



GründerZeiten 28

Start-ups: financing and venture capital



12/2021 Start-ups: financing and venture capital

Grants, loans, guarantees, equity and expertise: the Federal Ministry for Economic Affairs and Climate Action offers support to innovative start-ups so that they can turn their promising ideas into successful businesses.

Germany has a whole host of financing instruments tailored to the various needs of innovative and technology-driven start-ups. The Federal Government, the German states (*Länder*) and their promotional banks, and private investors such as business angels and venture capital firms are there to support start-ups throughout the various stages of their development.

Start-ups are innovative and fast-growing.

Start-ups are defined by the German Start-ups Association as

- companies that are younger than ten years and
- whose products/services, business models and/or technologies are (highly) innovative and
- which are planning to expand their workforce and/or turnover.

Start-ups are mainly found in areas like the internet, technology, eCommerce, biotechnology etc. The majority of start-up entrepreneurs would like to achieve rapid and sustainable growth. Issues such as artificial intelligence and Industrie 4.0 feature high up on their agenda. The 2,013 start-ups surveyed by the German Startup Monitor in 2021 employ an average of 17.6 staff. That is four more than in the preceding year. After slow growth in recent years, the share of female start-up entrepreneurs has seen a steeper rise last year, reaching 17.7% in 2021. Today's start-ups are our future hidden champions – companies that belong to the German Mittelstand and whose pioneering products and services lead the way on the international markets.

Among the companies surveyed by the German Startups Association, the largest proportion continue to work in information and communications technology. The share of start-ups from the medical and health sectors is increasing. Products and services categorised as belonging to the green economy or social entrepreneurship also make up a relevant share.

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

Start-ups rely on reliable financing tailored to their needs as they go through the seed, growth, and internationalisation stages. This is why the Federal Ministry for Economic Affairs and Climate Action provides not only the usual grants and guarantees that can be used as collateral, but also dedicated financing instruments designed to suit the needs of innovative, technology-driven start-ups. These instruments were created in recognition of the fact that start-ups rarely take out bank loans, which are the ‘traditional’ form of funding for new companies in Germany. This is especially true of start-ups in their pre-seed and seed stages.

This is due to the fact that it is often very difficult for banks and savings banks to assess the quality of innovative business models and technologies and estimate their market potential.

This is further exacerbated by the fact that start-ups tend to require large amounts of capital and to have little to offer in terms of collateral. In addition to this, it often takes years for start-ups from university and research institutions to develop and finetune their technological or life science products and processes to the point where they can be sold on the market and allow the company to turn a profit. The Federal Ministry for Economic Affairs and Climate Action has therefore created targeted funding instruments for innovative start-ups and supports them as they

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

Types of support available to start-ups

Financial support

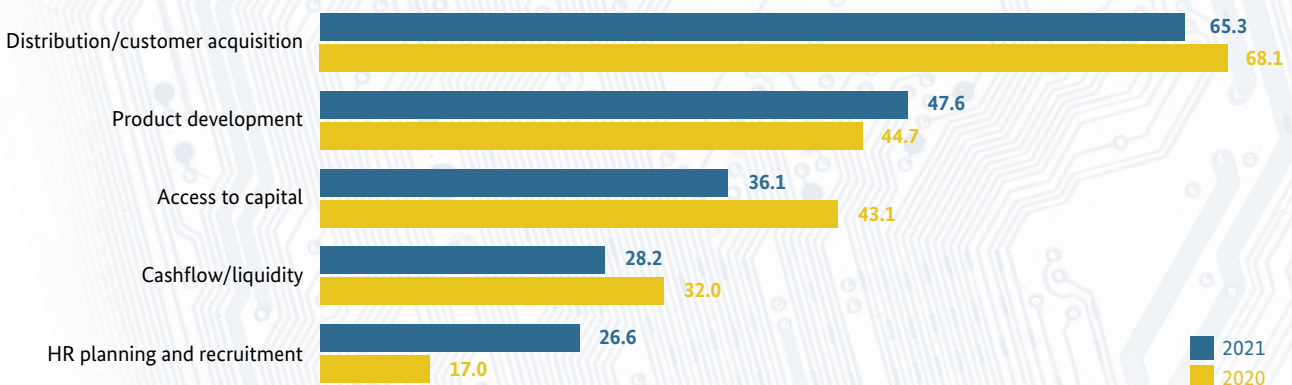
- Grants
- Equity investment
- Promotional loans
- Guarantees

Expertise

- Advice
- Contests and awards
- Initiatives



Challenges currently faced by start-ups (2020 – 2021) (in %/several answers possible)



n-value for 2020 1,715; n-value for 2021: 1,768
Reference: German Startups Association/PwC Germany: German Startup Monitor 2021

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



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

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

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

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

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

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

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

This way of dividing a start-up's development into three stages is not set in stone. Not every start-up can be clearly categorised accordingly. Moreover, the different stages tend to overlap, without clear delineations. The pre-seed and seed stages are sometimes seen as one and referred to as the early stage, whilst the growth stage can also be called the expansion phase. The length of the individual stages will depend on the speed at which the individual start-up develops. It can range from a few months' time to several years.



