PitchBook

Q2 2023

EUROPEAN Venture Report

PitchBook

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PitchBook Data, Inc.

John Gabbert Founder, CEO

Nizar Tarhuni Vice President, Institutional Research and Editorial

Dylan Cox, CFA Head of Private Markets Research

Institutional Research Group

Analysis

Navina Rajan
Senior Analyst, EMEA Private Capital
navina.rajan@pitchbook.com

Nicolas Moura, CFA
Analyst, EMEA Private Capital
nicolas.moura@pitchbook.com

Data

Charlie Farber
Senior Data Analyst

Oscar Allaway
Associate Data Analyst

pbinstitutionalresearch@pitchbook.com

Publishing

Report designed by **Jenna O'Malley**

Published on July 19, 2023

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Introduction

European VC dealmaking significantly dropped in the first half of 2023, with deal value down 60.8% compared with H1 2022 and 34.2% lower than H2 2022. We attribute this slow and steady decline to a shift in the macroeconomic environment as higher interest rates, high inflation, a closed IPO exit window, and tough fundraising conditions have all been significant decelerators to growth and dealmaking in the VC market. The real question then becomes, have we hit the bottom and when do we recover? Public markets have started recovering in 2023, especially in the US where the Federal Reserve has signaled it is coming closer to an end in monetary tightening. The European monetary tightening cycle may continue for longer given that inflation has been persistently high in the UK and in the eurozone. Private markets often lag public markets by a few quarters, and any sign of recovery in the public markets will help indicate when the private market recovery can be expected.

The story of H1 2023 has been investors accepting that VC dealmaking has slowed, fundraising has grown difficult, and exiting unprofitable businesses through an IPO has fallen out of favour. Instead, we have seen VCs work with their startups to restructure their operations in-house and extend runways as far down the line as they can given the dearth in funding. This has shifted company strategies from growth at all costs to prioritising cost management, which has translated into layoffs and hire freezes across the entire startup ecosystem.

Exit activity continues to slow to decade lows. One of the greatest challenges within VC markets has been the recent haircuts given to portfolio company valuations, which have led to declines in exit values. Activity in H1 continues to remain markedly depressed, as both value and volume signal more caution amongst companies and investors. Corporate acquisitions continue to be the most common exit option with debt-heavy leveraged buyouts (LBOs) losing share. By sector, IT hardware shows the most resilience in exit valuations, while the energy sector shows the least resilience, following the latter's large increase in valuations in 2022. Cleantech continues to be a prevalent vertical in demand. Overall, with little signs of sequential recovery, any pickup through 2023 will come down to public listing markets, where we expect activity to remain subdued in the second half.

Fundraising activity remains muted and pivots towards experience. In H1 2023, capital raised in Europe amounted to €8.9 billion, a rate which implies full-year 2023 is on track to pace 36.7% below 2022 levels. Experienced investors continue to take deal value from emerging firms—a trend we expect to continue through 2023—as managers with longer track records prove more popular with LPs amid higher uncertainty and lower private market returns. Regionally, most fund closings occurred in the UK & Ireland, with several open funds remaining in Europe, overall. Fund close times have lengthened notably, but if closed through the year, these vehicles could boost fundraising totals for full-year 2023.

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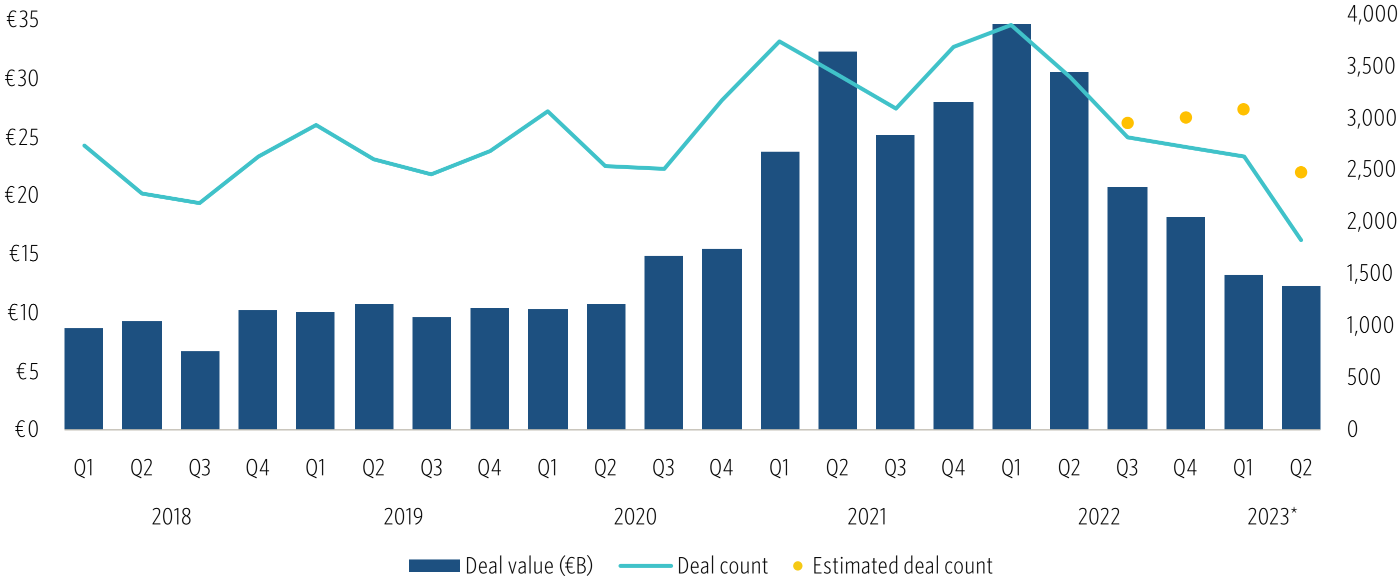
Deals

