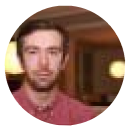
VC firm Atomico has researched the size of the late-stage funding gap in Europe (and the opportunity ahead)

Our Q2 funding analysis discovered a gap between European funds being raised and capital being invested in Europe's companies. Tom Wehmeier of Atomico shares his insights on this with us.

In our Q2 funding analysis, I touched upon the fact that the €3.47 billion that was raised by technology companies last quarter was significantly higher than the amount of money European venture capital funds raised in Q2 (€2 billion/$2.2 billion), demonstrating that Europe is still underserved in terms of venture capital available in Europe, while simultaneously showing that money



Neil Murray

Neil writes and tweets about VC, investments and exits in the Nordics and Europe. He started The Nordic Web to provide data-driven analyses on the Nordic startup scene.

Posted in analysis, atomico

from investors outside of Europe is clearly coming in, especially in the larger, later-stage rounds.

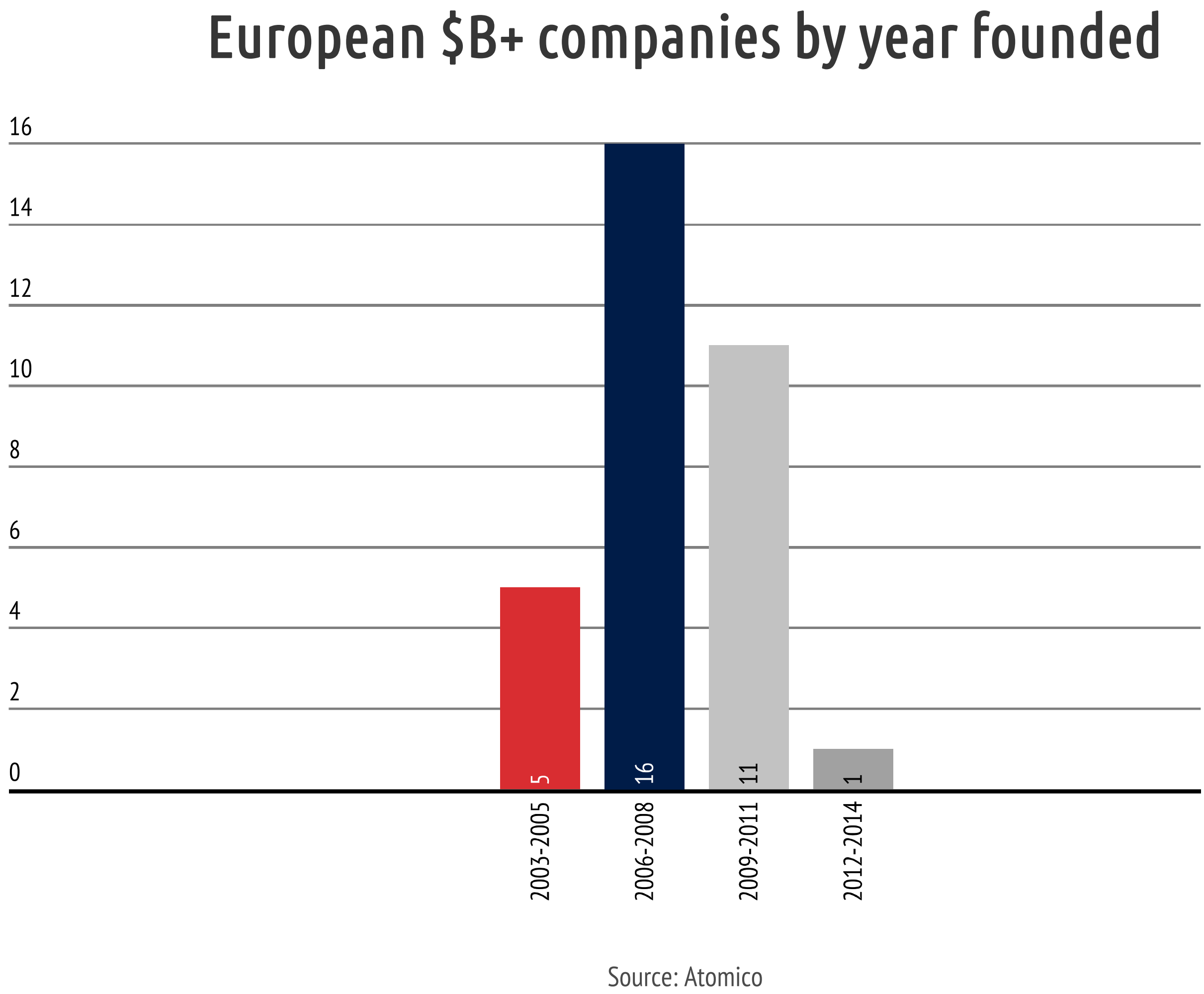
Updated August 31st, 2015.

