CAN EUROPE BE THE MOST ENTREPRENEURIAL **CONTINENT?**

EURO PEAN **START** UPS

Index Ventures

29 October 2020

BY









Can Europe be the most entrepreneurial continent?



Journey so far: Europe ditching its old image



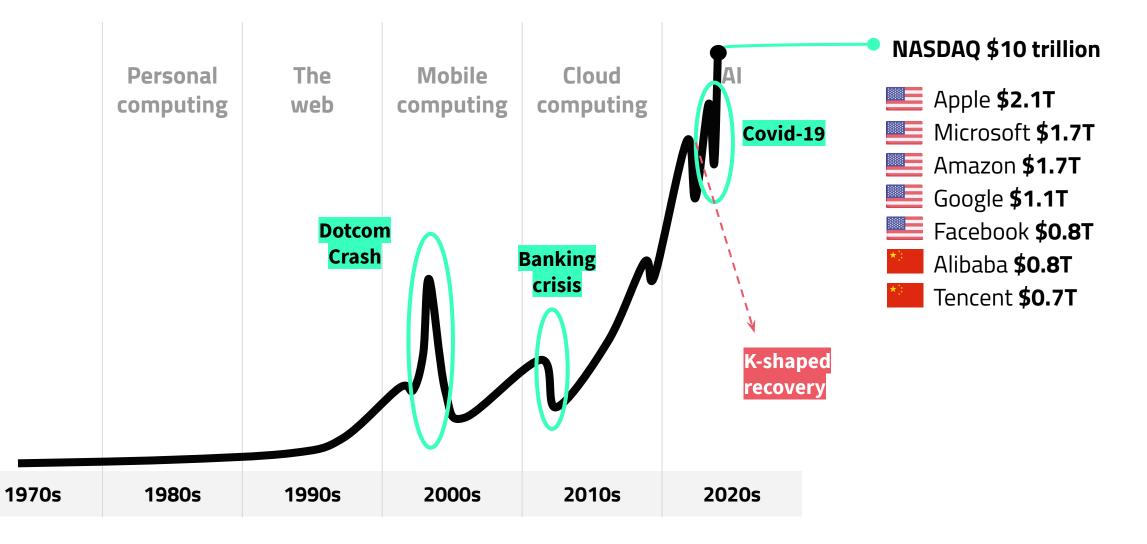
Present: Entrepreneurship, jobs, skills, innovation



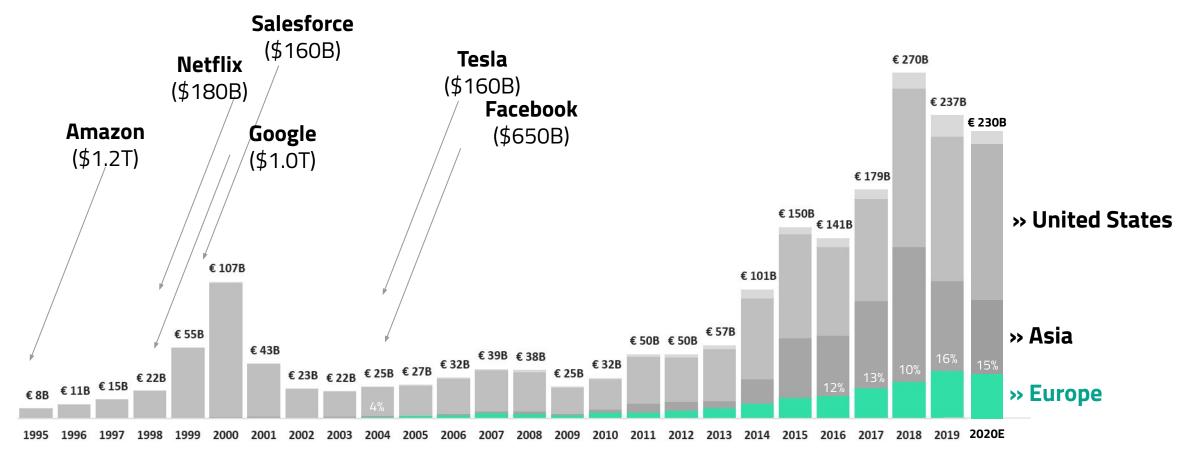
Future: What's needed most in the next five years

Europe's journey so far: Ditching its old image

The unstoppable rise of tech.

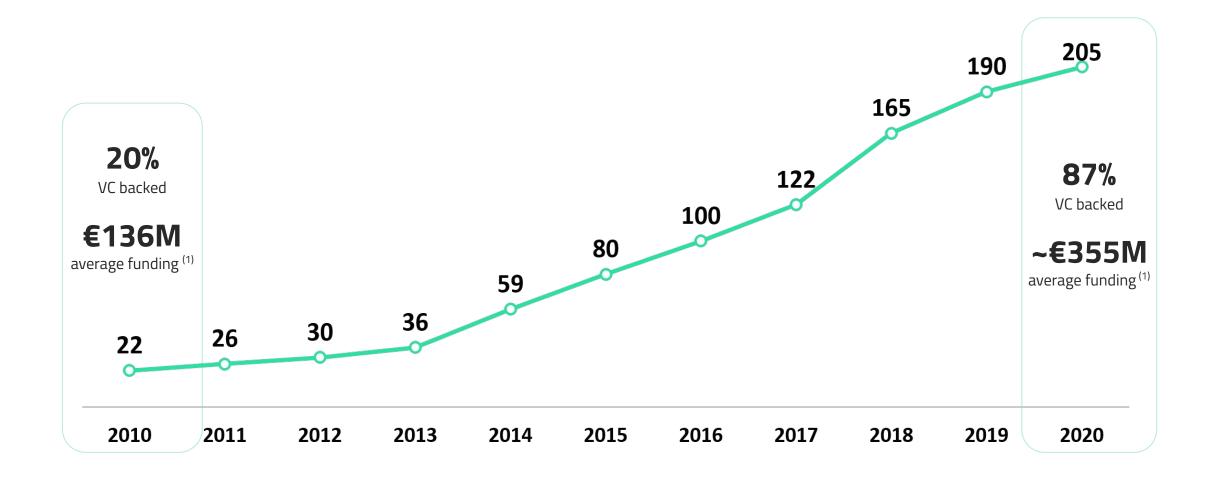


Since 2005, the picture has started to change.



