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# European Venture Report

Q3 2020

# Contents



*This edition of the European Venture Report includes our new deal and exit count estimation methodology for venture data. For more information, read our recent analyst note.*

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*Click here for PitchBook's report methodologies.*

# Introduction

**European VC deal value is astonishingly on pace to set a new annual record at year end.** VC dealmaking has shown limited signs of slowing amid economic turmoil as investments in tech-based startups continue to flourish. Investor pools have grown as mature startups and huge follow-on rounds drove deal value figures upward in Q3. Regional VC hubs, especially those rich with software and pharma & biotech startups, have drawn outsized capital.

**VC deals with CVC participation could exceed the annual record from 2019.** VC investment from CVC arms has been aligned to winning sectors from COVID-19, such as technology and online goods or services. Incumbent corporates in mobility and software have piled capital into startups to stay abreast of disruption and exploit synergies.

**Dealmaking in the France & Benelux region has been buoyant in 2020.** Longstanding financial institutions in France, innovative disruptive tech clusters in Belgium and the Netherlands, and favourable tax conditions in Luxembourg have all propelled investment into the region.

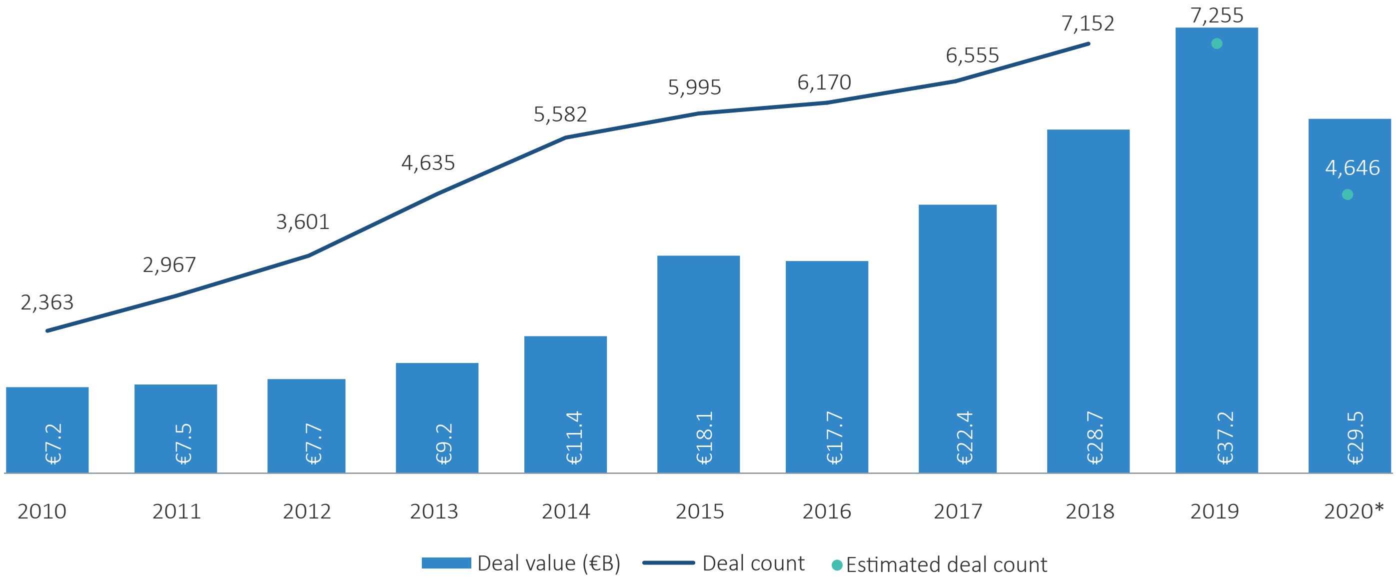
**After a sluggish start to 2020, European VC exit value recovered and built upon momentum in Q3.** On an annual basis, VC exit value is on pace for its slowest year since 2012, but a small collection of transactions could drastically influence year-end figures. Numerous pharma & biotech IPOs took place in Q3 to take advantage of market conditions.

**Fundraising charged on in Q3, and a new annual record could be set if the current pace continues.** Substantial fund series, first-time funds, and specialist funds focusing on evolving areas such as ESG have contributed to the fundraising drive. Looking ahead, we expect activity to remain strong in Q4 despite the threat of a second COVID-19 wave.

**Nalin Patel**
Analyst, EMEA Private Capital

# Overview

## VC deal activity

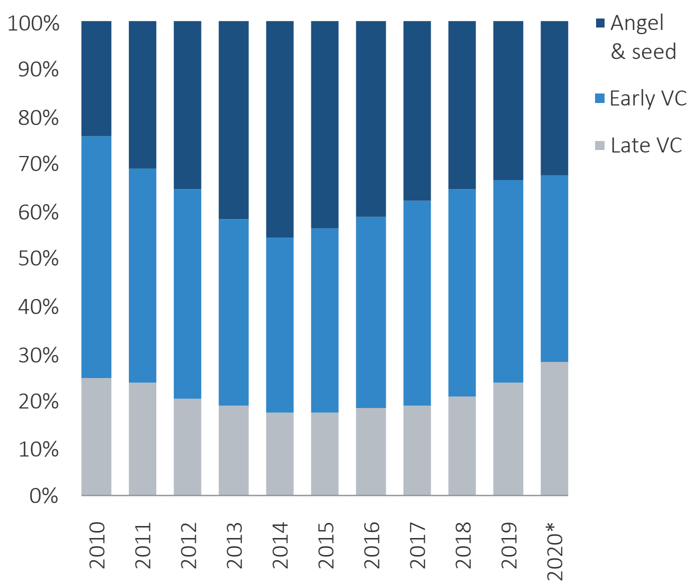



**Source:** PitchBook | **Geography:** Europe
*As of September 30, 2020

European VC dealmaking has shown limited signs of slowing despite weak macroeconomic indicators, swingeing job cuts, sweeping recessions, and the challenges of remote working and reduced travel. VC deal value totalled €10.6 billion in Q3 2020, marking one of the strongest quarterly showings on record and the third time quarterly deal value has exceeded €10 billion. Deal value for the year stands at €29.5 billion as of Q3 2020 and is on pace to surpass the record €37.2 billion deployed in 2019. We believe these strong figures portray the long-term resilience of the VC ecosystem and dispel the idea that pre-pandemic deals have inflated overall deal value figures in 2020.

Broader investor pools and mature startups have been key drivers of deal value over the last five years and helped sustain activity in recent months. Europe's developed ecosystem has churned out enormous rounds with increased frequency, propelling aggregate deal value figures to new heights. For example, Klarna, an online payment platform based in Sweden, closed a €548.7 million round in Q3, which nearly doubled its valuation to €8.4 billion. Led by US-based PE group Silver Lake Management, the round emphasises the impact new investors such as PE groups can have on the ecosystem. Klarna has raised over €1.6 billion since founding, and we believe late-stage startups that remain in the ecosystem and attract investors for outsized rounds will persistently shift deal value figures upwards.

