

Q1 2015

Olswang European Venture Capital Report

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Olswang is pleased to present the second edition of the Olswang European Venture Capital Report. In this issue, we provide the global entrepreneurial and venture capital (VC) communities with an overview of trends in European venture capital investment in the first quarter of 2015 and fundraising in 2014.

Q1 2015: Late-stage valuations up; M&A exits remain steady

The picture for European VC remains mixed: while investment volumes continued on a downward trend, values ticked up once more, attesting to higher prices being paid at late-stage rounds. Software companies are receiving an ever-larger share of VC capital in Europe, receiving over 40% of rounds by volume in the last quarter.

Meanwhile, new data suggests that there is more capital available for early-stage companies, with the amount raised by European VCs in 2014, for this segment the highest for six years.

European VC exit trends provide further encouragement, as momentum in realisations via M&A shows no sign of abating; corporates are actively seeking to acquire new, innovative companies to bolster their R&D capacity. And while the value of European VC-backed IPOs is down on Q4 2014, the number is up – suggesting that public markets remain open for new issues by VC-backed companies.

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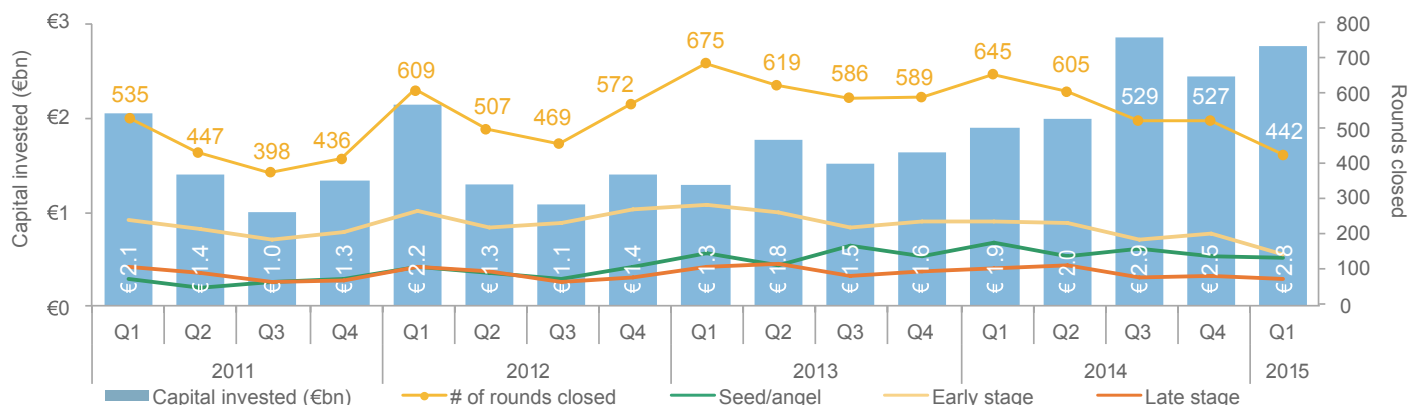
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*This report is based on independent data and, in order to provide content that is representative of the marketplace, is not restricted to financings in which Olswang is or was involved.

Late-stage rounds boost value totals

European venture capital deal flow by quarter



Source: PitchBook, *European PE Breakdown*, Q2 2015

- The first quarter of 2015 saw a continuation of the trend noted in our last issue: The number of European VC rounds is down, while the total invested is up. Q1 2015 saw just 442 rounds of capital, totalling €2.8bn, according to PitchBook's Q2 2015 *European PE Breakdown*. That is down from 527 rounds and up from the total €2.5bn invested in the final quarter of 2014.

Average value has risen markedly

- The average value of European VC deals across all stages (seed/angel, early stage and late stage) has risen

markedly – from €4.7m in 2014 to €6.3m in Q1 2015. Europe appears to be following the lead of the US, where investors are reducing their commitments to seed and early-stage financings in favour of concentrating on a few later-stage opportunities, where valuations are high. In Q1 2015, there were 346 seed and early-stage rounds worth €714m in Europe, while in Q4 2014, there were 425 valued at €1.41bn, and in Q3 2014, there were 432 worth €518m.

