



PORTUGAL
VENTURES

Portuguese Experience
on Venture Capital Instruments

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Chairman & CEO

Infoday Horizon 2020 | 19 February 2014

Agenda

- **Portugal Ventures at a glance**
- **Private Equity vs Venture Capital**
- **Why does Venture Capital matter?**
- **Building the structural foundation of the investment pyramid**
- **It is MORE THAN MONEY!**
- **Q&A**

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- **Q&A**



Founded in June 2012, Portugal Ventures is the result of the merger of 3 of the most representative VC and PE firms in Portugal

Founded 1989

inovcapital
Sociedade de Capital de Risco

Founded 1988


aicep Capital Global

Founded 1991

TURISMO
CAPITAL
SCL, S.A.



PORTUGAL
VENTURES

Founded 2012

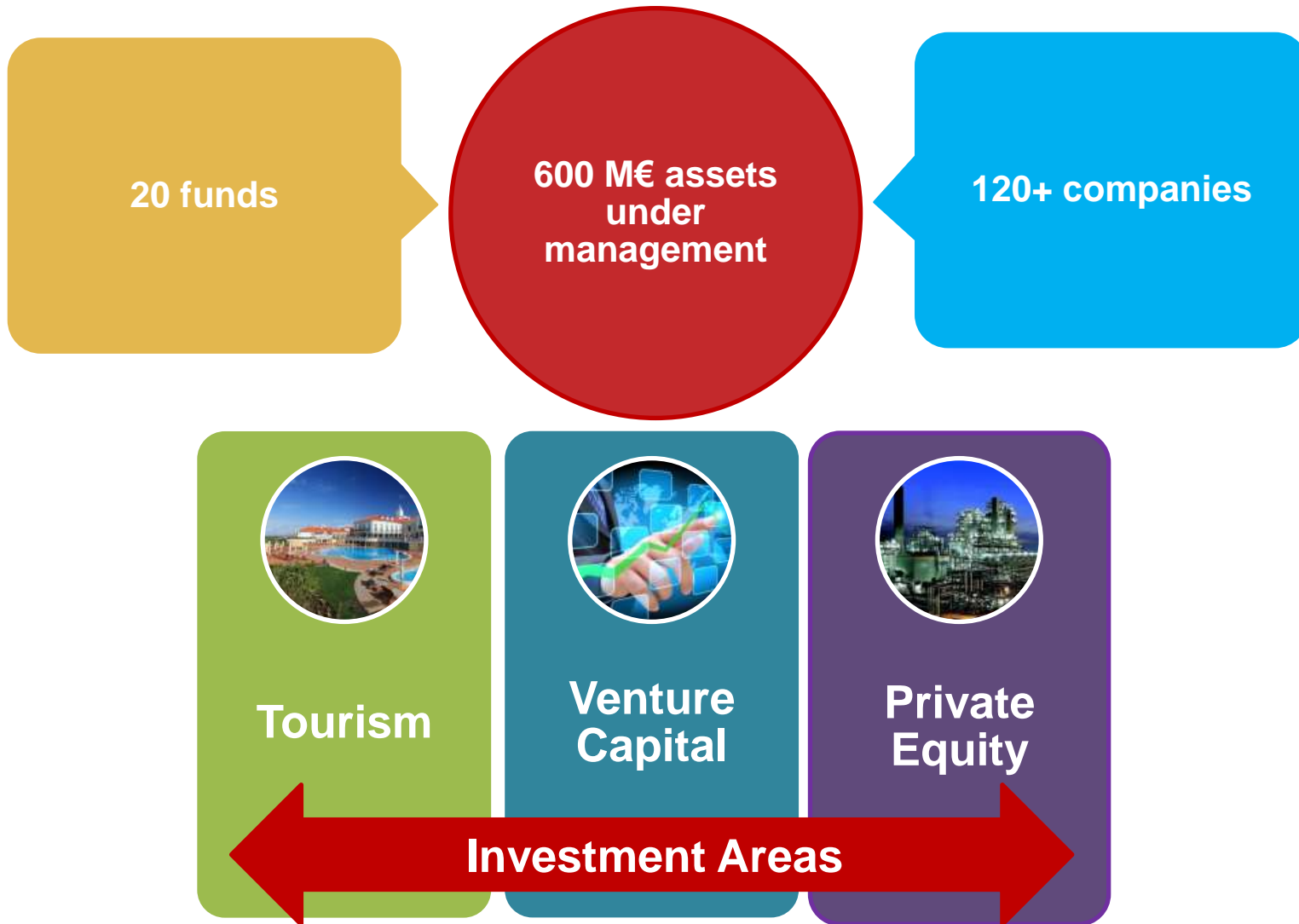


A reform made to foster private Venture Capital and develop tech-based entrepreneurship open to the world

- **Clarify** strategic objectives and concentrate resources for public investment.
- **Rationalize** and significantly reduce the operational cost structure.
- Act as a **catalyst** of private Venture Capital activity, fostering **co-investments** from Portuguese and International players.
- Develop Portuguese **entrepreneurship** and promote the generation of **economic value** from scientific and technological knowledge.
- Create a new business landscape with **high export potential** and **global competitiveness**, well-positioned in international value chains.
- Focus on the creation of **economic impact factors** with a sustainable and long lasting foundation.



Portugal Ventures at a glance: assets, companies, funds and business areas





Portugal Ventures at a glance: **Tourism** invests its a pivotal area of the national economy

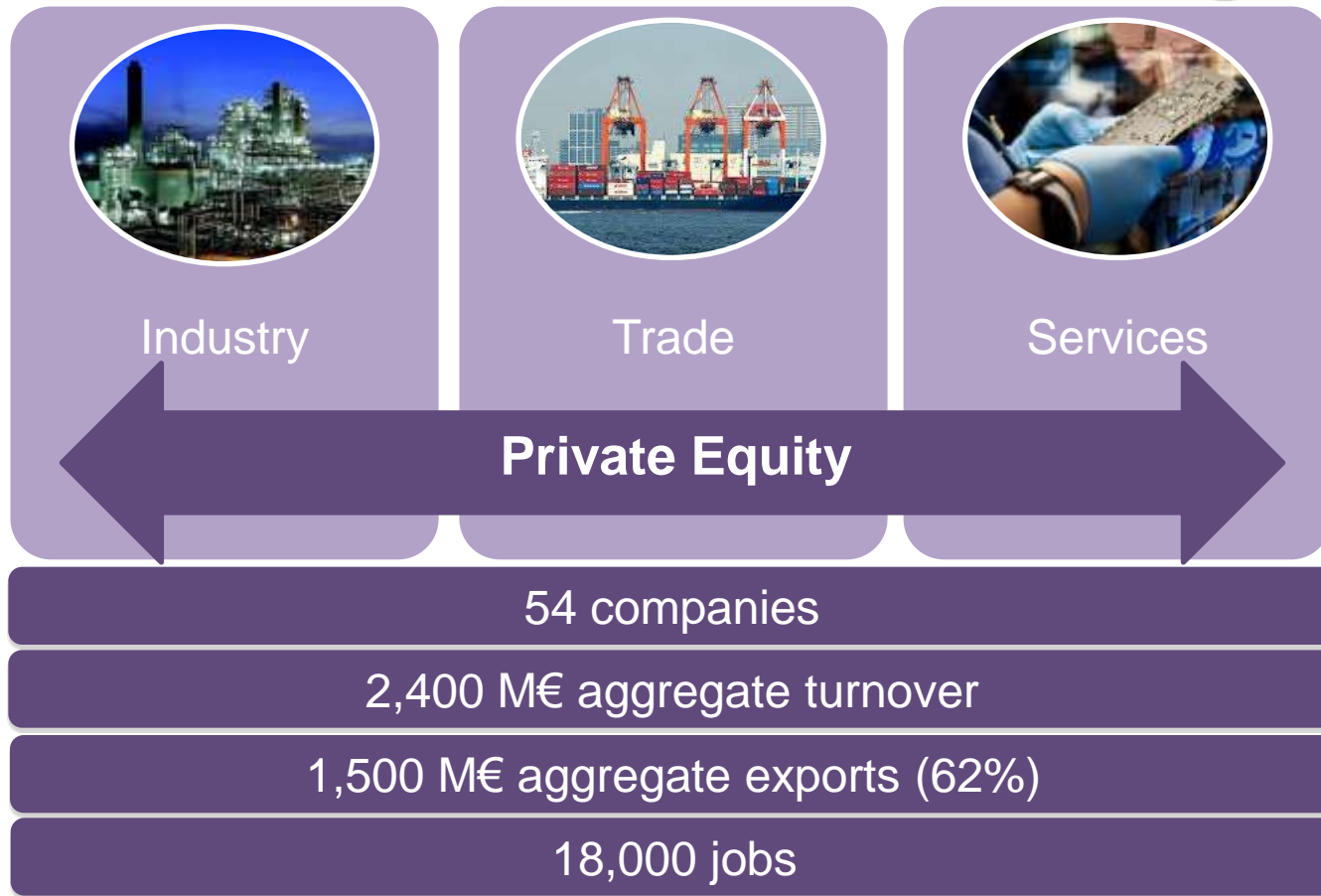
- Most important national economic sector
- 13% of national exports





Private Equity invests in traditional economic sectors that are pivotal to the national export drive

