# EUROPE: LEADING VENTURE INTO **NEW TERRITORY**

2021

White Paper

EURAZEO

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# EXECUTIVE SUMMARY

EXECUTIVE

**2021 is already a strong year breaking records across the European venture ecosystem.** As key responders to the COVID-19 pandemic-related business and consumer challenges, digital and tech companies are experiencing an extended period of accelerating growth. With now close to 300 European unicorns and record inflows to European venture capital funds, Europe has emerged as a powerful force shaping the global venture capital landscape. 2019 had been a bumper year, closing out with over $16 billion raised and $36 billion invested. 2020 surpassed expectations; despite an initial slowdown early in Q2, rapid growth in the following months compensated for this. 2021 is set to continue this strong trend. The whirlwind of growth has attracted significant attention both from non-European investors and non-European capital.

**We believe this rapid growth is underpinned by three strong fundamental drivers:**

(i) New norms born from the pandemic,
(ii) Digital's critical role in driving sustainability, and
(iii) Keen interest from corporate incumbents

Digital companies, and tech in general have been a powerful force, swiftly addressing pandemic-related challenges where governments and corporates struggled. Regulation and the geopolitics of data have added momentum to a trend towards the prioritisation of digital safety and transparency. The global pandemic, a high incidence of significant climate events, women's empowerment, and civil unrest have highlighted social and environmental inequalities in 2020, crystalising attention on climate change, diversity and social inclusion. European corporate incumbents have a heightened appetite for innovation and agility as they seek to maintain relevance in a rapidly shifting world.

**The venture capital market in Europe has entered a new paradigm with trends pointing towards a buoyant new normal.** Accelerating fundamental growth is contributing to an increase in valuations, reflecting additional potential growth from vast addressable markets, with start-ups gaining market share in many sectors. Larger funding rounds, greater volumes of transactions, and faster, bigger exits reflect the fact that investors and founding teams are becoming more sophisticated and experienced. European venture funds stand out for their returns, as experienced teams with sophisticated backers are building companies with stronger fundamentals.

Note: Unicorns are defined as companies valued at over $1 billion at any point over the period during which the investment was held.

# SUMMARY

**European venture is positively differentiated from its US counterpart.** This intensifies the need for local knowledge, experience, and cultural understanding. European venture funds display attractive performance, growing in both real and relative terms on the global venture landscape. As a collection of countries with different languages, cultures, regulations and governments, Europe has particularly supportive governments, an abundance of talent, and privileged access to academia. Europe is fragmented with multiple hubs at different stages of development, and whilst challenging to navigate, this can create a myriad of opportunities for those able to access and execute them.

**Understanding the complexities of the multi-faceted "flywheel effect" in Europe is critical to investing in the ecosystem.** Talent and capital spins out from successful businesses only to feed back in, reinforce and build momentum in the wheel. Success stories create a positive feedback loop, with entrepreneurs becoming serial entrepreneurs and other stakeholders becoming more sophisticated. Whilst the ecosystem has become more mature with fundamentally better businesses, access to origination requires an ever deeper, pan-European network and knowledge base. The funding environment is flush with not only local and international venture capital funding, but an increasing pool of angel and corporate backed resources. The exit environment has become more varied, with demand from public and private markets as well as strategic corporates, and an increasing understanding of digital stories and dynamics.

**We believe the European digital venture space is ripe with investment opportunities.** Of particular interest are the innovations stemming from an evolving working environment, accelerated by the pandemic: enterprises are being consumerised as individuals are being enterprised. Healthcare is being transformed by technology, with digital healthcare improving efficiencies throughout the treatment journey. Fintech has a myriad of opportunities with both developed and emerging countries moving towards cashless economies.

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# **European venture** is experiencing accelerating growth

## Digital companies were key responders to pandemic-related issues

There are now **~300 European Unicorns** with **>2x the total enterprise value** vs. 2018

**The pandemic accelerated disruption and the adoption of new ways to work, play, pay, connect, bank, and stay healthy.** There are now close to 300 European unicorns and multicorns, with a total enterprise value of €1.2 trillion, up from €500 billion in 2018[1]. These valuations are in part supported by fundamental drivers and indicative of a new and buoyant normal in Europe.

**Before the pandemic, European venture had closed out a bumper year that had surpassed all expectations.** 2019 saw record levels of capital raised as well as record amounts invested, and deals closed. With over €13.7 billion of capital raised by European venture funds, and €36.3 billion invested into European tech deals[2], the ecosystem was already building momentum. These numbers were a validation of strong growth in the European venture market and highlighted its underlying potential to catch up in size with the US.

**2020 was a year of growth driven by disruption, innovation and government intervention.** When the pandemic hit, founders, management and investors initially responded with caution, as they did in other sectors. The first half saw an initial slowdown with a 22% decline in capital invested compared to the same quarter of 2019, but activity picked back up quickly once they had taken stock and understood where their new risks and opportunities lay. Unsurprisingly, tech and other innovative companies were more agile and quicker to adapt to the new virtual working environment; the second half of 2020 erased almost all the decline, with capital invested over the same period ending at €15.2 billion, just 3% shy of the previous year.

The European Central Bank effectively lent eurozone governments around €1.2 trillion during the pandemic and pledged to continue through the summer. European governments acted swiftly to support their economies with bold interventions and relief packages worth several billions. In doing so, they fostered an environment that allowed innovative businesses to capture an increased uptake of technology and digitalisation, accelerating their growth. The figure below shows prominent government and institution relief programmes.

In addition, the European Union is also taking collective action to further boost digital and sustainable businesses in Europe. We expect a green energy and digitalisation investment drive across the region, the main goals being to make the bloc more sustainable and more

[1] Source: European Startup database, May 2021
[2] Source: European Startup database, May 2021
[3] Source: European Startup database, May 2021
Note: Unicorns are defined as companies valued at over $1 billion at any point over the period during which the investment was held.

## Start-ups have received Significant Support from European Governments

| | EU | France | Germany | UK | US |
|---|---|---|---|---|---|
| Governing body | European Investment Bank / European Investment Fund | bpifrance | KFW / Bundesministerium für Wirtschaft und Technologie | Accredited Business BBB / UKRI Innovate UK | SBA U.S. Small Business Administration |
| Estimated cost of Covid19 related measures | - | **€78Bn** (expenditures, 2020) **€180Bn** (costs, 2020) | **€300Bn** (forecasted costs, 2020-21) | **£280Bn** (expenditures, 2020) **£317Bn** (cost, 2020) | - |
| **Out of which - support for startups & scaleups** | **€1.2Bn** | **€4Bn** | **€12Bn** | **£1.25Bn** | **-** |
| Investment in VC funds | **€1.2Bn** | - | **€2Bn** | - | - |

Source: Pitchbook, February 2021.

digital. After months of wrangling over the finer details, the European Parliament agreed to a €1 trillion, 2021-27 budget in 2020. A €750 billion pandemic financial recovery fund[4] will be made available by the second half of the year. This bodes well for the future of the European venture ecosystem.

The disruption of 2020 served to accelerate and strengthen trends that had long since been accepted. From remote working and learning to environmental and social concerns, the pandemic was a powerful catalyst accelerating digitalisation and innovation. From the consumerisation of businesses to the digitalisation of consumers, European digital companies emerged as key responders, solving for everything from seeing our loved ones' faces to paying for our lunch. Even older generations who had been less tech-savvy quickly joined the digital revolution which delivered a significant jump in addressable market. Consumer behaviours are also changing, where once there might have been a reluctance to break-away from traditional, physical transactions, customers are now increasingly seeking out services via innovative platforms.

COVID shined a spotlight on digital companies and technology in general as a powerful force that could swiftly address challenges where governments and corporates struggled. Venture-backed companies stepped in to fill the void as consumer and business habits rapidly evolved. Examples include **DOCTOLIB***, a one-stop digital platform facilitating appointment booking, which allowed healthcare systems to continue operating despite social distancing restrictions and played a pivotal role in France's vaccination rollout. A year on, Doctolib now manages 90% of bookings in French vaccination centres.

Doctolib

**90%**

of French vaccination bookings managed in 2021

[4] Source: European Startup database, May 2021
*Eurazeo portfolio company. There is no guarantee that Eurazeo will be able to source transactions in the future that are similar to this example, and it should not be assumed that investments made in the future will be comparable in quality or performance. References to any specific company should not be construed as a recommendation of any particular investment or security.

## Europe is a powerful force shaping the global venture capital landscape...

**2019 and 2020 were strong years across the European venture ecosystem.** Performance, talent and infrastructure have always been present in Europe, and the unprecedented levels of capital raised and invested during 2020 backed them up. European venture has built a name for itself within the global venture landscape, standing strong alongside the US and Asia.

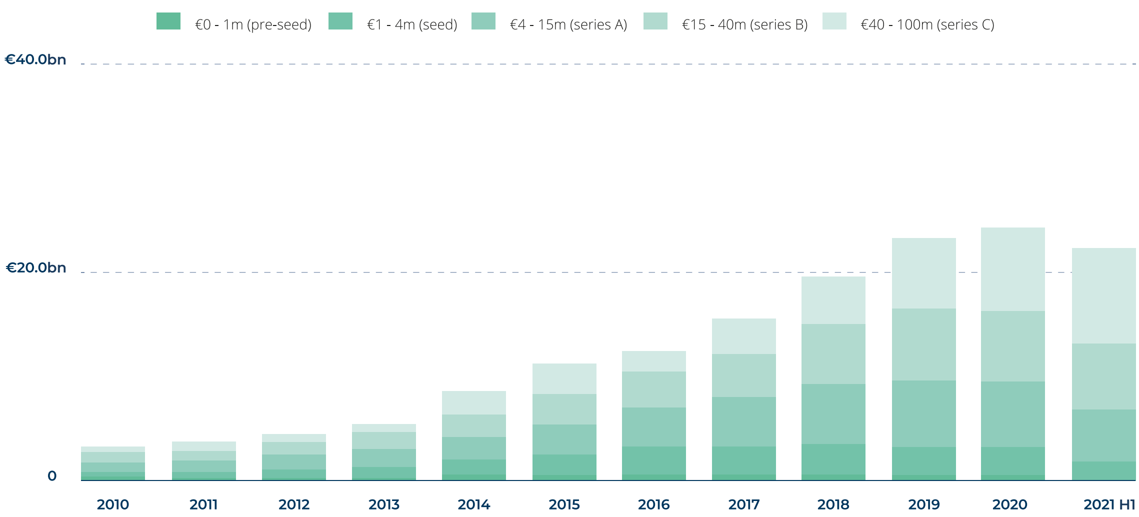
**Europe's share of the venture capital market has steadily increased** – Europe's share of global early-stage venture capital investments (seed, series A and series B) stood at 16% in 2020, up from 9% in 2016[5]. Growth in Europe through 2020 has slightly outpaced that of the global market's trajectory.

