
VENTURE CAPITAL:

**A Machine for
Building Businesses
and for
Creating Value**

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Christopher Columbus backed by private equity and angel investors



VALUE PROPOSITION:

FIND A SHORTER ROUTE TO INDIA

BUSINESS PLAN:

POSSIBLY COPY OF CHINESE MAP, 1421

SEED FUNDING:

\$ 840

FIRST INSTITUTIONAL ROUND:

AFTER 7 YEARS, 50 % BY "SOVEREIGN WEALTH FUND" AND 50 % BY PRIVATE INVESTORS

DEAL STRUCTURE:

REVENUE SHARE, OPTIONS

RETURN EXPECTATION:

NOT TO BE SEEN AGAIN

EXECUTION:

LANDED IN THE CARIBBEAN, BUT NOT THE FIRST EUROPEAN OR PERHAPS EVEN ASIAN IN AMERICA

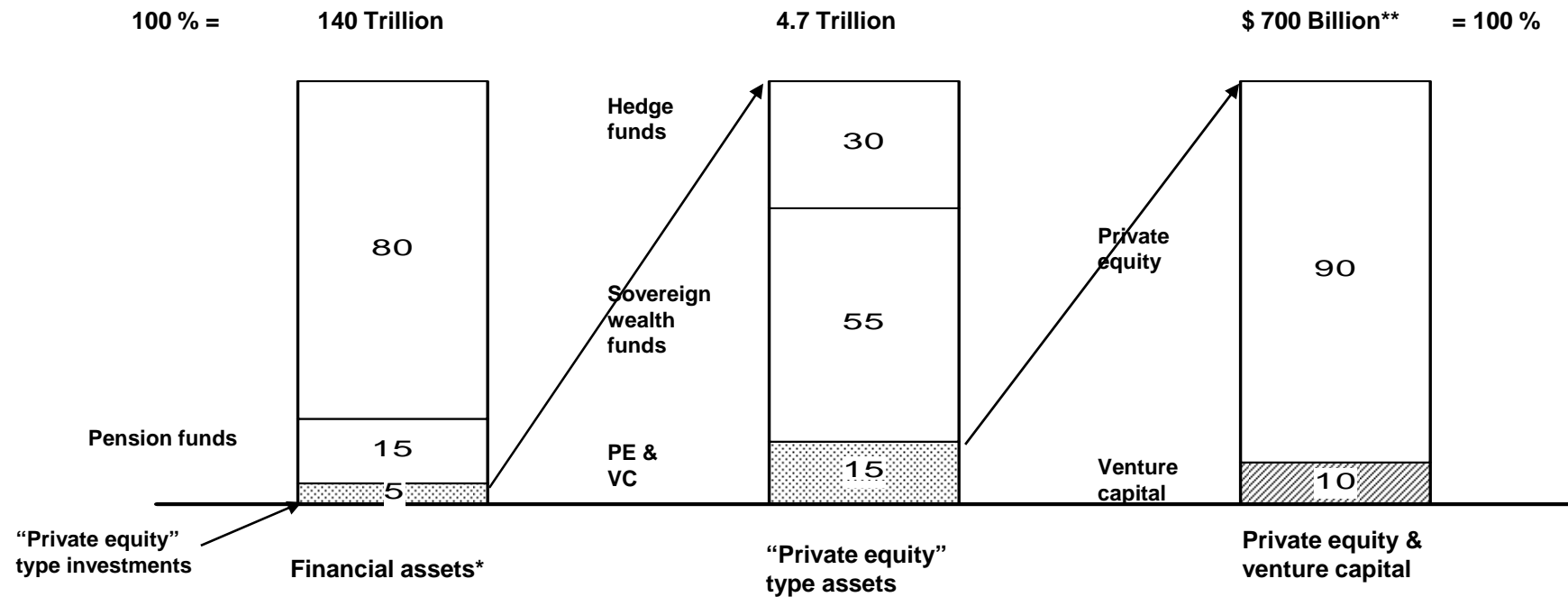
KEY SUCCESS FACTORS:

