## Unleashing investment in innovative firms in Europe

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**Speakers:** **Brad Burnham**, Managing Partner at Union Square Ventures
**Dr. Hendrick Brandis**, Co-Founder and Partner at Earlybird

**Chair:** **Karen Wilson**, Visiting Fellow at Bruegel

The finance focus breakfast provided an excellent occasion to discuss opportunities, challenges and policy recommendations for the ICT and internet sectors.

The outlook on Europe is generally positive. While venture capital (VC) investments are much lower in the old continent, implying a market size about four times smaller, there are actually more deals in Europe than in US, which suggests a higher degree of fragmentation. The geography of the VC industry has changed and capitals are moving outside the Silicon Valley towards Europe, where London and Berlin are the most attractive locations. Notwithstanding the lower level of investments, current opportunities in Europe are the best over last 10-15 years as now it is possible to obtain more shares with fewer capitals. However, this positive trend has not been fully internalized in the market, translating in a lack of "educated", and so, more efficient investors.

Burnham stresses the difference between the infrastructure layer, which relies on electrical engineering and which has been dominant in the Silicon Valley, as opposed to the service layer, which relies more on "social engineers" and tends to be geographically not bound. While in the Valley there is a sort of monoculture, the intellectual vivacity of Brooklyn is a better environment for internet start-ups to arise. Similarly, the creative and multicultural environment that can be found in Berlin, rather than Palo Alto, is what investors of the applications layer are going after.

On the financing mechanisms, some skepticism has been expressed with respect to startup incubators and in particular seed accelerators. These might result to be mere trading model that possibly inflate evaluations, causing unnecessary over-pricing. The role of Angel investors has substantially changed in the last 25 years to the point in which some super-angels started acting as accelerators. Moreover, while we observe a wider diffusion of this practice, a lower level of awareness of the risk seems to characterize investors. Crowd-funding implies its own puzzlements too, especially when private equity is involved. In principle this tool is considered highly risky and more educated investment decisions are to be preferred. With this respect, Burnham stresses how in general VC and private equity should stay very distinct.

On regulation, even if investments in internet companies are growing, the regulatory schemes in Europe are still too many. On the other side, Brandis remarks how in Europe introducing a new technology is on average 3 times faster, especially because of the time FTA approvals require. In general, public authorities should allow private investors to make more educated investments and increase awareness. More specifically, European policies should, on the short term, avoid VC investments to decline and so unleash more investments, while, on the long term, a sort of "deregulation" might be adequate as allowing a more dynamic market to arise. Furthermore, stepping into the AIFM Directive is considered still premature at the present time.

Finally, in order to attract massive quantity of investments, Europe needs to create a new business model without necessarily gleaning from US. Along this direction, the possibility to leapfrog the US, which is slackened by the problematic financing of investment campaigns, will soon become concrete.

*Event notes by Giuseppe Daluiso*