Welcome
German tech start-ups have shown the proof of concept

In 2015, the start-up scene in Germany has reached a new level of development. We have seen a great number of funding rounds of EUR 10m and above with a lot of deals even exceeding EUR 50m and a considerable number of three digit EUR amounts at the upper end. Financing activities indicate a further active M&A market, which is increasingly focused on tech businesses.

In our view, German digital business models have shown their proof of concept. We observe the development of real global business models, which are highly profitable in their core markets. The start-up ecosystem has become increasingly professional. Former advisers, accountants and investment bankers are capturing the C-level, which will lead their ventures to next growth stages.

Liquidity is following smart business ideas and is as global as the ventures itself. The fact that financing rounds of EUR 10m and above are predominantly led by foreign investors indicates the strong appreciation of global investors with regard to the German ecosystem. Corporates have realized the huge potential from digital business ideas and therefore increasingly complement the investors’ landscape.
Foreword

German corporations reinforce Venture Capital efforts

The start-up world is buzzing lately with record-breaking investment rounds, a growing number of publicly recognized IPOs, and the impressive public maturation of many start-ups. Capital markets are seeking investment opportunities in growth stage companies – and they are not alone. Many corporations have discovered, or rediscovered, Venture Capital, either as strategic plays or pure financial investments.

If London is the traditional technology start-up capital in Europe, Berlin is “the new kid on the block”. The EUR 2.5bn sale in August 2015 of Nokia HERE, Nokia’s mapping business, to a group of German car makers was a signal of Berlin’s growing importance. That success helped spark a start-up scene that now threatens to unseat London as the epicenter of the European tech start-ups. People involved in HERE prior to the acquisition utilized their experience and newfound capital to invest in and advise new start-ups. Similar ripple effects are seen by companies like Jumpal, which has developed great talent (e.g., Jens Begemann, founder of Wooga), and Rocket Internet (or “Rocket Business School” as it is sometimes referred to because so many people leave the company to start their own start-ups).

Many globally-known German players such as BASF, Bosch, Daimler, and Deutsche Telekom invested 4 years ago alongside the Federal Republic of Germany and KfW in the second High-Tech Gründerfonds, an early stage seed investor focusing specifically on tech start-ups (HTGF II has a total volume of EUR 288m). In 2015, KfW is about to set up an additional co-investment fund to strengthen the venture capital market.

 Corporations are investing in the hopes of profiting from fast growing markets and newly adopted technologies. Many new players in energy, mechanical engineering, multinational consumer goods add to the list of already active venture capital players beside telecommunications, pharma and technology companies. Complementing internal R&D efforts, more and more of these funds also invest outside of the company’s core business and industry of origin.

In addition to chasing profits, corporations are also leveraging partnerships with technology start-ups to drive innovation. The German Tech Entrepreneurship Center, recently founded in Berlin, exists to connect start-ups, researchers, students, and corporations to work side by side on the global technology innovations of tomorrow.
Germany has tried to balance a combination of tax breaks and government involvement in venture capital to create a self-nurturing ecosystem, while drawing talent from abroad and fostering the infectious spirit of incubators. This environment has created a unique opportunity for German corporate venture capital funds to step in, together with international venture capital funds, and take advantage of the booming tech scene in Germany.

The result for Berlin is a staggering: EUR 1.97bn for start-ups, according to the industry service Dow Jones Venture Source (putting it above London, which raised EUR 1.35bn in 2014).

Berlin’s start-up ecosystem is organic and homegrown - independent from market developments and government funds and grants. This is what makes it so strong. And this is why it is here to stay.
Start-ups
Funding volumes in Germany show significant growth since 2013

Investments into start-ups 2013 - H1 2015, USD million

- Other Europe: 2013 - 1,638, 2014 - 4,005, First half of 2015 - 1,638

The worldwide market for digital ideas is booming and Europe plays a vital role in that development. A significant indicator is the volume of funding channeled into technology markets such as AdTech, FinTech, food delivery but also niche segments that require expertise in software or hardware development. Respective volume at a European level has increased by more than 28% from USD 8.4bn in 2013 to USD 11.1bn in 2014 and is expected to grow significantly, given the fact that the first half of 2015 already accounted for USD 6.5bn. Apart from Germany, UK, France, and Sweden had been the leading European tech countries in the last years, highlighted by well-known start-ups such as Asos (UK), BlaBlaCar (FR), Skype (SE), King (SE), Spotify (SE), Wonga (UK) or Yandex (NL).

Since 2015, the German market gained again in importance due to landmark funding rounds by national ventures. This momentum is driven by the key regional tech hubs in Berlin, Hamburg and Munich, with the capital of Germany becoming a synonym for creativity and innovation in Central Europe. Berlin attracts thousands of young talents on a yearly basis, especially in the areas of design, programming or other technology expertise. A fast-growing institutional network of support, various private and public start-up centers and a growing number of national and international venture capital investors have facilitated the market growth. The city is second to none in terms of attractiveness and has outpaced other European tech centers such as London, Stockholm, or Paris.

The ecosystem of the German capital city has matured with several young and innovative companies making a name for themselves worldwide. The dynamics are accelerating and sales and employment in the digital sector are increasing at above average rates. Thousands of jobs have been created in the last 5 years, which becomes more apparent when looking at companies such as Rocket Internet, Zalando, Zanox, or Wooga, but also players such as Auctionata, Delivery Hero, Home24, Outfittery or ResearchGate.

Growth in Germany has outpaced other European tech regions such as the UK, Sweden or France. This momentum is driven by the key regional tech hubs Berlin, Hamburg and Munich.
Many European and global market leaders established branches or offices in Berlin to take advantage of the development. Such companies include Amazon, Ebay, Microsoft, Twitter, Uber, Visa or Zendesk. The local coworking spaces (e.g., The Factory, Betahaus, St. Oberholz) for creatives have steadily expanded their space due to the strong demand and the market for office space suitable for ventures. The digital economy is booming, which can be also seen in other German regional areas. Next to Berlin, there are entrepreneurial activities in Hamburg and Munich, which is also documented in the funding and M&A frequency. Both cities host innovative and commercially successful start-ups such as Bigpoint, Kreditech, WestWing, Windeln.de, Zooplus or Xing.

The magnitude for start-up ideas can be seen in the total of funding for the biggest ventures, either by business angels, accelerators, incubators, venture capital firms, corporates or financial investors. According to Crunchbase, the business graph that keeps track of funding rounds, the funding volumes for German start-ups can be identified and presented in a Top 30 start-ups list. The composition of this list has changed throughout the last 12 months. The reason for this is a series of successful exits and initial public offerings of national ventures. This accounts for 6Wunderkinder (task-manager app), Quandoo (online reservation platform) and Windeln.de (baby products), which will be explained in detail in the M&A overview.

The total funding of the 30 largest digital start-ups (before exit or IPO) totaled USD 4.8bn in September 2015, which almost doubled compared to USD 2.6bn one year before. The key players in the national scene attracted interest on a global level, which also translated into funding rounds by international investors.

**Top 5 start-ups by funding**

- Established in 2011, Delivery Hero has received USD 1.4bn in funding since its foundation. The company is among the hot candidates for an exit on a large scale, especially after the acquisition of local rival pizza.de and its closer ties with new shareholder Rocket Internet.
- Established in 2002, Bigpoint is a gaming company and among the leading portals worldwide. The firm has a total funding of USD 461m, with the latest investor round in 2011.
- Established in 2012, Kreditech is a consumer finance technology group that uses big data to score the credit-worthiness of customers. The FinTech venture has a total funding of USD 355m, with a major debt financing injection in September 2015.
- Established in 2012, Foodpanda is the food-delivery venture of company builder Rocket Internet, with a total of funding of USD 318m. The company has experienced a remarkable growth driven by a vital acquisition strategy.
- Established in 2012, HelloFresh is a food subscription company that sends pre-portioned ingredients for weekly meals to customers. The portfolio firm of Rocket Internet has attracted a total funding of USD 278m.

**Venture shooting stars**

- Established in 2014, Zencap owns and operates a digital credit marketplace for companies. The FinTech firm has attracted a debt financing injection in January 2015, which boosted funding to USD 253m.
- Established in 2009, Home24 has become one of Europe’s largest online furniture marketplaces. The portfolio firm of Rocket Internet has attracted a total funding of USD 139m.
- Established in 2012, Auto1 Group is an innovative venture that focuses on trading cars. The firm was unknown by most of the people in the national start-up scene but received a lot of attention after the announcement of USD 118m funding in April 2015.
- Established in 2008, Blue Yonder is a provider of big data analytics and predictive applications. The data science venture has raised USD 75m capital in December 2014.
- Established in 2014, Helpling is a leading online marketplace for household services. The portfolio firm of Rocket Internet managed to raise USD 62m since December 2014, mainly to finance growth and external takeovers in focus regions.
### The Top 30 German start-ups

