

# Start-ups in Germany – growth and exit pathways through venture capital

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Author: Dr Steffen Viete, phone +49 69 7431-68019, [steffen.viete@kfw.de](mailto:steffen.viete@kfw.de)

Start-ups are young and innovation-oriented high-growth enterprises that aim to grow fast with new products, services or business models. They play an important role for the development of the overall economy because they drive innovation and contribute to business growth and competition in a variety of sectors. Relevant data sources confirm that start-up activity has increased in Germany since last year. More than 2,500 start-ups were founded again in Germany in 2024 and a positive trend was evident in the first half of 2025 as well. One likely reason for this is that financing conditions in the venture capital (VC) market have been improving at the same time. VC is, after all, an important source of finance for start-ups but it is accessible only to newly founded businesses with particularly high growth potential. Around 16% of start-ups founded since 2005 were funded with VC up to mid-2025. Over the years, the significance of VC funding for German start-ups has grown.

Even if start-ups – particularly VC-funded start-ups – make up only a small portion of newly founded businesses in Germany, they play a particular role for growth and value creation. A cross-sectional analysis shows that, on average across all enterprises, German VC-funded start-ups already exhibit twice the rate of employment growth of those without VC funding and more than four times the employment growth of German SMEs. Particularly in successful start-ups, after the third funding round VC contributes to exponential growth that significantly surpasses the average development of all businesses.

After VC investors have provided funding, successful start-ups and their investors can typically choose from three exit routes: sell the company to an existing business (acquisition), let a financial investor take over existing shares (buyout) or do an initial public offering (IPO). An analysis of exits from German start-ups founded since 2005 reveals that exits do not always take place within the country but often head abroad. In acquisitions, the buyers came from abroad in 57% of cases and in IPOs German start-ups chose a financial location outside Germany in 44% of cases. In all of such exits the US is the most important destination country. An acquisition by a foreign buyer can entail a loss of value added and innovation potential in the home market, as can a listing on a foreign stock exchange. Measures designed to strengthen exit channels in Germany and Europe therefore appear to be an important area of economic policy.

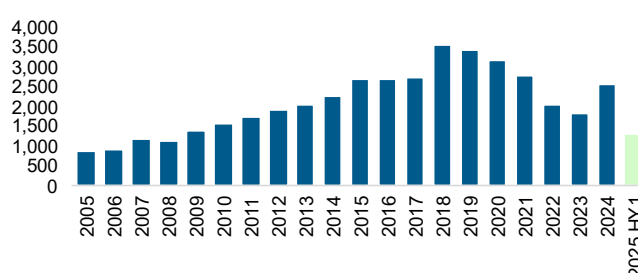
## Start-up numbers have risen since 2024

High-growth and innovation-oriented business start-ups are of crucial importance for the competitiveness of an economy. They create new products, open up new markets and drive employment and productivity growth. Such start-ups make up only a fraction of newly founded businesses in an economy. That is because many newly founded businesses are rather designed to generate a steady income based on tried and tested business models and therefore differ from start-ups in their objectives and risk appetite.

Encouragingly, the number of start-ups founded in Germany increased again in 2024. According to Dealroom.co, 2,540 businesses with start-up characteristics were founded (Figure 1).<sup>1</sup> Around 1,300 start-ups were registered in the first half of 2025 too – a slight increase on the previous year's average.

**Figure 1: Around 2,500 start-ups were newly founded last year**

Number of start-ups founded per year



Sources: Dealroom.co, KfW Research

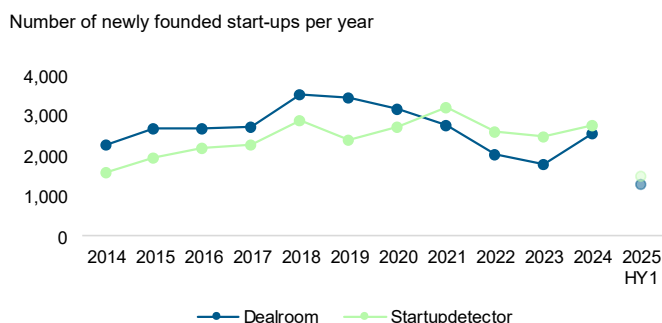
## There is no uniform definition of start-ups – common data sources traced a similar development last year

The fact that there is no generally accepted definition poses a challenge for the analysis of newly founded start-ups.<sup>2</sup> Innovativeness and growth – key features – are often discernible only some time after establishment. At the time of establishment, the founders may have the ambition to grow and innovate but these ambitions are difficult to identify from outside and it is unclear how earnestly they are (or can be) pursued. The data from Dealroom.co used here captures companies which the data provider believes have created an innovative product or

business model and can be scaled up quickly.<sup>3</sup> For comparison: the data provider Startupdetector uses the official commercial register to capture start-ups in Germany which they believe have developed an innovative product or possess high growth potential. In other sources such as the KfW Start-up Report and the Start-up Monitor of the German Startup Association, by contrast, start-ups are distinguished on the basis of the entrepreneurs' self-assessments of their innovativeness and growth ambitions.