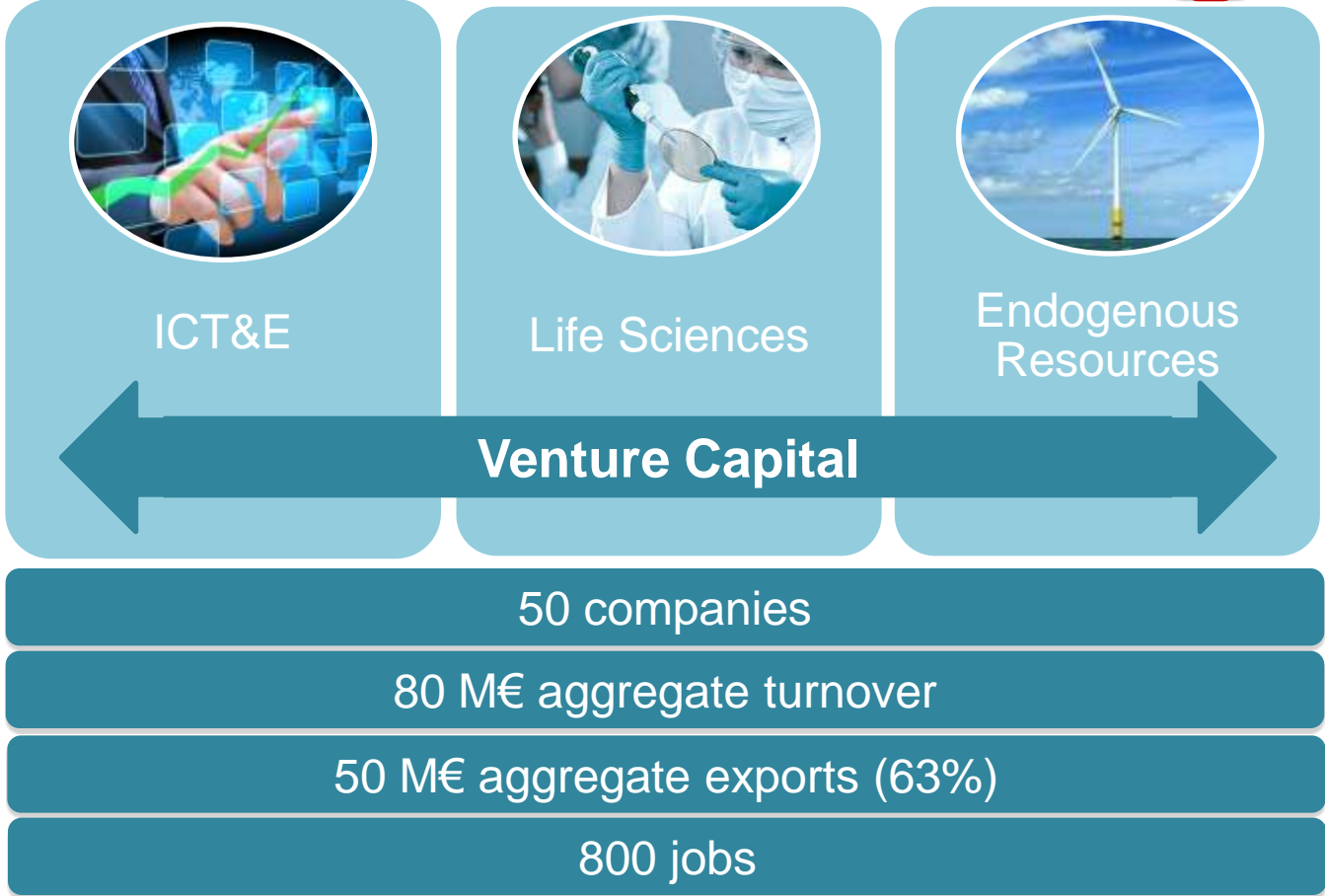
- Traditional economic sectors
- Most important export drivers today





Portugal Ventures at a glance: **Venture Capital** invests in global tech-based entrepreneurship that is a long-term challenge for public VC

- Emerging, global tech-based industries
- Long-term challenge for economic transformation



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Private Equity and Venture Capital address two very **different types of assets**, with significant higher risks associated with Venture Capital

- **Private Equity** invests in **an existing reality** that can be further developed for growth and value creation:
 - Track record
 - Industry know-how
 - Markets know-how
 - Credibility
 - Streamline and improve operational efficiency
 - Enhance corporate governance
 - Attack global markets or boost global competitiveness

- **Venture Capital** invests in a **promising opportunity** that can create significant value... in the future:
 - Fast growing global markets
 - Disintegration of supply chains, prompting the emergence of increased layers of higher specialization
 - Solid technology foundations and/or “great ideas”
 - Credible team
 - Execution is key to accomplish the promise



Financing tech-based start-ups poses **significant challenges** due to the **equity gap** that can not be bridged through commonly available sources of funding

The Equity Gap of tech-based start-ups

- High-level of uncertainty
- Information gaps
- Market conditions
- Nature of assets
- Difficult for banks and public markets to fund



Because of the significant difference of the underlying assets, Private Equity and Venture Capital in Portugal have **very different market dynamics**

- **Private Equity market:**
 - Quite a few established private players with multi billion euros of assets under management
 - The challenge is to invest into the existing economy to enhance corporate capital structures, deleverage balance sheets, consolidate to achieve critical mass and boost competitiveness in global markets (mainly through repositioning output flows of products and services)
- **Portugal Ventures today is a “small” player in the Private Equity market:**
 - Fairly limited liquidity available is a limiting factor for new investments
 - The challenge is to successfully divest from its ageing portfolio with the purpose of generating fresh cash for rotating investments and provide cash returns for the funds participants

The **Private Equity** market today in Portugal is fundamentally a **private activity**



Market dynamics in Europe in the period 2000-2011 also differentiates the asset classes of PE (Buyout & Growth) and VC

Venture Capital / Buyout & Growth - Investments overview

2000-2011 - Industry statistics - Amount & Number of companies



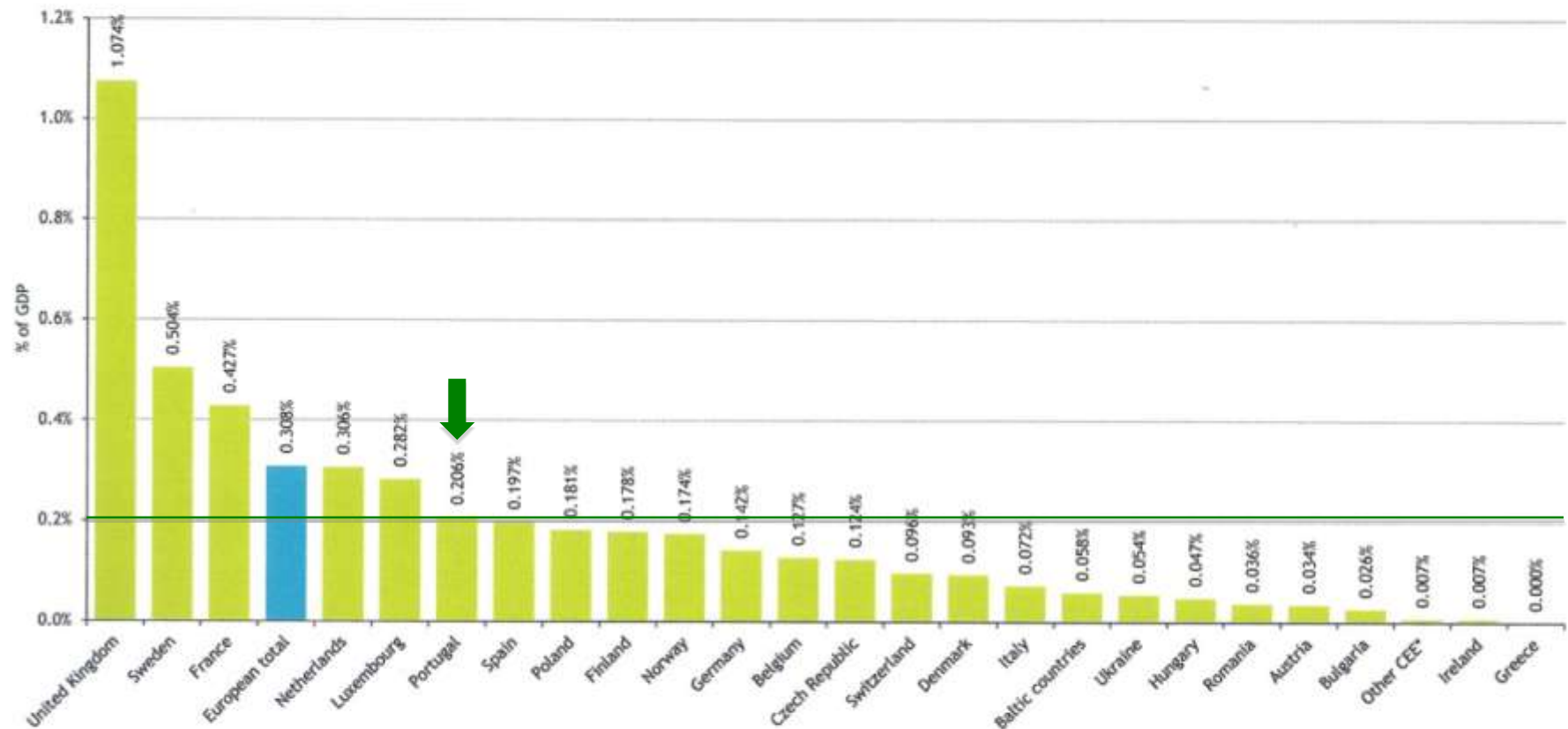
Source: Thomson Reuters / EVCA (2000-2006) & EVCA / PEREP_Analytics (2007-2011)



Today, in Portugal, **Private Equity** activity is fairly **well positioned** in the European context

