

The European scale-up ecosystem: Evidence on late-stage enterprises' location choices

Capstone Project – 29 April 2024

Niklas Patzig, Silvère Claisse, Duarte Borrego, Michèle Gentile, Robin Shackleton, Emilie Kieler



Brugge

College of Europe
Collège d'Europe



Natolin

STUDENTS OF THE COLLEGE OF EUROPE

Agenda



Project description



The dataset



Mapping out relocations



Do firms relocate to get funding?



Do firms relocate to get acquired?



Do firms relocate to go public?



Relocation case studies



Q&A

Project description



The number of scale-up businesses in the EU lags behind that in the US and China



This is partially attributed to a deficit in scale-up finance and lack of technical assistance



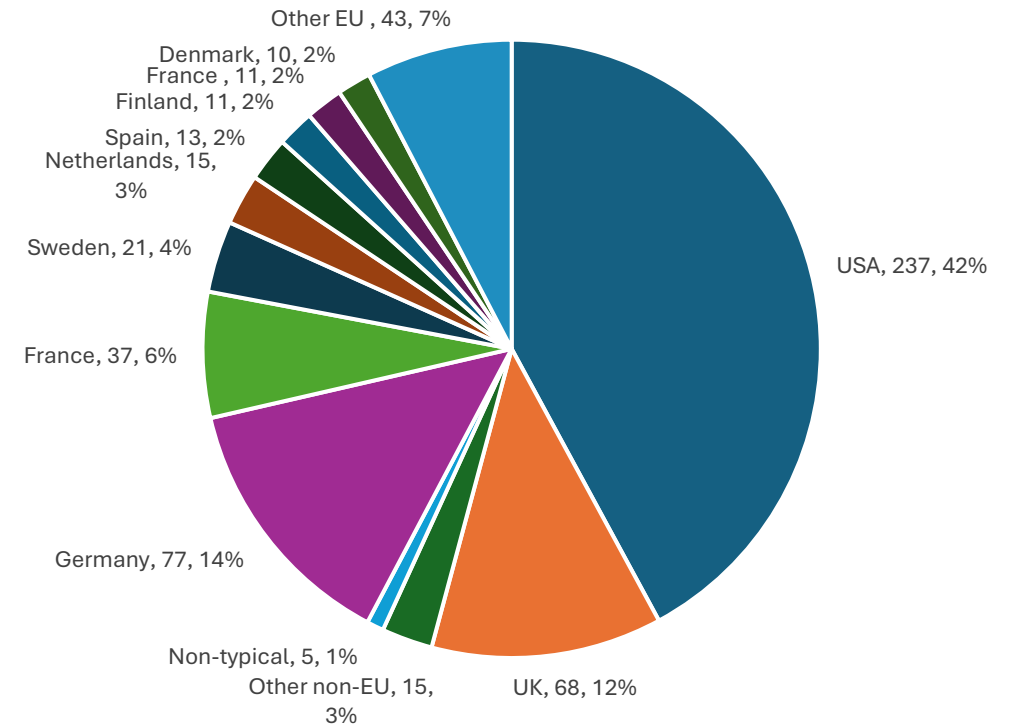
This year's Capstone project sheds light on late-stage enterprises' location choices

The dataset

Description of the data

- 563 firms (237 EU firms, 42%)
- Information on HQ relocations, acquisition status, IPOs
- Relocation classification
 - Hard relocation = open new HQ and close old HQ
 - Soft relocation = open additional HQ
 - Outside-region, inside-region, intra-country
- Examples
 - Paris founded company moves HQ to Luxembourg and no longer refers to Paris as HQ → hard inside region relocation
 - US founded company opens *additional* HQ in Dublin → soft outside region relocation
 - Kentworth founded company moves HQ to London → hard intra country relocation

Firms by founding location

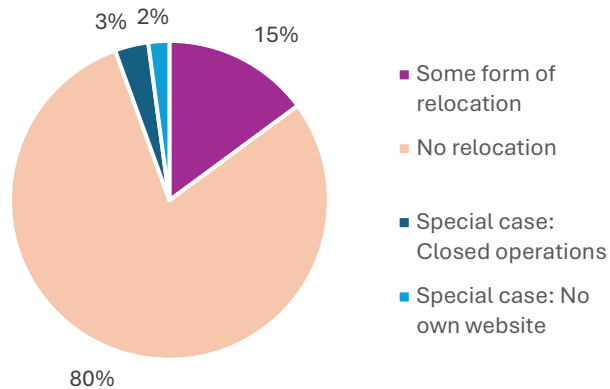


Mapping out relocations

Do EU firms relocate more often?

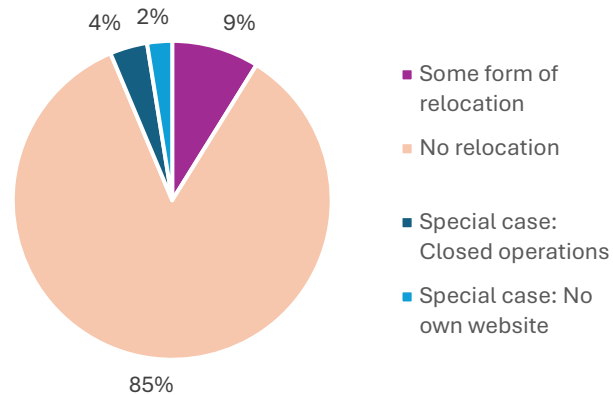
EU founded firms

237 firms, 35 relocations



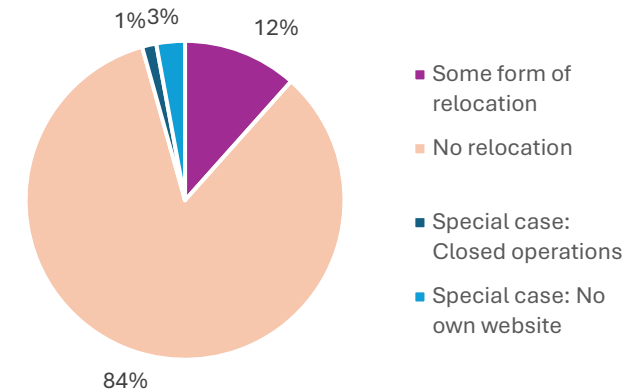
US founded firms

237 firms, 21 relocations



UK founded firms

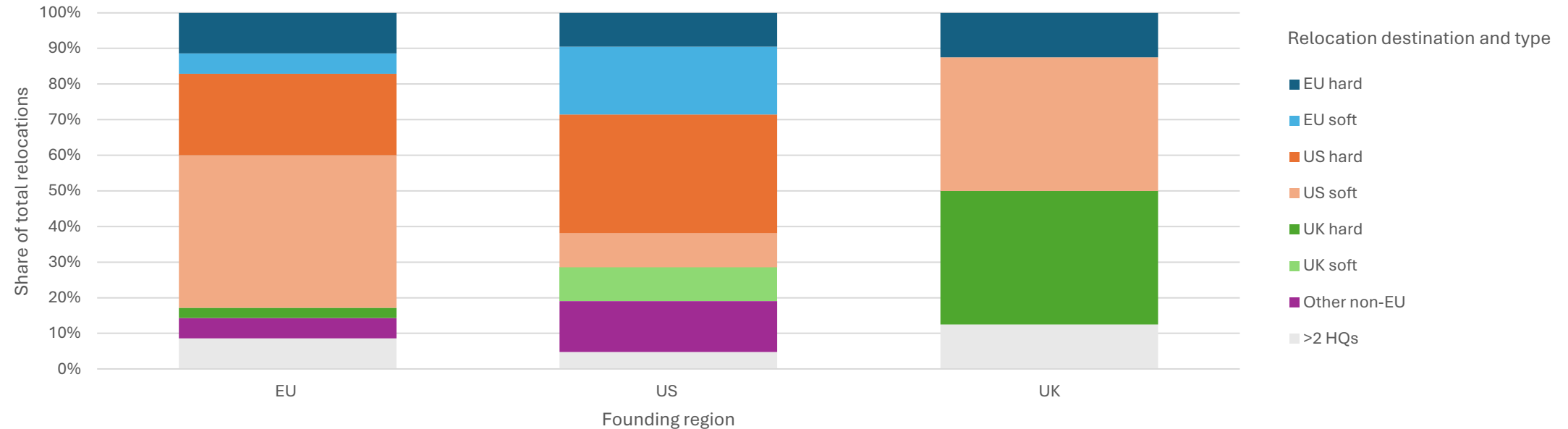
69 firms, 8 relocations



- Majority of firms do not relocate
- EU firms relocate more frequently than US and UK firms