VC deal activity by quarter



Source: PitchBook • **Geography:** Europe
*As of June 30, 2023

VC dealmaking drops sequentially

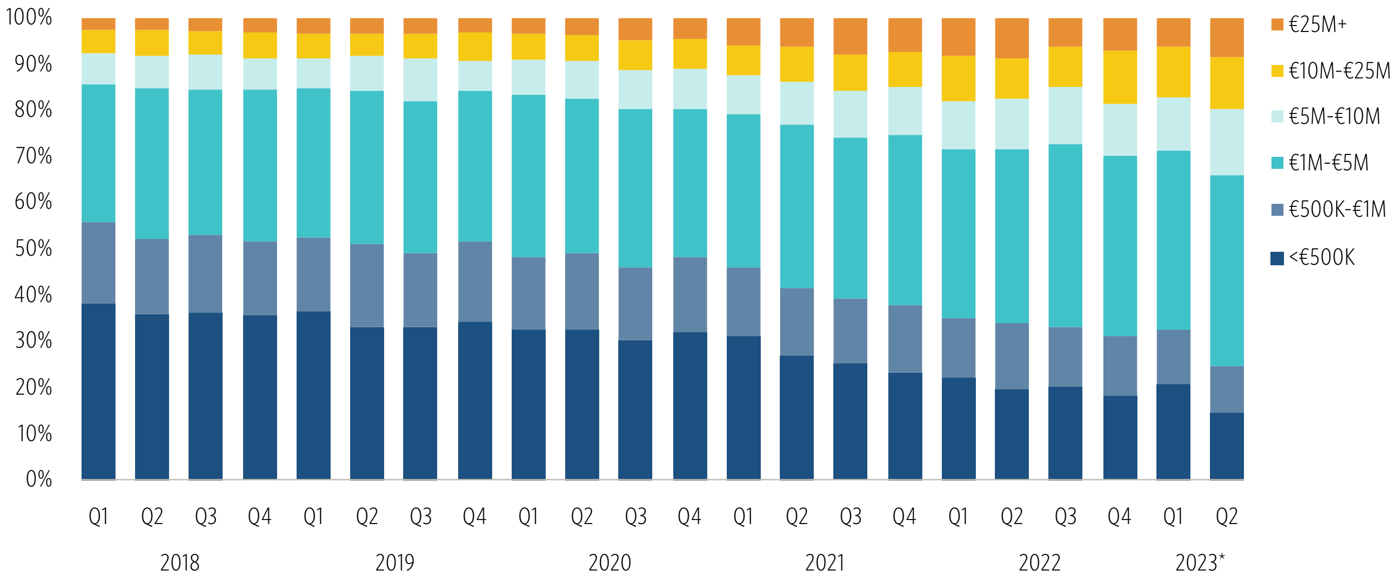
European VC dealmaking dropped significantly in the first half of 2023 as the macroeconomic headwinds caught up with the VC ecosystem. Deal value in H1 2023 is down 60.8% compared with H1 2022 and 34.2% lower than in H2 2022. In fact, VC deal activity peaked in Q1 2022 and has been on a steady quarterly decline since. We attribute this slow and steady decline to a shift in the macro environment as higher interest rates, high inflation, a closed IPO exit window, and tough fundraising conditions have all been significant decelerators to growth and dealmaking in the VC market. The real question then becomes, have we hit the bottom and when do we recover? Public markets have started recovering in 2023, especially in the US where the Federal Reserve has signaled it is coming closer to an end in monetary tightening. The European monetary tightening cycle may continue for longer given that inflation has been persistently high in the UK and in the eurozone. This is in addition to the ongoing war on the continent, which continues to have inflationary consequences. Private markets often lag public markets by a few quarters, and any sign of recovery in the public markets will help indicate when the recovery in private markets can be expected.

How to survive?

The story of H1 2023 has been investors accepting that VC dealmaking has slowed, fundraising has grown difficult, and exiting unprofitable businesses through an IPO has fallen out of favour. Instead, we have seen VCs work with their startups to restructure their operations in-house and extend runways as far down the line as they can given the dearth in funding. This has shifted company strategies from growth at all costs to prioritising cost management, which has translated into layoffs and hire freezes across the entire startup ecosystem. The tech sector has likely seen the most layoffs out of all sectors. A recent example in the UK includes the unicorn payments startup GoCardless, which is cutting 15% of its global workforce as of June 2023.[1] For startups with lower growth rates needing funding to survive, down rounds and valuation cuts are likely. Startups could look to extend runways without more funding if possible. But with worsening conditions, companies that may have previously been reluctant to secure funding to avoid negativity surrounding down rounds might seek capital despite the lower valuations. One of the largest funding rounds this quarter saw the Turkish, now UK-headquartered, food delivery app Getir raise €435.5 million

1: "Sharing Details of Our Cost Reduction Plans," GoCardless, Hiroki Takeuchi, June 2023.

Share of VC deal count by size bucket



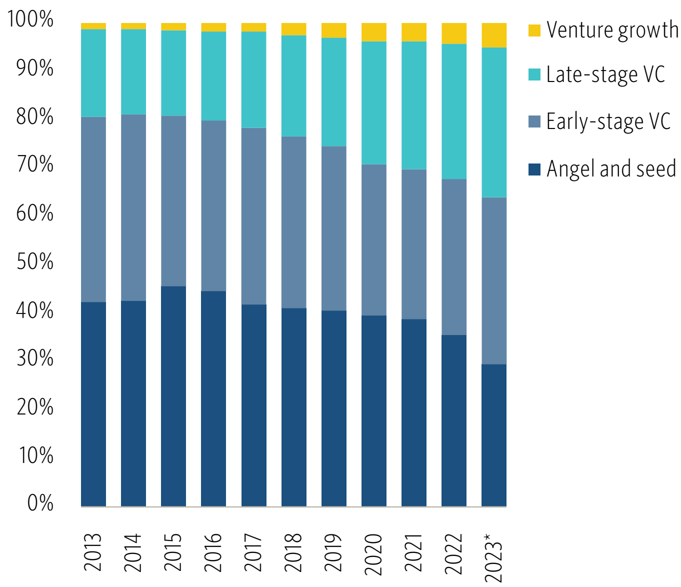
Source: PitchBook • **Geography:** Europe
*As of June 30, 2023

from Mubadala Investment Company at a pre-money valuation of €5.7 billion. The same investor had injected €690.7 million in Getir just a year earlier at a pre-money valuation of €9.9 billion, effectively slashing the company's valuation by 42.4%.

Larger deals in a scarce dealmaking environment

Given the subdued dealmaking environment—in comparison with the era of abundant capital and low interest rates—our data indicates a trend towards larger deals, often in the form of follow-on VC investments providing additional runway to their startups. Q2 deals totalling €10 million to €25 million are down 39.1% YoY in deal count, while deals coming in at €500,000 to €1 million and deals under €500,000 have been down 65.9% and 64.0% YoY, respectively. Furthermore, we have seen the proportion of VC deal count increase for the venture-growth stage and the late stage, which are taking share from the angel and seed stages, once again demonstrating how difficult it is to secure funding in the current climate. Median deal size continues to tick higher, having doubled in recent years and currently sitting at €2.1 million for 2023. Average deal size has come down in 2023, which is to be expected given sponsors are more diligent and hesitant in their approach towards megadeals, focusing rather on deals in the range of €10 million to €25 million.

Share of VC deal count by stage



Source: PitchBook • **Geography:** Europe
*As of June 30, 2023

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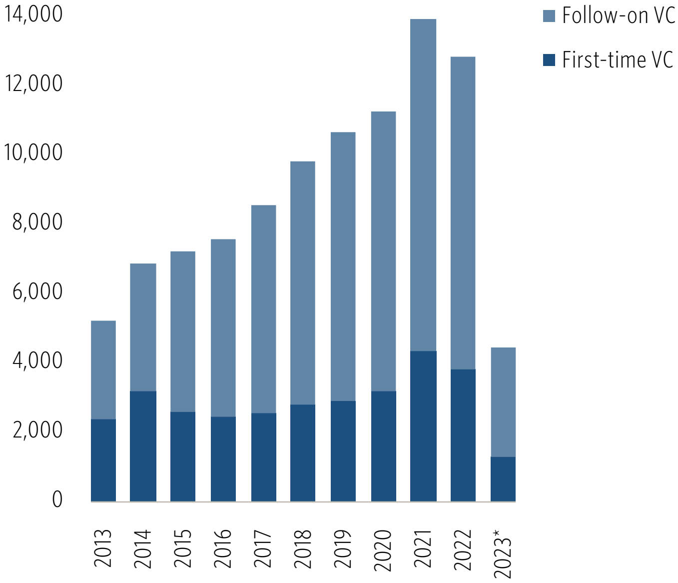
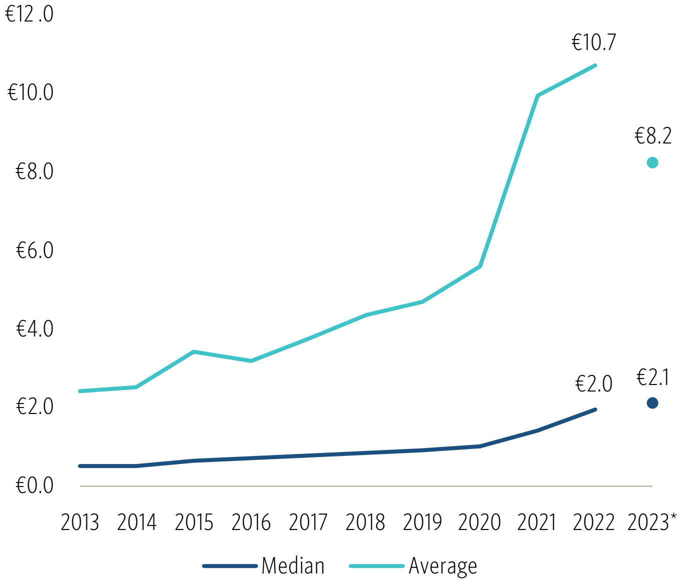
First-time versus follow-on VC deal count



