

Monthly European Technology Venture Capital Bulletin December 2011

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 technology companies.

For more details please refer to the Methodology Note available at 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 www.go4venture.com.

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Dear Clients and Friends,

Please find attached the December 2011 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.

Even though a key merit of the Headline Transactions Index (HTI) is to be a near instant measure of the European venture market, it still takes a couple of weeks to compile the data. This lag feels the strongest in January when we still report on the prior year's figures and comment on a winding down month – while we have the start of the year in mind. This year the contrast couldn't be greater: with monthly transaction value down by a third compared to the year before, **December was a quiet month, but January looks like a strong start to 2012** (more on that next month).

This why **we continue to be quietly optimistic**; even if readers may have elsewhere seen a downbeat assessment of the European market. Where [Dow Jones VentureSource reports a 14% decline in investment by value and nearly 20% by value](#) for 2011 as a whole, our own HTI presents a more positive figure: yes, **fewer transactions in 2011 (-10% in our figures) but investment value still up by 7%**. The disparity is of course a difference in focus: where VentureSource aims to look at the market as a whole, we focus on the larger transactions (but still capturing more than two thirds of the market in the process). And we avoid the drug discovery segment altogether (a part of the market which has particularly suffered).

What our numbers show is that, despite the noise around early-stage internet investments, the real action is on larger transactions, primarily growth equity plays. In that part of the market, great terms can be obtained thanks to a well-orchestrated discussion with potential investors. In that segment, investors are not only venture funds moving later stage, but also buyout funds bringing their financial might as a value driver behind buy and build strategies for companies originally venture-backed. Next month, we will report on [Groupe Amplitude](#), the world leader in ultrafast lasers, for which we just helped close some €30mn with terms extremely favourable to the founders – even though much of the financing went into providing liquidity for existing shareholders (including a full exit for venture funds CM-CIC and ACI).

Growth equity comes in a variety of flavours:

- Quickly scaling internet plays – Includes internet startups which have already demonstrated their worth through rapidly scaling metrics. These companies can be in red hot segments such as private club shopping, flash sales or online gaming, but just as likely in traditional sectors such as financial services, gambling, travel, etc., which are being restructured by online disintermediation. Klarna in December was a great example.
- Late-stage VC investments – Businesses financed in the early to mid 2000s which are now profitable or at least close to break even, and represent attractive opportunities for new investors to get involved. This is also often an opportunity for early backers to get liquidity. Examples last month included ip.access and Stereclyde.
- Well established founder-owned businesses – Companies which have raised very little money so far (if at all), and which are looking for some liquidity for their existing shareholders as well as additional resources to accelerate growth. Groupe Amplitude is a great example.

As we pointed out before, **this growth equity market opportunity comes also because traditional exit markets are closed:** [growth equity markets such as AIM are anaemic](#), M&A is slow with [dealmaking at its slowest start to a year for nearly a decade](#), and [US public market investors are not treating newcomers very kindly](#). This explains the degree of caution Limited Partners (investors in funds) show for venture capital, particularly in Europe.

Eventually VCs will need to produce meaningful exits. Rather than lamenting the lack of exit markets, the venture industry needs to create better companies for exits, or learn to cut its losses early and at least produce liquidity where it cannot create performance:

- A better product entails producing bigger wins – This means going for more ambitious, bigger plays, which of course favours larger funds, as they have the brand to get to see all opportunities, the size to take larger risks, and the depth to bring the value-add companies require (contacts, expertise, etc).
- Creating liquidity means upping the single secondaries' game (reselling positions on a deal by deal basis rather than selling entire portfolios) – The VC industry has to become better at exiting earlier, even if that means leaving money on the table. The flip side of the coin is that VCs have to be prepared to pay a decent price to a competitor when they have deeper pockets, to propel the company for a while longer (just like buyout funds do).

