PitchBook

Q3 2023

EUROPEAN Venture Report

Contents

Introduction	3
Deals	4
Nontraditional investors	7
Spotlight: Cleantech	8
Exits	10
Fundraising	12

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

Data

Charlie Farber
Senior Data Analyst

Oscar Allaway
Associate Data Analyst

pbinstitutionalresearch@pitchbook.com

Publishing

Report designed by **Megan Woodard**

Published on October 18, 2023

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Introduction

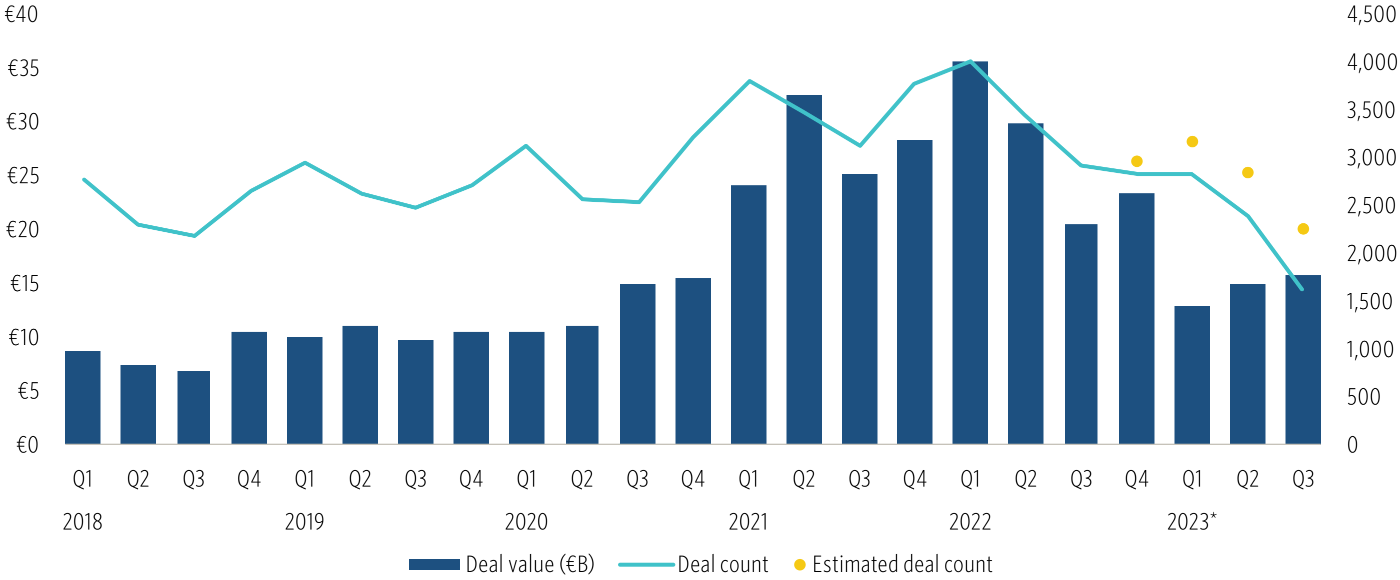
Deal value within VC markets is set to end 2023 well below 2022, but signs of recovery could be evident. Venture capital deal value in Europe amounted to €43.6 billion in the first nine months of the year, down 49.1% versus the first nine months of 2022. However, activity this year is still at similar levels to the years excluding the hyped levels of activity seen in 2021/2022, indicating that venture activity has undergone structural growth on a longer time horizon. In the shorter term, we note that deal value in Europe has been increasing since Q1 2023, with Q3 deal value 5.9% higher than Q2. These indicators could suggest activity may be past trough levels. However, given a continual unclear macroeconomic outlook in Europe, we wait and see if a recovery in market activity is sustained. By sector, commercial services shows the most resilience, with deal value decreasing the least versus the first three quarters of 2022. By region, France & Benelux shows the most resilience in activity through Q3 2023, meaning the region has taken some share this year. However, UK & Ireland still leads by far, where 33.2% of deal value in Europe sat at through the first nine months of 2023. This quarter, we also spotlight cleantech investment and exit activity.

Exit activity remains the weakest area of the ecosystem, with limited recovery this year. A QoQ recovery isn't evident here, meaning 2023 is on track to be the most depressed year for exit value since 2013. We believe the catalyst for revival will fall to a recovery in broader valuations and public listings specifically. However, by exit type, public listing value remains the most depressed this year, with buyouts showing the most resilience. The majority of exit value and count remains in acquisitions. By sector, IT hardware shows the most resilience and energy has the greatest declines in the first nine months of the year. In Q3 2023, of the top 10 exits, most exits were in the software industry.

Through Q3 2023, VC fundraising sits at half the level of 2022. Capital raised in the first nine months of this year amounted to €13.9 billion over 91 vehicles. This compares with €27.6 billion for the full year 2022. Whilst weaker YoY, there has been an uptick since H1 2023. We do not anticipate fundraising this year to exceed 2022 levels, unlike trends seen in PE where fund sizes are much larger. By region, France & Benelux and DACH have gained the most share of capital raised through Q3 2023 in comparison to 2022. Both regions now comprise 27.8% and 24.3%, respectively. Overall, the tougher fundraising environment is well known, with median fund closing times continuing to lengthen in 2023 YTD to 15.1 months compared with 9.0 months in 2022. We also still see a shift of capital towards more experienced managers; capital raised by first-time VC funds is indeed trending below the general fundraising declines in VC.

Deals

VC deal value by quarter



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

Venture deal activity declines—is it that bad?

