



Deutsche Börse's Scale

How does Deutsche Börse's Scale segment serve Germany's growing small- to mid-cap market?



What is Deutsche Börse's Scale segment?

The Scale segment of the Frankfurt Stock Exchange exclusively lists small and mid-sized enterprises (SMEs) with established records, fulfilling defined access conditions. Launched in 2017, the segment replaced the Entry Standard, an unofficial market for SMEs without strict provisions for investor protection.

In many ways an evolution of the Neuer Markt, a segment Deutsche Börse launched for SMEs in 1997, Scale's fully regulated segment of the Frankfurt exchange has implemented measures to avoid its predecessor's mistakes.

The Neuer Markt was closed five years after its inception, partly due to the bursting of the dot.com bubble, which stressed the segment's tech-heavy listings, and partly due to inaccurate reporting and a lack of transparency from the companies that listed on the exchange.

Scale seeks to mitigate these risks by requiring companies, among other things, to pass a set of requirements and to be covered by Scale's research scheme. In addition, the exchange successfully retains a wide variety of issuers from outside the tech market.

How important are SMEs to the German economy?

German SMEs are often referred to as the heart of the German economy and are very well supported.

The SME funding vehicle, the KfW Development Bank, set up in conjunction with the post-war Marshall Plan, has loaned more than 1.7tn to SMEs.

All in all, the majority of SMEs active in Germany are small enterprises with fewer than 10 employees. The German Federal Ministry for Economic Affairs and Energy reported that only 17% of SMEs are small to medium-sized, defined as having between 10 and 500 employees. This compares to European averages of 8% for SMEs with more than 10 employees.

Edison Insight:

"The Scale segment is an important building block of Deutsche Börse's ecosystem for growth companies. It is living and breathing with new companies joining and other companies growing out of the segment." Klaus Schinkel, director, Germany

The European Commission's 2017 Annual SME report claims that Germany is one of only nine member states to have shown a complete recovery in terms of SME activity and employment from 2008 by 2016. This was validated by KfW and its announcement that SME employment saw a 4.6% rise in 2016 and retains a 70% share of the German labour market.

There has also been growth in German start-ups, with the consultancy EY announcing that investment jumped 88% to a record €4.3bn in 2017 – all signs of a healthy SME market and fertile ground for future IPOs. Partly as a result, there have been seven IPOs on Scale.

What type of company lists on Scale?

The top-heavy nature of Neuer Markt's tech-dominated sector and its weakness following the dot.com crash has made Deutsche Börse wary of undiversified listings. As a result, a wide variety of companies list on Scale.

Some are industrial companies, like [IBU-tec](#), [Nanogate](#) and [Stemmer Imaging](#). Some are far more niche in their sector, like [Tonkens Agrar](#), an agricultural producer, or [Edel](#), an independent media group.

Financial service companies like [Lloyd Fonds](#) and [MPC Capital](#), both investment and asset managers that invest in assets from ships to private equity, also list on Scale.

Traditional tech is represented as well, making up a decent but not excessive portion of the segment, with companies like [Mensch & Maschine Software](#), [DATAGROUP](#) and [FinTech Group](#), along with an additional scattering of biotech and renewable energy players.

Among them, [Daldrup & Söhne](#) broke new ground in Germany as the first geothermal developer in Europe to use alternative risk transfer instruments, while Scale-listed biotech company [Formycon](#) invests in biosimilar generics and [MagForce](#) in nanotechnology medical treatments.

What are Scale's requirements for SMEs?

Companies wishing to list on Scale must meet three of five requirements. They must have a minimum of 20 employees, turnover of

at least €10m or accumulated equity capital before IPO of at least €5m. They should also have positive net income or a positive equity balance sheet.

Just as importantly, all companies must pass through one of Deutsche Börse's Capital Market Partners, which insures that the company is suitably stable for the segment and continually monitors its performance post-IPO. Finally, companies must be registered onto Scale's research scheme, in an attempt to avoid the lack of transparency that plagued the segment's predecessor.

Once companies list on Scale it is expected that they grow far past these requirements in time and upgrade up to Deutsche Börse's main segment. [Ringmetall](#), [Corestate](#) and [Grand City Properties](#) have recently done just that.

Does Scale's research scheme provide transparency?

The research scheme provides a level of transparency to investors aimed at avoiding the over- and under-valuations that plagued the Neuer Markt and tend to hover around some SMEs.

For SMEs, the research scheme is attractive to small-cap companies, which can struggle to retain research coverage. That said, the qualitative report does not contain detailed forecasts, as is common in traditional research.

The research provider produces reports with the aim of keeping investors informed of Scale's companies and the niche markets within which they often operate. Importantly, these reports are available to all interested parties without restriction.

In its current form, the Scale research scheme provides a base level of company coverage on a regular and consistent basis, spanning macroeconomic trends, including investment cases, strategic direction, market sensitivities and competitive environment.

The provision of research is complemented by regular investor talks in various European cities to connect Scale companies with relevant investors.