

# **Turning Venture Capital Data into Wisdom:**

## **Why Deal Performance in Europe is now Outpacing the US**

*— July 2011*

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# Background


**The core data-slides in this Report (6, 7, 8, 11, 15, 17, 18, 23, 24, 25, 26, 27, 28, 30, 31) were created and supported by a broad cross-section of partners at European VC firms who are members of the Venture Council at the European Private Equity and Venture Capital Association (EVCA). These VCs include Sofinnova, Northzone, DFJ Esprit, Amadeus Capital, Gimv, Endeavour Vision, Delta Partners, Advent Venture Partners, Nauta Capital, Neuhaus Partners, Finlombarda, and Earlybird Venture Capital.**

**This Report was further endorsed by 24 active venture capital firms in Europe including Index Ventures, Wellington Partners, Fidelity Growth Europe, Prime Technology Ventures, Hummingbird Ventures, Open Ocean, Target Partners, Vodafone Ventures, and many more.**



**After emerging only in the 1990s, and shaking off  
the hangover from the deluge of capital that  
flooded the market in 1999–2001,  
European Venture Funds have staged a**

# **Comeback**



**Venture-  
backed  
liquidity  
events in  
the last  
24 months:**

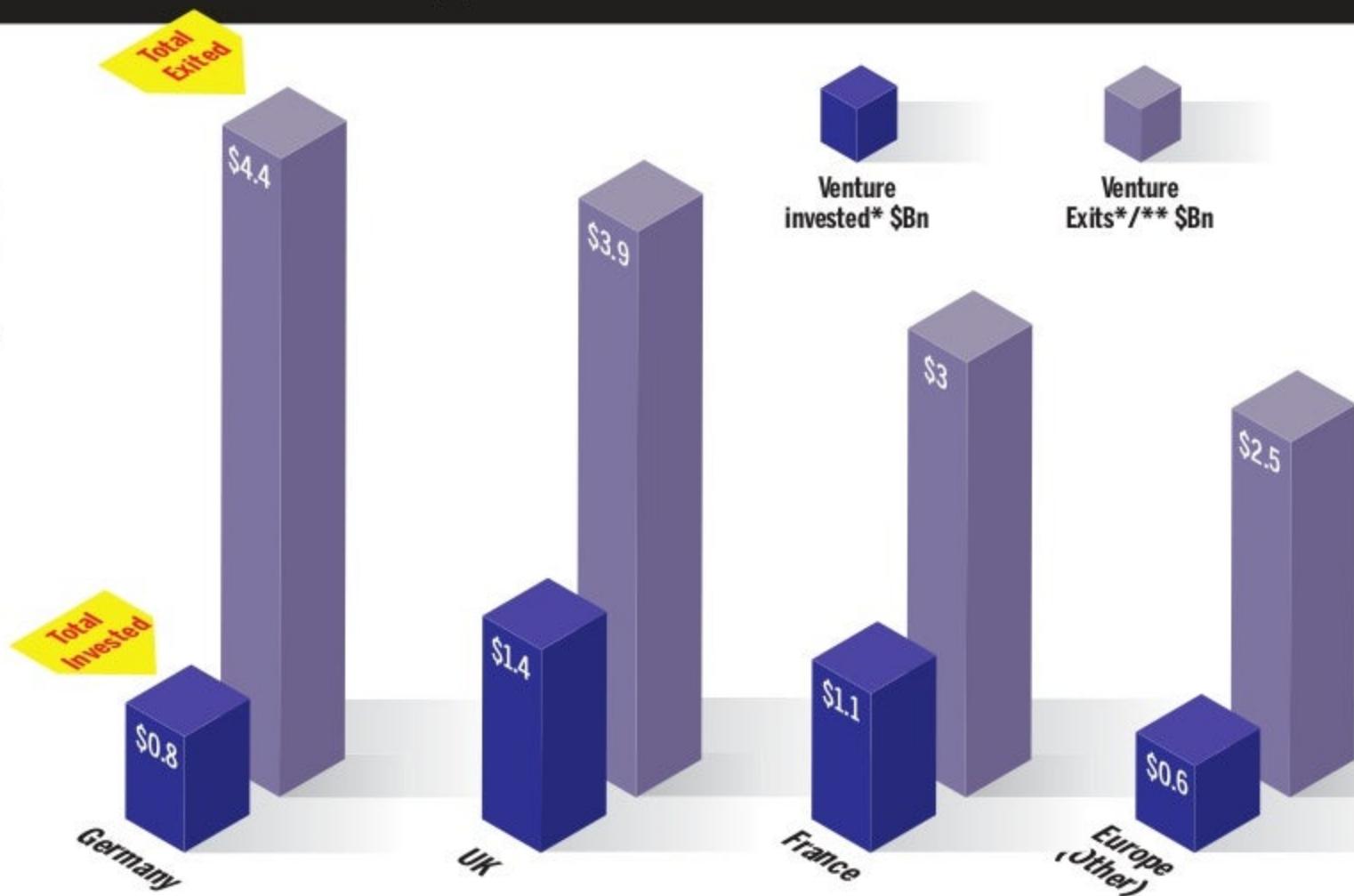
**\$15 Billion\***

\*Equal to 50% of the 30Bn in US Venture-backed liquidity events in 2009 & 2010 (Thomson Reuters), yet with only 1/5 of the venture funding i.e., \$25Bn invested in US VCs in 2009 & 2010 compared to \$6Bn in Europe, according to NVCA and EVCA data.



# In other words, more checks to LPs are being written in Europe than ever before

Publicly announced European venture-backed trade sales and IPOs over the past 24 months (incomplete)

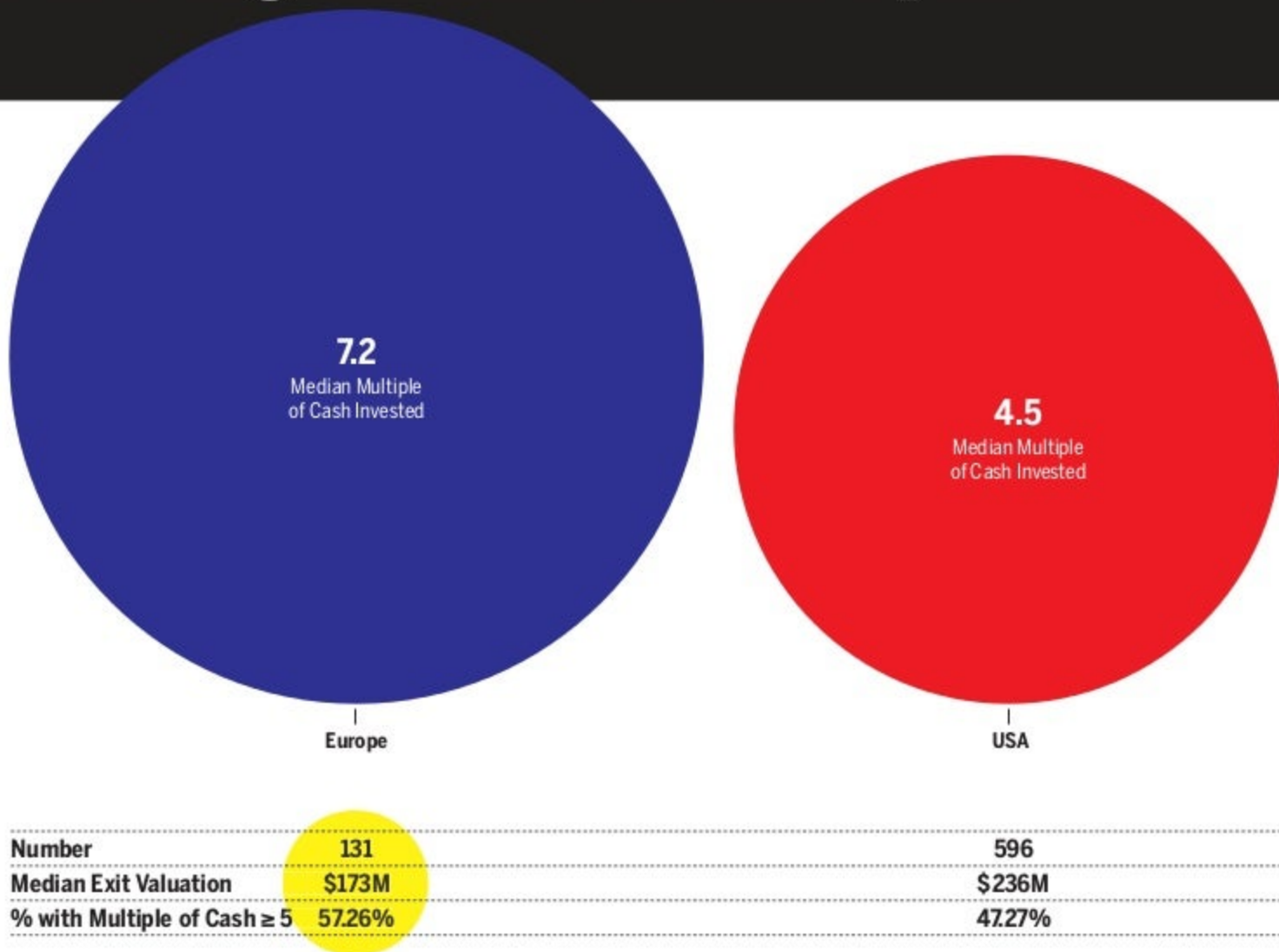


\*\*Source: Earlybird analysis, 2011. \*\* Remaining Europe includes Scandinavia, Benelux, Italy, Spain, Central & Eastern Europe.  
† Exchange rate used for 2010 1€ = \$1.3265

