European Venture Report

Q3 2021

Contents

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Introduction

The unrelenting venture capital dealmaking pace in Europe during 2021 continued in Q3, with the second-highest quarterly figure on record. Europe's three largest-ever quarters for venture capital deal value have occurred in 2021. Late-stage capital has continued to dominate dealmaking in Europe. Outsized deals are becoming increasingly common as venture-backed companies seek capital to meet ambitious growth targets via hiring sprees and heavy investment into technical infrastructure. Global venture capital investment flows have remained healthy during COVID-19 as stakeholders have gone virtual or met remotely.

With a new annual record already set, the year's venture capital deal value with nontraditional investor participation charged on in Q3. The pandemic hit various sectors quite hard, but tech-based businesses traditionally linked to venture capital have demonstrated promising growth. Nontraditional sources have supplied plentiful capital to help new players disrupt existing industries with innovative technological developments. As governments look to rebuild economies post-COVID-19, we believe greater opportunities for nontraditional investors to enter the venture space will emerge.

Annual exit value continued to climb rapidly in Q3, even after it had already hit a record in Q2. Venture capital exit activity has been relentless in 2021, as highly valued venture-backed companies have fast-tracked exits to generate maximum value and outlier returns back to investors amid surging valuations. Large liquidity events for Europe's most valuable assets have characterised the continent's exit market in 2021. We expect exits to remain strong in Q4 2021 as stakeholders take advantage of conducive market conditions.

Venture fundraising in Europe is on pace to land alongside the figures of the past two years. Quality investment opportunities and strong return profiles for venture capital funds have enticed capital, as LPs and GPs have combined to increase capital flowing within the European venture ecosystem. Despite the COVID-19 pandemic dampening global macroeconomic outlooks and giving rise to stagflation in certain regions, dovish monetary policy and pandemic-driven growth for certain sectors linked to venture capital have boosted fundraising efforts.

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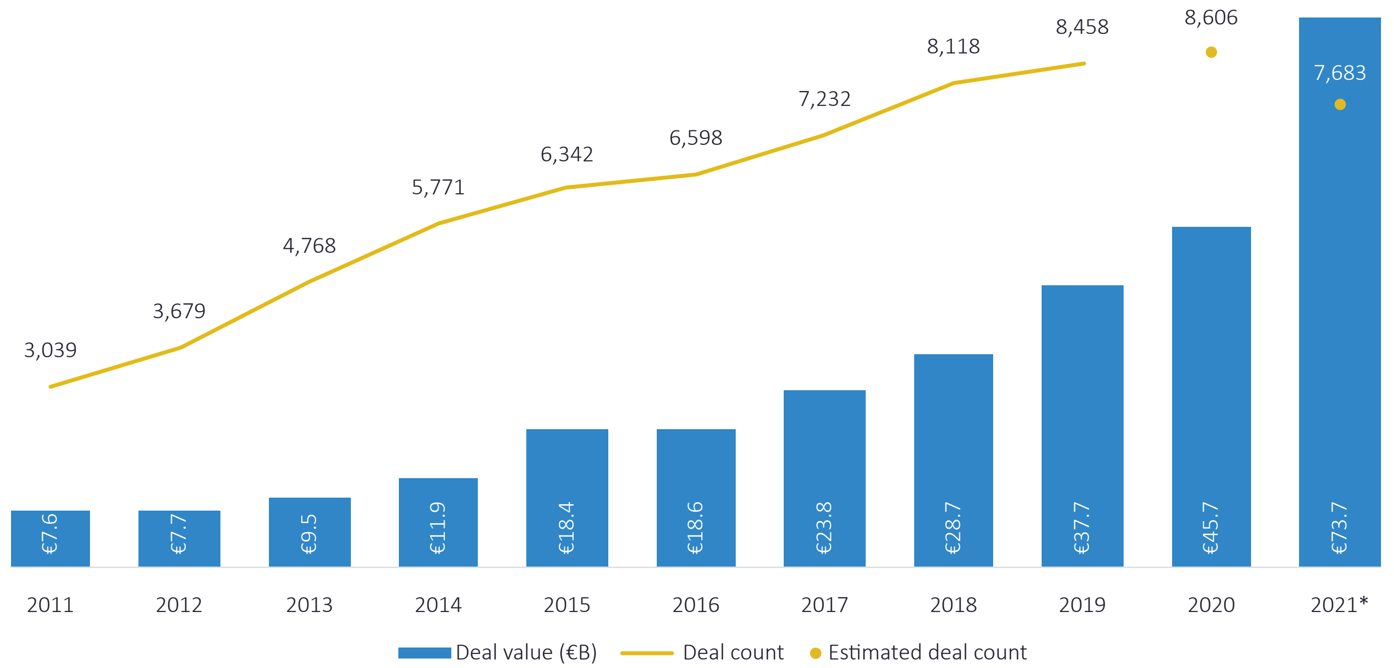
Overview

Venture capital deal activity



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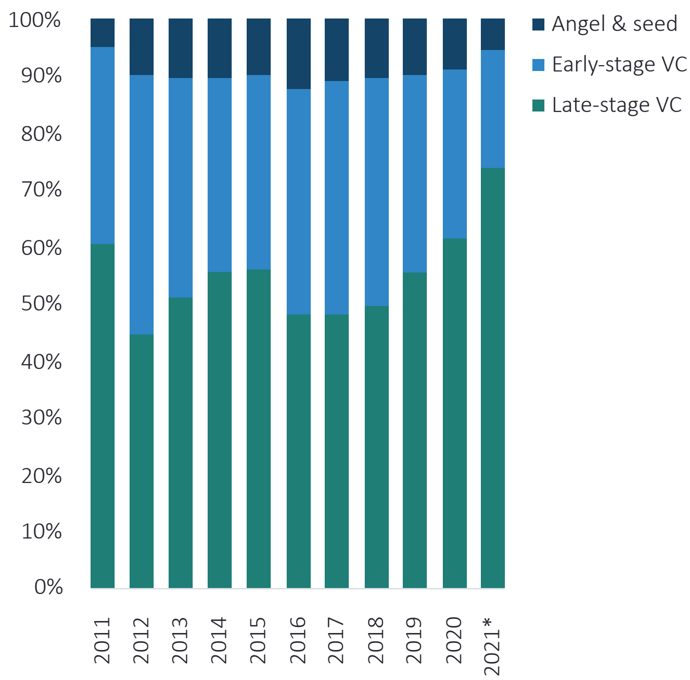
The unrelenting venture capital dealmaking pace in Europe during 2021 continued in Q3, as deal value reached €24.0 billion, the second-highest quarterly figure on record. The three largest-ever quarters for venture capital deal value have occurred in 2021, and the overall figure now stands at a remarkable record of €73.7 billion YTD. The quantity of closed venture deals through Q3 2021 is on pace with recent years and should surpass 8,000 by year's end, a feat that has been achieved during each of the past three years. At the start of 2021, given the uncertainty stemming from the pandemic, few foresaw the gargantuan capital flows into European venture capital that have already produced a record-breaking year. The robust capital flows throughout 2021 indicate that venture-backed companies have been able to develop resiliently amid widespread macroeconomic volatility.

