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**Factors Influencing Venture Capital Funds from the United States to
Participate in German Startup Financing Rounds:
An In-Depth Study on Investor Characteristics**

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Abstract

This study investigates the growing role of U.S. venture capital investments in Germany, focusing on round, startup, and investor characteristics that influence U.S. participation. Despite the importance of Germany for European VCs, research on U.S. cross-border activity remains scarce. Using OLS regression models based on commercial register and Dealroom data while complementing our findings with experts' insights, we demonstrate that U.S. investors focus on late-stage investments, larger rounds, and quality startups, while driving up valuations. Moreover, the study highlights the influence of investor reputation and portfolio size on U.S. investors' participation, providing an overview of influencing factors without claiming causality.

Keywords

Cross-Border Venture Capital, Financing Rounds, Deal Terms, Pre-Money Valuation, Entrepreneurial Hubs, Business Model, Reputation Effects, Portfolio Characteristics, United States, Germany, Multivariate Regression Analysis

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1. Introduction

Recent scientific literature and industry reports have highlighted the growing significance of cross-border venture capital (‘VC’) activity (Guler and Guillen 2010; Chemmanur, Hull, and Krishnan 2016). In this context, Europe, especially Germany, has become a key destination for VC funding in Europe. In 2023, across Europe, the United Kingdom (‘UK’) led with projected investments of \$12.7 bn, while Germany secured a strong third place with \$7.8 bn, just behind France's \$8.0 bn (Atomico 2023, 107). Furthermore, research shows a significant trend in capital flowing from the United States (‘U.S.’) into European markets, particularly Germany. U.S. investments in Germany peaked in 2021, with foreign investors matching nearly 93 cents per euro invested by European VCs, highlighting Germany's attractiveness to foreign investors and the need to further research this topic (Atomico 2023).

However, there is a remarkable scarcity of reliable research investigating the participation of U.S. investors and underlying valuations within the context of cross-border investments of U.S. VCs in European (‘EU’) startups. Prominent research on VC syndication suggests that cross-border syndication requires further study, as most studies focus on local syndication (Dimov and Milanov 2010; Wright, Pruthi, and Lockett 2005a). Moreover, the existing literature on VC dynamics such as cross-border investments, valuations and investor characteristics has offered valuable insights but remains heavily skewed toward analyzing the U.S. startup ecosystem, leaving other regions underexplored. For example, Köhn (2018) states that “*researchers prefer the US context for examining the determinants of startup valuations in the VC setting*”, even though research indicates that valuation approaches may be different in

Europe (Heughebaert and Manigart 2010a). The selected studies investigated in more detail in our *Literature Review* often overlook Germany's unique market characteristics, the evolving influence of U.S. investors in the region, and the focus on participation drivers.

Our paper fills this gap using the example of U.S. cross-border activity in Germany. In our main analysis, we first investigate the participation drivers of U.S. and local German VCs. We examine in which rounds U.S. investors are particularly active, what influences the degree of participation, differences to local German VCs, and what implications arise for the whole EU startup ecosystem. Then, we evaluate U.S. investors' focus on firm-specific characteristics such as location, client focus, business model and startup quality while investigating how these factors relate to valuations. Lastly, we analyze the types of U.S. VCs entering German financing rounds and the reasons behind their participation. We also examine how the characteristics of local German investors and U.S. investors influence each other's participation. Furthermore, we focus on investor characteristics such as reputation, EU investment focus, and fund size.

A major issue when investigating cross-border activity is that it is crucial to be able to determine the round shareholding of investors as the investors' share per round is the key dependent variable to examine in this context. The lack of this information is the reason why there are no papers that can properly quantify the influence on participation, but only those that differentiate between 'participated' and 'not participated' in the dependent variable like Chemmanur et al. (2016) and Colombo and Shafi (2016). Since round amounts are reliably published by startups, precise valuations, whose importance is emphasized by De Clercq et al. (2006), are needed to conclude the shareholder dilution. However, round shareholdings and coherent valuations are barely published by startups due to the strategic advantage of maintaining control over proprietary information (Kirilenko 2001; Admati and Pfleiderer 1994) and can therefore "*only be observed when a portfolio company goes public or is acquired*" (Espenlaub, Khurshed, and Mohamed 2014) – a limitation that we overcome.

Furthermore, valuations provided in private databases are often of low quality and may introduce sample selection biases in the estimation of risk and return metrics (Imbierowicz and Rauch 2024). The valuations are mostly scraped, entered by insiders, or in most cases estimated. Upon request, we confirmed that, in Dealroom, all post-money valuations without explicit information are estimated by multiplying the round amount by five. Of course, this leads to major inaccuracies since valuations fluctuate based on startup quality and other startup characteristics (Imbierowicz and Rauch 2024; Köhn 2018). Moreover, an increasing round amount multiple can be observed as the firm's stage increases because the average dilution per round declines, on average, in the seed to growth stages (Dowd 2024). When comparing our specially calculated valuations with those of Dealroom, we determine a deviation of 42%, 63%, 108%, and 44% for pre-seed, seed, series A, and growth rounds as shown in *Figure 1*. The subsequent effect on our empirical results is examined in more detail in our conclusion in *Chapter 7*.

According to current VC literature (S. Kaplan and Lerner 2016), the ability of new databases such as Dealroom to assist in academic research „*is still to be fully determined.*”

Building on the suitability of private databases for academic research on startup and investor-specific information in Germany (Retterath and Braun 2020), we incorporate this third-party data into our analysis. Additionally, we derive round-specific metrics such as valuations and investor round shares directly from the German commercial register, leveraging its reputation as a reliable source of primary data. As we want to investigate cross-border activity, it is important to be able to categorize investors' round participation geographically. This is another reason why we cannot exclusively rely on private databases as this information is simply not published.

Since, as mentioned earlier, U.S. cross-border activity in Germany is strong, and we can reliably collect our primary data, we focus on German startup financing rounds between 2018

and 2024 in our empirical study to then possibly draw conclusions about the entire European market. Consequently, our data sample consists of self-sourced information from the German commercial register as well as investor and startup-specific information from Dealroom. To then further explain and prove findings from the multivariate regressions carried out, we conclude our analysis with the discussion of expert interviews. The main purpose of the interviews is to avoid omitted variable bias, as our data set does not capture all important (firm) variables.

First, round-specific analysis shows that U.S. investors predominantly target late-stage investments, reflecting their greater capital availability and the scarcity of growth-stage funding in Europe. Conversely, German investors focus more on early-stage rounds due to limited funding capacity and lower competition from other institutional investors. Specifically, German investor participation drops by 18.41 percentage points in growth-stage rounds, while U.S. investors increase their share by 11.66 percentage points compared to their pre-seed average. Additionally, U.S. participation significantly raises the round amounts across all stages.

Second, startup-specific findings indicate that U.S. investors prioritize startup quality over other factors like location, client focus, or business models in German financing rounds. Their participation is strongly associated with higher valuations, with a 10 percentage point increase in their round share correlating with a 7.6 percentage point rise in pre-money valuation. This relationship is primarily driven by U.S. investors' larger round sizes, late-stage focus, and their willingness to invest in higher-quality startups.

Finally, investor-specific analysis highlights the importance of reputation, portfolio size, and local bias in share allocation and round appeal. High-reputation U.S. investors reduce German investors' shares by 12.59 percentage points while enhancing the round's attractiveness. Notably, higher reputation is correlated with larger portfolio sizes, further amplifying U.S. investors' contribution levels. U.S. investors with larger, geographically

diversified portfolios are especially valuable for later-stage startups, leveraging their syndication networks and expansion support to drive higher valuations. Portfolio size positively influences contribution levels, with a stronger effect for U.S. investors, where each unit increase raises their share by 0.35 percentage points. Reputation remains crucial for both U.S. and German investors, boosting the overall success of financing rounds.

Consequently, this study offers actionable insights for investors, founders, policymakers, and researchers. This study highlights several key implications for different stakeholders in the entrepreneurial ecosystem. For investors, it emphasizes the interplay between foreign and domestic capital, encouraging local players to reassess their strategies as foreign investors increasingly dominate growth-stage funding and prime deals. For founders, the findings offer insights into the preferences of high-reputation and international investors, helping them adjust strategies and build strategic networks, including connections through angel investors or U.S. VC scouts. Policymakers can leverage these insights to address funding gaps, reduce dependence on foreign capital, and foster global expansion opportunities for startups. Researchers benefit from contributions to valuation methodologies using trade registry data and from deeper understandings of cross-border investment dynamics, offering a foundation to complement our findings by, for example, investigating U.S. participation in other EU markets.

In the following, *Chapter 2* presents a comprehensive literature review of all relevant topics, *Chapter 3* introduces our hypotheses before outlining our methodology in *Chapter 4*, while *Chapters 5* and *6* discussing the qualitative results from our expert interviews and quantitative findings from our empirical study, respectively.

2. Literature Review

2.1 Cross-Border Venture Capital

The U.S. VC industry has experienced significant growth over the past decade, with total investment reaching unprecedented levels. In 2021, VC in the United States amounted to approximately \$345 bn, nearly doubling the previous year's figure (Statista 2024). The increased domestic competition among U.S. VCs combined with maturing markets, among other factors, has led to increased cross-border activities, particularly between the U.S. and Europe (Meuleman and Wright 2011; Schertler and Tykvova 2011; Aizenman and Kendall 2012; Vedula and Matusik 2017; Chemmanur, Hull, and Krishnan 2016; Guler and Guillen 2010). More specifically, cross-border VC investments rose from 10% of total VC investments in 1991 to 22% in the year of 2008, with the number of VC investments taken as the metric (Chemmanur, Hull, and Krishnan 2016).

However, most research focuses on the U.S. VC ecosystem, with limited attention to specific European markets. As Köhn (2018) confirmed, researchers focus mostly on the U.S. context for examining the determinants of startup valuations. This preference creates a significant research gap in understanding the dynamics of cross-border VC and valuations in specific European countries, particularly Germany.

Espenlaub, Khurshed, and Mohamed (2014) found that U.S.-European syndicates are larger than U.S.-only syndicates, involve younger VCs, and focus more on later financing stages. This suggests that cross-border partnerships may target more mature startups. This research paper specifically explores U.S.-German investment syndicates which has not been studied with particular focus yet. Furthermore, Bertoni and Groh (2014) highlight a key benefit of U.S. investors, noting that the probability of exiting via trade sale is positively correlated to the additional set of mergers and acquisitions (M&A) opportunities brought by cross-border investors. This indicates that U.S. VCs may provide valuable exit opportunities for European

startups, opening the question of whether German startups similarly benefit from cross-border VCs.

D. Cumming and Dai (2010) explore the impact of geographic proximity on VC investments in the U.S., emphasizing a strong local bias where VCs predominantly invest in nearby ventures, often within a few hundred miles. This preference for proximity is driven by the advantages of reduced information asymmetry and enhanced monitoring capacity, which are critical in high-risk investment environments. Studies identify Berlin and Munich as prominent startup hubs in Germany (Hellwig 2024; Liedtke, Asghari, and Spengler 2021). Supporting this, Berlin and Munich have the highest number of company registrations relative to the German working population (Kritikos 2016). Nevertheless, further research is required to evaluate whether startups' locations specifically correlate with the participation of U.S. investors and valuations in German financing rounds.

D. Cumming and Dai (2010) also find that reputable VCs and those with extensive networks are more likely to invest at a distance, mitigating local bias by leveraging superior information channels and due diligence capabilities. Furthermore, proximity is shown to influence investment success rates, with closer ventures more likely to achieve successful exits, such as IPOs ('Initial public offering') or acquisitions. In cross-border contexts, this local bias suggests that foreign VCs might be less inclined to lead rounds without local partners to reduce information gaps. Research confirms that VCs that engaged in cross-border investments are particularly sensitive to the costs of such interactions (Chen et al. 2010; Bernstein et al. 2016), highlighting the importance of syndicates with local investors and local presence in successful international VC engagements (J. Chen and Ewens 2021). However, there has not been much research on how U.S. investors mitigate information asymmetry in the German market.

The European Investment Fund described a historically less developed market relative to the U.S. and a more conservative investment culture in Europe as obstacles to Europe's

venture capital financing (Kraemer-Eis 2016). Research highlights that U.S. funds exhibit significantly higher investment liquidity compared to European, and specifically German funds (Guler 2007), noting that U.S. portfolios typically consist of larger funds capable of paying higher prices and affording more extensive investments. Hege, Palomino, and Schwienbacher (2008) conducted a comparative analysis of VC performance between U.S and European investors, concluding that U.S. funds benefit from superior liquidity overall, which is further agreed by (Brinette et al. 2024), who adds that the U.S. market generally provides easier access to capital compared to European VCs. Consequently, the underfunded European VC ecosystem may have become an attractive investment opportunity for U.S. investors.

2.2 VC Participation

From a high-level perspective, VC participation is influenced by economic conditions, market sentiment, and institutional factors, as noted by Jeng and Wells (2000), Schertler (2003), and Gompers and Lerner (1998) who investigated VC activity and investment behavior, among others, in European markets. Studies have shown that VC-backed firms tend to outperform non-VC-backed firms in growth and innovation. Brav and Gompers (1997) emphasize that VCs contribute expertise and resources beyond just capital impacting startup growth, while Kortum and Lerner (2000) found that VC investment increases innovation, especially through patents.

Empirical research on VC participation at the funding round level examines the impact of specific VC types. Hochberg et al. (2007) explore how better-networked VCs improve fund performance through successful exits like IPOs or acquisitions. Similarly, Tereza Tykvová and Uwe Walz (2007) analyze the roles of independent, international, German, corporate, and reputable VCs, while Chemmanur et al. (2013) focus on corporate VCs' (CVC) influence on innovation. Only very little literature researches the effect on the participation of specific investor types, such as Chemmanur et al. (2016) investigating the impact on the participation of international and local VCs and Colombo and Shafi (2016) on the participation of CVCs.

2.3 Founder's Decisions during Fundraising

2.3.1 Value Added Beyond Venture Capital

Founders often base their decisions on which VCs to partner with on the value-added services these investors can provide beyond capital. The VC literature emphasizes that VCs contribute more than just capital to startups. Chemmanur and Chen (2006) argue that VCs provide additional services that can significantly boost a company's success probability.

VC firms with experienced partners enhance startup success through active involvement in hiring, fundraising, and strategy (Bottazzi, Da Rin, and Hellmann 2008). Further research shows that VC firms help startups professionalize through HR practices, stock options, and strategic hiring (Hellmann and Puri 2002). However, these findings, based on U.S. data, may now be outdated, resulting in a need to research reasons founders decide for specific VCs.

Furthermore, VCs enhance the efficiency of private firms through both screening and monitoring, driving higher total factor productivity (TFP) relative to non-VC-backed firms. High-reputation VCs excel in monitoring, significantly boosting post-financing TFP by improving sales and containing production costs. These efficiency gains increase the likelihood of successful exits, such as IPOs or acquisitions (Chemmanur, Krishnan, and Nandy 2011).

2.3.2 Valuations and Deal Terms

The literature on startup valuation explores various performance metrics that act as proxies for estimating a startup's value in the absence of (precise) valuations. Key proxies include venture survival, which indicates stability (Dan and Johnson 2019); growth in revenue and employee count, signaling scalability and future cash flows (Eggers and Song 2015; Eesley and Roberts 2012); equity valuation, reflecting investor confidence (Wasserman, 2017); going public, which provides liquidity and market validation (P. Gompers et al. 2010); and return on invested capital ('ROIC'), showcasing efficiency in generating returns (Kerr, Lerner, and Schoar 2014).

Assigning a valuation to a startup in the VC context is “*remarkably challenging*” because startup investments are characterized by high risk, high cash burn rates, and asymmetric information, as Köhn (2018) states. Extending this argument, Inderst and Müller (2004) caution that the post-money valuation is a poor indicator of net present value (NPV) and may instead reflect relative bargaining powers. This highlights the potential disconnect between a startup's valuation and its intrinsic value (Gornall and Strebulaev 2020). Gornall and Strebulaev's (2020) study of U.S. unicorns revealed that reported unicorn post-money valuations average 48% above fair value, with 14 startups being more than 100% above. This finding underscores potential overvaluation issues in high-profile deals and raises questions about the accuracy of valuations in the VC market more broadly.

Comparing the U.S. and Germany, research from Berger and Köhn (2018) indicates that start-up valuations in the U.S. are significantly higher than in Germany, with median post-money valuations of \$10 million and \$5.3 million, respectively. The U.S. appears to benefit from a common law system, which is associated with stronger investor protections, and a cultural inclination toward lower uncertainty avoidance, potentially fostering a more favorable environment for VC investments. This research covers 1,251 start-ups across 13 countries and spans the period from 2009 to 2016, focusing on only four selected industries (Berger and Köhn 2018). However, there is a clear lack of sector-agnostic research investigating cross-border VC investments and their deal terms and dynamics.

VC investments are typically structured in distinct funding stages, each governed by specific contractual arrangements that outline the schedule of capital infusions, the company's valuation, and the allocation of control rights among stakeholders (S. N. Kaplan and Strömberg 2000). Köhn (2018) proposes an integrative framework for understanding startup valuations in the VC context, suggesting that valuations are determined by a three-sided interplay of factors. These factors encompass startup-related determinants, such as intellectual property and patent

scope (Lerner 1994; Block et al. 2014; Moghaddam, Bosse, and Provance 2016), VC-related factors including investor reputation and type (Cumming and Dai 2010; Heughebaert and Manigart 2010b), and external environment influences like VC fund inflows and institutional settings (P. Gompers and Lerner 2000; D. J. Cumming and Walz 2004).

Furthermore, Gompers et al. 2010) demonstrate that the pre-money valuation of a company is influenced by a wide array of factors, which can be broadly classified into those that are imperfectly observable and those that are unobservable. Imperfectly observable factors in their research include the stage of product development, the age of the company, its industry, geographic location, public market valuation levels, the entrepreneur's quality, and the quality of the venture capital firm. On the other hand, unobservable factors in their work, such as the company's financial metrics, including sales and assets, are also highlighted as critical determinants. However, there is less consensus on the relative importance of these factors mentioned above and how they vary across different markets, indicating a need for research.

Regarding the entrepreneur's quality, team composition and the background of serial founders play a pivotal role in shaping perceptions of startup quality. VCs actively evaluate founder and team characteristics to assess a startup's potential, as these attributes offer critical insights into quality and risk (Macmillan, Siegel, and Narasimha 1985). Factors such as having multiple founders, a complete management team, and previous experience in startups, management, and the relevant industry contribute to higher valuations (Hsu 2007; Miloud, Aspelund, and Cabrol 2012; Sievers, Mokwa, and Keienburg 2013; Wasserman 2017). Serial founders with a track record of high financial returns in previous ventures attract higher valuations, reflecting their perceived entrepreneurial skill and capacity to deliver strong outcomes (Hsu 2007; Wasserman 2017). However, this relationship is not absolute, (P. Gompers et al. 2010) find no consistent premium in valuations for successful serial entrepreneurs, suggesting that experience alone may not guarantee investor confidence.

2.3.3 Reputation of VCs

VC reputation has been defined and measured in various ways in academic literature. Nahata (2008) proposes a measure based on the cumulative market capitalization of IPOs backed by the VC firm, capturing the total value created through successful exits. Gompers (1996) defines VC reputation in terms of the firm's share of the IPO market, reflecting its ability to bring portfolio companies to public markets. Kaplan and Schoar (2005) use fund size and age as proxies for VC reputation, suggesting that larger and more established firms have built stronger reputations over time. Hochberg, Ljungqvist, and Lu (2007) take a performance-based approach, measuring reputation based on a VC's past investment outcomes.

The reputation of VC firms plays a complex role in investment dynamics. Regarding outcomes, Tykvova and Walz (2007) observed that firms backed by independent, foreign, and reputable VCs perform better than those backed by other VCs or non-venture-backed ones concerning post-IPO performance. Moreover, Nahata (2008) demonstrates that startups backed by VC firms with higher reputations, as measured by their cumulative IPO market capitalization, tend to achieve more successful exits, go public more quickly, and have greater asset productivity at the time of their IPOs. This finding suggests that partnering with reputable VCs can lead to long-term benefits beyond the initial investment stages. There is also research indicating that investor reputation positively impacts fund size (P. Gompers and Lerner 1998).

There is general agreement that VC reputation impacts deal flow, terms, and startup outcomes, however, contradictions emerge regarding how reputation affects valuations and competition. Within-firm analysis conducted by Hsu (2004) found that offers made by VCs with a high reputation are three times more likely to be accepted, and high-reputation VCs acquire startup equity at a 10–14% discount. This suggests that reputable VCs have leverage in negotiations, but it does not address whether this discount is achievable in cross-border contexts, where local market unfamiliarity or competition might reduce their bargaining power.

However, Khanna and Mathews (2022) argue that established VCs face two impediments: first, less established VCs compete aggressively for new startups to build their reputations; second, startups also value reliability in their VCs, which imposes a higher cost on established VCs due to their better outside options. However, the impact of VC reputation on deal terms and pre-money valuation as well as the participation of foreign investors in domestic rounds has yet to be examined for the German market.

Nanda and Rhodes-Kropf (2018) add another layer of complexity by finding that entrepreneurs are not always eager to accept investments from highly established VCs because less established VCs often offer better terms or demonstrate a greater willingness to support startups through subsequent funding rounds. They argue that larger and reputable funds are less incentivized to support startup post-round as the investment represents a smaller percentage of their portfolio size compared to a smaller fund. Another phenomenon discussed in research is that it is reputationally costly for existing investors to not take part in follow-on investment rounds (Guler 2007). Other researchers argue that only reputable VCs can afford to avoid these often overpriced investments (Lerner 1994).

Additionally, Nahata (2008) suggests that reputable VC firms, due to their experience, are less likely to invest during periods of heightened competition, as they anticipate inflated valuations from multiple VCs vying for the same deals. In this context, our research provides detailed insights into how market sentiment shapes U.S. VCs' cross-border investments.

This discrepancy between the potential positive or negative impact of VC reputation on startup valuation highlights the need for further research to clarify the relationship between VC reputation and deal terms in cross-border investments. There is a clear need for more research specifically focused on cross-border VC activity in Germany. This study can contribute by examining the factors driving U.S. VC investments in German startups across different stages

and sectors. Finally, analyzing how investor reputation impacts deal terms in the German context could help resolve some of the contradictions in the existing literature.

3. Hypotheses

To address research gaps identified in the academic literature, we developed hypotheses using multivariate regression models as detailed in the *Chapter 4*. Following the literature review and the prepared dataset, we structured the hypotheses into three distinctive areas, namely, financing-round-specific hypotheses, startup-specific hypotheses, and investor-specific hypotheses.

Firstly, financing-round-specific hypotheses were developed to investigate the participation drivers of U.S. and local German VCs. More specifically, we examine in which rounds U.S. investors are particularly active, what influences the degree of participation, differences to local German VCs, and what implications arise for the whole EU startup ecosystem. Secondly, regarding startup-specific hypotheses, we evaluate U.S. investors' focus on firm characteristics such as startup quality, business model, and location while investigating how these factors relate to valuations. Thirdly, in the investor-specific hypotheses, we examine what type of U.S. VCs are for what reasons found in German financing rounds and how the characteristics of the local German and U.S. investors influence each other's participation. We also examine investor characteristics such as reputation, EU investment focus, and fund size.

Table 1: *Hypotheses Definition*

Round-specific Variables
H1: U.S. and German investors exhibit similar investment patterns in German financing rounds.
H1.1: For cross-border investments, U.S. investors prefer to invest in later stages rather than early rounds.
H1.2: Local German investors prefer to invest in the early stage rather than in later rounds.
H1.3: German investors are more likely to be squeezed out of financing rounds by other foreign investors than U.S. investors.
H2: Among potential other reasons, the participation of U.S. investors leads to larger round amounts across all stages in Germany.

H2.1: U.S. investors tend even more to invest in larger rounds across all stages if the round is led by a U.S. investor.

Startup-specific Variables

H3: Pre-money valuations of German financing rounds increase if the firm is officially located in a recognized entrepreneurial hub (Berlin or Munich).

H4: Startups with a B2B business model are more likely to attract higher pre-money valuations compared to those with a B2C or hybrid (B2B and B2C) business model.

H5: Startups with a ‘Manufacturing’ business model attract higher U.S. investor contributions compared to startups with ‘SaaS’ or ‘Marketplace & E-Commerce’ business models.

H6: Startup quality has a significant, positive influence on the pre-money valuations of German financing rounds.

Investor-specific Variables

H7: The participation of U.S. VCs in German financing rounds is influenced by the overall focus on European investments of present investors within the round.

H7.1: U.S. investors with an established presence in Europe are more likely to secure a large share in German financing rounds, highlighting their growing influence.

H7.2: A stronger focus by German investors on Europe limits U.S. investors' ability to secure a substantial share in German financing rounds, reflecting competitive dynamics and local bias that favor domestic capital.

H8: Reputation plays a key role in the share allocation within German financing rounds for both U.S. and German investors, with stronger reputations leading to higher participation,

H8.1: A stronger reputation of U.S. investors increases their share in German financing rounds, with higher reputation levels having a greater influence, potentially reducing the share of German investors.

H8.2: A stronger reputation of German investors positively influences their share in German financing rounds, but U.S. investor reputation has a greater impact on German share allocation.

H9: Larger portfolio sizes positively influence U.S. investors' participation in German financing rounds, reflecting their larger portfolios, while limiting the influence of German investors.

4. Methodology

4.1 Research Design

This paper uses primarily a quantitative empirical approach to explore factors influencing U.S. VC funds to participate in German startup rounds. By analyzing a dataset of investment rounds in German startups over the past seven years, funded by either German or U.S.-based VCs, this paper aims to identify statistically significant relationships through

multivariate regressions as well as a segmental analysis using Python. To complement the quantitative insights, a brief qualitative component through expert interviews with reputable VCs is added for further industry insights, especially for intangible variables in the VC landscape, which cannot be captured in our dataset, and to potentially help in explaining the causes behind correlations. This mixed-method approach is relevant because while the quantitative analysis provides a broad, data-backed understanding of relationships, the qualitative insights can offer deeper context, addressing gaps in the data or explaining nuanced and intangible behaviors within the VC ecosystem. Together, these methods provide a comprehensive view, combining the robustness of empirical analysis with the richness of industry expert insights.

4.2 Quantitative Approach

The quantitative approach in this study is designed to empirically assess the factors influencing investment rounds in Germany with the participation of German or U.S.-based investors. This approach is grounded in multivariate regression, including secondary and primary data.

4.2.1 Data Overview

This section overviews the data collection and cleaning process. The data used in this study is based on two sources. The first is Dealroom (secondary data), a comprehensive global database specializing in the broader innovation ecosystem. This database provides detailed information on German startup financing rounds, including investor and startup profiles, as well as funding amounts and investor names. The second source is the German commercial register ('Handelsregister'), which offers primary data on the legal and financial details of companies in Germany. Using shareholder agreements and lists, more detailed and missing information about a round could be sourced and calculated. The two datasets are combined to enhance the reliability and depth of the analysis.

4.2.1.1 Secondary Data Collection

The secondary dataset serves as the basis of the dataset, the primary data aims at filling identified research gaps and extending information to cover inaccurate, incorrect, and missing information.

