PitchBook

Q1 2023

EUROPEAN Venture Report

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Introduction

In Q1 2023, VC deal value and count fell amid a challenging dealmaking environment in Europe. Growth has been harder to capture as inflation and monetary policy tightening have dampened capital deployment. Inflated pandemic-driven growth rates and bloated workforces have exacerbated the need to reduce costs and improve margins for companies across the financial landscape, ranging from startups to international, publicly listed companies. The challenging macroeconomic landscape, combined with heavy investment in recent years, has created a tough situation for several businesses across sectors and regions. We could see more rounds that have debt and equity portions in upcoming quarters for cash-generative startups to mitigate risk for investors. The stability of the financial system, governance practises, and the robustness of regulations have come under renewed scrutiny in Q1 2023. The problems facing the established financial services industry are anticipated to have knock-on effects for the financial technology (fintech) scene.

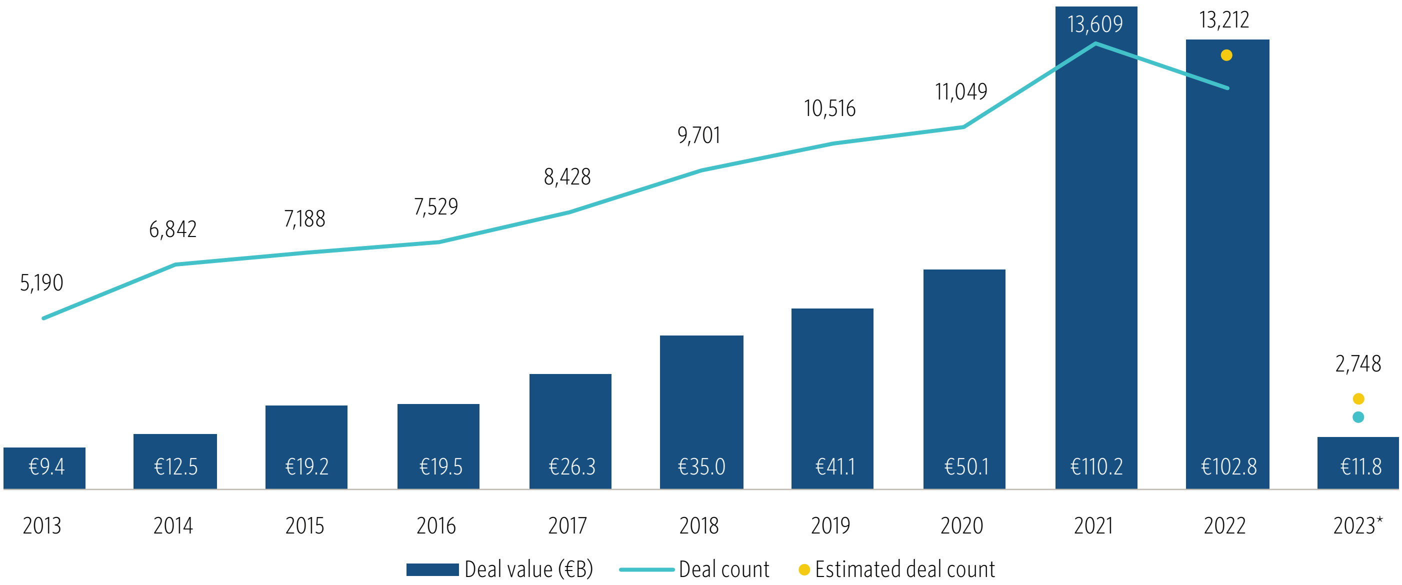
The broader economic downturn, coupled with declining VC investments levels, has pushed nontraditional participation lower. Startups tend to be more developed and round sizes are bigger when nontraditional investors are involved. Sharper declines are expected at mature financing stages, as companies are close to public markets, have greater financial measurability, and are expected to be revenue-generating. Therefore, deal activity with nontraditional investor participation may decline to a greater extent in comparison to smaller angel-, seed-, and early-stage deals. Different types of nontraditional investors will be experiencing different challenges in the current climate. Hedge funds and PE firms armed with capital, broad investment strategies, and flexible return horizons may aggressively deploy to take advantage of reduced competition and cooler multiples for assets.

In Q1, European VC exit activity deteriorated. Although market conditions are far less amenable than recent years, it appears the bumper showing in 2021 will not be matched for several years. Substantial VC exits effectively ceased in Q1 as unfavourable macroeconomic conditions and weaker valuations dampened exit appetite. Instead of seeking near-term liquidity, GPs and founders will be looking to manage runways as funding becomes harder in 2023. We expect exit activity to remain quiet for the next few quarters amid the volatility seen public markets in the past 12 months. Exits via M&A were the preferred route in Q1, and M&A with international corporate leaders could increase in upcoming quarters. M&A exits are generally smaller, but they provide added security and possible synergies, which could be invaluable to smaller businesses attempting to navigate the current uncertainty facing economies.

European VC fundraising is on pace for its lowest annual figure since 2015. Funds closed in Q1 2023 may have been launched in 2022, and we are now seeing the effects of weakened desire from GPs and LPs to launch and commit to new VC funds. Q1 2023 reflected the first substantial decline from the pace set in the past four years, and the VC ecosystem could finally be displaying the effects of the challenging fundraising conditions. Capital investment into startups has slowed, and if muted exits markets persist, returns will be stifled and long-term capital commitments could be harmed.

Deals

VC deal activity



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

Overview

In Q1 2023, VC deal value fell 32.1% quarter-over-quarter (QoQ) to €11.8 billion, and deal count fell 19.2% QoQ amid a challenging dealmaking environment in Europe. 2022 signalled a deceleration in deal activity across the continent, and 2023 has followed thus far. Growth has been increasingly harder to capture as inflation and monetary policy tightening have dampened capital deployment. Furthermore, inflated pandemic-driven growth rates and bloated workforces have exacerbated the need to reduce costs and improve margins for companies across the financial landscape, ranging from startups to international, publicly listed companies. While the majority of the startups in the VC ecosystem are loss-making, capital efficiency and robust paths to profitability are the priority for investors and operators now that capital availability is constricting.

Extending runway

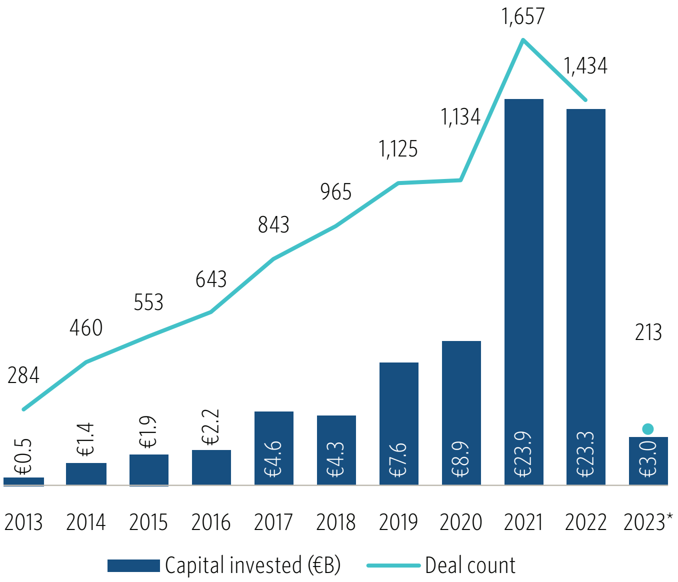
Swaths of layoffs were announced in Q1 2023, with fresh batches of cuts at major players. Some of the most valuable companies globally, such as Alphabet, Amazon, and Meta, are currently focused on cost bases, having chased growth against competitors and market domination for several years. The challenging macroeconomic landscape, combined with heavy investment in recent years, has created a tough situation for several businesses across sectors and regions. In Europe, previously VC-backed companies such as Spotify, Deliveroo, and Arrival have had to reduce headcount to improve their bottom-line performance. Within the VC ecosystem, payroll software provider PayFit reportedly cut 20% of its workforce in Q1 2023, approximately 14 months after raising €254.0 million at a €1.8 billion post-money valuation.[1] Extending runway is set to be a key theme during 2023, and we expect further layoffs across mature businesses in the VC ecosystem in the near term.