VISION, DRIVE, PASSION, DETERMINATION

Venture capital from the perspective of global financial assets

ILLUSTRATIVE

Percent



•Global financial assets are three times the world GDP

** Has grown 15 % per year

Over 25 years of strong returns from investing in private technology businesses

- **GLOBAL VENTURE CAPITAL INVESTMENTS IN 2006 WERE \$ 37.3 B, OF WHICH OVER 70 % WAS IN THE US AND OVER 15 % IN EUROPE**
- **IN 2007 \$ 29 B WAS INVESTED IN THE US, WHILE \$ 34.7 B WAS RAISED FOR NEW FUNDS. AT THE SAME TIME 86 VENTURE CAPITAL BACKED COMPANIES RAISED \$ 10.3 B FROM THE PUBLIC MARKETS AND AN OTHER 305 WERE ACQUIRED FOR \$ 25.4 B**
- **NEW TECHNOLOGY BUSINESSES FOUNDED SINCE THE 1950'S HAVE GENERATED MILLIONS OF \$'S OF RETURNS TO THEIR INVESTORS. DIGITAL EQUIPMENT, FOUNDED IN 1959 WITH \$ 70,000 WAS ACQUIRED FOR \$ 9.6 B. IN 2008 PRIVATELY HELD EUROPEAN MYSQL WAS ACQUIRED FOR \$ 1 B, AFTER RAISING \$ 39 M SINCE 2001**
- **VENTURE CAPITAL RETURNS HAVE OUTPERFORMED THE S & P 500 INDEX DURING THE LAST THREE YEARS, AS WELL AS FOR THE LAST 10 AND 20 YEARS.**
- **OVER THE LAST 25 YEARS, ALMOST 3,000 COMPANIES FINANCED BY VENTURE CAPITALISTS HAVE GONE PUBLIC, MORE THAN 100 A YEAR. THESE RAPIDLY GROWING TECH COMPANIES AND THEIR IPOs ARE ONE OF THE MARKETS MOST ACTIVE SEGMENTS**
- **IN ADDITION TO MAKING THE RIGHT MARKET AND SECTOR DECISIONS, 30 – 40 % OF THE TOTAL VALUE CREATED COMES FROM THE INDIVIDUAL COMPANY OUTPERFORMANCE. ACTIVE OWNERSHIP BY INVESTORS DRIVES COMPANY OUTPERFORMANCE**

The over all investment climate

2008

- **A RECENT ECONOMIST MAGAZINES GLOBAL BUSINESS BAROMETER HAD THE HIGHEST POSITIVE OVERALL CONFIDENCE FOR THE IT AND TECH SECTOR, LOWEST NEGATIVE FOR FINANCIAL SERVICES, TRANSPORT, TRAVEL, TOURISM, CONSTRUCTION AND REAL ESTATE**
- **INFORMATION TECHNOLOGY SPENDING IS EXPECTED TO GROW 3 % IN 2008**
- **THE PRIVATE EQUITY (BUY OUT) INVESTMENT CYCLE HAS PEAKED WITH OVER VALUATION AND OVER LEVERAGE IN 2007. FAILURES EXPECTED TO GROW FROM HISTORICAL LOWS TO HIGHS. DOWNSIDE MAY BE FAR LARGER THAN TECH DECLINE IN 2000**
- **A TIGHT CREDIT MARKET FOLLOWED BY SUB PRIME ISSUES. THE US ECONOMY IN A RECESSION? PRESIDENTIAL ELECTIONS (DEMOCRAT?). TURNING POINT OF THE GLOBAL ECONOMY?**
- **THE OVERALL EXPECTATION FOR THE VENTURE CAPITAL MARKET IS STABLE, BUT CYCLICALITY EXISTS, DRIVEN BY NASDAQ. A NASDAQ UPTURN FOR 2013 – 2018 WOULD BE IDEAL FOR 2008 – 2010 INVESTMENTS**

