



EVCA Barometer



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Industry Snapshot

In the venture capital industry, deal structuring differs significantly from buyouts. A typical venture deal would involve a syndicate of investors (mainly VC funds and individuals) who pull money together to back an entrepreneur. They usually continue backing the entrepreneur during various successive rounds as to avoid the dilution effect from other external investors that might start backing the same company at later stages. Given the higher risk profile of venture deals, for each round, capital is given to the invested company in tranches, depending on milestones that have to be met by the company. If the company fails to reach the milestones, investors are entitled to stop supplying the remaining tranches of the committed round.

For this edition of Barometer, EVCA surveyed all its venture capital members and asked them about the way they structure deals. Out of the 274 active venture firms surveyed, 40 answered. A large majority of the respondents invested in early-stage VC deals in 2008 (85%), while slightly more than half of them were active in later stage VC (53%). 38% of the respondents made both early-stage and later-stage deals.

In the early-stage segment, most respondents invested in ICT (65%) and life sciences (59%) in 2008. Cleantech was the least financed sector (29%). The same trends held for later stage investments, even though the proportion of respondents investing in life sciences and cleantech was lower compared than in early stage. The average number of investments was higher in early-stage ICT deals (5) and in later stage life sciences deals (4).

	Early-stage				Later stage			
	ICT	Life sciences	Clean-tech	Other	ICT	Life sciences	Clean-tech	Other
% of total respondents investing in the segment*	65%	59%	29%	32%	62%	38%	19%	29%
% of total number of deals in the segment	46%	29%	10%	16%	40%	35%	11%	13%
Average number of investments	5	3	2	3	3	4	3	2

Source: EVCA

*Given that investments in various sectors of the same segment were possible, the totals per segment do not add up to 100%.

More syndication in early-stage venture

According to respondents and in line with risk profiles, early-stage deals were on average more syndicated than later-stage ones. Nevertheless, the level of syndication varied across sectors.



In the early-stage segment, 95% of life sciences investors reported at least one syndication partner in 2008, the highest proportion among respondents. The average number of co-investors in life sciences was two, the lowest among all early-stage investments. With an average number of four co-investors, early-stage cleantech investments involved the highest number of syndicate parties in the early-stage segment.

	Early-stage				Later stage			
	ICT	Life sciences	Cleantech	Other	ICT	Life sciences	Cleantech	Other
% of total respondents investing in the sector*	68%	95%	70%	82%	61%	88%	50%	50%
Average number of syndicated parties	3	2	4	3	2	4	1	1

Source: EVCA

*Given that investments in various sectors of the same segment were possible, the totals per segment do not add up to 100%.

In the later stage segment, the proportion of respondents reporting syndicated deals was slightly lower than in early-stage, ranging between 50% in cleantech and other sectors, and 88% in life sciences. In life sciences deals the average number of co-investors besides respondents was twice as high in later stage as in early-stage life sciences deals (four against two), but in all other sectors the average number of co-investors was much lower. On average, cleantech deals involved only one co-investor besides respondents, against four in the early-stage segment.

Overall, the most frequent co-investors involved in the VC syndicated deals were other private equity firms according to 82% of respondents. It was followed closely by private individuals, set forth by 73% of respondents. Although corporates were the least common co-investor type, they were reported by more than one third of respondents.

Most common co-investors (in %)

Other PE players	82
Private individuals	73
LPs	45
Other financial institutions	42
Corporates	36

Source: EVCA

Given that multiple choices were possible, the total does not add up to 100%.

Round structure: more tranches within the round in early-stage deals, with capital granted for a shorter period of time than in later stage rounds

In 2008, a venture round of investment comprised two tranches on average, both in early-stage and later stage segments.

However, the average number of tranches seems slightly higher in early-stage deals than in later stage deals. Indeed, in the early-stage segment the proportion of respondents reporting an average number of three or more tranches in their deals ranged between 19% in ICT and 40% in cleantech, while in the later-stage segment, the proportion lied between 9% in ICT and 30% in life sciences.



Average number of tranches in VC deals in 2008 according to respondents (in %):

Average number of tranches in a VC deal	Early-stage				Later stage			
	ICT	Life sciences	Cleantech	Other	ICT	Life sciences	Cleantech	Other
1	19	18	10	25	36	30	25	25
2	62	47	50	50	55	40	50	50
3	19	29	40	25	9	30	0	0
> 3	0	6	0	0	0	0	25	25

Source: EVCA

In a 2008 round of early-stage investment, capital was granted for a slightly shorter period of time than in a later stage round. More than 60% of respondents active in early-stage, granted capital to the companies invested for an average period of three to six months. In the later stage segment, results look similar for cleantech investors and those focused on other types of sectors. But in later stage ICT and life sciences investments, capital was granted for more than a year on average.