Source: PitchBook • **Geography:** Europe
*As of June 30, 2023

Median and average VC deal value (€M)



Source: PitchBook • **Geography:** Europe
*As of June 30, 2023

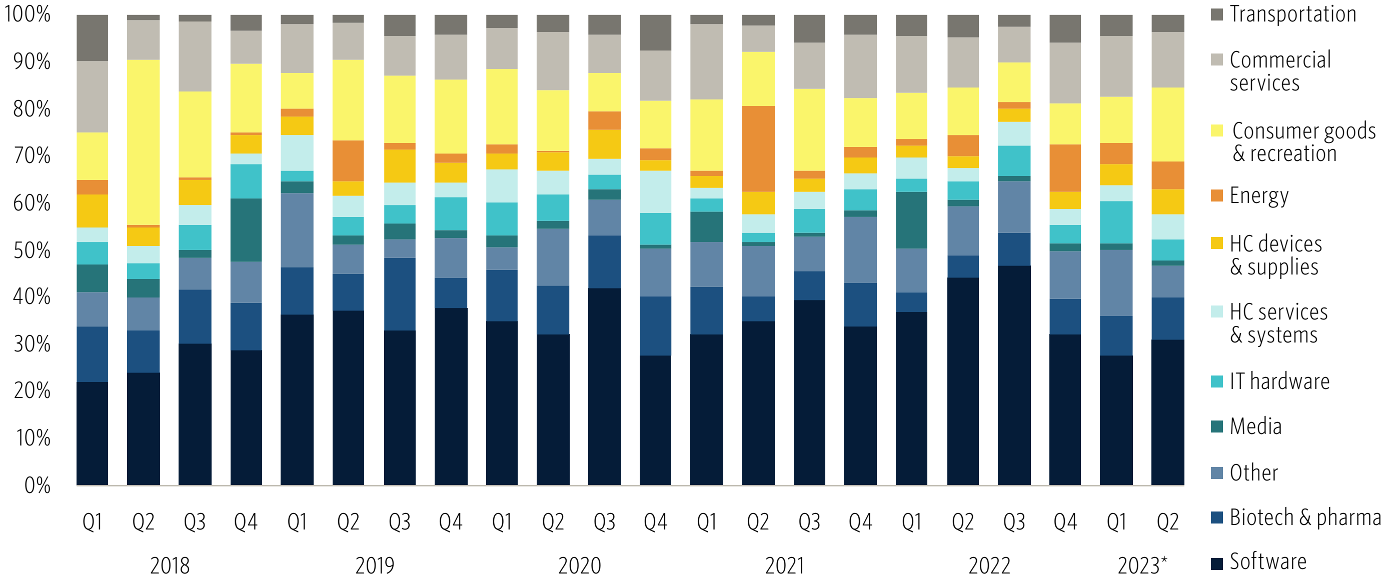
Software suffering

The VC industry was built on the software sector thanks to the rise of digitalisation. But just as the dot-com bubble reset the sector in 2000, we are seeing a similar reset from the bonanza of deals in 2021 and 2022. Software deal value dropped 71.8% YoY in Q2 2023, more than any other sector. In fact, software went from representing 40.2% of deal value in 2022 to 29.3% in 2023. Despite this trend, startups within the software segment that are linked to AI may see significantly more dealmaking in future quarters given the recent investment boom in the space. For more on AI, please read our Q2 2023 Analyst Note: Key Takeaways from VivaTech. In contrast with the drop in software, we have seen more resilience in other sectors that are less cyclical in nature, such as biotech & pharma. For instance, Ascend Gene And Cell Therapies raised a €120.3 million series A in May 2023. The funds will be used for the acquisition of chemistry, manufacturing and control capabilities; technologies from Freeline Therapeutics; and operational resources to build the business.

US retreat

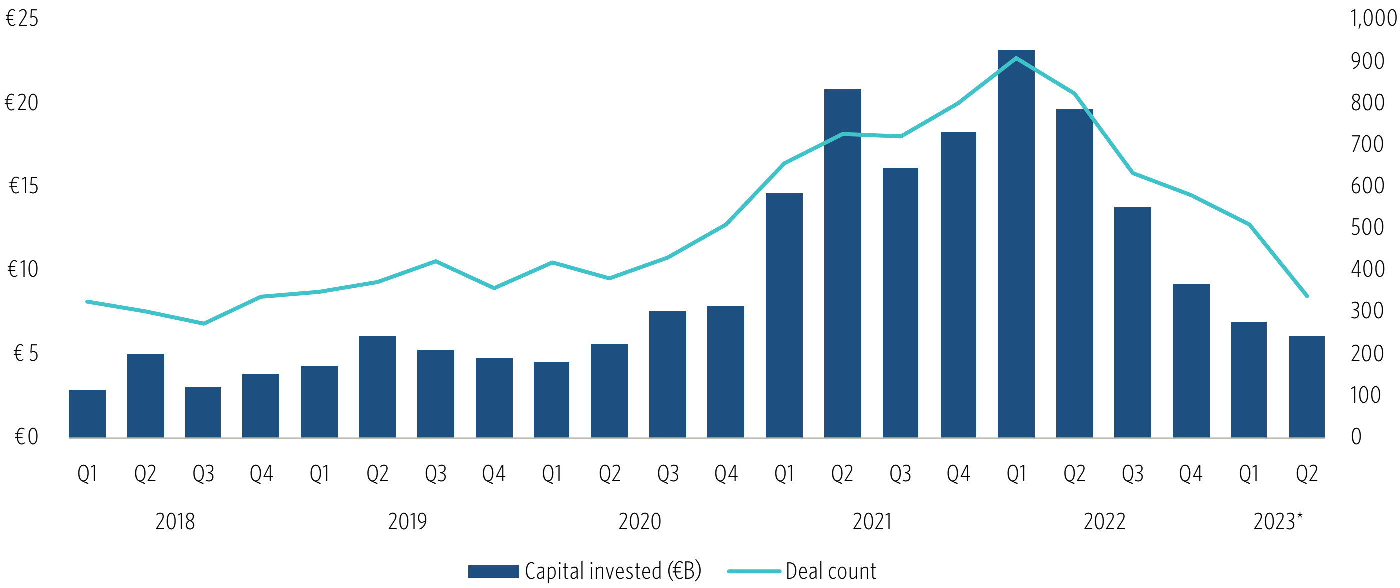
Over the past two years, we saw an influx of foreign investment into the European VC ecosystem, most notably from US investors. But as central banks have made it more difficult to access capital, we have seen a decrease in US participation in VC deal value in 2023, dropping 69.2% YoY and 13.0% QoQ in Q2 2023. In fact, the decline of US participation in European VC deal value was larger than the VC deal value decline in Q2, dropping 69.2% YoY compared with the overall VC deal value drop of 59.7% YoY. This drop in US participation is a consequence of a quieter dealmaking environment in VC globally in H1 2023. The US ecosystem is the most developed, with wealthy backers that have looked to invest in and scale Europe-based companies. We believe near-term factors impacting US participation in European deals include greater uncertainty regarding monetary policy between regions, less risk appetite for cross-border deals given the funding requirements of local portfolio companies, and the repercussions of US bank collapses in 2023. US-based investors may be looking at managing existing portfolios rather than expanding the geographic reach of their investments.

