PitchBook

Q3 2023

EUROPEAN VC Valuations Report

PitchBook

Contents

With this edition of the European VC Valuations Report we adopt our new pre-seed report methodology to capture deals more accurately and comprehensively from the earliest phase of venture. Going forward we will sunset "angel" as a specified stage of venture in all of PitchBook's venture-focused reports. Median valuations and deal sizes will be subject to change compared with previous reports due to the inclusion of angel rounds across company stages.

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Click here for PitchBook's report methodologies.

Introduction

Valuations continue to decline in Q3 versus 2022 levels, but signs of recovery could be evident. Median valuations in Q3 declined across all stages compared to 2022, with the late stage showing the most resilience and venture growth the least. Regarding deal sizes, the picture is more mixed, but median venture growth deal sizes continued to decline the most while pre-seed showed the greatest increase. Whilst the proportion of down rounds continues to tick higher through Q3 2023 versus 2022, on a quarterly basis the share stayed broadly flat in Q3 versus Q2 2023. Furthermore, if we look at quarterly movements in valuations across all stages within venture, valuations have sequentially been on the rise since Q1 2023, evidencing that some signs of recovery in the market could be emerging.

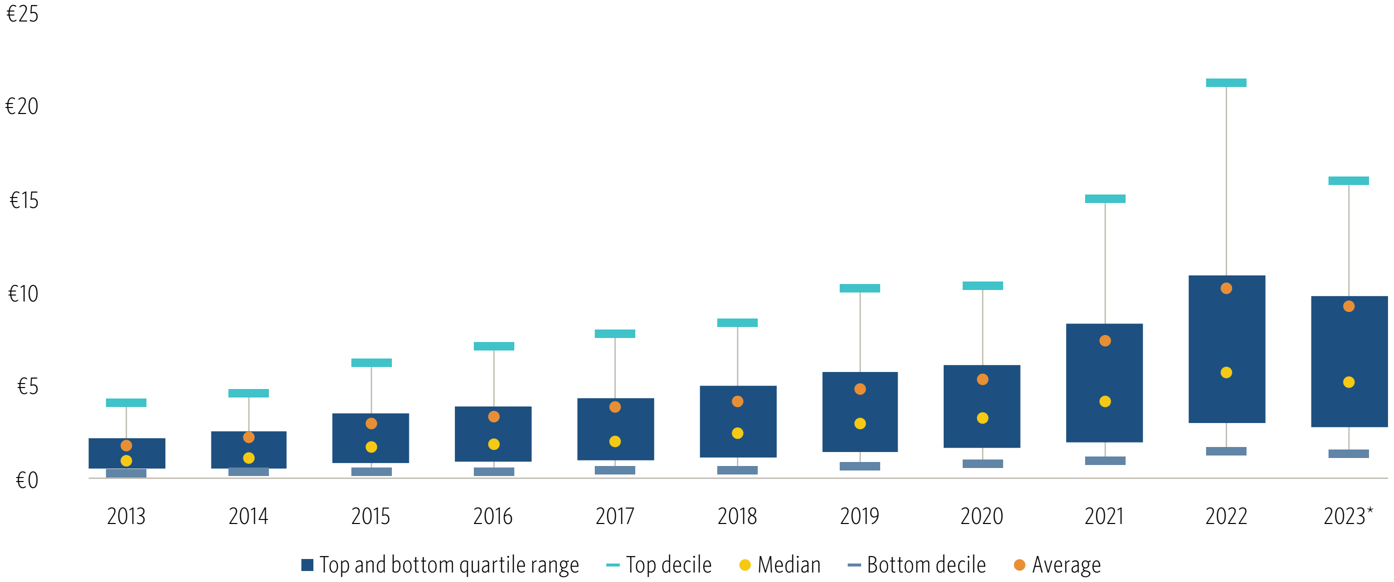
Nontraditional investor participation in Europe decreases to 73.4% of VC deal value in Europe through Q3 2023, in line with 2020 levels. Declines in median valuations through Q3 have been larger where nontraditional investors have been involved. In terms of general participation within venture markets, nontraditional investor involvement has continued to decrease as such investors retreat back to better-known areas and strategies amid market volatility. Overall, we'd expect a continued pullback in nontraditional investor participation going forward amid continued uncertainty.

The aggregate value and cumulative quantity of VC-backed companies valued at €1+ billion euros plateaued in the first three quarters of 2023. The combination of slower dealmaking and scarcity of exits has flattened overall figures. Despite the gloomy backdrop in 2023, the quantity of the most valuable VC-backed companies in Europe has grown strongly in the past five years. However, valuations, particularly at mature financing stages, are facing renewed scrutiny. Investors have become cautious with their capital deployment, and mature companies that were previously burning through cash have had to focus on costs, with valuations recalibrated based on flatter revenue growth trajectories.

Amid a quieter exit environment, median exit valuations have cooled. Lower exit valuations are widely expected in the current climate, as market conditions have shifted, with investors willing to pay a lower premium for companies in public and private markets. Exit appetite and subsequent valuations have been hampered by the lack of growth and declines in valuations of formerly VC-backed companies that have exited, particularly into public markets.

Overview

Seed VC pre-money valuation (€M) dispersion

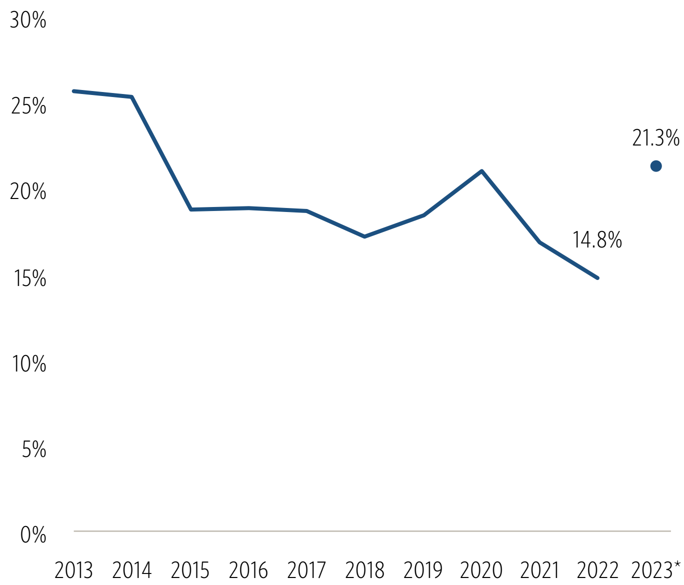


Source: PitchBook • **Geography:** Europe
*As of September 30, 2023

Valuations continue to decline in Q3 versus 2022 levels, but signs of recovery could be evident. Median valuations in Q3 declined across all stages compared to 2022, with the late stage showing the most resilience and venture growth the least. The larger declines in the earlier stages of the ecosystem (pre-seed/seed) are surprising given the conventional resilience the category has had during periods of market weakness. However, clearly, no one is immune to the downturn. Regarding deal sizes, the picture is more mixed, but median venture growth deal size continues to decline the most while pre-seed shows the greatest increase—by 20% through Q3 versus 2022. Whilst the proportion of down rounds continues to tick higher through Q3 2023 versus 2022, on a quarterly basis the share stayed broadly flat QoQ. Furthermore, if we look at quarterly movements in valuations across all stages within venture capital markets, valuations have sequentially been on the rise since Q1 this year.

Whilst it may be too early to call a bottom to the declines in valuations, such signs within the data are green shoots, which could evidence that some recovery within the market could ensue. It's a hard balance between valuation cuts in private markets that lag public benchmarks. This means there could be more haircuts to come or that industry stakeholders may wait for public benchmarks to rise further, delaying revaluations of their portfolio companies even more. In addition, the wider macroeconomic backdrop continues to remain uncertain, but consensus expectations are now skewed towards a higher-for-longer interest rate environment.

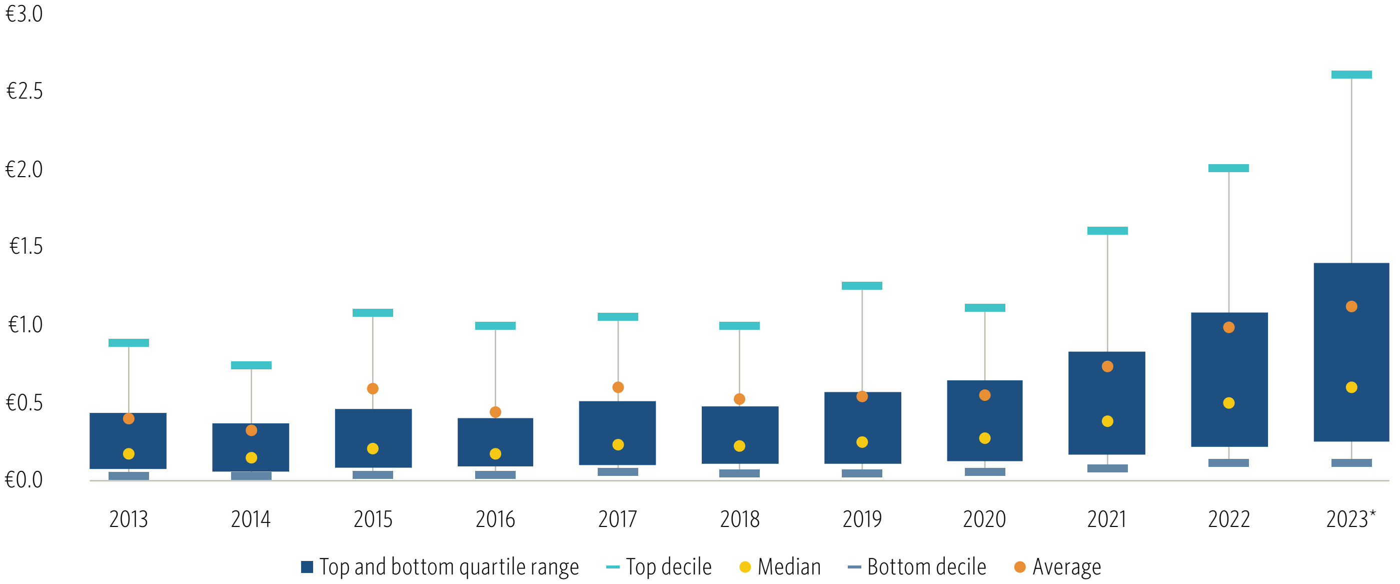
Down round deal count as a share of all VC deals



