TECHNOPOLIS

TECHNOPOLIS ONLINE

Technopolis Plc

TECHNOPOLIS ONLINE
Annual Report 2010

Summary of Finnish High Tech Company Capital Raising Activity

Contents

The following are the findings of the Annual Survey conducted by Technopolis Online, which is at the forefront of high-tech venture capital research in Finland. This Survey reviews capital raised by private Finnish high-tech companies from Finnish venture capital funds, foreign investors and angel investors. The Survey is based on both reported and proprietary information regarding over 300 Finnish and foreign investors, and over 1,700 Finnish high-tech firms. Some of the proprietary information was provided by Spinno Enterprise Center.

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Overview

The Finnish venture capital year of 2010 was full of challenges. When measured by either investment activity or invested capital, it was one of the worst years on record. Especially the fourth quarter of 2010 was one of the low points in recent history with only minimal investment activity.

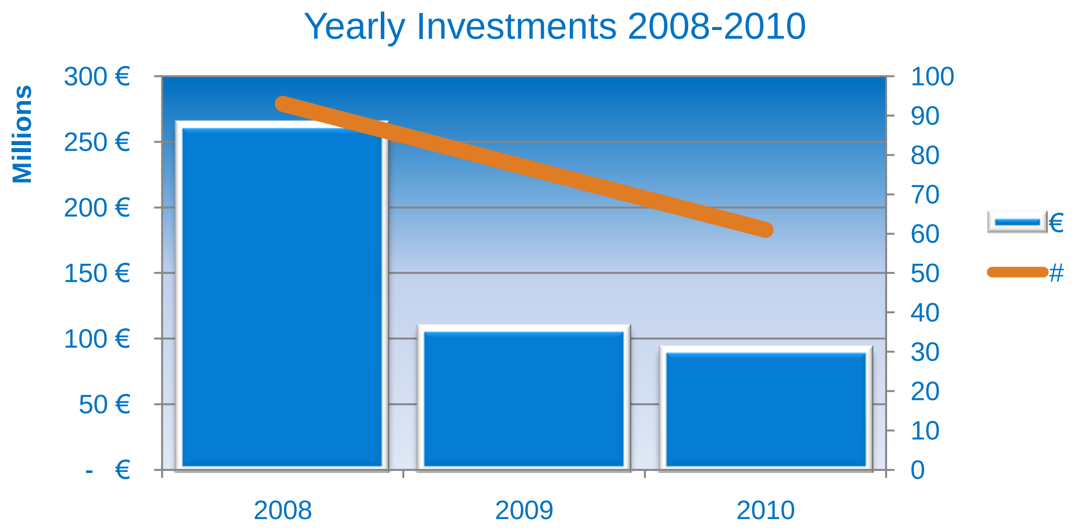
The relative importance of the public sector venture capital financing was again emphasized as the market remained very challenging for the private venture capital industry in Finland. The private venture capital scene continued to have dramatic changes as two of the former top tech-VCs, Eqvitec and Capman, vanished from the market during 2010. This phenomenon follows the trend which we already saw in the U.S. where some of the most respected VCs of the last decade have simply withdrawn from the VC-scene. This gap in the market has been filled by so called ‘super angels’ who operate similarly to early stage professional VCs although they are often driven by former serial entrepreneurs investing mostly their own money. We have already seen similar development in Finland and most likely, it will continue, due to declining institutional commitments to the local VC industry. This lack of local capital creates opportunities for non-Finnish VCs as there are encouraging signs of increasing international VC activity in Finland during 2011.

Key statistics:

- In 2010, there were 61 investment rounds which totaled 92 million Euro
- Only two industries raised more capital than previous year, mobile (+217%) and life sciences (+53%)
- The average round size increased by 7% (from €1.40 million to €1.50 million)
- The investment activity in 2010 decreased 21%, but international investors remained at the previous levels
- Almost half of all investments were made into the first round (48%)
- Helsinki Metropolitan Area companies were able to gather 71% of the total value invested in Finland and 57% of the deals

Comparison of 2008 – 2010

The general trend of the Finnish venture capital industry of the past three years correlates closely to the worldwide macroeconomic situation. 2008 was a clear peak in terms of invested capital and the number of investments after which especially capital investments declined radically. In 2008 Finnish companies raised 262 million Euro from 93 investment rounds. In 2009, the value of invested capital dropped to less than a half (-59%), with only 108 million Euro. The number of investment rounds did not drop as much as there were 77 investments rounds. In 2010, the value of capital investments did not decline at the same rate as from the previous year and the total hovered around 92 million Euro. However, the decline in number of investments retained at the previous year's levels pace and there were only 61 investment rounds (-21%) .