Deal value within VC markets is set to end 2023 well below 2022, but signs of recovery could be evident. Venture capital deal value in Europe amounted to €43.6 billion in the first nine months of the year, down 49.1% from the first nine months of 2022. Given total deal value in 2022 amounted to €109.0 billion, we believe recovery through the end of the year will not be significant enough to boost 2023's total versus the last two years. However, excluding the peak levels of activity seen in 2021 and 2022 marked by frothy valuations, the picture isn't totally bleak. We note that activity prior to 2020, deal value sat around similar or lower levels compared to the first three quarters of 2023, indicating that venture activity has indeed undergone structural growth on a longer time horizon. In the shorter term, on a quarterly basis, deal value in Europe has been increasing since Q1 2023, with Q3 deal value 5.9% higher than Q2. These indicators could suggest activity may be past trough levels. However, given a continual unclear macroeconomic outlook in Europe, we wait and see on the timing, rate, and nature of a more sustained recovery in market activity.

Late stages continue to show greater declines versus early stages. The stage exhibiting the greatest declines continues to be venture growth, with deal value down 61.9% through Q3 2023 compared with the same period in 2022. Early-stage VC appears to be most resilient, decreasing the least in the same nine-month period. We expect these trends to persist for the rest of the year, with early stages more insulated to declines in deal activity. Early-stage deal activity, in fact, has been sequentially increasing since Q1 2023, with four of the top 10 deals in Q3 falling into this stage. Cleantech and AI technologies were common amongst the notable deals in the quarter. The former we discuss in more detail within the Spotlight section. Overall, we believe early-stage investments should remain more resilient, due to investors taking a long-term investment approach and returns being less imminently tied to exit markets—which continue to remain the weakest area within venture markets.

The top 10 deals in Q3 2023 were skewed towards cleantech investments. The largest deal in Q3 occurred in France, where low-carbon battery production player Verkor received an investment of €2.1 billion from various parties,

Top 10 VC deals in Q3 2023 by deal size (€M)*

Company	Close date (2023)	Deal size (€M)	Deal type consolidated	Industry sector	Country
Verkor	September 14	€2,100.0	Late-stage VC	B2B	France
H2 Green Steel	September 7	€1,500.0	Early-stage VC	Materials & resources	Sweden
Conigital	September 11	€583.4	Late-stage VC	B2C	UK
Butternut Box	September 4	€326.2	Venture growth	B2C	UK
Atlas Agro	August 14	€294.0	Early-stage VC	Materials & resources	Switzerland
Field	July 4	€232.9	Early-stage VC	Energy	UK
Ovo Energy	July 21	€232.8	Late-stage VC	Energy	UK
Cato Networks	September 19	€221.0	Venture growth	IT	Israel
Helsing	September 14	€209.0	Early-stage VC	B2B	Germany
Apollo Therapeutics	August 30	€207.5	Late-stage VC	Healthcare	UK

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

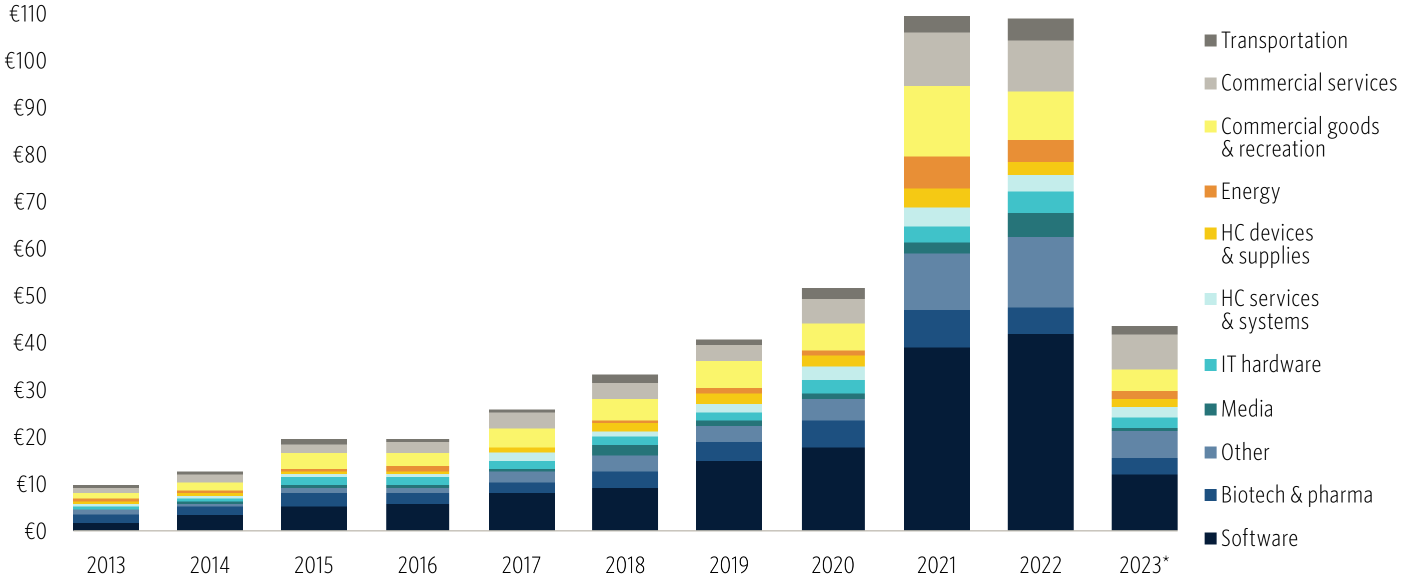
including €600 million of debt. Cleantech is attracting the top-tier of capital within venture markets, with the second largest deal comprising of a €1.5 billion investment into green steel player, H2 Green Steel. The investment will finance the construction of a flagship green plant in Sweden that aims to deliver up to 95% less CO_2 emissions compared to steel produced with traditional blast furnace technology. The driver behind this will be a "green" electrolyser using electricity from renewable sources, aiming to be the largest in Europe. Green hydrogen and electricity have been at the forefront of decarbonisation efforts in Europe over recent years, with investments key for the wider adoption of technologies.

