

Sector Analysis: European Tech Companies Facing Funding Downturn

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European tech companies are facing an uncertain funding environment. This is the conclusion of Go4Venture, a London-based corporate finance advisory firm that provides equity private placement and M&A services to European technology companies.

According to Go4Venture, after a healthy start in the first quarter 2004, there will be a drop in the second half figures, revealing a negative climate for companies seeking investments from venture capitalists and investment angels.

Despite some recent large funding deals, Go4Venture has seen a relative slowdown of activity since May 2004 compared to the year before, with September seemingly compensating for the comparatively low activity of May, June and July. Go4Venture believes the reason for the slowdown in VC funding is the result of several trends including:

- The European market is not recovering its previous health as rapidly as the US market, reflecting perhaps a lack of confidence of market participants in European VC returns.
- Venture Capitalists are also showing extra care in deploying money in Europe, resulting in slow decision-making to get to termsheet, and elongated due diligence processes.
- A number of VCs are simply running out of money, having been unable to raise another fund during the last few years. As a result, they have reduced investment activity to conserve cash for their existing portfolio lines, and are focusing their operations on their own fund raising.

"Although the market sentiment is getting better, this is more driven by recent successful exits such as the sale of UK KVault Software to Veritas for \$225m, or earlier in the year, the successful acquisition of Kelkoo by Yahoo for \$575m", said Go4Venture managing director Jean-Michel Deligny. "When looking at the hard facts of fund-raising, the market is becoming incredibly selective, creating a much more demanding environment for European technology entrepreneurs."

From its data, Go4Venture sees a market increasingly dominated by deep-pocketed international investors, focusing on fewer but larger investments, resulting in a growing average fund-raising size since the beginning of 2003.

Interestingly, as VCs have started to return to Series A investments, the average fund-raising size has started to reduce, a sign of the market return to health in the months to come, with the new crop of early-stage startups underpinning the next VC investment cycle for the next three to five years as VCs raise new funds.

Go4Venture expects the market to rebound in 2005.