# Getting a Lift From the Government

*By Marc Spiegler*
Issue Date: Nov 20 2000

**A branch of the German government is invigorating the country's new economy with investments in startups.**

Up to a point, the founding of Berlin's Yellout.de sounds straight from the Silicon Valley playbook. In September 1999, the partners hatched a plan: Create a site listing companies that provide services ranging from transport to finance to Web design, all bidding in reverse-auction style on potential projects. To get the idea off the ground, the founders sold their cars then approached a score of VC funds for some real money.

Almost immediately, they received $220,000 in seed money from Germany's Innotech and later nabbed $2.9 million in first-round funding, split equally among Innotech, CEA, a venerable U.S. firm, and 3iGroup, a London-based fund. Many German startups receive foreign funding because so many VC firms want to establish a beachhead in the Continent's strongest economy. U.S. investors are no exception, making Germany their third-largest recipient in 2000.

**ENTREPRENEURIALISM IN GERMANY**

**Obstacles:** E-commerce plays are complicated by price-dumping legislation and wariness about credit card payments. The decentralized nature of Germany makes mass-marketing and networking difficult. Angel investors are punished by speculation taxes. Both talent and space are at a premium in some cities.

**Advantages:** Germany offers Europe's largest market, and has a powerhouse economy. Potential investors from all over the globe abound, so even in today's tumultuous market good ideas can get funded fast. Total venture funding in 1999 came to $2.6 billion, up from $1.6 billion in 1998. Even the government has a program to fund tech startups.

But now comes the weird part, at least by Silicon Valley standards: With its first-round money barely in hand, Yellout added a fourth investor - the German government. Germany's national Deutsche Ausgleichsbank (Bank of Settlements) threw $1.3 million into the pot via the Technologiebeteiligungsgesellschaft (Technology Partnership Company). "It's very cheap money," says Setzer. "All the risk is on the government's side." The funds come as a loan secured solely by provisional equity in the company. Only high-tech companies, less than 5 years old and employing fewer than 50 people, can apply. The loan's figure matches a company's private funding, up to $1.3 million, and is repaid only upon going public or reaching profitability, at a rate ranging from 7 percent to 12 percent interest, indexed to the company's success.

Such TBG money, as it's commonly called, has been a driving force in Germany's new economy, and it reflects the long-term tendency of European governments to play an active role in free-market affairs. In the last few years, the pace of investment has picked up rapidly. Since its foundation in 1989, TBG has poured $950 million into more than 700 high-tech companies, with $331 million in funding dispensed during 1999 alone. Already, 28 TBG-funded companies have gone public, 25 of them on Frankfurt's Neuer Markt exchange.

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"Holland and France have similar programs, but the TBG has been the most aggressive and dynamic," says Niko Waesche of Munich's Global Retail Partners Venture Capital. "German VCs were fairly risk-averse, but the TBG let them bet their money on twice as many companies. Without that, you would never have had Neuer Markt successes like Brokat.de or Intershop."

TBG has also been a magnet for entrepreneurs. Founded in September 1999 by four non-Germans from Harvard Business School, life-sciences b-to-b exchange eLabs Europe chose Germany as its headquarters in part because of the TBG's matching funds program. "That [$1.3 million] buys us a lot of time," says co-founder Sotiris Lyritzis. "And they're not an intrusive partner. The TBG isn't trying to a make a quadrillion dollars, it just wants to encourage technology growth."

Since its launch on New Year's Day, Yellout has grown from five employees to 50 and rapidly signed up merchants. But the TBG will have to wait for repayment. "Originally we planned to go public in a year, or maybe 18 months," says Setzer. "But then came the market crash. I really doubt any content site will go public on the Neuer Markt in 2001. We're thinking Q2 or Q3 in 2002. Anyway, our VCs have changed their attitude; now they're worried about burn rates, not IPO dates."

That means Yellout will need a second round of financing, hoping to raise roughly $20 million. For that, the company will almost surely have to hit VC firms in France and England. "The firms there are less frightened by such large investments," Setzer explains. "The German VCs don't have as much experience with Internet startups, so they're more cautious."

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