The Journey to Series A in Europe

Fundraising benchmarks for founders of early-stage companies

Part 1

Dealroom.co

in partnership with

ATOMICO

LocalGlobe
What you need to know

1. European early-stage funding has continuously increased, now at 4x relative to 2012, with massively more investors.

2. The median time from reported Seed to Series A is 18 months.

3. The average European conversion rate from Seed to Series A is 19% within 36 months from the Seed.

4. Companies raising Seed from top investors are significantly more likely to raise Series A, and do so faster.

5. Companies raising $2-3m in total pre Series A funding convert better than those raising less, but raising more than $3m does not improve conversion rates.

6. There is a growing share of “New Series A”s in the range of $7-15m.
Why have we created this analysis?

The problem - funding rounds are self-reported and labeled with no consistency.

● For example, Seed rounds can range from almost $0 to $15m, while many early-stage rounds are not labelled at all.
● So founders and investors struggle to obtain useful benchmarks on the early-stage funding journey.
● Even the basic question - what share of “Seed” companies raise a “Series A” - is difficult to answer with confidence.

The solution - apply a systematic re-labeling of rounds.

● The relabeling is based on size, timing and company age to allow for consistent and reliable comparisons.
● Use this re-labeled dataset to create standardised benchmarks on key fundraising dimensions.
● We understand this methodology, like any other, may raise questions and we welcome feedback.
● Yet, we are confident it offers a new level of insight on the reality of the early-stage funding journey in Europe.
The detailed methodology for re-labeling rounds

22,000+ European funding rounds* between January 2012 to September 2018 were re-labelled in the following way:

- **Seed** is the first round to be >=$1m
- **Series A** is the first round to be >=$4m and <$15m, split between **Old Series A** (<= $7m) and **New Series A** (> $7m)
- Any round before the **Seed** that is >=$0.25m is labelled as a **Pre-Seed** round
- Any round between **Seed** and **Series A** is labelled as a **Bridge** round

The following rounds were excluded:

- Rounds <$0.25m or >$15m (5,200 undisclosed + 4,300 <$0.25m + 2,900 > $15m)
- Rounds that happened more than 5 years after founding (3,100 rounds excluded)
- All rounds of companies with 1+ round(s) of undisclosed size between Pre-Seed and Series A (420 rounds excluded)

The final dataset covers 8,800 funding rounds of 6,500 companies.

Data source (exported on 20 Oct 2018)
And indeed, re-labelling makes a huge difference...

Before re-labelling
22,000+ rounds since 2012

<table>
<thead>
<tr>
<th>Seed</th>
<th>Series A</th>
<th>Early VC</th>
<th>Angel</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0.3m</td>
<td>$3.6m</td>
<td>$1.4m</td>
<td>$0.3m</td>
</tr>
</tbody>
</table>

After re-labelling
8,800+ rounds since 2012

<table>
<thead>
<tr>
<th>Pre-Seed</th>
<th>Seed</th>
<th>Bridge</th>
<th>Series A</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0.5m</td>
<td>$1.7m</td>
<td>$1.8m</td>
<td>$6.1m</td>
</tr>
</tbody>
</table>

“Early VC” is the default label for rounds of $1-10m with no self-reported label.
Findings 1:

Volume and distribution of rounds
Early-stage funding in Europe has increased dramatically

The reporting lag is the difference between the date of a round’s disclosure and the reported date of a round’s occurrence. We calculated that for 80% of Seed rounds the reporting lag is less than 12 months (see slide 22).
Europe’s early-stage investor base has grown in depth

Number of unique investors with 1+ investment(s) per year, per round type
Seed is the 1st round between $1-4m; Series A is the 1st round between $4-15m

- Pre-Seed
- Seed/Bridge
- Series A

Number of unique investors with 4+ investments per year, per round type
Seed is the 1st round between $1-4m; Series A is the 1st round between $4-15m

- Pre-Seed
- Seed/Bridge
- Series A
Series A rounds have been increasing in size.

