

Monthly European Technology Venture Capital Bulletin

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 clean technology, information technology, and medical technology companies.

For more details please refer to the Methodology Note available at <http://www.go4venture.com/research/hti.htm>.

About Go4Venture

Go4Venture Advisers LLP is a London-based corporate finance advisory 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 advisory)
- Strategic advisory 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 information is available at <http://www.go4venture.com/>.

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Dear Clients and Friends,

Please find attached the February 2010 edition of Go4Venture's Monthly European Technology VC Bulletin, including the latest results from our proprietary Headline Transaction Index (HTI) which tracks technology private financing deals as reported in the press.

February 2010 was a modest month but this is not uncommon for this time of the year. On a cumulative basis, we are roughly in line with year-to-date compared to 2009. Nothing to get excited about but **no apparent worsening of the state of the market**.

What is interesting though, are the sort of transactions which are taking place. As chronicled in our previous Bulletins, **a much broader range of investors are getting involved** in the market, taking the slack from traditional VCs which are still preoccupied with their portfolio companies and their next fund-raising (or lack of!).

This month again is quite illustrative of this changing shape of the European venture capital market. Worth highlighting is that out of six Headline transactions (worth more than £5mn, €7.5mn or \$10mn) **two are Private Investment in Public Equity (PIPE)**, a type of deal difficult to execute due to the need for public shareholders' approval: this reflects the investors' appetite for more mature companies and how lethargic public markets are for smaller market caps.

Also worth mentioning is that none of the traditional European VC firms are showing up this month, but instead a mix of institutionals (4 of the 6 Headline transactions are late-stage) and various specialist funds (e.g. automotive, cleantech, etc). As market conditions get tougher, **generalists are battering down the hatches**, and these are the more narrowly focused investors which garner the confidence to get things done.

From a fund's fund-raising standpoint, we see also the continuation of some of the themes which have appeared in the past months. In particular much of the activity is linked to **former entrepreneurs setting up their own funds**. In February, two announcements made the headlines, both from France:

Kima Ventures has been launched by Xavier Niel of Free's fame (Free is France's number one alternative telecom operator which gave France Telecom a run for its money in the ADSL market in the Noughties and is now a €4bn+ listed company). His co-founder is Jeremie Berrebi, a young entrepreneur from the late 1990s and a mentor at Seedcamp. Interestingly the investment model is not so different from Seedcamp itself, with €10mn (all from Niel) set aside to invest in about 100 startups at seed stage.

Jaina Capital is a more traditional VC outfit set up by Marc Simoncini, the founder of Meetic, a dating service with a market cap of approximately €0.5bn. The ambition is to invest up to €100mn over two years.

In more traditional VC land, Nordic focused fund NorthZone announced the first close of their new fund, their sixth, with €90mn raised on their way to a target fund of €150mn. Quite a performance in today's market as illustrated by market research specialist Dow Jones VentureSource publishing their numbers for the whole of 2009: a decline of 41% by value to €3.2bn, making **2009 the worst year for European venture investment since 2000**, the year VentureSource began tracking the region.

Enjoy the reading. Please direct any questions or comments to vcbulletin@go4venture.com. If you do not wish to receive future HTI updates from us, please send an email with the title "unsubscribe" to vcbulletin@go4venture.com.

