Value Creation from a Shareholder's Perspective: 'The Big Picture'

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30 October 2007

Abstract

For decades the German economy was bank centered and stakeholder oriented. Inherent to the system the capital market did not play a central role. Since the 1990s the German economy has undergone some fundamental changes. The old 'Germany Inc.' is in the progress of disintegration. With an increasing capital market orientation, the venture capital and IPO market almost gained ground automatically. Despite the failure of the Neuer Markt many young growth companies in Germany, France and UK showed impressive returns from having used particularly this new breed of investment market. Eurofins Scientific, which is listed in both Germany and France, ranks as number one in two of these three markets in terms of value creation for their shareholders over the last ten years. It achieved an annualised Total Shareholder Return (TSR) of 41.79% and an overall TSR of 3,200% as of 30/09/2007. It was only outperformed by Sechilienne Sidec, listed in France (52.09% TSR p.a.). In all three countries the top 3 value creators generated a TSR of over 30% on a compounded average growth rate basis over the 10 year period. Tables showing details of the ranking are given in section 4.

Content

Tables

1 Introduction

The emergence of computer related industries, notably in the United States, as well as biotechnology and most currently nanotechnology widely depends on a vital market for venture capital (VC). The ‘Silicon Valley model’ of innovation is often considered to be the prototype for generating new high-tech industries. Many studies have been undertaken to determine the factors promoting this success. The explanations range from entrepreneurial mentality to legal regulations and specific institutions like business incubators. The most important factor seems to be the existence of an attractive exit channel for venture capitalists. As an initial public offering (IPO) is usually the most profitable exit, the availability of venture capital is linked to stock markets for young growth companies. By going public, the venture capital-backed company on the other hand gains the opportunity to raise capital at later stages and the entrepreneur reacquires control by dispersing the venture capitalist’s stockholding via going public.

The success story of many venture capital financed corporations was well noticed in continental Europe and the existence of a market place like the NASDAQ was identified as critical to facilitate a similar development. During the second half of the 1990s, a number of stock markets specifically designed to meet the requirements of young growth companies and venture capitalists emerged in continental Europe. For several years it looked as if the lack of suitable stock markets was indeed the crucial point in financing innovations as capital for risky investments, technological knowledge and entrepreneurial engagement seemed to be sufficient. France was the first to respond to the success of NASDAQ and the obvious opportunity in the market, founding the Nouveau Marché in 1996 based on the principle that high growth and high technology companies are also attractive to mainstream investors as well as rewarding venture capital for their early-stage investments. In Germany, the Neuer Markt followed in 1997 along with other European markets in the Netherlands, Belgium, Italy and Spain (eventually becoming the Euro NM alliance) and experienced an unexpected growth. The number of IPOs rose to an unprecedented level. This was accompanied by a massive increase of venture capital activity, especially in early financing stages. By 2003 the IPO market had come to a complete standstill in Germany. The Neuer Markt was finally closed in 2003 having fallen spectacularly from a peak of over €200 billion in April 2000. Ironically the IPO market has recovered strongly since then and Germany is now one of few countries not to have a dedicated market for smaller companies, the Euro NM having evolved into Alternext and the Alternative Investment Market (AIM) having emerged as an attractive option for listing growth companies in London.

We argue that the reasons for the failure of the Neuer Markt go beyond the global downturn of the stock markets and the end of the tech-stock boom. They can be found in the system of political economics in Germany. Since the 1990s, the German economy has undergone fundamental changes. The emergence as well as failure of the Neuer Markt can be interpreted as a phenomenon within this process of change. Despite the failure of the Neuer Markt many young growth companies in Germany, France and UK are very successful value creators from a shareholder's perspective.

2 Initial Public Offerings and Venture Capital

Empirical research of IPOs in Germany typically covers periods from the late 1970s or early 1980s onwards. One reason is that IPOs were very rare events. Between 1955 and 1975, on average less than three companies per year went public including the (partial) privatisation of some state owned companies during the 1960s (e.g. Volkswagen, VEBA and Lufthansa). The stock exchange did not play a central role during the economic recovery after the Second World War. In fact, the number of publicly listed companies declined from 682 in 1955 to 451 in 1985.

In the 1980s, the number of IPOs increased substantially. Pioneering work was done by the Portfolio Management GmbH, which brought several very small companies to the unregulated market without even having a banking licence, which was later possible no longer. Although seven out of ten of these companies went bankrupt, Portfolio Management GmbH might have changed the general belief about the necessary size and age of IPOs. Between 1980 and 1995, around 250 predominantly medium sized firms went public with the large German universal banks as lead managers. Bankruptcies of publicly listed companies were a very rare event although the fundamental performance of the corporations typically deteriorated after the IPO. Compared to the USA with more than 7,000 IPOs over the same period, the German IPO market remained rather weak.

