PitchBook

Q2 2022

EUROPEAN

VC Valuations

PitchBook

Contents

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Published on August 15, 2022

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Introduction

European venture capital (VC) pre-money valuations displayed resilience amid uncertainty in financial markets in H1 2022. VC dealmaking was healthy in H1 2022 and valuations have landed higher than expected despite dire outlooks. As we move deeper into the year, dealmaking may flatten and lofty private-market valuations could cool. It is too early to tell how VC-backed companies will fare given the declines in public equities, but layoffs, down rounds, and valuation haircuts could increase in frequency in the coming months. VC valuations across financing stages could have divergent fortunes in upcoming quarters as mature companies closer to public markets mirror changes first.

VC deal activity with nontraditional investor participation maintained a robust pace in H1 2022. The allure of diversification, exciting companies, and impressive returns have enticed nontraditional backers to move into the VC landscape. Investments ballooned from nontraditional investors in the past two years, and we expect investors to focus on core areas of expertise for upcoming investments. As valuations are revaluated across financial markets in 2022, it may take a few quarters to indicate material declines in the VC ecosystem.

Despite a challenging macroeconomic backdrop, the aggregate value and count of unicorns in Europe remained elevated in H1 2022. With previously VC-backed businesses having their valuations slashed in public markets, mature VC-backed companies have yet to display widespread haircuts amid reports of lower growth and reduced spending to extend funding runways. In Q2 2022, unicorn deal value and volume declined significantly quarter-over-quarter (QoQ). Early signs of valuation haircuts for businesses that boomed during COVID-19 have emerged in H1 2022.

The exit market has retreated to pre-2021 levels and the decline in activity indicated disparate exit valuations in H1 2022. The 2022 exit market has been considerably quieter than 2021, which saw companies rush towards an exit to take advantage of lofty valuations and strong demand from investors. Financial markets have shifted in 2022, and with tech stocks struggling and market capitalisations declining, further cuts to record-high valuations could filter into the VC ecosystem. The war in Ukraine, supply chain issues, and stagflation have added to the headwinds facing financial markets in H1 2022. We expect exit activity to remain subdued in the next two quarters as founders, companies, and investors negotiate near-term uncertainty. Public listings are to remain muted, while acquisitions could become attractive.

Overview

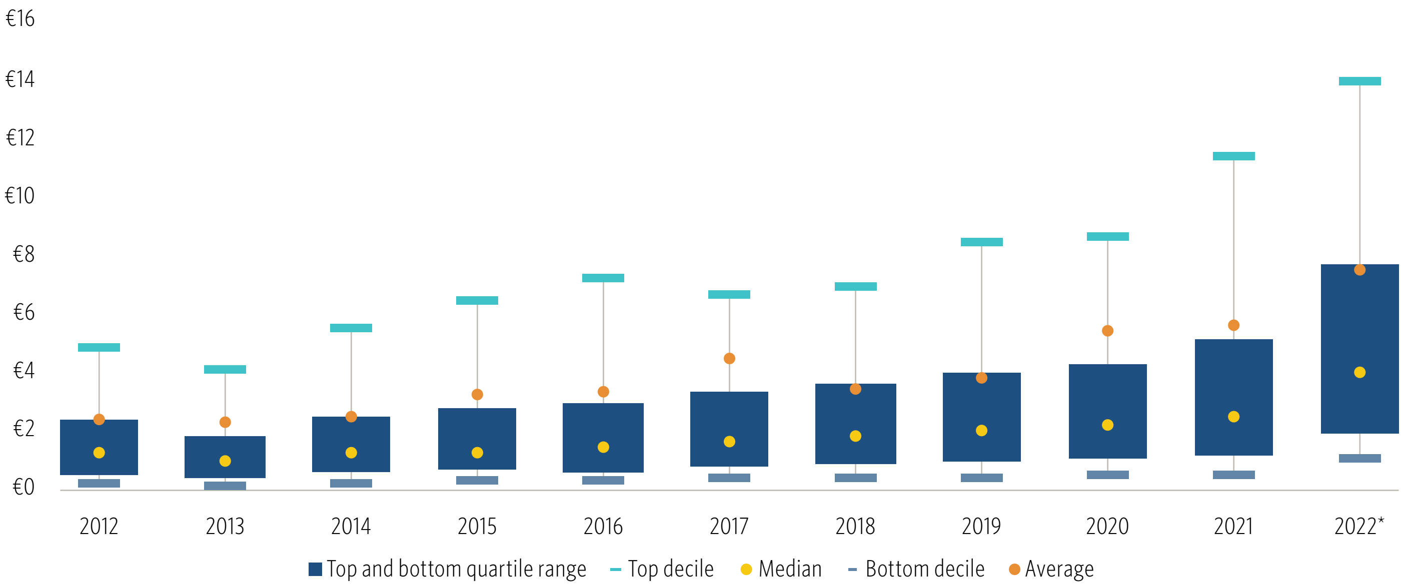
European VC pre-money valuations displayed resilience amid uncertainty in financial markets in Q2 2022. In the first half of the year, valuations across all financing stages paced above the figures in 2021, as investors and companies continued to close rounds—despite a significant decline in valuations of publicly listed companies, particularly in the technology sector. VC dealmaking was robust in H1 2022 regardless of dire outlooks, and valuations have landed higher than expected. Nonetheless, VC is an illiquid strategy and depressions in valuations could filter into the ecosystem deeper into the year. VC valuations are tied to periodic funding rounds, whereas public equities are subject to daily price swings based on market conditions. Therefore, we expect VC valuations to display a softer decline in multiples immediately; however, when essential funding rounds are closed, the full effects of recalibrated valuations, businesses struggling for growth, and shifting market sentiment will be reflected.

Inflation has been a major challenge in 2022, with central banks rushing to raise interest rates to combat upward pressure on prices. In turn, the sustained period of record-low interest rates that has characterised inexpensive capital availability and the rise of private market strategies is over. With further interest rate increases mooted, dealmakers could be forced to conduct deals ahead of conditions worsening amid a recessionary environment, or delay deals in hope of markets turning. As we move deeper into 2022, dealmaking could flatten and lofty private-market valuations may cool. The pace set during the past two years in the European VC ecosystem was unprecedented and we could enter correction territory in 2022. It is too early to tell how VC-backed companies will fare given the declines in public equities, but layoffs, down rounds, and valuation haircuts could increase in frequency in the coming months.

Angel & seed

Valuations tied to angel & seed rounds showed positivity in H1 2022. Pre-revenue ideas and companies in their infancy have continued to attract capital in spite of uncertainty facing financial markets globally. In H1 2022, the median angel & seed pre-money valuation reached €4.0 million and €5.8 million, respectively, both tracing above figures in 2021. Angel & seed rounds are the furthest removed from public markets, as businesses are years away from maturity and an exit. Therefore, we expect angel & seed valuations to be relatively insulated from near-term market volatility facing public stocks. Valuation shifts take a few quarters to feed into angel & seed rounds, as investors typically value businesses based on their future potential. Any recalibration based on softer growth rates, or a shifting market, could delay fundings.

Angel pre-money valuation (€M) dispersion



Source: PitchBook | **Geography:** Europe
*As of June 30, 2022

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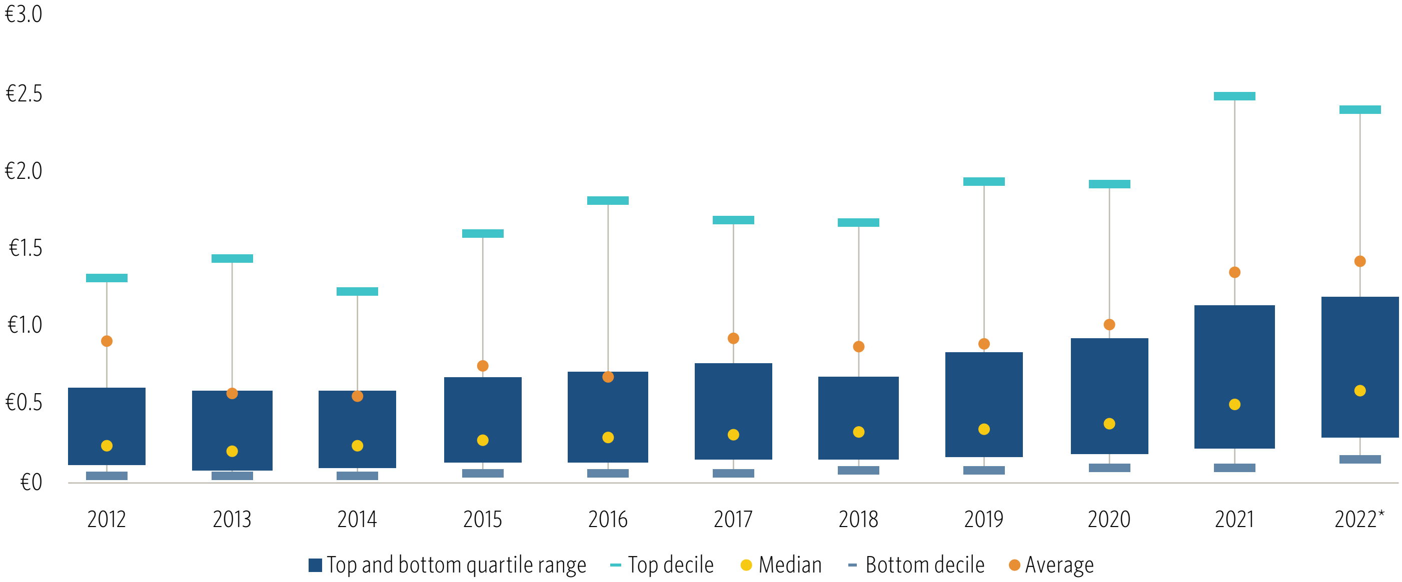
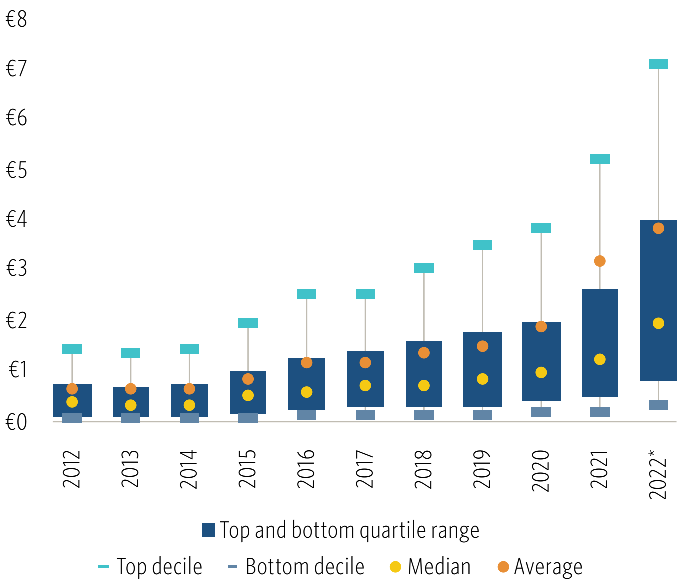
Angel deal size (€M) dispersion