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

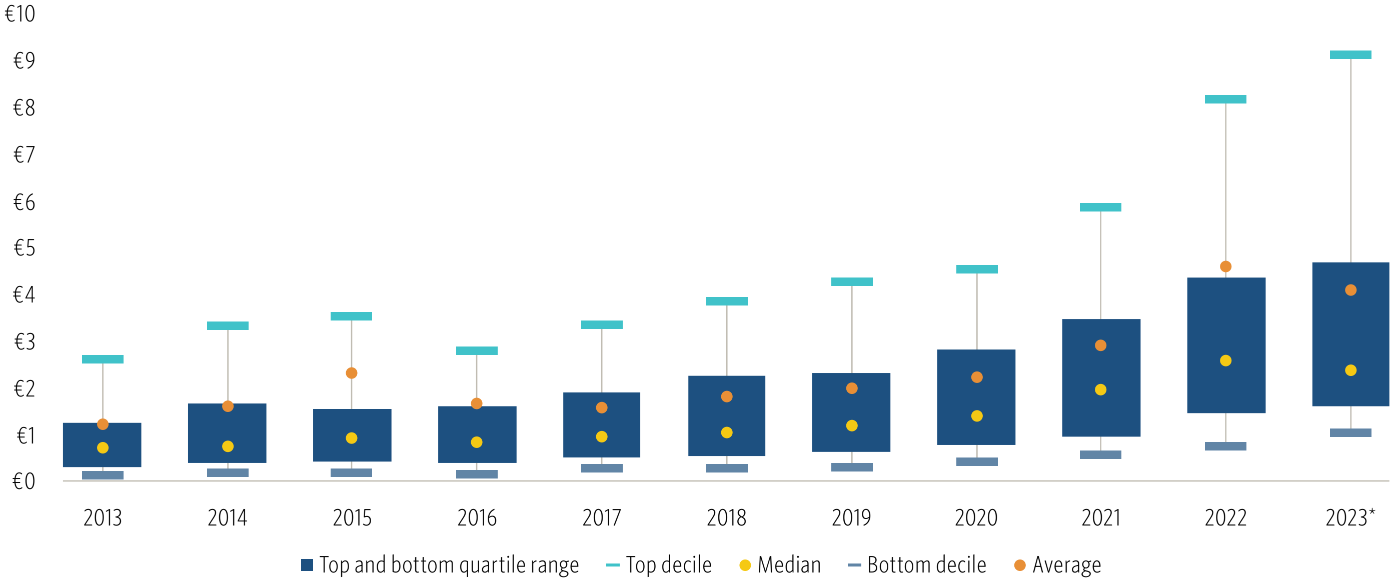
This means investors have to adapt to a new normal, where discount factors are higher, valuations are more conservative, and capital is more constrained. Nevertheless, as seen this quarter, deals are still getting done, with top-tier startups able to attract GP capital. However, tighter financing conditions introduce more rationality among stakeholders across the market, meaning startups will have to work harder to secure funding.

Pre-seed deal value (€M) dispersion



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

Pre-seed VC pre-money valuation (€M) dispersion

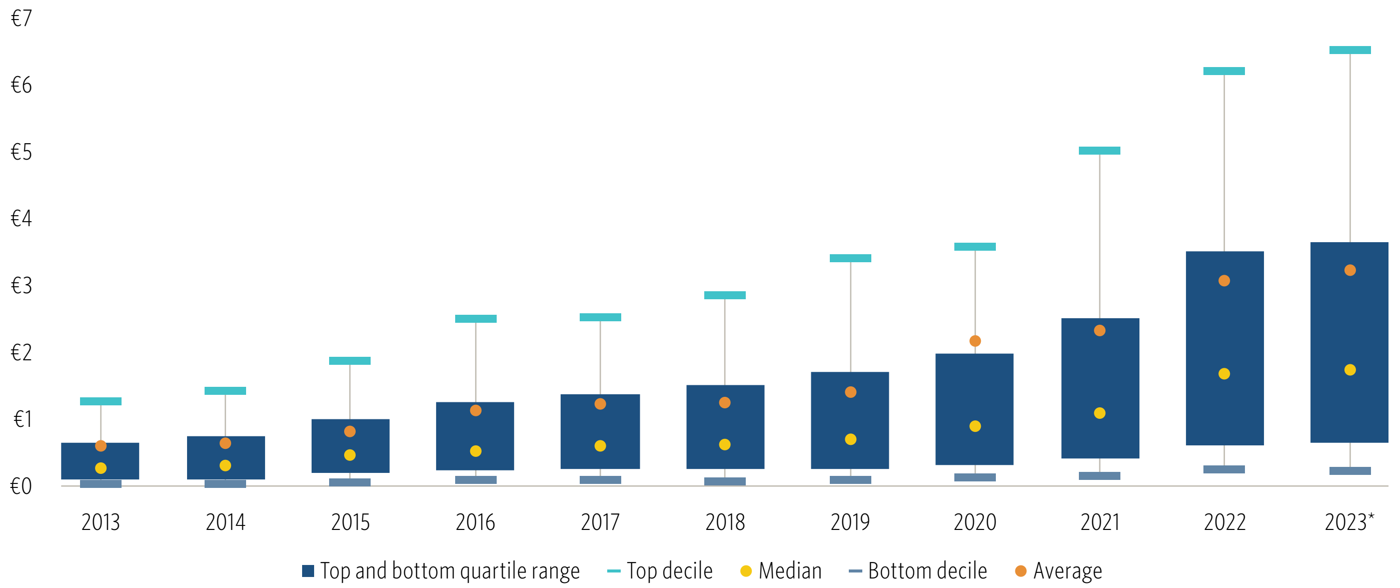


Source: PitchBook • **Geography:** Europe
*As of September 30, 2023

Pre-seed

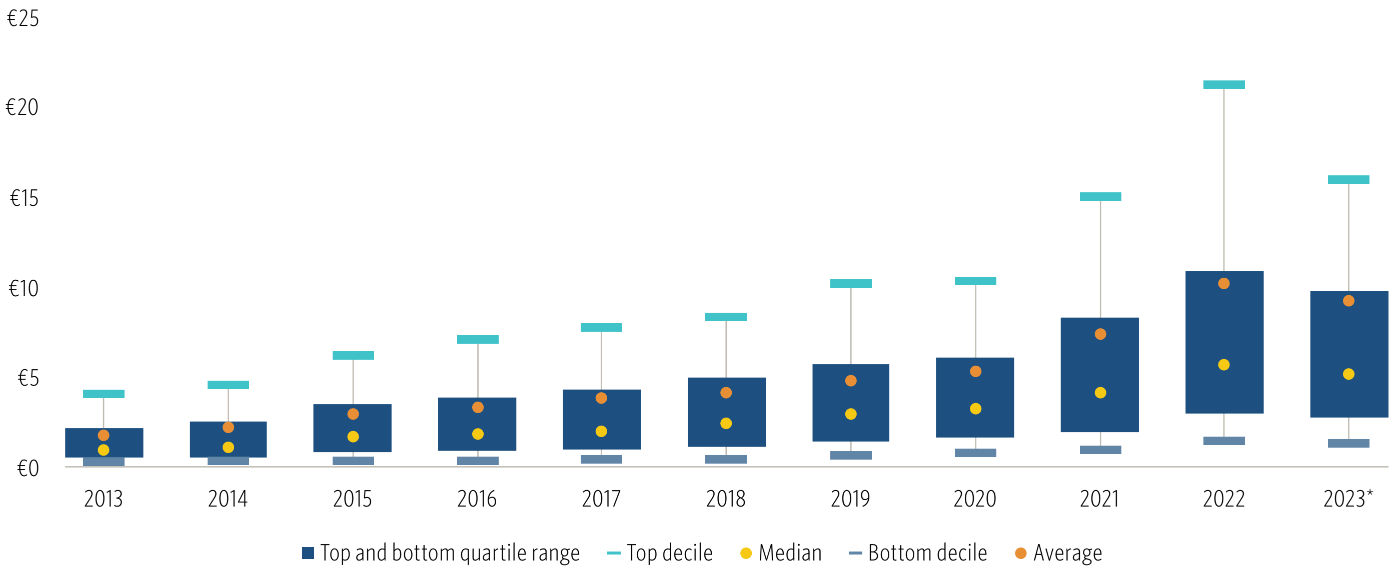
Pre-seed deal value showed the most resilience out of all the stages through Q3, but median valuations declined versus 2022. We would expect more resilience within the stage due to the infancy of businesses found in pre-seed deals and, therefore, lower reliance on exit markets and short-term market volatility. We find it surprising that median valuations for the first nine months of the year declined versus 2022—more so than some other stages. No doubt, a higher rate environment and declining valuations will impact all areas of the venture ecosystem. However, we would expect pre-seed and seed valuations to be relatively insulated from near-term market volatility compared to late-stage valuations. Quarterly trends so far this year show some signs of an uptick, with pre-seed deal values and pre-money valuations increasing since Q1 2023. Furthermore, pre-seed was the only stage in which the top decile of valuations increased through Q3 this year versus 2022, evidencing that the top end of the category is still able to grow valuations.