The partial privatisation of Deutsche Telekom in 1996 with a volume of more than ten billion Euros was the largest IPO in German history. The placement strategy relied on private investors who were mobilised by an unprecedented marketing campaign and preferential conditions. The IPO of Deutsche Telekom was explicitly considered as an instrument of promoting an 'equity culture' in Germany. From 1994 to 2000, the percentage of Germans directly owning stocks rose from 7.4 % to 11.0 %. The awareness concerning stock market issues increased within the public, supported by a favourable after market performance of Deutsche Telekom shares.

In the 1990s, it had become widely understood among academics, practitioners and politicians in continental Europe that venture capital and a lucrative exit market are closely interrelated and are necessary conditions for the emergence of many new high-tech industries, as seen notably in the United States. Furthermore, it was realised that the existing market segments of the traditional stock exchanges were unsuited to meet the requirements of young growth companies in high-tech industries, of venture capitalists and of private and institutional investors as well. A separate segment, the Neuer Markt, was established in 1997 at the Frankfurt Stock Exchange to eliminate these shortcomings. Companies without a track record of solid profits could go public on the Neuer Markt, which is not possible at the regulated market segments of the Frankfurt Stock Exchange. Companies had to report quarterly according to US-GAAP or IAS, which was perceived as a feasible way of improving the reliability of financial statements compared to German accounting rules. All companies were required to provide at least one designated sponsor, e.g. a bank or brokerage house, to guarantee liquidity. Their function was to sell and buy on their own account to smooth temporary imbalances especially in small capitalisation companies. Lock-up agreements became mandatory.

After only 11 IPOs in 1997, the Neuer Markt experienced unexpected growth both in terms of companies listed as well as in the overall IPO volume as can be seen in figures 1 and 2. Most of the companies belonged to the technology, internet, media and software sectors. Within a short time, the Neuer Markt numbered over 350 companies and accounted for more than half of the market capitalisation of Europe’s new market segments for young high growth companies. Approximately one sixth of all companies listed were located outside Germany, which underpinned the attractiveness of the new market place. Within Germany many of the companies came from the Munich region, which was already called ‘Isar Valley’, as well as from Hamburg and Frankfurt.

In 2001 deteriorating market conditions and decreasing valuations led to a drastic downturn in the number of IPOs. In 2002 only one single company went public on the Neuer Markt. After a decline of the market valuation of more than 90 % and several cases of massive fraud, the Neuer Markt completely lost its reputation. It was closed down in June 2003. The Frankfurt Stock Exchange itself was restructured and companies from the

Neuer Markt were transferred to other market segments. 2003 was the first year since 1968 in which no IPO at all took place at the Frankfurt Stock Exchange. In France, the Nouveau Marche had to be restructured as well.

A formal market for venture capital like an active market for IPOs did not really exist in Germany before the early 1980s. Although approximately 30 private investment companies had been founded since the mid 1960s by banks and private investors, the number of investments was rather small and the focus was on medium sized corporations. Efforts by the German federal states to establish their own equity investment funds to overcome a perceived equity shortage in small and medium sized firms increased the relative importance of publicly subsidised equity, but the overall picture did not change till the early 1980s when several new venture capital companies were founded and foreign venture capitalists entered the market.

From 1983 to 1992, the investment volume increased sixfold from 400 million Euros to 2.4 billion Euros. This development was fostered by a positive business climate, the success of venture capital companies in the USA and a change in legislation granting tax incentives for venture capitalists. But more striking is the obvious interrelationship between the increase of IPO activity and venture capital during the 1980s. In fact, eight companies that went public during that period were backed by venture capital. But only 7% of the funds in 1992 were invested in seed and start up finance.

From 1997 to 2001, the venture capital market in Germany experienced an extreme expansion phase, as did the IPO market. The investment volume rose from 3.6 billion Euro to 15.8 billion Euro and of the more than 350 IPOs at the Neuer Markt more than half were financed by venture capital firms. The number of venture capital firms rose from 101 to 215. The development stages that were financed also changed considerably. In 2000 more than one third of the funds went to early stages. Despite the sharp increase in venture capital financing, the relative volume compared to the size of the economy as well as the absolute volume of new investments remained smaller than in France and the UK.

In 2001 the global stock markets, IPO and VC-activity peaked off. New funds committed to the venture capital industry in Germany sharply decreased and the focus shifted to management and leveraged buyout transactions. In 2003 seed financing almost vanished and the IPO market came to a complete standstill. Meanwhile it has recovered. But going public for young corporations is still by far easier in the Anglo-Saxon world.

3 The Political Economics of the Stock Market

The low number and volume of IPOs till the mid 1990s and the corresponding very low venture capital activity as well as their focus on financing late stages are striking when compared to the USA or UK. The reasons can be found within the mechanics of the German system of political economics which prevailed for decades after the Second World War, but has been undergoing fundamental changes more recently. The success and the failure of the Neuer Markt and the emergence of a venture capital industry can be interpreted as a reflection of a process of change in the system of political economics.