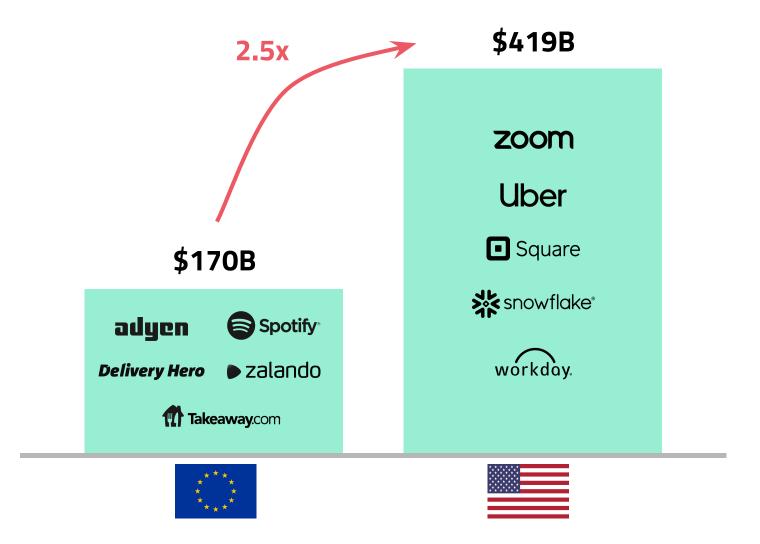
Global venture capital invested

Europe has created 205 unicorns, mostly venture backed.

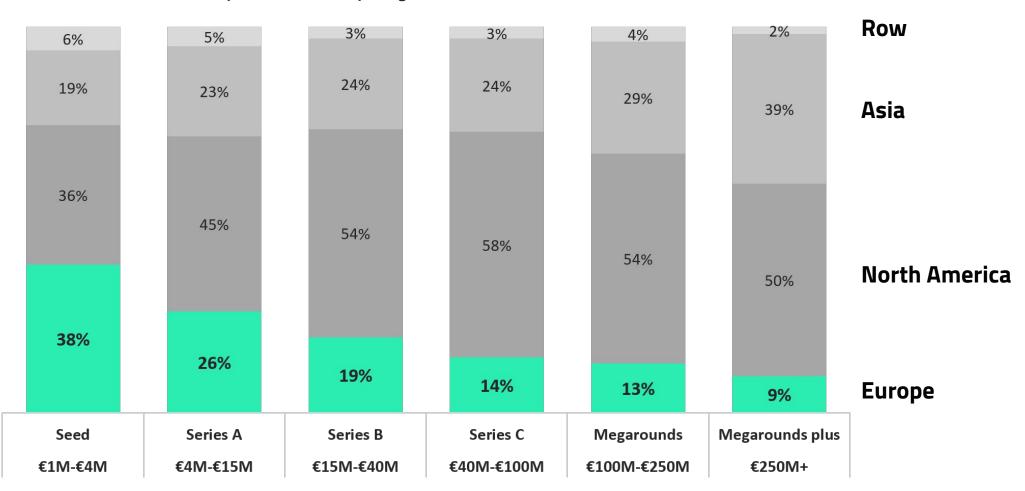


Cumulative number of European unicorns created by year \$1 billion valuation was reached

Top 5 most valuable VC-backed companies since 2005.



Remarkably, 38% of all global seed stage capital is raised by European startups.



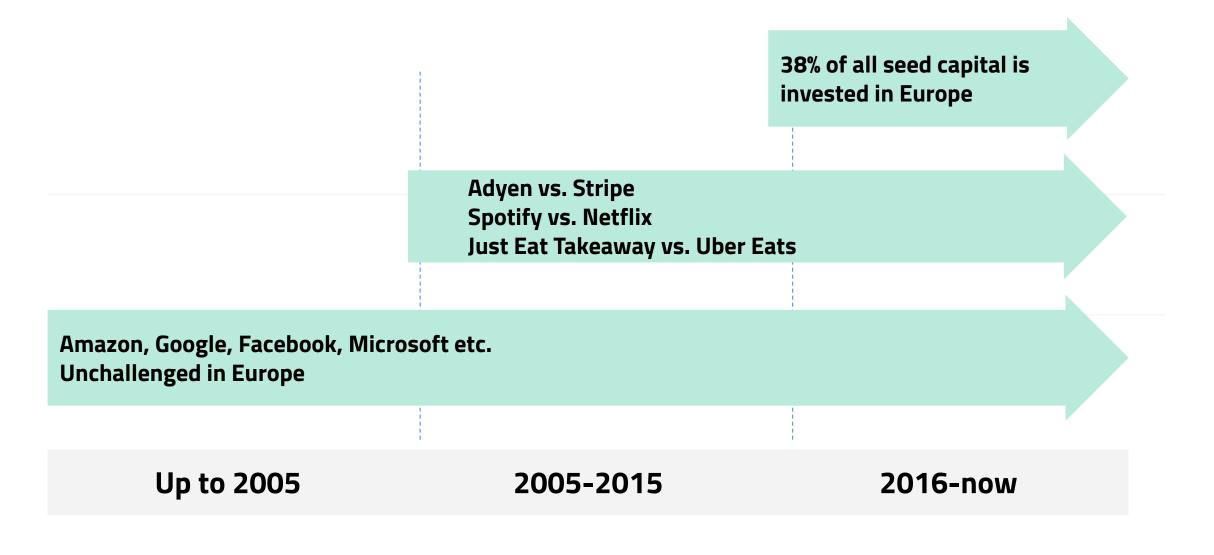
% investment in 2019-2020 per round size and per region

Page / 8 EuropeanStartups.co Source: Dealroom.co

Note: the labels "Seed", "Series A" are standardised labels per Dealroom.co method, not the reported labels as they are not consistently applied.

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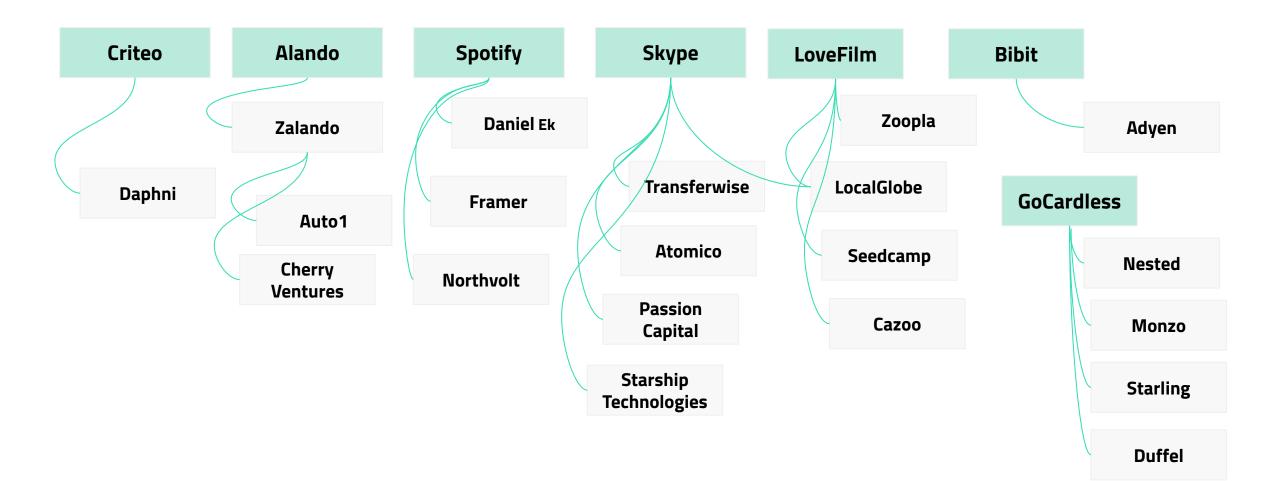
Three generations of European startups