Late-stage capital has continued to dominate dealmaking in Europe—accounting for €54.3 billion YTD, which is equivalent to a staggering 73.6% of overall venture capital deal value. COVID-19 has had little impact on late-stage dealmaking; it has even accelerated growth for the most-developed venture-backed companies in Europe. As industries have shifted online, established tech-based companies have been able to ride a wave of growth during

Venture capital deal value by stage



Source: PitchBook | **Geography:** Europe
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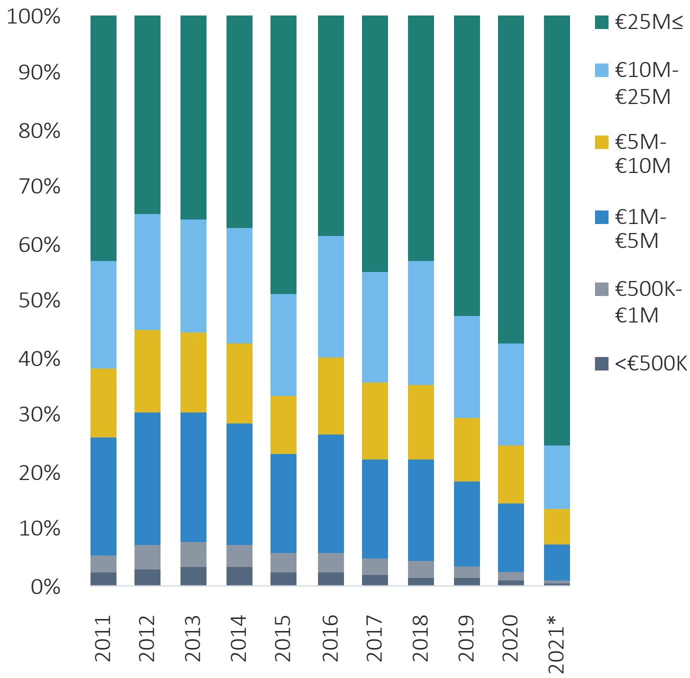
the past 18 months. With people spending greater amounts of time online—rather than commuting, entering offices, or visiting physical stores—tech companies have had more users, which has translated to increased monetisation potential. Late-stage investors have identified and backed venture-stage companies to ensure the companies are well equipped to scale rapidly and sustain the momentum shown during the pandemic. As has been the case throughout 2021, enormous late-stage rounds closed regularly in Q3 despite concerns linked to inflation and the unpredictable job market, combined with evolving travel restrictions and COVID-19 variants.

One of the largest rounds in Q3 2021 involved London-based financial services provider Revolut, which completed a €672.9 million financing at a monumental €27.8 billion post-money valuation. Co-led by Softbank Vision Fund II and Tiger Global Management, the deal saw Revolut's valuation increase 6x from its last funding roughly one year prior. Now among the growing group of "decacorns" (companies with valuations in excess of €10 billion) in Europe, Revolut is among the most valuable venture-backed companies to come out of the UK. Globally, deep-pocketed investors have been keen to back fintech companies this year, and Revolut's round in Q3 was the latest major financing in the subsector. Sweden-based Klarna closed a €1.1 billion round earlier in 2021, while US-based Stripe closed a round at a colossal €78.9 billion post-money valuation. Klarna offers a buy-now, pay-later service—a growing area of millennial money management within which Revolut and other fintech players such as Monzo and Curve have launched offerings in recent months.

Outsized deals above €500 million are becoming increasingly common as venture-backed companies seek capital to meet ambitious growth targets via hiring sprees and heavy investment into technical infrastructure. In Q3, a group of large deals closed, thus enabling late-stage companies to expand their cash runways. On pace to set a record, deals over €25 million have produced 75.5% of overall European VC deal value in 2021 through Q3. One notable deal belonged to Estonia-based micromobility provider Bolt, which closed a €600.0 million round at a €4.0 billion post-money valuation. Bolt is one of the most highly valued companies to emerge from Estonia, which possesses an exciting ecosystem garnering global interest, as explored in our recent analyst note.

Venture capital deal value by size



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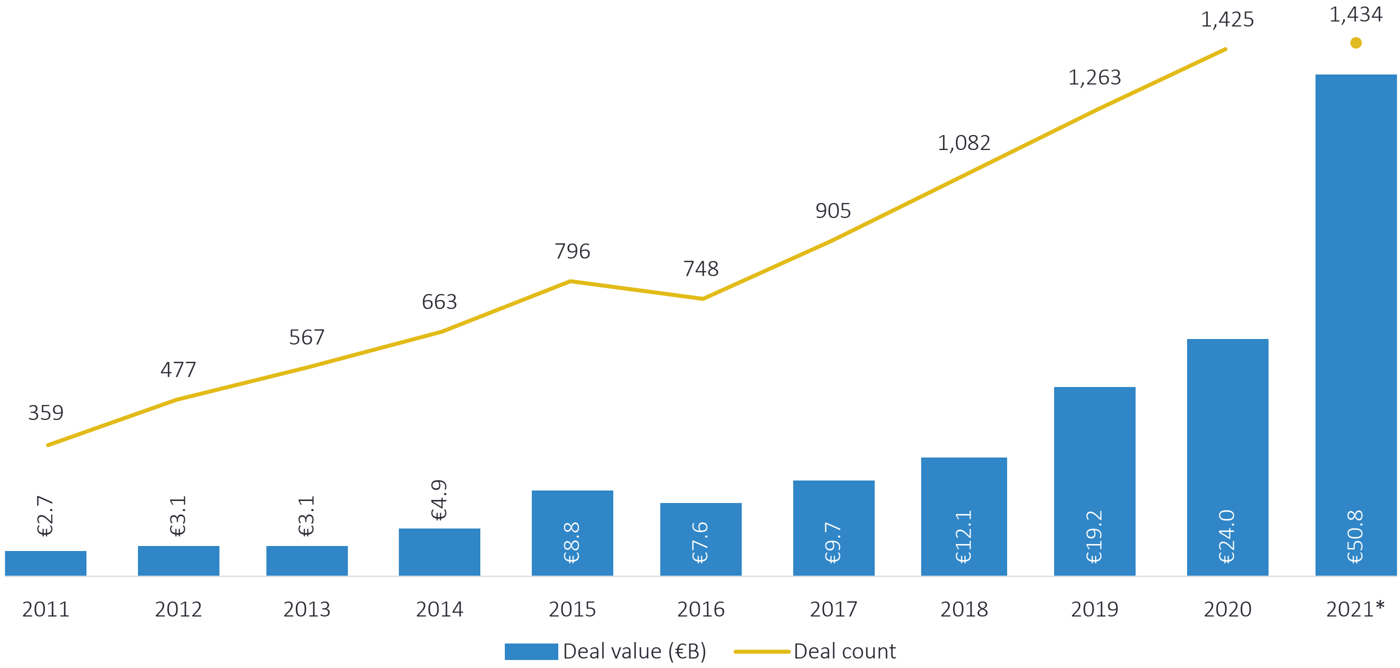
Global venture capital investment flows have remained healthy during the COVID-19 pandemic as stakeholders have negotiated travel restrictions by telecommuting or going virtual. Although there was initial apprehension about a lack of face-to-face meetings at the outset of COVID-19, cross-border deal value figures indicate no lack of appetite to invest in overseas businesses—even if challenges remain surrounding office visits or meeting founders in person. For example, European venture capital deal value with US investor participation has already hit a new annual record of €50.8 billion through Q3 2021. Further, a record 21.2% of all deals in Europe YTD have had some form of US investor on board. The US typically possesses the world's most expensive and developed venture ecosystem. US investors have shown keen interest in backing startups with new ideas in emerging venture capital ecosystems that are potentially less costly. Notably, in Q3, online supermarket Picnic received €600.0 million from the Bill & Melinda Gates Foundation. The funds will enable Picnic to invest in automated fulfilment centres and electric vehicles (EVs) to help with its sustainability emphasis that includes delivering groceries with EVs and avoiding food waste.