2020 saw strong levels of early-stage deals in Europe, with a total of €15.1 billion invested in over 2,650 deals. In 2021, the momentum continues with €11.6 billion of early-stage venture deals in Europe already invested in over 1,360 deals[6].

**The pace of deals has picked up dramatically.**

Total capital invested in all VC stages in 2021 is €52.1 billion as at July 2021. This already exceeds the total capital invested in 2020.

### VC funding on track to reach record highs




Source: Europeanstartups.com database, July 2021

[5] Pitchbook, June 2021
[6] Pitchbook, June 2021

**The pace of deals has picked up dramatically.** Total capital invested in all VC stages in 2021 is €52.1 billion as at July 2021. This already exceeds the total capital invested in 2020. June 2021 was the all-time highest month on record, with €12.8 billion invested. Investments into European start-ups in Q2 2021 more than doubled those in Q4 2020, at €27.6 billion[7].

European funding rounds have been strong in terms of size... **KLARNA** and **NORTHVOLT**, a fintech and a battery developer, both from Sweden, and **REVOLUT**, a UK fintech, all closed rounds of more than half a billion dollars in 2020, with Klarna quickly completing an additional $1 billion round in March 2021 and another over $600 million round in June 2021. In May 2021, **SHIFT TECHNOLOGY**, a French artificial intelligence-based insurtech SaaS raised $220 million and **BACK MARKET***, a French marketplace for refurbished electronics raised $335 million.

Investments into European start-ups in **Q2 2021 more than doubled those in Q4 2020**

... and speed. In March 2021, German delivery start-up **GORILLAS** made unicorn status a mere 10 months after its founding. They seized the crown for fastest-to-unicorn from **HOPIN**, a London-based virtual events platform. In 2020, Hopin became a unicorn in just 17 months.


The European unicorn ecosystem has seen intense activity so far this year, with 68 funding rounds, more than double the 30 rounds in all of 2020[8]. **The European giants are scaling new heights: SPOTIFY**, the Stockholm-grown music streaming service, and **ADYEN** the Amsterdam-headquartered global payments company, both reached $50 billion valuations.

**Exits in 2021 have also picked up.** In a single quarter, two venture-backed European companies went public for over $10 billion: **ARRIVAL**, a London-based electric vehicle company listed on the NASDAQ via a SPAC, and **DELIVEROO**, a UK delivery service that included a community offer in their IPO in London. Other notable European IPOs in Q1 2021 included Danish consumer reviews site, **TRUSTPILOT** and UK-based clinical-stage biotech firm **IMMUNOCORE**. Additionally, in May 2021 **BABYLON**, a healthtech company in the UK announced its intention to list via a SPAC at a $4.2 billion valuation. **OVHCLOUD**, the European cloud champion has recently listed on the Euronext Paris in October.

[7] European Startup database, July 2021
[8] Source: dealroom.co, May 2021
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### Notable European VC-backed Public Exits in Q1 2021

| Name | Sector | Headquarters | Valuation | IPO/SPAC Date |
|---|---|---|---|---|
| Arrival | Electric Vehicle | UK | $13.0bn | 25th March 2021 |
| deliveroo | Delivery | UK | $10.4bn | 31st March 2021 |
| Trustpilot | Review platform | Denmark | $1.5bn | 23rd March 2021 |
| IMMUNOCORE | Biotechnology | UK | $1.1bn | 4th February 2021 |
| OVHcloud™ | Cloud computing | France | $4.0bn | 15th October 2021 |

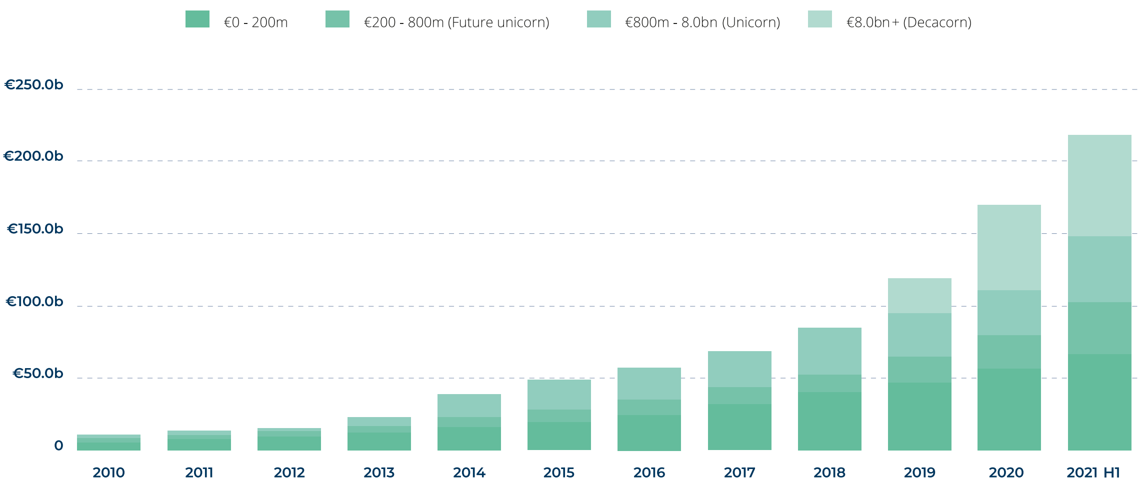
Source: sifted.eu

**European venture funds have been raising ever greater amounts in commitments from LPs, confirming European venture capital as a strategic asset class for institutional investors.** In 2020, there was a total of €16 billion raised by 288 funds. While the total amount is marginally down from 2019, it is significantly higher than the €12.6 billion raised in 2018[9]. These slightly lower levels in 2020 are likely explained by many LPs' reluctance to allocate on a fully virtual due diligence process and is broadly in line with total private equity fundraising in 2020. Whilst the number of funds raising capital from LPs in 2020 was up, most of the capital committed went to a small number of funds. As the ecosystem matures, LP are observed to be gravitating towards the security of GPs with a track record of success; the proportion of venture capital funds raised by first-time funds versus follow-on funds is down from 78% to 64%.

**The European ecosystem has ballooned.** Compounding the scale achieved over previous years, these strong 2020 figures contribute to an ecosystem over 4x that of 2015.

The enterprise value of European tech companies in 2021 to date represents €218 billion, of which four decacorns contribute a full €71 billion, and the next 20 Euro-denominated unicorns contribute €41 billion.  The remaining €106 billion represents 80 unrealised unicorns, and hundreds of potential future unicorns (soonicorns).

### VC market breakdown by valuation




Source: Europeanstartups.com database, May 2021

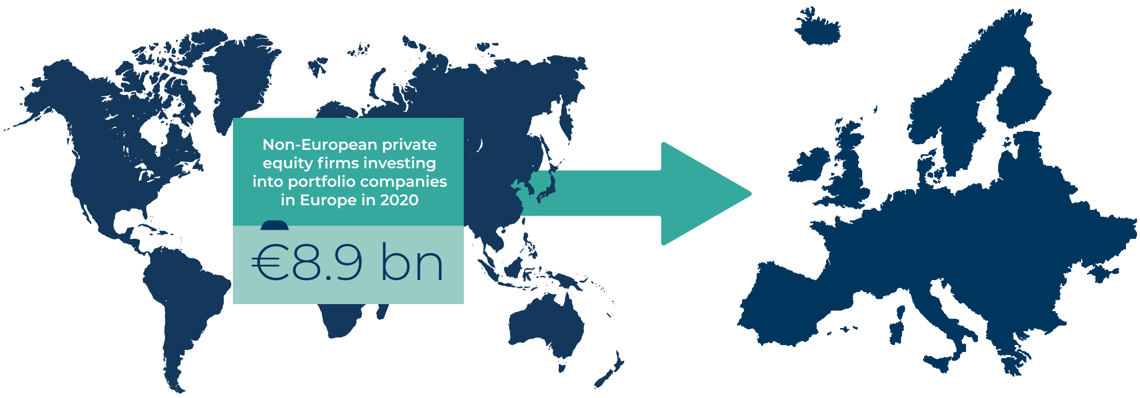
[9] Source: Invest Europe: https://investeurope.eu/research/activity-data/
Note: Unicorns are defined as companies valued at over $1 billion at any point over the period during which the investment was held.

## ...and is attracting significant attention from abroad

**With a history of strong performance, a deep talent pool and sophisticated infrastructure, the European ecosystem has always had the potential to build giants.** Governments and local capital have fed the system, building and re-cycling to a critical stage at which it attracts its own fuel.

There is a magnetic attraction to European start-ups. The proportion of European start-up funding rounds that involved at least one US or Asian investor has been steadily increasing, from 14% in 2018, 19% in 2019 to 23% in 2020. This countered the early 2020 fear that travel restrictions would impact non-European participation.

**Non-European venture fund investments into European portfolio companies have increased steadily,** including some of the largest US venture funds opening local offices on the continent. In 2020 they totalled €8.9 billion, up by more than 60% from €5.5 billion in 2018. In 2021, €6.3bn has already been invested by non-European investors to date[10].




Source: Pitchbook data, May 2021

**There is also increased interest from non-European corporates** in European venture-backed businesses in their bid to gain access to cutting-edge technology and European markets.

