

CMU – where are we now? Addressing Europe’s shortage of risk capital

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AFME Members’ Briefing Call
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- The Capital Markets Union initiative is a core component of the Commission's Investment Plan
- In September 2015, the Commission published the CMU Action Plan
- The Action Plan had four key objectives:
 - unlocking more investment from the EU and the rest of the world
 - better connecting financing to investment projects across the EU
 - make the financial system more stable
 - deepen financial integration and increase competition
- The Action Plan contained a range of legislative and non-legislative initiative

- Commissioner Hill was a strong promoter of the project. Following the UK referendum he was replaced by Vice-President Dombrovskis
- In September 2016, the Commission reaffirmed its commitment to the project
- Important progress has been made so far:
 - Adoption of Prospectus Regulation
 - STS Securitisation proposal
 - Call for Evidence on the regulatory framework
 - Legislative initiative on insolvency reform
 - Establishment of technical assistance unit for Member States
 - Establishments of expert groups on corporate bond market liquidity, green finance and other issues

- In January 2017, the Commission launched the Mid-Term Review consultation. Its objectives are to:
 - take stock of progress on the implementation of the Action Plan
 - reframe actions in light of work undertaken and market circumstances
 - Complement the AP with new measures
- The Commission welcomed input on the following issues:
 - Financing for innovation, start-ups and non-listed companies
 - Making it easier for corporates to raise finance on public markets
 - Investing for long-term, infrastructure and sustainable investment
 - Fostering retail investment and innovation
 - Strengthening banking capacity to support the wider economy
 - Facilitating cross-border investment

- AFME submitted a response highlighting the following three overarching objectives for the second half of the Commission's term:
 - address Europe's shortage of risk capital
 - maintain and promote well-functioning secondary markets
 - deliver on the actions already in train
- We identified the need for Member States to tackle national barriers as an important issue for the coming period
- We also argued that the Commission should develop Key Performance Indicators to be able to track progress made in developing Europe's capital markets

- Building on the three overarching objectives, we set out the following ten policy priorities for the coming period:
 1. the importance of supporting **alternative forms of financing** in the pre-IPO phase;
 2. support **SME growth markets** further to provide a source of finance for growth companies;
 3. the need to focus on **less developed capital markets** and how CMU can help to develop them, recognising the role that regional markets can play in this context;
 4. the need to focus on **sustainable finance and infrastructure** as key asset classes to support long-term economic growth;
 5. the importance of progressing the **regulatory review** agenda to make sure that the regulatory framework supports capital markets, both those which are established and others which are less developed. Regulatory consistency and coherent calibration is fundamentally important in ensuring that wholesale markets fulfil their role in matching investors and investment opportunities globally;
 6. the need for further national **pension reforms**;
 7. well-functioning **secondary debt markets** for existing markets such as investment grade corporate bonds, and enhancements for less liquid or illiquid markets, for example ABS and NPLs;
 8. the importance of maintaining a **robust secondary market infrastructure** to facilitate capital raising and trading, including having appropriate best execution and reporting requirements;
 9. addressing the **withholding tax** barriers currently in place and consider the options for going beyond the recommendations that have already been made to Member States;
 10. the **global context** of CMU by arguing in favour of open capital markets which operate with a sensible equivalence framework, all supported by well-functioning ESAs.

- The CMU Mid-Term Review consultation took place last week
- The Commission will present the outcome of the consultation during the public hearing on CMU on 11 April 2017
- The Commission intends to complete the review in June 2017 and identify potential additional measures
- In the meantime, the work on existing dossiers will continue

Risk capital for EU growth businesses

| | European Union | United States |
|-----------------------------------------------------------------------|--------------------------------|---------------------|
| Total stock of outstanding finance for SMEs [†] | €2,007bn | €1,236bn |
| Share of bank finance [†] | 77% | 40% |
| Listed market capitalisation [†] | €10tn (53% of GDP) | €19tn (140% of GDP) |
| Number of listed companies with capitalisation of €200m - €1bn | 23% (main markets and MTFs) | 48% (EGCs only) |
| Venture capital (VC) fundraising * | €5.3bn | €25.9bn |
| Frequency of multiple VC rounds | 40% | 58% |
| Venture debt (of % of VC-backed companies) | 5% (exc. UK) | 15-20% |
| Business angel investments ** | €6.1bn | €22.7bn |
| Equity crowdfunding *** | €354m | €149m |
| Accelerators **** | €38m | €83m |
| Business survival rates after 5 years [®] | 43% | +50% |

Sources: See “The Shortage of Risk Capital for Europe’s High-Growth Businesses” and the AFME-BCG “Bridging the growth gap” reports.

