

## Full focus on investment: The 2007 NVCA Activity Survey

The Norwegian market for seed, venture, expansion and buyout capital is still small and relatively young, but during the last two years we have witnessed a boom in the number of funds, competent professionals, capital available and investment activity. After lagging far behind well developed markets like Sweden and the UK, the Norwegian market for venture capital and private equity investments is now quickly catching up. As outlined in the previous pages, the surrounding capital market is also developing fast, adapting to a more pronounced interaction between activities on and outside the stock market. After a year of strong focus on raising capital, 2007 was devoted to investment activity.

### Turning every stone to find good investment cases

New investments in portfolio companies reached EUR 800mill. in 2007, an impressive 47% increase in investment activity from 2006. Two thirds was channeled into new projects, while the rest sorted under follow-up investments. This picture confirms a strong focus on investing capital, which is clearly also in line with management company expectations for 2008. In Figure 7 we see that investment activity in the buyout segment mushroomed last year, with growth in total investments reaching 125% from 2006 to 2007, driven by a few large investments cases. But even though some large buyout

cases play a central role in the overall picture, the number of investments in new companies has never been higher. Altogether there were 137 new or initial investments and 236 follow-up investments in 2007. Figure 8 depicts the number of initial investments over time. It has grown steadily since the mid-1990's, but mushroomed more recently.

As illustrated in Figure 9, half of all initial investments in 2007 took place in venture funds, and one third in seed funds. The number of seed investments is now climbing fast, stimulated by the growing number of regional and nationwide seed funds supported by the government. Not surprisingly, if we look at Figure 7 and 9, it is evident that initial seed investments are small, averaging EUR 0.75mill. in 2007. In contrast, the average size of initial investments in the buyout segment reached nearly EUR 23mill.

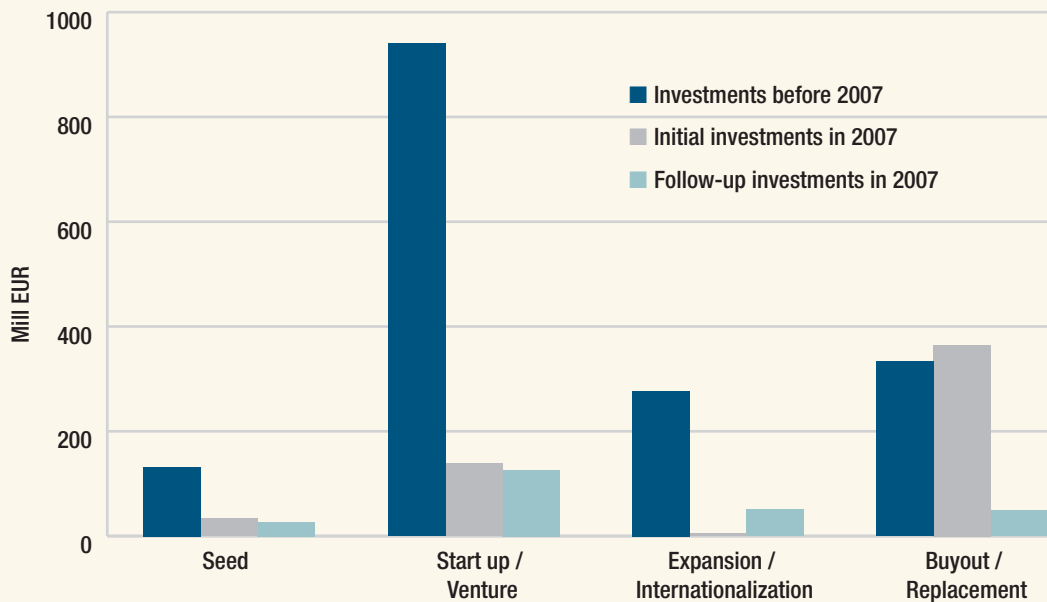
By the end of 2007, close to EUR 2.5bn was invested in existing funds, but there is still a lot of capital available for investment over the next years.

### Positive but slower growth in capital under management

Last year, funds in Norway managed approximately EUR 5.2bn (NOK 41.5bn), up 20% from 2006. (See Figure 10) Consequently, more than half of the committed capital in existing funds is still free for investment.

