KPMG

Shaping the future of the Dutch capital market

From incubator to IPO and beyond

May 2024

This report was commissioned by Capital Amsterdam

Stichting Capital Amsterdam (SCA) is an independent foundation whose main objective is promoting the importance of the public capital market in the Netherlands.

For more information about SCA, please refer to: [Capital Amsterdam]

Acknowledgements

This report's objective is to assess the Dutch capital markets chain and its capacity to improve the general welfare and financial stability of the Netherlands. It examines how stakeholders, from government and legislators to commercial banks, advisors and investors can contribute to further develop the Dutch capital chain. An optimal functioning chain will provide a sustainable source of capital and funding for Netherlands-based companies' continued growth and development.

First and foremost, we are grateful to the 60 professionals who contributed their time and insights to completing this study. Our conversations with them allowed us to draw a complete picture of the actors and stakeholders in the Dutch capital market.

Finally, a special thank you goes to Stichting Capital Amsterdam for commissioning this study and entrusting it to us for completion. We hope this study provokes meaningful discussions and that its recommendations lead to much-needed action toward an optimally functioning Dutch capital market.

> **“Effectively, change is almost impossible without industry-wide collaboration, cooperation, and consensus."**
>
> **Simon Mainwaring**

Camiel van Steekelenburg
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Key Findings

Dutch business enterprises increasingly need market capital to grow, innovate, and navigate climate change (e.g., energy transition). All stakeholders in the Dutch capital market should cooperate closer and develop a long-term vision and strategy for the Dutch capital market to meet these needs. KPMG conducted a broad and independent study and interviewed around 60 stakeholders in the Dutch capital market. The following findings emerged from this study:

General trends:

- Strong startup culture in the Netherlands, especially in deep tech, biotech, agritech, quantum, and other high tech and logistics related industries
- Business climate (Dutch: vestigingsklimaat) has deteriorated for large corporations, many having left the Dutch equity market
- Bank lending toward these startups as they develop into larger corporations is weak
- This leads to a higher reliance on capital markets for capital and funding

The state of the Dutch capital markets is strong:

- VC grew but not as a result of Dutch institutional contributions
- PE grew but not as a result of Dutch institutional contributions
- The public listing market grew but not via Dutch Company listings
- Lending to SMEs and midcaps grew but not as a result of an increase in Dutch Bank lending

Although the Dutch capital market is strong and growing, contributions to the Dutch real economy are more limited:

- It is difficult for Dutch SMEs, small-cap, and midcap enterprises to engage domestic investors
- As a result, they approach international capital markets to access capital or funding
- Or the corporation relocates away from The Netherlands and pursues local Listing or are acquired by foreign corporation
- Euronext Amsterdam is successful in attracting international and large-cap enterprises, making the Dutch stock exchange less Dutch

How can we make SMEs, midcaps, and large-caps remain in the Netherlands:

- Ensuring more Dutch VC funding is available
- Ensuring more Dutch PE funding is available
- By allocating more Dutch Institutional funds to the Netherlands, more Capital and debt funding will be generated which should lead to better valuations along the chain

What do we need to fix:

- We need to ensure that the valuation gap is reduced
- We need to ensure that we create a better Investment culture via educational and governmental concessions (Dutch: duwtjes), such as tax deductions, credits, and exemptions (e.g., retail tax breaks, withholding tax breaks, “remain” tax breaks)
- We need to address the lack of home bias in the Dutch institutional Investor sector
- We need to continuously assess adapting regulations to be fit for purpose

Executive summary

The Netherlands faces several challenges, such as climate change, technological developments, geopolitical shifts, and scarcity (e.g. energy, raw materials, water, labour, nature, and space in general). For the Dutch economy to address these challenges, to be innovative, sustainable, and strongly positioned in a self-reliant Europe, and to be beneficial for everyone, an increasing need for market financing is foreseen in the upcoming decade(s). This raises the question of how the Dutch capital market chain can meet these needs. This report aims to answer this question by examining the Dutch capital market chain in an international context and describing the vision of around 60 actors and stakeholders on funding gaps in the Dutch capital market chain and their recommendations to address these.

Setting the scene

The Amsterdam Stock Exchange was established in the 17th century. Amsterdam has a long history of being a pioneer in the capital markets and one of the leading financial centres in the world with a strong international character. The core function of the capital markets is to bring together the demand and supply for capital.

A well-functioning Dutch capital market contributes to the real economy by connecting governments to the capital they need to invest in public services (e.g. infrastructure, healthcare, national defence) and business enterprises to the capital they need to grow and innovate, contributing to the real economy in terms of productivity and job creation. The report also considers external developments, such as climate change (e.g., energy transition). Equity and debt instruments both play a role in funding a business enterprise's growth.

This report defines the capital market chain as all actors and stakeholders involved in obtaining or providing long-term equity and debt capital for business enterprises, from startups to large-cap enterprises, culminating in an IPO on the public capital market. The Dutch capital market chain is a complex ecosystem with interactions of many different actors and stakeholders. When such interactions lead to the supply and demand for capital being efficiently and effectively brought together, allowing business enterprises access to funding at each stage of their growth curves, the capital market chain functions optimally.

State of the Dutch Capital Market Chain

The Dutch financial sector is traditionally characterised by a strong banking landscape offering ample opportunities for cheap and efficient bank financing. Obtaining bank financing has become increasingly difficult due to increasingly stringent capital requirements and credit risk assessments and a shift from tailored services to standardisation associated with the digitisation of SME banking activities. SMEs, particularly early start-ups and first-of-a-kind ventures and/or ventures with a complex hardware and/or research component (such as deep tech) with "capital heavy" business plans, can rely to a lesser extent on bank lending. The subsequent increased need for market financing raised the importance of well-functioning Dutch capital markets.

Strong growth of Dutch private and public capital market

The last decade has been characterised by strong and steady growth of the Netherlands' private and public markets. VC and PE investments in the Dutch private market almost quintupled, from EUR 2.4 billion in 2013 to EUR 11.2 billion in 2022, outperforming the EU in the same time range. However, if venture capital investment is any predictor, the French and Swedish capital markets are well positioned to take on a leading role in the EU private market in the future. Similarly, the public market in the Netherlands, measured in size (volume) and its ability to raise capital through IPOs relative to the size of its economy, is well above the EU average and robust internationally. The market value of the public market, Euronext Amsterdam as the Netherlands' primary securities exchange, doubled from EUR 676 billion in 2013 to EUR 1.262 billion in 2022 to EUR 1.537 billion in 2024. Sweden, however, is ahead of the Dutch capital market in a European context, similar to the US in an international context, and France seems to be catching up quickly. It may outperform the Dutch capital market soon.

Two bottlenecks in the Dutch capital market chain

Companies that move quickly and efficiently through the Dutch capital market chain to being listed on the Dutch public equity market generally offer the greatest opportunity for BV The Netherlands to benefit fully from the innovations created in the Netherlands. The performance of the Dutch capital market in terms of size/volume and size of investments, as well as its ability to raise capital, does not directly mean this capital quickly and efficiently reaches Dutch business enterprises and thus helps grow the real Dutch economy. Examination of the Dutch capital market chain, among others, identified two bottlenecks in the Dutch capital market chain. Please note that this report has segmented the capital market chain into three categories based on business enterprise size: (1) SME, (2) small-cap and midcap, and (3) large-cap.

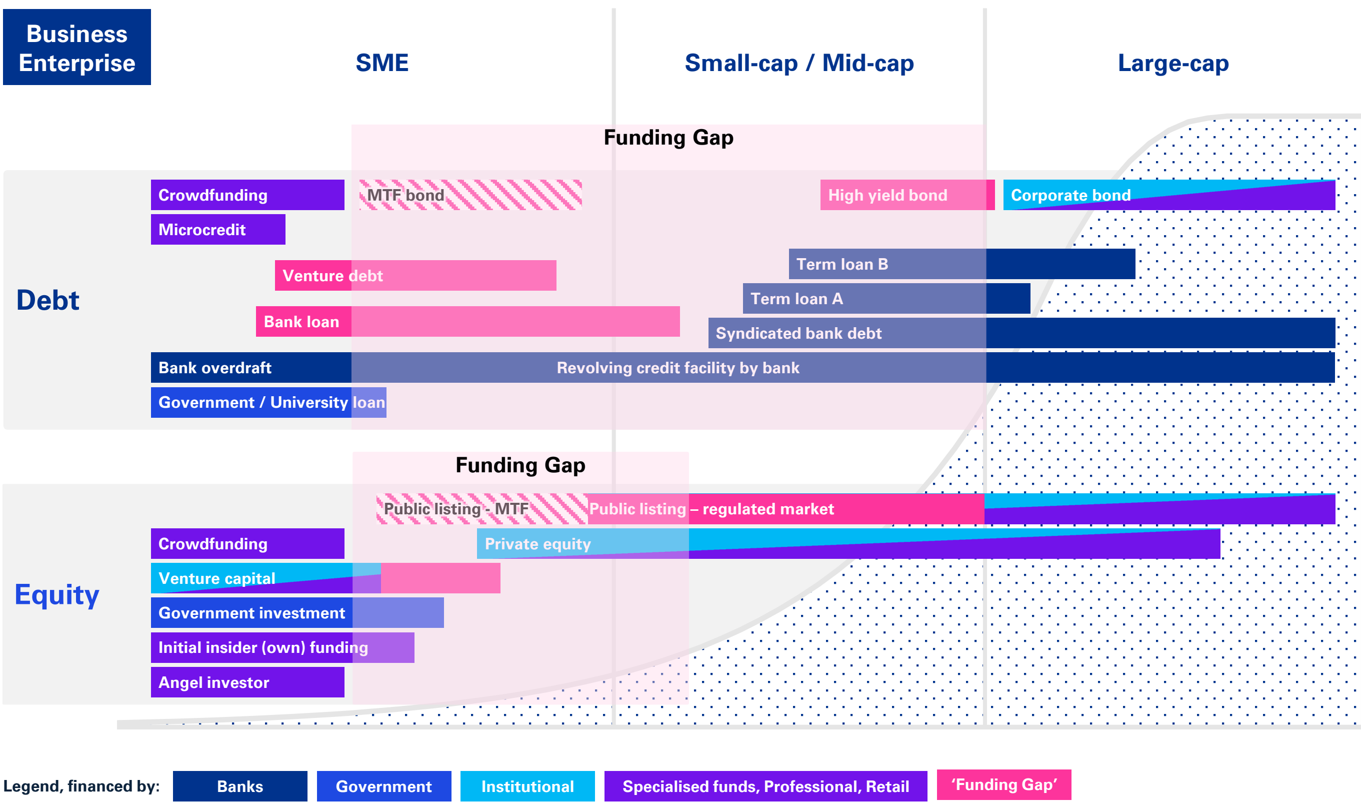
Funding gaps in the Dutch capital market chain

Funding gaps are the first bottleneck in the Dutch capital market chain. Funding gaps appear for SMEs as well as small-cap and midcap enterprises in the Netherlands (see Figure 1). Capital requirements between ±EUR 10-200 million in debt and EUR 10-50 million in equity are frequently hard to fulfil in the Dutch capital market chain. A lack of risk capital is observed, particularly in the Dutch venture capital market.

The funding gaps are most prevalent for first-of-a-kind ventures and/or ventures with a complex hardware and/or research component, such as deep tech, with capital-heavy business plans, for example, to build a first-of-a-kind facility somewhere. This gap in the Dutch capital market chain is much less prevalent for fintech, SaaS technology/enterprise software, and digital platform business enterprises. These business enterprises' returns materialise much quicker, and there is less risk that the business enterprise will fail to generate returns. Dutch government initiatives to develop and stimulate the funding gaps in the Dutch capital market chain are present. Public investments on a national and regional level occur mostly at the beginning of the capital market chain, namely the National Growth Fund, regional development agencies (ROMs), and a National Promotional Institution (NPI), Invest-NL, act as catalysts of the Dutch capital market. However, the Dutch venture capital market is still too small to meet all their capital needs, particularly for pre-seed and capital-intensive business enterprises in the Netherlands.

Figure 1

The funding gaps plotted on a simplified overview of sources of funding on the growth curve of business enterprises



Reliance of real Dutch economy on foreign capital markets and foreign PE investors

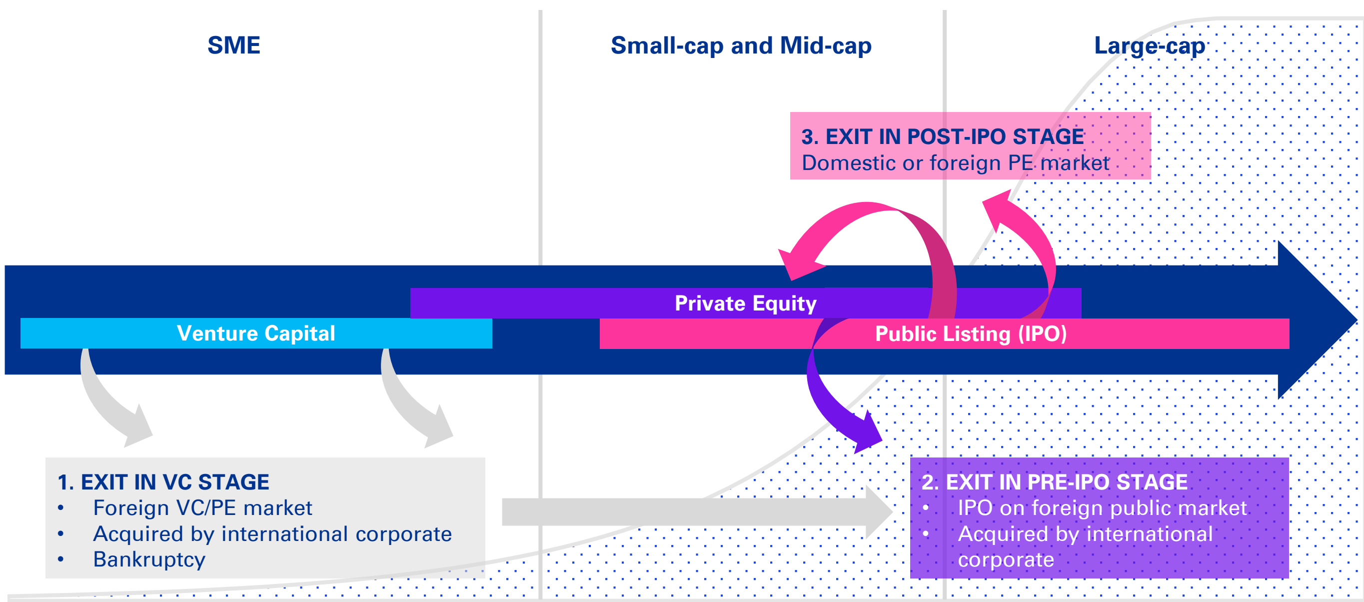
In practice, funding gaps are leading Dutch companies to look abroad for capital, making them more susceptible to acquisition by large (often foreign) corporations and, in some cases, bankruptcy. Consequently, the real Dutch economy does not just significantly rely on foreign capital markets and investors, the Netherlands is also missing the opportunity to optimally capitalise on its private and public investments made early in the capital market chain.

Furthermore, for those business enterprises in the Netherlands that manage to grow beyond the funding gaps, there are significant benefits for them and their owners/investors to stay within or return to the private equity market. The regulatory burden is lower, and the valuation is higher, often making private equity a (more) attractive alternative for SME, small- and mid-cap enterprises (and their owners/investors) compared to the public market. Large-cap enterprises still require an IPO on the public market as they outgrow private equity. However, with private equity markets growing, IPOs could be crowded out even further, even including Large Caps being owned by or taken off public markets by Private Equity Funds.

Business enterprises and their owners/investors also frequently consider foreign public capital markets, such as the US (e.g., Nasdaq), where valuations are generally higher, the capital market network is generally stronger, ample knowledge, expertise, and research are available, and an (investment) culture and political climate are generally considered more facilitating towards the capital markets and large corporations.

Figure 2

Simplified view of the Dutch capital market chain on the business growth curve and the exits away from the Dutch capital market chain during the high growth phase of a company



Looking ahead: shaping the future of the Dutch capital market

Dutch business enterprises leaving the domestic capital market, relying mostly on foreign investors and/or being acquired by large international corporations do not immediately impact the Netherlands' real economy and general prosperity. However, the risk of the company, once listed, funded, and/or headquartered abroad, leaving its home base increases, which does affect the Dutch real economy.

Hence, there is consensus among Dutch capital market stakeholders that this is the time to create the right conditions to close the debt and equity funding gaps and make an IPO on the Dutch public capital market (e.g., Euronext Amsterdam) more attractive for SME, small- and mid-cap enterprises, in order to unlock the full potential of the Dutch capital market. If the Dutch capital market community can solve these two key issues, it can position the capital market for optimal contribution to broad welfare.

Four key challenges to address: valuation, investment culture, participation of domestic institutional investors, and regulatory burdens

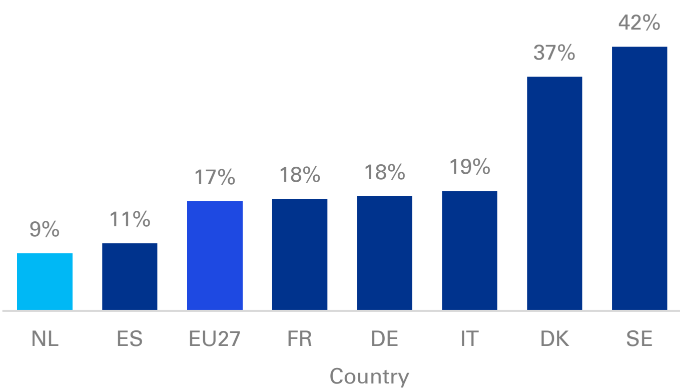
Improve valuation

Valuation is a prevalent factor underlying the attractiveness of private and public capital markets for companies and their investors. The relatively low valuation on the Dutch and European capital markets compared to the US is a prominent – possibly the key - reason for Dutch business enterprises and their owners/investors exploring foreign capital markets and investors and remaining in the private market longer rather than exploring a listing on a public capital market. An improved valuation of the Dutch capital market is needed to make an IPO in the Dutch public capital market a competitive alternative to the private market and an IPO in a public capital market abroad.

This study provides the initial indication that the lower valuations in The Netherlands and Europe compared to the US are the result of differences in market conditions such as the size of the sales market, local network functions, investor culture (e.g., willingness to take risks), political developments and the knowledge, expertise and information available to and experience of analysts in the Netherlands, to approach potential future cash flows and thus potential returns of a company. Also, the lack of free float volume, liquidity, and buy-side research available are limiting factors on the engagement of Dutch (institutional) investors with the Dutch stock exchange and the valuation of particularly SME, small- and mid-cap companies in the Dutch capital market.

Figure 3

The sum of bonds and listed shares held by households relative to the sum of volumes of cash holdings and deposits (2022).



Sources: European Commission [111]

Improve investment culture

The capital markets as a whole are not viewed positively by society and thus politics in the Netherlands. Furthermore, Dutch people do not invest directly in bonds and/or listed shares. The Dutch culture is not one of investing in the capital markets, especially not in individual companies, despite the Netherlands being the country with the third highest financial literacy within the EU [111]. Saving is generally preferred over investing, and the benefits of investing are not always understood nor appreciated in the Netherlands. In contrast, in Sweden, a market that is outperforming other European countries, including the Netherlands, on the IPO market, particularly when it comes to bringing smaller local companies to the public market, there is an investment culture whereby all layers of society - "everyone from the man on the street to very engaged private banking investors, entrepreneurs, but also the small and midcap institutional investors" - are intensely involved [109].

Furthermore, there is a potential lesson to be learned from the VC market in the United States. In the US, it is expected that one's fortune will be reinvested in other startups. They very often use VC as the means to reinvest in their next venture. Creating an upward cycle, or snowball effect, whereby successful innovations and business enterprises contribute to the emergence of future innovations and business enterprises, thereby contributing to structural and long-term broad prosperity creation. According to stakeholders in the Dutch capital markets, this positive re-enforcement is seen less often in The Netherlands. Entrepreneurship and investing are less embedded in the Dutch culture, and some successful entrepreneurs and companies have only limited interest in contributing to creating innovations and/or building new companies again after becoming successful. That said, Fintech is the only Sector in The Netherlands where we do see funds reinvested in the chain by successful entrepreneurs.

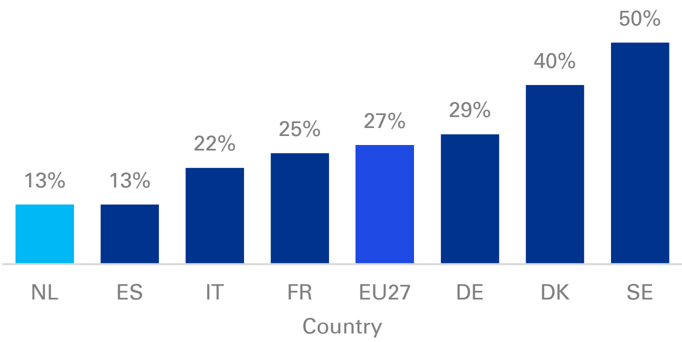
Improve participation of domestic institutional investors

Many actors and stakeholders are calling for Dutch institutional investors to invest more in Dutch startups, SMEs, small-cap, and midcap business enterprises (for clarification: not just in the private market, but also in the public market). Institutional investors in The Netherlands, particularly pension funds and insurers, make limited to no investments in the Dutch VC funds. Engagement of Dutch institutional investors in such VC funds will help accelerate the growth of the Dutch VC market, likely resulting in higher returns for institutional investors (i.e. win-win situation).

"Dutch pension funds are among the largest globally in terms of assets, but contrary to their global peers, they are largely absent in funding Dutch or European venture capital funds." [23]

Figure 4

The sum of equity investment and investment into equity funds and private equity funds in % of the total assets of insurance corporations (2022)



Sources: European Commission [111]

Most institutional investors in The Netherlands do not invest with a so-called home bias. Only to a limited extent do they focus on the Dutch capital market or Dutch business enterprises. Investment decisions of Dutch institutional investors are skewed towards international and passive investments, primarily driven by the investment case (risks, costs, and returns). Investments in equities by Dutch insurance companies are well below the EU average. Meanwhile, the Swedish private and public markets seem to flourish, among others, through the longstanding and, in some cases, even increasingly strong involvement of Swedish institutional investors, incl. pension funds, as cornerstone investors in IPOs of local companies, including SMEs, small-caps, and midcaps) [109]

Reduce regulatory burden

The regulations applicable to an IPO in the Dutch public capital market are complex. It leads to a lengthy, cumbersome and costly IPO process that particularly discourages many local growth companies in their small-cap/mid-cap phase from going public. These companies often are sensitive to the cost burden and the time consumption accompanying an IPO process.

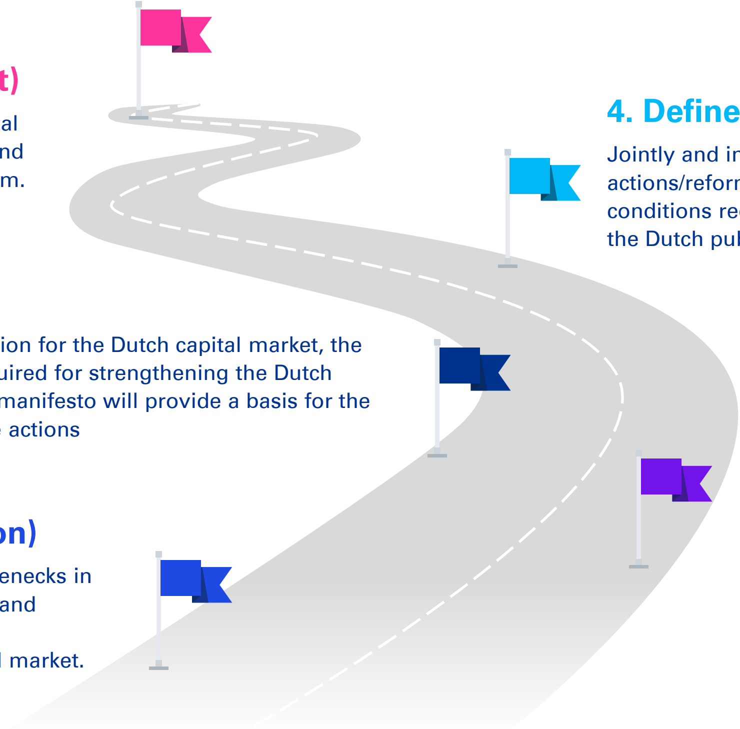
Whilst there is broad agreement that laws and regulations, as well as the national competent authorities, play a vital role in guarding the trust and confidence of investors in the Dutch capital market, an appropriate balance between opportunities and risks will have to be kept. Regulations will need to be fit for purpose. One possibility could be to differentiate among SMEs, small-caps, midcaps, and large-cap firms in terms of scale and complexity of applicable legislation and exchange rules.

"It should not be too complex and cumbersome for companies to IPO on the Dutch public capital market and to stay there"

Infrastructure Firm

Move forward with three key recommendations

While the EU is expected to play a significant role in achieving the conditions for overall European market improvements, it is also deemed important for the Dutch capital market and its actors and stakeholders to take responsibility for their own future. The roadmap towards concrete actions that can contribute to strengthening the Dutch capital market proposes an iterative process. Collaboration and ownership by all stakeholders in the market need to be sought. The optimal market conditions cannot be achieved in isolation. Actors and stakeholders of the Dutch capital market should come together and develop a long-term vision and strategy for the Dutch capital market to meet these needs.



1. Identify (Publication)

This publication identifies bottlenecks in the Dutch capital market chain and potential recommendations for strengthening the Dutch capital market.

2. Engage (Event)

Continued collaboration and a joint effort of all stakeholders in the Dutch capital market will have to be sought. The conditions for a stronger Dutch capital market cannot be achieved in isolation.

3. Align (Manifesto)

Stakeholder alignment on a vision for the Dutch capital market, the bottlenecks and conditions required for strengthening the Dutch capital market in the form of a manifesto will provide a basis for the stakeholders to define concrete actions

4. Define (Agenda for Reform)

Jointly and individually define concrete actions/reforms needed to create the conditions required to achieve this vision for the Dutch public capital market.

5. Implement (Declaration of Intent)

Stakeholders in the Dutch capital market commit to take action and implement this agenda of reform.

Promote a single European capital market, the Capital Market Union (CMU)

It is important to address the performance gap between the Dutch and US capital markets in the context of the European Union, as many directives and regulations affecting the Dutch capital market originate from Brussels. However, more importantly, the Dutch capital market is considered too small to compete with the US market. The CMU allows The Netherlands to benefit from a larger single European capital market.

While progress has been made since this initiative was launched in 2015, the EU capital markets remain fragmented. Liquidity is a key driver for performance. EU market fragmentation is often considered a critical driver for low liquidity. A higher liquidity leads to an increased number of investors willing to participate in that market, contributing to a higher valuation as some investors are willing to pay a premium for this enhanced liquidity. So, enhanced market liquidity in the EU market, including the Netherlands, is a key ingredient to an increased valuation in the Dutch and EU capital markets.

Develop a long-term vision and strategy for the Dutch capital market

Government investments will not address the challenges within the Dutch capital market on a structural basis if not accompanied by a long-term vision and strategy, including for positioning of the Dutch capital market, and complemented by a holistic set of measures to improve the market, especially for SME, small- and mid-cap business enterprises, in line with such vision, strategy, and positioning.

For example, in Italy, a manifesto for developing the capital markets in Italy was signed recently. This manifesto outlined the issues and described the reforms and commitments necessary to strengthen the Italian capital market. For something similar to work in the Netherlands, all stakeholders would need to commit to such a manifesto for the Dutch capital market and contribute significant efforts toward the agenda of reform that follows from it.

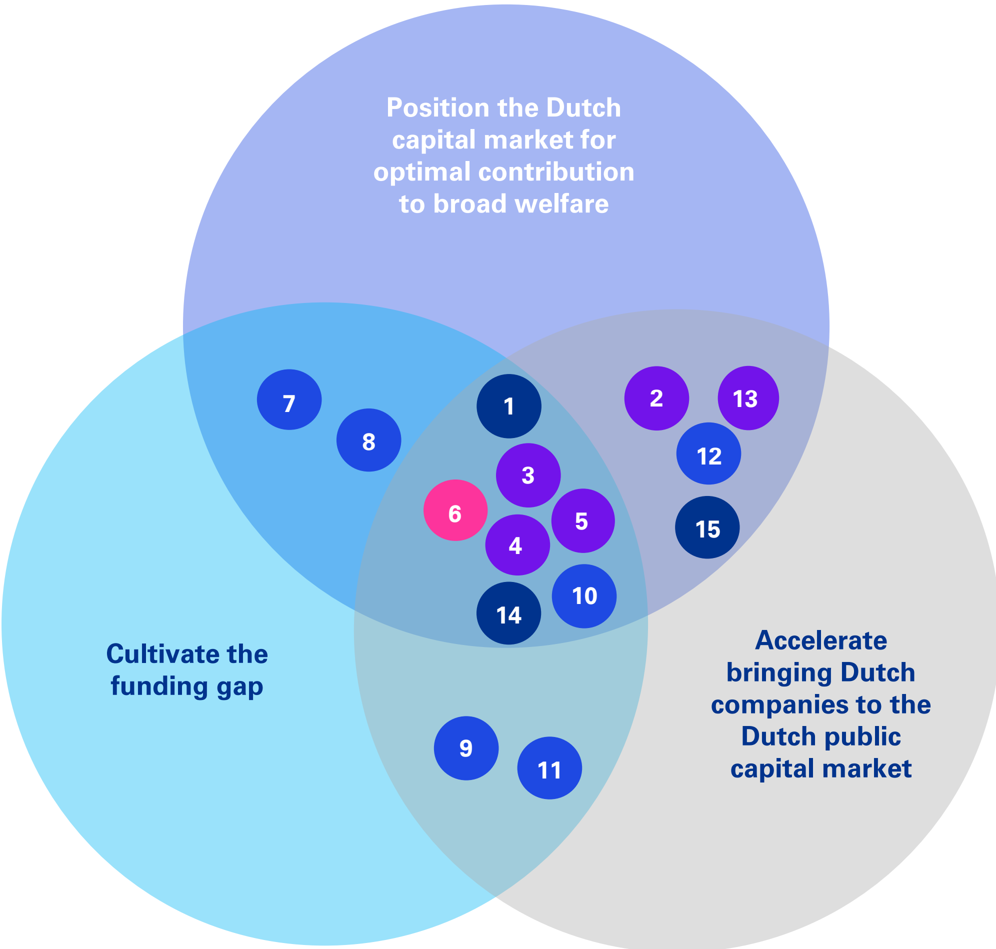
Some objectives and conditions to be achieved will have to be further aligned and defined. Where there is alignment on recommendations, there is a need to become more concrete. Stakeholders in the Dutch capital market are not yet aligned on a detailed agenda for reform. Therefore, actors and stakeholders in the Dutch capital market should come together to define this.

Increased private/public collaboration

Increased collaboration will build trust and contribute to bringing those investors and companies together more effectively at each stage of the Dutch capital market chain. Furthermore, it will help improve the exchange of knowledge/information, mitigating information asymmetries. It will also allow actors and stakeholders in the Dutch capital market to react quickly and flexibly to changes in the competitive global landscape. Successful reforms in other European countries, such as Sweden or France, are built upon private and public efforts and collaboration.

Figure 5

All recommendations to unlock the full potential of a Dutch capital market that optimally contributes to broad welfare in The Netherlands



Strenghtened collaboration

1 Increased public-private collaboration

14 Deepen the Dutch capital markets skillset

15 Bridge the private and public markets

Market positioning

2 Education on the relevance of capital markets

3 The opportunity of glocalisation

4 Focus on technology and sustainability

5 Deepen the Dutch public debt markets

13 Make the Dutch stock market a more popular investment option

Long-term vision and strategy

6 Joint vision within the Dutch capital markets chain

Market improvements

7 Improve the VC investment case

8 Reinvestments along the chain by large corporations

9 Establish well-connected VC industry in the Netherlands

10 Make use of CMU to bridge the gap

11 Enhance research capabilities on Dutch stocks

12 Reduce cost and complexity for listing on Dutch public market

Contents

1 Introduction

This study builds on KPMG's 2013 report "The importance of the Dutch stock exchange for the Dutch economy" (Dutch: "Het belang van de Amsterdamse beurs voor de Nederlandse economie"), which foresaw the increasing importance of an optimally functioning capital market and emphasised the importance of the Dutch stock exchange for the real economy in the Netherlands, this publication describes the Dutch capital markets chain in 2024 as a whole, including its role, functioning and recommendations for optimisation.

Over the past 10 years, both the financial sector and the world have rapidly developed, with increased globalisation and integration of European capital markets, as well as increasing focus on innovation and ESG ambitions. Such ESG, green and innovation ambitions, economic growth and social transitions require (SME) financing. The purpose of this publication is twofold. Its first purpose is to explore how well-equipped the Dutch capital markets chain is to facilitate a healthy, sustainable and innovative economy. The second purpose is to identify which steps have to be undertaken to help ensure the Dutch capital markets chain is well-positioned to perform its role in wealth creation and financial stability.

This publication provides insight into the vision of market experts and various stakeholders on the Dutch capital markets chain. Interviews formed an integral part of the study. This study's most important takeaways and conclusions are briefly summarised in the Key Findings.

Chapter 2 of this publication sets the scene, describing funding sources along the growth curve of business enterprises, the capital markets chain, and its actors and stakeholders in the context of the Netherlands.

The Dutch capital markets chain in 2024 is described in **Chapter 3**, primarily in relation to its role in funding business enterprise growth in the Netherlands through equity and debt. It focuses on the private and public capital market, and the role of Dutch banks in financing, including comparisons to international contexts.

In **Chapter 4** we make an assessment of the status quo and look ahead at the pre-conditions and recommendations for an optimally functioning Dutch capital markets chain, present and future, taking into account trends in, and opportunities and challenges for the Dutch capital markets chain. It explores how well-positioned the Dutch capital markets chain is in responding to future trends and playing a role in domestic welfare creation. As the Dutch capital market is firmly embedded in the European and global markets, this chapter will also explore the Dutch capital market in an international context.

