

# FINANCING THE FUTURE



**FUELING EUROPE'S GROWTH:** A group of France's most successful entrepreneurs-turned-investors agreed in November to a one million euro investment in Restopolitan, an early-stage Paris start-up, an example of how the state of Europe's venture capital industry is changing, writes **Jennifer L. Schenker**

**S**tephanie , a 27-year-old Frenchwoman returned to France after a year in New York with one goal in mind: start a company similar to the U.S.'s OpenTable that would take local customs into account while making it easy to make on-line dinner reservations.

and her co-founders formed a company called Restopolitan which won a start-up prize in France and secured a 70,000 euro bank loan. Microsoft BizSpark, a program geared to start-ups, helped with technology and gave Restopolitan exposure at a pan-European conference last spring. 's pitch? As someone whose family has been in the restaurant business for generations she has the connections and the savvy to build a service to cater not just to restaurants in France but in other parts of Europe. The company has developed the technology and has some traction. But to scale she needed to raise a series A

round of venture capital funding.

Thanks to relentless networking connected with two French serial entrepreneurs who have formed a new seed fund called Kima Ventures: Jeremie Berbi, founder of Net2One and Zlio and Iliad Group founder Xavier Niel. Kima Ventures not only decided to invest, the partners picked up the phone and began contacting a roster of France's most successful entrepreneurs.

Everyone wanted in on the deal, including Meetic founder Marc Simoncini's new seed fund Jaina Capital and Vente-privee.com co-founder Jacques-Antoine Granjon. raised a total of one million euros from the group in early November and they all gathered to celebrate over lunch at BON, a trendy restaurant in Paris' chic 16th arrondissement. (see group photo).

Such stories are more common in Silicon Valley than in Europe, until now. The Restopolitan example underscores how a

swelling crop of serial entrepreneurs are stepping up to fund the next generation. This new breed of seed, along with angel investors, family offices and new early stage funds, are helping fill the early stage funding gap in Europe.

Serial entrepreneurs are not just launching investment vehicles, they are continuing to launch new companies, ensuring Europe's future economic prosperity and creating jobs at a time when large companies are losing market cap and announcing massive layoffs. For example, a recent report from the UK's National Endowment for Science, Technology and the Arts (NESTA) found that start-ups – which represent just 6 percent of companies in the UK – added more than 50 percent of the jobs created in the past seven years.

Hermann Hauser, who co-founded Amadeus Capital Partners in 1997, helping pioneer venture capital in Europe, says he has seen "remarkable change" in

the last thirteen years. Only 17 percent of the start-ups in the Cambridge-based venture firm's first fund were led by serial entrepreneurs. In the third fund the number has shot up to 70 percent.

That said, for Europe the measuring stick is still Silicon Valley. Brain drain is an issue. (see story "The Ones That Got Away, page 5) Reid Hoffman, an active angel investor, co-founder and chairman at LinkedIn and a partner at Greylock Partners, acknowledges that Europe has its strong points. He invested in European start-up Lastfm (sold to CBS in 2007 for 280 million dollars) and is co-organizer along with British super angel Sherry Coudu of Silicon Valley Comes to Cambridge (SVC2C) an annual conference in England. But he is quick to point out that the top five global Internet companies all came from the Valley and he figures the center of gravity is likely to stay there.

There is no shortage of European investors and entrepreneurs who would like to prove him wrong. So why is Europe seen as lagging?

It is no longer a question of ambition. "It is different from 10 years ago, the smart people who want to build companies in Europe today are guys who have already tasted equity returns," says Nenad Marovac, a managing partner at London-based DN Capital, a seed and early stage investor.

And innovation is not the problem. Detractors love to dismiss Europe as the Old World, a continent of copycats which spawns national versions of eBay, Groupm and Zappos and then sells them to the U.S. companies who invented the business model. The people who have proven the most adept at founding this category of companies, such as Germany's Samwer Brothers, have built successful

*Continued on page two*

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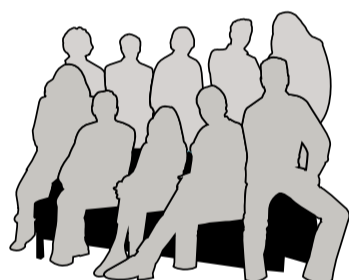
Scaling up tests the limits of venture capital

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## EUROPE TECHNOLOGY IPOs WITH MARKET VALUE GREATER OR EQUAL TO ONE BILLION DOLLARS YTD. From this Europe Technology IPOs with Market Value Pro Forma Greater or Equal \$1Bn. 2004-2010YTD

Source: Morgan Stanley

Issue Date	Issuer	Market Value/Market Capitalization	Market Value Pro Forma Offer (\$ mil)	Shares Offered - sum of all Mkts	Shares Ofrd as percent of Shs Out Aft Offr - sum of all Mkts	US\$ Offer Price	Marketplace	Sub-Sector
04/27/10	Amadeus IT Group SA		5,763.6	119684662		14.472 US	Euro Public	Computer facilities management services
11/05/10	Mail.ru Group Ltd	3,176,280	5,437.5	32,925,783	16.77	27.700 US	Euro Public	Information retrieval services
04/21/06	Renewable Energy Corp ASA	17,091,180	5,396.3	73,813,200	14.94	14.943 US	Norway Public	Semiconductors and related devices
07/07/04	PagesJaunes SA	2,124,240	4,882.2	78,408,250	28.61	17.815 US	France Public	Miscellaneous publishing
08/08/06	Qimonda AG	5,470	4,446.0	42,000,000	12.28	13.000 US	U.S. Public	Semiconductors and related devices
08/05/10	NXP Semiconductors NV	3,195,400	3,489.5	34,000,000	13.64	14.000 US	U.S. Public	Semiconductors and related devices
10/21/10	Betfair Group Ltd	1,531,320	2,183.8	16,227,462	15.18	20.422 US	Euro Public	Amusement and recreation svcs
05/26/05	TomTom	1,454,350	1,939.0	26,785,714	25.00	21.897 US	Euro Public	Prepackaged Software
07/25/07	Moneysupermarket.com	439,520	1,731.4	215,157,000	43.39	3.492 US	Euro Public	Information retrieval services
07/20/10	Ocado Group PLC	733,750	1,431.1	204,975,942	39.36	2.748 US	Euro Public	Computer related services,nec
06/02/06	Inspired Gaming Group PLC	74,760	1,299.7	60,000,000		3.388 US	U.K. Public	Prepackaged Software
06/18/07	Solaria Energia y Medio	141,580	1,289.4	23,386,667	23.12	12.748 US	Euro Public	Semiconductors and related devices
10/31/07	Kompaniya M.video	39,908,530	1,249.4	52,500,000	29.20	6.950 US	Euro Public	Electrical appliances, television and radio sets
05/03/07	CompuGROUP Holding AG	521,490	1,119.4	14,395,600	31.38	24.400 US	Euro Public	Prepackaged Software
06/06/07	PV Crystalox Solar PLC	220,860	1,079.2	168,991,891	40.55	2.590 US	Euro Public	Semiconductors and related devices
			42,737.5					



#### SEATED LEFT TO RIGHT:

**Marie Christine Levet** (Jaina Capital, founded by Meetic's Marc Simoncini); **Jean David Blanc** (Allociné); Restopolitan founder **Stephanie**; **Oleg Tscheltzof** (Amen and Fotolia); **Steve Rosenblum** (Pixmania).

#### STANDING LEFT TO RIGHT:

**Ilan Benhaim** (Vente-privée.com); **Charles Henri Tranié** (Jaina Capital); **Xavier Niel** (Iliad and Kima Ventures); **Jonathan Benassaya** (Deezer); **Jacques Antoine Granjon** (Vente-privée.com).

businesses, creating value that they are now reinvesting in Europe.

But the European tech scene is also about disruptive business models and technology. Skype is not the only reference: France's Vente-privée.com, a private online sales club, is being copied around the world – the first time in recent memory that the U.S. is following Europe's lead on an Internet model. And, the number of European companies with valuations of one billion dollars or more at exit is growing, says Fausto Zanetton, a vice-president in charge of European media/Internet at Morgan Stanley. (see chart)

It is easy to forget that Europe has a given the world Linux (invented by Finn Linus Torvalds), GSM and the Web (first created by Britain's Tim Berners-Lee), because it got little of the fortune and less of the glory.

### UNLOCKING EUROPE'S POTENTIAL

Still, to unlock its full potential Europe needs to strengthen links in the innovation funding chain to unlock its full potential and make Europe a better place for start-ups to thrive.

For starters, it is now relatively easy to raise seed in Europe but not the follow-on funding that allows companies to reach a late stage. That spells trouble for the young companies participating in the "Poles de Compétitivité" in France and elsewhere in Europe, says Candace Johnson, a serial entrepreneur and active angel investor in Europe. Governments have funded these projects to get them to a stage where the resulting project is supposed to be commercialized. "The

market in Europe is now flooded with projects and products in which millions have been invested but will all die because there is no funding to take to them to the next stage of venture capital or even corporate capital," she says.

The numbers of deals and investment in Europe have consistently decreased for the venture capital industry since the third quarter of 2007 as VCs focus on bigger, later stage deals, says Arno Castanet, a senior research manager at Dow Jones.

The move away from early stage by traditional venture firms in Europe impacts their returns. The statistics for early stage venture capital are one in ten, say industry experts. In Europe, venture capitalists will make a success of about 10 to 20 times the investment on the best bets. "In the U.S. the statistics are the same but the ROI for the one successful company is not ten or twenty times but rather 100 to 1000 times," says angel investor Johnson. "This is because usually in the U.S. VCs are more prone to taking risk and the earlier in the venture you take the risk the more reward you get," she says.

The lack of big home runs means that European venture funds are dying too. In 2000 there were 400 active funds in Europe making four investments a year, says Amadeus' Hauser. "Now we have 40 – a 90 percent reduction in VCs in Europe – this a spectacular drop."

