Technopolis Ecosystem and Money-Talks® Events as a facilitator of Venture Capital Financing

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Abstract

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The purpose of the Bachelor's thesis is to find out the scale and size of Technopolis' efforts in the venture capital financing ecosystem in Finland. The empirical part will give concrete figures over the magnitude of Technopolis Ecosystem and MoneyTalks® Events as a facilitator of Venture Capital Financing. Besides the figures, the thesis will incorporate theory of both networking and venture capital financing.

Venture capital has become an indispensable resource for the emerging growth company community, as more traditional forms of financing have failed to deliver the needed support. During the venture capital industry's short history in Finland, it has been, however, suffering from severe insufficiency of capital. Whilst the international financiers have also pulled most of the capital out of the market since the days of the dot.com bubble, a growing number of technology entrepreneurs have been voicing their concerns over the lack of venture capital money.

Technopolis has been a forerunner in recognizing and addressing the importance of venture capital financing for growth companies. The company has tirelessly worked with start-ups in numerous programs, projects and development efforts, in order to help the companies to access capital, but also to make Finland more accessible for international venture capital funds. MoneyTalks® events are one of many endeavors of Technopolis that have facilitated the venture capital financing to Finnish start-ups.

The research was conducted by combining existing statistics of MoneyTalks® events and other Technopolis activities and comparing that data to the investment statistics of Technopolisonline.com. Any necessary estimates regarding the sizes and distribution of investment among investor classes were then made based on the known characteristics of the investors in question.

The thesis has been conducted for and with cooperation of Technopolis. From the Technopolis side, the parties involved were the Strategic Matchmaking services team and the Technopolis Online team – both from Technopolis Development Services division.

Key words: venture capital, start-up, growth company, event, networking

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Tiivistelmä

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Technopoliksen ekosysteemi ja MoneyTalks-tapahtumat pääomasijoitusten mahdollistajana

Vuosi	2010	Sivut	47

Tämän opinnäytetyön tehtävänä on selvittää Technopoliksen vaikuttavuus suomalaisessa pääomasijoituskentässä. Tutkimusosan tehtävänä on antaa konkreettisia lukemia Technopoliksen ekosysteemin, sekä MoneyTalks tapahtumien vaikuttavuuden suuruudesta pääomasijoitusten mahdollistajana. Konkreettisten tulosten lisäksi, työ käsittelee sekä verkostoitumiseen että pääomasijoittamiseen liittyvää teoriaa.

Pääomasijoittamisesta on tullut korvaamaton resurssi kasvavalle kasvuyrityskannalle, perinteisempien rahoituskanavien epäonnistuttua tyydyttämään kasvuyritysten rahoitusvajetta. Monien yrittäjien mielestä pääomasijoitustoiminta on kuitenkin ollut Suomessa alimitoitettua, ja tilannetta ei ole missään nimessä helpottanut kansainvälisten sijoittajien passivoituminen Suomen markkinoilla teknokuplan puhkeamisen jälkeen.

Technopolis on ollut yksi ensimmäisistä tahoista, joka on ymmärtänyt pääomasijoitusten merkityksen kasvuyritysten vahvistamiseksi Suomessa. Yritys on tehnyt työtä lukemattomien projektien, aloitteiden ja kehitysohjelmien parissa helpottaakseen kasvuyritysten pääomasijoituksen saantia kasvuyrityksille, kuin myös tehdäkseen Suomen markkinan helpommin lähestyttäväksi kansainvälisille rahoittajille. MoneyTalks® tapahtumat ovat olleet yksi Technopoliksen merkittävimmistä ja onnistuneimmista aloitteista kiihdyttää kasvuyritysten pääomasijoitusten saantia.

Tutkimusdata sekä MoneyTalks-tapahtumista, sekä muiden operaatioiden vaikuttavuudesta kerättiin olemassa olevasta palautemateriaalista, sekä sisäisistä dokumenteista. Tämän jälkeen dataa verrattiin Technopolisonline.com- sivuston kasvurahoitusdataan. Tein rahoituskierrosten kohdalla tarvittavat estimaatit koskien rahoituskierrosten kokoa ja pääoman jakautumista eri sijoittajatyyppien välille, perustuen olemassa olevaan tietoon yrityksen kehitysvaiheeseen ja sijoittajan tunnettuihin attribuutteihin.

Tämä opinnäytetyö on tehty Technopoliksen toimeksiannosta, sekä yhteistyössä Technopoliksen kanssa. Technopoliksen puolelta opinnäytetyöprojektiin on osallistunut Matchmaking Palvelut-, sekä Technopolisonline-tiimi, jotka molemmat kuuluvat Technopoliksen kehityspalvelut yksikköön.

Avainsanat: Pääomasijoittaminen, start-up, kasvuyritys, tapahtuma, verkostoituminen

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1 INTRODUCTION

1.1 Background

My Bachelor's thesis is a research about Technopolis Ecosystem and MoneyTalks® Events as a facilitator of Venture Capital Financing. The thesis will also take a look on the Finnish venture capital market conditions, however focusing on it from Technopolis' perspective. Thus, my thesis will comprehend the whole high-tech ecosystem, which in this case is considered as a similar kind of ecosystem that for example an ocean has – everything affects everything. The high-tech ecosystem consists of high-tech corporations (such as Nokia & Kone), high-tech start-ups (young growth companies), public institutions, service providers, investors and other close interest groups. This being said, the fundraising success of the high-tech startups is a critically important part of the fostering of innovation from the whole ecosystem's point of view.

MoneyTalks events are arranged by Technopolis Development Services (Formerly known as Technopolis Ventures), which is a division of Technopolis Plc. MoneyTalks® events are held on a monthly-basis in Espoo, Otaniemi. In addition, there are MoneyTalks® events held in Oulu, Tampere and St.Petersburg. Besides this, Technopolis' arranges twice a year an extensive MoneyTalks event called MoneyTalks Forum, which is an impressive occasion attended by several internationally acknowledged companies and investors.

MoneyTalks is an open and informal networking event offering entrepreneurs an excellent opportunity to connect with many financers at once. The program consists of investor pitches by promising companies and the presentation given by a venture capitalist. Following the formal presentations, comes the moment for the one-minute elevator pitches; the remaining time is then reserved for networking, facilitated by color-coded name tags and the experts of Technopolis Development Services. (MoneyTalks, 2010)

MoneyTalks Forum is a bi-annual, invitation-only event. The event is for VCs, business angels and promising high-tech & innovation based start-ups seeking financing. The event features the rising stars of the Finnish high-tech scene and prominent early stage investors from Finland and abroad. MoneyTalks Forum provides an excellent occasion for financier and entrepreneurial networking, pitches by pre-selected companies as well as opportunities for one-to-one meetings.

This research will include parts from the existing customer feedback of MoneyTalks events, which has been gathered by inquiries occurring after the events now for several years. In addition, to be able to find out the success rate and timeline of venture capital raising of growth companies, the database of Technopolis Online will be used to compare the success of the companies who pitched to the overall success Finnish growth companies have had in fund-raising. The more comprehensive picture about Technopolis Ecosystem's efficiency as an enabler of financing was gathered internally by combining hundreds of sources of scattered data from various excel worksheets and the company's intranet.

1.2 Need from employer's point of view

From employer point of view, the idea was to find more information on the MoneyTalks event's efficiency as a platform for raising financing, which would then serve both internal (measuring) and external (marketing) purposes. There was a clear need for an efficient tool and detailed figures to measure and follow-up the success of both MoneyTalks participants, as well as other types of clients as well.

Technopolis spanned out its incubation activities in the beginning of 2010 (nevertheless, the process of slowly shifting the focus was on through whole year 2009), which caused the company to lose a bit of its touch surface amongst the young innovative companies and the University world. The danger of this was that the most exciting and promising companies would decide to take premises from a competitor instead of Technopolis – and thus Technopolis could suffer losses in the long run. There no longer existed a clear channel from innovation to incubation and from incubation to tenancy.

One of the most crucial needs for my thesis was to find out whether losing this touch surface had drastically affected the percentage of Technopolis cases from the "best cases". We determine the best cases (amongst the growth companies) by the amount of private venture capital received, and by the origin of the capital (international is generally more valuable).

If the figures were to drastically fall below the levels during the incubation activities, Technopolis would have a challenge and it would be time to consider of putting some more efforts on the matter. At the end of the day, it could be one or more of those innovative companies that should become the big anchor clients in the future and they were better not to be lost at the early stage.

1.3 The importance of growth companies

According to a recent Kaufmann Foundation Study, in U.S job creation and growth, start-up companies aren't everything. They're actually the only thing. According to the study, companies of all sizes constantly create and destroy jobs. However, in the long run, the study reveals both on average and for all but seven years between 1977 and 2005, existing firms are net job destroyers, losing 1 million jobs net combined per year. By contrast, in their first year, new firms add an average of 3 million jobs. (Job Growth Driven By Startups, 2010)

Venture capital investments are a straight investment to scale up businesses and thus increase the companies' personnel. Naturally this affects the employment rates on a national level as well. Besides the shortcomings of the early stage financing in the current financial system, job creation is the single most important reason for the VC industry's existence. Through the job creation aspect, it is clear why every vibrant ecosystem has a crying need for value-added venture capital financing.

The recent economic recession has affected the global VC industry for quite a while already, leading especially to an extremely difficult fundraising environment. The VC industry, strongly concentrated in the U.S, has suffered a dramatic drop in overall fundraising figures from top year 2007. In 2009, U.S based VCs raised funds worth 15,820 million dollars, whilst in 2007 the same figure totaled 36,206 million dollars. However, the market has now started to see very positive signals as well. According to NVCA statistics, U.S based, venture-backed companies had 17 IPO's in Q2 2010 – which is the best figure ever since the recession started. Also the signals from trade sale sizes and quantities were positive. Through improved exit environment, the market is expected to slowly recover to the levels of best years. (Venture-Backed IPO Volume Continues To Increase, 2010)

From Technopolis' perspective, in other words, this all means that the venture capital activity is increasing, and the companies receiving it, are actually the only ones who can add net jobs annually. Only companies who are hiring – adding jobs – are buying more square meters. In other cases, each customer needs to be acquired from competitors, which is nearly always more challenging and expensive, than the attracting process of growth companies in their early days.

Besides the fact that one or more of the growth companies could become a big anchor company one day, it is also vital to keep the building environment vibrant – which is best done with the right mixture of quality start-ups, investors, research organisations and service providers.

