

# The state of early-stage European SaaS deal activity.

Q3 2023 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 early-stage founders understand **what to expect when raising VC funding in terms of competitiveness** (supply of new companies seeking VC funding), **investor demand** (capital deployment expectations) **and valuations** (price).

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.

The aVC index report **looks at the earlier stages of the deal making process**: it compares the volume of companies seeking VC funding quarter to quarter (supply side measure), with the investor demand (capital deployment expectations) and valuation expectations. The index report 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 second aVC survey.

Google Cloud

# Summary findings: SaaS market remains fragmented as more companies return to fundraising across all stages.



## Q3 Findings

- **86%** of funds reported at least one externally led term sheet issued over the past 3 months, with a reported **50% increase** in the number of **term sheets issued**: median 3 term sheets per fund in Q3 vs only 2 in Q2.
- **20%** of VC portfolio companies across investment stages are on a **path to breakeven** suggesting there may be a shift in the medium-term demand for VC capital.
- **Q3 aVC index of 68** indicates an **expansion** in the overall companies in investor pipeline. Seed and growth stage VCs report the biggest increases in the number of companies looking for funding.



## Expectations looking ahead

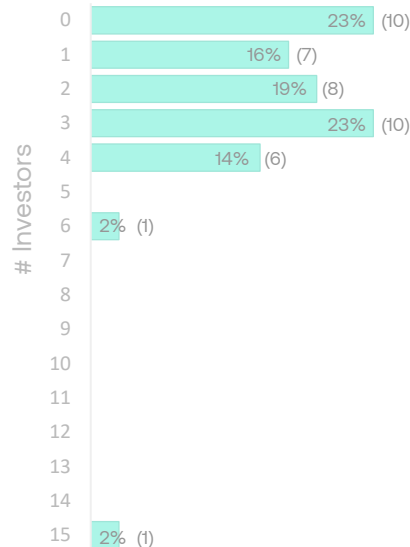
- Overall investors expect to deploy **£1B** on new and follow-on SaaS investments before the end of the year, with over **70% of capital focused on new opportunities**. This represents a shift from Q2 data that saw investors focus on follow-ons.
- Yet the demand side is highly fragmented, especially at the growth stage with investors expecting to deploy 60% less in Q4. Healthy pipeline of companies and stable valuations outlook is supporting **Series A investor** appetite, who report an expected **40% increase in capital deployment in Q4**.
- Looking ahead the **outlook for valuations is mixed**. While a significant majority expect valuations to remain stable over the next 3 months and some expect a further fall, a small number of early-stage UK VCs anticipate **valuation increase** of up to **10%**.

# Deal activity: investors report a more active Q3 for new term sheets issued.

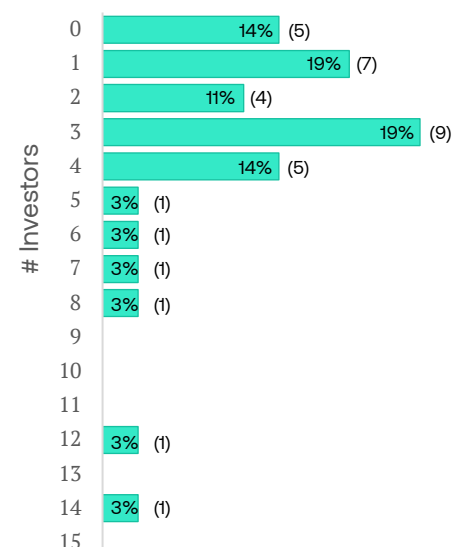
**86%** of funds<sup>1</sup> reported at least one externally led term sheet issued over the past 3 months:

- Avg. 3.2 term sheets per fund (+1.0 vs. Q2) / median 3 term sheets per fund (+1.0 vs. Q2)
- **14%** of investors have done no new deals at all over the past 3 months
- Investors appear to have been issuing more term sheets in Q3 than in Q2 – fewer VCs with no term sheets (14% vs 25%), and multiple investors that have issued over 4 term sheets (in Q2 only 2 funds had more than 2 term sheets)
- Two outlier Series A funds have issued +10 term sheets

Term sheets issued in Q2 (% Total)



Term sheets issued in Q3 (% Total)



1. 5 blank responses not considered for this analysis; percentages shown take non-blanks as denominator



