

## Finnish Industry Investment Ltd's interim review 01-06/2014

*Finnish Industry Investment Ltd is a government-owned investment company that promotes Finnish business, employment and economic growth through venture capital and private equity investments.*

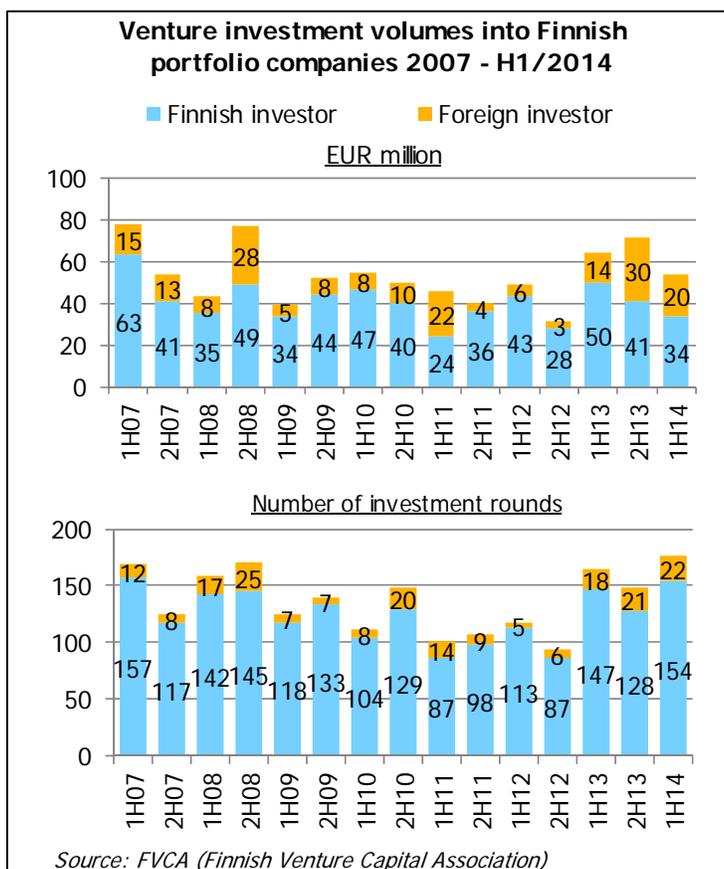
### Business environment – International interest towards Finnish growth companies

Finland's macroeconomic development has lagged behind the rest of Europe's, and the latest indicators seem to show that the expectations of an upturn in late spring 2014 are unfounded. Uncertainties in the international arena are reflected in Finland's trade and industry, with many institutional analysts forecasting a contraction in Finland's GDP this year. The country's prospects were also overshadowed by news of redundancies from sectors undergoing restructuring, such as the telecommunications and retail industries.

Statistics published by the Finnish Venture Capital Association (FVCA) indicate that Finland's private equity and venture capital industry has maintained a reasonable level of activity in terms of fundraising, investment volumes and exits despite these macroeconomic challenges.

Particularly positive is international investors' continuing interest in Finnish technology driven growth companies. According to FVCA, foreign venture capital investments amounting to some MEUR 20, in 22 separate financing rounds, were made to Finnish startups and growth-stage companies during the first half of the year. That makes the last 12 months the most active yet for foreign investment, in monetary terms and by number of financing rounds. An international investor was involved in roughly one-half of the larger investment rounds (i.e. over EUR 1 million).

There was a high volume of initial investments in more mature later stage companies in the first half of 2014. Initial investments were made in 20 different portfolio companies, and in only one case both parties in the transaction were private equity investors.



## Finnish Industry Investment's fund investments – New capital for the Finnish market

Finnish Industry Investment promotes the creation of Finnish funds and acts as a catalyst for stimulating foreign funds' interest in Finnish companies. This has a positive impact on the development of Finland's private equity and venture capital market and on the availability of growth financing.

One of the main events during the review period was the launching of FoF Growth II, a fund-of-funds managed by Finnish Industry Investment. The total capital under management by the target funds financed by FoF Growth II is expected to reach EUR 1 billion over the next few years, making FoF Growth II a major Finnish player in channelling venture capital to growth companies.

FoF Growth strengthens the cooperation between Finnish Industry Investment and Finnish pension funds. Its predecessor was FoF Growth I, launched in 2008 and now at the end of its term, was financing 122 entities at the end of June 2014. Including the investments made by FoF Growth II since its launch in early 2014, Finnish Industry Investment committed a total of MEUR 25 into two Finnish and two international funds. Correspondingly, international funds in Finnish Industry Investment's portfolio invested in three Finnish growth companies during the review period.