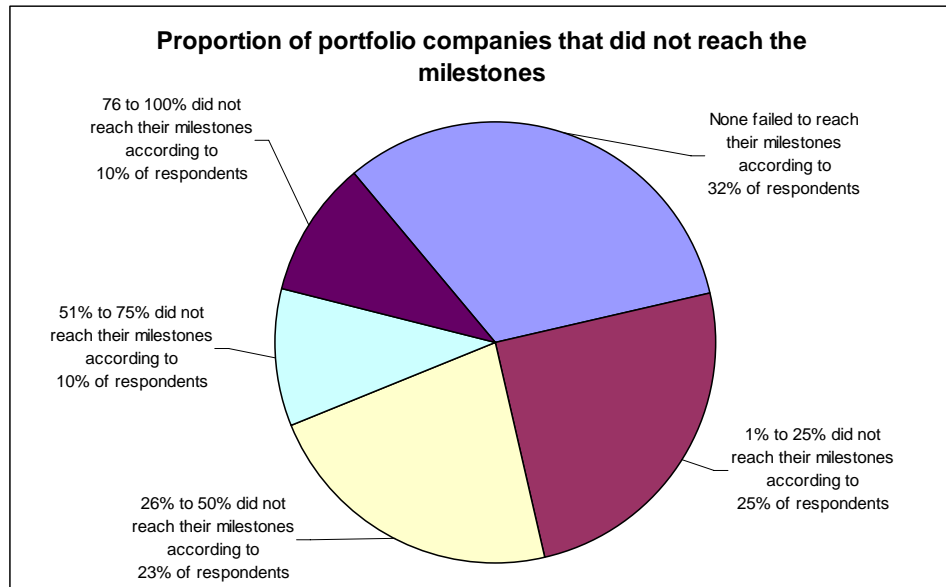
Average number of months in which capital is granted by investment round (% of respondents)

Average period in which capital is granted in number of months	Early-stage				Later stage			
	ICT	Life sciences	Cleantech	Other	ICT	Life sciences	Cleantech	Other
3-6	33	35	25	40	20	11	33	60
7-12	33	35	38	20	10	33	33	20
13-18	24	24	12	30	50	11	0	20
19-24	10	6	25	10	20	45	33	0

Source: EVCA

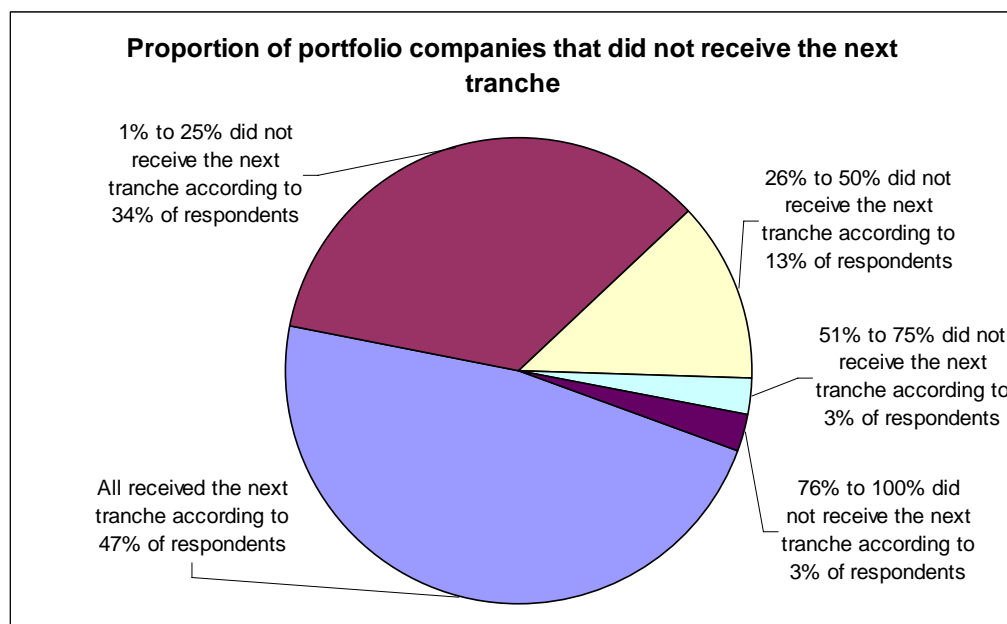
Failing to reach their milestones did not prevent companies from receiving additional tranches of capital

One third of respondents did not have any companies in portfolio that were facing difficulties to meet their milestones in 2008. However 68% of respondents reported that some of their portfolio companies failed to reach their milestones. About half of respondents had less than 50% of their portfolio companies facing problems to reach milestones, while 20% of them set forth that up to 100% of their portfolio companies having problems to reach them.



Source: EVCA

On average, companies that could not reach their milestones had already received two tranches of capital, which is the average number of tranches foreseen by respondents. Nevertheless, for more than half of the respondents, some of their portfolio companies did not reach their milestones and did not receive the additional tranches as planned.