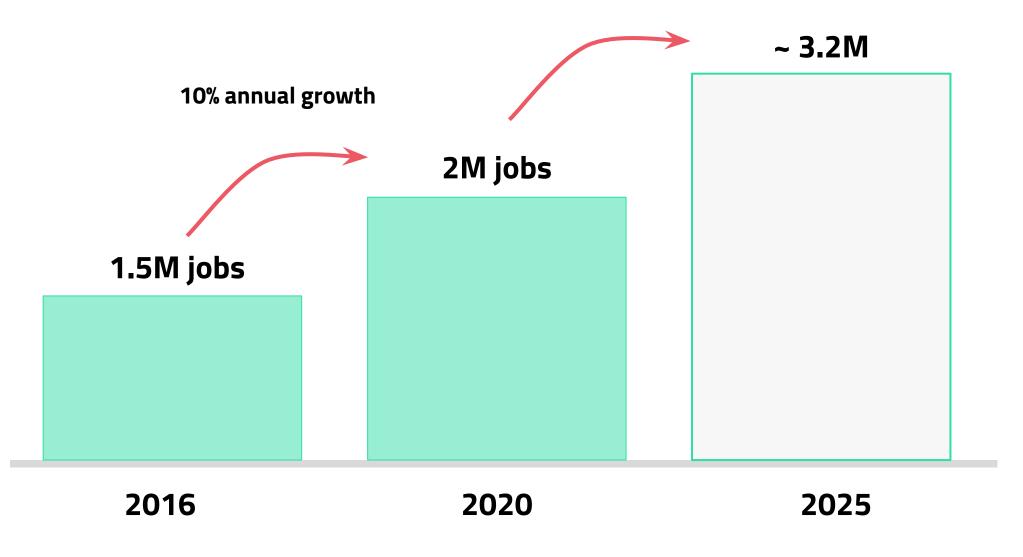
Present:

Entrepreneurship, jobs, skills, innovation

Snowball effect in is in full force in Europe.

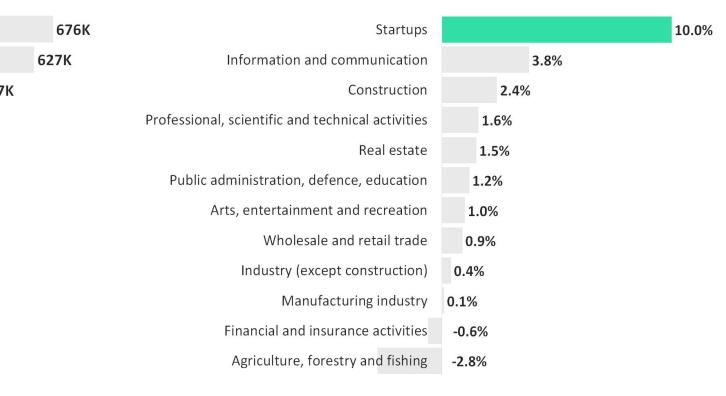


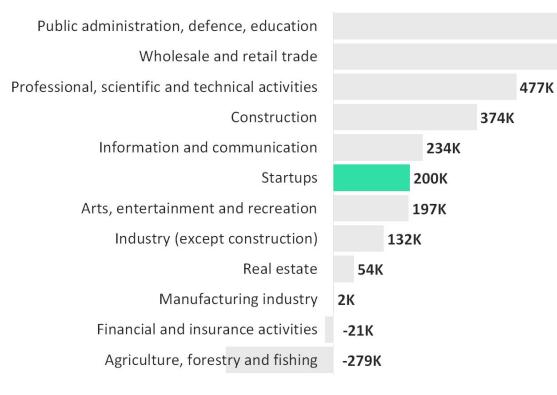
Startups are the leading engine of job creation in Europe.



Startups have become a significant contributor of new jobs

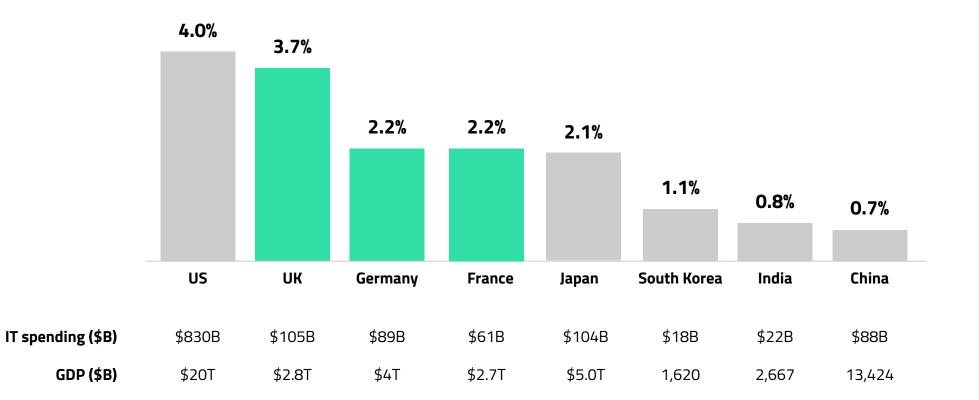
... and are by far the fastest and most resilient growing job engine



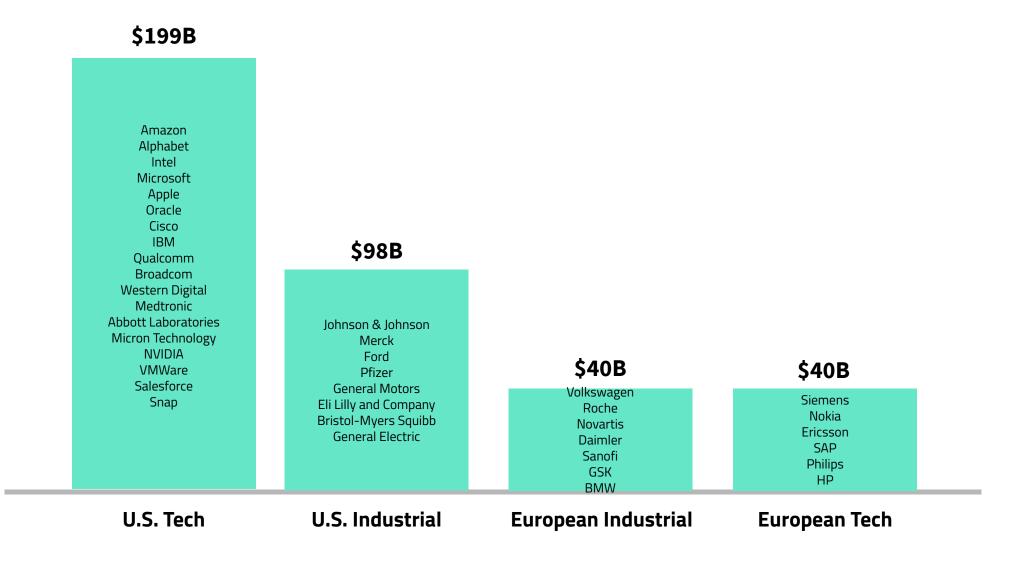


USA spends more on IT

Spending on IT as % of GDP (2018)



Corporate R&D spending is dominated by Big Tech.