Quarterly share of VC deal value by sector



Source: PitchBook • **Geography:** Europe
*As of June 30, 2023

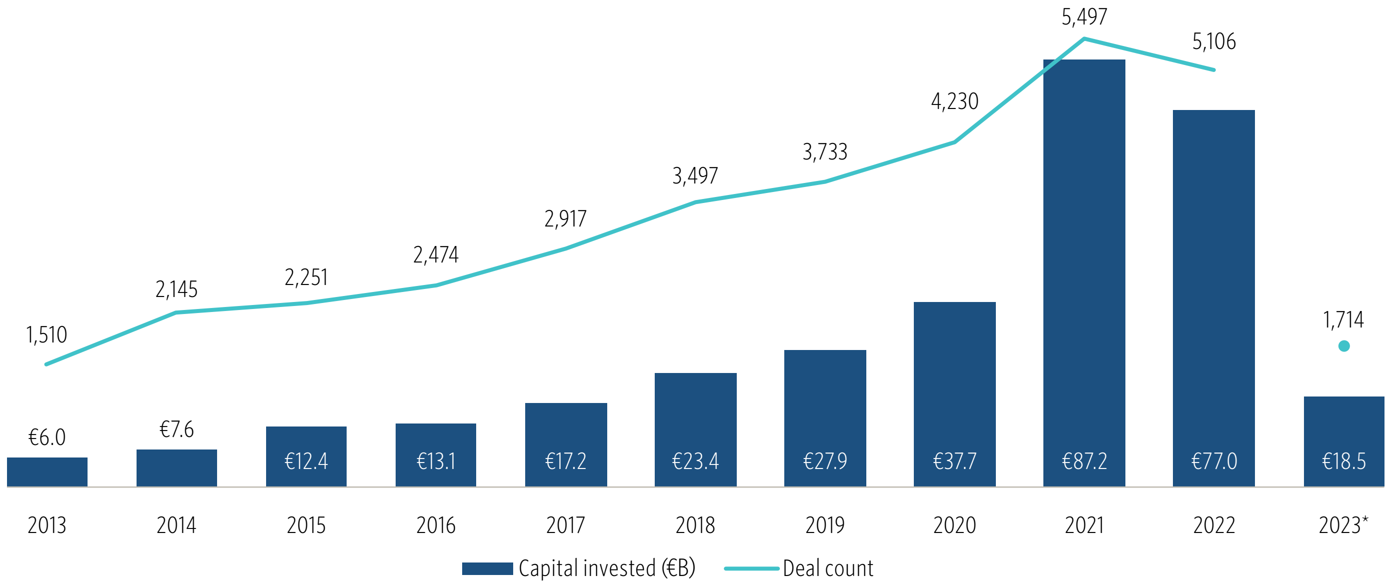
VC deal activity with US investor participation by quarter



Source: PitchBook • **Geography:** Europe
*As of June 30, 2023

Nontraditional investors

VC deal activity with nontraditional investor participation



Source: PitchBook • **Geography:** Europe
*As of June 30, 2023

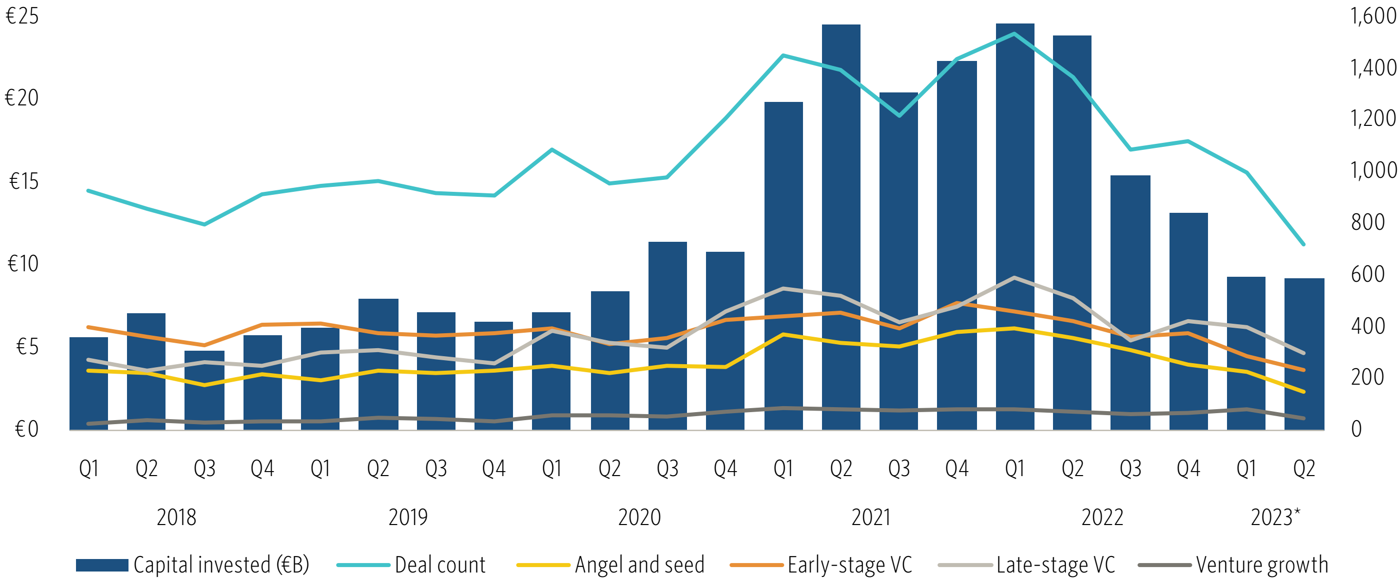
VC deal value with nontraditional investor participation reached €18.5 billion across 1,714 deals in 2023 YTD—on pace to record the lowest number of deals since 2018. In fact, 72.4% of deal value had nontraditional participation so far in 2023, which is down from 79.8% in 2021. The slowdown mimics the general deceleration in the VC industry given the macroeconomic headwinds stemming from the monetary cycle initiated a year ago. Nontraditional investors include sovereign wealth funds and hedge funds among others, which have seen their private market portfolio allocation become larger as a result of public markets dropping in the past year through the denominator effect. These nontraditional investors will have looked to rebalance their portfolios, resulting in less VC deal activity.

Other nontraditional investors include investment banks and corporate VC arms (CVCs) which may have seen their bottom lines take a hit in recent quarters due to the downturn in markets. 2022 was the worst year since 2016 for investment banks in terms of M&A fees.[2] In the corporate world, most companies were hit with spiralling inflation and abnormally high commodity prices. Both of these market participants will have decreased their appetite for the VC industry given their tighter wallets.

Nontraditional investors tend to invest in the late stages of the VC cycle given the larger cheques they are able to write and because the late stages are closer to a public exit. For this reason, we have seen the drop in venture-growth deals with nontraditional investor participation fall the least compared with angel, seed, early-stage, and late-stage deals. Still, median deal size with nontraditional participation has dropped, going from €18.5 million in 2022 to €13.6 million in 2023. Looking at deal value by size, we also see that deal sizes above €25 million came down from representing 79.3% of deals with nontraditional participation in 2021 to 65.1% of deals with nontraditional participation in 2023. Seemingly, nontraditional investors are also cutting down on the cheque sizes they are writing to startups this year given the capital squeeze inflicted by higher interest rates.

2: "Wall Street Ends Worst Investment Banking Year Since 2016," Bloomberg, William Shaw and Fareed Sahloul, January 6, 2023.

