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Swiss Venture Capital Report

In cooperation with SECA Swiss Private Equity & Corporate Finance Association

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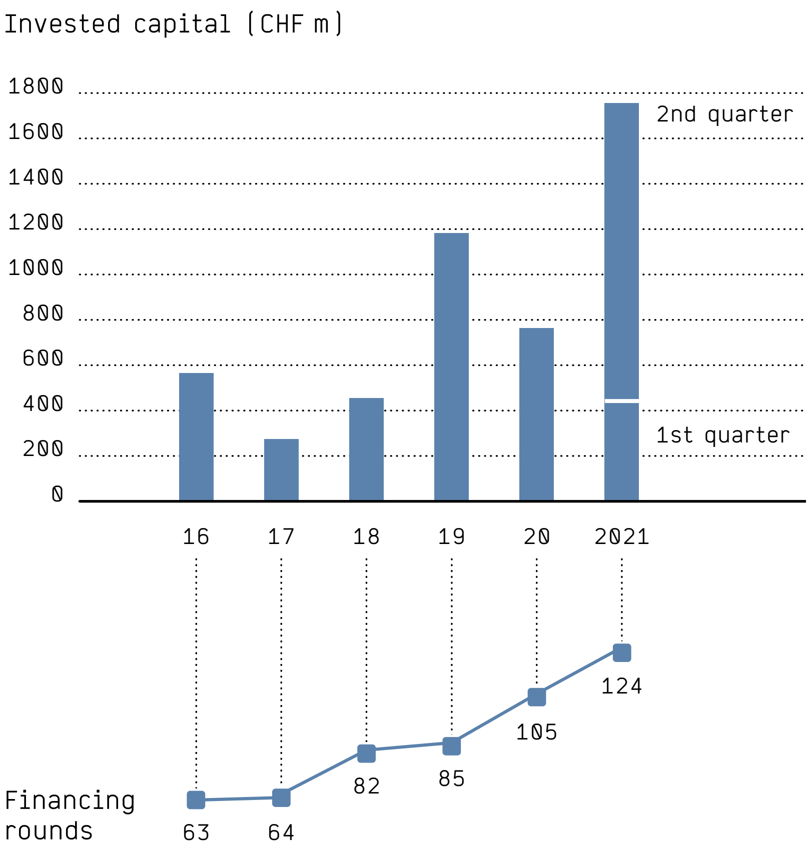
Summary

Investment in Swiss start-ups continued its strong growth trajectory in the first half of 2021. The total invested sum was CHF 1.7 billion, more than twice as high as in the same period of the previous year. The high amount is due to the mega round from insurtech wefox for almost CHF 600 million, and also to four other rounds in the range of CHF 100 million or more. The number of financing rounds also grew to 124. In the sectors, it was again ICT start-ups – and in particular fintech companies – that ensured growth. Six IPOs were a special feature of the exits, with five biotech companies alone venturing on to the Nasdaq in the first half of the year.

One of the most noticeable developments in recent years is the increasing number of companies that have developed corporate venture capital (CVC) activities. In collaboration with the Institute for Financial Services Zug (IFZ) at Lucerne University of Applied Sciences and Arts, we conducted a survey among Swiss CVCS. They are still quite young, have set up professional structures and invest heavily in early stage technology start-ups. Strategic goals, such as access to new technology, are more important than financial goals.

Investments

Investments in Swiss start-ups
in first half of year



Despite the continuing difficult environment, investment in Swiss start-ups headed for a record in the first half of 2021, with companies generating more than CHF 1.7 billion in 124 financing rounds. The amount invested is almost CHF 1 billion more than in the same period last year and the growth rate is more than 130%. Even compared with the previous record – achieved in the first half of 2019 – this equals growth of almost 50%. A comparison with the figures before 2019 shows that the investment is now on a completely different level.

The number of financing rounds has also increased further and the long-term comparison is particularly remarkable, with the number practically doubling in just four years. Even the 18 months of the corona crisis does not seem to have had any affect on growth.

As in the previous year, the first quarter was significantly weaker than the second in terms of invested capital. There seems to be a pattern here: apparently, attempts are made to conclude financing rounds before the end of a calendar year, so initially less happens at the beginning of the following year.

The Top 10

Biotech companies comprise five of the start-ups with the 10 largest investments, with also two classic medtech companies, two enterprise software companies and fintech wefox at the top of the ranking.

584.5 CHF m

wefox

wefox is a fully licensed digital insurance company that sells insurance through intermediaries rather than directly to customers. In 2020, its sales exceeded USD 140 million.

LINK

161.7

Nexthink

Nexthink's platform enables IT teams to discover, monitor and proactively improve the digital services they provide to their employees. Its financing round meant the Lausanne start-up became a unicorn.

LINK

108.35

CeQur

CeQur has developed a discreet and simple insulin delivery system that can replace the need for mealtime injections for people with diabetes.

LINK

100

Numab

Numab's pipeline includes drug candidates for immunotherapies against cancer and inflammatory diseases. A first multispecific antibody is being tested on patients with advanced solid tumours.

LINK

96.05

Bright Peak Therapeutics

Using chemical synthesis, ETH Zurich spin-off Bright Peak Therapeutics produces proteins that have never before existed, which holds great potential for cancer immunotherapy.

LINK

The Top 10

88

Monte Rosa Therapeutics

Monte Rosa Therapeutics focuses on discovering and developing precision medicines that degrade disease-causing proteins

LINK

60

Alentis Therapeutics

Basel-based Alentis develops treatments for fibrotic diseases. The funding will go primarily into proof-of-concept clinical trials of its lead candidate for advanced liver and kidney fibrosis.