Start-up companies are also very good at leveraging social media and new types of communication channels, like buzz creation tools such as Twitter, Buzz and Facebook. When you are small, you can work more agile and rapidly than bigger corporations, where company size tends to limit the freedom and and creativity because of larger amount of bureaucracy. (What Small Businesses Have That Big Corporations Don't, 2010) Thus, they tend to make them look bigger than they actually are to attract investors and customers. Having as many as possible of these noisy start-ups gives also visibility for Technopolis as a cradle of start-ups.

1.4 Objectives

In particular I'm interested about the venture capital fundraising success of the companies who pitched in MoneyTalks events. The thesis will also strive to reveal the help Technopolis' events have had in the growth companies networking, and whether it has thus given the companies additional value that is barely measurable by any metric. Thus, in small scale I'm observing the problem of promising high-tech companies who are facing difficulties to finance and grow their businesses.

Nevertheless, in larger scale, I'm also touching base with the financing problems the ecosystem is currently dealing with. I feel that the research of minor movements in the bottom and then evaluating them against annual figures and acknowledged problems can deliver a great insight of the current state of the financing opportunities in Finland. So to say, the objective is not to give solutions for the crying need of venture capital for high-tech companies, but since the micro and macro level of economics are so strongly attached, it would feel ignorant to leave the matter completely untouched. Without a doubt, these issues would need a lot wider coverage than a few pages and thus I am saying that the idea of the theory part is not to answer to these problems – but just to showcase what type of market conditions currently influencing the start-ups seeking for financing.

Besides these conclusions I'm striving to understand the positive influence of the arranged networking in the events, when not discussed only financing-vice. In addition, the thesis should improve the inquiry after the events, its return rate and MoneyTalks events in general. By saying in general, it means I'm going to illustrate some improvement suggestions to some parts of the process. The improvements can pose ideas for example to marketing, communication, matchmaking, networking, schedule, pitches or any other part of the event that might need modernization.

On Technopolis side of things, the most important need is to determine whether the company is now facing a challenge with the early stage companies being no longer part of the incubation system of theirs. However, since it's still early to see any drastic changes (due to the short amount of time after the incubation was spanned out), the results should be interpreted with patience. In case there existed a decrease on the amount of Technopolis enabled financing, what could be the concrete steps to strengthen the relationships with the start-up community?

1.5 Introduction to Technopolis Plc

Technopolis Plc. is a company that offers its customers office premises, business services and development services. The company is present in nearly all major Finnish cities and offers its unique real estate-based service package currently close to 1,200 companies with 16,000 employees. In short, Technopolis provides business environments and services for knowledge-intensive companies and organizations. (Technopolis, 2010)

Technopolis' premises are normally easily adjustable and flexible spaces where companies can adjust their office space according to the current needs. Business services mean services that every company typically is in need of like high-quality network services, voice services and conference and video services. This is a way for the company to ensure that its customers remain competitive and well-equipped to answer the everyday challenges, and also binds the customers to the office premises whilst competition rises up. Technopolis Development Services instead are meant for companies growth purposes. Development Services (DS) strives to achieve growth for Technopolis' tenants in order to make them grow more rapidly, which would then drive them to buy more office square meters in the future. Another reason for the existence of Development services is that it's a great channel to get to know the local players and ecosystem and get their approval.

2 EVENTS AS A PLATFORM FOR GROWTH ENTREPRENEURSHIP

Events touch several aspects of our lives such as the social, cultural, economic, environmental and political aspects. (Bowdin 2005, 36-37) The key reason for arranging events in general is the opportunity to get people to network which will then further create positive value for these aspects of the counterparts' lives. So the influence of the attendees can be separated from the influence the arranger is looking after. See, in the eyes of a private (commercial) event arranger, the matter of positive things arising from events is a two-folded thing. The point is always value creation, but the motives behind the value creation can be driven by two things. In first case, the event organizer is looking to create value for customer businesses to further accelerate the growth of its existing customers. This creates additional value to the existing customer relationship and increases the customer loyalty and thus creates revenue. In the second example the event organizer receives fees from the event attendees and thus makes the money in a more direct way by simply collecting the participation fees.

Technopolis bi-annual MoneyTalks Forum special events are hybrids of these two forms. Besides the fact that Technopolis looks to strengthen the customer businesses, attending companies also pay a fee for attending the events. Thus, the value is created both in the indirect and direct way – for Technopolis but also for the whole national ecosystem.

MoneyTalks Forum events have traditionally attracted around 150 participants, the top event attracting as much as 200 participants. In figure 1, is a demonstration how the participants were divided between the group types in MoneyTalks Forum May 2010.

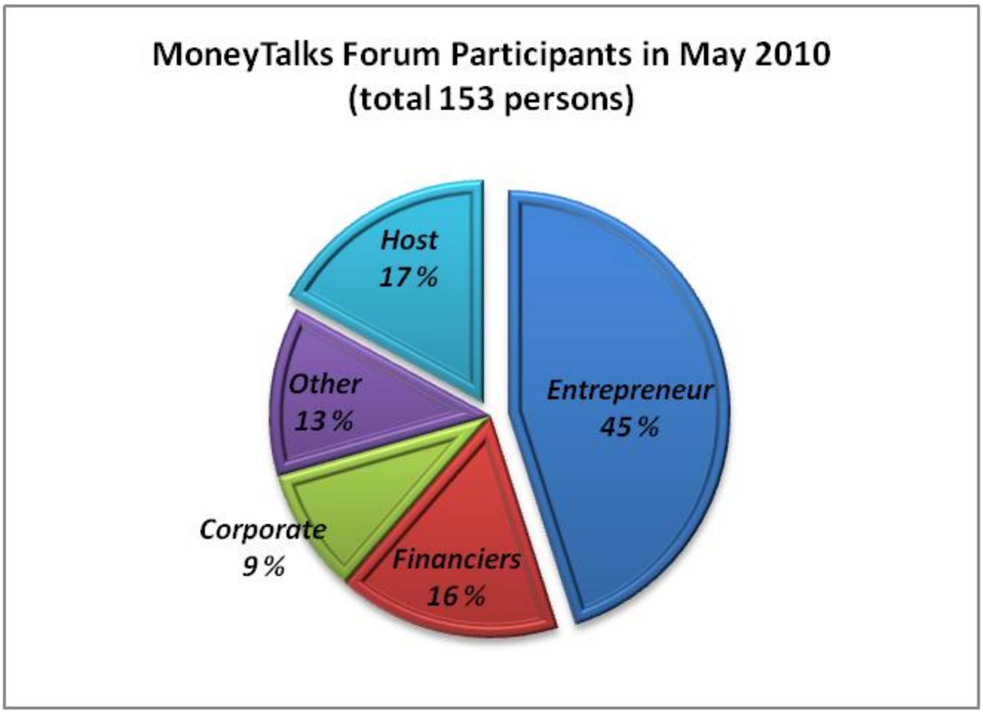

Figure 1: MoneyTalks Forum Participants in May 2010

Monthly MoneyTalks events instead are free-of-charge and most of the economic effort to create these events up has been contributed by several sponsoring venture capital companies who have seen the event series as a contribution to create more deal-flow. Another nominal factor for receiving sponsorships is that the sponsoring companies are willing to promote their "goods" (Bowdin 2005, 99). In the case of VCs it means the money they have in their funds that is still available for investing. When MoneyTalks events were being under conceptualizing these stakeholders angles were examined with extreme care.

2.1 Preparing a successful event

In MoneyTalks Forum events we help the companies that are looking for financing to meet investors, possible partners by arranging pre-booked one-to-one meetings. The meeting preparations are critical part of the success of these meetings and the organization is doing its best to ensure that everything works out as planned. The work that organization is doing behind the scenes is critical and also determines how much credit we can claim of the meetings' successes. According to Friedmann (2003, 26-27), the most important questions to take into account are:

- The purpose of the meeting?
- What exactly are you trying to accomplish?
- What messages do you want to communicate?
- How do you want people to feel when they leave?
- When will the meeting take place?
- How long will it last?
- Who will be involved?
- What preferences, if any, do you have for the meeting location?
- What specific materials and equipment will you need?
- What refreshments and snacks are necessary?

All these covered points are very important to the overall success for MoneyTalks events. However, what is really important in these events is that Technopolis is aiming to facilitate networking and most of these key findings are in touch with that. Even though the companies are ambitious and they have time available to find the right contacts, the facilitation is still needed to increase the effectiveness of the hours the companies use to attend these events. All the activities the company involves itself aside the product development, sales or marketing activities, needs to be worth their time. This is simply because a start-up should never involve itself with nothing that is not core operations for it, due to the limited resources. Getting a chance to meet someone for 15-minutes face-to-face in a meeting room, instead of chit-chatting around a dinner table with twenty other persons discussing the same time, is unique. The concept has been receiving positive feedback equally from venture capital investors, corporations and high-tech companies.

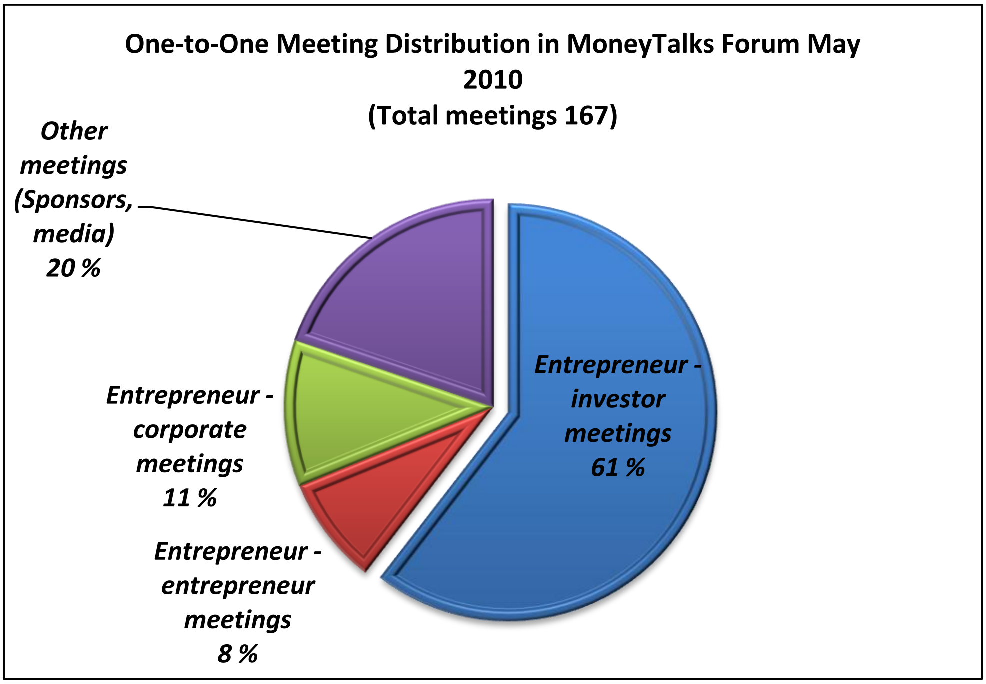

Figure 2: One-to-one Meeting Distribution in MoneyTalks Forum May 2010

These pre-booked meetings are organized through a computer software where companies can send meeting invitations and either accept or reject them from each other. Everyone's profile is open for each other, so for example entrepreneurs can look out for investors who have experience and interest on the industry they are developing their solution for. Typically, it is the entrepreneurs who want to meet financiers, but it also happens occasionally that investors meet each other. Sometimes also investors want to especially meet some interesting start-up, which they then invite for a meeting. There are also media players, angel investors, public investors and corporation involved. Corporation people are mostly looking for technology innovations they could acquire and thus benefit the company. The platform doesn't rule out the chance to find partners for big corporations either. Private and public investors instead are after promising high-tech companies for investing purposes. In 2010 May event, we also saw a lot of entrepreneurs-entrepreneur meetings where companies were discussing partnership possibilities, joint venture possibilities or challenges they could perhaps better address together.