Finally, the conclusion and proposed next steps are outlined in **Chapter 5**.

The report focuses on business financing through the Dutch capital markets chain. In this publication the capital markets chain is defined as all parties involved in obtaining or providing long-term equity and debt capital for business enterprises, from startups to large-cap enterprises, culminating in an IPO on the public capital market. Long-term refers to equity and debt financing with a maturity of over one year. This aligns with the international definition of capital markets; it places daily working capital financing and derivative products out of scope. Furthermore, commodities are also out of scope.

2 Setting the scene – a description of the capital markets chain

Within capital markets the funding needs of business enterprises and governments and investors looking for returns on their capital are brought together on private and public markets for equity and debt. With the Amsterdam stock exchange being established in the seventeenth century, Amsterdam has a long history of being a pioneer in the capital markets and one of the leading financial centres in the world with a strong international character. This chapter sets the scene, describing funding sources along the growth curve of business enterprises, the capital markets chain, and its actors and stakeholders in the context of the Netherlands. This publication does not focus on the role of the capital market in relation to government funding needs.

2.1 A capital market – demand meets supply

Capital markets bring together the demand for and supply of capital. The capital market provides an alternative to traditional bank financing for business enterprises in need of capital. Business enterprises typically use capital markets to fund innovations and business growth, governments use it for investment in public services (e.g. infrastructure, healthcare, national defence). For investors, capital markets provide the opportunity to put assets to work, investing in instruments that generate financial returns. This publication primarily focuses on equity and debt instruments as the focus is on funding business enterprise growth in the Netherlands with an investment horizon of over one year. Daily working capital requirements, commodity financing and derivative products are out of scope.

Capital markets can be divided into two segments, the private and public markets. The private market consists of debt and equity instruments that are not publicly traded. It typically provides access to (innovative) companies in their early stages of growth but is generally not accessible to the general public. The public market consists of publicly traded debt and equity instruments. Anyone can invest in shares in a company listed on the public market. This open and transparent marketplace typically also offers more liquidity. As and when required investors can sell instruments relatively quickly.

2.2 Capital – what is needed when?

Equity and debt instruments play a role in funding a business enterprise's growth. Business enterprises can attract various funding sources depending on, among others, their place on the size, maturity and information availability continuum [1]. Depending on the maturity and size of a company, from startup to large-cap enterprise, the ratio between debt and equity and the ability or ease of finding funding sources varies. As a business enterprise and its capital grow new, suitable and viable, funding sources have to be considered. For example, large-cap firms can grow to become of a size whereby their capital needs exceed what can be raised in the private market, in which case an IPO on the public market is a logical next step. Figure 6 provides a general idea of the various funding sources, equity and debt, available on the growth curve of a business enterprise.

It is important to emphasise that this overview of funding sources on the growth curve of business enterprises is simplified. In reality, the growth curve of business enterprises, and sources of funding available and used, can vary per business enterprise. While the funding needs of SMEs are generally low, some first-of-a-kind ventures and/or ventures with complex hardware and/or research components (e.g., deep tech) may require tens, or even hundreds, of millions of euros before selling their first products.

Neither is this overview of sources for funding exhaustive, particularly as equity and debt funding continue to develop, taking as an example the emergence and growth of microcredits and crowdfunding.

This publication refers to business enterprises as SMEs, small and midcap firms, and large-cap firms, as defined in table 1, along the lines of their sizes in terms of number of employees, revenue or market capitalisation, also referred to as market cap. It is important to note that we consider either the number of employees, revenues or market cap and not necessarily all, as in reality, all three may not perfectly align.

Figure 6

Simplified overview of funding sources on the growth curve of business enterprises, created by KPMG Advisory N.V., inspired by [1]

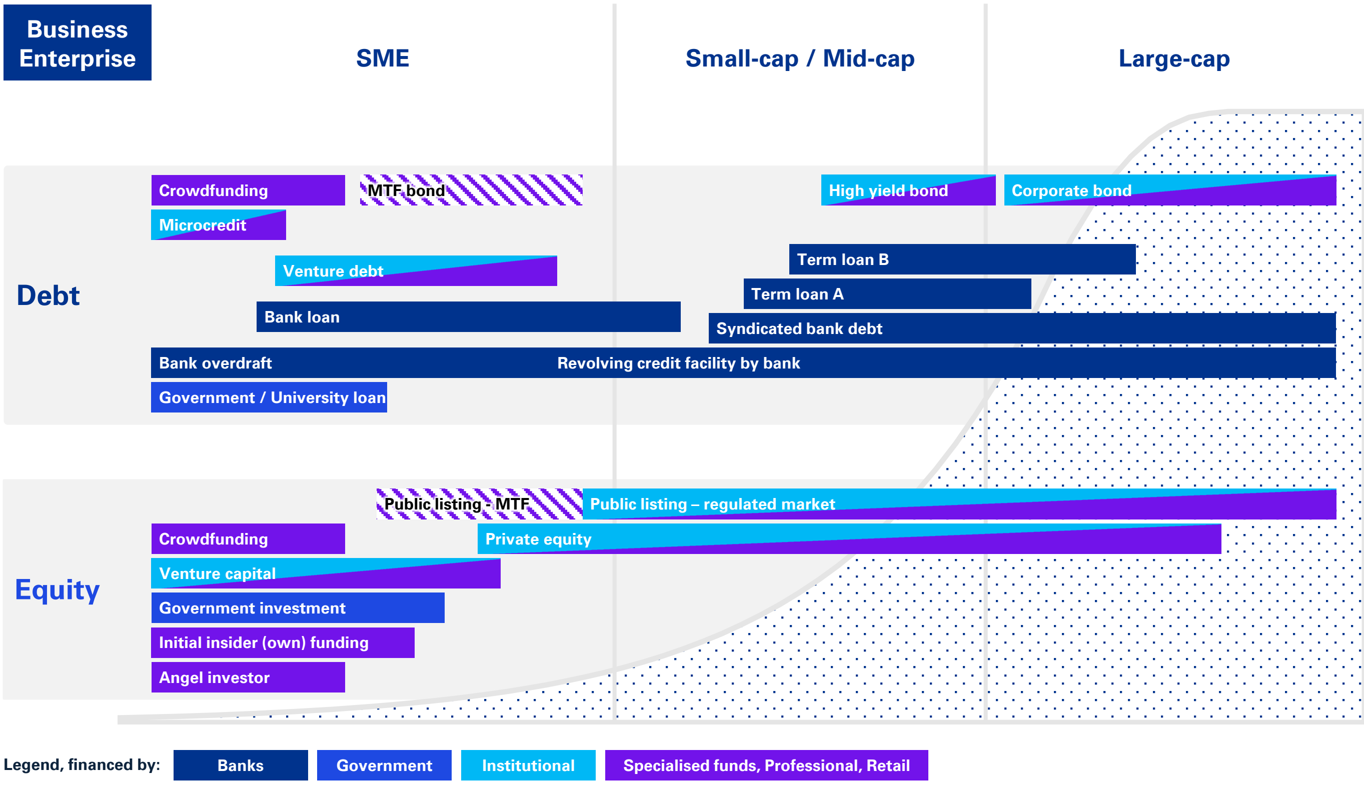


Table 1

Definition of business enterprises considering RVO definitions [2] and market capitalisation [3] [4] [5] [6].

Definition of business enterprises considering number of employees, revenues and market cap				
Category		**SME**	**Small-cap / Mid-cap**	**Large-cap**
RVO definition	Employee	≤ 250	≥ 250	≥ 250
	Revenu (in EUR million)	≤ 50	≥ 50	≥ 50
Market capitalization (in EUR million		≤ 300	300 – 10.000	≥ 10.000

2.3 Who's who in the Dutch capital markets – meet the stakeholders

In this publication the capital markets chain is defined as all parties involved in obtaining or providing long-term equity and debt capital for business enterprises, from startup to large-cap enterprise, culminating in an IPO on the public capital market. The Dutch capital markets chain is a complex ecosystem with interactions of many different actors and stakeholders. When such interactions lead to the supply of and demand for capital being efficiently and effectively brought together, allowing business enterprises access to funding at each stage of their growth curves, the capital markets chain functions well.

Key actors and stakeholders in the Dutch capital markets chain include:

- **Issuers** (e.g. businesses, government and financial institutions) in need of capital to grow, invest or refinance.
- **Investors** provide capital to those in need in exchange for a (financial) return, generally, each characterised by a different asset mix between private and public market as well as between equity and debt instruments.
- **Governmental ministries and regulators** develop policies and regulations applicable to the capital markets and oversee and monitor compliance with such policies and regulations in the Dutch capital market.

Figure 7
Key actors and stakeholders in the Dutch capital markets chain.

Businesses and Government (demand)

Start-up to large-cap enterprise

Capital flow

Investors (supply)

- Banks
- Professional (e.g. family offices)
- Specialised funds (e.g. venture capital funds, private equity funds)
- Institutional (e.g. asset managers, insurers, pension funds)
- Retail (i.e. individuals, non-professional investors)
- Government (e.g national promotional institution, regional development agencies)

Government & Regulators

- Dutch Authority for the Financial Markets (AFM)
- Dutch central bank (DNB)
- Dutch Ministry of Economic Affairs and Climate Policy
- Dutch Ministry of Finance

Sell-side & Advisors

- Investment banks
- Brokers
- Law firms
- Consulting firms

Audit firms

Parties organising and facilitating the public capital market

Infrastructure

- Regulated markets, also referred to as security or stock exchanges
- Multilateral trading facilities (MTFs)
- Other (e.g. central counterparties)

– The Dutch Authority for the Financial Markets (AFM) “supervises the conduct of the entire financial market sector: savings, investment, insurance, loans, pensions, capital markets, asset management, accountancy and financial reporting.” [7]

– The Dutch Central Bank (DNB) “works to safeguard stable prices, smooth and safe payments and robust and reliable financial institutions. In short, a stable financial system.” [8]

– The Ministry of Economic Affairs and Climate Policy, in the context of the capital market, primarily focuses on businesses (e.g. policies that support businesses looking for capital to grow)

– The Dutch Ministry of Finance, in the context of the capital market, primarily focuses on ensuring safe, fair, and transparent markets for investors.

- **Sell-side and advisors** are involved in creating, promoting and selling stocks, bonds and other financial instruments and investment vehicles in the Dutch capital market. In addition, advisors help companies and investors identify market opportunities, perform due diligence, structure deals and transactions and meet regulatory obligations.

- **Audit firms** are a key stakeholder in any Capital Market. They provide financial and non-financial assurance on issuers. This assurance forms the basis of the credit analysis done by Investors.

- **Infrastructure firms** are primarily active in the latter part of the capital markets chain, organising and facilitating a stable, efficient and transparent Dutch public market. Securities exchanges offer a marketplace, that is, a platform on which companies can list on a primary market and listed financial instruments can be traded by investors on a secondary market. With central counterparties (CCPs) providing clearing and settlement of trades.

3 Status quo of the Dutch capital markets chain

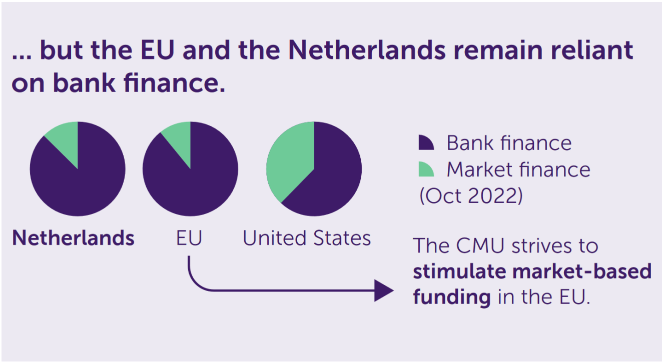
The Dutch capital market is robust and has a strong and stable basis. With a large pool of investable assets (e.g. pension funds), the Netherlands has sufficient capacity to meet future financing needs. At the same time, a vast amount of new Dutch companies emerge, grow, and develop, creating many investment opportunities. Yet, the connection between supply and demand for capital is not seamless throughout the Dutch capital markets chain. A challenge for Dutch companies looking for growth capital. This chapter describes the Dutch capital markets chain in 2024, primarily about its role in funding business enterprises in the Netherlands through equity and debt, as well as the ability to retain business enterprises in the Dutch capital markets chain.

3.1 Bank financing – stable, no growth

The Dutch financial sector is traditionally characterised by a strong banking landscape offering ample opportunities for cheap and efficient bank financing. While this has benefited Dutch enterprises, reliance on bank financing is substantially higher than in the US. This is not just the case in the Netherlands, but also in the EU. Only around 13% of the funding of non-financial enterprises was market-based in 2022, compared to 20% in the UK and over 30% in the US. [57]

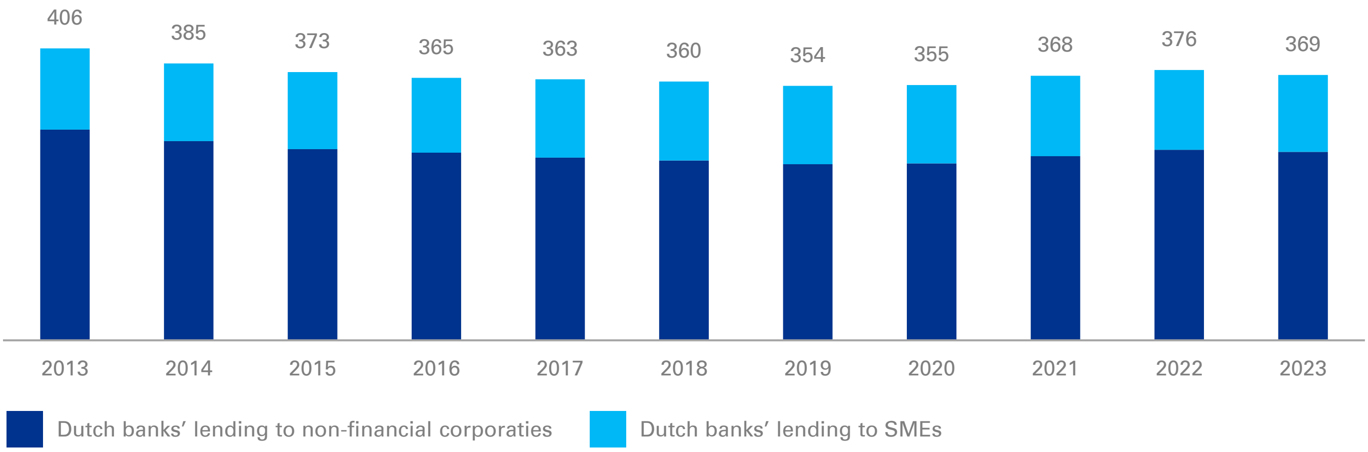
The volume of Dutch bank lending to non-financial institutions and SMEs decreased between 2013 and 2023, as illustrated by figure 9. In the last decade, the increased regulatory pressure that followed the global financial crisis and the digitization of SME banking activities, combined with interest rate developments, have had an effect on the availability of cheap and efficient bank financing.

Figure 8
Bank finance versus market finance in the Netherlands compared to the EU and the United States" in "State of the Capital Markets 2023,"



Sources: AFM: State of the Capital Markets 2023 (October 11, 2023). Available via: AFM calls for a European set of capital market data

Figure 9
Dutch banks' lending to non-financial corporations and SMEs in 2012-2023 (EUR billion) [63].



Source: Data zoeken - DNB

Obtaining bank financing is deemed increasingly more difficult due to increasingly stringent capital requirements and credit risk assessments and a shift from tailored services to standardization associated with digitization of SME banking activities. The introduction of a more digitized approach has led to the closure of local bank branches, from 1,990 in 2011 to 860 in 2021, and a reduction in the number of account managers in the Netherlands [66]. This seems to particularly affect start-ups and SMEs that are said to sometimes struggle to successfully request bank financing and may experience more difficulty meeting requirements.

"What I quickly discovered at that time is that the computer said 'no' 99 out of 100 times when I presented a financing proposal"

Bank

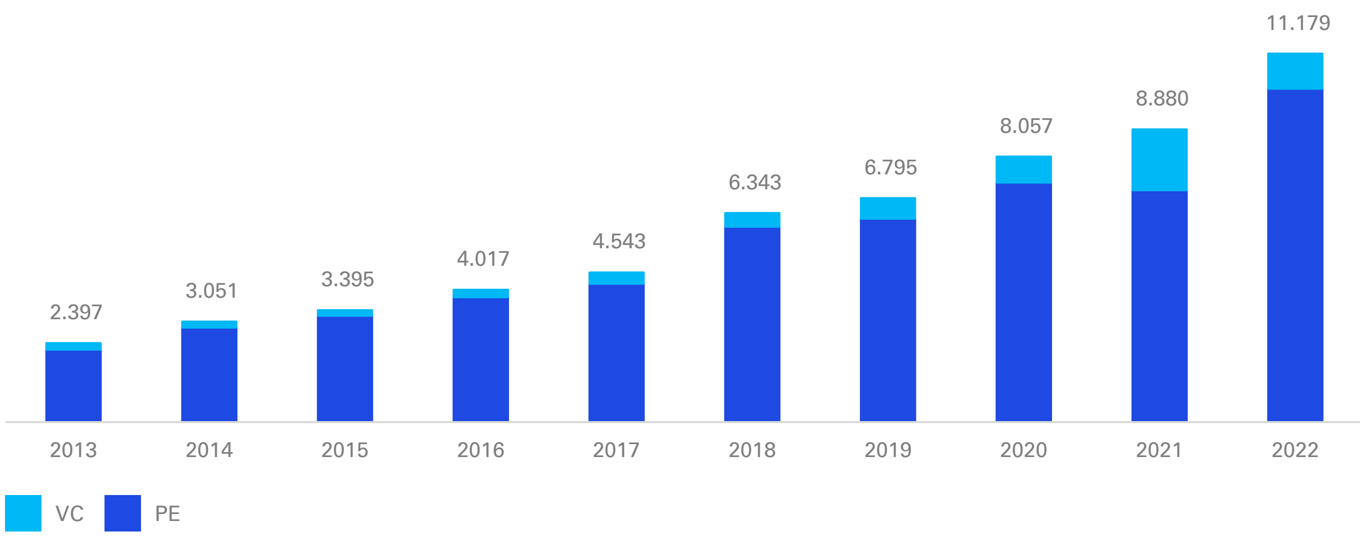
Willingness and ability to offer bank loans are generally driven by two key themes: probability to default (PD) and loss given default (LGD). PD implies that banks carefully assess the likelihood that a borrower fails to fulfil their obligation to repay a loan. Hence, banks do not easily lend to companies that have flawed business cases, weak balance sheets, and new or untested management. LGD aims to quantify the actual loss in case a default occurs. Again, because startups generally have few real or valuable assets apart from the innovative ideas on which they are built, in the case a startup's default, the loss the lending bank faces is compounded by the startup's lack of collateral.

Particularly first-of-a-kind ventures and/or ventures with a complex hardware and/or research component, such as deep tech, with capital-heavy business plans are often unable to meet the criteria for a bank loan. As Dutch banks will have to continue to manage these risks embedded in bank balance sheets, market financing is playing an increasingly important role in financing business enterprises, especially startups and SMEs.

3.2 Capital market financing – private and public market funding, strong growth

The last decade is characterized by a strong and steady growth of both the private and public market in the Netherlands. VC and PE investments in the Dutch private market almost quintupled, from EUR 2.4 billion in 2013 to EUR 11.2 billion in 2022 [9]. There is a clear rise of private markets in the Netherlands driven, among others, by the relatively low interest rates in this period [48], a strong performance and government measures striving to promote market financing, particularly benefiting start-ups and SMEs. The market value of the public market, Euronext Amsterdam as the Netherlands' primary securities exchange, doubling in the same period, from EUR 676 billion in 2013 to EUR 1.262 billion in 2022. This growth continuing to a market value of EUR 1.537 billion in 2024. Growth of the public markets in the Netherlands driven, amongst others, by an attractive market and listing climate for large caps and its ability to attract international listings with this.

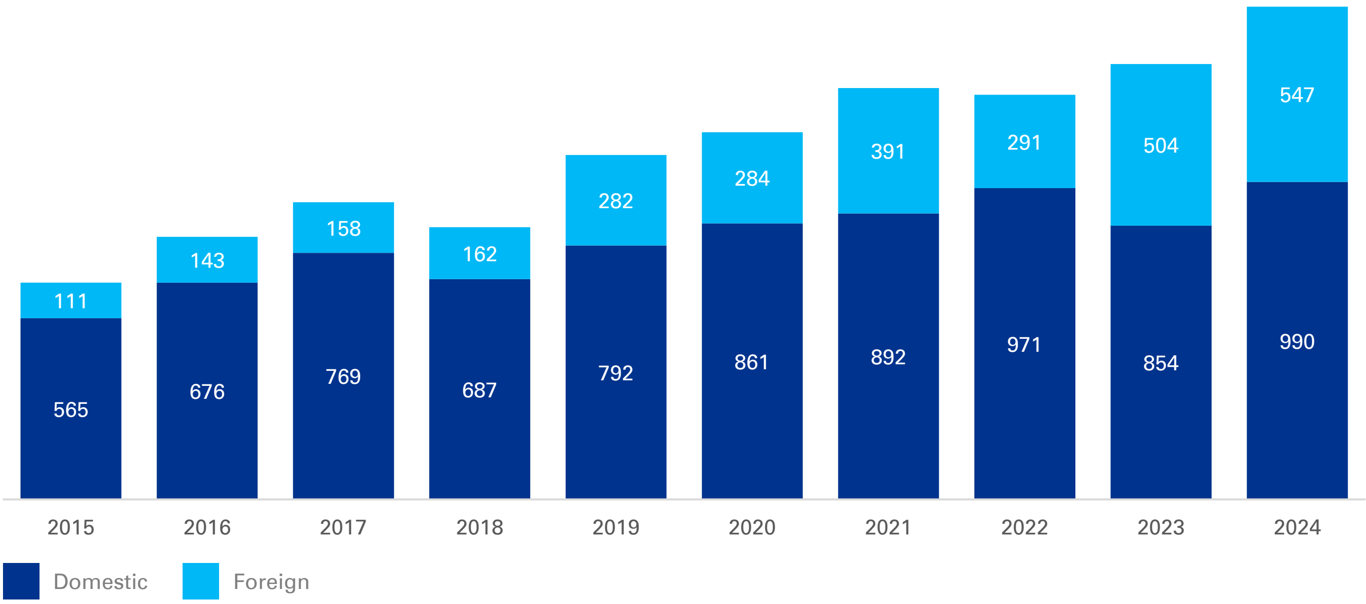
Figure 10
PE and VC investments in the Netherlands in 2013-2022 (EUR million) [9].



Source: NVP. Marktcijfers, Investeringen. Investeringen (nvp.nl)

Figure 11

Cumulative market value as of January 2024 of domestic and foreign companies listed on Euronext Amsterdam (EUR billion).

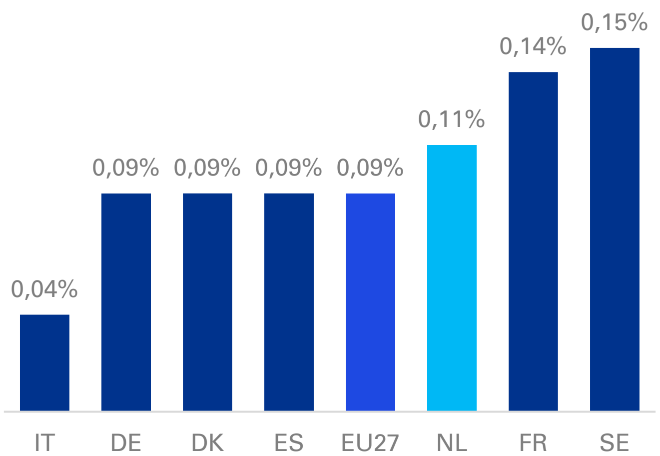


Sources: Euronext/Refinitiv (as of January 2024)

The Netherlands may be a small country, but it is characterized by strong capital markets. While in absolute terms private market investments in the Netherlands lag behind the large economies of Germany, France and the UK [10], putting such investments in the context of the size of the economy, the Dutch private markets are outperforming the EU in 2022. Though venture capital investments are any predictor, the French and Swedish capital markets are well positioned to take on a leading role in the EU private market in the future.

Figure 12

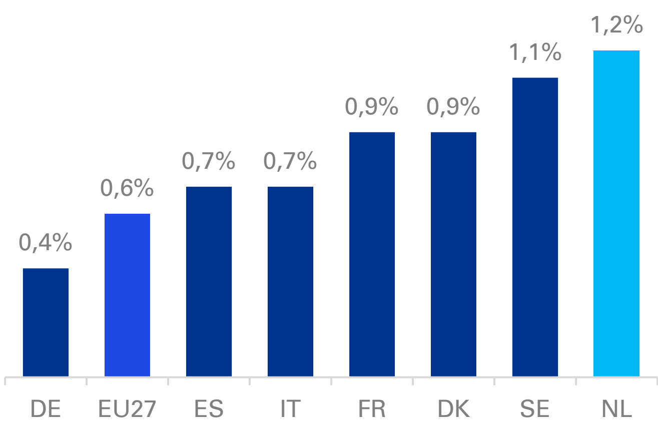
Value of annual VC investment in % of nominal GDP (2022). Please note that country breakdowns are determined through the domicile of the portfolio company.



Source: European Commission [111]

Figure 13

Value of annual PE investment in % of nominal GDP (2022). Please note that country breakdowns are determined through the domicile of the portfolio company.

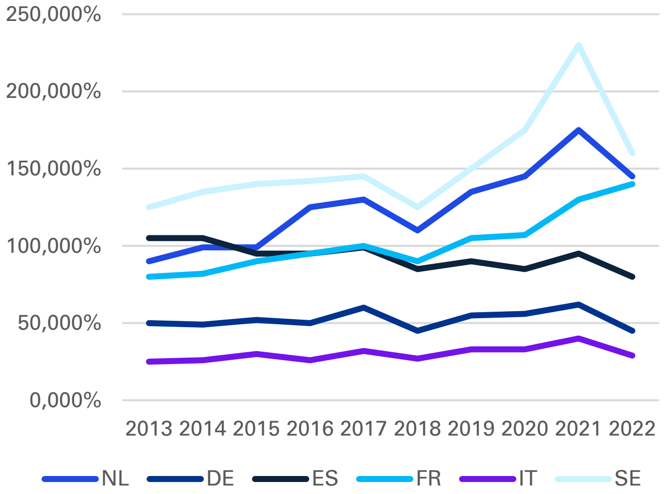


Source: European Commission [111]

Similarly, the public market in the Netherlands both measured in size/volume, as well as its ability to raise capital through IPOs, relative to the size of its economy, is well above EU average and strong in an international context. Still noting, Sweden is frontrunning the Dutch capital market in a European context, similarly to the US in an international context, and also France seems to be catching up quickly and may outperform the Dutch capital market soon. Furthermore, it is also important to note, that the performance of the Dutch capital market in terms of size volume and size of investments, as well as its ability to raise capital, does not directly mean this capital efficiently and effectively reaches Dutch business enterprises and thus helps grow the real Dutch economy. Therefore, the availability of funding on the business growth curve of business enterprises in the Netherlands is further explored in this publication.

Figure 14

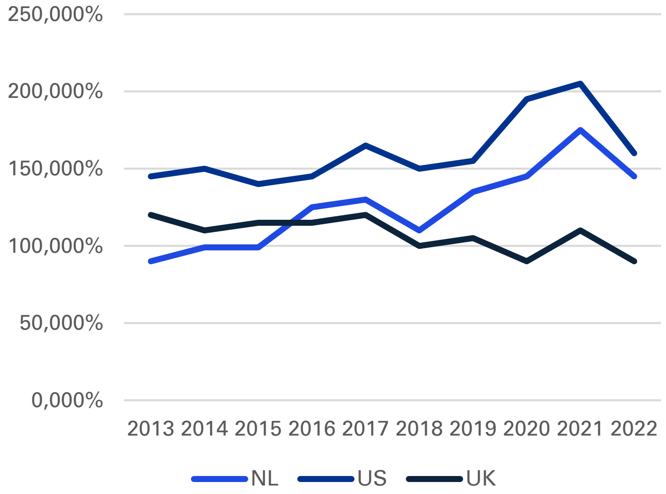
Market capitalisation as % of the Netherlands' nominal GDP compared to other European Union countries.



Source: CEIC Data

Figure 15

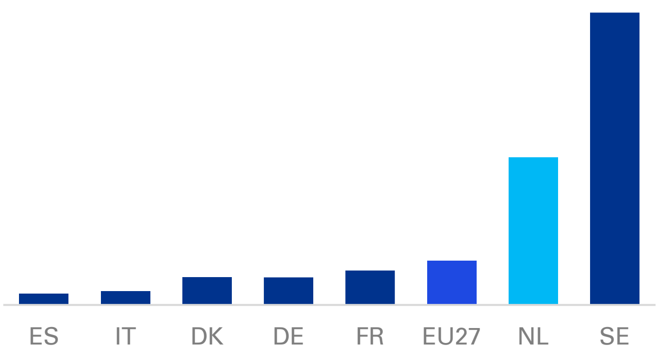
Market capitalisation as % of nominal GDP of the Netherlands compared to the UK and the US. Please note that the country breakdown is determined through the domicile of the portfolio company.



Source: CEIC Data

Figure 16

Capital raised through IPO in % of nominal GDP (average over period 2015-2022), Netherlands compared to other European Union Countries



Source: European Commission [111]

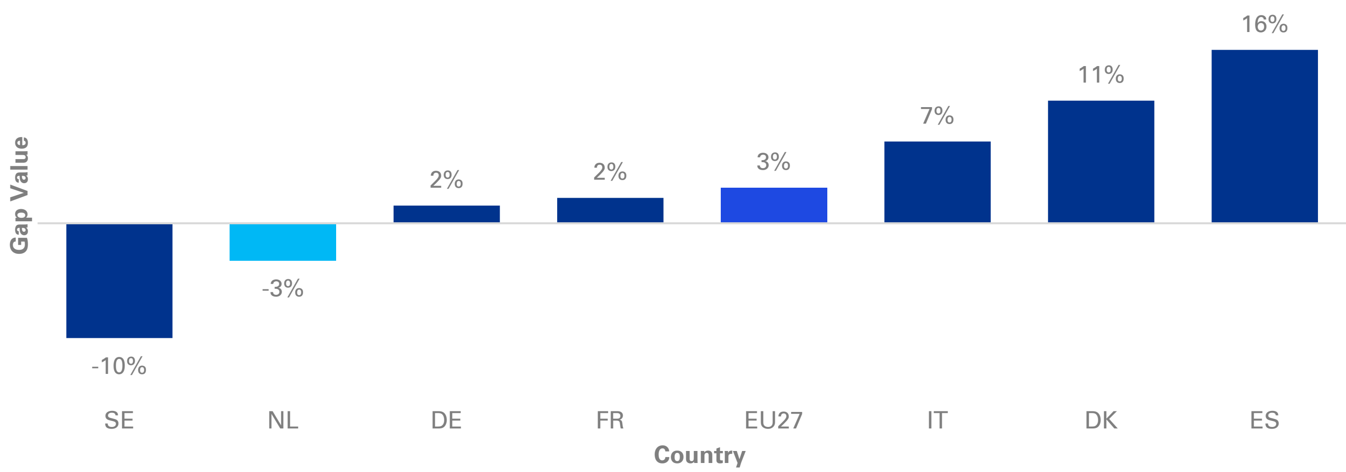
3.3 Capital financing – what is needed in which phase of corporate growth

The Dutch capital markets' strong ability to raise capital does not directly mean this capital efficiently and effectively reaches Dutch business enterprises and thus helps grow the real economy of the Netherlands. This contribution of the Dutch capital markets to the growth of the real economy is determined by the ability of Dutch business enterprises to access the available capital.

This capital seems to be finding Dutch business enterprises quite well. The availability of equity to SMEs exceeds the funding needs of SMEs in the Netherlands. In terms of equity financing for SMEs, the Netherlands outperforms the EU average [111]. The in-depth examination of access to funding along the business growth curve of business enterprises in the Netherlands that follows clarifies whether the availability of capital to SMEs is a direct result of access to domestic capital and performance of the Dutch capital markets or access to foreign capital and reliance on international capital markets.

Figure 17

SME equity financing gap (2022) based on the % of SMEs indicating they are in need of equity minus the % of SMEs indicating equity is accessible to them. A negative number means availability exceeds needs. Please note, the numbers may not be representative of the total economy. Especially the equity gap of IT is based on a small panel of firms that provided a response.



Source: European Commission [111]

More importantly, this capital seems to be finding Dutch companies quite well. The availability of equity to SMEs exceeds their funding needs in the Netherlands. Concerning equity financing for SMEs, the Netherlands outperforms the EU average.

Despite the rapid growth of the private markets, the above charts show that these markets are still evolving. Coupled with the fact that banks are also under some pressure, gaps in the Dutch capital market chain must be resolved to optimise the chain. This section dives deeper into the remarkable rise of private funding, the state of the public market and banking sector, and also the gaps that have become apparent. It does so along the different stages of the business growth curve, in which different dynamics are at play.

3.3.1 Early stage – VC and micro finance – growth but mixed view

The group of SMEs shows the variability of companies, from the innovative new material design company to the bike repair shop around the corner. This subsection primarily focuses on startups, which are fast-growing and innovative companies, starting with early startups. Early startups have several financing options: crowdfunding, microcredits, initial insider or own financing, bank overdrafts, pre-seed venture capital, government investment, and university funding. They are moving towards a more mixed bag of funding, using several different instruments, rather than relying only on one form of funding. Historically, bank financing has been the main funding source for many early startups. Even in 2022, bank financing still accounted for 73% of the total SME[1] financing volume [12]. However, over the past years, non-bank financing has taken an increasingly larger share of the volume [12] and share of mind [13].

One could argue for a split between two kinds of start-ups within the early start-up landscape: (1) low/medium capital-intensive companies and (2) capital-intensive companies such as those in the deep tech sector. Based on expert interviews, the increasing prevalence of non-bank financing in low/medium capital-intensive companies seems attributable to different risk appetites between banks and other potential lenders. As highlighted earlier in chapter (3.1), a wide variety of themes have driven Banks to focus less on providing SME funding. In particular, capital-intensive start-ups have found it difficult to attract bank funding given the lack of track record of these companies and little collateral, making lending harder for banks. In this void, VC funding has played an important role, which is expected to continue.

