

# Monthly European Technology Venture Capital Bulletin

**August 2008**

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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 at [www.go4venture.com/resources/hti.htm](http://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:

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

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.

Further Go4Venture research is available on our web site at [www.go4venture.com/resources/research.htm](http://www.go4venture.com/resources/research.htm)



year ago. One deal this month, Plastic Logic's €33.4mn round, has landmark status (>= €20mn), compared with two such deals in August 2007.

- Because this decidedly weaker August comes on the back of a very strong July (not only 39 transactions and €346.8mn total amount invested, but also broke a record for large HTI deals in a single month with 16), it is difficult to make any sound conclusions from the strong drop in transaction volume and value this month, particularly owing to the fact that total HTI value year-to-date is only down 3% from this same point last year.

### Top Headline Transactions

Company Name	Sector	Round	EUR (mn)	Description	Investors
Plastic Logic (UK) www.plasticlogic.com	Hardware	Later	33.4	Developer of plastic electronics technology	<b>Amadeus Capital Partners, Oak Investment Partners, Bank of America Capital Investors, BASF Venture Capital, Dow CVC, Intel Capital, Morningside Technology Ventures, Nanotech Partners, PolyTechnos Venture-Partners, Siemens Venture Capital, Tudor Investment Corporation and Yasuda Enterprise Development</b>
Enigmatec (UK) www.enigmatec.com	Software	Later	9.4	Automated data centre software provider	Amadeus Capital Partners, Herald Ventures, Kevin Lomax, Noble Venture Finance, Pentech Ventures, Scottish Enterprise
Xelerated (Sweden) www.xelerated.com	Hardware	Later	8.7	Provider of carrier-grade network processor and Ethernet chipsets	<b>Sixth Swedish National Pension Fund</b> , Accel Partners, Alta Partners, Amadeus Capital Partners, Atlas Ventures
dynaTrace (Austria) www.dynatrace.com	Software	B	8.6	Developer of lifecycle application performance management software	<b>Bay Partners, Bain Capital</b>

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Plastic Logic (UK) www.plasticlogic.com	Hardware	Later	33.4	Developer of plastic electronics technology	<b>Amadeus Capital Partners, Oak Investment Partners</b> , Bank of America Capital Investors, BASF Venture Capital, Dow CVC, Intel Capital, Morningside Technology Ventures, Nanotech Partners, PolyTechnos Venture-Partners, Siemens Venture Capital, Tudor Investment Corporation and Yasuda Enterprise Development

- **Plastic Logic (UK)**, developer of plastic electronics technology, **raised €33.4mn (\$50mn) in a later round of funding led by Amadeus Capital Partners and Oak Investment Partners**, with a consortium of investors including BASF Venture Capital, Bank of America Capital Investors, Dow CVC, Intel Capital, Morningside Technology Ventures, Nanotech Partners, PolyTechnos Venture-Partners, Siemens Venture Capital, Tudor Investment Corporation and Yasuda Enterprise Development participating. The funds will be used to support expanded operations and the commercial launch of its first product in early 2009.

Together with this announcement, Plastic Logic stated numerous additions to its vice president team, including veterans from DirecTV, IBM, Palm, Apple, and Hewlett Packard. These positions included business development, product engineering, marketing and supply chain management, all located at the Company's new Silicon Valley headquarters. Currently, R&D is located in Cambridge, England and production in Dresden, Germany (opened September 17, 2008 with manufacturing capacity of a million display modules per year). Plastic Logic recently unveiled its 8 ½ x 11 inch electronic reader, which is focused on the business market and mimics the look of a newspaper, at the DEMOfall 08 conference in San Diego three weeks ago and was awarded the DEMOgod People's Choice Award.

*Flexible, semiconductor-based thin polymer technologies such as Plastic Logic's can not only be used for electronic readers, but also for outdoor interactive displays, clothing, military and other applications. Plastic Logic has initially focused its efforts on developing a rather special e-book product with a light (1/3 the weight of MacAir), thin screen that is readable in broad daylight and is so robust that you can throw a shoe at it and it won't shatter. Other companies vying for attention in this space include E-Ink, iRex Technologies, Nemoptic, and Polymervision, in addition to larger companies such as Bridgestone, Fujitsu, Panasonic, Samsung, Sony and of course, Amazon. With such a broad list of competitors, its no wonder the Company has raised over \$200mn to date, including a large \$100mn round announced in January 2007.*

