

The European Venture Capital Industry: Infant, Adolescent, or Mature?

Comments by Vera Lessat

Topics

- ★ How to assess the industry
- ★ Lessons from the US
- ★ Conclusions and open Questions

How to Assess the Industry: Theoretical Frame

Life cycle modell of industry evolution:

- ★ Technological development: scale effects in the industry
 - Trend towards larger funds
 - Risk diversification
 - Competence
- ★ Increasing demand
 - Entrepreneurial culture
 - Reforms of tax law
 - Reforms of bankruptcy law
 - Exit markets

➔ The VC markets in Europe seem to be on the best way to reach a stage of adolescence

Industry Research

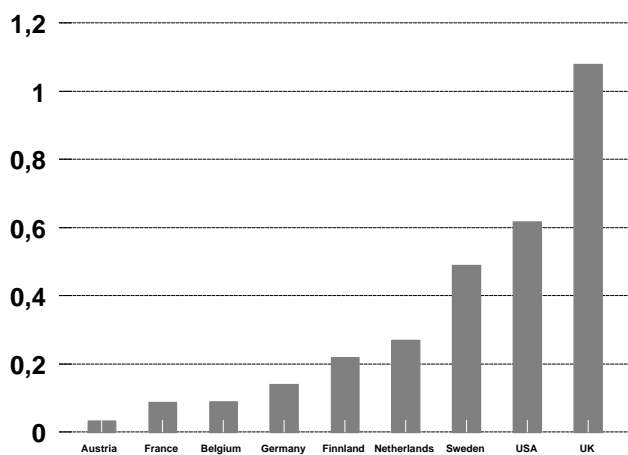
DG BANK 

Lessons from the US

Are the European Venture Capital Markets of Comparable Size ?

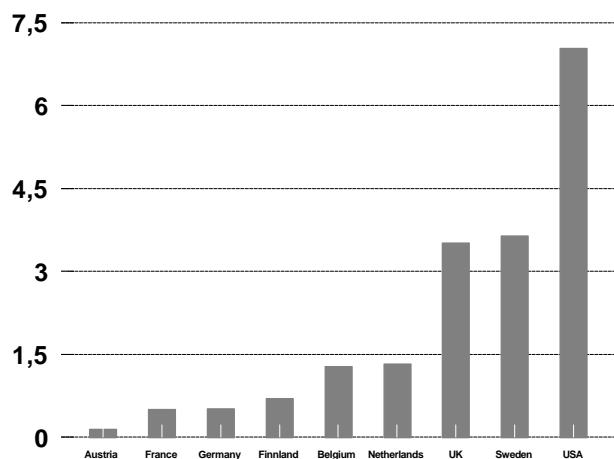
Equity Raised in Percent of
Gross Domestic Product