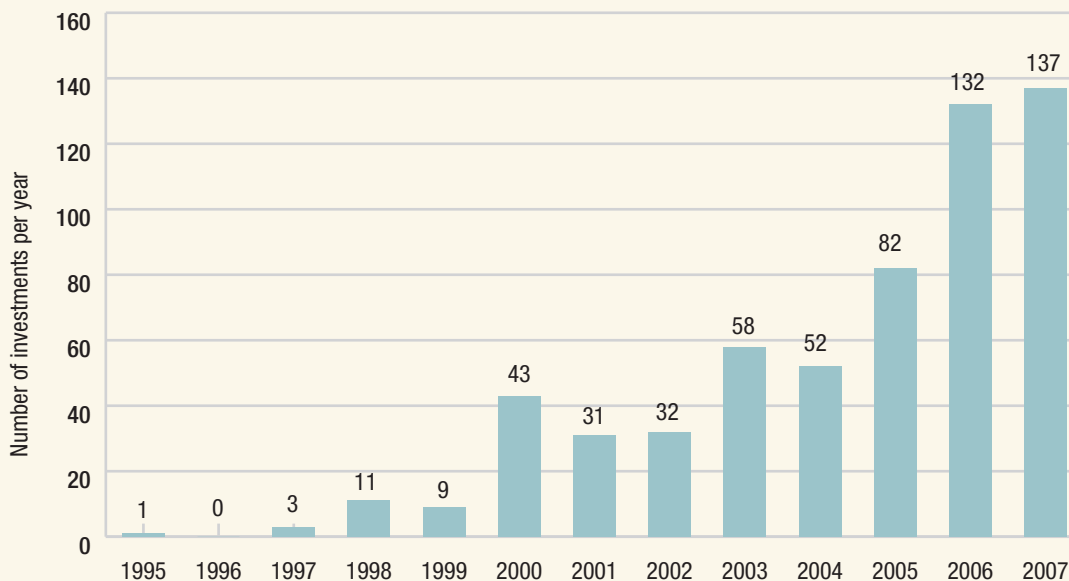
The 2007 activity survey is produced by Menon Business Economics for the Norwegian Venture Capital & Private Equity Association (NVCA). The survey covers activities in existing PE, VC and seed funds in Norway. Terminated funds and their portfolio companies are excluded. Foreign funds with offices in Norway are not included in the survey since these funds cannot be split between investments in Norway and other countries. The survey was conducted in February and March 2008 among members and non-members of NVCA, and maps activities in 46 out of 54 management companies (see Table 4 for a list of names and regional location). The 46 management companies covered in the survey control 96 out of 103 funds/portfolios in Norway. We have added information on capital under management for the majority of non-responding companies.

Figure 7: Investment activity by segment (Mill. EUR)



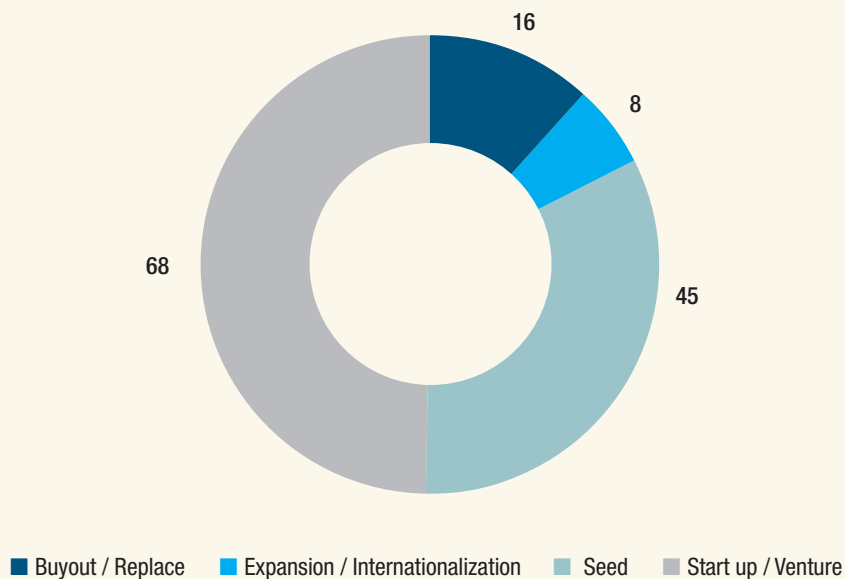
Source: MENON Business Economics/Norsk Venture (NVCA)

Figure 8: Number of initial investments by year



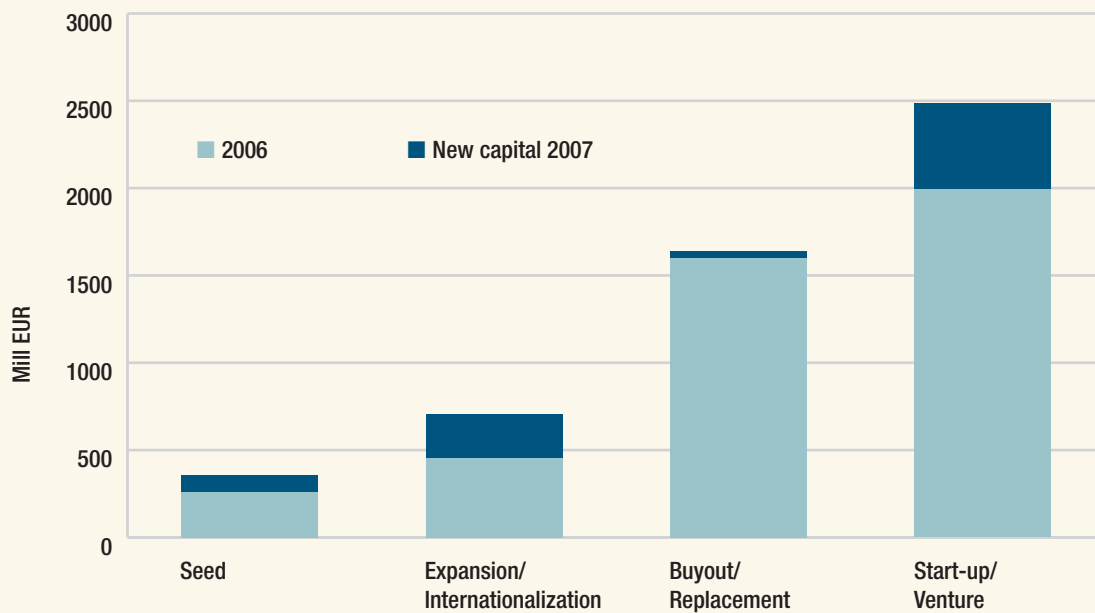
Source: MENON Business Economics/Norsk Venture (NVCA)