Challenges in financial services

Reduced spending and weaker growth forecasts are not the only headwinds for financial markets in the current climate. The collapse of three midsized US banks, Silicon Valley Bank (SVB), Signature Bank, and Silvergate Bank, as well as the acquisition of Credit Suisse by UBS, took place in Q1 2023. Consequently, the stability of the financial system, governance practises, and the robustness of regulations have come under renewed scrutiny. In 2022, Credit Suisse was listed among the 30 global systemically important banks, and its shotgun acquisition will only increase unease within the European finance sector.[2] SVB ties are closer to

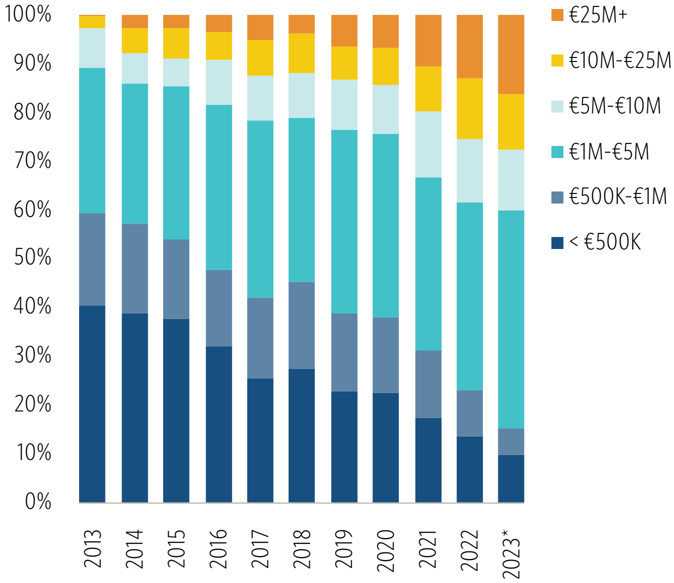
1: "Payfit to Part Ways With 200 People, or 20% of Its Workforce," Tech.eu, Dan Taylor, March 1, 2023.
2: "2022 List of Global Systemically Important Banks (G-SIBs)," Financial Stability Board, November 21, 2022.

Fintech VC deal activity



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

Share of fintech VC deal count by size bucket



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

VC, and it operates mainly in the US. But HSBC acquired its UK subsidiary for £1 to avoid insolvency, as discussed further in our recent analyst note, The Collapse of Silicon Valley Bank. The impact of SVB UK collapsing would have created funding, payroll, and logistical issues for depositors and businesses, including startups and VC funds that use its banking services. At the time of writing, it has been announced that First Citizens Bank has reached a definitive agreement to acquire SVB. The fallout will raise questions as to how the failure was allowed to happen, and it may lead to increased risk mitigation in relation to how the VC industry banks. Further, the fear of the contagion effect for other banks is likely to linger over the next few quarters.

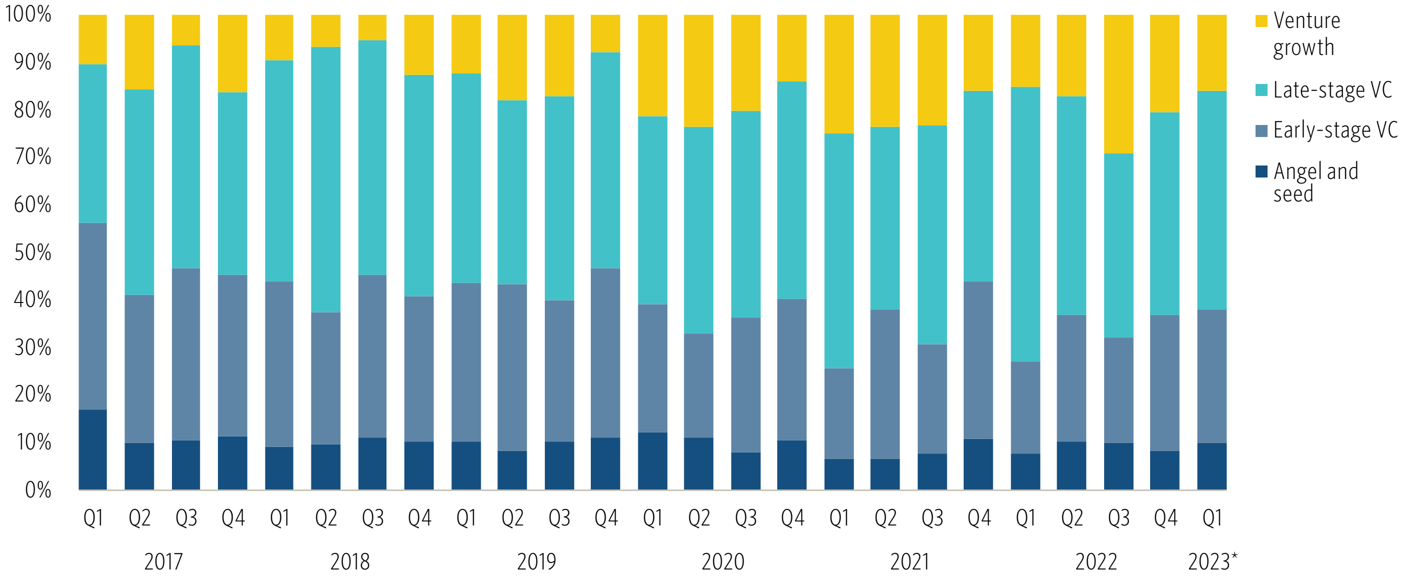
The problems facing the established financial services industry are anticipated to have knock-on effects for the fintech VC scene. Capital has flowed generously into new fintech players, with the opportunities in the sector underscored by the considerable profits made by incumbent financial institutions. Fintech is a major driver of VC activity in Europe, and signs of stress for large institutions will affect sentiment towards the subsector. New entrants such as Revolut have gained customers among a younger generation utilising technology for financial needs. Revolut has developed into one of the most valuable Europe-based startups, and it posted its first annual profit in 2021. However, its financials were released despite auditors BDO reportedly warning that they were "unable to satisfy ourselves concerning the completeness" of the crypto trading portion of 2021 accounts, and that some of those revenues "may be materially misstated" owing to the company's internal IT systems.[3] In 2021, Revolut posted £636.2 million in revenues, and it is currently valued at 41.2x revenue, at €30.6 billion, as of its funding round in July 2021. In the past year, valuations have declined at the top of the VC ecosystem. With funding slowing and investor-friendly terms surfacing, anything aiding valuation negotiations for investors or impacting due diligence may result in haircuts in a fresh round.

Financing stages

Late-stage capital tends to account for the largest portion of aggregate deal value, given the funding requirements of mature businesses with high burn rates within the VC ecosystem. Nonetheless, early-stage deal count grew to 34.5% of overall deal count in Q1 2023, pacing to beat the proportion registered in the past four years. A lack of late-stage activity is one factor driving this shift; however, substantial early-stage deals took place in Q1, which moved the needle. For example, London-based lending platform Abound secured €564.1 million comprising debt and equity. Although capital deployment has slowed, Abound's round illustrates that companies demonstrating long-term potential can obtain capital. We anticipate that higher quantities of large rounds will have greater debt and

3: "Revolut Reports Its First-Ever Year of Profit," Sifted, Amy O'Brien, March 1, 2023.

Quarterly share of VC deal value by stage



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

equity portions in upcoming quarters for cash-generative startups to mitigate risk for investors. While venture debt is less prominent as a funding source, debt providers could capitalise on startups in need of urgent funding and higher interest rates on repayments.

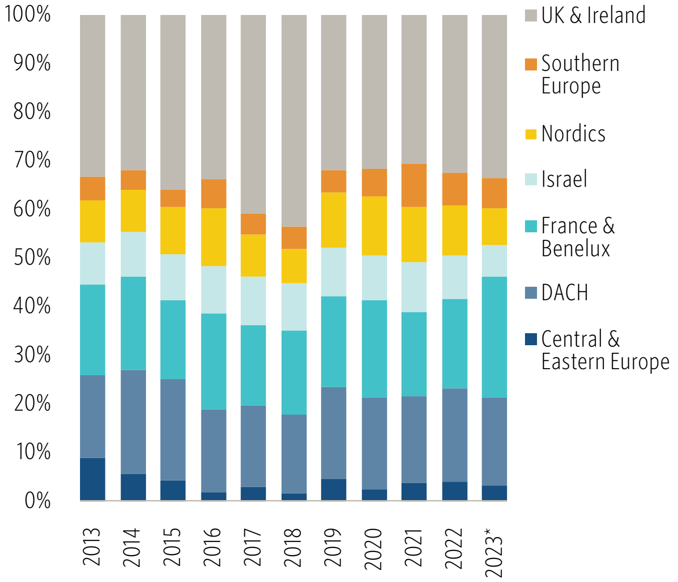
Sectors and regions

With VC deal activity down and challenges persisting within popular VC industries such as financial services and IT, opportunities exist in nascent areas. The energy sector and its resurgence, particularly in public markets, has been extensively covered in recent months. Historically, energy has not been a major VC sector, with only 4.6% of capital in Q1 2023 funnelled into the space. However, near-term interest and long-term climate targets in Europe are creating opportunities for backers and startups to invest heavily in making the industry more efficient and greener in the long term. One major deal in Q1 2023 involved Germany-based Enpal receiving €215.0 million. Enpal provides and installs solar panels alongside a subscription-based model for customers to pay for it. We believe deal activity in the clean energy subsector will continue to grow as renewable energy sources are developed globally.

