



## Aiming higher?

Stock market listing. Private equity investment. Successful international trade. Achieving your company's true potential isn't easy. Ernst & Young can help. We bring together an experienced, globally integrated team who can provide the in-depth knowledge of assurance, tax, transaction and advisory services your business needs to get to the top.

What's next for your business?  
ey.com

Ernst & Young

Assurance | Tax | Transactions | Advisory

### Ernst & Young in Germany

Ernst & Young is a leader in assurance, tax, transaction and advisory services. Our approx. 6,500 people are united by our shared values and an unwavering commitment to quality. Joining forces with our 135,000-strong international Ernst & Young organization, we serve our clients all over the world. We make a difference by helping our people, our clients and our wider communities achieve their potential.

### About Ernst & Young's Strategic Growth Markets Network

Ernst & Young's worldwide Strategic Growth Markets Network is dedicated to serving the changing needs of rapid-growth companies. For more than 30 years, we've helped many of the world's most dynamic and ambitious companies grow into market leaders. Whether working with international mid-cap companies or early stage venture-backed businesses, our professionals draw upon their extensive experience, insight and global resources to help your business achieve its potential. It's how Ernst & Young makes a difference.

For more information, please visit

[www.de.ey.com](http://www.de.ey.com)

© 2009  
Ernst & Young AG  
Wirtschaftsprüfungsgesellschaft  
Steuerberatungsgesellschaft

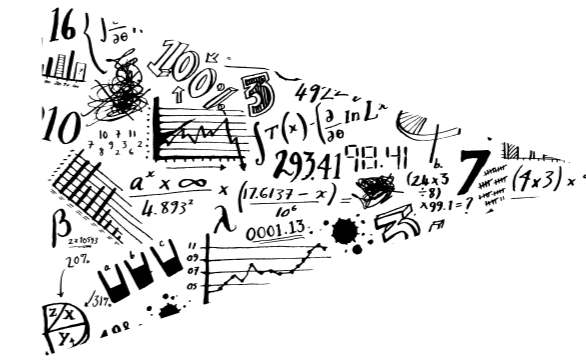
All Rights Reserved.

HFI 0409

Ernst & Young or "we" refers to all German member firms of Ernst & Young Global Limited (EYG), a UK private company limited by guarantee. Each EYG member firm is a separate legal entity and has no liability for another such entity's acts or omissions.

4<sup>th</sup> Quarter 2008 | Release: April 2009

**Spotlight:**  
Europe and Germany



- 01 VC Comparison: Europe vs. USA
- 02 Spotlight: Europe
- 05 Spotlight: Cleantech
- 07 Spotlight: Venture-backed liquidity
- 08 Spotlight: Germany
- 10 VC Interview

Europe saw a late-year pullback in venture investment which led to an overall annual decline of 15% as investment fell from €5.2 billion in 1,107 deals in 2007 to €4.4 billion in 881 deals in 2008. This marks Europe's lowest deal count since VentureSource began tracking the region in 1999. Much like in the US, Europe started off with a strong first quarter, only to see investments and deals slide downward over the course of the year. The region ended the year on a low note as investment fell 38% from €1.4 billion in the fourth quarter of 2007 to €862 million in 2008, its lowest quarterly total in more than four years.

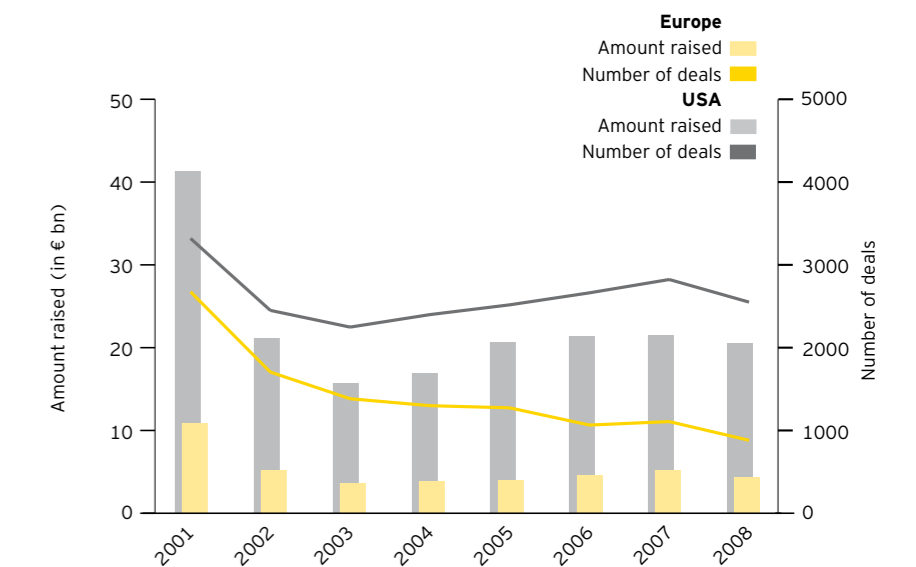
Venture capital investment in US companies hastened its descent in the fourth quarter of 2008 with 554 deals garnering €4 billion, down 30% from the €5.4 billion invested in 718 deals during the same period in 2007 and the lowest quarterly investment the industry has seen in three years. In total, 2008 saw 2,550 deals completed and €20.6 billion in venture capital invested in US companies.

# Venture Capital Barometer

We are pleased to present you the latest edition of our *Venture Capital Barometer*. The aim of this publication is to illustrate the developments on the European and German venture capital markets and identify the key trends.

This edition highlights the developments of the past years up to 2008 from an annual perspective. The Barometer is published every quarter and is based on data provided by Dow Jones VentureOne as well as various data sources.

## Investments in venture-backed companies - Europe vs. USA 2001 - 2008



## Industry perspective

### Information Technology

Europe's IT industry saw its overall investment slide 26% from €2.3 billion invested in 560 deals in 2007 to €1.7 billion in 410 deals in 2008. The majority of this decline was in the last six months of the year as the number of IT deals and amount of investment reached their lowest levels on record in the third and fourth quarter.

