



Funding of High Tech Start-Ups

Telecom Forum 2003

Helsinki University of Technology, 14 October 2003

Vesa Sadeharju

Director, 3i Finland

Vesa Sadeharju - My background



- MSc. (Eng.) and MSc. (Econ.)
- responsible for technology investments in 3i Finland
- seven years experience on venture capital business. Co-founder and Director in IT and Telecommunications with SFK Finance Oy
- joined 3i in 2000 when 3i acquired SFK Finance Oy
- has been involved in the industrial electronics and automation industry since 1982 in division management, profit centre management, product development and marketing with ABB
- has been a board member of 14 technology companies, currently e.g. in Meridea Financial Software Oy and Mitron Oy.

3i



the Leading Venture Capital Company

- Founded in 1945
- FTSE 100 and Eurotop 300 member
- Invested over £15 billion in more than 14,000 businesses
- 3i's portfolio, as at 31st March 2003, consisted of investments in over 2,000 businesses, with a combined valuation of £5 billion including co-investment funds
- Approx. 900 employees across the world

3i Technology Facts



- In the 12 months to 31st March 2003, 3i invested **249 MEUR** (including co-investment funds) in the **183** technology businesses. This represents almost 19% of total investment in the period.
- In the 12 months to 31 March 2003 3i invested on average approximately **1 MEUR** in technology based businesses each working day (including co-investment funds).
- 3i has investments in 500 early stage technology companies which at the year-end were valued at almost **847 MEUR**, representing approximately 15% of the total 3i portfolio value.

Funding of High Tech Start-Ups

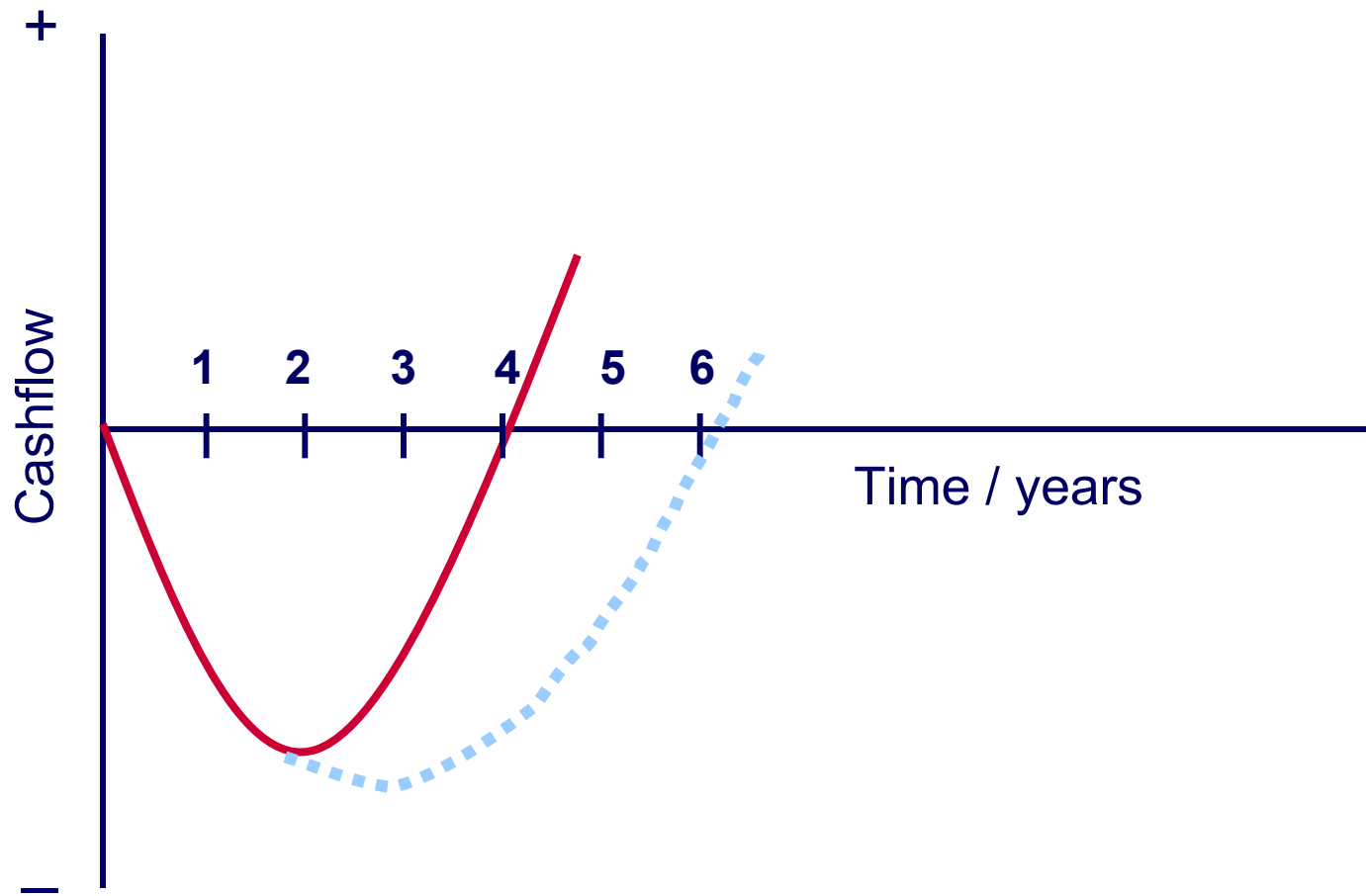


- Why funding
- Funding sources
- VC business in the US and in Europe
- What should a high tech start-up company expect from a VC
- What does a VC expect from a high tech start-up company, investment criterias
- Funding process
- Value growth
- Cases
- Final thoughts

How to start?



Why Funding?



Funding Sources



- Own or family pocket
- Business angels
- Government institutions
 - SITRA
 - National Technology Agency of Finland
 - Finnvera
 - Finnish Industry Investments Oy
- Venture funding
 - private independent firms
 - subsidiaries of banks
 - corporate venturing
- Banks
- IPO, Initial Public Offering



Terms



- Business angel
- Venture capital
- Private equity
- Ordinary shares
- Preference shares
- Pre-money value
- Post-money value
- Exit

