

FUNDING INNOVATION IN EUROPE ...

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About me



- ✓ Started with Cap Gemini, where I spent 13 years in managing system integration projects and launched Cap Gemini presence in Silicon Valley (1997-1999)
- ✓ Joined the Venture Capital industry in 1999, first as CTO of Europatweb, then as Partner with Viventures
- ✓ Has been for 6 years the French Partner of the Venture/TMT practice at 3i Group plc (2003–2009)
- ✓ Late 2009, co-founded and led ISAI, "ze" French internet entrepreneurs' fund
- ✓ Track record includes SeLoger.com (IPO Euronext), Screentonic (acquired by Microsoft), Okyz (acquired by Adobe), Highdeal (acquired by SAP), Priceminister.com (acquired by Rakuten)...
- √ 49 y.o , Ecole Polytechnique (Paris, France)

Active for 13 years in the Venture Capital ecosystem ...



What is ISAI about

- ✓ ISAI stands for « *Internet Savvy & Active Investors* »
- ✓ ISAI was co-founded by 4 successful entrepreneurs: Pierre Kosciusko-Morizet (Priceminister), Geoffroy Roux de Bezieux (The Phone House / Virgin Mobile), Stéphane Treppoz (Sarenza) & Ouriel Ohayon (Techcrunch.fr / Appsfire)
- ✓ ISAI has raised 2 funds for a total under management of €70+m. 60% of committed money comes from 70+ internet entrepreneurs & 40% from institutions & corporates
- ✓ ISAI #1 : a micro-VC fund targeted at rounds in internet start-ups that are « too large for angels but too early for VCs » Average entry ticket ~ €1m
- ✓ ISAI #2 : a small-cap Private Equity fund dedicated to the internet sector executing transactions « too specific for local PE generalists but too small for pan-European Tech Growth firms » Ticket between €1m and €5m
- ✓ ISAI Gestion is an AMF authorized portfolio management company

Venture & Growth capital funds backed by internet entrepreneurs to fill 2 gaps in the funding chain and back internet entrepreneurs...



Disclaimer

- ✓ I'm a VC investor and I don't think there are that many credible/repeatable funding schemes other than angel/VC/PE money to fund innovative companies. This might be partially wrong
- ✓ I'm a software & digital media investor and I might be biased since funding requirements could be very different in sectors like biotech, medtech, semicon, telecom, cleantech,... Some of my purpose might not be relevant at all for these sectors
- ✓ I'm a start-up guy and I don't see any innovation coming from traditional & large corporates (other than defensive or incremental). This might be partially wrong too

Depending on where you sit, the truth could look differently...



Economical development

EXAMPLE:



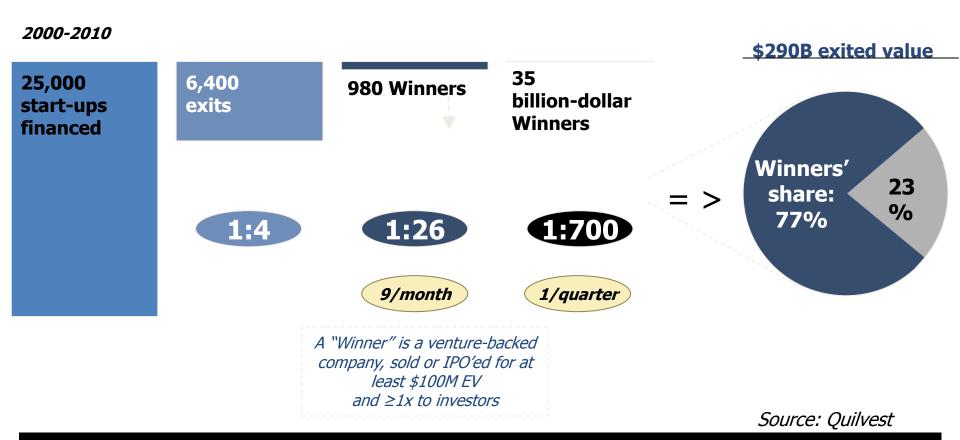
Source: Ernst & Young

- √ 108 venture backed internet portfolio companies members of the association.
- ✓ In average, €7,7m injected since creation 7 years ago
- ✓ Cumul. revenue in 2011: €1bn up from €750m in 2010 (+33%)
- ✓ 28% of revenue outside EU 39% outside of France
- ✓ Cumul. payroll 5433 people (31.12.11) vs 4384 a year earlier (+24%)
- ✓ R&D expense growth rate: +34% representing 11% of revenue
- ✓ Average age of employees / officers: 32 yo / 42 yo
- ✓ Permanent employment contracts: 87%
- ✓ Average salary of officers vs employees: 2.6x
- ✓ Percentage of companies granting stock-option: 83%