Source: EVCA

The fact that a company could not reach its milestones was not necessarily preventing it from receiving the next tranche of financing. This is illustrated by the fact that only 53% of respondents stated that their portfolio companies did not receive the next tranches of financing, while more than two thirds of them had companies facing problems to reach their milestones.



ICT Results

Semantic web promises a smarter electricity grid

Dispersed wind farms and solar panels on people's homes are posing new challenges for managing power grids that were designed when all electricity was generated in centralised plants. A new semantic web technology promises a solution. [Read more...](#)

Fingerprints and faces can be faked, but not brain patterns

Sensors able to identify individuals' brain patterns and heart rhythms could become part of security systems which also use more traditional forms of biometric recognition, thanks to pioneering work being done by European researchers. [Read more...](#)

Data mining promises to dig up new drugs

A robot scientist that can make informed guesses about how effective different chemical compounds will be at fighting different diseases could revolutionise the pharmaceutical industry by developing more effective treatments more cheaply and quickly than current methods. [Read more...](#)

Good view from the clouds

Always on the lookout for new stories and trends, ICT Results was out and about in January attending SSOKU09, a software services event, and the ICT Proposers Day. There are signs in the clouds – cloud computing to be precise – that the future internet is already here. [Read more...](#)

Recession deepens in 2009

According to *The Economist's* latest GDP forecasts, the economic outlook for the most developed economies has deteriorated further. The recession foreseen in 2009 would be closer to -2% on average, rather than -1% as foreseen in the January forecasts.

Annual GDP Growth Forecasts in %

	February 2009 forecast		January 2009 forecast		Difference between the two forecasts	
	2008	2009	2008	2009	2008	2009
Euro zone	0.8	-2.1	0.7	-1.4	0.1	-0.7
UK	0.7	-2.6	0.6	-1.7	0.1	-0.9
Denmark	-0.6	-1.7	-0.4	-1.2	-0.2	-0.5
Sweden	0.6	-1.0	0.6	-0.6	0.0	-0.4
USA	1.2	-2.0	0.9	-1.2	0.3	-0.8
Japan	-0.2	-3.2	0.0	-1.4	-0.2	-1.8

Source : The Economist

In the Euro Zone, the recession prospects deepened further in February, with the GDP now expected to decrease by -2.1% compared to -1.4% in the January forecasts. Among the European countries presented here, the UK could experience the steepest decline in GDP in 2009, -2.6%, while Sweden and Denmark would be the least impacted. In the USA, the recession is expected to be similar to the one in the Euro Zone, with GDP expected to fall by 2%. The Japanese economy, highly dependent on foreign trade, is expected to draw back by -3.2%.



Full year 2008 GDP growth estimates remain stable for the Euro Zone, the UK and Sweden compared to January 2009 forecasts, at 0.7% for the Euro Zone and 0.6% for Sweden and the UK. The estimates for Denmark and Japan have been revised downwards, by 0.2 p.p. since January, to -0.6% and -0.2% respectively. The USA, with an expected growth of the GDP of 1.2%, would have been the best performing economy in 2008.

According to Eurostat, in the fourth quarter of 2008, the economic activity in the Euro Zone decreased by 1.5%, the steepest decline ever registered in the Euro Zone. Details on the decrease will only be published in March. However, it is expected that all contributors to the economic activity were oriented downwards.

Quarterly GDP Growth Estimates for the Euro zone in %

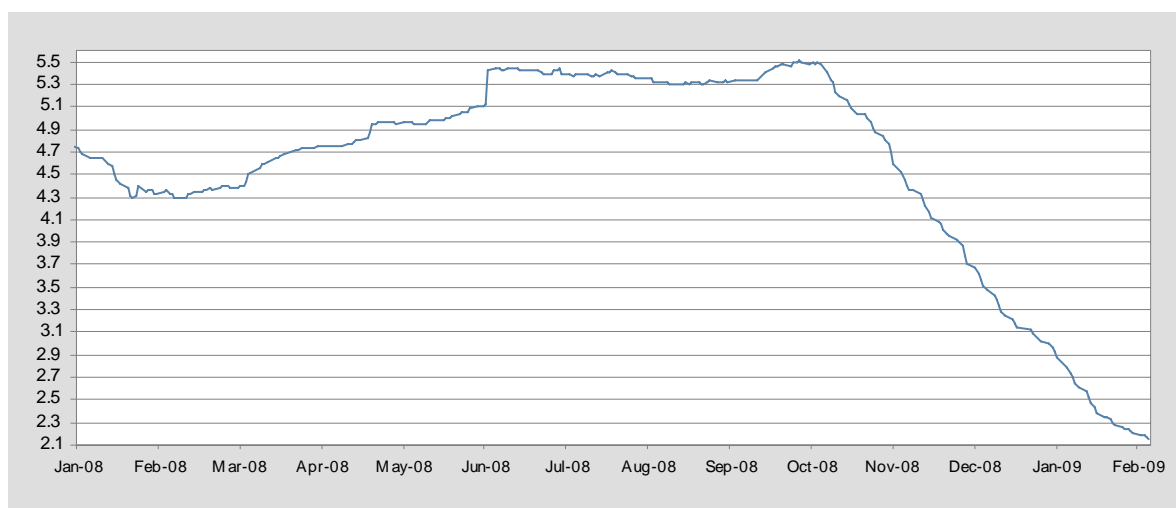
	January 2009	December 2008	Difference between the two estimates
1 st Quarter 2008	0.7%	0.7%	0.0
2 nd Quarter 2008	-0.2%	-0.2%	0.0
3 rd Quarter 2008	-0.2%	-0.2%	0.0
4 th Quarter 2008	-1.5%		0.0