The baseline dataset covers investment rounds in Germany run by Germany or U.S.-based investors in the past seven years and is complemented by investor-specific datasets. Specifically, these include a set of the global top 3,000 investors, the 50% top-ranked European and U.S. VCs top 50% investors, and a dataset of all investors based on the Dealroom reputation ranking approach. The dataset was then structured such that each row represents one investment round, containing specifics on the underlying startup, present U.S. and German-based investors in the round, as well as on the round.

We compromised and filtered the dataset according to the defined scope in the course of this paper. Specifically, this means only investment rounds of startups, that are based (meaning having its headquarters ‘HQ’) in Germany, and only investors, that are based in Germany or the U.S. and are focused on VC investments. This geographical focus is important since we aim to understand what drives U.S. investors to participate in German financing rounds but also to compare U.S. VC characteristics correlations in rounds and German VC characteristics.

The investment rounds cover a period of seven years (2018 to 2024). From 2020 to 2022, the overall financial markets and the VC market were very volatile. While 2020 saw declining valuations due to COVID-19, 2021 experienced an unprecedented VC boom, followed by a market downturn in 2022 (Taylor 2024). As researchers argue that cross-border activity is cyclical (P. Gompers et al. 2008; Nahata 2008) and that deal terms vary a lot in good compared to bad times (P. Gompers and Lerner 2000), we decided that the period 2020 to 2022 should be in the middle of the period under investigation. We, therefore, extended this period

by two years forward and two years backward, analyzing equivalent periods, such as, for example, Startup Insider (2024).

Economic and market data was collected to account for the market influence on investment decisions by U.S. investors. Variables such as Gross Domestic Product (‘GDP’) growth per country and VC fundraising volumes were collected via the World Bank and Bloomberg. An overview of incorporated variables is given in the following chapter. After merging the datasets and adjusting it to the scope, the dataset consists of 475 investment rounds, across 316 startups.

The complementation with the primary data included assumptions and calculations as described in the following chapter.

4.2.1.2 Primary Data Collection

We relied on the startups’ shareholder lists and shareholder agreements for the needed information, which were accessible from the German commercial register. According to § 53 GmbHG in German law, a capital increase or any other change of ownership is a legal transaction that must be officially notarized. The initial shareholder list, relevant in our case, typically records 25,000 shares with a nominal value of €1 each before any investor involvement (*Figure 2*). Even if the layout and content of the shareholder list and agreements vary from startup to startup, it is always explicitly indicated which investor has received how many shares after the capital increase, the serial numbers of these shares, and what their post-money share look like (*Figure 3*). Consequently, it can be derived how many shares were issued in a new financing round. For existing investors, it is also indicated which shares were newly acquired and which were already previously owned. The shareholder agreements are particularly important as they divide the share capital into different share classes. Usually, new investors require a superior share class than all existing investors.

To obtain precise company valuation and ownership data for our empirical analysis, we proceeded as follows for each startup. The round amount of a financing round was indicated by Dealroom and converted into euros respectively (*Figure 4*). In contrast to the valuations published in Dealroom, these figures are accurate as they were published by startups, investors, or startup newspapers and subsequently scraped by Dealroom. The key data point is the number of newly issued ('#new') and previously existing ('#old') shares, which is used to determine the pre-money valuation ('pre-money') as follows (P. Gompers et al. 2010):

$$(1) \text{ pre-money} = \left(\frac{\#new}{(\#old + \#new)} * \text{round amount} \right) - \text{round amount}$$

The pre-money valuation is then used in our analysis to be independent of the estimated valuations from Dealroom.

Moreover, we collect investor-specific data such as the individual investors' shares bought per round and their subsequent post-money shares. With this, we are able to estimate the ticket size of each individual investor ('indiv. investor'):

$$\text{indiv. investor's ticket size} = \text{indiv. investor's round share} * \text{round amount}$$

Additionally, investors can be classified based on their contributions to each round. The 'lead' investor is identified as the one with the largest share of the round, while 'co-lead' investors are those who share the largest round share with one or more other investors. All remaining investors are classified as 'followers'.

Edge Cases

One limitation to this valuation approach is the difficulty in exactly matching which newly issued shares are attributable to which recently announced capital increase. This problem arises mainly due to the presence of authorized capital, convertible loan agreements, secondaries, unintuitively structured cap tables, shares issued to employees or founders, and large time deviations between legal capital increases and the corresponding public financing round announcements. In general, we always compare the names of the investors, and the date

of the publicly announced funding round obtained from Dealroom with the data extracted from the German commercial register. In the event of a discrepancy, the notarized date must generally be further in the past than the announced day as founders sometimes delay the public announcement but mostly await the legal signing. We have explicitly explained all these limitations based on screenshots from exemplary shareholder lists and agreements in *Table A1*.

For instance, with authorized capital, startups may raise additional funds within a predetermined period after the last equity round, recognizable by provisions in prior shareholder agreements and subsequent shareholder lists shortly after the main financing round. We included shares from authorized capital only if the investors were listed in Dealroom (*Figure 5*) or if the issuance occurred after the subsequent approvals, not between them and the previous round's legal signing.

Furthermore, in some (mainly early-stage) investment rounds, we encountered convertible loan agreements ('CLAs'). Dealroom typically lists these as separate rounds, as they often precede the actual financing round, and must therefore be considered separately from the subsequent equity round which triggers the conversion of CLAs. In this case, we have deducted the shares created during the conversion of previously issued CLAs from the total number of new shares. By doing this, we divided the total number of newly issued shares following an equity round into two or more separate financing rounds – always as indicated in Dealroom because we want to complement round-specific data from Dealroom using insights gained from the German commercial register, meaning that Dealroom is the 'source of truth' regarding the division and distinction of a company's financing rounds. This is possible because the CLA shares usually have different share classes compared to the remaining shares created during the same financing round. These share classes are listed in the shareholder agreement (*Figure 5*). In addition, new investors are added to the capitalization table chronologically, and the investors' serial share numbers are assigned on a per-round basis and not per investor across

rounds (see *Figure 6*). Thus, a VC, which invests first via CLA and later in an equity round, will in most cases receive two separate batches of shares and not one coherent one.

Furthermore, secondaries occur in our data set primarily in series A or later rounds. In secondaries, funds buy existing shares from founders or early-stage investors. Thus, no new capital flows into the company, but to existing shareholders only. As the total share capital is not increased in this case, secondaries do not distort our results. Yet, the consideration of these shares is crucial when looking at individual investors' contributions, and post-money shares to not include secondaries in all calculation steps. Luckily, secondaries are easily recognizable, since they always occur when an investor buys shares with serial share numbers that already existed before the round (see *Figure 6*) which also often leads to a change in the share class.

Limitations

Of course, there are exceptions as not all startups and notaries follow a structured, round-based approach when drafting the shareholder lists. Unintuitively structured cap tables are therefore the reason why a classification could be difficult in some cases. Shares issued to employees or founders present a further difficulty, even if this case does not occur too frequently. For reasons of simplification, we have not deducted these founder or employee shares from the calculation of the company valuation, as we assume that they are priced in by VCs. Consequently, all newly issued shares are attributed to the investors.

Lastly, large time deviations between official capital increases and the corresponding financing round announcements can lead to certain discrepancies (see *Figure 7*). Nevertheless, we included these rounds in our final data set if we could reasonably understand the change in share capital and if the information from the information German commercial register and Dealroom matched.

In most cases, the edge cases and limitations already mentioned did not mean that we could not reverse engineer the individual financing rounds. Nevertheless, in a few cases, this

was the case when we were unable to attribute the capital increases listed in the Commercial Register to an announced financing round stated in Dealroom. However, not considered financing rounds were mainly excluded due to the lack of access to ownership information. This is the case when a startup is owned by a foreign holding, or if the company is not a limited liability company ('GmbH') but a partnership. Certainly, the exclusion of some financing rounds only decreases the quantity of our data and not the quality.

4.2.1.3 Data Preparation

Finally, we conducted the cleaning phase to finalize and format the selected variables, making the dataset fully prepared for the upcoming regression analysis, including defined, transformed, encoded, and scaled Variables necessary for the analysis as outlined in this chapter.

To ensure data quality, we focused on missing and zero values. Data points with missing values crucial for analysis were excluded if they constituted less than 1% of the dataset. Furthermore, approximately 25% of the rows lacked data on the size of the round ('*round_amount*'). After cross-checking arbitrary startup rounds with missing round size information, it appears highly unlikely that this information can be located publicly available and outside of Dealroom, as these rows represent undisclosed rounds. Since these details are crucial for later analyses, they were dropped consequently.

In summary, the dataset consists of 475 unique startup financing rounds, across 316 startups and captures variables of three different clusters: startup-specifics (such as its industry or business model), investor-specifics (such as its portfolio size or reputation), as well as round-specifics (such as round amount or valuation). *Table A2* describes the chosen variables in the final dataset, including their definitions, sources, and variable clusters. These variables are used within several Ordinary Least Squares ('OLS') regressions as explained further later.

Each Variable was prepared accordingly and transformed into the required format for the regression analysis and preserved in its non-scaled state for descriptive statistics. The specific transformations, encoding, and scaling steps are explained below.

In order to capture the differences between U.S. and German investors, the investor-specific variables were transformed into columns, distinguishing between U.S. and German characteristics using weighted averages. This means for instance that the variable ‘*reputation_us*’ is calculated based on the weighted average of all investors’ shares with U.S. HQs, investor reputations within a round.

Regression equations

This thesis examines associations between variables rather than causal relationships. While causal inference methods were considered, the scope of this study is exploratory and focuses on uncovering patterns within the data. For this, we conducted seven OLS regression models. The dependent, independent variables of interest and control variables used in each regression are described in detail in *Table A2*, further calculation and reforming steps are outlined below.

Model (A)

The following equation (2) simplifies the OLS regression for model (A), which regresses the same set of independent variables on the total U.S. share within a financing round (A1), as well as the total German share (A2) respectively.

$$(2) \text{ Share}_i = \beta_0 + \left[\sum_{j=1}^8 \beta_j \cdot \begin{bmatrix} i_reputation^* \\ \ln(i_size)^* \\ i_EU_focus^* \end{bmatrix} \right] + \left[\sum_{k=1}^4 \beta_k \cdot \begin{bmatrix} Stage^{**} \\ foreign_inv \end{bmatrix} \right] + \left[\sum_{l=1}^2 \beta_l \cdot \begin{bmatrix} hub \\ quality \end{bmatrix} \right] + \left[\sum_{m=1}^7 \beta_m \cdot Industry^{***} \right] + \left[\sum_{n=1}^6 \beta_n \cdot Year^{***} \right] + \varepsilon_i$$

*variables that capture investor differences by HQ and for reputation additionally the levels (e.g., *reputation_low_us*, *size_us*); **variables with multiple categories (stage); ***fixed effects (industry and year dummy's)

Model (B)

The following equation (3) simplifies the OLS regression for model (B), which regresses the same set of independent variables on the total contribution size within a financing round (B1), as well as the total contribution size of U.S. only (B2), and Germany only (B3) respectively.

$$(3) \quad \ln(\text{Contribution Size}_i) = \beta_0 + \left[\sum_{j=1}^8 \beta_j \cdot \begin{bmatrix} i_reputation^* \\ \ln(i_size)^* \\ i_EU_focus^* \end{bmatrix} \right] + \left[\sum_{k=1}^3 \beta_k \cdot \begin{bmatrix} Leadcountry^* \\ foreign_inv \end{bmatrix} \right] + \left[\sum_{l=1}^3 \beta_l \cdot \begin{bmatrix} hub \\ quality \\ businessmodel^{**} \end{bmatrix} \right] + \left[\sum_{m=1}^7 \beta_m \cdot \text{Industry}^{***} \right] + \left[\sum_{n=1}^6 \beta_n \cdot \text{Year}^{***} \right] + \left[\sum_{p=1}^3 \beta_p \cdot \text{Stage}^{***} \right] + \varepsilon_i$$

*variables that capture investor differences by HQ and for reputation additionally the levels (e.g., reputation_low_us, size_us); **variables with multiple categories (businessmodel); ***fixed effects (industry and year dummy's) and other control variables

Model (C)

The following equation (4) simplifies the OLS regression for model (C), which regresses the same set of independent variables on the self-calculated Pre-money Valuation (C1), and the Dealroom Valuation (C2) respectively.

$$(4) \quad \ln(\text{Valuation}_i) = \beta_0 + \left[\sum_{j=1}^8 \beta_j \cdot \begin{bmatrix} i_reputation^* \\ i_size^* \\ i_EU_focus^* \end{bmatrix} \right] + \left[\sum_{k=1}^6 \beta_k \cdot \begin{bmatrix} foreign_inv \\ share^* \\ stage^{**} \end{bmatrix} \right] + \left[\sum_{l=1}^4 \beta_l \cdot \begin{bmatrix} hub \\ quality \\ clientfocus^{**} \end{bmatrix} \right] + \left[\sum_{m=1}^7 \beta_m \cdot \text{Industry}^{***} \right] + \left[\sum_{n=1}^6 \beta_n \cdot \text{Year}^{***} \right] + \varepsilon_i$$

*variables that capture investor differences by HQ and for reputation additionally the levels (e.g., reputation_low_us, share_us); **variables with multiple categories (stage, client focus); ***fixed effects

Control variables

In all regression models, we control for time-fixed effects using the year of the round (dummy variables) to capture any time-varying unobservable effects within the regression, such as market developments and or industry shocks, as exhibited in several studies (Cao, Liu, and Wu 2023; Cappellari and Gucciardi 2023). Prior research links public markets to private investments (P. Gompers and Lerner 1999). Stock indices such as S&P 500, MDAX, and MSCI World, along with yearly market condition variables—real GDP growth, VC fundraising volume year-over-year growth, and the geopolitical risk index—were included as growth variables and standardized into a PCA to address multicollinearity issues. However, strong multicollinearity between the year of round and the market PCA, as calculated with the variance inflation factor ('VIF'), led us to exclude the market PCA, since the year of round will capture these effects and beyond. Encompassing all independent variables within the regression models, we calculated the respective VIF value and eliminated values greater than 10, as suggested by Du, Wang, and Li (2024).

Furthermore, we control for the industry-fixed effects across all regression models using the variable 'startup_industry' as dummy variables, as suggested by (Jin et al. 2020). Similarly, we include stage-fixed effects in models (B) and (C) using funding round stages from

shareholder agreements as dummy variables. Controlling for stage-fixed effects is crucial for models with absolute values, such as pre-money valuation and total contribution size, since later-stage rounds typically involve higher amounts (as dummy variables: pre-seed, seed, series A, and growth).

Startup-specific variables of interest

Following *Hypothesis 3*, the influence of the startup's headquarters city on the U.S. participation as well as on the pre-money valuation is analyzed. To further confirm, whether startups' locations within Germany are of interest (Hellwig 2024; Liedtke, Asghari, and Spengler 2021; Kritikos 2016) for especially U.S. investors, the variable 'startup_hub' is integrated into all regression models as a binary variable (1 for Munich or Berlin, 0 for all else).

To evaluate, which explicit startup characteristics are of interest to U.S. investors in German financing rounds, we included the business model of the startup in some cases as a dummy variable in all regression models and in regression (B) as independent variables ('SaaS' as base case). We also examine client focus respectively ('b2b' and 'b2c' as base case).

To measure startup quality, we created a quality index, which research has shown to be a key factor influencing U.S. investors in German financing rounds. Due to the higher number of variables in our model, there were some variables such as 'round_amount' or 'stage', which would have liked to include in the index for calculations but had to exclude to not create multicollinearity. The startup quality index was constructed using two equally weighted components: 'time-to-funding' and 'serial entrepreneurs'. 'Time-to-funding' was calculated as the difference between the funding year and the founding year of a startup. To normalize this metric, the median time-to-funding was computed for each funding stage and business model, and individual values were assessed based on their standard deviations from this median. These deviations were then scaled to a range of 0 to 1, with 1 representing the fastest time-to-funding.

This metric was derived from Armstrong, Davila, and Foster (2006) who find a longer time-to-exit is generally associated with lower VC returns and vice versa.

The second component, 'serial entrepreneurs', was a binary variable assigned a value of 1 if all founders of a startup were serial entrepreneurs and 0 if none were. Both components were weighted equally (50:50) for each funding round, resulting in a composite startup quality index score.

Investor-specific variables of interest

All investor-specific variables are divided based on their HQ locations in the round-level set as described before to capture differences in U.S. and German investor characteristics. Namely, we included investors' portfolio size, which is measured in millions, and log-transformed ($\ln$) in the regression models to account for highly skewed data distributions as proposed by Du, Wang, and Li (2024).

We included the variable '*investors_portfolio_prop_europe*' to analyze the prevalence of local bias among VCs, indicating an influence of geographical proximity on their investment decision. Measured in percent (0 to 1 scale) and normalized around their means after being divided into HQ locations. This reflects the different meanings between U.S. and German investors - for U.S. investors a higher proportion means a larger diversification and appeal to cross-border activities in Europe, while a higher proportion for German investors indicates a local focus – and to account for their difference in magnitudes.

Further, to account for the reputation of an investor, we relied on the Dealroom ranking which was created in partnership with HSBC Innovation Banking a global data-driven ranking of venture capital investors based on their success in identifying and supporting startups that become unicorns ($> \$ 1$ bn) or future unicorns ($\$ 250$ m – $\$ 1$ bn), including the time of support as well as general activity levels. This rank was binned based on its percentiles to stabilize

skewness, handle outliers, and enhance interpretability. We incorporated them as dummy variables for ‘low’, ‘moderate’, and ‘tier’ reputation, and ‘_us’, ‘_germany’ respectively.

Round-specific Variables of Interest

To account for the lead investor's origin, the variable ‘Lead_country’ is incorporated in the regression models, if applicable (some are excluded), as a dummy variable indicated for the U.S., Germany, and Other.

We account for the presence (1) or absence (0) of an investor from another country than the U.S. and Germany in a given round with the dummy variable ‘foreign_investor_involved’. The pre-money valuation is calculated as described in *Chapter 4.2.1.2* and log-transformed in all regressions to handle the skewness of the data as exhibited in research (Cavallo et al. 2022).

Final Data Preparation

For all categorical variables, that were transformed into dummy variables in the regression model, we excluded the first one which will serve as the base case to avoid perfect multicollinearity and the ‘dummy variable trap’. In the final dataset, missing values were matched across all datasets, and the remaining entries were completed manually, such as a startup’s client focus, or an investor’s portfolio size.

To assess multicollinearity among the independent variables, we conducted a correlation analysis and calculated the VIF for each variable. These steps helped us to determine which variables needed scaling or even exclusion due to strong underlying multicollinearity (Du, Wang, and Li 2024).

Thus, to minimize omitted variable bias, we included a comprehensive set of control variables, e.g. investment stage, we account for fixed effects over years as well as fixed effects across industries. Also, we exchanged variables used in the models as seen in the appendix. Again, this thesis examines associations between variables rather than causal relationships. While causal inference methods were considered, the scope of this study is exploratory and

focuses on uncovering patterns within the data. Reverse causality cannot be ruled out in some of the observed relationships.

However, given the exploratory nature of this study, further research using causal inference methods is suggested to address this limitation. While we acknowledge that reverse causality could be a concern, our approach is exploratory and aims to identify robust patterns.

4.2.2 Data Analysis Methodology

To create an overview of influencing factors in U.S. participation in German financing rounds, and to compare them to German investors, we conducted in total seven regression models across three varying clusters of independent variables. These tests aim to evaluate the hypotheses outlined in *Chapter 3*, exploring which startups attract U.S. investors, which round structures encourage U.S. participation, and how U.S. investors shape German funding rounds. They also identify key variables distinguishing U.S. and German funds in both relative and absolute funding dynamics.

Model (A) analyzes the level of involvement of the total U.S. share within a round (A1), and German share respectively (A2). Model (B) analyzes the size of the contribution as a dependent factor – total size by German and U.S. investors within a round (B1), exclusively U.S. contribution (B2), and German contribution size (B3). Nonetheless, we regressed on the pre-money valuation that we calculated (C1) and for comparison on the pre-money valuation as indicated by Dealroom (C2), to understand how the same factors might affect startup valuations.

4.3 Qualitative Approach

This study employs a qualitative research approach using semi-structured expert interviews to complement the quantitative findings of this research. This qualitative approach complements the quantitative analysis by providing contextual insights that enhance our understanding of statistical correlations, offering a deeper exploration of the ‘why’ behind

observed relationships. By explaining the underlying mechanisms and nuances that quantitative data alone may not capture, expert interviews strengthen causal inferences, allowing this research paper to draw more robust and meaningful conclusions from its statistical analyses (Glynn and Ichino 2015; Gerring 2017).

The semi-structured interview method was chosen for its flexibility in exploring complex topics while maintaining a consistent structure across multiple interviews. The sampling strategy utilized was purposive, aiming to select participants with significant experience in cross-border investments, particularly those involved in U.S.-German deals. The final sample consisted of one Danish and five German VC Principals and Partners, representing a diverse range of senior perspectives within the constraints of the study's timeframe (*Table 2*).

Table 2: Overview of expert interviewees

Role of expert	Vertical, stage and geographical focus	AUM*	# of interview
General partner (GP)	B2B SaaS, Growth, Germany	750	1
Principal	B2B SaaS, Early-Stage, Germany	30	2
Partner (non-GP)	B2B SaaS, Early-Stage, Germany	800	3
Principal	B2B SaaS, Growth, Germany	800	4
Principal	B2B SaaS, Early-Stage, Germany	1,200	5
Principal	B2B SaaS, Early-Stage, Denmark	100	6

*Assets under Management in € million

Data collection took place over three weeks in November and December 2024. Each interview lasted approximately 20-35 minutes and was conducted via video conferencing software. The interview guide was developed based on the research objectives, literature review, and quantitative findings, covering topics such as background information on the VC firm and interviewee, perceptions of U.S. investor involvement in German funding rounds, approaches to startup valuations and factors influencing them, and the impact of investor reputation on valuations and deal-making (see *Figure 8*). Open-ended questions were included to capture additional insights. The interview guide combined both deductive and inductive

building approaches, with questions derived from the research questions and literature review (deductive), while remaining open to new themes emerging from the data (inductive).

All interviews were audio-recorded with participants' consent and subsequently transcribed for analysis with the tool Fireflies.ai and finalized manually. Due to corporate privacy requirements, all interviews were anonymized.

The data analysis process partly employed thematic analysis, following the approach outlined by Braun and Clarke (2006). Our process involves the following steps: familiarization with expert interviews, initial clustering, searching for themes, reviewing themes and arguments, and producing the expert interview results section. We deliberately chose not to define or name themes across all interviews, as suggested by Braun and Clarke (2006) and Mayring (2015), to maintain focus on the paper's primarily quantitative scope, which would have been exceeded by a comprehensive qualitative analysis.

The limitations of this study include the small sample size of six interviews, which, while appropriate for an exploratory study, limits the generalizability of the findings. Theoretical saturation is most likely almost completely reached, meaning few novel categories emerged, and the same categories continually emerged (Breckenridge and Jones 2009). Additionally, the time constraints may have prevented a more comprehensive exploration of some topics. These limitations are acknowledged and considered in the interpretation of results.

4.4 Limitations

When handling the data for this research, certain limitations emerged which may affect the interpretation and accuracy of the results. Real-world data in private markets often include undisclosed information, such as pricing or fund returns, as well as qualitative intangible factors such as why a fund is chosen ultimately, deal competition and negotiation often heavily influencing the round valuation, or whether a pre-existing relationship between founder and fund influenced the decision. Acknowledging this limitation, we have focused on identifying

statistically significant influences rather than analyzing causal relationships between variables. Also, relying on publicly available datasets like Dealroom may result in incomplete information or inaccuracies, especially when dealing with self-reported specifics, like the round size or structure. To minimize this limitation, we cross-checked the data with the official documents of the German commercial register, namely shareholders agreement and list of shareholders.

In the data preparation process, we had to exclude certain rounds, such as investments below €500k, undisclosed and missing information, or industries with low U.S. participation to improve our data quality. However, this also reduces the dataset's diversity, potentially omitting edge cases or emerging trends.

A key limitation of the qualitative approach is that it focuses primarily on VCs based in Germany, due to limited access to U.S.-only funds. This could introduce a bias in the assessment. However, given the study's focus on Germany, interviews with experienced managers, who invested alongside or competed with U.S. investors, and are working at reputable funds are expected to provide reliable and valuable insights. Still, incorporating insights from U.S.-based funds would have further enriched the analysis.

We did not include robust standard errors ('RSE') in our regressions, as this aspect was not prioritized in the initial analysis. However, our data do not exhibit notable violations of key assumptions, such as heteroscedasticity, so we believe the validity of our findings remains intact. Future research could explore the inclusion of RSE to further enhance result reliability.

5. Overview of Results

5.1 Overview of Regression Models

The regressions (A) to (C) can be grouped into two categories: (A) and (B) focus on round- and investor-specific factors influencing the participation of U.S. and German VCs, while (C) examines the impact of startup characteristics on pre-money valuations. All regressions are multivariate OLS models using 14 main factors (4 round, 4 startup, and 3

investor characteristics), expanded into 33 independent variables through dummy coding, while including industry and time-fixed effects.

In (A), 9 out of 27/33 independent variables are significant at a 5% level, resulting in R-squared values of 54.4% (A1) and 40.6% (A2). For (B), three regressions analyze U.S., German, and combined contributions across 31 independent variables, with the U.S. regression achieving the highest R-squared of 72.4% despite fewer significant variables. Lastly, (C) produces similar R-squared values of 60.2% and 60.1%, identifying 10 and 9 significant variables, respectively. Descriptive statistics are shown in *Table A3*, and regression coefficients are indicated in *Table A4*.

5.2 Interview Results

The interview findings offer a comprehensive understanding of the dynamics of U.S. VC involvement in Germany, shedding light on cross-border VC activities, their impact on valuations, and the reputation of investors. The insights are drawn from six in-depth expert interviews, as explained in *Chapter 4.3*.

Cross-Border VC

Over the past decade, U.S. investors have significantly increased their activity in German funding rounds, especially in later stages such as series B and beyond. Several experts emphasized this trend, noting that U.S. investors historically entered the European market at the growth stage, however, their involvement has been expanding to include early-stage rounds. One expert stated, "*Back then, in the early days, there was little activity of U.S. funds in the continental European market. You have U.S. investors rather at the growth stage. But that has changed dramatically over the past decade*" (Expert III). Experts agree that U.S. investors now participate in seed and series A rounds, though this remains less frequent compared to later stages (*Expert Interviews III, VI*). This aligns with our quantitative findings that U.S. investments predominantly target the growth stage in Germany. However, it will be essential

to monitor financing rounds in the future to determine whether U.S. VCs are indeed shifting more toward early-stage investments. A notable driver for U.S. dominance in growth-stage funding seems to be the lack of sufficient resources among European funds to lead large rounds. Expert V explained, "*For a €50 million or larger round you don't have a German or European lead investor that can do at least €25 million lead tickets.*" Furthermore, U.S. funds have leveraged their networks and established local teams to access high-quality deals. As one expert observed, "*They use a local scout network of some serial entrepreneurs or former VCs, or they have their teams now on the ground*" (Expert III).