3.1 The Old 'Germany Inc.'

'Germany Inc.' describes the German version of post-war economics that is often characterised as insider-controlled and stakeholder-oriented in contrast to the Anglo-Saxon outsider-controlled, shareholder-oriented system. The German economic system was thereby very similar to Japan in many characteristics. More fundamentally, the 'Germany Inc.' could also be interpreted as a post-war settlement between capital and labour. It relied on multiple relations between the different stakeholder groups, shareholder concentrations and a complex web of cross-ownership. It was based largely on self-regulation of industry and financial institutions with a shaping influence of trade unions and public policy. The big commercial banks and a few insurance companies are generally considered to be the centre-heart of the system. They channel funds from savers to investors and provide long-term financing. Their role as a delegated monitor is often strengthened by direct shareholdings, depository-voting rights on behalf of their clients and personal representation in the supervisory board.

In addition to lenders, employees are also integrated in the corporate governance of large corporations, as latter are subject to mandatory labour-codetermination. In large corporations, employee representatives make up half of the supervisory board that appoints and controls the executive board. The shareholders elect the other half of the supervisory board. Typically, most of the employee representatives are union-affiliated. Another characteristic is that almost all German corporations have one or a few major shareholders. About two thirds of all listed companies have one block-holder with a stake above 25 %, which enables the block-holder to veto important decisions.

Looking into the past, the old 'Germany Inc.' is nowadays often characterised as a complimentary and consistent system or as 'organised capitalism'. The line of thought is the following: Labour codetermination provides an incentive for employees to act as a partner. They can take a long-term view, invest in firm-specific skills and rely on internal promotion. The risk of severe strikes and adversarial wage pressure is reduced. Long-term lending becomes possible, as banks are themselves a controlling stakeholder. If banks and employees take a loyal, long-term view, it becomes more attractive to opt for control instead of liquidity and become a block-holder. A stable shareholder structure in turn increases the willingness of financial intermediaries and employees to engage in long-term relationships.

From a more pragmatic view, capital markets were defunct after the war. A high corporate earnings retention rate, a high private saving rate, moderate wage pressure and export orientation were necessary conditions for economic recovery. Across Europe, socialist or labour parties were demanding far-reaching nationalisations of basic industries and of the financial sector until the 1960s. They succeeded in some countries. In Germany the political and economical concept of the Social Market Economy emerged, according to which a social balance of all groups of the society has to be combined with the forces of a market economy.

Many of the direct shareholdings of financial intermediaries, which were themselves often interlocked by cross-ownership, were a product of governmental intervention during the early years of the Federal Republic of Germany. Financial institutions were forced to provide high loans to basic industries. Some institutions, notably the prime insurer Allianz AG, converted them to equity, which proved to be a highly profitable strategy during the ‘economic miracle’ in the 1950s and 1960s. The long-term existence of these relationship networks was deliberately supported by the tax system. While the realisation of capital gains was severely penalised, current returns from such holdings were privileged.

German banks pursued an active industrial development policy and became the largest banks worldwide in terms of assets. The government focused on employment and social security, often intervened together with banks to avoid corporate crisis and supported domestic industry in their foreign politics. This system worked well and remained stable over decades. By the 1980s, Germany had become the largest export nation worldwide and the strongest economy in Europe. The income inequality among the population was very low in international comparison.

It is short-sighted to claim that competitiveness on the product market was the only driving factor of this development. The deeper reason lies within the political context of the stakeholder orientation. Employees, government, management and lenders put more emphasis on growth than on profitability, which as in Japan led to a boom in volume. Higher turnovers were necessary to achieve the same profit than in US-American or British corporations.

Consequently, market capitalisation of corporations compared to their size was distinctively lower than in the USA or UK. Such a situation could only be maintained if hostile takeovers were almost impossible, as an acquiring company could restructure the target company and profit by breaking up the stakeholder network or the system of implicit contracts respectively. The principle of 'one share one vote' was not principally followed. If a hostile takeover attempt occurred nevertheless, the target corporation could to a certain extent rely on being bailed out by the 'Germany Inc.', which led to the phrase 'fortress Germany'.

Legal protection of small or outsider shareholders as a whole can be characterised as rather weak, but giving them a stronger position might have undermined the system of stakeholder orientation. This was also reflected in the general belief that corporations have to serve the common or public welfare of the nation and the concept of a social market economy. In that sense, owning shares of a corporation only means to own shares of a corporation, but not the corporation itself.

So why did people invest in shares of German corporations? Since the 1970s, capital markets were liberalised and investing internationally became possible. The reason might be that the real annual return for the shareholder was very much in line with that at other major stock markets. Although a market for corporate control did not exist, blockholders, trade unions, financial institutions and, to some extent, the state did form an effective system of corporate governance.

