

An overview of the VC market and Vækstfonden



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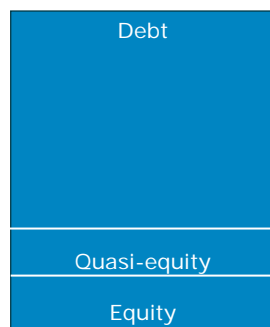
Agenda

1. The idea and rationale for VC
2. An introduction to Vækstfonden
3. VC in Denmark
4. Market developments and challenges

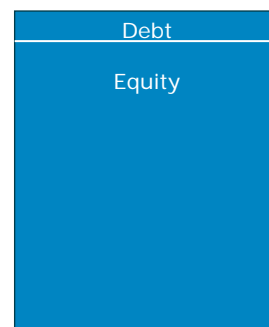
Why do we need venture capital?

Types of finance (risk profiles)

Traditional companies



Technology companies



VC Funded Companies in Denmark

20% growth in employment

40% export growth

50% growth in R&D

R&D expected to account for 1.5% of GDP in 2010

VC-backed companies in the US

- \$ 1,800 billion revenue
- 16% of GDP
- 10 mil jobs
- 40% of all IPOs
- 3 x R&D activity
- 3 x tax payment
- 2 x export

Venture boosts the economy

economics 60

Deutsche Bank Research



October 2, 2006

Venture capital in Europe Spice for European economies

Private equity and growth

Change in the growth rate (pp) when investments increase by 0.1% of GDP



Source: DB Research 8

Europe needs more start-ups. Low entrepreneurial activity is one important reason among others for the lacklustre performance of most European economies. Less than 4% of German residents are opportunity-driven entrepreneurs compared to close to 11% in the US. Start-ups are often more innovative and dynamic than incumbent firms and thereby help to rejuvenate the economy.

Most European countries have few venture-capital investments. European venture capitalists invested around EUR 12.7 bn (0.11% of GDP) in 2005 compared to more than EUR 17.4 bn (0.17% of GDP) in the US. But Europe is catching up: since 2003, venture-capital (VC) investments have increased by 23% per year on average compared to 0.3% in the US. Also, Denmark, Sweden and the UK have a higher share of VC investments – albeit fewer entrepreneurs – in relation to the size of their economies than the US (see Figure).

Germany could boost economic growth by 1pp if its VC investments were just to catch up with the European average. Our analysis suggests that countries with a higher share of VC investments have higher growth rates on average. Germany's VC investments are only half the European average – which means that a number of growth options are being missed.

Outlook: Cyclical upturn with sound fundamentals. European VC investments are on a robust growth track. The exuberance of the new economy did less harm to the market in Europe than in the US and most industry representatives are in high spirits. The cyclical component should not be ignored, however. A permanent slump in the European stock markets would also squeeze the amount of VC investment.

You cannot buy entrepreneurial spirit. A better supply of VC can only do so much. Too many Europeans dislike the idea of being an entrepreneur. It conveys

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What is Vækstfonden?

Who We Are

- Vækstfonden is a government backed investment fund
- Investment focus on Danish early stage companies - both through direct investments and fund-of-funds
- Total asset base around EUR 350 million
- 85 % committed to early stage companies and venture capital funds
- Largest Danish investor within the ICT and life science spaces



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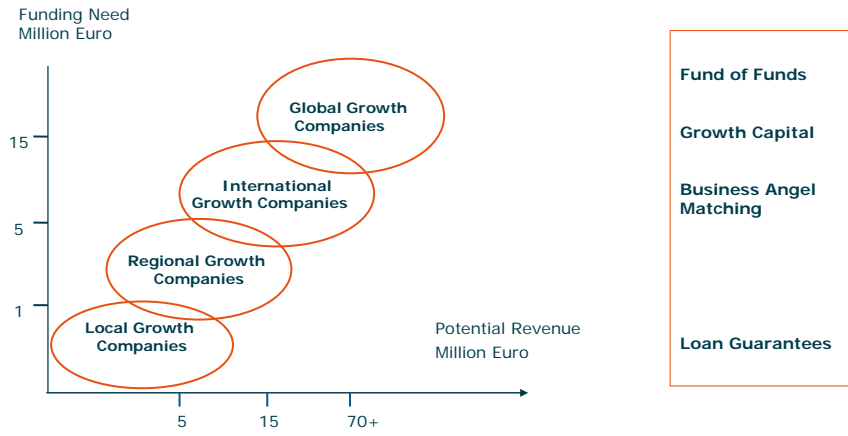
Funding Activity

