Turning Venture Capital Data into Wisdom:

Why Deal Performance in Europe is now Outpacing the US

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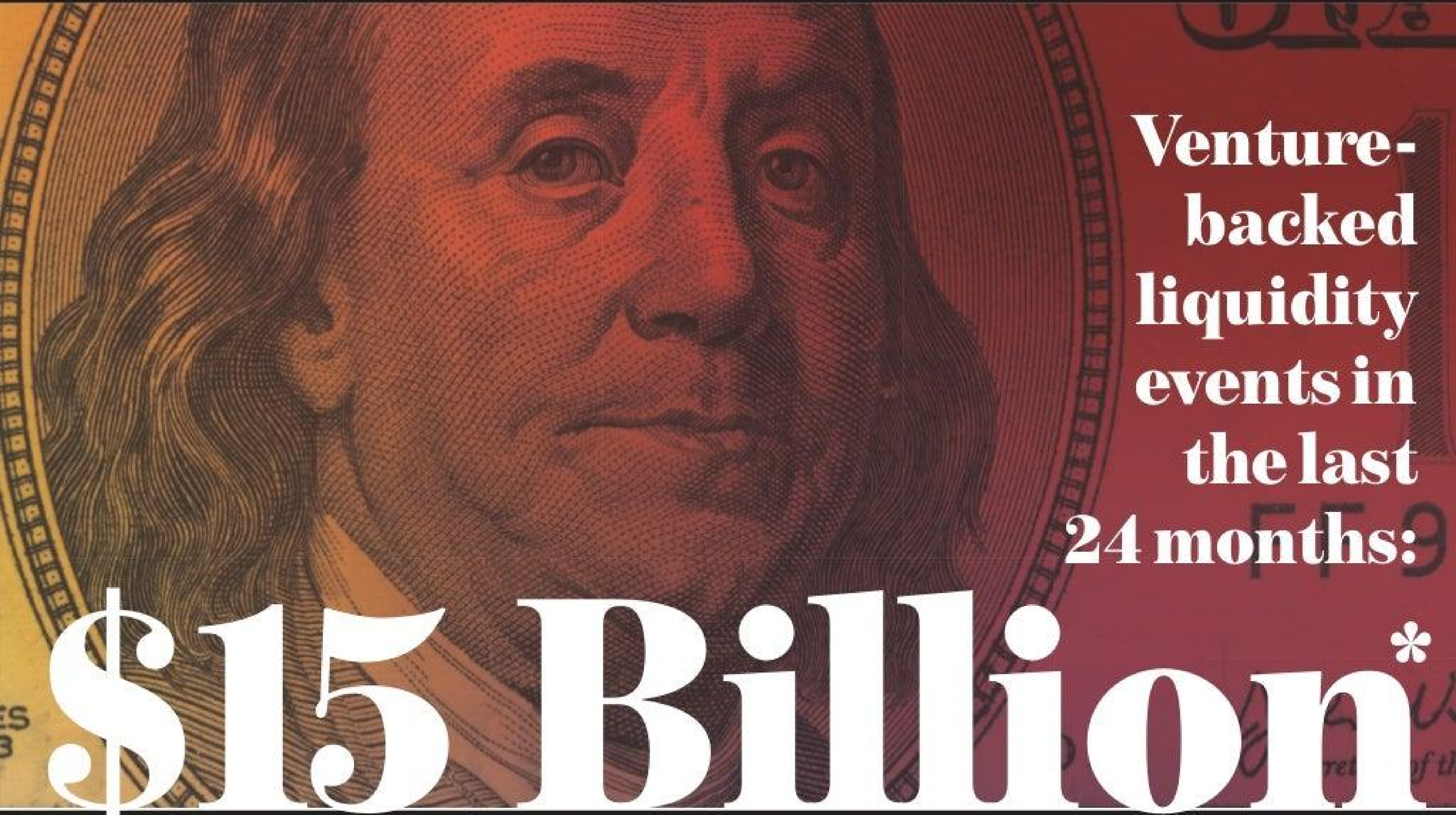
Background

The core data-slides in this Report (6, 7, 8, 11, 15, 17, 18, 23, 24, 25, 26, 27, 28, 30, 31) were created and supported by a broad cross-section of partners at European VC firms who are members of the Venture Council at the European Private Equity and Venture Capital Association (EVCA). These VCs include Sofinnova, Northzone, DFJ Esprit, Amadeus Capital, Gimv, Endeavour Vision, Delta Partners, Advent Venture Partners, Nauta Capital, Neuhaus Partners, Finlombarda, and Earlybird Venture Capital.

This Report was further endorsed by 24 active venture capital firms in Europe including Index Ventures, Wellington Partners, Fidelity Growth Europe, Prime Technology Ventures, Hummingbird Ventures, Open Ocean, Target Partners, Vodafone Ventures, and many more.