Spurred on by the point I raised, Tom Wehmeier, research lead at globally active VC firm Atomico, decided to look into this further, and subsequently shared his findings with me, presenting three key discoveries:

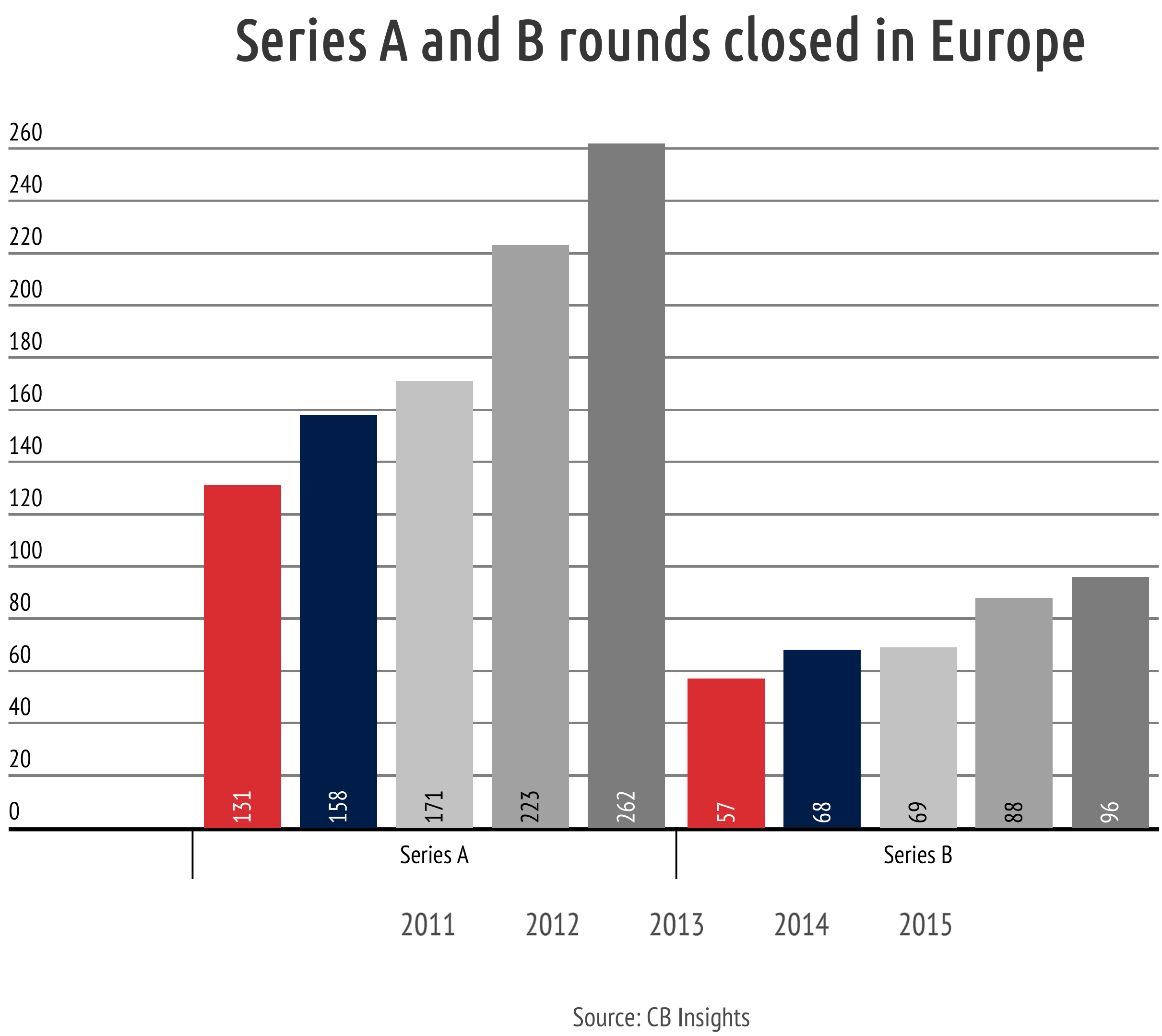
- Early stage funding is aligned with the opportunity, later-stage funding is not
- The shortfall between European VC funds being raised versus capital invested in Europe is *increasing*
- Only 30% of rounds Series B and onwards in H1 2015 consisted of all European investors