- Boosting the value totals were deals such as Rocket Internet's €288m

investment into online food business Delivery Hero, luxury online fashion site Farfetch's \$86m investment (valuing the business at £1bn) and internet of things developer Sigfox's €100m investment.

Pipelines may dry up

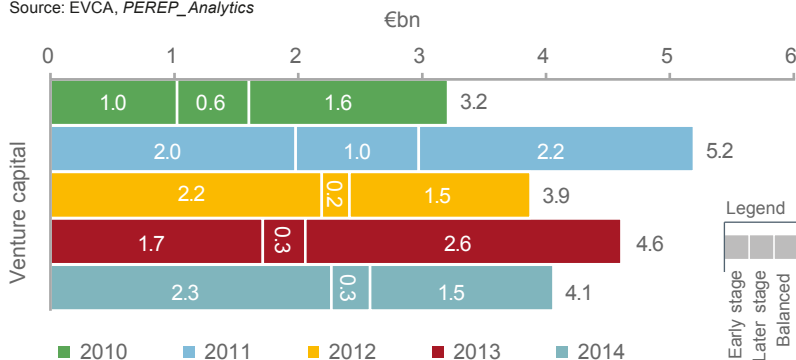
- Much of the capital flowing into late-stage deals has come from US investors. However, we remain concerned about the lack of financing flowing into earlier-stage businesses. If this continues, future pipelines may dry up.

Early-stage fundraising up in 2014

Funds raised by fund stage focus

2010–14: incremental amount raised during the year

Source: EVCA, *PEREP_Analytics*



- Despite the shift towards later-stage European VC investments, the latest figures from the European Private Equity & Venture Capital Association (EVCA) do provide some cheer on the early-stage front. In 2014, the amount raised by early-stage funds (including interim and final closes) increased by nearly a third (32%) over 2013 figures to €2.3bn,

the most raised in this segment for six years. Overall, 75 early-stage European VC funds reached interim or final closes, the highest number since 2008.

- Overall totals for European VC fundraising were down, however, with late-stage funds remaining consistent compared with 2013 on €300m, and

balanced funds – those that invest across all stages – seeing a fall of 42% to €1.5bn. The fall in total European VC fundraising mirrors a decline across all private equity fundraising over 2013 figures: the amount raised last year was €44.6bn, compared with €54.4bn the previous year.

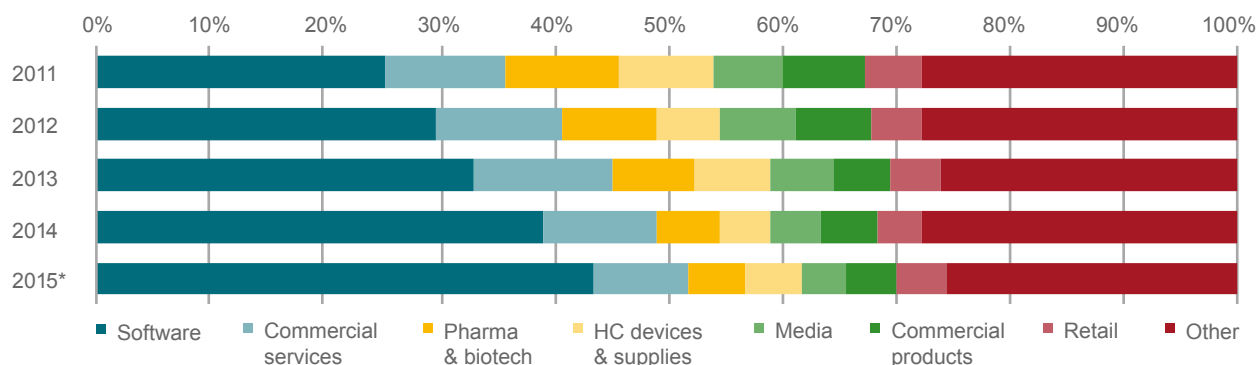
Increasing diversity of funding sources

- The EVCA data shows an encouraging trend in European VC fundraising: an increasing diversity of funding sources. Of the European VC funds raised in 2014, government agencies committed 35% of the amount raised, pension funds committed 14% and family offices, private individuals and corporate investors all contributed 13%.
- Importantly, nearly 13% of funding came from North American institutional investors – an increase on 2013. These investors have traditionally focused their VC commitments on US-based funds; their rising interest in European VC funds provides much-needed capital for Europe's entrepreneurial businesses.