Venture capital deal activity with US investor participation



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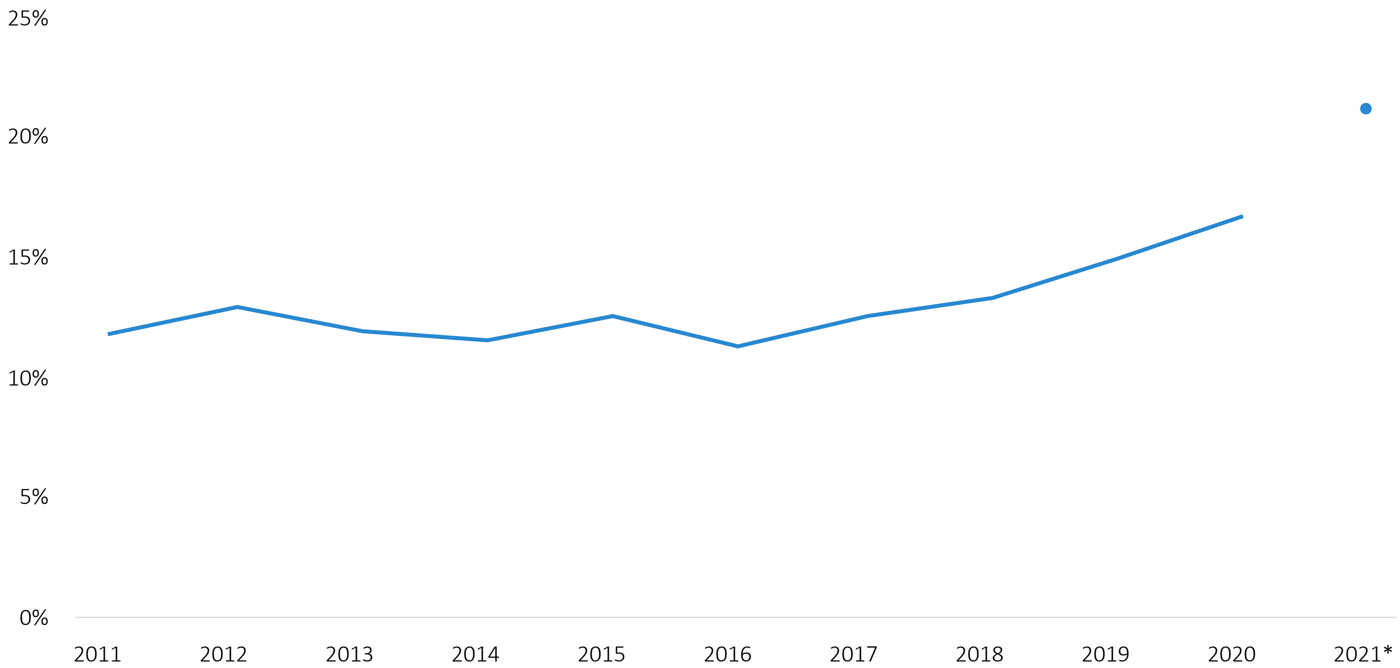
Share of venture capital deal count with US investor participation



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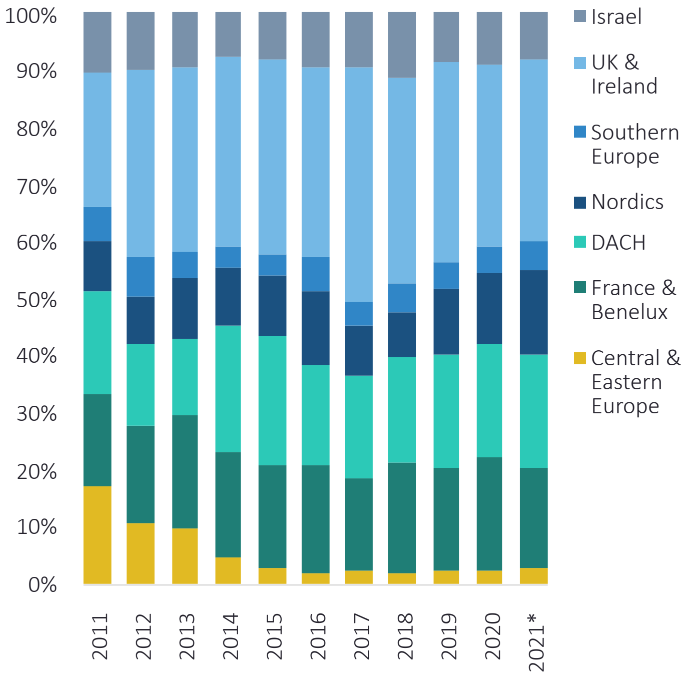
Venture capital deals by region and sector

Venture capital deal value by region



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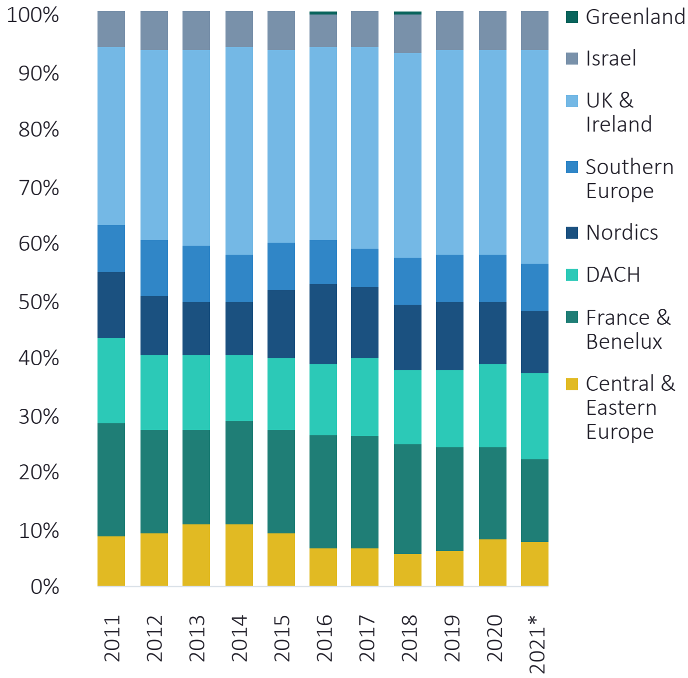
Venture capital deal count by region



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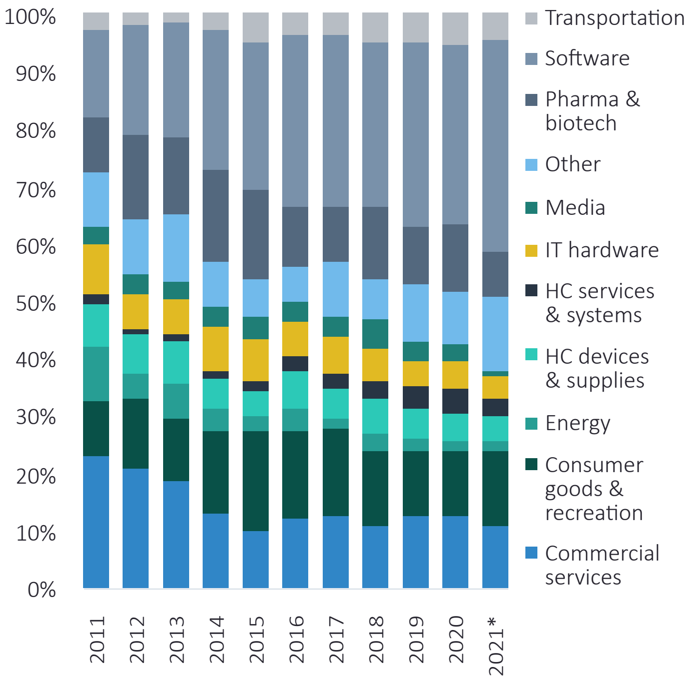
Venture capital deal value by sector



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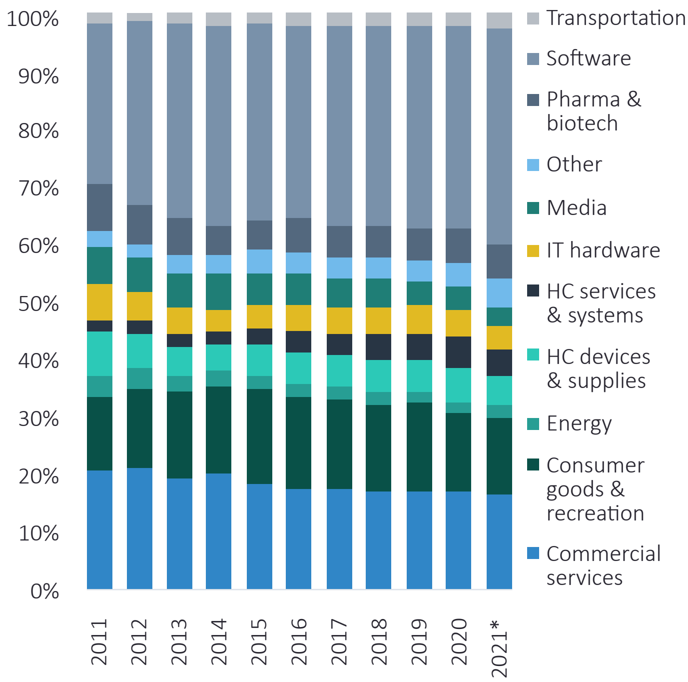
Venture capital deal count by sector