Before we dig into Tom's findings on the funding gap, Tom also had a look at the size of the opportunity that exists in Europe.

(**Please note**: all data crunching was done by Tom using Dow Jones VentureSource and CB Insights; I have subsequently created graphics using this data)



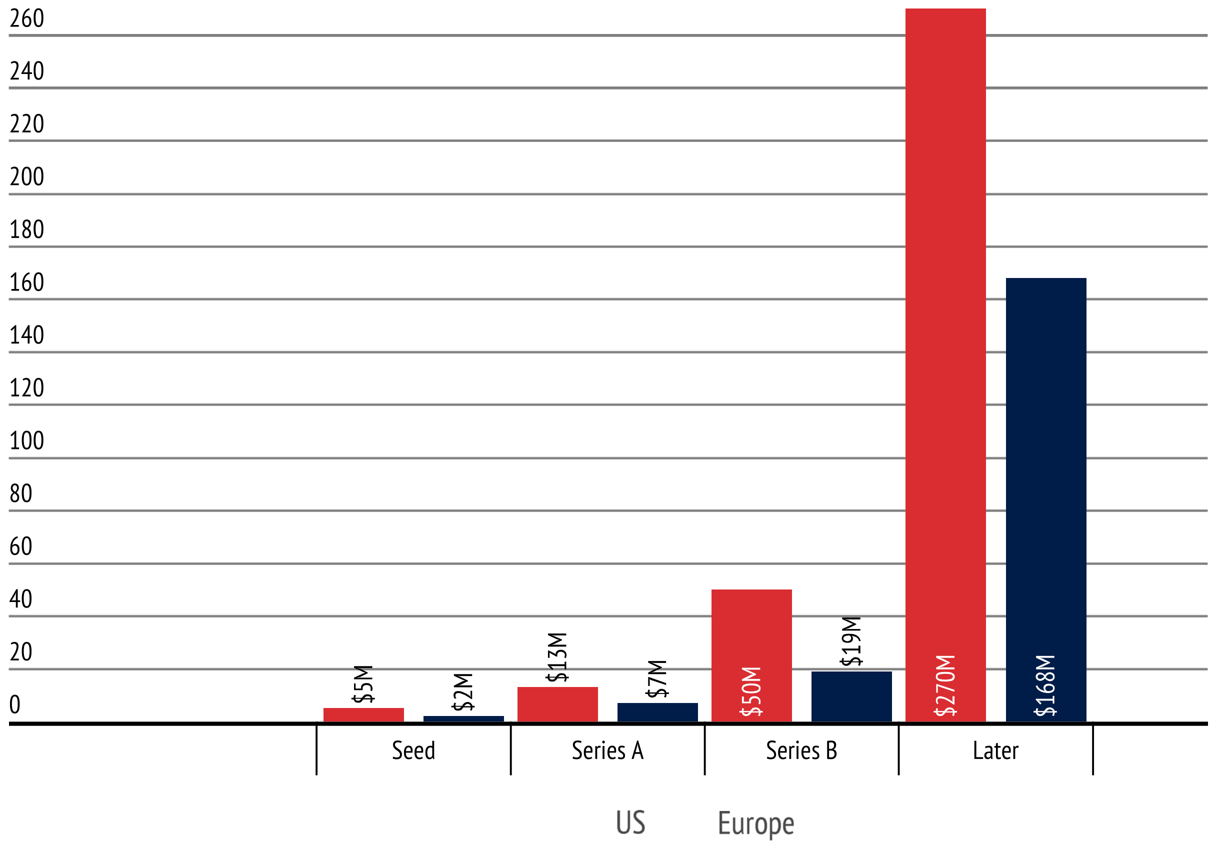
Tom discovered that 97% of Europe's billion-dollar companies (aka unicorns) were founded in 2011 or earlier, and with it taking an average of six years to achieve a billion-dollar valuation, Europe's next generation of startups (i.e. those founded since 2012) have yet to fulfil their potential (and they will of course require capital to enable them to do this). The pipeline of potential-billion dollar companies originating from Europe is also looking extremely strong:



The number of European tech companies going on to successfully raise Series A and B rounds is also rising, with a multiple of x2 for Series A and x1.7 for Series B over the last four years. (Note: 2015 includes pro-rated projections)

In addition to a strong pipeline, Europe also benefits from a more attractive entry pricing with the median pre-valuation by round considerably lower than the US:

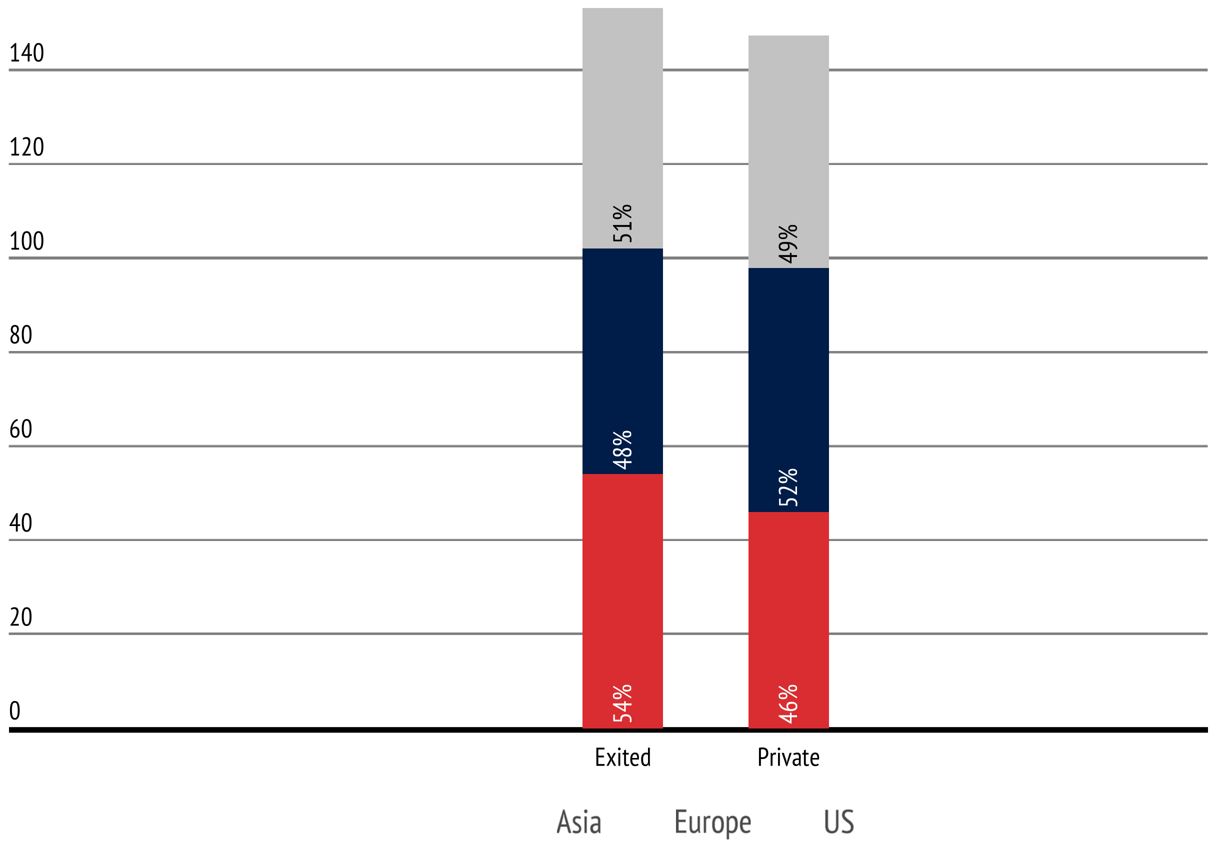
Median pre-money valuation by round, US versus E (2014)