### Healthcare

Likewise, the data showed a late-year slowdown in healthcare deals and investment in Europe. Venture capitalists invested €1.2 billion in 215 healthcare deals in 2008, down 28% from the nearly €1.7 billion the region saw invested in 245 such deals in 2007. Both the decline in healthcare and IT investment in Europe closely mirror trends seen in the US in 2008.

### Energy & Utilities

One of Europe's few bright spots was a surge in energy and utilities investment. The data shows that venture capitalists put a record €554 million to work in 59 of these deals in 2008, up 89% from the €293 million invested in 52 such deals in 2007.

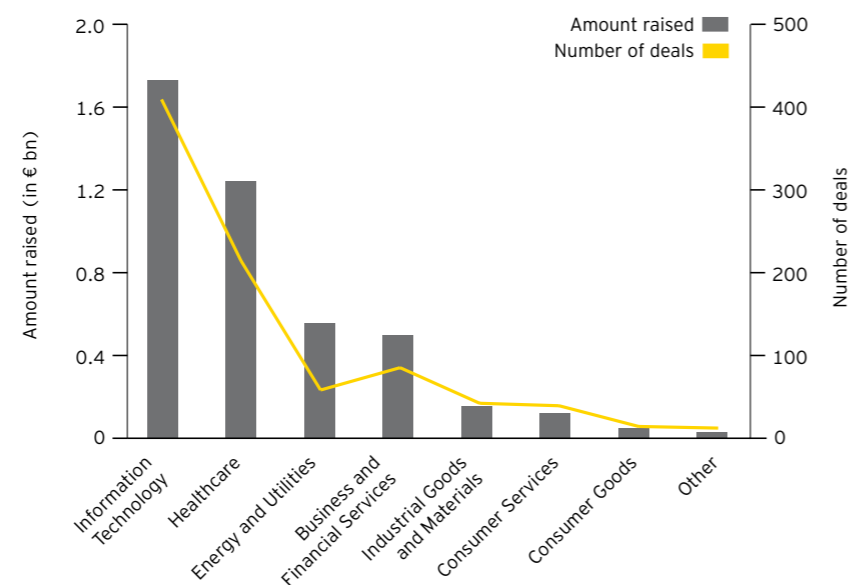
### Business and Financial Services

Europe's Business and Financial Services industry saw deal activity fall 36% with 86 deals in 2008 compared to 135 deals completed in 2007. Investments dropped 6% from €530 million in 2007 to €497 million in 2008.

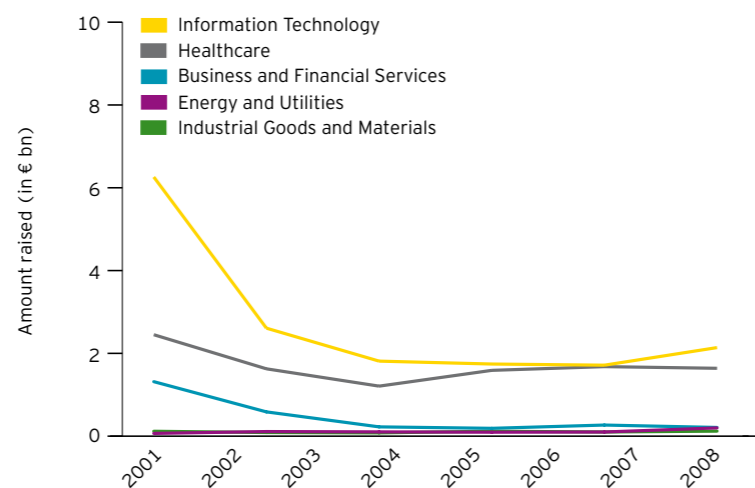
### Industrial Goods and Materials

The European Industrial Goods and Materials industry, which saw a steady annual decrease in deal count since 2004, reached its lowest level since that date with 43 deals completed in 2008 in comparison to 51 deals in 2007. In terms of investments, 2008 saw a slight increase with €157 million raised, compared to €124 million in 2007.