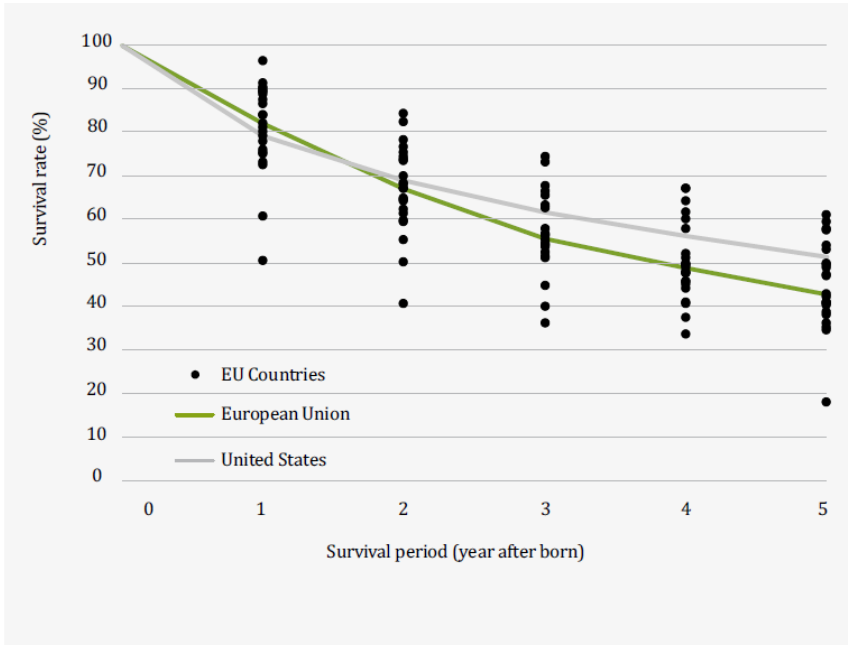
Because data are being collected by different sources with different methodologies and collection processes, data may not be directly comparable.

[†] AFME-BCG Bridging the growth gap report *InvestEurope and NVCA, 2015, **EBAN, Centre for Venture Research (2015), ***Crowdsurfer.com, Cambridge Centre for Alternative Finance, ****Global Accelerator Report, [®]Median values, Eurostat and US Bureau of Labor Statistics



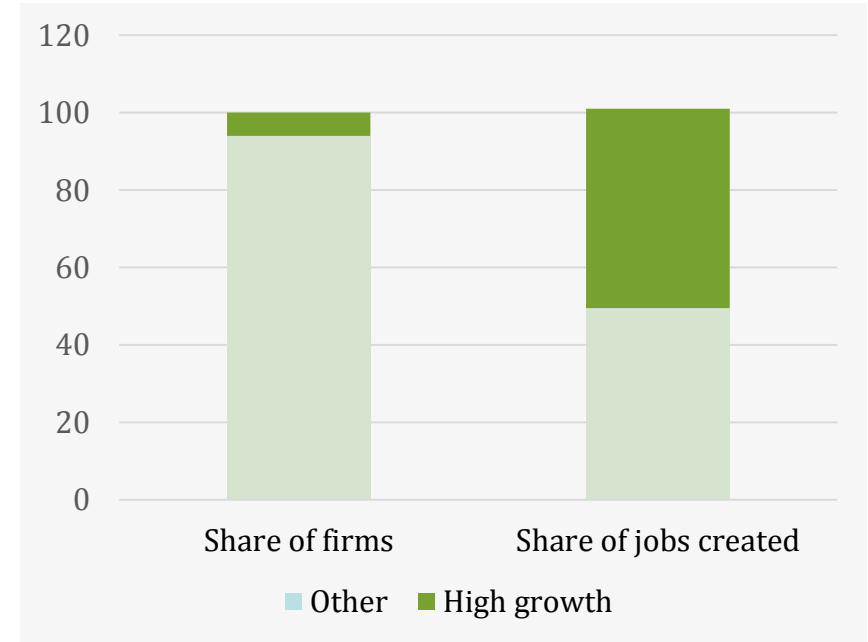
- **SMEs** – who are we talking about?
- **The shape of the funding market in the EU** – an overreliance on debt?
- **Breaking down the funding escalator** – where are the gaps?

