The European Scale-up Gap
Experience from Industrial Deep Tech Investments
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).

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.

Source: Pitchbook Analyst Note, Sept. 28th, 2021: “Unicorns Defining the New Norm”.
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
*As of June 30, 2021
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.

- 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