A comparison of Dealroom.co and Startupdetector illustrates the effects of the different data sources and provider-specific perspectives on the number of start-ups reported in Germany (Figure 2). Dealroom.co captured more start-ups founded between 2014 and 2020 but fewer since 2021 than the data provider Startupdetector. However, significant differences in the trend can be found only in the years 2020 and 2021, in which the number of newly founded start-ups decreased on the previous year according to Dealroom.co but increased according to Startupdetector. The rebound in start-up activity in 2024 and in the first half of 2025, on the other hand, was recorded in both sources. Even if the level of start-up activity differs in the various sources, as a rule they paint a similar picture of the direction of the trend.

**Figure 2: Different sources show an increase in start-ups since 2024**



Sources: Dealroom.co, Startupdetector,<sup>4</sup> KfW Research.

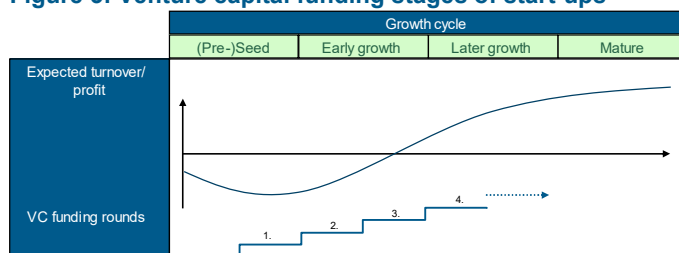
### VC funding has become more important for start-ups over the years

Start-ups differ substantially from other businesses with regard to risk appetite and financing requirements. That is why they must seek funding from other sources. In particular, traditional debt finance with bank loans often does not align with the risk profile and cash flow of start-ups. In the early phase, start-up entrepreneurs therefore primarily use own savings, funds from family and friends or state support funds. Only in later stages do they also consider loans or venture debt.<sup>5</sup> Before they can do that, successful start-ups require large investment sums to scale up. They do this by raising venture capital. Investors participate in the business with equity and aim to obtain a return from the sale of their shares when it has grown successfully. In the data from Dealroom.co used here, businesses are identified as start-ups if, in the view of the data provider, they generally meet the requirements for obtaining funds from VC investors –

especially growth potential and innovativeness.<sup>6</sup> The increase in start-up numbers since 2024 is likely due in part to the fact that the prospects of obtaining finance via the VC market had improved again at the same time after a phase of market consolidation.<sup>7</sup> Typical sources of VC include business angels, who mainly invest in early stages, specialised holding companies, investment by established enterprises (corporate venture capital) or VC investment by a state investor.

In recent years German start-ups completed between 1,000 and 1,600 funding rounds with VC investors.<sup>8</sup> In these rounds, successful start-ups raise capital in multiple funding rounds throughout their growth cycle (Figure 3).

**Figure 3: Venture capital funding stages of start-ups**



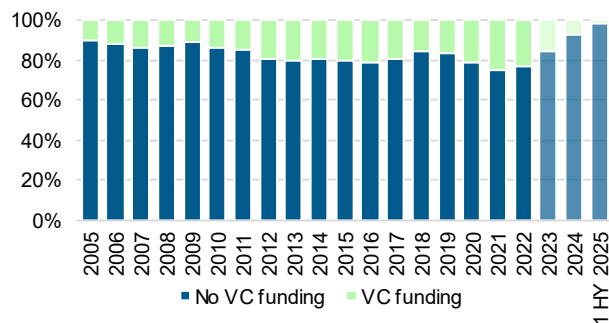
Source: KfW Research, own rendition.

Thus, with 2,000 to 3,000 start-ups founded each year, roughly twice as many businesses were founded as there were funding rounds. This alone illustrates that VC funding is definitely something that by no means all start-ups obtain. This is due to both the demand and the supply of VC funding. For one thing, only a fraction of businesses with start-up characteristics actually seeks to obtain VC funding. For another, VC investors base their funding decisions on costly screening and due diligence processes. In order to achieve the desired returns on their investment, they fund only businesses they believe have the best growth potential. That is why not nearly every start-up that seeks VC funding actually receives the desired capital.