Seed deal value (€M) dispersion



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

Seed VC pre-money valuation (€M) dispersion



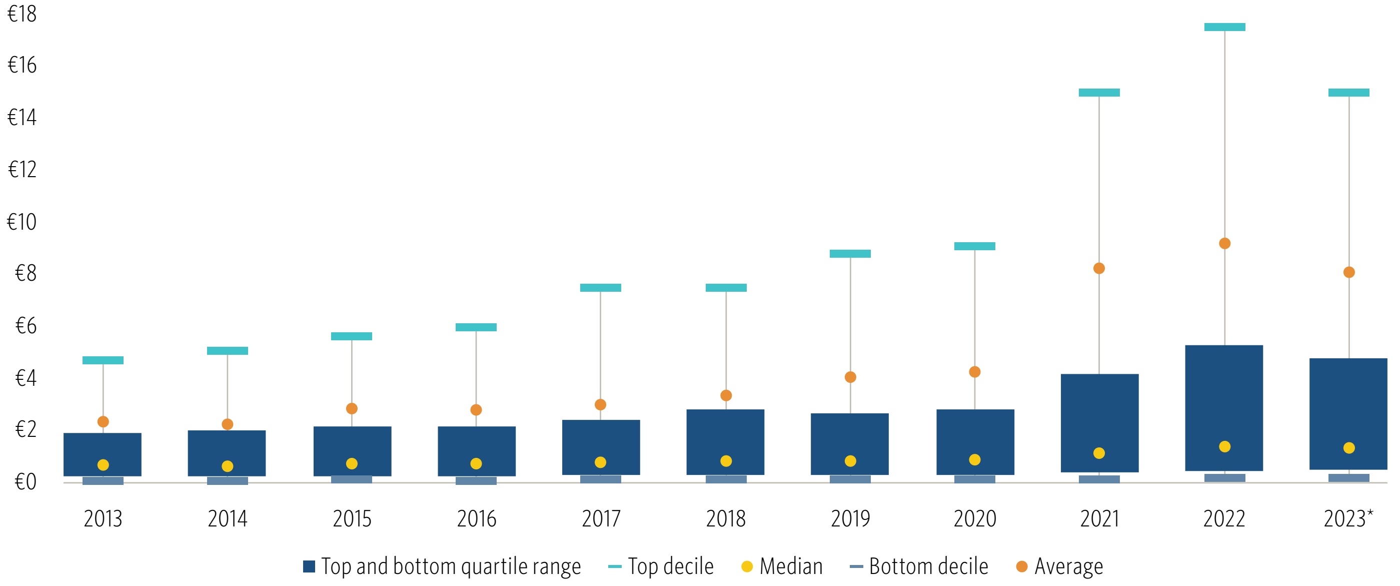
Source: PitchBook • **Geography:** Europe
*As of September 30, 2023

Seed

Trends in seed valuations follow those of pre-seed stages.[1] Median seed deal sizes were broadly flat, increasing 4.1% through to Q3 compared to 2022. Median valuations declined 8.9% in the same period, but quarterly trends in median pre money valuations again have shown some signs of recovery since Q4 2022, posing the question of whether earlier stages in the market are past the peak point of pain when it comes to declining valuations in the market.

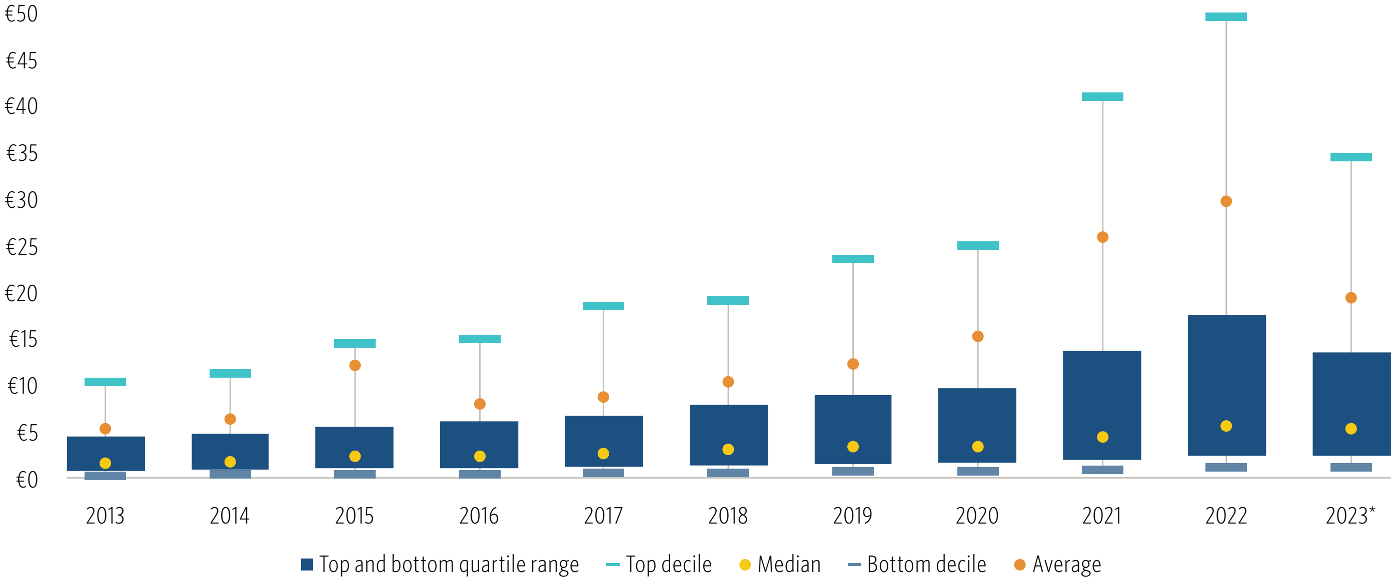
1: As a reminder, we define seed stages as when the investors and/or press release state that a round is a seed financing, or it is for less than $500,000 and is the first round as reported by a government filing.