**Median round sizes in $m**

<table>
<thead>
<tr>
<th>Year</th>
<th>Pre-Seed</th>
<th>Seed</th>
<th>Series A</th>
<th>Old Series A</th>
<th>New Series A</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>0.5</td>
<td>1.7</td>
<td>6.8</td>
<td>5.3</td>
<td>6.6</td>
</tr>
<tr>
<td>2013</td>
<td>0.5</td>
<td>1.6</td>
<td>6.0</td>
<td>6.1</td>
<td>6.1</td>
</tr>
<tr>
<td>2014</td>
<td>0.5</td>
<td>1.7</td>
<td>6.3</td>
<td>6.2</td>
<td>6.1</td>
</tr>
<tr>
<td>2015</td>
<td>0.5</td>
<td>1.7</td>
<td>6.2</td>
<td>6.1</td>
<td>6.1</td>
</tr>
<tr>
<td>2016</td>
<td>0.6</td>
<td>1.7</td>
<td>6.1</td>
<td>6.1</td>
<td>6.1</td>
</tr>
<tr>
<td>2017</td>
<td>0.6</td>
<td>1.7</td>
<td>6.1</td>
<td>6.1</td>
<td>6.1</td>
</tr>
<tr>
<td>2018</td>
<td>0.6</td>
<td>1.7</td>
<td>6.1</td>
<td>6.1</td>
<td>6.6</td>
</tr>
</tbody>
</table>

Series A sizes are going up due to the emergence of the “new Series A” of $7-15m, as shown above.

Pre-Seed and Seed round sizes appear stable, but that should be considered with care, given their necessarily imposed range in our methodology.
Findings 2:
Conversion rates and time to Series A
19% of Seed companies have raised a Series A after 36 months

Conversion to Series A by time elapsed since Seed round
Seed is the 1st round between $1-4m; Series A is the 1st round between $4-15m

Median time from Seed to Series A: 18 months

Other studies have previously indicated higher conversion rates, but their methodologies typically hadn't compared like-for-like funding rounds or compared like-for-like cohorts in terms of elapsed time*

Methodology: 90% of Series A have happened by 36 months after the Seed round, making it a good cutoff for measuring conversion rates

There may be a lag between when a round is reported to have happened and when it actually has, but that is inevitably impossible to assess externally.
Based on disclosed Seed and Series A rounds, conversion rates were calculated for VC funds that made at least 8 Seed rounds since 2012, and at least 75% of their first investments over that period were in Seed or Pre-Seed rounds. The cut-off period for conversion is 36 months. Inevitably, newly established Seed funds wouldn’t have been able to qualify for this analysis.
Companies that raise from top quartile Seed investors are significantly more likely to convert to Series A and do so faster.

**Median conversion rates from Seed to Series A by investor quartiles**

Seed is the 1st round between $1-4m; Series A is the 1st round between $4-15m

<table>
<thead>
<tr>
<th>Time since Seed round</th>
<th>Top quartile</th>
<th>Quartile 2</th>
<th>Quartile 3</th>
<th>Bottom quartile</th>
</tr>
</thead>
<tbody>
<tr>
<td>12 months</td>
<td>18%</td>
<td>12%</td>
<td>8%</td>
<td>0%</td>
</tr>
<tr>
<td>24 months</td>
<td>36%</td>
<td>19%</td>
<td>10%</td>
<td>4%</td>
</tr>
<tr>
<td>36 months</td>
<td>40%</td>
<td>24%</td>
<td>13%</td>
<td>7%</td>
</tr>
</tbody>
</table>
Collaborative Seed rounds involving 2+ investors are observed to have a higher probability of converting to Series A

Increased collaboration

Share of rounds with 2+ investors
- 2012-2013: 48% Seed, 62% Series A
- 2014-2015: 53% Seed, 70% Series A
- 2016-2017: 54% Seed, 66% Series A

Share of rounds with 3+ investors
- 2012-2013: 18% Seed, 35% Series A
- 2014-2015: 25% Seed, 41% Series A
- 2016-2017: 27% Seed, 45% Series A