Investments in European venture-backed companies by industry\* 2008

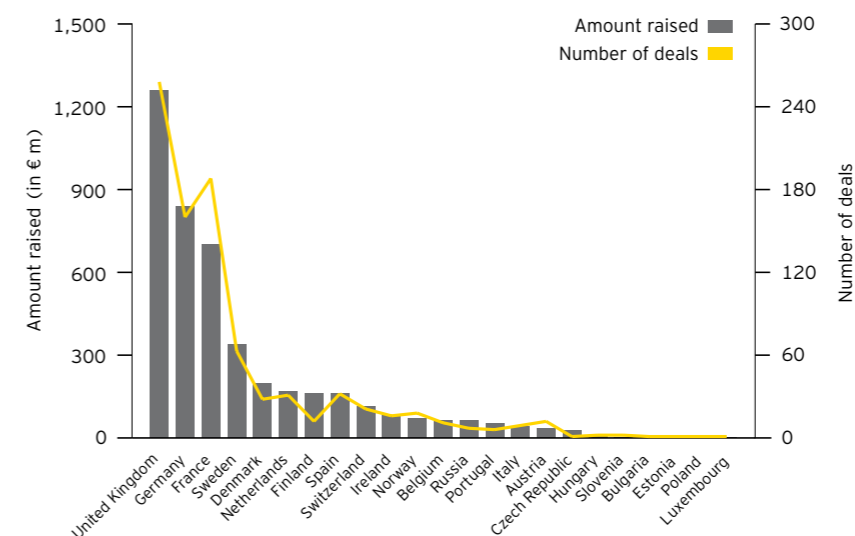


Top 5 European industries 2001 - 2008

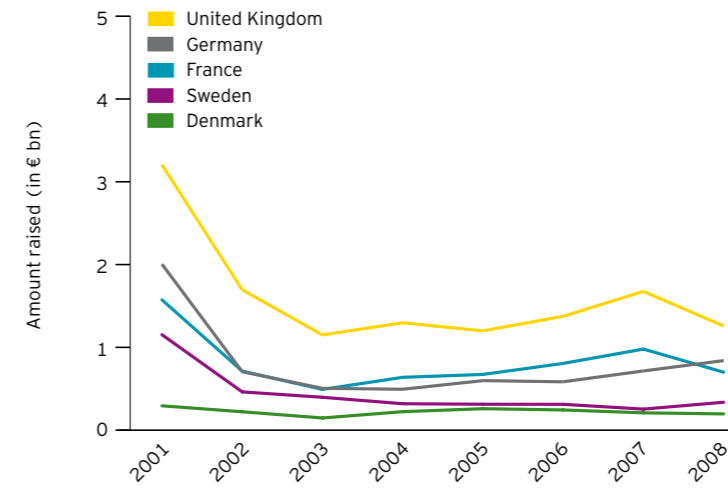


## Geographic perspective

Investments in European venture-backed companies by country 2008



Top 5 European countries 2001 - 2008



In the United Kingdom, VC investment fell 24% from €1.7 billion invested in 337 deals in 2007 to €1.3 billion in 258 deals in 2008. The last quarter of 2008 saw investment drop 54% from the prior year to €217 million, the lowest quarterly total since 2003.

For the first time since 2003, Germany outpaced France as the second-most popular destination of venture capital in Europe with €840 million invested in 160 deals.

France saw its annual investment slide 29% from €979 million in 2007 to €700 million in 2008 as the number of deals completed fell from 239 to 188.

Capital investment in Sweden grew 33% in 2008 as €337 million was invested in 63 deals.

In Denmark, venture investment fell only 6% from €209 million in 2007 to €196 million in 2008 even though the country saw its annual deal count plummet from 62 to 28.

The Netherlands saw its annual venture investment fall 34% from a record €255 million in 2007 to €169 million in 2008.

## Perspective on round class and investors

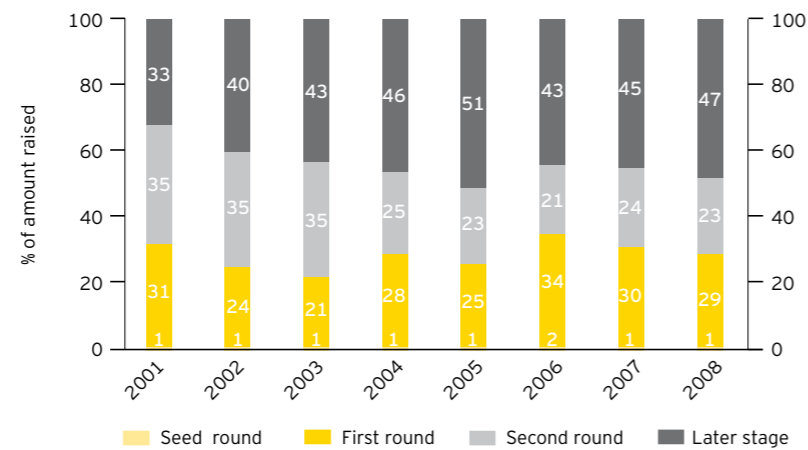
### Early vs. late stage

Seed and first round investments accounted for 29% of all capital raised in 2008, with €1.3 billion raised. Second and later stages attracted far and away the most capital with some €3 billion, which amounted to roughly 71% of all capital invested. In contrast, seed and first round deals accounted for more than half of deal activity with 437 deals, or roughly 51% of the total European deal count for the year. Second and later stage deals represented a little less than half of all deals completed with 417 rounds in 2008. Compared to 2007, the allocation of early rounds and later stages did not change significantly.

### Median

The median amount invested in a venture capital deal in Europe reached a record €2.7 million in 2008, up from the €2.4 million seen in 2007.

Investments in European venture-backed companies by round class 2001 - 2008

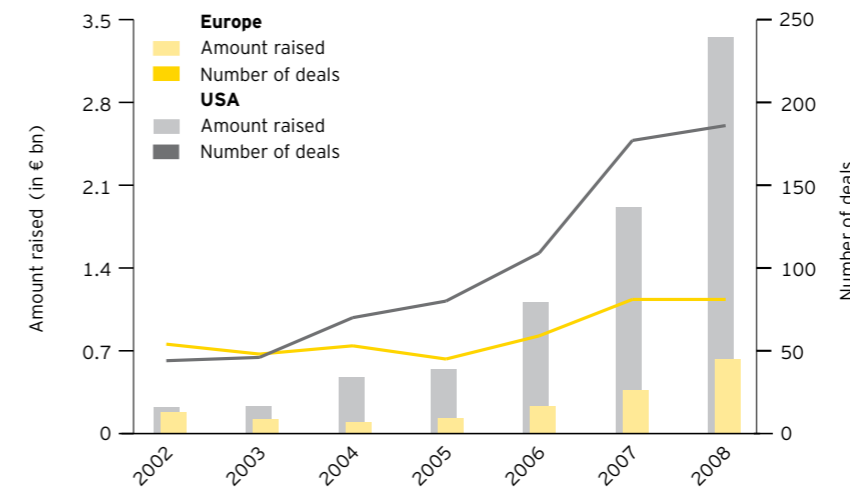


Top investors Europe 2008

Investing firm name	Country	Investing firm type	Number of deals
High-Tech Gründerfonds Management	Germany	Venture Capital	34
Scottish Enterprise	United Kingdom	Other Private Equity	21
Innovacom	France	Corporate Venture Capital	19
KfW Mittelstandsbank	Germany	Government	19
Sofinnova Partners	France	Venture Capital	17
Credit Agricole Private Equity	France	Other Private Equity	15
InnovationsKapital	Sweden	Venture Capital	15
Seventure Partners	France	Venture Capital	15
TVM Capital	Germany	Venture Capital	15
AGF Private Equity	France	Venture Capital	14

