

## Finnish Venture Capital Market in H1 2011 – Summary of High Tech Investments

### Summary and Highlights

The Finnish venture capital environment in the first half of 2011 saw a significant increase in activity, especially from international investors. During the period, Finnish companies attracted more capital than in all of 2010, especially into later stage investments. Gaming was the most noteworthy industry from financing perspective, lead by Rovio with its 30 million euro round plus investments into four other gaming companies.

Key highlights:

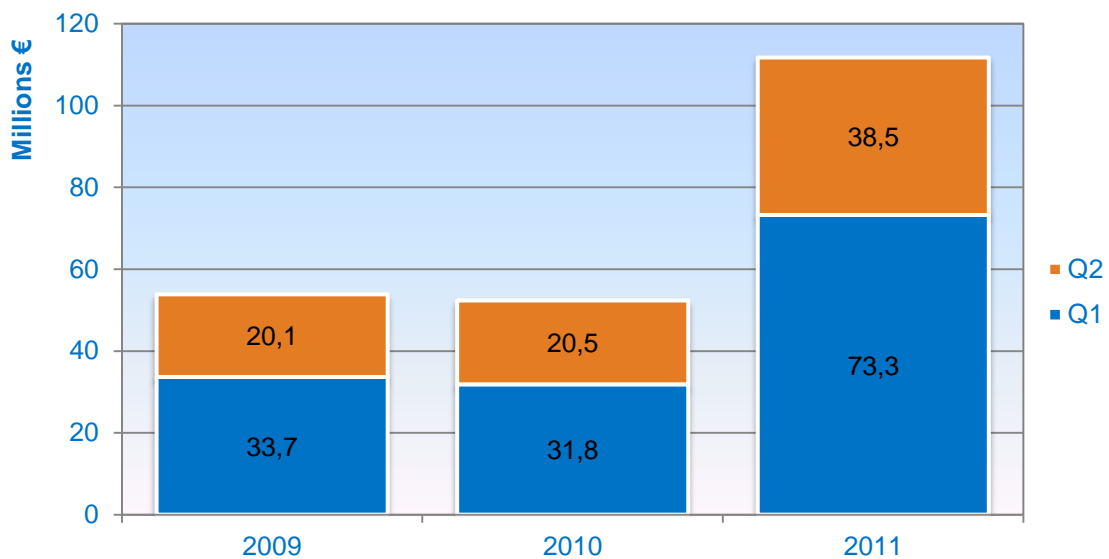
- VCs invested 112m Euros into Finnish companies, which is a 113% increase over H1 2010
- Most of the investments were made into the second round which totalled 58,7m Euro
- International VCs invested more capital than Finnish VCs (71,3m vs 34,2m Euro)
- The Helsinki Metropolitan Area attracted 95% of funding and 69% of investments
- Mobile industry attracted the most capital, 35,1m Euro
- Nano industry investments grew the most, a 1492% increase

“It has been a great first half,” says Technopolis’ **Jukka Jokinen**. “Later stage investments were large, but early stage investment activity was under-represented by traditional standards. However, it is great to see international top-level VCs and business angels investing in Finland. Only couple of years ago there was no chance that these players would invest in Finland, but now they are active and investing in rounds and companies which are small by their standards.”

