

THE DANISH MARKET FOR VENTURE CAPITAL AND PRIVATE EQUITY (2003)

English Summary

The Danish Investment Fund (DIF)

DIF is a financial organisation that contributes to the development of Danish business and trade.

Our mission is to strengthen development and innovation in the Danish economy by procuring financing for promising projects in small- and medium-sized enterprises.

Operating independently in the capital market, DIF facilitate the supply of venture capital in terms of start-up equity and high-risk loans. The financing is provided on commercial terms.

In the light of our mission, we have set ourselves the ambitious goal: to make the Danish market for finance of innovation the best-functioning one in Europe.

Our capital base is currently DKK 2,400 million, part of which we use for direct business funding, and part of which we use to co-finance venture funds. In addition, we manage VækstKaution, a national loan guarantee scheme for private companies.

1. INTRODUCTION

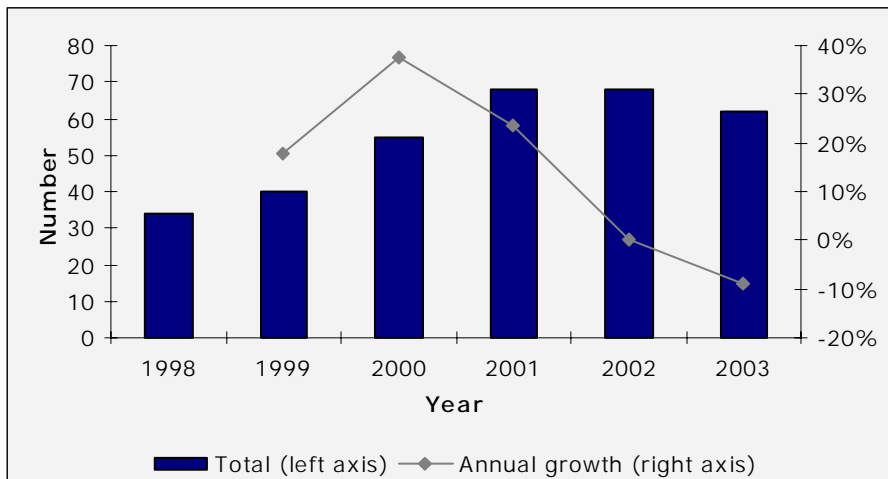
The creation of new firms, who challenge existing technologies and business models to achieve even greater returns on the resources available in the economy is a significant contributor to increased productivity and growth. These new innovative enterprises should ideally be financed with risk capital, because it is both risk seeking and patient, and as such accommodates well the long development times and high risk associated with these firms. Venture capital is a particularly important source of risk capital, because venture capitalists provide both capital and their unique business skills, which can be of benefit to the companies.

In the last 4-5 years, the Danish market for Venture Capital has undergone tremendous change. The number of investors has more than doubled, the population of Danish firms financed by Venture Capital has more than tripled, and the volume of investments has more than quadrupled. The development has been fuelled by the IT-boom in the late nineties – and the booming biotech industry. But the underlying growth has also been driven by a structural maturing process. As a result, the Danish Market has had above-average growth since the peak in 2000, compared to a steep decline in the majority of markets for venture capital around the world. However in 2002 the market declined for the first time since the beginning of the nineties.

2. The Danish Market for Venture Capital

In the last 4-5 years, the Danish market for Venture Capital has grown significantly. From 1998 to 2001, the number of active investors doubled. In 2002, the number of investors remained steady at 68, but in 2003 the number of investors declined to 62 (see figure 1). The majority of the investors who left the market in 2003 were CVC-companies.

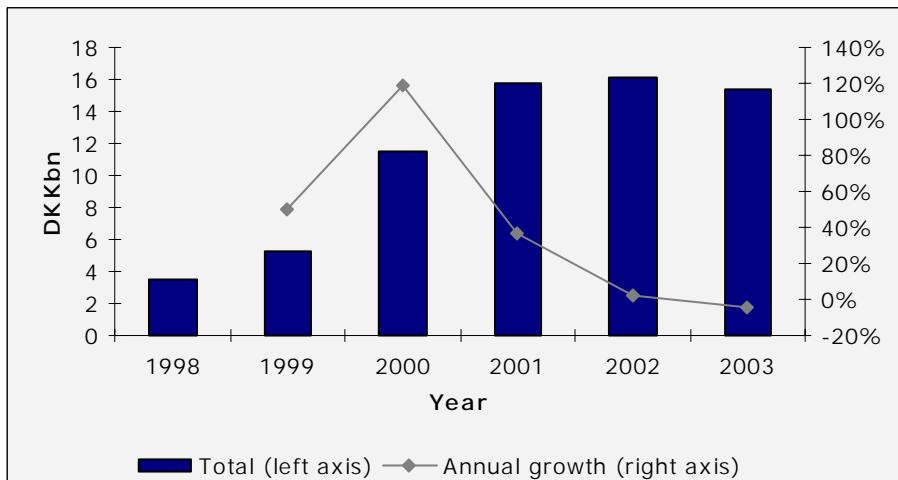
Figure 1. Number of companies in the Danish venture capital market



