Proskauer

Proskauer Releases European Venture Capital Fundraising Market Report

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Survey finds variety in fundraising periods, jurisdiction, returns, interest and borrowing across funds

LONDON, March 26, 2024 – Proskauer, a leading international law firm, today releases 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.

“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,” said Edward Lee, Private Investment Funds Partner in London.

“LPs continue to have a positive view of venture capital and the European ecosystem continues to develop and weather the headwinds. Our fund terms survey once again shows that there is a clear differentiation in the market as compared to other asset classes, particularly buy-out funds. This has been a growing trend in our surveys over the years, as the European VC market matures and investors become more familiar with the specific requirements of venture investing and why buy-out fund terms (with which some institutional investors have more history) may not be a good fit,” added Mr. Lee.

Key insights for venture capital funds include:

- **Fundraising periods:** In general, Sponsors have found it more challenging to raise capital and we are seeing a general trend of fundraisings taking longer to get to

final closing. 84% of funds had an initial fundraising period of 12 months and 59% had a built-in mechanism for investors to approve an extension of that period. We expect the latter percentage to increase in our survey for 2024 given the current slower pace of fundraising.

- **Jurisdiction:** The Channel Islands remain the most prevalent jurisdictions for fund domiciliation, with 39% of funds based there. Venture capital has not made the same shift to Luxembourg that we have seen in private equity funds and certain other asset classes.
- **Preferred return:** There remain a variety of approaches to the preferred return in European venture capital funds, with the annually accruing performance hurdle typical of buy-out funds being significantly less common here (only 29% of funds). 47% of the funds from our sample set do not have a performance hurdle, going straight from the return drawn commitments to a split in the profits between the sponsor and investors, with the rest having a fixed percentage hurdle.
- **Carried percentages/ratchets:** Representing well over a third of the waterfall models operated by the European venture capital funds sampled, a straight 80/20 split remains the most common way for investors and sponsors to share in the profits generated following the payment of any performance hurdle and catch-up. However, this only tells half the story as we see a broad variety of carried interest percentage calculations beyond this, including a significant proportion of funds operating ratchets which allow sponsors to increase their share of profits from 20% to 25%, or even 30%, if certain performance hurdles are met.
- **Borrowing:** Our data shows that 84% of funds have permitted fund-level borrowing of 15% or more of commitments, up from 76% last year. As with last year's data, a limitation set at 20% of commitments is the most common. Given the expenses involved in setting up and operating bridge facilities, historically these facilities have been less common in European venture capital funds relative to private equity (given the typically smaller fund sizes in venture capital). However, as the fund finance market continues to develop, we anticipate that these facilities will become more common to improve management of drawdowns.

The venture funds data forms a key part of Proskauer's annual 'Under the Microscope' report, providing a comprehensive analysis of both the European buyout funds market and the venture capital fundraising market.

About Proskauer

The world’s leading organizations and global players choose Proskauer to represent them when they need it the most. With 800+ lawyers in key financial centers around the world, we are known for our pragmatic and commercial approach. Proskauer is the place to turn when a matter is complex, innovative and game-changing. We work seamlessly across practices, industries and jurisdictions with asset managers, private equity and venture capital firms, Fortune 500 and FTSE companies, major sports leagues, entertainment industry legends and other industry-redefining companies.

Working at the intersection of private capital and the sectors in which market players invest, we advise cutting-edge clients as they navigate complex challenges and seek to capitalize on market opportunities. Proskauer offers an integrated platform that navigates clients through the full lifecycle of their business.

Our Private Funds Group offers the complete package of services to private funds and investors. We consistently deliver innovative solutions to highly complex challenges across fund formations, secondaries, liquidity solutions, structured products and other transactions. With a team of more than 240 lawyers including specialists in tax, ERISA, regulation, fund finance, employment, litigation and risk management, we understand the business objectives and dynamics of fund sponsors, limited partners and the private fund business as a whole.

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