## VC deals (#) by stage



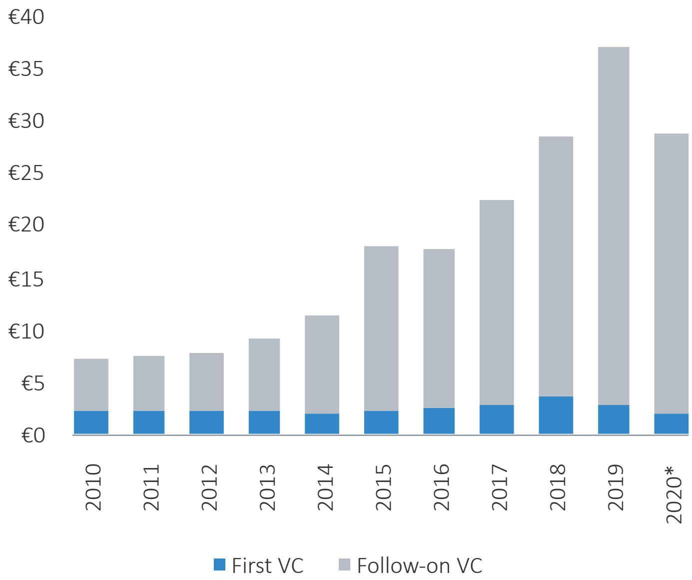

**Source:** PitchBook | **Geography:** Europe
*As of September 30, 2020

Overview

When the pandemic hit, industry experts predicted that investors would focus inwards on their existing portfolio as capital allocations tightened. However, we have not witnessed a drastic reduction in first-time rounds as investors continue to search for new portfolio companies. Nevertheless, longer-term pre-pandemic strategies regarding follow-on rounds have continued. 93.4% of VC through Q3 2020 went to follow-on rounds; if this pace continues through the remainder of the year, it will be the largest disparity between first financings in a decade. We attribute this gulf between first-financing and follow-on VC deal value to developed startups utilising funding from growing nontraditional sources such as CVC arms, sovereign wealth funds, and serial angel investors to raise larger follow-on rounds. One such company, UK-based challenger bank Revolut, extended its round by €68.2 million, taking it to €511.9 million. Revolut represents one of numerous fintech players that have shaped the VC ecosystem in Europe by pivoting towards VC financing from nontraditional investors to ensure they can maximise their growth potential and market share in private capital markets before exiting. This has been especially prevalent in the fintech space as numerous competitors have emerged such as Monzo, N26, and Starling Bank, all of which have yet to exit and continue to close follow-on rounds on a regular basis.

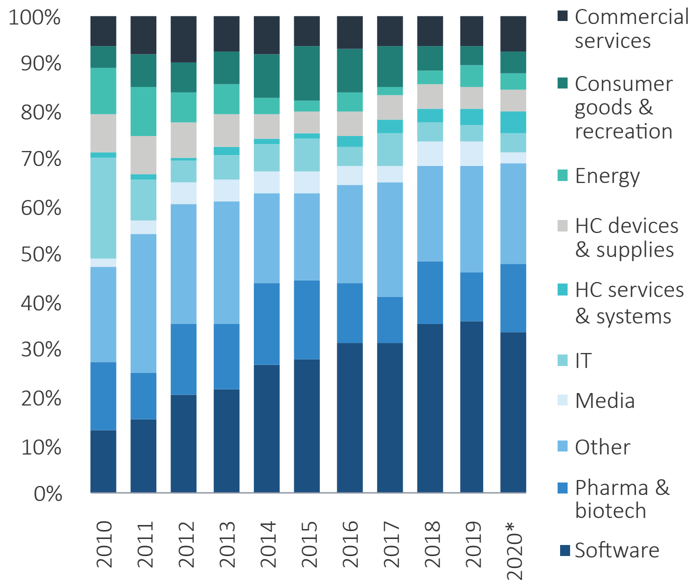
The divergent impacts on sectors from the COVID-19 pandemic persisted in Q3, as companies that attracted attention and proved strong growth at the start of the pandemic sustained momentum. In 2020 through Q3, software startups remained dominant and underpinned deal value with nearly €10 billion invested. In addition, pharma & biotech investment has been thrust into the limelight as the international race for a COVID-19 vaccine heats up. We expect investment into vaccine development to proliferate and accelerate rapidly as trials progress, governments place substantial orders, and organizations tackle mass distribution challenges. German-based CureVac, one of a number of companies developing a vaccine, closed a €560.0 million round in Q3, one of the largest deals of the quarter. Investors included pharma giant GlaxoSmithKline (LON: GSK), the German Federal Government, and the Qatar Investment Authority. Mass vaccinations appear to be the only long-term solution to permanently lift restrictions on daily life; therefore, we expect a multitude of capital resources to be funnelled into companies researching vaccines over the next year.

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




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

## VC deals (€) by sector



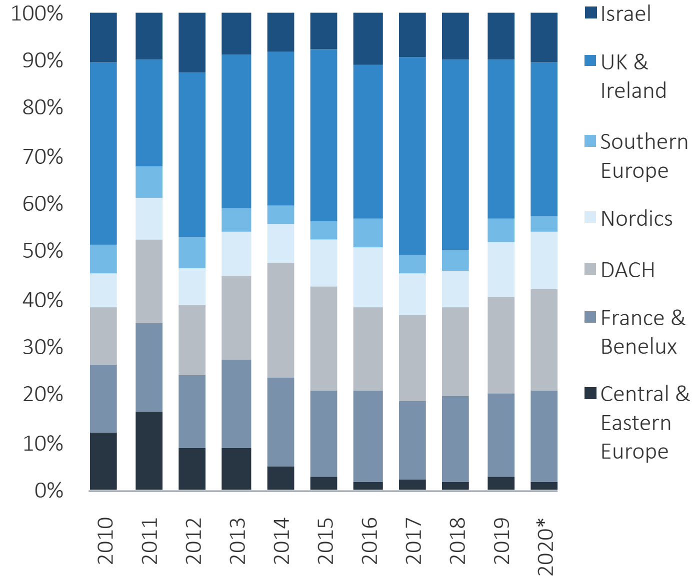

**Source:** PitchBook | **Geography:** Europe
*As of September 30, 2020

Overview

The UK & Ireland has solidified its position as the largest European VC ecosystem in terms of deal value. Through Q3 2020, €9.4 billion has been invested into startups based in the UK & Ireland, and we believe investment will remain strong in the long term as new startups emerge despite Brexit looming and a rising number of COVID-19 cases in the region. One notable deal in Q3 involved London-based ghost kitchen provider Karma Kitchen, which completed a €279.4 million round, making it one of the largest early-stage rounds in Europe. Investors clearly want to capitalise on momentum, and Karma Kitchen will use the funds to aggressively expand across Europe, targeting 53 sites in the next five years. As discussed in our recent analyst note, we believe the pandemic has accelerated the use of local ghost kitchens as dine-in restaurants have closed. In addition, competition between delivery companies, such as Deliveroo and Uber Eats, has intensified in recent years, and we could see competing ghost kitchen providers, such as Karma Kitchen and US-based CloudKitchens, jostle for market share going forward.