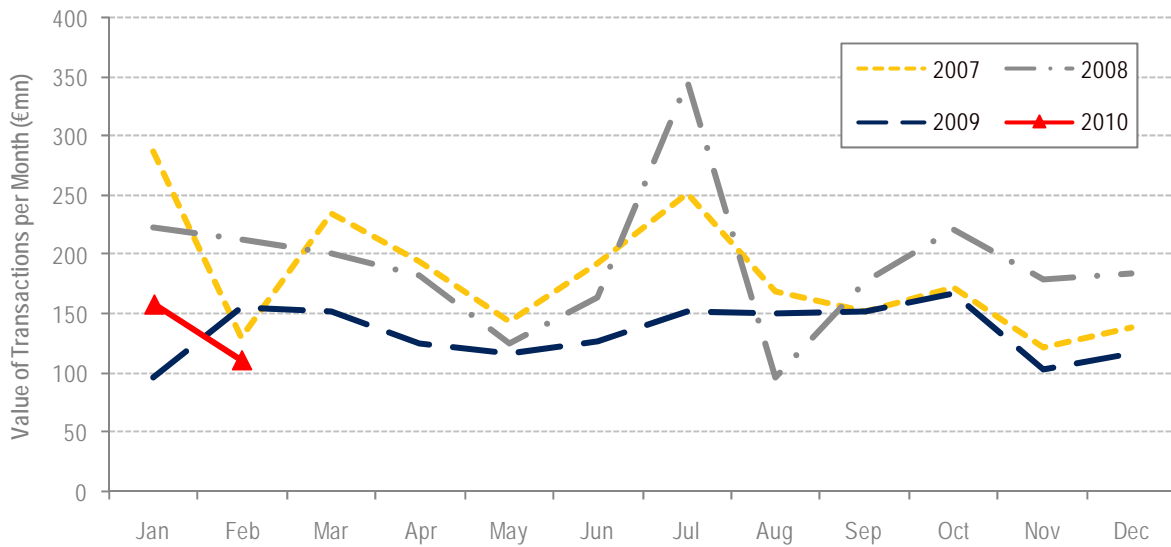
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The Go4Venture Team

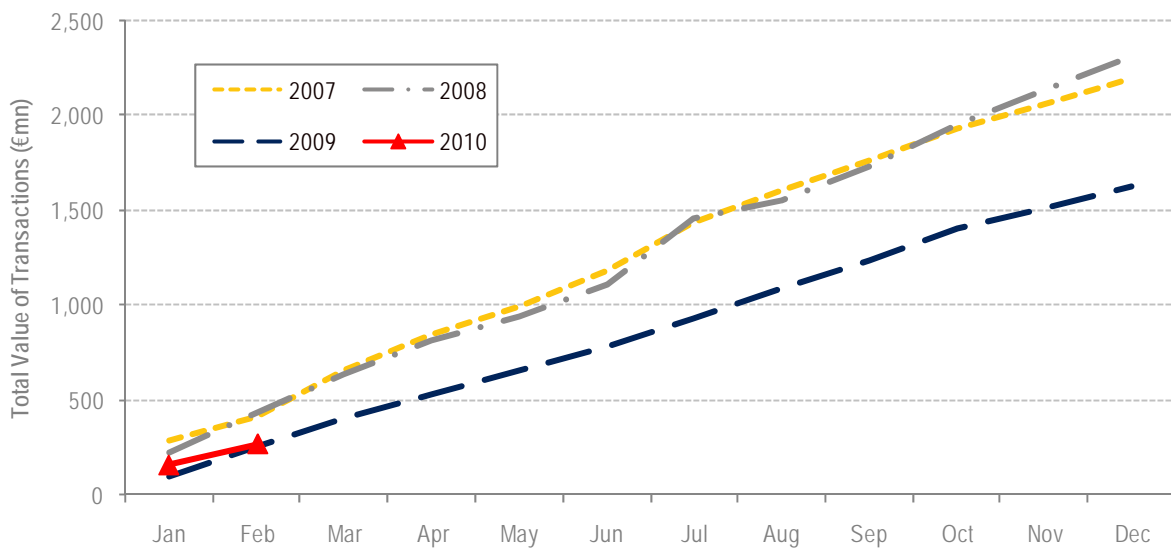
Note: in our previous Bulletin we noted that WHEB Ventures was originally sponsored by cleantech specialist executive search firm Ruston wheb. In fact, WHEB Ventures and Ruston wheb are sister companies but Ruston wheb did not sponsor WHEB ventures per se.

Investment Summary

Go4Venture HTI Index by Deal Value



Go4Venture HTI Index by Cumulative Deal Value



This Month		2009	2010
Landmark Deals	#	0	0
	€m	0	0
Headline Deals	#	8	5
	€m	84.2	55.7
Small Deals	#	20	24
	€m	72	55
All Deals	#	28	29
	€m	156.2	110.7

Year-to-Date		2009	2010
Landmark Deals	#	0	1
	€m	0	26.6
Headline Deals	#	12	12
	€m	121.6	156.6
Small Deals	#	41	42
	€m	132.1	86.2
All Deals	#	53	55
	€m	253.7	269.4

