

# Venture and Angel Investing in Europe

- A comparison with North America -

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**European Entrepreneurship & Innovation Thought Leaders Program**  
(ME421)

Stanford School of Engineering

February 23, 2009

## THE ELEMENTS OF ENTREPRENEURSHIP



- Courage
  - Ambition
    - Determination
      - Cash / Support

# About Alexander Fries



- Swiss Citizen from Davos - GR
- MBA '94 from University of San Francisco
- Worked at 6 Start-ups (2 failures) and some very large multinationals
  - ❑ MCI-Worldcom Zurich
  - ❑ Lucent Technologies Wireless Product House in California
  - ❑ Credit Suisse / UBS Private Banking
- Co-founded another 5 (3 VC backed, 2 Angel - all still operational) including:



ETH Spin-Off founded in 2000



Mobile Content



Swiss Mineral Water



Ebay for Kids (Virtual items)

- Founded in December 2004
- Small Personal Fund
- 19 companies in Portfolio (6 Swiss origin, 4 European, 3 Indian)
  - ❑ 7 companies venture funded
  
- **Investment focus/model:**
  - ❑ European start-ups and European Entrepreneurs in US/EU
  - ❑ Very early stage (from idea, R&D up to pre-Series A round)
  - ❑ No specific industry focus
  - ❑ Support companies with trusted Ecosystem of Service Providers until Series A round (with Investments, corporate & legal structure, Business Development, Human Resources...)
  - ❑ Close “holding-hands” of founders to accelerate path to Series A
  - ❑ Charge no consulting fee of any sort. Equity upfront and milestone based

# About Ecosystem Ventures



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Please place cursor over the circles to see information about locations

- 3 Full-time Associates
- Global Advisors in Asia, Europe and USA



CLUB ENTREPRENEUR



- **EAAC:** Founded by 3 Europeans in June 2005
- Focus is to support European Start-ups or European Entrepreneurs in US/EU
- Involve successful European Diaspora in helping/investing
- Investments in already half of all presented companies
- **Club Entrepreneur:** Sub-Chapter of the Swiss-American Chamber of Commerce
- **Swissnex:** Connecting the dots

# Early / Seed VC Returning to Historic Pre-eminence



## Returns to investors as of 12/31/2006

|                 | 20 years | 10 years | 5 years | 3 years | 1 year |
|-----------------|----------|----------|---------|---------|--------|
| Early / seed VC | 20.5     | 36.4     | (3.0)   | 6.5     | 9.9    |
| Later stage VC  | 14.0     | 9.0      | 3.7     | 9.4     | 25.2   |
| NASDAQ          | 10.1     | 6.4      | 4.3     | 6.3     | 4.8    |
| S & P 500       | 9.2      | 6.7      | 4.3     | 8.2     | 10.8   |

# Venture Capital Investors in Europe vs. U.S.A.



Investment Risk



Microsoft Excel - AutoNet Financial Model 12-17

|     | A | B | C | D | F           | G           | H       |
|-----|---|---|---|---|-------------|-------------|---------|
| 1   |   |   |   |   |             |             |         |
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| 3   |   |   |   |   |             |             |         |
| 4   |   |   |   |   | 1st Quarter | 2nd Quarter | 3rd Qtr |
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| 100 |   |   |   |   |             |             |         |

Investment Evaluation Factor



Size of Investment And Evaluation of Start-Up



# Entrepreneurs in Europe vs. USA



- **Technology/engineering-Focused**
- **Raise smaller amounts of capital**
- **Approach smaller markets, incremental growth**
- **Do not receive support from a experienced ecosystem of early-stage partners and investors.**
- **Do not often work with leading companies to integrate and develop products.**

- **Marketing/Sales-Focused**
- **Raise large amounts of capital**
- **“Shoot for the Moon” mentality, rapid growth**
- **Rely on experienced ecosystem of early-stage investors and partners for support**
- **Work with leading companies to integrate and develop products.**

## 1. European Technology is being acquired

EUROPEAN TECH WIRE - Oct. 12, 2005  
=====

- FNF Acquires Remaining 25% of Germany-Based Kordoba
- Nanoscience Inc., a U.S.-based nanotechnology company to Acquire Toumaz for £17.7 Million in Stock
- Oracle Buys Finland-Based Innobase for Undisclosed Sum
- Ebay – Skype
- **This is about the sixth acquisition of a Swiss computing firm by a big name US player** in the past year or so - only some of them were VC-backed