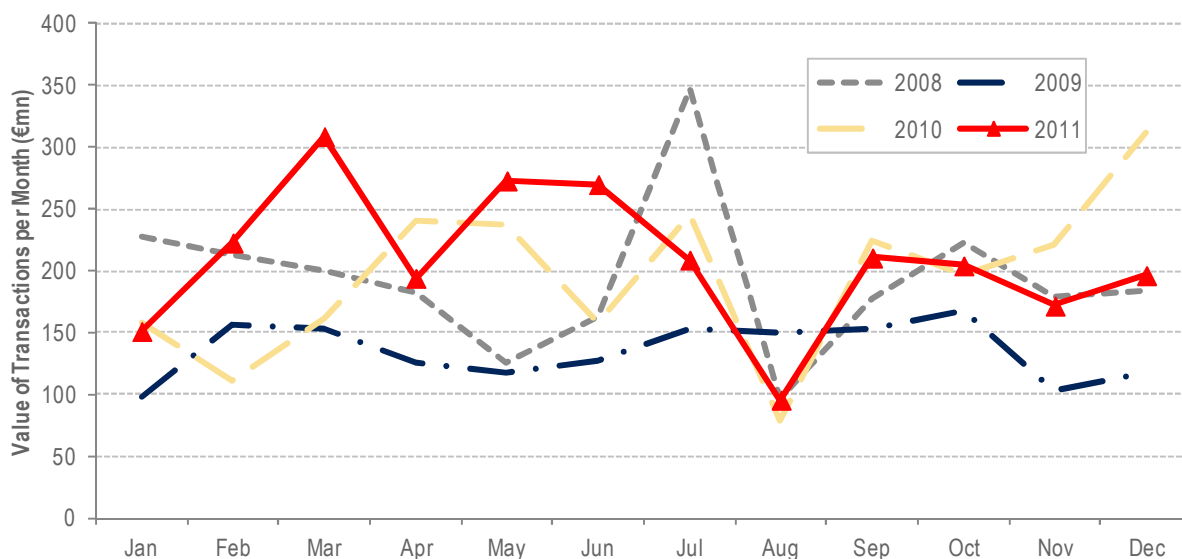
This big rethinking of venture financing is unfolding in front of our very eyes, creating opportunities for new entrants, be it super angels, new venture managers or corporate venturers. **One measure of the interest generated by the European industry is our very own European VC Bulletin which signed up its 10,000th subscriber in December 2011.** A milestone for us at Go4Venture; a nice comforting fact for the European venture financing industry.

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.