Headline Transactions Summary

Company	Sector	Round	€mn	Description	Investors
Oxford Nanopore Technologies (UK) www.nanoporetech.com	Medical Technology	C**	19.50	Developer of molecular detection technology with applications in DNA sequencing.	Illumina, Invesco Perpetual, IP Group, Lansdowne Capital
Metalkraft (Norway) www.metalkraft.no	Cleantech	Late Stage	10.50	Recycler of silicon wafers from the semiconductor industry.	Climate Change Capital
Footbalance Systems (Sweden) www.footbalance.com	Hardware	A	7.00	Manufacturer of customised insoles and insole fitting systems.	Scope Capital Advisory
OpSec Security (UK) www.opsecsecurity.com	Hardware	Late Stage	8.68	AIM-listed provider of authentication technologies, anti-counterfitting and security solutions.	Investcorp Technology Partners
1855 (France) www.1855.com	Internet Services	Late Stage	9.00	Euronext Listed e-tailer of wine.	Institutional Investors
Effpower (Sweden) www.effpower.com	Cleantech	C	8.04	Developer of bi-polar batteries for the automotive industry.	Fouriertransform, Industrifonden, Volvo Technology Transfer
Clifford Thames Group (UK) www.clifford-thames.com	Software	Late Stage	7.10	Provider of application software and outsourced services for the automotive industry.	Octopus Investments

Source: Go4Venture

Key

Bold indicates lead investor(s)

* Internal round

** Led by existing investors

Company	Sector	Round	€mn	Description	Investors
Oxford Nanopore Technologies(UK) www.nanoporetech.com	Medical Technology	C	19.50	Developer of molecular detection technology with applications in DNA sequencing.	Illumina, Invesco Perpetual, IP Group, Lansdowne Capital



Oxford Nanopore Technology (UK), a developer of molecular detection technology with applications in DNA sequencing, has raised **£17.4mn (€19.5mn)** in **Series C** funding. **Illumina**,

Invesco Perpetual, IP Group and Lansdowne Capital participated in the deal. The funding will be used to speed development of Nanopore’s technology.

Oxford Nanopore is a spinout from Oxford University, founded in 2005 by Professor Hagan Bayley to commercialise his work in molecular analysis. The company is developing a disruptive new electronic single-molecule analysis technology whose lead application is DNA sequencing, which it expects to have a profound effect in the fields of life sciences and personalised medicine. The technology is modular and highly scalable, driven by electronics rather than optics. This means it has the potential to outperform current sequencing approaches, which rely on a time-consuming fluorescent labelling step. Oxford Nanopores solution will in theory be faster, cheaper, simpler and more adaptable to the overall analysis workflow. Future applications of the technology may include electronic protein analysis, with applications in drug discovery through to diagnostics. Because of an exclusive marketing and distribution agreement regarding its near-term sequencing technology, which Oxford Nanopore signed with Illumina a year ago, the company cannot currently disclose what progress it has made in DNA sequencing. Illumina invested \$18 million in the company at the time of that agreement.

Oxford Nanopore is typical of platform technologies which need to find an early application to warrant support of investors. In its case this is the market for DNA sequencing, with an exclusive marketing and distribution agreement signed in January 2009 with Illumina, a global company that develops innovative array-based solutions for DNA, RNA, and protein analysis. With this agreement under its belt, Oxford Nanopore is now investing in applications besides DNA sequencing, starting with protein analysis.

The round is led by existing investors, Invesco Perpetual, one of the UK subsidiaries of US investment management giant Invesco (approx \$412bn under management), Lansdowne Partners, one of the world’s largest hedge fund (undisclosed assets under management) and IP Group, the specialist IP commercialisation listed on the London Stock Exchange (approx. £100mn in market cap). IP Group financed the spin off from Oxford University in June 2005 and still owns 29% of the business.

Together with the £32mn previously raised since inception, this takes the total amount of financing for Oxford Nanopores to £49.4mn. Such an amount shows how capital intensive medtech can be but also the arms race occurring to bring down the cost of DNA sequencing which is essential to realise the potential of personalised medicine.

Company	Sector	Round	€mn	Description	Investors
Metalkraft (Norway) www.metalkraft.no	Cleantech	Late Stage	10.50	Recycler of silicon wafers from the semiconductor industry.	Climate Change Capital

METALLKRAFT **Metalkraft (Norway)**, a recycler of silicon wafers used in solar panel production, **has raised Nkr 140mn (€17.3mn) in bridge financing led by Climate Change Capital**, with the participation of existing investors. The money will support Metalkraft's new plant in Singapore and further expansion in China.

