



Racing for economic leadership EU and US perspectives - debt versus equity -

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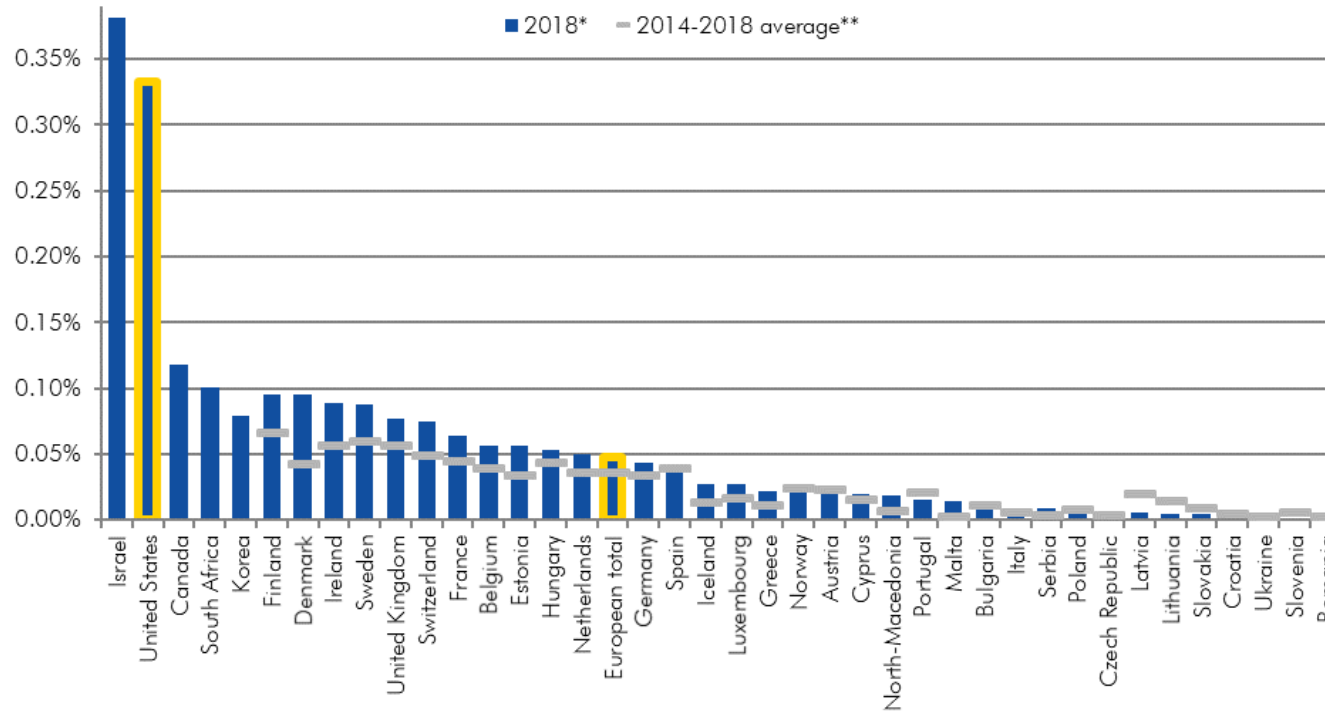
Chief Economist, European Investment Fund (EIF)

New York, 16 October 2019

Equity culture much stronger in US



VC investments by country of portfolio company, % of GDP



Lagging behind key peers

Untapped potential for VC in Europe

European VC market is heterogeneous across countries

*2018, or latest available year.

