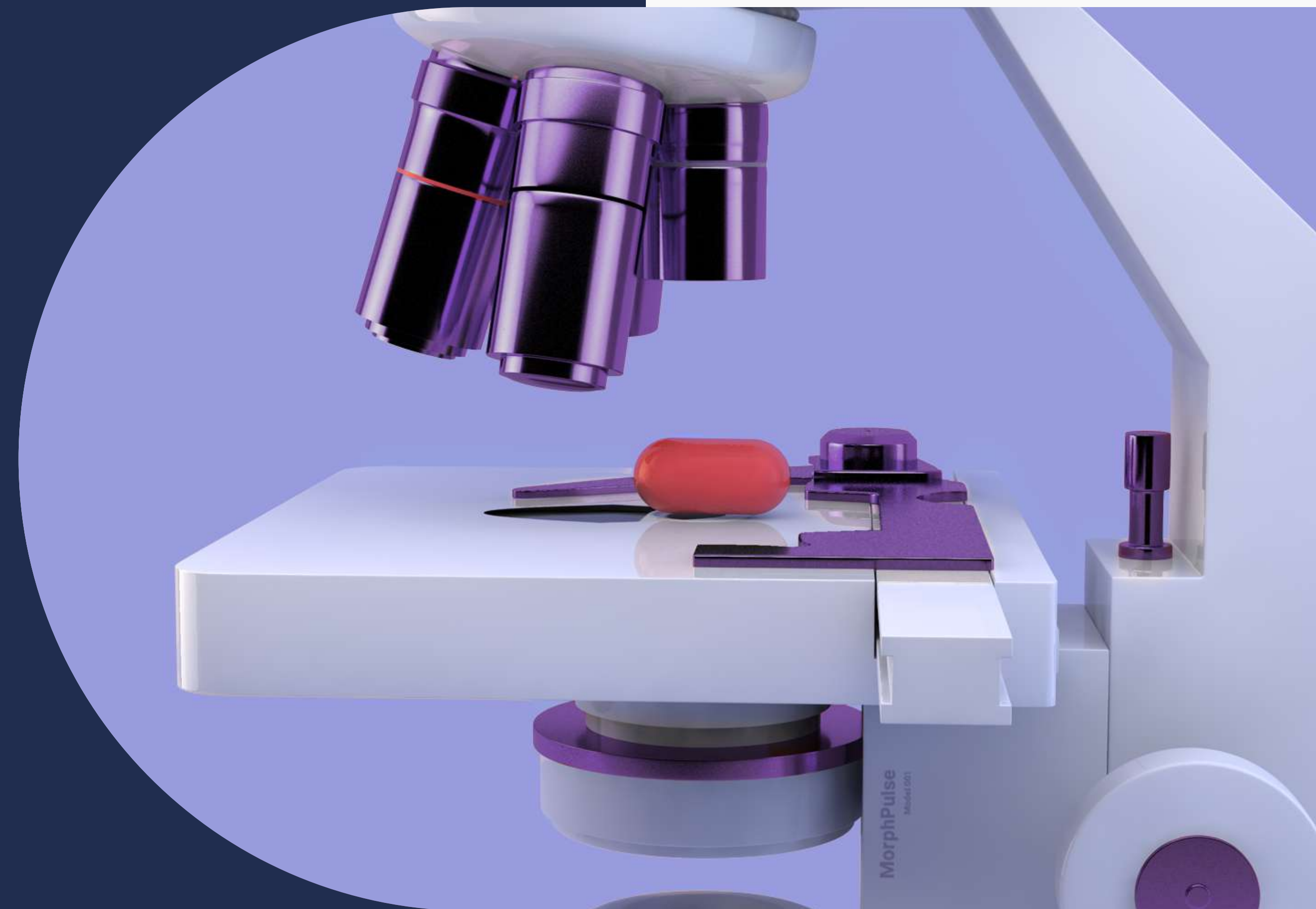


MorphPulse

The current state of the
German Start-up Scene



Intro

Why this report?

After record-breaking years in 2020 and 2021, the first months of 2022 were very turbulent. The war against Ukraine, rising inflation and interest rates led to big losses on the stock market. Tech companies in particular suffered from falling valuations. The question arises: to what extent does the turmoil in the public market affect start-up activity and funding in the private markets?

As a data-driven pre-seed VC, we constantly analyze the situation of start-ups in Germany and Europe. Our insights are based on data from the commercial register and publicly available data such as media articles and LinkedIn data. With this report, we share our findings and provide an informed overview of the current state of the German start-up ecosystem.

Key Questions

This pulse report provides answers to

- What is currently happening in the German start-up ecosystem?
- How many start-ups are being founded?
- Where is the funding going?
- **Deep dive Region:** where are the start-up hotspots? Is there a funding gap within certain regions?
- **Deep dive Founders:** What role does experience play among German founders? Are female founders on the rise?

