

# START-UPS CONSTELLATION IN SPAIN: Investment opportunities



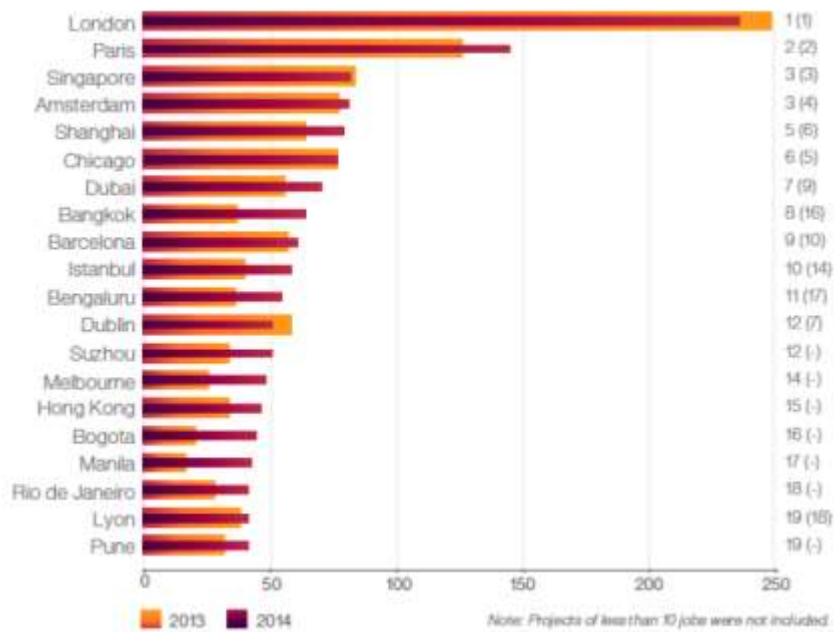
Carlos Nicolau  
Marta Princep  
Julieta López-Chicheri

September 2016

[www.bellavistalegal.eu](http://www.bellavistalegal.eu)

# BELLAVISTA

- Spain is the 5<sup>th</sup> largest EU economy and 13<sup>rd</sup> worldwide. Spain GDP worth 1.4 trillion USD in 2015. **It is also the 9<sup>th</sup> most-open country to Foreign Investment** according to the OECD’s FDI Restrictiveness Index.
- US, Italian, French, German and UK Companies are the largest investors in Spain and up to 12.500 foreign companies from all economic sectors are currently located here.
- Moreover, Barcelona is the 9<sup>th</sup> City of the Top Ranking destination of investment projects according to IBM Global trends.



- Spain is also the best platform to perform business with Latin America countries, being the 2<sup>nd</sup> largest investor in that area, since 17 Agreements to avoid double taxation and 20 Agreements for Protection and Promotion of Reciprocal Investments are currently active with Central and South American countries.
- Spain is also the 9<sup>th</sup> ranked country in IT – data security- according to technical as well as legal parameters, a key factor when considering investments in high tech and biomedical start-ups.

Global Cybersecurity Index (GCI)

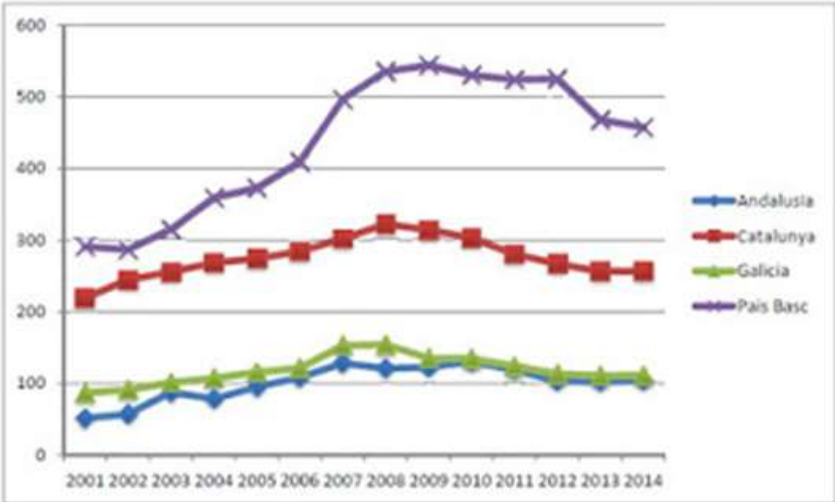
Country	Index [1]	Ranking [2]
Austria	0.676	6
Belgium	0.441	14
Denmark	0.588	9
Finland	0.618	8
France	0.588	9
Germany	0.706	5
Ireland	0.206	22
Italy	0.559	10
Luxembourg	0.471	13
Netherlands	0.676	6
Norway	0.725	4
Portugal	0.294	19
Spain	0.588	9
Sweden	0.647	7
Switzerland	0.353	17
UK	0.706	5
Israel	0.676	6
US	0.824	1
Singapore	0.676	6