What were the consequences for financing innovation in small and medium enterprises? A formal market for venture capital did not exist. The stock market was rather weak and going public was not an alternative for young or small corporations. Some argue that an active IPO market might even have threatened the position of the German banks: If one takes long-term loans and equity to some degree as substitutes, companies could gain a higher financial independence by issuing equity. In addition, a more active issuing business would have reduced the profits from the long-term credit business and only resulted in one-time fees. An increase in the issuing business might also have reduced the value of the employees who are in the credit business, which therefore naturally makes them opponents.

On the other hand, SMEs were embedded in the system of ‘organised capitalism’. Access to funds was by far easier than today. Banks used to have a good understanding when it came to technological innovation. Therefore, they also served as gatekeeper for subsidies from the central government, which usually were loans at very low interest rates. They successfully channelled funds to bottlenecks of economic development. Bankers even felt proud of generously financing new ventures, of exercising their talent as industrial venturer and of making loans that were not ‘bankable’ by conventional standards. The reason for this was that most forms of conventional credit-worthiness were destructed after the war, but the spirit continued long after the emergency had disappeared.

Local saving banks, owned by the municipalities, and local credit cooperatives played thereby an important role in financing SMEs. These small and medium sized financial intermediaries put an emphasis on economic development of their region. The relationship to the SMEs was close, based on trust and control, and of long-term nature.

The SMEs could usually rely on their housebanks even during a corporate crisis. Loans were often cross-subsidised in the sense that interest rates often did not fully reflect the real insolvency risk.

To some degree, this system compensated for the non-existence of a formal venture capital market and access to organised capital markets. However, it was not conducive for radical innovations. Instead, it supported the transfer of technological progress into high-quality exportable goods. Business failures were more socially penalised than in stock market-centred economies. Since the 1960s, many scientific commissions have pointed out that German SMEs were run on high leverage in international comparison, which could hamper their growth and innovation. Nevertheless, the foundation of private investment companies to overcome the perceived equity shortage did not change the overall picture. The typical SME is run by a sole, sometimes patriarchal owner or by a family. The concept of sharing equity and control with outside investors was either unknown or simply unacceptable to them.

3.2 The Last Ten Years

The system of the ‘Germany Inc.’ was very stable over decades and the relationship of the stakeholder groups remained almost unchanged. Outside shareholders did not receive much attention and the role of the capital market was rather weak. It is not possible to exactly determine since when the German economy has become more capital market oriented. Starting in 1983 the number of IPOs increased. The major reason for this development lies within the changing competitive environment for banks. Liberalisation, deregulation, internationalisation and new information technologies increased pressure on margins in the traditional savings and loans sector. Additionally, it was not entirely unrealistic anymore for German corporations to be listed abroad. As a consequence, German banks started to expand their fee-based businesses in the IPO market as well as in security trading.

In the 1990s, the gradual move to capital market orientation speeded up. The acquisition of the British investment bank Morgan Grenfell by Deutsche Bank in 1990 marked a change in Deutsche Bank’s business strategy and other large banks followed. Many legal changes were intended to strengthen the capital market and to improve shareholder protection. In a first step, the stock exchange turnover tax and the capital transfer tax were abolished, investment opportunities for mutual funds were widened and a new prospectus act set out the publication requirements for IPOs. In 1993 it became public that the leader of one of the most influential trade unions had used the knowledge he had gained as a supervisory board member of a German car manufacturer for insider trading. Although the case was very spectacular, he could not be sentenced without an applicable law. The necessity of legal reforms became all too obvious. Based on the Second Financial Market Promotion Act of 1994, the Federal Securities Supervisory Authority was established and insider trading prohibited. Prior to that, there was only a ‘gentleman’s agreement’ which was not vigorously enforced by a self organised insider trading commission. Ad hoc disclosure rules were also introduced.

In the mid 1990s, a decade after Alfred Rappaport had published his book ‘Creating Shareholder Value’, a ‘shareholder value discussion’ arose in Germany. Intensive and sometimes ideological discussions were carried out within the public, the business community and academic circles. The question was, in simple words, whether the paramount objective of a corporation is to increase the shareholder value or to serve all the stakeholders. Since then almost all publicly listed corporations have declared to follow a shareholder value approach. The discussion also changed the widespread belief that primarily focusing on competitiveness on product markets and technological competence will lead to a profit under the bottom line. Stock option plans for managers came into use and investor relationship departments were established.

As a reaction to the changing environment, the mutual Frankfurt Stock Exchange was privatised by its members in 1993. The electronic trading system Xetra was introduced in 1997. The following year saw an array of legal changes: Transaction costs for raising capital on the stock market were reduced to ease access to the capital market for SMEs. Listed companies could replace German GAAP by the internationally accepted accounting standards IAS or US-GAAP to internationalise the stock market. A real milestone was the abolishment or phasing-out of multiple voting rights or caps on voting rights.