Germany has emerged as an attractive destination for U.S. VCs due to several key factors. Experts consistently highlighted lower valuations compared to the U.S., Germany's strong technical talent, and its engineering-driven ecosystem as major draws. One expert stated, "*U.S. investors are attracted by attractive entry valuations that are still cheaper compared to the U.S.*" (Expert III). Another noted, "*We still have a lot of engineering talent, a great ecosystem, and closeness to large corporations, like selling to enterprise*" (Expert I). Political stability and reliable regulatory systems further enhance Germany's appeal (*Expert Interviews I, VI*). However, challenges such as limited growth-stage capital and fragmented European regulations were also cited (*Expert Interviews IV, VI*).

In terms of startup preferences, U.S. investors seek scalable, globally focused business models, particularly in SaaS and B2B. They also prioritize founders with strong technical or operational backgrounds, with one expert stating, "*They like to fund serial entrepreneurs with a proven track record*" (Expert IV). While Berlin and Munich remain hubs, the significance of location diminishes in growth-stage rounds. Experts noted that U.S. investors have started looking beyond urban centers, investing also in startups in rural areas (*Expert Interviews I, III*).

Valuations and Deal Terms

All experts agree that the presence of U.S. investors in German funding rounds seems to correlate with higher valuations. This dynamic arises from several factors, including larger fund sizes and a higher risk appetite. One expert observed, "*Larger funds can afford higher or larger investment tickets, and with that, higher investments usually you get also to a higher valuation*" (Expert III). Another echoed this sentiment, stating, "*They have larger funds. On one end, they have to invest in more companies, but also, they have more flexibility in paying higher valuations*" (Expert IV). Competitive dynamics further drive valuations upward when U.S. investors are involved. As one expert noted, "*The competitiveness is the driver for a higher valuation and not that a U.S. investor is offering a term sheet or making the deal at the end*" (Expert V). Experts claim that U.S. investors frequently target high-quality startups with strong growth potential, which naturally command higher valuations. "*If something is that good that it catches the eye of an American investor, then it tends to be one of the better cases,*" an expert remarked (Expert IV). Additionally, U.S. market dynamics, including higher revenue multiples and better liquidity, influence valuation approaches. One expert explained, "*I mean in the U.S., the IPO market is much bigger and you just get other multiples*" (Expert II). These factors make U.S. investors more comfortable offering higher valuations for German startups.

Investor Reputation

The reputation of an investor plays a critical role in influencing both valuations and decision-making. High-reputation investors are known for targeting outliers and are often willing to pay a premium to secure these rounds. "*Investors with a high reputation, they very well understand how VC mechanics work and they look for the unicorns. And my perception is that they are not that price sensitive,*" one expert explained (Expert IV).

Co-investing with reputable VCs enhances the perception of deal quality and improves the likelihood of future funding rounds. One expert mentioned, "*Of course, it helps with*

convincing our investment committee if there's a strong brand and VC involved because that often translates into high follow-up potential in future rounds" (Expert V). Additionally, U.S. VCs with strong reputations often bring value-added services such as platform teams and networks that support U.S. market entry, talent acquisition, and strategic partnerships. These services are especially valued by growth-stage startups, highlighting the strategic advantages of partnering with high-profile investors (*Expert Interviews III and VI*).

6. Analysis – In-Depth Study on Investor Characteristics

In this chapter, investor-specific variables influencing U.S. fund participation in German financing rounds are examined. Specifically, the analysis concentrates on reputation, portfolio size, and focus on investment activities in Europe, key factors shaping U.S. investors' participation and capital allocation in German financing rounds (Brinette et al. 2024; Cumming and Dai 2012; Lerner and Nanda 2020). The empirical approach employs OLS regressions, analyzing each investor-specific variable as mentioned divided into round share-weighted averages of U.S.- and Germany-based VCs. Central to this analysis are hypotheses examining how factors like local bias, reputation, and funding resources affect the share of U.S. funding and leadership likelihood in German VC rounds.

6.1. Descriptive Statistics

Examining the dataset, it becomes evident that German investors represent a greater presence in it compared to U.S. investors, which aligns with the expectation that German startups are more likely to attract predominantly local investors.

Table 7: *Investor-specific Descriptive Statistics*

Variable	Mean	Std. Dev.	Min.	Max.
<i>Reputation Moderate (US)</i>	0.06	0.24	0.00	1.00
<i>Reputation Tier (US)</i>	0.03	0.18	0.00	1.00
<i>Reputation Moderate (GER)</i>	0.12	0.28	0.00	1.00
<i>Reputation Tier (GER)</i>	0.12	0.28	0.00	1.00
<i>Investor Size (US) (€ m)</i>	3.00	13.08	(0.24)	116.97
<i>Investor Size (US) (€ m; prescaling)</i>	0.03	0.16	0.00	1.56

<i>Investor Size (GER) (€ m)</i>	0.60	1.86	0.24	18.22
<i>Investor Size (GER) (€ m; prescaling)</i>	0.01	0.03	0.00	0.25
<i>EU Focus (US) (prescaling)</i>	0.05	0.12	0.00	0.99
<i>EU Focus (US) (av. norm.)¹⁾</i>	0.00	1.00	(0.44)	7.62
<i>EU Focus (GER) (prescaling)</i>	0.80	0.28	0.05	1.00
<i>EU Focus (GER) (av. norm.)¹⁾</i>	0.00	1.00	(2.88)	0.73

Note: 1) normalized around mean for regression

Table 7 shows the descriptives for all the variables of interest in this chapter. As indicated in *Figure 11*, 68% are German-led, while only 15% of the rounds are U.S.-led, showing an overrepresentation of German investors in our set. Notably, the variables assume reputation to be zero if no investor of the respective country (e.g., U.S. or Germany) participated in a financing round, which is significantly more often the case for U.S. than for German investors. Thus, the averages are negatively biased, especially for U.S.-specific variables. This is relevant to understand for the descriptives, but not relevant in the analysis of the statistical regression due to the model accounting for the presence or absence of U.S. investors. The positive strong correlation between `leadcountry_US` and the investor's portfolio size, and the respective negative correlation between `leadcountry_Germany` and the investor's portfolio size, as seen in the correlation heatmap in *Figure 12*, leads us to believe that larger U.S.-based funds are more likely to lead a financing round compared to Germany-based funds. Supported by the higher mean, standard deviation, and maximum of the U.S. portfolio size pre- and post-scaling. This aligns with prior research arguing that U.S. funds have easier access to funding compared to VCs in Europe and therefore, overall higher liquidity (Brinette et al. 2024). The average investors' portfolio concentration on Europe is not interpretable, since these values are normalized to reflect the different meanings for both investor types – geographical diversification for the U.S. and local focus for Germany.

6.2 Discussion of Empirical Findings

The following paragraphs provide a concise outline of the regression models conducted to address the hypotheses defined in *Chapter 3*. This analysis focuses not only on which factors

of the investor-specific variables influence U.S. participation but also on the comparison of these with German investors. All described models in *Chapter 4* are used, while the focus lays on models (A) and (B). The relevant coefficients are listed in *Table 8*, and all other in *Table A4*.

Table 8: *Investor-specific Regression Coefficients (1/2)*

	(A1)	(A2)	(B1)	(B2)	(B3)
	Participation	Participation	Total	Contribution	Contribution
	U.S. (%)	GER (%)	Contribution	U.S.	GER
<i>Variable</i>	Coef.	Coef.	Coef.	Coef.	Coef.
<i>const</i>	-0.0268	0.727***	-0.1230	0.1419	-0.2649
<i>Financing round specifics</i>					
<i>Reputation Moderate (US)</i>	0.0876*	-0.1259*	0.5231**	0.3056**	0.2175
<i>Reputation Tier (US)</i>	0.1204*	-0.0841	-0.2771	-0.0631	-0.2140
<i>Reputation Moderate (GER)</i>	-0.0063	0.0866**	0.3169***	0.0957	0.2211**
<i>Reputation Tier (GER)</i>	0.0002	0.0525	0.4453**	0.0003	0.4450***
<i>Investor Size (US)</i>	0.0035***	-0.002*	0.0178***	0.0154***	0.0024
<i>Investor Size (GER)</i>	-0.0071	0.0066	0.0400	-0.0047	0.0447**
<i>EU Focus (US) (av. norm.)</i>	0.0862***	-0.0608***	0.0958*	0.1087***	-0.0129
<i>EU Focus (GER) (av. norm.)</i>	-0.0581***	0.0593***	0.1934***	0.0304	0.1630***
<i>R-squared</i>	54.4%	40.6%	59.7%	72.4%	44.2%

Note: *p < 0.1; **p < 0.05; ***p < 0.01; 1) normalized around mean for regression

The results reveal that for U.S. investors, the characteristics of German co-investors within a round are mostly insignificant for their share as well as contribution size, while the increased local focus of German investors seems to be the only variable that negatively influences (-0.0581; A1) the U.S. investor's ability or interest to secure a substantial share within a German financing round. Contradictory, German investors' share and contribution size seem to be significantly influenced based on their characteristics but likewise influenced by their U.S. counterparts. Summarized, the findings suggest that while U.S. investors seem to dominate German financing rounds largely independent of local factors, the success of German investors is strongly shaped by both their strategic positioning and the competitive presence of U.S. investors. The described findings lead us to three main hypotheses, which we aim to investigate in the course of this paper, starting in the following chapter.

6.2.1 Influence of an investor's local Bias and Geographical Diversification

Firstly, prior research shows that empirical evidence on the influence of a local bias of VC investors on their investment decisions exists (Cumming and Dai 2012; Grinblatt and Keloharju 2001). Nevertheless, studies suggest that due to advancements in communication tools, the reliance on proximity might be weaker, though still an essential factor for meaningful relationships (Lutz et al. 2013). This is especially true for VC investments in which an investment is not solely built on financial contributions but also on managerial advice and relationships (Cumming and Dai 2010). Additionally, Germany is one of the most influential economies in Europe and, thus, a correlation between increased investments in Europe and Germany is assumed (Besanceney 2022; Frimpong et al. 2024). Based on this reasoning, a higher European portfolio proportion among U.S. investors indicates reduced local bias and greater openness to Germany. Therefore, the first hypothesis will be:

***H7:** The participation of U.S. VCs in German financing rounds is influenced by the overall focus on European investments of present investors within the round.*

Models (A1) and (B2) support this hypothesis by indicating statistically significant coefficients for both, changes in the European focus of German and U.S. investors. Thus, the overall focus on Europe appears to be an influential factor. This variable is interpreted based on its inverse meaning for different HQ country locations. Specifically, for German investors, a higher European portfolio proportion reflects a stronger local focus and the presence of local bias. In contrast, for U.S.-based investors, a higher proportion of the European portfolio indicates greater geographical diversification and an overcoming of home bias.

Hypothesis 7 therefore is complemented regarding its concrete implications on investor-origin separated views. Namely how U.S. investor behavior (H7.1) and German investor behavior (H7.2) influence U.S. participation in German financing rounds. VCs that are already active in cross-border investment and have significant international experience can offer

startup-specific value-added services, especially for startups in the internationalization stage, which makes these funds attractive funding partners (Bertoni and Groh 2022; Guler and Guillen 2010). Also, Germany has emerged as an attractive destination for investments due to many key factors, as the expert interviews stated, such as a reliable policy and a large pool of engineering talents (Expert I, III, IV). Furthermore, the presence of a potential local bias could raise the competitive dynamics in German financing rounds, which would introduce a significant barrier for U.S. investors in securing substantial shares (D. Cumming 2012). To test this further, we introduced the two following sub-hypotheses:

***H7.1:** U.S. investors with an established presence in Europe are more likely to secure a large share in German financing rounds, highlighting their growing influence.*

***H7.2:** A stronger focus by German investors on Europe limits U.S. investors' ability to secure a substantial share in German financing rounds, reflecting competitive dynamics and local bias that favor domestic capital.*

The regression results of models (A1) and (A2) support the first sub-hypothesis, indicating an increase of 8.62 percentage points in the U.S. share as well as a decrease of 6.08 percentage points in the German share for one standard deviation increase in the U.S. VCs focus on Europe. This signifies that U.S. investors with a strong focus on Europe gain significant leverage in German rounds, which is in line with several researchers that argue that internationally active VCs offer significant value-adds to the startups (Guler and Guillen 2010). This is supported by Lehner (2023), who argues that existing presence in Europe facilitates higher chances of gaining higher shares in rounds or possibly leading them. Our expert interviews suggest that a reason for this might be that startups often prefer funding partners who can support their internationalization efforts, with the U.S. being a key target market for many. This trend becomes more pronounced in later funding stages, aligning with empirical findings that show U.S. VCs significantly increase their share in German financing rounds as

startups progress through stages. Especially in the growth stages the share of U.S. investors is estimated to be 11.66 percentage points higher compared to the pre-seed stage as seen in model A1. This comes at a clear cost to German investors, as the U.S. portfolio focus on Europe significantly reduces the German share as an effect of the zero-sum dynamic, meaning a total share can only always sum up to 100% and if one investor gains more share, all other remain with lower.

In contradiction, the second sub-hypothesis is supported by the regression analysis in model (A2), which indicates that German investors' European focus for each additional standard deviation, raises the total German share by 5.93 percentage points, and the German contribution size by approximately 16.3% (B3), and therefore, increases the competition for U.S. investors in gaining larger shares. Additionally, model (A1) indicates a decrease of 5.81 percentage points in the U.S. VCs share for each standard deviation increase in the German VCs focus on Europe. However, it does not significantly diminish the contribution size of U.S. investors within a round, for which model (B2) shows an insignificant coefficient. This indicates that these independent variables only significantly influence rounds with smaller sizes, potentially rather than rounds in earlier stages. This supports the above-mentioned findings of a higher presence of U.S. investors within later stages. Thus, it is true that the higher local focus of German investors raises the competition to gain larger shares in a round and makes it harder for U.S. VCs to gain substantial shares in German financing rounds. However, it is possible that due to the observed trends for later stages, German VCs can only effectively succeed in the early stages and U.S. investors' increased focus on Europe helps them predominantly in later stages. Among others, one reason could be that founders value the expansion support that a U.S. investor brings, which enhances their attractiveness (Guler and Guillen 2010). However, we cannot make definitive conclusions based on the regression results. Future research could integrate stage-specific interactions between investor portfolio

focus on Europe and the stage of the financing round (e.g., early vs. late stage). Hypothesis 7.2 appears to be supported – our analysis indicates that a stronger local focus by German investors enhances their competitive position.

6.2.2 Influence of an Investor's Reputation

Secondly, several researchers agree that the reputation of a VC impacts investment dynamics and deal terms, but as mentioned in *Chapter 2*, different views on the type of influence exist (Hsu 2004; Lerner and Nanda 2020; Guler and Guillen 2010). Thus, we first want to statistically test the hypothesis that the reputation of VC investors influences the dynamics with the following hypothesis:

H8: Reputation plays a key role in the share allocation within German financing rounds for both U.S. and German investors, with stronger reputations leading to higher participation.

Regression results support this, showing a statistically significant relationship between investor reputation in a round and share allocation. Specifically, in model (A) U.S. and German investors with moderate reputations see an 8.76 and 8.66 percentage point increase in their share compared to a low reputation rank, respectively. This finding aligns with Gu et al. (2022), who argue that high-reputation investors leverage their diverse syndication networks to dominate attractive rounds, thus improving their ability to win the larger share. Reputation also enhances the syndication appeal, as co-investing with reputable VCs can boost the perceived value of a round (Gupta, Hallen, and Zhang 2017), which aligns with our Expert Interviews (*Expert Interview V*).

Consistently, a higher reputation of German investors strengthens their share allocation, as indicated by the significant positive coefficient in the German share regression (0.0866**). However, this increased reputation intensifies competition for U.S. investors, yet, U.S. investors increased reputation leads to an even larger loss of share of German investors (-0.1259*). Thus, the following sub-hypotheses are investigated to understand the difference in

investment dynamics between Germany-based and U.S.-based VC investors concerning their reputation levels:

***H8.1:** A stronger reputation of U.S. investors increases their share in German financing rounds, with higher reputation levels having a greater influence, potentially reducing the share of German investors.*

***H8.2:** A stronger reputation of German investors positively influences their share in German financing rounds, but U.S. investor reputation has a greater impact on German share allocation.*

U.S. investors with a stronger reputation (moderate or tiered) significantly increase their share in German financing rounds (A1). In contrast, U.S. reputation negatively impacts the share of German investors (A2), particularly for those with a moderate reputation, indicating that stronger U.S. reputations "squeeze out" German investors. The coefficient sizes for moderate U.S. (0.5231**) and moderate German (0.3169***) reputation in B1 suggest both have an effect on overall contribution, but U.S. reputation has a stronger influence. This supports the idea that U.S. investors leverage their reputation to secure larger shares in German rounds. Notably, the coefficients for tiered U.S. reputation are insignificant throughout all models except (A1), which is unexpected but possibly due to the high negative bias of U.S. variables due to the high number of financing rounds without U.S. participation.

While moderate U.S. reputation clearly increases their share in German rounds, the effect of German investor reputation is less significant. U.S. reputation, both moderate and tiered, has a stronger impact on increasing U.S. share, whereas German reputation has less influence on U.S. investor participation. This suggests that U.S. investors are more able to leverage their reputation to enhance their share allocation compared to their German counterparts. Building on the works of Guler and Guillen (2010), a reason for this might be that VCs with international reputations, especially from high-profile markets like the U.S., may have an advantage not just

in terms of securing larger shares but in attracting subsequent rounds or follow-on investments. This is supported by Expert VI, who argued that if a reputable VC is strongly involved within a round, this signals high follow-up potential due to strong expected portfolio management. Another reason for this could be the correlation between reputation and higher portfolio size, which provides more liquidity (Eldar and Grennan 2024; Hsu 2004).

U.S. investors typically manage larger portfolios, enabling them to afford higher valuations and follow-on investments, as non-participation could harm their reputation (Guler 2007). Successful VCs attract more capital due to strong track records, allowing larger funds to sustain such strategies (Cumming and Dai 2010). Highly reputable VCs may be less affected by skipping follow-ons (P. Gompers et al. 2010), especially in cross-border deals with lower local visibility (Lerner 1994).

Interestingly, while higher U.S. reputation reduces the share for German investors by 12.59 percentage points per reputation class, it also increases the perceived attractiveness of the round. The presence of high-reputation U.S. investors signals a high-quality opportunity, consistent with the “*window-dressing*” effect described by Gupta, Hallen, and Zhang (2017). This dual dynamic increases competition but also makes the round more appealing, indirectly benefiting some German investors who adapt their strategy to stay involved.

Research on signal theory supports the idea that investors with a strong reputation reduce uncertainty for founders, making them more attractive partners (Hoang, Hybels, and Stuart 1999). Our results highlight that a moderate U.S. reputation, rather than a tiered reputation, has the most significant impact. This contrasts with prior literature that suggests high-tier investors should have the most influence. Expert interviews also emphasized the importance of individual investor reputation, as smaller VCs with high reputational value may not be fully captured by overall fund activity scores, such as the Dealroom score. Ultimately,

our findings suggest that U.S. investors “crowd out” German investors, with German investors benefiting from a stronger reputation, though not enough to fully counterbalance the effect.

6.2.3 Influence of an Investor’s Portfolio Size

The large size and liquidity of the U.S. financial market suggest that their investors have more and easier access to funding (Brinette et al. 2024). Consequently, they are likely to outperform their competitors from different markets when it comes to overall fund size as well as possible investment amounts. However, researchers are indecisive on whether or not, on average, larger fund size can lead to a higher share of U.S. investors. Eldar and Grennan (2024) discuss that fund size is positively correlated to reputation, which can make them more interesting to startups and, as displayed in the previous sub-chapter, increase total U.S. share. On the other hand, Cumming (2006) argues that an enlargement in fund size, to some extent, also leads to a dilution in VC expertise, which decreases the ability to advise individual startups and to deliver value-added services. As we have discussed in *sub-chapter 2.2.1*, VCs do not only offer monetary benefits but also intrinsic value creation. Thus, too large VCs might become less attractive to potential investors. To question this discrepancy in past research, we want to analyze the impact of portfolio size on the total U.S. share in our data set, researching the following hypotheses:

***H9:** Larger portfolio sizes positively influence U.S. investors' participation in German financing rounds, reflecting their larger portfolios, while limiting the influence of German investors.*

Looking at our regression in model (A1), U.S. VCs seem to significantly benefit from larger portfolio sizes, leading to a 0.35 percentage point increase for each unit. This seems to be at the cost of German investors, which consequently face a decreased share by 0.2 percentage points (A2), which indicates that German participation in German financing rounds is

potentially squeezed out by U.S. investors. German investors seem not to be able to counter this with an increase in their portfolio size.

Both U.S. and German portfolio sizes increase the overall contribution (B1), but the effect from German portfolio size is marginal ($p\text{-value} < 0.1$). U.S. portfolio size directly leads to an increase in U.S. contribution (0.0154***), while German portfolio size has a direct effect on German contribution (-0.447) but no significant effect on the other country's contribution ($p\text{-value} > 0.1$). The positive relationship between portfolio size and contribution for both U.S. and German investors indicates that larger portfolio sizes are consistently associated with a larger share of financing rounds, regardless of the investor's origin. While this pattern holds true for both groups, the stronger and solely significant effects observed for U.S. portfolio size (0.0178***) suggest that U.S. investors derive greater competitive advantage from their portfolio size. This could be due to additional factors such as reputation, resources, or scalability.

Table 9: Investor specific Regression Coefficients (2/2)

C1) Pre-money Valuation	
<i>Variable</i>	Coef.
<i>const</i>	-0.0268
<i>Investor specifics</i>	
<i>Investor Size (US)</i>	0.0066*
<i>Investor Size (GER)</i>	0.0431*
<i>R-squared</i>	60.2%

Note: * $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$

Additionally, model (C1), with the relevant coefficients listed in *Table 9*, reveals that U.S. and German VC portfolio sizes influence pre-money valuations differently, shaped by their stage focuses and market dynamics. On average, U.S. VC portfolios are significantly larger, which could explain their generally weaker statistical impact on pre-money valuations (0.0066*) compared to German investors (0.0431*), as a 1% increase in the already substantial U.S. portfolios (log-transformed) represents a much larger absolute change than for the smaller German portfolios.

German VCs' emphasis on early-stage investments amplifies the influence of their portfolio size on valuations, as these stages often rely more on signaling and speculation rather than hard financial metrics (P. Gompers et al. 2010; Kortum and Lerner 2000). The coefficient for German portfolio size (0.0431*) suggests that a 1% increase in portfolio size is associated with a 0.04% increase in pre-money valuation (log-log regression). In contrast, U.S. VCs' focus on later-stage, metric-driven deals (Hellmann and Puri 2002) results in a smaller effect (0.066), with a 0.07% increase in valuation for the same portfolio size increase. As seen in Figure 13, the average pre-money valuation is substantially larger for later stages compared to early stages. These results highlight the nuanced role of portfolio size as a competitive signal in earlier stages versus its diminished relevance in later-stage investments.

Thus, larger funds may be more attractive to startups, especially in early stages, among others possibly due to follow-on possibilities. The correlation between portfolio size and reputation signals greater resources and expertise, enhancing U.S. investors' competitive edge (Hsu 2004). Also, our expert interviews revealed that the U.S. market benefits from better access to capital and a more fitting market ecosystem, making it more sophisticated than Europe. However, biases may exist where U.S. investors focus on high-quality startups, and only the wealthiest investors can afford those with higher valuations. German founders may also seek U.S. investors for strategic expansion into the U.S. market. While causality cannot be established confidently, these insights emerged consistently during interviews.

7. Conclusion

This study highlights how round-specific, startup-specific, and investor-specific characteristics influence key outcomes such as investor participation, round contributions, and valuations in U.S.-German cross-border financing rounds.

In terms of round-specific variables, we provide evidence that U.S. investor participation increases the total round size across all stages. Moreover, U.S. VCs prefer later-

stage investments, likely because of their higher capital availability and Europe's limited funding for growth stages. Interview insights also show that U.S. investors often help German startups expand to the U.S. in the growth stage. On the other hand, German investors are more active in early-stage rounds, likely due to smaller funding capacity and less investor competition.

In the context of startup-specific characteristics, our research shows that U.S. investors focus on startup quality when participating in German financing rounds. This is supported by the significant link between startup quality and valuations. U.S. investors tend to increase valuations mainly by contributing larger amounts and focusing on high-quality startups. It seems that U.S. investors have built up effective structures with own European teams, business angel networks, scout funds and local co-investors, allowing them to mitigate information asymmetry and giving them access to prime deals. Other factors, like location and business model, have less impact on U.S. investors' participation.

Concerning investor-specific characteristics, we demonstrate that U.S. funds benefit from having more liquidity and larger fund sizes compared to German investors. Larger portfolios are associated with higher shares in German financing rounds. Portfolio sizes for both U.S. and German investors also show a positive correlation with contribution sizes, with U.S. investors showing a stronger effect, suggesting their larger portfolios allow for higher financial support. Furthermore, high-reputation U.S. investors "crowd out" German investors, meaning, they reduce the shares of German investors while enhancing the round's overall attractiveness. Lastly, we identify that U.S. investors with a stronger European portfolio focus are more likely to secure larger shares in German financing rounds, particularly in later stages.

These findings highlight the important role of U.S. investors in shaping the German VC ecosystem. Their participation raises valuations, increases competition, and sometimes reduces opportunities for domestic investors. U.S. investors fill funding gaps, especially in late-stage

rounds where European investors have fewer resources. This shows confidence in German startups and strengthens Germany as an innovation hub in Europe. By participating in German funding rounds, U.S. investors contribute to a more competitive and dynamic market, which supports the growth of high-quality startups.

Despite these insights, this study has several limitations. First, this study is limited to demonstrating correlations rather than causation. As the purpose of this paper was to prepare an overview of influencing factors on U.S. participation, we did not aim to prove causality within the findings. We could merely suggest causation with the help of academic research and expert interviews. Therefore, we did not account explicitly for reverse causality as well as robust standard errors. Future longitudinal research or experimental designs could provide deeper insights into the causal mechanisms behind the examined factors and their impact on U.S. investor participation. Second, this research does not capture all relevant drivers for our dependent variables, leaving room for further exploration of additional influencing factors. For example, within-firm deal competition, which strongly affects valuations, is not included in this dataset, unlike in some earlier studies (Hsu 2004). Third, the startup quality index could be further enhanced by incorporating additional factors discussed in the literature, such as financial performance, detailed team composition, M&A activity, exit history, and patent counts, which are often used as indicators of startup quality.

Future research should address these limitations and explore new areas. Studies could compare the performance of VC funds in the U.S., Europe, and Germany by analyzing historical valuations and the returns from liquidations. This could help assess whether higher valuations are justified by better startup performance. Research could also look into how U.S. funds set up European teams or acquire local firms like in the case of General Catalyst's acquisition of German VC fund La Famiglia to reduce information gaps and get access to prime deals. Moreover, surveys or interviews with startup founders could provide critical insights into

decision-making processes, including the perceived value of U.S. investors' networks, expertise, or valuation premiums. Future studies could also examine how U.S. participation affects the long-term growth and exit opportunities of German startups. Additionally, applying this cross-border VC research in other European countries, like France or the UK, could reveal whether our findings are generalizable across European countries. Another area to explore is how cross-border VC activity helps German startups expand internationally.