3.3.2 Past early stage – VC – does VC have what it takes?

Changes to banking regulations have allowed for the development of other financing sources for early startups, with crowdfunding in the lead. In 2022, EUR 972 million was raised through crowdfunding in the Netherlands, 48% more than in 2021 [14]. Crowdfunding raised in 2022 specifically through equity issues was tenfold of what was raised in 2020 [14]. For context, when the previous report was published in 2013, Dutch companies raised EUR 28 million through crowdfunding [15]. A key factor driving the rise of crowdfunding has been the increased regulatory certainty surrounding this financing option. As aforementioned, increased regulation has the potential to promote the growth and maturity of a sector. In 2020 the European Crowdfunding Regulation was introduced, which for example introduced an increase of the maximum capital to be raised to EUR 5 million and allowed platforms with a licence to be active across all EU member states [17]. While this makes both investing and raising capital through crowdfunding more attractive and accessible, crowdfunding is at its most helpful when companies are at their earliest growth stages.

3.3.2.1 Where is Dutch institutional money in VC?

Significantly more VC is invested in the startup and later-stage venture phases than in the early seed phase [9]. The Dutch VC market has grown significantly since 2013, with VC investments in Dutch companies rising from EUR 201 million then, to EUR 1.067 million in 2022 [9], with well over half of this capital coming from Dutch investors in both years. This growth has come from the annual number of VC investments (786 in 2022) and the average ticket size (EUR 1.4 million in 2022) more than doubling. These figures show that the VC market is certainly growing beyond its initial stages of development. In general, Dutch VC funds mainly cater to business enterprises that require limited investment and are expected to generate returns in the short to medium term.

The most obvious factor is that the Dutch VC market is simply significantly smaller than the largest VC markets of the UK and the US. The whole Dutch VC sector had EUR 12.8 billion AUM in 2022 [18], while the top fifteen VC funds globally are dominated by US VCs individually managing (tens of) billions and a massive UK Softbank Vision Fund [19]. The difference in the volume of VC investments is also stark, with USD 31 billion being invested in the UK in 2022 [20] and around USD 250 billion in the USA [21], tenfold and a hundredfold more than the EUR 1 billion invested in the Netherlands. Compared to the Dutch, the sheer size of these other markets is bound to lead to more experience with larger deals and different sectors. Furthermore, it will likely lead to a larger VC universe regarding both numbers of companies and VC funds active, making it easier to "find a match" for entrepreneurs and investors alike. There is simply more room for specialisation in larger markets.

"These [European VCs, red.] are generally first time teams, raising 30, 40 million, instead of fund number four with a couple hundred million. The individuals too, have less investment experience..."

Investor
whilst comparing European VC funds to American VC funds in the same niche in 2022

Second, in line with the first factor, experts noted that until recently, most Dutch VCs had a strong focus on a select few sectors (e.g., software-as-a-service or SAAS). Specialised funds in other sectors are only just coming up. The data corroborates these statements, showing that in the Netherlands, biotech and especially IT have been the industries with the most companies invested in over the past decade [9]. The result is that in most other industries (and potentially sub-sectors within these industries), Dutch VC experience still requires further development.

[1] Note that this includes all micro, small and medium companies.

A third factor is that of culture. Several experts, working as investors and at startups, noted that Dutch VC culture is very different from the culture in the UK and US. Where investors in the UK, and especially in the US, are able to invest in ambition, potential and "in a dream," Dutch VCs and other investors, including the backers behind those VCs, are much more focused on quick returns and less uncertainty. This leads to less leeway for companies to attract funds for ambitious plans and develop themselves over a longer period. Essentially, this potentially stifles growth for both the companies, and in the long term the VCs. Note that once again, sector size is likely to play a role here, as is well illustrated by one investor's quote: "In the US investors often ask "What would you do if we gave you ten times more than you asked for?". In the Netherlands we often try to get away with investing half of what was asked for."

3.3.2.2 Dutch government role in VC

With pure market size being a primary obstacle to the maturity of the Dutch VC market, questions arise over why this market has not grown faster. One possible explanation is that, with banking long being the primary financier in the Netherlands and the banking landscape in recent times having partially retreated from the startup and broader SME market (see chapter 3.1), the market financing VC landscape simply has not had enough of the time needed to fully mature, as some experts noted. VC started growing much earlier in markets such as the US, which has allowed them to mature. Another potential explanation is the aforementioned tax treatment of retail investors, who do not enjoy special tax treatments when investing in SME (e.g., growth or sustainability) companies, while they do in other countries such as the UK [22]. This is an area in which government regulations could be used to stimulate the VC and related markets for VCs. A third reason often referred to by experts, is the lack of institutional investors allocating to the Dutch VC space. This refers primarily to (Dutch) pension funds and insurers. A frequently cited study to corroborate this point is that of Techleap and NVP showing that roughly only 0.012% of Dutch pension assets had been invested in Dutch VCs between January 2016 and June 2021 [23]. Many experts called for Dutch institutional investors, pension funds in particular, to increase investments in this segment and the Dutch economy more broadly.

Several experts working with institutional investors noted that there is currently little appetite by these investors to do so. Most institutional investors are said to focus primarily on reducing cost and less so on generating excess returns. Furthermore, Dutch pension funds have in recent decades focused on diversifying their portfolios internationally, as opposed to investing primarily in the Netherlands (i.e., a home country bias, see for example [24]), although that trend may be shifting [25]. Even in the cases where the appetite is there, which some institutional investors have expressed, costs still present a major hurdle. These costs come in the form of internal administrative expenses made for each investment and in management fees. While the management fees scale with investments made, the administrative expenses do not. Therefore, from a cost perspective, one would want to have as big an investment as possible for those non-scalable administrative expenses. However, Dutch VC funds generally raise in the hundreds of millions of euros and institutional investors have limits to the percentage of a fund's AUM they may invest (e.g., 10%). For example, with a EUR 500 million fund and a 10% maximum, this leads to a maximum investment in that fund of EUR 50 million. With ticket sizes like these, the administrative expenses practically double the total costs incurred by an institutional investor, some experts note, making cost a significant hurdle. While returns of European VCs are on-par with those of the US [23], the higher relative costs for investing in European VCs, as a result of the same administrative expenses and smaller ticket sizes, dampen those returns for institutional investors. This in and of itself causes other assets with higher ticket sizes to be favoured, such as US VCs.

With expected returns currently being slightly lower in the Netherlands, due to the relatively higher administrative expenses, another reason for Dutch institutional investors to invest in Dutch VCs could be a home bias. However, Dutch institutional investors have historically diversified away from the Netherlands, as was noted by several experts and is illustrated well by this 2022 quote in an APG blog: "As Dutch investors, we have little interest in a so-called 'home market bias' on the basis of the convictions we adopted at an early age. Our country is relatively small and has an open economy, and we strongly believe in diversification. With an open mind and looking outwards, we look for the best investments worldwide." [24]. This historic policy makes sense, precisely because of the reasons highlighted in the quote: the open and small economy. The size makes it so that there are limited opportunities for the significant amounts of money that institutional investors have to invest. The openness of the economy means that even if only investing within the Netherlands, investments are still subject to some of the same macroeconomic risks that investing abroad would bring, because the Dutch economy is so intertwined with international economies. Throughout the process of writing this report, however, it has become clear that this trend of strong diversification is slowly turning around at some of the larger institutional investors. For example, pension fund ABP and therefore the quoted APG has recently stated it will invest an additional 10% of its roughly EUR 500 billion within the Netherlands [25]. On the other hand, there are also Dutch institutional asset owners, i.e., pension funds and insurers, that continue to see themselves solely as stewards of capital tasked with creating the best returns for their participants, and not as stewards of Dutch economic prosperity, which arguably also benefits participants. This makes it unlikely that these funds' investments in the Dutch market, and Dutch VC specifically, will significantly increase any time soon.

All in all, the low allocation of Dutch institutional (pension) money in the Dutch VC market seems a chicken-and-egg situation: Dutch VCs need to grow to become more attractive for Dutch institutional investors, but these VCs also need institutional investments to grow. Finding ways of 'breaking the stalemate' will likely both help the VC sector in its growth and the institutional investors in their desire to invest in the Netherlands, as more financially attractive options become available. There are certainly models to increase domestic investment. For example, French institutional investors recently pledged EUR 6 billion for the French tech sector [26], Swedish Pension Fund Alecta is "one of the biggest investors" on its domestic stock exchange [27] and the Norwegian Government Pension Fund (NGPF) has one of its two funds entirely invested in the Nordics, with 85% in its domestic market [28]. Interviewed industry experts anecdotally confirmed that French and Nordic institutional investor colleagues are more focused on their domestic markets.

Table 2
VC investments across France, the Netherlands, and Sweden in 2020-2022 [10].

VC investments across France, Netherlands, and Sweden (in EUR 1.000)			
Year	**2020**	**2021**	**2022**
Netherlands	789.755	1.843.762	1.066.516
France	1.954.593	2.909.218	3.630.233
Sweden	592.353	982.972	971.472

Source: Nederlandse Vereniging van Participatiemaatschappijen (NVP), "Nederland in Europa," [Online]. Available: https://nvp.nl/onderzoek/over/marktcijfers/europese-cijfers/.

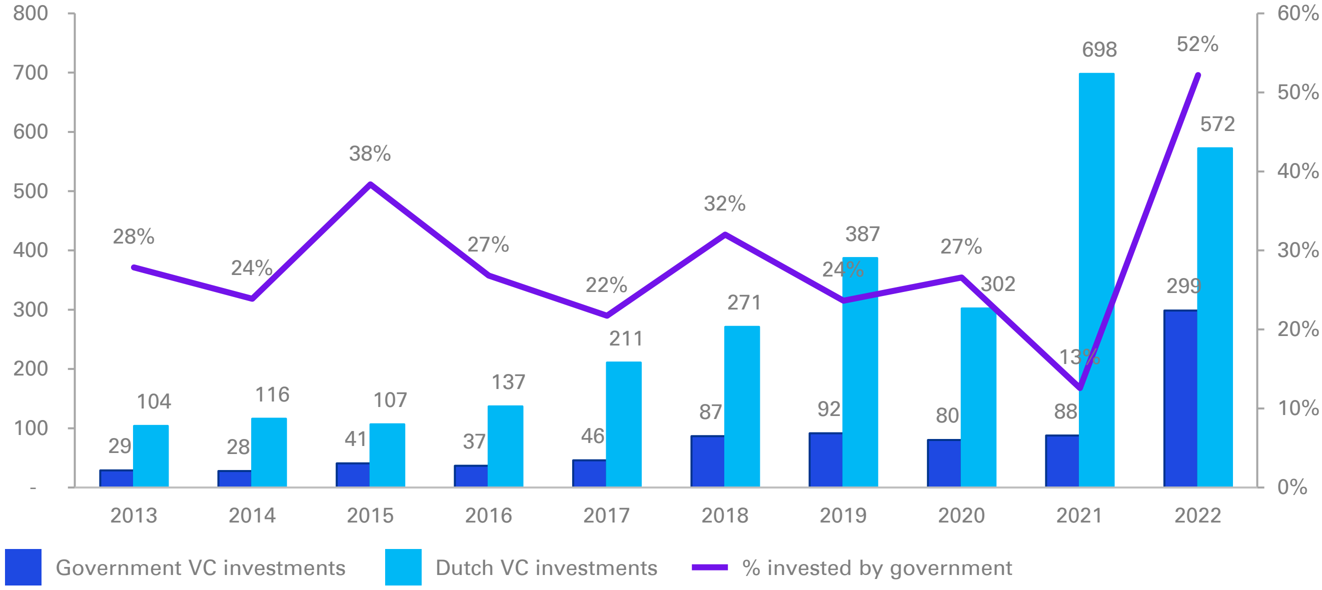
It is essential to be critical, and not directly take over another country's model. Domestic investment in one segment (public equities) does not necessarily translate to a larger market in another segment (e.g., VC), as illustrated by table 2 showing that the Swedish VC market is smaller than the Dutch one. Furthermore, the French and Swedish models may not be easy to copy and paste to the Netherlands, as significant differences exist between the countries and their economies. France has a somewhat different culture from the Netherlands, demonstrated in the comparatively stronger relationship between the French government and France's private sector, the Nordic countries have their own currencies rather than one shared with foreign countries, and the NGPF is a government institution as opposed to the Dutch pension funds. However, these countries' models may still provide valuable examples for enticing Dutch institutional investors to increase domestic investment, thereby stimulating the VC and other markets.

3.3.3 Scale-up phase – GAP 1 – too large for VC, too small for PE

With that said, the Netherlands does have its own government investment institutions. These are significantly smaller than the NGPF but have grown with the domestic VC market. As aforementioned, over half of the total VC capital invested in the Netherlands came from Dutch investors in 2013 and 2022. During the period in between those years, investments of Dutch VCs as a percentage of the total VC invested in the Netherlands generally hovered around the 55 to 75% range [9]. Of that Dutch capital invested, Dutch government organisations invested between 22% and 38%, except in 2021 and 2022, with outliers both lower and higher (13% and 52% respectively) [9].

Figure 18

Dutch PE and VC investments in the 2013 – 2022 period, in EUR million [9]



Sources: NVP. Marktcijfers, Investeringen. [Investeringen (nvp.nl)](https://nvp.nl)

These figures corroborate the view of some experts that the Dutch government is making an effort to act as a catalyst on the Dutch funding markets, including the VC market, through which it can promote certain economic, societal, or environmental ambitions. The government has played a large role in expanding the Dutch VC market, and it has done so through multiple means, including direct and indirect investment. The two direct investment vehicles that immediately come to mind are the Dutch National Promotional Institution or NPI (i.e., Invest-NL) and the Regional Development Agencies (ROMs), regional agencies aimed at strengthening the economies of their respective regions.

Starting with the ROMs, the objectives are to support innovative projects and business cases, increase collaboration between stakeholders in their region, attract foreign businesses, and invest in innovative growth companies, with a maximum ticket size of EUR 5 million [29]. A main benefit of the ROMs is that their investment horizons are not dictated by predetermined relatively short periods in which they have to return money to investors, meaning they can stay invested with longer time horizons, as long as the company continues to develop itself. A 2022 review of their performance over the 2016-2020 period is generally positive, as the ROMs were primarily seen to invest in niches that the private market stayed away from, having done so with a positive investment result, and SMEs showed appreciation for the services the ROMs provide [29]. Furthermore, some experts stated that the ROMs are well-equipped to help startups attract financing and go through early development phases. However, others have noted that the ROMs' regional orientation can lead to regional competition, instead of focusing on general prosperity in the Netherlands as a whole.

With the ROMs being regionally focused and investing up to EUR 5 million, they cannot provide the capital required for both revenue-generating companies that require serious growth capital to expand, or for capital-intensive startups, such as in the deep tech and biotech subsectors, that need their first production line to start generating revenue. Before, these companies had to primarily rely on a (relatively) small VC market in the Netherlands, which usually only invests in companies that already generate revenue. However, Invest-NL has been added to the options pallet in recent years.

It was founded in 2019 as the first Dutch NPI since the Nationale Investeringsbank was privatised in 1999 [30]. Invest-NL's primary role is financing innovative SME companies, focusing on the energy transition, but it also has a business development role. Unlike the ROMs, Invest-NL focuses primarily on tickets above EUR 5 million [29]. This slightly different focus allows for collaboration and passing on investment opportunities, which may help pre-revenue startups with larger capital needs to find the required solution. One of its key aims is to facilitate investment cases that would not work with purely private market participants.

However, establishing and calibrating a vehicle for public investment is challenging. Newly established Invest-NL, focusing on working side-by-side with the private market rather than as part of it, has a different mandate than private funds. A 2022 mid-term evaluation of the organisation concludes that, with the relatively short period of its existence at that time, it was still an evolving institution, building up its reputation and investment portfolio [30]. At the same time, it also calls Invest-NL an important instrument in the government's toolkit, which has done much work quickly [30]. The organisation seems well-equipped to step into gaps in the financing market, such as the one they identified in the quantum computing sector [31]. So while on its own Invest-NL cannot be considered the ultimate solution to create fertile grounds for VC investment, it is certainly a good development.

The government also has indirect "investment" vehicles through which it aims to stimulate markets and specific innovations. One such vehicle is the National Growth Fund (Dutch: Nationaal Groeifonds), which is a subsidy scheme that "allocates funding to projects with the highest potential of contributing to [the Dutch] national earning capacity or, in other words, to sustainable economic growth" [32]. Estimates are that by 2040, the Dutch investment funds in place, including the National Growth Fund, can contribute to an additional welfare gain of EUR 90 billion and that every euro invested in the National Growth Fund can create a sixfold return in that period [33]. While Nationaal Groeifonds can be considered a successful, well-organised initiative, with a very positive impact on Dutch society, it should be complemented by a well-functioning capital market. This provides initiatives subsidised by the National Growth Fund an opportunity for further financing, because, as one investor mentioned, "otherwise it is just another pot of money wasted."

In summary, with VC as a main financing option for fast-growing small enterprises in the Netherlands, the growth of this market is positive, but still far from enough. Governments, institutional investors, VCs themselves and related stakeholders all have different and important roles to play in maturing this market further so that companies in their early growth stages can continue to be well-financed.

3.3.4 Scaled-up and established corporation, but not large – PE zone, IPO candidates – GAP 2 – too small for liquid public markets

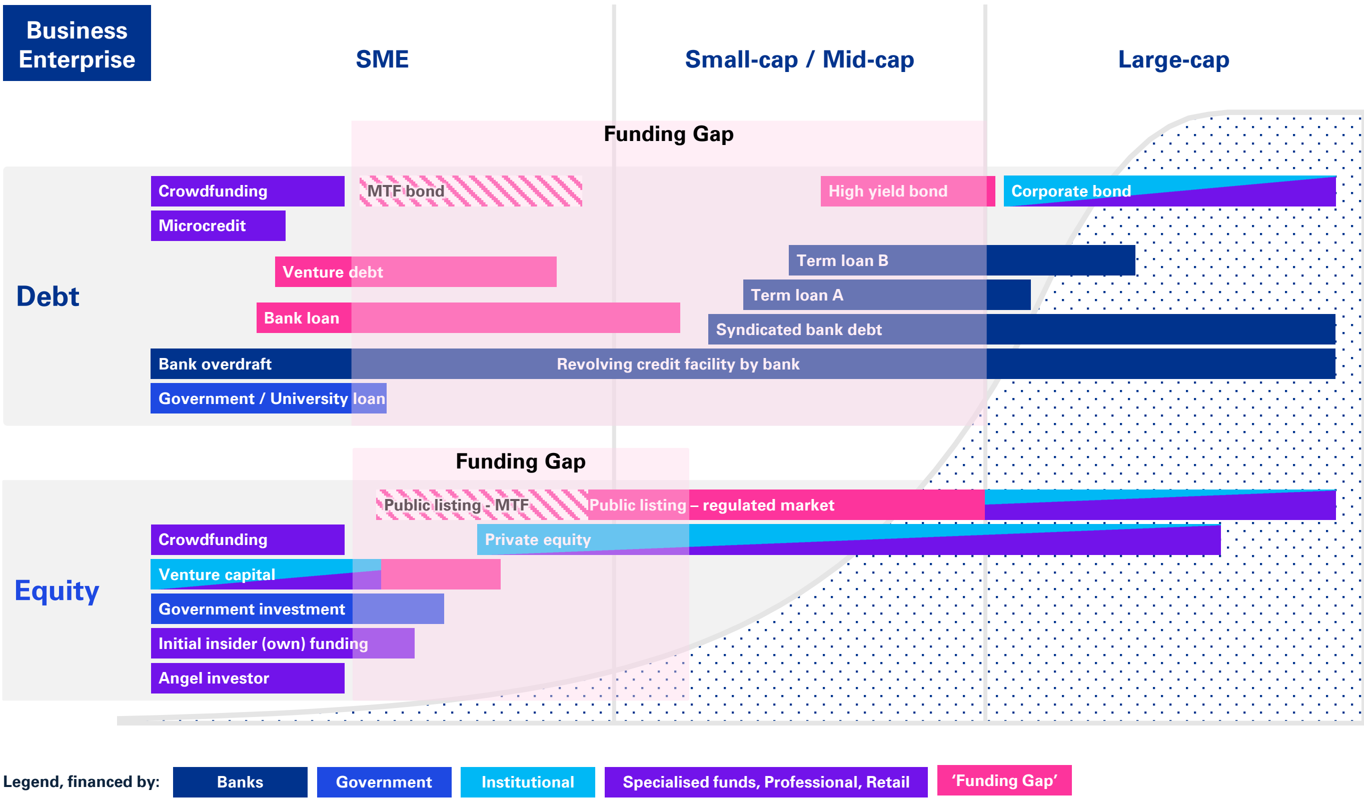
Once a growing company finds its way past the status of small enterprise, it becomes a medium enterprise. If it is fast-growing at this stage it may be called a scale-up. This is also known as the growth stage, where a company starts to gain market share, scales its production or service capacity and develops into a mature company with a defined business and operating model. One can imagine these steps require capital, particularly in capital-intensive manufacturing industries. However, it is also a stage where attracting enough debt financing is not easy. The EU lags behind the US in number of scale-ups per capita [34], which can be primarily attributed to the lack of financing options within the EU [34] [35]. Simply put, the EU has a gap in its scale-up financing. On top of this, research shows that the Netherlands is behind its EU peers in its ability to scale [36] and its startup financing [37], meaning the gap in the Netherlands is even larger than in the EU.

The interviews have confirmed this, with many agreeing on a funding gap, which starts with the scaling phase and ends once a company becomes a large cap. In this phase, it is hard to find financing in the Netherlands. The consensus is that this gap can be roughly quantified as funding needs between EUR 10 million and EUR 200 million. Many of the financing options one would expect here are insufficiently available, as visualised in Figure 19[2]. In addition, some experts stated that entrepreneurs at these stages sometimes also simply lack the know-how to actually find the right financing options, even if available. This section focuses on the medium-sized enterprise, roughly matching the scaleup gap known as the VC "Valley of Death", while the next section focuses on the gap within the small/midcap phase.

[2] Note that the simplified figure may not accurately represent the chain for all companies, with Deep Techs, for example, often running into many of the same issues before they are medium enterprises.

Figure 19

The funding gap plotted on the simplified capital markets chain.



The funding gap for medium enterprises applies to both debt and equity raising. In equity raising, Dutch VC funds are simply too small to fund the significantly larger requirements – as highlighted in the previous section (3.2). In addition, the government investment power that now drives a significant portion of the VC market is lacking in the following "growth capital"[3] segment. Capital requirements of scale-ups are more extensive, but government investment in these companies has been a factor of three to ten less than in the VC stages during 2013-2022 [9]. These figures align with what some experts state: government-linked investors exit 'too early' for some companies. Subsequently, these struggle to find alternative means of financing and sometimes even go bankrupt. As one expert puts it, the question is whether these companies have become wholly dependent on government subsidies. Some argue that, at this point in its growth curve, a company should be investible for the markets, or else it may not have a long-term future. While an answer to these arguments is beyond the scope of this report, it is clear that, currently, the allocation of Dutch government-linked funds is less directed at the scaleup segment than at the startup segment.

> **"There is no money for this segment. When something becomes a proven product, with a proven market and has to be 'upscaled', the government says: "Guys, you are finally making money, now it's up to the market, and not up to us anymore." Meanwhile, Dutch institutional investors still find this too early a stage at which to invest. Then your only true investment community comes from abroad, countries such as the USA, China, and Singapore"**
>
> **Investor**

[8] Series D and later growth capital, based on [9].

This scaleup segment also represents the start of PE's presence in the growth company market. While PE investments in growth capital have increased sevenfold during that period, the total volume is still limited at EUR 1.5 billion invested in growth capital in 2022 [9]. Furthermore, experts noted that the PE companies focusing on these relatively smaller scale-up companies are a niche. Institutional investors are, for many of the same reasons as discussed with regards to VC, not necessarily interested in being invested in this specific PE market. This niche of smallscale PE is, after all, not far from VC in its essence. The result is that, while PE provides an alternative source of equity in this stage, the cumulative size of this niche is simply not enough for the Dutch market by itself. Additionally, a healthy market needs alternatives. Next to VC and PE, a third route for raising equity at this stage is entering the public market, through MTFs – alternatives to the regulated stock markets. However, the Dutch MTF market is small and unable to fund capital requirements in the tens of millions. While Euronext's Growth and Access markets have succeeded in countries such as France, Belgium and Norway, Euronext's Dutch 'Alternext' market had to shut its doors in 2014, as a result of a lack of investor and (investment) bank interest [38]. Studies on why these other markets do work, unlike the Dutch ones, seem lacking. However, one may speculate. Perhaps, with the stronger home biases of France (e.g., [26]) and Norway (e.g., [28]) covered earlier, there is more domestic institutional interest in these growth markets than could be expected in the Netherlands. This may be the reason these markets are kept alive and seemingly thrive to this day.

It has been noted during the interviews, that the current Dutch MTFs (e.g., NPEX, Nxchange and Captin), still lack the (institutional) investor base and liquidity to post listings of above EUR 10 million. Almost all MTF investments are made by retail participants, with institutional and government-linked investors not allocating capital to this market segment. However, the number of active retail investors here is small. One important reason for the lack of retail investors may be the aforementioned lack of tax benefits for investing in these smaller companies. These investments are generally riskier than those on the regulated markets, and the higher growth potential (or interest rates paid in the case of bonds) seems not to offset that risk enough to make the risk-to-reward ratio attractive to a large group of (retail) investors. Tax benefits could skew the weighting, attracting more investors, which would benefit the Dutch SME market and economy as a whole.

"The point is, I think the ideology is fantastic, but the reality is different. People think that momentum can easily be made, but I don't believe it can."

Investor
Investor, on the current state of MTFs in the Netherlands.

Even if equity can be raised, debt financing is also a stumbling block for scale-up companies. Bank loans, overdrafts and revolving credit facilities (RCFs) have traditionally been the means of debt financing for this segment. However, as discussed in more detail in (3.3), banks' willingness and capacity to lend have decreased, as more stringent regulations have left banks with a more risk-averse stance than previously. As a result of ongoing cost pressure and a continued drive for digitisation of bank lending, volumes towards SME clients (including startups) have decreased. Banks used to be somewhat active in equity and subordinated debt for key clients in their key market (the Netherlands), whose activity has also decreased. Hence, other debt financing methods are required to fill the void. 'Non-bank financing' is what some call the collective of all financing options not involving banking, including the previously discussed crowdfunding and microcredit. As highlighted in (3.2), this non-bank financing is expanding, but research shows primarily in the smaller ticket sizes for micro and small companies [12] [39], in line with the finding that Crowdfunding is quickly gaining ground, rather than for the medium enterprises. Interviewees closer to the medium-sized enterprise financing market note that this market is also slowly growing. There are more suppliers of capital than ten years ago, and more institutional asset owners and managers are looking to add debt instruments for larger SMEs to their portfolios, or have already done so in the past ten years. In some experts' experience, this had to do with both the low-interest environment, where SME loans can offer a premium over a government bond, as well as the tangible, societal impact these investors can make while being actively involved in setting the terms of such a loan. While the data is spotty, the non-bank Direct Lending market for larger SMEs seems to be growing indeed. Where non-bank Direct Lending of loans over EUR 250,000 to SMEs totalled EUR 67 million in 2019 [40], that number almost quadrupled in 2022 to EUR 220 million [12], growing each year in between[4]. However, even this growing number pales compared to the roughly EUR 110 billion in SME loans above EUR 250,000 that the three largest Dutch banks had outstanding in the first quarter of 2023 [41]. In other words, direct lending by non-banks is growing, however, this market cannot fill the gap left by the conventional banking sector. Once again, the public market seems the logical other option, specifically the aforementioned MTF market. However, this market is small, with the current investor base being the limiting factor. For example, NPEX, the largest of these platforms in bonds, had EUR 173 million placed over its lifetime as of 2022 [143].

In conclusion, we see a significant funding gap on both the equity and debt spectrum for (fast-growing) Medium enterprises. while new direct lenders are stepping up and the growth of VC stands out in particular, these financing means can still not provide the required growth capital in the phase that forms the start of the funding gap in the Netherlands.

Those enterprises that outgrow their SME status and become large enterprises seem to be better equipped and able to finance their business. Private Equity is more likely to step in during this phase of company growth and international capital markets become more easily accessible. However, some troubles remain in the Dutch world of financing. In the 2013 version of this report [144], there was a strong focus on the role of the public stock exchange in financing economic and business growth. The stock exchange was seen as an entryway to the capital markets for small and midcaps, which allowed them to diversify their (equity) financing sources. However, in the decade before the 2013 report's publishing, only EUR 6 billion of equity was raised through IPOs of Dutch companies. For context, that is the equivalent of one larger midcap company's market capitalisation (e.g., Arcadis having a EUR 5.2 billion market cap at the time of writing [44]). Several factors played into the state of the stock exchange at that time, and these have not all been reversed, as shown in figure 20.

Figure 20
Trends that affected the state of the stock exchange in 2013, adapted from [144].

Regulatory framework	Made investing in stocks less attractive Increased regulatory pressure made getting and staying listed more difficult Professionalisation of the pension sector, such as fiduciary asset management, led to less direct investment	**These developments made listing less attractive for companies**
Delistings	De-listings of companies that were acquired by foreign companies, making Dutch listing superfluous	
Investment strategy	Opening of Eurozone markets had widened investment horizon, leading to more diversification Increase of index investing, stock picking had become less popular	
Macro-economic	Instability of financial environment due to global financial crisis Shift towards investment in developing economy such as Asia or BRICS	
NYSE-Euronext	NYSE Euronext focus on large-caps, not in line with Dutch market NYSE Euronext focus on larger markets, which less focus on the Netherlands	
Investors (in general)	Investors were looking for the cheapest trading platforms, causing fragmentation Rise of ETFs / index investing for mid- and large caps Lower activity and retail investor volume	**These factors had negative impact on liquidity and thereby exchange attractiveness**
Market makers	The Dutch exchange is relatively small in comparison to other exchanges, causing less activity ECB policies reduced volatility in the market Potential Financial Transaction Tax had large impact on financial markets	

Legend (Similar) Trend still ongoing | Trend no longer ongoing

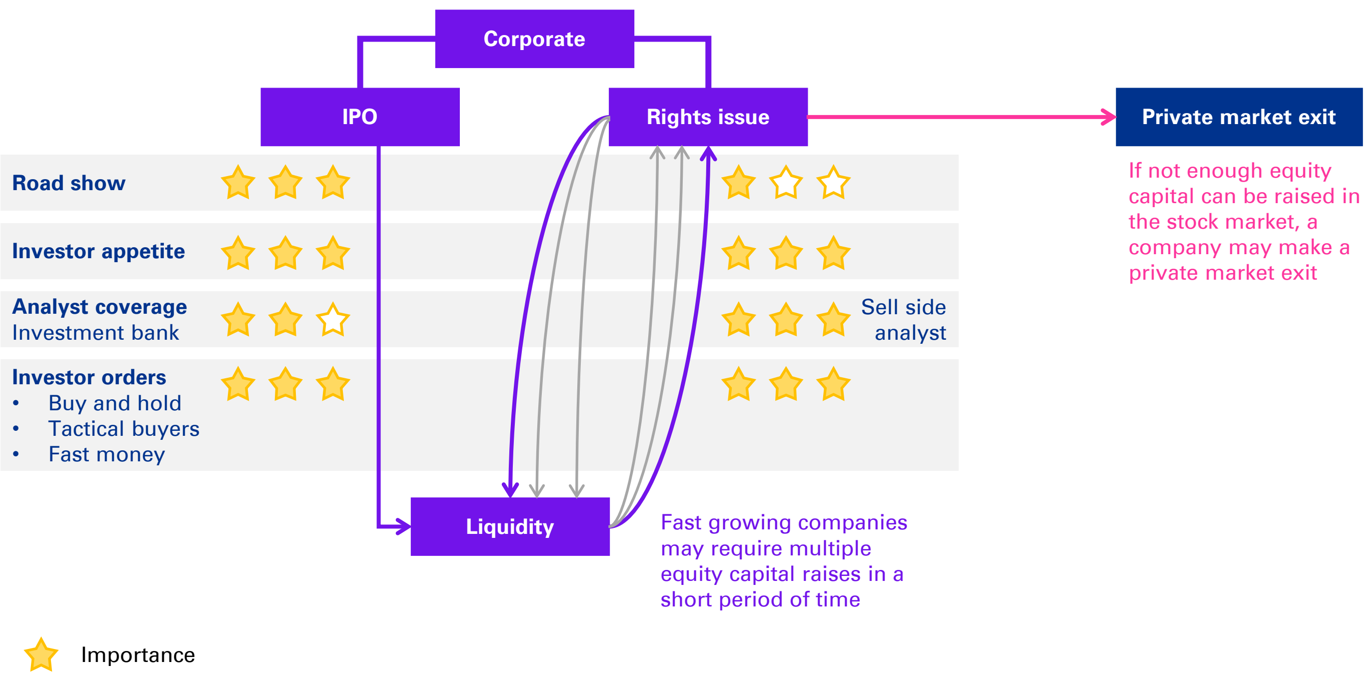
[4] Note that this data likely does not depict the full market view, as Stichting MKB Financiering states their data depends on the input they receive from market participants. Therefore, this should be taken as an indication of market size, rather than hard fact.

3.3.4.1 Once IPO-ed – the relevance of research for key investor types

While the rigor of the current EU and Dutch regulatory framework has already been discussed, it is also specifically applicable to listings and listed firms. Experts have noted that the regulations surrounding publicly listed firms impede the efficiency and effectiveness of doing business and that the listing process takes a significant chunk of an organisation's resources, both in terms of human and financial capital. A concrete example given by an expert is that of remuneration policies. These policies must be meticulously scored and detailed for listed firms, while privately held firms can quickly reach an agreement on a policy that works for them and then move on with daily business. These types of regulations are said to be continuously increasing, slowing down decision-making and speed of execution. This is especially hard on small and midcap firms, as they generally have fewer resources than their large-cap counterparts. In addition, public companies are, in the eyes of several experts across sectors, more short-term oriented than privately held firms, due to quarterly/half-yearly reporting requirements and investors in public companies being generally more short-term focused. This is said to distract these firms from their long-term strategies.