VC Business in the US and Europe

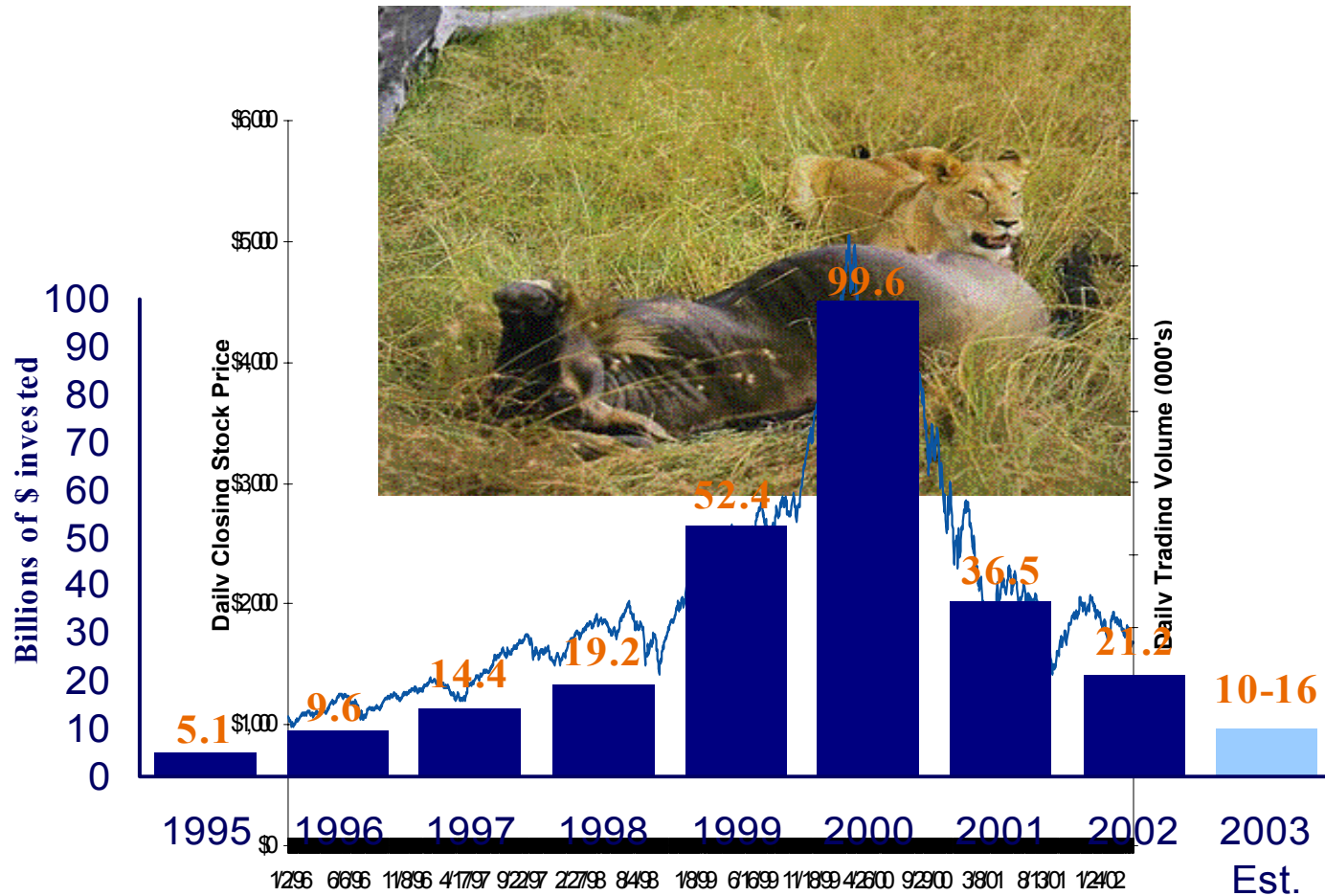


Christopher Columbus was the first to explore uncharted seas to the West – backed by venture capital – and options.



A crew of 87 experienced seamen accompanied Christopher on the *Nina*, *Pinta*, and *Santa Maria*

NASDAQ Performance From 1996-2002 US Venture Capital Activity 1995-2003



The US Venture Industry

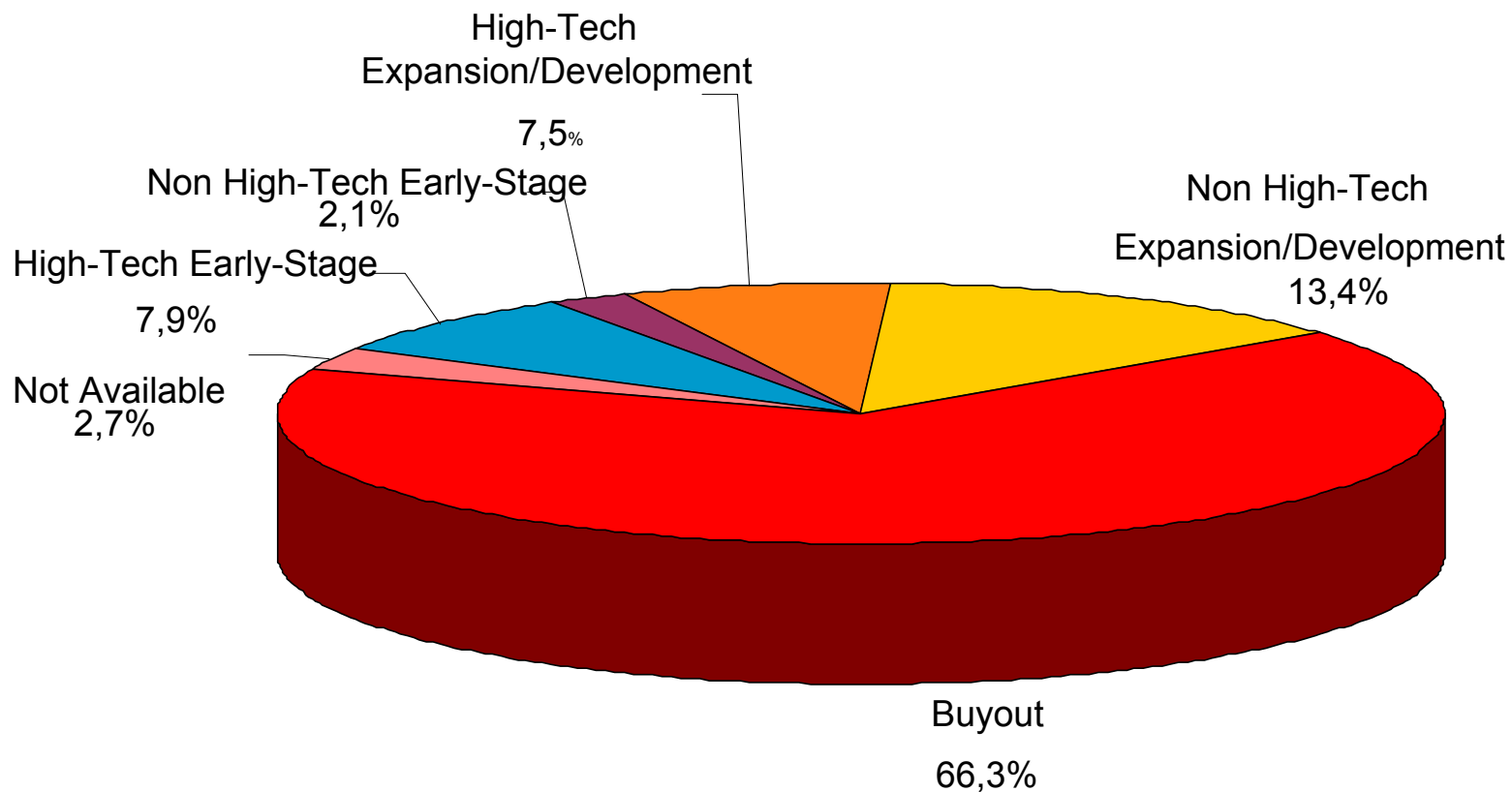


	<u>#VC Firms</u>	<u>Capital Under Management \$'s Billion</u>	<u>Average Capital Per Firm</u>
1970	28	1	\$35
1980	87	3	\$34
1990	386	32	\$82
2002	892	253	\$283
200X est.	500	150	\$300

