Disruptive Tech Symposium
22 March 2022

With **Clif Marriott**, co-head of the Technology, Media and Telecom Group in EMEA, IBD
And **Klaus Hommels**, founder and chairman of Lakestar

Clif Marriott: Good afternoon everyone and welcome back to the second half of day two of our Disruptive Tech Symposium 2022. My name's Clif Marriott. I'm a partner in our investment banking division, focused on our tech advisory effort.

I'm thrilled to be here this afternoon with Klaus Hommels, which I know many of you know. But he is the founder and chairman of Lakestar, one of Europe's leading venture capital firms that invests in early and late-stage venture opportunities.

Klaus, thanks a lot for joining us today.

Klaus Hommels: Thank you very much, Clif.

Clif Marriott: You've seen, obviously, all the way through to the financial crisis. You've seen post the financial crisis. And really this huge scale up of European tech. So, you've seen all of the cycles. It would be great to kind of focus on the last two to three years of kind of this COVID environment, which has obviously been a horrible thing for the world, but a benefactor for a number of tech companies. And then secondly, this more, let's say, lull in tech valuations, especially in the public markets, potentially future in the private markets here in the last three to four months. So, you've seen the up and the down of the last two years. I think it would be good to get your perspectives.

Maybe just starting with COVID, what things have changed for companies through this period? How have companies adapted to the COVID environment? I mean, it's not really COVID, but it's kind of COVID transitioning, how companies work. So, more collaboration, working from home, obviously some of the consumer companies have benefited. What have you seen as the kind of takeaways from that period of time, let's say, up to Q4 of last year?

Klaus Hommels: Yeah, it's funny to see. I mean, we mocked about it, Clif, in the [UNINTEL] room here before that we have become a little bit of a very short-lived media business too a little bit. So, you always have to talk about the extremes.

If you think about it, it doesn't matter that much at the end, right? Because for a Spotify [PH] investor 2008 and you're in these companies for ten, 12 years plus. So, the hypothesis with which you start, with an entrepreneurial financier like I would describe myself, your role as an entrepreneur is of the build value and capture that value in the company. And that any way takes a very long time.

Normally, it's way longer than all of the different phenomena on that way that you've described. And the good entrepreneurs, and also like us as a financier, you have old pilots and brave pilots, but no old brave pilots. You become cooler and you have seen these things. And you do not tend to have such a nervous pilot, yeah?

So, we say, look, if it comes, it goes. And if you build the company, that is what prevails and what, at the end, especially with the compounding effect, is the thing that makes you happy.

Nevertheless, what has been, especially with COVID, is especially if you're a CEO, you're always a little bit proactive. And you're running around like an evangelist trying to persuade people about the advantages of the technologies. And if you want to sell them to companies, to incumbents, the latency can quickly last five to seven years until they get it. Yeah? So, I mean an external CTO [PH] like COVID that accelerates these things was probably the predominant effect that we've basically seen. There was no choice. And therefore, all the things that people said don't work suddenly all worked.

Clif Marriott: That makes a lot of sense. And maybe moving to the current environment. And if I had to summarize points of view from a number of different inputs over the last day and a half of disruptive tech, I would say obviously the public markets have been impacted massively. The late-stage private markets feel like they've been somewhat impacted, although there aren't a lot of data points to see where companies are raising capital, really, on a fully independent basis. So, how much of that public market has moved into the late-stage private market?

But the other conclusion is that on the private side, at the As and Bs, there's basically no impact, or very little impact in terms of the velocity of capital that's available for these companies. So, first of all, do you agree with that? Second of all, how are you advising? You are still very involved in a number of very large companies, blockchain or [UNINTEL], but not specific to those companies, but how are you advising the entrepreneurs that you're invested in or collaborate with around what to do in this environment? Should they raise capital in this environment even if it means potentially taking capital at a lower value or at a higher cost of capital?

Klaus Hommels: Yeah. Look, the point is that at the end, the valuations, and the early-stage valuations, are not impacted. I see that. And that is the beauty of our asset class, yes? So, as I am heavily invested in my own businesses and in tech companies, as a typical VC you don't have any asset class except VC and cash. The beauty is we are not leveraged. So, interest rates do then affect early stage so much. You do not have so much of an infrastructure that can suffer through external shocks.

And the biggest beauty is you only get a valuation indication at the next financing round. So, the nervousness of the daily public markets that get input into your life is excluded there. So, the more you get to the latter stages, the more VC facts get imported into valuations, into KPIs.

But there as well, I think it is a prudent thing to always have enough equity and not to raise debt too much. And to plan with a cushion that you might have enough space to reach the next multiples that allow you to discuss a different valuation level.