Buyout & Growth - Investments as % of GDP

2011 - Industry statistics



Source: Thomson Reuters Datastream (GDP) / EVCA / PEREP_Analytics

*Other CEE consists of Ex-Yugoslavia and Slovakia

EVCA EUROPEAN PRIVATE EQUITY AND VENTURE CAPITAL ASSOCIATION

Investments

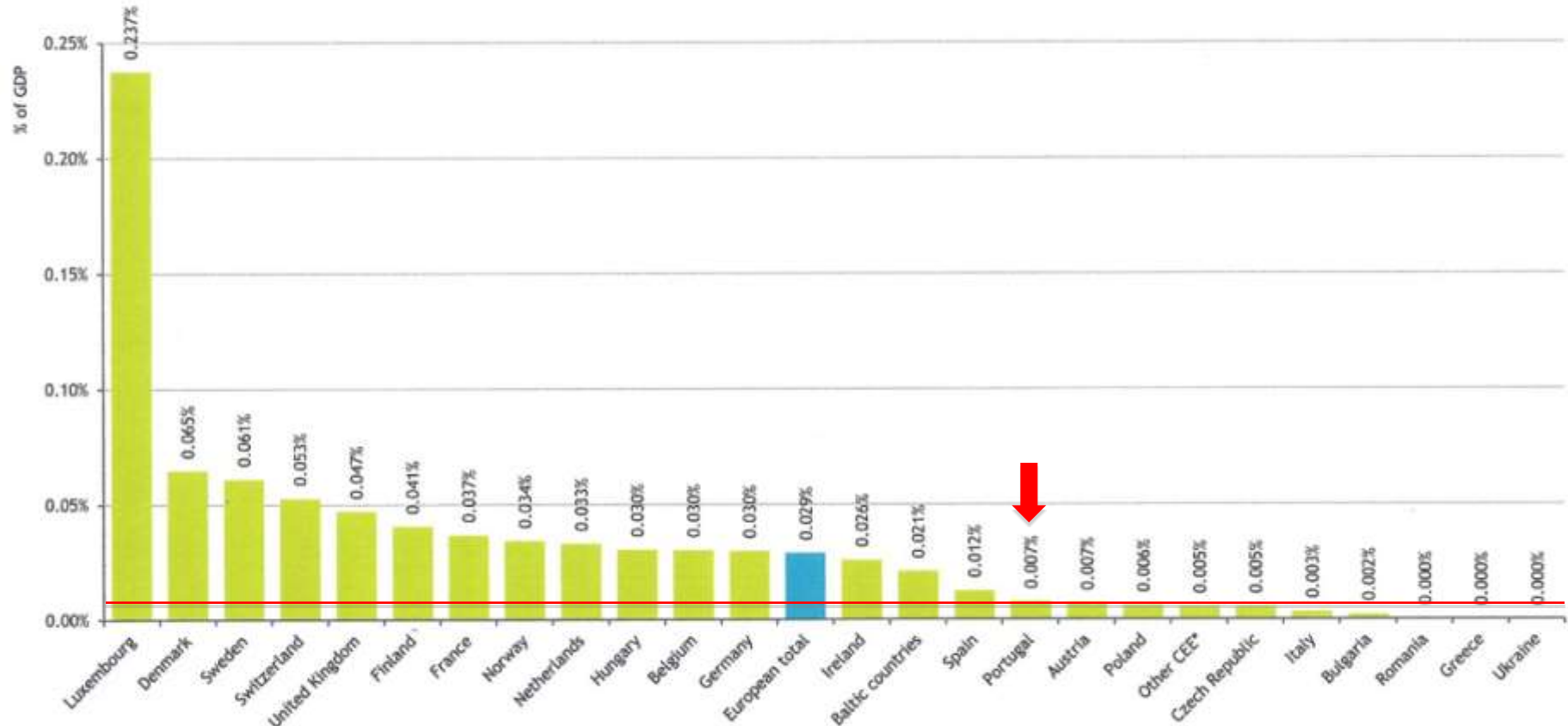
Yearbook 2012 | Creating lasting value | 43



By contrast, **Venture Capital** activity is clearly **under par**, both in **scope** and **depth** of investment

Venture Capital - Investments as % of GDP

2011 - Industry statistics



Source: Thomson Reuters Datastream (GDP) / EVCA / PEREP_Analytics

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Investments

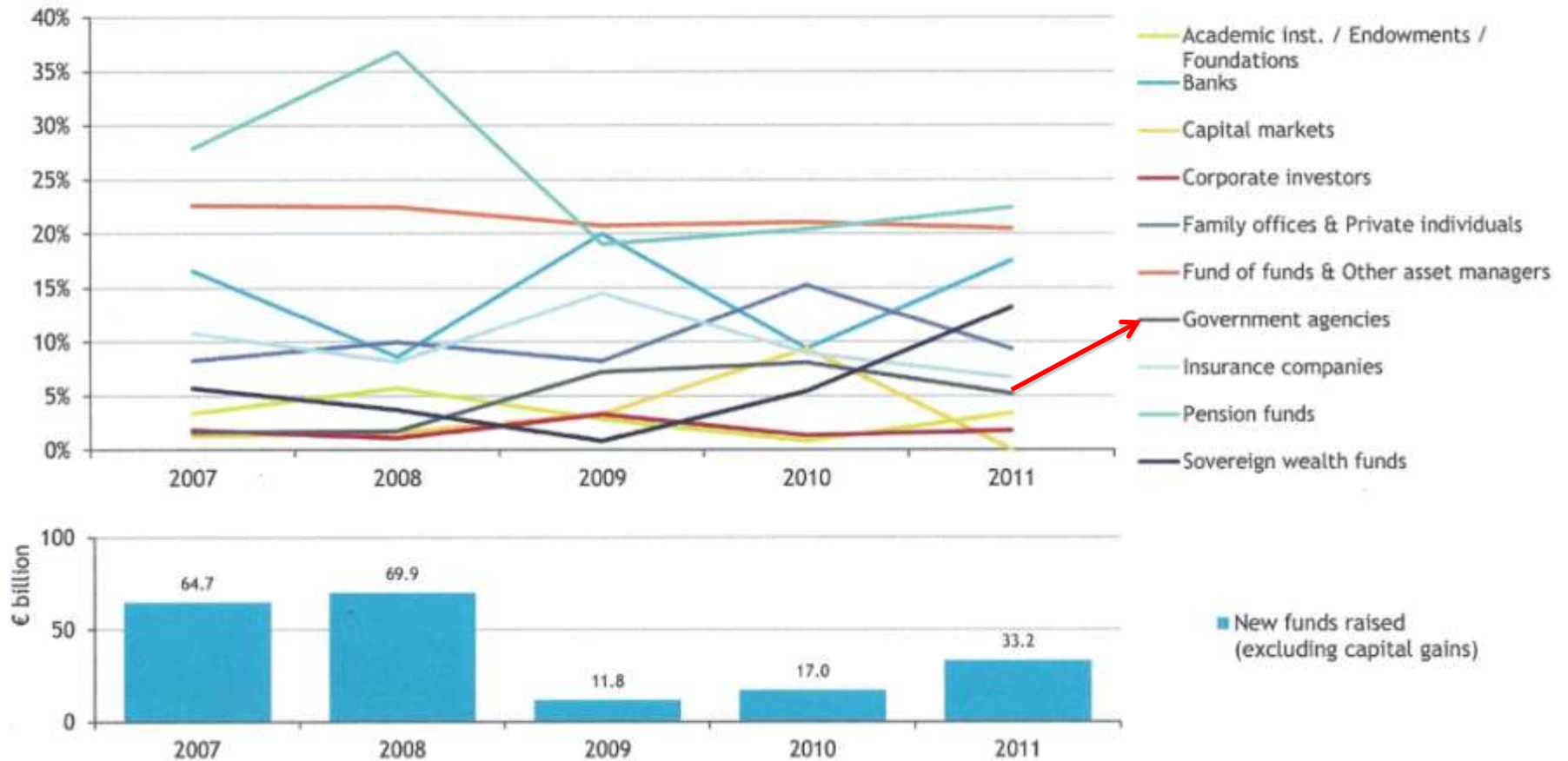
Yearbook 2012 | Creating lasting value | 42



The **sources of funding** also reflect the different risks associated with the underlying assets of VC and PE activity (1/4)

Buyout funds* raised by type of investor

2007-2011 - Incremental amount raised during the year - % of total amount



Source: EVCA / PEREP_Analytics

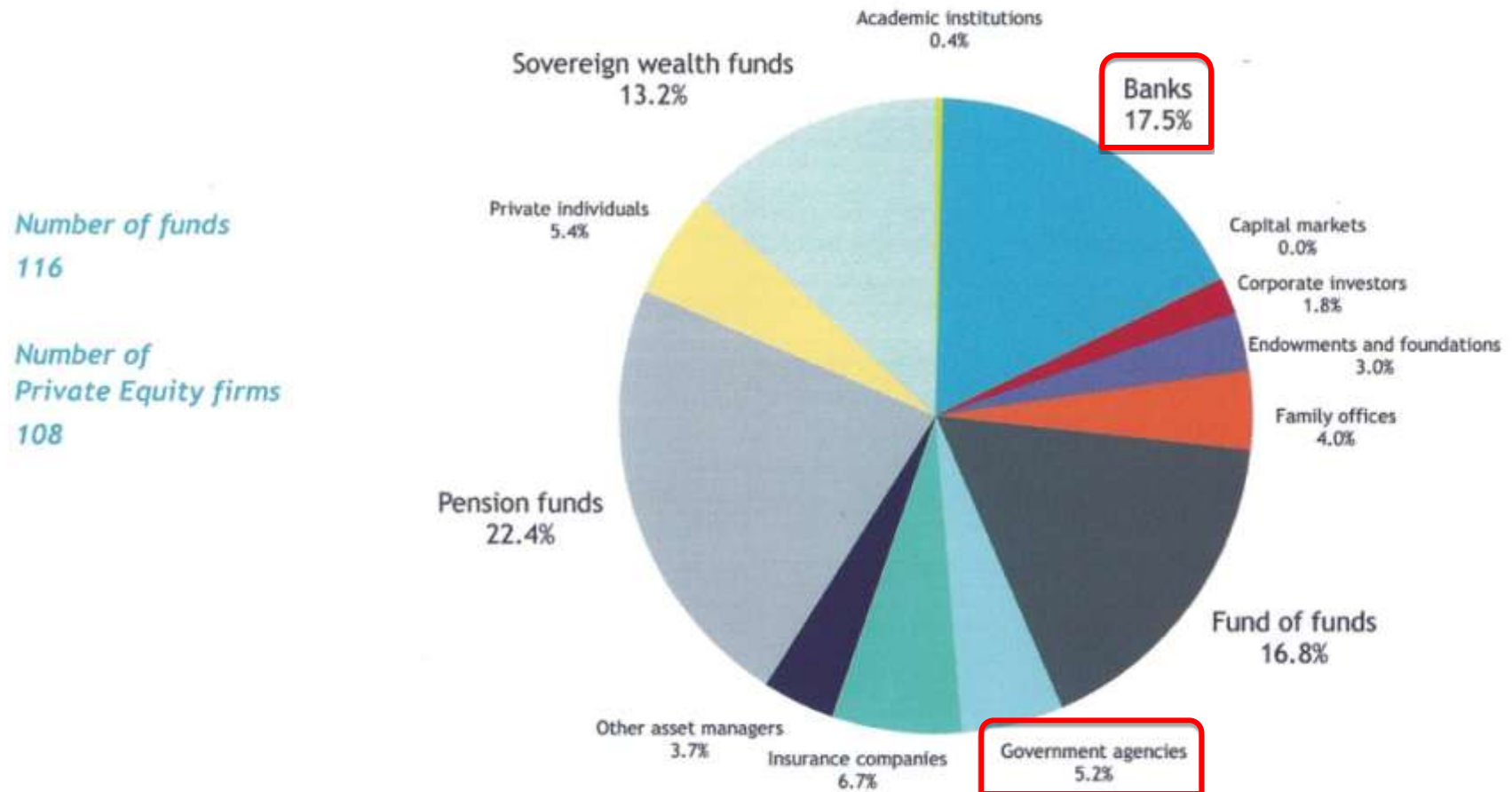
*Buyout funds including Growth capital and Mezzanine funds