# At the same time, real performance shows European VC driving the best exit multiples globally

**Exits over \$100M  
2005 – Q1/2011**

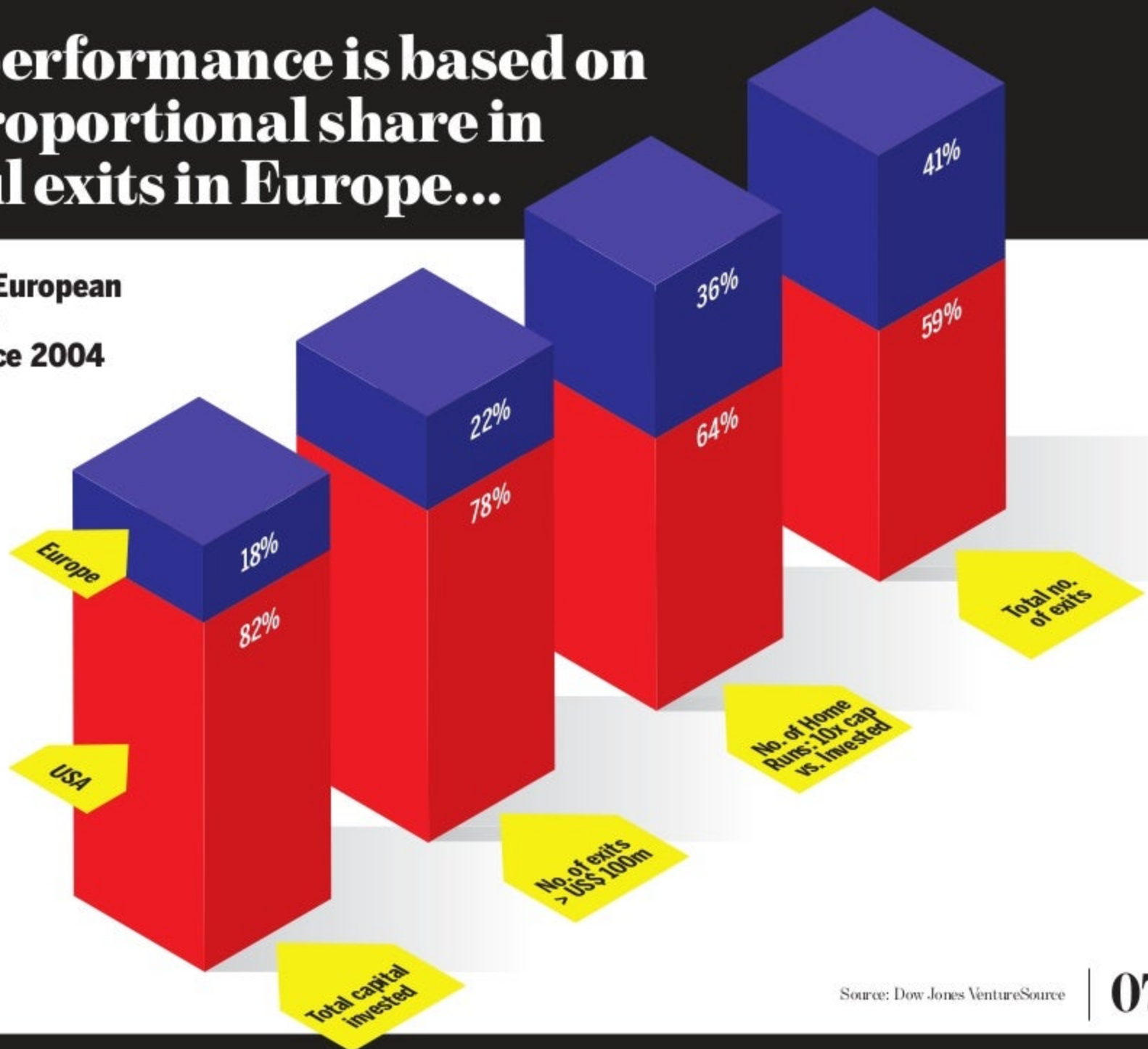
Proportionally Europe is producing higher exit multiples and, although average exit values are ca. 25% smaller, lower entry valuations and higher capital efficiency overcompensate for disadvantages in exit value.



Data based on exhaustive calculation of exit values and cash multiple of all exits reports in VentureSource database (Dow Jones VentureSource)

# This outperformance is based on an overproportional share in successful exits in Europe...

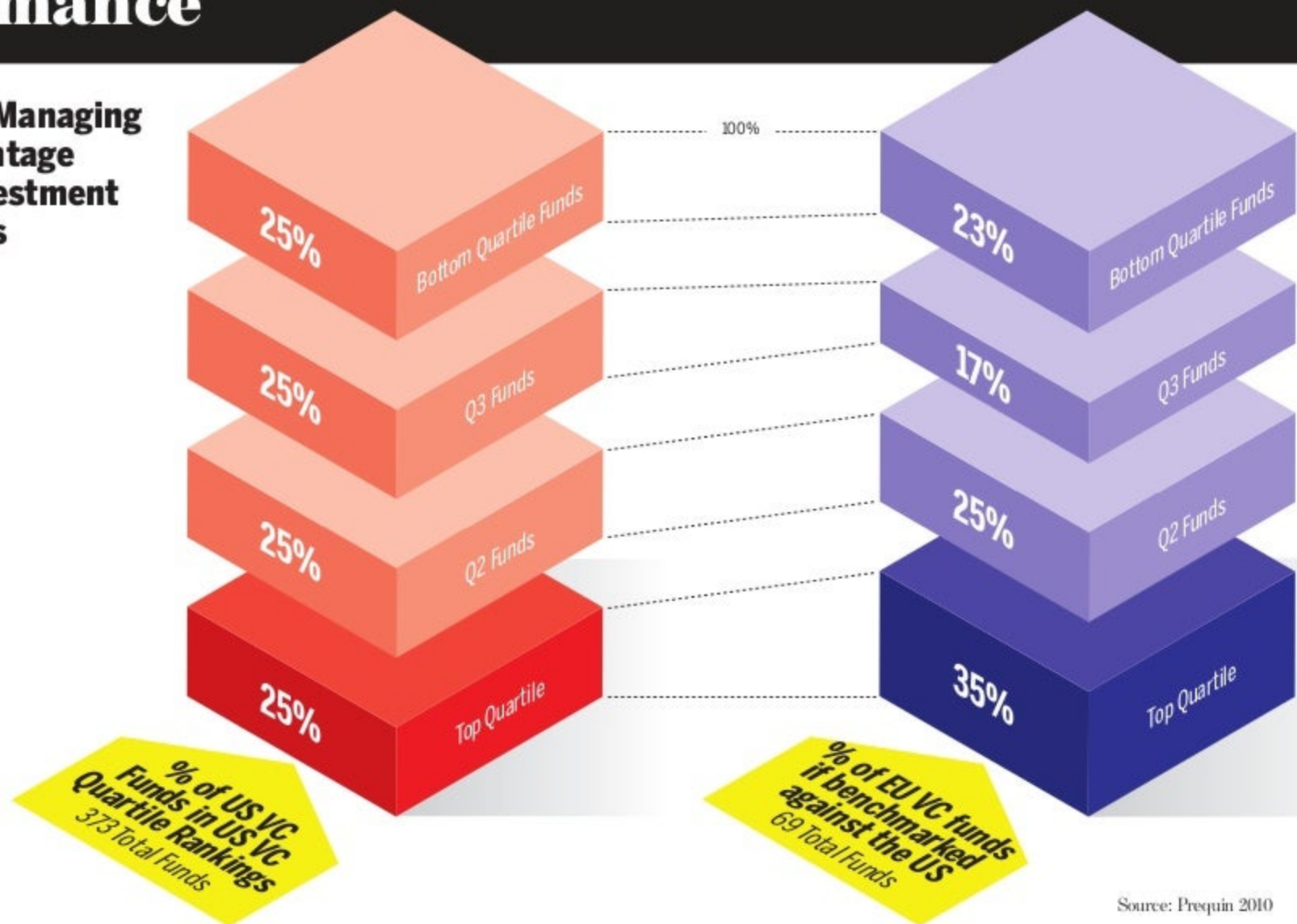
Overview US- vs. European  
Share in VC Value  
Contribution, since 2004



Source: Dow Jones VentureSource

# ...Due in part to a higher share of European VC funds with top US quartile performance

Active GPs Managing  
Funds of Vintage  
≥ 2006, Investment  
Grade Funds





# Forget the charts,

**where are the outsized venture exits in Europe?**

# It's not quite all about Skype...

**\$1B+**

**> 10X**

**5-10X**

...and many more

\*Includes 14 venture backed \$1Bn exits and 30 other deals generating a  $\geq 10x$  multiple, since 2005; does not include another 30 exits generating 5x-9x multiples. \*\* Enterprise value following exit to Groupon.  
Source: Dow Jones VentureSource and Earlybird Venture Capital



# ...while European VC-backed IPO performance matches or exceeds US performance, both pre- as well as post-IPO

**US vs. Europe, post-IPO performance of all VC-backed IPOs\*, 03/04 to 07/11**



\*NB excludes Google  
Source: CapitalIQ, DFJ Esprit



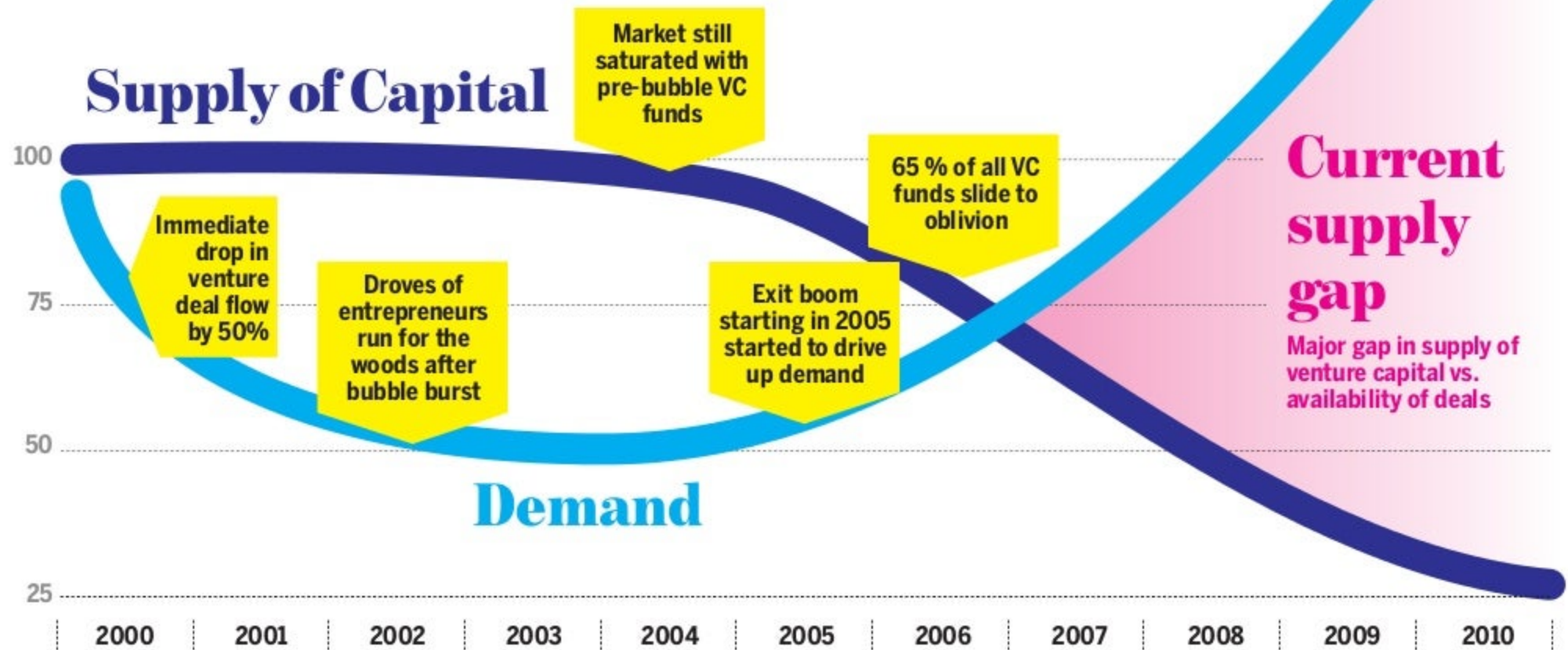
# On the origin of the turnaround

An entrepreneurial boom combined with a mature seed/angel/venture ecosystem has led European early-stage companies to scale faster and accrue more value sooner than ever before. Starting in the year 2004, the fundamentals for a break-out venture decade in Europe have been continuously improving, while venture capital fund commitments have remained down for last 6 years (positive contra-indicator) leading to a dramatic demand-supply in-equilibrium of available capital.



# Europe today has the largest inequilibrium of venture Capital availability on the planet

Supply-Demand Ratio European Venture Capital



# Supply side: Natural selection

A person wearing a white long-sleeved button-down shirt and blue boxing gloves is shown from the chest down. The person's hands are in a boxing stance, with the gloves prominently displayed in the foreground. The background is a solid blue color.

