



## **Current German Legislation on Improving the Financing Environment for German Enterprises**

**3rd Norface Seminar on „Entrepreneurial Finance“  
Berlin, May 21st, 2007**



Univ.-Prof. Dr. Christoph Kaserer

Lehrstuhl für Finanzmanagement und Kapitalmärkte &  
Center for Entrepreneurial and Financial Studies (CEFS)  
Technische Universität München

## Largest PE Firms worldwide by capital under management (2006)

No.	Name	Location	Capital under management in US\$ mm
1	Carlyle Group, The	Washington, DC	45.800
2	Goldman, Sachs & Co.	New York, NY	42.577
3	Blackstone Group, L.P.	New York, NY	41.363
4	Kohlberg, Kravis, Roberts & Co. (AKA: KKR)	New York, NY	36.567
5	Texas Pacific Group	Fort Worth, TX	26.178
6	Warburg Pincus, LLC	New York, NY	23.010
7	Permira Advisers Limited (FKA: Schroder Ventures Europe)	London, UK	22.352
8	HarbourVest Partners LLC	Boston, MA	22.196
9	Bain Capital	Boston, MA	22.069
10	Providence Equity Partners, Inc. (FKA: Providence Ventures)	Providence, RI	20.639
11	Apax Partners Worldwide	London, UK	20.206
12	Oaktree Capital Management, LLC	Los Angeles, CA	17.808
13	Apollo Management (FKA: Apollo Advisors L.P.)	Purchase, NY	17.500
14	3i Group PLC	London, UK	17.374
15	Cinven, Ltd.	London, UK	17.308
16	CVC Capital Partners	London, UK	15.954
17	DLJ Merchant Banking Partners	New York, NY	15.400
18	Welsh, Carson, Anderson & Stowe	New York, NY	12.844
19	EQT Partners AB	Stockholm, Sweden	12.719
20	PAI Partners (FKA: PAI Management)	Paris, France	12.474

## Largest European PE Firms by capital under management (2006)

No.	Name	Location	Capital under management in US\$ mm
1	Permira Advisers Limited (FKA: Schroder Ventures Europe)	London, UK	22.352
2	Cinven, Ltd.	London, UK	17.308
3	3i Group PLC	London, UK	16.892
4	Apax Partners Worldwide	London, UK	16.114
5	CVC Capital Partners	London, UK	15.954
6	EQT Partners AB	Stockholm, Sweden	12.719
7	PAI Partners (FKA: PAI Management)	Paris, France	12.474
8	BC Partners	London, UK	11.945
9	Bridgepoint Capital, Ltd. (FKA: NWEF & NatWest Ventures Ltd)	London, UK	9.830
10	Candover Investments PLC	London, UK	7.982
11	Terra Firma Capital Partners, Ltd.	London, UK	6.269
12	Carlyle Group, The	Washington, DC	6.249
13	Doughty Hanson & Co, Ltd.	London, UK	6.203
14	Partners Group	Baar-Zug, Switzerland	5.811
15	ATP Private Equity Partners	Copenhagen, Denmark	5.478
16	Nordic Capital (AKA: NC Advisory)	Stockholm, Sweden	5.118
17	Charterhouse Capital Partners LLP	London, UK	5.052
18	AXA Private Equity	Paris, France	4.984
19	Montagu Private Equity, Ltd. (FKA: HSBC Private Equity Ltd.)	London, UK	4.921
20	Coller Capital	London, UK	4.866

## Largest VC Firms worldwide by capital under management (2006)

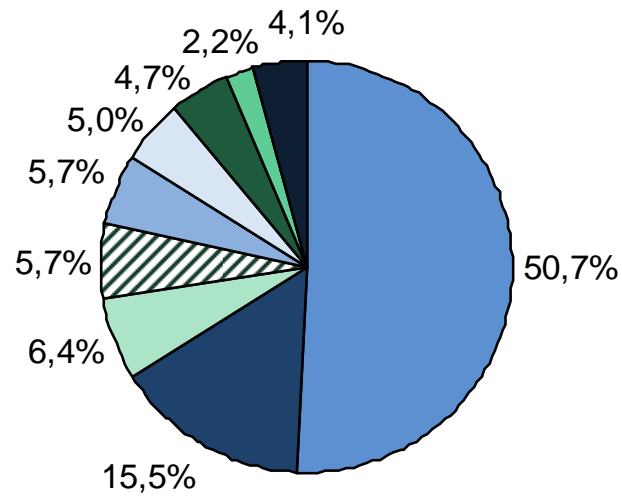
No.	Name	Location	Capital under management in US\$ bn
1	The Carlyle Group	Washington, USA	36,85
2	CSFB Private Equity	London, UK	24,13
3	Warburg Pincus	New York, USA	22,46
4	Panorama Capital	Menlo Park, USA	19,97
5	Bain Capital	Boston, USA	18,80
6	Apax Partners	London, UK	16,64
7	J. & W. Seligman	New York, USA	14,97
8	3i Group	London, UK	11,75
9	Permira	London, UK	11,00
10	Adams Street Partners	Chicago, USA	10,57
11	General Atlantic	Greenwich, USA	8,32
12	Investcorp	New York, USA	8,32
13	TA Associates	Boston, USA	8,32
14	New Enterprise Associates	Baltimore, USA	7,07
15	AXA Private Equity	Paris, Frankreich	7,00
16	Oak Investment Partners	Westport, USA	6,99
17	AIG Capital Partners	New York, USA	6,69
18	J.H. Whitney & Co.	Stamford, USA	6,11
19	OrbiMed Advisors	New York, USA	5,24
20	Advent International	Boston, USA	4,99

## Largest European VC Firms by capital under management (2006)

No.	Name	Location	Capital under management in US\$ bn
1	CSFB Private Equity	London, UK	24,13
2	AlpInvest Partners	Amsterdam, Niederlande	20,00
3	Apax Partners	London, UK	16,64
4	3i Group	London, UK	11,75
5	Permira	London, UK	11,00
6	AXA Investment Managers Private Equity	Paris, Frankreich	7,00
7	UBS Capital	London, UK	4,58
8	Montagu Private Equity	London, UK	3,20
9	HgCapital	London, UK	3,11
10	CapMan Group	Helsinki, Finland	2,20
11	WestLB Equity Investments	Düsseldorf, Deutschland	1,70
12	Baring Private Equity Partners	London, UK	1,66
13	Credit Agricole Private Equity	Paris, Frankreich	1,53
14	Gilde Investment Management	Utrecht, Niederlande	1,50
15	Royal Bank of Scotland, Equity Finance Group	Edinburgh, UK	1,47
16	AGF Private Equity	Paris, Frankreich	1,30
17	Société Générale Asset Management	Paris, Frankreich	1,20
18	TVM Capital	München, Deutschland	1,16
19	GIMV	Antwerpen, Belgien	1,15
20	Palamon Capital Partners	London, UK	1,11

