PitchBook

Q2 2022

EUROPEAN Venture Report

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Introduction

European venture capital (VC) deal value remained strong in H1 2022, despite myriad challenges facing economies and financial markets globally. 2022 has been characterised by record inflation, interest rate hikes, slashed economic growth forecasts, and expectations of an impending recession. Despite the macroeconomic and microeconomic turmoil for governments, companies, and individuals in 2022, VC dealmaking displayed resilience. High levels of dry powder and long-term investment opportunities have driven up dealmaking in 2022. Late-stage capital contributed a significant chunk of deal value in H1, chiefly provided by an influx of larger traditional VC funds, international investors, and nontraditional backers. Software-based solutions in subsectors including fintech, infosec, and healthtech have proven popular.

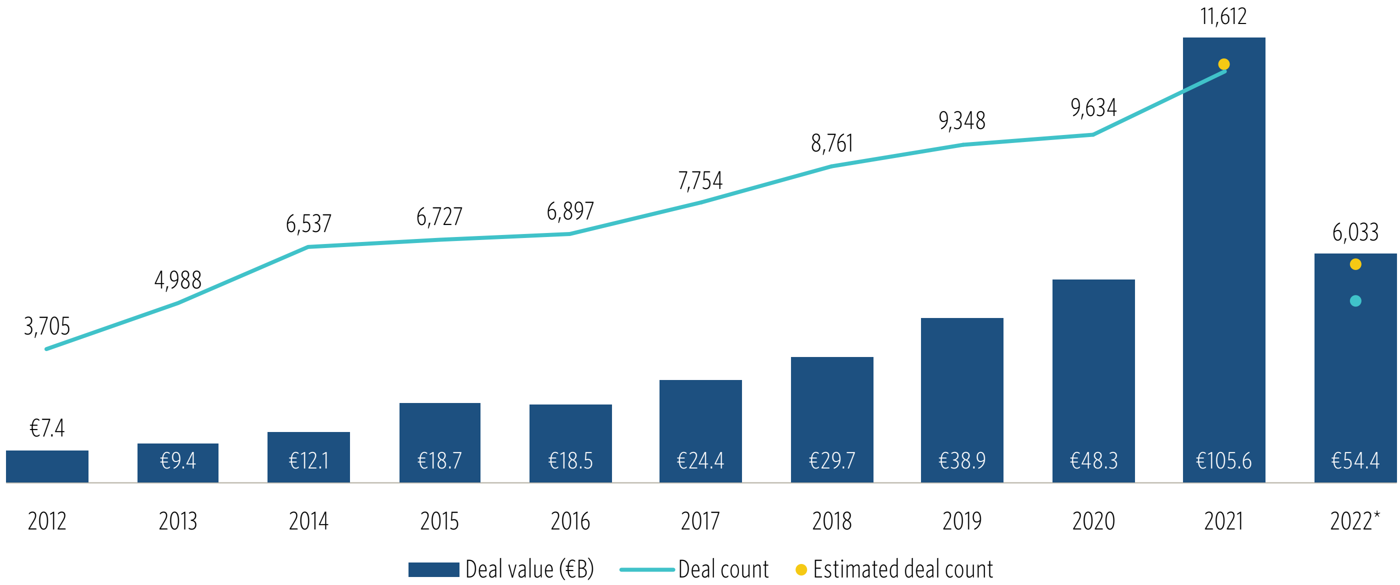
In H1 2022, VC deal value with nontraditional investor participation was slightly down from the pace set in 2021. VC-backed companies seeking long-term growth, utilising cutting-edge technology, and targeting ambitious markets have created an appealing opportunity for nontraditional investors. Companies have expanded their investor base, and nontraditional backers now form part of a diverse investor pool that delivers capital, strategic guidance, and new networks to help with hiring, mentorship, and scaling. Subsectors including electric vehicles (EV) and fintech continue to attract nontraditional investment.

European exit value regressed to pre-2021 levels in H1 2022. Exit value fell after a record-breaking 2021, which saw companies accelerate towards an exit to take advantage of conducive market conditions and lofty valuations. 2022 has been a challenging exit environment for companies; however, the pace set in H1 could see the second highest annual figure on record. The first half of 2022 has been characterised by volatile public equity performance, as selloffs have been driven by weaker macroeconomic forecasts and bearish monetary policy decisions. A healthy quantity of exits took place in 2022 so far, but companies will be wary of testing public markets as private market valuations built over several years could drop in liquid public markets.

European VC fundraising was robust in H1 2022. The pace set in H1 2022 was slightly down from 2021, but by the year's conclusion, it should land in a similar range to the past five years. Despite concerns surrounding the economic downturn and subsequent capital accessibility, fund sizes have ticked upwards. Generalist and specialist VC fund managers across different financing stages have attracted capital in recent months despite a market downturn. LPs could view VC funds as a viable option in the long-term as volatile asset prices persist and inflation erodes returns.

