

A golden age of entrepreneurship as combined value of tech companies soars to €618B

Europe's tech sector is worth four times what it was five years ago as the leading generation of companies and founders give back to the next wave of ambitious tech firms – signalling the start of a golden age of European tech entrepreneurship.

New data, produced by Dealroom for the Not Optional – Making Europe the Most Entrepreneurial Continent summit – an event hosted by Index Ventures and Slush, involving Europe's leading tech founders, investors, policymakers and operators – reveals that the value of European tech companies has increased rapidly. In 2020 alone, this value has risen by 46%. Yet the biggest leap occurred between 2015 and the start of January 2020, demonstrating how the European ecosystem has matured.

As of October 2020, a third of the combined value of companies is based on the top 10 leading tech businesses in Europe: Adyen, BioNtech, Delivery Hero, Klarna, Spotify, Ocado, HelloFresh, Takeaway.com, UiPath and Zalando.

The research, which was carried out as part of the European Commission European Startups programme, also highlights how European tech is now taking a growing proportion of global venture capital, creating jobs at pace

during a time of rising unemployment caused by the coronavirus pandemic, and closing the gap on the US and China.

Key stats in the report show that:

38% of global seed stage capital is now raised by European startups

Europe received 16% of global VC in 2019, up from 10% in 2018

2m people are employed in European tech, with startups experiencing 10% growth in job creation year-on-year

Europe has created 205 unicorns since 2005

Since 2013, there have been €223B of VC-backed exits in Europe

Tech is Europe's leading job growth engine

As coronavirus has taken a heavy toll on Europe's economies in the last eight months, particularly in sectors such as travel, tourism and leisure, Europe's tech sector continues to expand and create employment opportunities for people in all of Europe's nations.

Ecommerce, healthtech, fintech, and food sectors are all expected to expand and, if the current rate of growth continues, as many as 3.2M people will be employed in European tech by as soon as 2025.

2M employed in European tech in 2020, up by 43% on 2016 figures

73% of European tech jobs are generated by 4,900+ startups

Startups are the leading engine of job creation in Europe, with 10% year-on-year growth

At this rate, European tech will employ 3.2M people by 2025

On average, each European startup employs 17 people

Young companies are creating jobs at a rate of 10 per cent year on year, ahead of the construction, real estate, and information and communications sectors.

The leading 10 European tech companies account for 77% of the value of the sector, but only 45% of the employment. Younger companies, particularly startups, are providing almost three-quarters (73%) of this increase in employment.

The companies creating Europe's snowball effect

Founders and early employees from Europe's largest firms, including Skype, Spotify, Lovefilm and Klarna are fuelling the next-generation of startups, scale-ups and unicorns. The trend for experienced founders to invest as angels in the next generation of tech companies, plus a rapidly maturing tech ecosystem, is helping to establish Europe as the most entrepreneurial continent in the world, with startups now representing Europe's leading job growth engine.

Eight companies are responsible for creating dozens more; Criteo, Alando, Spotify, Skype, LoveFilm, Adyen, GoCardless, Zoopla

Taavet Hinrikus, Skype's former director of strategy, founded TransferWise in 2010 which had a valuation of \$5B in July 2020

Skype co-founder Niklas Zennström is CEO and founding partner of Atomico, the European VC firm which has raised a total of \$2.2B since 2016

Alex Chesterman, co-founder of LoveFilm and Zoopla, is CEO and founder of Cazoo, one of Europe's fastest growing e-commerce businesses

Tom Blomfield, founder of GoCardless, launched fintech challenger bank Monzo

In addition to building new companies, many European tech alumni are now active investors in the ecosystem. Spotify founder Daniel Ek has pledged to invest \$1B in European startups, while former LoveFilm alumni including Saul Klein and Alex Chesterman are involved both in funding the next-generation of tech companies and in founding them.

The virtuous VC cycle

European VCs raised €12.7B in 2019, almost double the €6.6B they raised in 2013

European companies on track to raise €35B in capital by the end of the year

European VCs have raised record-breaking amounts of new funds – and across all funding stages – year-on-year since 2015. Despite COVID-19, European VCs are on course to continue this record-breaking trend in 2020 by raising a total of €13B by the end of the year.

European companies have raised €29B in 2020 so far, with the sector on course to raise a total of €35B in capital by the end of the year. A decade ago, just 20% of unicorns were backed by venture capital, but in 2019 82% were underlining how the European tech system is becoming more dependent on venture capital.

But Europe still needs to close the gap on the US and China

Companies looking to raise at Series B and Series C are experiencing a funding gap

At Series B, European companies take only 21% of global venture capital, falling to 14% at Series C

39% of total funding for European startups comes from the Rest of the World

For funding rounds above \$100M, this proportion rises to 60%

Despite the record amounts of money being raised on the continent, European companies still depend on foreign sources of capital, particularly as they grow in size and scale. As rounds get bigger, most of the investment is likely to come from investors outside Europe.

Data from Dealroom.co shows that European startups need at least three times more capital than has been raised in recent years by local VCs. In 2019, European VCs raised €13B yet €38B was invested in European startups; the difference coming from foreign investors.

With European tech companies predicted to grow in size over the next decade, the funding gap between what startups need to raise and what is available in Europe becomes more evident. This is an opportunity for European VCs and also underlines how much more capital is needed by later stage European tech companies, if they are to grow at the same rate as US ones.

“In 2018 Adyen, Spotify and Farfetch all IPO’d, marking a watershed in the European tech ecosystem. Europe now has a handful of global tech giants and the alumni from those teams are driving the next generation of companies across the continent, whether starting new companies or investing in them. Put together these factors mean

that Europe is now capable of building, scaling and supporting global tech companies, in a way that it never has previously.” – Yoram Wijngaarde, Founder and CEO, Dealroom

“The ambition of Europe’s founders and the promise of European startups has never been greater. There is no doubt in my mind that Europeans will build some of the tech giants of the future. Founders have demonstrated incredible ingenuity, creativity and grit in achieving what only a decade ago was considered a pipe dream. But as Europeans we need to do more to harness the energy and creativity of entrepreneurs, investors and policymakers and ensure that they work together to usher in Europe’s tech-driven future. Europe will benefit from the innovation, growth and jobs that this will bring, but only if it makes supporting startups a strategic priority across the continent that is essential — not optional.” – Neil Rimer, co-founder of Index Ventures