PitchBook

Q1 2023

EUROPEAN VC Valuations Report

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Introduction

In Q1 2023, European VC valuations and deal sizes reflected contrasting trends as a combination of factors impacted startups at different financing stages. Lower growth rates, workforce reductions, and tougher funding conditions have surfaced in 2023. Valuations that ballooned in recent years, particularly at later financing stages, have largely plateaued. With focus shifting towards profitability instead of growth at all costs, further measures to improve capital efficiency could be taken by founding teams. Upward inflationary pressure coupled with interest rate hikes and low growth has hampered growth prospects for businesses requiring financing. Due diligence processes have lengthened, with revenues, valuations, and runways under renewed scrutiny.

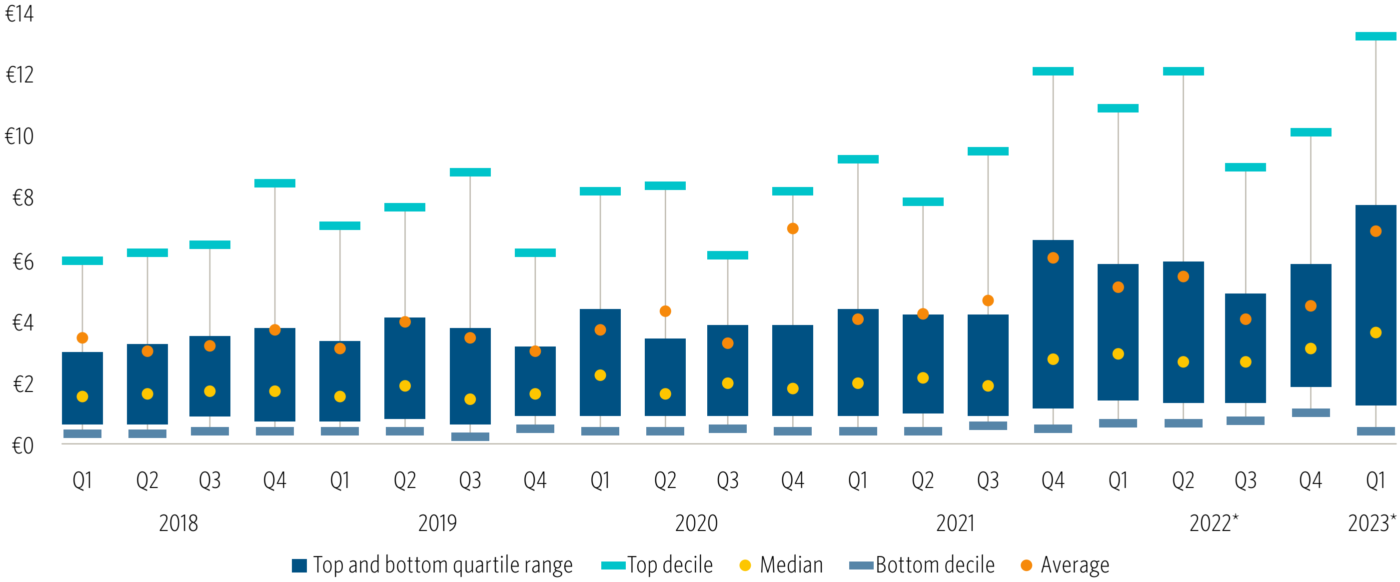
VC deal value with nontraditional investor participation continues to correct. With macroeconomic pressures and economic uncertainty worsening in recent months, nontraditional investor participation has dwindled. Deal value with nontraditional investor participation continued to decrease in Q1 2023, falling 65.3% YoY, marking a new trough since the peak of Q4 2021. Within this, venture-growth stages have seen the largest decline, with the median deal value at €11.3 million, compared with €22.7 million in 2022. Overall, we think nontraditional investor participation in private markets will remain subdued as activity is restricted by denominator effects and more liquid assets are prioritised amid economic uncertainty.

In Q1 2023, flatter valuations were evident as the aggregate post-money valuations of all Europe-based unicorns levelled off. Indications of a cooler market have been apparent, and we expect substantial rounds at lofty valuations to be rare in 2023. In fact, we anticipate further downward pressure on valuations as capital availability shrinks and businesses explore flat or down rounds over the next few quarters. Unicorns with high burn rates will be the first to show signs of duress if recent costly investments combined with current market conditions hamper growth.

The VC exit market remains subdued, where acquisition activity is resilient over public listings. In Q1, the median exit valuation decreased 34.8% YoY but grew 48.5% QoQ. The trends in valuations dependent on strategy continue to diverge, with the median acquisition value up QoQ at €29.6 million but public listings declining 47.1% to €42.7 million.

Overview

Angel pre-money valuation (€M) dispersion by quarter



Source: PitchBook • **Geography:** Europe
*As of March 31, 2023

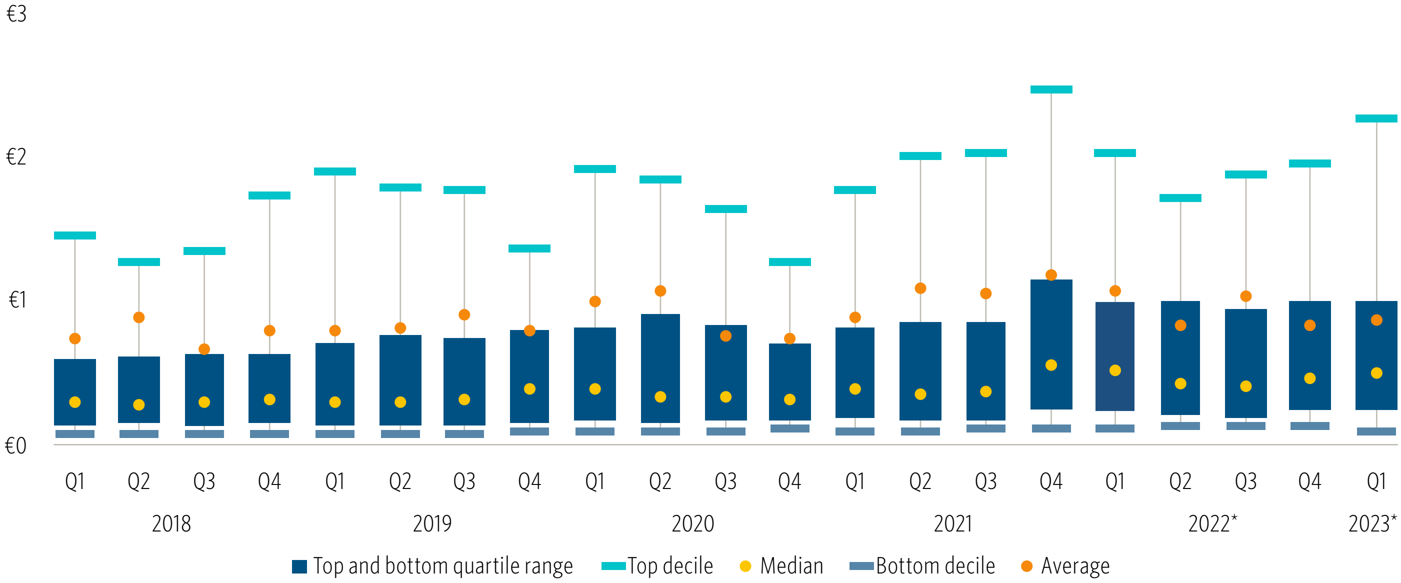
In Q1 2023, European VC valuations and deal sizes reflected contrasting trends as a combination of factors impacted startups at different financing stages. After a boom in VC activity in 2021, which spilled into early 2022, reports of lower growth rates, workforce reductions, and tougher funding conditions have surfaced in the past 12 months. Valuations that ballooned in recent years, particularly at later financing stages, have largely plateaued in 2023 thus far. With focus shifting towards profitability instead of growth at all costs, further measures to improve capital efficiency could be taken by founding teams. Therefore, recalibrated valuations could be on the horizon when fundings take place in upcoming quarters.

VC dealmaking activity decelerated in Q1 2023, as investors have been more selective in their approach to deploying capital. Upward inflationary pressure coupled with interest rate hikes and low growth has hampered growth prospects for businesses requiring financing. Startups across financing stages are experiencing one of the toughest funding environments in recent history. Due diligence processes are being extended, with revenues, valuations, and runways under renewed scrutiny. Major rounds in Q1 involved debt portions to top up equity rounds as businesses looked to extend runway. We expect more structure on deals in the near term, too, as VC-backed companies look for capital amid more investor-friendly term sheets.

Angel

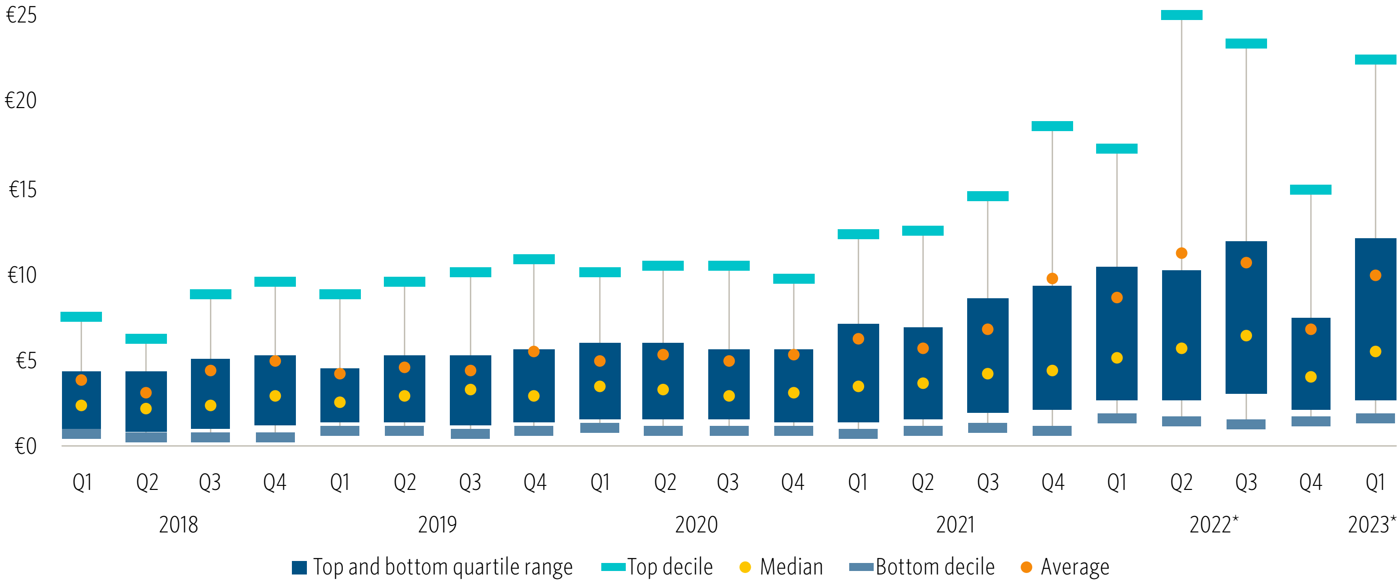
In Q1 2023, angel valuations were robust, with the median pacing at €3.7 million—above the €3.0 million figure registered in 2022. With fewer deals taking place in the quarter, the uptick in the median valuation could be a result of larger, publicised rounds skewing the figure upwards. Angel-backed companies could still be in "stealth mode" or have minimal financial information, and therefore, we expect figures to be detached from broader trends witnessed at mature stages of the VC ecosystem. Angel investors with sufficient capital may find that investing in a brand-new idea linked to downward pressure on VC valuations could work in their favour as they could get more bang for their buck. Moreover, several previously VC-backed companies have launched in market downturns, such as Uber and Airbnb, which could give confidence to founders seeking capital for their ideas.