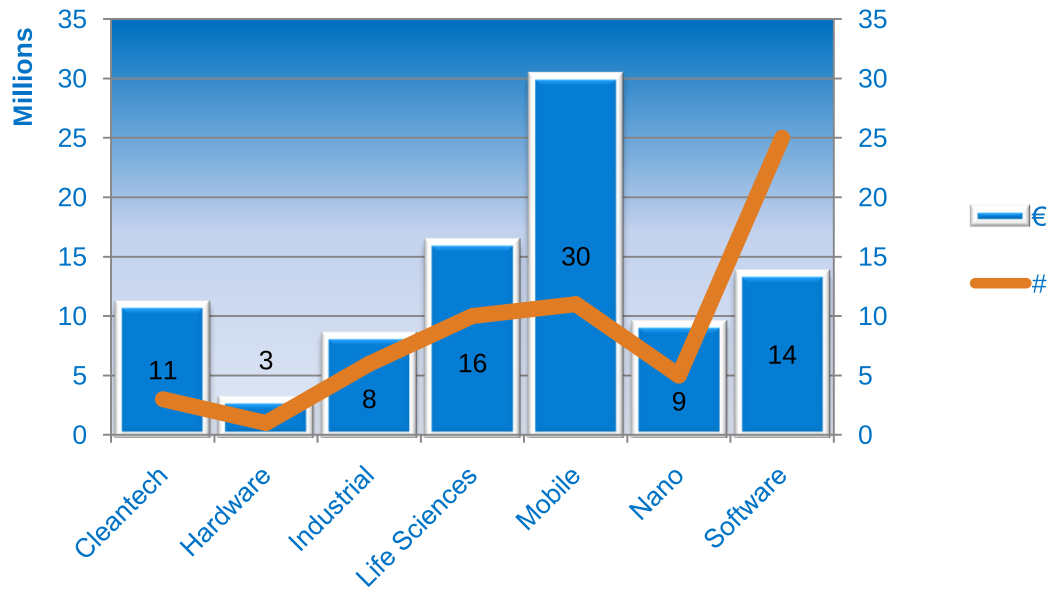
Investments by Industry

The year 2010 resembled the year 2009 largely in number of investments each industry segment received. There are few significant differences in the total value invested. Here are the key findings

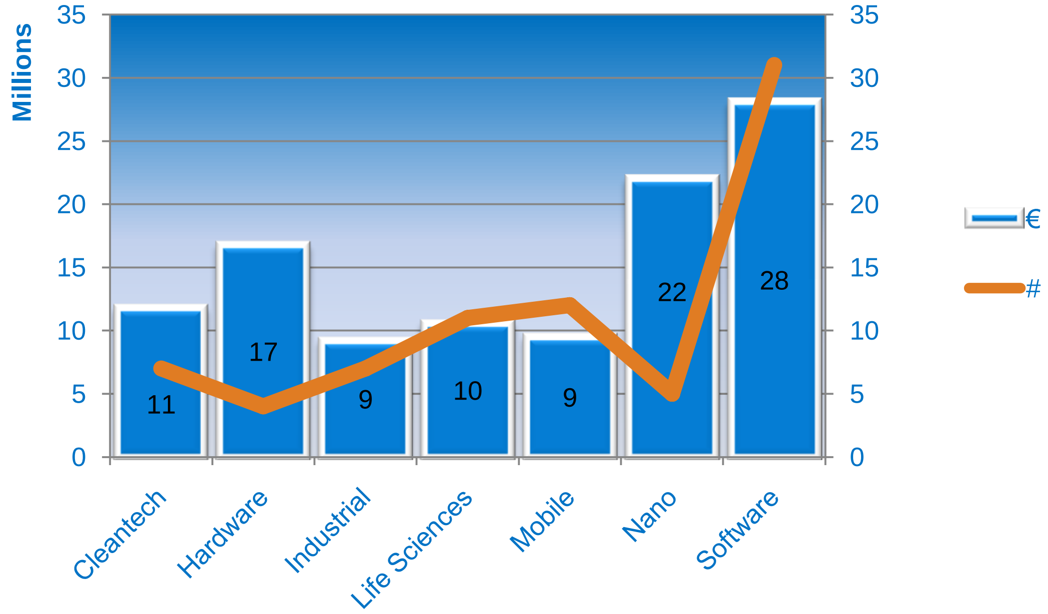
- The only two industries, which witnessed increase in value invested, were largely due to Blyk in mobile (+217%) and life sciences (+53%)
- Biggest decline in value of investments made was in hardware (-82%), which received only 1 investment in 2010. Nanotechnology (-57%) and software (-51%) also gathered less investments. During 2010 there were only 25 investments made into software companies compared to previous year's 31.
- Generally the number of investments made declined slightly in every industry segment except nanotechnology, where it remained the same.

The distribution in number of investments made between the industry segments remained very similar in 2010 when compared to 2009 figures. During the past year mobile industry was able to gather the largest value invested as was the case also in 2008. In mobile segment the total value invested grew from €9.5 million to €30 million. The most investments were still made to software companies (25 investments) although the total value invested in 2010 was cut in half.

