

A satellite view of Europe at night, showing city lights and the dark outlines of the continents. The image is used as a background for the text.

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



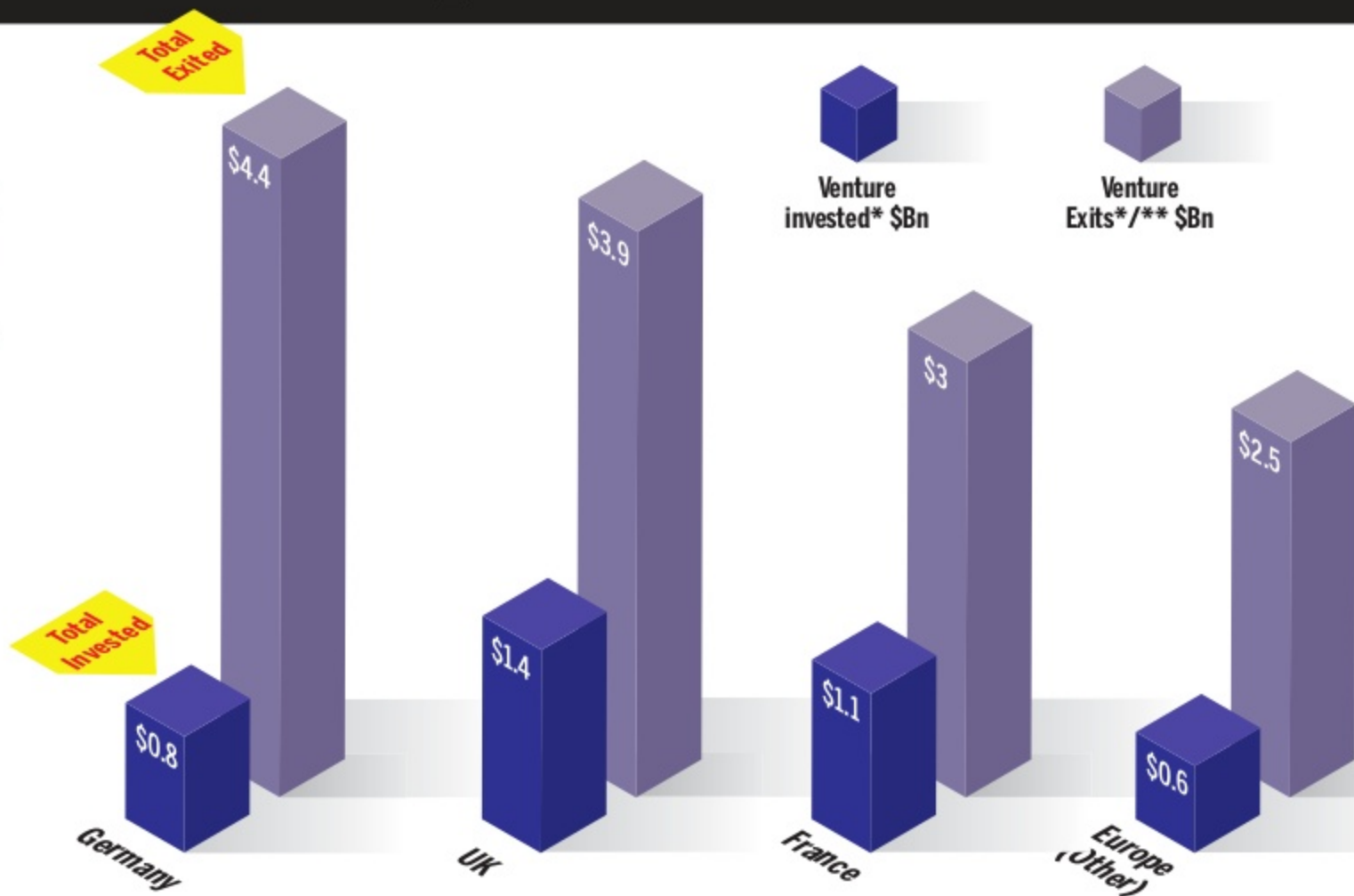
**Venture-
backed
liquidity
events in
the last
24 months:**

\$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)



