PitchBook

Q1 2022

EUROPEAN

Venture Report

Contents

PitchBook Data, Inc.

John Gabbert Founder, CEO

Nizar Tarhuni Senior Director, Institutional Research & Editorial

Dylan Cox, CFA Head of Private Markets Research

Institutional Research Group

Analysis

Nalin Patel
Senior Analyst, EMEA Private Capital
nalin.patel@pitchbook.com

Data

Charlie Farber
Data Analyst

pbinstitutionalresearch@pitchbook.com

Publishing

Designed by **Chloe Ladwig**

Cover designed by **Drew Sanders**

Published on April 20, 2022

Click here for PitchBook's report methodologies.

Introduction

European VC deal value started 2022 with strong momentum from the bumper showing in 2021. Despite interest rate hikes to combat inflationary pressures, uncertainty caused by the invasion of Ukraine, and economic effects of the pandemic, VC dealmaking has remained buoyant. Late-stage VC-backed companies developed valuations and closed rounds despite public tech stock sell-offs earlier in Q1. New waves of fintech companies are developing impressively across European ecosystems, with many receiving significant backing in Q1.

In Q1 2022, VC deal value with nontraditional investor involvement was on pace with 2021's annual record. VC has developed into a major area for financial institutions in Europe over the past five years, and we expect a continuation of this trend as capital flows increase, high-profile exits take place, and awareness for the asset class grows on the continent. Deep synergies, strategic partnerships, and access to vast networks have helped portfolio companies and underlying corporate investors protect revenue streams from future volatility and drive growth in new areas.

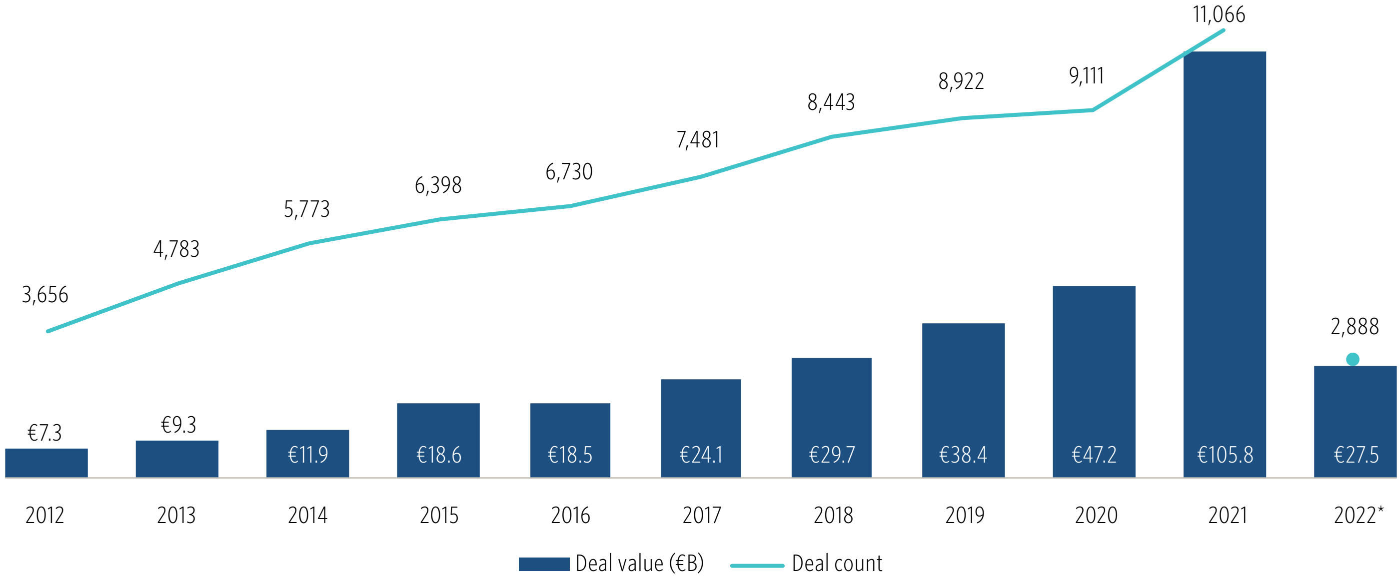
European exit value fell drastically in Q1 2022 from the highs of 2021. Markets have entered correction territory, and the exit market has been sluggish so far in 2022 amid a tech public equity sell-off in Q1. Unrelenting inflationary pressure due to supply chain issues, trade tensions, and tight labour markets have resulted in increased interest rates in major economies, adding to a challenging public equity market backdrop. Exit flow has been hampered as operators and investors embrace a wait-and-see approach rather than risk an exit that could prove costly and negatively impact the valuation of a portfolio company.

European VC fundraising got off to a solid start in 2022. Capital raised in Q1 was in line with the pace set in recent yearly figures. Healthy capital commitments for agnostic and specialist venture GPs have led to the creation of larger funds in the European ecosystem, with backers writing bigger cheques for startup funding rounds. Competition to participate in the best VC deals in search of outlier returns—and to commit to funds managed by the GPs with prestigious track records—has also enabled capital to enter the venture strategy.