Source: The Danish Growth Fund

The change, in the number of investors is also reflected in total capital under management. From 1998 to 2001, capital under management more than tripled. In 2002, the amount increased slightly to DKK 16.1 billion (€ 2.2 billion), whereas in 2003 the capital under management declined to DKK 15.4 billion (€ 2.1 billion), (see figure 2).

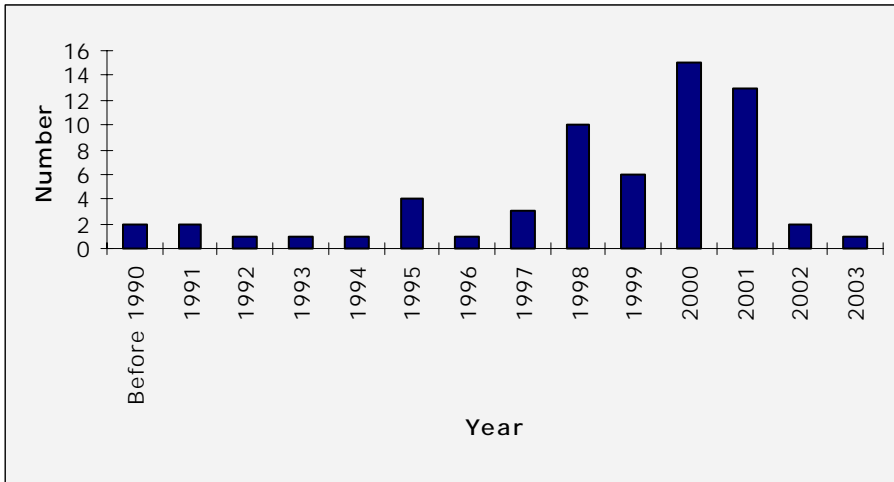
Figure 2. Venture capital under management (DKK billion)



Source: The Danish Growth Fund

Even though the Danish market for Venture Capital has expanded significantly in the last couple of years, the Danish market is still maturing. Thus more than 50 percent of the investors have been active investors for less than four years (see figure 3).

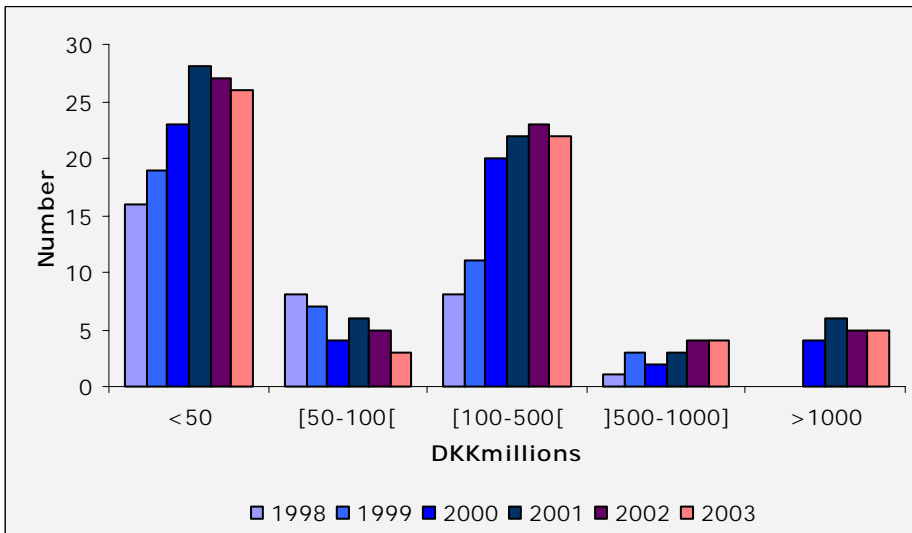
Figure 3. Venture funds by vintage year



Source: The Danish Growth Fund

The majority of the investors are also fairly small. More than 40% of the investors have less than DKK 50 million (€ 6.7 million) under management, while less than 10 percent have more than DKK 1 billion (€ 134 millions) under management, see figure 4.