Headquartered in Kristiansand (South Norway), with factories in Norway and China, Metalkraft employs more than 140 staff. It was founded in 1999. The company's patented technology provides a non-polluting, low energy solution to recycle spent slurry used in cutting solar silicon wafers. The cutting process is a crucial step in producing silicon solar modules. It requires large amounts of SiC/PEG slurry, consisting of abrasive silicon carbide particles (SiC) and polyethylene glycol (PEG). This process pollutes the slurry with silicon dust, metal particles from the saw wire and water. To ensure efficient cutting, spent slurry must be replaced with fresh slurry. Additionally, the exhausted slurry must be disposed of in an environmentally friendly fashion. Metalkraft's solution allows 100% of the spent slurry to be recycled without adding any chemicals and with no waste streams. The process produces recycled slurry with the same properties for cutting silicon wafers as virgin slurry, at a fraction of the cost.

The new investment will finance a new plant opening in Singapore to service a new integrated wafer, cell and module manufacturing complex commissioned by Renewable Energy Corporation (www.recgroup.com). Headquartered in Oslo, Norway, REC claims to be the leading vertically integrated player in the solar energy industry. The new plants will more than double REC's current production capacity

The investment is by way of a three year convertible bond with a 12 per cent annual coupon. This follows a €40mn equity round in December 2008 which we commented on in our Bulletin then. Once again, cleantech dominates the deal landscape, and the advantage of a sound management teams shines through. Cleantech investor Climate Change Capital (€1bn under management) has been very vocal on the subject, saying that Metalkraft's management team is one of the best the fund has seen. Metalkraft is headed by Gunnar Kulia, whose background in environmentally friendly metals and renewable energy production complements those of his management team, who share decades of high level experience across global industrial and financial sectors. Capricorn Venture Partners (€112mn under management) is also an investor in the business, having made a total contribution of €7mn over two funding rounds.

Company	Sector	Round	€mn	Description	Investors
Footbalance Systems (Sweden) www.footbalance.com	Hardware	A	7.00	Manufacturer of customised insoles and insole fitting systems.	Scope Capital Advisory



Footbalance

Footbalance System (Finland), a manufacturer of customised insoles and insole fitting systems, **raised €7mn in a first round of financing from Swedish investor Scope Capital Advisory**. Footbalance will use the investment to expand across new and existing European markets.

Established in 2003 by physiotherapist Erkki Hakkala and Finnish sports hero Antti Pihlakoski, Footbalance produces fully customised insoles using computer-aided foot analysis and in-store production units. The individually moulded insoles correct and support foot position and gait. The offering is focused on improving customers' day-to-day comfort and preventing injury in athletes. The company estimates that 75 per cent of consumers suffer from physical strain and injury resulting from incorrect foot positions. The solution is sold through Road Runner Sports in the US and Intersport International in Europe. In total it is available in 250 stores across the US, France, Denmark, Norway and Finland under a full money-back guarantee to ensure customer satisfaction. Footbalance employs 14, and is headquartered in Helsinki, with a subsidiary in California, US.

According to Technopolis Ventures, Footbalance's financial advisor in this deal, this is the biggest first round international investment into a Finnish 'Innovation System' startup since 2000. The term 'Innovation System' refers to Finland's various government-backed financial and technological programmes to boost entrepreneurialism. Scope Capital Advisory (€120mn under management) is known for its hands-on approach in partnering with the management teams of its portfolio companies, with a view to sustainable international growth. It was one of the founding investors in database management software company MySQL in 2001. Scope helped grow that company value from €7.5mn to €800mn. In January 2008 SUN Microsystems acquired MySQL for a \$1bn cash consideration.

Company	Sector	Round	€mn	Description	Investors
OpSec Security (UK) www.opsecsecurity.com	Hardware	Late Stage	8.68	AIM-listed provider of authentication technologies, anti-counterfitting and security solutions.	Investcorp Technology Partners



OpSec Security (UK), the AIM-listed maker of anti-counterfeiting protection technologies, has closed an **€8.7mn Private Investment in Public Equity (PIPE)** round of funding from **Investcorp Technology Partners** through the issue of new preference shares and common stock. Investcorp also invested an additional €9.5mn in the form of a shareholder note to refinance existing debt facilities. As a result, Investcorp will own close to 30% of OpSec's equity.

