



Monthly European Technology Venture Capital Bulletin

December 2005

The Go4Venture Monthly Venture Capital Bulletin is a publication commenting on the latest results from our European Technology VC Headline Transactions Index®.

Go4Venture's European Tech VC Headline Transactions Index is based on the number and value of transactions reported in professional publications. The Index is compiled on a monthly basis as an early indicator of the evolution of the market for venture capital funding for European information technology companies.

For more details please refer to the Methodology Note available at www.go4venture.com/resources/hti.htm

About Go4Venture

Go4Venture is a London-based corporate finance Consultancy firm focused on providing European technology entrepreneurs and their investors with impartial advice to help them develop and execute growth strategies.

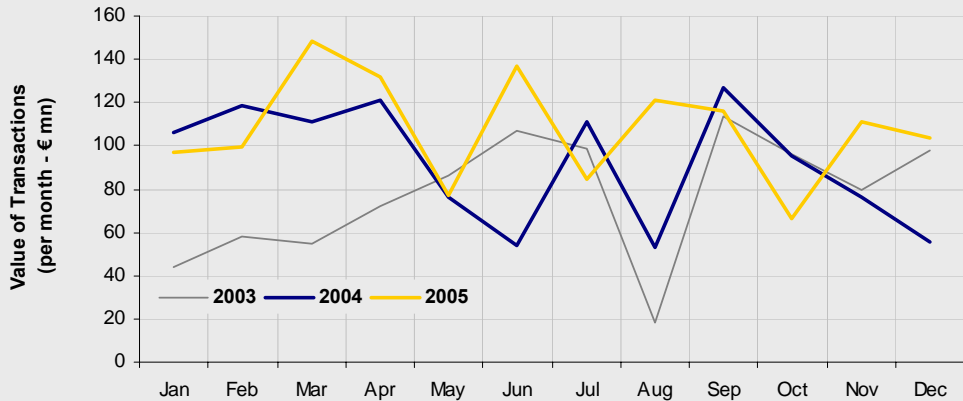
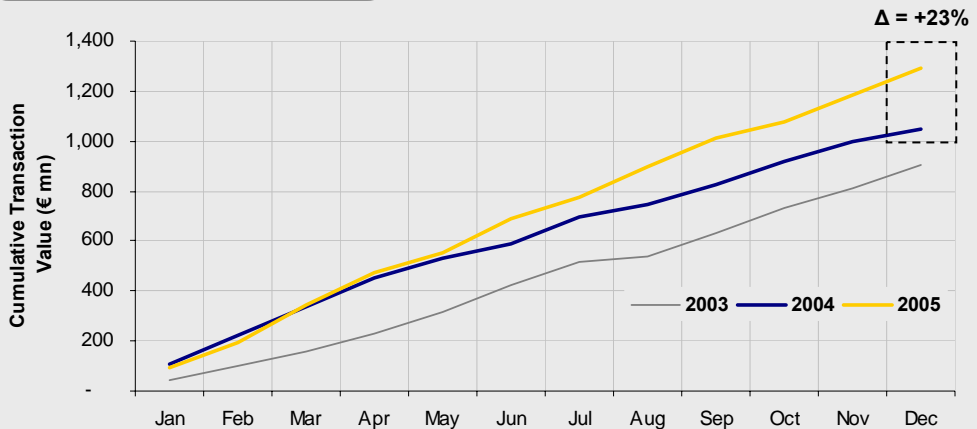
Our services encompass:

- Strategic information and valuation
- Financing strategies
- Buy and build strategies
- Exit strategies (trade sale and IPO Consultancy)

We are particularly well-known for our international equity private placement services, where we have developed a reputation second to none in Europe among international VCs.

Headline Transactions Index

2005 finished 23% ahead of 2004 on a cumulative basis



An unusually busy December with 20 deals tracked

Fund-raising and M&A activity is boosting optimism

- It was a busy December for European tech investment, despite the natural slowdown as we rolled into the Christmas season. Last month saw **20 deals tracked by the HTI totalling €106 million** of investment, including five larger 'headline' transactions above our €7.5 million threshold.
- December's robust performance (up 87% year-on-year) rounded off **a positive 2005 for the Index**, beating our expectations to finish just shy of €1.3 billion of cumulative deal value, a 23% increase versus 2004.
- The increasingly benign outlook for tech investment has been supported by announcements of **further fund-raisings for European VC funds, and the growing wave of convergent M&A activity across the industry** which will create new opportunities both for existing venture-backed businesses and for innovative new entrants.