After emerging only in the 1990s, and shaking off the hangover from the deluge of capital that flooded the market in 1999–2001, European Venture Funds have staged a

Comeback



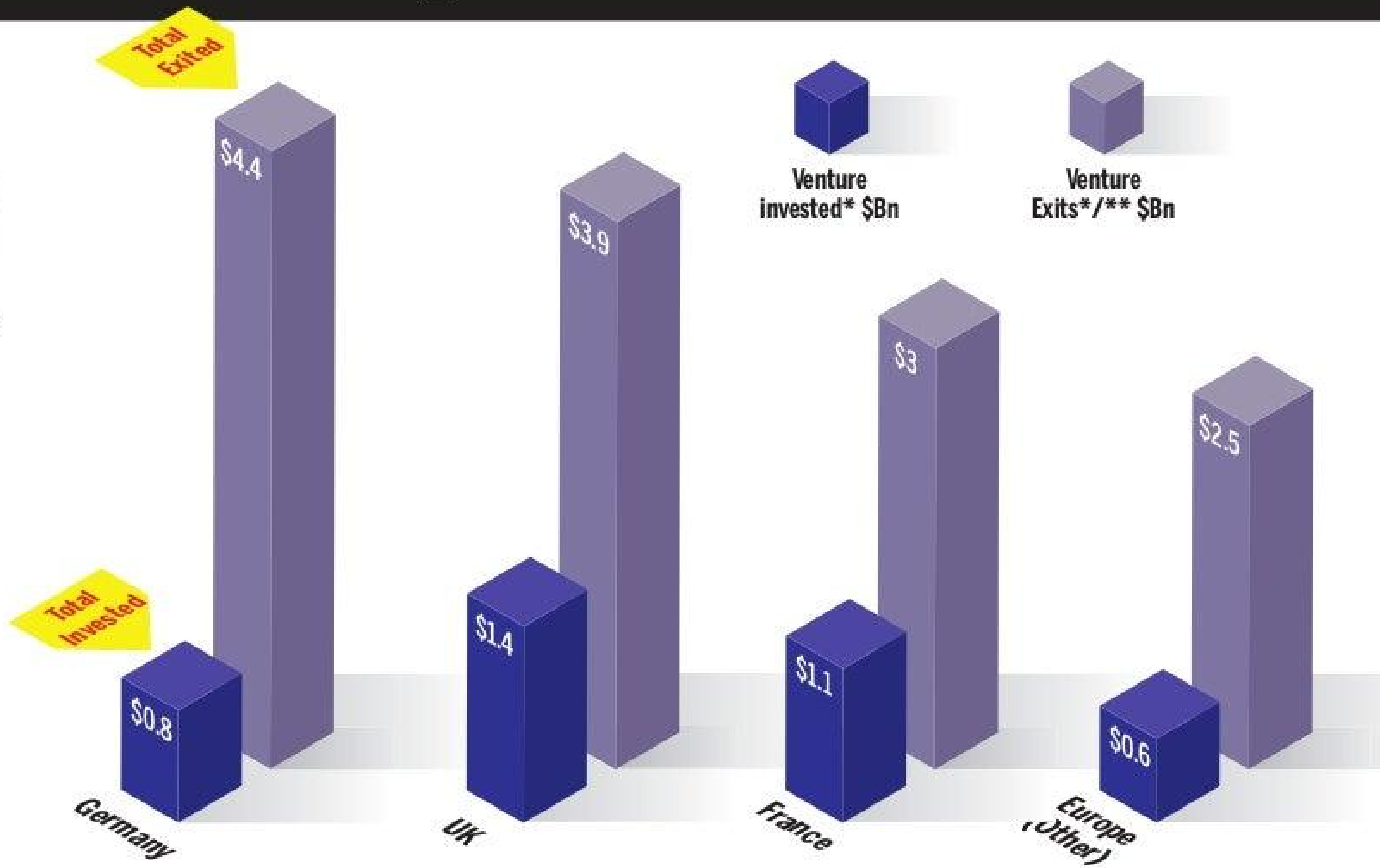
Venture-backed liquidity events in the last 24 months:

$15 Billion*

*Equal to 50% of the 30Bn in US Venture-backed liquidity events in 2009 & 2010 (Thomson Reuters), yet with only 1/5 of the venture funding i.e., $25Bn invested in US VCs in 2009 & 2010 compared to $6Bn in Europe, according to NVCA and EVCA data.