**Top 30 start-ups located in Germany** *(based on total funding value in September 2015 before exit or IPO)*

<table>
<thead>
<tr>
<th>#</th>
<th>Target name</th>
<th>Location</th>
<th>Target profile</th>
<th>Founding year</th>
<th>Total funding value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Delivery Hero</td>
<td>Berlin</td>
<td>Food delivery service</td>
<td>2011</td>
<td>USD 1,391 million</td>
</tr>
<tr>
<td>2</td>
<td>Bigpoint.com</td>
<td>Hamburg</td>
<td>Mobile games</td>
<td>2002</td>
<td>USD 461 million</td>
</tr>
<tr>
<td>3</td>
<td>Kreditech</td>
<td>Hamburg</td>
<td>Big data credit scoring</td>
<td>2012</td>
<td>USD 355 million</td>
</tr>
<tr>
<td>4</td>
<td>Foodpanda</td>
<td>Berlin</td>
<td>Food delivery service</td>
<td>2012</td>
<td>USD 318 million</td>
</tr>
<tr>
<td>5</td>
<td>HelloFresh</td>
<td>Berlin</td>
<td>Food boxes</td>
<td>2012</td>
<td>USD 278 million</td>
</tr>
<tr>
<td>6</td>
<td>Zencap</td>
<td>Berlin</td>
<td>Digital credits marketplace</td>
<td>2014</td>
<td>USD 253 million</td>
</tr>
<tr>
<td>7</td>
<td>BestSecret.com</td>
<td>Aschheim</td>
<td>Shopping community</td>
<td>2007</td>
<td>USD 248 million</td>
</tr>
<tr>
<td>8</td>
<td>WestWing</td>
<td>Munich</td>
<td>Online furniture store</td>
<td>2011</td>
<td>USD 179 million</td>
</tr>
<tr>
<td>9</td>
<td>Home24</td>
<td>Berlin</td>
<td>Online furniture store</td>
<td>2009</td>
<td>USD 139 million</td>
</tr>
<tr>
<td>10</td>
<td>SoundCloud</td>
<td>Berlin</td>
<td>Music streaming</td>
<td>2007</td>
<td>USD 123 million</td>
</tr>
<tr>
<td>11</td>
<td>Auto1 Group</td>
<td>Berlin</td>
<td>Car retailing</td>
<td>2012</td>
<td>USD 118 million</td>
</tr>
<tr>
<td>12</td>
<td>Auctionata</td>
<td>Berlin</td>
<td>Online auctions</td>
<td>2012</td>
<td>USD 96 million</td>
</tr>
<tr>
<td>13</td>
<td>Wimdu</td>
<td>Berlin</td>
<td>Private accommodation</td>
<td>2011</td>
<td>USD 90 million</td>
</tr>
<tr>
<td>14</td>
<td>Blue Yonder</td>
<td>Karlsruhe</td>
<td>Big data</td>
<td>2008</td>
<td>USD 75 million</td>
</tr>
<tr>
<td>15</td>
<td>MisterSpex</td>
<td>Berlin</td>
<td>Glasses retailer</td>
<td>2007</td>
<td>USD 70 million</td>
</tr>
<tr>
<td>16</td>
<td>Helpling</td>
<td>Berlin</td>
<td>Household services</td>
<td>2014</td>
<td>USD 62 million</td>
</tr>
<tr>
<td>17</td>
<td>Arago</td>
<td>Frankfurt</td>
<td>Automation of IT operations</td>
<td>1995</td>
<td>USD 55 million</td>
</tr>
<tr>
<td>18</td>
<td>GetYourGuide</td>
<td>Berlin</td>
<td>Travel recommendations</td>
<td>2009</td>
<td>USD 46 million</td>
</tr>
<tr>
<td>19</td>
<td>Navabi</td>
<td>Aachen</td>
<td>Plus size shopping</td>
<td>2008</td>
<td>USD 45 million</td>
</tr>
<tr>
<td>20</td>
<td>SumUp</td>
<td>Berlin</td>
<td>Payment system</td>
<td>2011</td>
<td>USD 44 million</td>
</tr>
<tr>
<td>21</td>
<td>Internetstores</td>
<td>Esslingen</td>
<td>Multi-store e-commerce</td>
<td>2007</td>
<td>USD 39 million</td>
</tr>
<tr>
<td>22</td>
<td>NumberFour</td>
<td>Berlin</td>
<td>SaaS services</td>
<td>2009</td>
<td>USD 38 million</td>
</tr>
<tr>
<td>23</td>
<td>Open-Xchange</td>
<td>Nuremberg</td>
<td>Communication software</td>
<td>2005</td>
<td>USD 38 million</td>
</tr>
<tr>
<td>24</td>
<td>Outfittery</td>
<td>Berlin</td>
<td>Personal shopping service</td>
<td>2012</td>
<td>USD 38 million</td>
</tr>
<tr>
<td>25</td>
<td>Dreamlines</td>
<td>Hamburg</td>
<td>Travel platform for ship cruises</td>
<td>2012</td>
<td>USD 37 million</td>
</tr>
<tr>
<td>26</td>
<td>Webtrekk</td>
<td>Berlin</td>
<td>Data intelligence solutions</td>
<td>2003</td>
<td>USD 35 million</td>
</tr>
<tr>
<td>27</td>
<td>ResearchGate</td>
<td>Berlin</td>
<td>Knowledge network</td>
<td>2008</td>
<td>USD 35 million</td>
</tr>
<tr>
<td>28</td>
<td>Azubu</td>
<td>Berlin</td>
<td>Media sports company</td>
<td>2011</td>
<td>USD 34 million</td>
</tr>
<tr>
<td>29</td>
<td>Wooga</td>
<td>Berlin</td>
<td>Mobile games</td>
<td>2009</td>
<td>USD 32 million</td>
</tr>
<tr>
<td>30</td>
<td>SavingGlobal</td>
<td>Berlin</td>
<td>Deposit brokerage platform</td>
<td>2013</td>
<td>USD 32 million</td>
</tr>
</tbody>
</table>

Sources: Crunchbase.com
Material funding rounds by national and international investors over the last 12 months

Top 10 funding volumes (disclosed funding volumes in October 2014 - September 2015; before exit or IPO)

<table>
<thead>
<tr>
<th>Venture</th>
<th>Funding Volume (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arago</td>
<td>55m</td>
</tr>
<tr>
<td>Helping</td>
<td>62m</td>
</tr>
<tr>
<td>Blue Yonder</td>
<td>75m</td>
</tr>
<tr>
<td>Auto1 Group</td>
<td>117m</td>
</tr>
<tr>
<td>Home24</td>
<td>139m</td>
</tr>
<tr>
<td>Hello Fresh</td>
<td>209m</td>
</tr>
<tr>
<td>Foodpanda</td>
<td>210m</td>
</tr>
<tr>
<td>Zencap</td>
<td>253m</td>
</tr>
<tr>
<td>Kreditech</td>
<td>292m</td>
</tr>
<tr>
<td>Delivery</td>
<td>730m</td>
</tr>
</tbody>
</table>

Key investors:
- KKR
- Kite Ventures
- Lakestar
- Mangrove Capital
- Phenomen Ventures
- Point Nine Capital
- Rocket Internet
- Warburg Pincus
- DN Capital
- DST Global
- Piton Capital
- Baillie Gifford
- Rocket Internet
- Goldman Sachs
- Rocket Internet
- Victory Park Capital
- Amadeus Capital Partners
- Blumberg Capital
- HPE Growth Capital
- J.C. Flowers & Co.
- Peter Thiel
- Värde Partners
- Victory Park Capital
- Holtzbrinck Ventures
- Texas Atlantic Capital

Note: FX conversion rate of EUR 1.0 vs. USD 1.1 | Sources: Mergermarket, OneSource, LexisNexis, EY Analysis

Large scale funding rounds are driven by international venture capitalists, private equity players or investment banks. That the market is attractive can be seen in the increased engagement of well-known firms or investors such as Baillie Gifford, Blumberg Capital, DN Capital, DST Global, Goldman Sachs, J.C. Flowers, KKR, Texas Atlantic Capital, Piton Capital, Phenomen Ventures, Värde Partners, Victoria Park Capital or Warburg Pincus, which have provided material funding to ventures (expansion stage, later stage).

Most of the top start-ups are located in Berlin (20x), Hamburg (3x) and Munich (2x). Despite the concentration of the top funding in the largest three cities, we are convinced that the digitalization trend will also have an impact on other regions in Germany since funding activities have been documented for Aachen, Dusseldorf, Frankfurt, Kaiserslautern, Karlsruhe, Nuremberg as well as Stuttgart. Germany offers a comprehensive IT-based research and university landscape with renowned research institutes, e.g., Fraunhofer Institute or Max Planck Institute.

A number of public and private innovation labs have been established to foster ideas or support business model implementation ranging from coworking spaces, university-related labs to company units and incubators. **We believe that corporates and research institutes will increase their focus on digital business models in the next 12 months to come.** Most prominent is the trend of industry 4.0 that will have an impact on firms in sectors such as automotive, engineering or diversified industrials.
Top start-ups have materially increased funding volumes in 2015

- Source: Crunchbase.com
- Note: Overview derived from identified Top 30 start-ups based on total funding (before exit). The coverage of ventures has changed from October 2014 to September 2015 due to successful exits and IPOs.
Liquidity follows smart businesses, which increasingly attracts corporate investors

Compared to previous years, the investors’ landscape is far more heterogeneous. Investing in tech start-ups is no longer a pure VC business. We observed private equity backed investors seeking new business models outside the traditional sectors. We noticed investment banks, engaged in huge financing rounds ahead of contemplated IPOs. And last but not least, we saw a fundamental mind change in corporate investors. Seed stage investments in Germany are driven by business angels, specialized and mostly governmental backed VC players and an increasing number of incubator and accelerator programs. Although the business angel scene is not as transparent as it could be, there is an increasing number of high-net-worth individuals willing to contribute amounts of up to EUR 250k at the very early stages. Recent success stories in terms of trade sales and IPOs have increased the number of business angels and their financial capabilities. The scene is stimulating itself with every new successful deal. In seed stages as well as growth stages, we observed an increasing demand for “family offices”, the asset managing vehicles of German entrepreneurs. Although family offices act in a similar way to private equity or venture capital investors in some areas, they usually differ in terms of publicity, risk awareness and investment horizon. Compared to pure financial investors, family offices as well as business angels are able to bring “smart money” with regard to strong industry expertise, strategic know-how and the ability to arrange contacts and open doors to decision makers. Especially in early development stages, this could be a real competitive advantage for start-ups in addition to their proper business model.

Growth and later stage investments are largely completed by investors with a strong financial background. Whereas there are a few German investors able to participate in growth and later stage investments such as Earlybird, Lakestar, Holtzbrinck Ventures or Rocket Internet, these financing rounds are dominated by foreign investors from the UK, the US and increasingly also from Asia.

Investors in the Top 30 German start-ups, according to the cumulated funding volume, include (amongst others) players like Kite Ventures, Phenomen Ventures, DN Capital, Insight Venture Partners, Blumberg Capital, Kreos Capital or Luxor Capital, contributing not only equity but also venture debt instruments. This is complemented by investment banks, such as Goldman Sachs and an increasing number of financial investors like KKR or Scottish Equity Partners.

A strong involvement from foreign investors underlines the robustness of the German tech start-up market. Investors appreciate the ability of German start-ups to excel in incremental innovation as opposed to breakthrough innovation, which is more prevalent in the US. Investors rely on existing business models, which are perfected and thoroughly executed, driven by the countries’ precision culture.
Corporate venture activities are split across the entire country

**Corporate venture capital funds**
Respective investment vehicles are usually focused on financial investments in early or mid stage start-ups. Most of the funds in the market have been set up for strategic reasons, where fund managers must look for investments strongly connected to the core operational business of the corporate. Meanwhile, there are corporate venture funds in the market, which increasingly act like financial investors. This is particularly noticeable in the media industry, where some of the players were recognized as strong investors within the entire digital start-up scene.

