

***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

- H3: (difference in medians test, T18)
  - VC-backed firms do *not* grow significantly more than others
  - Post-IPO, VC-backed firms are smaller, and less profitable
- H3: (robust regressions, T19-20)
  - $\Delta$ 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 ?