Limited partners have soured so much on Europe that many of those that remain are also finding it difficult to raise new funds. Hussein Kanji, a former investor at Accel Partners in London plans to form a new early stage fund in Europe, has several theories about why Euro-

pean venture funds have not fared as well as they might. Many European funds started ten years ago weren't founded by tech entrepreneurs or professionals and are too far outside the information flow of Silicon Valley, he says. And, there are less institutional investors in Europe who care about venture and have the vision to back the next generation of funds.

That said, European VC remains more capital efficient than US venture, says Sven Lingjaerde, founder of the Geneva-based European Tech Tour Association. Europe matches the US for successful exit values at around 350 million dollars while investing only half the capital to build winners, according to Dow Jones VentureSource.

Some 32 percent of 100 million dollars exits in Europe during 2009/2010 were IPOs, compared to 34 percent in the US and 99 percent in China. But very few actual IPOs by number in Europe spread across various exchanges and 40 percent of European VC IPOs were on Nasdaq, creating wealth in Europe rather than the U.S., according to a presentation at the European Private Equity and Venture Capital Association's annual VC Forum. That is because despite years of efforts to consolidate Europe is still stuck with a patchwork of small and medium-sized exchanges.

That's not all that needs to be fixed, says Michael Azencot, a partner at Financiere Cambon, an advisory firm with offices in Paris and London. "Europe has to create a powerful ecosystem with large corporates that can partner with small innovative companies, as it is the case in the US with Microsoft, Google, Qualcomm or Intel," he says.

The OECD says that the financial crisis will only deepen if western economies do not understand that innovation and early-stage entrepreneurial initiatives are the only way out of the crisis and that stimulus packages must be given to encourage that

tech players, taking a part of Europe's future with them.

Governments are waking up to the importance of supporting innovation. For example, British Prime Minister David Cameron has announced plans to create a hi-tech rival to Silicon Valley in London's east end and create a new entrepreneurial visa to make it easier for innovators that want to work and invest in the area to move to the UK.

And earlier this year the UK government announced that it will adopt recommendations from Cambridge venture capitalist Hauser to set up a network of national technology and innovation centres as part of a program to modernize the UK's industrial base and invest in technological strengths.

But many times in Europe it seems like for every step forward there is a step backwards. France, for example, was applauded for initiating the so-called TEPA laws which gave investors tax breaks for investing in innovative young companies. But the government has since removed the "innovative" stipulation, a move decried by many in the tech industry.

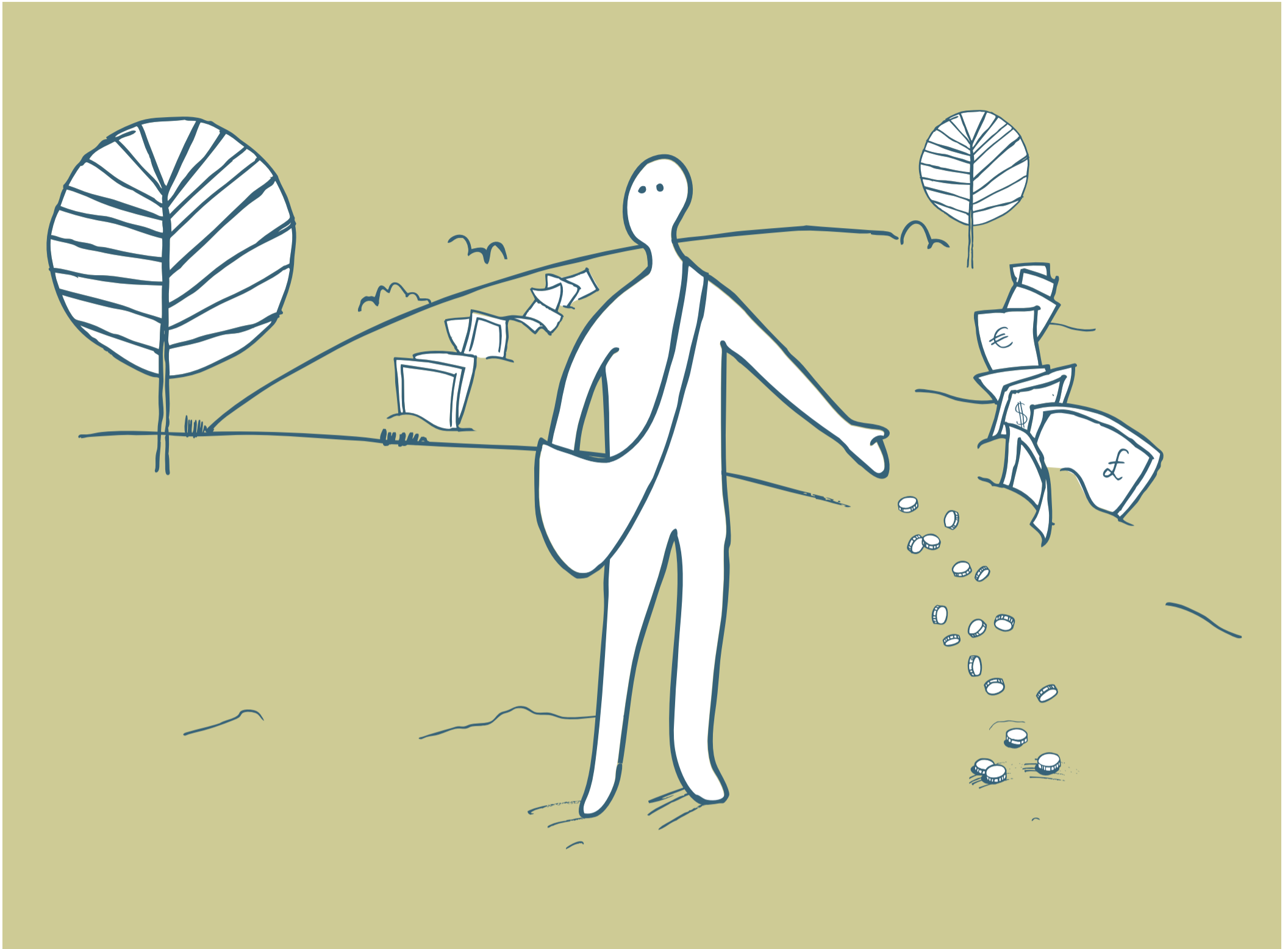
The efficiency of the marketplace can be enhanced if the European ecosystem would come together to support young innovative companies, says a November report from the European Trade Association of Business Angels and Seed Funds (EBAN).

The report recommends that the EU create co-investment funds through

public-private partnerships at European level, encourage members states to create or increase special fiscal incentives for investments in young innovative companies and remove obstacles to cross-border investments by venture capital funds.

If Europe wants to ensure its economic prosperity angel everyone is going to have to do their part to keep young entrepreneurs like Pelaprat here, say tech industry executives.

"The OECD says that the financial crisis will only deepen if western economies do not understand that innovation and early-stage entrepreneurial initiatives are the only way out of the crisis and that stimulus packages must be given to encourage that," says angel investor Johnson. "Just as a remarkable change has occurred in how entrepreneurs are perceived in society, compared with only a few decades ago citizens must now learn that being early stage investors and doing early stage investing is like wearing a badge of honor, that there are risks, that there will be failures and successes and that without that investment there will be no future."



# New breed of seed

**VENTURE CAPITAL** There are a whole new range of early stage investors in Europe, writes **Jennifer L. Schenker**

**E**ight years ago Niklas Zennstrom famously tried to pitch Skype, the London-based Internet voice communications firm which he co-founded and eventually sold for 3.1 billion dollars, to 26 European venture capitalists. No one wanted to invest.

Now he is doing his part to ensure that the European entrepreneurs who come up with the next Big Thing will not meet with similar frustrations. Zennstrom is behind Atomico, a London-based investment firm that is ready to make bets on fast growing very young tech companies with the ability to transform their respective industries. He is the most public face of the new breed of seed, super-angels and early stage venture firms that are emerging to fill the early stage funding gap in Europe.

Zennstrom co-founded Atomico with Janus Friis, the entrepreneur he teamed with to launch KaZaA and Skype. New funds like Atomico are leveraging groups of serial entrepreneurs to not just finance but mentor the next generation.

For instance, Lars Hinrichs, the founder of social networking platform

Xing, is behind HackFwd, a pre-seed fund that focuses on funding "passionate geeks." Fastfwd says it is not just closing a funding gap but "an advice gap" by assembling a team of super experienced tech entrepreneurs and smart tech investors.

In exchange for a 27 percent stake in the company Hackfwd offers a year-long program that includes a salary package for one to three person geek teams and other perks.

Like Zennstrom and Hinrichs, Brent Hoberman, who co-founded mydeco.com and Lastminute.com, a popular European travel site that went public in 2000 and was bought five years later by Travelocity for 1.1 billion dollars, is a role model for young European entrepreneurs. Hoberman is a co-founder of PROfounders Capital, a fund that, like Atomico and Hackfwd, focuses on trying to close the equity gap. PROfounder Capital's partners include Michael Birch, the founder of Bebo; Peter Dubens, the founder of Oakley Capital and Freedom4 Group; and Jonathan Goodwin, the founder of LongAcre Partners.

"These are early days but all of us have

risk appetite," says Hoberman (pictured here). "We have ambition and we value new and unique products coming from Europe that have the potential to go global." What does PROfounders Capital preach to the start-ups it invests in? "Double your revenues every month, think about international even faster – you have got this moment so go for it," he says.

Lucasz Gadowski, another European super-angel, could not agree more. Gadowski, who founded an Internet company called Spreadshirt in 2001 became a business angel in 2007 and within two years had made 60 angel investments and co-founded 10 companies, mostly in Europe. Now he has launched a seed fund called Team Europe which only funds two start-ups per year. What makes him to decide to invest in a company? "Can these companies be 100 million euro companies within two or three years?" says Gadowski, who is based in Berlin. "If we think we can do this we kick off a new company."

Serial entrepreneur Martin Varsavsky,

Lastminute.com's Brent Hoberman is one of the entrepreneurs behind PROfounders Capital



Serial entrepreneur Candace Johnson is one of Europe's most active angel investors



*Continued on page four*

We have ambition and we value new and unique products coming from Europe that have the potential to go global

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who founded a number of European companies, including Spain's Jazztel and FON, has been investing in European companies since moving to Madrid in 1995. Having started businesses on both sides of the Atlantic, he says he prefers Europe. "The European market is bigger than the U.S., broadband penetration rates are higher, Europeans are better educated on average, there is a better distribution of income and people have more leisure time," says Varsavsky.

