Startup Europe Partnership

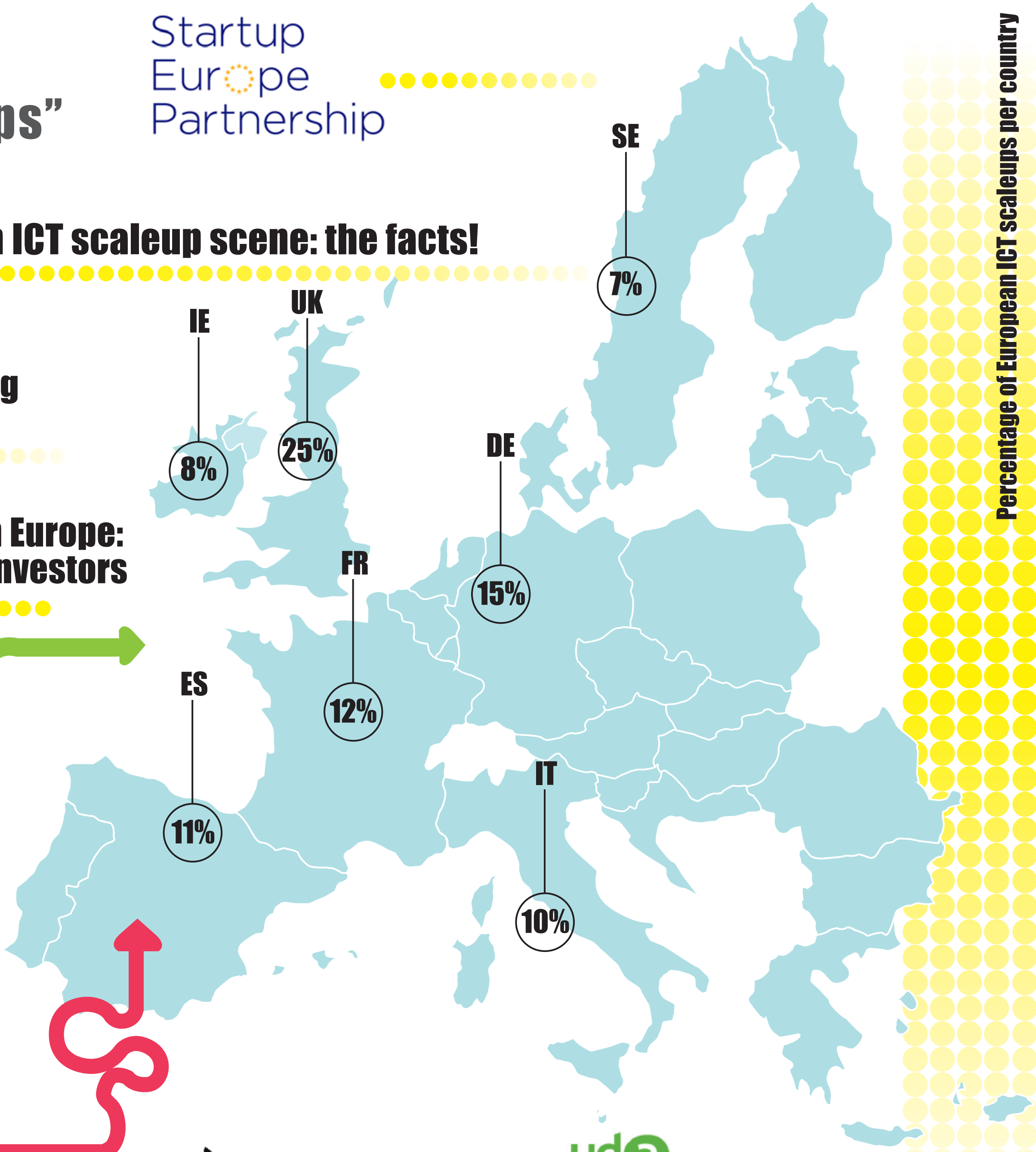
Mapping the European “ICT Scaleups”

Startup Europe Partnership

The European ICT scaleup scene: the facts!

How the app economy is creating jobs and driving economic growth in the EU28 (2014 update)

Confirmed trend: US growth investors are back in Europe: nearly half of deals >$15m (47%) were led by US investors



Preliminary insights November 2014

PEDAL
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NEW ENTERPRISE TECHNOLOGY

UK and Germany confirm their status of “mecca and cradle”

High-Tech Gruenderfonds and Index Ventures as the most active investors

Autonomy, Neolane, Viber, Trivago Mojang & Supercell among top recent exits

Over 60% of the scaleups received the last funding in Seed or Series A

Software solutions, e-commerce and mobile applications prove to be the hottest sectors

Proportionality between size of sector and funding received confirmed

“Startup European Partnership” (SEP) to investigate and define trends and future of the startup ecosystem

A preliminary insight over a growing database of some 1000 European startups reporting fundings, exits, mergers & acquisitions

An interim analysis preparing a final guide over the European startup ecosystem to be released in 1Q/2015

Europe doesn’t have one Silicon Valley has more

1. Introduction

During the past three years, the global venture capital arena has witnessed a significant uptake of European startups securing their deals in the hope to become the next tech giants in their respective fields worldwide.