**2014-2018 average, if available.

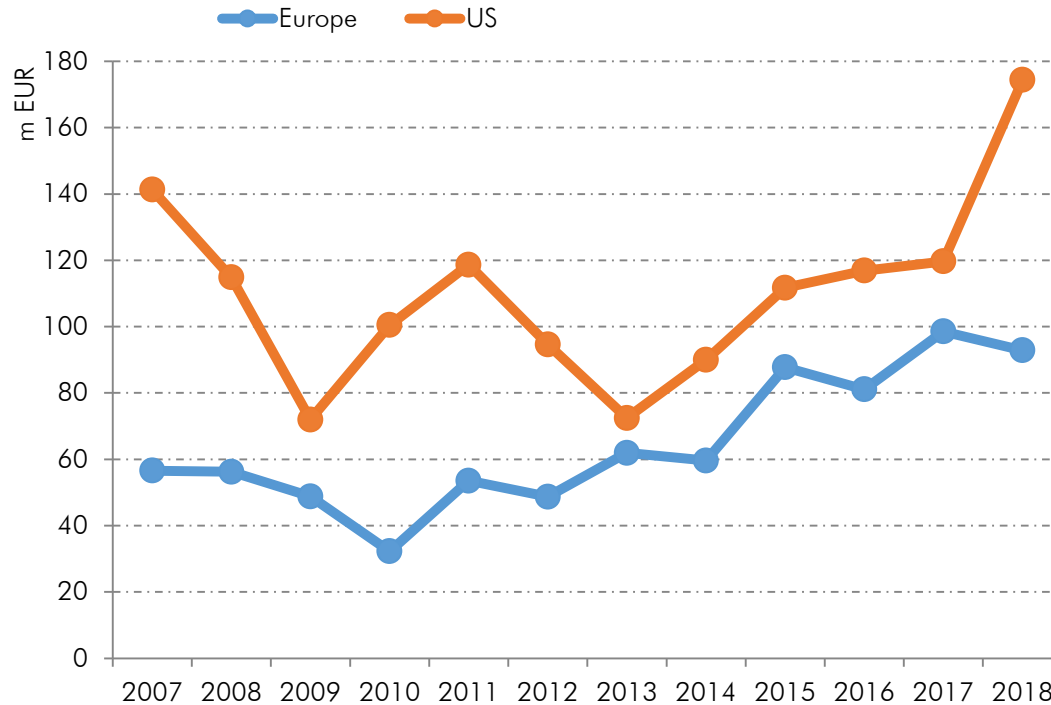
Source: Invest Europe, OECD (2018b)



Equity culture much stronger in US



VC: Average fund sizes



European VC funds remain smaller than US funds

There is a group of US VC funds that is significantly larger than European peers.

Expanding globally, often leading European funding rounds in digital tech.

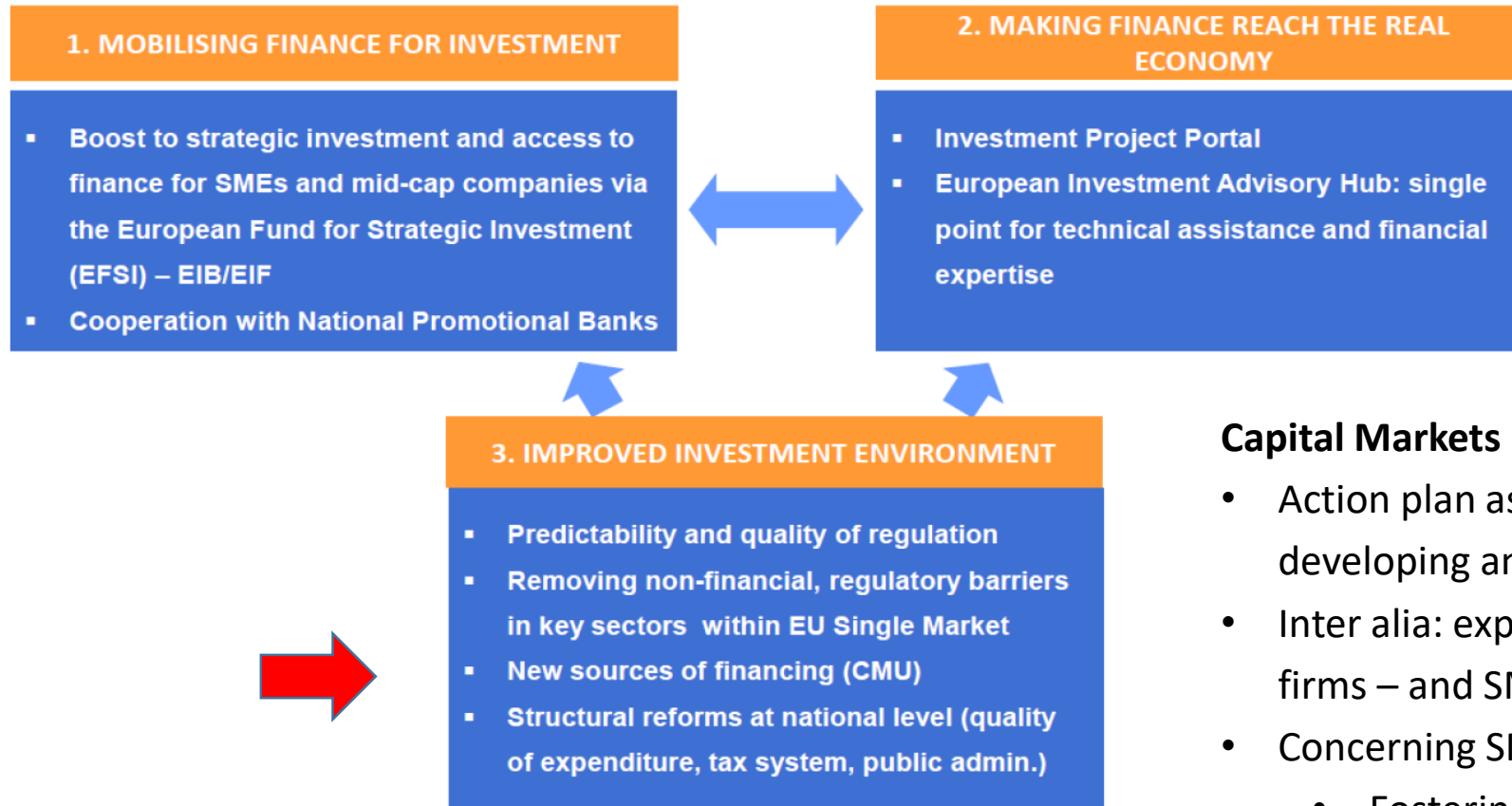
High relevance for scale-up / HGE financing.