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

young, innovative firms – for the benefit of the country's economic and social development. It is therefore important to have policies in place that – instead of merely making up for disadvantages – focus on providing a stable framework that allows all types of small and medium-sized companies, including start-ups, to plan ahead so that they can focus on their core business and harness their full potential.

Professor Dr Friederike Welter, Head of the Advisory Board for EXIST, President of the Institute for SME Research (IfM), Bonn and Professor at the University of Siegen

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

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

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

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

EXIST – Business start-ups in science and academia

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

For start-ups in technology and science: EXIST Business Start-up Grant

EXIST start-up grants are subject to the following requirements: Grants are available to start-ups whose business model centres on an innovative, technology-driven or science-based idea. This must be clearly demonstrated in the application, which the relevant higher-education institute or research institution submits to Projektträger Jülich (Jülich project management). "We're looking for innovative start-up teams that have not only the necessary expertise in science and technology, but also the business and entrepreneurial skills", says Dietrich Hoffmann, who heads up the division for business start-ups at Projektträger Jülich. This is why the team must state in their grant application if and to what extent this line of expertise is represented on the team. "We often see start-ups that have not analysed the competitive environment as rigorously as they should have", Mr Hoffmann adds, going on to say: "It is important to prepare for a situation whereby competitors may launch products or services of their own, and to set yourself apart, because without offering USPs and a clear benefit to the customer, start-ups are unlikely to succeed and we therefore will not be able to approve an application for an EXIST start-up grant."

Once a start-up has had its application for an EXIST start-up grant approved, the team have twelve months to thoroughly



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

Further information is available at www.exist.de

For research-based start-ups: EXIST Transfer of Research

Start-ups which bring findings of cutting-edge research to the market make important contributions to our efforts to overcome the most pressing challenges of our time, for instance by developing climate-friendly technologies, new procedures for our healthcare system, and digital solutions for our society. EXIST Transfer of Research is designed to support scientists as they translate their own research findings to market. "EXIST Transfer of Research gives people the necessary freedom they need for this work", says Dietrich Hoffmann, Head of the division of start-up funding at Project Management Jülich, the agency implementing the EXIST programme on behalf of the Federal Ministry for Economic Affairs and Climate Action. "During the first stage of funding, the institute of higher education or the research institution from which the start-up is being launched acts as an incubator for the team, who are still employed there and able to use the research infrastructure. Specific devices or prototypes can be purchased via the project and necessary contracts made with third parties. The project duration corresponds to the level of development risk and can be up to three years. The objective is to demonstrate an innovative product or service in an environment that is close to the market, and to draw up a sophisticated business plan. For this reason, the financial volume of the projects is often in the million-euros range, sometimes even a lot larger."

In the second stage, the funding goes to the newly established start-up directly. The focus then is on undertaking further development work, preparing for the beginning of operations, and positioning the start-up so that it meets the requirements for external financing.

The local start-up network, centralised events organised by Project Management Jülich and personal meetings with coaches all prepare the founding team for their future role as entrepreneurs.

The EXIST Start-up Grant and the Exist Research Transfer Programme are co-financed by the European Social Fund. Further information is available at www.exist.de

Digital Innovations' competition for business start-ups

4,300 applications made in seventeen rounds between 2010 and 2020 and a start-up rate of 60% among participants and 80% of award winners between 2016 and 2020 – that's the impressive track-record of the competition for start-ups in the ICT sector presented by the Federal Ministry for Economic Affairs and Climate Action. They are doing so not just for the prize money up for grabs – up to €32,000. All participants in the competition can benefit from various coaching sessions, starting with a one-day Business Model Assessment that sees their business idea coming under scrutiny, followed by individual coaching and the option of participating in seminars targeted at start-ups.