The **sources of funding** also reflect the different risks associated with the underlying assets of VC and PE activity (2/4)

Buyout funds* raised by type of investor

2011 - Incremental amount raised during the year - % of amount



Number of funds
116

Number of
Private Equity firms
108

Source: EVCA / PEREP_Analytics

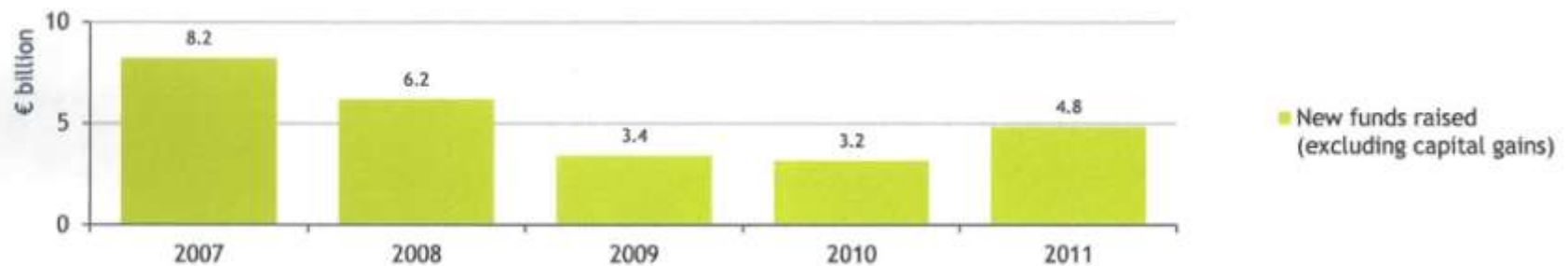
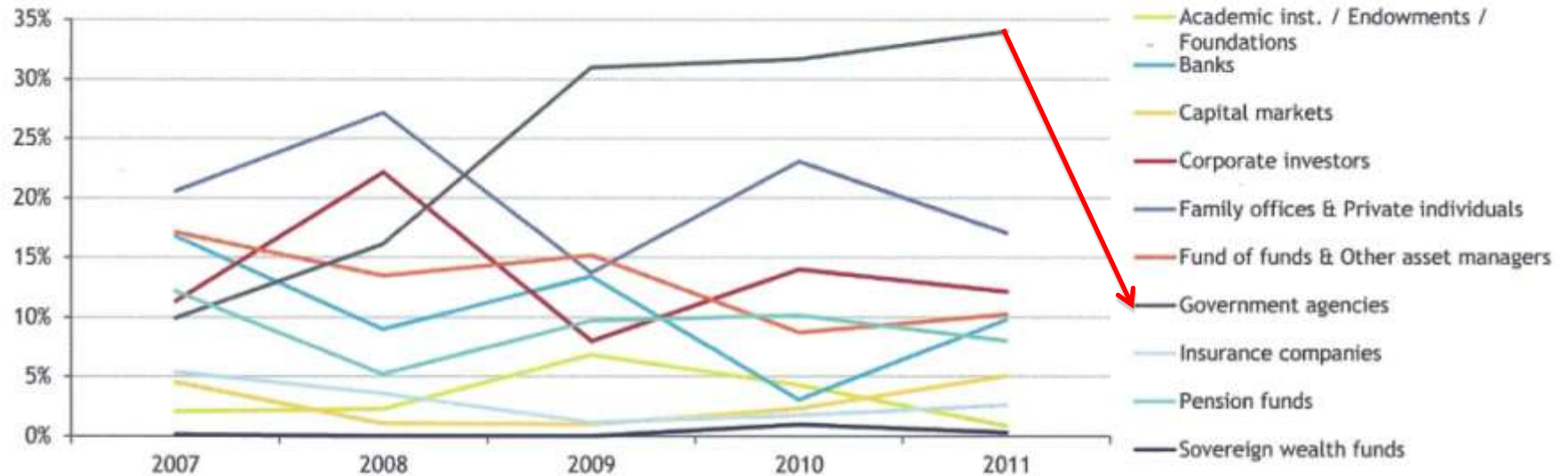
*Buyout funds including Growth capital and Mezzanine funds



The **sources of funding** also reflect the different risks associated with the underlying assets of VC and PE activity (3/4)

Venture funds raised by type of investor

2007-2011 - Incremental amount raised during the year - % of total amount



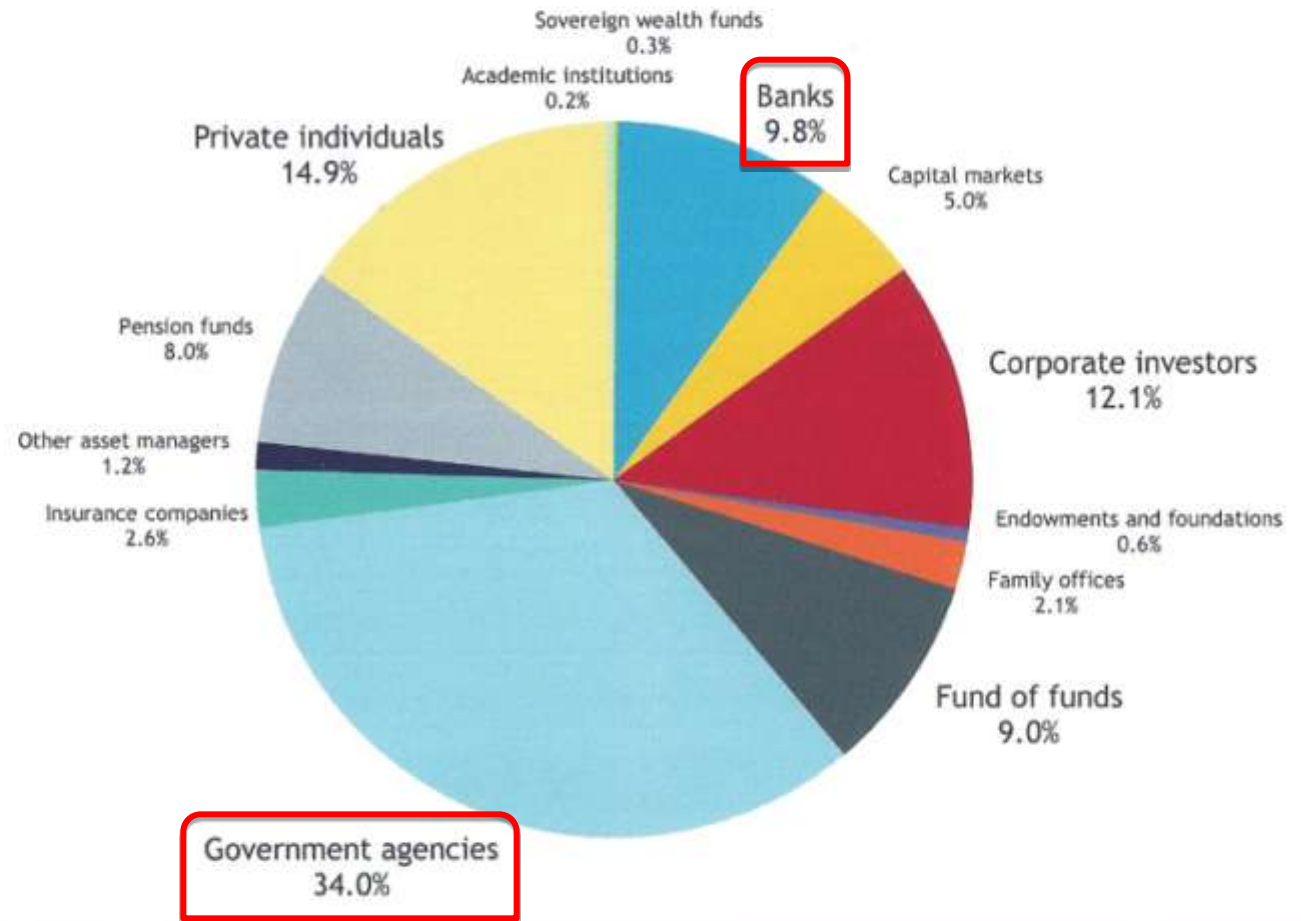
Source: EVCA / PEREP_Analytics



The **sources of funding** also reflect the different risks associated with the underlying assets of VC and PE activity (4/4)