# Breakeven: 20% of portfolio companies have restructured towards a path to breakeven over the last 12m.

~20%

of early-stage portfolio companies restructured towards breakeven

~28%

of Series A portfolio companies restructured towards breakeven

~16%

of growth stage portfolio companies restructured towards breakeven

~20%

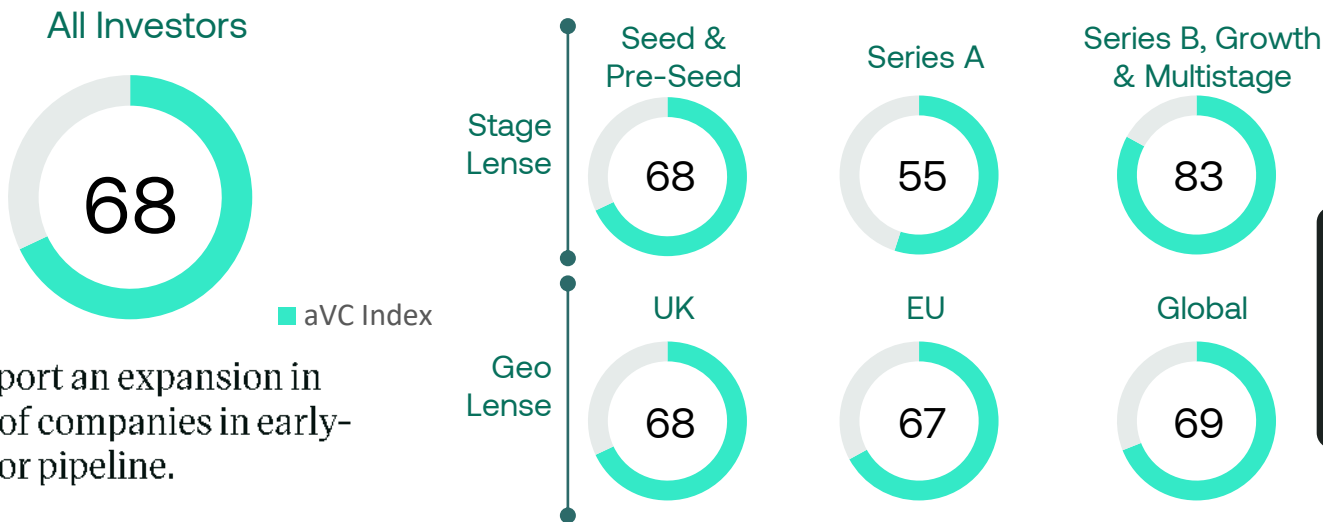
of all funds have +40% of companies with restructured business plans

Robert Whitby-Smith, Partner at AlbionVC, said:

“All companies are charting a path to breakeven (and profit!), the question is when and how much capital is required to get there. In 2022 as interest rates rose, the public and private markets shifted from a focus on “growth” to a focus on “capital efficient growth”. This led to headcount reductions across the software ecosystem. Around a third of venture backed portfolio companies restructured their businesses to reduce burn (and thus the need for venture funding). Once the IPO and later stage funding markets open up, we would expect demand for early stage venture funding to return as companies seek to accelerate growth and build more substantial businesses”.



# Pipeline: European Seed and Growth stage companies return to fundraising.



Investors report an expansion in the number of companies in early-stage investor pipeline.

Pipeline data consistent across geographies

### 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. See Appendix for calculations.



# Looking ahead: mixed views on valuations are not affecting capital deployment on new opportunities in Q4.

## Valuations

- **58%** of investors believe valuations will remain stable next quarter
- **28%** believe they have further to fall yet this percentage is down from ~40% reported in Q2 2023
- **14%** believe valuations will increase between 0-10% over the next quarter

## Capital Deployment

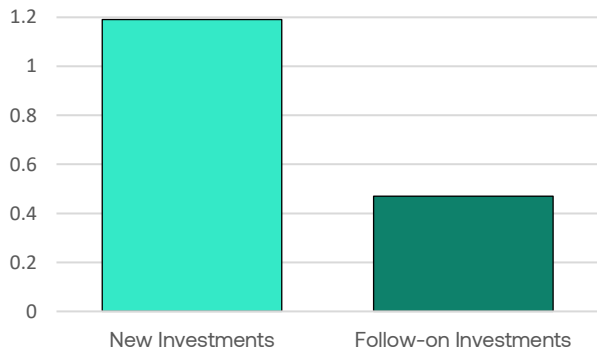
- Investors expect to deploy **£1B** in new and follow-on investments before end of the year, with **72%** of capital to be allocated to new opportunities (£708m)
- Capital deployment on new opportunities per stage in Q4 is **highly fragmented**



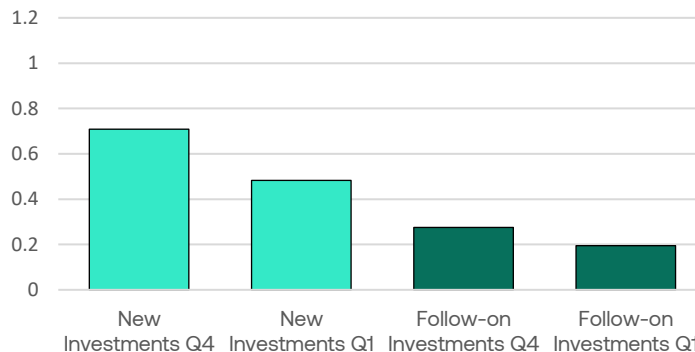
# Capital deployment: investors focusing on new investments in Q4.