Expected Allocation of Funds Raised in 2002



€ 2.2 Billion available for Hitech Start-Ups in Europe

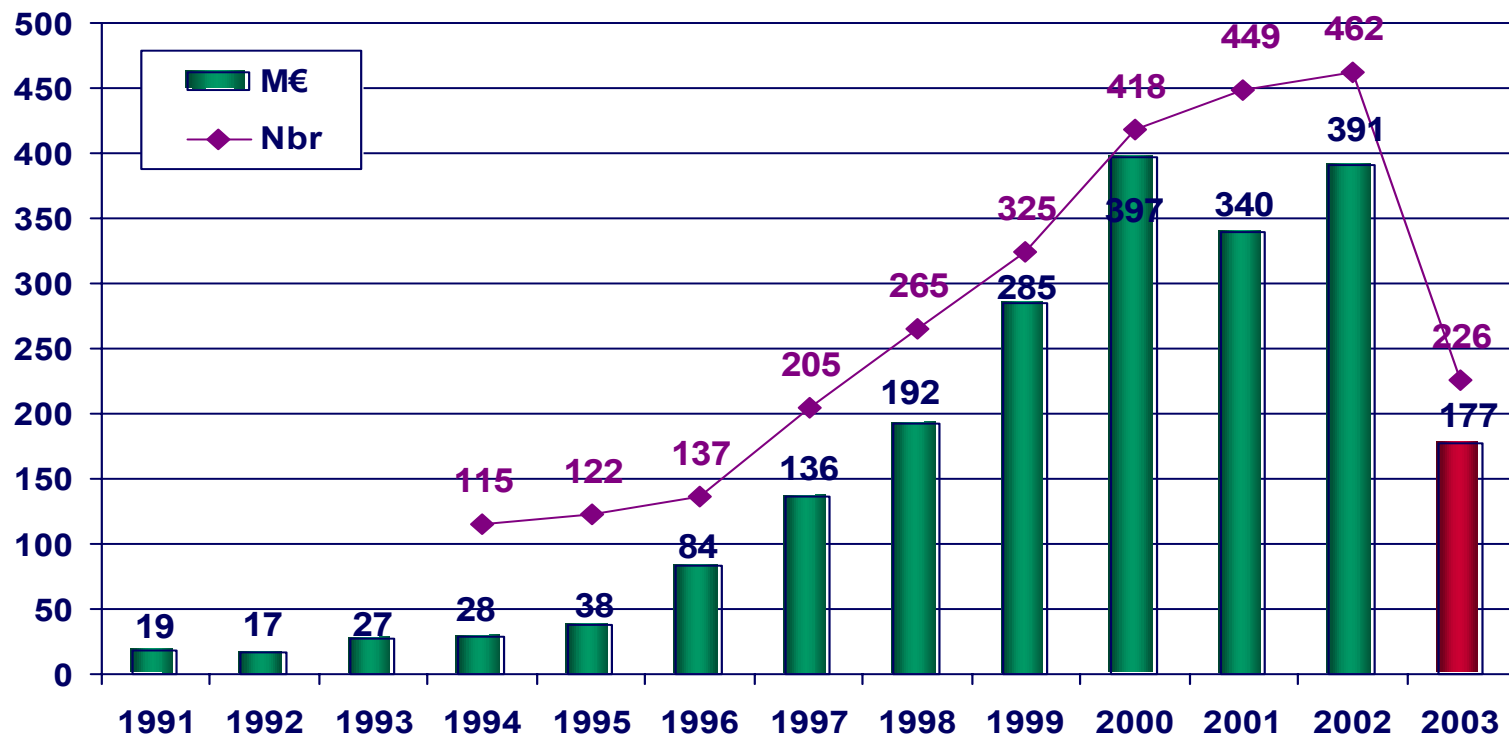


Source: EVCA

Investments 1991 – June 2003 in Finland



M€ / Nbr



Finnish VC Companies



[3i Finland Oy](#)

[Aboa Venture Management Oy](#)

[ACR Capital Oy](#)

[Ahlström Capital Oy](#)

[Amanda Capital Oyj](#)

[Aura Capital Oy](#)

[Baltcap Management Oy](#)

[Bio Fund Management Oy](#)

[CapMan Capital Management Oy](#)

[CIM Creative Industries Management Oy](#)

[Conventum Capital Oy](#)

[Danske Venture Partners](#)

[Emerging Power Partners Oy](#)

[EQT Partners Oy](#)

[Eqvitec Partners Oy](#)

[Euroventures Advisors Oy](#)

[Fenno Management Oy](#)

[Head Industrial Partner Oy](#)

[Helmet Business Mentors Oy](#)

[Holtron Ventures Oy](#)

[Innofinance Oy](#)

[InnovationsKapital](#)

[MB Rahastot Oy](#)

[Menire Oyj](#)

[Midinvest Management Oy](#)

[Neomarkka Oyj](#)

[NEST Management Oy](#)

[Nexit Ventures Oy](#)

[Nordea Capital Oy](#)

[Nordia Management Oy](#)

[Nordic Mezzanine Oy Ab](#)

[OKO Venture Capital Oy](#)

[Panostaja Oyj](#)

[Privanet Capital Oyj](#)

[Proventure Oy](#)

[Sentio Invest Oy](#)

[Siemens Mobile Acceleration Finland](#)

[SnV Partners Oy](#)

[Solaris Asset Management Oy](#)

[Sponsor Capital Oy](#)

[Startupfactory Oy](#)

[Stratos Ventures Ltd Oy](#)

[Suomen itsenäisyyden juhlarahasto Sitra](#)

[Suomen Teollisuussijoitus Oy](#)

[Teknia Invest Oy](#)

[Teknoventure Management Oy](#)

[Veraventure Oy](#)

[Virtaa Hämeeseen Ky](#)

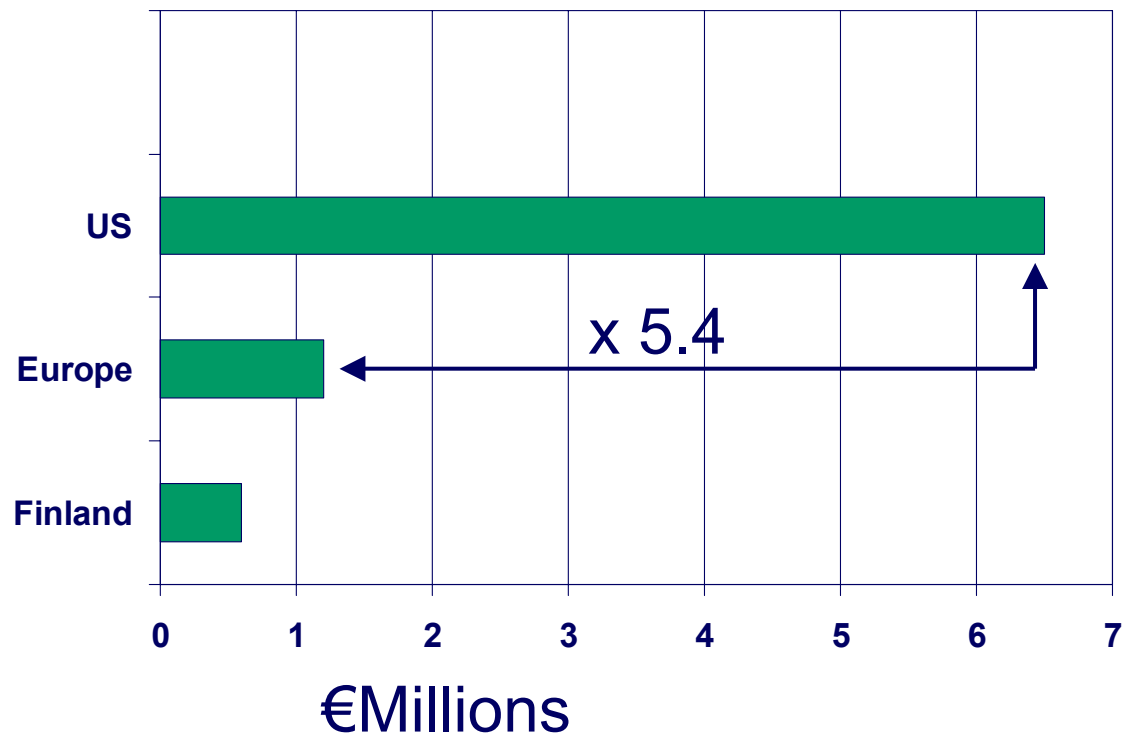
[VNT Management Oy](#)

[Wedeco Management Oy Ab](#)

