FESE BLUEPRINT TO BOOST EUROPEAN GROWTH

Further information and sources

This document is intended to complement the 2-page summary entitled the "FESE Blueprint to Boost European Growth".

1. ***"1 trillion EUR European investment needed for transport, energy and telecom infrastructure networks by 2020."***

The European Commission estimates the overall investment needs for transport, energy and telecom infrastructures networks of EU importance to amount to 1 trillion EUR for the period up to 2020.

Source:

- European Commission Communication on Long-term financing of the European economy, 27 March 2014. http://ec.europa.eu/internal_market/finances/docs/financing-growth/long-term/140327-communication_en.pdf, page 2

2. ***"11 thousand: number of European SMEs (out of 23 million total) which are already accessing capital markets."***

Within the broad spectrum of non-bank financing methods, admission of securities on exchanges gives SMEs access to capital via shares or bonds admitted to trading on the main market (Regulated Markets) or on junior markets (MTFs).

FESE members operate 23 Regulated Markets that list more than 9,000 companies, out of which 7,900 are small and mid-cap (below 750 million EUR market capitalisation). In addition, FESE member exchanges have also established 13 MTFs dedicated to SMEs, which list a total of another 1,470 SMEs. In total, about 9,370 companies on FESE members are Midcaps/SMEs (with another 2,000 plus SMEs listed on the LSE and Borsa Italiana, bringing the total figure to 11,370). Hence, we could say that Europe has more than 11,000 listed SMEs.

Source:

- http://ec.europa.eu/enterprise/policies/sme/files/sme_definition/sme_user_guide_en.pdf

3. ***"6 million European jobs lost because of the financial crisis"***

Source:

http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=lfsi_emp_a&lang=en

4. ***"For every 5 jobs lost by large companies during the crisis in the 4 largest EU members, small and mid-sized firms created 1 new job."***

According to the Communication on Long-term financing of the European economy, SMEs account for two thirds of employment and 60% of value added in Europe. A Swedish study states that in the last 10 years, around 80% of all new jobs in Sweden have been created in companies with fewer than 50 employees. Similar figures are reported in other EU countries.

While SMEs overall have a large share of the EU economy, the largest SMEs have a disproportionately important share of job growth. In particular, a study by the ESSEC Business School and GE Capital, covering France, Germany, Italy and the UK for the period of 2007 to 2010, showed that, while the mid-sized companies represent a tiny fraction of total companies – ranging from a low of 1.2% in Germany to 1.7% in France – they generate about one third of private sector revenue and employ about a third of each country's workforce. The study stated that, combined, the middle market in these four European countries listed above contributes €1.11 trillion ($1.48 trillion) to their GDPs, noting that this “makes the middle market in the EU-4 one of the top 10 economies in the world, ahead of India and Russia”.

From the study: « If this relatively small group of mid-market firms was able to grow headcount at just 2% a year (representing 650,000 jobs) between now and 2015, that alone would be enough to push EU-4 [these 4 countries] unemployment levels back to those last seen in 2007. »

Importantly, the study shows that mid-caps and small companies created 280,000 new jobs, while large companies in Europe *lost* almost 1.5 million jobs during 2007-1010. This was the statistics based on which the statement (*“For every 5 jobs lost by large companies…”)* was made.

Sources:

- http://files.gereports.com/wp-content/uploads/2012/06/TheMightyMiddle-GECapital.pdf
- http://www.essec.edu/faculty/showRef.do?bibID=10477

5. “92% of new jobs typically created by companies after listing”

This comes from a major US study that showed that 92% of the new jobs created by companies come after becoming public.

Source:

Chart A: IPOs Finance Significant Job Creation, cited in Rebuilding the IPO On-Ramp Putting Emerging Companies and the Job Market Back on the Road to Growth, http://www.sec.gov/info/smallbus/acsec/rebuilding_the_ipo_on-ramp.pdf

Original data quoted above comes from the Venture Impact 2007, 2008, 2009, & 2010 by IHS Global Insight; IPO Task Force August 2011 CEO Survey

6. “4,5 million individual investors and savers accessing markets today (potential is much larger as 43% financial assets are held by households).”

The European Federation of Financial Services Users is an independent organization of public interest and a centre of expertise advocating and defending the interests of the end-users and consumers of financial services (shareholders, investors, pension fund participants, life insurance policy holders, bank savers, mortgage borrowers, etc.) vis-à-vis the European authorities and lawmakers. They are present in 29 countries and count more than 40 member organisations, who in turn have roughly 4,5 million individual investors and savers across Europe as members. This is the source of the statistic used above.

As stated on its website, Eurofinuse is the only organization dedicated to the defence of financial services users at the European level and is supported by the European Union since 2012.

Source:

http://www.eesc.europa.eu/resources/docs/guillaume-prache---eurofinuse.pdf

7. “10 trillion EUR assets managed by European investment funds”

EFAMA is the representative association for the European investment management industry. EFAMA represents through its 27 member associations, 62 corporate members and 25 associate members about EUR 15 trillion in assets under management of which EUR 9.8 trillion managed by 55,000 investment funds at end December 2013.