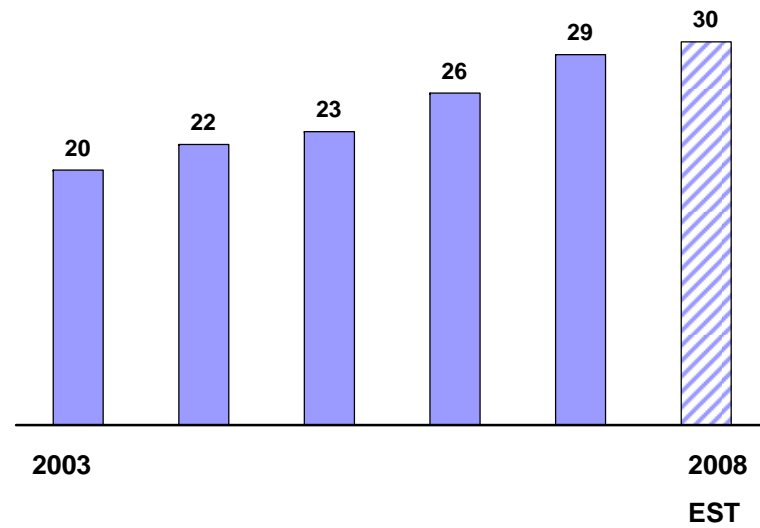
The global venture capital market

- **IN THE US, \$ 29.4 B WAS INVESTED IN 2007 IN 3,813 DEALS, FROM A POOL OF OVER 5,000 COMPANIES WHICH HAVE FUNDING. \$ 34.7 B WAS RAISED BY 235 US FUNDS IN 2007, A MEDIAN OF \$ 200 M, WHICH CONTINUES TO INCREASE**
- **IN 2007 LIFE SCIENCES COMPANIES WERE FUNDED BY \$ 9.1 B (31 %), SOFTWARE BY \$ 5.3 M (18 %), CLEAN TECH BY \$ 2.2 B (7 %), TELECOM BY \$ 2.1 M (7 %) AND MEDIA AND ENTERTAINMENT BY \$ 1.9 M (6 %)INTERNET SPECIFIC (REGARDLESS OF THE PRIMARY INDUSTRY CATEGORY) COMPANIES WERE FUNDED BY \$ 4.6 B (16 %)**
- **\$ 12.2 B (41 %) WENT IN TO LATER STAGE COMPANIES, \$ 10.8 B (37 %) IN EXPANSION STAGE, \$ 5.2 B (18 %) IN EARLY STAGE AND \$ 1.2 B (4 %) INTO SEED FINANCING,**
- **49 % OF THE US MARKET IS CONCENTRATED IN TWO GEOGRAPHIC AREAS - SILICON VALLEY (SAN FRANCISCO) 35 %, AND NEW ENGLAND (BOSTON) 14 %**
- **EUROPE IS THE SECOND LARGEST MARKET, FOLLOWED BY CHINA AND CANADA. THE UK IS THE LARGEST MARKET IN EUROPE, ABOUT DOUBLE OF FRANCE OR GERMANY**

Venture capital investments in the US

2002 – 2007

US \$ BILLIONS



The impact of venture capital

- **11 % OF US PAYROLL AND 11 % OF GDP IN BUSINESSES WHICH HAVE BEEN OR ARE VENTURE BACKED**
- **VENTURE BACKED FIRMS PAY MORE TAXES AND HAVE MORE SALES PER ASSETS THAN THEIR PEERS**
- **FOR EXAMPLE, THE BOSTON AREA ECOSYSTEM HAS NINE MAJOR UNIVERSITIES, WHICH SPEND MORE THAN \$ 1 B IN R & D, OFTEN TO SOLVE REAL NEEDS IN THE MARKET PLACE**
- **23 % / 688,000 OF THE STATE OF MASSACHUSETTS WORKFORCE IN BUSINESSES WHICH HAVE BEEN OR ARE VENTURE BACKED**
- **MANY SERIAL ENTREPRENEURS HAVE BEEN BACKED BY VC'S SINCE THE 1960's**

Europe

- **ABOUT 8,500 DEALS DONE IN EUROPE IN 2007 (US 3,608 DEALS IN 2006)**
- **IN 2006 38 FUNDS RAISED \$ 3.7 B, MEDIAN SIZE \$ 53 M (US \$ 34.7 B FOR 235 FUNDS , MEDIAN \$ 200 M IN 2007). FUND RAISING COMPLICATED BECAUSE OF CROSS BORDER ISSUES**
- **IN 2006 89 COMPANIES RAISED \$ 2.5 B IN AN IPO, AVERAGE \$ 28 M PER COMPANY (2007 US 86 / \$ 10.3 B, AVERAGE \$ 119 M)**
- **IN 2006 218 COMPANIES WERE ACQUIRED FOR \$ 1.5 B, AN AVERAGE OF \$ 6.7 M (2007 US 305, \$ 25.4 B, AVERAGE \$ 83 M)**
- **40 % OF EUROPEAN FINANCINGS ARE CROSS-BORDER. SIGNIFICANT LEGAL AND TAX SAVINGS, IF UNIFORM EUROPEAN LEGISLATION IN PLACE. DIVERSE TREATMENT OF EMPLOYEE SHARE OPTION SCHEMES AN ISSUE FOR RECRUITING EMPLOYEES**