1997



Equity Raised in Percent
Gross Investment

1997

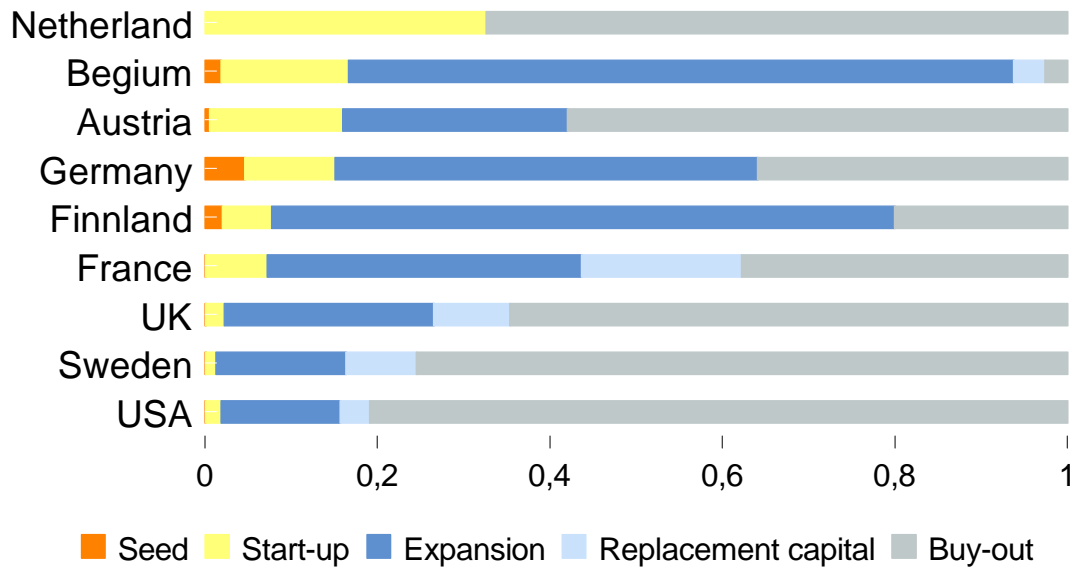


Industry Research

DG BANK 

Source: EVCA; Sachverständigenrat

Venture Capital Investment by Phase

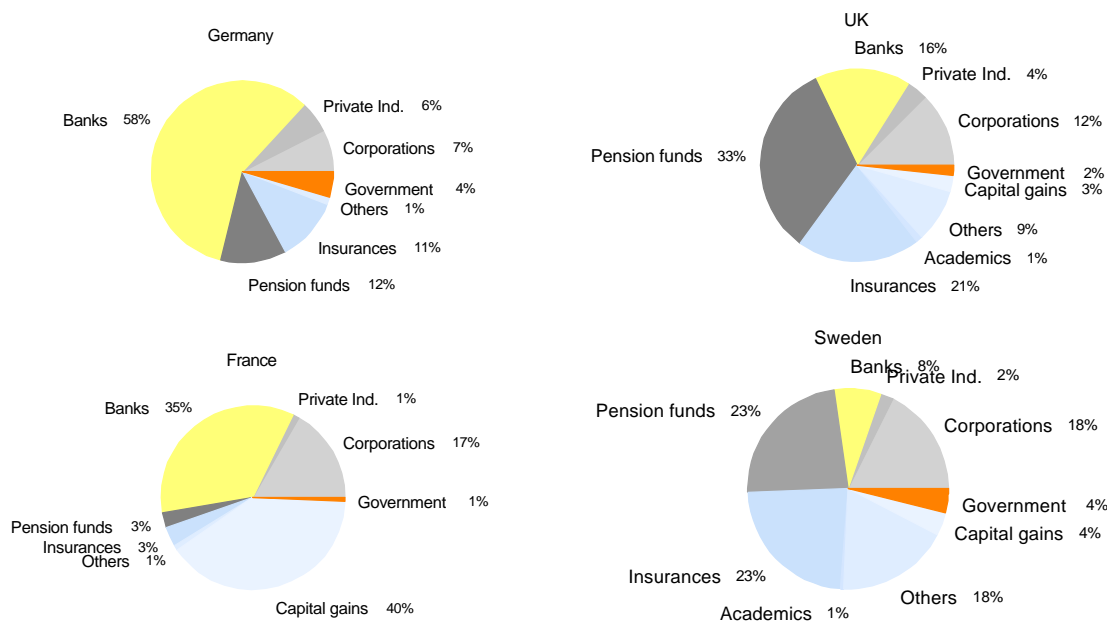


Source: EVCA Statistical Year Book/ISI/Venture Economics

Industry Research

DG BANK

Sources of Venture Capital



Industry Research

DG BANK

Conclusions I

- ★ Important characteristics of the mature markets
 - Pensions Funds are an important source of funds
 - Trend towards large funds
 - Trend towards later stage investment

- ★ Important Characteristics of Adolescent Markets
 - Banks as an important source of funds
 - Government is an important actor
 - Relatively large Early Stage Shares

Conclusions II

- ★ A Mature Market is characterized by profitability
- ★ Profitable early-stage investment is only possible in high growth companies (Still rare in Europe)
- ★ IPOs are the most important way to realise capital gains
 - VC Profits depends on the average stock market Performance
- ★ **Hypothese:** At least in the US the bubble in the stock markets induces a surge of venture capital - If the bubble burst the venture capital industry will be damaged severely
- ★ What will happen to the young and relatively unexperienced European venture capital industry ?