What is the current state of the German start-up ecosystem?

Key Findings

Drastic decline in start-up activity:

- Since the beginning of 2022, 16% fewer new start-ups have been founded in Germany than in the same period in 2021.
- Between January and May 2022, 13% less early-stage¹ funding rounds have been announced relative to the same period in 2021.

Eastern Germany has a start-up problem:

- Only 7% of all new start-ups are founded in the 5 Eastern States (excluding Berlin).
- Saxony-Anhalt is the low light: from more than 1.100 new start-ups in Germany between January and May 2022, only 5 (0,4%) have been set-up there.

Major inequalities in the allocation of capital in Germany persist:

- 60% of early-stage funding rounds are allocated to companies in Berlin, Bavaria and Hamburg while only 47% of new start-ups are founded there.
- North Rhine-Westphalia and Baden-Wurttemberg receive only 22% of funding while 29% of new start-ups are set up there.
- First-time founders prefer Bavaria over Berlin. Could Berlin lose its pole position as a start-up hub?

The diversity of founding teams is on the decline:

- Top 3 Names for founders are Christian, Michael & Daniel. There are no female names in the Top 10.
- The most common female name is Lisa, ranking 38th among all founder names.
- Female co-founded start-ups dropped by 10% in comparison to 2021.
- While 11% of start-up teams are female their share of funding rounds is only 7%.