**Corporate venture capital funds (examples):**
- Axel Springer Digital Ventures
- Bauer Venture Partner
- BASF Ventures
- Bertelsmann Digital Media Investment
- BMW i Ventures
- Bilfinger Ventures
- Burda Digital Ventures
- Deutsche Post Ventures
- Deutsche Telekom Capital Partners
- DuMont Venture Holding
- Fielmann Ventures
- Holtzbrinck Ventures
- Merck Serono Ventures
- Nokia Growth Partners
- Rewe Digital
- Robert Bosch Venture Capital
- RTL interactive
- Seven Ventures
- Sixt e-ventures
- Tengelmann Ventures
- Tomorrow Focus
- United Internet Ventures
- Vattenfall Europe Venture
- Vogel Ventures
- Vorwerk Ventures

**Incubators and Accelerators**
Most corporate venture activities are structured as incubator or accelerator programs. They are similar in terms of financial support, providing workspace or business advice. Differences are sometimes seen when it comes to collaboration timing. Incubators are focused on creating new business ideas and ventures, whereas accelerators try to get in contact with already existing business models and entrepreneurs. However, in practice, the borders are fluid and disappear incrementally. With both models, corporates try to participate in new business models at very early stages and to get in contact with the management teams.

**Incubators and Accelerators (examples):**
- Allianz Accelerator
- agile Accelerator (E.ON)
- Axa Innovation Campus
- Axel Springer Plug and Play Accelerator
- Bevation (Bertelsmann)
- BMW Start-up Garage
- Colaborator (Bayer)
- CommerzVentures (Commerzbank)
- dpa Next Media Accelerator
- Grants4Apps (Bayer)
- GTEC (ESMT, Henkel, RWE)
- helios.hub (HELIOS Kliniken)
- Hub:raum (Deutsche Telekom)
- Lufthansa Innovation Hub
- M Cube (Check24)
- Main Incubator (Commerzbank)
- Microsoft Venture Accelerator
- ProSiebenSat.1 Accelerator
- Sizil (Schleicher Electronic)
- Siemens Technology Accelerator
- Techstars Metro Accelerator (Metro)
- Visa Europe Collab
- Volkswagen Mobility Lab
- Wayra Accelerator (Telefonica)
- YouIsNow (ImmobilienScout 24)
When it comes to valuations, German start-ups have reached an all new level and some of them have become "unicorns", meaning that these ventures have reached valuations of USD 1bn and above. In essence, investors see the following factors behind these high valuations:

- German tech start-ups have the ability to become real global firms with a highly profitable business model. Many of the ventures, particularly, classifieds or price comparison platforms, which manage demand and supply, already show high profitability in their core markets and are aiming at global expansion, supported by growth or later stage financing. The successful execution of a cross border deal might foster valuations as it puts the ventures closer to a leading global market position.

- Peer valuations in the US or from the UK serve as a benchmark for German financing rounds. Frequently, these peers are listed companies, where the stock market value is used for negotiation purposes.

- If a business is not yet profitable, investors acknowledge the technological capabilities of the venture and are willing to support these companies in order to materialize breakthrough innovations on a global scale.

Finally, valuation considerations are driven by commercial discussions and a thorough due diligence in terms of technology with an increasing focus on financials as well. From a commercial point of view, one of the most important discussions relates to the question of how much room there is for how many ventures in a certain market.

In answering these types of questions, **tech start-ups can largely benefit from the involvement of corporate investors.** Corporates from the media industry such as Axel Springer and ProSiebenSat.1 have impressively shown how they can participate in the digital development by generating profits from a general shift in traditional strategic market views.

Even though corporate investors from other business segments in Germany were not part of the tech start-up ecosystem to date, we have observed a fundamental change in mindset. Our analysis on corporate activities shows that over the last two years, corporates began to implement incubator and accelerator programs on a large scale. In essence, most of these programs are tailored to get in contact with new business ideas at a very early stage and to establish a win-win situation.

In addition to single undertakings, we noticed valuable corporate activities focused on pooling the forces of multiple corporate players regardless of sector or location. One example is the German Tech Entrepreneurial Center in Berlin, Germany’s first open campus to unite technology entrepreneurship organizations, resources and expertise in one place. In collaboration with the ESMT (European School of Management and Technology), founding partners such as Henkel and RWE are looking for the perfect spot to plug into the start-up ecosystem.

In our view, the start-up ecosystem and the corporate industry will grow together very quickly as there are a lot of wins on both sides of the table. Despite their sometimes old-fashioned reputation, German corporates know how to manage real global businesses. They know how to sell goods all over the planet and how to set-up a sales force. They have industry networks, which have evolved over decades, and created personal relationships, which are of utmost importance when it comes to growing a business. Tech start-ups, on the other hand, can provide technological expertise, hands-on decision processes and an entrepreneurial commitment and culture, which is also a key driver of success.

An analysis of the German VC market, including also selected corporate funds and foreign funds, predominantly focused on Germany, shows that the trend is unaffected positive. Most notably, there are new funds from Holtzbrinck Ventures, Partech Ventures, Earlybird and Deutsche Telekom, which add up to more than EUR 1bn additional financing made available to the market.

The increasing involvement of the governmental backed KfW forms a further notable milestone in the German VC market and shows the political commitment to support the start-up market and the overall ecosystem. Although there are still things to do, especially on the tax side, the commitment of KfW funds dedicated to the German start-up market underlines a general political readiness to support this industry as pointed out by the German Minister for Economic Affairs, Sigmar Gabriel, at the NOAH conference in Berlin in Summer 2015.
It is our opinion that the financing market for seed and early stage investments has developed very well, supported by the additional fund commitments of IBB Investitionsbank Berlin, the market entry of several smaller new funds as well as the unchanged success story of HTGF.

From a German point of view, there is still a financing gap when it comes to the financing rounds of EUR 3m up to EUR 10m as there are only a few German venture capital investors able to contribute these ticket sizes. In our view, recent activities by KfW and others help to mitigate this financing gap but they are not sufficient to really close it short-term. Therefore, we appreciate the market activities of foreign investors as this is absolutely crucial to lead the German market to the next stage.

From mid-term perspective, a further successful market development will also put German investors in a good position to accumulate high funding volumes and to contribute significant financing to the market as well.

One additional possibility to overcome the existing financing gap might be to think about alternative financing instruments such as Venture Debt or Media for Equity. Both instruments could be useful depending on the business model, the development stage and the overall funding situation.

There are alternative financing tools available in the market such as Venture Debt or Media for Equity. These could be considered useful, depending on the business model, the development stage and the stakeholders’ preferences.
Internet and digitalization have led to a changing use of media and have increased the pressure for media companies. However, for young and B2C focused digital companies these changing market conditions result in interesting opportunities as these start-ups often lack the financing power to invest in huge offline marketing campaigns. The solution is “Media for Equity” (M4E) - advertising space for shares. For start-ups, M4E is an alternative financing option, which has the potential to complement other funding in all growth stages. For media companies, M4E is an additional channel to monetize advertising space and to participate from strong growing new businesses outside of their traditional customer base.

M4E evolved around the year 2000 - parallel to the development of the internet and the possibility to sell customer goods outside regional clusters in a very simple manner. One of its pioneers was a Swedish media fund named Aggregate, which since 2002 pools excess advertising inventories of media companies and makes it available to start-ups in return for equity shares. In Germany, the media company Ströer followed by providing media space directly to firms. In 2009, the German Sat.1 Group, today merged into ProSiebenSat.1 Media AG, started to offer young companies ads in return for equity or revenue shares. One of its best-known deals is the TV-campaign of fashion online shop Zalando, well ahead of the companies IPO. Similar to Aggregate, the independent German Media Pool Venture Capital (GMPVC), founded in 2011, provides start-ups with advertising options in return for equity, ranging from billboards to radio and TV.

The development of the internet led to a highly effective and growing online advertising market, which enabled media clients to control the success of media spending in a way never seen before. In contrast, the offline media sector suffered from this development and was increasingly faced with the problem of unsold media inventory. M4E helps media companies to get out of this situation by (i) using it as a strategic instrument to increase diversification and respond to the innovation requirements from the shareholders, (ii) partnering with potential advertising clients in the very early stages and (iii) seeking financial benefits as a result of exit opportunities.

Young companies can benefit from M4E by accelerating brand recognition, conversion and customer growth. Using conventional offline media channels differentiates start-ups from competitors by focusing on different audiences. The huge media power of offline marketing channels like billboards, radio and TV creates opportunities to build trans-regional and sustainable brands. M4E can be used to scale offline marketing between the media groups and start-ups with limited risk.

There are two principle M4E models on the market. In the direct partnership model, the M4E deal is concluded directly between the media company and the start-up. In the fund model, M4E funds act as an intermediary between the start-ups and the media companies; this balances the risk and reward profile for both sides of the deal. The fund model allows start-ups to access different media types and to optimize the marketing portfolio by having only one key contact person.

M4E is an option for start-ups in the B2C business, addressing the mass market and offering a variety of products. The start-ups should be prepared for the increasing demand triggered by the offline marketing campaigns. Therefore, concluding on a M4E deal too early is usually not the best approach. Moreover, offline media campaigns should be used after exploiting online media channels to a reasonable extent.

In summary, M4E is an alternative financing tool for growing B2C online businesses, and can be used to complement traditional financing. For media companies, it reflects an additional sales channel and excellent opportunities to participate in innovative business ideas.
**Media for Equity fund model:**

1. Media partners contractually commit and provide advertising
2. Intermediary negotiates and sets up Media for Equity deals
3. Intermediary helps to set up, handles and oversees the media campaigns
4. Exit proceeds are paid out to the media partners, Venture Capitalist retains a carry on these returns

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**A few questions for Aljoscha Kaplan:**

**Why is M4E more popular in Europe than the US?**
In the United States, the funding gap between seed funding and later stage funding does not exist in the same way as Europe. Start-ups can acquire sufficient financing at almost every development stages. Therefore, the importance of M4E as a complementary financing tool is higher in Europe as compared to the US.