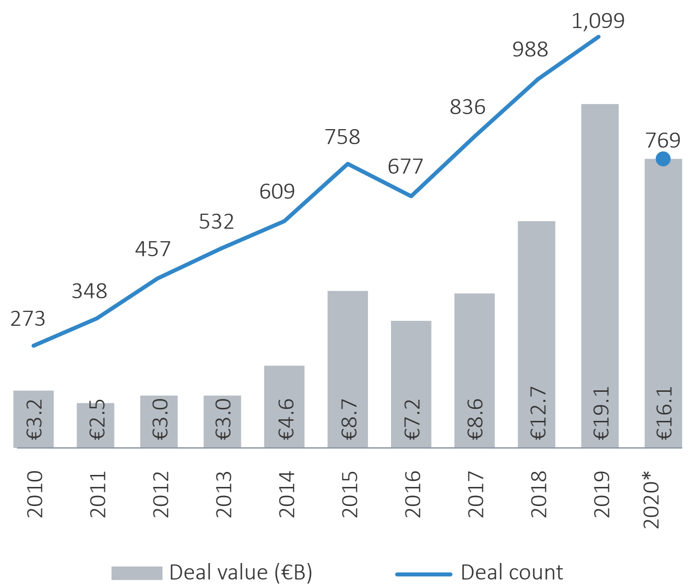
Although COVID-19 may have caused competition to heat up between US-based and Europe-based startups as new niches emerge, the pandemic has not hindered transatlantic investment from US investors into Europe-based startups. VC deal value with US investor participation has reached €16.1 billion through Q3 2020, putting the year on pace to set a record. US investors have long been attracted to Europe-based startups carrying lower valuations than their US counterparts, as they have the potential to enter and scale in the lucrative US market. Despite impediments placed on travel for the majority of 2020, hefty rounds for prominent Europe-based startups such as Checkout.com, Deliveroo, and Revolut have closed with US investors on board. These deals illustrate that VC ecosystems have adapted effectively and continue to ensure dealmaking can take place. We expect transatlantic capital flows to remain strong for the remainder of 2020 despite major macroeconomic events, such as the US presidential election and Brexit, which could cause uncertainty in global financial markets.

## VC deals (€) by region




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

## VC deal activity with US investor participation




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

# Q&A: Fladgate LLP

**Graham Spitz**

*Corporate partner, Fladgate LLP*

*Graham has over 20 years of experience advising PE and VC funds, including early- and late-stage investment. He acted as lead adviser to Zouk Capital, Index Ventures, 83North, Creandum, and Northzone on the sale of their entire interest in iZettle to PayPal Holdings. Graham is a member of the leadership committee of the American Bar Association Private Equity and Venture Capital Group and the Fladgate Israel desk.*

**Jamie Hamilton**

*Corporate partner, Fladgate LLP*

*Jamie specialises in all stages of the PE investment cycle, from early-stage venture through growth and development capital to buyouts and other M&A. He represents startups and institutional, corporate, and private investors throughout that cycle, with a focus on late seed and Series A stages. His sectors of interest include agritech, medtech, fintech, clean energy, travel, and sports.*

**What is your general view on the European VC scene, as we enter the last stretch of 2020?**

Despite unprecedented turbulence and challenges stemming from COVID-19, the European VC scene has remained remarkably strong and resilient. Millions of jobs have been lost. Economies have entered recessions. Economic sentiment has plunged. Yet deal value has remained high across the continent, nearing 2019's record in part because of swelling deal sizes and thriving tech-heavy businesses.

This year has seen multiple "winners" and "losers" crowned. Sectors that lend themselves to life alongside COVID-19, including software, healthcare, biotech, and pharma, have flourished, whilst sectors such as energy, tourism, and high street retail have struggled. As millions try to minimise the impacts of COVID-19 by adapting to their "newly changed lives," activity in cybersecurity, remote working, and online social activities has endured. Less capital-intensive opportunities to scale up and expand into new territories remain for those unencumbered by brick and mortar.

Localised lockdowns and constantly changing quarantine rules have considerably disrupted economies and plans, and they'll likely increase in quantity and severity. No longer can investors meet founders in person, view their offices, experience the physical energy of a startup, or engage in the virtual due diligence unmatched by any screen. This is undoubtedly going to create significant uncertainty around investments and could deter investment altogether.

The race for a vaccine is also going to affect the landscape. Many startups, operators, and investors are trying to identify and prepare for a vaccine and its restoration of normal daily life. Market confidence will likely rebound following the vaccine's announcement once all parties can plan next steps—albeit tentatively.

It is hard to predict what the rest of 2020 will hold. The financial crash in 2008 bred some of the largest and most innovative companies in the world today. Current figures show that the European VC market is performing well, and Europe's software "engine room" will, if anything, continue to benefit from COVID-19's far-reaching implications. A second wave could bring the same challenges the European VC scene has so far fought off. However, governments' emergency stimulus measures are now winding up, taking us even further into unchartered territory where anything could happen.

**Dealmaking conditions were irrevocably altered by the pandemic. What surprised you the most about those effects? Conversely, what were the most difficult hurdles that you saw businesses and your colleagues surmount?**

Early in the pandemic, priorities shifted markedly towards existing portfolio companies and away from new deals as investors were understandably reluctant to commit capital without physically seeing the target businesses in action. Since then, we have been pleasantly surprised by how well and quickly investors, target companies, advisers, and intermediaries have adapted to remote dealmaking.

The anticipated torrent of distressed deals has not, as of yet, materialised. Government support measures seem to have, so far, helped many businesses in the worst-affected sectors avoid distressed investment territory. The vast majority of deals that we have done during the pandemic have been on full valuations.

Our recently published Restart Capital report showcased the survey responses of 500 SMEs and 100 investors and, based on the results and inevitable withdrawal or scaling back of government support, we expect an increased focus on distressed deals. Our report identified that SMEs see the depth of the precipice being approached as worse than we had pictured. However, this survey has also shown that private investors' robust health and appetite for distressed investment also exceeded our expectations.

**Which of these changes do you anticipate will sustain or subside?**

The move to remote negotiations, due diligence, signings, and completions will persist. The technology is here, and the pandemic has forced more people than ever to adjust. It seems unlikely that we, as a law firm, will continue to host physical all-party meetings and signings to the same extent.

Investors will undoubtedly want to return to visiting target businesses in person. Technology has not yet replaced the understanding that comes with in-person meetings, but in the interim, it has proven adaptable to the "new normal" of dealmaking.

**From a regulatory perspective, what is least known but very critical to startups across the European venture space?**

Countries such as the UK have traditionally believed they should welcome nondomestic investment and treat it no differently than investment sourced domestically. However, politicians have recently asked authorities around the world to act on concerns that nondomestic actors are too easily snapping up companies and assets of "national" importance. COVID-19 has undoubtedly accelerated these changes. As financial markets have dropped, governments are moving fast to prevent undervalued companies from becoming targets for opportunistic takeovers by nondomestic actors.

This shift of approach has led to various regulatory initiatives targeted at increasing scrutiny of corporate deals in specific parts of the economy, most notably the technology sector. In the UK, the government has recently introduced protective measures that significantly lower the threshold at which the Business Secretary can intervene in transactions involving nondomestic investment in artificial technology, cryptographic authentication technology, or advanced materials. Further reforms are currently under consideration as part of the forthcoming National Security and Investment Bill.

Taken together, the current direction of travel means that investors and investee companies will need to account for any potential nondomestic investment concerns upfront to mitigate risks of delays and, in the worst-case scenario, deal failure. It would be well to consider these challenges at the outset rather than be surprised later in the process.

**Are there any items of note related to Brexit to discuss?**

After a lengthy period of uncertainty over the precise consequences of Brexit, some details are now beginning to fall into place.

For the numerous UK citizens that reside in EU Member States, it seems many may face significant inconvenience in retaining access to UK bank accounts, especially if they retain property or other assets in the UK where a local sterling bank account will be an essential part of their planning. Various institutions have announced that they will begin closing accounts held by residents in EU countries. This follows from the fact that passporting rights, which allow UK banks to provide services in other EU Member States, will expire at the end of 2020.

The British press has naturally focused on the plight of UK citizens living in Europe. But there may be wider implications. For example, if it is unlawful for a British bank to provide services to a British citizen resident in France, then it must equally be unlawful for that bank to provide services to a French citizen in France. The approach to closure of the accounts could therefore severely restrict the ability of UK banks to offer financial services to persons and companies based in the remainder of the EU.