- **£1.7B** to be deployed on SaaS over the next 6 months
- **72%** capital expected to go to new investments rather than follow-ons
- Investors expecting to deploy **~30%** more capital in Q4 vs. Q1 2024
- Investors shift from Q3 focus on follow-ons to focusing on new investments for Q4

Expected capital to be deployed on new and follow-on investments over the next 6m (£B)



Expected capital to be deployed per quarter on new and follow-on investments (£B)





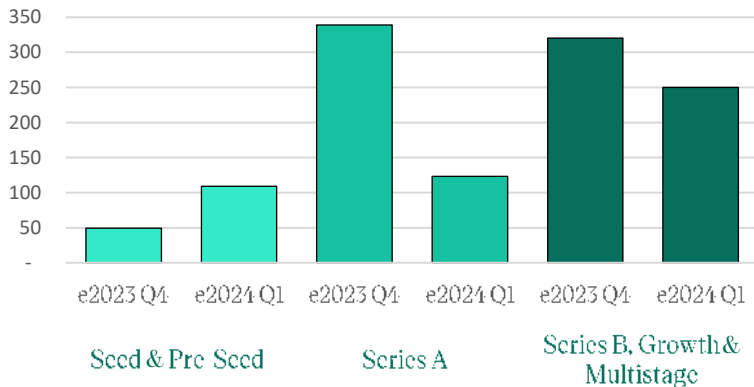


# Capital deployment: Series A investors are set for an active Q4.

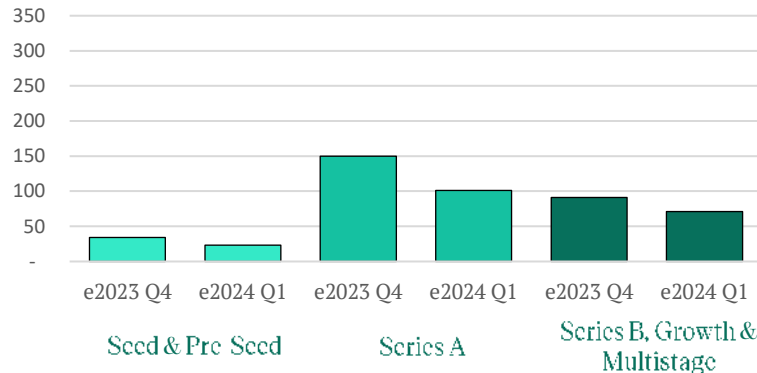
- Series A investors expected to deploy limited capital during Q1 2024 as most of allocations are set for Q4
- Early-stage investors expect a ramp up during the next six months in terms of capital deployed

- Investors expecting to deploy more capital in Q4 vs. Q1 2023 across all investment stages

Expected capital to be deployed on new investments per stage (£M)



Expected capital to be deployed on follow-on investments per stage (£M)