The first quarter of 2021 was particularly strong for acquisitions of European companies. Notable amongst these are Berlin-based marketing automation company **ADJUST***, that was purchased by U.S.-based **APPLOVIN** for $1 billion, and Copenhagen-based employee success platform **PEAKON***, that was purchased by another US company, **WORKDAY**, for $700 million.

adjust

purchased by AppLovin for

**$1bn**

Peakon

purchased by Workday for

**$700m**

[10] Source: Pitchbook data, May 21

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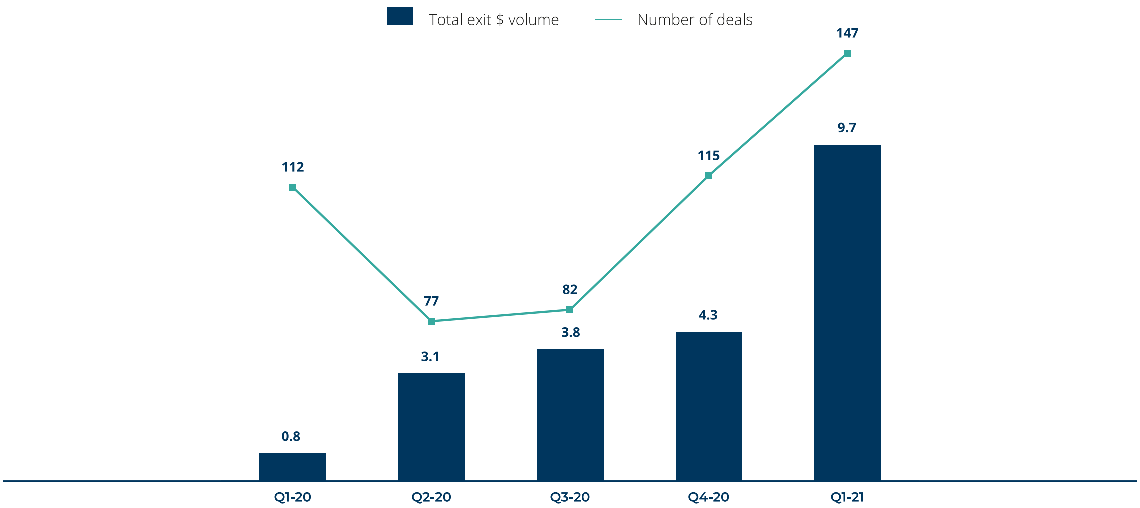
### Acquisitions of venture-backed companies in Europe




in USD bn

Source: Crunchbase

# Strong fundamental drivers fuelling growth

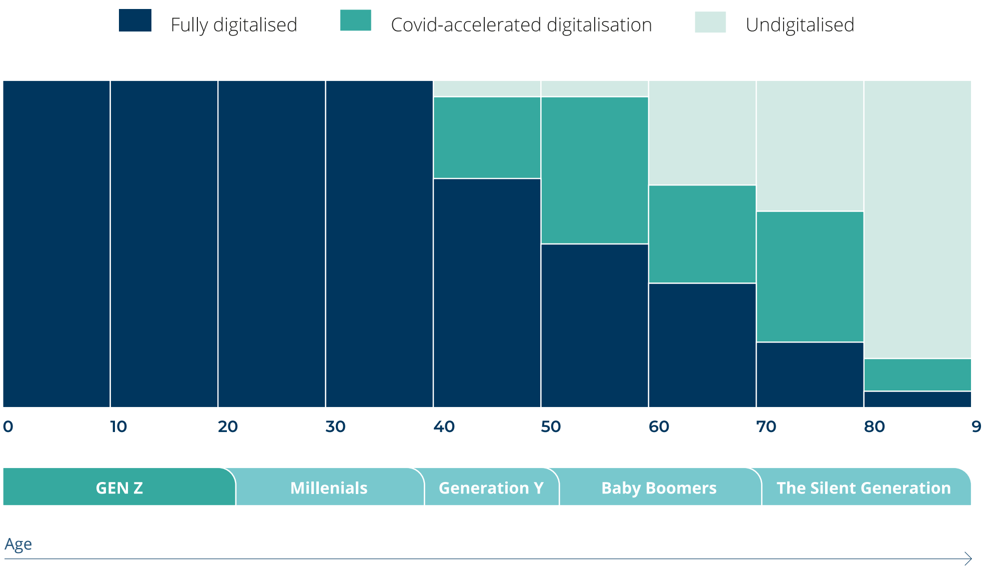
## Post-COVID validation of digital businesses

**Digital and tech companies were well placed to respond to pandemic-related challenges.** Unlike governments and corporates, they have long been addressing shifting consumer and business habits. The Covid-19 pandemic contributed to the acceleration of the transition from offline to online business models, compressing across a handful of months a transition that would have taken years to realise.

**The changes in digital habits have been accelerated in part by the coming-of-age of virtual consumers;** the pandemic may have been one accelerator, but it is not the only one and certainly not the origin of these shifting behaviours. For Generation Z (those born between 1998 and 2016), and even some of the younger Millennials, the pandemic was perhaps a sliver of a lifetime of disruptive events such as the climate change movement and #MeToo and Black Lives Matter campaigns and they have experienced all of this through the lens of social media and their smartphones.

Meanwhile, older generations who had been historical digital laggards have been forced to accelerate the pace of their digitalisation as they began working from home, staying in touch with friends and family virtually and ordering their groceries online.

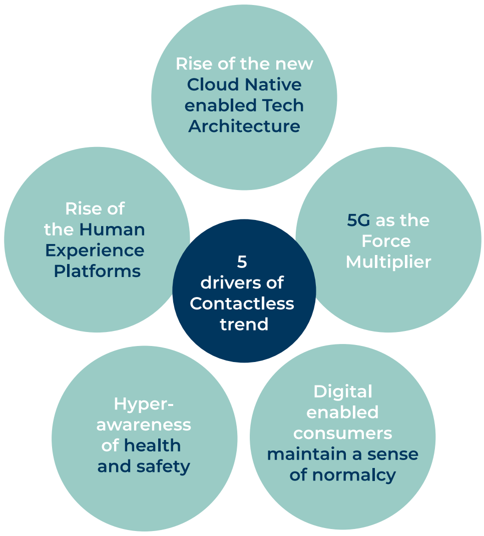
**Rapid digitalisation of older generations**




Source: Eurazeo

**The pandemic accelerated the “touchless” trend in all sectors, forcing legacy players to adapt.** The contactless economy is driven by both supply-and demand-side factors, some of which are new, but many of which pre-date the pandemic. Supply-side factors include the rise of digital technologies such as 5G, cloud platforms, and AI & Data analytics, whilst demand-side include a need for convenience and heightened awareness for health and safety.

In its report on the contactless economy, Deloitte breaks the contactless trend out into two distinct branches: “at-home consumption” and “contactless outside home”. They anticipate at-home consumption to more than double, reaching $3 trillion globally, with only 20% of that attributable to the pandemic[11]. Whilst they highlight consumer products, leisure/recreation and education as the largest sectors within that, they see financial services, health and consumer products having the most growth potential.




**The normalisation of work from home delivered new consumer and business patterns**—heralding an explosion in enterprise SaaS usage. As most companies are increasing investment in remote working technologies, we have only just scratched the surface of the potential of connected enterprise management tools. Living through this prolonged uncertainty has highlighted the importance of data-driven tools for planning, forecasting and budgeting within companies.

## Sustainability-focused innovation in the spotlight

Sustainability has been one of the most talked about themes in 2020. The global pandemic, a near record level of climate events, women’s empowerment and civil unrest have highlighted social and environmental inequalities that have drawn attention to climate change, diversity, and social inclusion.

**Technology and digital innovation are inextricably linked with sustainability.** When thinking about the type of world we want to live in, technology often plays an indispensable role in achieving it. This offers investors and venture-backed companies a chance to become a positive force for change, improving consumer behaviour and business practices while capitalising on this renewed interest and demand.

**Purpose-driven tech entrepreneurs are raising record amounts** in their efforts to solve some of the world’s biggest problems as defined by the United Nations Sustainability Development Goals (SDGs). Climate change is on the top of the agenda, along with access to health and wellbeing, and sustainable cities & communities. Venture investment in Fintech and Insurtech is also tackling other pressing issues such as financial inclusion which addresses seven of the 17 SDGs. A recent McKinsey Global Institute report suggested that

[11] Deloitte report, Contactless Economy – Are you prepared? https://www2.deloitte.com/content/dam/Deloitte/sg/Documents/strategy/sea-cons-contactless-economy.pdf

digital finance alone could benefit billions of people by stimulating inclusive growth that adds $3.7 trillion to the GDP of emerging economies within a decade[12].


Demand for sustainability is driving growth. Community and purpose-driven start-ups have an edge in gaining market share and sales growth as they are more likely to attract discerning customers increasingly driven by values. This shift is not only for B2C models; the work-from-home trend has both decentralised decision-making and heralded an era of bottom-up adoption of B2B SaaS. The market has been consumerised with millions more people using enterprise SaaS, increasing the relevance of governance and purpose as well as usability and function.

"Organisations need to increase their level of transparency. There needs to be an availability of data at all levels because that enables a more bottom-up decision-making process. If only the top management have the data, then it's only them that can make the decisions. I think that companies who don't adapt, who don't democratise the user data within their organisation, risk becoming irrelevant."

**Phil Chamber** - CEO, Peakon*, a Workday company

**We believe companies scoring higher on ESG metrics will achieve better exits.** LPs are making increasingly stringent demands of private equity buyout funds; large corporates are seeking to improve their own metrics through acquisitions. The interest in sustainability is not limited to the private markets – 2020 saw 3x the inflows to ESG ETFs versus 2019, fuelling the demand for publicly traded shares in sustainable businesses.

There is no guarantee of success when investing in companies that seek to create positive ESG impact while enhancing long-term shareholder value and achieving financial returns. Considering ESG factors may cause investments to underperform, and interpretations of what positive ESG characteristics mean can vary widely

[12] Source: Digital Finance for all: Powering inclusive growth in emerging economies - https://www.mckinsey.com/~/media/mckinsey/featured%20insights/employment%20and%20growth/how%20digital%20finance%20could%20boost%20growth%20in%20emerging%20economies/mg-digital-finance-for-all-full-report-september-2016.pdf
* Peakon was a Eurazeo portfolio company that was acquired by Workday.

## Corporate use cases driving growth

**We belive European corporate incumbents have an increased appetite for innovation and agility** as they seek to maintain relevance in a rapidly evolving world. This is not universal as there remain many backward-looking incumbents, but there is an increasing number of incumbents breaking the mould. We think this trend will continue.

For example Swedish banks led the adoption of digital payments, and the nation is on course to become the first cashless society by 2023. Their 6 largest banks together created an app for payments and money transfers which led to rapid adoption by 7 million users, creating an environment that the likes of **KLARNA, IZETTLE** and **TINK*** could benefit from.

Big pharma has also been increasingly involved with healthtech companies, recognising how start-ups have been instrumental in addressing the health crisis over the last year. **MODERNA** is a start-up that has been fundamental in delivering a vaccination to millions of people, offering a potential exit from the pandemic.

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# **European venture trends point** to a new normal

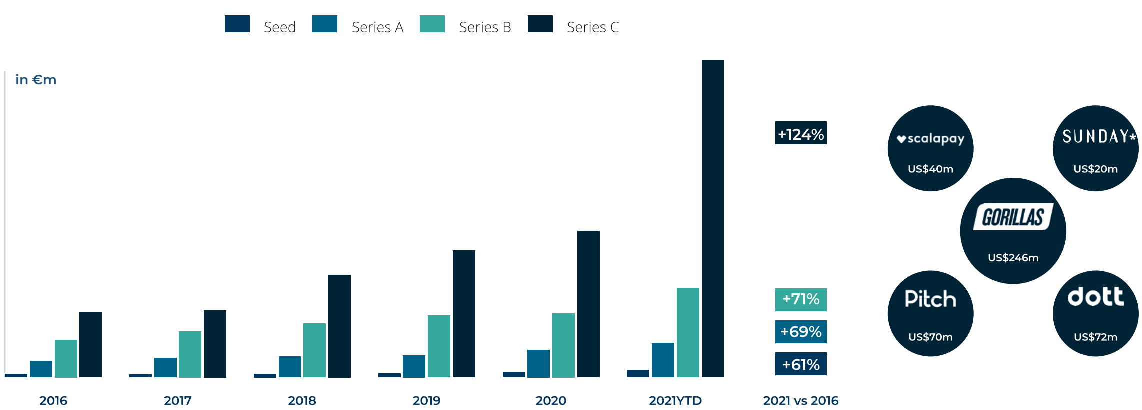
## Increasing size and volume of rounds driven by accelerating growth

**The venture capital market in Europe is setting a new paradigm.** Valuations of digital and technology companies have been on the rise. While some might worry that the market is getting frothy, we see strong, underlying trends that could justify these valuations, and suggest a new buoyancy for Europe.