There is also some scope for legal argument around rationale for the closure process. For example, it may be argued that a British bank does not provide a banking service in France in the above example. Whilst the customer may be resident in France, the banking service itself is provided in the UK, where the bank branch is based, cheques and credits are collected, and payments are made. On that basis, it may be said that laws in France and other EU Member States should not prevent their nationals from merely holding an account with a UK bank. However, there appears to be limited appetite for pursuing that type of legal challenge.

In the final analysis, banks have the right to terminate their relationship with current account customers, subject to a period of advance notice. There would seem to be no basis for customers to challenge the bank's closure decision, because it has been made against the background of a changed regulatory environment.

The absence of any tangible deal between the UK and the EU over the financial services sector will therefore leave many British expatriates searching for alternative banking arrangements. Wider implications could also mean UK investment firms may face difficulty providing portfolio management services for EU-based customers, and there may be more consequences to come.

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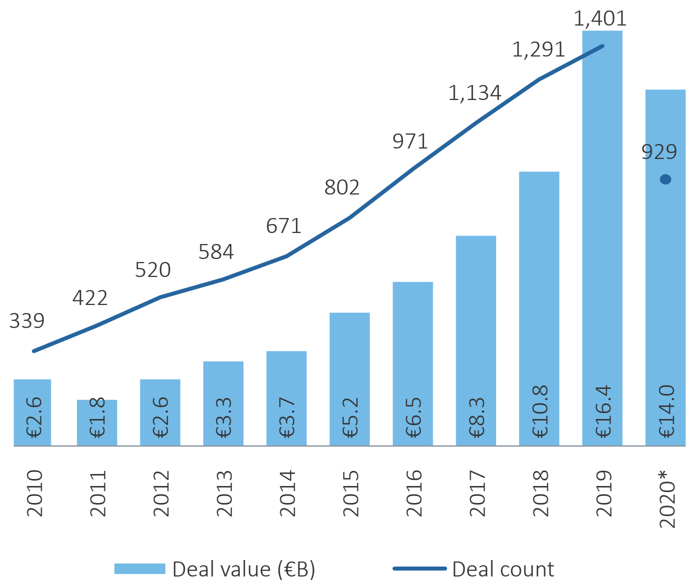
# Corporate VC

VC deal value with CVC participation reached €14.0 billion through Q3 2020 and is pacing to exceed the annual record from 2019. So far in 2020, CVC participants have been ubiquitous among high-profile rounds despite weak corporate earnings and redundancies across several industries. VC investment has not slowed from CVC arms and has been largely aligned to well-performing sectors during COVID-19, such as technology and online goods or services. CVC participation in VC deals depicts the contrasting effects on corporates during the pandemic, and we expect the gap to widen as restrictive measures remain in place until a vaccine is developed and widely administered. Corporates that have been able to press on with investments and growth initiatives will likely prop up deal value figures, as corporates in worse-off sectors, such as energy and transport, may only see rebounds in mid-2021.

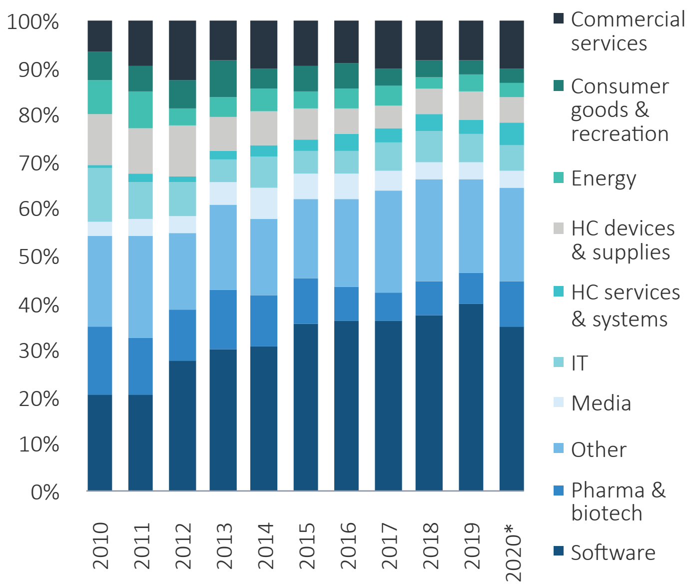
We believe technological developments improving the functionality, efficiency, and cost of mobility innovations will remain robust as incumbent corporates keep abreast of disruption. For example, Sweden-based battery developer Northvolt completed a €508.6 million round with participation from automotive conglomerate Volkswagen (ETR: VOW3) among others. Most industry experts believe electric vehicles will dominate roads in the future, and carmakers have been developing their offerings and increasing coverage in the electric vehicle market. The spotlight on revenue streams has swelled during COVID-19 as car sales have plummeted in Europe. However, electric vehicle adoption has been plagued by high costs, low mile ranges, and cumbersome batteries with lengthy charging times. We believe investment into battery development startups such as Northvolt will grow as breakthroughs become critical. Traditional carmakers are competing with newer EV manufacturers such as US-based Tesla (NASDAQ: TSLA), which has boasted soaring valuations in recent years. In addition, both Northvolt and Tesla focus on Gigafactory development, an area that could attract greater investment as demand for improved batteries rises.