Start-up activity in Germany

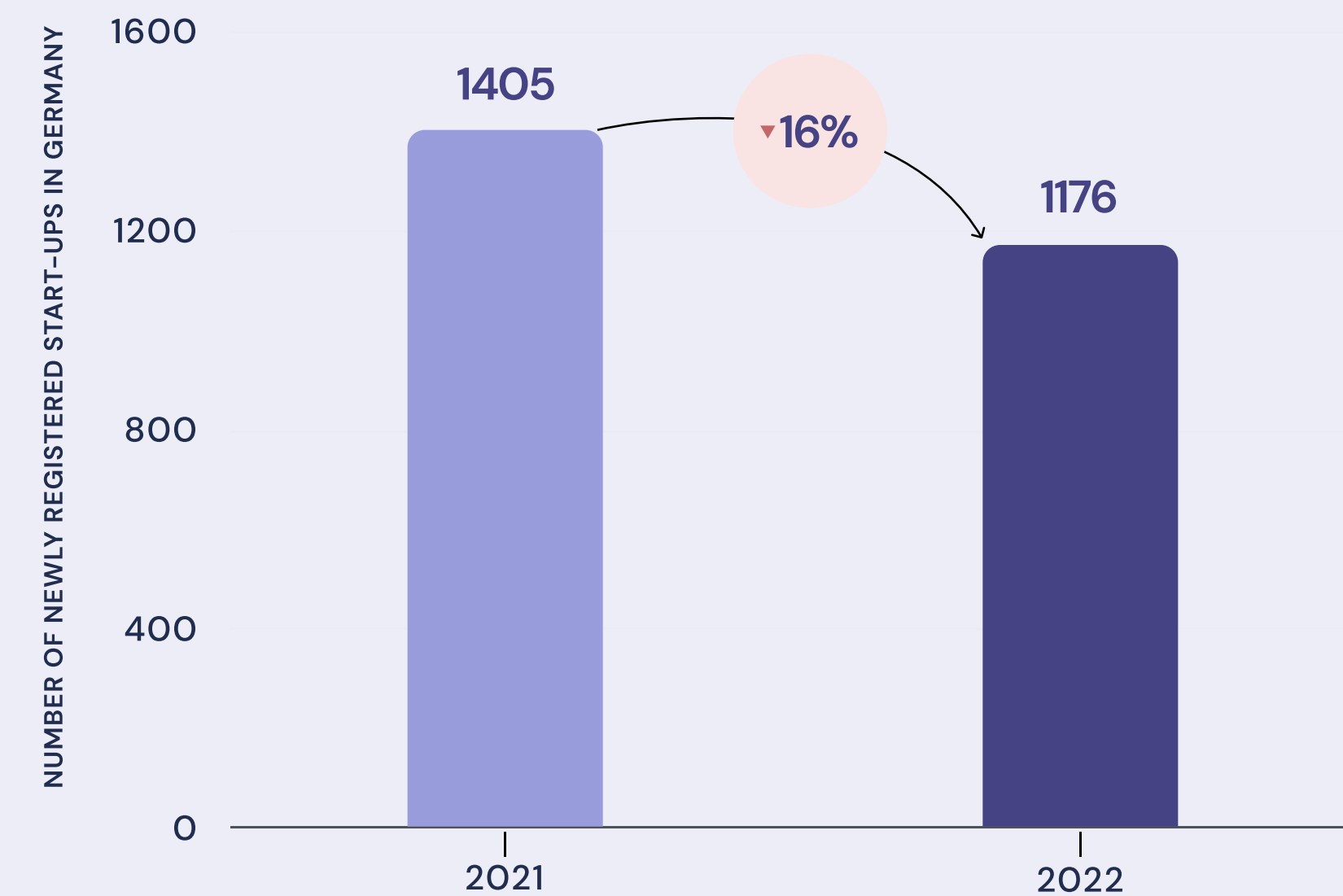
Fewer start-ups than in 2021

In the first five months of 2022, 1176 newly registered start-ups were founded in Germany. That is 16 % less than in the same period in 2021.

Geopolitical tensions in Europe and turbulence in public markets, especially in the technology sector, as well as decreasing valuations, rising inflation and interest rates, lead to greater uncertainty among founders and investors.

Newly registered Start-Ups
Jan-May 2021 & 2022

-16%



Funding rounds

Early-stage funding in Germany continues to flow but on a lower level

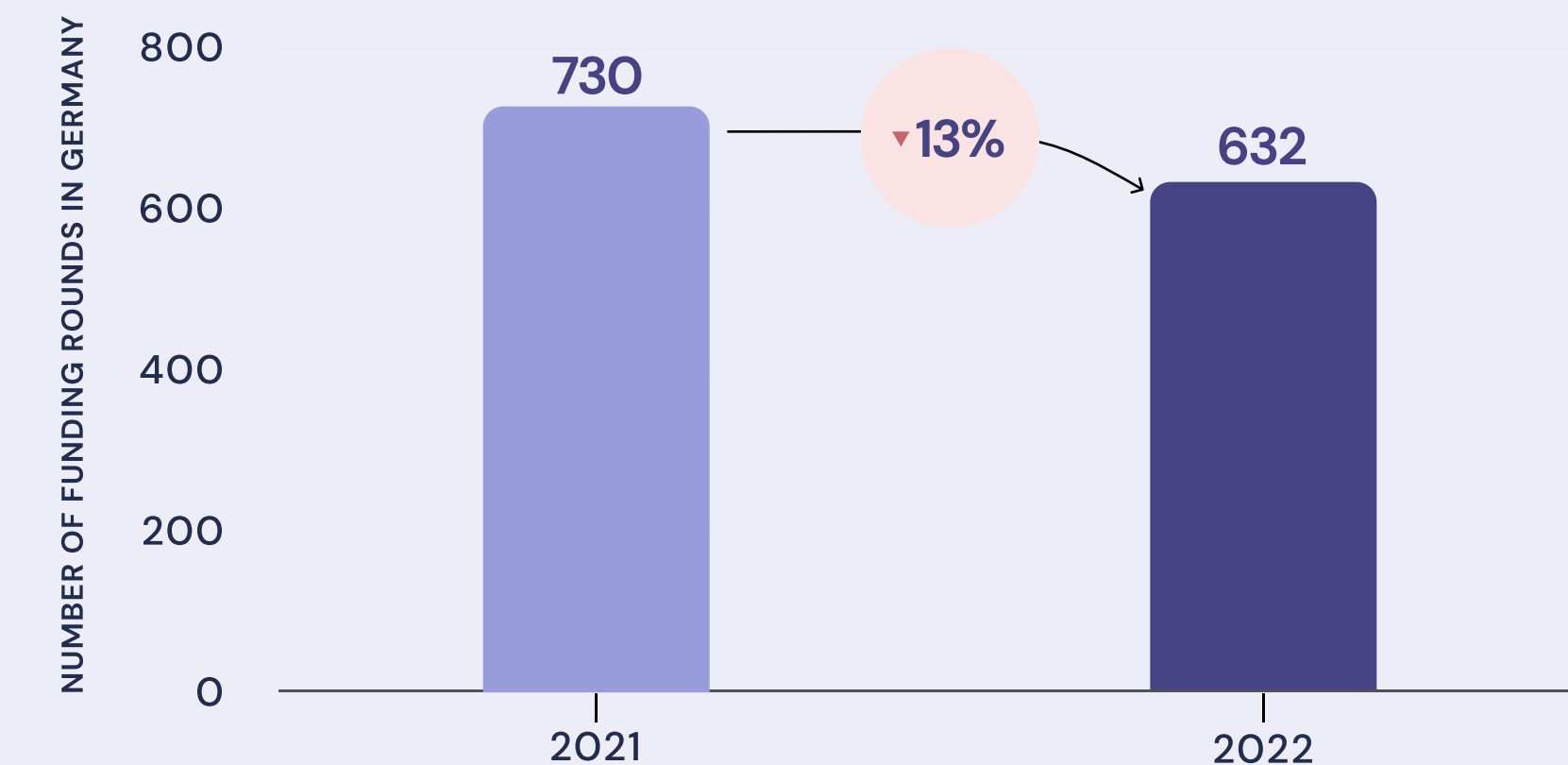
In the first five months of 2022, there were a total of 632 early-stage funding rounds¹. Compared to the same period in 2021, we see an overall drop of 13% in the number of funding rounds.