EU looking desperately for growth — Innovative start-ups are part of the solution!



The traditional VC game



Concentration of profits makes it somehow unpredictable ... 55% of investments are unprofitable ...



US vs EU benchmark

	US	EU
% of GDP in early stage VC (2008)	0,123%	0,021%
# funds over \$100 (1996-2008)	432	137
# deals over \$5m (2010)	1092	221
# deals below \$5m (2010)	1279	701
Winner probability (\$100+ exits) (2000-2010)	1:20	1:80
Av. investment prior \$100+m exit (2004-2010)	\$79m	\$44m 😛
# VC firms out of business (1999-2009)	15%	57%
% of invested VC money (value)	82%	18%
% of 10x invested capital exits (number)	64%	36%

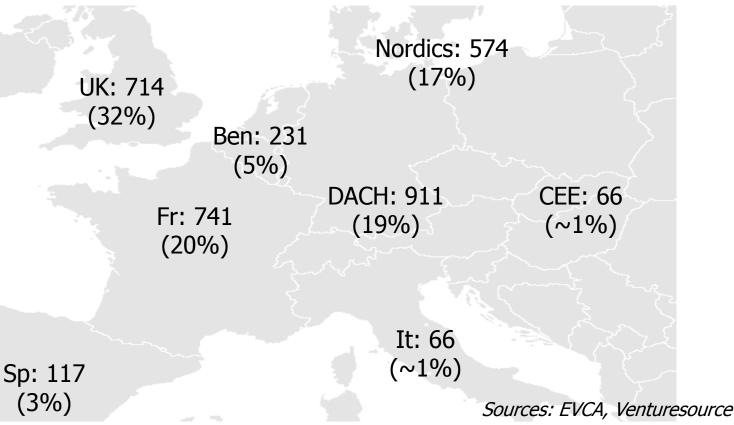
Sources: NVCA, EVCA, Earlybird, DowJones

A seasoned & solid 50 y.o guy vs a progressing & hopeful 20 y.o young man!



EU geographical split

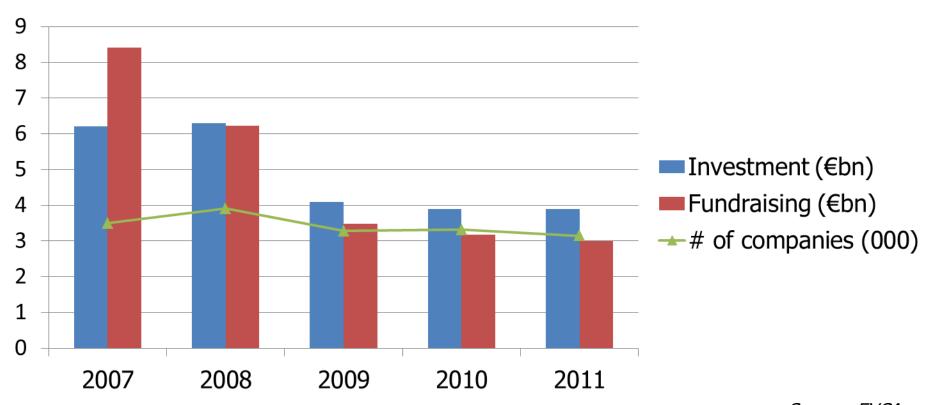
VC money invested in different geos in 2010 in €m (% per location of lead VC) :



London, Paris & Berlin may have critical mass in terms of companies... London has the lead in terms of money management



Last 5 year trend in EU



Source: EVCA

This won't last for long!
Sectors like telecom or semicon almost stopped after 2008 ...