Finland

- **HIGH R & D INVESTMENT 3.5 % OF GDP (US 2.7 %)**
- **MOST PATENTS FILED IN THE WORLD ON A PER CAPITA BASIS, OVER 1,400 PER YEAR**
- **WORLD LEADER IN MATH AND SCIENCE EDUCATION IN SCHOOLS**
- **GLOBAL LEADERS LIKE SUUNTO, VAISALA, POLAR, NOKIA AND LINUX ARISE FROM FINLAND**
- **STRONG FOUNDATION OF SEED AND PRE-SEED INVESTMENTS FROM PUBLIC SOURCES AND INCREASINGLY FROM ANGEL INVESTORS**
- **FINNISH PRIVATE EQUITY AND VENTURE CAPITAL MARKET UNDERDEVELOPED, INVESTMENTS AT LOW LEVEL OF 0.1 % OF GDP (US 0.3 %), WITH MOST OF THE \$'S IN PRIVATE EQUITY (BUYOUTS AND MEZZANINE) AS OPPOSED TO VENTURE CAPITAL**
- **MARKET INEFFICIENCY FROM STRONG AVAILABILITY OF SEED FUNDING TO NO OR LOW AVAILABILITY OF FIRST INSTITUTIONAL VENTURE FINANCING. LACK OF AN ESTABLISHED EARLY STAGE VENTURE FUND**

Thoughts on TEKES program announcement

- **THE NEW PROGRAM IS IN AN AREA, WHERE NO OR LITTLE PRIVATE FUNDING INTEREST**
- **CRUCIAL FOR BUILDING FINNISH TECHNOLOGY START UPS WITH ECONOMIC DRIVERS**
- **OPEN, TRANSPARENT, FAIR AND PREDICTABLE INVESTMENT FRAMEWORK**
- **STRONG RISK MANAGEMENT SYSTEMS, GOVERNANCE STRUCTURES AND INTERNAL CONTROLS**
- **COMPETE FAIRLY WITH PRIVATE SECTOR AND OTHER PUBLIC SECTOR INITIATIVES**
- **MARKET INEFFICIENCY IN NO OR LOW AVAILABILITY OF FOLLOW ON / FIRST INSTITUTIONAL VENTURE FINANCING. LACK OF AN ESTABLISHED EARLY STAGE VENTURE FUND IN FINLAND**

It's all about the returns

JUNE, 2007

	<u>1 YEAR</u>	<u>3 YEAR</u>	<u>5 YEAR</u>	<u>10 YEAR</u>	<u>20 YEAR</u>
VENTURE CAPITAL	17.5 %	10.2 %	4.6 %	19.0 %	16.4 %
NASDAQ	18.2 %	8.1 %	14.4 %	6.0 %	9.5 %
S & P 500	16.8 %	9.4 %	10.5 %	5.4 %	8.3 %

SOURCE: NATIONAL VENTURE CAPITAL ASSOCIATION, THOMSON FINANCIAL, OCTOBER 29, 2007

NOTE: LONG TERM CENTRAL BANK RETURNS ARE 0.98 % AND 5.75 % FOR PENSION FUNDS

Selected examples of new technology businesses founded since the 1950's, which have generated significant returns to their investors