So, this is normally how you spec out the volume and the intervals of capital raising. And when we tried that at Lakestar, I think currently we are, for most of our companies, are above 12 months per run rate. So, I think there will be some adaptions effects also along the [UNINTEL].

Clif Marriott: Makes sense. Makes sense. So, I want to change gears a little bit and talk about how tech is funded in Europe. You and I have had a couple conversations over the last few months around this which was news to me and maybe news to our audience around the fact that there's kind of a lack of European population funding European tech. So, it's still the VCs that are investing in Europe are really funded still by US pension funds or people outside of Europe. So, the underlying kind of European citizen isn't really benefiting from all of this growth, the 220 unicorns we have in Europe, et cetera, et cetera. Can you walk us through that phenomenon and what you're doing to, potentially, hopefully move that to the right place?

Klaus Hommels: Yeah, that's an interesting one. For me, that is the biggest mystery that I do not get my head around, right? Because on the one hand, the asset class is established. So, even the states have all the data. So, the German government is investing into this asset class since 2005. So, the EIF. And even the EIF, which is a very broad index, let's say, has a 20 percent IR on its 2010 [UNINTEL]. So, you could say, well, this is established as an asset class.

But at the same time, there is still a regulation preeminent that precludes pension funds from investing in this asset class. So, basically, you are saying to all the pensioners, no, no, no, that's nothing for you. You go to the [UNINTEL] and get your 2 percent. And as a compounding effect over the lifetime of a pensioner when he pays in, this is huge as a difference. So, as a politician, you could say, "I don't get why you would not have the broader population profit from that."

At the same time there's another phenomenon that we have looked at and done quantitative analysis, which we've then also published that the European [UNINTEL], financing [UNINTEL] dotcom where we made a quantitative analysis on how did, yeah, in the first step Germany, but we also have a study for UK and France to follow, how did these economies become rich? And it's pretty simple.

In the '50s, '60s, and '70s, banks financed companies that were to become the mittelstand, the family businesses, in the vicinity of 4 percent of GDP. And they could do that because they were operating under a regulatory regime that allowed them to do so. Yeah? On the equity side as well as on the debt side.

So, this has changed. So, at no company that will be mittelstand or a bigger family business in 20 years, on the tech side or on the innovation side, can be financed by a bank because the banks are not in a position to do that anymore as they have been in the past. So, that's why you rely on venture to fill that gap because that's the only regulatory structure that is there to finance innovation.

And besides the fact that you do need that for also guaranteeing the whales [PH] because what has happened if you look at the indices in the US or an index or the macro economic area like Germany or France or whatever, they basically have a rejuvenate relation rate of 4 or 5 percent. Meaning the big [UNINTEL] in the US

[UNINTEL] of course 4 or 5 percent new market cap gets in. And 4 or 5 percent old gets out.

So, this means for the DAX [PH], the 100 billion new market cap needs to be created. And then you take France, UK, [UNINTEL], we have 300 - 350 billion market cap every year that we need to create in Europe in order to maintain the level of wealth. And this will have to be shouldered by venture as the banks are not doing that anymore. And this is a challenge for European financing markets that the money needs to flow into venture funds or [UNINTEL] growth funds to be able to do this. So, this is something which I'm currently discussing with the governments. And some of these discussions lately were [UNINTEL] on [UNINTEL] in Paris. Also, here through new initiatives where there are new state programs.

And we do need the state programs, Clif, because as you know, on the regulatory side in the US, most of the money comes from endowments, which don't exist in Europe. And pension funds and insurances which are way more liberally regulated in the US versus here. So, there is some lead way.

So, this is the monetary and [UNINTEL] part of the equation. I think the Ukraine disaster has also shown us how important it is that European money and European government money finances certain system-critical technical infrastructures. So, because I'm not sure if going forward we would want to ask Elon Musk to give us access to Starlink in order to keep communication alive in emergency situations in Europe. Or whether we need our own space [UNINTEL] like the aerospace, so we finance this one. And you do have another kind of these mission-critical technical infrastructures. And up to the payment system. Because if you can shut down Master Card and Visa in the US, you can probably also do that in Europe.

So, there are some new challenges. And if the war has shown something, then that Europe can be closer and more united on these kinds of challenges. And this is something we need to tackle as the venture industry.

Clif Marriott: Agreed. I agree with all of that. And I think it's really important what you're doing to help kind of the general population through pension funds, endowments, whatever else, insurance companies to get more access to venture.

So, let's move into where that capital is being invested and what's happening in Europe. We've talked a lot about that at this conference in terms of the number of unicorns going from, obviously from zero, but from 20 seven, eight years ago to over 200 these days, at least as of the end of last year. Really great amount of growth.