By mid-2025, approx. 16% of all start-ups established in Germany since 2005 were funded with VC, which means they successfully completed at least one funding round with VC investors. So, it is clear that the VC market over time has gained in importance for the funding of German start-ups. Among all start-ups founded in the year 2005, a mere 8% funded their growth at least once with VC (Figure 4). That share rose to nearly one fifth for start-ups established in the years 2011–2017. The share of VC-funded start-ups reached its highest level to date in the start-up cohort of 2021, with one quarter of them having obtained funding via the VC market so far. It must be borne in mind, however, that the cohorts from 2023 onwards, in particular, cannot yet be compared with those before. That is because the period between formal founding of the business and the first VC funding is on average 1.7 years. The share of VC-funded start-ups in these cohorts, therefore, is yet to grow.

**Figure 4: One quarter of start-ups founded in 2021 received VC funding – among those founded in 2005, that share was 8%**

Number of newly founded start-ups per year by funding type



Sources: Dealroom.co, KfW Research

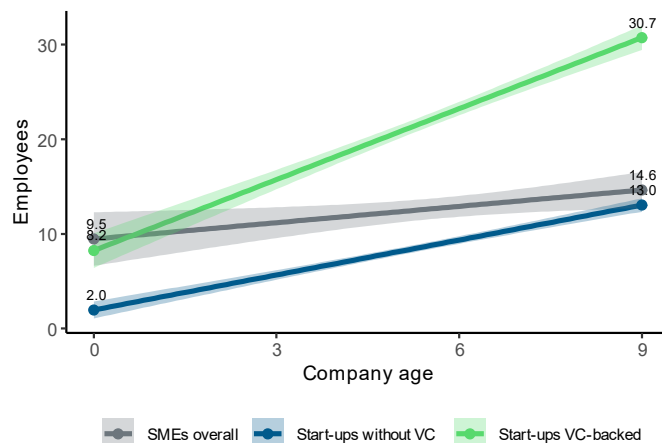
The case numbers generally illustrate that start-ups and, in particular, those that obtain VC funding make up only a very small share of total start-up activity in Germany. By way of comparison: According to the KfW Entrepreneurship Monitor, some 222,000 businesses were established on a full-time basis in Germany in 2022.<sup>9</sup> That same year, Dealroom.co captured just over 2,000 start-ups, around 470 of which had obtained VC funding by mid-2025. Even if the share of start-ups in all newly founded businesses is small, they still have an important role to play. That is because VC-funded start-ups in particular account for growth and value creation to a disproportionately high extent.

#### VC-funded start-ups embark on a steeper growth path

The importance of venture capital as a funding source for the growth of start-ups becomes clear when we look at how it correlates with the number of employees. Start-ups that obtain VC funding already have a larger workforce when they are formally founded than those without VC funding<sup>10</sup> and subsequently grow faster (Figure 5). Whereas German start-ups that receive no venture capital have around 1.2 employees more per year on average in the first nine years, start-ups that obtained VC at least once expand by around 2.5 employees on average per year. A comparison with businesses surveyed under the KfW SME Panel, which on average expand by a mere 0.6 employees per year, shows that start-ups are generally businesses founded with the ambition to grow. VC-funded start-ups thus grow on average more than four times as fast as German SMEs and more than twice as fast as non-VC-funded start-ups.<sup>11</sup> The steeper growth path of VC-funded start-ups can be attributed to two factors: first, the selection of businesses by investors, and second, the VC investment – the fuel that drives growth. Start-ups that have received VC funding have already undergone a stringent selection process with their investors. Survey data on US investors shows that for each investor, there are 100 more investment opportunities per funded business that are not funded by the investor.<sup>12</sup> Thus, businesses that have a high likelihood of successful growth even without VC investment are most likely to obtain VC funding. But furthermore, successful VC funding is the key resource for enabling promising start-up companies fast business growth. Besides providing capital, VC investors also contribute to the business with advice, particularly in the early stage, and by giving them access to customer and investor networks.