PitchBook

Overview

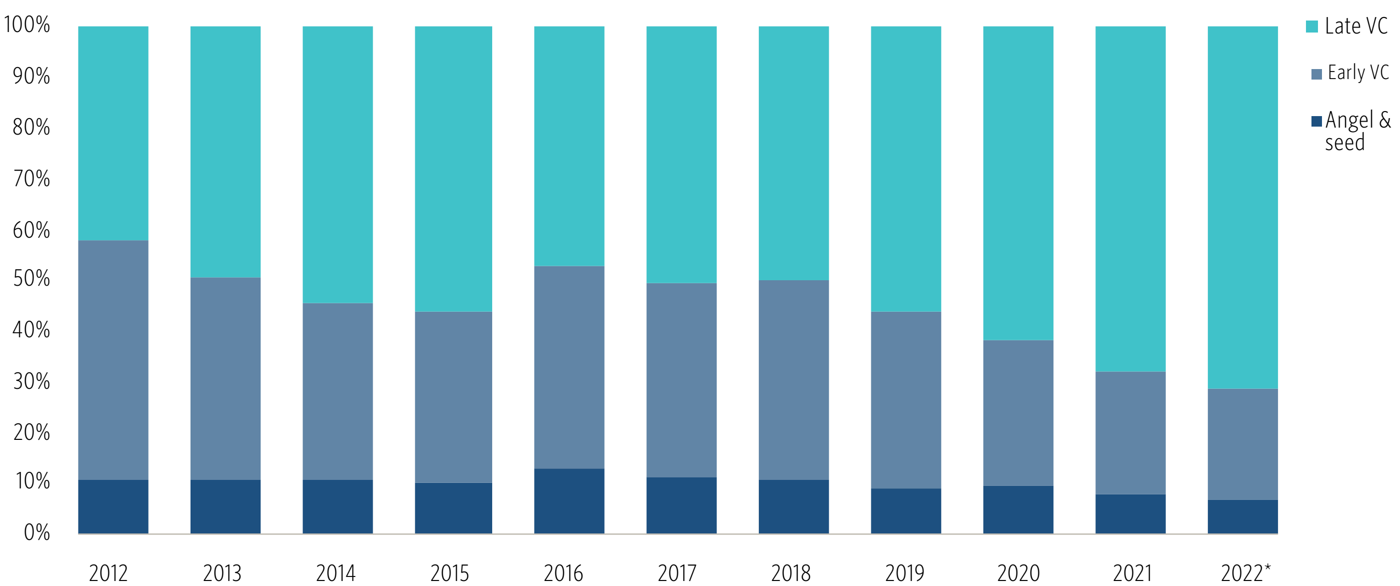
VC deal activity



Source: PitchBook | Geography: Europe
*As of March 31, 2022

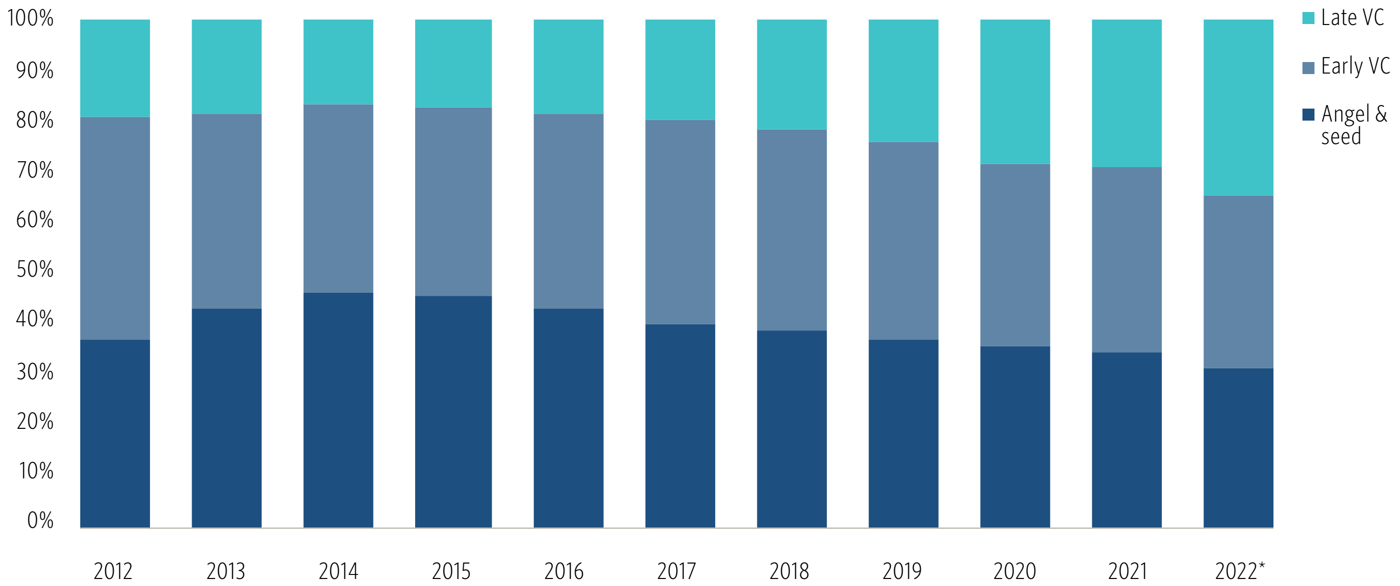
European VC deal value reached €27.5 billion in Q1 2022, and investment levels remained elevated after the bumper showing in 2021. Over €100 billion was invested into Europe-based companies in 2021, and at the current pace in 2022, we could see that figure repeated for the second consecutive year. Capital deployment within the European VC ecosystem swelled considerably in 2021, as investors and entrepreneurs capitalised on pandemic-induced growth stemming from the heightened digitisation of economies. Despite interest rate hikes to combat inflationary pressure, VC dealmaking stayed buoyant in Q1. However, as the economic effects of the pandemic emerge and the cost of living surges across Europe—and as the invasion of Ukraine continues to cause uncertainty—2022 could be

Share of VC deal value by stage



Source: PitchBook | Geography: Europe
*As of March 31, 2022

Share of VC deal count by stage

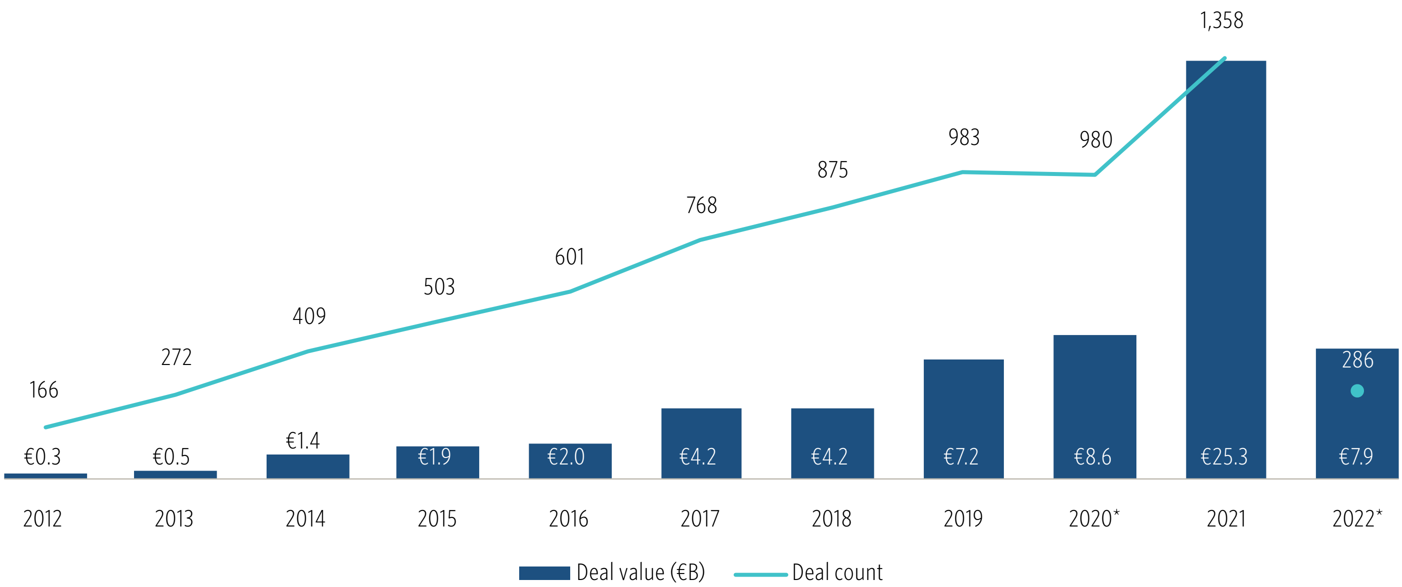


Source: PitchBook | **Geography:** Europe
*As of March 31, 2022

a challenging year for companies and individuals across Europe.

Late-stage VC continued to underpin deal value figures across Europe in Q1 2022, with €19.7 billion in investment occurring at the late stage, equivalent to 71.6% of the aggregate total. Late-stage capital infusions have developed strongly in recent years as regional ecosystems have matured and attracted investment from a range of wealthy international and nontraditional backers. Broadly speaking, late-stage companies developed impressively during the pandemic as VC activity surged to new heights in 2021. Application-based companies disrupting industries such as food delivery, retail, financial services, and healthcare capitalised on technological shifts in spending, improved data-capture tools, and changing consumer behaviours. With hopefully the worst of the COVID-19 pandemic behind us, attention has shifted to the lasting impacts on economies and how governments intend to pay for the stimulus measures implemented during the past two years. As a result, we could see investment levels in high-risk strategies, such as VC, flatten and potentially decline

Fintech VC deal activity



Source: PitchBook | **Geography:** Europe
*As of March 31, 2022

from their record highs. Moreover, record inflation rates have begun to stifle economies in Europe and could prove a challenging obstacle for businesses and consumers looking to grow. Interest rates have risen in the US and UK to combat inflation and could rise further; this could ultimately end the availability of cheap capital that has been ever-present in the industry for several years.

