SaaS snapshot:

Key sector and funding trends from
the European Enterprise Software sector

HSBC Innovation Banking

Foreword: Jean Laurent Pelissier

“As this short report highlights, Enterprise Software remains one of the most dynamic, resilient areas of the innovation economy in Europe – but it is not immune to the impact of broader economic trends.

While there is enough evidence of growth to be cautiously optimistic, it’s clear from the data that investors continue to put opportunities under extra scrutiny. The number of VC-backed deals is down, but those who have secured funding have attracted greater investment. This pattern, coupled with a pronounced increase in Series C+ funding (up from 38% of total VC investments in H1 2023 to 65% in H2 2024), suggests investors continue to seek out high-quality businesses with a proven track record.

Due to the increase in cost of equity capital, founders have looked to other sources of capital to fund their growth. 40% of deals in the first half of 2024 included a debt component – a seismic shift that suggests founders are looking for alternative ways to reach their next milestone.

The resilience and adaptability shown by the SaaS community bode well for the future of this exciting area. As the partner to the innovation economy, we look forward to supporting both innovators and their investors as they continue to navigate shifting conditions.”

Jean Laurent Pelissier,
Managing Director,
HSBC Innovation Banking, UK

“ The data in this report is indicative of a shift in the SaaS industry and it reflects what we are seeing amongst the SaaStock community. VC deals are down but investment is up—and it’s driven by a marked increase once you get to Series C+. It shows that the expectation for scaling businesses is to operate with strong fundamentals that provide the foundation for efficient and sustainable growth.

"As we look to 2025, with the industry focused on building more efficient businesses, the outlook is bright for SaaS companies to thrive once the tailwinds come back. We could be at the dawn of a new golden era."

Alex Theuma,
CEO and Founder at SaaStock,
General Partner at BackFuture

Executive summary

Key insights about Europe's Enterprise Software environment

Deals are down, but investment up

The flight to quality continues, with almost two thirds of funding going to Series C+.

Megarounds give AI and Fintech momentum

Interest in AI and its new use cases remain strong, but fintechs have also attracted significant investment.

Debt is becoming more prominent

40% of deals now include a debt component as founders seek new structures to fund their growth.

Sector snapshot

What changes have we seen from H1 2023 to H1 2024?

VC deals are down, but investment is up

The flight to quality continues as investors back SaaS businesses with strong fundamentals