* Refers to the actual quarterly growth rates, which are revised monthly to take account of new information.
Source: Eurostat

Decline in LIBOR slows down

The decrease in the LIBOR 12 months slowed down in January and early February 2009, closing at 2.15% on 12 February. It is the lowest level of the LIBOR since September 2005.

Annual LIBOR



Source: British Bankers Association (BBA)

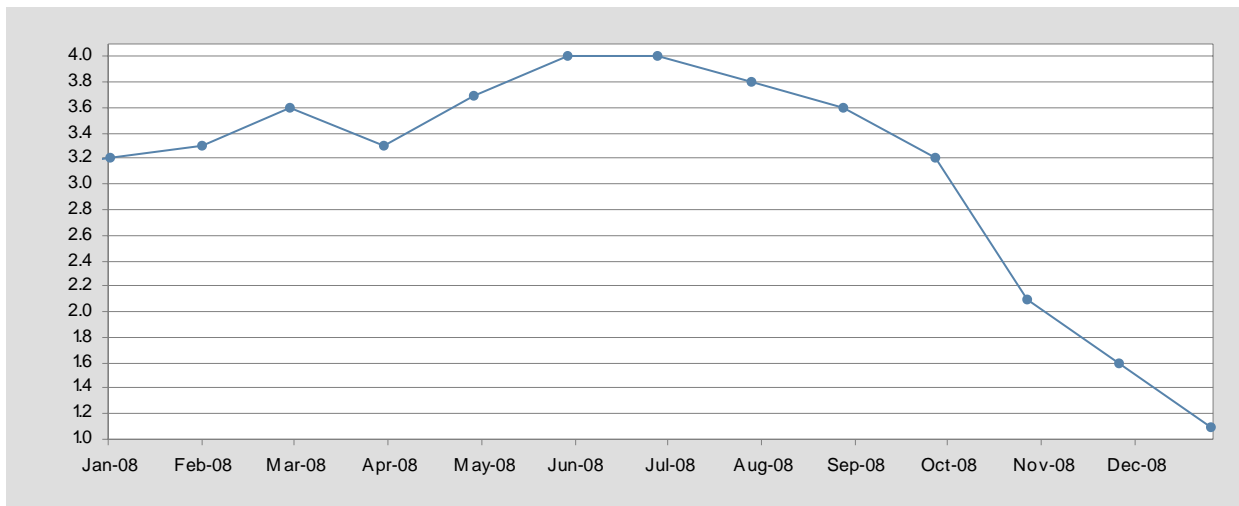
The average LIBOR rate in January was 2.62%, which was 83 basis points below the December 2008 average, and 187 basis points below January 2008 average LIBOR rate.



Inflation and Exchange rate

In January 2009, inflation decreased further to its lowest level in about ten years at 1.1%, compared to 1.6% in December 2008. The decrease in inflation was partly driven by the decrease in energy prices which fell by 5.3% on an annual basis in January. In this context, the European Central Bank is expected to decrease further its *refi* rate in the short term.

Annual Inflation rate for the Euro Zone



Source: Eurostat - Inflation rate for consumer price

The Euro depreciated by 8% in January vis-à-vis the end of December 2008, closing at US\$1.28/€ on 30 January. Since then it remained pretty stable, closing at US\$1.26/€ on 20 February.

Exchange rate \$ / €



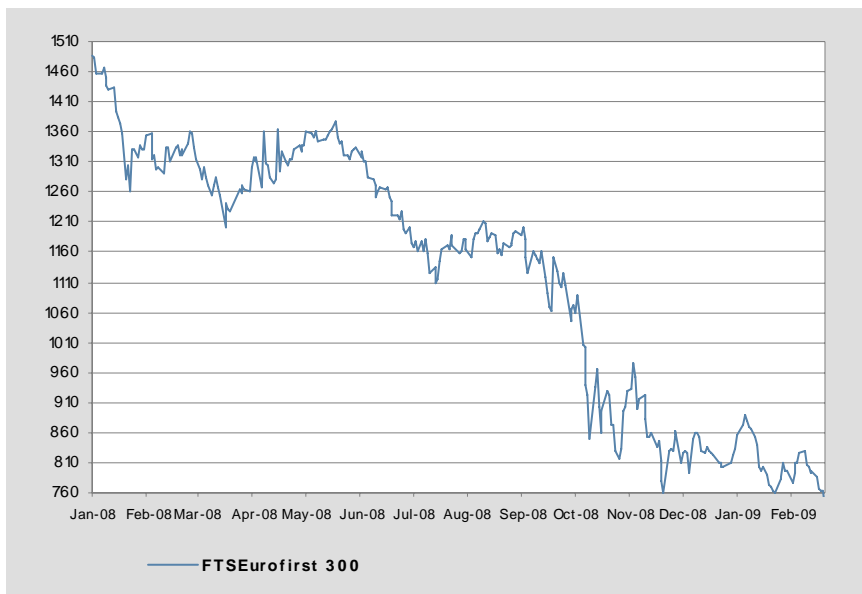
Source: European Central Bank (ECB)