**Figure 5: VC-funded start-ups achieve a steeper growth path<sup>13</sup>**

Average workforce as a function of company age and group for start-ups and SMEs founded in Germany since 2016



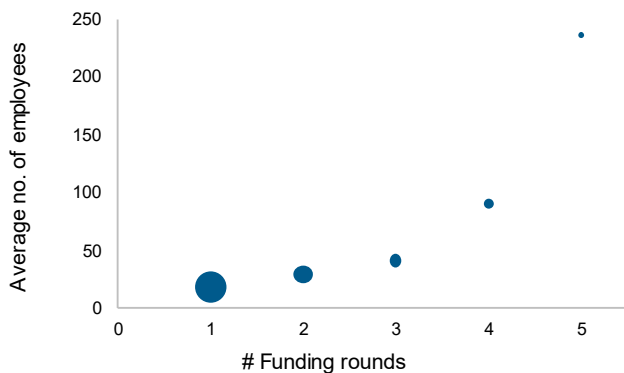
Sources: KfW SME Panel 2025, Dealroom.co, KfW Research.

The positive correlation between VC funding and company size in Figure 5 is independent of the amount of VC obtained and takes into account all start-ups founded since 2016 that are not yet confirmed to have terminated their business activity – which also includes numerous businesses whose growth ambitions have not or only partly materialised. The significance of VC therefore becomes even clearer when we consider only the successful businesses. For them, the link between access to VC and business growth is not linear. Venture capital funds exponential growth, particularly in later stages. Figure 6 shows that German start-ups that have successfully completed the first funding round on average have 18 employees. Up until the third successful funding round, the size of the business grows by around 11 employees per round. From the fourth successful funding round, however, the number of employees grows at a disproportionately steep rate. Start-ups that succeeded in completing five funding rounds achieved a workforce averaging 235 employees.

The size of the dots in Figure 6 stands for the number of businesses in Germany that were founded since 2005 and have so far completed a corresponding number of funding rounds. The analysis revealed that the number of start-ups that have successfully completed a second funding round by mid-2025 represents roughly one third of the group that completed a first successful funding round. Up to the fifth funding round, the number of businesses in each round is then only about half as high as in the preceding round. These figures illustrate that funding start-ups means taking risks. Only a small portion of successful start-ups generates the greater part of value added and growth of start-ups.<sup>14</sup> However, providing access to VC on a broad scale is an important prerequisite for these businesses to be able to thrive in an economy.

**Figure 6: Company size grows disproportionately with number of completed VC funding rounds**

Average company size per funding round



Note: Size of dots illustrates the number of underlying businesses that completed a corresponding funding round. Analysis covers all start-ups founded in Germany since 2005.

Sources: Dealroom.co, KfW Research

### What pathways do German start-ups embark on after successful VC-funded growth?

After start-ups have successfully grown with VC funding, they generally have three options for when their VC investors wish to exit from their investments after a number of years. One option is that start-ups are acquired by another business or businesses that wish to integrate their technologies or products into their own processes or assortments (acquisition). In that case, the start-up either merges with the acquiring company or becomes a subsidiary. Two other options in which start-ups remain economically independent are the acquisition of their shares by a financial investor via a buyout and by raising capital through a stock exchange listing (IPO). Exits are of fundamental importance for the funding cycle in the VC market because they generate returns to VC investors. The shareholders of start-ups regard an IPO as the most lucrative pathway. But it is open only to very successful businesses. Which exit route German start-ups choose after VC funding is also quite relevant for the economy as a whole. It determines where and in what form the business activity of the start-ups continues and contributes to value added.

Figure 7 shows which exit pathways start-ups founded in Germany that have successfully grown with VC funding have pursued since 2005. A total of 986 transactions have been recorded in which VC investors have exited again from their investments in German start-ups. Acquisitions by another