Overview

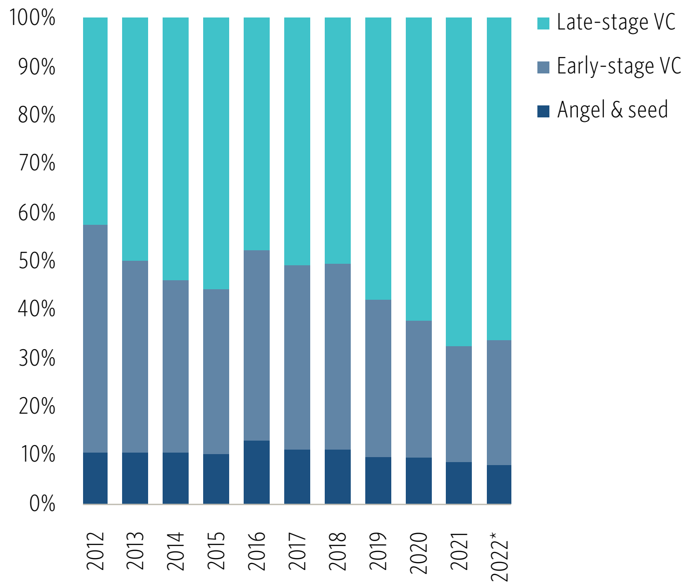
VC deal activity



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

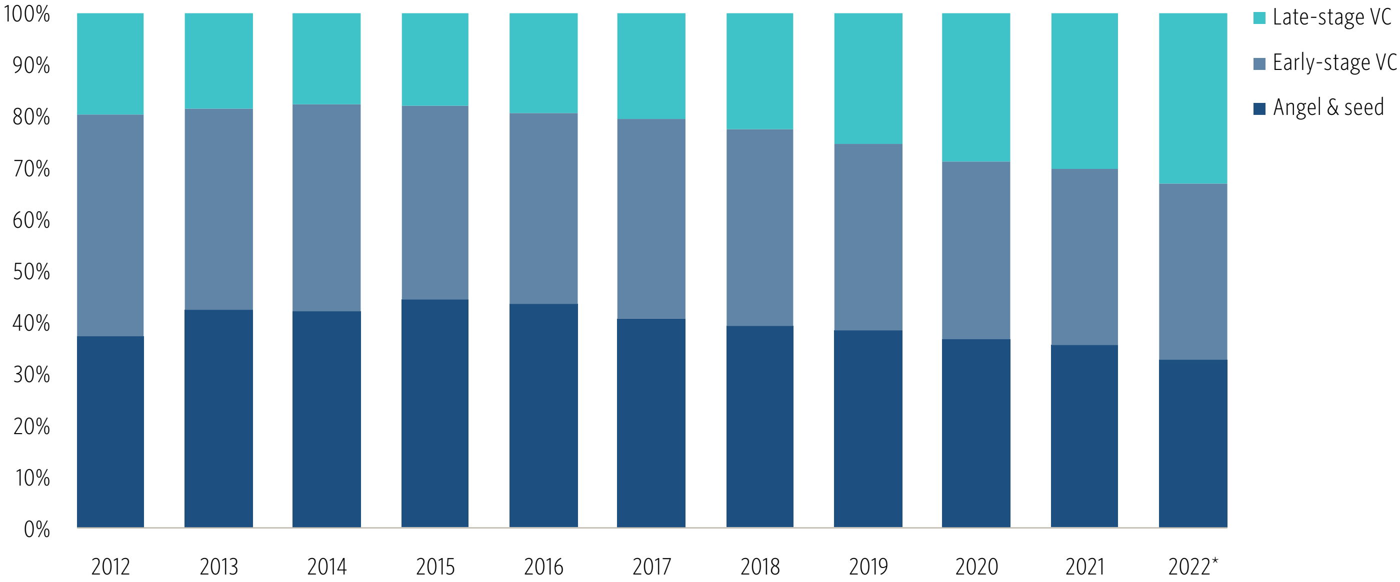
European VC deal value reached €54.4 billion in H1 2022, as capital deployment in Europe remained strong despite myriad challenges facing economies and financial markets globally. In Q2, €25.7 billion in deal value was logged, representing a 10.6% QoQ decline from Q1 2022. Remarkably, the record-breaking pace set in 2021 has been maintained in 2022. Europe-based companies received over €100 billion in VC funding in 2021, and at the current pace in 2022, we could see the watermark surpassed for the second consecutive year. 2022 has been characterised by record inflation, interest rate hikes, slashed economic growth forecasts, and expectations of an impending recession. VC dealmaking displayed resilience in H1 2022, despite the macroeconomic and microeconomic turmoil for governments, companies, and individuals. Investment levels have remained robust, having swelled considerably in 2021, as investors and entrepreneurs capitalised on pandemic-induced growth. High levels of dry powder and long-term investment opportunities have driven up dealmaking in 2022. As markets enter correction territory, however, declines in dealmaking activity could be on the horizon.

Share of VC deal value by stage



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

Share of VC deal count by stage

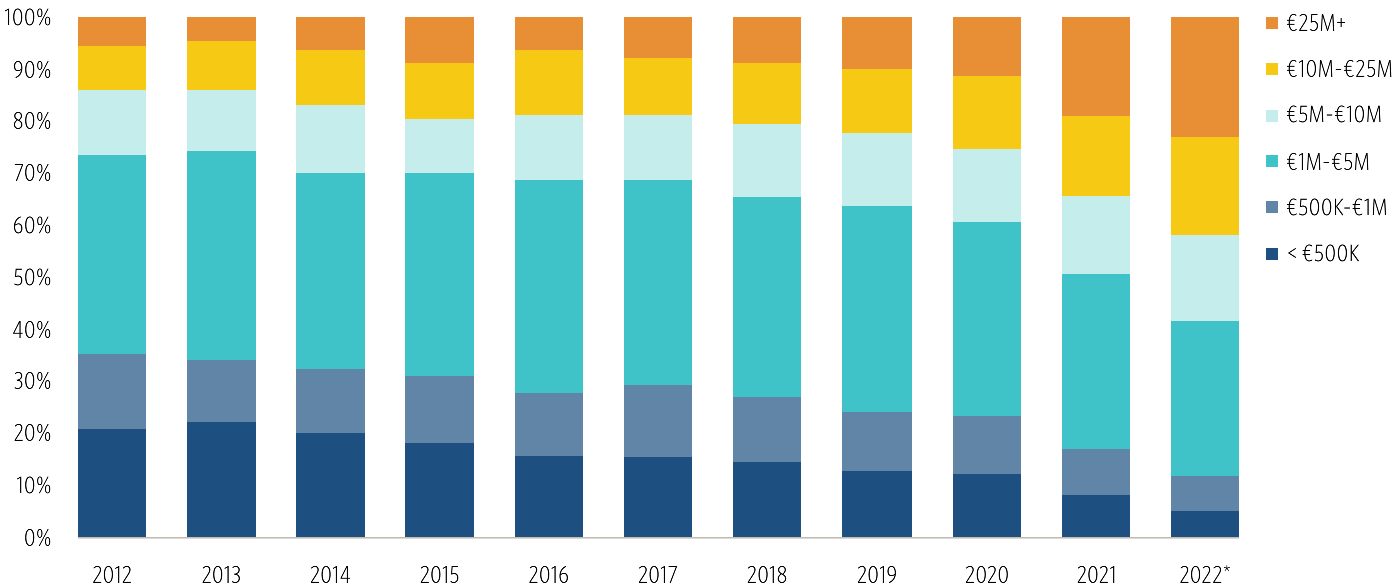


Source: PitchBook | **Geography:** Europe
*As of June 30, 2022

Late-stage capital contributed a significant chunk of deal value with €36.1 billion across Europe in H1 2022, equivalent to 66.3% of the aggregate total. In recent years, late-stage maturation in Europe has been fuelled by an influx of larger traditional VC funds, international investors, and nontraditional backers. Valuations and round sizes tied to late-stage companies have surged, particularly in the past two years, as growth rates for digital companies, and competition between investors to participate in sought-after rounds, has increased. Software-based solutions in subsectors including fintech, infosec, and healthtech have proven popular.

Late-stage businesses have driven up valuations and deal sizes to new heights in recent years. The availability of cheap capital due to record low interest rates, faster growth of online businesses, and strong returns exhibited by VC exits has enticed increased capital outlays. With interest rates raised across major economies to combat spiralling inflation, the boon in private market strategies during the past decade could be over as economies face their biggest potential challenge since the global financial crisis (GFC). We believe it will become harder for mature businesses to command lofty valuations and grow at the

Share of late-stage deal count by size



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

rate they have during a risk-off recessionary environment. Despite pessimism surrounding wider financial markets, European VC deal value rallied in Q2 2022 with a selection of outsized deals for VC-backed companies across a range of sectors. Tech public equities have dropped in 2022 thus far, with many high-profile names trading significantly below highs achieved in recent years. Consequently, renewed questions around lofty valuations of mature VC-backed companies have surfaced despite sizable rounds in the quarter. For example, Berlin-based fintech company Trade Republic extended its latest round by €250 million in Q2, increasing it to €1.1 billion from last year. Notable rounds included carbon dioxide removal company Climeworks securing €590.7 million, EV manufacturer Rimac Automobili receiving €500 million, and buy now, pay later (BNPL) tool Scalapay obtaining €486.2 million in Q2 2022.

VC is a long-term strategy, and we believe dealmaking will flatten rather than collapse in the current climate given the record-breaking YoY pace set in the past few years. Startups and investors are focused on long-term market changing disruption, and near-term volatility is part of the process in achieving outlier returns. It is worth noting that during downturns, valuations cool and potentially improved deal terms are available for investors with high levels of dry powder, thus dealmaking can be further stimulated. Opportunistic investors will be targeting investments at considerably lower valuations than previously quoted as companies seek capital to maintain growth momentum and extend their funding runways.