# Private Equity Investment in Europe

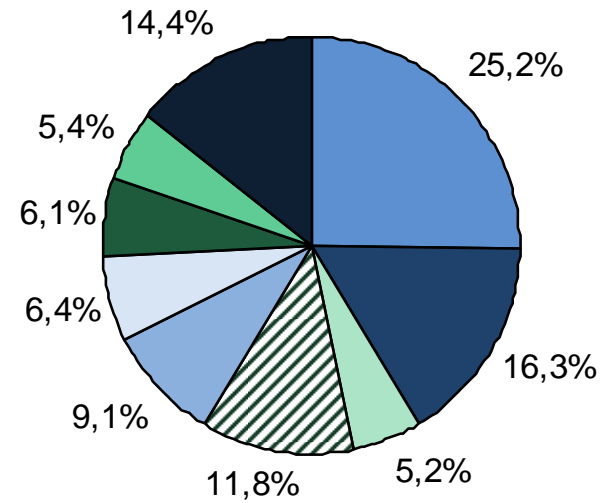
Country of management



Private Equity investment 2005  
Volume: EUR 47bn

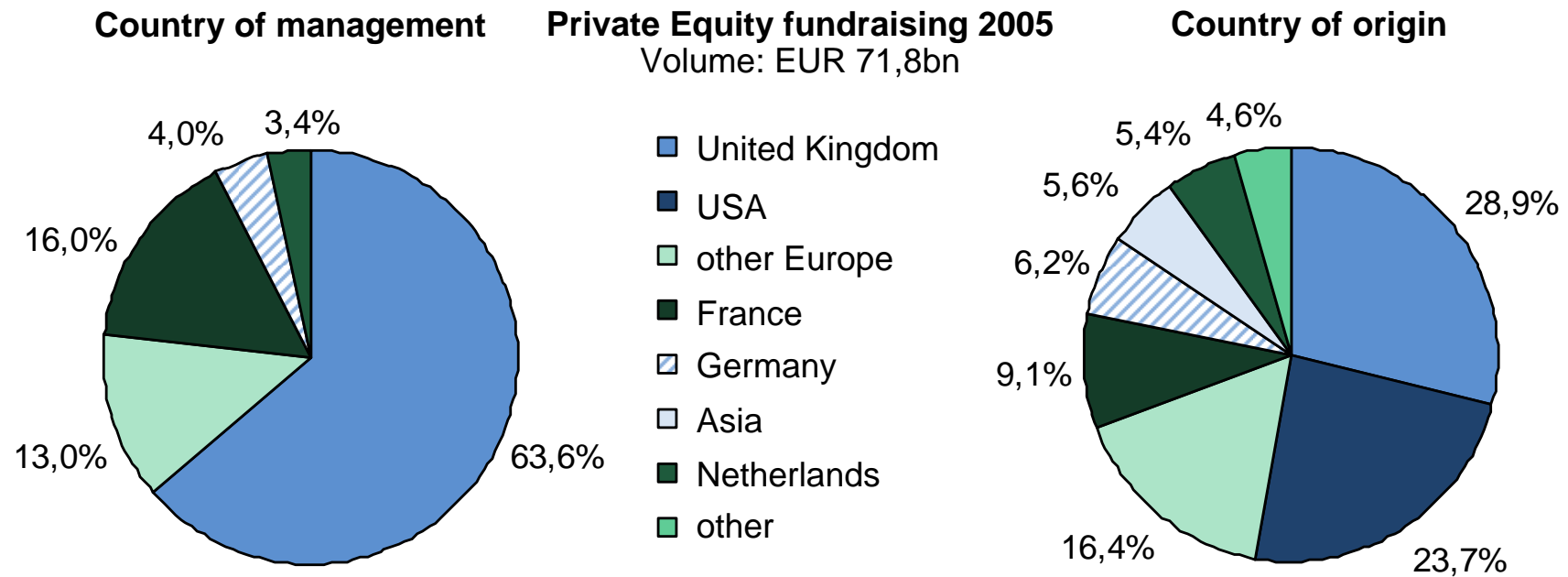
- United Kingdom
- France
- Sweden
- ▨ Germany
- Spain
- Netherlands
- Italy
- Denmark
- other

Country of destination



Source: EVCA (2006)