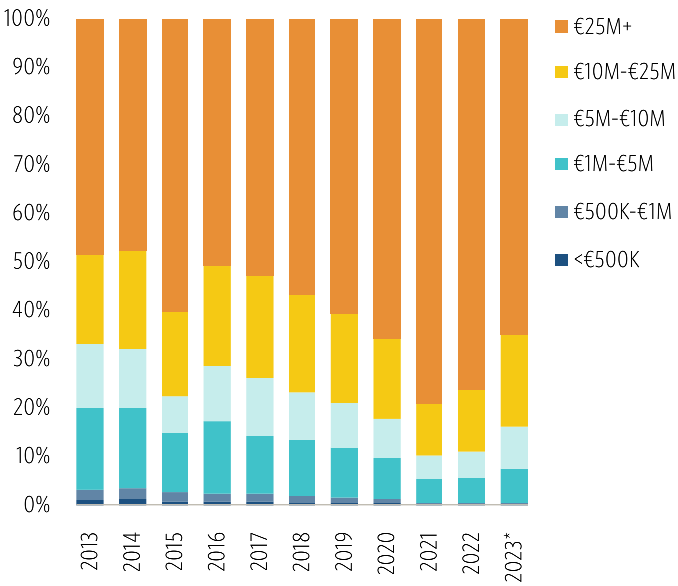
VC deal activity with nontraditional investor participation by stage



Source: PitchBook • **Geography:** Europe
*As of June 30, 2023

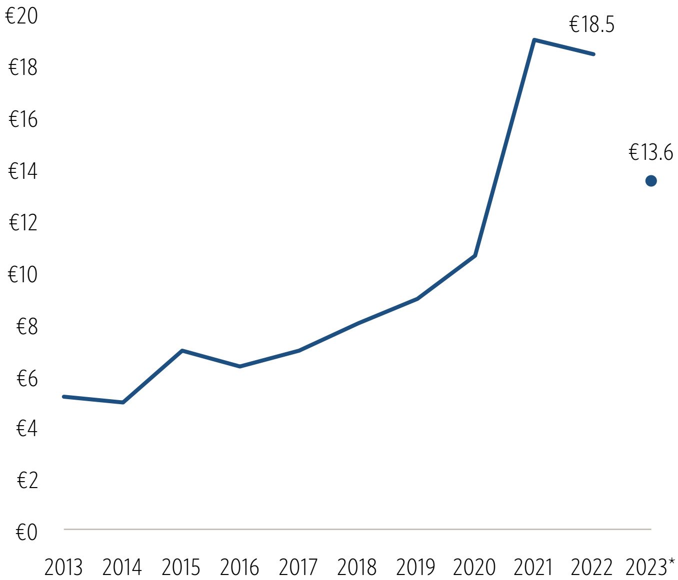
Nontraditional investor participation often offers portfolio companies a reputational boost or a strategic partnership, which can give more credibility to a startup moving forward, especially if the nontraditional investor operates in the same industry. For example, Swiss food giant Nestle bought almost half of the shares of YFood, a German meal replacement drink startup, for €215.0 million in Q1. Similarly, brokerage platform eToro received funding from ION Group, a developer of mission-critical trading and workflow automation software. Startups are always on the lookout for nontraditional investor participation, as it can elevate their company to the next level in terms of customer reach on the operational side as well as investor reach on the business-funding side.

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



Source: PitchBook • **Geography:** Europe
*As of June 30, 2023

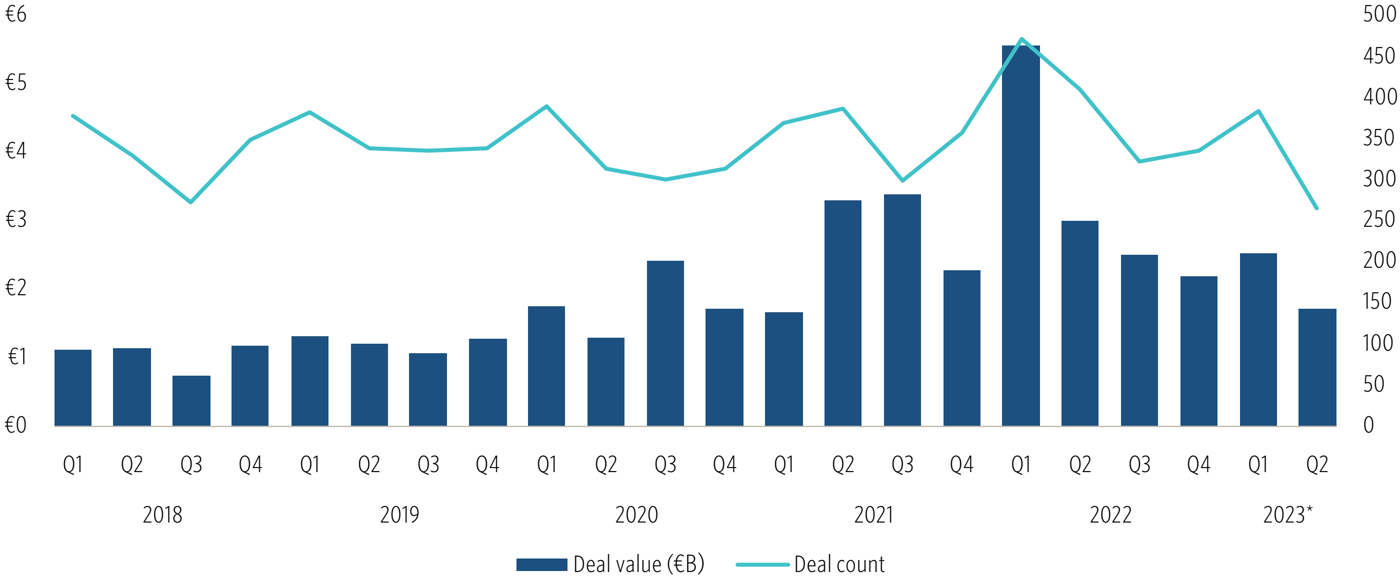
Median VC deal value (€M) with nontraditional investor participation



Source: PitchBook • **Geography:** Europe
*As of June 30, 2023

Spotlight: France VC dynamics

France VC deal activity by quarter



Source: PitchBook • **Geography:** France
*As of June 30, 2023

This spotlight is an updated section abridged from our 2023 France Private Capital Breakdown. Please see the full report for additional analysis.

