
EC Scale up webinar
EIF's intervention

October 5th, 2021

Start up financing developed strongly over the past 10 years, however there remain significant gaps

❑ Volumes of VC funding increased significantly

- Capital invested increased 6X from 2010, reaching USD 41 bn in 2020
- This is however still 4X less than in the US (USD 141bn) and half the amount in Asia (USD 74bn)
- Worldwide: 54% of VC investments are made in the US, 28% in Asia, and 13% in Europe
- Large disparities across Europe: eg. Sweden invests more per head than the US

❑ Performance has improved markedly

- European VC has consistently outperformed not only PE and public markets but also US VC over the past 10 years

❑ Public markets have also seen positive developments

- Europe has produced more tech IPOs than the US over the past 5 years
- However large IPOs take place in the US: since 2016, the US had 71 USD 1bn+ tech IPO, Europe had 21
- Median market cap of a tech company listing in the US: USD 1bn, in Europe: USD 50m

❑ Increased investment from institutional investors into European VC funds

- Pension funds increased their investment into VC by 3.5x since 2015
- However their investment remains very small, more than 30 X less than what they invest in PE
- Similar pattern for insurance companies and Funds of Funds

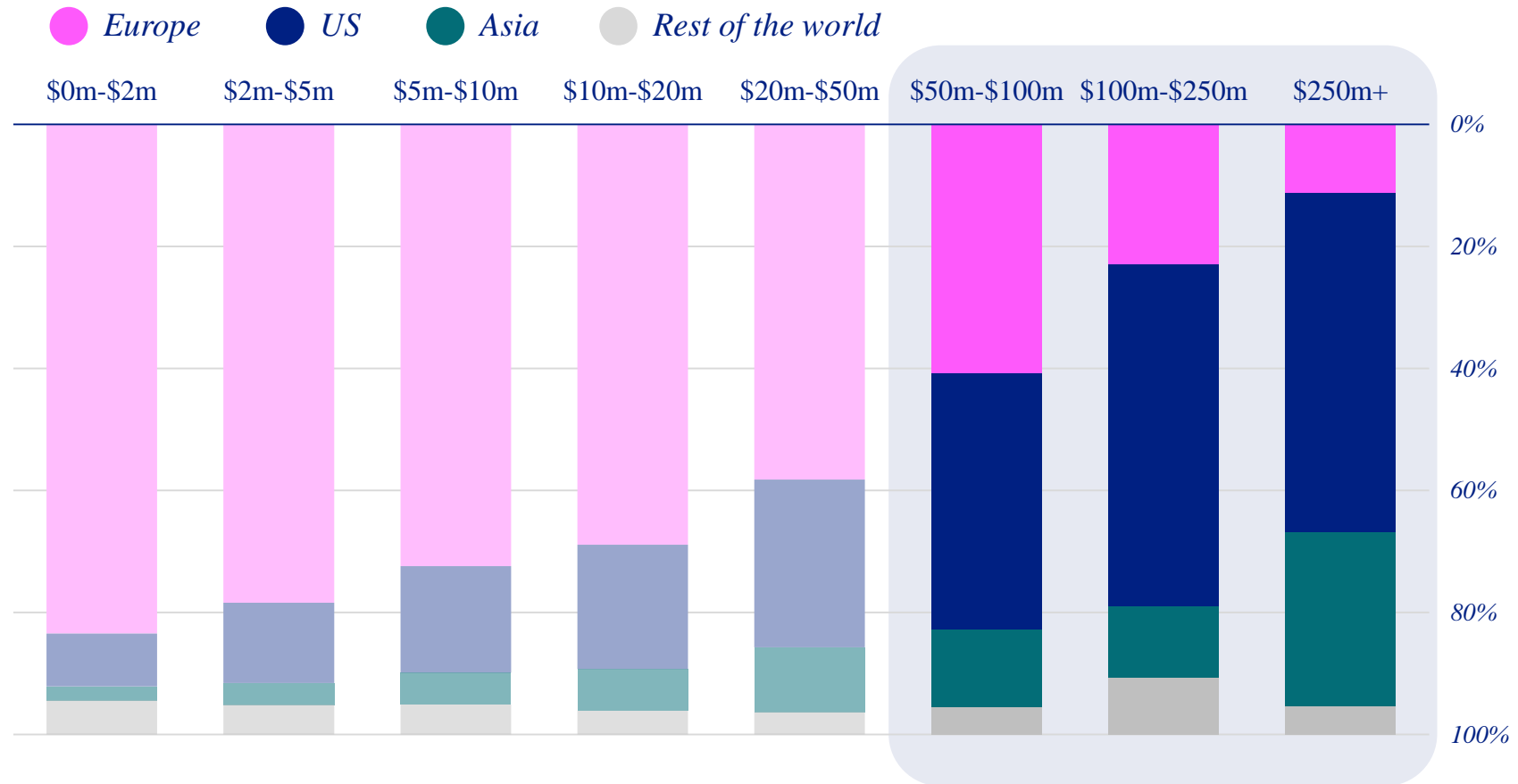
Foreign investors dominate scale up rounds