Russia is a lucrative market as well. Mail.ru had one of the most successful initial public offerings of 2010. Russian technologies get high marks for superior technology but have struggled to succeed commercially and expand internationally. Enter Sasha Galitsky, who founded and led four successful companies, including Elvee+ and TrustWork Systems (now Synarta, a member of the Hamsard Group) and Serguei Belousov, the entrepreneur behind Parallels and Acronis. They recently launched a Moscow-based seed fund called Runa Capital. "Russian guys know how to turn programming into product but it is more important to know how to turn product into businesses and we will help them with that," says Galitsky.

#### SIDING WITH ANGELS

That kind of mentoring can not always be obtained from venture capitalists. "The value of business angels is experience, expertise and the ability to call anyone," says serial entrepreneur and angel investor Candace Johnson. She should know. Johnson is a founding president of Europe Online, an Internet-based online service and satellite broadband network, and founder of Loral Cyberstar-Teleport Europe, Europe's first independent private trans-border satellite communications network. She is president of Johnson Paradigm Ventures (JPV) which is a principal founding shareholder with AXA, Caisse des Depots, Bayerische Landesbank, and the SPEF of Sophia Euro Lab, Europe's first trans-border early-stage investment company based in Sophia Antipolis.

Johnson is also principal founding shareholder in London-based Ariadne Capital, a member of the supervisory boards of Paris-based Iris Capital and Turkey's Inovent, and a founding member and president of the board of the Sophia Business Angels in Sophia Antipolis, France. And, she is founding president of three multi-million Euro investment vehicles, Succès Europe, Croissance Europe and Innovation Europe, together with Meeschaert Gestion Prive as well as a founding member on the advisory board of the Luxembourg Business Angels Network.

Ten years ago business angels were a small community scattered across Europe and the focus was firmly on venture capital. Today, European business angels are organized in over 350 groups and it is widely accepted that together with seed funds they are the main providers of

venture capital for high-growth companies at their early stages. That is because VC Funds have migrated to less risky investments in later stages, according to an October report issued by EBAN, the European Trade Association of Business Angels and Seed Funds.

With the recent economic and financial crisis debt funding through the banks and traditional venture funds has slowed down further, according to the EBAN report. EBAN, which actively plays a role in the growth of the early stage investing sector, is trying to aid its transformation from an informal sector to an asset class, says EBAN president Brigitte Baumann.

The industry association estimates that between three and four billion euros are invested a year by early stage investors in innovative young companies, up from one billion five years ago. And, it estimates that the amount could grow to 10 billion euro a year in the next five years.

Business angels, working together in syndicates, invest on average 200,000 euros per deal in Europe, often with two or more angels involved. The amount invested can vary greatly depending on the country and region, with individual angel investments ranging from 15,000 euros to 400,000 euros.

At the same time seed funds are bridging promising businesses to later stages, investing in enterprises on average anywhere from 200,000 euros to one million euros, filling the role of traditional venture capital funds. VC funds are now retreating to later stages of investment, typically investing from three million euros to five million euros in a first round to reduce the risk for their shareholders.

Of course not all venture capitalists are ignoring early stage deals. Take the case of London-based DN Capital. It has invested in four deals in 2010 and three were early stage.

"We are seeing a lot of very interesting opportunities with impressive entrepreneurs," says Nenad Marovac, a partner at DN Capital. "There are ex-Skype guys, guys from lastminute.com, Spotting and Bebo – a whole wave of entrepreneurs who have been successful in start-ups that are now entering into the ecosystem in the early stage."

But traditional players like Index Venture, Mangrove Capital Partners and Nothzone are only funding a small number of early stage companies. The rest are being funded by new players like Jaina Capital, Kima Ventures, Triangle Ventures and Xange, says industry observers. (see chart)

#### BUILDING BRIDGES

The trick for start-ups will be raising second and third rounds of venture capital. There is a big gap between early stage and later stage funding in Europe. One of the keys to ensuring that funded early stage companies succeed is to help them secure follow-on funding and the right connections internationally.

Britain's Amadeus & Angels Seed Fund, for example, specialises in providing expertise, finance and networks to

enable early-stage technology businesses to grow into much larger businesses and fulfill their potential, says serial entrepreneur Alex Van Someren, a partner in that fund.

Syndicating additional investment for later-stage expansion is a time-consuming distraction for management teams, says Van Someren. The Amadeus seed fund has a co-investment model in which other funds managed within Amadeus Capital Partners can be brought in alongside a seed investment. In addition, Amadeus helps to recruit other investment sources.

"It is about ensuring that fortunes get recycled in the European sphere and specifically here in the UK," he says.

Sherry Coutu, another Cambridge-based serial entrepreneur (see chart) has done just that. She has made 35 investments in Europe and is also helping young European companies to build bridges internationally. Coutu has teamed with LinkedIn's Reid Hoffman on a not-for-profit annual Silicon Valley Meets Cambridge conference, an invitation-only series of events that bring together investors, serial entrepreneurs and professors, students and successful angels from the UK and Silicon Valley.

The conference includes master classes to inspire students to be entrepreneurs, CEO mentoring sessions and CEO workshops aimed at enabling first time CEOs to transform into industry titans and a competition celebrating entrepreneurship that includes a prize that sends the winner to the U.S.

Offering international connections to start-ups is also an important element of Seed Camp, a global organization founded by veteran European investor Saul Klein which is dedicated to helping European entrepreneurs grow successful businesses. Seedcamp announced the closing of a three million euro second fund in November, with a stated goal of strengthening the breadth and depth of its international platform.

It already has an impressive reach. In its first fund Seedcamp says it invested in 22 companies from 12 countries, including start-ups from Estonia, Romania and Slovenia. Some 19 of the 22 companies received more than an aggregate of 15 million euros in follow-on funding, creating over 100 jobs. Two of the companies, Jordan's Talasim and Palo Alto's Mobclix, had successful exits. To date, the organization has invested in 33 companies in 17 geographies.

While Seedcamp's mainstream events are in London, Paris, Berlin and Tel Aviv it now also hosts meetings in the Nordics, the Balkans, Central Europe and in Singapore, Johannesburg and Mumbai. "We want to deepen and expand Europe's footprint in the US and Asia," says Reshma Sohoni, who runs Seedcamp's day-to-day operations.

With these kind of connections provided by a whole new ecosystem of early stage players the next Big Thing is less likely to be rejected by European investors and -- just like London-based Skype -- end up going global from Europe.

## Active European seed and early stage funds

Amadeus and Angels Seed Fund (UK)

Amadeus Capital Partners (UK)

Ariadne Capital (UK)

Cambridge Angels (UK)

Cambridge Capital Group (UK)

Dawn Capital (UK)

Eden Ventures (UK)

Notion Capital (UK)

White Bear Yard (UK)

Atomico (UK)

Earlybird Venture Capital (Germany)

Index Venture Seed Fund (UK/Switzerland)

The Accelerator Group (TAG) (UK)

Oxford Capital Partners (UK)

Archangels Informal Investment (Scotland)

DN Capital (UK)

Springboard (Cambridge, UK)

HackFwd (Germany)

Team Europe Ventures (Germany)

Rocket Internet (Germany)

Hasso Plattner Ventures (Germany and South Africa)

Hommels Holding (Switzerland)

Enterprise Ireland (Ireland)

Sophia Business Angels (France)

Cabiedes & Partners (Spain)

SeedRocket (Spain)

Northzone Ventures (Scandinavia)

SeedMoney (Romania)

Conor Venture Partners (Finland)

Hanse Ventures BSJ (Germany)

Runa Capital (Russia)

PROfounders Capital (UK)

Kima Ventures (France)

Jaina Capital (France)

Piton Capital (UK)

Balderton Capital (UK)

Accel Partners (UK)

Credo Ventures (Czech Republic)

GP Bullhound (UK)

KFW Bankengruppe (Germany)

High-Tech Gründerfonds (Germany)

Bayern Kapital (UK)

London Venture Partners (UK)

Octopus Ventures (UK)

dpixel (Italy)

OCP Finance (France)

\*location indicates headquarters, not geographical scope of investment

## Examples of European entrepreneurs turned super angels or VCS

Niklas Zennstrom (KaZaA, Skype) – Atomico

Hasso Plattner (SAP) – Hasso Plattner Ventures

Brent Hoberman (LastMinute.com, mydeco) – PROFounders Capital

Lars Hinrichs (Xing) – HackFwd

Stefan Glaenger (LastFM) – White Bear Labs

Jos and Ben White (MessageLabs) – Notion Capital

Lucasz Gadowski (Spreadshirt.com) – Team Europe Ventures

Sasha Galitsky (TrustWorks) and Serguei Belousov (Parallels) – Runa Capital

Xavier Niel (Illiad/ Free) and Jeremie Berrebi (Net2One, Zlio) –

Kima Ventures

Alexander, Marc and Oliver Samwer (Alando, Jamba!, CityDeal, Zalando)

– Rocket Internet, European Founders Fund

Marc Simoncini (iFrance, Meetic) – Jaina Capital

Bernard Lioutaud (Business Objects) – Balderton Capital

Martin Varsavsky (Viatel, Jazztel, FON) – Individual investments

Sherry Coutu (ISI Emerging Markets, Interactive Investor International) –

Individual investments

Alex Van Someren (ANT Software, nCipher) – Amadeus and Angels Seed

Fund, Cambridge Angels and individual investments

Candace Johnson (Europe Online, Loral Cyberstar-Teleport Europe) Johnson

Paradigm Ventures, multiple angel groups, founding shareholder in Ariadne

Capital, board member of Iris Capital

# The ones that got away

**START-UPS** When innovative start-ups move to the U.S. they take a part of Europe's future with them, writes **Steve Zwick**

**A**sk investors in Europe about hot Internet companies on their turf and one of the first you'll hear about is Gaikai, which is testing a cloud-based technology that lets you play 3D video games over the Internet without downloading the programs.