Mapping out relocations

Does the relocation type differ by origin?



- Based on 64 firm relocations (35 EU, 21 US, 8 UK)
- EU firm relocations are mostly *soft* or *hard* to the US
- US firm relocations are mostly staying in US
- UK firm relocations are mostly staying in UK or going to the US

Mapping out relocations

Where are firms relocating to?

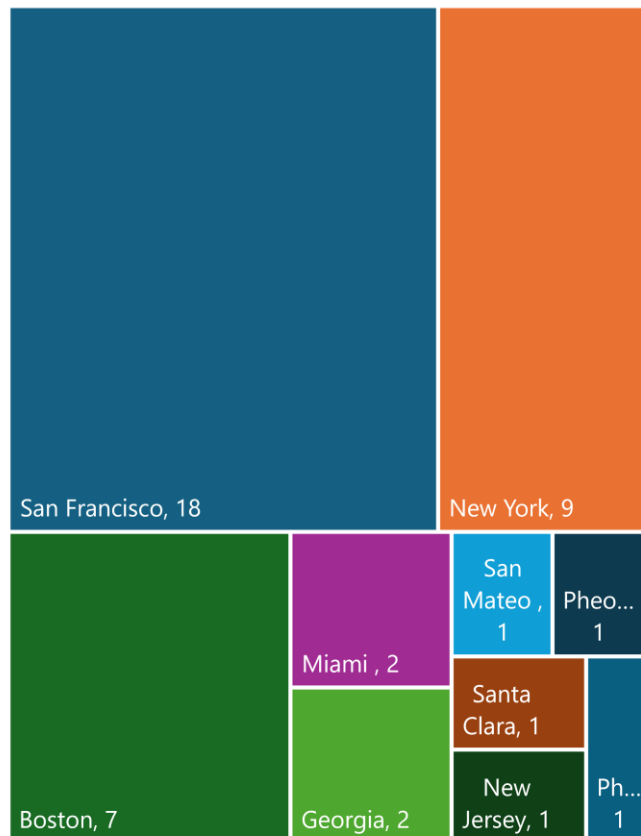
- An overview map of all relocations
- Direction of gravity is more towards US / UK



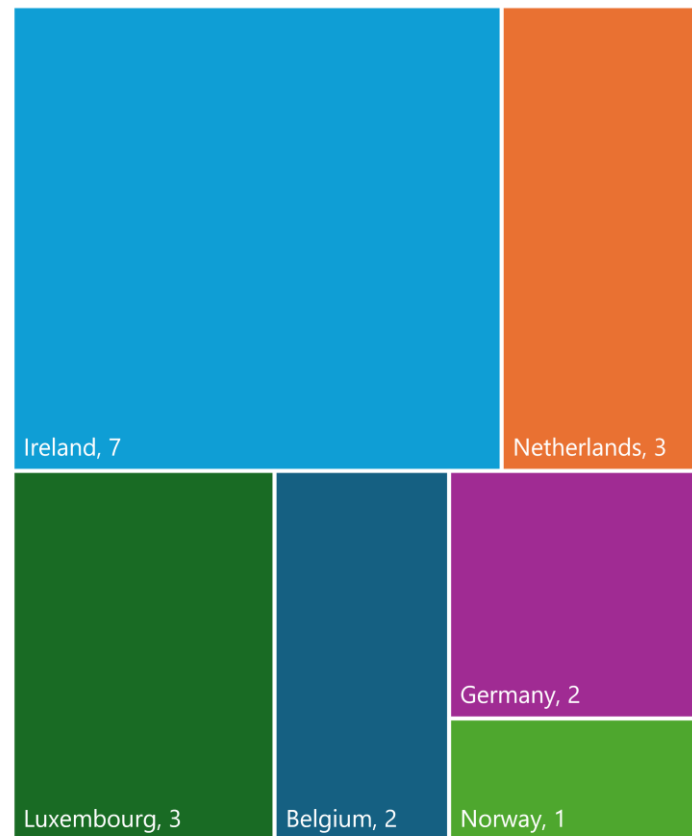
Mapping out relocations

Where are firms relocating to?