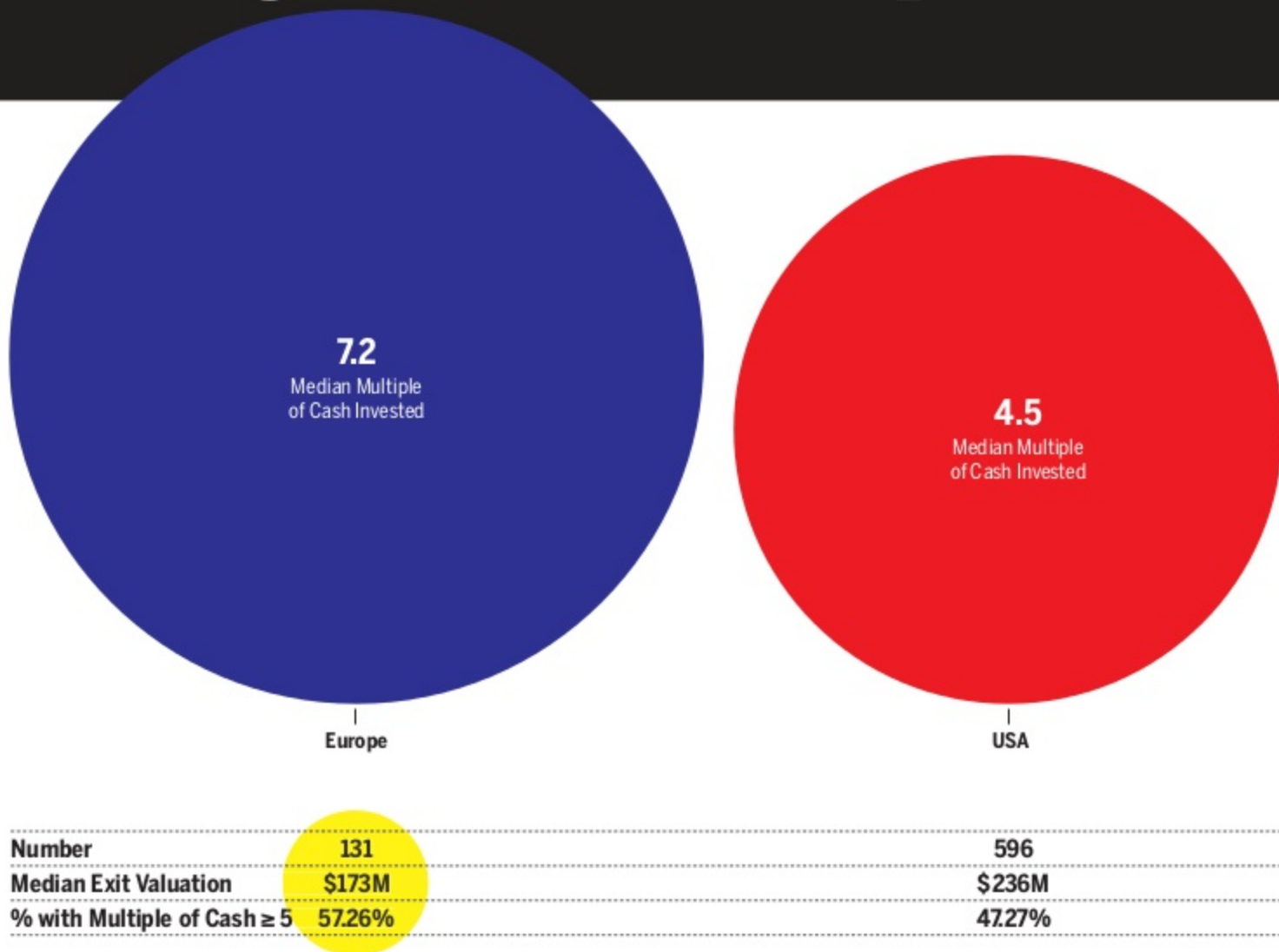
**Source: Earlybird analysis, 2011. ** Remaining Europe includes Scandinavia, Benelux, Italy, Spain, Central & Eastern Europe.

