Newsletter IV/2023

BAI REPRESENTING ALTERNATIVE INVESTMENTS

# Schwerpunktthema „Private Equity und Venture Capital"

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## Bitte merken Sie sich die folgenden Termine vor:

**Donnerstag, 7. September 2023, Frankfurt**
BAI InnovationsDay

**Dienstag, 17. Oktober 2023 (online)**
BAI Webinar „Arbeiten in der Alternative-Investments-Industrie"

**Donnerstag, 19. Oktober 2023, Frankfurt**
BAI Real Assets Symposium

**Mittwoch, 15. November 2023 (online)**
BAI Webinar „Acceleration Capital als hybride, (semi-)liquide Anlageform"

**Montag, 20. November 2023, Frankfurt**
BAI Workshop Sustainable Finance & ESG

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# From Berlin to Tallinn, 'Founder Factories' Boost European Venture

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*'Founder factories' across Europe, such as Celonis, GoCardless, Personio, Spotify, UiPath and Wise, are boosting an already robust venture capital ecosystem by incubating a new generation of entrepreneurs who are building the next wave of unicorns.*

From established hubs such as Berlin and London, 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.

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 Celonis (Germany), UiPath (Romania), Vinted (Lithuania), Revolut (UK), and Veriff (Estonia). According to CB Insights, more than 66 European cities have produced at least one unicorn.[2]

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 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.[3]

1 Source: Crunchbase, accessed April 2023

2 Source: CB Insights, Global Unicorn Club 2022

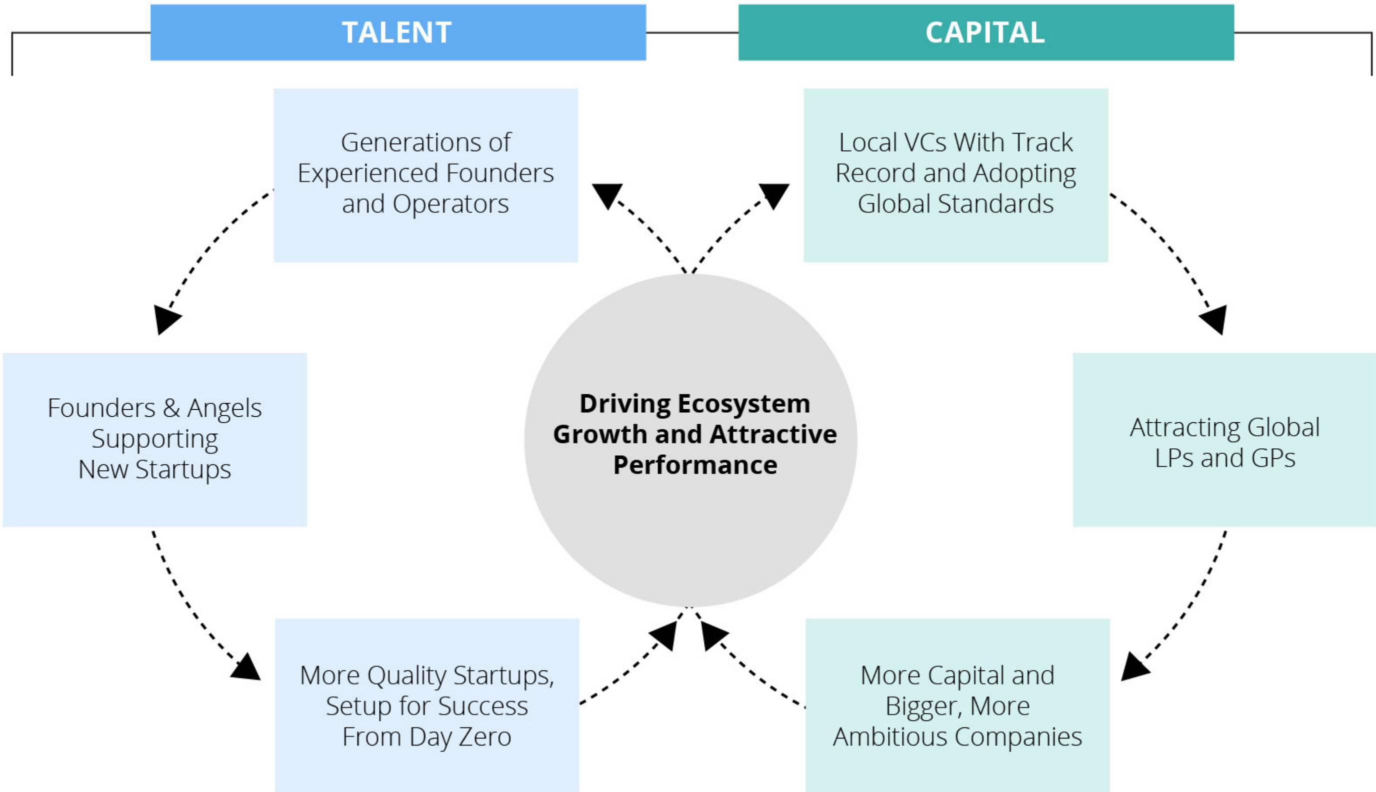
3 Source: Accel and dealroom.co: Europe and Israel's startup founder factories (November 2022)