From an investor/market perspective, regulation has also been seen as somewhat detrimental to the functioning of public markets. For example, strict MiFID-II regulations have significantly reduced sell-side research in the EU [45] and are also said to have reduced investors' interest in small-caps [46]. These points show that strict regulations still negatively impact the attractiveness of public equity investing and listing in the small and midcap segments.

Figure 21
Schematic view that shows the importance of liquidity and research on stock market capital raising



Importance of liquidity and sell side research to investors		
Investor type	**Liquidity**	**(Sell side) research**
Buy and hold	★☆☆	★★★
Tactical buyer	★★☆	★★☆
Fast money	★★★	★☆☆

Figure 21 visualises the process steps a corporation goes through in raising equity capital through the stock market. In preparing for its IPO, a corporation mandates an investment bank to guide it through the process. After a careful preparatory phase, investor roadshows are held, in which investors are introduced to the company. Depending on the significance of the IPO (size, sector, name recognition, etc.), equity analyst coverage is initiated. The investment memorandum and equity research papers form the basis of the information that is used by many institutional investors in their investment analyses. In case the roadshows are well received and the equity market is in a stable and supportive stance, the transaction is launched. Based on their views of the IPO and their appetite, investors will place orders. Generally speaking, if the demand for the stock exceeds the supplied amount of shares at the price indicated, the IPO is launched. Subsequently, secondary market liquidity in the newly listed stock can be high or low. Post-IPO low liquidity does not mean newly listed shares underperform; similarly, post-IPO high liquidity does not mean an unsuccessful IPO. Generally speaking, liquidity is driven by 2 main factors: 1) news flow around the company, and 2) which type of investors have been involved to what extent in the IPO. For rights issues, a similar process is followed though with less emphasis on roadshows. At this stage, a number of sell side research analysts are likely to be following the stock (depending on market capitalization). These analysts are able to give (more) independent buy or sell recommendations, whereas investment banks are not able to do this. This makes the role of Equity Research in rights issues very important.

Three investor types

Both liquidity and (sell side) analyst research play an important role in securing investor orders, and thereby driving the amount of capital a corporation can raise at IPO or in subsequent rights issues. Generally speaking, three types of investors can be distinguished:

- **Buy and hold:** Investors that buy a company for its fundamentals and are unlikely to sell within a few years. Stock liquidity is less of an issue for them, while fundamental company information (including that of sell side analysts) plays a large role in their investment decisions. These investors play an important role for both newly listed companies, as well as for well-established listed multinationals. They form the anchor investor base for the company, which ideally grows along throughout the company's development. These investors are also named real money investors and tend to be Pension funds, Life Insurance companies, Asset Managers and some family offices.
- **Tactical buyers**: These investors have a long-term conviction in the company, but are more likely to try and time the market: buy low, sell high. This makes both fundamental company information and stock liquidity important factors in their decisions on whether to consider a company for investment. These investors can be real money investors as well as hedge funds.
- **Fast money**: These investors have largely momentum-based strategies, making a stock's liquidity hugely important – as they need to be able to get in and out at high speeds and frequencies. Fundamental company information plays less of a role for these investors. These investors are almost always hedge funds or proprietary fund managers.

3.3.4.2 The impact of investor strategies

The trends that drive public equity investors and their strategies also remain relatively similar to those in 2013. Passive investing, the strategy of following an index, is still becoming ever more widespread [47]. Furthermore, retail participation in this market is still reasonably low, as explored in chapter (4.1.4). On top of that, institutional investors are said to be generally focused on large-caps and fund investing as this is where liquidity and analyst coverage are typically available.

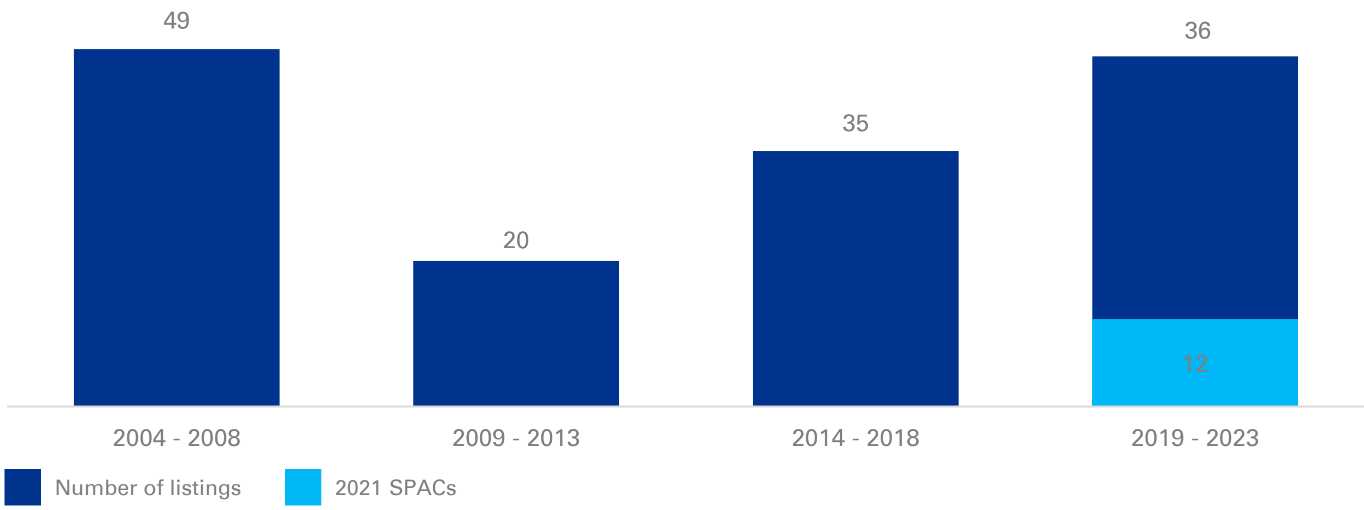
More specifically on smallcap stocks, a number of experts note that Dutch institutional investors are generally not interested in Dutch small cap funds, nor IPOs. This combination of low (active) retail and institutional participation, further negatively impacts liquidity and subsequently dampens public equity valuations for small – and midcaps. However, raising capital with a high valuation and having sufficient liquidity in the stock are some of the main reasons to choose for public capital raising in the first place. Furthermore, with large chunks institutional money also coming from abroad, an array of experts[5] all noted that foreign investors have less vested interest in the long-term success of Dutch firms than Dutch investors would, as it is not their home country. This combination of factors limits the attractiveness of the Dutch public markets for small and midcap funds, just like in 2013.

[5] From companies to investors and from the VC world to the PE world.

3.3.4.3 PE driver to farewell to a listing?

The trends of regulatory pressure and investor behaviour negatively impacting the small and midcap markets is further intensified by the rise of private equity over the last decade. PE firms have entered the market with significant investment resources, able to buy out small and midcap companies, increasing the private market's attractiveness. Although linked to the delisting trend we observed in 2013, it differs significantly. With the five-fold growth of private equity investment in the Netherlands in the 2013-2022 period [9], not only are more corporations being delisted, but they also seem to be less in favour of choosing to list in the public market, as can be seen in Figure 22. It should be noted that in this figure, the 2019-2023 figures are highly skewed by the rise of special purpose acquisition companies (SPACs[6]) in 2021. In 2021, no less than 12 SPACs were listed on the Amsterdam exchange. Therefore, without the SPACs, the total number of listings for the 2019-2023 period is only 24. This is significantly less than in the five-year period before that, and only half of the companies were listed in the five-year period leading up to the global financial crisis. In fact, this number is comparable to the number of companies listed in the 2009-2013 period, right at the peak of the global financial crisis and the following Euro-crisis.

Figure 22
Number of listings on Euronext Amsterdam [49] per five year period, filtered for Direct Listings, IPOs, and SPACs only.



Note that this includes both listings of SPACs and the subsequent listing of their business combinations.

The growth of PE and the preference of firms to stay private can be attributed to factors on both the demand and supply sides. The low-interest rate environment that prevailed over most of the past decade allowed PE firms to leverage their acquisitions at low rates and forced institutional investors to seek returns in asset classes other than fixed income, such as PE [50]. Within the more illiquid asset classes, large allocations have been made to PE. This increased the supply of capital available in the PE market and pushed international PE firms to look for investment opportunities abroad, including the Netherlands [50]. Simultaneously, regulatory pressure and public scrutiny have been increasing, predominantly for publicly listed firms. Another factor is a seeming misalignment in focus. Institutional investors require periodical (i.e., quarterly) updates by management on the underlying business, either directly or via equity research analysts providing them assessments. However, corporate management teams prefer to focus on the industry. Many corporate management teams prefer PE ownership over public listing, as PE ownership allows them to focus on their core business of operating the company, rather than being distracted by more short-term themes that generally prevail in publicly listed companies. It is perceived that, although PE owners typically are more intensively focused on corporate KPIs, their style is usually more focused on long-term value creation. This was also noted by numerous experts. The combination of increased public scrutiny and regulation, as well as the long-term focus that private ownership can bring, has affected the demand for capital. This above fact has made PE perhaps the go-to option for raising equity capital and the one market segment where the funding gap that this report identified is clearly not applicable.

[6] SPACs are empty shell companies, formed and listed specifically for the purpose of acquiring an existing company and bringing that company public.

3.3.4.4 Role of Euronext?

Regarding the position of Euronext, the view is more mixed than in 2013. Interviewees generally express quite positive views on the work of the Dutch operation to attract companies to the Amsterdam exchange and keep them there. These efforts seem primarily made to attract large caps, which have been relatively successful, examples being UMG and the recent listing of CVC. But there are also concerns with regard to the perceived dominance of the French and Italian branches within the firm, the lack of effort that is made to have Dutch firms list their bonds on the Dutch exchange (please see the section below on the debt markets), and the reduced collaboration with other actors in the Dutch market. According to several interviews, the perceived dominance of the French and Italian Euronext branches seems to have led to less availability of resources dedicated to the Dutch public capital market.

While this study cannot provide an in-depth explanation of this matter, it is clear that Euronext has become a company focused on the broader European Union. This will likely have led to a situation in which local interests are not always considered to the extent that they were in the past when the Dutch Exchange was a local firm. This means that one might speculate that more could have been done to stimulate the Dutch capital market over the past years. Despite those concerns, experts do not point to Euronext as the critical influence in decreasing the public market's attractiveness over the past decade. Most experts appreciate the efforts that are currently being made by the exchange. They see Euronext, like the other market participants, as having to deal with a tough set of external conditions for the public markets, such as volatile interest rates and increased regulation.

3.3.4.5 No Dutch public listing, no Dutch PE

Next to the Dutch public markets and PE, there is one other route that several experts have highlighted as an option for Dutch small-caps and midcaps to raise equity. However, unlike raising equity through listing on the Dutch exchange or selling to a PE firm, this option does not bridge the gap in the Dutch equity market. The option being talked about here is listing abroad. In the US, for example, equity valuations are higher than those in the EU on a price-to-earnings ratio basis [51] [52]. This has driven some Dutch companies to consider and opt for a US listing over a Dutch one. Additionally, European peer exchanges such as those of Frankfurt and Paris seem to have gained some relative attractiveness compared to Amsterdam, as noted by some advisors who have worked on public listings in recent years. Experts state that several factors are potentially in play here, but explicitly mentioned a decreasing attractiveness and stability of the Dutch fiscal and regulatory landscape.

In summary, a number of factors have made the Dutch stock market a more unattractive option for equity raising for small and midcap companies than in 2013. The primary factors seem to be the EU-wide low liquidity and valuations on the one hand, and a high perceived bureaucracy and regulatory pressure in the Netherlands on the other. Private equity and foreign listings have increasingly become the go-to form of raising equity capital for small and midcap companies. The funding gap in equity for medium enterprises is partially filled here by PE, but the Dutch capital market does not offer any good equity alternatives to small and midcaps.

“The Netherlands now gets more red check marks in those comparative overviews of listing locations than before. Especially following what happened with the dividend tax, and the plans to potentially tax share buybacks, we now get more red ones.”

Advisor

3.3.4.6 Scaled-up and established – how to find debt financing

In debt markets, the situation is similar in a way, except a strong Dutch private market to back up the lack of a public market that is not there. First, as further elaborated upon in chapter (3.1), the Dutch banking market has difficulty fulfilling the financing needs of small and midcap companies. The loans they require are typically too large a ticket for a single bank to fulfil, at which point club deals come into play. Club deals are arrangements in which banks, and sometimes institutional asset managers, cooperate to achieve a full debt transaction together. As noted from the interviews, in its basis, this market works fairly well within the Netherlands. However, there is one issue in this market: with only three large banks significantly offering these services, and all three under strict asset concentration regulations, the Dutch club deal market can only finance so many club deals before their books are "full." And while institutional asset owners are slowly dipping their toes in the club deal market, their presence is still limited. This means that there is currently not enough capital available in the club deal market to have this market segment fully matured. In other words, the banking market for small and midcaps is presently unable to fully finance the amount needed for the capital markets chain to work optimally on the debt side. This is one of the reasons for the funding gap on the debt side in the EUR 10 million to EUR 200 million range. The public market is a logical next station one might turn to for financing, however, for the debt financing of small and midcaps, it has limited impact. At this stage in a company's life cycle, it would turn to the regulated exchange for issuing its public debt, generally in the form of a high-yield or investment-grade corporate bond[7].

Of 821 bond listings on Euronext Amsterdam, only 21 are issued by non-financial Dutch private sector companies[8], 18 of which are by companies in the AEX or large-cap index [53]. These 21 bonds have been issued by only five companies in total. This shows that the Dutch exchange is generally not the preferred place for Dutch non-financial companies to list their bonds, especially not for small and midcap companies. Industry experts interviewed agree that issuing bonds only really starts being attractive for financing needs above EUR 500 million. For smaller transactions, costs are relatively high for issuers, and attractiveness is low for investors due to the bond not being large enough to be included in a bond index and thereby not matching investors' profiles. However, the size of a EUR 500 million debt instrument generally does not fit what small and midcaps require. Thereby, the lack of options can be seen as another illustration of the perceived EUR 10 million to EUR 200 million funding gap on the debt side.

A further point is that the Dutch public market is not optimally geared towards debt issuance. The main reason is that the time required for the whole process of listing a Debt Issuance Programme (DIP) or stand-alone bond issue prospectus for a bond in Amsterdam is significantly longer than in Dublin or Luxembourg. In Amsterdam, it takes approximately three weeks compared to the usual one to two weeks. Interviewees state this is primarily due to the longer AFM approval processes. The Dutch government and regulators do not seem to focus on listing debt on the Dutch exchange, and several experts state that this lack of focus is also seen in the Euronext exchange itself. With Euronext Amsterdam being part of the same company as Euronext Dublin, steering all bond issuance through Dublin makes sense from a corporate perspective. Therefore, there is not necessarily an incentive for Euronext to focus on getting more debt listed in the Netherlands, if regulatory approval processes take longer in the Netherlands than in Dublin. Over time, these factors will likely also improve the overall experience of debt listing in Ireland and Luxembourg, which will make those markets even more efficient. While listing debt abroad is not necessarily an issue for companies, it does mean that the Dutch public debt market is not developed to the extent possible.

[7] A high-yield bond is a corporate bond of a company with a lower credit rating (BB+ or lower), whilst anything with a higher rating (BBB- or higher) is called 'investment grade'. Whilst the simplified capital market chain shows high-yield bonds as mid-cap instruments in order to roughly visualize bond workings, mid-caps may very well have an investment grade credit rating.

[8] Private sector companies here refers to companies not being public utility or semi-government companies.

With the Dutch banking and public market having a debt funding gap in the EUR 10 million to EUR 200 million range, one might turn to private placements amongst institutional investors or other forms of private debt as the last option left. However, as aforementioned, the Dutch market is also unable to fully fill that gap, as interviewed experts agree. For example, in the 2008 to 2016 period, Dutch corporate issuers generally turned to the US private placement market, the German Schuldschein market or the French Euro Private Placement (Euro PP) market for their debt capital needs not met by banks [54], i.e., to foreign markets. Since then, the landscape seems not to have changed much, as experts during this study still pointed to the German Schuldschein and US private placement market as 'the place to be'. The standardisation offered by the German Schuldschein market was cited as a big advantage in attracting institutional investors, something the Dutch market currently cannot. Combined with lacking a standardised private placement market for this debt segment, there also seem to be too few providers offering other, more bespoke solutions within the Dutch borders. This might be what drives companies abroad, which is not necessarily an issue for the companies, but it is another part of the Dutch market that is not fully functional. The good news, however, is that the private credit market is growing, both in Europe [55] and within the Netherlands specifically [56]. Different options for raising debt capital within the Dutch private markets are becoming more widely available, such as private debt funds, sometimes following the PE structure with limited partners, sometimes structured differently, and lending platforms.

The conclusion then is that the funding gap in Dutch market financing, which was identified as a concern largely for SMEs, continues through to the midcap and the more asset-rich yet still small-caps market segments. In both the equity and the debt side, there is a gap in the Dutch market, with Private Equity playing a significant role in bridging that gap on the equity side. For this segment, as opposed to medium enterprises, the financial markets are more internationally oriented. As a result, companies of this size have more options for attracting capital internationally, such as debt in the German Schuldschein or French Euro PP market. In short, while the Dutch market functions sub-optimally, there are bright spots, as well as international alternatives, both within the EU and outside of it.

3.3.4.7 Large-cap – equity and debt available

The final stop is the large cap company or its private equivalent of a similar size. The market for the so-called large caps is even more international than that for small and midcaps. These are the largest and most famous firms a country has to offer, which both attract more international (investor) attention than any other firm and require amounts of capital that local investors often cannot fully deliver. Furthermore, their size generally creates stability, allowing them to devote more resources to transparent reporting and stakeholder management, such as investor relations. This size may also mean they have reached much of their growth potential and will focus more on paying out profits to investors through dividends or share buybacks. Transparency, strong investor relations, and paying out profits are all characteristics that investors traditionally like. This is true internationally and also in the Netherlands.

The Dutch PE market for these large-cap firms functions relatively well for a European market. The same issues that small and midcaps encounter, namely low liquidity and low valuations, are much less of an issue in the Dutch large-cap market, defined here as the AEX index, than in its smaller components. Bid-ask spreads are lower and order book depth is higher for AEX stocks than for the smaller ones [57], suggesting higher liquidity and a lower risk of undervaluation [58]. This liquidity primarily comes from two types of investors: investment banks and proprietary traders, which account for over 80% of all market transactions in the Netherlands [57]. Investment banks trade for their own account, but also as intermediaries for institutional investors, retail brokers and proprietary traders. Proprietary traders can provide significant liquidity to markets, as aforementioned. This is even more true for market makers. Market makers are a type of proprietary trader whose business model is to provide liquidity in stocks, by being active on both the bid (buy) and ask (sell) side of a public stock and making money off of the difference in price between the two (i.e., the aforementioned bid-ask spread). In the 2013 report on the state of the Dutch capital market, some market and regulatory difficulties were highlighted that impacted the attractiveness of the Dutch exchange for market makers (and by extension, other proprietary traders) [144]. Since then, the Dutch market has been able to capitalise on changing market conditions, Brexit in particular, to attract 47 new financial institutions (head) offices, amongst which several proprietary traders [59]. This has improved Amsterdam's standing as a 'trading capital' in the eyes of experts and could positively affect liquidity.

“Amsterdam as a trading capital has been strengthened. Trading platforms, proprietary traders, a lot of them came here. That is positive. What is a worrying development, however, is that the liquidity in our European capital markets is lagging behind compared to the US and the APAC regions.”

Interest Group

However, liquidity remains lacking in European markets [60] and the Dutch market. Furthermore, the regulatory pressures and challenges to the business climate that were expanded upon earlier, also exist for large-cap companies. So while the Dutch public market works relatively well for Dutch large-caps, it is not necessarily the be-all and end-all for raising equity capital. These large Dutch companies also have other options for raising equity, such as foreign exchanges, or PE. Similar to how PE works well for small and midcaps, it does so for large-caps. However, there is one caveat: size. At some point, companies become too large to be bought out and raise capital through PE. ASML is the most valuable AEX-listed firm at the time of writing (early 2024), with a market capitalisation of roughly EUR 350 billion. For comparison, half a year earlier, CVC raised the largest PE buyout fund in history, totalling EUR 26 billion [61]. Blackstone, one of the largest PE firms in the world, has USD 139 billion in Corporate PE AUM, of which USD 36 billion available to invest, at the time of writing [62]. These figures indicate that, while perhaps still possible, at some point a company's size is simply too large for raising equity capital through a partial sale to PE to be practical.

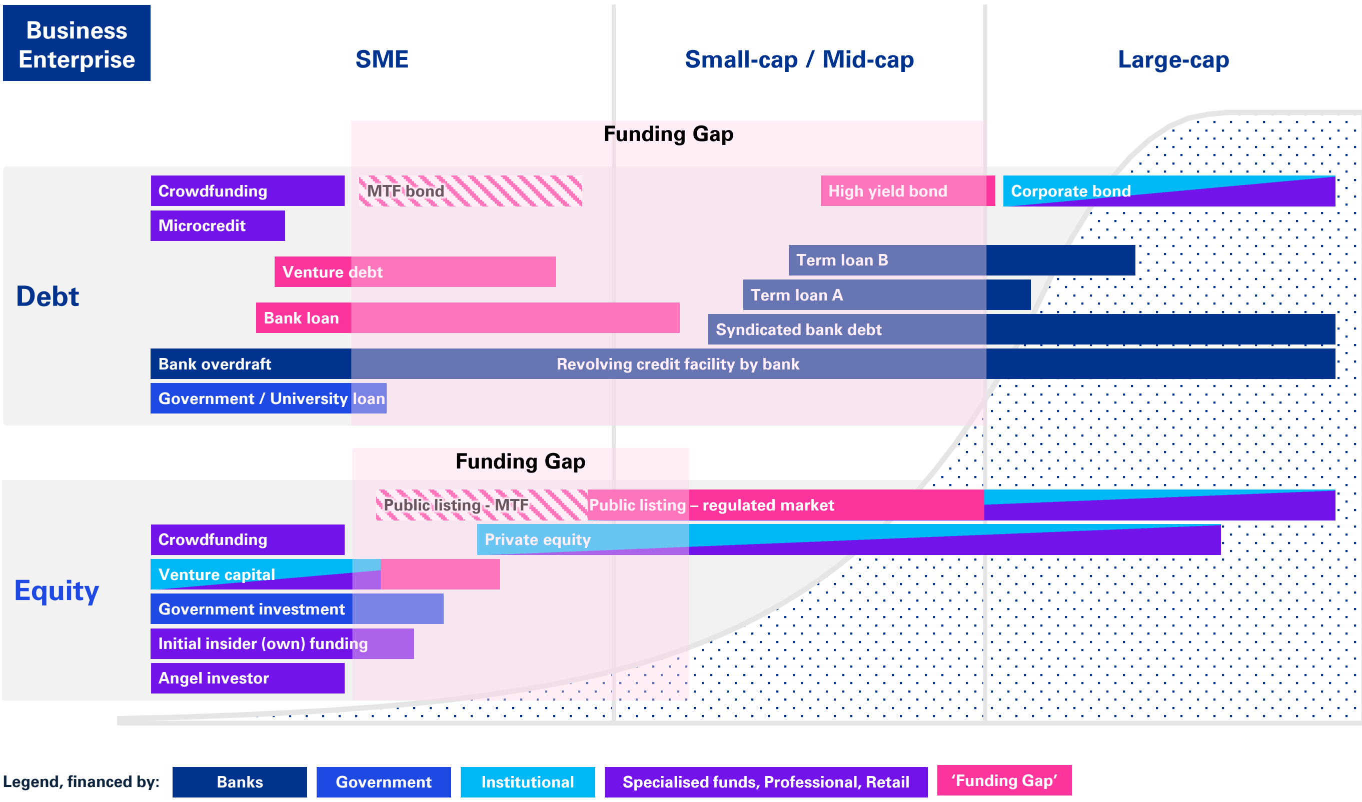
With Dutch public markets and PE functioning well for large firms, accessing fresh equity is not necessarily a problem. Debt financing for firms of large cap size is also easier than for small and midcaps, albeit not necessarily within the Netherlands. This is due, in part, to these firms' funding requirements generally being larger, more often reaching the abovementioned EUR 500 million notional threshold for bonds. Additionally, larger companies generally have higher and more stable profits to support their debt repayments, which allows them to issue investment-grade corporate bonds. However, as discussed above, these bonds are generally not listed on the Dutch exchange but on foreign exchanges. Another reason it is easier for these large firms to raise debt capital is their reputation. As several experts noted, once one's reputation is well-known and good enough, investors, including banks, are eager to be associated with and finance a company. This makes it easier for the largest firms to attract bank financing or do private placements. Despite that, according to experts, the fact remains that the sheer volume of the Dutch term loan B (TLB) market[9], investment-grade bank syndication and private debt markets are small and companies generally have to look abroad for their financing. In the Netherlands, we simply have fewer large banks with keen balance sheets for non-investment grade profile issuers. This coupled with the fact that Dutch institutional investors are not very keen on private debt and taking part in syndicated loans (e.g., TLBs), makes the debt continuum less favourable in the Dutch capital markets chain.

So in summary, the truly large enterprises have it easier to attract financing than the small and midcaps. Whether debt or equity, all signs point to this being mainly due to their size, profits and corresponding reputations preceding them. As a result, financing in international markets and by international investors, specifically, becomes easier. The Dutch stock exchange functions better for large caps than for small and midcaps within the Dutch borders. However, in other market segments, there are no clear indications that the Dutch market functions better for large caps than for smaller companies.

3.4 In summary: the Dutch capital markets journey – smooth travel with some bumps ahead

Figure 23

The funding gaps plotted on the simplified capital markets chain.



[9] The market for loans in which institutional investors take part in wider, usually non-investment grade, loan syndications.

The Dutch capital markets chain is built upon a long legacy of its stock market and banking landscape. With banks unable to act as the undisputed providers of credit of the past, the equity investment landscape is shifting away from smaller public markets, and some of the critical technologies of the future are very capital-intensive to develop, and gaps have opened up along the chain. These gaps exist across all sectors for medium enterprises (less than 250 employees) and small and midcaps, valued up to ±EUR 3 billion, but also specifically in capital-intensive (e.g., deep tech) industries for companies looking to scale into early commercial production. Furthermore, gaps exist in both the debt and equity sides. In terms of equity, the VC market is growing but needs to mature further to play a role for deep tech companies. PE is a market that has proliferated but should not be the only option for medium and large enterprises to rely on.

On the debt side, the "retreating movement" that banks have understandably made, cannot yet be fully accommodated by other parts of the system. This leaves a significant gap for medium enterprises, which have few different options, where the small and midcaps are able to resort to foreign private placement markets such as those in Germany and France. In conclusion, the cumulative funding gap between equity and debt can be quantified as being roughly EUR 10 million to EUR 200 million, with the PE market being an exception as the gap here seems to persist across the small and midcap market, valued up to ±EUR 3 billion.

This chapter has demonstrated that the Dutch market has not yet been able to fill those gaps. Combined with the increasingly challenging business climate, this has put the Dutch business community's ability to grow and the financial community's ability to maintain its leading reputation under pressure. It is clear that action is needed to keep Dutch business and finance competitive.

4 Looking ahead – shaping the Dutch capital markets

The Dutch capital market is robust and has a strong and stable basis. With a large pool of investable assets (e.g. pension funds), the Netherlands has sufficient capacity to meet future financing needs. A vast amount of new Dutch companies emerge, grow, and develop, creating many investment opportunities for investment. At the same time, past and current successes do not guarantee future successes and the Dutch capital market's competitiveness and efficiency are strongly affected by critical decisions and long-term investments made today. To ensure the Dutch capital market is optimally leveraged and can effectively fulfil its role in long-term welfare creation for society, continuous improvement, and the flexibility to adjust to trends is required. This is to remain competitive in the international playing field in which it operates. In this chapter, we assess the status quo and look ahead at the conditions required for the future success of our Dutch capital markets chain. As the Dutch capital market is firmly embedded in the European and global markets, this chapter explores the Dutch capital market in an international context.

"Change is the law of life. And those who look only to the past or present are certain to miss the future"

John F. Kennedy[10]

4.1 We need a deeper Dutch capital market – why?

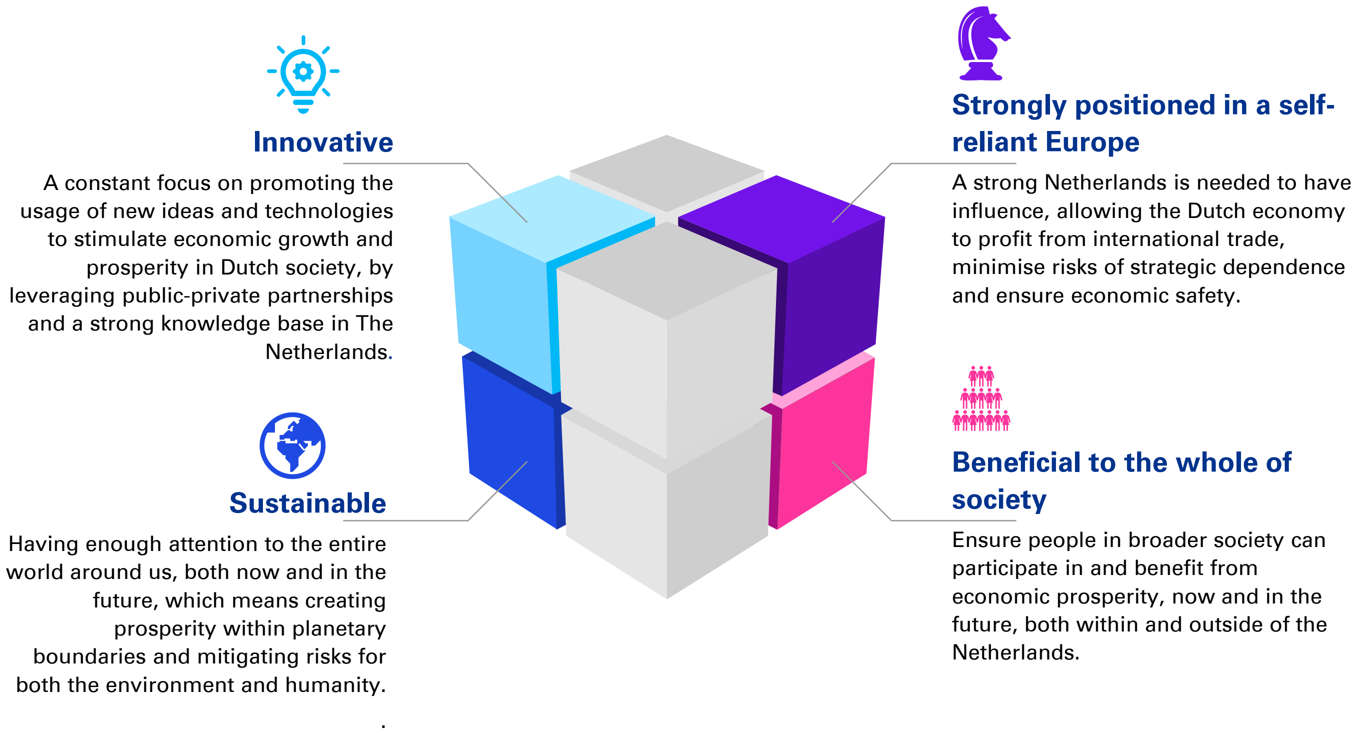
In the upcoming decade a significant public and corporate capital requirement is expected. This expectation is mainly driven by developments in the macro environment and ambitions of the Netherlands striving for general prosperity and a higher level of independence. The sectors in which the Netherlands and Europe traditionally have a strong and powerful reputation are under pressure. These developments will also shape how the government and companies innovate and invest.

In June 2023, the Dutch Ministry of Economic Affairs and Climate Policy (EZK) published "Perspective on the Dutch economy: Innovative, sustainable, strong and prosperous" (Dutch: "Perspectief op de Nederlandse economie: Innovatief, duurzaam, sterk en welvarend"), a report detailing its perspective on the future of the Dutch economy. This report helped inform the cabinet's vision of the Dutch economy and advocates for a more robust Dutch economy strengthened through innovation and sustainability, and positioned in a self-reliant Europe for the benefit of everyone [67]. However, a creative, sustainable, strong and prosperous country requires continuous investment (i.e., equity and debt financing) and a substantial ecosystem supporting the Dutch economy.

[10] Speech at Paulskirche, Frankfurt, 25 June 1963

Figure 24

Visualisation of the four building blocks of a future-proof economy aimed at maximising general prosperity in the Netherlands. Based on the four pillars identified in a report by the Dutch Ministry of Economic Affairs and Climate Policy (EZK) [67].



The Dutch capital market is an integral and key part of the ecosystem required to support the real Dutch economy and general welfare for Dutch individuals and our society as a whole. A properly functioning capital markets chain connects supply and demand for capital and financing and provides access to capital to invest in, and help realise, a prosperous future for the Netherlands. However, Dutch society and politics do not always see this as such. The capital markets as a whole are not always viewed in a very positive way by society and politics. The credit crisis has resulted in a deterioration of political and societal trust in the capital markets in general and hence similarly in the Netherlands. Also, capital markets are simply less embedded in Dutch culture.

To mitigate the risk of overdependence on international capital markets, and adequately contribute to the needed transition of the Dutch economy, conditions for success will need to be created for the Dutch capital market. These conditions are covered in the following chapters. This chapter aims to explore the Dutch capital market in the context of the real economy and general welfare of the Netherlands, as well as the recommendations for addressing this disconnect and a Dutch capital market positioned in line with the interests of the Netherlands.

