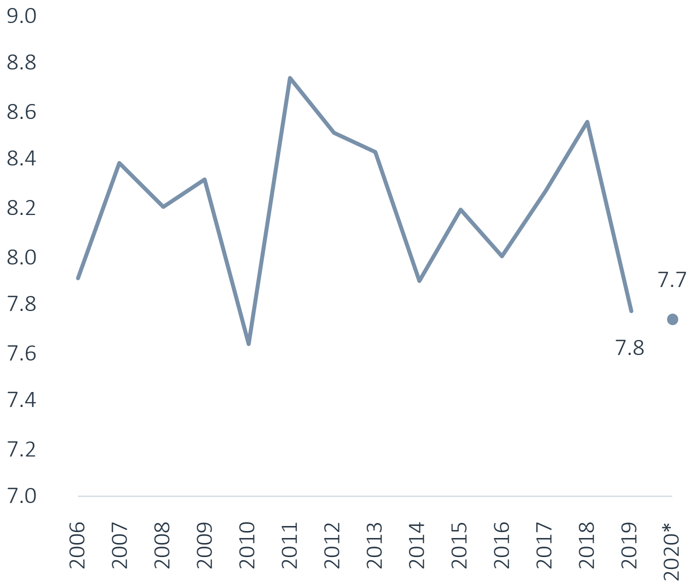
Median time (years) between founding and exit for VC-backed companies



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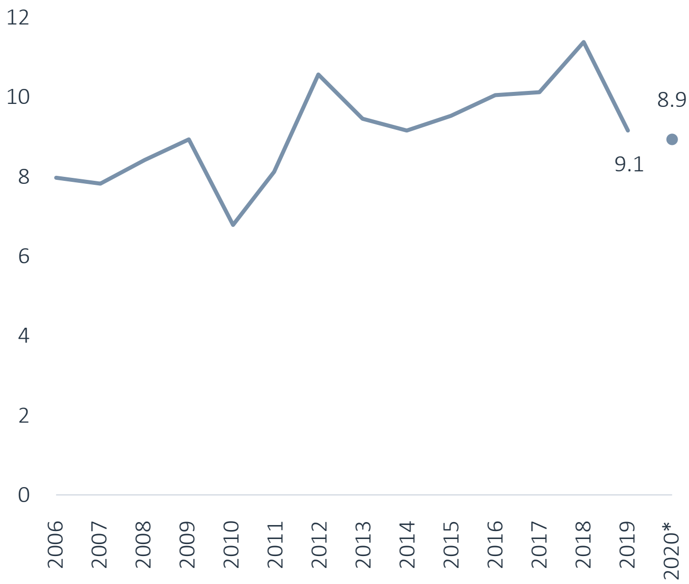
*As of September 30, 2020

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



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