

Money for Growth

The European Technology Investment Report 2005*

Joe Tynan, Leader, Technology Industry Group



*connectedthinking

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Agenda

- Introduction
- Overview of report on Money for Growth
- The Private Equity Market in Ireland
- The Irish Market in relation to Europe and the US
- Key Trends and Issues
- How PwC can assist VC's and their investee companies
- Shay Garvey - IVCA

Some Key Issues

- Deal size
- Fundraising
- Divestments
- High Tech
- Sectors: 1 Software
 2 Medical devices
 3 Communications
- Funding seed companies



Methodology

- 20 Western and Central European countries surveyed included in European tables
- Additional 7 CE countries included as pilots
- PwC and TVE collected data directly from 18 countries (plus 7 pilots)
- Data editing and processing carried out by Thomson Venture Economics (and by PwC for UK, France and Italy)
- Survey directed and analysed by Global Technology Industry Group in Europe
- Data collected via survey questionnaires (response rate of 72.5% out of universe of 1,600 private equity firms)

Source: EVCA Survey of Pan-European Private Equity and Venture Capital Activity 2004
Conducted by: Thomson Venture Economics and PricewaterhouseCoopers

Methodology (cont)

- High response rate achieved via PwC International Survey Unit, country coordinators and NVCAs
- Fundraising
 - only formal closings included
- Investment
 - cut off = completion date (not announcement date)
 - only equity value (not enterprise value)
 - debt included only if provided by the private equity fund
- Divestment
 - captured at cost (not proceeds).

Source: EVCA Survey of Pan-European Private Equity and Venture Capital Activity 2004

Conducted by: Thomson Venture Economics and PricewaterhouseCoopers

Irish Overview - 2004

- Investment by domestically based VC's and private equity houses down 76% at €61 million (total investment in Ireland fell 69% to €166 million)
- Partially due to the absence of buyouts (2003:69% - €175 million)
- Hi-tech investments accounted for 88% of investments made – 96% in 2003
- Average deal size in 2004 was €0.51 million up 53% - (€0.33 million 2003 excluding buyout)
- Funds raised down 22% - at €47 million (2003: €60 million)
- Seed / start up investment - €28 million in 2004 compared to €33 million in 2003
- Total divestments of €190 million in Ireland in 2004 (2003: €58 million)

European & US Overview - 2004

Europe - 2004

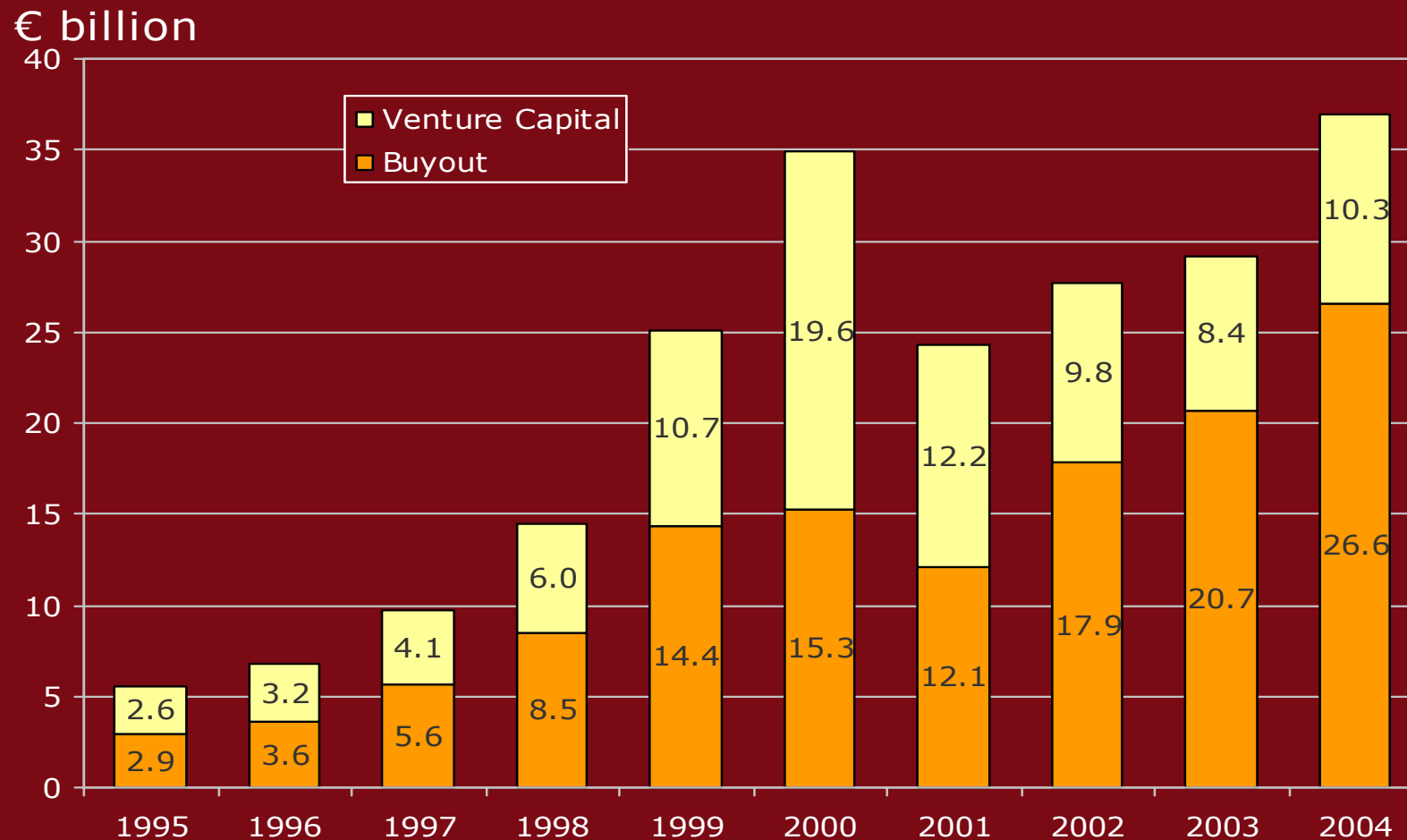
- Overall investment up 27% - at €36.9 billion - highest ever
- Technology investment rose 19% - €6.4 billion in 2004 (€5.4 billion in 2003)
- Buyouts represented 70% of total invested in 2004 (2003 : 63%)
- Funds allocated to technology seed / start up steady at €1.5 billion in 2004
- Funds raised in Europe steady - at €27.5 billion
- Highest level ever of divestments in Europe - €19.6 billion (2003: €13.6 billion)

US - 2004

- Overall investment up 14% - at US\$20.9 billion
- Overall technology investment up 14% - at US\$17.5 billion
- Average deal size for technology investments down 2% to US\$6.1 million in 2004

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€37 Billion Invested in Europe Record Level

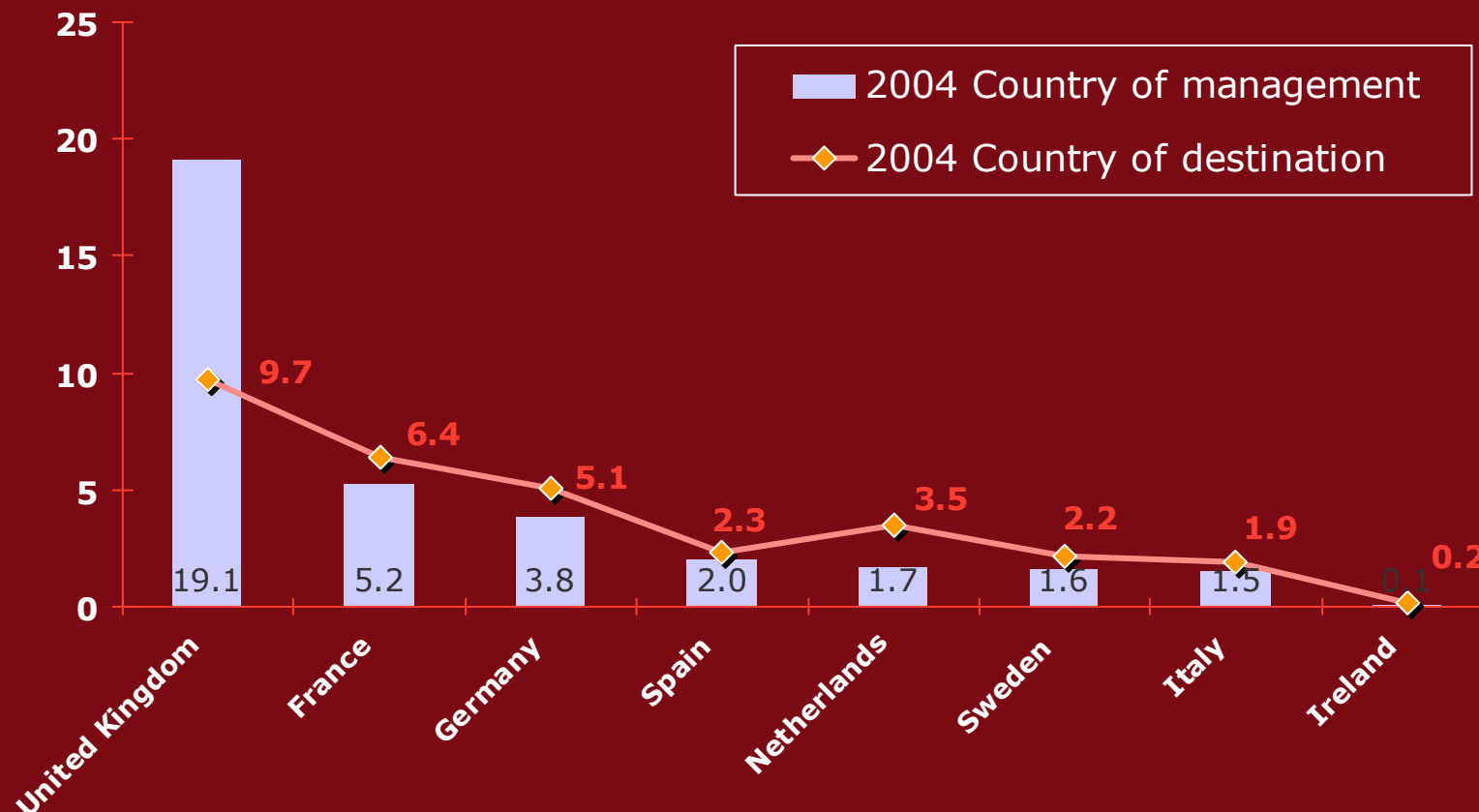


Source: EVCA Survey of Pan-European Private Equity and Venture Capital Activity 2004