Business survival rates: European Union and United States



Source: Eurostat and US Bureau of Labor Statistics

Concentration of job creation (UK)

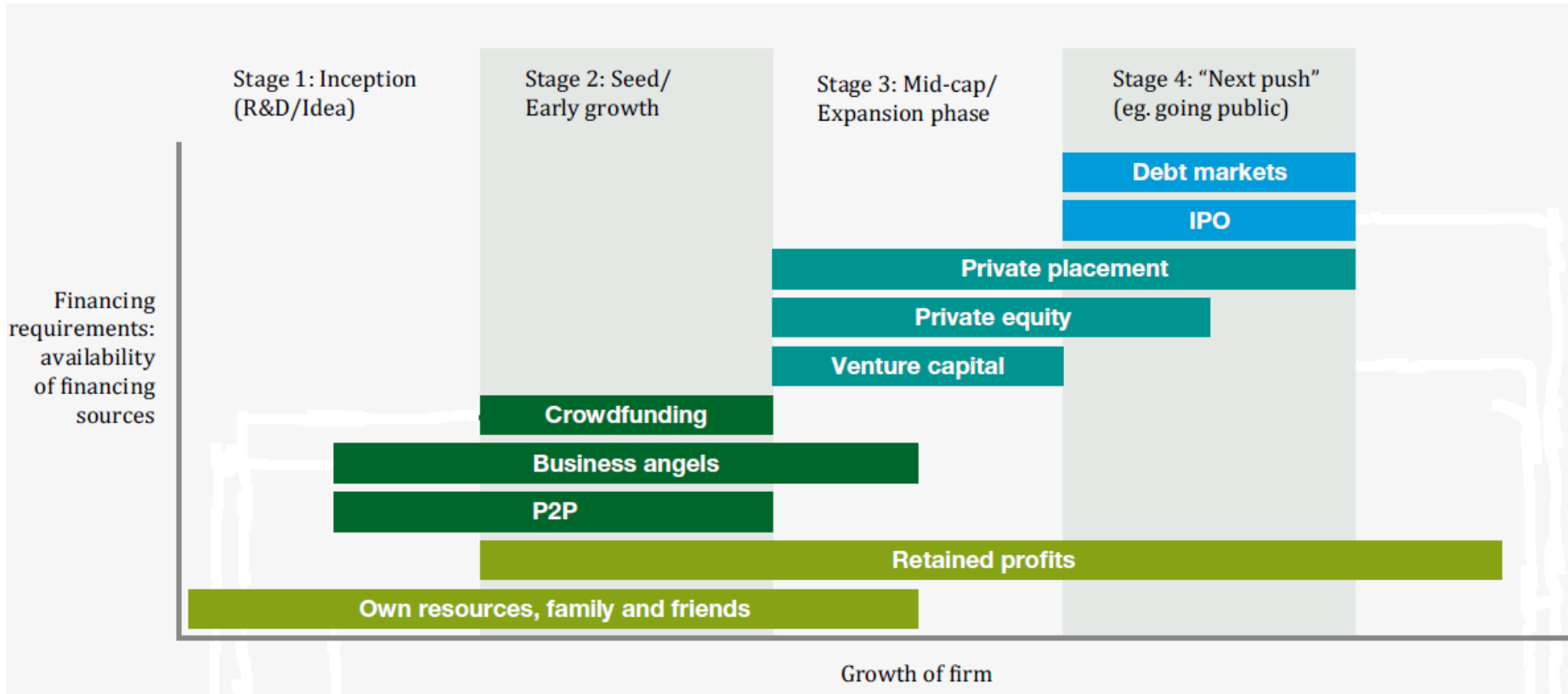


Source: Nesta, 2009

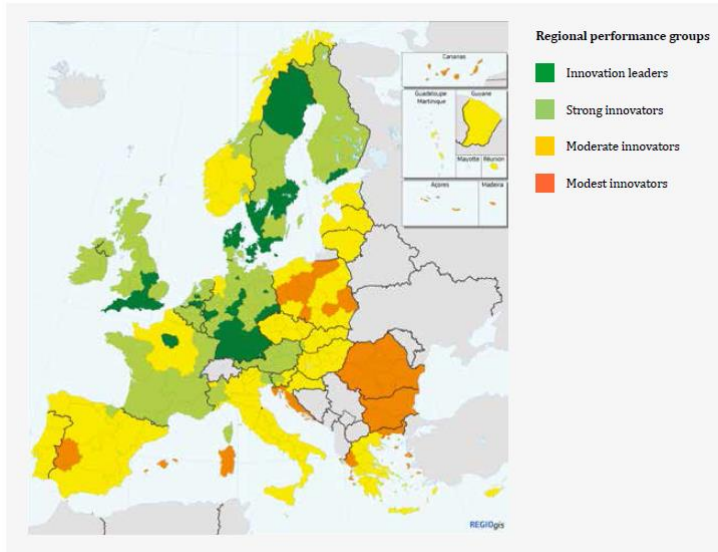
Size of funding markets in the EU and the US

| | European Union | United States |
|---------------------------------------------|--------------------|---------------------|
| Total stock of outstanding finance for SMEs | €2,007bn | €1,236bn |
| Share of bank finance | 77% | 40% |
| Listed market capitalisation | €10tn (53% of GDP) | €19tn (140% of GDP) |