Figure 9: Number of initial investments by segment (2007)

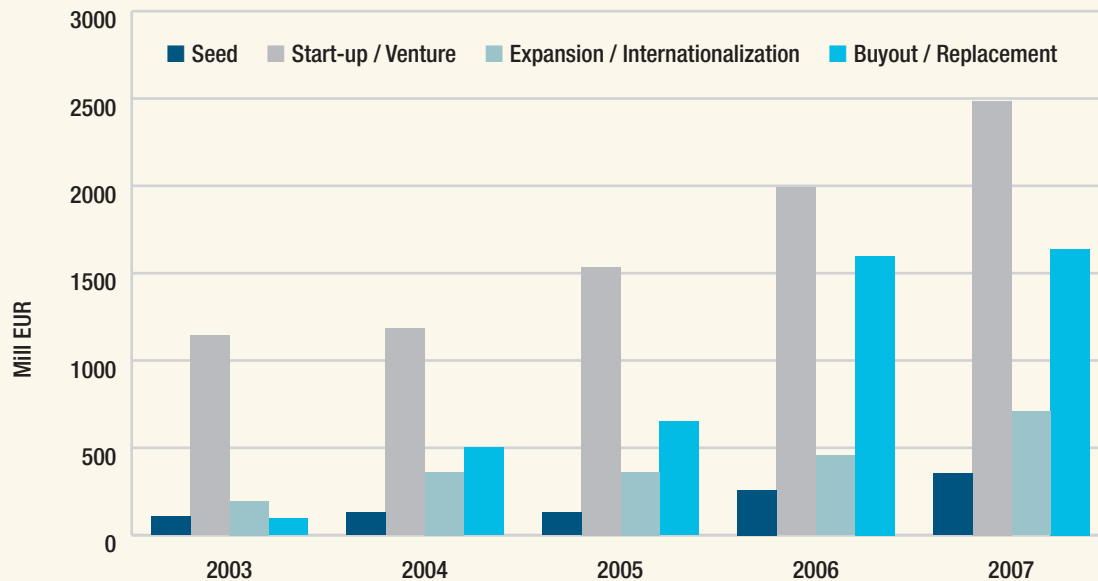


Source: MENON Business Economics/Norsk Venture (NVCA)

Figure 10: Capital under management by segment (Mill. EUR)



Source: MENON Business Economics/Norsk Venture (NVCA)

**Figure 11: Capital under management (Mill Euro) by segment**

Source: MENON Business Economics/Norsk Venture (NVCA)

Figure 11 shows that capital under management has grown steadily over time for funds in all four segments. Compared to 2003, the levels have actually tripled. The industry saw the establishment of 9 new private equity funds last year (see Figure 12): two seed funds, four venture funds, two expansion funds but no buyouts. Altogether, the newly established funds raised approx. EUR 600mill, which is about one third of the capital raised in the exceptional year 2006. In other words, we have solid reason to claim that the VC and PE industry spent 2007 focusing on investing rather than raising capital. This impression is strengthened by the fact that two large Swedish buyout funds established offices in Oslo in order to more easily identify and follow up investments in Norway over the coming years.

#### **Institutional investors still lag behind as LPs in Norway**

A closer look at figures on LPs and investor composition (see Figure 13) shows that parent companies play a pronounced role in the Norwegian VC and PE environment. Approximately 25% of all capital under management comes from this type of owners. Personal investors and fund-in-fund investors are the second