Average US VC backed company receives 5x higher amounts compared to European peers.

Superior performance of VC backed startups compared to non-VC backed companies (Pavlova & Signore, 2019)



To remind us: Capital Markets Union as part of the Investment Plan for Europe



Source: EIF Working Paper 2019/57 (June-2019), based on information from European Commission

Capital Markets Union (CMU):

- Action plan as part of the Investment Plan for Europe: developing and integrating the EU financial markets
- Inter alia: expanding the financing options of European firms – and SMEs in particular
- Concerning SMEs, measures related to
 - Fostering bank lending through securitization
 - Alternative financing sources (eg VC and Growth funds, Crowdfunding, Loan originating funds)

US Small Business Administration (SBA):

- Government agency
- Mission: is to maintain and strengthen the nation's economy by enabling the establishment and viability of small businesses (...)



What is needed in Europe?



- Continuous further development of the existing support toolbox in line with market needs (focus on crowding-in!)
- Reboot of the CMU – it's by far not yet done
- SME Equity:
 - Start-up champions with chance and means to scale up
 - IPOs (in general exit environment considered to be weak according to EIF VC survey)
- SME Debt:
 - Alternatives, securitization
- In general: support of sustainable finance!

An ecosystem is needed that allows the start-ups to grow, to scale-up; and that makes it easier for SMEs to access capital markets.





Thank you
... for your attention!



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http://www.eif.org/news_centre/research/index.htm