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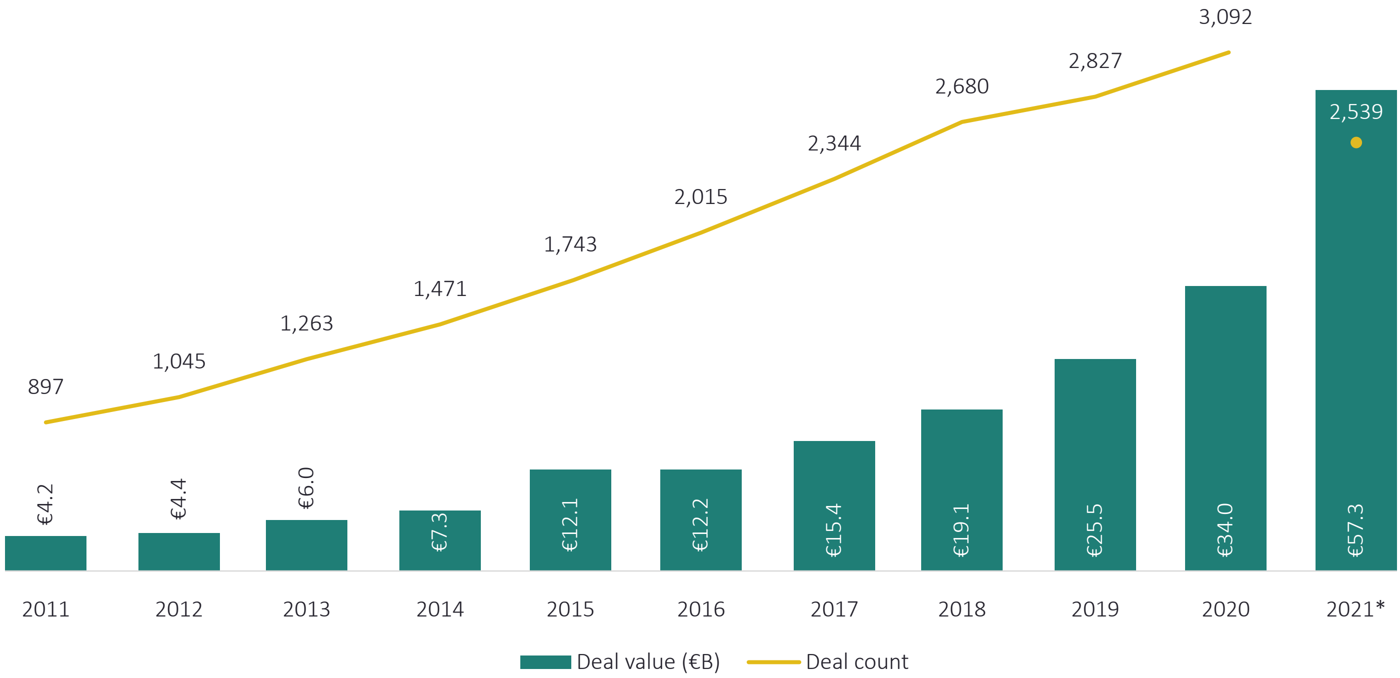
Nontraditional investors

Venture capital deal activity with nontraditional investor participation



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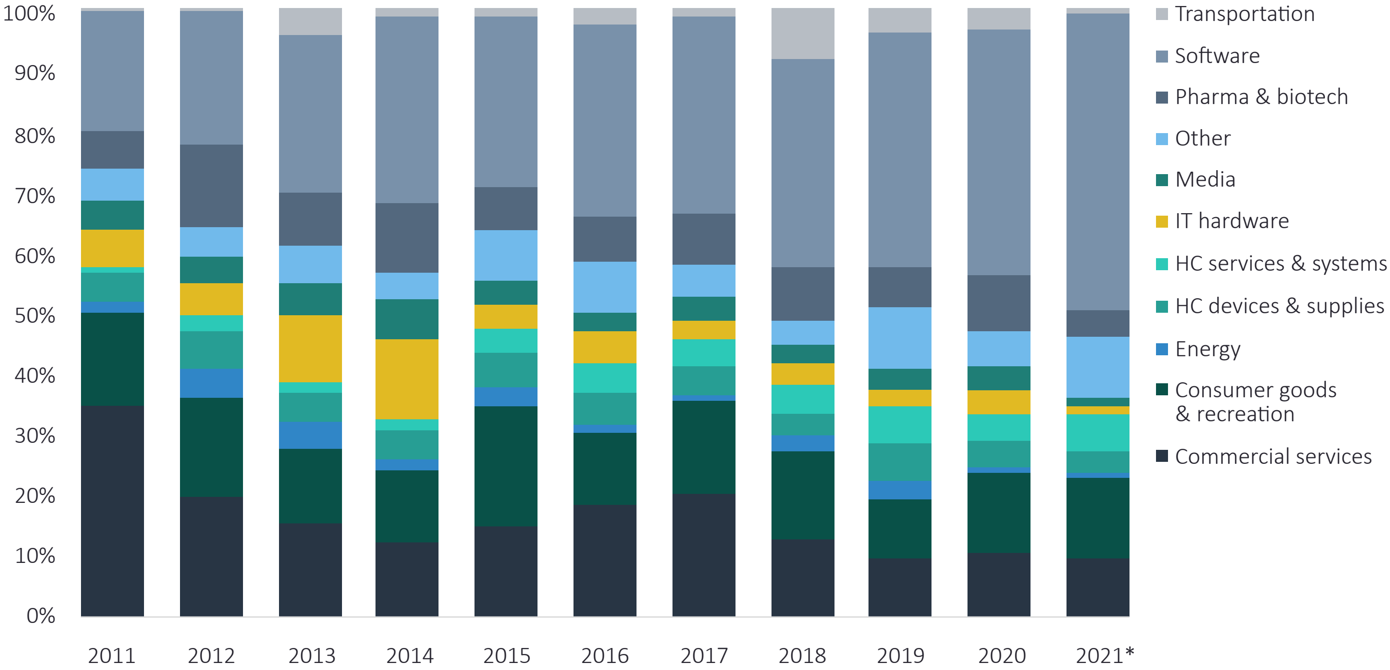
Nontraditional investors, including financial institutions such as investment banks, private equity firms, hedge funds, pension funds, sovereign wealth funds, and corporate venture capital (CVC) arms, have increased capital spending in European venture capital during the past decade. With a new annual record already set, the year's venture capital deal value with nontraditional investor participation finished Q3 at €57.3 billion. 2021's astonishing pace leads us to expect capital deployment from nontraditional investors will rise further as they pursue high-growth strategies that can provide outlier returns. Various sectors have been stymied by the pandemic, but tech-based businesses traditionally linked to venture capital have shown promising growth and resilience. As a result, capital from nontraditional sources has been plentiful, thereby helping new players disrupt existing industries with innovative technological developments. As governments look to rebuild economies post-COVID-19, we believe greater opportunities for nontraditional investors to enter the venture space will emerge, as evidenced by the UK government's recent move to back more tech companies, overhaul competition rules, and issue new tech visas.[1]

In August, London-based virtual event platform Hopin completed a €380.5 million round at a €6.6 billion post-money valuation, which was among the largest European deals of Q3. The round was strewn with nontraditional investors all competing to invest in one of Europe's fastest-growing companies. The latest funding also indicates investors are confident that virtual events will endure even as in-person events resume in Europe, as the step-ups in Hopin's valuation since its 2018 founding have been noteworthy. Nontraditional participants included CVC arms Salesforce Ventures and Slack Fund, thus further illustrating the appeal of integration via synergies for investors and startups looking to grow user bases. Investment from nontraditional sources can often lead to integration between platforms, thereby providing a more complete service to customers while also enabling startups to tap into wider audiences through business networks. As daily routines and working have evolved during the pandemic, we believe modern, efficient, and integrated workplace software solutions will be a core growth area over the next decade as we grow accustomed to living with COVID-19.

1: "UK To Take Start-Up Stakes in Wider Push to Promote Tech Sector," *Financial Times*, Daniel Thomas & Jim Pickard, July 16, 2021.