| Venture capital investments | €4.2bn | €26.4bn |
| Business angels | €6.1bn | €22.7bn |
| Equity crowdfunding | €354m | €149m |
| Accelerators | €38m | €83m |

Sources: See “The Shortage of Risk Capital for Europe’s High-Growth Businesses” and the AFME-BCG “Bridging the growth gap” reports. Because data are being collected by different sources with different methodologies and collection processes, data may not be directly comparable.

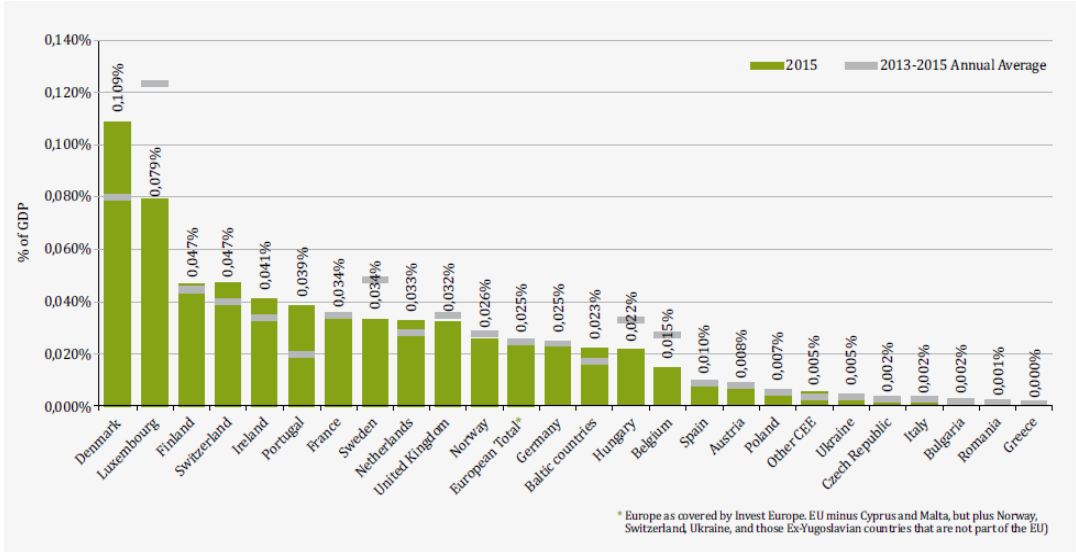


Innovation by region



Source: Regional Innovation Scoreboard 2016, European Commission, <http://ec.europa.eu/DocsRoom/documents/17824>