Who's winning per sector and region?

Commercial services and France & Benelux show most resilience regarding sector and regional trends. By sector through Q3 2023, media shows the greatest declines versus last year, with commercial services standing as the most resilient. For the first nine months of the year, deal value in media declined 92.9% versus the same period last year. Whilst significant, the magnitude of decline follows a law of small numbers where media deal value has represented a low-single digit share of total value in Europe. On the other hand, for sectors such as commercial services, deal value decreased the least through the first nine months of 2023, 16.7% lower than Q1 2022 to Q3 2022. This sector also had the largest share of deal value in Q3 2023, supported by the aforementioned investment in Verkor alongside multi-million-dollar investments in German startups, Atlas Agro (Agtech) and Helsing (AI). By region, France & Benelux shows the most resilience in activity through Q3 2023, with deal value declining 37.7% versus the first nine months of 2022. The lower declines in the VC investment within France & Benelux has meant that the region has taken some share this year from other regions, now comprising 23.2% of deal value in Europe. Despite this, France & Benelux lags the UK & Ireland, where 33.0% of deal value in Europe sat through Q3 2023.

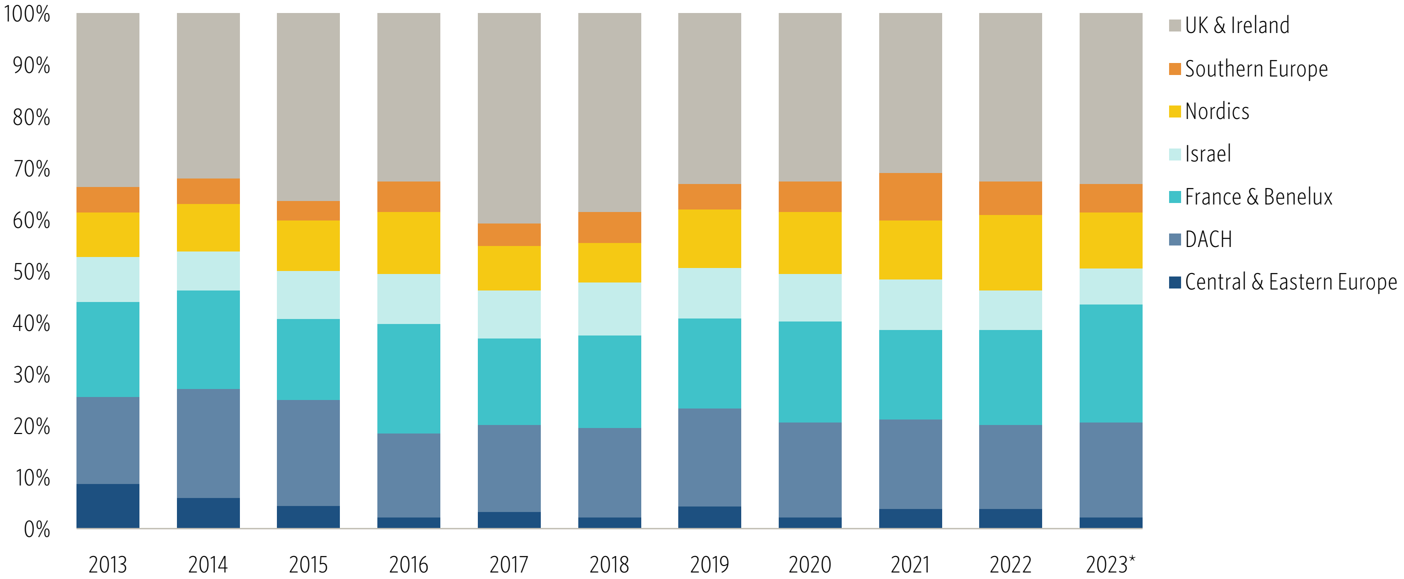
Aside from European regional trends, we also note the proportion of US investors in Europe has also declined, with capital invested by such also decreasing more than the broader market. Amid higher uncertainty in markets, US investors may be focusing on domestic investments, rather than looking for opportunities further afield that could carry greater risk. Furthermore, GPs may seek to return to better known markets where they are more knowledgeable and able to generate more hedged returns.

Share of VC deal value (€B) by sector



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

Share of VC deal value by region



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

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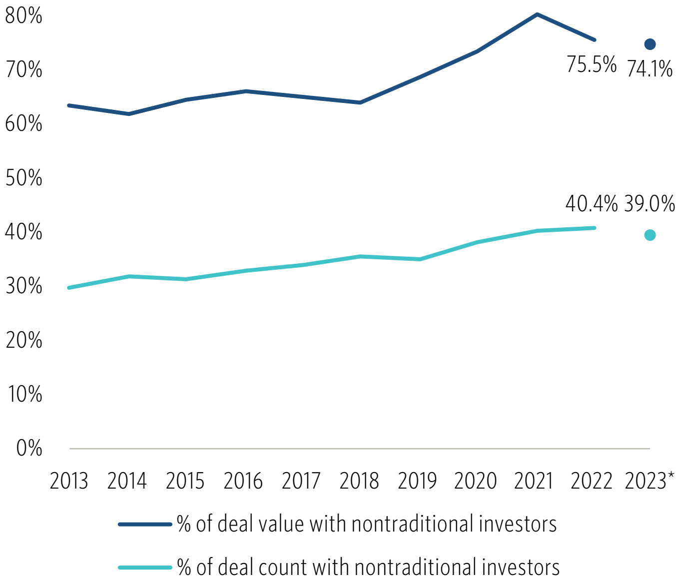
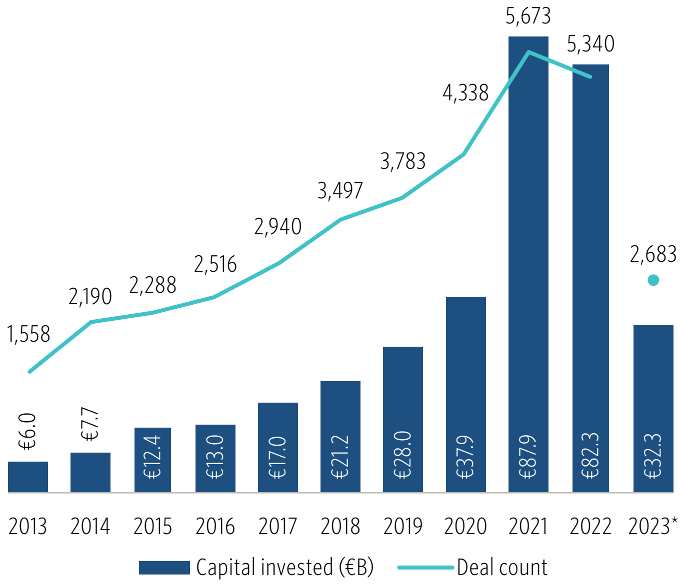
Nontraditional investors

