

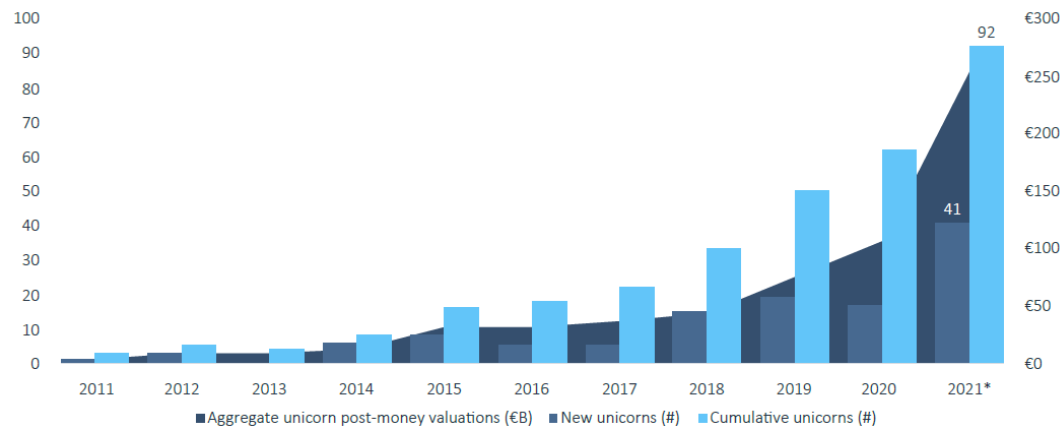
The European Scale-up Gap

Experience from Industrial Deep Tech Investments



European scale-up deal-activity is gaining momentum

European unicorn count and aggregate post-money valuations in EUR bn

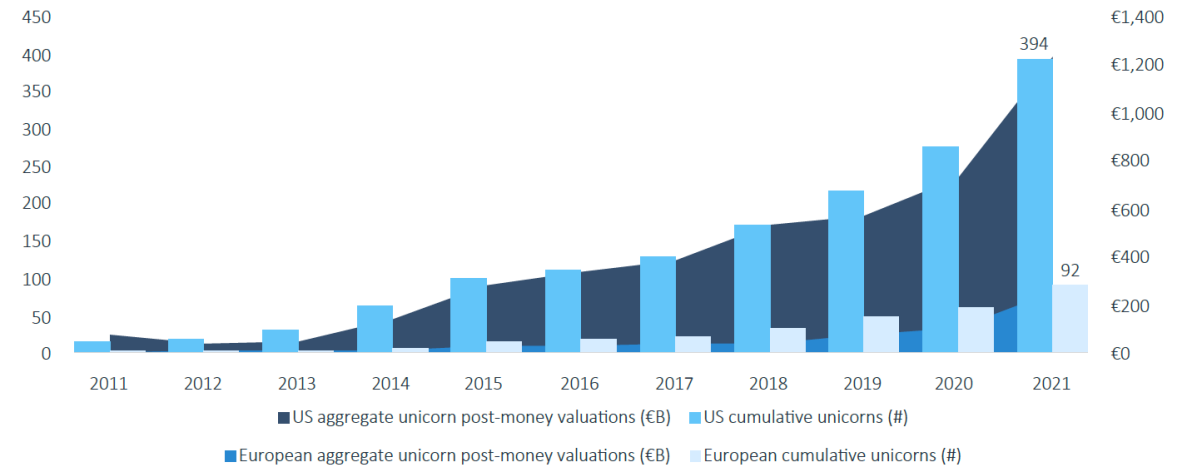


Source: PitchBook | Geography: Europe
*As of June 30, 2021

- Since 2018, cumulative unicorn numbers in Europe have roughly tripled, and the aggregate value has increased sixfold to an aggregate value of unicorns amounting to ca. EUR 253bn.
- EUR 17.9bn in deal value was recorded across a record 61 deals in H1/2021. Even decacorns exist now (e.g. Celonis, Northvolt, Klarna).

Source: Pitchbook Analyst Note, Sept. 28th, 2021: "Unicorns Defining the New Norm".

