Europe builds dominance in Crossover Investing

Revaia publishes first ever report on Crossover Investment in Europe
"Inflexion Point - the Path to IPO"

- **Crossover investors are responsible for 16% of dollars invested in European venture-backed startups on average from 2017 to 2021 but only 4% of funding rounds**
- **Over the full four-year period, European Crossover investing doubled from 13% to 26%, as a proportion of total venture capital invested**
- **This significant capital allocation is only skewed towards ~5% of European venture deals that raised on average $165m hence contributing to the emergence of the growth equity asset class in Europe**
- **Crossover funds like to invest in software, accounting for 49% of total capital raised in Europe, this is followed by Consumer (25%) and FinTech (13%)**
- **Despite wider market challenges, European crossover investing better held in 2022 compared to US counterparts. From the 2021 highs, European crossover investments decreased significantly in 2022 from >$50bn of capital invested to $27bn for the full year**

Paris, January 23, 2023. Revaia, a leading European sustainable growth investor, partnering with mission-driven growth-stage entrepreneurs, is today publishing the first ever report focusing on Crossover investing in Europe. The report provides unique data on the development of European Crossover investment between 2017 and Q3 2022. The report aims to shed light on the macro trends surrounding Crossover investing and provide critical insights to investors and founders to drive growth and scale up opportunities.

A Crossover investor is a fund that builds a bridge between private equity and public markets. It operates concurrently on both sides, private and public, and critically, can act as a cornerstone in the transition from one side to the other. Examples include hedge funds, private equity houses and anchor/cornerstone investors, who all invest at different stages of the company's pre-IPO journey.

In recent years, the Crossover investing strategy has spread across global markets, with distinctions based on region, risk appetite and ecosystem rigor. Revaia explores this fundamental market shift in a report attached to a podcast series featuring scaleup founders and executives sharing their perspective on the path to IPO.

To produce the report, Revaia primarily used PitchBook data that analyse private markets over a period from January 1, 2017 to September 30, 2022. This included 5,315 crossover deals, 65 crossover investors. Revaia supplemented this with qualitative interviews with 6 scaleup founders and executives and 5 industry leading bankers and investors.

More details on the report are below, including the methodology, report highlights and link to the podcast interviews.

Alice Albizzati, Revaia Founding Partner, commented: *"Traditionally tech investing has been highly specialized in both the public and private spheres. But as the ecosystem matures, the line between seed, early stage, venture, growth, late stage, and public markets has blurred. This has prompted a huge increase in Crossover investing over the past five years. Despite challenging market conditions, Crossover investing is still expected to increase in prevalence, particularly in Europe. The* *composition of private markets has shifted, and industry players must understand the behaviours and macro trends surrounding Crossover investing to leverage it as an effective tool for long-term growth in Europe."*

Elina Berrebi, Revaia Founding Partner, added: *"In both Europe and the US, Crossover investors have taken an increasingly big piece of the pie when it comes to funding deals. Last year nearly half of all US VC funding included Crossover fund investors. Now Europe is catching up fast and Crossover investors across the continent increasingly dominate. There is a huge opportunity for European investors straddling the public and private markets to invest in and build the most exciting and innovative companies, especially across FinTech and Consumer sectors. Bringing expertise from across the growth curve and experience transitioning between public and private sets up our homegrown companies with the best chance of success."*

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Methodology:

Revaia's Crossover investing report is composed of quantitative analysis, qualitative findings as well as sourced input from leading industry experts, using PitchBook as the primary data source. The time period starts in 2017 and extends to the third quarter of 2022, roughly five years' worth of activity. The analysis focuses on private market fundraising in an effort to uncover fluctuations in deal size, participation of public market players in the rounds, the volume of crossover investor participation by stage, contributions as a share of overall capital, the industry verticals impacted, and their evolution over time and by geography.

Report Highlights:

Context:

As the venture industry has professionalized, the lines between fundraising rounds and domain expertise have blurred. On the financing side, this is largely due to new and creative funding mechanisms and the unrelenting appetite for revenue growth – what was once a Seed round looks more like a Series A, and so forth. Regarding domain expertise, there are two factors: bigger funds have the strength and foundation to become multi-faceted, meanwhile technology companies have become increasingly multi-disciplinary by building products that intersect two or more categories, like artificial intelligence and healthcare. These changes serve as a catalyst for private equity funds that were previously stage or domain-specific to expand coverage and even go so far as to maintain positions in public equities. Conversely, the attractive returns and necessity of funding has encouraged public market players to expand their portfolio in the opposite direction.