Macroeconomic headwinds have been felt across Europe, with inflation biting into confidence and purchasing power. Inflation across major economies remained elevated in Q1 2023, with the UK recording a surprise CPI jump to 10.4% in March 2023. The UK was the only country with an inflation rate above 10% among the US, France, Germany, and Italy in March 2023. Despite concerns stemming from inflation and interest rates eroding confidence, the UK & Ireland generated €4.0 billion, equivalent to one-third of the total in Q1 2023.

VC deals by region and sector

Share of VC deal value by region



Source: PitchBook • **Geography:** Europe
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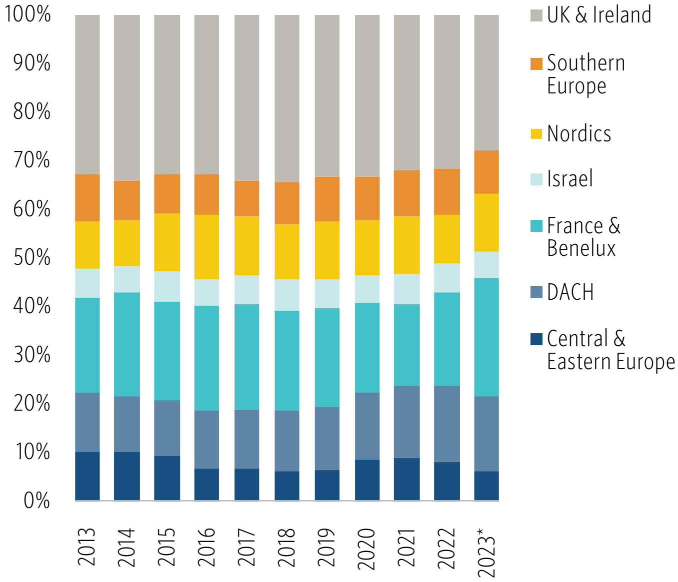
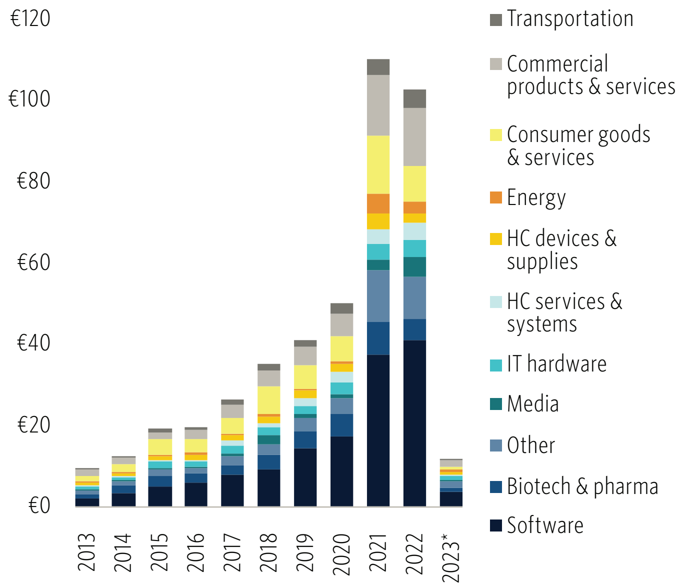
Share of VC deal count by region



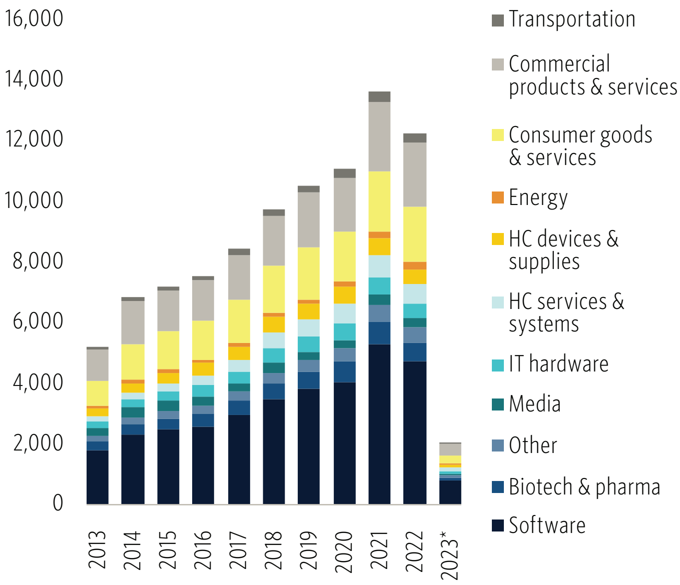
Source: PitchBook • **Geography:** Europe
*As of March 31, 2023

VC deal value (€B) by sector



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

VC deal count by sector



Source: PitchBook • **Geography:** Europe
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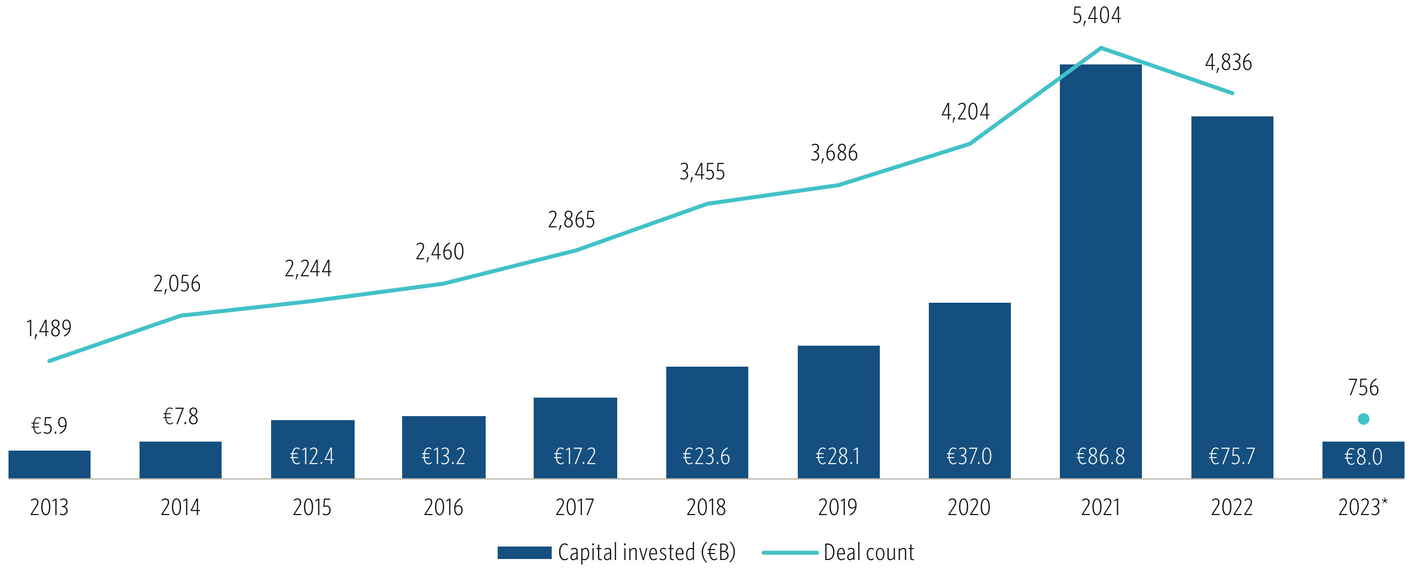
Nontraditional investors

VC deal activity with nontraditional investor participation



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

Overview

In Q1 2023, VC deal value with nontraditional investor participation reached €8.0 billion,[4] which is on pace for the lowest total since 2018. The broader economic downturn, coupled with declining VC investments levels, has pushed nontraditional participation lower. In Q1 2023, 67.6% of VC deal value and 37.4% of VC deal count involved some form of nontraditional investor, which is in line with recent annual figures. We expect VC deal activity with nontraditional investor participation to mirror wider trends shaping the VC ecosystem. Startups tend to be more developed and round sizes are bigger when nontraditional investors are involved. Sharper declines are expected at mature financing stages, as companies are closer to public markets, have greater financial measurability, and are expected to be revenue-generating. Therefore, deal activity with nontraditional investors may decline to a greater extent in comparison to smaller angel-, seed-, and early-stage deals.