Top Headline Transactions

5 deals above our usual €7.5mn threshold

Company	Sector	Series	Size €mn	Description	Participants
Plastic Logic (UK) www.plasticlogic.com	Semi-conductors	C	15.0	Developer of new technology and processes for plastic electronics	Amadeus Capital Partners, Bank of America, BASF Venture Capital, Dow Chemical, Intel Capital, Morningside Technology Ventures, Nanotech Partners, Oak Investment Partners, PolyTechnos Venture-Partners, Quest For Growth, Siemens, Yasuda
NovaLED (Germany) www.novaLED.com	Equipment	B	15.0	Provider of small-molecule organic light-emitting diode (OLED) technology	CDC Entreprises Innovation, Credit Agricole Private Equity, Dresden Fonds, eCAPITAL New Technologies Fonds, FCPI 123MultiNova, Individual investors, KfWBankengruppe, TechFund Capital Europe Management, TechnoStart
Inside Contactless (France) www.insidecontactless.com	Semi-conductors	Later	9.3	Provider of contactless chips for the smartcard and radio frequency identification (RFID) markets	Equitis, GIMV, Siparex Group, Sofinnova Partners , Vertex Management, Vertex Venture Capital Israel , VISA International
ARKeX (UK) www.arkex.co.uk	Equipment	B	8.1	Producer of instruments to detect oil, gas, and mineral deposits from the air	Energy Ventures , Eurovestech, RWE Dynamics Venture Capital Management, Scottish Equity Partners
Biospace Instruments (France) www.biospace.fr	Application-specific hardware	A	7.5	Provider of imaging technology for medical applications	Edmond de Rothschild Investment Partners , Individual investors, Nord Europe Private Equity

Note: **Bold** indicates lead or co-lead investor(s)

In terms of headline deals, **it was the busiest December yet for the Index**, with five transactions above the €7.5 million level, including three €10 million+ investments in next generation technologies with high risk / high reward profiles in the plastic electronics, high power LED and RFID segments.

- **Plastic Logic (UK)** completed a €15 million final closing for its Series C fundraising, bringing the total round to €21 million following a €6mn first close back in January. Plastic Logic is a leading developer of plastic electronics technology which enables radical new product concepts in a wide range of applications such as flexible displays and sensors. The Cambridge-based company sees early applications for its technology in items such as 'e-books' and 'e-newspapers' and recently began delivering super-thin, flexible active-matrix displays to some lead customers. This closing takes the total raised by the company since being spun-out from Cambridge University in 2000 to €39 million, and the depth of investors indicates the big potential that industry players and VCs alike see in this technology.

Top Headline Transactions (cont.)

Plastic Logic's protracted Series C has brought in new capital from a broad range of investors, including Amadeus, BASF Venture Capital, Intel Capital and Oak Investment Partners. Oak, which came in to the syndicate just before Christmas with a €4mn top up, has just five other European investments from a portfolio of some 380 companies, three of which it made in 2005 (BeamExpress and Nemerix, both Swiss, were the other two) indicating that they see something special here. The most significant new investor, however, is Intel, which will provide both an unrivaled industry network and valuable production support.

- **NovaLED (Germany)** has raised €15 million in a second round of financing led by Credit Agricole Private Equity, joined by new investors CDC Entreprises Innovation, KfW Bankengruppe, eCapital New Technologies Fonds and a private German investor. Current shareholders TechnoStart, TechFund Capital Europe, FCPI 123MultiNova and Dresden Fonds also contributed to the round. NovaLED is developing technology that can increase the power efficiency of organic LEDs and it plans to use the money to commercialize its proprietary PIN OLED technology and to develop long-life, power efficient OLEDs.

NovaLED is an unusual deal by European standards in that it is a German company funded by a mix of French and German shareholders, where we usually see a mix of local and London or US-based investors. Having noted the broad range of investors that Plastic Logic has managed to attract, NovaLED may be a case of too much too soon in this respect. Four new institutional investors have joined four of the original backers in this round, taking the total number of institutional shareholders to eleven, which is rather a lot for a Series B company which had previously only raised €5 million. To quote from a recent blog entry (<http://paul.kedrosky.com/archives/002390.html>): "Venture investors on company boards are like martinis: One is good, two is great, and three is a disaster."

- **Inside Contactless (France)**, a fabless developer of contactless chips for the smartcard and RFID markets, has announced the closing of a €9mn round which will allow it to enhance its R&D efforts and further build the team. The new money was contributed by Sofinnova Partners, Vertex Venture Capital Israel, Equitis, GIMV, Siparex, and - most importantly for the business - Visa International, which brings huge strategic value in helping to realise the company's ambitions in the payments market.

Visa International's venture capital program, based in California, has been running for 10 years and has made around 20 private equity investments to date, mainly in domestic US companies. Visa looks for long-term strategic alliances through investments in best-of-breed emerging technologies that can enhance Visa's payment infrastructure, typically putting \$1-5 million to work in each company.

Top Headline Transactions (cont.)