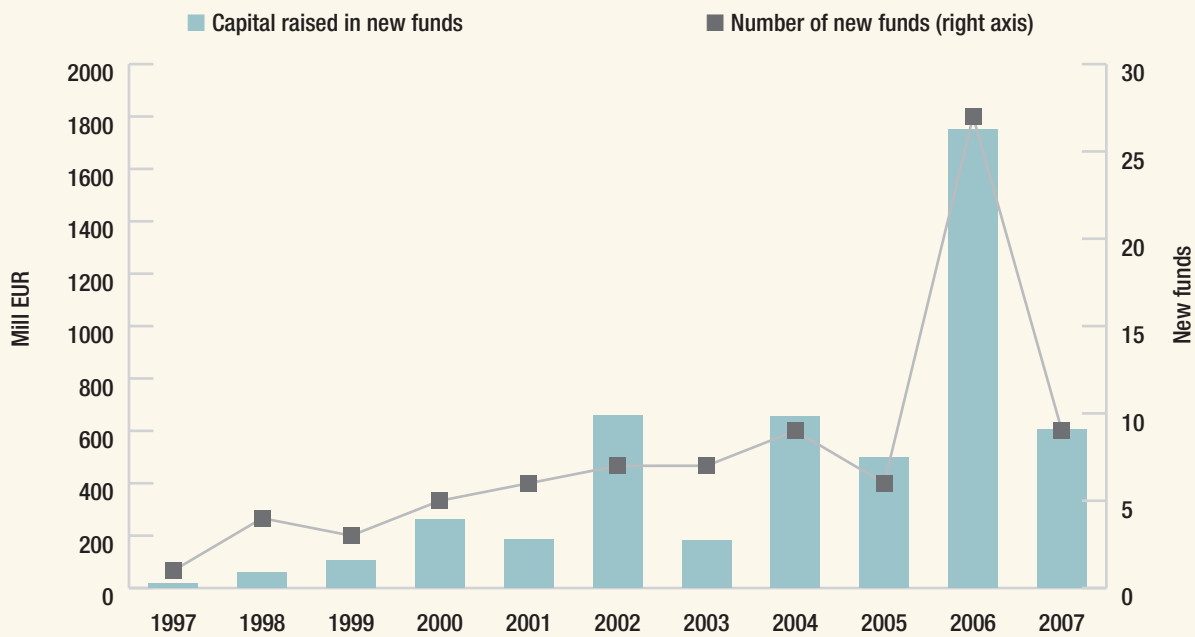
and third largest investor types, respectively. Institutional investors such as banks, insurance companies and pension funds account for about 25% of the total capital raised, which is a rather small share compared to the rest of Europe, where these investors represent approximately half of the capital channeled to VC and PE funds. To illustrate the limited exposure of Norwegian insurance companies and pension funds in the VC and PE industry, it is sufficient to point out that they have invested about EUR 800mill. in Norwegian PE, representing 0.7% of their total capital under management (EUR 115bn). Similarly, banks have invested EUR 400mill in Norwegian PE, representing 0.12% of their capital under management (EUR 330bn).

#### **Strong international investment focus**

In sum Norwegian funds now have investments in 603 portfolio companies, of which 181 are companies with headquarters outside Norway (see Table 2). As 30% of all portfolio investments are in foreign companies, the Norwegian management companies clearly have a strong international focus, seeking additional opportunities outside Norway's borders.

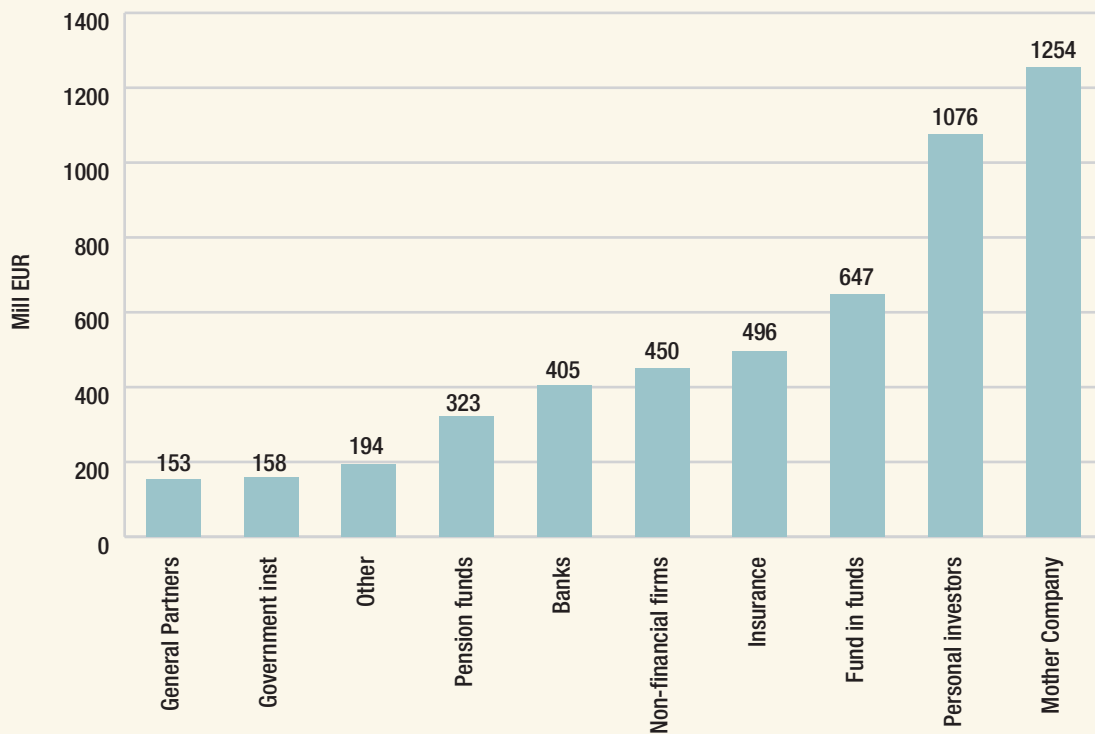
Table 3 shows the location by country of the portfolio companies' headquarters. From the table we see that