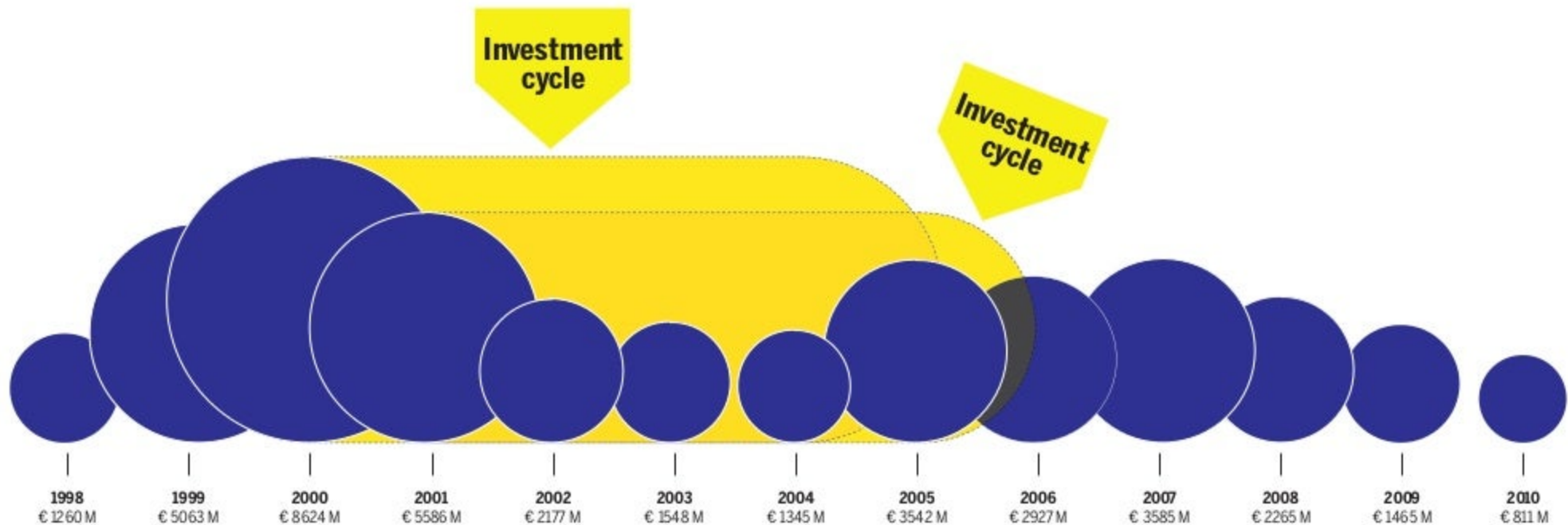
**“Almost every bank, large corporation and insurance company in Europe created its own venture capital fund in 1999–2000; What has emerged from the post-bubble struggle for existence is nothing less than some of the strongest Venture Capital firms in the world.”**

—John Holloway, *European Investment Fund*



# While the supply of venture capital started to dry out only after 2004...

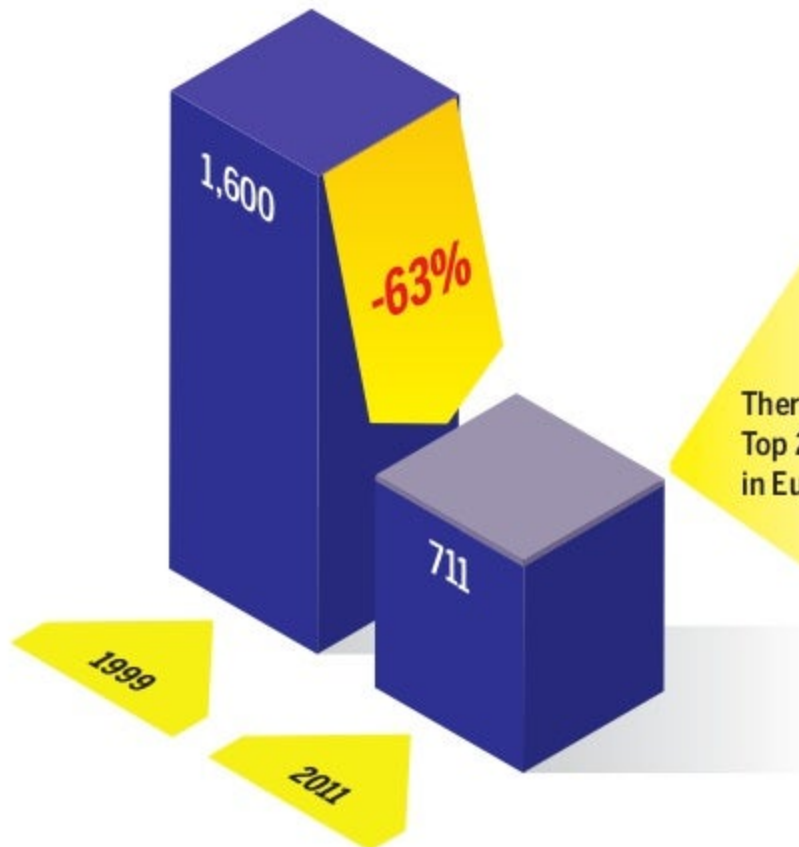
## Early-Stage VC Fundraising Europe\*



\*1998-2006: Thomson Financial/PWC statistics, High-Tech Early-Stage;  
2007-2010: PEREP Analytics, Early-Stage  
Source: EVCA

# ...Only the fittest venture capital firms survived the post-bubble shake out

Number of VC Funds in Europe 1999 vs. 2011\*



Thereof the  
Top 20 VCs  
in Europe

## Germany

EARLYBIRD

HOLZNER  
VENTURES

wellingtonpartners

TARGET PARTNERS

## UK

ACCEL

balderton capital

Index  
Ventures

eden  
ventures

PROfounders

dfjesprit

Amadeus Capital Partners

## France

PARTECH  
International

SOFINNOVA

## Other

ATOMICO

CREANDUM

Mentor

OPEN OCEAN

PRIMEVENTURES

NZ:Northzone

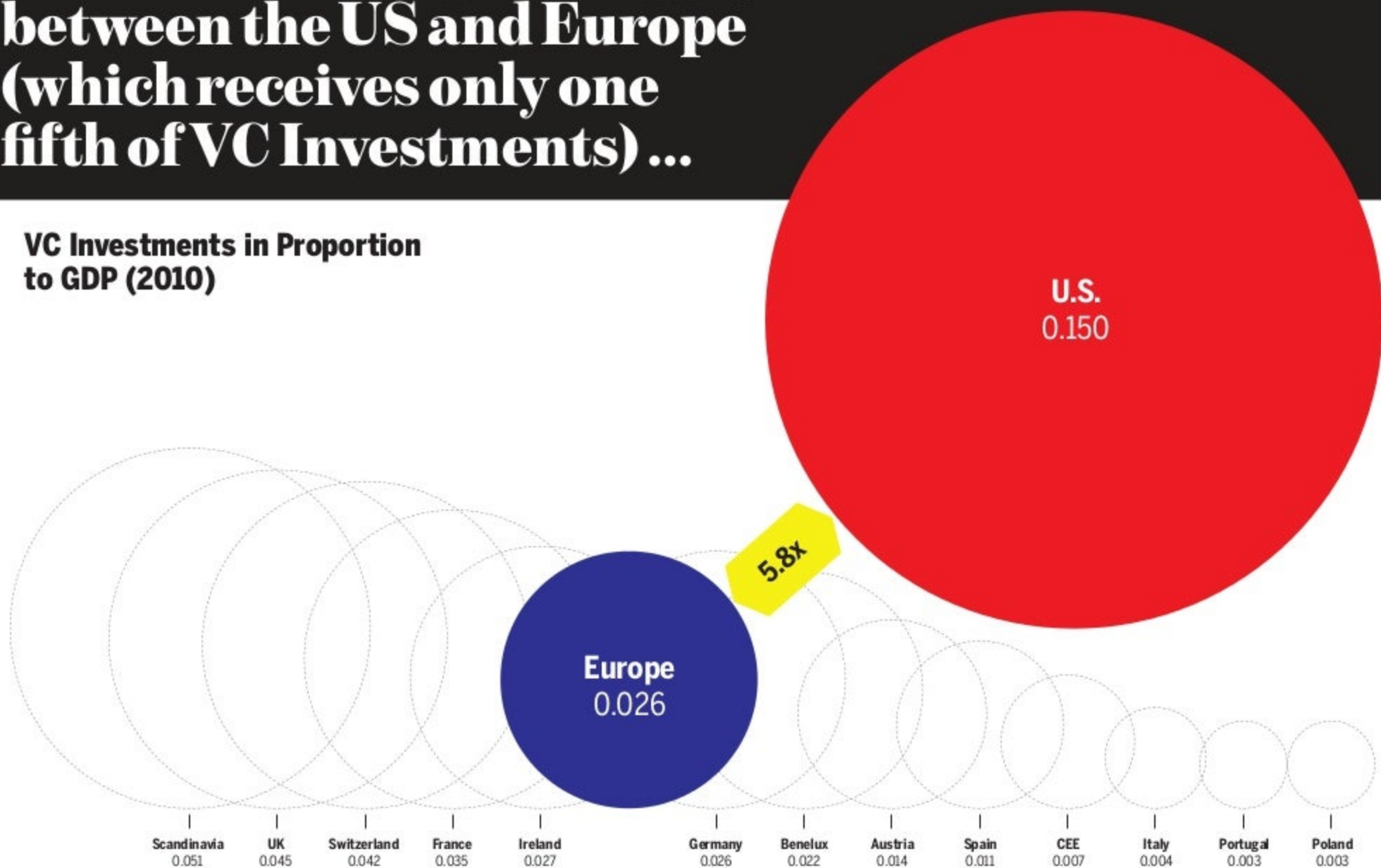
FIDELITY  
GROWTH PARTNERS  
EUROPE

\*Active Funds = all VC funds, doing ≥ 4 investments per year; Sub-set of so-called "Investment Grade Funds": US\$ 100M; > 50% non-captive capital; raised successor fund with vintage year ≥ 2006  
Source: NVCA; EVCA; Earlybird Estimates



# The dramatic capital supply imbalance between the US and Europe (which receives only one fifth of VC Investments) ...

VC Investments in Proportion to GDP (2010)



# ...Has meant that a comparatively small but mature sub-set of European VCs are able to now move into fund generations 3 and beyond

## VC teams' maturity by number of funds raised



W. Europe



U.S.

	W. Europe	U.S.	Ratio
≥ 2	73	334	4.6x
≥ 3	58	202	3.5x
≥ 4	28	132	4.7x
≥ 5	8	94	11.8x
≥ 6	4	65	16.3x
Time since early growth of VC industry (years)	10-15	50-60	4-5x

Source: Dow Jones VentureSource (cross selection, not all funds included)



# As a result, it is a buyer's market\* in Europe:

**“European venture capital is a cottage industry characterised by an insufficient number of private investors (e.g. lack of pension and endowment funds which account for roughly 65% of the US VC industry) with the capacity and willingness to invest in venture capital, mainly due to past disappointments and the resulting lack of confidence which still inhibits the European venture industry today.”**

—Egbert Freiherr von Cramm,  
*Managing Director, Deutsche Bank Private Equity*

\*In the US venture receives substantial funding from university endowments, pension funds and family offices - these three combined are by far the largest contributors and account collectively for more than two third of the US venture capital. In contrast, university endowments within the EU allocate less than 2% of their assets to private equity as a whole, compared to over 10% in the US. Also, while there are over 11,000 family offices in the US, there are only 2,500 family offices in the EU.