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



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

VC deal activity with nontraditional investor participation



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

Nontraditional investor participation still remains in Europe

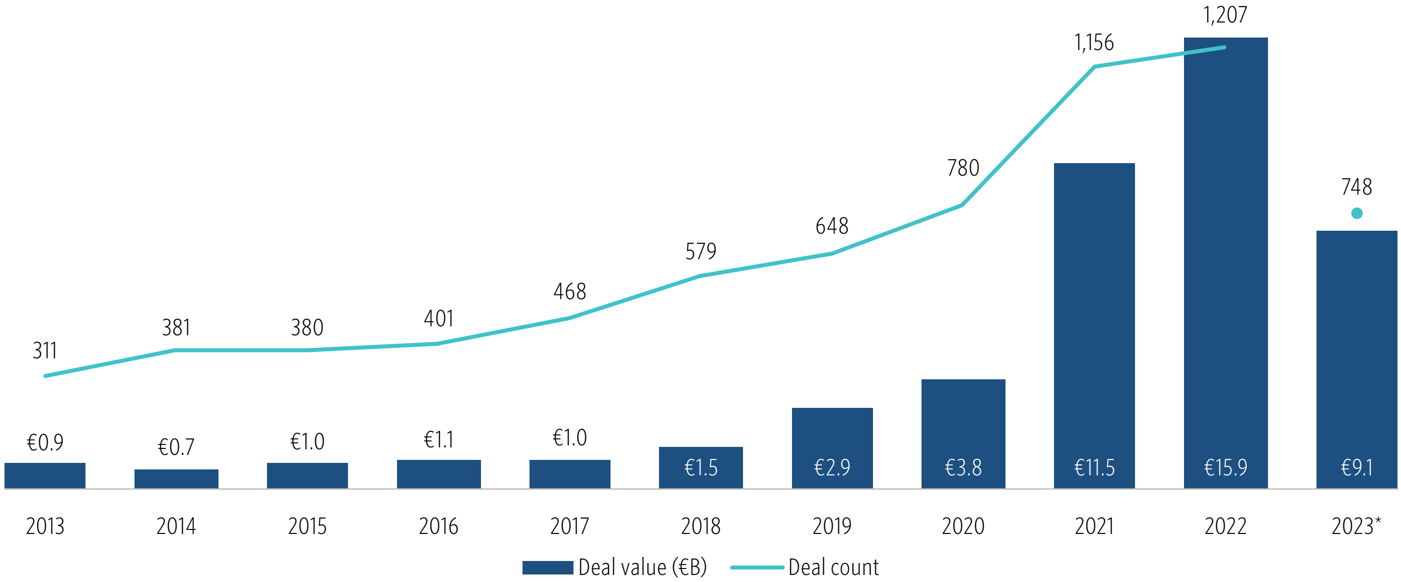
Nontraditional investor participation declines in line with total market. VC deal value with nontraditional investor participation declined by a similar magnitude to the wider VC ecosystem. This sat at €32.3 billion through Q3 2023, 49.5% lower than the total through Q3 2022. Overall, this is in line with the declines seen on a market level, where deal value in Europe decreased by 49.1%. Nontraditional investors include sovereign wealth funds and hedge funds, among others. Since peak participation in 2021, such market players saw their private market investments become a larger part of allocations as public equity markets valuations declined. As a result, these investors looked to rebalance their portfolios, resulting in less VC deal activity in 2022. Since then, whilst participation has declined somewhat, we are witnessing more resilience than the declines seen in 2022. As a proportion of overall deal value, nontraditional participation has only marginally decreased, sitting at 74.1% of overall European deal value through Q3 2023. By stage, it's unsurprising that the greatest declines have been at the venture growth stage—with the early stage showing the most resilience—which is in line with trends in the broader ecosystem.

Corporates continue to use venture markets to tap the latest technologies. The nontraditional investor base is broad. Within it, corporates have been active participants where venture markets have enabled strategies to enter into adjacent, complimentary technologies and geographies from a company's current offering. This enables larger corporations to grow whilst keeping their involvement in the new generation of technologies in the industry. We saw examples of this in Q3 2023, when drinks conglomerate Diageo invested through a partnership with venture management company Pilot Life, to create the world's first ever 100% plastic-free paper-based spirits bottle, made from sustainably sourced wood. Aerospace & defense player Saab also entered a strategic partnership with Helsing, a defense company specialising in AI-based software technologies. Saab now has a 5% stake in Helsing, enabling the company to evolve its portfolio, remain competitive, and grow within international markets. It follows other AI-related acquisitions the company has been making—acquisitions of BlueBear in the UK and CrowdAI in the US.