**How do you think the media for equity market in Germany will develop over the next few years?**
While online advertising is a highly efficient and traceable way to market products to buyers already searching for a product, offline media is able to generate significantly more reach and can generate purchase intent where none existed before. Furthermore, brands (and associated trust) are built via offline media. As the competitive landscape grows online, start-ups stand to benefit by diversifying their target group and building brands to generate long-term sales.

**From your experience, what are the major topics start-ups should think about when considering a M4E deal?**
M4E can accelerate the growth of those companies who are focused on the B2C market with products that are easy to understand and address a lot of people. Start-ups should have experience in advertising and have a clear communication strategy as this is crucial to best utilizing the different benefits an offline campaign brings. And, last but not least, the start-ups should not be surprised by the success of a media campaign. Processes have to be robust to meet an increasing customer demand in order to generate long-term benefits.
More than EUR 2.5bn additional funding volume available for the German market

### New institutional funds identified from October 2014 to September 2015 (alphabetical order)

<table>
<thead>
<tr>
<th>#</th>
<th>Investor</th>
<th>Fonds Name</th>
<th>Location</th>
<th>Volume</th>
<th>Announced</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Asgard Capital</td>
<td>-</td>
<td>Berlin</td>
<td>undisclosed</td>
<td>April 2015</td>
</tr>
<tr>
<td>2</td>
<td>AXA Strategic Ventures</td>
<td>-</td>
<td>Berlin, Others</td>
<td>EUR 15 million</td>
<td>June 2015</td>
</tr>
<tr>
<td>3</td>
<td>b-to-v Partners</td>
<td>b-to-v Fund 3</td>
<td>Berlin, St. Gallen</td>
<td>EUR 63 million</td>
<td>September 2015</td>
</tr>
<tr>
<td>4</td>
<td>CommerzVenture</td>
<td>-</td>
<td>Frankfurt am Main</td>
<td>undisclosed</td>
<td>May 2015</td>
</tr>
<tr>
<td>5</td>
<td>Deutsche Telekom Capital Partners</td>
<td>-</td>
<td>Bonn</td>
<td>EUR 500 million</td>
<td>November 2014</td>
</tr>
<tr>
<td>6</td>
<td>Felix Capital</td>
<td>-</td>
<td>London</td>
<td>USD 120 million</td>
<td>June 2015</td>
</tr>
<tr>
<td>7</td>
<td>GENIUS Venture Capital</td>
<td>VC Fonds Mecklenburg-Vorpommern</td>
<td>Schwerin</td>
<td>EUR 10 million</td>
<td>April 2015</td>
</tr>
<tr>
<td>8</td>
<td>Gruner + Jahr</td>
<td>G+J Fund</td>
<td>Berlin</td>
<td>EUR 50 million</td>
<td>January 2015</td>
</tr>
<tr>
<td>10</td>
<td>IBB Beteiligungsgesellschaft</td>
<td>VC Fund Technology Berlin II</td>
<td>Berlin</td>
<td>EUR 60 million</td>
<td>October 2014</td>
</tr>
<tr>
<td>11</td>
<td>IBB Beteiligungsgesellschaft</td>
<td>VC Fund Creative Industries Berlin II</td>
<td>Berlin</td>
<td>EUR 40 million</td>
<td>January 2015</td>
</tr>
<tr>
<td>12</td>
<td>KfW</td>
<td>ERP Venture Capital-Fondsinvestment</td>
<td>Frankfurt am Main</td>
<td>EUR 400 million</td>
<td>May 2015</td>
</tr>
<tr>
<td>13</td>
<td>Lakestar</td>
<td>Lakestar 2</td>
<td>Berlin</td>
<td>EUR 350 million</td>
<td>May 2015</td>
</tr>
<tr>
<td>14</td>
<td>Mosaic Ventures</td>
<td>-</td>
<td>London</td>
<td>USD 140 million</td>
<td>October 2014</td>
</tr>
<tr>
<td>16</td>
<td>Point Nine Capital</td>
<td>Point Nine Capital III</td>
<td>Berlin</td>
<td>EUR 55 million</td>
<td>September 2015</td>
</tr>
<tr>
<td>17</td>
<td>Speedinvest</td>
<td>Speedinvest II</td>
<td>Vienna</td>
<td>EUR 58 million</td>
<td>March 2015</td>
</tr>
<tr>
<td>18</td>
<td>Venionaire</td>
<td>-</td>
<td>Vienna</td>
<td>EUR 100 million</td>
<td>February 2015</td>
</tr>
<tr>
<td>19</td>
<td>Venture Stars</td>
<td>VS PBG I</td>
<td>Munich</td>
<td>EUR 15 million</td>
<td>August 2015</td>
</tr>
</tbody>
</table>

Sources: Mergermarket, OneSource, LexisNexis, EY Analysis
In the last 12 months, several funds that are committed to young and dynamic technology companies were announced by German and European VCs. The volumes of funds or fund-of-funds totals nine digits and can be seen for key players such as Deutsche Telekom, KfW, Lakestar, Holtzbrinck, Partech, Felix Capital, Point Nine Capital and Venionaire.

National VC players
- Deutsche Telekom, the German tele-communication giant, has earmarked EUR 500m for a hybrid innovation fund dubbed Deutsche Telekom Capital Partners in an effort to considerably expand the scope and volume of its investments in technological innovation. The provided capital is foreseen for a 5-year period on top of the existing investments in T-Venture.
- KfW, the German government-owned development bank, has disclosed a new EUR 400m fund to support national technology firms over a period of 5 years. The bank is owned by the Federal Republic of Germany (80%) and the States of Germany (20%), therefore, investments will focus on start-up growth rather than later-stage venture funding.
- Holtzbrinck Ventures, one of the main venture capital players, raised EUR 285m, which will be used for early, middle, and late-stage investments, ranging from around USD 500k to USD 50m per round. According to press information, the fund was oversubscribed by investors and closed in less than 4 months.
- Lakestar, a renowned venture capital vehicle, has announced a EUR 350m fund. Founder Klaus Hommels stated that investments will remain stage-agnostic with funding tickets to range from EUR 500k to EUR 45m per round. Examples of previous investments include Spotify, Skype, King, Klarna, Facebook and Airbnb.
- Point Nine Capital, a key venture capital firm, announced its third fund with a EUR 55m volume to deploy to seed and early Series-A internet start-ups. The investor has already 50 well-known start-ups in its portfolio, including DeliveryHero, ePetWorld, Kreditech, Mister Spex, Riskmethods or WestWing.

Foreign players with VC operations in the German market
- Partech Ventures, a French based venture capital firm with successful investments in Auxmoney, Brands4friends, Lesara or Oype, raised USD 240m to back late stage ventures. The firm will invest in French, American and German start-up opportunities with funding tickets between USD 12m and USD 50m.
- Mosaic Ventures, a UK based venture capital firm, has announced a USD 140m fund aimed at early-stage investments in Europe, and specifically at the Series-A end of the market. The companies track record is remarkable and includes firms such as Alibaba, Fotolia, King, Pinterest, ResearchGate or Squarespace.
- Felix Capital, a UK based venture capital firm, has raised USD 120m for a new venture fund dedicated to the German market. Investments will be both early and later stage and range from USD 100k to USD 10m. Previous portfolio companies include Dailymotion, Ubiquisys, Pave, Qype and Zong.

A set of venture capital players have raised multi-million start-up funds to provide capital to ventures at every development stage. These investments will be a boost for national entrepreneurs and drive growth in various technology segments.
Key investors that are active in the German start-up scene (1/2)

Area: Berlin and Potsdam

- Ace Ventures
- Apollo Beteiligungsgesellschaft
- Asgard Capital
- Atlantic Internet
- Atlantic Labs
- Atlantic Ventures
- Avaia Capital
- Axel Springer Digital Ventures
- Axel Springer Plug and Play Accel.
- BC Brandenburg Capital
- BDMI
- Bergfürst AG
- Berliner Business Angel Fonds.
- Berlin Hardware Accelerator
- Berlin Startup Academy
- Berlin Technologie Holding
- Berlin Venture Partners
- Berlin Ventures
- Berliner Volksbank
- Betahaus
- BeYond GmbH
- BFB BeteiligungsFonds
- BFB Wachstumsfonds Brandenburg
- BFB Frühphasenfonds Brandenburg
- bmp media investors
- Brandenburg Ventures
- Bsy Invest
- BTH Berlin Technologie Holding
- b[to]-v Partners AG
- BVP Berlin Venture Partners
- Campus Venture Beteiligungsg.
- capitol AG
- Catagonia Capital
- CCC Seed
- Cherry Ventures
- CoLaborator
- Covus
- Davidson Capital
- Earlybird
- ECONA
- Epic Companies
- estag | Capital AG
- Etvventure
- Flutz Ventures
- Found Fair Ventures
- FoundersLink
- German Media Pool
- German Startups Group
- GO:Incubator
- Grupo Intercom Berlin
- GTEC
- Hasso Plattner Ventures
- Heilemann Ventures
- helios.hub
- HitFox Group
- hub:raum
- IBB Beteiligungsgesellschaft
- IEG (Deutschland)
- K - New Media
- Kamran Capital
- KMB1 Beteiligung
- Königsinindesch Venture
- LakeStar
- Leverage Media
- M Cube
- MAMA
- Microsoft Ventures Accelerator
- MINE Innovation Engineering
- Möller Ventures
- Mv. Unternehmensbeteiligungsg.
- Next station
- Odeon Management-Partners
- Partech Ventures
- Paua Ventures
- Peppermint Venture Partners
- Point Nine Capital
- Portus Corporate Finance
- Project A Ventures
- Project Flying Elephant
- Puchta Petersen
- Reber Capital
- Redstone Digital
- Rheingau Founders
- Richmond View Ventures
- Rocket Internet
- Seedcamp Berlin
- Siemens Technology Accelerator
- Sizzi
- Sky & Sand
- Sobera Capital
- Spreefactory
- Spree-Media.Net
- Springstar
- SSUV Assets
- Starstrike Ventures
- Startupbootcamp Berlin
- Team Europe
- Techstars METRO Accelerator
- UnitedArts Ventures
- Vattenfall Europe Venture
- VB-Business-Group
- VC Fonds Kreativwirtschaft Berlin
- VC Fonds Technologie Berlin
- VC-POINT GmbH
- Ventegis Capital AG
- Vogel Ventures
- WestTech Ventures
- XLHEALTH
- Yamas Ventures
- You is Now