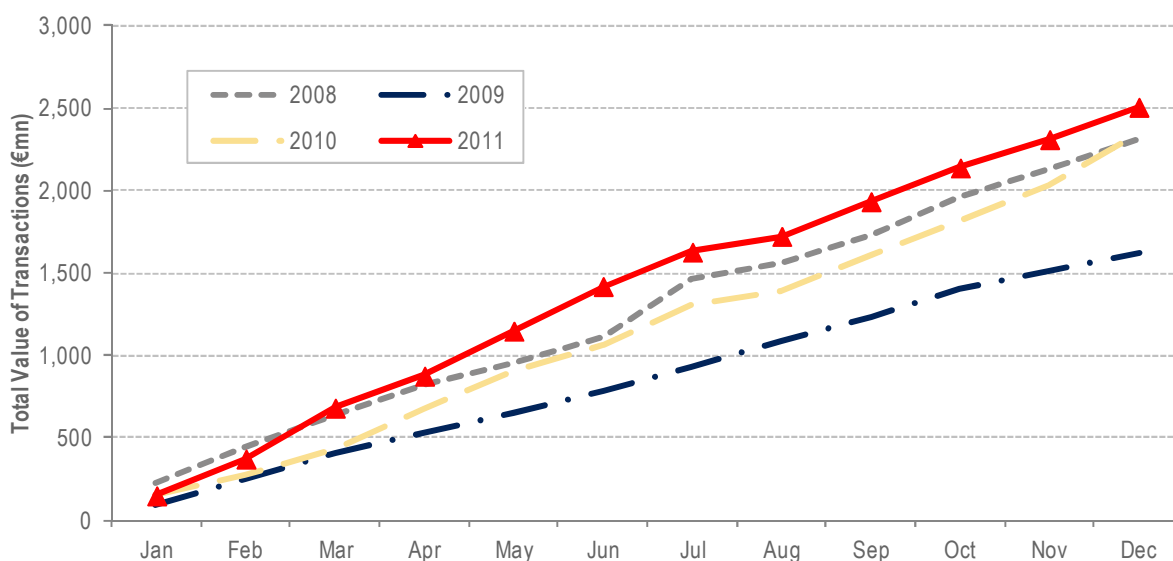
The Go4Venture Team

Investment Summary

Go4Venture HTI Index by Deal Value



Go4Venture HTI Index by Cumulative Deal Value



| December | | 2010 | 2011 |
|----------------|----|-------|-------|
| Landmark Deals | # | 2 | 1 |
| | €m | 246.9 | 117.6 |
| Headline Deals | # | 3 | 2 |
| | €m | 28.0 | 25.6 |
| Small Deals | # | 13 | 18 |
| | €m | 36.9 | 54.3 |
| All Deals | # | 18 | 21 |
| | €m | 311.9 | 197.5 |

| Year-to-Date | | 2010 | 2011 |
|----------------|----|---------|---------|
| Landmark Deals | # | 18 | 24 |
| | €m | 768.7 | 1,153.9 |
| Headline Deals | # | 62 | 58 |
| | €m | 714.4 | 650.6 |
| Small Deals | # | 278 | 243 |
| | €m | 864.8 | 703.5 |
| All Deals | # | 358 | 325 |
| | €m | 2,347.9 | 2,508.1 |

Large Headline Transactions Summary

(> £5mn / €7.5mn / \$10mn)

| Company | Sector | Round | €mn | Description | Investors |
|---|-------------------|------------|-------|--|---|
| Klarna (Sweden) www.klarna.com | Internet Services | C | 117.6 | Provider of payment solutions to e-stores in Europe. | DST Global, General Atlantic Partners , Sequoia Capital. |
| Geothermal International (UK) www.geothermint.co.uk | Cleantech | Late Stage | 14.2 | Ground source heat pump specialist. | ESB Novusmodus , SSE Ventures. |
| ip.access (UK) www.ipaccess.com | Hardware | Late Stage | 11.4 | Provider of picocell solutions. | Amadeus Capital Partners, Cisco Systems, Intel Capital, Qualcomm Ventures, R Capital, SEP, TE Connectivity. |
| Sterecycle (UK) www.sterecycle.com | Cleantech | C | 6.0 | Provider of waste management services. | Aston Hill Financial, Finance Yorkshire , Individual Investors. |

Source: Go4Venture

Key

Bold indicates lead investor(s)

* Internal round

** Led by existing investors

| Company | Sector | Round | €mn | Description | Investors |
|---|----------------------|-------|-------|--|--|
| Klarna (Sweden) www.klarna.com | Internet Services | C | 117.6 | Provider of payment solutions to e-stores in Europe. | DST Global (DST), General Atlantic Partners, Sequoia Capital. |

 **klarna** Klarna (Sweden), a provider of payment solutions for European e-tailers, raised \$155mn (€117.6mn) in a **Series C** round co-led by **DST Global (DST)** and **General Atlantic** with participation by existing investor **Sequoia Capital**. The money will be used for new hires, expansion – particularly in new territories – and the development of a mobile payments system. Some of the money will also be used to buy out some of the shares of early stage Swedish investor Øresund.

Founded in Sweden in 2005, Klarna was originally known as Kreditor. It is a sort of hybrid between a credit card service for consumers and a clearing house for payments to merchants. With Klarna's payment system, Klarna assumes the credit and fraud risk. It also allows consumers to receive goods before they make payment, usually by bank transfer when they are invoiced at the end of the month. Alternatively, consumers may spread the cost of these purchases in much the same way as a credit card.

In 2008, the company expanded beyond Sweden into Norway, Denmark and Finland. After changing its name to Klarna in 2009 it expanded outside the Nordic region into Germany and the Netherlands in 2010, and also introduced a savings account. In many of these countries, credit card usage is much less widespread than in the US and the UK and invoice payment systems such as Klarna are more common.

The company now has over 600 employees and a turnover of \$2.5bn in transactions for 14,000 merchants and 6mn shoppers. Where merchants offer Klarna, over 40% of consumers use it as their method of payment. The company is already profitable and doubled its revenues in 2011.

