

# Financing investments in the German industry

Financing and Market trends |  
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## On the investment needs of German industry:



*Investment is crucial for the growth and competitiveness of the German industry and therefore the key to a sustainable economy. Investments create the financial basis for research, development, qualification and innovation. Productivity-enhancing investments in particular are essential to maintain and expand prosperity despite demographic ageing.*



## KEY FACTS

**190**

€bn

NECESSARY ANNUAL CLIMATE PROTECTION INVESTMENTS TO ACHIEVE CLIMATE NEUTRALITY BY 2050.

**100-150**

€bn

ANNUAL IT AND DIGITALIZATION INVESTMENTS TO CATCH UP WITH COMPARABLE EU COUNTRIES.

**630.000**

CURRENT LEVEL OF THE SKILLS GAP. IN OTHER WORDS, THERE ARE NO SUITABLY QUALIFIED UNEMPLOYED PEOPLE.

**125**

€bn

NET OUTFLOWS OF FOREIGN DIRECT INVESTMENT FROM GERMANY IN 2022 ACCORDING TO THE OECD.

# WHY THE GERMAN INDUSTRY HAS A GREAT NEED FOR INVESTMENT

German industry is facing significant challenges, including the effects of digitalization, the shift from analogue to digital business models, the need for environmental protection measures and sustainable production processes, as well as demographic change, which is leading to a shortage of skilled workers and an ageing workforce. In order to successfully master these processes, significantly higher investment efforts are required than in the past.

## 1 Digitalization and Industry 4.0

At present, Germany ranks at best in the middle of the EU in terms of the use of digital technologies in the economy<sup>1</sup>. German industry must invest in digital technologies and automation to remain competitive. However, in order to catch up with comparable countries, IT and digitalization investments in Germany would have to double or triple from EUR 49 billion to EUR 100 to 150 billion annually. In the SME sector alone, digitalization expenditure would have to increase from EUR 18 billion in 2019 to EUR 35 to 50 billion per year.

## 2 Sustainability and environmental protection

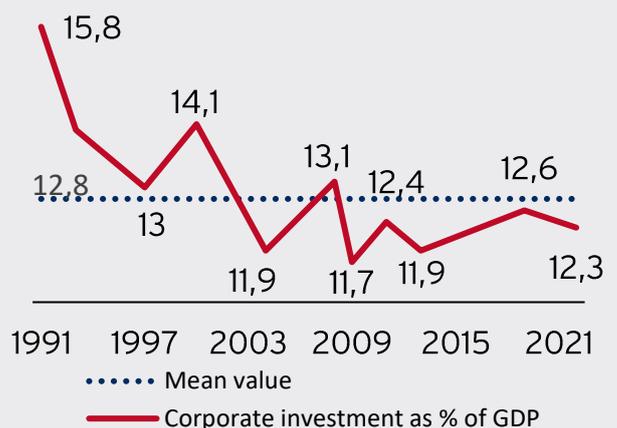
Companies are increasingly focusing on environmentally friendly technologies and processes in order to achieve sustainability goals and reduce their environmental impact. These investments not only serve to protect the environment, but also contribute to long-term competitiveness. A recent study commissioned by KfW puts the climate protection investments required to achieve the goal of climate neutrality by 2050 at around EUR 5 trillion or around EUR 190 billion per year<sup>1</sup>. This enormous sum makes it clear that considerably greater efforts will be required to achieve the target than has been the case to date.

## 3 Shortage of skilled labour

According to a recent study by the Association of German Chambers of Industry and Commerce, more than half of companies see the shortage of skilled labor as a threat to their value creation<sup>2</sup>. Many companies fear that they will have to limit their supply in the long term or even turn down orders. The shortage of skilled labor currently stands at around 630 thousand<sup>2</sup>. For this reason, companies need to invest heavily in training and education initiatives in order to attract and retain qualified staff. This requires additional financial resources and co-operation with educational institutions.

## 4 Structural investment weakness

Since the 1990s, corporate investment has fallen sharply compared to GDP<sup>1</sup>. Most recently, the recovery was broken again due to the coronavirus pandemic.



<sup>1</sup> KfW Research <sup>2</sup> Federal Ministry for Economic Affairs and Climate Protection  
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# WHAT SOURCES OF FUNDING ARE AVAILABLE FOR INVESTMENTS?

In Germany, companies have the opportunity to choose from a wide range of financing instruments to realize their investment projects. The choice of the best source of financing depends on various factors, including financing needs, risk appetite and business objectives.

## Equity financing

Many German industrial companies use equity to finance investments. This can be done through internal profits, capital increases or private investors. The advantage of equity is that there is no repayment obligation, but it also means that the owners can relinquish some control of the company.

## Bank loans

Banks are traditional sources of corporate financing. German companies often have access to favorable loans, which are supported by their solid credit rating. Bank loans are particularly suitable for short-term financing needs.

## Subsidies

The German government and the European Union offer a variety of state loan programs, subsidies and grants for investments in areas such as research and development, environmental protection and innovation. These subsidies can help to reduce the financial burden of investments and promote innovation.

## Alternative capital providers

Providers of alternative forms of financing are gaining in importance and popularity. The offerings of new market participants often offer additional advantages over traditional bank loans, such as more flexible and customized types of financing (particularly with regard to terms and repayment requirements).

## Venture Capital and Private Equity

Start-ups and technology companies in particular are increasingly looking for venture capital and private equity financing to enable rapid growth. These forms of financing often not only provide capital, but also expertise and networks.

# YOUR CONTACT PERSON

Capitalmind Investec has extensive experience in advising on financing solutions. With dedicated financing experts across Europe, we can help you achieve your strategic goals.

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We are currently working on several financing mandates.

## Current debt capital transactions by Capitalmind Investec

 amend-to-extend RCF Financing	 a portfolio company of LIVIA Unsecured working capital line	 secured property financing for the purchase of Gernsheim, Hesse	 secured property for the acquisition of a portfolio in Rheinland- Palatinate
Industrials	Industrials	Real Estate Holding	Real Estate Holding
  €230m investment as minority shareholder €215m bank loans	 Concept-Real GmbH €50.4m second lien financing of 	 promissory note with a volume of €10m	 Concept-Real GmbH €397m first lien financing of 
Acquisition Financing	Real Estate	Real Estate Holding	Real Estate



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Business Services - Consumer - Food & Agri -  
Healthcare - Industrials - TMT

We are ambitious minds who share one culture, common values and an entrepreneurial spirit. We invest significantly to thoroughly understand your business, and are determined to lead your deals to great success - no matter what!

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