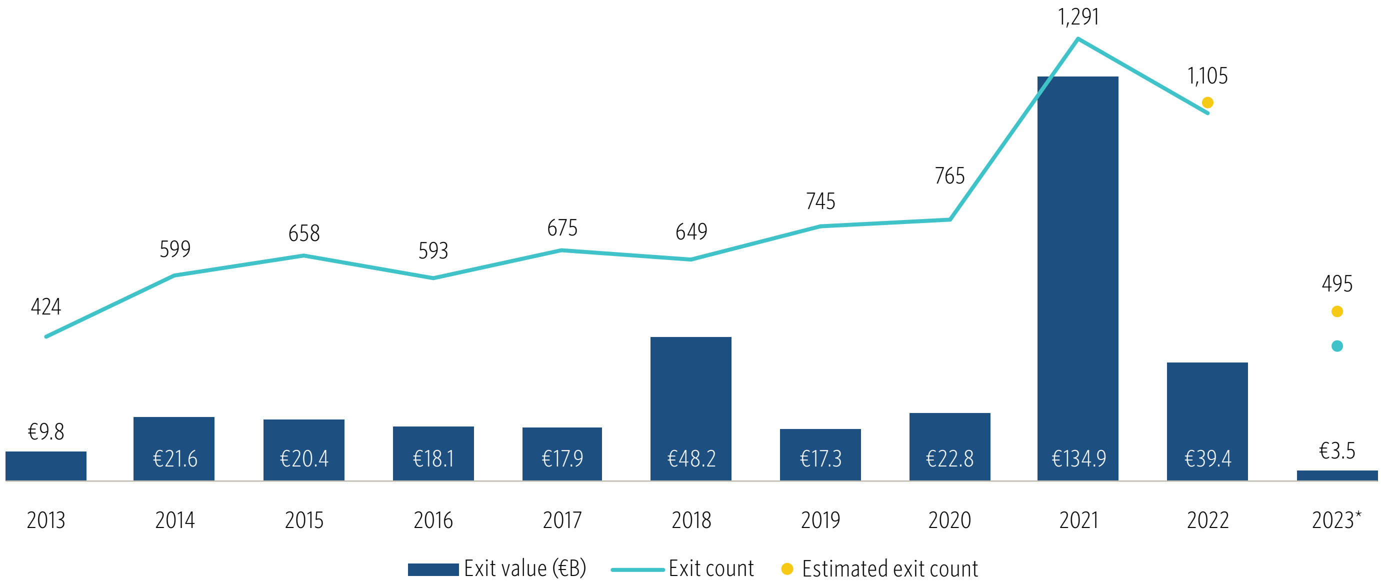
Deals activity has sequentially slowed despite a brighter macroeconomic picture. Activity in the wider French economy is looking promising with consumer price inflation continuing to decrease in June to 5.3%, from 6.0% in May and 6.9% in April. GDP also continues to prove resilient, expanding 0.2% in Q1 2023, avoiding a recession. However, following a more resilient first quarter for private market investments in the region, we note that regarding venture capital investment, activity in France has started to slow in Q2. Sequentially, deal value in the region decreased 32.1%, a more significant step down compared with other regions such as the UK & Ireland, which was 12.7% lower QoQ in Q2. However, the region has gained share of deal value in H1 2023, where France holds a 16.5% share up from 12.7% in 2022. Key deals that drove this trend in H1 include crypto security tech company Ledger's €460.8 million deal and Ynsect's €160.8 million round.

France is also outperforming other regions regarding exit value. H1 2023 exit value in the region amounted to €320.6 million, accumulating at a rate that paces 58.4% below 2022 levels. Whilst activity is clearly still depressed, declines in other regions have been more notable so far in 2023. France has therefore gained share from other regions regarding total exit value, comprising 9.1% of European exit value in H1 versus 3.9% in 2022. Notable exits in the quarter include the buyout of legal software company Doctrine for €100 million.

Government intervention will be key to bolstering investment activity, and it is on the agenda. French state support for VC investment has historically been prolific, from long-standing involvement via the French public investment bank Bpifrance to various tax reforms and initiatives to encourage activity. These initiatives have been at the forefront of the political agenda, with President Emmanuel Macron's government outlining more measures in Q1 2023. These include plans for an additional €5 billion of investment for the second phase of the France 2030 program, which aims to fund the development of technologically driven sectors. The government has also been considering a French version of the UK's Seed Enterprise Investment Scheme, which offers tax breaks to startup investors.

Exits

VC exit activity



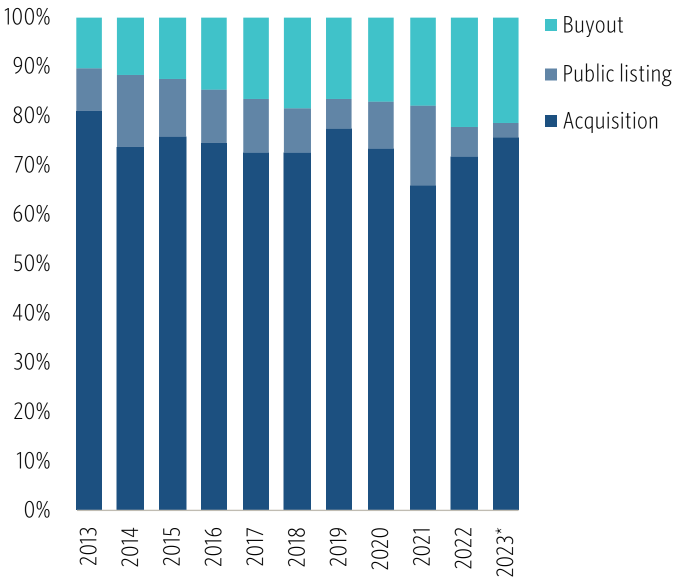
Source: PitchBook • **Geography:** Europe
*As of June 30, 2023

Exit activity continues to slow to decade lows. One of the greatest challenges within VC markets has been the recent haircuts given to portfolio company valuations. Notable down rounds from industry bellwethers such as Stripe, Klarna, and Snyk signpost the level of valuation declines VC markets are undergoing. This has led to declines in exit values, where asset prices remain depressed regardless of strategy. In H1 2023, exit value amounted to €3.5 billion, a run rate that implies full-year 2023 will come in 82.2% below 2022's total exit value. Similarly, exit count is pacing 10.4% below 2022, as both value and volume signal more caution amongst companies and investors. Quarterly trends so far this year also show little signs of recovery, with Q2 2023 exit value at €0.9 billion, 64.9% lower than Q1 2023.

PE buyout valuations are most resilient with corporate acquisitions continuing to prove the popular exit option. Whilst overall exit activity remains depressed, there are nuances by exit type. In H1 2023, acquisitions continue to gain share at 75.7% of exit count, followed by buyouts at 21.5%, and public listings comprising the remainder. However, exit value for acquisitions has declined the most, pacing 93.2% below the total from full-year 2022. On the other hand, buyout exit value has paced just 68.0% below 2022 levels. It is possible that exits by acquisition, which are smaller in nature, were more subject to the peaks in valuation seen in recent years. We therefore expect acquisitions to have a large share in count YoY but steeper declines in value as valuations have dropped more. In addition, smaller VC-backed companies may be more pressed to exit at lower valuations due to survivability. This may therefore lead to more resilience as seen in larger transactions conventionally financed through LBOs.

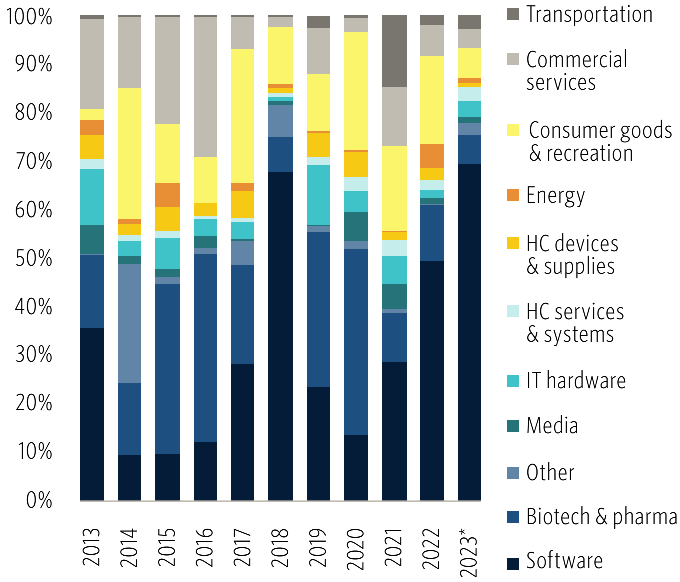
By sector, IT hardware has shown the most resilience, while energy has shown the least. The H1 2023 run rate of IT hardware exit value implies the sector is on track to pace 58.5% below 2022 levels. This is ahead of other sectors where declines in activity have been more severe, such as biotech & pharma, which is pacing 90.7% below 2022 levels. The biggest laggard so far this year appears to be the energy sector—its exit value of €31.7 million is significantly lower than 2022's total of €1.9 billion. We expect YoY declines to appear more marked for the sector, where we anticipate long-term demand to remain strong given the need for cleantech innovations.