SPOTLIGHT

Cleantech

Cleantech VC deal activity



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

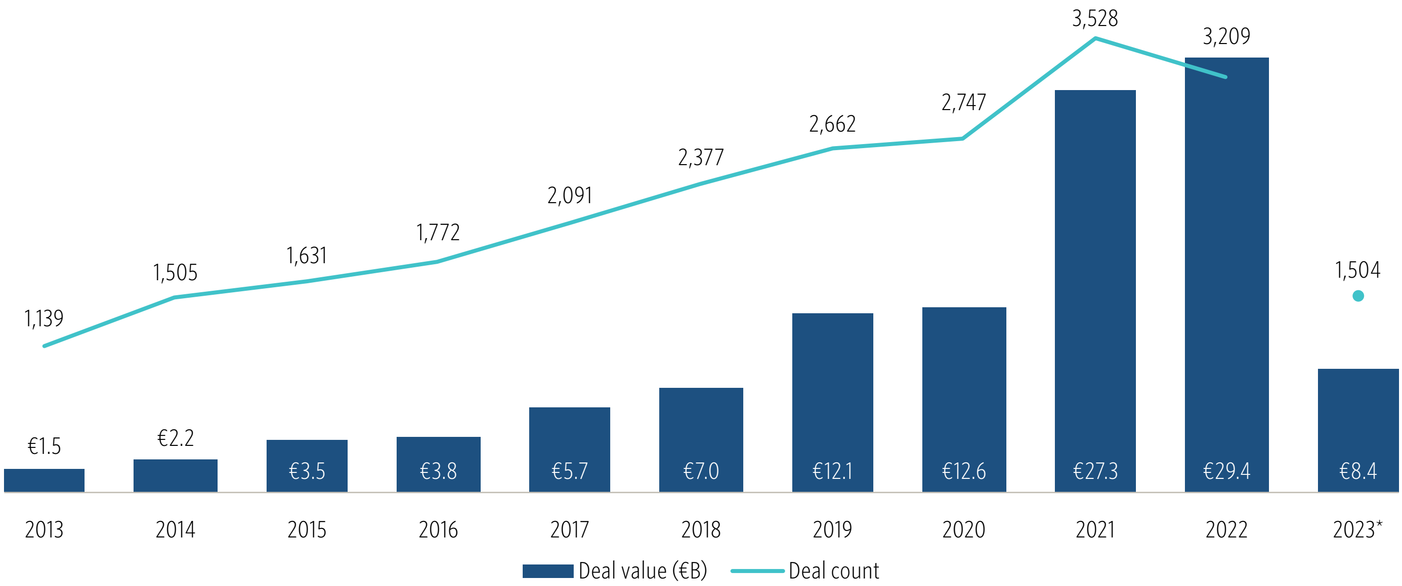
Clean deals and clear returns?

Cleantech deal activity showing more resilience than the total market. Whilst on track to pace lower than last year, declines in cleantech activity appear to be less severe than the wider market. Deal value through Q3 2023, as a proportion of full year 2022's level, sat at 57.2%. For the total European VC market, the same is just 40.0%. We believe such areas of the market will remain relatively more insulated to a market downturn. Our data tracks several verticals, with other key verticals in Europe such as software as a service (SaaS), fintech, and AI & machine learning all showing greater declines in deal value this year. For instance, SaaS deal value through Q3 2023 sits at just 28.6% of last year's level. Of course, cleantech as a vertical is broad, and there are various areas of decarbonisation that the startups in our data service. However, favourable regulation, especially in Europe, should support the wider race to net-zero carbon emissions within the continent. We believe such structural growth drivers should continue to foster deal activity in the vertical. As it relates to Q3 2023, we note that five out of the 10 largest deals in the quarter were cleantech deals, including the three largest investments.

It may take a while until the return on such technologies comes to fruition. Whilst there has been considerable steps and leaps in technologies supporting the energy transition in recent years, broadly, the market is still in its infancy. For uptake to be significant and for infrastructures to become established for clean energy, more regulatory support, technological advancements, and investment in private markets will be required. The infancy of the vertical is evident in the limited exit activity, with cleantech exit value through Q3 2023 at 7.1% of last year's level. Other verticals have seen higher exit activity—so far this year, SaaS exit value is at 67.9% of 2022's total, for instance. Governments within Europe continue to invest more in the space. As discussed in our Q2 2023 France Market Snapshot, the French government announced tax credits to encourage investments into renewable/low-carbon technologies. The impact of such is estimated to generate private investments amounting to €20 billion by 2030.[1]

1: "France to Offer New Tax Credit for Investments in Green Technologies," Reuters, Marine Strauss, May 11, 2023.

SaaS VC deal activity



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

In the UK, the government released a Biomass Strategy in August 2023 that aims to leverage the use of biomass in power, heat, and transport sectors, with the goal to scale-up Bioenergy with Carbon Capture and Storage (BECCS) technologies. The plan has stated that BECCS could provide 20% of the UK's hydrogen supply by 2050. Time horizons are long, and as often is the case with nascent technologies, scalability and adoption will be key for the impact to be meaningful. Furthermore, from a regulatory perspective, implementing change on a wide scale often is a lot harder and takes longer in practice versus plan. Such has been evident in the UK, where Prime Minister Rishi Sunak recently pushed out the deadlines for several net-zero targets, such as the ban on selling cars with combustion engines and off-grid oil boilers. As technologies continue to involve in the area, we expect more government support to be required as consumers take time to transition to new technologies—if they choose to do so.