Figure 12: Characteristics of new funds



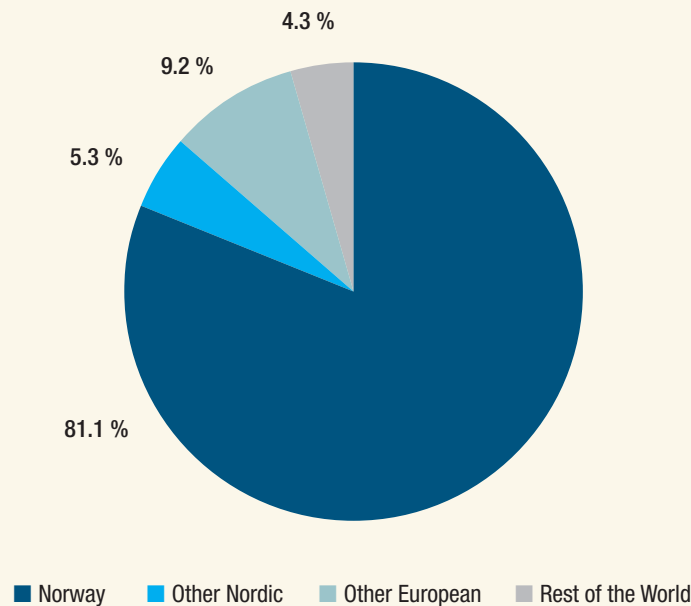
Source: MENON Business Economics/Norsk Venture (NVCA)

Figure 13: Investment by type of investor (Mill. EUR)



Source: MENON Business Economics/Norsk Venture (NVCA)

**Figure 14: Regional fund raising (% of total)**



Source: MENON Business Economics/Norsk Venture (NVCA)

**Table 2: The domestic/foreign matrix of investments**

	Norwegian Companies	Foreign Companies
Norwegian Funds	422	181
Foreign Funds	33	

Source: MENON Business Economics/Norsk Venture (NVCA)

17% of the portfolio companies are in other Nordic countries, while 9% are in the US and UK. If we flip the coin and look at Norwegian capital raised abroad, only 18% of the capital comes from foreign investors. Figure 14 shows that more than 80% of the capital raised is national, while other Nordic countries, other European countries and the rest of the world contribute with 5.4%, 9.2% and 4.3%, respectively, of the capital raised. The shares are low, both measured relative to the foreign presence on the Oslo Stock Exchange, and relative to the importance of foreign capital in PE in countries like Sweden. In other words, there is a clear potential for broadening the base of LPs from other countries.

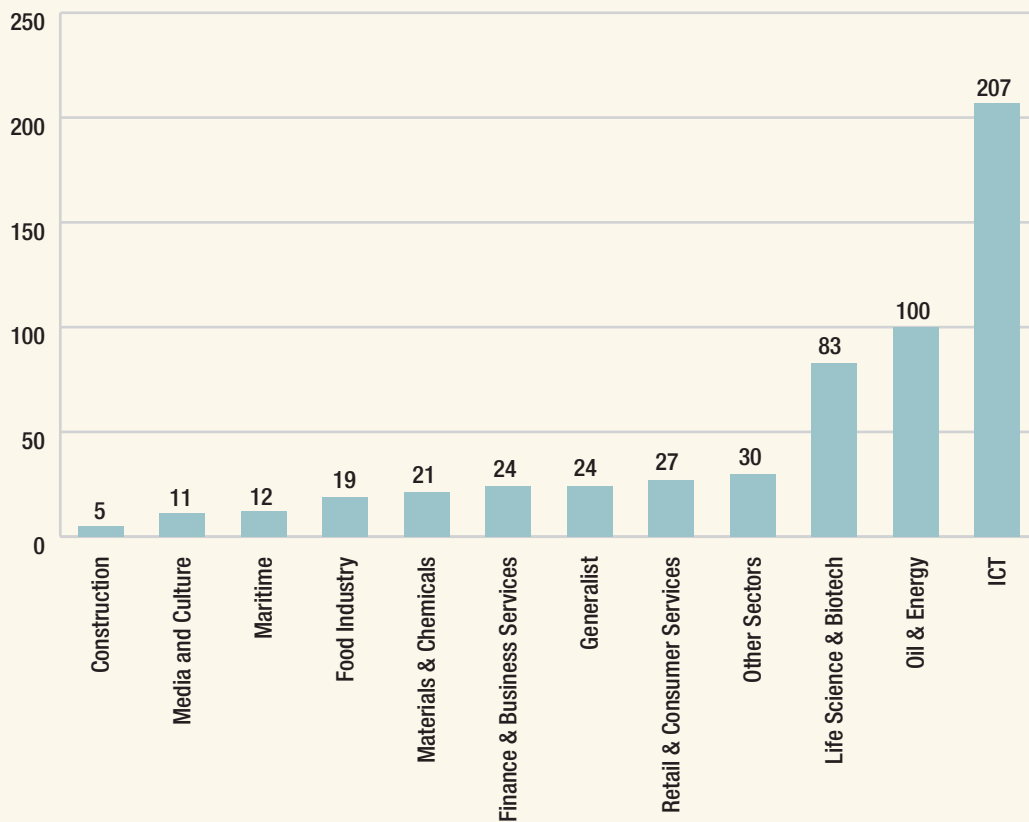
The presence of foreign management companies in the Norwegian VC/PE market is limited, with only three foreign management companies established in Norway. In total, we have identified 33 portfolio companies located in Norway with foreign VC and PE ownership only.