## Founding headquarters of selected European and Israeli unicorns[4]

| | | | | |
|---|---|---|---|---|
| Bucharest<br>UiPath | Tel Aviv<br>WIZ | Amsterdam<br>adyen | Tallinn<br>veriff | London<br>GoCardless |
| Brussels<br>Collibra | London<br>wise | Zurich<br>Acronis | Tallinn<br>Bolt | Vienna<br>bitpanda |
| Stockholm<br>Spotify | Munich<br>Personio | Berlin<br>TRADE REPUBLIC | Helsinki<br>Wolt | Stockholm<br>kry |
| Paris<br>Doctolib | Munich<br>celonis | Madrid<br>cabify | Tel Aviv<br>melio | Paris<br>sorare |
| Vilnius<br>Vinted | London<br>Revolut | Copenhagen<br>PLEO | Warsaw<br>Docplanner | Amsterdam<br>JUST EAT Takeaway.com |

4 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

### 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 ($123.5 billion[5]) in deal value for the first time.[6] 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.[7] 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.[8]

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 affect 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.[9]

5 Conversion as of July 18, 2023

6 Source: PitchBook Q1 2023 European Venture Report

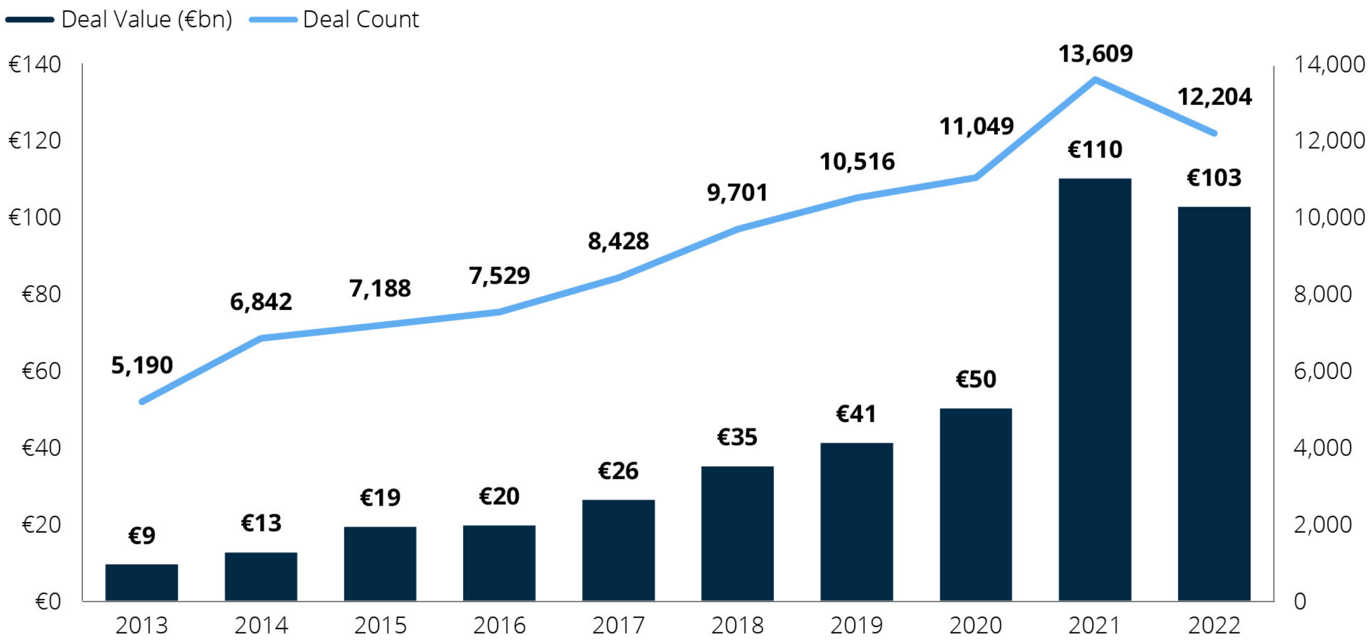
7 Source: State of European Tech 2022

8 Ibid.

9 Ibid.

# From Berlin to Tallinn, 'Founder Factories' Boost European Venture

### European Venture Investment Activity 2013-2022[10]




10 Ibid.

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.[11] 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. 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.[12] In short, Europe's start-up pipeline is strong and stacks up on the global stage.

11 Ibid.

## Local Presence

While there are more than 750 European-headquartered VC firms actively investing in Europe, according to Preqin,[13] 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.[14] 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 setting up a European presence to bolster access to opportunities. Others prefer to use 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.[15] For Limited Partners (LP) interested in gaining diversified exposure to the best companies across Europe, a reliance

12 Ibid.

13 Source: Preqin, accessed April 2023

14 Source: PitchBook, accessed April 2023

15 Ibid.

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.

## Access Privileges

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 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 Berlin to Tallinn and beyond.



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