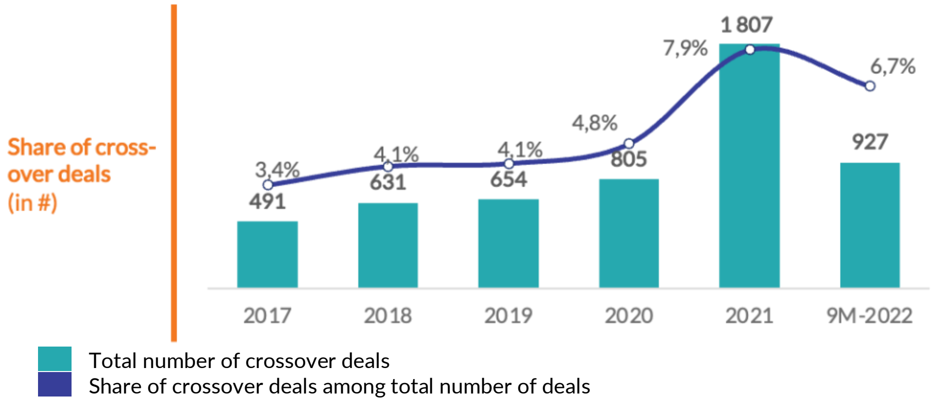
Trend:

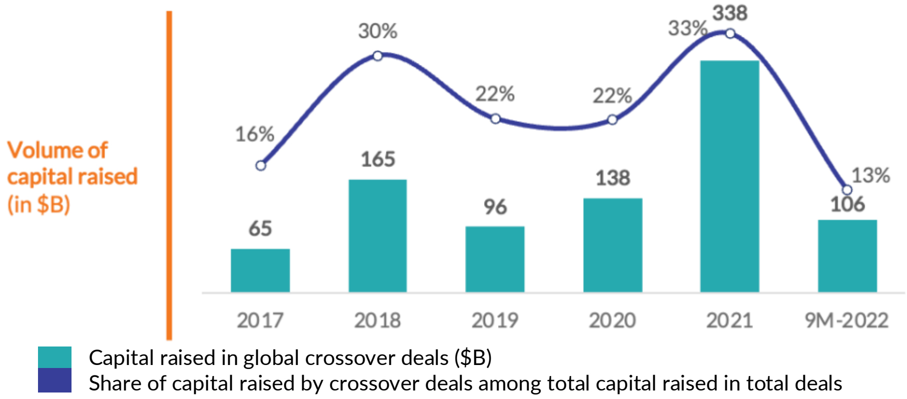
As a result, we have seen a significant increase in crossover investing activity worldwide. From 2017 to 2021, venture deals including crossover funds' investment increased from 3.4% to 7.9% of the total number of deals – a leap from 491 to 1,807 crossover deals over the 4-year period. The overarching trend is consistent across metrics like deal count, dollar volume and average deal size with slight variations based on geography. Furthermore, we discovered an uptick in public market entities, notably hedge funds, progressively increasing their presence in earlier stage deals, a strategy initiated in the United States but gaining momentum in Europe in recent quarters.

Crossover investors are contributing more to private market deals globally. Their contribution, as measured by the share of their investments over the total venture capital funding, reached **33% in 2021**, doubling from 2017. On average over 2017 to 2021, crossover funds were responsible for **25% of dollars invested in venture-backed startups globally**.
This has been particularly true in the United States: by 2021, **nearly half of US venture capital funding included crossover fund investors (42% in value)** representing 11% of total number of

US venture deals in the period, **but in 2022 this decreased in frequency, whereas Europe is increasing crossover fund contribution in private market deals.**