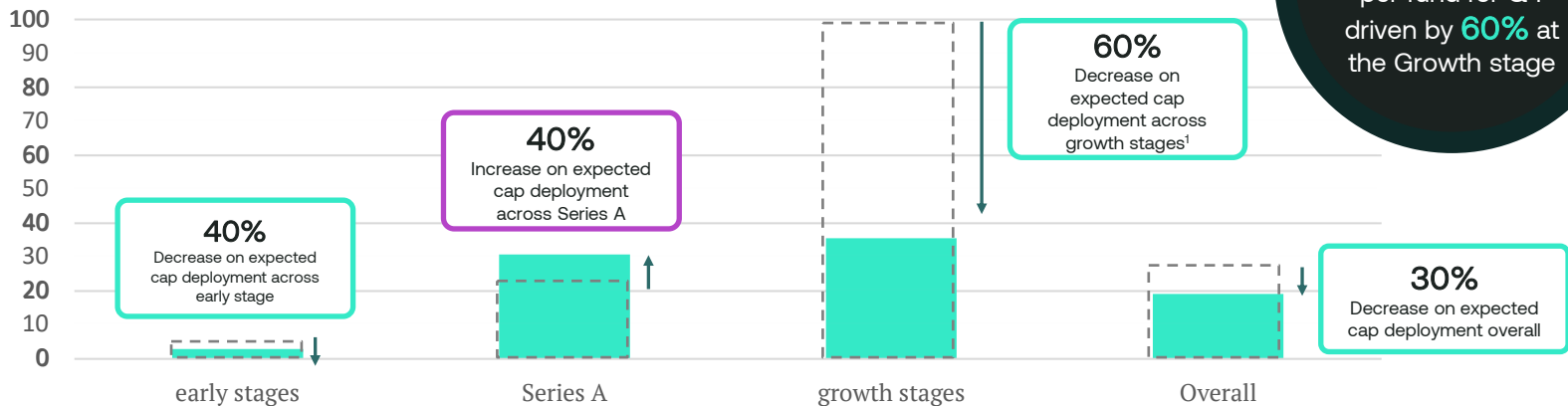




# Capital deployment: investors have lowered their Q4 capital deployment expectations since Q2.

**30%** decrease in expected average capital deployment per fund for Q4 driven by **60%** at the Growth stage

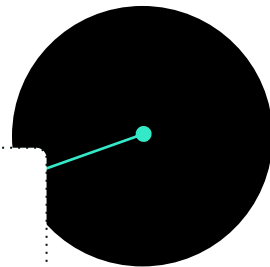
Q4 2023 average expected capital to be deployed on new investments per fund (£M)



Q2 median fund's AUM	£120-240M	£500m-1B	£+1B	£240-500M
Q3 median fund's AUM	£60-120M	£500m-1B	£+1B	£240-500M

□ Q2 Survey ■ Q3 Survey2

# What to expect if raising Series A over the next 3m.



## What to expect:

- 20% of early stageVC portfolio companies raising over the next 3 months
- Stable valuations, with over 70% Series A investors expecting valuations to stay the same and no Series A investor believe valuations will increase, support a 40% increase in capital deployment in Q4
- Series A investors have issued on average 50% more term sheets in Q3 rather than Q2 indicating sustained appetite for new investments
- Series A investors report expansion in early stage pipeline suggesting more companies looking for funding
- As Robert Whitby-Smith, Partner at AlbionVC summarised “*Q4 is likely to be a great time to raise a Series A*”

# Investor reflections over the past 3m on three key themes accross European SaaS.

## High variability in terms of company quality and price

- Good deals are getting funded but (unless GenAI) at multiples more closely reflecting public markets”
- “Significant valuation multiple differences between a handful of top performing companies with high profile repeat entrepreneurs”
- “Top deals still very competitive and in most instances overpriced”

## Investors raising the bar of what it means to be successful

- “Metrics to raise a Series A round have changed, more traction and less burn required”
- “Investors are focused on profitability and efficiency, but also demanding growth”
- “DD processes are slower and more thorough”


## Changing market landscape leads to new opportunities

- “Some investors act and value business like it's 2021... others are struggling to reconcile founders' (and early investors') valuation expectations with more cautious exit projections”
- “New generation of diverse founders is emerging... This changing landscape has led us to support more early-stage B2B software founders than ever before”

# Concluding remarks on the state of European SaaS.

 Robert Whitby-Smith, Partner at AlbionVC, said:

“As predicted, the data shows that the number of quality companies seeking to fundraise increased in Q3 from Q2, causing the rise in the aVC index. There are also green shoots at Series A, where investors are expecting to deploy 40% more in Q4 than previously. However, it’s not all rosy. The amount investors expected to invest in Q4 has fallen significantly since the last survey, with growth stage investors particularly expecting to deploy 60% less capital in the coming months. This suggests that Q4 will likely be a great time to raise a Series A but be a very challenging time to raise if you’re a growth stage founder”.

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

“It’s incredibly encouraging to see the aVC index delivering valuable insights that empower the SaaS ecosystem. Equally exciting is the resurgence of funding opportunities that SaaS investors are experiencing, exemplified by a 50% uptick in term sheets issued throughout Q3. With this positive momentum, we look forward to a continued emergence of green shoots in the fundraising landscape in the quarters ahead.”