Building on the findings, several implications and conjectures arise that merit further discussion. First, if U.S. investors continue to target German startups, their influence on valuation dynamics and market competitiveness will likely intensify. The observed increase in valuations associated with U.S. investor participation suggests that U.S. funds possess both the capital and confidence to drive up startup prices. Conversely, German VCs may face increased competition, requiring them to adapt their strategies or secure greater policy support to remain competitive. Second, if U.S. investors tend to pay higher valuations, we hypothesize that VC fund returns might be at risk, depending on the startup success rate and financial return at exit. Developing a more sophisticated startup quality index could help determine whether U.S. investors are overpaying or accurately valuing German startups.

These findings add to discussions about local versus global funding in startup ecosystems. Startups are relying more on international funding, which raises questions about economic independence and the sustainability of local markets. This study supports calls to strengthen domestic VC industries to reduce dependence on foreign investors, especially in Europe. From a research perspective, this study fills gaps in cross-border syndication research, as noted by Dimov and Milanov (2010) and Wright, Pruthi, and Lockett (2005). By including detailed data on funding amounts, round compositions and investor shares, this study goes beyond the usual focus on general VC and startup characteristics. It also advances valuation research by offering a new way to calculate valuations at a large scale and pointing out the

limits of data sources like Dealroom. This methodology serves as a blueprint to accurately determine investor participation and financing round valuations on a large scale, with the potential for further refinement and automation of our approach in the future.

Looking forward, understanding U.S. investment patterns in German startups offers important lessons for investors, policymakers, and entrepreneurs. Policymakers can use these findings to create policies that balance the benefits of foreign investment with the need to support local VCs. For example, Germany could offer incentives to strengthen late-stage funding by domestic funds. Startups can learn how to attract the right investors, while VCs can adapt their strategies based on investor behavior and valuation trends.

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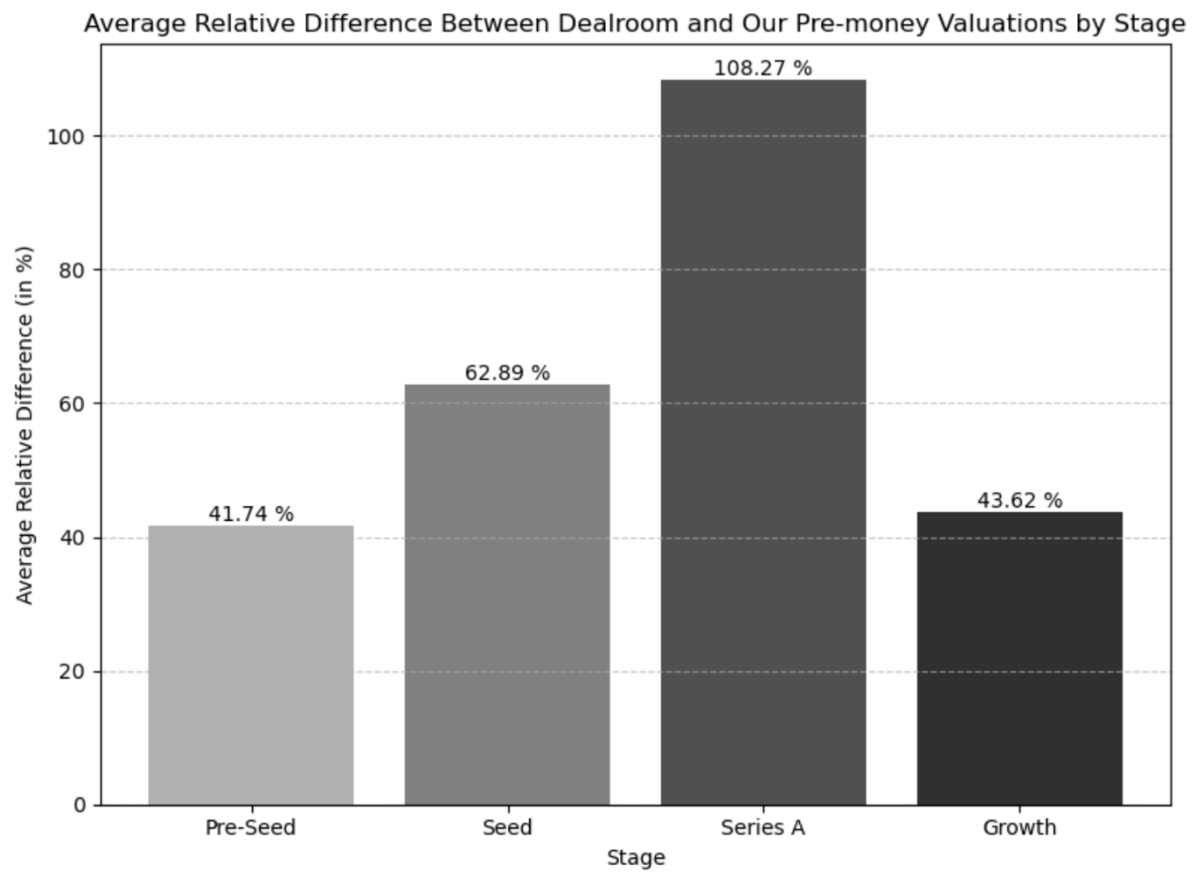
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Appendix

Figures

Figure 1: *Average Relative Difference between Dealroom and our Pre-money Valuation by Stage*



Source: Own creation in Python

Figure 2: *Exemplary shareholder list I*

**Liste der Gesellschafter
und der bei Gründung übernommenen Geschäftsanteile**

Bluu GmbH

**mit dem Sitz in Berlin
einzutragen beim Amtsgericht Charlottenburg**

Name/Firma des Gesellschafters	Wohnort, Sitz	Anzahl der Geschäftsanteile im Nennbetrag von je EUR 1,00, entsprechend 0,004% pro Anteil	Lfd. Nrn. der Geschäftsanteile	Prozentsatz der Beteiligung des Gesellschafters
EVIG GmbH; AG Charlottenburg HRB 217358 B	Berlin	11.250	1 – 11.250	45,00
blue cells technologies UG (haftungsbeschränkt); AG Hamburg HRB 162639	Hamburg	13.750	11.251 – 25.000	55,00
Summe		25.000		100,00

Source: Shareholder list 05/2020 of Bluu GmbH

Figure 3: *Exemplary extract shareholder list II*

Name des Gesellschafters/ Shareholder's Name	Wohnort, Sitz/Place of Residence, Registered Office	Anzahl der Geschäftsanteile im Nennbetrag von je EUR 1,00, entsprechend 0,00194% pro Anteil/Number of Shares with Nominal Value at EUR 1.00 each, representing 0.00194% per Share	Lfd. Nrn. der Geschäftsanteile/ Serial Numbers of Shares	Prozentsatz der Beteiligung des Gesellschafters/ Percentage of Participation of such Shareholder	Veränderungen/ Changes
Venti Ventures GmbH; AG München, HRB 256238	München	77	46.920 bis/to 46.996	0,15	
SPARKFOOD, S.A.; HR-Nr. 516540408	Maia, Portugal	3.835	46.997 bis/to 50.831	7,45	Kapitalerhöhung/ Capital Increase
Innovationsstarter Fonds Hamburg GmbH; AG Hamburg, HRB 118095	Hamburg	613	50.832 bis/to 51.444	1,19	Kapitalerhöhung/ Capital Increase
Summe/Total		51.444		100,00	

Berlin, 02. Juni 2023 / June 02, 2023

Die geänderten Eintragungen in der vorstehenden Liste entsprechen den Veränderungen, die sich aufgrund meiner Urkunde vom 24. Mai 2023 zur UVZ-Nr. G 103/2022 (Kapitalerhöhung) ergeben. Die übrigen Eintragungen stimmen mit dem Inhalt der zuletzt im Handelsregister aufgenommenen Liste überein. Die Veränderungen werden mit der Eintragung der Kapitalerhöhung im Handelsregister wirksam.

Source: Shareholder list 06/2023 of Bluu GmbH (from the German trade register)

Figure 4: *Funding Overview from Dealroom*

DATE	INVESTORS	AMOUNT	ROUND
-	DX Ventures, Mudcake, Trellis Road, Innovationsstarter Fonds	N/A	-
Mar 2021	Norrsken VC, Manta Ray Ventures, CPT Capital, Lever VC, Be8 Ventures	€7.0m	Seed
May 2021	N/A	N/A	Seed
Jun 2023*	Delivery Hero, LBBW Venture Capital, Dr. August Oetker KG, Norrsken VC, Manta Ray Ventures, IFB Hamburg, SeaX Ventures, Sparkfood	€16.0m	Series A
Total Funding		\$25.3m	

Source: Dealroom

Figure 5: *Exemplary Extract from the most Current Shareholder Agreement*

Stammkapital

3

Nominal Capital

Das Stammkapital der Gesellschaft beträgt:

3.1

The nominal capital of the company amounts to:

EUR 51.444,00

EUR 51,444.00

Das Stammkapital der Gesellschaft ist eingeteilt in 51.444 Geschäftsanteile im Nennbetrag von je EUR 1,00, davon sind 25.000 Geschäftsanteile Stammgeschäftsanteile (laufende Nrn. 1 bis 25.000), 6.492 Geschäftsanteile Vorzugsgeschäftsanteile der Klasse Seed 1 (laufende Nrn. 25.001 bis

3.2

The nominal capital of the company is divided into 51,444 shares with a nominal amount of EUR 1.00 each, thereof 25,000 shares are common shares (serial numbers 1 to 25,000), 6,492 shares are preference shares of class seed 1 (serial numbers 25,001 to 31,492) ("**Preferred Seed 1 Shares**"), 8,276

31.492) ("**Vorzugsgeschäftsanteile Seed 1**"), 8.276 Geschäftsanteile Vorzugsgeschäftsanteile der Klasse Seed 2 (laufende Nrn. 31.493 bis 39.768) ("**Vorzugsgeschäftsanteile Seed 2**"), 11.676 Geschäftsanteile Vorzugsgeschäftsanteile der Klasse Serie A (laufende Nrn. 39.769 bis 51.444) ("**Vorzugsgeschäftsanteile Serie A**"). Die Vorzugsgeschäftsanteile Seed 1, die Vorzugsgeschäftsanteile Seed 2 und die Vorzugsgeschäftsanteile Serie A gemeinsam auch "**Vorzugsgeschäftsanteile**".

shares are preference shares of class seed 2 (serial numbers 31,493 to 39,768) ("**Preferred Seed 2 Shares**"), 11,676 shares are preference shares of class series A (serial numbers 39,769 to 51,444) ("**Preferred Series A Shares**"). The Preferred Seed 1 Shares, Preferred Seed 2 Shares and Preferred Series A Shares jointly also "**Preferred Shares**".

Die Geschäftsführung ist ermächtigt, bis zum 30. November 2023 das Stammkapital der Gesellschaft durch einmalige oder mehrmalige Ausgabe neuer Geschäftsanteile gegen Bareinlagen um bis zu EUR 3.662,00 zu erhöhen. Die neuen Geschäftsanteile sind ab dem Beginn des Geschäftsjahres, in dem sie ausgegeben werden, gewinnberechtigt ("**Additional Closing(s) Genehmigtes Kapital**"). Das Bezugsrecht der Gesellschafter betreffend das Additional Closing(s) Genehmigte Kapital ist ausgeschlossen. Im Falle der Ausnutzung des Additional Closing(s) Genehmigten Kapitals gemäß dieser Ziffer 3.3 sind die neuen Geschäftsanteile mit der Ausstattung als Vorzugsgeschäftsanteile Serie A auszugeben.

3.3 The managing directors are authorized to increase the share capital of the company by up to EUR 3,662.00 until November 30, 2023 by issuing new shares against cash contributions on one or more occasions. The new shares are entitled to profits from the beginning of the financial year in which they are issued ("**Additional Closing(s) Authorized Capital**"). The subscription right of the shareholders regarding the Additional Closing(s) Authorized Capital is excluded. If the Additional Closing(s) Authorized Capital is used in accordance with this section 3.3, the new shares are to be issued with the features of Preferred Series A Shares.

Source: Shareholder agreement 06/2023 of Bluu GmbH (from the German commercial register)

Figure 6: Exemplary shareholder list III

Liste der Gesellschafter / List of Shareholders					
Bluu GmbH					
mit dem Sitz/with registered office in Berlin Amtsgericht/Local Court Charlottenburg HRB 218096 B					
Name des Gesellschafters/ Shareholder's Name	Wohnort, Sitz/Place of Residence, Registered Office	Anzahl der Geschäftsanteile im Nennbetrag von je EUR 1,00, entsprechend 0,002% pro Anteil/Number of Shares with Nominal Value at EUR 1.00 each, representing 0.002% per Share	Lfd. Nrn. der Geschäftsanteile/ Serial Numbers of Shares	Prozentsatz der Beteiligung des Gesellschafters/ Percentage of Participation of such Shareholder	Veränderungen/ Changes
EVIG GmbH; AG Charlottenburg, HRB 217358 B	Berlin	8.750	1 bis/to 8.750	18,62	
blue cells technologies UG (haftungsbeschränkt); AG Hamburg, HRB 162639	Hamburg	13.750	11.251 bis/to 25.000	29,26	
Delivery Hero Ventures GmbH (vormals DX Ventures GmbH); AG Charlottenburg, HRB 225026 B	Berlin	1.250 <u>230</u> 1.480	8.751 bis/to 10.000 43.047 bis/to 43.276	3,15	Kapitalerhöhung/ Capital Increase
ALIN-PLAST Anton Linner GmbH; AG Bayreuth, HRB 4467	Kulmbach	625 591 <u>58</u> 1.274	10.001 bis/to 10.625 31.493 bis/to 32.083 40.720 bis/to 40.777	2,71	Kapitalerhöhung/ Capital Increase

Name des Gesellschafters/ Shareholder's Name	Wohnort, Sitz/Place of Residence, Registered Office	Anzahl der Geschäftsanteile im Nennbetrag von je EUR 1,00, entsprechend 0,002% pro Anteil/Number of Shares with Nominal Value at EUR 1.00 each, representing 0.002% per Share	Lfd. Nrn. der Geschäftsanteile/ Serial Numbers of Shares	Prozentsatz der Beteiligung des Gesellschafters/ Percentage of Participation of such Shareholder	Veränderungen/ Changes
Lever VC Fund I, LP; Cayman Islands Registrar of Exempted Limited Partnerships, Nr. CB-105326	Grand Cayman, Cayman Islands	625 <u>649</u> 1.274	10.626 bis/to 11.250 30.844 bis/to 31.492	2,71	Kapitalerhöhung/ Capital Increase
Manta Ray Ventures Limited; Cyprus Department of Registrar of Companies and Intellectual Property, Nr. HE 209821	Limassol, Zypern	3.895 <u>951</u> 4.846	25.001 bis/to 28.895 39.769 bis/to 40.719	10,31	Kapitalerhöhung/ Capital Increase
CPT Capital LLP; Companies House Nr. OC418432	London, Vereinigtes Königreich	1.948	28.896 bis/to 30.843	4,15	Kapitalerhöhung/ Capital Increase
NVC Fund I AB; Bolagsverket (schwedisches Handelsregister) Nr. 559226-7677	Stockholm, Schweden	2.838 <u>920</u> 3.758	32.084 bis/to 34.921 40.778 bis/to 41.697	8,00	Kapitalerhöhung/ Capital Increase
Salida B.V.; Kamer van Koophandel, KvK-Nr. 80970365	Amsterdam, Niederlande	2.838 <u>920</u> 3.758	34.922 bis/to 37.759 41.698 bis/to 42.617	8,00	Kapitalerhöhung/ Capital Increase

Name des Gesellschafters/ Shareholder's Name	Wohnort, Sitz/Place of Residence, Registered Office	Anzahl der Geschäftsanteile im Nennbetrag von je EUR 1,00, entsprechend 0,002% pro Anteil/Number of Shares with Nominal Value at EUR 1.00 each, representing 0.002% per Share	Lfd. Nrn. der Geschäftsanteile/ Serial Numbers of Shares	Prozentsatz der Beteiligung des Gesellschafters/ Percentage of Participation of such Shareholder	Veränderungen/ Changes
Be8 Ventures Invest GmbH; AG Bielefeld, HRB 43926	Bielefeld	1.773 <u>429</u> 2.202	37.760 bis/to 39.532 42.618 bis/to 43.046	4,69	Kapitalerhöhung/ Capital Increase
Trellis Road I Fund AB; Bolagsverket (schwedisches Handelsregister) Nr. 559326-2149	Stockholm, Schweden	118	39.533 bis/to 39.650	0,25	Kapitalerhöhung/ Capital Increase
Muffintop AB; Bolagsverket (schwedisches Handelsregister) Nr. 559108-2242	Stockholm, Schweden	118	39.651 bis/to 39.768	0,25	Kapitalerhöhung/ Capital Increase
LBBW Venture Capital Gesellschaft mit beschränkter Haftung; AG Stuttgart, HRB 21008	Stuttgart	2.301	43.277 bis/to 45.577	4,90	Kapitalerhöhung/ Capital Increase
SeaX Fund II L.P.; Delaware Division of Corporations file no. 4842926	Millbrae, USA	1.342	45.578 bis/to 46.919	2,86	Kapitalerhöhung/ Capital Increase

Name des Gesellschafters/ Shareholder's Name	Wohnort, Sitz/Place of Residence, Registered Office	Anzahl der Geschäftsanteile im Nennbetrag von je EUR 1,00, entsprechend 0,002% pro Anteil/Number of Shares with Nominal Value at EUR 1.00 each, representing 0.002% per Share	Lfd. Nrn. der Geschäftsanteile/ Serial Numbers of Shares	Prozentsatz der Beteiligung des Gesellschafters/ Percentage of Participation of such Shareholder	Veränderungen/ Changes
Venti Ventures GmbH; AG München, HRB 256238	München	77	46.920 bis/to 46.996	0,16	Kapitalerhöhung/ Capital Increase
Summe/Total		46.996		100,00	

Berlin, 13. Februar 2023

Die geänderten Eintragungen in der vorstehenden Liste entsprechen den Veränderungen, die sich aufgrund der Urkunde des Notars Dr. Hans-Michael Giesen vom 08. Dezember 2022 zur UVZ-Nr. G 462/2022 (Kapitalerhöhung) ergeben. Die übrigen Eintragungen stimmen mit dem Inhalt der zuletzt im Handelsregister aufgenommenen Liste überein. Die Veränderungen sind bereits wirksam geworden.

The changed entries in the above list reflect the changes resulting from Deed Roll No. G 462/2022 dated December 08, 2022 (capital increase). The other entries are identical to those contained in the list last recorded in the Commercial Register. The changes have already become effective.

Source: Shareholder list 02/2023 of Bluu GmbH (from the German trade register)

Figure 7: Exemplary extract shareholder list IV

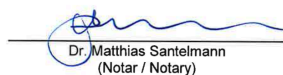
46.997 – 50.831	SPARKFOOD, S.A., Maia, Portugal, HR-Nr. / No. 516540408	3.835	7,23 %	
50.832 – 51.444	Innovationsstarter Fonds Hamburg GmbH, Hamburg, AG Hamburg, HRB 118095	613	1,16 %	

51.445 – 53.035	F. Friede Ventures UG (haftungsbeschränkt), Berlin, AG Charlottenburg, HRB 151510 B	1.591	3,00 %	Kapitalerhöhung mit Ausgabe neuer Anteile / Capital increase by issuance of new shares
		53.035		

Die geänderten Eintragungen entsprechen den Veränderungen, an denen ich mitgewirkt habe. Die übrigen Eintragungen stimmen mit dem Inhalt der zuletzt im Handelsregister aufgenommenen Liste überein.

The amended entries correspond to the changes I was involved in. The further entries are identical to the content of the list of shareholders' registered latest with the commercial register.

Berlin, 11. Juni 2024


Dr. Matthias Santelmann
(Notar / Notary)

Source: Shareholder list 06/2024 of Bluu GmbH (from the German trade register)

Figure 8: Interview Guide

Interview Guide – Semi-structured interview with VCs

1) Background

- a) Company background information (*Collected by researchers and anonymized*)
 - i) General information (Industry, geographical and stage focus)
 - ii) Fund size and fund economics
- b) Personal background information (*Beginning of interview*)
 - i) Could you briefly describe your experience and role within the VC firm?
 - ii) Have you been involved in rounds with U.S. investors?

2) Cross-border VC-related Questions

- a) How would you describe the role of U.S. investors in German funding rounds over the last decade?
- b) What, in your opinion, makes Germany an attractive destination for U.S. VCs in comparison to other European countries? (*Note that Germany has been among the top destinations in Europe for U.S. capital in the last couple of years*)
 - i) What type of startups are U.S. investors looking for?
 - (1) Client focus (B2C vs. B2B)
 - (2) Business model (Manufacturing vs. Marketplace/E-Commerce vs. SaaS)
 - (3) Startup location (Hub vs. no hub)
 - (4) Serial entrepreneurs

3) Valuation-related Questions

- a) In your experience, which are the most important factors to value German startups?
- b) If you categorize funding rounds, does it make sense to categorize rounds according to how the founders labeled them in the trade register? For example, if they have to decide whether they want to raise a large seed or a small Series A?
- c) In your experience, does the involvement of U.S. investors generally correlate with higher valuations for German startups?
 - i) If yes/no, what are the primary reasons behind this, in your view?
 - ii) Follow-up: Are there any instances where U.S. investor involvement might (not) lead to a higher valuation?

4) Investor Reputation-related Questions

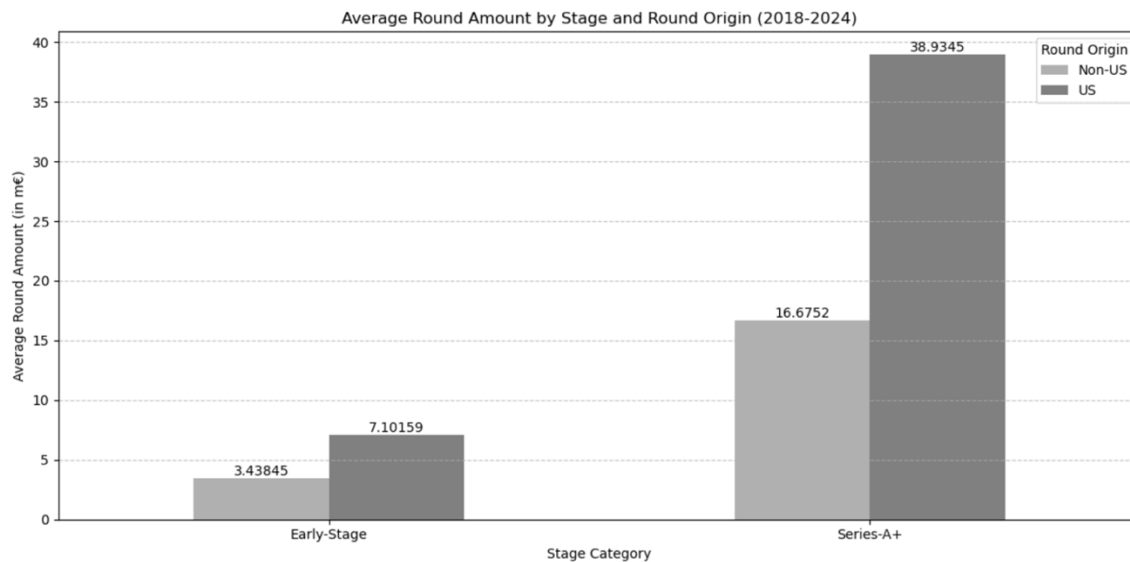
- a) How would you describe the effect of the investor reputation on the valuation of German financing rounds?
 - i) If you believe there is a correlation between investor reputation and valuation, what specific factors contribute to this?
- b) How does the reputation of a VC firm influence your decision-making process in cross-border deals?
- c) Studies suggest that high-reputation VCs often acquire equity at a discount. In your experience, does this hold true for German startups, and how does it affect the founder's willingness to partner with US VCs?
 - i) If yes/no, have you noticed that highly reputable VCs face challenges due to competing offers from less-established VCs, who may offer better terms?

5) Open Questions

- a) From your experience, is there anything more you'd like to share that you think would be important for our research to consider?