Share of crossover deals in the world

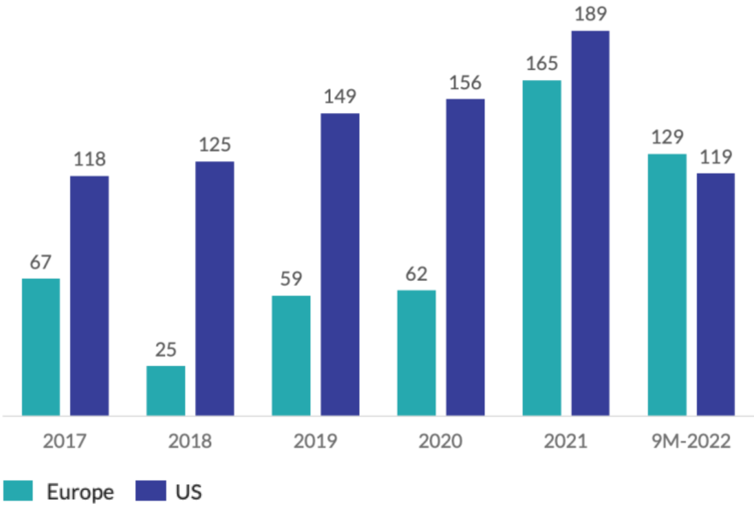




Source: Pitchbook

Europe: Crossover participation in Europe as a proportion of total capital invested increased from 13% to 26%, doubling over the 4-year period. At its peak, crossover investment accounted for over $53B of private venture capital. Overall, Europe witnessed a steady increase in crossover activity in the 2017 to 2021 period, with a peak in 2021 of 323 deals, up from 145 at the beginning of the period, representing a 2.2x increase in deal volume. The EU average deal size consistently trails that of the US, until 2022 when Europe **overtook the US for the first time**. Europe was also **more resilient than the US** in the 2022 downtrend: the capital invested in crossover deals decreased by -50% in Europe ($53bn > $27bn) vs. -66% in the US ($177bn > $61bn).

European and US average crossover deal size (in $M)



Source: Pitchbook

<u>Sectors:</u> By and large, the software sector received the most attention from crossover investing capital with 49% of the total number of deals with crossover participation and 45% of total capital raised when Consumer amounts to 25% capital raised and FinTech stands at 13% of capital raised.

<u>Deal stage:</u> "Late Stage" deals dominate the crossover category, far ahead of the early stage in terms of capital share. Late-stage investments make sense, as hedge funds are accustomed to public markets and can apply their strategy to pre-IPO companies that require a substantial push before the next milestone. Furthermore, the high-potential of near- term liquidity makes late-stage investments particularly attractive.

<u>Expert views:</u>
In the report, Revaia gives entrepreneurs a voice on Crossover investing, by asking them about their perception of Crossover investors and their path to IPO. These testimonies are gathered in a podcast to provide an intimate look through the lenses of people operating day-in-and-day-out in this space.

Pedro Barros, VP of Finance at Remote, shared: *"The role of cornerstone investor is critical, especially over the recent years where we've seen crossover funds investing earlier and earlier on in the journey of a company. What you expect from a traditional VC is what you would also expect from these funds, which is the capacity of enabling the company to do well from a commercial and operational perspective. Being able to be that advisor and partner of the company continues to be key, especially as we continue seeing Crossover investors get involved so early on in the journey."*

Vincent Huguet, Founder and CEO of French start-up, Malt, *"I've always seen the investors as people around the board who have different skills, and you have to, in some ways, give them some homework depending on what they're good at. They can introduce you to companies who have done things well, as well as banks or intermediaries that can help you to achieve your goals. I would say it's mostly the connections that are important in preparing you for the IPO process and having the right people to talk to in order to not make the mistakes they have done in the past or learn from the good things that they have done."*

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You can find the full report here.
You can listen to the podcast on:

- Revaia's Podcast Website
- Spotify
- Apple Podcasts

About Revaia

Revaia is a leading European sustainable growth investor, partnering with mission-driven entrepreneurs with global ambitions and sustainable leadership. Revaia helps these growth-stage companies navigate their entire life cycle from Series B to IPO and beyond. Revaia builds bridges between venture, private equity, and public markets and is a supportive sparring partner for entrepreneurs who are working to transform the world for the better. With offices in Paris and Berlin and presence in North America, its diverse team brings hands-on expertise and unique ESG know-how to the most promising technology scale-ups. Revaia is very proud to be supporting companies such as Algolia, Aircall, Coralogix, Deepki, Frontify, GoHenry, Hublo, Platform.sh, Planity, and Welcome to the Jungle.

Revaia.com

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