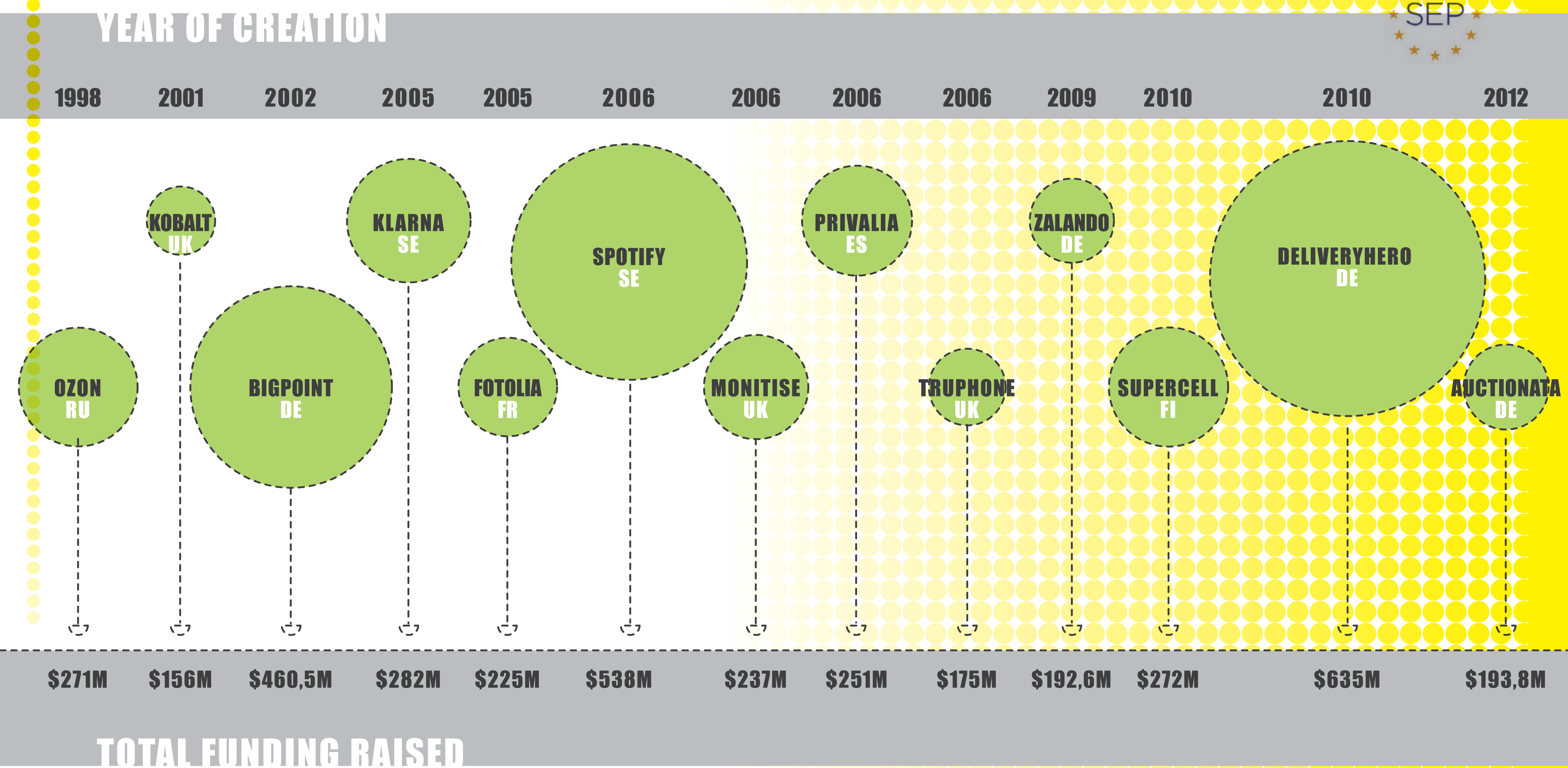
While policy support to tech startups is high on the EU and some national policy agendas, the evidence about the phenomenon is scarce and usually not very robust as business demographic statistics and anecdotal evidence prevail scientific facts. Policy-makers, journalists, researchers but also actors of various startup communities including business accelerators and investors operate with only fragmented datasets from the European startup domain, making it difficult to draw any empirically-based conclusions.

This study, conducted by PEDAL Consulting and Ud’Anet in the framework of the “Startup Europe Partnership” (SEP), aims to address this issue by mapping the most relevant elements related to the European startup ecosystem and capture its coherent and comprehensive picture based on a well-defined methodology and research practices.

The Interim Analysis of this study, presented in this document, partially uncovers the truth encompassing this phenomenon by providing preliminary insights and observations derived from a representative sample of over 1000 startups and 200 exits or mergers & acquisitions (M&A) that have been researched in detail during the first 5 months of the project. **Results and findings are preliminary and report only ICT companies. Other key areas in the startup ecosystem, such as biotech/life science, hard-tech and cleantech, are not covered.** The Final Report, expected to be published in 1Q/2015, will refine current findings based on an exhaustive dataset to be compiled in the next phase of the project.

The scope & methodology of this study is available here:
http://startupeuropepartnership.eu/mapping

Top European scalers that received the last funding in the past three years



UK, DE and FR get the podium being home to about 50% of European scaleups

The two European English-speaking countries host 1/3 of the top scaleups

Government's financial support and technology excellence are the key UK magnets to raise and attract European scaleups

2. Analysis

The past decade has marked a few great European web entrepreneurial success stories, such as Yandex, Skype, ASOS, King Digital, Markit Group, Pokerstars, Spotify, Rightmove, Zalando, Supercell, Vente Privee, Vkontakte, Ulmart, JustEat, YOOX, Qiwi, Criteo, Odigeo, Zoopla, Conduit, Wonga, Klarna, Monitise, just to list a few of them. However, there is a lot more that can be done to nurture scaleups, encourage web entrepreneurship and give the European economy a much-needed boost. The following sections observe the emerging European scaleup scene from various angles.

2.1 Which countries "produce" the most popular startups?

According to our database, the most popular startups are scaled-up in a country well-known as the "Mecca" of startups: the United Kingdom. Overall, over 25% of the sampled startups is based in UK, mainly in London, which makes this city one of the most important hubs for startups in the world, surpassed only by New York City and San Francisco. Most startups in London specialize mainly in software solutions, enterprise services and e-commerce, as well as in web content and advertising. The main reasons why entrepreneurs go there are its realms of technology, the financial support and the promotion that the government pushed into the venture.

