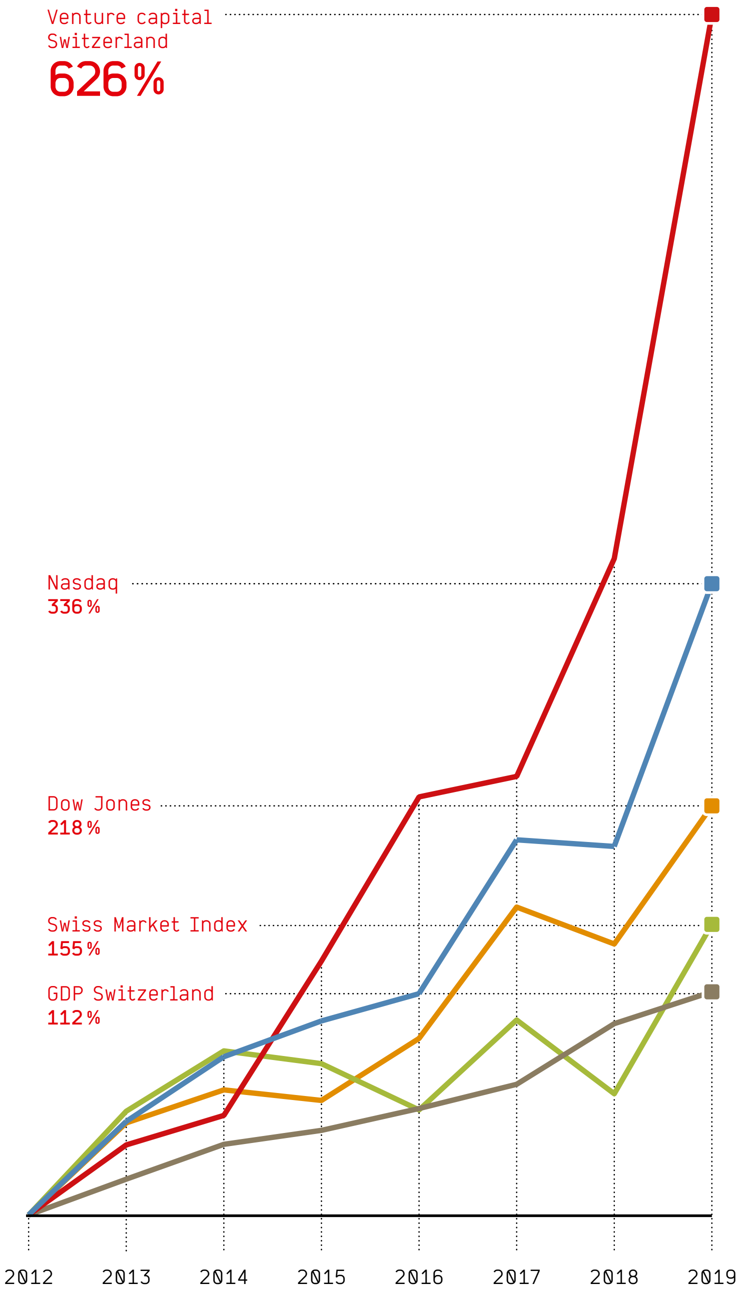
Overall economy
Significant momentum

Venture capital investment in Switzerland has been increasing much faster than GDP and all stock market indices for years. We spoke to two professional observers about the opportunities and risks. **Jost Dubacher**



Growth (in %) of venture capital investment compared with other key figures, from base year 2012

From the perspective of players in the Swiss start-up and innovation ecosystem, everything is going perfectly. Venture capital investment in start-ups has been going in only one direction for years, and increased by another 86% from 2018 to 2019.

A comparison with the development of other economic indicators (see graph), such as GDP, and the most important national and international stock market indices shows that VC investment has decoupled from overall economic growth.

Pascal Gantenbein is a professor of financial management at the University of Basel and a long-time observer of the Swiss venture capital scene. For him, the signs are clear: "The range of investment cases has improved significantly." In particular, the projects to be financed are managed much more professionally than a few years ago.

Increasing entrepreneurial skills

This is due not least to the start-up and spin-off funding from Innosuisse, universities and private donors such as the Gebert Rüf Foundation. "The awareness-raising and training programmes they fund have significantly increased the level of qualifications of young entrepreneurs," says Markus Willimann, deputy head of SME policy at the State Secretariat for Economic Affairs (SECO).

At the same time, political and management interest has grown. Willimann remembers the first relevant report from his organisation. "It was published in 2012 and provided the federal government's first comprehensive overview of the Swiss venture capital market." Since then, according to the Swiss Entrepreneurs Foundation (SwissEF), 50 initiatives with a start-up focus have been submitted at national level alone.

The steadily increasing volume of VC investment since 2012 is due not only to domestic causes. In addition, there are cross-border factors, such as the continued good shape of the global economy and the extremely low interest rates that keep investors on the look-out internationally for lucrative investments.

However, these conditions may change and then opportunities become risks. "Rising interest rates could have a negative effect on start-up financing conditions, and this should not be underestimated," believes Gantenbein.

A deterioration in the economic outlook could also prevent VC investment from increasing at the current pace. Take digital transformation as an example: the current exit valuations of ICT start-ups reflect the expectations of corporates that they will be among the winners of the digital transformation. "A recession," says Gantenbein, "would make it clear that every technological development also produces losers."

Shutdown during the financial crisis

A look back at the last financial crisis shows that the VC scene is very sensitive to macroeconomic slumps. According to *Swiss Startup Radar* – published by startupticker and the University of Lausanne – the number of financing rounds in Switzerland declined from 2009 to 2011 and early stage financing came to a virtual standstill.

Setbacks, says Willimann, cannot be ruled out in the future, but the long-term trend is in favour of start-ups. On the financing side, for example, he sees potential in occupational pension schemes. Although the current VC commitment of the pension funds is still "pitiful" says Gantenbein, it is likely to increase over the next few years.

According to Willimann, pension fund managers are seeking more information. In autumn 2019, SECO hosted an information event with the European Investment Fund (EIF), attended by 60 pension fund managers from all over Switzerland.

Upheavals along the value chain also play a favourable role in the ecosystem: the key words here are Open Innovation and Corporate Venturing. "It is becoming increasingly evident," says Gantenbein, "that knowledge and technology-based business models function best in the teamwork and interaction between large companies and start-ups."

The pharma industry has made a start, and Willimann believes that the financial sector is next: "It will be very interesting to see how the established banks and insurance companies interact with the fintech ecosystem."