



October 2, 2006

Venture capital in Europe

Spice for European economies



Europe needs more start-ups. Low entrepreneurial activity is one important reason among others for the lacklustre performance of most European economies. Less than 4% of German residents are opportunity-driven entrepreneurs compared to close to 11% in the US. Start-ups are often more innovative and dynamic than incumbent firms and thereby help to rejuvenate the economy.

Most European countries have few venture-capital investments. European venture capitalists invested around EUR 12.7 bn (0.11% of GDP) in 2005 compared to more than EUR 17.4 bn (0.17% of GDP) in the US. But Europe is catching up: since 2003, venture-capital (VC) investments have increased by 23% per year on average compared to 0.3% in the US. Also, Denmark, Sweden and the UK have a higher share of VC investments – albeit fewer entrepreneurs – in relation to the size of their economies than the US (see Figure).

Germany could boost economic growth by 1/4pp if its VC investments were just to catch up with the European average. Our analysis suggests that countries with a higher share of VC investments have higher growth rates on average. Germany's VC investments are only half the European average – which means that a number of growth options are being missed.

Outlook: Cyclical upturn with sound fundamentals. European VC investments are on a robust growth track. The exuberance of the new economy did less harm to the market in Europe than in the US and most industry representatives are in high spirits. The cyclical component should not be ignored, however. A permanent slump in the European stock markets would also squeeze the amount of VC investment.

You cannot buy entrepreneurial spirit. A better supply of VC can only do so much. Too many Europeans dislike the idea of being an entrepreneur. It conveys less social prestige than other occupations and people are less forgiving if ventures fail. Such attitudes cannot be changed easily.

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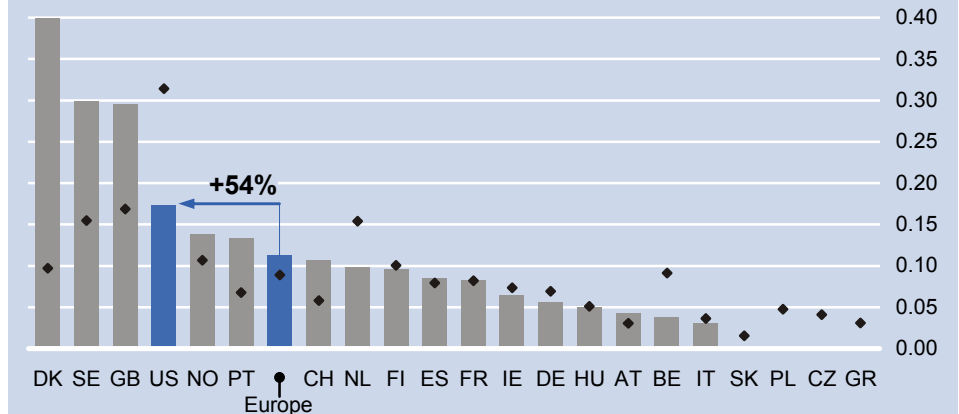
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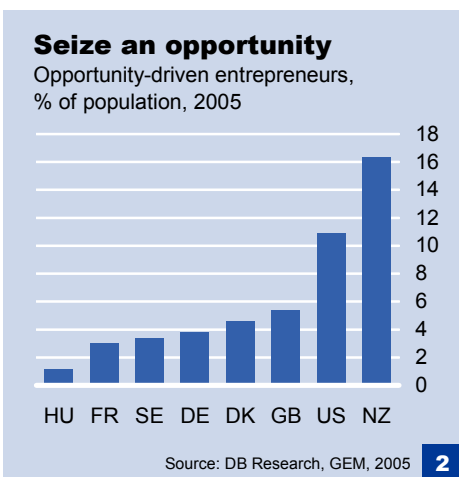
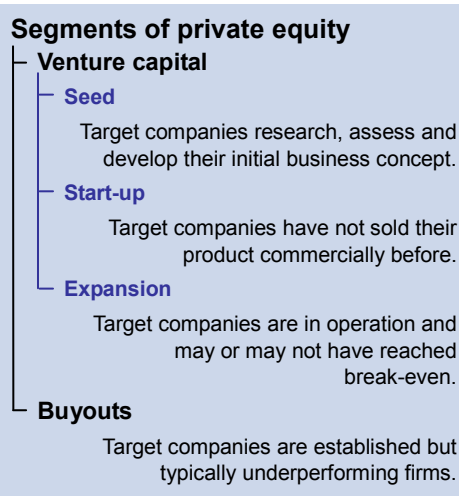
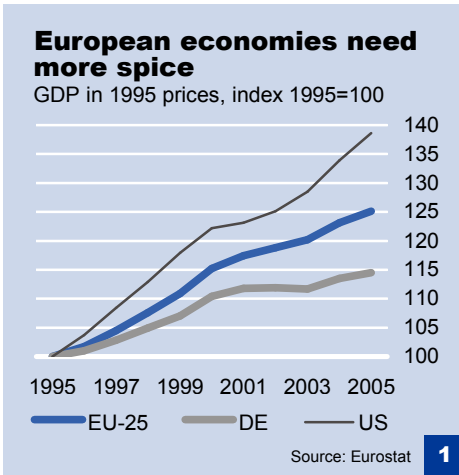
Venture-capital investments across Europe and the US