The Netherlands has had a long-standing reputation for being a highly competitive economy, with a good business climate [68]. In fact, since 2013, the Netherlands has risen from the fourteenth to the fourth spot in 2021 on IMD's World Competitiveness ranking [69] [70], a significant improvement. The main factors that have contributed to this improvement are advancements in the institutional (legal and administrative) framework, the market infrastructure, and labour market quality and competitiveness [71]. In addition, experts of the current study cited a strong and internationally oriented service ecosystem of banks, law firms, auditors and consulting firms. Furthermore, corporate law is (still) cited to be relatively favourable by a number of law firms.

"I still believe that the flexibility of Dutch corporate law, allowing one to choose to structure corporate governance in a certain way, helps to attract companies. I believe it is more attractive than most other European countries. At the same time, it is also not the case that majority shareholders can just do whatever they want, like in some other countries. The Netherlands is not a 'banana jurisdiction'. Within Dutch corporate law, I believe we have found a perfect balance between flexibility and sufficiently robust protection of stakeholders, including minority shareholders."

Advisor

However, in recent years, there have been signs of the Netherlands losing its edge [68], showcased by it slipping from the fourth position it occupied on IMD's World Competitiveness ranking in 2021 to the sixth position in 2022 [70] and large companies such as Aegon, DSM, Shell and Unilever moving their domiciles away from the Netherlands. Similarly, in its 2023 monitor of the Dutch business climate, SEO found that Dutch companies rated the Dutch business climate a 6.4 out of 10 in 2023, where they rated it a 6.7 in 2022 [72]. An early 2023 survey amongst Dutch companies showed similar results, namely that over 60% of companies are of the opinion that the Dutch business climate has deteriorated [73]. The aforementioned 2023 monitor by SEO sheds some light on potential reasons why the Dutch business climate may deteriorate. Companies operating in the Netherlands mainly see room for improvement in the areas of tax regulations, both corporate (e.g. withholding tax, taxation of share buyback programmes) and individual (abolishment of the 30% rule), business facilitating rules and regulations, the general public's (voiced via our parliament and national press) sentiment on the business sector, the energy infrastructure and financing opportunities [72] [74] [75].

During the interviews, these themes were also discussed, sometimes stating that, although still strong, the Dutch business climate seems to be under significant pressure. Common pressure points cited during the interviews are an increasing bureaucracy, ever stricter and constant changes in regulations, regulators that are perceived to be overly strict at times, and labour shortages exacerbated by a decreasing attractiveness for high-value adding foreign migrant workers (in part due to cutbacks on the 30%-ruling). A 2023 study provides more background to this sentiment verbalised by experts, indicating that companies increasingly make new investments abroad rather than in the Netherlands [76]. This is made even more concrete by some large Dutch corporations that have indicated they are increasingly looking to invest abroad.

Although the Netherlands still boasts one of the most competitive business climates globally, it is clear that the favourable Dutch business climate is under pressure. This puts the capital markets chain under pressure, making the Netherlands less attractive for entrepreneurs and investors, evidenced by the aforementioned increasing investments abroad.

In June 2023, the Dutch Ministry of Economic Affairs and Climate Policy (EZK) published its vision for the current state and future of the Dutch economy [67]. The publication noted some strengths of the Dutch economy in the entrepreneurial spirit, collaboration, strong infrastructure and high-quality research and science. Simultaneously, the low number of startups growing to become scale-up, the small Dutch total addressable market (TAM) and the fragmented European capital market were denoted as weaknesses in the economy of the Netherlands. In light of this, the conclusion was drawn that the Dutch economy is strong and innovative, but is also under pressure from geopolitical and national developments.

4.1.1 What is prosperity?

Welfare does not equate only to economic growth. While economic growth is still frequently used to measure welfare, growth is not the only factor affecting welfare. Neither does economic growth consider the future and whether - or how - existing choices, efforts and/or policy affect welfare in the long term. [77] Welfare in this study refers to general prosperity (Dutch: brede welvaart).

General prosperity is often described in generic terms like "simultaneously weighing and steering on economic goals as well as in the social and cultural area, the living environment and our democracy" [78]. For the purpose of this study, the definition of Statistics Netherlands (Centraal Bureau voor de Statistiek, CBS) is used. This definition is used for the so-called monitor of general prosperity, which provides politicians and society an insight into the development of general prosperity in the Netherlands as well as reflecting on the state of affairs with regard to the Sustainable Development Goals (SDGs) of the United Nations. It is also in line with common international definitions. [79]

"Broad prosperity concerns the quality of life here and now and the extent to which this is at the expense of the broad prosperity of later generations or that of people elsewhere in the world." [80]

4.1.2 Safeguarding prosperity – why does Dutch society need large amounts of funding?

The Dutch are used to being at the forefront with the Netherlands being considered one of the richest, happiest, and healthiest countries in the world building upon a strong dynamic and versatile economy. However, the world around us is changing quickly [67]. In order to maintain its level of welfare, the Netherlands will have to face a number of challenges and long-term trends impacting its society and economy. Consequently, the Dutch capital markets chain must develop in parallel to provide the required capital and funding for these changes.

The Netherlands and the Dutch capital market are relatively small. Therefore, a Dutch capital market that makes smart choices and effectively puts to work its capital can contribute to improving the general welfare and prosperity of the Netherlands. It requires a vision for the Dutch capital market: An optimally functioning, focused and competitive Dutch capital market, strongly embedded in a well-functioning EU capital market (CMU), is required to achieve our ambitions. Our ambitions are focused on high-end innovations, sustainability and transitory innovations, circular economy, productivity-increasing technology, and world-leading infrastructure.

While the list of key drivers we mention below is far from exhaustive, it illustrates the context the Dutch capital markets chain will operate during the coming years.

4.1.2.1 Climate change

The United Nations estimates current global policies in place to be in line with a 2.8ºC increase in global temperature by the end of the twenty-first century [81]. The probability of drought, heat, waterlogging and flooding is increasing, and the consequences of climate change on public health, safety, and the economy in the Netherlands will be significant [82]. Climate change can be limited by minimising greenhouse gas emissions. In contrast, major risks and climate damage can be prevented by adaptation to the effects of climate change, for example by rendering urban and rural areas climate-proof and water-resilient [83].

In 2015, the Netherlands signed the UN Paris climate agreement. Under this agreement, close to 200 countries agreed to limit global warming to a maximum of 2°C and to pursue a maximum of 1.5°C. Keeping global warming below 2°C will require radical and large-scale measures [84]. On 28 June 2019, the Dutch Climate Agreement was published (Dutch: Klimaatakkoord) to achieve a 49% reduction in greenhouse gases by 2030 (compared to 1990) [85].

Regarding climate adaptation, water management systems must be restructured and built areas must be constructed/transformed to be climate-proof and resilient [83]. Similarly, circular strategies will be important to make supply chains for the products we make or consume in the Netherlands more sustainable [67] as climate change and loss in biodiversity will have significant consequences for natural resources [86] [87] [88].

To achieve the Netherlands' climate, nature and circular goals, more public and private investments are required in technology, new (energy, water, buildings and built area) infrastructure and skills [67]. As such a deep and well-functioning Dutch capital markets chain focused on startups, initiatives and existing companies requiring funding to contribute to this will be a precondition for maintaining general prosperity in the Netherlands.

4.1.2.2 Geopolitical shifts

Geopolitical developments and power shifts will put pressure on the competitiveness of the Netherlands and Europe. This pressure will manifest itself in economic indicators for an open economy such as the Netherlands [67]. With ongoing conflicts and the resurgence of great-power competition, 2024 is set to be another year of extraordinary geopolitical volatility [89].

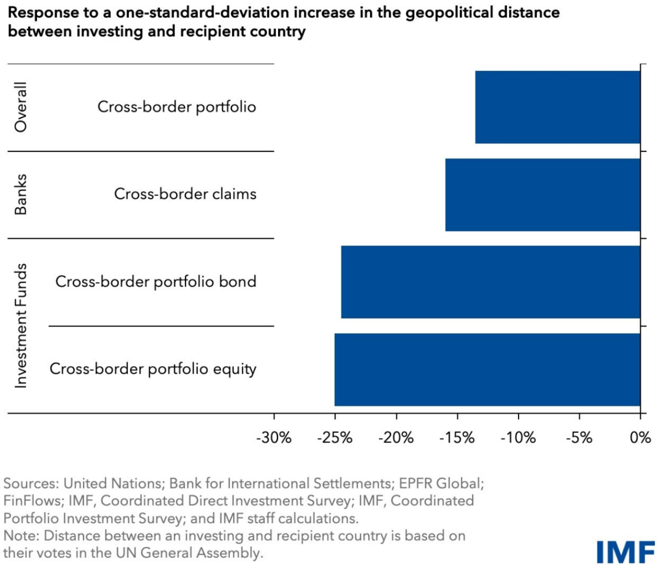
The Russian invasion of Ukraine, the Israel-Hamas war, and US-China trade tensions, combined with economic downturns, and the aftermath of a global pandemic have hit international commerce. New tariffs and nationalistic industrial policies are often seen [90]. Globalisation is an economic reality, as well as the need to cooperate on global threats [91]. Regardless, among others, the US is expected to be more inward-looking in terms of its policies [92]. Such policies will likely result in an era in which globalisation is met with a strong focus on local interests [93].

Geopolitical tensions also affect capital allocation, with investment funds tending to reduce cross-border allocations, notably to countries with a diverging foreign policy outlook [94]. The geopolitical tension is also expected to start a trend of increased focus on investment in public initiatives and companies contributing to national security and defence, including digital security. Therefore, again, a well-functioning internal Dutch and EU capital market is needed to help ensure sufficient local investment power in the region, especially at times when international investments are declining.

Figure 25

"Geopolitics and capital allocation," International Monetary Fund (IMF): Geopolitics and fragmentation emerge as serious stability threats (April 5, 2023).

Greater tensions are associated with reduced cross-border allocation of portfolio investment and bank claims.



Source: [Geopolitics and Fragmentation Emerge as Serious Financial Stability Threats (imf.org)]

4.1.2.3 Scarcity

Energy and resources will be, once again, at the centre of the new economy and geopolitical landscape. Precious metals may join oil as they are considered integral to the smooth operation of the future global energy supply chains and related manufacturing [95]. Particularly in critical raw materials and clean technologies, the Netherlands and Europe are increasingly dependent on China. The geopolitical weight of other large countries, like India, Brazil and the African continent, is expected to become stronger towards the future [96].

Parallel to these global developments, the Dutch population is expected to grow to around 20.7 million by 2070 [97], while ageing. The so-called grey pressure, whereby the number of persons aged over 65 relative to the number of people of a working age (20-64 years), is likely to increase from 34.4% in 2023 to 48.7% in 2070 [98]. This will put further pressure on the labour shortages already experienced by companies in the Netherlands [99]. This combined with scarcity (in energy, raw materials, water, nature and space) in the Netherlands poses a significant challenge to maintaining current levels of prosperity.
It puts the Dutch healthcare system, pension system, which is currently undergoing massive reform, and the economy's future in increasing need of productivity gains.

Companies will only flourish in the Netherlands if they create maximum economic, societal, environmental, and social value per hour worked, emissions, released, limited raw materials and other scarce inputs, such as drinking water [67]. It will require intelligent choices on which part of the economy to put these scarce resources to work and finance to contribute effectively to general prosperity in the Netherlands. A solid Dutch and European capital market can contribute to financing the development of, for example, technologies that can mitigate these challenges contribute to the general prosperity of the region and foster political independence.

4.1.2.4 Technological developments

Technology can help overcome some climate, geopolitical, and scarcity challenges and contribute to the general prosperity of the Netherlands. One of today's 'hot topics', artificial intelligence (AI), is said to have the potential to boost the world economy's growth by two whole percentage points [100] and has the potential to create significant productivity gains, in certain cases even amounting to 37% [101]. Robotics also has positive productivity effects [102].

Above are merely two examples of the many impactful technologies that exist. In the Netherlands 44 key technologies (Dutch: sleuteltechnologieën) have been identified to provide the basis for deploying Dutch resources and EU co-financing [103]. These are the technologies in which the Netherlands excels scientifically and in which scientific and economic growth is expected in the coming years. Specifically, it concerns advanced materials, photonics and optical technology, quantum technologies, digital and information technologies, chemical technologies, nanotechnology, life science and biotechnologies and engineering and fabrication technologies [103].

Technology can have displacement effects, meaning it can cause higher unemployment. Usually, these effects are seen as undesirable, but in this case, technology will likely prove valuable in maintaining and growing productivity levels through the more efficient use of scarce human resources in the Netherlands and contribute to general prosperity in the Netherlands.

However, while technology is both a necessity and an opportunity for the Netherlands, the technology gap is growing compared to the US and China. China and the United States heavily invest in key digital technologies, strengthening their potential to set global standards and create strategic complex dependencies [105] [106]. Even within Europe, the Netherlands is losing strength on this terrain compared to our neighbouring countries, mainly when it comes to translating our knowledge into new products, services and green revenue models [67].

Provisional statistics indicate that in 2022 R&D expenditure in the Netherlands was 2.30% of GDP – approximately EUR 6.7 billion, which is too low for the 3% EU target – and lower compared to neighbouring countries, according to TNO [106]. If public funding continuous to lag - and the Dutch capital markets chain is not positioned to fill this gap in time, it can - and probably will - affect the long-term structural growth path of the Dutch economy and the Netherlands' ability to address societal challenges and will increase the need for private investments contributing to general prosperity. Again, a well-functioning Dutch capital market is at the basis of this theme.

4.1.3 How the capital market supports ongoing prosperity

The future of the Dutch capital markets chain and the long-term welfare of Dutch society are intertwined. A well-functioning Dutch capital market contributes to the real economy by connecting companies to the capital they need to innovate and grow faster, contributing to the real economy in terms of productivity and job creation. Furthermore, local businesses and SMEs generally grow alongside large Dutch companies as they supply goods and services to them, contributing to further economic growth in the region. A good example of this is ASML, whose presence in the Netherlands and Noord-Brabant region, creates many jobs and sustains many local SMEs.

As Dutch companies grow, the higher the income of Dutch companies' productivity, the higher the returns and taxes paid, and thus the higher Dutch public income and return for Dutch private households on their respective pension funds. This Dutch public income can be reinvested in the general welfare of Dutch society. Investments can be made in various good causes such as infrastructure, healthcare, national security, social security, education, and subsidies.

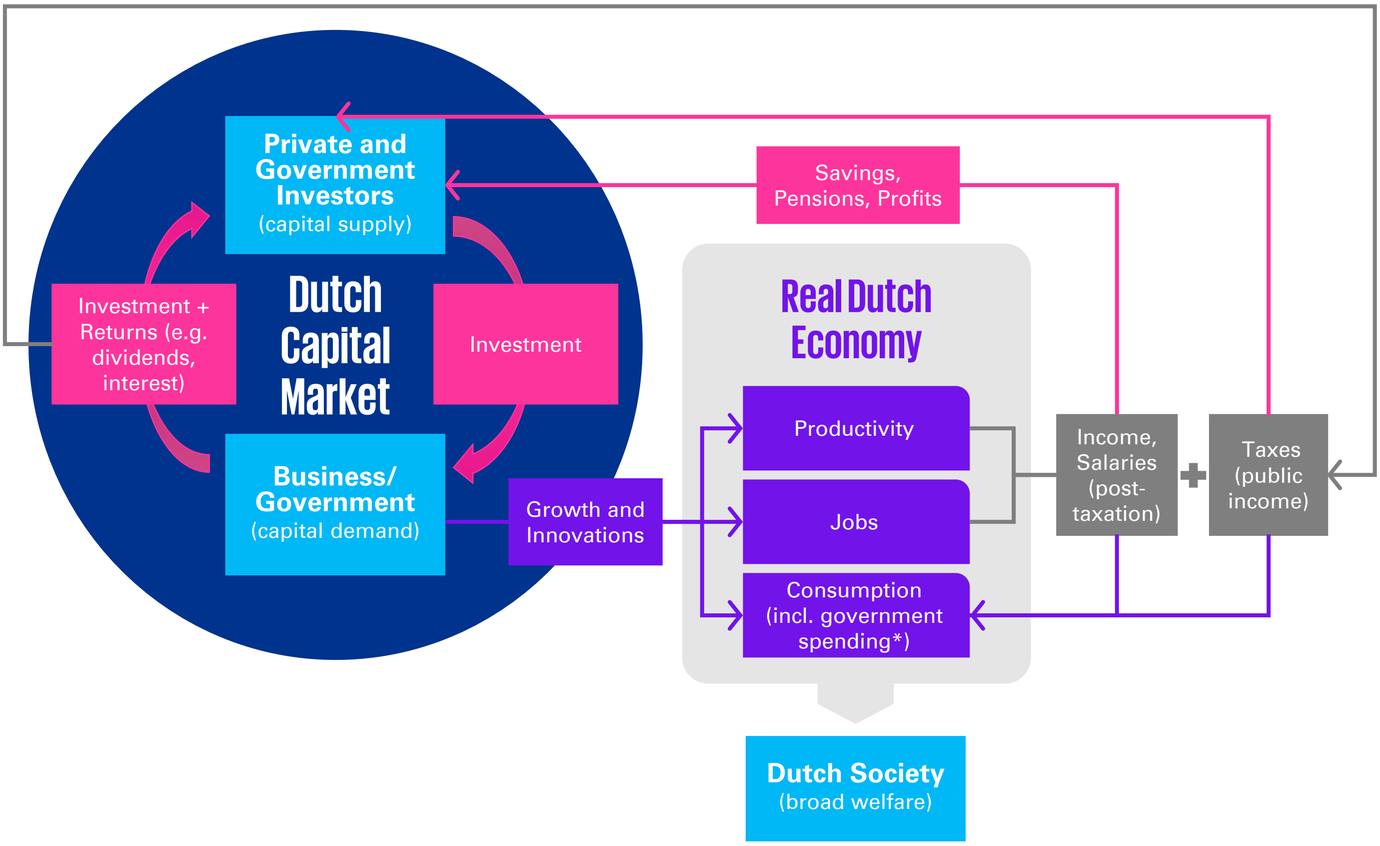
“Compared to countries around us, we have activated a lot of money through pensions, i.e. through the capital markets. So very large parts of companies are owned by Dutch households. Dutch households get the money made by the companies back in the form of returns because they are a shareholder in those companies through their pension fund”

Academic/Incubator

The Dutch government can also directly obtain capital on the Dutch capital market needed for government expenditures, thereby contributing to Dutch society. While investors observe some scepticism about making returns on public investments, it is essential to realise that the capital markets provide an alternative to raising taxes and/or taking the money away from other critical public services. The Dutch capital market can make large sums of capital available when additional capital is needed, for example, for the large investments needed to successfully complete the energy transition in the Netherlands, with the opportunity to spread the payment across multiple years/generations.

Figure 26

Visualisation of the Dutch capital market as part of the ecosystem that supports the Dutch economy.



An optimally functioning Dutch capital markets chain and the real economy reinforce one another, creating a positive feedback loop. As Dutch companies grow and innovate through investments from the Dutch capital market they increasingly contribute to the real economy of the Netherlands and thus Dutch society. However, a sub-optimally functioning Dutch capital markets chain can slow down or, in the worst-case scenario, halt this positive loop and thus, the growth of the Dutch economy and the country's general welfare.

> **"If Dutch companies are successful then the Netherlands has an income source, this results in a large government budget, which in turn can help us solve societal problems. It can even help subsidise art, culture, and asylum seekers. In the long-term, you will not make more public income by raising taxes, you will make more money by raising the income of the Netherlands by creating more earning capacity. However, socially there is little support for the Dutch capital markets as an enabler of welfare"**
>
> **Banker/Broker**

4.1.4 Capital markets are not well embedded in Dutch society

As we stated at the beginning of the chapter, the capital markets as a whole is not viewed in a very positive way by society and thus politics in the Netherlands. The credit crisis has resulted in a deterioration of political and societal trust in the Dutch capital market. A healthy and successful Dutch capital markets chain requires trust and support. Regulations and government tend to reflect a country's social, cultural and political environment and together with the credit crisis came a decay of the political and social support to care about the position of the Dutch capital market. This decay in support for the capital market was not unique to the Netherlands, or Europe, it happened all over the world. The main difference, in the view of the interviewed stakeholders, is that in other countries like the US, where the capital markets and investing are more embedded in the culture, the social and political support of the capital markets restored more quickly than in the Netherlands (and Europe). With the Dutch capital market (chain) not embedded in society, it is not surprising that it is not a focus point of political debate. This lack of attention to The Dutch capital market stands in contrast with the wishes for general welfare for the Dutch people.

The investment culture in the US is significantly different from that in the Netherlands and Europe. Individuals and corporations who rise to fame very quickly are easily and usually distrusted [108]. In the US success is celebrated and associated with pride. As a result, the Dutch generally have an uncomfortable relationship with money and success according to experts. Hence, while welfare is strived for, there also is a discomfort with success. If we want a successful Dutch capital market we will have to think big according to our experts. Thinking big goes hand in hand with reframing failure and being comfortable with celebrating success.

In the US an IPO is the crown on hard work and success, in the Netherlands an IPO means visibility and immediate scrutiny if a company's performance lags behind. In the US, entrepreneurship is valued, also if a company fails, people in the US appreciate that you tried. Peter de Waard describes it as one of the reasons why Alternext, the breeding ground or nursery for growth companies and success in France, was closed in the Netherlands [107]. Young companies fear going to the Dutch public capital market. Hence, even if you have a growth market in the Netherlands, the Dutch culture may be a barrier for Dutch companies to try.

The lack of respect or sense of ownership with the Dutch capital market (chain) is hampering the investment culture according to stakeholders. In the US the investment culture is supported by people being proud to be part of success, proud that a company can grow because of their investment in it. Similarly in Sweden, a market that is outperforming other European countries on the IPO market, particularly when it comes to bringing smaller local companies to the public market, the investment culture whereby all layers of society–"everyone from the man on the street to very engaged private banking investors, entrepreneurs, but also the small and midcap investment community, referring to institutional investors"–are strongly involved [109]. This is much less the case in the Netherlands. It was indicated by stakeholders in the Dutch capital market that if there were a closer link between the Dutch stock exchange and the success of companies listed here, it could change things. However, this leaves the Dutch public capital market and its stakeholders with the big challenge of engaging people and turning around the negative sentiment.

"The country shrugs its shoulders at the neglect of its own capital market. The Amsterdam stock exchange has never been the love child of politics and the The Hague establishment"

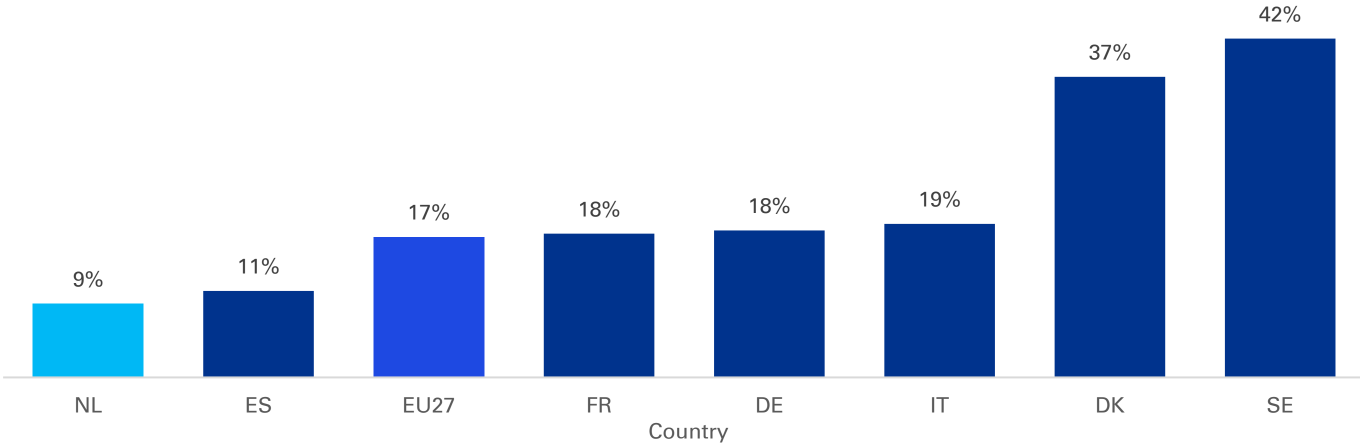
Peter de Waard [107]

"Look at VanMoof, what happened when they went bankrupt. The messaging around VanMoof was predominantly negative, while the successes that were achieved did not stick"

Academic/Incubator

Figure 27

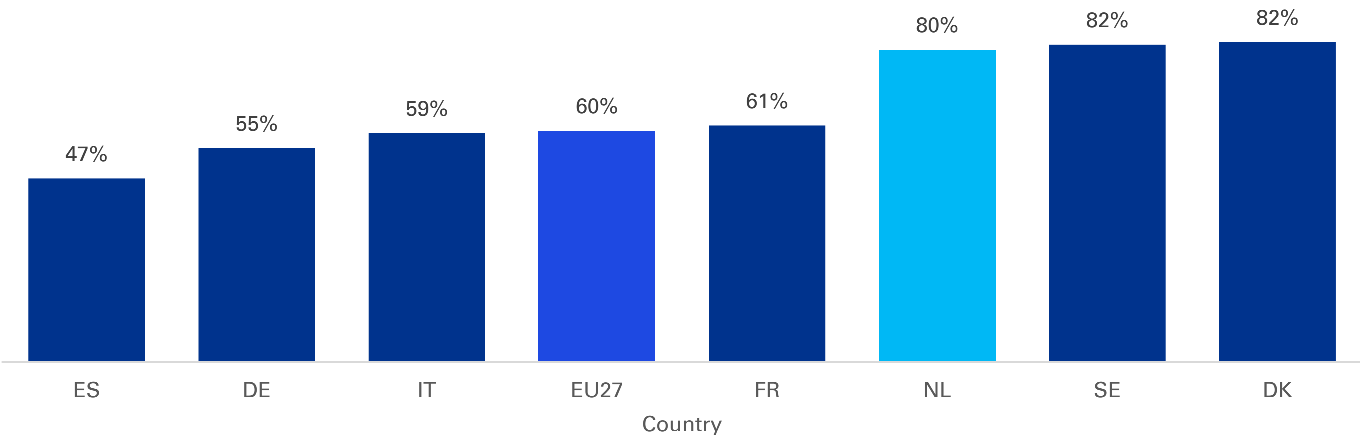
The sum of volumes of bonds and listed shares held by households relative to the sum of volumes of both cash holdings and deposits (2022).



Sources: European Commission [111]

Figure 28

The sum of volumes of bonds and listed shares and claims against non-bank financial intermediaries (i.e., investment funds) and claims against insurance and pension funds held by households relative to the sum of volumes of these and cash holdings and deposits (2022).



Sources: European Commission [111]

Around 20% of Dutch households personally invests[11], and just over 50% have no intention of ever investing [110]. On top of that, only 10% of the investments are made directly (i.e., buying single stocks or bonds) whereas the EU average stands at 21% in 2021.

However, Dutch investors invest almost 4 times more indirectly (e.g., through insurance or pension policies) than what they hold in cash or deposits, as shown in table 3.

Table 3

Household investments in the Netherlands versus the EU in 2021 [111].

Household investments in the Netherlands versus the EU, 2021			
Investment type	**Netherlands**	**EU average**	**Description**
Direct investments	10%	21%	Sum of bonds and listed shared directly held by households, as a % of cash and deposits
Internediated investments	398%	126%	Sum of investments funds and claims against insurance and pesion funds, as a % of cash and deposits

Sources: European Commission [111]

These figures point to Dutch people not investing much by themselves or directly (in stocks and bonds), but instead relying more on intermediated investments (which includes pension funds) to build wealth. This is further supported by, on average, over 90% of Dutch households' assets being either pension assets (including those built up through their employer) or real estate [112]. This all suggests that Dutch culture is not one of investing in the markets, especially not in individual companies, despite the Netherlands being the country with the third highest financial literacy within the EU [111]. This is recognised by several experts, primarily noting that saving generally takes precedence over investing, and the importance and usefulness of capital markets are not ingrained in most Dutch people's minds. This relatively low interest of retail investors may significantly impact the functioning of smaller-ticket private markets and the liquidity of the main public markets.

Furthermore, those who invest actively are noted to be very engaged within the Dutch market, both in the private and public markets. Amongst these are entrepreneurs willing to support those businesses where they invest. This touch of Dutch entrepreneurial culture can benefit those companies and help them grow throughout their early lifecycles.

With this example touching upon retail investing, the other side of the coin is also readily highlighted: alongside the importance of promoting retail investment, innovation and resulting economic progress, is the need for retail investor protection, as is recognised by both market participants [113] [114] and authorities alike [115]. The goal of promoting market participation on the one hand and the need to protect investors through regulation on the other hand can cause tensions, as the European Commission recognises [116]. Generally, working towards an open and safe economy can sometimes create tension between those goals. The interviewed authorities recognise this and constantly seek to improve government policies and regulations. Most market experts also reflected on the open view that authorities, both governmental and regulatory, took in the interviews. They praised the authorities' pragmatic attitude in equity listings and crowdfunding and their willingness to step into the markets where they perceive market failure [111].

Recommendation 1: Increased public-private collaboration

The efficiency of the connection between supply and demand plays an essential role in the functioning of the Dutch capital markets chain. This directly impacts the ability of both public and private entities to obtain financing at every step of the chain efficiently and effectively. However, the path from incubator to IPO in the Dutch capital market can be challenging, as it takes longer for companies to develop into an IPO on the Dutch public capital market.

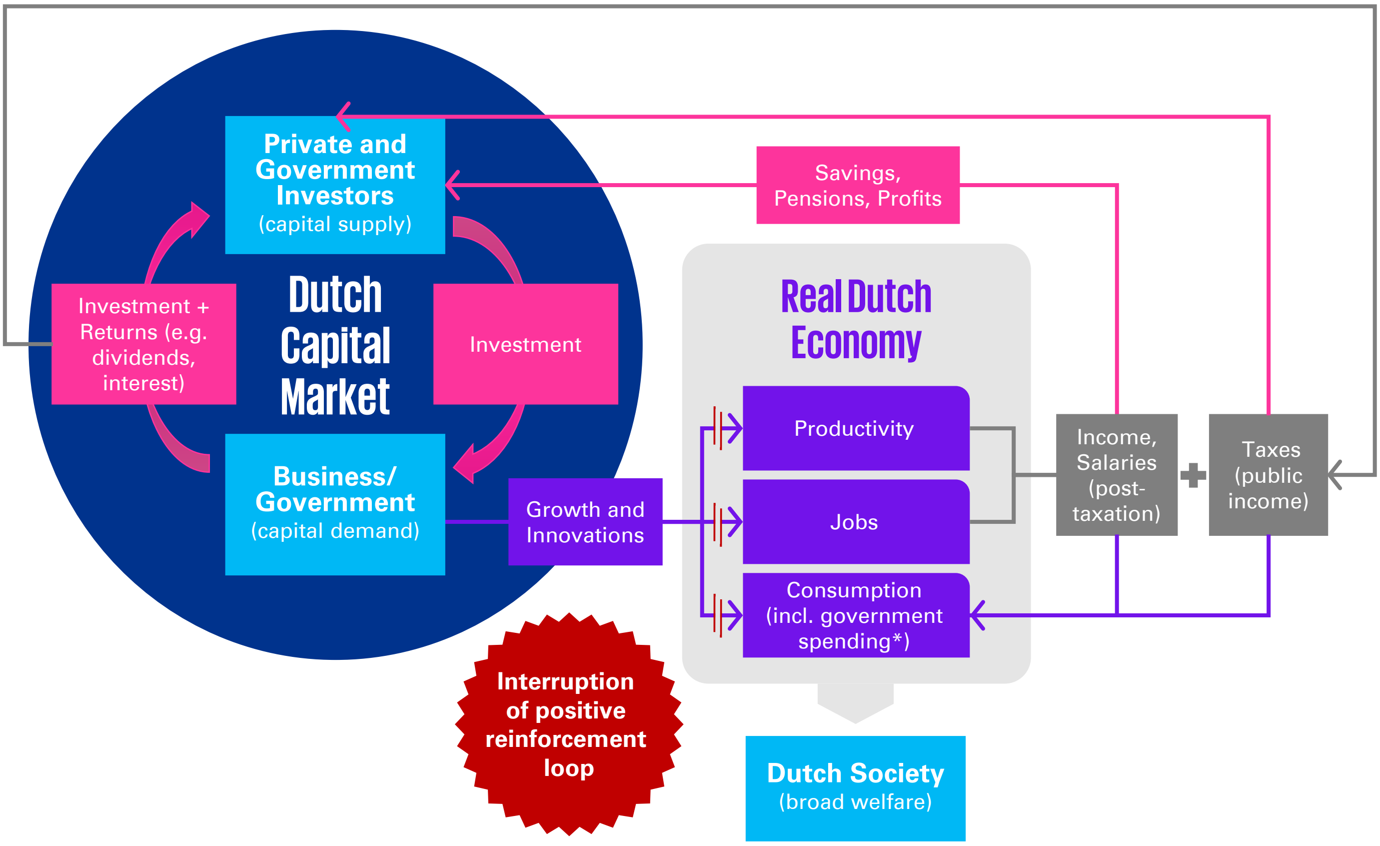
Startups operating in capital-intensive industries tend to leave the Dutch capital markets chain eventually. They usually do this to find more prominent VC or PE investors abroad with limited or no ties to the Netherlands or the EU. Alternatively, they may be acquired by a large international competitor. If a Dutch company moves towards the public capital market, Amsterdam faces intense competition from capital markets abroad, particularly the US.

Although Dutch companies leaving local capital markets or being acquired by foreign corporations might not impact the Dutch economy or general welfare directly, the company will likely leave its home base once listed or funded abroad. This, in turn, can affect the Dutch economy.

If a company leaves the Dutch capital markets chain, it may build a network of foreign advisors, banks, and investors. This could weaken the company's ties with the Netherlands. In some cases, the company may even consider integrating and moving its headquarters abroad to be closer to its network. This can be more efficient for the company's leadership, especially if the investment climate abroad is more attractive than in the Netherlands. As a result, senior roles and business functions may migrate to the new headquarters, causing a shift in suppliers and investments away from the Netherlands. Ultimately, this could lead to job losses and decreased tax income for the government to invest in society.

Figure 29

Visualisation of a subpar domestic capital market damaging the Dutch economy's ecosystem.



