Advanced Technologies for Industry

Scaling up in European advanced tech – fixing the demand side

Online workshop

6 May 2021, 10:00 – 12:30, Webex

Organised on behalf of:
European Commission DG GROW
European Innovation Council and SME Executive Agency (EISMEA)
by Technopolis Group

The policy seminar on **'Scaling up in European advanced tech – fixing the demand** side' was part of a series of 8 policy seminars organised within the Advanced Technologies for Industry (ATI) project commissioned by EISMEA and the European Commission - DG GROW. The project provides systematic monitoring of technological trends and reliable, up-to-date data on advanced technologies to properly support the implementation of policies and initiatives and finally promote a competitive European industry.

In the quest for resilience through increasing its strategic capacity, the EU needs to take more actions to support the European scaleups with a technology base. There are several challenges at the EU level that prevent tech scaleups to fully develop their potential. In this context, the ATI project has developed an analysis on identifying the main challenges of these companies and providing an overview of the existing policy strategies and measures at the EU level, as well as national and regional level. This policy webinar confirmed the findings of the ATI tech scaleup report and identified additional gaps in knowledge and policy needs.

Agenda:

Moderated by Jari Romanainen, Technopolis Group

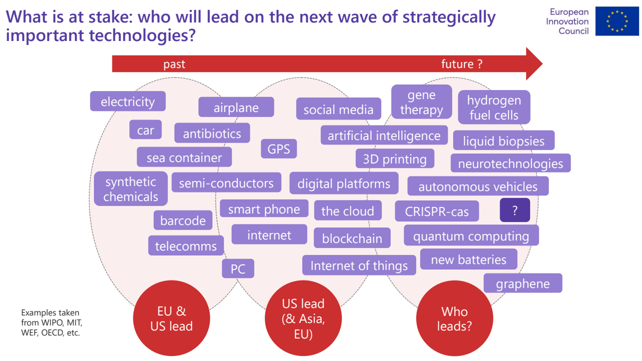
Time	Session
10:00 – 10:10	Welcome and introduction, Marta Batalla Masana, European Commission DG GROW Industrial Forum, Alliances and Clusters
10:10 – 10:25	European Innovation Council Financial Instruments, Ekke Van Vliet, European Innovation Council (EISMEA)
10:25 – 10:45	ATI tech scaleup report, Laura Roman, Technopolis Group
10:45 – 12:15	Panel discussion • Pekka Sivonen, Head of European Collaboration, Business Finland • Jacek Bukowicki, Department of Startups Development, Polish Agency for Enterprise Development • Max Brigonzi, Innovation Research Specialist, Mind the Bridge • Mathieu Carenzo, Entrepreneurship Lecturer, IESE Business School
12:15 – 12:30	Closing and next steps, Kincso Izsak, Technopolis Group

Key points from presentations:

1. Welcome, Marta Batalla Masana, European Commission DG GROW

The European Commission welcomed the participants and presented briefly the **Advanced Technology for Industry (ATI) project**. The policy context of this project is given by the update of the European New Industrial Strategy published on 5th May 2021.

2. European Innovation Council Financial instruments, Ekke Van Vliet, European Innovation Council



The **European Innovation Council** (EIC) aims to stimulate the commercialisation of research and will identify next generation technologies and specifically support the rapid scale up of start-ups.

The new European Innovation Council is a €10 bn programme to identify, develop and scale up breakthrough technologies and disruptive innovations in Europe. It is also a unique way to combine research on emerging technologies with an accelerator for startups, SMEs and scaleups. Likewise, the EIC Funds will be the largest Venture Capital deep-tech investors in Europe with over €3 bn.