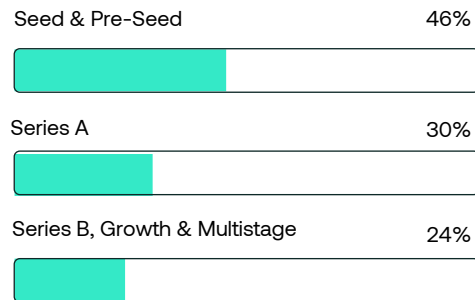


# Appendix.

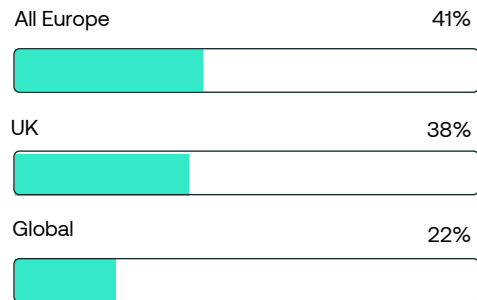
# About the survey.

- Total respondents: 37
- Total portfolio companies: 2503

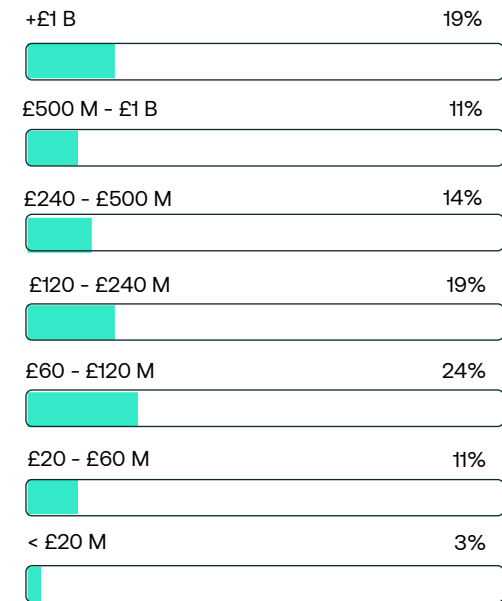
## Investors' core investment strategy:



## Main geographical focus for respondents:



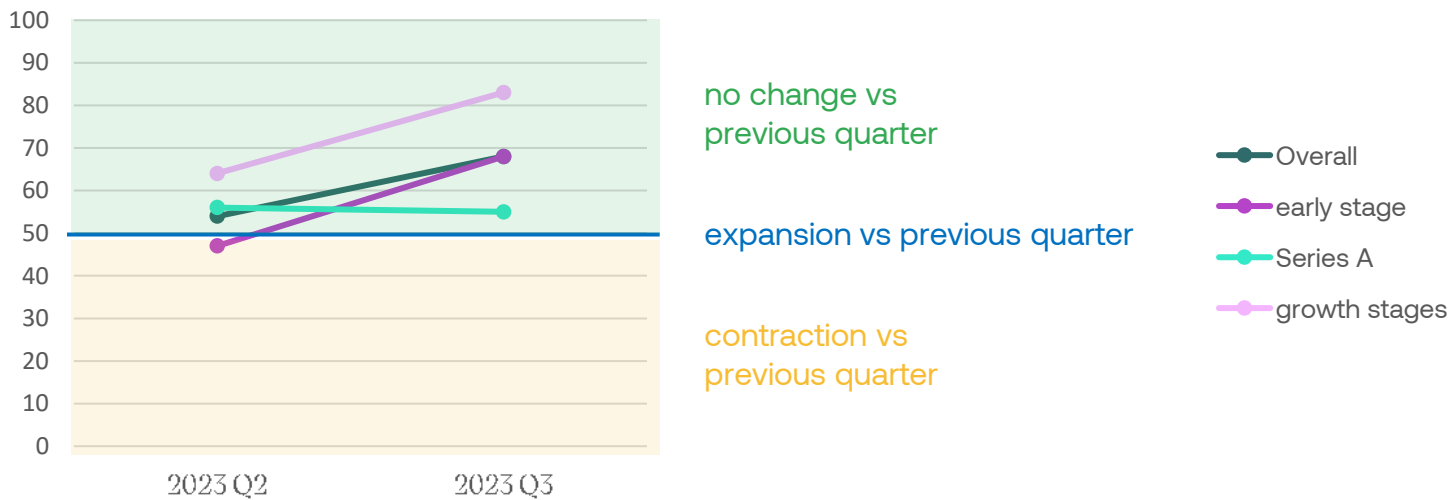
## Investors assets under management





# Pipeline: activity level increased across all investment stages.

## aVC trend line across investment stages 2023



1. Growth stages incl. Series B, Growth & Multi-stage





# Pipeline: aVC calculation per stage.

## All investors:

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

- P1 - Increase - 22
- P2 - No change 6
- P3 - Decrease 9
- Not sure/ blank 0

Total considered 37

$$\text{aVC} = (P1 * 1) + (P2 * 0.5) + (P3 * 0) \\ = 22/37 * 1 + 6/37 * 0.5 + 9/37 * 0 = 0.68$$