You have a great management here because you've been involved. You were on the board of Spotify for a long period of time. I remember having conversations with you when they conducted their direct listing or chose to conduct their direct listing. You were on the board of [UNINTEL] for a long period of time. You're currently on the board of SumUp which is a large tech business in Europe, and you're involved around blockchain. So, you're really at the center of some of these very large 5 - 10 billion dollar plus type companies, platforms, within Europe. What is the common characteristic of a Daniel Ek or a Sebastian or these types of founders? What's really driving them as founders or the company or types of companies that have been big, that have become big coming out of Europe?

Klaus Hommels: Look, I think it's a little bit also the mentality that you have in the US. In a lot of cases, you have very tech savvy, if not tech expert founders, that discover an insufficiency in daily life and want to solve it with technology. So, it's never about money. It's always about the very strong desire or very strong character to solve that problem. Because I think there are even underestimated superstars, the founders.

So, we're just the service entity that has a portfolio and it's not very risky. Not very glorious. But they basically decide in very uncertain scenarios to commit ten years plus of their life to a certain idea. And if you see this sparkle in the eyes of these people, that is a great prerequisite.

The other is a function of a lot of things, Clif. Europe has been criticized, especially continental Europe in the 2000s, we still remember, as a copycat nation. So, why was that? It's very simple. Because the age of the seat of the people that studied technology, so who would become tech savvy to start something, they were so young that they did not have economics at school.

So, the first moment they saw the value at a tech declaration, so they fainted, and then the story was becoming an entrepreneur was gone. So, they were basically intimidated to do so. That changed. So, the next generation, they were more familiar with economics and then you also had role models that achieved to build big companies from a technology starting point. So, that gave them the conviction, the power to start these companies and also have more ambitious goals.

I think it is a lot of things coming together here that basically make the [UNINTEL]. But the power and the desire, the strong desire to solve problems, yeah, is the main thing.

Clif Marriott: On the VC panel we talked about this topic of where Europe bats above its weight or whatever the right phrase is, so where does it excel relative to its population? And it feels like fintech is that place right now. Adian [PH] and Checkout, Klarna, SumUp, some of these very large platforms. What is the reason that FinTech has become so big in Europe on a relative basis? And are there any sectors you see that happening in?

Klaus Hommels: Yeah. So, you mustn't forget that we have been culturally introduced to FinTech very early with Minitel and the Beta X [PH]. Basically, we had electronic banking from the early 1990s onward. So, we were more familiar. And if you're more familiar, then the adaptation rates become faster. And if the adaptation rates are faster, the economies of scale kick in earlier. So, this is all a self-reinforcing flywheel. So, this basically explains a lot of that. It also explains why we are in other areas not as fast because there the adaptation rate, especially in B to B, was slower in comparison to the US, leading to other results in these contexts. So, this is something I think explains it pretty well.

Clif Marriott: Do you think there are any other sectors that lend itself to Europe or lend itself to Europe creating bigger companies?

Klaus Hommels: We will see. I'm confident that the cultural shift in wanting to be more entrepreneurial makes a big difference. So, if you remember, the universities are super. And before we did innovations and were so glad that we did these innovations that we forgot to monetize them. So, MP3 and others are vivid examples of it. And now, everybody is way keener on making companies out of it. And there are a lot of things that go with it, Clif. For example, in the US, the professors at universities, they're allowed to be more entrepreneurial because these are private universities. In Europe, a lot of them are public universities, so they are not necessarily allowed to be part of the entrepreneurial story. So, the universities have changed their stance to that. So, [UNINTEL] the professors have also an interest in supporting this. So, this will unleash a lot of power in terms of journey from science to companies.

Clif Marriott: Yeah, I think the biggest shift in 15 years of doing tech has been the mentality of I don't need to start something, sell it when it's worth 200 million. I can actually sell it, raise capital, become a 5-to-10-billion-dollar business and have that ambition. That's been a big change, I think.

Klaus Hommels: Yeah. And sometimes it happens implicitly. As you say that, when I look at my portfolio, I would say I barely have somebody in that thinks about selling in [UNINTEL] transaction. So, they're all in full swing and think, well, I can do this now. Which is unheard of five years back.

Clif Marriott: That's great. Maybe taking on that too, the current environment, and we kind of talked about this a little bit, but how is the current environment, i.e., in the first quarter of this year, slightly softer? Is that impacting at all how you're investing in where you invest, which is really in the A and B rounds?

Klaus Hommels: No. Look, I think there is a reason why the VC model has a two and a half to three-year investment period. The reason is that you balance out the different moments where you start investing so that you have a cost averaging of these, I would say, micro cycles. The beauty is also, Clif, venture, what is venture? Venture is in 98.5 percent you say, "No thanks. No thanks. Yeah, great idea. But not for me and not at the right time." Yeah? And in 1.5 percent of the time you say, "Oh, please, please, please." And this has basically nothing to do with macro moods, say, because the hunt and the quest for the extraordinary entrepreneur, there's no correlation to externalities.

