

August 2024



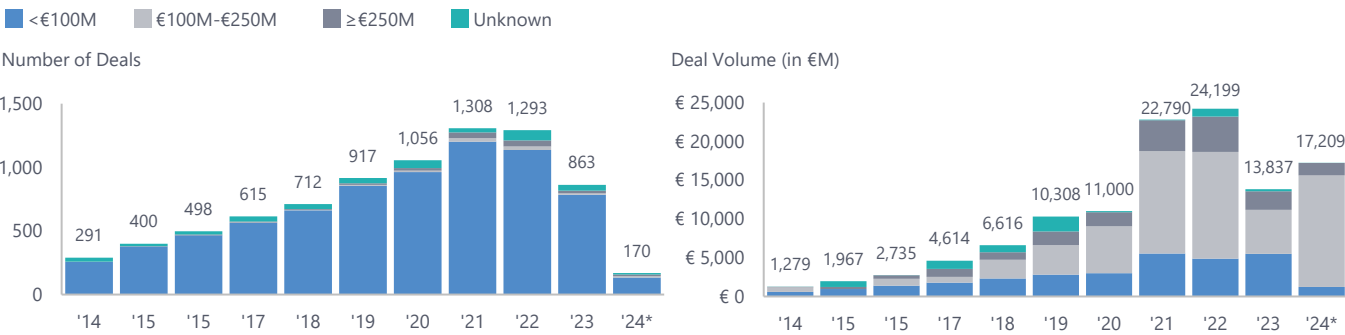
Houlihan Lokey

Venture Debt Market
Update in Europe as of
H1 2024

Venture Debt Market Is Showing Signs of Recovery

Following substantial growth over the past decade, reaching its peak in terms of deal volume with a total allocation of €24 billion distributed across 1,293 venture debt financing deals, there was a decline in venture debt financing deals in 2023. Rising global interest rates have hindered private market activity and slowed deal flow. The number of deals dropped to 863, down from 1,293 in 2022. The total volume also fell to €14 billion, compared to €24 billion in 2022. However, for 2024, the data suggests that, in terms of the deal volume, 2023 levels will be notably exceeded. This increase is anticipated due to the need to finance a substantial number of private credit maturities and the expectation of more stable interest rates. As of the first half of 2024*, 170 deals had already been completed, corresponding to a deal volume of around €17.2 billion.

Figure 1: Venture Debt Transactions in Europe



Trends of the Venture Debt Market in Europe

Over the past decade, venture debt has grown increasingly vital as a financing option compared to equity-based funding. Since late 2021, significant shifts in the startup financing landscape have unfolded, driven by geopolitical conflicts and energy crises. Rising global interest rates have further dampened private market activity and slowed deal flow, posing challenges for private equity funds to finance new venture capital transactions and refinance existing ones. These factors have created more demanding fundraising conditions, prompting investors to adopt a more cautious approach.

Despite this, Europe's venture debt financing market continued its growth. The ratio of market volume in the venture debt market to venture capital market in Europe rose from the 10%–15% range observed between 2014 and 2016, to 22%–24% in 2022 and 2023.

This growth is driven by the maturing European startup ecosystem, where a rising number of companies are seen progressing into later-growth stages. Given their enhanced financial stability, these companies are increasingly suitable candidates for venture debt, thereby boosting the demand for this financing option. Indeed, while in 2014–2016 late-stage venture deals accounted for 17% of all European venture debt transactions by deal volume, in 2021–2023, this balance grew to 24%. According to David Bateman, a managing partner at Claret Capital Partners, a venture debt financier with AUM of EUR 600 million, Claret Capital Partners' deals represented EUR 79 million as of 25 June 2024 year-to-date, of which early-stage, late-stage, and venture growth deals account for 55%, 26%, and 18% respectively.

On the other hand, the share of early-stage deals dropped from 48% in 2014–2016 to 34% in 2021–2023 in terms of the number of deals but increased from 28% to 33% in terms of deal volume over the same periods.