Most of early-stage funding in Germany went to first round investments. However, compared to 2021, the share of second rounds relative to first rounds has increased.

Number of early-stage funding rounds

Jan-May 2021 & 2022

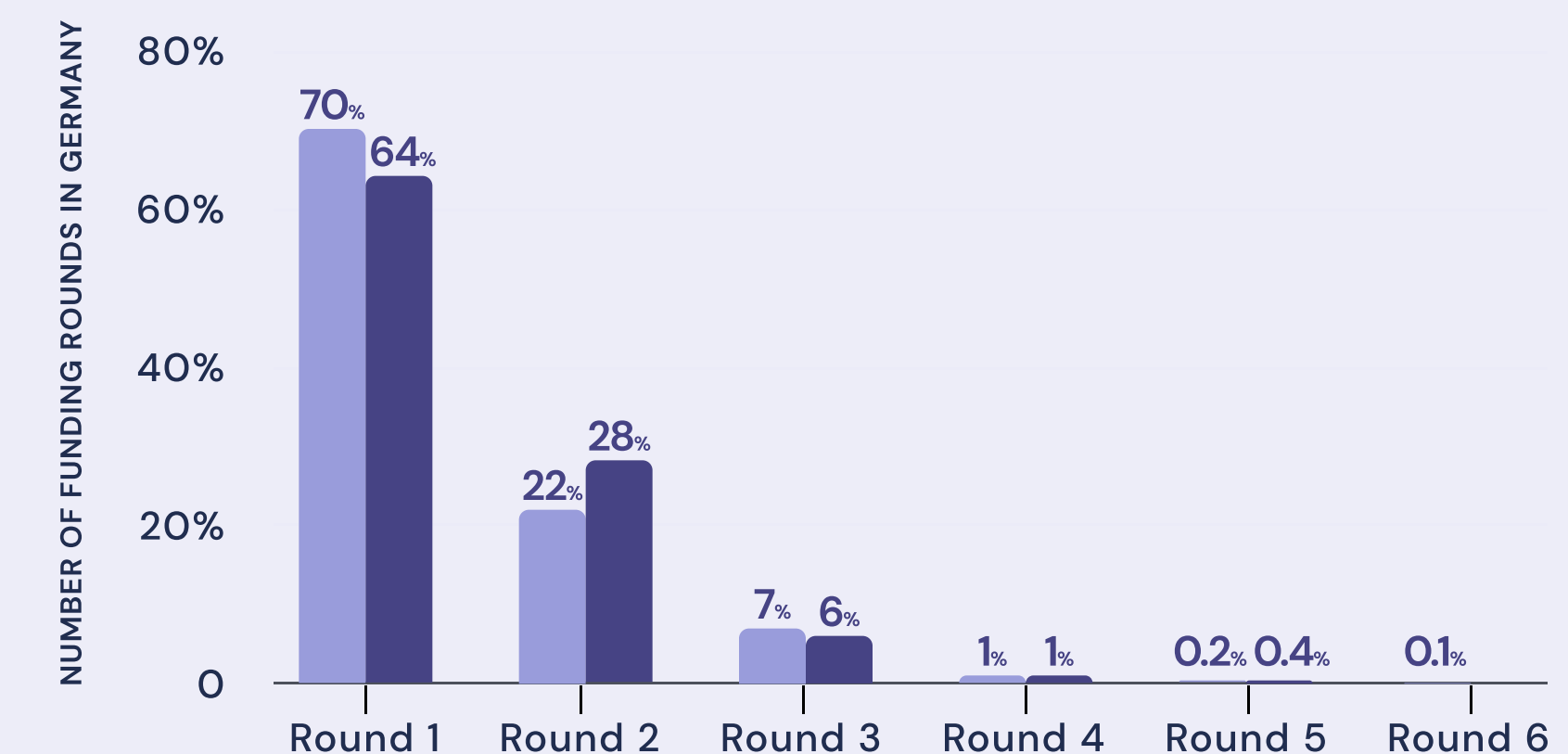
-13%



Distribution of funding rounds

2021 & 2022

■ 2021 ■ 2022



Deep dive Region: Start-Ups per state

Watch out, Berlin! Bavaria is on the rise. Very low start-up activity in the Eastern federal states

Berlin, Bavaria and North Rhine-Westphalia are the largest start-up regions in Germany.