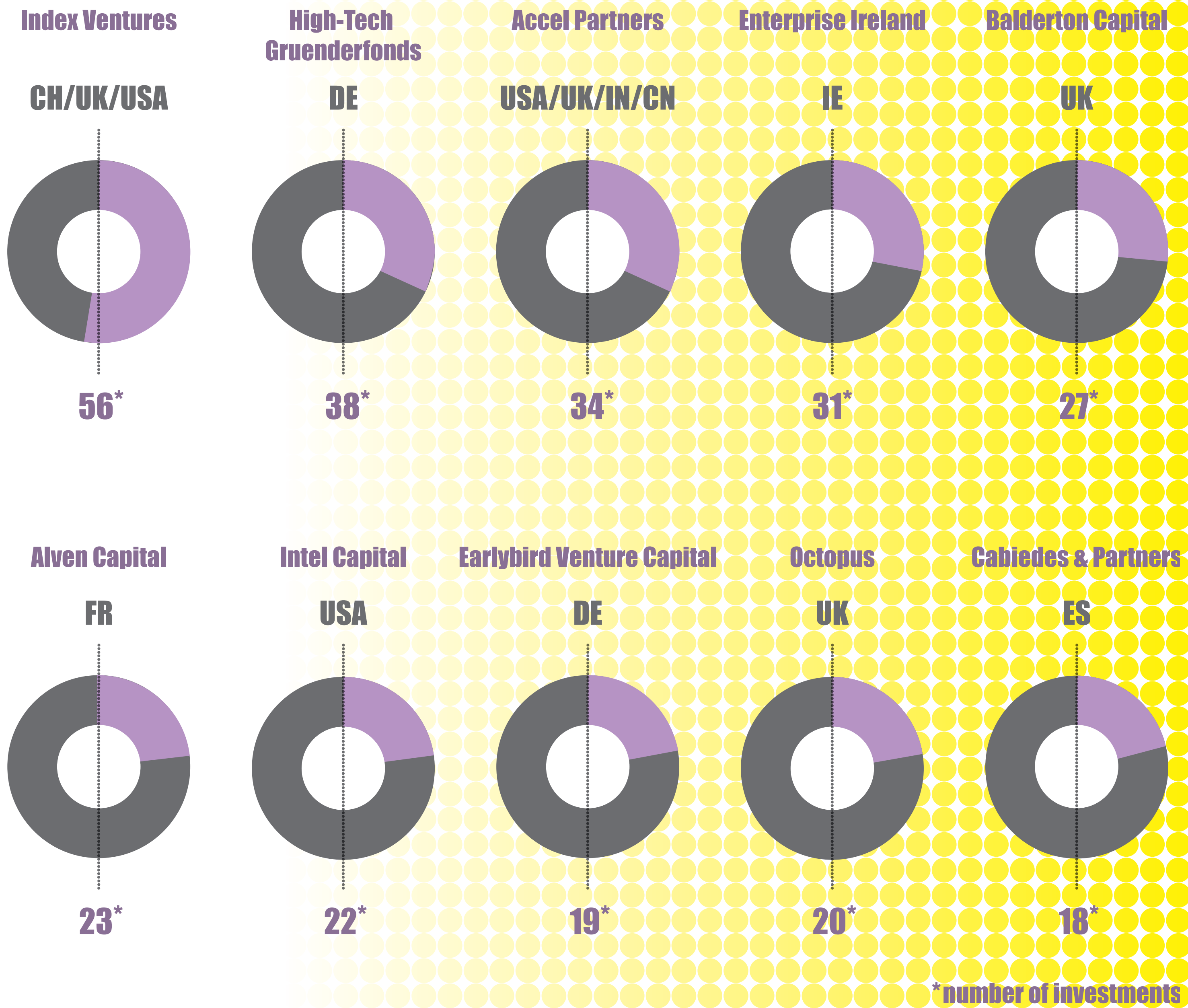
The second country that generates popular startups is unsurprisingly Germany, with its capital city Berlin. Germany´s capital counts as a base for 15% of the startups within our SEP mapping & scouting database. Startups in Berlin are mostly specialized in e-commerce, software and mobile applications. E-Commerce companies such as WestWing and Auctionata, respectively founded in 2011 and 2012, already classify among "scalers" and have secured more than $140M funding. Berlin has its tech environment roots thanks to many successful technology companies such as Siemens; however the cluster of Internet firms is only about five years old.

The third country that stands among the important startup centres in Europe is France, which hosts over a hundred scaleups. Nearly the same number accounts for Spain with its worth-mentioning champion Privalia (2006) that secured $251M.

2.2 Which are the most notable investors?

There are almost 1500 different investors investing in companies of the sample. Of them, 341 invested in more than 1 company (of the sample) and 35 investors appear 10 and more times in the database.

In terms of frequency of investing in startups, the biggest contributor is the global venture capital firm Index Ventures with 56 investments. The company manages over $2.6billion of assets from its offices in Geneva, London, San Francisco and Jersey. The second place with 38 investments is occupied by the Bonn-based venture capital investment firm High-Tech Gruenderfonds and the third by Accel Partners with 34 investments.

