

Europe's New Breed of Venture Capitalists

GroveStreet Insights



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Introduction

Europe has never had a stronger and deeper bench of entrepreneurs. Emanating from the long and growing list of European unicorns founded in the last two decades, this flywheel of founder and engineering talent should continue to accelerate and present investors with compelling new opportunities.

While many successful entrepreneurs and operators in Europe are choosing to become serial founders, an increasing number are becoming venture capitalists. These new investors see an opportunity to leverage their networks and reputations to gain differentiated access to highly sought-after deals and apply their expertise as operators to new start-ups. This emerging breed of venture investors is uniquely qualified to be true value-added partners and is playing an increasingly important role in Europe's start-up ecosystem. A defining characteristic of European VC, which presents both a challenge and an opportunity, is how broadly dispersed various tech hubs are across geographies. Berlin, London, Stockholm, Paris, Dublin, Helsinki, Zurich, and the Baltics all boast fertile innovation hubs of entrepreneurship, fueled by past successful exits. The established global venture firms that have stewarded many of Europe's largest successes will continue to play a pivotal role. However, Europe's fragmented landscape creates space and more opportunities for European operator-led venture capital firms to play a role in this diffuse network. They may have a differentiated edge having been entrepreneurs themselves. Also, their reputations tend to precede them, leading new founders to seek them out hoping to follow in their footsteps.

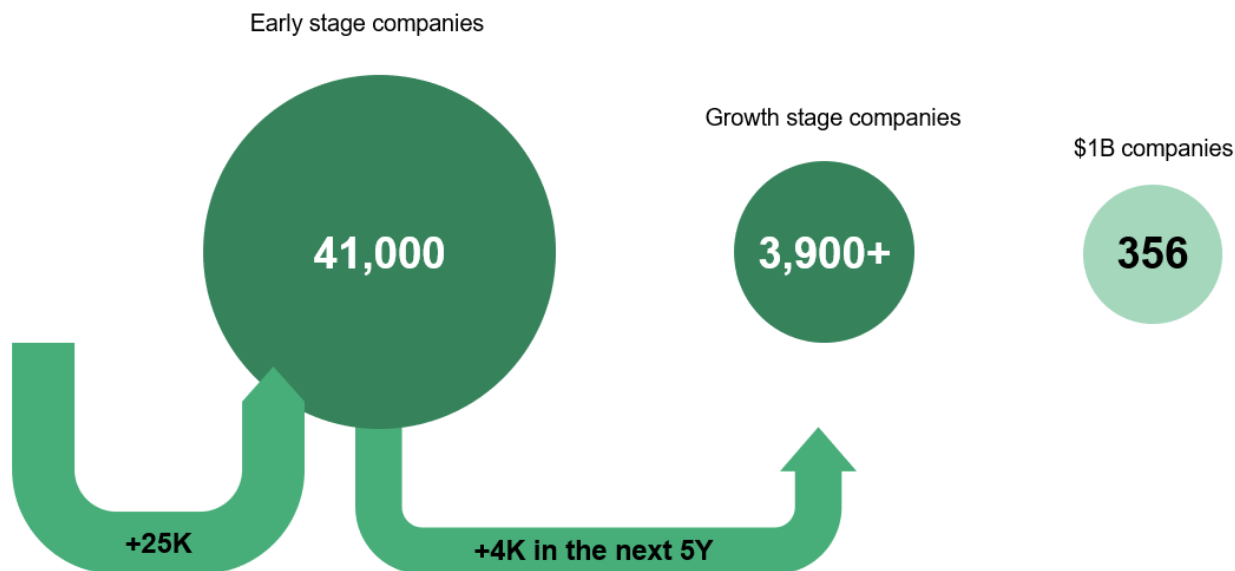
The venture investing landscape in Europe is both vibrant and fertile. As is always the case in venture, though dispersion in outcomes will persist, so institutional investors should understand the evolving landscape and proceed with caution.

European tech in context

In the last decade, Europe minted more than 350 new unicorns. Europe has seen ~15,200 new tech startups per year in the past five years, consistently surpassing the US, which has seen ~13,700 new tech start-ups on average per year. This burgeoning opportunity set has not been lost on investors. European deal activity surged 5.2x in the past 10 years, while US activity has increased by 3.7x over the same period.