**Table 3: Location of Portfolio Company Hqs**

	Number	Share of all companies
Austria	1	0,2%
Cyprus	1	0,2%
France	1	0,2%
Hungary	1	0,2%
Netherlands	1	0,2%
Pakistan	1	0,2%
Poland	1	0,2%
Spain	1	0,2%
Finland	2	0,3%
Scotland	2	0,3%
Germany	3	0,5%
Canada	4	0,7%
Switzerland	9	1,5%
Denmark	15	2,5%
UK	15	2,5%
USA	38	6,3%
Sweden	85	14,1%
Norway	422	70,0%
<b>Total</b>	<b>603</b>	<b>100,0%</b>

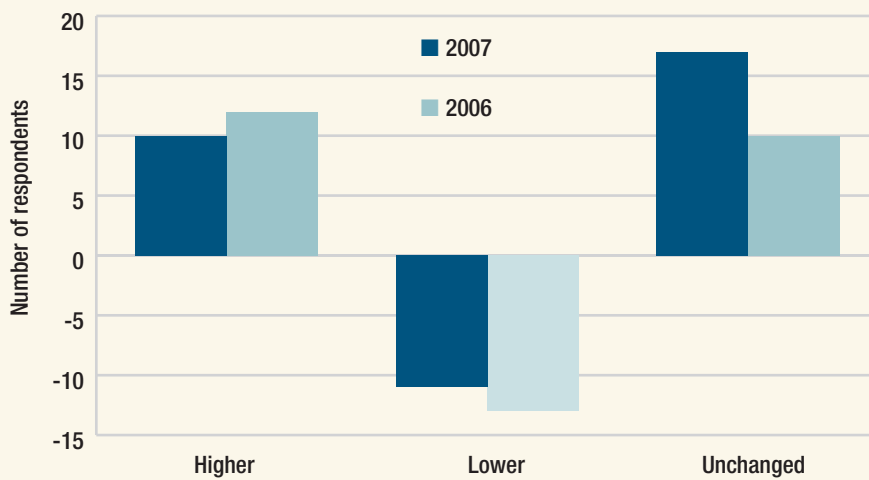
Source: MENON Business Economics/Norsk Venture (NVCA)

Figure 15: Industry distribution of portfolio companies

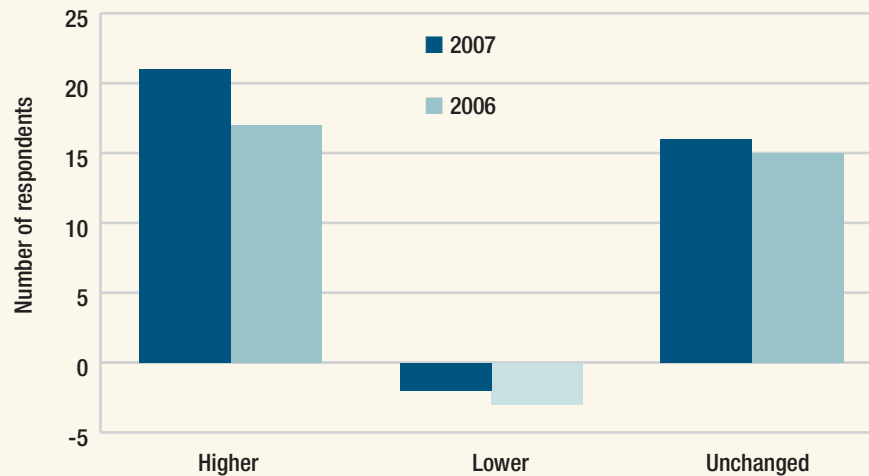


Source: MENON Business Economics/Norsk Venture (NVCA)