OpSec is a multinational provider of anti-counterfeiting products and services such as tags, stickers, seals, threads and micro dots. These products protect corporate brands and secure the integrity of government issued identification such as passports, banknotes and high-security documents. The company's products and services are used by over 50 governments and 300 global brands worldwide. It protects over \$100 billion worth of products and fiduciary instruments annually.

Headquartered in London, OpSec has manufacturing and laboratories in secure locations in Europe and the US, and operates a secure fulfilment centre in Asia. The company has grown via acquisitions, with over 15 companies purchased in the last few years. The market for brand protection products and technology, OpSec's largest business line, is poised to reach \$11.4 billion by 2014 from approximately \$6.7 billion 2009, according to estimates from the printing and publishing services firm Pira International.

OpSec's broad coverage of all aspects of anti-counterfeiting technology through vigorous growth by acquisition is a good example of what can be achieved through savvy use of external growth.

Investcorp Technology Partners is the technology private equity arm of alternative investment manager Investcorp (€2bn under management). Only in January 2010 Investcorp invested \$35mn in identity theft and fraud protection company CSIdentity. The similarity between these investments clearly indicates Investcorp's expectations for market growth in solutions that allay fears around the loss or theft of personal and corporate identities and intellectual property. With an investment in the US and one in Europe, Investcorp shows the ability of a large technology investor in not only arbitraging opportunities across borders, but also in playing different geographic exposures to a strong investment theme.

In the 2000s, PIPEs generated considerable interest post-bubble explosion as investors sought to invest in more mature, revenue-generating companies. In the end, PIPEs have proven difficult to execute to the complex regulatory environment of publicly-held companies. This is particularly true in the UK and even more in Continental Europe where minority shareholders protection in general and pre-emption rights in particular are making it difficult to sometimes predict the outcome of a possible shareholders' vote. As a result PIPEs have remained relatively uncommon as the expenses involved haven't justified their use on smaller caps typical of many listed technology start-ups.

Company	Sector	Round	€mn	Description	Investors
1855 (France) www.1855.com	Internet Services	Late Stage	9.00	Euronext Listed e-tailer of wine.	Institutional Investors



1855 (France), the Euronext-listed upmarket e-tailer of wine, raised €9mn in a **Private Investment in Public Equity (PIPE)** funding through the issue of new shares in a private placement with institutional investors and **Aphrodite**, the holding company belonging to 1855's founders. The company intends on improving revenue growth and purchasing power, and further developing its profitability.

The brainchild of childhood friends Emeric Sauty de Chalon and Thierry Maincent, upmarket wine e-tailer 1855 is named for the year when Napoleon III ordered the classification of the greatest wines of Bordeaux. It was launched as a catalogue targeted at French businessmen in 1997, with the website following in 1999. The company completed a €14.9mn IPO in 2006.

Today the site offers more than 25,000 luxury wines for sale across Europe. Its typical customer is an urbane and wealthy wine-loving city-dweller; the average order is around €1,000, with some customers splashing out as much as €100,000 during the course of a year. The global wine market is worth €100bn. 1855 targets the luxury end of that market, which is worth around €20bn across Europe, Asia, the US and the rest of the world.

This deal marks a turn of fortune for 1885, which had its bank credit lines cut without warning in 2008. This in turn destabilized its purchase and delivery systems. Chairman Emeric Sauty de Chalon said to customers experiencing dire service delays and miscommunication that this was an example of the credit crunch, French-style. In January 2009, 1855 restructured, creating a holding company called Aphrodite with capital of €16.8mn. The founding shareholders of 1885 held just over 89% of Aphrodite between them.

February 2010's capital increase, through a share issue, was subscribed to by approximately ten undisclosed institutional investors from Paris, London and Geneva. The founders now hold a stake of approximately 59%. Sauty de Chalon has said that 2010 will be dedicated to re-establishing the company as a benchmark for service quality to address the customer service lapses of late.