Venture Capital in 2001



Average per round

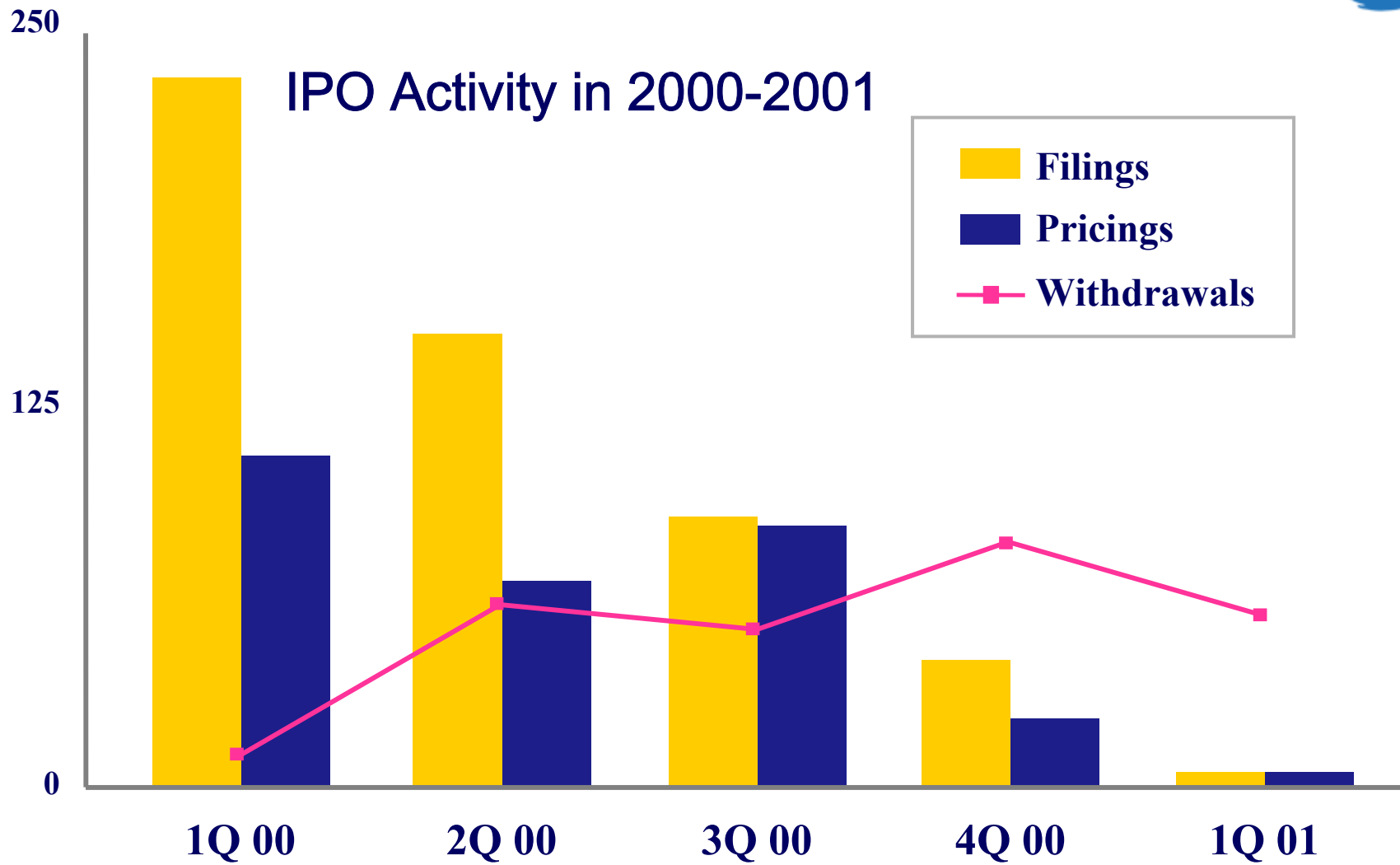


What does make VC's cautious?