Successful participation in the competition also helps companies build a positive image, says Birgit Buchholz, Project Manager of the 'Digital Innovations' competition for business start-ups at VDI/VDE Innovation + Technik GmbH: "Success in the start-up competition will raise the profile of the young companies, not least in the eyes of prospective business partners and with the investors they need to finance the process of building a company." Since 2014, the award-winning start-ups have acquired €400 million in external financing. In this way, the competition also helps start-ups attract investors.

Every year, there are two rounds of the competition, which is open to (prospective) start-up entrepreneurs. All participants receive a written analysis of the strengths and weaknesses of their ideas for a company.

Further information is available at www.de.digital

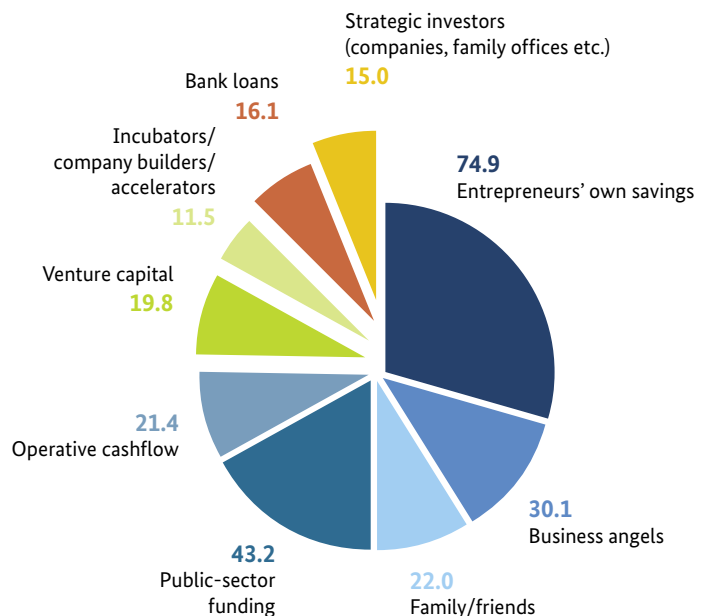


The participants (from left): Robert Balduhn, Nico Günzel and Maximilian Hackl

» The EXIST Business Start-up Grant has given us the support we needed to produce our first parts with a 3D printer at one of the workshops of the Leibniz Institute for Baltic Sea Research Warnemünde, and to finally build a complete prototype that we tested in the Baltic Sea. Beyond this, EXIST also covered our cost-of-living.

Nico Günzel, FRAMEWORK ROBOTICS GmbH

Sources of financing used by start-ups (in %)



n = 1,784
Reference: German Startups Association/PwC Germany: German Startup Monitor 2021

Securing follow-up financing



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

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

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

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

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

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

Give your company a structure and a growth strategy.

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

Do your research when it comes to financing and funding.

There are manifold types of financing and funding instruments available, ranging from the triple-f model (family, friends, and fools) to crowdfunding and crowd investment, to equity financing and bank loans. It may well make sense to work with several investors at a time. Having two or three business angels on board, for instance, means having more capital and also more business expertise. That's what you call smart money. Then there are the equity programmes organised by federal and European (promotional) banks and institutions. These include the High-Tech Start-Up Fund, a public-private partnership formed by the Federal Ministry for Economic Affairs and Climate Action, KfW Capital and 33 private investors, that is now Germany's largest early-stage investor, and the co-investment fund 'coparion', which is operated by the ERP Special Fund, KfW and the EIB. Funding can also be obtained under the programmes operated by the promotional banks of the *Länder*, or from SME venture capital companies that operate at *Länder* level.



» 'Nobody is perfect, but a team can be.' We regard ourselves as one player within a team of entrepreneurs, co-investors, investors and other stakeholders. The key objective is to understand the team's strengths and weaknesses in detail and to make the right contribu-

tions. Apart from financing, we at the High-tech Start-up Fund can offer a great deal of experience that we have acquired during the financing of more than 650 companies, especially where follow-up financing, fitting products to markets, up-scaling, crisis management and exit strategies are concerned.

Dr Alex von Frankenberg, Managing Director of the High-Tech Start-up Fund



Select the type of financing that is right for your company.

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

Prepare for financing.

No matter what form of financing or funding you are going for, these are some questions you have to be able to answer: Will you be able to meet your need for capital? For how long? What



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

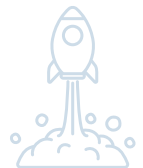
who in the team is to cover which skills, what references they will be asked for, and – this is crucial – what they themselves expect of a prospective investor.

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

are the requirements your start-up must meet? When at the latest will you be able to access the money? At this stage of the start-up's development, most teams will not yet have built a marketing track record. This is why investors and financial backers will have a close look at the composition of the team and its future staff. It is important that the start-up has all the skills it will need and that core responsibilities such as sales, marketing and internal auditing have been assigned.