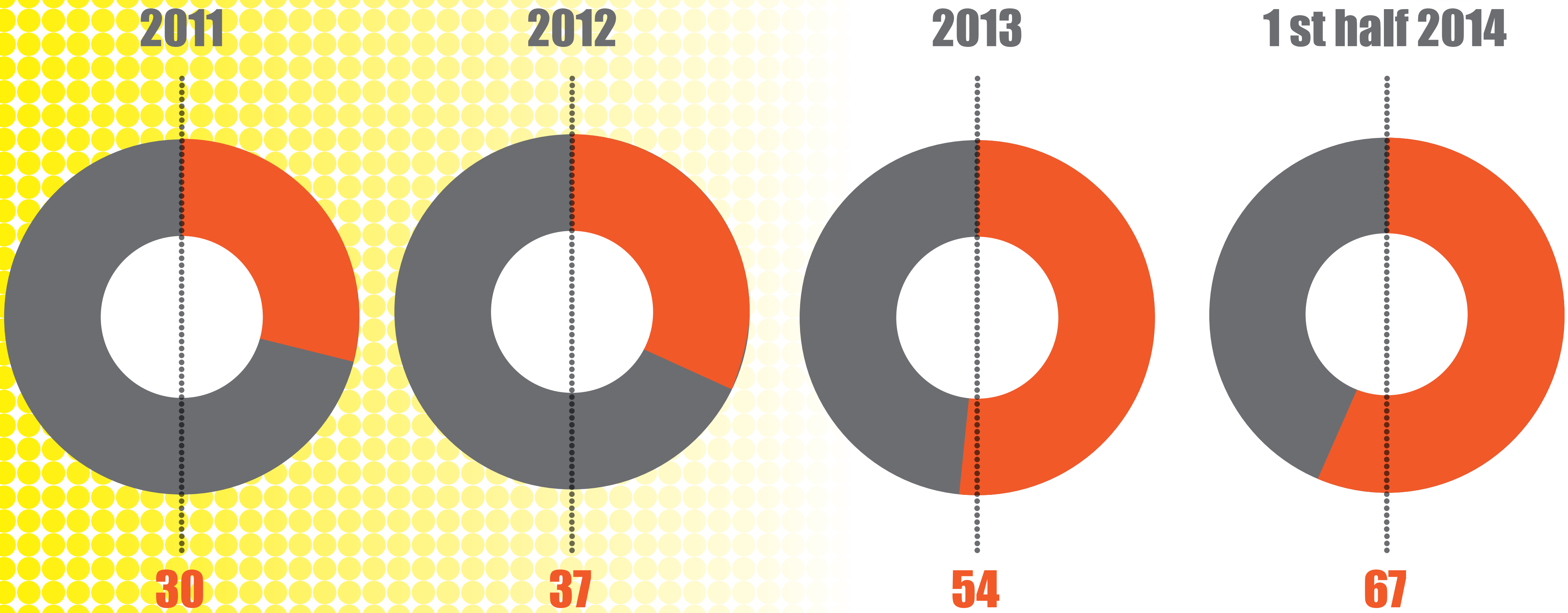


2.3 Which are the most notable exits?

- Many European exits have been acquired by technology scalers from USA and Europe or by former startups that became valuable partners for new startups.
- Amongst the most notable exits it is definitely worth mentioning Autonomy, which was acquired in 2011 by American HP for as much as $10B. That price made the acquisition one of HP's largest deals to date. Autonomy's software allows enterprises to provide insight and structure to electronic data, including unstructured information, such as text, email, web pages, voice, or video.
- Worth mentioning is also German metasearch startup company Trivago that was acquired by Expedia for approximately €434M.
- Another distinguished acquisition happened a year ago when Adobe systems took off French startup Neolane, a conversational marketing company with an annual revenue of just under $60M, for $600M in cash.
- Based in Finland with North American operations in San Francisco, Supercell is a mobile game development company. In October 2013 it was announced that Japanese companies SoftBank and GungHo Online Entertainment had acquired 51% of the company for a reported $1.5B.

As shown in the chart below, the number of exits has been growing steadily since 2011 and it is interesting to note that the amount of identified exits in 2013 is almost identical to the number of exits identified in the first half of 2014.

Number of exits throughout the years



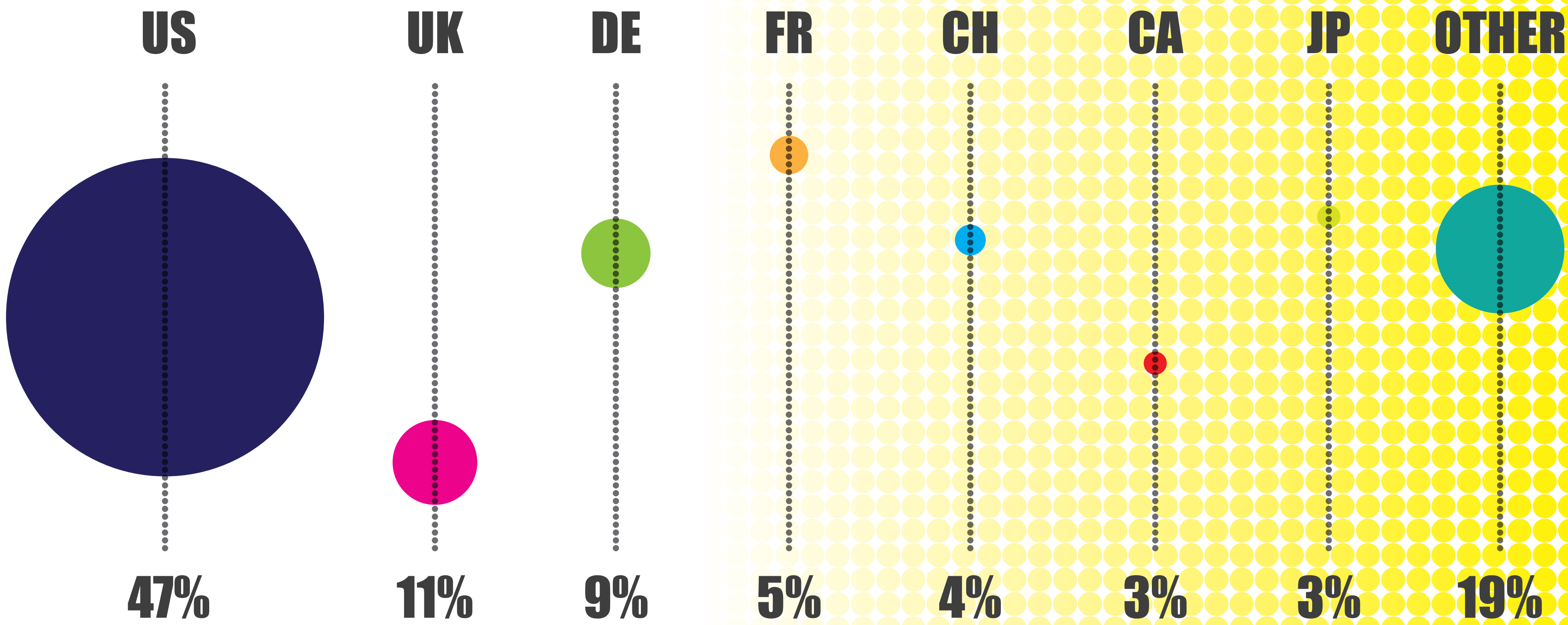
Source: Startup Europe Partnership (SEP) Monitor – July 2014 Preliminary Data