More than 50% of European late-stage financing rounds come from outside Europe

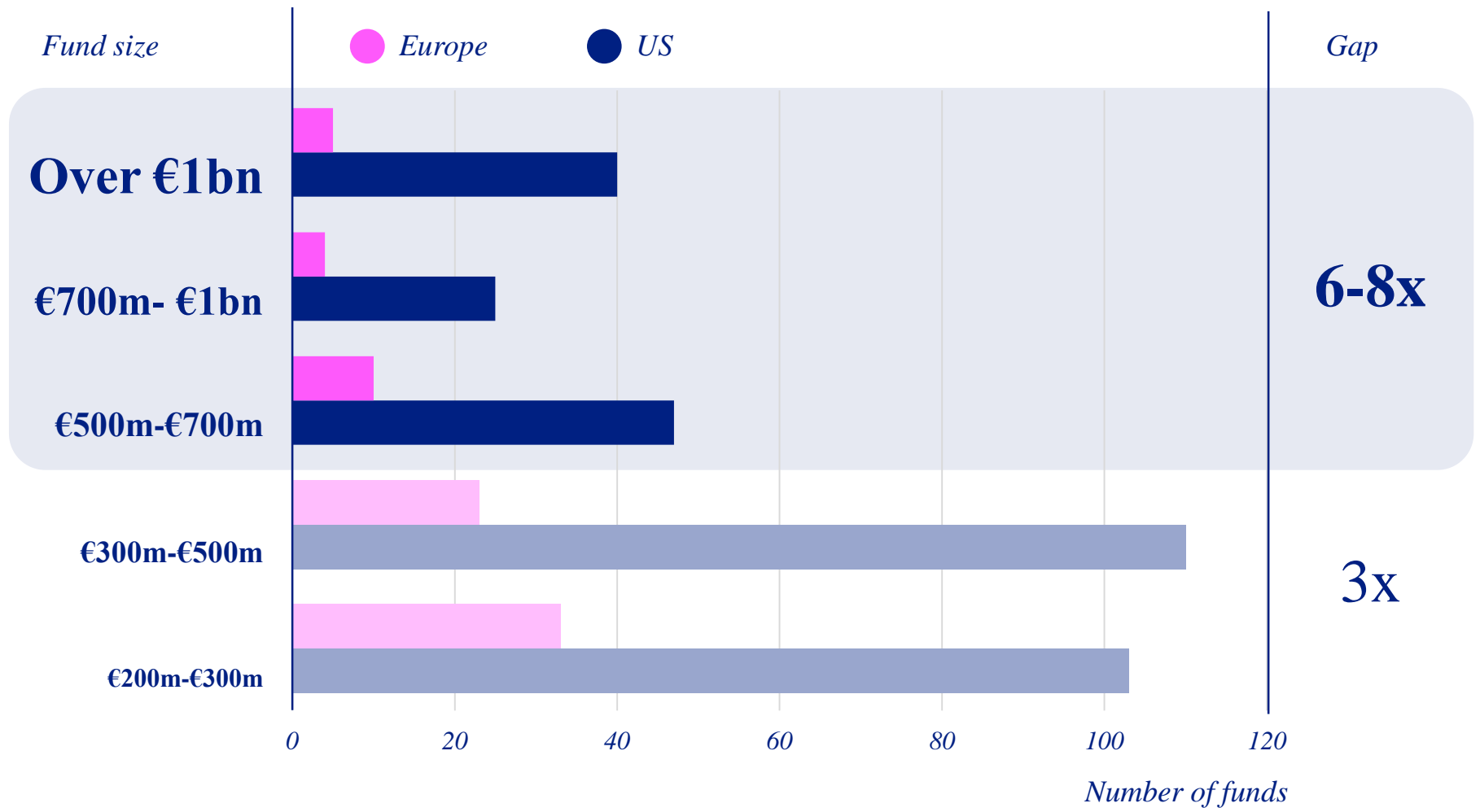
Share of lead / co-lead investors outside EU