Note: [1] Index from 0-1 [1] Ranking from 1-29, [1] Source: Global Cybersecurity Index & Cyberwellness Profiles Report [http://www.itu.int/dms\\_pub/itu-d/ops/str/I0-STR-SECU-2015-PDF-E.pdf](http://www.itu.int/dms_pub/itu-d/ops/str/I0-STR-SECU-2015-PDF-E.pdf)

**Innovation Ecosystem & Start-ups**

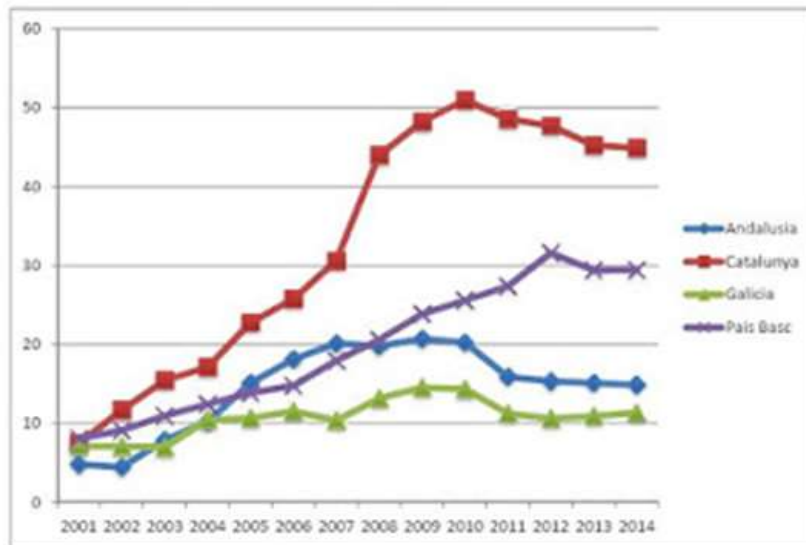
- Spain invested 1,24% of GDP on R&D activities, still far from Lisbon 2.0 objectives. However, two main hubs, Basc Country and Catalonia, concentrate most of the innovative activity.

Figure 3: Total R&D expenditure in the region, in Euros (constant price) per capita



Source: Instituto Nacional de Estadística, 2016.

