



GründerZeiten 28

Start-ups: Financing and venture capital



09/2017 Start-ups: Financing and venture capital

Grants, loans, guarantees, equity and expertise: The Federal Ministry for Economic Affairs and Energy (Bundesministerium für Wirtschaft und Energie) offers support to start-ups in technology and in the life sciences, so that they can turn their promising ideas into successful businesses.

Germany has a whole host of large financing instruments in place, all of them tailored to the various needs of innovative start-ups. The Federal Ministry for Economic Affairs and Energy, the ERP Special Fund administered by this ministry, the German states (Länder) and their promotional banks, and private investors such as business angels and venture capital firms are there to support start-ups throughout the various stages of their development.

Start-ups are innovative and fast-growing

According to the definition used by the German Startups Association start-ups are companies that are

- younger than ten years, and
- based on technologies and/or business models that are (highly) innovative and/or
- posting or seeking to post significant growth in their workforce and/or turnover.

The definition is not restricted to any particular sector and can cover any new entrepreneur. In terms of their overall economic importance, these innovative start-ups are particularly known as job engines. The KfW Group has found that the average firm established less than a year ago employs 0.8 staff. This compares to an average figure of 3.5 for start-ups, as has been established by the 2016 Startup Monitor. Beyond this, today's start-ups are our future hidden champions – companies that belong to the German Mittelstand and whose pioneering products and services lead the way on the international markets.

Financing to sustain start-ups during the seed and growth stages

Start-ups rely on reliable financing tailored to their needs as they go through the seed, growth, and internationalisation stages. This is why the Federal Ministry for Economic Affairs and Energy provides not only the usual grants and guarantees that can be used as collateral, but also dedicated financing instruments designed to suit the needs of innovative, technology-driven start-ups.

These instruments were created in recognition of the fact that start-ups rarely take out bank loans, which are the 'traditional' form of funding for new companies in Germany. This is especially true of start-ups in their pre-seed and seed stages. This is due to the fact that it is often very difficult for banks and savings banks to assess the quality of innovative business models and technologies and estimate their market potential.

This is further exacerbated by the fact that start-ups tend to require large amounts of capital and to have little to offer in terms of collateral. In addition to this, it often takes years for start-ups from university and research institutions to develop and finetune their technological or life science products and processes to the point where they can be sold on the market and allow the company to turn a profit.

The Federal Ministry for Economic Affairs and Energy has therefore created targeted funding instruments for innovative start-ups and supports them as they

- develop their business plans
- conduct research and development activities that allow them to finetune their product or service and upscale their production
- invest in technical equipment needed to enter the market
- market their products and services and build a distribution network
- venture into international markets

Types of support available to start-ups

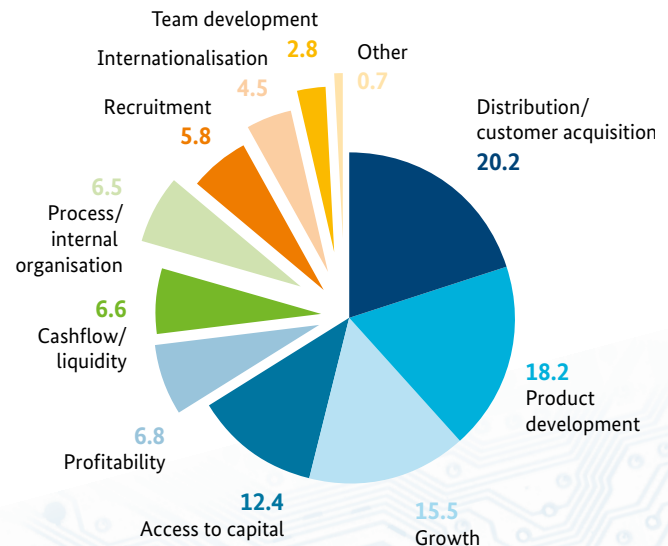
Financial support

- Grants
- Equity investment
- Promotional loans
- Guarantees

Expertise

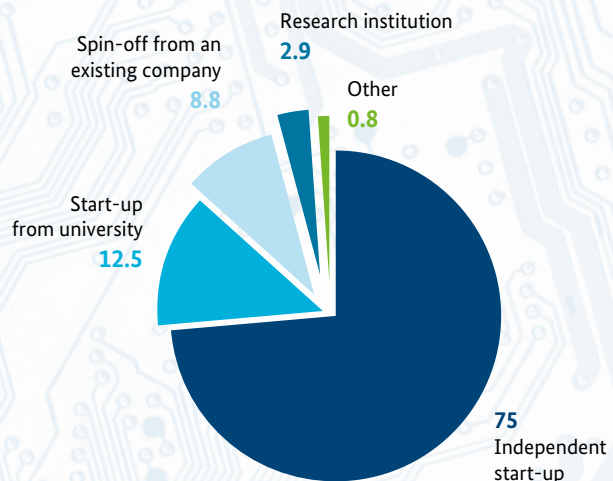
- seeking advice
- Contests and awards
- Initiatives

Challenges start-ups currently face (in %)



n-Wert = 876
Reference: KPMG/German Startups Association (KPMG/Bundesverband Deutsche Startups e. V.); German Startup Monitor 2016

Where do start-ups come from? (in %)



Reference: KPMG/German Startups Association (KPMG/Bundesverband Deutsche Startups e. V.); German Startup Monitor 2016

Financing for the different stages in the development of start-ups



The tools developed by the Federal Ministry for Economic Affairs and Energy and the ERP Special Fund to support start-ups and give them access to finance have been designed for the three initial stages of development that innovative start-ups typically go through.

Venture capitalists refer to these stages as the pre-seed, seed and growth stages.

The pre-seed stage covers all the activities before the new company is actually launched. This is the stage at which the new team of entrepreneurs is formed. Prospective entrepreneurs get together and recruit additional team members to ensure the company will have all the skills it needs. This is also when the business model is developed. Product design continues, sometimes up to the point where a prototype can be produced. The team draft their business plan or business canvas, ensure they will have access to financing for the next steps, and contact potential investors. They acquire pilot customers, distribution and cooperation partners, and hire the staff they need for product development.

How much capital the start-up needs will depend on the product. Science start-ups tend to need high amounts of financing, not least because they usually need to build a prototype. There are public-sector support programmes for start-ups in the pre-seed stage.