Different types of nontraditional investors will be experiencing different challenges in the current climate. For example, a VC arm of an IT company conducting layoffs and focusing on capital efficiency may struggle to justify a hefty capital outlay on a new business. Whereas, a sovereign wealth fund benefitting from recent spikes in oil prices may have revived appetite to deploy cash and diversify into sectors such as IT amid lower valuations. Moreover, hedge funds and PE firms with dry powder, broad investment strategies, and flexible return horizons may aggressively deploy capital to take advantage of reduced competition and a cooler market for assets. Thus, different nontraditional investors are likely to be experiencing contrasting fortunes as priorities have shifted towards profitability and away from growth at all costs in recent quarters.

Strategic partnerships offer opportunities

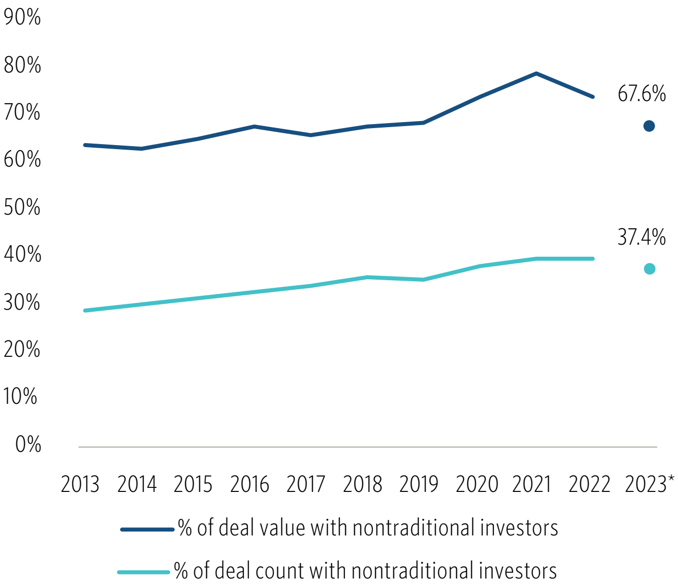
Despite uncertainty, VC deals across a range of sectors have continued to close in Q1 2023. Germany-based PE investment platform Moonfare completed a €140.0 million round, which involved Fidelity International Strategic Ventures, among others. In 2021, Fidelity International and Moonfare agreed to a strategic partnership—an agreement that has become increasingly prevalent between startups and nontraditional backers. Under the partnership, Moonfare provides access to private market funds for Fidelity's institutional clients in exchange for Fidelity's investments and a board seat filled on Moonfare's advisory board. Deals structured as partnerships enable both parties to benefit from shared tangible and intangible resources,

4: Note: We define nontraditional investors as investors that are not primarily categorised as VC investors. They can range from corporate venture capitalists (CVCs) to financial institutions, including investment banks, PE firms, sovereign wealth funds, hedge funds, and pension funds, among others.

including client bases, capital, business opportunities, and guidance, thereby increasing the likelihood of scale and success for the underlying portfolio company.

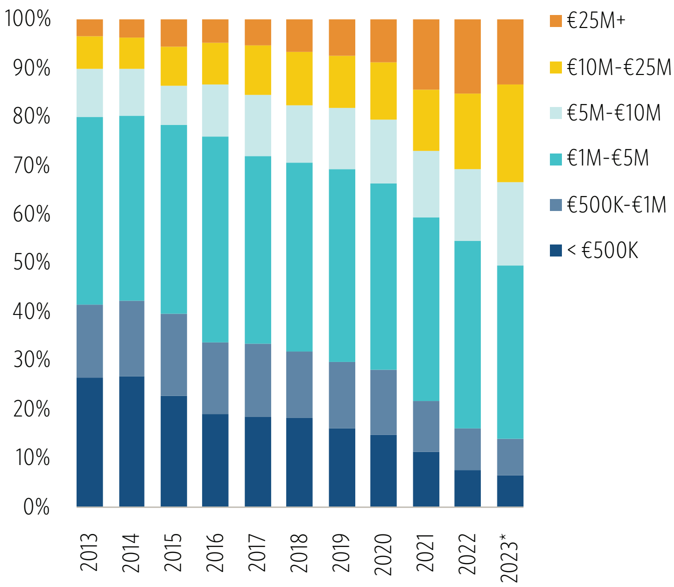
Evolving industries are improving nontraditional investors' appetites and promoting deal activity, too. Historically, cars were bought upfront and outright, but financing agreements have proliferated in recent years to reduce the capital burden for consumers through a lower initial deposit and multi-year loans. In the UK, approximately 92% of cars are purchased using finance agreements, and the debt finance market for new and used cars is worth €45.4 billion (£40 billion) per year.[5] In 2023, car financing provider Carmoola obtained €116.8 million in debt and equity from investors including banking group NatWest and InMotion Ventures, the VC arm of carmaker Jaguar Land Rover. The deal highlights that incumbents remain attracted to tools that can improve services for their underlying operational businesses, which continue to be a core driver behind CVC investment.

VC deal activity with nontraditional investor participation as a share of all VC deal activity



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

Share of VC deal count with nontraditional investor participation by size bucket



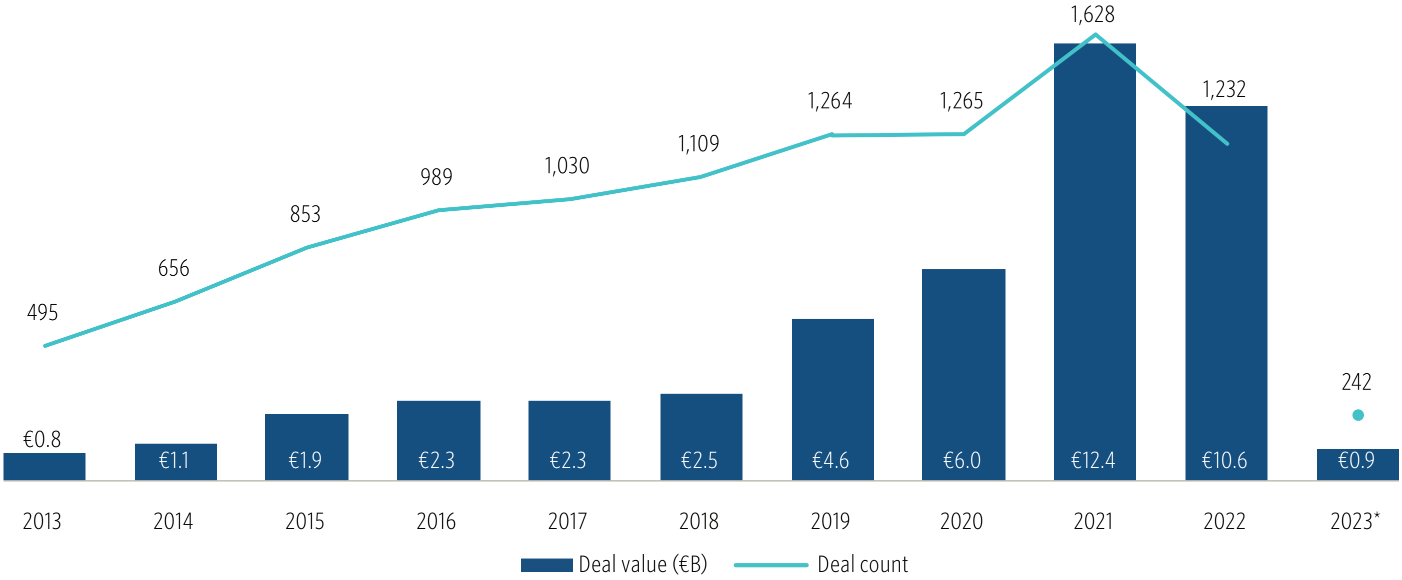
Source: PitchBook • **Geography:** Europe
*As of March 31, 2023

5: "UK Car Finance Debt Soars to £40Bn," Automotive Management Online, Matt de Prez, November 2, 2022.