Early-stage deal value (€M) dispersion



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

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

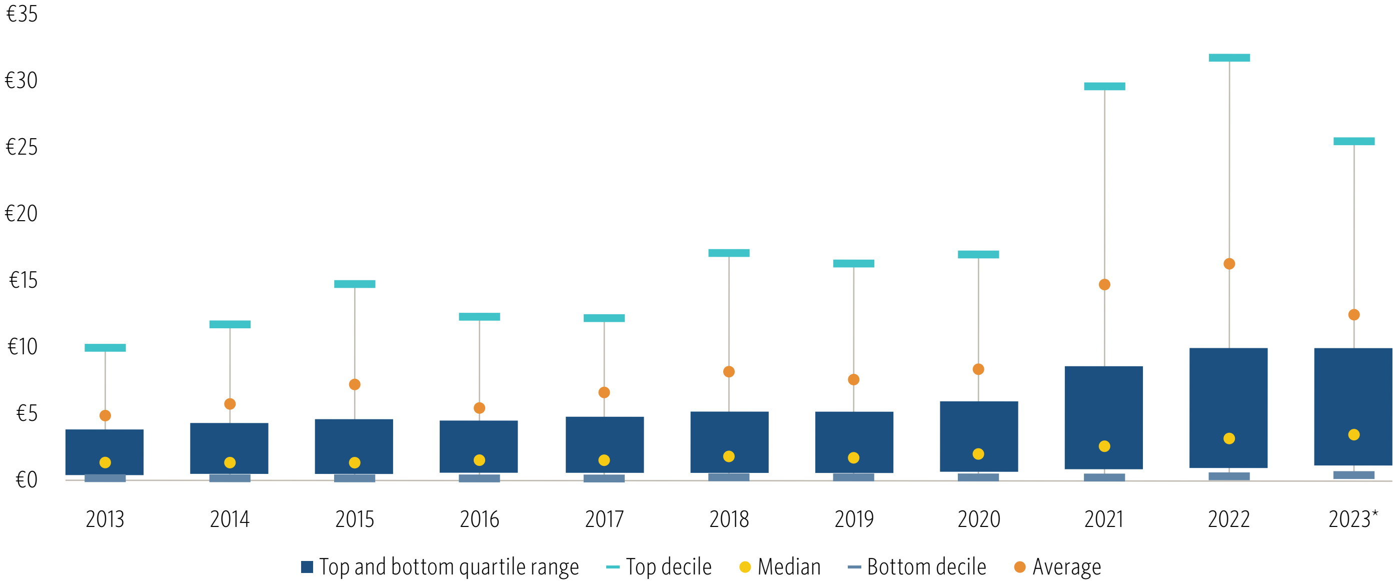


Source: PitchBook • **Geography:** Europe
*As of September 30, 2023

Early stage

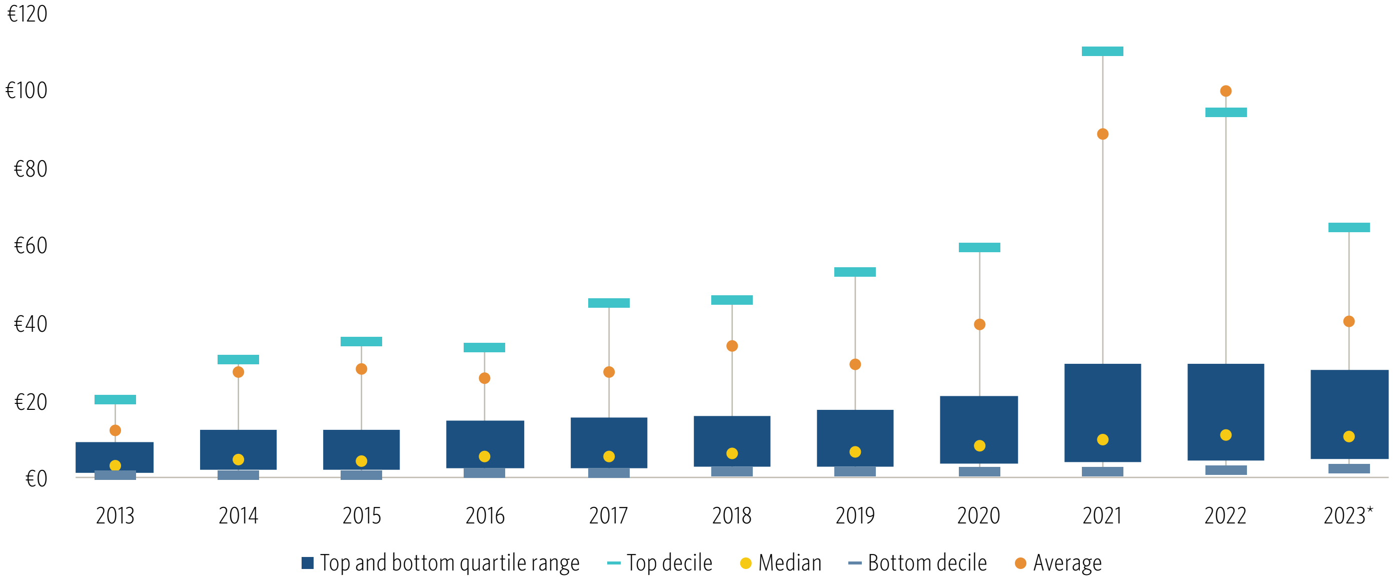
Median deal value slightly decreased through Q3, remaining broadly flat versus 2022. Alongside venture growth, the category was the only one in which median deal value has seen any declines, although the stage has broadly maintained the level of median valuations seen in 2022. We believe the lack of correction in the early stage of deal value shows some resilience in the category. However, it also presents an interesting dichotomy to pre-money valuations, which have started to decline in the same period. For the same deal size, compared to prior periods, startups in need of capital may be willing to give away more equity to secure financing in a capital-constrained, investor-led market. Quarterly trends at the early stage also speak to such dynamics, in which pre-money valuations have shown few trends in recovery, but median deal sizes have been on the rise since Q2, 24.7% higher in Q3 2023 vs Q3 2022.

Late-stage deal value (€M) dispersion



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

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

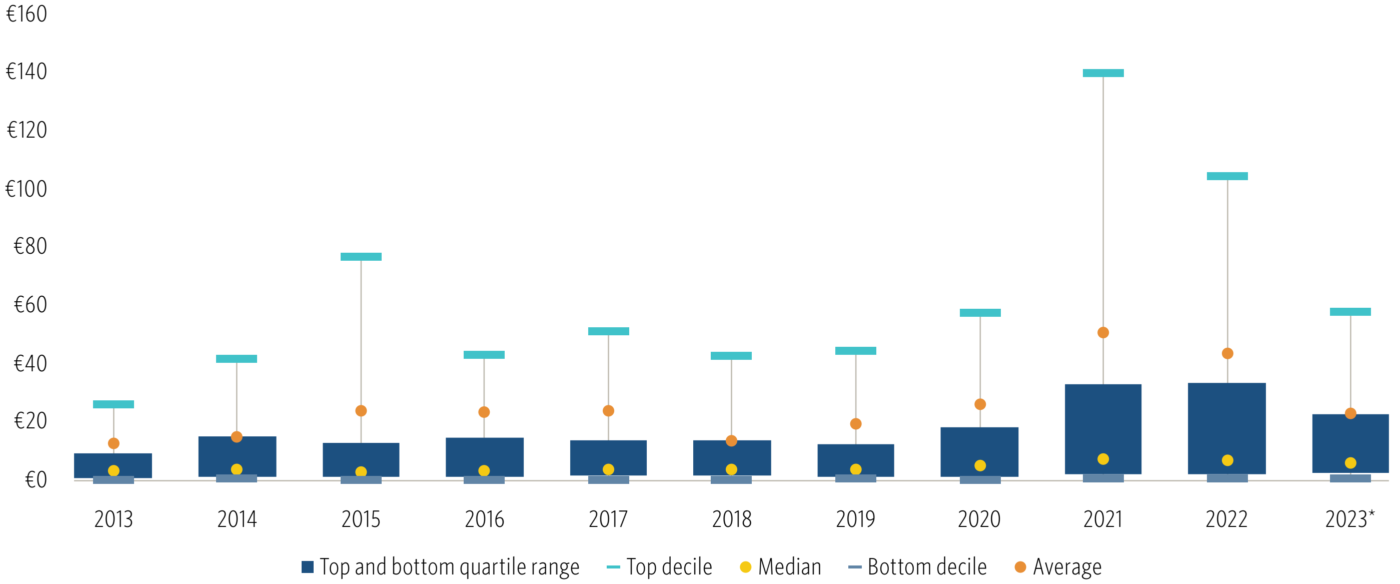


Source: PitchBook • **Geography:** Europe
*As of September 30, 2023

Late stage

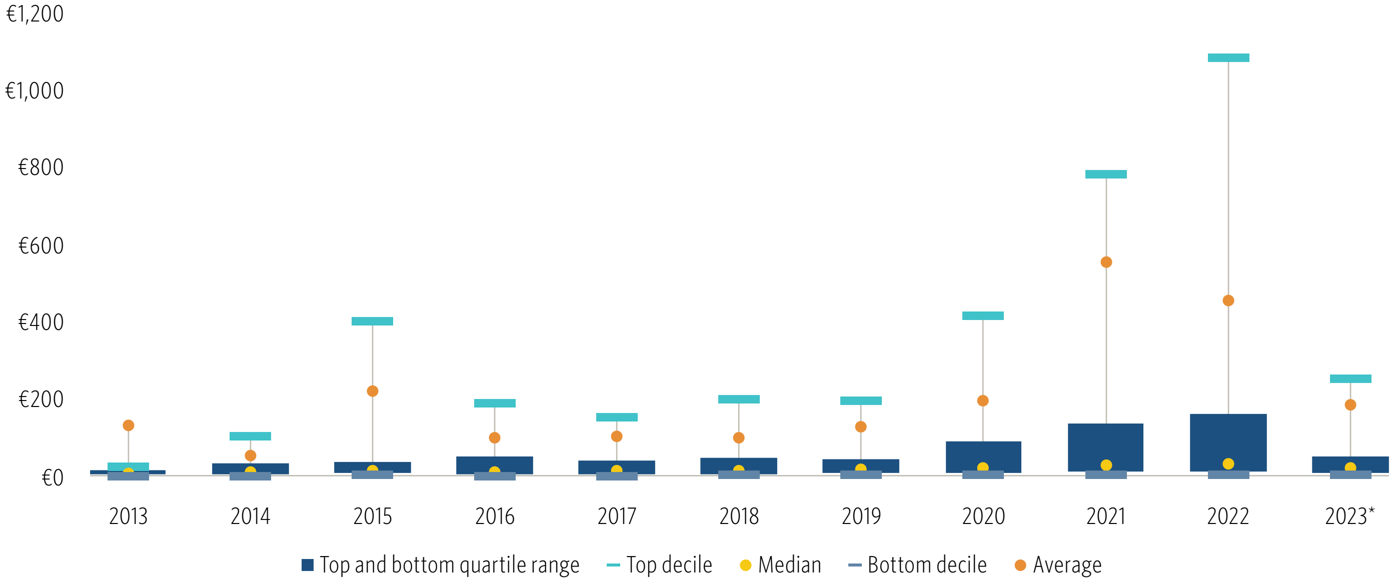
Trends in late-stage deal sizes and valuations have, surprisingly, been resilient. We would normally associate heavier declines in valuations and deal sizes with more mature areas of the VC ecosystem, as they are more reliant on exit markets and public benchmark valuations (which have also markedly corrected over the last year). However, through Q3, late-stage median deal size increased 9.4% versus 2022 and median valuations declined only by 4.3%. Notable late-stage deals that have boosted levels of activity in the category included companies such as Verkor, Conigital (both cleantech), and Teylor (fintech), with the former two closing in Q3 and lifting the quarter's totals.