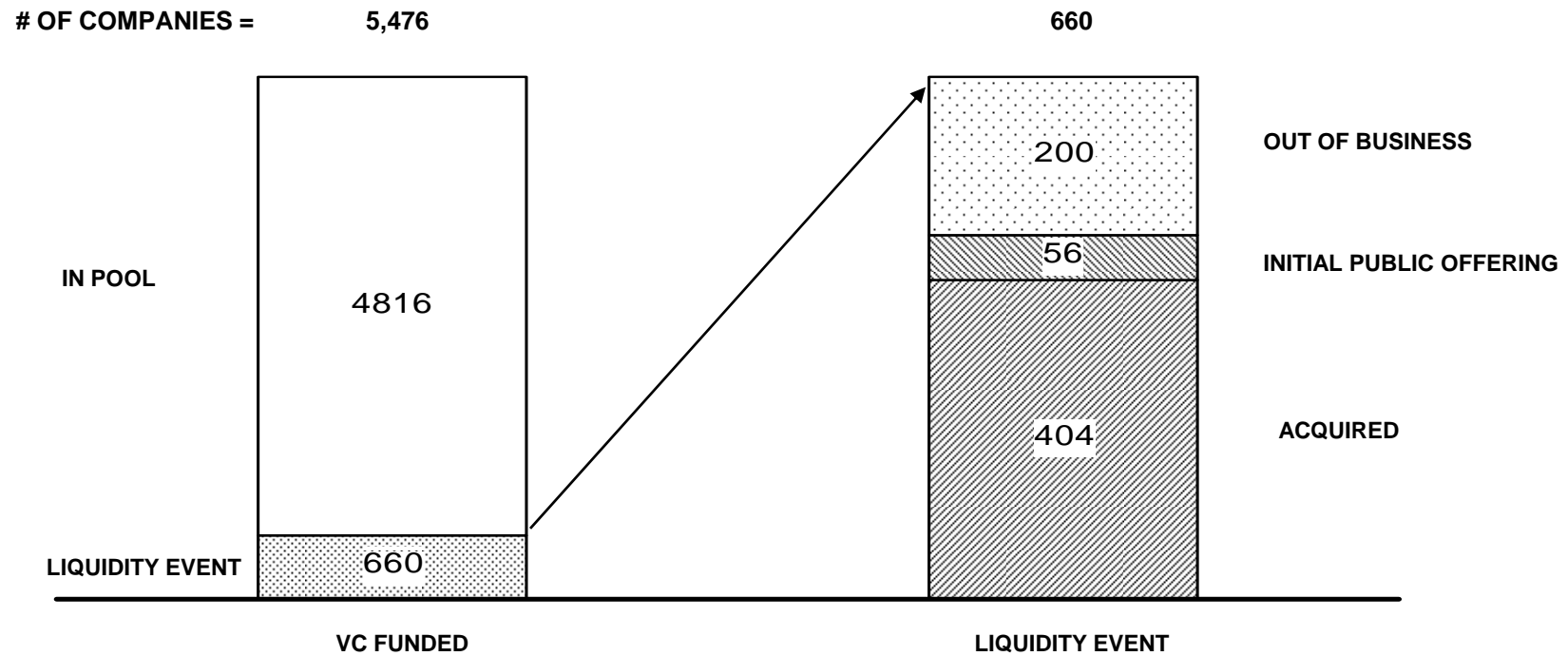
YEAR FOUNDED	COMPANY	COMMENTS
1959	DIGITAL	\$ 9.6 B ACQUISITION PRICE. INITIAL FINANCING WAS \$ 70,000
1965	ANALOG DEVICES	\$ 8.7 B MARKET CAP
1968	DATA GENERAL	\$ 1.1 B ACQUISITION PRICE
1975	MICROSOFT	\$ 389 B MARKET CAP. AT IPO TWO FOUNDERS HELD 70 %
1976	APPLE	\$ 151 B MARKET CAP
1982	LOTUS 123	\$ 3.5 B ACQUISITION PRICE
1984	CISCO	\$ 156 B MARKET CAP
1995	EBAY	\$ 36 B MARKET CAP
1997	AMAZON	\$ 33 B MARKET CAP
1998	GOOGLE	\$ 199 B MARKET CAP
2002	METRO PCS	\$ 6.1 B MARKET CAP

Recent significant acquisitions of US and European venture capital backed businesses