Angel deal value (€M) dispersion by quarter



Source: PitchBook • **Geography:** Europe
*As of March 31, 2023

Seed pre-money valuation (€M) dispersion by quarter

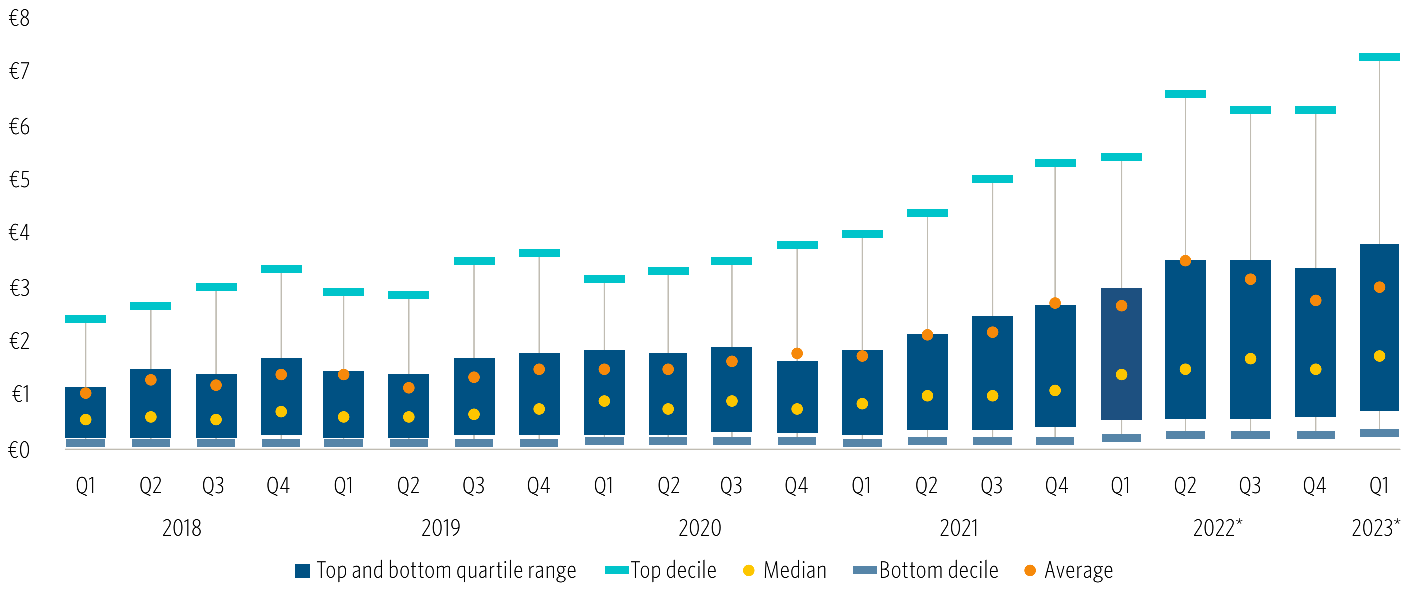


Source: PitchBook • **Geography:** Europe
*As of March 31, 2023

Seed

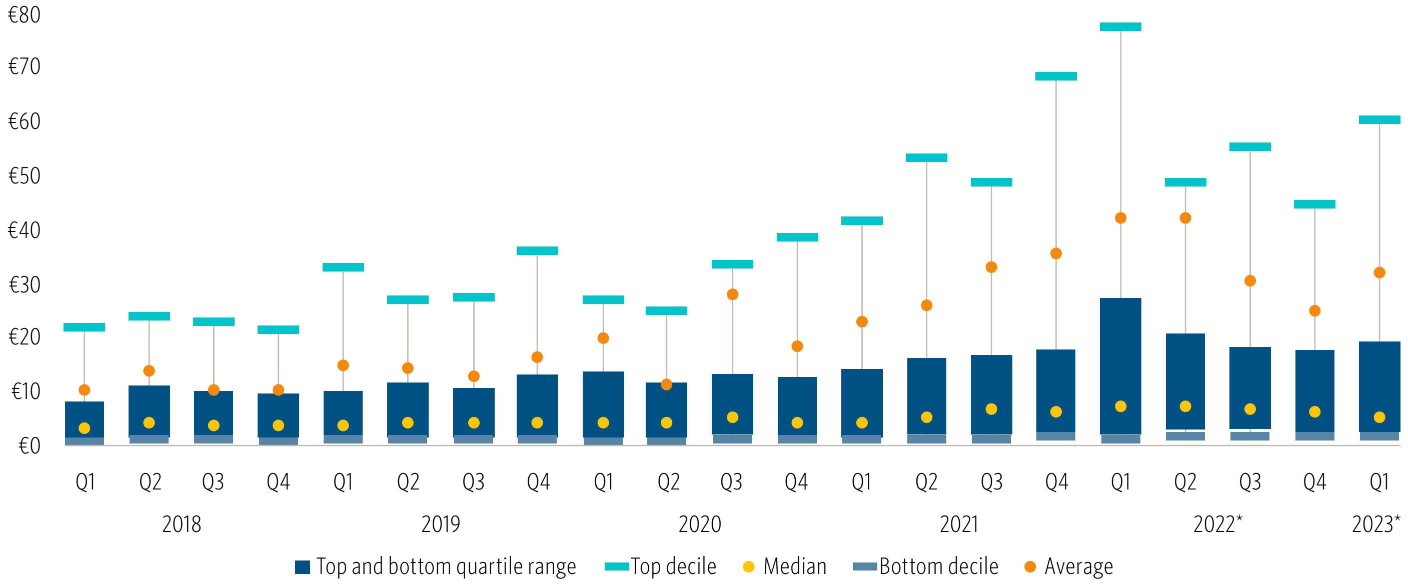
The median seed valuation was flat at €5.5 million in Q1 2023, while the median deal value ticked upward marginally to €1.7 million, up from the €1.5 million full-year figure logged in 2022. Startups that receive seed funding are years away from an exit, and capital is typically used to establish product-market fit and a go-to-market strategy. Thus, startups tend to be lean and less affected by near-term uncertainty from poor growth rates. Early adoption may be tougher for startups in the current climate, but we expect less mature companies to be protected from the turbulence affecting companies with high costs. Current market conditions could force investors to concentrate capital and resources on the best ideas that they think could be long-term successes. As a result, competition among startups vying for capital could intensify selection processes and create a more streamlined pipeline of high-quality investment opportunities for investors later in the VC lifecycle.

Seed deal value (€M) dispersion by quarter



Source: PitchBook • **Geography:** Europe
*As of March 31, 2023

Early-stage VC pre-money valuation (€M) dispersion by quarter



Source: PitchBook • **Geography:** Europe
*As of March 31, 2023

Early-stage VC

During Q1 2023, median early-stage valuations dipped to €5.5 million, a 15.4% QoQ drop and the third consecutive quarterly decline. Lower valuations have fed into the ecosystem in Q1 to ensure that they are closer to market expectations, comparable revenue multiples, and achievable growth rates. VC-backed companies have been able to command a premium in recent years and have enjoyed a lengthy period of abundant capital. But 2022 started a shift in capital availability and growth prospects, which has penetrated early-stage businesses into 2023. The median early-stage valuation step-up is pacing at 1.4x in Q1 2023, significantly down from its 2.0x reading in 2022; this further indicates the tricky valuation market.