## VC deal activity with CVC participation




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

## VC deals (#) with CVC participation by sector

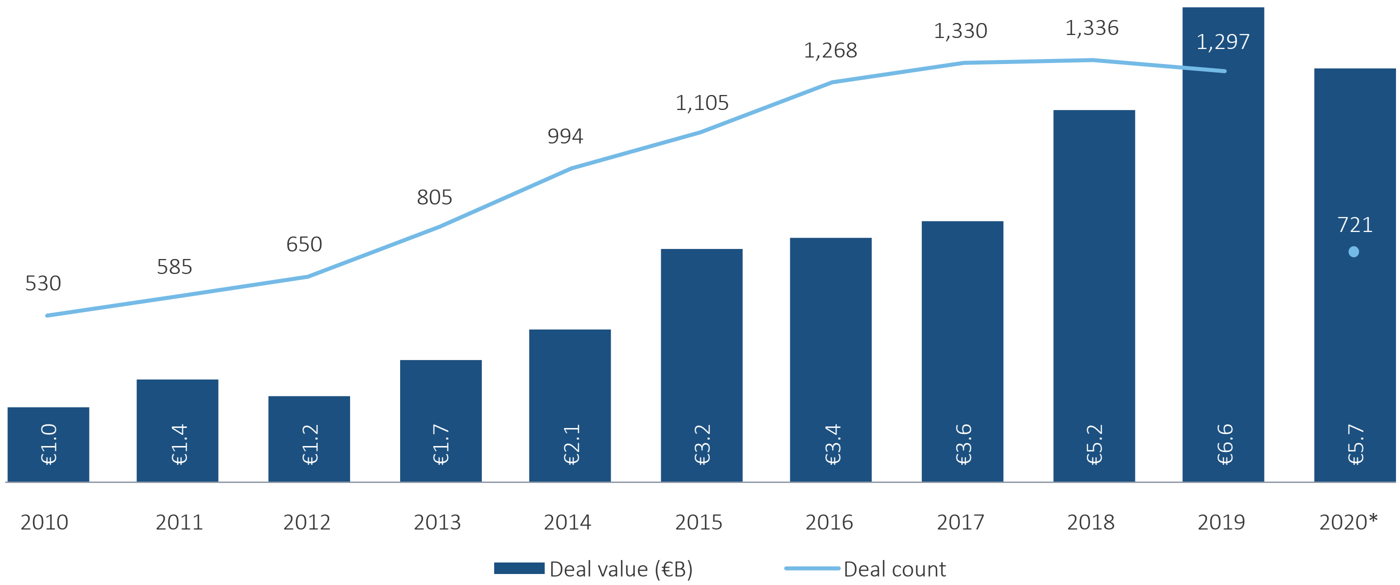



**Source:** PitchBook | **Geography:** Europe
*As of September 30, 2020

Although software has led deal value figures in the last decade, the sector could still garner a greater proportion of CVC investment. Through Q3 2020, software deals with CVC participation reached €4.2 billion, in line with 2019 figures. Startups in the software space may benefit from the emergence of 5G and an increased reliance on smartphones due to pandemic-related restrictions. Notably, Finland-based HMD Global, which sells Nokia-branded smartphones, raised €197.7 million in VC funding in Q3, a round financed by GV, Alphabet's (NASDAQ: GOOGL) VC arm, Qualcomm Ventures, and Nokia (HEL: NOKIA). In the early 2000s, Nokia was synonymous with the early adoption of mobile phones, but other companies such as Apple (NASDAQ: AAPL) and Samsung (KRX: 005930) have gone on to lead smartphone sales. Recently, China-based manufacturers such as Huawei have grown their market share despite concerns around data privacy. We could see consumers return to and investors back long-established, trusted brands such as Nokia as data security becomes even more imperative.

# Spotlight: France & Benelux

## VC deal activity



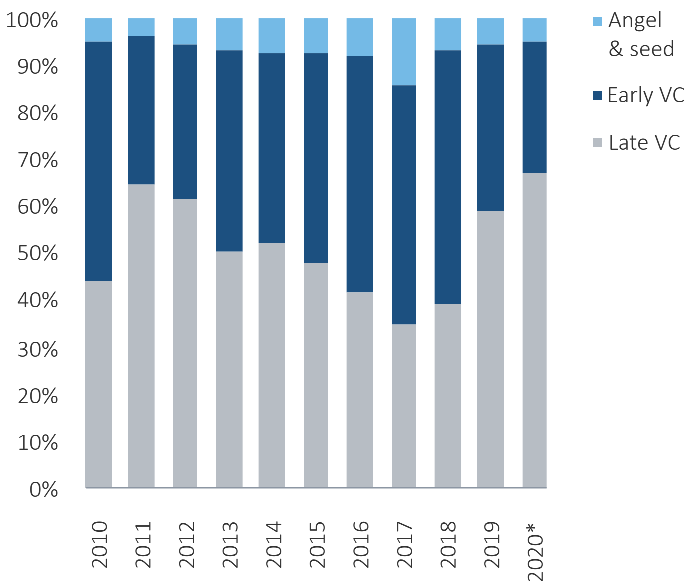

**Source:** PitchBook | **Geography:** France & Benelux
*As of September 30, 2020

*This section was originally featured in our* ***2020 France & Benelux Private Capital Report*** *and has been updated to reflect Q3 2020 deals.*

France & Benelux venture deal value concluded the decade in bullish fashion, logging a record €6.6 billion in 2019. The new peak capped a sustained period of growth, as the region has emerged as a leading venture hub in Europe, contributing roughly a fifth of the continent's total VC deal value in 2019. Longstanding financial institutions in France, disruptive tech clusters in Belgium and the Netherlands, and favourable tax conditions in Luxembourg have all propelled investment into the region. These factors have also enabled a diverse ecosystem to evolve, with startups established and scaled in a multiplicity of sectors.

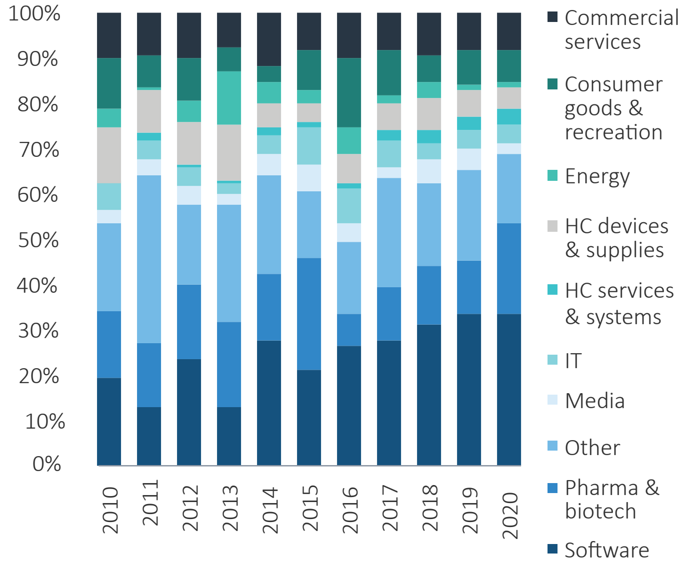
In 2020 YTD, we believe VC activity in the region and in Europe has been extremely positive and will continue on in Q4. Dealmaking has continued to be buoyant despite France being one of the countries hit the hardest by COVID-19, with a significantly larger population than the Benelux nations. France & Benelux deal value has crested €5.7 billion through Q3 2020, nearly a fifth of the overall figure in Europe, further highlighting a region that has continued to attract VC investment despite pessimistic global macroeconomic outlooks.

## VC deals (€) by stage




**Source:** PitchBook | **Geography:** France & Benelux
*As of September 30, 2020

## VC deals (€) by sector




**Source:** PitchBook | **Geography:** France & Benelux
*As of September 30, 2020

Late-stage capital infusions have led to maturation across Europe in recent years, including the France & Benelux ecosystem. Late-stage capital constituted a decade low of 34.9% of the region's overall deal value in 2017 but has risen sharply since, reaching 58.7% in 2019 and pacing higher at 67.3% in Q3 2020. France's ecosystem is larger and more developed than the Benelux nations; however, late-stage capital has redefined VC runways, and we believe the majority of capital will be directed towards late-stage rounds in the near term.

One late-stage deal closed earlier in 2020 involved Collibra, which secured a €102.2 million round in Q1. Collibra is one of the most highly valued Belgium-based VC-backed companies ever, and we believe mature companies will take precedence over early-stage investments in the current market. Late-stage startups contribute a significant chunk of pre-existing risk exposure within portfolios, and investors will protect their top startups, particularly in emerging ecosystems such as Belgium, where outsized companies are rarer. Collibra has raised €344.1 million in aggregate venture funding since its founding and portrays how the Benelux ecosystem has developed considerably. Round sizes and valuations in the region have soared, as investors and talent pursue startups in attractive uncharted territory.