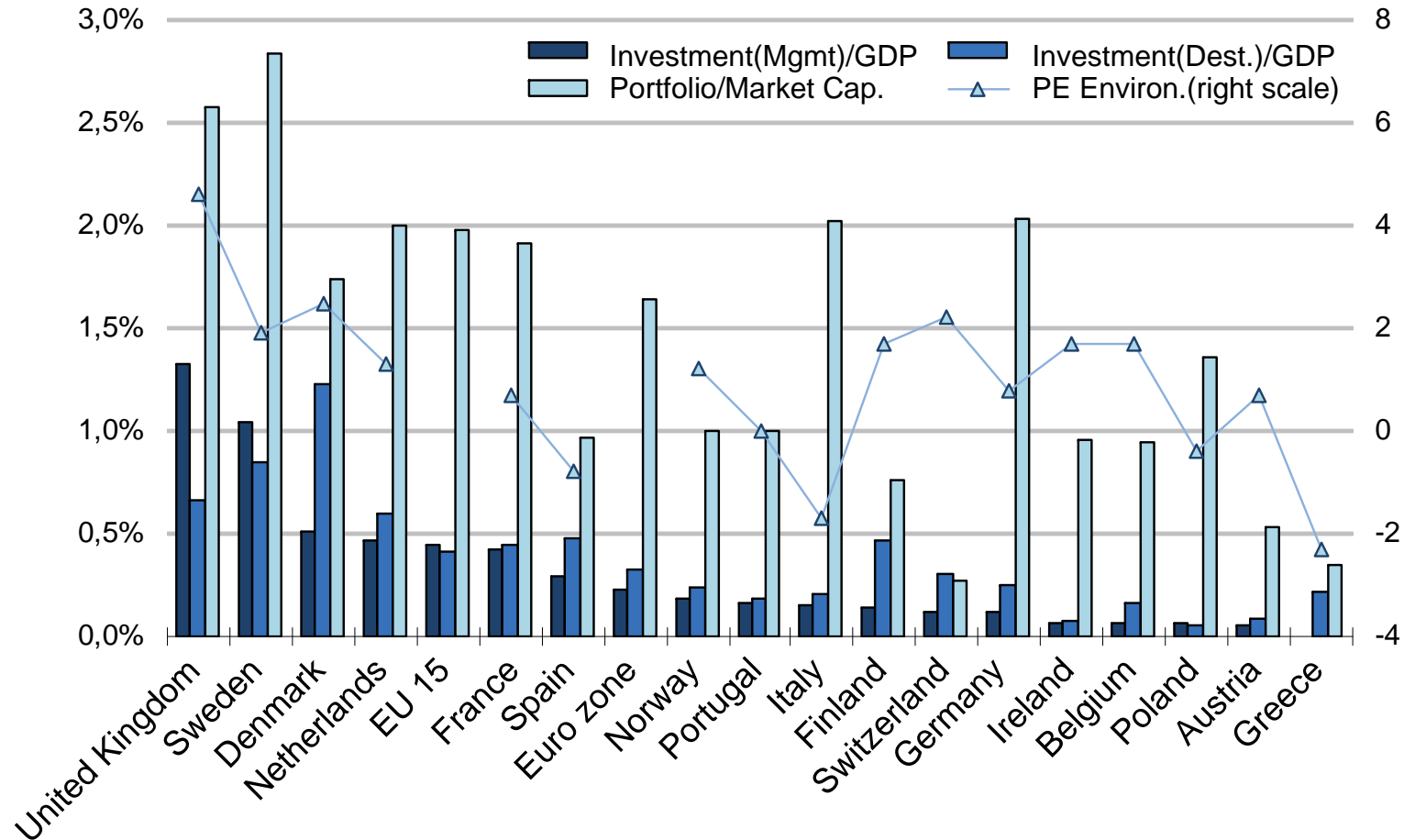
# Private Equity Fundraising in Europe



Source: EVCA (2006)

# Private Equity Investment in Europe

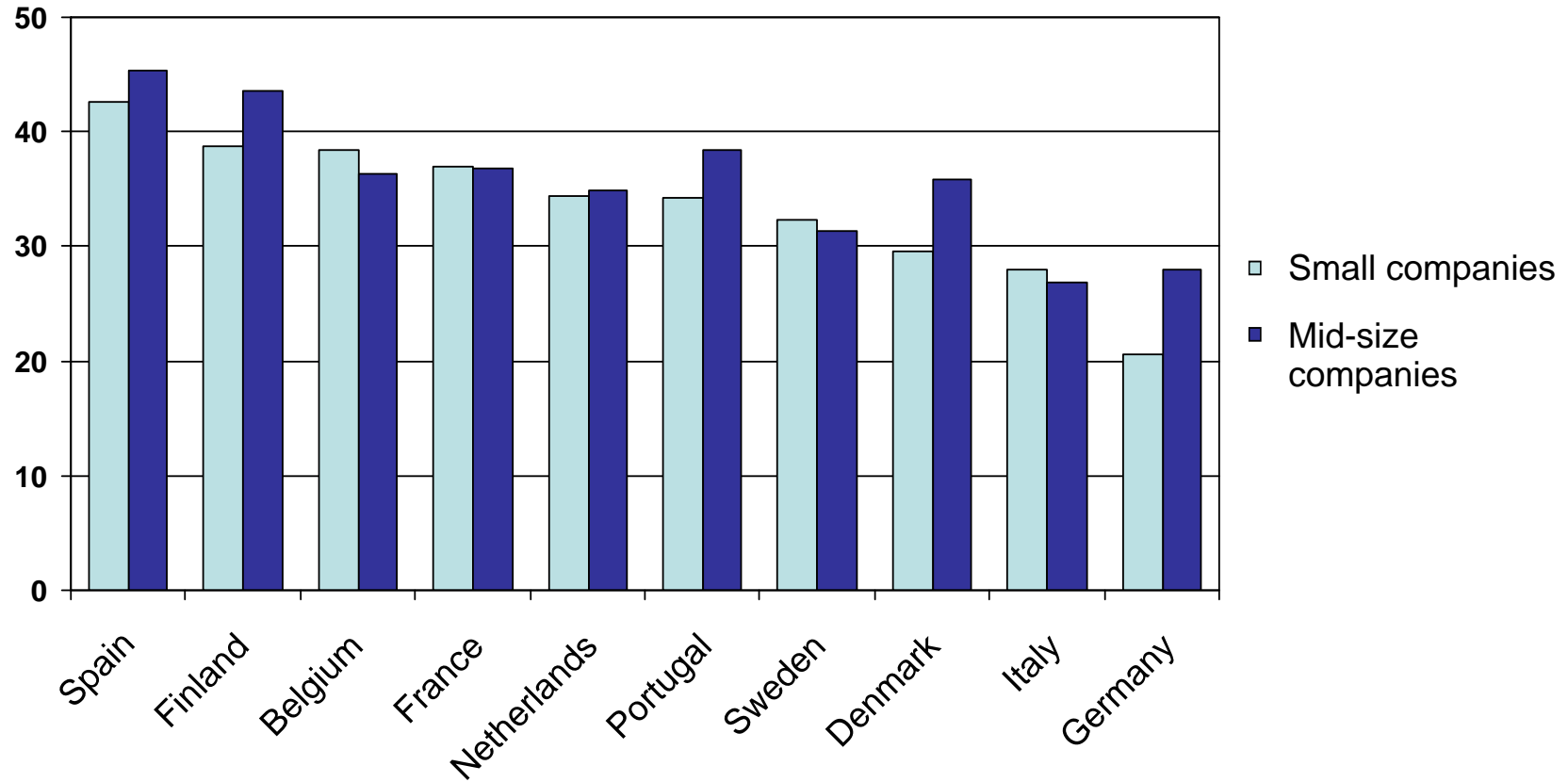
## Economic Significance of Private Equity