After a record-breaking 2021, deal value continued strongly in Q1 2022 with a collection of major deals for highly valued VC-backed companies. Despite widespread public market tech sell-offs and increased scrutiny on lofty private market valuations, VC-backed companies closed rounds and developed their valuations in the quarter. For example, London-based fintech giant Checkout.com completed a €883.8 million round at a €34.5 billion pre-money valuation in Q1. Checkout.com is among the most valuable VC-backed companies founded in London, and its position as a leading payment specialist in Europe has strengthened, akin to Stripe in the US. Fintech has emerged as a core VC subsector in Europe as several successful VC-backed companies have tackled longstanding challenges to streamline financial services. Companies including Wise (LON: WISE)—which simplifies cross-border payments and exited in 2021—and a selection of challenger banks, including Revolut, Monzo, and Starling Bank, have targeted millennials for several years with slick apps and generous perks to entice them away from established financial institutions for payments, savings, and investments.

New waves of fintech companies are developing impressively across European ecosystems, and many received significant backing in Q1. We are now seeing healthy capital flows into businesses competing in popular subsectors in emerging VC clusters. Notable companies include France-based business account supplier Qonto, which secured €486.0 million at a €3.9 billion pre-money valuation; Italy-based buy-now-pay-later provider Scalapay, which received €438.9 million at a €695.0 million pre-money valuation; and Denmark-based bank Lunar, which completed a €280.0 million round at a €1.7 billion pre-money valuation. The EU passporting rights enabling regulated entities to scale rapidly and the increasing power of "platformification" of financial services across Europe has led to opportunities in e-commerce, banking, cryptocurrencies, blockchain, foreign exchange, and investing. We believe fintech will remain a core component of the evolving European VC ecosystem as competing businesses increasingly use machine learning (ML), artificial intelligence (AI), and proprietary technology to improve products and services for customer bases.

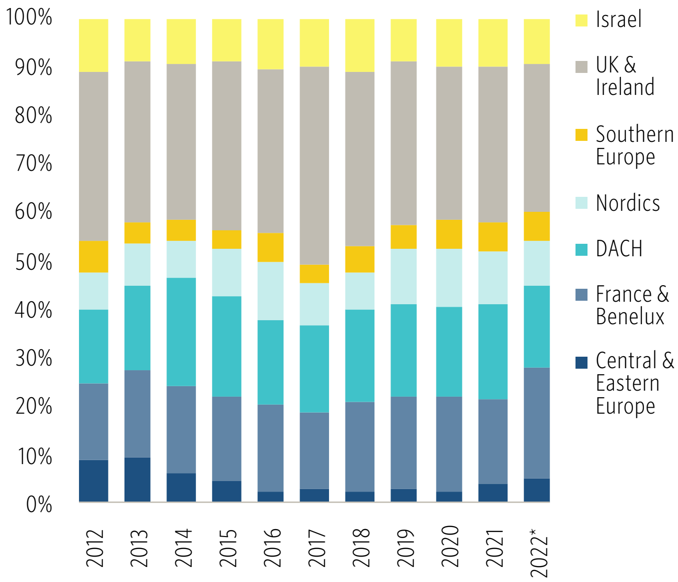
Regionally, the UK & Ireland led the way in terms of deal value in Q1 2022 with €8.4 billion, equivalent to 30.7% of the European total. Mature ecosystems in the France & Benelux nations and DACH region produced typically strong deal value figures in Q1 at €6.3 billion and €4.8 billion, respectively. The war in Ukraine has cast a shadow across Europe, with tensions between Russia and NATO nations at an all-time high. Global attention is fixated on Ukraine; companies have suspended operations in Russia, sanctions have been placed on entities tied to Vladimir Putin, and assets of Russian oligarchs based abroad have been seized.

While the Central & Eastern Europe (CEE) region only contributed 4.5% of the aggregate total in Q1 with €1.2 billion, strained relations will hinder long-term growth and investments that rely on globalisation and free-flowing borders in Europe. We expect global financial markets to remain volatile as the conflict in Ukraine continues and as governments apply retaliatory economic measures. Although VC is relatively insulated from public market shocks, tighter fiscal policy and poor macroeconomic performance will reduce investors' risk appetite and hinder investment flows.

PitchBook

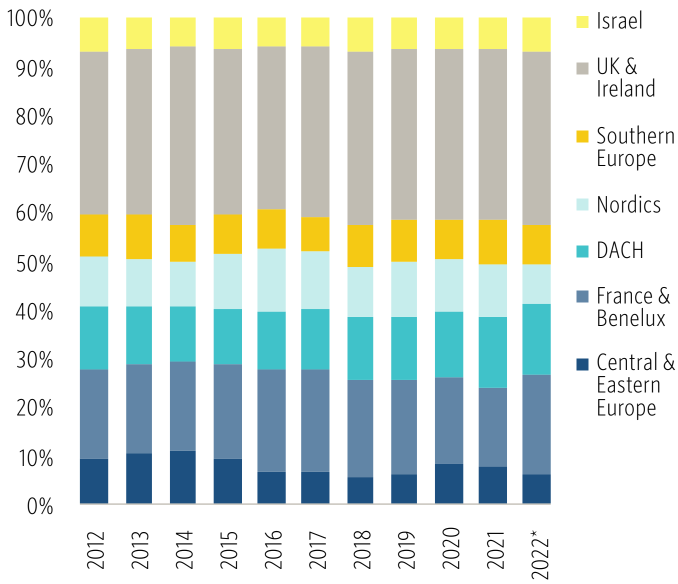
VC deals by region and sector

Share of VC deal value by region



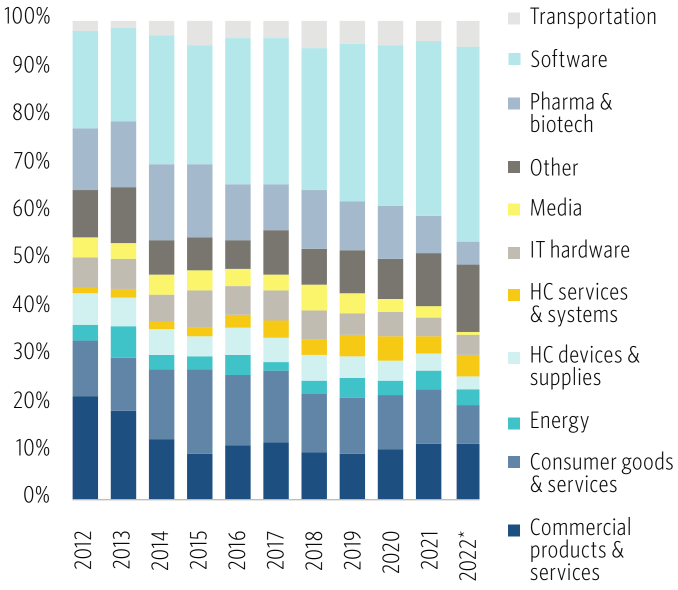
Source: PitchBook | **Geography:** Europe
*As of March 31, 2022