Just during a one day event a high-tech company might manage to arrange up to 15 meetings with investors and other parties besides the traditional networking. These effective moments can be very valuable from start-ups point of view.

Because MoneyTalks Forum events have hundreds of pre-booked meetings, the most important factor to make it happen has been the schedule. It is vital that the meetings are held within the given timelines so that no one needs to wait for the meeting to start for and thus lessen the effectiveness of that precise meeting. Keeping the schedule is challenging as people are spread around the meeting rooms, and demands a lot of resources from our side. Still, it is something of a great importance that we keep the schedule from the very beginning to make it feel as smooth as possible for the participants.

Another difficulty comes with the arrangements of the meetings. Because the platform is used by several start-ups simultaneously and they tend to want to meet the same investors still when it's the prime time – it causes overlapping in the meeting arrangements. There's a lot of fine-tuning to be made to ensure that all the companies get to meet with the investors within the given timelines. As we can see in figure 3: Many of the meeting requests are never met with a positive answer from the counterpart.

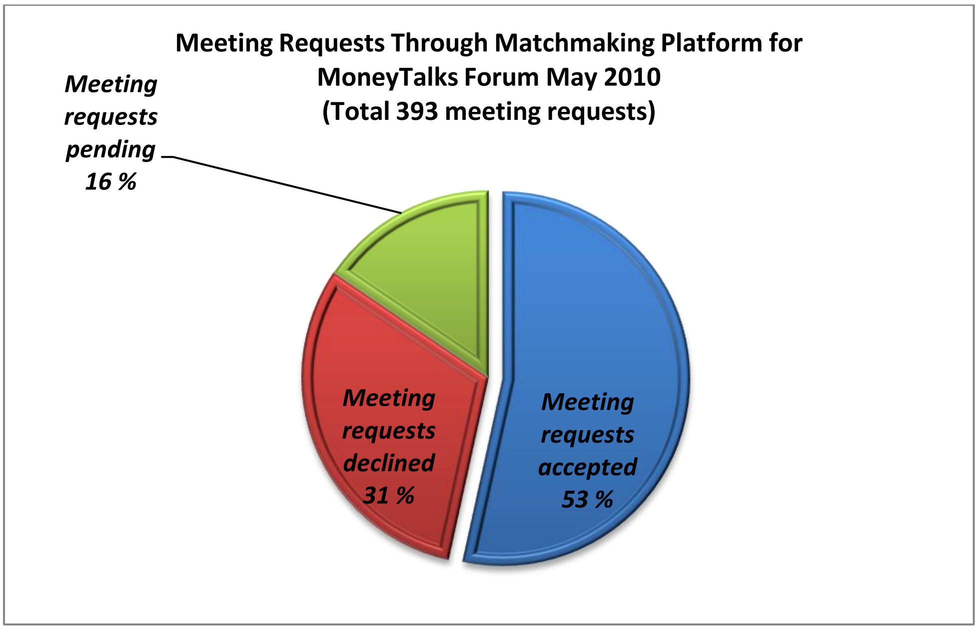

Figure 3: Meeting Requests through Matchmaking Platform for MTF May 2010

2.2 The importance of networking for small businesses

Everyone knows what networking is, and everyone knows that some do it better than the others. Still, not many of us understand how vital it is – for individuals as well as for businesses. For majority of people networking is seen somewhat as an additional good what a person can bring to the table when joining a company. However, there are good reasons to believe that a wide network, and moreover skills to leverage that to your benefit, are a lot more than a useful addition. Networking skills are more a must than a possibility for any start-up who wants to be successful in the future. An effective network can make you more knowledgeable and better grounded, as well as a more agile learner and a better collaborator. When you become a skilled networker, you can address challenges and make most of the occurring opportunities. (Dulworth, 2007, 11) These are very important skills in today's fast-paced environment and can be truly only utilized when well-networked.

What is networking all about for companies? It's about gaining advantage without taking advantage of anyone. Anyone who has ever created a new contact can adopt this thought. Even if the common principle of networking is pretty simple; you meet someone, you share thoughts together and find out that you have common interests, it is not always so clear how a company should source out new contacts. In truth, for a company it's not always clear why some type of contact might provide valuable or not. Thus, creating long-term useful contacts is more based in luck and personal intuition than any mathematical formula. So it is recommended that companies would keep their eyes open for all types of contacts and not only the most obvious, currently beneficial ones. Often only time can bring up the best sides of our contacts, and it could take a long time before the relationship matures until this point. (Wet-Feet Inc., 2003, 18)

Not long time ago, we had a foreign venture capital investor participating in MoneyTalks Forum. They met up with a Finnish company that was looking for financing. The investor found out that the story of the company was wonderful, business model seemed viable and the company even had proper references. However, there was a problem. The investor's preferences didn't match the case and they said they lack the relevant experience from the field to make the investment sustainable. Few days after the event the investor met up with another foreign investor and told about a Finnish company he had found really interesting and could be relevant from their point of view. The investor got excited, met the company and just seven months later the investment was executed and the company is now conquering United States. This kind of stories emphasizes the importance of sharing our stories in public, networking; because you never know what kind of leverage you might end up getting on your side. A fact that can't be denied is that your start-up won't ever find global partnerships or risk financing if you are not networking – in one way or another. There is no mysticism in the matter.

It has been widely argued that Silicon Valley's success is based on the hub's efficiency. Recently a well-known entrepreneur and blogger, Loic Le Meur, illustrated the reasons why Silicon Valley-based companies tend to grow faster than for example European companies. (Why Silicon Valley kick's Europe's butt, 2010)

- Silicon Valley is all in one place: best internet companies and never seen that many bright people concentrated
- It feels like campus to be honest
- Business happens 24/7 and even when you don't expect it
- There is more seed funding and VCs
- "How can I help" attitude
- Key tech bloggers and press care more if you're a Silicon Valley company
- Few other reasons related to finding your niche, perfect team, political circumstances, and focusing on execution rather than planning.

These matters listed here indicate the importance of a community and networks as a driving factor for start-up success. For these types of rationalizes it's vital to facilitate networking with all possible ways in MoneyTalks events.

2.3 Networking is for everyone

It is common, that people feel the networking just isn't their thing. This is mostly because people feel that the others, who are very smooth from their mouth and already have a wide network and a good reputation, are just better placed to network than us. Now this is a logical error we should avoid to think. Since we are born, we work out our food, warmth, love, affection and so on without getting trained for it. (Clifton, 2006, 8) We manage to do this all because we feel it's important for us. Hence, when we need to network we should forget our shortcomings and vulnerabilities. Instead, we should pay attention only on the goal which is to take our product, service, company, career, or whatever the goal might, to the next level. This is similar kind of thinking pattern as securing all the necessities of living to rise to the next level in the famous Maslow's hierarchy of needs illustration.

Truth is, only a few of us are born into powerful family networks that continue to dominate the business world. (WetFeet Inc., 2003, 10) The rest of us just need to live with the fact of building our own and our business' network from the scratch. But like the history has shown us, it is an achievable and necessary goal for every company. Another important thing to keep in mind is that people buy people. This has been proven by celebrities advertising products and services in TV every day. (Clifton, 2006, 28) The same truth applies to networking as well. When you are meeting people and telling your story, besides your story you are also selling yourself to the fellow-man.

The feedback from MoneyTalks Forum events has been really promising but as the feedback indicates (figure 4 & 5), there's still some room for improvement. The chart below demonstrates the feedback compiled from the event participants on networking possibilities and event performance overall. The scale is from one (poor) to five (excellent).

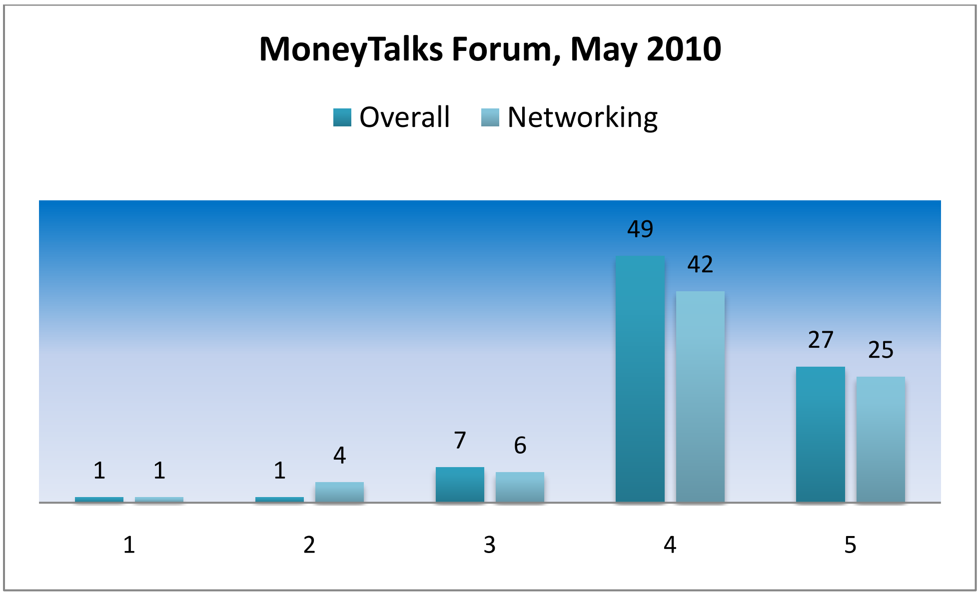

Figure 4: MoneyTalks Forum, May 2010 Feedback

	SMS sent	Response	Response%	Average
Overall	124	85	69	4,2
Networking	50	78	92	4,1

Figure 5: MoneyTalks Forum, May 2010 Feedback Statistics

3 VENTURE CAPITAL: WHAT IS IT?

Private equity provides equity capital to enterprises not quoted on a stock market. Private equity can be used to develop new products and technologies, to expand working capital, to make acquisitions, or to strengthen a company´s balance sheet. It can also resolve ownership and management issues - a succession in family-owned companies, or the buy-out or buy-in of a business by experienced managers may be achieved using private equity funding.