PitchBook

Spotlight: Nordics

VC deal activity



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

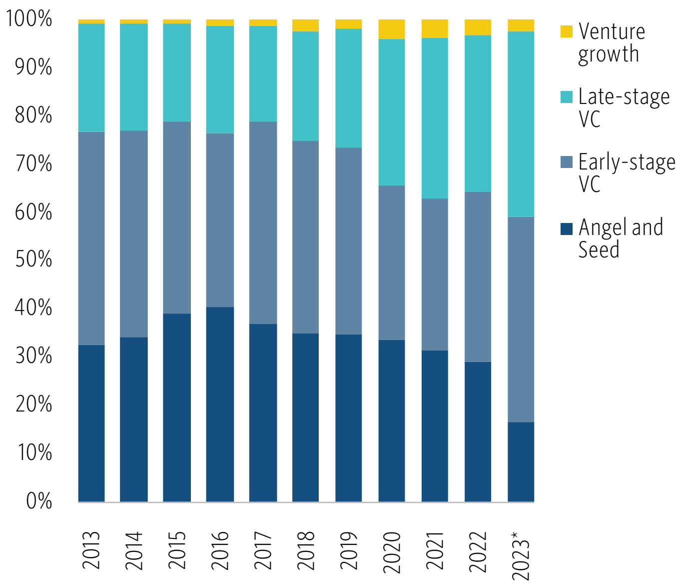
This spotlight is abridged from our 2023 Nordic Private Capital Breakdown. Please see the full report for the full analysis.

Deals

In 2022, Nordic VC deal activity remained strong, recording its second-highest year in terms of deal value despite dropping from the highs seen in 2021. Sweden—and in particular its capital, Stockholm, which has a population of 1 million—has established itself as a VC hub within Europe, trailing only London, Paris, and Berlin in terms of deal value in the last four years. The Nordics have increased their VC presence in the last few years, establishing their footprint on the asset class with some strong VC-backed companies, such as Spotify, Skype, and Trustpilot. These companies have benefitted from top talent from leading academic institutions, a strong entrepreneurial culture, and a business-friendly approach to VC from a regulatory standpoint.

In recent years, the region has established itself as a hub for fintech VC companies because it has a high adoption of digitalisation, according to the European Union's Digital Economy and Society Index (DESI). The DESI listed Finland, Denmark, and Sweden among the most digitally connected countries in the EU in 2022, ranking them first, second, and fourth, respectively.[6]

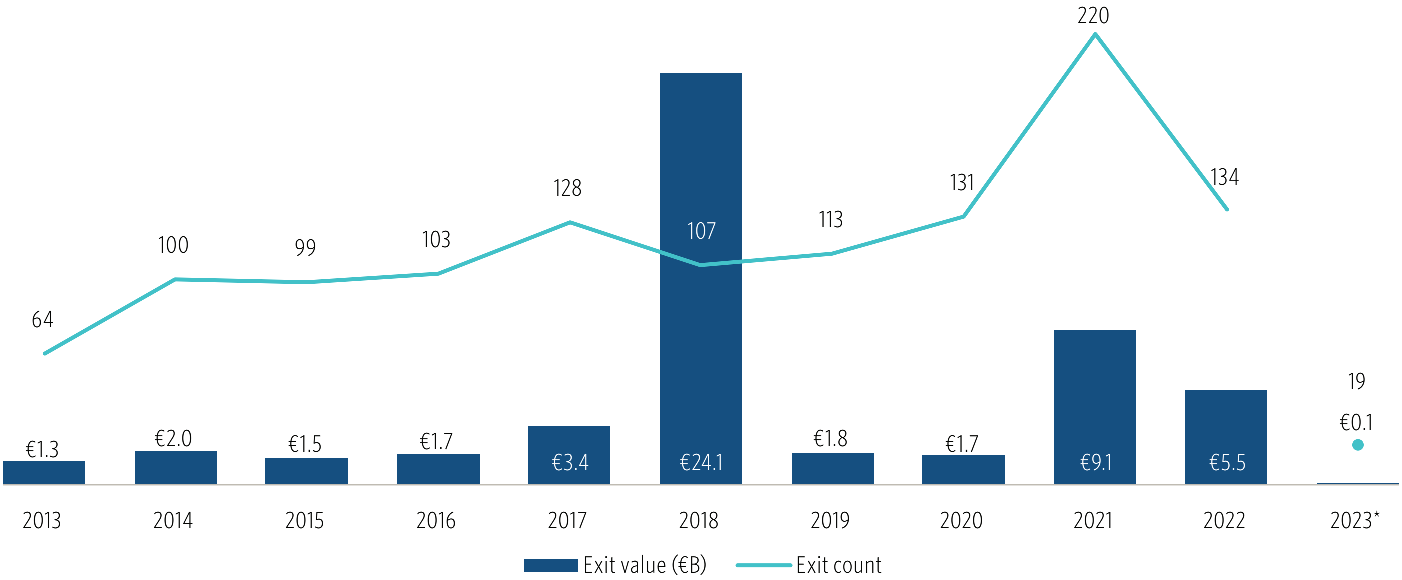
Share of VC deal count by stage



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

6: "The Digital Economy and Society Index (DESI)," European Commission, January 6, 2023.

VC exit activity



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

Exits

In 2022, Nordic VC-backed exits held up well compared with the rest of the continent. In fact, it was the third-best year in terms of VC-backed exits for the Nordic region and the second-best year if we exclude the outlier Spotify exit in 2018. Historically, the Nordic region has had a strong preference for public listings when it comes to exits: Public listings usually account for a majority of exits in the Nordics, a trend not seen in other regions of Europe. However, this trend ended in 2022 with a nine-year low for Nordic public listings.

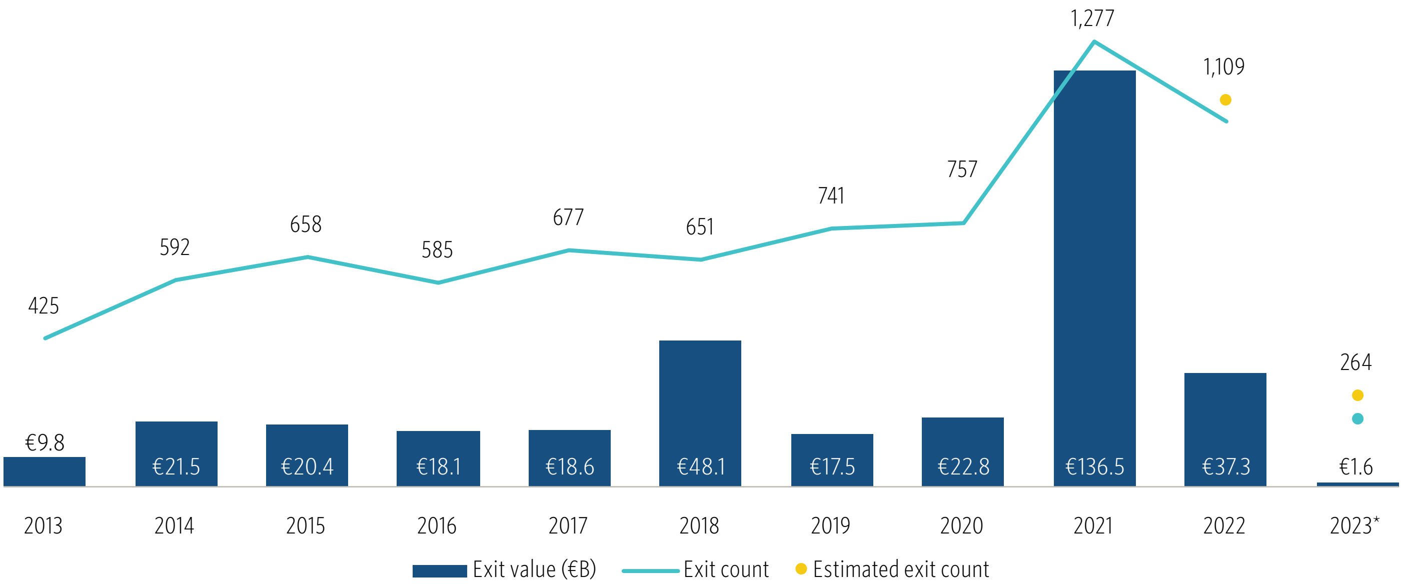
Besides the Spotify public listing, the Nordic region has propelled many success stories in the past, from iZettle's acquisition by PayPal in 2018 to Tink's 2022 acquisition by Visa. 2022 saw another multi-billion-euro exit close in the Nordics thanks to the acquisition of Finnish food delivery app Wolt by DoorDash for €2.7 billion. The US-based food delivery app is notorious for growing through acquisitions, having previously bought out Caviar, Chowbotics, Bbot, and Scotty Labs, among other deals. The acquisition of Wolt is a horizontal type of acquisition, allowing DoorDash to enter the European market for the first time and compete with its European counterparts such as Deliveroo, Glovo, and Just Eat Takeaway. Having said this, Wolt dominates certain geographies on the continent, including the Nordics and many countries in Eastern Europe. With this acquisition, Wolt becomes the Nordics' second-most-lucrative exit in the region after Spotify's exit in 2018.