- Annual investments of DKK 500 million in 25-30 companies – direct as well as through VC funds
- Loan guarantees on the rise
- Co-funded more than 3,500 companies to the tune of DKK 6.5 billion

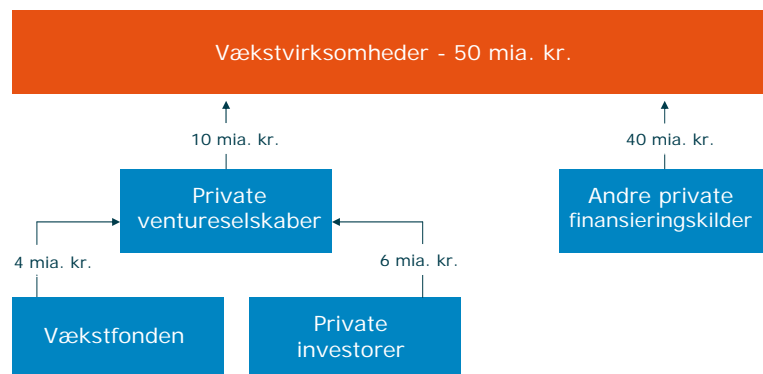


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Targeted Financing



Vækstfonden's leverage effect



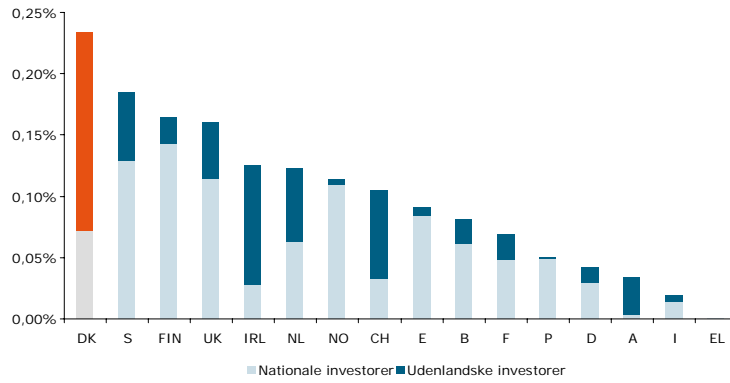
VC in Denmark

Main Attractors in the Danish Market

- Strong Research Base
- Entrepreneurial Culture
- Flexible Labour Market
- Dynamic Technology Clusters



VC-backed companies' attraction of foreign capital (relative to GDP; 2007)

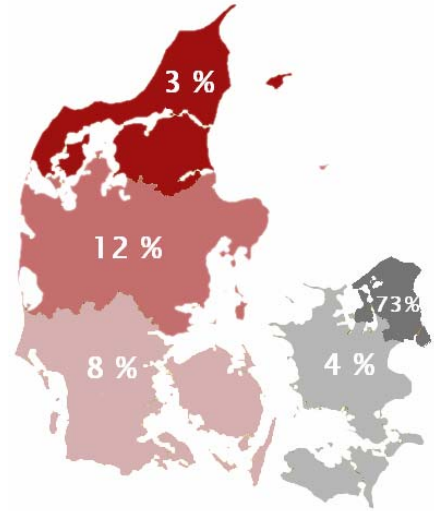


Key Venture Capital Players



Geographic Distribution of VC Investment

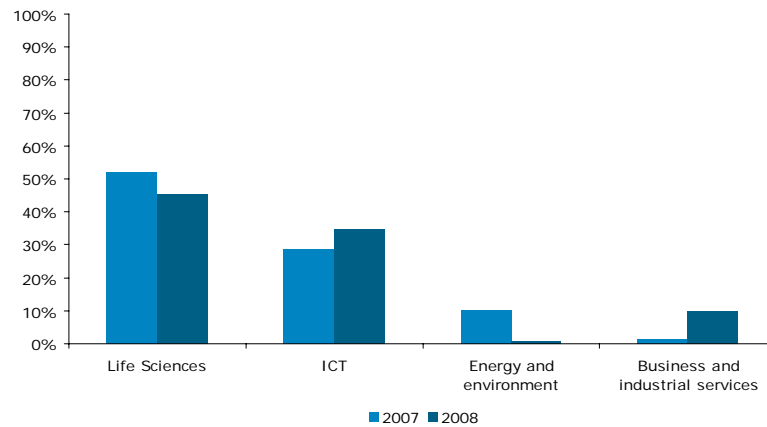
- Large concentration around Greater Copenhagen
- Generally centered around universities and research institutes