Software investments surge

European venture capital activity by sector

*Up to 31 March 2015



Source: PitchBook, *European PE Breakdown*, Q2 2015

● European VC investment into **software** companies has witnessed an upsurge over recent times. In Q1 2015, this sector received over 40% of European VC financings by volume in Europe (or 193 deals of the total 442 recorded), according to PitchBook's Q2 2015 *European PE Breakdown*. This is up considerably from the proportion in 2011, when the sector attracted just one-quarter of European VC investment.

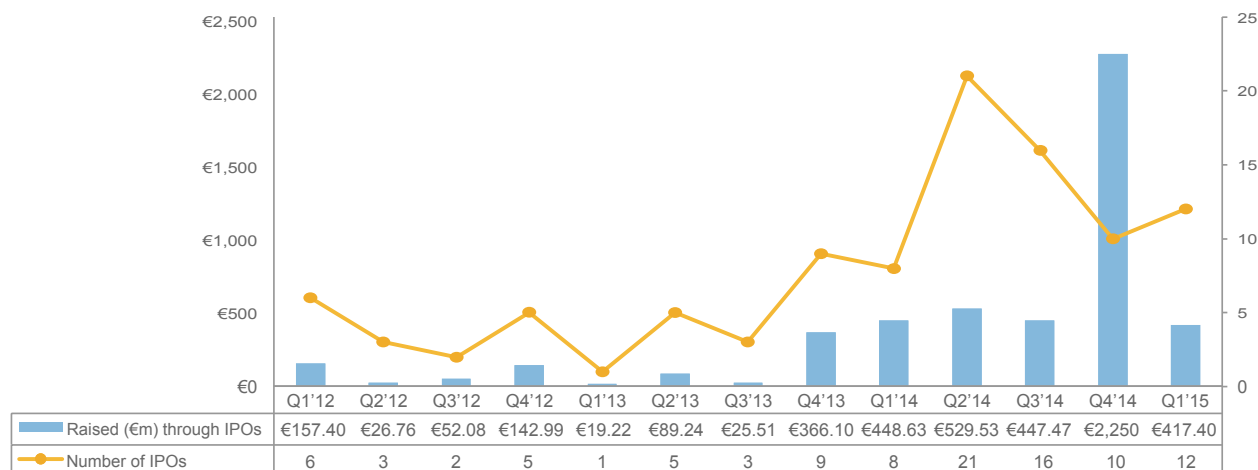
● This is largely down to the fact that it is now cheaper than ever to establish and grow a software company as the internet has transformed the way that software products and services are distributed. In addition, European clusters, such as those in London and Berlin, are attracting software and entrepreneurial talent to create hubs of innovation.

● While **retail** has largely maintained its share of European VC rounds since 2011, other sectors have seen their proportions of European VC capital diminish, with reductions particularly apparent in **media**, **healthcare (HC) devices & supplies** and **pharma & biotech**.

Venture capital-backed IPOs drop in value

European venture capital-backed IPO activity, 2012–15

Source: Dow Jones VentureSource, *Venture Capital Report*, Q1 2015



● The number of European VC-backed IPOs was up in the first three months of 2015 to 12, compared with the 10 recorded in the last quarter of 2014, according to Dow Jones VentureSource's *Venture Capital Report* for the first quarter of 2015. This is also higher than the eight seen in the first quarter of 2014, suggesting that public market listings are maintaining momentum.

● However, the value of European VC-backed IPOs fell sharply in Q1 of this year, with companies raising €417m on the public markets. This is an 81% fall compared with the fourth quarter of 2014, when €2.25bn was raised through IPOs, and a 7% fall on the amount raised in Q1 2014.

