

The state of early-stage European SaaS.

aVC Index.



The aVC index is designed to guide founders raising VC funding.

AlbionVC

Given the high levels of uncertainty around the early-stage fundraising environment, AlbionVC, with support from **Google Cloud**, have created the aVC index.

The aVC index is designed to help bring **transparency to the European SaaS** ecosystem and help early-stage founders understand **what to expect when raising Series A in terms of timeline, terms and valuation**.

Inspired by the PMI index in the public markets, the aVC index is created quarterly through an anonymous survey of investors actively deploying capital in the European ecosystem. It is an **early activity indicator** rather than exiting lagging benchmarks on deals done, many of which are published months after the transaction has taken place. **aVC index looks at the earlier stages of the deal making process and is designed to help drive expectations and ultimately fundraising outcomes.**

AlbionVC have carefully curated a list of active European investors who have been invited to take part in the survey. A special thank you to all investors who have taken the time to fill in the first aVC survey. For more details on the respondents and aVC formula calculations see Appendix.

Google Cloud

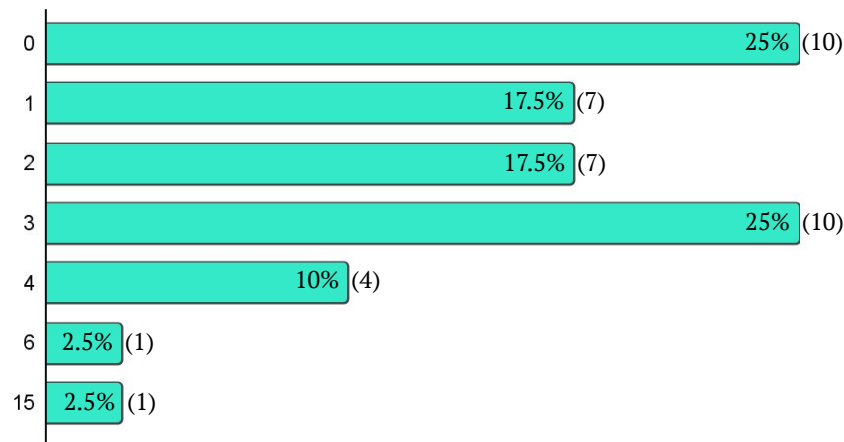
Summary findings: European Series A SaaS companies return to fundraising.

- Based on findings from the aVC index survey, **25%** of VCs have refrained from issuing term sheets for new investments in the past 3 months. However, there is one outlier UK-based Series A focused fund, which has reported double-digit numbers in terms of issued term sheets.
- There's a mixed picture when it comes to price sensitivity among VCs issuing term sheets. While many acknowledge that processes have become less competitive or have seen no change in pricing, ~ **20%** report a more competitive market dynamic.
- European SaaS companies return to fundraising. Series A investors report an increase in the pipeline activity resulting in the **aVC 57.1** that indicates an **expansion in the overall in-scope companies in early due diligence** over the past 3m.
- Early stage investors report a **slower Q2** with an overall contraction in the number of companies in the pipeline and a quarter of VCs having issued no new term sheets. **Dry powder is not driving additional risk taking.**
- Looking ahead the majority of investors expect **valuations** to stay the same or fall even further, with deals being done on more investor-friendly terms.
- **More capital to go on new investments** rather than follow-ons, with a **big ramp up in capital deployment in Q4.**
- UK investors issued more term sheets per fund than European VCs yet they report significantly fewer companies in the pipeline.

Deal activity.

- Avg. **2.2 term sheets per fund** / median 2 term sheets per fund
- **Only 2 funds** (2.2% of sample) issued more than **4 terms sheets** last quarter
- **25%** of investors have done **no new deals** at all over the past 3m
- One outlier fund issued 15 term sheets

Term sheets issued in the previous 3 months



Price perspective: mixed views with majority reporting a less competitive market.

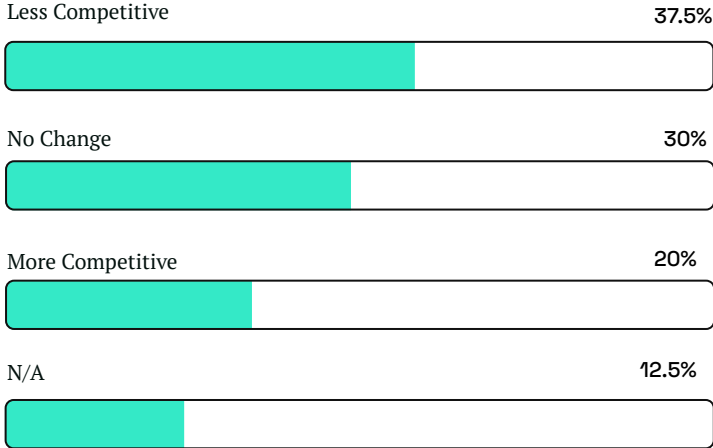
Mixed picture:

67.5%
investors report a less competitive market or no change in pricing dynamics over the past 3m

Yet **20%**
investors report more competitive dynamics

We believe this comes from sector specific variations as companies with exceptional performance or in certain segments of early-stage venture remain highly competitive in both price and time to term sheet.