The most recent relevant exits in 2014 include also the following:

- Stockholm-based game developer Mojang was acquired by Microsoft for $2.5B.
- Japanese e-commerce champion Rakuten, in February 2014 bought chat app Viber run from Cyprus for $900M.
- Founded in 2011, the London-based secretive artificial intelligence company DeepMind was bought by Google for $400M.
- Headquartered in Oxford, game developer NaturalMotion, which raised $11M in 2012, went to exit after being bought up by Zynga for $380M.
- Operating in France, Switzerland, and Spain, LaFourchette, which provides online reservation software, consumer-facing apps, and APIs for third-party developers to help restaurants increase their business, was acquired by TripAdvisor for $140M in May.
- Schibsted Classified Media Spain (SCM Spain) acquired Milanuncios, one of the top generalist online classifieds companies in Spain for the amount of $100M.
- The mentioned 2014 exits have a total value of about $4.5B

Most of the buyers of the above mentioned 2014 exits are American companies thus reflecting the broader picture based on our data sample where 47% of the acquirers are from the US (see chart below).

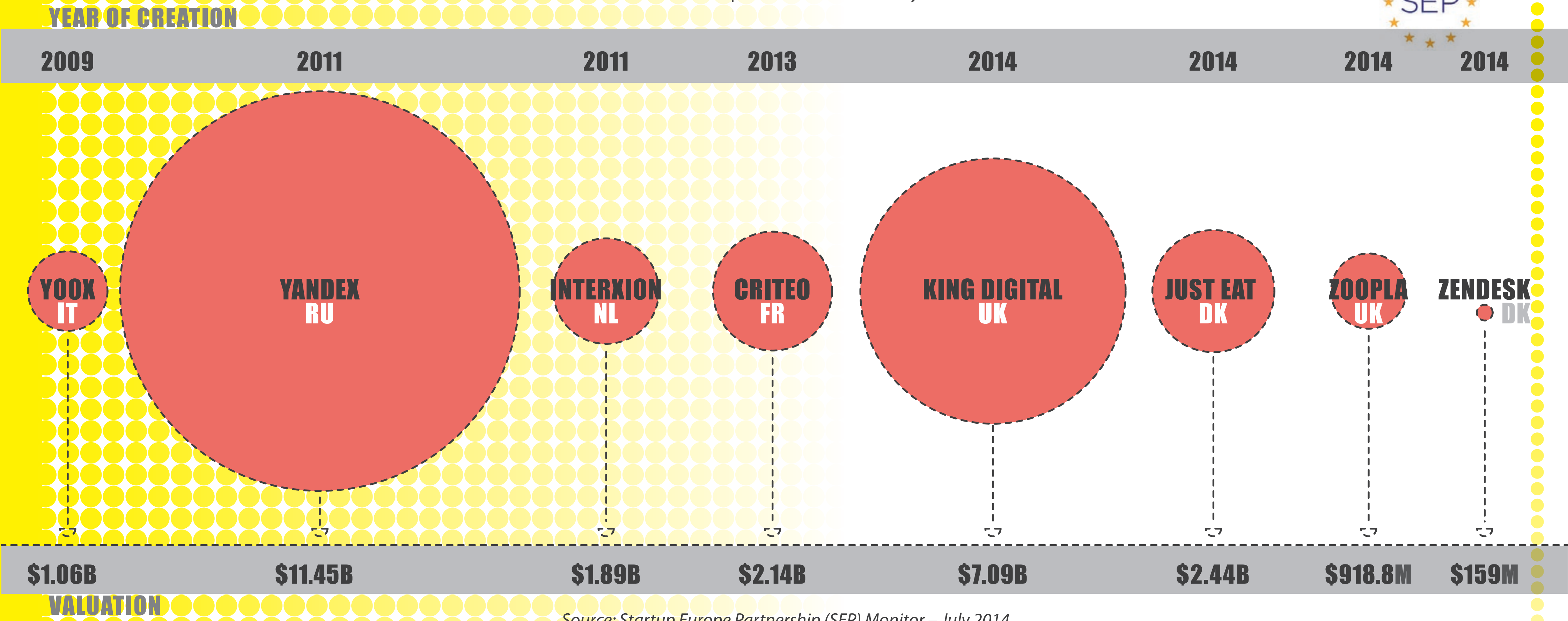
Origin of the buyers



Source: Startup Europe Partnership (SEP) Monitor – July 2014 Preliminary Data

The most relevant IPOs include the following

Data covers the period from 2009 to July 2014



Source: Startup Europe Partnership (SEP) Monitor – July 2014
Preliminary Data

- Russian Yandex operates the largest search engine in Russia with about 60% market share in that country. The company went public in 2011 and has a valuation of $11.45B.
- King Digital, the company behind the wildly mobile game “Candy Crush Saga”, made its debut on the New York Stock Exchange in 1Q/2014 with the IPO of $7.09B.
- Just Eat, founded in 2001 in Denmark with headquarters in London, went public in April 2014 and has a valuation of $2.44B. Just Eat is an online service acting as a web based intermediary between independent takeaway food outlets and customers and operates in 13 countries around the globe.
- Founded in France in 2005, Criteo went public in October 2013 and has a valuation of $2.14B. Criteo works with internet retailers to serve personalized online display advertisements to consumers that have previously visited the advertiser’s website.
- Cloud provider Interxion is headquartered in The Netherlands and operates in 11 European countries. Founded in 1998, it went public in 2011 and has a valuation of $1.89B.
- Software development company Zendesk was founded in 2007 in Copenhagen and after some funding rounds moved to San Francisco in 2009. It went public in May 2014 and has a valuation of $159M.