Private equity invests in growth companies at all stages of their development. These stages can be recognized as Early Stage, which encompasses Seed and Start-up stage companies; Venture Capital, which encompasses Early Stage and Expansion stage companies; and Buyouts and Buy-ins, also recognized as later stage companies. (Private Equity Definition, 2010)

Companies funded with venture capital are typically high growth companies, because only exceptional growth rate can bring the required growth the investors are after. Growth companies are innovative companies who are often seeking to create a completely new sub-industry (name Twitter, Foursquare or IRC-galleria), or otherwise disruptive technology for the current market leaders. Because growth companies are mostly piloting new ideas, it's in their nature to either success greatly or then on the other hand collapse miserably. Growth business can be generally also defined as a business of extremely high risks.

Venture capital funding is provided by managing companies, business angels, corporate ventures, and in some rare cases companies that are willing to place money in a strategically important targets. When a high growth firm (typically a technology-driven company) is looking to acquire capital, in the eyes of an investor it naturally includes a higher risk than a company that has rather modest of a burn rate and already existing stable business. In general, banks want to avoid uncertain investments to the last, and thus naturally won't finance companies that have technology innovations, but are yet unable to generate decent returns. Besides the risk factor, another reason for this development is that banks have failed to keep pace with demand from entrepreneurs for financing. (Benjamin et al, 2005) In year 1990 there were only around five million small businesses in US. Today, five million new businesses are begun each year. Hence, Traditional sources of finance have failed to regenerate in equal speed to the new businesses emerging. This array has driven the birth of Venture capital. (Lauriala, 2004, 15)

Thus, what makes the situation to feel a bit upside down is that these high tech companies, suffering from the lack of bank financing, are economically speaking really important for nations. Also some of the older studies have shown that 3 to 5 percent of new small firms account for three-fourths of jobs created in the United States (Birch, 1999). Birch also demonstrated that the value of high growth companies was not only in creating jobs but in the tendency of not failing(sustainable growth), creating wealth to the economy, paying higher wages and offering better employee benefits, be more likely to export products and to invest more in research and development. In chapter one, I revealed another, more recent study about the same matter. All these aspects are valuable for a society and indicate the importance of the high growth entrepreneurship. In Finland the concern over the high tech ecosystem's wellbeing led to establishment of TEKES – the Finnish Funding Agency for Technology and Innovation, whose operations will be covered more thoroughly in the latter chapters of my thesis.

However, venture capitalists think the risk in another way. Despite the risk, they choose to see the opportunity for the next Google, Apple or Microsoft in front of them, and at the end of the day, that is all what matters. For a VC (venture capitalist) it doesn't matter if nine out of ten of their investments file for bankruptcy after five years, as long as there is one true success case in the portfolio. This single success case – often the sole survivor of the portfolio – can generate so high returns that the whole return of the portfolio reaches profits of several tens or even hundreds of percents. Naturally, the portfolio doesn't always divide this roughly to one success case and several failures, but the very ultimate case, both in positive and negative aspect is this.

Besides the money, venture capitalists bring their experience and wide network of partnerships and contacts available for the target company. These matters are equally important if not even more important than the capital itself. Angel investors and venture capitalists typically have extensive experience in finance, markets, industry and management, allowing them to actively participate not only in capital formation but also in firm development. (Buss et al, 2001, 47) This experience they can bring in, besides the fact that they've advised numerous other companies and gained indispensible insight how to boost companies, are invaluable assets for the entrepreneurs. It is these features in precise, what cause venture capital to be the most universally pondered and wanted form of capital among high tech entrepreneurs. Typically venture capitalists are looking to exit the investment within three to seven year period. (Bloomfield, 2008, 22)

3.1 Venture capital investment stages

This chapter will explain in precise terms what type of venture capital investments exists, and what do the companies use the money for typically. Since this thesis will focus only in venture capital financing and leave out private equity contracting as whole, it's vital to understand the key differentiators between these two very commonly bundled up concepts.

A growth company can receive venture capital in many phases of its life cycle. It is more a rule than an exception that a company that gets funded once receives also follow-on investments. The follow-on investments are mostly due to the logical reason that the managing company (VC) is willing to ensure to the hilt that the portfolio company has sufficient funds to continue on the growth path. (Bloomfield, 2008, 175) Thus, once a VC invests into a company it always prepares to invest one to three additional financing rounds in the future. This gets obvious when you think that the company will either generate return on the VCs investment or not (in case of bankruptcy). This 1/0 type of thinking is one of the industry distinctiveness's. Typically the investments that follow are at least the equivalent size to the prior, originating from the growing company's growing capital need.

However, if the managing company notices that the start-up just can't quite live up the expectations it may be forced to file the company for bankruptcy. At this point it is normally impossible to find co-investors to invest in the company with same terms as the managing company would want, in order to avoid its share to be diluted. (Bloomfield, 2008, 175)

This helps to understand why a VC fund managing for example €100 million never invests everything at once, but spares a lot of the available cash for follow-on stages.

Venture capital investment stages can be divided roughly into four categories. (Cumming et al, 2009, 309)

•Seed stage
Financing provided to research, assess and develop an initial concept before a business has reached the start-up phase.
•Start-up
Financing provided to companies firms for product development and initial marketing. Companies Firms may be in the process of being set up or may have been in business for a short time, but have not sold their product commercially.
•Other Early Stage

Financing provided to firms that have completed the product development stage and require further funds to initiate commercial manufacturing and sales. They are not yet generating a profit.

•Expansion

Financing provided for the growth and expansion of a company firm which is breaking even or trading profitably. Capital may be used to finance increased production capacity, market or product development, and/or to provide additional working capital.

Generally the professionals working on the industry would consider any other type of financing occurring in a growth company's life cycle as private equity or loan. A common way to differentiate private equity from venture capital is by taking a look at the development phase of a company when the financing takes place. Venture capital takes place in the company seed, early and expansion stage (Figure 6); whereas private equity takes place in rescue/turnaround situation, management buyouts/buy-ins (MBO/MBI) and transactions that typically tie larger deals than early stage investments. Another characteristic for private equity is that also institutional investors and hedge funds participate in these transactions – whereas it's extremely rare to see them investing in early stage start-ups. Another differentiator is that a VC invests in equity rather than debt. (Cumming et al, 2009)

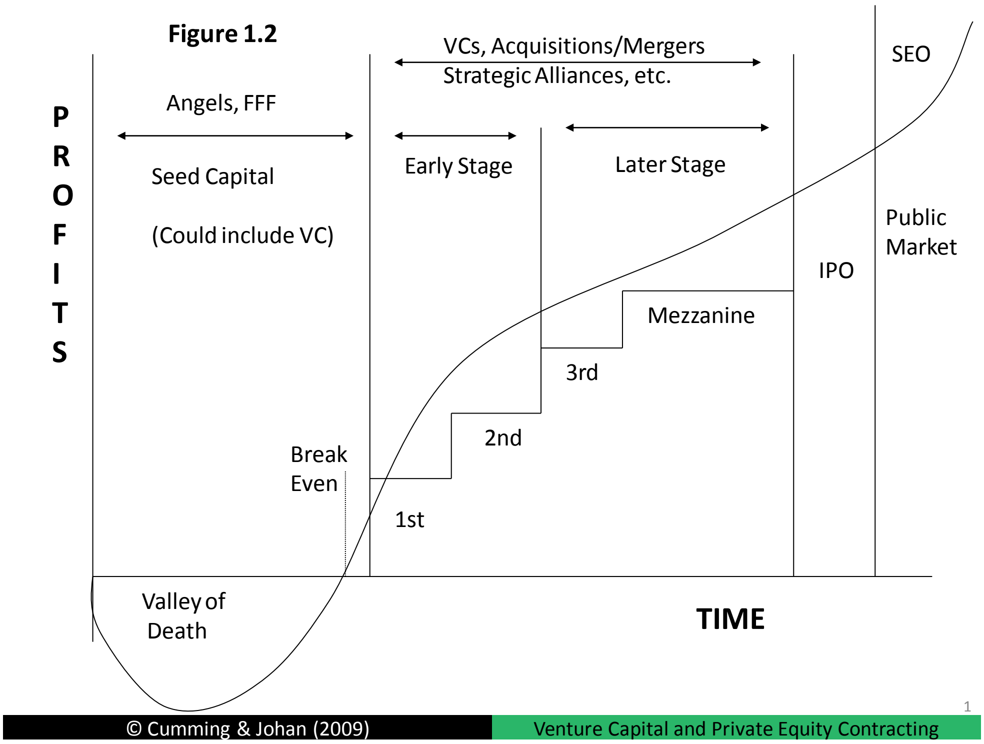

Figure 6: Venture Capital Investment Stages

3.2 Investment process in short steps

The whole process is kicked off by the company, who needs to actively seek to contact the investors and most importantly, have a business plan which is so refined that it leaves a feeling of deep understanding. The business plan needs to include so much relevant information that the investor could in theory invest based in information seen only within those pages. However, not all the information is equally important for investors. (Bloomfield, 2008, 69)

Clarity of purpose – you need know what you are doing.

- Three Ms:
    - Management capabilities.
    - Market attractiveness.
    - Mathematics - A suitable rate of return.
- Suitability to portfolio requirements.
- Reasonableness – likelihood of the plans being achieved.
- Flexibility – how adaptable is the proposal to a range of investment instruments.

Once, I heard a leading Finnish venture capital investor making a joke about the importance of various companies' attributes: "When we evaluate a company, we focus in three M's: Those are management, management and management". Investors tend to believe that a great idea with not so experienced and excellent team will have an average result, whilst an average idea with experienced and excellent team can achieve wonderful results. I have no doubt that this is true when you look the matter in the scale of thousands of companies.

The whole investment process, from when a venture firm reviews your business plan to the moment when they actually invest can take anything from one month to one year. Venture capital investors are in general looking to exit any investment during 3-7 years time period, thus in some special cases VC's can monitor a company far away even several years before they believe that the market conditions are such that its vice to invest money into the target company. On the other hand, if the investor is facing fierce rivalry of the investment from other VCs, it might execute the investment as rapidly as just one month time. Typically, however, the process takes between three and six months. (Arundale, 2007, 201)

After the VC has reviewed your business plan and showed interest you start the negotiations. At this point the company tries to convince the VC about the business potential with their utmost. This will ensure the best possible terms for the finance. In early negotiations, companies and their lawyers may wish to draft a confidential letter or non-disclosure agreement (NDA) for the investor. This agreement ties the investor not to reveal any sensitive information or ideas on third parties or its other portfolio companies. In real world, signing the NDA is a strong signal that the VC is serious about you (Arundale, 2007, 202-203).