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Top 3 Industries in Denmark

% of Total Amount Invested

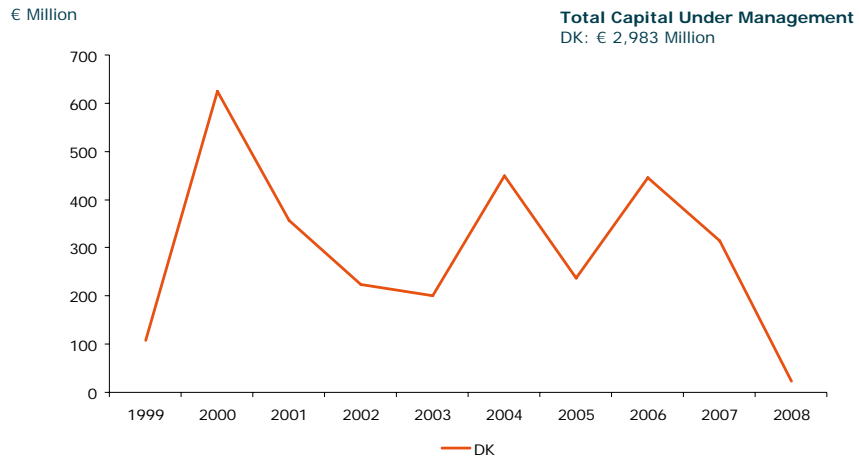


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Market developments and challenges

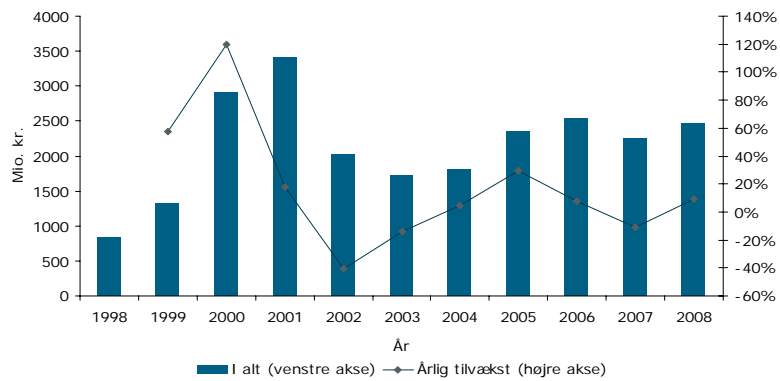
Challenge: Lack of funds, low new/early stage investment activity

Annual Capital Raisings By VC Funds



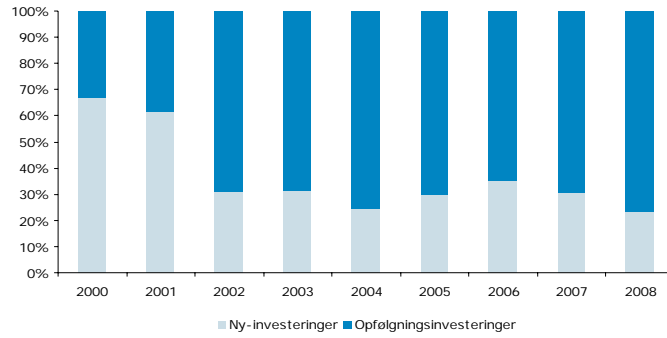
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Total VC Investment activity in Denmark



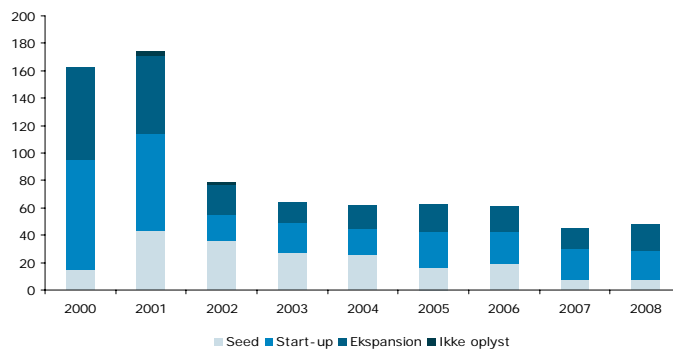
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New Investments Under Pressure