Venture capital investment as % of GDP



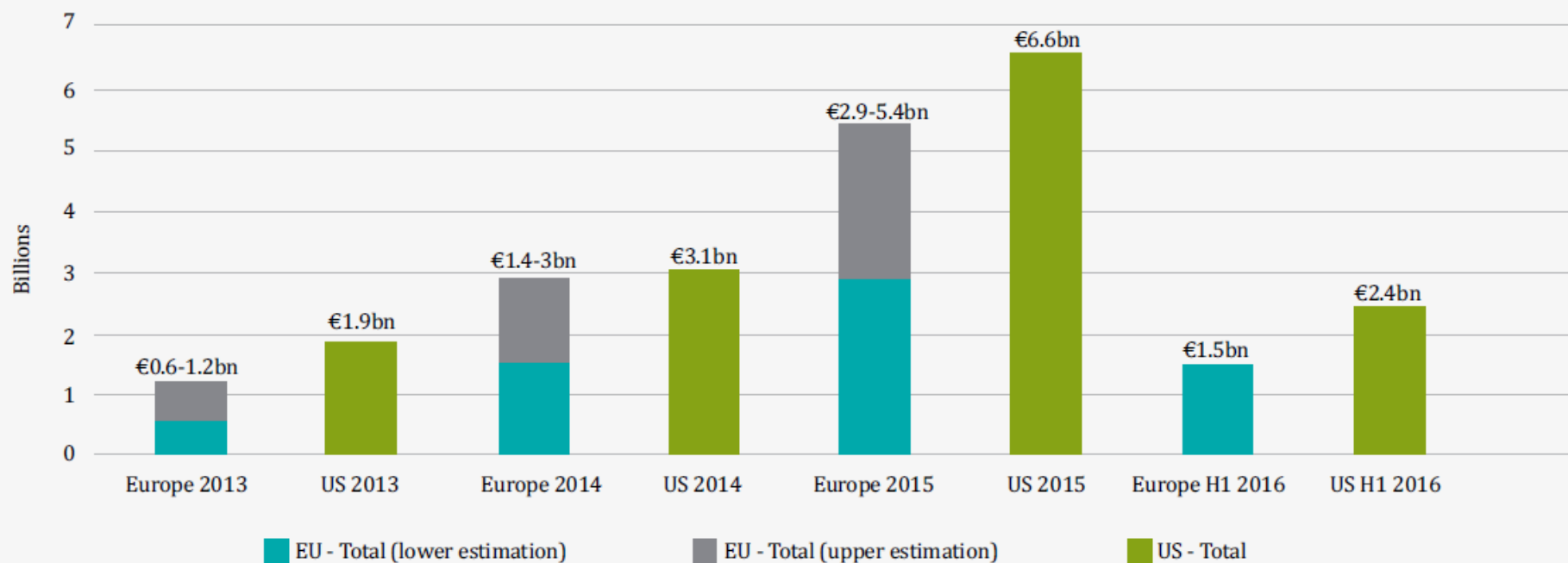
Source: IMF, World Economic Outlook Database (GDP) / Invest Europe / PEREP_Analytics

Note: *Other CEE consists of Ex-Yugoslavia and Slovakia

| | Europe | US ⁹¹ |
|------------------------------------------------------------------------------|----------|-------------------------|
| Number of angels | 303,650 | 304,930 |
| Total investments | €6.1bn | \$24.6bn |
| Number of companies invested | 32,940 | 71,110 |
| Average individual investment | €19,990 | \$10-25,000 |
| Average deal size | €184,271 | \$345,390 |
| Average market valuation | | \$2.3m (\$2.7m in 2014) |
| Mean ownership average | | 20-25% |
| Jobs created | | 270,000 |
| Number of investments by stage | Europe | US |
| (a) Seed stage | 43% | 28% |
| (b) Early stage investing | 40% | 45% |
| (c) Expansion | 16% | 27% |
| Investments in first round | n/a | 49% |
| Yield rates: opportunities brought to investors that result in an investment | 7% | 18% |