When issuing term sheets, how were the processes from a price perspective in the previous 3 months



Pipeline: European SaaS companies return to fundraising.

About the aVC Index.

The index measures the direction of change. aVC above 50 represents an expansion vs previous quarter, under 50 is a contraction, and 50 is no change.

*The formula is $aVC = (P1 * 1) + (P2 * 0.5) + (P3 * 0)$ where P1 = percentage of answers reporting an improvement, P2 = percentage of answers reporting no change and P3 = percentage of answers reporting a deterioration in the number of companies in early stage pipeline.*

See Appendix for calculations.

- All investors - **54** aVC suggests a **slight expansion** in the number of companies in early-stage investor pipeline
- Series A investors- **57.1** aVC suggests an **expansion** of companies looking for funding from Series A investors
- Seed investors - **46.8** aVC suggests a **slight decrease** in the number of companies looking for funding from seed investors

Looking ahead: valuations & terms.

The majority of investors expect valuations to stay stable or fall further, with deals being done on more investor friendly terms:

Terms

Nearly two thirds of all investors surveyed expect term sheets to be **more investor friendly** over the next 3 months. Interestingly, this appears to be independent of valuation as c

60% of investors that indicated they expected no change in valuation still believe more investor friendly terms are coming

Valuations

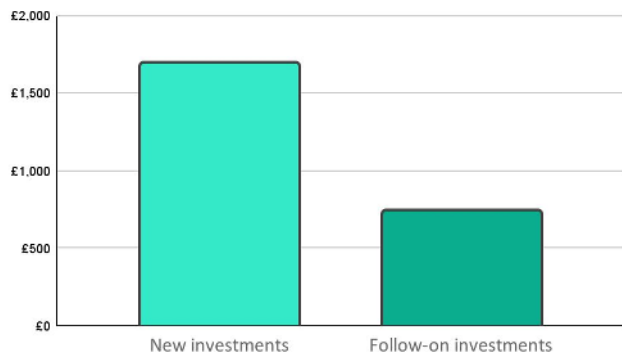
While the majority of investors believe **valuations will remain stable** next

quarter, nearly **40%** believe they have further to fall. Of those investors that believe in valuation compression, a quarter indicate more than a **20% decline from current levels**

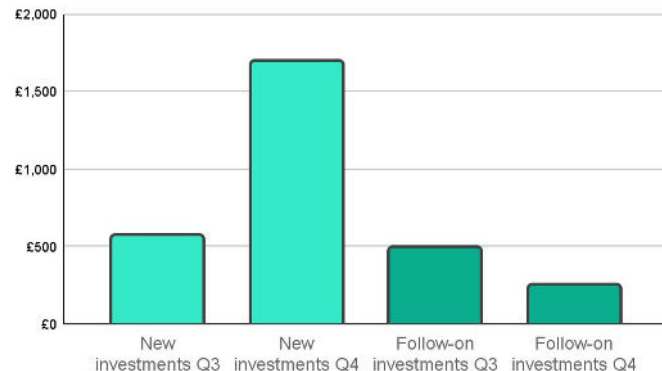
Looking ahead: more capital to be deployed on new investments.

- Total of **£2.4 billion** among participating VCs to be deployed on SaaS in H2 2023
- **More capital to go on new investments** rather than follow-ons
- Participants are expecting a big step up in activity in Q4
- **Investors more focused on follow-ons in Q3**

Capital to be deployed in thousands £ on new and follow-on investments over the next 6m



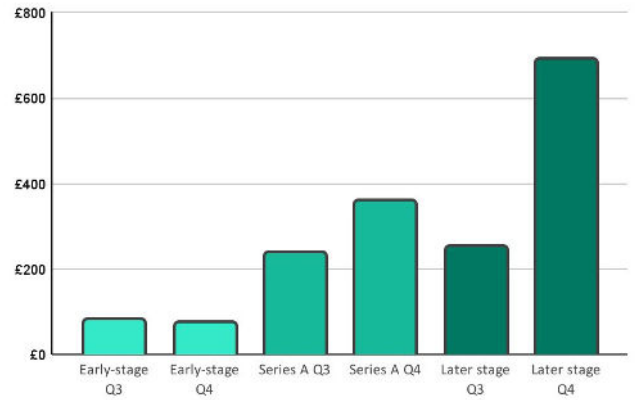
Capital to be deployed in thousands £ per quarter on new and follow-on investments