US and European unicorn count and aggregate post-money valuations in EUR bn

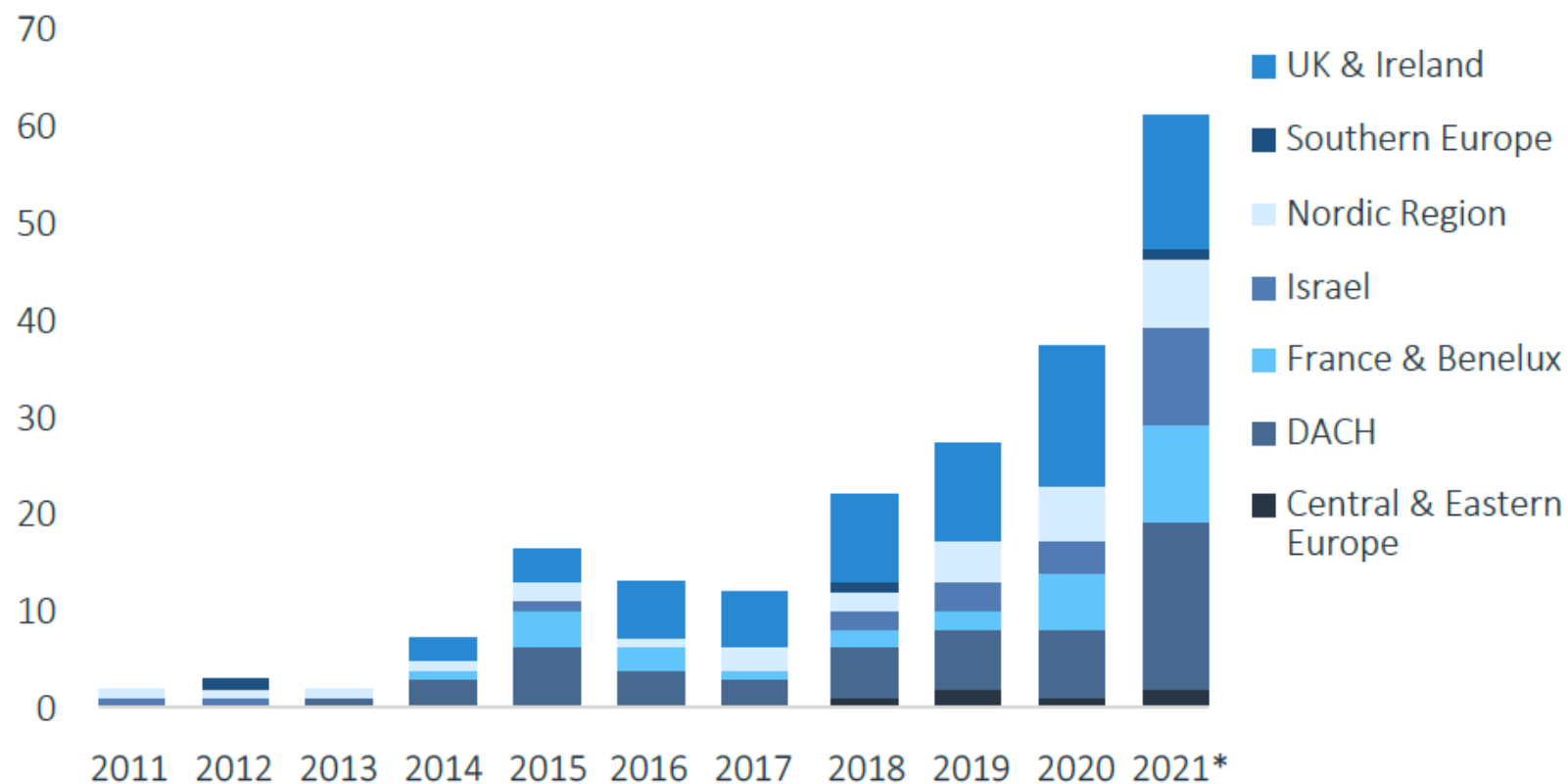


Source: PitchBook | Geography: US & Europe
*As of June 30, 2021

- While growth in Europe is remarkable, it still lags the US significantly.
- In Q2/2021, deal value in the US reached EUR 52.7bn, while the aggregate value of unicorns in the US hit a staggering EUR 1.2 trillion, compared to EUR 253bn for the same quarter in Europe.

Deal-activity is very much concentrated on specific regional clusters

Unicorn deal activity by region in Europe



- Within Europe, deal-activity is concentrated on major European regions, especially DACH, France & Benelux and UK & Ireland.
- The Nordic region is doing very well, too, on a per-capita comparison.
- Southern and Central & Eastern regions are lagging behind.