Crowdfunding – small but growing

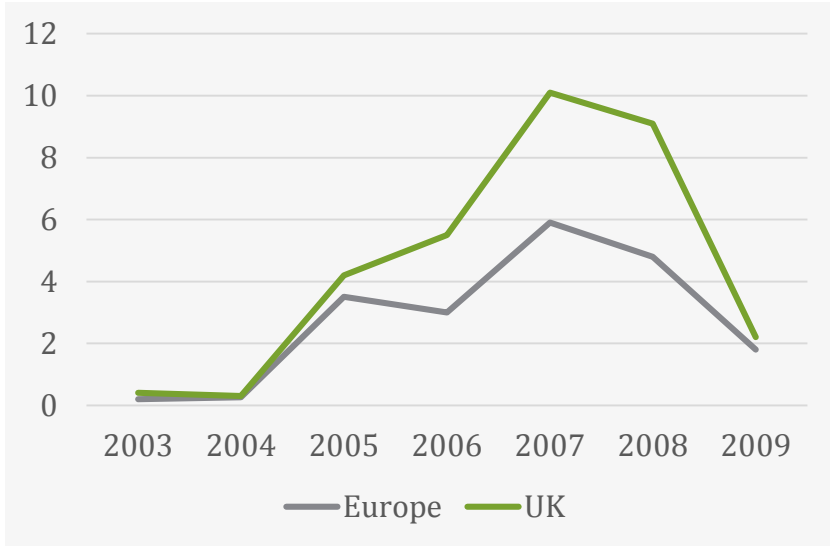
EU vs US, 2013 – H1 2016



Source: Crowdsurfer.com, Cambridge Centre for Alternative Finance European Alternative Finance Report.

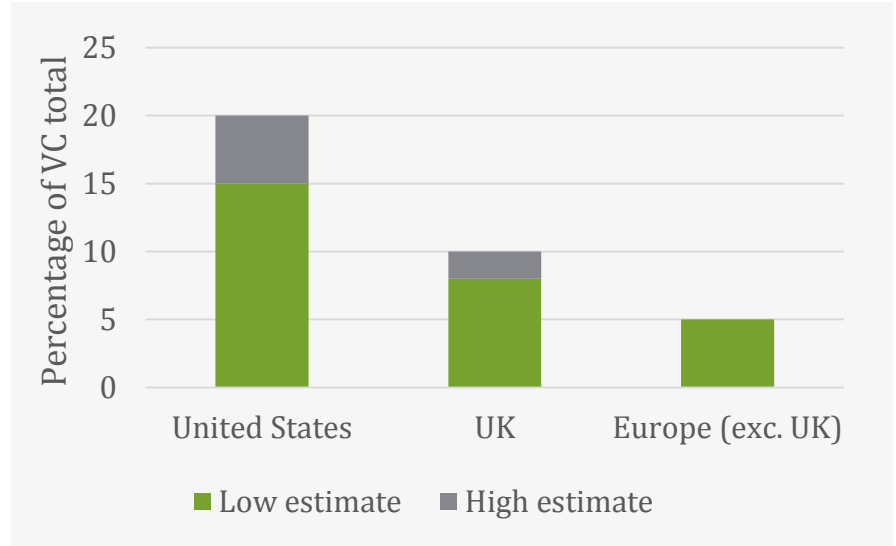
Data widely varies between the various sources of data for investments through crowdfunding platforms. Other sources include the Alternative Finance Benchmarking Report (E&Y, KPMG and University of Cambridge), Massolution.com. The data cited in the European Commission's report on Crowdfunding comes from crowdsurfer.com.