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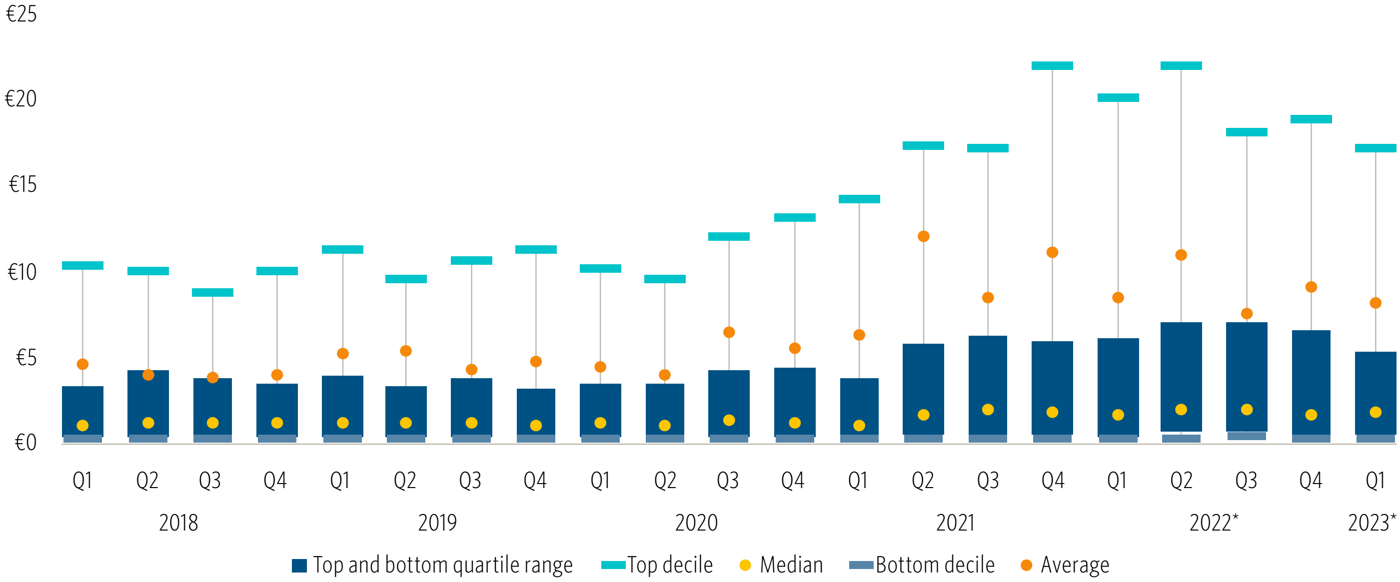
Early-stage VC deal value (€M) dispersion by quarter



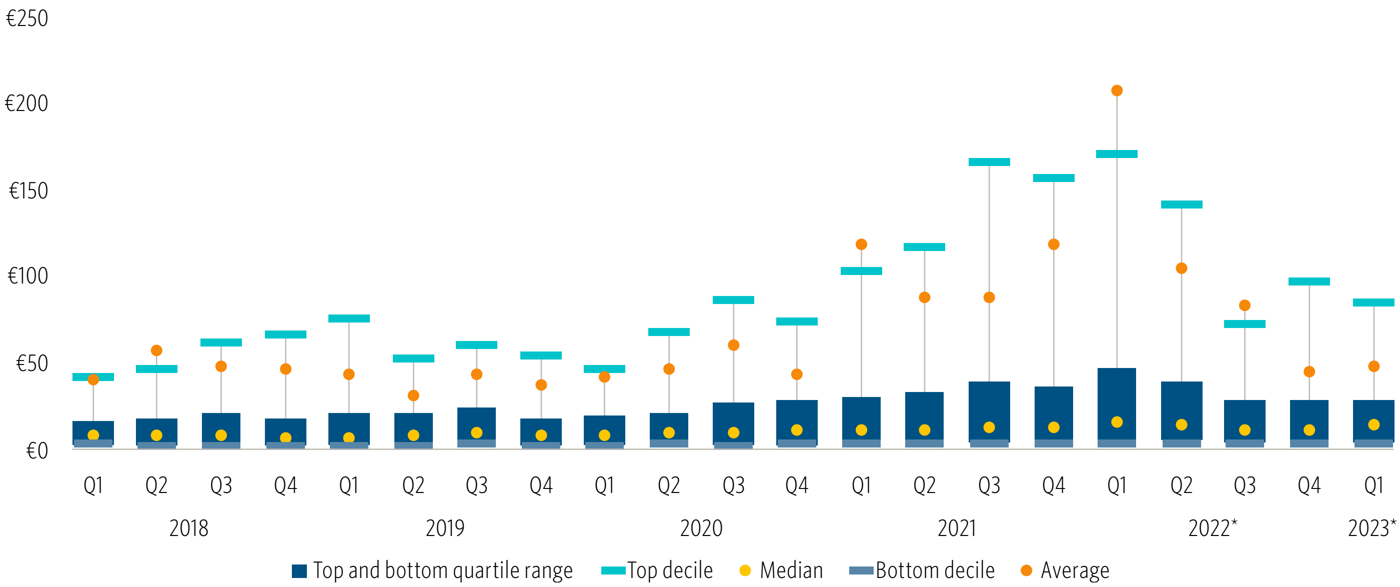
Source: PitchBook • **Geography:** Europe
*As of March 31, 2023

Through Q1 2023, the median early-stage deal value is painting a more positive picture, pacing in line with 2022's €1.8 million. Early-stage capital deployment has benefited from larger VC funds, nontraditional investors, and international backers in recent years. However, deal sizes could constrict as portfolios are managed during the current downturn. Instead of chasing new deals, investors with existing exposure to several VC-backed companies may have to focus inwards on their existing portfolio companies to ensure that they have sufficient runway.

Late-stage VC

In Q1 2023, the median late-stage valuation increased 26.9% QoQ to €13.4 million. One major deal that helped boost the figure involved Germany-based Enpal obtaining €215.0 million at a €2.2 billion pre-money valuation. Enpal offers a subscription-based model that supplies and installs solar panels. Near-term uncertainty is slowing investment levels, but long-term investment opportunities are helping sustain activity. Nonetheless, outlier companies can skew figures, and we expect late-stage valuations to flatten in the near future.

Late-stage VC pre-money valuation (€M) dispersion by quarter



Source: PitchBook • **Geography:** Europe
*As of March 31, 2023

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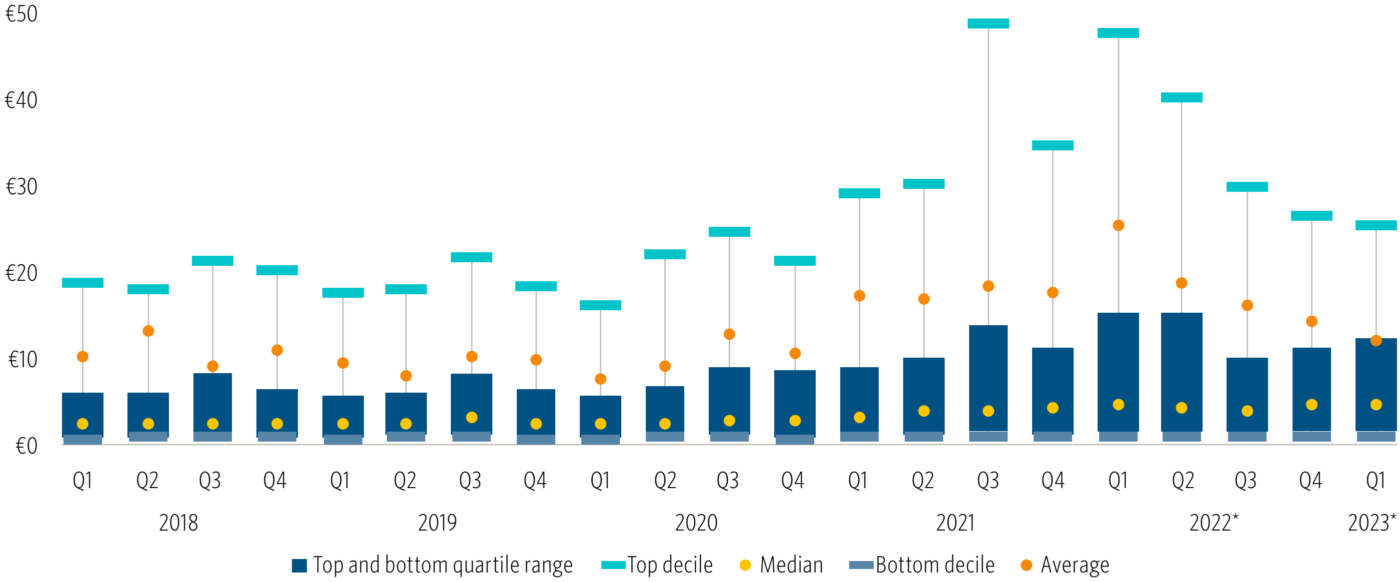
Late-stage VC deal value (€M) dispersion by quarter