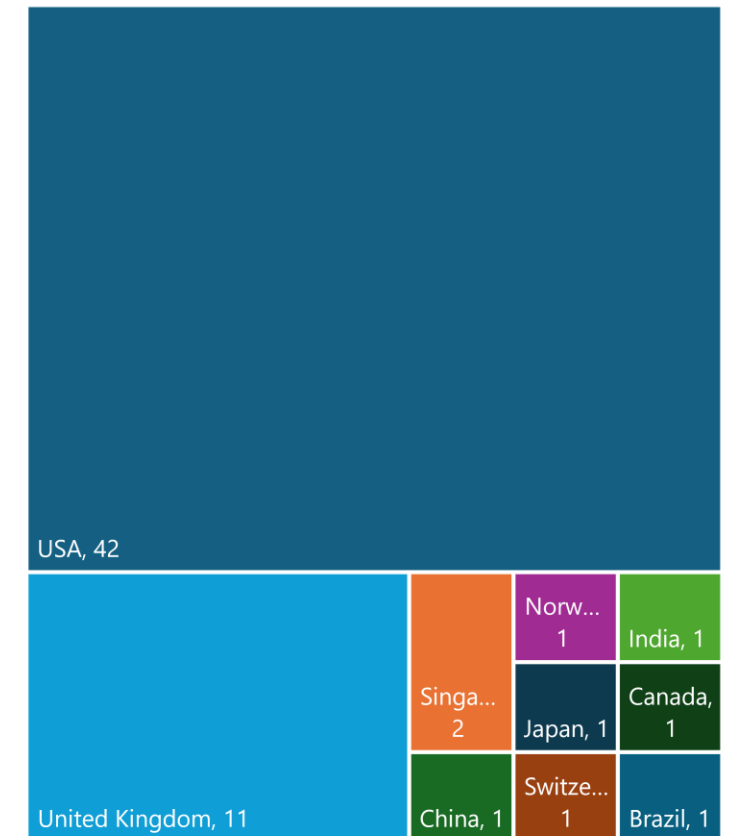
Destinations in the US



Destinations in the EU



Destinations in non-EU

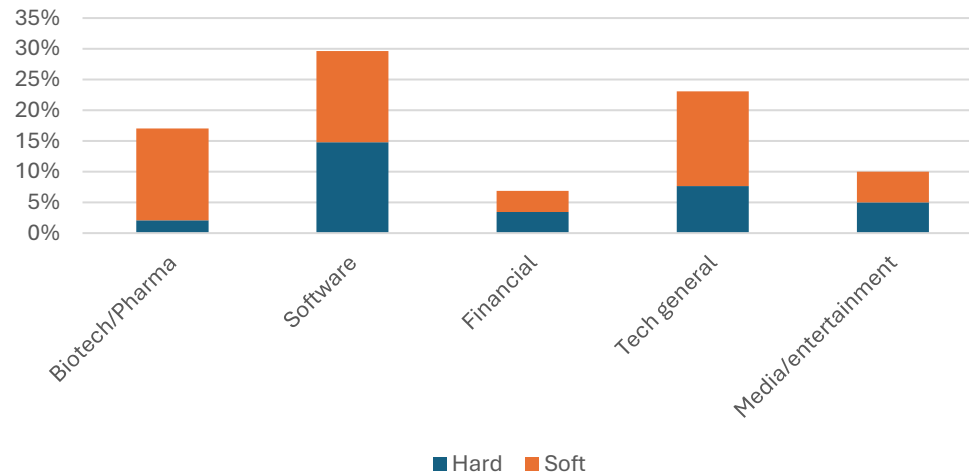


Mapping out relocations

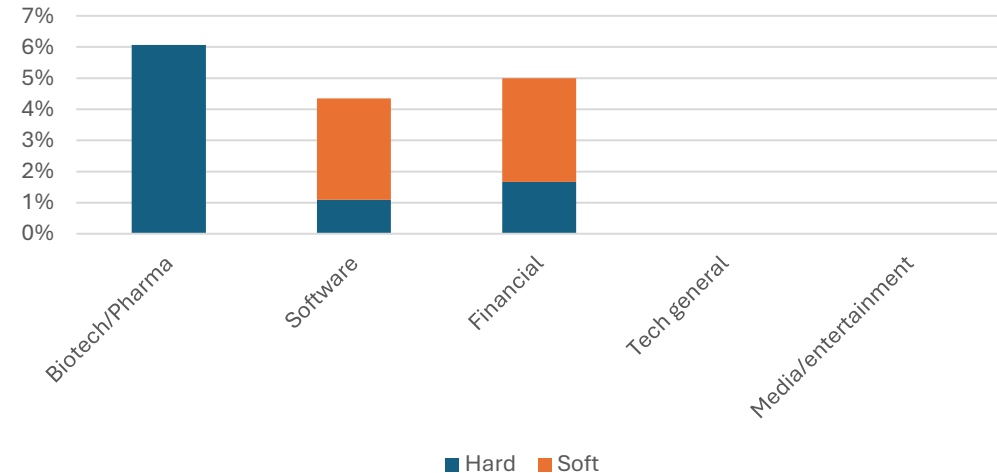
Among EU scale-ups, are some **sectors** more likely to relocate?

- Software, tech & biopharma

EU-founded firms' ratio of relocations (outside of EU) to total number of firms, by sector

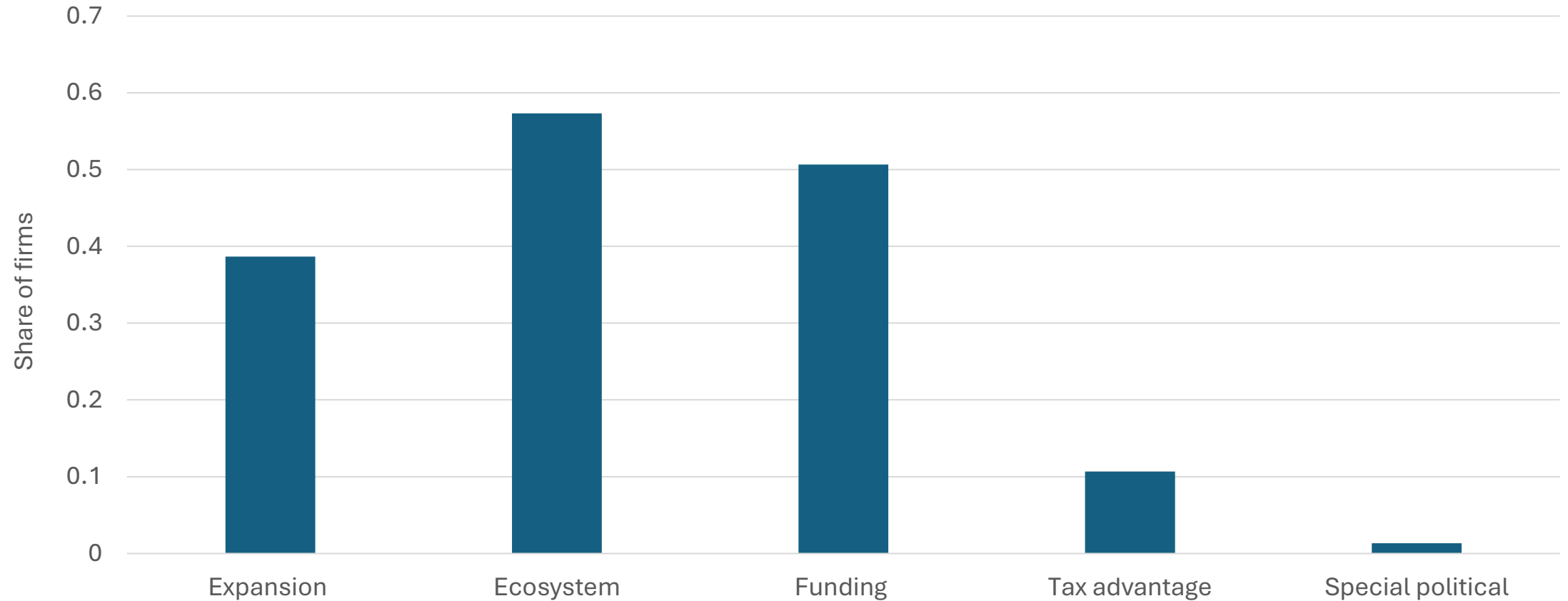


Non-EU founded firms' ratio of relocations (into EU) to total number of firms, by sector



Mapping out relocations

For what reasons are EU firms relocating?



Categories not mutually exclusive.