Venture-growth deal value (€M) dispersion



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

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

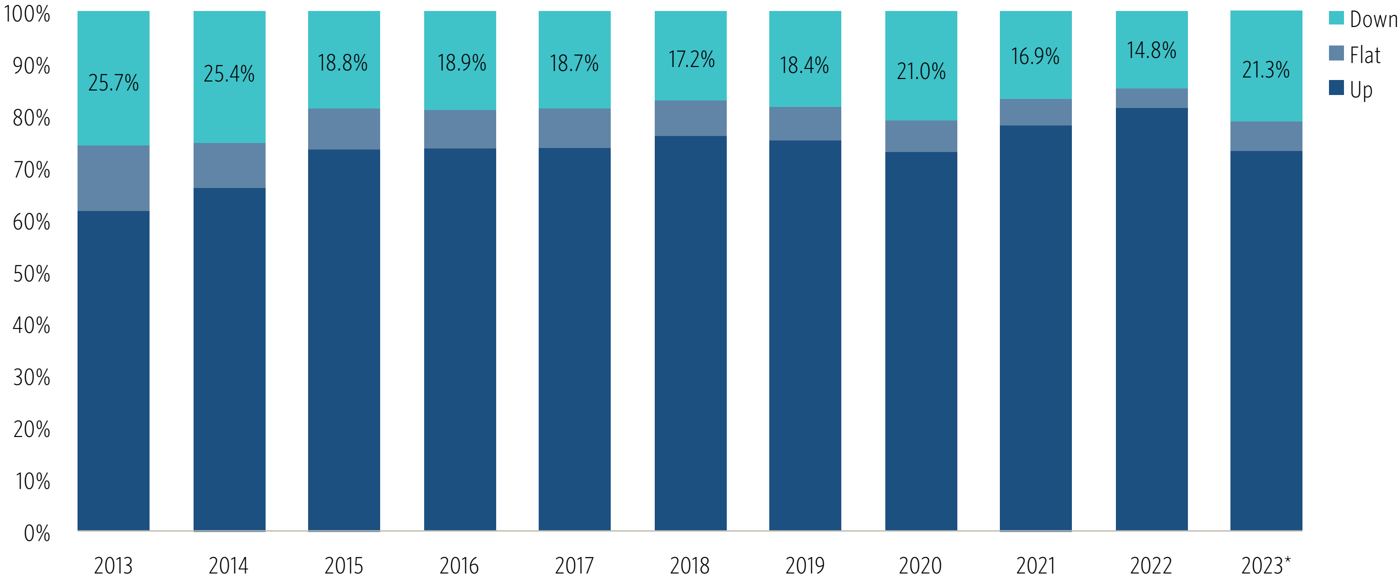


Source: PitchBook • **Geography:** Europe
*As of September 30, 2023

Venture growth

Venture growth continues to be the weakest category. Declining deal sizes and valuations within venture-growth stages have made declines in the stage the most severe of all the categories throughout the year. Venture growth, as the most mature area of the market, relies on exit markets the most for crystalising returns. Furthermore, venture-growth companies sit the closest to public benchmarks. It is, therefore, little surprise that Q3 is no different. Through Q3, the median venture growth deal value declined 17.4% compared to 2022. Median valuations also declined the most out of all the stages, sitting 26.1% lower through the first nine months of the year versus the full year 2022. Declines in prevalent players within the industry (such as Revolut, Klarna, and Stripe) have been well documented in the press. We expect venture growth to continue to be more affected by valuation declines as interest rates stay high and public markets remain depressed.

Quarterly share of VC deal count by up, flat, or down rounds



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

Up, down, and flat rounds

Down rounds increased, but could the level be plateauing? Through Q3 2023, the proportion of down rounds in Europe increased to 21.3% from 14.8% for the full year 2022.[2] Whilst decreasing valuations and down rounds have been well documented, a key question has been when the trough levels of declines will be reached. Whilst the outlook is uncertain, we note some signs of resilience in Q3. On a quarterly basis, the proportion of down rounds in Q3 stayed broadly flat versus Q2, at 22.7%. This is the highest it has been since 2020, but the levelling off could be a sign that we are past the peak proportion. Following various down rounds documented in the press in recent years, we will remain observant of further cuts next year. Disclosure regarding down rounds also remains an important factor to consider. As companies need to secure further financing in coming quarters, more timely valuations will ensue, meaning we could see more information disclosed on down rounds. However, such disclosure is not required, with market players likely to choose to disclose less about valuations amid the downturn.

2: Based on 1,188 deals

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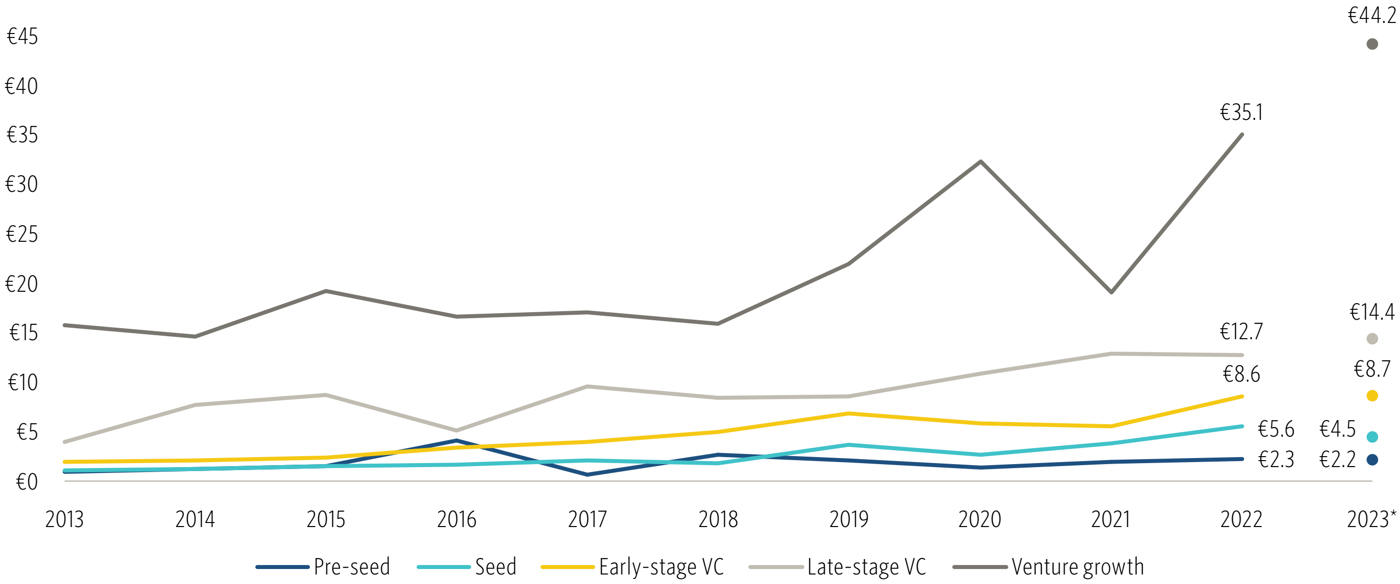
SECTORS

Biotech and pharma

Median biotech & pharma VC pre-money valuation ($M) by stage



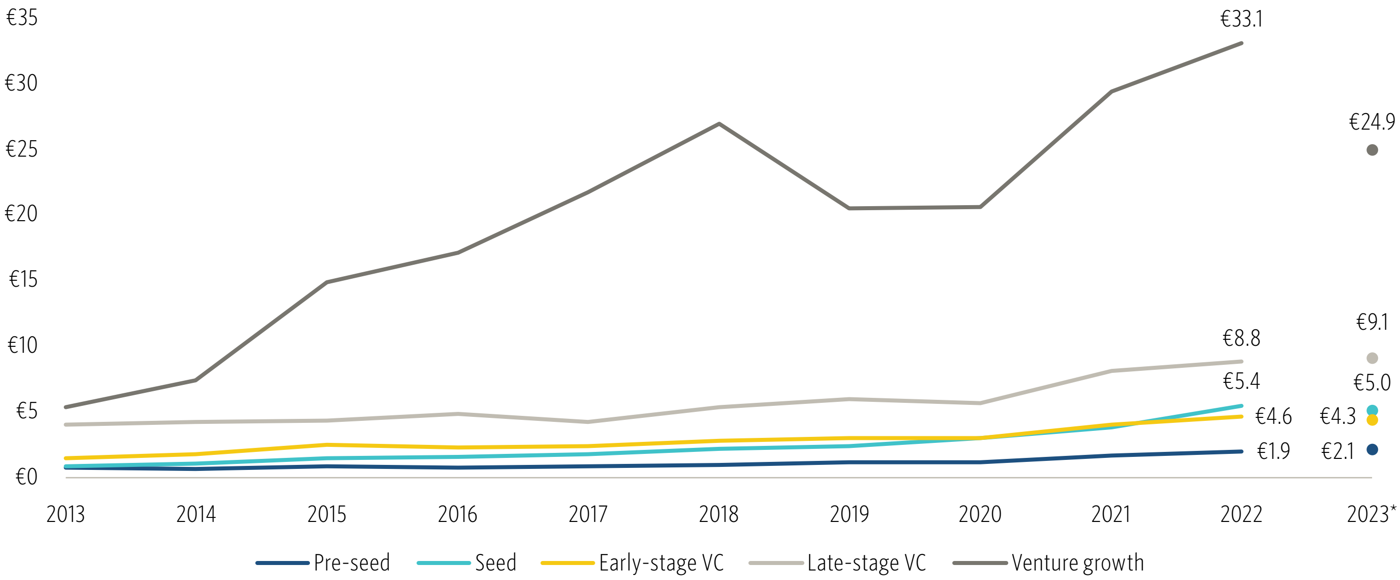
Source: PitchBook • **Geography:** Europe
*As of September 30, 2023

Biotech and pharma deal sizes and valuations show signs of uptick. Across the various stages, the sector saw increases in median deal sizes through Q3 versus 2022. Pre-seed average deal size was the only category to not increase, as it was broadly flat compared to last year. On the other hand, within the sector, late-stage median deal value increased the most, by 45.3%, from €6.2 million in 2022 to €9.0 million through Q3 2023. Interestingly, the upticks in venture growth median valuations within biotech and pharma showed the greatest uptick through Q3 2023 in percentage terms, with pre-seed and seed median valuations declining. These dynamics defy those seen more broadly in venture markets, where late-stage valuations have been hit harder compared to early stages, which tend to be more resilient. Notable venture growth companies within the industry that have been able to defy such trends include microbial protein fermentation player Unibio and regenerative medicine company CUTISS. Overall, we would expect biotech and pharma valuations to exhibit more resilience versus other verticals due to structural growth dynamics and non-cyclical demand for such technologies. On a longer-term basis, since 2013 all stages within the sector have grown median pre-money valuations considerably, increasing more than three-fold in various cases, as peak median valuations seen in 2022 are sustained this year.