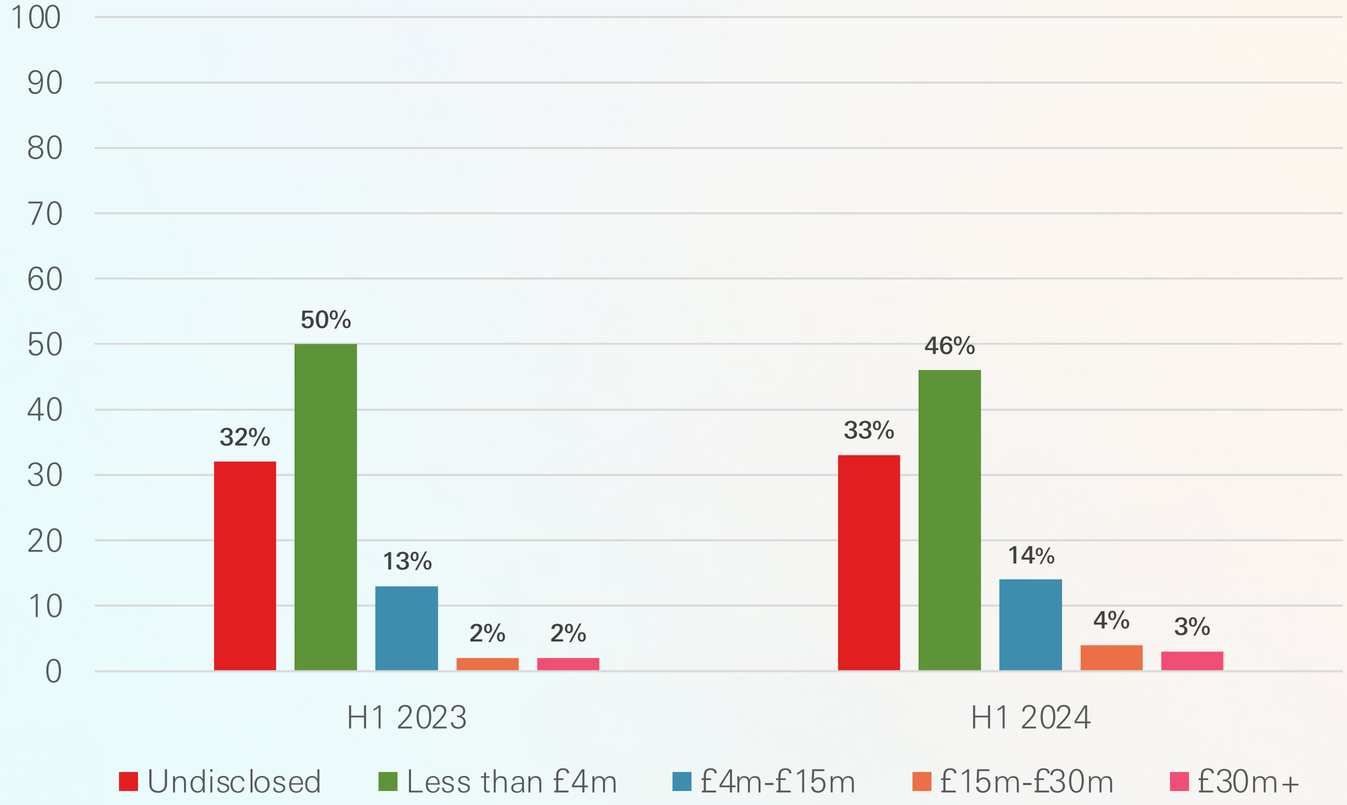
Summary

	H1 2023	H1 2024	Change
# Companies	1,204	805	-33%
# Deals	1,216	811	-33%
Capital Invested	£4.0B	£5.7B	43%
Avg. deal size	£3.3M	£7.0M	112%

Source: PitchBook as of 22 August 2024

- The number of deals is down 33% YOY, but capital invested (43%) and average deal size (112%) are up.
- The vast majority of VC deals – 50% in 2023 and 46% in 2024 – are valued at less than £4m.
- Much of this activity is driven by the UK, France and Spain where investment is up.
- AI and fintech remain the sectors attracting the most interest from VC investors.