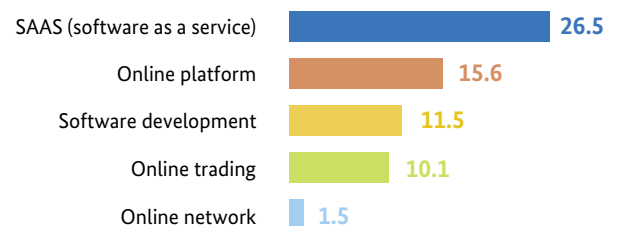
Finalise contracts for the first round of financing.

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

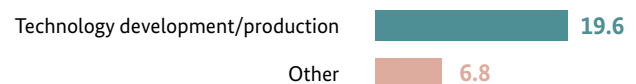


Start-up business models (in %)

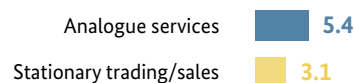
Digital business models



Hybrid business models



Analogue business models



n-value 1,962
Reference: German Startups Association/PwC Germany: German Startup Monitor 2021

Seed stage: Finance the launch of the company



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

The team will put the finishing touches on its product or process, to make it ready for the market. It will build its manufacturing and sales divisions and hire additional staff. Much of its efforts will be focused on acquiring new customers and it is common for start-ups to require additional rounds of financing at this stage.

This is because the marketing and sales divisions, in particular, tend to be quite capital-intensive to set up. Some start-ups, especially in the IT sector, will not limit themselves to the German market but try to internationalise early on. In parallel, the start-up will also have to finance additional development work, the team's own living expenses and their staff's salaries, and consultancy services.

The Economic Affairs Ministry and the ERP Special Fund support innovative start-ups at this stage of their development by giving them access to equity capital, low-interest loans (in some cases complete with a guarantee), and expertise.

Equity capital

Equity capital, venture capital, whatever you call it, this is how it works: This is how it works: One or several investors will bring some of their capital to a start-up. For the team, this comes with the advantage that they do not have to provide collateral. All that counts is their idea, the team themselves, and their business model. Furthermore, venture capital will be treated the same as equity in accounting terms. This makes it easier for the start-up to acquire additional financing. Equity

investment is sometimes referred to as 'smart money', because, in many cases, the investors will lend their business expertise to the young entrepreneurs.

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

Help with finding investors

The INVEST - Grant for Venture Capital is aimed at private investors that want to acquire a stake in young, innovative companies (cf. p. 9). However, the start-ups themselves also need to apply to have their eligibility for INVEST reviewed. They can then obtain an eligibility logo from the Federal Office for Economic Affairs and Export Control, which they can display on their website and during pitches to inform potential investors about their eligibility status for INVEST. This increases the chance of receiving venture capital financing. They can also have themselves registered in the INVEST database of the Federal Minister for Economic Affairs and Climate Action. This gives them the possibility to attract investors' attention. The regional networks of the German Business Angels Network can also be helpful for contacting investors.

Further information is available at www.invest-wagniskapital.de, www.bafa.de, www.bmwi.de, www.business-angels.de

'Start small': Micro-mezzanine Fund Germany

It is true that only large investments of at least a million euros are likely to make the headlines. But nevertheless, the start-up scene is full of founders that 'start small' and can manage with a fairly small amount of seed capital at first. For these start-ups, seeking an investment of up to €50,000 from an SME venture capital company acting as a silent partner can be a smart decision. For some specific target groups, such as women-led companies or commercial social businesses, a maximum of €150,000 can be provided. The venture capital company will provide equity to the start-up without receiving shares in return. This means that the management of the company will remain in the hands of its founders, who can use the additional equity to finance new investments and to also improve their creditworthiness.

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



High-tech Start-up Fund

The High-Tech Start-up Fund offers initial investments of up to €1 million in innovative tech companies at the seed stage that were registered less than three years ago. As a general rule, a total of up to €3 million is available per company. Young companies can use this investment to meet their need for financing in the early stage of their development. In order to be considered for financing, a project must have spawned promising research findings, must be based on innovative technology, and the market situation for the product must be bright. In most cases, the High-tech Start-up Fund will not provide this money alone but work with other investors. Young companies working with the Fund will benefit not only from the capital investment, but also from non-financial support. There are 650 companies that have received financing from the Fund since 2005, and that have successfully transitioned to the seed stage.