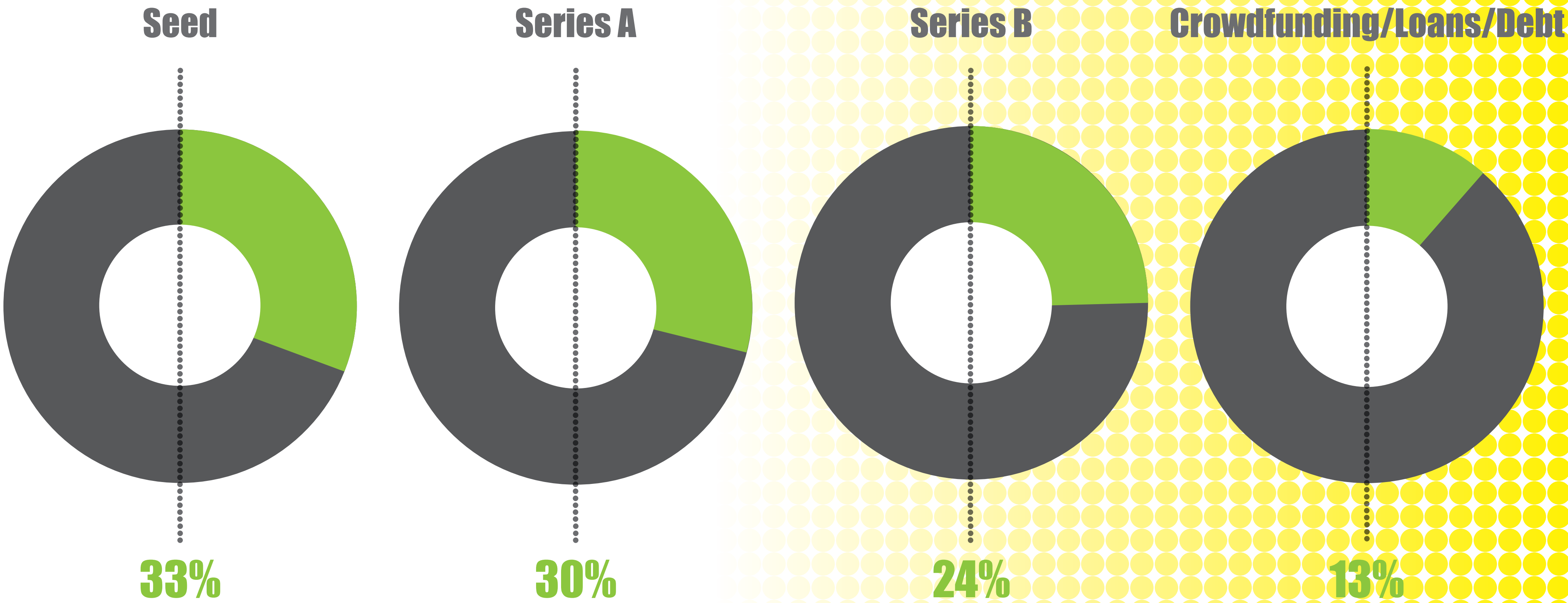
Overall, the majority of the exited companies are from the European country generating most of the popular startups: the United Kingdom.

2.4 How long does it take to raise funds?

Almost exactly half of the sample was founded in the years 2009-2011. Slightly over one fifth of the sample comes from the pre-crisis period* . There is a clearly upward period. While only 8% of the companies was founded in the crisis year of 2008, in the 2011 the amount is 2.5-times higher. Lower numbers in 2012 and 2013 does not mean that there was a peak in 2011 and the numbers are declining. However, it takes some time for the startup to develop to the required level to be accepted in the database. As a consequence, our database lists only very few (3 out of 1000+ sample) start-ups founded in 2014.

Over 60% of the analyzed companies have received the last funding in Seed (33%) or Series A (30%) stage. Around 24% of the identified companies underwent numerous rounds of funding and are of Stage B or higher. Only 13% of companies used crowdfunding, grants or debt financing as their latest source of funding (shown as “Other”). However, it is important to interpret these numbers correctly: low occurrence in the sample does not mean that the crowdfunding is not used at all, just that the majority of the companies is not in this stage anymore. Still, the low number is notable, when compared to the recent steep rise of popularity of crowdfunding around the world.

*The impact on crisis represents an interesting research point for future analysis, especially in terms of investors activity, but also maturity of start-ups. The revised version of this analysis will therefore compare funding stages against the year of foundation. In other words, we will examine whether the startups founded in 2009 made a greater progress than those founded year later.