Fundraising

VC fundraising in the Nordic region was sluggish in 2022. This contrasts with overall European fundraising, which kept up well and stayed flat in 2022. The bulk of the capital raised by Nordic VC funds can be attributed to EQT. The Swedish powerhouse raised €1.1 billion for its third VC fund in 2022 to become the largest private VC fund in the Nordic region and the only private fund above the €1 billion threshold.

Exits

VC exit activity



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

Overview

In Q1 2023, European VC exit activity deteriorated, with only €1.6 billion in exit value, reflecting a 69.6% QoQ decline. Exit count stayed flat from Q4 2022, but exit value registered its lowest figure since Q1 2020. Although market conditions were far less conducive than recent years, it appears the bumper showing in 2021 will not be matched for several years. Substantial VC exits effectively ceased in Q1 as unfavourable macroeconomic conditions and weaker valuations dampened exit appetite. Instead of seeking near-term liquidity, GPs and founders will be looking to manage runways as funding becomes harder in 2023. We expect exit activity to remain quiet for the next few quarters amid the volatility seen in public markets in the past 12 months.

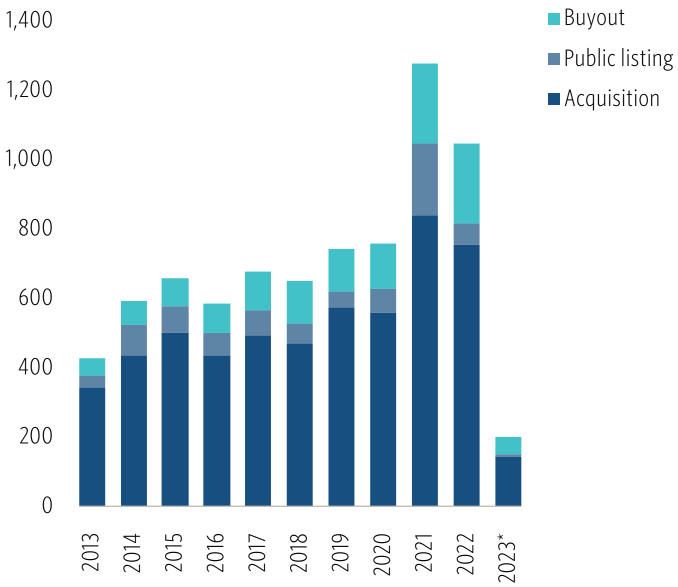
M&A opens exit routes

Public listings have often been the biggest exits in a quarter; however, this trend reversed in Q1, with four out of the five largest exits going through M&A. Public listings are off the table as investors and operators avoid risking an exit in the choppy public markets. Exits via M&A were the preferred route for startups in Q1, and M&A with international corporate leaders could increase in the upcoming quarters. M&A exits are generally smaller than public listings, but provide added security and possible synergies, which could be invaluable to smaller businesses attempting to navigate the current uncertainty facing economies.

In Q1 2023, agriculture and construction equipment provider CNH Industrial acquired France-based agricultural technology (agtech) specialist Augmenta for €103.4 million. Since 2018, Augmenta has offered products, services, and analytics to farmers, while operating as a business partner with CNH Industrial. In 2021, CNH Industrial became a minority equity shareholder and joined Augmenta's board of directors. Corporates taking a minority holding and then fully acquiring a startup offers an attractive exit route and a mutually beneficial arrangement for both founders and investors. As tougher market dynamics evolve, larger corporates will be looking for efficiencies, and startups will need liquidity. Therefore, we believe exits like this will continue to take place.

In the current landscape, exit activity may also be driven out of necessity. Having completed a €101.6 million funding in Q1 2023, US-based transit tech company Via acquired London-based Citymapper for €93.0 million. The exit valuation is roughly half the €220.9 million pre-money valuation for Citymapper during a crowdfunding campaign in May 2021. Although startups are often loss-making,

VC exit count by type



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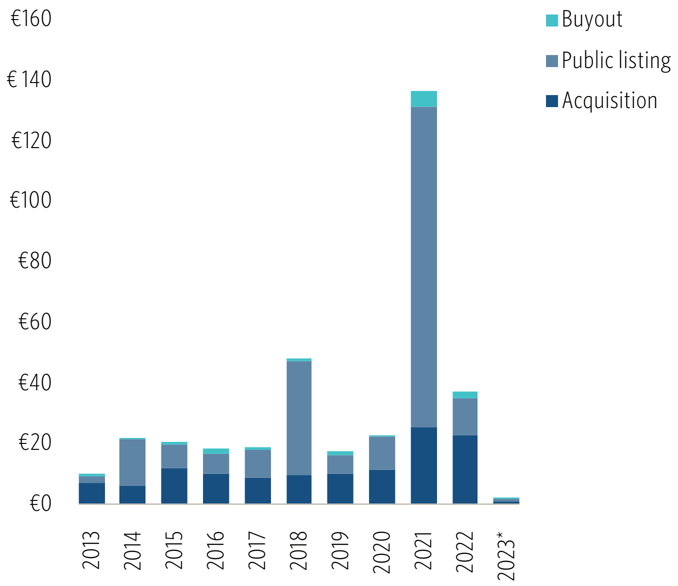
*As of March 31, 2023

VC exit value (€B) by type



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

Citymapper posted a widening YoY operating loss of £8.1 million in December 2021, compared with £7.3 million from 2019 to 2020, according to filings on Companies House.[7] The acquisition of Citymapper underpins the challenges facing startups that are strapped for cash, and the wider the mobility sector, where margins are low, competition is high, and enormous scale is required to become financially sustainable.

Public listings remain muted

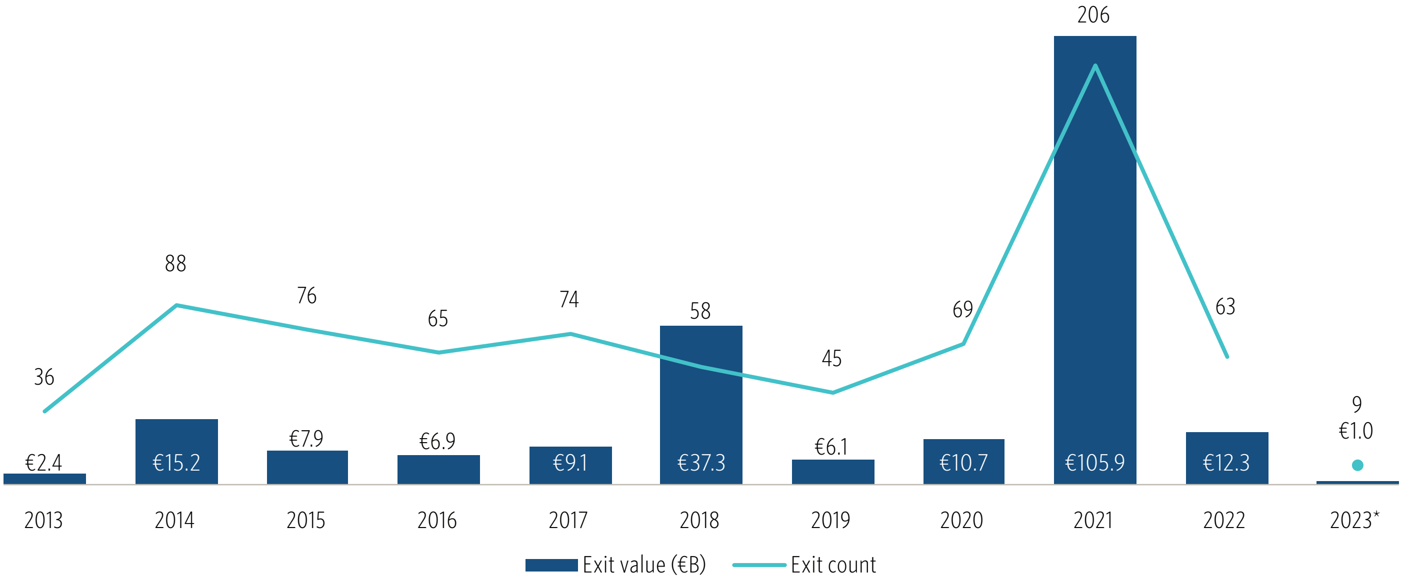
We expect public listings to remain muted in 2023 amid a lack of investor demand and uncertainty in public markets. A public debut could facilitate a rapid decline in share price, and with businesses and investors displaying high sensitivity due to layoffs in IT and collapses in the banking sector, stakeholders are unlikely to push for a listing. Overheated private market valuations that were announced during 2021 are becoming unrealistic to build on in 2023. We anticipate public listings will pick up only when inflation cools across major economies, interest rate hikes cease, and business confidence re-emerges. Nonetheless, when markets rebound, public listing activity could accelerate rapidly, as shown in late 2020, after pandemic lockdowns highlighted high-growth areas such as e-commerce and cloud-based businesses.

