
From London to Tallinn, ‘Founder Factories’ Enhance Robust European Venture Ecosystem



Ross Morrison, CA
Partner,
Primary Investments

Calum Paterson, CFA
Vice President,
Primary Investments

KEY TAKEAWAYS

- More than 1,000 start-ups have been founded by entrepreneurs who gained operating know-how, built networks and were often able to obtain privileged access to capital because of their experience at European and Israeli venture capital-backed unicorns
- A vibrant ecosystem of “founder factories” creates a virtuous flywheel in which experience and expertise are recycled to the benefit of the entire European venture community
- 2021 was a banner year as venture capital investment in Europe more than doubled. The number of European and Israeli venture-backed unicorns exceeded 340, while a record amount of exit value was generated
- Europe rivalled the US for seed capital in 2022, demonstrating that its start-up pipeline is strong and that the foundational blocks of the venture landscape — capital, innovation, company creation, and the entrepreneurial talent pool — are arguably in as healthy a condition as they have ever been
- Because Europe is a large and diverse market culturally, linguistically, and legally, with capital and talent coming from all corners of the continent, it is imperative for venture managers to be embedded within their ecosystems
- European venture and growth managers have record levels of dry powder to deploy after robust fundraising over the past six-plus years, while valuations are becoming more attractive, underpinning our belief that 2023 and 2024 are set to be strong vintage years

From established hubs such as London and Berlin, to blossoming innovation hotspots including Tallinn and Munich, Europe has evolved into a major component of the global venture capital (VC) ecosystem.

After a string of high-profile outcomes put the region squarely on the map of the institutional investor base, alumni of venture-backed unicorns are helping to create the next wave of innovators and disruptors.

Stockholm-based Spotify, one of Europe’s many “founder factories”, has seen 70 former employees go on to launch start-ups, including Wise, Bolt and Pipedrive, which have all subsequently reached unicorn status.¹ N26, Revolut, Delivery Hero, and Criteo are other top talent incubators, while companies such as GoCardless, Doctolib, and Klarna are also producing the architects of a new generation of start-ups.

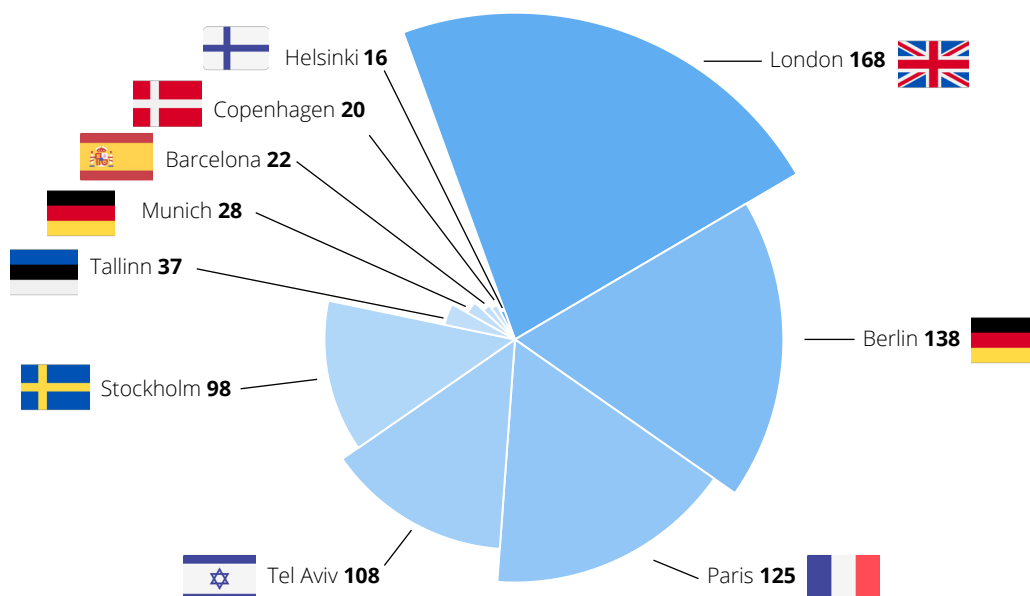
Figure 1: Founding Headquarters of Selected European and Israeli Unicorns²