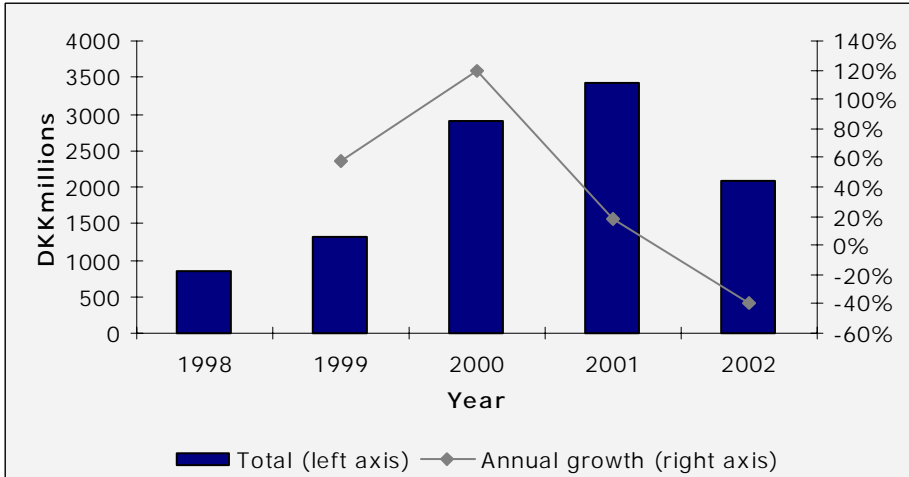
Figure 4. Capital under management per fund



Source: The Danish Growth Fund

The investment activity declined sharply from 2001 to 2002, as a result of the global economic downturn. In 2001 the Danish investors made venture investments totalling DKK 3.4 billion (€ 458 millions), while the corresponding figure was only DKK 2.1 billion (€ 283 millions) in 2002 - a decline by almost 40%.

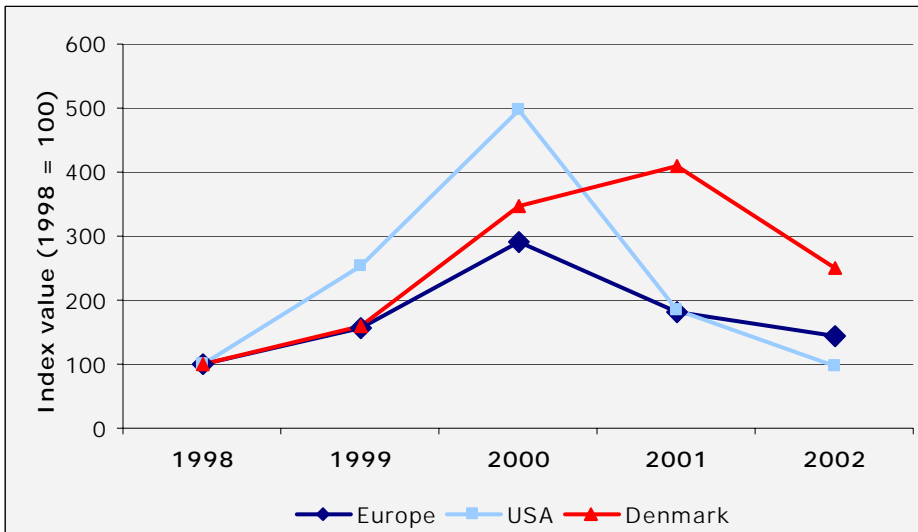
Figure 5. Venture investments (DKK millions)



Source: The Danish Growth Fund

The market for venture capital in Europe and the USA peaked in 2000, while the Danish venture capital market showed resilience to the economic downturn from 2000 to 2001 (see figure 6). This was mainly because many new investors had just made their entry into the Danish market.

Figure 6. Venture investments in Denmark, USA and Europe



Source: The Danish Growth Fund, VentureEconomics, EVCA

In 2002, however Danish investors finally succumbed to the slump in the global economy cutting investments by 40%. Compared to 1998, investments are still up by 150% in Denmark. In Europe, investment

volumes have come down 50% from the peak in 2000. They remain 50% higher than in 1998, however. In the USA, venture capital investments in 2002 had fallen to the same level as in 1998.

In 2002, Danish investors concentrated investments on their current portfolio. Therefore, initial investments – as a share of the total investments – fell from 62% in 2001 to 31% in 2002 (see table 1).