Investments by Industry 2010

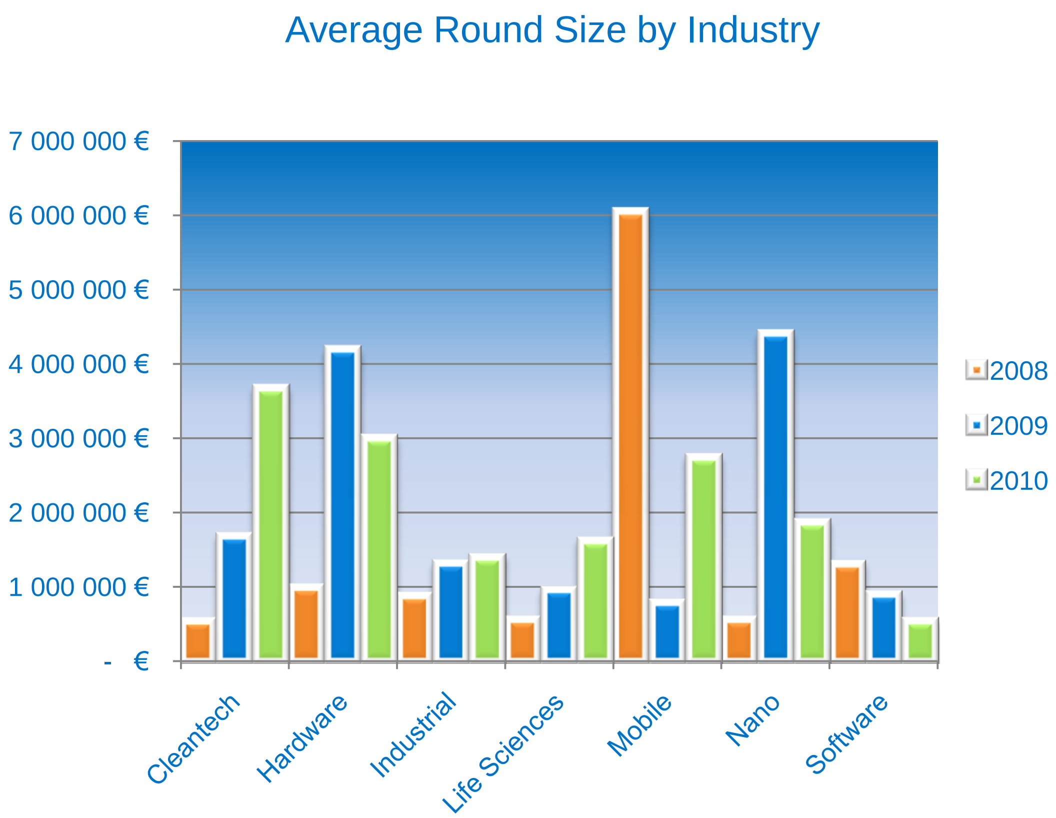


Investments by Industry 2009



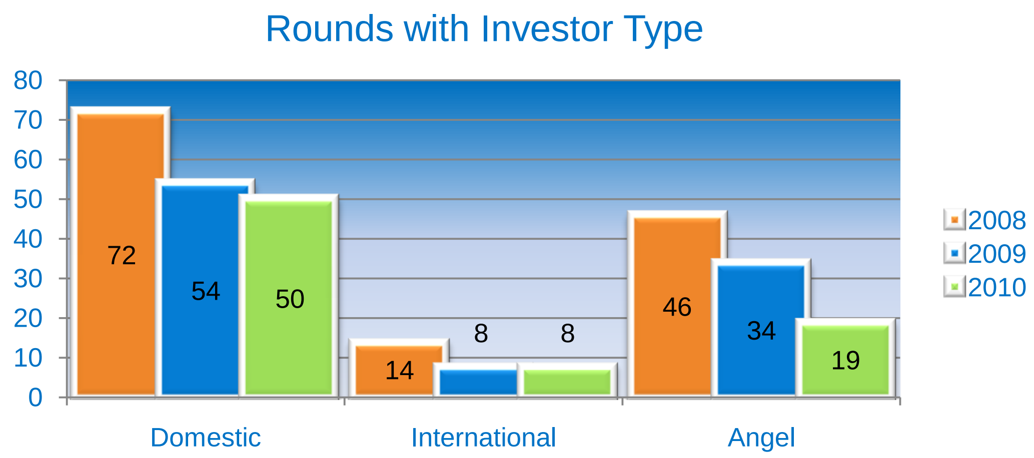
Average round size by industry

The average round size increased by 7% (from €1.40 million to €1.50 million) at the same time when the total number of investments slightly declined. The average investment in cleantech had grown steadily (+117% from 2009) and also the average investments in life sciences (+68% from 2009) and industrial companies (+6% from 2009) have been increasing every year. Mobile companies attracted more valuable investments than in 2010 than during the relatively poor year of 2009, especially because of Blyk's large round. Nanotechnology failed to attract bigger investments and therefore saw a decline of -57%. Still, the most noteworthy decline has been in average round sizes in software industry. In 2008 the average round size in software industry was €1.3 million and in 2010 it was only €0.5 million.