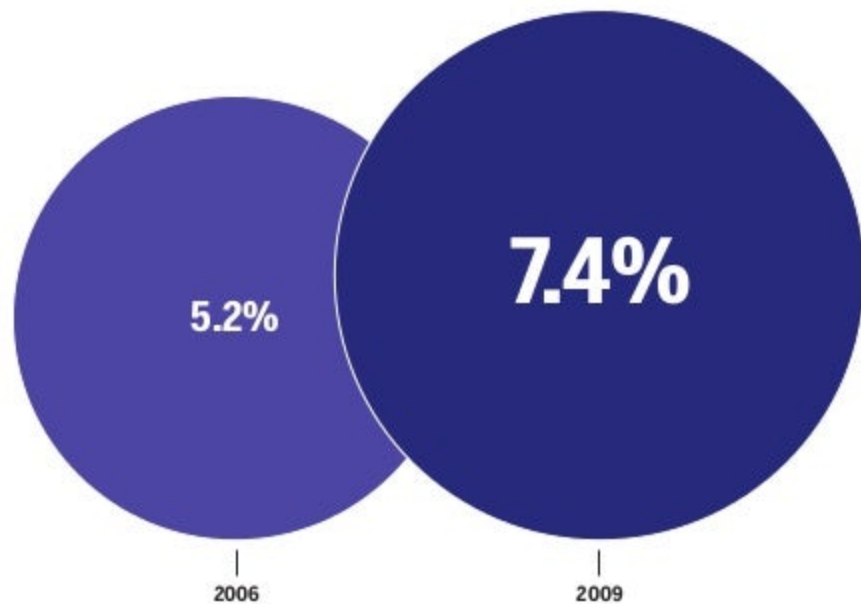


# Demand side: Proliferation

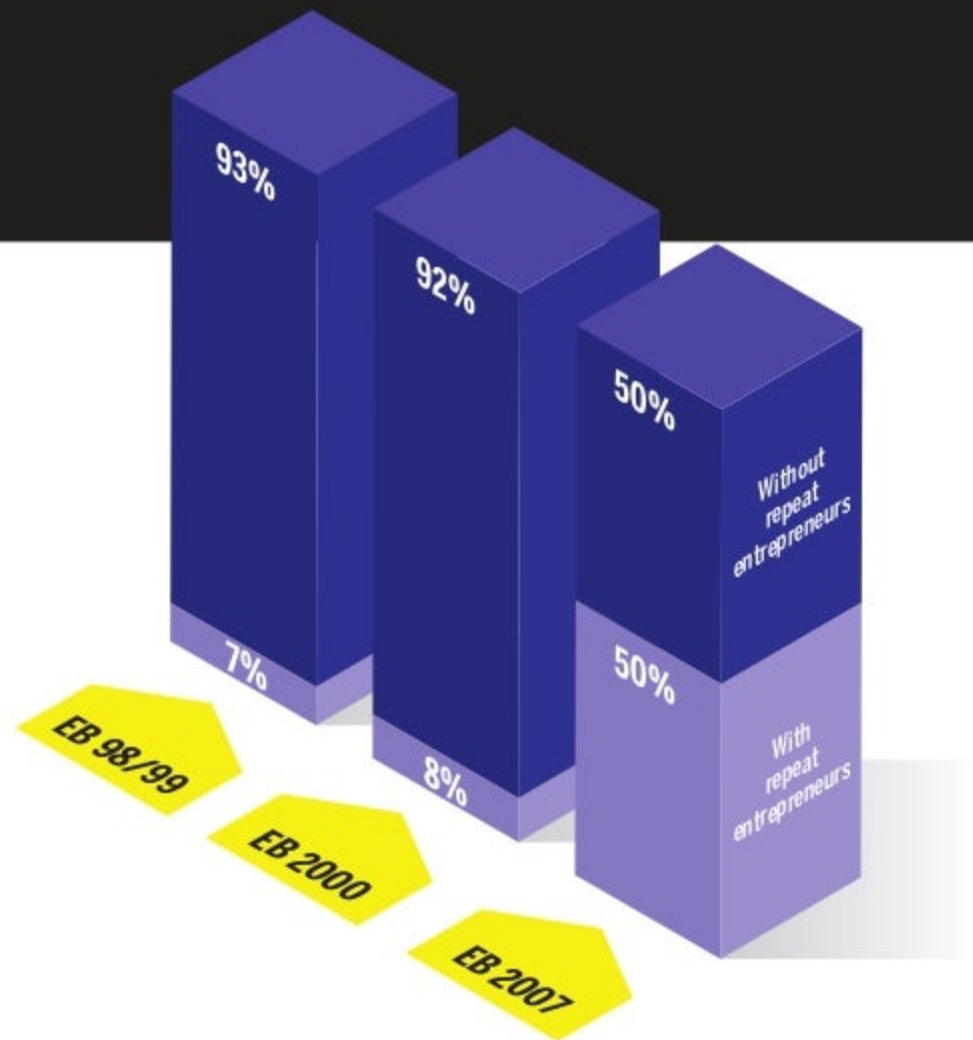
**“The scarcity of VC money in Europe not only has led to low entry valuations, but also has driven up capital efficiency (roughly 70 percent higher than in the US) and yield (hit rate) because the scarcity of money allows the very few investors to simply be more selective.”**

—Uli Fricke, *EVCA Chairwoman 2010-2011*

# There has been a surge in both the quality and quantity of the entrepreneurial pool in Europe...



**Latent entrepreneurs in European population between 18 and 64\***



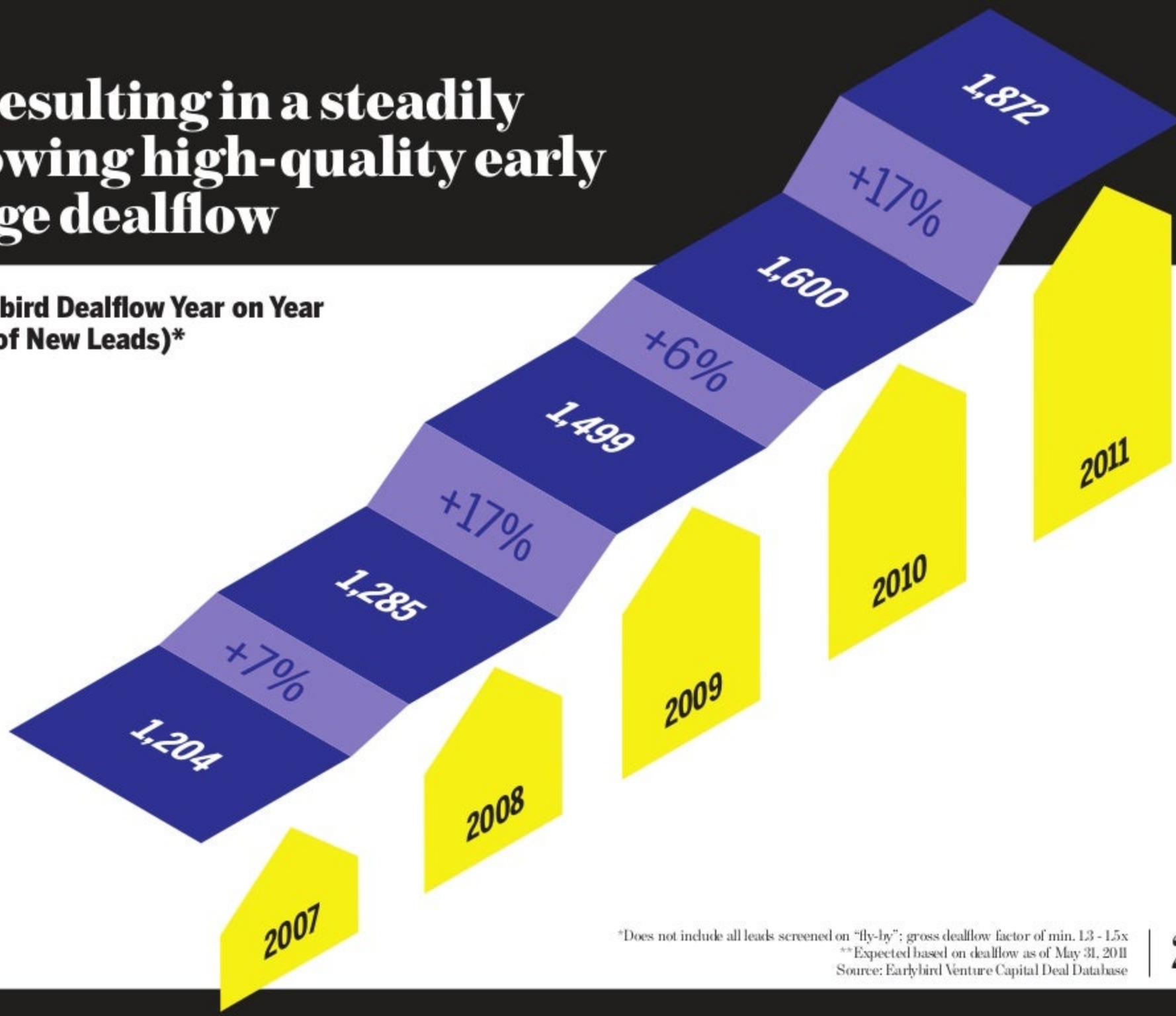
**No. of portfolio companies with repeat entrepreneurs in Venture Capital funds\*\***

\*Not yet involved in entrepreneurial activities, definitions slightly changed from 2006 to 2009 \*\*Earlybird Venture Capital Fund IV as example (a broader survey of 8 European VCs across 16 funds found an average of 37% serial entrepreneurs in portfolio companies (EVCA, 2011) Source: Earlybird Analysis, Global Entrepreneurship Report 2006/2009



