Venture Capital Funds in Europe

The Current Market

Venture capital (VC) fundraising in Europe has returned to its highest level since before the financial crisis, with investors increasingly attracted to the fast-growing financial, information technology, biotechnology and healthcare sectors. During 2016, €6.4 billion ($5.6 billion) was raised by European venture capital funds - the highest since 2007 when they raised €7.7 billion and a jump from the €5.5 billion raised in 2015. Quarterly figures for 2017 suggest a similarly strong performance is expected this year.

Companies within the IT sector were the largest beneficiaries with €2 billion invested in 2016. Biotech and healthcare also received a combined €1.2 billion of new investment. Advancements in science and technology have meant an increasing number of companies offering credible investment opportunities, especially in big data, cyber security, digital healthcare and life sciences.

Success stories of venture capital firms investing in now globally recognised companies such as Facebook, Twitter and Shazam have also attracted investment from institutional investors. Despite more institutional investors now committing capital to Europe, a number are yet to get involved which suggests that there is scope for even greater growth in the near future.

Reasons for strong European performance

- Strong economy committed to growth.

  Europe remains the largest single market globally and offers an open economy, stable political system and a tradition for innovation. European wide growth predictions remain strong, notwithstanding the anticipated effects of Brexit, and the European Commission remains committed to removing barriers to the cross-border distribution of funds to facilitate greater investment.

- Proven track record of European VC.

  European venture capital funds have a proven track record. Around half of the currently active VC funds have been in operation for at least twelve years. Europe's value chain has also become stronger since the 2000s following a rise in the number of "super angel" and entrepreneur-led venture capital funds with over 100 start-up accelerators now operating to provide seed stage financing and mentoring. There has also been recent growth in the number of corporate venturers providing companies with valuable contacts, know-how and potential exit strategies.

- Proven ability to create global leaders.

  European venture capital firms have a proven track record in creating global leaders with over 50 venture-backed unicorns having been created since 2000. The UK accounts for the largest proportion of that total with 15 venture-backed companies valued at over $1 billion.

- Increased exit options.

  European exit options have increased through both IPOs and strategic sales. Since 2011, there have been $46 billion of exits in technology alone.

  In addition to successful listings such as the $7 billion launch of King.com (the Swedish maker of Candy Crush) on Nasdaq, there have also recently been successful exits to strategic buyers including Amgen's acquisition of Dutch biotech company Dezima for $1.5 billion and Astra Zeneca's acquisition of Netherlands based biotech company Acerta for €4 billion (the second largest ever European venture capital-backed exit).

- Outsized returns in a low-yield environment.

  Returns provided by venture capital and private equity are currently out-performing more traditional assets. In Europe, technology valuations of €1bn-plus companies are, on average, 18 times the revenue produced by the company and median deal values have remained relatively constant at around the $2 million mark offering better value than peers elsewhere.

- Robust fundraising.

  Fundraising for European venture capital funds reached a nine-year high in 2016 which represents a clear sign of investor faith. The source of investment is also varied with a mixture of both private and public funding across a global investor base.

- Europe's hottest sectors.

  Europe is home to some of the most successful new companies in biotech, medtech, healthcare and pharmaceuticals. Of the funds raised in 2016, 44% of capital was invested in ICT (communications, computer and electronics) with 27% invested in biotech and healthcare. Remaining investment was spread more evenly between consumer goods and services, energy and environment, business products and services, financial services and transportation.

- Europe's innovation economy.

  Eight of the world's ten most innovative economies are in Europe with the top three spots occupied by European nations (Switzerland, Sweden and the United Kingdom).

Developing trends with venture capital and cryptocurrency

Crypto or cyber-currencies are digital-only currencies in which encryption and registry techniques, often called blockchains, are used to regulate the generation of units of currency independent of a central bank. There are now close to 800 cryptocurrencies worth, in total, around $96bn and some estimates predict the cryptocurrency business could be worth $5 trillion by 2022.

Recent research suggested there are currently 68 crypto hedge funds with strategies ranging from investing in "initial coin offerings" to holding bitcoin and other cryptocurrencies, such as Ethereum and Litecoin. The returns being reported by some of these funds are far outstripping traditional hedge funds. The Altana Digital Currency Fund was up about 413% this year [2017] to the end of August. In comparison, hedge funds of all strategies have returned about 5.5% in the same period. Some cryptocurrency funds have received backing from institutional investors, lending increased credibility to the sector, while some smaller funds have also emerged catering to family offices and wealthy individuals.

The rapidly expanding market for cryptocurrencies could soon enter mainstream financial credibility with Barclays having reportedly opened discussions with UK regulators about adopting digital currencies, The People's Bank of China reportedly running trials and the Danish central bank considering a digital-only e-krone. Earlier this year, the International Monetary Fund also issued a staff discussion note stating that banks should consider investing in cryptocurrencies while IBM announced a deal with a consortium of seven European banks to build a digital trade platform that will run on IBM's cloud.

The biggest impact on the European venture capital market could, however, come from the growth of "initial coin offerings" (ICO) with many start-ups now seeking fund themselves. More than $1.8 billion has been raised this year through ICOs, which enable start-ups to raise funds by selling digital cryptocurrency tokens to investors, allowing them to use the digital services that the start-up plans to produce or sell them if they appreciate in value. The growing popularity of ICOs is thought to be behind a surge in the value of digital currencies this year.

Regulators around the world have, however, recently warned about the dangers, pointing to the risks of an asset bubble, market manipulation and fraud. There is also the question of whether swings in these volatile markets leave poorly hedged funds at risk.

Contacts

If you would like any further information about the above please contact us and we would be happy to help.

London

Jasmine Amaria
Partner
T: +44 (0)20 7220 4975
E: jasmine.amaria@walkersglobal.com

Hughie Wong
Partner
T: +44 (0)20 7220 4982
E: hughie.wong@walkersglobal.com

Ian Williams
Senior Associate
T: +44 (0)20 7220 4980
E: ian.williams@walkersglobal.com