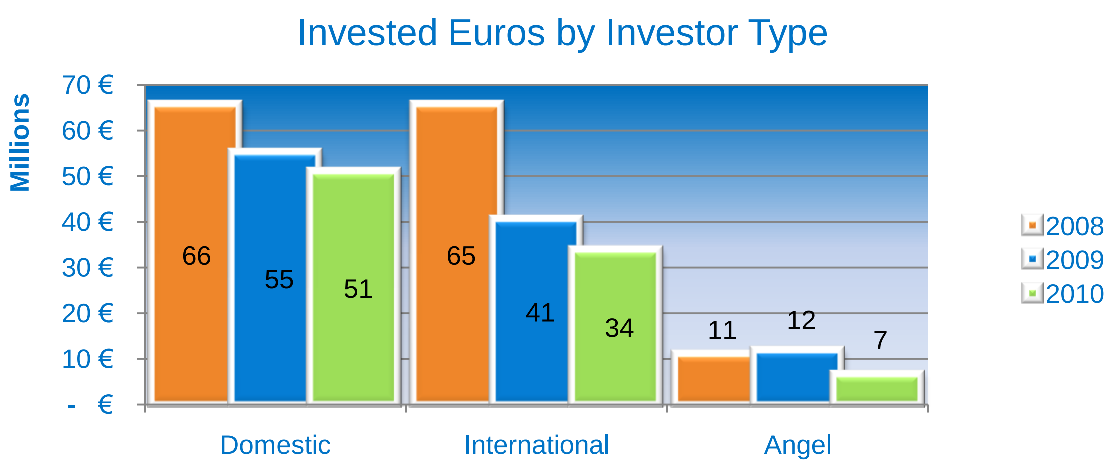


Deals by investor type

The investment activity in 2010 decreased 21% from the previous year and this can be seen as decline of rounds involving domestic and angel investors. Only the rounds with international investors remained unchanged. The total value invested in 2010 declined with domestic investors 7%, international investors 17% and angel investors 42% when compared with previous year.



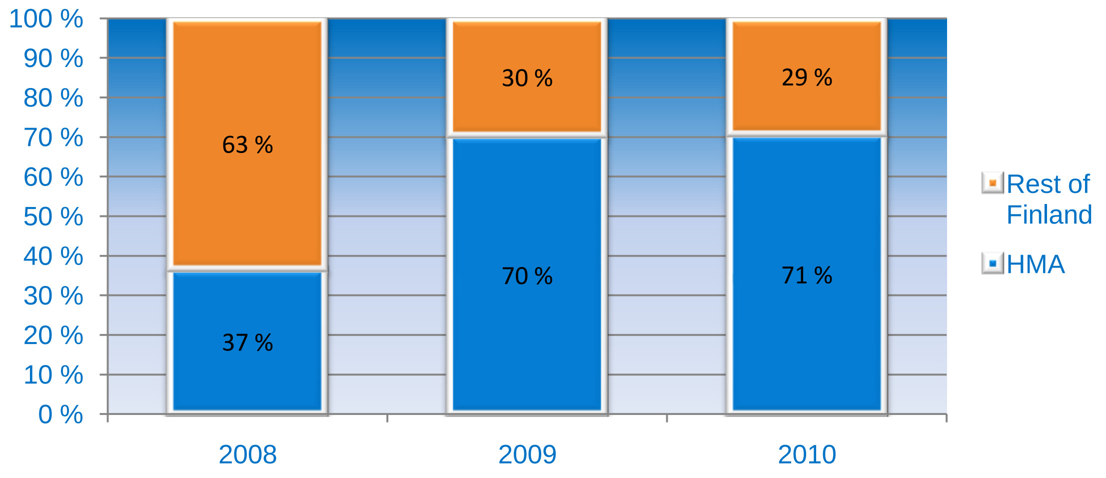
The situation seems slightly worrisome, since there were high hopes of the year 2010 being better than 2009, which was clearly affected by the economic downturn. Especially alarming is the further decline of the total value of international VC investments. It seems the many efforts to promote international VC activity in Finland have not yet paid back. The angel activity seems to have declined dramatically, however, it is explained by the fact that few angel investments are publically announced the same year they are made.



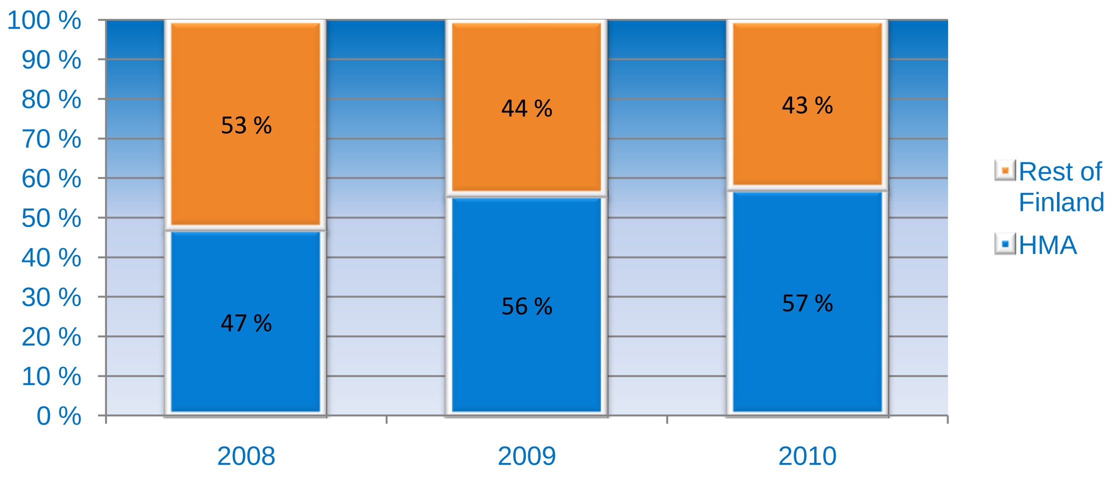
Geographical Distribution

The geographical distribution of investments in 2010, both the number of deals and the total value invested, was almost identical with previous year. During the year 2010, companies based in Helsinki Metropolitan Area (HMA) were able to gather 71% of the total value invested in Finland and 57% of the deals, equally shifting towards HMA one percentage unit. It might be too early to conclude that the current stage would be the new norm as it has been suggested that companies have easier access to strategic partners and investors when located in the capital region. This could be emphasized during the relatively poor years of venture capital activity.

