

1st Frankfurt Private Capital Symposium

Financing mechanisms for capital-intensive deep tech companies

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10 Insights from the 1st Frankfurt Private Capital Symposium

POINT OF DEPARTURE

1. Deep-tech scale-up financing needs urgent attention.

Europe produces roughly 45% of the world's deep-tech startups but captures only 17% of global funding. Series A to Series B conversion: 10% in Europe, 24% in North America. Annual growth-stage funding shortfall: \$4-24 billion. Over 80% of exits are M&A-driven, not public listings. McKinsey frames this as two distinct valleys of death: the first between spin-off and first customers, the second between pilot validation and commercial deployment, precisely where capital-intensive deep tech needs €50-200 million and outgrows European VC capacity before reaching the scale that infrastructure investors require. Some strong counter-examples exist. The gap between leaders and laggards, across countries, sectors and companies, is widening fast.

FOUNDERS' EXPERIENCE

2. Debt financing is a critical bottleneck.

Same company, same risk profile, starkly different credit decisions depending on the institution. This points to gaps in risk assessment capability, underlying data, and shared frameworks for evaluating capital-intensive, pre-revenue technology risk. McKinsey's research confirms the structural cause: traditional lenders rely on historical profitability and hard collateral, while deep tech requires assessment frameworks built on technology readiness levels (TRL) and milestone-based risk, which most banks are not yet equipped to apply consistently.

3. Founders want Hausbanken to step up.

Private capital and global banks are perceived as ahead of traditional German Hausbanken in serving this segment. Founders' ask: house banks should build the internal capability to serve scale-ups directly, including the technical risk literacy to assess milestone progress rather than relying solely on balance-sheet history.

4. Carve-outs shrink the problem, but the core gap remains.

Equipment leasing and factoring work for defined, lower-risk elements, freeing scarcer capital for what remains. This matches the asset-heavy financing pattern McKinsey identifies for hardware-driven scale-ups: blended stacks of early equity, equipment leasing and project finance, sequenced with public grants for first-of-its-kind risk. But the persistent gap sits in core financing needs: first-of-its-kind technology risk and the pre-revenue phase, where these carve-out instruments structurally do not reach.

THE CAPITAL STACK

5. Profits too thin for debt.

The VC/private capital participants noted that portfolio companies and their projects often lack sufficient EBITDA to qualify for unguaranteed debt financing. Standard lender covenants require a Debt Service Coverage Ratio of 1.2x - 1.5x and net leverage below 4-6x EBITDA; thresholds most discussed projects cannot meet. Without a development bank or government guarantee (EIB, KfW) to backstop the risk, private lenders price themselves out. Equity remains the only viable route, with investors taking equity stakes or profit-participation rights in lieu of interest they know the projects couldn't reliably service.

6. A proper guarantee model deserves priority on the policy agenda.

Today's instruments fall short on volume, speed and cross-border reach. McKinsey's research shows why this matters disproportionately: government first-loss equity covering 20-40% of downside risk is consistently what

catalyses private capital participation in capital-intensive deep tech, and guarantees are what allow banks to lend against technological milestones rather than collateral. Fix volume, speed and cross-border reach, and guarantees become one of the sharpest unlocks available, at a fraction of the cost of venture debt. This deserves to move up the agenda.

7. Off-take agreements: the most favourable unlock identified.

Public and private off-take contracts de-risk scaling and financing simultaneously. They give lenders and investors a credible, contracted revenue signal where historical financials don't exist yet.

McKinsey's research is unambiguous on this point: binding off-take agreements with take-or-pay clauses, covering 40-60% of capacity, are what shift a company from equity-dependent financing to bankable, infrastructure-style debt stacks of 60-70%. Non-binding letters of intent carry materially less weight with investors than contracted revenue.

PRIORITY ACTIONS TO GET THE FLYWHEEL GOING

8. Bridging the gap between engineering and risk management.

TRL progression means little to a credit committee without translation into terms it can underwrite: probability of failure, capital required if delayed, what "failure" actually means technically. This translation layer barely exists today. Building it would let institutional capital, much of it still held back by regulatory risk weightings poorly suited to long-duration technology risk (Solvency II's treatment of long-term assets is one frequently cited example), engage with deep tech on its own terms rather than retreating to generic risk categories.

9. More 'water in the system' required.

Frictionless capital allocation alone won't solve this. The system needs materially more capital inflow to reach escape velocity. Europe's leading institutional capital pools, pension funds, insurers, sovereign-wealth-style vehicles, need to lead, mirroring McKinsey's observation that Europe's structural disadvantage is real: institutional capital in the US was built over generations of performance data that Europe is only beginning to generate.

10. Orchestration, backed by concrete asks.

No single actor closes this gap alone. VCs, banks, corporates and public institutions need to coordinate deliberately. Explore the art of the possible with tangible comprehensive 'asks' which stand in the way of investments: permits, planning approvals, regulatory sandboxes, that can be resolved in months rather than years and demonstrate orchestration works in practice before scaling it system-wide.