## 2. European Technology is not being commercialized

## 3. European Venture Capitalists are former Bankers (Too Conservative)

## 4. European Institutional Investors are putting money into US VCs

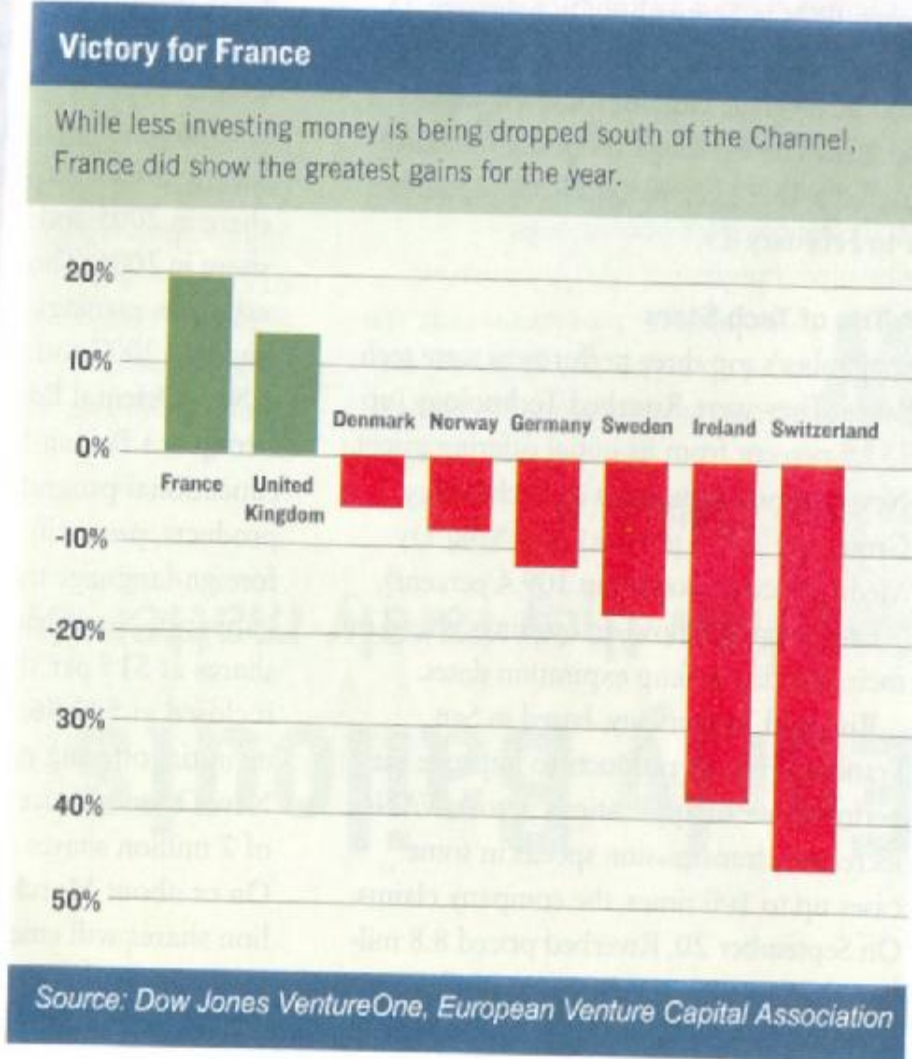
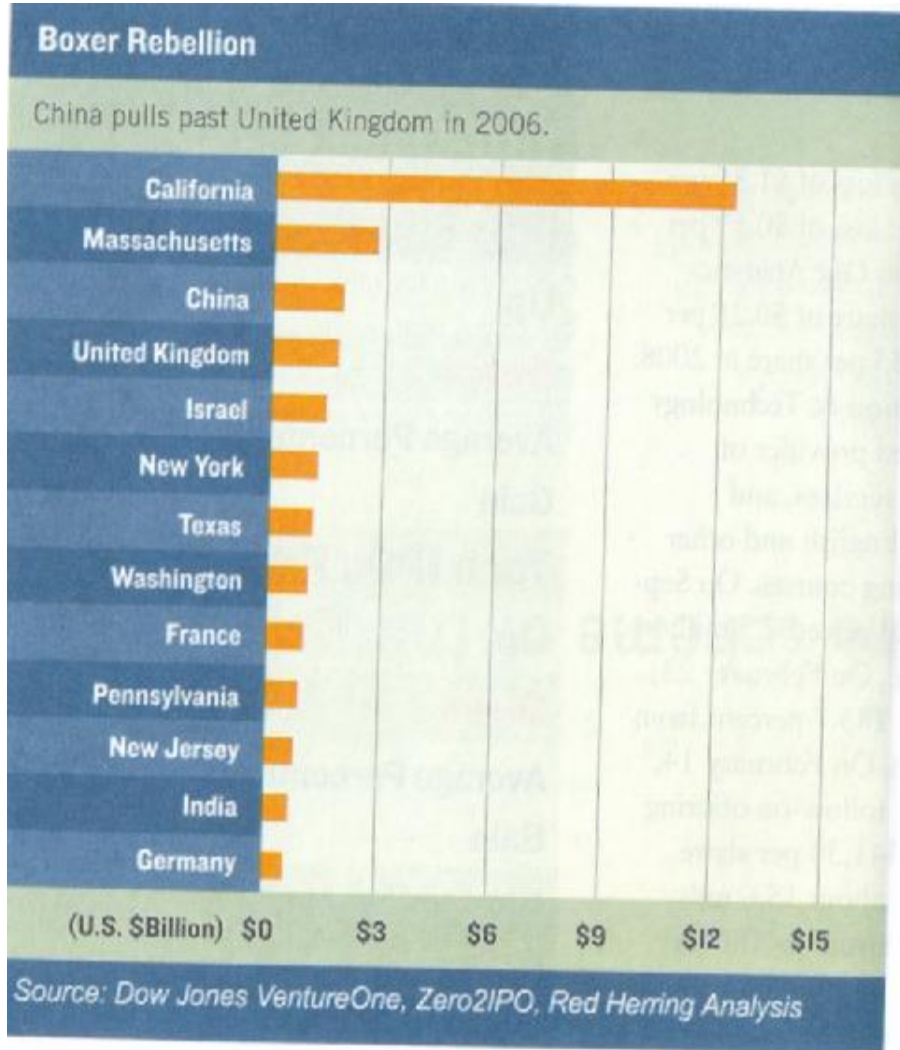
## 5. Global Synergies are not being utilized