By country of management 2005, % of GDP



◆ Average VC investments 1994-2005 (where available)

Sources: DB Research, EVCA, PwC MoneyTree



The importance of start-ups to economic performance is undisputed. Young firms go boldly where incumbents have not ventured before. With ideas and innovative strength they introduce new products, new methods of production, and new ways to generate revenues. Their dynamism challenges incumbents and sparks creative destruction.

Take the example of Google Inc, a company that changed profoundly the way people search the internet and which uses this traffic to sell online advertisements. In 1999, a year after Google was founded, two venture capitalists bought a 20% stake for USD 25 m. In 2004, at the time of the initial public offering (IPO), the value of this stake had increased to USD 4 bn.

Other ventures try to replicate this success. The San Francisco-based internet start-up Prosper, for instance, raised around USD 20 m earlier this year in order to create and develop an online P2P-lending marketplace. The idea challenges the traditional banking model because it brings together lenders and borrowers without a middleman (other than Prosper itself).¹ Only time will tell whether online P2P lending will shake up the financial landscape or remain a niche product. But without such entrepreneurs, we might never know.

The power of innovation and entrepreneurship helps to rejuvenate the economy and averts its descent into complacency. The mediocre performance of European economies (see Figure 1) suggests that the continent could do well with more of that spice.

Venture capital (VC) is a segment of private equity – the other major segment being buyouts. VC is designed for the early development (seed or start-up) and expansion of young firms (see box). Venture capitalists buy equity stakes in promising start-ups in order to sell them later for a profit. Besides funds, they provide professional advice and business know-how. Typical start-up entrepreneurs have high hopes but lack financial resources or managerial experience. Hence, they often need venture capital and venture capitalists to turn an idea into a business.

The motivation behind a start-up is of economic importance. Some founders simply have no alternative. Many immigrants, for instance, end up opening shops or restaurants because they cannot find a regular job. Some governments use subsidies to encourage unemployed people to found a business or to work freelance. This pushes some into entrepreneurial activity who would otherwise have preferred traditional employment. Such start-ups out of necessity are typically less innovative and have fewer growth and employment effects. Therefore, it is more informative to focus on those start-up entrepreneurs who actually want to seize a business opportunity. The share of such opportunity-driven entrepreneurs is much smaller in European countries than, say, in the US: while close to 11% of US residents are such entrepreneurs, the share is smaller than 4% in Germany. The share is highest in New Zealand where more than 16% regard themselves as opportunity-driven entrepreneurs (see Figure 2).

¹ See also Meyer, Thomas (2006). Financial Services 2.0: How social computing and P2P activity are changing financial research and lending. E-Banking Snapshot 18. Deutsche Bank Research.

Few start-ups survive the first years

Success stories needed

VC helps to align incentives between entrepreneur and investor

Reputable VC funds enjoy a discount when buying stakes in start-ups

Why venture capital?

The early days of a firm are perilous. The majority of start-ups do not survive their first few years. Such a risk profile turns away many investors. Moreover, most start-ups have few tangible assets that could serve as collateral. The most valuable assets of innovative start-ups are the ideas in the mind of the entrepreneur and his or her intention to work hard in order to turn them into a profitable business. Neither can yet be used to secure a loan.

The risk profile and the lack of tangible collateral of typical start-ups call for external finance in the form of equity stakes. Although many start-ups fail, some will survive and a few will even become fabulously successful. A holder of equity shares in the downside as well as the upside. A debt-holder would only receive a fixed amount of interest no matter how successful the firm were to become and nothing or very little if the firm were to go bust. An equity shareholder can use the success stories to cover losses incurred by those investments that do not work out.