Bucharest 	Tel Aviv 	Amsterdam 	Tallinn 	London 
Brussels 	London 	Zurich 	Tallinn 	Vienna 
Stockholm 	Munich 	Berlin 	Helsinki 	Stockholm 
Paris 	Munich 	Madrid 	Tel Aviv 	Paris 
Vilnius 	London 	Copenhagen 	Warsaw 	Amsterdam 

In stark contrast to the tight cluster of start-ups around Silicon Valley, where opportunities are often just a short car ride away, innovation hubs are spread across Europe. Breakout companies are widely dispersed, as evidenced by UiPath (Romania), Vinted (Lithuania), Revolut (UK), Celonis (Germany), and Veriff (Estonia). According to CB Insights, more than 66 European cities have produced at least one unicorn.³

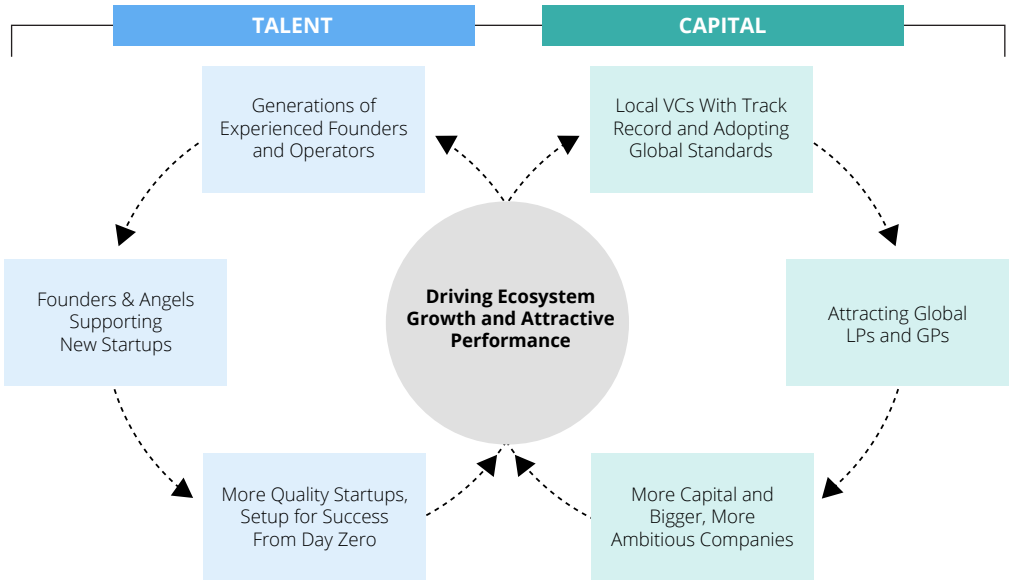
Figure 2: European and Israeli VC-backed Unicorn Alumni Have Founded More Than 1,000 Start-Ups⁴

No. of Startups Founded by Alumni



Armed with operating know-how, strong networks and often privileged access to capital, founders who emerge from unicorns have a higher probability of success, while helping to create a virtuous flywheel in which expertise is recycled to the benefit of the entire European venture community. The rate and scale at which European companies are spinning out the next generation of entrepreneurs is encouraging. A recent Accel and Dealroom report found that 203 of the more than 340 European and Israeli VC-backed unicorns have produced more than 1,000 start-ups.⁵

Figure 3: The European Venture Flywheel



Strong Foundation

2021 was a landmark year as VC investment more than doubled in Europe from the prior year to surpass €110 billion (~\$121 billion⁶) in deal value for the first time.⁷ Unicorn creation — a barometer of success in the venture world — was notably strong in 2021, as 93 companies gained a valuation in excess of \$1 billion to take the total of European and Israeli venture-backed unicorns to more than 340.⁸ A record €137 billion of exit value was generated in 2021, nearly six times the liquidity level of the prior year, and almost triple the mark set in 2018.⁹