## 6. European Scientists and Entrepreneurs not ambitious enough

## 7. European Start-ups need experienced business executives

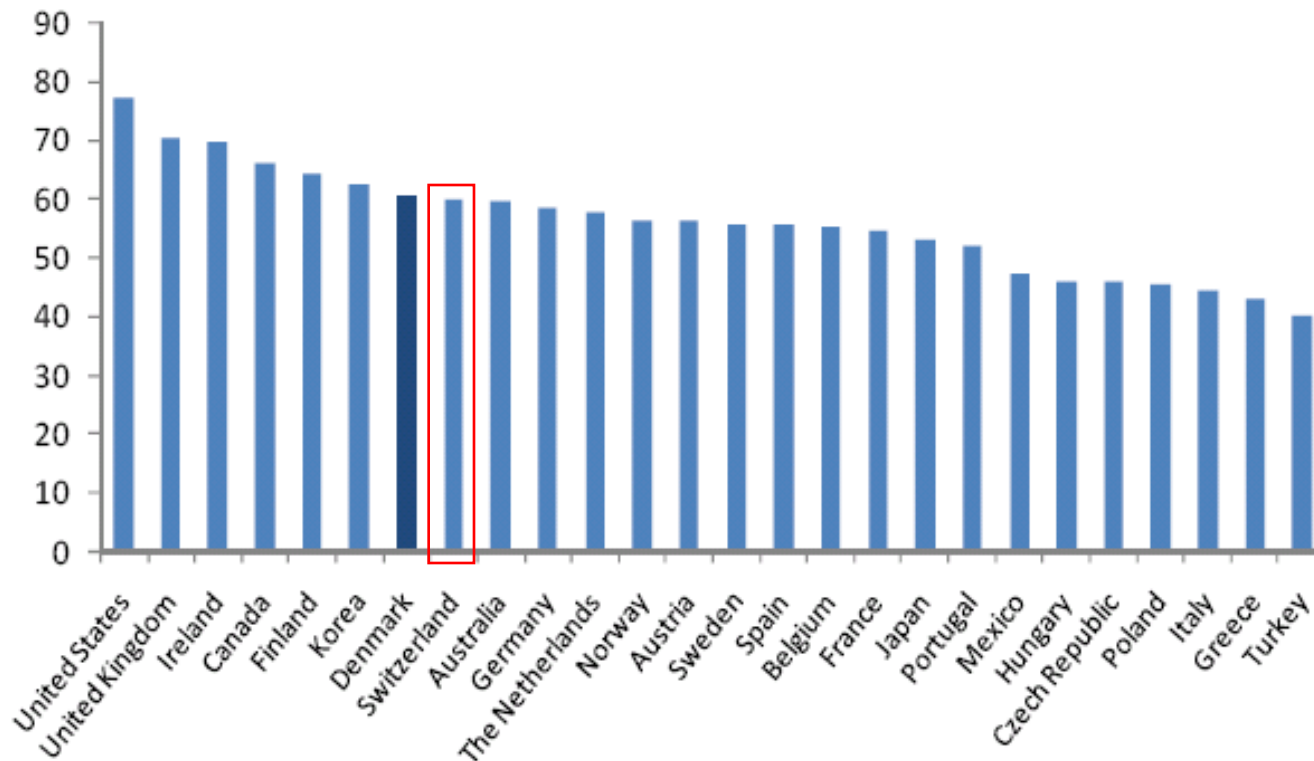
## 8. Brain Drain – Scientists/Entrepreneur leaving/ being attracted

- There is a willingness of the companies in the US to work with start-ups, whereas **in general in Europe the big established companies have a bit of a paranoid attitude,**” said Beunder. “We’re making inroads [in Europe] now but it’s taken a while, longer than the US.”
- Cavendish Kinetics initially moved to Holland to take advantage of an established skills base in MEMS, but is now concentrating efforts in the US as it tries to push its OTP memory into products and goes for second round funding.
- “If you’re building up your company and you get the first ten guys in, those are senior guys, **[In Europe] the senior guys are in the big companies and in Europe people are a lot more conservative and security-minded,**” said Beunder. “We also talk a lot to the INSEAD [business school] people and they’re saying that the MBAs... go to McKinsey and the big outfits and do consulting there. Which is not what should be happening.



# Lack of sufficient Entrepreneurship framework in Europe

Figure 48. Ranking country entrepreneurship framework conditions, 2007



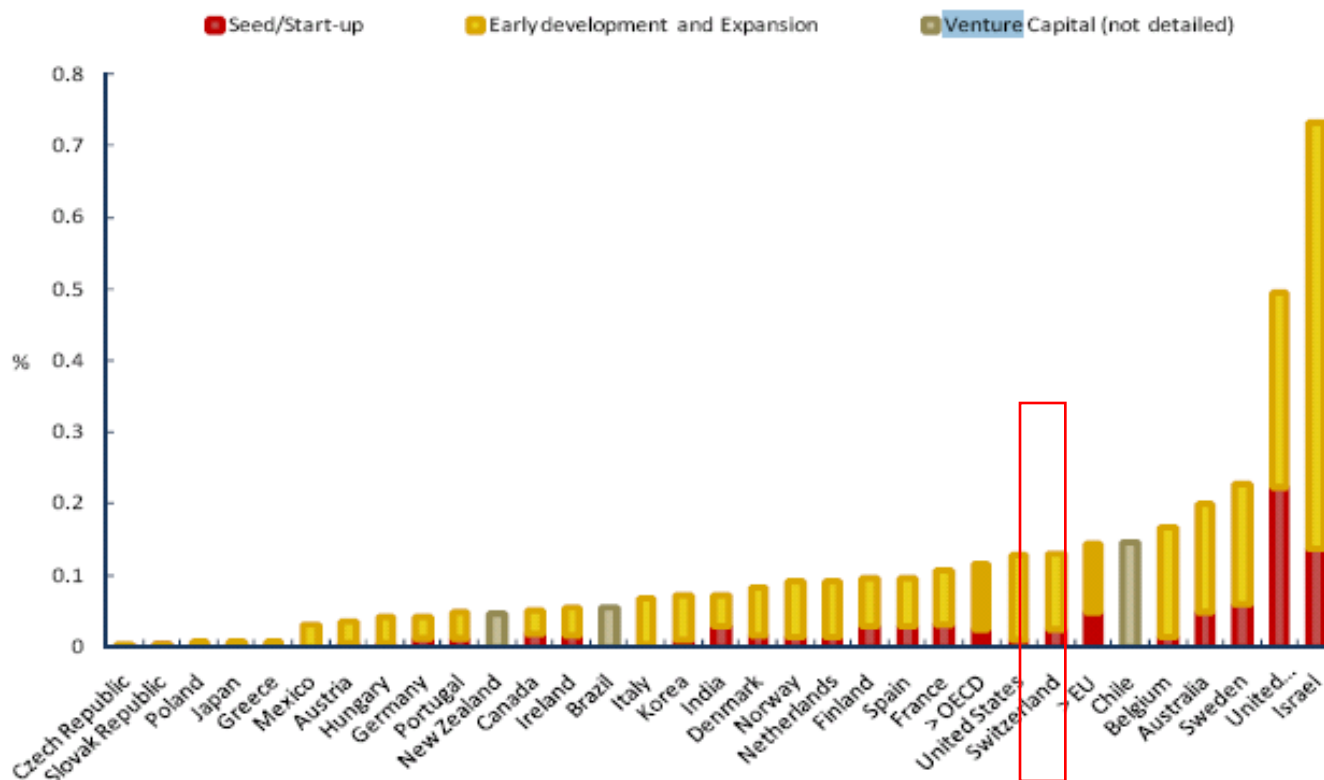
Note: The indicator shows the individual countries' average normalised performance in the most recent ranking of 66 indicators (Ahmad and Hoffmann framework)