SECTORS

Consumer tech

Median consumer tech VC pre-money valuation ($M) by stage



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

It is surprising that median deal sizes in consumer tech showed resilience. Through Q3, median deal sizes stayed broadly flat across most stages, with values in the late stage increasing the most. The picture is more mixed regarding valuations, with trends following the broader market. We saw seed and early-stage median valuations decrease through Q3 2023 versus 2022, with venture growth showing the greatest declines versus 2022. Whilst the sector covers a broad range of end applications within the consumer sector, we expect consumer-facing industries in Europe to remain more challenged looking forward. Taking venture growth as an example, companies that constitute the higher end of the valuation range include the likes of on-demand delivery player Getir, meal kit provider Gousto, and beverages startup DASH Water. Whilst we cannot comment on current valuations of such players, we believe areas of consumer spend, which are more discretionary, will be subject to more pressures in coming months. Higher-for-longer rates lead to lower disposable income as mortgage payments rise, although wage inflation has somewhat kept in step in Europe. Nevertheless, we'd expect downtrading to occur, especially in areas of staple spend such as food, in which consumers may choose to buy groceries through traditional means rather than paying a convenience premium for more expensive alternatives, such as fast groceries or meal boxes. However, these companies may grow through other means, such as expanding geographies or adjacencies. Elsewhere, there are areas of the market that could benefit from a weaker consumer environment, such as the used listings market in which venture growth player Wallapop operates.

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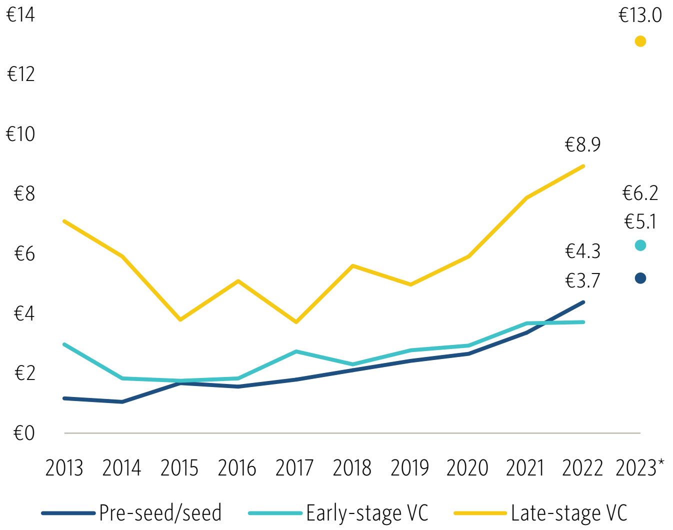
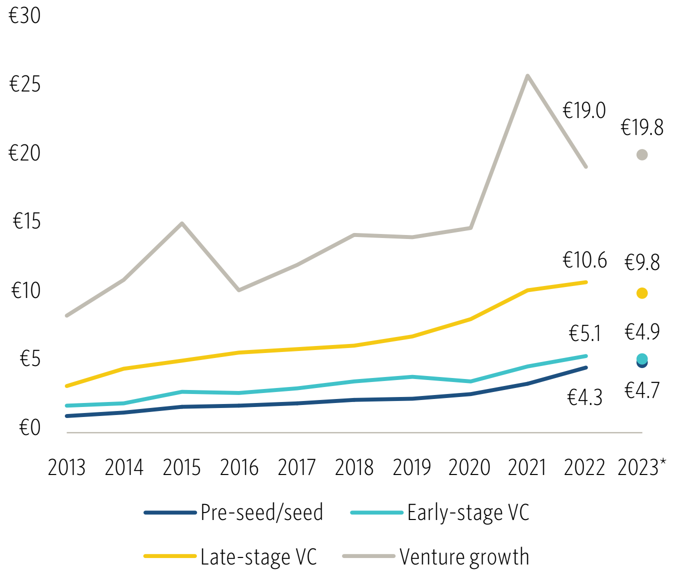
Regions

Median VC pre-money valuations by stage for Nordics



Source: PitchBook • **Geography:** Nordic
*As of September 30, 2023

Median VC pre-money valuations by stage for UK/Ireland



Source: PitchBook • **Geography:** UK/Ireland
*As of September 30, 2023

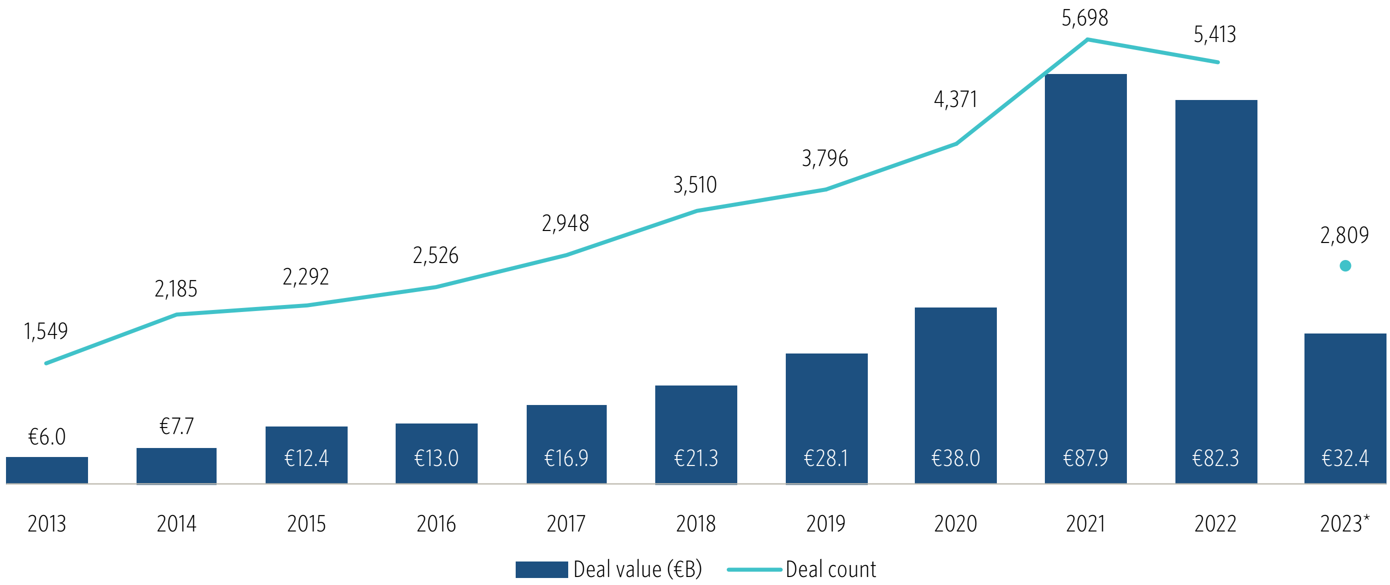
By region, we've seen resilience in deal sizes in the Nordics. Relative to 2022, median deal value in the region through Q3 has increased in three out of the four stages we track. The uptick is evident across pre-seed/seed to late stage, with significant increases in deal size across all stages, in the range of 18.4 to 21.2%. The upper end falls under late stage, where several of the larger deals so far this year have occurred in healthcare and pharma and biotech sectors. There have been pockets of activity in other regions where increases in median deal sizes have been higher, such as pre-seed in Israel, which is up 27.3% through Q3 2023 versus 2022. However, dynamics in the Nordics have seen notable upticks in deal sizes as well as valuations, with the latter also increasing over most stages through Q3 versus 2022. Other regions such as the UK and Ireland have also shown resilience, being the only regions in which median venture-growth deal size increased through Q3 versus 2022.

Notable deals from Getir, eToro, and CMR surgical all come in at the higher end of the dispersion. We've therefore seen a variety of sectors in food delivery, fintech, and healthtech (surgical devices) that are able to attract the higher end of GP capital, despite more downbeat dynamics within venture growth.

The Nordics also show resilience regarding median valuations through Q3. Within the region, we've seen the greatest average valuation increase in early-stage markets, with other stages (bar venture growth) also all higher through Q3 versus 2022. Valuations trends are more mixed in other regions. The UK and Ireland have also seen venture growth median valuations increase through Q3 versus 2022, unlike most of the other regions. In the UK and Ireland, pre-seed/seed median valuations, which have been on the rise since Q1 2023, have increased more than other stages.

Nontraditional investors

VC deal activity with nontraditional investor participation



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

Nontraditional investor participation in Europe decreased to 73.4% of European VC deal value through Q3 2023 and now sits at 2020 levels, in line with the levels prior to the frothy valuations and activity seen in 2021 and 2022. Declines in median valuations through Q3 have been larger when nontraditional investors have been involved. For instance, regarding early-stage median pre-money valuations, the median for nontraditional investor deals declined by 26.3%, whereas deals without nontraditional investors increased 12.9% through Q3 versus 2022. In terms of general participation within venture markets, nontraditional investor involvement has continued to decrease, as these investors retreat to better-known areas and strategies amid market volatility.

We expect a continued pullback in nontraditional investor participation going forward amid continued uncertainty. Several nontraditional investors also operate as LPs in VC, where allocations have been impacted by the denominator effect. Given the recent recovery in public markets, we may see fewer restrictions when it comes to investment in private markets. However, investors may choose other areas of private markets in which deal and exit value have been more resilient than VC. Furthermore, as noted in our recent Q1 2023 Global Fund Performance Report, venture and private equity returns have lagged other private market strategies on a one-year rolling IRR. Asset classes such as private debt and real assets have climbed more into favour given the inflationary and higher-for-longer interest rate environment. Nontraditional investors, therefore, may choose to allocate capital to other strategies where allocations to private capital might already be stretched.