† 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**

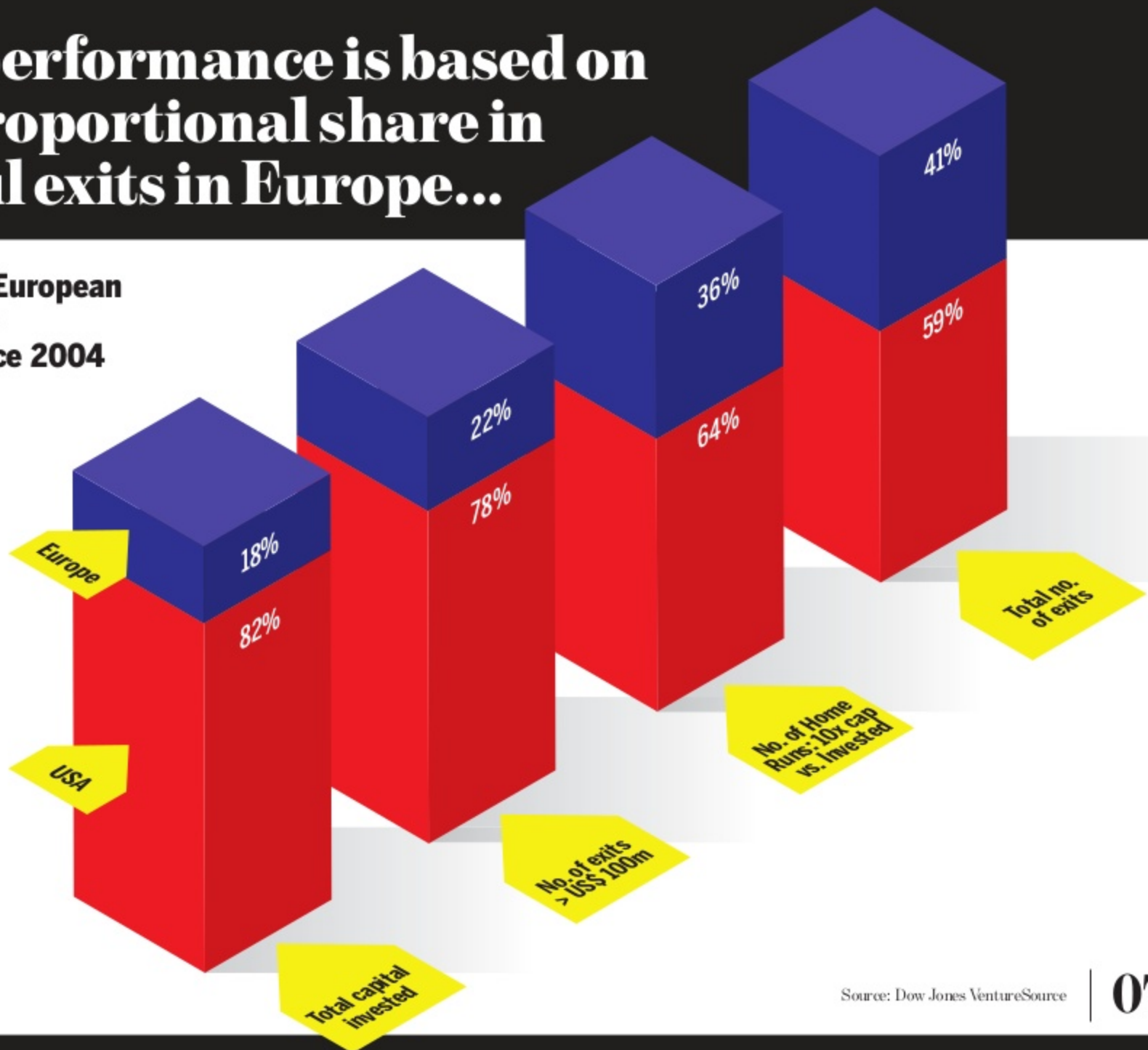
Proportionally Europe is producing higher exit multiples and, although average exit values are ca. 25% smaller, lower entry valuations and higher capital efficiency overcompensate for disadvantages in exit value.