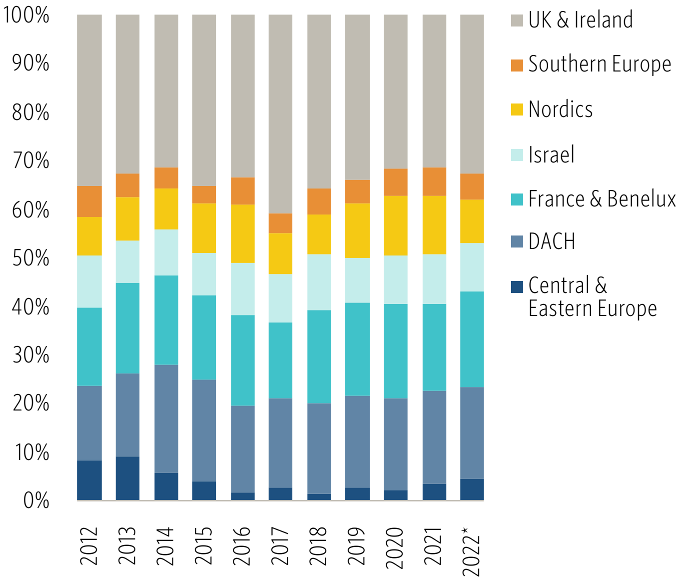
Reports of layoffs at companies such as food delivery platforms Getir and Gorillas have emerged in Q2 2022. Founders, operators, and investors have been keen to establish where the current VC market sits across financing stages, sectors, and geographies. Earlier in 2022, the Wall Street Journal reported that Klarna's valuation could be cut to $15 billion in a new round of funding.[1] Klarna is one the most valuable VC-backed companies in Europe and secured financing at a €37.5 billion ($39.5 billion) post-money valuation in 2021. At the time of writing, a fresh round of funding has been announced, revealing a haircut to $6.7 billion.[2] A flagship VC-backed company losing substantial value after years of valuation development is noteworthy. Any haircut is significant, and the magnitude of Klarna's down round will increase scrutiny for European fintech companies, particularly in the BNPL space, which has become highly saturated and competitive in recent months, further highlighted by Apple Pay's latest announcement of its rival BNPL offering.

The UK & Ireland region notched €17.9 billion in deal value in Q1 2022, equivalent to 32.8% of the aggregate total in Europe. The UK has cemented its position as the largest VC ecosystem in terms of deal value in 2022. The France & Benelux and DACH regions recorded healthy deal value figures in Q2 at €10.8 billion and €10.2 billion, respectively. The next biggest contributors were the Nordics with €4.8 billion and Israel with €5.4 billion. Deal value across each European region is roughly in line with 2021, indicating VC clusters across nations are negotiating challenges created from the war in Ukraine, rising costs of living, and lingering impacts from COVID-19. We believe robust deal value across regions illustrates a bullish sentiment around VC, amid concerns in other asset classes.

1: "Fintech Giant Klarna Slashes Fundraising Ambition," *The Wall Street Journal*, Julia Steinberg, Ben Dummett and Corrie Driebusch, June 16, 2022.
2: "Klarna's Valuation Crashes to Under $7bn in Tough Funding Round," *Financial Times*, Siddarth Venkataramakrishnan, July 11, 2022.

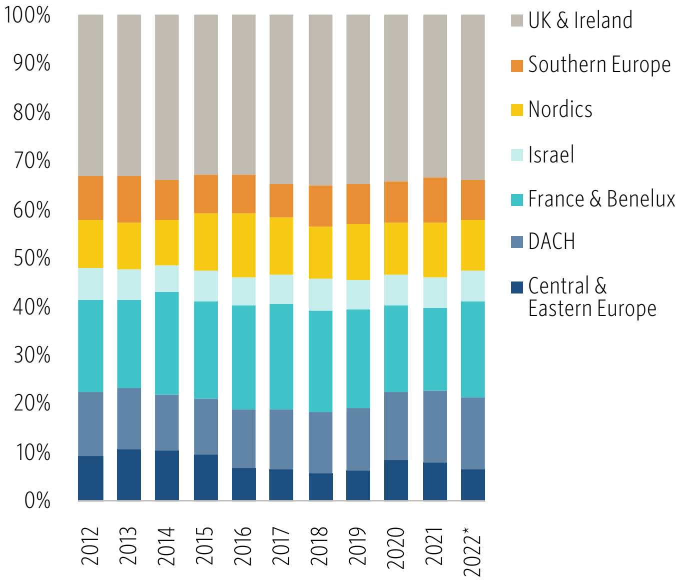
VC deals by region and sector

Share of VC deal value by region



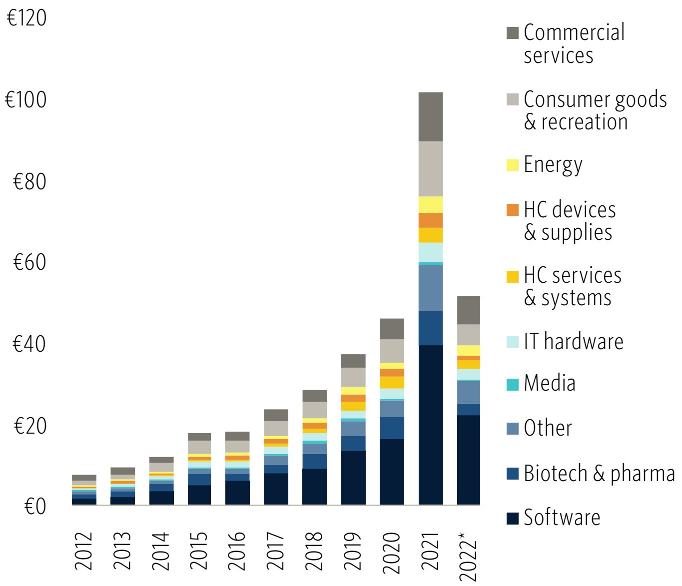
Source: PitchBook | **Geography:** Europe
*As of June 30, 2022

Share of VC deal count by region



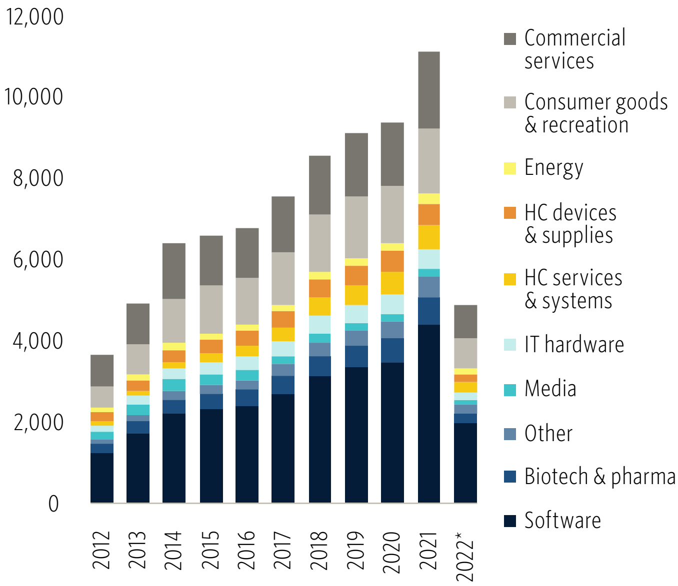
Source: PitchBook | **Geography:** Europe
*As of June 30, 2022