The change in the German system of corporate governance or the 'Germany Inc.' can be seen in the emergence of a market for corporate control. In 1993, Deutsche Bank, in close cooperation with Daimler-Benz, BMW, Volkswagen and others, prevented the hostile takeover of Continental by Pirelli from Italy. The unsolicited, hostile bid of Krupp for its competitor Thyssen in 1997, both German steel and engineering groups, was the first break with the old system and finally successful. Although highly controversial, the hostile takeover of Mannesmann by the British Vodafone Group in 2000 was the largest hostile takeover worldwide. Interestingly, in the case of Continental and Thyssen the CEOs publicly questioned the legitimacy of a takeover that is only in the interest of the shareholders as part of their defence strategy. The CEO of Mannesmann did not, but only argued in the interest of his shareholders. Hostile takeovers in the form of an offer to the broad shareholding public have become principally possible in Germany. Although only 11 of the 100 largest corporations in Germany have a free float above 75 %, these are the biggest including Siemens, DaimlerChrysler, Bayer, BASF and Deutsche Bank itself. In 2002 a Takeover Act became effective to provide legal security.

The corporate tax reform of 2002 finally allowed for a tax neutral disintegration of the characteristic, complex web of shareholdings and cross ownerships of the old 'Germany Inc'. Since then some large shareholdings have been sold off, but restructuring remains behind expectations. This reluctance might be a consequence of the sharp downturn of the stock market. A further step to a capital market based system was the introduction of pension funds. Pension obligations, accounted for as pension provisions on the balance sheet, can now be transferred tax neutrally to pension funds if properly funded.

All in all, many actions were undertaken to strengthen the capital market. The market capitalisation as a percentage of the GDP rose from 22 % in 1990 to 68 % in 1999. This is not, however, a trend particular to Germany, but across Europe as well as in the USA, as can be seen from Table 1. In fact, compared to France, Italy and Spain, the relative improvement was poorest in Germany.

Table 1: Market Capitalisation as Percentage of GDP (1990-1999)

	1990	1999	change
Continental Europe			
France	26 %	105 %	x 4.0
Germany	22 %	68 %	x 3.1
Italy	14 %	62 %	x 4.4
Spain	12 %	73 %	x 6.1
Anglo-Saxon Countries			
UK	87 %	198 %	x 2.3
USA	56 %	181 %	x 3.2

Due to the increasing size and importance of capital markets across continental Europe, it seemed almost natural to establish new market segments in order to offer young growth companies access to the capital market and venture capital companies an exit. The global boom in tech stocks, an increased willingness by many to invest in risky assets after they had made profits with Telekom shares, and phenomenal price advances of some early issues contributed to the success of the Neuer Markt.

The reasons for the failure of the Neuer Markt go beyond the end of the global tech-stock boom or a typical cycle in IPO business. The loss of confidence by private investors who played a central role at the Neuer Markt was more pronounced than in the Anglo-Saxon world. In principle, German private investors were aware of the fact that publicly listed corporations could go bankrupt, but in the past this had been an extremely rare event. Although securities prospectuses might not have been very comprehensive and outlined fewer risks in the past, the issuing banks controlled for the business risk of the IPO. They were implicitly considered responsible for long-term success. The often-praised high standard of transparency at the Neuer Markt that replaced the implicit risk control turned out to be flawed in many cases. A global player in the auditing business even decided to review all its audits of companies listed at the Neuer Markt, as they obviously felt somewhat unconfident about their previous work. Despite many changes in legislation and new institutions like the Federal Securities Supervisory Authority, many outside investors have come to the conclusion that the current legal system does not properly protect their rights and that fraud at the Neuer Markt paid off to their disadvantage. An even more detrimental effect might have been caused by the last seasoned offering of Deutsche Telekom shares when primarily the government cashed in at a price three times above the current level. It has also well been noticed that banks were charged successfully in the USA for doubtful conduct during the recent IPO boom but not so in Germany. Outside investor protection in Germany is still rather weak.

The old ‘Germany Inc.’ has partially been broken up and does not function anymore as an efficient, coordinated system, although many of its features are still in place. The large banks have widely disbanded their traditional role. Transaction driven investment banking activities have become more important. Before 1995, a market for corporate bonds of non state owned companies basically did not exist. Since then, the market has rapidly expanded and it has become common practise for large corporations to issue bonds. The control function has partially been passed over to the capital market and rating agencies, who have experienced a sharp upswing. Germany is now neither a classical example of a bank-centred, stakeholder-oriented and insider-controlled system anymore nor is it a capital market based and outsider-controlled system. It is somewhere in between, where the ‘Silicon-Valley/NASDAQ-model’ as a feature of a highly developed, fully capital market based economy does not work. The success of ‘Silicon Valley/NASDAQ model’ also has to be seen against the background of a different mentality or type of society. In Germany, the concept of the Social Market Economy is still deeply routed in the people’s mind. Drastic social reforms in effect from 2005 point very much in the direction of Anglo-Saxon neo-liberalism, but politicians of all major parties justify them as appropriate measures to maintain the social welfare system.