LINK

51.8

Oculis

Oculis develops innovative ophthalmic treatments. Proceeds from the round will be used to advance late-stage drugs OCS-01 and OCS-02 in phase 2 and 3 clinical trials.

LINK

46.3

MedAlliance

MedAlliance is commercialising a novel drug-eluting balloon for patients suffering from life-threatening coronary and peripheral arterial disease.

LINK

32.9

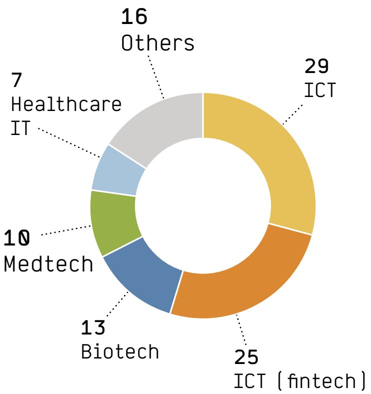
Concordium

Concordium's platform addresses companies that want to use the blockchain, but which also have to meet stringent regulatory requirements.

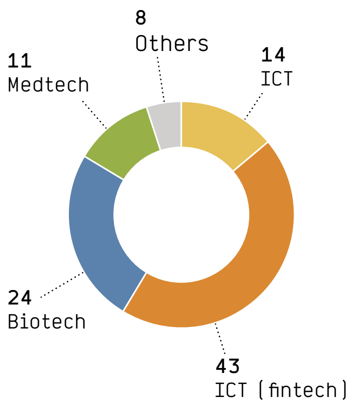
LINK

Sectors & Cantons

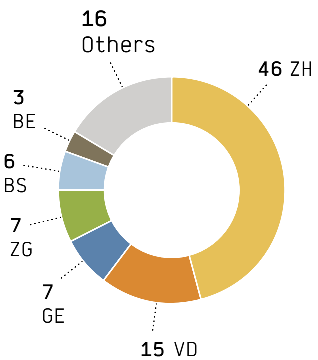
Rounds by sector (%)



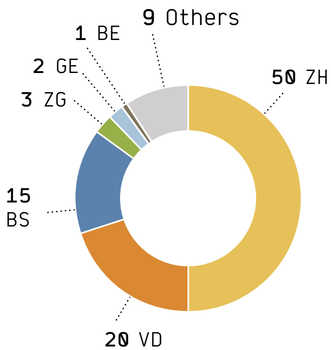
Sum by sector (%)



Rounds by canton (%)



Sum by canton (%)



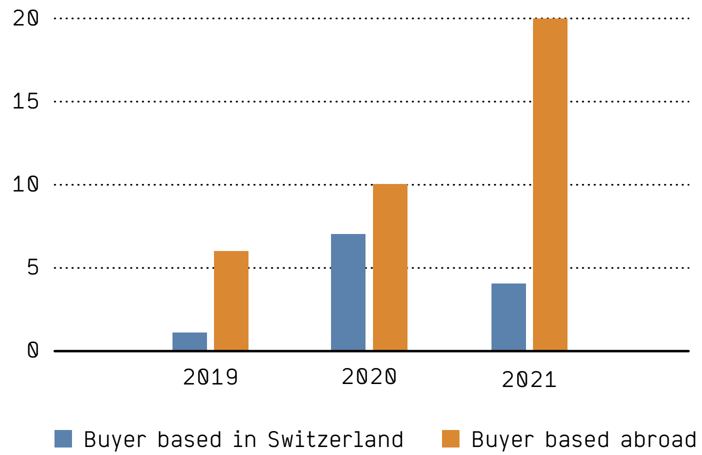
In recent years, the growth in the number of financings has been driven by ICT start-ups. This trend continued in the first half of 2021. ICT rounds (including fintech) made up 54% of investments compared with 50% in the first half of 2020. The number has increased significantly, in particular among fintech start-ups, more than doubling from 11 to 26. The mega financing round from wefox meant that the share of invested capital also increased significantly.

In the second core sector for the Swiss start-up scene – biotech – the development in the number of financing rounds is stable. Invested capital increased from almost CHF 230 million to more than CHF 414 million – a growth rate of more than 80%.

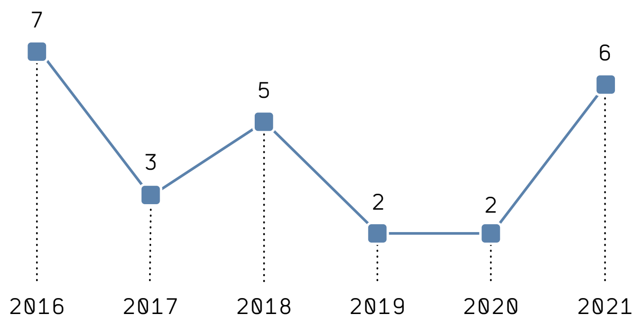
In the cantons, the usual picture emerges with Zurich at the top, followed by Vaud and then Basel-Stadt, Zug and Geneva. The most noticeable development can be observed in Vaud: after six months, the invested capital is already in the order of magnitude of the entire previous year. At almost CHF 350 million, start-ups in the canton generated more than three times as much money in the first half of 2021 as in the same period in 2020.