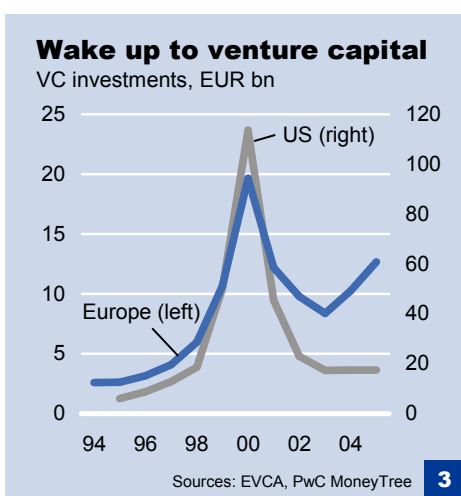
An equity stake also helps to align incentives between entrepreneur and investor. While some founders prefer to play it as safe as possible because their financial and human capital is tied to the start-up, venture capitalists typically have a more risk neutral stance because they diversify risk across a portfolio of investments. VC funds often push start-ups to a more aggressive business strategy. A study by Ulrich Hege et al. (2003) suggests that US funds even push a little harder than their European cousins.²

Venture capitalists provide managerial expertise and business knowledge in addition to money. The endorsement by a reputable VC fund is an important signal of quality to the business community which helps to acquire more customers and to get better terms with suppliers. As it appears, most start-up entrepreneurs understand the side benefits of VC financing well: David Hsu, an economist at Wharton School, estimates that VC funds with a high reputation can buy start-up equity at a 10-14% discount and that their offers are three times more likely to be accepted by founders compared to VC funds with an average reputation.³

New economy was a wake-up call to European VC

VC has been an established financial instrument in the US for decades: one of the first VC funds, American Research and Development Corp., was founded back in 1946 by General George Doriot. Europe had been idle for some time, but the new economy boom was a wake-up call (see Figure 3). The implosion after the new economy bubble burst was weaker than in the US. European VC investments have stabilised at a higher level compared to pre-bubble figures. In 2005, they were 90% higher than in 1998, whereas US investments were only 4% higher (in USD terms). This is even more surprising if one takes into account that European stock markets plummeted more steeply when the hype was over than the US market did.

Although European VC investments have experienced stronger growth over the last two years, the level of VC investments is still much higher in the US. In 2005, venture capitalists in the US



² Hege, Ulrich, Frédéric Palomino and Armin Schwiendbacher (2003). Determinants of Venture Capital Performance: Europe and the United States. LSE Ricafé Working Paper 1.

³ Hsu, David H. (2004). What Do Entrepreneurs Pay for Venture Capital Affiliation? The Journal of Finance. Vol. LIX, No. 4. pp. 1805-1844.

invested more than EUR 17.4 bn (0.17% of GDP) compared to close to EUR 12.7 bn (0.11% of GDP) by European venture capitalists.

Danes are the most enthusiastic venture capitalists

The amount of invested VC varies considerably across Europe. Denmark, Sweden and the UK even have more VC than the US – relative to the size of their economies. Greece and the Czech Republic have the lowest VC investments. Danish VC investments – in particular at the expansion stage – soared during 2005 and this surge drove Denmark to the top of the list. German venture capitalists are invested to the tune of a little less than EUR 1.3 bn (0.056% of GDP), which is only half as much as the European average in relative terms.

Little venture capital for early stages

Informal investors – friends, families and fools – are the richest source of start-up financing.⁴ Also, the founders themselves typically contribute a large part of the capital. But professional financing by venture capitalists would often be much better, not least because it does not depend on the financial resources of relatives.

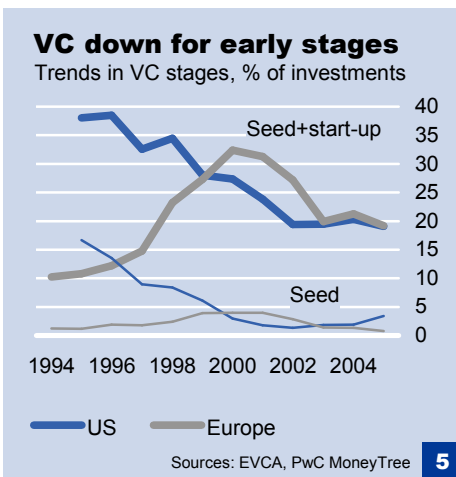
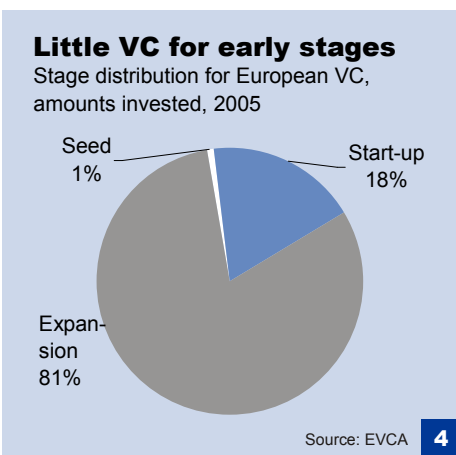
The majority of European VC funds are allocated to expansion financing. Early stages – i.e., seed and start-up financing – amount to only 19% of VC invested (see Figure 4). Expansion financing typically targets firms that are already out of the woods. Since young firms need less money to get started, the small share is not too surprising. Seed financing receives only 1% of funds but 5% of deals. Still, there is a bias towards the expansion stage where 81% of funds are invested and 56% of deals are executed.