Conducted by: Thomson Venture Economics and PricewaterhouseCoopers

2004 European Investments Country of Management and Country of Destination

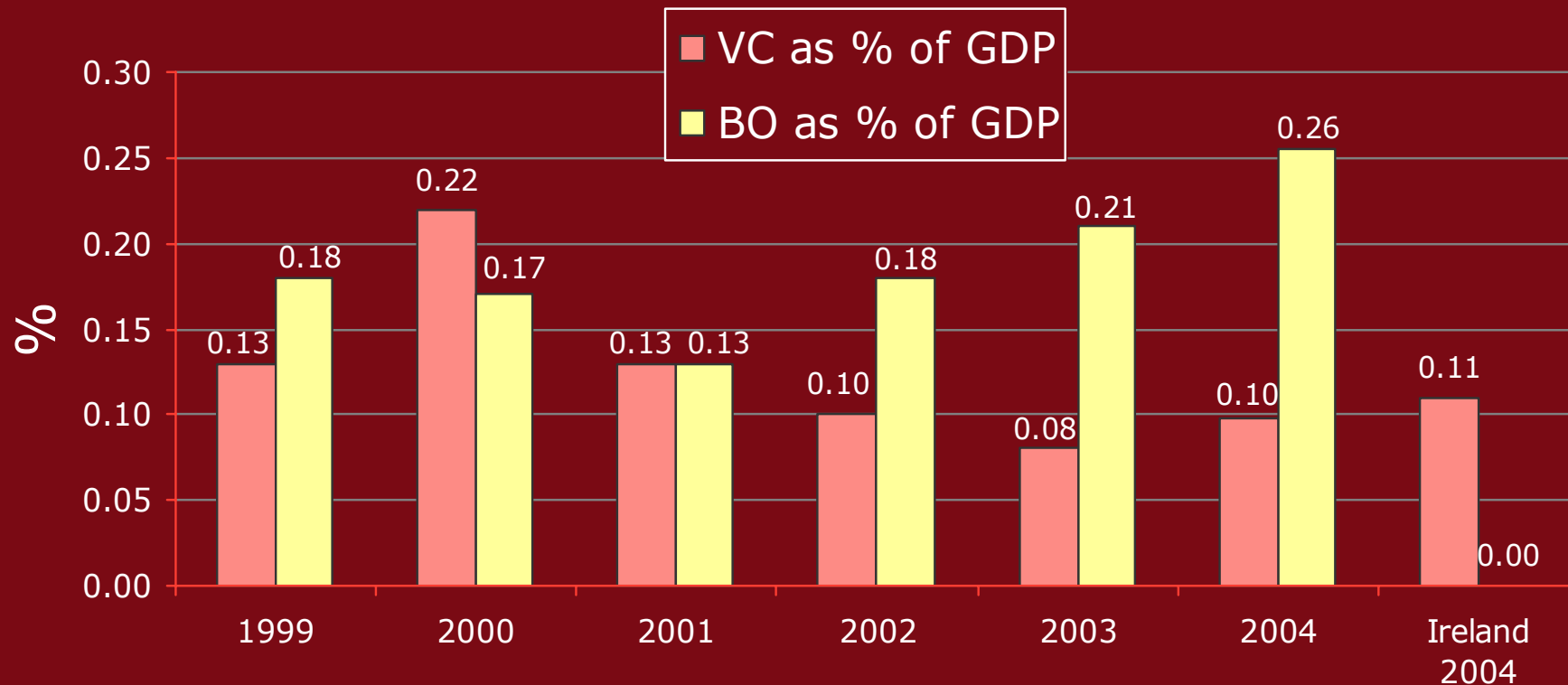
€ billion



Source: EVCA Survey of Pan-European Private Equity and Venture Capital Activity 2004

Conducted by: Thomson Venture Economics and PricewaterhouseCoopers

European Venture Capital and Buyout Amount Invested as % of GDP



Source: EVCA Survey of Pan-European Private Equity and Venture Capital Activity 2004, CSO National accounts

Conducted by: Thomson Venture Economics and PricewaterhouseCoopers

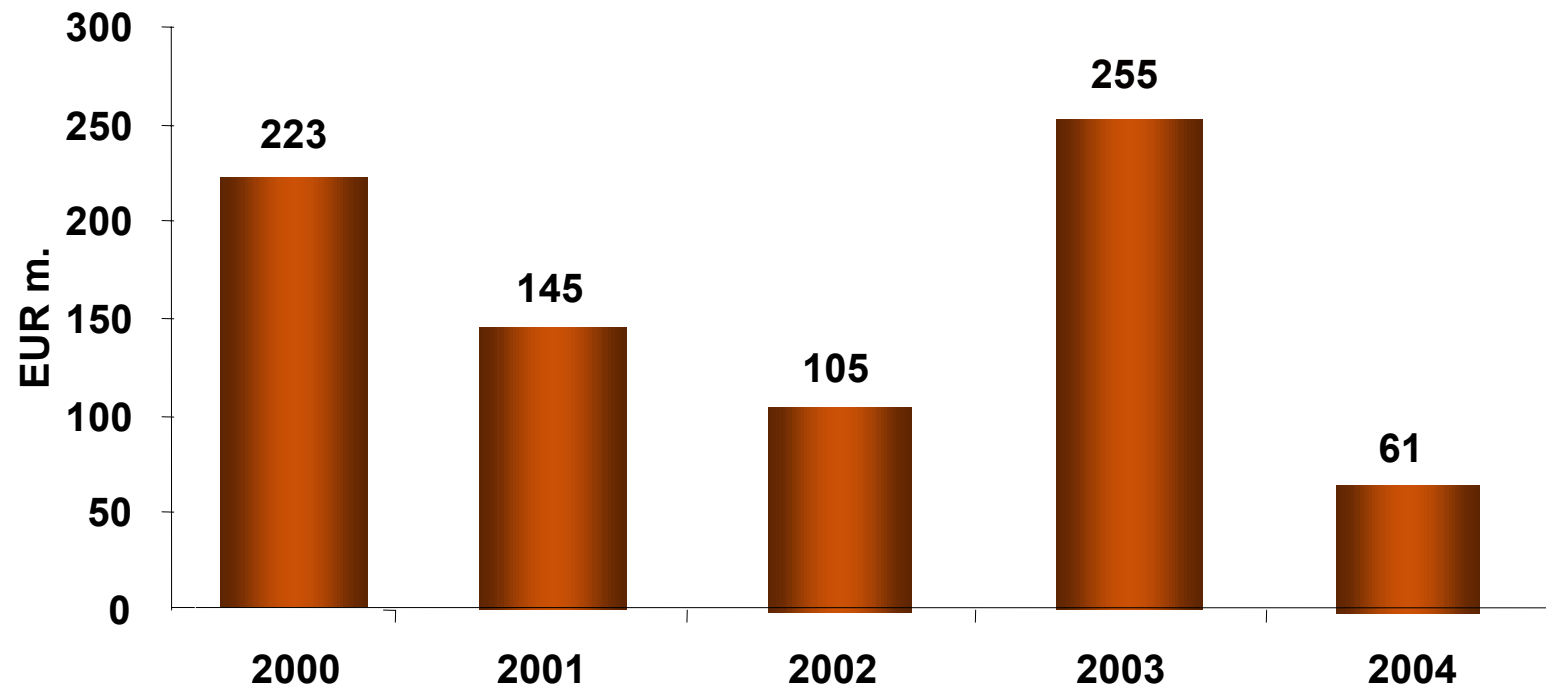
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Private Equity Market in Ireland

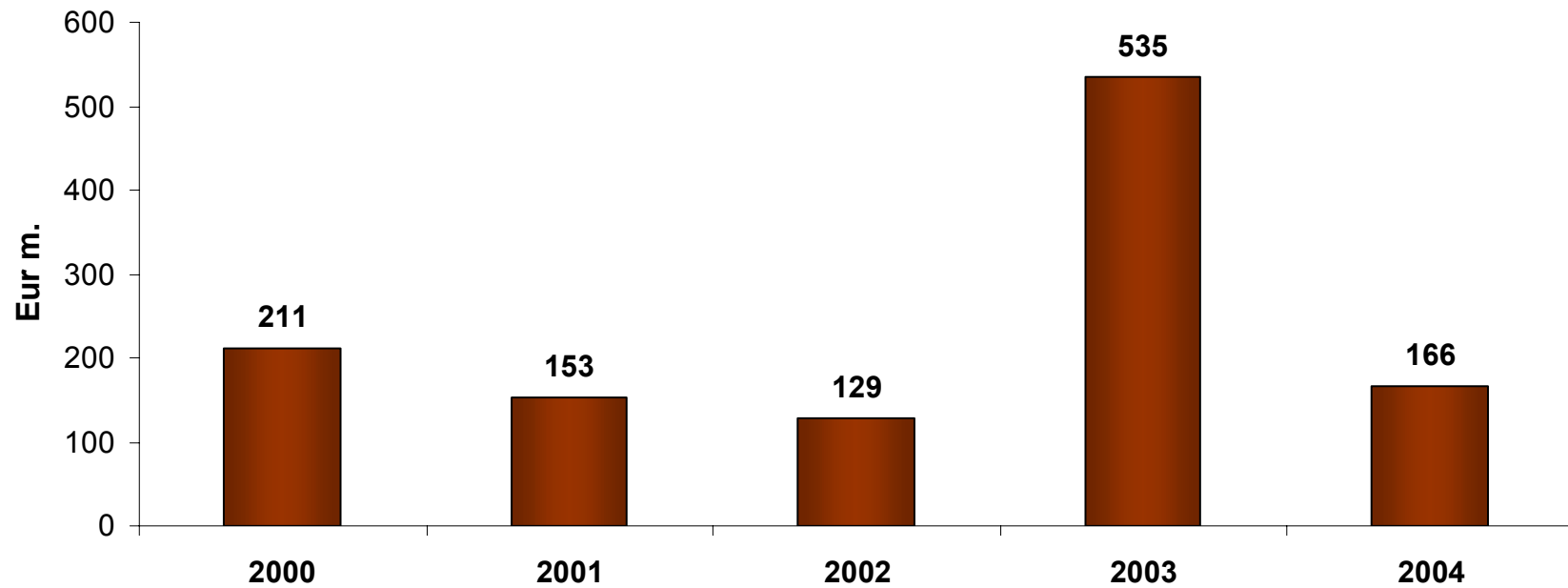
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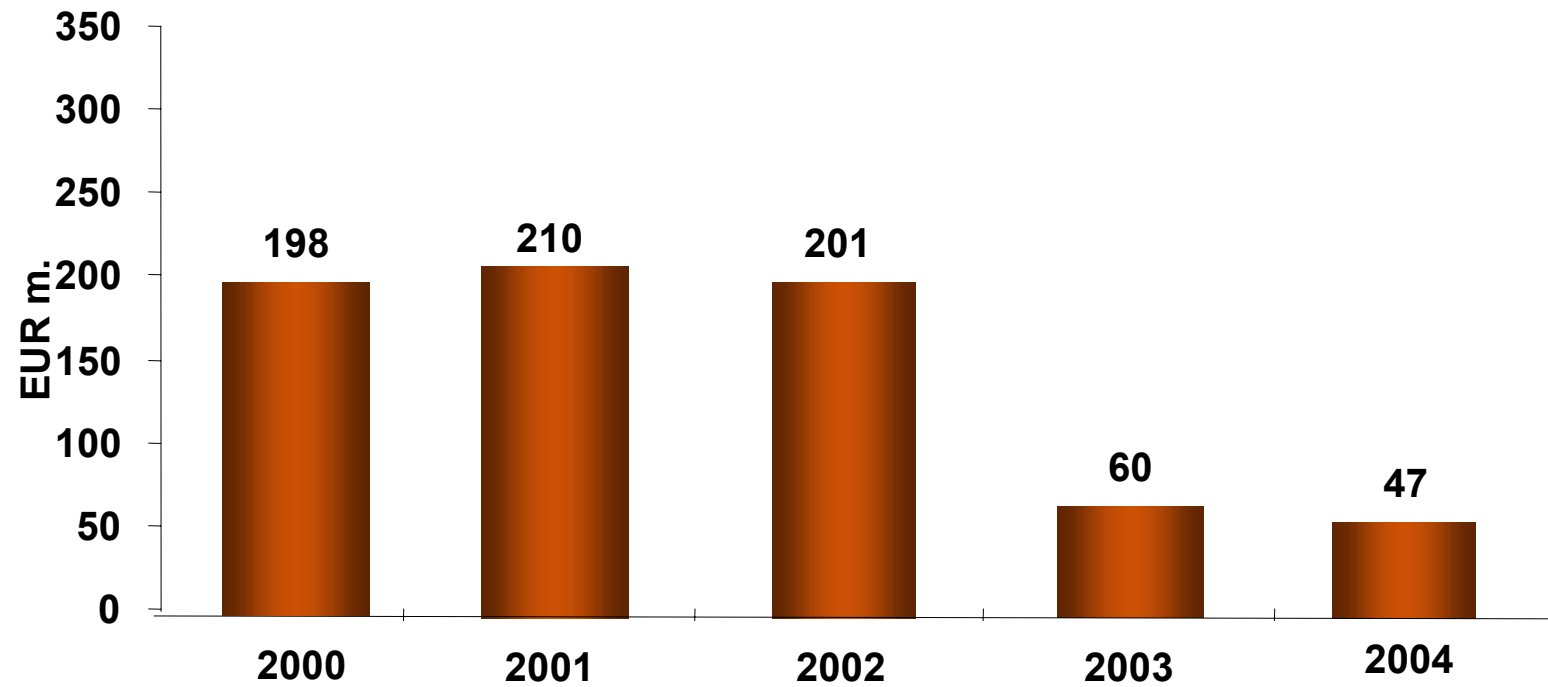
Total Investment by Domestic VCs