Share of VC exit count by type



Source: PitchBook • **Geography:** Europe
*As of June 30, 2023

Share of VC exit value by sector



Source: PitchBook • **Geography:** Europe
*As of June 30, 2023

In 2022, the energy crisis instigated by the Russia-Ukraine war brought to light the need to strengthen supply chains within Europe and hasten the transition to clean-energy technology. Exit value therefore surged more than sixfold last year to new decade-highs with nine out of the 13 exits in energy led by cleantech companies. The high level of activity last year therefore provides a tough base to grow from in 2023. However, whilst exit value is markedly lower, we'd expect the above structural industry trends to continue. Indeed, seven of the nine exits in the energy sector in H1 2023 have been associated with clean-energy technologies.

Overall, any recovery in exit value in H2 will come down to listing activity and therefore public market valuations. Whilst historically fewer in count, public listings have often comprised more value than volume of exit activity. It's well-known that equity markets have been markedly depressed, leading acquisitions to take share of overall exit activity. If valuations continue to remain depressed, we expect listings to also remain depressed and acquisitions to continue to grow in share of exit activity. Portfolio companies wanting to list will likely be required to wait for an inflection in valuation benchmarks. However, in a wider context, if inflation—and therefore rates—continue to remain elevated, public market valuations will also lag. Therefore, the extent to which exit markets recover, especially for late-stage players, will hinge on macroeconomic movements. The macro environment seems to be responding more slowly in Europe compared with the US, as valuation haircuts in private markets are expected through the year. We therefore expect little recovery in exit value as we proceed through 2023.

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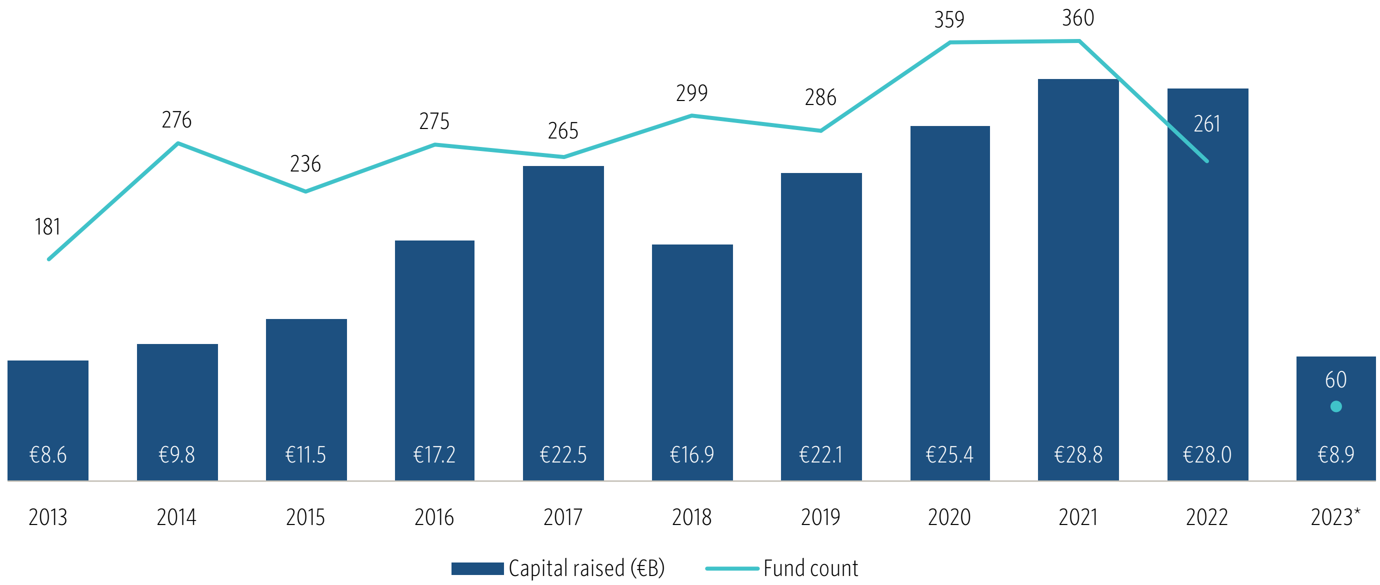
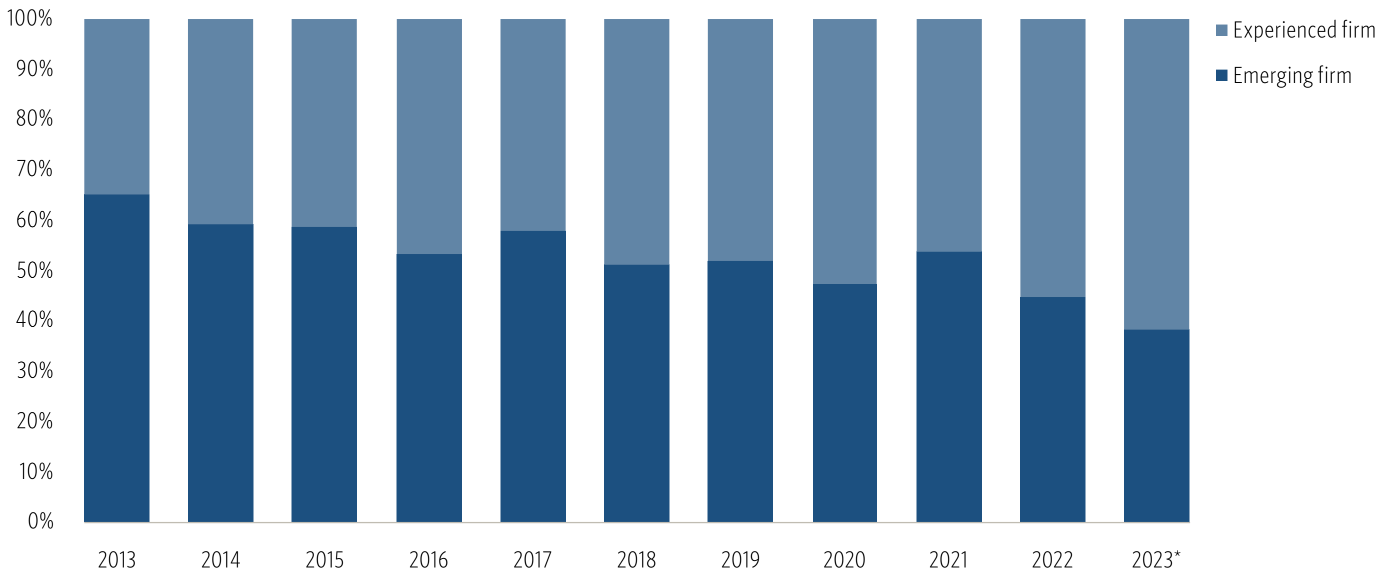
Fundraising