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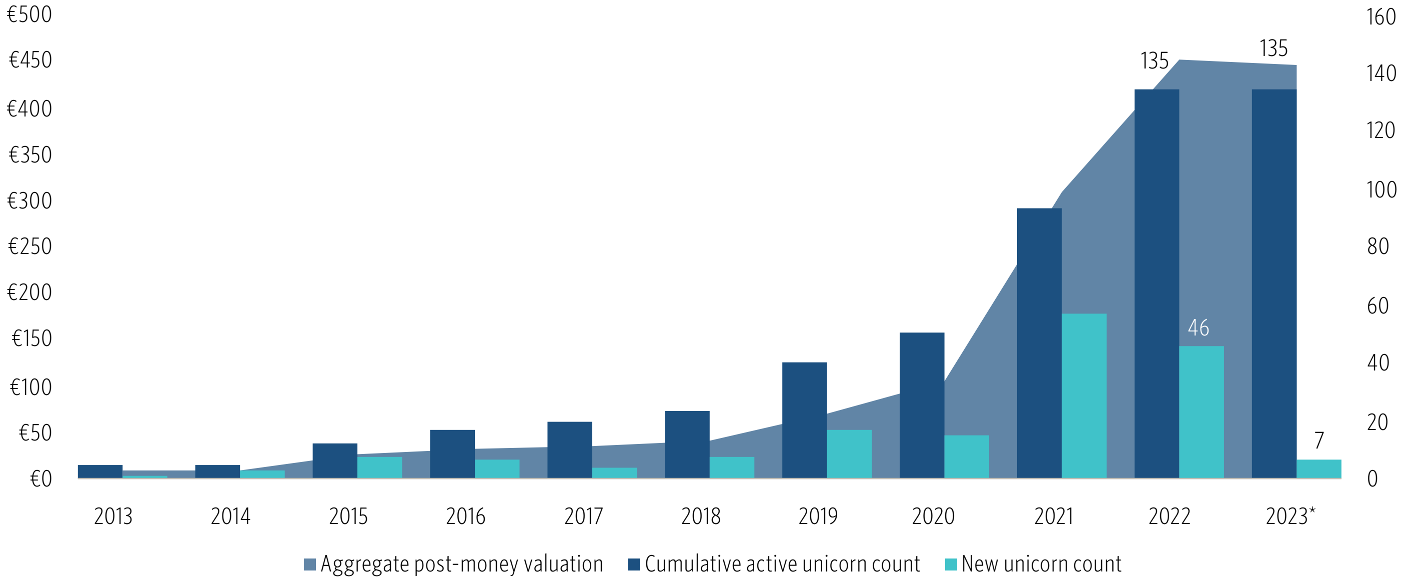
Unicorns

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



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

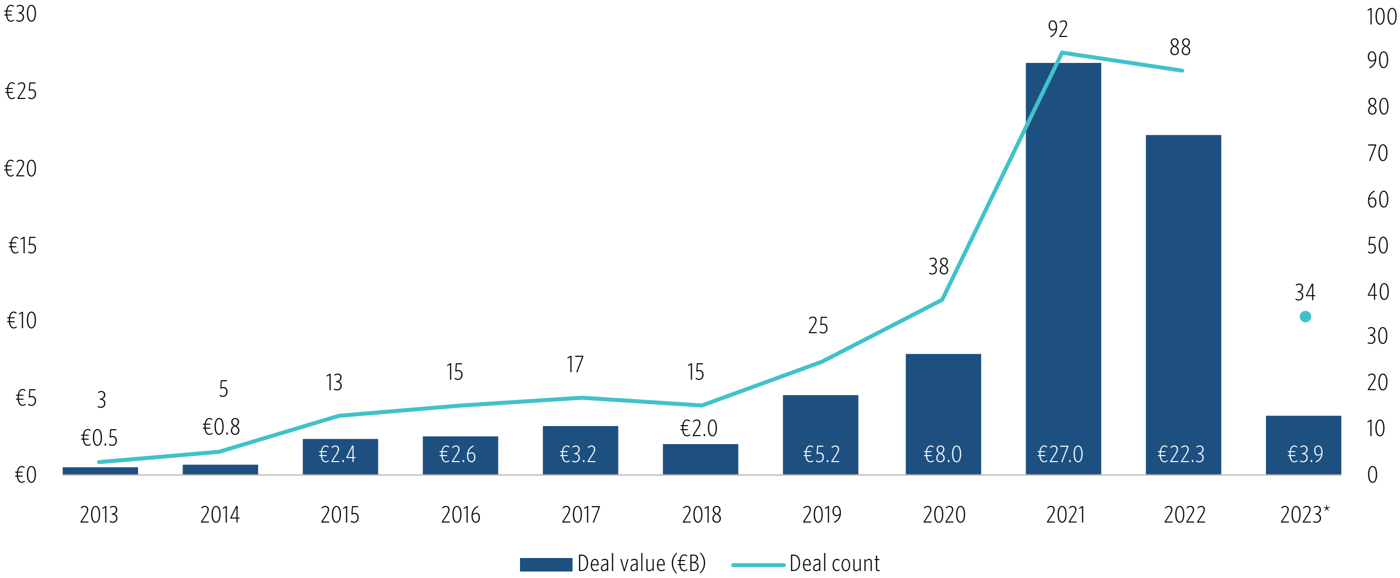
The aggregate value and cumulative quantity of VC-backed companies valued at €1+ billion euros, otherwise known as unicorns, plateaued in the first three quarters of 2023. Through Q3 2023, the total value of all Europe-based unicorns was €447.4 billion, marginally below the aggregate figure of €453.9 billion at the end of 2022. There are currently 135 existing unicorns headquartered in Europe as of Q3 2023, flat from 2022. The combination of slower dealmaking and scarcity of exits has flattened overall figures. Fewer large deals have resulted in just seven newly minted unicorns through the first nine months of 2023. By comparison, 46 were created in 2022.

Despite the gloomy backdrop in 2023 so far, the quantity of the most valuable VC-backed companies in Europe has grown in recent years. In 2019, 40 unicorns were located in Europe; this figure more than tripled to 135 in 2022. Moreover, the aggregate value of €1+ billion euro-valued companies grew from €70.5 billion in 2019 to €453.9 billion in 2022. While inflation, interest rates, and weaker economic growth have shifted unfavourably for high-growth tech companies in recent quarters, the European VC ecosystem has been able to develop its footprint of valuable companies in the past five years. The fear of missing out, growth-at-all costs for companies, stiff competition among investors, and inexpensive capital were all factors that drove the boom in highly-valued VC-backed companies.

However, valuations, particularly at mature financing stages, are now facing renewed scrutiny. In the current climate, shaped by high inflation and interest rates, investors have become cautious with their capital deployment into startups. Mature companies that were previously burning through cash have had to focus on costs, with valuations recalibrated based on flatter revenue growth trajectories. Consequently, companies that have raised capital at lofty valuations in the past two years may be managing funding runways and exploring funding options. For example, grocery delivery company Getir possessed a €9.9 billion pre-money valuation during its funding round in March 2022, which fell to €5.5 billion in April 2023, and its recently announced round of funding will be at a reported €1.8 billion ($2.5 billion) valuation.[3]

3: "Getir Value 'Drops to $2.5bn' as Shoppers Move Away From Convenience," The Guardian, Betsy Reed, n.d., accessed November 10, 2023.

Unicorn deal activity

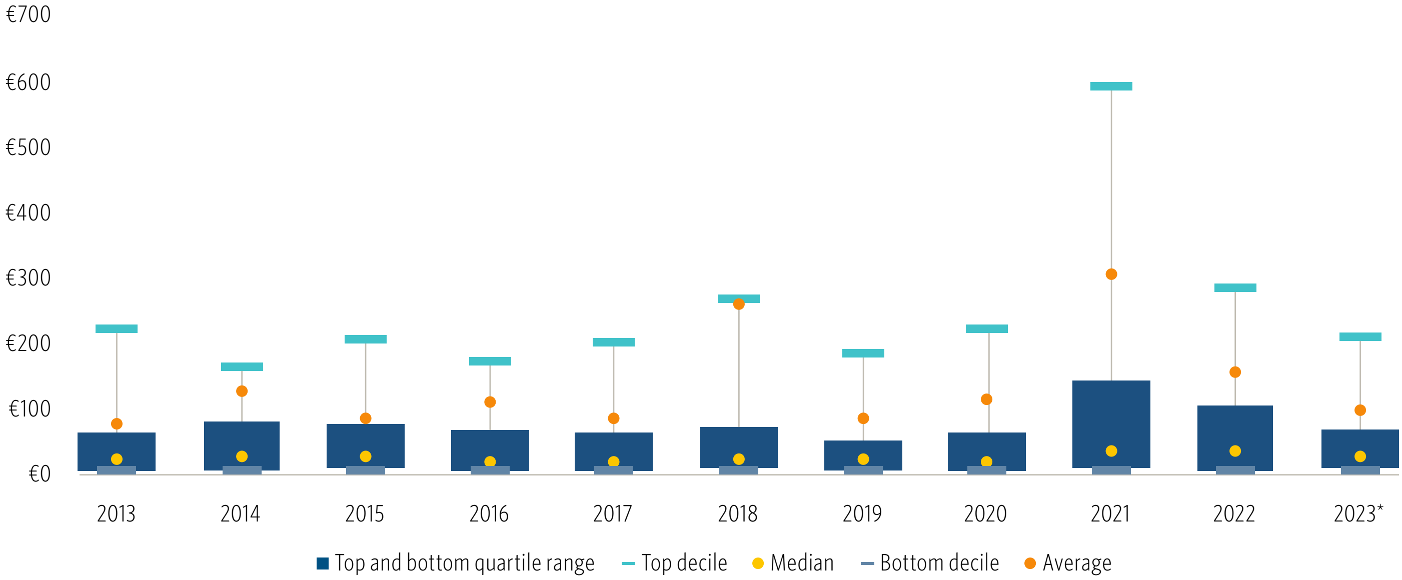


Source: PitchBook • **Geography:** Europe
*As of September 30, 2023

In the European VC ecosystem, dealmaking for existing unicorns has slowed from the elevated levels witnessed in 2021 and 2022. Through the first three quarters of 2023, unicorn deal value was €3.9 billion across 34 deals; by comparison, it was €22.3 billion across 88 deals for all of 2022. Although outlooks have been strewn with pessimism in 2023, the number of deals involving unicorns in 2023 YTD is on pace to register the third-largest total in the past decade by the year's conclusion. One vertical creating optimism is AI, where investor interest, expanding applications, and increased capital are fuelling activity. In Q3 2023, Tel Aviv-based text-generating tool AI21 Labs and Munich-based AI defence tech tool Helsing became unicorns. Both rounds illustrate capital is available for backers considering opportunities that meet their investment criteria; however, a more selective approach is being adopted across portfolios.