**The size and frequency of funding rounds has increased, signalling a positive growth trajectory.** Start-up growth trajectories are not linear and significantly accelerate with key events that validate the product's market fit or the scalability of the business model. When start-ups reach and pass these milestones quickly, they immediately need more capital to reach the next stage of their strategy. The median deal size in Europe across all stages for 2021 YTD is already at $21.5 million, more than double that of the whole of 2020 ($10.4 million)[13].

The median deal size in Europe across all stages for 2021 YTD is already at **$21.5m, more than double that of the whole of 2020** ($10.4 m)

### Evolution of VC funding rounds




Source: Pitchbook, May 2021

[13] Source: Pitchbook data, May 2021
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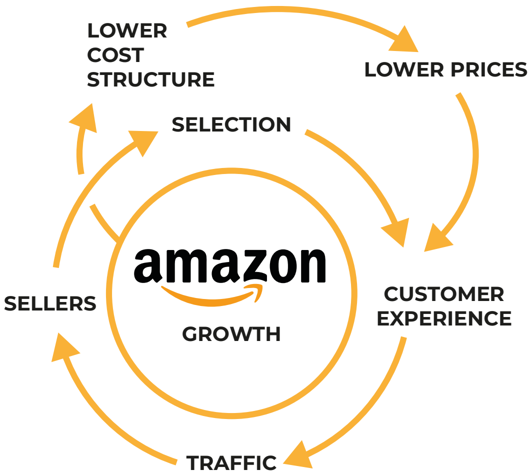
## Valuations reflect vast addressable markets

**Valuations reflect fast-growing addressable markets, fuelled by the digitalisation of the economy.** This trend is accelerating; in 2020 alone, global retail ecommerce revenue grew 26% year on year. The rise of "Netizens" (citizens of the net) is expected to also continue to boost addressable markets for digital solution providers.

## Valuations reflect growth rate and quality

Digital and technology businesses help create new business models that deliver steeper growth trajectories than traditional businesses, typically over 50% per year. Their ability to scale and expand on a European and global level amplifies the disruption they deliver, which further fuels their growth. Some businesses have been able to deliver exponential growth, leveraging their own ecosystem and flywheel to consolidate their market leadership. For example, Amazon's flywheel (figure 19) illustrates the virtuous positive-growth effect of their own platform. Many European platforms display similar growth strategies leveraging non-linear growth dynamics: **BACK MARKET***, a second-hand electronics platform, **MANOMANO***, a DIY marketplace, and **DOCTOLIB***, a 360 platform for health professionals and patients, are other examples of this accelerated growth.




"Start-ups are essentially the best school of entrepreneurship you can find, with a snowball effect percolating down to the next cohort... We strongly believe that great founders build great companies by building up the people around them. Those people go on to found new companies, taking with them the skills and experience they've gained along the way. Our very best investments have almost all been founded by serial entrepreneurs."

**Matthieu Baret** - Head of Venture, Managing Partner, Eurazeo

* Eurazeo portfolio company

**Founder teams are becoming more sophisticated, with many led by serial entrepreneurs.** They have demonstrated their strategic vision and deep understanding of new business models and have proven their ability to successfully execute business roadmaps to scale their companies. These fundamentally superior start-ups offer strong growth potential and deserve their impressive valuations.

Olivier Goy, CEO of unicorn fintech **OCTOBER***, previously founded **123 INVESTMENT MANAGERS** Managers. Didier Rappaport, co-founder of Dailymotion, the video sharing platform, has now founded **HAPPN***, the dating app. Victor Lugger, co-founder of **SUNDAY***, payment solutions for restaurants is also the CEO of **BIG MAMMA**, the restaurant and catering brand. Ning Li, founder of **MADE.COM** founded **TYPOLOGY**. Max Bittner, now CEO of **VESTIAIRE COLLECTIVE*** was the founder and CEO of **LAZADA**, the leading ecommerce platform in South-East Asia. And remember, Elon Musk, co-founder of **PAYPAL**, has now gone on to found **TESLA**, **SPACEX**, **THE BORING COMPANY**, **NEUROLINK** and **OPENAI**.

## Valuations increasing along with broader markets and sectors

Venture is not the only asset class in which valuations have gone up; valuations in listed markets have followed the same steady trend as well. When comparing valuation multiple trends across listed markets and venture markets, figures show that European venture valuations have increased less than the former. For instance, NASDAQ Enterprise value/sales multiple increased by 45% from 2016 to 2020. The same ratio for European start-ups (the 2,705 start-ups reporting their revenue multiples at time of funding) shows an increase of 4% over the same period[14].

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Note: Unicorns are defined as companies valued at over $1 billion at any point over the period during which the investment was held
[14] Source: Pitchbook data, May 2021

# Europe's differation points are deepening

European venture is positively differentiated from other venture ecosystems. The dynamics in Europe are continuing to shift, creating opportunities.

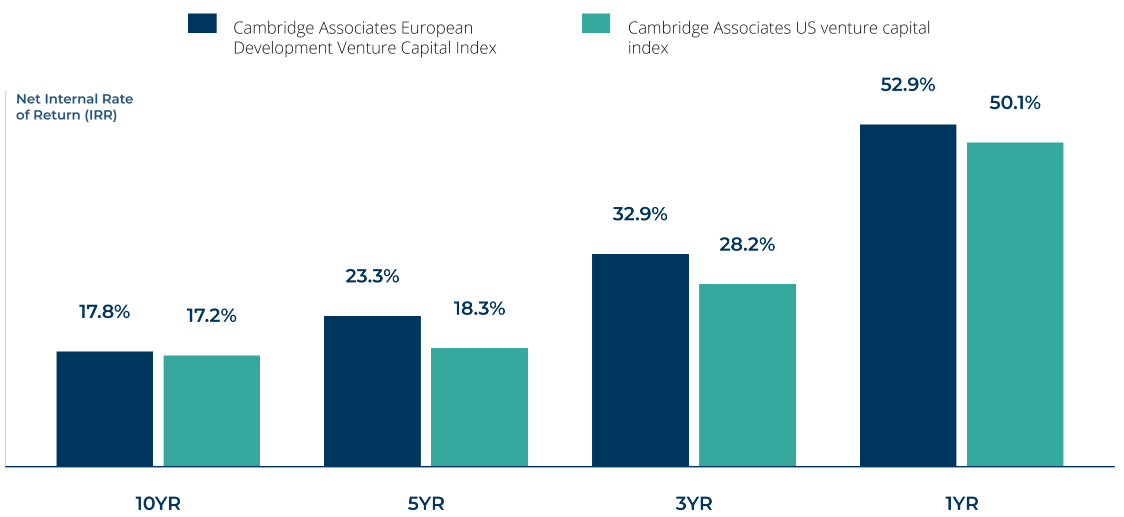
Europe is fragmented with multiple hubs at different stages of development. Local knowledge, experience and cultural understanding is more important in Europe than it is in the US. This creates a still vast pool of opportunities for those able to access and execute them.

## Europe has demonstrated strong returns...

As seen previously, venture capital returns in Europe have been impressive for some time. Indeed, they continue to strengthen. The European Developed Venture Capital Index consistently outperforms the Cambridge Associates US Venture Capital Index over 1-, 3-, 5- and 10-year periods.

The Cambridge Associates **European Developed Venture Capital Index consistently outperforms its US Venture Capital** counterpart over 1-, 3-,5- and 10-year periods

**Horizon pooled returns by fund index (as of 30-Jun-20)**




Source: Cambridge Associates

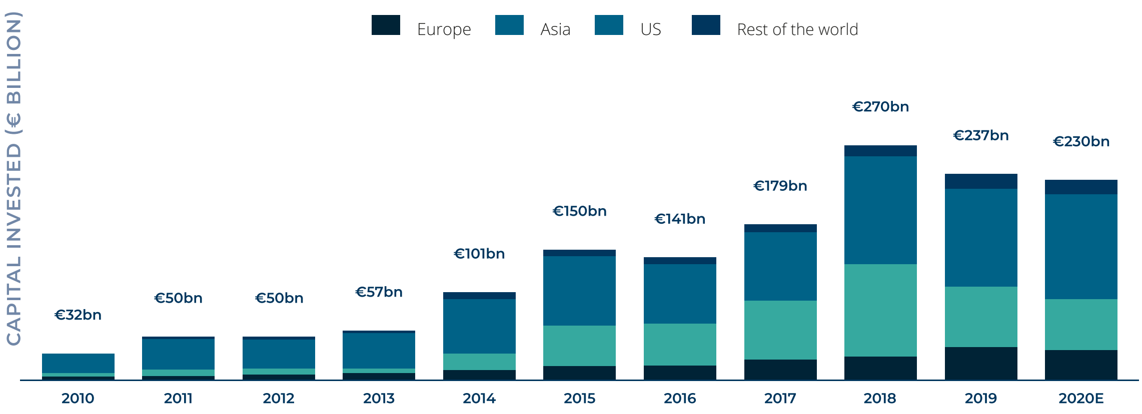
Note: Private indexes are pooled horizon internal rate of return (IRR) calculations, net of fees, expenses, and carried interest.

## ...and is growing in real and relative terms

**Not only is European venture on a growth trajectory, but it is growing faster than other regions.** As this continues, the local ecosystem is expected to play a bigger role on the global venture landscape. With an abundance of talent, strong performance and infrastructure, we believe capital was the missing piece for an ecosystem to grow. Investors are now beginning to harvest the fruits of the capital invested a decade ago as the fast-growing businesses reach scale. **DELIVEROO,** an example of extremely fast growth, took 7 years to IPO from its creation. This suggests that the foundations built by capital invested over the last decade will support the weight of maturing European giants through the next.

# **With an abundance of talent, strong performance and infrastructure,** we believe capital was the missing piece for an ecosystem to grow.