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Brain drain: AI professors leaving universities for Big Tech.



Carnegie Mellon, University of Washington, Berkeley, Georgia, Toronto, Stanford, Michigan, Harvard, Purdue

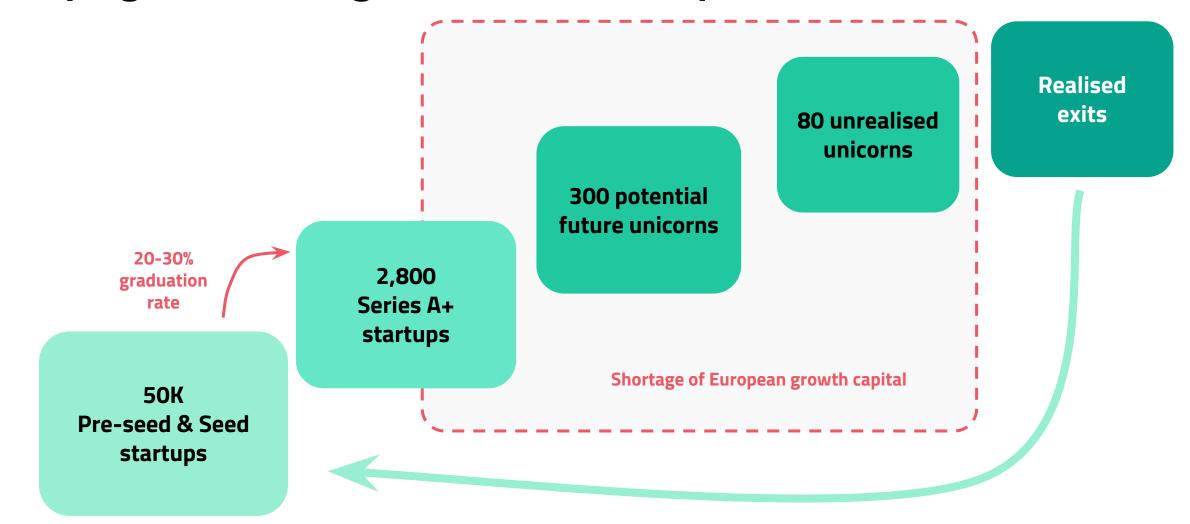
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Figure note: Graphs include AI professors who completely left academia or reported a dual industry and academic affiliation

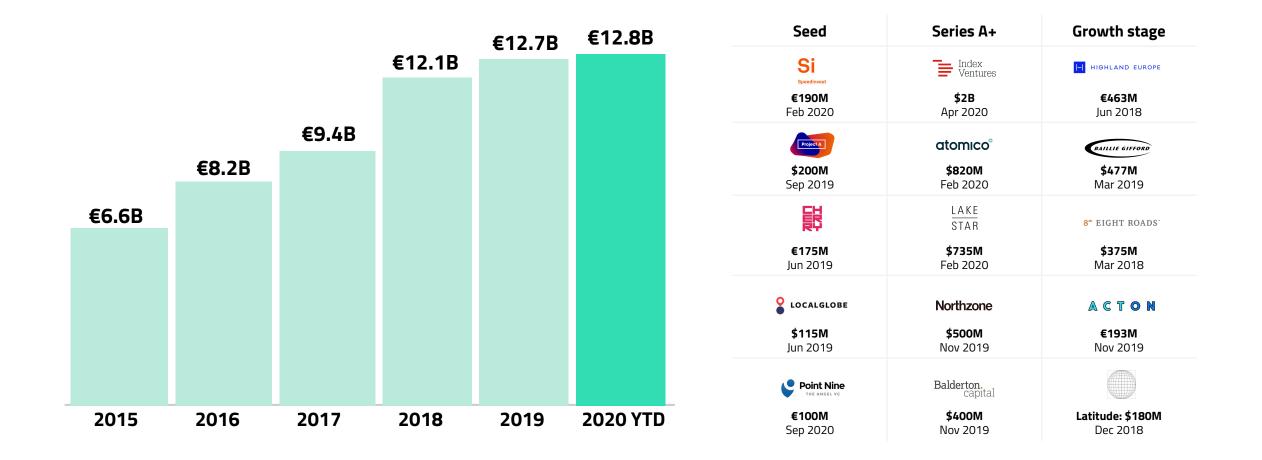
Future:

What's needed most in the next five years

Helping the current generation of startups.

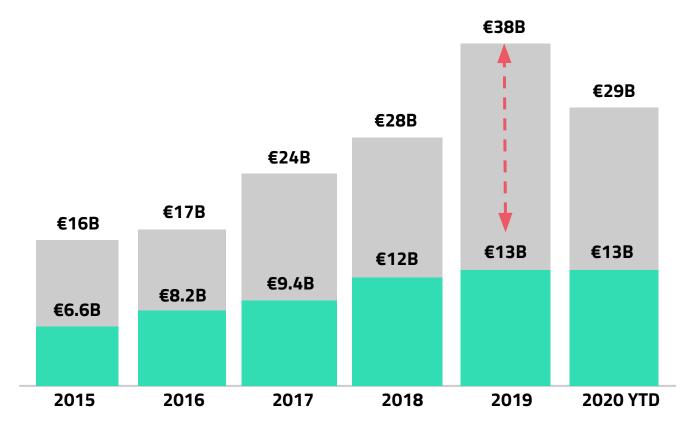


European VCs have been raising record amounts of new funds.

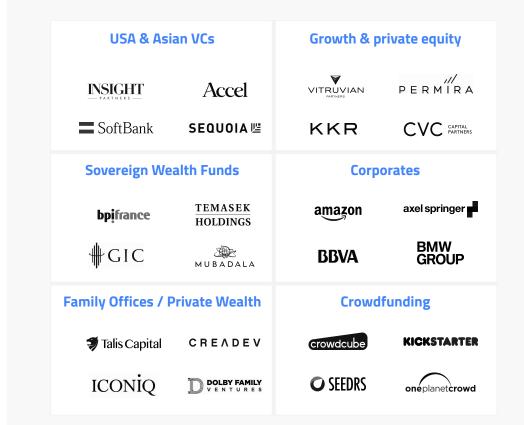


But European startups need at least 3x more capital than that, already today.