The trends in the stage distribution of funds show that early-stage financing receives a declining share of VC, both in Europe and the US. The allocation towards seed and start-up stages has dropped below 20%. Seed financing has virtually dried up in Europe to less than 0.7% of total VC while there has been a modest recovery in the US (see Figure 5).⁵

National borders lose relevance

European private-equity investments-figures are typically based on an office approach – i.e. investments are recorded according to the country of management of the funds. But in some countries there is a notable difference between the amounts managed and actually invested or raised. In fact, across Europe, only 47% of private-equity funds are raised domestically and only 62% of investments are made domestically.⁶ British investors, for instance, manage much higher amounts than are destined for the UK. This is evidence of the importance of the UK as a financial centre in Europe.

The development of the last decade shows that capital is increasingly moving across borders, and is evidence of the growing integration in the European and global financial markets. The share of domestic



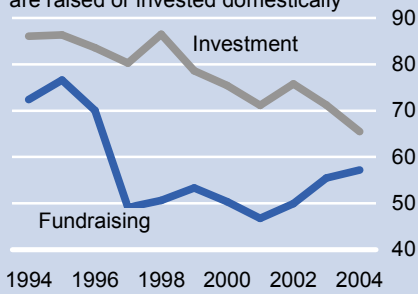
⁴ Minniti, Maria, William D. Bygrave and Erkkö Autio (2005). Global Entrepreneurship Monitor: 2005 Executive Report. London Business School. London, UK. pp 49-52.

⁵ The PwC MoneyTree Report on US venture-capital data uses different definitions than the European Venture Capital Association (EVCA). For coherence, we apply the EVCA definitions to MoneyTree data, which may result in some specification errors.

⁶ These figures are private-equity investments and funds raised – i.e., include venture capital as well as buyouts – because market-based data is not available broken down into the various private-equity segments.

Financial integration

% of managed private-equity funds that are raised or invested domestically



Basis: Weighted European average

Sources: DB Research, EVCA

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investments shows a clear downward trend for the period between 1994 and 2005; the same holds for the share of funds raised domestically – except for the period between 2001 and 2003 (see Figure 6). National constraints on fundraising and investments are becoming less relevant.

Impact on growth and employment

There is no simple correlation between venture-capital investments and economic growth. Figure 7 shows a rather U-shaped relation between VC investments and real economic growth across European countries and the US. However, many factors influence economic growth that are unrelated to VC investments or start-ups. Growth theory, for instance, suggests that poorer countries typically have higher growth rates than mature economies. This is called β -convergence. Any empirical analysis would have to account for this type of level effect. The same holds for other structural and cyclical factors.

Matters are even more complicated because the structural relation between VC investments and economic growth – if there is any – was severely distorted by the new-economy hype. VC investments sky-rocketed and growth rates peaked in most European countries during the year 2000 and plunged in concert afterwards. If unaccounted for, that would exaggerate the structural relation.

A more thorough econometric analysis – which adjusts for these effects – shows a positive and statistically significant relation between private equity in its various segments and growth. Our analysis draws on a set of panel data for 20 European countries for the period between 1994 and 2005 in order to test the hypothesis that private-equity investments are associated positively with economic growth. The analysis fails to reject this hypothesis. We use the development of national stock markets as a control variable in order to adjust for other cyclical and structural influences. Stock markets rallied during the new-economy hype and plunged afterwards; hence they statistically absorbed part of the exuberance of that time. Additional control variables are GDP per capita (at year-2000 prices) and the unemployment rate. We include an AR(1) term to account for first-order serial correlation in the residuals. Country fixed-effects capture structural differences between the countries.⁷

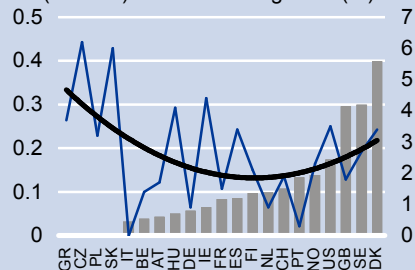
According to the analysis, an increase in private-equity investments by 0.1% of GDP is associated statistically with an increase of real economic growth of 0.2 pp if the investments are done at the buyout stage, 0.4 pp at the venture-capital stage and 1 pp if investments are done at early-stages – other things being equal (see Figure 8).