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

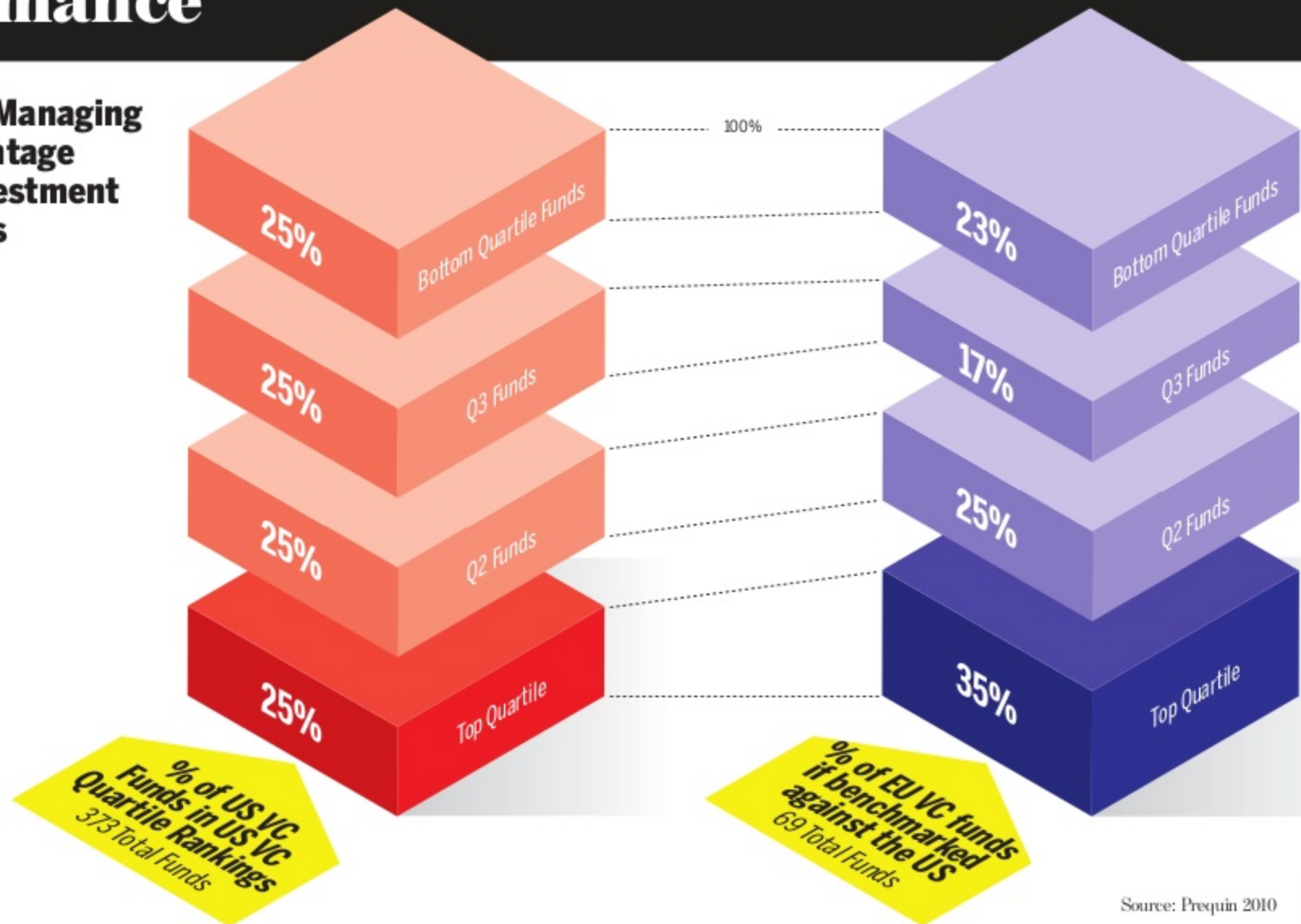
This outperformance is based on an overproportional share in successful exits in Europe...

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



...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



Forget the charts,

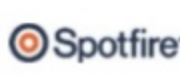
where are the outsized venture exits in Europe?

It's not quite all about Skype...