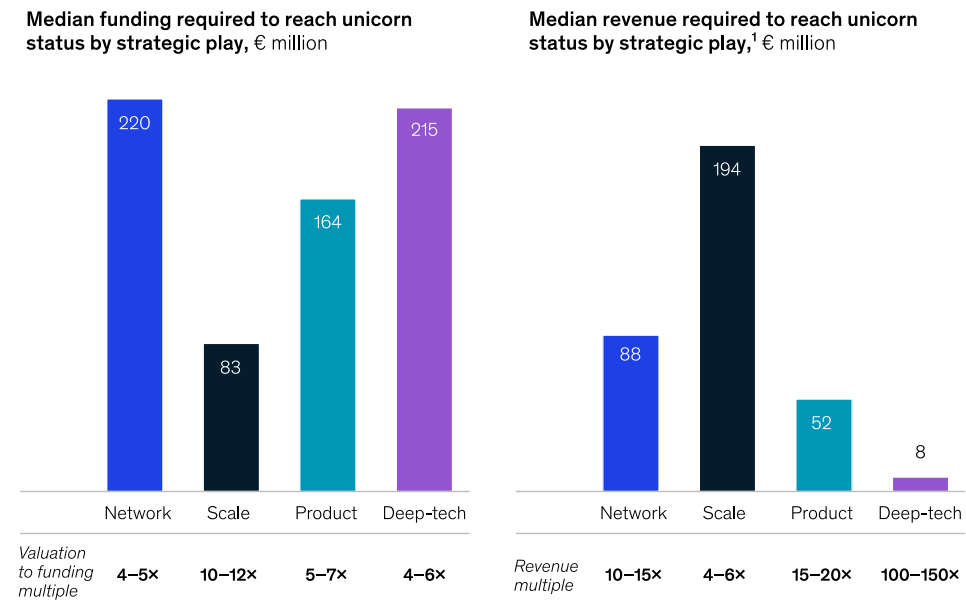
Source: PitchBook | Geography: Europe

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Even though European deal activity increased substantially, deep-tech fails to keep pace

A McKinsey analysis of Europe's top 1,000 start-ups shows that reaching unicorn status requires between EUR 100-200m in funding and ~10 years time

The funding and revenue required to reach unicorn status varies depending on the strategic play.



¹Revenue in the fiscal year prior to reaching unicorn status; value interpolated where data unavailable.
Source: PitchBook deal data as of May 2021; McKinsey analysis

McKinsey
& Company

Source: <https://www.mckinsey.com/industries/technology-media-and-telecommunications/our-insights/winning-formula-how-europes-top-tech-start-ups-get-it-right>

- Almost 2/3 of the 1,000 top start-ups were founded either in the UK, Germany or France.
- 53% of those firms come from B2B SaaS, fintech, E-Commerce and marketplaces
- Of those 1,000 top start-ups only 11% were classified as hardware firms, 24% came from healthcare.
- **“Companies pursuing a deep-tech play require more extensive funding long before they become winners. As such, they need investors that have a similar long-term vision and willingness to fund a long R&D phase.”**

Learnings from 10+ years of deep-tech investing in Europe

Europe boasts excellent universities and great talent, industrial corporate leaders as well as a vast domestic market

- The conditions for deep-tech start-ups are ideal, if funding gap for scale-ups could be resolved
- We see great technologies and excellent teams of founders – the key ingredients for success

European deep-tech start-ups generally face a substantial capital constraint in later rounds

- Europe lacks large funds that can easily invest EUR 10-50m in a single financing round
- Raising a Series C/D financing round without foreign participation for semiconductors, photonics, additive manufacturing, medtech, etc represents a substantial challenge
- Hence, it is difficult to compete globally with firms that have received EUR 100m+ in funding
- Corporates and non-traditional investors start to take up the opportunity to some extent
- But also in Europe we start to see moonshot investments like Volocopter, Lilium, IQM, Northvolt or Quanta
- As a result of less competition for early-stage deep-tech opportunities, stellar returns are possible

Besides later-stage funding the general environment should be improved in order to create a level-playing field

- Need for harmonization and simplification of taxes, option schemes, bureaucracy, EU funding programs
- Facilitate easier and faster entry of global talent into Europe
- Incentivize pension funds and other major European pots of capital to invest in deep-tech venture capital
- Create an agile, independent and well-funded European DARPA and incentivize / promote public procurement and collaboration with European start-ups / scale-ups

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