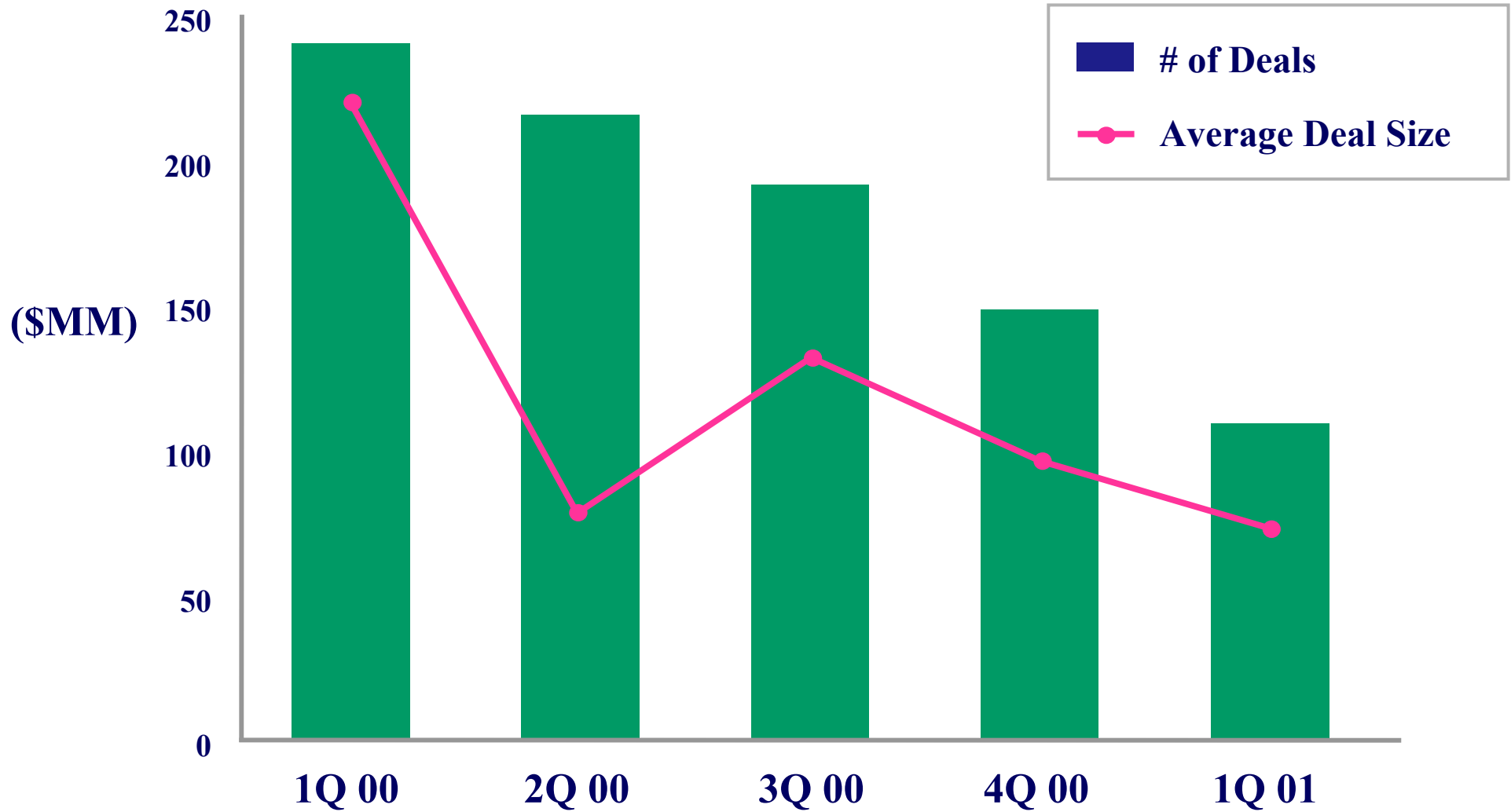
Lack of good exit routes

The IPO window has closed



Information provided by Broadview

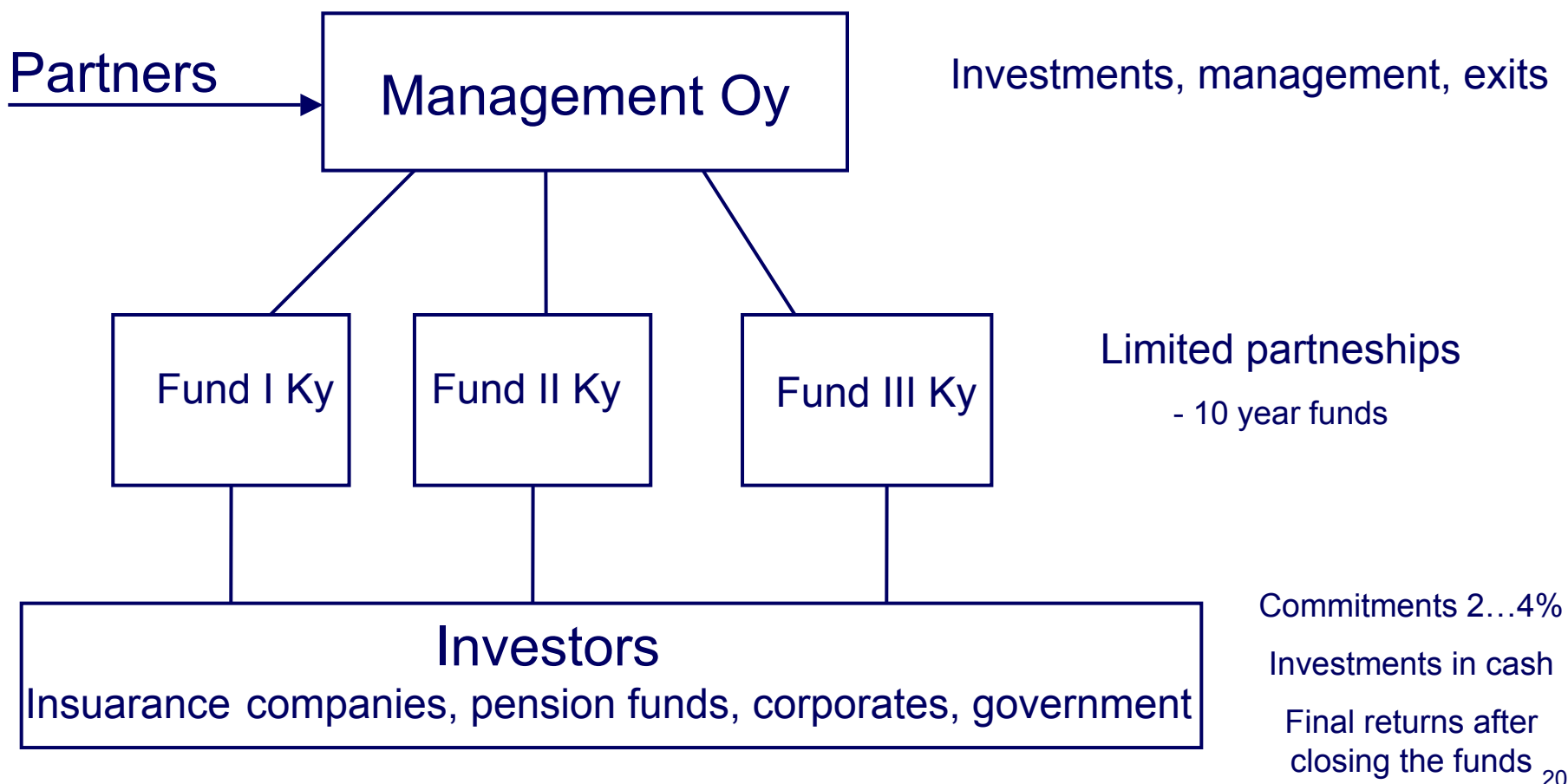
Technology - related M&A



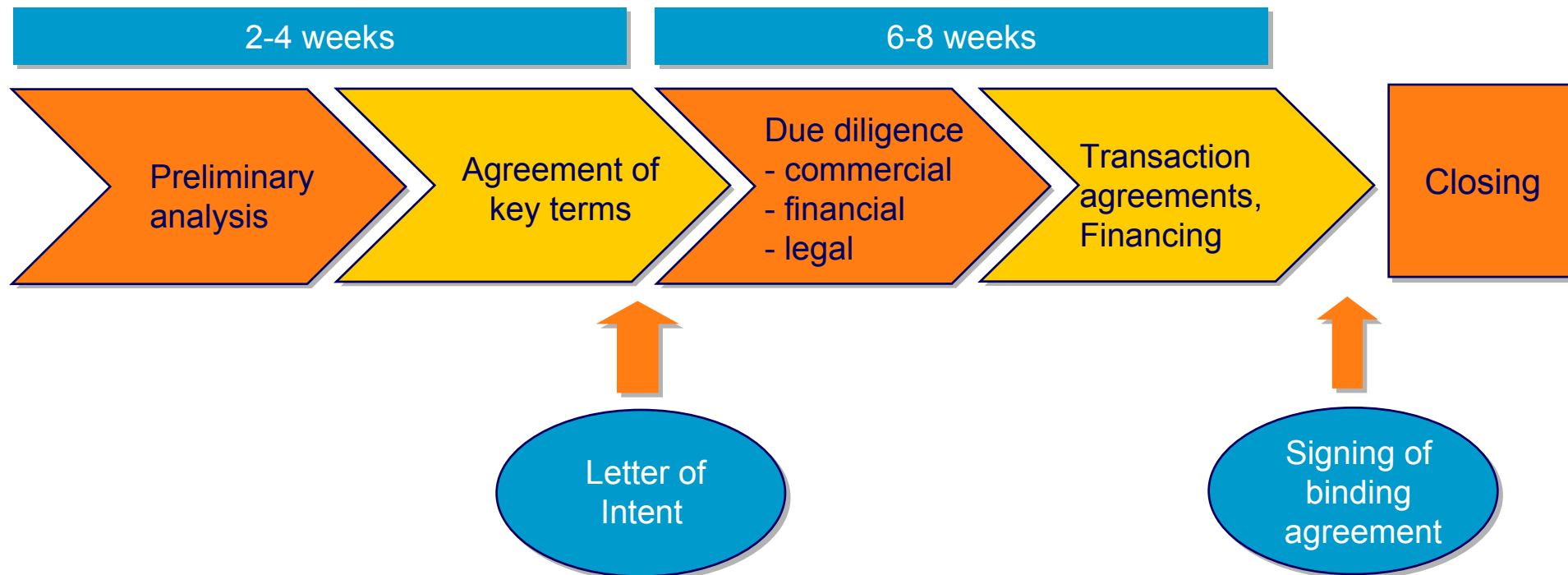
How does a VC company operate?



Structure of a VC company



The Investment Process



- In case everything is fine: 2-3 months
- But in practice 6-16 month cycle including networking, iteration and sharpening of business plan

Entrepreneur's view



Practical process by entrepreneur

- Set your priorities and criterias
- Make a list of potential investors
 - focus, expertise, networking, hands-on or hands-off, capacity for further rounds, persons
- As integrated activities
 - write a business plan and outline financial projections
 - contact potential investors
- Presentations, negotiations
- Sign the Term Sheet
- As integrated activities
 - Due Diligence
 - Negotiate Share Holders' Agreement
- Signing