Stock markets remain oriented downwards in 2009

Since the beginning of 2009, stock markets remained oriented downwards, after a period of stabilisation at the end of 2008. The 2008 activity results of listed companies are negatively impacted by the overall depressed economic environment.

The FTSE Eurofirst 300 and the NASDAQ experienced the sharpest declines year-to-date, decreasing by 13.9% and 12.2% respectively. On 20 February they were closing at 738 points and 1,434 points respectively, close to their lowest level for the past six years.



FTSEurofirst 300

Year 2009

- Highest value: 889.57 (6 January)
- Lowest value: 760.54 (23 January)

Year 2008

- Closing: 31 December at 831.97
- Highest value: 1,487.23 (2 January)
- Lowest value: 760.97 (21 November)

% change on year opening

- -13.85%

% change year on year

- -44.13%

Source: London Stock Exchange



NASDAQ

Year 2009

- Highest value: 1,652.38 (6 January)
- Lowest value: 1433.86 (20 February)

Year 2008

- Closing: 31 December at 1,577.03
- Highest value: 2,609.60 (2 January)
- Lowest value: 1316.12 (20 November)

% change on year opening

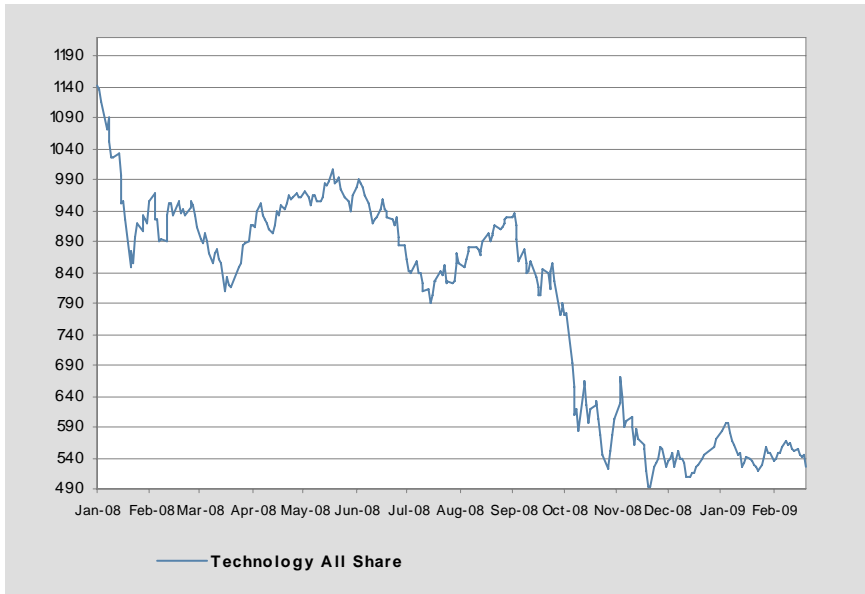
- -12.15%

% change year on year

- -38.38%

Source: NASDAQ

The Technology All Share experienced a similar trend this year to date, closing on 20 February 10.1% below its early January 2009 level. Only the AIM remained stable so far this year. Since the beginning of 2009, it decreased by only 1.8%, closing just below the 400 points on 20 February. This is its lowest level in more than ten years.



Technology All Share

Year 2009

- Highest value: 596.46 (5 January)
- Lowest value: 519.46 (23 January)

Year 2008

- Closing: 30 December at 570.91
- Highest value: 1,142.03 (2 January)
- Lowest value: 492.21 (21 November)