For further information, please go to: www.high-tech-gruenderfonds.de

‘Get trained’: Deutsche Börse Venture Network

The programme of Deutsche Börse brings together young, fast-growing companies and international investors to ensure effective financing of growth and the establishment of a comprehensive network. The programme consists of a non-public online platform and various training and networking events.

Further information is available at www.venture-network.com

Encouraging investment

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

INVEST – Grant for Venture Capital

If an angel investor or other private investor provides a start-up with at least €10,000 in investment over a period of at least three years, this investor will receive a tax-free grant worth 20 per cent of its investment. Investments taking the form of a convertible loan are also eligible for funding, provided that the application for an INVEST grant is made before the loan is issued. In addition, in the event that the company is sold later on, an exit grant is provided to offset the tax that needs to be paid on the profit made from the sale of the company (only if the investor is a natural person).

Further information is available at www.invest-wagniskapital.de, www.bafa.de

European Angels Fund (EAF) Germany

The European Angels Fund (EAF) works in a similar way to INVEST and is targeted at angel investors and other non-institutional investors. Its objective is to provide financing to innovative businesses in their pre-seed, seed and growth stages. The EAF Germany is financed from the ERP Special Fund and from the European Investment Fund (EIF). The

EAF provides co-financing, which means that when an angel investor invests in a company, the Fund will provide this company with the same amount of investment (50:50 co-financing). The EAF Germany is open to all sectors and industries. It currently works with more than fifty angel investors, providing financing for more than 270 companies.

Further information is available at www.eif.org

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

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

ERP/EIF venture capital fund of funds

The ERP/EIF venture capital fund of funds invests in venture capital (VC) funds, thereby encouraging these to invest in young innovative companies. It focuses its investments on VC funds that provide venture capital for German technology companies in their pre-seed, seed and growth stages. The EAF Germany is financed from the ERP Special Fund and from the European Investment Fund (EIF) and is open to all sectors and industries. The ERP/EIF Fund of Funds was created in 2004 and has since acquired shares in more than 100 VC funds providing financing to more than 1,700 companies.

Further information is available at www.eif.org



Helping companies enter markets abroad

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

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

Start-ups working in ICT, fintech, cleantech or life sciences tend to find the U.S. market particularly attractive. This is because it is a large market with uniform rules and a large number of start-up hubs like Silicon Valley. However, German companies competing on the U.S. market find it far more difficult to succeed there than in Germany.

German Accelerator

The German Accelerator helps the most promising German start-ups expand internationally, to the U.S. and/or Asia. The programme is tailored to its individual participants and offers in-depth workshops, dialogue with genuine experts, and access to a global network. The German Accelerator is managed by German Entrepreneurship GmbH and supported by the Federal Ministry for Economic Affairs and Climate Action.

German Accelerator's Academy

Start-ups planning to take their first steps towards internationalisation or wishing to create a roadmap for growth early on can draw on the German Accelerator's Academy as they build the necessary skills and basics for a successful, scalable business model.

Market Discovery Program

The programme helps start-ups validate the potential of their business model and its suitability for specific markets, such as India, Japan, South Korea or China. The German Accelerator provides market insights via mentors and local experts, thus helping start-ups identify their market opportunities and enter into contact with potential business partners.

Market Access Program

Start-ups preparing to enter the U.S. market or an Asian market are given access to international innovation hubs offering a tailored curriculum. As they learn to assess the market, enter it and build their own market, they are supported by mentors. The programme's duration is tailored to the need of the young companies attending it.

Life Sciences Program

Start-ups in the life sciences are faced with particular challenges. The German Accelerator and its mentors support teams as they build successful companies that bring new therapies and innovative medical products and technologies to the global markets.

Further information is available at www.germanaccelerator.com



» Since the launch of the German Accelerator's U.S. Market Access Program we have talked to many mentors who are not only perfectly familiar with the U.S. market and have large networks, but who're also showing a sincere interest in our product. Their support and advice have helped us develop a better strategy for market entry and allowed us to exchange ideas and receive constructive feedback.

Lorena Soto Casanova, Smart City System
Parking Solutions GmbH

Good to know

More information about funding programmes geared towards helping young companies internationalise their business and make it easier for them to target new markets abroad can be found in the German government's funding database. These programmes include export initiatives for environmental technologies and energy. www.foerderdatenbank.de

Growth stage: financing company growth

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

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

Equity capital

Apart from private investors and medium-sized private equity firms, venture capital funds receiving government funding also often invest in young companies. These funds often also provide helpful expertise and access to a wide-reaching network (see also p. 13).