We also find that VC investments cease to be statistically significant once a measure of entrepreneurial activity is included in the model. This suggests that entrepreneurial activity is indeed the main transmission channel for VC investments to growth.

The results of the analysis underline the economic potential of VC-backed entrepreneurship. If Germany's VC investments were to rise to the European average, economic growth could increase by $\frac{1}{4}$ pp – statistically speaking. However, this would require Germany to more than double the size of its VC market from 0.056% of GDP to 0.113% of GDP without compromising on the quality of financing.

VC makes a smile

VC (% GDP) and real GDP growth (%)



VC by country of management (right)
Real GDP growth (left)

Sources: DBR, EVCA, Global Insight, Money Tree

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Private equity and growth

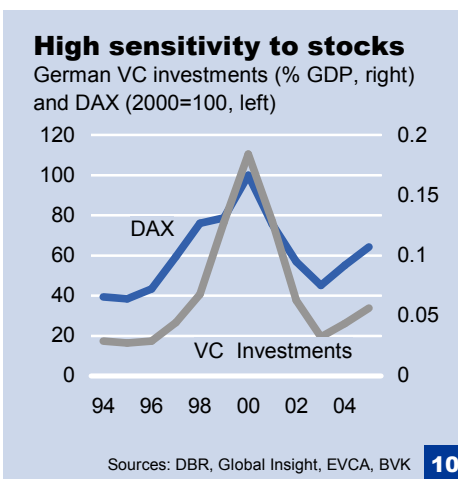
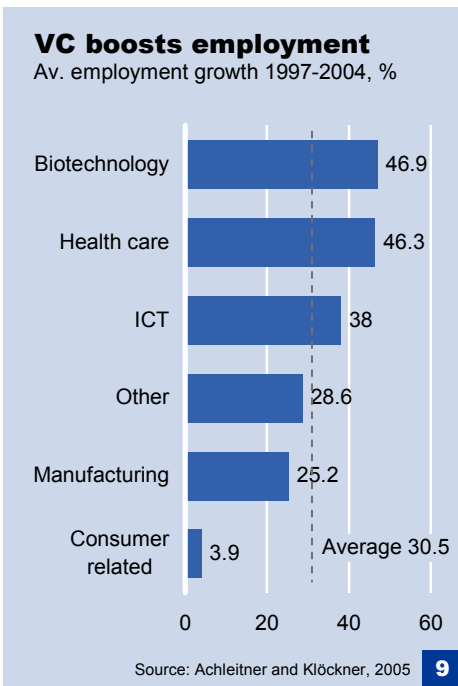
Change in the growth rate (pp) when investments increase by 0.1% of GDP



Source: DB Research

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⁷ For more details on the estimation please refer to Meyer, Thomas (2006). Private Equity: Spice for European Economies. Journal of Financial Transformation. Vol 18. November (forthcoming).



IPO is the exit of choice

This in turn implies that entrepreneurship and start-ups must get a wider hold in the economy. Venture capital does help in that respect but other forces that help entrepreneurs need to follow.

Micro-evidence supports the positive view. A study commissioned by the EVCA claims that venture-backed firms in Europe added jobs at an annual rate of over 30% on average between 1997 and 2004! In particular, biotechnology and healthcare have been job machines (see Figure 9).⁸ That young (and small) firms add jobs at a higher rate than established big ones is not surprising – if Wal-Mart were to create jobs at this rate, the entire world population would work in retail stores by 2040. Still, the rate is impressive.

What drives venture-capital investments?

We have investigated the same data set in order to identify the main determinants of VC investments. As it appears, a mixture of cyclical, fundamental and VC-specific factors explains the amount of VC investment quite well.

Start-ups are attractive investment targets during economic upturns because start-up survival rates are higher and it is easier for venture capitalists to sell their stakes than in stagnant times. A strongly performing stock market is a leading indicator for a booming economy. Accordingly, we find a positive and robust correlation between VC investments and the development of the main national stock market indices (see Figure 10 for an example from Germany).⁹ Unemployment tends to be correlated negatively to VC investments, which is evidence of the cyclical character of VC. It also suggests that start-ups that are founded to escape unemployment tend to draw less on VC than opportunity driven ones.