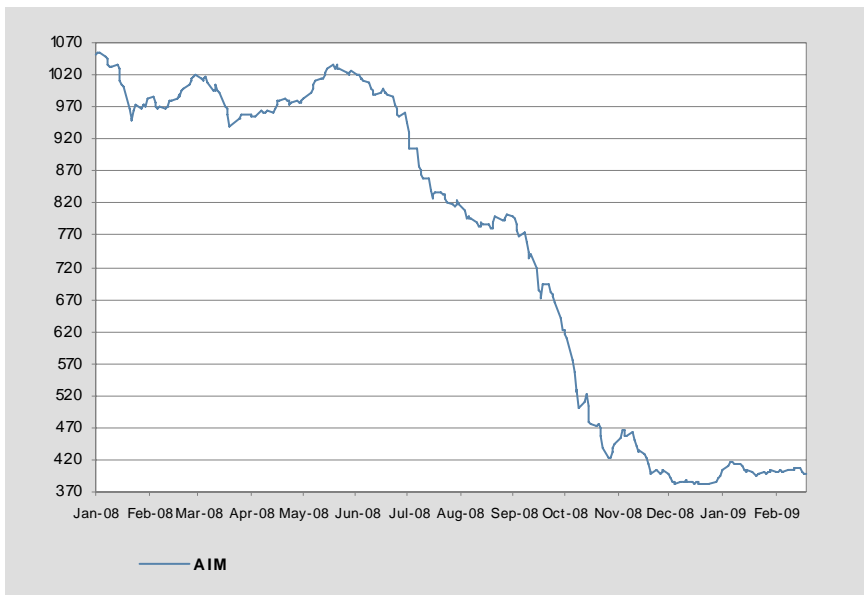
% change on year opening

- -10.06%

% change year on year

- -43.73%

Source: Deutsche Börse



AIM

Year 2009

- Highest value: 416.98 (6 January)
- Lowest value: 398.63 (19 February)

Year 2008

- Closing: 31 December at 394.3
- Highest value: 1,055.60 (3 January)
- Lowest value: 381.77 (22 December)

% change on year opening

- -1.56%

% change year on year

- -59.64%

Source: London Stock Exchange



IPO Activity

According to data provided by *Thomson Reuters*, there were no European companies listed in January 2009, while very few IPOs took place in the USA and Asia.

	USA				Europe				Asia ¹			
	2008		2009*		2008		2009*		2008		2009*	
	Proceeds €m	No. Issues	Proceeds €m	No. Issues	Proceeds €m	No. Issues	Proceeds €m	No. Issues	Proceeds €m	No. Issues	Proceeds €m	No. Is- sues
Quarter 1	13,221	10	641	1	569	32			9,198	96	68	10
January	492	3	641	1	197	11			3,107	45	68	10
Quarter 2	2,987	14			7,411	47			6,802	119		
Quarter 3	595	4			869	20			3,011	69		
Quarter 4	116	1			1,286	13			658	29		
Total	16,919	29	641	1	9,046	110			22,118	329		

* Cut-off date: 31 January 2009

IPO activity is classified by the domicile nation of the issuer's headquarters

Data is continuously updated and is therefore subject to change

¹Asia here excludes Japan

Source: Thomson Reuters

Only one American company went public in January 2009, the consumer staple company *Mead Johnson Company*. The listing generated €641 million in proceeds. This was more than in January 2008 in terms of proceeds, but three times less by number of companies listed.

In Asia, the IPO activity slowed down dramatically in January 2009 compared to January 2008. Ten companies only went public in January this year, generating €68 million in proceeds. This represent 2% only of the proceeds generated in the same month in 2008, and 22% of the total issues.

The largest IPO was the listing of the Chinese energy and power company Strong Petrochemical, which generated €23.9 million in proceeds. One Asian venture-backed company went public, the South Korean telecommunication company *Ubiqoss*, with proceeds amounting to €3.5 million.



Top IPO Stock Exchange

According to *Thomson Reuters*, no IPO took place in a European market. In the US, the New York Stock Exchange was the only market that registered IPOs in January 2009. Altogether, 100 IPOs were registered generating €828 million in proceeds.

In Asia, the Hong Kong stock exchange tops the list of most active Asian markets in terms of IPOs. Four companies were listed in January 2009, generating proceeds of €177 million. It was followed by the Singapore Catalist on which only one company went public, with €7 million in proceeds.

Ranking	USA			Europe			Asia ¹		
	Name	Proceeds €m	No. issues	Name	Proceeds €m	No. issues	Name	Proceeds €m	No. issues
1	New York	828	100				Hong Kong	177	4
2							Singapore Catalist	7	1
3							Mumbai {The Bombay Stock Ex- change}	2	1
4							National Stock Ex- change	2	1
5							Hanoi	0	1

* Cut-off date: 31 January 2009

¹Asia here excludes Japan

Source: Thomson Reuters

861 M&A deals worth €94 billion in January 2009

According to data from *Dealogic*, the total number of M&A deals that took place in January 2009 was 861, more than 10% less than in January 2008 when 1,005 M&A transactions were registered. However, revenues remained stable, with €94 billion generated in January 2009, against €90 billion generated in January 2008.

With 104 deals registered, *computers and electronics* took the lead over *professional services* in terms of deal number compared to January 2008. In terms of deal value *finance* came first with €35 billion generated through 65 deals. It was followed closely by *auto/truck* deals which generated €31 billion.

The 861 deals that took place in January 2009 represented 7% of total 2008 M&A transactions, and close to 10% of the total revenues generated last year.