Source: Entrepreneurship Index 2007, Danish Enterprise and Construction Authority

# Not enough funding as % of GDP is available!!

Figure 53. Early stage and expansion investments

As a percentage of GDP, 2006



Note: Venture Capital includes Seed, Startup, Early development and Expansion stages. Later stages and Buyouts are excluded, except for Mexico, Chile and Brazil. Total OECD excludes Luxembourg, Turkey and Iceland.

Source: OECD based on data from Thomson Financial, PwC, EVCA, LVCA and National Venture Capital Associations

- **European VC Investment Shifts toward Later-Stage**

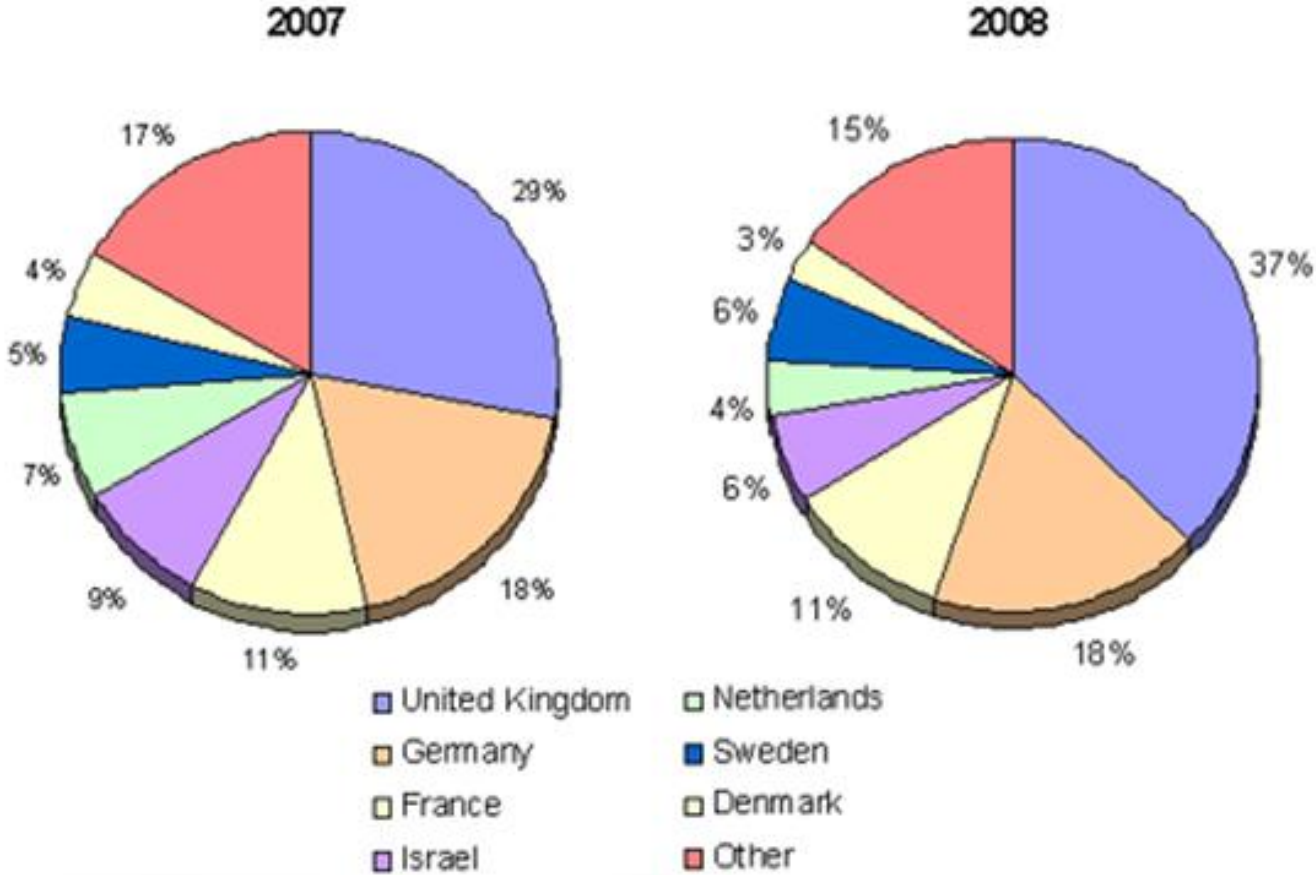
London -- According to a new report by **Ernst & Young** and **VentureOne**, later-stage venture-capital investment in Europe increased to €1.76 billion in 2005, the highest total for that category since 2002. Overall funding fell over the same period, with VCs investing approximately €3.6 billion euro in 1,020 companies -- declines of 5% and 16%, respectively. "The focus on later-stage activity is being driven by the movement in the liquidity market, in which European companies are increasingly finding public market exits," said VentureOne Global Research Director Steve Harmston. Harmston said 60 European, VC-backed companies launched successful IPOs last year, about a third more than in the U.S.