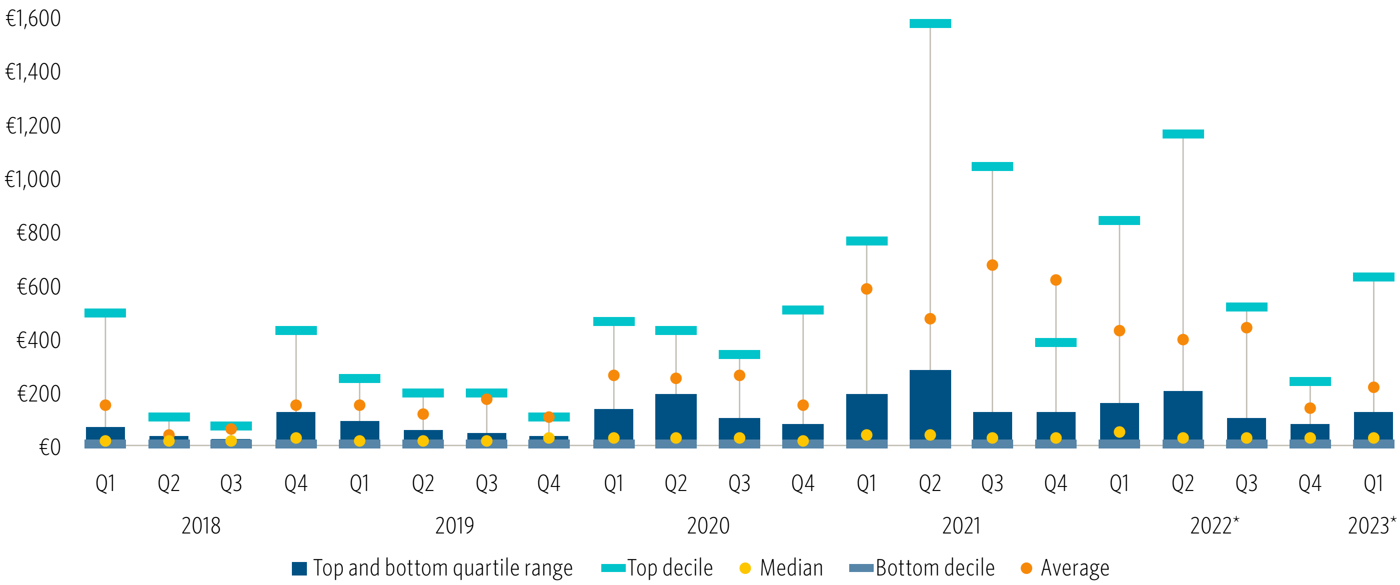


Source: PitchBook • **Geography:** Europe
*As of March 31, 2023

Venture growth

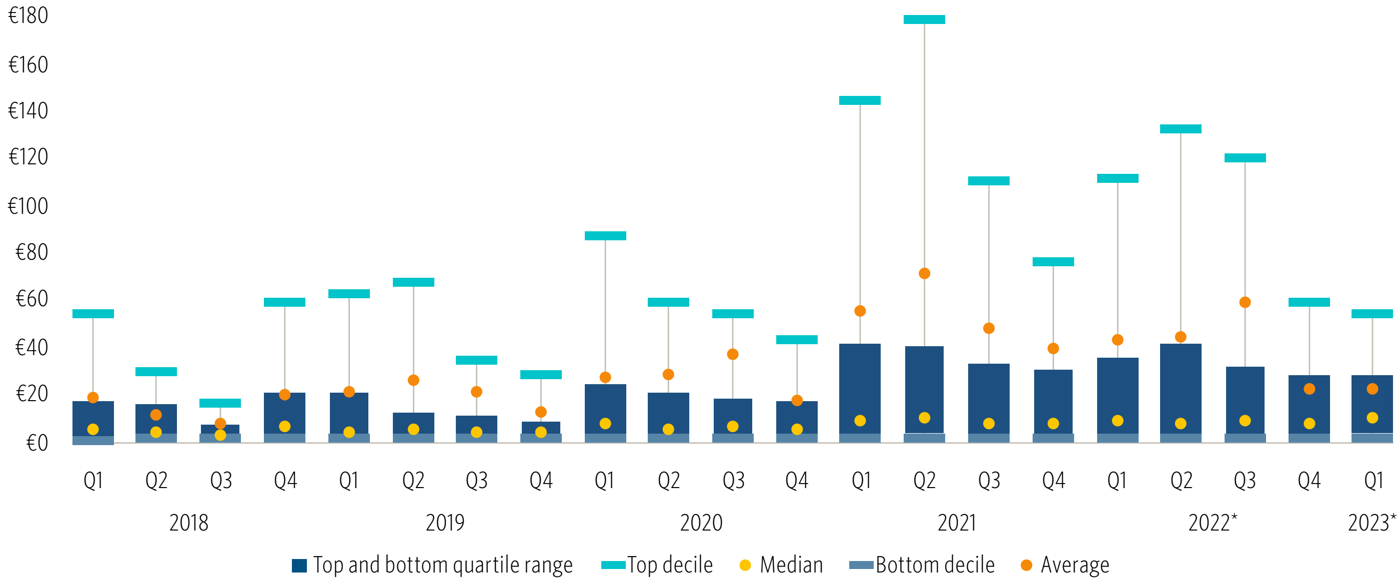
The median venture-growth valuation fell to €25.3 million in Q1 2023, representing a 40.9% decline from Q1 2022. In contrast, the median venture-growth deal value rose to €9.9 million, a 19.9% increase from Q1 2022. Record-breaking valuations figures are unlikely in 2023. However, robust deals are still happening, as evidenced by the strong median venture-growth deal value showing. Venture-growth companies will typically have larger capital requirements given their age and size, which will drive up deal sizes. However, with growth rates and capital availability declining, valuations and deal sizes may come down further in 2023.

Venture-growth VC pre-money valuation (€M) dispersion by quarter



Source: PitchBook • **Geography:** Europe
*As of March 31, 2023

Venture-growth VC deal value (€M) dispersion by quarter



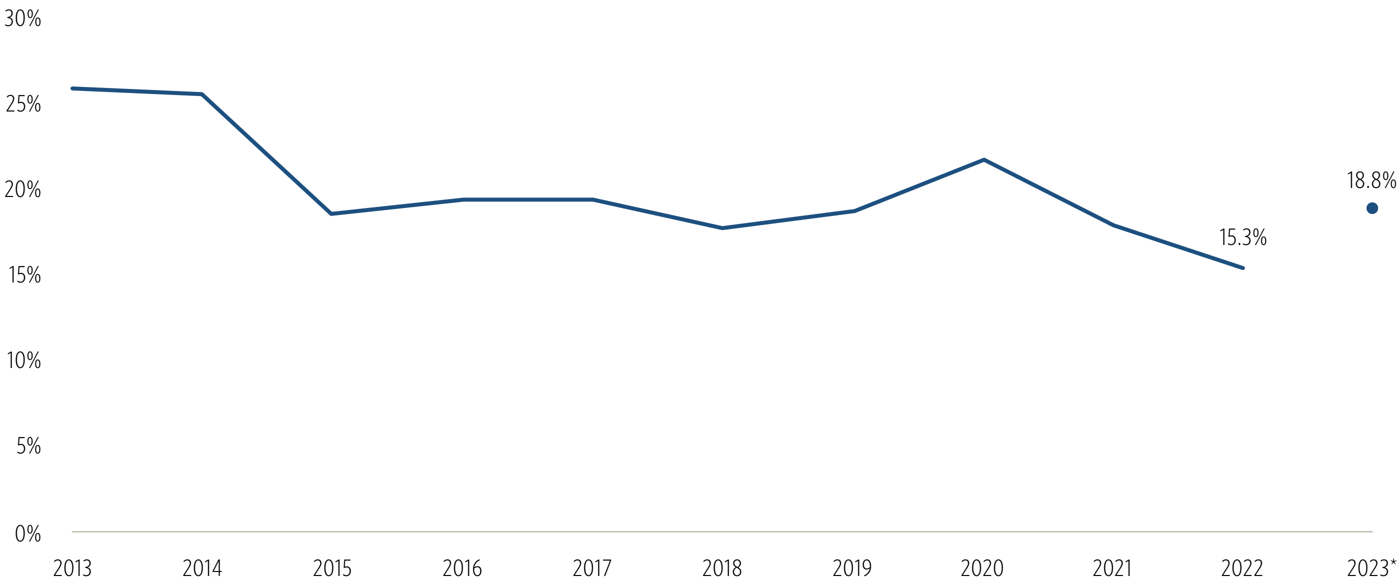
Source: PitchBook • Geography: Europe
*As of March 31, 2023

Up, down, and flat rounds

In Q1 2023, the proportion of down rounds ticked upwards to 18.8%, having finished 2022 at a decade low of 15.3%. Although the proportion is trending upwards, it is worth noting that investors and startups are not required to disclose valuations when announcing a round. Therefore, several recently completed rounds could be flat or down rounds.

Moreover, the lack of valuation disclosure could be artificially inflating valuations based on the higher valuations tied to large rounds that have closed in recent years. VC is an illiquid strategy, and valuations are linked to static VC rounds. Therefore, the further we progress through the downturn and more companies are forced to secure capital and potentially announce haircuts, the more accurate the valuation and down round landscape will become.