Venture Capital funds raised by type of investor

2011 - Incremental amount raised during the year - % of amount



Number of funds

135

Number of
Venture Capital firms

105

Source: EVCA / PEREP_Analytics

EVCA EUROPEAN PRIVATE EQUITY AND
VENTURE CAPITAL ASSOCIATION

Fundraising

Yearbook 2012 | Creating Lasting Value | 16

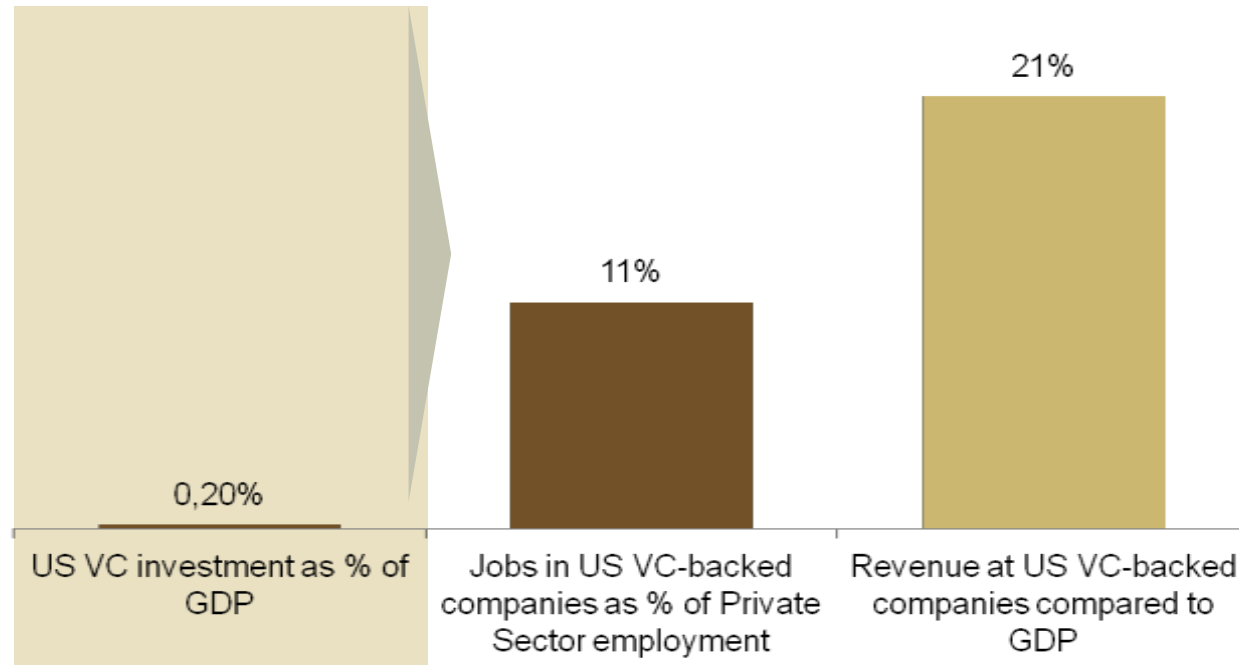
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VC-backed technology entrepreneurship is known to be a source of major economic impact, creating both wealth and jobs

→ Venture-backed companies creating value in the US economy



Source: National Venture Capital Association – Venture Impact - The Economic Importance of Venture Capital-Backed Companies to the U.S. Economy
Courtesy ES Ventures

There is also evidence of the impact of Venture Capital financing in stimulating innovation, especially among tech-based companies.



Tech-based entrepreneurship is a decisive imperative

- To drive **economic modernization** and **global competitiveness**;
- To **change the paradigm** of many economies, from low cost manufacturing hubs to globally competitive knowledge economies;
- To drive **GDP** growth and the expansion of the **trade balance**;
- To provide **employment opportunities** for highly qualified human capital;
- To combat the **outbound flow of valuable talent** governments are investing in through R&D programs.

It is a decisive imperative for Portugal as well as for Europe at large



Tech-based entrepreneurship is expected to be the subject of a **decisive impulse** within Horizon 2020

The European Union has recognized the **strategic relevance of technology-based entrepreneurship** to promote global competitiveness, and is expected to allocate adequate resources in its new Framework Program, especially with the **availability of new risk capital instruments.**

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Looking for champions: overall economics for a VC fund to turn **250 M€ into 1 B€**

Fund Size = 250 M€

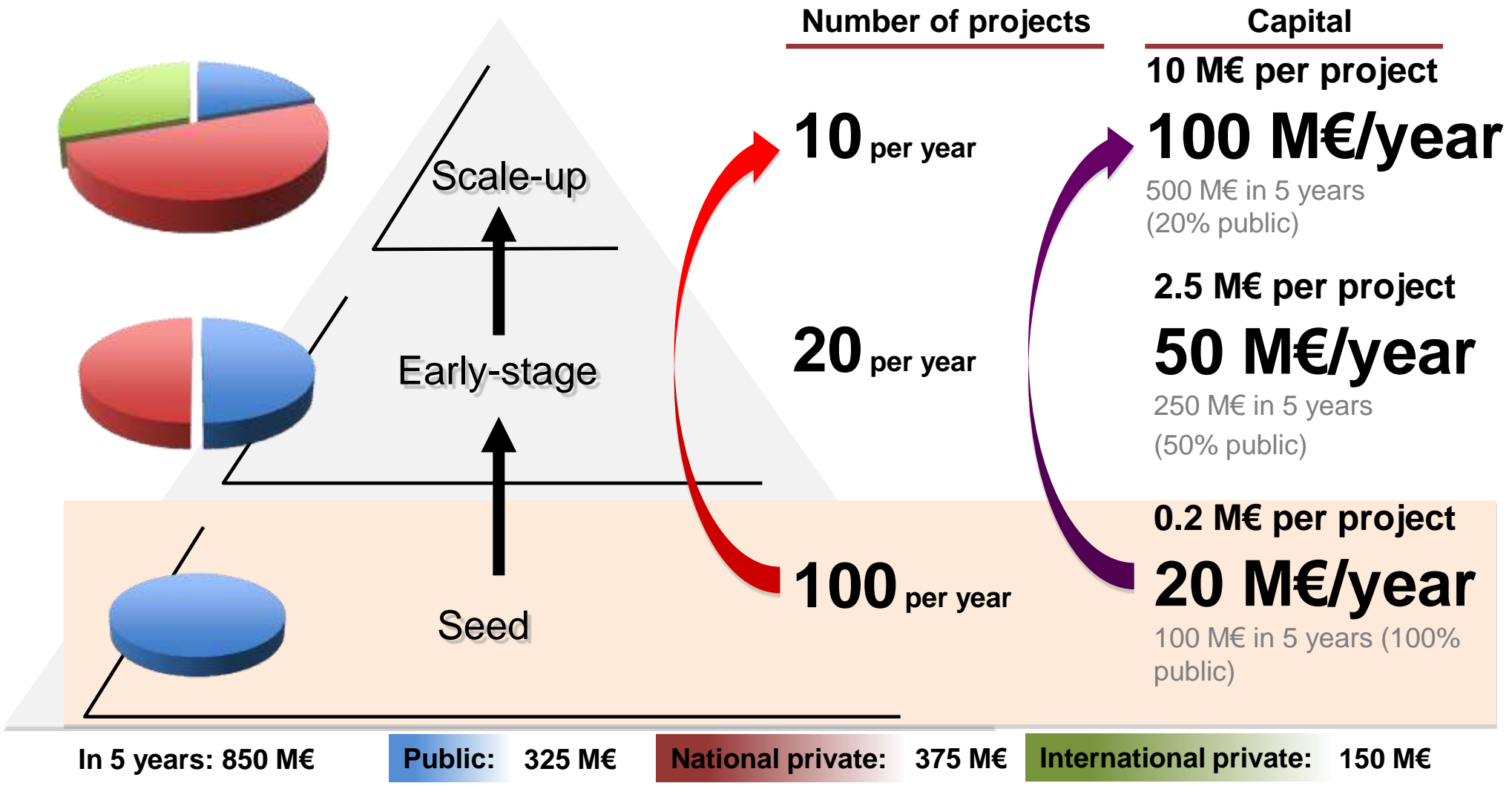
- Number of investments = 25
- Avg fund investment/company = 8.3 M€
- Avg capital required/company = 25 M€
- Avg investor ownership at exit/company = 75%
- Avg fund ownership/company = 25%
- 10% (2.5) 'home runs, **Google type**'
 - **1 B€ => 40 X investment (20 in, 800 out)**
- 40% (10) 'successes, **normal type**'
- **100 M€ = 3 X investment (80 in, 250 out)**
- 50% (12.5) 'failures, **no name type**'
 - **0€ = 0 X investment (100 in, 0 out)**

Fund value at maturity = 900 M€





A healthy investment pyramid requires a **strong foundation** built with ingredients to attract private capital, both national and international