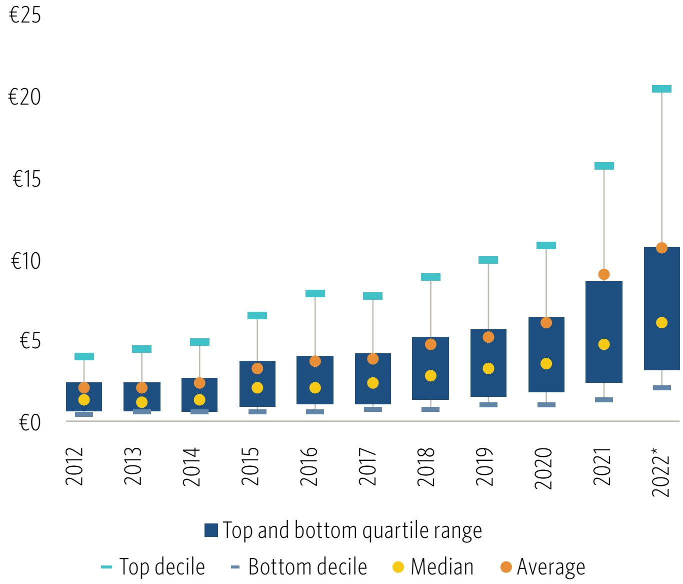
Source: PitchBook | **Geography:** Europe
*As of June 30, 2022

Seed deal size (€M) dispersion



Source: PitchBook | **Geography:** Europe
*As of June 30, 2022

Seed pre-money valuation (€M) dispersion



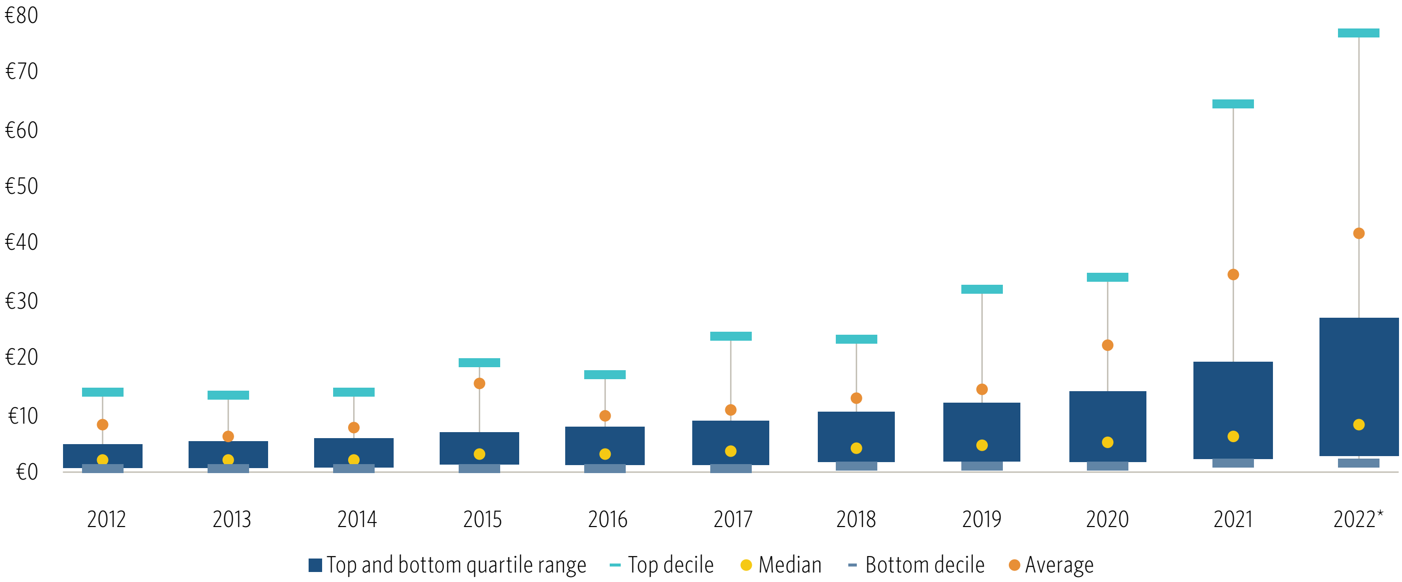
Source: PitchBook | **Geography:** Europe
*As of June 30, 2022

Backers have remained bullish in H1 2022, as angel & seed deal sizes kept pace with record highs in 2021. The median angel deal size paced at €0.6 million in H1 2022, marginally up from €0.5 million in 2021. Meanwhile, the median seed deal size is €1.9 million in H1 2022, 57.8% higher than the 2021 full-year figure. Strong angel & seed deal sizes indicate capital deployment and risk appetite has remained healthy, but it is still too early to establish the full effects of market conditions on dealmaking.

Early-stage VC

In H1 2022, early-stage valuations paced above 2021 figures, highlighting that investors and companies were able to conduct deals despite mounting challenges. Capital flows have remained robust. Like angel & seed stage companies, early-stage startups could be several years away from an exit. Early-stage companies can be heavily impacted by their niche market, team, and product development rather than external factors. Consequently, ensuring a business

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

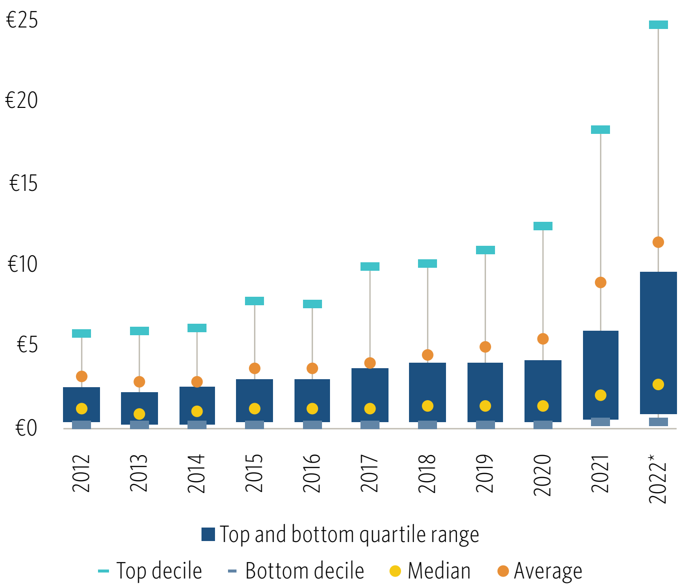


Source: PitchBook | **Geography:** Europe
*As of June 30, 2022

has strong fundamentals conducive for investment is more important than volatility facing wider markets. Nonetheless, recessionary periods characterised by lower spending, weaker economic growth, and increased uncertainty can hinder revenue growth and high-risk investment strategies such as VC. If companies can display impressive growth in challenging times, they will be well-positioned to secure substantial capital backing.

Competition between investors at the early stage has also increased in recent years, in turn, driving up round sizes and valuations. Aside from time lags expected in an illiquid asset class such as VC, competition could be a factor helping valuations and round sizes stay high in the current climate. Fewer, more sizable deals are being conducted for the very best investment opportunities. In H1 2022, the median early-stage valuation was €8.4 million, pacing 34.1% higher than in 2021. The median early-stage deal size paced at €2.5 million, 33.8% larger than in 2021.