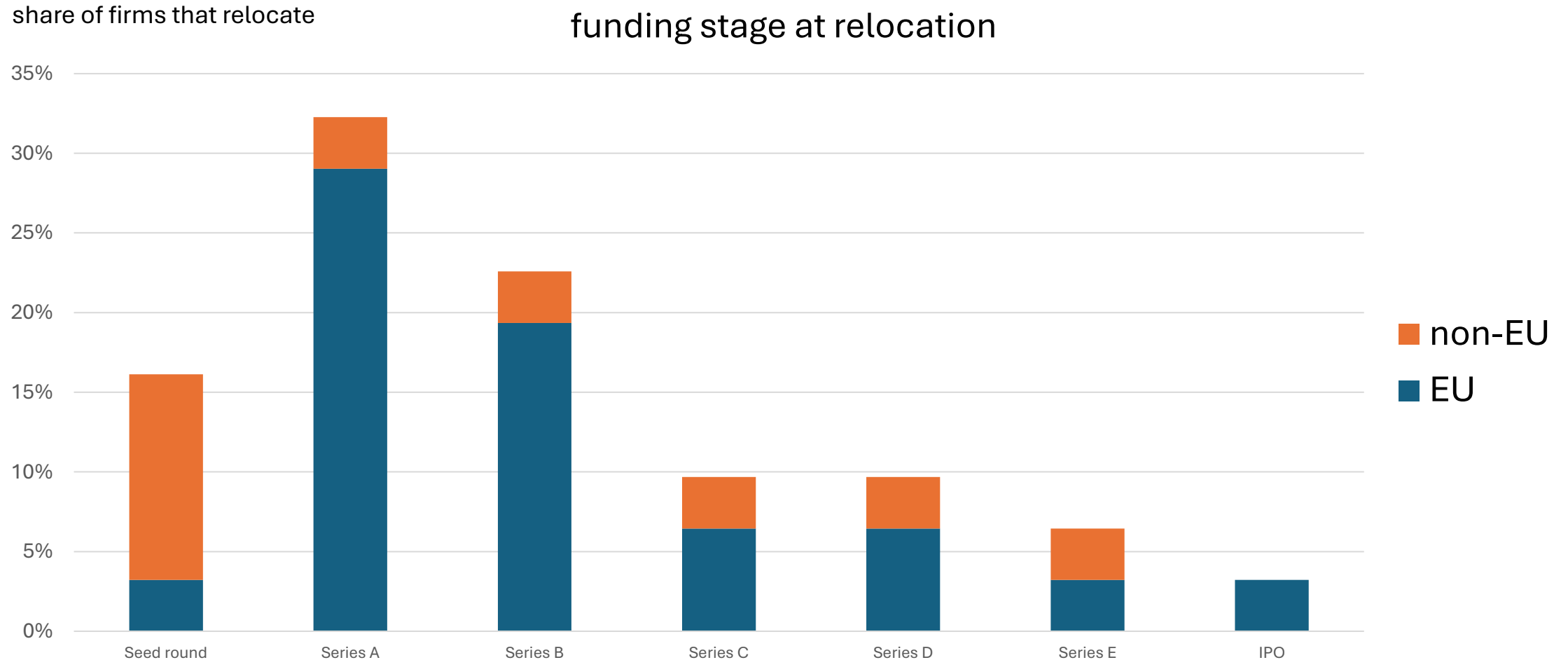
Summary

Mapping out relocations

- Majority of firms do not relocate, but EU firms relocate more frequently than US and UK founded firms
- EU firms relocate outside the , whilst US firms relocate within the US, and UK firms relocate within UK or to non-EU countries
- US is most popular destination, especially San Francisco, and within EU, tax-havens especially Ireland
- Relocation is more likely in some sectors, especially Software, tech and biotech/pharma
- Ecosystem and funding key reasons for relocation, although comparable, objective data on reasons is hard to obtain

Are EU firms relocating to get funding?

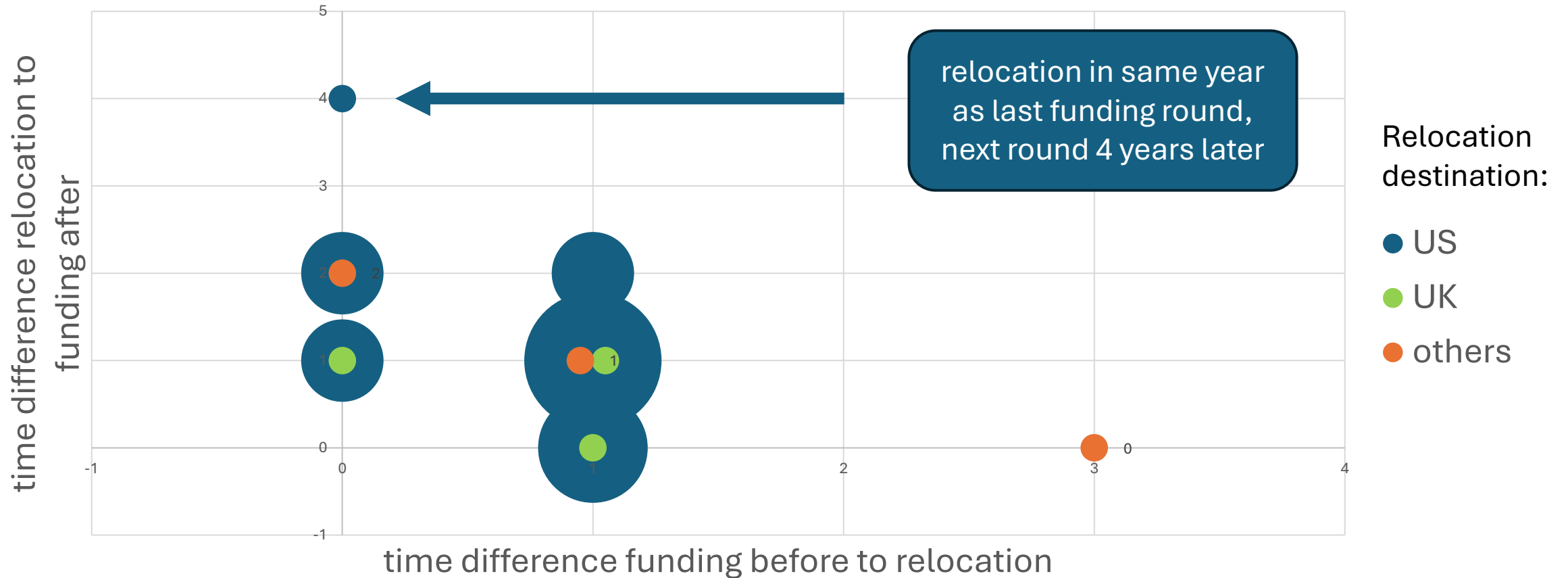
Is there a crucial stage at which they relocate?



Are EU firms relocating to get funding?

Do firms relocate before or after funding rounds?

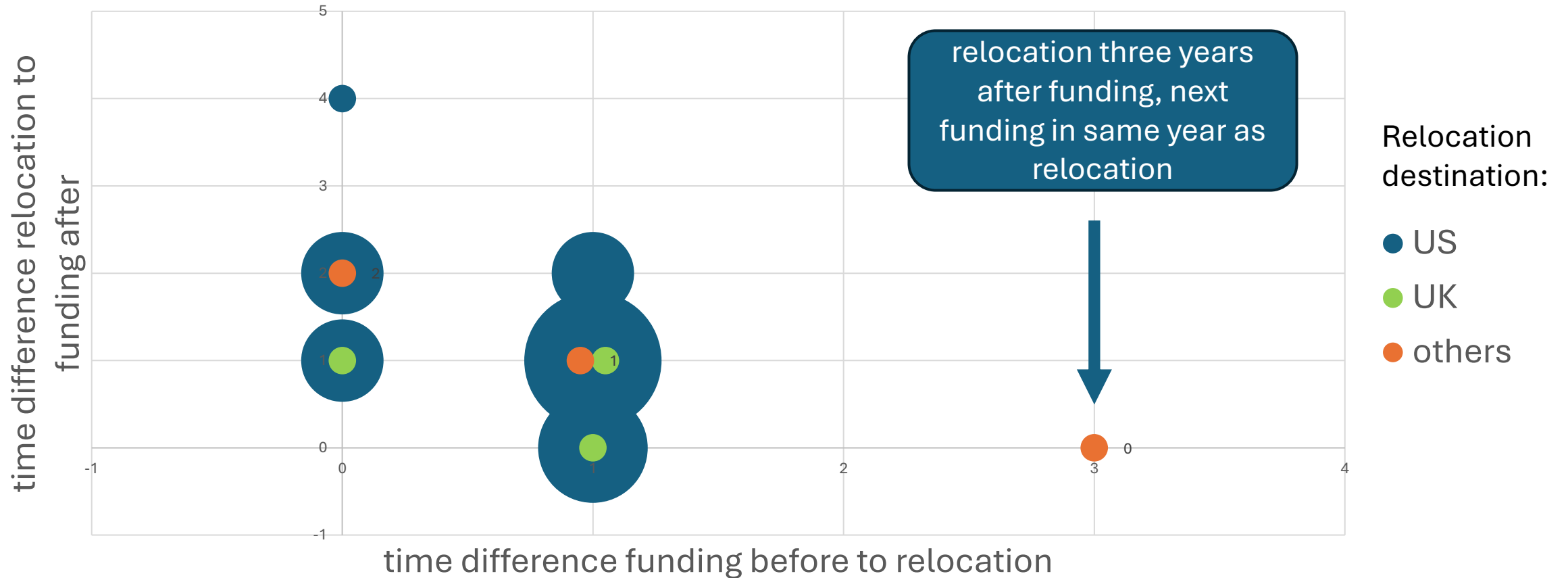
Time difference relocation and funding



Are EU firms relocating to get funding?