On the fundamental side, national expenditures on research and development (R&D) have a robust and positive relation to VC investments. This finding is unique to the venture-capital stage of private equity – i.e., we find no statistically significant relation between R&D spending and investments in the buyout segment in a similar estimate. This highlights the notion that VC backed start-ups and young firms operate closer to the technology frontier than other private-equity financed firms.

Venture capitalists need an exit channel to sell their stakes. The most lucrative one is typically an initial public offering (IPO). However, most start-ups need at least a couple of years of business development before they can be sold publicly. Therefore, we put the amount of current IPOs in relation to past VC investments. A high ratio would indicate that a large share of past VC investments has been exited via IPO. This should encourage further VC investments. Indeed, we find a positive and robust correlation between the ratio of current IPOs to VC investments four years ago and current VC investments. Alas, this finding also lends support to the pro-cyclical character of VC investments because successful exits of past VC investments must not necessarily imply that current investments will be exited successfully in the future.

⁸ Achleitner, Ann-Kristin and Oliver Klöckner (2005). Employment contribution of Private Equity and Venture Capital in Europe. EVCA Research Paper.
⁹ Publicly listed start-ups are typically not part of major national stock-market indices. But these indices are also indicative for other segments of the stock market.

Strong performance of top funds

Every venture capitalist dreams of a story like that of Google Inc., where a USD 25 m investment turned into a USD 4 bn stake within 5 years. This is, however, an exceptionally successful case even by venture-capital standards. There are also the many business failures where venture capitalists lost their money, and those failures dilute the overall performance.

Performance in 2005 above historical average

Table 11 gives an overview of the performance of private-equity funds for Europe and the US according to the stage of investment and for different investment horizons. The performance is measured by the Horizon IRR.¹⁰ The last year has been exceptionally successful for European private-equity investments: the performance of the 1Y Horizon IRR at all stages is well above the historical average. This explains part of the recent enthusiasm for private equity.

Horizon IRR

As of 31 Dec 2005

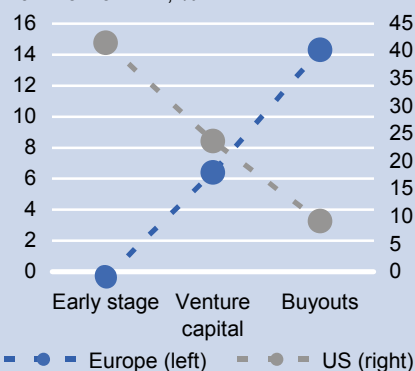
	Stage	1Y	3Y	5Y	10Y	20Y
Europe	Early stage	22.5	-2.1	-7.5	-0.4	0.2
	Venture capital	36.5	1.7	-3	6.4	6.4
	Buyouts	31.7	9.1	6.1	14.3	13.7
US	Early stage	8.3	3.1	-10.9	41.5	20.4
	Venture capital	15.6	7.5	-6.8	23.7	16.5
	Buyouts	31.3	16.3	5.2	9.2	13.3

Source: Thomson Financial, 2006

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Different eXperiences in Europe and the US

10Y Horizon IRR, %



As of 31 Dec 2005. Source: Thomson Financial, 2006

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The slump following the end of the new-economy hype and the many VC-backed, dot-com start-ups that did not survive have driven down private-equity performances with medium and longer horizons. The comparison of long-run performances (10Y and 20Y) between Europe and the US shows a strikingly different pattern. European private-equity funds generated the highest returns at the buyout stage and the lowest with financing at early stages. US funds have made the opposite experience (see also Figure 12). This X-pattern disappears at more recent investment horizons – not least because both markets went through the same shock when the new-economy hype ended.

The stronger long-run performance of US venture-capital funds – in particular at early stages – may be evidence of superior investment conditions. It may also explain why European venture capitalists are somewhat reluctant to invest. However, there is a strong variance in the performance of European early-stage funds. Whereas the overall performance over a 10Y horizon was -0.4%, the top half of funds generated a return of 10.9% and the top quarter no less than 24.5% (see Table 13). A variance of this magnitude is not present in other European private-equity segments.

¹⁰ The internal rate of return (IRR) is calculated as an annualised compound rate of return using cash flows to and from investors, including the residual value as terminal cash flow. It is net of fees and carried interest (the profit share of fund managers). The Horizon IRR uses a fund's net asset value at the beginning of the period as initial cash flow and then all subsequent cash flows including the residual value.