Deal size

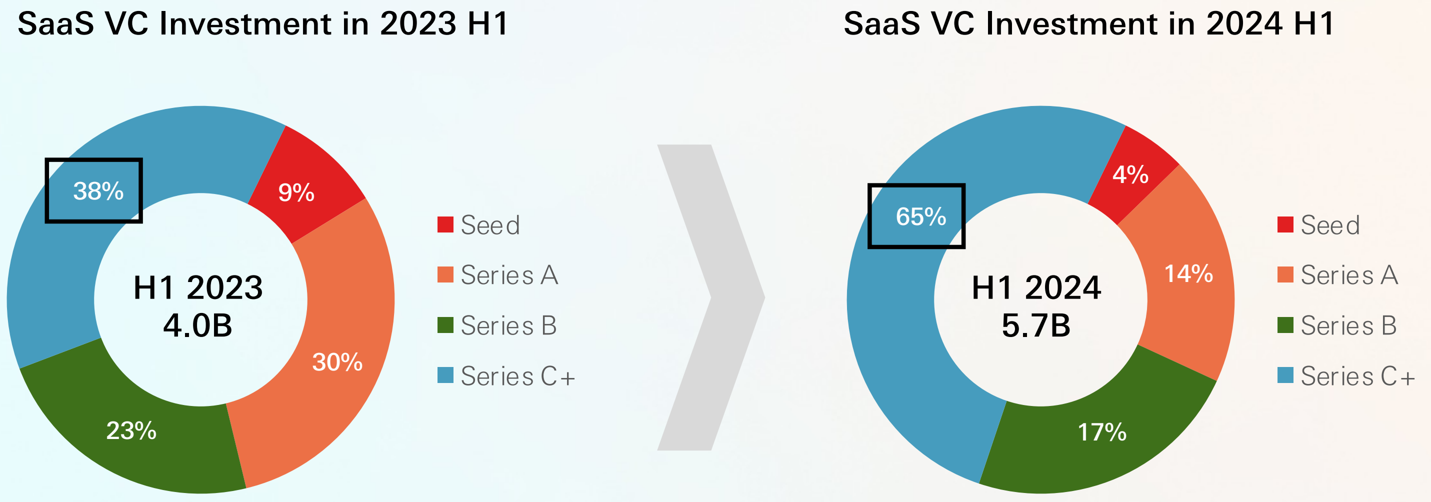


Source: PitchBook as of 22 August 2024

Backing business with strong fundamentals

Series C+ investment in SaaS increased from 38% of total funding rounds in H1 2023 to 65% in H1 2024

- The majority of funding, almost two thirds, went to Series C+, suggesting investors are more inclined to back businesses with a proven track-record.
- While this figure is impacted by Wayve's £840m Series C investment[1], Series C+ would still account for 60% of VC investment if that transaction was removed.
- This shift has been coupled with a significant decrease in Series A funding, which is down 34%, which suggests a focus on more established companies with proven metrics.



Source: PitchBook as of 22 August 2024

Note: Seed are VC deals <= £2m / Series A are VC deals > £2m and <= £10m / Series B are VC deals > £10m and <= £30m / Series C+ are VC deals > £30m
This is an assessment of UK and European data only.

1. Wayve Raises Over $1 Billion Led by SoftBank to Develop Embodied AI Products for Automated Driving.

“ The decrease in early stage funding marks a shift in capital distribution. While access to capital was more challenging, we saw more investment at Seed and Series A. Now that capital is returning to the market, there is an argument that it’s being spent in less risky places (Series C+).

"For Seed stage companies, it’s hard because the business fundamentals won’t yet be fully formed. At BackFuture, we are backing strong founding teams that are coming out with bold new ideas in a saturated market. If founders are building products in saturated markets, their chance of success in getting VC funding is already limited and this will have some correlation to the lower levels of funding. It's very hard to do something totally new in SaaS, but we are trying to identify those that are managing it."

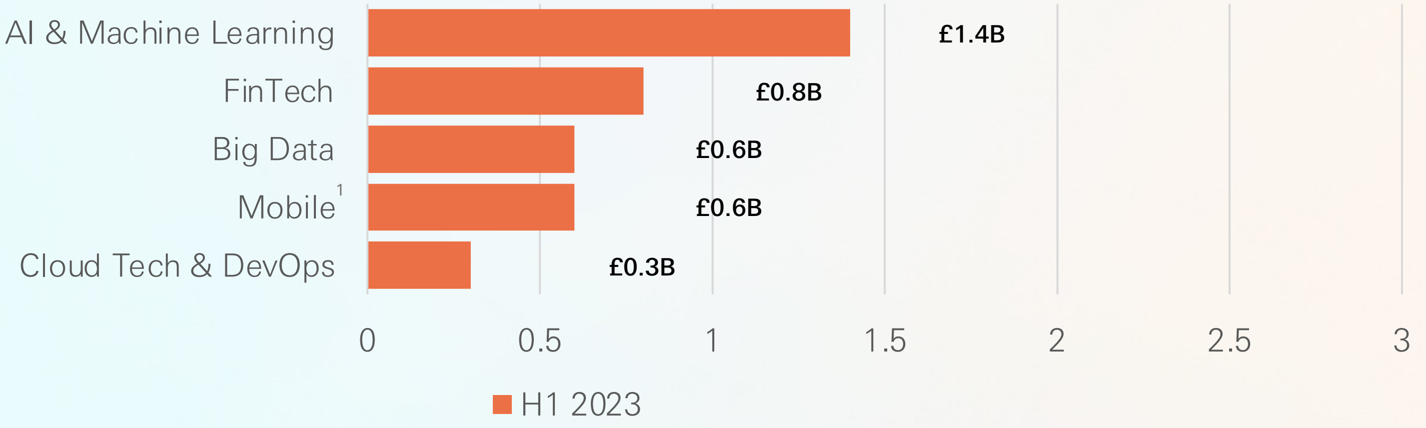
Alex Theuma,
CEO and Founder at SaaStock,
General Partner at BackFuture