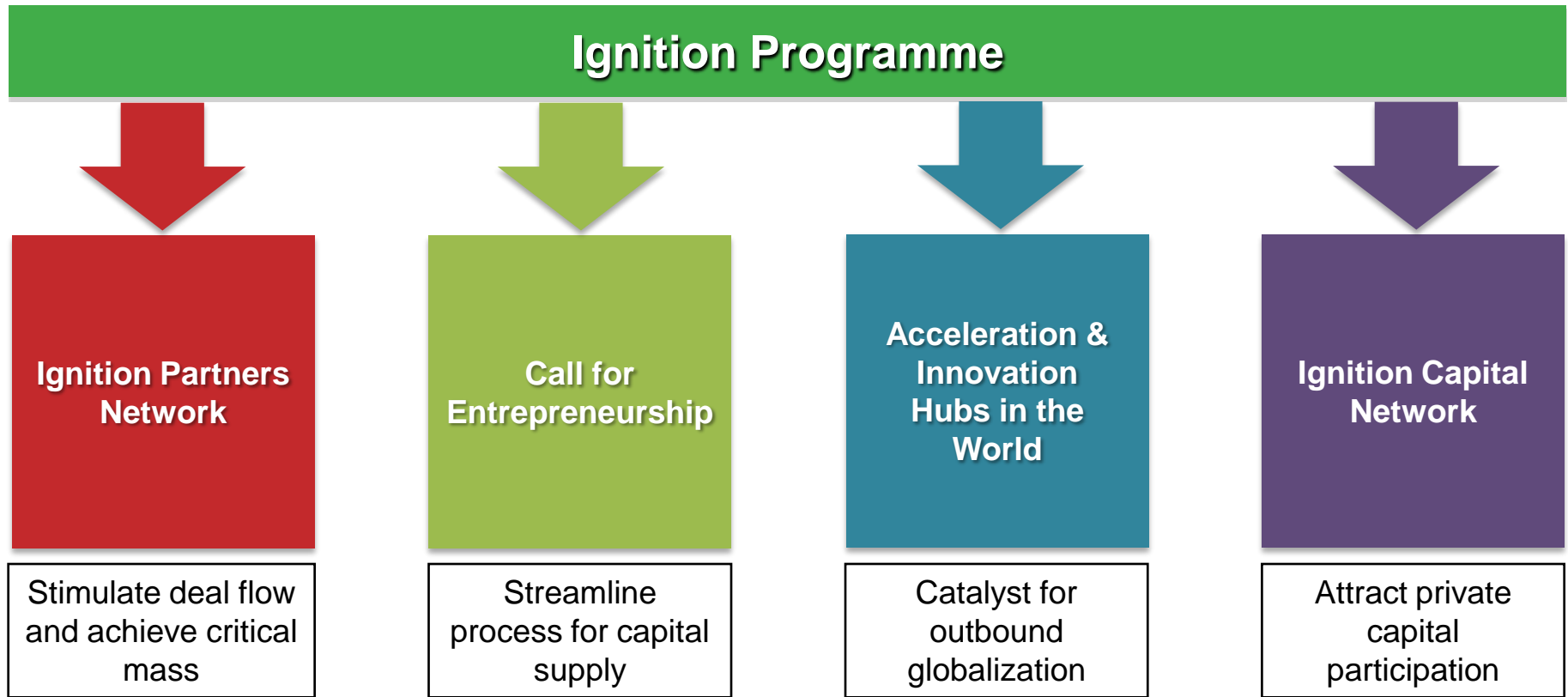


The **Ignition Program** has been designed to address the perceived **structural weakness** at the basis of the pyramid

- To promote and facilitate the access to **venture capital investment** of projects with **global growth potential** in the **Seed / Proof of Concept** phases of development;
- To grow the **deal flow**, both **national** and **international**, and streamline the time-to-investment process;
- To **open** the ecosystem **to the world** by creating the conditions to achieve **global competitiveness** of tech-based companies and attracting both international talent and capital;
- To stimulate the creation of new, **global technology-based companies** and foster **technology entrepreneurship**;
- To promote the **economic value of science and technology** as a way to achieve **structural transformation** and **competitiveness** of the Portuguese economy;
- To **retain and attract talent**.



Portugal Ventures **Ignition Programme** is structured around 4 sub-programmes



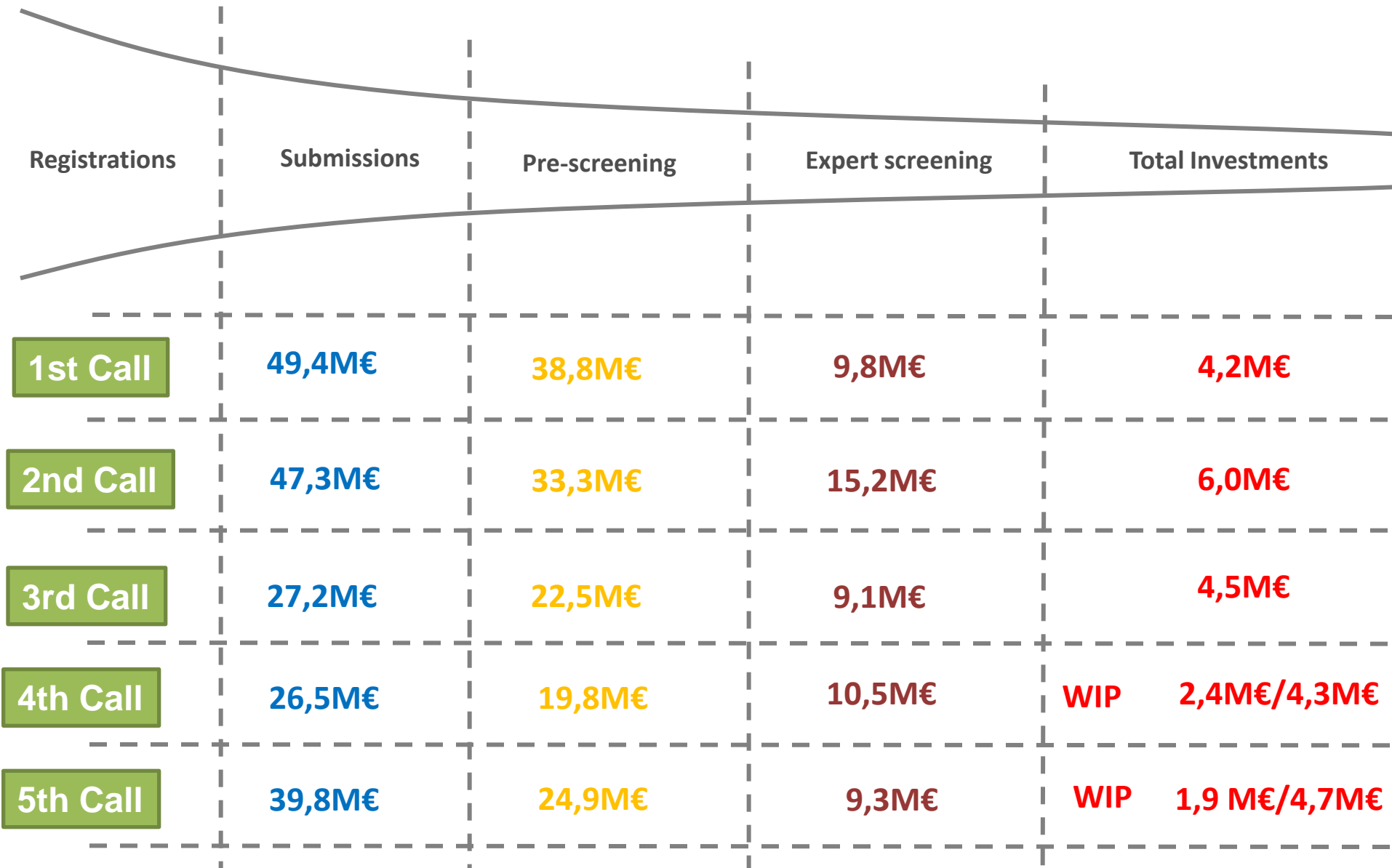
All 4 sub-programmes are fully operational and we have already set-up base in the Bay Area @ Runway (SF) and the Boston Area @ CIC (Cambridge)

Process flow statistics

Registrations Submissions Pre-screening Expert screening Investments

	Registrations	Submissions	Pre-screening	Expert screening	Investments
1st Call	337	143	99	18	7
2nd Call	358	94	55	19	8
3rd Call	182	55	35	12	7
4th Call	144	47	31	13	WIP 3 7 Term Sheets Sent
5th Call	149	73	42	13	WIP 3 7 Term Sheets Sent

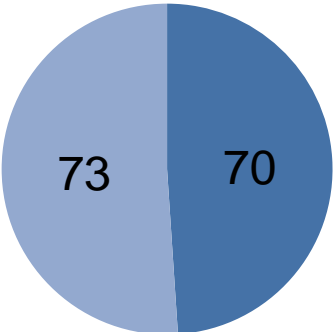
Process flow - Investment Values



Submitted Projects (#) 1/3

1st Call

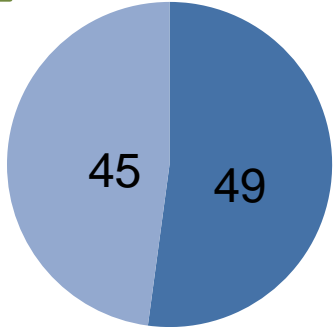
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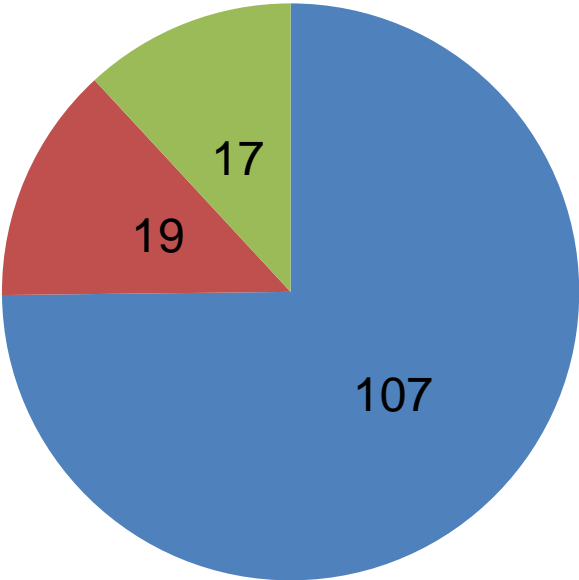
■ DIRECT ■ THROUGH IPN

2nd Call

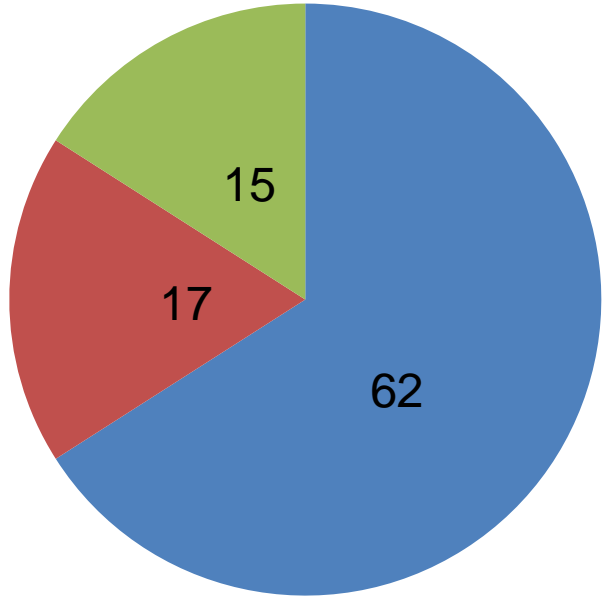
94



■ DIRECT ■ THROUGH IPN



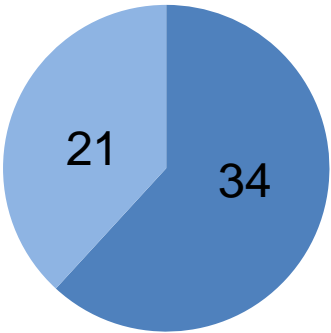
■ ICT, ELECTRONICS & WEB
 ■ LIFE SCIENCES
 ■ ENDOGENOUS RESOURCES, NANOTECHNOLOGIES and MATERIALS