VC fundraising activity



Source: PitchBook • **Geography:** Europe
*As of June 30, 2023

Share of VC raised by firm experience



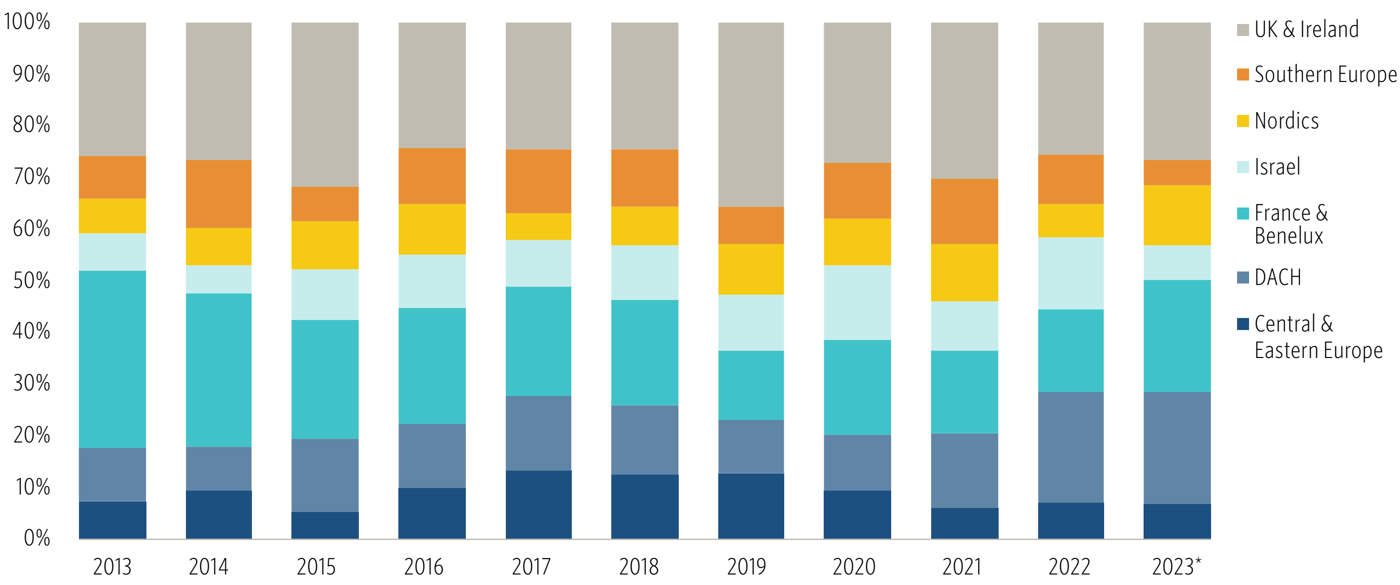
Source: PitchBook • **Geography:** Europe
*As of June 30, 2023
Note: Emerging firms are defined as firms that have launched fewer than four funds. Experienced firms are defined as firms that have launched four or more funds.

Fundraising activity remains muted and pivots towards experience. In H1 2023, total capital raised in Europe amounted to €8.9 billion, a rate which implies 2023 would pace 36.7% below 2022 levels if H1 2023 activity is maintained in H2. This occurred over 60 vehicles, of which 38 were raised by emerging firms as opposed to experienced ones.[3] Historically, emerging firm share of fund count has been higher than that of experienced managers. This is true so far in H1 2023, as emerging managers have raised 63.3% of fund count, on par with 2022. We expect experienced firms to take fund share from emerging managers amid lower private market returns, constrained allocations, and market volatility, as managers with longer track records prove more popular with LPs. Therefore, regarding value, experienced investor share of capital raised, for instance, increased to 61.7% in H1 2023 from 55.3% in 2022. Whilst there may be more emerging managers in the market, their share of fundraising capital still lags that of more experienced firms.

Among the largest 20 funds closed in Q2 2023, early-stage strategies were most prevalent. Of the funds disclosed, we note 13 of the top 20 funds closed this quarter were early-stage funds, perhaps evidencing the resilience of the strategy amid market volatility. Early-stage investors tend to be more focused on the long term, investing in younger, high-growth companies for extended time horizons. Therefore, temporary market weakness conventionally doesn't impact investor outlook as much as it does late-stage strategies, where returns are more tied to short-term time horizons and exit markets. In the near term, as funds close through H2 2023, the makeup of the largest funds is subject to change.

By size, the largest fund to close was Forbion Ventures Fund VI, closing at €750 million in the Netherlands, followed by German fund HV Capital Fund IX Growth at €710 million, and finally Forbion Growth Opportunities Fund II at €600 million. Within Europe, several funds remain open, but closing times appear to have notably lengthened, demonstrating the tougher fundraising environment for venture capital GPs. Whilst we do not look at fundraising on a quarterly basis due to its lumpy nature, it remains to be seen how many of the top 20 open funds will close this year, with several having been open since 2019 and 2020. Median closing times in Europe sat at 14.2 months in H1 2023 compared with the median closing time of 10.0 months in 2022.

Share of VC fund count by region



Source: PitchBook • **Geography:** Europe
*As of June 30, 2023

3: Emerging firms are defined as firms that have launched fewer than four funds. Experienced firms are defined as firms that have launched four or more funds.

Regionally, most funds closed in H1 were in the UK & Ireland, followed by a tie between the Germany, Austria & Switzerland (DACH) region and France & Benelux. These regions represented 26.7%, 21.7%, and 21.7% of total fund count, respectively. Regarding capital raised, these three regions also showed more resilience in H1 2023. The standout is again France & Benelux, where capital raised totalled €2.8 billion in H1 2023—the least severe decline compared with 2022's total. The region is on pace to land 7.8% below its total in 2022 if the same rate of fundraising is sustained for the rest of 2023. Of course, fundraising is lumpy by nature, and several funds are still open, which means there is still much at play for securing LP capital through 2023. Regionally, we expect France & Benelux to remain better-placed given the region's resilience regarding valuations and exits. Furthermore, progress and outperformance on macroeconomic proof points, such as inflation and growth, may give investors more confidence in allocating capital to the region compared with other countries in Europe.

Top 20 VC funds closed in Q2 2023 by fund value (€M)*

Fund	Close date (2023)	Capital raised (€M)	Fund type	HQ location
Forbion Ventures VI	April 19	€750.0	VC	Naarden, Netherlands
HV Capital IX Growth	May 4	€710.0	Late-stage	Munich, Germany
Forbion Growth Opportunities II	April 19	€600.0	Late-stage	Naarden, Netherlands
Hitachi Ventures III	April 20	€275.1	Early-stage	Munich, Germany
FPCI Supernova 2	June 22	€270.0	VC	Paris, France
Blisce II	April 14	€230.6	VC	Paris, France
IFM Fintech Opportunities III	June 21	€218.0	Early-stage	London, UK
IQ Capital IV	June 5	€184.1	Early-stage	Cambridge, UK
Seedcamp VI	May 17	€163.5	Early-stage	London, UK
Lifeline Ventures V	May 17	€150.0	Early-stage	Helsinki, Finland
Educapital II	April 14	€150.0	Early-stage	Paris, France
Catalyst IV	May 7	€136.2	VC	Tel Aviv, Israel
4impact II	April 20	€125.0	Early-stage	The Hague, Netherlands
Kindred Capital Seed III	April 20	€119.2	Early-stage	London, UK
Fuel Ventures 7	June 29	€116.5	Early-stage	London, UK
Inovo Venture III	June 27	€105.0	Early-stage	Warsaw, Poland
Elkstone Venture 1	May 18	€100.0	Early-stage	Dublin, Ireland
Brighteye Ventures II	June 19	€100.0	VC	Paris, France
Pale Blue Dot II	May 11	€93.0	Early-stage	Malmo, Sweden
Voima Ventures III	June 13	€90.0	Early-stage	Helsinki, Finland

Source: PitchBook • **Geography:** Europe
*As of June 30, 2023

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Private capital

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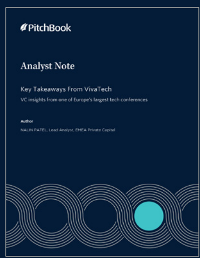

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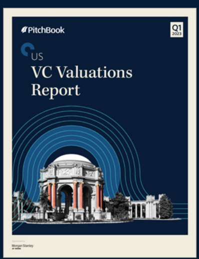

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