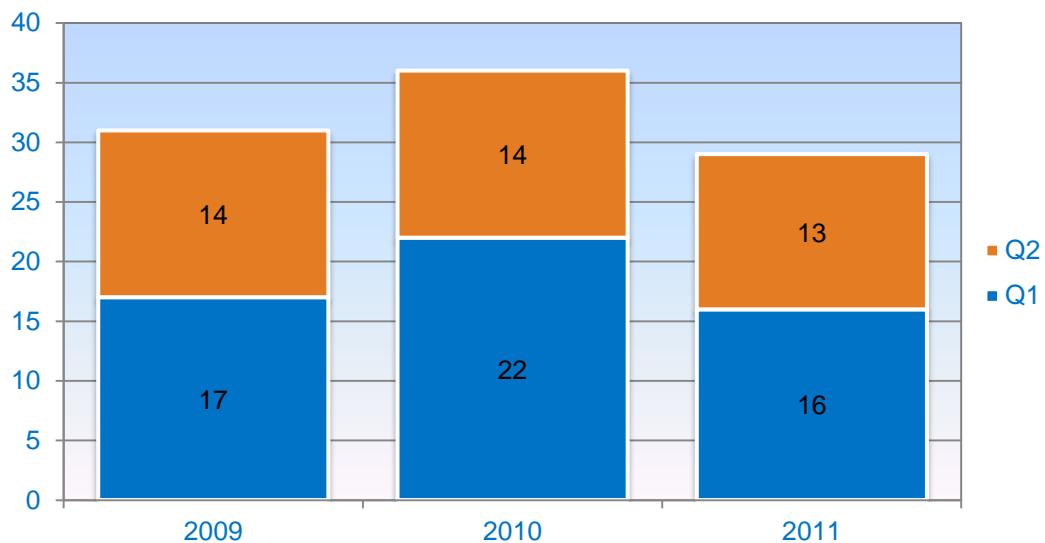
### Overall Investment Environment

Venture capital investments in the first half of 2011 have been significantly larger than during the same period in the two previous years. In H1 2011, VCs invested 112m Euros into Finnish growth companies, which is a 113% increase from a year ago, when VCs invested 52m Euros. The number of investments declined from 36 last year to 29 this year. This trend has been visible for quite some time, investors fund fewer companies but invest significantly larger amounts.

## Value of Investments



## Number of Investments

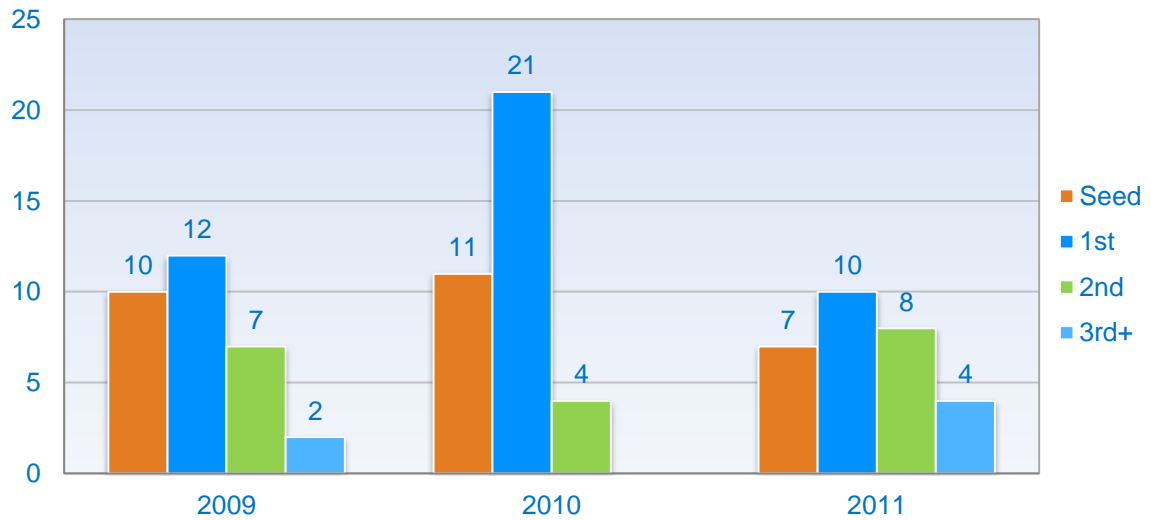


## Investment Round Distribution

In H1 2011, the investment round distribution, when measured by the number of investments, was much more evenly spread than in the same period during the previous two years. The first round received the most investments, continuing the trend of previous years, but the difference was much smaller than before (10 in 2011 vs 21 in 2010 vs 12 in 2009). A positive development was that there were large investments made into later stage rounds, which has been a function of the small Finnish VC investment funds relative to the well know global funds. It follows an international trend