[http://finanzen.net/news/news\\_detail.asp?NewsNr=372257](http://finanzen.net/news/news_detail.asp?NewsNr=372257)

- 1. European Technology is the BEST in the WORLD**
- 2. There are Entrepreneurs (mostly Scientist/Engineers)**
- 3. Governments have realized the importance of Entrepreneurship**
- 4. Angel support Network functioning quite well**
- 5. There is money**

# EU Investments

Country distribution VC investments in European tech companies



## Innovationsleistung im Ländervergleich

(Auswahl)<sup>1</sup>

|                 | Rang <sup>2</sup> | Innovations-<br>index 2005 | Wachstum<br>des Indexes <sup>3</sup> |
|-----------------|-------------------|----------------------------|--------------------------------------|
| Schweden        | 1                 | 0.72                       | -1.5                                 |
| Schweiz         | 2                 | 0.71                       | 0.5                                  |
| Finnland        | 3                 | 0.68                       | 0.9                                  |
| Japan           | 4                 | 0.65                       | 2.0                                  |
| USA             | 6                 | 0.60                       | -0.2                                 |
| Deutschland     | 7                 | 0.58                       | 1.0                                  |
| Österreich      | 8                 | 0.51                       | 2.4                                  |
| Grossbritannien | 11                | 0.48                       | -2.6                                 |
| Frankreich      | 12                | 0.46                       | -0.7                                 |
| Italien         | 17                | 0.36                       | 1.4                                  |
| Spanien         | 21                | 0.30                       | -0.6                                 |
| Polen           | 27                | 0.23                       | 0.3                                  |
| Türkei          | 33                | 0.06                       | -4.3                                 |
| EU-25           | -                 | 0.42                       | 0.0                                  |

<sup>1</sup> Der Bericht erfasst insgesamt 33 Staaten (EU, Schweiz, Bulgarien, Rumänien, Türkei, Norwegen, Island, USA, Japan); \* gemessen am Innovationsindex 2005;

<sup>3</sup> durchschnittliches jährliches Wachstum des Indexes über drei Jahre (in %).

Quelle: European Innovation Scoreboard 2005

## Global Competitiveness Report

2007-2008

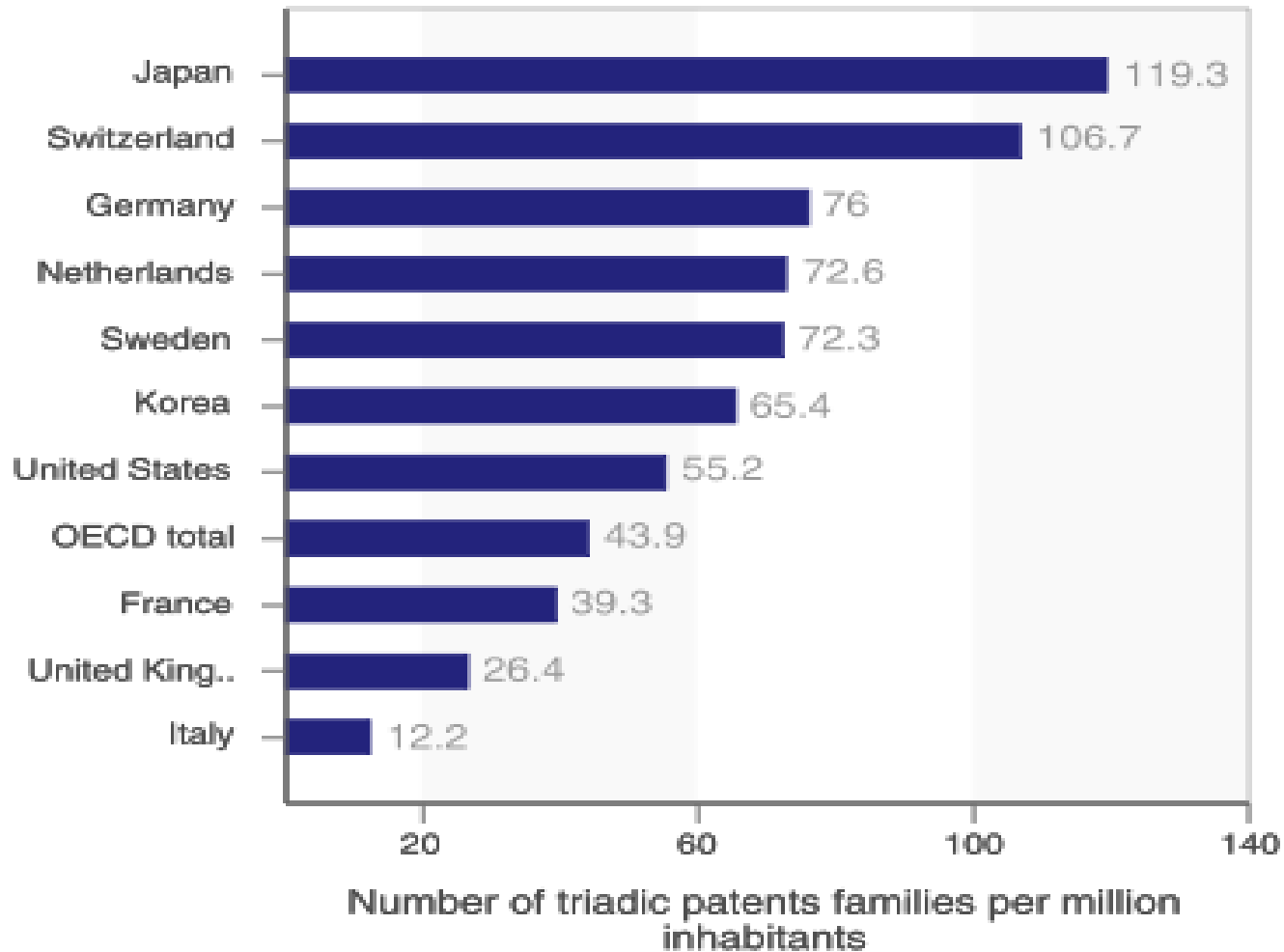
Rank 2007 - 2008

|                |    |
|----------------|----|
| USA            | 1  |
| Switzerland    | 2  |
| Germany        | 5  |
| Japan          | 8  |
| United Kingdom | 9  |
| Austria        | 15 |
| France         | 18 |
| China          | 34 |
| Italy          | 46 |
| Russia         | 58 |