Liquidity

VC exit valuation (€M) dispersion

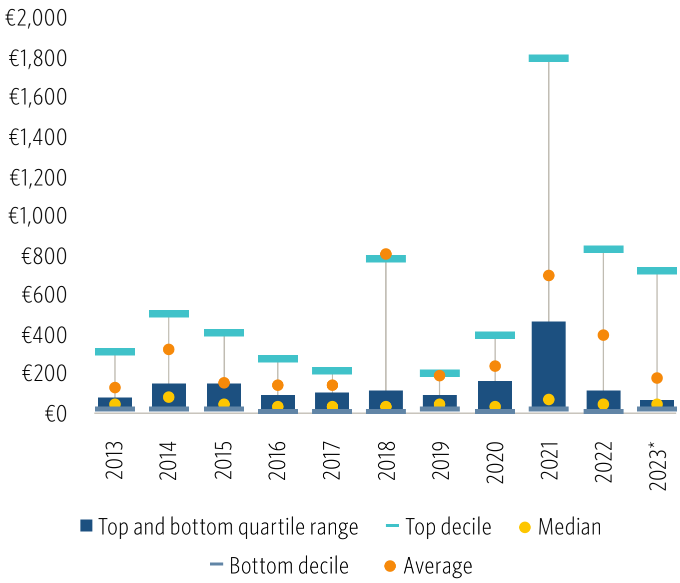


Source: PitchBook • **Geography:** Europe
*As of September 30, 2023

Amid a quieter exit environment, the median exit valuation is pacing at €25.0 million through the first three quarters of 2023. For reference, the median exit valuation was €35.7 million in 2021 and €33.2 million in 2022, underscoring the record-breaking exit activity in recent times. When analysing the median exit valuation pre-2021, 2023 figures suggest a retrenchment to similar levels after a period of heightened valuations and exit activity in 2021 and 2022. Lower exit valuations are widely expected in the current climate as market conditions have shifted, with investors only willing to pay a lower premium for companies in public and private markets. Further, exit appetite and subsequent valuations have been hampered by the lack of growth and declines in valuations of formerly VC-backed companies that have exited, particularly into public markets.

One crucial difference between exit markets now and the boom in 2021 is value derived from public listings. In 2021, €105.6 billion was generated from public listings, in 2022 €14.1 billion was exited, and through Q3 2023 it was only €2.1 billion. Major tech companies such as the "Magnificent Seven"[4] have been core drivers of growth within indexes for several years; however, reports of layoffs to maintain margins have been widespread during a challenging inflationary and lower-growth period in recent quarters. As a result, muted sentiment towards big tech companies has filtered into the valuation estimations of startups linked to tech. The median valuation at

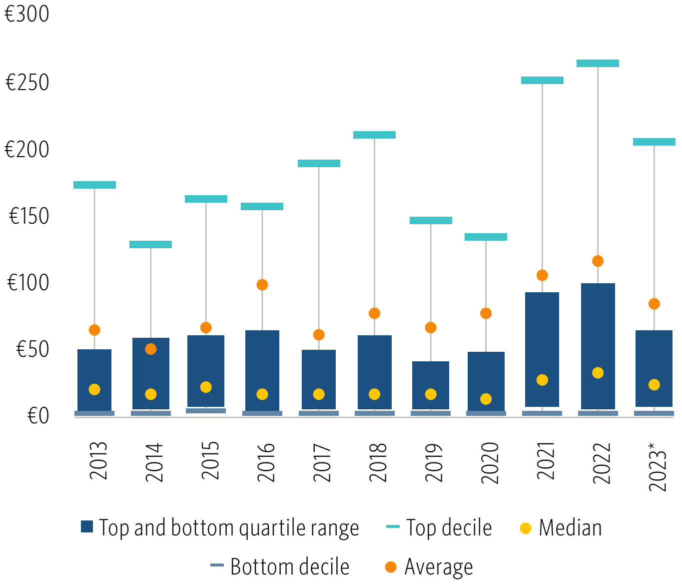
VC valuation at exit via public listing (€M) dispersion



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

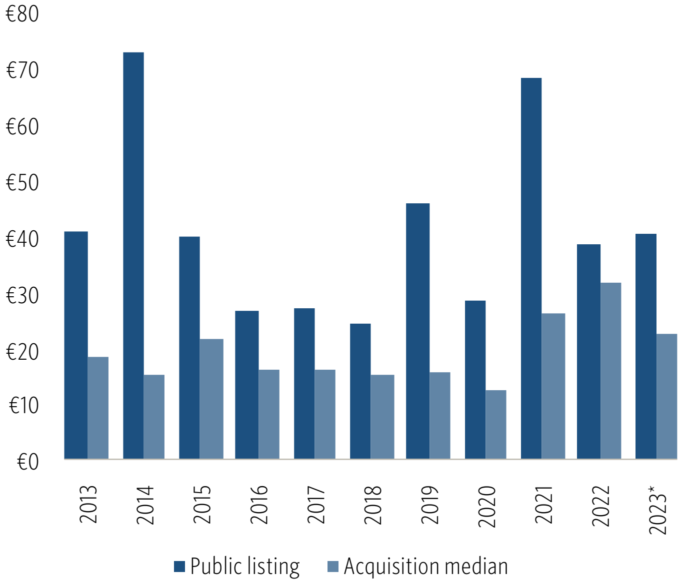
4: Apple, Microsoft, Alphabet, Amazon, Nvidia, Tesla, and Meta

VC valuation at exit via acquisition (€M) dispersion



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

Median valuation at exit via acquisition versus public listing



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

exit via a public listing was €68.9 million in 2021; through Q3 2023 it is pacing at €40.9 million.[5]

Although exit activity is down across exit types, acquisitions have accounted for 67.0% of exit value in 2023 YTD, on track to be a greater proportion than in 2022 due to a lack of public listings. Nonetheless, VC valuations via acquisition have cooled to €23.2 million through the first nine months of 2023 from €32.3 million in 2022. Despite fewer exits taking place, corporates are paying less for startups. Corporates with strong cash reserves could target companies carrying a lower valuation in the current climate. From the GP and startup perspective, an acquisition by a large corporate could be a less risky exit opportunity than floating on a stock exchange. A corporate acquisition could unlock much-needed liquidity for LPs, GPs, and founders to recycle back into the ecosystem; however, finding suitable acquirers may be tricky given the increased focus on corporate costs at present.

The median valuation of exits via public listings has consistently outstripped the median acquisition valuation during the past decade, indicating the largest VC-backed companies tend to publicly list. Valuation size, however, has not necessarily translated into post-exit growth. When analysing VC-backed public listings from 2021, four out of the five largest listings have a current market cap lower than their exit valuation in 2021. As macroeconomic conditions have worsened since 2021, several companies are struggling to match or surpass previous valuation peaks. With public markets exhibiting volatility and potential acquirers focusing on existing operations, we expect exit valuations to remain uncertain in upcoming quarters.

Five largest VC-backed public listings in 2021*

Company	HQ	Exit date	Exit valuation (€B)	Current market cap (€B)	% change
On	Switzerland	September 15, 2021	€12.0	€8.1	-32.5%
Wise	UK	July 7, 2021	€10.2	€8.5	-16.6%
Deliveroo	UK	March 31, 2021	€7.1	€2.6	-63.5%
AUTO1 Group	Germany	February 4, 2021	€6.6	€1.4	-78.4%
Sportradar	Switzerland	September 14, 2021	€6.4	€2.8	-55.8%

Source: PitchBook • **Geography:** Europe

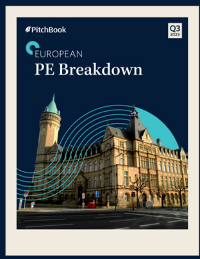
5: The public listing exit count is only 12 through Q3 2023.

Additional research

European Private Capital

Q3 2023 European Venture Report

Download the report here



Q3 2023 European PE Breakdown

Download the report here

Q3 2023 Germany Market Snapshot

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Q2 2023 UK Market Snapshot

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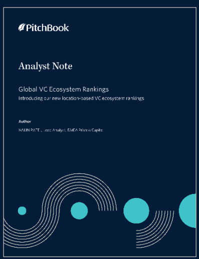

Q4 2023 PitchBook Analyst Note: Global VC Ecosystem Rankings

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Q2 2023 France Market Snapshot

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