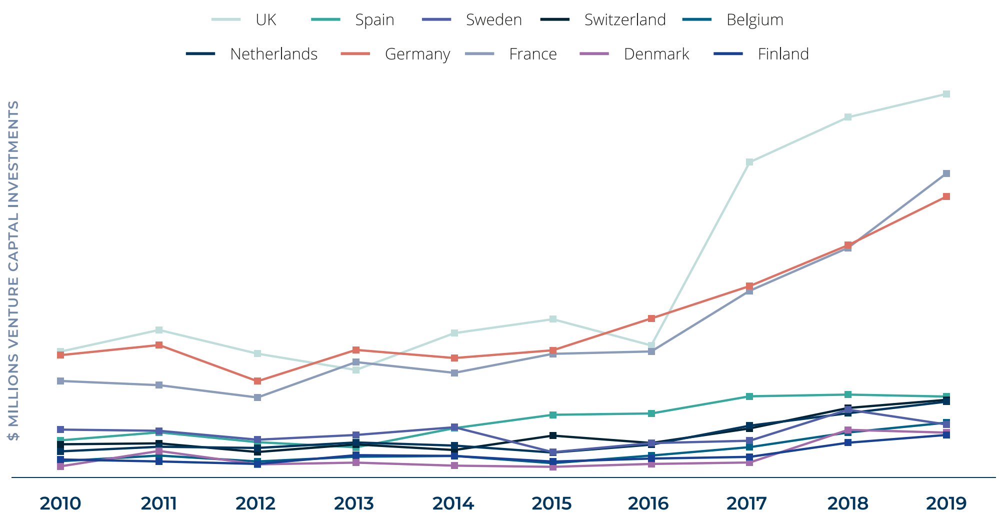
**Global venture capital invested**




Source: dealroom.co

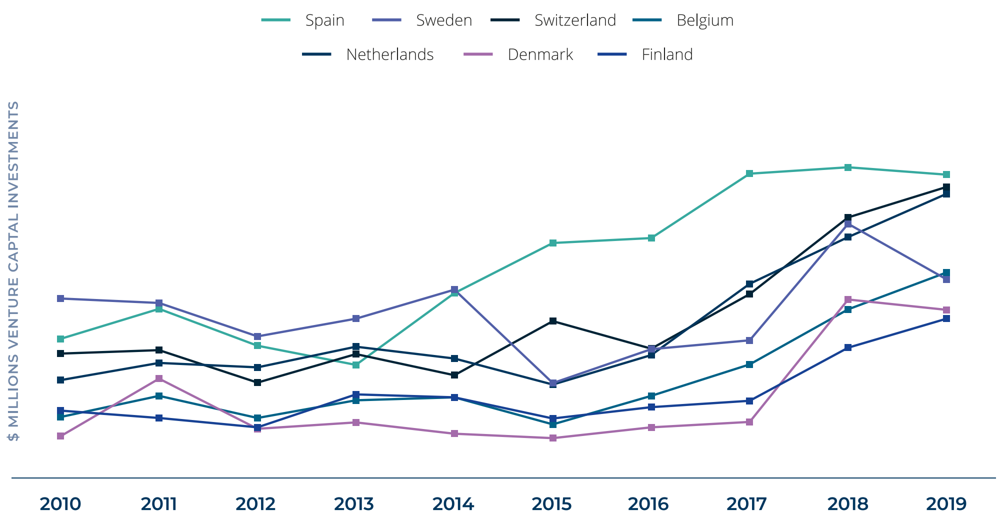
**The UK, France and Germany account for the lion's share of venture capital investment in Europe**, but other countries are also growing at a rapid pace.

**Venture funding by European country**




Source: OECD Data, May 2021

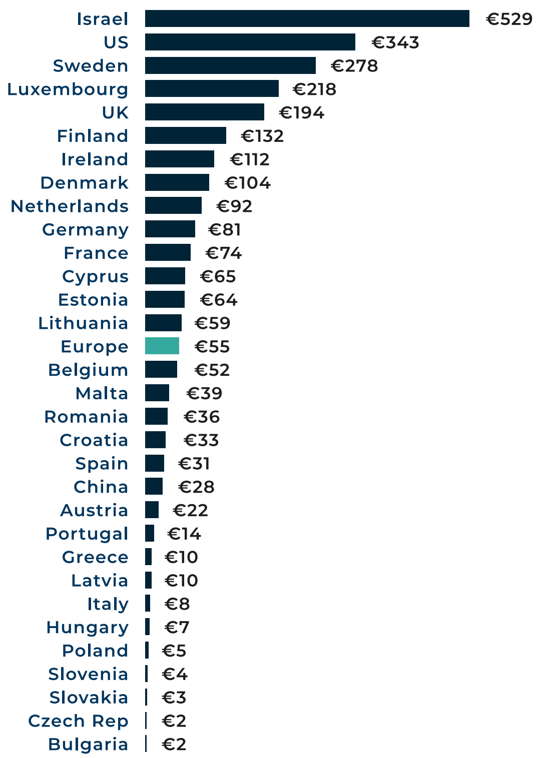
**...Less UK, France and Germany**




Source: OECD Data, May 2021

**Regional hubs are maturing in Finland and Sweden,** causing disproportionately large per capita investments.

**VC funding per capita in 2019**

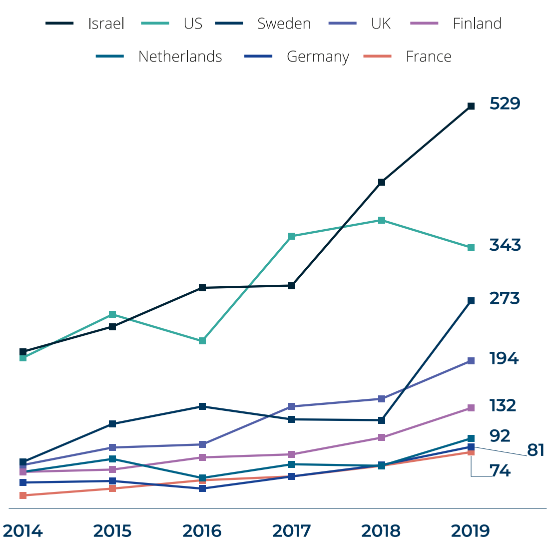



Source: dealroom.co

**European venture has entered a new era, and in this** new generation European startups rival their US competition. The first wave of tech champions, dominated by the US, saw the emergence of the GAFAs (Google, Amazon, Facebook & Apple) who revolutionised the way we behave and created entirely new business concepts such as social media or the online marketplace. Hot on the tails of the GAFAs came more US success stories including **NETFLIX** and **STRIPE**. But by this stage, the European venture ecosystem had answers to the US dominance; **SPOTIFY** and **ADYEN** respectively took on the US competition head-on. Success stories have attracted so much attention that since 2015, 38% of all seed capital has been invested in Europe[15]. The second wave of venture backed businesses are driven by the success of the first. Specialists and supplier unicorns are emerging to meet the needs of these giants or to capitalise on the peripheral industries they have created.

This time, Europe is at the centre of the action as it leads advances in artificial intelligence and deep tech. Venture investment and major state-backed funding have helped position Europe at the pinnacle of these advanced fields, both key drivers of the new era of innovation. The Health-Tech sector, to name one, has been benefiting from these trends with players emerging in sectors such as AI powered diagnostics (**AIDENCE**, **SOPHIA***), AI-powered drug discovery (**AQEMIA***, **LIFEBIT***) and clinical trials (**INATO**).

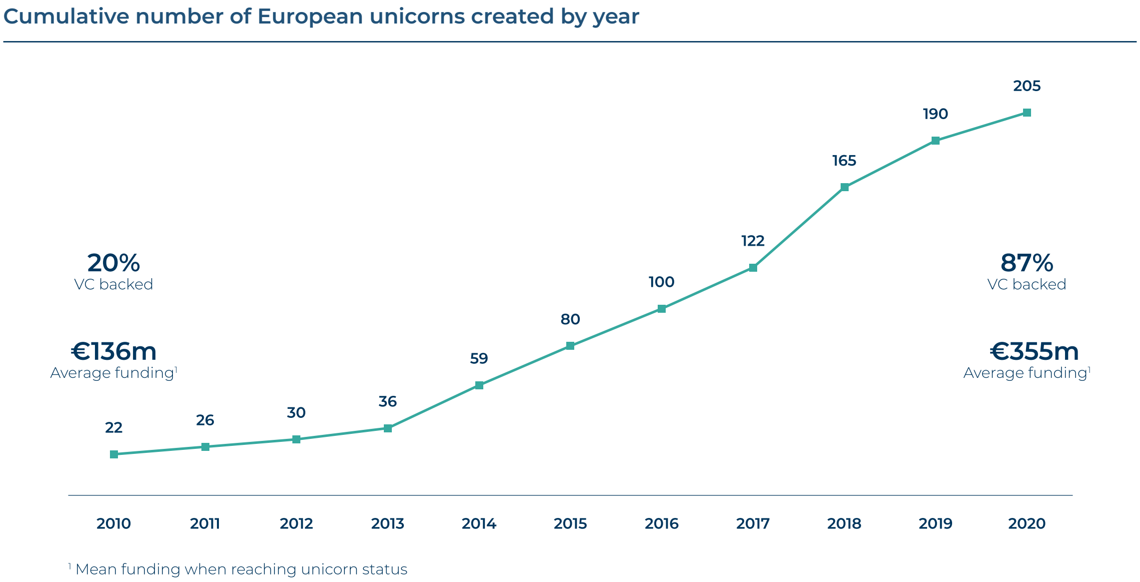
**VC funding per capita (2014-19)**




Source: dealroom.co

A massive influx of capital is unlocking pent up innovation in Europe. It has long since been a fertile ground for the tech ecosystem but was missing the venture capital to feed growth. In 2020 the ecosystem topped €200 billion with over 200 unicorns. In the years since venture capital took off in Europe, the region's share of venture funded unicorns continues increasing as the level of venture funding increases.

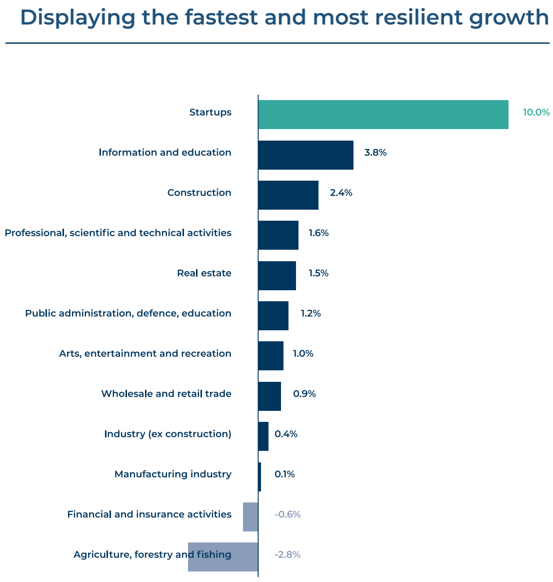
*Eurazeo portfolio company. There is no guarantee that Eurazeo will be able to source transactions in the future that are similar to this example, and it should not be assumed that investments made in the future will be comparable in quality or performance. References to any specific company should not be construed as a recommendation of any particular investment or security.
«Note: Unicorns are defined as companies valued at over $1 billion at any point over the period during which the investment was held.»
[15] Source: dealroom.co, May 2021




Source: dealroom.co

## Benefitting from strong government support...

**European governments have been ambitious in their support of start-ups** and the venture ecosystem. This is in recognition of the key role that start-ups are playing in stimulating economic growth. According to Invest Europe's "Private Equity at Work" report, employment levels at venture backed European companies increased by 16% in 2018, compared to the European average of 1.1%[16].