In order to support this the **European Innovation Council** offers the following instruments:

- **EIC Pathfinder:** Early-stage research on breakthrough technologies
  - Mainly open (‘bottom up’), but also Pathfinder challenges (for emerging health, energy and digital technologies)
  - Mainly collaborative (3 or more partners)
  - Proactive management of portfolios of projects by EIC Programme Managers
  - Additional 50 000 follow up grants to test feasibility and interact across portfolios
  - Grants up to €3-4 m
  - Successor of the ‘Future and Emerging Technologies’ programme (Open & Proactive)
- **EIC Transition:** Technology maturation from proof of concept to validation
  - New funding scheme to bridge gap between research phase (proof of concept) and innovation application
  - Mainly open (‘bottom up’), but also Transition challenges (for medtech, energy storage)
  - Single applicants or small collaborations (max. 5 partners)
  - In first phase, only for follow up to results from EIC Pathfinder and European Research Council Proof of Concept
  - Business & market readiness
  - Grants up to €2.5 million
- **EIC Accelerator:** Development & scale up of deep tech/disruptive innovations by startups/ SMEs
  - For individual companies (startups, SMEs, in exceptional cases small midcaps (up to 500 employees)
  - Continuously open for applications (also from individuals intending to start a company and investors intend to support a company)
  - Mainly open (‘bottom up’) but also Accelerator challenges in Green Deal, Strategic Digital & Health Technologies
  - Blended finance (grants up to €2.5 m; equity investment up to €15 m)
  - Successor of SME instrument

The table below provides an overview of the main EIC calls for 2021:

Accelerator - Open	Apply any time (early stage screening)	**~€593m** (~50:50 grant/equity)
Accelerator – Challenges • Green Deal innovations for the economic recovery • Strategic technologies: digital & health	Cutoffs for full applications in 9 June, 6 October	~**€495m** (~50:50 grant/equity)
Pathfinder - Open	19 May	**~€168m**
Pathfinder - Challenges • Awareness inside • Measure & stimulate brain • Cell & gene therapies • Green Hydrogen • Engineered Living Materials	27 October	**~€132m**
Transition – Open	22 September	**~€60m**
Transition – Challenges • Medtech & devices • Energy harvesting & storage		**~€40m**

The **EIC Fund** is a dedicated Venture capital fund owned by the European Commission. It will manage equity investments in startups & SMEs selected by EIC Accelerator, bridging the equity funding gap at early stage (seed, first rounds).

The EIC also offers business acceleration services in the form of:

- Access to advice, coaches and experts
- Access to corporates, investors, knowledge partners
- Access to innovation ecosystem, events & peers

Other activities of the EIC include the EIC Prices for Women Innovators, other EIC Prizes and Partnerships with the European Research Council and the European Institute of Innovation and Technology among others.

3. **Laura Roman, Technopolis Group – Advanced Technologies for Industry Consortium**

The European landscape for scaleups is unbalanced, since 80% of European scaleups are located in 10 European countries. The top four scaleup countries (2020) are France, Germany, Sweden and Spain. Likewise, the largest late-stage funding rounds in EU (2020) are in Germany, Sweden and France. Some sectors are also attracting more late-stage funding than others, such as fintech (€6.8 bn), transportation (€3.2 bn), software (€3.1 bn), foodtech (€3.1 bn) and medtech (€2 bn) in 2019.

There are four main reasons that explain such an uneven landscape for tech scaleups in Europe:

1. Market demand and barriers to market access
2. Financing constraints
3. Access to skills and human capital
4. Lack of ambition and readiness to grow among entrepreneurs

The report highlights in particular the importance of generating demand, since demand side policies can have an impact on boosting the market for innovative scaleups' products and services.

However, during the last years more and more national measures have been implemented in order to support scaleups. National programmes mostly target the access to finance and the internationalisation challenge of scaleups (German Accelerator, Global Incubator Network in Austria, Business Finland International Accelerator Programmes).

Nevertheless, during recent years, there has been an increased emphasis on access to growth funding (Zukunftsfonds in Germany, FrenchTech, Italian Late-Stage Fund, Austrian Public Bank Founders Fund etc.).