Do firms relocate before or after funding rounds?

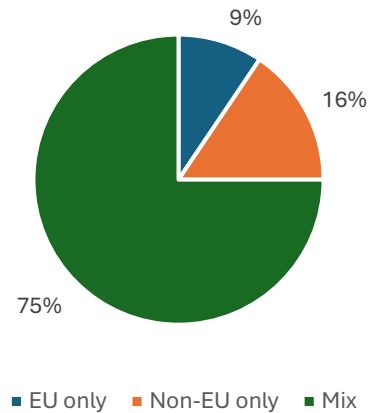
Time difference relocation and funding



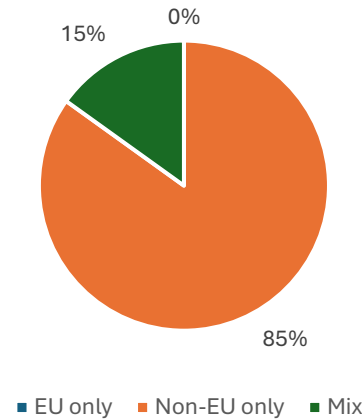
Are EU firms relocating to get funding?

Where does the capital come from?

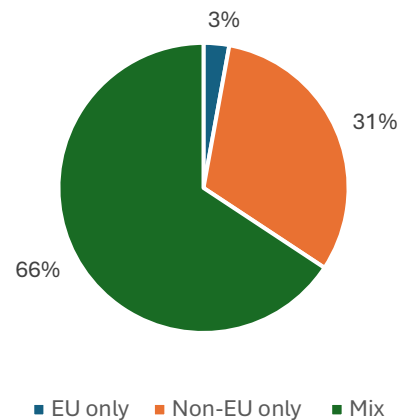
EU firms' funding sources



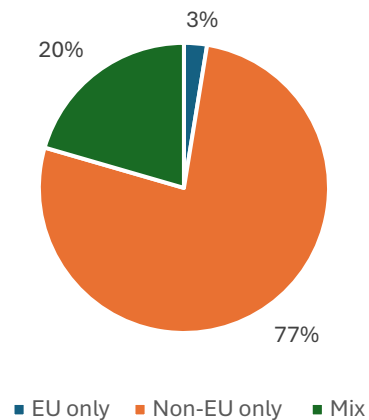
Non-EU firms' funding sources



EU firms that relocate



Non-EU firms that relocate



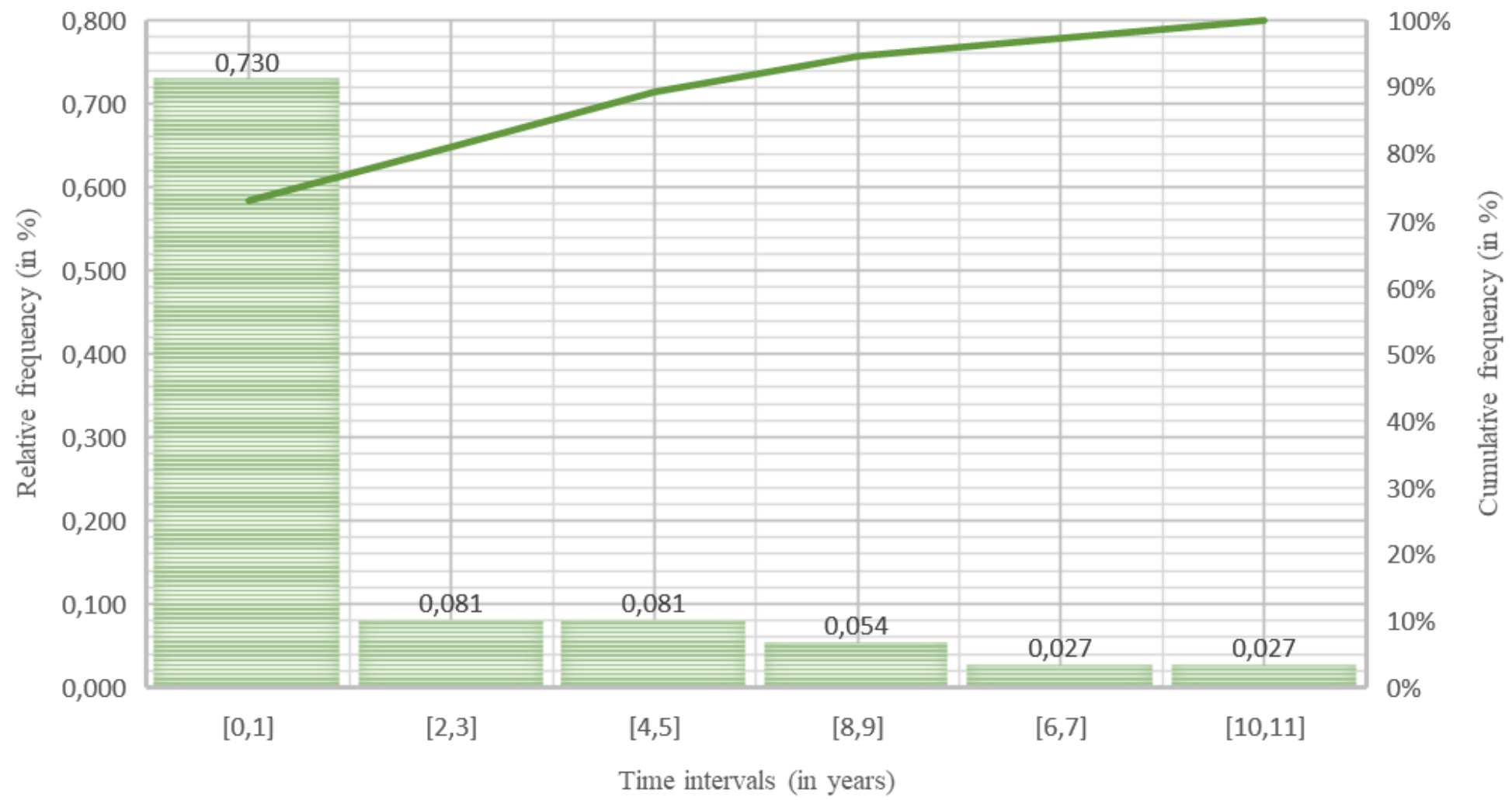
Summary

Are EU firms relocating to get funding?

- Data indicates yes
- Relocation decisions are strategically planned
- Firms don't relocate due to an immediate need for funding
- Non-EU firms relocate earlier than EU firms
- High dependence on funding from non-EU sources

Are EU firms relocating to get acquired? What comes first – relocation or acquisition?