Share of VC deal count by region



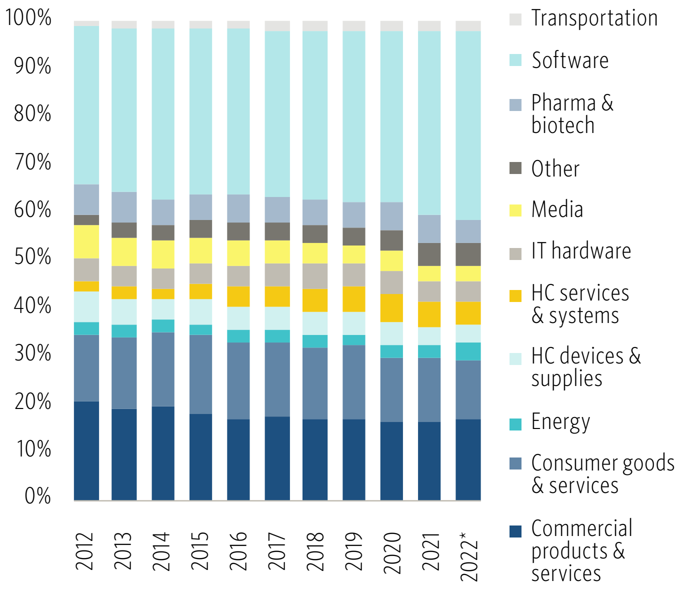
Source: PitchBook | **Geography:** Europe
*As of March 31, 2022

Share of VC deal value by sector



Source: PitchBook | **Geography:** Europe
*As of March 31, 2022

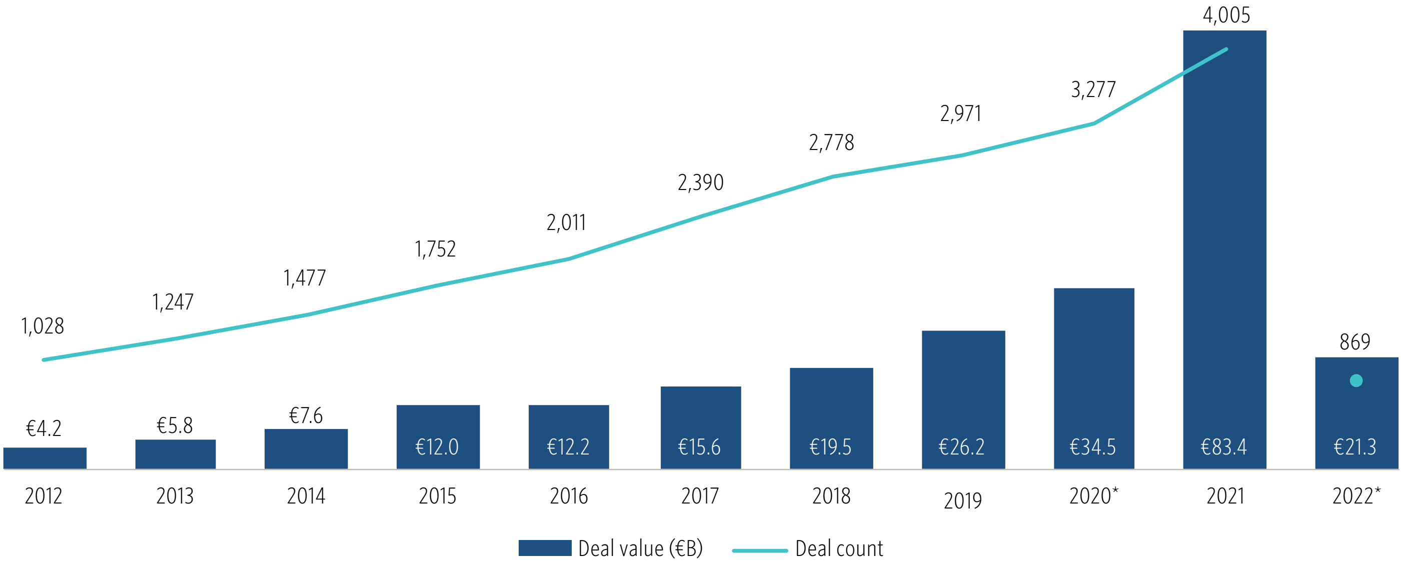
Share of VC deal count by sector



Source: PitchBook | **Geography:** Europe
*As of March 31, 2022

Nontraditional investors

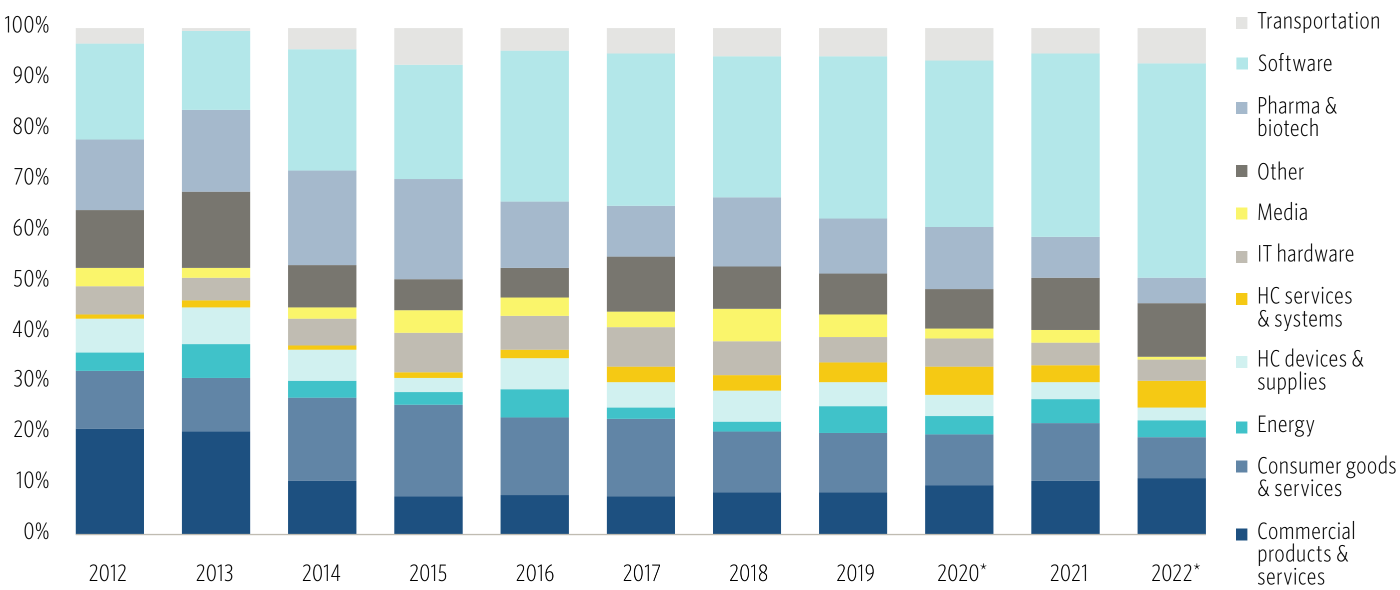
VC deal activity with nontraditional investor participation



Source: PitchBook | **Geography:** Europe
*As of March 31, 2022

In recent years, nontraditional investors, including investment banks, PE firms, hedge funds, pension funds, sovereign wealth funds (SWFs), and corporate VC (CVC) arms, have boosted their investment within the European VC ecosystem. In Q1 2022, VC deal value with nontraditional investor involvement remained strong at €21.3 billion, on pace with the annual record set in 2021. VC-backed companies utilising innovative technology have provided an attractive opportunity for nontraditional investors in recent years. On the investor side, nontraditional backers have targeted high-growth companies operating in industries with wide long-term economic moats. Cutting-edge VC-backed companies have the potential to deliver outsized returns to portfolios that may have been affected by lower returns from asset allocations geared towards bonds or public equities. Consequently, nascent VC-backed companies tackling new challenges borne out of recent regulatory changes,

Share of VC deal value with nontraditional investor participation by sector



Source: PitchBook | **Geography:** Europe
*As of March 31, 2022

technological development, or brand-new markets often form part of a forward-looking investment strategy.