Seed stage: This is the stage at which the company is established and at which additional adjustments are made to product. Ideally, this is done in cooperation with potential clients. The business plan needs constant adjustment at this stage; depending on how fast the company is growing, it may be necessary for the team to contact potential investors in preparation of the next round of financing. The new company will hire new staff. It will take some initial steps towards launching the

product on the domestic market and sometimes internationally. The company will need to build its marketing and distribution channels.

This is the stage where the entrepreneurs must foot the bill for the establishment of the company and for any associated consultancy services. These costs, however, will often be dwarfed by the costs for further product development and marketing. At this stage, companies can draw on public-sector financing programmes or turn to business angels that can offer both capital and expertise. Crowdfunding can also be an option.

Growth stage: This is when the company will scale up its production and, even more importantly, its distribution. New staff will be hired. It is becoming increasingly important for the company to gain a foothold on international markets. The company will get additional investors on board. Turnover will increase, but the start-up will usually not turn a profit yet. However, this is the stage during which the company should at least reach its breakeven point. Additional investments will be made, notably to expand the distribution network and to further develop the company's products. The financing for this will be provided by business angels or VC firms, perhaps with some additional public-sector funding.

This way of dividing a start-up's development into three stages is not set in stone. The pre-seed and seed stages are sometimes seen as one and referred to as the early stage, whilst the growth stage can also be called the expansion phase. The length of the individual stages will depend on the speed at which the individual start-up develops. It can range from a few months' time to several years.



» Incentives for entrepreneurship will be the greatest when economic policy focuses on improving the business environment in general. The overall positive effects will be all the greater if economic policy is used to highlight the potential of small and medium-sized compa-

nies – a category which includes young, innovative firms – for the country's economic and social development, rather than to make up for disadvantages [these companies face]. It is therefore important to have policies in place that focus on providing a stable framework that allows all types of small and medium-sized companies, including start-ups, to plan ahead so that they can focus on their core business and harness their full potential."

Prof. Dr Friederike Welter, Head of the Advisory Board for EXIST and President of the Institute for SME Research (IfM), Bonn

Pre-seed stage: Financing for start-ups-to-be

Every start-up starts with a great idea. And with an important question: How can we translate this promising idea into a successful business model? What do we need to put our idea into practice?

It takes a great deal of time and money to launch an innovative, technology-driven start-up. The process can last a few months or even several years. Throughout this time, the prospective entrepreneurs need to find a way to cover their own personal costs and finance their staff's salaries and all of the technical equipment and the materials needed for the new business. The Federal Ministry for Economic Affairs and Energy therefore provides grants to start-ups in this stage of their development and also supports them with business expertise.

This is chiefly done through the ministry's EXIST – University-Based Business Start-Ups programme and the 'Digital innovations' competition for business start-ups.

EXIST – Business start-ups in science

EXIST is aimed at graduates, (former) research associates, students and doctoral students who have come up with a promising idea that they want to turn into a business. EXIST is there to help them underpin this idea with a viable business model and create a product that is ready to be sold on the market.

For start-ups in technology and science: EXIST Start-up Grant (EXIST-Gründerstipendium)

The year 2016 saw the 1,500th EXIST start-up grant being awarded since the programme's establishment in 2007. It went to 'integrAi.de', a start-up that has its origins at the University of Würzburg and specialises in developing services that will allow municipalities to speed up and improve the process of integrating refugees in the labour market. Voluntary workers acting as 'job coaches' receive training preparing them for these tasks, and there is also a special software programme that allows people to be placed into positions that match their skills. EXIST start-up

» The EXIST start-up grant is one of the main reasons why our company has been able to develop well. It made it possible for us to take the time we needed to get our prototype right. It also gave us the time to work on the details, go back to re-think and refine them, and talk to our potential customers.



Silke Kärcher, feelSpace GmbH



grants are subject to the following requirements: Grants are available to start-ups whose business model centres on an innovative, technology-driven or science-based idea. This must be clearly demonstrated in the application, which the relevant higher-education institute or research institution submits to Projektträger Jülich (Jülich project management). "We're looking for innovative start-up teams that have not only the necessary expertise in science and technology, but also the business and entrepreneurial skills", says Dietrich Hoffmann, who heads up the division for business start-ups at Projektträger Jülich. This is why the team must state in their grant application if and to what extent this line of expertise is represented on the team.

"We often see start-ups that have not analysed the competitive environment as rigorously as they should have", Mr Hoffmann says, going on to say: "It is important to prepare for a situation whereby competitors may launch products or services of their own, and to set yourself apart. We cannot approve any applications for EXIST start-up grants unless the start-up can demonstrate its USPs and a clear benefit to the customer."

Once a start-up has had its application for an EXIST start-up grant approved, the team have a whole twelve months to thoroughly prepare for the launch of their company. The grant includes an allowance to cover the teams' living costs and a budget for materials and consultancy services. Expertise and networking play an important role in the EXIST programme. The start-up networks of the higher-education institutes involved provide not only working and meeting space for start-up teams, but also expertise and advice.

For further information, go to www.exist.de

For research-based start-ups: EXIST research transfer (EXIST-Forschungstransfer)

It takes time and money to translate complex results of innovative research into marketable products or processes and bring them to market. To be more precise, we're talking several

years and single millions or tens of millions of euros. And yet there are many reasons why it can still be worthwhile for scientists to become entrepreneurs. The EXIST research transfer programme is there to facilitate this process. This extensive support is reserved for extraordinary, research-based start-ups whose projects depend on development work that requires a great deal of resources and comes with substantial risks. “The EXIST research transfer programme is designed to translate scientific findings into technical products and processes, to turn the business idea based upon these into a fully-fledged business plan, and to prepare for the launch of the company”, says Dietrich Hoffmann, who heads up the division for business start-ups at Projektträger Jülich. “The second stage of the funding focuses on undertaking further development work, preparing for the beginning of operations, and putting the start-up into situation whereby it meets the requirements for external financing.” Under the programme, teams of start-up entrepreneurs can receive grants that will cover their own personal living costs as well as expenditure on staff and materials. These grants are provided for up to three years. The team of entrepreneurs can also use the infrastructure provided by their higher-education institute or research institution. They will also benefit from attending events and personal meetings with experts, all designed to prepare the new entrepreneurs for their role as business leaders.