Table 1. Venture capital investments by stage (amounts)

	1998	1999	2000	2001	2002
Initial investments	46%	39%	67%	62%	31%
Follow-on investments	54%	61%	33%	38%	69%
Total	100%	100%	100%	100%	100%

Source: The Danish Investment Fund

Despite the decline in overall investment activity, the amount of capital invested in companies in the seed-stage increased from approx. DKK 440 million (€ 59 millions) in 2001 to DKK 515 million (€ 69 millions) in 2002 (see table 2).

Table 2. Venture capital investments by stage (DKK millions)

	1998	1999	2000	2001	2002
Seed	114	114	154	437	515
	13,6%	8,6%	5,3%	12,8%	24,7%
Start-up	115	142	1121	1395	562
	13,8%	10,7%	38,6%	40,7%	27,0%
Expansion	608	1067	1632	1593	1006
	72,6%	80,7%	56,1%	46,5%	48,3%
Venture investmen	837	1322	2906	3425	2083
	100,0%	100,0%	100,0%	100,0%	100,0%

Source: The Danish Investment Fund

Meanwhile, start-up investments were more than halved, while expansion capital investments in companies fell by almost 40% from 2001 to 2002.

In 2002, life science companies attracted 48% of investments by Danish VCs – an increase compared to 2002 where they attracted 43% (see table 3). The share of investments in ICT companies remained constant at 38% from 2001 to 2002.

Table 3. Venture capital investments by sector (amounts)

Industry Group	Industry Segment	1998	1999	2000	2001	2002
Life Sciences	Biotechnology	4%	3%	3%	7%	14%
	Medical/Health related	20%	22%	19%	37%	34%
Life Sciences - Total		24%	25%	22%	43%	48%
ICT	Computer Related	24%	20%	45%	22%	24%
	Communications	9%	8%	7%	11%	11%
	Other Electronics Related	9%	5%	2%	4%	3%
Information and Communications Technology - Total		42%	32%	55%	38%	38%
Products and Services	Industrial Products and Services	11%	13%	4%	6%	4%
	Industrial Automation	1%	1%	1%	1%	1%
	Consumer Related	8%	9%	8%	5%	2%
	Other Services	2%	5%	2%	2%	0%
Products and Services - Total		22%	27%	15%	13%	8%
Other	Other Manufacturing	5%	9%	4%	2%	0%
	Agriculture	1%	0%	0%	0%	1%
	Energy	1%	2%	0%	0%	1%
	Other Companies	6%	5%	4%	3%	5%
Other - Total		13%	16%	8%	5%	7%
Total		100%	100%	100%	100%	100%

Source: The Danish Investment Fund

The trend toward greater internationalisation came to a halt in 2002. While 32% of the investments in 2001 were made in foreign companies, the corresponding figure for 2002 was only 26%, table 4.

Table 4. Geographical distribution of venture investments (amounts)

	1998	1999	2000	2001	2002
Foreign	11%	13%	25%	32%	26%
Denmark	89%	87%	75%	68%	74%
Total	100%	100%	100%	100%	100%

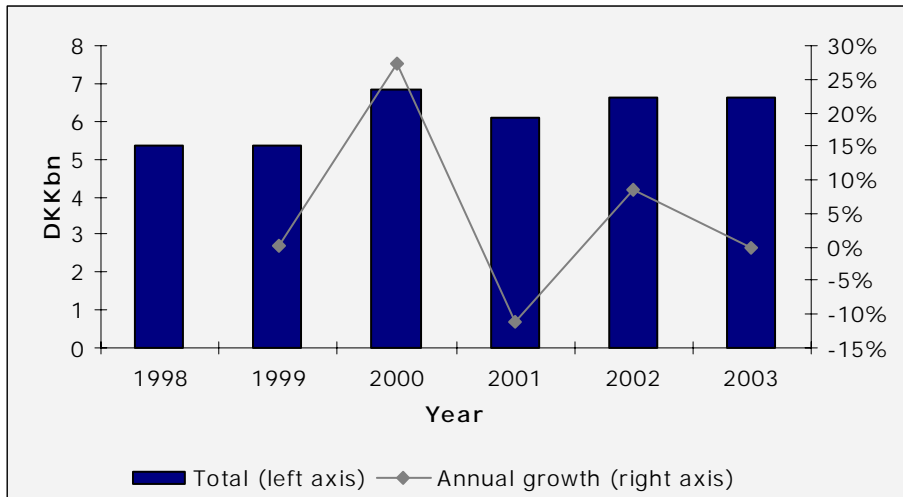
Source: The Danish Investment Fund

However, the share of capital invested in foreign companies is still fairly high compared to 1998 and 1999. By co-investing with foreign VC funds, Danish VCs gain valuable access to networks of investors in foreign markets. Moreover, they build up operating experience in foreign markets, which strengthens their capacity to help Danish portfolio companies expand into the same markets.

