

Venture Capital in Germany: Better than its Reputation

Preconceptions often stop institutional investors investing in German venture capital. Yet, Germany as venture capital location is much better than it is reputed to be and has huge growth potential. This is the conclusion reached by a study recently conducted by Mackewicz & Partner.

Measured in terms of innovation potential, Germany needs to take a quantum leap in venture capital. Germany will only be able to match Great Britain's level of venture capital investment, for example, if it triples current VC investments. This discrepancy is one of the key findings of a comprehensive study conducted by Mackewicz & Partner: "Why invest in German Venture Capital?" As part of an indepth analysis, institutional investors and entrepreneurs were surveyed on their assessment of Germany as venture capital location. The study also includes an overview of current conditions and existing technology potentials in Germany.

Study findings show that the German VC industry has increased its professionalism in the last five years. Tax legislation has been laid down – the uncertainty of the past years has been removed from the market. On the company side, the number of experienced entrepreneurs is growing and there are even some "serial entrepreneurs", that can build high-growth technology companies professionally with the help of venture capital. There are more than enough high-quality investment opportunities, not least because of the high technology potentials in fields like medical technology, energy and environmental technology, laser/photonics, nanotechnology and wireless applications. Moreover, companies that are already established, but under-financed, create an opportunity for short-term investment with high returns potential. "The investment conditions are ideal", sums up Götz Hoyer from Mackewicz & Partner.

Nevertheless, compared to the far larger Anglo-Saxon VC market, Germany still counts as an *"emerging market"* – but one that offers high growth potential. Although local investors are still somewhat reticent, foreign institutions seem to have a better feel for the opportunities in the German VC market. The fact that new funds have been set up successfully is mainly due to the flow of capital from foreign investors. But IPOs are still a bottleneck here. However, this is not due to a structural problem in Germany, but far more because of a temporary lack of demand for shares.

There has never been a better time for institutional investors to focus on venture capital. Initial valuations of venture companies, which play a key role in determining returns on VC investments, are at an all-time low. At the same time, it is becoming apparent that only the best fund managers are surviving industry consolidation. Uwe Fleischhauer, Mackewicz & Partner says "We expect 15 to 20 leading VC firms to establish themselves in Germany." The performance of the six most successful venture capital funds in the last two decades clearly show that venture capital can indeed work in Germany: These funds achieved an average annual 73% internal rate of return for their investors.

Additional information:

The study and a summary in presentation form are available on request.

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