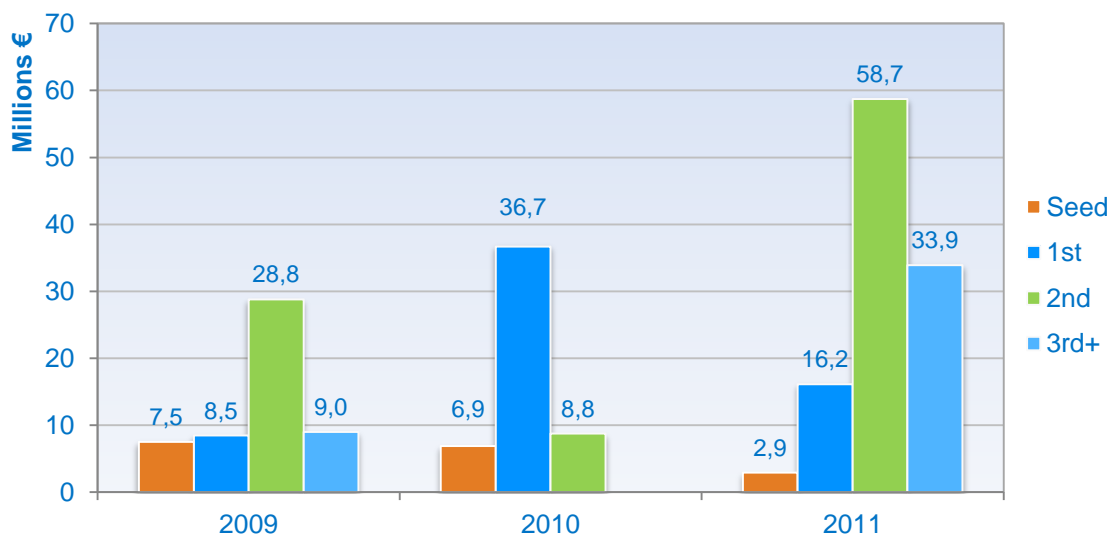
where investors seek more secure investments in the later stage rounds. At the same time, this has created more space into early stage, which has been taken more and more by business angels and public sector. Also, several international angels have become active in the Finnish market lately.

### Number of Investments by Rounds



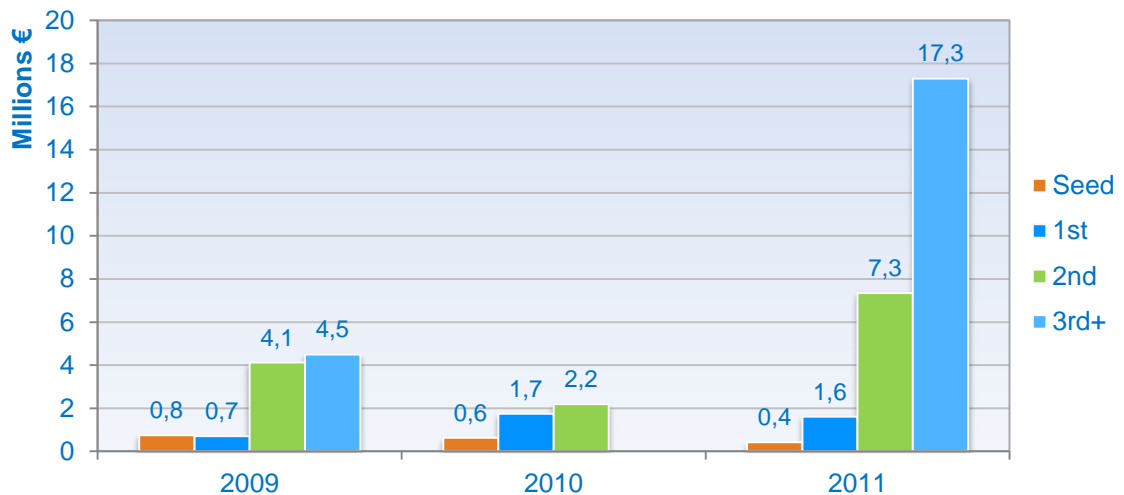
As one would assume, the largest investments were into later stage rounds, where the second round stood out due to the Rovio investment round. However, 3<sup>rd</sup> and later rounds received significantly larger portion of investments than before by attracting 33,9m Euro. A year ago, there were no investments at all into later stage rounds and two years ago the amount was only 9m Euro.