After this stage, the VC's discuss the project internally. In most of the VC companies, (At least in Finland where the managing companies don't have tens and tens of partners) the partner in charge of the company funding needs to convince every partner of the VC that the investment will be profitable.

Next follows the due diligence stage, where the managing company employees secure that the investment is as safe as possible. The phase includes in-depth market analysis, technology review, business model analysis and extended materials about everything related to the company among other. The VC confirms the background of the investment candidate, ensures that all the statements about the market and technology are actually true and possible to implement in real-life conditions. During due diligence process the managing company also uses the benefit of its wide network and ensures information from as several sources as possible.

After due diligence follows the term sheet, where the VC gives the terms for the money. The most important part of the term sheet is the valuation. (Because valuation itself is so large and complicated concept, I will get back to it in chapter 2.3) Term sheets are large documents that hold lot of information about the terms of financing and include basically every possible scenario of the company's future development.(Lauriala, 2004, 53) This is simply due to avoid any kind of misunderstandings that could occur the coming years. If the entrepreneur decides to sign the term sheet, the deal is nearly ready to be signed. (Bloomfield, 2008, 65-66)

After due diligence follows a very important phase. The VC gets feedback from its sources about the statements the investment candidate has proposed. These can still affect the valuation of the company and is the most common phase where the investment can be cancelled. The fact is that if there is anything doubtful in your business plan it will be revealed eventually at this phase. Also legal issues of the deal are handled at this point. What's left now is only that the managing company drafts the final transaction documentation and the investment is ready to be implemented.

In honest terms, the deals are usually done with investors who simply offer the best terms. Still, there are some value-ads that can affect so strongly that the company sees it more beneficial than raw financial terms. (Bloomfield, 2008) A concrete example of this is a venture capital investor joining your company board of directors, who has already advised one or more companies into a worldwide success in the past. When your company receives the investment, typically at least one investor joins your board of directors. It's important to understand that the new advisor speaks behalf of large shareholder of your company, the managing company (VC). The more robust, experienced he is, and the better mutual understanding you have with the investor(s), the easier the following years will be for everyone. An invaluable thing is that you share a similar kind of vision for the company future.

3.3 Valuating a growth business

Small businesses differ from public companies, competing in well-established capital markets, in most dramatic way. Small businesses don't have any universally accepted codes of valuating them, but all the cases are different and valued in a unique manner. Naturally, the management believes the company is worth a lot more than the investor since its crystal clear that both sides of the table have their own interests in stake. Even though, some widely accepted valuation theories have been developed and the market information is more and more transparent today, the determination of a company's value is quite elusive, and could be described more as an art than science in the end. The best example of this was the dot-com bubble what taught everyone to be realistic in valuating technology businesses. At the peak of the bubble some businesses were valued even worth hundred times their revenues, leading to a "dot-bomb" situation where most of the companies lost 90% of their value. (Timmons et al, 2004)

When a venture capital investor is about to join a company as a co-owner, the most important single factor in the company valuation process is the competition. Competition here doesn't mean competition in the traditional market perspective, which of course is a vital and determining market factor as well, but in fact, here the competition means the competition of VCs, competing to invest their money into your company. Whenever you have five or more term sheets on your table, you can be certain that the terms you are facing are not that disappointing at all. Raising enough competition from the investor part, and timing the capital raising process well before the company runs out of funds is essential. Thus, where everything can tumble down is when a growth company decides to look for financing too late. When the company is desperate and in need of capital right away, it is usually the VC that dictates the terms of funding, and that can't mean any good from the entrepreneur perspective. The best practice for an entrepreneur looking for financing is to be on the move early enough (at least 12 months before you would be forced to file for a bankruptcy) and draw the interest of as many possible VC's as possible. Another important matter to remember is that getting a venture capital investment can't be the only way to save your company, but you need to have second and preferably third and fourth plan as well. (Lauriala, 2004)

Another, fundamental factor, in valuation is the investor's required rate of return. (Timmons et al, 2004, 137) The company stage, holding period and future outlook will determine the required rate of return (IRR) the investor wants. Once again, even though these matters seem simple, the required IRR will vary a lot depending on market conditions and the target company's elements. (Bloomfield, 2008, 77)

There are several mathematical valuation methods for start-ups, like the Venture Capital Method, the Fundamental Method, the First Chicago Method, Discounted Cash Flow method and half a dozen of other methods. I decided to showcase The Venture Capital Method, because it best manages to represent the situation of a technology-driven company, which Finland is famous of. Negative cash flow is very typical for a modern innovative company, which is preparing to launch its first product only after careful R&D (research and development) phase. Venture Capital Method is the appropriate method for investments in a company with negative cash flows at the time of investment, but that in a number of years is projected to generate significant earnings. (Timmons et al, 2004)

Below follows one example of valuing a business:

Estimate the company's net income in a number of years, at which time the investor plans on harvesting. This estimate will be based on sales and margin projections presented by the entrepreneur in his or her business plan.

Determine the appropriate *price-to-earnings ratio*, or *P/E* ratio. The appropriate P/E ratio can be determined by studying current multiples for companies with similar economic characters.

Calculate the projected *terminal value* (Exit value) by multiplying the expected net income at the point you expect to provide liquidity to your investors times the P/E ratio.

The terminal value can then be discounted to find the *present value* of the investment. Venture capitalists use discount rates ranging from 35 percent to 80 percent, because of the risk involved in these types of investments.

To determine the investor's *required percentage of ownership*, based on the initial investment, the initial investment is divided by the estimated present value.

Final ownership required:
= Required Future Value (Investment / Total Terminal Value

= (1+IRR) ^years (investment) / P/E ratio (Terminal Value Income)

Finally, the number of shares and the share price must be calculated by using the following formula:

New Share Price
= Percentage of ownership required by the investor /1 – percentage of ownership required by the investor X Old Shares

By definition, the share price equals the price paid divided by the number of shares. This method is commonly used by VCs, because they make equity investments in industries often requiring a large initial investment with significant projected revenues, in addition to the fact that in the negotiations, the percentage of ownership is a key issue.

The growth-minded small business can affect the variables in the calculation to their advantage. Because you have a proven market and a positive cash flow, the rate of return required by the investor is lowered from the start-up 40-70 percent to a growth company 25-40 percent return. This will effectively reduce the amount of equity you'll have to surrender for investment by as much as one-half. Figure 7 illustrates how the risk and return affect one another in venture capital investments.

Stage	Annual ROR (%)	Typical Expected Holding Period (years)
Seed and start-up	50–100% or more	More than 10 years
First stage	40–60	5–10
Second stage	30–40	4–7
Expansion*	20–30	3–5
Bridge and mezzanine	20–30	1–3
LBOs	30–50	3–5
Turnarounds	50+	3–5

*Expansion, bridge, and mezzanine rounds are likely areas of need for the small existing firm seeking to grow.

Figure 7: Venture Capital Investment Stages

3.4 Managing companies

Venture capital firms are typically structured as partnerships, the general partners of which serve as the managers of the firm and will serve as investment advisors to the venture capital funds raised. Venture capital firms in the United States may also be structured as limited liability companies, in which case the firm's managers are known as managing members.

In Finland, venture capital companies have no special legislation and are due to that operating under the general corporate legislation. The funds are not companies but classified as limited partnerships for finance-technical reasons. The risk has been divided so that the limited partners carry in 99% of the equity, whilst the managing company carries in the remaining 1%. On the other hand, the managing company carries the risk as managing partner of the fund, whilst the limited partners remain as silent partners. However, even though the managing company (VC) commands the fund, the silent partners are able to monitor their investments and are thus aware of the expenditure of their money. (Lauriala, 2004, 33-36)

Investors in venture capital funds are known as limited partners. This constituency comprises both high net worth individuals and institutions with large amounts of available capital, like pension funds, university financial endowments, foundations, insurance companies, and fund of funds or mutual funds.

Venture capitalists are compensated through a combination of management fees and carried interest. Management fees – an annual payment made by the investors in the fund to the fund's manager to pay for the venture capital firm's investment operations. In a typical venture capital fund, the partners receive an annual management fee is around 2.5% of the committed capital.

Carried interest - a share of the profits of the fund (typically 20%), paid to the venture capital funds' management company as an incentive. The remaining 80% of the profits are paid to the fund's investors. Strong limited partner interest in top-tier venture firms has led to a general trend toward terms more favorable to the venture partnership, and some investors are able to command carried interest of 25-30% on their funds. (Lauriala, 2004, 49-50)

Because a fund may run out of capital prior to the end of its life, venture capital firms usually often have several overlapping funds simultaneously; this lets the larger firm keep specialists in all stages of the development of firms almost constantly engaged. Overall the funds normally live up to 10 years, but the managing company aims to raise another fund already 2-5 years after the last one's establishment.

3.5 Exits

Venture capital market is driven by exits. Thus, venture capital companies are in general aiming to exit the investments within 3-7 years from the investment time. The managing companies typically already have an exit strategy in their minds when the positive investment decision is made. The exit strategy is typically to either receive profits through trade sales or by the company going public. However, everything doesn't always go according to plans and though some exits are more realizations of existing assets rather than generating profits. Below and also in figure 8, are illustrated five different exit routes for a managing company (Lauriala, 2004, 200)

- Trade sale – the whole company is sold to a company who is seeking to add value to its current business through the acquisitions. The causes of the acquisitions are versatile; perhaps the investor wants to get footage in a business industry they're not yet involved. Sometimes they might just buy-out a straight competitor who threatens their business' growth, or want to find footage in a completely new market area or industry.
- Initial public offering, IPO – The company lists itself in the stock exchange and thus all the stocks become liquid and can be traded for capital.
- Share buyback – Company management claim the shares back from the investor. They are no longer in need of the venture capital firm and want to acquire the shares back. Share buyback might be either profitable for investor, or necessary to free even some of the committed capital back to the fund.
- Refinancing – A long-term institutional investor joins the company and acquires the venture capital firm's share of the company.
- Liquidation – Company's business doesn't develop as was planned and the venture capital firm needs to make a painful decision to stop further financing of the company. As the company can't secure any more financing it drifts to liquidation. Later the company will file for a bankruptcy and its assets will be shared amongst the shareholders.