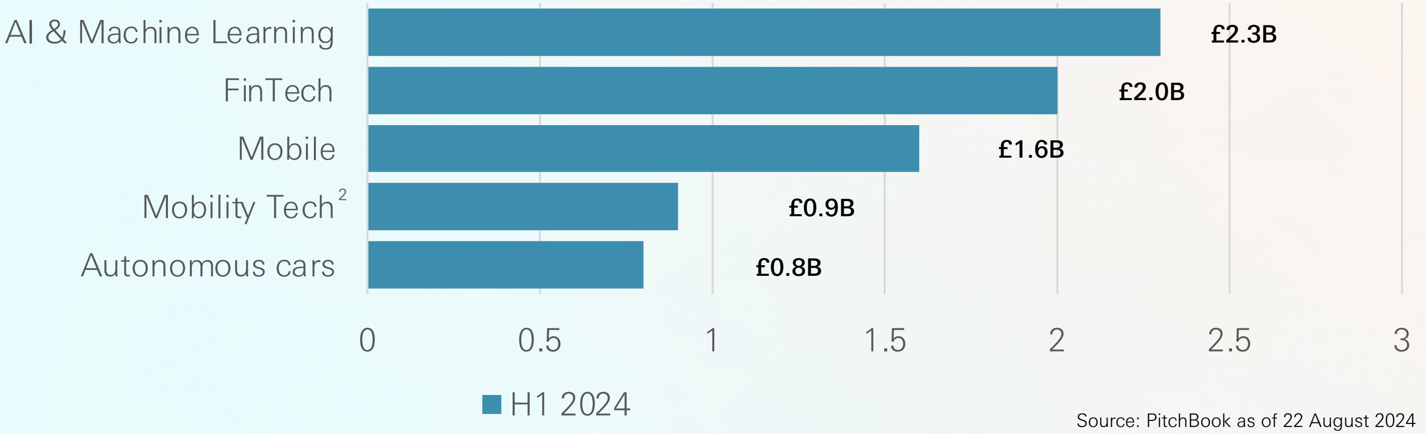
AI & Fintech remain magnets for VC investment

Megaround momentum propels AI and Fintech to the top of the list

- Investment in AI has risen sharply as innovators unlock new use cases.
- Figures are bolstered by 5 megarounds ($100M+) in the period, and Wayve’s recent £840M raise.
- The 5 megarounds were:
  - Build.ai
  - Oxa
  - Quantexa
  - Mistral AI
  - Pigment
- However, Fintech has experienced an even bigger resurgence in 2024, with capital invested more than doubling.

Top SaaS sub-sectors by capital invested





Source: PitchBook as of 22 August 2024

1. Mobile companies provide services for mobile devices and/or enable mobile communication
2. Companies in mobility tech provide technologies and services that are disrupting the transportation, automotive and shipping industries.

“In 2024, AI & Machine Learning investments reached £2.3B in H1, up from £1.4B in H1 2023. While impacted by “megarounds”, investors are clearly betting that AI will continue to unlock new, profitable use cases, which aligns with the general excitement around AI-powered products, from automation to language models like ChatGPT, and the broad use of AI in industries like healthcare, fintech, and manufacturing. The doubling in capital invested in fintech marks a major resurgence of interest in financial technologies, perhaps driven by innovations in digital banking, cryptocurrency infrastructure, decentralised finance (DeFi), and RegTech. This data represents the powerful momentum behind AI and Fintech in the venture capital ecosystem. These industries, propelled by breakthroughs and new use cases, have become the focal point of major investments as we progress through 2024, outpacing traditional tech investments.”

Will Brightling,
Managing Director,
SaaStock

Key markets hold firm

Sustained VC investment is cause for cautious optimism as key markets maintain their position

- UK investment has almost doubled, no doubt impacted by Wayve securing Britain's largest ever fundraise*, with a similar increase noted in France.
- Most markets holding firm or seeing greater investment – cause for cautious optimism.