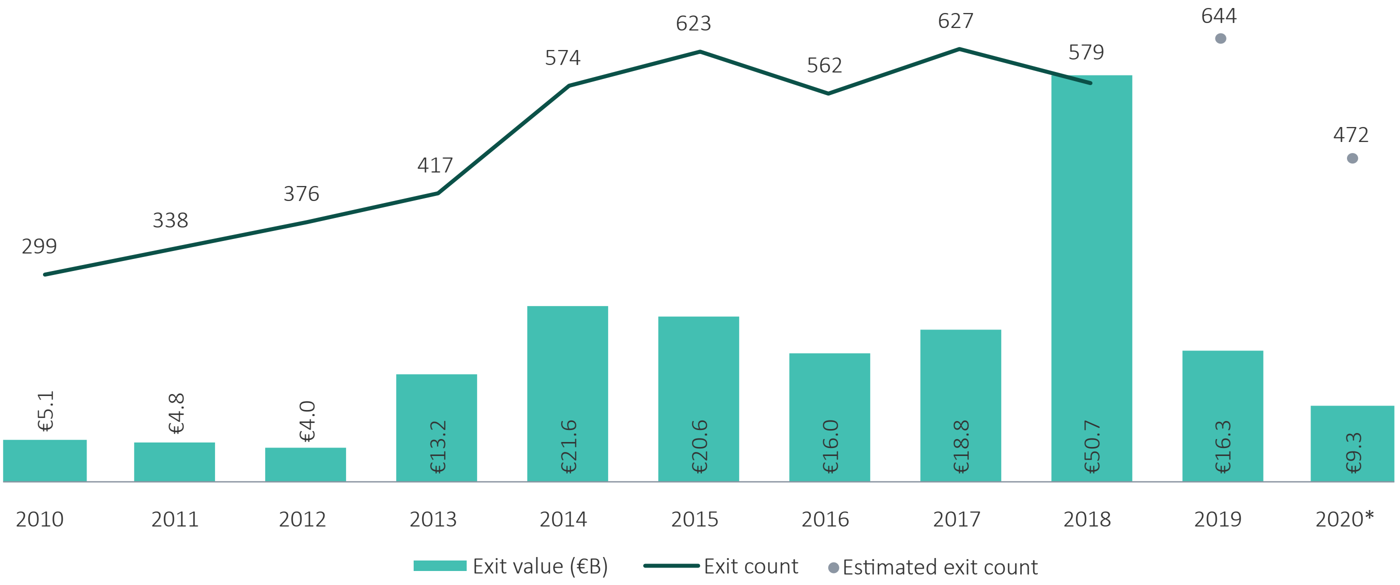
One of the largest France & Benelux VC deals in 2020 YTD involved marketplace platform Mirakl, which completed a €253.4 million round led by PE group Permira. Ecommerce companies have experienced a spike in demand as COVID-19 has hastily forced shoppers online and away from high-street shops, accelerating a trend as technology adoption has increased. However, software deal value in the France & Benelux region has been consistently strong in the last five years, culminating in a record €2.2 billion in 2019. Momentum has continued in 2020 with nearly €1.9 billion already invested, and we envisage the bulk of venture euros will fund startups in the sector going forward.

Online co-living platform Colonies closed a €150.0 million round in Q1, one of the largest France & Benelux VC deals YTD. Startups within the circular gig economy have been prominent in the France & Benelux region. For example, car-sharing platform BlaBlaCar has emerged among the most highly valued VC-backed companies in Europe. High costs of living in cities such as Paris and car ownership in bicycle-centric cities such as Amsterdam have made sharing and rental companies popular. However, COVID-19 has hurt short-term usage of services, and we believe long-term confidence will be knocked as stigma associated with social distancing and infection persist. As a result, startups in these sectors may face difficulties adapting business models, increasing safety measures to convince consumers to return, and ultimately meeting future health and safety regulations that may restrict customer numbers to prevent spread of the disease.

Telemedicine healthcare startups have been touted as long-term growth prospects to emerge from the pandemic, with existing players seeing heightened demand in the short term. Paris-based Doctolib, one of the largest e-health providers in Europe, went from 1,000 to 100,000 daily consultations during the first wave. Attention is now turning towards preventing a second wave, developing a vaccine and rebuilding for the future. The response to the novel coronavirus has exposed shortcomings as well as opportunities, and Doctolib could penetrate further into Europe, beyond its current operations in France and Germany. The complexity of services, different languages, working practices and legislation has made it inherently challenging for private companies to scale across Europe. However, COVID-19 could trigger global companies to come forward, as patients and doctors opt to use online services more often.

# Exits

## VC exit activity

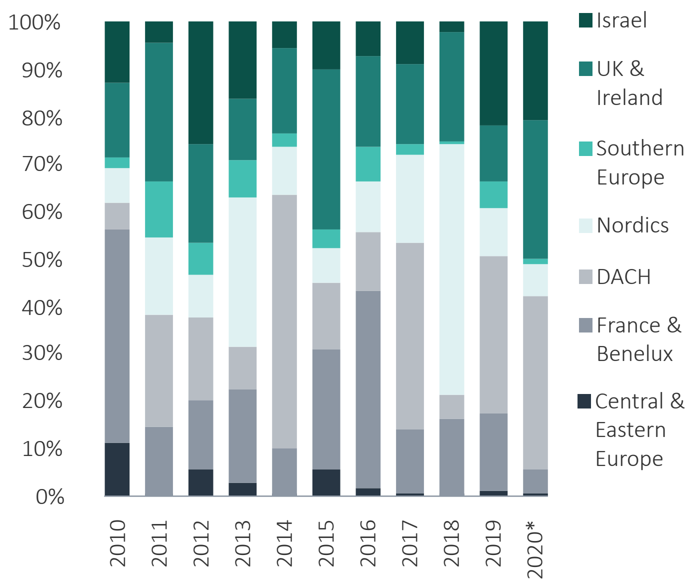



**Source:** PitchBook | **Geography:** Europe
*As of September 30, 2020

European VC exit activity recovered in Q3 even amid mounting economic damage caused by the COVID-19 pandemic. VC exit value reached €9.3 billion through Q3 2020 and should achieve the €10 billion mark for the eighth consecutive year, a milestone that was in jeopardy earlier in 2020. Exits have been the most muted aspect of the ecosystem in 2020; however, as we enter the final quarter of a challenging year, investors and startups will be bullish about exit opportunities in Q4 and we expect exit activity to stay healthy. Although exit value could reach its lowest figure since 2012 by year end, exit volume has flattened since 2014, and a small collection of exits could drastically affect exit value in a short time.

The largest Q3 exit was the IPO of biotech company CureVac (NASDAQ: CVAC), which exited at a €2.2 billion pre-money valuation. CureVac—which uses mRNA to develop cancer treatments and vaccines for infectious diseases—also completed a significant VC round in Q3 prior to achieving liquidity. In fact, the company has utilised numerous financing options in 2020 as it works to develop a COVID-19 vaccine. The European Commission issued a €82.4 million grant followed by a €75 million loan from the European Investment Bank prior to CureVac's VC financing and ensuing IPO. The devastating impacts from COVID-19 have created urgent need for a vaccine, and academic institutions and companies have been working to fast track testing. It is an ideal time for pharma & biotech companies to raise their profile as global backers seek pandemic-proof opportunities. In addition, companies see COVID-19 vaccine development as a chance to find a life-saving solution. The medical recognition for a company that may have been relatively unknown until the pandemic struck cannot be ignored. COVID-19 has enabled companies such as CureVac to secure funding, culminating in an acceleration towards an exit, and leading to greater returns in the long term if they produce a successful vaccine.