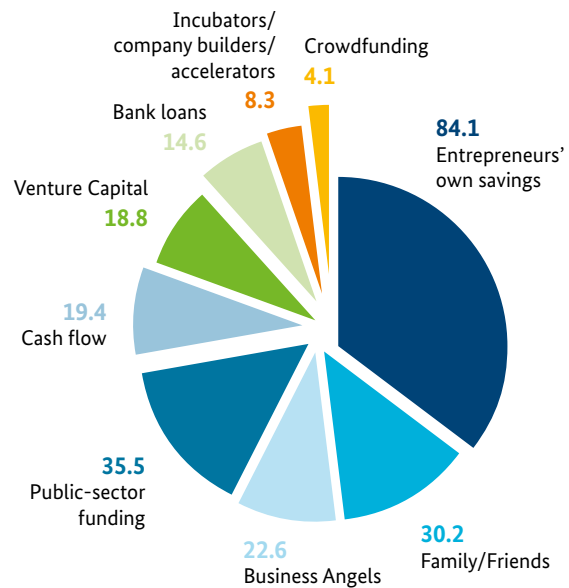
The EXIST Start-up grant and the Exist research transfer programme are being co-financed by the European Social Fund. For further information, go to www.exist.de

The “Digital Innovations Start-up Competition” (Gründerwettbewerb – Digitale Innovationen)

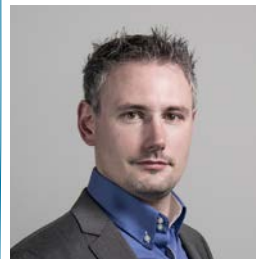
More than 2,400 applications over ten rounds, and some 670 new companies set up between 2010 and 2015. That’s the impressive track-record of the competition for start-ups in the ICT sector presented by the Federal Ministry for Economic Affairs and Energy. It won’t come as a surprise that many of the start-ups that receive funding under the EXIST programme participate in the competition. They are doing so not just for the prize money up for grabs – up to €32,000. All participants in the competition can benefit from various coaching sessions, starting with a one-day Business Model Assessment that sees their business idea coming under scrutiny, followed by individual coaching and the option of participating in seminars targeted at ICT start-ups. Successful participation in the competition also helps companies build a positive image, says Wolfram Groß, Project Manager of the ‘Digital Innovations’ competition for business start-ups at VDI/VDE Innovation + Technik GmbH: “Success in the start-up competition will raise the profile of the young companies, not least in the eyes of prospective business partners and with the investors they need to finance the process of building a company.” In this way, the competition also helps start-ups acquire investments. Every year, there are two rounds of the competition, which is open to (prospective) start-up entrepreneurs. Regardless of how successful they are in the competition, all participating start-ups receive a written analysis of the strengths and weaknesses of their business idea.

For further information, go to www.gruenderwettbewerb.de

Where start-ups get their financing from (in %/multiple answers possible)



Reference: KPMG/German Startups Association (KPMG/Bundesverband Deutsche Startups e. V.): German Startup Monitor 2016



» EXIST put us on track for the best possible start. Not being under financial pressure meant that we were able to focus 100% of our attention on the product. Our product wasn’t designed in a vacuum, but carefully adjusted to suit the requirements of medical practice.

The second important advantage offered by the EXIST programme is that it provides financial support for research and development. This has meant that we were able to focus on creating something that is essential for anyone launching a successful business: a sound prototype that is ready to go into production

Dr Carsten C. Mahrenholz, Coldplasmatech GmbH



» Winning the ‘start-up competition’ served as encouragement to us, showing that we are on the right track. We benefitted a great deal from the highly-qualified coaching network and the range of seminars on offer, and from inspiring talks we had with other young entrepreneurs.

Caroline Dabels, AmbiGate GmbH

Securing follow-up financing



Those providing capital and professional advice to new entrepreneurs often find that these start-ups run out of financing once they have completed the pre-seed stage and have to exit the market before they have actually entered it.

The most likely reason for this is a lack of forward-planning on the part of the entrepreneurs, who do not start looking into the issue of follow-up financing until they are running out of time. Give yourselves six to eight months to prepare properly for this round of financing. Start-ups at this stage of their development ought to proceed as follows:

Estimate the amount of investment needed and the amount of operating costs

At this early time in the process, this is not about calculating the exact amounts. But you ought to have some idea of how much capital you will need. Talk to your start-up coach or advisor. What investments and operating costs need financing once the business plan or the initial business canvas and the financial planning have been completed? For how long? You should make use of the pre-seed stage to underpin your financial planning with well-informed figures that are realistic as possible. This will allow you to project your company's turnover, need for capital, liquidity levels and profitability for the next three to five years.

Assess your company's innovation rate and the rate at which it is likely to grow

How much additional development work will it take to bring the product or service to market? Will the process of turning the business idea into a service or product be fairly straightforward? Will you be able to quickly find customers for it? Or is there a need for additional R&D work before you can start selling? What is the extent of 'growth pressure' within the industry? How scalable is your business idea? All these questions are key when it comes to choosing the right type of financing and planning ahead.

Give your company a structure and a growth strategy

Many former start-up entrepreneurs say that they underestimated the amount of time and effort needed to get their company going. Often you will find that you cannot actually sell your product or service until you have met specific customer demands and requirements. In any case, you will have to have countless meetings, sign contracts, gear up your marketing machine, acquire new customers etc. Allow plenty of time for all the important milestones.

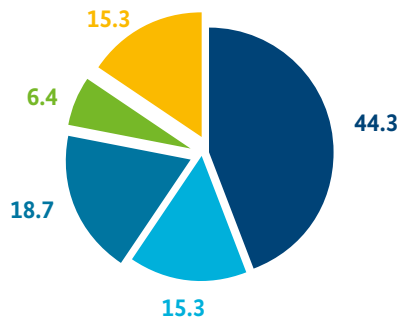
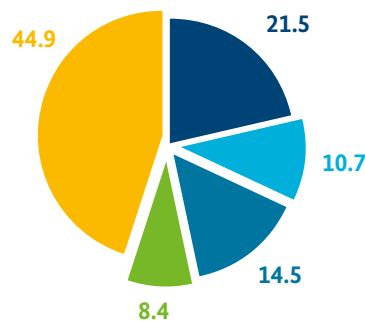
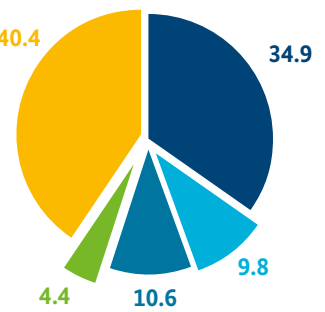
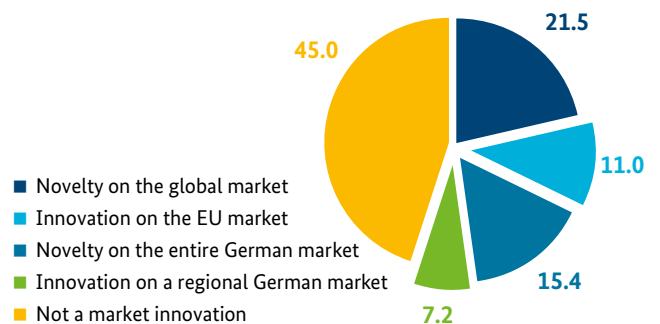
Do your research when it comes to financing and funding