As well as credit card companies, Klarna faces competition from larger online payment companies such as PayPal. Clearly such competition also indicates a possible exit. eBay bought a similar company called BillMeLater in 2008 for \$820mn in cash and \$125mn in options. Apart from its acquisition of PayPal in 2002, in the last few months eBay also acquired mobile payments company Zong for \$240mn and Germany's BillSafe which was a larger version of Klarna.

Up until now Klarna had received relatively little backing – a small amount of initial funding from Swedish investor AB Øresund in 2007 and €9.2mn from Sequoia Capital in January 2010. From payment services, Klarna has now become a consumer financial services firm and hence needs a level of funding which is unusual by VC standards (similar to [Wonga](#) and [Borro](#) previously featured in our bulletin).

Transaction co-leader [DST Global \(DST\)](#) (latest fund \$1bn (2011)) is a late stage internet investment fund which launched in 2005. With offices in Hong Kong, London and Moscow, the firm is led by well-known investor Yuri Milner. Mr. Milner made his name via NetBridge – an internet incubator and investment vehicle he co-founded in 1999. DST has backing from Goldman Sachs, fund manager Tiger Global, Chinese internet company Tencent and Russian oligarch and owner of Arsenal Alisher Usmanov. Tencent acquired a 10% stake in April 2010 for \$300mn.

Fellow co-leader [General Atlantic Partners](#) (\$695mn (2007); AUM \$17bn) is a long standing participant in the European tech investment scene, even if it has long moved away from VC to focus on private equity plays (just like fellow US fund Warburg Pincus). The scale of opportunities in all areas of e-commerce (including financial services) means that they are once more featuring regularly in our Bulletin with transactions such as [€11mn in Groupalia in April 2011](#) and [€88mn in Privalia in March 2011](#).

| Company | Sector | Round | €mn | Description | Investors |
|---|-----------|------------|------|-------------------------------------|---------------------------------------|
| Geothermal International (UK) www.geothermalint.co.uk | Cleantech | Late Stage | 14.2 | Ground source heat pump specialist. | ESB Novusmodus , SSE Ventures. |



Geothermal International (UK), a ground source heat pump specialist, raised **£12mn** (€14.2mn) in a **Late Stage** round led by **ESB Novusmodus** with support from **SSE Ventures**. The money will be used to finance the acquisition of Endurant Energy, a similar US-based business, and to support other international expansion.

Geothermal designs, supplies and installs third-party heating and cooling systems for both commercial and residential applications. Its products include ground source heat pumps, air source heat pumps, cooling and air-handling equipment as well as building control systems. As one of Europe's largest Ground Source Heat Pump (GSHP) and air source heat pump installers, Geothermal is slightly unusual in that it provides turn-key solutions from initial geological surveys and design right through to commissioning. Since it was established in 2000, Geothermal has designed and installed more than 1,300 heating and cooling systems.

With European governments committed to reducing their carbon footprint under the 2009 EU Renewable Energy Directive and space heating accounting for a significant proportion of Europe's carbon emissions, there is a variety of legislation and schemes designed to encourage take up of this technology. In the UK this takes the form of the Renewable Heat Incentive (RHI) – a government scheme administered by the Gas and Electricity Markets Authority (Ofgem). This scheme is due to be expanded to cover installations serving individual households in late 2012.

Part of this investment was used to buy Endurant Energy, a designer and installer of energy efficient Combined Heat and Power (CHP) systems in the US. Founded in 2006, Endurant has installed and serviced over 50MW of systems, with a further 25MW in development. Not only will this acquisition allow Geothermal to offer combined GSHP and CHP systems, but it also gives the company access to Endurant's network of offices and experienced contracting team in the US. Assuming it can be effectively integrated with the US subsidiary, which Geotherm set up in September 2010, this acquisition should sit neatly alongside the company's existing partner network which spans some half dozen European countries and South Africa.

Both of the investors in this round are ultimately strategic. [ESB Novusmodus](#) (€200mn (2011); AUM €200mn), which led the transaction and contributed £8.6mn of the total £12mn, has Irish utility company [ESB](#) as its sole investor. Independent but able to draw on ESB's expertise, Novusmodus makes equity investments of €3-20mn for significant minority positions with board representation over a 5-6 year time horizon. Although it will not invest in large infrastructure projects, ESB Novusmodus is unusual in that it will invest in project developers as well as technology. A prime example would be its €20mn investment in Wind Energy Direct in June 2011. Wind Energy Direct is a provider of turbines and the funds were to be used for projects totalling 75MW of wind generation capacity throughout Ireland and the UK.