Early-stage VC deal size (€M) dispersion

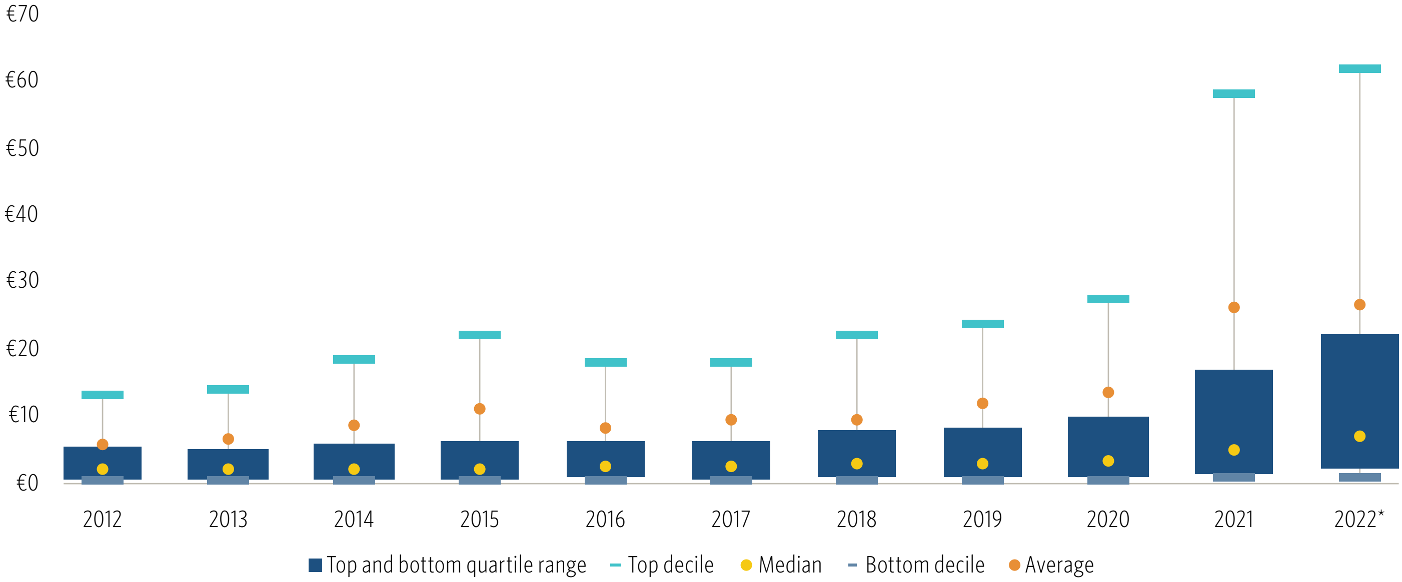


Source: PitchBook | **Geography:** Europe
*As of June 30, 2022

Late-stage VC

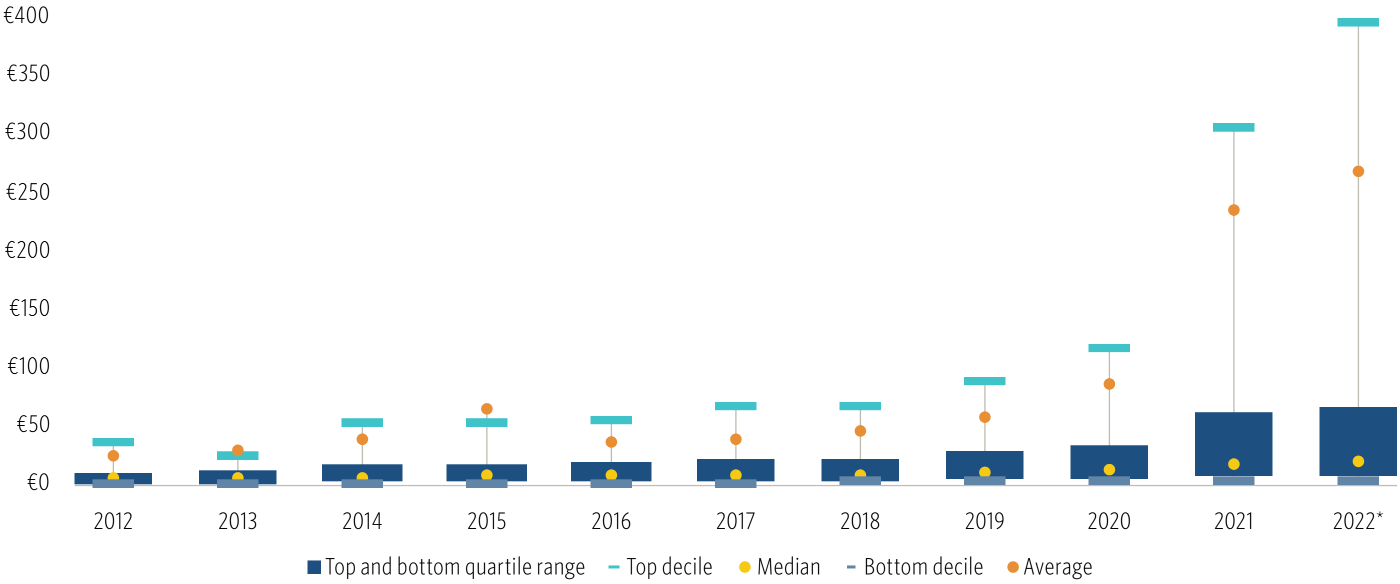
In H1 2022, late-stage valuations and round sizes paced above 2021 figures. Even with reported layoffs and weaker revenue growth at mature businesses, overall valuations have stayed in good shape. Reports of major VC-backed companies—including US-based Stripe and Sweden-based Klarna—taking valuation haircuts could trigger further down rounds. The revaluation of lofty private-market valuations of late-stage tech businesses in the global VC ecosystem appears to be underway. However, it is too early to determine how severe and widespread the cutbacks in late-stage

Late-stage VC deal size (€M) dispersion



Source: PitchBook | **Geography:** Europe
*As of June 30, 2022

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



Source: PitchBook | **Geography:** Europe
*As of June 30, 2022

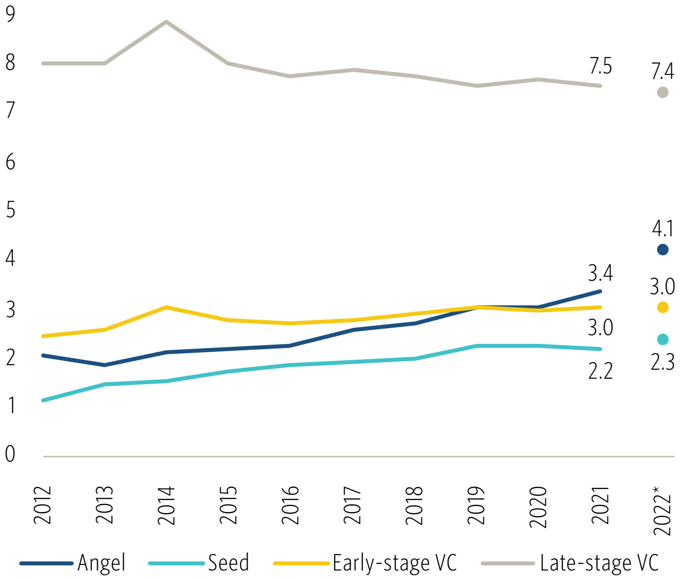
valuations will be. As we move further into 2022, we believe additional high-profile late-stage companies will announce valuation haircuts as they secure funding to extend runways.

Although pessimism has increased in 2022, late-stage dealmaking underpinned European VC deal activity in H1. Companies including SumUp, Climeworks, Rimac Automobili, and Personio closed notable rounds at impressive valuations. VC is a long-term strategy, and near-term volatility is part of the funding cycle. Previous crises including the dot-com bubble, global financial crisis, and COVID-19 pandemic have created successful companies, and opportunistic investors will target companies with lower valuation estimates and fewer founder-friendly terms available in the current climate. In H1 2022, the median late-stage valuation paced at €18.7 million, and the median deal size reached €6.6 million, 36.2% higher than in 2021.

Time between rounds and up, down, and flat rounds

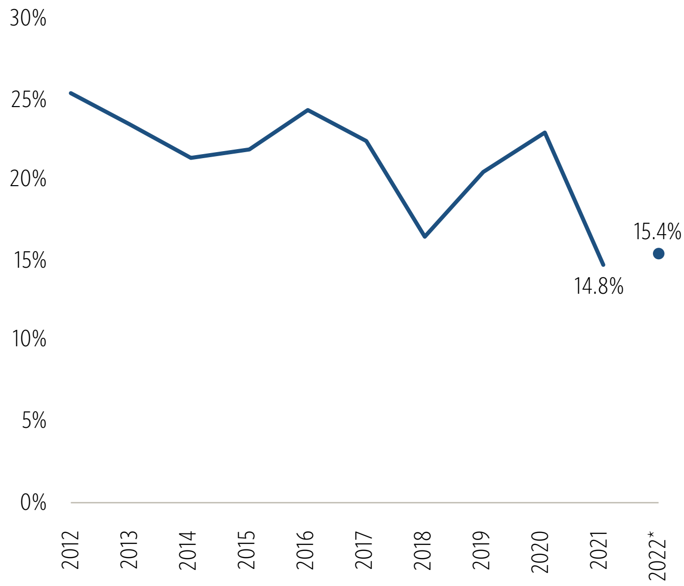
The velocity of value creation has accelerated in recent years with companies developing larger valuations in

Median years from VC-backed company founding by stage



Source: PitchBook | **Geography:** Europe
*As of June 30, 2022

Proportion of VC down rounds



Source: PitchBook | **Geography:** Europe
*As of June 30, 2022

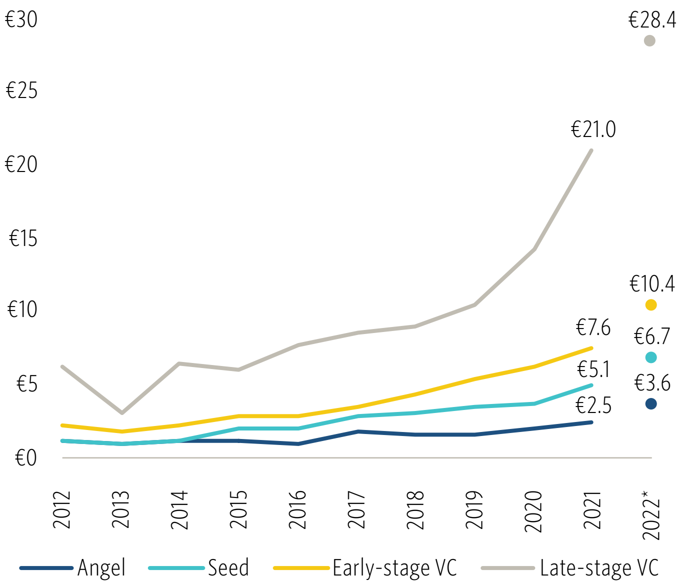
shorter periods of time. Rapid scaling via cloud-based application software has driven growth as businesses have expanded into new markets and tapped customer bases. As round sizes have grown larger, time periods to reach financing stages have remained relatively flat, indicating companies have attracted greater sums of capital in similar time frames to the past decade. In H1 2022, the median time from founding to completion of a late-stage round ticked downwards to 7.4 years from 7.5 years in 2021. Meanwhile, the median time to complete an early-stage round stayed flat in H1 2022, and the median time to complete an angel or seed round lengthened slightly.