Figure 2: European Venture Debt Deal Volume Relative to the Venture Capital Market

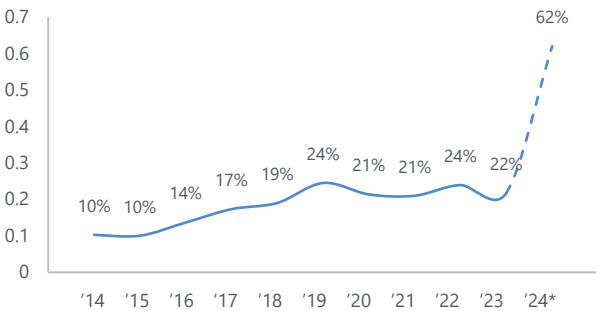
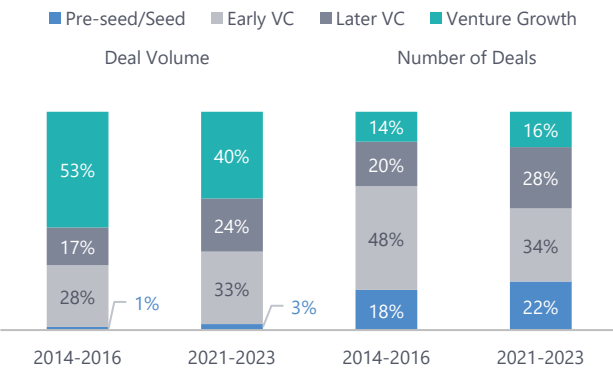


Figure 3: Share of Venture Debt Deals by Growth Phase



*As of 06/05/2024.

Sources: "McDermott Will & Emery Winter 2023 Report," PitchBook.

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Source: LSEG (formerly Refinitiv). Excludes accounting firms and brokers.

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2 Rothschild	349
3 Goldman Sachs	300
3 JP Morgan	300

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Source: LSEG (formerly Refinitiv).

2023 Global Distressed Debt and Bankruptcy Restructuring Rankings

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2 PJT Partners	64
3 Rothschild	51

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Source: LSEG (formerly Refinitiv). Announced or completed transactions.

1999 to 2023 Global M&A Fairness Advisory Rankings

Advisor	Deals
1 Houlihan Lokey	1,247
2 JP Morgan	1,035
3 Duff & Phelps, A Kroll Business	977

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Source: PitchBook. Excludes accounting firms and brokers.

2023 Most Active Global Investment Banks to Private Equity Firms

Advisor	Deals
1 Houlihan Lokey	217
2 Lincoln International	156
3 William Blair	112

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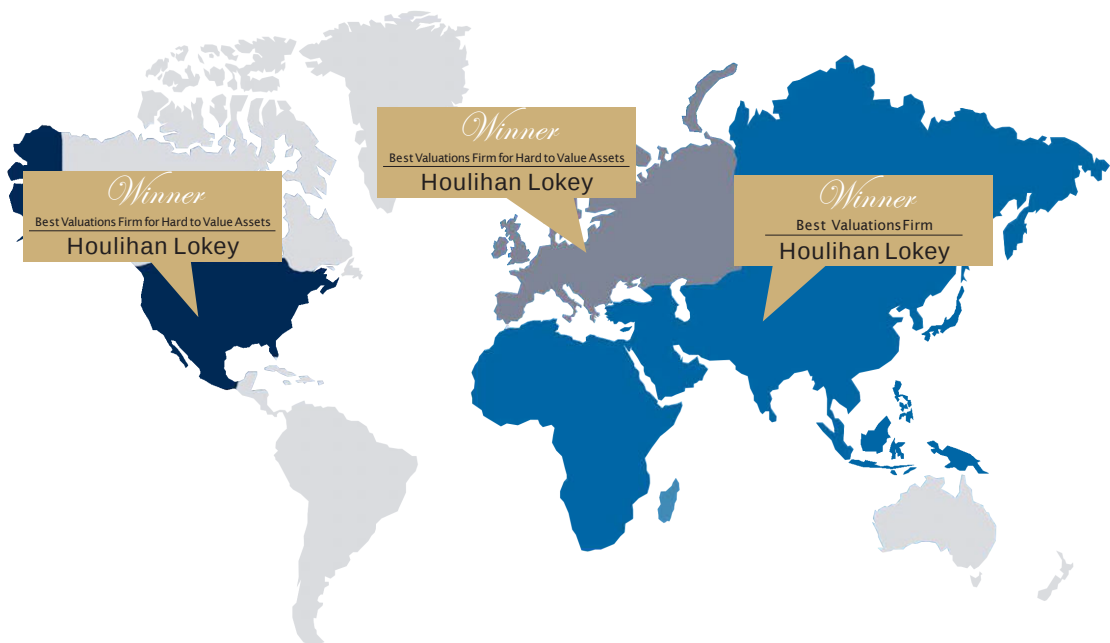
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