There are manifold types of financing and funding instruments available, ranging from the triple-f model (family, friends, and fools) to crowdfunding and crowd investment, to equity financing and bank loans. It may well make sense to work with several investors at a time. Having two or three business angels on board, for instance, means having more capital and also more business expertise. That's what you call smart money. Then there are the equity programmes organised by federal and European (promotional) banks and institutions. These include the High-Tech Start-Up Fund, a public-private partnership formed by the Federal Ministry for Economic Affairs and Energy, KfW and others, that is now Germany's largest early-stage investor, and the co-investment fund 'coparion', which was established by the ERP Special Fund and KfW in spring 2016 and has a volume of €225 million. Funding can also be obtained under the programmes operated by the promotional banks of the *Länder*, or from SME venture capital companies that operate at *Länder* level.



» Even though there are major differences between public equity providers, business angels and VC firms and the extent to which they look for profit, teams [of entrepreneurs] will always be expected to provide detailed and plausible information regarding the sales potential of what they have on offer. Founders must also be well aware of what it means to offer external partners a stake in their company. Some may see this as an advantage and a form of acquiring business expertise. Others can't handle it, because they don't like having someone else have a say in their company. This is a decision that has to be taken beforehand.

Dr Alex von Frankenberg, Managing Director of the High-Tech Start-Up Fund (High-Tech Gründerfonds)

Start-up innovation rate (in %)**Product****Business model****Technology****Processes**

Reference: KPMG/German Startups Association (KPMG/Bundesverband Deutsche Startups e. V.): German Startup Monitor 2016

Select the type of financing that is right for your company

The best way of doing this is to have some informal talks with promotional banks and financial institutions. This will give you greater clarity as to which of the financing options fit your project at the relevant stage in your start-up's development. There is one mistake that is still commonly made by teams of start-up entrepreneurs, and that should definitely be avoided, says Robert Schlösser, Director at the KfW Banking Group: "Sending mass emails to business angels and other private investors all over the country is a total no-go". The number of potential investors in early-stage start-ups is fairly limited, and these investors are part of a close network. It therefore makes good sense to think carefully about whether it is wise to approach a certain investor, and to choose a personal form of address. After all, the quest is not only for capital, but for someone you can discuss your business with for the duration of the financing round."



» Start-up teams ought to perfectly prepare for their first contact with a business angel. Otherwise other investors will soon hear about the poor pitch. The teams need to know the answers to the questions they are likely to face, how they

want to make money, who in the team is to cover which skills, what references they will be asked for, and – this is crucial – what they themselves expect of a prospective investor.

Dr Ute Günther, Board of the German Business Angels Network (Business Angels Netzwerk Deutschland, BAND)

Prepare for financing

No matter what form of financing or funding you are going for, these are some questions you have to be able to answer: Will you be able to meet your need for capital? For how long? What are the requirements your start-up must meet? When at the latest will you be able to access the money? At this stage of the start-up's development, most teams will not yet have built a marketing track record. This is why investors and financial backers will have a close look at the composition of the team and its future staff. It is important that the start-up has all the skills it will need and that core responsibilities such as sales, marketing and controlling have been assigned.

Finalise contracts for the first round of financing

All of the relevant requirements ought to be met around three months before the end of the pre-seed stage. At this point, the articles of association should have been formally agreed and the company registered, and all questions revolving around the investment contract resolved. Once this is the case, the contracts for the first round of financing can be signed, which should guarantee a smooth transition to the next stage.

Seed stage: Finance the launch of the company



The seed or start-up stage is when things really get going. The company is now formally established and must prove that it is able to successfully compete on the market.

The team will put the finishing touches on its product or process, to make it ready for the market. It will build its manufacturing and sales divisions and hire additional staff. Much of its efforts will be focused on acquiring new customers and it is common for start-ups to require additional rounds of financing at this stage. This is because the marketing and sales divisions, in particular, tend to be quite capital-intensive to set up. Some start-ups, especially in the IT sector, will not limit themselves to the German market but try to internationalise early on. In parallel, the start-up will also have to finance additional development work, the team's own living expenses and their staff's salaries, and consultancy services. The Federal Ministry for Economic Affairs and Energy and the ERP Special Fund support innovative start-ups at this stage of their development by giving them access to private equity, low-interest loans (in some cases complete with a guarantee), and expertise.

Private equity

Private equity and venture capital. This is how it works: one or several investors will bring some of their capital to a start-up. For the team, this comes with the advantage that they do not have to provide collateral. All that counts is their idea, the team themselves, and their business model. Furthermore, private equity will be treated the same as equity in accounting terms. This makes it easier for the start-up to acquire additional financing. There is a reason why equity investments are sometimes referred to as 'smart money'. In many cases, the investors will lend their business expertise to the young entrepreneurs.

The investor's goal is to increase the value of the company and to sell his/her shares in the company at a profit after a few years. Venture capital for young companies is provided by private investors such as business angels and venture capital firms, but also by SME venture capital companies and public VC funds.

Start small: German Micro-Mezzanine Fund (Mikromezzaninfonds Deutschland)

It is true that only large investments of at least a million euros that are likely to make the headlines. But nevertheless, the start-up scene is full of founders that 'start small'. App developers and social start-ups are among those that can make do with fairly little seed capital. For these start-ups, seeking an investment of up to €50,000 from an SME venture capital company acting as a silent partner can be a smart decision. Under this arrangement, the company will provide equity to the start-up without receiving shares in return. This means that the management of the company will remain in the hands of its founders, which can use the additional equity to finance new investments and to also improve their creditworthiness.