Value of Investments 2008-2010



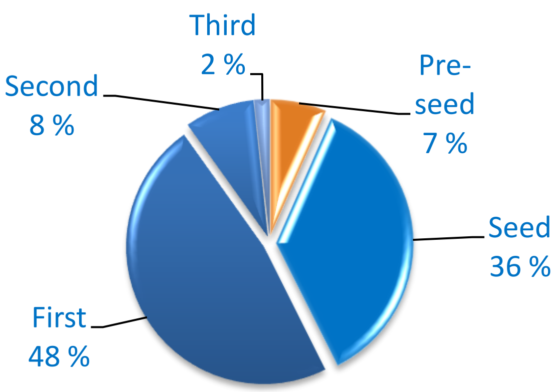
Number of Investments 2008-2010



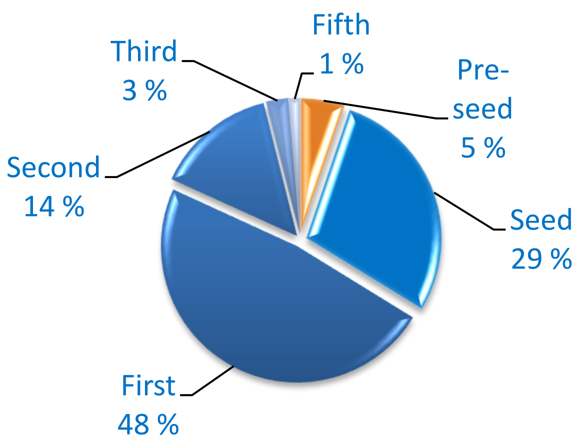
Stage distribution

In 2010, almost half of all investments were made into the first round (48%). This follows the trend of 2009, when the share of first round investments was identical. The value of the first round investments rose slightly, from 50% in 2009 to 56% in 2010. The number of pre-seed and seed stage investments remained the same at 4 and 22, respectively. However, their share of overall investments rose due to decrease in later stage investments. In 2010, there was only 5 second round investments (11 in 2009) and 1 third round investment (2 in 2009). There were no fourth and fifth round investments. When looked at the value of investments, the change on later stage investments has been even more dramatic. The share of second round investments dropped from 50% to 13% (54m€ to 12m€). The third round investment value rose slightly due to a large round in Blyk (9m€ to 17m€).