Source: Dow Jones VentureSource

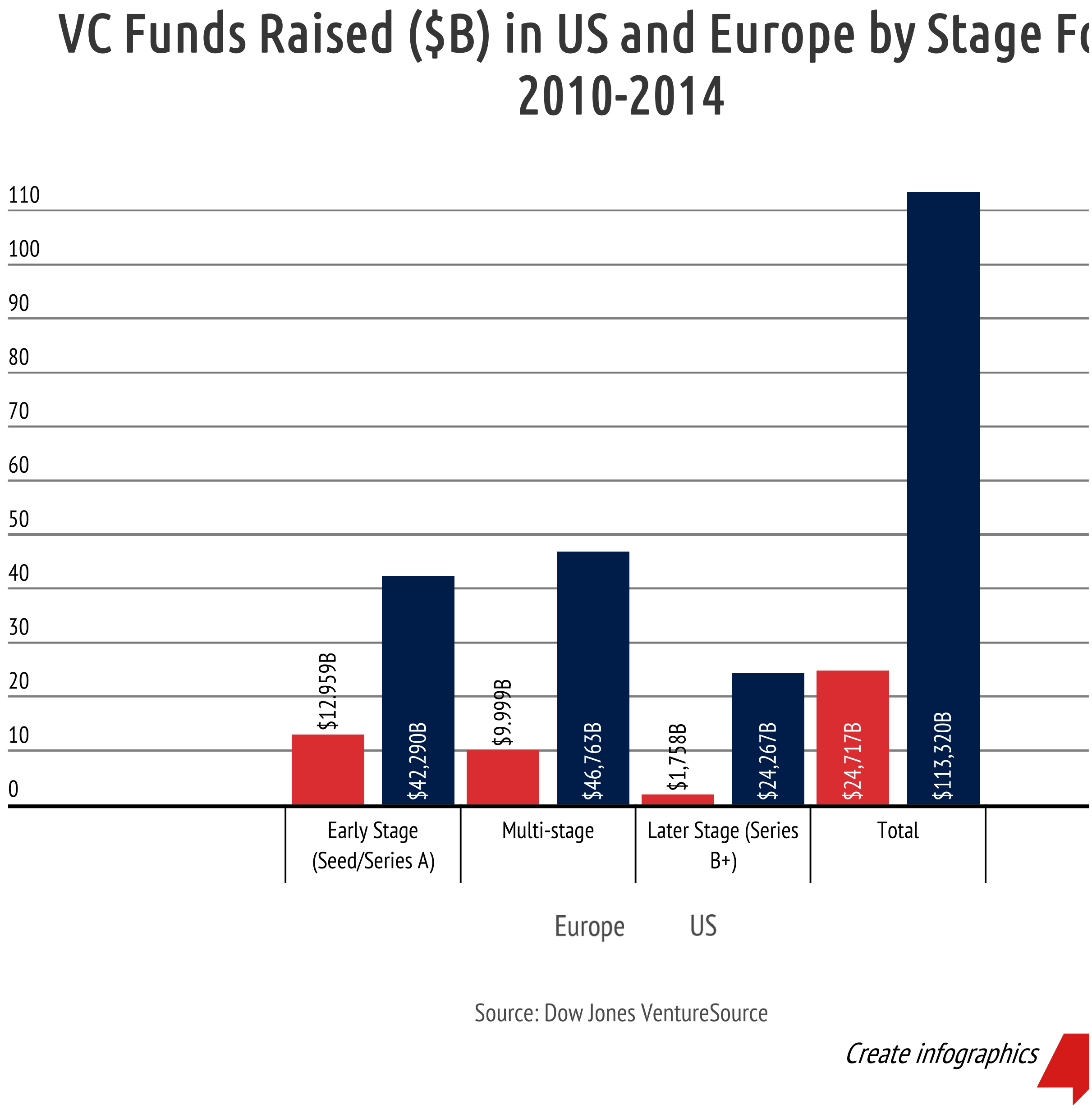
And most importantly, Europe is also delivering an end product when it comes to exit activity:

Billion dollar companies by operating status



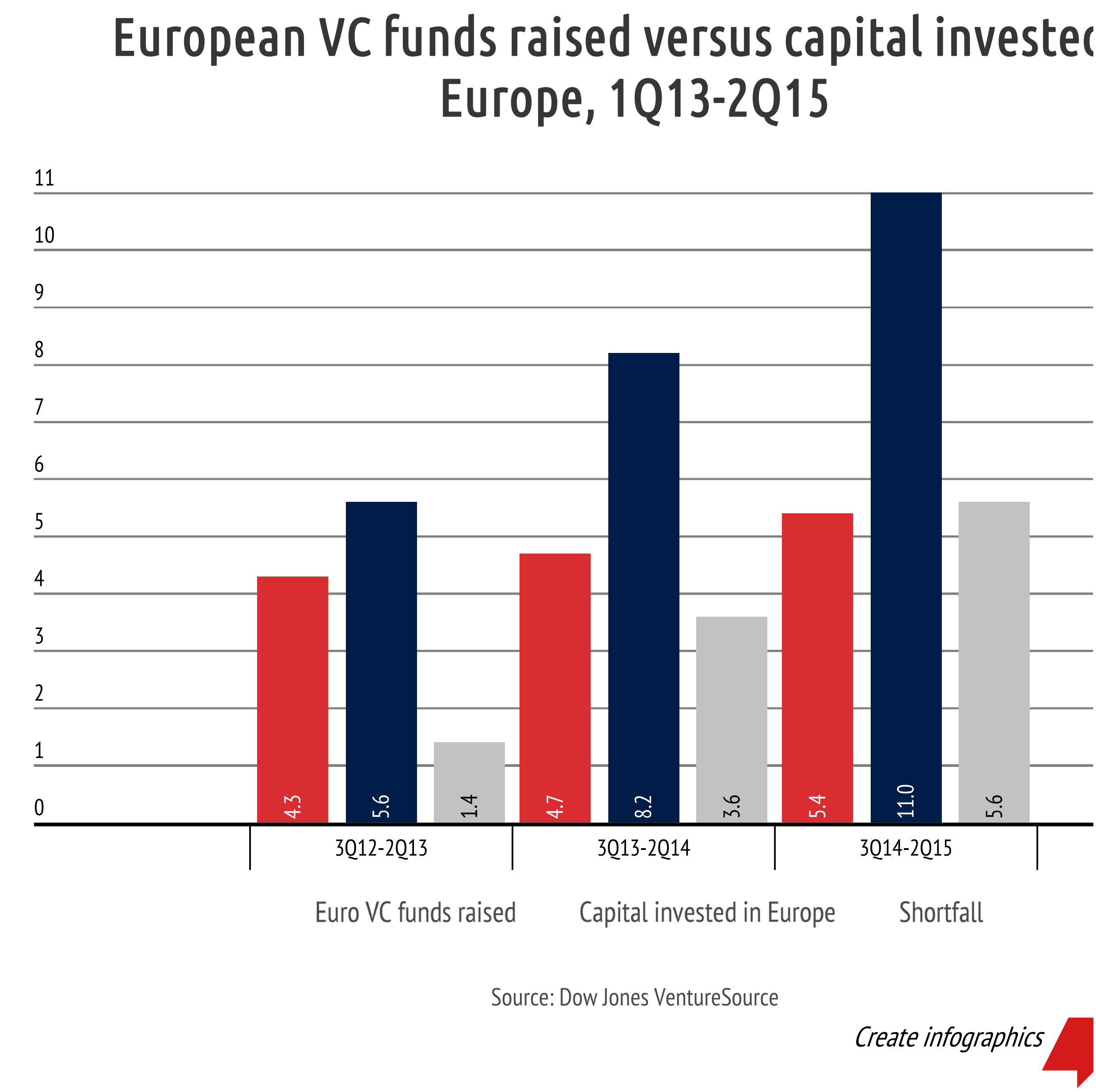
Source: Atomico (As of April 30th 2015)