For further information: SME venture capital company (Mittelständische Beteiligungsgesellschaft) in the German state (*Land*) in which the start-up is located,

www.mikromezzaninfonds-deutschland.de

Think big! High-tech Start-up Fund (High-Tech Gründerfonds)

The High-Tech Start-Up Fund offers investments of up to one million euro in innovative tech companies that were registered less than three years ago. This investment serves to meet the young company's need for financing in the early stage of its development, i.e. up to the point where it has produced a prototype or proof of concept, or launch their product on the market. In addition to the investment, the High-Tech Start-up Fund also provides young companies with a subordinated loan.

Once the start-up has made it through the seed stage, it can receive up to two million euros' worth of follow-up financing. In most cases, the Fund will not provide this money alone but work with other investors. Young companies working with the Fund will benefit not only from the capital investment, but also from non-financial support. This explains the Fund's excellent track record: there are 470 companies that have received financing from the Fund and that have successfully transitioned to the seed stage. Dr Alex von Frankenberg, Managing Director at the High-Tech Start-Up Fund, advises that start-ups contact the High-Tech Start-Up Fund well in advance so as to allow for a smooth transition from the pre-seed to the seed stage.



» BAFA's decision to declare us a company eligible for funding and allow us to use the official logo was like giving us a seal of approval, making it much easier for us to contact and negotiate with potential investors." In addition to this, INVEST encourages capital donors to invest more in a start-up than they initially intended."

Benjamin Bruder, TRACKTICS GmbH

“It will typically take four months from the initial contact to the investment’s approval. We make use of this time to get to know the company, the technology it uses, its market potential, the business model, and the team. We must be convinced that the start-up has the potential to evolve into a successful long-term business and we must also understand what it is we can do to help – beyond the financing itself.”

For further information, go to:

www.high-tech-gruenderfonds.de

„Get trained“: Deutsche Börse Venture Network

Companies in the growth stage value new contacts and access to skills enhancement training – both being key factors for successful growth management. The network helps companies in their early growth stages to pursue their financing objectives in the best possible and most effective way. By the same token, it offers investors opportunities to invest in companies that find themselves in the early to late growth stages.

For further information, go to: www.venture-network.com

Encouraging investment

The Federal Ministry for Economic Affairs and Energy wants to encourage investors to provide equity finance to start-ups. It offers a wide range of funding programmes directly targeted at capital donors.

INVEST – Grant for Venture Capital (INVEST – Zuschuss für Wagniskapital)

The INVEST – Grant for Venture Capital programme was developed with the objective of encouraging business angels and other private investors to invest. If an angel investor provides a start-up with at least €10,000 in investment over a period of at least three years, this investor will receive a grant worth 20 per cent of its investment. In addition, in the event that the company is sold later on, an exit grant is provided to offset the tax that needs to be paid on the profit made from the sale of the company. Investors can receive grants for up to one million euros of investment per year.

For further information, go to: www.bafa.de

European Angels Fund (EAF)

The European Angels Fund (EAF) works similar to INVEST and is targeted at angel investors and other non-institutional investors. Its objective is to provide financing to innovative businesses in their pre-seed, seed and growth stages. The EAF provides co-financing, which means that when an angel investor invests in a company, the EAF will provide this company with the same amount of investment (50:50 co-financing). The investment should be between €250,000 and €5 million.

For further information, go to: www.eif.org



» After having provided us with seed financing in 2014, the High-Tech Start-Up Fund has now made another investment in our business as part of our series A round of financing. We see the fund as a business-driven investor with a strong network. The fund brings consider-

able business experience and therefore provides us with valuable and lasting support as we go about expanding our business.

Dr Carsten Willems, VMRay GmbH

Good to know

Start-ups identified as eligible for funding under the INVEST - Grant for Venture Capital scheme by the Federal Office for Economic Affairs and Export Control (Bundesamt für Wirtschaft und Ausfuhrkontrolle) (BAFA) can register on the INVEST website and attract the attention of investors. www.invest-wagniskapital.de

Sources of private equity for start-ups at the seed and growth stages

- High-tech Start-up Fund (High-Tech Gründerfonds)
- coparion
- Business Angels
- Promotional banks of the *Länder*
- SME venture capital companies in the *Länder*
- Private equity and VC firms

ERP/EIF venture capital fund of funds (ERP/EIF-Dachfonds)

The ERP/EIF venture capital fund of funds invests in venture capital (VC) funds, thereby encouraging these to invest in young innovative companies. It focuses its investments on VC funds that provide venture capital for technology companies in their pre-seed, seed and growth stages. The programme is targeted at VC funds that provide initial investment for public-sector and private-sector research institutes so that new technological developments can be moved from the lab to the commercial world. It is also targeted at VC funds that provide follow-up investment for technology companies in their seed and growth stages.

For further information, go to: www.eif.org

ERP-VC Fund Investments (ERP-VC-Fondsinvestments)

The ERP-VC Fund Investments programme, too, invests in VC funds, focusing on funds that invest in young technology companies. The goal of this is to help innovative companies grow. The financing for this is provided by KfW banking group.

For further information, go to: www.eif.org

Helping companies enter markets abroad

In the short or medium term, most start-ups seek to enter markets abroad. However, the time and cost this takes is often underestimated. It includes

- conducting research on a particular market or industry
- acquiring new clients and targeting a particular group
- seeking advice
- recruiting local staff
- building a distribution network
- undertaking marketing activities

Start-ups working in ICT, fintech, cleantech or life sciences find the US market particularly attractive. This is because it is a large market with uniform rules and a large number of start-up hubs like Silicon Valley. However, German companies competing on the US market find it far more difficult to succeed there than in Germany. Dirk Kanngiesser, co-founder and managing director of the German Accelerator, agrees with this point: "A young company needs to learn how the American market works. They often overlook that launching a product onto the market usually takes longer than they expect."

German Accelerator

The German Accelerator set up by the Federal Ministry for Economic Affairs and Energy is aimed at helping young entrepreneurs from Germany get to know the US market and make contact with potential investors and customers.

For start-ups working in life sciences: the German Accelerator Life Sciences (GALS)

The German Accelerator Life Sciences (GALS) provides assistance for young companies that focus on digital health, diagnostics, research reagents, medical technology, platform technology and therapeutics. These companies are given the opportunity to spend several months at the biggest life sciences cluster in the US – in Boston/Cambridge – where they can try out their business ideas, products and services on the US mar-



» The US is the most important market for aquatic sports worldwide. The German Accelerator therefore gives us the opportunity to learn how the US market works, how we can sell our products there and how people think. The big challenge for us is that we only have three months to establish a distribution network in the US."