Entrepreneur's view



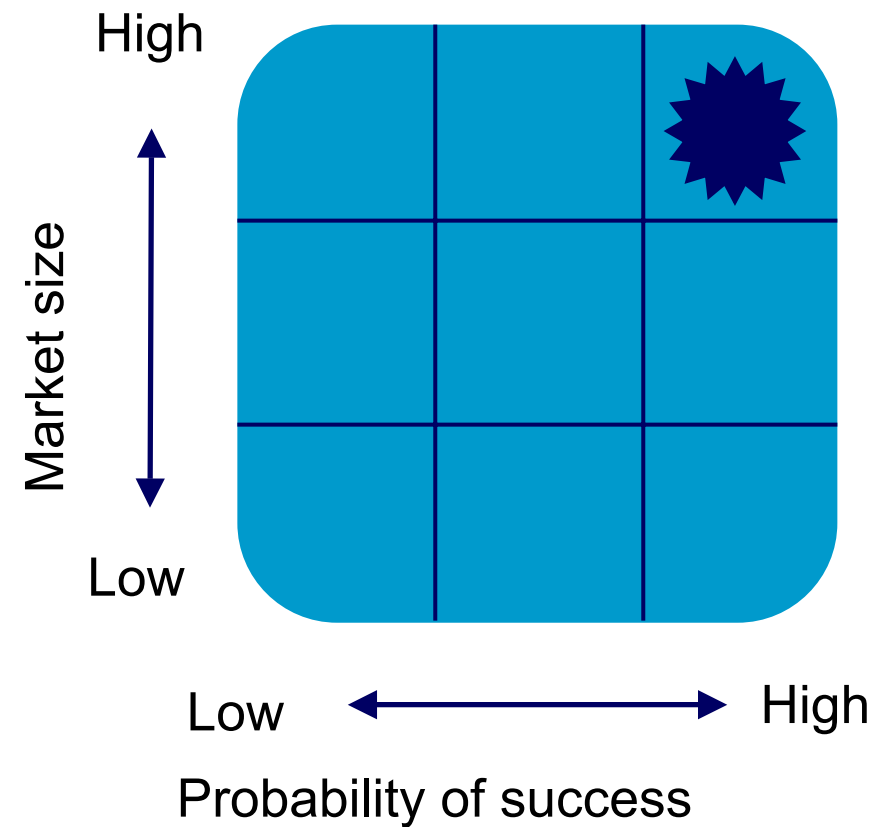
Why to have a VC? A simplified model

- Company (originally)
 - turnover € 1m
 - founders own 100%
- Investment
 - valuation according P/S (price per sales) om 1,5
 - pre-money € 1,5m
 - investment of € 1m
 - post-money € 2,5m
 - founders' stake 60%, venture capitalist 40%
- Exit
 - turnover € 5m
 - P/S now 3
 - valuation € 15m
 - founders' stake € 9m
 - venture capitalist share € 6m
- What this would have been without vc?
 - turnover maybe € 3m
 - P/S about 2
 - valuation € 6m – founders get all
 - conclusion: founders earn € 3m for sharing their power

What does a VC Company Look For?



Basically the VC looks for high market potentials with high probability of success



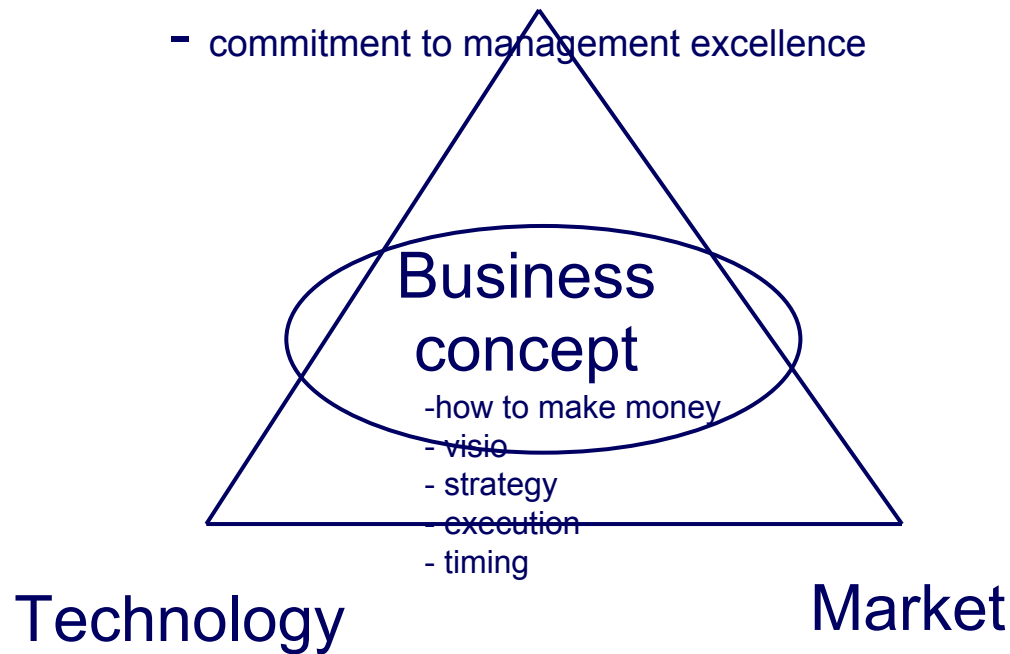
Lähde: Advent International

Technology Investors Look For



Entrepreneurs and his team

- commitment to management excellence



- disruptive, sustainable compelling advantage

- change market or create a new one

- global in nature

- a growing market with big need

Development Phases of New Business



Phases:

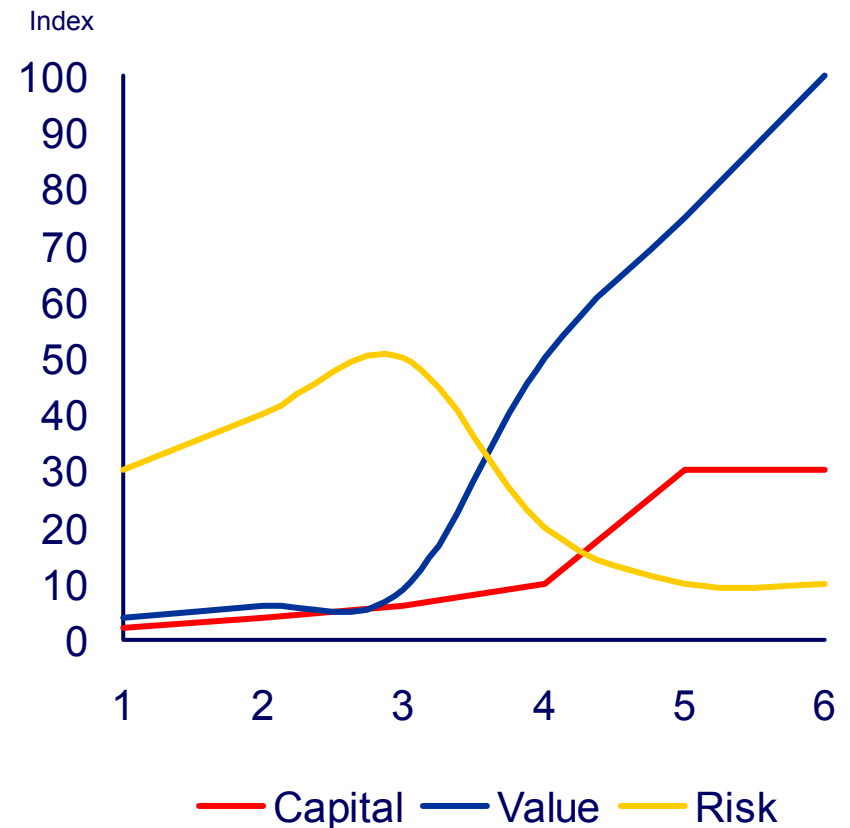
- 1-3 Forming
- 4-5 Technology Leader
- 6- Market Leader

Risks:

- first increases and then decreases rapidly

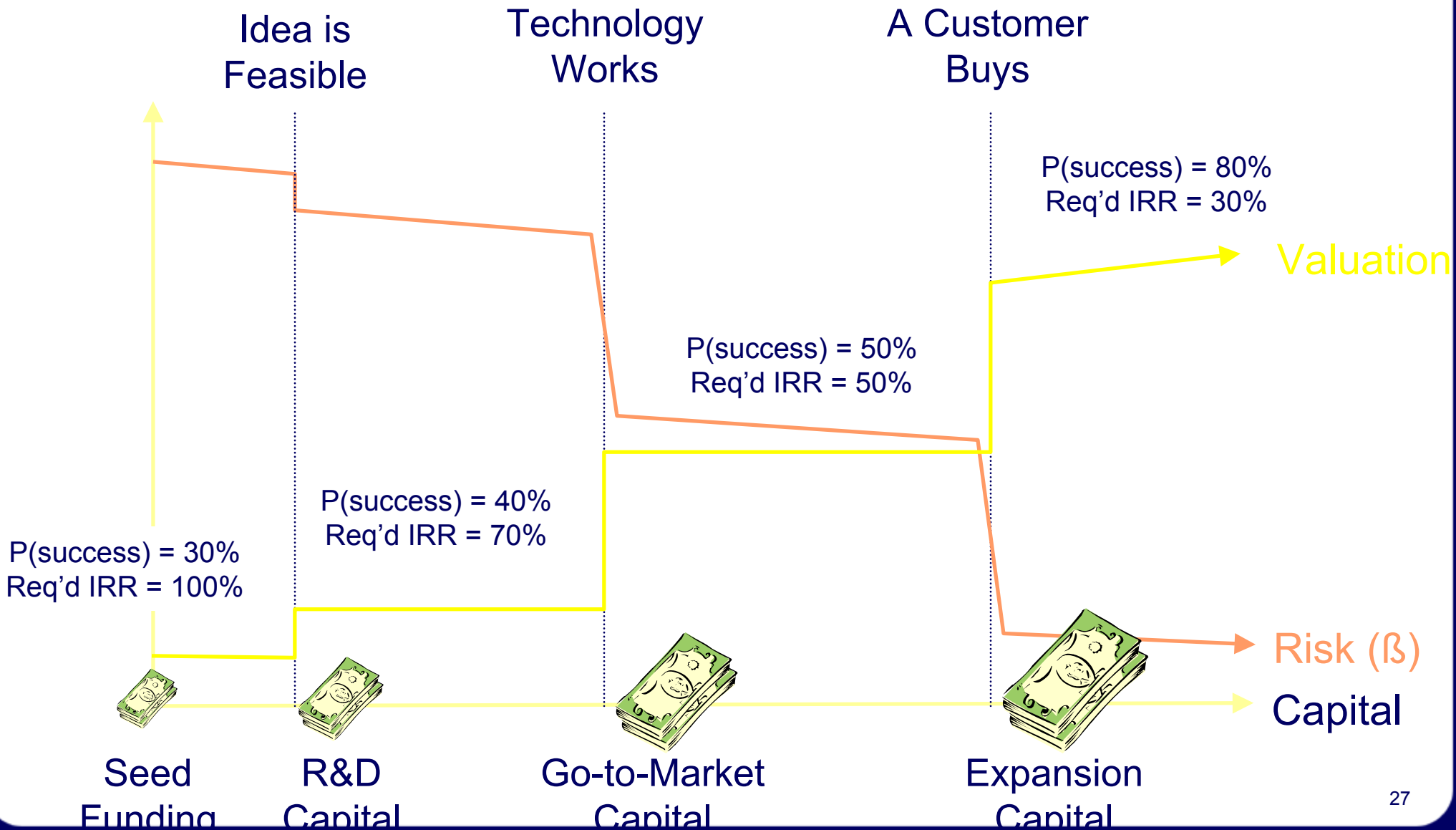
Value explodes:

- 1. Technology Leader
- 2. Market Leader



Source: Atlas Ventures

Funding to Milestones



A Generic Model



Round Type	Date	Amount Raised (MM)	Pre-Money Valuation (MM)	IRR	Multiple
1 Seed	Jan-00	€ 0.50	€ 2	101%	32.53
2 1st	Jan-01	€ 3.00	€ 10	70%	8.13
3 2nd	Jan-02	€ 8.00	€ 32	50%	3.30
4 3rd	Jan-04	€ 13.50	€ 100	32%	1.32
5 IPO	Jan-05		€ 150		

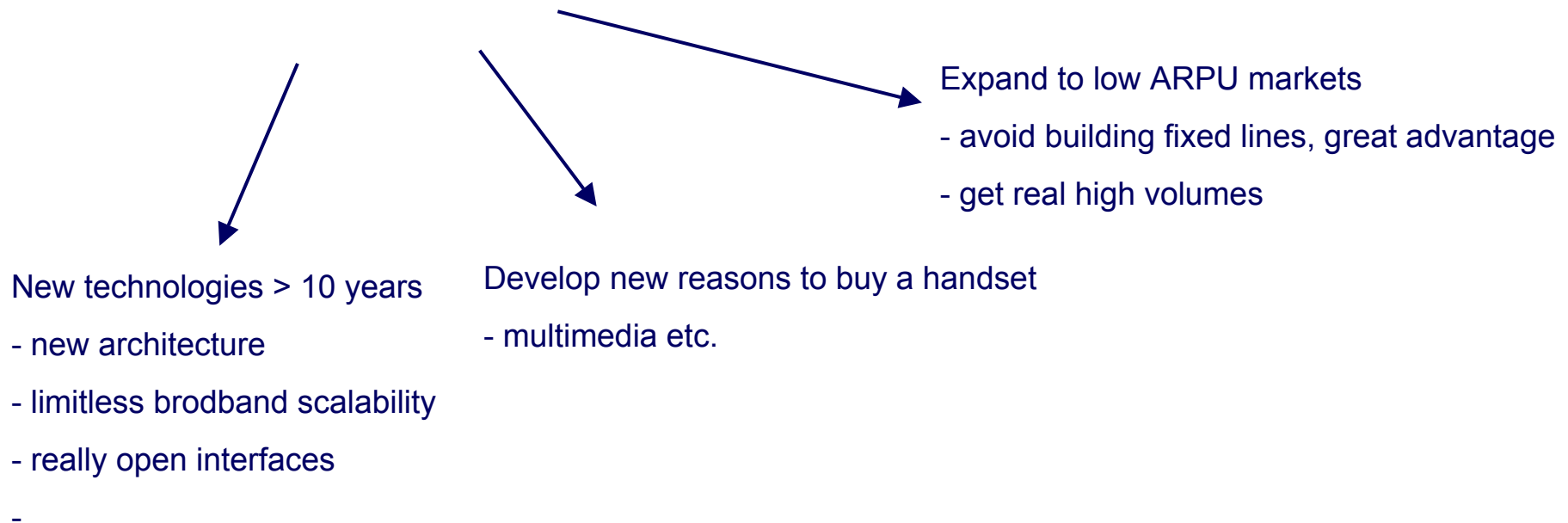
Total Private Capital € 25 Million

Where Are the Opportunities?



Do telecom players grow?

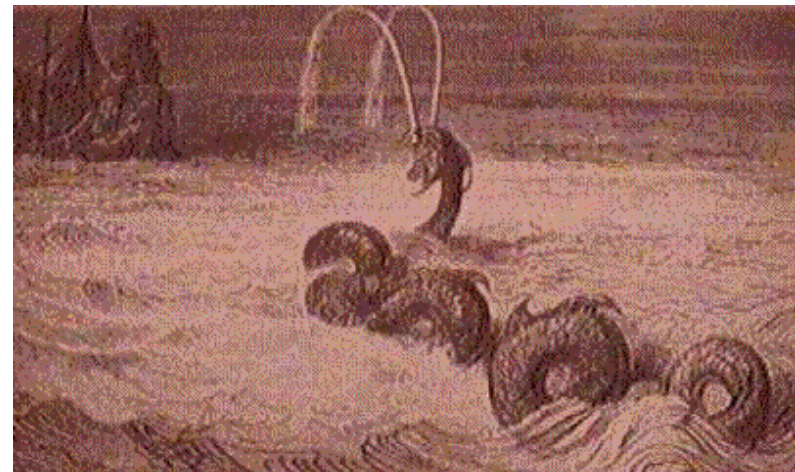
- In 90's
 - cut the wire
 - extremely clear value value to us
- What next?