Source: dealroom.co

**There is a range of support available from both the European Union and individual governments.** Each of these governments have made state backed fund of funds available, ranging from €0.5 billion in the Netherlands all the way to €6.5 billion in France, with an additional €12 billion at the European Investment Fund (EIF). These massive stimuli have been instrumental in building momentum and have also encouraged institutional investors to follow their lead, safe in the belief that investment and operational due diligence is rigorous at development finance institutions such as the EIF, Banque Publique d'Investissement (BPI) and British Business Bank (BBB).

Note: Unicorns are defined as companies valued at over $1 billion at any point over the period during which the investment was held.

[16] https://www.investeurope.eu/news-opinion/newsroom/private-equity-employment-totalled-105-million-people-45-of-the-total-european-workforce-in-2018-adding-jobs-5-times-faster-than-european-average/

## ...and a deep talent pool

Talent is often seen as the single most important factor in predicting the success of a start-up. Many founders and businesses are drawn to Europe for the quality of its talent pool. Jonathan Cherki, CEO of **CONTENTSQUARE***, which recently raised $500m in its Series E round, went so far as to say, "it was easier to find talent in France than the US, especially in R&D. The quality of education is excellent, cost is low in comparison to the US, and loyalty is great. That is why we will see more and more French unicorns". Some 25% of a graduation cohort at HEC Paris (whose alumni founded **DOCTOLIB***, **PRICEMINISTER / RAKUTEN**, **YOUNITEDCREDIT***, **SARENZA***, **PEOPLEDOC** and others) become entrepreneurs.

> "It was easier to find talent in France than the US, especially in R&D. The quality of education is excellent, cost is low in comparison to the US, and loyalty is great. That is why we will see more and more French unicorns"
>
> **Jonathan Cherki , CEO Content Square***

**Europe has a history of academic excellence** and innovative programs to commercialise it. Europe holds 6 of the top 10 positions in the global rankings for MBA programs, and 6 of the top 20 for mathematics.

### Mathematics (QS 2020 Ranking)

| Global rank | Institution | Country |
|---|---|---|
| 4 | University of Cambridge | UK |
| 5 | University of Oxford | UK |
| 8 | ETH zürich | Switzerland |
| 11 | Imperial College London | UK |
| 14 | PSL Université Paris | France |
| 19 | The University of Warwick | UK |

### MBA (QS 2020 Ranking)

| Global rank | Institution | Country |
|---|---|---|
| 2 | INSEAD | France |
| 3 | London Business School | UK |
| 7 | SDA Bocconi School of Management | Italy |
| 8 | University of Cambridge | UK |
| 9 | HEC Paris | France |
| 10 | LSE The London School of Economics and Political Science | UK |

Source: QS Stars

**Academic institutions are finding ways to commercialise the innovation** fostered amongst their students and researchers. The London School of Economics (LSE), for example, have their 'LSE Innovation' programme, designed to support experts to address challenges faced by business and society, turning ideas generated from research into new businesses, products or services. Bocconi University in Italy offer the 'Bocconi Students for Innovation' programme, designed to build a connection between students, professors and companies, focussing on tech, digital, start-up consulting, events and NIMS (network of innovation management).

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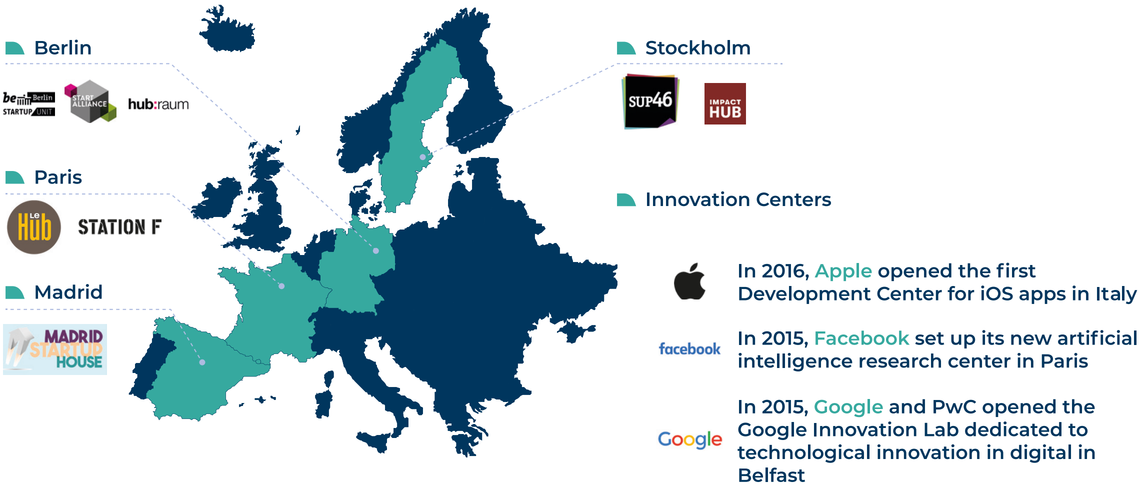
Note: Unicorns are defined as companies valued at over $1 billion at any point over the period during which the investment was held.

Innovation centres founded by corporates as well as a multitude of incubators are now established across Europe and allow companies to symbiotically leverage and assist European engineering and entrepreneurial talent.



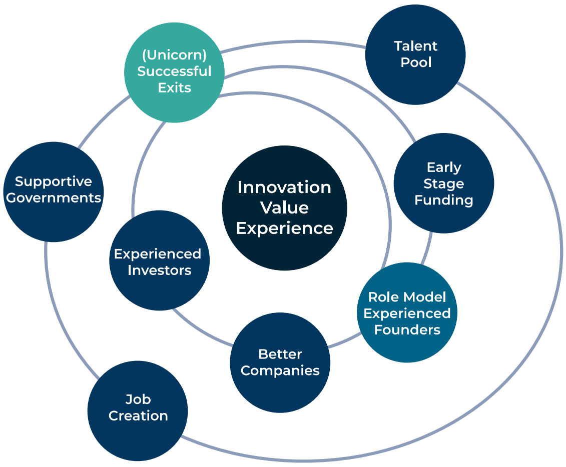

Source: Eurazeo

## The challenge of a fragmented market across countries

**Despite digital technologies' ability to bring down barriers and the fact that consumer behaviours are converging, Europe's fragmented market adds a layer of complexity for venture funds when sourcing investment opportunities.** Regulation, business cultures, and sophistication of capital markets vary widely from one country to the next. The European venture ecosystem is no different, it is more fragmented with each country's local tech ecosystem at a different stage of development. There are a multitude of emerging hubs, compounding the complexities, but creating opportunities for those who have operated and navigated within them for decades.

**Complexities of fragmentation has polarised funds into the very large and the very small:** on the one hand, niche players with small, geographic- or sector- focused funds, and on the other hand, large, pan-European funds who have demonstrated their ability to support pan-European growth, or better yet, transatlantic growth. We believe the ability to support founder teams to clear the hurdles between countries is one of the most appealing value-add tools on offer.

# The venture flywheel effect




The concept of a flywheel was first developed by James Collins in his book, 'Good to Great', to describe how the formation of any good company is comprised of many small incremental actions. This flywheel effect describes the virtuous circle of a venture ecosystem. Successful entrepreneurs spin out to invest the capital gained in their first start-up into more start-ups, attracting talent and additional capital only to succeed again, creating successful teams who in turn spin off to found more companies and so on and so forth.

The flywheel effect in Europe is a little more complicated than the average flywheel – it is important for investors to understand its complexities. It consists of a number smaller flywheels scattered across cities and countries. Founders, builders, investors, society and even incumbents are all crucial stakeholders in this system.

"I think the [European] ecosystem has never been more vibrant. We've been really happy with all of our investors. It was good to have a diversity, in particular from different European countries. The combined network of all those people was quite extensive and it meant that we could get meetings with pretty much any company that we wanted to get in front of. That helped a lot with the sales process and we're happy."

**Phil Chamber** - CEO, Peakon*, a Workday company

## Entrepreneur success stories create a positive feedback loop

**Increasing frequency of entrepreneur success stories in Europe** have brought tremendous value not only to those directly involved, but to the entire ecosystem. A ripple effect of good news inspires, creates role models and builds confidence in the system at the same time as raising the standard for the next generation. This creates a positive

* Peakon was a Eurazeo portfolio company that was acquired by Workday.
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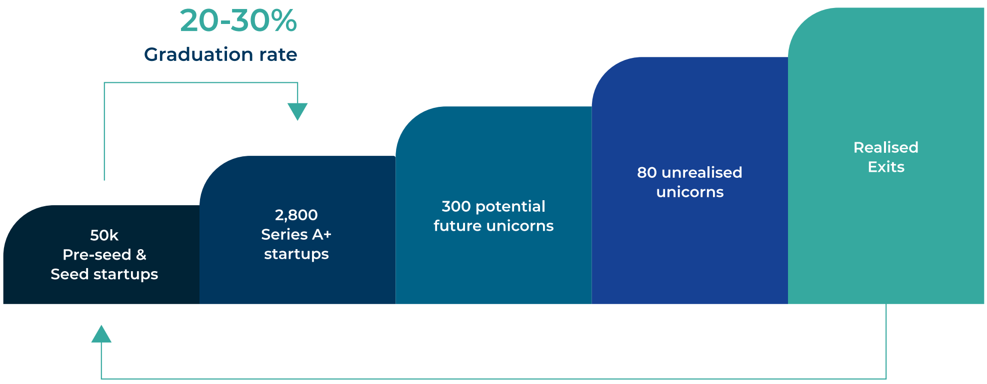
feedback loop both for supply and demand as entrepreneurs invest in their peers and go on to become serial entrepreneurs, building more, and better companies. Founders are more likely to continue working with venture funds they trust and respect, building more mature and enduring relationships.

**Illustrative VC feedback loop**




Source: dealroom.co

"I've built a successful company before Kaia Health, and I learned a lot through that. Especially about how to hire great heads of departments and C-level people that can build really great teams. I've learnt that the 2 most important things are having a product that works and a really strong, experienced team. We have really experienced managers who did this for 10 to 20 years and who are great people."