Top 5 Countries: UK and Spain see large increase in capital invested, and the UK, France and Germany remain the top countries by capital invested

Source: PitchBook as of 22 August 2024

1. The Economist, Wayve achieves Britain's largest-ever fundraising round, 2024

Funding landscape

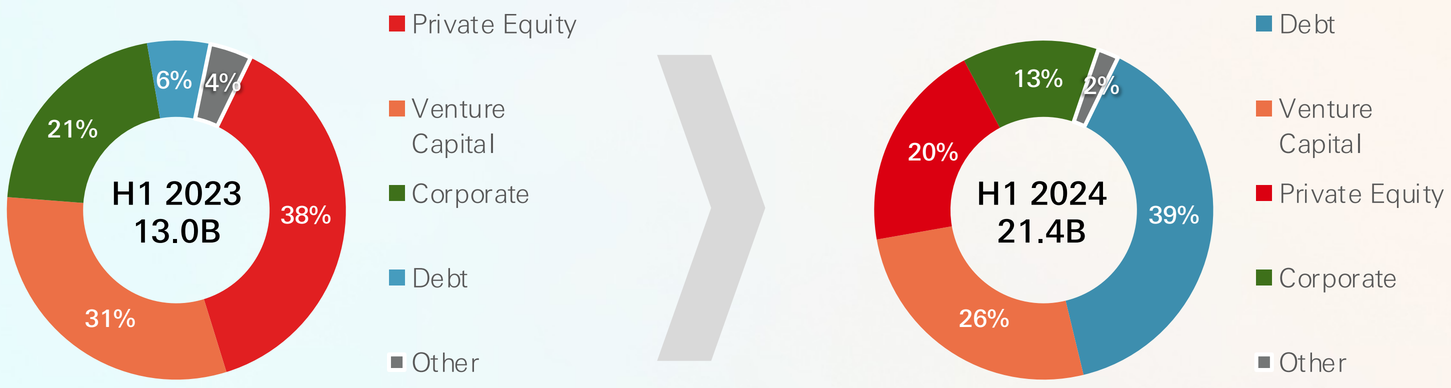
How is the capital mix evolving and what does that mean for founders?

Doubling down on debt

The capital mix is evolving as businesses look for different ways to fund their growth

- Due to the increased cost of equity capital, founders have sought new ways to fund their growth – with 40% of deals now including a debt component.
- These tickets vary largely based on need, and cover everything from runway extension to funding growth initiatives.
- Visma's $3.5 billion refinancing round of May 2024 and Mistral AI's EUR600M Series B, which included EUR 132M in debt, speak to this flexibility and scale, and the move to leveraging blended capital.

Deal type



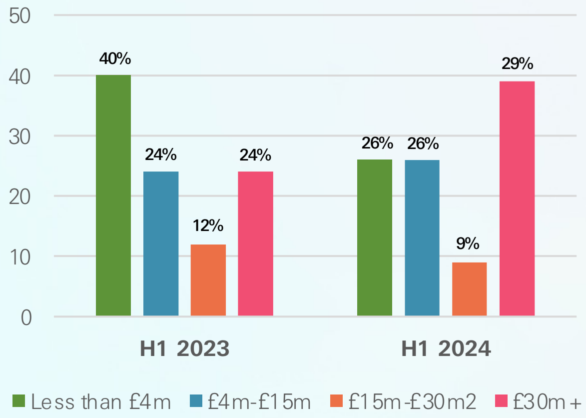
Source: PitchBook as of 22 August 2024

Private Equity: Signs of stable activity

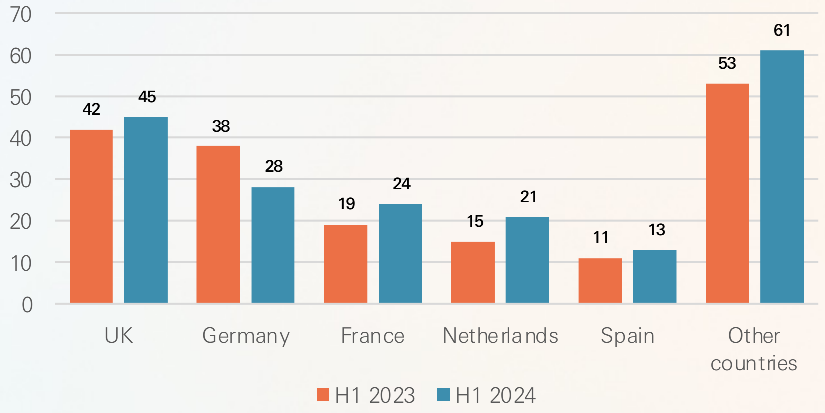
An analysis of deal counts reveals sustained interest in SaaS from PE

- As the vast majority of deal details are undisclosed, this analysis is focused on deal count[1].
- The increasing share of larger deals likely reflects an increase in debt appetite in 2024, and opening of debt capital markets.
- There has been an acceleration in software deals outside the largest markets, with France, Benelux, and Nordics the main beneficiaries, but Iberia also increasingly targeted.
- We have seen a slight switch away from Mar-Tech / HR-tech where there has been some softness in trading as the economy slows (in our portfolio experience).