Trouble is, the company is technically no longer European. Co-founded by Irish gaming pioneer David Perry and launched in the Netherlands, it migrated to the US over the past year, taking a part of Europe's future with it.

Perry had been designing video games in Silicon Valley since 1991, but he co-founded Gaikai in the Netherlands with some Dutch partners. Cloud-based technology depends on access to servers all over the world which requires big money and Perry couldn't find it in Europe. US VCs were happy to step in.

"European VCs would come in and talk to you and it was always like, 'Yes, this is very interesting,' but they weren't throwing checks at you," says Perry. "In Europe, they take their time and meet but in the United States they feel like someone else is going to eat their lunch if they don't act."

Perry and his partners set up a Delaware corporation late last year, and by year-end had raised 5 million dollars from Benchmark Capital in Menlo Park, California. "Then it was like dominoes falling," he says. "Other people knew that (Benchmark's) experts had done due diligence and thought 'well, maybe I should be there too'."

To date, Gaikai has raised more than 15 million dollars in backing from Benchmark and US venture firms TriplePoint Capital and Rustic Canyon Partners.

Gaikai is by no means the only young European company who got away. Frenchman Loic Le Meur, who together with wife Geraldine organizes Le Web, one of Europe's most successful tech conferences, famously left France to start a Silicon Valley start-up called Seismic because, he says, it was easier to raise money and create a global company in the US. The ranks of such companies are swelling. Once the entrepreneurs move their headquarters and raise money in America, their innovation is no longer associated in any way with Europe and

whatever value they create benefits the US economy, rather than Europe's.

"There are a number of successes such as Gaikai, Huddle, DailyBooth, Vistaprint, LogMeIn, Evernote, SpringSource, Unity Technologies and Zendesk which started on the continent but chose to emigrate to the US due to the scarcity of early-stage capital in Europe to support their ambitious growth targets," says Hussein Kanji, a former investor at London-based Accel Partners. Kanji is teaming with a group of experienced entrepreneurs and investors to launch a new early stage fund in Europe that aims to ensure that fewer great young companies feel compelled to move away.

The recent launch of many new early stage and seed funds in Europe (see story page 3) comes too late for Mikkel Asger Svane, who co-founded Zendesk in his native Denmark in 2007. The company, which makes software that allows the easy set up of online customer support desks, moved to San Francisco in 2009.

Zendesk's customers today include Twitter, MSNBC.com, and SAP. But Svane says he'd be nowhere if he had stayed in Denmark. "It's as close to impossible as it can possibly be to raise money for a technology start-up in Denmark," he says. He reached that conclusion after American venture capitalists proactively reached out to him while he was fruitlessly pitching his ideas to Danish VCs.

"You don't go to them; they come to you," he says of US venture capitalists. "It starts with fishing and scouting; they call you up, get you into their data base. Eventually, they ask you to come see them."

Within six months of answering the first e-mail from America Zendesk had secured enough financing to ratchet up the business and within a year he and his partners moved their operations to San Francisco.

Gaikai's Perry cautions that raising US venture capital is not as easy as all that. "In our last round Rustic Canyon brought in the chief marketing officer from Activision, which is this big video game developer," he says. "She just kept pummeling us with questions and I remember leaving the room and asking myself 'what the hell was that?' You'd never get that kind of grilling in Europe,

but you also don't get the same kind of prize."

USVCs are clearly ready to make bigger bets. As a professor at the University of Cambridge Ian Pratt helped the computer laboratory launch an open-source "virtual machine monitor" called Xen which makes it possible for different users to run their own operating systems on one piece of hardware.

"We set up Xen at the university and in the summer of 2004 we started a company called XenSource to help enterprises use it," he recalls. "We felt there was a lot of money in that field, but because what we were doing was based on open-source technology the European VC's were slow to see that money could be made."

**In Europe the (VCs) take their time and meet but in the United States they feel like someone else is going to eat their lunch if they don't act.**

The American VCs, however, jumped on it. "We just had to say, 'We're the folks who do Xen,' and it opened a lot of doors," Pratt says. "We made some calls and then got some official pitches and within the space of a few days we collected a number of term sheets." From then on almost all the funding the company raised was in the US. Pratt raised another 32 million dollars in two additional rounds. The company was sold to Citrix Systems for 500 million dollars in 2007.

Pratt stresses that in other high-tech fields Cambridge VCs are as good as they get and says the university has done a credible job of attracting angel investors. "The university does a good job of hooking students and staff up with angels and providing them with office space," he says. "They did that for us as well but we were looking for six million

## Four who left Europe (and aren't looking back)

### GAIKAI

**Origins:** Amsterdam, Netherlands  
**New Headquarters:** Aliso Viejo, California  
**Sector:** games, video and entertainment  
**Funding:** 10 million dollars raised, 95 percent from US investors

### ZENDESK

**Origins:** Copenhagen, Denmark  
**New Headquarters:** San Francisco  
**Sector:** enterprise software  
**Funding:** 6.5 million dollars raised, 90 percent from US investors

### XENSOURCE

**Origins:** Founded in UK, moved to the US in 2007 after it was acquired by Citrix Systems  
**New Headquarters:** Ft. Lauderdale, Florida  
**Sector:** Enterprise Software  
**Funding:** 41 million dollars, from US and Japanese investors, acquired by Citrix for \$500M

### RAPPORTIVE

**Origins:** Cambridge, England  
**New Headquarters:** San Francisco, California  
**Sector:** consumer web  
**Funding:** 1 million dollars raised, 90 percent from US investors

dollars in our first round and that just wasn't forthcoming."

Rahul Vohra had a similar experience with Rapportive, the company he co-founded in Cambridge. The company's technology scoops up all the information a person has filled out about themselves on social networking sites and integrates it into Gmail so users can instantly know who is in their inbox.

"There is plenty of angel money in Cambridge," says Vohra. "You can find people willing to invest a few thousand so you can get off the ground but you need more than that to scale up fast, and that's where it gets difficult."

Rapportive decided to apply for a spot at Mountain View, California company Y Combinator, which invests small sums of money in very early stage companies and mentors them.

That application sparked a flurry of activity on social networking sites and Rapportive was inundated with new users. "We got like 10,000 new users in two hours," says Vohra. "One day after that we started getting calls from VCs."

In March of this year Vohra went to Silicon Valley for the first time. "I needed to meet a lot of people in a short period of time and what struck me first was the willingness with which people would make introductions," he says. Vohra says every meeting seemed to lead to five others. Within a few hours his week was full.

"I remember getting to the end of the day on Friday, totally exhausted, and looking at one of my co-founders and

saying, 'Why the hell aren't we building our company here? Everyone we need to talk to is here,'" he says. "He looked at me and said 'I agree; let's move.'" So they did.

Zendesk's chief executive says the atmosphere in the Valley is hard to replicate. "It's not just about money and expertise," he says. "It's about how you view the founders: in Silicon Valley, the investors are very focused on the founders and their ability and their emphasis is on helping the founders build their company, while in Europe the attitude is more 'congratulations for having a good idea but now it's time to let the big boys come in and do this right!'"

That's starting to change because European investors have seen too many good prospects slip through their fingers. As companies like Gaikai, Zendesk and Rapportive illustrate if European VCs aren't willing to bet big on the best and brightest from their own countries their U.S. counterparts will.

The Rapportive team near their new digs on US soil



# The shift to late stage

**GROWTH COMPANIES** Risk-adverse European investors compete to fund growth stories, writes Jennifer L. Schenker

Showroomprive.com, a four-year-old private online sales company that competes with France's Vente-privee.com, managed to attract 3 million members and 75 million euros in revenue without any outside help. But to meet its goal of becoming a pan-European player the Paris-based company needed "smart money", connections to a venture capital firm that understands how to scale and the ins and outs of on-line businesses with a social component.

The company, which now has over five million members and is projecting 2010 revenues of 140 million euros, had no trouble finding suitors. It raised 37.8 million euros from Accel Partners at the end of August. Most of the money came from Accel's London fund but the Silicon Valley fund, the first investor in Facebook, also participated in the round. "These days when a European company matures and goes out for money immediately the ten US investors that can do these deals start to compete fiercely," says Morgann Lesne, a partner in the Paris office of Financière Cambon, the advisory firm that brokered the showroomprive.com deal.

The deal underscores how venture capital firms are flocking to fund late stage European companies. US venture companies are now willing to pony up large sums to finance European Internet growth companies that are focused on Europe and plan to remain headquartered here. European companies like showroomprive.com revel in the cache that comes with raising money from venerable Valley firms.

European funds are also stepping up on late stage rounds. Many have become risk adverse, preferring to back horses that are already well out of the gate rather than place bets on untested new entrants. That spells bad news for companies in between the seed and late stage. But the good news is that the shift to big funding rounds for later stage companies will delay exits, which in turn should lead to larger IPOs and trade sales and potentially better returns for some European funds. That could help win the respect of limited partners who have soured on Europe, making it easier for existing venture firms to raise new funds, says Financière Cambon's Lesne.

It is no accident that showroomprive.com attracted so much interest from venture capitalists. It is just one of a number of European private online sales clubs that have raised late stage capital by using a model first introduced by France's Vente-privee.com. The French firm is currently racking up 70,000 orders per day and expects sales of around 710 million euros this year.

Vente-privee.com organizes online inventory clearance sales—for members only. Items for sale include luxury apparel and accessories, wine, household linens, baby clothes, and small household appliances. All are sold, during a limited time period, at fixed prices 50 percent to 70 percent below retail.

The business model has sparked copycats in the US, the first time in recent memory that American companies are copying an Internet economic model that was first created in Europe. And the model is rapidly spreading to the rest of the world.

For instance, Spain's largest online sales club, Privalia Venta Directa, is expanding across Latin America, thanks to a 70 million euro infusion of financing announced in October from European VC firm Index Ventures, global growth investor General Atlantic and existing shareholder Highland Capital Partners, a U.S. venture firm. Other existing shareholders include Barcelona-based Nauta Capital and Caixa Capital Risc. Privalia already has more than five million members worldwide and, in addition to Spain has established a strong presence in Italy, Brazil and Mexico. The company says it intends to use the funding to tackle new markets.