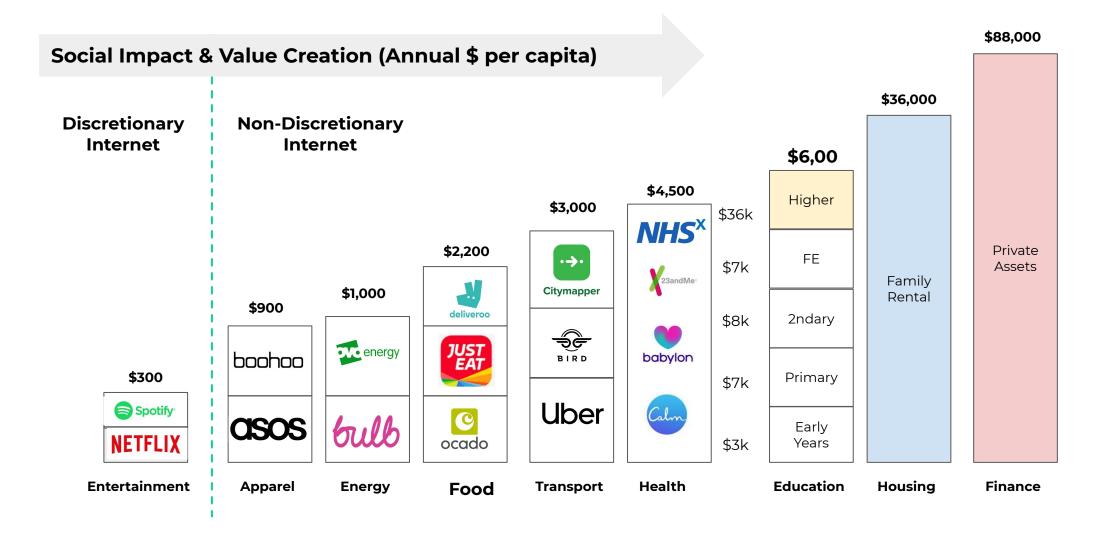
New European VC funds 🔰 Capital raised by European startups



Additional investor groups



Much bigger tech companies will be built in the coming years, needing more funding



Europe already has institutions and programs to provide support.

						*** *** ***	*	
	UK	France	Germany	Sweden	Netherlands	EU	Israel	USA
Fund of Funds	BPC/BBB £2.5B	Bpifrance €6.5B	KfW Capital €0.5B	Saminvest \$0.5B	RVO (Seed Capital) €0.3B	EIF €12B	No	Νο
Grants	Innovate UK	Bpifrance €1.3B	BMWi EXIST €78M (2019) ZIM €0.6B (2019)	Vinnova \$0.3B (yearly)	No	Horizon Europe €100B	Israel Innovation Authority (IIA) \$0.5B (2019)	Small Business Administration \$2.5B (yearly)
Equity co-investing	No	Bpifrance €1.6B	HTGF €325M Coparion €225M	Almi \$0.2B	InvestNL €1.7B	EIC Accelerator €3.0B	No	SBIC (part of SBA) \$5.5B yearly
Debt co-investing	No	Bpifrance €1.3B	KfW Group ERP Start-up Loans	Almi \$0.3B	No	EIB €2.1B	SBA \$0.7B	SBIC \$5.5B yearly
R&D tax credits	Yes £4.5B (2018)	CIR €6.2B (2019)	No	Yes €0.2B (2018)	WBSO €1.3B (2020)	Yes	Yes	Yes \$9.7B (2018)
Investor tax relief	£2bn (EIS/SEIS 2019)	No	No	Yes	No	No	No	No

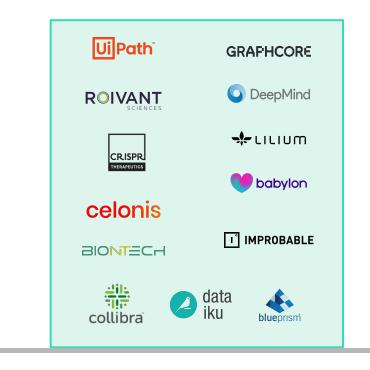
Yeah, Deep tech is cool. But you know what's really cool?

European Deep Tech: \$150B (1)

Ui Path [®]	GRAPHCORE		
	DeepMind		
	🔩 LILIUM		
	💙 babylon		
celoni s			
BIONTECH	i IMPROBABLE		
collibra	data iku blueprism		

Yeah, Deep tech is cool. But you know what's really cool?

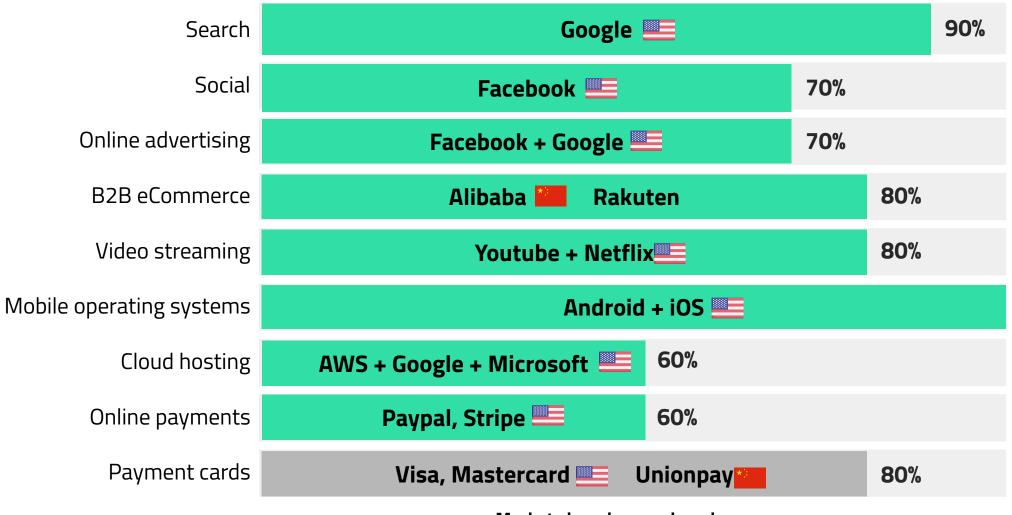
European Deep Tech: \$150B (1)



Tiktok: \$150B



What do companies that dominate their market have in common?



Market share in core domains



What should we really be building?

Deep Tech

Things that people love to use

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What should we really be building?