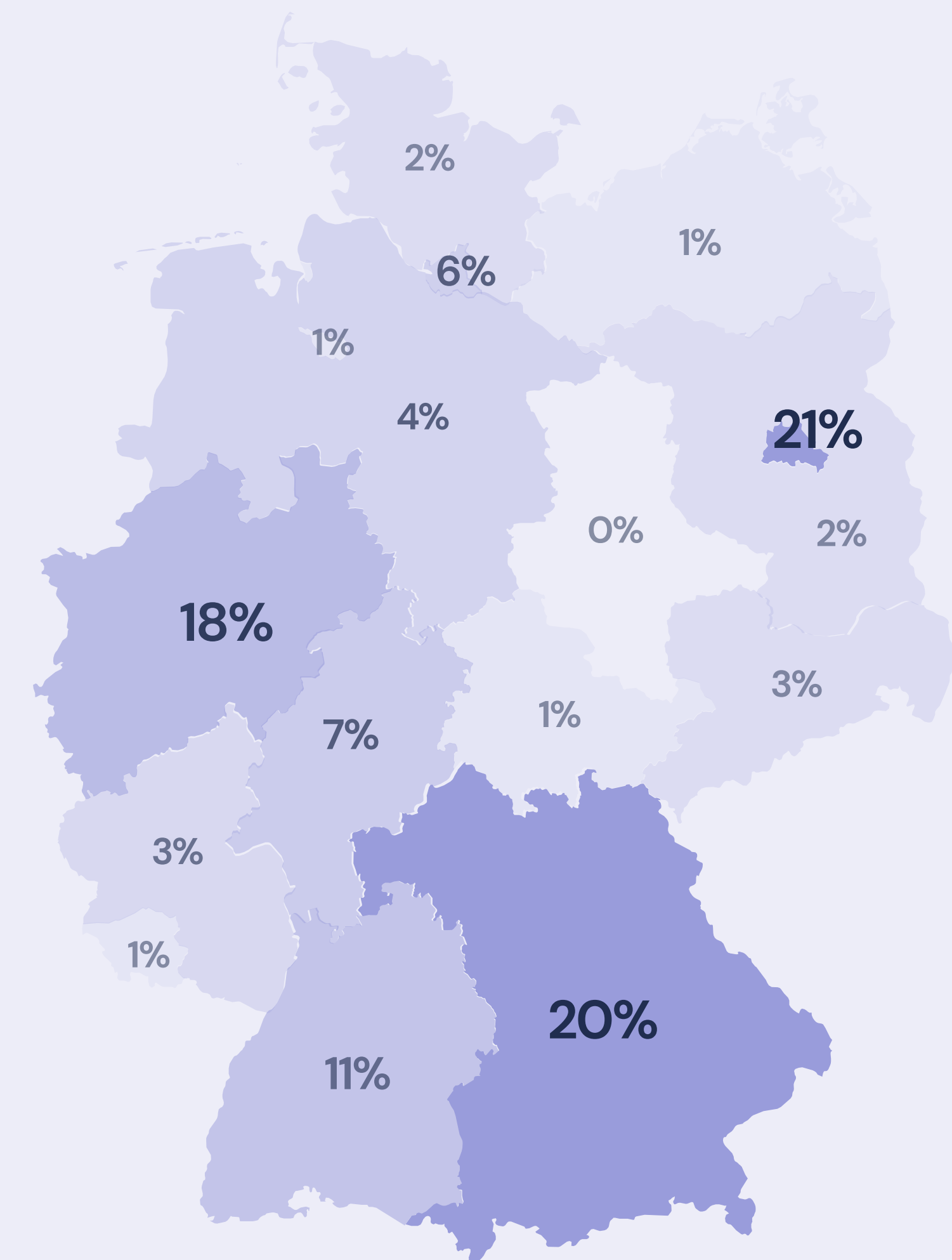
In 2022, almost as many start-ups registered in Bavaria as in Berlin. Could Berlin lose its top position as a start-up hub in Germany?

Overall, the data shows that start-up activity in Germany is very unevenly distributed.

Since empirical studies have shown that start-ups have a significant impact on a region's innovative strength and economic development, the lack of start-up activity in Eastern Germany (excluding Berlin) in particular is a cause for concern; for example, of the roughly 1,200 start-ups in Germany, only 5 were in Saxony-Anhalt and 10 in Thuringia.

The states of Mecklenburg-Western Pomerania, Saxony-Anhalt, Thuringia and Brandenburg have a share of only 4% in start-ups, although 10% of the German population lives there.