Christopher Fuhrhop, Restube GmbH

ket and work to improve them. The GALS also helps companies make contact with potential clients, employees, strategic partners and investors.

For tech start-ups: German Accelerator Tech

The German Accelerator Tech provides companies working in the high-tech sector or the digital economy with the opportunity to spend several months in the US to obtain access to effective mentoring and consulting services. They receive feedback on whether their business plan meets the needs of the US market and will help them to further internationalise their business (global benchmarking).

A team of serial entrepreneurs, experts and capital donors stands ready to provide assistance to companies at both the East and West Coast of the US: in Palo Alto/San Francisco or in New York City. One of the key criteria for a company to be accepted at the German Accelerator is that its business plan must reflect its high potential for growth and its intention to expand to markets abroad. Further information about the application process can be found on the German Accelerator's website.

For further information, go to: www.germanaccelerator.com

Good to know

More information about funding programmes geared towards helping young companies internationalise their business and make it easier for them to target new markets abroad can be found at the German government's funding database. These include export initiatives for environmental technologies or schemes focusing on the healthcare sector.

www.foerderdatenbank.de

Growth stage: financing company growth

Whilst a company will increase sales as it enters the growth stage, it will usually not generate any profits, at least not at the beginning of this stage.

This is the stage where the company is further built up. It may need to adapt its internal structures. The main focus is on expanding distribution and production. The product portfolio may need to be diversified, so that additional customers can be acquired. Companies may focus not only on obtaining private equity finance, but also on using grants – some of which may come with a default guarantee.

Private equity

Apart from private investors and medium-sized private equity firms, venture capital funds receiving government funding also often invest in young companies. These funds often also provide helpful expertise and access to a wide-reaching network (see also p. 8).

coparion co-investment fund

The coparion co-investment fund invests in small innovative tech companies that are less than ten years old. These need to be able to show that they have an above-average growth rate, generated some initial turnover, acquired some first key customers or successfully launched a product. The fund can invest up to ten million euros per company. However, this depends on whether the company can find a private-sector investor who agrees to invest the same amount of money at the same conditions (*pari passu* principle) in a particular round of financing. The coparion co-investment fund was set up by the ERP Special Fund and KfW banking group.

For further information, go to: www.coparion.de



» coparion is a powerful instrument allowing young companies to finance growth after the seed stage. This is the stage where injecting fresh capital is difficult, but key to keep the company afloat.

Featuring a volume of €225 million and being able to act quickly and in close coordination with companies, the fund offers start-ups real added benefit in this stage of development.

Christian Stein, coparion GmbH & Co. KG



Loans

Government-backed promotional loans are usually characterised by low interest rates and long repayment periods. There are loans that are especially targeted at innovative companies in their growth stages. In some cases, companies may also use a 'classic' promotional loan (see also p. 13).

ERP innovation financing (ERP-Innovationsfinanzierung)

The ERP innovation financing scheme has two components. The first component is the ERP digitisation and innovation loan which can be used for financing digitisation and innovation projects, investment and new equipment in established innovative companies. The second component is the ERP mezzanine for innovation scheme which can be used for financing market-related research into, and developing and enhancing new products, production procedures or services.

For further information, go to: www.kfw.de

Encouraging investment

In order to ensure that young companies in their growth stages have sufficient equity, the Federal Ministry for Economic Affairs and Energy, the ERP Special Fund and the European Investment Fund (EIF) invest in venture capital funds that provide private equity to 'gazelles' – young companies that grow especially fast. In addition, the Federal Ministry for Economic Affairs and Energy also provides incentives for business angels to invest in young companies.

Mezzanine Fund of Funds for Germany (Mezzanin-Dachfonds für Deutschland, MDD)

The Mezzanine Fund of Funds for Germany (MDD) invests in private professional funds that provide mezzanine financing – a type of financing that includes characteristics of both equity and loan capital. For example, this includes subordinated loans, investment as a silent partner, and typical and atypical investments. In the event of default, the mezzanine financing is only repaid after all senior obligations have been satisfied. Mezzanine financing therefore helps strengthen a company's equity base. The MDD also invests in so-called venture debt financing products. These are loans that need to be repaid in full and in one go at the end of the term. Companies will not be asked to provide the type of collateral that banks usually require.

For further information, go to: www.eif.org

Good to know

In addition to equity capital and VC capital, young companies in their growth stages can also receive 'classic' promotional loans for financing their investments. Go to page 13 to find out more.

ERP/EIF Growth Facility (ERP/EIF-Wachstumsfazilität)

The ERP Special Fund and the EIF work with private venture capital funds to set up co-investment funds that invest in fast-growing innovative companies. The amount that the growth facility will invest is matched to the amount invested by the venture capital fund (*pari passu* principle), typically between €20 and €60 million.

For further information, go to: www.eif.org

INVEST – Grant for Venture Capital (INVEST – Zuschuss für Wagniskapital)

Business Angels and other private investors can use INVEST to top up their investment. If an angel investor provides a start-up with at least €10,000 in investment over a period of at least three years, this investor will receive a grant worth 20 per cent of its investment. In addition, an exit grant is provided to offset the tax paid on the profit made from the sale of the company (also see page 13).

For further information, go to: www.bafa.de



‘Classic’ promotional loans – a great way to supplement other types of financing

In order to supplement private equity or venture capital, companies in their seed and growth stages can also seek ‘classic’ promotional loans from their bank, which can be used to invest in software, appliances, buildings and equipment.

ERP Start-up Loans – StartGeld and Universell (ERP-Gründerkredite – StartGeld und Universell)

#loans

What can they be used for?

- loans can be used for financing investment and equipment

What are the terms?

- under the StartGeld scheme, the maximum loan is €100,000, of which a maximum of €30,000 can be spent for equipment; for the Universell scheme, the maximum loan is €25 million
- repayment period: the loan needs to be repaid within 10 years (under StartGeld) or 20 years (under Universell); no repayments are due for a maximum of two years (under StartGeld) and a maximum of three years (under Universell)
- the company’s bank benefits from an 80-per-cent exemption from liability (under StartGeld), which means that it will provide loans even though the company can offer little or no collateral
- standard bank collateral (Universell)

Who can receive the loan?

- start-ups and young entrepreneurs whose business is less than five years old

Where can I find further information and submit my application?