Exits

Number of exits in first half of year



Number of IPOs per year

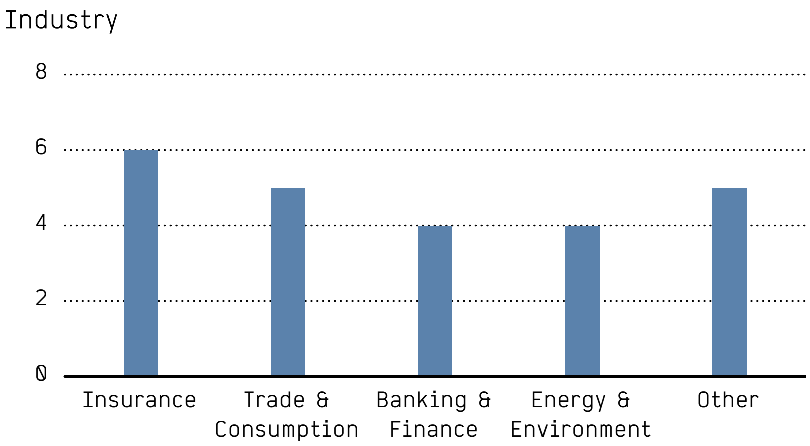


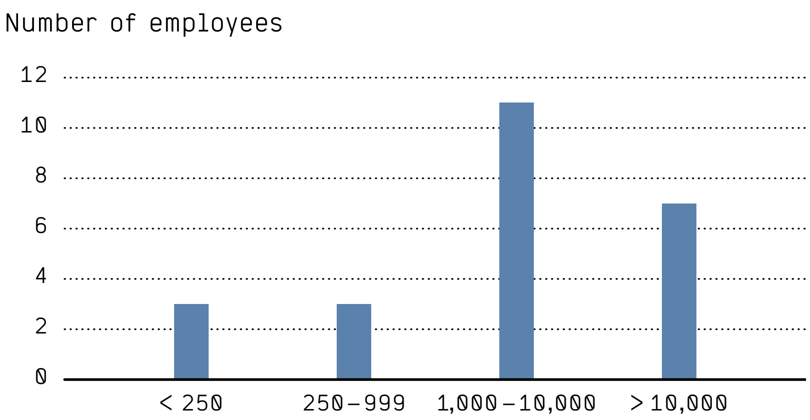
With the exception of a few months during the first wave of the pandemic, the positive development in trade sales over the past three years seems to have been unaffected by the COVID-19 crisis. The increase in exits is being driven by buyers from abroad. In the first half of 2021, more Swiss start-ups were acquired by US companies alone than by companies from Switzerland.

In terms of trade sales, the take-overs of biotech company Arvelle Therapeutics and the Crypto Finance Group are particularly noteworthy. An Italian pharmaceutical company paid about CHF 850 million for Arvelle and Deutsche Börse acquired the Crypto Finance Group for an amount in the three-digit million range.

The high number of IPOs is also impressive: after six months, the number had already reached the level of the very positive year of 2016 at six. Five of the six listings are from biotech companies on the Nasdaq, with a smaller IPO on Euronext's Access segment. Some of the biotech companies generated high inflows of funds from their initial public offerings: Monte Rosa Therapeutics generated more than CHF 200 million, Pharvaris just under CHF 150 million and VectivBio a good CHF 130 million.

Survey introduction

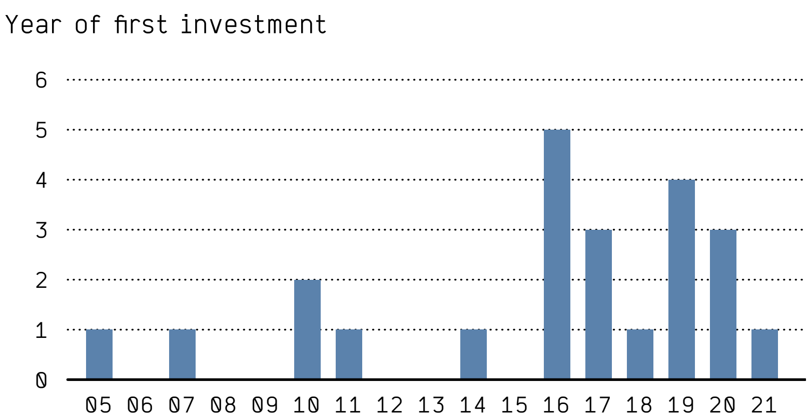


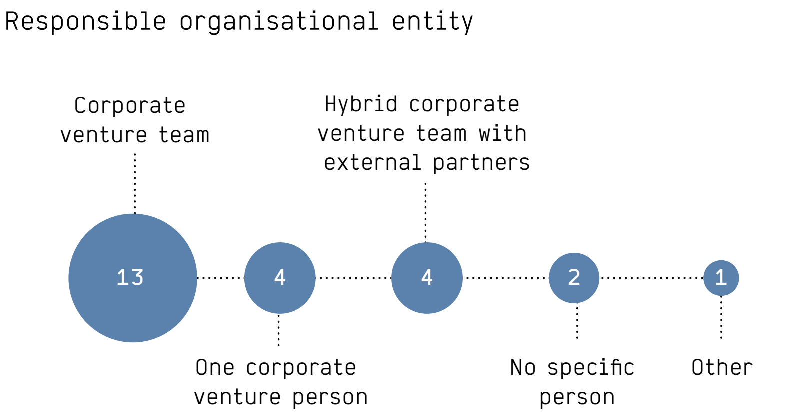


In recent years, corporates have gained in importance as investors in Switzerland, but an overview of their activities has until now been missing. How many companies are actually active? Do they pursue financial or strategic goals? Is the engagement done systematically? What is the success rate? To find the answers, we conducted a survey of corporate venture capital investors (CVCs) at the end of June in collaboration with the Institute of Financial Services Zug IFZ at Lucerne University of Applied Sciences and Arts, which supported us in the design, implementation and analysis of the survey.