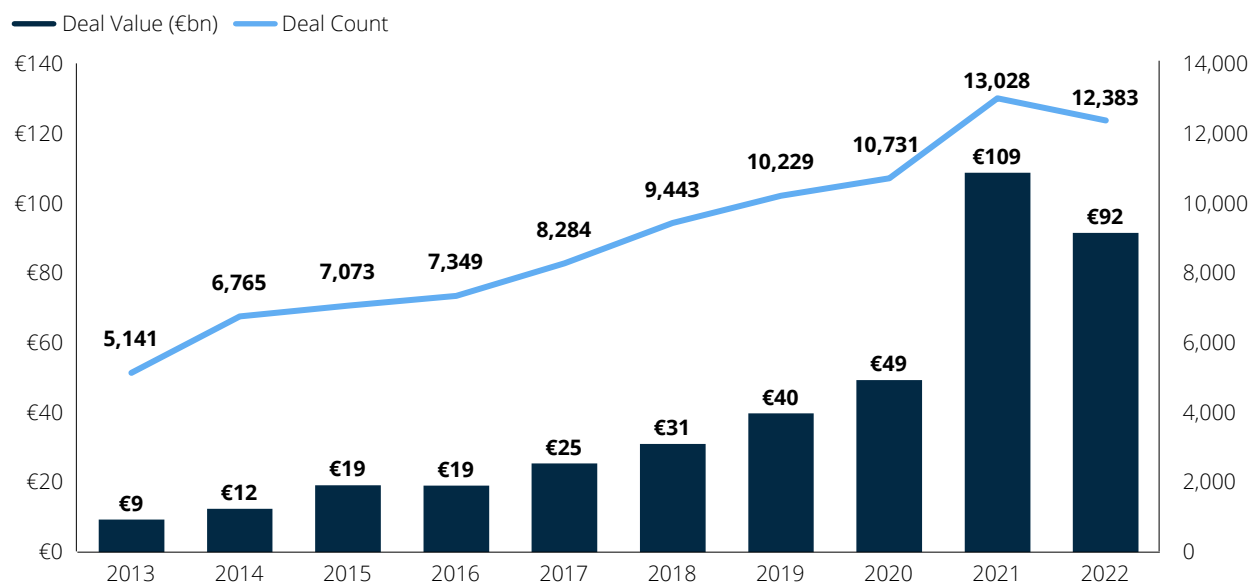


Unicorn creation — a barometer of success in the venture world — was notably strong in 2021, as 93 companies gained a valuation in excess of \$1 billion

Deal velocity continued into early 2022 before inflation, rising interest rates, and geopolitical events dampened growth forecasts. Public market re-ratings and challenging IPO conditions also began to impact private market investor sentiment, deal activity and exit opportunities, particularly for late-stage companies.

However, Europe showed resilience, despite the most challenging environment in 15 years. Venture funding in 2022 was significantly ahead of pre-pandemic levels and over double the capital invested in 2020, reaching the second-highest level on record, while exit value came in above €38 billion, the third-highest total recorded.¹⁰

Figure 4: European Venture Investment Activity 2013-2022¹¹



Following significant growth over the past two decades, performance in 2021 and 2022 suggests that the fundamentals for European venture investment — capital, innovation, company creation, and a large pool of entrepreneurial talent — are arguably in as healthy a condition as they have ever been. Deal activity, terms, and diligence timelines have normalized from the frothy levels seen in 2021. Moreover, companies are focused on operational efficiency and sustainable, profitable growth, which is expected to drive margin expansion and, ultimately, attractive returns over the medium and long term.



Buoyed by robust fundraising over the past six-plus years, European venture and growth managers have record levels of dry powder to deploy, and are well positioned to take advantage of a more favourable valuation environment

Buoyed by robust fundraising over the past six-plus years, European venture and growth managers have record levels of dry powder to deploy, and are well positioned to take advantage of a more favourable valuation environment.¹² Lower valuations are attractive both for investors seeking to enter the ecosystem and those that are targeting increased European exposure, underpinning our belief that 2023 and 2024 are set to be strong vintage years.

This belief is reinforced by early-stage funding data, a leading indicator of future ecosystem growth, which show that Europe is attracting similar levels of seed capital as the US, and significantly more than Asia.¹³ In 2022, Europe accounted for 31% of all capital invested globally in early-stage rounds with a size of less than \$5 million, compared with 33% going to the US and 17% to Asia. In short, Europe's start-up pipeline is strong and stacks up on the global stage.

Benefits of Local Presence

While there are more than 750 European-headquartered VC firms actively investing in Europe, according to Preqin,¹⁴ no single manager dominates by number of investments. However, there is a wide disparity in the success of the continent's venture managers and their record of capturing unicorns.¹⁵ The number of firms and market fragmentation place a significant premium on manager selection.

In recent years, we have seen several leading international VC managers establishing a European presence to bolster access to opportunities. Others prefer to operate a fly-in model. Irrespective of approach, data show that international firms have relatively small and inconsistent coverage, resulting in the capture of a fraction of the early-stage market.¹⁶ For Limited Partners (LP) interested in gaining diversified exposure to the best companies across Europe, a reliance on international managers is likely to result in sub-optimal exposure.

