Venture Capital in Europe and the Financing of Innovative Companies

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**Motivation**

- Venture capital perceived as key element of US success story
- Growing attention from European policy-makers
- How can policy contribute to nurture venture capital?
- What do we *really* know on European venture capital?
What is venture capital?

professional financing of dynamic new ventures
typically through equity-like instruments
by small local partnerships

- Hard side
- Soft side
  - advice and mentoring
  - networking
  - reputational capital

- They come in a package
Venture capital in Europe: an overview

- Funds raised:
  - steep rise in both EU and US (Fig.1)
  - different sources of funds (T1)

- Funds invested (Fig.2, T2)
  - dismal European performance (Fig.2, T2)
  - high cross-country variability (T53)
  - small per firm investment (T5)

- Increase in number of venture capital firms (T6)
Our contribution

• Data shortage on European venture capital

• We look at firm-level data: ‘new’ stock markets 1997-2000

• Strengths:
  - availability of detailed information on homogeneous group
  - ‘superstars’

• Limitations:
  - sample selection (unlisted companies)
  - unobservables
The dataset

- Hand collected database: 527 prospectuses, 1,790 annual reports
- Codification of financial and strategic variables (also pre-IPO)
- Venture capital data:
  - ownership structure at IPO
  - identification of venture capitalists
  - VC shareholdings and entry dates
- Price data
New markets and venture capital: overview

- IPOs on Euro.nm (T7)
- Are Euro.nm listed companies VC-backed? (T9)
- Do venture capitalists finance listed firms? (T10, T11)
- Euro.nm and venture-backed companies (T14, T15)
- What firms are venture-backed? (T13)
Three testable hypotheses

- H1: the timing of the listing decision (TTL)
- H2: the amount of funds raised
- H3: post-IPO corporate growth
  - sales
  - employment
H1: Time-to-listing

- H1: (Cox proportional hazard model, T16)
  - VC *insignificantly* increases TTL
H2: Amount of funds raised

- H2: (Robust regression, T17)
  - VC significantly increases amount raised
H3: post-IPO growth

- VC-backed firms do not grow significantly more than others
- Post-IPO, VC-backed firms are smaller, and less profitable

- $\Delta$Employment increases with ROA, Leverage, Germany, (VC insignificantly decreases employment)
- $\Delta$Sales increase with ROA, age, Germany, export (VC (in)significantly decreases sales)
Robustness checks

- VC support is not random, hence our estimates could be biased
- The ‘matching’ method (T21)
- The ‘difference in differences’ method (T22)
- Results corroborate our previous findings on employment and sales growth
Venture Capital in Europe: An Assessment

- European VC is growing fast and is involved with listed firms
- European VC holds little effect on the growth of listed firms
- What role for European VC?