



EU Finance Days for SMEs  
Access to Finance: Private Equity and  
Venture Capital

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1



About EVCA

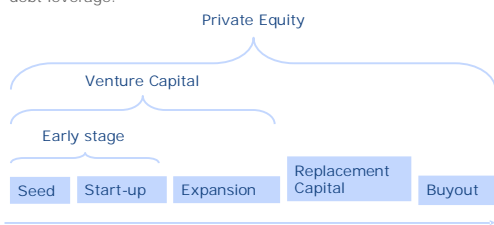
- § Established in 1983 and based in Brussels
- § Represents the European private equity and venture capital industry (PE/VC) and promotes the asset class within Europe and throughout the World
- § Around 1,300 members in 53 countries
  - § PE/VC fund management companies of all segments
  - § Institutional investors (banks, pension funds, insurance companies, family offices...)
  - § Professional advisors (lawyers, placement agents, investment bankers...)
  - § National (European) Trade Associations

2



Definition of Private Equity and  
Venture Capital

Private equity is defined as equity capital invested in a (private) company for a significant period of time, through a negotiated process resulting in a shareholder agreement. This can involve debt leverage.



3



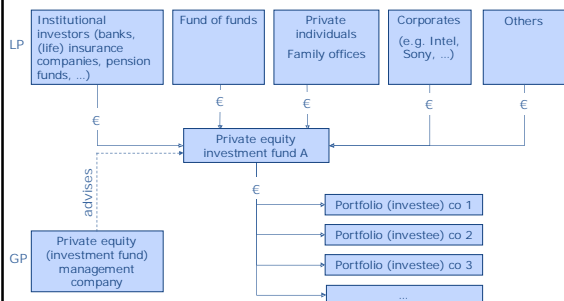
Definition of Private Equity and  
Venture Capital (2)

	Early Stage		Later Stage		
Stages	Seed	Start-up	Expansion/ Development	Buyout	Replacement capital/ secondary purchase
Company Age	1 to 2	2 to 3	3 to 5	5+	5+
Next step of company	Develop and finalize initial business concept	Launch business activity and start selling the product commercially	Expansion and growth of company	Bring company to the next level	Bring company to the next level
Capital is used to	Finalize research and develop business plan	Finalize product and start initial marketing	Finance increased production capacity, new market or product development	Acquisition of business or business unit with new/existing management	Acquisition of a business from a private equity or other financial owner

4



Definition of Private Equity and  
Venture Capital (3)



5



What are Private Equity firms looking for?

Focus on (high) growth potential companies:

- § Management team
    - § Industry and previous entrepreneurial experience
    - § Balanced management team with complementary skills
    - § Management experience
    - § Ability to develop an exit strategy & to grow the company towards it
  - § Market potential
    - § Accurate market size with real growth potential
  - § Internal processes
    - § Good strategic and financial planning
    - § The right tools and information systems to provide management and investors with timely and relevant data
- ⚠ Thus, not all companies are suitable for PE/VC financing

Source: EVCA Barometer May 2005

6

## How do Private Equity firms help?



Provide both financial and strategic support:

- § Enabling a growth strategy
- § Professionalizing a company
- § Offering on-going support to the management on strategic and policy matters
- § Representing a broader perspective on corporate development
- § Management expertise and sounding board for management ideas
- § Networking opportunities and industrial/sectorial connections

7

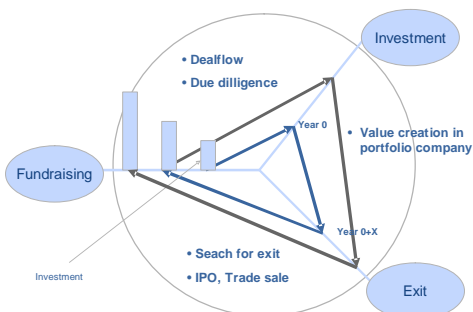
## The Unique PE/VC Business Model



- § Investment by a dedicated professional team (GPs), mostly in unquoted companies
- § Drawing resources from a defined pool of qualified investors (LPs)
- § Negotiated contractual relationship with those LPs
- § Profit-sharing schemes which align LPs'/GPs' interests
- § Strong self regulation with defined reporting and valuation requirements towards LPs
- § Involving stand-alone management of each individual company
- § Involving active ownership driving value creation
- § Investing on the basis of a medium to long term strategy and holding period