### Invested Capital by Investment Round



When analysing average sizes of investment rounds, the first half of 2011 really stands out from previous years' same period. While the size of seed stage investments declined slightly and the first round investments remained at the last year's levels, the later stage investments grew significantly. The average size of the second round grew by 231% from last year's period. There were no third round investments in the first half of 2010, so this year's increase of 17,3m Euro is very large. When the number is compared to H1 2009, it marked an increase of 284%. Comparing this data internationally, one observation is that Finnish companies are relatively small compared to foreign counterparts. However, they are able to raise quite large rounds despite their size which is a good achievement.

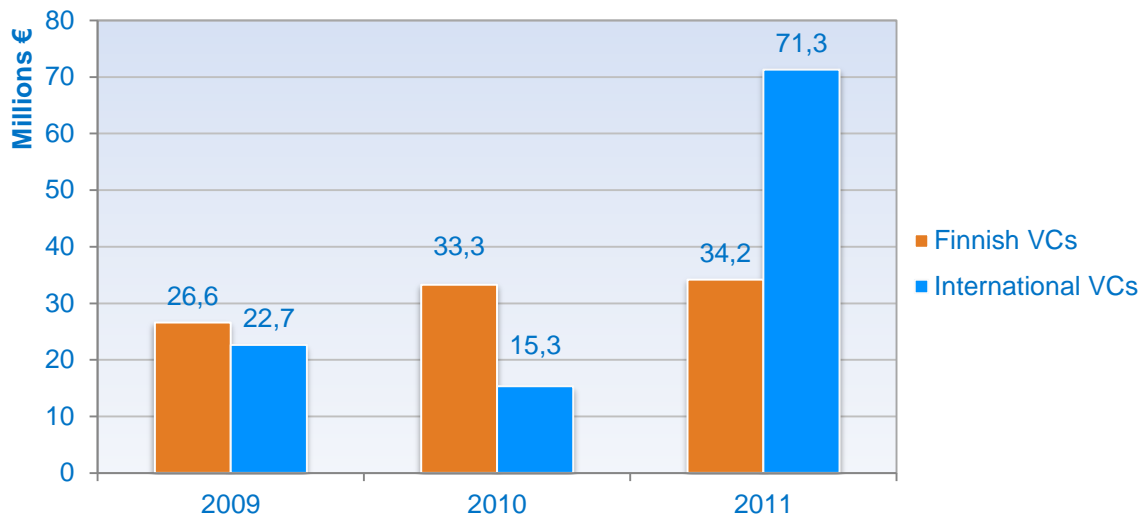
## Average Size of Investment Rounds



## Investments by Finnish and International VCs

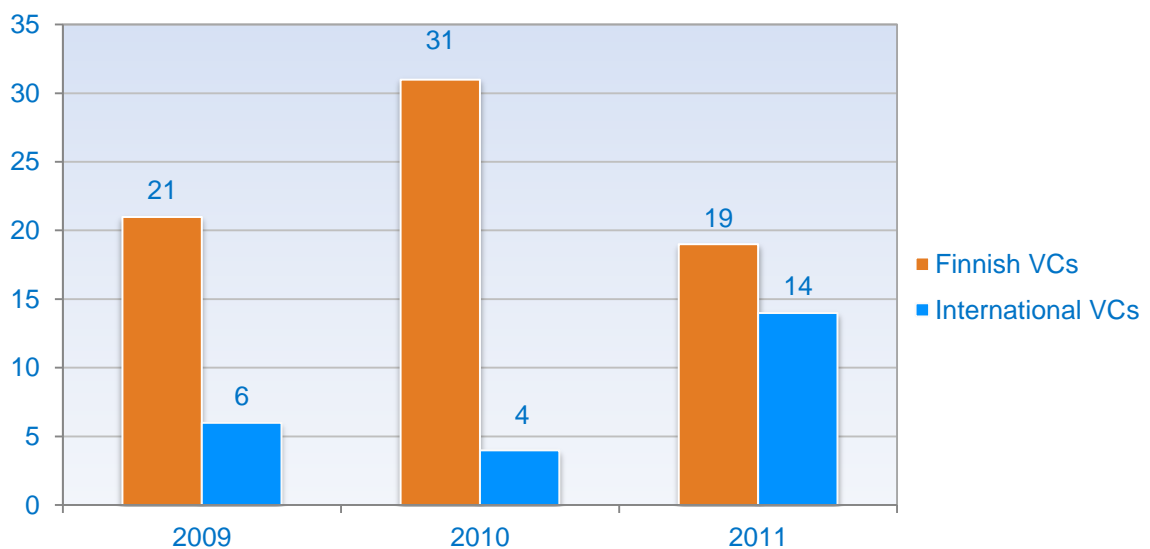
This year marks the first period during past three years when international investments exceeded the domestic investments, when measured by capital. And the change was not subtle: International VCs invested 37m Euros more capital than the Finnish VCs. The growth from last year was 366% (from 15,3m€ to 71,3m€). The biggest contributor to this was Rovio's investment round of 30m Euro, which was completely internationally financed.