So, we've established that the size of the opportunity is clearly rather large, but what about the size of the funding gap between funds being raised by European funds and capital being raised by European companies? Let's start with the alignment between the opportunity at the later-stage and the lack of funding there from Europe-based investors:



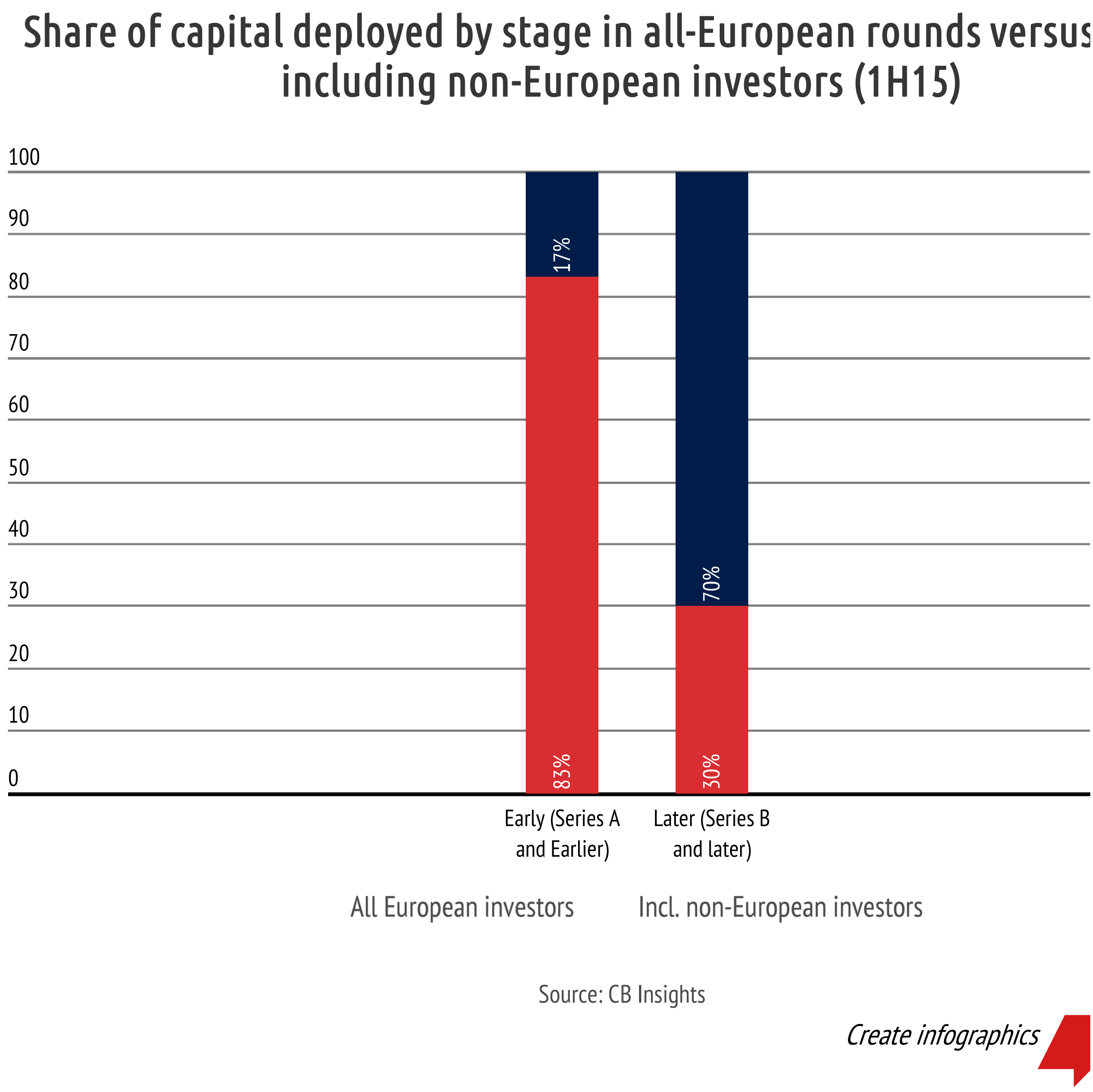
Although Europe lags behind the US at all stages of funding, the gap increases more and more the later the stage you go. Funds focusing on Series B and beyond are x14 bigger in the US than in Europe, meaning there is a lot less available capital relative to the number of companies reaching billion-dollar companies, as the US actually 'only' creates three times more 'unicorns' than Europe does – but they raise five times more capital in total. As Tom points out to me, this means 'Europe is an underserved market with enormous potential, especially for well-positioned local investors'.