Source: WEF 2008

# Top in Patents



# ..and: Top in Quality of Living !!

## Mercer Human Resource Consulting Worldwide Quality of Living Survey 2007

### Top 50

Base City: New York, USA (=100)

| Rank 2007 | Rank 2006 | City       | Country         | Index 2007 | Index 2006 |
|-----------|-----------|------------|-----------------|------------|------------|
| 1         | 1         | ZURICH     | Switzerland     | 108.1      | 108.2      |
| 2         | 2         | GENEVA     | Switzerland     | 108.0      | 108.1      |
| 3         | 3         | VANCOUVER  | Canada          | 107.7      | 107.7      |
| 3         | 4         | VIENNA     | Austria         | 107.7      | 107.5      |
| 5         | 5         | AUCKLAND   | New Zealand     | 107.3      | 107.3      |
| 5         | 6         | DUSSELDORF | Germany         | 107.3      | 107.2      |
| 7         | 7         | FRANKFURT  | Germany         | 107.1      | 107.0      |
| 8         | 8         | MUNICH     | Germany         | 106.9      | 106.8      |
| 9         | 9         | BERN       | Switzerland     | 106.5      | 106.5      |
| 9         | 9         | SYDNEY     | Australia       | 106.5      | 106.5      |
| 11        | 11        | COPENHAGEN | Denmark         | 106.2      | 106.2      |
| 12        | 12        | WELLINGTON | New Zealand     | 105.8      | 105.8      |
| 13        | 13        | AMSTERDAM  | The Netherlands | 105.7      | 105.7      |
| 14        | 14        | BRUSSELS   | Belgium         | 105.6      | 105.6      |
| 15        | 15        | TORONTO    | Canada          | 105.4      | 105.4      |
| 16        | 16        | BERLIN     | Germany         | 105.2      | 105.1      |
| 17        | 17        | MELBOURNE  | Australia       | 105.0      | 105.0      |
| 18        | 18        | LUXEMBOURG | Luxembourg      | 104.8      | 104.8      |
| 18        | 18        | OTTAWA     | Canada          | 104.8      | 104.8      |
| 20        | 20        | STOCKHOLM  | Sweden          | 104.7      | 104.7      |
| 21        | 21        | PERTH      | Australia       | 104.5      | 104.5      |
| 22        | 22        | MONTREAL   | Canada          | 104.3      | 104.3      |
| 23        | 23        | NURNBERG   | Germany         | 104.2      | 104.1      |
| 24        | 25        | CALGARY    | Canada          | 103.6      | 103.6      |
| 24        | 26        | HAMBURG    | Germany         | 103.6      | 103.4      |
| 26        | 31        | OSLO       | Norway          | 103.5      | 102.8      |

Table 5. Corporate Income Tax Rates, 2007

(Combined central and sub-central statutory tax rates, in per cent)

| <i>Country</i>    | <i>Tax rate</i> |
|-------------------|-----------------|
| Australia(1)      | 30              |
| Canada            | 36.1            |
| Denmark           | 25              |
| Finland           | 26              |
| France(2)         | 34.4            |
| Germany(3)        | 38.9            |
| Ireland           | 12.5            |
| Italy (4)         | 33              |
| Japan             | 39.5            |
| Korea             | 27.5            |
| New Zealand(1)    | 33              |
| Norway            | 28              |
| Sweden            | 28              |
| Switzerland(5)    | 21.3            |
| United Kingdom(1) | 30              |
| United States(6)  | 39.3            |

1. Fiscal year beginning 1 July

2. Includes a surcharge but not the local business tax.

3. Includes the regional trade tax and a surcharge.

4. Regional business tax not included.

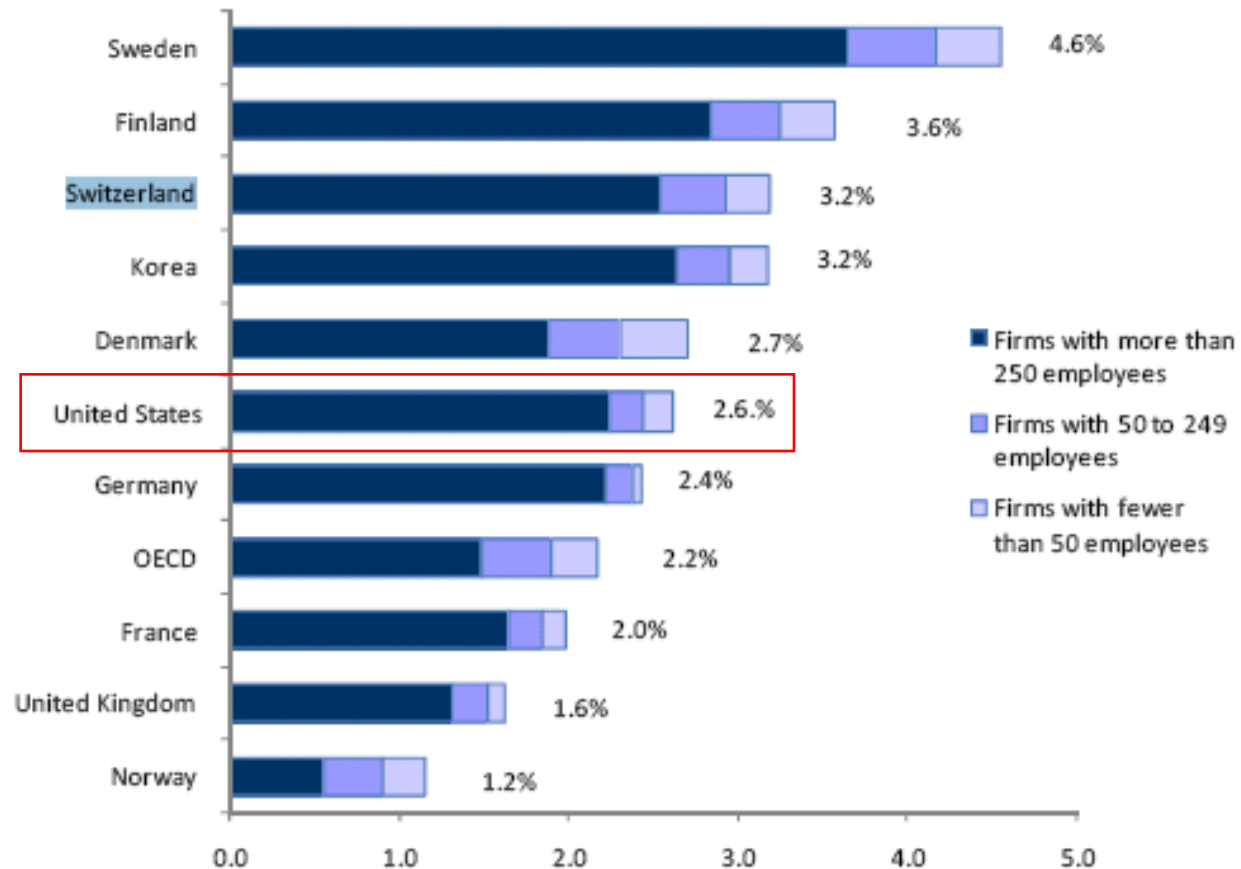
5. Includes church taxes, as calculated by the Swiss Federal Tax Administration.