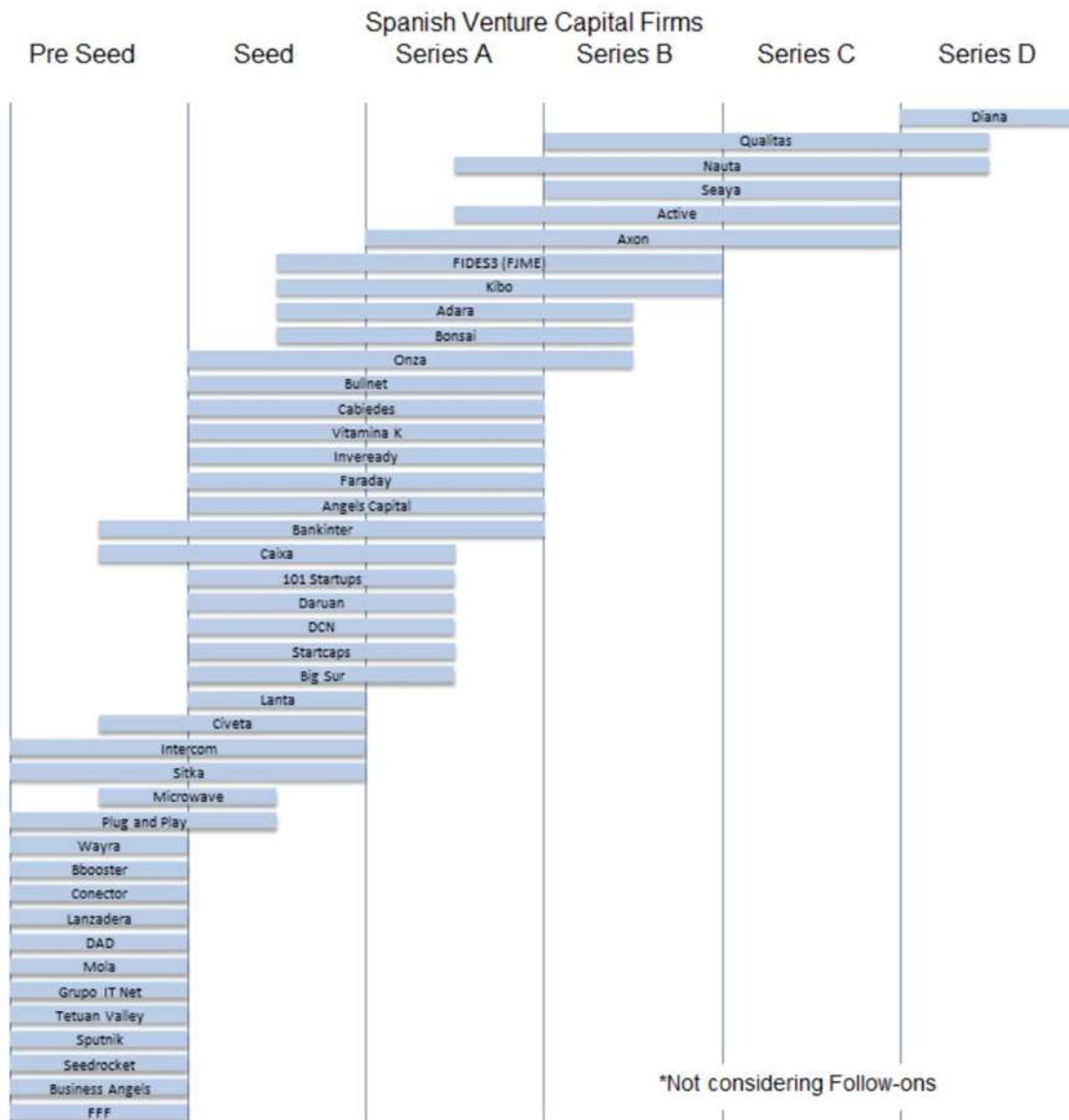
Figure 6: R&D performed by public administration (PROs and public technology centres), all funding sources, in Euros (constant) per capita.



Source: Instituto Nacional de Estadística. 2016.

- Catalonia is the location of almost 70% of Spanish Tech companies, mostly in or around Barcelona. In 2000, the government decided to initiate a huge investment in creating a Knowledge Economy, and restructured the universities and invested massive amounts of capital to create an ecosystem of high quality.
- Attractiveness of Spanish start-ups is recognized by foreign companies since the M&A activity has been highly dynamic. Some of the most interesting 1<sup>st</sup> semester 2015 deals disclosed hereinafter:
  - ✓ Rocket Internet bought La Nevera Roja for €80 million in February.
  - ✓ Apax bought a controlling stake in idealista, reportedly valuing the company at €150 million.
  - ✓ Bodas.net got acquired by WeddingWire, apparently for €50 million.
  - ✓ Mitula acquired Lokku (Nestoria).
  - ✓ Gartner bought Nubera (GetApp).
  - ✓ eShop Ventures acquired El Armario de la Tele and Nonabox.
  - ✓ BeMate bought Alterkeys.
  - ✓ LivingSocial got rid of Letsbonus.
  - ✓ SinDelantal Mexico, backed by Madrid-based Seaya Ventures and co-founded by Evaristo Babé and Diego Ballesteros, was acquired by Just Eat. The two had previously sold SinDelantal Spain to Just Eat.
  - ✓ Percentil acquired by Germany's Kirondo to expand in the country.
  - ✓ Car sharing startup Amovens got bought by GoMore.