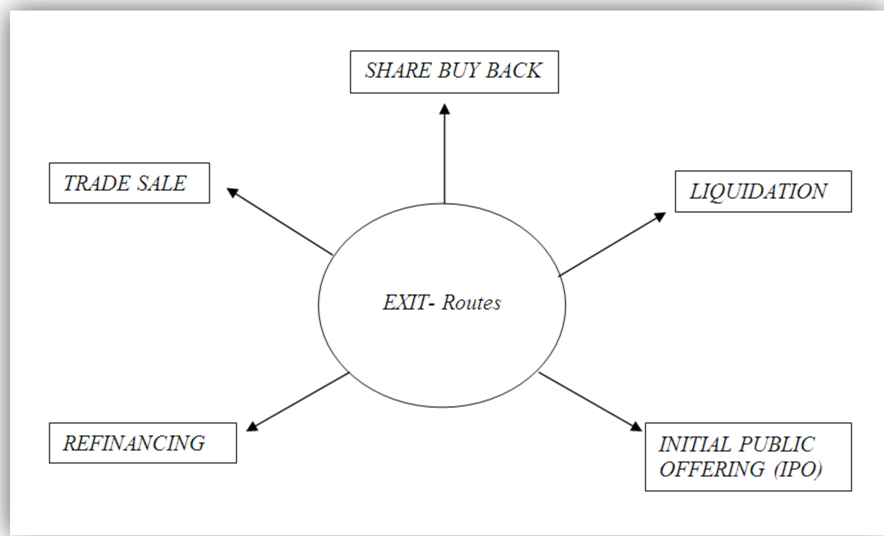

Figure 8: EXIT-routes

From investor point of view, IPO is typically seen as the best possible exit channel. (Lauriala, 2004, 201-202) In IPO, the managing company can return its committed capital easily tenfold. In some great venture-backed companies like Google, experts have estimated that the returns for investors were more than 100-times the invested capital. However, Will Cardwell argued in his blog (Cardwell, 2010) very soundly, that actually trade sales can be more profitable for investors – but it presumes that the initial public offering is a competing alternative for the trade sale. “Trade sales are fine, but the pricing of the deals cannot reach their potential unless there is a credible threat for excelling companies to go public. Many of the Finnish companies that have listed have struggled mightily to keep reasonable market value and necessary liquidity.”

Perhaps without noticing, Mr.Cardwell also noted out the biggest problem in listing in the Finnish stock market; its remote location causes that many of the companies listed in the Helsinki OMX are suffering to have necessary liquidity. (Jenni Selosmaa, 2007)

European Success Stories (Hervé Lebret, 2010)
Company Country Status Value VCs

- Skype Sweden(Estonia) M&A eBay $2.6B (2005) DFJ, Index
- Navision Denmark M&A Microsoft $1.5B (2002)
- MySQL Sweden **(Finland)** M&A Sun $1B (2008) Benchmark, Index
- Qeyton Sweden M&A Cisco $800M (2000)
- Element14 UK M&A Broadcom $800M (2000) Oak, Amadeus
- Virata UK M&A Globespan $545M (2001) Oak, Index,3i
- Kelkoo France M&A Yahoo $500M (2004) Innovacom, Banexi
- Adva Germany IPO Frankfurt $470M (2006)
- Swissquote Switzerland IPO Zurich $470M (2006)
- ILOG France IPO Nasdaq/Paris $300M (2006) Oak, Atlas

3.6 Modern models of venture capital investing

Because of a dramatic slump in venture capital investment returns in the end of the latest decade, the traditional VC model was put under heavy examination. Without a doubt, a heavy inspection was, the least to say, reasonable as several studies reported that the returns of the recent decade were merely 14%. The more worrying, returns of the last three years were as pitiful as 1.3%. (Return of VC Investments, 2009) Thus, the industry that’s model had worked superbly for nearly four decades was first time questioned inside out.

However, on the other hand, the survey of 1,281 U.S. venture capital firms showed that for all of the major periods (1 year, 3 year, 5 year, 10 year, 15 year and 20 year) returns outpaced the major stock indexes. This is a strong counter-argument that can be hardly avoided.

What would be the impact on these figures on the venture capital business then: Smaller funds? Fewer limited partners participating? What about a true shakeout and consolidation? All of these actions would relief the pain on some part of the venture capital process, but none of these truly offered an answer to the essential; does the current model operate efficiently enough?

The latest happenings in the industry also triggered more radical, innovative new waves. Together with the evolution of Internet, increased market transparency and fast-communication tools like Twitter and Facebook, the circumstances were set favorably for crowdsourcing tools. First crowdsourcing services (crowdfunding) models for venture capital investing were introduced shortly after the recent happenings (many of the services were already being innovated during 2007-2008). In crowdfunding, the capital for investments is pooled from large amount of people and networks, in small quantities. The process can be implemented relatively easily through collaboration platforms, where individual micro investments pile up to be significant investments rounds after a number of participants decide to place their input in a company. The simplest of examples; a mobile gaming company is looking for a 100 000€ seed round. 20 people find the story interesting and each place 5 000 Euros of their money to the company. When all 20 people have committed the capital, the investment round is ready and is implemented. The consortium gets for example 30% share in the company – thus each of the individual investors now holds a 1.5% share of the mobile gaming company.

It is also possible that some venture capital firm would have a commitment clause, so that when the mobile gaming company manages to attract financing worth 300 000€ through the platform – they will invest for example another 300 000€ to mount the total investment to 600 000€. Co-investing in the early stages is not untypical in the traditional VC model, and surely won't become so in the modern models either.

One of the most interesting arrivals to the industry has been Grow VC.
In its own words Grow VC is a "Grow Venture Community - the Virtual Silicon Valley. By bringing the first truly global, transparent, community-based approach to seed-funding, Grow VC can help start-ups secure initial funding of up to 1M USD for their businesses.

Grow VC will not only connect start up entrepreneurs with investors to help them discover common interests, but also provide tools for processes and transparent, new ways of doing things." (Grow VC, 2010)

However, it's too early to tell whether these disruptive venture capital models will proof to be worthy or not. Without a doubt, in 2-5 years period of time we will be much wiser with the matter.

4 THE SPECIALTIES AND KEY DIFFERENTIATORS OF THE FINNISH VC MARKET

In general nearly all venture capital data and research is done in the U.S, which is the cradle of the whole industry. U.S is also by far the most developed VC market in the world and there are no signals that this position would change in the coming decades. The driving force for the long tradition in U.S is the lack of governmental, public financing which has forced the companies to look for alternative sources of financing. The supply has thus met demand. Another reason for the industry's size is its long traditions. Former entrepreneurs have today became VCs, who are investing their expertise and money in new grow ventures. What about Finland then? What is the state of Finnish VC market and is it serving the growth companies in a way that it should currently?

Most notably it must be said there is extremely limited amount of venture capital data available of the Finnish market. To be honest, besides Finnish Venture Capital Association, there was not a single entity tracking the venture capital activity in Finland, before Technopolis Online (www.technopolisonline.com) was established in the early 2009. It occurred so, that the research conducted by FVCA couldn't satisfy the need for transparency the market needed, because the research only included the members of the association. When I was asked about the differentiation of Technopolis Online and FVCA statistics, I wrote in the TPO blog (How TPO and FVCA statistics differ, 2010) as follows

The first and most important difference is that we (Technopolis Online team) track primarily venture capital investments, while FVCA tracks all types of private equity investments. Many types of private equity investments are typically large in size, which causes the remarkable gap I'm talking about here. PE investments can be divided in many broad categories, e.g. leveraged buyouts, distressed investments, mezzanine capital, venture capital and growth capital. It's not in our interest to track buyouts in general, but only some special cases when the investments are more growth-orientated than typical buyouts. In particular we are not interested in large LBO arrangements (Leveraged buyouts), where the deal sizes can rise up to several tens and even hundreds millions. Another differentiator is that we don't follow mezzanine debt and equity investments.

Secondly, Technopolis Online tracks only venture capital investments in Finnish high tech companies. Technopolis doesn't track deals that take place for example in retail, mining, low tech manufacturing, groceries, agriculture, services, finance or any other industry that is not primarily high tech.

The third difference between Technopolis' and FVCA's dataset is that TPO counts each financing round as a one transaction, even if there are multiple investors volved. FVCA counts the amount of transactions such that each of its members executes an investment, it counts as once transaction. Thus FVCA will record more transactions than Technopolis Online will.

The fourth difference is that FVCA only tracks deals of its members. Technopolis Online instead tracks deals that occur in the Finnish market, whoever the venture capital investor might be. Thus TPO will include angels and international investors who will not be tracked by the FVCA.

It could be argued, Technopolis Online has since its establishment been the only relevant source for venture capital investments in Finnish high-tech companies.

4.1 Development of the Finnish venture capital market

The Finnish VC market has been seen as a quiet and remote market since its early steps in the 90's. The general opinion of the industry experts has been that the market doesn't entail enough venture capital financing to finance all potential businesses. (Puttonen, 2010) Whilst Finland has always had a very research-focused mindset, and some of the results have been of most encouraging – it has been seen that the nation has actually had a tendency to fail in commercialization of the innovations. Many experts have claimed that one of the reasons for this failure has been the lack of venture capital financing for promising high-tech companies. Especially the need of large international rounds (that domestic VCs can't invest due to their typically smaller fund sizes) has been screaming. Many have claimed that the system has suffered largely due to the missing late-stage financing which has prohibited the companies to grow large enough in the international scale. (Cardwell, 2010)

To improve the situation of promising companies, the government established TEKES (the Finnish Funding Agency for Technology and Innovation) in 1983 to finance the potential high-growth companies. Since its establishment, TEKES has grown up to be a huge organization which currently manages yearly budgets worth 500 million Euros (budget in 2009). When we also consider the fact that Finland attracts some minor streams international venture capital every year, and that the domestic investors are investing around 50-100 million Euros (Technopolis Online Annual Report, 2010) in growth companies annually – doesn't it sound that everything is just fine? But it's not. There is a theory in finance which claims that when you equalize companies too much (finance everyone instead of the best cases), you actually worsen the growth potential of the best possible prospects. In the case of public financing the matter is exactly this. The best cases don't get to shine enough and don't get differentiated of their competitors, because the government equalizes their customer acquisition opportunities against the true market conditions by notoriously financing nearly all companies.