8

## The Unique PE/VC Business Model (2)



9

## The Private Equity and Venture Capital Industry at a Glance – Industry Statistics



- § Fundraising amounted to €79bn in 2007
  - § Of the total, €60bn (76.0%) was allocated to buyouts
  - § €10.3bn to venture and growth capital (13.1%)
- § Investments into European private equity amounted to €73.8bn
  - § Venture investments amounted to €12.3bn:
    - § Early stage represented 3.7% of the amounts invested and 38.9% of all investments
    - § Expansion deals accounted for 12.7% of the amounts invested and 34.1% of all investments
  - § Buyouts amounted to €59.9bn and accounted for 83.6% of the 2007 investment activity by value and 26.0% by number of investments
- § Divestments at cost amounted to €27.1bn in 2007
  - § Sale to other private equity firms tops the ranking by amount divested at cost at 30.4%, followed by trade sales (28.2%) and repayment of principal loans (15.7%)
  - § Trade sales accounted for 23.9% of the total number of divestments in 2007, followed by repayment of principal loans (13.8%) and repayment of silent partnerships (12.0%)

Source: EVCA Yearbook 2008, PEREP\_Analytics on behalf of EVCA

10

## The Private Equity and Venture Capital Industry at a Glance – Market Statistics

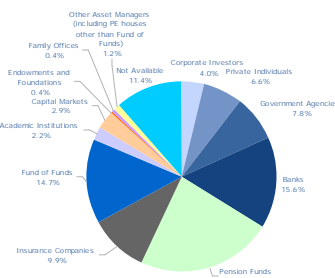


- § Investments into European private equity amounted to €72.2bn
  - § Venture investments amounted to €12.3bn:
    - § Early stage represented 3.4% of the amounts invested and 38.7% of all investments
    - § Expansion deals accounted for 13.4% of the amounts invested and 33.8% of all investments
  - § Buyouts amounted to €59.9bn and accounted for 83.0% of the 2007 investment activity by value and 26.5% by number of investments
- § Divestments at cost amounted to €26.6bn in 2007
  - § Sale to other private equity firms tops the ranking by amount divested at cost at 30.4%, followed by trade sales (28.3%) and repayment of principal loans (15.4%)
  - § Trade sales accounted for 23.5% of the total number of divestments in 2007, followed by repayment of principal loans (13.9%) and repayment of silent partnerships (12.4%)

Source: EVCA Yearbook 2008, PEREP\_Analytics on behalf of EVCA

11

## Type of Investor Share in total funds raised 2003-2007



Source 2003-2006 figures: EVCA/Thomson Reuters/PricewaterhouseCoopers  
Source 2007 figures: PEREP\_Analytics on behalf of EVCA

12

### VC Investments as % of GDP – Industry Statistics: by country of VC firm



2007	VC investments total	VC inv as % of GDP
Country	In € thousands	In %
United Kingdom	4,813,296	0.238%
Sweden	739,727	0.223%
Finland	375,053	0.210%
Switzerland	444,447	0.144%
Norway	383,010	0.134%
Netherlands	600,621	0.107%
Belgium	327,033	0.099%
Europe	12,146,791	0.096%
Spain	991,529	0.094%
Denmark	210,648	0.093%
France	1,427,718	0.076%
Portugal	113,269	0.070%
Romania	80,902	0.067%
Ireland	111,045	0.050%
Germany	1,066,317	0.044%
Poland	74,960	0.024%
Italy	294,377	0.019%
Austria	48,144	0.018%
Hungary	11,310	0.011%
Czech Republic	14,220	0.011%
Greece	19,126	0.008%

Source 2007 figures: PEREP\_Analytics on behalf of EVCA

13

### VC Investments as % of GDP – Market Statistics: by country of destination



2007	VC investments total	VC inv as % of GDP
Country	In € thousands	In %
Denmark	532,766	0.234%
Sweden	689,287	0.207%
Finland	345,452	0.193%
United Kingdom	3,729,203	0.184%
Switzerland	528,705	0.171%
The Netherlands	810,128	0.145%
Ireland	233,018	0.125%
Spain	1,189,115	0.113%
Romania	134,804	0.111%
Belgium	366,424	0.111%
Norway	313,766	0.110%
Europe	12,273,122	0.097%
France	1,531,285	0.087%
Czech Republic	95,213	0.074%
Portugal	81,786	0.050%
Germany	1,107,078	0.046%
Poland	134,362	0.044%
Austria	93,106	0.034%
Italy	337,710	0.022%
Hungary	15,510	0.015%
Greece	4,349	0.002%