Company	Sector	Round	€mn	Description	Investors
Effpower (Sweden) www.effpower.com	Cleantech	C	8.04	Developer of bi-polar batteries for the automotive industry.	Fouriertransform, Industrifonden, Volvo Technology Transfer



Effpower (Sweden), a developer of low-cost recyclable lead/acid batteries for hybrid automotive applications, has raised **SEK80mn (€8mn)** in **Series C financing** from **Fouriertransform, Industrifonden** and **Volvo Technology**

Transfer. The funds will be used to support commercial roll-out of Effpower's product in 2011.

Founded in 1999 and headquartered in near Gothenburg, Sweden, Effpower has developed a pioneering bipolar lead/acid battery particularly suited for cars that incorporate energy saving functions such as start/stop, which stops the combustion engine when the vehicle idles, for example at a red light or during congested traffic. This saves fuel and reduces emissions. The batteries are also well suited to hybrid cars which switch power between a combustion engine and an electrical cell, or which recharge the battery during braking.

Traditionally, lead/acid batteries are monopolar, the design of which results in uneven current distribution between the inward and outward poles. Effpower says its bipolar battery design is more efficient, conducting current more evenly and at higher rates, with a minimum of internal resistance. The bipolar batteries cost approximately a third of the cost of the nickel hydride batteries currently used by hybrid cars. Effpower developed the battery in collaboration with the automotive industry and prototypes have been tested by several car manufacturers with very positive results. The company intends to commence serial production in 2011.

The automotive industry is of course under tremendous pressure to improve its green credentials and reduce costs. As a result, carmakers are accelerating the introduction of innovative solutions such as Effpower's. According to the company, VW Group for instance, has promised that 100% of its cars will include a start/stop function in a few years. From being extremely conservative, the automotive industry has now to open up to innovation, even if adoption cycles still remain long.

Driving this deal is Swedish state-owned fund Fouriertransform AB (undisclosed assets under management), which focuses on long-term market-based returns. Fouriertransform's investment was conditional upon other shareholders investing a corresponding amount. Industrifonden (approximately €300mn under management) and Volvo Technology Transfer (€32mn under management), both early supporters of the company, have joined in, together with corporate investor Banner Batteries of Austria, Effpower's manufacturing partner. This is yet another example of corporates involvement in venture investments, a growing trend in European innovation financing.

Company	Sector	Round	€mn	Description	Investors
Clifford Thames Group (UK) www.clifford-thames.com	Software	Late Stage	7.10	Provider of application software and outsourced services for the automotive industry.	Octopus Investments

CLIFFORD THAMES

SUPPORTING CAR MANUFACTURERS GLOBALLY

Clifford Thames Group (UK), a provider of software, consultancy and business outsourcing to the automotive industry, **has received £6.3m (€m) in mezzanine funding from Octopus**

Ventures. The company's management will use the investment to buy back previous backer 3i's equity in the business and finance new product development.

Clifford Thames is headquartered in Chelmsford, South East UK and has offices in seven other countries, including recently opened branches in India and Poland. Its clients include leading global car manufacturers, including Fiat, Ford and Renault. The company provides consultancy and support services to the automotive industry across four key areas: research and consultancy; parts cataloguing; dealer services; and billing services.

Given its global reach, the company positions itself as an industry authority on emerging markets such as China, India, the Middle East, Eastern Europe and Russia. The company advises OEMs on building efficient dealer networks, recycling components, and the financial and environmental costs incurred during the 'life cycle' ownership of a car.

In September 2009, the company launched ATHORIS, an online quotation, authorisation and invoice management system for the fleet vehicle service sector. The software streamlines and reduces the cost of the often labour-intensive processes involved in fleet management.

This is clearly not a VC deal as such, though Octopus Ventures Ltd (€235mn under management) provided the funds from a number of venture capital trusts it manages. This is however quite typical of where the VC industry is heading, growth capital, i.e. investment in more mature companies: why take the risk when you can get exposure at low price since banking facilities are difficult to come by for smaller businesses?

Another interesting feature of this transaction is the element of secondary, with the company buying back 3i's position in the business. Yet again another example of line-by-line direct secondary, a growing trend as VCs realise selling investment portfolios can only be achieved at hefty discount.

Interestingly Clifford Thames looked at loan facilities as well but chose to go the mezzanine route as it is repayable at the end of the term and therefore allows more cash to be used in the early days to build the business.

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This report has been compiled by Jean-Michel Deligny, Managing Director – for and on behalf of Go4Venture.

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