*This is an internal round led by Oak Investment Partners, who also led the landmark \$100mn round last year with Tudor Investment Corporation, and Amadeus Capital Partners. Cambridge-based Amadeus (€581mn under management) provided Plastic Logic with its seed funding and has supported the Company with additional funds since. Amadeus was started in 1997 and invests in high technology companies across Europe and Israel. US-based Oak Investment Partners dates from 1978 and has over €6.9bn under management. The firm has invested in the last three rounds for Plastic Logic.*

**Top Headline Transactions (cont.)**

Company Name	Sector	Round	EUR (mn)	Description	Investors
Enigmatec (UK) www.enigmatec.com	Software	Later	9.4	Automated data centre software provider	Amadeus Capital Partners, Herald Ventures, Kevin Lomax, Noble Venture Finance, Pentech Ventures, Scottish Enterprise

**Enigmatec (UK)**, an automated data centre management software provider, **raised €9.4mn (\$14mn) in later stage funding with Amadeus Capital Partners, Herald Ventures, Noble Venture Finance, Pentech Ventures, Scottish Enterprise and Company Chairman Kevin Lomax participating.** Current offices for Enigmatec include London and New York, and this latest round of funding will be used for international expansion.

Enigmatec leverages distributed systems technology research from both Cambridge and Oxford Universities. Products include its flagship, policy-based Execution Management System (EMS), as well as Virtual Orchestrator (EVO) and Automated Disaster Recovery (ADR), and the Company's offerings use rule-based workflow and process design to remove manual steps in IT management, decrease costs and increase reliability.

*This transaction continues the trend for later stage investments which seem to be representing the bulk of venture capital activity recently. Founded in 2002 and initially focused on automating runbooks (a runbook contains the procedures to begin, stop, and supervise computer systems), Enigmatec has now broadened its scope to be a data centre automation supplier with a focus on the telecommunications sector and the financial services industry. In August 2007, Kevin Lomax invested in the Company's \$12.5mn Series C round and joined the board as Chairman. Lomax is best known as the founder of Misys, a publicly-traded London-based software company founded in 1979 with 4500 employees and a market cap of approximately £600mn (Digital Look, Sept 30).*

*Enigmatec is not only similar to Plastic Logic (profiled page 4) owing to its roots in Cambridge, but also that it received seed funding from Amadeus Capital Partners (€581mn under management). New investors for Enigmatec with this round include Scottish Enterprise and Noble Venture Finance. Scottish Enterprise (€416mn under management) is largely funded by the Scottish Government and supports business growth in the southern half of Scotland. The fund is supporting Enigmatec's efforts to set up a Centre of Excellence in Scotland with its investment. London-based Noble Venture Finance is a venture capital investor as well as a venture lender and investment bank for small and medium size businesses, and has €217mn under management. In addition to Lomax and Amadeus, local investors Herald Ventures (€746mn under management), which invests only in the UK, and Scottish software-specialist Pentech Ventures (€60mn under management) supported the round.*

**Top Headline Transactions (cont.)**

Company Name	Sector	Round	EUR (mn)	Description	Investors
Xelerated (Sweden) www.xelerated.com	Hardware	Later	8.7	Provider of carrier-grade network processor and Ethernet chipsets	<b>Sixth Swedish National Pension Fund</b> , Accel Partners, Alta Partners, Amadeus Capital Partners , Atlas Ventures

- **Xelerated (Sweden)**, a provider of carrier-grade network processor and Ethernet chipsets, has raised an internal round of €8.7mn (\$13mn) led by Swedish State-sponsored **Sixth Swedish National Pension Fund**. The round was supported by all existing investors including Accel Partners, Alta Partners, Amadeus Capital Partners, and Atlas Venture.

Founded in August 2000, Xelerated is a fabless semiconductor designer and primarily sells its technology to telecommunications device manufacturers such as Huawei through its office in Beijing (the Company also has offices in Santa Clara, Tel Aviv, and Stockholm). Xelerated recently announced its HX3000 family of Ethernet switches which are the first programmable ones available for the fibre access market. The Company claims that its chipsets uniquely combine the efficiency of ASIC (Application Specific Integrated Circuit, or a custom-designed chip for a specific purpose) with the flexibility of programmable network processors. Competitors include Broadcom (the StrataXGS family of products), Marvell (the Presteria family) and smaller pure-play EZchip Technologies.