- In last years, VC has evolved in Spain. Some local players for future co-investments are displayed below



**BY SECTORS**

**Automotive**

- 2<sup>nd</sup> EU manufacturer-1<sup>st</sup> in industrial vehicles- and 8<sup>th</sup> world wide
- Combines high tech innovation through all value chain with diminished labor costs compared to EU average
- Sector ranks 6<sup>th</sup> in the world in terms of international turnover (27,5 billion in 2013) that accounts for 10% of Spain turnover
- 34 technological centers devoted to automotive industry with 1500 million invested in 2014 and 785 million in R&D expenditure. Indeed, 10 billion euros committed from foreign industry including new electric vehicles
- Start-ups attract 2 out of 3 EU projects of European Green Cars initiative.

## ICT (information & communication techs)

- Up to 30,600 IT sector companies and a turnover for €89.894 million in 2014 makes it one of the largest EU market by volume. Big Data, Cloud Computing, Mobile Technology, Internet of Things, Security and Smart Cities among most dynamic.
- Barcelona was named the Mobile World Capital and hosting the GSMA Mobile World Congress, with up to 94.000 attendees and 2.200 companies worldwide in 2015 edition.
- Barcelona IT and mobile start-ups attracted up to 264 million euros in 2015. There were 14 investment rounds overcoming up to 10 million each one- to 91 million LetGo ecommerce platform - in which participated up to 44 foreign investors. Fintech was one of the most attractive field for investors.
- Big companies acting as tractors available: Telefonica is one of the largest telecommunications companies in the world (in terms of market capitalization and number of customers) and located its Wayra –innovative start-up accelerator- in Barcelona

## Biotech, Pharma & Life Sciences

- Is one of the most innovative and leading sectors in Spain, mainly concentrated in Catalonia and Basque Country when speaking of companies
- Excellence in science. Spain is 10<sup>th</sup> world scientific power and 5<sup>th</sup> by scientific production in EU. Mostly Catalonia, which published 1% of worldwide referred papers, up to 10 up fold their population weight (0.1% of worldwide population).
- Integrated ecosystem of academy, 80 science parks, 25 top ranked university hospitals form 800 available and bioregions (Biocat –bioregion of catalonia; BioBasque), including companies associations (Asebio- biotech, Farmaindustria-pharma, FENIN-medical technologies....) and specialized venture capital (Ysios, Caixa Capital Risc, Inveready, CrossRoad Biotech...)
- Up to 3000 biotech companies- 23% in Catalonia-, 62% focused on biomedicine and 23% in agrofood, with 95.000 million euros of turnover in 2014.
- Up to 1000 medical technology companies with 6800 million euros turnover
- 425 pharma companies (60% subsidiaries), that ranked the 5<sup>th</sup> in terms of sales and 6<sup>th</sup> for production in EU market and 20% of all private R&D investment in Spain
- Worldwide leaders as Grifols S.A.
- Some Success stories: Oryzon Genomics goes into Nasdaq after their billionaire agreement with Roche in 2014; Warren Buffet acquires Lipotec Group; Sanifit and Mynorix Therapeutics reached up to 20Milion euros round A including foreign investors.

## Other relevant sectors:

**Aerospace-** 5<sup>th</sup> in EU and 8<sup>th</sup> worldwide in turnover (9.4 billion euros), is global leader in composite aero structures, low pressure turbine engines, Air Traffic Management systems and Military Transport Aircraft.

**Water-** 24000 companies and 32000 million euros turnover in 2014. Spain is the 1st producer of desalinated seawater in Europe and America. Spanish companies are leaders in Reverse Osmosis Technologies. Highly demanding sector with interesting investment opportunities.

**Environment** -The Spanish environmental sector accounts 3,6% GDP and Sales: 40.355 million €. With 7780 companies (most SMEs) accounts with world class players as Iberdrola - the 4th-largest utility company in the world (in terms of market capitalization) and the 2nd largest wind power operator in USA -or Abengoa.