The share prices of previously VC-backed companies are also affecting desire to list. Timing is important for returns, and investors may be looking to acquire shares of publicly listed companies at cut prices, rather than underwriting a new public listing that could carry greater price risk depending on how it is received in the market. In the public markets, one method of interpreting risk is a stock's beta—the measure of the stock's volatility relative to its underlying index. Stocks with higher beta are riskier, but investors will underwrite a higher return. The delicate balance between risk and reward will be impacting decision-making for public listings in 2023.

Since the flood of investments and exits in 2021, pricing points have corrected, and thus companies that secured VC financing in the past two to three years may struggle to drum up sufficient demand to list at a larger valuation in 2023. Investors may point towards the performance of recently listed stock to justify price points. For example, On, Wise, and Deliveroo were three of the largest public listings in 2021, and their share prices as of April 13, 2023 are approximately 16.2%, 37.5%, and 66.9% down, respectively, since debuting. Nevertheless, it is worth stressing that public companies have struggled across sectors and geographies in the past 12 months.

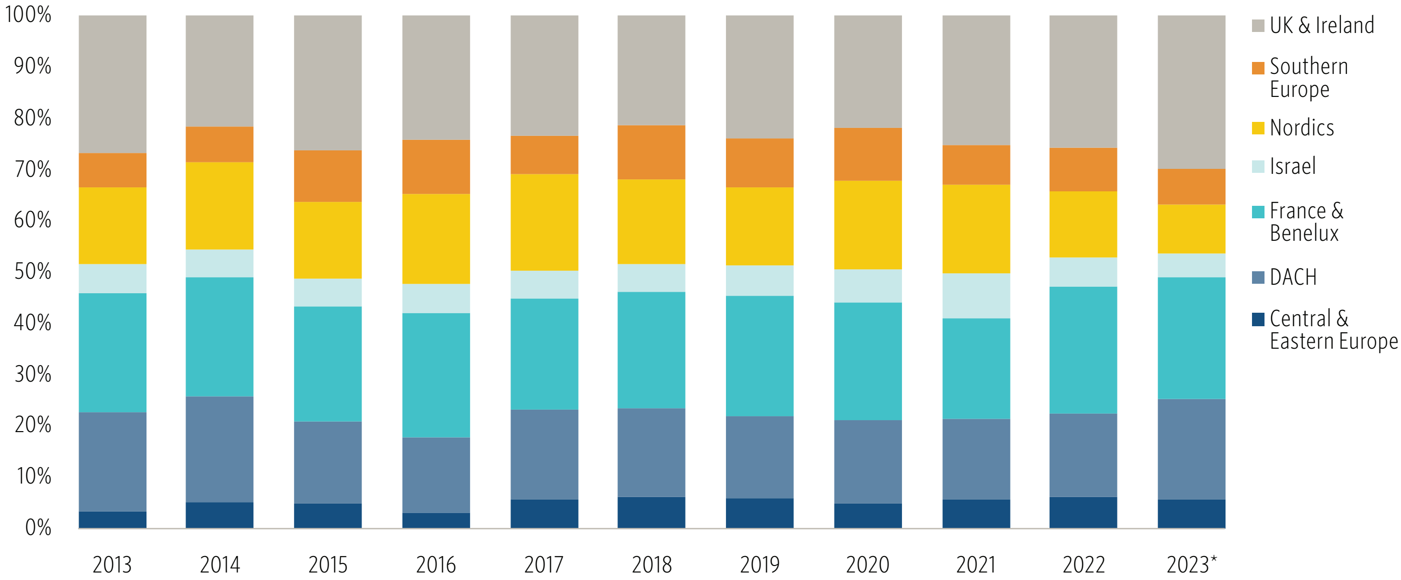
7: "Via Confirms It's Acquired Trip Planning App Citymapper to Boost Its Transit Tech," TechCrunch, Rebecca Bellan and Ingrid Lunden, March 16, 2023.

Public listing VC exit activity



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

Share of VC exit count by region



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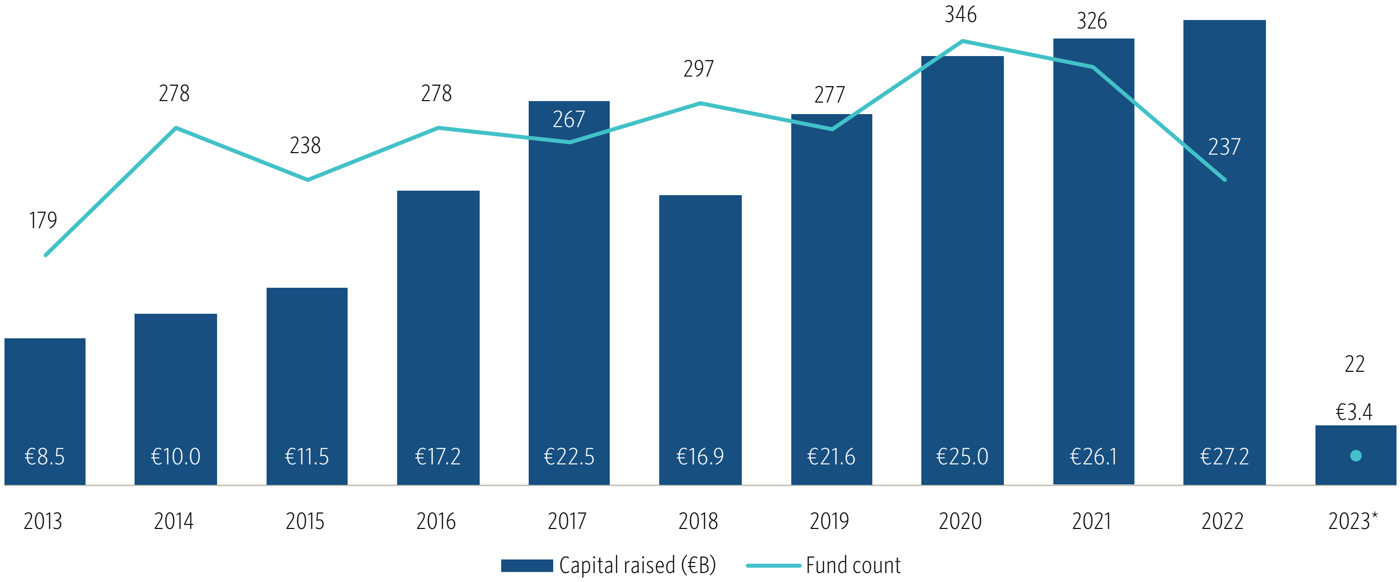
Fundraising

VC fundraising activity



Source: PitchBook • **Geography:** Europe
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Overview

European VC funds collectively raised over €20 billion in each of the past four years, but only €3.4 billion was raised in Q1 2023, putting it on pace for the lowest annual figure since 2015. Fundraising has been stable rather than spectacular in the past four years, as deal and exit value have ballooned to record highs. Despite a less conducive environment for fundraising in 2022, LPs committed a record amount of capital to VC funds. Figures may have been inflated in 2022 and less reactive to market conditions, as funds can take several months to close. Nevertheless, Q1 2023 reflected the first substantial decline from the pace set in the past four years. Funds closed in H1 2023 may have been launched in 2022, and we are now seeing the effects of weakened desire from GPs and LPs to launch and commit to new VC funds.