DeepTech Future Fund (DTFF)

The financing for the new investment fund focusing on deep technology (deep tech) comes from the Future Fund and the ERP Special Fund. Over the next ten years, the DeepTech Fund will be able to invest up to €1 billion in total. The Fund is organised as a co-investor and wants to boost the growth of deep tech companies in Germany that have the potential to become market leaders.

Further information is available at www.deeptech-future-fonds.de

The Future Fund

The Federation is providing €10 billion for an equity fund for forward-looking technologies (“Future Fund”) up to 2030. The fund is to be based at KfW and support the German venture capital market. The Future Fund wants to add to the quantity and quality of existing financing options and also introduces new instruments. The idea is to cover all developmental stages start-ups go through, especially in terms of growth financing, and to give a special focus to market segments that have so far been neglected. The Future Fund is based on a modular structure.

Further information is available at www.bmwi.de



coparion co-investment fund

The coparion co-investment fund invests in small innovative tech companies that are less than ten years old. These need to be able to show that they have an above-average growth rate and have generated some initial turnover, acquired some first key customers or successfully launched a product. The fund can invest up to €15 million per company. However, this depends on whether the company can find a private-sector investor who agrees to invest the same amount of money at the same conditions (pari passu principle) in a particular round of financing. The shareholders of the public-sector coparion venture capital fund are the ERP Special Fund, KfW Capital and the EIB.

Further information is available at www.coparion.vc



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

of €275 million and being able to act quickly and in close coordination with companies, the fund offers start-ups real added benefit in this stage of development.

David Zimmer, Managing Director of coparion GmbH & Co. KG



ERP innovation financing

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

Further information is available at www.kfw.de

Good to know

In order to supplement private equity or venture capital, companies in their seed and growth stages can also seek 'classic' promotional loans from their highstreet bank, which can be used to invest in software, appliances, buildings and equipment. Go to page 13 to find out more.

Attendance at trade fairs

The Economic Affairs Ministry's programme "Participation of young, innovative companies in leading trade fairs in Germany" helps such companies to present themselves in joint booths at selected trade fairs.

Further information is available at www.bafa.de

Encouraging investment

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

ERP/Future Fund Growth Facility

KfW Capital is to use the ERP/Future Fund Growth Facility to expand the awarded volume of growth financing to up to €400 million per year, with a focus on investments in growth funds. By investing up to €50 million per fund, KfW Capital will help increase the volume of German and European venture capital funds, allowing for larger financing rounds for start-ups to be held more frequently. A total of €2.5 billion is available for this purpose up to 2030.

Further information is available at www.kfw-capital.de

GFF EIF Growth Facility

The GFF EIF Growth Facility was established under the auspices of the Future Fund. Over a period of ten years, it is investing up to €3.5 billion into growth funds and fairly large-scale

Venture Tech Growth Financing

The KfW Venture Tech Growth Financing programme launched by the Federal Government and the KfW banking group is used to promote young technology-oriented growth companies. The programme is part of the Federal Government's Tech Growth Fund initiative, which is designed to provide venture debt financing, particularly for start-ups in the growth phase. The programme offers loans to finance further growth for technologically innovative and fast-growing companies that have a resilient and promising business model. KfW will provide up to €250 million under the programme up to 2022. The Federal Government covers 95% of the risk. Financing under the KfW Venture Tech Growth Financing programme must be provided jointly together with a private lender. The Future Fund is to be used to further expand the programme from 2022 and up to 2030.

Further information is available at www.bmwi.de

growth financing rounds of start-ups. The financial volume comes from the Future Fund, the ERP Special Fund and the European Investment Fund (EIF).

Further information is available at www.bmwi.de

ERP Venture Capital Fund Investments

Under the ERP Venture Capital Fund Investments programme, KfW Capital invests up to €180 million p.a. in venture capital and venture debt funds, which then invest in innovative, technology-oriented companies in the start-up and growth phase. The risk of the investment is borne by the ERP Special Fund. KfW Capital invests a maximum of €25 million per fund and a maximum of 19.9% of the fund volume and always on the same terms (pari passu) as private investors.

Further information is available at kfw-capital.de

Mezzanine umbrella fund for Germany (MDD)

The ERP/EIF Mezzanine Fund of Funds for Germany (MDD) invests in private professional funds (including venture debt funds) that provide mezzanine financing – a type of financing that includes characteristics of both equity and loan capital. For example, this includes subordinated loans, investment as a silent partner, and typical and atypical investments.

Further information is available at www.eif.org

INVEST – Grant for Venture Capital cf. p. 9

Start-up finder

The network of the Digital Hub Initiative launched by Economic Affairs Ministry offers start-ups greater visibility. The start-up finder helps businesses and investors to contact suitable start-ups directly.