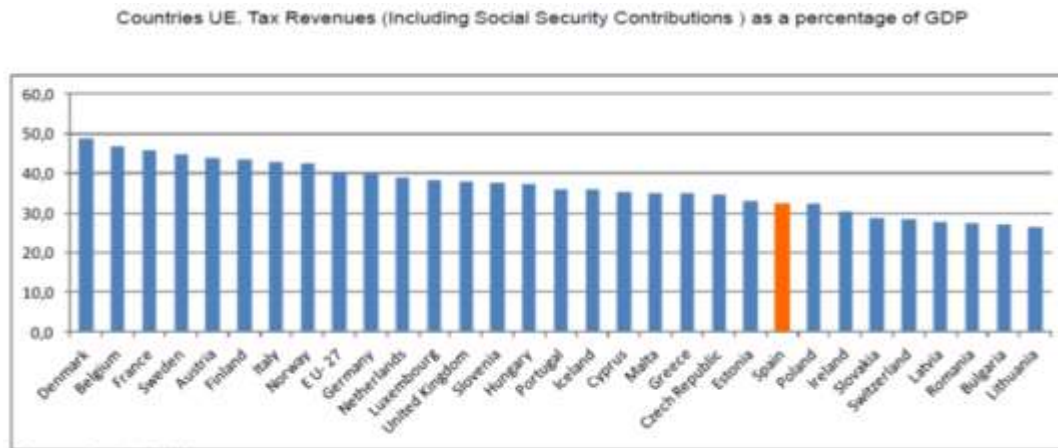
**Chemical industry-** 3,000 Companies with a turnover of 56,4billion € and Sustained Growth of 54.5% through last 10 years. Leader Sector in Innovation: 25% of Industrial Investment in R&D&I. Spain is Gateway to EU market and EMEA & Emerging Markets. According to FDI Markets Spain Ranks 2nd destination for R&D projects and 5th destination for New Chemical projects (all business activities) of Multinationals in Europe (period 2004-2014).

**Nanotechnology-** is one of the most dynamic, with up to 300 research groups and 100 SME companies in graphene, biomaterials and nano-applications research programs. Barcelona is the second world wide city in number of indexed publications in nanomedicine after Boston.

**TAX FRAMEWORK**

**Tax environment**

Spain shows moderate tax burden based on the ratio of tax for revenues and GDP (32.5% GDP). Moreover, it is in the 2<sup>nd</sup> ranked in terms of tax incentives for Research among the OECD as detailed below.



- Corporate income tax rates:
  - The general tax rate of corporate income tax is 25% from 2016.
  - Newly formed enterprises are taxed at 15% tax rate for the first and the second year in which there are taxable profits and the year thereafter under certain conditions.

The average tax rate in the European Union is 22,9%

- Value Added Tax:
  - The standard rate of value added tax is 21%.
  - The reduced tax rate (food, transport, tourism, etc) is 10%.
  - The super-reduced tax rate (basic necessities) 4%.
  - The zero rate (virtually only export related with goods and services).

The average standard tax rate in the European Union is 21,46%

## **Tax incentives in Spain- Research and Investment special conditions**

### Activities of research and technological innovation

A tax credit equal to 25% of research and development (R&D) expenses incurred in the tax year is available. If the expenses incurred (whether in Spain or another EU Member State) exceed the average amount of expenses in the preceding 2 years, the rate of 25% applies to an amount equal to the average, while a rate of 42% applies to the excess. The credit is reduced by 100% of any subsidies received. Exceptionally, unused credits may be carried forward for 18 years.

In addition, R&D activities may benefit from a credit equal to 17% of the costs relating to payroll and 8% of the costs relating to investments in tangible (other than real estate) and intangible assets used in the project.

Activities resulting in technological innovation for existing products benefit from a 12% credit.

### Promotion of venture capital investments

To promote venture capital investments in non-financial small and medium-sized companies operating in the field of technological innovation, qualifying venture capital companies (SCR) and funds (FCR) are granted a 99% tax exemption for gains from the sale of shares and other participations held for at least 1 year. No exemption is granted after a holding period of 15 years. Exceptionally, an extension to 20 years may be granted.

### Relief for income from certain intangible fixed assets (patent box)

A partial exemption applies to the net earnings derived from the assignment of a right to use qualifying intangible fixed assets. Under this incentive, 60% of such income is exempt from corporate income tax.



Several conditions apply, including, among others:

- the assigning party may not reside in a tax haven
- the company’s stake in the creation of the asset must be at least 25%
- earnings obtained upon transfer of the asset between group companies (under specific conditions) cannot fall under the regime.