Source 2007 figures: PEREP\_Analytics on behalf of EVCA

14

### Buyout Investments as % of GDP – Industry Statistics: by country of PE firm



2007	BO investments total	BO inv as % of GDP
Country	In € thousands	In %
United Kingdom	29,411,202	3.454%
Sweden	3,430,359	1.032%
Netherlands	3,327,556	0.955%
France	10,860,621	0.581%
Europe	61,640,769	0.488%
Denmark	1,001,349	0.440%
Finland	621,430	0.348%
Germany	6,385,226	0.263%
Norway	580,541	0.203%
Spain	2,061,489	0.186%
Greece	435,843	0.191%
Belgium	611,485	0.185%
Romania	216,852	0.179%
Poland	496,522	0.162%
Switzerland	460,403	0.149%
Ireland	175,642	0.095%
Czech Republic	115,618	0.090%
Austria	208,517	0.074%
Italy	1,164,547	0.075%
Hungary	30,398	0.030%
Portugal	45,149	0.028%

Source 2007 figures: PEREP\_Analytics on behalf of EVCA

15

### Buyout Investments as % of GDP – Market Statistics: by country of destination



2007	BO investments total	BO inv as % of GDP
Country	In € thousands	In %
Sweden	3,281,948	0.980%
The Netherlands	4,937,395	0.882%
United Kingdom	17,167,448	0.849%
France	10,325,193	0.553%
Belgium	1,754,582	0.530%
Denmark	1,176,754	0.517%
Europe	59,892,361	0.474%
Hungary	475,857	0.471%
Norway	1,236,127	0.433%
Finland	736,708	0.412%
Germany	9,487,992	0.391%
Spain	3,037,299	0.289%
Austria	762,443	0.280%
Romania	336,557	0.277%
Switzerland	772,611	0.250%
Poland	612,178	0.199%
Greece	435,633	0.191%
Italy	2,835,416	0.184%
Ireland	324,735	0.175%
Czech Republic	107,439	0.084%
Portugal	88,036	0.054%

Source 2007 figures: PEREP\_Analytics on behalf of EVCA

16

### A strong focus on SMEs in 2007 Employment – Industry Statistics



Number of Employees	Amount invested 2007 (in € thousands)	In % of total	No. of investments	In % of total
0 - 19	1,608,756	2.2	2,412	28.7
20 - 99	6,271,947	8.5	3,126	37.2
100 - 199	3,981,371	5.4	834	9.9
200 - 499	8,239,250	11.2	784	9.3
500 - 999	9,261,409	12.6	448	5.3
1000 - 4999	25,379,824	34.4	601	7.2
5000 +	19,045,004	25.7	206	2.4
Subtotal	73,787,560	100.0	8,411	100.0
Unknown	0		0	
TOTAL	73,787,560		8,411	

Source 2007 figures: PEREP\_Analytics on behalf of EVCA

17

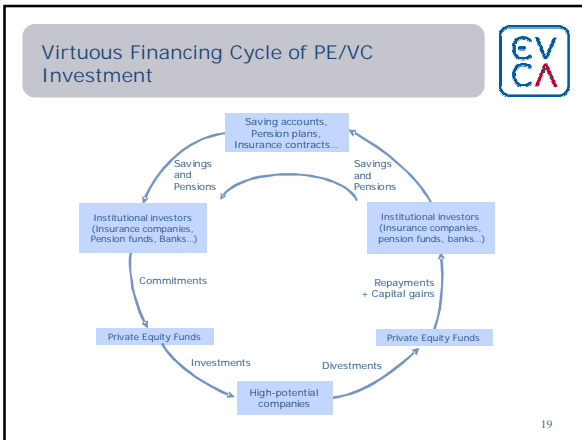
### A strong focus on SMEs in 2007 Employment – Market Statistics



Number of Employees	Amount invested 2007 (in € thousands)	In % of total	No. of investments	In % of total
0 - 19	1,579,421	2.2	2,329	28.5
20 - 99	6,023,637	8.4	2,965	36.3
100 - 199	4,010,582	5.6	824	10.1
200 - 499	8,075,966	11.2	762	9.3
500 - 999	10,434,325	14.5	465	5.7
1000 - 4999	24,656,693	34.1	611	7.5
5000 +	17,384,860	24.1	209	2.6
Subtotal	72,165,484	100.0	8,166	100.0
Unknown	-		-	
TOTAL	72,165,484		8,166	

Source 2007 figures: PEREP\_Analytics on behalf of EVCA

18



### European PE/VC – Economic and Social Impact

A direct influence on European growth

- 2000-2007: nearly €345bn of equity invested (at equity value) in over 61,500 companies across the EU
- 6 million people employed by PE/VC-backed companies in Europe as of end 2004 (3% of economically active population in Europe)
- 2000–2004:
  - 1 million+ new jobs created by European PE/VC financed companies
  - Total employment growth in PE/VC financed companies of 5.4% per year (eight times the annual EU25 growth rate of total employment (0.7%))
  - Average annual employment growth in buyout-financed companies: 2.4%
  - Average annual employment growth in venture-backed companies: 30.5%

