



# Monthly European Technology Venture Capital Bulletin

## November 2005

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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 on our web site at [www.go4venture.com/resources/hti.htm](http://www.go4venture.com/resources/hti.htm)

### About Go4Venture

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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.

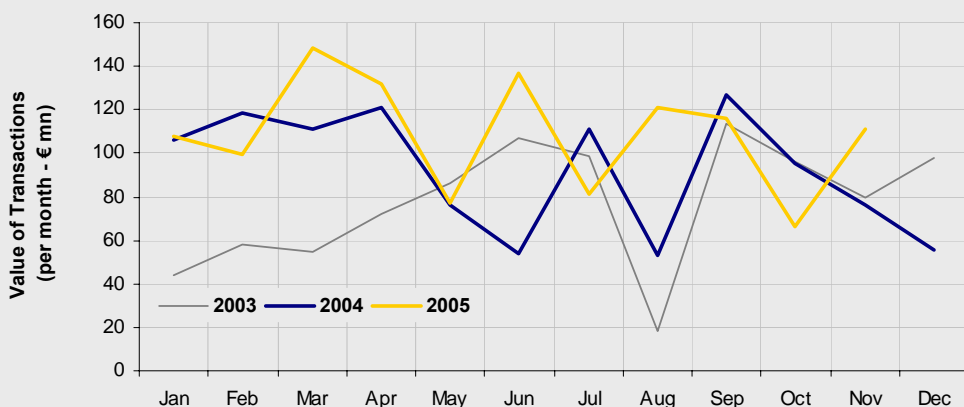
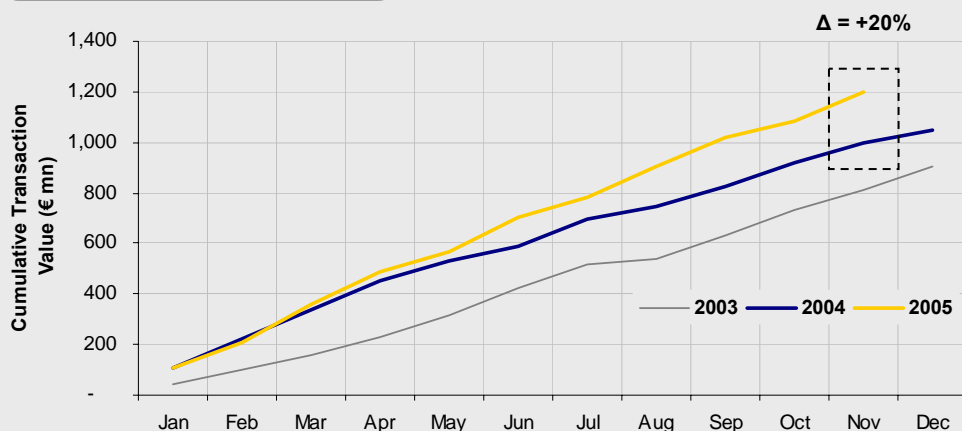
Our services encompass:

- 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.

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## Headline Transactions Index



Activity bounced back in November after the October slump

The buyout theme was continued with a €60mn financing

2005 expected to beat 2004 by 20%

- The HTI enjoyed a **healthy uptick in activity in November** after the prominent dip of the previous month, with €111 million of transactions leaving the Index 46% up against the same period last year. This was however driven by one buyout-style deal (see below) which by itself accounts for close to half the HTI activity (by amount) recorded this month.
- **The buyout theme which we have noticed over the last few months was continued** higher up the food chain with the announcement in mid-November of a £485 million (€730 million) no premium offer for listed UK hardware reseller Computacenter, led by the management team.
- Despite the monthly volatility in deal flow, 2005 continues to perform strongly on a cumulative basis and, based on the current trend, **we anticipate the Index to close the year about 20% ahead of 2004**, with a total of around €1.25bn of venture financings recorded.