The VC ecosystem has enjoyed a bull run for over a decade as investment levels have risen dramatically, fuelled by larger rounds and swelling valuation step-ups. But, with an economic downturn on the horizon, conversations focused on down rounds, layoffs, and valuation haircuts have intensified. In July 2022, it was announced that Klarna's valuation was cut to €6.4 billion from €37.5 billion a year prior. The severity of the haircut has piqued interest across the European VC landscape and could signal further haircuts across major VC-backed companies seeking financing in upcoming months. Layoffs have also been reported at Getir, Gorillas, and Hopin in 2022, all of which demonstrated strong pandemic-induced growth during lockdowns. The depth and breadth of cuts could expand as we move further into 2022. Regardless of muted economic growth forecasts, down rounds only comprised 15.4% of rounds closed in H1 2022,[1] up slightly from 14.8% in 2021.[2]

1: This percentage was calculated with data from 1,013 completed deals.
2: This percentage was calculated with data from 2,474 completed deals.

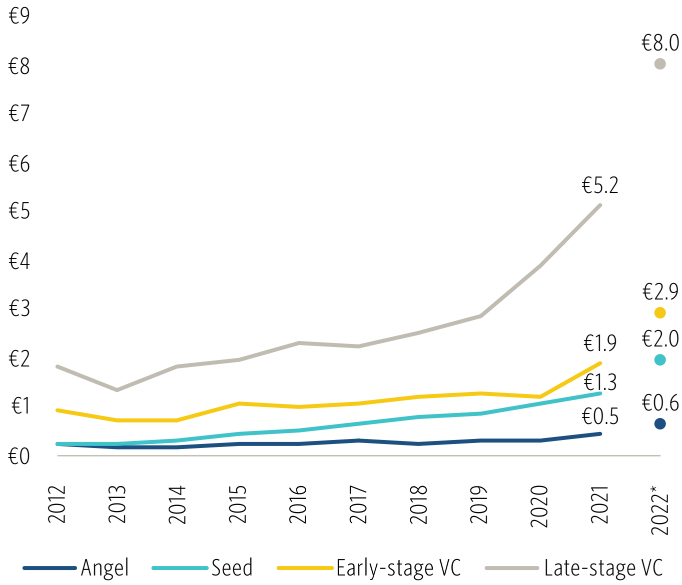
Sectors

Median software VC pre-money valuations (€M) by stage



Source: PitchBook | **Geography:** Europe
*As of June 30, 2022

Median software VC deal size (€M) by stage

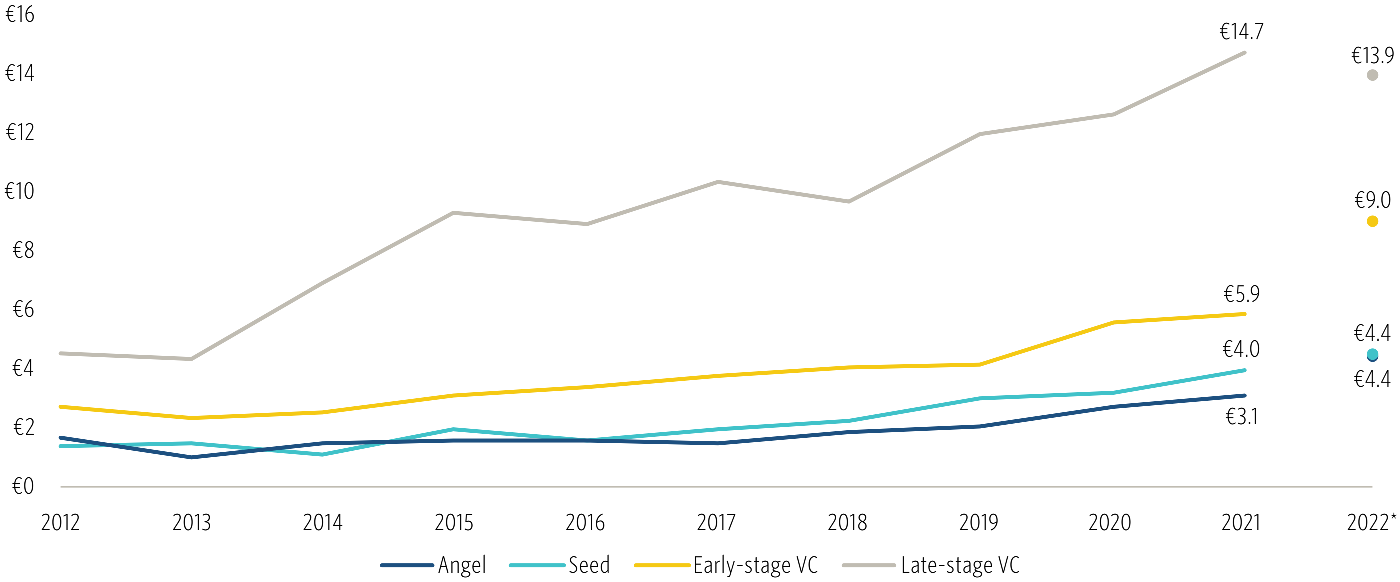


Source: PitchBook | **Geography:** Europe
*As of June 30, 2022

Software VC valuations and deal sizes set a strong pace in H1 2022 considering the challenges facing tech stocks. The median late-stage software pre-money valuation paced at €28.4 million in H1 2022, up from €21.0 million in 2021. The median late-stage software deal size pushed upwards to €8.0 million in H1 2022, from €5.2 million in 2021. The broad software umbrella, comprising of startups in popular subsectors such as fintech and cybersecurity, is the bedrock of the VC ecosystem. High levels of VC activity are concentrated in the sector and any signs of softening software multiples will impact broader sentiment surrounding the European VC ecosystem.

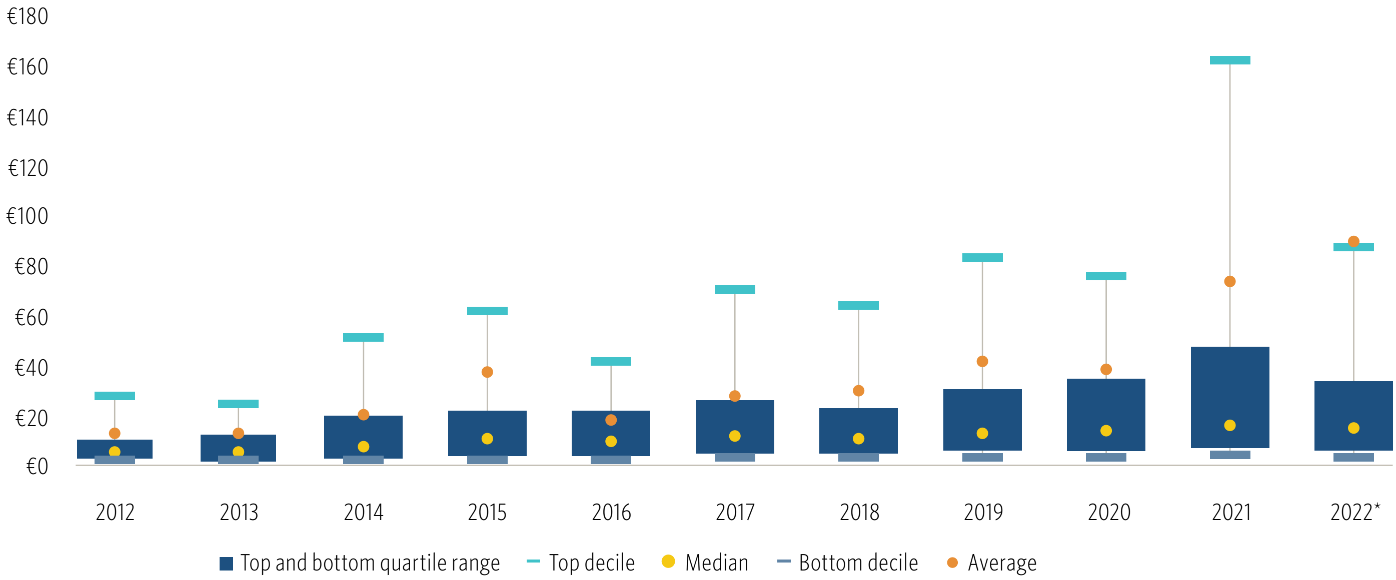
In Q2 2022, the median late-stage healthcare pre-money valuation paced at €13.9 million, 5.1% lower than in 2021. Late-stage healthcare valuations could be reflecting early signs of cooling in the VC ecosystem. Capital deployment in the healthcare sector accelerated during the COVID-19 pandemic, and we might be seeing early indications of a pullback in an extremely capital intensive, long-term, and heavily regulated industry. With attention focused on the healthcare sector in the past two years, investment could plateau as resurgent sectors, including energy and tourism, rebound post-pandemic.