In other words, more checks to LPs are being written in Europe than ever before

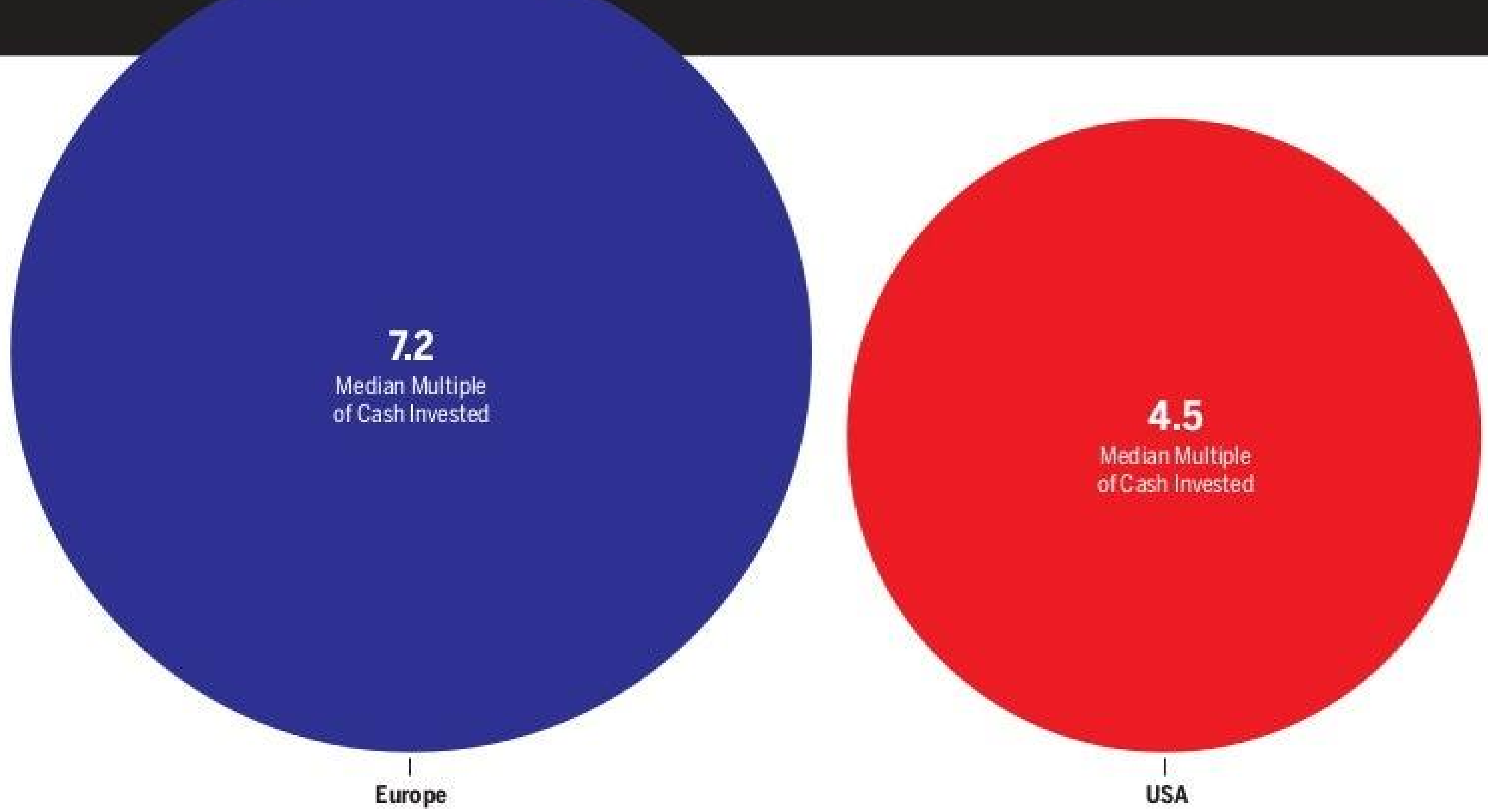
Publicly announced European venture-backed trade sales and IPOs over the past 24 months (incomplete)



**Source: Earlybird analysis, 2011. ** Remaining Europe includes Scandinavia, Benelux, Italy, Spain, Central & Eastern Europe.
† Exchange rate used for 2010 1€ = $1.3265

At the same time, real performance shows European VC driving the best exit multiples globally