The large industrial corporations and financial institutions seem to cope well with the changing system and in fact are part of the driving forces, whereas many SMEs are adversely affected as the increasing market orientation impairs their housebank relationship. The frequent practise of cross-subsidising loans has become outdated and the new regulations of Basel II concerning capital requirements cause the banking system to pull out of risky credit business.

4 Total Shareholder Return

Against the background of the developments over the last ten years we evaluate the value creation from a shareholder's perspective in the German, French and UK stock markets.[1] We deliberately report the range of possible outcomes by investing in single stocks which were listed over the last ten years (since October 1997), which is approximately the time that the various 'growth' exchanges were opening. Excluded from the evaluation are companies that have listed since October 1997, or have delisted for any reason (acquisition, bankruptcy, MBO etc). Other exceptions include pure investment funds and one small illiquid family business. Finally we have made limited analysis of the poorest performing companies as many of them are now insolvent and information on them is limited.

We use the concept of Total Shareholder Return (TSR) to compare the performance of different companies' stocks over time. TSR combines share price appreciation and dividends paid to show the total return to the shareholder. The absolute size of the TSR will vary with the stock market, but the relative position reflects the market perception of the overall performance relative to a reference group.

The TSR is computed as

$$\mathrm{TSR} = \frac{(\mathrm{Price}_{begin} - \mathrm{Price}_{end}) + \mathrm{Dividends}}{\mathrm{Price}_{begin}}$$

In a multi-period context it is assumed that dividends are reinvested in the stock. To ease comparison we report annualised figures.

Comparing the overall rates of return of the analysed markets, Germany has the lowest average annualised rate, which may explain some of the disaffection previously shown by equity investors there, but surprisingly has a better rate of return than the UK for both the top and bottom performers. France comes out top in each of the parameters.

[1] The stock market data was provided by Cheuvreux. It starts it October 1997 and ends September 2007.

Table 2: Annualised results per market

Country	Top Annualised Return	Average Annualised Return	Lowest Annualised return
Germany	41.79%	-0.94%	-51.11%
France	52.09%	6.55%	-36.9%
UK	36.47%	1.31%	-58.99%

Looking at the outcome in more detail the top five leaders in the total universe of stocks across the three markets are shown in table 3. The top performer overall is French company Sechilienne Sidec, which specialises in the development of power plants and undertakes the financing, construction and operating of power plants.

In two out of three markets we find Eurofins Scientific ranked no.1 in terms of value creation for its shareholders. Eurofins is a leading international group of laboratories providing testing and support services to the pharmaceutical, food, environmental and consumer products industries and government.

It is possible to observe a few patterns in the successful companies without generalising too much. In each market the very top performers have been mostly smaller or newer companies that have profited from operating in niche and fast-growing markets. These are precisely the sort of businesses that would have profited from the access to a wider investor base that the likes of the Neuer Markt and Nouveau Marché could provide. The larger companies have profited more from macro-economic growth in areas such as commodities and construction/engineering.

Table 3: The top five performing stocks over ten years

Company	Return p.a. (annualised)	Listing market	Rank
Sechilienne Sidec	52.09%	France	1
Eurofins Scientific	41.79%	France/Germany	2
Beneteau SA	41.31%	France	3
Bijou Brigitte Mod Access AG	39.16%	Germany	4
Mears Group	36.47%	UK	5

Table 4 shows the universe of German stocks over ten years. Eurofins ranked no.1, Bjiou Brititte Mod Access at no.2, a similar sized company to Eurofins selling fashion jewellery and accessories through 950 stores with sales of €350m in 2006. In third place is Kali and Salz, one of the world's leading specialty chemicals and fertilizer businesses (turnover €3,000m). Eurofins Scientific has an annualised return (AR) of close to 42% followed by Bijou Brigitte with a 39% AR and Kali + Salz with 33%. Puma and Porsche which are both well known for their outstanding performance are ranked 7 and 11. The overall performance of Eurofins over ten years exceeds 3,200%. Bijou Brigitte and Kali + Salz appreciated by about 2,600% and 2,000% respectively.