## Perspective on volume and round class

Investments in venture-backed cleantech companies\*\* - Europe vs. USA 2002 - 2008

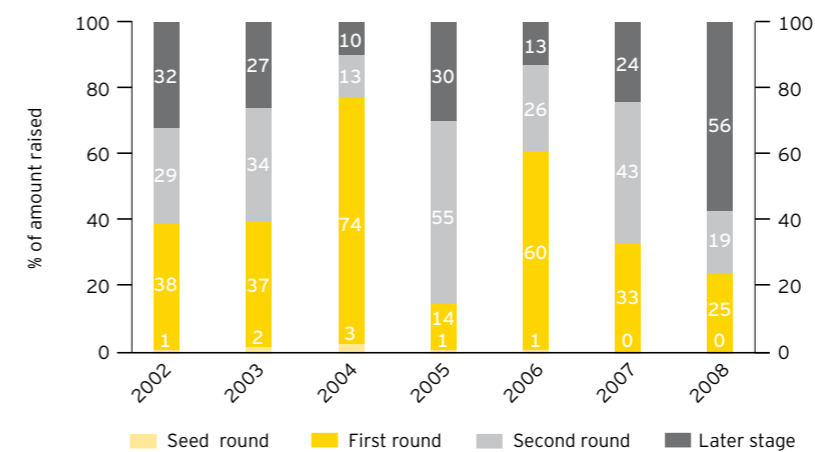


### Europe vs. USA

Venture capital investments in cleantech reached record levels in 2008. In the US, nearly €3.4 billion were raised in 186 financing rounds - a 68% increase in annual capital invested and a 5% increase in annual financing activity. The top four cleantech segments in the US were Energy/Electricity Generation, Alternative Fuels, Energy Efficiency and Energy Storage. All experienced strong growth compared to 2007.

The amount of venture capital committed to European cleantech in 2008 represents an investment milestone as well. Since 2002, when European cleantech companies raised an annual total of €179 million in venture capital, investment in the cleantech market has increased at a compound annual growth rate of 59% to reach the €626 million invested in 2008. The annual number of cleantech companies securing venture financing has also grown significantly. In 2002, 54 cleantech companies raised venture capital. In 2008, 81 cleantech companies raised venture capital.

Investments in European venture-backed cleantech companies by round class 2002 - 2008



### Early vs. late stage

The proportion of seed and first round investments in European cleantech companies has continued to drop since 2006, when early stages made up 61% of cleantech financings. In 2007, 33% of all capital invested in cleantech went to early stages, whereas only 25% went to seed and first rounds in 2008. The amount invested came up to €152 million in 46 deals in 2008, resembling 57% of total deal activity.

Later stages saw 34 deals (or 43% of deal activity) invested in €467 million, resembling 75% of all cleantech amount invested. The developments show that while venture investors continued to back emerging cleantech start-ups in 2008, they were clearly focusing their money on supporting their existing portfolio companies.

## Perspective on segments and deals

### Energy/Electricity Generation

This year led by wind companies, the Energy/Electricity Generation segment received the largest amount of VC investment with €449 million in 2008, representing 72% of total cleantech capital invested. Wind investments alone raised €186 million, closely followed by solar investments, which raised €177 in 2008. This year's largest deal was completed by German Sulfurcell, a provider of thin-film photovoltaic (PV) solar modules.

### Environment

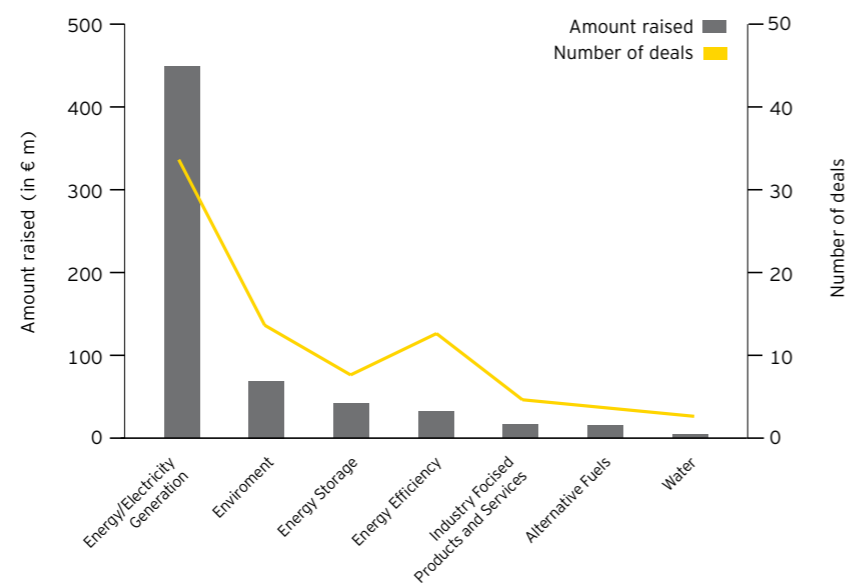
The Environment segment attained the second largest investment in 2008 with €69 million, representing 11% of total capital invested in cleantech. Recycling raised the largest amount in this segment with €33 million. The Waste segment raised €21 million. Recupyl, a developer of hazardous waste recycling technologies, raised €14.5 million, one of the largest deals in the Waste sub-segment.

### Energy Storage

Energy storage was the third largest investment category, raising €41 million in 2008, or 7% of total capital invested, driven by the Fuel Cells sub-segment, which raised €38 million.