When referring to households’ financial assets, it is also important to note the amount of cash held by households and currently unallocated, which includes equity and fixed income. Cash and equivalent held are $12 trillion in 2010. This is quite a high number of available liquidity that could move into other financial products via direct access (retail investors).

Sources:

- http://www.efama.org/about/SitePages/Home.aspx
- Mirzha de Manuel, *Saving for Retirement and Investing for Growth: Report of the CEPS-ECMI Task Force on long-term investing and retirement savings,* Centre for European policy studies & European capital markets institute, Brussels

8. "As populations age, demand from European investors for equity between 2010-2020 expected to fall short of the supply by 2 trillion EUR."

According to the McKinsey Global Institute, demand for equity (from investors) in Western Europe between 2010-2020 is expected to fall short of the supply of issued equity (by companies) by 3.1 trillion USD (2 trillion EUR). In other words, there will be 2 trillion EUR more equity that needs to be issued than investors are willing to buy. This "equity gap" for the whole EU is estimated to be larger. The gap is the result of a number of long-term structural factors, such as deleveraging, aging population, etc. This shows that European equity markets need to grow significantly if they are to meet the needs of European enterprises over the next decade.

Source:

The Emerging Gap: Growth and stability in the new investor landscape, Charles Roxburgh, Susan Lund, Richard Dobbs, James Manyika, Haihao Wu, December 2011 (page 7 – Exhibit E5)

9. "Europe needs to set itself the ambition of significantly increasing the size of capital market financing of enterprises in relative terms to GDP. As of 2013, stock market capitalization was only 55% of the EU GDP, whereas bank credit to the private sector was 104% – almost the reverse of the ratios in the US, 136% and 43%, respectively."

European capital markets are much smaller than those of the US and are not growing at a sufficient speed to meet the economy's needs. According to a Bruegel Working paper, bank credit to the private sector as a percentage of GDP is 104% in the EU while it is 43% in the US. Conversely, stock market capitalization is 55% of EU GDP, whereas it is 136% of US GDP. This is a fact recognised by the European Commission's Communication on Long-term financing of the European economy. While it is not reasonable to expect the share of European market-financing to resemble that of the US in a few years, it is clear that European capital markets need to grow further (in a sustainable and safe way) so that they can meet more of the needs of the economy. This is necessary above all because banks will face increasing difficulties to fund our economies.

Source:

The Changing Landscape Of Financial Markets In Europe, The United States And Japan, Michiel J. Bijlsma and Gijsbert T. J. Zwart, March 2013.

10. "Europe needs to act now to enhance the ability of its IPO markets to finance growing and dynamic companies. Structural constraints – above all the disappearance of the local ecosystems – are holding back IPOs around the world, which is producing only a third of the IPOs it generated per year in the 1990s."

According to a report commissioned by the OECD, the world is producing only a third of the IPOs it generated per year in the 1990s. While Asia is doing better than other regions, it is not enough to pull the world out of a widespread enterprise funding crisis. US stock markets have experienced 15 years of consecutive listing losses from 1997 to 2012. Public company listings peaked in the U.S. in 1997, with 8,823 exchange-listed companies. At the end of 2012, there were only 4,916 — a massive decline of 44.3%. Since the peak, the U.S. has suffered 15 consecutive years of lost listings. As the world's largest economy, the U.S. should be producing five to 10 times the number of IPOs it has produced over the past 13 years.

European initial public offerings by new companies are among the worst hit, especially when compared with European GDPs. Throughout 2008-2012, only 6 out of the top 26 IPO's were from the EU, and they produced fewer IPOs than Australia and Canada put together. These were: Poland, UK, France, Italy, Spain, and Germany. Two additional non-EU European countries (Norway and Turkey) were also in the top 26. By contrast, Asian countries produced 3 times as many IPOs in the same period.

Sources:

- "Making Stock Markets Work to Support Economic Growth / Implications for Governments, Regulators, Stock Exchanges, Corporate Issuers and their Investors", David Weild, Edward Kim and Lisa Newport http://www.oecd-ilibrary.org/governance/making-stock-markets-work-to-support-economic-growth_5k43m4p6ccs3-en
- Please see in particular Exhibit 7 in Weild et al, which shows global and U.S. IPO trends from 1993 to 2012, as compiled by the OECD. The authors believe the OECD data to be «the most accurate numbers available », offering the following observations: « The global number of IPOs declined from over 2 000 per year in the early 1990s to less than 750 in 2012. And the IPO decline is widespread and not confined to U.S. markets and therefore, likely precipitated by the proliferation of computer-based trading and low- transaction-cost electronic markets. »
- For further analysis on the world-wide IPO decline and possible reasons, please also see the OECD report "Who Cares? Corporate Governance in Today's Equity Markets" http://www.oecd-ilibrary.org/governance/who-cares-corporate-governance-in-today-s-equity-markets_5k47zw5kdnmp-en by Mats Isaksson and Serdar Çelik.