Within days of Privalia raising its huge October round Spanish rival BuyVIP was sold to US ecommerce giant Amazon. Amazon didn't disclose the price but Dow Jones Newswires' estimated it to be around 70 million euros. BuyVIP operates in Spain, Italy, Germany, Austria, Portugal, Poland and the Netherlands; it has six million members and is planning to grow 2009 sales of 60 million euros to 130 million euros in 2010. The company's backers include Cipio Partners, Kennet Partners, Spanish venture firm Debaeque and the venture capital arm of German media conglomerate Bertelsmann AG.

The private online sales business is also thriving in Russia. In January KupiVIP.ru, Russia's largest online fashion shopping club, raised a 13.5 million euro round led by Accel Partners, with participation of prior investors, which include Europe's Mangrove Capital Partners. The company has more than 3.3 million members and hosts more than 450 sales events per month.

And, German on-line buying club brands4friends has expanded into the UK, Austria and Japan. The Japanese site, which is backed by brands4friends.de, Partech International and Holtzbrinck Ventures, aims to become a market leader in Japan by applying the same buying club model that is all the rage in Europe.

For its part showroomprive.com, which entered the Spanish market this year, plans to use the 37.8 million euros raised in August to expand into the UK and Italy in 2011, says co-founder Thierry Petit. The company's goal is to become a powerful pan-European player.

There are striking similarities in the backgrounds of the two French rivals. Seven of Vente-privee.com's founders came from the apparel wholesaling business in France, while one had an Internet background.

Showroomprive.com founder Petit is an Internet entrepreneur, co-founder David Dayan has a background in stock clearance and private offline sales. Dayan previously ran a group of companies in-

As advisors we take top class entrepreneurs and help them to have bigger ambitions

involved in the close-out business, including Showroom 30, a three-floor physical showroom outlet in Paris, which is now part of showroomprive.com.

Showroomprive.com is smaller than Vente-privee.com, which has already expanded into Germany, Italy, Spain and the UK, but both companies are showing extraordinary rates of growth.

Like Vente-privee.com, showroomprive.com says it has no intention of moving into the US market. The European market is lucrative enough.

"As advisors we take top class entrepreneurs and help them to have bigger ambitions," says Lesne. "That is what we did with showroomprive.com: we started working with a French company but ended up working with a European-class company."

The most successful of the European on-line buying clubs, including variants involving shoes, furniture, coupons and eyeglasses, are expected to have lucrative exits. BuyVIP sold to Amazon but online private sales clubs that expand outside of their home markets are more likely to IPO or sell to private equity, says Simon Carmichael, the director in charge of the private placement and venture sell side practice at London-based advisors Torch Partners.

Indeed, the stampede to fund later stage companies in Europe is not limited to venture capitalists. Late stage activity in Europe is driving some of the private equity players to take a closer look at VC-backed companies. Already Europe is starting to see deals in which buyout players acquire stakes from existing VCS. For example, Belgium's Gimv recently mixed VC and buyout activities to purchase existing VC positions in Onedirect, a Paris-based company specializing in the sale of professional telephony products in Europe.

"Great successes like Vente-privee.com, Pixmania, showroomprive.com, Qliktech, Voyage Prive, Gameforge and Spotify show that Europe can deliver world-class companies," says Lesne. But Europe needs a lot more money to build more companies that scale. "The private equity market in Europe is gaining in maturity and shows a tremendous and sustainable appetite for companies at every stage of development," he says. "These private equity firms will supplement the activity of the super angels and VC funds to help Europe create the same alchemy that allowed the US to build world leaders."

## Firms that work with late-stage start-ups in Europe

### ADVISORS:

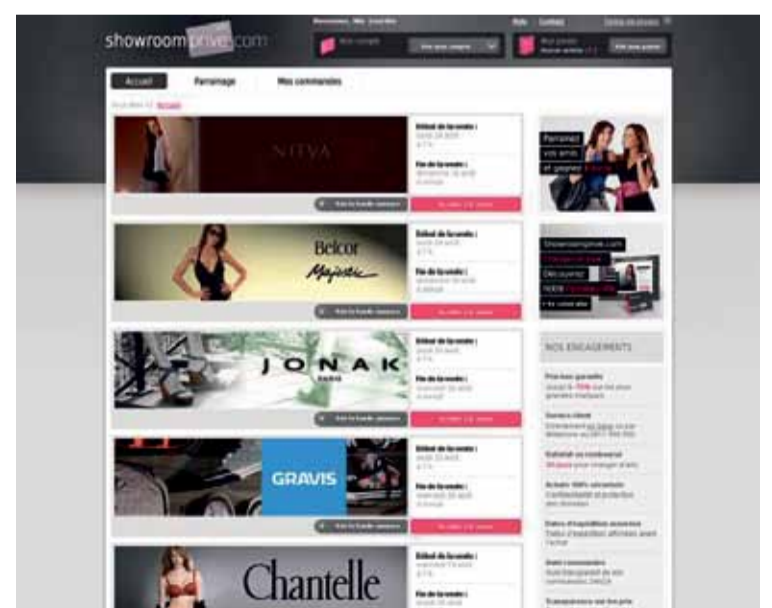
Arma Partners  
Bryan Garner & Co.  
CF Partners  
Financiere Cambon  
Go4Venture  
GP Bullhound  
Hawkpoint  
Jefferies & Company

### FUNDS:

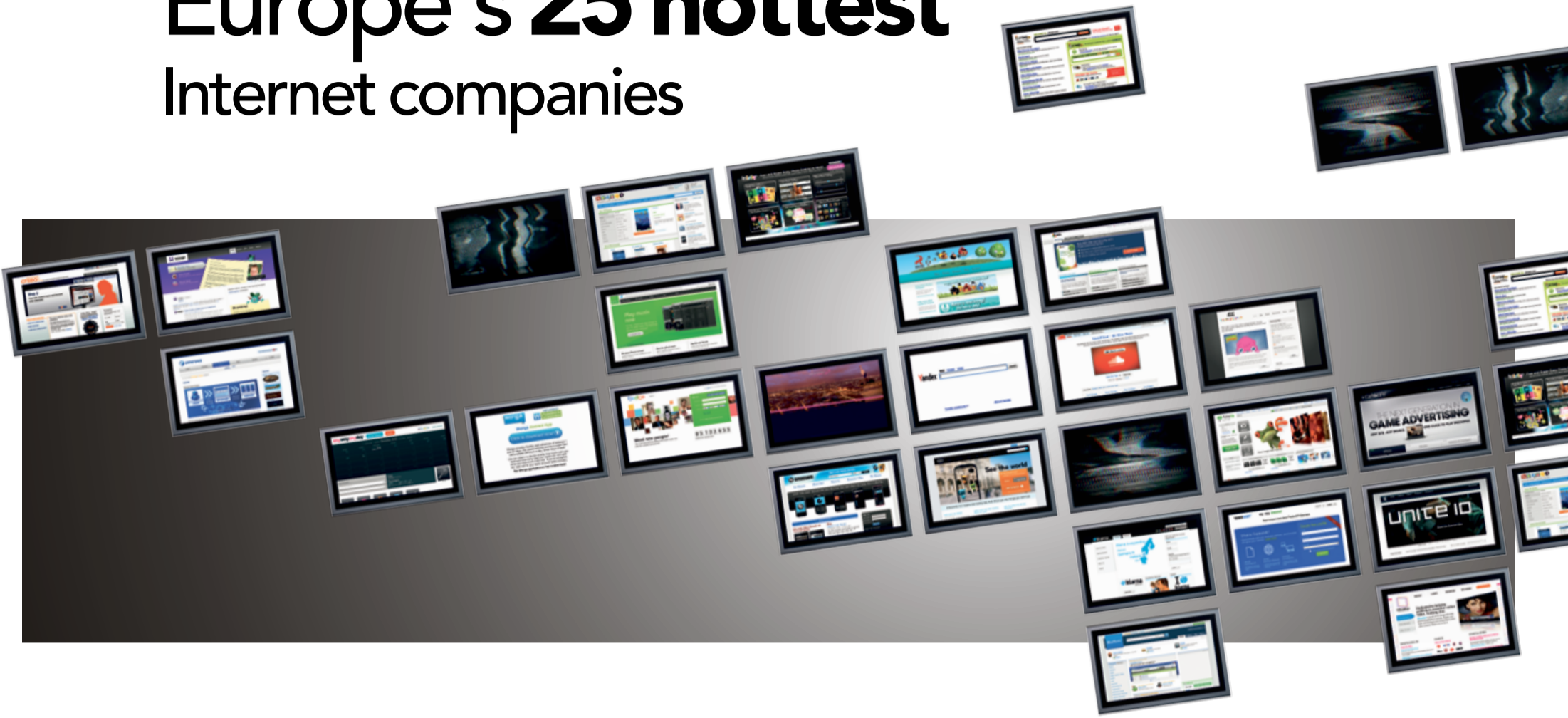
3i (UK)  
Accel Partners (UK/US)  
Acton Capital Partners (Germany)  
Advent Venture Partners (UK)  
Axa Private Equity (France)  
Balderton Capital (UK)  
Battery Ventures (US)  
DN Capital (UK)  
Doughty Hanson & Co. (UK)  
Edmond de Rothschild Investment Partners (France)  
Fidelity Ventures (UK/US)  
FSI/CDC (France)  
Gimv (Belgium)  
Highland Capital Partners (US)  
IDInvest Partners (ex-AGF Private Equity, France)  
Index Ventures (UK and Switzerland)  
Insight Venture Partners (US)  
Kennet Capital (US/UK)  
Rothschild Group/R Capital Management (France)  
Scottish Equity Partners (UK)  
Summit Partners (UK/US)  
TA Associates (US)  
The Carlyle Group (UK/US)  
Time Equity Partners (France)  
xAnge Private Equity (France)



Online sales club Showroomprive's website



# Europe's 25 hottest Internet companies



To identify the most promising Internet companies in Europe Informilo Editor-in-Chief Jennifer L. Schenker asked some of the Continent's most active investors to nominate companies outside of their own portfolios. While companies copying existing business models like Zalando, KupuVIP and grupfoni are doing well we chose to spotlight innovative European technologies or business models, from early to late stage. Some are well known, others are below the radar but unlikely to stay that way for very long. Below find are our picks for the top 25:



## MOST LIKELY TO GO PUBLIC OR BE ACQUIRED

### Gameforge ([www.gameforge.com](http://www.gameforge.com))

Karlsruhe, Germany

**What it does:** Developer and publisher of free-to-play massively multiplayer online-games.

**Why it's hot:** A 2009 World Economic Forum Tech Pioneer, the company has more than 200 million registered users and the games are available in more than 50 languages.