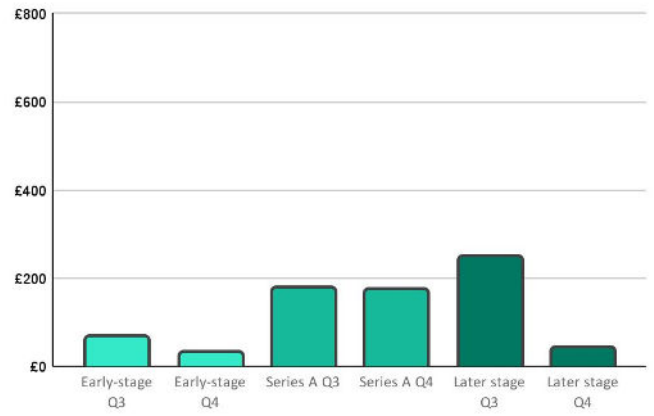
Looking ahead: new capital deployment ramping up into Q4.

- Early stage investors expect to be busy deploying capital in new investments in Q3 and Q4 , whereas later stage investors look to ramp up activity in Q4.
- Series A investors have balanced follow-on allocations over the next two quarters, whereas early and later stage investors expect to deploy more in Q3.

Expected deployment in millions £ on new investments in Q3 and Q4



Expected deployment in millions £ on follow-ons over Q3 and Q4



Overview early stage investors.

Sample: 18 early stage investors with 1089 portfolio companies

Over the past 3 months (3m):

- 6% of all portfolio companies have received an externally led term sheet
- **Only 30 term sheets issued**
 - median of 1 term sheet per fund (Q2) - **lower than a median of 2 term sheets per Series A fund**
 - c. 30% of cohort have not issued a new term sheet over the previous 3m
 - majority of cohort issued 1 term sheet or less
- It also appears that investors are remaining disciplined in deployment as the funds that have seen a decline in pipeline have also issued fewer term sheets, suggesting the **dry powder is not driving additional risk taking**

Looking ahead:

- While c. 20% of funds have seen an increase in near term pipeline, there is a slight contraction in pipeline activity overall. Given, albeit subjectively, the early stage market remains buoyant, and this data shows Series A and later stage investors have seen an expansion in pipeline activity it is highly likely that later stage investors will continue to capture early stage deals.
- Two thirds of early investors expect term sheets to be more investor friendly over the next 3 months, however **valuation is not expected to be the primary driver of better terms overall** as two thirds of early stage investors expect no change to valuations
- It appears early stage investors will be busy deploying capital in new investments in Q3 and Q4 vs later stage investors ramping up activity in Q4 (first graph Slide 8)
- 10% of all portfolio companies expected to be raising over the next 3m

Overview Series A investors.

Sample: 15 Series A investors with 1030 portfolio companies

Over the past 3m:

- 3% all fund's portfolio companies have received externally led term sheets
- 44 term sheets issued
 - **median of 2 term sheets per fund**
 - While c. 25% of Series A funds issued no term sheets last quarter, nearly 50% issued between 2 and 3, even when funds believed valuations will be lower and terms will be more investor friendly in the future
 - As such, **expectations on future price and terms don't appear to be driving investor activity**
 - Putting this in context, this is nearly twice as active as early stage investors. **We believe Series A investors are actively investing at the seed stage**
 - Investment strategy appears to be in flux for the majority of Series A funds as change in pipeline activity did not seem to drive a change in the number of term sheets being issued (e.g. c. 40 % of funds that had an increase in pipeline activity issued less than the median number of term sheets)

Looking ahead:

- Series A investors highlight they expect to be busy with follow-ons for the rest of the year, deploying capital steadily through the next two quarters
- Consistent with early stage investors, **Series A investors remain supportive of their portfolio companies**, indicating c. 40% of capital deployed in H2 23 will be in follow-ons
- With 50% of Series A funds seeing an increase in pipeline activity (aVC index score of 57.1) and indicating 40% of new investment capital to be deployed in Q3, Series A investors could drive an increase in investment activity next quarter
- The majority of Series A investors believe **term sheets will be more investor friendly next quarter**, but unlike early stage investors, c. 25% of Series A investors suggest that **valuations will be the driver**. However, the view on future valuation had no impact on the number term sheets issued over the last quarter.
- 7% of portfolio companies are currently raising or raising over the next 3 months.

UK deal activity shows a contraction but investors actively issue term sheets.