Share of VC deal value (€B) by sector



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

Share of VC deal count by sector



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

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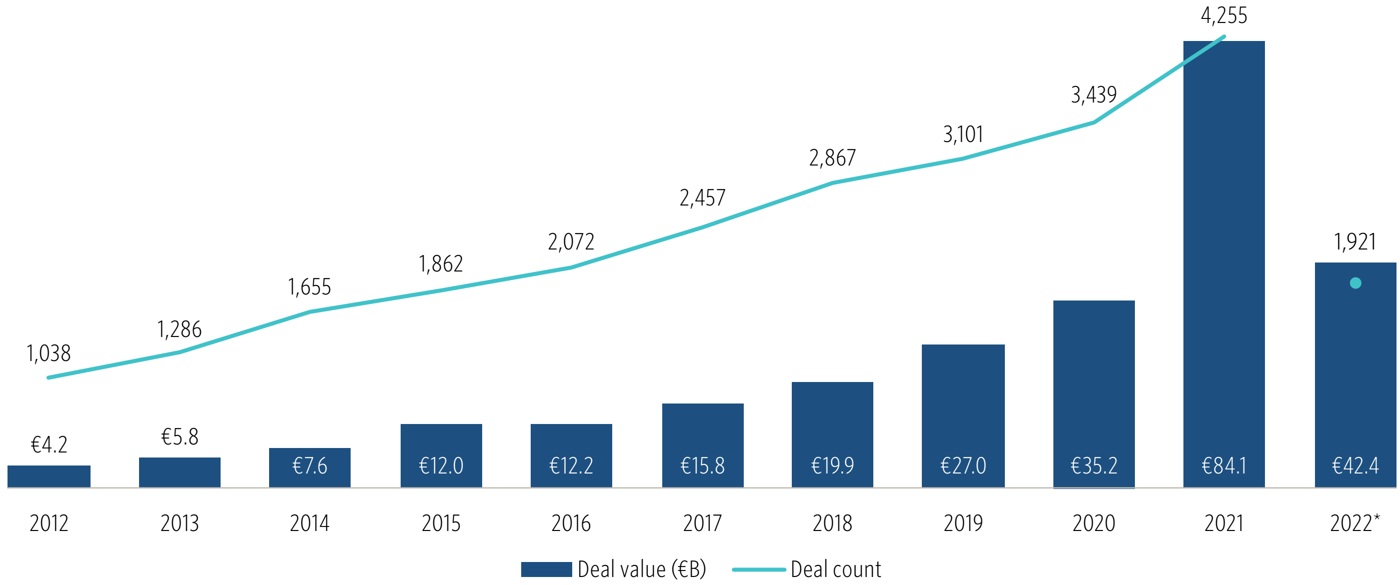
Nontraditional investors

VC deal activity with nontraditional investor participation



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

Nontraditional investors, including corporate VC (CVC) arms, private equity (PE) firms, sovereign wealth funds, investment banks, hedge funds, and pension funds have increased their capital allocation to the European VC ecosystem in recent years. In H1 2022, VC deal value with nontraditional investor participation crested €42.4 billion, falling in line with the pace set during 2021. VC-backed companies seeking long-term growth, utilising cutting-edge technology, and targeting ambitious markets have created an appealing opportunity for nontraditional investors. Companies have expanded their investor base and nontraditional backers now form part of a diverse investor pool that delivers capital, strategic guidance, and new networks to help with hiring, mentorship, and scaling.

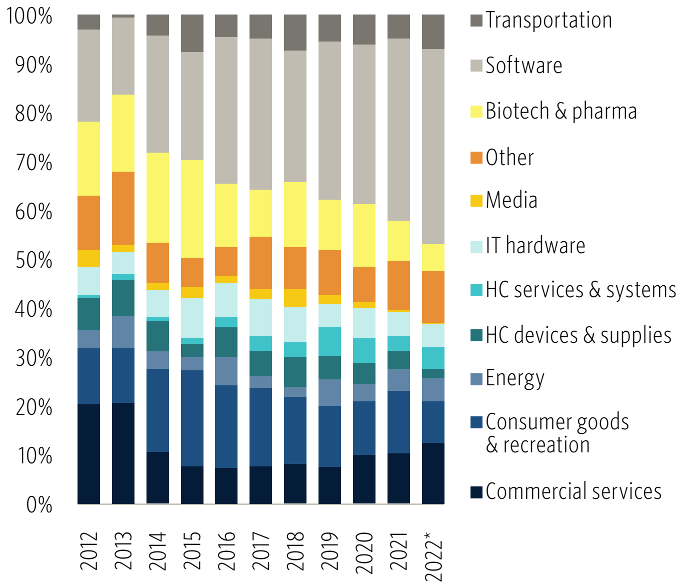
Depending on the type of entity and investment philosophy, nontraditional investors often possess capital allocations across multiple asset classes. For example, a PE firm may have a portfolio of companies operating in a broad range of industries or geographies at different stages of their lifecycles. VC investments provide a long-term illiquid investment strategy that could offset near-term volatility facing a cyclical business that has been heavily affected by inflation. Additionally, nontraditional investors can have significant exposure to bonds or public equities, both of which have struggled in the past six months, illustrating that capital could alternatively be invested into VC rounds.

The security and expertise from nontraditional backers can also be invaluable for new businesses. CVCs can offer synergies and lucrative strategic partnerships. They can ultimately provide an exit route for companies too, if securing funding becomes challenging or the public listing exit route becomes too risky. Given the extensive market correction for tech stocks in recent months, VC-backed companies have been reluctant to risk an exit and see their valuation tank. As a result, corporate acquisitions, take-privates, and PE buyouts could increase in coming months. It is widely known that big tech companies have amassed significant capital reserves as profits have soared. As markets enter a downturn, we could see large corporates invest and acquire smaller tech companies to improve their revenue streams, boost share prices, and penetrate new markets. Acquiring a specialist in a niche area has often been considered more effective at capturing market share for a large company than launching a new internal department to compete with existing players in a field.

The €500 million round for Croatia-based EV supercar manufacturer Rimac Automobili attracted nontraditional investment from Porsche Ventures (VC arm of luxury carmaker Porsche), SoftBank's (TKS: 9984) Vision Fund 2, and Goldman Sachs (NYSE: GS). The shift to greener technology has been widely covered in recent years. The race is well underway between traditional combustion engine car makers and emerging EV makers fighting to establish themselves as leading EV producers. Strict emissions targets are nearing, and consumer preferences are changing, therefore businesses are investing heavily in the EV space to ensure they are not left behind, given the rapid development taking place in the sector. Rimac will reportedly use the new funding to position itself as an EV component supplier and its partnership with a recognised brand name such as Porsche should help raise its profile and build trust within the industry.

Nontraditional investment from financial institutions (FIs) looking to adopt new technologies has been another key driver of VC growth. In Q2 2022, cloud-based banking platform Thought Machine secured €151.1 million at a €2.4 billion pre-money valuation from a selection of FIs, including Temasek Holdings, Intesa Sanpaolo (MIL: ISP), and Morgan Stanley (NYSE: MS), among others. FIs have been plagued with legacy information technology systems for different teams and financial products, creating inefficiencies and reporting gaps. The breadth of FIs participating in Thought Machine's round displays how important improving technological infrastructure has become for incumbents. A glut of fintech companies have launched since the GFC and competition between firms to secure business has intensified. We expect fintech activity to continue to form a major part of the VC ecosystem in the coming quarters and beyond as firms look to machine learning and artificial intelligence to improve client offerings.