The business transformation process is often gradual and extended, spanning several years. However, once a business departs from the Netherlands, the impact on the country's economy and overall well-being can be significant and permanent. As a result, stakeholders in the Dutch capital markets are advocating for increased cooperation between private and public entities, including corporations and government, to improve the business climate in the Netherlands and strengthen the country's capital markets.

Stability is crucial for a good business climate and companies to settle in the Netherlands. However, the stability has decreased in recent years due to the uncertain direction of the economy and regulations. Therefore, providing a stable base for long-term policies and ambitions is more critical.

> **“Creating long-term trust and relationships and a good public/private collaboration, whereby there is frequent meetings and trust, is key to success.”**
>
> **Academic/Incubator**

Recommendation 2: Education on the relevance of capital markets

The Dutch Capital markets are lagging to other countries, such as US and Sweden, in terms of small-cap and mid-cap listings. This is partly due to the lack of engagement from the Dutch society. Changing this and promoting investment culture in the Netherlands require significant long-term effort from stakeholders in the Dutch capital markets.

Currently, many individuals in the Netherlands perceive investing as high-risk and only for the wealthy or large institutions. This view may be due to the warnings of risks and costs associated with investing, which EU regulators often overemphasise. Stakeholders question whether this has contributed to a preference for savings accounts over investing. However, investing can be beneficial to maximise one's assets, especially during high inflation.

Financial literacy in Sweden is more significant than in the Netherlands, and Swedish households hold a higher proportion of their investments in listed companies and a lower proportion in bank deposits. [109] Increasing financial literacy in the Netherlands may help people understand the costs, risks, and benefits of investing and how to invest their money in assets that align with their risk appetite. Education on investing will also be crucial as the new Dutch pension system will entail investing in individuals' pensions.

While separate educational programmes can contribute to increasing financial literacy, the capital markets will likely not be embedded in Dutch culture if they do not receive more attention in education. Educating the public on how investments contribute to general welfare and align with their personal financial goals will be essential. With a concerted effort from stakeholders, the Netherlands can improve its investment culture and compete with other countries in the global market.

Recommendation 3: The opportunity of glocalisation

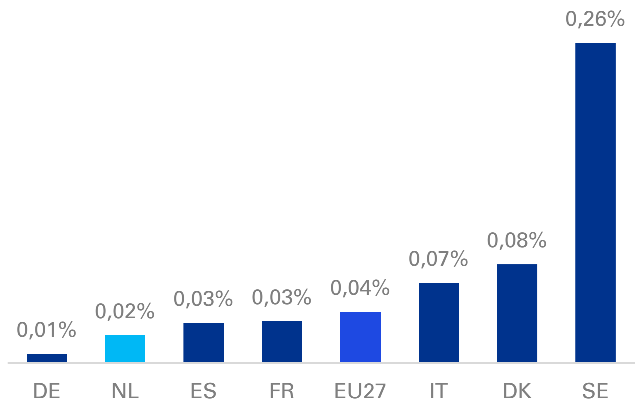
There are two contrasting themes observed today: globalisation and nationalism/protectionism. In this context, "glocalisation" is an opportunity for the relatively small Dutch capital markets. Glocalisation is the practice of conducting business according to both local and global factors.

The Dutch economy is considered too small for a purely local approach. The total capital invested by Dutch institutional investors is substantial. Regional, sectoral, and asset allocations must be balanced carefully. Most institutional investors will allocate their funds based on global GDP weights. Therefore, the direct allocation to the Netherlands cannot be 50% of the total assets.

However, when looking at other markets that are more successful in bringing small and mid-cap companies to the public capital market (such as France and Sweden), they all have one common factor: a vital local element in their capital markets. Particularly in Sweden, which started reforms to increase local investments and investment in local equities by retail and institutional investors 10-20 years ago, the benefits are being reaped with booming IPOs and Swedish companies more likely to be listed than their European peers.

Figure 30

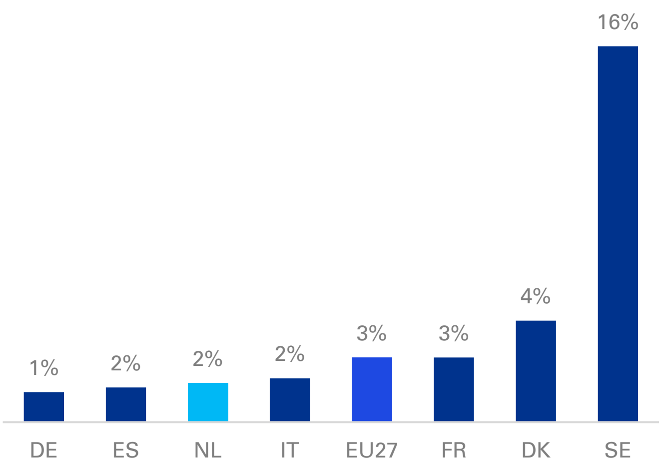
Capital raised annually through SME IPO in % of nominal GDP (average from 2015-2022).



Source: European Commission [111]

Figure 31

Number of outstanding instruments (shares) relative to the number of large firms (i.e., employing fewer than 249 workers) (2022). Please note: there can be more than one instrument per corporation.



Source: European Commission [111]

The Dutch capital market is currently primarily focused on international investments. However, it has the potential to better serve the local economy by adopting a glocal strategy that considers both local and global factors. According to stakeholders in the Dutch capital markets, achieving this goal would require more than just Euronext Amsterdam reintroducing a public market and products and services for Dutch SMEs, as well as small and midcap companies. The Dutch government would also need to take a more active role and introduce reforms and investment policies that encourage local investment by Dutch institutional investors.

More local institutional focus

Most large (international) institutional investors in the Netherlands do not invest with a bias towards the Dutch public capital market or Dutch companies. Investment decisions of Dutch institutional investors are skewed towards international and passive investments, largely driven by the investment (risks, costs and returns) triangle (also referred to in the "Sustainability as a business" subsection). Global investment strategies allow for greater diversification and thus mitigated risks, as well as a larger pool of investments to choose from and, therefore potentially higher returns, such as passive investment strategies and investments in exchange-traded funds (ETFs) instead of shares driven by portfolio and risk diversification. According to some, there is also a trend of Dutch pension funds being increasingly managed from abroad by external managers and/or being less involved in the active giant international asset managers, such as Blackrock increasingly does.

In France pensions are managed by French institutional investors and against higher fees. Also, the Swedish public capital market seems to flourish, among others through the longstanding and in some cases even increasingly strong involvement of Swedish institutional investors, incl. pension funds, as cornerstone investors in IPOs of local companies, including SMEs, small, and midcap firms [109]. During the interviews, some stakeholders made a moral appeal to Dutch institutional investors.

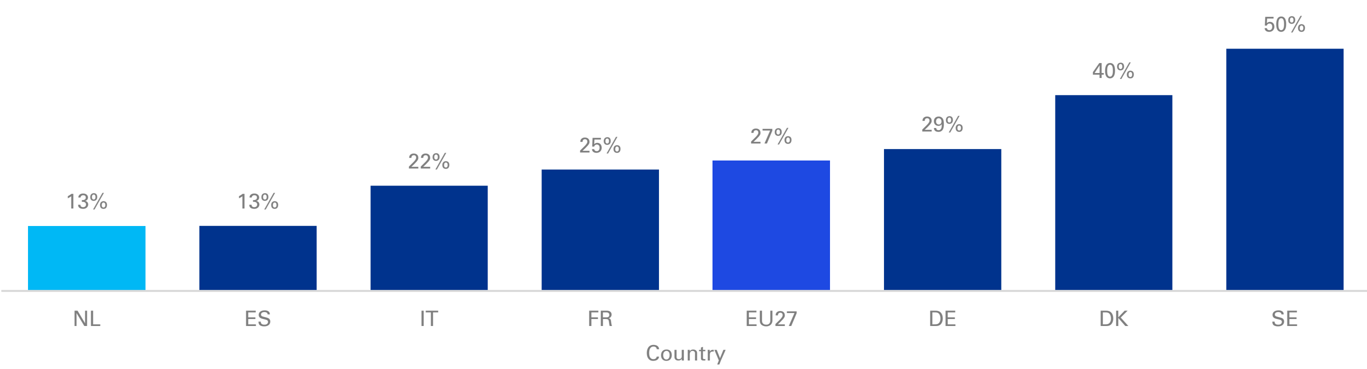
While interest from Dutch institutional investors seems to have improved somewhat, appetite amongst most pension funds to lead to change towards more local investment strategies remains limited. There are only a few exceptions to this. Most fund managers refer back to the investment mandate they get from the pension funds. Therefore, involvement from Dutch institutional investors may have to be driven from there. Some even see a role in appealing to the Dutch citizens, the end clients of pension funds stating that they should have a choice in investment allocations. In Sweden, people were allowed to invest 2.5% of the amount they allocated to their pensions into funds of their choice, supported by a public information campaign [109].

Role of the government

According to stakeholders in the Dutch capital market, while all proponents of the EU and a single capital market union, it is essential that the Dutch government maintain its local economy. The Dutch government, while engaged, could take on a more active role in promoting the Dutch capital markets. Stakeholders in the Dutch capital market along with France, Italy, Scandinavia, and now even the UK government are focused on and active in promoting their local capital markets. Some, such as the Swedish government, have had this focus and active role for two decades and others only more recently.

Figure 32

The sum of equity investment and investment into equity funds and private equity funds in % of the total assets of insurance corporations (2022).



Sources: European Commission [111]

In its 2024 spring budget 2024, the UK launched a new 5,000 GBP tax-free savings allowance for people to invest in the UK [117]. France's finance minister recently called for more countries to forge ahead, as the EU is considered to respond too slowly [118]. The Swedish government intervention made investments in the stock market more accessible and attractive to the general population and has even promoted such investments. This has driven the launch of domestically focused small and midcap funds [109]. Meanwhile, the number of domestically focused small and midcap funds in the Netherlands is small. Only a few are established according to those interviewed. Additionally, such funds are not aimed at the broader public, and no good business-to-consumer VC fund can be found.

Research shows that depending on the context, increased regulation can indeed either promote or hinder economic growth [16]. One example to highlight the point made by experts is that the current Dutch regulatory framework is not perceived to encourage retail investment in instruments that can facilitate innovation, such as SME lending and VC, despite the Dutch ambition of becoming a more innovative economy. Implementing measures such as tax reliefs for investing in these markets, as seen in the UK [22], could potentially boost investment in these instruments [119].

"We need to make good bets on the winners 30 years from now. It is important to create the ASML's of the future and, therefore, some Dutch companies need grow to that scale."

Government/Regulator

Recommendation 4: Focus on technology and sustainability

The Netherlands is seen as having a good ecosystem, but without a good vision on how to leverage this and what type of market segments to invest in, the Netherlands will not be able to leverage this ecosystem optimally. Most stakeholders in the Dutch capital market view initiatives and companies developing and/or offering key enabling technologies and sustainability-related solutions as the future winners. We also observed a strong focus on the biomedical/biotech sector, offering another potential focal point. Long-term structural investments are required in each case, generally taking years or even decades to realise the expected returns. Hence, the sooner action is taken, the sooner benefits for the Dutch economy and general welfare will materialise.

Government initiatives, including the ROMs and Invest-NL, have already started to invest in these market segments. However, coordination on a national level and private/public collaboration in the Dutch capital market can still be improved. The scale, mandate, and governance set-up of the National Growth Fund, ROMs and Invest-NL should be reviewed and re-calibrated according to experts. A stakeholder also noted that it would likely require a pan-European effort, for example, a collaboration with France and Germany because while the Netherlands has the capability for development and delivery logistics, it is not a large producer.

Technology companies

Data on equity market performance and equity index sector weights comparing the US and Europe seem to support the view of stakeholders in the Dutch capital market. Focusing on technology can benefit the Dutch and European economies. The S&P 500 (i.e., US index) outperforms the MSCI Europe (i.e., the European index). When looking at the equity index sector weights one assumption can be that focusing on different sectors drives this. The main difference is that the US capital market is more skewed towards technology. On top of that, the state of technology can contribute to the size of the economy, as it contributes to labour productivity [120]. Hence, a Dutch capital market segment targeted towards key health/medical and sustainability technologies, has the potential to both directly and indirectly contribute to the real economy and general welfare in the Netherlands.

Sustainability as a business

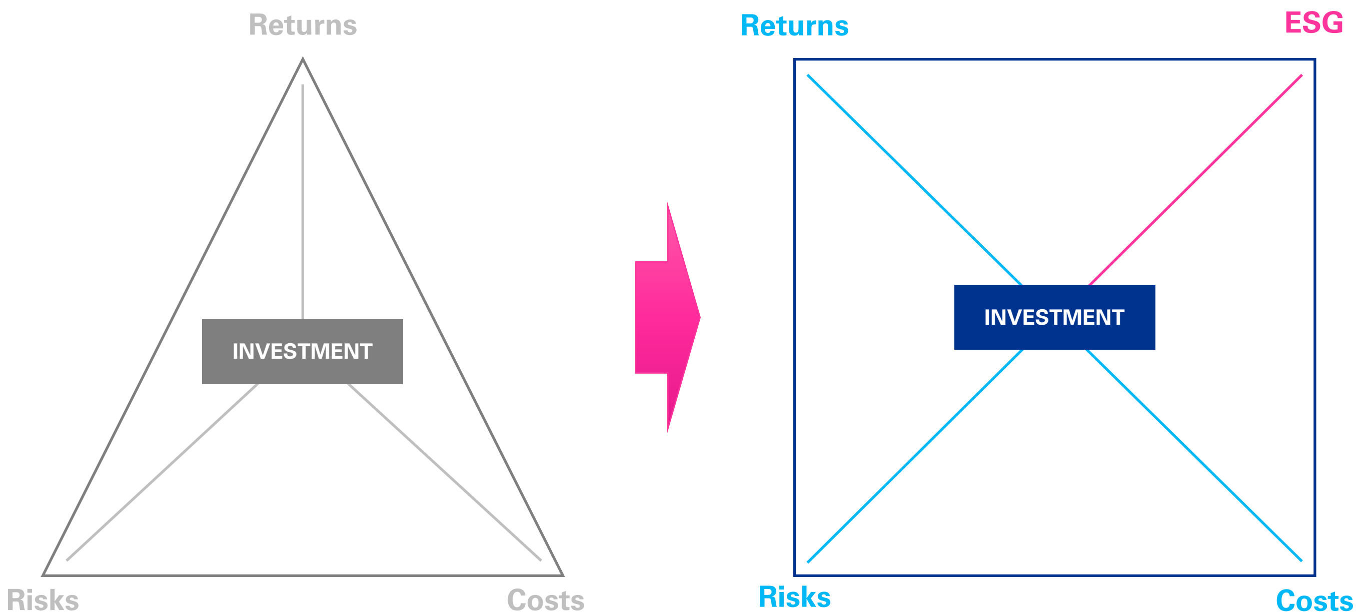
Becoming a frontrunner and focusing on ESG/transition financing for the Dutch capital market is also possible. Partly because of existing knowledge and experience that the Netherlands has built up over the years in climate mitigation, climate adaptation and water safety, it is believed (international) earning opportunities will arise around these transitions [67]. These transitions are expected to accompany significant demand for capital/investment.

Furthermore, stakeholders in the Dutch capital market believe that companies that do well will also be the high-performing companies of the future. i.e. ESG/transition financing is believed to offer a good chance of achieving financial success.

Family businesses are becoming increasingly active, particularly in the energy transition and circular technologies. They could put their money in bricks, but they want to do something better with it. Dutch institutional investors also increasingly make investment decisions considering a fourth factor, ESG. Turning the investment triangle into an investment quadrant and providing another angle to make SME, small and midcap companies in the Dutch capital market more attractive to Dutch institutional investors.

Figure 33

Trend of investment triangle turning into an investment quadrant, whereby investors no longer exclusively look at financial returns but also at environmental and social returns when making investment decisions.



ESG/transition financing as a focal point does not exclude technology, as sustainable and climate technologies are expected to play a significant role in the transition. Also, a Dutch capital market segment on ESG/transition financing has the potential to contribute directly and indirectly to the general welfare of the Netherlands. It is expected that it could contribute to a more positive perception of the Dutch capital market and the Dutch economy in Dutch society. However, in the technology space the Dutch capital market would be expected to compete with France, and in the ESG/transition financing space, would compete with London which has already branded itself as the green market. In Germany, several VC funds are focused on climate and energy.

Recommendation 5: Deepen the Dutch public debt markets

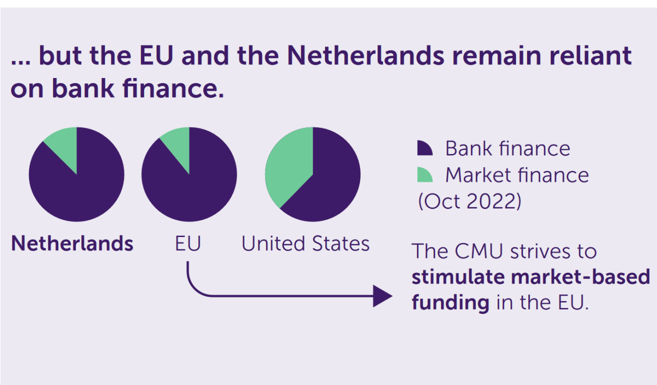
The Netherlands has one of the best legal jurisdictions to access debt, both in terms of security rights and bankruptcy proceedings. The Netherlands offers a healthy environment for a flourishing debt market because it still has stable fiscal policies compared to other countries. There is untapped potential in this debt market, particularly as an alternative to traditional bank financing. Dutch and EU Corporations tend to rely far more on bank financing than their US competitors.

Many forms of debt exist nowadays. However, the many different funding options have become complex for some companies. Debt market financing in the Netherlands increasingly comes from non-regulated foreign institutions. Foreign banks are also targeting the Dutch capital market as “arrangers” of the large deals on the Dutch market. Usually, this is done via underwritten deals, in which they only retain a small part of their balance sheet. So, even though there is an increasing need for funding amongst Dutch corporate borrowers, this debt tends to be provided by non-Dutch, non-bank institutions. Another increasing sector is the private placement market, in which International Institutional Investors provide large, privately placed loan documentation-based lending. It is worth further exploring how stakeholders in the Dutch capital market could play a more significant role in debt market financing.

Initial results from this study suggest that the private debt market in the Netherlands could benefit (and grow) from further standardisation of documentation of private placements. The level of standardisation in Germany’s Schuldschein market for standardised loan contracts is one of its strengths. A similar debt product in the Dutch capital market could make it more attractive for institutional investors to invest in private debt in the Netherlands. Standard loan contracts are more efficient to invest in; however, the market for private debt placements in the Netherlands is relatively small, and the interest of Dutch institutional investors is still deemed small compared to International Institutional Investors.

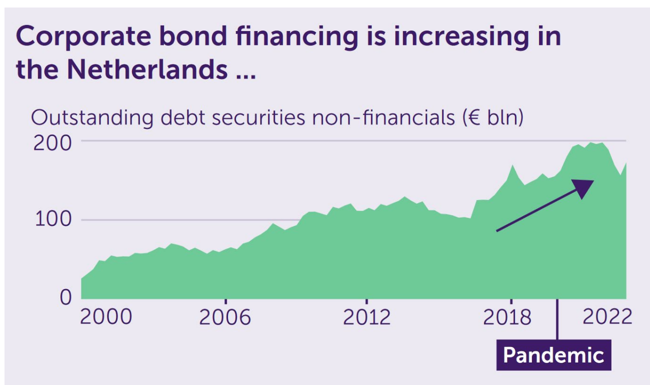
Stakeholders in the Dutch capital market are more optimistic about the potential for Euronext Amsterdam to develop a deeper public debt market. Demand for corporate bond financing is increasing in the Netherlands. Pension funds, insurers, and investment funds frequently purchase bonds. These predominantly investment-grade corporate bonds can generally be traded relatively fluidly in the current OTC market. Some stakeholders observe a potential for a more diverse market regarding credit quality. For example, the high-yield bond market provides a profound source of funding for those companies that have reached their maximum exposure limits in the loan market. This high-yield market is nonexistent in the Netherlands, which limits larger, mainly PE-owned corporations that need investment-grade credit quality to access the corporate bond market. High-yield bonds would have to be explored further as a funding source for these companies.

Figure 34
“Bank finance versus market finance in the Netherlands compared to the EU and the United States,” in “State of the Capital Markets 2023,”



Sources: AFM: State of the Capital Markets 2023 (October 11, 2023). Available via: [AFM calls for a European set of capital market data]

Figure 35
“Outstanding debt securities non-financials (EUR billion),” in “State of the Capital Markets 2023,”



Sources: AFM: State of the Capital Markets 2023 (October 11, 2023). Available via: [AFM calls for a European set of capital market data]

Our study showed that two conditions must be met for a public bond market to flourish in the Netherlands. Due to the lack of demand from institutional investors in high-yield bonds issued by Dutch high-yield corporations, Dutch investment banks have not appropriately invested in the origination and structuring skill set required for this high-yield sector. Also, since there is no market at this stage–only a handful of high-yield bonds have been issued by Dutch corporations–a regulatory process for high-yield bond listings would have to be embedded in the Dutch landscape. Secondly, whereas the AFM is considered one of the top-performing national competent authorities in the primary equity market, this same level of speed, efficiency and pragmatism is generally not seen from the AFM on the public bond market. The AFM is said to take longer to review bond documentation. Instead, the AFM could assess how the prospectus approval process for newly listed bonds, possibly including the currently non-existent high-yield bonds, could be enhanced to place Dutch PE-owned high-yielding or fast-growing corporations more firmly into the Dutch financial markets. Again, the idea is that a corporation is founded in the Netherlands and the aim is to have it stay in, and attached to, the Dutch capital markets until it is listed or at least until public bonds are issued in either the high-grade corporate bond market or the high-yield bond market.

4.2 Early stage – how do we keep them home?

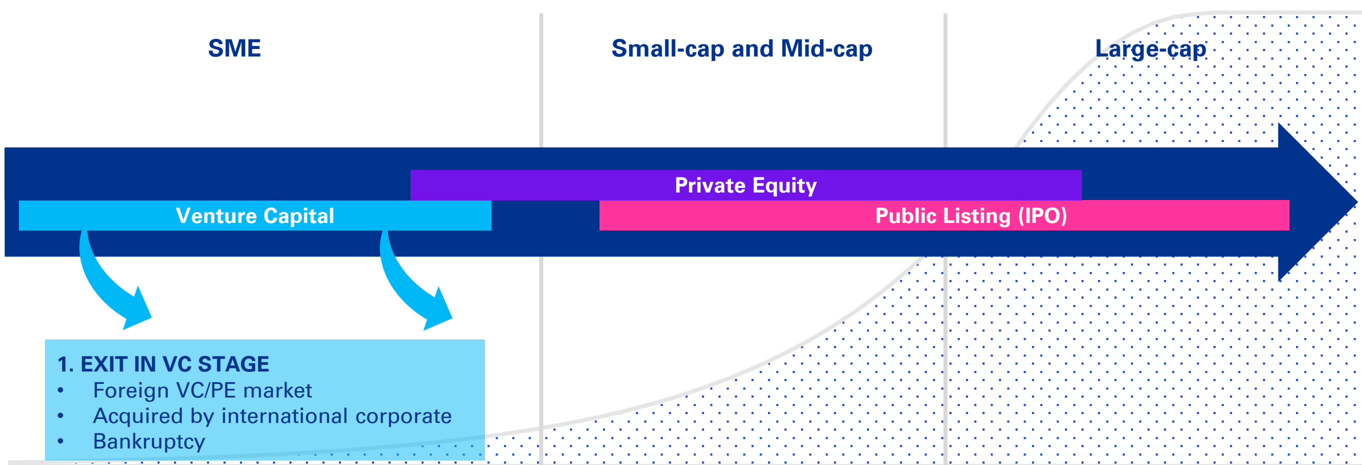
This study found that while significant public and private investments are made at the very early start of the Dutch capital markets chain, capital-intensive companies in the pre-revenue phase struggle to find sufficient funding in the Netherlands. These challenges become even more pronounced as the capital needs of such companies grow. When investments ranging from EUR 10-20 million up to EUR 100-200 million are required, the Dutch capital markets chain generally does not facilitate this. In this phase, such companies cannot rely on the banks, government investments remain insufficient, and the Dutch VC and PE market, while growing, are not big enough and do not have sufficient track records to facilitate this.

Institutional investors manage most of the capital available in the Dutch capital market. However, international institutional asset managers manage parts of the Dutch capital. Dutch VC funds are considered too small and not growing fast enough to be attractive for Dutch institutional investors to invest in and to meet the financing needs of first-of-a-kind and deep tech ventures. Furthermore, most Dutch venture capital funds do not invest in the earliest stages of a company (i.e. the pre-seed phase). In practice, this is leading Dutch companies to look for capital abroad and be susceptible to acquisition by a large often foreign corporation and, in some cases, bankruptcy.

With these Dutch companies leaving the Dutch capital markets chain at an early phase, the Netherlands significantly relies on foreign capital markets and investors and is missing the opportunity to maximally capitalise on its private and public investments made at an early stage. Hence, if the Netherlands strives for an innovative economy to achieve general prosperity, action is required to set the right conditions to ensure companies have the choice to obtain capital in the Netherlands. Otherwise, the trend of Dutch companies looking for capital abroad, being acquired by large foreign firms and filing for bankruptcy in the worst cases, hollowing out the Dutch capital market to the detriment of the Dutch economy and society.

Figure 36

Simplified view of the Dutch capital markets chain on the business growth curve and the exits in the VC stage of financing away from the Dutch capital markets chain before a company's high-growth/return phase.



4.2.1 Deep tech funding – in need of support?

Particularly in the Dutch VC market, a lack of risk capital is observed, especially compared to the US and UK. Dutch companies in the startup and scaleup phase struggle to obtain sufficient capital in the Dutch capital market. This is particularly true for the "new ASMLs" with more risky and/or capital-heavy financing needs. Participants in the study mainly describe the funding gaps as being most prevalent in first-of-a-kind ventures and/or ventures with a complex hardware and/or research component, such as deep tech). These capital-heavy businesses have plans with financing needs ranging from 30-150 million, for example, to build a first-of-a-kind facility somewhere. No capital is available for such ventures, or very little, not just in the Netherlands. The same trend is visible in the broader region across the EU. This is typically a segment where extra capital is needed, but the Dutch capital market still needs further attention and development.

Companies with an ideal profile, on the other hand, get a lot more attention. This applies to companies whose financing needs are deemed less risky or capital-heavy and/or where returns are already being made or will be made in a reasonably short term. This gap in the Dutch capital markets chain is much less prevalent for fintech, SaaS technology/enterprise software, and digital platform companies. While financing in the range of EUR 50-200 million for equity and EUR 20-150 million for debt through the Dutch capital markets chain will not be easy, such companies are deemed to have a better chance of success. The Dutch banks are more willing to provide loans, investment is less risky as the Dutch VC market has expert knowledge to evaluate ventures, and returns can be expected within a much shorter time period. While the returns may not be as high as those first-of-a-kind ventures that succeed, the returns materialise quicker and there is less risk of returns on investment.

> **"A Fintech that has scaled, often already faced a market downfall and has returned back to breakeven with a good growth profile. Everybody wants to invest in that"**
>
> **Government/Regulator**

4.2.2 Keep up the pace in private market growth

The Dutch and EU private markets are less mature than that of, for example, the UK and US. Traditionally Dutch and EU ventures could rely heavily on cheap and efficient bank financing (i.e. loans). As a result, the Dutch and European private markets are less developed and have less of an overall track record compared to VC and PE funds in the US and the UK.

Willingness and ability to offer bank loans are generally driven by two key themes: probability to default (PD) and loss-given default (LGD). Probability to default implies that banks will carefully assess the probability that a borrower will default. Hence, banks will not easily lend to a company with no track record, no proven business case, a weak balance sheet and new management. Loss-given default aims to quantify the actual loss in case a default occurs. Again, a startup will generally have few valuable assets apart from "the idea" which means that if a startup or venture defaults, the bank will face a large loss.

The aforementioned drivers for bank lending are unlikely to change as this is how Bank regulators manage risks embedded in bank balance sheets. Coupled with the above drivers for bank lending are increased regulatory pressure and interest rate developments. These drivers have generally reduced the number of bank loans provided. Particularly first-of-a-kind and/or ventures with a complex hardware and/or research component (e.g., deep tech) with "capital-heavy" business plans are often unable to meet the criteria for a bank loan. Consequently, the demand for a mature, well-developed Dutch private capital market is and will be increasingly required to help drive innovation and invest in the key opportunities and technologies in the Netherlands, including those identified by the Dutch Ministry of Economic Affairs and Climate Policy.

More rapid growth in the volume/size of Dutch VC funds is needed to accelerate the VC market reaching its maturity, increasing the capital available in the Dutch capital market for innovations and key technologies and sectors that contribute to general prosperity in the Netherlands. Alternatively, promising ventures could fail or will continue to move away from the Dutch capital markets chain before local and government-linked investors have optimally capitalised on the initial investments as they will miss these companies' scale-up and high-return phase. From our interviews, it also appears that compared to a year and a half ago it is expected to become more challenging for Dutch VC and PE funds to attract capital from investors fast enough to accelerate the growth of the Dutch private market. Among others due to the recent interest rate increases, in practice, investors are already increasingly more critical expecting higher returns and similarly to banks, more frequently focusing on when cash flow will become positive and when the company will be able to turn a profit.

It is questioned whether Dutch VC and PE funds have reached a track record and level of maturity that is good enough to attract capital under these more challenging conditions ahead. The Dutch VC funds in the market generally have too little experience, a short track record, a not good enough track record, not necessarily the best practices, and a very Dutch view of the world. Also, the data capability of investors, including government investors and subsidies, is considered relatively low and the expertise in the first-of-a-kind ventures and/or ventures with a hardware and/or research component (e.g., deep tech) is still considered to be limited and not up to par with US and UK investment funds. Emphasising a critical exception to the rule, the Dutch VC funds have already built good expertise and track records in the biomedical sector.

Therefore, it is essential to explore the pre-conditions required for the Dutch VC market to become of sufficient size to cover the market funding gaps. Particularly for those sectors of strategic importance to the Netherlands.

In the US they would ask what you need to maximise your chances for success. In the Netherlands they would ask what the minimal amount is you need to survive the next 18 months.

Academic/Incubator

4.2.3 Dutch institutional investors – lack of allocation to VC

It is the story of the chicken and the egg, what comes first? Dutch VCs need to become more mature and more extensive in size to be able to attract institutional investors, meanwhile, institutional investors need to accelerate their track record and growth to become more mature and more prominent in size. Though the Dutch capital market could get there without the involvement of institutional investors, without the institutional investors in the Dutch capital market, it is expected that this will not happen fast enough.

Many participants in this study call for Dutch institutional investors to invest more in Dutch startup and scaleup companies (i.e., not just in the private market but also in the public market). Institutional investors in the Netherlands, particularly pension funds and insurers, make limited to no investments in the Dutch VC funds. It is believed that engagement of Dutch institutional investors in such VC funds will help accelerate the growth of the Dutch VC market, with some saying at the same time that it would likely result in higher returns for institutional investors (i.e. describing a win-win situation).

"Dutch pension funds are among the largest globally in terms of assets, but contrary to their global peers, they are largely absent in funding Dutch or European venture capital funds." [23]

While a small number of large pension funds have some interest in and are exploring investments in VC funds, most institutional investors do not have the conditions needed to invest in the Dutch VC market. When Dutch pension funds invest in VC they often do so from their alternatives bucket which includes hedge funds, PE, VC, and some more "exotic" and/or illiquid asset classes. VC tends to be invested through funds of funds, so indirect investments are often in foreign capital markets. The key drawback of these so-called illiquids, including VC, is that this is far more difficult in case portfolios need rebalancing. This in turn affects their willingness to make further investments in VC. VC is not part of most Dutch institutional investors 'standard investment toolbox.

4.2.4 Governmental investors – we need alignment and coordination

Dutch government initiatives aimed to develop and stimulate the funding gaps in the Dutch capital markets chain are present. Through public investments on a domestic and regional level, mostly at the beginning of the capital markets chain, namely the National Growth Fund, regional development agencies (ROMs), and Invest-NL act as catalysts for the Dutch capital market. The aim is not to replace private capital investments, nor the Dutch capital markets chain, but to (temporarily) fill some of the gaps and/or help overcome barriers until sufficient interest from private capital investment in areas that would contribute to general prosperity. While government investments through the National Growth Fund, ROMs, and Invest-NL are seen as very valuable, particularly at the first stages of a company, cumulatively these investments are too small to close the general gap in the Dutch capital market.

4.2.4.1 The National Growth Fund

The National Growth Fund provides subsidies to initiatives that can result in innovations that contribute to general prosperity and can be further used by new Dutch ventures and corporations in the long term. However, it was pointed out during interviews that the study should be complemented by a well-functioning capital market. This is to provide initiatives subsidised by the National Growth Funds an entry to the Dutch capital market for further financing. "Otherwise it is just another pot of money wasted," an investor mentioned. The National Growth Fund is but one of the building blocks necessary to achieve general prosperity in the Netherlands. To capitalise on these subsidies the knowledge and innovations need to be further developed and commercialised in ventures, which will require further financing. If such funding cannot be obtained in the Dutch capital markets chain, such initiative companies must resort to attracting their funding requirements abroad.

4.2.4.2 Regional Development Agencies (ROMs)

Unlike the National Growth Fund, the Regional Development Agencies (Dutch: Regionale Ontwikkelings Maatschappijen or ROMs) are active within the Dutch capital markets chain. ROMs know what is required to attract capital via round D financing, round C financing and/or an IPO on the public capital market. Therefore, at an early stage, they start working with the ventures they invest in towards milestones relevant to future financing needs. The aim is to have these companies scaleup, i.e. go through the company lifecycle quicker and to quite early on deploy the talent of that company quite early on if a company does not prove viable. While the ROMs do not have a profit objective, they generate returns. The main benefit of the ROMs is that the capital they provide is "patient." They can invest with a seven- to 10-year horizon, as long as a company continues to develop itself. However, with a mandate to take investments up to EUR 5 million Euro, some companies' financing needs can quickly grow beyond the ROM's ability. In such cases, an exit is needed, and the Dutch private VC market is generally not yet equipped to provide an exit for the ROMs. This means that many companies after a readiness level of seven or eight, in other words, after building a working prototype and having done 1 or 2 pilots, get stuck as Dutch VC funds will typically not step in until a EUR 50,000 revenue per month is generated by the venture. This is where another government initiative, Invest-NL, comes in.

