



Monthly European Technology Venture Capital Bulletin

February 2006

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.

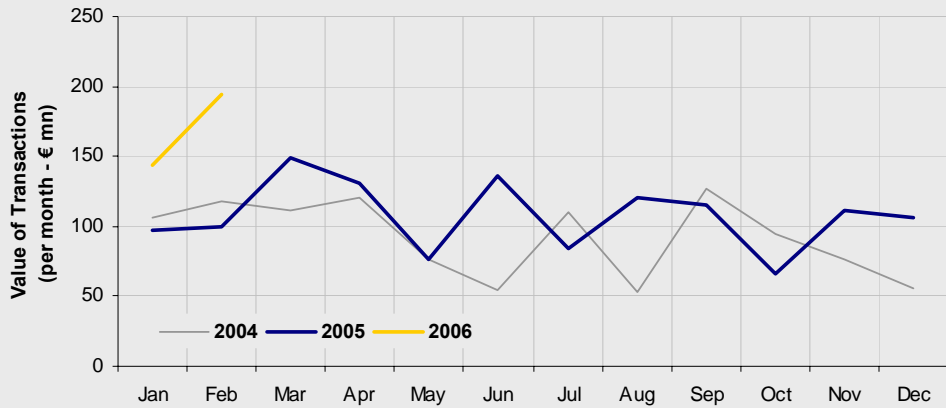
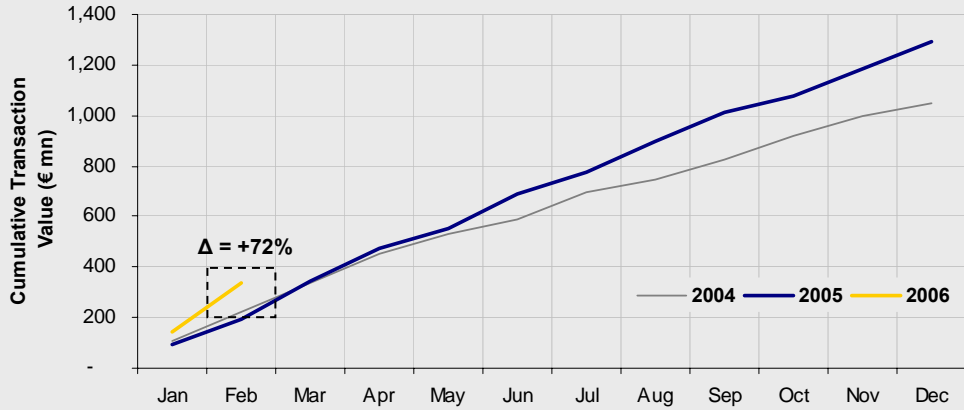
Our services encompass:

- 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.

February built on the already strong start to 2006

Headline Transactions Index



The busiest month on record for the HTI with €194mn of deals

Telecoms services back in favour this month

- Following last month's upbeat start to the year, February saw activity in the Headline Transactions Index leap to a new high, with 25 deals contributing to a bumper €194 million crop of transaction volume, **almost double the total for February 2005**.
- This month's impressive showing means that €340 million of deal volume has been tracked in just the first two months of 2006, quite a contrast to 2003, for instance, when it took the whole first half of the year for the Index to reach a similar point. Although it is obviously early days, on the current trend European VCs would appear to have a busy year ahead.
- Interestingly, **telecoms services plays – a sector which we saw fall out of favour in 2005 - have attracted the lion's share of funding this month**, with both a relatively old hand (The Cloud) and a new entrant (FON) in the wireless access operator segment attracting substantial financing rounds.
- Another point worth mentioning, as noted here before, is that activity is spread across the whole of Europe, with all major regions represented.