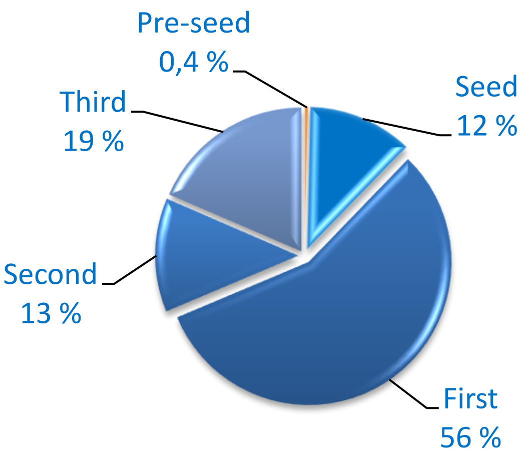
Number of Investments 2010



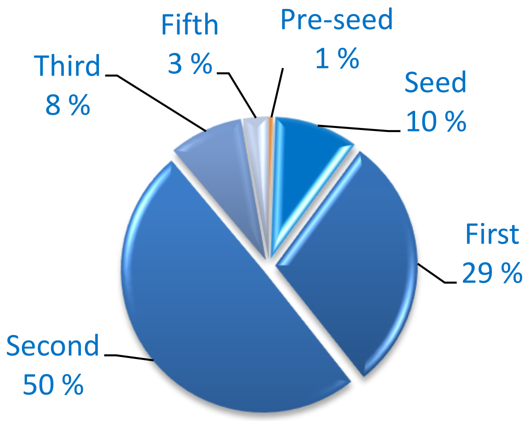
Number of Investments 2009



Value of Investments 2010

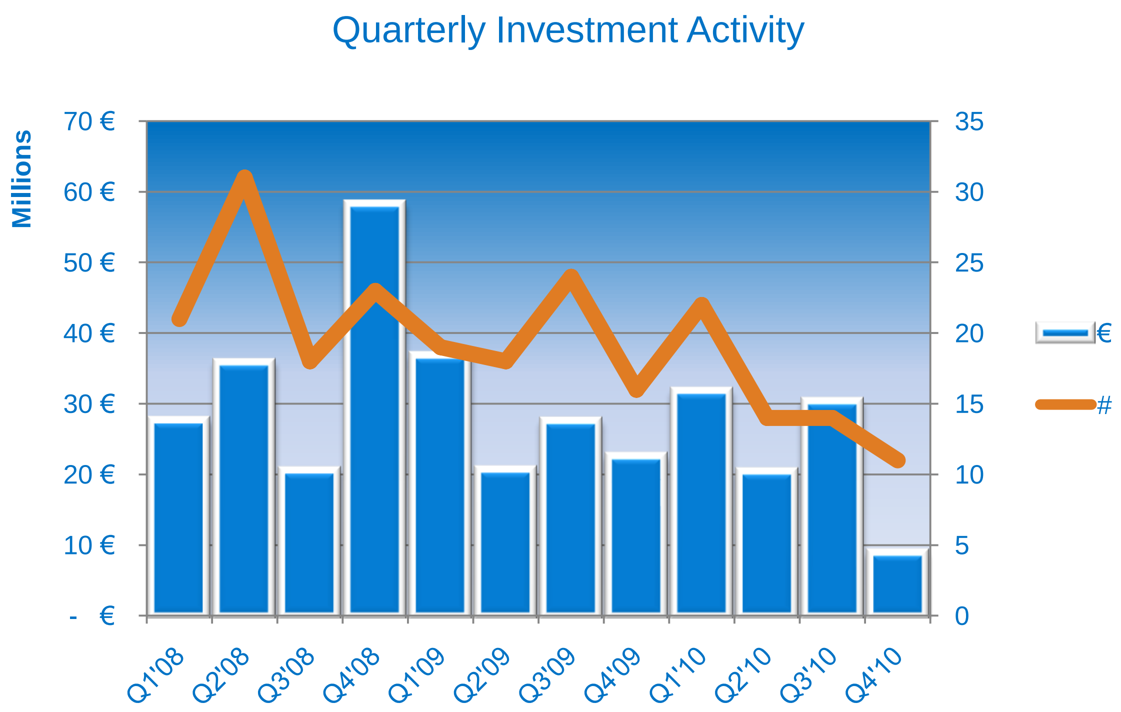


Value of Investments 2009



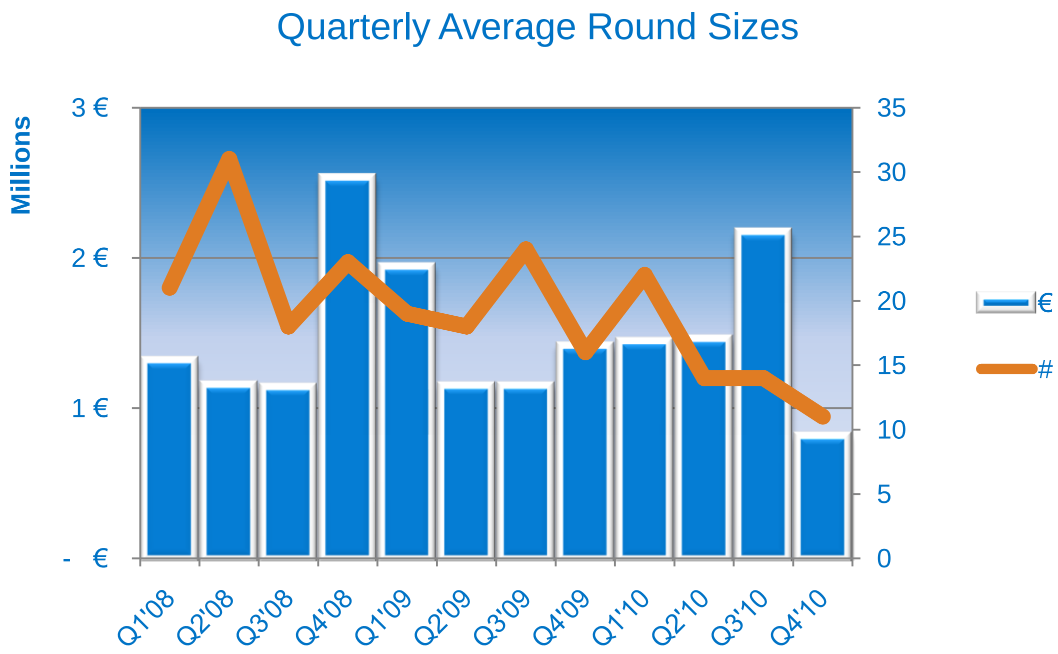
Investment activity by Quarter

Year 2010 started positively with 22 investments in Q1'10 compared to 19 in previous year, although the investment value was a bit lower. However, after that the number of investments decreased in all other quarters in comparison to 2009. As a result of the decline in the fourth quarter of 2010 we witnessed the lowest amount of investments compared to any other quarter between 2008 and 2010 with only 11 investments. During 2010 the only quarter where the Euro sum of investments made was larger than during its 2009 counterpart was Q3'10 with €30M invested. In terms of investment value the Q4'10 was by far the poorest quarter in the last three years. The investment value in fourth quarter 2010 was first time ever below €20M, and even worse it was for the first time ever below €10M with only €9M.