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



Source: PitchBook | **Geography:** Europe
*As of June 30, 2022

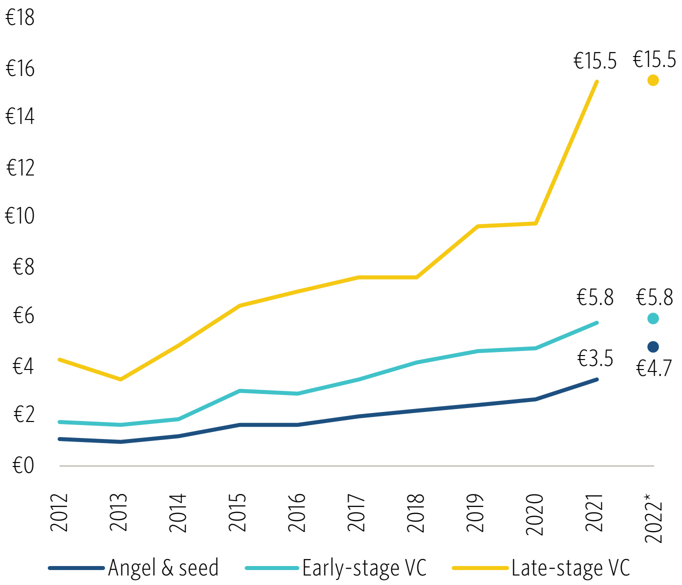
Late-stage healthcare pre-money valuation (€M) dispersion



Source: PitchBook | **Geography:** Europe
*As of June 30, 2022

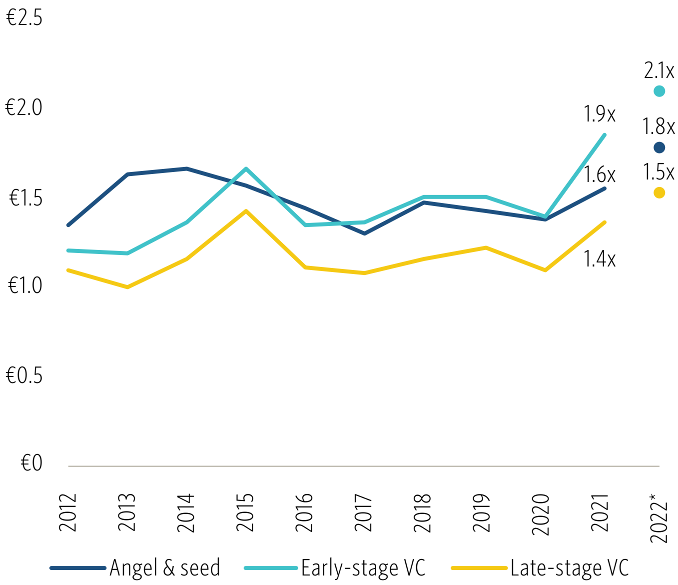
Regions

Median UK & Ireland VC pre-money valuations (€M) by stage



Source: PitchBook | **Geography:** UK & Ireland
*As of June 30, 2022

Median UK & Ireland valuation step up by stage

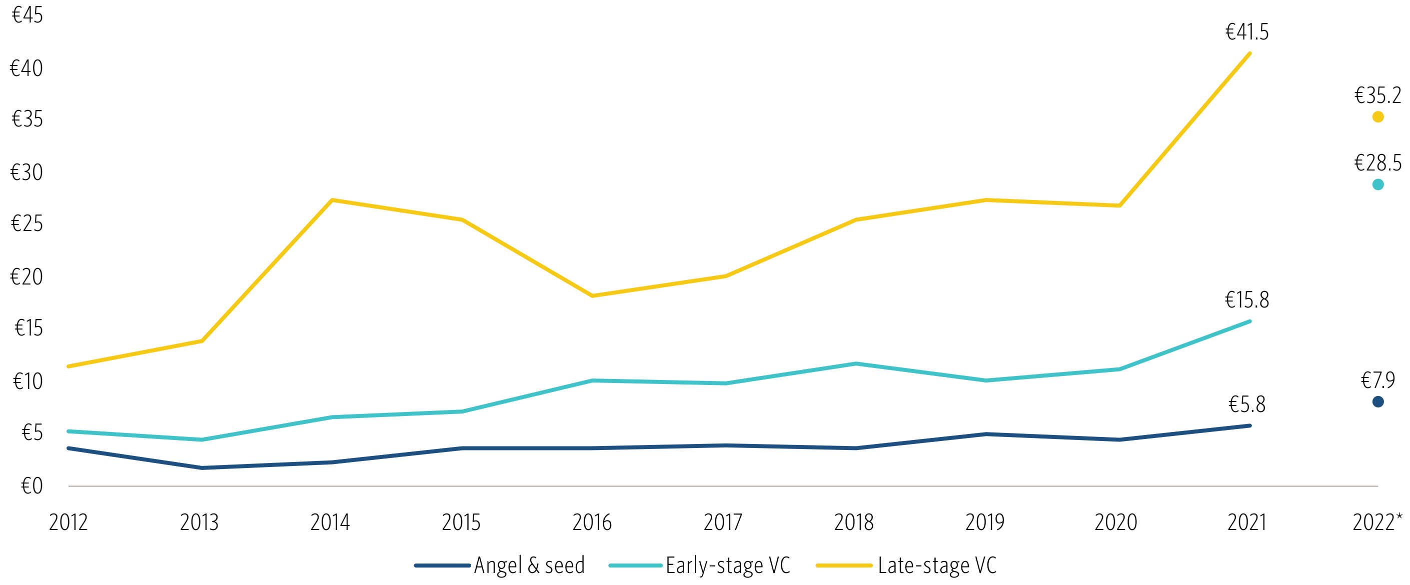


Source: PitchBook | **Geography:** UK & Ireland
*As of June 30, 2022

UK & Ireland early- and late-stage valuations remained flat at €5.8 million and €15.5 million, while angel & seed increased 34.6% from 2021 figures, to €4.7 million. Valuation step-ups also remained strong in H1 2022, with all financing stages pacing above 2021 figures. For example, the early-stage step-up multiple reached 2.1x in H1 2022, representing a 12.3% rise from 2021 if maintained until the year's conclusion. With inflation hitting record highs in the UK and interest rates climbing, VC activity has remained buoyant in the largest deal value generating country in Europe. However, the effects of the shifting economic backdrop have not hindered capital flows in the UK & Ireland region. Time lags associated with an illiquid strategy such as VC could be responsible for assets not showing the declines seen in public markets. As we transition into H2 2022, valuations and steps-ups may soften from record highs in the past two years.

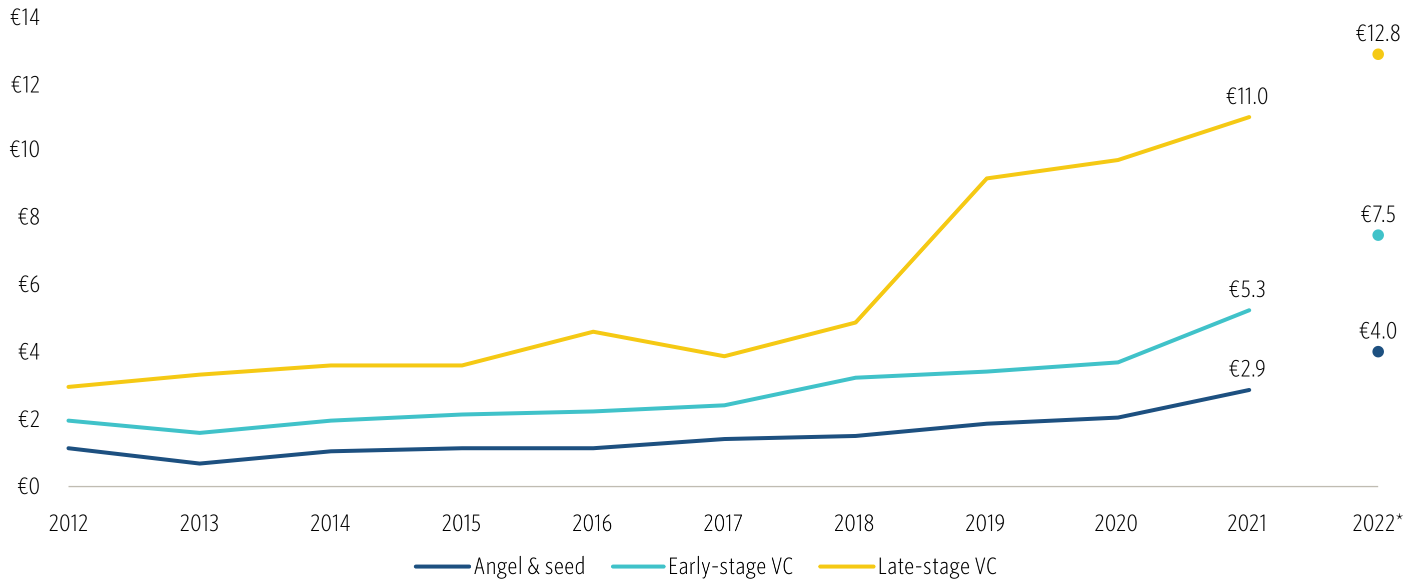
Although valuations and deal sizes have paced strongly in H1 2022, there have been declines in certain financing stages, regions, and sectors. The declines are isolated, rather than widespread, and could reflect data being skewed by a few deals rather than an underlying long-term downward trend. For example, valuations in the DACH region displayed varied themes in H1 2022. The angel & seed and early-stage valuations are pacing 37.2% and 80.1% above 2021 highs, respectively. But the late stage is pacing at €35.2 million in H1 2022, 15.3% below the record high of €41.5 million in 2021.