Clif Marriott: Maybe moving to a topic that comes up a lot. You and I interacted already, and we mentioned this already, you were on the board of Spotify when they took the decision to go and be the first direct listing in the world, at least in technology. And since then, I think we've had 12 to 13 companies around the world direct list, the vast majority of those in the US with one in Europe are listed on the European exchange which was TransferWise. Do you think this is a trend to stay? Do you like the dynamic of allowing a company to just list on an exchange rather than going public?

Klaus Hommels: If you allow, I might answer that in a bit of a broader context. So, what we have seen is that in the early 2000s, IPO prices, normal IPO price valuations were 1.5 to 3 billion. That was normal. And then we saw that with regulation the IPO readiness costs increased a lot. So, on the flip side that meant that the companies took longer, stayed longer private, and then the IPOs, or classical IPOs, were happening later. And it was higher valuations.

So that, as a consequence, triggered the recognition with the [UNINTEL] prices and genesis of the world that said, "Hey, wait a second, we were always investing public when the valuation was 2 billion. And we liked that. So, just that they go to IPO later doesn't mean we should miss that window." So, they came in earlier, which allowed a different liquidity in this earlier time so you, again, could list later.

And then this basically allowed you also to detangle, technically, the capital raising moment from the just technical and heuristic prerequisite that you were listed. And so, this was the reason why that was possible to that extent. Then you do have the spec as well which you can say has been a little bit of a criticism, which I probably agree for a variety of reasons. But it's, again, a permutation of a process to list which has, if structurally done right, appealed to certain companies.

So, my answer would be that there is the beauty that the entrepreneur of today can choose that he has more liquid debt markets that he never had before. And more and more likely to also get that debt at favorable prices. If you have a strong brand, a retail brand, and you have also customers in the US and attack that market, direct listing has an implicit marketing effect which gives it a special edge and advantage. And then you do have the other variants of spec and normal listing. Each has a different audience and an advantage set which we carefully analyze when we talk with our late-stage companies.

And same as for where do you list. Yeah? So, I think we could talk a different topic here. I just had a discussion with the CEO of Euronext and with [UNINTEL]. We do need to have more liquid and more concentrated markets here. So, this is still probably a prerequisite that we are all hoping for and working on in Europe in order to fill a gap that closes the distance between the US and

Europe if it can ever close the distance.

Clif Marriott: I mean, I think that was a really well articulated answer and probably how we would approach at Goldman the decision of the format to list or the how to list. That was great. Last question, we have one minute left, and I think I just want to close with this because I think it's good to take stock of where Europe has come to from a tech standpoint. You've been in this sector for 25 years or so, where are we at on a scale of one to ten in terms of the growth and success of European tech? And where do you see it going from here?

Klaus Hommels: Well, I would say we are probably at a 3 to 3.5, ten being the best. Yeah? And the reason why that is, as discussed, venture-- leave alone tech, venture is the mean to finance innovation. And the SUC [PH], when you look back, the speed of innovation always has increased. So, we can see it will also increase going forward.

And then you multiple it or add it, not only from tech, but then you say medtech. Then you have vaccination stuff. Then you have energy. Then you have CO2 as fields of innovation. This all needs to be financed. And it's still called venture. And not only the tech, everything is venture. And in this, I think the way venture works becomes from an exotic way it was looked up on in the 2000s to the mainstream of financing innovation which Europe relies on in the next 15 years and has to reach totally different volumes.

Clif Marriott: Another way to say it is, it's still very narrow in terms of where we're investing capital or where venture is investing capital. And there are still a lot of problems for venture and for tech to solve. So, I guess that's a way to end this conversation, which is there's a lot more to come. And that's really exciting.

Klaus, thank you very much for spending time with us. Incredibly interesting conversation. Really appreciate your insights.

Klaus Hommels: Thank you.

the recipient. Neither Goldman Sachs nor any of its affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the statements or any information contained in this transcript and any liability therefore (including in respect of direct, indirect or consequential loss or damage) is expressly disclaimed. The views expressed in this transcript are not necessarily those of Goldman Sachs, and Goldman Sachs is not providing any financial, economic, legal, accounting or tax advice or recommendations in this transcript. In addition, the receipt of this transcript by any recipient is not to be taken as constituting the giving of investment advice by Goldman Sachs to that recipient, nor to constitute such person a client of any Goldman Sachs entity. This transcript is provided in conjunction with the associated video/audio content for convenience. The content of this transcript may differ from the associated video/audio, please consult the original content as the definitive source. Goldman Sachs is not responsible for any errors in the transcript.