Finnish Industry Investment is also planning to make few more new investment commitments into funds during the remainder of the year.

## Finnish Industry Investment's direct investments – almost sixfold leverage impact

Finnish Industry Investment makes equity investments, on market terms and together with private investors, directly in companies operating in Finland. In addition to the anticipated return on investment, Finnish Industry Investment evaluates projects in terms of their importance to Finland's economy, technological expertise and job creation.

In January-June 2014 Finnish Industry Investment made direct investments amounting to MEUR 6 in 13 companies. Of these, one was an initial investment and the remainder were follow-on financing. The investments focused particularly on younger technology-driven enterprises in the cleantech and service sectors, but there were also two mining company investments. In total, capital amounting to six times (MEUR 34) Finnish Industry Investment's share was channelled into these investee companies. Six of the financing rounds included international co-investors which contributed total capital of MEUR 9. For example, the German investor Earlybird and US investor Draper Associates participated in Enevo Oy's financing, and French investor Sofinnova in MetGen Oy's financing. A substantial risk attached to private equity investing was realised during the review period when Uusikaupunki-based soy protein plant Finnprotein Oy filed for bankruptcy.

### FoF Growth II fund

- Launched in early 2014, FoF Growth II is a fund-of-funds. It continues from its predecessor FoF Growth I, which was launched in 2008 and has used up its investment commitments.
- FoF Growth II will invest over its 5-year investment period in some 10 funds that invest in Finland. These funds are expected to invest the total capital they raise into some 100 promising growth companies.
- Four Finnish pension funds are also investing in FoF Growth II which is managed by Finnish Industry Investment.
- The total capital of FoF Growth is MEUR 130, of which MEUR 70 comes from pension funds and MEUR 60 from Finnish Industry Investment.

## MEUR 100 investment programme for industrial renewal – Risk capital for promoting industrial competitiveness and growth

In its budget framework talks, the Government approved additional investment in promoting the renewal and competitiveness of the Finnish industrial sector as proposed by Finnish Industry Investment Ltd. The investment programme will focus on cleantech, bioeconomy, industrial digitisation and health technology sectors.

The new investment programme will target more mature industrial companies in the growth stage. Alongside the normal investment objective of economic returns, the programme's goal is to support the financing base and to improve the competitiveness of industrial companies, and of the companies serving them. The growth and internationalisation of the companies will improve the framework for job creation, stimulate demand for services, and boost both exports and tax receipts.

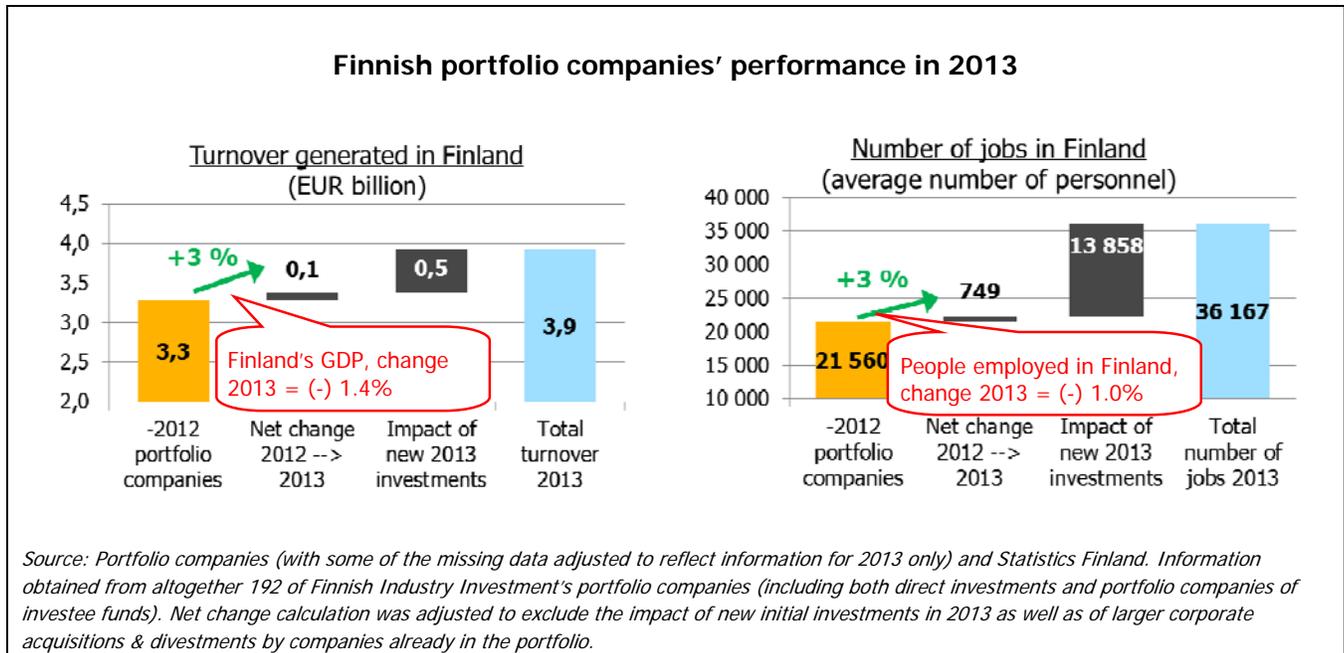
Parliament approved, in its supplementary budget, the first appropriation of MEUR 50 for financing the programme during the current year. A second appropriation of MEUR 50 is due in 2015. The increase in share capital granted by the Government means implementation of the programme can be started this year.