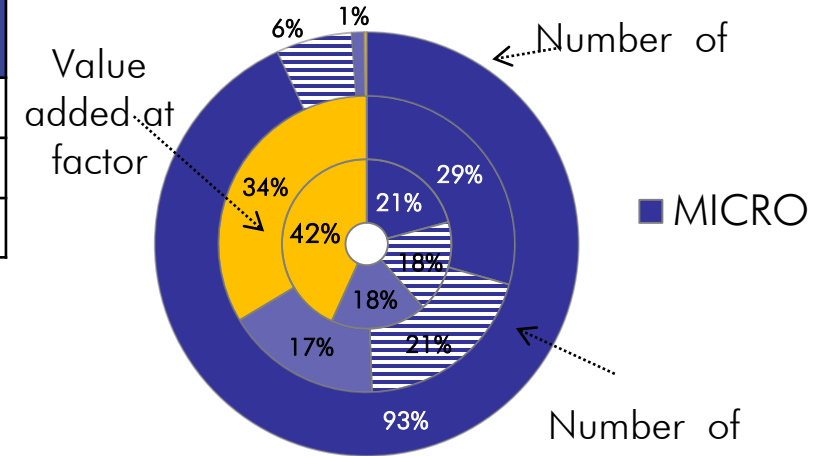
Annex

Importance of SMEs

An essential part of the EU economy



EU definition (EC)	Employees	Annual turnover	or	Balance sheet total
MICRO	<10	≤ EUR 2m		≤ EUR 2m
SMALL	<50	≤ EUR 10m		≤ EUR 10m
MEDIUM-SIZED	<250	≤ EUR 50m		≤ EUR 43m



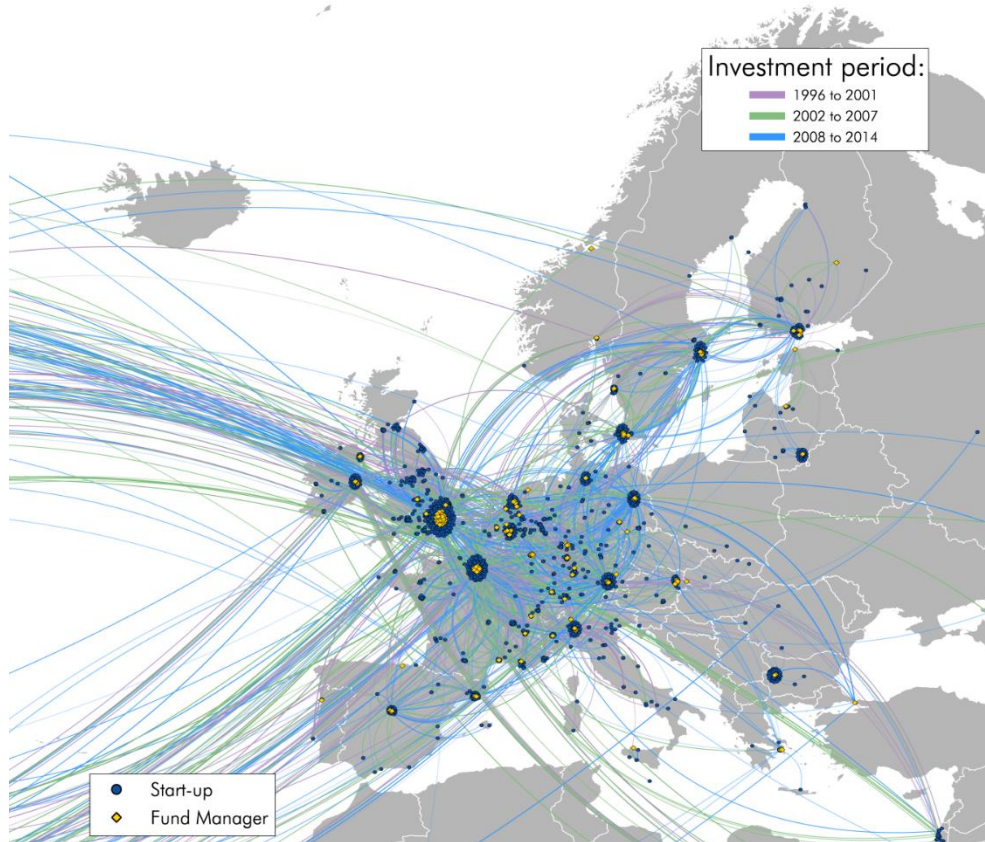
SMEs:

- **99.8% of all companies (approx. 23m)**
- **90m employees (68% of total employment)**
- **A heterogeneous group with a range of different financing needs**