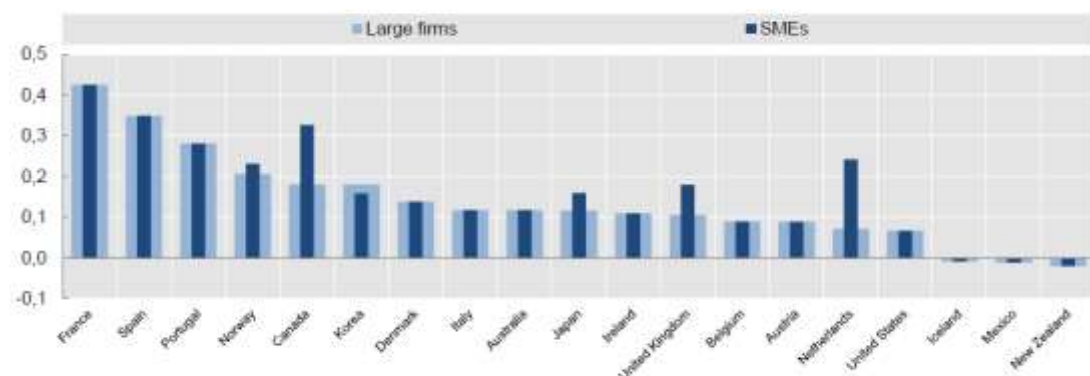
Holding companies (ETVEs)

Entities whose business purpose includes the supervision and management of participations in non-resident entities may benefit from a participation exemption regime, under which dividends, other profit distributions and capital gains from the disposal of a qualifying interest in non-resident companies are exempt from corporate income tax, provided that certain conditions are met. The distribution of profits by a holding company to non-resident corporate or individual shareholders is exempt from withholding tax, unless the recipient is resident in a tax haven.

The holding company regime is not available to certain passive entities whose main business is to manage movable or immovable property not used for business purposes.

**Spain accounts for the 2<sup>nd</sup> largest fiscal incentives in R&D among OECD countries.** Moreover, Patent box type incentive is include.

1. Favorable fiscal system for foreign investors and R&D activities: The 2nd most favorable fiscal incentives for R&D among OECD countries.



Note: Tax subsidies are calculated as 1 minus the B index. For example, in Spain, 1 unit of R&D expenditure by large firms results in 0.349 unit of tax relief. Source: "Science, Technology and Industry, Outlook". OCDE, 2012.

Individual Income Tax incentives

- Salaries earned by an individual resident in Spain from work performed in a foreign country with an income tax comparable to the Spanish income tax are exempt up to EUR 60,100.
- Individual’s nonresidents who move their habitual residence to Spain with an employment contract can opt to be taxed under the Resident Income Tax or under Non Residents Income Tax (probably more favorable) for the period in which he/she exercises the option and during the 5 following Tax periods. The individual is considered Spanish resident for Double Tax Treaty purposes but only pays taxes in Spain for the assets located here.

- Incentives to business angels (i.e. investors who provide capital to start-ups).
  - 20% tax credit on the acquisition value of the shares in new companies (under certain conditions). The maximum invested amount for tax purposes cannot exceed EUR 50,000 annually.
  - Exemption on the capital gains on those companies when there is a reinvestment in other new company.

### **SPECIFIC START-UPS Programs**

Spanish and Catalan Government agencies designed specific programs to foster entrepreneurship and high-tech start-ups.

These programs are based on a combination of grants as well as soft loans, assigned by competitive bases system. However, funds assignment to these programs is made depending on the State Annual Budget.

A brief list of most relevant programs is detailed below:

#### **Spanish Government**

ENISA (Industry Department) - soft loans

- Young entrepreneurs: younger than 40 years old and newly created company (less than 24 months). Budget: 25.000 to 75.000 EUR without guarantees
- Entrepreneurs: focused to newly innovative companies (less than 24 months). Budget: 25.000 to 300.000 EUR to foster growth and commercialization

CDTI (Center for Technological Development from Economy Department)

- NEOTEC: for the creation of new companies based on R+D activities. Combination of grant and loans.

#### **Catalan Government**

- Start-up Catalonia Program that includes two mentoring initiatives: Sprint Plan and On-board Plan, focused to create and growing the company respectively.
- Innovation nucleus: competitive grant to foster the R+D to market. Budgets depending on the call, usually 50.000 to 100.000 EUR.

**This is a general introductory note and therefore it is convenient to seek professional advice before taking any action.**

**For any further information please contact:**

**Mr. Carlos Nicolau  
Lawyer  
Partner at Bellavista Legal  
Email: [cnicolau@bellavistalegal.eu](mailto:cnicolau@bellavistalegal.eu)**