# ...Resulting in a steadily growing high-quality early stage dealflow

**Earlybird Dealflow Year on Year  
(No. of New Leads)\***

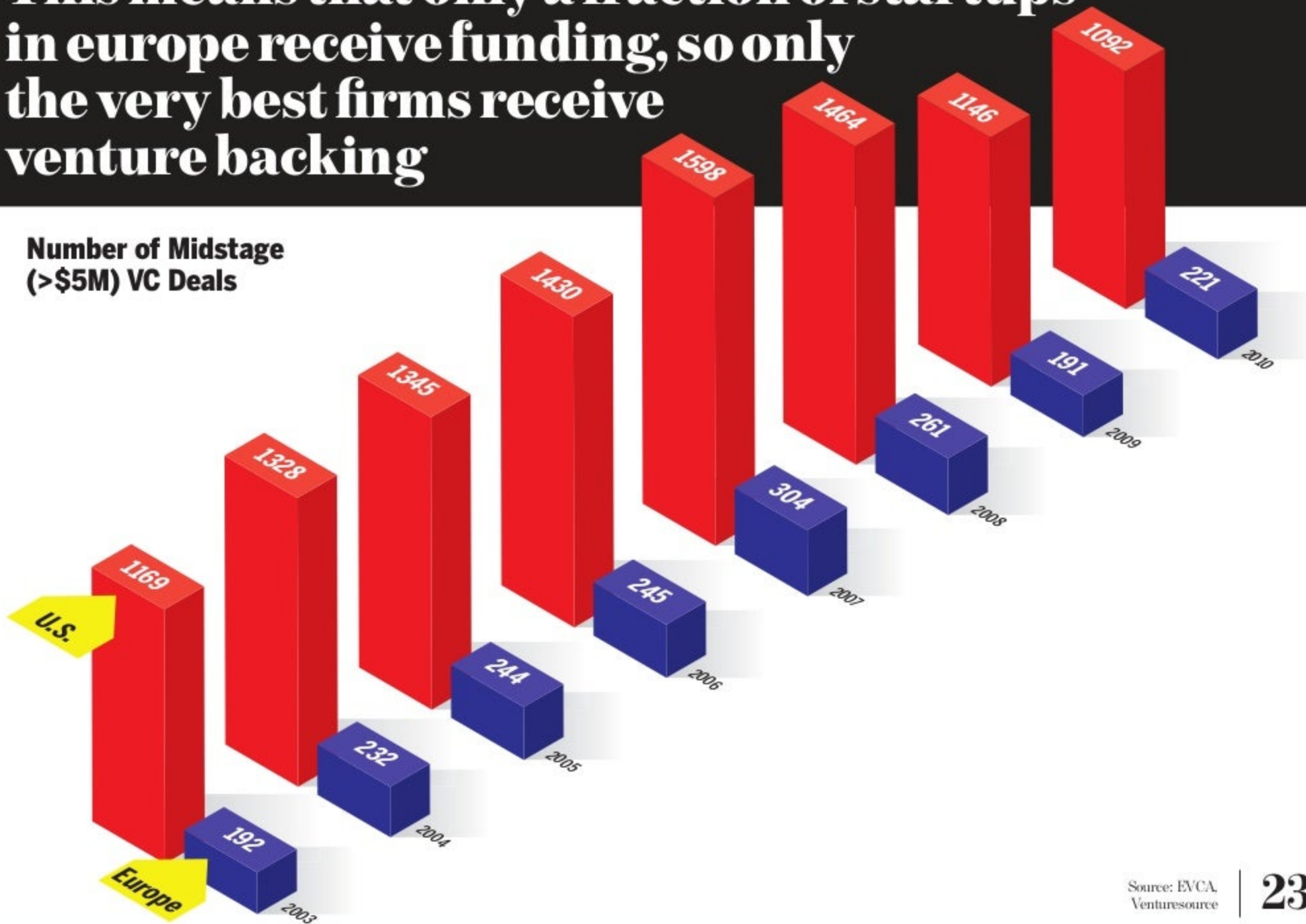


\*Does not include all leads screened on "fly-by"; gross dealflow factor of min. 1.3 - 1.5x  
\*\* Expected based on dealflow as of May 31, 2011  
Source: Earlybird Venture Capital Deal Database



**This means that only a fraction of startups in europe receive funding, so only the very best firms receive venture backing**

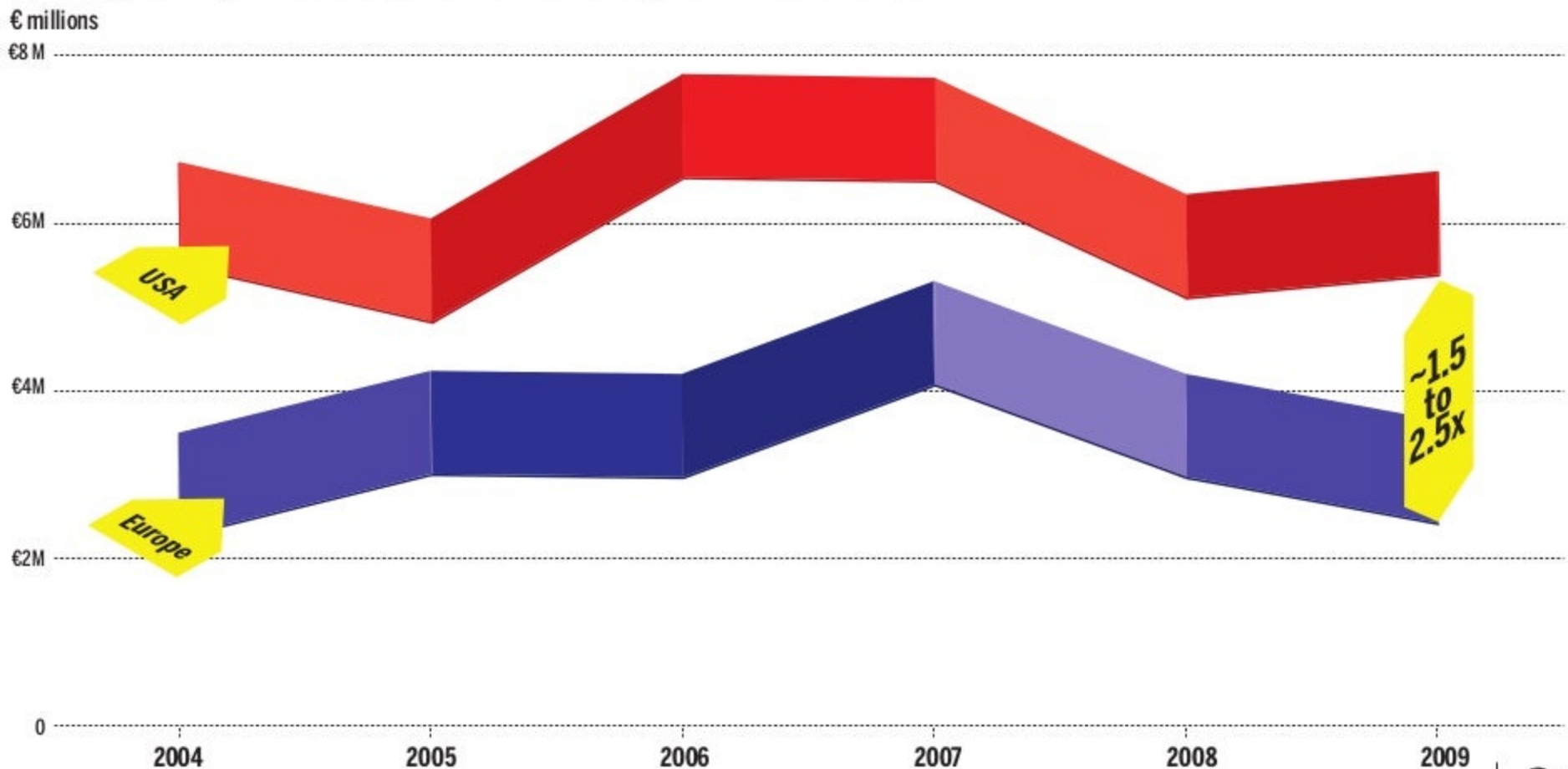
**Number of Midstage (>\$5M) VC Deals**



Source: EVCA,  
Venturesource

# ...while European capital efficiency results both from low entry valuations...

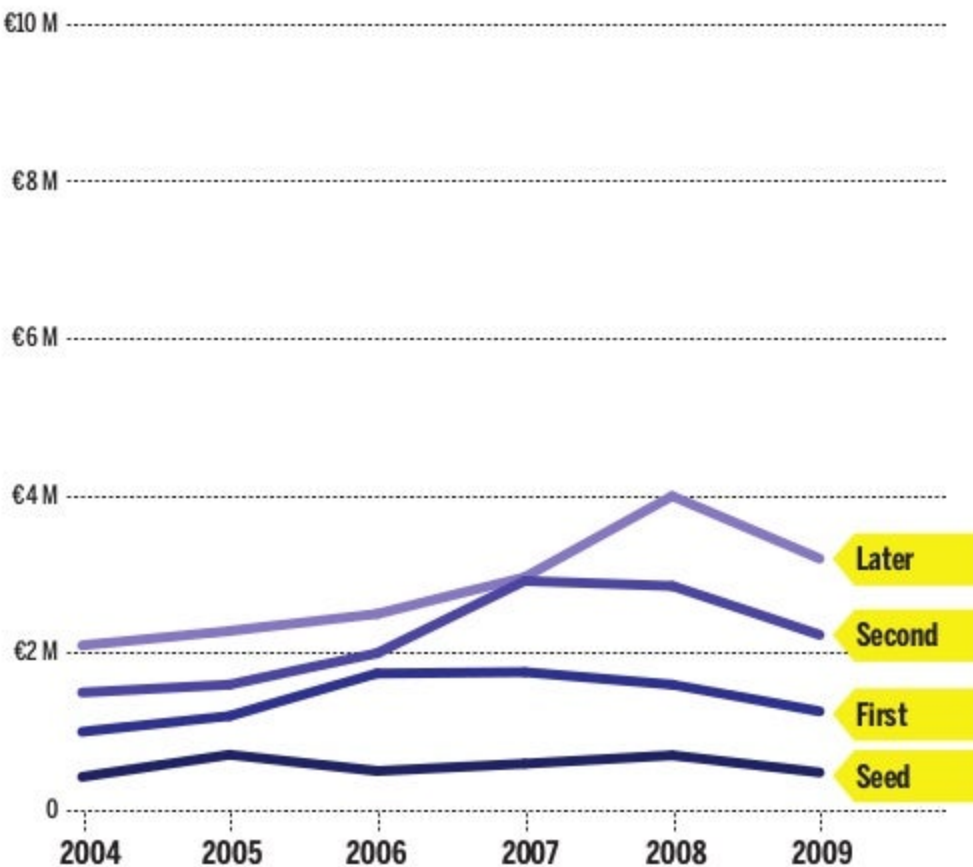
## Early stage entry valuations for Venture Capital investments



