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The race to a $100B European scale-up

Right out of the gate, 2021 felt like the year that the world of late-stage investing was turned upside down. The invasion of non-traditional investors (“NTIs”) such as Private Equity Firms into the startup funding scene scrambled the rules about valuation and metrics that venture capitalists and entrepreneurs had spent decades refining.

No use pining for the good old days. There is no time. Everything is moving faster and continuing to accelerate. VCs and founders must understand the new rules of the game and adapt accordingly so they can work with investing goliaths like Tiger Capital, Coatue Management or PE giants.

So, let’s look more closely at the implication for scale-ups, particularly European ones who are only just getting accustomed to 8 and 9-figure rounds. With Gorillas raising a €950M Series C round last September, we are seeing rounds close to the €1B mark. For the giant funds writing these checks, the *unicorn benchmark* is a speck in their portfolio.

Forget the €1B valuation. These non-traditional investors are fuelling a race to create €100B scale-ups.

These investors are giving founders the financial resources to pursue that goal, creating a staggering opportunity to become global champions. Less obvious

are the risks that come with accepting those cheques. Reaching that lofty valuation requires grasping new metrics and new due diligence. Above all, it means being prepared to relentlessly pursue growth and scale at a breakneck pace. This is largely unexplored territory.

> *Many VCs can hand you a playbook for getting to a €100M valuation. But who has the playbook for reaching €100B?*

Founders who take those big cheques without having the right structure and attention to detail are inviting chaos. And when they stumble, they will find these NTIs are less sympathetic to their missteps than traditional VCs.

Without a clear roadmap, the stakes for success and failure are skyrocketing. The winners will reach spectacular heights. The failures could be even more brutal.

By the numbers

Before we explore the new terrain, let’s survey the current investing landscape for context. According to the CB Insights report on venture capital for Q3, global funding for startups hit $158.2B for the quarter, up an astonishing 105% from the same period one year ago. Digging into the numbers, we can see what is driving this phenomenon:

- There were 409 mega rounds ($100M or more) in Q3 compared to 172 in Q3 2020.

- VCs funded 31% of all deals compared to 18% for Private Equity and Asset Management.

- Europe has 2 scale-ups on the path to that €100B valuation: Sweden’s Klarna is currently valued at $45.6B, and Revolut at $33B.

What can we take away from this? Venture capital is still venture capital. The things it has traditionally done are still happening at the early and middle stages of investing. It’s the later stages, particularly pre-IPO, where scale-ups are caught in a whirlwind.

The shakeup

Whether you are a first-time or serial entrepreneur, the rules for working with venture capitalists are well-established. Even if different funds have their own philosophies and methods, VCs are there to be by your side as the company moves through each phase. In return, that VC firm looks ahead to high returns on its early bet on a company with little or no track record. It’s a high-risk, high-reward model.

The people running massive PE funds or Asset managers are a different breed of investors, with different goals and motivations. Let’s pick those apart.

First, these NTIs are not looking for high-risk bets, and don’t expect to earn multiples. They are on the hunt for annual returns from 10% to 15%. That risk preference drives the way they analyse potential investments. They want a company that can deliver solid annual returns on its way to the €100B valuation. As companies stay private longer, these NTIs are pushing into these deals to ensure they have a stake in the future public companies. Second, they will also be more aggressive about protecting their investment and will insist on tighter legal safeguards to minimise risk.

> *A traditional VC will fight to have a board seat. The non-traditional investor just wants to know that you’re hitting your benchmarks.*

The new metrics

The first encounter with a non-traditional investor can seem strange to a founder. Whereas previously VC investors conducted at least red-flag due diligence before investing at late stage, some asset managers barely glance at the books before committing.

Growth going forward becomes key. Once they invest, they will relentlessly track those numbers in the journey to IPO.

They want to ensure your company is delivering durable and efficient growth. Durable revenue growth (e.g. ARR, GMV) needs to be demonstrated annually, with a close monitoring of “growth resilience”, tracking growth monthly or

annually, rather than CAGR.

To help navigate this, a company should be able to identify its North Star Metric, the measuring stick that defines its relationship with its customers.

An entrepreneur should ask himself which growth metric would do the most to accelerate business. For marketplaces and platforms, such as Airbnb or Uber, consumption growth is key. For paid-growth driven businesses, such as Warby Parker, CAC efficiency is key.

Even with a clear grasp of these metrics, the founder must know exactly how the company is going to spend the €100M it raised. It's almost impossible to imagine how difficult it is to deploy that much capital in a compressed time frame in order to catalyse the company's growth the way you want. Precise measurements of how you acquire leads and transform them into growth are required. Do you have the correct margins, is the sales team efficient, is the OPEX structure in place to handle the rapid expansion?

In the past, fast-moving startups had years between fundraising rounds to gradually accumulate the necessary structures and experience to tackle these challenges. But now we see companies raising multiple rounds in a year, leaving little time for reflection and development.

Having considered the above and ensuring you meet these criteria, then by all means take that money. Just make sure you realise that raising millions of dollars is like driving down the highway at 300 km/h. If you're not steering the car in the right way, you're going to crash. This route is only for the entrepreneurs who are extremely clear about how to reach that 100B valuation.

If you're conscious of the risks and confident that the execution will be flawless, then definitely grab this opportunity. But if you're unsure of what sustained high growth means for your company, then it's going to be pandemonium.

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