Horizon IRR for European early-stage funds

As of 31 Dec 2005

	1Y	3Y	5Y	10Y
All funds	22.5	-2.1	-7.5	-0.4
Top half	39.7	4.2	-2.0	10.9
Top quarter	59.6	9.9	0.7	24.5

Source: Thomson Financial, 2006

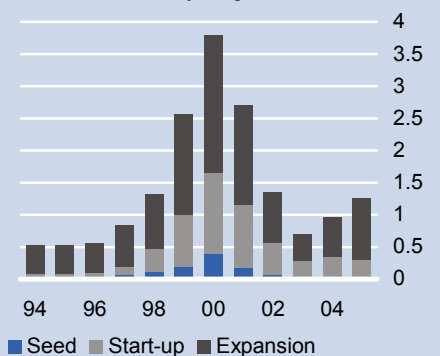
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European venture capitalists are getting more experienced

The competence and experience of (early stage) venture capitalists should not be ignored. At least half the funds were able to operate profitably (at a 10Y horizon). Research, for instance by Antoinette Schoar and Steven Kaplan (2006), shows that fund performance is highly persistent: Fund managers who outperform in one fund are likely to outperform in the next fund, too.¹¹ However, it is important to acknowledge that the VC industry is much younger in Europe than in the US – and hence has had less time to acquire competence and experience. It has often been experienced, foreign VC funds, particularly from the US, who have generated important momentum in the European market. Therefore, it is arguably unfair to attribute the better performance in the US only to superior investment conditions, although they certainly played their part, too. This in turn suggests that European performance figures may improve because fund managers in Europe have had plenty opportunities since the mid-1990s to collect competence and experience. The short-term performances are encouraging in that respect: European 1Y Horizon IRRs have been higher than US ones in all private-equity segments (see Table 11). But one year is clearly too short a period to provide confirmation of a lasting trend.

German VC investments

VC investments by stage, EUR bn



Sources: BVK, EVCA

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Signs of a turnaround at seed stage

Encouraging signs from the German VC market

The German VC market was hit particularly hard by the end of the new-economy hype. In contrast to the European average, VC investments in 2005 barely reached the level of 1998 despite robust growth during the last few years (see Figure 14). There are some encouraging signs, though. Respondents to the German Private Equity Barometer¹² report a very positive mood in all segments of private equity including the VC segment, which they regarded more pessimistically in the past. The barometer reached an all-time high in the second quarter of 2006. The improving economy and the good stock-market performance are the main drivers – notwithstanding that stock markets lost steam recently. Also, early-stage investors say that they receive business plans of higher quality than before.

However, German venture capitalists have yet to put their money where their mouths are: VC investments were slightly lower in the first half year of 2006 than a year before.

A remarkable shift has occurred at the seed stage, where German venture capitalists invested around EUR 9.5 m in the first half year of 2006 alone. This already exceeds the entire seed investments of

¹¹ Kaplan, Steven N. und Antoinette Schoar (2005). Private Equity Performance: Returns, Persistence, and Capital Flows. The Journal of Finance 60 (4), pp. 1791-1823.

¹² The German Private Equity Barometer is a quarterly business climate index for the German private-equity market – based on a survey of BVK members – published by KfW banking group and the German Private Equity and Venture Capital Association (BVK).

2005 (EUR 6.6 m) by a substantial margin. It is first evidence that the trend of declining seed investments may have reversed. German seed investments had virtually dried up in 2005.

Besides improving market conditions there are also institutional factors bolstering VC investments in Germany. The seed and start-up segments benefit from government initiatives that sponsor VC at early stages – for instance, the German High-Tech Gründerfonds, supported by the federal government, the KfW and business partners, which invests up to EUR 500,000 in promising start-ups. Our analysis shows that such initiatives can be effective: there is a positive and statistically significant relation between the share of government funds in total fundraising and the amounts of VC investments.

Entry Standard facilitates IPO

We also believe that the creation of the Entry Standard segment at Deutsche Börse in October 2005 improves the prospects of VC investments because it offers a new exit option via IPO. The Entry Standard is part of the Open Market (Freiverkehr). The regulatory requirements are less stringent than those of EU-regulated markets but more stringent than in the general Open Market. Many venture capitalists may prefer the Entry Standard as an exit channel, because it promises higher liquidity than the Open Market without the full costs of EU-regulated markets.

