

A WORD FROM J.P. MORGAN

Navigating the European venture landscape: Insights from Q2 2025

The European VC ecosystem is holding its breath due to the uncertainty caused by recent geopolitical tensions and US tariffs. These factors have led to a noticeable decline in new investments, with tech IPOs on hold as investors assess the macroeconomic challenges.

Recent acquisitions: A glimmer of hope

Despite these hurdles, recent tech acquisitions provided some relief to investors, with three significant deals in Q2: Wiz, an Israeli company, was acquired by Google for \$32 billion; Dream Games from Turkey was acquired by CVC Capital Partners; and Metaphysic from the UK was acquired for \$1.4 billion by DNEG/Brahma. These exits offered a glimmer of hope, returning capital to VC investors and pleasing their LPs. However, these transactions are not indicative of a widespread recovery, leaving the EMEA VC market in a state of caution.

Investment continuity and anticipated challenges

In Q2, investment continued in early and growth rounds for tech companies demonstrating strong revenue growth and unit economics. However, VCs anticipate a softening of end demand for their portfolio companies as tariffs and economic impacts start to bite.

Investment trends: Sectors on the rise

Sectors such as defence tech, cloud computing, quantum computing, cybersecurity, and vertical AI are increasingly attracting venture capital, poised to tackle pressing concerns for regional “resilience” in these sectors. Companies in these sectors have incredible growth trajectories, aiming for more than \$100 million in revenue within two years from their seed rounds. AI will touch most aspects of corporates and consumers, offering multiple vectors for investment in companies serving this growing market.

US investor interest and M&A strategies

A positive trend is the surge of interest in European tech companies from US investors, which are drawn by the high growth and relatively attractive valuations of leading European startups. US investors are also increasingly

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exploring roll-up M&A strategies within growth-stage European tech companies, especially in software and tech-enabled services. These investors are seeking to consolidate smaller companies within a niche to create larger entities. However, roll-ups require experienced operators that are used to the complexities of execution to ensure success.

Challenges facing European VC investors

European VCs face challenges competing with US VCs, which can write large cheques and offer access to the US market. There are also relatively few homegrown European growth funds compared with the US-heritage growth investors now active in Europe. Local European VCs must find ways to differentiate themselves and offer unique value to founders, often by investing at the seed or pre-seed stage to build relationships early.

Accessing secondary capital and lending requests

A pressing issue is accessing secondary capital to return capital to LPs. This demand keeps J.P. Morgan's Private Capital Markets team busy. “In line with the trend in the second half of 2024, private secondary deals continue to be a prominent exit alternative, especially for early investors seeking liquidity in an environment where IPO windows and M&A exits remain unpredictable,” said Nic Skaff, managing director of J.P. Morgan's Private Capital Markets team. “With the ongoing market bifurcation and flight towards high-quality assets, investors are considering monetization events for some of their best assets.”

There has also been an increase in lending requests from growth-stage tech companies seeking credit to finance working capital, fund acquisitions, or extend cash runway. Our Innovation Economy team is actively addressing these needs to help companies avoid tapping their equity providers for more capital in these uncertain times. Credit terms are still founder friendly, with interest rates likely to be reduced in the medium term.

Navigating geopolitics and regulatory hurdles

Navigating geopolitics and regulatory hurdles provides both challenges and opportunities for VCs and their European portfolio companies. By staying informed, investors can unlock opportunities and continue funding innovation and growth in Europe.

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