"Investments made this past year suggest that investors are considering industry drivers that will propel cleantech companies during and after the current financial crisis recedes," says Julie Teigland, Head of Strategic Growth Markets EMEA and Partner at Ernst & Young. "Investors and corporate executives alike continue to focus on growing operations to respond to opportunities created by growth in global energy consumption, corporate climate change initiatives, and governmental developments."

Investments in European venture-backed cleantech companies by segments 2008

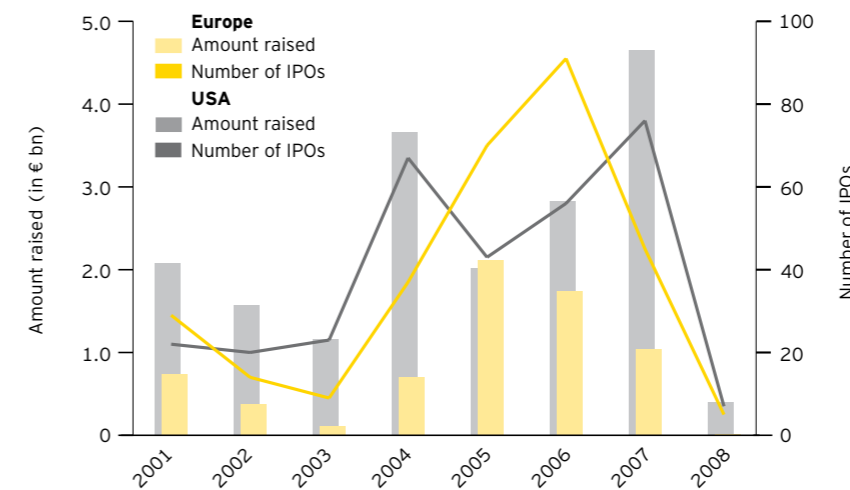


Top European cleantech deals 2008

Company	Country	Amount raised (in € m)	Cleantech segment	Sector
Sulfurcell Solartechnik	Germany	€ 85,00	Energy/Electricity Generation	Solar
Odersun	Germany	€ 40,00	Energy/Electricity Generation	Solar
Electrawinds	Belgium	€ 20,00	Energy/Electricity Generation	Wind
Solaire Direct	France	€ 20,00	Energy/Electricity Generation	Solar
OreCon	United Kingdom	€ 17,99	Energy/Electricity Generation	Tidal/Wave
Recupyl	France	€ 14,50	Environment	Recycling
Power Plus Communications	Germany	€ 10,00	Energy Efficiency	Power and Efficiency Management Services
SolarTotal	Germany	€ 10,00	Energy/Electricity Generation	Solar
Pelamis Wave Power	United Kingdom	€ 7,34	Energy/Electricity Generation	Tidal/Wave
Metallkraft	Norway	€ 4,22	Environment	Recycling

## Perspective on IPO and M&A

Venture-backed IPOs - Europe vs. USA 2001 - 2008



### IPO

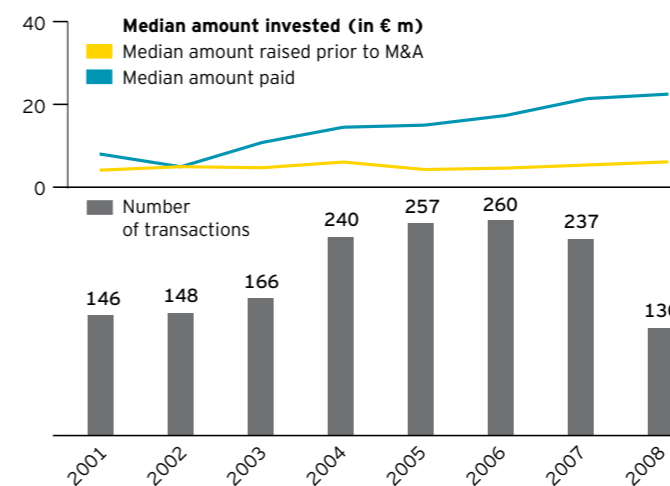
With no initial public offerings (IPOs) in the fourth quarter, 2008 proved to be the worst year in terms of IPO for US venture capitalists since the post-tech-bust doldrums of 2003. Just seven companies completed public offerings in 2008, raising €394 million - a far cry from the €4.6 billion generated through the public listings of 76 companies in 2007 and the lowest total recorded since tracking began in 1992. The venture-backed IPO market reached its lowest point ever in Europe as well, down from €1 billion and 45 public offerings in 2007 to €14 million with just 5 IPOs in 2008. It was a dismal year for IPOs, and venture-backed liquidity in general.

According to Julie Teigland, some experts are optimistic the IPO market will open up again in the third or fourth quarter of 2009. "We're likely to see the first signs of life in the pipeline from larger companies in established industries, rather than a surge from smaller companies. It's important to have a long-term perspective. If companies want to position themselves to ride the first wave up as the IPO market turns around, they should start planning now for the organizational change, which can take 12-24 months."

### M&A

Although there was a steady decline in M&A investment totals in 2008, with acquirers paying up to 50% less for companies than in 2007, the median amount paid for the merger or acquisition of VC-backed companies has grown steadily since 2002. The median amount paid generated through the sale (M&As) of venture-backed companies increased from € 21.4 million to €22.5 million in 2008. According to the statistics, only 130 venture-backed companies merged or were acquired in 2008, the lowest number of M&A transactions since at least 2001, and down 45% from the 237 companies sold in 2007.

European venture-backed M&As 2001 - 2008



## Perspective on volume and round class

### Germany

German venture investments surged to new heights in 2008 with €840 million invested in 160 deals. This is the highest amount raised since 2001. Compared to last year, financings have increased by 18% from €715 million; deal activity by 6% from 153. Despite the economic developments in 2008, the simple truth is that there is venture capital available in Germany, and it's being invested.