Top Headline Transactions

8 deals above our usual €7.5mn threshold

Company	Sector	Series	Size €mn	Description	Participants
Apertio Ltd (UK) www.apertio.com	Telecom software	B	24.8	Provider of open mobile infrastructure for global telecom operators	Add Partners, DVC Deutsche Venture Capital, Eden Ventures, Motorola Ventures, T-Mobile Venture Fund
Erenis (France) www.erenis.fr	Telecom services	B	22.5	Fixed broadband telecommunications operator	AGF Private Equity, Credit Agricole Private Equity, Iris Capital , Net Partners
Dialog Imaging Systems (Germany) www.dialog-semiconductor.com	Semi-conductors	A	22.3	Developer of camera modules for mobile phones	3i , Doughty Hanson Technology Ventures, GIMV
FON (Spain) www.fon.com	Telecom services	A	18.0	Community WiFi operator	Google, Skype, Index Ventures, Sequoia Capital
MySQL (Sweden) www.mysql.com	System software	C	15.3	Open source database vendor	Institutional Venture Partners , Intel Corp, SAP, Red Hat Inc.
Anam Mobile (Ireland) www.anam.com	Telecom software	B	14.0	Mobile messaging platform developer	FF&P Private Equity Ltd , Motorola Ventures and Mayfair Venture Capital
The Cloud (UK) www.thecloud.net	Telecom services	C	10.0	WiFi network operator	3i Group , Accel Partners , Provider Venture Partners
IGA Worldwide (UK) www.ingameadvertising.com	System software	A	9.9	Provider of in-game advertising services	DN Capital, Easton Capital Investment Group , Morgenthaler Ventures

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

In February, we have tracked eight deals of more than €7.5 million (£5mn), matching the largest number recorded in a single month (July 2004 also saw eight €7.5mn+ investments, although the total transaction value recorded that month was just €111mn). Interestingly, we also see the continuing progression of deals of €20mn or more, with three featured this month alone - i.e. the same number as in the whole of 2003 and half that of 2004! This is not including another big (€18mn) Series A deal in the telecom services sector (FON).

- **Apertio (UK)**, the Bristol-based network infrastructure provider, has closed a €25 million Series B funding courtesy of a syndicate of existing shareholders joined by new corporate venturing investor T-Mobile Venture Fund. Apertio provides an open architecture platform and a portfolio of mobility applications to enable operators to run flexible and resilient subscriber-centric networks. The business had a very good 2005, with several new operator customers driving 100%+ revenue growth, and management hopes that this financing will see them through to an IPO in the medium term.

Top Headline Transactions (cont.)

Having been around for ten years, Apertio is something of an elder statesman in the mobile infrastructure game, with a core platform that has evolved from an architecture first developed and deployed in the early 1990s. As such the December 2003 Series A had a buyout flavour to it. This Series B is a good example of an internal round as existing investors are satisfied with the performance of the company and don't feel the need to share with outsiders, except for bringing in strategic investor T-Venture. The business has now raised a total of over €40 million from its VCs (including a €6 million bridging round early last year).

- **Erenis (France)**, a high speed broadband service provider, has raised €22.5 million to accelerate its optical fibre roll out programme in Paris and the surrounding area. The round was led by Iris Capital and existing investor Net Partners, with AGF Private Equity and Credit Agricole Private Equity completing the syndicate. Erenis, founded in October 2002, is the first French operator to provide fibre optic broadband installations completely independently of France Telecom. With data speeds of up to 100Mbps on offer, Erenis is clearly an attractive proposition for subscribers interested in nextgen services such as HDTV or activities requiring substantial upload bandwidth (e.g. remote backup, video blogging).

Erenis is a bold play in the (near) Fibre To The Home (FTTH) field. This is a segment fraught with difficulties, both in terms of picking up the right technologies (cost vs quality vs ease of deployment vs future-proofing) as well as anticipating regulatory moves which may be influenced by telecom incumbents and their friends. Unsurprisingly, Erenis has been financed by local investors led by Iris Capital, one of the few true TMT funds, which has both the sector expertise and a good reading of local market conditions (Iris was recently spun off from CDC, the state-owned financial institution which manages French government money).

- **Dialog Semiconductor (Germany)** has spun its imaging division out into a new company, to be known as **Dialog Imaging Systems**. The spin-out initiative has been backed by €22 million of financing from a syndicate of investors including Doughty Hanson Technology Ventures and GIMV, and led by 3i. Dialog Semiconductor has held on to just under 14 percent of the business, the primary activity of which is the production of camera modules for mobile handsets.

Dialog demonstrates the attraction of the mobile sector for investors. Few markets sell 850 million units a year, and have a history of consistently beating growth forecasts. The added attraction here is the buyout nature of the deal, a theme which is growing stronger in European VC. The bottom line is, this is an awesome deal for a business which only generated €1.1 million in revenues in the 9 months to September 2005 and recorded operating losses of €6.4 million.

Top Headline Transactions (cont.)

- **FON (Spain)** caused a few ripples in the VC community as it attracted some €18 million of funding just three months after being founded by serial telecoms entrepreneur Martin Varsavsky. The company, which has already signed up 3,000 subscribers, aims to build a network of consumer broadband users who can share connections wirelessly when away from home. The funding comes courtesy of an enviable group of backers, comprising Index Ventures, Sequoia Capital, Google and Skype. FON needs to use its now substantial cash pile to convince ISPs of the merits of allowing their customers to publicly share ADSL connections – something which most ISPs currently prohibit.