Share of new start-ups per state



Deep dive Region: Early-stage funding per state

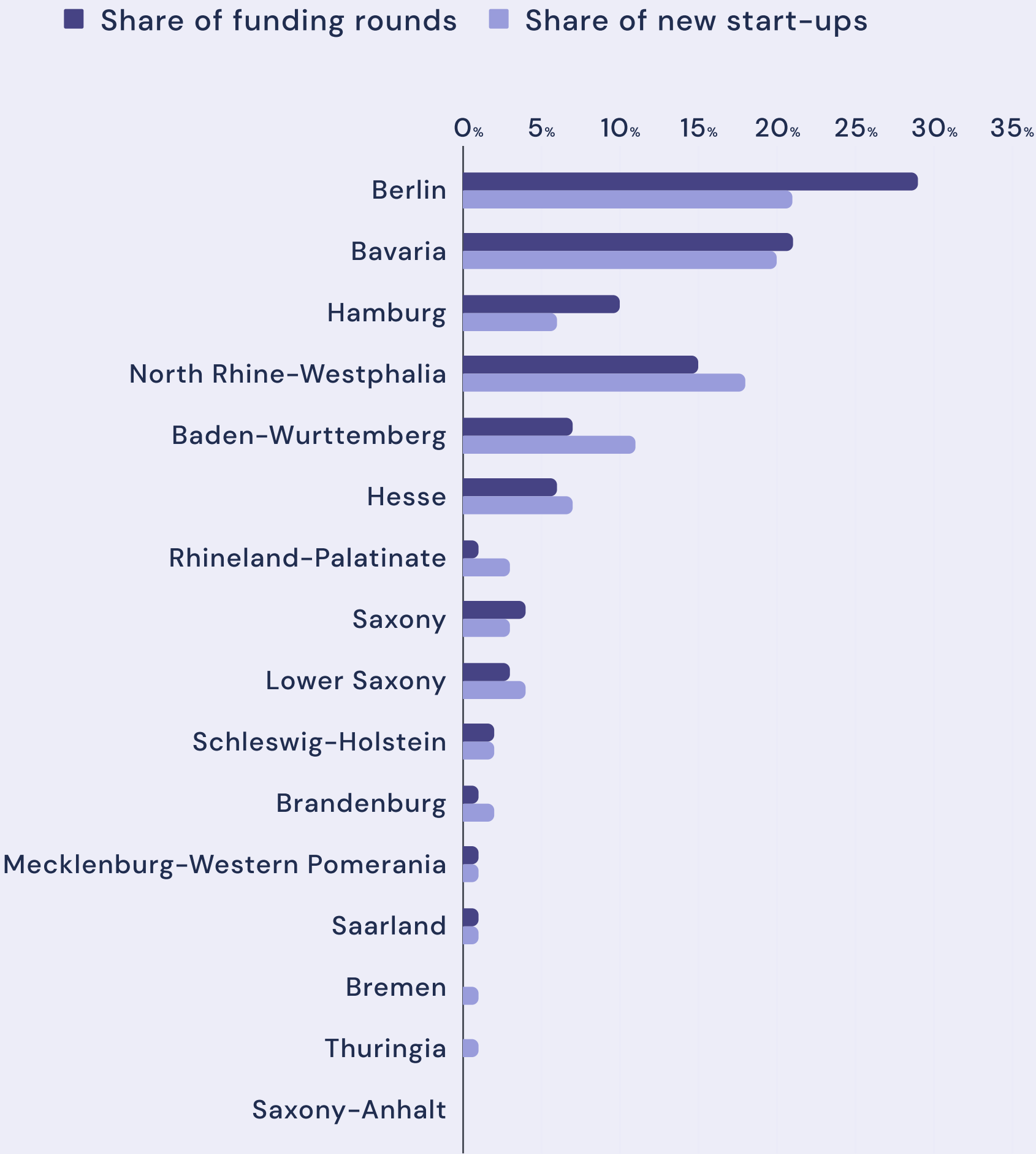
There is a funding gap in Germany

Funding rounds are even more unevenly distributed than start-up activity. The figures show that most funding rounds go to Berlin, Bavaria, Hamburg and North Rhine-Westphalia. In Berlin, Bavaria and Hamburg, the share of financing rounds is higher than the share of start-ups: While 60% of financing rounds flow into these regions, only 47% of new start-ups are located there. This is mainly due to Berlin, which accounts for only 21% of start-ups but 29% of financing rounds¹. In contrast, there are several regions where the share of start-ups is higher than the share of financing rounds. They show a funding gap. Baden-Wurttemberg and North-Rhine Westphalia, for example, receive only 22% of funding rounds, while 29% of new firms are started there. These gaps exist both with regard to the total number of early-stage funding rounds, and with regard to the 1st funding round.