Share of VC deal value with nontraditional investor participation by sector



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

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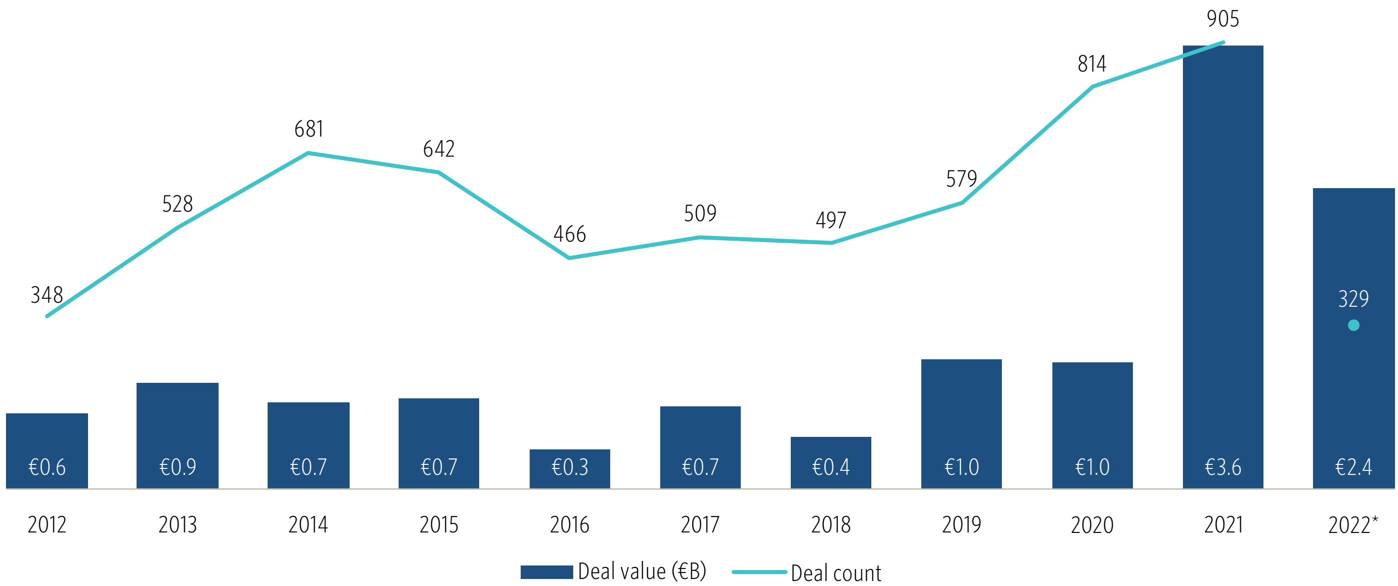
SPOTLIGHT

The Russia-Ukraine War's impact on the European VC ecosystem

CEE VC deal activity



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

This spotlight is abridged from our May 2022 Analyst Note: The Russia-Ukraine War's Impact on the European VC Ecosystem. Please see the full note for additional analysis on the impact of the war on people, evolving sectors, and regional VC considerations.

Russia's invasion of Ukraine in February 2022 has sparked widespread humanitarian, geopolitical, and financial difficulties. With Europe past the worst of COVID-19 in Q1 2022, the largest war on European soil in decades has affected millions of individuals. The invasion has caused a growing refugee crisis in Europe, sanctions on entities and oligarchs linked to the Kremlin, and companies to cease operations in Russia.

From a financial standpoint, supply chain issues prior to the conflict were driving up prices, and Russia's position as an energy and commodity powerhouse has increased inflationary pressure. Globalisation has revolutionised VC, as well as wider financial markets, and the evolving foreign policy battle between the US, Europe, Russia, and China could signal fewer cross-border investment flows. Furthermore, geopolitical tensions have hampered collaboration and innovation.

People

The near-term effects of upheaval of livelihoods are considerable and expected to affect operations and productivity for all businesses. Websites, such as Remote Ukraine, have been set up to help companies around the world hire Ukrainians for tech roles. Cloud-based and remote operations have helped manage short-term challenges given the global VC ecosystem's reliance on Ukrainian infrastructure and wider technology industry. The rapidly changing situation on the ground has had an impact on day-to-day life, and the safety of employees has been of paramount importance.

VC has traditionally relied on scrappy entrepreneurial individuals and the crosspollination of ideas from people with diverse backgrounds and experiences. Although the devastation and irreversible disruption to Ukraine is distressing, challenging circumstances and previous crises have created industry-defining leaders and organisations. This could help encourage opportunities for a highly skilled technical workforce moving forward.

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Evolving sectors

With energy prices soaring across Europe, governments will be looking for solutions to solve the energy crisis. Sourcing alternative providers could plug near-term supply gaps; however, investment opportunities could grow for innovative startups focusing on less volatile and environmentally friendly renewable energy projects. The current crisis could force an acceleration of investment into clean energy businesses to meet long-term green targets and avoid future volatility risk. For example, battery developer Northvolt completed a €2.3 billion financing in 2021, and an increased appetite for European giga-factories, rather than oil, could accelerate ambitious expansion plans.

Infosec is already a major area of VC investment, and attention on stakeholders in the subsector will intensify as the war prolongs. Companies have pledged resources, and we anticipate governments and companies will require further measures to prevent new cyberspace attacks. As cybersecurity threats evolve, particularly due to the Russia-Ukraine war, we believe interest in the sector will grow.

Regional considerations

Financial sanctions placed on Russia and resources for the Ukrainian military have largely comprised the global response to the war. Multiple assets have been frozen globally, and sanctions have been placed on hundreds of individuals, firms, and subsidiaries tied to Russia. Further measures have included blocking technology imports, banning Russian banks from the Society for Worldwide Interbank Financial Telecommunication, and prohibiting Russian companies from raising capital. All of these actions could create opportunities for investors and operators, not only in the VC ecosystem but also in wider financial markets.

Opportunistic nontraditional investors have entered private capital markets to take advantage of rapidly evolving high-growth areas. We anticipate special situation teams and wealthy backers will fuel dealmaking in the near term if businesses require acquisitions or investments to stay afloat amid the tightened regulatory market. The European VC ecosystem possesses a uniquely attractive combination of free-flowing markets, nations, and cultures that drive investment and subsequent innovation. However, nationalistic policies stemming from the Russia-Ukraine war could promote higher levels of sovereignty and domestic investment in the VC ecosystem.

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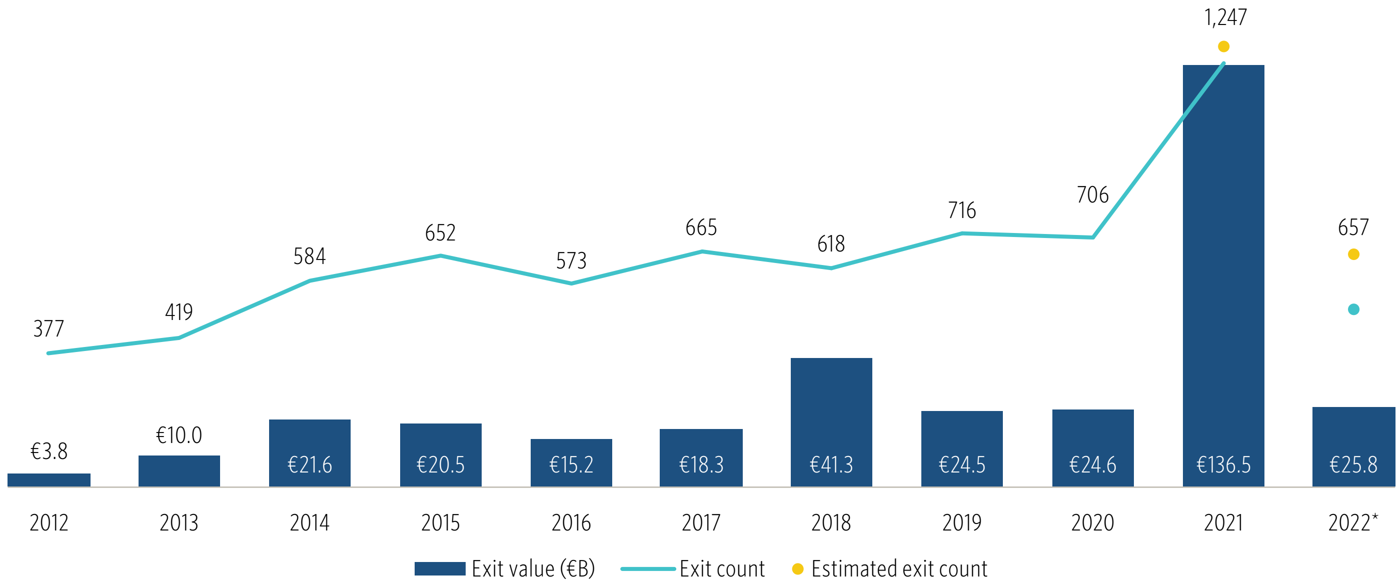
Exits