Submitted Projects (#) 2/3

3rd Call

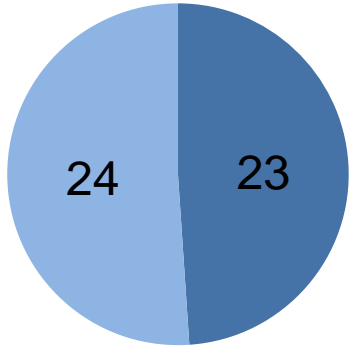
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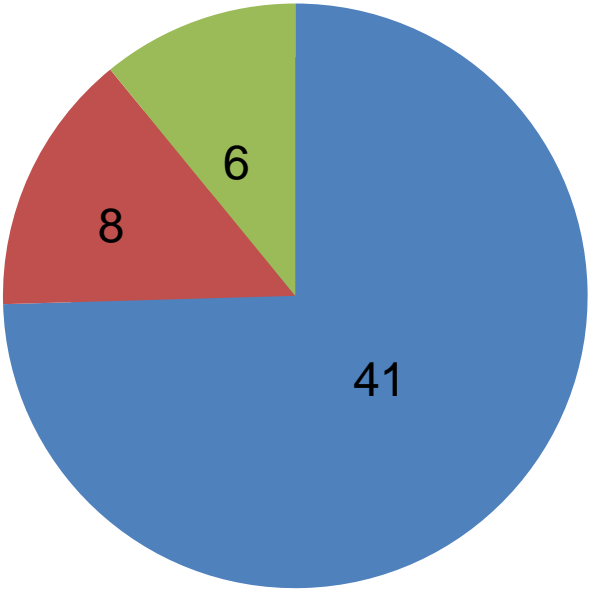
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4th Call

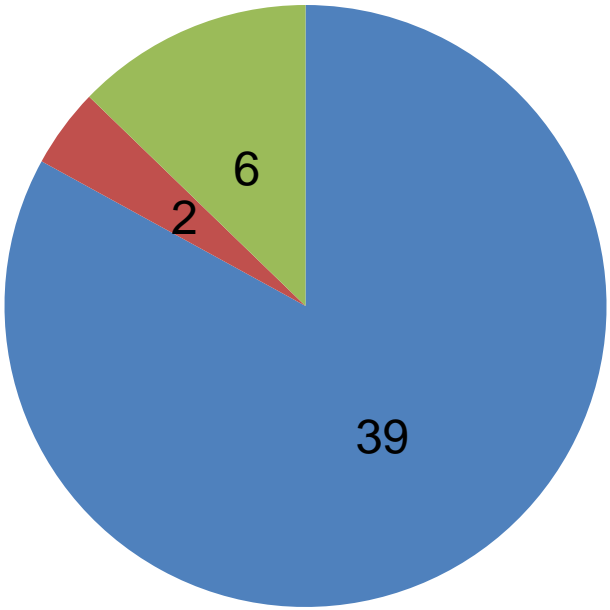
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■ DIRECT ■ THROUGH IPN



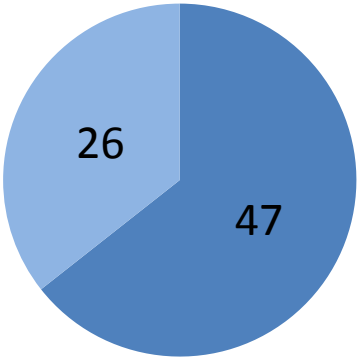
■ ICT, ELECTRONICS & WEB
 ■ LIFE SCIENCES
 ■ ENDOGENOUS RESOURCES, NANOTECHNOLOGIES and MATERIALS



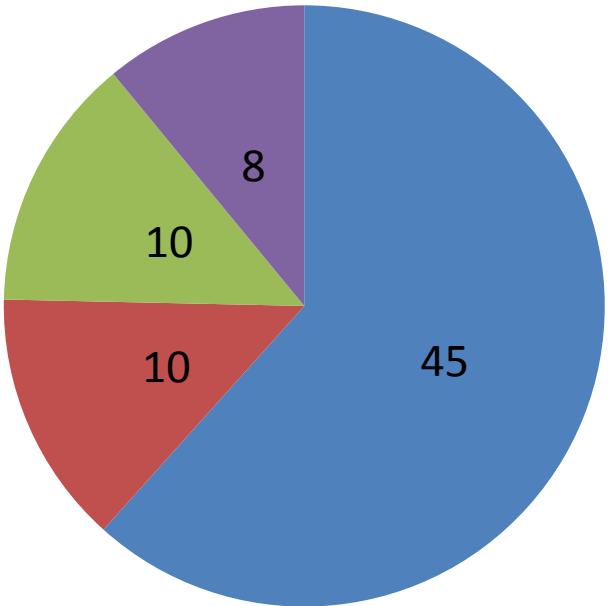
Submitted Projects (#) 3/3

5th Call

73



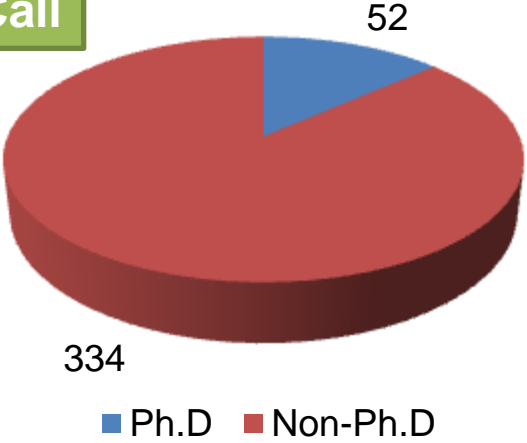
■ DIRECT ■ THROUGH IPN



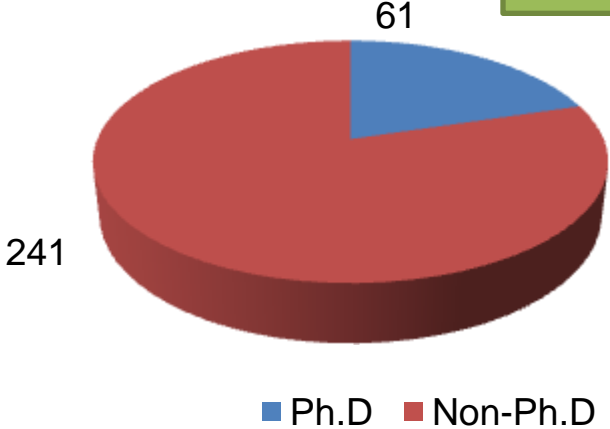
■ ICT, ELECTRONICS & WEB
■ LIFE SCIENCES
■ ENDOGENOUS RESOURCES, NANOTECHNOLOGIES and MATERIALS
■ TOURISM, HOSPITALITY & LEISURE

Qualifications

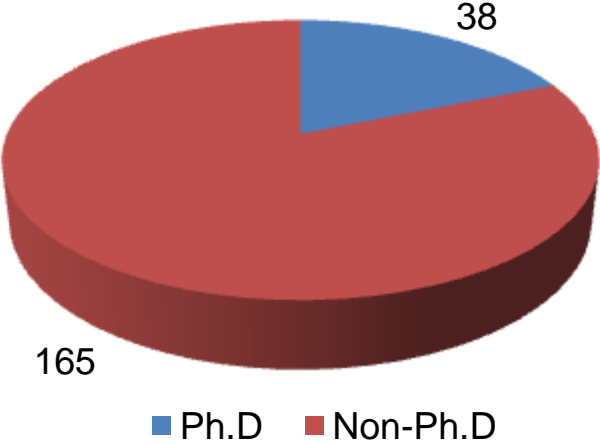
1st Call



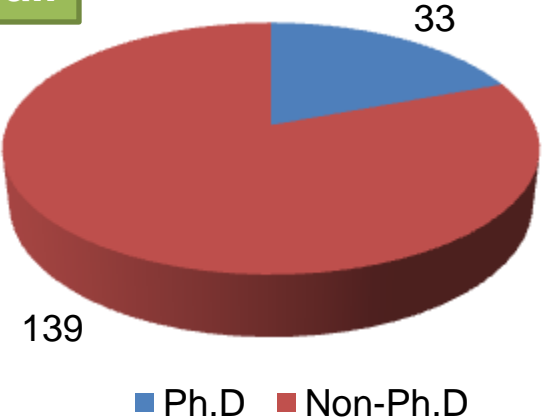
2nd Call



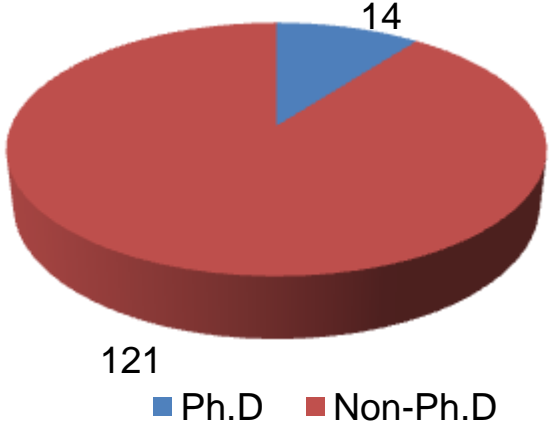
5th Call



3rd Call



4th Call





EU-backed funds channelled via **COMPETE/PO/FINOVA** are playing a significant role in financing a new generation of start-ups

- Venture Capital funding backed by EU funds plays a **decisive role in the financing of the Ignition Program** and the emergence of a **new generation of tech-based start-ups** fully equipped to compete and hopefully win in global markets;
- About **25 M€ of funding** (half EU, half national) in 5 funds;
- Available funding addresses the **critical seed capital investment phase**, as well as **early stage maturities**;
- Funds are **sector specific** (e.g. Life Sciences, ICT), to ensure **focus** and enhance **specialization**.



