

Press release

Equity capital — growth and investment driver for the German Mittelstand

IfM Bonn study shows that equity financing has a positive impact on sales

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Bonn/Berlin, 15/10/2021. The Institut für Mittelstandsforschung (IfM) Bonn and German Private Equity and Venture Capital Association (BVK) carried out a study researching "Equity capital in German Mittelstand – analysis of the development of equity-financed companies". They found that companies financed with equity capital develop positively after the entry of investors. In the case of key figures, they surpass the comparator companies, which were not financed with equity capital. The study analyses companies in which private equity companies invested between 2014 and 2016 through majority or minority transactions.

The study compared the financial statements of 92 portfolio companies with a control group of similar characteristics. Various financial indicators, such as turnover, employment development, profit, and financial structure and liquidity were analysed. "Through the use of neutral annual financial statements as well as the selection of companies of different sizes and from different industries, we have achieved a balanced study to determine the impact of equity capital on the Mittelstand," says study director Dr Jonas Löher from IfM Bonn.

Increased turnover and positive employment development

Equity-financed enterprises recorded significant growth in turnover and number of employees. Employment growth in the three years following the entry of an equity investment company, at a total of 13 per cent, is significantly higher than the increase in the control group and the general increase in employment subject to social security contributions in Germany. This was 6.8 per cent for the comparison period. In every third equity-financed company, the number of employees increased by 25 per cent or more during the analysis period of three years after the investor's entry. "Equity capital creates and secures future-proof

jobs. Companies also show increased investment activity after investor entry. This drives innovation and technological progress," says Frank Hüther, spokesman of the Board of Management of BVK. Turnover grew on average by almost 21 % over the entire period under review, which is also stronger than in the control group (13 %). Nearly every third portfolio company increased sales by 25 % or more.

In addition, the average equity ratio of the equity-financed companies was higher than that of the peer group (24-28 %) at around 29-31 %. The companies focused on growth through investment: For equity-financed companies, investment assets increased by an average of 17 % cent in the three years after the investor's entry, while in the peer group it decreased by 5 %. In order to finance growth and the associated investments, more debt capital was also used. "Because of the current low-interest rate on the capital markets, this is not surprising. German Mittelstand take advantage of the favourable financing option and invest in the future," Hüther explains.

Equity capital - a reliable partner for Mittelstand enterprises

Equity capital is an essential pillar of corporate financing in Germany. In 2020, a total of EUR 14.8 billion was invested in more than 1,000 German companies of all sizes and ages. The majority was invested in small and medium-sized enterprises. For example, 9 out of 10 companies financed during the year have fewer than 500 employees. "Mittelstand is the spine of the German economy. Companies are facing major challenges in the future, which requires reliable financing partners. The study underlines that equity companies make an important contribution to growth and stability," explains Ulrike Hinrichs, Managing Director of BVK.

"With this study, we are pleased to contribute to a better understanding of the impact of equity capital. This will enable companies to successfully shape the transformation process and seize the opportunities of the future," concludes Frank Hüther.

→ **Study** (<https://www.bvkap.de/>)