Area: Greater Munich

- Acton Capital Partners
- Allgeier Gruppe
- Allianz Digital Accelerator
- Alternative Strategic Investments
- Ananda Ventures
- Arcus Capital
- ASTUTIA Ventures
- Aurelius AG
- BambooVentures
- BayBG Bayerische Beteiligungsg.
- Bayern Kapital
- BonVenture Management
- Burda Digital Ventures
- Cartagena Capital
- Caskit Capital Partners
- Cipio Partners
- Clover Venture
- Clusterfonds Innovation
- Cutback ventures
- Deutsche Venture Capital
- DLD Ventures
Ecommerce Alliance  
Equistone Partners  
European Founders Fund  
Exterior GmbH  
Forgion Capital Partners Germany  
Fraunhofer Venture  
Gimv  
Global Founders Capital  
Holtzbrinck Digital  
HV Holtzbrinck Ventures  
HW Capital GmbH  
Jochen Schweizer Ventures  
Kites Industriebeteiligungen  
Maxburg Capital Partners  
Mic AG  
MiG Verwaltungs AG  
ProSiebenSat.1 Accelerator  
ProSiebenSat.1 Media  
Paragon Partners  
Prince Invest  
Puccini Germany  
Reimann Investors Advisory  
Riverside Europe Partners  
Safia Corporate Finance  
S-Beteiligungsgesellschaft  
Senovo  
SevenOne Intermedia  
Seven Ventures  
Siemens Venture Capital  
Sixt e-ventures  
Smac partners  
Smart digits  
SpaceNet AG  
Star Ventures Management  
Target Partners  
TechFounders  
Tech. Beteiligungsfonds Bayern  
Tiburon Unternehmensaufbau  
Tomorrow Focus AG  
TVM Capital  
UnternehmerTUM Fonds  
V+ Beteiligungs GmbH  
Venture Stars  
VIO Management  
Wellington Partners  
XAnge Private Equity

Area: Frankfurt

Allianz Global Investors  
Beyond Capital Partners  
Brockhaus Private Equity  
CommerzVentures  
DB Lab  
FS Vencube  
Gauly Dittrich van de Weyer Bet.  
HCS Beteiligungsgesellschaft  
Heliad Equity Partners  
HEP Beteiligungs  
HR Alpha Venture Partners  
KFW Bankengruppe  
KP TECH Corporate Finance  
Main Incubator  
Omnis Mundi  
P2C Private to Corporate  
Steadfast Capital  
Tempus Capital  
VCDE Venture Partners  
VR Equitypartner  
Whitestone Venture Capital

Area: Hamburg

Aura Capital Management  
Bauer Venture Partner  
Beaufort Capital  
CatCap  
Centueure Beteiligungs AG  
Cinco Capital  
Cleaventure  
Deutsche Druck- und Verlagsg.  
Digital Pioneers Germany  
dpa-infocom  
evVentures Capital Partners  
Equity Seven Beteiligungsg.  
Fat Locust Invest  
Fiellmann Ventures  
FRW Bach Invest GmbH & Co.KG  
GLG Green Lifestyle  
Gruner + Jahr AG  
H2 Investments  
HackFWD Capital

Hanse Ventures  
IFB Innovationsstarter  
Innovationsstarter Hamburg  
vVentureCapital  
J.C.M.B. Beteiligungs GmbH  
Jahr Assetmanagement  
Neuhaus Partners  
Pacama  
Parklane Capital  
Raffay & Cie.  
SCG Beteiligungsg.  
SchmidtvonAhlen Capital  
SGLB Beteiligungsg- & Beratungsg.  
Shortcut Ventures  
Start 2 Ventures  
Tivoli Ventures  
TruVenturo  
VCmed AG

Area: Bochum, Dortmund, Duisburg, Dusseldorf, Leverkusen and Muehlheim

agile Accelerator  
BASF Venture Capital  
Business Angels Agentur Ruhr  
Crescoes  
Devario Assets  
Devexo  
ELS Fonds GmbH  
EnjoyVenture  
Funke Mediengruppe  
Grants4Apps  
Innogy Venture Capita  
Madou Early Ventures  
NRW Bank Kreativwirtschaftsfonds  
NRW Bank Investment  
SeedCapital Dortmund  
S-VentureCapital Dortmund  
Seven Miles  
TakeOff VC Management  
Tengelmann Ventures  
Triginta Capital  
TEV Global Invest
Key investors that are active in the German start-up scene (2/2)

**Area: Bonn and Cologne**
- Betafabrik
- Burgey Business Group
- ColognInvest
- Colonia Private Equity
- Crossventures
- Curtis newton labs
- Deutsche Post Ventures
- Deutsche Telekom Capital Partners
- Dimensional Beteiligungsg.
- DuMont Venture Holding
- Flossbach von Storch
- Founders Capital
- Greven Medien
- Guano
- High-Tech Gründerfonds
- Iris Capnamic Ventures
- ISteps App Ventures
- KlickVentures
- Media Investment
- Media Ventures
- netSTART Venture
- Rewe Digital
- RTL interactive
- Schwetje Invest GmbH
- Startplatz
- TS Ventures
- Venista Ventures
- VHB Digital

**Other areas**
- Albatros Capital (Stuttgart)
- AS Vantage Holding (Roehrbach)
- BCM Bruker Capital (Bietigheim)
- Beteiligungs GmbH (Steinfeld)
- Black Forest Accelerator (Lahr)
- BmT Beteiligungsm. (Erfurt)
- Born2grow (Heilbronn)
- Chancenkapitalfonds der Kreissparkasse Biberach (Biberach)
- Corporate Counsellors (Melle)
- Creathor Venture (Bad Homburg)
- Crossinvest Venture (Boeckingen)
- Crowd-Angel Venture (Hernstedt)
- DSA Invest (Aachen)
- eCAPITAL (Muenster)
- EMBL Ventures (Heidelberg)
- ENECA (Regensburg)
- Engage Key Tech V. (Karlsruhe)
- Erste buw equity (Osnabrueck)
- Forum Media Ventures (Merching)
- Freudenberg VC (Weinheim)
- FSB Beteiligungen (Leutenberg)
- Fundsters VC (Meerbusch)
- Genius Venture Capital (Schwerin)
- Grazia Equity (Stuttgart)
- Gründerfonds Bielefeld (Bielefeld)
- Haas New Media (Mannheim)
- Hannover Beteiligungsf. (Hannover)
- IBG Beteiligungsgr. (Magdeburg)
- InnoWerft (Walldorf)
- Intan Media-Service (Osnabrueck)
- ISB Rheinland-Pfalz (Mainz)
- Jaja Investment (Pogez)
- Kabs Venture (Seevetal)
- KBEV (Oldenburg)
- KIZOO Tech. Capital (Karlsruhe)
- Klin-Gruppe (Pforzheim)
- KSH Capital Partners (Luebeck)
- LBBW Venture Capital (Stuttgart)
- Leonardo Venture (Mannheim)
- MBG (Stuttgart)
- Media + more venture (Heilbronn)
- Merck Serono Ventures (Darmstadt)
- Metacrew Ventures (Osnabrueck)

- MGO Digital Ventures (Bamberg)
- Moacon Ventures (Neuss)
- Monkfish Equity (Leipzig)
- NABRU Ventures (Mettingen)
- Neue Medien Ulm (Ulm)
- Nextfatbusiness (Gröbenzell)
- NWZ Digital (Oldenburg)
- OVDL Vermögensv. (Dresden)
- PDV Inter-Media Venture (Augsburg)
- Priority AG (Herford)
- Publishers Partners (Edenkoben)
- Robert Bosch Venture Capital (Stuttgart)
- Röder & Uhl (Stuttgart)
- Saarländische Wagnisfinanzierungsg. (Saarbrücken)
- SAP Startup Focus (Walldorf)
- SASPO Holding (Dreieich)
- SBB Sachs-Anhalt (Barleben)
- Schlütersche Verlagsq. (Hannover)
- Schober Holding (Ditzingen)
- Seed Fonds Aachen (Aachen)
- Seedmatch (Dresden)
- Semper fi Investment (Bremen)
- SHS (Stuttgart)
- SIB Innov.Beteilig. (Dresden)
- Sirius Venture Partn. (Wiesbaden)
- S-REFIT (Regensburg)
- Strategon (Lahnstein)
- Stuttgart Internet (Stuttgart)
- S-UBG (Aachen)
- Symopsis Innovation C. (Ettlingen)
- TechnologieContor (Gera)
- Technologiefonds MV (Schwerin)
- Technologiegründerfonds Sachsen (Leipzig)
- TFO (Bensheim)
- TowerVenture (Jena)
- Triangle Venture Capital (Bensheim)
- United Internet Ventures (Montabaur)
- VC Fonds BW (Stuttgart)
- Vogel Business Media (Würzburg)
- Vorwerk Ventures (Wuppertal)
- WagnisKapitalg. der Kreissparkasse Reutlingen (Reutlingen)
- YOSH Invest (Gerford)
- ZFHN (Heilbronn)
Access to capital is one of the key challenges for emerging growth companies. Besides equity-based investments, growth debt or venture lending (VL) represents another viable option for funding to venture-backed companies. In most of the cases, this alternative funding tool is tied to particular financing projects (i.e., international expansion, acquisitions, or new product lines) that enable the company to reach additional milestones, hence increase shareholders value.

Globally active lenders for venture debt are for example Kreos Capital, BOOST&Co, Silicon Valley Bank, Harbert, ESO Capital and Davidson Technology Growth fund in Europe, TriplePoint Capital, Hercules Technology Growth Capital, Silverlake, Harvest Capital in the US, Viola and SVB in Israel. Only a few of those funds are active in Germany; one of the first dedicated funds is Davidson Technology Growth, based in Berlin.

Compared to the US, the European market for venture debt is still relatively small. While estimates claim that approximately 15% of all venture capital invested in US start-ups is venture debt, in the UK this number is estimated at 10% and only 5% in Germany.

Based on USD 2.9bn cumulated funding value for German start-ups in 2014, the market potential for venture lending in Germany amounts to approximately USD 200m to USD 300m per year - assuming an equivalent share of 15% for venture debt as in the United States market and estimating 50% of venture capital money invested in mid-late start-ups (which are most relevant for venture debt).