68 aVC

## Series A investors:

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

- P1 - Increase - 5
- P2 - No change - 2
- P3 - Decrease - 4
- Not sure/ blank -0

Total considered 11

$$\text{aVC} = (P1 * 1) + (P2 * 0.5) + (P3 * 0) \\ = 5/11 * 1 + 2/11 * 0.5 + 4/11 * 0 = 0.55$$

55 aVC Series A

## Seed & pre-seed investors:

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

- P1 - Increase - 10
- P2 - No change -3
- P3 - Decrease -4
- Not sure/ blank -0

Total considered 17

$$\text{aVC} = (P1 * 1) + (P2 * 0.5) + (P3 * 0) \\ = 10/17 * 1 + 3/17 * 0.5 + 4/17 * 0 = 0.68$$

68 aVC Seed & pre-seed

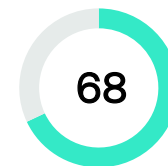
# Deep dive: early-stage investors.

17 early stage funds with

660

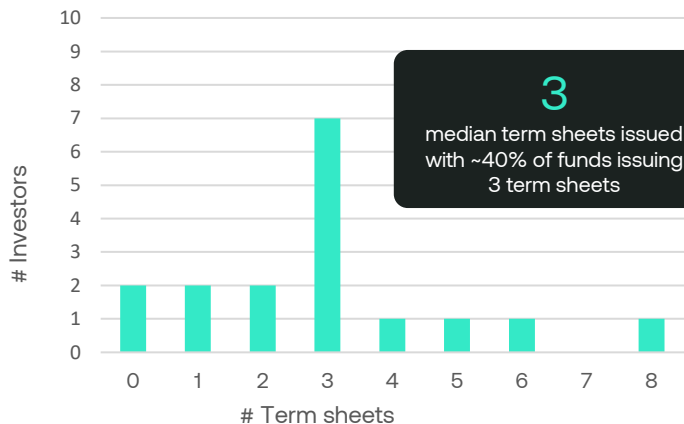
active portfolio companies

- 20% of portfolio companies restructured towards breakeven
- ~20% of portfolio companies raising over the next 3 months
- Early stage investors expect to deploy ~£80M in new and follow on investments before end of the year

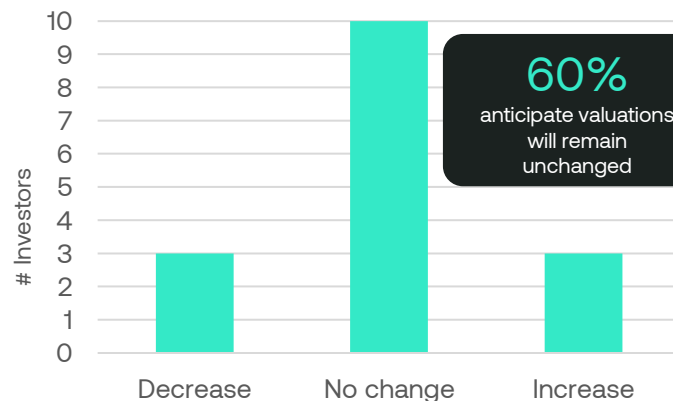


aVC Index

### 'Term sheets issued in the previous 3 months



### Expected change in valuations over the next 3 months<sup>1</sup>



Early stage investors includes: pre-seed funds (4), and seed funds (13) 1. excludes one prefer not to say response

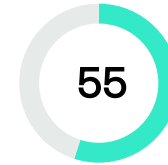
# Deep dive: Series A investors.

11 Series A funds with

526

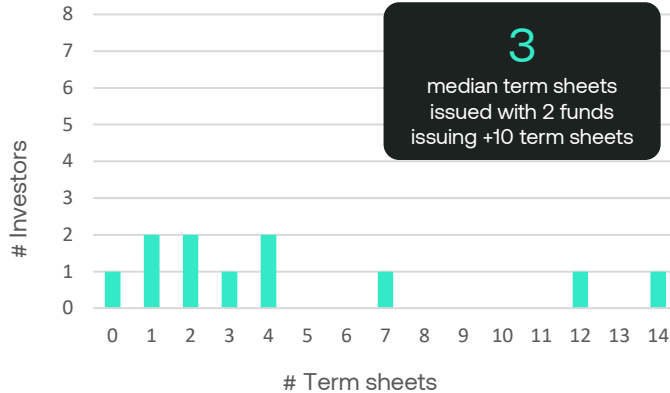
active portfolio companies

- 28% of portfolio companies restructured towards breakeven
- ~10% of portfolio companies raising over the next 3 months
- Series A investors expect to deploy ~£500M in new and follow on investments before end of the year

