PRESS CUTTINGS

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news focus

Improved outlook in funds market

After a funds drought, confidence is now surging in the venture capital sector

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Georges Noel, director of the European Private Equity and Venture Ca

The European venture capital market may have edged ahead of the United States in terms of fund performance, but European venture capitalists still face structural barriers, according to a new report.

The report was prepared by the European Private Equity and Venture Capital Association (EVCA). It's director, Georges Noel, was in Dublin recently to brief representatives of the Irish venture capital industry on the findings.

The report, entitled Scaling Beyond Current Boundaries, followed a review carried out by the Private Equity Institute at the London Business School and the Centre for Entrepreneurial and Financial Studies in Munich.

"After the technology bubble burst in 2001 and the following drought in the European VC market, a slow but steady comeback was noticed over the past four years," the report said.

"Buoyancy in the supply of high quality opportunities at reasonable valuations has the potential to improve this outlook," it said.

Noel said three major factors had brought about the change in fortunes in Europe's VC landscape – management experience, aspiration and access to networks.

"It's not only the fund management experience, but also industry experience. We have seen a shift from financial people to those with more industry expertise, which has been one of the success factors," he told *The Sunday Business Post*.

He said aspiration had also played a part. "For most of the venture sector, you need global reach. This is very important because we have seen in Europe a fragmentation of the market, with many languages, cultures and business models. The Europeans need much more aspiration maybe than the Americans, since the Americans have the thrust of the home market, which is a more or less homogenous market. So aspiration and global mindedness is very important."

Noel said many of the VC funds in Europe still had a domestic or regional focus, but the funds at the top of their game were bucking this trend. "So really in the very successful funds, you see not only people with industry expertise but also people from a variety of cultural backgrounds. This is also an ingredient for success."

Historically, venture capital funds in the United States outperformed their European counterparts. But European funds are fighting back. However, Noel said it was important not to get carried away. "There is a slight better performance since 2001 in Europe, but it is only slight. The main message in this is that the US is no longer outperforming Europe.

"*Since 2001, the world functions* another way, and there has been a kind of shake-out or consolidation of funds. The business model and behaviour of venture capitalists is really converging."

Certain sectors have been leading the way in terms of VC investment. Noel said: "The most buoyant sector at the moment in Europe is probably the clean technology and renewable energy sector, which is attracting a lot of new money. It's really interesting to see how many investors are keen to go into this area."

He said this investment area had good returns and also proved popular, since it was viewed as a responsible, ethical investment. "You have Middle East investors seeking Sharia-compliant investments and it is attractive to them," he said.

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Regina Breheny, director general of the Irish Venture Capital Association, said VC investment in Ireland tended to be directed more towards underlying technologies than renewable energy projects such as wind farms. "The monies are enormous and you don't actually see venture capital money going into it," she said.

A number of issues are currently facing the VC community here and internationally. One of the first things to consider is the investment horizon, which Noel suggested varies dramatically from one industry to the next.

"You need most likely three or four years to invest your fund and then another four to six years – and in biotechnology much longer – to harvest a return. The guys in biotech need seven to eight years just to grow a company. They're complaining a little bit about the availability of longer-term funding," he said.

Another issue at the moment is the lack of exit opportunities. Noel said: "Fundraising and investment is strongly correlated to exit opportunities. The more exits seem or are perceived to be easy, either via an IPO [initial public offering] or a merger, the more you have a tendency to invest".

"The IPO market is dead and M&A [mergers and acquisitions] activity is very weak. It will have an impact on our performance. We have to value our companies in comparison to public companies. If public companies are down, it will have an impact on our performance. This is again an issue for fundraising," he said.

However Irish VC firms face a different landscape. "The exit is triggered by outside factors, usually. Certainly, in Ireland we are less dependent on the IPO market. Most of ours are trade sales and are generated by the entrepreneurs themselves. They are cherry-picking and there is a lot of value out there," Breheny said.

Noel said there was a confidence in the European VC sector at the moment and the most sophisticated investors were placing money with a view to exiting in 2010 to 2013. "The target is there all the time, but the exit must be at the right time," Breheny said.

The venture millions

Last year, a total of €260 million was raised by venture capital funds in Ireland. During the same period, Irish venture capitalists invested €226 million in 105 companies in Ireland. European venture capitalists raised a total of €10.4 billion last year. Some 4,305 European companies received venture capital funding in 2007, with venture capitalists investing a total of €15.5 billion.

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