## VC exits (€) by region



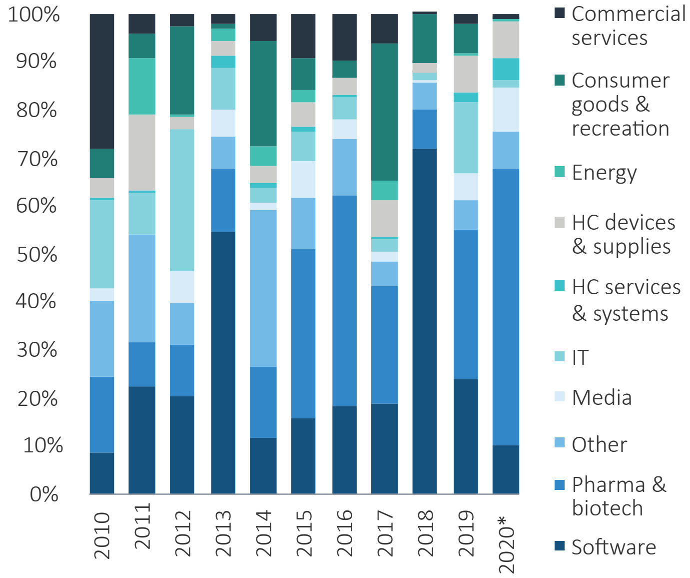

**Source:** PitchBook | **Geography:** Europe
*As of September 30, 2020

CureVac's IPO helped overall exit value generated from pharma & biotech companies reach €5.3 billion through Q3 2020, and could beat annual exit value from software startups for the second consecutive year. Software startups have obtained the bulk of capital in recent quarters, leading to huge exits from the ecosystem. Q3 has been a bumper quarter for pharma & biotech startups, which completed four out of the five largest exits. We believe pharma & biotech startups will explore financing or exit opportunities given the enhanced focus on the sector. The five largest exits in Q3 were all IPOs, which indicates that management teams and shareholders feel public equity market conditions have been conducive for pharma & biotech companies. In addition, we believe more exits for pharma & biotech companies will be completed through the end of 2020 as startups and investors in the space look to take advantage of fewer competing public listings from worse-off sectors.

As the race for a vaccine gathers speed, startups have also been tackling indirect health issues stemming from COVID-19. As isolation has increased, mental health has been a growing concern for communities and could draw attention from investors as work-from-home and social-distancing measures persist. UK-based Compass Pathways (NASDAQ: CMPS), a company working to address mental health challenges, exited at a pre-money valuation of €392.0 million in Q3. Compass Pathways' share price rose by approximately 48.3% within a week of listing, highlighting investors' hunger for healthcare IPOs in recent months. We expect companies operating in healthcare subsectors to benefit from the increased awareness surrounding wellbeing caused by COVID-19, and this could prolong deep into 2021 as long-term behavioural changes occur and new ways of life become the norm.

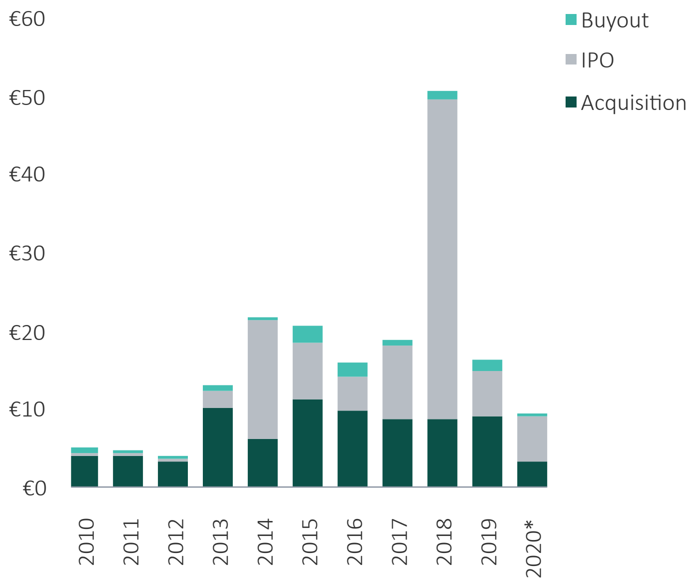
While the third quarter underlined a spike in the popularity of IPOs as a lucrative exit route for pharma & biotech companies, we believe the more traditional strategy of seeking out an acquisition from an international pharma giant also remains an astute and reliable option for startups seeking liquidity. For example, Switzerland-based Roche (SWX: ROG) acquired Ireland-based Inflazome for €380.0 million in Q3. While Roche is currently developing a COVID-19 vaccine, this acquisition still highlights strategic acquirers' desire to constantly bolster their wider portfolios. We believe strategic acquirers, not limited to healthcare, may also believe it is an appropriate time to reinforce portfolios and conduct possible cut price acquisitions as dislocations between the financial performance of startups in different sectors widens.