6. Sub-central rate is a weighted average of state marginal rates.

Source: OECD.

# Top in R&D Expenditures

Business sector R&D expenditure as a % of industry value added



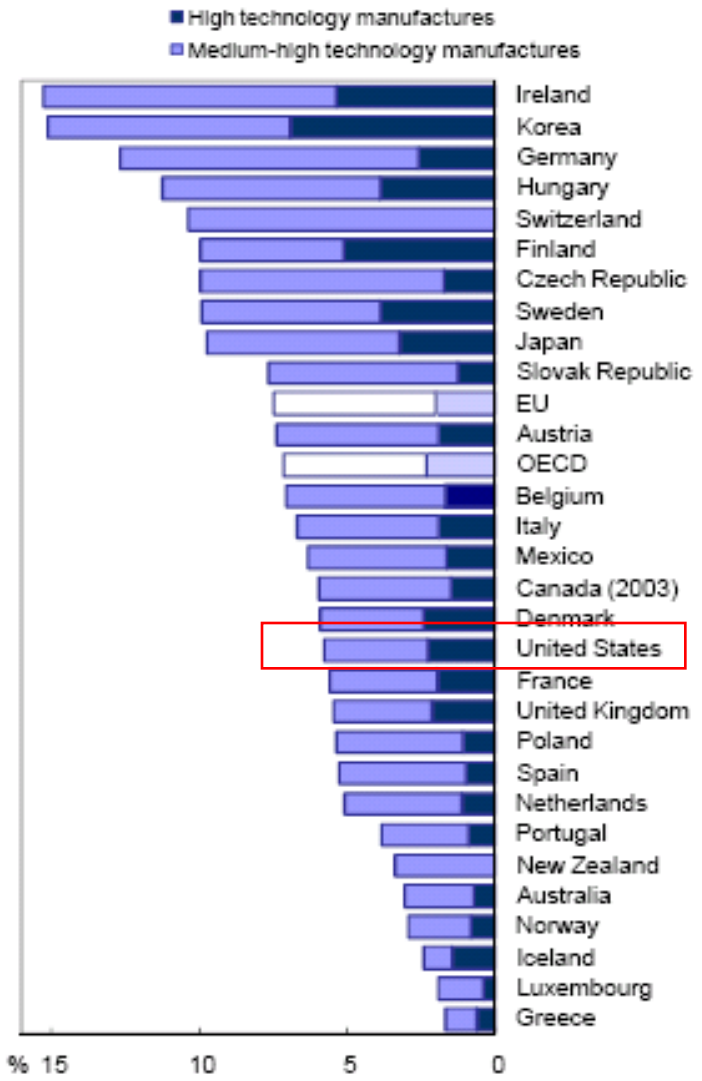
Note 1: data for Denmark is from 2003, data from France is from 2002, data for Germany is from 2003, data for Switzerland is from 2004.