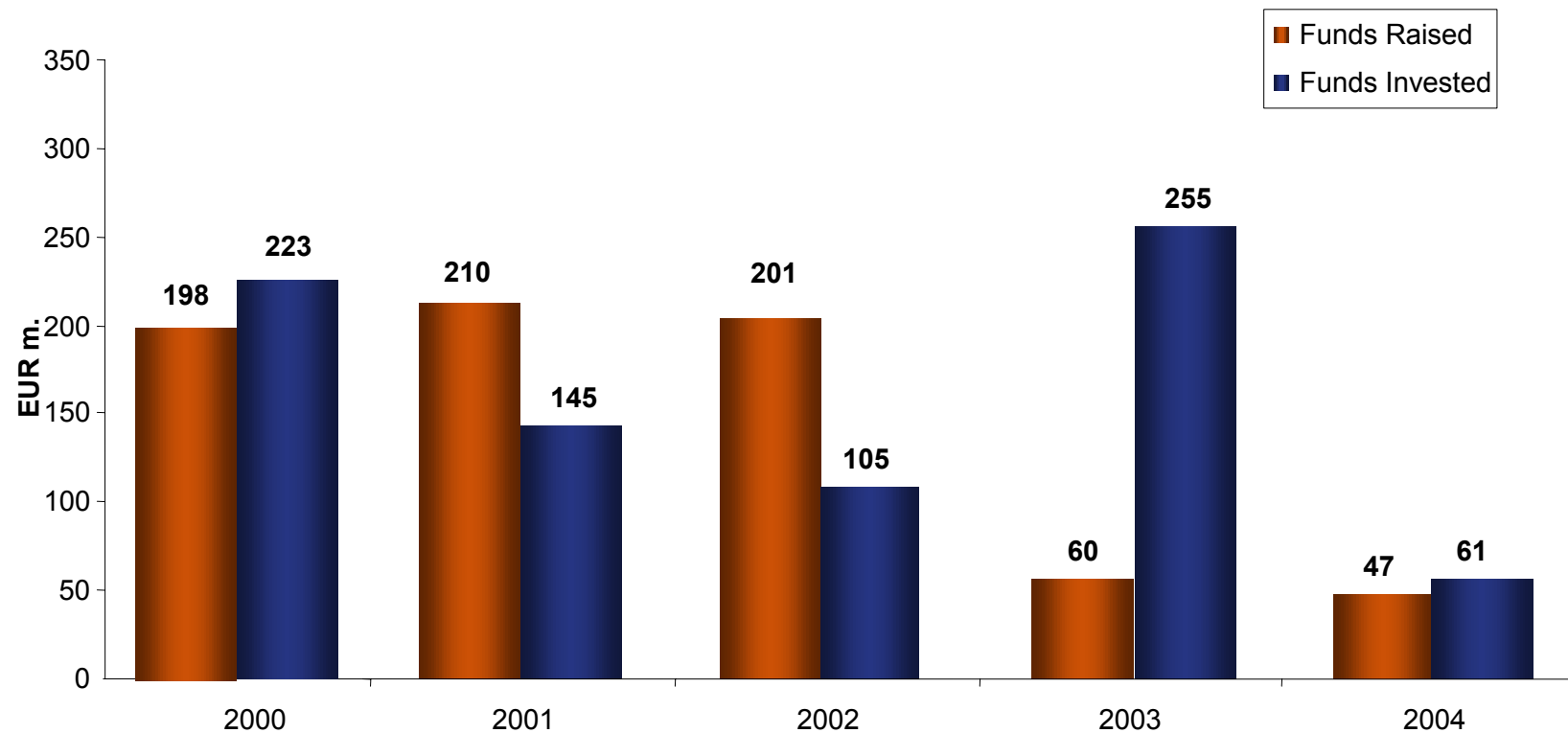
Total Investment in Ireland



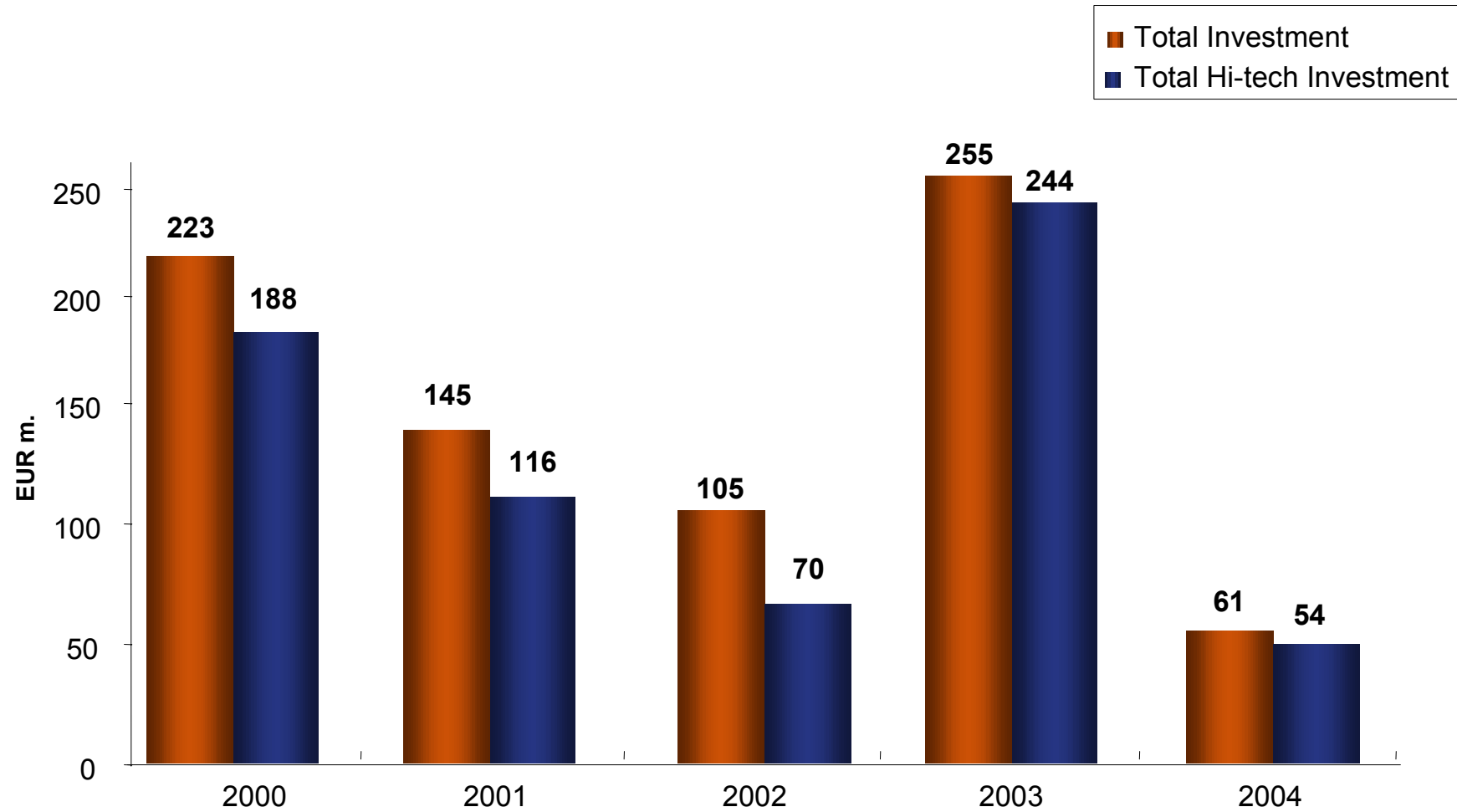
Total Funds Raised



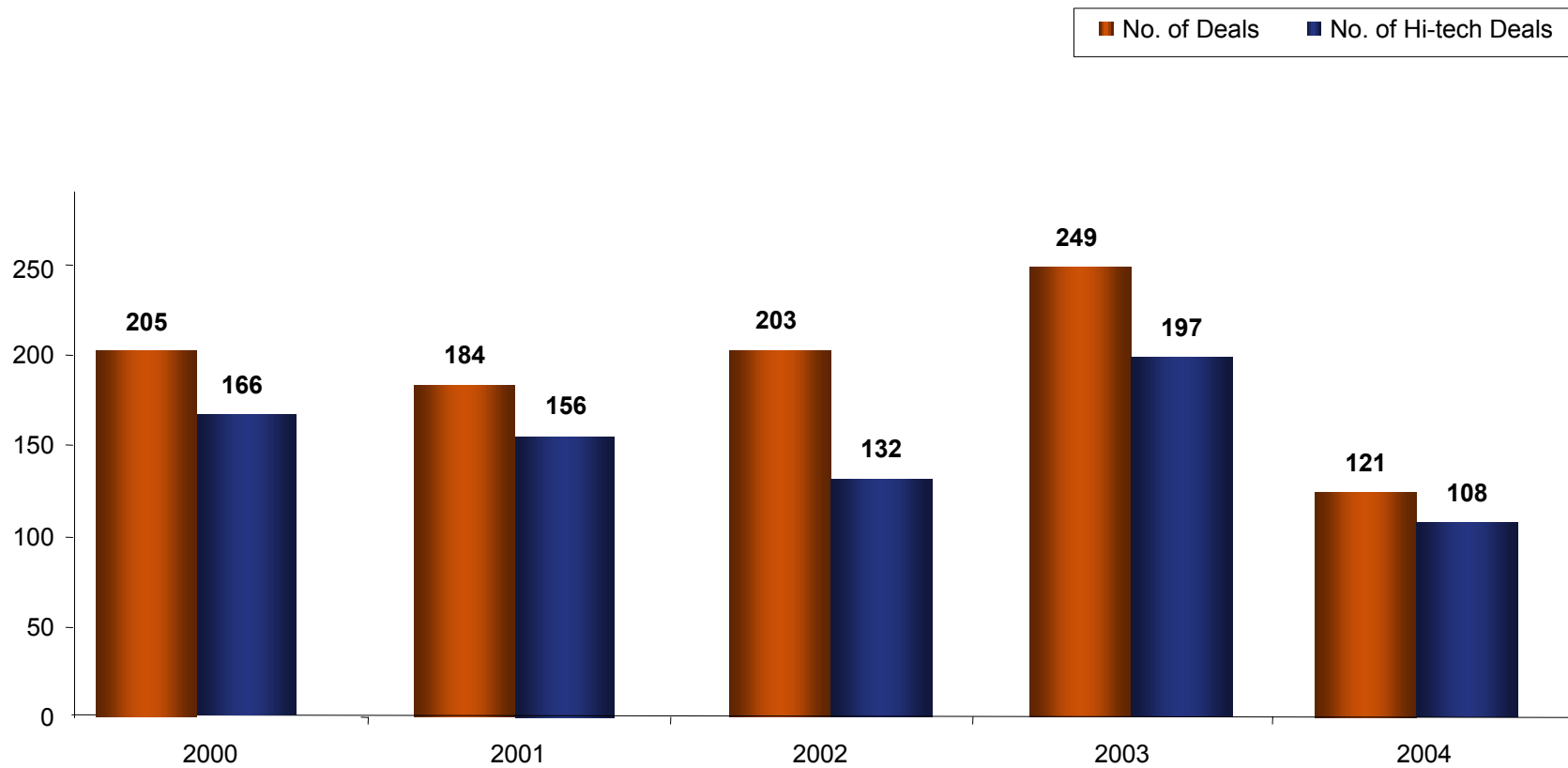