Source: EVCA (2006), Eurostat



## Equity Ratios in Europe

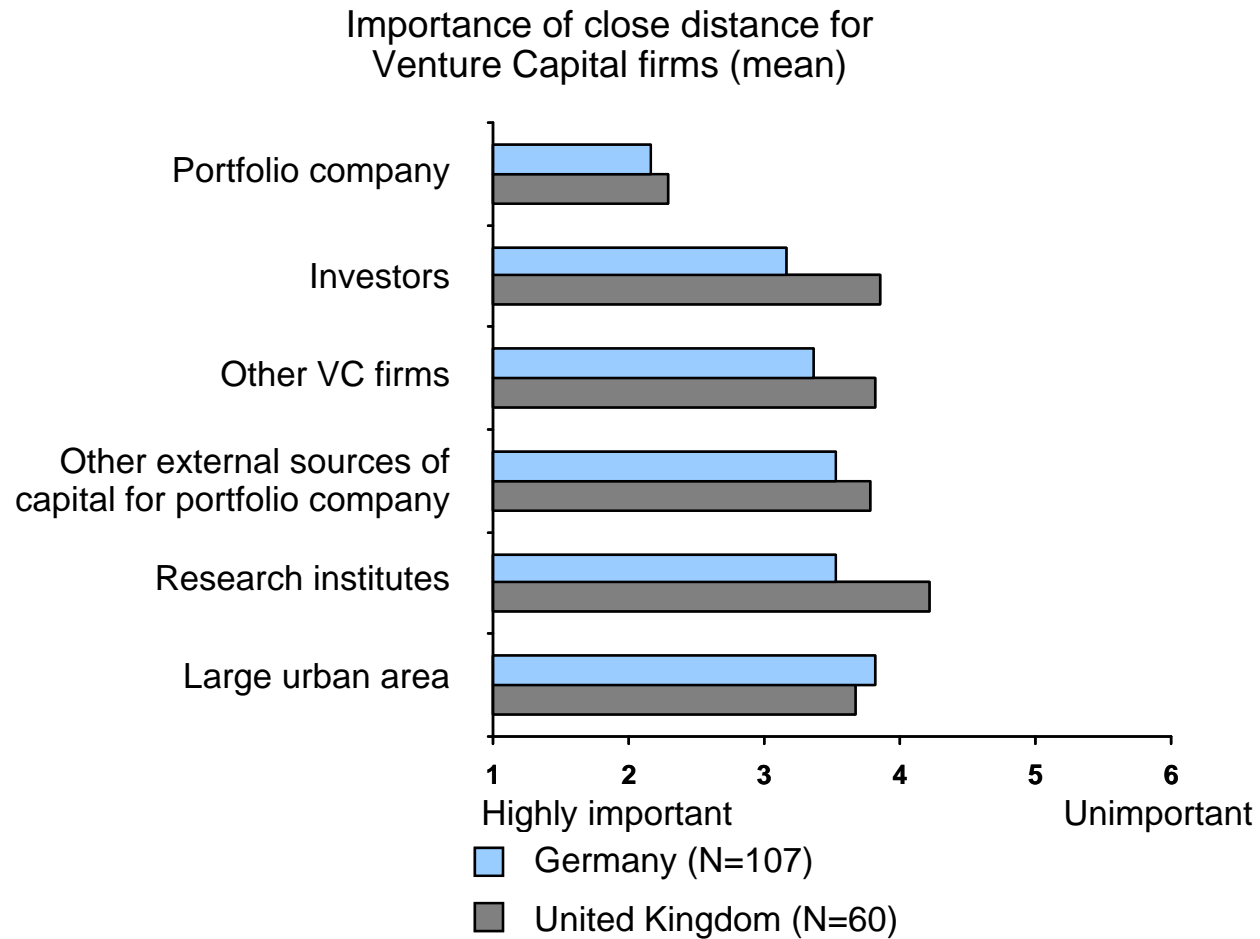


Source: BACH-Datenbank, Eurostat

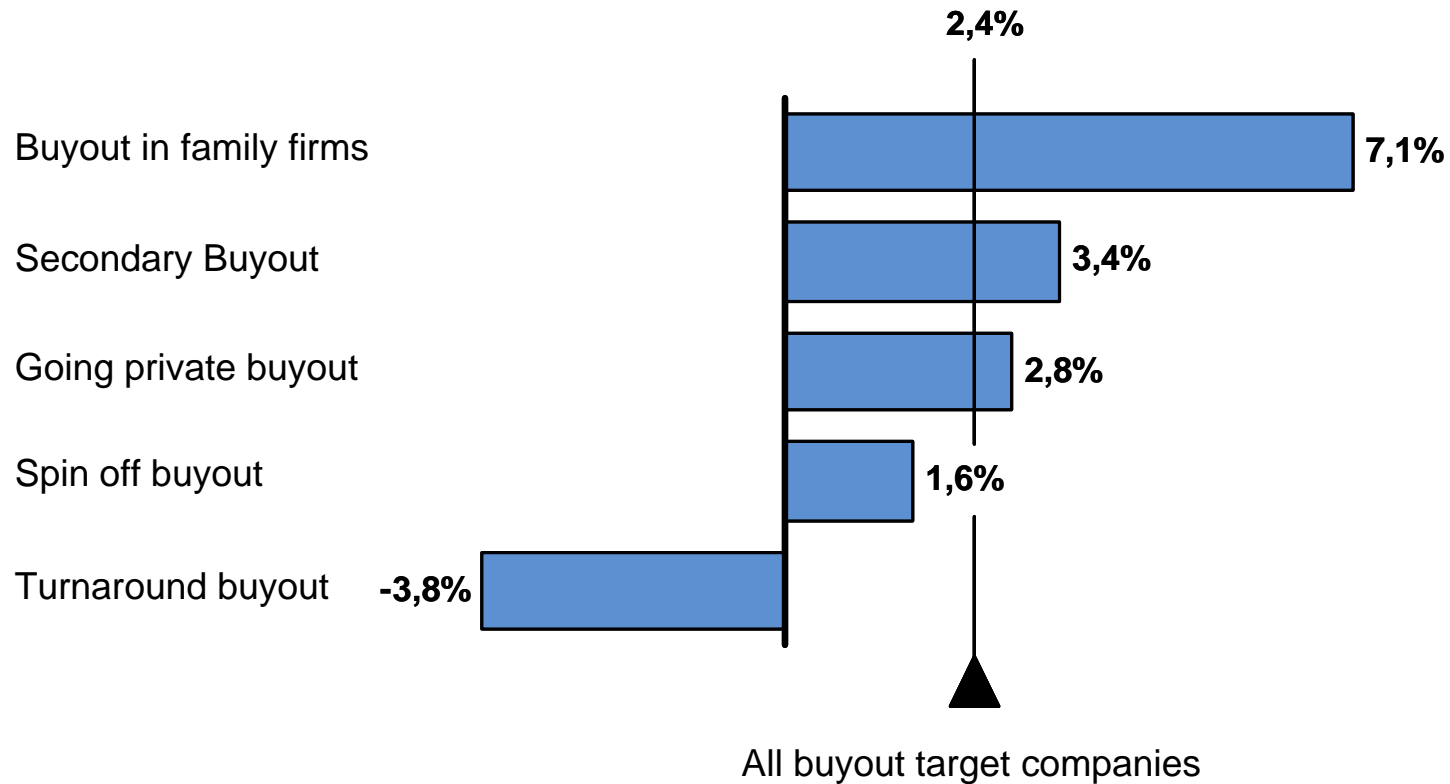
## Equity Ratios in Germany

	1996	1997	1998	1999	2000	2001	2002	2003
<b>Deutsche Bundesbank</b>								
Small	4,1	3,0	8,4	8,1	4,3	4,2	5,8	
Mid-size	15,9	16,4	19,3	19,7	20,1	20,8	22,7	
Large	26,1	26,4	27,2	27,0	26,7	27,4	28,5	
All companies		16,2	17,5	18,4	18,6	19,5	21,0	21,9
<b>KfW-Bilanzdatenbank</b>								
Small						14,1	13,9	15,4
Mid-size						14,9	16,0	18,1
Large						25,5	25,4	26,3
All companies						15,0	15,3	17,1