Median DACH VC pre-money valuations (€M) by stage



Source: PitchBook | **Geography:** DACH
*As of June 30, 2022

Median France & Benelux VC pre-money valuations (€M) by stage



Source: PitchBook | **Geography:** France & Benelux
*As of June 30, 2022

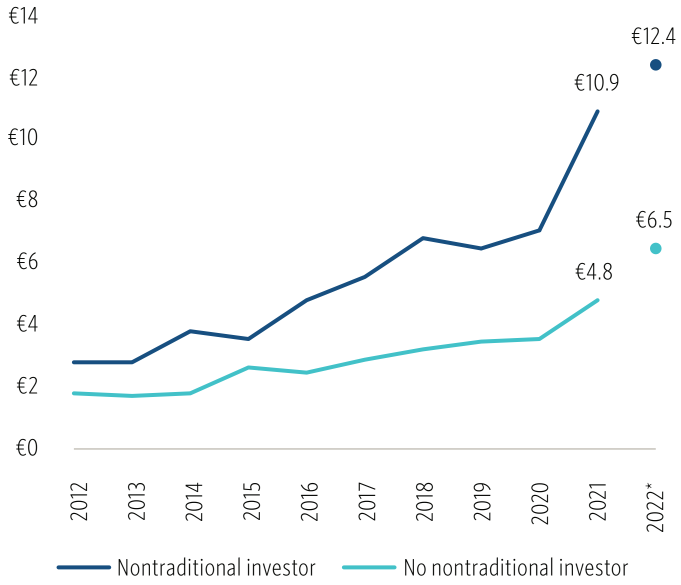
Nontraditional investors

Nontraditional investors including corporate VC arms, asset managers, investment banks, private equity firms, pension funds, sovereign wealth funds, and hedge funds, among others, have increased their involvement within the VC ecosystem. Highly capitalised nontraditional investors have driven up competition, round sizes, and valuations in the European VC ecosystem. Consequently, startups across financing stages typically possess a wider pool of investors nowadays.

VC deal activity with nontraditional investors maintained a robust pace in Q1 2022. VC deals with nontraditional investor participation crested €42.6 billion in H1, on pace with the record €84.0 billion set in 2021. The allure of diversification, exciting companies, and impressive returns have enticed nontraditional backers to move into the VC landscape. VC is a long-term high-risk, high-reward strategy that can deliver lumpy, but heightened, returns over sustained periods of time. VC investing can also deliver returns capable of offsetting volatility from cyclical liquid markets and inflation. As a result, we have seen large organisations commit huge sums to VC funds or carve out their own VC arms to directly invest in companies.

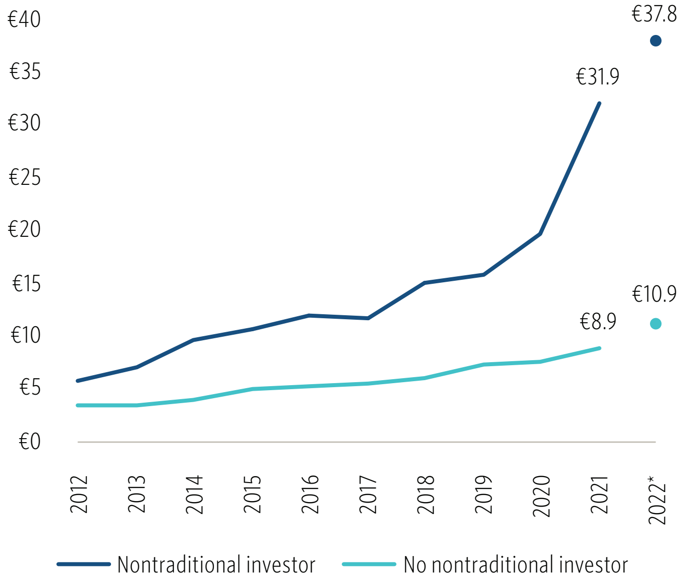
VC is a challenging strategy to master, and nontraditional investors have performed with varying degrees of success. In 2022, Tiger Global Management and Softbank Group (TKS: 9984) have reportedly logged substantial losses on certain tech-focused funds. Financial markets have shifted this year, and with tech stocks struggling and market capitalisations declining, further cuts to high valuations could filter into the VC ecosystem. Capital deployment from nontraditional backers ballooned in the past two years, and we expect investors to focus on core areas of expertise for upcoming deals. In contrast, investors who previously felt the market was overheated from an abundance of capital and swollen valuations may now believe it to be the best time to invest in assets carrying lower multiples. Over the next 6 to 12 months, risk appetite and the long-term growth potential of a business will be key factors for investors as recessions bite.

Median early-stage VC pre-money valuations (€M)



Source: PitchBook | **Geography:** Europe
*As of June 30, 2022

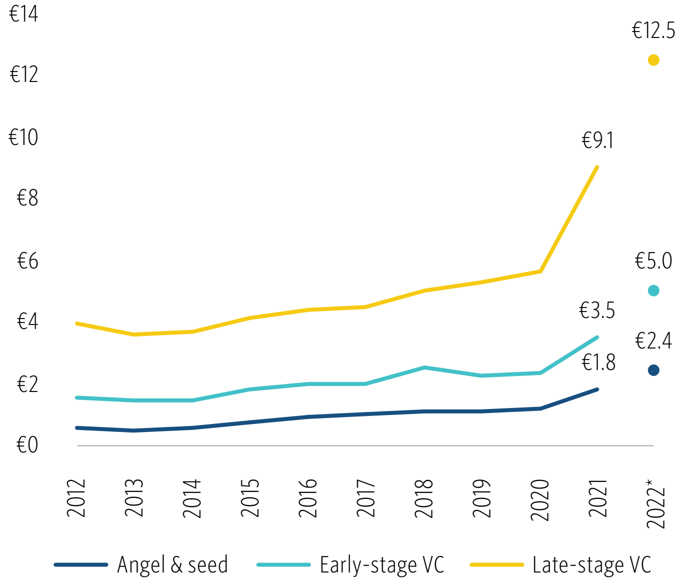
Median late-stage VC pre-money valuations (€M)



Source: PitchBook | **Geography:** Europe
*As of June 30, 2022

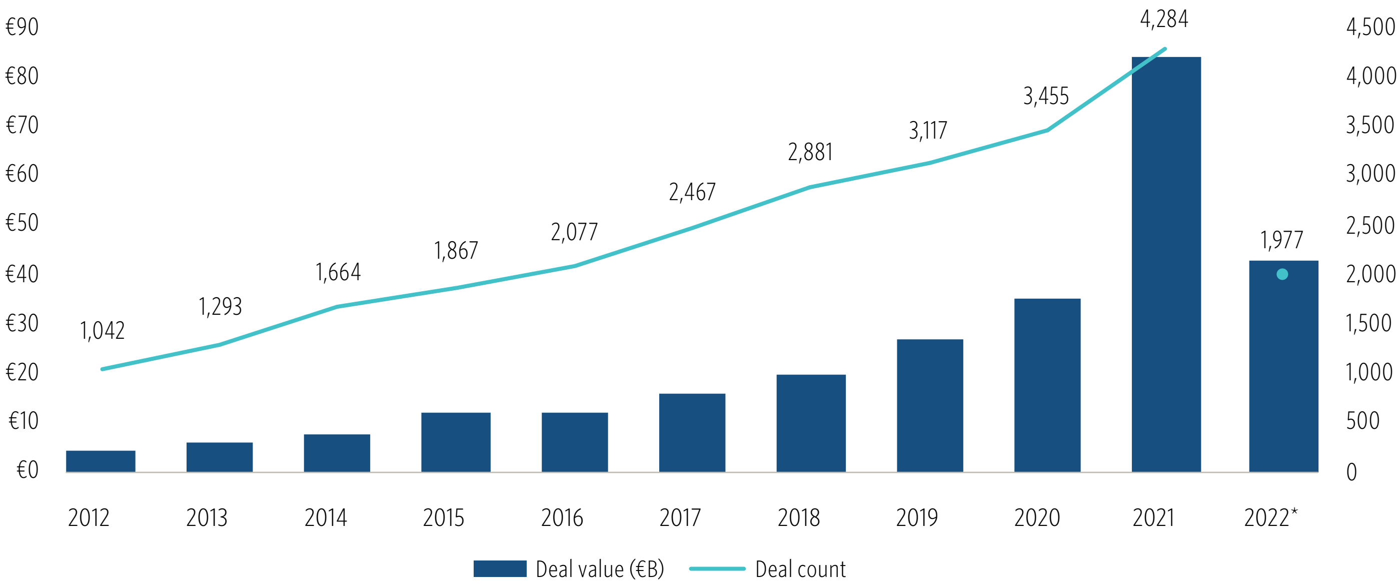
In H1 2022, median VC deal sizes with nontraditional participation across all financing stages are pacing above 2021 figures, with the early stage reaching €5.0 million, 42.0% higher than in 2021. Regardless of investor type involved, median early- and late-stage pre-money valuations are also pacing above 2021's record figures in H1 2022. As valuations are re-evaluated across financial markets in 2022, it may take a few quarters to indicate material declines in the VC ecosystem. As previously discussed, VC is an illiquid strategy and intermittent funding rounds govern private-market valuations that are not subject to the financial reporting required by publicly listed companies. Therefore, we expect declines in the VC ecosystem to be far less pronounced given the high level of opacity when determining the valuation of a VC-backed company. Dealmaking has flattened in 2022 thus far, and we believe valuations will cool at the later financing stages of the VC ecosystem in coming months. However, it could take several quarters for changes to reflect in datasets.