Total Funds Raised and Total Funds Invested by Domestic VCs



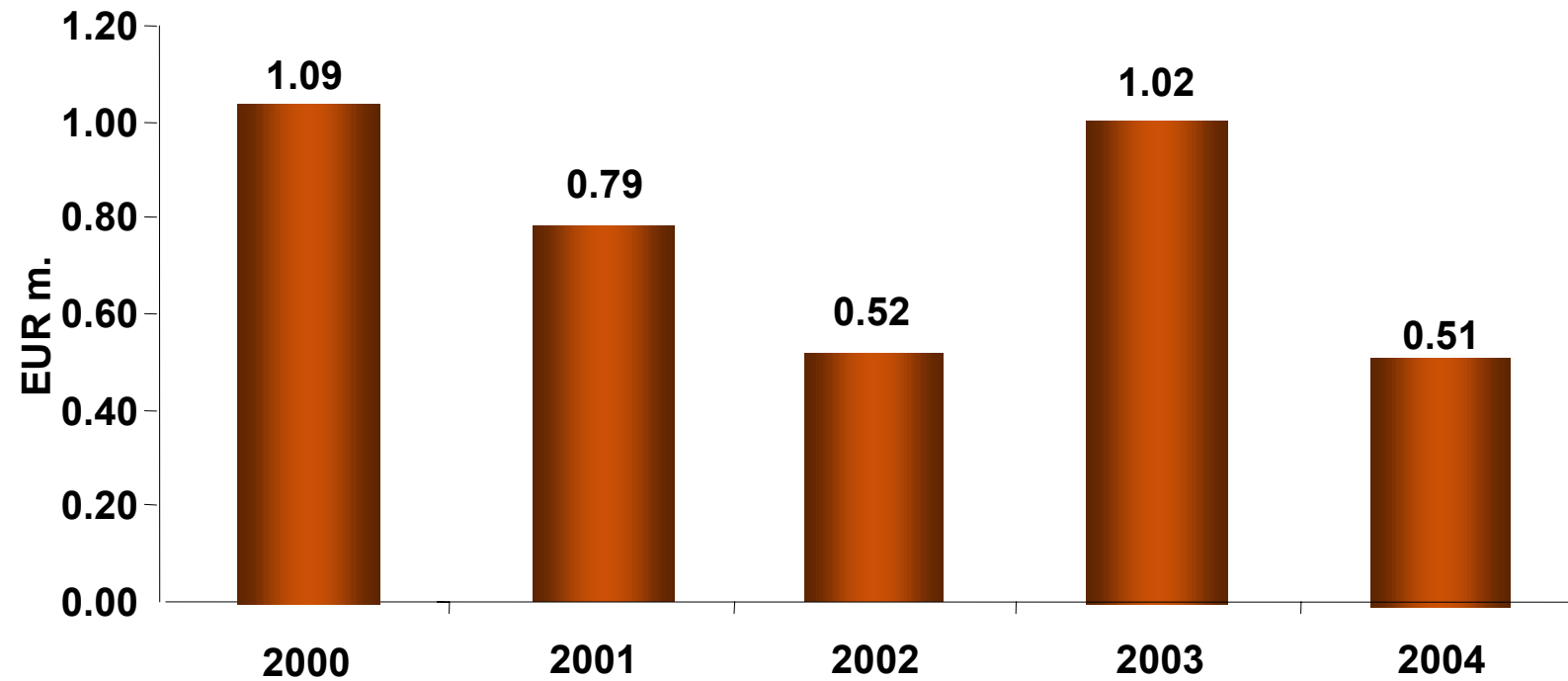
Total Investment and Total Hi-tech Investment