Venture capital deal value with nontraditional investor participation by sector



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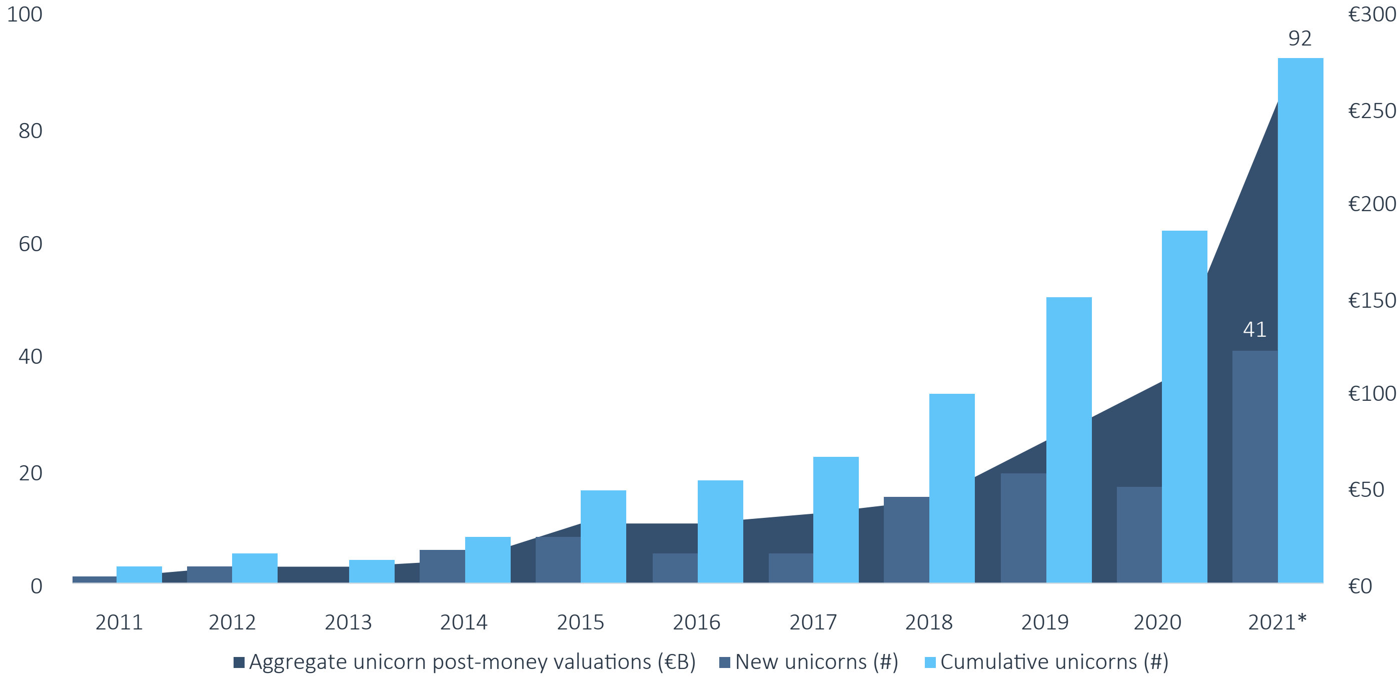
The pandemic has also accelerated online shopping. Nowadays, virtually every consumer good is purchasable online, which has led nontraditional investors to enter the e-commerce industry as new players emerge. Previously, items including furniture, cars, and clothes were viewed in person before being bought, and regional sales were dictated by stock. Now, items reside in warehouses or fulfilment centres and can be easily and quickly ordered, delivered, returned, or exchanged, thus leading to increased online revenues and high street composition shifting towards accommodation, socialising, or experiences. Online do-it-yourself (DIY), home, and gardening retailer ManoMano's €296.1 million round in Q3 typifies this trend, as nontraditional investors and consumers have increased their exposure to e-commerce.

Spotlight: Unicorns defining the new norm

Unicorn count and aggregate post-money valuations



Source: PitchBook | **Geography:** Europe
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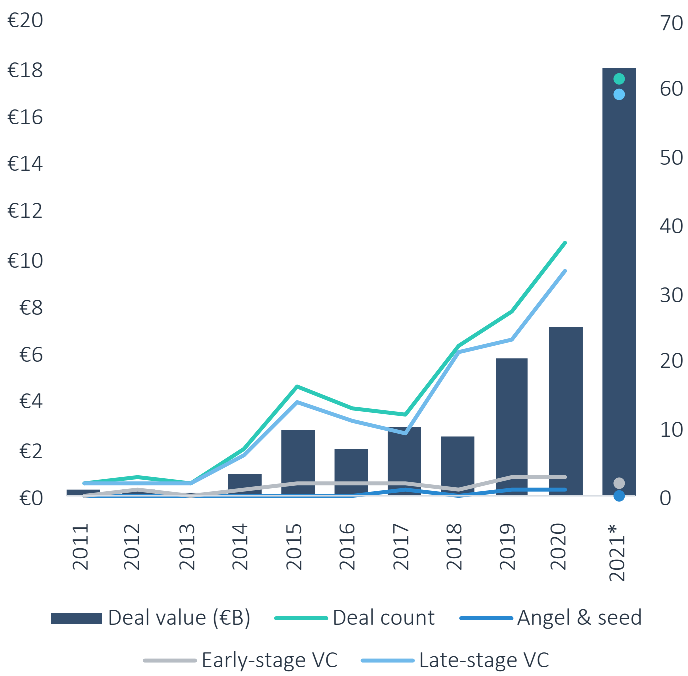
This analysis was originally featured in our Unicorns Defining the New Norm analyst note.

In H1 2021, the European venture capital ecosystem broke several annual records as venture deal value, exit value, and the aggregate valuation of unicorns in Europe smashed previous bests. The influx of capital into venture rounds, married with the outflow of capital produced by exits, has been remarkable. Alongside the record flow of capital into the European ecosystem, valuations across each financing stage and quartile have been pacing to set records in H1 2021. The rapid rise of Europe-based unicorns has been a major force behind tumbling records in H1 2021. Historically, unicorn status was accorded to a select few companies in Europe that had managed to develop strongly within the private capital markets. However, expanding deal sizes, fund sizes, and investor breadth have redefined European venture capital in recent years, and, as a result, unicorns have emerged en masse.

Unicorn deal activity by stage



Source: PitchBook | **Geography:** Europe
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Key takeaways

- Since 2018, cumulative unicorn numbers in Europe have roughly tripled, and the aggregate value has increased sixfold. In H1 2021, the aggregate value of unicorns swelled to €253.3 billion, as €17.9 billion in deal value was notched across a record 61 deals. In Q2, deal sizes across all financing stages and quartiles were up and to the right. As more capital has entered venture capital, larger rounds have been completed, especially at the late stage, wherein unicorns typically close deals.

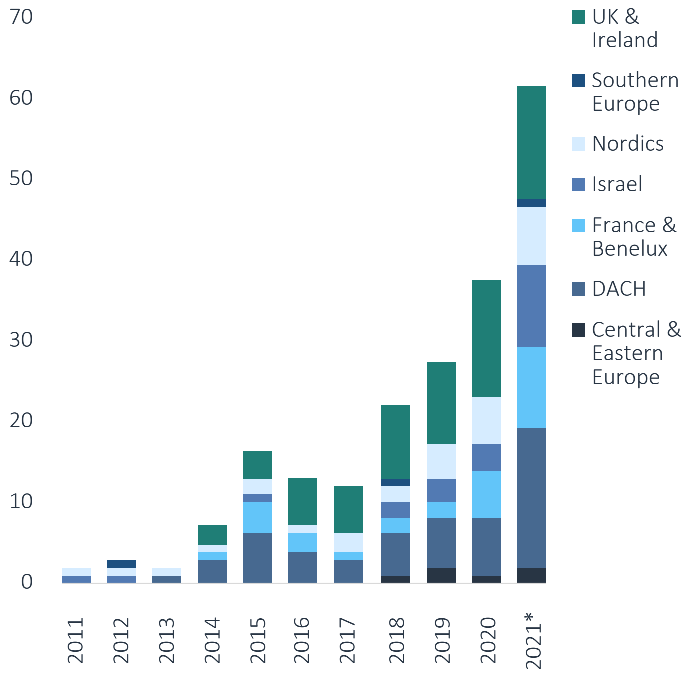
- Nontraditional investors, including financial institutions such as private equity firms, hedge funds, investment banks, and CVC investors, have increased their exposure to venture capital. Unicorn rounds have felt their presence most strongly. We believe nontraditional investment has been driving both the emergence of unicorns and shattering European records.