Figure 16: VC and PE business expectations – fundraising next 12 months



Source: MENON Business Economics/Norsk Venture (NVCA)

**Figure 17: VC and PE business expectations – investment next 12 months**

Source: MENON Business Economics/Norsk Venture (NVCA)

### The bulk of portfolio companies are ICTs

The ICT industry dominates the Norwegian PE investment universe. Figure 15 shows that 207 ICT companies (1/3 of all companies) have received capital from existing Norwegian VC and PE funds. In the next chapter, we also show that VC and PE-backed ICT companies are large when it comes to employment and value creation. True, ICT is the sector that receives most PE investments internationally. But it is somewhat surprising that we observe the same pattern in Norway, since the economy is heavily dominated by oil, energy and shipping.<sup>1</sup> Looking at the location of headquarters of ICT portfolio companies, it shows that 161 of the 207 companies are located in Norway. This is nearly 80% of the ICT companies, which is higher than the overall share of Norwegian portfolio companies, and demonstrates that the disproportionate large share of ICT companies is not due to investments in companies abroad.

1) From Figure 15 we see that ICT, but also oil & energy, are the dominant sectors, accounting for more than 50% of the PE/VC portfolio companies. The number of companies in ICT and oil & energy differ from the H1(07) survey. This is due to an update of the Menon VC & PE database. While previously we only had the sector in focus of the investment fund, we now have identified the sector down to each portfolio company. As of today there remain 40 portfolio companies, out of 603, for which we have yet to identify the industry affiliation.

### Buyout investments grab a larger share

Distinct from many other countries, Norwegian PE has been characterized by the dominance of venture, rather than buyout investments. The 2007 figures show, however, a very strong investment growth of 125% from 2006 till 2007 in the buyout segment, which means that buyout is closing in the gap on venture. While investments in buyout were about one third of the size of investments in venture in 2006, it was nearly two thirds in 2007.

### Even higher expectations for investment activity in 2008

Figure 16 shows management companies' expectations concerning capital raising activity the next 12 months. Half of the companies expect to have the same level of capital raised in 2008 as they did in 2007, while the rest are equally divided between higher and lower capital raised for the year to come. This seems to imply that the capital raising level will stabilize this year.

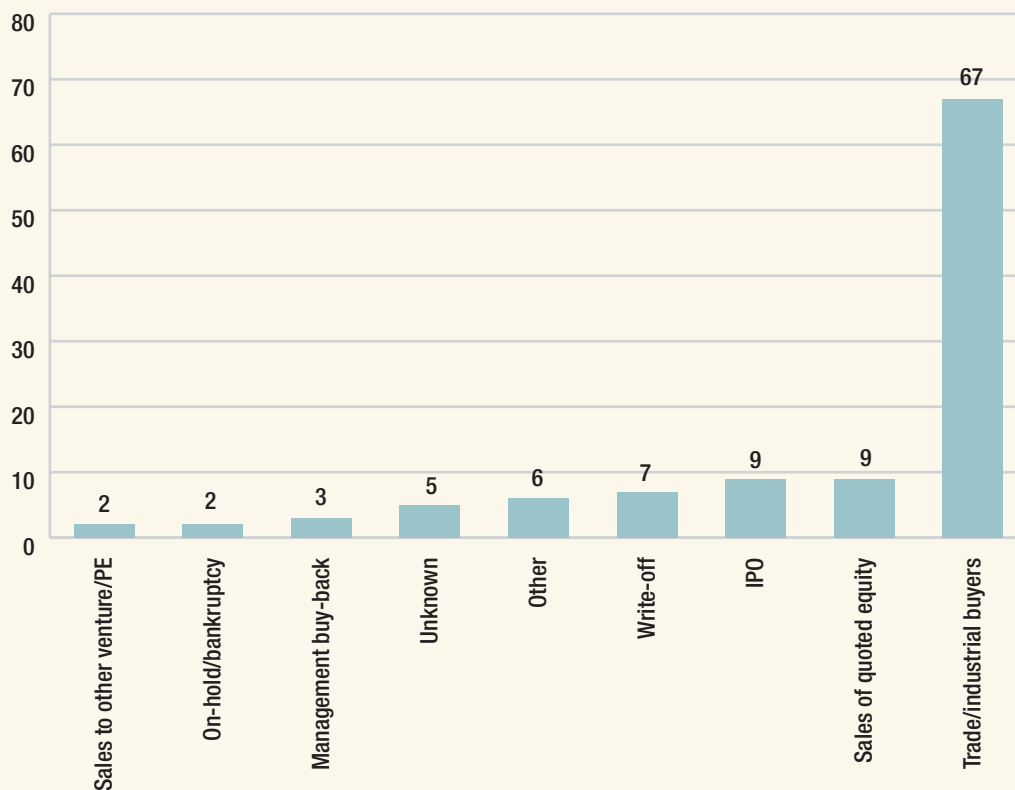
When it comes to expectations on investments the next 12 months, more than 50% of the companies expect their level of investments to increase compared to the previous year, while only about 5% of the management companies expect lower investments. Compared to the 2006 activity