After Juha Ruohonen released his VICTA research regarding the needs of Finnish innovation ecosystem, the government decided to act and made a real initiative to increase the success potential of growth companies. The ministry of Employment and the Economy decided to start a program called Vigo Startup Accelerator Program, exactly as the report of Ruohonen had suggested. The model was based in the success story of Israeli, a country that had managed to grow its high-tech sector and venture capital market successfully with right kind of initiatives. A country with no true technology innovation in the 90's had changed the infrastructure of the nation in the most dramatic way – and was now a central VC area with second most exits in the NASDAQ stock exchange right after U.S-based companies. This all happened in a decade and no wonder that the Finnish decision-makers have been amazed of the "miracle of Israeli". (IVC- Online, 2010)

4.2 Vigo initiative

The Vigo web page describes the program like this:
"The Finnish Ministry of Employment and the Economy has launched the Vigo Program to boost the development of fast-growing start-ups. The Program is coordinated by Tekes. The aim is to use public sector incentives to achieve the involvement of the best, internationally experienced top experts in enterprise development to transform start-ups into new growth enterprises. To this end, the Programme will establish start-up accelerators where seasoned professionals coach start-ups into rapid growth and increased investment-readiness. The aim is to boost the Finnish venture capital market and attract international accelerator players and venture capitalists into Finland." (Vigo, 2010)

The idea includes some basic ideas of the capitalism. The experts, accelerators, are allowed to invest into the growth companies with relatively small valuation and still enjoy government's financing, as long as the ownership of the company stays below 10%. This incentive ties the Vigo's even more passionately in the development of the target companies which is naturally a great thing. The chance of individuals getting wealthy is thus tied to the opportunity to achieve growth on the national level. Smart. The program also has a tentative agreement with Veraventure – a public financed VC – to invest in the target companies and an access to TEKES financing. Altogether, the companies that are chosen in VIGO program can access as much as 2,6 million of capital even before any domestic or international investors enter the company – which of course is the ultimate goal of all this. The participating accelerators get a fee of 9000 Euros a month from the portfolio companies. This funding is provided by TEKES which has lead to a lot of criticism towards the program: Aren't the accelerators always going to have a maximum (10) companies in their portfolio for the maximum time (two years) just to maximize their own consulting profits during the acceleration?

The program is still young and it’s too early to appraise its possible success in attracting more investments into Finnish high-tech companies. However, the early opinions have been market-vice positive despite the grumble of “oversized” benefits.

Currently the program has six accelerators that are working on several areas of high-tech technology: Cleantech invest, Food Process Innovations, KoppiCatch, Lifeline Ventures, Lots and Veturi Venture Accelerator.

4.3 Future directions and possibilities

The problems of the innovation ecosystem and its central problem, venture capital financing are all but solved. Thus, Finnish Minister of Economic Affairs, Mauri Pekkarinen, nominated Professor Vesa Puttonen as an executor to review how Finnish government funding and services could be streamlined so that the system would better serve the growth entrepreneurship society.

The starting point of the research was to find the right solution for the Finnish innovation ecosystem. It was already acknowledged that the system had currently severe shortcomings, such as the fact that investments in technical research and development were not generating enough significant international success cases. Professor Puttonen was searching for improvements for some of the most contemporary topics among the entrepreneurial community and its support functions: i.e. what should be the role of the public sector in the future, and how could the emerging early stage companies’ need of venture financing be satisfied?

4.4 Key findings

The report concluded what many had been speculating for years: Finland doesn’t need more public funding, period. However, interestingly enough, the ecosystem is in massive need of value-added early-stage venture capital.

It could sound absurd for one who hasn’t become acquainted with the matter; why on earth would it matter whether it’s public or private money that funds the company? There are a few important factors that make the private financing more valuable from the company perspective.

First of all, venture capital investors bring their wide network and long experience for the portfolio company. They for example may bring onboard important partnerships – and perhaps even customers. Public financiers like Tekes (the Finnish Funding Agency for Technology and Innovation) don’t have such resources or skills to offer this type of value add. The value add of the funding itself is zero – what matters is the additional benefits private investors bring to the table. (If it ain't broken – Improve it, 2010)

The second important differentiator is the ambition of the investors that have been brought into the company. Venture capital investors want to grow companies aggressively to prepare them for trade sales or going public. Only strong returns can ensure a successful fundraising for their next fund – so there is also a lot of skin in the game from the investor side. Public financiers instead place bets across the board. Success of a single growth company doesn't matter as much in the big picture.

Other important findings were:

Public sector should promote the development of the private market. Direct intervention should be minimized.
The Finnish early-stage venture capital market is weak.
Internationalization results of Finnish startups are poor.
There are not enough high-profile spokesmen for growth entrepreneurship.
The public funding agency, TEKES, has grown so big and powerful that it's no longer acceptable to question either the model efficiency, or its results.

4.5 Improvement suggestions

The most interesting development idea the report offered was without a doubt the suggestion to merge all the public equity financiers (Veraventure, Aloitusrahasto Vera and Finnish Industry Investment) into one group. The administration of the new public financier would be either Finnvera or Finnish Industry Investment. Henceforward, the public financier wouldn't have as a performance goal the return requirement, or even maintaining the committed capital. According to Puttonen, this would liberate the public financiers from the current conflict between the need of trying to generate returns and having a positive influence on the community simultaneously. And yes, with all due respect to the current system, the role of public financiers does sound impossible indeed.

How would this improve the venture capital market efficiency then? Well, without the return requirements, the public financier could enter a company with significantly lower share, but also to exit on a time it benefits the portfolio company the most. This moment might for example be when international investors step in. In summary, these actions would lower the barriers for new companies to enter the market while at the same time internationalizing the early-stage Finnish venture capital market.

Other important ecosystem improvement recommendations were:

- All the public institutions should be administrated by The Finnish Ministry of Employment and the Economy. Thus, institutions like Tekes, Finnvera and many others would work more in alignment of the Ministry strategy. Every institution should have a board lead by a chairman coming from The Finnish Ministry of Employment and the Economy. Puttonen also suggests that the steering group ensures that the strategies of the institutions would match with the overall ambitions of the ministry.
- Clarification on the roles of government organizations. In the future, every organization should have a clear role, and those roles should not be mixed up to confuse the public. TEKES: grants, Finnvera: loans, Government investor: seed capital and venture capital.
- Program to internationalize the early-stage venture capital market – including an interesting meeting point for international investors.
- The report also noted that Finnish Industry Investment is not currently even operating in the area where the funding need is most acute.
- Deal-flow marketplace for government-backed promising companies. We should be able to showcase at least 40-60 of our most promising companies to international investors every year.

Overall, all these recommendation seem very positive to the ecosystem and it feels comforting to know that the system has already started the shifting towards these targets. The change just doesn't happen in weeks of time, and everyone should accept and understand that. It would be naive to think that a whole national economy could change its "strategy" like a four-man strong start-up does. (If it ain't broken – Improve it, 2010)

5 THE RELATION OF MONEYTALKS EVENTS AND COMPANIES' FUNDRAISING

5.1 Methods

In order to create a comprehensive picture of the companies who had been pitching I needed to explore through old event catalogues, documents and other files and then combine all the companies together. After this I used Technopolis Online database to combine all the investment rounds these companies had received and when. Technopolis Online is the most comprehensive venture capital investment database in Finland which tracks all Finnish high-tech companies and, domestics and international investors and business angels. After this I compiled excel which clearly indicates whether the companies got financed before or after the event, and most importantly - how long after the event the financing took place. After these phases all that was left to do was to compare the results to industry averages. Even though the industry averages couldn't be directly compared to my results, because it's impossible to argue that a company only received financing because they participated in our events – but it was still argumentative to claim that it was certainly a boost for the company’s wishes to receive risk financing. Thus, the results give a good idea of how effective it was to present your company to investors in MoneyTalks® events and later meet face-to-face with them.

5.2 Findings

Altogether there were 87 Finnish high-tech companies who had been selected to pitch at MoneyTalks events. Some of them had been selected more than once because they’ve had the need for risk financing more than once in the company lifecycle or they had a notable change in their business model between the pitching occasions. There were also a significant portion of foreign companies who had been pitching in the events. The foreign companies mostly consisted of Estonian companies, but also companies from other Nordics had been present.

Out of 87 companies’ total, only 70 could be considered valid for the analysis. This was due to the date dates when the remaining 17 companies had been pitching. They had all been presenting during last five months and were not thus theoretically yet open to receive financing afterwards. The theoretical estimation for receiving investments from venture capital investors is from three to six months. However, there are several cases known when the investors have managed to agree terms with the companies in as less as 1-2 months timeline. Fast-paced investment execution indicates that the target company has been extremely wanted from the investor perspective and they have given up or streamlined some of the processes like due diligence in order to ensure that they get their hands on the company. Only this way they have been able to offer something unique compared to rival investors.

Out of the remaining 70 companies, altogether 36 companies had received risk financing. Eleven companies out of these 36 financed companies had managed to secure also another financing round. Altogether this meant that these 70 companies had attracted 47 private financing rounds which is a wonderful number and drastically above the industry averages.

Out of the 47 private financing rounds 21 had taken place before the company pitched in MoneyTalks event. Thus, these financing rounds were irrelevant in the analysis of the fund-raising success after presenting your idea exclusively in MoneyTalks events. Hence, what was left to analyze was 26 financing rounds that had occurred after the event took place. The average time the investment took place was 8.5 months after the event the high-tech company had participated. After eliminating 10% of both extremes the result was 7.3 months. Hence, even though it’s impossible to find waterproof evidence that MoneyTalks events have facilitated investments into Finnish high-tech companies these transactions happening so conveniently around 7.3 months after the events were hardly denied. In truth, after comparing the participant list of the events and hereafter the investors who invested in these high-tech companies the relation is clear.

What was rather surprising to see was that only three companies received financing from an international investor. Even though, the international investors have been receiving wonderful pre-screened deal-flow from Finland in MoneyTalks events, for some unaddressed reason the high-tech companies haven't been able to convince the investors of their quality. Still, it can be argued that companies who haven't been pitching in MoneyTalks events have succeeded in attracting international investments even less on an average. In 2009 there were only five international venture capital investments into Finnish high-tech companies. (Technopolis Online Annual Report, 2010) In that sense, we can notice that the macroeconomic shortcomings of the Finnish market are present also in the MoneyTalks events.