Median nontraditional investor VC deal size (€M) by stage



Source: PitchBook | **Geography:** Europe
*As of June 30, 2022

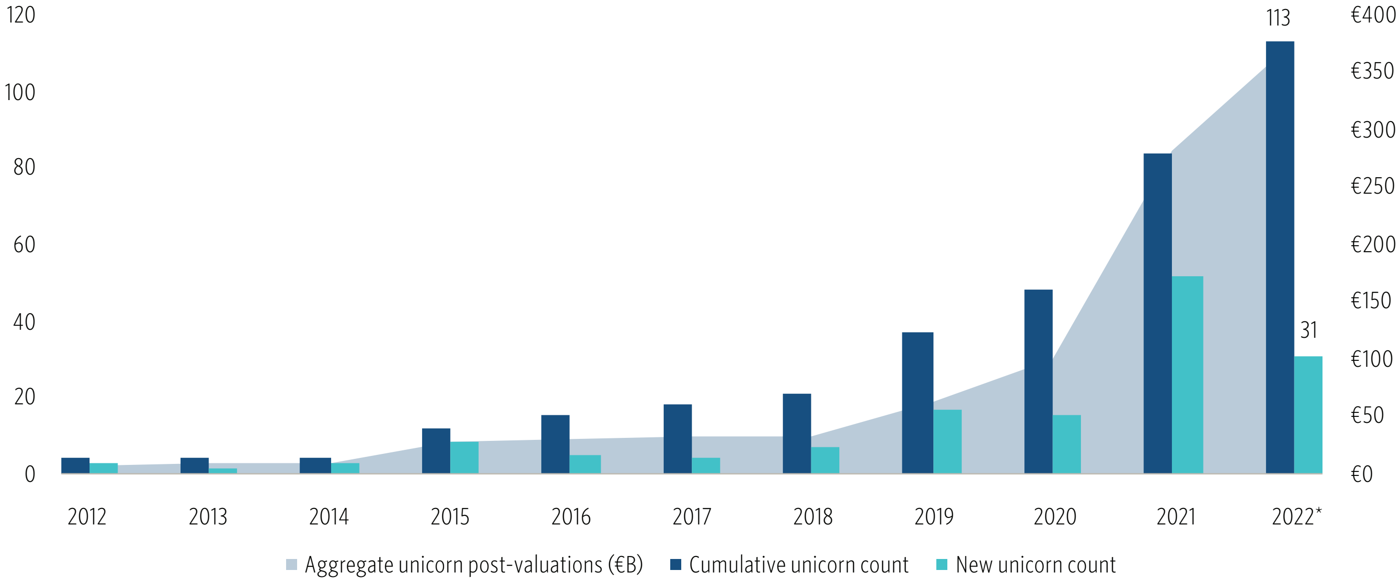
Nontraditional investor VC deal activity



Source: PitchBook | **Geography:** Europe
*As of June 30, 2022

Unicorns

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



Source: PitchBook | **Geography:** Europe
*As of June 30, 2022

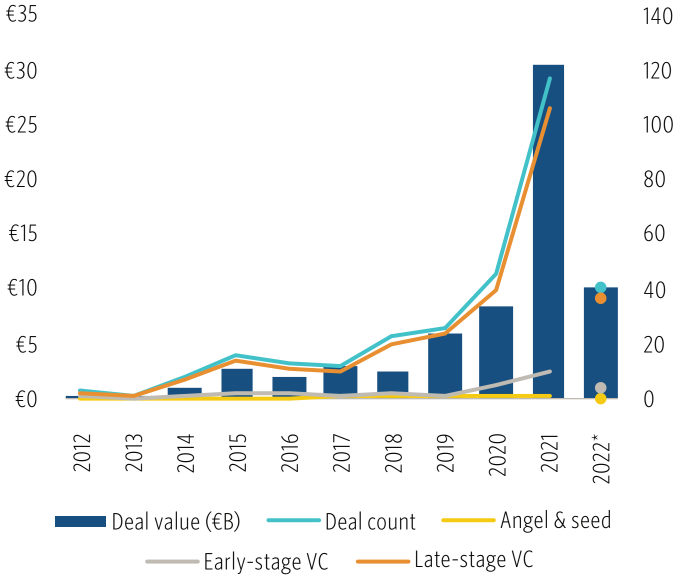
The aggregate post-money valuation of Europe-based companies valued at €1 billion or more, known as "unicorns," grew 34.8% from 2021 to €378.6 billion in H1 2022.[3] Currently there are 113 existing unicorns in the European VC ecosystem and 31 have been minted in H1 2022. Despite a challenging macroeconomic backdrop, the aggregate value and count of unicorns in Europe remained elevated in the first half of the year. With previously VC-backed businesses having their valuations slashed in public markets, mature VC-backed businesses have yet to display widespread valuation haircuts amid reports of layoffs, lower growth rates, and reduced spending to extend funding runways.

In Q1 2022, unicorn dealmaking was strong with €10.1 billion invested across 40 deals as momentum from a bumper 2021 permeated through the first three months of 2022. However, as the year has progressed, deals for Europe's most valuable VC-backed companies have dried up. In Q2 2022, only six deals totalling €2.6 billion occurred, representing a 65.3% QoQ decline. A combination of factors led to this decline in activity, chief among them has been the fact that unicorns are closest to publicly listed companies in terms of size, business maturity, and financials. As public tech stocks have faltered in 2022, unicorns completing sizable multi-million financings would naturally be the first to reflect valuation declines in the VC ecosystem. Therefore, investors have been cautious to invest in companies that could be considerably overvalued in the current market, leading to declines in dealmaking witnessed in Q2 2022.

We expect a flattening of unicorn dealmaking to continue in H2 2022 as valuations are recalibrated for Europe's most valuable companies. Early signs of valuation haircuts for businesses that boomed during COVID-19 have emerged in H1 2022. As previously mentioned, Klarna's valuation has taken a huge cut in July 2022, and we expect further reductions for other companies in upcoming quarters. Companies that aggressively accelerated growth plans during the past two years and saw their valuation soar could now face tougher conditions as discretionary spending falls and costs are scrutinised. Moreover, to secure funding,

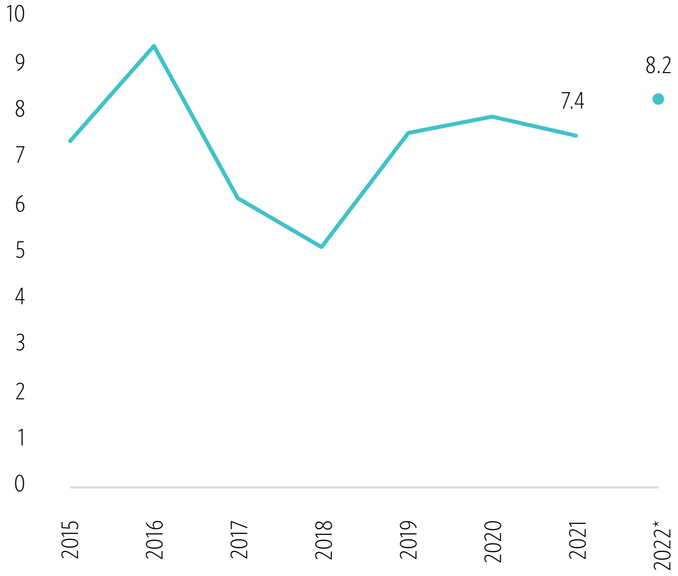
3: Previous editions of this report valued unicorns at $1 billion or more. In this report, however, unicorns are valued at €1 billion or more.