### Spotify ([www.spotify.com](http://www.spotify.com))

London, England

**What it does:** Digital service used to discover and share music with friends via social tools.

**Why it's hot:** More than 7 million users in Europe use its ad-supported or subscriber services.

### Yandex ([www.yandex.com](http://www.yandex.com))

Moscow, Russia

**What it does:** Internet portal and web search service.

**Why it's hot:** A 2008 World Economic Forum Tech Pioneer, it has innovative search technology and grabs more market share than Google in Russia.

### Shazam ([www.shazam.com](http://www.shazam.com))

London, England

**What it does:** Music discovery engine

**Why it's hot:** More than 75 million people are using Shazam to discover new songs, artists and concert information.

### Vente-privee.com ([www.vente-privee.com](http://www.vente-privee.com))

La Plaine Saint Denis, France

**What it does:** Private on-line sales club.

**Why it's hot:** It gets some 70,000 orders per day and expects 2010 sales of 710 million euros. Its business model is being copied world-wide.

### Wonga ([www.wonga.com](http://www.wonga.com))

London, England

**What it does:** Provides quick access to small, short-term loans via the Web and mobile phone.

**Why it's hot:** It is one of the fastest growing Web businesses in Europe.

### AVG Technologies ([www.avg.com](http://www.avg.com))

Amsterdam, the Netherlands

**What it does:** Antivirus and security software.

**Why it's hot:** The company, which originated in the Czech Republic, has more than 110 million consumers and small businesses in 170 countries as customers.

### Badoo ([www.badoo.com](http://www.badoo.com))

London, England

**What it does:** Multi-lingual social networking.

**Why it's hot:** The service, which originated in Russia, now claims over 80 million users and is most popular in France, Spain, Portugal and Latin America.



## COMPANIES TO WATCH: WESTERN EUROPE

### Criteo ([www.criteo.com](http://www.criteo.com))

Paris, France

**What it does:** Pay per click personalized retargeting of Web advertising.

**Why it's hot:** The service enables online e-commerce sites to re-engage with potential customers who have left their website.

### Wooga ([www.wooga.com](http://www.wooga.com))

Berlin, Germany

**What it does:** Social games developer

**Why it's hot:** The company is behind on-line games Brain Buddy and Popular Island.

### Layar ([www.layar.com](http://www.layar.com))

Amsterdam, the Netherlands

**What it does:** Mobile augmented reality.

**Why it's hot:** A 2011 World Economic Forum Tech Pioneer, the company's browser already has been installed more than 2.5 million times, and it's expected to be pre-loaded on tens of millions of phones from handset makers and carriers by year's end.

### Rovio Mobile ([www.rovio.com](http://www.rovio.com))

Espoo, Finland

**What it does:** Independent developer of wireless games.

**Why it's hot:** Rovio is behind the popular Angry Bird game and has developed titles for some of the biggest names in the mobile space including Electronic Arts, Nokia and Vivendi.

### Soundcloud ([www.soundcloud.com](http://www.soundcloud.com))

Berlin, Germany

**What it does:** Internet platform for musicians, producers and labels.

**Why it's hot:** It allows musicians to upload large audio files, embed those tracks on websites and blogs and share them publicly or only to specified contacts. Listeners can comment on specific parts of the recording directly from the SoundCloud player.

### Mind Candy ([www.mindcandy.com](http://www.mindcandy.com))

London, England

**What it does:** Social online gaming.

**Why it's hot:** Developer and publisher of Moshi Monsters a "Facebook" for young children that has attracted over 15 million players.

### Klarna ([www.klarna.se](http://www.klarna.se))

Stockholm, Sweden

**What it does:** Payment solutions that increase sales for the e-commerce sector.

**Why it's hot:** Klarna is positioning itself as a key player in the \$40 billion global payments market.

### Softonic ([www.softonic.com](http://www.softonic.com))

Barcelona, Spain

**What it does:** Freeware/shareware for consumers.

**Why it's hot:** It is Europe's leading software download site with more than 105,000 freeware, shareware and trial version software titles available with reviews written in multiple European languages and Chinese.

### Fotolia ([www.fotolia.com](http://www.fotolia.com))

Founded in France, now based in New York City

**What it does:** Online social marketplace for creative digital stock images.

**Why it's hot:** The fast growing service offers over 11 million low-priced royalty free images using a credit or subscription system.

### Tradeshift ([www.tradeshift.com](http://www.tradeshift.com))

Copenhagen, Denmark

**What it does:** Free invoicing tool

**Why it's hot:** It's using the Internet to disrupt how banks and credit card companies process payments between any kind of business.

### Gaikai ([www.gaikai.com](http://www.gaikai.com))

Founded in Amsterdam, now based in Aliso Viejo, California

**What it does:** Cloud-based gaming technology that streams video games to any computer.

**Why it's hot:** The technology promises to bring new kinds of business models and distribution methods to the gaming industry.

### Unity Technologies ([www.unity3D.com](http://www.unity3D.com))

Founded in Denmark now based in San Francisco

**What it does:** Sophisticated development tools for interactive 3D games.

**Why it's hot:** Its plug-in for web browsers allows the display of high-end graphics without the need to download games.

### Videoplaza ([www.videoplaza.com](http://www.videoplaza.com))

Stockholm, Sweden

**What it does:** Video ad server technology used by broadcasters, newspaper publishers and other media.

**Why it's hot:** Its product allows content producers in multiple countries to target video advertising on mobile devices, tablets, digital magazines and other formats.



## COMPANIES TO WATCH: EASTERN EUROPE, TURKEY AND RUSSIA

### Getjar ([www.getjar.com](http://www.getjar.com))

Founded in Lithuania, now based in San Mateo, California

**What it does:** Delivers more than 70,000 mobile applications to phones across all major software platforms.

**Why it's hot:** A 2011 World Economic Forum Tech Pioneer, the company has so far generated more than 1 billion application downloads.

### BeFunky.com ([www.befunky.com](http://www.befunky.com))

Founded in Turkey, now based in Wilmington, Delaware

**What it does:** One-click photo enhancement tools.

**Why it's hot:** The technology allows digital photos to be easily transformed into artwork.

### AlterGeo ([www.altergeo.com](http://www.altergeo.com))

Moscow, Russia

**What it does:** Russian location-based social service and provider of location positioning technology.

**Why it's hot:** It is the first and biggest location-based social service in Russia and has developed its own location positioning technology which it licenses to some of the biggest Russian and European Internet companies, including Yandex and Mail.ru.

### Anywayanyday.com ([anywayanyday.com](http://anywayanyday.com))

Moscow, Russia.

**What it does:** Online air ticket sales and hotel reservations.

**Why it's hot:** It is grabbing an increasing share of Russia's \$500 million online airline ticket sales market.



The business intelligence software company's dashboard

# A tale of two

**IPO** Going to America: Qliktech's listing was one of the most successful tech IPOs on Nasdaq in 2010, writes **Jennifer L. Schenker**

Wall Street observers marveled that it felt like 1999 for a few hours on July 16, a sweltering day in New York City that signaled the start of a heat wave. That day Qliktech, which pioneered a disruptive new approach to business intelligence software, launched an initial public offering of stock on the NASDAQ and saw its stock shoot up by more than 30 percent after the opening bell, before settling down for a 28 percent gain, making it one of the hottest tech IPOs of the year in the U.S.

The company was valued at 770 million US dollars when it listed and had a valuation of 1.5 billion US dollars by late November.

Chalk it up to European software innovation and business acumen. It was Bjorn Berg, one of the two Swedish founders of the 17-year-old company that had the original vision. Another Swede, Jonas Nachmanson, has been in charge of innovating Qliktech's technology since 1996, developing tools to help companies quickly and easily access and interpret information in corporate databases on desktop computers and more recently on high-end mobile devices like the iPhone. And without Swede Mans Hultman, who saved the company from bankruptcy and led it to profitability, there would be no company.

Qliktech, which was named a World Economic Forum Technology Pioneer in 2008, is now considered a global player in business intelligence software with some 16,000 customers, including small and medium sized businesses and Fortune 500 companies. It is projecting 2010

revenues of 211 million US dollars.

Qliktech's story negates some common wisdom about Europe: European companies are mostly copycats, they don't scale and they need to hire American executives to drive the business. But the company's history reinforces some others: European tech companies – in sectors such as software – believe they need to move their headquarters to the U.S. in order to expand globally. And while Betfair provides a refreshing exception (see story page 9) Europe still hasn't managed to make its stock markets attractive to European start-ups.

Nasdaq remains the stock market of reference, which means value created here creates wealth elsewhere, negatively impacting the future of Europe. "Going public on Nasdaq was the right thing to do for shareholders but the wrong thing for Sweden," says Hultman, Qliktech's former CEO and Chairman. He chose to remain in his native country and is currently being sought out as an advisor on how to improve the environment in Sweden for young companies who want to list their companies publicly.

Hultman is also now advising and helping seed a new generation of young European companies. And the David versus Goliath story behind the rise of Qliktech is itself expected to serve as an inspiration to start-ups on the Continent who need more good role models. Its success is symbolic of the maturation of Europe's tech sector, which is starting to produce a greater number of companies with billion dollar valuations and the chops to become global players.

Investor Bruce Golden, a partner at London-based Accel Partners, calls

Qliktech the best software company to come out of Europe since SAP and Business Objects. "We were excited about Qliktech from the moment we first met with them because they fully reflected our views on the consumerization of enterprise software, meaning that business software had to be dramatically easier to use," says Golden, who serves as Qliktech's Chairman of the Board.