## Importance of Geographical Distance (Martin et al. 2005)

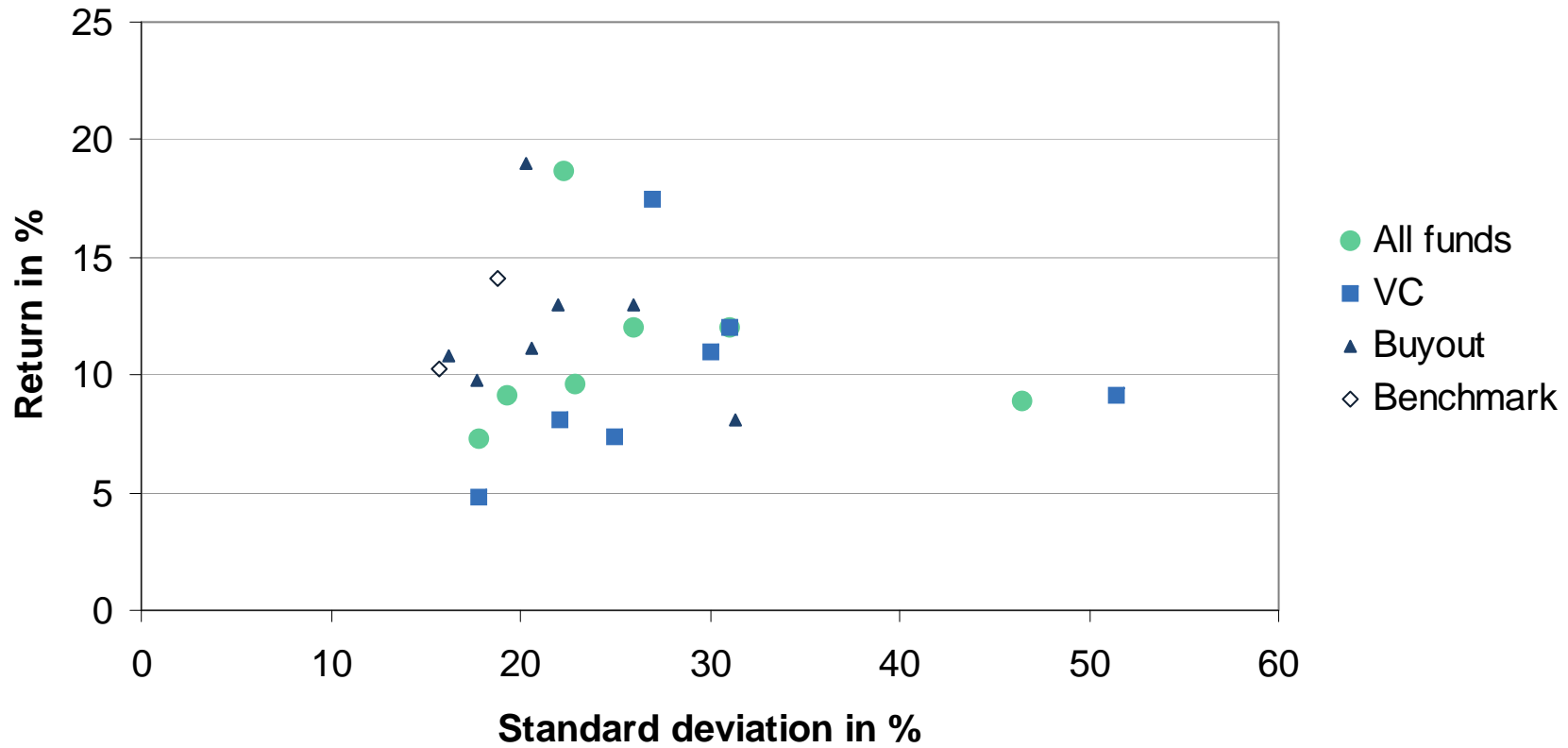


## Employment Effects after Buyout Transactions



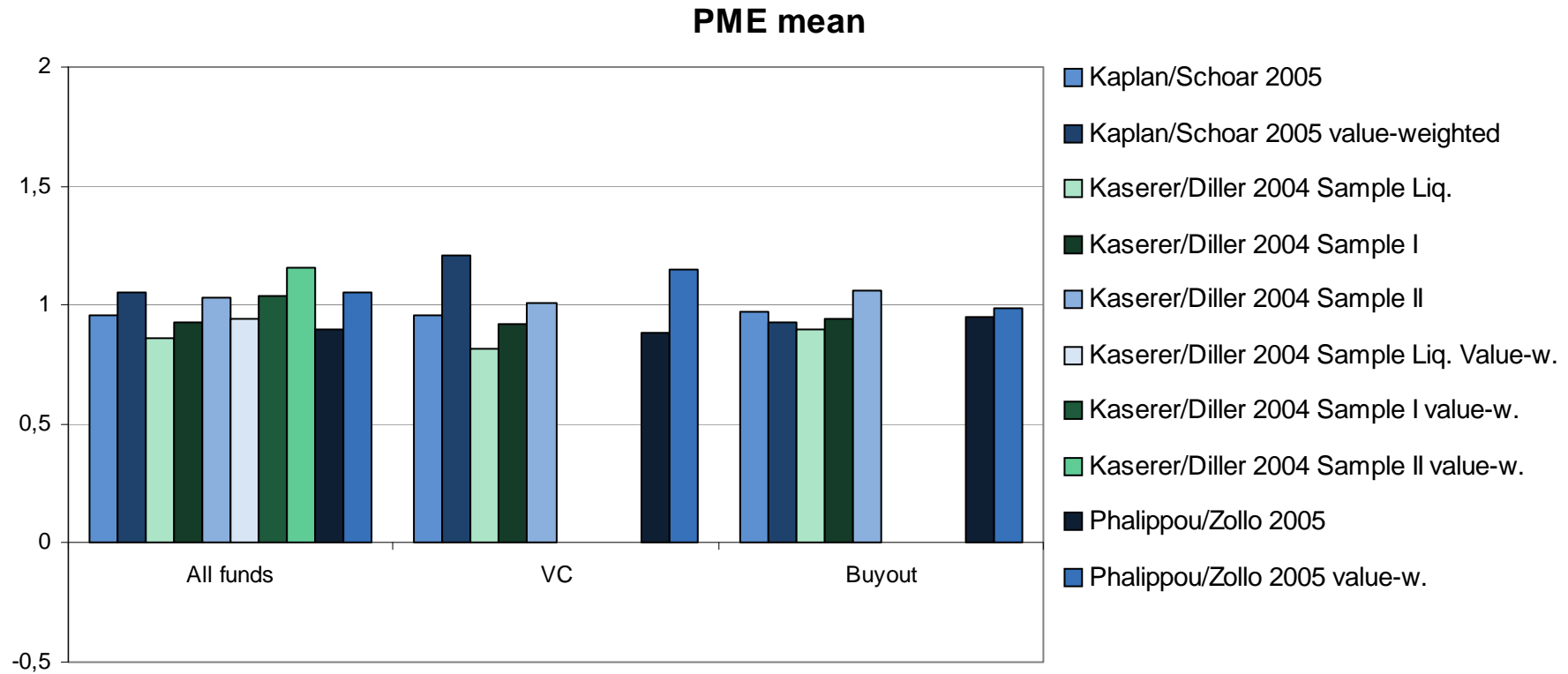