In spite of the good initiatives at regional or national level, policy measures to support scaleups should be coordinated across all levels, including the European level. Some examples of policy measures are a less fragmented EU market, increasing innovation demand, increasing impact of IPO (initial public offering) volumes, simplifying support measures, more focus on access to talent, restructuring financial markets, hybrid funding instruments, equity crowdfunding, awareness of technologies and markets, and share intelligence to enhance market access.

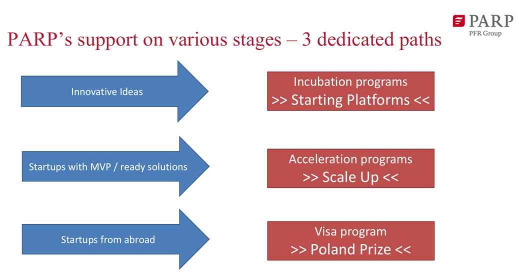
The key messages for policy makers are:

- Pursuing technological strategic autonomy, the European Union requires an entrepreneurial ecosystem where tech companies can quickly scale up and compete successfully at a global level.
- Europe should strive to be globally attractive by having stronger demand for innovation.

Policy insights from the national level

Pekka Sivonen, Business Finland

- Government cannot do all the tricks needed and intensive collaboration is necessary with venture capital and business angels
- The launch of the Slush events with tech startups has been an excellent facilitator and this had an impact on the exponential growth in investments in Finnish companies. Most recently, Slush has been turned into a virtual event upgraded by AI, although it is expected to return to a physical event later on.
- Despite the crisis, tech investments in Finland have been increasing significantly.
- **Talent attraction requires a systematic approach** - Talent Boost programme, availability of human capital is the key to accelerate innovation. Finland has a systemic approach that focuses on attraction, reception, integration and reputation of talent.
- **Challenges of big companies solved by startups** – the cooperation between large and small firms is an excellent way to accelerate scaling up.
- **Dealflow.fi** is an Artificial Intelligence/machine learning-based deal flow process for investors. The system learns from user feedback and combines it with semantic data and improves the user experience by scoring the investment targets for the investor to find the most relevant deals. Dealflow uses AI and machine learning to diversify and explore investment targets outside of investor's usual criteria.
- **Finnish White Paper on scaleups and Industry 6.0 has been just published:** – From Industry X to Industry 6.0



Jacek Bukowicki, Polish Agency for Enterprise Development PARP

- PARP together with PFR (Polish Development Fund) provides a wide range of support to the startup ecosystem.
- Startup.pfr.pl is a platform providing comprehensive information on the Polish startup ecosystem, featuring data-driven dealflow intelligence on high-growth companies at poland.dealroom.co .
- The **Polish Acceleration Programme** aims at stimulating the cooperation between startups and big corporates.

- The **Poland Prize** soft-landing and acceleration programme has been designed to make Poland the first choice country for innovative scaleups to expand in Central Eastern Europe as well as to attract foreign talents, technologies and diversify business culture.
- Co-investing public money in private VC funds is important in order to increase a large ticket size.
- **PFR Ventures**, the largest fund of funds in Central Eastern Europe, together with private investors, business angels and corporations invests in venture capital and private equity funds, aiming to deliver funding to Polish innovative companies across different growth stages - pfrventures.pl/en/.
- Polish Investment and Trade Agency is also relevant in supporting scaleups.
- Besides funding there are also still several cultural and linguistic barriers that should be taken into account when addressing the scaleup challenge.

Mathieu Carenzo, IESE Business School

- Positive facts:
  - 15 years ago, students wanted to be bankers and consultants, but this has changed. The new willingness is to become an entrepreneur, and this is a great achievement.
  - Equity gap: it is shrinking, and the EU has much more liquidity in the market. In the EU we have several startup hubs such as around Paris, Berlin, Amsterdam or Barcelona.
- Negative facts:
  - There is still a lack of private investment – risk aversion is still very high. In the US there are much more people who already invested in another company – there is more private individuals who see an opportunity.
  - Many of the EU unicorns are today 'copy-pasted' from other successful companies.
- There is a behavioural change needed with more focus on entrepreneurship, and policies should be an enabler of this change.
- Policymakers also should think more in terms of urban cities beyond the country level when talking about startup/scaleup ecosystem support and tailor these policy measures to the needs of specific city ecosystems.