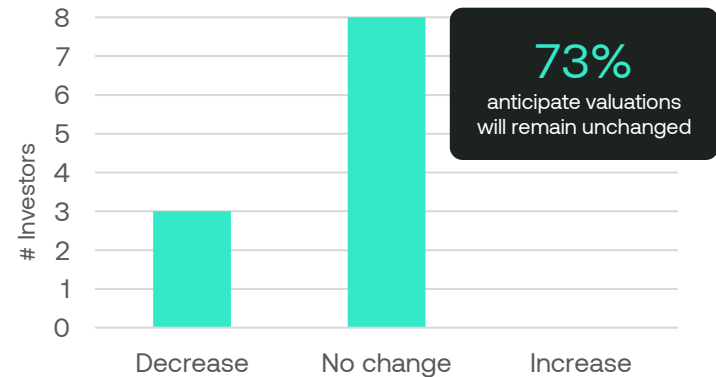


aVC Index

Term sheets issued in the previous 3 months



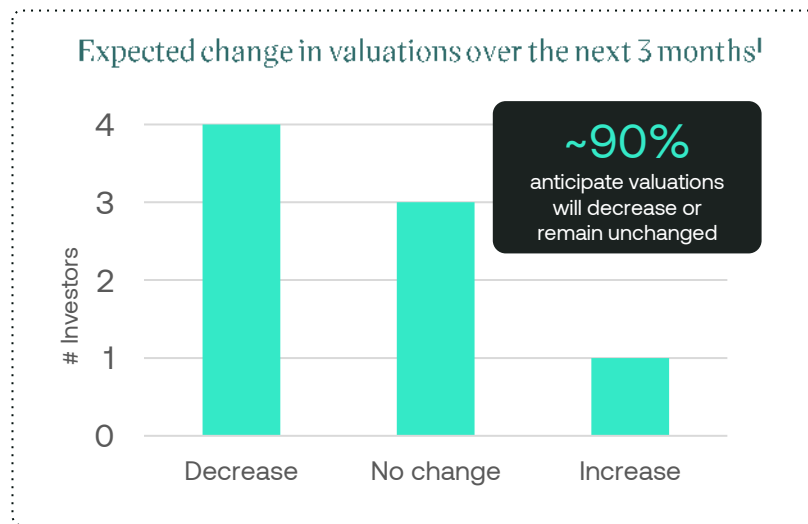
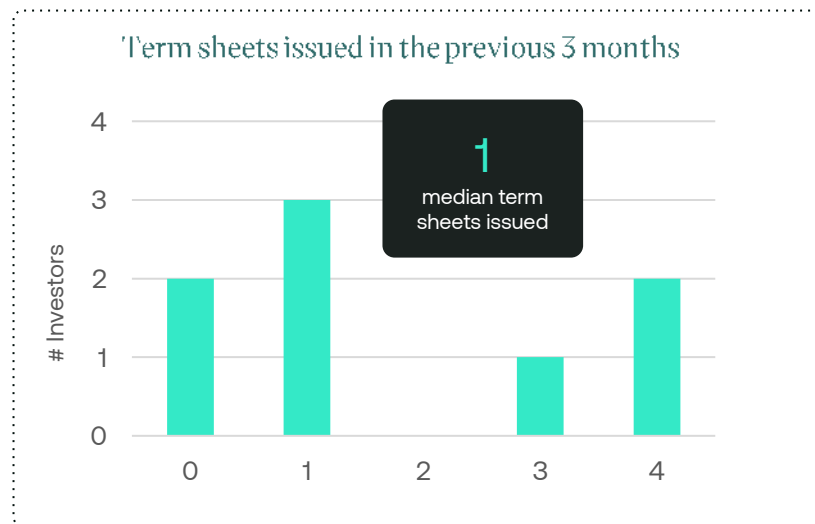
Expected change in valuations over the next 3 months<sup>1</sup>



# Deep dive: growth stage investors.

9 growth funds<sup>2</sup> with  
**1.3K**  
active portfolio companies

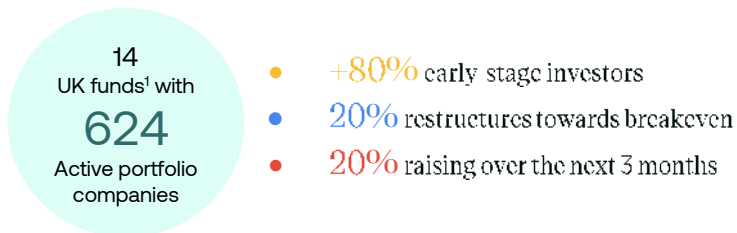
- 16% of portfolio companies restructures towards breakeven
- 3% of portfolio companies raising over the next 3 months
- Growth stage investors expect to deploy ~£400M in new and follow on investments before end of the year
- Growth stage investors report **more companies looking for funding**, however 50% of investors expect valuations to fall before end of year