Source: CEFS (2005)

## Median Return (IRR) and Risk of Private Equity Investments



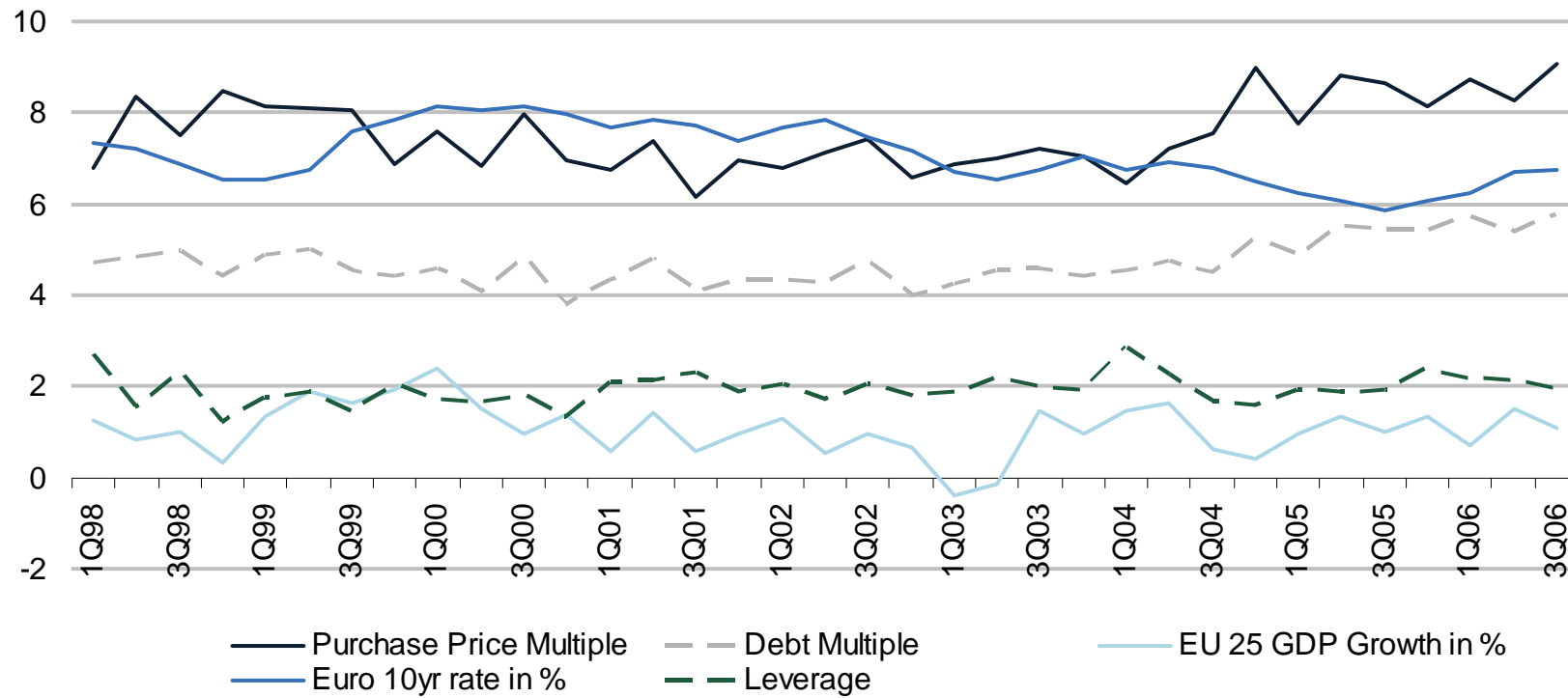
Source: CEFS (2005)