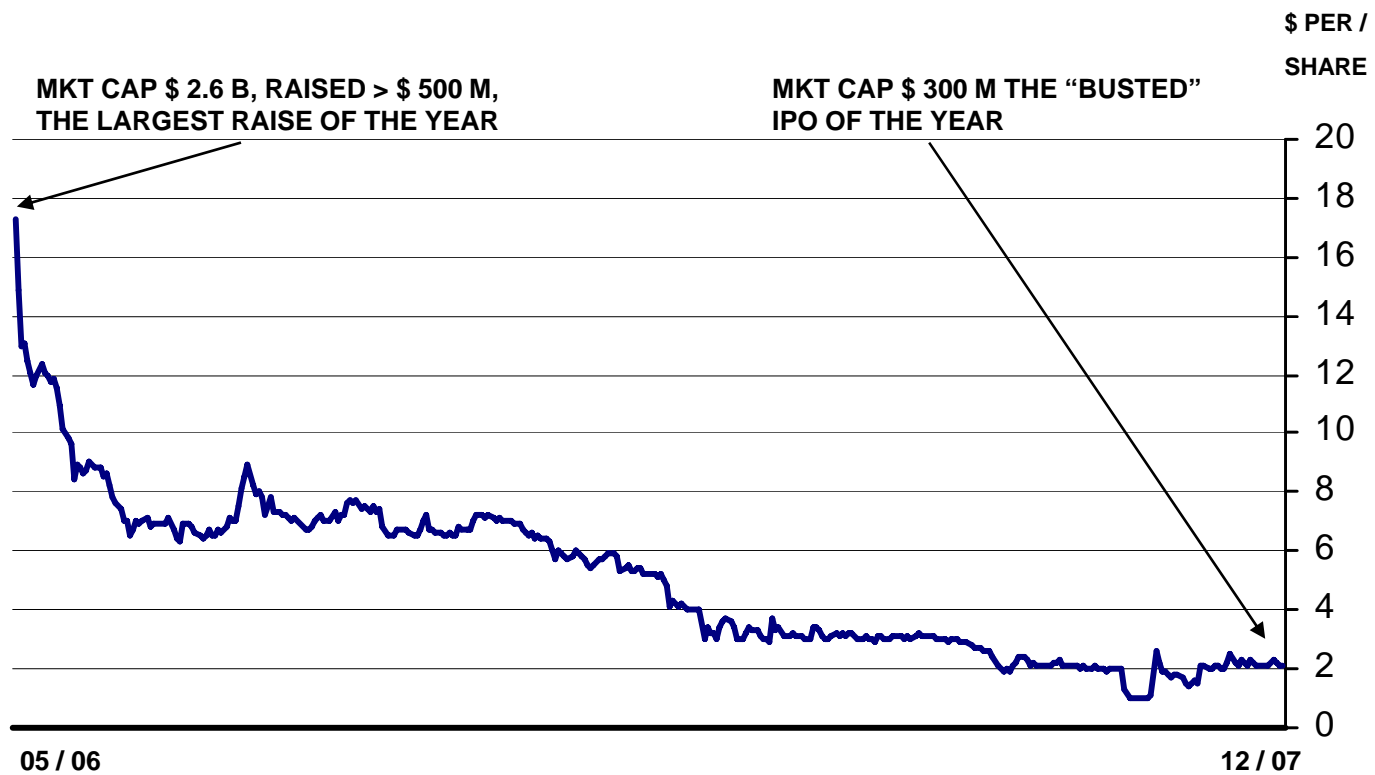
<u>YEAR</u>	<u>COMPANY</u>	<u>PRICE</u>	<u>ACQUIRER</u>	<u>ORIGIN</u>	<u>COMMENTS</u>
2008	MYSQL	\$ 1 B	SUN	EUROPE	\$ 39 M INVESTED SINCE 2001
2008	COGENESYS	\$ 400 M	TEVA PHARMA	US	\$ 55 M INVESTED. 18 MO HOLDING PERIOD
2008	APERTIO	\$ 204 M	NOKIA SIEMENS	EUROPE	\$ 68 M INVESTED
2007	RELIANT PHAMRA	\$ 1.65 B	GLAXOSMITH	US	
2007	EQUALLOGIC	\$ 1.4 B	DELL	US	
2007	ADNEXUS	\$ 430 M	BRISTOL-MYERS	US	
2007	NOVACARDIA	\$ 350 M	MERCK	US	
2006	YOU TUBE	\$ 1.7 B	GOOGLE	US	
2006	IXEUROPE	\$ 482 M	EQUINIX	EUROPE2007	
2007	MOBILE 365	\$ 417 M	SYBASE	US	
2005	SKYPE	\$ 2.6 B	EBAY	EUROPE	REVENUE \$ 60 M, LOSS, 54 M USERS

Liquidity analysis

2006



Even IPOs are not a guarantee for liquidity



What does a new quoted company look like?