Muddles over taxation should be addressed

Muddles over current taxation practices should be addressed, however. In most countries, for instance, taxes are levied at the level of the portfolio company and not at the level of private-equity investors. Private-equity firms in Germany may lose their tax exemption if they assume too many business responsibilities for their portfolio companies. This, however, is the business model of private equity in particular at the VC stage where portfolio companies often need a guiding hand from venture capitalists. Therefore, some investors need to employ indirect consulting vehicles to save the tax privilege – or they relocate their office abroad. That would not be necessary if the interpretation of the tax code were more accommodating.

Industry is in high spirits

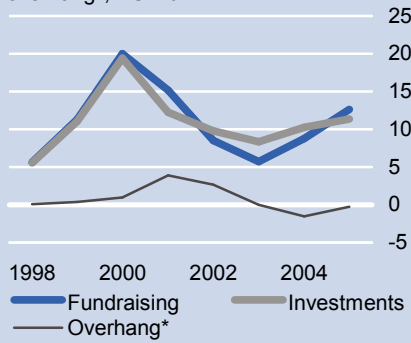
Given the positive mood, most industry representatives appear to be confident that such muddles will be sorted out eventually. They have some reason to think so. The economic benefits of having a vibrant private-equity industry have been acknowledged repeatedly by government representatives. Recent sales of government-held stakes to private-equity firms – e.g., a 4.5% stake of Deutsche Telekom to Blackstone this April – suggest that the government believes what it says. Still, the current uncertainty is one element that is preventing the German private-equity market from realizing its full potential.

Outlook for European venture capital: Cyclical upturn with sound fundamentals

European VC investments have been growing robustly over the past few years. In fact, if one ignores the exuberance of the new economy bubble between 1999 and 2002, the growth trend has been remarkably stable since the mid-1990s. Moreover, the substantial gap to US levels of VC investment suggests that the European market still has a lot of potential.

Fundraising exceeds investments in 2005

VC fundraising, investments, and capital overhang*, EUR bn



*Σ (fundraising-investments). Sources: DBR, EVCA

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2005 has also been a successful year for fundraising. For the first time since 2001, fundraising exceeded investments (see Figure 15) – which indicates growing investor confidence.

Opinions about the future outlook for the European VC market are generally optimistic. In an EVCA survey this January among industry representatives, 84% of respondents said that they expect private equity performance in the next two years to equal or exceed the 2005 performance,¹³ which was already quite strong.

Institutional and structural factors also support VC investments, for instance in the form of public VC funds for early-stage investments or new channels for IPOs, such as the German Entry Standard segment. Moreover, the high financial mobility in the private-equity industry helps to override national constraints and is evidence of the growing professionalism of fund management.

The cyclical component of VC investments should not be ignored, however. In particular the strong exposure to the stock market – which reflects both the general economic climate and the exit options via IPO – can turn into the Achilles’ heel. A permanent slump in the European stock markets would also squeeze the amount of VC investment.

You cannot buy entrepreneurial spirit

Venture capital can only do so much, however. It is ineffective if there are no entrepreneurs who take the money and turn their ideas into a profitable business. To date, alas, entrepreneurial spirit has been in short supply in many European countries.

The correlation between VC and measures of entrepreneurial activity is positive and statistically robust. The argument runs in both directions, of course: entrepreneurs need VC and VC needs entrepreneurs. But there are factors other than the supply of VC that influence entrepreneurship: for instance, the social status of entrepreneurs.

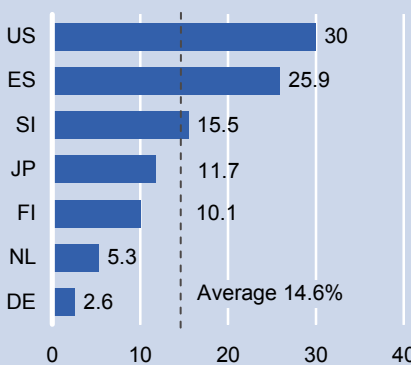
While entrepreneurship epitomises the American Dream, Europeans often aspire to life-long employment in the public sector. Unsuccessful founders may face a hard time before getting a second chance – the business failure will remain a blot on their record. Moreover, the desire to get rich by starting a business is more pronounced in the US (see Figure 16). This is not to say that Europeans dislike the idea of becoming rich – millions of lottery players suggest otherwise – but that they arguably value security and stability more highly.

This attitude strengthens the downside and weakens the upside of starting a business in Europe. Little wonder then that many people shy away from entrepreneurship.

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Who wants to be a millionaire?

% of early-stage entrepreneurs who cite higher incomes as their main motivation



Source: GEM, 2005

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¹³ See EVCA Barometer January 2006: Performance expectations for 2006 and key value drivers.

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