Top Headline Transactions

Company	Sector	Series	Size €mn	Description	Participants
Poliris Group (France) <a href="http://www.poliris.com">www.poliris.com</a>	Internet Services	B	60.0	Online classified property advertising	<b>3i</b> Alven Capital Europ@web
Vibrant Media (UK) <a href="http://www.vibrantmedia.com">www.vibrantmedia.com</a>	Internet Services	B	21.2	Provider of targeted online advertising solutions for blue chip companies	<b>ABS Capital Partners</b> Messpierson- Investeringsmaatschappij
Swyx Solutions (Germany) <a href="http://www.swyx.com">www.swyx.com</a>	Telecom Software	B	7.7	Software developer for Internet telephony services (VoIP)	<b>ABN AMRO Capital</b> <b>T-Systems Venture Fund</b> Wellington Partners

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

Internet companies are clearly back in vogue with the investment community, with two second round deals eating up a whopping €85 million of investors' cash in November. One of these, **Poliris, at €60 million, was the largest transaction ever recorded** by the HTI since its inception back in 2003, just nudging Summit Partners' €58.6 million investment in Actix (March) into second place. Poliris enters the pantheon of €25+ million technology deals recorded this year, rubbing shoulders with Actix, Codemasters Software, Grisoft, Midasplayer.com, Arcplan and Nemerix. Together, these deals have put some €269 million of VC money to work in 2005.

- **Poliris Group (France)**, a leading player in online property advertising, closed a €60 million series B financing led by 3i, which took a 35% stake, valuing the business at c. €180 million. Existing investors Europ@web and Alven Capital also chipped in, with management retaining 52% of the shares. Poliris operates a number of property websites, the two leading brands being ImmoStreet and SeLogger.com, and is active in 6 European countries with almost half of its revenue non-domestic. The new investment will allow Poliris to attract more property agencies and thus extend its market coverage. The group claims to be highly profitable on turnover of €24 million and is exhibiting very strong growth.

*Rather than going down the IPO route recently favoured by some other profitable Internet services companies, Poliris opted for a buyout-style deal to provide liquidity to its existing investors (first round investors AXA Private Equity, Galileo and Alpha & Associates sold their shares to 3i in a secondary bundle). Of particular note are the deal economics – the €180 million valuation on revenues of €24 million implies a rather generous multiple (7.5x), suggesting that 3i sees huge potential in this business. With two thirds of the money going to existing shareholders exiting their investment, this is a rare example of buyout investors taking over from VC investors, something we expect to see more of going forward. Just like secondaries are a common feature of the buyout market, we expect secondaries to become part of the VC landscape during this cycle.*

3 deals above our usual €7.5mn threshold

**Top Headline Transactions (cont.)**

- **Vibrant Media (UK)**, a provider of ad-targeting software, secured €21 million from ABS Capital Partners and a Netherlands-based investor in a second round of financing. Founded in 2000 by former AOL Europe executives, the company originally started out in the banner ad sales business, backed in 2002 with angel funding from European publisher VNU. As the online advertising market recessed, the company shifted its strategy towards developing tools to help its customers (content publishers) take advantage of the targeted ad trend. The company's latest product, SmartAD, scans web pages and targets banner ads based on the appearance of specific terms, a sort of dynamic version of Google's Ad Sense.

*Interestingly, lead investor ABS Capital is a Baltimore, MD-based growth capital fund which focuses almost exclusively on domestic US businesses, investing \$10 to \$40 million in established companies growing their top line at a minimum of 20% per annum. Vibrant Media is the first European investment made by ABS, reflecting the huge strategic importance of the online advertising opportunity. This underlines another plus of Internet plays which are often not only extremely scalable (at low marginal cost) but, by and large, also eschew the most daunting aspects of international expansion since their product or services require little or no adaptation to local conditions. In that context, being a European or a US business has much less importance than in more traditional IT segments, encouraging more participation of international private equity capital in local European markets.*

- **Swyx (Germany)**, a provider of software-based enterprise telephony solutions, has secured €7.7 million in its second round of financing, co-led by new investors ABN Amro and T-Systems Venture, with additional cash coming from existing shareholder Wellington Partners. The company's SwyxWare product is positioned as a complete software-based IP-PBX solution fulfilling all enterprise internal and external communication needs via the existing data network. The new funding will help the company further expand its product offering and market reach, targeting in particular the growing demand for VoIP services amongst SMEs in Europe. In addition, the company has now entered the US arena and is planning a big marketing push with the new cash.