2006

- **TIME TO IPO WAS 6.7 YEARS SINCE INITIAL FUNDING (+ 2 YEAR LOCK UP FOR VCS)**
- **VCS HAD INVESTED \$ 51 M**
- **REVENUE \$ 20.1 B, NET LOSS \$ 10 M (!)**
- **100 EMPLOYEES**

What does an acquired company look like?

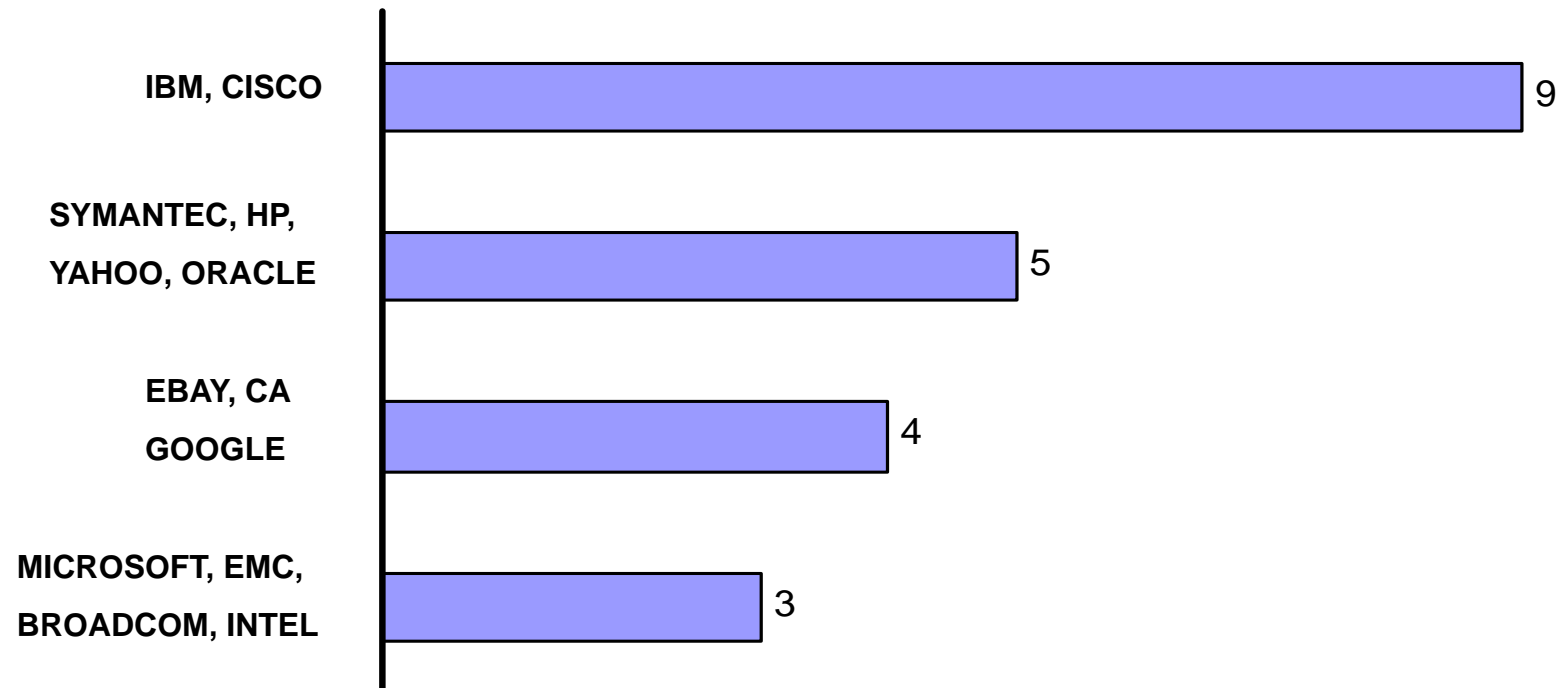
2006

- **MEDIAN ACQUISITION VALUE PER COMPANY \$ 52 M**
- **ACQUISITION 6.02 YEARS AFTER INITIAL FUNDING**
- **PER COMPANY VC'S HAD INVESTED \$ 23 M**
- **51 EMPLOYEES AT TIME OF ACQUISITION**

Largest acquirors of venture capital backed companies

2003 - 2005

NUMBER OF COs / YEAR



What does a venture capitalist do?