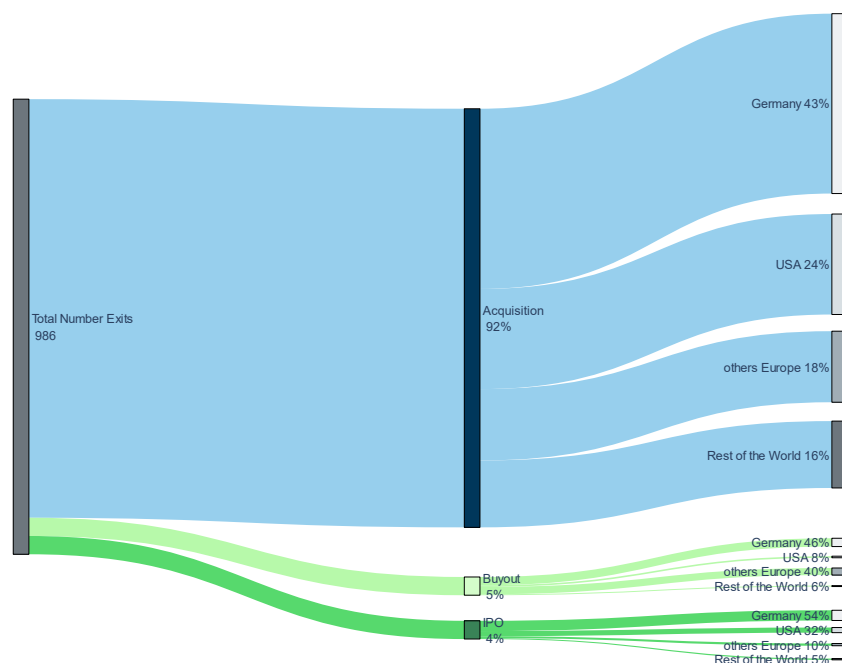
company was by far the most important path to exit. This was the case in 899 transactions, or 92% of all exits. Buyouts were a distant second, with 5% of all exits, in which a private equity investor takes over the shares. Stock exchange listings of start-ups were the least common exit. The 41 IPOs recorded made up only 4% of all exits. However, raising capital by going public is an important exit channel for particularly successful start-ups that experience high employment growth and have a high need for capital. IPOs make up a mere 4% of all exits, but they account for 51% of the workforce in start-ups with a completed exit (Figure 8).

In order for start-ups founded and successfully established in Germany to be able to contribute to value creation and competitiveness within Germany in the long term, their value creation and innovative capacity must be concentrated in Germany even after the exit. An acquisition by a foreign enterprise in particular causes values already created by the start-up, such as functioning business models or IP and trademarks, to leave the country. In an extreme case, an acquisition by a foreign company can entail the complete relocation of value creation and an outflow of talent. Listing a start-up in foreign financial markets can also cause it to focus its business activity on a foreign country, not least with the aim of attracting investors there.<sup>15</sup> The narrow absorptive capacity of the German and European capital market and the resulting reduced attractiveness for a public listing has been debated as a constraint for quite some time now.<sup>16</sup>

Indeed, the exits of start-ups founded in Germany are often international. In 43% of acquisitions the buyers were domiciled in Germany. At the same time, more than half the start-ups were sold to businesses domiciled abroad. Enterprises from the US were the most important group of buyers. They accounted for just under one fourth of all acquisitions of German start-ups. A further 18% were acquired by businesses from European countries, 16% by companies from the rest of the world including Canada, Australia, Japan, China, Israel and India. Investors in buyout transactions, too, were 46% from Germany. A further 40% were domiciled in European countries, meaning the overwhelming majority of investors came from Europe. In the case of IPOs, 54% of start-ups opted for a listing in Germany. However, the strong attractiveness of the US-based NASDAQ for young technology firms is obvious. Around one third of IPOs of start-ups founded in Germany took place there. A further 10% of IPOs were completed in financial markets in Europe, including in the UK, Sweden, the Netherlands and France.

**Figure 7: What pathways do German start-ups embark on after their VC-funded growth?**

Exits of VC-funded start-ups founded in Germany since 2005 by exit pathway and country of investor or financial market

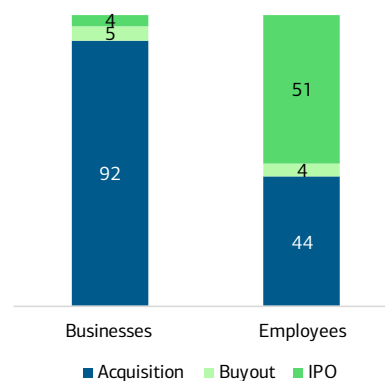


Sources: Dealroom.co, KfW Research

In conclusion, it can be said that the exit pathways of start-ups founded in Germany often end in other countries. In the case of acquisitions and IPOs, that often means the US. For IPOs, this has to do with the greater absorptive capacity of the US capital markets and the enabling conditions provided by a vast contiguous economic region. Against this backdrop, measures designed to building a stronger European single market and contribute to deepening the capital market appear to be an important field of action in order to provide successful start-ups better funding prospects in Europe. Furthermore, US businesses are particularly active in the acquisition of innovations from German start-ups. Established companies in Germany should therefore be made more aware of the potential of start-ups as a source of innovation. That does not necessarily require them to invest in a start-up. Venture clienting models in which established businesses act as early customers of innovative products and services of start-ups could be a good entry point here. That could enable established enterprises to access technologies with lower risk than by investing in the business. From the perspective of the start-up, cooperating with established enterprises not only generates turnover but provides access to market feedback for product development.