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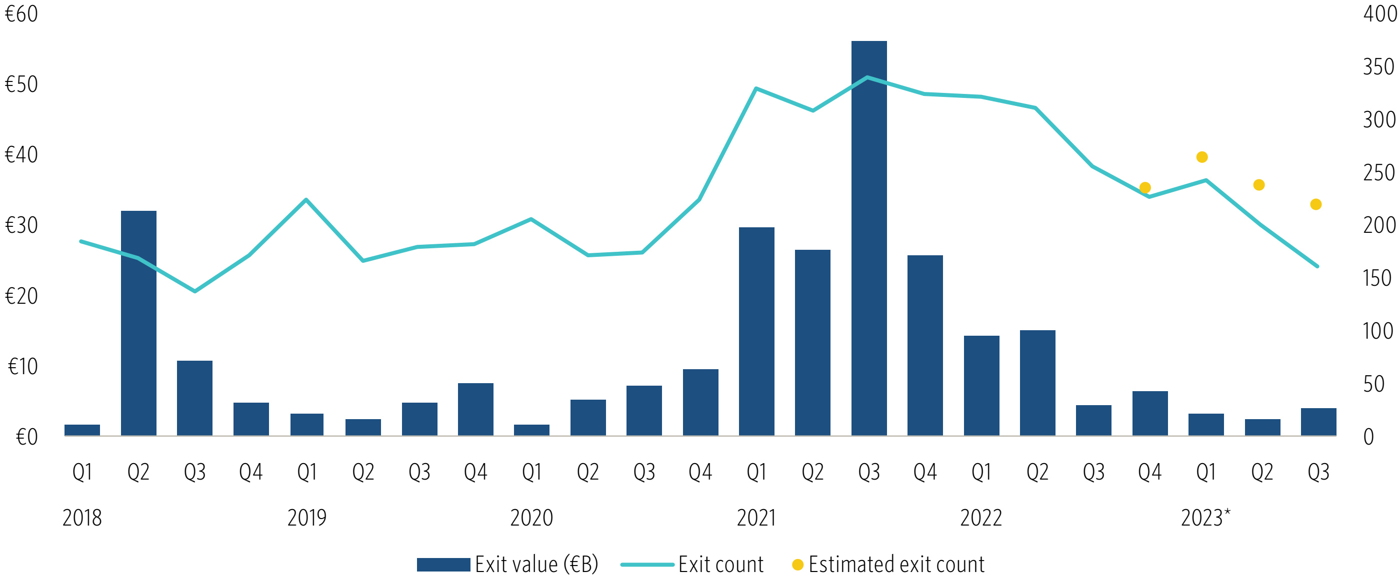
Exits

VC exit activity by quarter

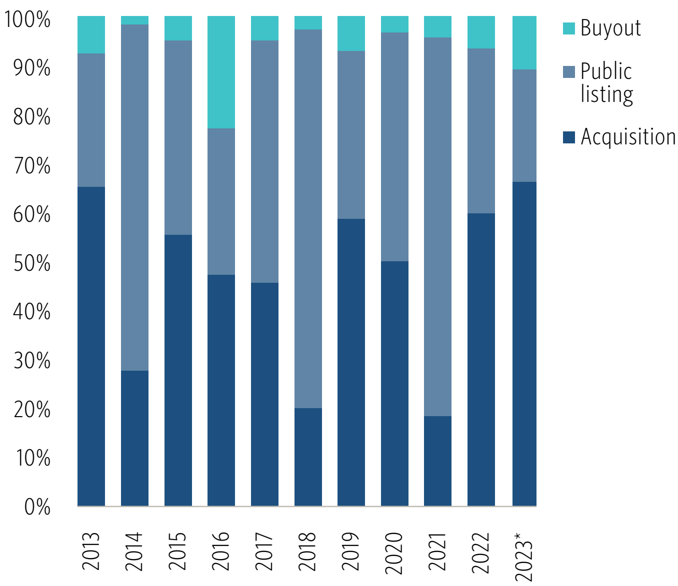


Source: PitchBook • **Geography:** Europe
*As of September 30, 2023

Weak exit activity trends continue

Exit activity remains weak, with limited recovery this year. Where some parts of the VC ecosystem have shown a QoQ recovery, exit activity has bounced around a low-single-digit billion value so far this year. During the first three quarters of 2023, exit value reached €9.1 billion, 72.8% below the same period last year. It is therefore no surprise that 2023 is on track to be the most depressed year for exit value since 2013. We believe the catalyst for revival will fall to a recovery in broader valuations and public listings specifically. However, the market is navigating a new unprecedented interest rate regime, where in Europe we appear to have not hit the peak point yet. Thus, we expect little respite through the rest of 2023 and early next year, as private asset valuations correct and losses are realised at a lag. More broadly for Europe, the ratio of total investments-to-exits is pacing at 11.5x at the end of Q3 2023 compared with 11.9x in 2022, as a function of a greater percentage decline in the number of investments than exits so far this year.