Strategic investor [SSE Ventures](#) (£85mn in committed funds) is the venture arm of Scottish and Southern Energy – one of the broadest based energy companies in the UK – and has now made 12 direct investments. We last saw SSE Ventures in our [September 2011 issue](#) with an €8.1mn investment in wave energy developer Aquamarine Power.

In January 2012, SSE Ventures portfolio was acquired by Environmental Energies Fund (EEF), a new £95mn secondaries fund managed by [SEP](#). EEF is backed by four institutional investors, headed by Lexington Partners, the world's largest independent manager of secondary private equity and co-investment funds with \$20bn under management. Other investors are Hermes GPE, F&C Private Equity and Partners Group.

| Company | Sector | Round | €mn | Description | Investors |
|--|----------|------------|------|--|---|
| ip.access (UK) www.ipaccess.com | Hardware | Late Stage | 11.4 | Provider of picocell solutions for mobile carriers and OEMs. | Amadeus Capital Partners, Cisco Systems, Intel Capital, Qualcomm Ventures, R Capital, SEP, TE Connectivity, Unknown New Investor. |



ip.access (UK), a provider of in-building picocell and femtocell solutions which allow mobile operators to extend coverage indoors, raised **\$15mn (€11.4mn)** in a **Late Stage** round from **TE Connectivity** and an **unknown new investor**, supported by existing investors **Amadeus Capital Partners, Cisco Systems, Intel Capital, Qualcomm Ventures, R Capital and SEP**.

A striking example of Fixed-Mobile Convergence (FMC) is the fact that over a third of mobile phone calls are now made from home. Many more are made from offices, retail sites and other indoor locations. To provide coverage indoors, mobile carriers deploy so-called pico- and femto-cells which use fixed internet connections to provide backhaul – the connection to the mobile carrier’s network backbone. This also lessens the load on expensive wireless infrastructure and reduces the cost of providing sufficient capacity for data traffic.

Focussing purely on the indoor market, Cambridge-based ip.access has developed pico- and femto-cell infrastructure for GSM, GPRS, EDGE and 3G networks. According to ABI research, the firm is now the world’s largest picocell vendor, with over 0.5mn cells deployed in over 60 countries and offices in France, India, the UK and the US. Just like its competitor femtocell vendors Ubiquisys and Alcatel Lucent, ip.access’ technology incorporates semiconductors made by digital signals processing company picoChip which featured in our [June 2010](#) issue. At that time picoChip had received total investment of just over €80mn and had been preparing for an IPO since early 2009. Having reached the end of 2011 with no IPO, however, picoChip has just been sold to fables networking chip company Mindspeed Technologies for only \$52mn. Even this is not all cash – the deal is structured as \$27.5mn in cash, 5mn shares of Mindspeed common stock and up to \$25mn more in earn-out.

Recent developments include nanoConverge - an enhancement to the company’s femto Access Controller and network management systems which allow operators to support 2G, 3G and in future 4G small cells on a common back-end platform, further extending the life of their current infrastructure investments. The company also has a prototype femtocell base station the size of a smartphone.

Originally founded in 1999 as a wholly owned subsidiary of technology and development organisation [TTP Group Plc](#), ip.access became a subsidiary of TTPCom when it span out of TTP Group with an IPO on the LSE in 2000. It was not until 2006 that ip.access received dedicated venture investment with a €12.5mn first round from long-term investors [Intel Capital](#) (\$100mn (2011); AUM \$2.2bn), [R Capital Management](#) (\$750mn (2011); AUM €38mn) and [SEP](#) (£95mn (2012); AUM £375mn) which also participated in this round.

This round was co-led by strategic investor [TE Connectivity](#) (NYSE:TEL) is a traditional conglomerate with a turnover of over \$12bn and more than 100,000 employees. ip.access says nothing about TE’s co-lead other than describing it as a ‘major new backer’.

