What kind of companies will a „1-€-EPC“ generate?

Some data from the German „laboratory“

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Overview

The „1 € - EPC“ in competition with incumbent national players

The British Limited in Germany

The new German „Unternehmergeellschaft“

Conclusions for the EPC
The „1 € - EPC“ in competition with incumbent national players

- The Commission proposes the EPC as a 1 - € - Company, i.e. without minimum capital requirement
- The compromise proposed by the EP still allows the same, as long as founders submit to a solvency test
- The German GmbH, 25,000 € minimum capital, 1 Mill. incorporated in total, 60. to 70,000 per year, met competition by two similar „1-€-Modells“
  - British Limited, since „Inspire Art“ in 2003
  - The „Unternehmergesellschaft“ since November 2009
- Data from this „German laboratory“
  - on the acceptance of this model in the market
  - and the kind of companies it created
- Can give some guidance on how to best position the EPC in the market towards its incumbent competitors
The British Limited in Germany

- Becht - Study showed strong inroad of the British limited into German market
- Share of up to 20% of all limited companies incorporated in 2006
- But: strong discrepancy to notifications of their trade to municipal trade registers in Germany, presumably unrealised plans
- And: Trend of incorporations turned negative in early 2006 according to index of German directors

<table>
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<tr>
<th>year</th>
<th>2003</th>
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<td>8.643</td>
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</tbody>
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Index of German Directors (1/2003=100)
The British Limited in Germany

- Monthly notifications to municipal trade registers
- Jump from early 2004 to 827 in 3/2006
- Growth compared to previous years' month turned negative since 2/2007
- = strong and stable decline since now > 30 months
- Heading „back to square one“ in the market before „Inspire Art“
The British Limited in Germany

- Strong and early rise of notifications in municipal trade registers
- Parallel trend of registered branches, with some delay
- High rate of early mortality, possible "death" of
  - ~ 50% after 12 month
  - ~ 90% after 24 month
- "Survival indicators":
  - 7,800 with own telefon in 2009
  - 4,400 branches filed annual report for 2006 until 2009
- Compared to general survival rate of 50% after 5 years of all newly founded companies
The British Limited in Germany

- Stable downward trend before introduction of the "Unternehmergesellschaft" in 11/2008
- Legal maintenance costs as contributing factor
- But: Conversion of annual account offered for 120 €
- And: Hardly any conversion of British "Limiteds" into "Unternehmergesellschaft"
The British Limited in Germany

- 1-€-concept did not create viable foundations

- But generated companies with unsound financial starting basis

- Reportedly attracted founders, which were often defaulters

- Companies had an extremely poor credit rating

- 80% of banks refused financing

- Market exit with high quota of insolvency proceedings of up to one fourth (normal quota 5%)
The new German „Unternehmergesellschaft“

• More than 16,000 „UG“ incorporated during the first 10 months

• 6 times higher than current registrations of branches by „limiteds“

• Currently 2.5 times higher than „limiteds“ at their peak in March 2006
The new German „Unternehmergesellschaft“

- 1/3 share in the market of closely held limited companies

- but creation of new business doubtful
  - Legal arbitrage of sole ownership and GmbH founders
  - Incorporation identical with actual realization?

- „Own telefon test“:
  - 80 % of GmbH
  - less than 8 % of „UG“
The new German „Unternehmergesellschaft“

- Sample of 200 of first 2000 incorporations
- Very low legal capital:
  - 80% up to only 1000 €
  - 60 % up to only 500 €
- Extremely high rate of sponsors with **negative track rekord**:
  - > 20 % of shareholders or directors with prior insolvency proceedings
  - > 10 % with similar negative factors
- „1 - € - Choice“ attracts the very **bottom of the market**
Conclusions for the EPC Concept

- The „1-€- concept“
  - generates significant numbers of incorporations
  - however far less businesses are actually realized
- Companies established in competition with their national incumbent
  - are very small with purely local scope
  - start with an unsound financial basis
  - show a extremely high rate of early mortality
  - attract their sponsors „from the bottom of the market“
- A minimum capital requirement as a test for seriousness, solidity and solvency at the start should ensure
  - that the EPC will not become the „ragman“ of the continent
  - and thus harm the reputation of the EPC as a legal form to the detriment of its benign users for cross border investments
Thank you for your attention!

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