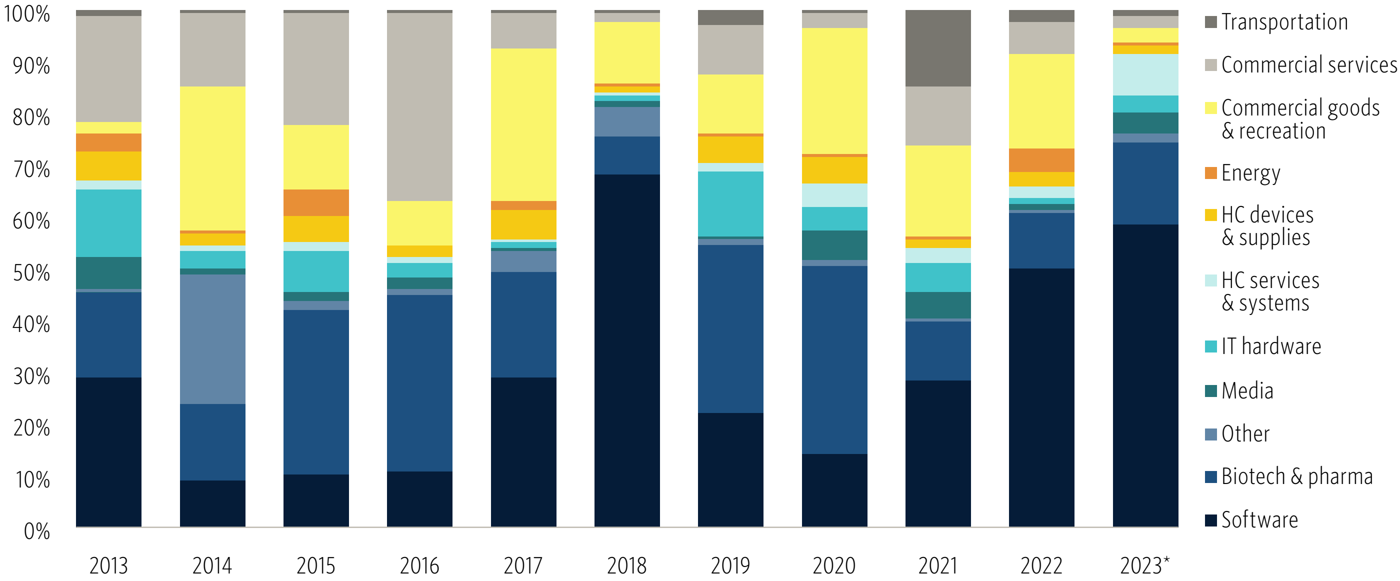
Share of VC exit value by type



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

By exit type, public listing value remains the most depressed this year, with buyouts showing the most resilience. In the first nine months of the year, exit value via public listings declined 79.8% compared with the same period last year. There was also a decline of 56.4% for buyout exit value in the same period. Regarding share of exit activity, the majority of exit value and count remains in acquisitions, with buyouts taking share from public listings, as the former has grown its proportion of overall exit value through Q3 2022, compared with its proportion in the full year 2022 figure.

Share of VC exit value by sector



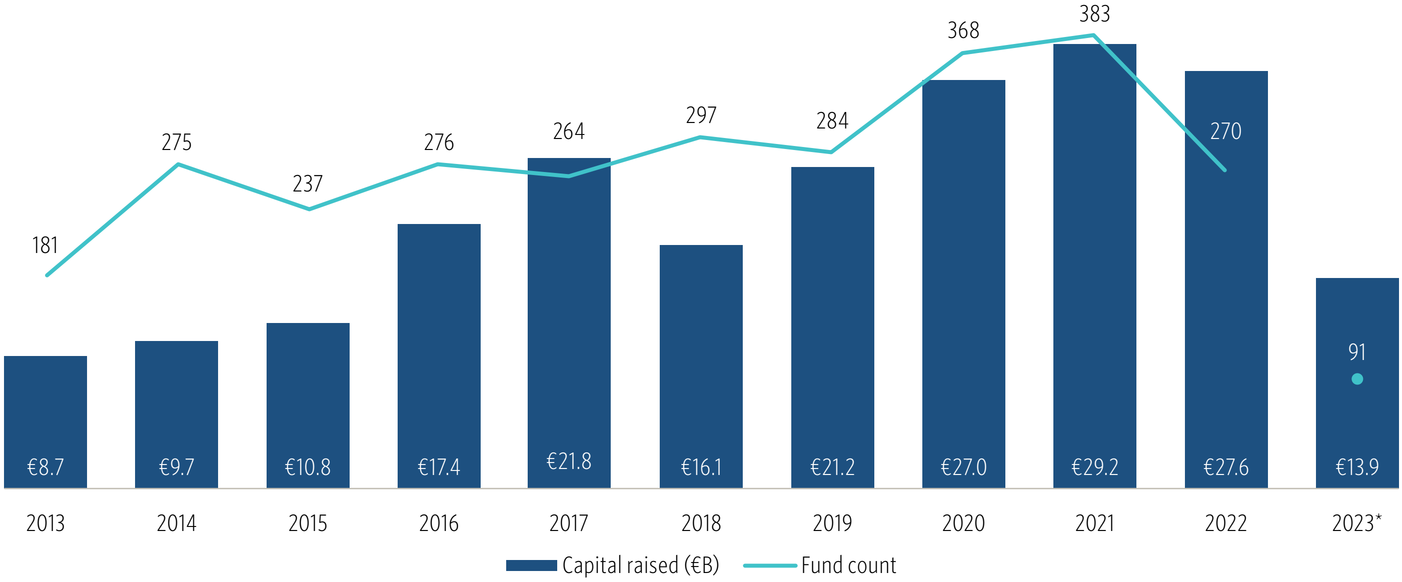
Source: PitchBook • **Geography:** Europe
*As of September 30, 2023

Who's winning and losing per sector?

By sector, IT hardware shows the most resilience, and energy has the greatest declines in the first nine months of the year. The declines regarding exit activity across various industries is mixed, with several sectors impacted by inflated values seen in 2022. Compared with last year, more resilience in IT hardware appears to be fuelled by the acquisitions of Augmenta and Panthronics. For the largest sector, software, exit value declines sat in the middle of the pack, decreasing 69.3% through Q3 2023 versus the first three quarters of 2022. Furthermore, with limited total exit activity this year, value by sector appears to be concentrated to specific industries each quarter. For instance, exit activity in Q3 2023 occurred over five sectors, with value mostly generated in software and biotech & pharma. In Q3 2023, the top 10 exits showed similar trends. Most exits were in the software industry, and the largest exit was the acquisition of biologics player Kerecis (biotech & pharma), with the company being bought for €1.2 billion.