VC exit activity

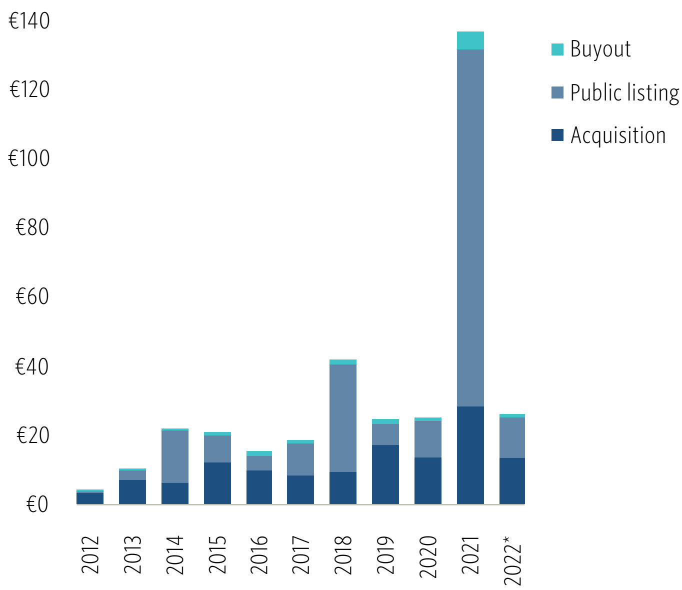


Source: PitchBook | **Geography:** Europe
*As of June 30, 2022

European exit value reached €25.8 billion in H1 2022, continuing the regression from a bumper 2021. At its current pace, exit value is on course to fall from the €136.5 billion produced in 2021, but could register the second highest figure on record at the year's conclusion. 2021 was a record-breaking year for exit activity in Europe as investors and companies accelerated towards an exit to take advantage of conducive market conditions, lofty valuations, and strong demand for tech companies. The residual effect of pandemic-induced growth throughout 2021 led multiple companies to exit in fear of missing out on the possibility of enhanced returns for investors when markets normalised.

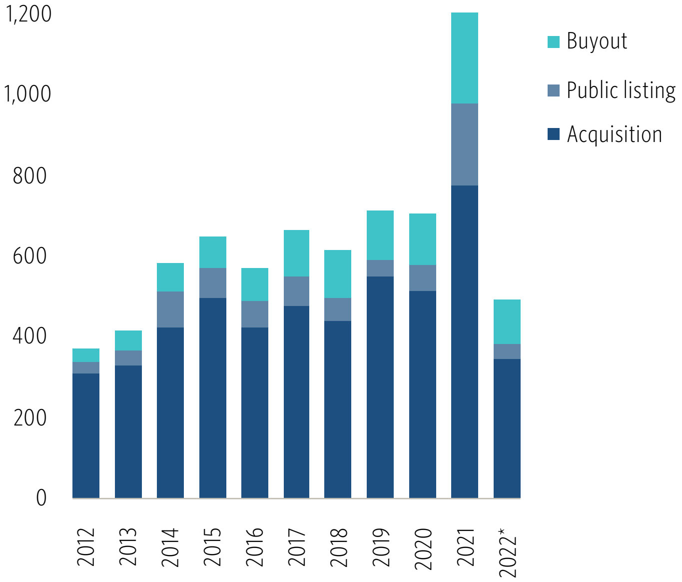
2022 has been a challenging exit environment for companies. The first half of 2022 has been characterised by volatile public equities, with selloffs driven by weaker economic growth forecasts, high inflation, and rising interest rates. Economies are expected to enter recession territory, and companies have been reluctant to attempt an exit—especially public listings—given the risks in the

VC exit value (€B) by type



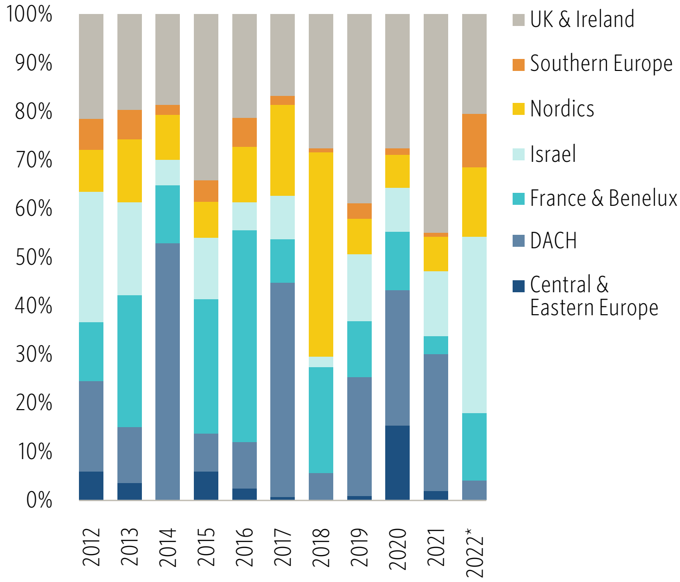
Source: PitchBook | **Geography:** Europe
*As of June 30, 2022

VC exit count by type



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

Share of VC exit value by region



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

current climate. Several tech companies have seen share prices slide in recent months, further influencing decision makers to avoid testing the market as private market valuations built over several years could drop significantly and quickly in liquid public markets.

One noteworthy exit in Q2 2022 was the acquisition of food delivery company Wolt by US-based DoorDash (NYSE: DASH) for €3.3 billion. Food delivery platforms have sprung up at a rapid clip globally in the past three years, with companies jostling for market share in different cities, countries, and wider regions. Funding has accelerated into the area given the impacts from lockdowns during the COVID-19 pandemic. There are now multiple providers across the globe, battling for revenue in a low-margin business. Economies of scale are a fundamental aspect of the business model for food delivery and mobility companies. Therefore, an abundance of multiple small loss-making competitors has caused consolidation in the industry, as evidenced with Wolt's acquisition. We believe the mobility and food delivery space is oversaturated and further exits or M&A will occur as businesses aim to monopolise regions and achieve profitability.

In H1 2022, 34 public listings took place, pacing to land below the 204 listings in 2021 at year-end. Public listings generated €11.3 billion in H1 2022. By comparison, €41.0 billion was generated by public listings in H1 2021. The exit market has cooled in 2022, with public listings regressing to pre-2021 levels. One public listing in Q2 involved green hydrogen producer Lhyfe (PAR: LHYFE) at a €300.8 million pre-money valuation. During the pandemic, attention was focused on certain sectors benefiting from lockdowns that included remote working and e-commerce, leading to increased exit activity in these sectors. While the industry has struggled in recent years, energy stocks have been resurgent in 2022, as rising oil and gas prices have seen profits and share prices climb. As was the case during lockdowns, exit activity was concentrated in sectors displaying growth, and we could witness greater exit activity in the energy sector as interest remains elevated and market conditions stay favourable.