Exits over $ 100M
2005 – Q1/2011



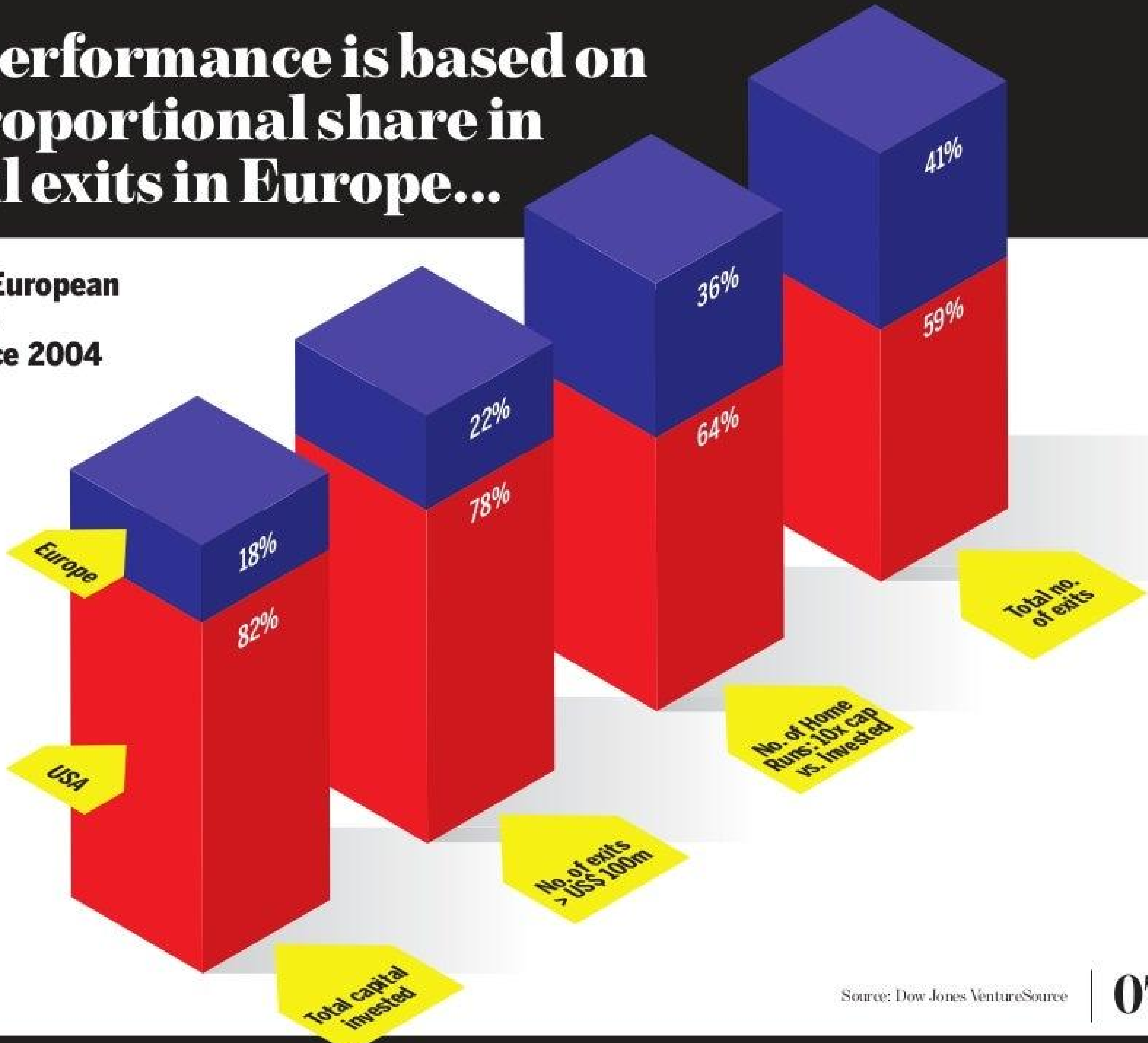
Proportionally Europe is producing higher exit multiples and, although average exit values are ca. 25% smaller, lower entry valuations and higher capital efficiency overcompensate for disadvantages in exit value.

	Europe	USA
Number	131	596
Median Exit Valuation	$173M	$236M
% with Multiple of Cash ≥ 5	57.26%	47.27%

Data based on exhaustive calculation of exit values and cash multiple of all exits reports in VentureSource database (Dow Jones VentureSource)

This outperformance is based on an overproportional share in successful exits in Europe...