VC down rounds as a share of all VC deals

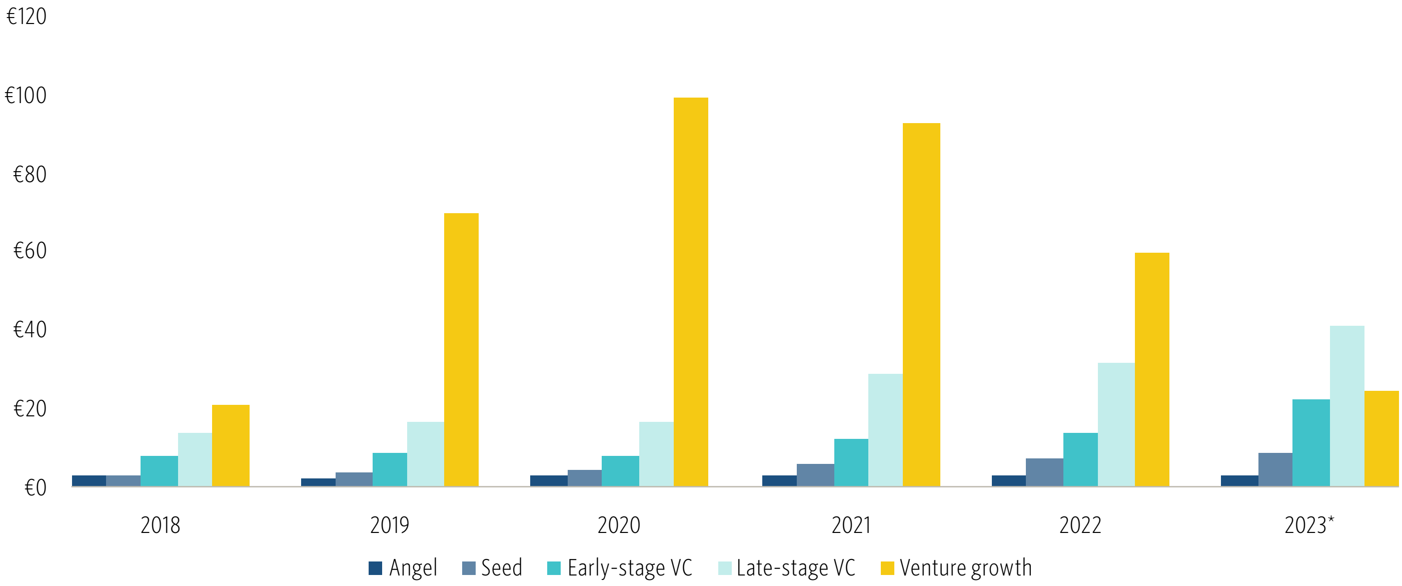


Source: PitchBook • Geography: Europe
*As of March 31, 2023

SECTORS

Fintech

Median fintech VC pre-money valuation (€M) by stage



Source: PitchBook • **Geography:** Europe
*As of March 31, 2023

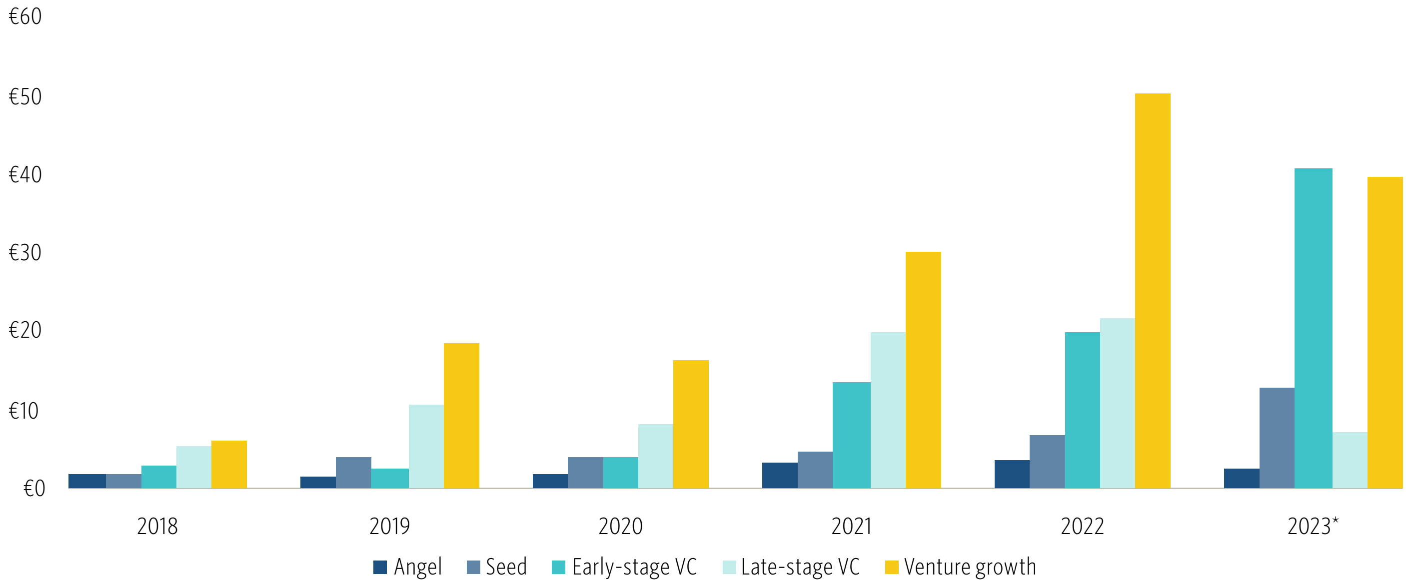
Fintech deal sizes and pre-money valuations grew, but challenging times remain ahead. Median early-stage fintech pre-money valuations grew to €22.1 million in Q1, pacing above the 2022 value of €13.8 million. The median early-stage deal size is also pacing 22.7% higher than 2022's figure, alongside angel and seed. However, despite this seeming resilience in deal activity, the data may lag recent market dynamics as challenges continue to unfold amid rising interest rates. Late-stage companies are likely to suffer the most, with median venture-growth pre-money valuations for fintech companies down 59.7% in Q1 2023 versus 2022 levels. We expect valuations within the sector to continue to come under pressure and have started to see evidence of this with TriplePoint Venture Growth reportedly lowering the value of its stake in Revolut by 14.9% in March. This was followed by Schroders decreasing its valuation for the same by 46.4% in April. The fund also marked down its stake in mobile banking application Atom Bank by 31%.[1]

1: "Revolut's Valuation Cut by Shareholder TriplePoint: Telegraph," Bloomberg, Andrew Davis, March 4, 2023.

SECTORS

Energy

Median energy VC pre-money valuation (€M) by stage



Source: PitchBook • **Geography:** Europe
*As of March 31, 2023

Q1 2023 saw mixed movements in energy sector valuations, as some heat seems to have been taken out of the market. 2022 marked a record year for investment into private energy ventures as the Russia-Ukraine war brought to light supply chain issues and the need to transition into alternative energy more quickly. This resulted in unprecedented levels of investment and therefore peak valuations for such European companies. In Q1 2023, we've seen a marked correction from this peak, with the median late-stage pre-money valuation down 68.9% compared with 2022—although we acknowledge that less data is captured on a quarterly basis. However, supply chain issues within the sector haven't fully resolved, nor do we think investment in long-term, cleantech solutions will fall out of favour. We therefore expect deal activity for technologies that need multiyear implementation to stay resilient through the year. This was evident in Q1, with the median seed deal value pacing 96.0% above 2022 levels, at €3.3 million, and the median early-stage VC deal value pacing 70.9% above, at €9.4 million. Anecdotally, German solar installer unicorn Enpal also raised €215 million in its Series D, taking its post-money valuation to €2.4 billion.

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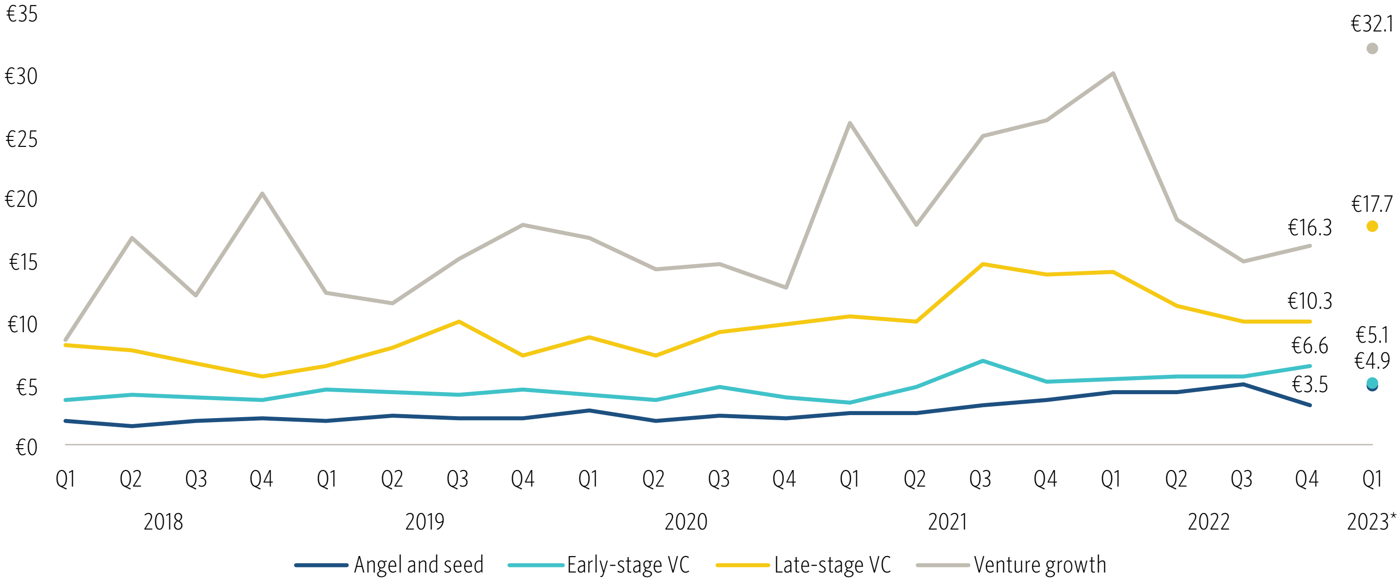
Regions

Quarterly median VC pre-money valuation (€M) by stage for UK & Ireland

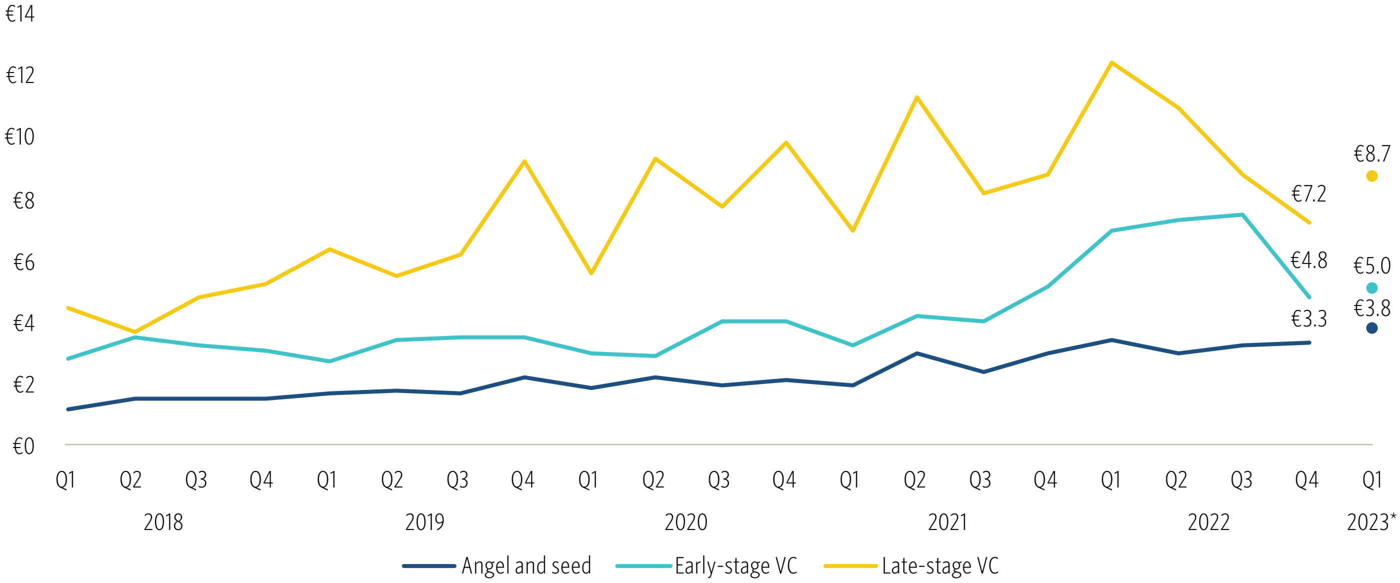


Source: PitchBook • **Geography:** UK & Ireland
*As of March 31, 2023

In the UK & Ireland, deal activity showed encouraging signs at the start of the year. Median pre-money valuations were broadly up in Q1 2023, with the late stage increasing 24.6% from Q1 2022. Elsewhere, median angel and seed-stage pre-valuations rose 9.7%, and venture growth increased 6.4% in Q1 2023 compared with Q1 2022. However, early-stage deal sizes decreased 9.6% YoY in Q1. Overall, improved economic and political stability in UK markets seems to have supported YoY recovery in valuations and deal sizes.