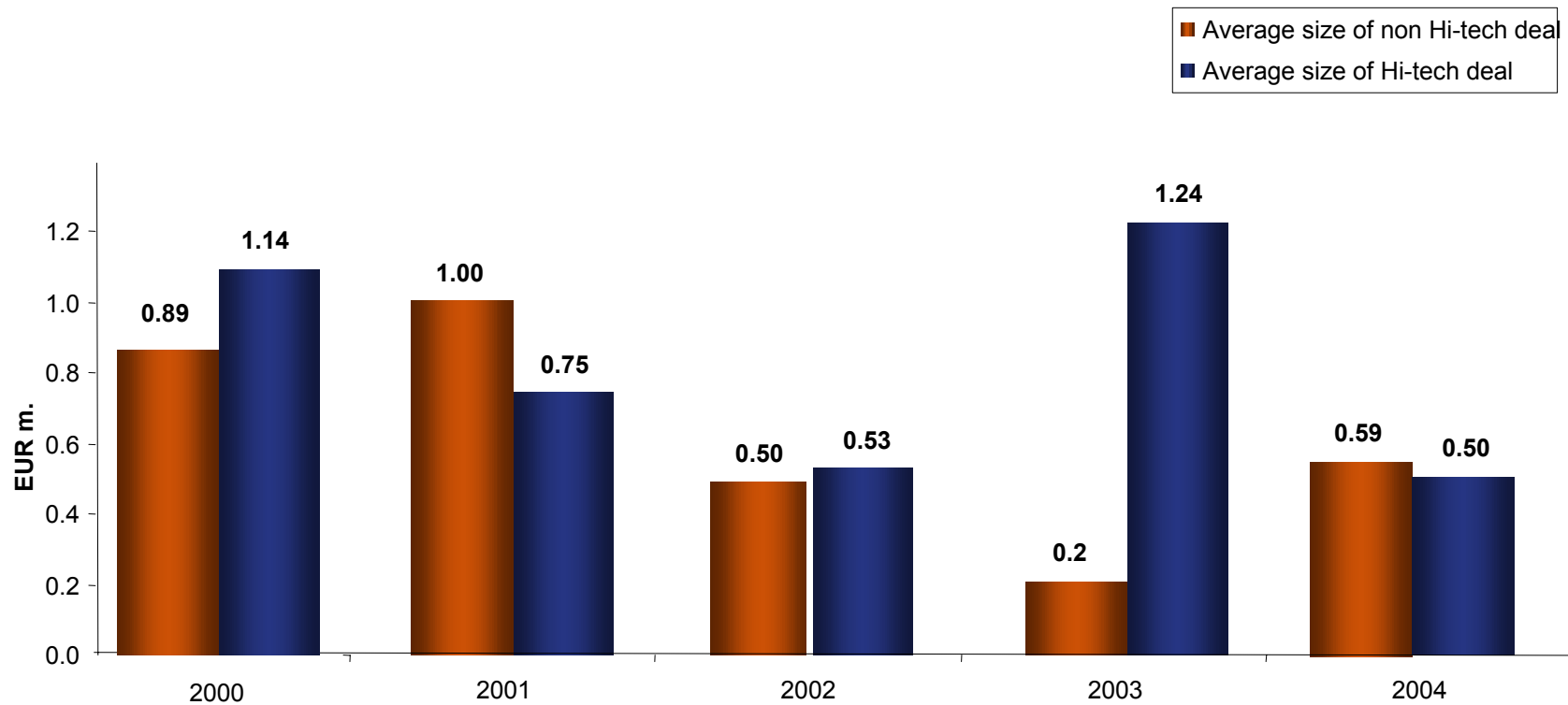
Total Number of Deals vs. Hi-tech Deals



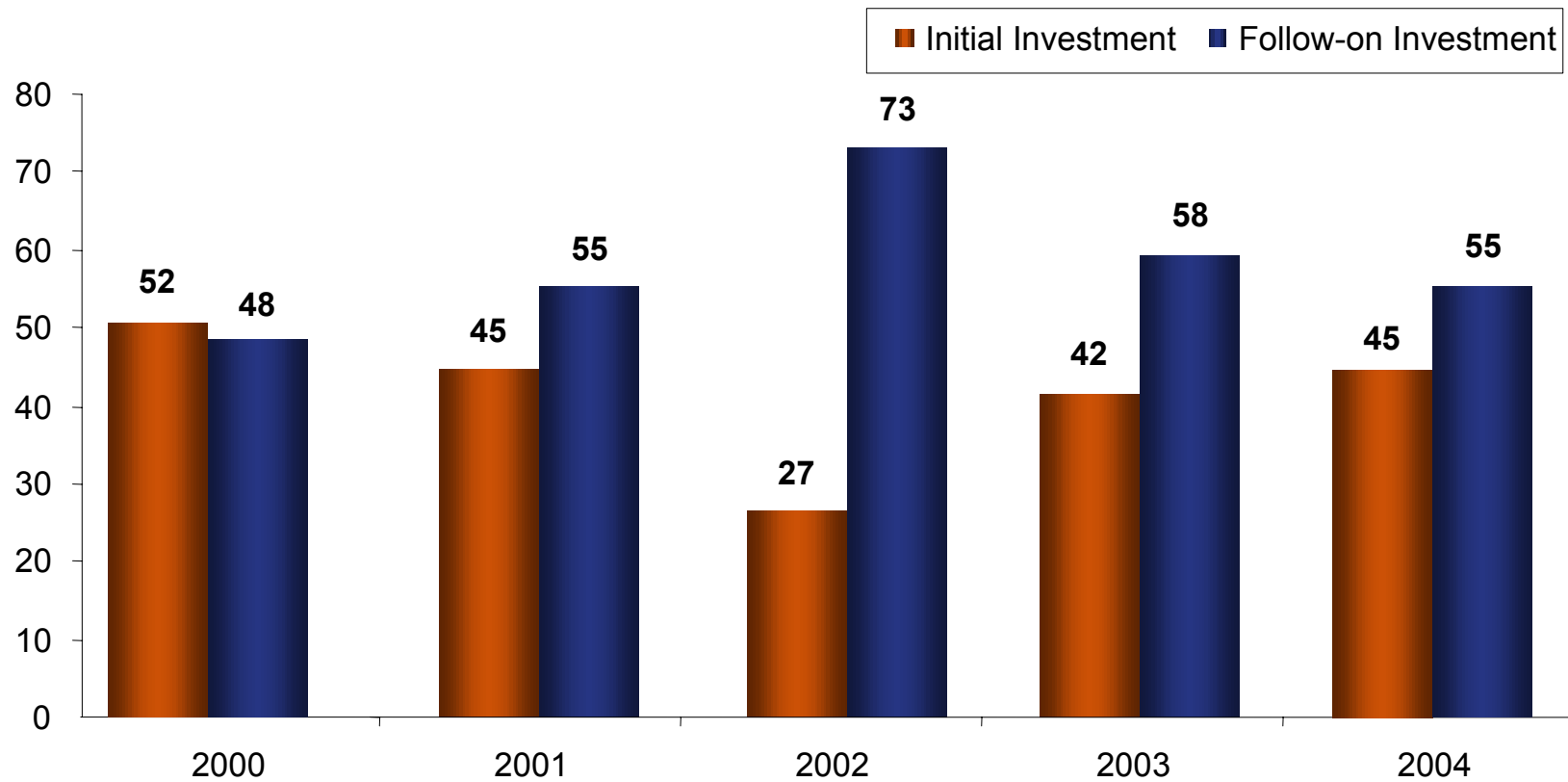
Average Total Deal Size (includes buyouts)



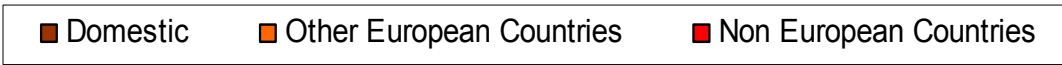
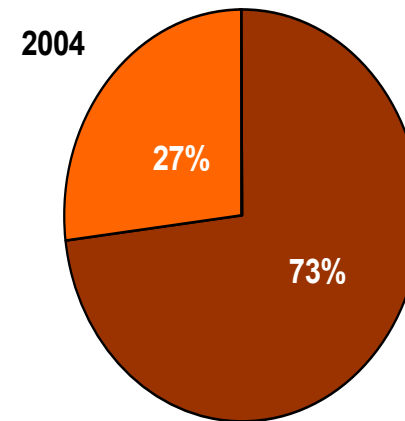
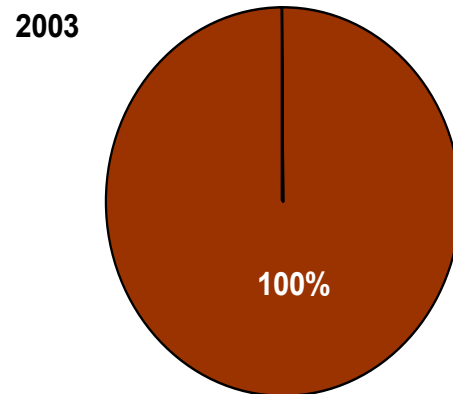
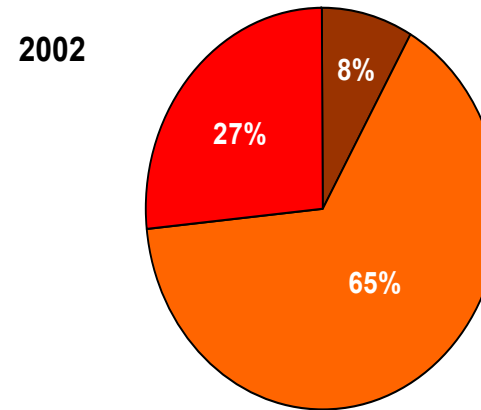
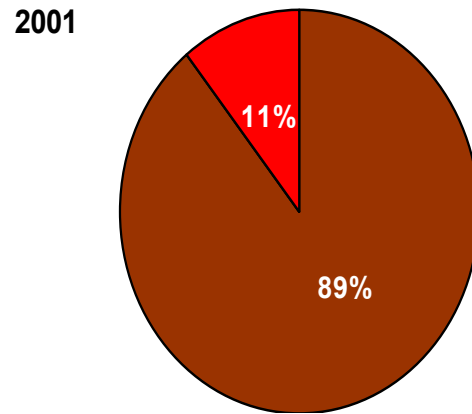
Average Deal Size (Hi-tech and Non Hi-tech)



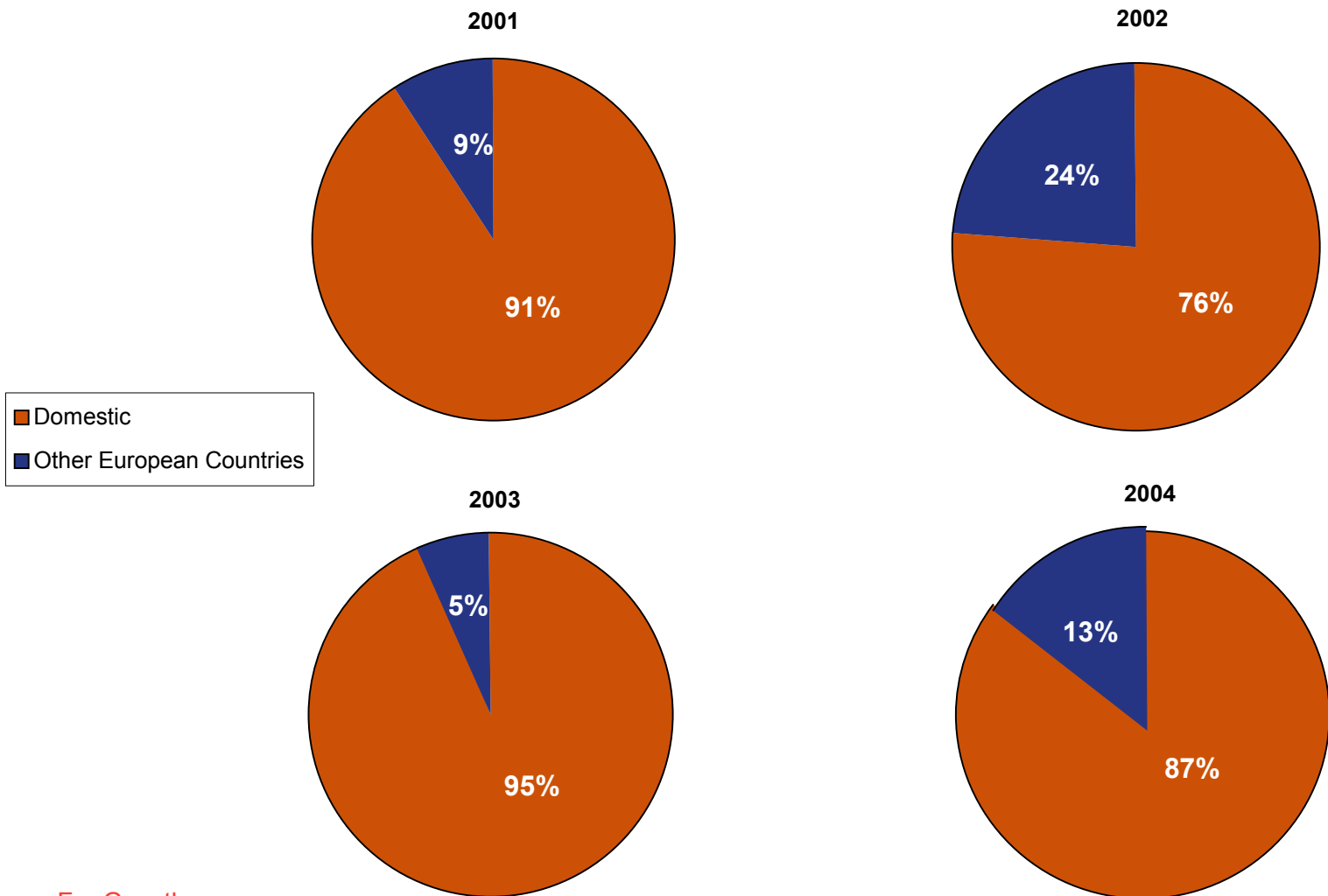
Initial vs. Follow-on Investment as a % of Amount Invested