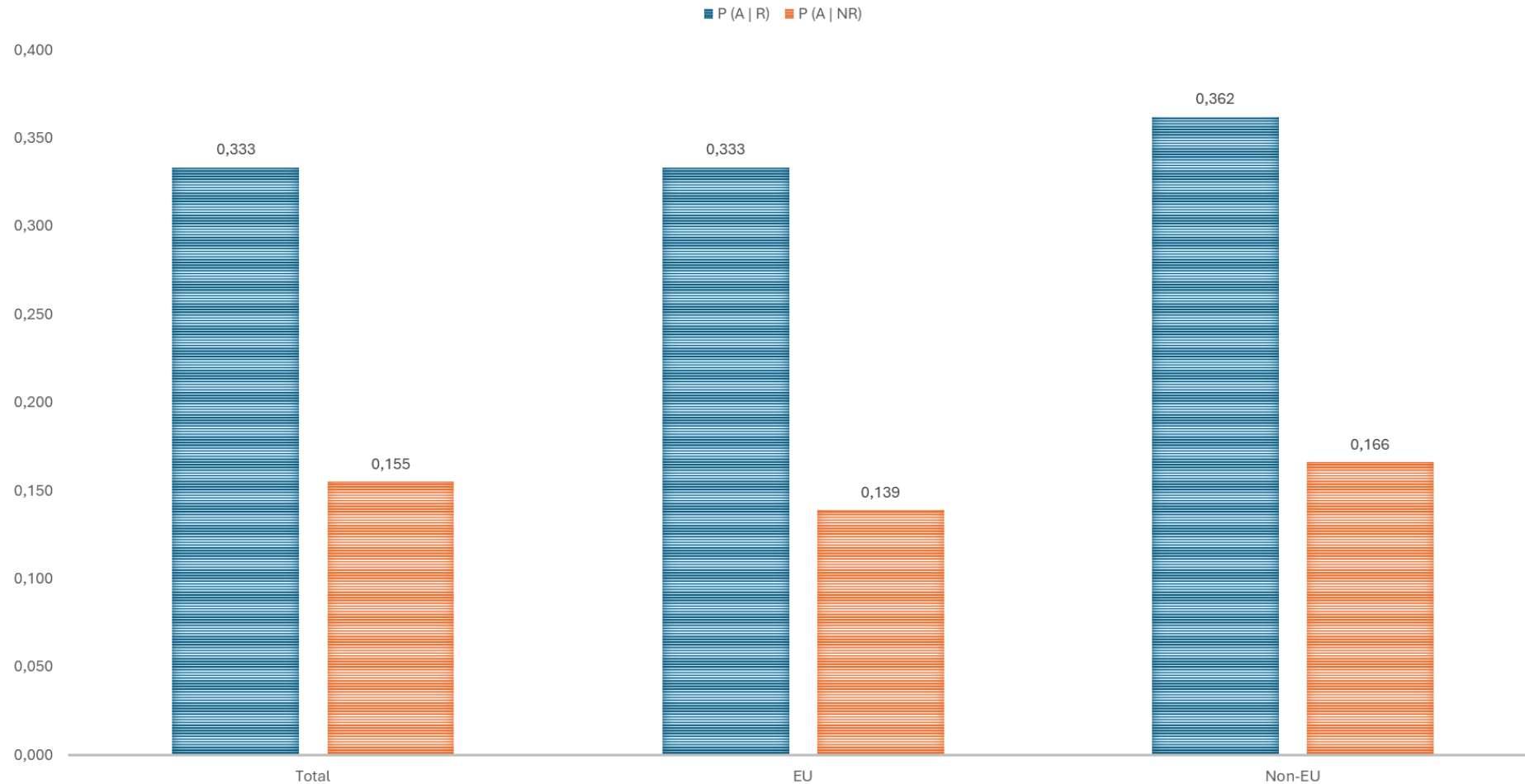
TIME GAP BETWEEN ALOCATION AND RELOCATION



The referred time gap was calculated for the total sample of firms that are considered to be relocated and acquired

Are EU firms relocating to get acquired?

What is the probability of acquisition after relocation?

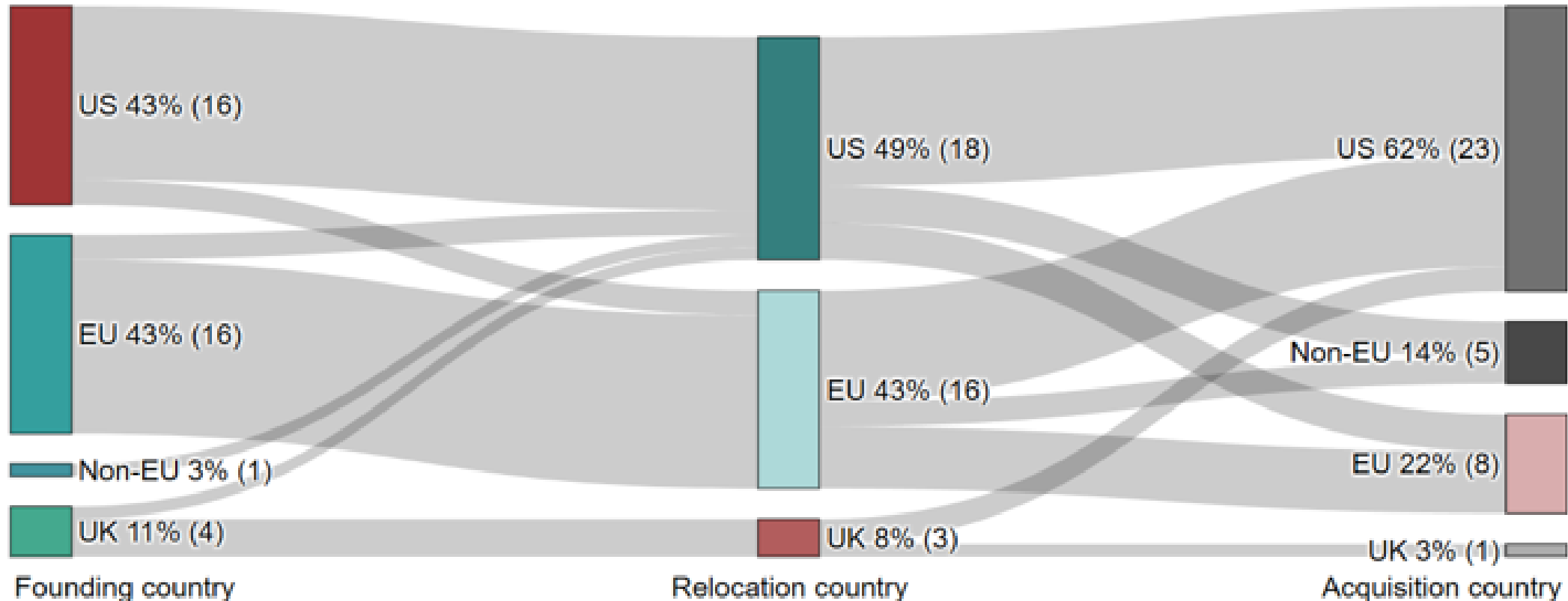


$$P(A_i | R_i) = \frac{P(A_i \cap R_i)}{P(R_i)}$$

$$P(A_i | NR_i) = \frac{P(A_i \cap NR_i)}{P(NR_i)}$$

Are EU firms relocating to get acquired?

Is the country of relocation causing a link to a specific acquirer's nationality?



This diagram includes information for 37 companies that meet the criteria of having been relocated and acquired

Summary

Are EU firms relocating to get acquired?