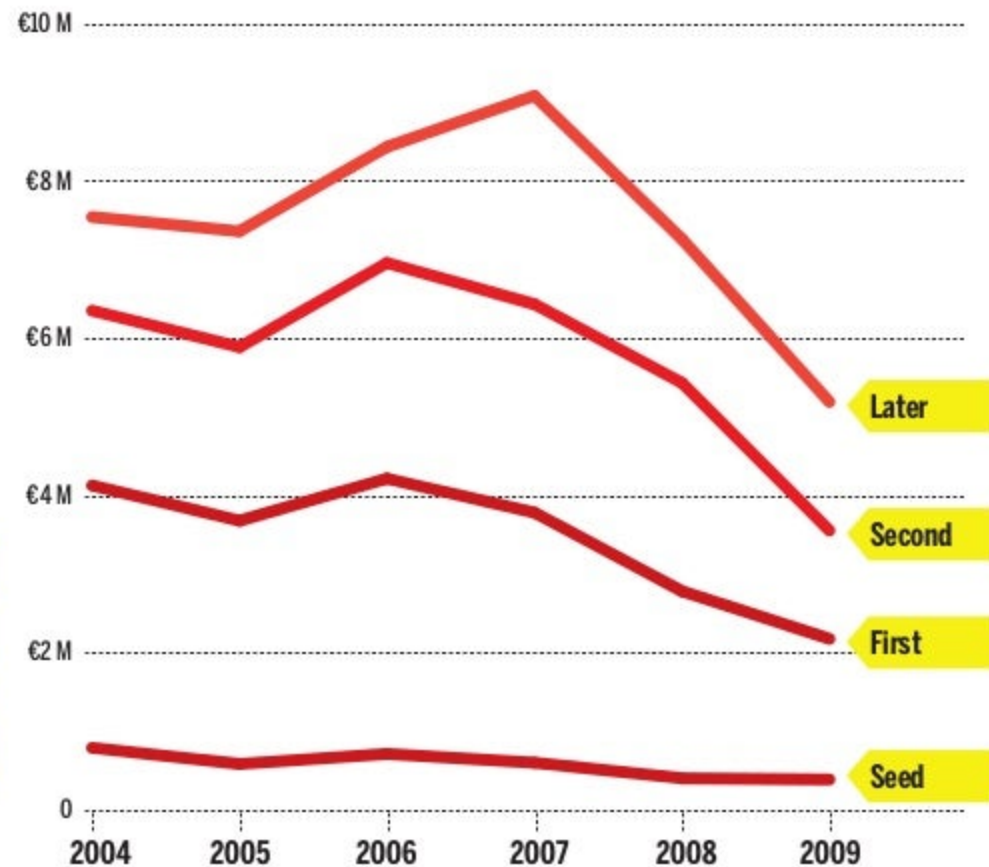
Source: Dow Jones VentureSource

# ... and lower cost of growing businesses /tight control of cash invested...

## Median European investments



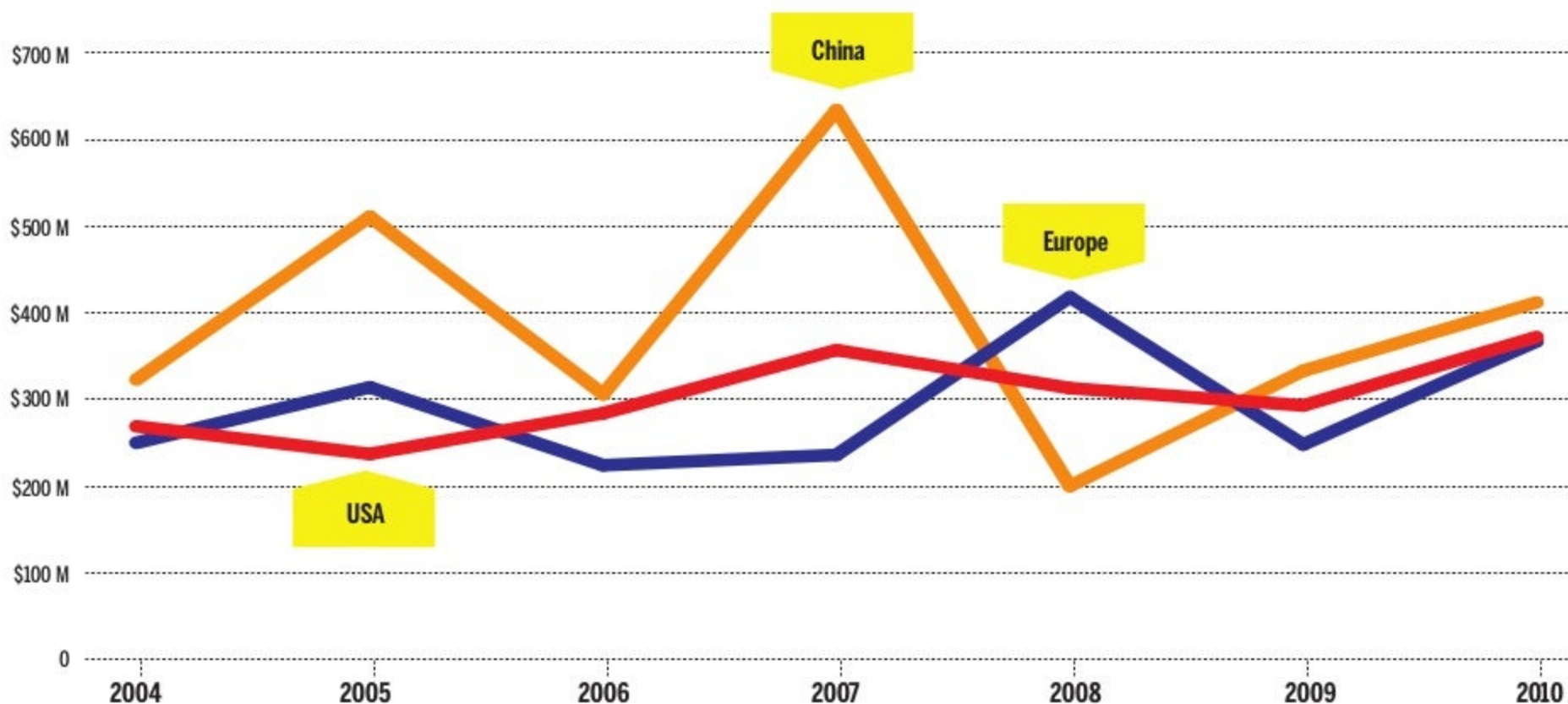
## Median U.S. investments





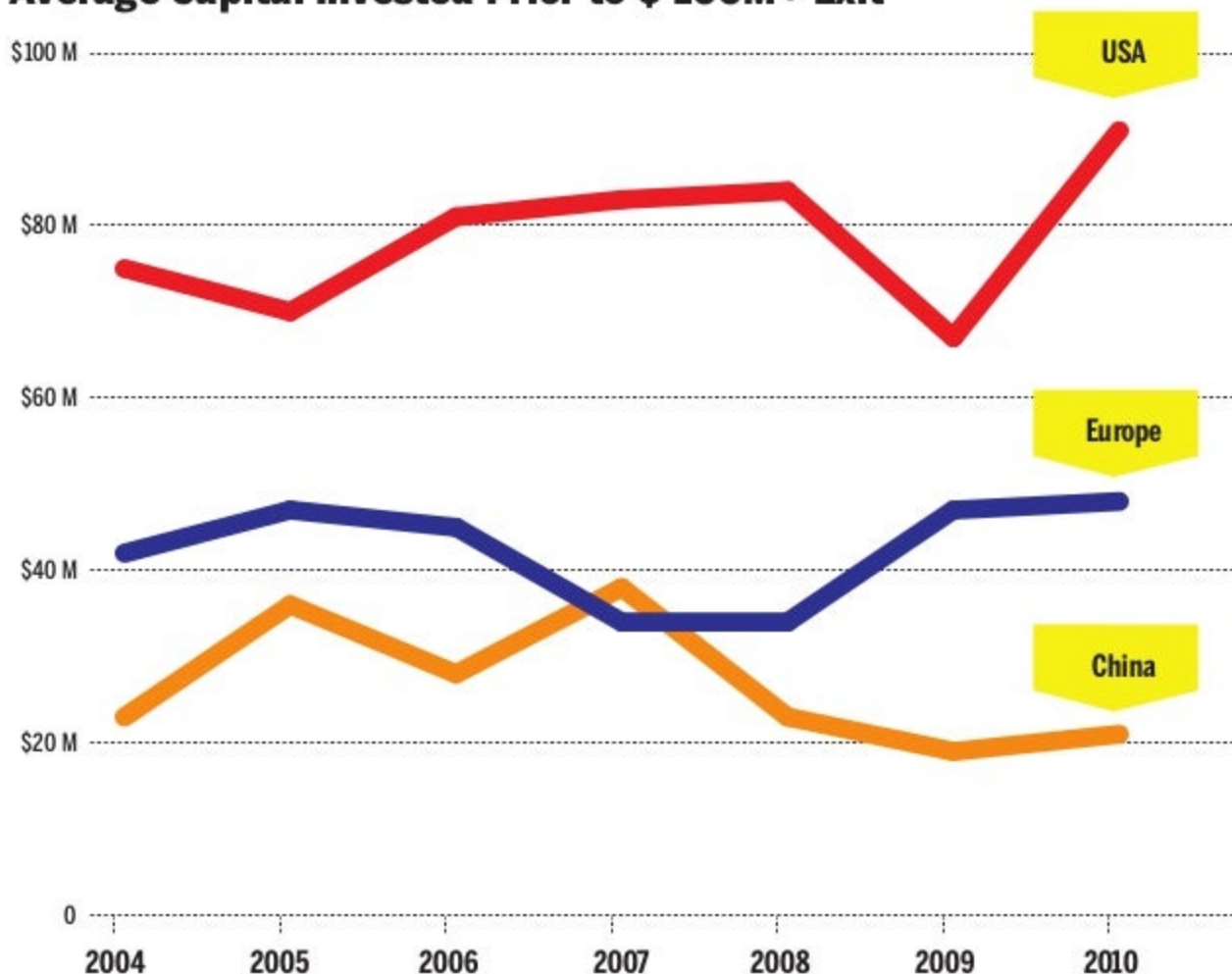
**...Which has resulted in Europe matching the US for successful exit values at around \$350M...**

**Average Exit Cap (\$ 100M+ Exits) US\$M**



# ... while investing only half the capital to build winners

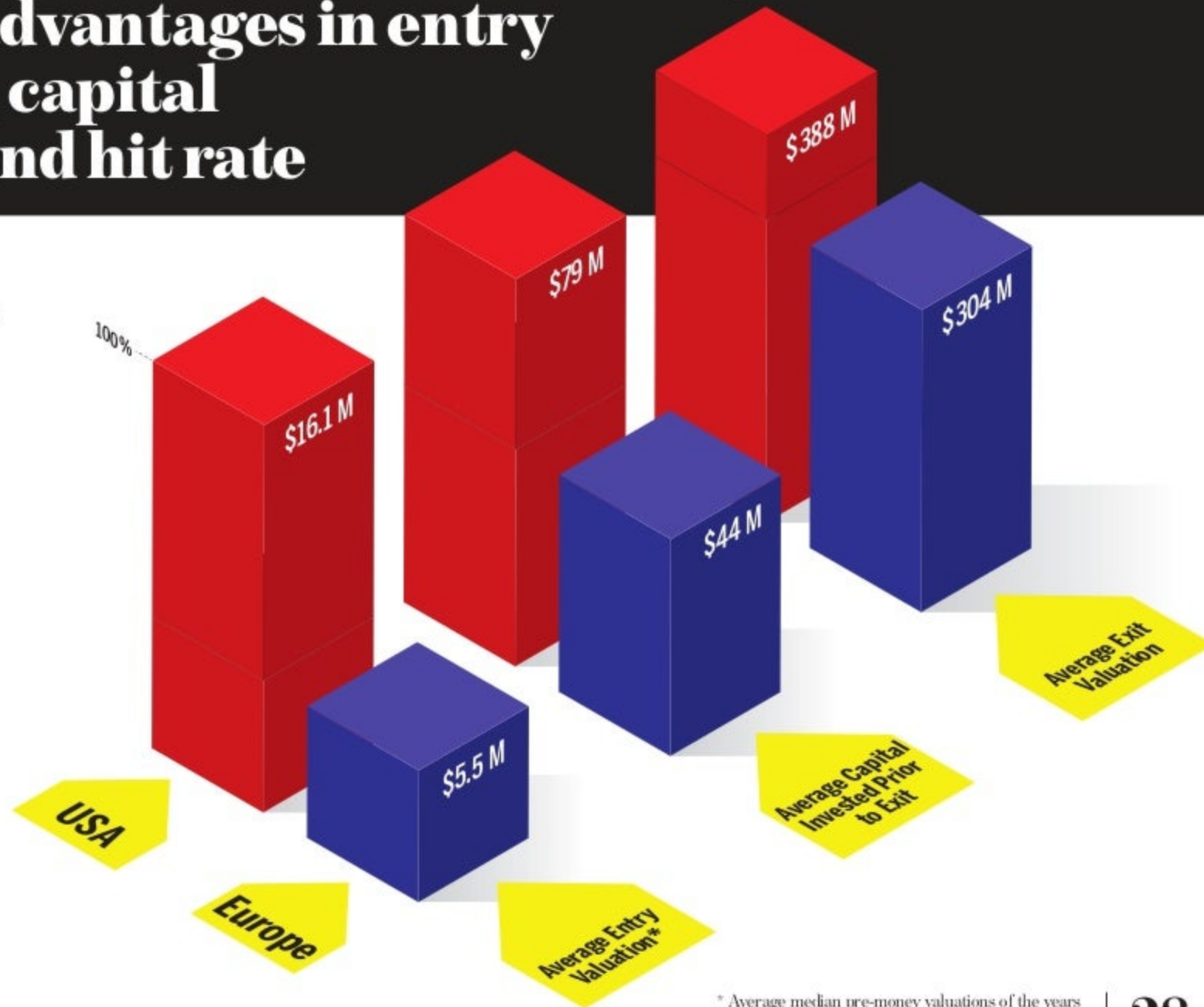
Average Capital Invested Prior to \$ 100M+ Exit