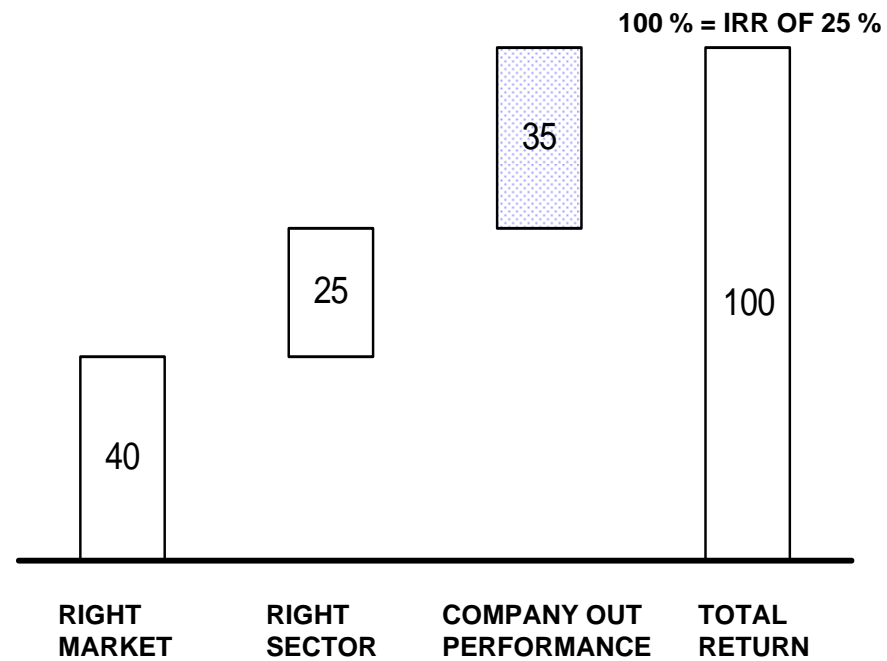
- **VCs GENERALLY FINANCE NEW AND RAPIDLY GROWING PRIVATELY HELD TECHNOLOGY COMPANIES. AN INVESTMENT OCCURS WHEN A VC PURCHASES EQUITY SECURITIES (SHARES OR CONVERTIBLE DEBT IN SPECIAL SITUATIONS)**
- **VCs ADD VALUE TO THE COMPANIES THROUGH ACTIVE PARTICIPATION AND OFTEN TAKE BOARD SEATS. THE MOST SUCCESSFUL VCS THEMSELVES HAVE SIGNIFICANT INTERNATIONAL SENIOR MANAGEMENT EXPERIENCE**
- **IN 2006 73 % OF THE FINANCING ROUNDS IN THE US HAD MORE THAN ONE VC INVESTOR. ACCESS TO QUALITY SYNDICATIONS WITH CO-INVESTORS IS A KEY**
- **VENTURE CAPITAL IS ILLIQUID AND LONG TERM IN NATURE, FUNDS ARE TYPICALLY 10 YEAR FUNDS, WITH EXTENSION PROVISIONS. AN EARLY STAGE INVESTMENT MAY TAKE 7 – 10 YEARS TO MATURE TO AN IPO, A LATER STAGE INVESTMENT MAY ONLY TAKE A FEW YEARS**
- **A VC IS TYPICALLY RESPONSIBLE FOR SOURCING, COMPLETING, MANAGING, ADDING VALUE AND EXITING A DEAL (MANAGING BANKRUPTCY, SALE AND IPO PROCESS)**

Value add is active ownership

- **CONSIDERABLE UP FRONT DUE DILIGENCE**
- **EVEN MORE POST DEAL MANAGEMENT, 100 DAY PLAN, BOARD PARTICIPTION. CORPORATE GOVERNANCE. FUND RAISING ROAD MAP. EXIT PLANNING**
- **VALUE CREATION PLAN AND FOLLOW ON PLANS. EVALUATE AND CHANGE STRATEGY**
- **RAPID MANAGEMENT CHANGES AND ALIGN INCENTIVES WITH MANAGEMENT**
- **IDENTIFY EXTERNAL SUPPORT NEEDS**

The components of return: market decisions and individual company outperformance

PERCENT



SOURCE: MCKINSEY