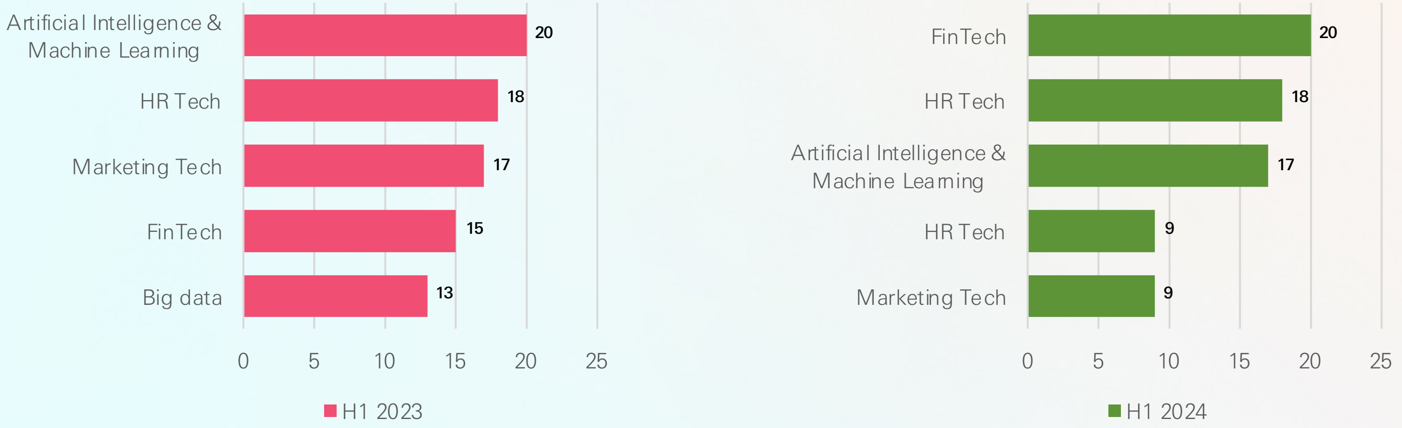
Deal count by deal size



Top countries by deal count



Top SaaS sub-sectors by deal count



Note:
"Private Equity" is based on PitchBook's Deal Class definition
[1] 75% of deals undisclosed in H1 2023, and 78% in H1 2024