## Invested Capital - Finnish vs International



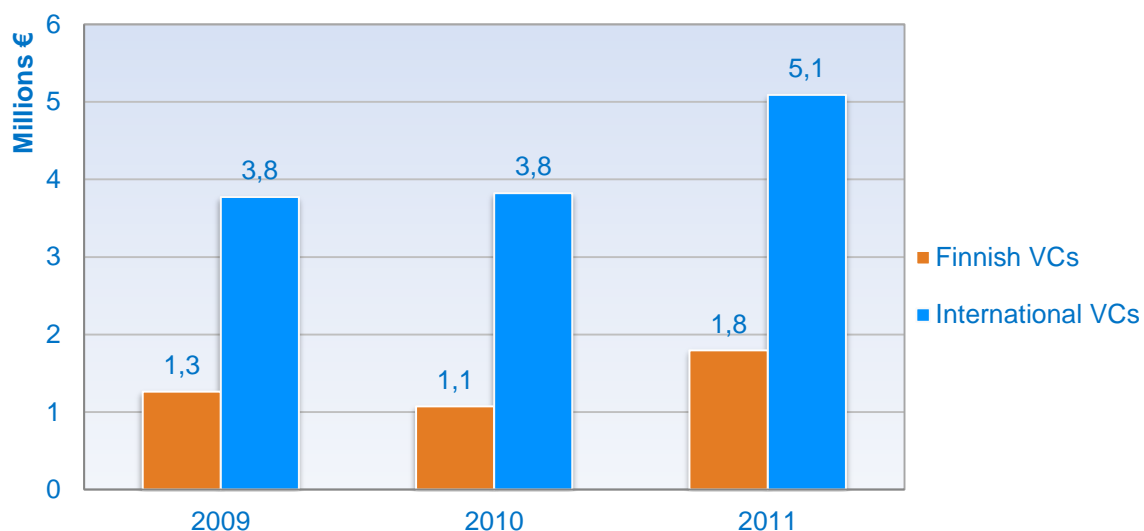
Finnish VCs still invested into larger number of companies, but the difference was much smaller this year than in two previous years (19 to 14 in 2011, 31 to 4 in 2010 and 21 to 6 in 2009)). The increased activity of International VCs is an extremely positive sign, since in addition to capital, they often bring other type of benefits with them, such as wider networks and international business experience. At the same time, the activity of Finnish VCs declined significantly from last year, going from 31 investments to 19 (-39%). This trend was already analysed before and could be explained by the recent departure of some significant players from the Finnish market, like Eqvitec and Capman.

## Number of Investments - Finnish vs International



What is interesting to note is that international VCs have consistently invested more capital per investment than their Finnish counterparts in each of the past three years. The ratio has been around 3 to 1, which further emphasize the fact that by going international, Finnish high tech companies can attract significantly larger investment rounds.