Well known strategic investor Intel Capital last featured in our bulletin with an €8.3mn investment in Sapato in [June](#). We last saw R Capital Management, the growth equity arm of institutional asset manager Rothschild & Cie Gestion in [September 2010](#), when it led an investment in Comment Ca Marche. Since we last wrote about SEP in [April](#), when it provided €20mn for Media Ingenuity, SEP has sold its stake in web-traffic management software company Zeus Technology to Riverbed Technology for a consideration of up to \$140mn. Fellow long-term supporter of ip.access [Amadeus Capital Partners](#) (£10mn (2006); AUM £470mn) needs no introduction and led the firm’s €8.3mn second round early in 2007.

Apart from Intel, ip.access’ investor base includes two other strategic investors. Motorola gained an interest in the firm following its acquisition of TTPCom for £103mn in 2006. [Cisco Systems](#) and [Qualcomm Ventures](#) (\$140mn (2007); AUM \$830mn) both participated in third and fourth round equity investments in 2008.

| Company | Sector | Round | €mn | Description | Investors |
|---|-----------|-------|-----|--|--|
| Sterecycle (UK) www.sterecycle.com | Cleantech | C | 6.0 | Provider of waste management services. | Aston Hill Financial, Finance Yorkshire , Individual Investors. |



Sterecycle (UK), a provider of waste management services, raised **£5.1mn (€6.0mn)** in a **Series C** round led by **Finance Yorkshire** and supported by **Aston Hill Financial** and **Individual Investors**. The money will be used to increase processing capacity.

Founded in 2003, Sterecycle has developed patented technologies that enable it to recycle or recover up to 80% of the materials in domestic refuse. These technologies hinge on the use of large autoclaves – devices which subject their contents to high pressure saturated steam and are commonly used to sterilise medical equipment. Unsorted ‘black-bag waste’ is loaded into Sterecycle’s autoclaves which rotate and apply saturated steam at 130°C. This separates out the organic waste while at the same time sterilising and cleaning the non-organic waste and reducing the volume of the waste by 60-70%. In combination with power generation using methane from the plant, the entire process can be carbon negative.

It was not until the advent of the EU Landfill Directive and financial penalties in the guise of the UK’s Landfill Allowance Scheme in 2005 that British local authorities began to seriously consider alternative technologies. These commercial pressures helped Sterecycle win ten year contracts with three local authorities – Barnsley, Doncaster and Rotherham. To cater for these, Sterecycle opened the world’s first autoclave plant in June 2008 which can process 100,000 tonnes per annum.

This investment will be used to increase processing capacity to 175,000 tonnes per annum by the third quarter of 2012 which would be enough to cater to a town of 350,000 people and should ensure break even for the company. The company plans to have five operational plants by 2016 and increase headcount to 300 from the current 60. It already has planning permission at sites in Cardiff and London.

Sterecycle plans a public listing in order to finance the construction of the four new plants envisioned. To this end it has recently appointed a new CFO – Richard Moulson – with public company experience.

Supported by seed funding for the first three years, in 2006 Sterecycle raised €12.5mn in a Series A round led by Goldman Sachs with support from [Ailsa3 Ventures](#). In January 2010, the firm raised an additional €14.7mn from undisclosed institutional and retail investors, simultaneously hiring a CEO – Tom Shields – who had previous experience of running private equity backed fine chemicals business Avecia which ran a dozen plants.

The current round brings total funding to £45mn in equity and convertible debt. It was led by publicly funded venture fund [Finance Yorkshire](#). In its previous incarnation as the [South Yorkshire Investment Fund \(SYIF\)](#), the fund spent nine years investing in businesses in Yorkshire providing seed funding of £50-500k, debt of £15k-150k and equity-linked investments of £0.1-2.5mn. In its new incarnation as Finance Yorkshire, it will continue to make the same kinds of investment but is now backed by £90mn of committed funds - £15mn from Yorkshire Forward’s Single Programme, £30mn from the European Regional Development Fund and £45mn from the European Investment Bank. It has been developed as a European [JEREMIE](#) (Joint European Resources for Micro to Medium Enterprises).

Founded in 2001, listed Canadian asset manager [Aston Hill Financial](#) (TSX:AHF) has \$5bn under management and manages a dozen private equity and retail funds

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