A bird's eye view

EIF-backed VC investments



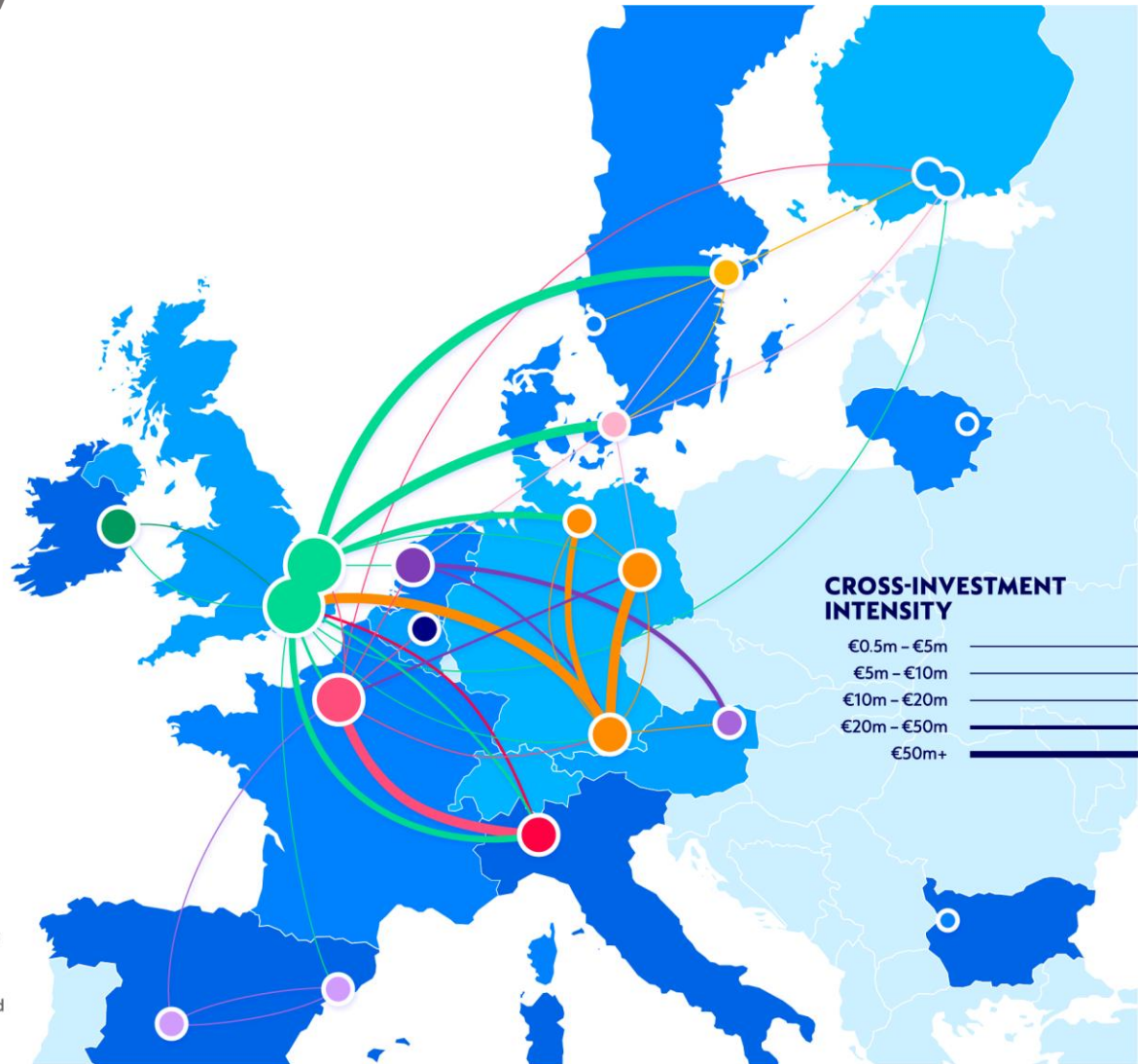
- **Geolocation of EIF-backed seed and start-up companies and the VC firms headquarters.**
- **EIF supported a dense network of VC firms and start-ups, spanning throughout Europe and evolving over time.**
- **Remarkable features of this network relate to both concentration and dispersion.**

European VC hubs

The backbone of the ecosystem



- **VC hubs communicate: consistent cross-investment routes among mature hubs.**
- **Hubs originated 83% of all invested amounts. 63% invested within national borders, 37% cross-border.**
- **Through promotion of cross-border oriented VC firms, EIF supports the build-up of an European VC market.**



Cross-investment source: EIF Research, The European venture capital landscape: an EIF perspective — Volume I: The impact of EIF on the VC ecosystem, EIF Working Paper 2016/34.

Note: 'Spurious' links, (i.e. single investments over the analysed period) excluded from the representation.