# Median Return (PME) of Private Equity Investments



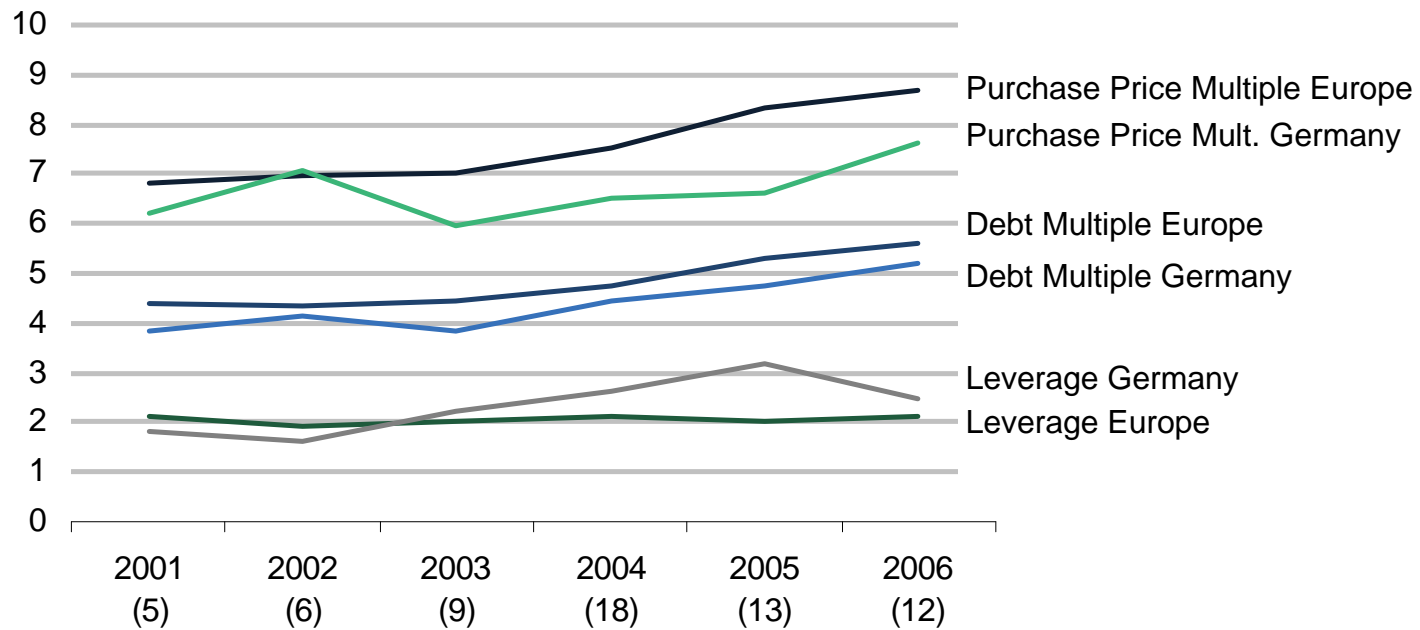
Source : CEFS (2005)

# Valuation and Financial Structure in European LBOs



Source: Standard&Poors (2006), Thomson Financial, Eurostat, CEFS

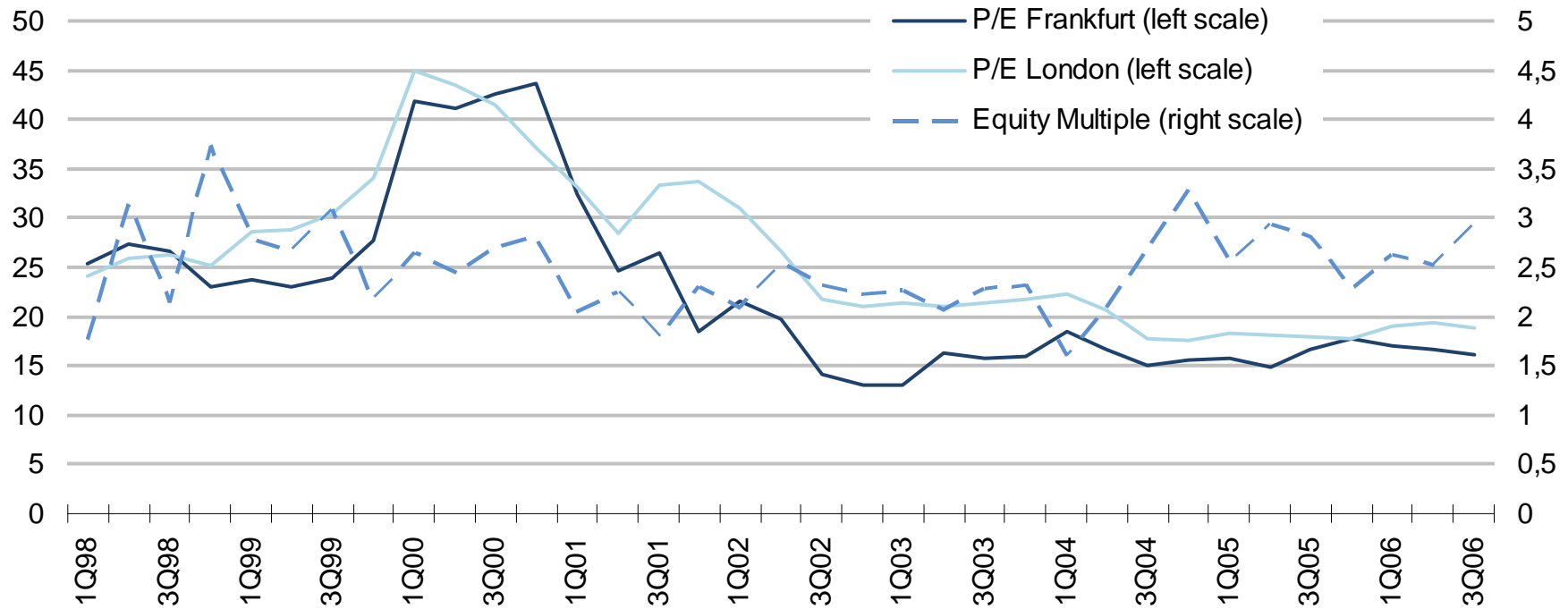
## Valuation and Financial Structure in German LBOs