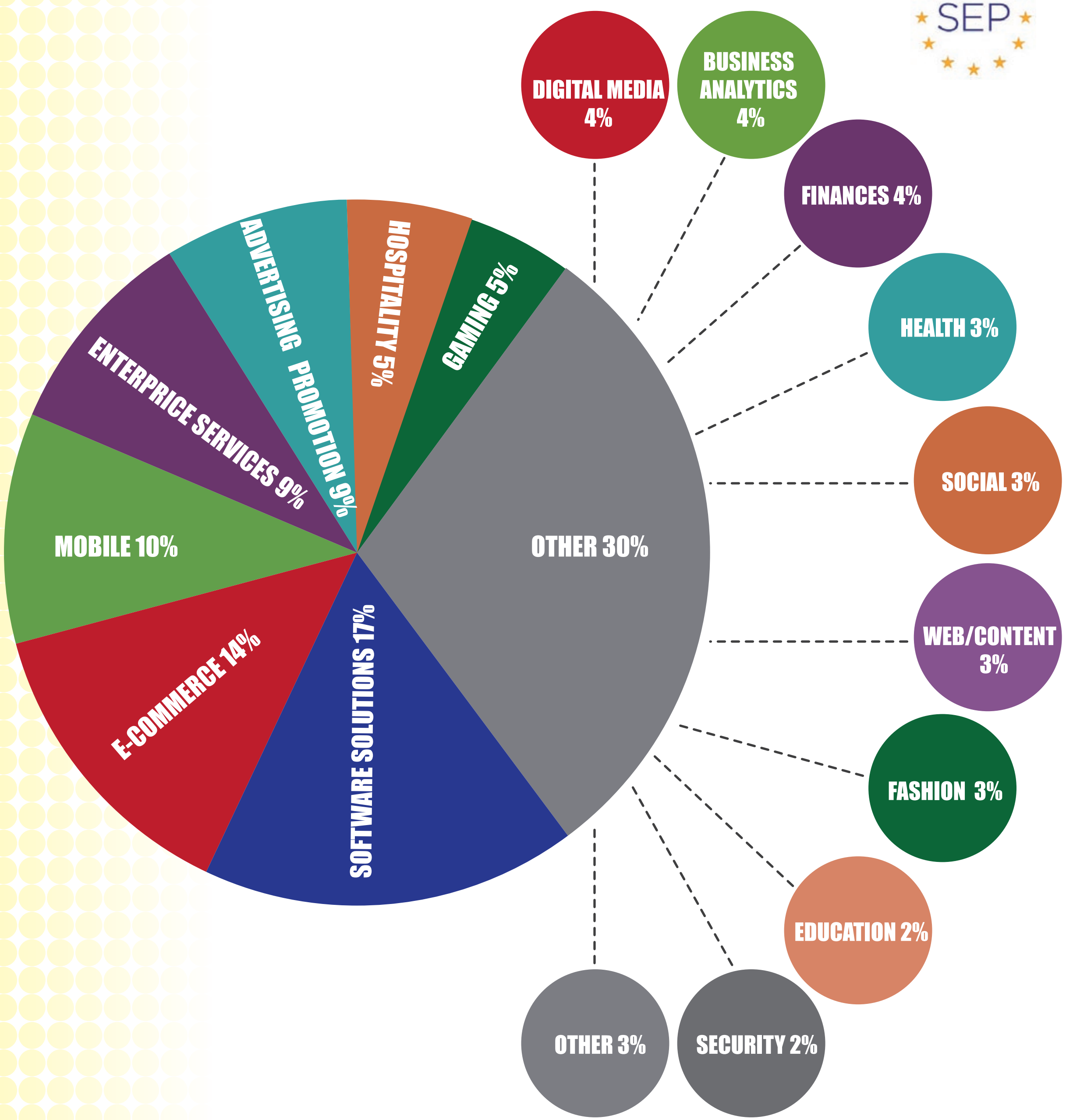


2.5 Which are the most popular sectors?

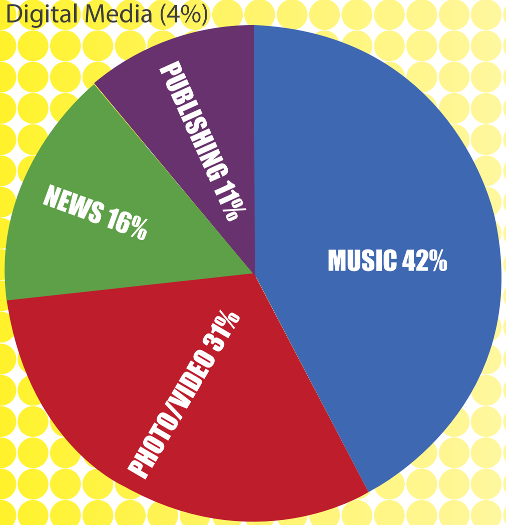
This section outlines a classification of the analysed companies according to the area in which they operate. The mapping exercise focused on tech startups, which brings certain challenges, as these companies often operate on a cross-section of traditional sectors. For the purpose of the analysis, the project team has proposed a classification that describes the nature of the analysed sample.

It comes as no surprise that most startups fall into the Software solutions category (17%), which is closely followed by E-commerce (14%) and Mobile applications (10%).
The Enterprise Services and Advertising/Promotion solutions turned out to be equally exploited domains as 18% of all identified scaleups operate in these two fields. It is worth to mention also the Hospitality and Gaming categories which, combined together, account for 10% of the market.

Future more detailed analysis will add a further specific split of biggest categories. The Digital Media category is a good example where further split into sub-categories can provide a very useful view.



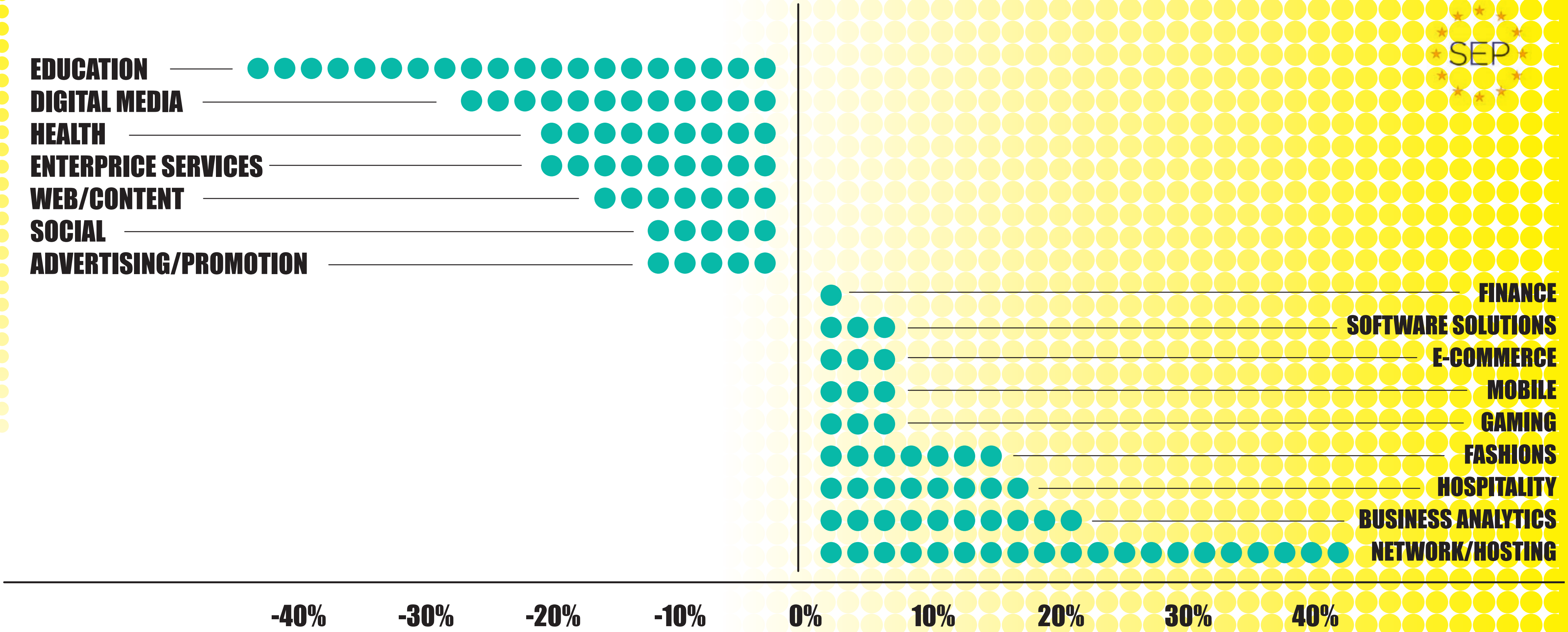
Digital Media (4%)