Albeit their critical importance, EU-backed funds pose some **execution challenges**

- Small funds (circa 5 M€) reduce **efficiency** and increase management **costs**;
- **Fragmentation** and **time limits** of capital supply reduces the **depth of investment** and limits the capability to support follow-on investment needs throughout the **maturity cycle** of successful ventures.
- **Geographic limitations** do not always match the reality of the **national talent map**;
- **Framework of investment**, on a project basis, is not fully aligned with the broader needs of ventures funding.
- The **concept of internationalization** limits the ability to **expand beyond borders**, e.g. to address the critical need to **capture strategic human capital resources**.



EU-backed funds go beyond Venture Capital and address other important sectors of the national economy

- One fund (**20 M€**) is dedicated to the traditional, **export-driven sectors of the economy**.
 - **Broad scope** in goods and services for global markets
 - Focus on **internationalization**
 - **Mature** ventures

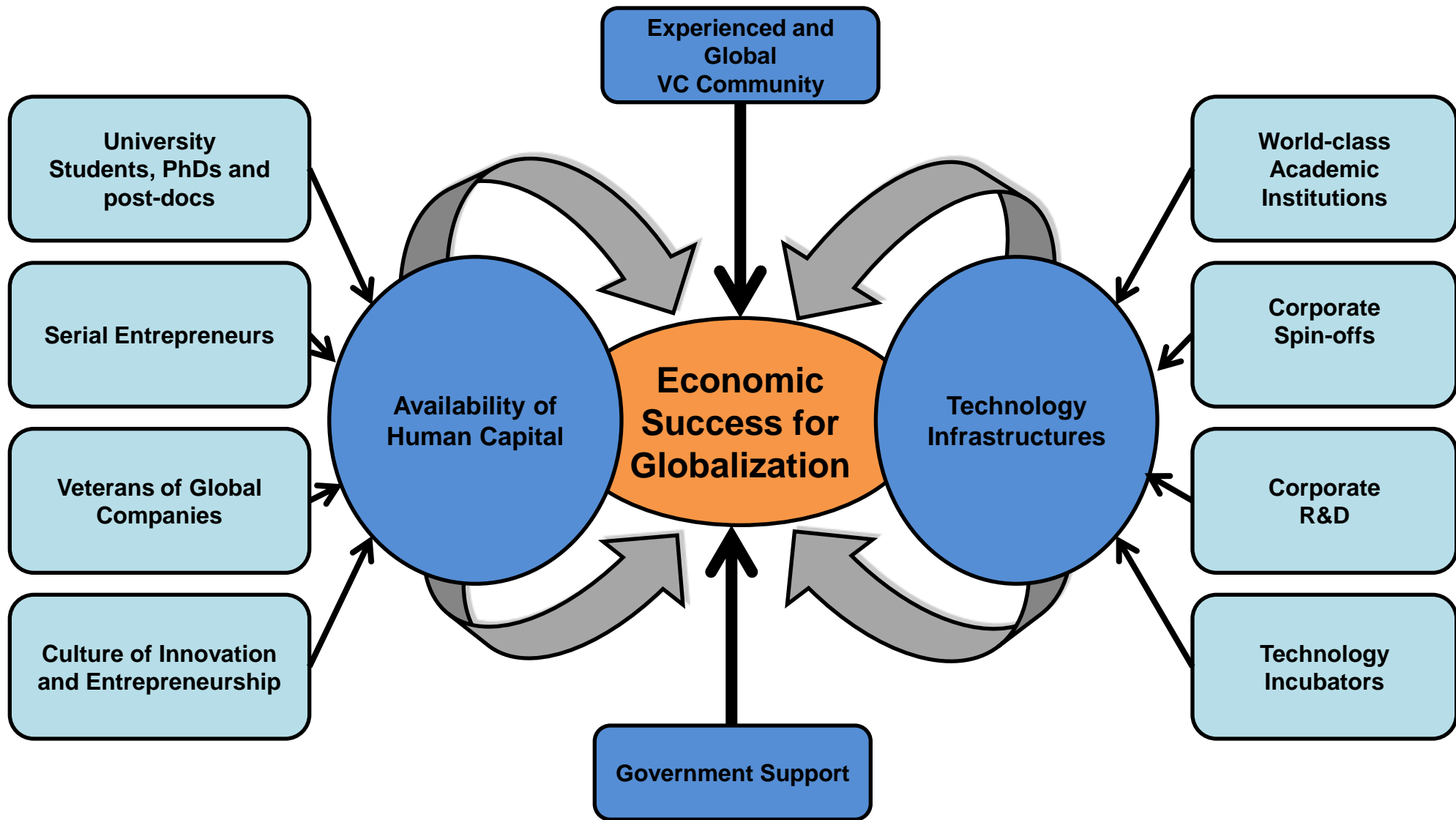
- Another fund (**20 M€**) is dedicated to the **Tourism** sector.
 - **Sector specific**: builds-up a portfolio that covers the full value chain of the industry
 - **Broad maturity range**: addresses both start-up and mature ventures

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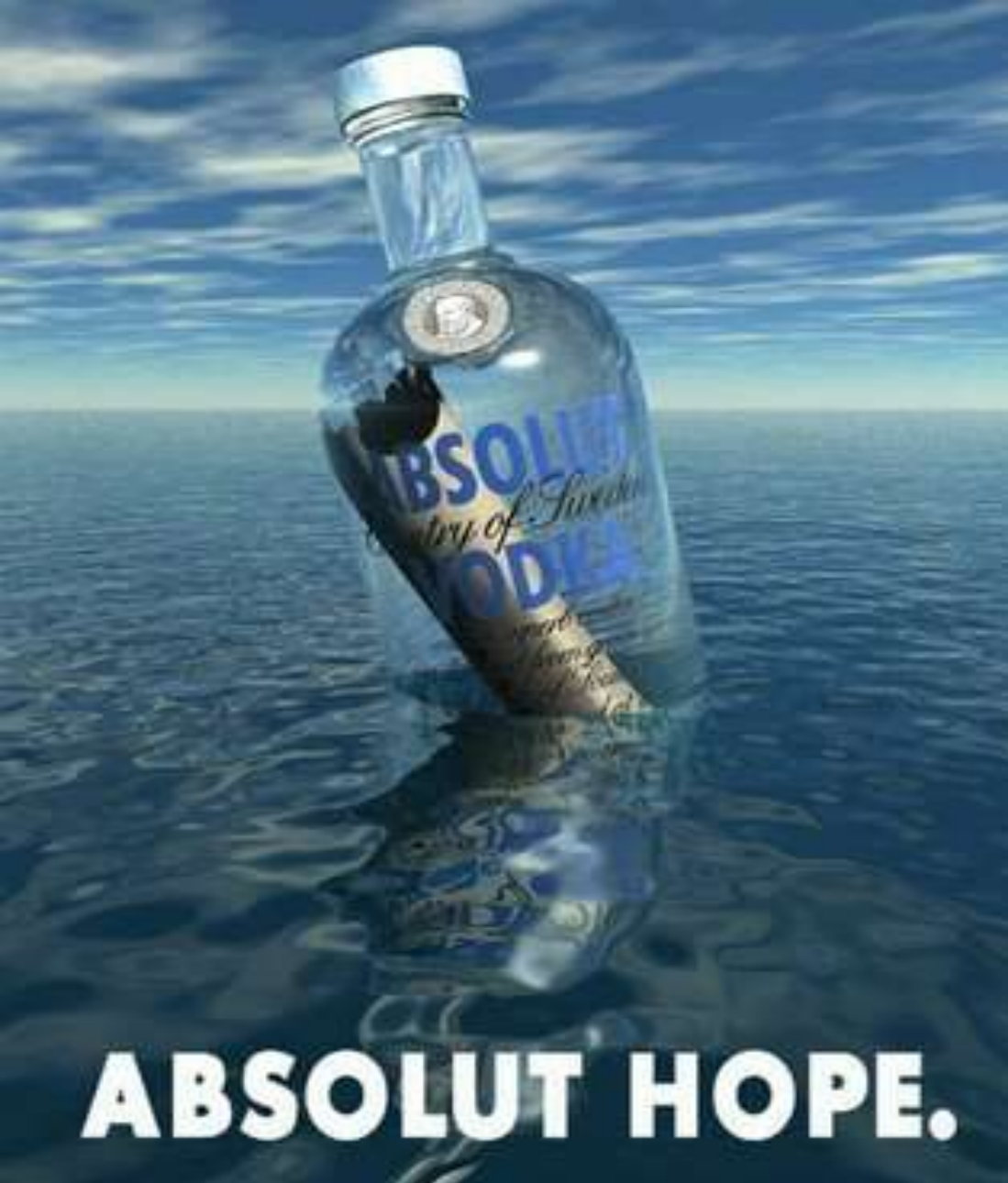
A **successful ecosystem** of innovation and tech-based entrepreneurship for a **global economy** requires a lot more than just MONEY





Building a knowledge-based economy can not be accomplished overnight

- It is a **national endeavor** that must be pursued with resilience and determination;
- It requires **persistence** to execute policies and programmes that need many years to bear fruits;
- It needs **openness to the world**, to find in the world everything the endeavor needs and that might not exist at home;
- It needs the capability **to focus resources to achieve critical mass** and to ensure champions have all they need to succeed;
- It needs inspirational leadership to **transform cultural mind sets**, and to encourage all those who do not get it right the first time to try over and over again;
- Public role should not be to crowd out private participation, but rather drive its active and successful participation, **to embrace all** in what must be a national enterprise.



Q&A

Thank you!