Geographical Source of Private Equity Raised

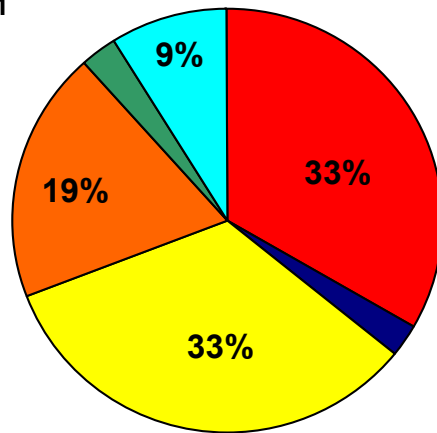


Geographical Distribution of Total Amount Invested

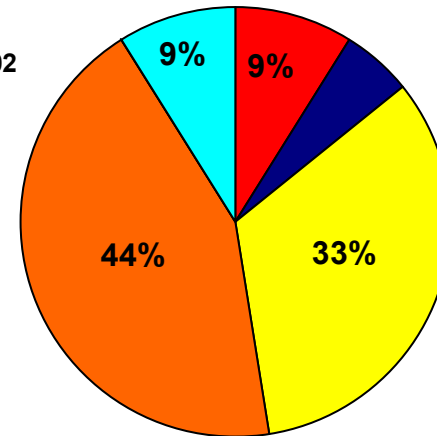


Analysis of Divestments by Number of Divestments

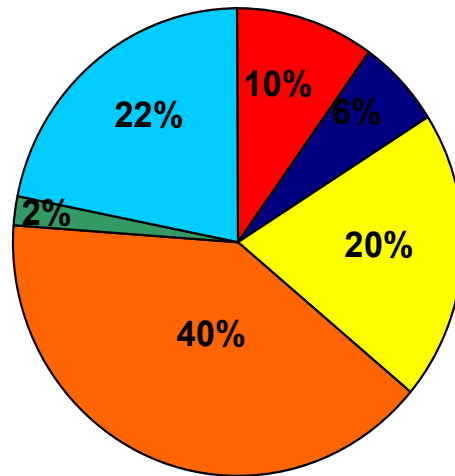
2001



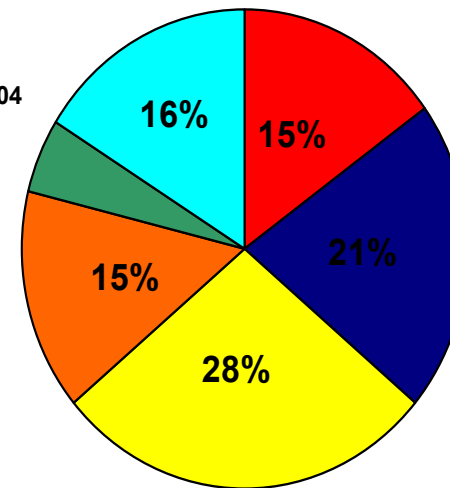
2002



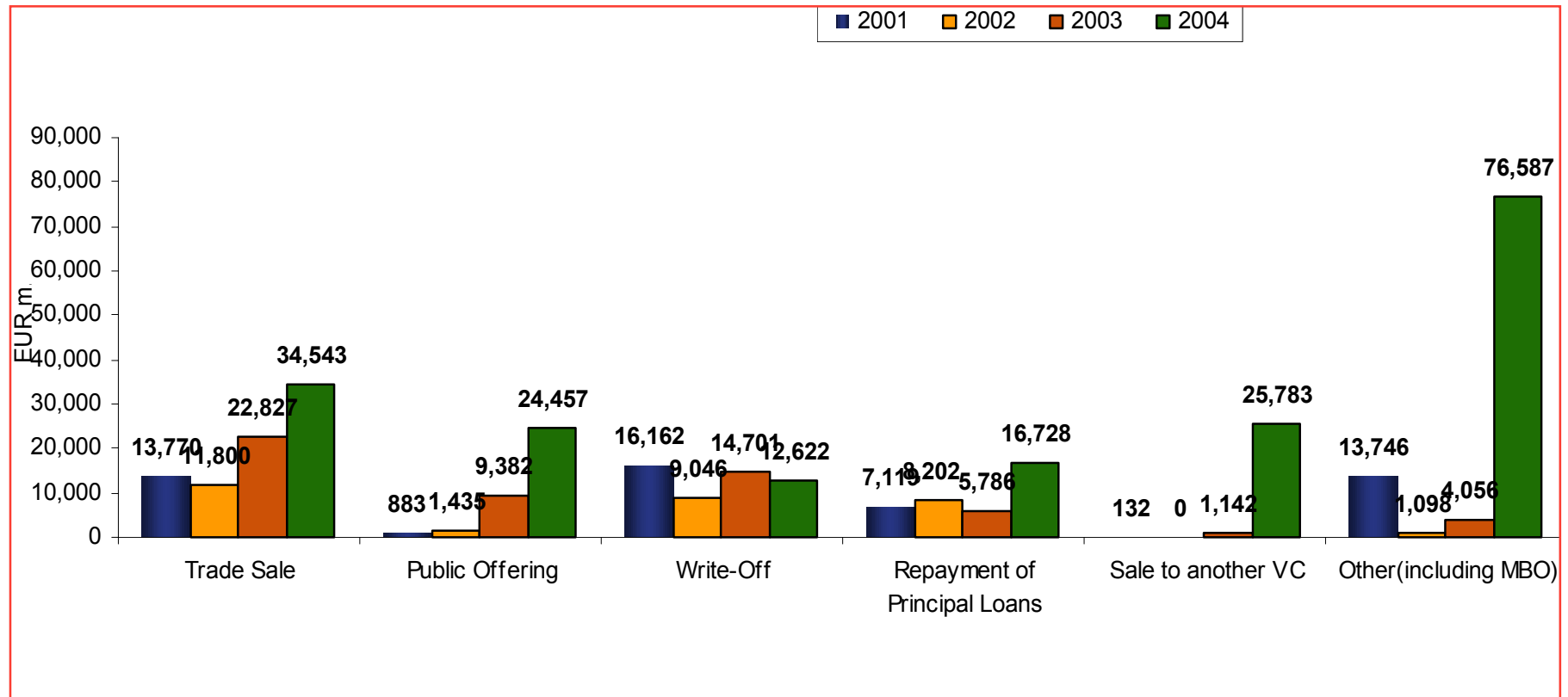
2003



2004



Divestment Amount Divested 2001 - 2004



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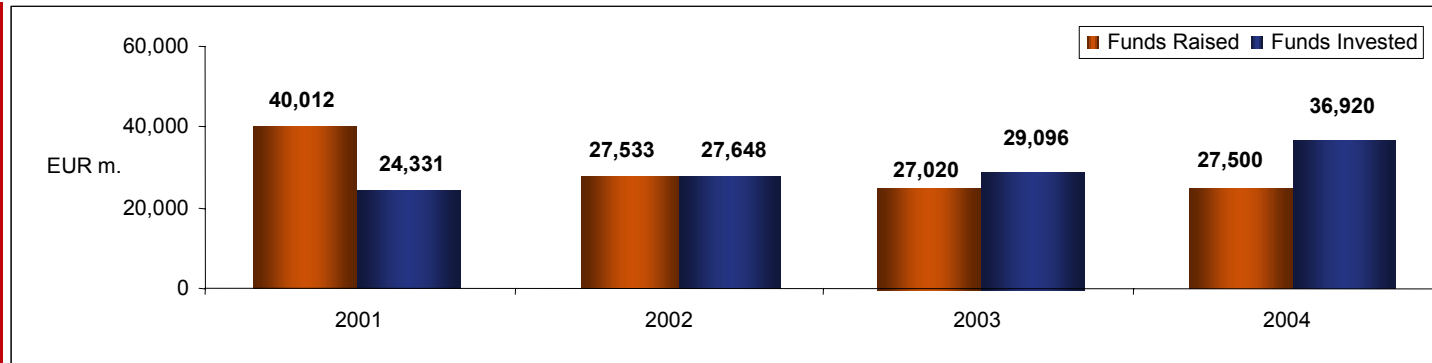
The Irish Market in relation to Europe & the US

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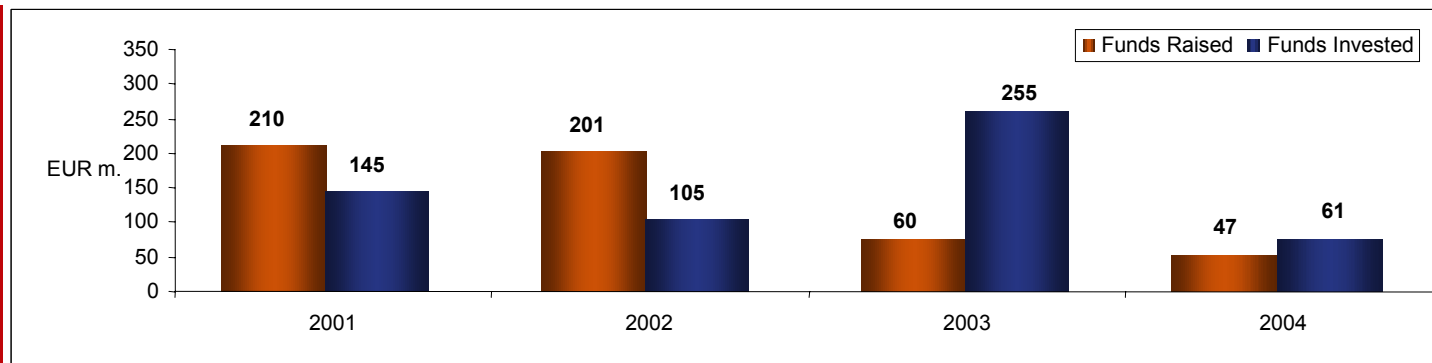


Funds Raised vs. Funds Invested Europe & Ireland 2001 - 2004

Funds Raised vs. Funds Invested Europe 2001-2004

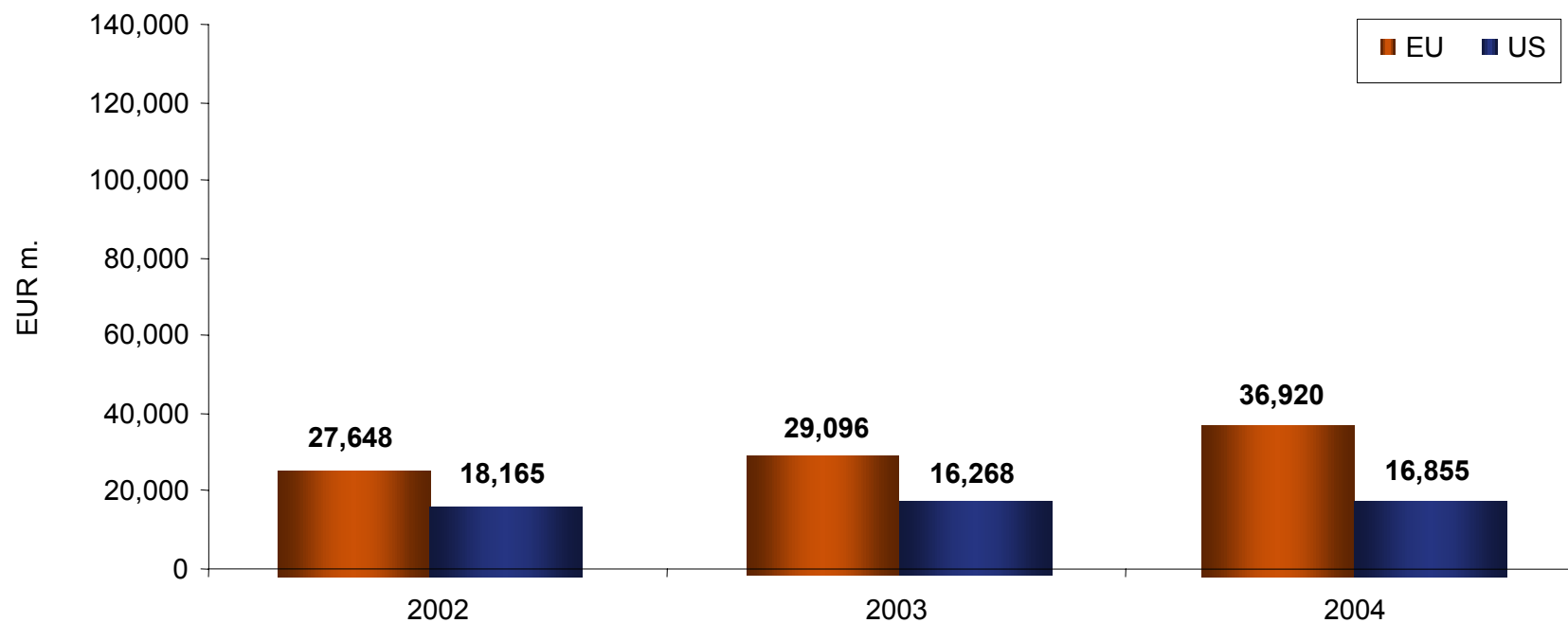


Funds Raised vs. Funds Invested Ireland 2001-2004



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Funds Invested Europe & US – 2002 - 2004