Further information is available at www.de-hub.de/startupfinder

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

Companies in their seed and growth stages that are looking to supplement private equity or venture capital can also seek ‘classic’ promotional loans from their highstreet bank, which can be used to invest in software, appliances, buildings and equipment. Information on all of the funding programmes can be found in the federal funding database (federal funding, Länder funding, EU funding) www.foerderdatenbank.de.

ERP Start-up Loan - Start-up Money

#loans

What can this be used for?

- Loans can be used for financing investments and equipment.

What are the terms?

- A max. of €125,000, of which a maximum of €50,000 can be spent on equipment.
- Repayment period of max. 10 years,
- of which a maximum of two years before repayments are due.
- The company’s bank benefits from an 80% exemption from liability, which means that it will provide loans even though the company can offer little or no collateral.

Who can receive the loan?

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

Where can I find further information and submit my application?

- At KfW banking group via your company’s bank or savings bank www.kfw.de
- Federal funding database (federal funding, Länder funding, EU funding) www.foerderdatenbank.de

ERP Capital for Start-ups

#loans #no collateral required

What can this be used for?

- Strengthening start-ups’ and young entrepreneurs’ equity base.
- Financing of investments and initial range of stock.

What are the terms?

- A maximum of €500,000 is available.
- The interest rate is low, the repayment period is 15 years, no repayments are due for the first seven years.
- Start-up teams are required to foot the bill for 10 to 15% of the required investments themselves.

Who can receive the loan?

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

Where can I find further information and submit my application?

- At KfW banking group via your company’s bank or savings bank www.kfw.de
- Federal funding database (federal funding, Länder funding, EU funding) www.foerderdatenbank.de

ERP support loan for SMEs / KfW support loan for large SMEs

This programme will launch on 1 January 2022 and replace the current Universal Start-up Loan and the KfW Entrepreneur Loan.

#investment at home and abroad #equipment

What can this be used for?

- The loan can be used for financing investment in Germany and abroad (e.g. for acquiring estates and buildings, buying machinery and facilities, for taking over or acquiring stakes in a company in the form of asset deals) and for buying equipment

What are the terms?

- The interest rate is low, with the exact terms depending on the risk involved in the investment; the repayment period is up to 20 years, with the option of having several initial years before repayments are due.
- The lowest interest rates are available for companies based in German areas eligible for regional funding and for young companies that have been active on the market for less than five years.
- Collateral as usually asked for by banks is required.
- The highstreet bank accepting the loan application can be exempt from 50% of the risk.

Who can receive the loan?

- Start-up entrepreneurs, young companies and established SMEs

Where can I find further information and submit my application?

- At KfW banking group via your company’s bank or savings bank www.kfw.de
- Federal funding database (federal funding, Länder funding, EU funding) www.foerderdatenbank.de

Guarantees provided by guarantee banks

#in cases where companies are unable to provide collateral

What can this be used for?

- Guarantees can be used for financing investment and buying equipment.

What are the terms?

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

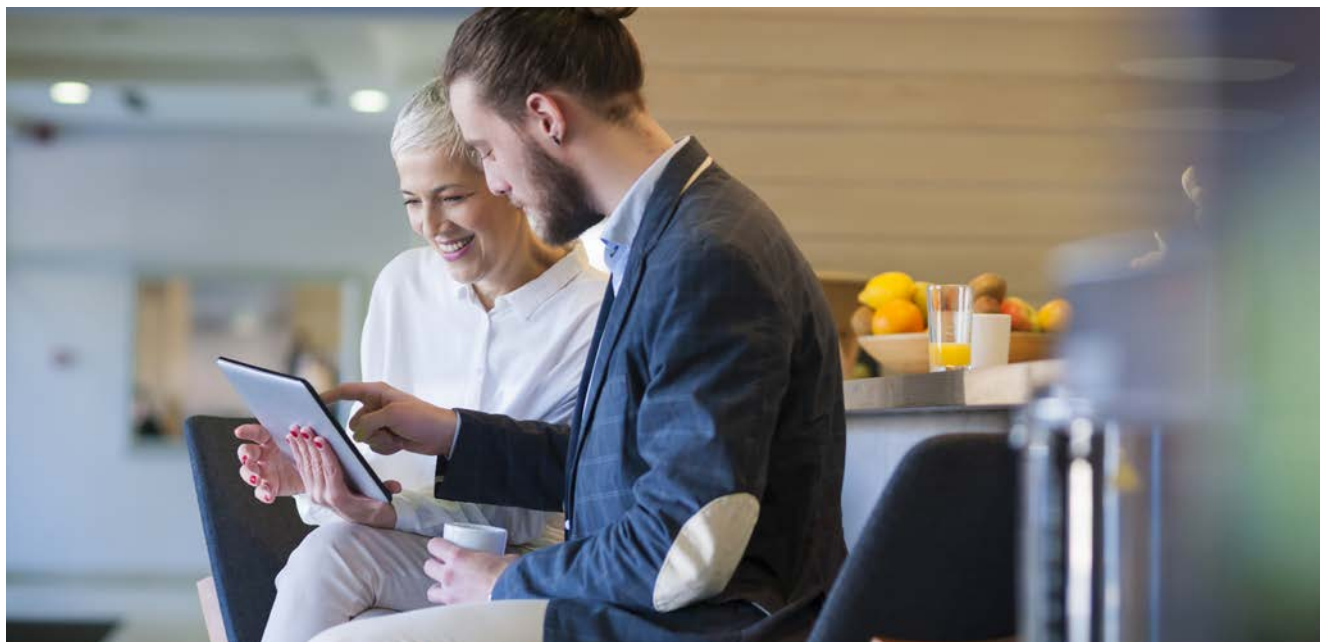
Who can receive the loan?