We contacted a total of 50 Swiss companies that have invested in start-ups over the past two years or have worked with them. Of these, 24 completed the questionnaire. Companies from all important sectors in Switzerland are represented. CVC activities are particularly popular with financial services and companies active in B2C or B2B bulk business. Companies from the mechanical and electrical engineering industries tend to be under-represented, but companies with more than 1,000 employees in particular are active.

Professional approach



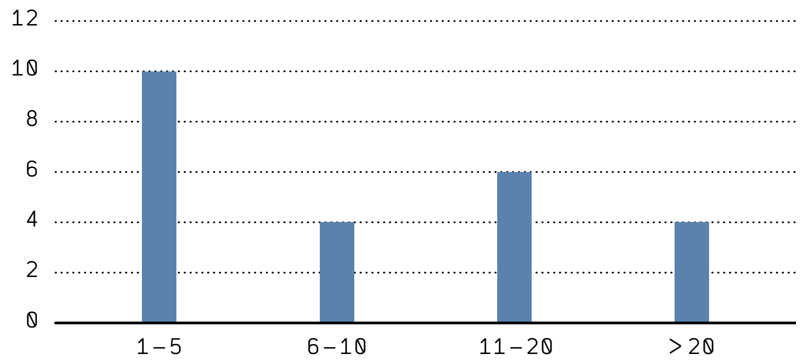


Most Swiss CVCS are very young, with only a quarter older than five years. Establishment of investment units in existing companies has taken place regularly only since 2016, with the recent growth driven by corporates in the financial services sector. And insurance companies in particular have set up CVC units only since 2017; until then, no Swiss insurance company had a CVC.

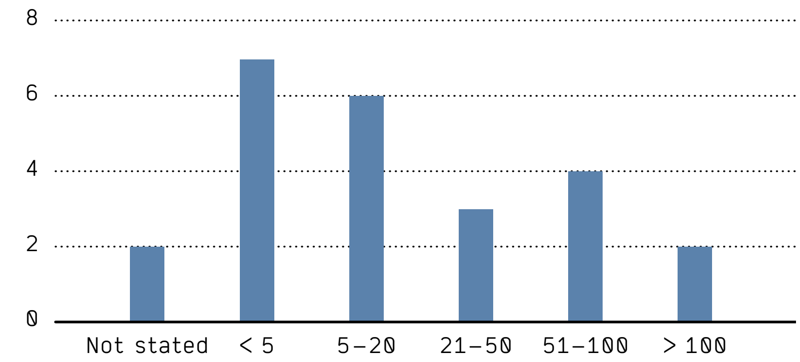
Many CVCs are still young, not all are highly active and the structures are still largely professional. The prevailing model, which the less active and younger CVCs have also implemented, is a dedicated team, with more than half of respondents following this approach. In addition, a sixth works with experienced external partners. Investors with only one person or no one at all are in the minority.

Investment activity

Number of portfolio companies held in last five years



Investment volume over the past five years (CHF m)



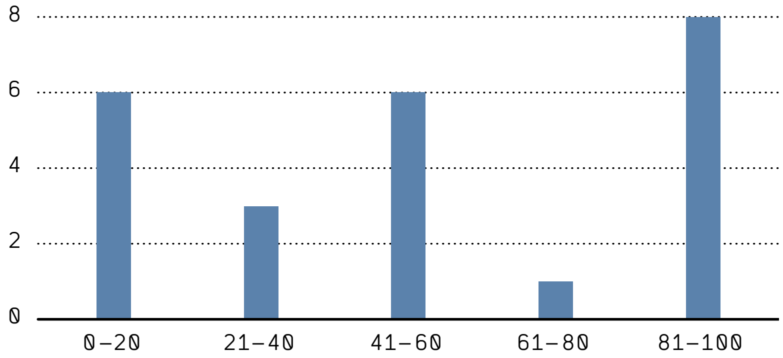
All levels of activity can be found at Swiss CVCs. Those with more than 20 companies in their portfolio and an investment volume of more than CHF 100 million over the past five years are among the most active Swiss investors. However, the majority of CVCs, although regular investors, are not highly active. As a rule, CHF 2 million to CHF 4 million is invested in one or two start-ups each year.

It should be remembered that many CVCs are less than five years old. Portfolio construction takes time, as shown by those investors with more than 20 start-ups in their portfolios. The youngest of these CVC units started investing in 2014, the other three are more than 10 years old. So it is quite possible that the number of start-ups in the portfolios will increase.

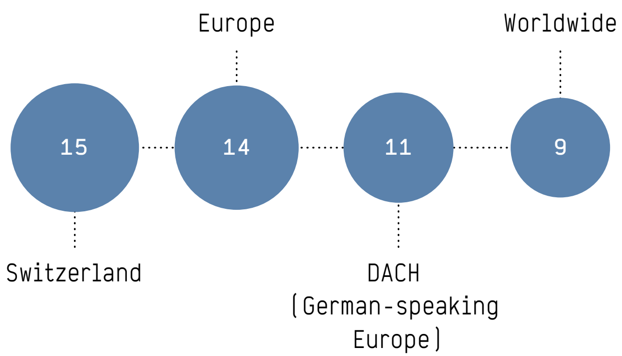
In the CVCs with the largest investment volume, on the other hand, it is not the older investors but the larger companies that are over-represented. They make up less than a third of those surveyed, but 50% of CVCs with an investment of more than CHF 51 million over the last five years. The two companies with an investment of more than CHF 100 million both have more than 10,000 employees.