From the startup perspective, capital, combined with expertise leveraged from nontraditional investors such as CVCs, can be vital to the success of a new business. Deep synergies, strategic partnerships, and vast networks have helped portfolio companies and underlying corporate investors protect revenue streams from future volatility, drive underlying growth in new areas, and retain talent. Furthermore, nontraditional investors, including financial institutions, have set up VC investment teams to generate higher returns on investments compared with other financial products. VC has developed into a major area for financial institutions in Europe during the past five years, and we expect a continuation of this trend as capital flows increase, high-profile exits take place, and awareness of the strategy grows on the continent.

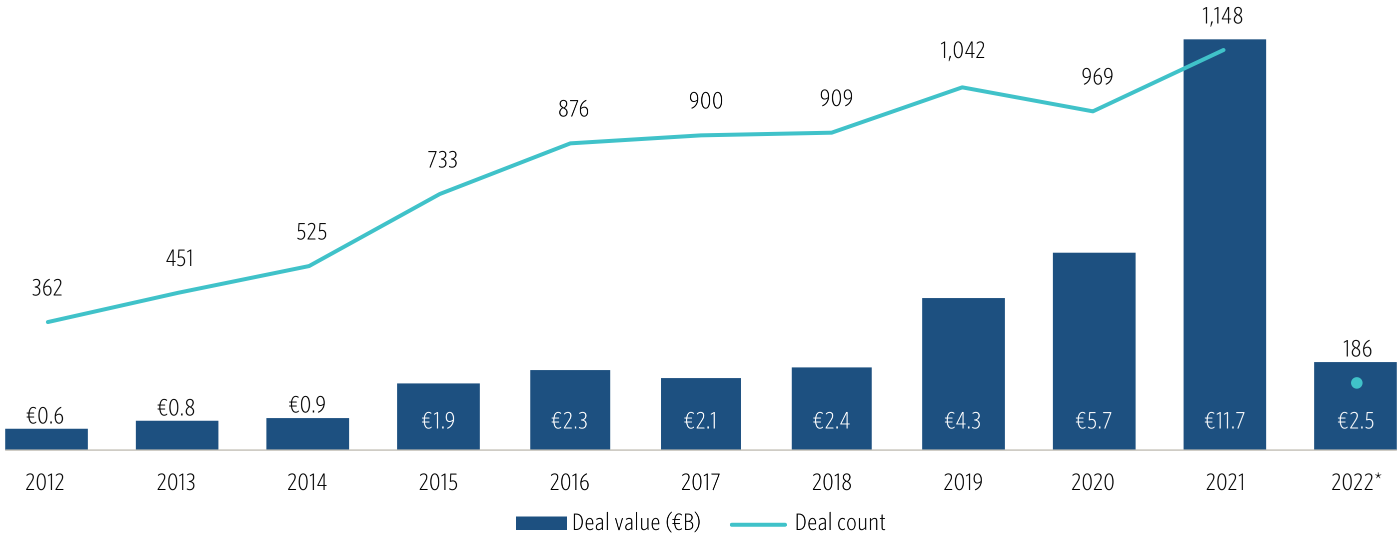
One noteworthy deal in Q1 2022 was the Blackstone-led €500.0 million round for supply chain automation specialist RELEX Solutions at a €4.5 billion pre-money valuation. Funds managed by Blackstone Growth, Blackstone's growth equity investing business, were involved in the round. US-headquartered Blackstone is among the largest asset managers globally, with around $881 billion in AUM focusing on real estate, PE, hedge fund solutions, and credit and insurance. It could be argued that the round size, valuation, and participants involved reflect the characteristics of a PE deal or M&A rather than a VC round. The development of VC valuations and associated round sizes have been astonishing in recent years. Combined with the expansion in capital options for VC-backed companies, the lines between VC, PE, and M&A have converged.

The breadth of nontraditional investors participating in VC rounds is also helping raise the profile of promising VC-backed companies in Europe. Companies are regularly attracting healthy cross-border and nontraditional capital infusions to fuel aggressive growth efforts. In Q1 2022, Vienna-based edtech platform GoStudent secured €300.0 million in funding at a €2.7 billion pre-money valuation. The round was led by Prosus Ventures, the VC arm of Netherlands-based internet conglomerate Prosus, with additional participation from an array of international investors including Deutsche Telekom (ETR: DTE), SoftBank's (TKS:9984) Vision Fund 2, Tencent Holdings (HKG: 00700), Dragoneer Investment Group, Left Lane Capital, and Coatue Management.

PitchBook

Spotlight: 2022 Outlook

Nordic VC deal activity



Source: PitchBook | **Geography:** Nordics
*As of March 31, 2022

This analysis was originally featured in our 2022 European Private Capital Outlook, published in December 2021. The charts included in this section have been updated to reflect the most recent data.

Prediction: European VC deal value will hit a record €175 billion in 2022.

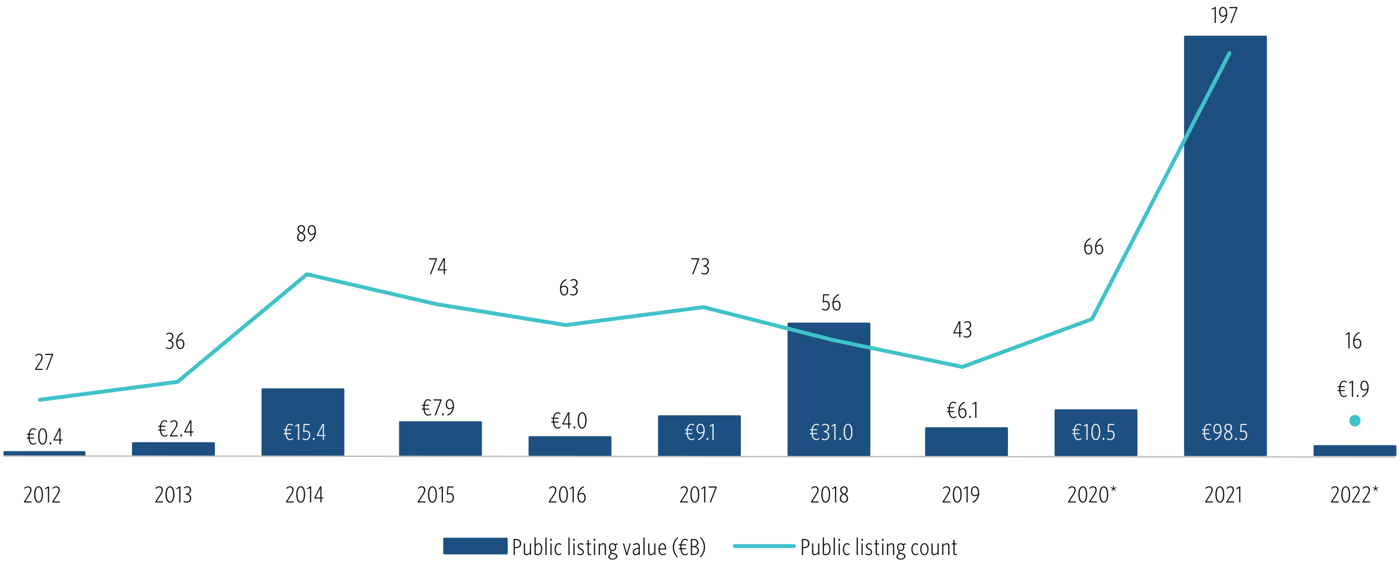
Rationale: The COVID-19 pandemic has accelerated capital flows into tech-based VC-backed companies, and we feel further investment will be conducted to seek out heightened long-term returns. We expect dealmaking in Europe to increase as nontraditional and international investors target fast-growing European assets. Europe possesses a wide variety of unicorns in different sectors and geographies, and these companies will drive up deal value figures to new heights with enormous late-stage rounds.