**Konstantin Mehl** - CEO, Kaia Health*

## Sophistication growing across the ecosystem and funding environment flush with recycled and new capital

**The flywheel benefits all stakeholders. The entire ecosystem has become more sophisticated, creating fundamentally better businesses but also feeding back into society.** This is not limited to the founders and their teams, investors are becoming better investors, building their experience, strategies and process. Big incumbents are forced to innovate or face redundancy—a keeping up or catching up dilemma. Academia is building or strengthening symbiotic relationships with business. And governments are working with the sector to create more favourable regulatory environments, as well as funding state backed vehicles to get the wheel spinning and simultaneously boost their economies.

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**Unsurprisingly then, the funding environment is flush** with not only local and international venture capital, but an increasing pool of alternative funding sources. Business angels, crowdfunding platforms, corporate venture funds, state backed entities, and successful serial entrepreneurs all keen to fund companies and are regularly partnering with each other on deals.

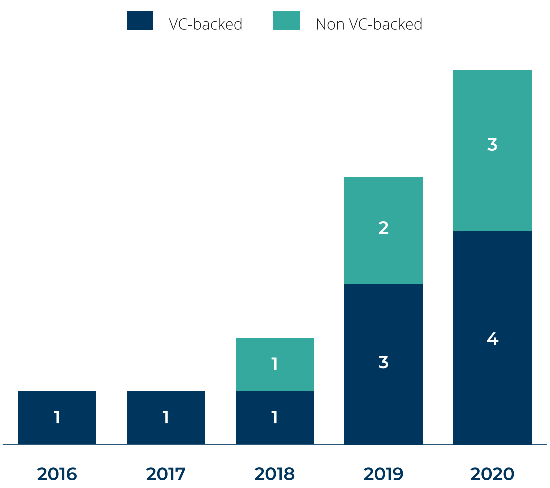
## Improving exit environment

The exit environment has become more varied, with demand from public and private markets as well as strategic corporates with an increasing understanding of digital stories and their dynamics.

**There has been a frenzy of IPO listings,** putting paid to early 2020 predictions that public market debuts would show lower volumes than recent years. The whirlwind of fiscal and monetary policies along with the accelerated growth amongst tech companies resulted in 102 IPOs globally in 2020, a 24% increase from 2019. High growth companies that listed in Europe included Polish e-commerce giant **ALLEGRO** which filed Europe's largest tech IPO, raising 9.2 billion zlotys and Manchester-based online retailer **THG** (The Hut Group) which floated on the London Stock Exchange for £920 million, thus raising its valuation to £4.5B. The pace in 2021 only picked up with IPOs such as **DELIVEROO** raising £1.5 billion, and Cambridge-headquartered cybersecurity software company **DARKTRACE'S** £1.7 billion opening valuation, which saw a 44% share price pop on its first day of trading.

**IPOs are not the only route to public listings;** recent months have seen a rise of SPAC listings that offer another way to tap into the exuberance of public markets. Whilst venture funds have typically avoided these vehicles for exits, they have been paying attention. Some have even sponsored SPACs as a way to offer full-stack funding for start-ups, from seed to public market. As mentioned previously, **ARRIVAL**, a London based electric vehicle company listed on the NASDAQ via a SPAC in 2021.

**Count of $bn + European tech IPOs**




Source: dealroom.co

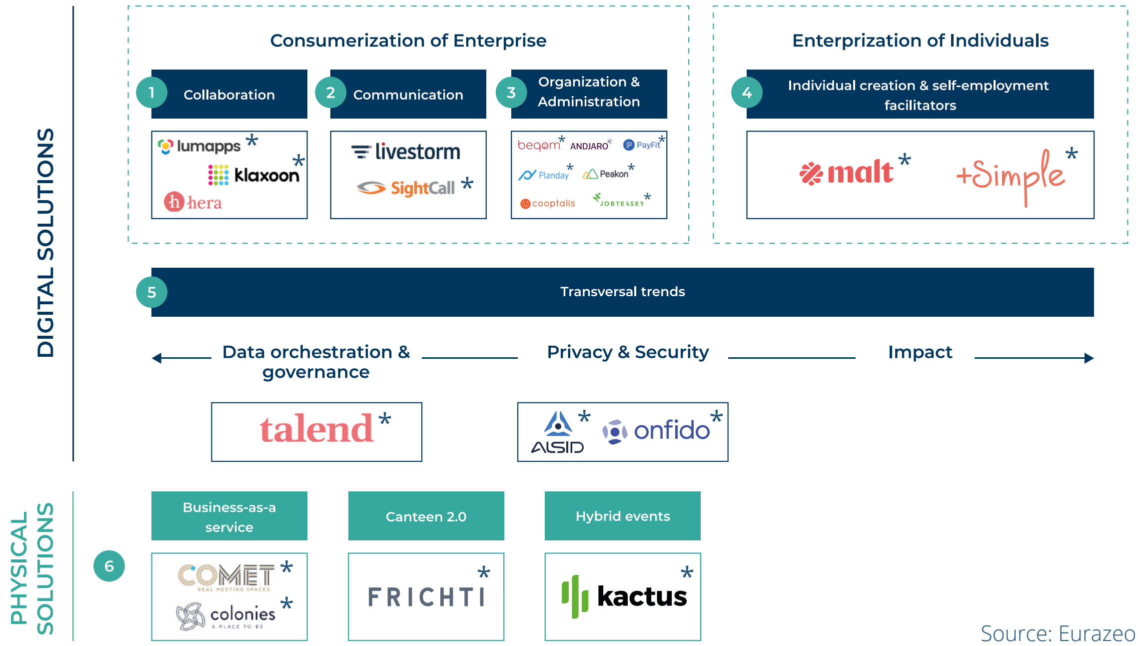
**Private Equity capital is increasingly interested in technology companies.** The strength of the European tech investment opportunity set has attracted an increasingly deep and sophisticated base of investors with large funds available to deploy in the region. Active firms range from large generalists through to tech specialist funds, both based in Europe and elsewhere.

References to any specific company should not be construed as a recommendation of any particular investment or security.

# **Appendices** - European digital trends are ripe with opportunity

## The future of work

Technological advances have always been a key driver of change in the workplace. We believe the pandemic acted as a catalyst for faster adoption of innovative digital and physical solutions.




Source: Eurazeo

**A profound impact of the pandemic has been the consumerisation of enterprise,** driven by an acceleration of the **work-from-home trend**. A McKinsey survey showed 20-25% of the workforce in advanced economies were likely to work from home during the pandemic for between three and five days per week. This represented a 4-5x increase versus pre-pandemic levels.[17]

**There is considerable scope for further innovation.** Collaboration tools, as an example, are not limited to project management, but also include virtual offices, design development and data collaboration. The latter is an area in which Europe is leading the way, with a whole host of early-stage companies coming through (**GRID**, **ANYTYPE**, **HAPPEO** and **GRAPHY**), but also more advanced companies such as **LUMAPPS*** which raised $70 million in its latest series C funding.

**Sub-categories of communication tools are emerging, from AI-powered telephony to hybrid event platforms.** Unified communication tools are combining employees' different streams, such as **MESSAGEBIRD*** and **DIXA** in Europe whilst **FIGMA** offers products that allow employees to create and share visual, audio and video content.

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[17] Source: "The Future of Work after COVID-19", The McKinsey Global Institute. https://www.mckinsey.com/featured-insights/future-of-work/the-future-of-work-after-covid-19

**The entrepreneurship of individuals has been driven by the growth in e-commerce and remote work.** This has been accelerated by the increased levels of layoffs during the pandemic as businesses redistributed the allocation of labour. The gig economy flourished, setting the stage for innovative service providers to step in where employers have stepped out. **THE COLLECTIVE** offers an insurance platform with portable protections and benefits that do not rely on a single employer, while **MALT*** is an online marketplace connecting freelancers to project owners, playing an important role in facilitating this growing gig economy.

**Workplaces have undergone a redesign** to allow for safer, more flexible environments for employers to bring people back to. Real estate actors have innovative physical solutions such as flexible workspaces-as-a-service to make better use of space and rotate employee office days. In its mission to address new working and meeting needs, **COMET*** has reinvented professional spaces by creating cutting-edge meeting and seminar experiences.

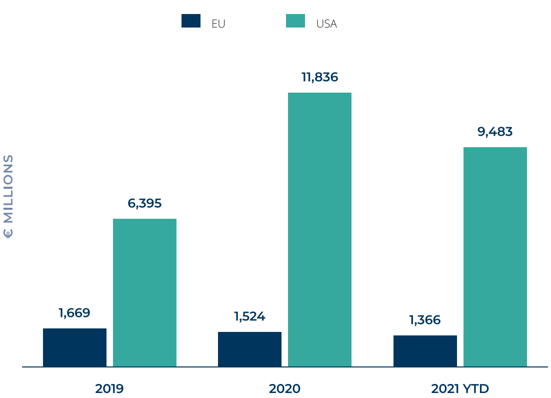
**Food service, hospitality and events** have had to evolve to cater for the relocation of employees. Innovative actors have adapted to provide hybrid events, innovative canteens and dark kitchens. Delivery services have also exploded. For instance, **FRICHTI*** provides an alternative delivery service allowing customers to choose from a wide assortment of home cooked cuisine made with fresh ingredients.

## Digital healthcare

**Digital technologies are changing the way healthcare systems operate.** The implications and impact of technology on healthcare is profound. A notable trend before the pandemic, it is not difficult to imagine what a global health crisis has done to accelerate it.

This has already translated into buoyant deal activity at all stages of rounds. Healthcare start-ups have raised $13.3 billion in 2020 up 64% vs 2019. 2021 deal activity is continuing that same path with 415 deals announced so far and a total of $10.9 billion raised, with $1.4bn raised in Europe.

**Funds raised health start-ups (by geography)**




Source: dealroom.co

There are several emerging verticals offering opportunities to innovate for start-ups addressing healthcare challenges or the operations of healthcare providers.

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Source: Eurazeo

**Prevention is wellness.** With many of today's biggest killers preventable through a healthy lifestyle, insurers have encouraged healthcare providers to promote the adoption of chronic-illness risk-reducing innovations. This is facilitated by smartphones and wearable tech; 75% of Europeans own at least one. Regulation has placed increasing focus on data privacy issues, creating tailwinds for the likes of **LIFESUM**, a Swedish digital self-care app, and **WITHINGS*** who gain access to customer acquisition from insurers seeking to cut their costs associated with chronic diseases.