Regional preferences

Share of Swiss companies in portfolio (%)



Preferred investment region*



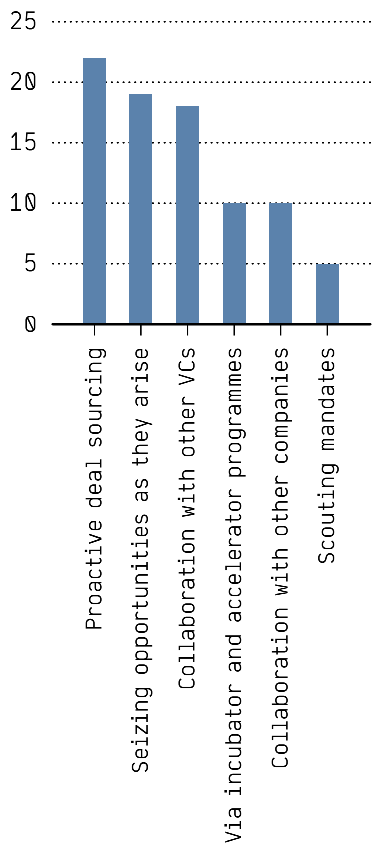
*multiple answers possible

When it comes to the proportion of Swiss start-ups in the portfolios, the broad diversification and extremes are again noticeable. A third of CVCs invest almost exclusively in Switzerland, while a quarter invests only a small amount or does not invest at all. It is encouraging that the particularly active CVCs tend to have more Swiss start-ups in their portfolios than the average. Overall, the Swiss share is likely to be higher than that of professional Swiss VCs.

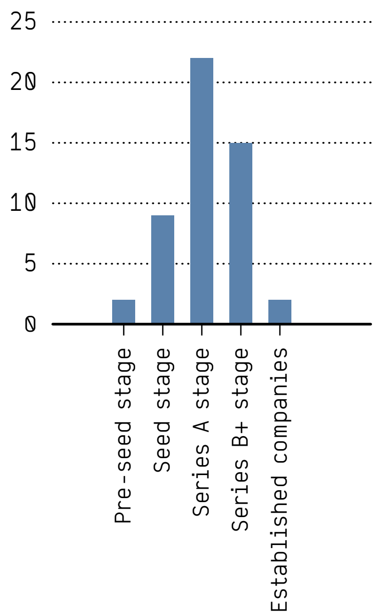
The picture becomes a little clearer through the answers to the question about preferred investment regions. Multiple answers were possible here. Swiss CVCs see themselves as international investors, with only three of the respondents, or 10%, stating that they invest exclusively in Switzerland. More than half cite the whole of Europe as a target region. A third of CVCs say they are global investors. The relatively high proportion of Swiss start-ups in the portfolios is therefore unlikely to be due to a home bias that arises from a search for investment opportunities limited to Switzerland, but rather to other reasons.

Deal sourcing

Methods to identify start-ups*



Preferred maturity level*



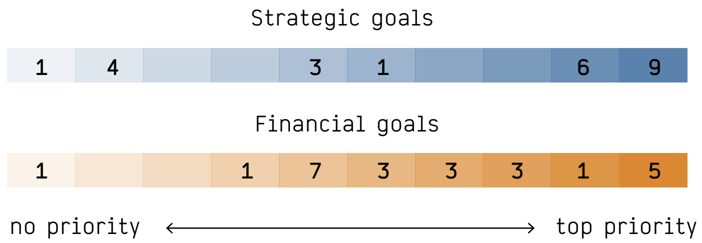
*multiple answers possible

The professionalism of the CVCs surveyed is also evident when it comes to deal sourcing. Practically all are proactively looking for start-ups that are suitable as investment targets. In addition, as with professional VCs, they rely on collaboration with other investors from their network. Incubators and accelerators also play an important role, with almost half using them for deal sourcing. For a start-up, an accelerator is thus a promising way to obtain a CVC investment, and similarly for a CVC, it ensures it does not miss out on a good opportunity to invest in a start-up that is an optimal fit for its goals.

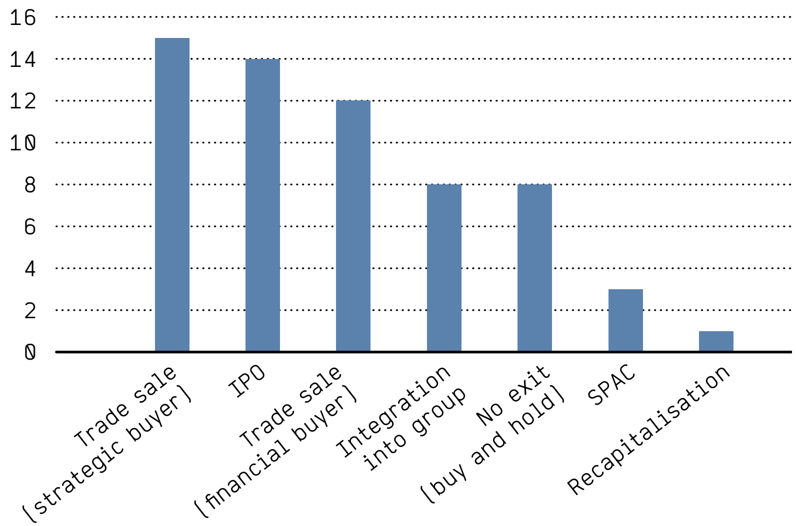
CVCs are more likely to look for start-ups in earlier stages, with nearly all investing in Series A rounds. For well over half of CVCs, the seed stage is also one of the preferred phases. This proportion is surprisingly high, considering in particular the large differences in the processes and culture of early-stage start-ups and established companies.