\$1B+

> 10X

5-10X

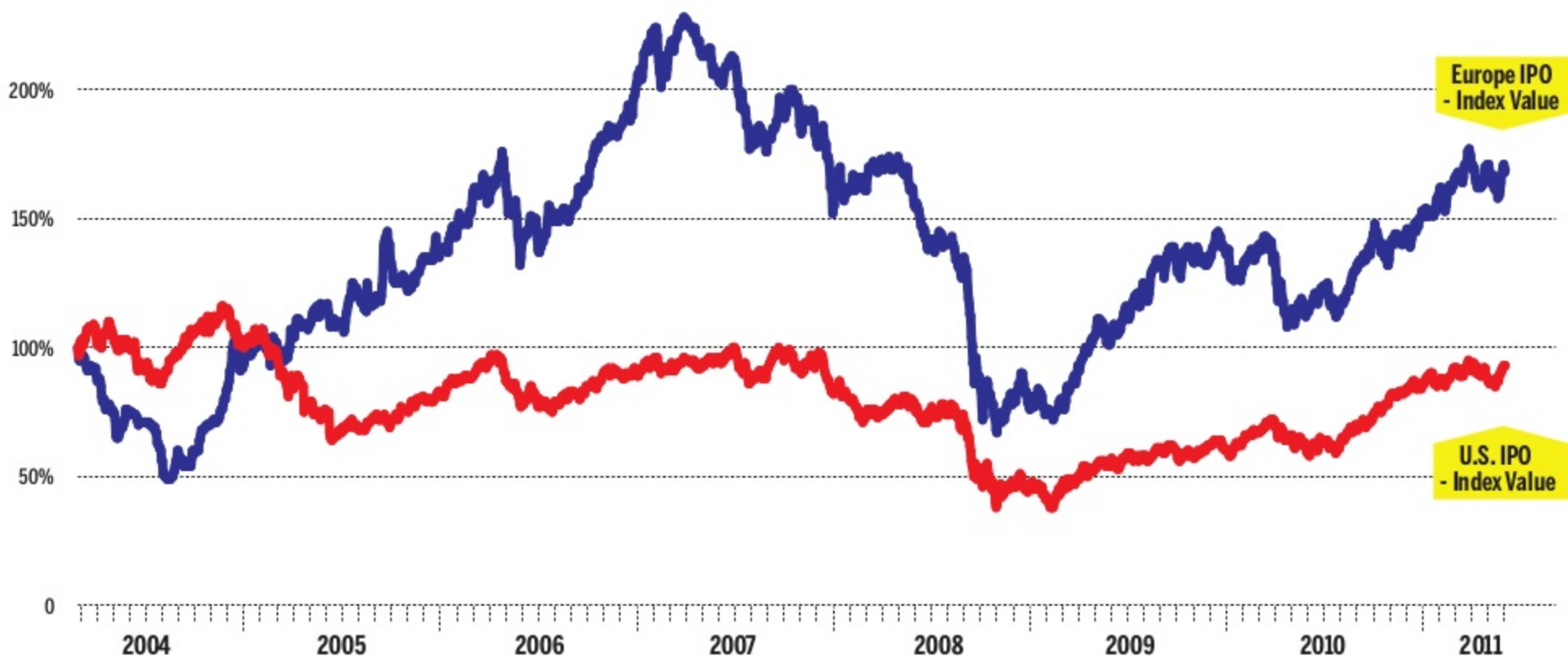


...and many more

*Includes 14 venture backed \$1Bn exits and 30 other deals generating a $\geq 10x$ 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