- The UK, France, and Germany have been Europe's main unicorn-producing nations. However, unicorns are also appearing in emerging ecosystems. In terms of size and wide-ranging investor participation, European unicorn venture capital funding rounds are becoming more similar to US venture rounds, and this has boosted awareness of European unicorns.

- A healthy unicorn market enables more capital to trickle down into the ecosystem and accelerate the maturation of venture capital clusters. Successful founders often become serial founders or investors, and their early employees can often be either hired to help startups grow or move into venture-related roles such as LPs or GPs. Employee shareholder schemes, which are unique to venture-backed companies, can spread capital across venture networks and aid further investment.

- Private market opacity has caused stakeholders in venture capital to question claims of enormous valuation step-ups during funding rounds. Unicorns' financial statements are not subject to the quarterly scrutiny faced by publicly listed companies, so estimations and rounding up can lead to inflationary inaccuracies. Nonetheless, several European unicorns are valued among the largest companies in their respective global sectors and are riding the wave of increased enterprise value-to-sales ratios logged by fast-growing tech companies.

Unicorn deal count by region



Source: PitchBook | **Geography:** Europe
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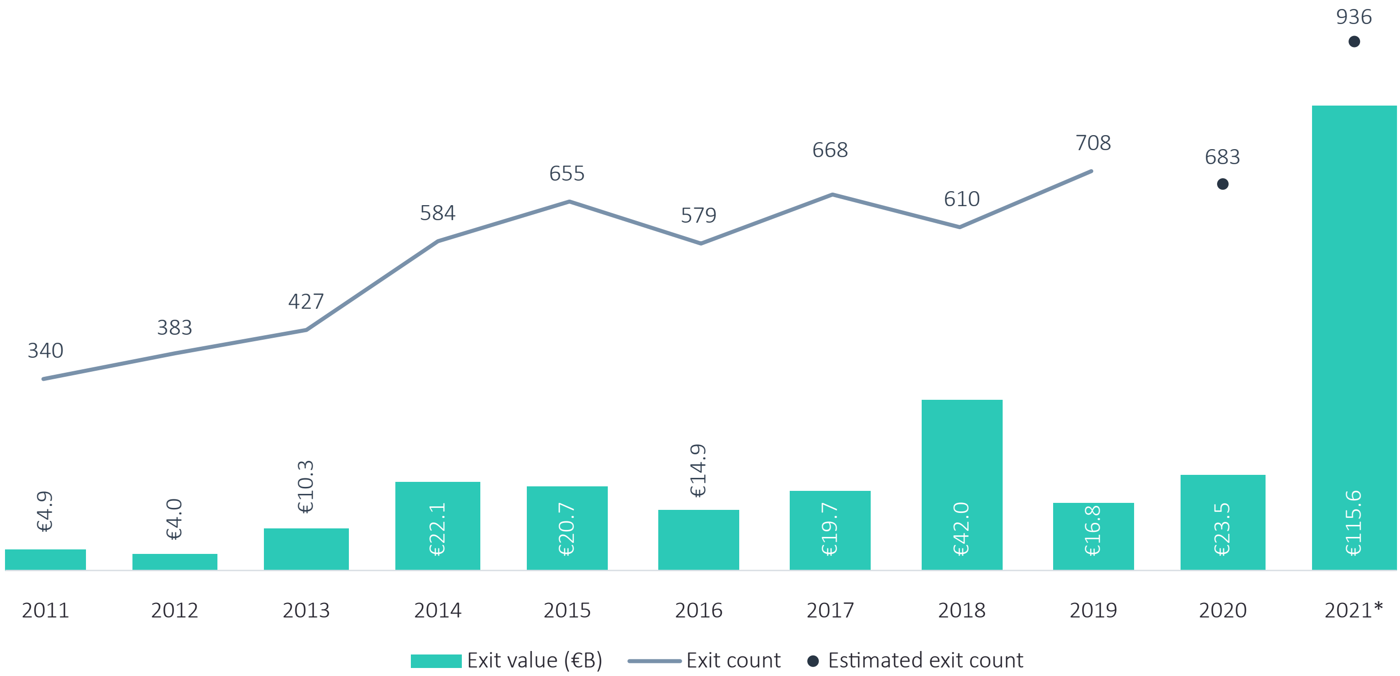
Exits

Venture capital exit activity

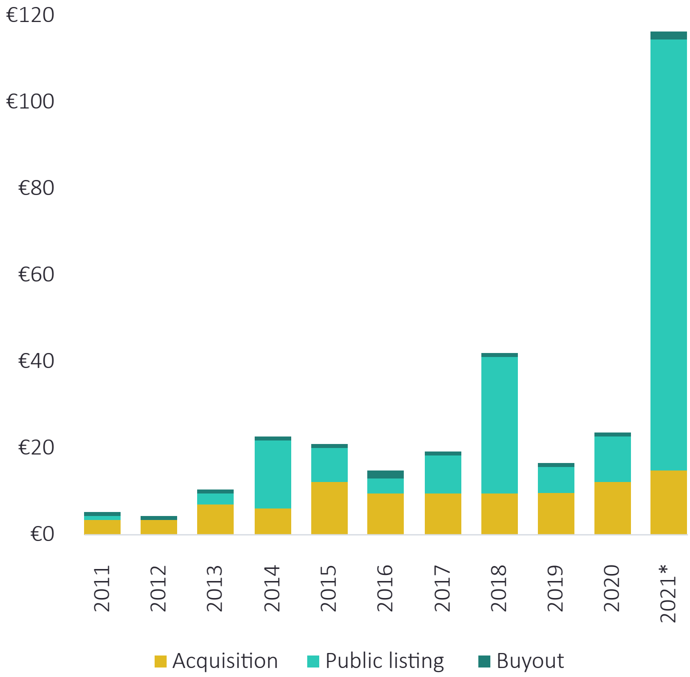


Source: PitchBook | **Geography:** Europe
*As of September 30, 2021

An astounding €115.6 billion in exit value was generated during the first three quarters of 2021. The previous annual best was surpassed in Q2. Venture capital exit activity has been relentless in 2021 as venture-backed companies, amid surging valuations, have fast-tracked exits to generate maximum value and outlier returns back to investors—as discussed in depth in our Global Fund Performance Report (as of Q4 2020 with preliminary Q1 2021 data). Large liquidity events for Europe's most valuable assets have characterised Europe's exit market in 2021, and we expect this to continue into Q4 as stakeholders take advantage of conducive market conditions.

Q3's largest exit was sports data and digital content provider Sportradar's (NASDAQ: SRAD) IPO at a €25.0 billion pre-money valuation. Sportradar had a special purpose acquisition company (SPAC) exit that fell through, yet it still persisted with an exit via an IPO. In recent years, data and technology have changed the sports industry—especially in sport science and commercial ventures for sports teams and leagues. Sportradar compiles data such as in-game statistics and shares it with media outlets and betting companies. Shifting legislation can create high-growth areas and help companies develop to eventually dominate new sectors. Already big in Europe, sports gambling has become an especially strong growth opportunity in the US after legalisation

Venture capital exit value (€B) by type



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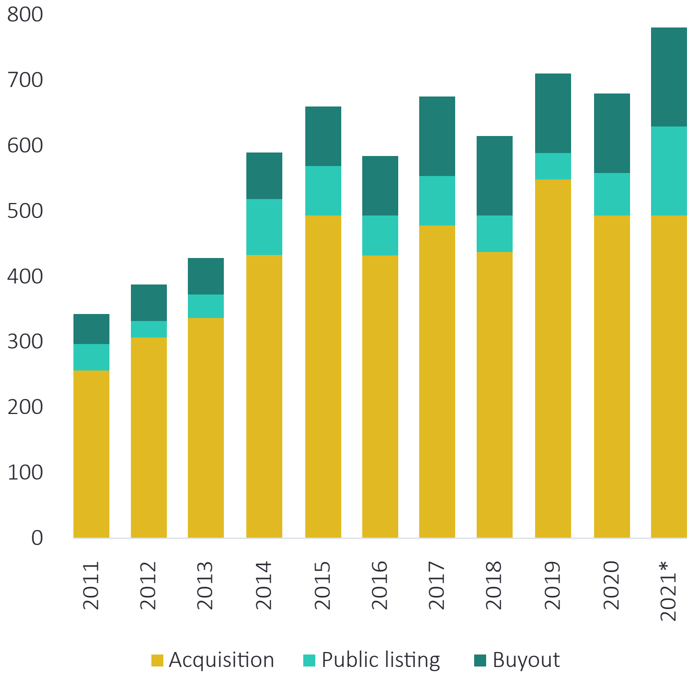
by the US Supreme Court in 2018. Currently sitting at 26 states and Washington, DC, if sports betting becomes operational in all 50 US states, the US market alone could exceed $19 billion annually.[2] According to a report from research firm Technavio, the value of the global sports gambling market is expected to expand by more than $140 billion between 2020 and 2025.[3]