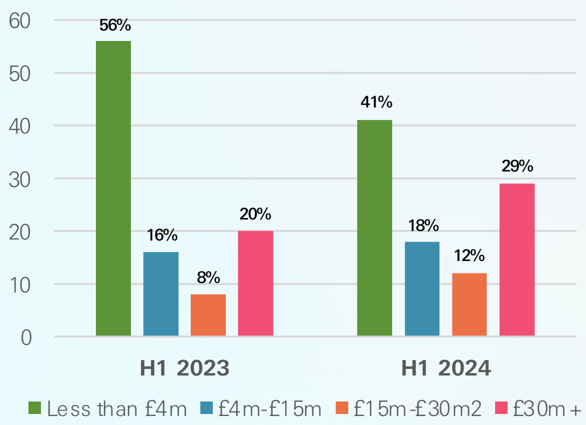
Source: PitchBook as of 22 August 2024

Corporate investors: Sustained interest

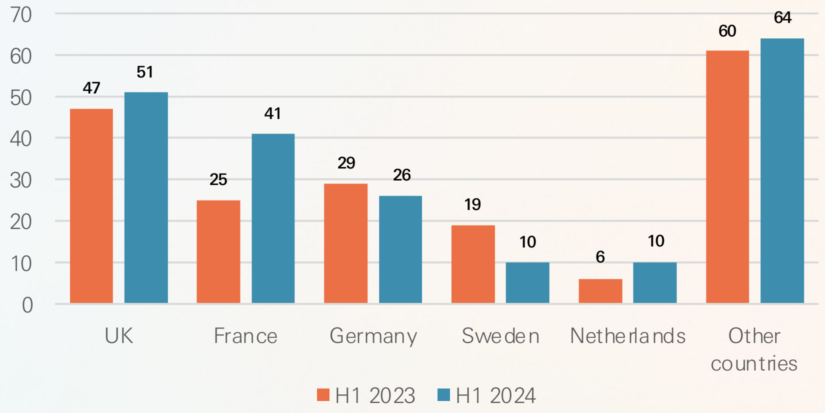
Corporate deal count and activity remains largely unchanged –a welcome sign of market stability

- Per our analysis of Private Equity activity, this view is focused on shifts in deal count rather than value as the majority of deal details are undisclosed[1].
- There's been a marked difference in the number of smaller tickets in 2024, which has halved year on year.
- The UK is the most active market, but there has been a significant increase in activity in France.
- As in 2023, AI and Machine Learning, Fintech, and Mobile[2] offerings are the sub-sectors generating the most deal activity.

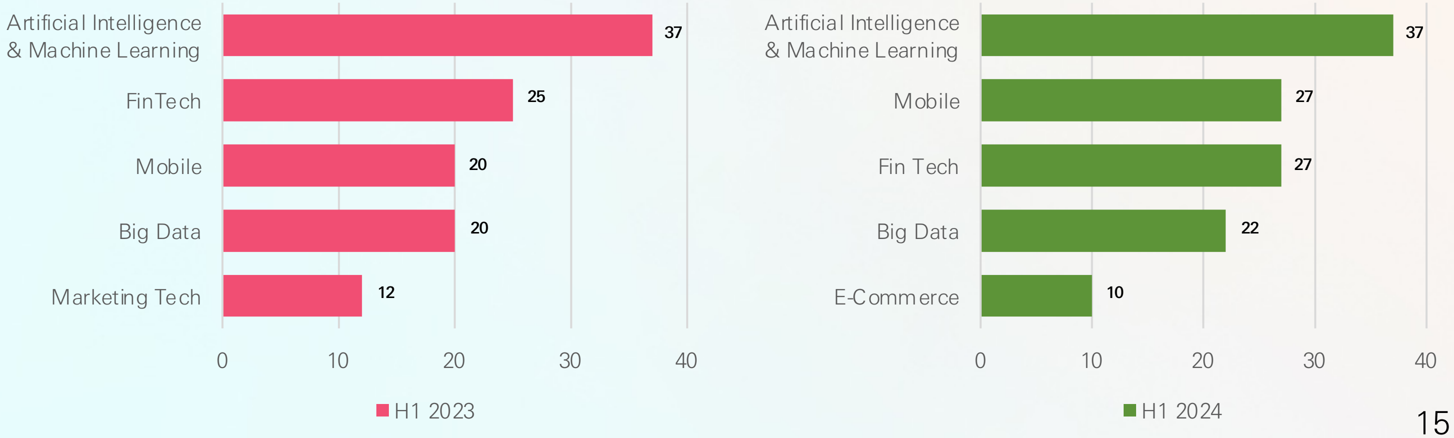
Deal count by deal size



Top countries by deal count



Top SaaS sub-sectors by deal count



Note:
"Corporate" is based on PitchBook's Deal Class definition
[1] 75% of deals undisclosed in H1 2023, and 81% in H1 2024
[2] Per Pitchbook's definition, "Mobile companies provide services for mobile devices and/or enable mobile communication."

Source: PitchBook as of 22 August 2024

Thank you

Segments were defined using PitchBook's dedicated verticals and industry trags. PitchBook's methodology was applied for all relevant transactions. For breakouts by industry or other verticals, each company had to be tagged with at least one other relevant vertical. Given overlap between segments, it is possible for a single deal to be represented in deal activity data for multiple segments. This analysis only considers deals completed between 1-Jan-23 and 30-Jun-23 / 1-Jan-24 and 30-Jun-24 (full transactions only) for European headquartered companies classified as SaaS by PitchBook. For further detail please see pitchbook.com/news/pitchbook-report-methodologies