Conversion rate from Seed to Series A by number of investors in the Seed round
- 1 investor
  - Conversion by 12 months: 6%
  - Conversion by 24 months: 10%
  - Conversion by 36 months: 14%
- 2 investors
  - Conversion by 12 months: 5%
  - Conversion by 24 months: 13%
  - Conversion by 36 months: 16%
- 3+ investors
  - Conversion by 12 months: 4%
  - Conversion by 24 months: 15%
  - Conversion by 36 months: 17%
Companies raising a Pre-Seed convert at higher rates to Series A

Conversion rate to Series A by time elapsed since Seed round
Seed is the 1st round between $1-4m; Series A is the 1st round between $4-15m

Median time from Seed to Series A:
- 17 months without Pre-Seed
- 21 months with Pre-Seed

Conversion rates are based on 2012-2016 Seed rounds. The cut-off period for conversion is 36 months.
Bridge rounds push out the timing of the Series A, but don’t appear to increase the probability that companies make it to Series A.

**Median time from Seed to Series A:**
- 17 months without Bridge
- 23 months with Bridge

**Conversion rates are based on 2012-2016 Seed rounds.**
**The cut-off period for conversion is 36 months.**

![Graph showing conversion rates to Series A by time elapsed since Seed round, with and without Bridge rounds, and sample sizes of 493 and 1714 respectively.](chart.png)
Companies that raise $2-3m in total Pre-Series A funding have the highest conversion rate to Series A

Conversion rates are based on 2012-2016 Seed rounds.
The cut-off period for conversion is 36 months.
Pre-Series A funding = Pre-Seed + Seed + Bridge.
Key takeaways: early-stage European funding landscape

European early-stage funding has exploded

- Early-stage funding in Europe has increased dramatically since 2012, **growing well over 4x** in just a few years.
- In contrast to trends in other regions, the data shows no evidence that European early-stage funding is declining.
- Series As, in particular, are increasing in size with a **growing number of “New Series A” rounds of $7-15m**.

The early-stage investor base in Europe is larger and more collaborative than ever

- Europe’s early-stage investor base (number of active investors) has massively grown.
- As the size of the investor base has grown, Europe has witnessed an increase in the level of investor collaboration.
- There is evidence that **increased investor collaboration is associated with better conversion rates to Series A**.
Key takeaways: insights on going from Seed to Series A

How much runway do you realistically need to make it to Series A?

- The **median time to raise Series A is 18 months**; a third of raise a Series A within 12 months of their Seed
- The **conversion rate from Seed to Series A is 19% within 36 months of the Seed**, or 15% in 24 months

How much you raise matters

- **Companies raising $2-3m in total Pre-Series A funding have the highest conversion rate to Series A**
- Raising too little may impact the chances of converting to Series A: companies raising <$1.5m convert at lower levels
- Companies raising Pre-Seed+Seed funding have a materially higher conversion rate to Series A

Who you raise capital from matters

- **Companies raising Seed from top investors are significantly more likely to raise Series A, and do so faster**
Appendix
The evolution of median round sizes for self-reported rounds supports the round size boundaries defined in this analysis.

Our re-labelled round size boundaries:

- **Series A**
  - $4-15m

- **Seed**
  - $1-4m

- **pre-Seed**
  - $0.25-1m

- noise

**Rounds reported as Series A are historically too small.**

**Ambiguously labeled Early VC rounds.**

**Pre-Seed sized Seed rounds.**
Reporting lag between the date of a round’s disclosure and the reported date of a round’s occurrence

Share of Seed rounds disclosed since the beginning of the year
Seed is the 1st round between $1-4m

- 30% after 6 months
- 64% after 9 months
- 80% after 12 months
- 85% after 15 months
- 90% after 18 months
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The most comprehensive European data source

<table>
<thead>
<tr>
<th>Number of European VC rounds tracked in 2017 (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dealroom</td>
</tr>
<tr>
<td>Pitchbook</td>
</tr>
<tr>
<td>CB Insights</td>
</tr>
<tr>
<td>VentureSource</td>
</tr>
<tr>
<td>Crunchbase</td>
</tr>
</tbody>
</table>

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Source: Dealroom.co

1. Verified rounds excluding secondary, ICOs, debt and other non-equity rounds.
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