In France & Benelux, valuations seem to have stepped down more in Q1 2023. Median early- and late-stage pre-money valuations decreased 28.6% and 30.1% from Q1 2022, respectively, with only angel and seed stages increasing—to €3.8 million compared with €3.5 million in Q1 2022. Whilst early- and late-stage valuations were lower, sequential upticks in the quarter for both stages could indicate the worst of the correction is behind us. However, deal size remains subdued, with the median deal value for the early and late stages down 25% and flat QoQ in Q1 2023, respectively. It therefore remains to be seen if deal activity in the region will remain challenged or if trough levels have been reached and thus recovery in activity could ensue through the year.

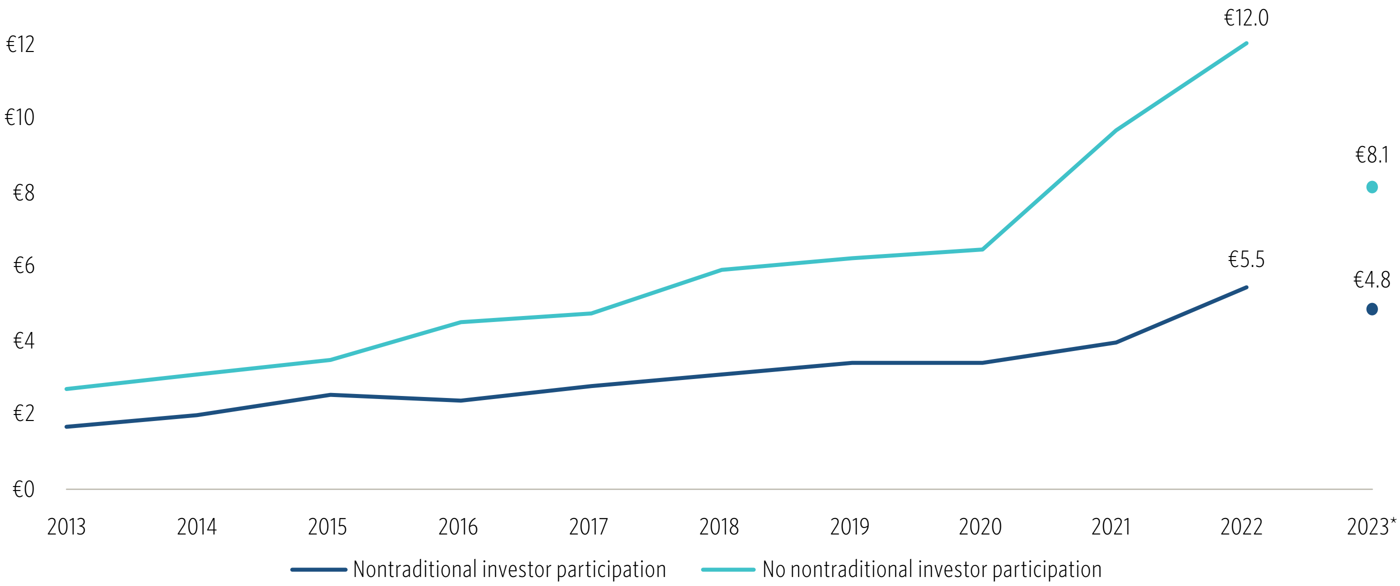
Quarterly median VC pre-money valuation (€M) by stage for France & Benelux



Source: PitchBook • **Geography:** France & Benelux
*As of March 31, 2023

Nontraditional investors

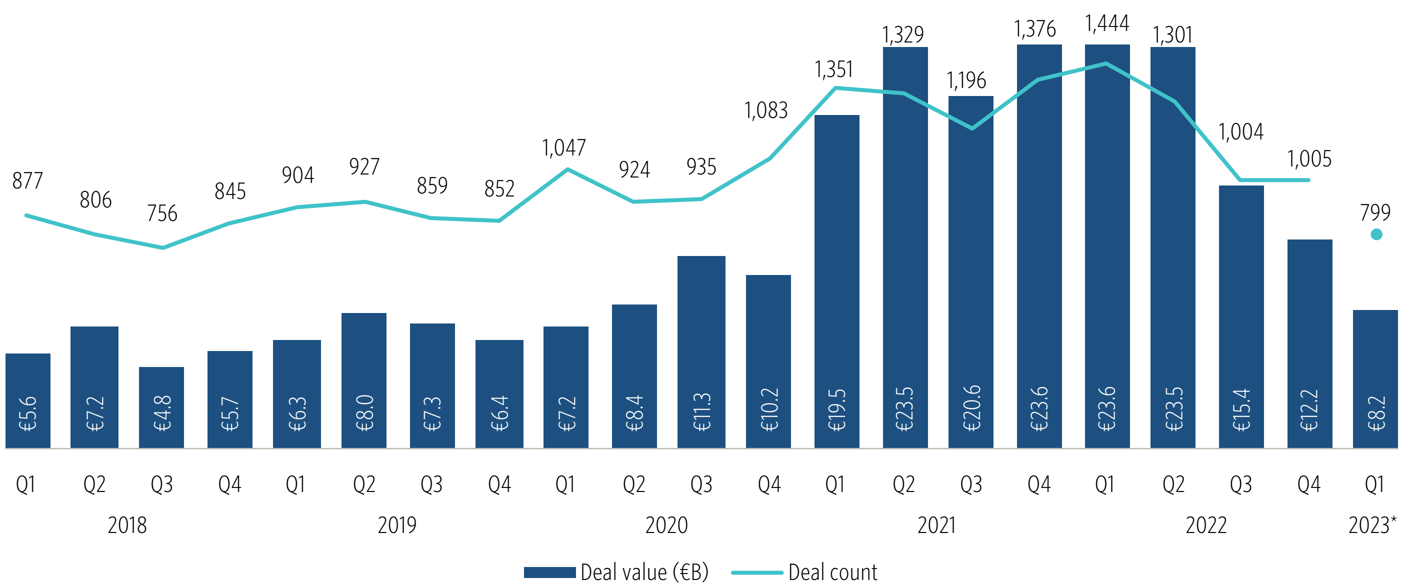
Median early-stage VC pre-money valuation (€M) with nontraditional investor participation



Source: PitchBook • **Geography:** Europe
*As of March 31, 2023

Nontraditional investor involvement continues to decrease following COVID-19's peaks. Deal value with nontraditional investor participation continued to decrease, falling 65.3% YoY in Q1 2023 and marking a new trough since the peak in Q4 2021. Nontraditional investors' appetite in VC has clearly waned as macroeconomic pressures have increased, and market uncertainty has heightened. However, the questions remain of how much more attrition this investor base may have in venture deal activity and if we have reached trough deal value. Alongside market conditions, valuations in private markets will likely be a key determinant of the answers. For instance, recent capital inflows in VC by major nontraditional investors, such as asset managers and PE funds, through direct investment in deals will have been restricted due to

Quarterly VC deal activity with nontraditional investor participation



Source: PitchBook • **Geography:** Europe
*As of March 31, 2023

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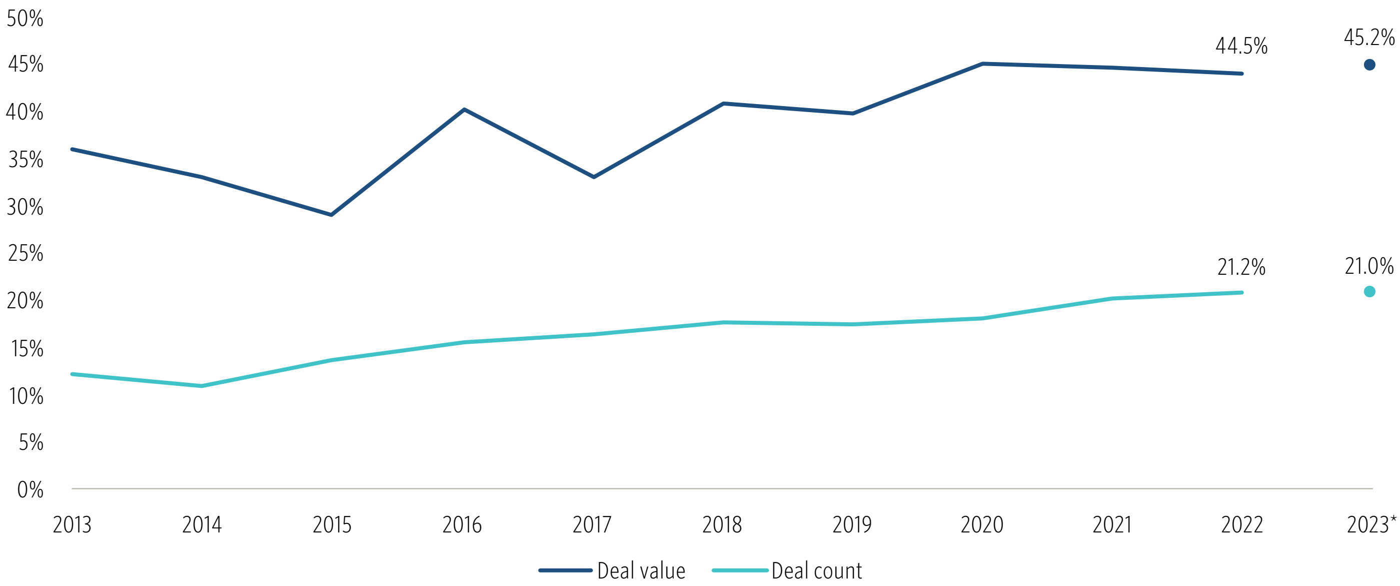
Deal activity with CVC participation as share of all European VC deal activity