Unicorn deal activity by stage



Source: PitchBook | **Geography:** Europe
*As of June 30, 2022

Median years for VC-backed companies to achieve unicorn status



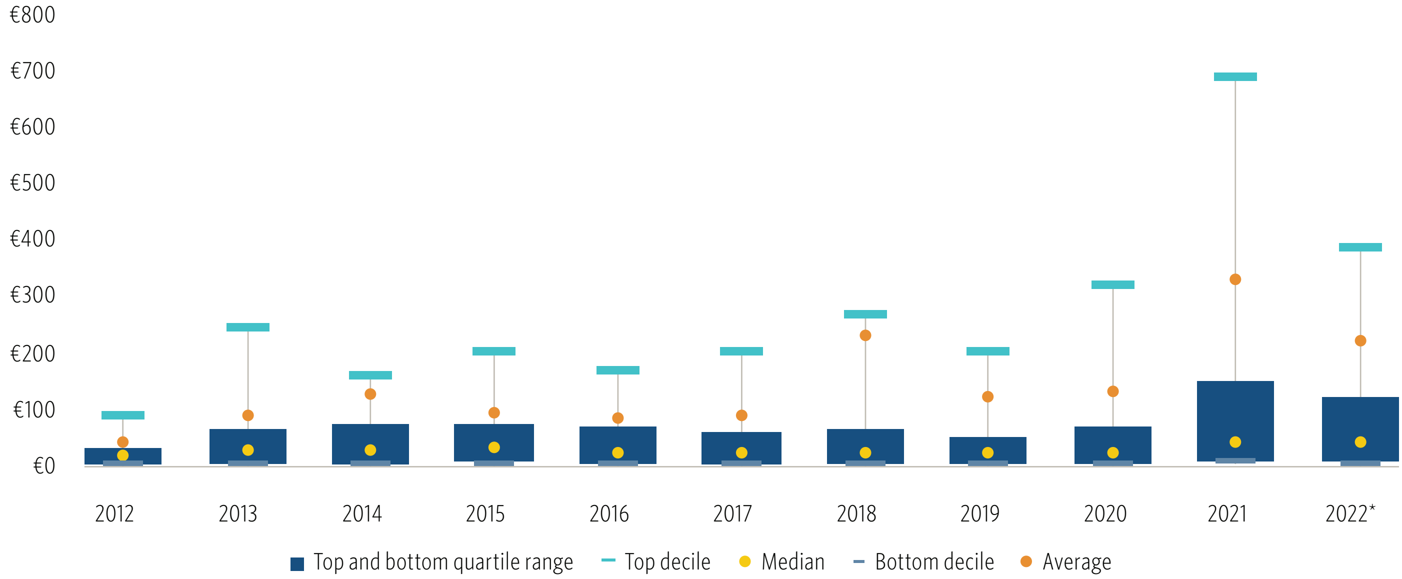
Source: PitchBook | **Geography:** Europe
*As of June 30, 2022

unicorns may be forced to take valuation haircuts in the near-term to ensure their long-term survival. Consequently, deal terms are expected to shift in favour of investors as the period of founder-friendly terms appears to be over.

The muted exit market adds another dimension to the unicorn landscape. A lack of suitable exit options due to declining public equities or unwilling acquirers could lead to bottlenecks and the stagnation of mature VC-backed companies. As a result, unicorns may have to raise capital and extend their VC funding runway until market conditions improve. This could put further pressure on businesses and backers heavily invested in a small selection of companies. Despite the record liquidity levels from 2021, a prolonged period of weak exit value can lead to problems generating returns to investors and powering the capital cycle within the VC ecosystem.

Liquidity

VC-backed exit valuations (€M) dispersion



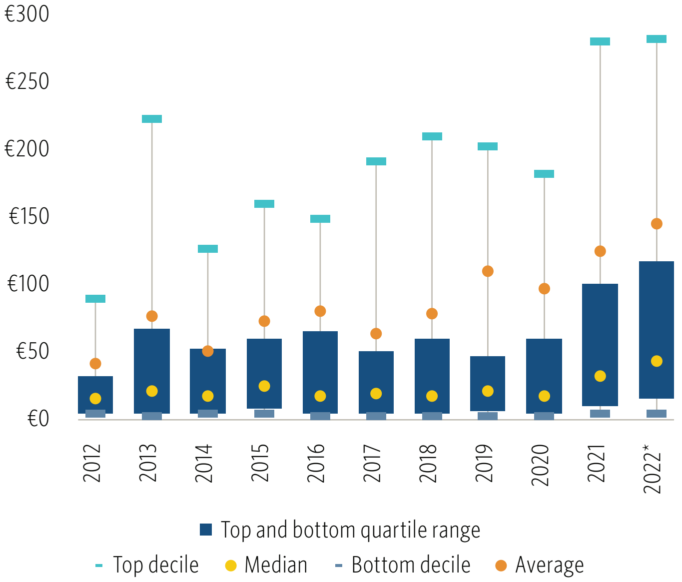
Source: PitchBook | **Geography:** Europe
*As of June 30, 2022

The exit market has retreated to pre-2021 levels and the decline in activity reflects disparate exit valuations in H1 2022. Overall, the median post-money exit valuation paced at €40.6 million in H1 2022, up slightly from €40.2 million in 2021. At the top decile, post-money valuations upon exit are tracing at €385.6 million, 44.1% below the 2021 figure. The 2022 exit market has been considerably quieter than 2021, which saw multiple highly valued companies rush towards an exit to take advantage of lofty valuations and strong demand from investors for software-based assets. In contrast, 2022 thus far has been challenging for publicly traded tech companies as they face significant share price falls and weaker growth forecasts. Further, the war in Ukraine, supply chain issues, and stagflation have added to the headwinds facing financial markets in H1 2022. We expect exit activity to remain subdued in the next two quarters as founders, companies, and investors negotiate near-term uncertainty.

Public listings have regressed in 2022 as they have become riskier and less appealing. Private-market valuations built over several years could erode in days or weeks in public markets. In H1 2022, the median public listing exit valuation dropped 56.8% from the full-year figure of €71.2 million in 2021 to €30.7 million in H1 2022. Moreover, the top decile public listing exit valuation paced at €985.5 million in H1 2022, falling 45.8% from €1.8 billion. While the shift is sizable, the drop in exit size is due to fewer mature companies deciding it is the optimum time to exit, which is understandable given market dynamics. Near-term volatility is expected across financial markets, particularly riskier strategies including VC, and investors will be focusing on ensuring their portfolio companies can manage downside risk during the impending recession.

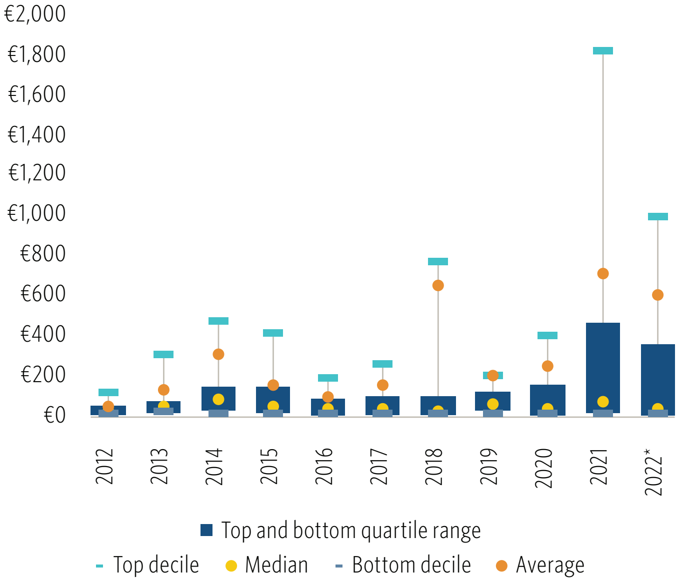
In contrast to VC-backed public listing valuations, acquisition exit valuations trended upwards from full-year 2021 figures. With valuations projected to cool, acquirers will be hunting for cheaper companies carrying valuations below historically high multiples quoted in recent years. Software-focused information technology businesses have emerged as premium, high-growth targets for purchasers during the past decade. With big tech companies losing billions from their market capitalisations in 2022, smaller software companies could see their valuations slashed, enticing greater interest from a wider pool of acquirers who may have been priced out previously. Lower returns might be produced for early investors, but an exit via an acquisition could become an increasingly appealing prospect for startups if market conditions take time to rebound.

VC acquisition valuations (€M) dispersion



Source: PitchBook | **Geography:** Europe
*As of June 30, 2022

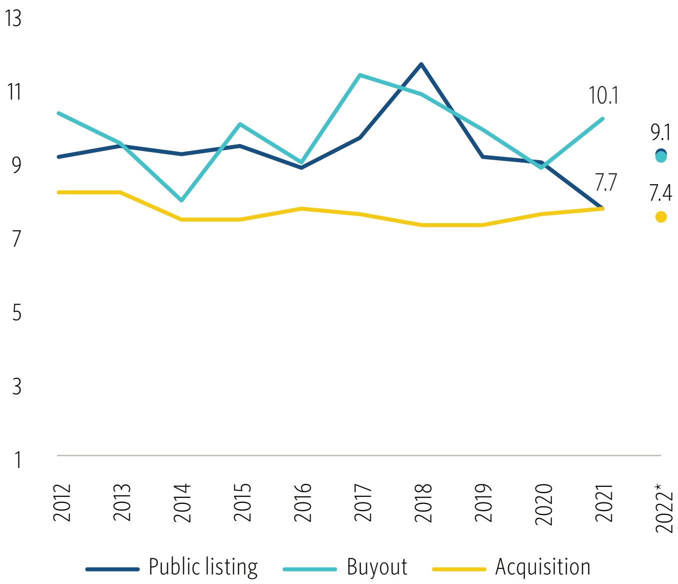
VC public listing valuations (€M) dispersion



Source: PitchBook | **Geography:** Europe
*As of June 30, 2022

The median time to exit will increase if exits remain quiet for a substantial period. Valuation growth has accelerated, and time periods have stayed flat during the past decade as companies have grown at faster rates. However, with exit appetite falling, funding runways for companies may need to be extended, ultimately leading to longer time periods within the VC ecosystem. Lengthened time periods will lead to greater demand for late-stage financing and potentially fewer exits. Although it is a long way off, it is worth noting that reduced exit activity will lead to less capital recycled back into VC funds and deployed into new batches of startups, which could harm the long-term growth of the European VC ecosystem.

Median years between founding and exit for VC-backed companies



Source: PitchBook | **Geography:** Europe
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Additional research

Venture Capital

Q2 2022 European Venture Report

Download the report here

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2022 Nordic Private Capital Breakdown

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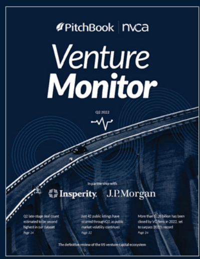

Q2 2022 PitchBook-NVCA Venture Monitor

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