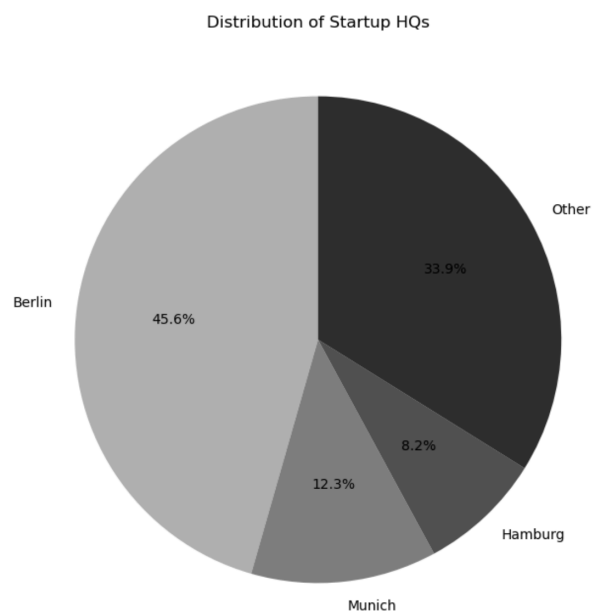
Source: Own creation

Figure 9: *Average Round Amount by Stage and Round Origin (2018-2024)*



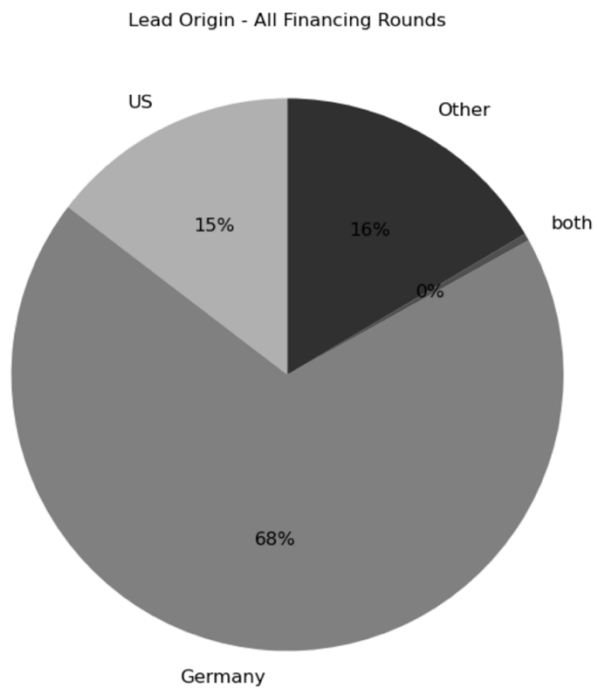
Source: Own creation in Python

Figure 10: *Distribution of Startup HQs*



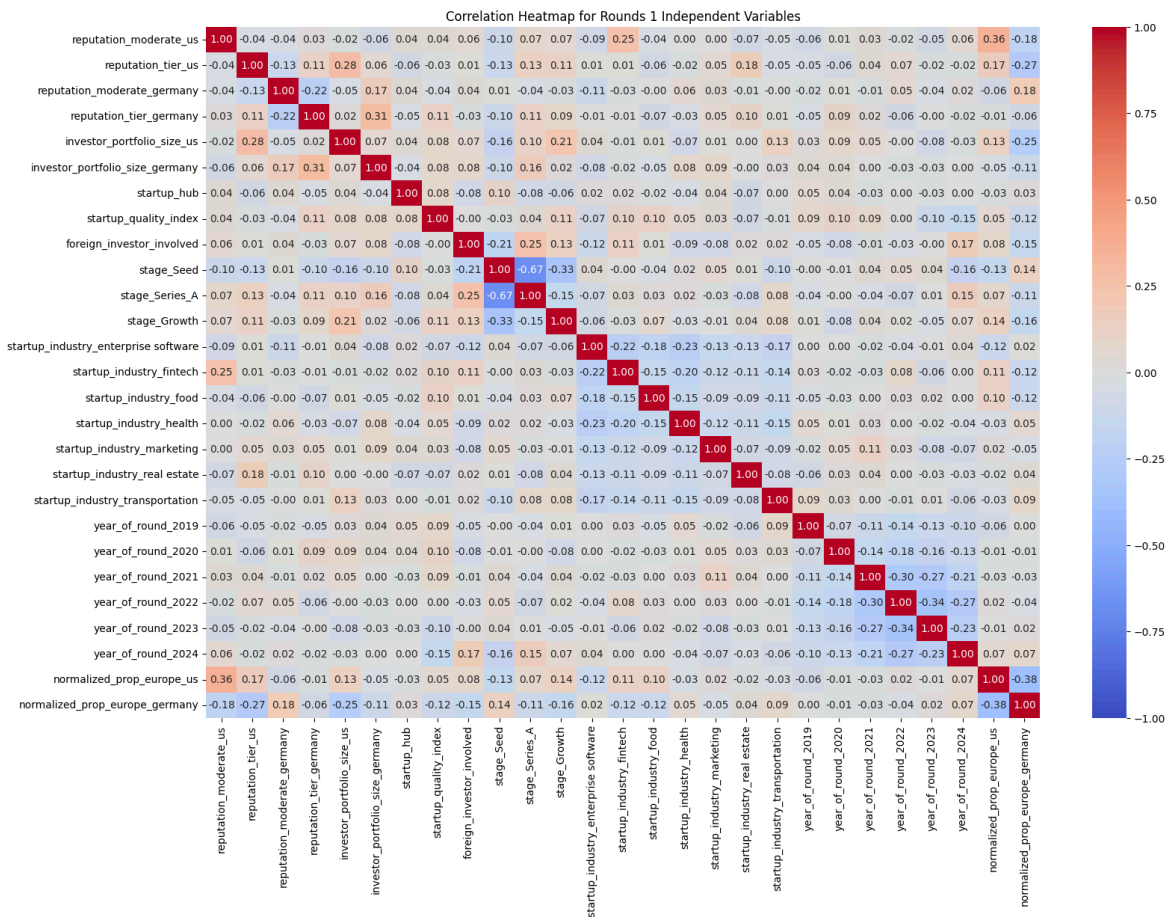
Source: Own creation in Python

Figure 11: *Distribution of Lead Origin*



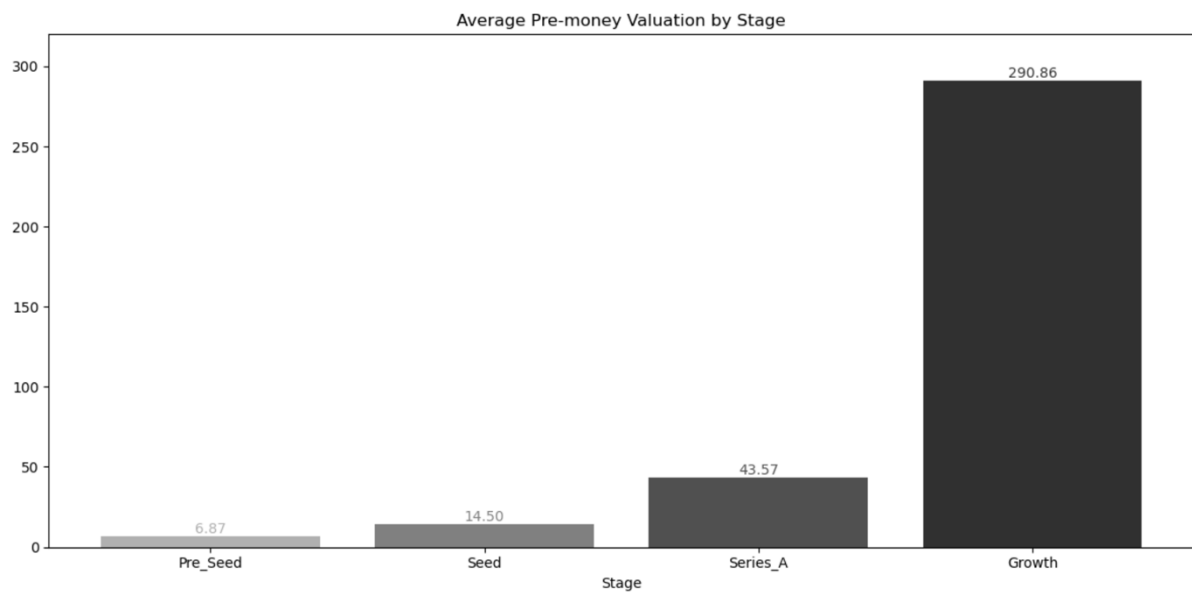
Source: Own creation in Python

Figure 12: *Correlation Matrix of Model B*



Source: Own creation in Python

Figure 12: Average Pre-Money Valuation by Stage



Source: Own creation in Python

Tables

Table A1: *Explanation of the most common limitations to our trade register data collection approach using the example of the company “Bluu GmbH”*

Limitation	Explanation
Authorized capital	Bluu did not make use of its authorized capital. In <i>Figure 5</i> can be seen that Bluu is allowed to issue 3,662 further shares in addition to its existing share base of 51,444 until November 30, 2023. However, the next share increase took place in June 2024 as shown in <i>Figure 5</i> . Therefore this round cannot be considered as an extension to the round from June 2023 but rather as a new separate financing round.
Convertible loan agreements	As shown in <i>Figure 6</i> , some new investors have got two batches of shares with serial shares numbers larger than 25,000 indicating that a CLA-round happened prior to an equity-round. More precisely all investors from “Be8” to “Delivery Hero Ventures” except for “CPT capital”. When we now look at <i>Figure 5</i> , we can see two different shares classes regarding the seed investment round, namely “Preferred Seed 1 Shares” and “Preferred Seed 2 Shares”. The last “Preferred Seed 2 Share” has the share number 39,768 which has a smaller share number than the last share 46,996 issued during the first equity financing round in February 2023. Furthermore, the company’s seed round took place in March 2021 as shown in <i>Figure 4</i> , significantly earlier than the first equity financing round in February 2023. From this we can conclude that after the seed round in May 2021 the number of shares has increased from 25,000 to 39,768. The CLA seed shares were then converted in 2023 during the first raise of the company’s Series A shown in <i>Figure 6</i> .
Secondaries	Secondaries can be recognized by the fact that an investor receives shares that have already been issued. For example, as can be seen in <i>Figure 6</i> compared to <i>Figure 2</i> . “Delivery Hero Ventures” owns the shares 8,751 to 10,000 after the equity-round in <i>Figure 6</i> , although those shares were previously held by “EVIG GmbH” (see <i>Figure 2</i>).
Unintuitively structured cap tables	There would be an unintuitive cap table if, for example, investor “Manta Ray Ventures” (<i>Figure 6</i>) had only received a coherent batch of shares (e.g. 25,001 to 29,846) instead of the two batches 25,001 to 28,895 and 39,769 to 40,719. This could theoretically have happened as he participated in one CLA- and one equity round and all shares were created during the same financing round. However, that would be unintuitive and not common practice as share numbers are given on a “per round” basis.

Shares issued to employees or founders	Not seen in this example. In this case, the founders, “EVIG GmbH” and “blue cells technologies UG” in our example, would receive additional shares beyond the shares from 1 to 25,000. This share increase would have been indicated in the right-hand column as demonstrated in <i>Figure 6</i> .
Time deviations between legal capital increases and public financing round announcements	If we consider the shareholder lists in <i>Figure 3</i> and <i>Figure 7</i>, we can see that they were notarized and uploaded 12 months in a row. However, the investor overview in Dealroom (<i>Figure 4</i>) does not state that a round should have taken place in 2024. Therefore, the question now is whether the share increase of 1591 (53,035 - 51,444) shares should be included in the calculated share increase of the last round in June 2023. In such cases, we have not included the additional 1591 shares, as the 12-month period is not an indication of authorized capital. Presumably a capital increase has taken place which was not recorded in Dealroom. However, concerning the company’s share increases in <i>Figure 3</i> compared to <i>Figure 6</i>, we have considered the share increase of 4,448 shares (51,444 – 46,996) in the firm’s series A of €16m announced in June 2023 as shown in <i>Figure 3</i>. We did this because the first half of the series A took place in February 2023 and these 7,228 (46,996 – 39,768) shares have the same share class as the subsequently newly issued shares in June 2023 (<i>Figure 3</i>), namely “Preferred Series A Shares” (see <i>Figure 5</i>). Furthermore, the public round announcement (see <i>Figure 4</i>) was made in June 2023, shortly after the first part of the series A was raised in February 2023 and at the same time the second part of the series A was raised in June 2023.

Source: Own creation

Table A21: Variable Definition

Dependent Variables			
Variable (Code)	Explanation	In-Text	Equation
A1) total_share_of_round_by_US*	Combined percentage of the round contributed by U.S.-based investors, indicating extent of U.S. involvement.	U.S. participation	share
A2) total_share_of_round_by_GER*	Combined percentage of the round contributed by Germany-based investors, indicating extent of German involvement.	German participation	share

B1) size_of_contribution_considered_investors_mio	Combined ticket size of all investor (U.S. and German) that participated in a round derived from the investors' share in the round and the round amount (€ million and log transformed).	Total contribution	ln(Contribution Size)
B2) size_of_contribution_US_investors_mio	Combined ticket size of all U.S. investor that participated in a round derived from the investors' share in the round and the amount raised by the startup (millions of euro and log transformed).	U.S. contribution	ln(Contribution Size)
B3) size_of_contribution_German_investors_mio	Combined ticket size of all German investor that participated in a round derived from the investors' share in the round and the amount raised by the startup (€ millions and log transformed).	German contribution	ln(Contribution Size)
C1) Pre-money valuation	A startups' valuation before the investment round, measured in € millions and log transformed.	Valuation	ln(Valuation)
C2) Pre-money valuation according to Dealroom	A startups' valuation before the investment round, measured in € millions. Valuations were either scrapped, entered by insiders or estimated by Dealroom.	Dealroom valuation	ln(Valuation)

*also functions as an independent variable

Startup Variables

Startup Hub	Binary variable indicating whether startups are located in the German startups hubs Berlin and Munich where 1 means that a hub is present and 0 that this is not the case.	Startup hub	hub
Startup Quality	Numerical variable representing the quality of a startup based on the time it takes to reach a certain stage and the presence of serial entrepreneurs, with 1 showing the best quality.	Startup quality	quality
Startup Client Focus	Categorical designation, indicating whether startups target b2b clients, b2c clients, or both (Multi-Hot Encoded in 3 binary columns, in which outcome 'b2b_and_b2c' represent the base scenario).	Startup client focus	clientfocus
Startups Business Model	Categorical variable representing the startup's business model, one-hot encoded, including the following categories: 'manufacturing', 'marketplace & ecommerce', and 'SaaS' (serves as base scenario).	Startup business model	businessmodel

Investor Variables

reputation_low_us, _low_germany, _moderate_us, _moderate_germany, _tier_us, _tier_germany,	Dummy variable representing investors average reputation in a round based on its HQ, derived by binning the global investor score (Reputation rank assessed by Dealroom) into three categories based on its percentile distribution: low ($\leq 5M$), moderate (5M–20M), tier (20M–100M).	Investors reputation	i_reputation
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Investor Portfolio Size	Numerical variable representing the size of an investor's portfolio based on its current value of all active portfolio companies, expressed in million euros, and scaled for regression.	Investors portfolio size	ln(i_size)
Investor Portfolio Proportion of Europe	Numerical variable representing the proportion of an investor's portfolio allocated to Europe, indicating geographical diversification of U.S. investors and local focus for German investors. Normalized for U.S. and German Investors separately.	Investors European focus	i_EU_focus

Financing round variables

Involvement of foreign Investors	Binary variable indicating whether a foreign investor is involved in the round, where 1 denotes the presence of a foreign investor and 0 indicates no involvement.	Other involvement	foreign_inv
stage_ Pre_Seed, Seed, Series_A, Growth	Binary variable representing the investment stage, encoded as follows: 0 (Pre-seed), 1 (Seed), 2 (Series A), and 3 (Growth).	pre-seed, seed, series A, growth	Stage
leadcountry_US, leadcountry_Germany	Binary variable indicating the geographical background of the round's lead investor where the lead is from the U.S. if the variable 'leadcountry_US' assumes the value 1 and from Germany if the variable 'leadcountry_Germany' assumes the value 1.	U.S. lead, German lead	Leadcountry

Industry and Time fixed Effects

startup_industry_energy, enterprise software, fintech, food, health, marketing, real estate, transportation	Categorical designation, indicating the startups industry among the following: Energy, enterprise software, fintech, food, health, marketing, real estate and transportation (Multi-Hot Encoded in 8 binary columns, in which outcome 'startup_industry_energy' represent the base scenario).	Startup Industry (namely all industries)	Industry
year_of_round_ 2018, 2019, 2020, 2021, 2022, 2023, 2024	Categorical designation, indicating the year the corresponding round was raised which are 2018 to 2024 (Multi-Hot Encoded in 7 binary columns, in which outcome 'year_of_round_2024' represent the base scenario).	2018, 2019, 2020, 2021, 2022, 2023, 2024	Year

Source: Own creation

Table A3: Descriptives

Variable	Mean	Std. Dev.	Min.	Max.
Investor characteristics				
Investor Size (US) (€ m)	3.00	13.08	(0.24)	116.97
Investor Size (US) (€ m; prescaling)	0.03	0.16	0.00	1.56

<i>Investor Size (GER) (€ m)</i>	0.60	1.86	0.24	18.22
<i>Investor Size (GER) (€ m; prescaling)</i>	0.01	0.03	0.00	0.25
<i>Reputation Low (U.S.)</i>	0.16	0.36	0.00	1.00
<i>Reputation Low (GER)</i>	0.48	0.46	0.00	1.00
<i>Reputation Moderate (U.S.)</i>	0.06	0.24	0.00	1.00
<i>Reputation Moderate (GER)</i>	0.34	0.42	0.00	1.00
<i>Reputation Tier (U.S.)</i>	0.03	0.18	0.00	1.00
<i>Reputation Tier (GER)</i>	0.11	0.28	0.00	1.00
<i>EU Focus (US) (av. norm.)</i>	0.00	1.00	(0.44)	7.62
<i>EU Focus (GER) (av. norm)</i>	0.00	1.00	(2.88)	0.73
<i>EU Focus (US) (prescaling)</i>	0.05	0.12	0.00	0.99
<i>EU Focus (GER) (prescaling)</i>	0.80	0.28	0.00	1.00
Startup characteristics				
<i>Startup Hub</i>	0.564	0.496	0.00	1.00
<i>Startup Quality</i>	0.576	0.264	0.11	1.00
<i>SaaS (BM)</i>	0.585	0.493	0.00	1.00
<i>Manufacturing (BM)</i>	0.238	0.426	0.00	1.00
<i>Marketplace & Ecommerce (BM)</i>	0.177	0.382	0.00	1.00
<i>Pre-money valuation</i>	2.73	1.19	0.26	7.77
<i>Pre-money valuation (prescaling)</i>	39.97	138.45	0.30	2363.97
<i>Pre-money valuation Dealroom</i>	2.91	1.20	0.17	6.90
<i>Pre-money valuation Dealroom (prescaling)</i>	40.67	83.62	0.18	990
Financing round characteristics				
<i>Lead from U.S.</i>	0.15	0.36	0.00	1.00
<i>Lead from Germany</i>	0.69	0.46	0.00	1.00
<i>Foreign Involvement</i>	0.40	0.49	0.00	1.00
<i>Participation U.S. (%)</i>	0.11	0.23	0.00	1.00
<i>Participation Germany. (%)</i>	0.46	0.31	0.00	1.00
<i>Pre-Seed</i>	0.10	0.30	0.00	1.00
<i>Seed</i>	0.59	0.49	0.00	1.00
<i>Series A</i>	0.24	0.43	0.00	1.00
<i>Growth</i>	0.07	0.26	0.00	1.00
<i>Contribution Total (€ m)</i>	1.43	1.18	0.02	6.45
<i>Contribution U.S. (€ m)</i>	0.34	0.90	0.00	6.36
<i>Contribution U.S. (€ m; prescaling)</i>	3.24	27.65	0.00	579.63
<i>Contribution GER (€ m)</i>	1.04	0.78	0.00	3.82
<i>Contribution GER (€ m; prescaling)</i>	3.04	4.71	0.00	44.69
Industry & year fixed effects				
<i>Energy (Ind.)</i>	0.14	0.34	0.00	1.00
<i>Enterprise Software (Ind.)</i>	0.21	0.41	0.00	1.00
<i>Fintech (Industry)</i>	0.16	0.37	0.00	1.00
<i>Food (Ind.)</i>	0.11	0.31	0.00	1.00
<i>Health (Ind.)</i>	0.17	0.37	0.00	1.00

<i>Marketing (Ind.)</i>	0.07	0.25	0.00	1.00
<i>Real Estate (Ind.)</i>	0.06	0.23	0.00	1.00
<i>Transportation (Ind.)</i>	0.10	0.30	0.00	1.00
<i>2018</i>	0.02	0.12	0.00	1.00
<i>2019</i>	0.05	0.22	0.00	1.00
<i>2020</i>	0.08	0.27	0.00	1.00
<i>2021</i>	0.19	0.39	0.00	1.00
<i>2022</i>	0.28	0.45	0.00	1.00
<i>2023</i>	0.23	0.42	0.00	1.00
<i>2024</i>	0.16	0.36	0.00	1.00

Note: *p < 0.1; **p < 0.05; ***p < 0.01

Source: Own creation in Python

Table A4: Regression Tables

	(A1) Participati on U.S. (%)	(A2) Participation GER (%)	(B1) Total Contribution	(B2) Contribution U.S.	(B3) Contribution GER	(C1) Pre-money Valuation	(C2) - Dealroo m Valuation
<i>Variable</i>	Coef.	Coef.	Coef.	Coef.	Coef.	Coef.	Coef.
<i>const</i>	-0.0268	0.727***	-0.1230	0.1419	-0.2649	0.9349*	1.2831***
<i>Investor characteristics</i>							
<i>Reputation Moderate (US)</i>	0.0876*	-0.1259*	0.5231**	0.3056**	0.2175	0.2343	0.504**
<i>Reputation Tier (US)</i>	0.1204*	-0.0841	-0.2771	-0.0631	-0.2140	-0.1137	-0.0016
<i>Reputation Moderate (GER)</i>	-0.0063	0.0866**	0.3169***	0.0957	0.2211**	0.201*	0.2051*
<i>Reputation Tier (GER)</i>	0.0002	0.0525	0.4453**	0.0003	0.4450***	0.2327	0.2478
<i>Investors Size (US)</i>	0.0035***	-0.002*	0.0178***	0.0154***	0.0024	0.0066*	0.0058
<i>Investors Size (GER)</i>	-0.0071	0.0066	0.0400	-0.0047	0.0447**	0.0431*	0.0578**
<i>EU Focus (US) (av. norm.)¹⁾</i>	0.0862***	-0.0608***	0.0958*	0.1087***	-0.0129	-0.0287	0.0144
<i>EU Focus (GER) (av. norm.)¹⁾</i>	-0.0581***	0.0593***	0.1934***	0.0304	0.1630***	-0.0317	0.0226
<i>Startup characteristics</i>							
<i>Startup Hub</i>	0.0143	0.0191	-0.0140	0.0310	-0.0450	-0.0576	-0.116
<i>Startup Quality</i>	0.0046	0.0082	0.1986	-0.0835	0.2821*	0.3629*	0.4265**
<i>Manufacturing (BM)²⁾</i>	-	-	0.1948	-0.0470	0.2418**	-	-
<i>Marketplace & Ecommerce (BM)²⁾</i>	-	-	0.3295**	0.0754	0.2540**	-	-
<i>B2B Focus</i>	-	-	-	-	-	0.3142*	0.2229

<i>B2C Focus</i>	-	-	-	-	-	0.3653**	0.3014*
Financing round characteristics							
<i>Foreign Involvement</i>	-0.053**	-0.1723***	0.0007	-0.1082	0.1089	0.1308	0.2248*
<i>Seed</i>	0.0121	-0.0586	0.2952*	0.0709	0.2242*	0.4038***	0.4535***
<i>Series A</i>	0.0962***	-0.1053*	1.1577***	0.4150***	0.7427***	1.3117***	1.4957***
<i>Growth</i>	0.1166**	-0.1841**	2.3022***	1.2668***	1.0354***	2.7056***	2.4822***
<i>Lead from Germany</i>	-	-	0.4099***	-0.1384	0.5483***	-	-
<i>Lead from U.S.</i>	-	-	1.3398***	1.1933***	0.1465	-	-
<i>Participation U.S.</i>	-	-	-	-	-	0.7602***	0.4311
<i>Participation GER</i>	-	-	-	-	-	-0.143	-0.2349
Industry & year fixed effects							
<i>Enterprise Software (Ind.)³⁾</i>	0.0142	0.0194	0.1552	0.0015	0.1537	0.0211	-0.037
<i>Fintech (Industry)</i>	0.023	-0.0393	-0.1378	-0.1717	0.0339	0.1229	-0.0453
<i>Food (Ind.)</i>	-0.0342	-0.0229	-0.1417	-0.0752	-0.0666	-0.0099	0.0317
<i>Health (Ind.)</i>	-0.044	-0.031	-0.0236	-0.0869	0.0634	-0.0499	0.1131
<i>Marketing (Ind.)</i>	0.0029	0.0263	0.2969	0.0226	0.2743	0.2765	-0.0177
<i>Real Estate (Ind.)</i>	0.0145	-0.0567	0.0123	-0.0508	0.0631	0.0892	0.0724
<i>Transportation (Ind.)</i>	-0.054	0.0805	-0.2974**	1.64	0.3043*	0.2143	0.092
<i>2019</i>	0.1308	-0.1009	-0.1183	0.3380	-0.4563	-0.0468	-0.3489
<i>2020</i>	0.0781	-0.1546	-0.2232	-0.1243	-0.0990	0.0505	-0.1641
<i>2021</i>	0.0784	-0.1302	0.1032	0.0665	0.0367	0.3608	0.2723
<i>2022</i>	0.129*	-0.1844	0.0079	0.0111	-0.0032	0.2572	0.2396
<i>2023</i>	0.0979	-0.1632	-0.0888	-0.0187	-0.0701	0.3491	0.2096
<i>2024</i>	0.0779	-0.1573	0.0122	-0.1173	0.1295	0.5381	0.4081
R-squared	54.4%	40.6%	59.7%	72.4%	44.2%	60.2%	60.1%

Note: *p < 0.1; **p < 0.05; ***p < 0.01; 1) normalized around mean for regression; 2) Business model; 3) Industry.

Source: Own creation in Python

Expert Interviews

Expert Interview I: *Semi-structured Expert Interview*

Nele Janßen – 00:06

Okay, perfect. I think we can start then. So, the first two questions are to just confirm that it's an interview that's in the scope. So, the first question would be to just if you could briefly describe your experience and role within your firm or within the growth equity firm.

Interviewee – 00:26

Sure. So I'm a partner at the firm. So I worked seven years in the fund and I am a GP and meaning I'm also like invested myself in the underlying GmbH and also one of our partners running overall operations but very much involved in the day to day investment process. So, finding companies, investing in companies and then helping them to create value and at the end to exit them.

Nele Janßen – 00:58

Perfect. And have you been involved in rounds with US investors?

Interviewee – 01:03

Yes, I also invested in companies in the US actually out of our first fund and we have actually quite a number of US investors or you can call Anglo Saxon with partially like US focused. I would call it that.

Nele Janßen – 01:22

Okay, perfect. So then, moreover, how would you describe the role of US investors in German funding rounds more particularly over the last decade.

Interviewee – 01:36

And what I would say in terms of like from a German perspective, from a European perspective or from an international perspective, what would be more helpful for you guys?

Nele Janßen – 01:45

I feel like mostly for the German and also the European perspective. But the main scope of thesis is German rounds.

Interviewee – 01:55

Sure. Actually looking at the space and why I'm asking this question is there has been a development over time. So, looking where the market is actually coming from, the US market still is absolutely more kind of sophisticated than the European landscape. In Europe they are quite simple differences. So, when you actually look at France, it's getting more

sophisticated. UK it's quite far more sophisticated again than continental Europe. And the Scandinavian countries are also in terms of capital and also like public investing, much better compared to for example Germany. And Germany has a lot of like lack in terms of like getting there. That is again very different for stages. So, for example our fund we're investing in growth, so in between venture and private equity. So, a bit later stage series onwards that's again different to early stages. Early stages historically is again a bit more a regional play. It's also like the ecosystem in Germany for example with Rocket Internet and so on got much better. You've got a lot of really great companies. Also like early stage investors, you also got the US ones. So for example Sequoia and like Accel and Index and so on. They even have like people that are doing like lead rounds and are doing like especially as founders for example and scout activities to find deals. So for example, Hanno, the CEO of Personio is actually, I think he does it for Accel. But Accel and Index are both invested in Personio so it could be also for both, I don't know. But they are actually getting money from these funds to directly invest on behalf of their own names into early stage companies that are sometimes even seed rounds in going in there. So yes, they are also American kind of investors. However in reality because like close relationship and they are good founders and so on plays a role angels and early stage rounds are still I would say also regionally biased and it's different mid stage and later stage. The later you get it's completely actually not making such a huge difference. There's actually a huge advantage even for US investors because the US is very often the market people want to enter. So that means actually the topic is there to some extent. The question then very much comes in and when we started actually there haven't been so many in the cross round side of things. It's different now. So you find enough capital and there are enough investors. The difference is very much like how good you are as a company and how good your reach is in terms of finding investors and how international your story is. Because if there is no US angle, if there is no globalization angle and so on, it's of course harder to find investors again also

from the US and they play them differently. And that's also again to the example of Personio. Personio is actually currently a quite European, a pan European game with very strong US investor base. So, you can say yes, there are also like US investors that are going in. But that's very much linked again to the kind of greatness of companies, the largest size of like also addressable markets where you have these Americans. So, I would say the American market is very sophisticated. You can say that from overall the more region matters, the more you also have the regional players. That's very often the earlier in the stages and it's still relevant for example on growth rounds. The more the US plays angle and the better the companies are, the more the US funds come into play.