Source: PitchBook • **Geography:** Europe
*As of March 31, 2023

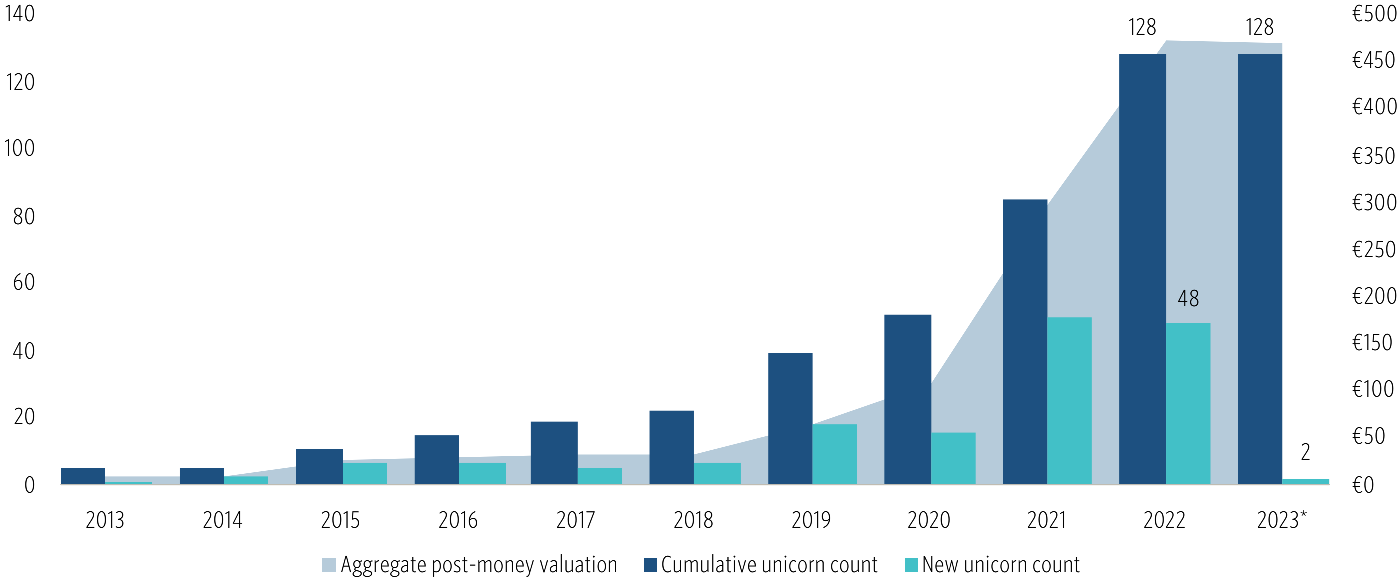
a denominator effect. This means there has been an over-indexation of capital to private markets as public asset values in fund allocations decline. If and when VC valuations catch up to public assets, we could potentially see an uptick in nontraditional investor participation again as exposures to private assets rebalance. However, given increased uncertainty in current markets, the same level of risk appetite and therefore participation from such investors is unlikely to match recent years.

Venture-growth stage drives decline in median deal values with nontraditional investor participation. Whilst deal values across most stages saw marginal movements compared with 2022, Q1 2023's median venture-growth deal value is pacing well below 2022—at €11.3 million compared with €22.7 million. This is somewhat expected as venture growth saw the largest level of activity during 2021 to 2022 from nontraditional investors entering VC to gain exposure to long-term returns and portfolio diversification. Furthermore, deal sizes tend to be larger when nontraditional investors are involved, as more mature companies align with their investment expertise. Looking forward, as near-term liquidity needs are prioritised, we expect nontraditional investors' outflows from private investments to be more evident in venture growth, thus leading to more pressure on deal values here compared with other stages.

Within the nontraditional investor base, corporate venture capitalists (CVCs) continue to hold the lion's share, with deal value resilient. In Q1 2023, 45.2% of European VC deal value consisted of deals with CVC participation, pacing slightly above 2022's 44.5%. Deal activity for CVCs appears to be somewhat resilient, with the median deal value in Q1 2023 at €5.5 million, 21.4% higher than 2022 levels. Median pre-money valuations for CVC investments follow the same trend, up 31.9% in Q1 compared with 2022. The category could remain resilient as strategically, corporates are unlikely to face the same denominator effect felt by other nontraditional investors when determining portfolio exposure to private assets. CVCs also often have more specialisation and expertise in areas of VC. This means the outlook for corporate investment into VC may be more insulated than other nontraditional sources. However, we expect a tougher trading environment and tighter internal budgets to still limit overall spending into new ventures.

Unicorns

Unicorn count and aggregate post-money valuation (€B)



Source: PitchBook • **Geography:** Europe
*As of March 31, 2023

In Q1 2023, flatter valuations were evident as the aggregate post-money valuations of all Europe-based unicorns (companies with a post-money valuation of €1 billion or more) levelled off at €471.2 billion. Although the figure will fluctuate throughout the year, the figure registered in Q1 is 0.3% lower than the full-year figure from 2022. Markers of a cooler market have been apparent, and we expect substantial rounds at lofty valuations to be rare in 2023. In fact, we anticipate further downward pressure on valuations as capital availability shrinks and businesses explore flat or down rounds over the next few quarters.

Mature VC-backed companies have scaled impressively in recent years; however, challenges are on the horizon. With publicly listed companies struggling to maintain share prices, operating margins, and growth rates, we expect similar conditions to affect major VC-backed companies. Although VC is illiquid and problems may be resolved away from the scrutiny of quarterly financial reporting requirements, reports of internal valuation discounts, layoffs, and reduced spending to extend runway have increased. Unicorns with high burn rates could be the first to show signs of duress if recent costly investments combined with current market conditions hamper growth.

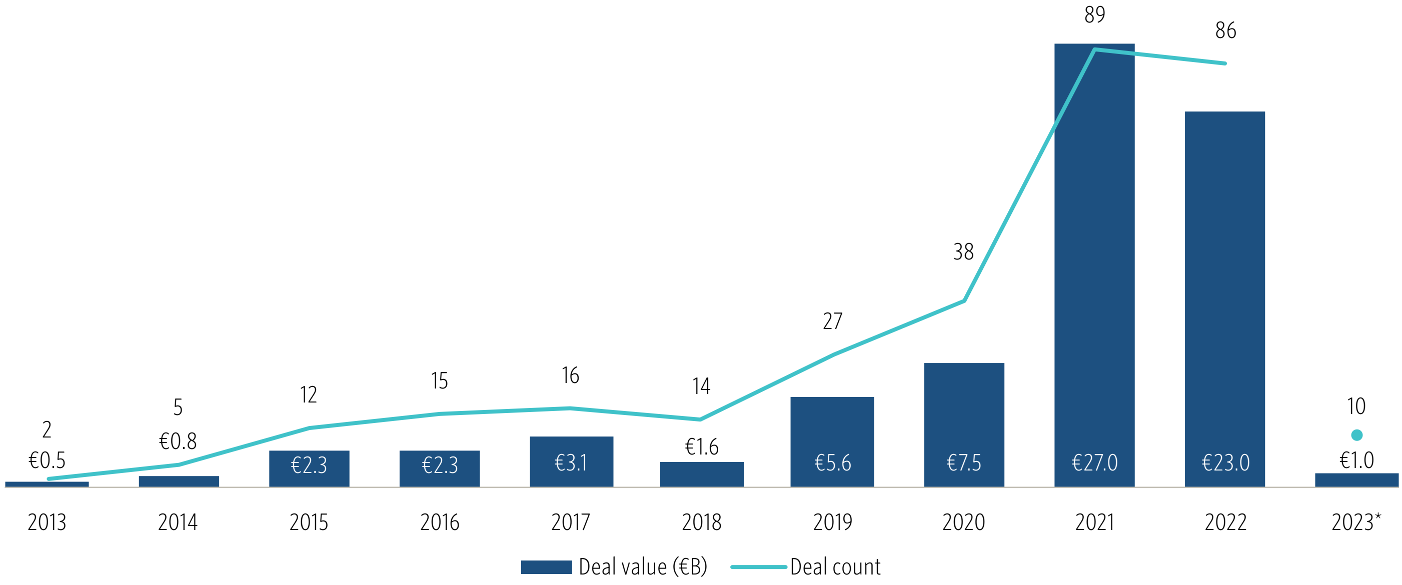
In Q1 2023, London-based payroll provider PayFit reportedly cut 20% of its workforce, 14 months after securing €254.0 million at a €1.8 billion post-money valuation.[2] The announced layoffs are not isolated, and companies that have secured strong valuations at the peak of the market will struggle to justify large step-ups during the current downturn. We anticipate that businesses with high capital demands will require capital management in upcoming quarters as emphasis has shifted towards capital efficiency and away from growth at all costs.

The challenging environment was illustrated in Q1 2023 as deal value and count for unicorns fell 87.5% and 65.5% from Q1 2022, respectively. With significantly less dealmaking among unicorns taking place, less cash will be available to inject into business models to promote growth. Therefore, steep valuation growth is unlikely until fresh rounds tied to higher valuations are completed. We believe that unicorn dealmaking will remain quiet in 2023, with consumer and business spending stalling as inflation persists. Reports of stress on valuations at companies including Checkout.com, Klarna, and Revolut could spread deeper into the VC ecosystem as the macroeconomic picture becomes increasingly difficult to navigate.

2: "Payfit to Part Ways With 200 People, or 20% of Its Workforce," Tech.eu, Dan Taylor, March 1, 2023.

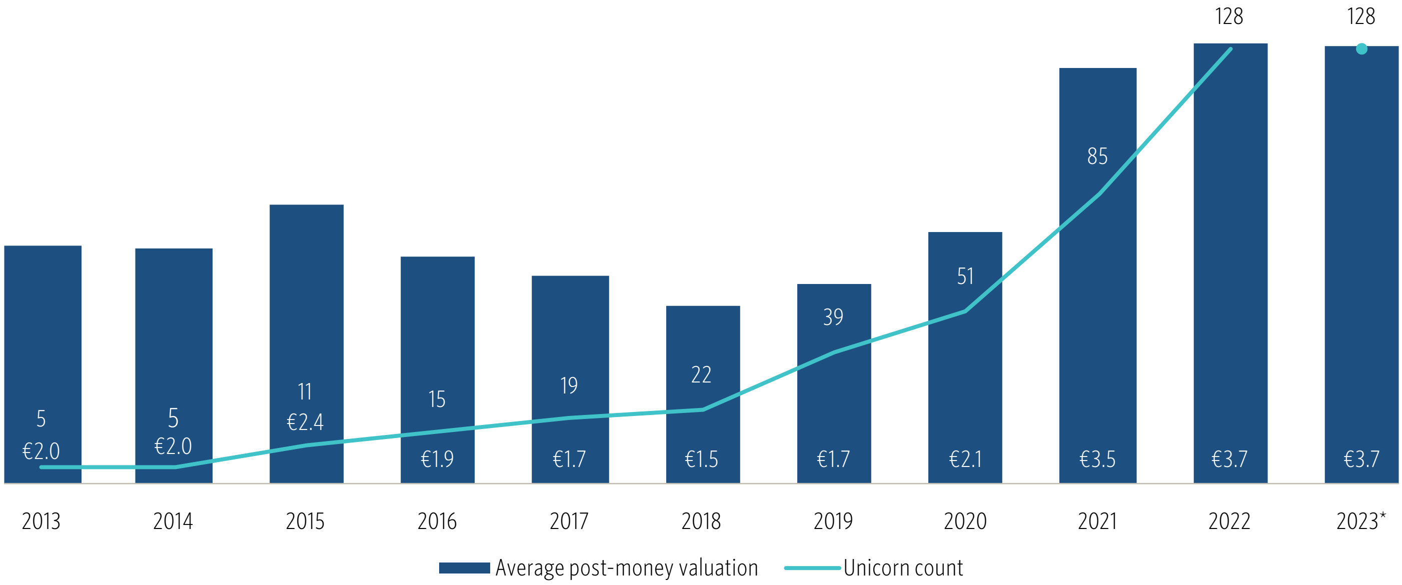
Bottlenecks from the muted VC exit environment may also create future capital cycle issues. As discussed in our [Q1 2023 European Venture Report](), capital deployed into startups from VC funds significantly outstripped capital raised by VC funds in 2021 and 2022. A prolonged period of fewer exits will harm near-term returns and could prevent LPs and GPs from rolling over capital distributions into new funds to finance companies. Although it is a more common strategy in PE, VC secondaries could become an alternative liquidity option for LPs. Returns in VC are highly concentrated among a small selection of outlier companies within the portfolios of a few top-performing GPs. Therefore, aging companies may face renewed pressure to exit unless liquidity options pick up.