3. The Danish Market for Private Equity

The market for private equity in Denmark, which consists of equity funds that mainly make buyout investments, has remained fairly unaltered in the last couple of years. Thus from 2001 to 2003, capital under management increased by less than 10 percent (see figure 7).

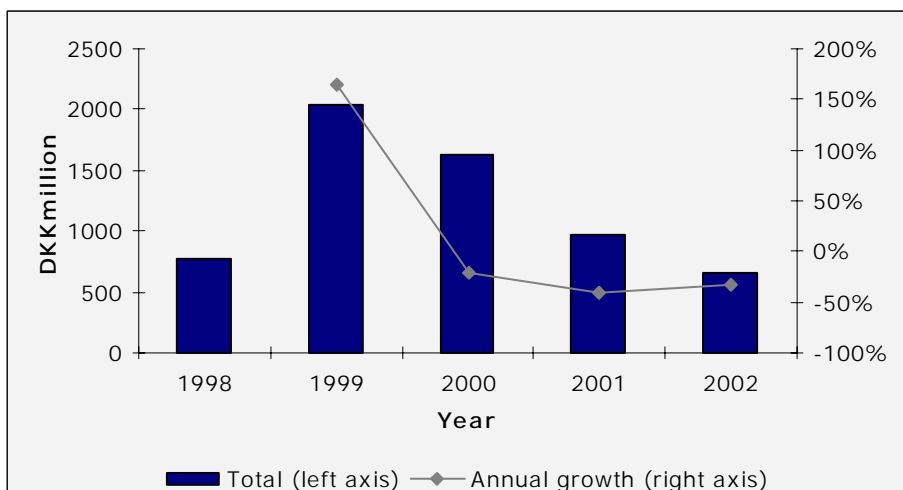
Figure 7. Private Equity under management (DKK billion)



Source: The Danish Growth Fund

The investment activity however has been declining since 1999. From 2001 to 2002 the investment activity fell from DKK 1 billion (€ 135 millions) to approx. DKK 700 million (€ 95 millions) – a decrease by 20 percent (see figure 8).

Figure 8. Private Equity investments (DKK million)



Source: The Danish Growth Fund

The level of private equity investment in 2002 is thus lower than the corresponding investment volume in 1998.

APPENDIX A – INVESTORS

Venture funds

Evergreen funds

- Øko-Invest
- Udviklingselskabet ARGO
- Dansk Erhvervsinvestering
- Erhvervsinvest Nord
- GAIA Technologies
- Storstrøms Regionale Udviklingselskab
- Olicom
- NOVI
- Generationsskifte & Vækst
- Miljøudvikling
- Mezzanin Kapital
- Midtjysk Udviklingselskab
- Industri Udvikling
- Industri Udvikling I (AKA: Service Udvikling)
- DICO
- Dansk Kapitalanlæg Aktieselskab
- Dansk Erhvervsudvikling
- Capitalnet
- Invest Miljø
- AgroVentures
- VækstFonden
- InnoVentures
- First Investment Partner

Limited funds

- Øresund Healthcare
- Incuba Ventures
- Syddansk Kapital
- BI Biomedicinsk Udvikling
- BI Biomedicinsk Udvikling II
- BI Biomedicinsk Udvikling III
- Dansk Innovationsinvestering
- InnFond
- Internet Ventures Scandinavia
- BI IT Venture
- P/S BI New Energy Solutions
- Nordic Biotech
- 3i (Denmark)
- Bridge Venture Fund III
- Danske Ventures Partners
- SLS Venture (AKA: Medicon Valley Capital)

CVC-companies

- Radiometer Venture Fund
- Danfoss Innovation
- NKT Research og Innovation
- NOVO A/S
- NOVO Nordisk Biotek Fund
- Danisco Venture
- Leo Incubator

Incubators

Private incubators

- Oryx
- Incuba (AKA: Udviklingsparken)
- CAT Seed
- ComTech
- PreVenture
- Symbion Capital I
- DTU-Invest
- Comlex

Public incubators

- Teknologisk Innovation
- DTU Innovation
- BioVision
- CAT-Symbion Innovation
- Østjysk Innovation
- Syddansk Innovation
- HIH Development
- NOVI Innovation

Private equity funds

- ITH Industri Invest A/S
- EQT Partners A/S
- Polaris Private Equity A/S
- Capman
- Axcel Industriinvestor A/S
- CVC Capital Partners Denmark

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