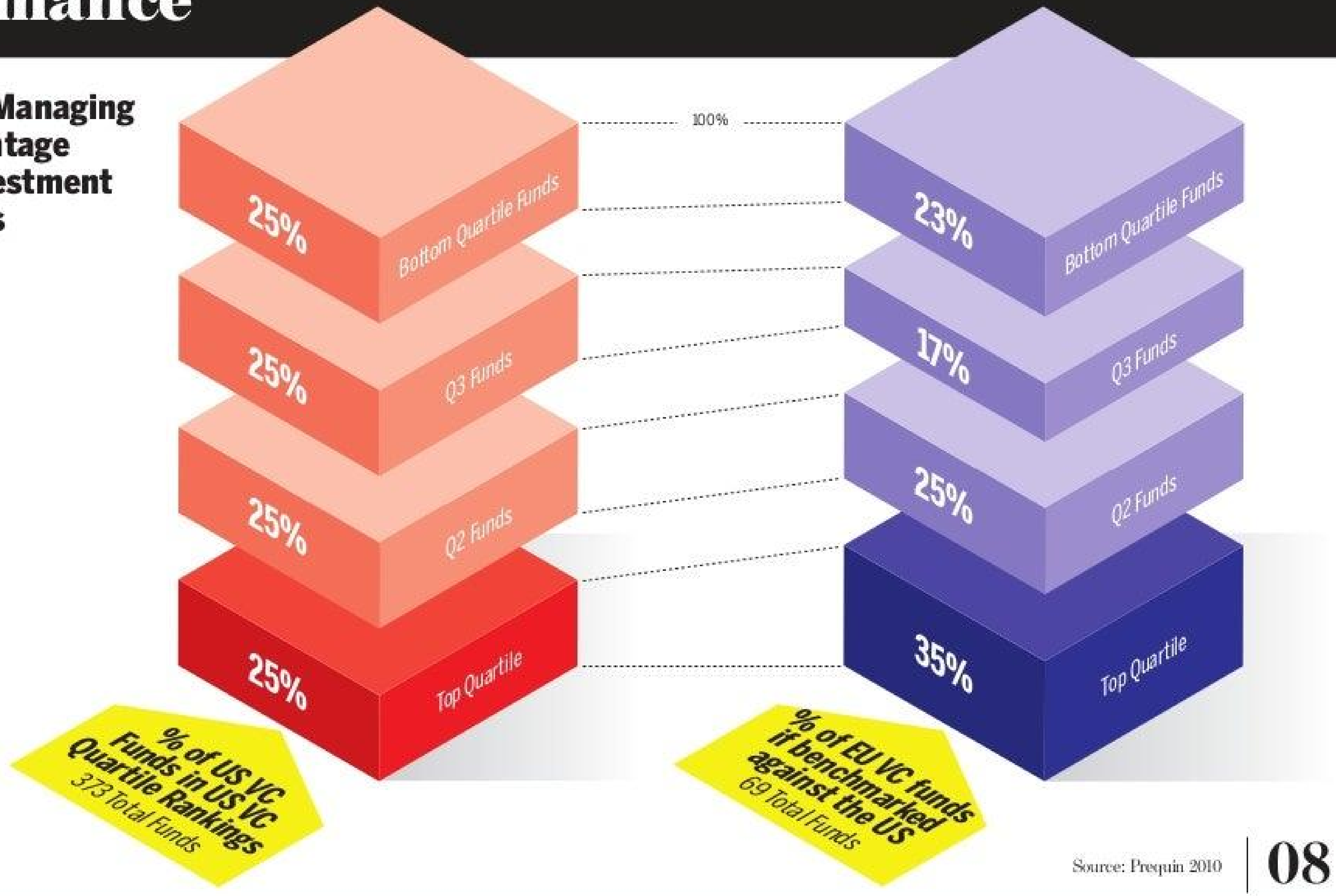
Overview US- vs. European Share in VC Value Contribution, since 2004



Source: Dow Jones VentureSource

...Due in part to a higher share of European VC funds with top US quartile performance

Active GPs Managing Funds of Vintage ≥ 2006, Investment Grade Funds



Source: Prequin 2010

Forget the charts,

where are the outsized venture exits in Europe?

Its not quite all about Skype...

$1B+		>10X				5 - 10X		
MySQL	skype	mergermarket	last.fm	metabolic explorer	emgs	blau.de	direvo biotech	buyat
interhyp	REC	Tipp24de	studiVZ	Terveystalo	DELTICOM	zyb	micropolis	intercell
betfair	ersol	MutuiOnline	CRAMER	ItN Nanovation	VISCOM	Parrot	VITA 34	ALANTOS
Q.CELLS	VistaPrint	B·R·A·H·M·S	Coding Technologies	IMMOBILIEN SCOUT 24	METRIS	XING	DocMorris	Scoreloop
Autonomy	iliad	COREVALVE	nacre	MTEM	BIGPOINT	travel-tainment	GLYCART	Aloqa
csr	basilea	amaxa	bebo	Schmack Biogas AG	RIB	Spotfire	netgiro	B·R·A·H·M·S
TRADUS	CityDeal **	vueling.com	Poliris	mobile LABS	brands4friends	NORDNAV	MessageLabs	PLUS ORTHOPEDICS

...and many more

*Includes 14 venture backed $1Bn exits and 30 other deals generating a ≥10x multiple, since 2005; does not include another 30 exits generating 5x-9x multiples. ** Enterprise value following exit to Groupon.
Source: Dow Jones VentureSource and Earlybird Venture Capital

...while European VC-backed IPO performance matches or exceeds US performance, both pre- as well as post-IPO