- at KfW banking group www.kfw.de via your company’s bank or savings bank
- Federal Ministry for Economic Affairs and Energy’s funding database www.foerderdatenbank.de

ERP Capital for Start-ups (ERP-Kapital für Gründung)

#loans #no collateral required

What is it used for?

- strengthening start-ups’ and young entrepreneurs’ equity base.
- Financing investment

What are the terms?

- max. €500,000
- low-interest rate, repayment period of 15 years, no repayments due for the first seven years
- start-ups are required to pay 10 to 15 per cent of the total investment themselves.

Who can receive the loan?

- start-ups and young entrepreneurs whose business is less than three years old

Where can I find further information and submit my application?

- at KfW banking group www.kfw.de via your company’s bank or savings bank
- Federal Ministry for Economic Affairs and Energy’s funding database www.foerderdatenbank.de

KfW Loan for Entrepreneurs (KfW-Unternehmerkredit)

#investment at home and abroad #equipment

What is it used for?

- the KfW Loan for Entrepreneurs can be used for financing investment in your own country or abroad (e.g. for acquiring estates and buildings, buying machinery and facilities, for taking over or acquiring stakes in a company in the form of asset deals) and for buying equipment

What are the terms?

- a low-interest loan (interest rate depends on the risk involved in the investment), with a 20-year repayment period and several initial years in which no repayment is due (optional)
- companies have to provide banks with collateral
- fifty per cent of the risk taken on by the company’s bank providing the loan will be covered

Who can receive the loan?

- established medium-sized companies that have been on the market for at least five years

Where can I find further information and submit my application?

- at KfW banking group www.kfw.de via your company’s bank or savings bank
- Federal Ministry for Economic Affairs and Energy’s funding database www.foerderdatenbank.de

Guarantees provided by guarantee banks (Bürgschaftsbanken)

#in cases where companies are unable to provide collateral

What can they be used for?

- Guarantees can be used for financing investment and buying equipment

What are the terms?

- the entire or part of the collateral asked for by a bank in return for providing a loan (of a maximum of €1.25 million) is covered

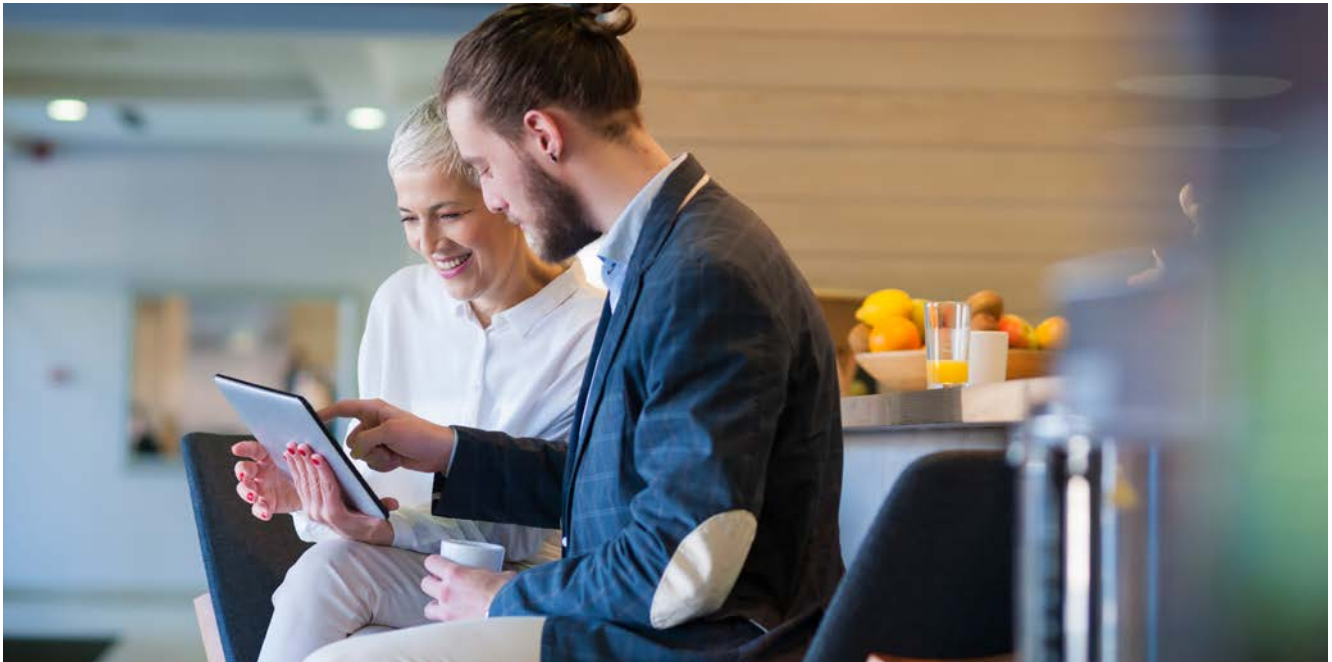
Who can receive the loan?

- start-ups and established companies

Where can I find further information and submit my application?

- your company’s bank or savings bank, guarantee bank of a particular German Land
- Federal Ministry for Economic Affairs and Energy’s funding database www.foerderdatenbank.de

Advice, information available in print or online



The Federal Ministry for Economic Affairs and Energy's funding programme advisory service

The Federal Ministry for Economic Affairs and Energy offers unbureaucratic and free-of-charge advice for start-ups and owners of small and medium-sized companies about

- the funding programmes offered by the German government, the German Länder, and the EU
- application procedures
- contacts, and
- the terms and conditions that apply

Tel.: +49 30 18 6 15-80 00

Mondays to Thursdays 9 a.m. to 4 p.m.,
Fridays 9 a.m. to noon

Federal Funding Advisory Service on Research and Innovation

The Federal Funding Advisory Service on Research and Innovation serves as Germany's central point of contact for all questions concerning research and innovation funding.

Applicants can turn to the centre for information about

- the structure of federal research in Germany
- funding programmes
- contacts
- current funding priorities and initiatives

Tel.: 0800 2 62 30 09

➔ www.foerderinfo.bund.de

KfW Group

The telephone counseling answers questions on the KfW subsidy programmes in the areas

- founding and succession
- expanding and consolidation
- innovation
- energy and environment

Tel.: 0800 5 39 90 01

Monday to Friday 8 a.m. to 6 p.m.