Venture debt funds take more risks than traditional banks and accordingly expect higher returns. Venture debt growth financing is designed for companies which have achieved scale already, are cash flow positive or close to it and do not qualify for traditional debt financing or aim for greater flexibility. In most of the cases, respective companies should generate more than EUR 10m turnover with valuations of EUR 30m and above. Typically, borrowers are expected to repay the loan within 2 to 4 years from operating cash flows.

Depending on the stage and financial situation of a company, venture debt can have several advantages for investors as well as entrepreneurs. Debt provided by specialized banks is handled as senior loan in case of insolvency, with the highest priority among creditors, whereas non-bank loans are subordinated in case of default or insolvency. Banks normally stay away from venture lending arguing that the risk associated is too high and traditional securities are lacking (i.e., real estate and tangible assets). Therefore, bank debt is usually not an option for fast growing internet and tech companies.

A venture loan is normally composed of three basic elements: interest (paid monthly or quarterly), securities and equity upside, or warrants. Warrants often offer lenders participation in a liquidity event or the right to “put” the option (i.e., sell the equity upside back to the company at a reduced price).

The main benefit for lenders is the improved return to match the higher risk associated. The return is significantly lower than the expected equity return, however, the equity investors take much higher risks as their investments are unsecured.

For borrowers, venture lending primarily means one of the cheapest available sources of funding for achieving decisive milestones. Venture lending is flexible in form and structure (e.g., payback terms) and, most importantly, implies minimal to no dilution for shareholders. It involves the possibility to increase pre-money-valuation without dilution and ROE-elevation due to the leverage effect. Subsequently, venture debt as an alternative form of financing features a quick and simple process for fundraising presuming no need to discuss company valuation and no control rights granted to new shareholders.

The structure of venture debt typically includes a term of 3 to 4 years with a 10% to 12% cash-paid interest rate. Interest-only periods of several months before starting to pay the principle loan are possible. Venture lenders most commonly request warrants, securities and covenants. Depending on the deal terms, warrants with regard to equity can range from 0.5% to 3% of the fully diluted company valuation. Alternatively, lenders can ask for warrants or “phantom equity” of 10% to 20% of the value of the loan, to be executed upon exit.

Collaterals are usually linked to assets, accounts receivables lines or intellectual property (i.e., pledges on IP or IP securities). Covenants do not arise for every investment; however, lenders may attach conditions to the deal terms including, for example, a minimum cash level or restrictions on additional debt. These measures are ways to minimize the credit default risk. M&A, IPO or MAC clauses (material adverse change) will accelerate the payback of the loan.
Currently, venture debt is not a standard funding instrument in Germany. However, when utilized properly, venture debt can be a very efficient financing tool, which reduces dilution and helps to accelerate a company’s growth. Venture debt is complementary to equity financing and could help to close the gap for fundraising in ranges between USD 3m to USD 10m in Germany.

In essence, venture debt is cheaper than equity for mid-late stage companies, increases companies’ valuation without the dilution factor and without the need of further funding by existing investors.

A few questions for Eran Davidson:

**How do you see the market for venture debt in Germany?**
The market for venture debt in Germany is still very young and most are not very familiar with the product. However, equity investors and successful entrepreneurs see great potential in this segment and most of them appreciate the advantages of this financing tool, asking for a proposal and are happy to replace traditional equity rounds with a quick and simple debt facility.

**What do you bring with you to this business?**
Being a venture capitalist for over 20 years and running six different venture capital funds, as well as the Family Office of one of Germany’s most successful entrepreneurs, I understand the mindset of young entrepreneurs, can assess risk, and can assist much beyond finance with their growth challenges.

I am also well acquainted with the German Family Office scene and can bring the two different worlds together - the discrete wealth managers and high net-worth individuals with the young, dynamic tech entrepreneurs.

**How do you think the market for venture debt will develop in Germany over the next five years?**
If entrepreneurs are more open to debt financing and overcome negligible concerns, this product could have a material effect on the entire venture scene. By accelerating growth without dilution, venture lending boosts company development with controllable risk. I am sure that venture debt in Germany will meet US level within the next five years. The need is clear - there is a lack of mid to late stage funding sources and venture debt fills the gap perfectly.

**How difficult was it to raise a debt fund?**
It was extremely difficult because of BAFIN regulations, but we managed to convince them of the need and the market, which is not met by traditional banks. They were open minded, wise and licensed our fund.
M&A activities are strong with a set of landmark exits with a multi-billion valuation

The national market has experienced multi-million EUR deals in 2014 with start-ups such as Mytheresia, Pizza.de, Fyber, Scout24, Sociomantic, Sofort AG or Teamviewer. The year 2015 has emerged as one of the strongest for M&A. Deal making is on a roll and recent activity is on pace for a record year to hit the highest level since the dot-com boom in the end of the 1990s. Several landmark transactions have been recorded for start-ups such DeliveryHero, Interactive Media/T-Online.de or Quandoo. It is interesting to mention that the corporate sector has been taking notice of the potential of the venture scene, given the recent takeovers of 6Wunderkinder, 360T, Nokia HERE or Sirrix.

Takeover-deal announcements have been very frequent in the start-up regions of Berlin (36%), Bavaria (18%), North Rhine-Westphalia (15%) and Hamburg (11%), based on disclosed deals in 2014 and 2015. These German federal states account for approximately 80% of the recorded transactions which can also be seen in the Top 15 of the transactions or initial public offerings at the national stock market. We believe that in short-term additional M&A activities will be seen at a large scale due to the fact that financial investors have a lot of capital to spend for innovative companies and corporates desperately searching for ways to boost growth in the digital market.

The digitalization trend is continuing to shift into traditional sectors and disrupting businesses, unrestricted by national borders or language barriers. In general, internet or mobile innovation complements more traditional technologies and challenges business models that have existed for corporates for decades. A group of European entrepreneurs anticipated the market changes and developed business models that have gained significant market share or even managed to establish a market leading position. Cooperation with the strong industrial base of Germany offers considerable potential for tech companies.

Takeover-deal announcements have been very frequent in the start-up regions of Berlin, Bavaria, North Rhine-Westphalia and Hamburg, based on disclosed deals in 2014 and 2015.
### Top M&A deals are driven by strategic takeovers from corporates

#### Top 15 deals in Germany from October 2014 to September 2015 – based on announced or rumored value

<table>
<thead>
<tr>
<th>#</th>
<th>Target Name</th>
<th>Location</th>
<th>Target Profile</th>
<th>Buyer Name</th>
<th>Country</th>
<th>Buyer Profile</th>
<th>Value*</th>
<th>Announced</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Rocket Internet</td>
<td>Berlin</td>
<td>Company builder</td>
<td>IPO (stock exchange)</td>
<td>DE</td>
<td>Various</td>
<td>EUR 6.5 billion*</td>
<td>October 2014</td>
</tr>
<tr>
<td>2</td>
<td>Zalando</td>
<td>Berlin</td>
<td>E-commerce in fashion</td>
<td>IPO (stock exchange)</td>
<td>DE</td>
<td>Various</td>
<td>EUR 5.8 billion*</td>
<td>October 2014</td>
</tr>
<tr>
<td>3</td>
<td>Nokia HERE</td>
<td>Berlin</td>
<td>Geographic maps</td>
<td>Audi, BMW and Daimler</td>
<td>DE</td>
<td>Automotive companies</td>
<td>EUR 2.5 billion</td>
<td>August 2015</td>
</tr>
<tr>
<td>4</td>
<td>360T</td>
<td>Frankfurt</td>
<td>Trading technology</td>
<td>Deutsche Börse</td>
<td>DE</td>
<td>Stock exchange</td>
<td>EUR 725 million</td>
<td>July 2015</td>
</tr>
<tr>
<td>5</td>
<td>DeliveryHero</td>
<td>Berlin</td>
<td>Food delivery service</td>
<td>Rocket Internet</td>
<td>DE</td>
<td>Company builder</td>
<td>EUR 496 million</td>
<td>February 2015</td>
</tr>
<tr>
<td>6</td>
<td>Axel Springer</td>
<td>Berlin</td>
<td>Classifieds</td>
<td>Axel Springer</td>
<td>DE</td>
<td>Media company</td>
<td>EUR 446 million</td>
<td>December 2014</td>
</tr>
<tr>
<td>7</td>
<td>Interactive Media, T-Online.de</td>
<td>Darmstadt</td>
<td>Web marketing</td>
<td>Ströer</td>
<td>DE</td>
<td>Media company</td>
<td>EUR 300 million</td>
<td>August 2015</td>
</tr>
<tr>
<td>8</td>
<td>Windeln.de</td>
<td>Munich</td>
<td>Baby products</td>
<td>IPO (stock exchange)</td>
<td>DE</td>
<td>Various</td>
<td>EUR 211 million*</td>
<td>May 2015</td>
</tr>
<tr>
<td>9</td>
<td>Intergenia Holding</td>
<td>Hürth</td>
<td>Web hosting</td>
<td>Host Europe</td>
<td>DE</td>
<td>Web hosting</td>
<td>EUR 210 million</td>
<td>December 2014</td>
</tr>
<tr>
<td>10</td>
<td>6Wunderkinder</td>
<td>Berlin</td>
<td>SaaS services</td>
<td>Microsoft</td>
<td>US</td>
<td>Software</td>
<td>EUR 200 million</td>
<td>June 2015</td>
</tr>
<tr>
<td>11</td>
<td>Quandoo</td>
<td>Berlin</td>
<td>Reservation platform</td>
<td>Recruit Holdings</td>
<td>JP</td>
<td>Financial investor</td>
<td>EUR 199 million</td>
<td>March 2015</td>
</tr>
<tr>
<td>12</td>
<td>Fyber</td>
<td>Berlin</td>
<td>Mobile advertising</td>
<td>RNTS Media</td>
<td>DE</td>
<td>Investment holding</td>
<td>EUR 172 million</td>
<td>October 2014</td>
</tr>
<tr>
<td>13</td>
<td>Verivox (80%)</td>
<td>Heidelberg</td>
<td>Price comparison</td>
<td>ProSiebenSat.1</td>
<td>DE</td>
<td>Media company</td>
<td>EUR 170 million</td>
<td>June 2015</td>
</tr>
<tr>
<td>14</td>
<td>Sirrix</td>
<td>Saar-Brücken</td>
<td>Security technology</td>
<td>Rohde &amp; Schwarz</td>
<td>DE</td>
<td>Electronics group</td>
<td>EUR 100 million</td>
<td>May 2015</td>
</tr>
<tr>
<td>15</td>
<td>Turtle Entertainment (70%)</td>
<td>Cologne</td>
<td>eSports</td>
<td>MTG</td>
<td>SE</td>
<td>Media company</td>
<td>EUR 78 million</td>
<td>July 2015</td>
</tr>
</tbody>
</table>

Sources: Mergermarket, OneSource, LexisNexis, EY Analysis

* Market capitalization as of IPO date derived from public sources
Investors have rewarded ventures for their innovative business models with multi-million takeover attempts. The commercial strength of national start-ups is a key factor that supports M&A activities in the German market.