Source: Standard&Poors (2006), Thomson Financial, Eurostat, CEFS



# Valuation and Financial Structure in European LBOs



Source: Standard&Poors (2006), Thomson Financial, Eurostat, CEFS

## Taxation of Carried Interest

<b>Land</b>	<b>Taxation of Carried Interest</b>	<b>Relevant tax rate</b>
France	<ul style="list-style-type: none"> <li>• Capital gains tax</li> </ul>	<ul style="list-style-type: none"> <li>• 27 %</li> </ul>
Italy (Fondo Chiuso)	<ul style="list-style-type: none"> <li>• Capital gains tax under certain conditions</li> </ul>	<ul style="list-style-type: none"> <li>• 12,5 %</li> </ul>
Luxembourg	<ul style="list-style-type: none"> <li>• Structure of Carried Interest rules tending towards capital gains and/or dividends. No taxation of capital gains, if shares are held longer than 6 months and do not represent a substantial amount (10%). Otherwise taxation as ordinary income</li> </ul>	<ul style="list-style-type: none"> <li>• max. 39,33%</li> </ul>
Netherlands	<ul style="list-style-type: none"> <li>• Taxation as ordinary income</li> </ul>	<ul style="list-style-type: none"> <li>• max. 52 %</li> </ul>
Spain	<ul style="list-style-type: none"> <li>• Capital gains tax</li> </ul>	<ul style="list-style-type: none"> <li>• 18 %</li> </ul>
Switzerland	<ul style="list-style-type: none"> <li>• Taxation as ordinary income</li> </ul>	<ul style="list-style-type: none"> <li>• Tax rate dependent on region (Kanton) (Maximum tax rate between about 24 % and 42 %)</li> </ul>
United Kingdom	<ul style="list-style-type: none"> <li>• Taxation as ordinary income</li> </ul>	<ul style="list-style-type: none"> <li>• 25% of capitals gains subject to income tax with holding period of at least 2 years</li> <li>• (Maximum tax 40%), therefore Carried Interest is taxed at max. 10% with at least 2 years holding period</li> </ul>

(Source: EVCA (2006a))

## VAT on Management Fees

<b>Country</b>	<b>VAT on management fees</b>
Germany (GmbH & Co. KG)	<ul style="list-style-type: none"><li>• Yes. Exception § 4 Nr. 8 h UStG not applicable to Private Equity Funds.</li><li>• Preliminary distribution of profits to managing shareholders is qualified as special compensation, if this payment results in a lower net income</li></ul>
United Kingdom (Limited Partnership)	<ul style="list-style-type: none"><li>• No VAT on additional share of profit of the general partner (EVCA 2006c).</li></ul>
Luxembourg (SICAR)	<ul style="list-style-type: none"><li>• No VAT, Art. 38 of SICAR-Law in conjunction with Art. 44, § 1 d) of the Luxembourg VAT Law.</li></ul>
France (FCPR)	<ul style="list-style-type: none"><li>• No VAT, Art. 261 C 1°f) Code Général des Impots.</li></ul>
Italy (SGR)	<ul style="list-style-type: none"><li>• No VAT (EVCA 2006c).</li></ul>
Netherlands	<ul style="list-style-type: none"><li>• No VAT (EVCA 2006c).</li></ul>
Switzerland (KAG)	<ul style="list-style-type: none"><li>• No VAT, Appendix to Art. 153 KAG i.c.w. Art. 18 Ziff. 19 f) of the Swiss VAT Law of 2 Sep 1999.</li></ul>
Spain	<ul style="list-style-type: none"><li>• No VAT, SGECR (Art. 20.1.18 (n)) of Spanish VAT Law.</li></ul>

(Source: Local company and tax law, EVCA (2006c))

- ✓ Guaranteed tax transparency for Private Equity Funds. These funds may be structured in different legal forms as corporations or partnership.
- ✓ Exemption from taxation for all services rendered between the fund as separate assets and its management companies, which will be comparable to EU-regulated OGAW / UCITS
- ✓ Continuation of tax rules regarding Carried Interest with an internationally competitive tax rate
- ✓ Amendment to § 8 Abs. 4 KStG (resp. § 8c KStG-E) to allow loss carry forward.
- ✓ Tax exemption for capital gains resulting from Seed- or Start-up-financing for a closely defined group of young technology companies and for specified holding periods

## Recommendations for Company Law

- ✓ Amendment and revision of UBGG
- ✓ Minimum capital requirement of EUR 1 million.
- ✓ Object of the company: Direct or indirect equity investments (including fund-of-funds) and mezzanine capital
- ✓ Restriction of each single investment to 30% of the fund's assets (but not applying to the first three years from the funds's vintage year)
- ✓ Permit investments in listed companies, if at least 5% (2%) of nominal capital is acquired
- ✓ Holding period restriction for investments (e.g. 12 years)
- ✓ After 5 years no single shareholder should own more than 40% of the fund

## Recommendations for Sector Supervision

- ✓ Registration (certification) of Private Equity Funds combined with
- ✓ Registration of fund managers
- ✓ Implementation of (voluntary) commitment of funds and fund managers to industry-wide common rules of conduct and continuing education
- ✓ Supervision by central supervisory authority
- ✓ Fund shares may be marketed to qualified investors only (e.g. minimum investment EUR 125k; EUR 10k in the case of fund-of-funds)
- ✓ Revision of rules regarding a Pension Fund's ability to invest in alternative assets



Center for Entrepreneurial and Financial Studies  
TU München | Arcisstrasse 21 | 80333 München

Tel: +49 89 289 25483

Web: [www.cefs.de](http://www.cefs.de)  
[www.ifm.wi.tum.de](http://www.ifm.wi.tum.de)

Email: [contact@cefs.de](mailto:contact@cefs.de)

Univ.-Prof. Dr. Christoph Kaserer

Tel: +49 89 289 25489

Email: [christoph.kaserer@cefs.de](mailto:christoph.kaserer@cefs.de)