- Start-ups and established companies.

Where can I find further information and submit my application?

- Your company’s bank or savings bank, guarantee bank of a particular German *Land*.
- Federal funding database (federal funding, Länder funding, EU funding) www.foerderdatenbank.de

Advice, information available in print or online



Funding and financing advice from the Economic Affairs Ministry

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

- the funding programmes offered by the German government, the German *Länder*, and the EU
- application procedures
- points of contact, and
- the terms and conditions that apply

Tel.: +49 30 18 615-80 00
Mondays to Thursdays 9 a.m. to 4 p.m.,
Fridays 9 a.m. to noon

Information hotline for SMEs and start-up entrepreneurs

Tel.: +49 30 340 60 65 60
Mondays to Thursdays 8 a.m. to 8 p.m.,
Fridays 8 a.m. to noon

Information service of the Federal Government on support for research and innovation

The information services on support for higher education institutes, research institutions and companies – especially SMEs

- provides information on:
- all aspects relating to the Federal Government's research and innovation funding.
 - federal, *Länder*, and EU research and funding structures
 - experts serving as contacts
 - research-based start-ups
 - and on how to prepare for international projects

Research funding
Tel.: +49 800 26 23 008

Navigation service for companies seeking support
Tel.: +49 800 26 23 009
www.foerderinfo.bund.de

KfW Bankengruppe

The information hotline is available to answer questions about the KfW funding programmes regarding:

- start-ups
- innovation
- environmental protection
- renewable energies

Tel.: 0800 539 90 01
Mondays to Fridays 8 a.m. to 6 p.m.

Federal funding database (federal funding, Länder funding, EU funding)

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

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

www.foerderdatenbank.de

Smart Money

- **German Business Angels Network (BAND)**
www.business-angels.de
- **Bundesverband Deutscher Kapitalbeteiligungsgesellschaften**
German Private Equity and Venture Capital Association (BVK)
www.bvkap.de
- **coparion GmbH & Co. KG**
www.coparion.vc
- **Deutsche Börse Venture Network**
www.venture-network.com
- **German Equity Forum**
c/o Deutsche Börse AG
www.eigenkapitalforum.com
- **High-tech Start-up Fund (HTGF)**
www.htgf.de

Networking

- **de:hub**
www.de-hub.de
- **German Startups Association**
www.deutschestartups.org
- **Start-up initiatives undertaken by the German Länder**
www.existenzgruender.de,
www.existenzgruenderinnen.de,
gruenderplattform.de
- **Higher education start-up networks**
www.exist.de

Contests and awards

- **'Digital Innovations' competition for business start-ups**
www.de.digital
- **Other contests for start-up entrepreneurs**
www.existenzgruender.de
- **Cultural and Creative Pioneers in Germany**
kultur-kreativpiloten.de
- **German Start-up Prize**
www.deutscher-gruenderpreis.de
- **KfW Award for Start-ups**
www.kfw.de

Publications

Brochures and flyers focusing on start-ups
www.bmwi.de

Internet

www.bmwi.de
www.existenzgruender.de
www.existenzgruenderinnen.de
www.kultur-kreativ-wirtschaft.de
www.unternehmergeist-macht-schule.de
gruenderplattform.de

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