Entrepreneurial pool

- ✓ For the last 15 years, a large community of entrepreneurs has been built in EU - Particularly true in the digital media space
- ✓ These entrepreneurs are either re-investing some of their money into younger companies as angels or launching new ventures (or both)
- √ 7,4% of EU people between 18 and 64 are « latent entrepreneurs » (up from 5,2% 5 years ago) – This percentage is slightly lower & decreasing in the US
- ✓ Percentage of repeat entrepreneur led portfolio companies in current VC portfolio close to 40% (vs 8% for vintage 2000 funds)
- ✓ In leading business schools, « Entrepreneurs » programs have become more prestigious than « Finance » ones

Sources: Earlybird, DFJEsprit,

Experience & risk taking ability do matter!



Accelerator, superangel & micro-VC trend





























springboard();











To launch an internet business, just need much less than 1% of what was needed in 1999! - Early stage internet start-up funding is now well covered ...



Funding chain

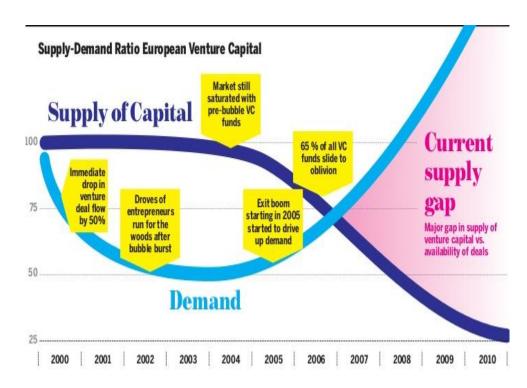
- ✓ Solvency II & Basel III have dried up the institutional LP base
- ✓ Pension funds do not exist in major EU countries University endowments are almost non existing in EU
- ✓ Government funded institutions are becoming dominating LPs (EIF in EU, CDC in France...) i.o of just « top-up/seed players »
- ✓ Tax cuts/credits based funding play a major role (Direct: TEPA in France, EIS in the UK; Indirect: FCPI in France, SCT in the UK...)
- ✓ Family offices, successful entrepreneurs, HNWI... participation is becoming crucial but leads to smaller initiatives
- ✓ Venture allocation within shrinking Private Equity from 5,4% in 2008 to 17% in 2010 (growth stories vs financial leverage)

Sources: EVCA

Much less money available - Capital scarcity guides investment decision



Supply - Demand



Source: Earlybird

Good to be an investor at the time of valuation negotiation but ...

... unsure about further financing which leads to ...

... conservative & cautious asset management which implies...

... no appetite for capital intensive venture funding

It's easy to launch a business – It's not easy to make it funded by VCs



Exit / liquidity

- ✓ Feature companies/pure technology plays are unsellable within EU
 Quick exits unlikely to save unsustainable bets
- ✓ EU small cap capital markets are a « dead-end » for shareholders in terms of liquidity
- ✓ No real ability to buy « at the right price » by EU tradebuyers since their own multiples are unattractive
- ✓ Tradesale to international buyers is the « only » way to go Not that bad but sub-optimal (esp. if no real cluster)
- ✓ Private Equity firms are getting into the game and represent an alternate track Less profitable but ... available

Sources: EVCA

This won't change on a short term basis



Wrap-up

- ✓ The EU VC backed innovative ecosystem has learned, improved and matured a lot for the last 10 to 15 years
- ✓ Entrepreneurial mindset is now very pregnant in Europe
- ✓ The EU market is still very fragmented and critical mass per geography/sector is difficult to reach
- ✓ The US (esp. Silicon Valley) still maintain undisputed leadership with big ticket late stage investments and multi-billion dollar IPOs
- ✓ Low capital intensity plays are probably better executed by EU people but they don't generate worlwide marketmakers
- ✓ Despite significant progress and because of regulation, institutional LPs have pulled back massively from asset class
- ✓ Ironically, it's now perfect time to invest!

Sources: EVCA

Voilà!



Past & potential success stories

























Not only local copycats ... We have now critical mass at the continent level!





Follow « Ze » French Internet Entrepreneurs' fund on Twitter: @isai_fr