**AI is transforming diagnostics and drug discovery,** whilst clinical trials can now access remote patients through marketplace models such as **INATO'S**, who matches researchers, sites and sponsors to increase the pool of patients. Healthcare providers now have billions of data points from which to build AI powered tools that can detect diseases, dramatically reducing errors and increasing efficiencies. AI can process vast amounts of data and reach levels of abstraction that humans cannot, empowering drug discovery from real-world data. Start-ups such as **AIDENCE** are using machine learning to recognise lung cancer and **SOPHIA*** uses AI to analyse DNA sequencing for diagnoses.

**Collaboration tools will allow practitioners to share best practice,** learning faster from real time discoveries and research that would otherwise take years to be published. Digital transformation has not been as obvious to many medical professionals, with serious concerns about privacy and administrative burdens. Start-ups like **PANDO** offer a way to securely share sensitive diagnostic information and pictures and we anticipate more activity in this space facilitated by GDPR and similar regulations.

**Digital solutions now offer the promise of cure, as well as prevention.** Mobile app companies like **KAIA HEALTH*** are offering an affordable alternative to expensive surgeries: A care program for people with musculoskeletal problems that has been clinically validated and with scientifically demonstrated beneficial effects, allowing health insurers to reimburse the cost in some jurisdictions.

**Online doctor patient relationships are more accepted,** although still largely considered a backup situation. Virtual tools and secure chats allow a more personalised and continuous

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follow-up, building better relationships between doctor and patient and allowing doctors to provide a better service for minimal additional effort. We will be keeping our eye on solutions that maintain a sense of bedside manner whilst creating efficiencies, such as **DOCTOLIB***, the leading French platform instrumental in rolling out the vaccine programme in France and **TELECLINIC***, the leading German teleconsultation platform.

## Fintech: B2B payments

Fintech is one sector in which Europe is a global leader and as such it attracts more venture funding than any other sector within the ecosystem. Fintech is a broad sector, spanning from peer-to-peer lending to digital wallets, open banking, wealth management, decentralised finance, crypto currencies and many more. One of the most exciting and disruptive digital solutions are for payments, in particular B2B payments.

**We believe B2B payments have the potential to create numerous multicorns** in the coming years. Disruption of B2C payments by digital solutions has already revolutionised the way we live on a day-to-day basis. Payments between businesses, on the other hand, are still largely continuing as they have for decades.

**Digitalisation of B2B payments lags years behind B2C** and are still vastly paper-based (cheques and paper invoices). A Goldman Sachs research report points out that up to 60% of B2B payments are made by paper cheque in North America and in Europe the picture is only marginally better. In the EU, electronic wires do make up a slim majority of payments, but in the UK, 49% of businesses are still using paper cheques to pay suppliers[18]. **SWILE***, a fintech company that facilitates employee benefits management and transactions, is one such company riding this tailwind.

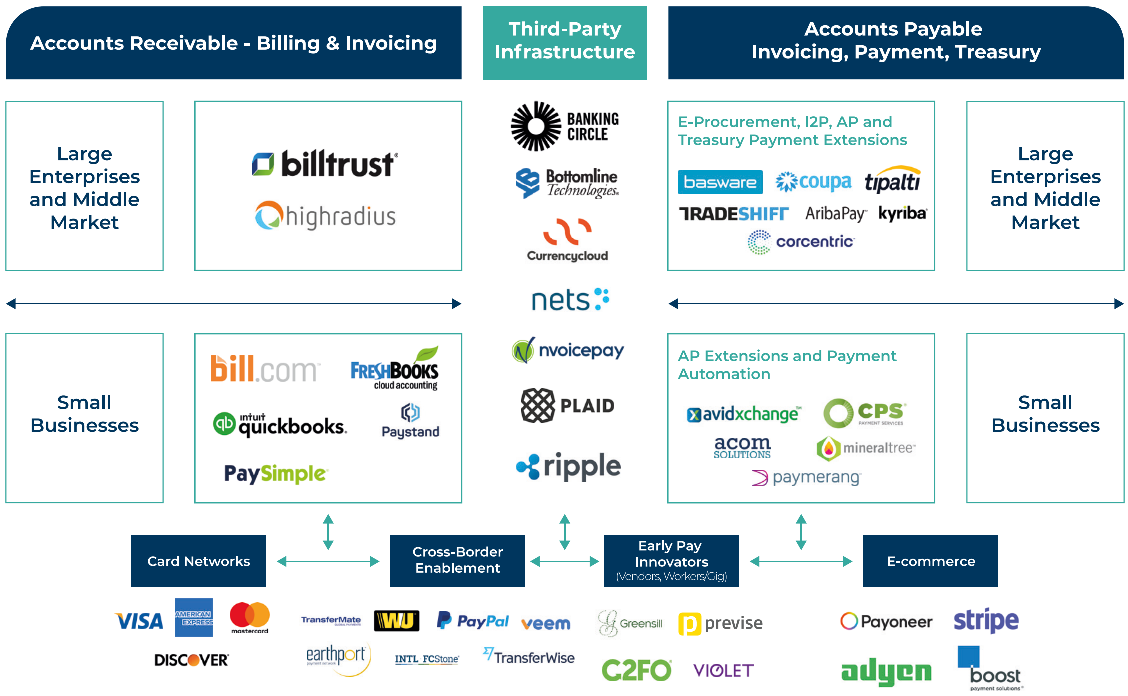
**B2B payment volumes are far greater than B2C, with an astonishingly poor quality of service.** According to Credit Suisse and Goldman Sachs, B2B payments total c.$120 trillion and are expected to reach 5x B2C payments volume by 2028[19]. Global payment revenue makes up approximately $2 trillion a year, around 40% of banking revenues[20]. In addition to the inefficiencies of paper-based transactions, approximately 5-6% of B2B payments fail.

**There are clear signs of the digitalisation trend building momentum** driven by several structural tailwinds such as the rise of open banking, the regulating of e-invoicing, the rollout of infrastructure for instant payments, the general rise of software adoption and B2B marketplaces. COVID has acted to accelerate the adoption of electronic payments with data from PwC pointing to 40% of CFOs planning to accelerate automation and new processes post the pandemic[21]. Companies such as **TINK*** (recently acquired by Visa), an open banking platform that allows clients to connect to over 3,400 European banks and institutions, have thrived in this space.

B2B payments are complicated and varied with different players addressing different tasks. The space includes facilitators for small, medium and larger enterprises. They can focus on solving specific steps of the payment cycle, such as accounts receivable or accounts payable, or they can provide infrastructure or tools to execute these payments.

[18] Source: Goldman Sachs Global Investment Research
[19] Source: Goldman Sachs Global Investment Research
[20] Source: The 2020 McKinsey Global Payments Report
[21] Source: PWC
*Eurazeo portfolio company. There is no guarantee that Eurazeo will be able to source transactions in the future that are similar to this example, and it should not be assumed that investments made in the future will be comparable in quality or performance. References to any specific company should not be construed as a recommendation of any particular investment or security.

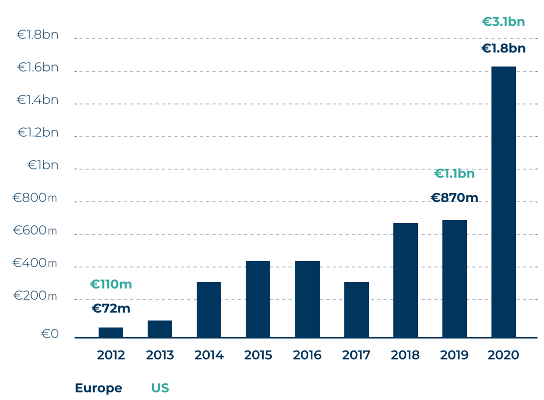
**Non-Bank B2B Payment Segmentation + Solution Landscape**




Source: Eurazeo

**In response to this momentum, venture funding has dramatically increased** with almost triple the amount invested in US companies in 2020 compared to 2019. In Europe, the levels doubled over the same period, but the growth over the preceding years had in fact been faster in Europe. Major rounds have been dominated by the US. **BREX**, a US 'all-in-one' finance solution, for example raised €136 million in 2020 and has now raised a further €357 million in 2021. **IBANFIRST**, a Belgian all-in-one platform raised €200 million recently. Whilst this is the only recent major round in Europe, we expect to see others coming through.

**VC investments in B2B payments**



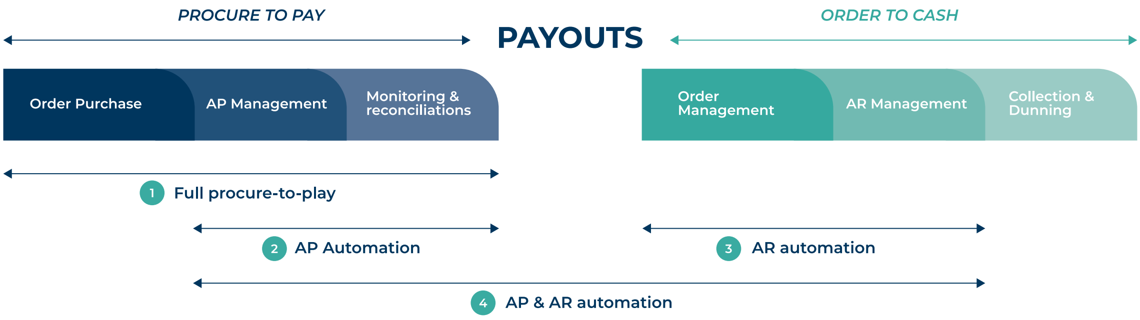

Source: pitchbook and dealroom.co

There are two interesting growth routes emerging for B2B payments companies, both of which we are watching closely for the opportunities they will bear.

Horizontal expansion along the value chain. Players are progressively integrating end-to-end capabilities and there is an emergence of companies previously focused on specific steps of the payment process offering AP & AR automation. **CORCENTRIC**, for example acquired **VENDERLOIN** in 2021 and **DETERMINE** in 2019, in an effort to expand upstream.

Additionally, companies such as **COUPA**, a cloud platform offering a one-stop-shop, are offering a new value proposition, shifting from pure automation to visibility and cash management, and a full procure-to-pay solution. **COUPA** acquired **BELLIN** in June 2020, to integrate further payment and treasury management features.

**Unification of procure-to-pay & order-to-cash: a switch of focus from automation to visibility & cash management**




Source: dealroom.co

Integration of vertical solutions. Given the complexities of the B2B payment workflows and the depth of the market, players are integrating vertical solutions to tackle very specific customer subsections, classified by size, industry or geography as well as by spend type. As an example, there has been an emergence of healthcare specific vertical solutions to tackle incremental complexity due to the regulatory and privacy burden in the industry. **BILLINGTREE**, for instance, offers integrated payment solutions to healthcare providers. Interestingly, **REPAY**, a vertically integrated payments provider has just announced its acquisition of **BILLINGTREE** to build its offering in the healthcare space.

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