Strategic and financial goals

Priorities in a start-up collaboration



Preferred exit strategy*

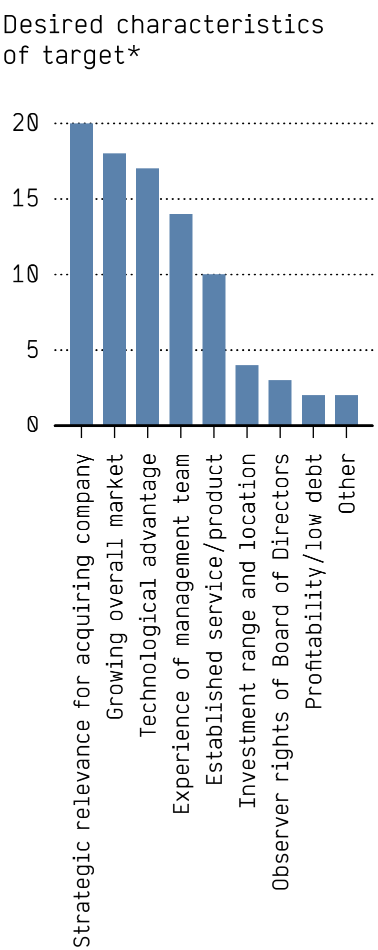


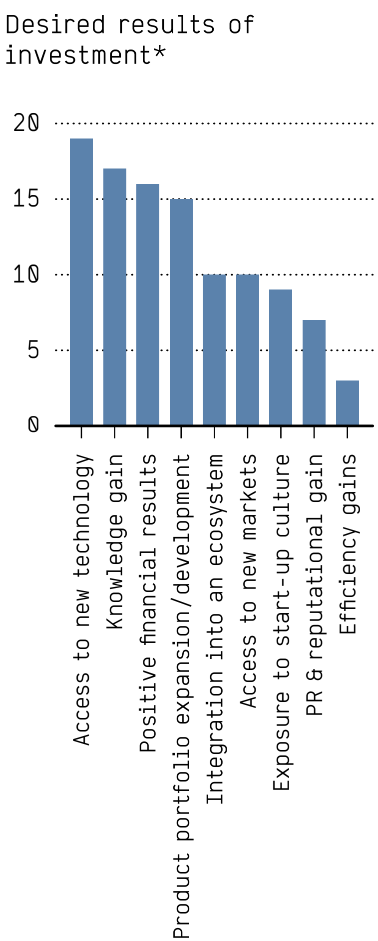
*multiple answers possible

Those CVCs that act as pure financial investors are in the minority: strategic goals play no role for only one fifth. For almost two thirds, strategic goals are very important when making investment decisions. This does not mean that financial aspects do not matter – for practically all investors, financial goals are a priority – but they do not enjoy quite as high a priority as the strategic fit.

The great importance of the strategic requirements for an investment goal is also reflected in the desired exits. About half of CVCs aim to either remain involved in the start-up over the long term or to take it over themselves. However, although the majority of CVCs give strategic goals a high priority, this does not mean that they want to take over a start-up in every case. Accordingly, trade sales are targeted by more CVCs than their own acquisition and long-term participation. The fact that IPOs are also mentioned by many CVCs shows that investments are associated with higher aspirations.