FON is a typically ambitious play from the indefatigable Varsavsky. His success in attracting this substantial funding at such an early stage is testament to his ability to read the pulse of the market – although sceptics may point out that his previous ventures have hardly been long term success stories (e.g. see Jazztel in Spain or Viatel in the US). The critical path for FON's success lies in persuading ISPs to relax their restrictions on wireless broadband sharing in return for a share of the revenue generated by the service. Presumably Varsavsky expects that Google and Skype will be somewhat influential in these discussions – note that both of Skype's founders have joined the board.

- **MySQL (Sweden)** has attracted €15 million of Series C funding, with the money earmarked for new product development and enhancement of the sales capability as the company looks to build on the success of its MySQL database management system. MySQL is the world's most popular open source database, with more than 8 million active installations. The round was led by Institutional Venture Partners, with Presidio STX (the venture subsidiary of Sumitomo Corp), Intel Capital, SAP Ventures and Red Hat among those joining in.

Institutional Venture Partners is not a familiar name in Europe, but the Silicon Valley-based fund is a prolific IT and healthcare investor with a 250-strong portfolio of (largely Californian) businesses. MySQL has only raised one substantial round of capital before, a €13 million funding in mid-2003 from Benchmark Capital and Index Ventures. With the company now looking to make significant inroads into the enterprise database market it needs to beef up its selling credentials to take on incumbents such as Oracle. This seems to be a good example of the successful migration of a European-originated business to California, with the support of quality trans-Atlantic VCs (including Index, whose original base is Geneva).

- **Anam (Ireland)** has closed a €14 million Series B funding led by FF&P Private Equity, joined by Motorola Ventures and Mayfair Venture Capital. Anam, established in Dublin in 1999, has developed a patented, next generation core-network messaging architecture for mobile network operators. It intends to accelerate the roll out of its Smart Services Interceptor Framework for operators globally, enabling its customers to rapidly launch new P2P messaging services.

Top Headline Transactions (cont.)

FF&P Private Equity is a subsidiary of Fleming Family and Partners, the London-based multi-family office managing the assets of the Fleming family and other clients. FF&P manages over 50% of the total \$8 billion of assets under management of the Flemings group. It typically invests from €7 to €30 million of equity per transaction and prefers to back highly commercial management teams with a proven track record of creating shareholder value. At the other end of the spectrum, Mayfair VC is a modest Gibraltar-based tech investment fund which currently has just three investments in its portfolio.

- While FON grabbed headlines with its generous first round funding, the European leader of the WiFi hotspot game, **The Cloud (UK)**, bulked up its own war chest with a new €10 million financing, bringing total investment in the business to €20 million since its formation in early 2003. Existing backers 3i and Accel led the round, joined by Provider Venture Partners of Sweden. The management team will use the cash to further expand The Cloud's network in the UK through wide-area city coverage and extensive hotspot deployments in stations, hotels, airports and universities. It also intends to enhance its network footprint in continental Europe.

Provider is a substantial Stockholm-based VC firm which focuses on early and expansion stage technology companies in the Nordic region. It currently manages around 30 portfolio company investments in communication technologies, software and content services and boasts a track record of successful exits. The strategy for bringing them into the round is presumably to leverage their Nordic experience to accelerate The Cloud's network build out in Scandinavia. This is another example of Scandinavian funds raising their game and getting more integrated in the global VC network.

- Finally, IGA Worldwide, Inc has announced a successful €10 million first round, co-led by New York-based Easton Capital Group and Morgenthaler Ventures, with existing investor DN Capital completing the participant list. The business has been a pioneer in the 'in-game' advertising space, its proprietary Radial Network supporting the ability to deliver a range of advertising content including audio, video and 3D geometry into a broad range of games titles and platforms.

Investment opportunities related to the games industry are traditionally given short shrift by VCs, based on the unpredictability of an increasingly hits-driven marketplace and the resulting difficulties of selecting winning plays. However, with the costs of game development continuing to soar into the league of Hollywood blockbusters, publishers appear to be very keen to explore ways of capturing new revenue streams and reducing the risks of bringing new products to market. With in-game advertising forecast to grow by at least 40 percent in 2006 and to hit \$1 billion before the end of the decade, expect to see plenty more interest in this sector. It is worth noting that the business started in the UK with seed financing from London-based DN Capital, a 2000-vintage first time fund which, despite its relatively small size (c. €50mn), is involved in a number of high profile and innovative transactions.

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