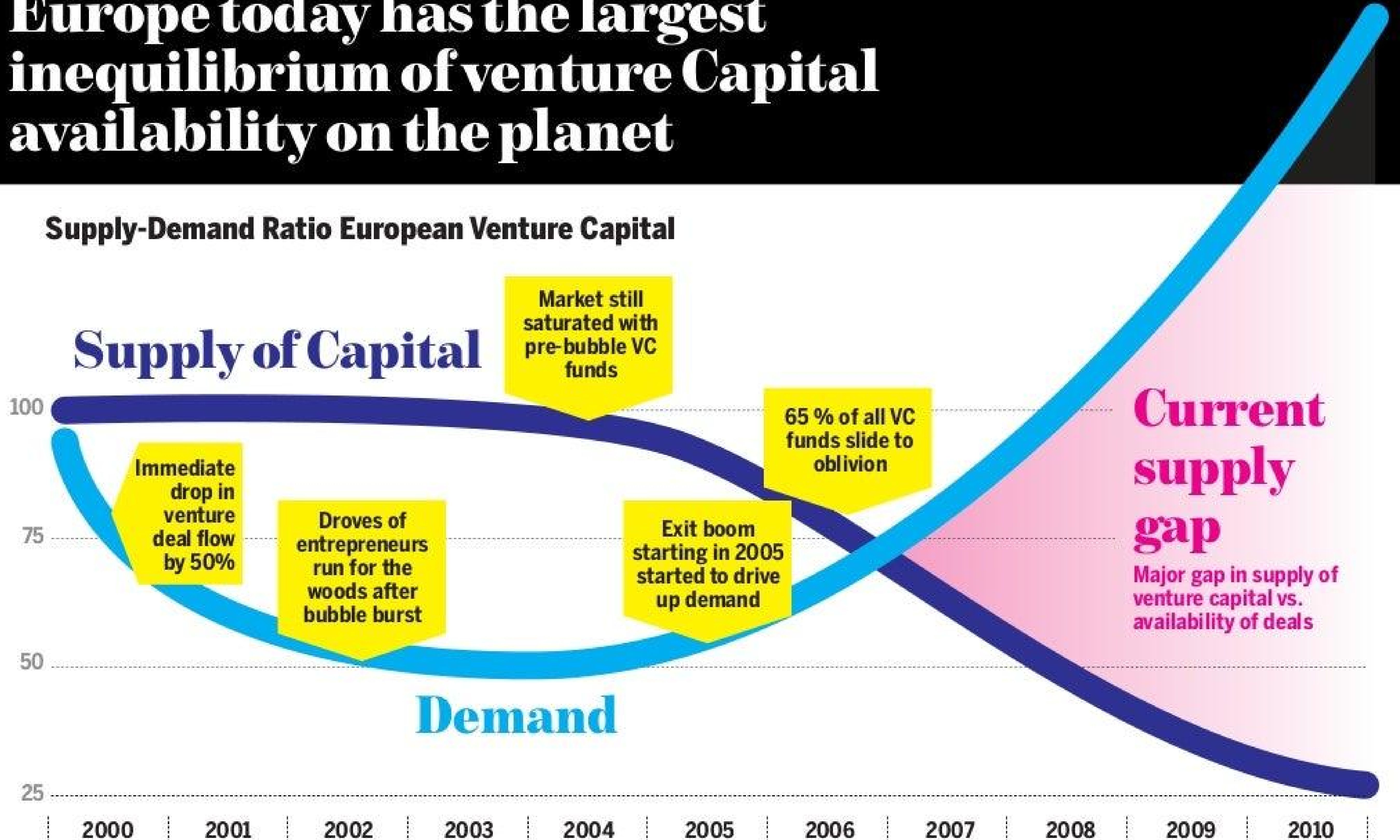
US vs. Europe, post-IPO performance of all VC-backed IPOs*, 03/04 to 07/11

*NB excludes Google
Source: CapitalIQ, DFJ Esprit

On the origin of the turnaround

An entrepreneurial boom combined with a mature seed/angel/venture ecosystem has led European early-stage companies to scale faster and accrue more value sooner than ever before. Starting in the year 2004, the fundamentals for a break-out venture decade in Europe have been continuously improving, while venture capital fund commitments have remained down for last 6 years (positive contra-indicator) leading to a dramatic demand-supply in-equilibrium of available capital.