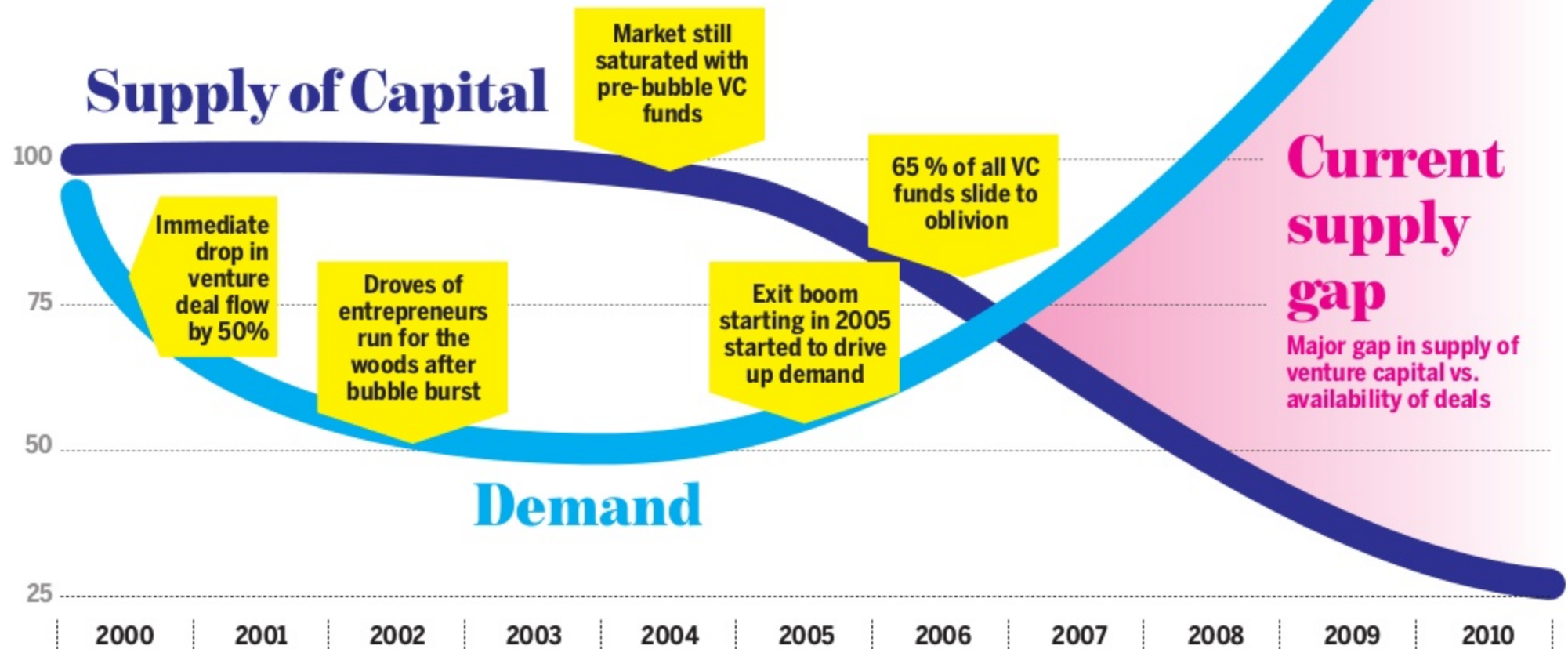


On the origin of the turnaround

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

Supply-Demand Ratio European Venture Capital



Supply side: Natural selection

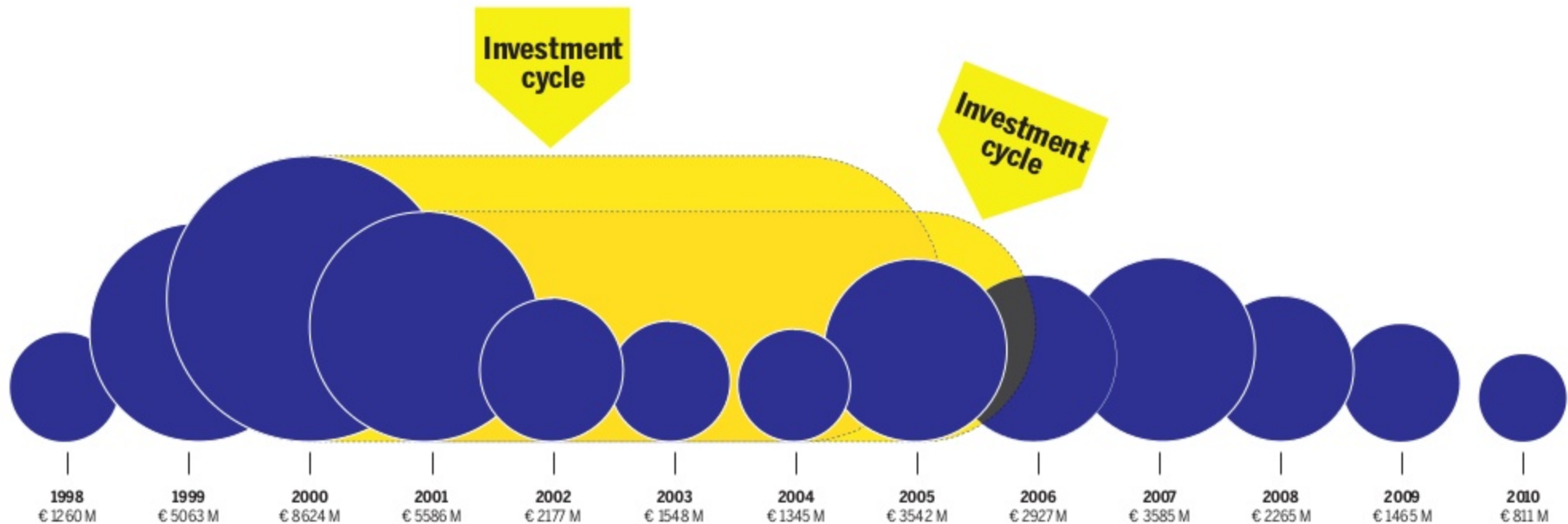
A person wearing a white long-sleeved button-down shirt and blue boxing gloves is shown from the chest down. The person's hands are in a boxing stance, with the gloves prominently displayed in the foreground. The background is a solid blue color.

“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...