Investment targets



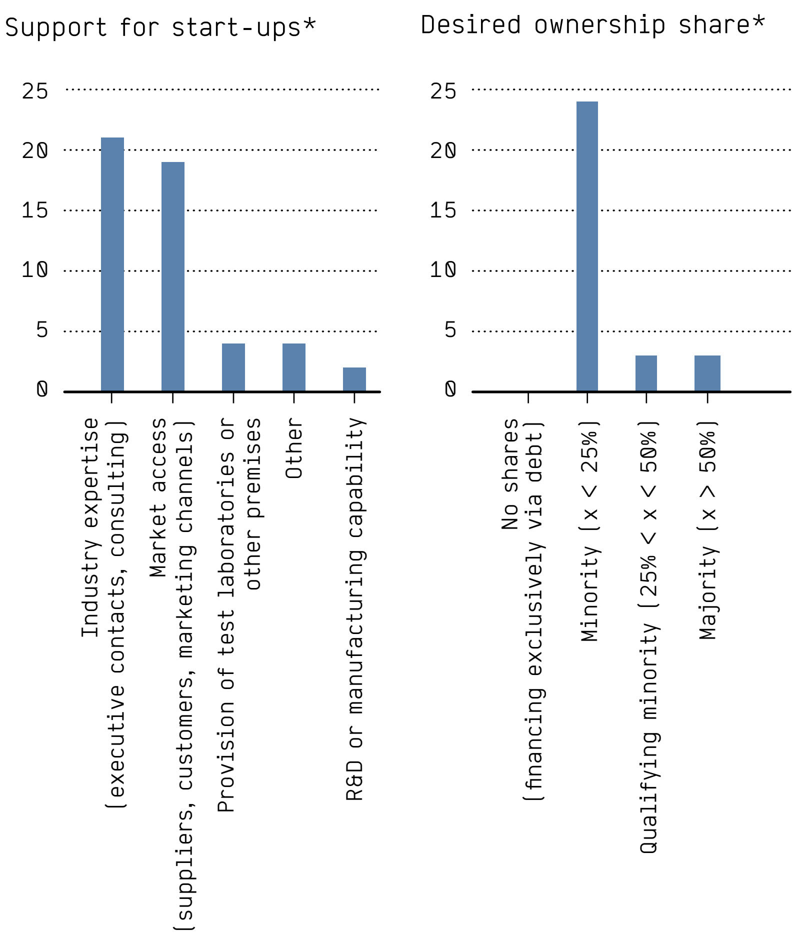


*multiple answers possible

The importance of the strategic agreement reappears when respondents are asked about the desired characteristics of a start-up. It is more important to CVCs than the typical investment goal qualities looked for by financial investors; namely, a growing market, technological lead and an experienced team. The significance of the technology and the relatively low importance of an established product in the investment decision are not self-evident. In the past, Swiss corporates took over mainly those start-ups that already had market-successful products rather than traditional technology start-ups. These CVCs seem to set their priorities differently with the goal to secure promising technologies at an early stage.

The answers to the question about the desired results enable a precise definition of what the CVCs mean by strategic relevance. The focus here is again on technological aspects: first, access to new technology and, second, the knowledge gain. The development of new products is also important, but not quite as important as these two factors.

Start-up support

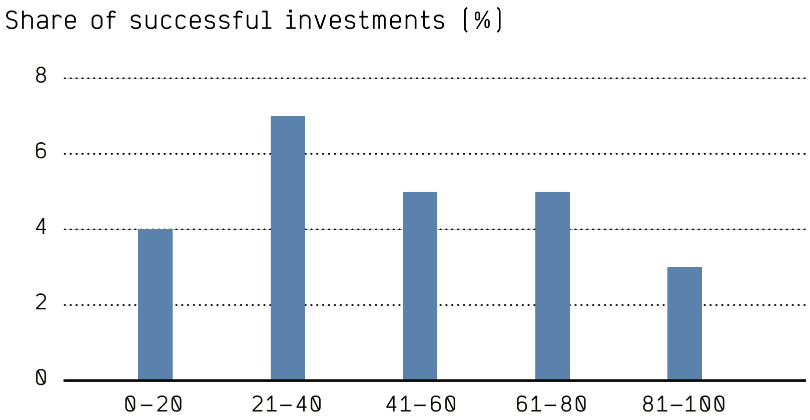


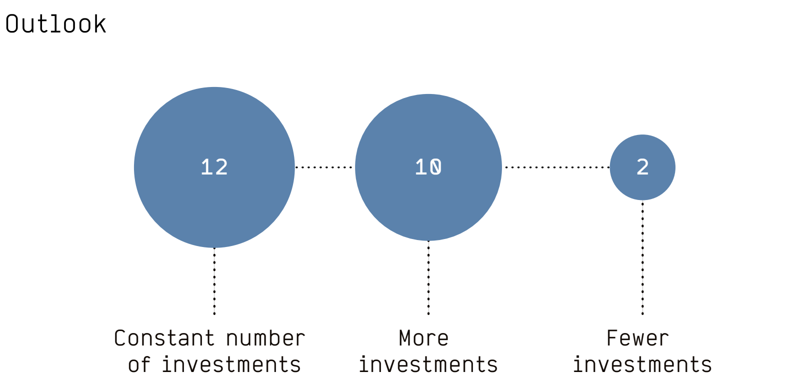
*multiple answers possible

CVCs are the epitome of smart investors: they not only support a start-up with money, but practically all respondents stated that they also provide it with industry expertise. Slightly fewer CVCs also help with market access. The small minority of CVCs that do not do this include organisations for which financial goals have the highest priority and which are therefore largely disconnected from the day-to-day business of the group.

As broad as the answers to some questions are, there is a clear preference when it comes to ownership share. All CVCs surveyed aim for minority stakes of less than 25%, which means that they do not behave any differently than pure VCs. Only a minority – a total of four investors – aim for a higher participation rate.

Results





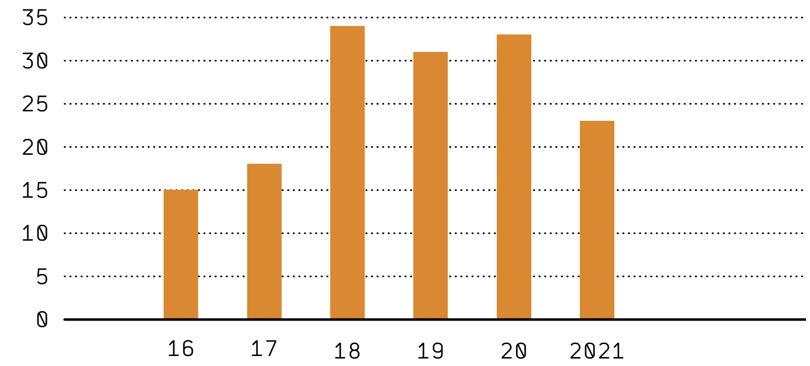
An assessment of the success of the investments varies widely. The question was asked explicitly about success in terms of the goals pursued in each case (page 14, right graph). A correlation between the age of the CVC and satisfaction cannot be made. CVCs with strategic goals are no more satisfied or dissatisfied than those with primarily financial goals.

The assessment shows that the investments are anything but a sure-fire success. Almost half of CVCs surveyed indicate that less than 40% of investments have had a positive outcome. The group of more than 60% described as successful comprises a third of CVCs and is thus significantly smaller.

