CMU: Measuring progress and planning for success

- Third anniversary of CMU: timely opportunity to review the progress on achieving the CMU’s vital aims

- Produced by AFME with the support of nine trade associations and international organisations representing various Global and European capital markets stakeholders
## Seven Key Performance Indicators

Seven KPIs to assess progress at the EU and Member State level across the seven political priorities of the CMU Action Plan

<table>
<thead>
<tr>
<th>KPI</th>
<th>What it measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Finance</td>
<td>How easy it is for companies to raise capital on public markets</td>
</tr>
<tr>
<td>Household Market Investment</td>
<td>To what extent retail investment is being fostered</td>
</tr>
<tr>
<td>Loan Transfer</td>
<td>Capacity to transform bank loans into capital markets instruments (securitisation, covered bonds or loan transactions)</td>
</tr>
<tr>
<td>Sustainable Finance</td>
<td>Labelling of sustainable bond markets</td>
</tr>
<tr>
<td>Pre-IPO Risk Capital</td>
<td>How well start-ups and non-listed companies can access finance for innovation</td>
</tr>
<tr>
<td>Cross-border Finance</td>
<td>Capital markets integration within the EU and the rest of the world</td>
</tr>
<tr>
<td>Market Depth</td>
<td>Measuring the capacity of EU capital markets</td>
</tr>
</tbody>
</table>
Equity finance gaps

Over €10m

Funding requirement

€0k

Concept & seed stage
Start up
Early stage
Expansion
Consolidation & later stage

Source: AFME, Allen Simpson, Dr. Richard Roberts
Pre-IPO Risk Capital indicator: Increase in annual risk capital investment for SMEs

- Measures availability of risk capital finance for non-listed companies
- Indicator defined as annual investment through **equity crowdfunding, business angels, and private equity growth funds and venture capital funds** as % of loan and risk capital investment to SMEs
- Recent increase in the amount of risk capital, from EUR 10.6bn in 2013 to EUR 22.7bn in 2017

### Pre-IPO risk capital investment (EU, €bn)

<table>
<thead>
<tr>
<th>Year</th>
<th>Equity Crowdfunding</th>
<th>BA</th>
<th>VC</th>
<th>PE (Growth)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>3.5</td>
<td>3.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>3.7</td>
<td>3.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>4.3</td>
<td>4.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>4.8</td>
<td>5.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>6.4</td>
<td>5.3</td>
<td></td>
<td>10.7</td>
</tr>
</tbody>
</table>

### Pre-IPO risk capital indicator (EU, risk capital as % of total SME annual financing flow)

<table>
<thead>
<tr>
<th>Year</th>
<th>Equity Crowdfunding</th>
<th>BA</th>
<th>VC</th>
<th>PE (Growth)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>0.5%</td>
<td>0.5%</td>
<td>1.0%</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>0.5%</td>
<td>0.5%</td>
<td>1.5%</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>0.5%</td>
<td>0.5%</td>
<td>2.0%</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>0.6%</td>
<td>0.6%</td>
<td>0.7%</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>0.6%</td>
<td>0.6%</td>
<td>0.6%</td>
<td>1.2%</td>
</tr>
</tbody>
</table>

Source: EBAN, Invest Europe, TAB, NVCA, national Central Banks, and University of New Hampshire
Estonia, Denmark and the UK lead by availability of risk capital for SMEs. Germany ranks 14th among the EU28 countries.

Estonia, UK, NL and DK also among the countries that have improved the most in availability of pre-IPO risk capital since 2014.

Relevance of diversification of sources. Challenge of tracking BA activity.

Pre-IPO risk capital index: 2017 (venture capital, growth private equity, business angel and equity crowdfunding as % of risk capital and bank lending)

Source: EBAN, Invest Europe, TAB, NVCA, national Central Banks, and University of New Hampshire
The absolute amount of risk capital in Europe, however, is still significantly below that of the US. €22.7bn in the EU and €132.4bn in the US.

Pre-IPO Risk Capital Capital indicator:
Increase in annual risk capital investment for SMEs

- Pre-IPO Risk Capital indicates the increase in annual risk capital investment for SMEs.
The SME finance ecosystem: wider than pre-IPO equity capital

1. % of SMEs using bank loans
2. % of SMEs using grants or subsidised bank loans
3. % of SMEs not applying for a bank loan because of possible rejection
4. Interest rate for loans under EUR 250k
5. Interest rate spread (under EUR 250k vs over EUR 1m)

Source: EIF
SME access to finance and Pre-IPO finance gaps

Source: EIF and AFME
Strong correlation between equity EIF finance subindex and Pre-IPO indicator

Pre-IPO indicator and ESAF loan subindex

Pre-IPO indicator and ESAF credit & lease subindex

Pre-IPO indicator and ESAF Equity subindex

Pre-IPO indicator and ESAF Macro subindex

Source: EIF and AFME
Conclusions

• SME indicators and quantitative analysis help identify where the funding gaps are at the EU and Member State level.

• Pro-competitive effects between Member States by producing country-specific indicators. Raise awareness of CMU.

• Pre-IPO finance and BA investment are components of the wider SME ecosystem. Further room for facilitating BA investment.
Country rankings

• Country rankings to facilitate comparison against peers and recent years (Appendix 1 in the report)

Source: AFME
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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