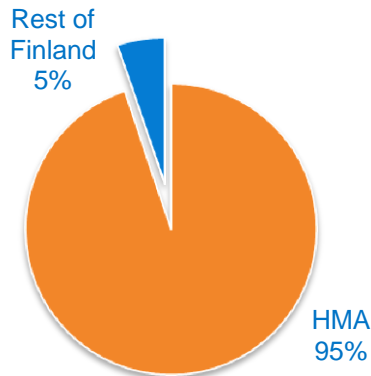
## Average Investment Sizes - Finnish vs International



## Regional Distribution

The first half of 2011 witnessed a drastic shift in capital allocation among Finland's regions. The share of Helsinki Metropolitan Area (HMA) investments rose to 95% from 59% last year, when measured by invested capital. However, the change in the number of investments was not as large - HMA attracted 69% of number of investments, which is an increase of 2% over a year ago. The huge change in capital allocation towards the HMA is not explained only by Rovio – even without their investment round the HMA attracted 93% of all capital. Overall, the trend remained the same from previous years where a significant majority of investment rounds and capital was allocated in the HMA.

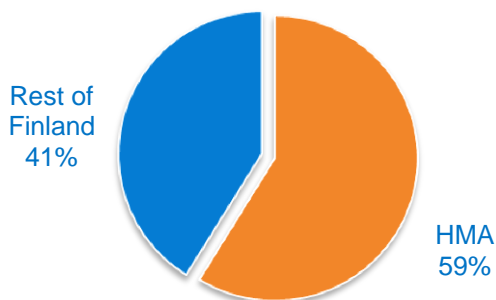
### Capital Distribution 2011



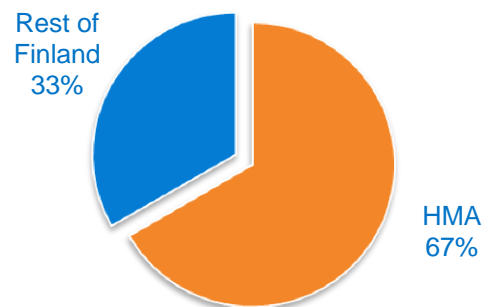
### Number of Investments 2011



### Capital Distribution 2010



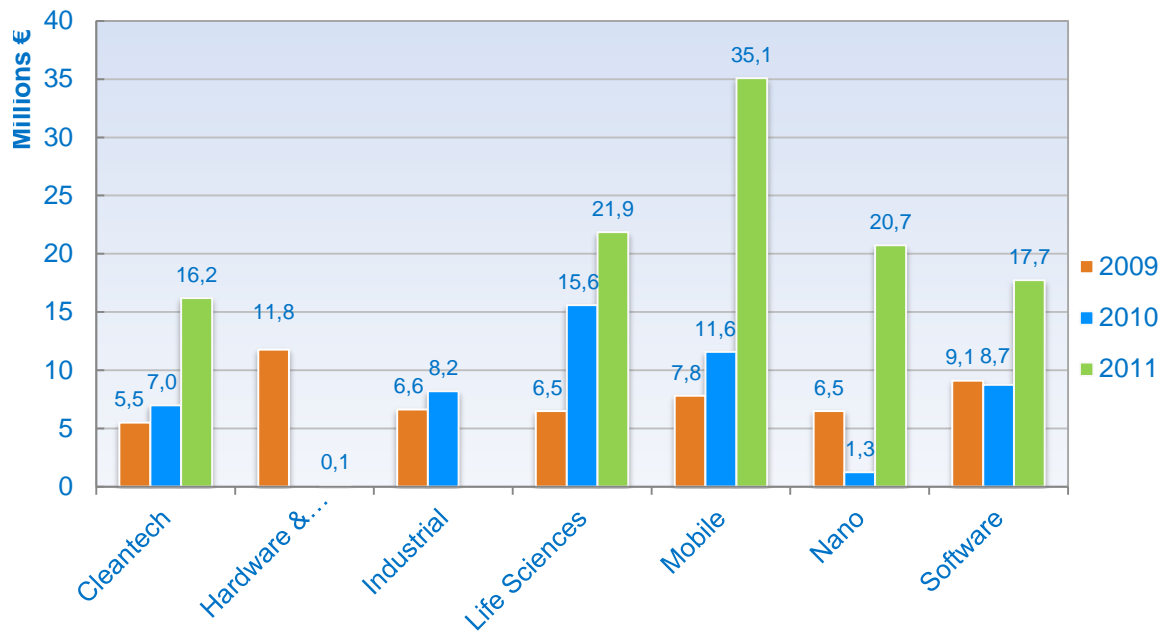
### Number of Investments 2010



## Industry Distribution

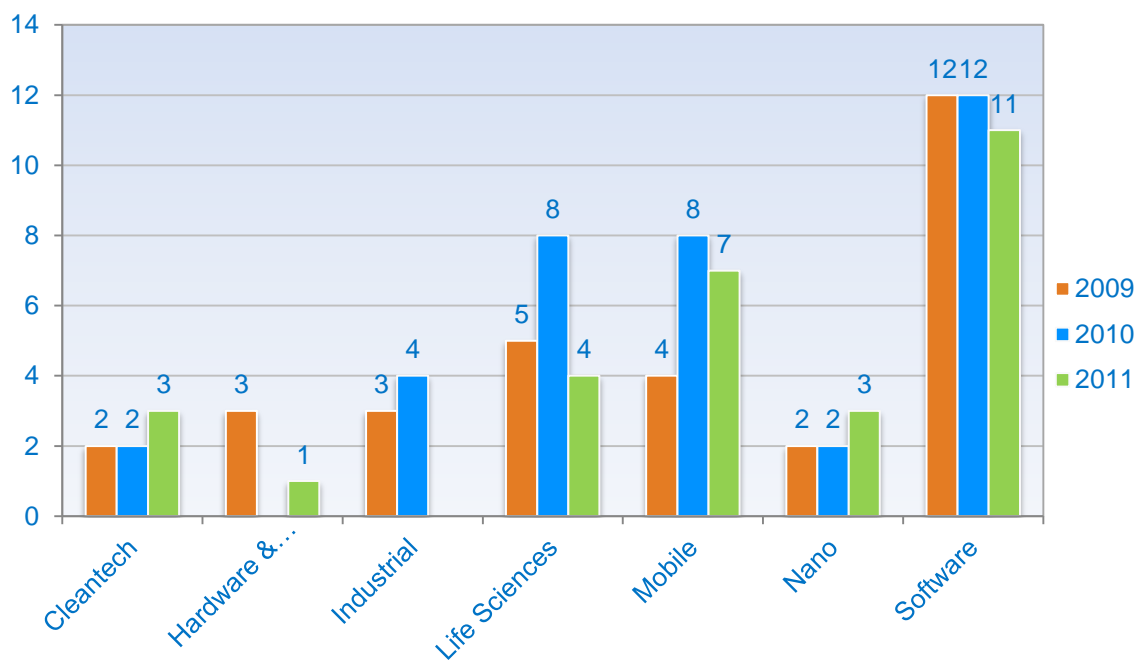
During the first half of 2011, the increased capital investments were spread mainly across five industries - Cleantech, Life Sciences, Mobile, Nano, Software -- all of which witnessed significant growth year over year. The two industries that did not get much investments were Hardware and Semiconductor (H&S) and Industrial industries. Mobile was naturally the biggest gainer of capital from the last year (202%), due to Rovio's round. Percentagewise, Nano increased its capital intake the most, attracting 20,7m Euro compared to 1,3m Euro last year (Lead by Beneq (9m€) and Silecs (11,5m€)), which marked a 1492% increase. Software and Cleantech more than doubled the capital invested and Life Sciences also experienced healthy growth of 40%.

## Industry Distribution by Capital Invested



When analysing the industry distribution by number of made investments, the fluctuation year over year is significantly smaller than seen in capital raised between the industries. The most significant changes happened in Industrial and Life Sciences industries in which both industries saw a decline of four investments. All other industries remained around the same levels as a year before.

## Industry Distribution by Number of Investments



A significant part of Mobile and Software investments were made into gaming companies, which are spearheading a new global awareness of Finnish technology. Besides Rovio's investment, other gaming companies that received funding were Gray Area (1,9m€), Supercell (8,5m€), Treehouse (amount not public) and Blaast (1,5m€).