Deep Tech

Things that people love to use

Solving our biggest challenges

Yes

Attract & incentivise talent

Late stage capital (fund-of-funds)

No

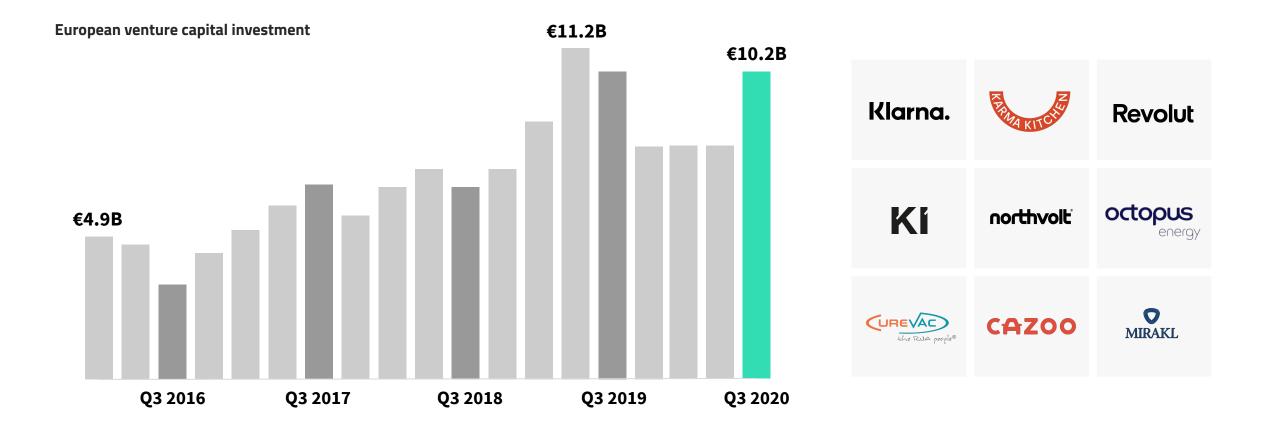
Government picking winners

Deep tech without commerce

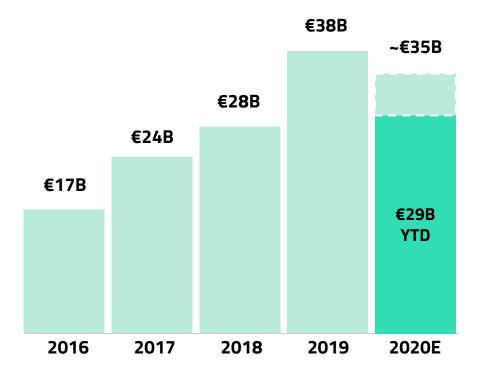
Penalize exits or employee ownership

Appendix: additional data

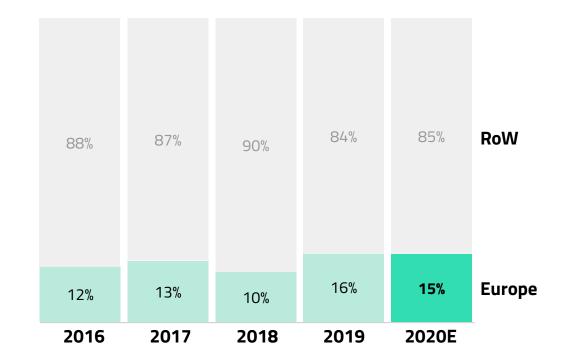
European venture capital seems unfazed by the pandemic.



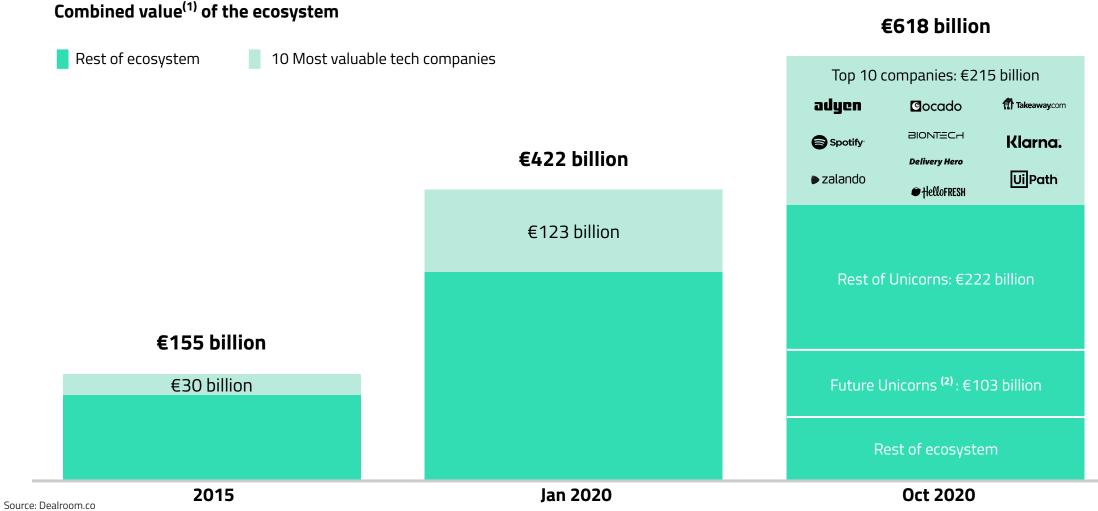
European venture capital is getting to serious scale.



Share of global venture capital is stable at around 15%.



European tech ecosystem has ballooned to €618 billion in combined value.

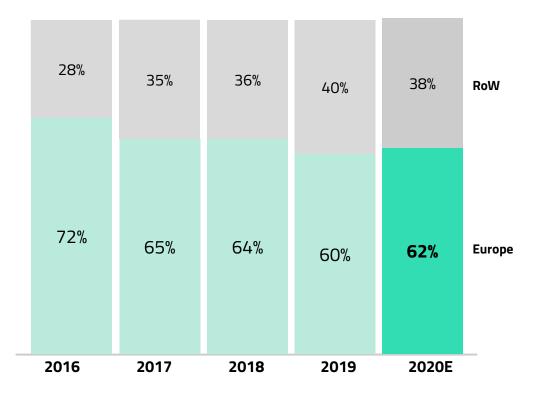


1. Sum of the valuations of all startups in the ecosystem founded after 2000. Using estimated valuations based on most recent VC rounds, public markets and publicly disclosed valuations as of October 22, 2020. 2. A future unicorn is defined as tech driven company valued over \$200 million but less than \$1 billion, excluding acquired and/or public companies.

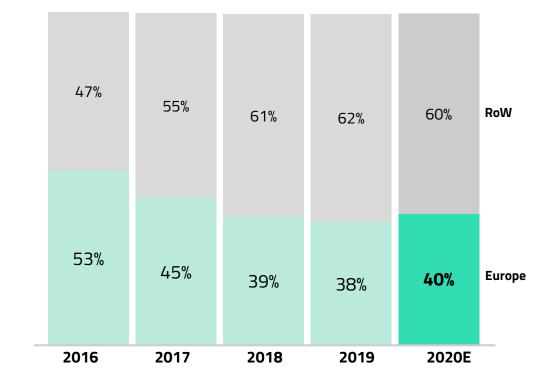
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Foreign investors are still key to European startups.

