The scale-up gap & the Regional Dimension

EURADA – Region of Murcia

Rudy.Aernoudt@ec.europa.eu
Senior economist
European commission, DG GROW
Scale-up is the issue, not start-up

Europe produces about 36 percent of global start-ups but only about 14 percent of the world’s unicorns.

<table>
<thead>
<tr>
<th>Region</th>
<th>VC-backed private companies that raised funding, 2009–19, %</th>
<th>Unicorns, 2019, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>45</td>
<td>50</td>
</tr>
<tr>
<td>Europe¹</td>
<td>36</td>
<td>14</td>
</tr>
<tr>
<td>Asia</td>
<td>17</td>
<td>33</td>
</tr>
<tr>
<td>Latin America</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

raernoudt@gmail.com
# EU and US start-ups and scale-ups

<table>
<thead>
<tr>
<th>Factor</th>
<th>EU Start-ups</th>
<th>EU Scale-ups</th>
<th>US Start-ups</th>
<th>US Scale-ups</th>
</tr>
</thead>
<tbody>
<tr>
<td>External Finance</td>
<td>69</td>
<td>61</td>
<td>72</td>
<td>51</td>
</tr>
<tr>
<td>Small Market</td>
<td>35</td>
<td>46</td>
<td>26</td>
<td>31</td>
</tr>
<tr>
<td>Business Support</td>
<td>29</td>
<td>29</td>
<td>23</td>
<td>21</td>
</tr>
<tr>
<td>Uncertainty</td>
<td>52</td>
<td>56</td>
<td>43</td>
<td>48</td>
</tr>
<tr>
<td>Business Regulation</td>
<td>58</td>
<td>56</td>
<td>43</td>
<td>47</td>
</tr>
<tr>
<td>Availability of Staff</td>
<td>66</td>
<td>72</td>
<td>45</td>
<td>60</td>
</tr>
</tbody>
</table>

SAFE Survey
More start-up than later stage

In the first nine months of this year, European start-ups drew 19 per cent of global venture capital funding, up from 13 per cent in 2020, FT, 8 December 2021

Source: Kraemer-Eis et al. (2021), Invest Europe
Fund size

- EIF: Over 500m funds
  - US: 48
  - Eu: 7
- Dry powder
  - 15 biggest US funds:
    - 500 bi
Tech US-investors move to EU

Post-COVID

- European VC deals with U.S. investors:
  - from 359 (2011) to 1,434 (2021) *Pitchbook*
  - From 2,7 Bn Euro (2011) to 50,8 Bn Euro (2021)
  - US funds in 75% of capital raising rounds in 2020
VC & government (EU-27): too much?

Figure 31: Investor base: Share of government agencies in VC fundraising*

- Government agencies
- Banks
- Capital markets
- Corporate investors
- Family offices & Private individuals
- Fund of funds & Other asset managers
- Academic Inst. / Endowments / Foundations
- Insurance companies
- Pension funds
- Sovereign wealth funds
### Classical co-investment schemes: *Pari passu*

#### Balance sheet of a vc fund

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investees</strong></td>
<td><strong>Equity</strong></td>
</tr>
<tr>
<td>- SMEs</td>
<td>- 30 to 42%</td>
</tr>
<tr>
<td>- Midcaps</td>
<td>- NPBs</td>
</tr>
<tr>
<td>- Blue economy</td>
<td>- EIF/EIB</td>
</tr>
<tr>
<td></td>
<td>- ...</td>
</tr>
</tbody>
</table>

#### Funding mechanism

- Private money
- Public money
- 30 to 42%
- NPBs
- EIF/EIB
- ...
**ESCALAR: non pari-passu altering risk-return relation (EIF manages)**

(European Scale-up Action for Risk capital)

<table>
<thead>
<tr>
<th>Balance sheet</th>
<th>FUNDING MECHANISM</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Venture capital fund</strong></td>
<td>Including Public money</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td><strong>Liabilities</strong></td>
</tr>
<tr>
<td>1. INVESTEES (scale-up companies)</td>
<td>2. EQUITY</td>
</tr>
<tr>
<td></td>
<td>3. Quasi-equity</td>
</tr>
</tbody>
</table>

ESCALAR (with leverage on return enabling to trigger private money)
Complementary approaches

Pari-passu

Non pari-passu

2 types of share-classes:

- **Equity shares**
  - Private: leverage in return – easier to raise money
  - Public: EIF, BPI, ...

- **ESCALAR shares**
  - Capped return
  - Covered risk
  - Pension funds, ...

Co-investment schemes

Danger for crowding out (Public Vc up to 42% - EM-Lyon)

Leverage in volume

Funds remain too small