2021 has exhibited volatility across wider financial markets, including public equities, as sectors such as energy, transportation, and tourism have been stymied. Record earnings for Big Tech companies despite the pandemic have helped the overall technology sector flourish, and venture-backed tech companies have been enticed to list to take advantage of pandemic-induced growth. Consequently, a glut of public listings, including IPOs, direct public offerings (DPOs), and reverse mergers via SPACs, have taken place in 2021. Through Q3, a record 135 public listings have produced a staggering €99.5 billion—over 3x larger than the next largest public listing exit value figure from 2018. Through Q3, public listings have produced 86.1% of the year's exit value, and we expect this domination to continue for the remainder of the year. As high-growth tech companies seek exit routes, competition between exchanges has intensified. Major European exchanges such as the Euronext Amsterdam have become popular European SPAC hubs. Meanwhile, the London Stock Exchange (LSE) has loosened listing rules, including the use of dual class share structures, to entice coveted European tech listings and compete with the popular US-based Nasdaq. Multiple exit options, including IPOs, DPOs, and SPACs, are now available to companies wanting to gain access to large-scale institutional investors, and there is no shortage of exchange options to facilitate investments.

Notable public listings during Q3 include the DPO of fintech company Wise (LON: WISE) at a €10.2 billion pre-money valuation, while online car retailer Cazoo (NYSE: CZOO) and electric vertical takeoff and landing (eVTOL) developer Lilium (NASDAQ: LILM) listed via SPACs, at pre-money valuations of €5.5 billion and €2.1 billion, respectively. Hotly anticipated for several years, Wise's exit was a coup for the LSE by becoming its largest-ever tech listing.[4] Cazoo and Lilium's decision to list via US-based SPACs signals that the exit route remains popular for fast-growing tech companies in Europe looking to raise awareness in new regions as they seek global expansion. Another notable public listing in Q3 was the IPO of sports brand On (NYSE: ONON) at an €11.9 billion pre-money valuation. On counts tennis superstar Roger Federer as an investor. Aiming to penetrate the lucrative US market that is home to some of the biggest sports brands, including Nike (NYSE: NIKE), On listed on the NYSE. By and large, sports brands have grown during the pandemic, and On's IPO was timed to take advantage of market conditions, as health and fitness have risen to the forefront of consumer attention.

Venture capital exit count by type



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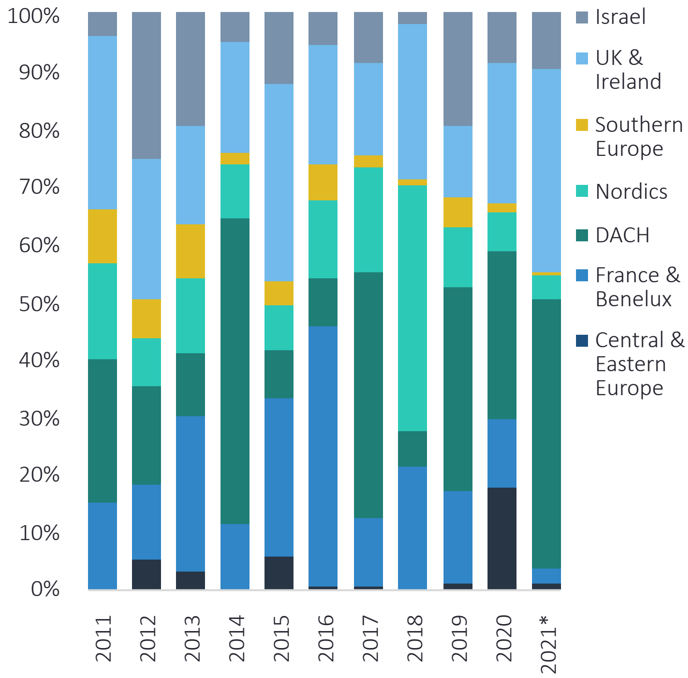
Venture capital exit value by region



Source: PitchBook | **Geography:** Europe
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2: "IPO of Sports Data Giant Sportradar Likely To Mint New Billionaire," *Forbes*, Justin Birnbaum, September 9, 2021.
3: "Global Sports Betting Market Size Is Expected To Grow by $144 Billion by 2025," PR Newswire, Financial News Media, September 9, 2021.
4: "Wise Valued at $11 Billion in Record London Direct Listing," *Reuters*, Abhinav Ramnarayan & Thyagaraju Adinarayan, July 7, 2021.

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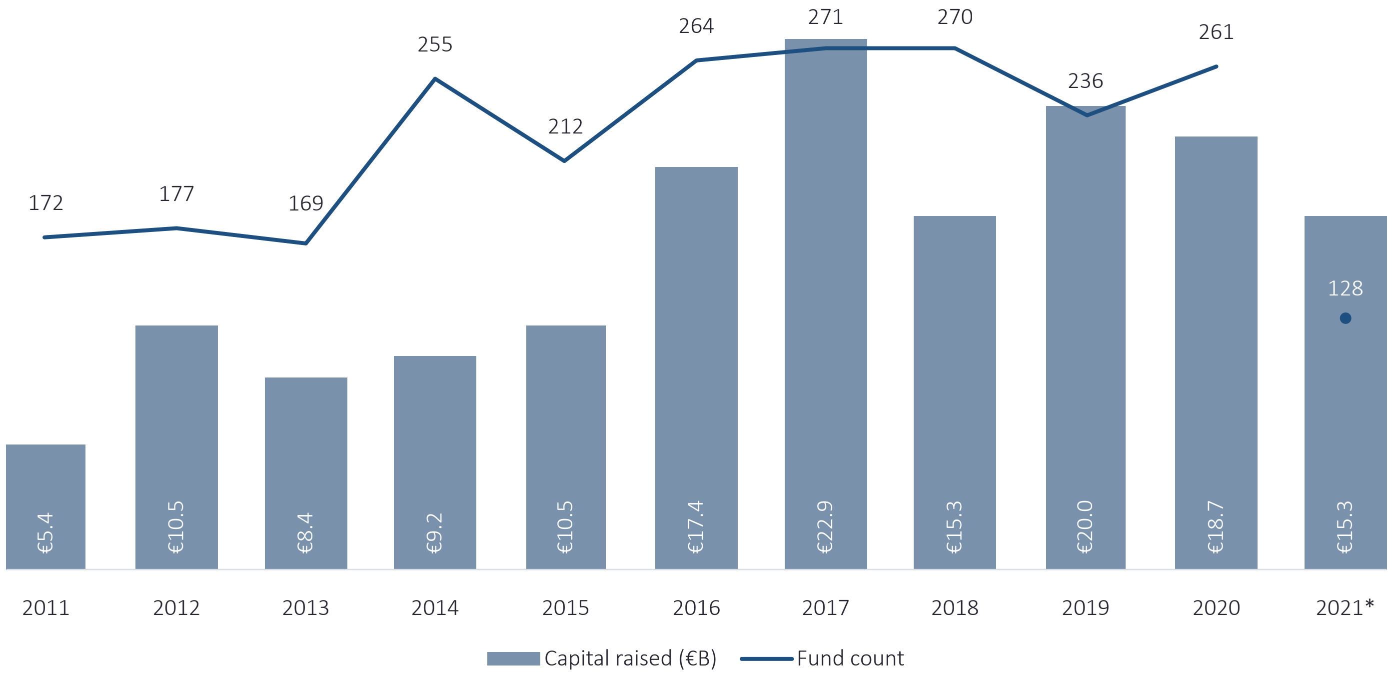
Fundraising