- » Exits in the same order of magnitude need only half the amount of VC in Europe
- » US capital efficiency not generally increasing—hence lower returns, higher prices—and the current shake out
- » Average in US 1997–2001 was \$ 41M per company at \$ 317M average exit—just like Europe now

# These market changes have led to significant european advantages in entry valuations, capital efficiency and hit rate

**Benchmarking of VC  
Performance Drivers,  
Europe vs. USA,  
2004–2011 ytd**



\* Average median pre-money valuations of the years 2004-2010 ytd. Source: EVCA, Earlybird analysis



# Reprehensible

**...that you are only now reading about the Comeback,  
but then again: Visibility on European VC Funds for  
investors is highly limited and prejudiced by the poor  
quality of published industry fund statistics in Europe.\***



\* As a result, recent LP surveys (including most recently from Coller Capital) continue to reflect a dampened VC investment climate in Europe, even though real performance of European VC – by all indicators including current venture-backed liquidity events – is dramatically better than generally perceived.

# Very small data set in europe – 21% of funds in database Representing only 15% of the industry

## No. of Funds

In the US, market publication requirements of endowments oblige most GPs to publish financial performance. In contrast, there are no such requirements in Europe, so many of the top-performing European funds are not publishing their financial data in the Thomson Venture database. Moreover, in Europe 85% of EVCA listed funds have disappeared since the burst of the bubble, and only 10% of the remaining funds are considered active, yet the bulk of European venture fund managers that are still listed are no longer active, resulting in a long non-contributing tail of European VC funds listed in the Thomson database.

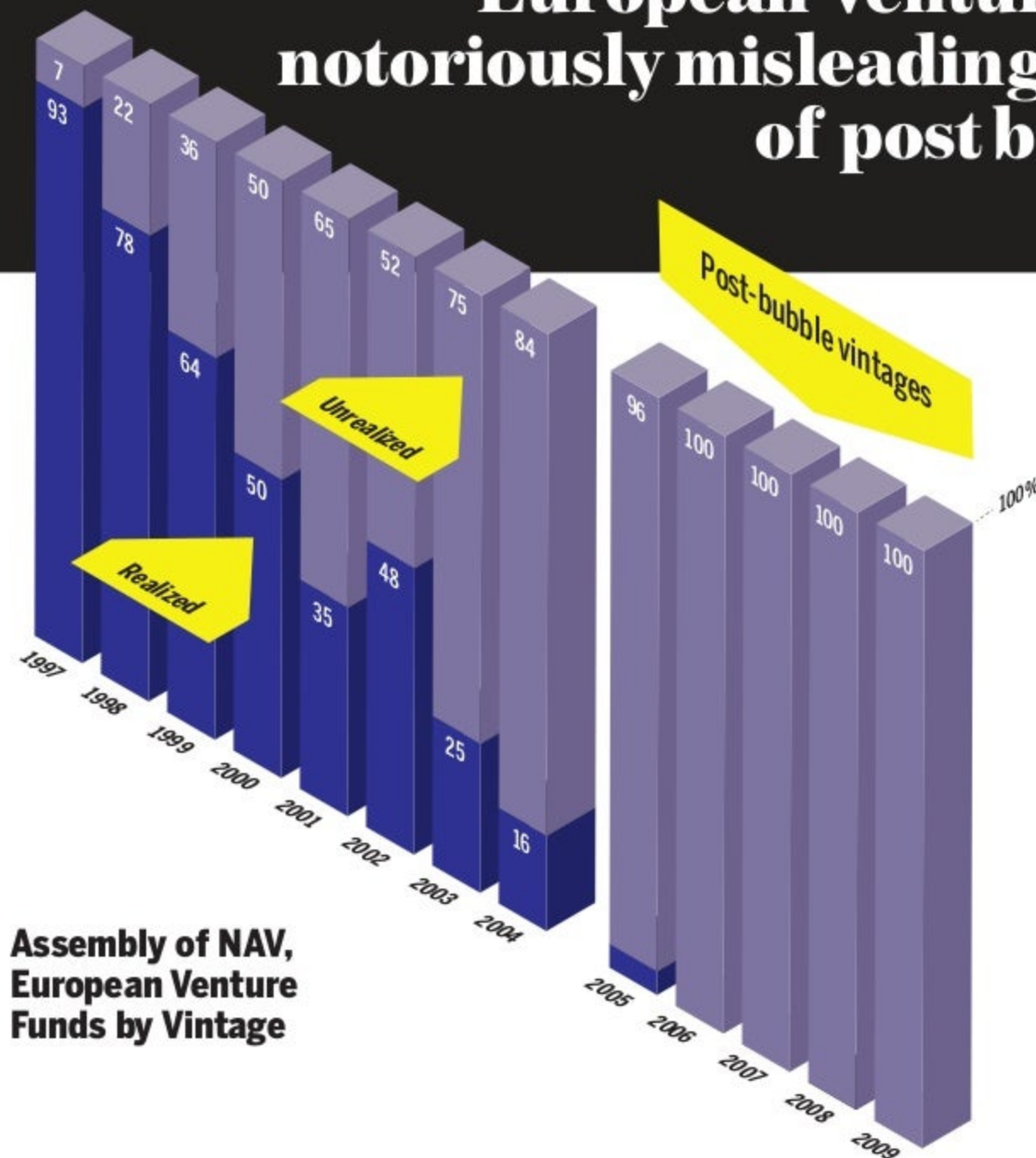
Source: EVCA, Earlybird Analysis



Source: Preqin Performance Analyst database



# European Venture statistics are notoriously misleading: Performance of post bubble vintages not yet visible



**Assembly of NAV,  
European Venture  
Funds by Vintage**

In addition to highly misleading published historical industry data for European VC which lead to a negative bias in official statistics, there is almost no reported performance of post-bubble vintages (which effectively started only 2004/2005) – these funds are significantly better performing and, as evidenced by recent exits across top-tier funds, are now at the inflection point



# **Just one example: German venture capital**



**The dramatic  
changes in the  
European venture  
scene are well illustrated  
in Germany, which over the  
past 24 months has produced  
the highest number of venture-  
backed exits in Europe**

# In an economy that is not exactly underperforming...

The  
Economist

Thursday, Feb. 03, 2011

## Vorsprung durch Exports

**Which G7 economy was the best performer of the past decade? And can it keep it up?**

...Berlin beats Bay Area...

...Germany grew at its fastest pace for two decades in 2010...

...Over the past decade Germany had the fastest growth in GDP per person among the G7 club of rich economies...

...The IMF forecasts that Germany will also have the fastest growth in GDP per head over the next five years...

TIME  
IN PARTNERSHIP WITH CNN

Monday, Mar. 07, 2011

## How Germany Became the China of Europe

..."Germany is in a very competitive position today, more than ever," proclaims Stéphane Garelli, director of the world Competitiveness Center at the Swiss business school IMD...

...German companies poured money into R&D and cut expenses...

...Germany chums out specialized products of such superior quality...

...That has kept the country in front of emerging economies like China's and helped it benefit from their rapid growth...

...Germany "is a road map for the U.S. and other countries"...



**“...increasing numbers of Germans are choosing to forgo corporate life to create nimble, hungry and global high-tech ventures; moreover, they realize that the rapid rise of technology-enabled services over the past decade is a faster route to success than the more capital-heavy *Mittelstand*.”**

—Sven Weber,  
President,  
*Silicon Valley Bank Capital*

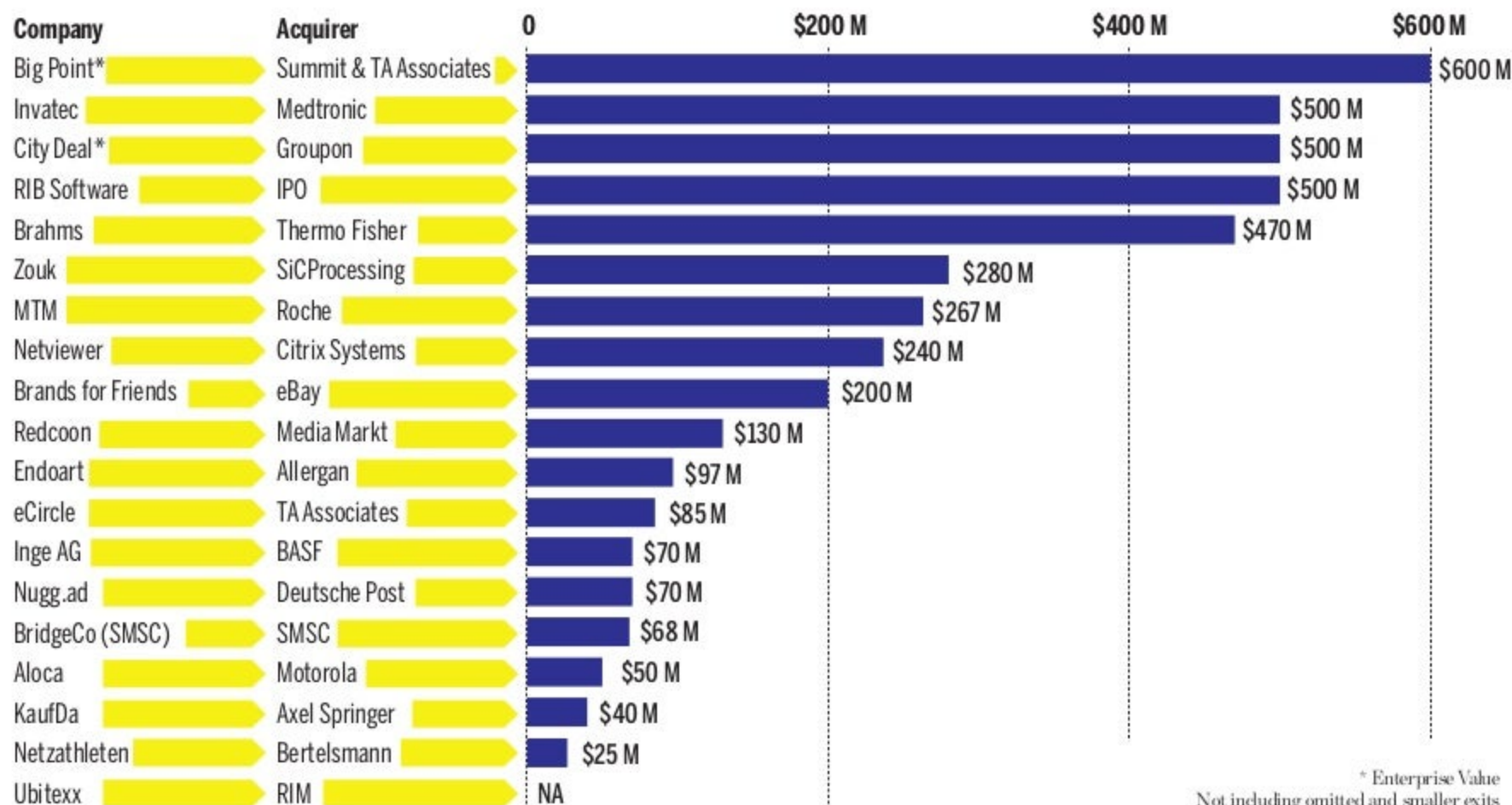


\* As a result, the deal flow quantity in Germany is increasingly driven by available entrepreneurs, in contrast to the US, where deal flow is driven by available innovations. Indeed, the density of available entrepreneurs in Germany has almost doubled from 2006 to 2010 according to the global entrepreneurship report, increasing from roughly a third of the US figure in 2006 to two-thirds of the respective US figure today.