% of total VC investment into Europe, total VC

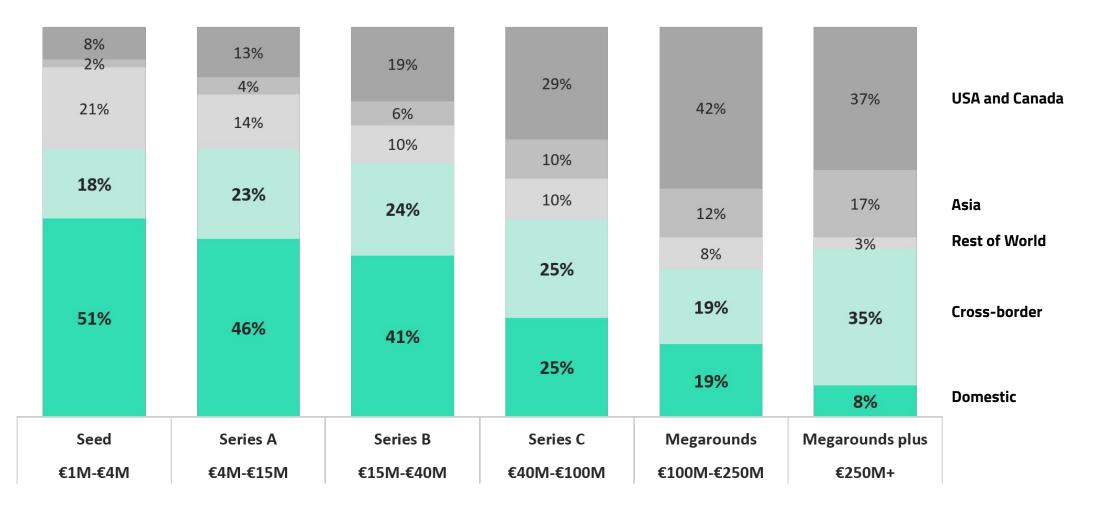


% of total VC investment into Europe, for rounds larger than €100M



European venture capital investors are less involved in larger rounds.

% of European investment in 2019-2020 by source and size



Source: Dealroom.co estimates.

Note: the labels "Seed", "Series A" are standardised labels per Dealroom.co method, not the reported labels as they are not consistently applied.



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Venture capital investment activity: 2020 vs. 2019

Monthly venture capital investment amount - cumulative

Monthly number of venture capital rounds above €2M - cumulative



VC investment in Europe per country.

Cumulative venture capital investment amount from January to October

		2019 Jan-Oct	2020 Jan-Oct	% change	
	Estonia	€0.1B	€0.2B		109%
	Ireland	€0.5B	€0.6B	36%	
	Belgium	€0.6B	€0.8B	25%	
	Austria	€0.2B	€0.2B	13%	
$\mathbf{+}$	Finland	€0.8B	€0.9B	11%	
	Norway	€0.3B	€0.3B	7%	
	Netherlands	€1.2B	€1.3B	6%	
	United States	€98.1B	€100.6B	3%	
	France	€4.3B	€4.4B	2%	
•	Japan	€1.1B	€1.1B	-3%	
	Sweden	€2.6B	€2.5B	-3%	
*	Israel	€3.7B	€3.5B	-6%	
*	China	€29.7B	€27.5B	-7%	
٢	India	€9.4B	€8.5B	-10%	
	United Kingdom	€11.4B	€10.1B	-11%	
	Germany	€5.9B	€4.3B	-27%	
0	Switzerland	€1.8B	€1.3B	-27%	
	Denmark	€0.5B	€0.3B	-34%	
	Spain	€1.1B	€0.5B	-51%	
\bullet	Romania	€0.7B	€0.2B	-69%	

VC investment in Europe per country (excl. mega-rounds).

Cumulative venture capital investment amount from January to October, rounds below €100M

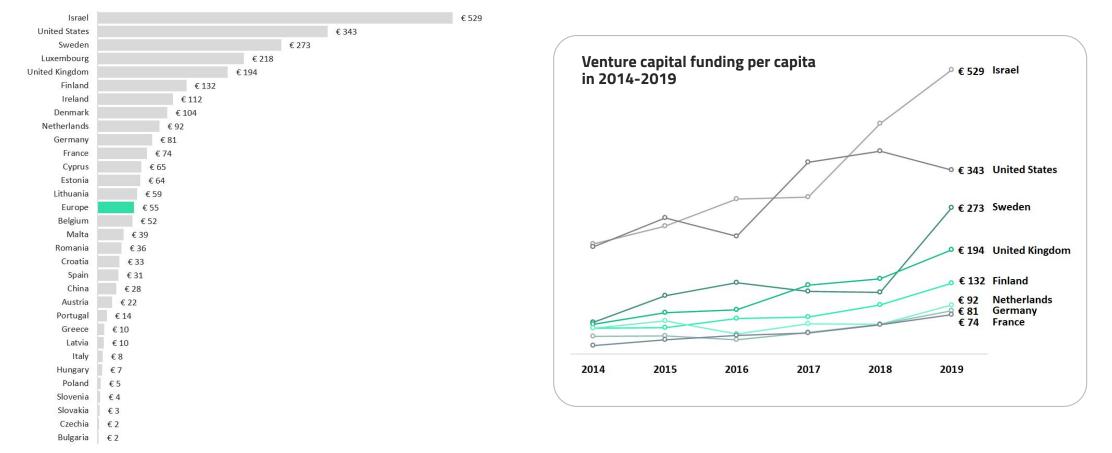
		2019 Jan-Oct	2020 Jan-Oct	% change	
Ð	Finland	€0.3B	€0.7B		131%
0	Switzerland	€1.0B	€1.3B	3	37%
	Netherlands	€0.9B	€1.0B	17%	
	Ireland	€0.5B	€0.5B	15%	
	Austria	€0.2B	€0.2B	13%	
	Germany	€2.9B	€3.1B	5%	
	United States	€52.2B	€51.1B	-2%	
*	Israel	€3.1B	€3.0B	-3%	
	United Kingdom	€7.2B	€6.6B	-9%	
	Belgium	€0.6B	€0.5B	-11%	
•	Japan	€1.1B	€0.9B	-14%	
	France	€3.5B	€3.0B	-15%	
٢	India	€5.2B	€4.3B	-16%	
	Estonia	€0.1B	€0.1B	-18%	
(China	€11.3B	€8.3B	-27%	
	Italy	€0.5B	€0.3B	-31%	
	Sweden	€1.1B	€0.7B	-33%	
	Denmark	€0.5B	€0.3B	-34%	
	Spain	€0.8B	€0.5B	-36%	
	Norway	€0.3B	€0.1B	-59%	

France has responded most decisively.

	Country	Covid-19 response	Amount per startup with >€1M funding	
	France	€5.2B	€3.0M per	
	Bpifrance	Guarantees, accelerated tax credits, direct loans	1,700+ startups	
	Germany	€2B	€2.0M per	
	BMWi / KfW / regional banks	Fund-of-funds, direct loans	1,000+ startups	
	UK	£1.25B	€0.5M per	
	BBB, Innovate UK, EIS	Co-investing and direct loans	2,700+ startups	
	Sweden	SEK3B	€0.5M per	
	Saminvest, Almo, Vinnova	Direct investing, guarantees, tax credits	600+ startups	
	Netherlands	€100M	€0.2M per	
	RVO, BOM, InvestNL	Direct loans	450+ startups	
***	EU	€300M	€40K per	
***	EIF, EIB, EIC, Horizon Europe	Fund-of-funds triggering investments of up to €1.2B	8,000+ startups	
*	Israel	\$180M	€0.2M per	
	Israel Innovation Authority	Direct loans	900+ startups	
	USA Small Business Admin			

2019 average EU per capita funding still lags the US and Israel. But individual countries like the UK, Sweden and Finland have closed in significantly.