Venture capital fundraising activity



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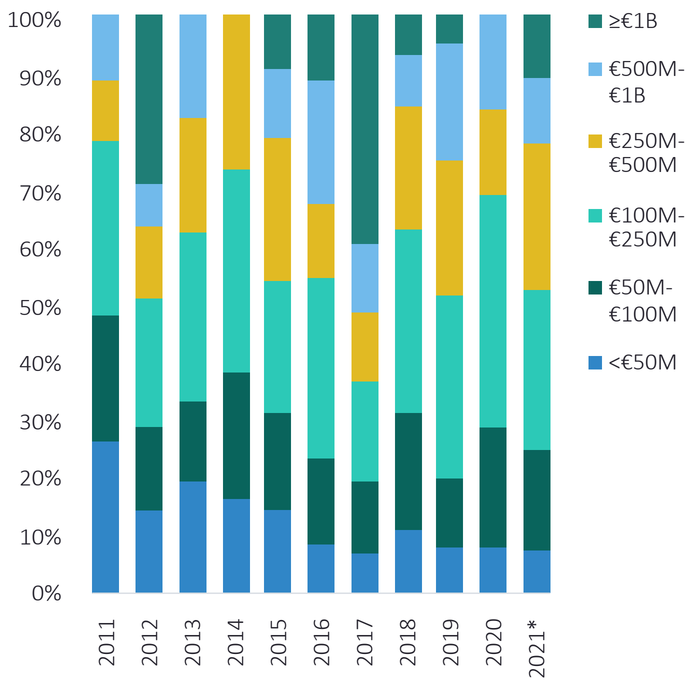
European venture capital funds raised €15.3 billion through Q3 YTD—on pace to arrive at €20.0 billion by year's end, which aligns with figures from the past four years. Meanwhile, 128 venture funds have closed in 2021 so far, and, if the current pace continues, we could see the lowest annual fund count since 2013. The strong capital inflows into venture capital vehicles of the past five years have led to steady and stable fundraising totals. Quality investment opportunities and strong return profiles exhibited by venture funds have drawn capital as LPs and GPs have merged to boost capital deployment within the European venture capital ecosystem. Despite the pandemic dampening global macroeconomic outlooks and giving rise to stagflation in certain regions, dovish monetary policy and COVID-19-driven growth in certain sectors linked to venture capital have helped fundraising efforts.

In Q3 2021, Index Ventures closed a €1.7 billion ($2 billion) growth-stage fund—making it one of Europe's largest venture funds ever. Index Ventures counts itself among the major European venture capital GPs, having invested in established companies such as Adyen (AMS: ADYEN), Farfetch (NYSE: FTCH), Deliveroo (LON: ROO), Wise, and Revolut. However, Index Ventures' latest fund further highlights the ways

Venture capital raised by size



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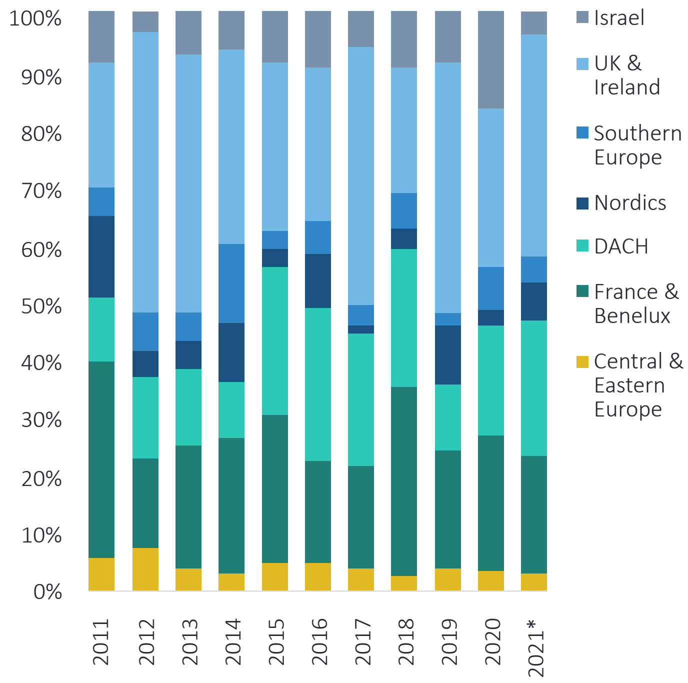
fund sizes and subsequent funding rounds and exits have matured in the European venture ecosystem. The influx of capital into larger venture capital funds across the globe is staggering, with household names such as Accel and Andreessen Horowitz also closing substantial funds in 2021. LP capital commitments have accelerated during the pandemic, and we expect the unprecedented rate to continue into 2022 as GPs close larger funds and compete to participate in the best deals.

As fund sizes have trended upwards, increasingly larger funds are closing across the board. One of the largest funds to close in Q3 was biotech and life sciences fund Jeito I, at €534.0 million. Already among the largest venture capital vehicles dedicated to life sciences in Europe, Paris-based Jeito I is Jeito Capital's first fund. LPs included the European Investment Fund, France-based healthcare company Sanofi (PAR: SAN), US-based pension fund Teacher Retirement System of Texas, and Singapore-based Temasek Holdings. The diversity of LPs, combined with the fund's oversubscription, illustrates the strong commitment appetite. During COVID-19, the biotech & pharma industry has drawn considerable attention. The importance of vaccination research and healthcare solutions has been highlighted, as we hopefully will soon emerge from the worst of the pandemic. We believe investment levels will remain strong in the sector as stakeholders look at new fields, re-engineer existing healthcare systems, and work to prevent future catastrophic events.

Through Q3, venture capital funds based in the UK & Ireland raised €5.9 billion YTD, which is 38.4% of the total across Europe. Despite Brexit, the UK & Ireland has remained Europe's core venture ecosystem as, continually, large funds close and high-quality startups emerge, attract capital, and develop strong valuations. One noteworthy fundraise during Q3 was London-based venture-backed fintech company Rapyd's launch of its venture capital arm, Rapyd Ventures. Venture-backed companies with the resources and capabilities to launch their own venture capital arms targeting new companies within their niches embodies the evolution of venture investing. For companies looking to grow, capital is utilised not only to support market expansion but also as a tool to conduct strategic acquisitions. As venture-backed companies grow larger, we believe additional venture capital arms from venture-backed companies could be created to perform acquisition sprees to increase inorganic growth of businesses.

Venture capital raised by region



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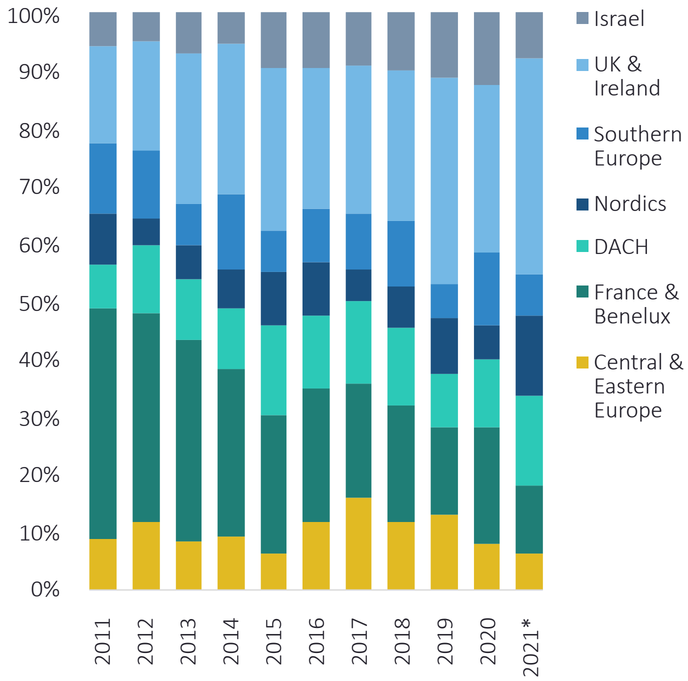
Venture capital fund count by region



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