Fundraising

VC fundraising activity



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

VC fundraising rate continues to lag

Through Q3 2023, VC fundraising sat at half the level of 2022. Capital raised in the first nine months of 2023 amounted to €13.9 billion across 91 vehicles. This compares with €27.6 billion for the full year 2022. Whilst weaker YoY, we note that there has been an uptick since H1 2023, with capital raised amounting to €8.9 billion. We do not anticipate fundraising this year to exceed 2022 levels, unlike trends seen in private equity where such has been particularly strong. There are many reasons for this, including the lack of megafunds in the asset class, which can skew totals. For instance, of the top 10 funds to close in 2023, the largest VC funds have been NATO's Innovation Fund and Highland Europe Technology Growth V, both at €1.0 billion in size. This compares to the top close in PE of €26.0 billion in July 2023 by CVC Capital Partners Fund IX. There are VC funds that remain open in Europe that could close through Q4 2023. However, given the gap between capital raised in 2023 and 2022, and average fund sizes in VC, we don't expect there to be enough closes to make up the shortfall to capital raised in 2022.

More broadly, as an investment strategy, we've seen returns in VC lag other asset classes. For 2023, VC fund returns in Europe sat at the lower end of the pack at a 1-Year IRR of 1.0%, compared with 3.3% for private capital and 5.1% for buyout strategies—as per our [2023 Benchmarks (as of Q1 2023)](). This means LPs may prefer to allocate to other areas of private markets with better returns. Whilst the denominator effect appears to be less at play, with public markets having some bounce in the last year, a full-on recovery in Europe still hasn't ensued back to the heights of 2021; this means that overall, LP allocations to private markets still may be stretched versus previous years.

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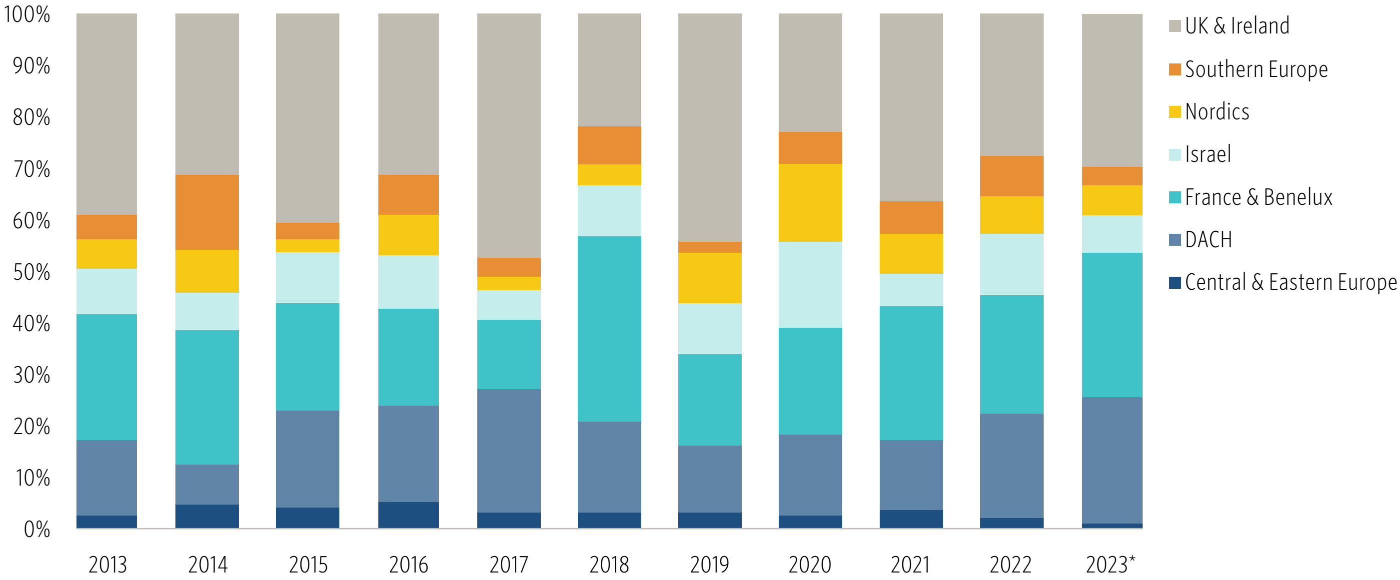
Share of VC raised by region



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

Who's winning and losing?

Overall, the tougher fundraising environment is well known, with median fund closing times continuing to lengthen in 2023 YTD to 15.1 months, compared with 9.0 months in 2022. However, with every period of market stress, there will be parties who are able to show more resilience than others. We continue to see a shift of capital towards more experienced managers, with such comprising 59.6% of capital raised through Q3 2023, tracking above the 53.3% in 2022. Whilst there are more emerging firms in our data, understandably, they tend to be smaller and finance smaller deal sizes. However, objectively the environment is tough, and even tougher for smaller firms, where LPs are prioritising relationships with established firms that have proven track records. Capital raised by first-time VC funds is indeed trending below the general fundraising declines in VC. 23 first-time VC funds have closed through Q3 2023, compared with 76 for the full year 2022.

By region, France & Benelux and DACH have gained the most share of capital raised through Q3 2023 in comparison with 2022. Both regions now comprise 27.8% and 24.3%, respectively, with France & Benelux closing in on the UK & Ireland—the largest region in terms of capital raised as a portion of the European total. This was helped by some large closes in the Netherlands, namely NATO Innovation Fund's €1.0 billion close and Forbion Ventures Fund VI close at €750.0 million. In DACH, the top-tier of capital was supported by closes in Switzerland, with Crown Growth Opportunities IV closing at €847.1 million and HV Capital Fund IX Growth at €710.0 million.

Additional research

Private capital

Q2 2023 European Venture Report

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Q2 2023 European VC Valuations Report

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Q2 2023 France Market Snapshot

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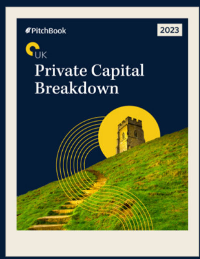

2023 UK Private Capital Breakdown

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Q2 2023 UK Market Snapshot

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Q2 2023 European PE Breakdown

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