*With optical networks reaching bandwidth and latency requirements that challenge traditional Network Processing Units (NPU)s, optical network providers need faster and more flexible boxes to compete effectively. Although not an optical networking technology company per se (its chips do not handle optical traffic), Xelerated provides chips that solve some of the bottlenecks last-mile optical networks have reached. This investment in Xelerated could be seen as representative of a renewed interest in optical networking, which was a very hot investment theme in the late 90s/ early 2000s only to disappear as the dotcom/telecom bubble burst. FTTH/FTTO (Fibre to the Home/Office) growth in recent years in a number of geographies (Korea, Japan and some areas of Europe) is probably the largest driver behind this resurgence.*

*It is expensive to build a world-class fabless semiconductor business, hence the reason why Xelerated has raised \$83mn to date from its prestigious investor base. Once a major strength of the European technology scene and an area where a number of the Xelerated investors made fortunes in the past (Atlas's Element 14, Amadeus's CSR), the semiconductor sector has somewhat faded from investor interest in recent years owing to the high capital requirements involved.*

*Sixth AP, which previously led the \$23mn round for the company in May 2007, manages public pension funds and invests in funds active in the Nordic areas as well as directly in unlisted Swedish companies, from start-ups to medium-sized businesses. Sixth AP is an unusual lead investor for a technology-rich deal such as Xelerated owing to the fact that it is a generalist taking an active role. We would like to believe this is a sign of better times for technology investing (which has arguably lost some of its halo effect) by attracting interest from investor groups outside of the usual suspects.*

**Top Headline Transactions (cont.)**

Company Name	Sector	Round	EUR (mn)	Description	Investors
dynaTrace (Austria) www.dynatrace.com	Software	B	8.6	Developer of lifecycle application performance management software	Bay Partners, Bain Capital

- **dynaTrace (Austria)**, a provider of application performance management (APM) software, has raised a **€8.6mn (\$12.9mn) Series B round of financing led by Bay Partners** and supported by existing investor Bain Capital Ventures. This follows a €4.2mn Series A round led by Bain Capital Ventures in February of 2007. dynaTrace employs a total of 75 people between Linz, Austria, where it was founded in 2005, and Boston, Massachusetts, now the company's headquarters.

dynaTrace Diagnostics, the Company's main product suite, allows IT teams to manage performance of distributed, heterogeneous Java and .Net applications from coding to production by combining white-box code analysis with agent-based performance tracking. The Company's PurePath technology specialises in root cause measurement and analysis in multi-layer applications, making problem reconstruction and resolution easier across various IT teams such as programmers, testers and systems management specialists. The company already boasts of an impressive list of customers in Europe and the US including Bank of America, BUPA, Fidelity, LinkedIn, Lufthansa and Telekom Austria.

*dynaTrace is active in an interesting, albeit unfashionable, area of the enterprise software market: Software Quality Assurance (SQA). Interestingly, this is the second system software deal we have profiled in the same month (together with Enigmatec, another cross-Atlantic provider of lifecycle management solutions, page 5), which shows there is still life in traditional IT technology markets and direct sales business models, despite the usual concerns that there are few buyers for this kind of technology. In fact, there is still plenty of productivity improvement to be had in the management of IT, as shown by the success of companies such as Tideway Systems (an Accel and Apax portfolio company), and open source or SaaS business models are not always applicable.*

*The Company wasted no time strengthening its management team after this fundraising, announcing a new CEO, John van Siclen, previously CEO of Interwoven (NASDAQ:IWOV), Adesso and Perspecta (acquired by Excite@Home). Former CEO Bernd Greifeneder will become CTO, a position he used to hold at Segue Software, now part of Borland.*

*Despite the fact that dynaTrace was founded in Austria, the Company has apparently chosen to completely bypass European VCs and to raise directly its Series A and then its Series B solely from US investors, probably a consequence of the founder's experience in the US. It also can be interpreted that neither Bay Partners (€832mn under management) nor Bain Capital (€38bn under management) thought they needed a local, German-speaking VC partner to help them add value to the company. Let's hope that this is not a return to the European "start-up drain" of the early to mid-1990s which saw quite a few rising stars of the tech scene bypass the local investing community to simply raise money from US VCs, sometimes with mixed results (Nat Systems) sometimes with greater success (Micromuse).*

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