	2006		2007		2008*		2009*	
	Amt. €bn	No. of deals	Amt. €bn	No. of deals	Amt. €bn	No. of deals	Amt. €bn	No. of deals
Aerospace	8	31	6	36	3	39	0	2
Agribusiness	3	104	1	118	2	103	0	2
Auto/Truck	12	220	22	245	23	285	31	29
Chemicals	34	307	23	349	25	335	0	19
Computers & Electronics	32	1,258	40	1,305	34	1,439	1	104
Construction/Bldg Prods	80	804	56	822	35	834	1	67
Consumer Products	14	439	28	528	48	488	0	33
Dining & Lodging	35	310	20	285	23	225	0	12
Finance	110	872	287	861	172	982	35	65
Food & Beverage	25	647	44	633	20	588	1	51
Forestry & Paper	2	112	4	102	3	109	0	6
Government	0	13	0	9	0	14	0	0
Healthcare	67	456	64	519	15	537	0	35
Holding Companies	4	99	18	98	9	107	0	9
Insurance	41	268	48	330	39	339	0	27
Leisure & Recreation	14	246	16	227	4	227	0	15
Machinery	12	363	18	434	13	451	0	31
Metal & Steel	50	283	40	312	12	322	0	21
Mining	20	182	7	136	38	149	1	8
Oil & Gas	57	340	86	294	46	283	1	15
Professional Services	24	1,304	30	1,461	24	1,473	0	83
Publishing	26	268	17	283	22	268	0	23
Real Estate/Property	133	1,012	170	1,284	69	881	3	47
Retail	24	445	50	448	19	445	0	39
Telecommunications	110	513	61	512	45	501	0	30
Textile	4	160	15	139	3	143	0	9
Transportation	61	557	47	582	30	597	2	47
Utility & Energy	73	390	141	410	168	534	18	31
Total	1,074	12,008	1,364	12,770	945	12,704	94	861

* Cut-off date: 31 January 2009

Data is continuously updated and is therefore subject to change

Note: the industry classification has changed as of April 2007, following the implementation of a new analytics system. Please also note that the data methodology has changed as of January 2005 and is presented excluding company carveouts.

Source: Dealogic

European M&A transactions remain mainly in Western Europe

Based on data from *Dealogic*, Western Europe saw 685 M&A transactions in January 2009, valued at €91 billion. In volume, this is 15% less than in January 2008, but 18% more in value terms. The UK and Germany, with €45 billion and €37 billion in transactions respectively, accounted for 90% of the Western European M&A market in value terms. By number, the UK, Germany and France attracted close to 45% of the transactions, with 151 transactions reported in the UK, 133 in Germany and 94 in France.



	2006		2007		2008*		2009*	
	Amt. €bn	No. of deals	Amt. €bn	No. of deals	Amt. €bn	No. of deals	Amt. €bn	No. of deals
Eastern Europe	127	2,767	166	2,417	155	2,948	3	176
Russian Federation	68	1,226	96	820	103	1,158	1	76
Turkey	19	126	17	118	12	100	1	3
Albania	0	3	0	10	0	16	0	1
Czech Republic	3	133	4	113	6	159	0	7
Ukraine	1	148	4	200	5	231	0	24
Western Europe	947	9,242	1,197	10,353	791	9,756	91	685
United Kingdom	303	2,915	292	3,075	248	2,748	45	151
Germany	122	1,145	148	1,307	71	1,474	37	133
Italy	62	628	144	591	51	561	3	20
Spain	96	721	115	921	73	601	2	59
France	126	913	116	1,014	116	1,086	1	94
Total	1,074	12,009	1,364	12,770	945	12,704	94	861

* Cut-off date: 31 January 2009

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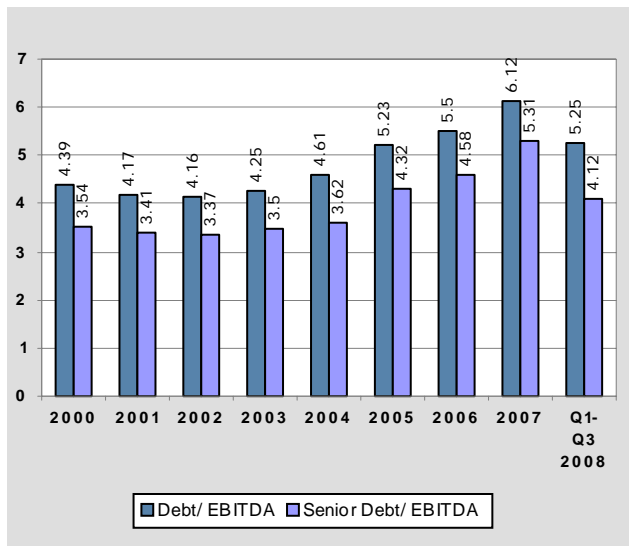
Note: the data methodology has changed as of January 2005 and is presented excluding company carveouts.