Max Brigonzi, Mind the Bridge

- European countries preform very differently when it comes to the number of scaleups, unicorns, capital raised or the scaleup intensity ratio. Germany, France and UK were the best performing countries in 2021, but still very far away from the numbers of Silicon Valley, US or China. Even when taking Europe as a whole the performance was lagging behind.
- Scaleups do not only have obstacles to scale up, but also have several reasons to make them relocate abroad such as access to capital, access to market, proximity to strategic partners, mergers and acquisition opportunities, and larger IPO opportunities.
- Key obstacles to scale up in Europe are related to the lack of late-stage funding, small domestic market, red tape and high taxation. Going public is still very difficult for many EU startups.
- More and more European intermediaries are present in Silicon Valley, with the objective of supporting European scaleups abroad and to bridge European Hubs with other global innovation hubs.

Panel discussion – main conclusions

- A key challenge to overcome is still the **low level of funding opportunities available at the later stages of investments**. The lack of funding might entail that the EU will not be able to be a leading market for technology-based or deep-tech businesses globally, to build and launch unicorns, and support technological autonomy.
- Definition of scaleups should be clearer. When talking about the equity gap, we should not emphasise the funding gap at the early stage since it is not the case anymore and there are policy measures to address it, but now the issue is at the level of bigger investments and later stage funding opportunities. The change in definitions should be reflected in any recent debate and communication.

- Another challenge to overcome is to reduce the gap in terms of **access to stock markets**.
- **Alternative markets or trading platforms** could also significantly increase the potential of crowdfunding. Creating these alternative markets would also allow defining a value for the earlier stages before going to the administratively demanding stock market.
- **Equity growth funding** needs to be further developed. There are needs for continuous evaluation mechanisms, and this would allow to become a more common alternative
- Secondary market – **Series D, Series E** – private funds focusing on secondary market might generate more incentives.
- It is still an issue in many Member States that they **distribute money too thinly** and there is more need for specialisation in verticals where higher returns can be expected. Member States should choose 3-4 sectors where they streamline the biggest part of the funding. There is a need for more specialisation among private investors into specific stages, thus allowing earlier stage investors exit sooner and maintain their focus on earlier stages.
- On the other hand, if one restricts the access to public support programmes and applies criteria such as the requirement to be active in a specific sector or geographical area, one will handicap the entrepreneur and reduce the number of potential entrepreneurs applying.
- One has to be careful since **public funding conditions limit possible later business decisions**, which makes the company less attractive for potential (private) investors and therefore lower the valuation of the company.
- Scaleup support is not only about funding but there are more important elements that the EU needs to strengthen including support, advice and creating the appropriate conditions to market products.
- The EU should not only focus on B2C markets but on B2B markets where tech firms offer solutions to other businesses. Many big companies are locked in by their traditional culture which is dangerous in times when the world is changing fast. **Business to business market is to be looked at when talking about scaling up.**
- **There is a problem also with cooperation between big corporates and startups** since startups can be also considered as a danger and change the existing status quo. One should not be too naïve. On the other hand, there are also large corporates who embrace open innovation.
- It is important that companies can locate their business activities geographically where it makes most sense for their respective business operations. This allows businesses to scale up and grow optimally.
- Even if the headquarters or main business activities move outside Europe, the remaining business activities such as R&D, innovation, manufacturing, local marketing and sales, etc. can have significant employment in Europe.
- Lack of sufficient sector specialisation and financial and product market fragmentation are some of the main reasons why Europe is missing financial market actors specialising in mergers and acquisitions to drive consolidation of emerging markets and creating stronger technology champions and leading market actors.