Table 4: The universe of German stocks over ten years

Company	Return p.a. (annualised)	2006 revenues (€m)	Rank
Eurofins Scientific SA	41.79%	368	1
Bijou Brigitte Mod Access AG	39.16%	348	2
K+S AG	32.58%	2,958	3
Compugroup Holding AG	32.37%	140	4
Eurokai KGAA	30.87%	582	5
Sloman Neptun Schiffahrts AG	30.84%	123	6
Puma AG	30.26%	2,369	7
Hageda AG	29.74%	5,166	8
Renk AG	28.86%	356	9
Colonia Real Estate Ag	28.31%	129	10
Porsche AG	28.00%	7,273	11
Otto Stumpf AG	26.09%	8,387	12
H&R Wasag AG	25.67%	817	13
Allerthal Werke AG	25.04%	4,193	14
Salzgitter AG	24.12%	8,447	15
Average	-0.94%		
K und M Möbel AG	-45.85%	-	
Eurobike AG	-46.39%	-	
AGIV Real Estate AG	-47.51%	-	
Philipp Holzmann AG	-49.39%	-	
Plettac AG	-51.11%	-	

Pure investment companies were not considered.

Table 5 shows the ranking of French stocks over ten years based on their annualised Total Shareholder Return.[2] As noted above, Sechilienne Sidec ranks no. 1 with an AR of 52% (cumulated over 6,000%) and Eurofins ranks no.2 in the French market. The Benetau Group (ranking no. 3 with annualised returns of over 41%) is well known for being a world's leading builder of sailing yachts. It has been listed since 1984 and total turnover is just over €1,000m.

Table 5: The universe of French stocks over ten years

Company	Return p.a. (annualised)	2006 revenues (€m)	**Rank**
Sechilienne Sidec	52.09%	180	1
Eurofins Scientific SA	41.79%	368	2
Beneteau SA	41.31%	1,014	3
Acanthe Developpement SA	36.43%	16	4
Vallourec SA	33.70%	5,542	5
Entreprise Generale Leon Grosse	31.62%	454	6
Eiffage SA	30.97%	10,704	7
Fin. Im. Etang Berre	29.79%	3	8
Boizel Chanoine	29.54%	311	9
Delachaux	27.26%	504	10
Average	6.55%		
Duran Duboi SA	-30.68%	-	
Netra Systems Nts	-31.48%	-	
Softway Medical	-32.74%	-	
Cibox Interactive SA	-35.37%	-	
Leon de Bruxelles SA	-36.90%	-	

Pure investment companies were not considered. Being a family holding with almost no trading activity on the stock market we also excluded Parfininco.

[2] We excluded investment companies. Otherwise Verneuil would rank no. 1 due to a sharp increase from November 1999 to March 2000.

Table 6 shows the UK ranking. Mears Group is the number one in the ranking within the universe of UK stocks over a ten year period with an overall performance of more than 2,000% and an annualised return of 36%. Mears is a social housing repairs and maintenance provider in the UK and has a growing presence in the domiciliary care market. The total turnover is about €350m. Number 2 in the rankings is Rok plc, with an AR of 35%. Rok provides development, building and maintenance services with total turnover of about €990m. Finally in third place is Man Group, the global alternative investment business with turnover of €2,411m and assets under management of over €40bn and whose annualised return was 32%. Two businesses which strongly profited from the price increase of natural resources are the well known BHP Billiton Group and Lonmin, ranked 9 and 10 respectively.

Table 6: The universe of UK stocks over ten years

Company	**Return p.a. (annualised)**	2006 revenues (€m)	**Rank**
Mears Group	36.47%	350	1
Rok Plc	35.48%	990	2
Man Group	32.02%	2,411	3
Numis Corporation	30.15%	105	4
Chemring Group Plc	28.79%	170	5
London Security Plc	27.79%	93	6
Enterprise Inns Plc	27.71%	1,405	7
Lonmin	27.16%	1,280	8
BHP Billiton Group	26.80%	4,060	9
Average	1.31%		
Coe Group	-43.33%	-	
World Trade Systems	-44.36%	-	
Adorian Plc	-50.08%	-	
Billam	-53.12%	-	
Parallel Media Group	-58.99%	-	

Pure investment companies were not considered.

5 Summary

For decades, the German system of political economics was stakeholder oriented, bank-centred and insider-controlled. Inherent to the system, the capital market did not play a central role. A formal market for venture capital, likewise an IPO-market for young growth companies did not exist, but SMEs could rely on a long-term relationship to their house-banks. Looking into the past, the concept of the Social Market Economy provided the basis for economic wealth within a stable global environment.

Since the 1990s, the German economy has undergone fundamental changes. The old ‘Germany Inc.’ is in the process of disintegration. The shareholder value approach of the global capital market forces the German economy (and society) to comprehensive reforms. With an increasing capital market orientation, the venture capital and IPO market almost automatically gain ground, but Germany is still far away from a full-fledged capital market-based, outsider-control system. The Neuer Markt, although carefully designed, failed. But the reasons go beyond capital market issues. The success of ‘Silicon Valley/NASDAQ model’ also has to be seen against the background of a different mentality or type of society. In Germany, the concept of the Social Market Economy is still deeply routed in the people’s mind.