The future for European startups looks bright, with nearly 4,000 growth stage tech companies and ~41,000 early-stage startups as of Atomico's State of European Tech report. These figures are poised to double over the next five years, thanks to the breadth and depth of early-stage startup activity across Europe and the emergence of another 25,000 founders starting their entrepreneurial journey.

Figure 1 – Snapshot of unique companies headquartered in Europe by stage



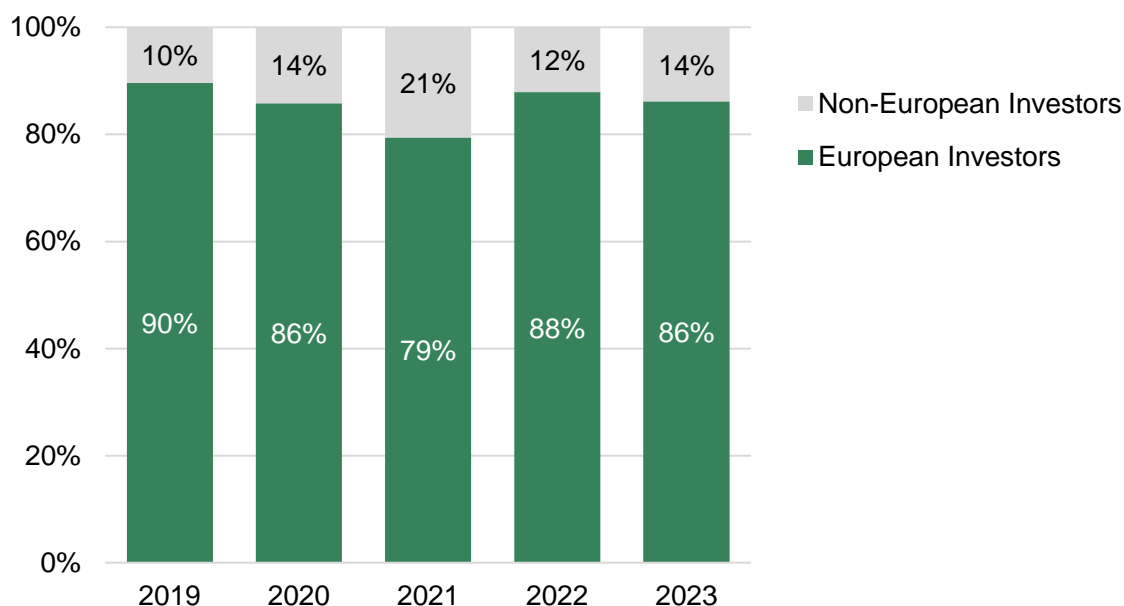
Source: Atomico State of European Tech 2023

Europeans dominate early-stage VC

Early-stage European startups have primarily attracted initial rounds from country-focused or regional investors within the ecosystem. Local investors contribute >80% of the total capital invested in European

tech companies during early-stage funding rounds, a share that has stayed broadly consistent over the past five years.