## VC exits (€) by sector




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

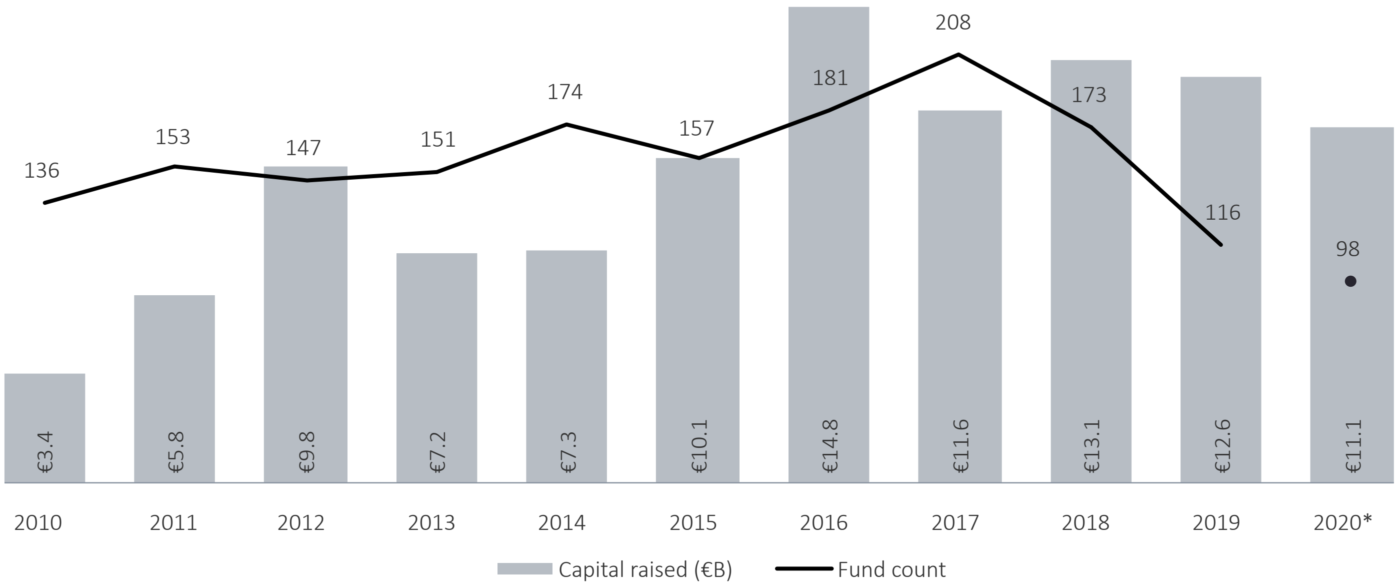
## VC exits (€B) by type




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

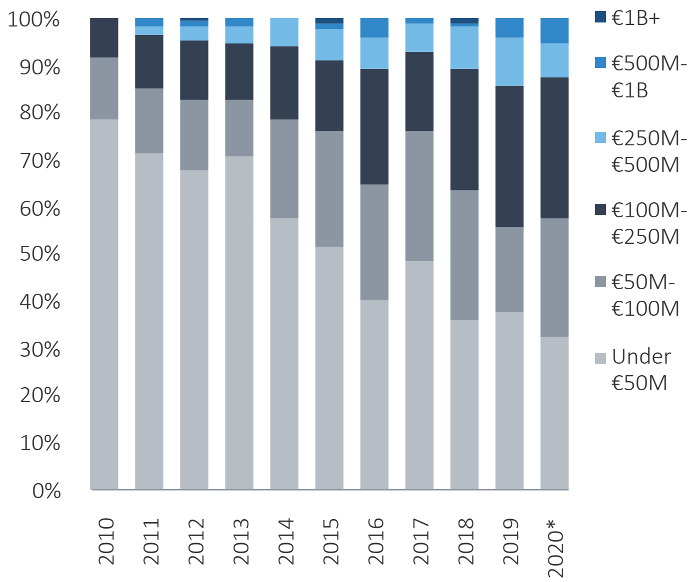
# Fundraising

## VC fundraising activity




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

## VC funds (#) by size




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

Despite the current climate, LPs and GPs exhibited a refreshing confidence and appetite to commit to and raise new funds in Q3. VC fundraising in Europe charged on and sits at €11.1 billion through Q3 2020, well ahead of the pace set in 2019. We believe a new annual European fundraising record could be set if the current pace continues in Q4, an extraordinary achievement as economies have fallen into recessions, companies in hard-hit sectors have slashed growth forecasts, and individuals have lost jobs across the continent. Fundraising totals have been driven by strong returns from venture, swelling amounts of capital available to investors, and improved awareness and accessibility to VC-backed companies via new VC vehicles. The ability to cope with restrictions impeding travel and in-person meetings, which have been cornerstones of the fundraising process, could point toward a shift in how investors and companies conduct fundraising remotely in the future.

We feel the pandemic has not obstructed long-term fundraising trends in Europe, as fund sizes have continued to grow in 2020. During the last decade, the proportion of sub-€100 million funds has fallen. We also believe larger funds focusing on traditionally strong VC sectors have been able to push ahead in 2020 by utilizing digital changes to life that could result in stickiness, such as video calls and online banking. London-based Dawn Capital's €337.9 million IV Fund was one of the biggest to close in Q3 2020. The oversubscribed fund was closed remotely within six months of launching and underlines optimism shared between LPs and GPs in the ecosystem despite widespread economic uncertainty. Dawn Capital IV will invest into early-stage B2B software companies concentrating on future working arrangements regarding data analytics, fintech, and security, all of which have seen enormous focus and upheaval as individuals continue to work from home.

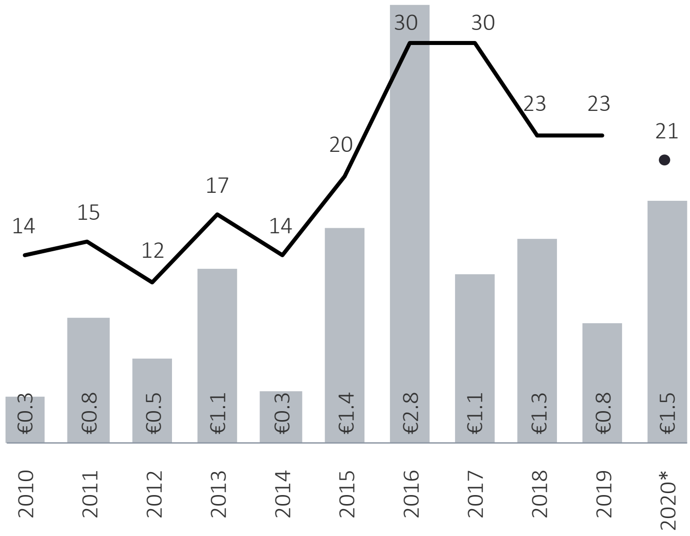
Specialist VC funds have been concentrating on an expanding range of sectors in recent years, and the

COVID-19 crisis has sharpened focus on environmental, social, and governance (ESG) frameworks. A variety of funds targeting companies tied to ESG initiatives closed so far in 2020, and we envision this area will develop into a key investment strategy over the next decade. Founders, investors, and management teams are increasingly evaluating the holistic impacts of funding and growth targets on wider areas of society and populations. In Q3, London-based ETF Partners closed its third Environmental Technologies Fund at €185.1 million, a substantial pledge to back solutions addressing sustainability through innovation. COVID-19 has also emphasized the need to tackle climate change, and startups embracing digitisation while remaining cognizant of environmental impacts could fuel economic recovery in the long term and generate enhanced financial returns.

Contrary to other private market strategies, the pandemic has not hampered first-time European VC funds coming to market. 21 such vehicles have closed through Q3 2020 with a total €1.5 billion raised, surpassing the annual aggregate capital raised by first-time funds during each of the last three years. GPs have remotely cultivated relationships and secured commitments, while LPs have been eager to commit to new first-time funds in fear of missing out on startups or subsectors illustrating pandemic-proof growth. Zurich-based BB Pureos Bioventures closed its sizable first fund at €143.6 million in Q3 and invests in drug-development companies, and area that has enticed investment during COVID-19. We believe interest in the drug-development space will persist as companies require capital to recover from long-lasting economic and public health damage caused by COVID-19.

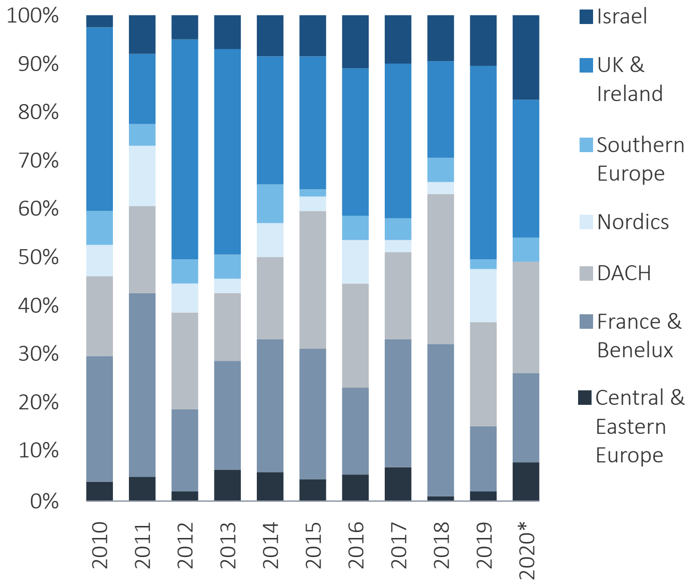
VC fundraising across regions produced few surprises through Q3 2020, with usual strength in the UK & Ireland, France & Benelux, and DACH regions. COVID-19 statistics for heavily hit countries in the ecosystem have had little bearing on regional capital flows, and the major VC hubs have continued to close funds despite ever-changing measures and localised lockdowns. Israel, which recently entered a second lockdown, has shown huge growth in fundraising efforts, as discussed in our 2020 Israel Private Capital Breakdown. A record €1.9 billion has been raised by Israel-based funds so far in 2020, and we anticipate figures will grow in the coming years as international LPs including nontraditional investors and corporates identify the emerging Israel ecosystem. We believe strong ties with US investors and big tech companies, combined with highly skilled talent and an entrepreneurial culture in Israel, could result in the ecosystem becoming one of the largest in the world in the next decade.

## VC first-time fundraising activity




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

## VC funds (€) by region




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

Going into Q4, we expect VC activity to remain strong in Europe despite the threat of a second COVID-19 wave. Fundamental aspects of the ecosystem, from fundraising and subsequent dealmaking through to exits, have all been pacing strongly in the first three quarters and we expect momentum to endure for the remainder of 2020. VC is intrinsically linked to technology, which has been a huge winner in the last few months. With a heightened focus on pharma & biotech, we feel startups in these sectors are well-positioned to step up and drive investment through the end of the year.