In our experience, because capital and talent come from all corners of the continent, and because Europe is a large and diverse market culturally, linguistically, and legally, it is critical for venture managers to be embedded within their ecosystems. We consider LPs with dedicated and systematic exposure to a diversified pool of venture managers — spanning local, country, or regionally focused early-stage managers, as well as larger pan-European players and growth-stage managers — to be disproportionately better placed to access the best companies and to capitalize on the growth that we expect over the coming cycle.

High-quality managers can exercise a large degree of selectivity over their investor base. Since participation is often invite only, becoming an LP in Europe's leading and next generation venture and growth funds is increasingly competitive. Adams Street believes that many of tomorrow's leading venture firms are currently embedded within today's top-tier venture managers. That means existing LPs can observe the emergence of next generation investors and build trusted relationships that will help them to access oversubscribed first-time funds in the future. Strong relationships and astute manager selection are key to securing the access needed to build best-in-class European venture portfolios.

As a fund of funds provider with over 50 years of experience in venture capital, Adams Street has witnessed the evolution and growth of the continent's ecosystem through multiple cycles since making its first European venture fund investment in 2000.



Institutional rigor, a long-term track record, and a deep rooted, local presence are key factors for investors seeking diversified exposure to the best companies across Europe

Institutional rigor, a long-term track record, and a deep rooted, local presence are key factors for investors seeking diversified exposure to the best companies across Europe. Because the foundational blocks of the VC landscape are strong, we believe that the footprint of company creation will continue to grow, as the current crop of unicorns continues to nurture the talent that will build future generations of successful entrepreneurs from London to Tallinn and beyond. ■

1. Source: Crunchbase, accessed April 2023
2. Companies are provided for illustrative purposes only and are not intended as examples of Adams Street investments or to be representative of any Adams Street portfolio
3. Source: [CB Insights, Global Unicorn Club 2022](#)
4. Source: [Accel and dealroom.co: Europe and Israel's startup founder factories \(November 2022\)](#)
5. Source: [Accel and dealroom.co: Europe and Israel's startup founder factories \(November 2022\)](#)
6. Conversion as of May 3, 2023
7. Source: PitchBook Q1 2023 European Venture Report
8. Source: [State of European Tech 2022](#)
9. Ibid.
10. Ibid.
11. Ibid.
12. Source: [State of European Tech 2022](#)
13. Ibid.
14. Source: Preqin, accessed April 2023
15. Source: PitchBook, accessed April 2023
16. Ibid

LEADING WITH FORESIGHT™

Adams Street Partners is a global private markets investment manager with investments in more than thirty countries across five continents. The firm is 100% employee-owned and manages \$52 billion in assets under management. Adams Street strives to generate actionable investment insights across market cycles by drawing on over 50 years of private markets experience, proprietary intelligence, and trusted relationships. Adams Street has offices in Austin, Beijing, Boston, Chicago, London, Menlo Park, Munich, New York, Seoul, Singapore, Sydney, and Tokyo. adamsstreetpartners.com

Important Considerations: This information (the "Paper") is provided for educational purposes only and is not investment advice or an offer or sale of any security or investment product or investment advice. Offerings are made only pursuant to a private offering memorandum containing important information. Statements in this Paper are made as of the date of this Paper unless stated otherwise, and there is no implication that the information contained herein is correct as of any time subsequent to such date. All information has been obtained from sources believed to be reliable and current, but accuracy cannot be guaranteed. References herein to specific sectors, strategies or companies are not to be considered a recommendation or solicitation for any such sector, strategy or company. While Adams Street believes in the merit of private market investing, such investments are nevertheless subject to a variety of risk factors. There can be no guarantee against a loss, including a complete loss, of capital. Past performance is not a guarantee of future results. Projections or forward-looking statements contained in the Paper are only estimates of future results or events that are based upon assumptions made at the time such projections or statements were developed or made. There can be no assurance that the results set forth in the projections or the events predicted will be attained, and actual results may be significantly different from the projections. Also, general economic factors, which are not predictable, can have a material impact on the reliability of projections or forward-looking statements. Adams Street Partners, LLC is a US investment adviser governed by applicable US laws, which differ from laws in other jurisdictions.