Deutsche Bank Research :  
+0.1% Investments/GDP creates 0.4% additional GDP by VCs and 0.2% for Buyouts

Source: Employment Contribution of Private Equity and Venture Capital in Europe, CEFS/EVCA, November 2005

20

### European PE/VC – Economic and Social Impact (2)

#### Venture-Backed R&D Activity

- VC-backed companies spend on average 45% of total expenses on R&D (€3.4 million pa)
- This averages €50,500 per employee per year – six times the per employee expenditure of the EU 25's top 500 R&D spenders

Source: Employment Contribution of Private Equity and Venture Capital in Europe, CEFS/EVCA, November 2005

21

### Contribution to Research Activity

Every third employee in venture-backed companies works in R&D – 13% holding a PhD or equivalent degree

One employee can work as researcher or engineer and hold a PhD at the same time

Source: CEFS/EVCA

22

### European Tax and Legal Environments for Private Equity and Venture Capital

- Aim**
  - to highlight the areas that are considered important for private equity and venture capital and to promote entrepreneurship in Europe
  - to allow for the best level playing field possible among operators
- The paper analyses how to encourage more efficient tax and legal frameworks across Europe, and enables comparisons to be drawn between different European countries
- The EVCA Benchmark aims to:
  - contribute to best market practices
  - give national regulators and supervisory authorities an insight into how neighbouring countries have implemented specific measures, and how to adapt their legislative environment to enhance the private equity and venture capital "value chain" in their respective country
- The National Reform Programmes bring an excellent opportunity for Member States to report on the progress made on these specific areas.
- Full paper: [http://www.evca.eu/uploadedFiles/a1\\_benchmark06.pdf](http://www.evca.eu/uploadedFiles/a1_benchmark06.pdf)

23

### Content of the Study

- 25 European countries, including 4 new countries compared to the previous EVCA Benchmark study (Estonia, Latvia, Romania and Slovenia)
- This study has focused on 3 main areas, grouping 7 criteria, which are further split into 29 variables:
  - The tax and legal environment for limited partners (investors) and fund management companies:
    - Pension funds
    - Insurance companies
    - Domestic fund structures
    - Tax incentives for private equity and venture capital
  - The tax and legal environment for investee companies:
    - Company incentivisation
    - Fiscal R&D incentives
  - The tax and legal environment for retaining talent in investee companies and fund management companies:
    - Retaining Talent

24

### Country Ranking



Results for 2006		Results for 2004		Results for 2003	
Country	Total Score	Country	Total Score	Country	Total Score
Ireland	1.27	United Kingdom	1.26	United Kingdom	1.20
France	1.36	Luxembourg	1.49	Ireland	1.58
United Kingdom	1.46	Ireland	1.53	Luxembourg	1.67
Belgium	1.81	Greece	1.75	Netherlands	1.79
Spain	1.52	Netherlands	1.76	Italy	1.96
Greece	1.55	Portugal	1.81	Greece	1.96
Netherlands	1.60	Belgium	1.82	Total Average	2.03
Luxembourg	1.62	Hungary	1.86	Belgium	2.08
Portugal	1.71	Italy	1.86	France	2.09
Italy	1.72	France	1.89	Sweden	2.09
Austria	1.74	Switzerland	1.95	Spain	2.17
Denmark	1.75	Spain	1.96	Finland	2.25
Hungary	1.83	Total Average	1.97	Portugal	2.32
Switzerland	1.85	Norway	2.04	Denmark	2.36
Total Average	1.84	Sweden	2.05	Germany	2.41
Finland	1.91	Czech Republic	2.12	Austria	2.53
Estonia	2.08	Poland	2.13		
Norway	2.08	Finland	2.30		
Sweden	2.12	Germany	2.37		
Latvia	2.12	Austria	2.42		
Germany	2.15	Denmark	2.46		
Poland	2.16	Slovak Republic	2.49		
Slovak Republic	2.17				
Czech Republic	2.21				
Slovenia	2.26				
Rumunia	2.35				


25

### Key Findings for Poland: Room for Improvement



- § Poland was positioned at the lower end of the ranking
- § Poland provides an unfavourable environment for PE/VC
  - § Both pension funds and insurance companies have to abide by a list of allowed categories of investments and quantitative restrictions
  - § The country provides an appropriate domestic fund structure (Close-End Investment fund for Non-Public Assets "CEIF"). However, not very often implemented in practice.
  - § Poland does not provide any tax incentive for investing in PE/VC
- § There is still room for improvement regarding company incentivization
  - § No Young Innovative Company (YIC) Scheme
  - § No special company tax rate for SMEs
  - § On the right track regarding fiscal R&D incentives
- § Also room for improvement regarding attracting and retaining talent

26



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27