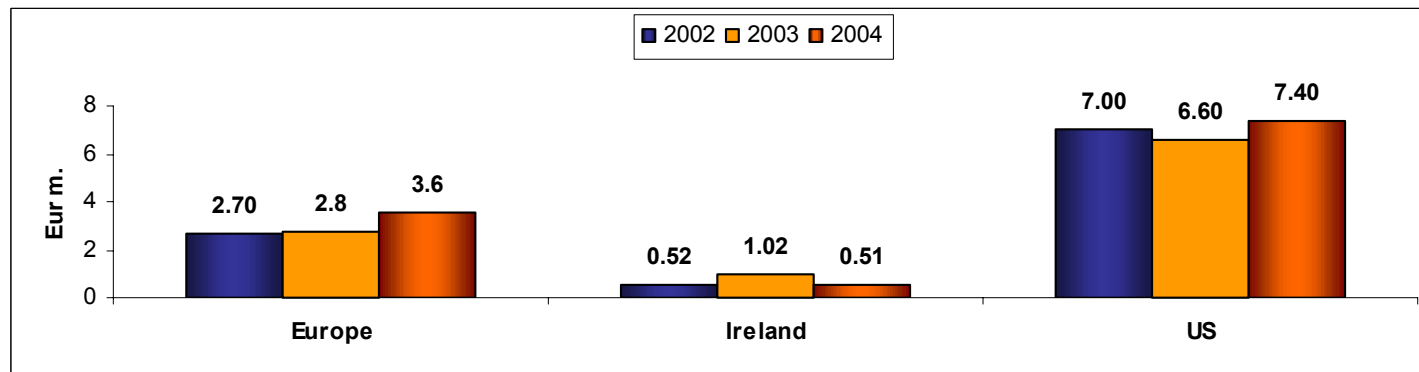
*Source: EVCA Survey; PwC Moneytree Survey (Europe = Private Equity; US = VC companies only)
Euro exchange rates used (2004 : \$1.24; 2003 : \$1.131; 2002: \$0.946) are mean annual figures provided by the ECB*

Number of Deals & Average Deal Size

Number of Deals



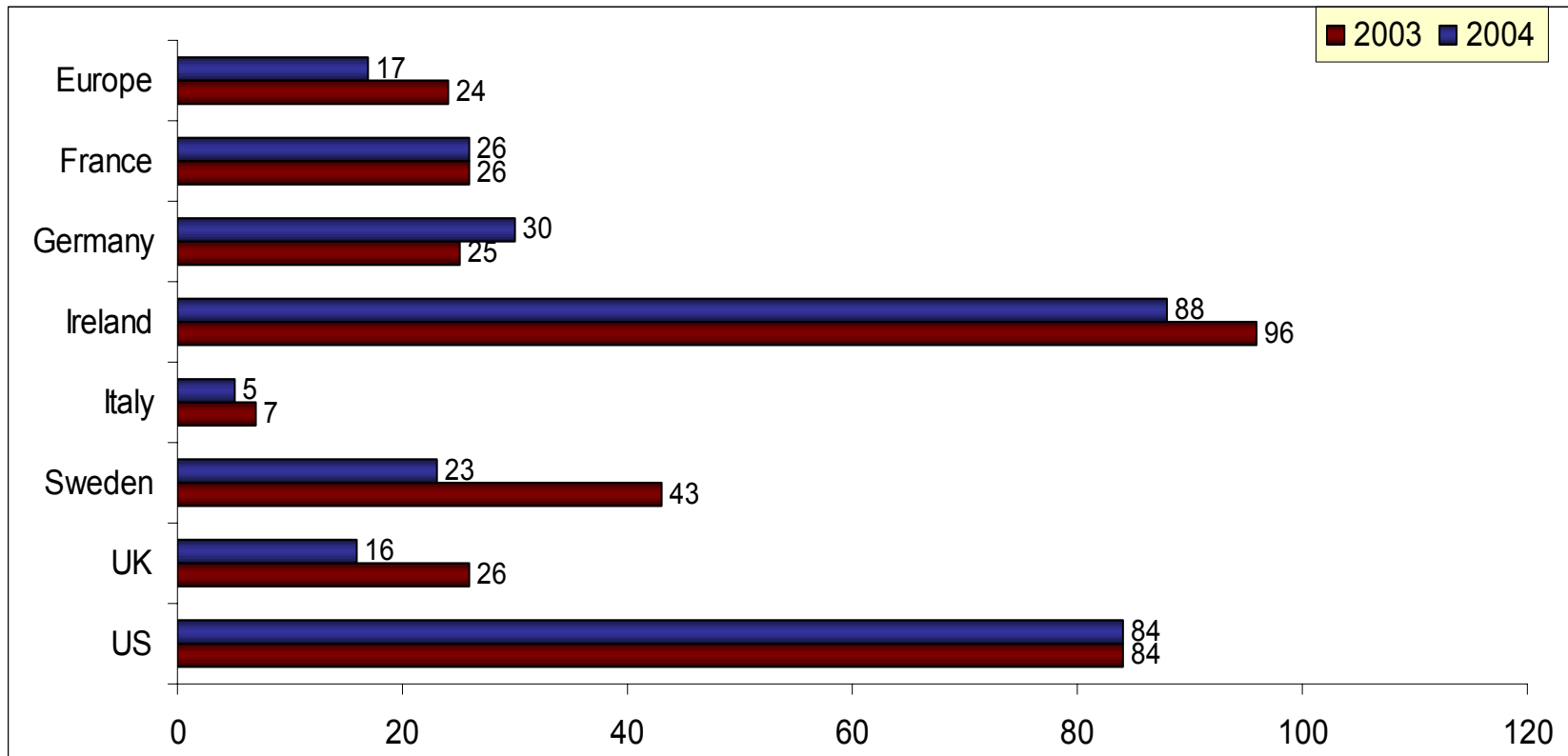
Average Deal Size



Source: EVCA Survey; PwC Moneytree Survey (Europe = Private Equity; US = VC companies only)

Euro exchange rates used (2004 : \$1.24; 2003 : \$1.131; 2002: \$0.946) are mean annual figures provided by the ECB

Hi-tech Investments as % of Total Investment



Source: EVCA Survey and PwC Moneytree Survey

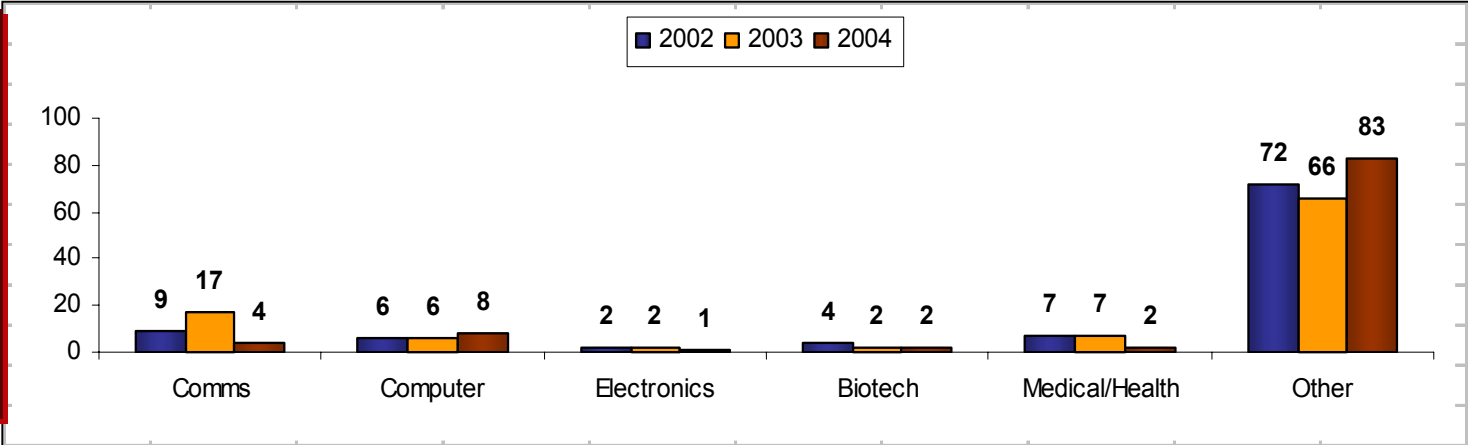
EU High-Tech comprises: Comms, Computer Related, Electronics; and Biotech