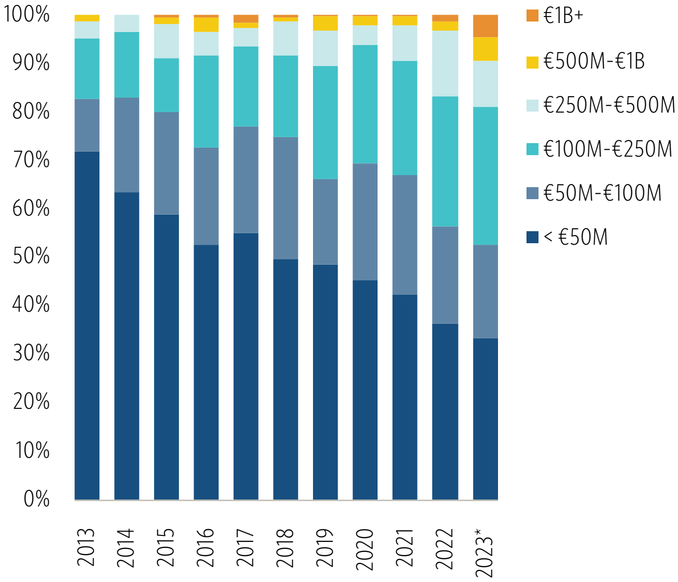
Notable funds

Notable vehicles closed in Q1 2023 despite a drop in the aggregate capital raised by European VC funds. VC offers LPs the opportunity to gain exposure to a range of companies as GPs invest for the long run, focus on different funding stages, deprioritise diversification, and can be industry agnostic or specialised. Therefore, the broad range of niche VC funds enables LPs from a breadth of industries to commit to different types of VC funds. For example, High-Tech Gründerfonds' €500.0 million fourth fund closed in Q1 2023 and will invest at the seed stage and focus on digital and industrial tech, life sciences, and chemicals. McWin Capital Partners' €300.0 million Food Ecosystem Fund has allocated 70% of capital to the food services industry and 30% to the foodtech vertical. Finally, SWEN Capital Partners' €150.0 million Blue Ocean Fund will invest in sustainable aquaculture, alternatives to single-use plastic, renewable marine energy generation, and maritime transport decarbonisation tools. All three funds highlight how divergent investment areas can be in VC, with defensive, cyclical, and sensitive portfolio opportunities for LPs.

The €50.0 million Ukrainian Phoenix Fund was another noteworthy VC fund to close in Q1 2023. The fund has ties to France and will invest in early-stage startups in Ukraine. The fund is endorsed by French President Emmanuel Macron and is billed as leading Europe's response to Kyiv's postwar reconstruction effort. During a recent bilateral French-Ukrainian conference, Macron highlighted that economic reconstruction is critical to determining the aftermath of major conflicts.[8] Q1 2023 marked the one-year anniversary

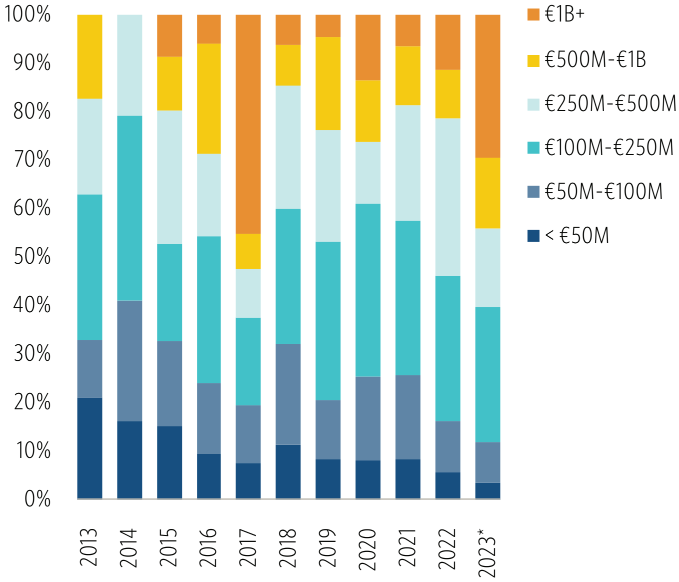
8: "Marrying the Best of French and Ukrainian Innovation, Kyiv's La French Raises €50 Million for Ukrainian VC Push," Tech.eu, Callum Cyrus, January 11, 2023.

Share of VC fund count by size bucket



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

Share of VC capital raised by size bucket



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

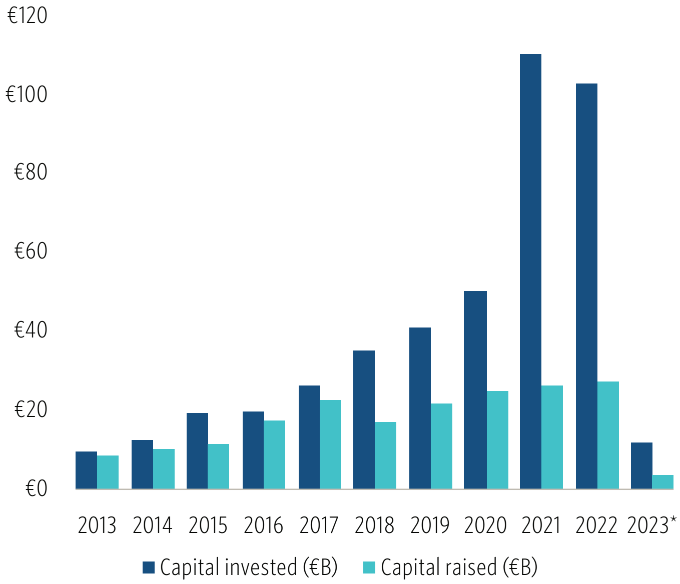
of Russia's invasion of Ukraine. The devastating conflict has continued throughout the past 12 months with seemingly no end on the horizon.

Looking ahead: capital deployed into deals versus capital raised by VC funds

In 2021 and 2022, the difference between capital deployed into startups and capital raised by VC funds swelled to €84.2 billion and €74.6 billion, respectively. Larger VC funds and the injection of nontraditional capital have increased capital availability in VC. However, with capital pouring out of funds at record rates in recent years, challenges to sustain fundraising levels to fuel future investments could emerge. Given the low showing in Q1 and growing feelings that fundraising is expected to slow in 2023 and beyond, dry powder levels could fall, and a capital shortage could occur in coming years. Capital availability has not been an issue in the past decade, but with exits drying up, GPs could begin to struggle to generate returns back to LPs and satisfy funding requirements of their ageing portfolios.

VC creates a cyclical capital flow to function effectively. Even if new players and nontraditional investors have increased capital availability, a lack of returns over a long period will prevent follow-on commitments to VC funds, with capital trapped in businesses that have not exited the VC ecosystem. The near-term remedy for GPs is to become more selective and slow capital deployment, and this is already taking place. Partial share sales are another option, wherein an early investor cashes out their stake in the company to other investors. However, a sustained period

Capital deployed into deals versus capital raised by VC funds



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

of tougher dealmaking conditions for startups will result in businesses struggling to stay afloat with their existing runway. Companies going out of business, consolidating, or not growing would then impact subsequent returns from VC funds, which could then harm re-up commitments to VC funds, with capital shifting into other investment strategies.

Additional research

European private capital

2022 Annual European Venture Report

Download the report here

2022 Annual European VC Valuations Report

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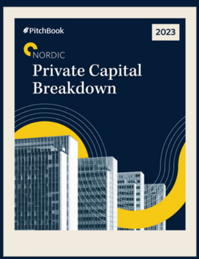

2023 Nordic Private Capital Breakdown

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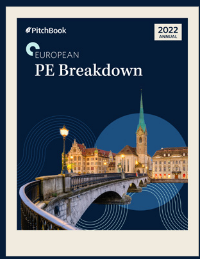

2022 Annual European PE Breakdown

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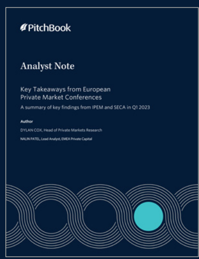

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