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Seed Investment at All Time Low



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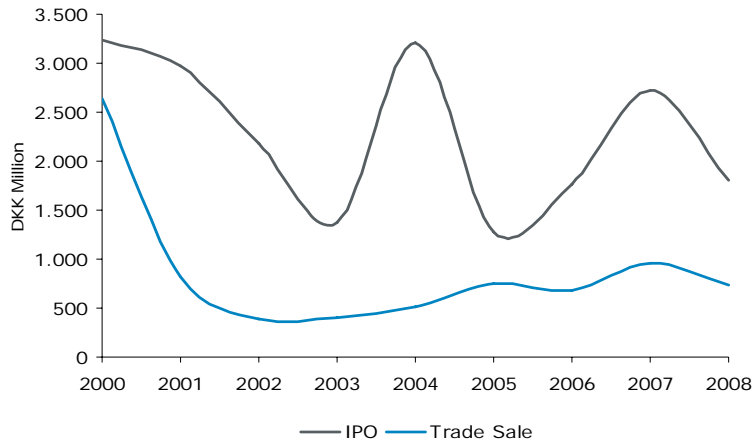
Challenge: Weak exit options, returns under pressure

The Global Financial Crisis Puts Exit Markets in Reverse



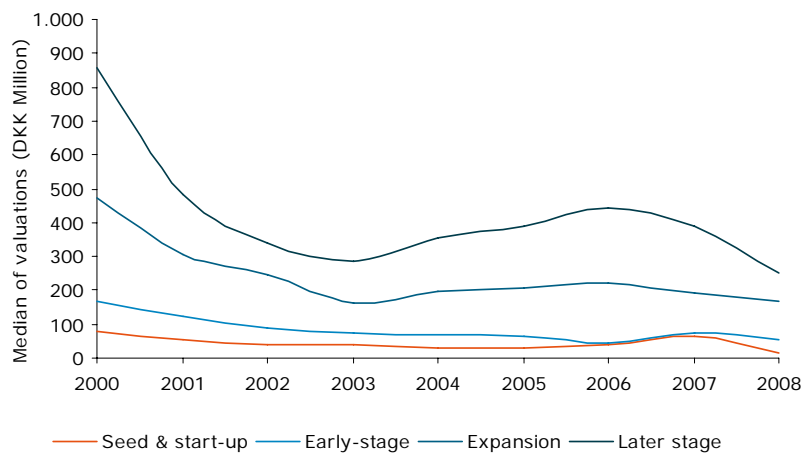
Source: VentureXpert

IPO Valuations Particularly Hard Hit



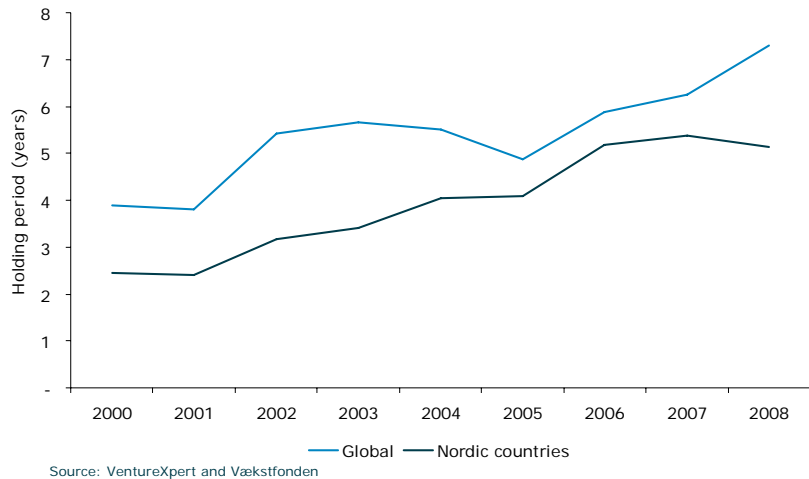
Source: VentureXpert

Entry Valuations Falling



Source: VentureXpert

Holding Periods Rising Steadily



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Key Points

- Raising money for new ventures increasingly difficult
- New venture capital funds need to be raised
- Danish VCs under pressure to deliver attractive exits
- Exit timing is crucial



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