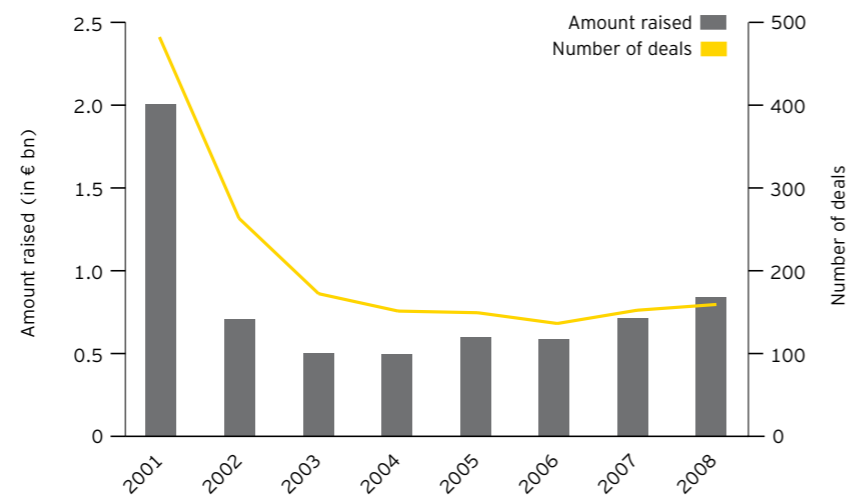
In the last quarter of 2008, German companies received the second highest quarterly venture capital investment with €191 million. Quarterly VC financings were only higher in the second quarter of 2008, with €308 million invested in German companies. Most VCs are rather downbeat and not optimistic about 2009. However, these statistics show that the market is still very much alive and active. Value and volume might decline in 2009 but perhaps not as much as some are predicting.

### Early vs. late stage

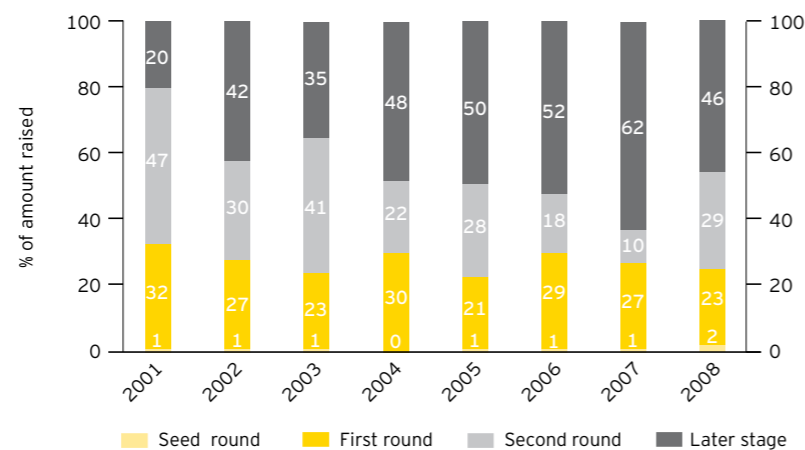
Seed and first round investments in Germany amounted to €198 million, which represents 25% of all capital invested. This amount was allocated to 94 deals, representing 61% of deal activity.

Venture investment in second rounds and later stages made up €585 million, or 75% of venture capital raised by German companies. However, these sums went to 60 deals, which represent 39% of all deals made.

Investments in German venture-backed companies 2001 - 2008

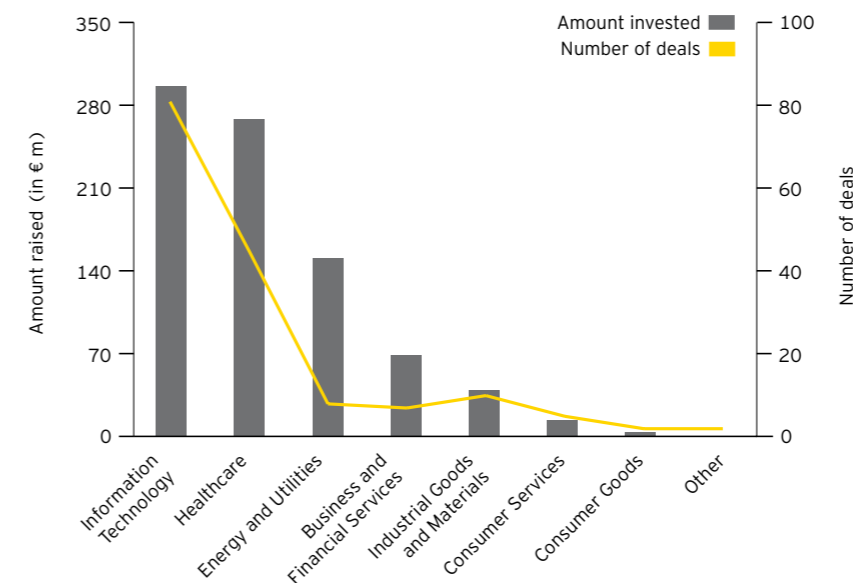


Investments in German venture-backed companies by round class 2001 - 2008



## Perspective on industry and investors

Investments in German venture-backed companies by industry 2008



### Information Technology

The data showed that the German Information Technology (IT) industry grew slightly with €296 million invested in 81 deals in 2008, compared to €253 million going to 78 deals in 2007. The IT sector represented 35% of total capital invested in Germany. Within IT, the Information Services sector received the biggest share with €117 million invested in 33 deals. Notably, it has been the first time that the Information Services sector has outpaced the Software sector.

### Healthcare

The German Healthcare sector saw venture investment slip slightly in 2008 with €269 million invested in 45 deals, down 15% from the €318 million the industry garnered in 36 deals in 2007. As usual, the biopharmaceuticals sector held the biggest share within the Healthcare sector with 79%. Compared to last year, the biopharmaceuticals sub-sector slipped by 21% from €271 million in 2007 to €213 million in 2008.

