

Why U.S. VCs investing in Europe need a physical presence on the continent

Incredible startups coming out of Europe are nothing new. Look no further than some of the continent's newest unicorns including Oyster HR, Instabox, and Matillion (a Sapphire investment), as examples. But the rise of an ever increasing number of U.S. VC firms recognising the potential of Europe's maturing ecosystem cannot have gone unnoticed as of late. It seems that rarely a month goes by without a VC group making the jump across the pond to open a new office.

But whilst having offices and full-time investors in Europe is a new frontier for most U.S. firms, investing in European technology companies isn't. For decades, U.S. capital has been successfully complementing European funds, backing promising startups across the continent without the need for a physical presence in Europe. So why the sudden rush to lay down deeper, in-person roots?

This is a question we here at *Sapphire Ventures* started to contend with several years ago. We have long-standing European roots (the firm was originally spun

out of German software company SAP before becoming independent in 2011. Plus, one of our firm's founding partners had been based in London for over a decade). We also have a strong legacy of backing businesses here. In 2021, our European portfolio saw several public debuts and acquisitions, including Cazoo, Currencycloud, Qubit, Wandera and Wise.

But the European market was gathering pace and, despite the best will and WiFi connection in the world, we knew we couldn't capitalise on this wave of innovation effectively if we continued investing from afar.

'Boots on the ground' was no longer a nice to have, it became a necessity.

While we may not have been the first, we made the leap earlier than most other U.S. VCs. Despite the challenges presented by Covid, we established a London office in the summer of 2020 and have quickly built up a team of 8 on the ground. We felt the time was right and that the European market was at a tipping point.

I packed up my life in San Francisco and relocated to the UK as part of the expansion, knowing that there was a huge and exciting array of opportunities emerging from the continent's flourishing tech scene. It's no exaggeration to say that this decision has made a seismic difference to our ability to spot and back companies of consequence across Europe and Israel.

Whilst investing from a U.S.-base can certainly be done, Europe presents a series of opportunities and challenges that investors struggle to effectively deal with when they're on the other side of the world. Europe brings with it a complex patchwork of regulations, languages, currencies and customs. For firms investing in SaaS technology, healthcare, or fintech, for example, understanding the dynamics between national legislation, the role of EU regulations and cross-border currency implications is essential. Understanding your market at this level of granularity is far more accessible for those here in person.

Furthermore, the pace of dealmaking in Europe has intensified hugely over the last two years. 2021 saw over \$100B of U.S. investment poured into the European and Israeli markets. The rising presence of VC capital means rounds are getting bigger with the median European round with U.S. participation rising to €38M in 2021, up from €19.4M the year before. As you can imagine,

the competition for the best deals is fierce and decisions are made quickly. If you're not in the room where it happens, it's much harder to articulate the value-add your firm can bring and secure your place on the cap table.

Possibly most important, are the personal relationships built through in-person interactions, even during Covid times. Investors are entrusting millions, with entrepreneurs and founders putting their faith in backers who will help safeguard the future of their startups and teams. I have found having the opportunity to sit across from a CEO and establish that connection and trust, truly understand the business and glean what drives a founder is more important in Europe than in the U.S. This personal approach is vital. I'm a huge believer in backing people, not just products.

And it's hard to forge meaningful relationships with founders and their teams over Zoom.

This is true both pre- and post-investment. Ahead of a deal, I can get a much better sense of a founder's character and ambition, and take a clearer call on whether they're the right individual to back. Post-investment, my team and I can continue to add value in a more proactive, practical way. This might be grabbing a coffee with a founder to talk through a tricky problem, taking a physical seat on their board or making introductions to potential new hires.

From the second I touched down on European soil, I've been scheduling coffees, dinners, walks, drinks and everything in between with VCs, business executives and startup CEOs and founders. In the last year alone, I've already been to France, Germany, Finland, Spain, Israel, Austria, and, of course, several cities across the UK. This has given me a huge number of valuable contacts, all without stepping more than an hour or two outside of my time zone. Zoom is great, but when it comes to VCs and CEOs determining whether or not to partner, these decisions are far too important to make over a thirty minute video conference - for all parties involved.

This rich European network, which would have been impossible to cultivate if I were still in the U.S., has already paid dividends in our opinion. The European VC world is close-knit. We believe knowing your investment peers (and vice versa) can unlock new deals and opportunities. In this rapidly moving market, this hyper-connected, collaborative approach is the only way VCs can unearth the best deals.

We believe an additional bonus is the new layer of value we can now add to our U.S. portfolio companies. Having spent many years investing out of Sapphire's Bay Area offices, I remain closely connected to a range of U.S. enterprises, and still sit on the boards of several companies headquartered there. Over the past 18 months, our U.S. portfolio companies have doubled down on their European expansion plans. Our team on the ground, with our newly enriched local knowledge, networks and market insights, have been able to provide invaluable support as these businesses look to expand. It's another example of the virtuous circle our physical presence in Europe provides.

Before moving to Europe, I was excited about the market opportunity. But actually being here has opened my eyes to just how diverse the innovation is and how deep the talent goes. The VC firms who are serious about contributing to the European market and helping further fuel its rise are those putting down long-term roots. For my team and I, it has been a game-changer, and we plan to continue to grow that European presence.

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