Caveat: Volatility has been a key theme across wider financial markets in 2021, and with a tightening of monetary stimulus amid inflationary pressure, capital availability could decline.

Prediction: Nordic VC activity will reach a new record deal value of €20 billion with over 1,000 deals occurring.

Rationale: There are several huge late-stage companies across the region that could drive up deal value figures with fresh funding rounds. The Nordic VC scene is now well-known by much of the global venture ecosystem, and we expect capital flows from US, European, Asian, and domestic VC funds, along with participation from nontraditional investors, to grow as late-stage Nordic companies seek outsized financing. We expect multibillion-euro companies will close multimillion-euro rounds across various sectors and countries in the coming year.

VC-backed public listing activity



Source: PitchBook | **Geography:** Europe
*As of March 31, 2022

Caveat: The Nordic ecosystem may generate significant liquidity via outsized exits rather than deal value in 2022 given the maturity of highly valued companies in the region. Investors may target less developed and expensive regions in Europe, such as Central and Eastern Europe or Southern Europe, and deal value may not increase at the rate it has during 2021.

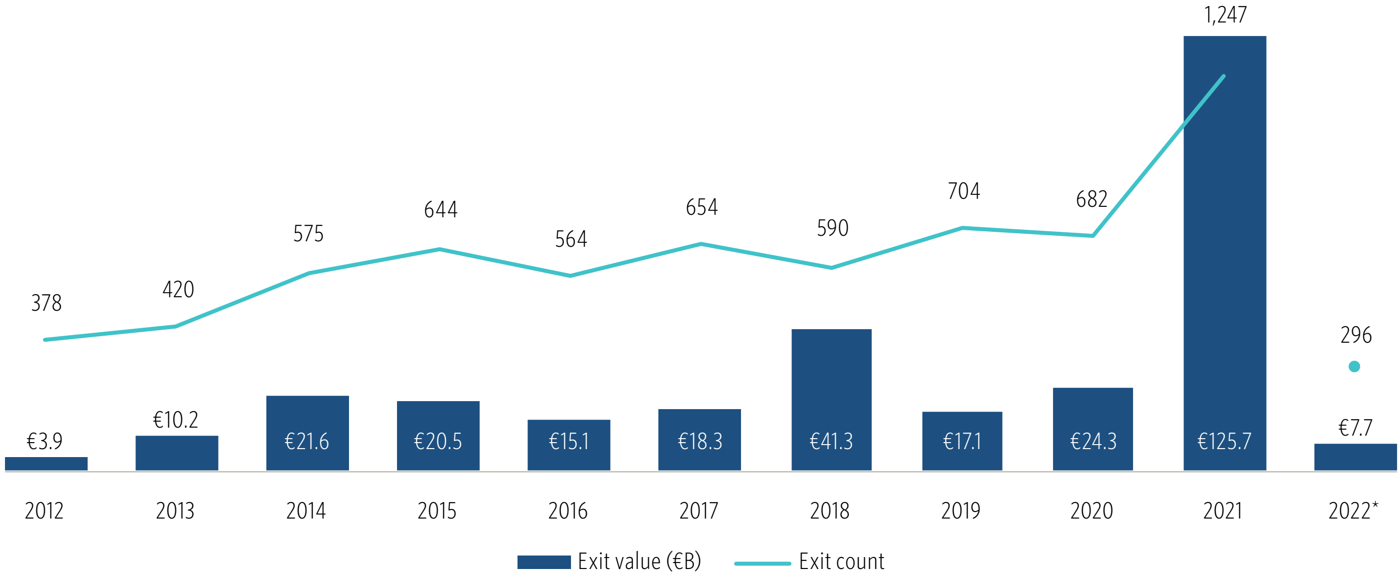
Prediction: VC-backed public listings will decline in value and count from 2021 highs.

Rationale: We expect public listings to cool as nontraditional investors and VC funds flush with capital from recent exits reinvest into new batches of startups. Public listings ballooned in 2021, delivering excess levels of liquidity back to LPs amid insatiable appetite from investors targeting tech company debuts. LPs may now want to deploy capital into rounds rather than exit additional investments.

Caveat: Plenty of VC-backed companies ripe for an exit remain in the European ecosystem heading into 2022. Robust levels of liquidity in 2021 will not hamper exit desire from founders and VCs looking to cash out. Numerous companies that have demonstrated strong growth during the pandemic have experienced stickiness with their products or services, which could lead to long-term disruption and steady exit flows.

Exits

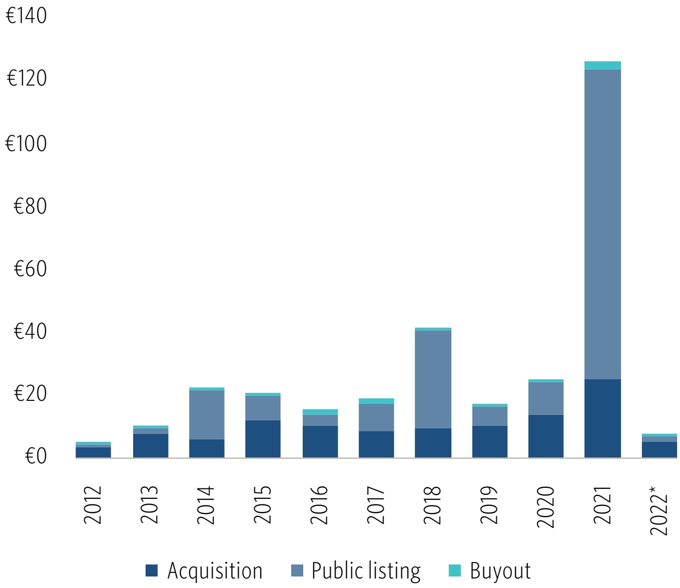
VC exit activity



Source: PitchBook | **Geography:** Europe
*As of March 31, 2022

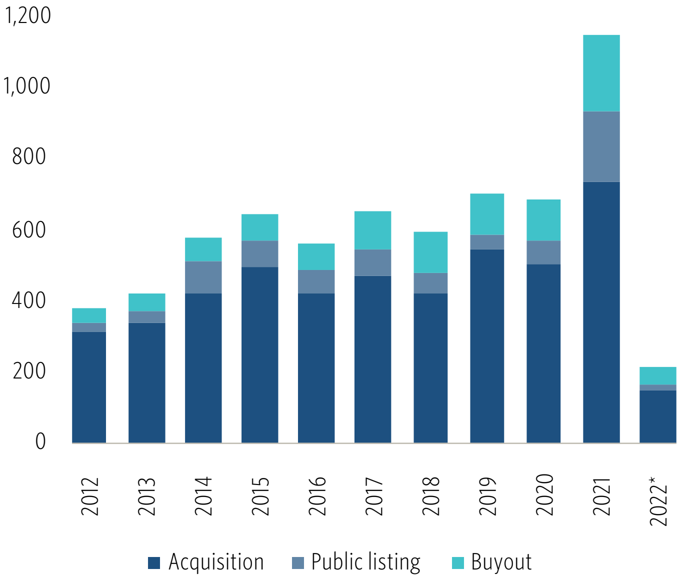
European exit value fell drastically from the highs of 2021 with only €7.7 billion generated in Q1 2022. At its current pace, exit value is on course to register a 75.5% YoY decrease from 2021 by the year's conclusion. 2021 generated a record €125.7 billion in exit value as founders and investors rushed to exit amid increased appetite for tech-enabled businesses that demonstrated pandemic resilience. Exit plans were accelerated so companies could capitalise on pandemic-induced growth and deliver enhanced returns. In contrast, the exit market in 2022 has been sluggish amid a widespread tech public equity sell-off in Q1, as markets entered correction territory. Furthermore, unrelenting inflationary pressure due to supply chain issues, trade tensions, and tight labour markets resulted in increased interest rates in major economies, adding to the growing sentiment that the economic cycle is entering a downturn. All these factors have hampered exit flow as operators and investors adopt a wait-and-see approach rather than risk an exit that could prove costly and negatively impact on the valuation of a portfolio company.

