

The VC focused on European technology innovators, a profile of Earlybird

With #QVCS, Maddyness profiles different funds to give founders and entrepreneurs the information they need to choose the right investor. Today we interview Tim Rehder, Partner at Earlybird.

Earlybird was founded in 1997. At the time, the US venture capital market was booming but Europe was lagging behind and VC had little to no momentum yet. This gave pioneers like us a first-mover advantage when the dotcom bubble affected the US. To date, we've managed to successfully raise and deploy 16 funds – the latest being Digital West fund's 7th generation, which we closed at the hard cap in 2021 and are actively deploying – hence also the fund from which I invest today.

Although Earlybird's DNA used to be centred around DACH for a long time, we became more pan-European over time, especially with our latest fund generation, where we opened up an office in London and today employ 7 people locally. To date and across all of the Earlybird portfolio, we have invested in 14 UK-based companies. While we expanded throughout Europe in the last 2 years, the software focus of our investments never changed over the last 26 years, i.e. the full focus on early stage venture, where we invest as lead investors between €1-10M into tech companies within seed & series A.

I joined Earlybird towards the end of 2017 as a Principal. I was running a crypto exchange for a few years that I pitched to the Earlybird team without success, but luckily kept the contact. I am now one of the 5 Investment Partners in the Digital West fund and lead our Fintech investment practice out of the Berlin office.

Which industries are you working in?

With €2B assets under management across all fund streams, we are one of the largest and leading early stage funds in Europe.

Most of us Earlybirds are engineers by training (though in fact, I am among the very few who are not); historically and still today we focus almost entirely on B2B infrastructure investments across the 3 main technology verticals that we cover on fund level – i.e. (1) Fintech / Insurtech, (2) Software & (3) Frontier Tech. Through that focus, we strive to find early stage companies that have a deep underlying differentiation in their technology & product.

Fintech and B2B Software are still the largest focus areas of the fund and with prior unicorn investments such as N26 or Aiven, we go back to a long history and experience of investing in that space.

Since our 6th fund generation, we started to penetrate Frontier Tech more actively here. With our investment into Isar Aerospace (we led their Series A in 2019 and ever since invested €38M into the company), we developed a team inside the fund that is purely looking after deep tech companies that: (a) often have a different risk/ return profile to our „usual“ investment areas and typically face a rather binary outcome (i.e. “0” or “1”), and (b) also require a different approach to due diligence. This sector is very important for Earlybird these days, as by now we’ve built an ever increasing portfolio in that space with companies such as Marvel Fusion (Fusion Energy), a still-unannounced B2B consumption & procurement optimisation platform, or eleQtron (quantum computing) – gaining significant traction through building important platform technologies out of Europe.

Personally, since joining Earlybird, my main focus has been covering Fintech for us. Within Fintech, I led our investments into Upvest, finmid, and M- Zero Labs and support most of these founders as part of their board of directors.

As my wife is building a D2C brand out of Berlin, I have developed a deep interest in Future of Commerce infrastructures and have taken over that additional focus area a few years ago, hence also leading our investments into i.e. Hive Technologies & Everstores.

What do you look for in a founder?

Different things, but most importantly, anything that can give the founding team an unfair and long term competitive advantage. We look for complementary founding team setups, which in its own also means that we generally rather avoid single founder teams (of course with some exceptions). The combination of complementary profiles is what's driving the ultimate power of founding teams. The 'why you' and 'why now' questions are likely the two most important questions investors should ask and in combination, drive the majority of outcome probability of venture. Besides the team composition, we look for over-ambitious and intrinsically motivated people who look to shape and challenge the status quo of existing or new industries via a meaningful reason and purpose. Since in most cases, venture is not a straightforward business, we try to imagine that exactly this team has the skillset and persistence to build a multi-billion outcome out of just an idea...

Can you talk about your current portfolio?

As I mentioned before, you can see that 90% of our Digital West portfolio, especially in the more recent fund generations, are B2B software companies. It defines our core strategy today and will manifest our positioning going forward, too. While we were somehow questioning that focus back in 2020/21, where a hype around several consumer-facing companies was making big waves, we now know and understand again that playing to our strength is key.

Earlybird is known to be one of the earliest investors in N26 (one of Europe's largest fintech unicorns) and also one of the earliest investors in UiPath, which ultimately became Europe's largest IPO ever. Aiven, a Finnish-based multi-cloud open source data platform, was backed by Eurazeo & Blackrock in 2021 at \$3B and one of our most recent investments, Aleph Alpha, is currently shaping the European industrial world by developing a true European alternative to Open AI – evolving as one of the leading enterprise-grade generative AI companies for customers working with sensitive data.

One of the latest highlights I personally worked on was our investment in Upvest in 2019; they are rebuilding the classical custodianship bank in Europe via an Open API platform. After our investment, the US fund Bessemer Venture Partners recently led the company's Series B round and the company now serves leading Fintech companies like Revolut bank.

What does the future look like? New trends/technologies, changes in the global/local economic landscape?

Obviously, AI is top of mind and a lot of companies in that space are attracting large sums of venture capital. While with every one of these kinds of waves (think of the different crypto bubbles), there will be inflated companies created by venture capitalists who want to be part of the game, I personally believe that the area of AI will be one the biggest innovation drivers we see after mobile and cloud. My partner Andre Retterath researched the field of AI in venture capital and brought his thesis and findings into our fund 6 years ago, starting to build a proprietary machine-learning-based deal sourcing platform that today we call the “Earlybird EagleEye”. With over 6 full-time engineers working on this platform, we source, screen and analyse earlystage opportunities throughout Europe and the ROW. While this engine also “sourced” our investment in Aleph Alpha, it primarily brought us into a pioneering position to penetrate this market in a very educated and systematic way, so that we count numerous investments in that space today.

I believe that the European Venture Capital market will continue to professionalize itself over the next few years. Similarly to our sector approach at Earlybird, investors will become much more focused towards what they invest in and seek to employ insiders to have a more educated and targeted approach. US funds are going back to focusing on their bread & butter growth investing, especially when it comes to Europe. I think we face exciting times ahead in venture where the current recession-like market dynamics will just “clean-up” numerous factors that were imbalanced for too long.

What makes Earlybird different?

Three things mainly

1. The quality and diversity of our portfolio
2. Our 26 years of investing experience to help founders scale all types of technologies throughout different cycles
3. How closely we work with our founders.

Our Digital West fund is already at its 7th fund generation now, and through it we’ve invested in close to 100 early-stage startups operating mainly within our 3 core industry sectors. This gives us and our founders access to a very specialised network of peers, C-Levels, VCs, angels, in such a way, that we believe no other VC in Europe has it – at least not at that scale.

We not only invest capital but also our time, knowledge, and experience and while most funds say similarly, we feel we're among the few to actually walk the walk with them. We typically do lead or co-lead investments and always ask for one or more board seats, meaning we're fully committed – both financially and in terms of presence by their side.

On a more personal level, I would say that today we've found an ideal structure of complementing our founding partner's deep investment experience with a more hands-on, strategic approach by us younger investment partners. Our focused investment approach towards B2B software companies enables us to support founders as their non-operational partners at eye level and together always aim to build the next European unicorn.

What one piece of advice would you give founders?

Follow your passion and never build a business for the sole reason of building a business. You have to be fully convinced and committed to doing this for the long run. Being a founder is running a marathon; there is no giving-up and being persistent will be a key ingredient for success.

Tim Rehder is a Partner at [Earlybird](#).

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