IPOs maintain momentum

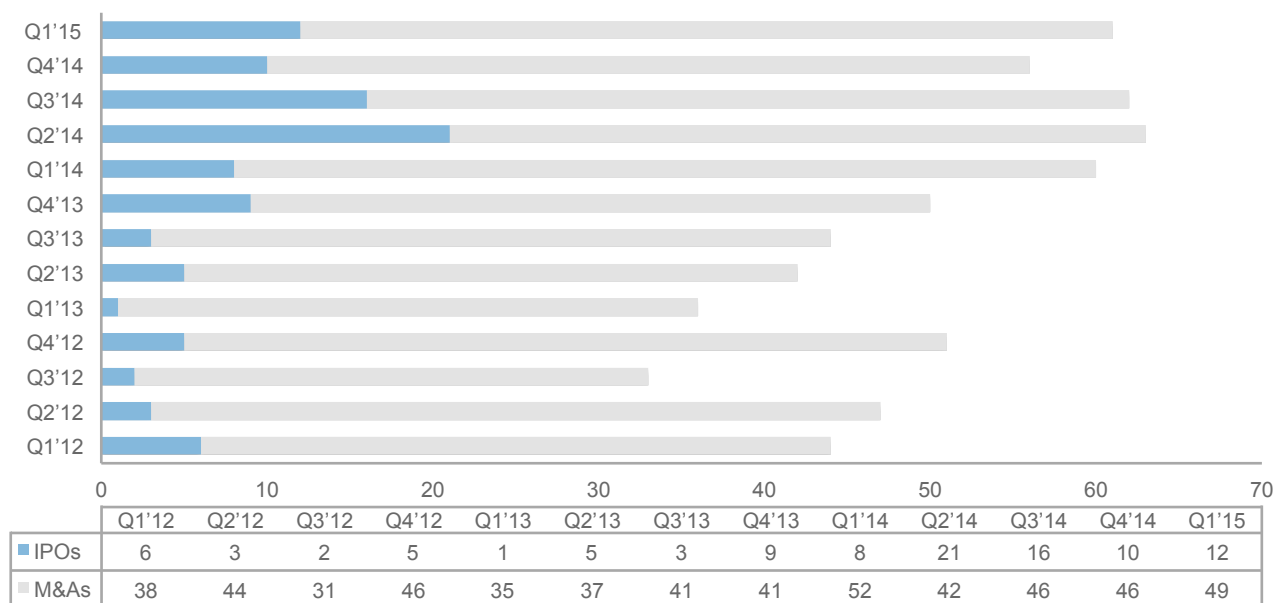
● Nevertheless, the value total for Q1 2015 holds up well against previous

years, when European VC-backed companies rarely raised more than €100m over the space of a quarter: in Q3 2013, for example, just €25.51m was raised through IPOs.

● The largest European VC-backed IPO in the first three months of 2015 was Denmark-based biopharmaceuticals company Ascendis Pharma, which listed on the NASDAQ in January, raising €89m – 21% of the total amount for the quarter.

M&A exits continue at a steady pace

Exit opportunities for European venture capital-backed companies, 2012–15



Source: Dow Jones VentureSource, *Venture Capital Report*, Q1 2015

- There were 49 European VC-backed exits via M&A in the first three months of 2015, up 7% on the 46 recorded in the final quarter of 2014, according to Dow Jones VentureSource's *Venture Capital Report* for Q1 2015. This is down on the 52 seen in the first quarter of 2014, but the second highest in the 2012–15 period.

Corporates in acquisition mode

- This suggests that corporates in particular are now in acquisition mode following a long period post-crisis of staying on the M&A sidelines. Many corporates are now looking to supplement internal R&D efforts by acquiring new, innovative businesses.
- Pharmaceuticals companies are leading the way as they seek to fill dwindling pipelines of new drugs and treatments – indeed, the biggest European VC-backed M&A exit in Q1 2015 was Roche's €470m acquisition of the France-based compounds developer Trophos.

Digital transformation driving M&A

- However, other sectors are now looking for disruptive businesses: a recent survey of corporate executives, the EY *Global Capital Confidence Barometer*, found that digital transformation was driving the acquisition strategies of nearly two-fifths (37%) of respondents. This is good news for European VC, as corporates may provide further exit opportunities.

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