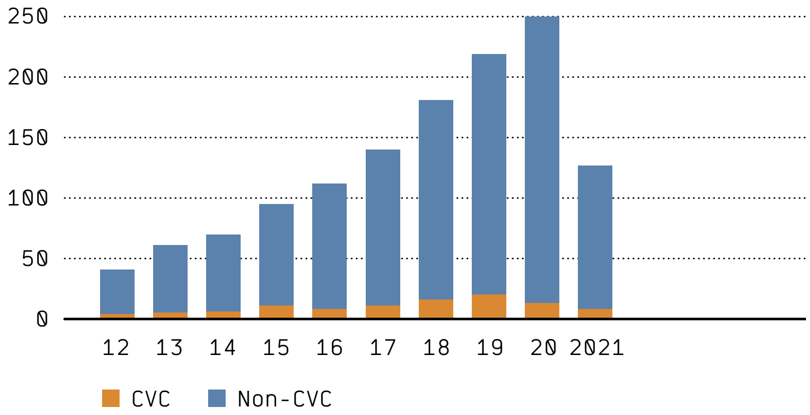
Although only a minority of investments have produced positive results, the CVCs appear to be satisfied with the success rate. Half want to continue investing at the previous level and slightly less than half intend to increase the number of investments.

Investments in Swiss start-ups

Number of CVCs investing in Swiss start-ups



Number of investments by Swiss CVCs and other investors



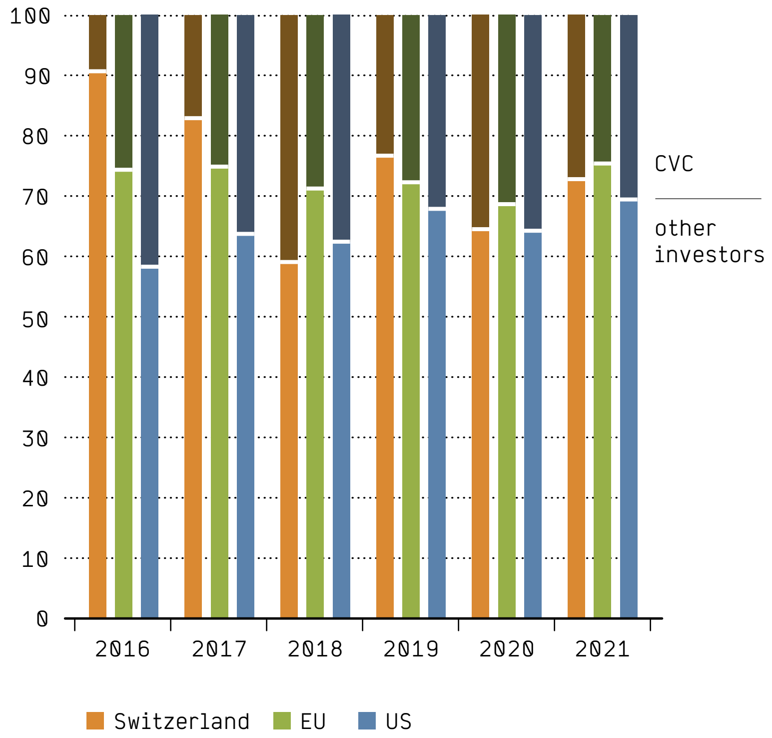
Source: Swiss Venture Capital Report

The increasing number of active CVCs in the past five years is also reflected in a growing number of investments in Swiss start-ups, as figures from Swiss Venture Capital Report show. The number of financing rounds in which domestic and foreign CVCs were involved more than doubled between 2016 and 2018, and since then has maintained this level. It looks as though a new record will be set in 2021, going by the figures for the first half of the year. However, foreign CVCs contributed two thirds of the rounds during this period, while Swiss CVCs invested in only eight Swiss start-ups.

If one looks only at the investments made by CVCs in Swiss start-ups, a positive trend can be seen, but these investments play a subordinate role in the total number of investments. They may be increasing, but compared with the rapidly developing number of financing rounds by Swiss start-ups, the proportion is still modest.

International comparison

Share of invested amount in US and European start-ups by type of investor (%)



Source: Pitchbook / Startupticker.ch

The share of domestic and foreign CVCs in the sum of total invested capital was estimated on the basis of data from market research company PitchBook. For Switzerland, a clear increase can be seen between 2016 and 2018. Since then, the proportion has remained at the same high level. As the total amount invested in Swiss start-ups has increased further since 2018, the capital invested by CVCs must have increased in order to maintain the same level.

In an international comparison, since 2018 Swiss start-ups have generated a similarly large share of the capital of CVCs as European and US companies. In 2020, for example, the share in Switzerland stood at 35% compared with 36% in the US and 31% in Europe. The share of invested capital is significantly higher than the share in the financing rounds, since CVCs tend to participate in larger financing rounds. In Switzerland, this applies in particular to the important group of foreign CVCs.

Methodology

The analysis takes into account only Swiss start-ups – that is, those companies that have their legal headquarters in this country. In addition, a senior person with decision-making authority, such as a C-level manager or a board member, must be based in Switzerland. Exceptions may be made if the decision makers are not active in the country of the legal headquarters outside Switzerland, but instead the top managers and board members are based in Switzerland.

The report focuses exclusively on venture capital investments of at least CHF 100,000. Pre-seed equity deals with accelerator programmes are excluded. Buy-out financing and private equity investment in established companies are also excluded; this applies even if the established company is growing strongly.

For the comparisons between the first half-year 2021 and other half years, we took into account only those financing rounds announced by the start-up in the respective time period.

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Thilo Leineweber, Sales Manager
Framatome GmbH

MELDEN SIE SICH JETZT AN

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