- Yes, within our sample we can infer that acquisition is linked to the relocation because
- The acquisition always took place after the relocation.
- The period between these two moments is very short.
- A third of the companies acquired had been relocated previously.
- This probability drops to around half in the case of non-relocated companies.
- The USA dominates as both a relocation and acquisition destinations.
- US may act as a trigger for EU companies to be acquired by EU companies.

Are EU firms relocating to go public?

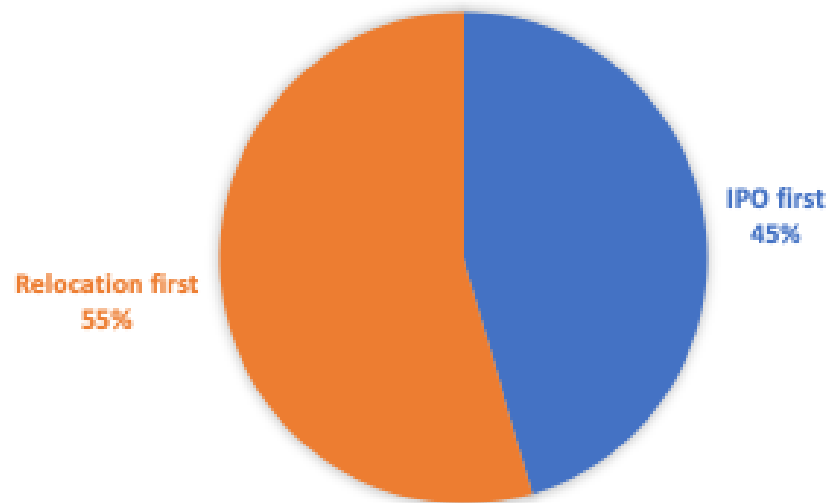
What comes first – relocation or IPO?

EU founded firms

11 firms

IPO first : 5 firms

Relocation first: 6 firms

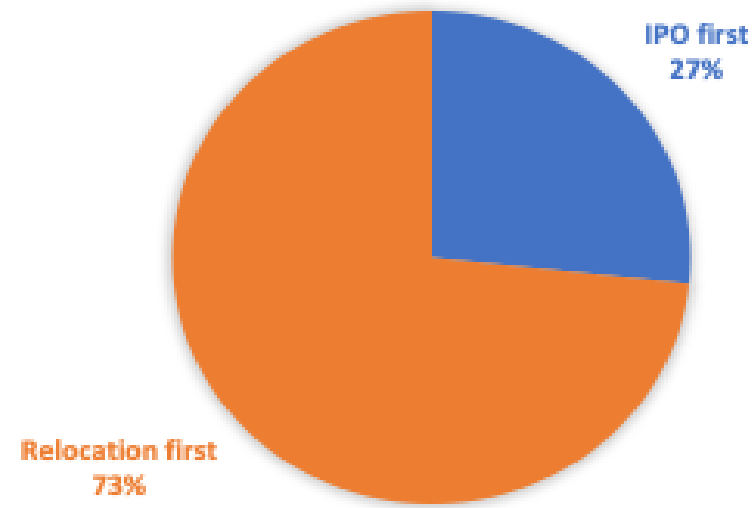


Non-EU founded firms

15 firms (10 US, 2 UK, 3 Others)

IPO first : 4 firms

Relocation first: 11 firms



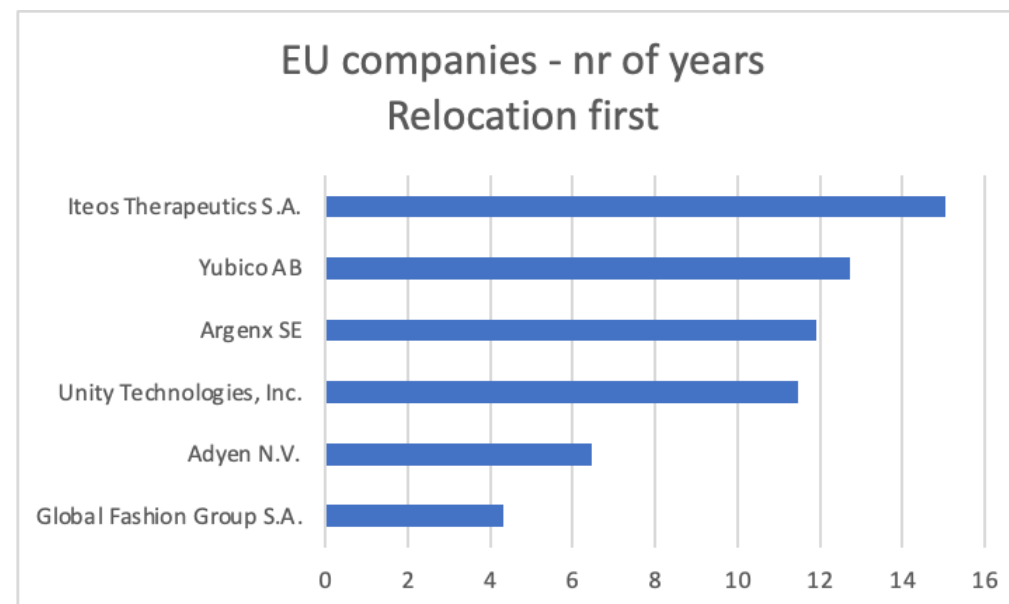
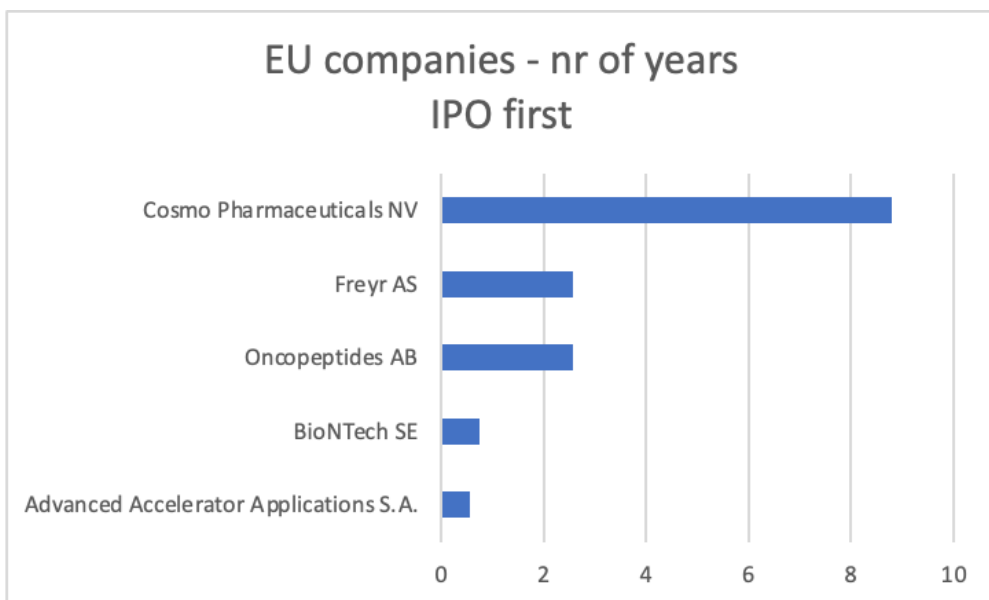
What is the time gap between relocation and IPO?

EU founded firms

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IPO first : 5 firms

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IPO and relocated: which stock exchange?