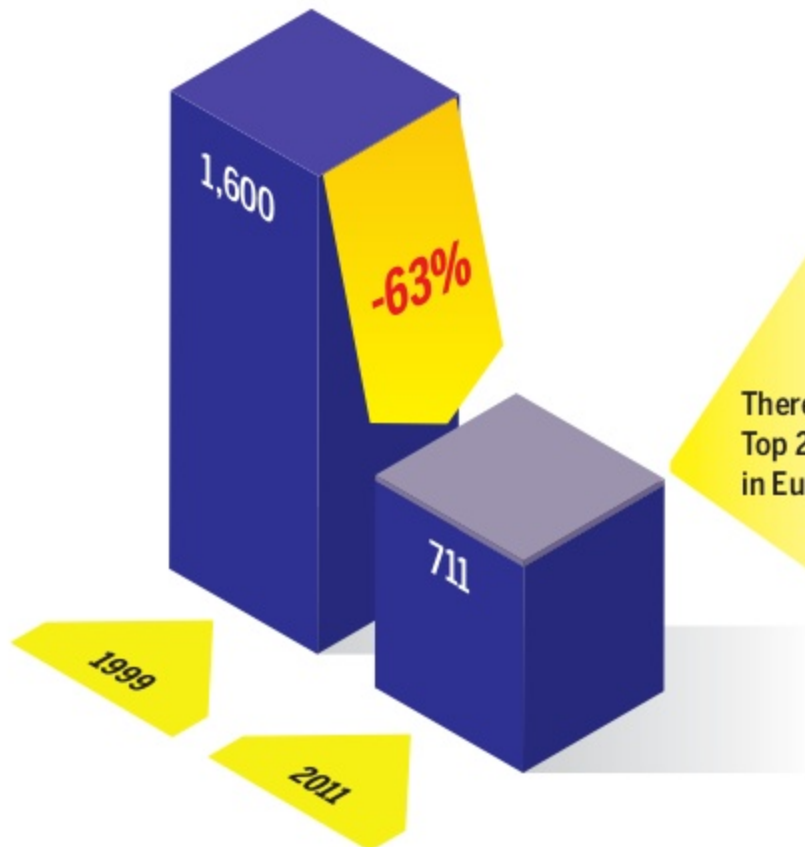
Early-Stage VC Fundraising Europe*



*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

HOLTSBRINK VENTURES

wellingtonpartners

TARGET PARTNERS

UK

ACCEL

balderton capital

Index Ventures

eden ventures

PROfounders

dfjesprit

Amadeus Capital Partners

France

PARTECH International

SOFINNOVA

Other

ATOMICO

CREANDUM