Despite the gloomy outlook in financial markets, the European VC exit market has shown resilience. Aside from the outlier exit value logged in 2021, exit levels in H1 are above the past five years. Therefore, it is worth noting that exits are continuing to take place at a healthy rate. VC is heavily linked to technological development and the availability of capital due to record low interest rates has helped capital flow into VC. H1 2022 has marked a shift towards more bearish policy from central banks to combat inflation, and tech stocks have struggled in 2022. As a result, we could see exit activity dry up as we move deeper into 2022.

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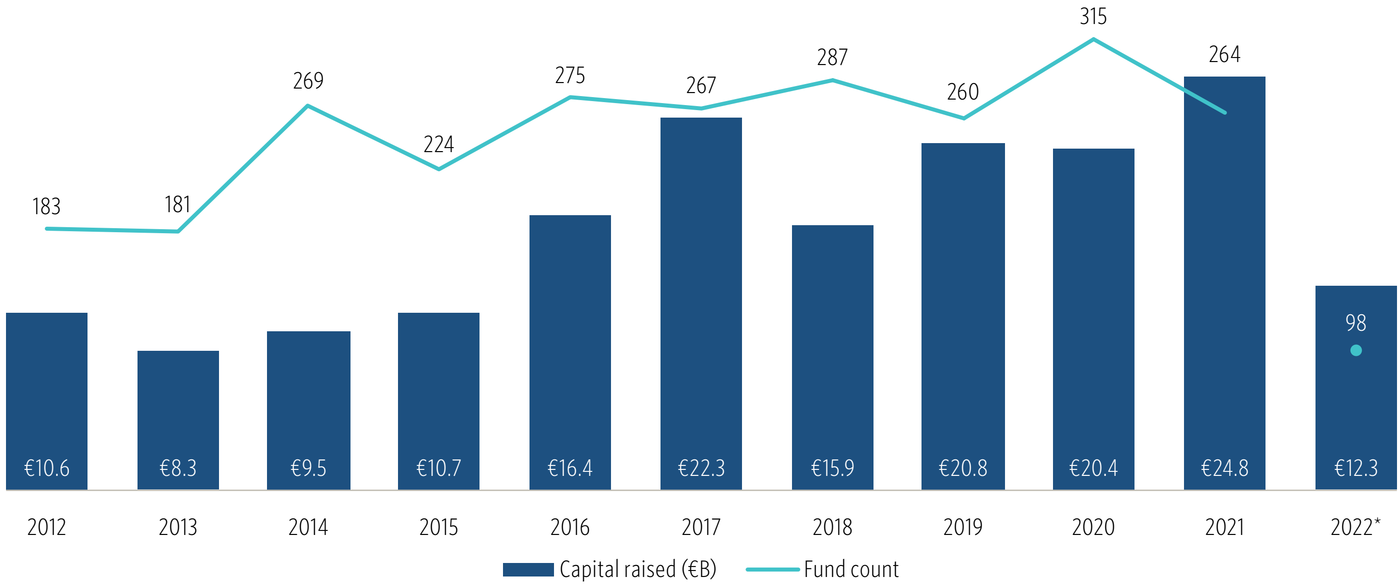
Fundraising

VC fundraising activity



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

In H1 2022, European VC fundraising reached €12.3 billion across 98 funds. The pace set in H1 2022 was similar from 2021, which saw €24.8 billion raised in the calendar year. Further, the number of closed funds is on track to register its lowest figure since 2013 if the current pace continues. Despite concerns surrounding the economic downturn and subsequent capital accessibility, fund sizes have ticked upwards with the median rising to €84.5 million in H1. In fact, over the past few years, GPs have written larger cheques and secured bigger commitments to boost their fund sizes across the board. High-profile exits, greater recognition for founders, and knowledge of VC investors has helped the asset class grow into a major strategy for stakeholders.

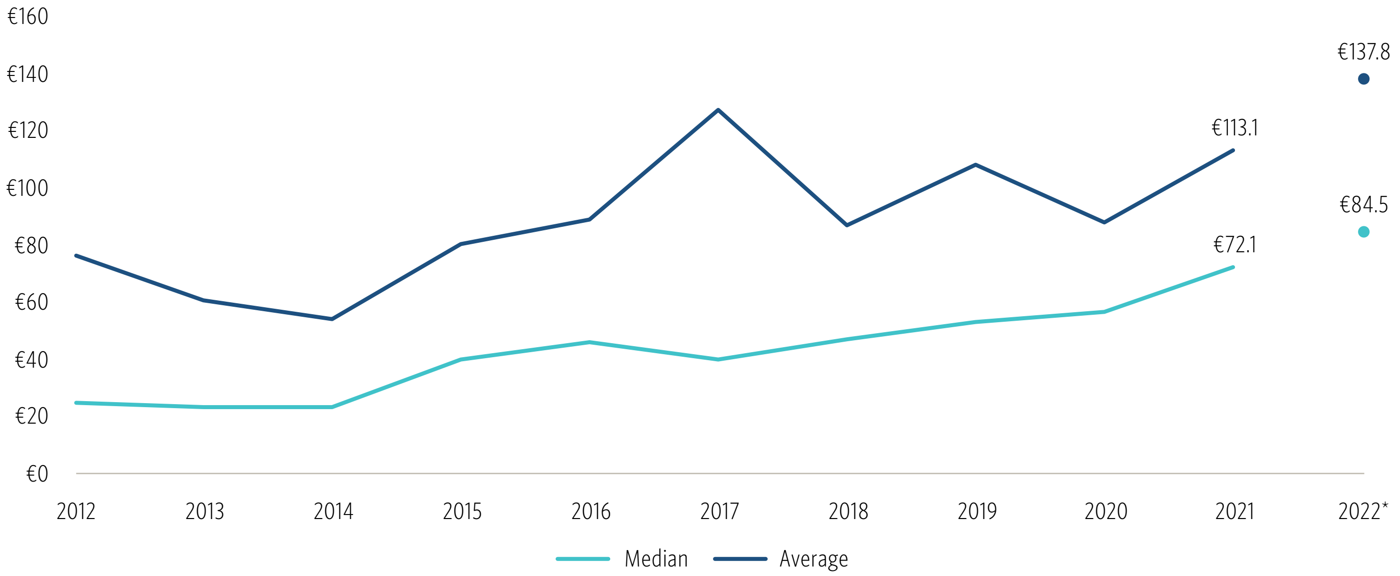
Capital commitments have remained plentiful in H1 2022, as several sizable funds closed. Generalist and specialist VC fund managers across different financing stages have attracted capital in recent months despite a market downturn. Fundraising processes can take several months, and efforts may have begun before markets entered correction territory. However, strong historical return profiles and long-term investment horizons associated with VC have enticed LPs to commit. VC is relatively insulated from near-term shocks as funds can have a lifespan of 8 to 12 years. LPs could view VC funds as a viable option in the long-term as volatile asset prices persist and inflation erodes returns.

One of the largest closes in Q2 was Felix Capital's fourth fund at €562.0 million. The fund exceeded its initial target of $500 million (€494.6 million), and roughly doubles Felix Capital's total committed capital to €1.2 billion since its launch only in 2015. London-based Felix Capital has emerged as a leading Europe-headquartered GP in Europe with notable exits including Farfetch (NYSE: FTCH), Deliveroo (LON: ROO), Peloton (NASDAQ: PTON), Oatly (FRA: 9ZX), and Moonbug. Their latest fundraise indicates that capital remains abundant for established fund managers looking to invest in new batches of startups.