> **Private Venture Capital funds proudly claim to do pre-seed investments at a million Euro revenues. In reality there is a big gap between 'real' pre-seed, meaning no revenue, and VCs that enter at a 50K Euro a month revenues"**
>
> **Interest group**

4.2.4.3 The National Promotional Institution (NPI) and Invest-NL

Invest-NL is often referred to as the big sister of the ROMs. Since the establishment of this National Promotional Institution (NPI) in January 2020, it has worked as an extension of the ROMs. Both organisations focus on innovation and sustainability and hence have overlapping focal themes. Teams are said to collaborate as and when required. However, where ROMs can invest up to EUR 5 million in a company, Invest-NL can invest higher amounts.

Invest-NL has the mandate to finance societal transitions and small and medium enterprises. The fund aims to take direct investments between EUR 5 and 50 million, whereby they currently act mostly in the lower ranges, regularly spread over multiple investment rounds. A large majority of their investments are in companies in a pre-revenue phase. Ticket size generally ranges from EUR 25 to 50 million. Plotted against the funding gaps for financing needs between EUR 20 and 200 million, mainly for capital-heavy investments, the current setup and investment size of Invest-NL do not address the full gap. Besides Invest-NL, as described in the previous section of this report, there are nearly no Dutch VC funds that are of sufficient size and have a track record of being able to participate in such tickets next to Invest-NL seriously.

Many companies have large capital needs, and particularly for capital-heavy ventures, there are often no options for further financing within the Dutch capital markets chain beyond such public involvement. If no government vehicle is available at such a stage and the Dutch VC market does not mature faster, the ability to obtain financing in the Dutch capital market within this phase of the company's life cycle will be limited. As a result, companies will tend to look for financing abroad.

Invest-NL: A National Promotional Institution (NPI)

The European Investment Bank (EIB) defines National Promotional Institutions as "legal entities carrying out financial, development and promotional activities on a professional basis which are given a mandate by a Member State at central, regional or local level". [139] Differently from the National Growth Fund, Invest-NL is organized outside the government budget and balance. They have to be innovative and earn back investments with a small return. The aim is to make an investment case possible, that otherwise would not be possible. To act where societal transitions take place, but private capital is lacking, in order to stimulate private investments in this area.

Invest-NL, as an NPI, and its capacity to establish European financing structures for companies, is deemed invaluable. The government's efforts to establish Invest-NL are welcomed and encouraged, mainly concerning the greater good and the country's interest. However, the maturity of the fund, the effectiveness of the current mandate, its size and its operating model are questioned by the market. On a standalone basis Invest-NL, in its current form, is not considered the ultimate solution to bridge the requirements in the Dutch capital market. The size, scope and operating model of government efforts could be assessed and re-calibrated in the context of clear visions for the Dutch capital market and the Netherlands.

Thorizon: a case of a Dutch deep-tech company having to look abroad for further financing its growth

A recent example being the Dutch company Thorizon, that develops reactors that use salt, the metal thorium, and nuclear waste to generate electricity and heat. No CO2 is released and unlike traditional nuclear power stations, it reuses existing nuclear waste as fuel. As a result, the radioactive waste that remains is dangerous for less time. [141]

After being spun off from the national nuclear research institute of The Netherlands (NRG) in 2018, Thorizon developed into a deep-tech company, with extensive experience in the nuclear sector and the drive to contribute to the energy transition as fast as possible. [142]

In 2022 they received 12,5 million Euro from Invest-NL [140] and now they will now receive 10 million Euro from a French government subsidy program. [141]

In the Dutch financial newspaper the Thorizon quoted: "We would like to remain a Dutch company, but if we want to grow we cannot do without France. The country has almost 60 nuclear power stations ant the most knowledge in this area in Europe. In addition, France is looking more strategically at sustainability of its industry and allocates more money to it." Thorizon requested subsidies from the Dutch National Growth fund, without success as the fund was put on hold by the Dutch government [138]

Recommendation 6: Joint vision within the Dutch capital markets chain

To ensure a continuously evolving and developing European economy a powerful European VC sector is of critical importance. For the Netherlands to take up its role in this European development we will need growth in VC. Growth in terms of volume of assets under management knowledge and skill sets as well as sector expertise. The Dutch VC market is still building its track record, its skillset as well as its sector expertise. Generally, they can finalise the full team set-up as soon as they have scale. An example of a venture capital fund that focused, built an early track record and hence was able to scale up its skillset and sector expertise and subsequently attract more funds under management is Innovative Industries, a European deep tech venture capital fund.

Government investments will not address the challenges within the Dutch capital market on a structural basis if not accompanied by a long-term vision for the Dutch capital market, complemented by a holistic set of measures in line with such a vision. All stakeholders will need to buy into this joint vision for the Dutch capital market and contribute by directing concrete efforts towards this vision. If there is no exit in the Dutch capital market in the form of private funds and investors after initial government investment rounds companies will still end up in VC rounds abroad. Therefore, the holistic set of measures would have to address the factors underlying the challenges of the Dutch capital markets, namely the size and track record of Dutch VC and PE funds, by making it more attractive for Dutch (institutional) investors and corporations to invest in the Dutch VC and PE markets. In case the Dutch capital market as a sector is not able to close its gaps, it will increasingly depend on government investors and/or foreign capital markets

“Particularly, looking at Israel or the United States, where government intervention is different, you can see how things can progress. Because, make no mistake, there it also started with government investments and pension funds, but it eventually became more of the market on its own”

Interest group

Recommendation 7: Improve the VC investment case

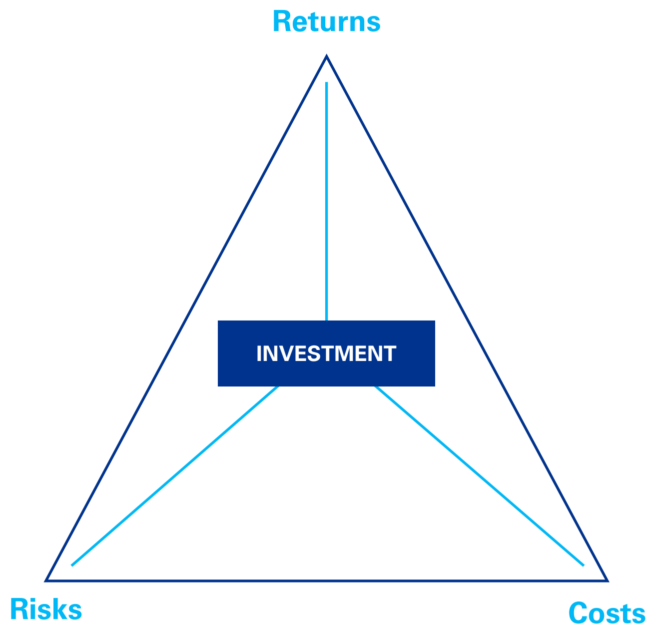
Dutch institutional investors are not or very limited involved and/or interested in the Dutch VC market. Characteristically, investments by investors are driven by the risks, costs, and returns triangle. The risk and costs associated with VC investments are considered too high compared to the returns for institutional investors, especially when compared to other investment possibilities in the market.

The high risks are driven by the lack of a proven and/or an already scaled concept, raising uncertainties on whether returns will be realised. Meanwhile, efforts and thus costs required to evaluate and do due diligence on the relatively small Dutch VC funds are deemed high compared to the possible size of investments that can be made in such a fund. This is particularly true when comparing the ticket sizes to the total amount of capital that these institutional investors need to invest. Making other types of investments (read: large-scale investments) more attractive in the eyes of the average Dutch institutional investor with its bottomless pockets of capital.

While some movements by some institutional investors (example given: APG) towards the (Dutch) VC market were observed, Dutch VC funds mention they are yet to succeed in convincing large institutional investors to invest in them. It is unlikely that the market will be able to accelerate the process by itself sufficiently.

Figure 37

Risks, costs and returns triangle for investments as a deciding factor in investment decisions by institutional investors



As the risk and costs associated with VC investments are considered too high compared to the returns for institutional investors, particularly when comparing it to other investment possibilities in the market, improvement of the risks, costs and returns triangle for VC investments in the Netherlands is needed to engage Dutch (institutional) investors. Hereby, the focus is on the carrot than the stick, creating the conditions to attract institutional investors, rather than obliging investors to invest a certain portion of their capital in the Dutch VC market. While it was mentioned during the study that if pension funds would invest only 0.5% or 1% of their capital in the Dutch private market, particularly the Dutch VC market, it would make a real difference for general prosperity in the Netherlands, there is limited appetite to oblige Dutch pension funds to invest in the Dutch VC market.

Recommendation 8: Reinvestments along the chain by large corporations

While not mentioned as often as the lack of involvement by institutional investors, some mention one of the key differences between the Dutch VC market and that in the US is the near absence of the Dutch large corporations in the VC market. There is a potential lesson to be learned from the VC market in the United States, whereby large corporations that have reached the end of the capital markets chain invest their returns back into the capital markets chain at the beginning of the chain. Creating an upward cycle, or snowball effect, whereby successful innovations and ventures, contribute to the emergence of new future innovations and ventures, thereby contributing to structural and long-term general prosperity creation.

In the US, reinvesting one's self-made fortune in other startups is common. They very often use VC as the means to reinvest in their next venture. This positive reinforcement is seen less often in the Netherlands, according to stakeholders in the Dutch capital markets. Entrepreneurship and investing are less embedded in Dutch culture, and some successful entrepreneurs and companies have only limited interest in contributing to creating innovations and/or building new companies again after becoming successful.

Hence, as Dutch companies grow and innovate through investments from the Dutch capital market, ideally (the owners of) such large Dutch companies also re-invest some of their earnings in new SMEs and innovations, including through joint ventures and/or corporate VC funds early in the Dutch capital markets chain. This would help companies and innovations that either contribute directly, or indirectly, to the real Dutch economy and/or general welfare in Dutch society, to bridge the funding gaps in the Dutch capital markets chain.

ASML would not have been where it is today without the support of the government and Philips. Now that they have matured, they started a Dutch corporate VC fund whose innovations further contribute to ASML growth and the emergence of new potential ASMLs in the Netherlands and Europe. However, ASML is still considered an outlier by stakeholders in the Dutch capital market.

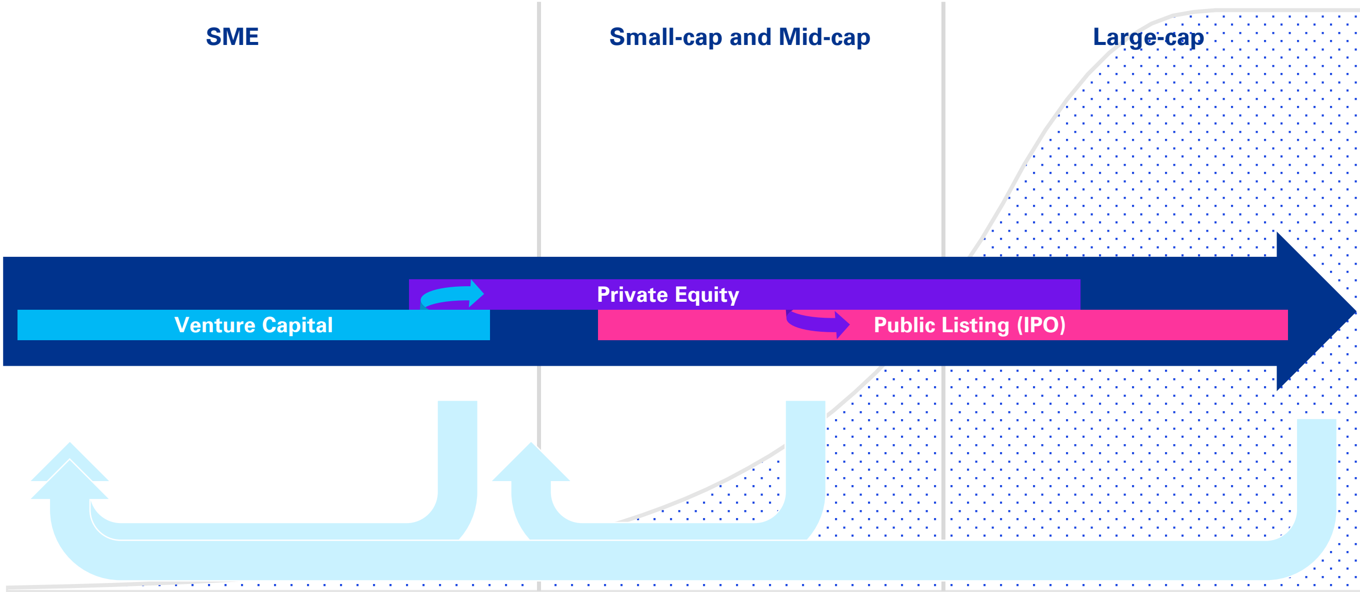
> **"In the Netherlands most founders have in mind some sort of exit and a limited motivation to make something very big themselves"**
>
> **Academic/Incubator**

> **"In the Netherlands we are missing successful Dutch entrepreneurs who start their own VC fund. Successful Dutch entrepreneurs tend to fall off the radar."**
>
> **Dutch VC funded firm**

> **"We observe some Corporate VC funds stepping in earlier in the capital markets chain. Which is interesting, they can invest earlier."**
>
> **Academic/Incubator**

Figure 38

Simplified view of the Dutch capital markets chain on the business growth curve and the reinforcing effect on the Dutch capital markets chain, and real Dutch economy, provided companies reaching maturity invest some of the returns back into the VC market in support of innovations/startups.



Financial returns (re-)invested in new Dutch start-, scale-ups and growth companies (incl. through corporate VCs)

Recommendation 9: Establish well-connected VC industry in the Netherlands

Accelerating the growth of the Dutch VC market is also having the right knowledge, sector expertise and mindset to close the gap in the Dutch capital market that is particularly prevalent for capital heavy investments, such as deep tech, sustainable and circular technologies, that have the potential to contribute to general prosperity in the Netherlands and support the energy transition.

Generally, venture capital and sector expertise of the ROMs, Invest-NL, and private Dutch VC funds is still considered low compared to the UK and US mostly. Although the rationale behind this is rather clear, it is also logical that when knowledge and expertise are fragmented, not only in the Netherlands but in Europe as a whole, the willingness and ability to assess and put investments to work effectively is reduced which in turn, of course, causes valuations to be lower. So in conclusion, limited VC and sector expertise resulted in lower valuations, particularly for companies with complex first-of-a-kind or deep tech business cases. Only a few believe companies are overvalued in the US. Rather, they are said to be undervalued in the EU and the Netherlands.

Furthermore, increasing VC and sector expertise can contribute to a more mature Dutch venture capital market and increase investors' trust. Hence, even when setting aside the discussion on which region provides the most accurate valuations, accelerating VC and sector expertise through increased collaboration and knowledge sharing within the Dutch VC market is a 'no-brainer'.

Increased collaboration and knowledge sharing are named as a pre-condition for accelerating the learning curve of the Dutch VC funds, emphasising that is unnecessary for all Dutch VC funds to go through the same learning curve as more mature VC funds and sectors, instead, they can learn from collaborating with the best foreign, particularly US, VC funds in the world, the Dutch VC markets successes in the biomedical sector and top industry experts from the respective fields of their investments. Mitigating the risk that the lack of knowledge and experience, and the corresponding uncertainty experienced by the investor, become the reason for a too low valuation of companies in the Netherlands.

4.3 Scaled-up – how do we keep them home?

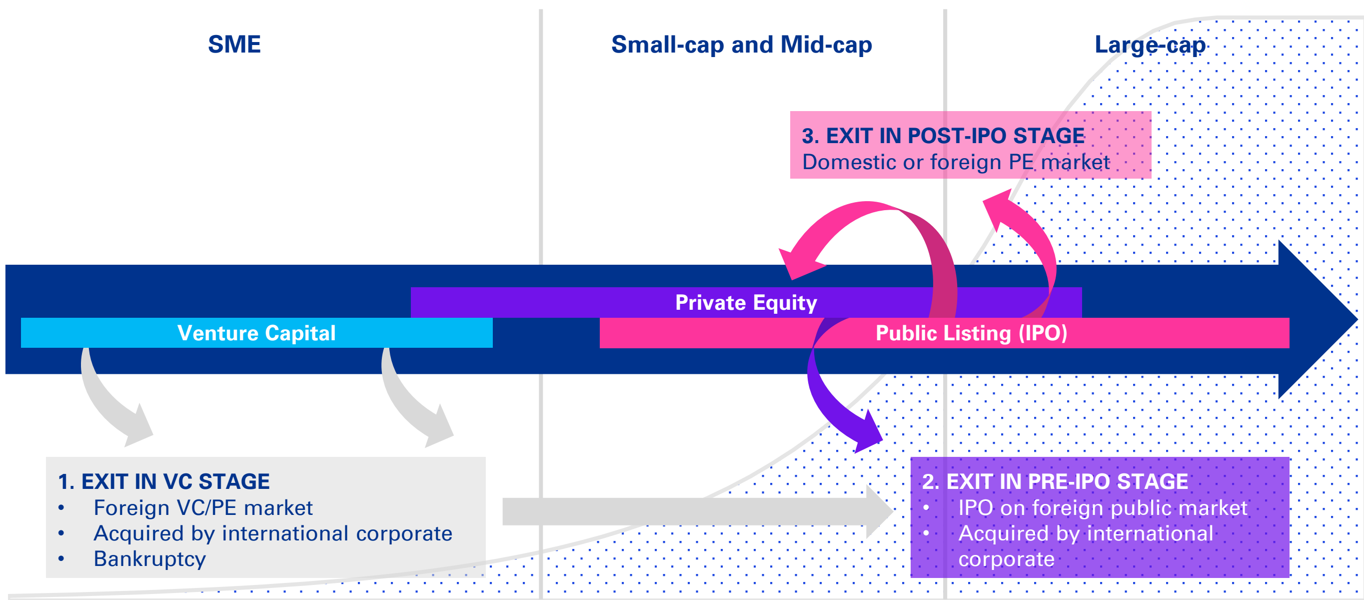
Creating large Dutch VC funds, and fixing the early- and late-stage Dutch VC market gaps, can as some argued, create a snowball effect that will result in Dutch VC-financed ventures exiting into the Dutch PE market. A market which will consequently grow and contribute to bringing those firms to the Dutch public market, provided the right pre-conditions are in place. If not, the snowball will burst at the first obstacle it hits. Addressing the challenges in the Dutch VC market does not guarantee smooth sailing through the Dutch capital markets chain towards its public market, traditionally the end-station for companies.

The challenges in the Dutch VC market are most prevalent but, looking further ahead, there are some challenges further into the Dutch capital markets chain. An exit from the private market onto the Dutch public market for many Dutch companies seems to be one leap too far. For those Dutch firms for whom this step of an IPO onto the Dutch public capital market is a possibility, it is not necessarily seen as a logical or attractive step. There is a trend whereby Dutch companies stay within the private equity market longer due to the regulatory burden and lower valuations on the Dutch public capital market. Others choose to IPO on foreign public markets, such as the US, where valuations are generally higher, the capital market network is generally stronger with ample knowledge, expertise and research available and an (investment) culture and political climate that is generally considered more facilitating towards the capital markets and (large) corporations. In either case, Dutch companies will increasingly likely not make it to the Dutch public market. Additionally, there are seemingly more frequent cases whereby publicly listed Dutch companies consider and/or choose to exit the public market and return to the private PE market.

> **"The Netherlands is a successful incubator for startups, however in recent years only Adyen made it to the Dutch public market"**
>
> **Interest Group**

Figure 39

Simplified view of the Dutch capital markets chain on the business growth curve and the pre- and post-IPO exits away from the Dutch capital markets chain during a company's high-growth/return phase.



Companies that move quickly and efficiently through the Dutch capital markets chain toward being publicly listed generally have the greatest prospects for success. As such, the trend of Dutch companies staying increasingly longer in the private market for capital, as well as Dutch companies increasingly raising capital on foreign public markets, has the potential to increasingly distance the Dutch public capital market from the Dutch capital markets chain and the real Dutch economy and to increase the dependence of the Netherlands on investors and capital markets abroad.

If the Netherlands strives for an innovative economy with the aim of achieving general prosperity, it will require the right conditions for a smooth path from the private markets to the Dutch public capital market for companies. Otherwise, the trend of Dutch companies looking for PE capital abroad, being acquired by a large foreign firm and/or seeking an IPO on public capital markets abroad will continue and hollow out the Dutch capital markets chain.

4.3.1 Is PE overtaking the Dutch PE market?

An analysis of the latter part of the Dutch capital markets chain illustrates a Dutch PE market that is still relatively small comparing it internationally but growing relatively steadily alongside the Dutch VC market. If the Dutch VC market can grow, creating a partial overlap with the Dutch PE market (bridging the current funding gaps), this would likely result in more Dutch ventures/companies finding their exit from the Dutch VC market within the Dutch capital markets chain rather than abroad. The Dutch PE market is expected to continue to grow as the Dutch VC market develops and demand for financing through the private market is expected to remain strong. Provided, of course, that Dutch PE funds maintain the current ties and alignment of sector focus and expertise with Dutch VC funds.

At the same time in the EU, and particularly the Netherlands, a trend is observed whereby companies take more time before going public. There are significant benefits for Dutch companies to stay within or return to the private equity market, particularly if a company has good relationships with its shareholders. The private markets generally offer a significantly lower regulatory burden and higher valuation, making private equity a more attractive alternative for companies than the public market. This is particularly visible for small and midcap companies. Large-cap companies are generally still required to go public at some point as they grow to become too big for the private market. However, with the growth of private markets, there is a chance that the point at which a company goes public will be increasingly postponed.

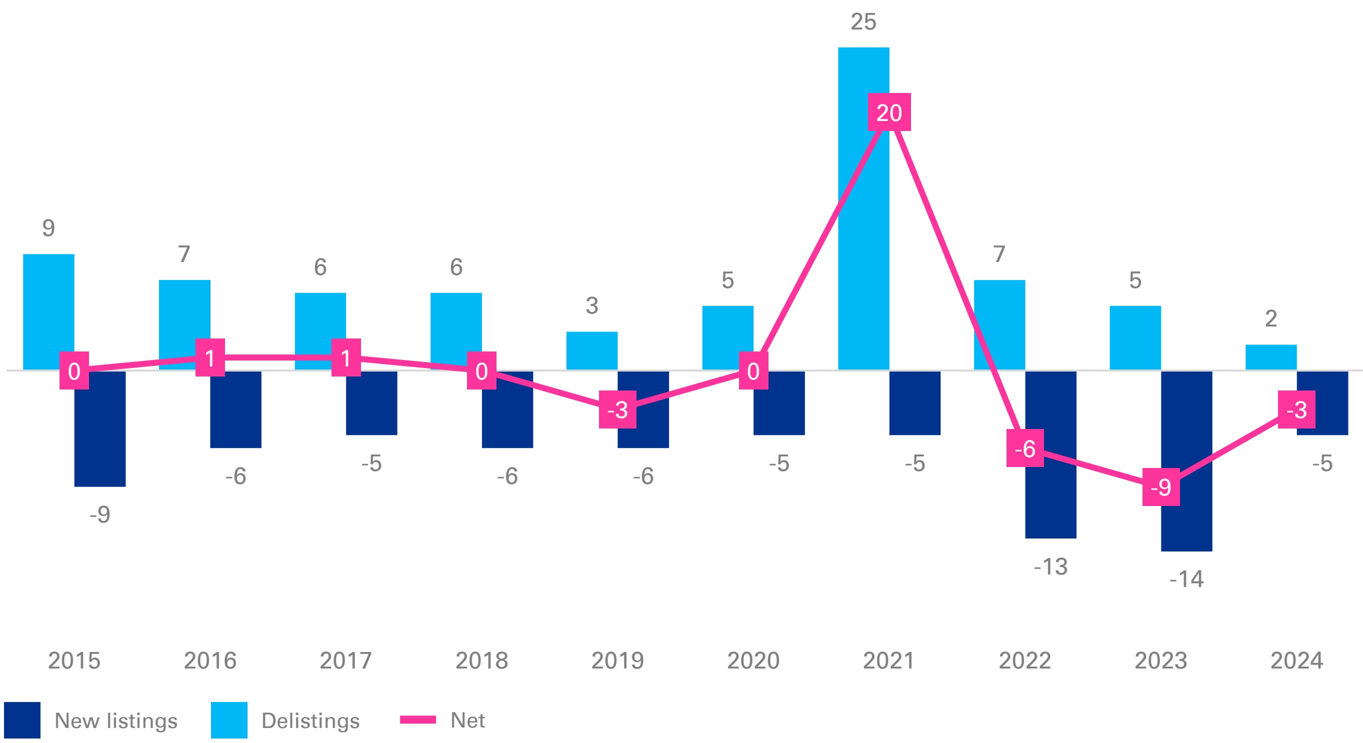
The Dutch public capital market is not only facing the further growth and emergence of the PE markets. Competition for public listings is a global game that goes well beyond the borders of the Netherlands and Europe. Dutch companies increasingly consider the US public capital markets for listings. Compared to the Dutch and European capital markets, the US capital market generally offers higher valuations, a more robust capital market network with ample knowledge, expertise and research available and an investment culture and political climate typically considered more facilitating towards the capital markets and large corporations. That combined with the extensive sales market makes the US an attractive option for Dutch companies and their owners/investors.

> **“**
>
> **If private equity will become the final stop on the Dutch capital market, Dutch corporates will be more vulnerable to (hostile) takeovers by large PE firms and corporates from abroad.”**
>
> **Invester**

As a result of these developments, the Dutch public capital market has been struggling to attract new and maintain existing listings. While the market capitalisation of Euronext Amsterdam has increased, the number of companies listed on Euronext Amsterdam is under pressure, mainly driven by a reduction in the number of small caps listed. Particularly illustrating the difficulty of attracting and retaining SMEs, small and midcap companies, and growth companies, in the Dutch public capital market. The higher interest rates will likely create some momentum for/shift back towards the Dutch public market. However, the trend of companies staying within the PE market longer is expected to continue as the PE market is expected to continue to grow and increasingly provide an attractive alternative to the public market for companies and their owners/investors. Similarly, global competition for listings is expected to remain. Therefore, for the Dutch public capital market to be able to effectively compete, and fulfil its role in and for the Dutch real economy and society, the right conditions have to be set.

Figure 40

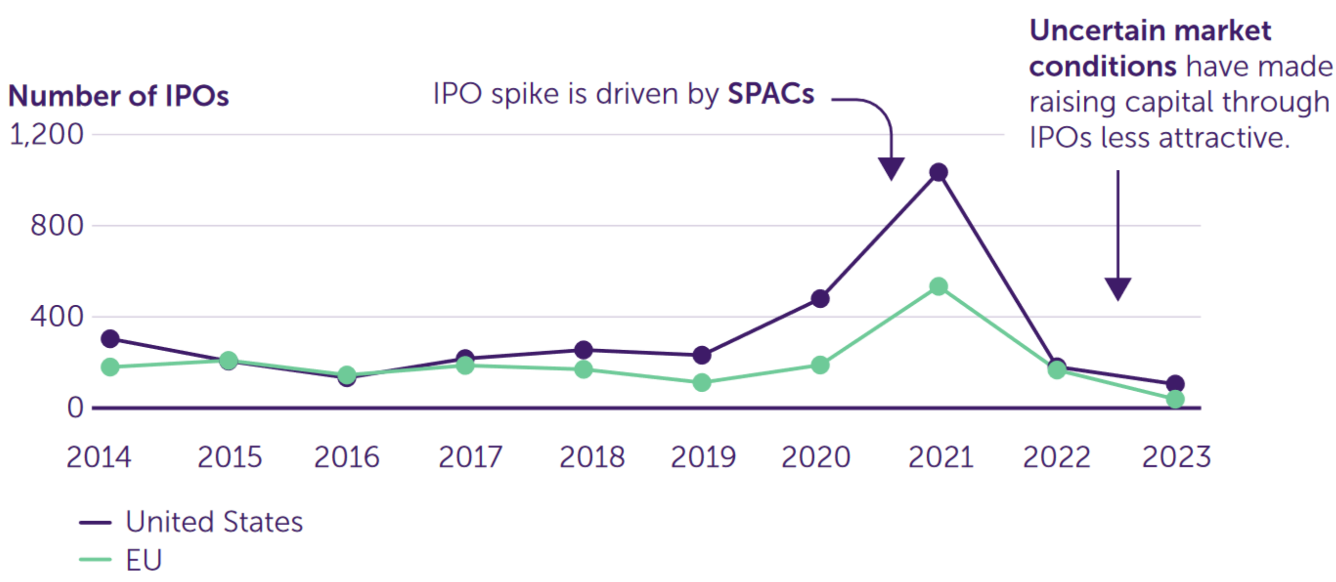
Number of listings and delistings in The Netherlands, including all listing types



Source: Euronext (April 2024)

Figure 41

"Number of IPOs in the EU compared to the US" in "State of the Capital Markets 2023,"



Sources: AFM: State of the Capital Markets 2023 (October 11, 2023). Available via: [AFM calls for a European set of capital market data]

4.3.2 Company valuation – a crucial factor

There is a trend whereby companies are frequently higher valued in the private market than in the public capital market. Valuation is a prevalent factor underlying the attractiveness of the Dutch public capital markets for companies and their investors. The relatively low valuation on the Dutch and European public capital market is a prominent, possibly the key, reason for Dutch companies and their owners/investors remaining in the private market and exploring a listing on a public capital market abroad such as Nasdaq in the US. A better valuation of the Dutch capital market is needed to make an IPO in the Dutch public capital market a competitive alternative to the private market and an IPO in a public capital market abroad.

In the long term, the true value of a stock and thereby the market price of that stock depends on the intrinsic value of the stock. The intrinsic value of a stock is the price a rational investor is willing to pay to invest in a company, given future cash flows and the level of risk. However, in practice market conditions and elements of subjectivity in estimated growth models, levels of risk, analysis of comparable companies and other fundamental factors (such as macroeconomic variables, management of the company and present financial health and, if applicable, profits) explain why the valuation of the same company can be higher in the private market and US capital market than in the Dutch capital market.

This study provides the initial indication that the lower valuations in The Netherlands and Europe compared to the US are the result of differences in market conditions such as size of sales market, local network functions, (investor) culture, political developments and the knowledge, expertise of and information available to analysts to approach potential future cash flows and thus potential returns of a company. Also, the lack of free float (volume), liquidity, trust, and research available are limiting factors on the engagement of Dutch (institutional) investors with the Dutch stock exchange and the valuation of particularly SME, small- and mid-cap companies in the Dutch capital market.

> **"Before ASML sold its first machine, 500 million was burned. This is why Nasdaq is more attractive to many parties, American companies are more used to this"**
>
> **Government/Regulator**

4.3.3 Limited free float causes limited appetite

There were not a lot of IPOs on Euronext Amsterdam in the last few years and the companies that did list in some cases went public prematurely, against large valuations, and are now priced below IPO price (e.g. Ebusco, NXfiltration). Furthermore, some companies relatively quickly post-IPO departed from the public capital market below the IPO price. This harms the trust or confidence of some Dutch investors, affects valuation and reduces the appetite to participate in future IPOs on the Dutch stock exchange, particularly when the free float is limited, and the risk of a company being taken off the public market is perceived higher. Some investors are questioning the exits from the Dutch stock exchange, with large parties having or building large interests, putting pressure on liquidity and making these listed companies an interesting target for private equity.

Particularly, small and midcap Dutch investors see a trend of companies listing on the Dutch stock exchange with a limited free float (of only 25%-30 %) and/or a dominant shareholder. Free float is the stock of a company that can be publicly traded, and that is not restricted (i.e. held by insiders). When the portion of free float is limited, we tend to see less liquidity and higher volatility. As a result, institutional investors will especially invest in stocks with a larger free float, as they can trade substantial shares without affecting a company's share price. For this reason, some institutional investors seek a minimum percentage of free float. Finally, a lower free float increases the risk of a company being taken off the public market resulting in potential unexpected losses and uncertainty around the ability of investors to make the expected returns in the long term. Therefore, the appetite to invest in small and midcap companies on Euronext Amsterdam, particularly of institutional investors, is dampened. This implies that the Dutch public capital market will not be popular for small and midcaps to be listed.

Recommendation 10: Make use of CMU to bridge the gap

It is important to address the performance gap between the Dutch and US capital markets in the context of the European Union as many regulations affecting the Dutch capital market originate and flow from there. However, more importantly, the Dutch capital market is considered too small to compete with the US market. The Capital Market Union (CMU) allows the Netherlands to benefit from a larger single European capital market.

While progress has been made since this initiative was launched in 2015, the EU capital markets remain fragmented. Liquidity is a key driver for performance. EU market fragmentation is often named as one of the key drivers for low liquidity. The large number of trading venues in the EU disperses order flow, resulting in multiple liquidity pools and reduced order sizes across venues. Fragmentation reduces order sizes across venues, making the market less attractive for institutional investors. Overall trading costs rise as more trades are needed to complete customer orders [121]. Especially where an institutional investor values and/or requires a certain flexibility in re-balancing its portfolio without affecting markets. A higher liquidity leads to an increased number of investors willing to participate in that market, contributing to a higher valuation as some investors are willing to pay a premium for this enhanced liquidity. So, enhanced market liquidity in the EU market, including the Netherlands, is a key ingredient to an increased valuation in the Dutch and European capital markets.

Furthermore, gold plating, as a practice whereby the powers of an EU directive are extended beyond minimum requirements when being transposed into the national laws of a member state, is deemed to continue to undermine the single market. It creates differences across member states and potentially overregulates, raising additional costs within the capital markets of the EU. Stakeholders in the Dutch capital market call for unity, speed and flexibility from the EU regarding legislation and a single EU market, the CMU. Otherwise, the EU capital markets will be unable to keep up with global capital markets.