Nele Janßen – 05:20

Could you think of reasons why for example France and UK are more sophisticated but Germany isn't keeping up the same speed?

Interviewee – 05:29

Yeah, I think it's access to capital is the largest one in terms of also access to capital funds and the governments are doing very large initiatives, largest initiatives very often than for example in Germany, KfW and so on starting to do more things. But if you look at BIP in France for example, it's crazy how much is happening there. Also like good companies are needed. They need really to invest in these stages, for example in AI and so on. And like Allianz is one of the biggest investors in Eurazeo, for example an German company funding it. And the topic so out of this is that like a couple of these companies in terms of access of capital to regulation. Regulation is also different for some of the companies and earlier or better there the other topic is also like how close are markets to capital markets again. So, from a past dependency point of view, Germany is always for example adept and a banking market like a house bank market similar to Japan. Whereas the UK is much closer to the US and the capital markets. Meaning the more there is closeness to like public markets and so on. The closeness

normally to capital and private markets is higher and which again then can have other regulatory reasons and like tax and so on and so forth. But I think the majority is then extend again through the excess of capital. The topic how is the overall environment, how much money is coming into these markets and who are then the big investors. And if you just count the investors also like what. What funds have under management, it's just huge. But also like US also Asia to some extent. But some of these European countries have in comparison to also Germany for example, but also like Austria is pretty bad there as well. Switzerland is quite good actually compared to the size. And BIP is actually quite good in terms of like sponsoring and supporting like startups.

Nele Janßen – 07:24

What would you say are reasons for that? What in your opinion makes Germany an attractive destination for US investments?

Interviewee – 07:34

Like for US investment I think it's very attractive because like the overall market based on the strong backbone. And yes, you can argue whatever is happening now, but we still have a lot of market leaders, we still have a lot of engineering talent, we have a great ecosystem. In terms of closeness to large corporations, like selling to enterprise. Yes. The strengths of certain markets like automotive and like SaaS. Yes might be different now, but still in terms of from an overall perspective, you have everything you need in Germany. And the thing is also why US investors like the market. It's highly reliable, it's still politically stable, it's still not like totally high in terms of inflation. And yes, even if the market is not growing, they are cherry picking the best assets. And so if you actually look at the number of investments U.S.

Investors do and for example in the growth stage you can take Insight Partners as kind of one of the largest investors there. I would say the majority of the deals they do in Europe is like Germany and I've seen it for some years, so don't quote me in terms of every year. But overall

what I mean is Germany still stands for a prime standard compared to. For example, we're also like people invest in their trade companies. But it's different if you go in a CE country depending where it is. It's different in terms of. If you go to Turkey, there are certain things in terms of reliability or also France in terms of labor laws and also what can be done there in terms of debt loss. And I am in two French companies.

It's quite different to some extent also than exit markets and things. So Germany still is, even if you always complain, actually very good in a lot of. In a lot of dimensions.

Nele Janßen – 09:15

Very interesting. So to come to the next topic, it's more considering the valuation. So the first question would be in your experience, how do you typically approach valuations for German startups and which factors influence the valuations the most?

Interviewee – 09:37

For which size of startups? Like early stage, mid stage or later stage or all?

Nele Janßen – 09:46

I mean your focus is, I mean mostly on later stage. So, it's probably the best if you could focus on this and maybe if there's like some major differences, it would also be helpful to just hear like quickly the major differences compared to stages.

Interviewee – 10:00

Yeah, I think which is like agnostic to stage is also the access to capital. So, at the end of course the best companies get the highest valuations. What does it mean to have the best companies? The best companies are the best people, best product, best market, largest market, best tech. And then some of the other dimensions in terms of that you can't fully measure. But for example, how good are they already in terms of KPIs for later stage ones, but earlier stage you see some elements of them, but also how much competition is there and so on cost. And if

you look at these topics, environment size matters is the smaller a company is, the more relevant is the people. So you always have the discussion around team versus product.

So jockey or like I think versus horse or something like this is the literature about this. And even though the interesting thing is the earliest you invest, the more the market matters. Because at the end if you're investing in the right trend, it doesn't matter if you are the best team. But if you are a team in the right market, you potentially grow faster than if you are actually the best team in the wrong market. Because like just the product is too niche and something like this changes over time because at the Stage where we invest, you have real numbers, you have real customers, you have certain elements. The topic of downside is much lower. However, the topic of upside and like growing this fast is also smaller.

Which means at the end, at our stage we are still looking at exactly the same topics. However, it's not only team, it's much more also KPIs numbers and the difference what changes there, it's kind of the prime standard in software investing is always ARR and arrows. So how strong are companies growing? And like the prime standard is like triple, double, double. That means like from the first time they have revenues at least like triple, double, double is kind of the really top, top, top. And then you could look at some other topics like sales efficiency, cash flow. People are looking much more currently at cash flow and at the end it's a negotiation. So valuation is also not like an art. And you can actually say current market is.

I would say current market is in between like something like 6 to 8 times. For good startups it used to be 10 times, that's now not anymore the case like 10 times. But at the end it's a negotiation and it's also not only valuation, but it's also structure. So if you actually put their valuation liquidation preferences on top of your valuation, it can be a totally different game than just purely looking at valuation. What everybody normally quotes.

Nele Janßen – 12:39

And now that you already mentioned the different stages, we found some discrepancy in how founders named these stages and then how you had the stage names and public databases. What would you say would be the most reliable source for to actually compare stages within each other?

Interviewee – 13:02

I think in terms of stages that's actually not so important. A stage is actually something, if you look, there are a lot of definitions. The first definition is the classical topic around looking at rounds is potentially something that works well for companies that do a seed round when they are small and the series A when they are in classical terms pretty small, but having revenues a series B when they have something like 5 to 10, 50 million revenues, a series C then afterwards, and then it comes to a pre IPO round. IPO round. However, we have a lot of companies we invested that are 20 million ARR big and they have never done a round. So would you call that a series A? Theoretically, yes. Is it a series A in that definition?

Interviewee – 13:46

Less so there you could actually say it's also a question around stage where I think what's pretty clear is private equities, normally profitable companies that you can also leverage with debt. So on the largest kind of side in between the differential if differentiator would be for me, do they already have a product? Do they already have customers? Because everything else is really early stage. And that's then seed stage or series A and everything that already has revenue. And then it depends on the investor type where they look in. And that's then kind of still for most of the investors, all called venture as long as they are cash burning. And these are then the stages. When the companies are somewhere in an area between 1 million, a lot of investors start to look at 5 million like we do.

A lot of other investors start to look at 10 million and latest at 20 million. You kind of have everyone in this uncle.

Nele Janßen – 14:39

Okay, and would you say there's a correlation between the valuation and US investor involved in the round, which is it would drive up the valuation because they can pay more?

Interviewee – 14:50

Yeah, but there's a bias in there. It's not only the reason that US investors are more open to pay, it's also a correlation that they are looking at the best assets. So you have different types of investors. And what I can actually share, if you have, I can later on after the call I can actually look up, I have a slide where we kind of put down different funds. How we see them in terms of how aggressive, so high paying versus how much they are a bit more conservative. And that changes of course. Early stage, everybody's aggressive. Later stages, it changes actually tremendously how we are actually seeing funds. And this is again very important when you say they pay higher valuations because for example, when Tiger Global in 2021 and before invested a lot, they paid very high valuations.

However, they also invested in a lot of very good companies. And as one person, like an MD from Insight Partners told me said, yeah, Tiger Global doesn't have to pay extra. So, it's not by definition just because they are Tiger Global, they paid high. But yes, normally because they went into the best ones and they wanted to better than the others, they paid higher. But this prejudice in terms of US investors overpaying is I think correlated very much to the quality of assets they are looking at in these quality assets there. It's true as well. So, reason why we lost, for example, I lost a couple of times against Insight Partners. Yes, they are more actually sensitive to valuations. And the reason is for us for example as a Fund with overall 750 million under management versus like Insight Partners with more than 30 billion, there is a difference of course in terms of the individual asset, what that means for our return and how open we are to take risk. So, the larger the fund is, the easier of course for them theoretically to outprice others. However again that doesn't mean that Insight pays per definition more. I also lost against

Insight with the same price. So, saying this, they are also like a very aggressive European investors and it's also sometimes and how you win against US ones is if you have a lot of conviction and yes valuation and price, the more the bigger the companies are plays a huge role.

And that I would say yes, there is potentially a correlation but the correlation is not only driven because they can, it's also driven because they develop conviction, they go into the best assets and because of the fund size they can actually allow themselves to also pay up if wanted. And that's actually more extreme for Index and Excel. For example, if you look at if index, Accel or like Sequoia, if they go into a deal and they really want it, they don't care because they actually think about price much more. What is theoretically the limit or in European times would be Atomico, Lakestar, they are pricing in a similar way.

Nele Janßen – 17:40

And how would you describe the effect of the investor reputation? I mean you mentioned like reputable US investors that you know, are they also like for example if the reputation is higher would startup be also willing to have a different valuation price?

Interviewee – 17:59

My experience is it's very much based on the people and looking at us for example, we are also compared to a lot of the large ones. We are a boutique and a smaller fund. Could we still win and are we able in some discussions to differentiate ourselves because of people? Absolutely. But it's not because we have the reputation. The reputation helps. And like for example Insight Partners always says it's the bells and whistles. So if they call you of course you're looking at these things differently. However, if for example we pay a different valuation and we show how we can help, the reputation is diluted pretty fast. Does it help? Yes, of course. Does it help if you are on an even level? Absolutely. Is it the main topic for the decision? Well, I wouldn't say so.

If you're actually a good enough fund and you are investing in the right spot and you have like some track record and you can bring something in there, it's still at the end, it's still very much about price and then the individual person.

Nele Janßen – 18:59

Okay, sounds good. How does the reputation of VC firm influence your decision-making process? So also what are the co-investors in a deal that you are familiar with? Like if you know there's like a more reputable investor or less reputable investor would also push you more to look further into this if you know the co-investor is more reputable.

Interviewee – 19:25

It's in both sides actually. And I would actually say the reputation is for me also the topic around quality and I wouldn't say it's exactly the same because you have like, you can say the reputation which you see in the press and everybody knows can be really high, but the quality and actually how they behave in certain situations can be actually quite different. And the other way around there can be actually funds that don't have a huge reputation externally, but in their niche or something, they're really good and they're really reliable. And that's again like depending on the individuals as well. So saying all of these things, what I would say, yes, of course co investors is a huge thing, especially minority investing. And yes, it drives decisions.

Again, the question is if you really like an asset, how much can you share and change certain things? You can still try in terms of negotiating that certain investors have less rights, whatever. But at the end it's also very much driven by the underlying asset by itself. But yes, of course quality of investors matters, but in both ways, if we see for example there is an Accel and an Index invested and the company we are looking at, that can also be a negative point because normally valuation is so high that when they even offer it to us, the big question comes why do they actually offer it to us? Is there something wrong or do you actually have to pay high, this high that it's very hard to get your returns?

Nele Janßen – 20:55

Well, we also found some studies suggesting that the high reputation VC firms can also get firms for a discount. Would you prove this or have you seen this? Or would you disapprove this?

Interviewee – 21:08

More a theoretical question because again it's correlated with the quality of companies. So if you are saying the best company that has everybody competing, the price potential will be high. So, can you then still say they are buying it as a discount? Yeah, compared to someone else who has to price in there. And that's potentially something you can observe very well with Tiger Global. Tiger Global did not have any reputation kind of in the private market before they won a lot of deals. And yes, they potentially paid up to get the winning. There would like an Insight Partners or someone else or a Sequoia or something wouldn't have had to pay this much as they did because they had a better reputation. Potentially, yes. The only thing is there's a bias in comparison. Because on the deals that we, for example, invest, we very often don't see the competition from these funds or there's a very clear reason why they are not there or wouldn't win against us.

Nele Janßen – 22:03

Okay, makes sense. This was already the questions for like the more structured part of the interview. What would you say are the most gainful insights we should look at as well? So we already touched upon valuation reputation. I think the local bias that you also mentioned was like really, it's really important for thesis and a lot of empirical findings match quite good with what you said. And now it was really helpful that you gave us more insights to actually describe reasonings for the things we found. But would you say there's anything more we would have to look at that we maybe haven't explored yet?

Interviewee – 22:47

The question in terms of what is thriving at the end valuation, or why funds win rounds? Or what would be the underlying main question you want to solve? So do you want to solve why a VC fund win a deal? Or why are certain things or what is kind of your underlying thesis that we want the questions to look at?

Nele Janßen – 23:10

So it's two things. It's one, what influences US investors to go into German startup rounds? And also what are the reasons? Like why are they more competitive and why are they able to win all of them. So are there more underlying reasons that are maybe less obvious that we haven't touched up on?

Interviewee – 23:30

Yeah, because I'm just looking. I actually did share it with someone already. There are a couple of people looking, not so much on the US part, but have you worked actually with Felix Wiese at some point of time? Because he wrote his thesis on that topic as well. What makes the decision of a fund, like what is driving the decision of a fund? And I shared actually with him also, I think the Atomico study, but I have to look it up. One second, sorry. And this because there is actually some documentation. Have you looked actually at the Atomico report that came out as of now? Actually?

Moritz Jonathan Von Pander – 24:15

Yeah, we already covered that one. Always do a yearly funding report, right?

Interviewee – 24:24

Yeah, I can actually. Yeah, you can actually ask Felix Wiese if you want to. I can also ask if he's fine with. I have his master thesis. If he's fine, I can ask him to share it with you because he did actually look at the comparative analysis of the venture capital fund selection attributes. So he actually looked at some of these topics, if that's helpful. Don't know if he shares. But the other thing is the Atomico report I think has that actually also pretty qualitatively

in there in terms of how actually funds are looking at topics versus our founders looking at that topic as well. I don't know if you've seen that already in that study, but I think that's a helpful one.

Nele Janßen – 25:15

Yeah, that sounds really nice. So yeah, if it's fine, we would be happy.

Interviewee – 25:21

Yeah. If you want to, I can also share this one picture I mentioned with you guys. Perhaps that's helpful in terms of placing the different funds on US part versus European. There is potentially a lot of studies also if you look at like the European investment fund and comparing this, but I don't have anything, especially not anything that could even qualify as research or like university grade stuff that I don't know.

Nele Janßen – 25:50

Like also the. You mentioned the slide earlier with the local buys where you rank. Where you rank the investors by paying higher valuations.

Interviewee – 26:01

Exactly. That I would share with you.

Nele Janßen – 26:03

Okay. Okay, perfect. Sounds good then. Do you maybe have any other questions that I haven't dived in?

Moritz Jonathan Von Pander – 26:14

We definitely covered the main questions. I would have one or two extra questions if you have a couple minutes. So one topic that we're also looking at is the startup specific variables. So for example, the business model, is it B2C versus B2B or both, whether it's manufacturing or software or e-commerce/marketplace, also sort of where they're located in Berlin, Munich, in the hubs or not in the hubs? Is there any big developments that you've been seeing in the last

10 years in terms of the companies being funded by both early stage and growth investors in terms of the startup characteristic?

Interviewee – 27:03

In terms of quality overall or in terms of numbers?

Moritz Jonathan Von Pander – 27:07

Yeah, overall in terms of numbers. Because for example, what I've been observing is that there's sort of a shift from B2C to B2B now I mean I've also worked for the firm, an early stage VC and I think it's safe to say that in Germany they're like probably 80, 90% B2B funds. But we haven't been able to quantify this one, for example. So we're interested to see. See how you see like the startup types shifting in terms of the investor focus?

Interviewee – 27:42

No, so overall I would actually say that's very different for Germany, but again, particular to Germany. Right. Because like if you're looking at Germany there's actually quite a difference there also in terms of that region doesn't matter much. You still have hubs there with like Berlin to some extent Munich and some others. But in reality location doesn't matter so much. What changed B2C versus B2B. But that's a bit like a standard shift that you have in terms of the startup environment. So what you see is the more it goes into crisis mode, people are looking at B2B because B2B is much more reliable, kind of less volatility. And B2C is kind of the same thing. But in 2021 you had a lot of B2C. So if you see how much money went into Gorillas, these E scooter business models and all of these things. So yes, you have a tendency there. But it's a bit also flavor of the day at the end. It's very much also what do you know as a fund. So we only did B2B because we don't have a clue about B2C. There are still people out there that will also again do B2C and B2B has another hype certainly again the question is there. B2C is also different timeframes very often. So it can go much faster. But it can go also much faster down. But they are still trade B2C brands and things out there. So I would say yes, in current

time there's a difference around cash flow positive. There's a difference around people being not so risk as being more risk averse.

There's a topic around LP giving less money to early stage venture funds and to risk. There's a topic around economic down cycles and so on and so forth. And this is then the topic that is driving this on a regional topic in Germany. I wouldn't actually so much look at it. You still have hubs, so Berlin is potentially still a lot as I said. Then there's Munich. We have investments in Bochum, in Wolfsburg, in. Yes, also in Munich, in Berlin, but also in Hamburg. So I wouldn't say there is a huge correlation in terms of that. The only thing is there's a correlation between talent. So you still have like hubs that are really good, but you also have great hubs like in Karlsruhe and you have great hubs in like other locations in Germany. So that I would actually discount more. But the B2B versus B2C. Yes, true, there has been some topics, but small flavor of the overall topic, then that you can say it's a dynamic that will continue to be like that.

Moritz Jonathan Von Pander – 30:22

Amazing. Thanks a lot. I think, Nelly, if you don't have any other points, we can wrap it up. Let's switch to German. Thank you so much for your insights.

Nele Janßen – 35:55

Thank you.

Interviewee – 35:56

Thank you.

Expert Interview II: *Semi-structured Expert Interview*

Justus Lutterbey – 01:35

Okay, perfect. Then let's switch to English as we're going to talk with another interview about our master theaters. And I would say that we can start right away and I will start with the first

question which is basically about your personal background. So would you maybe just briefly describe your experience and role within the VC firm you're working for?

Interviewee – 02:05

Okay, sure. Yeah. So I'm a principal at the firm. I've worked basically my entire corporate life in venture capital. Worked at another Berlin-based fund before. Always doing enterprise tech deals. Early stage. Originally have a business background, started logistics companies back in my studies. Did that for a few years and then in 2019 switched over to the “dark side” and since then stayed there. Is that enough or do you need any more information on that?

Justus Lutterbey – 02:38

Sounds good. Next one would be as already introduced previously, our scope are US-German transactions within Germany in German startups. The question would be whether you have been involved in the past at your current position or earlier in rounds with US investors also participating?

Interviewee – 03:02

Good question. I don't think personally, no. At my previous fund, we had definitely had a few investments where some US investors invested. And here at the firm, we, I mean it's quite a new fund we started two and a half years ago so they're just raising the relevant rounds now.

Justus Lutterbey – 03:30

Okay, all right, perfect. Then we would go over to the section of cross-border VC related questions and the first one would be then also more precisely how you would describe the role of US investors in German funding rounds over the last decade. So the development, the current state, everything that comes to mind.

Interviewee – 04:06

It's definitely becoming more so I think there's definitely an increase. Where you see it most often I would say is in larger growth rounds. I mean obviously there are now some growth funds

in Europe as well. But especially the very large rounds are mostly driven by US funds in early stages. You sometimes see them in these hype rounds, but it's still not too often to be honest. It's still very rare. You're still competing in these top rounds usually with like UK investors, Nordic investors, French investors. Not that often with US investors I would say because only a few of them are really investing in Europe. I would say these are these mega funds like a General Catalyst or sometimes you hear like a Kleiner Perkins investment and so on. But they don't really have a team for that here I would say. So they're just looking opportunistic and oftentimes I think it's driven by the previous investors in their company.

Justus Lutterbey – 05:12

Okay, so you mean that they're not the very first investor of a startup. So it's rather the case that another fund with good signaling is already investing and then they're syndicating with for example like the UK-based fund.

Interviewee – 05:27

Yeah, I would say in pre-seed, rarely see it or maybe never see it sometimes but it's still rare. And series A is where it's becoming more often.

Justus Lutterbey – 05:38

Okay, perfect. Interesting. Then connected to this point, what is in your opinion like the reason for that? So like what makes Germany an attractive destination for US VCs in comparison to other European countries?

Interviewee – 06:00

I'm not sure if it's really an interesting market to be honest. I mean that's why not that many US investors I guess are investing in Europe because I think the pricing rounds, especially in early-stage rounds are not that different but the exit prices are totally different. So it doesn't really make a big difference. Even though it's quite a comparable market, it's still super hard to understand European markets because they're just totally different. Different. I mean Europe is

as large as the US from the people living there. So just doesn't make sense to spread across too many countries. And it's I think quite unusual for us VCs. But yeah, what makes it interesting maybe turning that around. There's some markets that are just really great here. Like if you look into the energy and into the hardware space etc, there are definitely some companies where you find like the right talent in let's say Munich, for example. So I think that's super interesting. And then there's some. And I think that's, that's. That might be another trend actually these companies where they invest in are oftentimes like multinational global companies, let's say an AI company where it doesn't really make a difference if you start in Switzerland, Germany or the US or something like that. So yeah, I think that's maybe another trend there.

But yeah, let me think about the original question a bit more actually. Germany, Europe, it's not that easy to be honest. I don't know what's big for Europe to invest here. You definitely need a team usually. Also some investors from the US have London teams like Sequoia, etc. Some others like General Catalyst, actually just buy funds like La Familia to actually do their operations here. It's not an easy market, I would say and I'm not sure if it's worth for most VCs. I think it's just really worth to these really big ones that just have too much money to invest and then have to look where the investors.

Justus Lutterbey – 08:13

Okay, makes sense. And you previously said they focus on later stages. What would you say are the main reason here?

Interviewee – 08:24

I think it's more easy to invest then because it's more visible for pre-seed. Seed, you definitely need connections here. You need to speak frequently to other investors. You really have to compete with other investors. And series A, series B, series C, just look up Dealroom, Pitchbook, whatever and you see, okay, who raised a large seed round by some good investors

last year and then get in contact with them. So you just have to screen companies because most of them died already. And then you just have to filter out for the even better ones and it makes it a bit easier. And I think they're not that price sensitive, so they easily get into the rounds and just overpay for European standards a bit and are still happy.

Justus Lutterbey – 09:09

Okay, yeah, makes sense. That's also because you previously touched the points that there's also a difference in the exit markets. What do you mean by a difference in the exit market?

Interviewee – 09:28

I mean the exit valuations you get in Europe versus US are completely different. I mean in the US, the IPO market is much bigger and you just get other multiples, et cetera. So, it's not really attractive for them to invest in Europe for that reason. I mean if you look into German IPOs, I don't know which one was really successful in the last years for tech investors in the US that's completely different.

Justus Lutterbey – 09:57

Yeah, sure. Of course also the possibility that European companies get listed elsewhere, but of course also makes a difference here. Perfect. And then maybe last question connected to the like cross-border section, the reasons why US investors are going to Germany. You mentioned that they invest in some startups here, especially in later stages. What would you say are like company specifics they are looking at if you know some? So would you say like related to the startup location? For example, is their focus on a hub or that they're investing like over the country or is there for example related to the business model? Do they focus on a certain business model, maybe SaaS or manufacturing or like a client focus of B2C or B2B? Do you see some specifics here?

Interviewee – 10:59

No, I think that spreads across everything, I would say. I think what's super interesting to many US investors obviously is the phase where they're going to the US and want to scale there. So I mean that's a timing where they can obviously bring some value and where it's also more attractive to invest then. But they invest in B2C. They invest in B2B, too a lot. And software, I would say. I can't really see a big difference there, I would say.

Justus Lutterbey – 11:28

Okay, so it's rather the case they want to scale, expansion is interesting and then they try to be funded by US investors. Then let's go to the next topic. I mean we already touched the topic a little bit, but maybe elaborate a little bit on this, which would be valuation-related questions. So first, in general, what would you say are the most important factors to value German startups?

Interviewee – 12:04

I mean, I think, I'm not sure if it really makes a difference where the company is based, to be honest. I mean still, obviously the normal factors like traction, team, product and market, those are the typical factors. I think the only thing that really differs is the multiples, for example, on the revenues, etc. So you obviously have different standards to value a company, but I don't think that you look at different things there.

Justus Lutterbey – 12:50

All right then we just spoke about different stages and you already mentioned your focus. Would you say that there's like a difference in labeling? So for example, how investors label rounds or how startups label rounds.

Interviewee – 13:21

I think the labeling, no, I think the labeling is quite similar. I think the round sizes in comparison or in relation to the labeling, that varies a lot. I mean now seed rounds are easily 4 or 5 million big. And in Germany that would be quite a big seed round. It's not impossible or anything, but

that's the top 10%, maybe top 5% seed round in the U.S. that's like average maybe. So I think they still label the rounds the same but just the investments and evaluations differ sometimes a bit.

Justus Lutterbey – 14:03

Okay, perfect. Then to elaborate a little bit on the valuations, you already said that they're getting higher as soon as US investors enter the round. What would you say are the main reasons for that?

Interviewee – 14:27

I mean it not automatically has to increase when a US investor invests here, but I think oftentimes they also don't have really on comparison. I mean every investor, there's no, especially in early stage or let's even say like a series A, there's no real rule for evaluating a company. Instead, you're using the rule of thumb. And if you used to invest in US companies, your rule of thumb is different than the German ones, I would say. And I guess that's something where it increases the valuations. And I think the US Investors, they're really focusing on these top companies which are really often hype companies, hype rounds where it's clear that there are like 10 term sheets on the table. And it's just, I think it's also part of the dynamic of the round that just increases and increases because they're not looking at the full, let's say 8,000 deals in Germany every year but just what's relevant to them. They just look at the 10, 20, 30 rounds they somehow got from their befriended investor or something like that. So, they really look into the hyped rounds.

Justus Lutterbey – 15:39

Okay. So they're just looking at a few and that's why they have a higher willingness to pay because if they don't invest, they have no possible investments left because they have just a few they are looking at.

Interviewee – 15:51

Yeah, and I mean that's when we're speaking about these U.S. investors, let's say a Kleiner Perkins or some teams like those who don't have like a European office, obviously General Catalyst with the ex-La Familia team, they're basically a German VC within the US VC. So they act more like a German VC there or European VC. But speaking about this typical US investor.

Justus Lutterbey – 16:15

Okay, okay, makes sense. So, you mentioned that the of course the amount is higher the ticket size that's of course also correlating with valuation. So the higher the amount, the higher the valuation, but also the fact that the fund size is larger, what you mentioned previously and that they are overpaying.

Interviewee – 16:38

And typically also lead investor. I think that's something special about US investors in Europe as well. I rarely see follow-on tickets by US Investors. They're usually leading the rounds and they can't because of that just follow another investor and follow it around.

Justus Lutterbey – 16:56

Okay. So basically, there's another European who basically did the connection, brought the US fund in and then they're leading it around. Yeah, okay, you just said like the majority of the cases, valuation in general increases with U.S. participation. Do you see any like reasons or instances where the US involvement might not lead to a higher evaluation?

Interviewee – 17:30

Yeah, I mean if they somehow follow rounds, obviously that's the easiest part. Then I think it's usually more standard valuation. If they just do like a 500,000 ticket in a 5 million round which is led by like a German VC or something, they don't have to do any valuation work and then the German VC does it. And I mean structured rounds I think might be a US thing as well. I mean you have like probably in the UK you also have some investors who like to do that. But

in the US it's even more crazy that you have like structured rounds of liquidity preferences and stuff like that. So they become more creative. And because of that, usually the valuation does not really have to increase a lot, but in the end you have to pay it differently.

