Proskauer

Q&A: Trends in European Venture Capital Fundraising

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Over the last decade, there has been a remarkable growth in European venture capital fundraising, underlining investors' increasing appetite for innovation and entrepreneurial investments in Europe. While we are witnessing a slight slowdown in the pace of fundraising now, this is driven more by macro elements than issues specific to European venture. LPs continue to have a positive view of venture capital and the European ecosystem continues to develop and weather the headwinds.

Proskauer has released key data that provides a comprehensive analysis of the European venture capital fundraising market. Representing over €11 billion in capital, the team analyzed 32 key data points and conditions from 38 European-focused venture capital funds raised from 2022-2023 ranging in size from €22M-€900 million. The funds were all either specifically focused on Europe or had Europe as a core geography in their investment strategy. Partner Ed Lee and associate James May share their thoughts on the data and what this means for the venture capital fundraising market.

Q1: How have fundraising periods for European venture capital funds evolved recently?

A: The slower rate at which invested capital is being returned to investors as a result of a slowdown in M&A activity and the broader macroeconomic environment in recent months mean that many sponsors have found it more challenging to raise capital than in years gone by as investors have less readily available capital to deploy on new fundraising initiatives. Most sponsors were previously relatively confident that they would be able to conclude their fundraising activities within a 12 month period – the standard permitted length of an initial fundraising period we see in most fund legal documents. However, the venture capital terms and trends data that we have compiled shows that 59% of European funds surveyed have the mechanics for investors to approve an extension to that period and we expect to see sponsors look to make greater use of such extension mechanics as the slower pace of fundraising continues.

Q2: Which jurisdictions are preferred for fund domiciliation in Europe, and how has this trend shifted?

A: The Channel Islands remain the dominant choice, hosting 39% of funds forming part of our dataset. Unlike other asset classes, such as private equity, venture capital has not gravitated towards Luxembourg for domiciliation.

Q3: What are the prevailing approaches to preferred return in European venture capital funds?

A: There exists a variety of methods for calculating and setting a preferred return in European venture capital funds. Unlike buy-out funds, where annually accruing performance hurdles are common, only 29% of funds forming part of our dataset employ this method. Approximately 47% of funds have no performance hurdle, proceeding directly from a return of drawn commitments to profit splitting between sponsors and investors, while the rest have a fixed percentage hurdle.

Q4: How do investors and sponsors typically share profits in European venture capital funds?

A: The most common profit-sharing arrangement is a straight 80/20 split, where investors receive 80% and sponsors 20% of profits after meeting performance hurdles and catch-up provisions. However, there is significant variation, with some funds employing ratchets that allow sponsors to increase their profit share to 25% or even 30% upon meeting certain performance targets.

Q5: What is the trend in fund-level borrowing among European venture capital funds?

A: Our sampled data suggests that 84% of European venture capital funds permit fund-level borrowing of 15% or more of commitments, up from 76% in the previous year. The most common limitation on borrowing is set at 20% of commitments. While historically less common in European venture capital compared to private equity due to smaller fund sizes, bridge facilities are expected to become more prevalent as the fund finance market develops, aiding in managing drawdowns and cashflows.

Related Professionals

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