# This has resulted in over \$ 4.4 BN in venture-backed exits in Germany during the last 24 months

## Venture-Backed Exits Germany past 24 Months (as of March 2011)



\* Enterprise Value  
Not including omitted and smaller exits  
Source: BVK, Earlybird analysis

# **Yet in an economy that is 25% of US GDP...**

**...Germany has only  
4 independent VC funds  
of Investment-Grade  
size > €100M  
(Vs. in the US >227 funds)**





# A multi-localized venture model

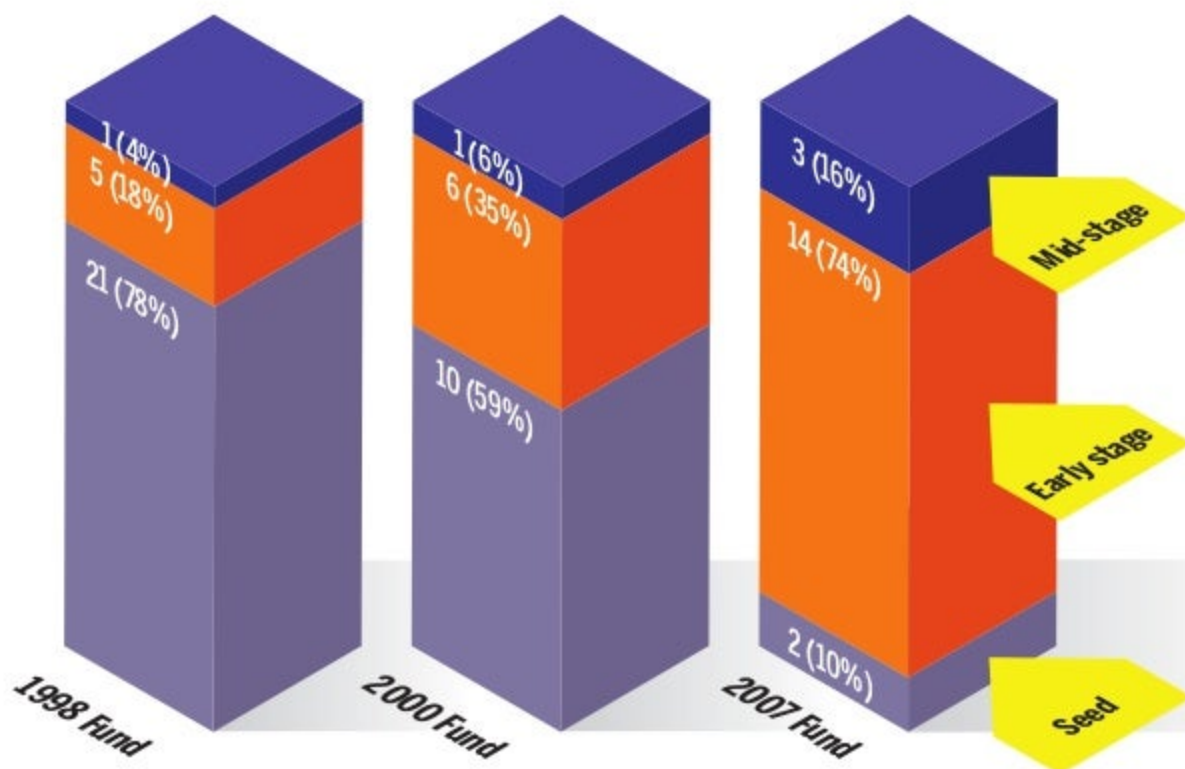
**“Germany has a unique model where, in a different twist to the hugely successful VC-funded start-up ecosystem of Silicon Valley, the industry is not as much reliant on a handful of blockbusters or even a closely networked startup environment, but rather one where a high number of regionally diversified quality opportunities correspond to increasing levels of entrepreneurial activity.”**

—Andreas Ritter, ARICO Private Investments  
Advisory and former Head of Private equity Duke  
University's endowment

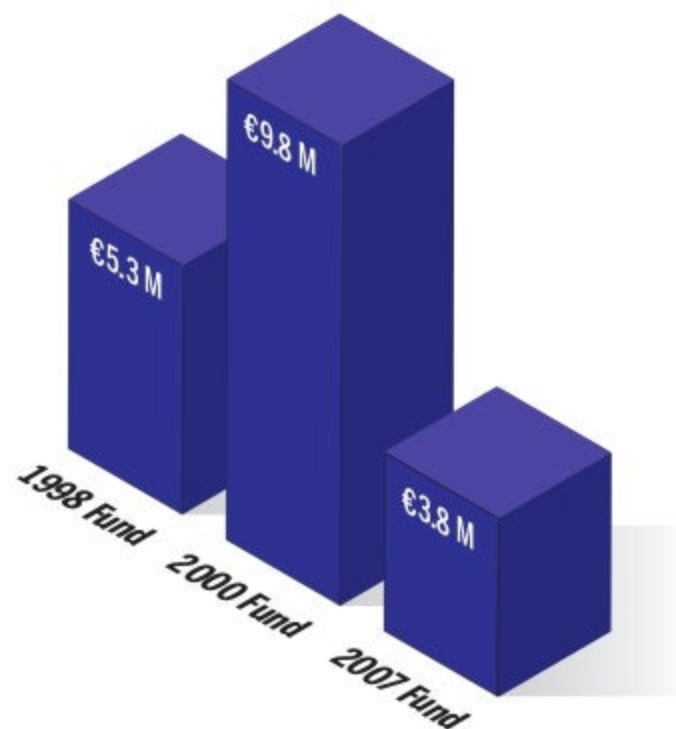


# This environment Is producing best-in-class funds with attractive market fundamentals...

**Inside-out German VC fund view confirms unparalleled current environment**



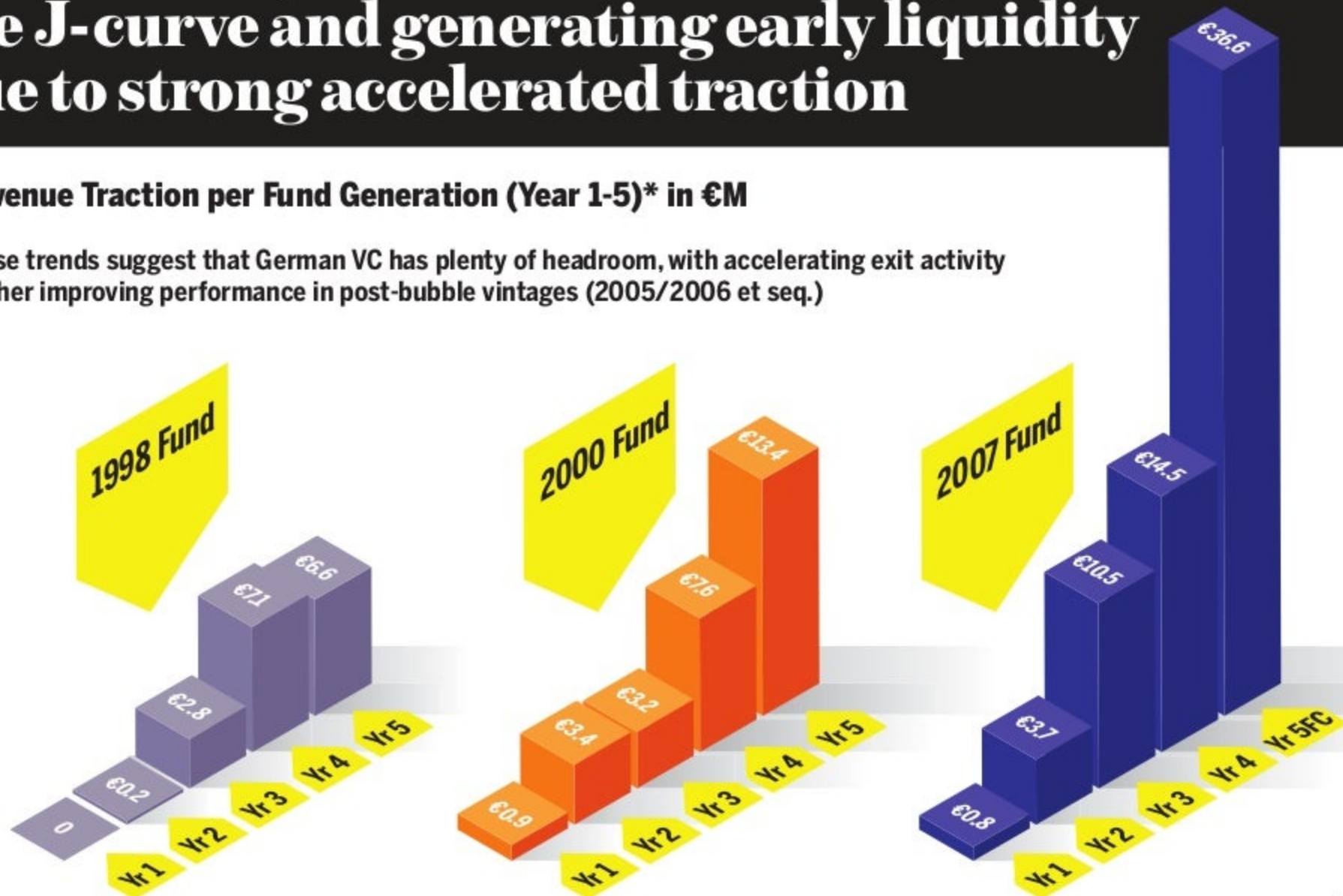
**Median Pre-Money Valuation – Initial Round in €M**



# ...while many VCs are now investing beyond the J-curve and generating early liquidity due to strong accelerated traction

## Revenue Traction per Fund Generation (Year 1-5)\* in €M

These trends suggest that German VC has plenty of headroom, with accelerating exit activity further improving performance in post-bubble vintages (2005/2006 et seq.)



\*Aggregate shareholding weighted revenue contribution of portfolio companies  
Source: Earlybird Venture Capital Example

# Summary:

# The Sky is the Limit

- » The structure and performance of European venture capital illustrates the unparalleled potential of a matured industry.
- » A number of funds based in Europe have achieved US top quartile performance in post-bubble era.
- » The imbalance between VC funding (supply) and investment opportunities (demand) is driving a unparalleled competitive landscape.
- » European VC has finally emerged with strong fundamentals within the context of an inefficient market while benefitting from a higher capital efficiency than the US.





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