Qliktech originally focused on search and visualization but its technology also hit a sweet spot: helping companies to more easily access key data and cut the time to install the technology from months and years to weeks or even days.

After a friend mentioned the innovation during a sailing trip Hultman tried out the technology and was so impressed he quit his day job and invested in Qlik-

one sales guy, who had already resigned.

Hultman says he made the decision to have the company focus uniquely on business intelligence software and enter the market by targeting mid-sized Swedish manufacturing companies as clients. The client list grew from 6 to 200 within a twelve-month period. By 2004 the company was in solid financial shape, with revenues of 60 million Swedish kronor, and went looking for international investors. London-based Accel Partners and Jerusalem Venture Partners invested 12.5 million US dollars.

Qliktech could have raised that kind of venture capital from Swedish investors but it was looking for expertise in addition to money, says Hultman. "Suddenly we had a board that shared our visions of people who had been there and done it themselves," he says. "We wanted to run and they gave us our running shoes."

The company moved its headquarters to Radnor, Pennsylvania in 2004. That year it grew revenues 65 percent to 100 million Swedish kroners (about 13 million US dollars). Four years later it generated revenues of 118 million US dollars. This year it will roughly double that figure.

Qliktech has thrived by first targeting small business customers that were below the radar of business intelligence software companies like Business Objects and Cognos. Then it began to cut into their businesses and today it considers IBM, SAP, Oracle and Microsoft as competitors.

Qliktech's original technology innovation was to rethink data extraction by

attaching it to RAM memory, making it easier and quicker to find information and Moore's law has been on the company's side, says Nachmanson, the company's long-time chief technology officer. The technology has constantly evolved and is now available not just on the desktop but via the iPhone and Android phones, allowing executives to access the corporate dashboard while on the road, to check information such as revenue reports and forecasts.

Lars Bjork, a Swede who relocated to the US, took over as Qliktech's chief executive in late 2007. He declined to be interviewed for this article because the company issued a secondary offering in November and is now in a silent period.

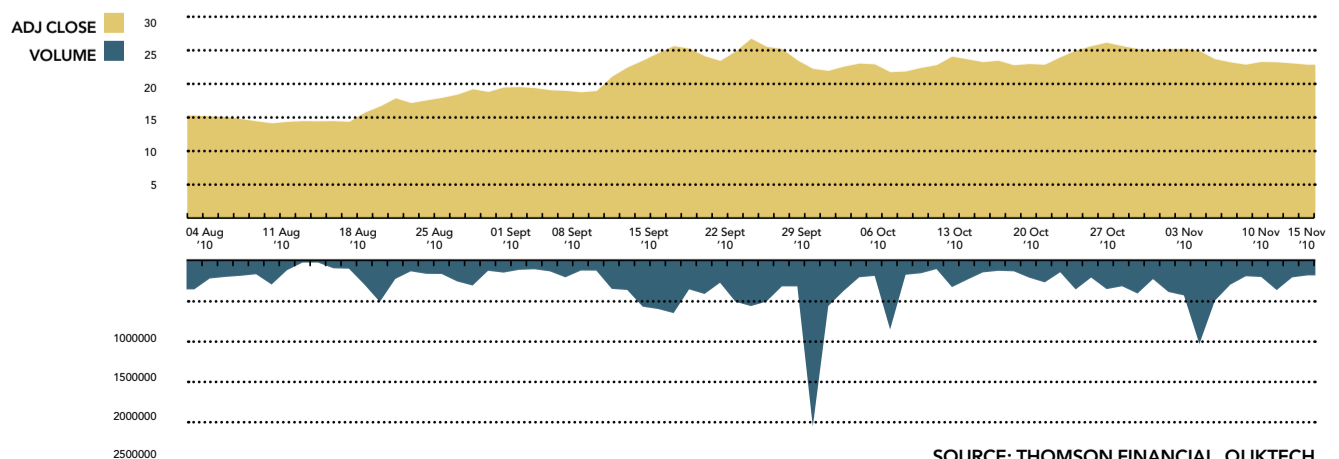
Although Hultman no longer plays an active role at Qliktech he says there is a good reason why the company continues to earn the admiration of both clients and investors. "There is a lot of growth left in the company because the competition is still really, really poor," he says.

Going public on Nasdaq was the right thing to do for shareholders but the wrong thing for Sweden

tech, along with a group of friends.

But as many European companies learn the hard way strong technology does not automatically translate into strong business. Hultman stepped in as CEO in 2000 to help out. At the time the company was in the red and had only

## QLIKTECH'S HOT NASDAQ DEBUT THE SWEDISH SOFTWARE COMPANY'S STOCK SOARED AFTER ITS INITIAL PUBLIC OFFERING





Betfair co-founder  
Edward Wray



# IPOs

IPO Betfair is seen as a bellwether for the European tech industry writes **William Boston**

**W**hen Betfair Group, the world's largest online gambling platform, went public in October the stakes were unusually high.

The London-based company's 1.5 billion British pound initial public offering was not only scrutinized by investors and analysts as a measurement of the company's prospects. Coming on the heels of the disappointing launch of online supermarket Ocado investors couldn't help but view Betfair's listing as a bellwether for the European tech industry and IPO markets.

"If Betfair had disappointed, it would have set the whole market back," says David Wilkinson, head of the European IPO team at Ernst & Young in London. "There were big differences between Betfair and Ocado but people were watching Betfair's IPO as an indicator of where the market was going."

Ocado priced its IPO too high and shares fell below the issue price shortly after beginning trading. By comparison, Betfair's shares lunged out of the box and surged about 20 percent October 22, their first day of trade. By mid November Betfair shares were still trading about 15 percent above the offer price of 13 British pounds.

What did that mean for the broader market? Confidence was back.

"Companies that had been thinking about going public were reassured," says Mr. Wilkinson. Betfair's IPO was followed by a rash of new listings in London. The Luxembourg-based AZ Electronics Materials, which makes chemicals semi-conductor manufacturers, was so encouraged by investor demand that it raised the price of its offer at the last minute in an IPO that valued the company at 914 million British pounds at its launch on October 29. Another significant IPO was the 1 billion dollar listing on Nov. 5 of Mail.ru Group Ltd., Russia's largest Internet company that until September was known as Digital Sky Technologies. Mail.ru Group, which owns 2.4 percent in Facebook and 5.1 percent in Groupon Inc., was founded by Russian investors Gregory Finger, Yuri Milner and Mikhail Vinchel. Among its main investors are Russian billionaire Alisher Usmanov and South Africa's Naspers Ltd.

Judging by the resurgence in IPOs, Betfair's gamble to take the company public seems to have paid off in spades. With a market capitalization of about 1.6 billion pounds as of Nov. 16, Betfair's listing laid a solid foundation for the company to return to the market should

it need cash for major investment or a strategic acquisition.

The successful listing also proves that for all of Europe's disadvantages compared to the United States and Asia, it is possible for entrepreneurs to create innovative technology companies from scratch and grow them into billion-euro businesses.

Betfair was named "European Entrepreneur of the Year" at an awards ceremony in Copenhagen Oct. 14 attended by over 200 venture capitalists. The awards ceremony capped the Innovation Exchange conference co-organized by The European Tech Tour Association, Informilo and the European Private Equity and Venture Capital Association (EVCA).

Previous winners of the award, first launched in 2006 by the European Tech Tour Association to celebrate European success stories, include two Swedish firms: MySQL, an open source database maker, which was sold to Sun Microsystems in 2008 for one billion dollars and Qliktech, a business software intelligence specialist which moved its headquarters to the US and went public on Nasdaq earlier this year. (see story page 8).

Betfair's success is viewed as encouraging for Europe since it was both created and floated in the UK. The company, founded by Edward Wray, a former JP Morgan trader, and Andrew Black, a professional gambler, was launched in 2000. The idea was to create a robust trading platform to handle bets on events such as horse racing, soccer, or for playing poker. The online gambling platform gave players direct access to the events and pushed out the middle men, the bookies.

To be sure, Betfair's business faces potential risks, especially from overzealous European regulators who could try to outlaw, tax or otherwise restrict online gambling and thwart Betfair's growth potential.

By the time of its IPO Betfair had more than three million registered customers. For the business year that ended on April 30, 2010, Betfair reported net profit of 15.1 million British pounds, down from 38.8 million British pounds. Revenue rose 13 percent to 340.9 million British pounds. Profit was down largely because of investments in marketing and technology while the weak economy slowed sales growth.

The company's record is even more impressive when you consider that the founders nearly folded their hand early in the game because of the difficulty they had attracting financing to launch the company in 2000.

"When we were preparing to launch, we tried to raise money from institutions and failed miserably," says Wray. "The situation in Europe has improved a lot since then."

When Betfair launched, a rival British start-up Flutter.com, was already making the rounds in Europe and collecting funding from venture capitalists.

"They did a terrific job marketing themselves," says Wray. "When we went around to see people everyone was ask-

ing 'Why should we support another gambling company?'"

Over a period of several years, the Betfair founders raised about 5 million British pounds from members of their families and friends. Wray would hit all his former trader buddies, timing his pitches for money to when London traders traditionally got their annual bonuses. "You had to hit them after they got paid but before they spent the money," he says.

By the end of 2001, Betfair and Flutter.com were both building solid businesses, but Betfair appeared to have the better brand. Investors in Flutter.com pushed the idea of merging the two companies. Flutter.com founder Josh Hannah called Wray and said, "Let's have a drink."

Within a few months, Flutter.com was merged into Betfair, bringing its cash and network of financial backers, including Balderton Capital, which calls itself Europe's largest dedicated venture capital fund with 1.9 billion dollars of committed venture capital, and Index Ventures, formed a decade ago by Neil Rimer and Giuseppe Zocco to bring Silicon Valley-style investing to Europe. Index invests globally in technology, biotech and clean tech. Other investors include Softbank Corp., the Japanese investment group, which acquired 23 percent of Betfair in 2006.