> **“Apple can trade more than the whole of Euronext on a single day”**
>
> **Simon Gallagher, Euronext [122]**

Recommendation 11: Enhance research capabilities on Dutch stocks

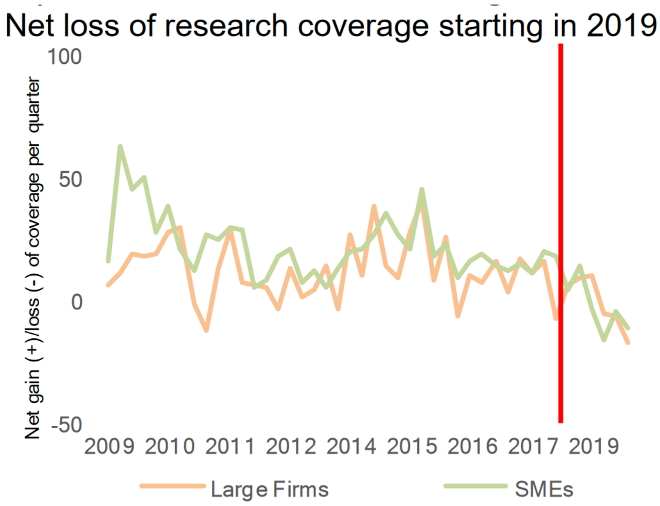
In general, markets such as the US possess a more profound knowledge and have more experience and expertise with capital markets and investing than the Netherlands. First of all, Investing is more embedded in culture and education. Secondly, its capital market network is strong throughout the capital markets chain, and investors are involved in the company's earlier stages. Hence, this section focuses on other drivers of the decreased knowledge, expertise and research in the Dutch capital market.

Generally speaking, IPOs and startups do well if their local society and investor base understand and follow them. It all starts at home. If Dutch Institutional Investors decide not to invest in a company, knowledge, insight and equity research will not be produced locally. No local investor following can be generated without local knowledge, understanding, and equity research. Lower Investor following simply leads to lower valuations. So, to develop a more local investor following, we must ensure local equity research follows.

Also, the unbundling of research activities in MiFID II, whereby brokerages had to charge for investment research and trading separately, was named as a reason for less sell-side research on Dutch companies being available, particularly small and midcap companies [123]. This results in information gaps in the Dutch capital market, making it less attractive and relatively costly for (institutional) investors to invest in Dutch SME, small and midcap firms. In 2019, SMEs did not appear disproportionately affected by the unbundling of research activities [124]. However, as Dutch companies, particularly SMEs, were previously followed primarily by analysts of local brokers, whereas now the research activity is observed to increasingly be with large international research firms, sell-side research available for SMEs is decreasing more rapidly, according to Dutch investors. Reemphasizing the importance of approaching SME, small and midcap and large-cap companies differently and ensuring differentiation in regulation where needed.

Figure 42

"Impact of MiFID II (2018) on research coverage ESMA: MiFID II research unbundling – first evidence."



Sources: trv_2020_2-mifid_ii_research_unbundling_first_evidence.pdf (europa.eu) [124]

Our study suggests that the lack of sell-side research, particularly on small and midcap, will not be filled by additional buy-side research of investors. There is only limited free float (i.e., volume) available for investment in small and midcap firms and consequently the limited interest of institutional investors to invest heavily in due diligence and research of such firms. The costs of investing in buy-side research for SME, small and midcap firms with limited volume to invest in are deemed relatively high by institutional investors. The costs for proper research and due diligence are the same for a listed SME with limited volume, as for a large firm with ample volume available to invest in. This makes small and midcap investments less attractive, particularly for large institutional investors with large sums of capital to deploy. As such, the likelihood for buy-side firms to invest in researching more extensive stocks with ample volume available for investment is higher.

The UK and European Union are considering a rollback of the unbundling of research activities; however, until then, the lack of research will continue to strain investments in small and midcap companies, which will become more attractive again.

Recommendation 12: Reduce cost and complexity for listing on Dutch public market

While improving valuation in the Dutch capital markets chain, it will not materialise into more Dutch companies going public if an IPO is still deemed insufficiently attractive to its owners/investors to go from the private to the public markets. Another significant factor underlying the attractiveness of the Dutch public capital markets for companies and their investors is the regulatory burden.

The regulations applicable to an IPO on the Dutch public capital market are experienced to be too complex. This leads to a lengthy, cumbersome, and costly IPO process that particularly discourages many local growth companies from going public in their smallcap/midcap phase. These companies do not have the deep pockets of large caps and are sensitive to the cost burden and the hassle accompanying an IPO.

Beyond the IPO, there are fewer legal and regulatory requirements applicable to companies on the private market versus companies on the public market in the EU, and consequently the Netherlands. Regulations applicable to Dutch publicly listed firms have become increasingly complex and burdensome according to the market. Regulatory compliance of publicly listed firms has turned into a significant cost burden. A cost burden that again (local) growth companies in their smallcap/midcap phase cannot and/or are unwilling to bear. Consequently, these companies with an alternative in the global PE market will be more likely to postpone an IPO by obtaining financing from the generally more significant PE funds abroad and staying in the PE market as long as possible. Furthermore, publicly listed companies are also increasingly exploring an exit from the public market and moving back into the private market, resulting from this regulatory burden.

According to those interviewed, the Dutch public capital market and law and policymakers are responsible for facilitating and contributing to a deep and vital Dutch public capital market. As well as for the Dutch public capital market to be an attractive exit for Dutch companies and their owners/investors. Further, reducing the cost and complexity for companies related to an IPO and being publicly listed on the Dutch capital market is deemed a precondition to achieve this.

“We need to do both, be part of the private capital market and ensure that the public capital market is a better alternative”

Infrastructure Firm

“It should not be too complex and cumbersome for companies to IPO on the Dutch public capital market and to stay there”

Infrastructure Firm

In particular, it is considered necessary to differentiate between SMEs, small and midcap, and large-cap firms regarding the scale and complexity of applicable legislation. While there is broad agreement that laws and regulations, as well as the national competent authorities, play a vital role in guarding the trust and confidence of investors in the Dutch capital market, an appropriate balance between opportunities and risks will have to be kept. Regulations will need to be fit for purpose. According to stakeholders in the Dutch capital market, some initial improvements have been observed on the level of European legislation.

Also, within the Dutch public capital market will have to come up with an innovative offering within the boundaries of (remaining) legislation contributing to a reduction of cost and complexity of the listing process, particularly for those SME, small and midcap companies that are currently most likely to be discouraged from going public. This can help overturn the trend of companies staying within the PE market longer and/or companies returning to the PE market. Provided, of course, that law and policymakers leave sufficient flexibility to allow the local public capital markets to respond quickly and to be able to match any offer from public markets abroad this can help the Dutch and European capital markets to remain competitive on the global playing field and to prevent substantial exists of Dutch companies to public capital markets abroad. This latter part is partially dependent on European legislators and partially on Dutch and other national legislators to avoid gold-plating, reducing the efficiencies and benefits of a single market, causing unnecessary complexity for stakeholders in the Dutch and European capital markets and affecting the level playing field between member states and in some cases causing over-regulation by going beyond minimal requirements.

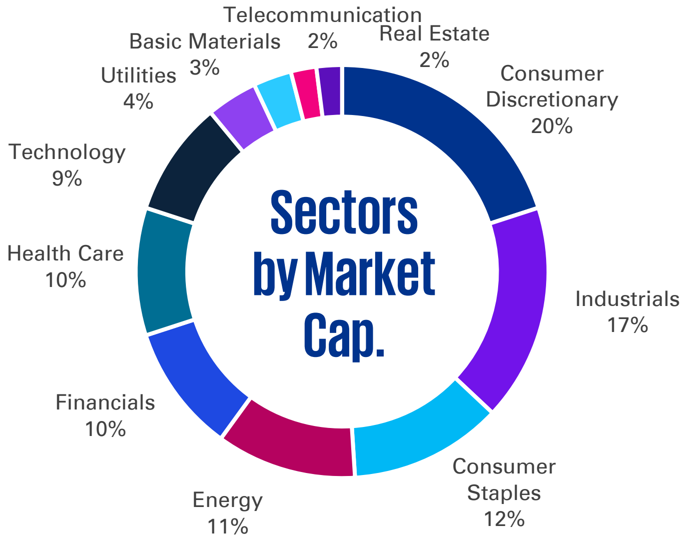
Recommendation 13: Make the Dutch stock market a more popular investment option

Lastly, the value proposition of the Dutch capital market, including Euronext Amsterdam, has become less clear for Dutch companies and their owners/investors, as well as Dutch institutional investors. Not long ago Euronext Amsterdam was deemed to be on its way to become the leading stock exchange for technology, specifically biotech. Dutch companies such as ASML and Adyen are listed on Euronext Amsterdam. However, the identity of the Dutch stock exchange, Euronext Amsterdam, has become less clear, with tech companies and SPAC listings increasingly skewed to large international corporations.

The link between Euronext Amsterdam and the Dutch economy is weakening. The number of non-Dutch-originated companies listed in Amsterdam hovers around 30%. In addition, the SPAC listings, while on the one hand a very good opportunity to reduce the likelihood of failure of listings and reputational damage, on the other hand, also create a risk for Euronext Amsterdam to become "the public market for bags of money with no clear purpose" according to an advisor. This will create both an opportunity and a threat to Euronext Amsterdam's image as the stock exchange for technology and biotech companies if this risk is left unmitigated.

Figure 42

 # "Sectors represented on Euronext Amsterdam by market capitalisation (dual listed companies accounted only for their market of reference)."

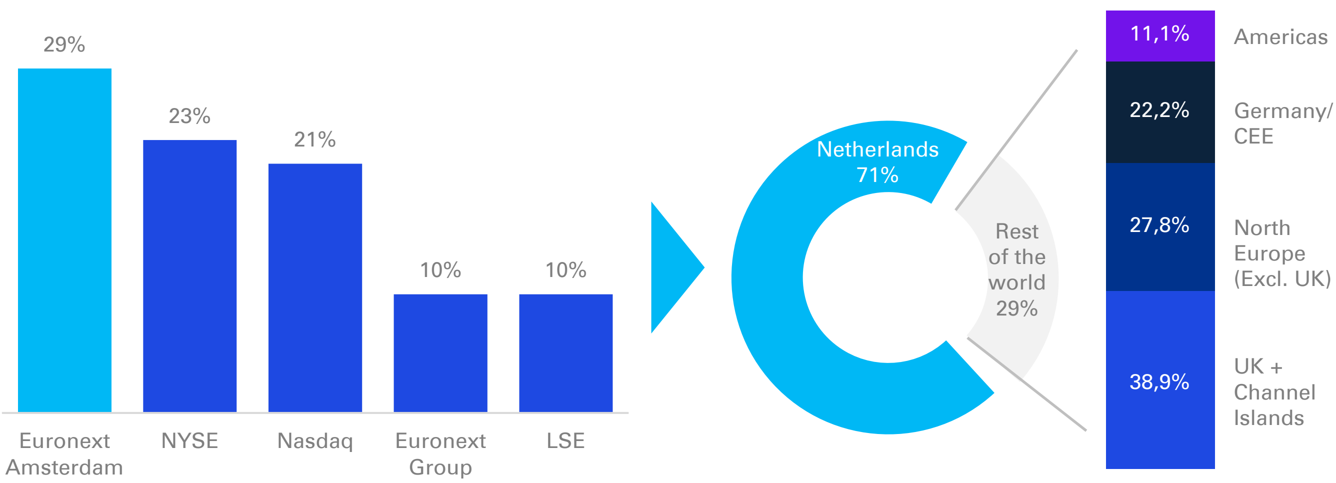


Sources: Euronext based on ICB classification (as of April 2024)

Therefore, for Euronext Amsterdam to engage Dutch companies and Dutch (institutional) investors, there is a need to develop a long-term vision for Euronext Amsterdam, its added value and product portfolio, to position and brand its market. Euronext Amsterdam can consider its role in optimally reinforcing the Dutch economy.

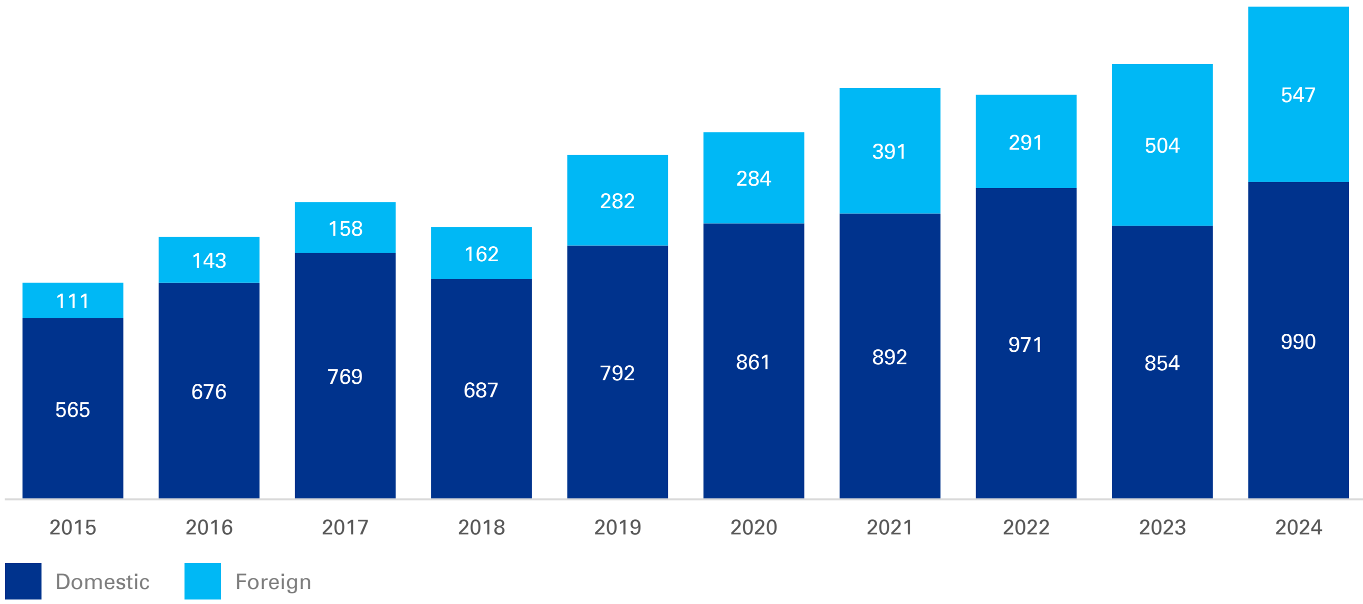
Figure 43

% of international issuers based on 1) companies with operational headquarters located outside of the exchange market locations, and 2) according to data from the exchange's All Share indices.



Source: Euronext/Refinitiv (as of February 2024)

Figure 44
Cumulative market value as of January 2024 of domestic and foreign companies listed on Euronext Amsterdam (EUR billion).



Sources: Euronext/Refinitiv

Recommendation 14: Deepen the Dutch capital markets skillset

Addressing the positioning and attractiveness of the Dutch public capital market is important. However, an attractive Dutch public capital market does not necessarily bring Dutch companies and investors together at each stage of the Dutch capital markets chain. The role of advisors, particularly investment banks and lawyers, is considered indispensable for companies wishing to obtain market financing. It is one of the secrets of Silicon Valley. US law firms take companies with the help of their network through the capital markets chain. In the Netherlands, historically, the Dutch banks were, in their role as investment banks, the arrangers of corporate financing and advisors for Dutch firms. Generally, Dutch companies started by obtaining credit at a Dutch bank, that same Dutch bank proactively bringing their corporate clients up to and including an IPO on the public market.

According to participants in this study, the network of advisors in the Netherlands has been slowly but continuously degrading and will continue to do so if nothing changes. Whereas companies indicate that finding good quality Dutch lawyers with sufficient knowledge and expertise to advise in the Netherlands is no problem, the advisory role and knowledge within the Dutch banking landscape seem hollowed out. Dutch banks are said to have reduced size, with limited research and investment banking activities and contact with Dutch companies and (potential) investors. Since the 2008 credit crisis, Dutch banks have slowly but continuously divested into this area following increased regulatory pressure and associated risks, costs, and capital requirements. This, combined with the automation of banking activities particularly for small and medium-sized enterprises, has particularly impacted the role of Dutch banks, bringing clients from the Dutch private market up and through an IPO process.

“In the past, ABN and ING often arrived at the stock exchange with customers to take them to the market, but since the credit crisis they no longer do that”

Interest Group

It is already the case that most IPOs in the Dutch public capital market are led by large international investment banks such as Citibank, HSBC, Morgan Stanley and JP Morgan, with Dutch banks in less senior roles. During Brexit, the Netherlands could not attract these international banks to headquarter their European investment banking activities, including ECM, in the Netherlands; this expertise is less developed here than in London. This affects not just the banks’ ability to advise Dutch companies, but also their role as arrangers in the Dutch capital market network.

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Tech companies won't go to a Dutch investment bank to obtain market financing. Dutch banks do not have the expertise. For logistics and industry, yes, but not if you have an internationally operating tech company. In such cases, working with a Dutch bank is difficult to explain to (potential) investors"

Dutch VC funded firm

The network of advisors is important for an optimally functioning Dutch capital market and economy. Networks play a large role in firms' ability to find their way through the Dutch capital markets chain to the Dutch public capital market. A weakening of the network of advisors will reduce the ability to connect early on in the Dutch capital markets chain to the different actors involved and supply and demand within the Netherlands. The trust of investors, which is partially built through a deeper knowledge of, prior experience in, and indirect relationships with a company, can contribute to a better company valuation.

Furthermore, when preparing for an IPO in the public market, companies tend to follow the advice of their banks. The banks therefore play a significant role in determining the public markets a company considers for an IPO and the network of investors that are approached. Dutch IPOs need Dutch banks with strong ties to Dutch capital markets, otherwise, Dutch companies looking to go public will source funding from investors and public markets abroad and remove invaluable capital and that capital's potential from the Dutch economy and Dutch society.

While a majority believes this trend will continue, some believe that provided the regulatory climate will become less stringent, investment banking will be back on the table for Dutch banks again. As they are expected to look again and diversify their services. Regardless, in the meantime, the more the network of advisors degrades, and the more knowledge and expertise will be lost, the more difficult and time-consuming and the higher the investment required to rebuild this network in the future.

As such, alternatives will have to be sought. Other actors within the Dutch capital market network will also have to be looked at to help fulfil this role of arranger in the Dutch capital markets chain and advisor for Dutch firms. This could also be a combination of actors building coalitions that jointly work to refortify the network of advisors in the Dutch capital market to help bring companies to the Dutch public capital market. If the network is not refortified, it will be much more of a challenge for the Dutch public capital market to stay at the top of mind, be the first pick of Dutch firms, and compete with securities exchanges abroad. This is particularly true for Dutch tech companies, which generally have a mostly international investor base with limited ties to the Netherlands.

Recommendation 15: Bridge the private and public markets

While the PE market can be considered to compete with the public capital market, it also plays a vital role within the Dutch capital market, whereby it helps bridge the step from the Dutch VC market to the Dutch public market, Euronext Amsterdam. A healthy overlap and strong ties between the Dutch private market and Euronext Amsterdam can help companies to move quickly and efficiently through the Dutch capital markets chain to become publicly listed.

It is not uncommon for foreign investors in Dutch companies to be used to and in favour of an IPO in the US. Some describe the (foreign) investors' push on organisations to consider going public on the US public market, often Nasdaq for tech companies. In such a case, a Dutch company must have a compelling story for going public on Euronext Amsterdam. Frequent, recurring and open interactions and strong relationships with relevant (Dutch) companies, the owners/investors (including VC and PE funds) of such companies and any other relevant stakeholders, including the Dutch government and relevant national competent authorities, will help build trust in the Dutch public capital market and allow for any concerns and considerations of Dutch firms and their owners/investors about going public on Euronext Amsterdam to be talked about and addressed early on.

Most are looking at Euronext Amsterdam to bind the Dutch private and public market and its stakeholders. With a longstanding history of playing a central role in bringing stakeholders of the Dutch capital market together, Euronext Amsterdam is deemed well-positioned to fulfil this role. Additionally, Euronext Amsterdam can explore taking on a role or position in the Dutch private market, to connect with companies at an earlier stage in the Dutch capital markets chain. Many institutional investors that acted initially only in the public capital market have turned to the Dutch private market. Strengthening the ties and involvement with the private market and its stakeholders at an early stage will require a significant local focus and investments from Euronext.

Hence, while a strong business case exists for Euronext Amsterdam being part of Euronext Group, the efficiencies and synergies obtained through a single European infrastructure and operations benefit all markets. Dutch society and Euronext group could benefit from increased focus on and making more investments in the Dutch capital market. They see a role for Euronext and the Dutch government to help ensure increased alignment of the Dutch public capital market with the ambitions of Dutch corporations.

Smaller niche markets such as NPEX and Nxchange theoretically also have the potential to play a role in forming the bridge from the private market to Euronext Amsterdam, however, in practice, they are not significant enough to make a sizable difference in their current form/shape.

5 Conclusion and next steps

In the Netherlands sufficient funds are available, but it is sometimes tricky for Dutch companies to access such funds. This study provides an indication of the bottlenecks in the capital markets chain and the conditions that need to be created to strengthen the Dutch capital market.

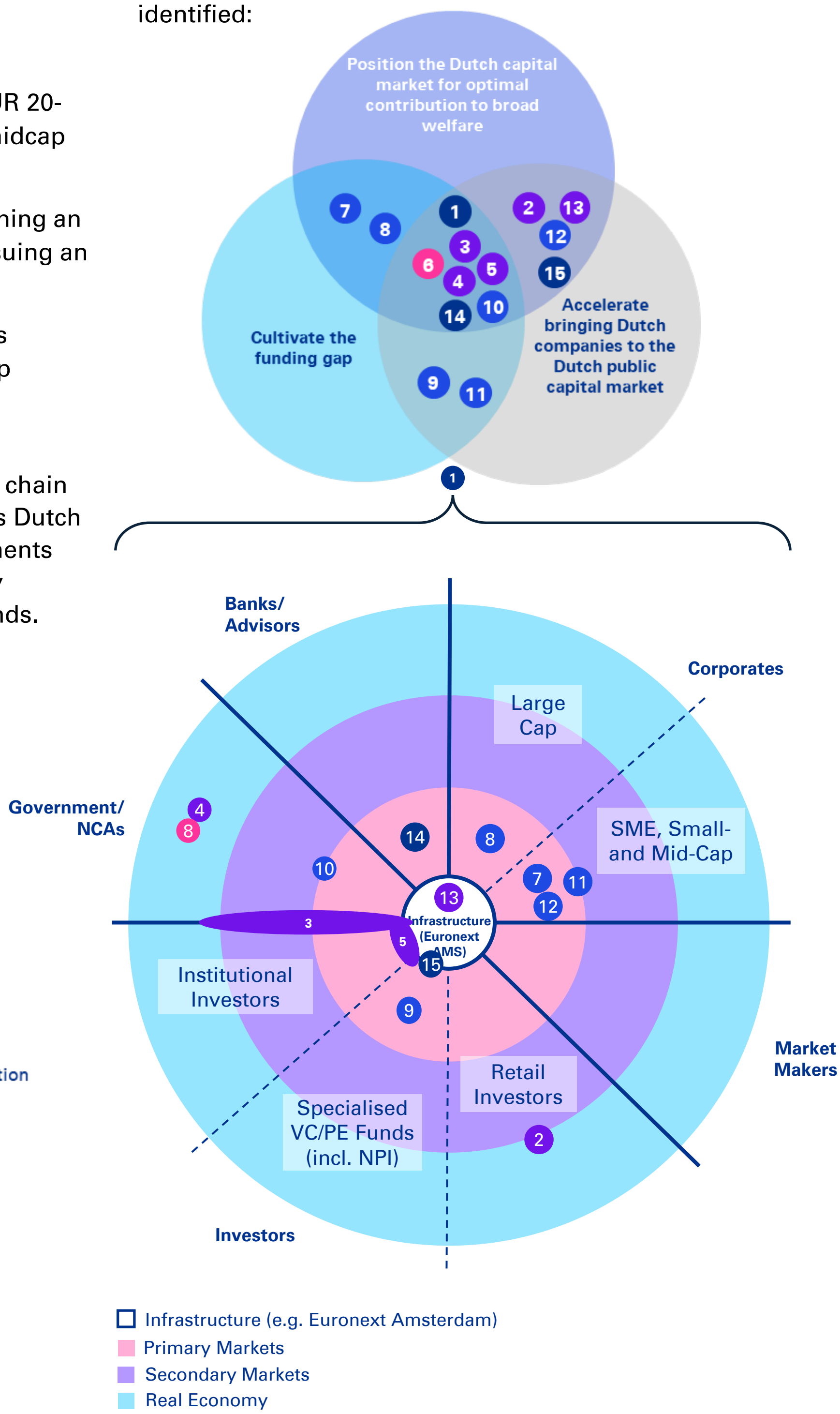
5.1 Bottlenecks in the chain

We found the following bottlenecks in the Dutch capital markets chain:

1. Capital needs in the pre-seed/pre-revenue phase, particularly for capital-intensive initiatives/companies
2. Funding gaps for capital needs between EUR 20-200 million affecting SME, small-cap and midcap companies
3. SME, small and midcap companies postponing an IPO on the Dutch public market and/or pursuing an IPO on public capital markets abroad
4. Publicly listed small and midcap companies delisting and returning to private ownership

5.2 Overview of recommendations

An optimally functioning Dutch capital markets chain and the real economy reinforce one another. As Dutch companies grow and innovate through investments from the Dutch capital market they increasingly contribute to the real economy of the Netherlands. Addressing the bottlenecks and strategically positioning the Dutch capital market towards opportunities can optimally contribute to the general welfare of Dutch society. Recommendations to address the identified bottlenecks and for the Dutch capital market to provide a better basis to be deeply embedded in the Dutch culture and economy were identified:



Strenghtened collaboration

1 Increased public-private collaboration

14 Deepen the Dutch capital markets skillset

15 Bridge the private and public markets

Market positioning

2 Education on the relevance of capital markets

3 The opportunity of glocalisation

4 Focus on technology and sustainability

5 Deepen the Dutch public debt markets

13 Make the Dutch stock market a more popular investment option

Long-term vision and strategy

6 Joint vision within the Dutch capital markets chain

Market improvements

7 Improve the VC investment case

8 Reinvestments along the chain by large corporations

9 Establish well-connected VC industry in the Netherlands

10 Make use of CMU to bridge the gap

11 Enhance research capabilities on Dutch stocks

12 Reduce cost and complexity for listing on Dutch public market

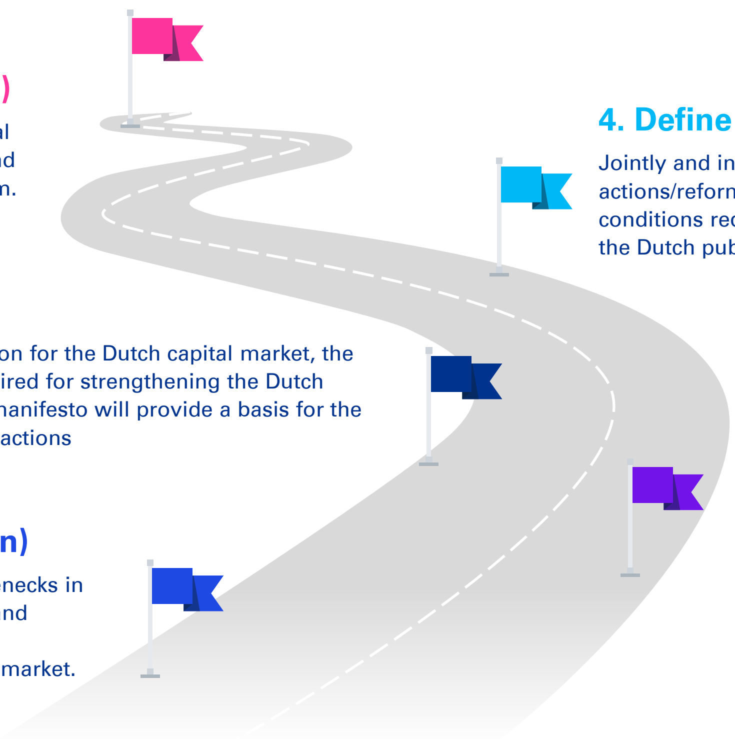
5.3 Next steps

The Netherlands is on the right path. There is consensus, however, among different stakeholders in the Dutch capital market that this is the time to continue to create the right conditions to maintain and strengthen the position that the Dutch capital has and the general welfare derived from that. However, how these conditions will be achieved must be further aligned and defined. Where there is alignment, there is a need to become more concrete. Furthermore, in some cases, there are diverging views among stakeholders in the Dutch capital markets on achieving these conditions.

Stakeholders in the Dutch capital market are not yet aligned on a detailed agenda for reform. In Italy, for example, a manifesto for developing the capital markets in Italy was created. This manifesto outlined the issues and described the reforms and commitments necessary to strengthen the Italian capital market. Furthermore, in each case, a commitment of financial resources and reform (i.e. investment) by stakeholders in the Dutch capital market (e.g. government, infrastructure firms, institutional investors, and banks) is required.

> **“Plans are only good intentions unless they immediately degenerate into hard work”**
>
> **Peter Drucker**

While the EU is expected to play a significant role in achieving the conditions, the Dutch capital market and its stakeholders must take charge of their future. Collaboration and ownership by all stakeholders in the market need to be sought. These conditions cannot be achieved in isolation. Furthermore, one or more stakeholders within the Dutch capital market will need to step up and take the lead in bringing together all stakeholders to create a long-term vision and approach for the Dutch capital market.



5. Implement (Declaration of Intent)

Stakeholders in the Dutch capital market commit to take action and implement this agenda of reform.

4. Define (Agenda for Reform)

Jointly and individually define concrete actions/reforms needed to create the conditions required to achieve this vision for the Dutch public capital market.

3. Align (Manifesto)

Stakeholder alignment on a vision for the Dutch capital market, the bottlenecks and conditions required for strengthening the Dutch capital market in the form of a manifesto will provide a basis for the stakeholders to define concrete actions

2. Engage (Event)

Continued collaboration and a joint effort of all stakeholders in the Dutch capital market will have to be sought. The conditions for a stronger Dutch capital market cannot be achieved in isolation.

1. Identify (Publication)

This publication identifies bottlenecks in the Dutch capital market chain and potential recommendations for strengthening the Dutch capital market.

Glossary

ABBREVIATION	FULL TERM
AEX	Amsterdam Exchange index
AFM	Autoriteit Financiële Markten (Dutch Authority for the Financial Markets)
APAC	Asia Pacific
AUM	Asset Under Management
BV	Besloten Vennootschap (Private limited company)
CBS	Centraal Bureau voor de Statistiek (Statistics Netherlands)
CMU	Capital Market Union
DNB	De Nederlandsche Bank (The Dutch Central Bank)
ECB	European Central Bank
EIB	European Investment Bank
ESG	Environmental, Social & Governance
ESMA	European Securities and Markets Authority
ETF	Exchange Traded Fund
GDP	Gross Domestic Product
IMF	International Monetary Fund
IPO	Initial Public Offering
IT	Information Technology
KPI	Key Performance Indicator
KYC	Know Your Customer
LGD	Loss Given Default
LSEG	London Stock Exchange Group
MiFID II	Markets in Financial Instruments Directive II
EZK (Ministerie van)	Ministerie van Economische Zaken en Klimaat (Dutch Ministry of Economic Affairs and Climate Policy)

ABBREVIATION	FULL TERM
MTF	Multilateral Trading Facility
NBI	National Investment Bank
NGPF	Norwegian Government Pension Fund
NPI	National Promotional Institution
NRG	National Nuclear Research Institute
OTC	Over the Counter
PD	Probability to Default
PE	Private Equity
R&D	Research and Development
RCF	Revolving credit facility
ROM	Regionale Ontwikkelings Maatschappij (Regional Development Agency)
RVO	Rijksdienst voor Ondernemend Nederland (Netherlands Enterprise Agency)
SAAS	Software-as-a-Service
SCA	Stichting Capital Amsterdam
SDGs	Sustainable Development Goals
SME	Small & Medium Enterprise
SPAC	Special Purpose Acquisition Companye
TAM	Total Addressable Market
TLB	Term Loan B
TNO	Nederlandse Organisatie voor toegepast-natuurwetenschappelijk onderzoek (Netherlands Organisation for Applied Scientific Research)
VC	Venture Capital

Appendix I: List of interviewed organisations

TYPE OF ORGANISATION	ORGANISATION NAME	INTERVIEWEES
Academic/ Incubator	Erasmus Universiteit Rotterdam	1
	Vrije Universiteit Amsterdam (Albert Menkveld)	1
	Brainport	1
	Yes!Delft	1
Advisor	Allen & Overy	1
	KPMG	3
	NautaDutilh	1
	Stibbe	1
Banker/Broker	ABN AMRO	2
	ING	1
	Rabobank	1
	Saxo Bank	1
Corporate	ASML	1
	Large Dutch Corporation	1
	Ebusco	1
	Dutch VC funded firm	1
	Lucas Bols	1
	The Kingfish company	1
	Volker Wessels	1
Government/ Regulator	AFM	3
	DNB	1
	Ministerie van Economische Zaken en Klimaat	1
	Ministerie van Financiën	2
	Nationaal Groeifonds	1

TYPE OF ORGANISATION	ORGANISATION NAME	INTERVIEWEES
Infrastructure	Euronext	1
	NPEX	1
Interest Group	APT	1
	DUFAS	1
	Market expert	1
	MKB Nederland / VNO-NCW	2
	NVB	2
	NVP	1
	Stichting MKB financiering	1
	VEB	1
	VV&A	1
Investor	Achmea Investment Management	1
	APG Asset Management	1
	ASR Vermogensbeheer	2
	Brabantse Ontwikkelings Maatschappij	1
	Blue Sky Group	1
	Carbon Equity	1
	Gilde - Rivean	1
	Deep Tech Equity	1
	Infestos	1
	Invest-NL	1
	Nederlands Merkgoed	1
	OHV	2
	Robeco	2
	Teslin	1
	Universeel Nederlands Aandelen Fonds	1

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