VC exit value (€B) by type



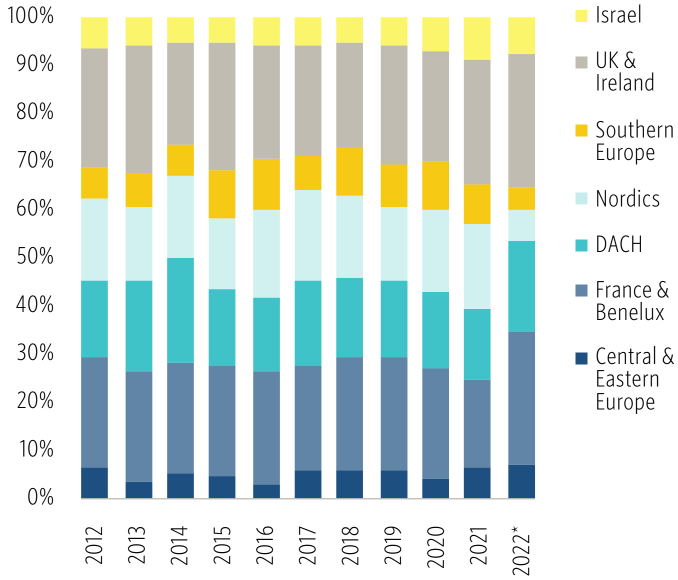
Source: PitchBook | **Geography:** Europe
*As of March 31, 2022

VC exit count by type



Source: PitchBook | **Geography:** Europe
*As of March 31, 2022

Share of VC exit count by region



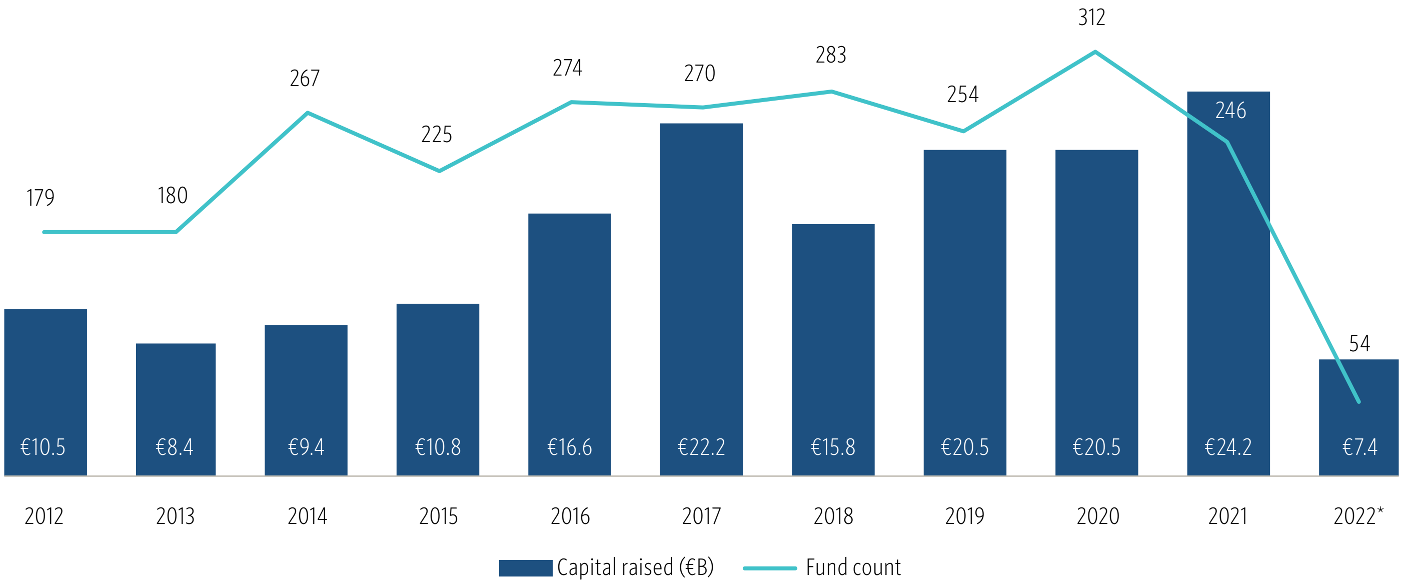
Source: PitchBook | **Geography:** Europe
*As of March 31, 2022

One of the largest exits to take place in Q1 2022 involved Netherlands-based digital media platform Azerion (AMS: AZRN), which completed a reverse merger at a €985.0 million pre-money valuation with European FinTech IPO Company 1, a special purpose acquisition company (SPAC). The SPAC exit route has provided an alternative means for companies to gain access to public markets, and the Euronext Amsterdam has established itself as one of the leading SPAC exchanges for tech companies in Europe. However, as has been the case historically for sought-after European listings, US exchanges have dominated SPAC offerings. Despite a glut of SPAC exits in the US during the past 12 months, SPAC activity has grown at a slower pace in Europe, as questions around due diligence, performance, and oversaturation have continued. Nonetheless, high-profile companies such as Cazoo (NYSE: CZOO), Arrival (NASDAQ: ARVL), and Lilium (NASDAQ: LILM) chose the SPAC route in 2021. How they fare could determine if others follow in the coming years or opt for traditional IPOs.

Only 16 public listings took place in Q1 2022. If the current pace continues, the year could notch the lowest public listing count since 2019. By comparison, 44 public listings took place in Q1 2021, and 197 were completed in a bumper 2021, as bankers and exchanges competed fiercely to work on and secure hotly anticipated exits from the VC ecosystem. From the record €98.5 billion logged from public listings in 2021, it is clear surplus liquidity was supplied to the market. As a result, we expected exit value to flatten in 2022 as investors focused on redeploying capital returns to fund future growth efforts. However, the drastic decrease in exit value has been driven by a combination of factors so far in the year. Firstly, 2022 has commenced bearishly in financial markets as indexes fall, inflation impact business costs, and margins thin. Secondly, recently raised interest rates have signalled the end of a record low-interest-rate period, which has characterised the boom in funding for private capital strategies. Finally, the true economic cost of the COVID-19 pandemic is emerging for nations, and the conflict in Ukraine is creating pressing challenges for governments globally. Consequently, VC-backed companies are avoiding risky and potentially costly exits, and we anticipate the exit market will remain quiet until these issues are resolved.