Federal states with very low start-up activity also show low funding activity. In these regions it is mainly public investors who are active.

The results indicate that investors could profit from expanding their horizons to regions with financing gaps, such as North Rhine-Westphalia and Baden-Wurttemberg. In addition, regions with virtually no start-up activity need to promote entrepreneurship.

Distribution of startups in Germany



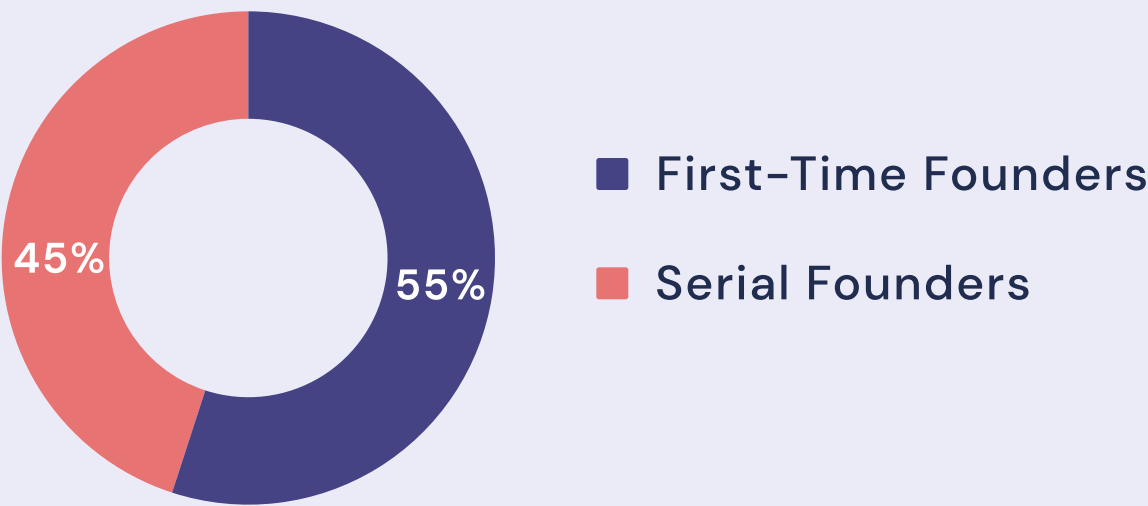
¹ The EY Startup Barometer reports an even higher imbalance: based on their data 60% of all funding rounds go to Berlin alone. This data is based on Media coverage and Crunchbase while our data is based on the records of capital changes in the German Commercial Register of early-stage companies.

Deep dive Founder: Experience

First-time founders and serial founders differ from each other.

55% of start-up founders in Germany are first-time founders, 45% have already founded a company at least once before, and are therefore referred to as serial founders. The data show that there are more women among first-time founders than among serial founders. Serial founders more often operate their businesses as a team than single founders. They also pursue more B2B than B2C businesses. 22% of first-time founders set up their company in Bavaria, only 19% in Berlin. In 2021, both regions were still equally attractive. This means Berlin could lose its position as No.1 Start-Up Hub in Germany.

Founder Experience



First Time Founder



79%
Male

21%
Female



66%
Single Founder

34%
in Start-Up Teams



50%
operate B2B Start-Up

50%
operate B2C Start-Up



#1 **22%**
Bavaria

#2 **19%**
Berlin

#3 **18%**
North Rhine-Westphalia

Serial Founder



84%
Male

16%
Female



46%
Single Founder

54%
in Start-Up Teams



57%
operate B2B Start-Up

43%
operate B2C Start-Up



#1 **23%**
Berlin

#2 **19%**
North Rhine-Westphalia

#3 **17%**
Bavaria

Deep dive Founder: Gender

Where are the female founders?

The ecosystem is still heavily dominated by male founders. 82 % of new start-ups are founded by exclusively male teams.