"Flutter had a better technical platform, but Betfair had the better brand," says Barry Maloney, a partner at Balderton Capital, who recalls the discussions inside Flutter.com about a merger with Betfair. Balderton holds 3.95 percent of Betfair.

The idea behind the merger was to combine the strengths and resources of the two companies to create an industry leader. "No company in the online gambling industry ever really got to scale except Betfair," says Maloney. Wray tells a similar story, explaining: "We wanted to create as unassailable a position as possible."

Wray, who is chairman of Betfair, says the company is using the IPO to help expand its gaming business internationally and build new businesses. One major new development is the launch of LMAX, a financial trading platform

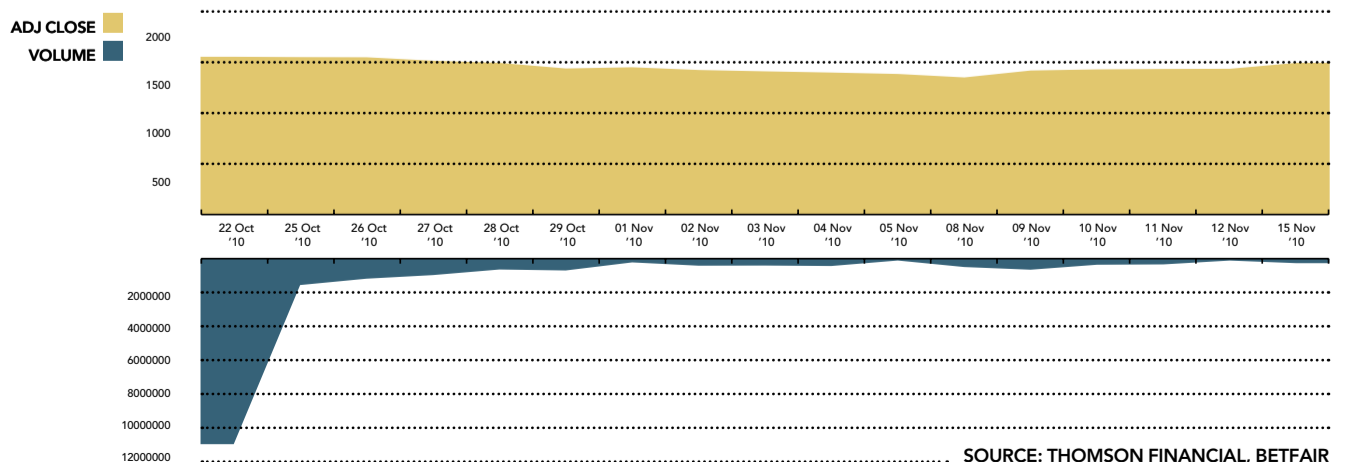
for retail investors to trade in foreign exchange instruments, fixed income instruments, commodities and eventually in other asset classes as well.

The idea sounds familiar. Take Betfair's technology platform, soup it up for a mission critical trading environment and make it available to ordinary retail investors, edging out the middlemen at the big banks and start making money.

Betfair, says Maloney, is a perfect example of what sets today entrepreneurs apart from the heady days of the dot-com boom: "Nobody is building ideas anymore; they're building businesses."

When we were preparing to launch, we tried to raise money from institutions and failed miserably

## WINNING HAND GAMBLING SITE BETFAIR LAUNCHES SUCCESSFUL IPO



SOURCE: THOMSON FINANCIAL, BETFAIR



## Building Europe's next billion dollar businesses

**VENTURE CAPITAL** Icera's experience demonstrates that the path to success is not easy, writes Jennifer L. Schenker



Icera chief executive Stan Boland

The conventional wisdom is that it is next to impossible to build a European-based billion-dollar tech company with staying power. Try telling that to Stan Boland.

The British engineer, now 50, created a top European chip company, element 14, a startup fabless semiconductor business specializing in high-density DSL chipsets that he sold to the US' Broadcom for 642 million dollars in 2000.

Boland walked away from that sale with a substantial financial windfall. But after a brief stint at Broadcom and a short summer vacation on the Riviera in 2001, he was confident that he could build a new European semiconductor company that would stay in Europe and become a global giant. So, he and several partners launched Icera, a British fabless semiconductor company that set out to make communications engines inside smart phones that are intrinsically cheaper to develop and sell. Never mind that it meant taking on chip industry behemoth Qualcomm.

Eight years, one acquisition and 240 million in venture capital later, Boland is still optimistic but far more sober. Icera was named a World Economic Forum Technology Pioneer in 2006. Its technology is inside mobile devices sold by big companies like China's ZTE and Huawei, Canada's Sierra Wireless, Finland's Nokia and S. Korea's Samsung to over 40 operators worldwide, including the biggest in the US and Europe such as AT&T and Vodafone.

But Icera is dwarfed by the industry leader. It grew its revenue fivefold last year and expects to double it again in 2010. Even so, its smallest competitor is still around ten times larger. And scaling using venture capital is fraught with difficulties.

Boland, Icera's CEO, says he is confident that his investors will make a good return but it is not quite the industry it looked like 10 years ago. "The amount of challenge and difficulty that we have gone through to develop it the point where it is now has been much tougher than I

could possibly have imagined," he says. "Our need to respond to the industry consolidation and transfer of knowhow from product manufacturers to their chip vendors is a real challenge." That is not all. "On top of that, the commercial pressure is brutal out there – our major competitor takes no prisoners," says Boland.

Icera contains important lessons for companies wishing to become global giants. Europe has deep strengths in hard core technology. And now it has a new generation of managers that have already been through the experience once of building companies in Europe and have no need to cash out early. It has investors ready to step up and fund great entrepreneurs with great technologies. But it is a long haul for Europe's billion dollar babies and all the more so for capital-intensive businesses like semiconductors. Growing up is painful. Winning is not obvious. And successful exits – even in less capital-intensive sectors like Internet and software – can take 10 years, if not more. (see stories on Qliktech and Betfair pages 6 and 7)

"I think we have stretched the limits of venture capital and it's not yet clear if that is enough," says Boland. The company raised its latest round of 45 million dollars in May this year and all existing preferred shareholders, including Amadeus Capital Partners, Accel Partners, Atlas Venture, Balderton Capital and DFJ Esprit participated in the funding round.

As a step beyond normal venture capital, Icera recently arranged to refinance its venture debt through Silicon Valley Bank. This also allows it to access new working capital lines to help close the gap between the time silicon wafers need to be ordered and paid for and the arrival of payments from large customers for end products.

The pressure to keep up with R&D spending of the bigger players in a consolidating world is putting additional strain on the company. And, moves by Qualcomm to bundle some of its technologies together makes it tougher to compete against them with-

out Icera broadening its scope even further, prompting Icera to ponder whether it should ultimately go public as a "mobile modem" company (it makes the baseband processor core and radio chips for mobile phones) or whether it can generate more | business by integrating with an applications processor vendor to compete with Qualcomm.

The path forward is not clear. With its recent financing, the company has no need to do anything quickly and has no plans to go public in the immediate future.

Boland says he is convinced the problem would be the same if the company were based in the US or Asia. But it is arguably more problematic in Europe for investors to wait so long for returns at a time when limited partners are questioning whether it is worth continuing to invest in European venture funds.

It is not surprising that European Internet plays are more attractive to VCs, since they can put less money and know after two or three years whether a startup is going to have a successful exit. With chip companies "you have to wait such a long time to know if it works or not and that it is almost beyond venture funds with their intrinsic 10 year lives," Boland says. "The industry is searching for a way that they can be financed through the business cycle."

Boland believes that new actors, such as sovereign wealth funds or late stage funds, may need to step in to allow young, innovative chip companies to go the distance.

"We have not lost our original vision," says Boland. "We have had an amazing set of successes and we have a hugely competitive offer and a strong presence in a product line that is generating revenue and value growth but looking beyond this, it would be right to question how to further build the company so that we can in fact compete with globally-integrated firms like Qualcomm with almost unlimited resources. Watch this space!"

# 6

## Reasons to start your business in Ireland.

No. **1** **LOW BUREAUCRACY, LOW TAX, START-UP FRIENDLY ENVIRONMENT.**  
The level of entrepreneurship is above EU and OECD averages. The World Bank rates Ireland as the easiest place in the European Union (EU) to start a business and as having the most Business friendly tax regime in Europe or the Americas.

No. **2** **ACCESS TO MARKETS.**  
■ Most of the EU market is less than three hours away by frequent low cost flights. Flight times from Ireland to the US market, representing approx 22% of World GDP, are shorter than from any other EU member state.  
■ 8 of the top 10 global ICT companies have major operations in Ireland.  
■ Extensive hands on support is available from Enterprise Ireland, who can open doors in most overseas markets.

No. **3** **THE NEW INTERNET CAPITAL OF EUROPE.**  
Companies such as Google, Facebook, LinkedIn, eBay, Microsoft, Apple, IBM, PayPal, Amazon and Intel along with a host of media and gaming companies all have major operations in Ireland, focussed on European or global markets. They are complemented by centres of research excellence and fast growing local web and gaming companies. Together they have created a strong pool of: management; skilled staff from a multitude of nationalities; business angels; professional advisers; investors; service providers and sub suppliers

No. **4** **COMPETITIVE LOCATION**  
There has never been a better time to start an export business in Ireland. The recent problems have greatly reduced salaries, rents, professional fees and other costs. Staff availability has increased and infrastructure has improved.

No. **5** **A GREAT PLACE TO LIVE.**  
Ireland is English speaking and cosmopolitan. It has a long history and rich culture; historic towns and beautiful scenery; temperate climate and welcoming people.

No. **6** **FUNDING AND HANDS-ON HELP AND FOR EXPORT ORIENTED START UPS.**  
Enterprise Ireland provides a comprehensive range of supports to selected export oriented companies. These complement funding from commercial sources and tax breaks to encourage investment. These supports are designed to make it as easy as possible for you to set up and grow your business.

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 Business Angel

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● Internet

● Media

## M&A

● Software

## BUY OUT

● IT services

MEDIA



A-Round with



Sole Advisor to Company

MEDIA



C-Round with



Sole Advisor to Company

MEDIA



B-Round with



Sole Advisor to Company

MEDIA



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