Coming back to the initial point, of there being a funding gap between funds raised and venture capital invested, it's clear to see that non-European funds are taken advantage of this and are benefiting from European success stories:



In fact, as Europe continues to see more venture capital invested into it, the shortfall is becoming bigger and bigger between funds raised and capital invested, as there are not enough European funds to serve the demand for the capital, meaning investors from outside of Europe need to make up the shortfall.

Looking at the first half of this year, it's clear to see that European companies are especially relying on non-European funds when it comes to those bigger later rounds:



Although at Series A and earlier, 83% of capital deployed came from all European investors, at Series B and onwards this dramatically reduced to 30%, with 70% of capital raised in the first of this year from Series B onwards including non-European investors in the round.

In conclusion, I think Tom's key findings tell us a few things:

1) There is a sizeable gap between European funds raised and capital invested, especially at Series B(+)

2) International investors are clearly attuned to the opportunities that exist in Europe

3) There's an opportunity for local late-stage investors to help fill in that funding gap

It's only fair that I give the final word to Tom:

"If you think about how far Europe's leading tech hubs have come since 2012, this is why the opportunity is so exciting. It's very much a case that the best is yet to come. We have real hubs with active communities, we have ambitious entrepreneurs, we have the talent, we have the early-stage funding, it's just the gap at the later-stage that needs to be bridged".

For your further reading pleasure:

Tech Tour lines up 50 European high-growth tech companies

Who are Europe's most valuable VC-backed private 'unicorns'?

Wanna build a billion-dollar tech company? Stick with your founding CEO

There are 1,000 tech scale-ups in Europe's five largest economies, who've raised $23B in total

Analysis: European tech companies raised €3.47 billion in venture capital in Q2 2015

European VC firms raised more than €2 billion in Q2 2015

These were the 20 biggest funding rounds in European tech in the first half of 2015

Featured image credit: Khuroshvili Ilya / Shutterstock

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jaypatel • 5 months ago

Thanks for sharing this, some good insights. The increased level of investment by non-EU sources in European late stage companies makes sense because those companies are usually looking to expand globally, and having investors in those target geographies is an important factor when raising follow-on rounds. It would be interesting to see how the US & Asian companies have their late-stage investor breakdown (Local v Foreign investors).

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Sergej Lugovic • 5 months ago

Maybe one of the reason could be as in EU we have different structure of the investments, such as EU funds, government money and so on. Also as ecosystem is more diverse its harder to track every penny. What is also interesting - that we as a EU economy going with aprox 10 B US$ a year for aprox 10-15 companies which could potentially be worth more then 1BUS$. And another thing I want to comment is that such a views are just proof that "startup" as phenomena is finical product nothing else, and we all know what finical industry done to the society, so we have to take and critical views toward the ecosystem. Such a views could provide us with right signals, that can be used to adopt and change it. Also would be nice to track EU/local government injections into the system and compare it with US. I am suspecting that actually tax payers money is going into supporting investment

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