Mandorve

OPEN OCEAN

PRIMEVENTURES

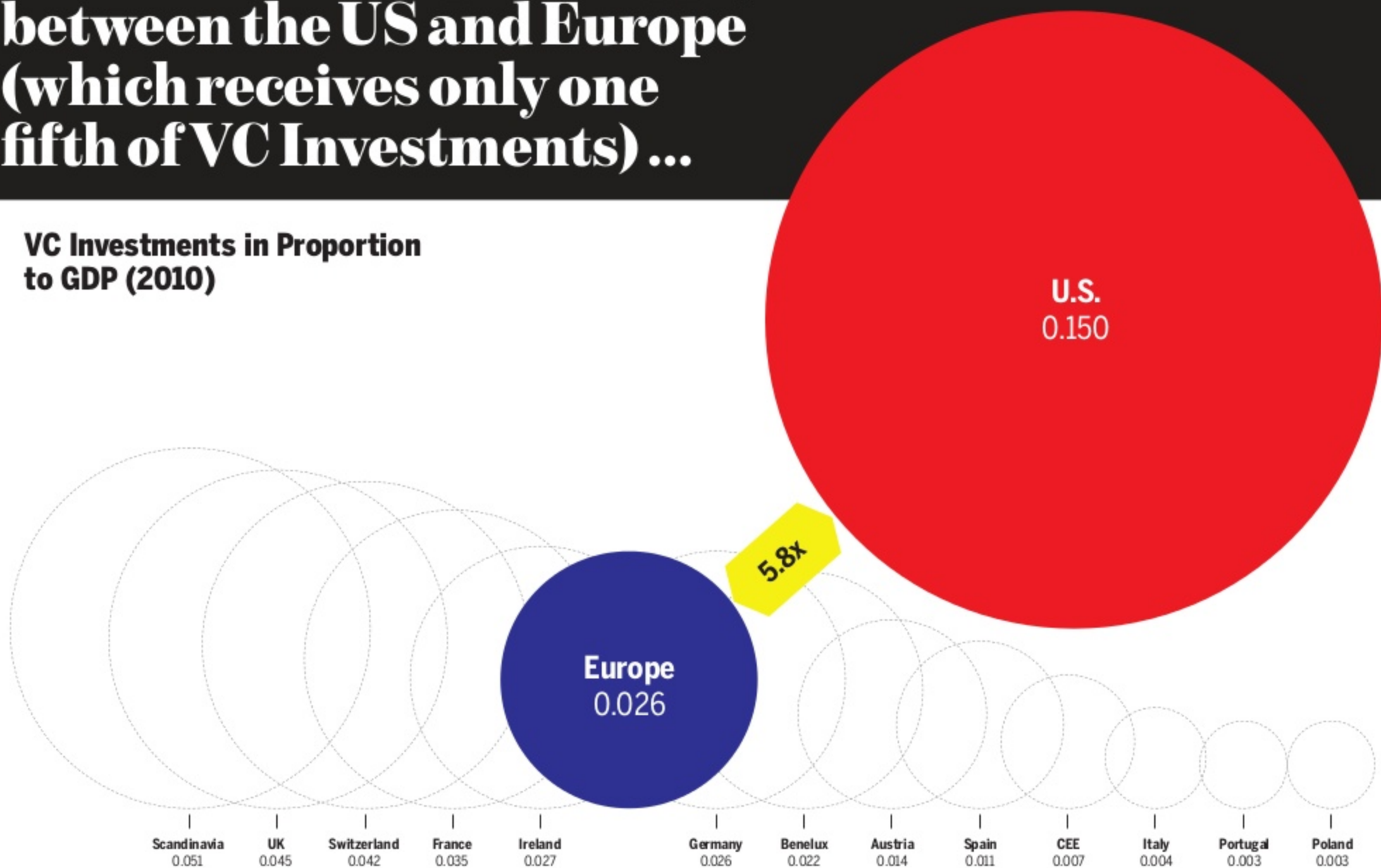
NZ:Northzone

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) ...

VC Investments in Proportion to GDP (2010)



...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.

	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

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*