**Figure 8: IPOs make up a mere 4% of all exits but account for 51% of the workforce in start-ups with a completed exit**

Exits of the VC-funded start-ups founded in Germany since 2005 by exit pathway

Sources: Dealroom.co, KfW Research<sup>17</sup>

<sup>1</sup> Relevant sources such as Dealroom.co usually record the establishment of limited-liability companies.

<sup>2</sup> Metzger, G. (2025), Start-ups: Leicht gesagt, aber schwer zu fassen (Start-ups: easily named but elusive – in German only), Focus on Economics, No. 483, KfW Research.

<sup>3</sup> Dealroom.co (2025): What is a Startup?

<sup>4</sup> Startupdetector and Federal Association of German Start-ups (2025): Next Generation Startups in Germany, January – June 2025; Startupdetector (2025): Startupdetector report 2024/25: An evaluation of all start-ups founded and financing rounds completed in Germany (in German).

<sup>5</sup> Federal Startup Association and PwC Germany (2022): German Startup Monitor 2022 Innovation – the time is now! (In German)

<sup>6</sup> Dealroom.co (2025): Entities – A guide to the key entities featured on Dealroom.co.

<sup>7</sup> Viète, S. and Metzger, G. (2025). KfW Venture Capital Dashboard Q4 2024, KfW Research.

<sup>8</sup> Viète, S. and Metzger, G. (2025). KfW Venture Capital Dashboard Q2 2025, KfW Research.

<sup>9</sup> Metzger, G. (2025). KfW Entrepreneurship Monitor 2025, KfW Research.

<sup>10</sup> Around 1.4% of start-ups founded since 2005 had completed a first known funding round prior to their formal founding as a business.

<sup>11</sup> Event studies with US data have arrived at a similar finding with regard to the influence of VC funding on the employment growth of start-ups: "[...] Based on these differential growth rates, the treatment by venture capitalists accounts for up to nearly half of the growth experienced by VC-funded startups." Akcigit, U., Dinlersoz, E., Greenwood, J., and Penciakova, V. (2022). Synergizing ventures. *Journal of Economic Dynamics and Control*, 143, 104427.

<sup>12</sup> Gompers, P. A., Gornall, W., Kaplan, S. N. and Strebulaev, I. A. (2020). How do venture capitalists make decisions? *Journal of Financial Economics*, 135(1), 169–190.

<sup>13</sup> The Figure shows the results of a regression analysis across all start-ups recorded in the Dealroom.co database that were founded in Germany since 2016 for which details on the number of employees are available and which are confirmed to have been in business up to 2025 (N=16,726). Of these businesses, 3,919 received at least one round of VC finance. The analysis is complemented by a random sample of 1,559 businesses from the KfW SME Panel as a comparison group (not representative). For the cross-cutting analysis, we estimated the linear correlation between the last known number of employees with the age of the business and its attribution to the three groups (German SMEs, start-up without VC funding, start-up with VC funding) on the basis of the following regression equation:  $Number\ Employees = \theta + \alpha * Age\ of\ company + \beta * I(Group) + \delta * Age\ of\ company * I(Group) + \varepsilon$ . The figure shows the values simulated on the basis of this model for the number of employees and the 95% confidence interval.

<sup>14</sup> Kerr, W. R., Nanda, R. and Rhodes-Kropf, M. (2014). Entrepreneurship as experimentation. *Journal of Economic Perspectives*, 28(3), 25–48; Calvino, F., Criscuolo, C. and Menon, C. (2015). Cross-country evidence on start-up dynamics, OECD Science, Technology and Industry Working Papers.

<sup>15</sup> Bundesverband Deutscher Start-ups e.V. (German Startup Association) (2021). Die Bedeutung von Exits Wie der Finanzierungskreislauf geschlossen und das Start-up-Ökosystem gestärkt werden kann (*The importance of exits – how the funding cycle can be closed and the start-up ecosystem strengthened* – our title translation, in German).

<sup>16</sup> E.g. European Investment Bank (2024). The scale-up gap Financial market constraints holding back innovative firms in the European Union, EIB Thematic Studies.

<sup>17</sup> For around 14% of acquisitions, the number of employees was not known and was imputed with the average of all businesses in the acquisitions category.