	# rounds	Outside EU (%)	From US (%)
Germany	32	66	36
France	40	85	43
Sweden	19	83	55
Finland	11	83	75

Share of capital by round size by region



European late stage VC is lacking scale to compete with the US



The average VC backed US company receives **5X** more than their EU peers

Source: Chart: EIF, based on data from Pitchbook (4 May 2021)

Why is it a problem?

- ❑ Positive to attract foreign capital, however imbalance creates a pull on Europe's best companies
 - Often leads to gradual relocation of activities and ultimately of decision centers

- ❑ Tech markets are global
 - EU start ups compete with US and Asian start ups, however with less capital they cannot scale as fast and they end up being outcompeted
 - Example: share of WW market cap created by public tech companies in semiconductors: Europe: 10%, US: 49%

- ❑ Scale up financing is part of a continuum
 - If exit opportunities are less good in Europe, this has an effect on the overall funding chain, including earlier rounds on the one end and public markets on the other

- ❑ This ultimately impacts the whole economy as technology shapes tomorrow's world
 - Mobile data, energy storage, AI, quantum computing, genomics, digital health, medtech, etc.
 - Talents are attracted elsewhere
 - Productivity and growth are impacted
 - Strategic autonomy at stake

Several initiatives seeking to address the issue

Escalar

- Crowd in investors who would otherwise not have considered the asset class
- Re-enforce the firepower of existing funds already in their investment period, increasing their capacity to back the “winners”

SME IPO Fund

- Support funds with strategies supporting European companies considering an IPO as well as investing in IPOs on EU venues
- Need for those funds to play the critical “anchor investor” role

Initiatives in several member states

- Plan Tibi in France, Zukunftsfond in Germany, etc.

However more needs to be done

Some ingredients for success

- ❑ Publicise the EU's successes
 - Still a stigma associated with European VC as an asset class
 - Improve visibility on performance of European VC
 - Success breeds success: EU entrepreneurs as role models

- ❑ Address hurdles for investors to consider the asset class
 - This is aligned with the agenda of the CMU
 - Not only regulatory capital requirements (Solvency 2, CRR), but also other measures (e.g. foster the development of analysts and asset managers who are tech proficient)

- ❑ Leverage public funds to attract private funds along the funding chain
 - Support the emergence of larger VC funds by scaling up Europe's most promising tech investors
 - Create a favourable ecosystem for the listing of tech companies in Europe
 - Develop secondary markets in VC growth assets
 - Public capital can help attract private capital by proposing an attractive risk / return profile on a temporary basis, to “prime the pump”