Source: Dealogic

In Eastern Europe, 176 transactions were counted in January 2009, worth €3 billion. In value, this is four times less deals than in January 2008, but only 12% less in volume. The Russian Federation remained the prime country for M&A transactions in the region, with 76 deals registered, worth €1 billion. By number of deals, Ukraine came second with 24 M&A transactions that amounted to less than €1 billion.

Leverage loan market activity

European leverage ratios from 2000-2008

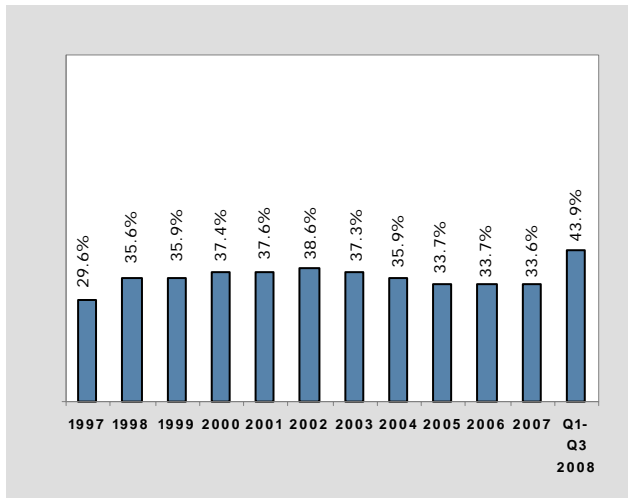


Source: S&P LCD

According to data by Standard & Poor's Leverage Commentary & Data (S&P LCD), debt-to-EBITDA multiples decreased by 0.87 percentage points from 6.12x in 2007 to 5.25 x in the first three quarters of 2008. The senior debt-to-EBITDA multiples decreased even more, by 1.19 percentage points, from 5.31x in 2007 to 4.12x in the first three quarters of 2008.



Average European equity contributions
from 1997-2008 (as of total enterprise value)



Source: S&P LCD

After a stabilisation between 2005 and 2007, the average equity contribution for European LBO transactions increased dramatically from 33.6% to 43.9% in the first three quarters of 2008



Methodology

GDP

i) Eurostat

Source: <http://epp.eurostat.ec.europa>

The growth rates presented refer to the actual quarterly growth rates, which are revised monthly to take account of new information. The area referred to is the Euro Zone (EU 15).

ii) The Economist: The Economist poll forecast

Source: www.economist.com

The Economist poll forecast is a monthly estimate for the GDP growth rate in the Euro Zone for the coming year. To obtain this forecast, 17 banks and financial institutions are questioned on their current growth projections. For the final figure, the arithmetic average of individual projections is calculated.

LIBOR

Source: British Bankers Association (BBA), Home Page: www.bba.org.uk

The data presented is the 12 month Euro LIBOR, measured at spot value.

Inflation rate

Source: Eurostat

The numbers displayed are the annual consumer price inflation rates published by Eurostat on a monthly basis. The most recent value is an estimate, which is published at the end of the month and incorporates all information available at the time. This figure is restated in the middle of the following month. The data presented measures price changes in the Euro Zone between the current month and the same month in the previous year.

Exchange rate

Source: European Central Bank (ECB)
Bilateral Euro/US Dollar exchange rate.

Stock Markets

FTSE Eurotop 300:

Source: www.londonstockexchange.com

AIM:

Source: www.londonstockexchange.com

Technology All Share:

Source: www.deutsche-boerse.com

NASDAQ:

Source: www.nasdaq.com



IPO activity and Top 5 IPO stock exchanges

Source: Thomson Financial at www.thomsonreuters.com

IPO data includes the first public offering of a company's common stock. Secondary listings or re-listings on other markets are not considered IPOs. The data is attributed geographically by the domicile nation of the issuer's headquarters, regardless of the target market. European data comprises IPOs of companies domiciled in Europe, including Central and Eastern Europe. Asian data refers to companies domiciled in Asia, excluding Japan. All amounts are given in Euros and represent total proceeds raised to the issuing company, including overallotments sold.

M&A activity in Europe

Source: Dealogic at www.dealogic.com

The M&A data accounts for completed deals between January 1999 and the time of publication. Deals that are pending, withdrawn or in which shares have been bought back are excluded. Europe refers to both Western and Eastern Europe. Volume data refers to M&As of quoted and unquoted companies. The geographical M&A flows are classified by target nationality. Please also note that the data methodology has changed as of January 2005 and that M&A data is presented excluding company carveouts.

European leverage ratios and average equity contributions

Source: S&P LCD at www.lcdcomps.com

The data is referring to the leverage loan market, covering loans for LBO transactions that are syndicated to borrowers (banks) in Europe. Transactions include all sponsored activity, such as refinancing and recapitalizations. Europe refers to both, Western and Eastern Europe.

Disclaimer

The data provided in this Barometer has been collected from different sources. EVCA has taken steps to ensure the reliability of the information presented. However, EVCA cannot guarantee the ultimate accuracy of the data and therefore EVCA does not accept responsibility for any decision made or action taken based on the information provided.

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