### Energy and Utilities

According to the data, 2008 proved to be a very good year for the energy and utilities industry, as it saw annual investment more than double to a record of nearly €151 million put into 8 deals from €43 million in 12 deals in 2007. All deals within the Energy and Utilities sector went to the Renewable Energy sub-sector. Compared to last year, annual investment in the Energy and Utilities sector outpaced that of the Business and Financial Services industry.

### Business and Financial Services

Germany's Business and Financial Services sector saw investment slip 11% to €68 million in 7 deals in 2008 from nearly €77 million in 16 deals in 2007. In contrast to the other industries, Business and Financial Services had its worst fourth quarter in 2008 with just €1.5 million invested in 1 deal - the industry's worst quarterly showing since 2006.

Top investors Germany 2008

Investing firm name	Country	Investing firm type	Number of deals
High-Tech Gruenderfonds Management	Bonn	Venture Capital	34
TVM Capital	Munich	Venture Capital	26
KfW Mittelstandsbank	Bonn	Government	19
European Founders Fund	Munich	Angel Investor	17
Wellington Partners	Munich	Venture Capital	13
Bayern Kapital	Landshut	Venture Capital	12
T-Venture Holding	Bonn	Corporate Venture Capital	11
IBB Beteiligungsgesellschaft	Berlin	Venture Capital	11
SAP Ventures	Walldorf	Corporate Venture Capital	11
Star Ventures Management	Munich	Venture Capital	10

## An Interview with Dr. Hansjörg Sage



**Dr. Hansjörg Sage**  
Partner Gimv NV, Munich

Dr. Hansjörg Sage is a member of Gimv's pan-European technology team. Based in Munich, he is heading up the technology investment activity in German speaking Europe. Before joining Gimv in 2008, Hansjörg Sage was a Director in 3i's venture capital team.

**Ernst & Young:** *With the capital markets under dire pressure the last months, what effect do you think this will have if any on the VC industry? Do you see an immediate short-term impact to your portfolio companies, as well as any change in your investment strategy?*

**Dr. Hansjörg Sage:** So far, we have seen relatively limited impact on our portfolio companies as the crisis is still at its beginning. However, we are expecting to see a more pronounced effect of the current macroeconomic downturn. It is probably going to take another three to six months before effects of the downturn will fully have trickled down to the portfolio companies. Hence, from our point of view it is still difficult to judge the severity of the downturn and, hence, its duration.

With regards to the VC industry as a whole, now the common view is that there is going to be a major downturn, whereas roughly six months ago most funds in Europe appeared to be hoping for the "decoupling" theory to turn-out to be true (i.e. the impact of the financial crisis being limited to the US). As a consequence, market participants are now becoming increasingly cautious and start reflecting on their investment strategies.

Going forward, I expect the amount of new investments will significantly decrease, because investment managers will have to spend more time and capital on their portfolio companies and getting excited about new investment opportunities will become much harder as growth trajectories will plateau and market risk will increase. In particular the recently very popular pure late-stage funds will become increasingly risky because exit markets will probably remain very difficult for the foreseeable future. Thus, late-stage investments which usually have an investment horizon of two

to four years will find very difficult times in terms of exits, with quite a few late-stage companies having been added to portfolios over the last three years. In addition, lower growth of these companies because of the macroeconomic environment will lead to higher capital requirements which will often be taken up by existing investors increasing the capital concentration of the fund. In case investors take fresh money, they will suffer right-downs, as valuations are currently in the process of readjusting.

Similar to the bear-market of 2001, it takes a lot of courage for entrepreneurs and investment managers to face the new realities. Still as recently as Q4 2008, term sheets have been submitted at levels which feel highly ambitious given the global re-pricing of assets. On the other hand, we have observed that these transactions struggle to close and, thus, are reminiscent of the end of the buy-out boom in 2008, where also deals were still being cut, but most of them failed to complete. It may turn out that the companies weathering the downturn the best are those which adapt to the market climate the fastest and take the money while it is still there, although that will often mean departing with the "no downturn" paradigm.

As to the future of Venture Capital in general, equity is in enjoying a renaissance these days, because debt financing is difficult to obtain and costly given the market situation. Therefore, the number of venture capital investment opportunities should be increasing which is something we are currently observing in our dealflow. These opportunities may sometimes be slightly different to the standard VC investment opportunities, but if investors (and LPs) are flexible, they should be able to make some very interesting investments in the next 12 months laying the basis of great fund returns. Especially spin-outs

from corporates which are undergoing restructuring and VC financed companies whose backers are no longer aligned or are experiencing conflicts with their LPs could generate very interesting investment cases. But also history shows that downturns foster innovation as innovators are focusing on the must-haves, strategists are questioning more fundamentally the status quo and talent is more likely to leave the "safe haven" of big corporates. Therefore, I think VC investors who have capital, who remain pragmatic around their investment strategy (especially regarding "stage" of the company), who retain an optimistic but cautious mindset and who place a few shrewd bets will be able to start building a couple of great technology companies in the middle of this downturn.

**Ernst & Young:** *One of the interesting highlights worldwide is the significant increase in investments in VC-backed clean technology companies. What is your expectation for the investment landscape in the German speaking countries in the next 12 to 24 months? Do you think there is a hype?*

**Dr. Hansjörg Sage:** To my mind, Cleantech is driven by two fundamental factors: One is the increasing scarcity of natural resources, and the other is the increasing challenge how to "manage" waste. Both fundamental drivers will remain intact in the short to medium term, which is why Cleantech will remain on our agenda in one form or another over that period. These drivers are fuelled by a variety of secondary factors such as global increase of GDP per capita, growing population density and more popular awareness around environmental matters. Hence, I would expect the importance of Cleantech at least to remain constant if not increase in the medium term.