UK

10 investors with 592 portfolio companies. Over the past 3m:

- 4% portfolio companies currently receiving externally led term sheets
- **median of 3 term sheets per fund** (even accounting for bias in the sample with a higher proportion of early stage funds), **UK funds on average were more active than European peers**

Looking ahead:

- **Near term deal activity shows a slight contraction with aVC of 44**
- **UK investors less bearish on terms** than European counterparts (65% suggest no change in terms vs. 35% in Europe)
- 9% of portfolio companies are currently raising or raising over the next 3m



Europe:

25 investors with 1417 portfolio companies. Over the past 3m:

- 3% portfolio companies currently receiving externally led term sheets
- **median 2 term sheets per fund, driven by the number of funds issuing only 1 term sheets or less being c. 30% higher than in the UK**

Looking ahead:

- **Near term deal activity shows an expansion with aVC of 60**
- 40% of both UK and European funds believe valuations will decline next quarter, however c. 40% of European Fund believe valuations will fall >20% (vs. 25% in the UK)
- 6% of portfolio companies are currently raising or raising over the next 3m

What to expect if you are looking to raise Series A over the next 3m.

Looking ahead:

- **Series A investors still actively doing deals and issuing term sheets** for both new and follow-on investment
- Increasing number of seed VC companies raising (10% all portfolio) => data suggests investors will be busy making follow-on investments in Q3, with more focus and capital being deployed into new deals in Q4
- **Expect valuations to stabilise, although some segment may feel further pressure (Europe), however this hasn't been a blocker to Series A funds issuing term sheets**
- Deals to be done on more investor friendly terms outside of valuation alone, so terms sheets need to be considered holistically in the round

Quotes - on data and sector specific commentary.

 Robert Whitby-Smith, Partner at AlbionVC, said:

“Firstly, thank you to everyone who participated. The background of our first aVC index is the slowest start of the year in my 20-year career as an early-stage tech investor and the data reflects this with a quarter of funds reporting no new term sheets in Q2. However, the funding market now appears to have bifurcated. Some companies are attracting 2021 levels of interest - whether because they are in super hot sectors (including Gen AI and climate tech) or because there is strong investor demand and a limited supply of exceptional companies. While such deals are still an exception there is a feeling among VCs that the tide is turning and an expansion in the aVC index at the Series A confirms this. I can’t wait for Q3 data!”

 Oksana Stowe, UK&I head of VC and Startup Ecosystem at Google, said:

“The aVC index provides a vital tool for the SaaS ecosystem, empowering founders with valuable insights to navigate their fundraising journey in the forthcoming quarters.”



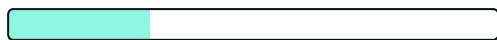
Appendix.

Appendix: About the survey.

- Total respondents: 40
- Total portfolio companies: 2611

Investors' core investment strategy:

Series A 36.6%



Seed & Pre-Seed 46.3%

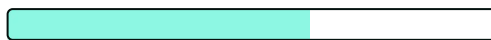


Series B, Growth & Multistage 17.1%



Main geographical focus for respondents:

All Europe 61%



UK 26.8%



Global 12.2%



Investors assets under management

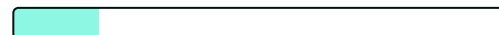
£1 billion + 29.3%



£120 - 240 million 17.1%



£240 - 500 million 17.1%



£500 - 1 billion 17.1%



£60 - 120 million 12.2%



< £20 million 7.3%



£20 - 60 million 0%



Appendix: aVC calculation per stage.

All investors:

The number of companies in investors' in-scope early-stage due diligence:

- P1 - Increase - 14
- P2 - No change 12
- P3 - Decrease 11
- Not sure/ black 3

Total considered 37

$$\text{aVC} = (P1 * 1) + (P2 * 0.5) + (P3 * 0) \\ = 14/37 * 1 + 12/37 * 0.5 + 11/37 * 0 = 0.54$$

54 aVC

Series A investors:

The number of companies in investors' in-scope early-stage due diligence:

- P1 - Increase - 7
- P2 - No change - 2
- P3 - Decrease - 5
- Not sure/ black -0

Total considered 14

$$\text{aVC} = (P1 * 1) + (P2 * 0.5) + (P3 * 0) \\ = 7/14 * 1 + 2/14 * 0.5 + 5/14 * 0 = 57.1$$

57.1 aVC Series A

Seed & pre-seed investors:

The number of companies in investors' in-scope early-stage due diligence:

- P1 - Increase - 4
- P2 - No change 7
- P3 - Decrease 5
- Not sure/ black -2

Total considered 16

$$\text{aVC} = (P1 * 1) + (P2 * 0.5) + (P3 * 0) \\ = 4/16 * 1 + 7/16 * 0.5 + 5/16 * 0$$

46.88 aVC Seed

aVC Index.

*On a mission to help bring clarity to the
European SaaS founders and investors*

Thank you.