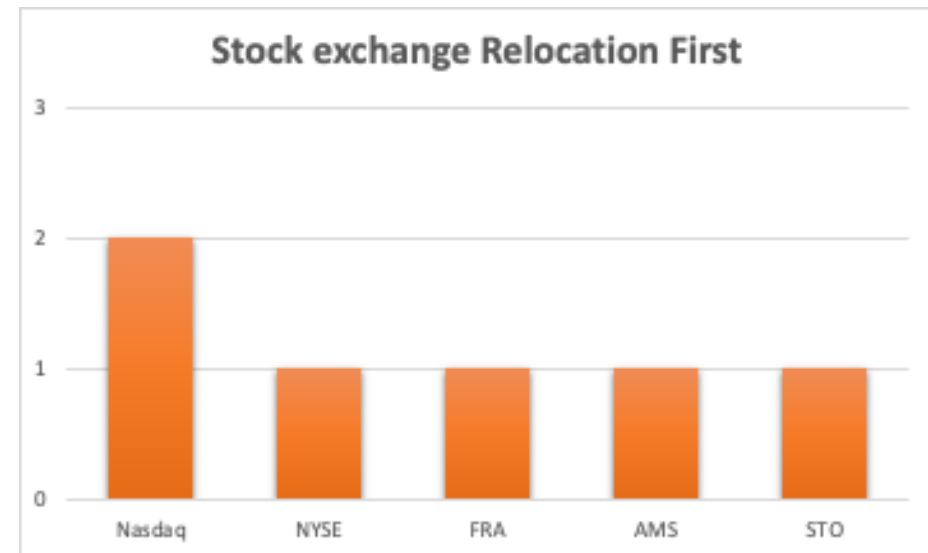
On which stock exchanges do relocating firms go public?

EU founded firms

11 firms

IPO first : 5 firms

Relocation first: 6 firms

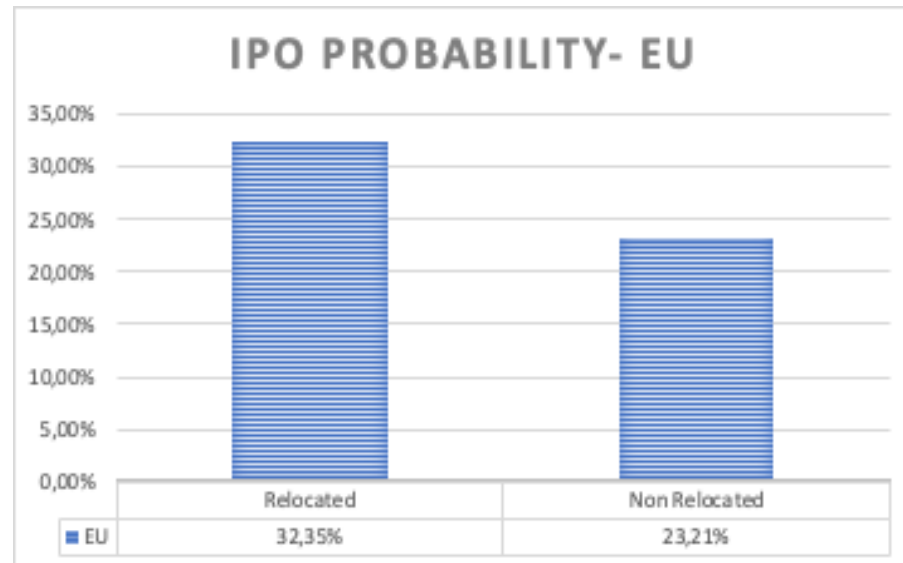


Are EU firms relocating to go public?

What is the probability of going public after relocation ?

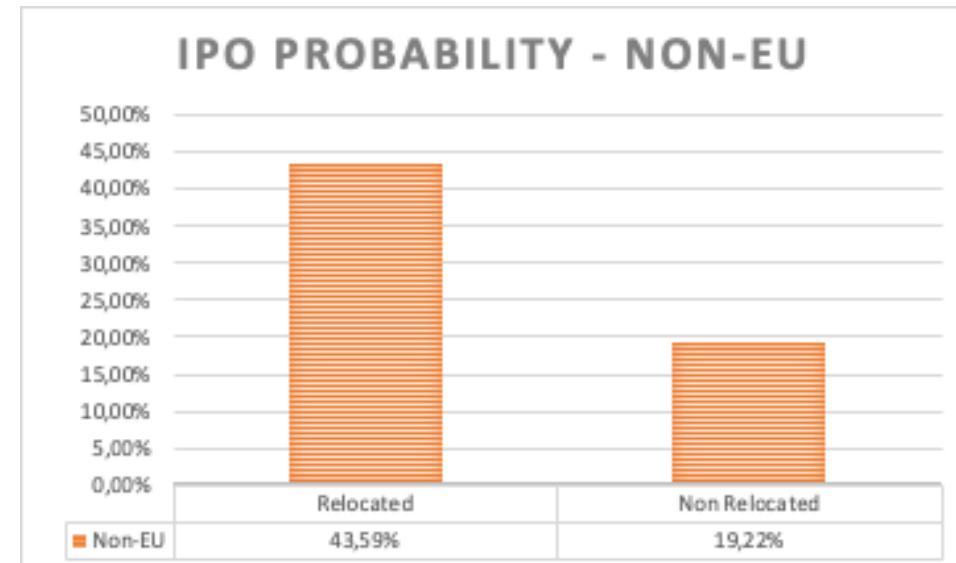
EU founded firms

11 firms



Non-EU founded firms

15 firms (10 US, 2 UK, 3 Others)



Summary

Are EU firms relocating to go public?

- Only 11 EU companies have both relocated and had an IPO
- 5 of them relocated after the IPO, 6 of them before
- Companies that relocated are more likely to go public than companies that do not relocate
- EU companies prefer to be listed in US stock exchanges

Are EU firms relocating to go public?

- Not clearly, relocating has not a big influence on the likelihood of listing

Relocation case study – Ecosystem

- **Firm:** Bitstamp Ltd.
- **Type of relocation:** Hard relocation
- **From and to:** From Slovenia (Ljubljana) to US (Boston)
- **Time of relocation:** 2016
- **Funding stage:** Venture capital
- **Reasons for relocation:**
 - Main reason:
 - Difficulty in obtaining financing
 - Inadequate provision of legal services in Slovenia
 - The company obtained a license from the government of Luxembourg to be considered a fully regulated payment and transactions services firm
 - This license allows operations in 27 EU countries.
 - The company classified its ability to contact the government and regulator as quick and easy. (low bureaucratic and transaction costs)

Relocation case study – Funding

- **Firm:** iTeos Therapeutics S.A.
- **Type of relocation:** Hard relocation
- **From and to:** From Gosselies, Belgium to Boston, US
- **Time of relocation:** 2019
- **Funding stage:** Series B
- **Reasons for relocation:**
 - Main reason: Funding - to get listed on the Nasdaq / high amount of capital needed
 - CEO: “A presence in the US is simply a requirement in this sector. After all, Boston is the Mecca of the American pharma sector. To prepare to be listed on Nasdaq – as is our intention – you need to be on location.
 - “Bringing a new medication to market will cost us about a billion at least. That means raising a few hundred million (300 to 350 million) in funds. So, we need to go public.”

Rounding up

- EU firms relocate more frequently, and they often relocate outside of the EU
- Funding is a key reason for relocation decision, especially to US
- EU firms always relocated before being acquired, in a short time frame and mostly to the US
- Relocating does not influence likelihood of IPO. EU companies tend to list in US after relocation

Thank you!

Questions?