However, it is going to be interesting to see how Cleantech will fare in the current downturn. Already in the 1970ies a move away from fossil energy generation was instigated because of the oil shock, however in the resulting tougher macroeconomic climate environmental concerns evolved to be a be regarded as a luxury. Unfortunately, this delayed the move towards greater sustainability and energy efficiency for several decades. We can only hope that this time both governments and people will act differently.

But even if environmental matters will be downgraded in terms of people's priorities in the aftermath of the current downturn, there are still a lot of technologies in energy generation, process efficiency and waste management, which will remain relevant or will become viable medium term. Therefore, to me it makes a lot of sense that VC has embraced Cleantech as third pillar of VC investing, side-by-side with ICT and healthcare.

With regards to Cleantech investing in Germany, I am very positive given the history, the local talent and expertise, and the success stories which already have been written. I think Germany is very well positioned to remain at the forefront of the Cleantech sector, but I would expect its lead to decrease as the UK, the US, China and India are increasingly taking an interest in this area. However, given the population's positive attitude towards Cleantech in German speaking Europe, companies are finding a healthy and large market to sell their products into, which put local start-ups at an advantage at least for consumer related Cleantech.

Regarding the VC investment activity in the Cleantech sector, the most worrying aspect are the high valuations which have been high throughout 2008 which

seem to have hardly corrected thus far. Especially entrepreneurs often have price expectations which were justified given the high public valuations paid for environmental technologies at least in H1 2008, but which are at odds with the pricing offered by a prudent investor. In this context, there could a case be made that in the public market valuations often felt difficult to justify from a long-term perspective and rarely appeared to include the inherent in companies and the competitive dynamics of the sector. This may have enticed some investors to pay steep prices. Nevertheless, this seems to be restricted to certain sub-segments of the sectors (e.g. certain parts of PV), which is why I do not think it would be fair to talk about a hype around the Cleantech sector in general. Especially in Germany and Austria I have come across SMEs which are active in the less fancy parts of the sectors, which have very realistic management and which are not well-known at all by the broad public.

Given the youth of the sector, today it is impossible to reliably define what the winning investment strategy for the Cleantech sector is going to be. Personally, I am not convinced that the standard VC model of looking for disruptive innovation is really the right approach in this context. Right now, I would argue that there is more value to be generated by expansion capital than by early stage investments, as valuations are more realistic than in ICT and cash-flow neutral (if not positive) companies exist in greater number compared to ICT. Since the technological foundations of such companies are well developed and their products are benefiting from an increased market need, the investment case is quite obvious. Furthermore, companies will benefit from a partnership with a VC, because they tend to be local, small and rather inexperienced

in mastering high-speed growth. In that sense, very interesting partnerships with Cleantech companies will arise particularly at that end of the spectrum.

One other big question remains with regards to the Cleantech investment strategy: What is the right sub-sector-focus? It is interesting to note that many of the pure-play funds have started with a rather narrow definition of Cleantech and are now slowly moving towards a less dogmatic approach. At the same, ICT investors have started opportunistically branching out into the Cleantech sector. One could conclude from these observations that less focus should be on stringent segmentation and more on the opportunities themselves. However, the "nano-tech" syndrome should better be avoided, where anything was included in nano-tech, because nano was hip, and by doing so nanotech became an area which was often better ignored, as the signal-to-noise ratio was too low.

**Ernst & Young:** *In the last couple of years we have seen the desire of more and more large corporations to get closer to the innovation pipeline. Have you seen major changes in the corporate world as it relates to the venture capital industry?*

**Dr. Hansjörg Sage:** Corporate venture capitalists play an important part in the eco-system and they are very good partners for traditional VCs. In the last 24 months, we have seen corporate VC activities becoming more and more popular with several new teams being put in place. Going forward, I expect that there will be some changes with respect to corporate VCs but they will probably follow the usual pattern. In good market times, when companies have positive cash flows and scouting for the "next big thing" is high on the agenda, corporate venturing tends to be increasing; in a downturn, corporates are looking at

their venture arms with more scepticism and tend to regard it as non-core. Therefore, I would not be surprised if there might be changes in the way at least some corporates go about their future investment activities. Obviously, there are also players in the market, which have been around for a long time and which have successfully mastered such downturns in the past. But it would be surprising if corporate venturing activity would not reduce.

In terms of the acquisition pattern of big corporates, I believe that the downturn will cause corporates to become increasingly risk-averse and to rather focus on organizational optimization. Any merger is associated with the pain of an integration and retaining a team from a start-up in a larger corporation is often very difficult given the cultural differences. Hence, corporates will most likely acquire technology companies to gain access to key technologies, but only when such technologies have become an absolute must. Only once the macroeconomic situation has improved again, corporates will become more strategic concerning their acquisition patterns.

As scouting for and getting closer to potential acquisition targets are often the main driver of corporate venturing activities, this again argues for reduced investment activities by corporate VCs.

**Ernst & Young:** *What ingredients do VC-backed CEOs need to have today in order to lead their companies to be the next market leaders? Have the requirements changed in the last five years?*

**Dr. Hansjörg Sage:** Given the change of the environment which is currently manifesting itself, I would say first of all CEOs need to be very pragmatic. They have to be particularly focused on cash

generation and preservation, i.e. they need to carefully think about all their expenditures, especially since financing is becoming more difficult to obtain. Secondly, CEOs need to remain positive despite the difficult environment. In order to do so, they need to preserve some sense of humour and should not take themselves too seriously (which is also true for their board members including the VCs). Thirdly, the CEOs need to have a clear vision of the how they would like their company to look like in three years from now and work with flexibility towards making this vision reality. In this context, an ability to overcome obstacles creatively and without additional capital will be a virtue much in demand in the coming 12 months.

In the last couple of years, there was a very high demand for interesting companies from the investor side. Thus, the mentioned qualities, that any good CEO would usually have anyway, were probably not as important when trying to obtain financing as they are today. Given the change of the climate, the severity of the selection is going to increase.