## Future Trends

The outlook for the near future is both hopeful and risky. Activity in the Finnish high tech market has clearly increased, which has made the market more interesting for international investors. At the same time, the global economy is yet again in financial crisis without a clear path for future stability. Market conditions have been especially harsh on economies which have traditionally provided most VC funding, namely the U.S. and Western Europe. With increased uncertainty comes greater risk aversion, which means that financiers will most likely focus on safer investment targets in industries which are familiar.

Such a trend has been already seen in Finland as an aftermath of the financial crisis which begun in 2008. Investors clearly narrowed the scope of their investments and focused on a few key cases. The upside of this is that the cases which are funded often receive larger capital injections to truly have the resources to expand their business and weather the storm of market calamities.

As for hot industries, mobile industry is presenting some of the most fascinating opportunities. Mobility is changing the whole human interaction, behaviour and productivity. Whether entertainment, business, usability or location-based solutions, the market is about as hot as it gets. The world is switching to smartphones at an increasing pace and solutions that target this market are bound to find significant markets, even for very specialized products. Being a traditional stronghold in Finland, Mobility has given Finnish companies a leg-up in global competition. And with Nokia's changing strategy, companies have to rethink their own positioning and possibly find new areas of business. In a way, this may have been a wake call for all Finnish mobile experience to up their game.

In addition to affecting existing companies, Nokia will also touch the whole entrepreneurship scene in Finland as the company is restructuring its organization and laying people off. Many people that leave Nokia are highly talented and may view that their talents are best utilized by starting a new company. Nokia is also involved in a process of spurring entrepreneurship with its Innovation Mill initiative with Technopolis and Tekes, which aims at providing resources and tools for new company creation.

Another new trend which is only bound to strengthen in the future is entrepreneurship boom in Finnish universities. Spearheaded by Aalto University, which has created many exciting new initiatives all of which are driven by students, the trend is rapidly gaining traction in other universities throughout the country. These programs which are run purely out of excitement of its students have already contributed to significant number of new companies in Finland. But their biggest contribution may well be the changing of attitudes of students towards entrepreneurship and making it a viable career choice for ambitious college graduates.

Lastly, what will happen to the hottest of all industries today in Finland: Gaming. Finland's gaming has been put on the map over the past year by Rovio and its Angry Birds. In a wake of the boom, lots of other gaming companies have aggressively moved forward, raising new funding rounds and trying to get traction in global market. However, this is not the first time that a Finnish company is making a splash internationally. There was Remedy, which has produces such titles as Max Payne and Alan Wake. There was Sulake with Habbo Hotel, which has been live for over 11 years. And then there is Nokia and its Snake Game, which was probably the first mobile game hit ever. So Finnish companies are not newcomers in this business and will most likely continue on producing hit games in the future, especially with new funding that lots of companies have been securing lately.

## Our Methodology

We begin with investments reported in the press, using the assumption that a round is completed on the day when it is announced in the press. We then add all investments that are recorded by the teams in Technopolis' 6 locations around Finland. We then make any necessary estimates regarding to the sizes and distribution of investment among investor classes, based on the known characteristics of the investors in question. Finally, we use primary information sources - i.e. interviews of the entrepreneurs and/or investors - to confirm our estimates to the degree that they will provide us information. While these estimates have drawbacks, we believe that our information is the best available given the relatively secretive nature of venture capital investing in Finland. Using the announcement date as the "completion date" is a strong assumption, and we believe that it may create a significant lag in the results, but our goal here is to have a consistent methodology that allows year-on-year and international market comparisons.

## About Technopolis Online

Technopolis Online is the most comprehensive investment database of Finnish high tech industry that combines validated company data and the latest financing rounds to provide a platform for visibility, business intelligence and transparent market information. By offering an unparalleled depth of market information in Finland and enabling the first national, real time statistical process and validation, Technopolis Online is the foremost information tool for all high-tech financing activities. Technopolis Online is operated by Technopolis Plc.

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