**Top M&A deals**

- **Nokia HERE**, the mapping unit of Finnish technology giant Nokia, had been acquired by a coalition of German carmakers Audi, Daimler and BMW for a market price of EUR 2.5bn. HERE provides mapping data to about 80% of cars with in-dash navigation systems in North America and Europe, which makes the firm very interesting in terms of connectivity technologies.

- **360T**, a multi-user platform provider, which has revolutionized foreign exchange trading over the past decade, was acquired by Deutsche Börse for EUR 725m. The German stock exchange intends to be a leading global marketplace for multiple asset classes worldwide with foreign exchange being the single largest asset class.

- **Rocket Internet** has acquired a 30% stake in Delivery Hero for about EUR 500m. The company builder is betting on food and grocery delivery as the next frontier of e-commerce in addition to existing venture Foodpanda. The new food delivery assets, will become a part of Rocket Internets new division encompassing its on-demand food delivery businesses, called the Global Online Takeaway Group.

- As part of a digital growth initiative, Axel Springer and General Atlantic established a strategic partnership for classified ads in 2012, with GA holding a 30% share. In December 2014, Axel Springer bought back a 15% stake for EUR 446m, aiming to fully control the business again. The company has an option to buy the remaining 15% stake in exchange for stock or cash.

- **Outdoor advertising specialist Ströer** acquired Interactive Media and the internet portal T-Online.de for about EUR 300m. The firm’s strategy is to strengthen its position in the independent marketing of online display, video and mobile equipment.

- **Host Europe** took over web hosting company Intergenia for EUR 210m, continuing the consolidation of hosting firms in Europe. The valuation is driven by operational and financial synergies between the businesses.

- **Microsoft**, the US software giant, has taken over 6Wunderkinder, the company behind the task-management app Wunderlist for EUR 200m. The company intends to add the technology to its product portfolio to increase market leadership.

- **Quandoo**, a reservation service for restaurants, and a major European rival to US-based OpenTable, had been acquired by Japan’s Recruit for EUR 199m. The acquisition is another step in the firm’s long-term vision to become a top matching platform.

- **ProSiebenSat.1**, a leading media company, bought a 80% share in consumer portal Verivox for EUR 170m. The acquisition of the firm for energy benchmarking of tariffs is a further milestone in its digitalization strategy.

- **Fyber**, a leading advertising technology company, was attracted by RNTS Media. The firm paid USD 190m for the start-up to create a global mobile AdTech company.

The factors supporting deal-making in 2014 and 2015 are likely to be sustained in 2016. We expect several multi-million and multi-billion takeovers in the next year given the strong pipeline of late stage start-ups and the continuous market rumors focusing on German ventures.

**Stock market listings**

- **Rocket Internet**, the company builder for well-known start-ups such as Foodpanda, Helpling, Home24, Zalando or Wimdu, has managed a successful listing in October 2014, with a total valuation of EUR 6.5bn. The capital will be used for the further expansion since the firm intends to become the world’s largest internet platform outside the US and China.

- **Zalando**, Europe’s largest online shoe and fashion retailer, had been over-subscribed in October 2014, with a total valuation of EUR 5.8bn. The company is one of the biggest stories for Rocket Internet and the Samwer brothers. Founded in 2009, Zalando was initially a copy of existing US online retailers.

- **Windeln.de**, a retailer for baby products with a customer base in Germany, Austria, Switzerland as well as China, floated in May 2015 with a valuation above EUR 200m. The raised capital shall be used for financing further growth activities.

- The success of stock listings has inspired other German start-ups to float the capital market. According to public press information, various other national ventures have expressed interest for a listing at the German stock exchange in the years to come, including Goodgame Studios, Kreditech and Nfon.
## Brief insights into the rationale of recent transactions

<table>
<thead>
<tr>
<th>Takeover or merger with a regional competitor</th>
<th>Strategic acquisitions by corporates</th>
<th>Focus on global expansion by inorganic growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Several start-ups pursue the strategy of growth through acquisition. This model is one of the most observed approaches for diversification and market positioning.</td>
<td>A set of corporates have acquired start-ups to complement their business models. Normally they expect a growth story or synergies connected with the deal.</td>
<td>Numerous start-ups make use of a dynamic expansion strategy by takeovers in addition to their organic growth. They focus on growth in particular markets or regions.</td>
</tr>
</tbody>
</table>

### Sample 1

Helpling, a service marketplace owned by Rocket Internet, acquired national rivals Familienhelfer and CleanAgents to strengthen the German market position.

### Sample 2

Delivery Hero acquired a minority stake in MyLorry. The venture offers express transportation services for restaurants that do not serve the food delivery market.

### Sample 3

Axel Springer, a leading media company, merged its online real estate classified business ImmobilienScout into a joint venture with Immowelt to compete with market leading rival ImmomobilienScout24.

### Sample 4

ProsiebenSat.1 acquired further equity stakes in the German start-ups Preis24.de, Fiaconi (53%) and Amorelie (52%) to increase the share in the digital business.

### Sample 5

Deutsche Telekom acquired a controlling stake in sports betting operator Deutsche Sportwetten to become a player in the German online sports betting market.

### Sample 6

Industry giant Bosch acquired the German firm ProSyst, a company specialized in the development of gateway software and middleware for the internet of things.

### Sample 7

Mister Spex acquired Norwegian contact lens online retailer Lensit.no. This acquisition follows the takeovers of direct competitors Lensstore and Loveyewear in 2013.

### Sample 8

Product and art design platform Monoqi acquired the assets of former online furniture marketplace Mydeo to accelerate the expansion into the volume-sized UK market.

### Sample 9

Big data credit scoring firm Kreditech acquired Kontomierz, a firm from Poland with a technology to verify client identity and gain read-only access to bank accounts.

### Competition has been a key driver for recent transactions in the German market for companies with digital business models.

The various bidders – either with a venture or corporate background – have adopted different strategies to strengthen their market position by acquiring minority shareholdings (i.e., Rocket Internet in Delivery Hero), initiating mergers with peers (i.e., Immomot and Immowelt) or pushing for a 100% takeover to extend their regional footprint (e.g., Mister Spex in Lensit.no). In our view, the consolidation trend is going to continue especially in the niche markets that have emerged throughout the last 12-48 months, e.g., household services, food delivery services or the various specialized e-commerce providers.

### M&A with focus on the digital market continues to be a leading growth strategy for national corporates.

Respective transactions have been documented for larger players such as Bertelsmann, Bosch, Cewe, Deutsche Telekom or Ströer that aim to extend their activities in the digital market. We observe that this development will become more apparent due to the digital shift and trends such as eLearning, car connectivity or industry 4.0. The multi-billion takeover of the geographic maps specialist Nokia HERE through a consortium formed by the automotive suppliers Audi, BMW and Daimler can be seen as another landmark event where established corporates try to get a foothold in the market.

### Cross-border transactions at European or worldwide level provide a significant source of value creation for German start-ups.

Several firms have acquired direct or indirect competitors from abroad to drive growth and to take an active position in their specific market environment. Most prominent are the Berlin-based food delivery ventures Delivery Hero and Foodpanda. Both firms follow a dynamic M&A strategy to take over regional market players and integrate them in their global network of subsidiaries. This approach requires an experienced management team, a worldwide network and sufficient cash to finance the acquisitions.

Sources: Mergermarket, OneSource, LexisNexis, EY Analysis
The pipeline for major exits remains strong in 2015/2016

The German market has seen several ventures that went through a dynamic value creation process to become billion USD start-ups (“unicorns”). Various start-ups have reached this level of valuation, and more companies are on the way to achieving this.

<table>
<thead>
<tr>
<th>Company</th>
<th>Valuation: EUR</th>
<th>Latest valuation (Month/Year)</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rocket Internet</td>
<td>6.5bn</td>
<td>Successful IPO in October 2014</td>
<td>The company builder &amp; investor founded by the Samwer brothers continues to grow with digital firms in +110 countries.</td>
</tr>
<tr>
<td>Delivery Hero</td>
<td>2.6bn</td>
<td>Latest valuation (September 2015)</td>
<td>The food delivery platform, founded in 2011, has a strong market position with more than 200,000 restaurants in 34 countries.</td>
</tr>
<tr>
<td>Zalando</td>
<td>5.8bn</td>
<td>Successful IPO in October 2014</td>
<td>The fashion portal, founded in 2008, increased revenue to EUR 2.2bn in 2014.</td>
</tr>
<tr>
<td>Xing</td>
<td>1.0bn</td>
<td>Market capitalization September 2015</td>
<td>The social network for professionals in the D-A-CH region, launched in 2013, has 700 employees and grows steadily with +9m users.</td>
</tr>
<tr>
<td>Hello Fresh</td>
<td>942m</td>
<td>Latest valuation (September 2015)</td>
<td>The food delivery service, launched in 2012, has more than 15,000 recipes in its database and sells 4m meals per month (in 2015).</td>
</tr>
<tr>
<td>Home24</td>
<td>942m</td>
<td>Latest valuation (September 2015)</td>
<td>The venture has become the leading online retailer for home &amp; living products, with EUR 160m turnover in 2014.</td>
</tr>
<tr>
<td>Kreditech</td>
<td>750m</td>
<td>Latest valuation (July 2015)</td>
<td>The start-up applies big data technology to score customer creditworthiness to provide online financing services.</td>
</tr>
<tr>
<td>Soundcloud</td>
<td>700m</td>
<td>Latest valuation (January 2014)</td>
<td>SoundCloud, founded in 2007, is a leading audio platform with 10m users and more than 175m unique monthly listeners.</td>
</tr>
<tr>
<td>Foodpanda</td>
<td>560m</td>
<td>Latest valuation (September 2015)</td>
<td>The food delivery platform, founded in 2011, is a portfolio company of Rocket Internet, with about 60,000 restaurants in 40 countries.</td>
</tr>
</tbody>
</table>

Sources: GP Bullhound, Mergermarket, OneSource, LexisNexis, EY Analysis

According to the technology research firm GP Bullhound, a set of German ventures with a multi-billion USD valuation have developed (“unicorns”). These include Delivery Hero, Rocket Internet, Hello Fresh, Zalando and Home24. Several of these firms are already stock listed so their market value is not only driven by the latest funding round but moreover by the expectations of the capital market.