Figure 2 – Venture Capital invested in European companies by Investor Location



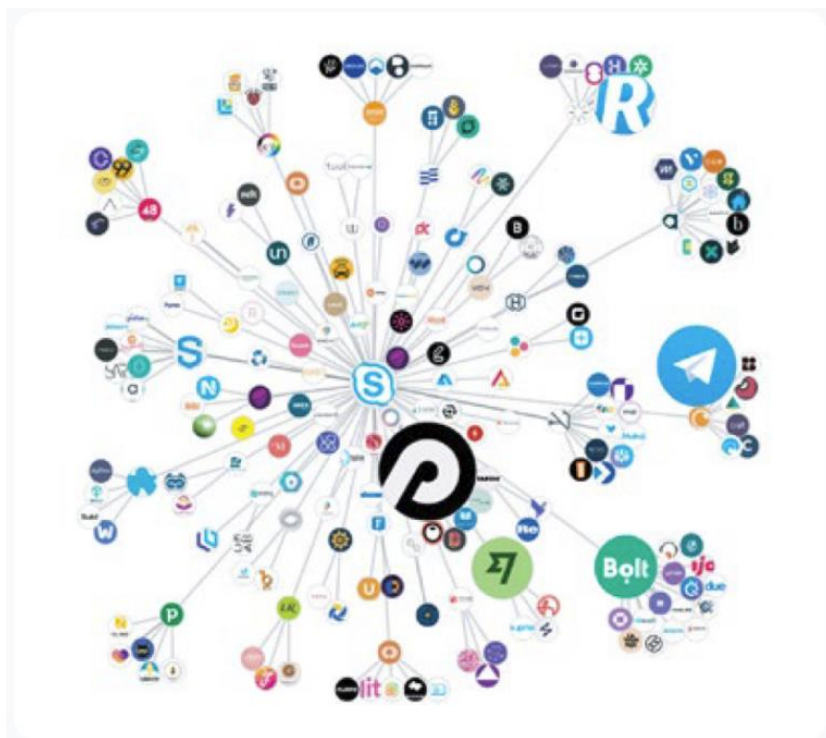
Source: www.investeurope.eu/research

Success breeds success... and ambition

Europe spawned an impressive number of unicorns (~350) in the past decade. GroveStreet advisor, Josh Lerner, presented findings showing that entrepreneurs with prior success have a 30% chance of success in their next venture, in a seminal paper *Performance Persistence in Entrepreneurship and Venture Capital* co-authored with Paul Gompers and others¹. With Europe's burgeoning crop of successful founders as reflected by the rapid growth in European unicorns, the start-up ecosystem is growing rich with founding teams with tech know-how, ambition, and business savvy with improving odds for success.

Every success story serves as a launchpad for its employees to become the next generation of founders. Figure 4 visually represents the powerful network that emerged from Skype, one of Europe's early venture-backed success stories. The Skype diaspora extends to the founding of 950 companies across 50 countries with approximately 65,000 employees.

¹ Gompers, Paul A., Josh Lerner, David Scharfstein, and Anna Kovner. "Performance Persistence in Entrepreneurship and Venture Capital." *Journal of Financial Economics* 96, no. 1 (April 2010): 18–32.

Figure 4 – Skype network visualized

Source: Atomico State of European Tech 2023

The \$11 billion IPO of TransferWise (Wise) and Supercell's \$10.2B sale to Tencent are two seminal examples of breakout European exits. Outcomes like these energize Europe's tech ecosystem. Entrepreneurs are instilled with the vision and the ambition to seek big outcomes.

Successes spawn new venture capitalists

Some successful entrepreneurs are pivoting to venture. GroveStreet recently backed Plural, a venture capital firm co-founded by a group of former entrepreneurs and operators including Taavet Hinrikus, whose path is illustrative. Taavet started his career as an early employee at Skype. As the company scaled and ownership changed, he left to launch Wise, which he built and shepherded to the IPO noted above. Just as his experience at Skype positioned him to have success with Wise, we believe the experience he gained at Skype and Wise, and the experience his Plural co-founders Carina, Ian, Khaled and Sten have from their impressive leadership roles, will give Plural an edge as a venture investor. Dig is another recent GroveStreet venture investment. The firm's founder, Ross Mason, was a European technology executive who founded and ran MuleSoft, a B2B SaaS company in the Bay Area, before embarking on his career as a venture capitalist supporting early-stage companies in Europe on their growth journey. Entrepreneurs continuously seek Ross out both for official board roles as well as unofficial advice, which we believe should prove to be a significant advantage in deal sourcing. GPs like

Taavet and Ross are armed with pattern recognition and years of founder experience to better assess, attract and add value to the next generation of start-ups. They have first-hand knowledge of building businesses in Europe navigating its myriad of cultures, languages and regulatory regimes.

It's still VC, so proceed with caution

Institutional investors should survey and get to know the founders-turned-venture capitalists in Europe. But investors should proceed with discernment. The founder-turned-GP archetype may have compelling attributes, but the model is not without risks. Making the pivot from operator to investing principal can be a challenge for some as they move from managing a start-up to a more distant position of managing a portfolio of new businesses. Allocators must remain highly selective and well-networked when building exposure to Europe's VC ecosystem.

GroveStreet has two decades of experience assessing and selectively backing venture managers in Europe. Our approach combines backing some of the established leaders in the region along with newer managers, like the new breed described above. Please contact us with any insights, questions, or requests. We would welcome the chance to elaborate on our views on the VC opportunities set in Europe and how we can assist your investment efforts.

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