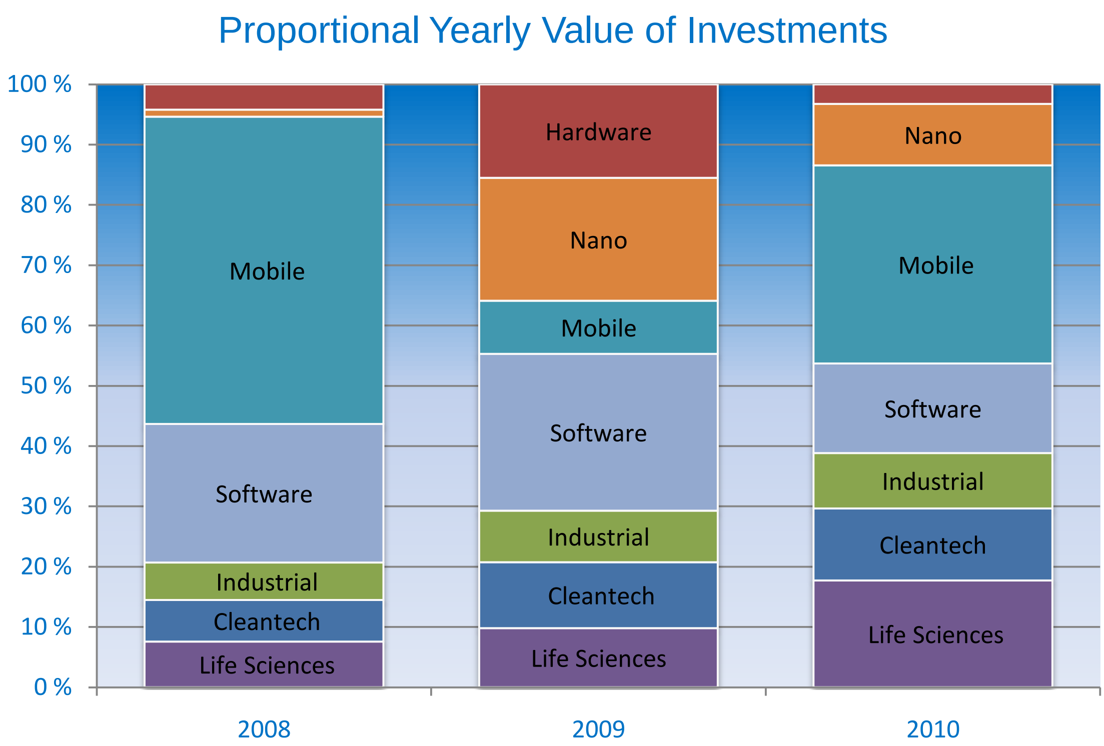
Average round size by quarter

While the number of investments made in Q2-Q4'10 declined from the previous year's figures, the average size of investments grew in both Q2'10 and Q3'10. In terms of average size of the investment the fourth quarter 2010 was a record-low quarter in the last three years also in the average investments size. For the first time in the last three years the average investment size was below €1M (€820.000).



Proportional value of investment

Comparing which industries have been able to attract the available cash in 2010 is interesting. One of the notable trends is the steadily rising value invested in Life Sciences (€11M in 2008, €11M in 2009 and €16M in 2010). The proportional value of Life Sciences has continuously increased from 8% in 2008 to 10% in 2009 and to 18% in 2010. Cleantech industry also received an increasing share of total investments in 2010 – 7% in 2008, 11% in 2009 and 12% in 2010. Industrial companies performed steadily also with a positive trend throughout 2008, 2009 and 2010 – its share of the total investment rose from 6% in 2008 to 9% in 2009 and 2010. Software industry experienced a decreasing trend both in value (€32M in 2008, €28M in 2009 and €14M in 2010) and in percentage of total investment (23% in 2008, 26% in 2009 and 15% in 2010). Software companies gathered still 25 different investments, meaning that the average sum invested has significantly decreased from €905.000 in 2009 to only €545.000 in 2010. Mobile industry experienced a severe dip in investments in 2009 (only €9M and 9% of total in 2009). In 2010 investments to mobile have significantly increased both in value and proportional share of value (€30M and 33% in 2010). However, single investment in Blyk's received €17 million constitutes alone more than half of the total value invested in mobile. Nanotechnology companies also saw a clear downturn in proportional share of the total investment (from 20% in 2009 to 10% in 2010) driven by the decreasing average size of investment. Hardware investments were almost non-existent in 2010, the one and only investment was to Mitron.



Trends for 2011

In general 2010 was one of the weakest years in Finnish venture capital industry's recent history. But despite the difficult conditions of 2010, the new year of 2011 has gotten a marvelous start and is looking like it will reverse the downward trend. By the time this report was published in mid February 2011, there had already been 6 investment rounds with over 37 million Euro in invested capital. Of course it is important to remember that most likely all of these deals were negotiated in 2010, as typical fundraising case can last from six months to a year and even longer.

But what will likely make the year 2011 positive is the recent fund closings in venture capital firms that invest in Finland. Last May, Conor Venture Partners from Finland announced the first closing new early stage fund worth 46.5 million Euro. In September, CapMan announced that their new fund Mezzanine V held a first closing at 60 million Euro. The fund will invest in mid market companies in the Nordic region. In November, Via Venture Partners from Denmark announced that it had raised its second fund worth 134 million Euro. The new fund will invest in IT and telecommunication companies in Finland and the Nordic region with a strong development and growth potential.

