CONFRONTATIONS EUROPE

CMU: A NECESSARY UTOPIA FOR START-UPS

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In France, the dearth in seed capital for start-ups allegedly amounts to at least two, or even as much as four billion euros. Yet there is no shortage of talent. Does the answer lie in the future Capital Markets Union? Marie Ekeland, Vice-President of *France Digitale*, gives us her take on the situation.

How dynamic is the start-up sector in France?

Marie Ekeland (M.E): It is astonishing that the changes occurring in the economy right now are neither visible nor understood. According to the poll that we conduct every year with Ernst&Young, digital start-ups financed by venture capital in France grow by an average of 42% a year. They generate 40% of their turnover abroad. Every year, their workforce increases by 25%. The average age of their employees is 32. 92% of these employees are on permanent contracts, whereas in the rest of the economy 96% of new hires are temporary. Their business model is based on a new concept, i.e. sharing, of both risks and of the value created. The ratio between management salaries and average salaries is two to one. 92% of start-ups distribute shares to their employees through stock option plans, free share allocation and stock-based compensation (SBC). On average, one third of employees benefit from such schemes. So instead of looking backwards and trying to rescue ailing companies, our politicians should be preparing for the future.

How is start-up financing flawed?

M.E: France is very good at providing early-stage financing, but very bad at helping companies to expand internationally with funding rounds of 50 to 100 million euros. There is a terrible shortage of professional business angels in France. But the main problem is that, because of current tax incentives, French people tend to invest their savings in risk-free, short-term assets rather than the real economy. €518.3 billion are invested in personal equity plans, savings certificates and life insurance. 7% of individual shareholders have an average age of 60, compared with 15% ten years ago. Yet digital technology is changing our economy completely. To facilitate the transition and make the French economy more competitive, we must create international champions; and we must provide the capital needed to do so. France has some very dynamic SMEs, but they are struggling to grow. We need to fix the economic escalator. France has no other choice but to use savings more effectively to finance business growth. It is all the more necessary because French people are strongly encouraged to invest in shares for their retirement, as the pensions system is running out of steam. However, very few young people own shares. There is a real problem with the financial culture in France.

Do the objectives of the CMU meet the needs of start-ups in Europe?

ME: The objectives of the CMU are vast. The goal, in a way, is to bring down the barriers to investment and reduce fiscal complexity and friction in the European capital market. At present, investment and business are largely restricted to the national sphere (with expansion into the international arena being very costly in legal fees). In the future, if the CMU enables European funds to attract foreign capital and invest in European, rather than national, start-ups all over Europe, that will be a decisive step forward. The CMU may be utopian, but it is a good idea. Today, the majority (68%) of the world's venture capital goes to the United States, while only 15% goes to Europe.

To rectify the situation, do we need to create a European stock exchange ?

M.E: The real question is whether we should set up a stock exchange in which vertical sectors are recognised not only in Europe but also worldwide. The stock market in Europe today is too generalist. There is far less market depth for a given vertical than in the United States, where investors have become specialists in high tech, for example, because they have been investing in high-tech start-ups for the last ten years. In Europe, there are no institutional investors that specialise in high-tech innovations and are keen to purchase that type of stock. Rather than trying to catch-up, Europe should be securing a leading position in new vertical markets so that companies in those markets, wherever they are in the world, will choose to launch their initial public offerings in Europe. Medical imaging and digital fashion are good examples. However, I am concerned that Europe will get left behind in this new economy in the making. (April 2015)