Online funding database

The Federal government's funding database offers a detailed overview of the funding programmes provided by the German government, the German Länder, and the European Union:

- quick search and detailed search function: you can filter the search results, for example based on the funding region, person eligible for funding, funding area, type of funding
- list of results: brief description of each of the programmes found
- concise and descriptive information including key facts and practical information about using the funding programmes

➔ www.foerderdatenbank.de

Smart Money

- **Business Angels Netzwerk Deutschland e. V. (BAND)**
www.business-angels.de
- **Bundesverband Deutscher Kapitalbeteiligungsgesellschaften**
German Private Equity and Venture Capital Association e. V. (BVK) www.bvkap.de
- **coparion GmbH & Co. KG**
www.coparion.vc
- **Deutsche Börse Venture Network**
www.venture-network.com
- **Deutsches Eigenkapitalforum**
c/o Deutsche Börse AG
www.eigenkapitalforum.com
- **High-Tech Gründerfonds (HTGF)**
www.high-tech-gruenderfonds.de

Networking

- **Bundesverband Deutsche Startups e. V.**
<https://deutschestartups.org>
- **Start-up initiatives undertaken by the German Länder**
www.existenzgruender.de
- **University start-up networks**
www.exist.de
- **Contests for start-up entrepreneurs**
www.existenzgruender.de

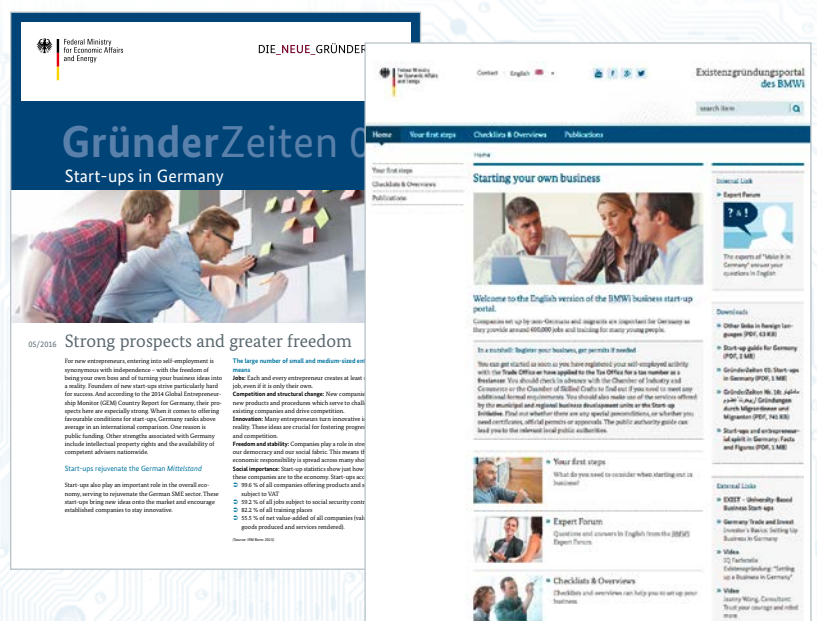
Competitions

- **Digital Innovations Start-up Competition**
(Gründerwettbewerb – Digitale Innovationen)
www.gruenderwettbewerb.de
- **Further competitions for start-ups**
www.existenzgruender.de
- **Start-up guide for Germany.**
Services available to entrepreneurs
- **“Starthilfe: Der erfolgreiche Weg in die Selbständigkeit”**
[How to jump-start your business] (in German only)
- **“Wirtschaftliche Förderung: Hilfen für Investitionen und Innovationen”** [Government support to promote investment and innovation] (in German only)
- **GründerZeiten Nr. 01** “Start-ups in Germany”
- **GründerZeiten Nr. 06** “Existenzgründungsfinanzierung” [‘Start-up financing’] (in German only)

To download any of these publications, please go to www.existenzgruender.de
To order any of these publications in print, please call: 030 18 272 2721
publikationen@bundesregierung.de



Please also consult the English-language version of the BMWi business start-up portal and the website about the EXIST funding programme:
www.existenzgruender.de
www.exist.de



What is...?

Private equity

Private equity is an investment made by private equity firms or other external capital donors in a particular companies for a limited period of time; it is provided either in the form of subscribed capital or on a silent partner basis. No collateral is required in order for a company to receive private equity financing.

Equipment

Equipment includes material goods that are required for producing or distributing a particular product and that need to be paid for, for example, staffing costs, the cost for procuring goods, buying resources and materials, but also for giving customers time to pay their invoices. A company should always make sure to use medium-, or even better, long-term financing options to pay for the basic equipment it needs and therefore improve its liquidity.

Collateral required by banks

This includes, for example, mortgages, chattel mortgages provided against the value of machinery, and guarantees (including guarantees issued by guarantee bank or by loan guarantee facilities). The form and amount of the collateral required by a particular bank is negotiated between the borrower and the bank.

ERP Special Fund

The Federal government is providing assistance to start-ups and small and medium-sized companies by offering them low-interest loans, private equity, private-equity-related financing, and releases from liability. It does this by using funds from, for example, the ERP Special Fund. The fund was set up in 1948 as part of the Marshall Plan. Since this time, the Federal government has been using the special fund to provide money to companies. In 1953, it was renamed ERP Special Fund (ERP = European Recovery Programme).

Private equity firms

Companies whose business model is about investing in other companies and receiving a return for this.

Mezzanine financing

Mezzanine financing has characteristics of both private equity and loan capital. For example, this includes subordinated loans, investment as a silent partner, and typical and atypical investments. In the event of default, the mezzanine financing is only repaid after all senior obligations have been satisfied. Mezzanine financing therefore helps strengthen a company's equity base.

Subordinated loans

For applying for a subordinated loan, no collateral is required. In the event of default, lenders who have provided a subordinated loan are only repaid after the obligations of all other lenders have been satisfied.

Venture capital

Unlike a loan, venture capital does not fall in the category of debt finance, but private equity that investors have unlimited liability for or private-equity-related financing instruments. Venture capital firms invest in a company they regard as profitable. They invest for a limited amount of time. Venture capital donors do not receive any collateral for their investment. They invest because they are convinced that a particular company has a good strategy and a good team and they expect a return on their investment that is commensurate to the risk they take.

Venture debt financing

Venture debt financing products are loans that need to be repaid in full and in one go at the end of the term. Companies will not be asked by their bank to provide collateral. The Federal Ministry for Economic Affairs and Energy's funding database includes an extensive funding glossary. www.foerderdatenbank.de

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