Source: OECD Science, Technology and Industry Scoreboard, 2007

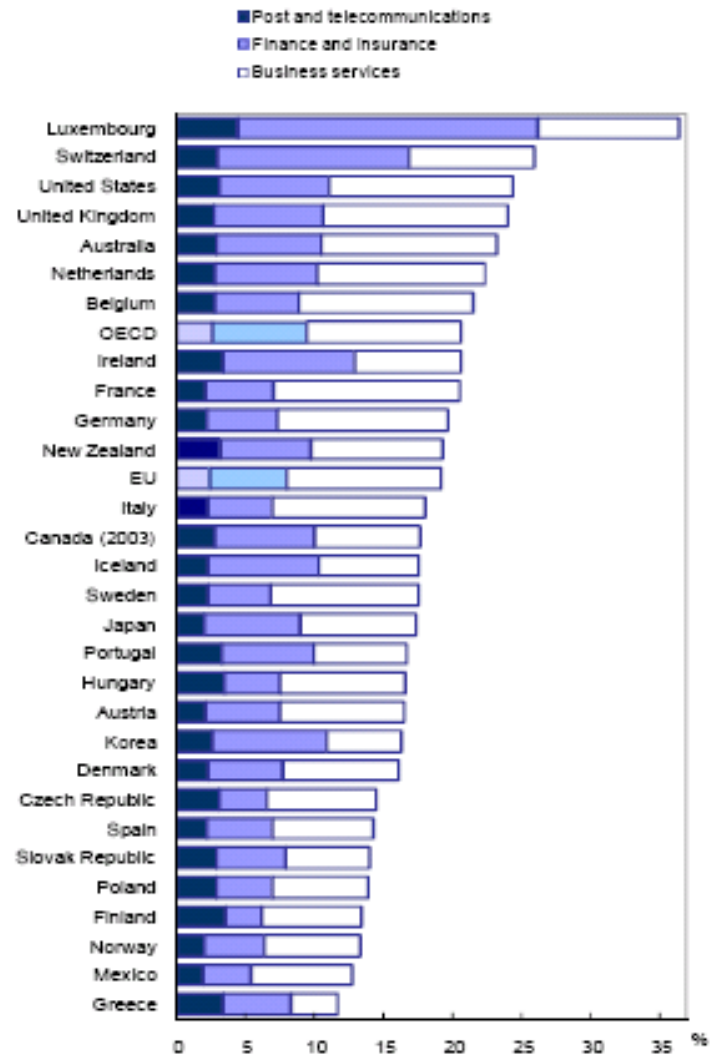
# Top in High Tech



High and medium-high technology manufactures



Knowledge intensive market services



Source: STI Scoreboard (OECD, 2007)

- 1. Give Foreign Engineering Students/Scientists Employment Visas upon graduation**  
(...Bring in the Indians !!! )
- 2. Merge World Synergies (European Technology, American Commercialization expertise and Asian development, manufacturing cost)**
- 3. Bring ambition into start-up founders. “The Stars is the limit – land on the Moon”**
- 4. Bring innovative start-ups to Europe**
- 5. Start an Early Stage Fund with Government / Private money with no pressure on ROI**

6/10/06 –FT: Key results from discussions with advisors **Small firms need investment capital but the market has failed to provide it — public sector support is needed** The work of the group confirmed that there is a fundamental market failure in the provision of early-stage financing in both the US and the EU. Venture capital funds are concentrating on larger and larger deals, leaving the small and risky early-stage deals aside

# Fundraising across Europe: Governments show some teeth



- In its aim to promote investments in innovations, **TechnoPartner** (an initiative by the **Dutch Ministry of Economic Affairs**) announced the first allocations of its **Seed-facility**. This regulation allows investors in seed-stage companies to improve their risk/return trade-off by investing the funds committed to by the investor. Given the recent Dutch scarcity of VC funds under management, the interest for the regulation was tremendous with 14 applications received. The first 5 funds have been selected with funds totaling €33.2 million -.
- Meanwhile, the **French state** recently launched a new investment fund together with Caisse des Dépôts and the European Investment Bank in order to attract capital to the country's technology companies. The €150 million fund of funds, **le Fonds de Fonds Technologique (FFT)**, is targeted at developing the venture capital industry through its investment in funds and innovative small companies.
- Furthermore, the **Basque venture capital group Talde** launched **Talde Capital II**, with initial assets of €54.5 million mainly aimed at medium-sized companies. **In Germany**, venture capital company **Dr. Neuhaus Techno Nord** launched a €100 million Fund, **INCOM III**, which will invest in young German enterprises in the information and communication sector.

Concluding, there was news on **3 Scandinavian funds**. The Danish pension fund **ATP** is to be the primary investor in a new €135 million Danish venture fund for Nordic startups in the IT technology sector. The fund will be established in early 2006 and managed by **Via Venture Partners**. **Nordic Biotech** held the first closing of its second biotech fund, **Nordic Biotech Venture Fund II**, at €41.5 million. The fund will primarily invest in European biotech companies with a focus on drug development. **Four Seasons Venture** held a final close on its oversubscribed €105 million **Four Seasons Venture V** fund, which will invest in Nordic technology companies.

# Thank You !



February 23, 2009

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# Global Co-Investor Network



smac Venture Partners (**Germany**);  
Constellation AG (**Swiss**)

Microsoft; Li Kai Ching (**Hong-Kong**)

Easton Capital, Morgenthaler Ventures  
(**USA**)

The Roda Group; Severstal Ventures  
(**Russia**)

Menlo Ventures; STIC Investments  
(**Korea**), TMT Novel (**China**)

ZKB (**Swiss**)

New Venture Partners; JumpStart  
(**USA**)

## Company



US Social Network for First-time Mothers.  
Company started by Wife and Husband +  
1 engineer/designer

<http://www.mothersclick.com>

**Total Investment in US\$**                      \$150'000.-

**Exit**    M&A \$6.8M                      <http://www.prnewswire.com/cgi-bin/stories.pl?ACCT=104&STORY=/www/story/08-27-2008/0004874309&EDATE=>

**Timeframe**                                      05/2006 – 08/2008

## Company

***AVC Inc.***

Swiss-American start-up in the Digital Communication sector.

## Total Investment in US\$

\$3M (incl. Intel and Microsoft in kind)

## Exit

M&A \$32M

[http://209.85.173.104/search?q=cache:Y7P4tm5AQvYJ:www.offwallstreet.com/reports/NEW\\_USWB\\_4.8.99.pdf+USWeb+acquires+AVC&hl=en&ct=clnk&cd=4&gl=us](http://209.85.173.104/search?q=cache:Y7P4tm5AQvYJ:www.offwallstreet.com/reports/NEW_USWB_4.8.99.pdf+USWeb+acquires+AVC&hl=en&ct=clnk&cd=4&gl=us)

## Timeframe

09/1995 – 01/1998

## Company



European-American start-up developing  
“electronic Ink” for all kind of Displays.

[www.zikon.com](http://www.zikon.com)

**Total Investment in US\$**            \$200'000.-

**Exit**                                    Still in business. Collaboration with largest display company in  
the World. Still confidential. JDA payment of over **\$400'000.-**

**Timeframe**                            03/2005 – 08/2008



## Company



US based start-up providing online video analytics [www.illumenix.com](http://www.illumenix.com)

**Total Investment in US\$**                      \$200'000.-

**Exit/VC Investment:**                      Acquired by Tubemogul Inc., 15 days after Ecosystem investments. Share swap  
[http://www.tubemogul.com/about/press\\_release.php?r=30](http://www.tubemogul.com/about/press_release.php?r=30)

**Timeframe**                                      09/2008 – 10/2008