*VC interest in the IP-PBX space picked up in April this year when Thomson acquired Cirpack, a French provider of softswitch telephony platforms, from Siparex Ventures, Iris Capital and Endeavour L.P. for a reported consideration of around €40 million. Swyx is only the third investment made by ABN Amro Capital this year (Nexwave and Transics being the other two). This is also T-Systems Venture's first investment since the reorganization of T-Venture in September 2004, whereby T-Venture now manages funds made available by Deutsche Telekom's various units rather than investing directly from the group's balance sheet (unrelated investments have been sold to secondaries specialist Cipio Partners).*

## Notable European VC Market Developments

France was host to the November 2005 edition of the European Tech Tour. For those who don't know, the European Tech Tour ([www.techtour.com](http://www.techtour.com)) is an invitation-only event which three times a year organizes a visit to a country or region to get to know the local innovation landscape. The format includes an industry dinner followed by a tour of the country's innovation hotbeds during which around 25 companies present to investors.

*The latest French Tech Tour was striking for the breadth and quality of technologies presented, confirming France's comparative advantages in technology: great education system, a culture supportive of innovation, and a wealth of subsidies. On the minus side, companies are usually undercapitalized and therefore, for a given stage of development (Series B, etc), are not as advanced as you would expect if the company was in the US or the UK. Management depth is also often a problem, as France still has a relatively limited pool of internationally trained / minded executives. Overall we feel France is a market still relatively underexploited, even if smart money is already at work (see Atlas Venture's investment in Realeyes3D in September, or the Accel / Atlas Venture joint investment in KDS Travel in October).*

Other **good news came from VCs' own fund-raising successes**, confirming the recent E&Y / VentureOne survey highlighting the pick-up in fund-raising during 2005 (24% up in 2005 vs 2004 based on the activity to October). This follows the trend started in the US last year. In November:

- At the later stage end of the market, Investcorp announced the final closing of its second technology fund, with \$300 million of total committed capital. This is a global fund invested by one team across the Atlantic and focusing on \$10-25 million investments which may be too large for traditional VCs but too small and too specialized for existing mid-size buyout funds.

*From Go4Venture's perspective, we welcome more options for what is essentially expansion capital, which is often the right way to build sustainable companies. This is regularly a better option than rushing them to AIM or Alternext without due consideration for their viability as public companies and their ability to raise further equity beyond the initial float.*

- In the early-stage part of the market, Germany was the stage for much activity:
  - Munich Venture Partners announced its first €36 million closing for a fund set up in partnership with Fraunhofer-Gesellschaft, Germany's (and Europe's) largest applied research contract organization.
  - Dr Neuhaus Techno Nord signed up the European Investment Fund (EIF), an EU-affiliated fund of funds, as a €30 million cornerstone investor for its third fund. This is part of a wider €500 million fund of funds programme for investments in venture capital funds, sponsored by Germany's finance ministry and administered by the EIF.

**Notable European VC Market Developments (cont.)**

*As discussed in this publication previously, one of the vexing questions of the European VC scene is its (in)ability to generate exciting returns from very early-stage investments. Many limited partners are encouraging the funds they invest in to focus at the later stage end, and public authorities feel the need to help the commercial marketplace through various support schemes and subsidies. In the case of Germany, shell-shocked after the Neuer Markt bubble explosion, this is probably great news and a sign that Germany is at last showing sustained signs of a revival. At the same time the European marketplace will not come of age until private operators have sufficient confidence, experience and funds to successfully support companies from the very beginning.*

**Go4Venture**

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