Venture capital funding per capita in 2019



A huge part of the US economy is now venture-backed.



\$1.2 trillion VC invested since 1995

\$10 trillion

value of VC-backed companies

Almost **50%** of R&D spending

>10% of jobs

How does Europe compare?



\$1.2 trillion VC invested since 1995

\$10 trillion

value of VC-backed companies

Almost **50%** of R&D spending

>10% of jobs



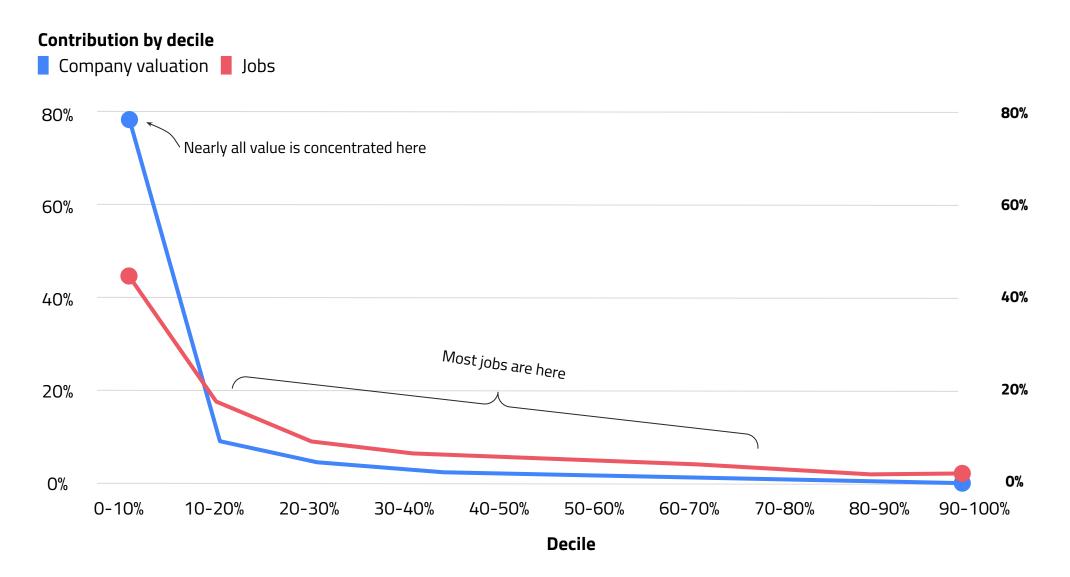
\$200 billion <mark>6x less</mark>

\$700 billion
14x less

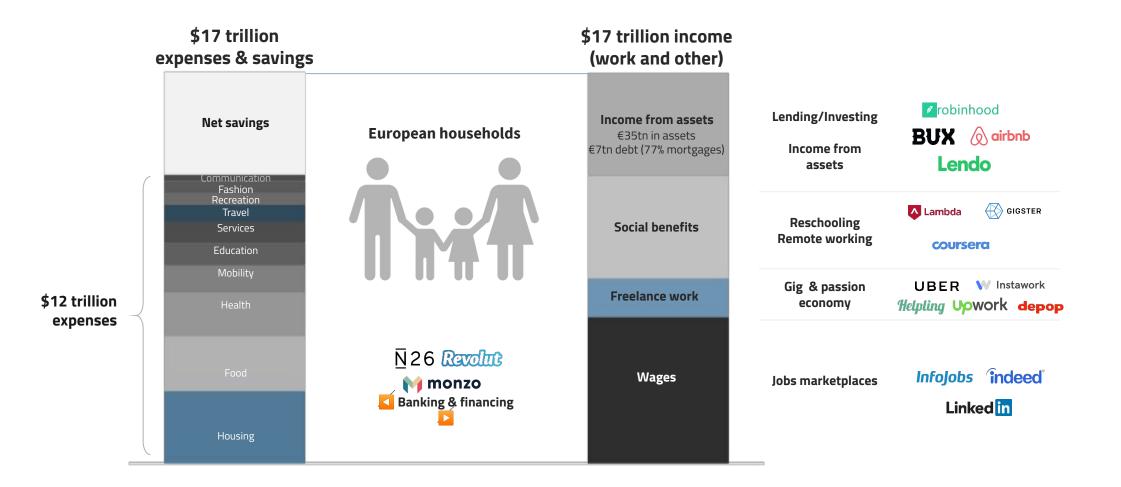
Not meaningful

<1% of jobs

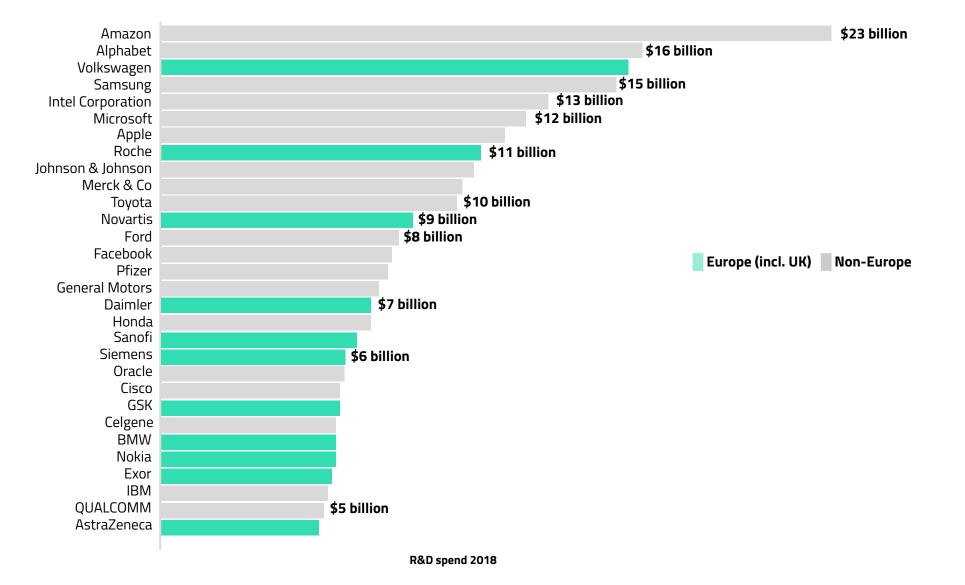
The top 10% companies represent 80% of value but less than 50% of jobs.



It's not just about spending money online. The digital consumer is managing work, banking and (re)schooling also online.



Corporate R&D spending is dominated by Big Tech.





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