Europe today has the largest inequilibrium of venture Capital availability on the planet



Source: Earlybird

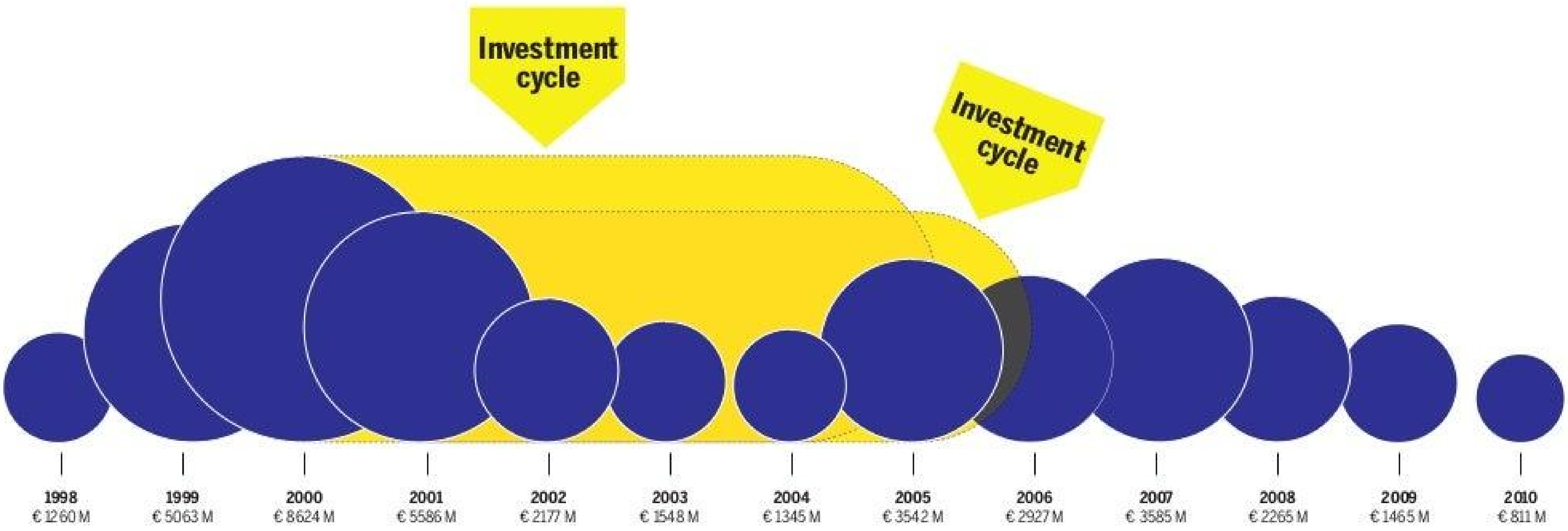
Supply side: Natural selection

"Almost every bank, large corporation and insurance company in Europe created its own venture capital fund in 1999–2000; What has emerged from the post-bubble struggle for existence is nothing less than some of the strongest Venture Capital firms in the world."

—John Holloway, *European Investment Fund*

While the supply of venture capital started to dry out only after 2004 …

Early-Stage VC Fundraising Europe*



*1998-2006: Thomson Financial/PWC statistics, High-Tech Early-Stage:
2007-2010: PEREP Analytics, Early-Stage
Source: EVCA