Fundraising

VC fundraising activity

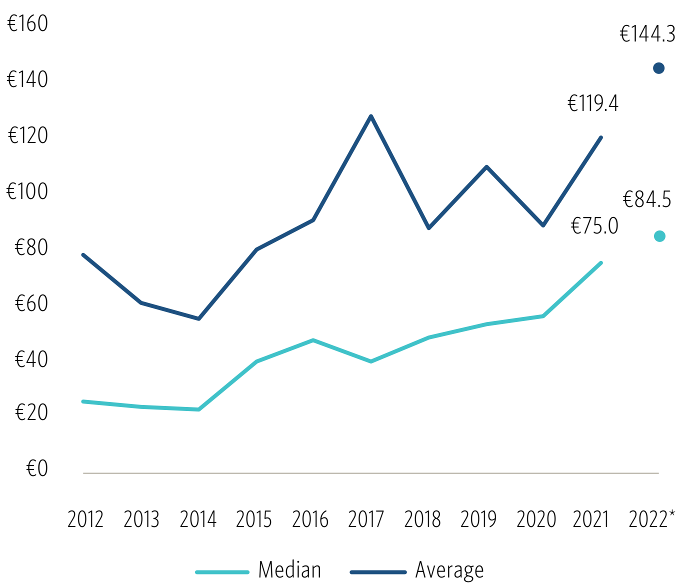


Source: PitchBook | **Geography:** Europe
*As of March 31, 2022

European VC fundraising got off to a solid start in 2022, with 54 funds closing on a total €7.4 billion in Q1. Capital raised in Q1 was in line with the pace set in recent yearly figures; however, fund count dropped significantly. If the pace of funds closed continues, it could result in the lowest VC fund count since 2013 by year-end. Fund sizes have continued to increase in Q1, as evidenced by the sizable amount of capital raised across a reduced fund count. Healthy capital commitments for agnostic and specialist venture GPs have led to the creation of larger funds in the European ecosystem. Consequently, GPs have written bigger cheques for startup funding rounds. Strong return profiles and new investment opportunities in VC have attracted capital, with GPs and LPs raising funds to strengthen capital injections into startups. Competition to participate in the best VC deals in search of outlier returns, and to commit to funds managed by the GPs with prestigious track records, has also enabled capital to enter the venture strategy.

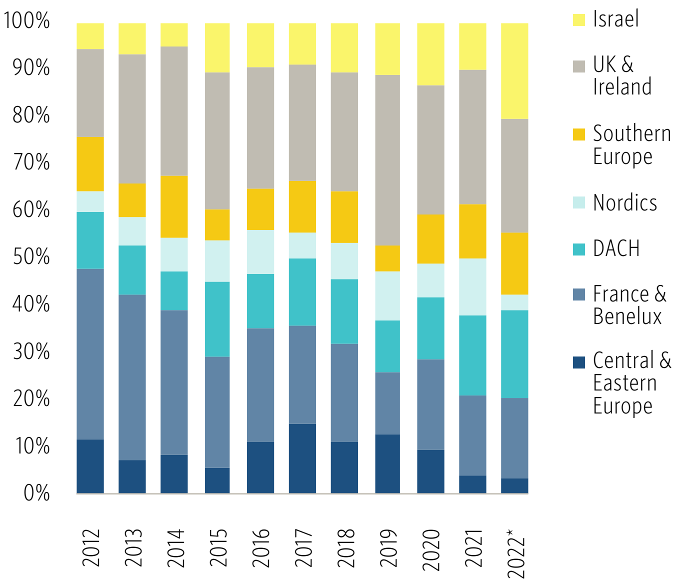
One notable fund to close in Q1 was the €997.4 million Life Science Partners (LSP) VII fund. The fund is managed by EQT Life Sciences, which was formed in 2022 following the integration of Europe-based life sciences VC firm LSP into the global investment group EQT (STO: EQT). According to René Kuijten, managing partner of LSP and incoming head of EQT Life Sciences "this investment immediately validates a key rationale for joining EQT: with EQT, we

Median and average VC fund size (€M)



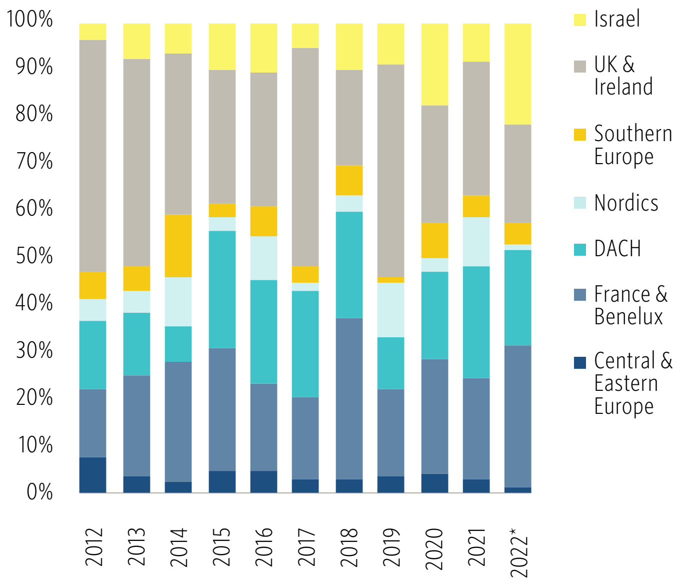
Source: PitchBook | **Geography:** Europe
*As of March 31, 2022

Share of VC fund count by region



Source: PitchBook | **Geography:** Europe
*As of March 31, 2022

Share of capital raised for VC funds by region



Source: PitchBook | **Geography:** Europe
*As of March 31, 2022

expect that we will be able to raise large funds much faster, serving the life sciences in Europe even better than before."[1] Kuijten added that "having access to the EQT platform's fundraising capabilities, healthcare sector teams, and in-house expertise within digitalization and sustainability brings unique collaboration opportunities."[2] The newly formed business could prove an innovative way for GPs to start partnering and pooling resources rather than solely co-investing in a round, and we could see greater numbers of newly formed teams adopting this strategy and sharing investment theses to compete globally for deals.

The France & Benelux region posted the largest funding figure in Q1 with €2.2 billion, equivalent to 29.8% of the European total. The largest fund to close in the region was the €501.0 million InfraVia Growth Fund. Interestingly, the fund will focus on aiding startups to grow inorganically through acquisitions. Larger-scale buy-and-build strategies through M&A can prove effective via multiple arbitrage of smaller assets, and we believe this approach could be fruitful for smaller companies looking to dominate extremely competitive sectors. As company formation processes become more efficient across Europe and capital availability expands, new companies are constantly emerging in fast-moving sectors. Therefore, VC-backed companies and investors that have thought about and equipped themselves with the resources to quickly acquire competitors could be well-positioned to grow their market share in the long run.

The DACH and UK & Ireland regions raised €1.5 billion and €1.6 billion in Q1, respectively, indicating that the bulk of fundraising in 2022 will take place in these ecosystems, as has traditionally been the case. GPs in these regions possess existing infrastructure, expertise, networks, and strong track records, with multiple established VC managers raising fund families. Noteworthy funds to close in Q1 included London-based Blossom Capital III at €381.0 million and Berlin-based 468 Capital Venture Fund II at €353.3 million. We expect established managers to raise the majority of capital in 2022 as distributions from a bumper year of successful exits in 2021 are reinvested.

1: "LSP Closes EUR 1 Billion Flagship Fund LSP 7 to Invest in Life Sciences Companies," EQT Life Sciences, February 11, 2022.
2: "EQT Closes Acquisition of LSP and Introduces EQT Life Sciences," EQT, March 1, 2022.

Additional research

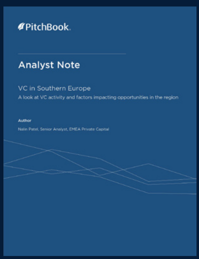
Europe and venture capital

2021 Annual European Venture Report

Download the report here.

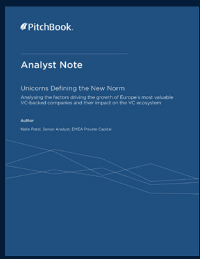
2021 Annual European VC Valuations Report

Download the report here.



PitchBook Analyst Note: VC in Southern Europe

Download the report here.



PitchBook Analyst Note: Unicorns defining the new norm

Download the report here.

More research available at pitchbook.com/news/reports