In addition to these funds, Finnish Industry Investment has also been active in participating in new funds. Besides participating in the Conor’s and CapMan’s new rounds, the also invested into Swedish private equity company Litorina’s new fund with 10 million Euro, participated in the Danish Polaris Private Equity Fund III with 10 million Euro as well as in Northzone Fund IV with 7.5 million Euro.

Appendix 1 – Funded companies

Logo	Company Name	City	Industry	Website
	Adfore Technologies Ltd	Espoo	ICT Mobile Telecoms	www.adfore.fi
	APE Payment Ltd	Espoo	ICT Software	www.apepayment.com
	Atacama Labs Ltd	Helsinki	Life Sciences	www.atacamalabs.com
	Blyk Services Ltd	Helsinki	ICT Mobile Telecoms	www.blyk.com
	Boneca Ltd	Helsinki	Life Sciences	www.boneca.fi
	Canatu Ltd	Espoo	Nano Technology	www.canatu.com
	Carbodeon Ltd	Vantaa	Nano Technology	www.carbodeon.com
	Confidex Ltd	Tampere	ICT Mobile Telecoms	www.confidex.fi
	Conmio Ltd	Helsinki	ICT Mobile Telecoms	www.conmio.com
	DBC International Ltd	Espoo	Life Sciences	www.dbc.fi
	Digital Foodie Ltd	Helsinki	ICT Mobile Telecoms	www.foodie.fm
	EcoTec Ltd	Tampere	ICT Mobile Telecoms	www.smartcare.fi
	Fennopharma Ltd	Kuopio	Life Sciences	www.fennopharma.fi
	Fixteri Ltd	Jyväskylä	Industrial	www.fixteri.fi
	FocalSpec Ltd	Tuusula	Industrial	www.focalspec.com
	Footbalance System Ltd	Helsinki	Life Sciences	www.footbalance.com
	Futurice Ltd	Helsinki	ICT Mobile Telecoms	www.futurice.com

	GASEK Ltd	Reisjärvi	Cleantech	www.gasek.fi
	Geomachine Ltd	Tuusula	Industrial	www.geomachine.fi
	GigsWiz.com Ltd	Vantaa	Software	www.gigswiz.com
	Hermo Pharma Ltd	Helsinki	Life Sciences	www.hermopharma.com
	Hookie Technologies Ltd	Espoo	Software	www.hookietech.com
	Housemarque Ltd	Helsinki	ICT Software	www.housemarque.com
	Iptune Ltd	Vantaa	ICT Mobile Telecoms	www.iptune.com
	Lihameklarit Ltd (AKA Meatbrokers)	Aura	ICT Software	www.lihameklarit.fi
	LinkoTec Ltd (AKA Dazzboard)	Espoo	ICT Software	www.dazzboard.com
	Lumi Group Ltd	Turku	Industrial	www.lumi-group.eu
	Lunawood Ltd	Iisalmi	Cleantech	www.lunawood.fi
	MediSapiens Ltd	Helsinki	Life Sciences	www.medisapiens.com
	MHG Systems Ltd	Mikkeli	ICT Software	www.mhgsystems.com
	Microtask Ltd	Helsinki	ICT Software	www.microtask.fi
	Miradore Ltd	Lappeenranta	ICT Software	www.miradore.com
	Mitron Ltd	Tampere	ICT Hardware	www.mitron.com
	Songhi Entertainment Ltd	Helsinki	ICT Software	www.songhi.com
	Neapo Ltd	Uusikaupunki	Cleantech	www.neapo.fi

	Nebula Ltd	Helsinki	ICT Software	www.nebula.fi
	Nervogrid Ltd	Helsinki	ICT Software	www.nervogrid.eu
	Netcycler Ltd	Espoo	ICT Software	www.netcycler.com
	Nicanti Ltd	Espoo	Nano Technology	www.nicanti.fi
	Nitro Games Ltd	Kotka	ICT Software	www.nitrogames.com
	Oncos Therapeutics Ltd	Helsinki	Life Sciences	www.oncos.com
	PlexPress Ltd	Helsinki	Life Sciences	www.plexpress.com
	Recoil Games Ltd	Helsinki	ICT Software	www.recoilgames.com
	Rightware Ltd	Espoo	ICT Mobile Telecoms	www.rightware.com
	Scannano Ltd	Turku	Nano Technology	www.scannano.com
	Sensinode Ltd	Oulu	ICT Software	www.sensinode.com
	Sofanatics Ltd	Helsinki	ICT Software	www.sofanatics.com
	Starduck Studios Ltd	Tampere	ICT Software	www.starduckstudios.com
	Tassu ESP Ltd	Mikkeli	Nano Technology	www.tassuesp.com
	Thinglink Ltd	Helsinki	ICT Software	www.thinglink.com
	Tribeflame Ltd	Turku	ICT Software	www.tribeflame.com
	Valkee Ltd	Oulu	Life Sciences	www.valkee.com
	Visedo Ltd	Lappeenranta	Industrial	www.visedo.com

	XIHA Ltd	Helsinki	ICT Software	www.xihalife.com
	Zokem Ltd	Espoo	ICT Mobile Telecoms	www.zokem.com