Unicorn VC deal activity



Source: PitchBook • **Geography:** Europe
*As of March 31, 2023

Unicorn count and average post-money valuation (€B)



Source: PitchBook • **Geography:** Europe
*As of March 31, 2023

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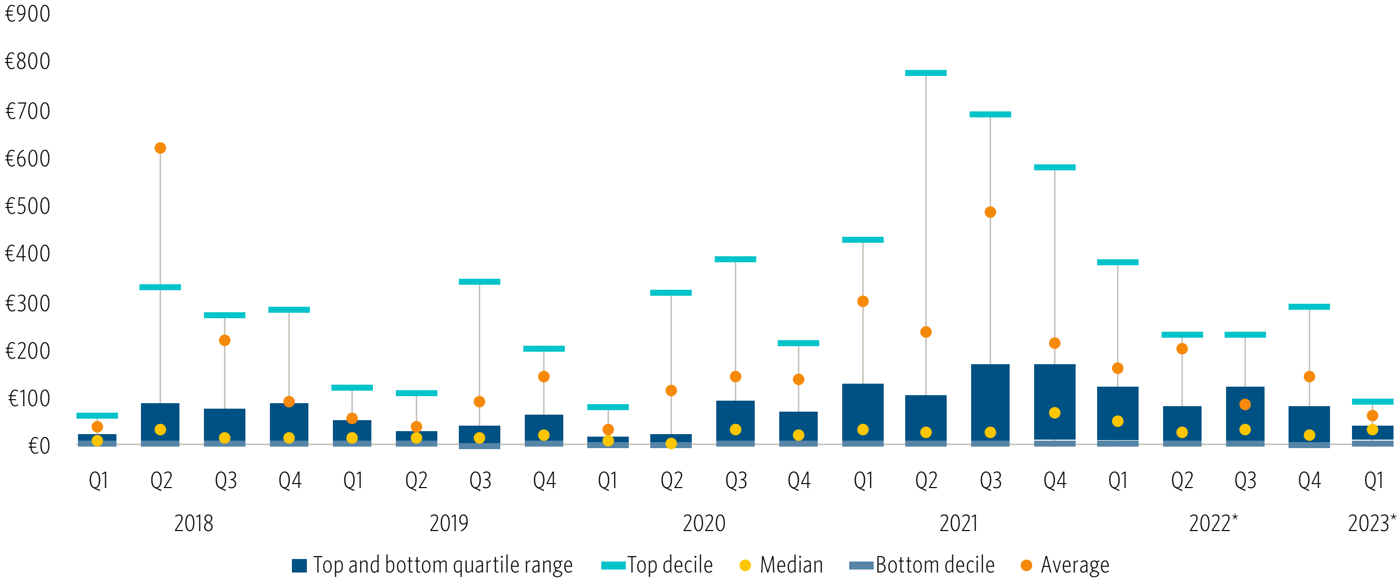
Liquidity

Quarterly VC valuation at exit (€M) dispersion



Source: PitchBook • **Geography:** Europe
*As of March 31, 2023

A tale of two strategies: exit valuations continued to fall YoY, while acquisition activity was resilient but public listings were subdued. In Q1 2023, the median exit valuation decreased 34.8% YoY but grew 48.5% QoQ. Several moving parts exist here depending on exit strategy, where sequentially, acquisition exit value increased but public listings decreased. For the former, the median valuation increased nearly threefold QoQ to €29.6 million, whereas public listing valuations declined 47.1% sequentially, but YoY showed some signs of recovery. Overall, we would expect acquisition-led exits to take share from public listings through the year, as valuations in public markets remain subdued and depressed asset values create opportunities for buyers.

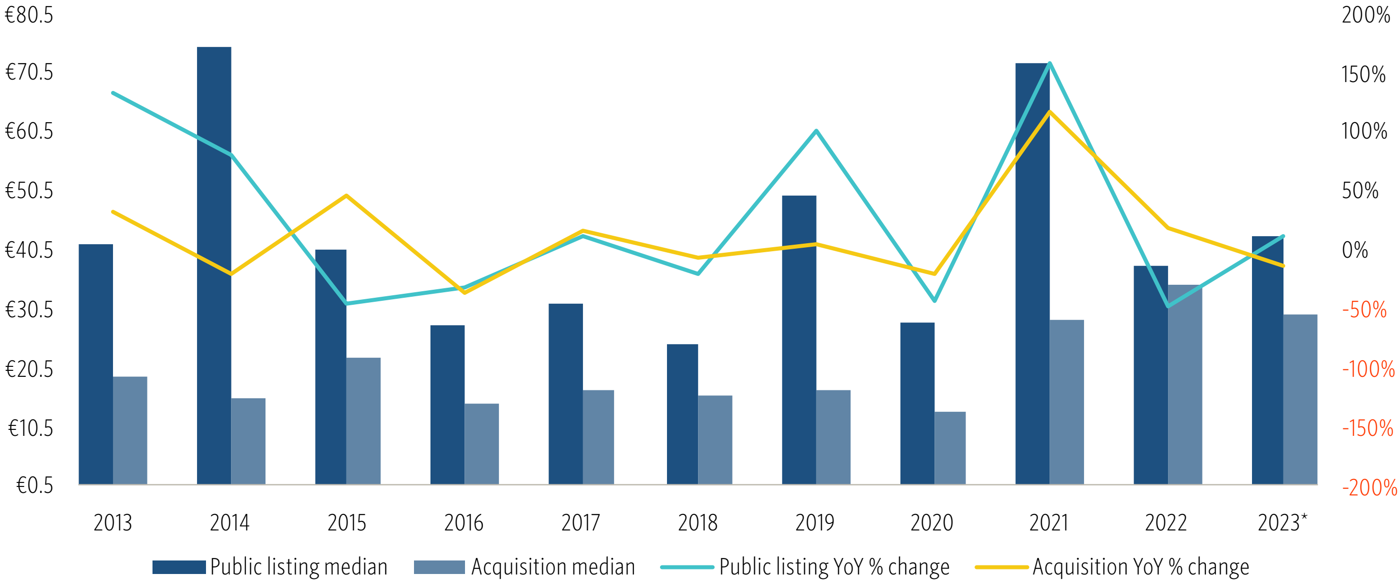
The sequential uptick in corporate acquisition values could be explained by the increasing buying activity in the wake of recently depressed asset valuations. Although QoQ median acquisition sizes have increased in Q1 2023, they are still pacing 14.1% below 2022's level, thus evidencing that valuations are still depressed. As private markets track public markets at a lag, we expect further markdowns through the year. This should lead to continued buying activity as the bid-ask spread narrows, thereby enabling corporates to carry out buy-and-build strategies. Recent examples of this include Dell acquiring Cloudify for €93.5 million to build out its cloud services business, and Via acquiring Citymapper for a similar amount to expand its transportation technology offering. Looking forward, corporate entities with both scale and balance sheet firepower will be best placed to capitalise on buying opportunities in the market.

On the other hand, listing counts remained subdued in Q1. Despite some recovery in valuations, the outlook is still uncertain.[3] Within this, the median valuation increased 5.8% quarterly YoY to €42.7 million, which could indicate some respite in public markets. In Q1 2023, the Eurostoxx 600 Index increased 6.5% with a few public listings in the quarter, albeit not from VC-backed companies (Lottomatic and TMP Group). As the count is low, we are hesitant to extrapolate these trends into the rest of the year as public listing activity remains uncertain. Overall, we believe public valuations are unlikely to fully recover, which means listings will stay depressed and liquidity pipelines for late-stage companies will remain challenged.

3: Note: Our data captured only four public listings with disclosed valuation figures in Q1 2023, the lowest count since 2020.

VC exit activity is likely to remain challenged throughout the year, with smaller exits more insulated. Acquisitions will likely take share of exit activity as public markets remain muted and the macroeconomic outlook remains uncertain. Higher rates mean conventional strategies such as leveraged buyouts (LBOs) may continue fall out of favour, thereby limiting exit opportunities for larger companies. This could increase the demand for smaller transactions, which can be financed by cash and stock. As options for larger entities such as LBOs or public listings are likely to remain limited, late-stage players will still need to be prudent with costs and cash burn despite scale advantages.

Median public listing and acquisition exit valuation (€M), with YoY change



Source: PitchBook • **Geography:** Europe
*As of March 31, 2023

Additional research

European private capital

Q1 2023 European Venture Report

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2022 Annual European VC Valuations Report

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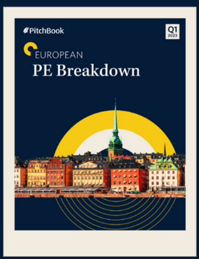

Q1 2023 European PE Breakdown

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