In the long run the shareholder return was very much in line with that at other major stock markets. Although a market for corporate control did not exist for a long time, blockholders, trade unions, financial institutions and, to some extent, the state did form an effective system of corporate governance. Despite the failure of the Neuer Markt many young growth companies in Germany, France and UK showed impressive returns for their shareholders over the last ten years.

Appendix

The following are short summaries of the key operations and facts about the top three companies in each market:

Germany

Eurofins Scientific E.S.

Eurofins Scientific is a life sciences company operating internationally to provide a comprehensive range of analytical testing services to clients from a wide range of industries including the pharmaceutical, food and environmental sectors. With over 6,000 staff in more than 100 laboratories across 27 countries, Eurofins offers a portfolio of over 25,000 reliable analytical methods for evaluating the authenticity, origin, safety, identity, composition and purity of biological substances and products. The shares of Eurofins Scientific are listed on Euronext in the Paris (ISIN FR0000038259) and Frankfurt (WKN 910251) Stock Exchanges.

Bijou Brigitte modische Accessoires AG

Bijou Brigitte is a leading company in the fashion jewellery and accessories sector. In Europe, the Group operates a network of over 950 stores in Germany and abroad with over 2,800 employees FTE and a range of approx. 9000 items. In 2006, the company’s turnover amounted almost € 350 million.

K+S AG

K+S is one of the world's leading suppliers of speciality and standard fertilizers, plant care and salt products, which the company offers to agriculture, industry and private consumers. With approximately 12,000 employees in 14 countries the group achieved revenues of almost € 3 billion in 2006.

France

Séchilienne Sidec S.A.

Séchilienne-Sidec specialises in the design, construction and operation of low- and medium-power electrical cogeneration plants, in particular facilities producing electricity from biomass. The majority of its power plants is located in the French overseas departments (La Reunion, Guadeloupe, Mauritius, Martinique). Séchilienne-Sidec recently expanded its activity to the production of wind-generated and photovoltaic electricity. In 2006, the company reached revenues of about € 180 million.

Eurofins Scientific E.S.

(see Germany section above)

Beneteau S.A.

Bénéteau is among the world leaders in designing, producing and selling of leisure craft predominantly to customers in Europe (mainly France) and North America. The group also produces and markets vehicles for which no driver's license is required and mobile homes. As of June 2007, the company reported consolidated annual sales of about € 1 billion.

UK

Mears Group CLP

Mears is a social housing repairs and maintenance provider in the UK and a growing presence in the domiciliary care market. The company is focused on the social housing and community sector and also has a subsidiary mechanical and engineering division. More than 5000 people carry out more than 3,000 repairs each day to 500,000 houses nationwide working in communities as diverse as inner city estates and remote rural villages. In 2006, the company achieved sales revenue of over GBP 240 million.

Rok Plc

Rok Plc provides development, building and maintenance services tailored to local needs and customers' wishes from offices across the UK. As the local builder in many of the UK’s major towns and cities, the company works for local authorities, schools, businesses and the leisure industry. Rok Plc operates in the general building and maintenance segment of the construction market and its development activities are focused on the commercial and industrial property in areas where there is a proven demand. With about 3,500 employees in 2006, the company achieved revenues of almost GBP 690 million.

Man Group Plc

Man Group plc is a leading global provider of alternative investment products and solutions. The Group employs 1,600 people in 13 countries and is listed on the London Stock Exchange (EMG) and is a constituent of the FTSE 100 Index. The group’s asset management division, Man Investments, provides innovative products and tailor-made solutions to private and institutional investors in the fast growing alternative investments industry. Man Investments has become specialists in various alternative asset classes, such as hedge funds, leveraged finance and convertible bonds. As of March 2007, the Group had funds under management of over $ 60 billion.

Prof. Dr. Wolfgang Gerke

Professor Dr. Wolfgang Gerke (born 1944) is President of the Bavarian Finance Center, Munich, Director of Academics at the Bankakademie and HFB Business School of Finance and Management, as well as research professor at the Centre for European Economic Research (ZEW) in Mannheim. Following his university studies in Saarbrücken, his doctorate (1972) and his postdoctoral lecture qualification (1978) at the Frankfurt University, Professor Gerke was appointed Professor of Banking and Finance at the Universities of Passau (1978-1981), Mannheim (1981-1992), and Erlangen-Nuremberg (1992-2006). He has also been offered professorships at the Universities of Saarbrücken, Linz , Münster and Frankfurt.

He is a member of the supervisory board of the ING DiBa, the Nürnberger Pensionskasse, and the Nürnberger Pensionsfonds, as well as a member of the Federal Treasury Expert Commission on Stock Exchange Issues as well as of the Exchange Council of the Frankfurt Stock Exchange. His research and publications focus on issues relating to capital markets, banking, stock exchanges, retirement plans, and financing of small companies.