As growth fears worsen, fundraising could become tough for emerging managers without a track record. Thus, GPs with existing relationships could take advantage of a less competitive fundraising landscape in coming quarters. Established managers could also benefit from the tight labour market and look to bolster their investment teams by luring talent away from tech companies forced to cut costs in approaching months.

Across Europe, fundraising was split evenly among the major regional contributors in H1 2022. €3.1 billion was raised in the UK & Ireland region, while €3.0 billion and €2.8 billion was raised in the France & Benelux and DACH regions, respectively. In Germany, Project A Ventures IV at

Median and average VC fund size (€M)



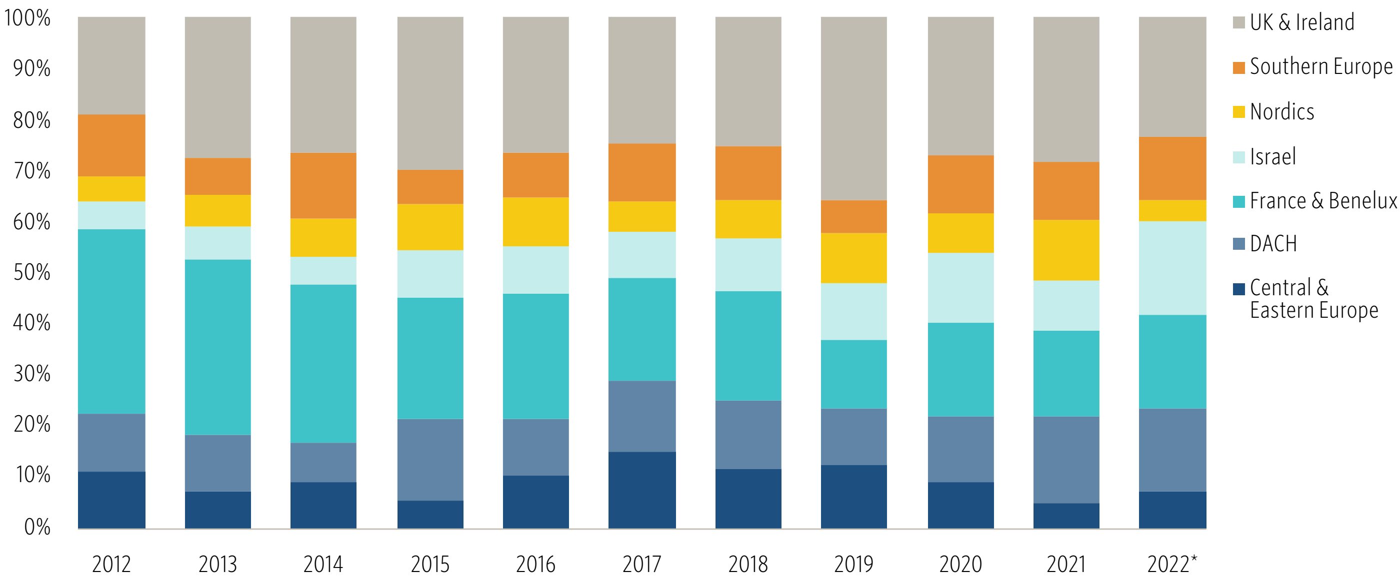
Source: PitchBook | **Geography:** Europe
*As of June 30, 2022

€352.8 million and Earlybird Digital West Fund VII at €350.0 million were among the largest to close in Q2 2022. France-based Alven Capital Partners closed its sixth fund at its hard cap of €350.0 million, and in doing so, became one of the largest early-stage funds in France. All of the aforementioned GPs boast impressive track records and their ability to raise capital amid wider financial market turmoil demonstrates that capital remains readily available from LPs.

Notable first-time funds also closed in Q2 2022. Synthesis Capital closed its first fund at €284.6 million in Q2 2022. The Synthesis Food Technology Fund will invest in startups utilising tech to solve global food supply chain issues. The foodtech sector, encompassing verticals focused on production and consumption becoming environmentally friendly and healthy, has created an enormous market opportunity for emerging companies and investors with experience in the space. As evidenced with the size of the fund and its specialist nature, LPs feel that the potential of long-term returns in foodtech outweigh the risks associated with a capital-intensive industry with high levels of R&D, testing, and health & safety required.

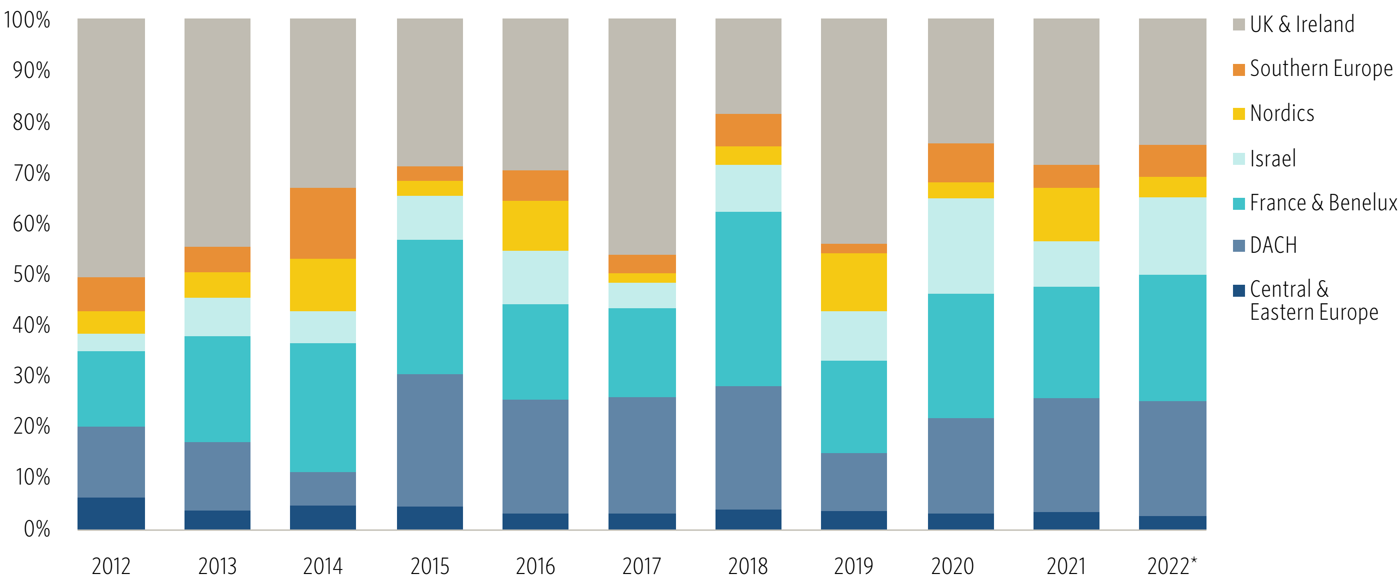
Fundraising totals are typically lumpy year-to-year and impacted by fund timings. Nonetheless, capital raised in 2022 is on pace to land in a similar range to the past five years, which should give confidence to the VC ecosystem in coming quarters. Dry powder levels were high prior to 2022, and with considerable funds closing in H1 2022, startups and existing portfolio companies can be bullish about their chances of securing funding in upcoming quarters.

Share of VC fund count by region



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

Share of capital raised for VC funds by region



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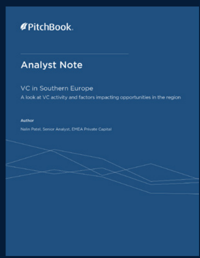

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