...Only the fittest venture capital firms survived the post-bubble shake out

Number of VC Funds in Europe 1999 vs. 2011*

Thereof the Top 20 VCs in Europe

Germany

EARLYBIRD | HV VENTURES | wellingtonpartners | TARGET PARTNERS

UK

ACCEL | balderton capital | Index Ventures | eden ventures

PROfounders | dfjesprit | Amadeus Capital Partners

France

PARTECH International | SOFINNOVA

Other

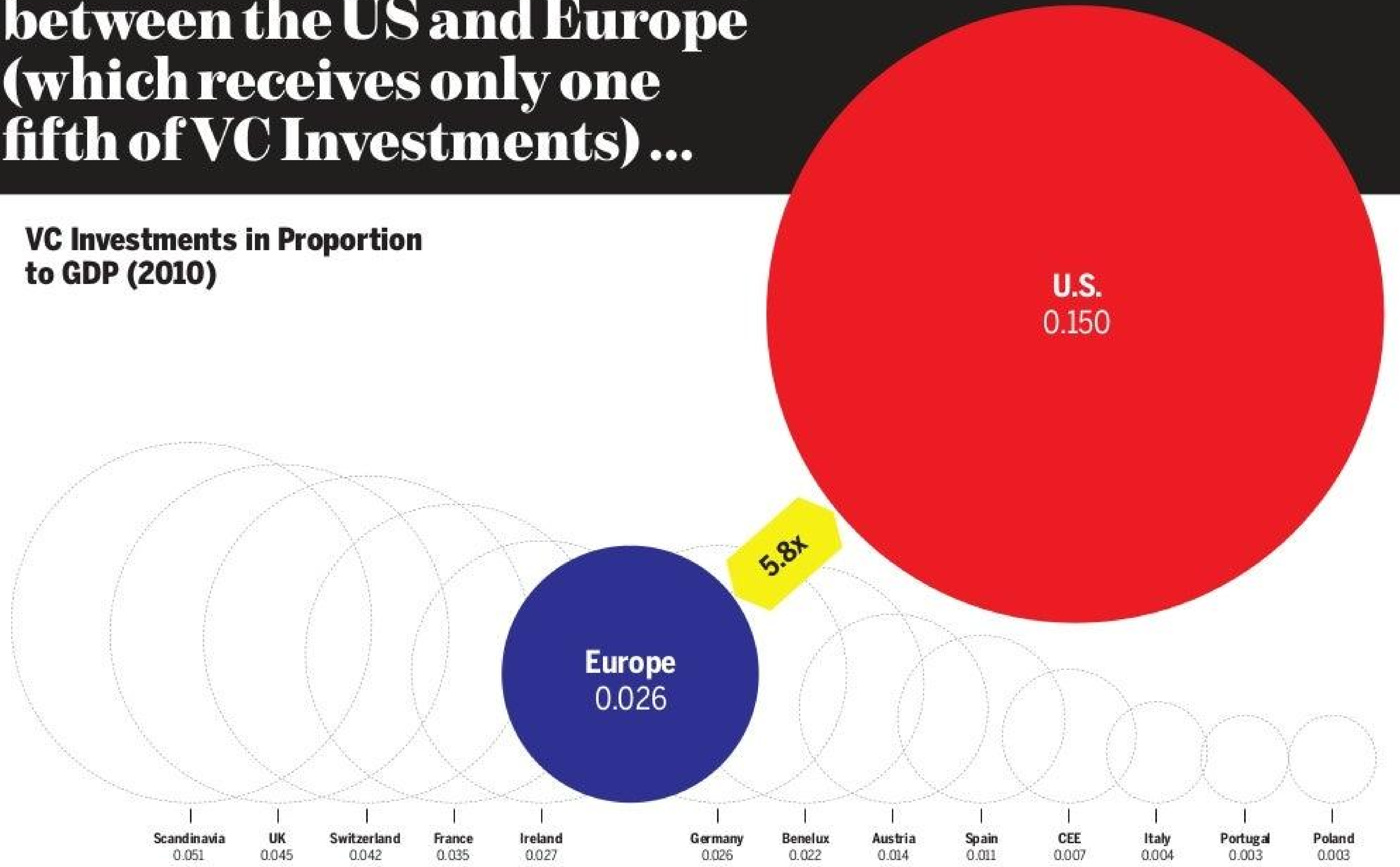
ATOMICO | CREANDUM | Mangrove | OPEN OCEAN

PRIMEVENTURES | NZ:Northzone | FIDELITY GROWTH PARTNERS EUROPE

*Active Funds = all VC funds, doing ≥ 4 investments per year. Sub-set of so-called "Investment Grade Funds": US$ 100M; > 50% non-captive capital; raised successor fund with vintage year ≥ 2006

Source: NVCA; EVCA; Earlybird Estimates

The dramatic capital supply imbalance between the US and Europe (which receives only one fifth of VC Investments) …



Source: EVCA, Eurostat 2011

...Has meant that a comparatively small but mature sub-set of European VCs are able to now move into fund generations 3 and beyond

VC teams' maturity by number of funds raised

	W. Europe	U.S.	Ratio
≥ 2	73	334	**4.6x**
≥ 3	58	202	**3.5x**
≥ 4	28	132	**4.7x**
≥ 5	8	94	**11.8x**
≥ 6	4	65	**16.3x**
Time since early growth of VC industry (years)	10–15	50–60	**4–5x**

Source: Dow Jones VentureSource (cross selection, not all funds included)

As a result, it is a buyer's market* in Europe:

"European venture capital is a cottage industry characterised by an insufficient number of private investors (e.g. lack of pension and endowment funds which account for roughly 65% of the US VC industry) with the capacity and willingness to invest in venture capital, mainly due to past disappointments and the resulting lack of confidence which still inhibits the European venture industry today."

—Egbert Freiherr von Cramm,
Managing Director, Deutsche Bank Private Equity

*In the US venture receives substantial funding from university endowments, pension funds and family offices - these three combined are by far the largest contributors and account collectively for more than two third of the US venture capital. In contrast, university endowments within the EU allocate less than 2% of their assets to private equity as a whole, compared to over 10% in the US. Also, while there are over 11,000 family offices in the US, there are only 2,500 family offices in the EU.

Demand side: Proliferation

"The scarcity of VC money in Europe not only has led to low entry valuations, but also has driven up capital efficiency (roughly 70 percent higher than in the US) and yield (hit rate) because the scarcity of money allows the very few investors to simply be more selective."

—Uli Fricke, *EVCA Chairwoman 2010-2011*