### Investment programme for industrial renewal

- A MEUR 100 programme financed from Finnish Industry Investment's own balance sheet and implemented on market terms in collaboration with private investors
- The programme will focus primarily on more mature Finnish industrial companies and on the companies serving them. The aim is a portfolio of some 15-25 growth-seeking companies.
- The goal is to catalyse approx. MEUR 300-400 of other risk capital
- The Finnish Government raises Finnish Industry Investment's share capital for financing the programme.

## Economic impact – Finnish portfolio companies' performance surpasses the national average in 2013

Economic impact data that Finnish Industry Investment has collected from its Finnish portfolio companies indicates that both the aggregated net sales generated in Finland by the companies, as well as the total number of personnel in Finland, increased in 2013 by some 3% compared to the previous year. This performance by venture capital and private equity owned portfolio companies is clearly more positive than the performance of the national economy as a whole, since both Finland's GDP (-1.4%) and the number of people in employment (-1.0%) declined in 2013 (source: Statistics Finland). At the national scale, Finnish Industry Investment's portfolio companies in Finland generate total net sales of some EUR 4 billion and employ roughly 36,000 people.



### Financial data – Finnish Industry Investment will continue to finance growth and share risks with private investors

The company made an operating loss for the first half of the year, largely due to the realised investment risk in Finnprotein Oy. Investments paid during the review period totalled MEUR 43, against a returning cash flow of MEUR 19 from the investment portfolio. Overall, the countercyclical nature of the company's operations has been highlighted in the aftermath of the 2008 financial crisis. The cumulative net cash flow of Finnish Industry Investment's private equity and venture capital investments during the period 1 Jan 2009 – 30 Jun 2014 has been negative, amounting to MEUR -260.

The company's financial position remains stable. The Finnish Government invested MEUR 30 in the company's equity in April to finance FoF Growth II's operations. Private equity and venture capital assets under Finnish Industry Investment's management stood at MEUR 907 at the end of June 2014.

### Events after the review period – Finnish Industry Investment a minority shareholder in Turku shipyard, two significant exits, and changes in company management

At the beginning of August an agreement was announced regarding the purchase by Finnish Industry Investment, together with German family-owned shipbuilder Meyer Werft, of the Turku shipyard from the Korean STX company.

The acquisition will stabilise the whole Finnish marine cluster because it will also result in two new TUI class cruise vessels being built in Turku. The new owners aim to return the yard's shipbuilding operations to profit. The transaction is subject to, among other things, approval by the relevant competition authorities.

In July Finnish Industry Investment exited from The Switch Engineering Oy (acquired by Japanese Yaskawa Electric Corporation) and partially exited from Holiday Club Resorts Oy (acquired by Indian Mahindra Holidays & Resorts). Both buyers are industrial enterprises.

Sakari Tamminen, M.Sc. (Econ), was elected Chairman of the company's Board of Directors with effect from 1 September 2014. Martin Backman started as President & CEO of the company on the same day.

The company's main focus areas for the second half of the year are the active launching of the investment programme for industrial renewal, and new fund investments to be made both from the company's own balance sheet and from the FoF Growth II fund it manages. As one of the Team Finland member organisations, Finnish Industry Investment will continue its networking activities with notable foreign investors through a variety of channels. One of these is the Slush startup and investor event being held in Helsinki in November 2014.