Venture debt as a % of total VC - historic



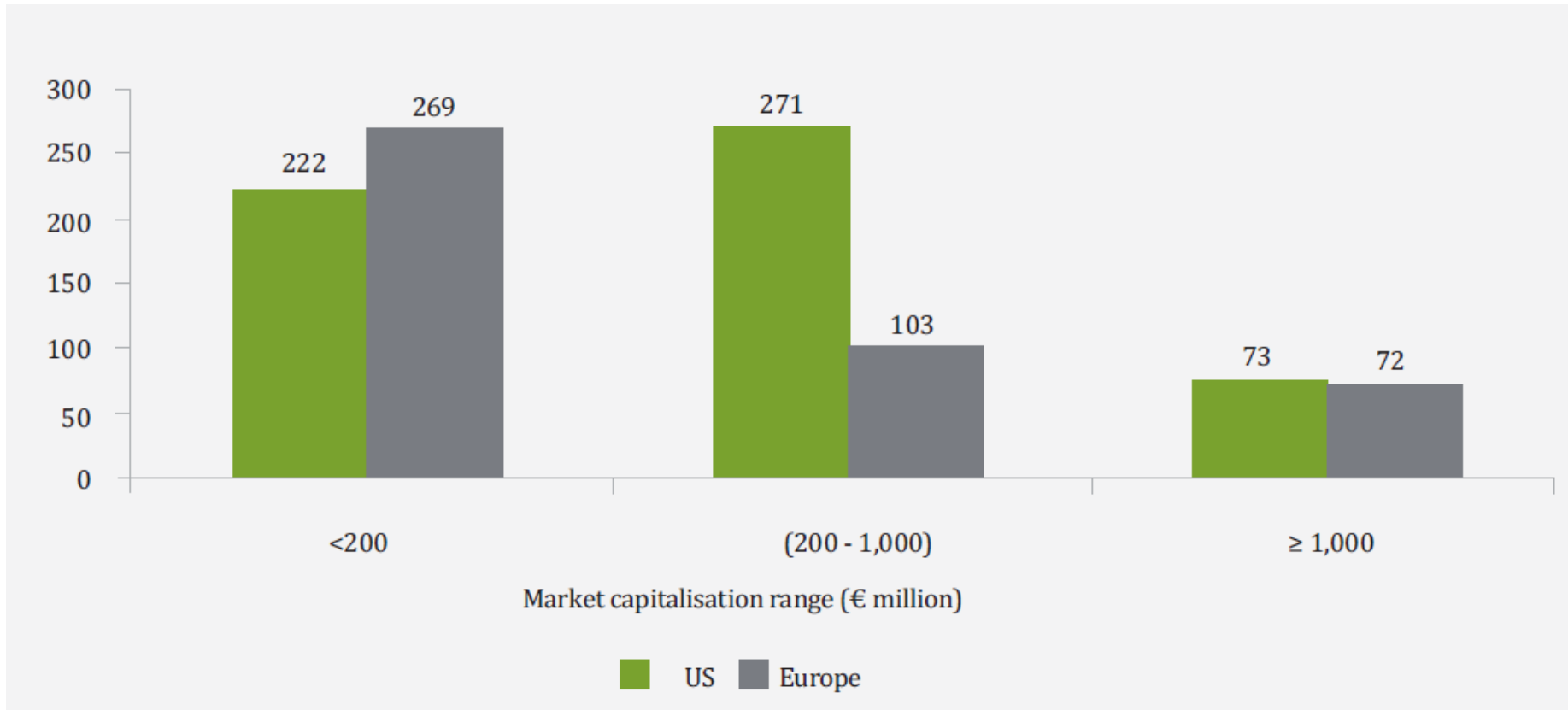
Source: BVCA

Venture debt as a % of total VC - today



Source: E&Y

Number of IPOs in European main markets and MTFs and from US EGCs, 2012 – 2015



Source: AFME, Dealogic

- **The difference between SMEs and Growth companies**

A Growth company is often misunderstood for an SME. The truth is, there is a significant difference between the two.

- **Insufficient risk capital**

There is a need to address Europe's shortage of risk capital.

- **A fragmented internal market**

There are different rules, taxes and standards across the 28 Member States.

Q&A

The Association for Financial Markets in Europe advocates stable, competitive and sustainable European financial markets that support economic growth and benefit society.

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