How Europe Can Ride the Tech Rollercoaster

The region is investing more money in young tech companies. Now it needs to scale them.

In 2021, Europe’s tech venture capital market doubled in size to €35 billion compared with 2019. In the first half of 2022, it reached a healthy €18 billion, despite the major correction in the tech sector.

For those European start-ups that survive the forthcoming shakeout, the next challenge will be to scale – a task that has eluded many of their forerunners. If Europe can become adept at scaling tech players it could produce world-beating businesses possibly even attaining a trillion dollar valuation – as described in one of the four scenarios for how Deloitte envisions Europe’s tech sector could evolve by 2030.

The four scenarios:

Tech Desert  Cowardly Cash Cow  Greatness Divided  Who Wants to be a Trillionaire?
In 2021, Europe had 65 cities with at least one unicorn (a privately-held company worth more than one billion dollars) indicating that valuable tech companies are being created across much of the continent.

But Europe doesn’t have a **Silicon Valley-scale cluster** where there is a critical mass of expertise and experience in scaling tech companies.

“The biggest concern is the availability of experienced people that have scaled companies from 200 to 1,000 employees. In the US, there is a huge pool of experienced scaling professionals to hire for your maturing company. While there is enough talent in Europe, we lack experience in scaling.”

Patrick Polak, managing partner at Newion Partners, an Amsterdam-based venture capital firm

The sources of the private equity capital flowing into European technology companies:

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America’s business community is much more comfortable with technology than its European counterpart. Mainstream U.S. companies are more likely to buy tech firms than their European counterparts, resulting in a much more developed and bigger M&A market in the US.

“Start-ups can be successful, only when they are ‘asset heavy’ where there is a big local playground which requires unique settings”

Sebastiaan Vaessen, group head of strategy at investment firm Prosus – at the time of writing this article – citing DeliveryHero and Thuisbezorgd.nl

Is a virtuous circle now in motion?

Although it still trails far behind its US counterpart, Europe’s private equity sector channelled 27% of its investments into tech in the first half of 2022, up from 15% in 2021. Over time, both private equity and mainstream businesses may become more comfortable with buying technology companies.
Although Europe wasn’t at the forefront of the big tech innovation waves of the past few decades (such as that related to consumer internet platforms), it has the expertise to capitalise on the next one – the convergence of engineering and information technology is now driving a new industrial revolution.

As the world’s largest producer and exporter of machinery (with a 36% share of the world market), Europe has a strong track record in engineering.

With technology leadership in key areas, Europe could yet spawn several super-scalers valued at over US$1 trillion, joining a club that today consists solely of US companies.

Europe’s business leaders and policymakers need to steer a course towards the Who Wants To Be A Trillionaire? scenario Deloitte believes is one of the four plausible outcomes for the European tech sector in 2030.