**Table 4: Management companies located in Norway as per 1.04.2008**

Seed	Region	Venture / Start up	Region	Buyout /Expansion	Region
Campus Kjeller	<i>Eastern Norway</i>	Alliance Venture	<i>Eastern Norway</i>	Altaria	<i>Eastern Norway</i>
Fjord Invest	<i>Western Norway</i>	BTV Invest	<i>Eastern Norway</i>	Borea Oportunities	<i>Western Norway</i>
IT Fornebu Inkubator	<i>Eastern Norway</i>	Convent Capital Group	<i>Eastern Norway</i>	Credo Partners AS	<i>Eastern Norway</i>
KapNord	<i>Northern Norway</i>	Convexa	<i>Eastern Norway</i>	FSN Capital Partners	<i>Eastern Norway</i>
Kongsberg innovasjon	<i>Eastern Norway</i>	Energy Future	<i>Eastern Norway</i>	Herkules Capital	<i>Eastern Norway</i>
Leiv Eiriksson Nyskaping	<i>Mid Norway</i>	Energy Ventures	<i>Western Norway</i>	Hitecvision	<i>Western Norway</i>
Midvestor	<i>Mid Norway</i>	Ferd Venture	<i>Eastern Norway</i>	Marin Forvaltning	<i>Western Norway</i>
Møre og Romsdal Invest	<i>Western Norway</i>	Hafslund Venture	<i>Eastern Norway</i>	Norgesinvestor	<i>Eastern Norway</i>
Norinnova	<i>Northern Norway</i>	Incitia	<i>Eastern Norway</i>	Norvestor Equity	<i>Eastern Norway</i>
Proventure Seed	<i>Mid Norway</i>	Kistefos Venture	<i>Eastern Norway</i>	Progressus	<i>Western Norway</i>
SåkorninVest	<i>Western Norway</i>	Neomed	<i>Eastern Norway</i>	Reiten	<i>Eastern Norway</i>
Sarsia Seed	<i>Western Norway</i>	Northzone	<i>Eastern Norway</i>	True North	<i>Eastern Norway</i>
Sinas	<i>Northern Norway</i>	O. N. Sunde Venture AS	<i>Eastern Norway</i>		
Sinvent / SINTEF	<i>Mid Norway</i>	Procom Venture	<i>Western Norway</i>	<b>Foreign funds located in Norway</b>	
Springfondet	<i>Eastern Norway</i>	Sarsia Life Science	<i>Western Norway</i>	Capman Norway	<i>Eastern Norway</i>
Sydvestor	<i>Southern Norway</i>	Skagerak Venture	<i>Southern Norway</i>	EQT	<i>Eastern Norway</i>
		StatoilHydro Ventures	<i>Eastern Norway</i>	Industri Kapital	<i>Eastern Norway</i>
		Teknoinvest	<i>Eastern Norway</i>		
		Telenor / Televentures	<i>Eastern Norway</i>		
		Venturos	<i>Eastern Norway</i>		
		Verdane Capital	<i>Eastern Norway</i>		
		Viking Venture	<i>Mid Norway</i>		
<b>Number of companies:</b>	<b>16</b>		<b>22</b>		<b>15</b>

Source: MENON Business Economics/Norsk Venture (NVCA)

**Figure 18: Number of divestments by type (2007)**

Source: MENON Business Economics/Norsk Venture (NVCA)

survey, we see from Figure 17 an even clearer trend of greater focus on investments. On this basis, we expect the level of Norwegian VC and PE investments in 2008 to reach an all-time high.

### Exits and divestments

The reports from the management companies indicate that there were 110 divestments in portfolio companies in 2007, compared to approximately 90 in 2006.

Figure 18 shows that the divestment activity was dominated by industrial sales, while 9 divestments were made through IPOs. ■

(For a summary of statistics see Table 5 on page 70).

**Table 5: Summary statistics**

	Seed	Start-up/ Venture	Expansion/ int.	Replacement/ Buyout	Total
Number of management companies	17	22	4	11	54
Number of funds	24	52	12	15	103
Total capital raised (Mill EUR)	389	2 486	706	1 639	5 220
Number of portfolio companies	151	276	111	65	603
Value of investments before 2007 (Mill EUR)	132	941	276	333	1 682
Number of initial investments in 2007	45	68	8	16	137
Value of initial investments in 2007 (Mill EUR)	34	139	5	365	543
Number of follow-up investments in 2007	59	142	16	19	236
Value of follow-up investments in 2007 (Mill Eur)	27	126	51	48	252
Total value of investments in 2007	61	265	56	413	795
Average investment per company (Mill EUR)	1	4	3	11	4
Total number of professional staff	55	101	33	58	247
Total number of staff	66	127	45	73	311
Average number of professional staff per fund	2,29	1,94	2,75	3,87	2,40
Mill EUR per professional staff	7	25	21	28	21

Source: MENON Business Economics/Norsk Venture (NVCA)