2.6 Which sectors received the most funding?

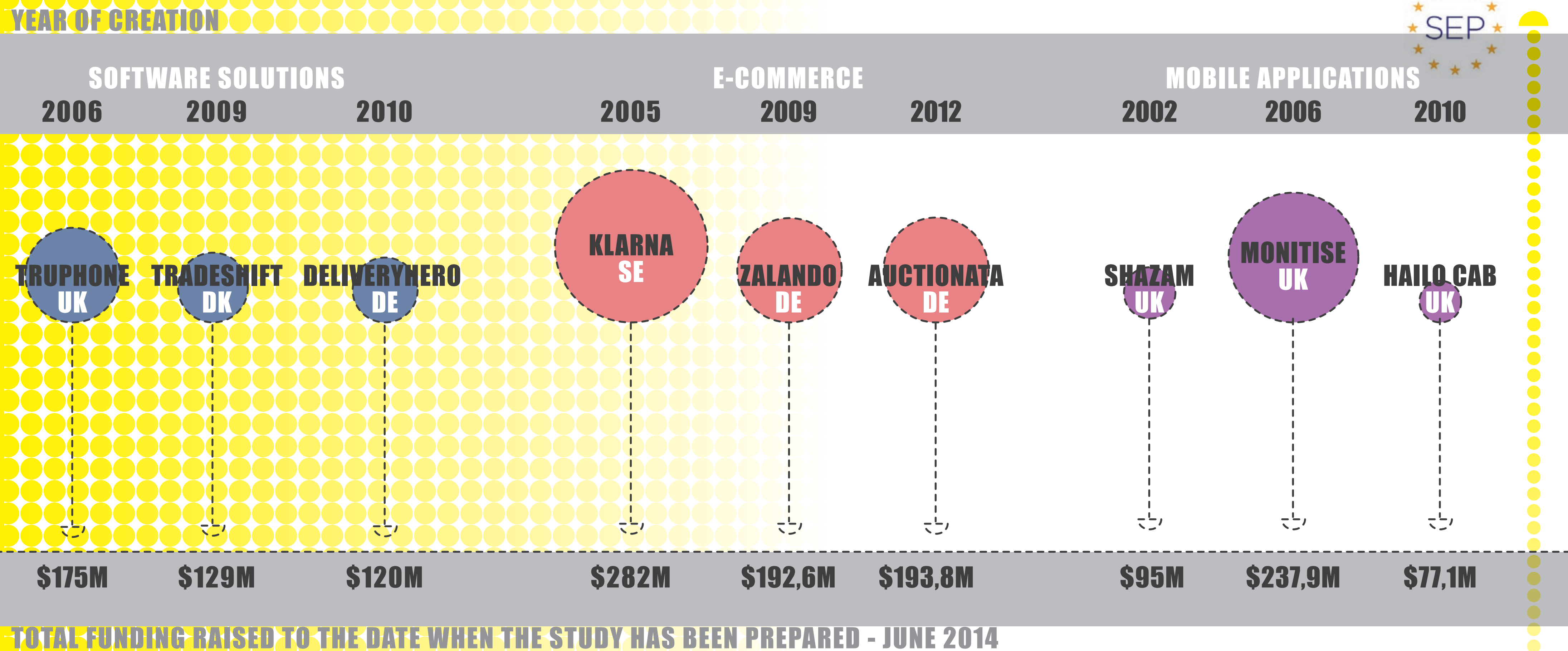
Most categories' share of total funding is proportional to the amount of companies operating within these categories. While 18% of the overall funding was raised by the Software solution category, E-commerce and Mobile took 14% and 11% respectively. An equal share of capital was split between Advertising and Enterprise services (8% each) as well as among Gaming, Business Analytics and Hospitality domains (6%).
Furthermore, considering the average company from each category it appears that the Education and Digital Media companies get significantly less funding than the overall industry average. On the other side, the average funding of Hospitality, Business Analytics and Network/Hosting services companies is considerably greater than the average of all categories combined together. As shown in the chart below, all other categories are placed within the range of 20% from the total industry average.

Sectors and funding received



0% is the average funding for all the ICT sectors

Top players in the three main sectors



3. Preliminary conclusion

The European tech scaleups scene has seen considerable development throughout the past years but further research has to be made in order to capture the full picture. This is not limited only to the identification and performance of promising scaleups but also to other actors and indicators such as mergers & acquisitions, exists and investors. The following months will witness significant increase of our quantitative dataset, which will enhance the overall quality and accuracy level of the "scientific evidence" related to the European tech scaleup community. Once ready, the outcome of our research will enable involved actors to make better strategic, operational and tactical decisions that are grounded in the best available research evidence.

The present document provides the preliminary answers to key quantitative questions surrounding European startup scene. Based on these findings, project team believes that in order to flourish, scaleups do require a solid pool of established companies interested in providing growth opportunities ("scalers"). Currently, the scaleups and scalers remain to a large extent fragmented and disconnected from each other. Due to this reason, project team is convinced that the Startup Europe Partnership, which attempts to narrow – or even completely delete this distance, represents a powerful vehicle with a great potential to speed up the process of creating global players from European tech companies.

For more information:
info@startupeuropepartnership.eu _ www.startupeuropepartnership.eu
secretariat@pedal-consulting.eu _ www.pedal-consulting.eu