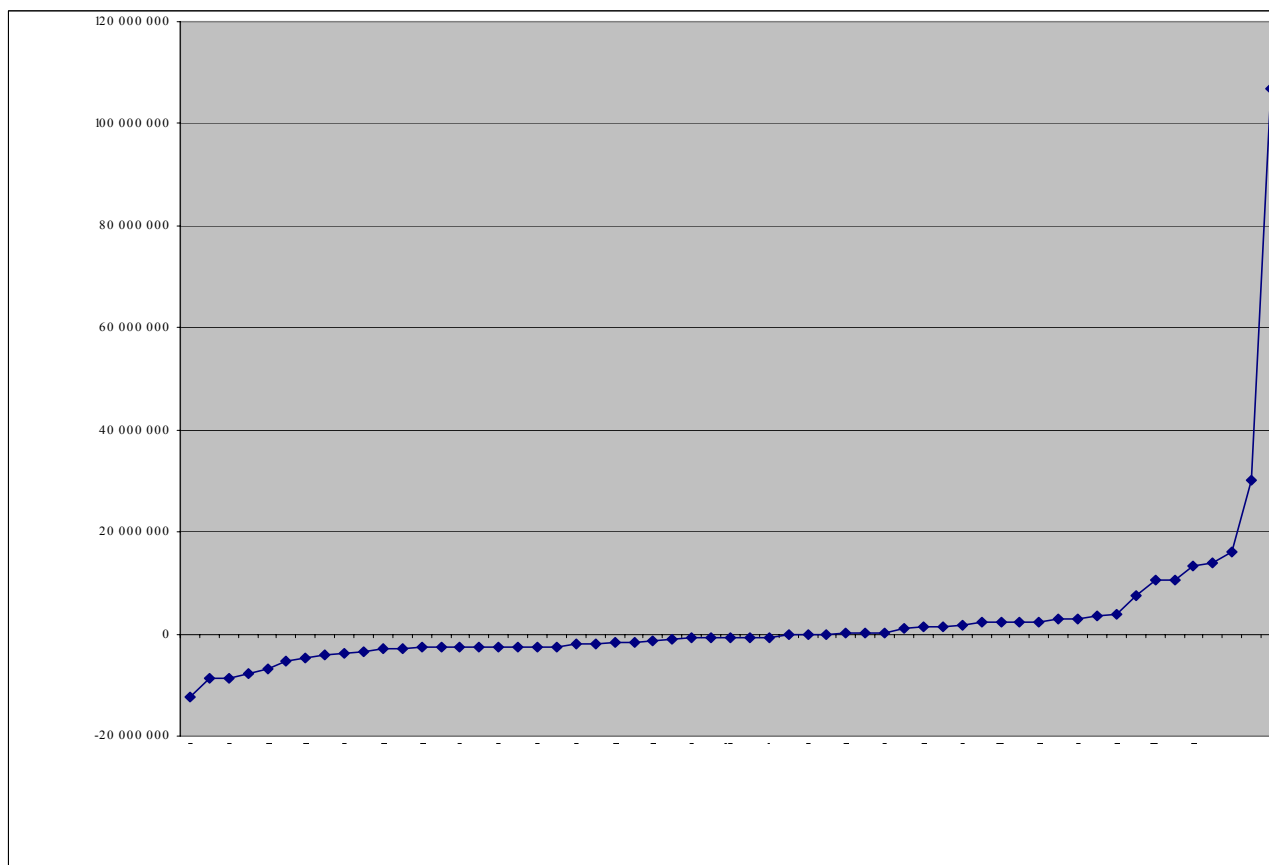
Succes Profile of Early Stage Tech Fund



- out of 10 start-up investments
 - 4 failures
 - 3 money back
 - 3 good return
- 1 out of 20 is a bright star
 - the world is open for succesfull serial entrepreneur
 - failure is not the end of game, cumulative experience is the corestone

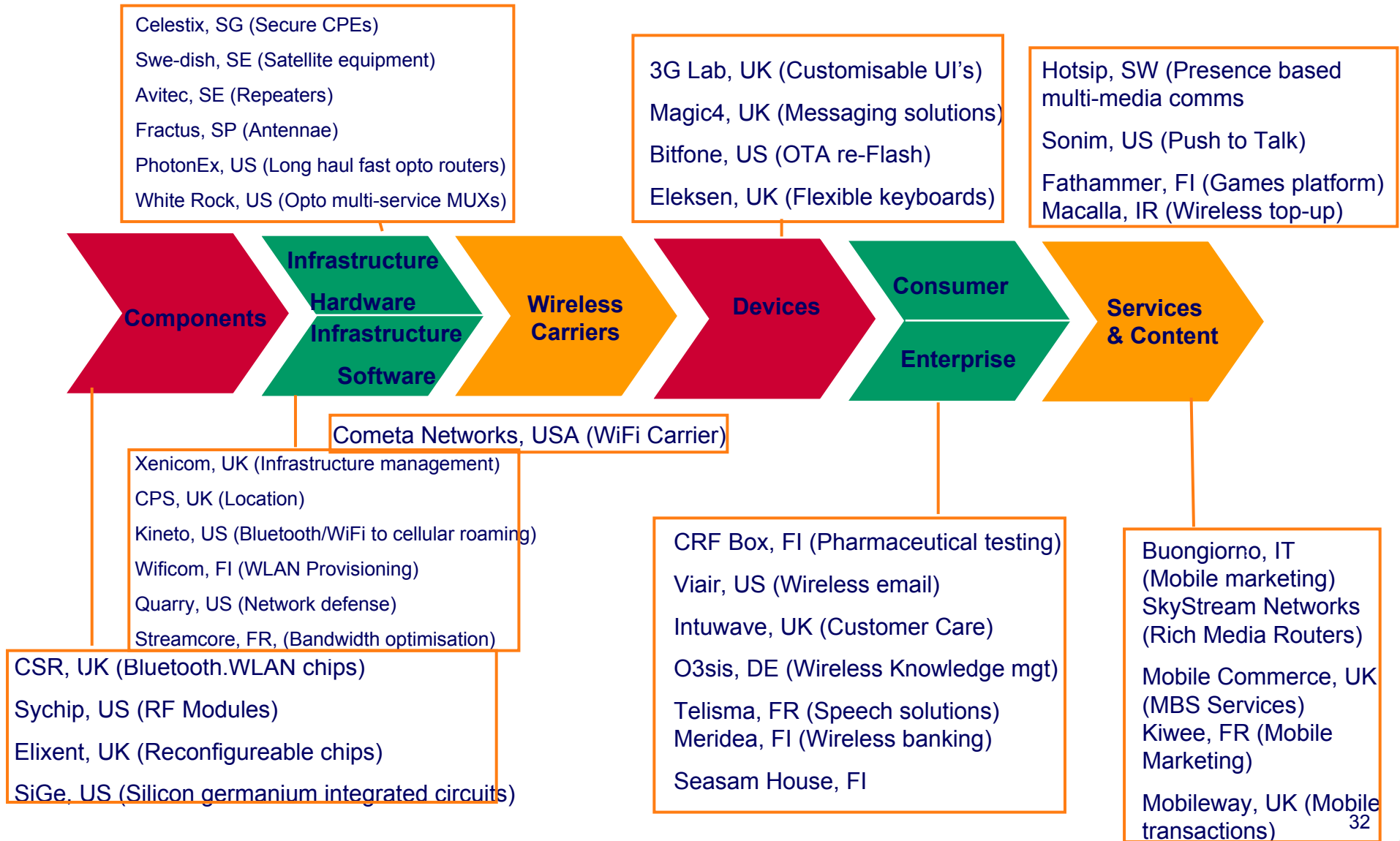


Success profile of a tech fund





3i Wireless Investments



VC Backed Companies in the US



- Apple
- Digital Equipment
- Compaq
- Intel
- Sun Microsystems
- Microsoft
- Genentech

Final thoughts



- Fundamental of funding: " I will be an entrepreneur"
- You and your team will be funded
- Cash from sales is best money
- Second best money is equity
- High risk high return, what other choices do we have?
- Valuation of technology companies is a blend of art and science, beware of analysts bearing bizarre metrics
- Traditional business fundamentals are still key
- It is not a technology play