There are a couple of “new kids on the block” with strong growth in valuation. The next billion USD companies prediction by GP Bullhound includes national start-ups such as Foodpanda, Kreditech or Soundcloud. The vast majority of the business models of the outlined ventures are consumer focused, either in the field of career management, fashion, finance, food-delivery, furnitures or music.

It can be expected that numerous large-sized exits are going to come in 2015/16 given (i) the strong pipeline of start-ups with material funding, (ii) the commercial success of ventures that have attracted the interest of other market participants, as well as (iii) the number of firms that are currently preparing for funding rounds at the German stock-exchange.
Trends
FinTech, Food and AdTech are the key trends in the digital start-up market

We qualify hardware as the leading term for trends like the internet of things, smart home and 3D printing. Obviously, these trends will change the entire economic landscape as almost every traditional industry will be affected. Making electrical devices smart creates large amounts of data, which can be used to improve product features significantly and which are extremely relevant for the advertising industry.

In 3D printing, first ventures have shown the possibilities and the disruptive potential especially in the mechanical industry. What comes next is the roll-out of these technologies in the global markets.

While hardware is undoubtedly the dominating trend in a mid to long-term view, we qualify three trends as key from a short-term point of view.

FinTech is no longer a buzz word. We see ventures like Kreditech, Zencap, Number26, Cashboard and Optiopay, which are attacking the financial industry from different directions armed with very smart business models. Food is the big bet in the digital start-up industry with order platforms at the upper end as well as several ventures tackling the market for online groceries and beverage delivery, which so far has not been captured at a global scale. Finally, AdTech is the third key trend in our view as it benefits from the development in all other segments due to the creation of masses of user data.

The digital start-up industry has become more heterogeneous and it is hard to classify the various businesses into sub-industries or trends. In our view, e-commerce is still a driving force of the market regardless of established global players like Amazon or Zalando. Business ideas in e-commerce are almost endless as there are still a lot of niches currently not catered for a global scale or one or two market leaders have not emerged yet such as in the furniture market or with regard to pawnshops.

In addition, curated shopping is still a focus area in e-commerce as customer life times are longer and average basket sizes are higher compared to standard e-commerce.
Financing is still the major obstacle for growing tech ventures. However, there are a lot of improvements and a general market shift, which benefit the ventures. The supply of financing is steadily increasing driven by macroeconomic factors as well as the maturing market experience. From a macroeconomic view, the unchanged historically low interest rates will release further liquidity to the tech start-up industry.

Moreover, the supply side is no longer comprising a few venture capital funds accompanied by a number of government backed institutions. The large scale market entry of foreign investors into the German tech start-up industry has pushed the market considerably and increased the competition between the investors to find smart business ideas very early on and make financial commitments.

The tech start-up industry has increasingly attracted financial investors, which so far were not engaged in such early stages of the development. Private equity players, investment banks and even hedge funds are bringing money to the table, which puts some of the tech ventures into a negotiation position which would have appeared inconceivable only a few years ago. Last but not least, the investor base will be significantly broadened by corporate investors not only from the media industry but also from other industry segments. The impressive increase of corporate activities in the start-up market as shown in the chart above will lead to the release of further financial commitments. There is a lot of money in the market designated to new business ideas and it is only a matter of time when this money will find the right addressees. For the start-ups, the key challenge is to balance the different advantages and disadvantages when considering a corporate strategic investor on the one hand and a pure financial investor on the other hand.

Foreign investors have pushed the German tech start-up market to the next level. We observed an increasing competition between the investors for the best investment opportunities.
Appendix
Methodology and Disclaimer

This study has been prepared by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft (hereinafter “EY”) with the purpose of providing the public with information about developments in the venture capital and start-up sector.

EY points out that the study does not represent an adequate basis for a final decision about the information shown in the study. The study is not comprehensive or complete in the sense of containing all the facts which might be of interest in connection with the information described.

The study has been prepared with the usual care required for such studies. Unless referring to EY itself, the information presented has not been reviewed by EY with regard to its accuracy or completeness. The information have been gathered by desktop research (public sources, disclosed information and acknowledged databases) and interviews, complemented by our own market knowledge, but includes no confidential information in any sense - qualitative and quantitative research.

EY is not responsible for incomplete or false information. Thus, readers are recommended to examine all information prior to any decision. EY is not liable for any missing or false information and statements in this study or other oral or written remarks made in connection with the study.

The information in the study has been prepared for a certain target date, prior to the presentation. The main cut-off point for the research is 30 September 2015, with some exceptions relating to research and deals mentioned. Thus, the accuracy at the date of the presentation cannot be guaranteed. Any statement regarding future developments is not binding and merely represents an expectation. Stating a value does not represent a valuation as understood in IDW (Generally accepted standards for valuation engagements).

We define M&A activity as mergers and acquisitions in which the targets are German-based companies acquired by either German or foreign buyers (50% +1, with a few exceptions of minority investment with significant market relevance). Specifically, values and volumes used throughout this report are based on completion dates for transactions with a disclosed deal value and supplemented by additional independent research - sometimes based on rumors stated in public sources. We have used a standard exchange rate for EUR to USD of 1:1.1 for all conversions in this document if performed.

Information related to previous periods is updated periodically, based on new data collected for deals closed during previous periods but not reflected in previous data sets, i.e., in EY’s VC Trends Quarterly.

Information for start-ups, financing, funds and M&A activity includes information for companies, which fall into one of the digital sectors. Certain adjustments have been made to the information to exclude transactions that are not specific to digital.

The digital sector has been defined corresponding to the sector cluster within The National Venture Capital Association 2014 Yearbook, which is based on data from Thomson Reuters and analyzed through the ThomsonONE.com (formerly VentureXpert) database of Thomson Reuters and the relevant industry codes (VEIC).

Accordingly, the digital sector comprises companies and information mainly focused on consumer products and services, computer software, IT services, media and entertainment, and retailing/distribution. The specific VEIC codes and any other information regarding the research and the study can be gained on request from EY. The specific VEIC codes and the respective clusters are also shown in the publicly available National Venture Capital Association 2014 Yearbook.
Insights

VC Trends Quarterly
With our regular Venture Capital (VC) Trends Quarterly we at EY aim to provide additional value for those with a vested interest in the emerging German market for tech and media ventures.

The newsletter provides detailed information on recent activities and trends in the start-up segment as well as current transactions and financing rounds.

If you would like to be added to the distribution list, please send an email to thomas.pruever@de.ey.com.

Start-up Barometer
On behalf of EY, the independent market research institute Valid Research ran a telephone survey on 181 start-up companies to gain representative insights into the current state of the German founders’ scene.

All results were analyzed graphically and comprise the basis for the Start-up Barometer (August 2015).

For more information or comments please contact peter.lennartz@de.ey.com.

VC Insights
The Venture Capital Insights report looks at VC participation and pre-money valuations. The report also provides an overview of IPO and M&A companies.

For more information please contact thomas.pruever@de.ey.com.

Venture Capital and Start-ups in Germany
Our annual study outlines key market trends and insights. It includes interviews with market experts as well as overviews of investments, M&A deals, top lists and key players.

With our initiatives we add value and initiate discussions. If you would like to discuss current or future market issues, please do not hesitate to contact thomas.pruever@de.ey.com.

The European Alternative Finance Benchmarking Report
The University of Cambridge has partnered with EY to carry out pan-European, scientific and systematic benchmarking research to capture the size and growth of the online, platform based alternative finance market in Europe.

This survey-based benchmark research collected aggregate-level market data directly from leading online alternative finance intermediaries. It provides a better understanding of this fluid and diverse market and, in turn, informs about the development and state of the European alternative finance market.

For more information please contact peter.lennartz@de.ey.com.
Events

VC Trends Get Together
Each year, we invite to an inspiring and value adding evening offering the opportunity to interact and delivering insights into the venture capital and start-up scene in Germany.
Up to 100 participants from start-up companies, venture capital firms, corporate investors and relevant business associations consider this event as a great success.
Prominent keynote speakers give exclusive insights and share experiences. On top, we always present the latest results and insights of our Study “Venture Capital and Start-ups in Germany”.
For more information please contact thomas.pruever@de.ey.com.

Bits & Pretzels
Bits & Pretzels is a 3-day event for founders, startup enthusiasts, investors and business incubators. In 2015, EY was exclusive sponsor of the ‘Investors’ track and ‘Rising Star’ track.
Bits & Pretzels is considered to be the largest founders breakfast in the world. For more information on past and future B&P please contact torsten.blaschke@de.ey.com.

Digital Zurich
EY is Founding Member of DigitalZurich2025, a cross-industry association, that is based on a shared vision to make Zurich a leading location in Europe for digital innovation.
Every industry and every business is challenged by digitization. Zurich has an historic opportunity to develop into a center for digital innovation in Europe.
For more information please contact stephan.kuester@ch.ey.com.

German Tel Aviv Week 2015
EY Israel hosts the Bundesverband Deutsche Startups e.V. in Tel Aviv in November 2015 for the ‘German Tel Aviv Week’, which brings German entrepreneurs, high-profile politicians, investors, and German Mittelstand to Israel.
EY also hosted their previous trips to New York and San Francisco. This year, they will meet with motivating and inspiring experts, founders and startups in Israel. Their journey through the Israeli ecosystem will be kick-started by our EY Israel office together with Yair Nagar, EY High-Tech Partner in Israel and Leona Doell, Senior Manager VBM EY Israel.
For more information please contact leona.doell@il.ey.com.

HIGHTECH VENTURE DAYS
EY is sponsor of the HIGHTECH VENTURE DAYS, the annual investor’s congress of HighTech Startbahn.
Ventures - growth companies and startups with key enabling technologies - are chosen to pitch in front of international venture capitalists, angel investors, family offices, corporate ventures and „Investing Mittelstand”.
Moderation experts, including EY, lead the programs. For more information please contact peter.lennartz@de.ey.com.
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