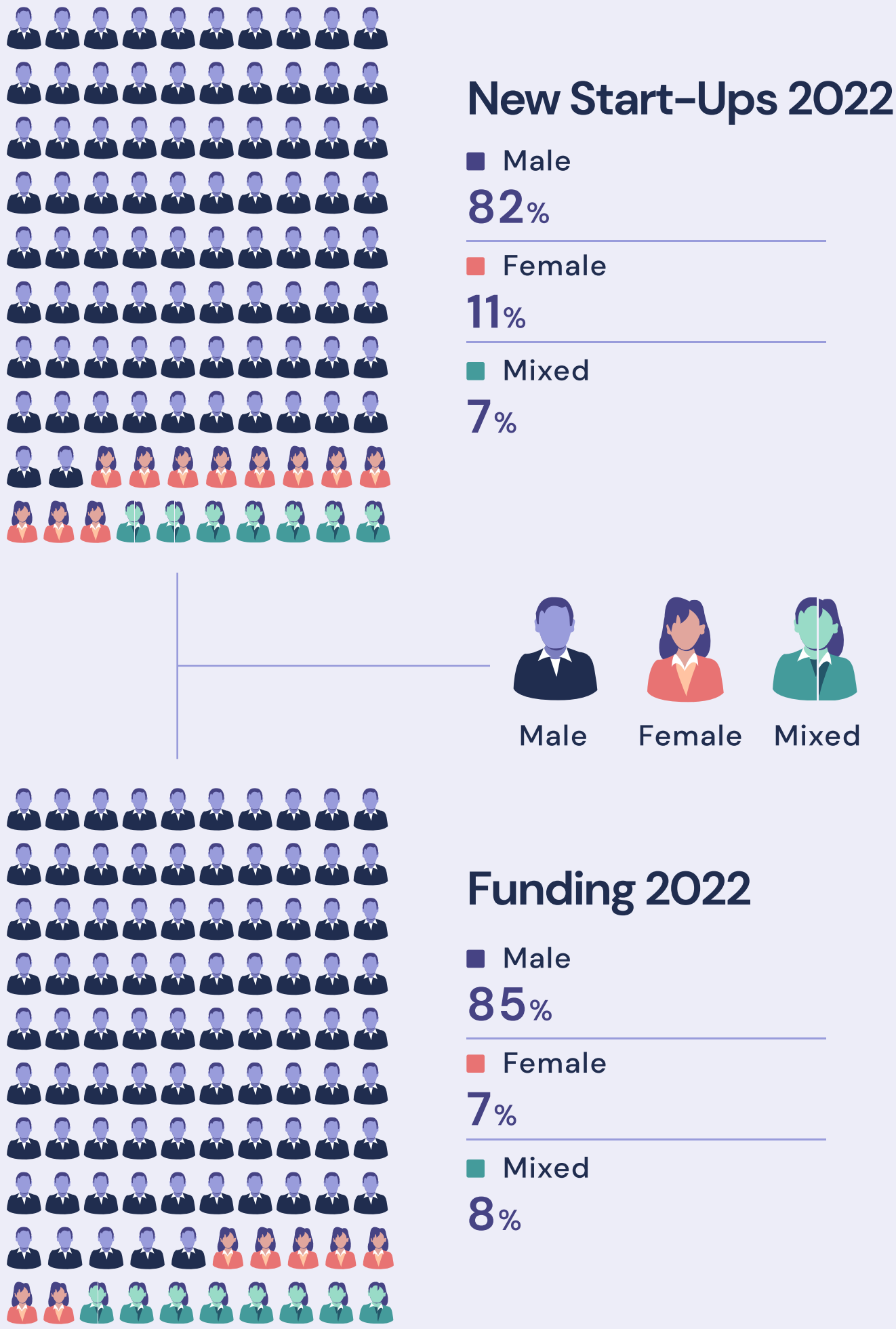
18% of founder teams have a woman on board. This figure is lower than in 2021 when 20% of teams had a female member. Thus, the share of women among founders is still small. So, unfortunately, it is not too surprising that among the 10 most common names, there is no female one. Research shows that women are more likely to be discouraged by uncertain situations than men (Balafoutas & Sutter, 2019). The current economic situation could therefore be a threat to diversity. However, access to funding also plays a role.

Looking at the funding situation, we see a gap between the share of all-female teams (11%) and the share of funding received by these teams (7%).

The good news is that this is slightly more than 5% on European level in 2021 (State of European Tech Monitor). Nonetheless, the underfunding of women in the German start-up ecosystem remains a problem.

We need to empower women and help them find the courage to start a business, even in uncertain times. At the same time, investors need to live diversity in their own teams and provide equal opportunities to male and female founders.

Gender Distribution Founder Teams



Most common names among founders

- 1 Christian
- 2 Michael
- 3 Daniel
- 4 Martin
- 5 Alexander
- 6 Philipp
- 7 Thomas
- 8 Jan
- 9 Lukas
- 10 Christoph
- ...
- 38 Lisa

Outro

That's it! For now...

Thank you for reading our first MorphPulse. We hope you found our insights valuable.

In our next issue, we'll follow-up on the following topics:

- 1 Will the number of start-ups bounce back to last year's levels?
- 2 How will funding develop over the next months?
- 3 Will Bavaria take the crown as Germany's start-up hotspot?

... and much more.

If you have any other question you would like us to address, or if you have any other relevant feedback,
please contact morphpulse@morphais.com



If you have
any
questions,
feel
free to
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