- **ARKeX (UK)** develops revolutionary technology to efficiently identify potential oil & gas deposits and has raised €8.1 million of second round financing in a deal which marks the largest venture capital fundraising for a UK oilfield technology in 2005. ARKeX was formed as a spinout from Oxford Instruments Superconductivity Ltd and ARK Geophysics Ltd and raised initial VC funding of €6 million in 2004. The company's airborne gravity gradiometry approach allows energy companies to find valuable deposits more efficiently through rapid access to detailed geophysical information. ARKeX, which has clinched a strategically important deal with Chesapeake Energy, one of the largest independent gas producers in the United States, raised the new finance from a consortium led by Norwegian investors Energy Ventures and backed by existing shareholders, including Scottish Equity Partners.

ARKeX is representative of the growing appetite of VCs for energy-related investments. During the same month, CMR Fuel Cells announced an AIM IPO to raise €12 million, even though first revenues are not expected until 2007 – clearly this could (should?) have been a private equity deal. As previously mentioned in this publication, there is a general feeling that going forward VC investments will not solely revolve around IT (and healthcare) but increasingly will venture into other innovation fields and consumer technologies where content (and consumer appeal in general) will be just as important as the technology itself.

- **Biospace Instruments (France)**, a leading biomedical imaging company, has closed a €7.5 million financing round, led by Edmond de Rothschild Investment Partners, joined by Nord Europe Private Equity and two private investors. The new cash will be used to fund the launch of EOS, a new 2D- and 3D- medical imaging system with specific applications in orthopaedics and rheumatology. The company currently markets its products to pharmaceutical players in more than 15 countries and expects 2005 revenues in the region of €3 million.

The HTI has recorded ten 'application-specific hardware' financings this year, eight of which have been medical devices companies. MedTech has a controversial reputation among VCs, some lamenting the fairly small markets it sometimes addresses, others singing the praises of a sector where demand is guaranteed if the technology works. Overall, it seems MedTech's star is on the rise, as exemplified by the success of the second annual MedTech Investing (MTI) Europe conference held at London's Imperial College in mid-September (see www.medtechinvesting.com).

Notable European VC Market Developments

There is a growing sentiment that the European VC market is getting back into shape and current market developments are encouraging a more positive outlook for the next few years, even if some fears of froth are already resurfacing.

On the positive side, in December two established VC funds chose to communicate with the market about their fund-raising progress. Pond Ventures (www.pondventures.com), who describe themselves as “Europe’s largest early-stage fund”, announced the imminent closing of their new fund at \$145 million. MTI Partners (www.mtifirms.com), meanwhile, stated their intention to raise their fifth fund during the course of 2006.

Another encouraging signal is the more recent evidence that convergence is finally occurring, and in more ways than one. In no particular order, just in the month of December 2005:

- Satellite operator BSKyB announced its acquisition of broadband operator Easynet, a c. €300 million purchase.
- UK TV channel ITV acquired community web site Friends Reunited for close to €200 million in an attempt to accelerate the diversification of its revenues from TV advertising.
- UK media group DMGT is to buy Primelocation.com, a residential property web site, for €70 million.
- GUS, the UK owner of the Experian business best known for its credit scoring service, acquired the US online comparison shopping business PriceGrabber for close to €400 million.
- Deutsche Telekom, like many other fixed line operators, confirmed its confidence in its IT services unit T-Systems with the acquisition of VW’s IT unit Geda for c. €450 million.

There is no doubt that convergence enables new value creation opportunities for VCs’ portfolio companies, even if it takes VCs to new territories such as telecom services to finance the next wave of technology-led alternative operators.

Finally, we should salute the €700 million MBO offer for publicly-listed Computacenter by a group of directors led by founders Peter Ogden and Philip Hume. Even though the offer was finally rejected this is too rare a case of a European technology buyout of size. Clearly we will see more in the months to come, even if the mix of small-ish size and technology content may deter some of the more traditional mid-size buyout funds.

Positive fund-raising news from two technology investors

A wealth of industry convergence in December

Notable European VC Market Developments (cont.)

On a less positive note, we are starting to see companies trying to go public too early, which indicates that the envelope is being pushed:

- Entrepreneurs are obviously trying to optimize their dilution. Investors are sometimes prepared to make a bet partly paid for by tax incentives offered by various states to support their local secondary market, for instance AIM in the UK and now Alternext in France. The not so good news is that entrepreneurs time and time again underestimate what it takes to build a world class company and why VCs, despite their many limitations (and cost!) can help them achieve that goal better because of their experience, relationships and brand power. One of the latest examples is a Fibre-To-The-Home (FTTH) services play in Paris, Citefibre, which listed on the Paris OTC market with ultimately mixed success for its follow-on fund-raising.
- Two recent US IPOs, IDT Spectrum and Buy.com, did not make it at all, despite a repricing in the case of Buy.com. It's worth noting that Buy.com was on its second IPO attempt but is still loss-making.

To take an optimistic view, these developments demonstrate that markets are still showing some discipline in making a distinction between good and not-so-good companies - or rather companies ready and not-so-ready for life in the public eye.

Some immature companies are trying their luck on the public markets

Go4Venture

1 Hay Hill
Berkeley Square
London
W1J 6DH

+44 (0)20 7958 1672
vcbulletin@go4venture.com

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