Justus Lutterbey – 18:18

Okay, so that don't increase evaluation but have some other clauses in the contract which are basically increasing the evaluation of the one which is paid, but the theoretical one. Okay, all right, then I would say that would cover the most important parts of the valuation-related questions. Then going over to the third and last big section of our interview guide related to reputation. So how would you describe the effect of the investor reputation? You already mentioned a few big names regarding the valuation of the German financing rounds.

Interviewee – 19:05

You mean like the US reputation on the financing?

Justus Lutterbey – 19:09

I would say maybe also in general, but then also related to the US financing rounds.

Interviewee – 19:18

I don't think I got the question right. Do you mean that if the US investor invests, if that makes a good impression on German startups?

Justus Lutterbey – 19:25

Sorry, it was maybe a little bit misleading. I mean the effect of the investor's reputation on the valuation. So what happens to the valuation if the investor has like a better or worse reputation?

Interviewee – 19:42

We're speaking about the investor who's investing now or the previous investors?

Justus Lutterbey – 19:46

Maybe you can say a little bit about both. Mainly about the one who's investing right now, but also about the previous ones.

Interviewee – 19:53

Yeah, I think the investing who's doing the round now doesn't really have that. Doesn't really have a big impact on the round. I would say sometimes founders might go for the lower offer due to the big name and they might expect some more value add from the bigger name or something like that. So it might actually decrease the valuation a bit. Besides that, I don't really see like an increase of the round size except obviously if you have like a dynamic and you have like two top VCs and you can play out the two big names against each other. But I think it's not about the reputation itself then it's more about the dynamic of the round.

Interviewee – 20:37

Let's say differently if you look at the previous investors, if you have like good investors before that definitely can impact your valuation because just so many more VCs have a look at the top companies. And because of that, they obviously want to invest in all the top-performing portfolio companies and the dynamic of the rounds usually just becomes more and more crazy then.

Justus Lutterbey – 21:04

Okay, but in general with regard to the funds currently investing, you said sometimes they go for the better reputation but then you would say it's mostly the valuation which is deciding or from a founder perspective of course you have the terms, you have the valuation given by different investors, you have the investors characteristics like reputation. What would you say then is the main factor for deciding?

Interviewee – 22:45

Yeah, it's a combination of many things and it varies with many investors. So I mean many founders, some are looking crazily at the reputation. Most of them are looking a bit, I would say, about reputation. The financials are definitely important like all valuation and the terms. But I think it's, it's about personal relationships a lot as well and just deciding on, on who you

fit best with and yeah it's, it's oftentimes a gut feeling to be honest. I mean the variations might kick somebody out of the round but in the end if you have like three sheets that are basically doing the same then yeah, it's just about, about the personal.

Justus Lutterbey – 23:55

Would you say that the reputation of a VC influences your personal decision-making process as a VC? Do you already know the funds you're co-investing with or are you mainly leading the rounds or is there any reputation of those funds influencing your decision-making?

Interviewee – 24:25

So yeah, it's a mix of everything to be honest. There's some we know and invest with, some we just follow and it's, it's always a good signal if there's some good investors are investing in the round. And that improves your gut feeling when investing. I mean because like that's also investing is also just a good decision if you see some other signals. And you're obviously happy to follow there as well. Yeah, did that answer your question?

Justus Lutterbey – 25:01

Yeah, yeah, sure. Perfect. I'd say apart from that, we already covered this question a little bit regarding the valuation and the reputation, how they're correlating. There are many studies indicating that VCs of higher reputations are acquiring equity at a discount, but you said it's not that true for German startups. And do you see a difference in other startups or what do you mean?

Interviewee – 25:44

What do you mean with acquiring equity at discounts?

Justus Lutterbey – 25:50

Lower valuations when investing in startups.

Interviewee – 25:54

It's, it's always also, to be honest, quite different where you look at. I mean you have so many rounds in Germany and, and especially when you're speaking about US investors they look at these good rounds. There's not that much room for like low valuations, like handling them down. It's for these other investors in Germany you have so many bad rounds as well where they're just happy to find any investor. So obviously there's room for negotiations. But when you look at these US rounds, there's just a way up. There's no way down to handling the valuation in those rounds.

Justus Lutterbey – 26:33

Okay, perfect. Then I would say that we also covered the majority of questions regarding the reputation-related questions. Do you have some other Moritz which I didn't cover that came to your mind?

Moritz Jonathan Von Pander – 26:52

I think looking good, everything perfect.

Justus Lutterbey – 26:56

Perfect.

Interviewee – 26:57

Then if you have any other questions, feel free to reach out afterwards. I'd be happy to jump on a quick second call. Hope that helped a bit.

Justus Lutterbey – 27:05

Yeah, perfect, it helped a lot. Thank you!

Moritz Jonathan Von Pander – 27:14

Yes, perfect. Super insights.

Interviewee – 27:22

Yes. All right. Thank you!

Moritz Jonathan Von Pander – 27:29

Thank you.

Expert Interview III: *Semi-structured Expert Interview*

Moritz von Pander – 05:46

Awesome. Let's go. Great to hear that. Yeah. First of all, we would like to quickly dive into your experience to just confirm your relevance for this interview. So could you briefly describe your role within the VC firm?

Interviewee – 06:08

Sure. So I'm a partner at the firm. The firm is a European multistage venture capital firm. I personally spent the last 14 years doing early-stage venture capital, primarily early stage. At the firm, I'm in charge of investment activities in the German speaking region. Now we focus primarily on seed and series A investments, B2B tech space. However, we manage also growth fund and I've personally invested also in growth companies, but primarily as I said, seed in series A stage focus on German speaking region. But yeah, and also investments outside of Germany in the UK and the Netherlands.

Moritz von Pander – 07:03

Thank you. And connected to that, have you been involved in German financing rounds with U.S. investors? Either participating in the round or being involved in the deal competition?

Interviewee – 07:17

Yes, many times. We face very often competition from US investors and we have also several companies who raised follow on rounds from US based venture capital firms and also co invested with US Angels and US pre-seed funds.

Moritz von Pander – 07:42

Awesome. Perfect. So now we're going to go through three separate topics. The first one being cross border VC. Second one, valuation related questions and the last one being investor

reputation related questions. So, jumping into the first one, cross border VC, how would you describe the role of U.S. investors in German funding rounds over the last decade?

Interviewee – 08:12

So as I said, I've been in venture capital now for 14 years. Back then, in the early days, there was little activity of U.S. funds in the European, at least let's say continental European markets. You have U.S. investors rather at the late stage or growth stage. So meaning Series B or even later. Actually, rather later than Series B. But that has changed dramatically over the past decade. We've seen increasing deal activity of US investors across all stages, including seed and series A stage.

Moritz von Pander – 09:04

Great. And generally, what do you think makes Germany an attractive destination for U.S. venture capital compared to other European countries? I'm sure you're well aware of that. I think Germany is currently on the third position after UK and France. But being very close to France, what do you see as the up and down sides of Germany as a VC destination?

Interviewee – 09:33

I think first of all, US investors are attracted by attractive entry valuations which are still generally cheaper compared to the U.S. across all stages. Although valuation has increased significantly over the past decade, that's one thing. Second, there's great talent, there's a trend that are important very successful startup companies being born in Europe in particular in Germany. Yeah. So I think that's basically it. Good talent, good startups, a good ecosystem which has evolved dramatically over the past decade. So, a very healthy pre-seed and seed ecosystem with that to get more companies started. So better entrepreneurs, more serial entrepreneurs. Also the mindset of European German entrepreneurs has changed in the last 10, 15 years. Back then a lot of entrepreneurs first of all building companies for domestic or European market. But today has much bigger ambitions the startup world even in Germany.

And I think German entrepreneurs have been historically very good in business models that are very execution-driven, operations-intense business models.

Moritz von Pander – 11:25

Amazing. And you already touched upon a few factors. Do you think like there's certain type of startups that US investors are specifically looking for or like certain characteristics you mentioned, for example serial entrepreneurs? There are other things as the location of a startup, the business model, the client focus, B2B, versus B2C. Or is it simply all about the perceived quality of the startup?

Interviewee – 11:56

Yeah, I think about overall quality. So I think you see the U.S. investors taking or investing in rather than what we consider as quality deals. So despite being not in the market, I think they have a good understanding to evaluate companies properly. But a lot of US funds have set up local teams in Europe either in UK which travel to Germany then or even in Germany. So it can be either local scout network of some serial entrepreneurs or former VCs or they have their own teams now on the ground. I think there's probably a correlation between US fundings and serial entrepreneurs. I think yeah, there's a higher chance probably they like to fund serial entrepreneurs with a proven track record and obviously traction always helps. But that's not different from European investors for sure.

Moritz von Pander – 13:16

Yeah, that makes sense. And do you think the location of a startup matters at all? Because in the past they used to be like entrepreneurial hubs, especially in the US and in Germany. For example Berlin and Munich stand out in literature. But also there are a lot of opinions that this is yeah equaling out and that location doesn't matter. What is your take on this?

Interviewee – 13:39

Yeah, I think Berlin and Munich are the two most important ecosystems for startups in Germany. For sure the focus of the US investors. This is also the most spent hours of time screening these two local ecosystems. However, you see them also doing investments in more rural areas in Germany. A couple of examples but then rather I would say at Series A or later stage, that would be my hypothesis.

Moritz von Pander – 14:26

Okay. So yeah, that's covers the cross-border VC part. Now we're going to go into the valuation related questions. Obviously this is a very holistic question but in your experience, what are the most important factors to value German startups? And do you think that the valuation approach that you use is any different to the ones that international investors would use?

Interviewee – 14:54

Yeah, no, I don't think it's different. I think what's different is fund size of the VCs which may allow you to for an avenue to do other round structures. So the larger funds can afford higher or larger investment tickets and with that higher investments usually you get also to a higher valuations. Because early stage most of the valuation falls back on the VC valuation method which is VCs invest and look for target shareholding of around 15%. So we see that. I've seen this actually quite often this year the market happening with I think it was non-German VC that startups asked for let's say 8 million series A VC said why don't you take 16 just doubling the round size which is obviously more attractive from a founder perspective. If and that's usually the case investors go for the same shareholding because that means implies that the valuation is significantly higher which means cost of capital are lower for the founder which is obviously a more attractive deal. If you get more money at a higher valuation means less cost of capital. And that's what it's all about for the founders.

Moritz von Pander – 16:46

Okay. And connected to that. What do you think are the reasons behind those very large US rounds, those outlier rounds? Do you think it's actually required capital or more what you said that it's just an opportunistic deal dynamic and that increases the round?.

Interviewee – 17:08

It's probably a bigger risk appetite. So that you prolong the runway. You say you give the company more time to grow into the valuation that you pay as of today. Whereas European investors rather think of let's say two years of runway which they want to fund, U.S. investors say “okay we’ll double the money and that will allow you to either go way more aggressively or we extend the runway to maybe three, four years which allows you to leapfrog the next funding round. So we basically do two in one.” I think what that's probably also a way that can be a more attractive offer for entrepreneur. That's a way to win financing rounds.

Moritz von Pander – 18:21

Because then you don't need to take care of fundraising in next two years as in like a usual case or why would you say is this attractive?

Interviewee – 18:42

You sell a share on your company for capital that you can use for growth. Capital comes as a cost. And as a founder you try to reduce the cost of capital. Debt is more expensive than that, for example. So, there's also different price for equity. which comes basically with valuation. The amount of money that you get if investor B pays a higher price and gives you more money than investor A, lot of capital and that's a more attractive offer. Plus you get more runway, which means more flexibility, more experimentation. You can try out more things which in the end also might help you to be more successful. Which is not always the case because sometimes if you have too much money on the bank account you tend to lose kind of the focus on efficiency. There's also higher risk of burning money, putting that money not at work at the most efficient way. Yeah, but it allows you also to try out more things.

Moritz von Pander – 20:18

Okay. By the way, I think also literature and our data is confirming that larger fund size very much correlates with higher valuations. So that's for sure interesting. One last question regarding valuations. In your experience, do you think that if U.S. investors are involved, that generally correlates with higher valuations for German startups?

Interviewee – 20:47

Yeah, I would say so. Because the reason we just discussed is that most U.S. funds are significantly larger than the European funds. And if you think you can put, let's say 5% of your fund volume in one company and you compare average European early stage fund volume of maybe 120 million euros versus U.S. fund, which is 500 million. I don't have the numbers, but you can check this. So then 5% is already different number, right? And basically with the same fund economics, but another scale which allows you to write bigger checks with a bigger fund.

Moritz von Pander – 21:44

Makes sense. And would you say that next these fund economics allowing for large valuations, that they also shift the mindset that US investors take into the German market? Like as for example, using different rule of thumbs than German investors would?

Interviewee – 22:10

No, I don't think so. Well, I mean with a higher valuations, probably there's also higher expectations. Whereas with a smaller fund, smaller exit can be also okay for your fund to be returned. If you have a large fund, then you need also larger exits, larger returns. And that's probably also an influential effect of how US investors look at companies. Yeah, but in general, European investors are not looking for small or companies with small ambitions with small exit potentials. So actually probably it doesn't make a difference actually.

Moritz von Pander – 23:04

Okay. And we now talked about the fund economics and that U.S. investors generally go for higher valuations. Would you still say that these valuations are somewhat justified because yeah, the quality of the startups is that good or because the exit opportunities maybe in the US are higher or would you say that they are overpaying?

Interviewee – 23:33

That's a very good question. I think not the US investors or any specific investors make price. If investors can get in cheaper, they will also try to get them cheaper. I think they are used to pay higher valuations because of the whole market. And they are different market economics. So if you look at development costs, salaries for developers, every kind of talent in the Bay Area, for example, costs are significantly higher. That means you need more money to build up a company compared to Europe. That means. Yeah, higher cost means you need more money. So that said, I think Europe is still lower in valuations as it's cheaper as costs are cheaper less. And historically it shows also the statistics that the cash efficiency of companies in Europe is much better compared to their U.S. peers.

Moritz von Pander – 25:18

Okay, interesting. Thank you. Then we're moving to the last part of the interview. Investor reputation related questions. So from your experience, how would you describe the effect of the investor reputation on the valuation of German financing rounds? So reputation is often measured by such things we talked about already like portfolio size, number of investments, number of unicorns, number of exits, etc. They have several approaches. But yeah, also we saw in literature that, and then also our research that US investors are often, quite closely connected to a higher reputation than European investors.

Interviewee – 26:09

Yeah, it's true that. You can't generalize it, but I think European entrepreneurs have a bias to go for U.S. investors. If they can, they go for U.S. investors. However, that's for sure not true for

each and every U.S. investor. But there are some, I would say the biggest brands the VC industry are still U.S. VCs. Why is that? Because they are the ones with the most blockbuster exits. Also many of the big names in the VC world have been around for a very long time, 50, 60 years of track record. You will hardly find any VC in Europe with such long history in track record. So with these legacy VCs, there's also network brands which firms have built over decades, which can be very helpful then for the entrepreneurs. Yeah, and obviously big brands, good reputation attract money, they attract talent. So being associated with such a brand and also provides good signal signaling.

Moritz von Pander – 28:01

And next to the capital and the signaling and of course like venture experience, what do you think is the highest value add that these high reputation VCs bring? What do you think are the most value adding services or expertise that US investors bring next to the capital and the higher signaling power that you mentioned? So for example HR or financing and all these topics.

Interviewee – 28:41

Yeah. Due to the fund size that many of the U.S. big brands have, they can afford us to have a so called platform team. Bigger platform team which provides support to portfolio companies that can be either recruiting support, that can be support with intelligence and insight that can be leveraged to potential buyers, to strategic partners that can be acquisition targets. So, we just closed one round of one of our portfolio companies just closed a U.S. growth VC which provides basically on a weekly basis market intelligence of potential acquisition targets for the company with a global view. So that's probably not useful for a early stage company but for growth company.

Moritz von Pander – 29:53

Makes sense. And then the last question would be whether the reputation of a VC firm influences your decision making in making deals. So how important is that signaling to you

when you're looking at co investors? So when you see for example U.S. deal competition or U.S. deal co investors, how does that influence your decision making on the deal whether you want to do it or not?

Interviewee – 30:42

Yeah, obviously we also look for quality co-investors. That's an important factor for us. And also the factor that has become more important I would say over time, over the last decade. Because you figured out really important that you have partners on board that understand the game of venture capital and value at best, value adding at least not value destroying which can happen if you have non-experienced investors on the board.

Moritz von Pander – 31:38

All right then, that was it for the three main parts. Last question is always if you think there's any topics, any dynamics, anything that we should look at to help to help our thesis or do you think we got all the main topics covered?

Interviewee – 32:00

Yeah. Might be also interesting to interview entrepreneurs that took money from U.S. investors and ask why they decided for the U.S. investor if they had the choice? What were the differentiating factors in the offer that could also add some color to your research.

Moritz von Pander – 32:27

Nice. I think that would be interesting. We looked at the reasons why founders choose VCs but I think seeing this in practice and also related to U.S. investors would be super cool. Amazing. Thank you so much.

Interviewee – 32:21

Then maybe just to add one more thing is geographic expansion. This is often supported from a founder's perspective that it can make sense to go for an U.S. Investor. If you're on a growth stage and you want to go in the U.S. Market and you already have European investors on board,

then it can help to have a U.S. Investor on board to use the market to provide you their network and interest and so on.

Moritz von Pander – 33:15

Yeah. It makes sense for market access. Yeah. Awesome. Thank you so much. Then let's wrap it up.

Interviewee – 33:24

Perfect, thank you!

Expert Interview IV: *Semi-structured Expert Interview*

Moritz von Pander – 08:32

So yeah, then let's kick it off. Could you briefly describe your experience and role within the firm at the firm?

Interviewee – 09:20

Yes. So, I have been working for six years in the investment team, so looking at both investment opportunities from the sourcing to due diligence but also involved in fundraising. So, I've been focused on fundraising the new growth fund for the past year and a half. And in, yeah, my role specifically, I look at Series B and beyond across Europe with a big focus on France and Germany with a topic focused on B2B software within different verticals.

Moritz von Pander – 09:59

Amazing. Thank you so much. And in your experience so far, have you been involved in any rounds where you had U.S. co-investors or U.S. VCs in the deal competition yet?

Interviewee – 10:19

Yes, I worked on several deals that had U.S. competition of which we lost a few deals which we would have liked to lead and I also co-invested alongside U.S. investors.

Moritz von Pander – 10:32

Awesome. And now we'll be jumping into three different sections. So first one being cross-border VC. Second one, valuation-related topics, and the last one being investor reputation-related questions. So, the first one would be: how would you describe the role of U.S. investors in Germany funding rounds over the last decades?

Interviewee – 11:00

So I would say it really differs between early stage and growth and also it really changed. Let's say I would divide like between like before 2021, during 2021-2022, and after 2022. So let's say by stage, I think since growth there is really like a gap in funding in Germany. Of course, compared to other countries like the UK and France, we see like a large majority of growth rounds being led by US funds. And with that, I think I also sent Justus like an analysis I did. But yeah, they were showing that there's like a really big majority of rounds led by U.S. funds, and that's really natural because there is just not enough growth capital from German funds that is being deployed in Germany. So that's for growth and I think that's been pretty much stable over the years.

In terms of early stage, my feeling is that there is a lot of competition from US funds in like seed and Series A rounds compared to, for example, France, where also they're like a lot of rounds are led by local funds. So yeah, let's say the opportunity for US funds is very, yeah, it's pretty big in Germany compared to France, for example. And what we also saw is this pretty much across stages during 2021 and 2022, there was like a big increase in investments from US funds in Europe and also in Germany. And then there was a bit of a pushback after 2022 where a lot of US investors started to refocus just on the US market. And now, with the market a bit stabilizing, they're kind of coming back. So I think the overall long-term trend is that, yeah, like the prevalence is really strong, especially in Germany, within the European landscape of US funds.

Moritz von Pander – 13:23

Very interesting. And you already mentioned the position of Germany and the funding ecosystem in Europe after the UK and France. What do you think makes Germany an attractive destination for capital, and where do you think it needs to improve?

Interviewee – 13:40

So in terms of attractiveness now, let's say the market is really going towards a lot of B2B topics. In particular, anything related to energy, deep tech. So let's say a lot of very, very like hard tech sectors where Germany is really strong traditionally because of its strong manufacturing landscape. So I think that makes it really attractive for a lot of investors. And you said what makes it not so attractive?

Moritz von Pander – 14:24

Exactly.

Interviewee – 14:26

Probably its competitiveness as, yes, let's say also compared to, let's say, France. There were so many new funds created during 2021-2022, so it became increasingly competitive to win deals for funds, both German and let's say not German. So that makes it probably not less attractive in terms of opportunities, but less attractive in terms of potential to actually win the investments, win the deals.

Moritz von Pander – 15:06

Yeah, it's super interesting. And as a follow-up question there, what do you think are the characteristics that U.S. investors might be specifically looking for? You mentioned like B2B focus. You've mentioned different sectors. Do you think that location, for example, matters whether you're in a hub in Germany or not, or like whether it's serial entrepreneurs or not? How much do you think is the quality of the deals important?

Interviewee – 15:35

I wouldn't say location is really important. And in any case, a lot of U.S. funds that invest then require the company to either open a subsidiary in the U.S. or relocate their headquarters there, maybe by keeping the R&D and other key functions in Germany. And in terms of what they look for in founders, I think that doesn't differ substantially from any other geography. So it's, it's really like maybe what they look for more in Germany or that can be an advantage is like really like a strong technical background. Since, as I mentioned, there are a lot of very technical like deep tech topics where a lot of like, yeah, say where it's really, let's say, easy for Germany to compete on since, yeah, there are many very good technical universities compared to other countries.

Moritz von Pander – 16:46

Yeah, very good point. Yeah, I think that wraps it up for the first section. Second question would be related to valuation. So in your experience, how do you approach valuing German startups, and do you think that approach differs at all to other ecosystems?

Interviewee – 17:09

I think it is not really different compared to other countries and, yeah, I mean, the approach is pretty standardized for all VCs. So I would say, I mean, at pre-seed and seed, you obviously don't really look at multiples, but it's just about making sense of the amount of the round versus the ownership that the fund wants to have within the company. And then obviously, the further you go, the more you look at what's happening in the market in terms of multiples. So also, the way we evaluated Series B and C, it's really market multiples.

Moritz von Pander – 17:56

And regarding valuations, do you think that the involvement of US investors generally correlates with higher valuations of German startups?

Interviewee – 18:06

I think definitely U.S. investors are willing to pay more for companies because the valuations that they pay in the U.S. are a lot higher than in Europe, and that naturally drives up the valuation for funds. For German funds that want to compete with U.S. investors putting a term sheet for very high valuation, then to win the deal, of course, they will have to match the valuation or even, like, yeah, propose a higher one. So yes.

Moritz von Pander – 18:38

And what do you think is the role of the startup quality and the valuations of those US deals

Interviewee – 18:46

Yeah, I mean, for sure there are, let's say, I mean in VC, especially at early stage, since there are no hard factors for evaluating companies, it's really about, like, mainly the quality of the management team that drives up the valuation and the expectations on the market. So if it's a very high market that, yeah, it's expected to be growing very, very fast, being a big market in the future, then it of course correlates positively.

Moritz von Pander – 19:29

Okay, great. And then moving on to the last section, how would you describe the effect of investor reputation involved in the rounds on the valuation of German financing rounds? So what happens if a very renowned US investor, for example, would be involved?

Interviewee – 19:47

Yeah, I think it's actually a double-edged sword. Having a, let's say what we usually say as having a good reputation is funds that have been long time in the market that, of course, have a very good track record. And of course, these will be funds that have very large funds under management, so it will be like 1 billion-plus funds. And we saw so the, let's say the fund size increasing over the years. So now there are early stage funds managing, like, 1 billion-plus funds.

And that, of course, means that they, if they still invest in the same stage but they have larger funds, of course, on one end, they have to invest in more companies but also they have more flexibility in paying higher valuations. Yeah, of course, yeah. fund size that also really correlates with a fund reputation means that they can pay higher valuation. But it's, as I said, a double-edged sword, meaning that on our, on a fund return level, it's really risky because, like, yeah, like your return, right, correlates with the leeway you have to, like, increase the valuation from the one you pay to the one you exit. So funds that pay really, really high amounts of money at the beginning incur a lot of higher risk regarding their investment return.

Moritz von Pander – 21:21

Yeah, I think that also is what is shown in literature that higher fund size always correlates with higher valuations. That's a very good point.

Interviewee – 21:31

And a fun, not fun, but just like a quick fact. There was some research some time ago that showed that the best fund size for, let's say, optimizing returns was like 60 million. So it's really small compared to any funds on the market now.

Moritz von Pander – 21:49

Yeah, that's true. I mean you need to get huge exits to make that still happen for the funds. Super interesting. And yeah, how does the reputation of a VC firm influence your decision-making on a deal if you were potentially co-investing with reputable funds or if they're in the deal competition?

Interviewee – 22:16

So, I mean, of course, reputation is important, but more really in terms of, let's say, ability to, like, say, help the portfolio company. I wouldn't say, like, directly adding value because that doesn't really happen most of the time, but really having a fund that is open for collaboration to support the company. And I think it always really goes down to the person on the board, so

to the investor at a personal level, not much, just the fund.

Moritz von Pander – 23:01

Yeah. Alrighty. And then the last question would be that, I mean, research shows that sometimes, like, those high-reputation VCs that we now talked about acquire equity at a discount compared to other investors on the deal who have less reputation because they can offer more value-added services. Do you think that this is true in German financing rounds, or would you say otherwise, that they're in the end paying more due to the reasons we discussed before?

Interviewee – 23:32

So, sorry, you mean that funds with a better reputation can also get, like, some discounts on the equity?

Moritz von Pander – 23:42

Yeah, that's what previous research showed, like, within the deal. So if you have like four investors with less reputation, they offer more but don't get the deal because the founders in the end want to partner with the reputable VC.

Interviewee – 23:56

Yeah, I mean, I think it's definitely true. And, yeah, like also based on the companies that we discussed in the past year or so, there are actually, I wouldn't say many companies, but like a good portion of them that decide to go for an investor that can really bring, let's say, yeah, like concrete value in terms of introductions to clients or whatever. So it's something that, yeah, definitely. I wouldn't know, like, what's the percentage of those that value more valuation versus like potential to create value. But still, it's a good point, I think.

Moritz von Pander – 24:46

All right, that wraps it up. Thank you so much for your time, Interviewee. Appreciate also for the extra time. I mean, sorry for, yeah, having the tech set up problems, but super, super

interesting insights. Thanks so much. That's great.

Interviewee – 23:56

Thank you and good luck for the thesis!

Expert Interview V: *Semi-structured Expert Interview*

Moritz von Pander – 00:17

Yeah, sure. So I'm a principal at the firm, I've been working for the firm now for four years, have built a portfolio of 11 companies. I'm personally responsible for quite diverse startups, many of them are in energy and climate tech but within from B2B SaaS to really deep tech such as nuclear fusion and so on. I've been leading and managing about 25 transactions from pre-seed to series C and Exit. And I have a personal background in mechanical engineering. Also did an MBA later on and was a founder myself for six years before changing table sites and being an investor.