Investment in Ireland By Sector

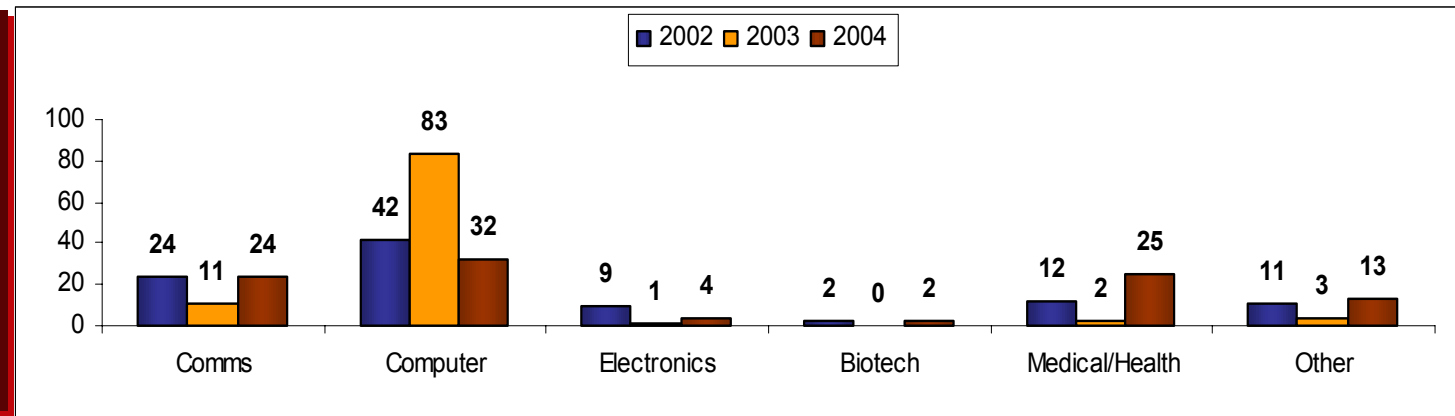
	2002		2003		2004		No. of Investments	%	No. of Co.'s	%
	Amount of Investment (€000)	%	Amount of Investment (€000)	%	Amount of Investment (€000)	%				
Communications	25,009	23.8%	28,238	11.1%	14,710	24.0%	23	19.0%	16	19.8%
Computer Related	44,623	42.4%	212,564	83.3%	19,454	31.8%	43	35.5%	33	40.7%
Other Electronics Related	9,377	8.9%	2,770	1.1%	2,702	4.4%	10	8.3%	6	7.4%
Biotechnology	2,406	2.3%	883	0.3%	1,352	2.2%	8	6.6%	6	7.4%
Medical / Health Related	12,097	11.5%	5,650	2.2%	15,337	25.1%	24	19.8%	10	12.3%
Energy	1,155	1.1%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Consumer Related	2,705	2.6%	0	0.0%	63	0.1%	1	0.8%	1	1.3%
Industrial Products and Services	297	0.3%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Chemicals and Materials	159	0.2%	103	0.0%	3,869	6.3%	2	1.7%	2	2.4%
Industrial Automation	0	0.0%	103	0.0%	0	0.0%	0	0.0%	0	0.0%
Other Manufacturing	2,747	2.6%	1,321	0.5%	2,140	3.5%	6	5.0%	3	3.7%
Transportation	567	0.5%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Financial Services	0	0.0%	1,137	0.4%	0	0.0%	0	0.0%	0	0.0%
Other Services	3,995	3.8%	1,717	0.7%	1,252	2.0%	1	0.8%	1	1.3%
Agriculture	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Construction	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Other	0	0.0%	731	0.3%	314	0.5%	3	2.5%	3	3.7%
Total Investment	105,137	100.0%	255,217	100.0%	61,193	100.0%	121	100.0%	81	100%
Subtotal High Tech	70,026	66.6%	244,456	95.8%	53,555	87.5%	108	89.2%	87	87.6%

Sectoral Distribution

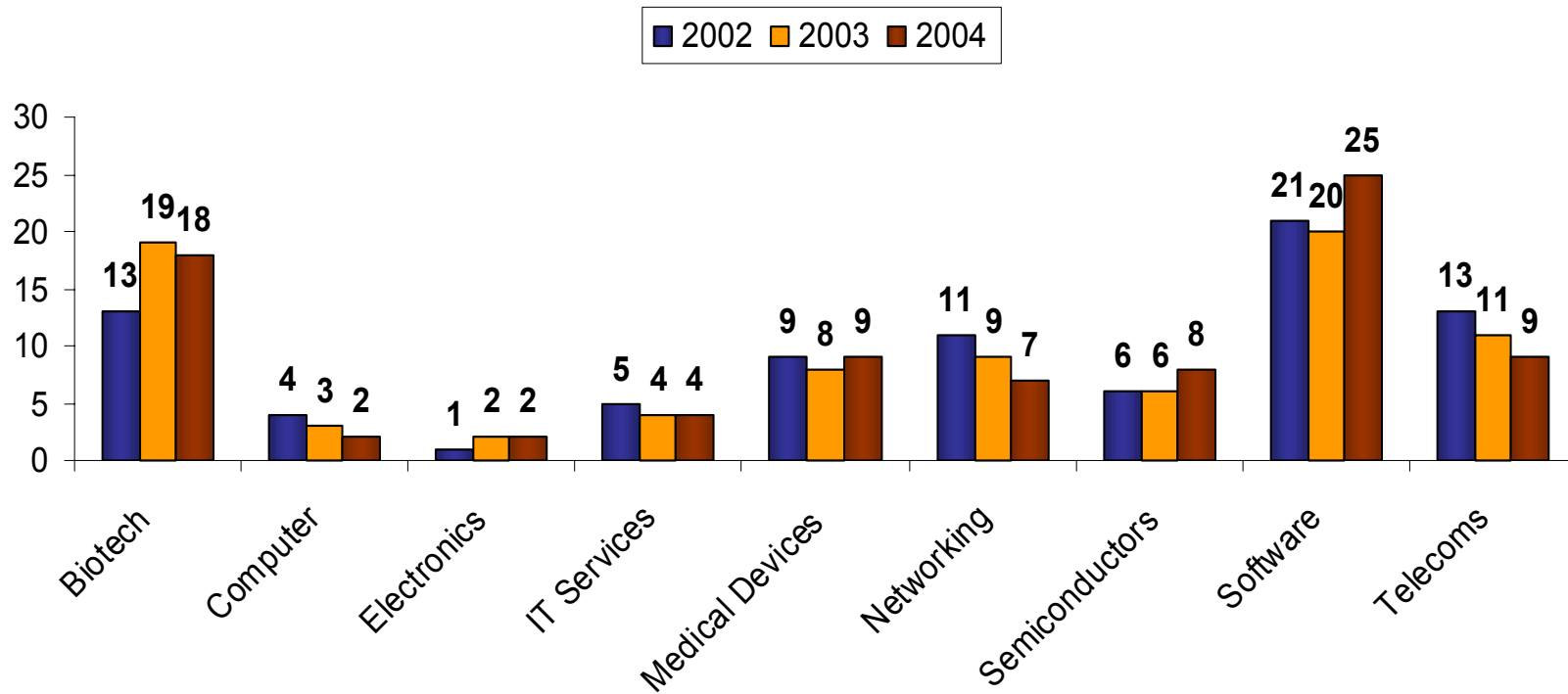
Sectoral Distribution of European Technology Investments



Sectoral Distribution of Irish Technology Investments



US Hi-tech Sectoral Investments as % of Total US Investment



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Key Issues & Opportunities

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Some Key Issues



- Deal size
- Fundraising
- Divestments
- High Tech
- Sectors:
 - 1 Software
 - 2 Medical devices
 - 3 Communications
- Funding seed companies

Opportunities

- Retail IT systems
- Application service provider models (ASP)
- Software as a service (SAAS)
- Utility Computing

How PwC can help investors

- **Pre-investment**

- Financial and business due diligence, including reviewing tax and employee benefits
- Specialist advice on financial reporting, including IAS and IFRS
- Access to technical and market analysis provided by Menlo Park Europe
- Advice on tax efficient ways of structuring the potential deal to enhance stakeholder returns
- Review and identification of costs savings/process improvement for investee companies
- Treasury process and systems review

How PwC can help investors

- **Post-investment**

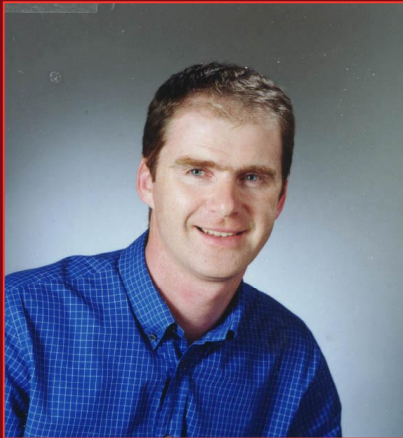
- Portfolio reviews and valuation advice
- Ongoing independent review of investees' key performance indicators against key milestones
- Helping to achieve efficiencies from investee companies
- Proactive advice on tax and corporate finance in connection with your investments
- Sales side due diligence (to include review of contracts, including employee contracts, and systems) to lessen risks of acquirors reducing an offer during their own due diligence work

How we help investee companies

- Tax Strategies
- Risks and Controls
- Business Advice
- Corporate Finance
- Technical Support
- Human Resources



Contact Details



Joe Tynan

Direct telephone: +353-(0)1-662 6399

Email: joe.tynan@ie.pwc.com

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The European Technology Investment Report 2005*

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The Irish VC industry - Statistics

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
a) VC funds raised (€m)	195	196	201	60	47
b) Portfolio at cost 1st Jan (€m)	412	609	702	776	973
Total Invested (€m)	223	144	105	255	61
Total Divested	-26	-52	-31	-58	-190
Portfolio at cost 31st Dec	609	702	776	973	844
c) Companies raising VC					
New	67	52	48	49	20
Follow on	<u>84</u>	<u>65</u>	<u>108</u>	<u>138</u>	<u>61</u>
Total	151	117	156	187	81
No. of VC professionals	40	60	64	98	80

Source EVCA

The Irish VC industry—Behind the Statistics



GLOBAL TECH MARKETS	1995-1998	1998-2000	2000-2003	2003-2005
GLOBAL TECH MARKETS	Slow growth	Boom	Bust	Slow growth
Supply of deals	Low	V. High	Low	Medium
Quality of deals	Low	Mixed	Better	Better
VC investing rate	Low	High	Medium	Medium
Int'l VC investing	No	Yes	Yes	Yes
VC exits	No	Yes	No	Some
VC fundraising rate	Low	High	Medium	Low
VC investors	<ul style="list-style-type: none"> • Public Agencies • Pension Funds • Banks 	<ul style="list-style-type: none"> • Public Agencies • Pension Funds • Banks 	<ul style="list-style-type: none"> • Public Agencies • Pension Funds • Banks 	<ul style="list-style-type: none"> • Public Agencies

Ireland is one of the most Internationalised markets in Europe. This is positive but has associated risks.

Investment Flows (€million)	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>
Investment by Irish VCs	144	105	255	61	
Foreign investment by Irish VCs	(13)	(25)	(13)	(8)	
Irish investment by Irish VCs	131	80	242	53	32%
Irish investment by Foreign VCs	<u>21</u>	<u>49</u>	<u>293</u>	<u>113</u>	<u>68%</u>
Total Irish Investment	153	129	535	166	100%
GDP (€ billion)	115	128	134	146	
VC as % of GDP	0.13	0.1	0.4	0.11	

Four interrelated issues for the Irish VC

Can Irish VCs generate exits?

Can Irish VCs generate returns?

Can Irish VCs raise sufficient funds to continue doing early stage tech investing? (Ireland has the highest proportion of early stage tech investing of any country in Europe)

How can Irish VCs ensure that the value in later stage mature investee companies is not completely captured by the later stage larger international investors?

The Irish VC backed high tech industry could fade away through the lack of institutional support

	Investment 1999 – 2003 (€ million)	%	Investment 2005 – 2010 (€ million)	%
Pension Funds	204	21	?	
Fund of Funds	210	22	?	
Banks	216	22	?	
Government Agencies	117	12	?	
Privates	83	9	?	
Insurance	53	5	?	
Corporates	37	4	?	
Other	52	6	?	
Total	972	100%	?	100%

- **The IVCA represents the Irish VC Industry**
- **21 VC members. Over €1 billion at work, mainly in high technology companies. 25 Associate members.**
- **Contact us at www.ivca.ie**