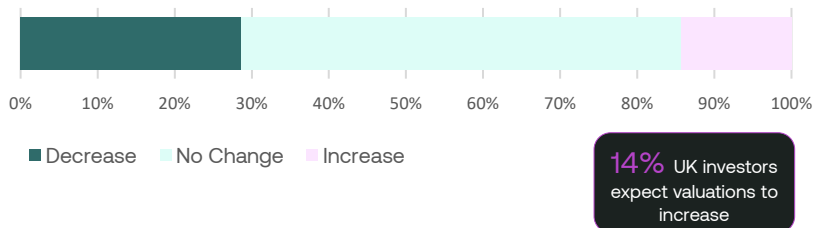
1. excludes one prefer not to say response 2. Growth stages incl. Series B, Growth & Multi-stage

# Deep dive: UK investors.

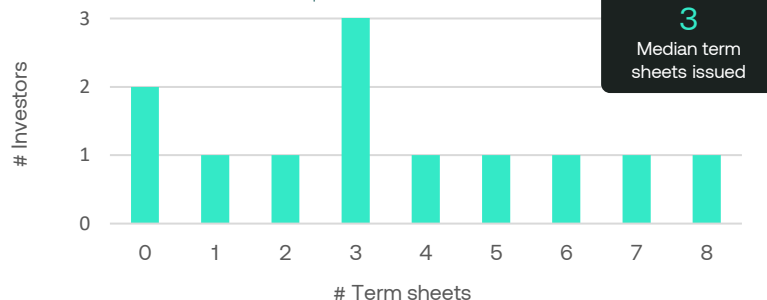
UK VCs report pipeline expansion and an increased number of term sheets issued, with a small minority of funds expecting valuations increase of up to 10% in Q4.



Expected change in valuations over the next 3 months



Term sheets issued in the previous 3 months



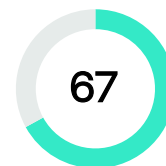
1. 14 UK funds incl. 12 early stage and 2 Series A 2. Europe funds incl. 3 early stage, 6 Series A and 6 Growth stage 3. Growth stage includes Series B, Growth and Multi-stage

# Deep dive: European investors.

Europe VCs still issuing a limited number of term sheets, yet they report an expansion in the investment pipeline and largely stable outlook for valuations.



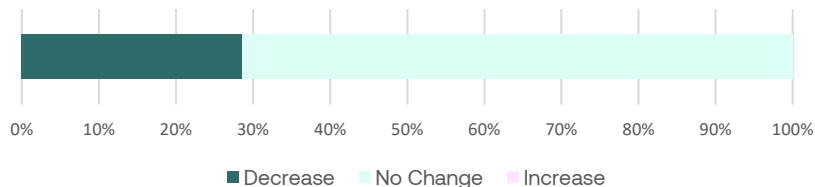
- 80% Series A and growth stages<sup>3</sup> investors
- 26% restructures towards breakeven
- 7% raising over the next 3 months



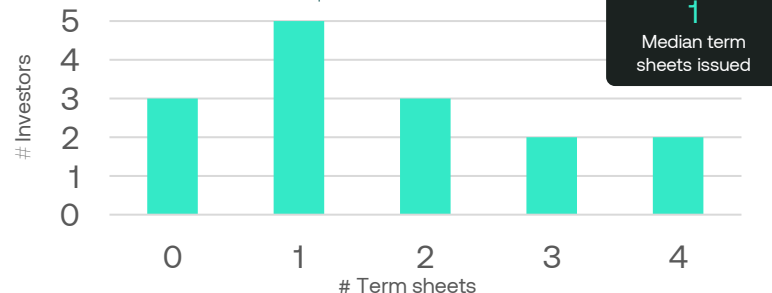
## aVC Index

Investors report an expansion in the number of companies in early-stage investor pipeline.

## Expected change in valuations over the next 3 months



## Term sheets issued in the previous 3 months



1. 14 UK funds incl. 12 early stage and 2 Series A 2. Europe funds incl. 3 early stage, 6 Series A and 6 Growth stage 3. Growth stage includes Series B, Growth and Multi-stage

*aVC Index.*

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

**T**hank you.