Moritz von Pander – 01:10

Super exciting. And yeah, among those 25 investment rounds, did you also co-invest or had any deal competition from US investors? Also on follow-on funding rounds?

Interviewee – 01:25

Yeah, true, not in the very first rounds where we entered we typically invest very early pre-seed but some rounds I remember quite well or also know from my colleagues like more series B, Series C where we had participation from U.S. Investors.

Moritz von Pander – 01:50

Okay, amazing. Well, now we're going to jump into the first topic. Cross-border VC-related questions. So generally, how would you describe the role of US investors in German financing

rounds over the last decades and how has it been developing?

Interviewee – 02:09

So I can only reference to the last four years. I would say the main activities we see from U.S. investors are late-stage rounds, so earliest series B or actual growth rounds. This is also the stage where let's say for a 50 million or larger round you don't have a German or European lead investor that can do at least 25 million lead tickets. And then we also encourage our founders in our portfolio to look for U.S. funds as well. I think there are a few cases where you have US investors that had, for example, a London office and a team on the ground in Europe and some of them investing in earlier stages as well. But I would say at least in Germany, I think it's a bit different in the UK but at least in Germany doesn't happen very often.

Moritz von Pander – 03:18

Yeah. And generally, what do you think makes Germany an attractive destination for specifically US VCs in comparison to other European countries? I think like Germany definitely places third after the UK and France and also on the downside. What do you think still has to improve?

Interviewee – 03:40

Yeah, I think on a positive side when you look at Germany as new as investors you still have lower valuations, you still have lower labor costs for development teams or overall so that ideally translates to a higher capital efficiency. You can achieve more with the same capital. And overall, especially in deep tech, you have very good talent around the university ecosystems or the Max Planck and Fraunhofer institutions. So three points on the positive side. Negative. I think it can be generalized for Germany or for Europe. You have a rather small market and internationalization even within Europe is quite hard due to regulations, depending on the market, sometimes lower, sometimes higher, but regulations in any cases and hurdles to

expand

within

Europe.

Moritz von Pander – 04:57

Yeah, okay, super interesting. And specifically like what type of startups do you think that US investors are looking for? Are there any characteristics such as business model or the sector or the location? Or is it in the end all about quality of the team, for example?

Interviewee

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05:17

So what I said for maybe for more growth stage and that translates to our startups having at least 5 million when it comes to revenues or in ARR. When it comes to the B2B SaaS area, when it comes to hardware cases, you typically talk about a growth stage where startups have at least 10 million revenues. I mean that's true for all growth stage investors. They don't like to take technical risk or private market risk. So yeah, convincing US investors to invest in highly de-risked startups in a growth stage and only invest in that growth I think is a good chance. When you think about deep tech startups that need a lot of capital early on, overall that's difficult. And that's also where we see US investors shy away a bit.

Interviewee – 07:05

I think it's super difficult to assess the substance of a startup in that stage and also assess the near-term development. So even it sounds a bit strange, it very much comes down to what does the company need in capital to achieve the next significant milestones in about a two-year timeframe, maybe a bit more at current times and you don't want to dilute the founders or the existing shareholders in that round more than 25%. So we typically target 20 to 25% and then in the English term is "Dreisatz" (Rule of three). It comes to the capital requirements and the maximum dilution to valuation.

Moritz von Pander – 08:03

Yeah, okay, great stuff. And generally do you think that the involvement of US investors correlates with higher valuations? You mentioned a couple of follow-on rounds that you observed.

Interviewee – 08:24

I'm not sure if that is really an inner setup where a US investor invests the driving factor for high valuation is that the investor is a US investor. Probably the round is competitive. And my hypothesis would be the competitiveness is the driver for a higher valuation and not that a US investor is offering a term sheet or making the deal at the end.

Moritz von Pander – 08:58

Yeah, totally makes sense that deal competition in the end drives up valuation. And why do you think that? So we've been hearing a lot that there are very few hot assets in the market and those are the ones that usually US investors go for that end up leading to high valuations, which might even be justified even though they're horrendously high. But how and why do you think the US investors get access to these hot rounds? And why do they end up in most cases also winning them against domestic investors?

Interviewee – 09:36

I would say often they have deeper pockets, larger funds. That's a rational argument for the founders and existing investors to take that investor. Also, having a US investor on board is a great signaling and not in all cases, but likely a great support for internationalizing and expanding over the years.

Moritz von Pander – 10:06

Yeah, especially for growth companies. Yeah, very good point. All right, now moving on to the last section, investor reputation-related questions. So do you generally see an effect of the

investor reputation on the valuation of German financing rounds? So if a very reputable investor is involved, does that affect the valuation?

Interviewee – 10:37

Or for later rounds or when it comes to that round where the reputable investor gets them?

Moritz von Pander – 10:46

Yeah, generally across rounds, across stages.

Interviewee – 10:57

Investors with a high reputation, they very well understood how VC mechanics work and they look for the unicorns. And my perception is that they are not that price sensitive because they in the beginning when they enter, because they are mainly looking for the outliers. And if a round is 20% higher priced, it doesn't move the needle. So if you think in that framework and some of the best and highly reputed VCs do that, then they are less price sensitive and will also accept higher valuations. Would be a hypothesis. Whereas other funds, including ourselves, I would say that are a bit more price sensitive because the majority of the exits in Germany or Europe are exits with less than 100 million euros or even around 20 million. And having a good return on those kinds of cases, you have to enter at a low valuation.

Moritz von Pander – 12:23

Okay, so that means also you would suggest that in the US the liquidity is better in that sense. So the valuations are higher if you go for an exit or if you access capital markets and therefore you can afford to pay up a little.

Interviewee – 12:38

Yeah, yeah.

Moritz von Pander – 12:39

Okay. Pretty interesting. And if you're looking at a deal, how does the reputation of a VC firm that you're either co-investing with potentially or that is in the deal competition, how does that impact your decision-making or does it impact it at all?

Interviewee – 13:02

If we are more in a co-lead or follower role then of course it helps with convincing our investment committee if there's a strong brand and VC involved because that often translates into high follow-up potential in future rounds, often a good portfolio management, and the support during the next years. On the other hand, I would say if there are many interested investors and also US investors for example, I would say we would question ourselves internally and also now see one more time: Is that currently a really hyped and overpriced topic or specific startup?

Moritz von Pander – 14:05

Yeah, yeah, that's super interesting. And as a follow-up question there because we, a lot of people have been saying that it used to be only growth stage and now US investors are going more also into seed series A. Do you think that is the case as well? And do you think that they get very good access already or do you rather still see them in the growth stage?

Interviewee – 14:34

The vast majority we see them in the growth stage. And I would make a difference between pure US investors that have only pure in terms of having only people on the ground in the US and those which have a European office.

Moritz von Pander – 14:50

Yeah, makes sense.

Interviewee – 14:53

And then they are more perceived as an international investor with a European team that originated from the US and then the European team is very well aware of local valuations, for example.

Moritz von Pander – 15:13

Yeah, all right, perfect. And one last question would be. So in research, there's evidence that if you look at one specific deal, so within deal competition and you have one very reputable VC and others that are not as reputable then it even happens that VC buys equity for a discount because the founders realize hey, this VC can give us more value than others. Do you see that happening in Germany or would you oppose that this is a scenario that is happening right now?

Interviewee – 15:53

I can imagine that somewhere reputed VCs are saying we're not paying the highest price but we offer the best support. And that is an argument to win. I don't have a specific case in mind where that took place, but sounds rational. But also our experience is that very reputed VCs are also offering term sheets with the highest prices. Again, because they are not as price sensitive because they anyway look for the outliers.

Moritz von Pander – 16:29

Yeah, yeah. Plus they have very large fund sizes or also different fund economics.

Interviewee – 16:35

Yeah, yeah, that's also a good point. Large funds and maybe a more multistage approach. And they don't need to acquire 50% shareholding in the first round. They can also increase the shareholding over one or two additional rounds.

Moritz von Pander – 16:56

Yeah. Very, very good point. Yeah. So wrapping up, is there any phenomenon or statistic or any other topics that you think we should look into regarding this whole cross-border VC topic, US Germany, or do you think mostly covered on what we mentioned?

Interviewee – 17:18

I think you mostly covered nothing that directly comes to my mind.

Moritz von Pander – 17:22

Fair enough. Okay.

Interviewee – 17:23

If I have one, I will for sure send it to you afterward.

Moritz von Pander – 17:27

All right. Thank you so much.

Interviewee – 17:32

Thank you and good luck!

Expert Interview VI: *Semi-structured Expert Interview*

Justus Lutterbey 00:17

Yes, perfect then thanks a lot for your time. It's really nice having you. Let's switch to English and start with our guided interview. First of all, just about your personal background. Could you briefly describe your experience and role within the VC firm?

Interviewee – 00:41

So personal background, studied business administration and everything related to it in Bachelor's and masters and during those times several internships in early-stage startups and late stage or later stage scale ups as well as a series A growth fund. After graduation, I've joined

almost seven years ago at our firm first as an analyst. My formal title now is Principal. But basically touching everything that is concerned with deal sourcing, deal selection, portfolio management and fundraising. Okay, perfect. Then since as we're mainly investigating the influence of US investors in Germany, the next question would be whether you've been already involved in rounds with U.S. Investors

Interviewee – 02:20

We do, yeah. Not in a German case. So we have co-investments with German investors with US investors. The biggest known one probably Y Combinator, but not on a German case per se. But of course I looked at a lot of cases in Germany where the founders also talk to U.S. Investors. So that exposure I did have.

Justus Lutterbey – 02:44

Yeah, okay, all right, perfect. Then we would deep dive in all the questions we have mainly three sections. The first one will be about cross-border related question, then talking more about the valuation part and then lastly finishing with investor reputation related questions. So let's start with the cross-border section and my first question would be how would you describe the role of US investors in German funding rounds over the last decade or also in the European funding rounds over the last decade?

Interviewee – 03:19

I mean to me they have drastically increased or the impact that they have on the funding rounds. And that is I think one reason that overall the perception of what ventures should look like focus a lot on the U.S. Right. And when the German ecosystem kind of merged with Rocket Internet and all these prominent names. Germany still had the hand over the deals that was happening. Everything was kind of kept within the German borders for most of the time. But now a lot of investors with all the data tools that we have, can get deal flow outside of their borders. So US investors can see a lot of stuff in Germany. And also the relationships have of course developed

a lot and combined with that, a lot of people are unhappy with or dissatisfied with the European state. It's quite hard to go across borders. There's a lot of regulations. So everybody kind of focuses on the easy market, which is the US more unregulated, bigger potential, bigger opportunity. So that narrative that has been going around also, especially in the last one, two, three years, with people being so upset with how slow Europe is, I think that has given it another push. So I would say that a lot of people look over to the US as being more favorable to them as founders. And that then of course also impacts their perception of how much value a US investor brings to them if they invest so early.

Justus Lutterbey – 04:46

Okay, perfect. Then as you already highlighted the influence of the US investors, the EU and German market, what in your opinion makes. You already touched a few points. But again, what in your opinion makes Germany an attractive destination for US VCs and maybe in comparison to other European countries.

Interviewee – 05:12

So obviously we are still the, I think, third strongest economy in the world, maybe the fourth one. I'm not too sure about the actual numbers right now. But we're one of the strongest economies in the world and that puts us of course in the main focus of a lot of investors. Right. Because developed economies also usually produce a lot of innovative stuff because they're at the forefront of innovation. Right. So that is an obvious one. I think we're competing with the UK and France on being the most interesting one. And having such a big economy usually also comes with having more capital ready to deploy into the companies. Because there are large capital providers that then fund venture capital. So if there's more money, then there's more innovation and more growth startups. And that also attracts outside investors because they're looking for the returns. So I guess that's the interest. And then we had a couple of good successes in Germany, which, you know, just have these ripple effects that we are seen as a

company that can produce something. I wouldn't say that we produce as much as UK and recently France has done a better job in offering something in the AI world, but we still have a good track record of producing good venture companies. So I think that's why it's interesting to the U.S.

Justus Lutterbey – 06:36

And then to elaborate a little bit on the startup characteristics, do you see there any specific type US investors are looking for? For example, I don't know, B2C or B2B startups or are they looking for serial entrepreneurs or do they focus on hubs in Germany, for example Munich or Berlin? Or would you say that they just purely look for the quality of the startup? So do you see any characteristics here they're focusing on?

Interviewee – 07:11

Well, that's a good question. I don't think I have a strong opinion on if they differentiate between B2B and B2C. I think what they look for is outstanding founders. Probably one round that comes to mind immediately is Tacto, which is I think attracted some capital from Sequoia and maybe Andreessen. Not too sure, but a massive round. And they kind of, they digitalized the German SMB markets and the glorified Mittelstand that we have in most parts of their business. But those are also amazing founders and that just then attracts the American capital. I don't think that there's a specific focus for B2C or B2B especially because Germany has not been the B2C mecca for tech solutions, I think. But surely Berlin and Munich probably attract the most interest. So if they make a trip to Germany they would definitely go to those hubs and not to Cologne or Hamburg because most people just sit there and I think that's the natural attraction of a hub and concentrated place of startups. So yeah, I don't see, or at least I don't have any statistical opinion that they focus on something specific, but it's more like the outliers in global ambition and maybe also something that can easily be brought to the US that's of course always interesting for them to offer that value.

Justus Lutterbey – 09:21

Okay, perfect. Then let's go over to more valuation-related questions. So the first would be in your experience, what are the most important factors to value in general a startup or if there are any differences to value a German or European startup? But yeah, just in general to value a startup.

Interviewee – 09:30

So I'm investing at pre-seed and seed stage. At pre-seed, I always say it's basically what the company needs. Right. So there's no real multiple that can be, that has any value to put on any revenue numbers or anything, if they even have revenue. Right. So it's only about how much money do you need and why do you need that much money? Is it because you need to act so fast because there's competition? Is it because you have so many other costs associated with the business? So it's very much at the pre-seed stage, it's arbitrary. And then at seed stage you probably hopefully have some revenue that confirms that there's interest from the market and you can try to put a multiple on that, but it's also stupid and won't give you anything. So there again, you kind of just operate. All these startups often operate on the premise of comparing themselves to the other rounds that are sort of in the same vicinity.

Interviewee – 10:23

So to me it's to be very honest, it's just how much can you get, how much you need and what is sort of the amount that other companies have raised? That's how it should be. And then of course you have the outlier cases where there's a lot of interest into a case so you go into a bidding war with the other funds and then it's only about winning it and then nobody there has a rationale. If you believe in the company and the return of it, then you don't really care about how much you pay for that initial stake because you probably have enough conviction that it will sort of generate the returns that you're looking for and that then becomes completely without rational.

Justus Lutterbey – 11:06

Okay, makes sense. So more like focus on demand and supply. Of course, if one increases, then the evaluation goes up simultaneously and the evaluation.

Interviewee – 11:18

Is of course contingent to what the company needs. So you always go for those 15 to 20% in my stage of the total rounds. I guess that's normal.

Justus Lutterbey – 11:30

Okay, yeah, makes sense then Next question about the labeling of the round. So for example, sometimes people argue whether a company raised a seed or is it already a series A? Of course, there are some indicators, but sometimes it's difficult to determine what round they're actually raising. In our approach, we just assumed that the share name which is given in the commercial register. So founders always call the share like pre-seed or series A share or whatever and we always assume that's the current state the company is in. Do you see any bias here? How we label the round or how would you say should a round be labeled whether it's a seed, series A or whatever. Is it like based on the founder's perspective or who's labeling?

Interviewee – 12:30

Yeah, it's based on the founder's perspective. I think, you know, it's in the end, it's a marketing or branding thing. On what you label that round, I usually tend to go with the first round that they're raising is a pre-seed, the second one is a seed, the third one is a series A to make it very easy. And now sometimes you see people labeling the first round as the angel round and then after that comes a pre-seed round. But to me, if you look at institutional investors sort of giving the names to those rounds or being associated with a round, then the first one is a pre-seed and the second one a seed. So I would agree with how you've done it. I don't think there's a bias to it.

Justus Lutterbey – 13:06

Okay, all right, then last section of the valuation part. In your experience, does the involvement of US investors in general correlate with higher valuations for German or let's say European startups in your case.

Interviewee – 13:26

It correlates a lot. One thing or where does it originate from is of course there's more capital that is being put into venture capital in the US meaning there's higher liquidity to fund this asset class. And if there's more money, then people can pay more. And that then of course, if that compares to the capital that we can have in Germany is different and it's just higher from the US investors because they have access to so much. It's generally a more accepted asset class over there in the US which then provides more capital to the funds. So I think that's the origin reason. And then they don't really care to overbid on the price as long as they win it. Right. Because for them it's the standard route. They're not really, they're not greedy around 1 million euros, if they put that more or less that it doesn't really matter to them. And because everybody also follows all the tech trends and the tech news and you hear the funding rounds all the time. Of course, European founders also, and German founders are exposed to how much people raise in their seed round in the U.S. Right. And that kind of puts a perspective into their minds of how much they can raise. Right. So they might already adjust that a little bit, especially if they want to target U.S. Investors. Right. That's quite common. Everybody, all the founders that I speak with that have ambition to raise from a US founder, they already put 1 or 2 million more in there because they know it's not going to matter to them or that's the usual seed round that they funded over there in the US. So it's an influx that they put on US and we can't compete in a lot of cases with that because our fund is just so much smaller. So if a seed fund in Germany has 100 million then you can maybe take 200 million in the US and then it's just different allocation strategies that it's hard to compete with. If the founder decides to only go for the money. Right. If that's his only rationale on who he takes,

then it's hard. So yeah, overall the US dictates the price. I don't know a single example where European investor from the get-go outbids in the American case, I think it's quite rare.

Justus Lutterbey – 15:44

Okay. And apart from the amount of money like being in the US market, do you see other reasons justifying these high valuations? So would you say it's justified for example by the quality of the startup or some other characteristics so it's been actually justified or would you say no, it's not justified, that's just the case that they have more money so they use this money to outbid other investors.

Interviewee – 16:20

I mean I think there's some bias in that because if something is that good that it catches the eye of an American investor, then it tends to be one of the better cases. Right. And that then of course might also in our like if there were only European funds competing for it might lead to something that is higher than they set out to raise. So they tend to fund something that is of high quality always. But I think they still put a little extra premium on this. So I think the main rationale or the main reason is still that they have more capital, not that they only see so much good stuff or they are, yeah, I think it's still that premium that they're able to pay.

Justus Lutterbey – 17:13

Okay, perfect. Makes sense. Then just ask the other way around. Do you see any cases where the involvement of US investors might not lead to higher valuation?

Interviewee – 17:37

I mean one thing that comes to mind is of course the standardized terms that some have. So if you know someone over here in Europe produces a YC company and they go to raise with the safe, that's 500k for a given percentage. Right. So that's not really that you bid or that there's an increase that they can offer. So in those cases it's quite even that you know, that's what YC sort of funds in that round and probably the impact that they have increases with the type of round.

So the later the rounds, if it's a series A or series B, I think the advantage that the US investor has in putting the valuation higher also increases.

Interviewee – 18:32

I think at the early stages it's not that much because we also have a lot of early-stage funds, but it's very in the late-stage funds where we don't have that much capital allocated to it. So the impact that they have, the magnitude of impact I think increases with the size of the round in general. But yeah, I think that's my thoughts to it.

Justus Lutterbey – 18:58

Yeah, definitely. Interesting point, especially highlighting on the standardized terms. Perfect. Then let's go to the last section which is related to investors' reputation. So in general, how would you describe the effect of the investor's reputation on the valuation of a financing round?

Interviewee – 19:23

Sorry, I didn't quite get that. What exactly do you mean?

Justus Lutterbey – 19:27

Like in general the reputation of investors. So some are seen to be well-reputed, some others might not. So do you see there any effect of this reputation on the valuation of a round of a startup?

Interviewee – 19:46

Yeah, I think so. So some are of course very known and as with everything in the VC world that also attracts some interest from others. Right. So if a big name has either been on the previous round or is also interested in the round right now, then you might be a bit more open as a European or German investor to also go with that valuation because you want to be part of it for a lot of people. There's also branding behind it. Right. If you're a new fund and as a US investor or an interesting US investor that you can co-invest with or share a case with or invest

in the round afterwards, then that's something good for you. Usually, you can take something with it. So then you might pay the little extra premium for. For high valuation.

Interviewee – 20:37

If you could check that box off. That being said, there's of course the great brands that you want to be associated with. I still personally struggle to know all the investors out there. There are so many funds in the U.S. And if you're not around there and you speak to all of them on a weekly or monthly basis, then I don't know what that fund is. They might have great investments but it's just you can't oversee them all. So if it's not one of the big ones then I usually don't know them and have to look up who they are. And I guess I'm not the only one with that. So there's also not because only because they're US investors. It's a great brand or something that I want to be associated with. So the top ones. Yes, and I'm probably keen to talk about valuations if they want to participate, everybody else that I don't know, less inclined to do so.

Justus Lutterbey – 21:36

Okay, makes sense. So it was more from an investors' perspective. So why should investors invest with other well-reputed funds? What would you say from a founder perspective? So do they consider reputation and if they do, where do they?

Interviewee – 21:57

They do because it's a lot of branding for them, right. They get associated with a great brand so more people might check it out. They have huge platforms of people that can help out with, they can open doors, they have great networks. So there's a lot of upside in it. If you're one of the darlings of these companies. You know, a funding round announcement from Sequoia might generate a lot more traffic than something from a smaller fund from Berlin, I would guess. And that of course also puts a lot of European eyes on you then all of a sudden because you're one of the few ones that got a U.S. Investment. So, so there's a lot to it.

Interviewee – 22:38

And then of course also the expansion to the US as we already talked about earlier, but that brand from the top tier again to what I said a couple of minutes ago, from the top tier ones, that has a lot of benefits to it. But then what we also always say, and we might be a bit biased because we want to win those deals, is that if you're not performing at the top percentile of their portfolio, then you're not the darling anymore and then you're kind of behind. And we had that case where Sequoia invested in the pre-seed round, but then they don't want to follow up in the seed round anymore and basically not even want to go pro rata.

Interviewee – 23:20

So that of course then becomes not such great signaling to other investors and you kind of lose the interest in that. So it's a fine balance between wanting to get that exposure from the big brands. But also you compete with a lot of other great stuff in their portfolio. You can easily fall out and have less support a couple of months down the line. But you know, that's hard to tell someone that is so excited in the founder stage and that gets this opportunity. Everybody believes they're going to build the next big thing and you have to believe that at that stage, right? So it's hard to convince them otherwise the other way around that there is a risk associated with it. Nobody wants to hear that. There's few founders that are so reflected to actually take that in and sort of decline the nice offer from a big fund that's really a special trade.

Moritz von Pander – 24:16

I think just a quick follow-up question because you mentioned those follow-on investments and the signaling risk that's also shown in research. Do you think that differs from like domestic US investments versus cross-border? Because you could argue for example that they have less visibility in foreign markets and then therefore they can rather take the signaling risk and not follow on invest anymore. Or how would you see that?

Interviewee – 24:51 I don't know. I think you know it's a general phenomenon that you. That not following on is a bad signal. Right. So it's hard for me to really pinpoint it down to cross-

border US to German founders. What I see more as an investor is then you decided against US European investors because you want to be a darling of someone that is over there in the U.S. Right? And now they don't want you and now you come back to us. So I think that's more the signaling to it. You had ambitions to go to the U.S. and now you want to go back with us. We only have a second choice for you and is that really a partnership that we want to go with? If I lose to another European fund, that is the name of the game. But I might be able to participate in the next round.

Interviewee – 25:42 I think, I think differently about it when it's a US investor and you actively chose against the European one in the pre-seed round and then you know seed round, you have to rely on us again. That's. It feels a bit. Maybe it shouldn't but it does feel a bit more off if that makes sense.

Justus Lutterbey – 26:00

Yes, definitely. And then maybe the last question related to reputation. I mean you just pointed out that US investors like mostly come along with higher valuation and that even European funds would then pay higher valuations to invest alongside very reputed US funds or even syndicate with them. So the next question would be as many studies indicate that high reputation VCs even like acquire equity at a discount so are even paying lower valuations as they're well reputed. But what do you see this effect too like in Europe or like in Germany?

Interviewee – 26:50 I haven't seen it. I haven't seen it. No, no, I don't think so. We also do analysis of our deal flow in the cases where we decline an opportunity because we're not happy with the valuation. It's usually also the cases that perform very well. So we kinda from those analyses of our internal data gotten to the point that if you really like something then we should pay a premium because usually those cases are also doing really well afterwards. So it would be stupid for us to heckle around every euro and miss out on these big opportunities. And from a founder perspective, I haven't seen it. At least it could be. I might be wrong, but I also haven't

been then maybe on too many discussions around that topic that I can say, okay, I've seen it a couple of times. That happens.

Justus Lutterbey – 27:44

Okay, but based on your experience, you would say that a founder would rather accept the higher offer of another VC instead of like accepting a lower valuation to get US investors on board.

Interviewee – 27:59

Yeah. I think the only example would be that your next step is going to the U.S. I think that's a rationale that I can see a founder build out is that, you know, I need to go to the U.S. I need someone to open doors for me there. So I go with the US investor to take me there. Even though your offer is lower valuation. Otherwise, I would, I haven't seen it as often.

Justus Lutterbey – 28:26

Okay, perfect. I think we touched all points we wanted to touch. So I don't know, Moritz, if you have some other questions. If not, I would say that you do. Oh, sorry.

Moritz von Pander – 28:40

No, perfect. I think we covered everything.

Justus Lutterbey – 28:43

Okay, perfect. Then I would just say if you have some other thoughts to share, maybe some points related to cross-border activity that we didn't touch, feel free to share. If not, I'd say we don't.

Interviewee – 28:58

Yeah, one point maybe that to me is always important in this discussion is the types or the vehicles of investment. So we mentioned the word safe. Right. And different structures that also make a safe document from the US more interesting to a founder than an equity-based round or even a convertible note, it's the easiest form and it's so accepted in the US and still a

lot of funds struggle here in Europe to offer that ease. So even though the valuation and all of that might be the same, it's less hassle, it's less regulation, just using the safe. So that is something that people, I see people being very inclined to and asking if we can do a safe. Where we can't do that right now because of some tax regulations of our LPs. So that is to me an advantage that they also have.

Justus Lutterbey – 29:53

Yeah, definitely. I mean there's a huge debate going on in Germany that if you raise equity, of course you have to go to the notary and then you have those lawyer reading out loudly documents of like 40, 50 pages and everybody's falling asleep and all founders are just thinking, I'm wasting my time. I could do things operationally instead. So exactly what you just touched. So very interesting.

Interviewee – 30:18

Yeah. And then imagine if you're not even living in Berlin and you have to fly there to sit there for five hours and go back.

Justus Lutterbey – 30:25

Yeah, even more ridiculous.

Interviewee – 30:26

Yeah.

Justus Lutterbey – 30:27

Totally agree. Perfect. Then I would say, thanks a lot for sharing your thoughts and being our expert in this case.

Moritz von Pander – 30:38

Yeah, thank you.

Interviewee – 30:42 Thank you and bye!