

Public Equity Capital Sources in Germany

Certain business situations call for, or even require, an injection of equity capital instead of debt capital. Equity is the owner's capital and therefore represents capital at risk. A solid equity capital foundation increases the company's flexibility in executing its objectives and opens up access to other sources of financing on better terms.

Start-ups and technology companies are often financed by a high degree of equity. However, equity capital also represents an efficient method of business activity financing for companies from the classical industry sectors. In Germany, equity capital from public sources is available from a number of different investor channels.

National Level Activity

The KfW Group provides equity capital as part of its economic development programs. Equity capital is provided through different channels, for example, through the *High-Tech Gründerfonds* (HTGF - "High-Tech Start-up Fund") specialized on financing the seed phase of a company or through the coparion GmbH & Co. KG, focusing on the start-up and early growth phase of a company.

In 2018, a total of EUR 1.37 billion in venture capital was invested in young companies in Germany.

BVK – German Private Equity and Venture Capital Association e.V.

High-Tech Gründerfonds (HTGF)

The HTGF is the largest and most active seed stage fund in Germany focusing on technology driven start-ups. The initial investment totals EUR 1,000,000. The HTGF has financed more than 600 high-tech start-ups in the last 14 years. Seventy-five portfolio companies have successfully exited since then – proof positive of the HTGF's importance in providing capital to Germany's thriving start-up scene. The maximum possible HTGF investment level available amounts to EUR 2 million per enterprise. *High-Tech Gründerfonds* support goes beyond providing money for realizing new business ideas. It also offers a high level of technology expertise, a broad network of scouts and capital providers to secure further growth of the new company after the seed phase. Besides the KfW and the Federal Ministry for Economic Affairs and Energy, more than 33 renowned German corporations have provided capital to the fund.

coparion GmbH & Co. KG

KfW's coparion GmbH & Co. KG offers young and innovative companies in the start-up and early growth phases direct access to funds of up to EUR 10 million in several rounds. Coparion adheres to a principle of investing in companies who have their headquarters in Germany, and together with other investors subject to the same conditions and amounts. With assets of EUR 225 million under management, coparion has the required flexibility to invest in promising businesses.

KfW Group Venture Capital Initiative

From 2018 on, the KfW Group will concentrate its venture capital activities within a new KfW subsidiary. Its main focus will lie in optimizing the accessibility of VC for innovative start-ups with a focus on high-tech developments. VC will be channeled to start-ups via investments in venture capital funds and venture debt funds. With the newly founded subsidiary the KfW will coordinate all its VC activities e.g. in the HTGF and coparion GmbH & Co. KG. For the VC activities of the KfW initiative EUR 200 million is available annually.

Public Private Equity Capital Provider Conditions

	coparion GmbH & Co. KG	High-Tech Gründerfonds (HTGF)
Established	2016	2005
Financing	Money provided through special EU funds, KfW	Federal Ministry for Economic Affairs and Energy, KfW, more than 33 commercial enterprises
Fund volume	EUR 225 million	EUR 900 million
Available investment volume per start-up	max. EUR 10 million	max. EUR 3 million
Average investment amount	EUR 0.5 – 5 million	EUR 1.5 million
Company development phase	A, B, C series	Seed financing
Type of investment	Co-investment	Autonomous investment

Source: fuer-gruender.de 2020

Federal State Level Activity

Public Venture Capital Companies

Venture capital companies (VC) in the federal states offer equity financing to young and innovative enterprises to support early stage development. These VCs act as subsidiaries of the development banks of the federal states and support companies actively by providing risk capital as well as management and industry knowledge for their further development. The investment focus is on innovation and is mainly in industry sectors including ICT, life sciences, and new materials. Subject to the regulations of the individual venture capital company, financing volumes of up to EUR 5 million are achievable.

Public-Private Equity Companies

For established companies seeking to finance further growth, but for start-ups as well, *Mittelständische Beteiligungsgesellschaften* (MBGs - "Public-Private Equity Companies for Small and Medium-Sized Enterprises") are available as financing partners in the federal states. As independent institutes, they are supported by the federal states. MBGs operate primarily through silent participation through the provision of subordinated capital. They have no investment focus on special industry sectors. An equity searching company can expect a financing volume of up to EUR 3 million. It is characteristic that the individual MBGs are only active in their respective federal state. They do not operate to maximize profits. A further advantage of financing by equity capital from the federal state MBGs for companies is that they have easier access to the financing network of the respective development bank. That is why they are an important instrument for the economic development policy of the federal states.

Choosing Appropriate Equity Providers

Depending on a company's growth phase status as well as its industry sector, different amounts of equity capital will be needed. A start-up is normally looking for seed financing for market entry. In this case, the selection of a venture capital provider is a suitable solution. A growing enterprise with a sound track record usually needs higher amounts of capital in order to further expand. MBGs are in place to offer higher volumes of capital for expansion financing. So called "pitch events" are one way of getting in touch with venture capital companies. Enterprises in a later stage of development are often contacted directly by providers of equity capital looking for investment opportunities. They may also contact equity capital providers directly. GTAI's financing experts support investors in identifying potential equity partners according to their company's development stage.

At a Glance

- Public equity companies at federal state level and national level
- Up to EUR 10 million investment
- Capital available for companies in different life cycle stages

Qualifying for Equity Capital: HTGF's Four-Step Evaluation Process

Each equity provider establishes different procedures to qualify entrepreneurs for equity capital financing. The following example outlines the HTGF's four step evaluation process.

Step 1: Business Plan Submission

Entrepreneurs requiring support during the business plan development stage are provided support through the HTGF's partner network including, e.g., universities, private equity providers and media partners.

Step 2: Documentation, Evaluation and Personal Introduction

HTGF evaluates all documents and personally contacts the entrepreneur. When the business idea and fund requirements meet HTGF investment criteria, a term sheet with the conditions of HTGF investments will be provided. Due diligence begins once this has been signed.

Step 3: Due Diligence

HTGF examines the business concept in detail (IP, market potential, financial planning, personnel and management team qualification etc.). In the event of a positive approval outcome, HTGF sends an investment recommendation to the responsible investment committee.

Step 4: Investment Committee

One of three industry-specialized investment committees, as the final decision-making instance, will decide on the investment based on the due diligence results. Entrepreneurs receive an immediate confirmation after their successful investment presentation.



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