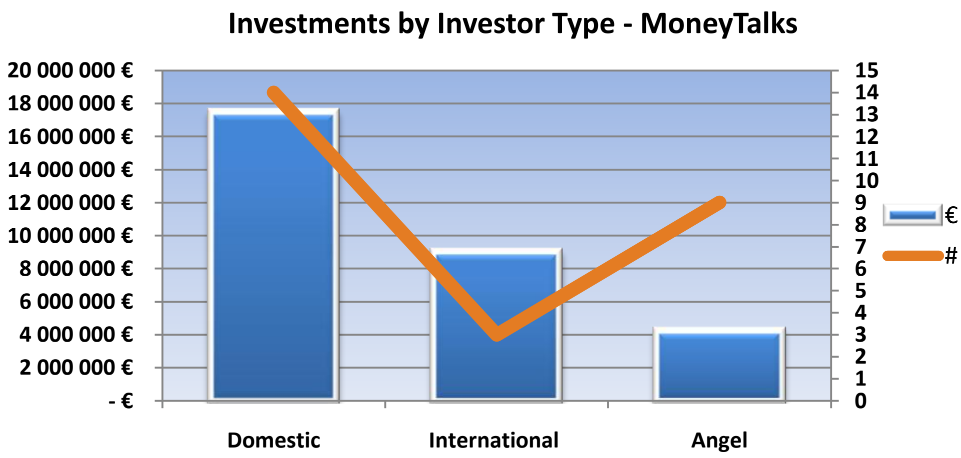

Figure 9 Investments by Investor Types – MoneyTalks

Otherwise, the analysis underlined the fact that each type of investor has their role and they all are important for growth companies. International investors have typically larger funds and are thus ready to invest bigger sums than domestic investors. Angel investors instead are mostly operating in the very early stages, when the company can still be only an idea of a talented team, or a prototype of a new type of technology. Angel investors' importance for the ecosystem is immense, as they help promising companies to get forward until the stages when they are ready to intake financing from a venture capital fund. As the graph clearly indicates, angel investments are typically smaller than venture capital investments from funds.

Below (Figure 10) is demonstrated the differences between investor behaviors on a national level compared to companies that pitched in MoneyTalks. Interestingly enough, the most dramatic slump, in terms of Euros, can be seen in the level of attracting international investments after pitching, whilst the national level seems significantly larger. Still, the sample is so small that it is driven by few larger deals that skew the statistic substantially.

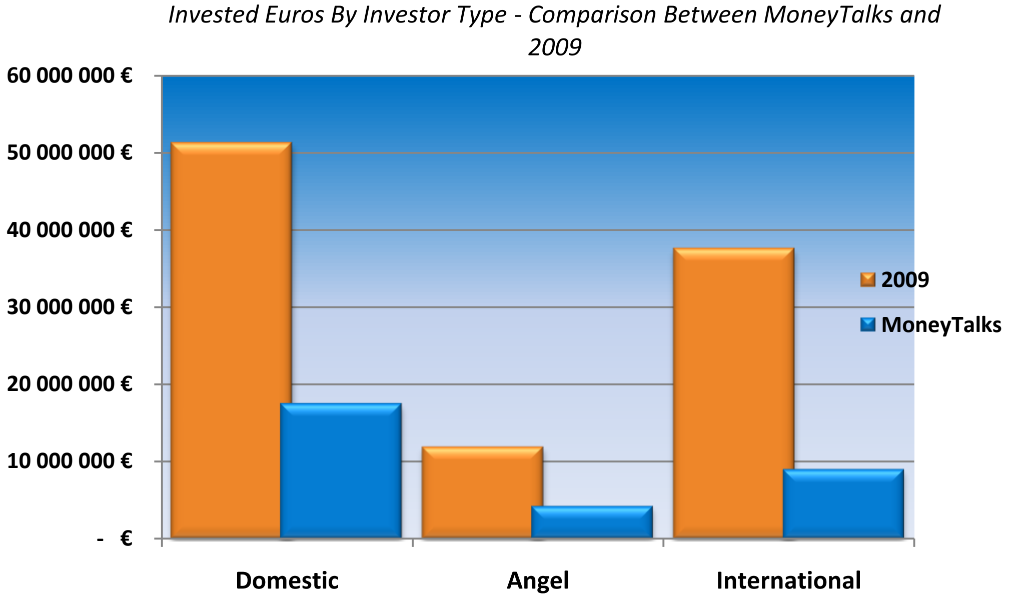

Figure 10 Invested Euros by Investor Type – Comparison between MoneyTalks and 2009 Statistics

Amount of deals instead (Figure 11) indicates interestingly that companies who have been pitching in MoneyTalks events have been especially successful in raising angel financing when compared to 2009 high-tech industry report. However, it seems that domestic investors haven't been so excited about MoneyTalks companies since their portion compared to the annual figures is significantly smaller than angel investor's portion.

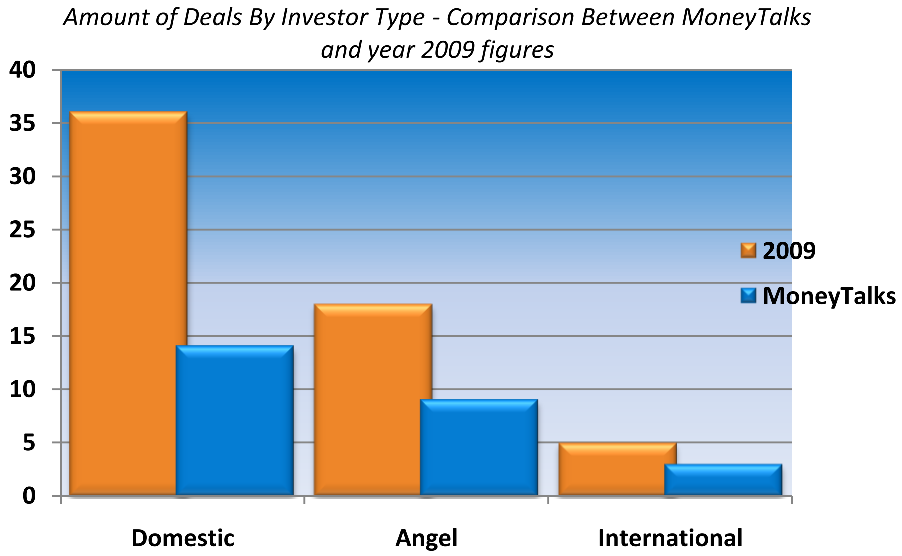

Figure 11 Amounts of Deals by Investor Type – Comparison between MoneyTalks and 2009 Statistics

Another very typical attribute for the domestic market is the lack of later stage deals. Late stage venture capital deals are very critical for the market because only they can ensure that the company has the necessary capital to grow until the stage, where acquisition sums are viable from the investor perspective. Venture capital market sort of works bottom up; if there are no exits – there are no new funds. This then instead, leads to lack of early stage capital.

The statistics clearly confirm that the events' focus on early stage capital (pre-seed, seed, first round) is true. Out of 26 investments only one was clearly later stage investments, whilst three remained undisclosed. MoneyTalks companies closed even less late stage deals than companies closed on average in 2009. This is a good indicator of a success of the focus set for the events. Companies on their late stages are often already venture-backed and thus the investors can be found from the network of the current investors – with current investors co-investing with them.

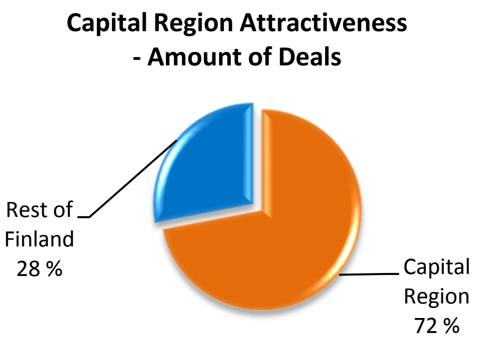

Figure 13 Capital Region Share of Investments

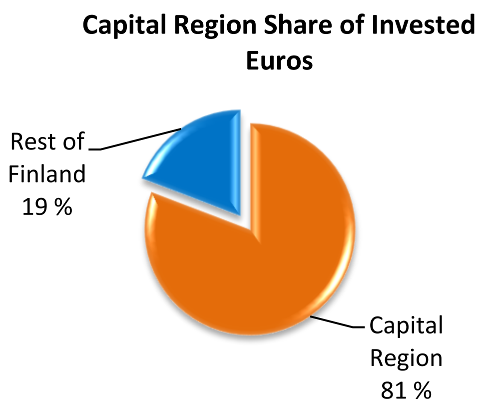

Figure 12 Capital Region Share of Investments

One more important finding was the concentration of investments. The venture capital market is very much hub-driven, meaning the more companies around, the more investors around as well. However, it still was surprising to see that the concentration of investments of MoneyTalks companies is even more focused in the capital region than the overall high-tech investments in 2009. Most of the MoneyTalks events are held in the capital region, but still the participants – as well as pitch applicants are from all regions of the country. Thus, even when taking into consideration that vast majority of high-tech start-ups are based in the capital region, the graph obviously indicates some trend that should be taken a closer look at.

Another important reason for the concentration of capital is that the majority of MoneyTalks events are held in the capital region, and naturally the ones who are based close are also more likely to attend the events. However, there are no limitations set for the pitching start-ups and even though the interest from all over Finland - and even beyond - has been large, it would be great to get even more companies from other regions to pitch in the future Money-Talks events.

6 TECHNOPOLIS ECOSYSTEM'S SHARE OF OVERALL VENTURE CAPITAL INVESTMENTS

In order to get a truly comprehensive idea of the current situation, there was a need to compile a report of the "Technopolis Ecosystem" which would include every program participant, all the tenants and matchmaking event pitchers. I compared these companies and their stay inside Technopolis Ecosystem to the financing rounds of past five years – and only included them as part of Technopolis Ecosystem, if they were directly under the influence of any of the mentioned activities during the raising of financing round.

6.1 Technopolis ecosystem defined

- Tenants
- Incubation Clients
- MoneyTalks Event pitchers
- Fundraising Clients
- Companies who received Financing through VC Zone initiative
- Companies part of Innovation Mill program
- Companies part of Tampere All-Stars program
- Companies part of Born Global program
- Companies part of Teve Growth program

To underline the relevance of the study, if the company didn't take part to one of these programs, activities, or was not at the moment a tenant when the financing round occurred, the company was not included in Technopolis Ecosystem figures.

6.2 Findings

The obvious bright side was that Technopolis was a facilitator (enabler) in nearly 50% of the risk financing rounds in the Finnish market, as figure 14 illustrates. This should be considered to be a very impressive figure. However, the big concern can be seen from the graph below; the percentage of Technopolis enabled cases is decreasing fast and it is mostly due to the strategic decision to spin off the incubation activities and some very effective governmental start-up programs with it. Especially during 2008, when there were programs like Born Global and Teve Growth, which included many of the most promising cases, the share of risk financing enabling was top-notch.

Thus, since the incubation was an important link between Technopolis and the university world, where the innovations mostly origin, we can see that Technopolis has lost ground in its share of enabling venture capital financing for start-ups. Once you come to think of it, these companies are the ones who create most of the jobs (as earlier argued in the thesis), and are likewise the only companies who are net square meter buyers at the end of the day. Whilst companies are constantly creating and destroying jobs, only the start-up/growth companies end up net job creators. Still, it is very early to make any drastic conclusions over the market share drop, but it should be pondered at least.

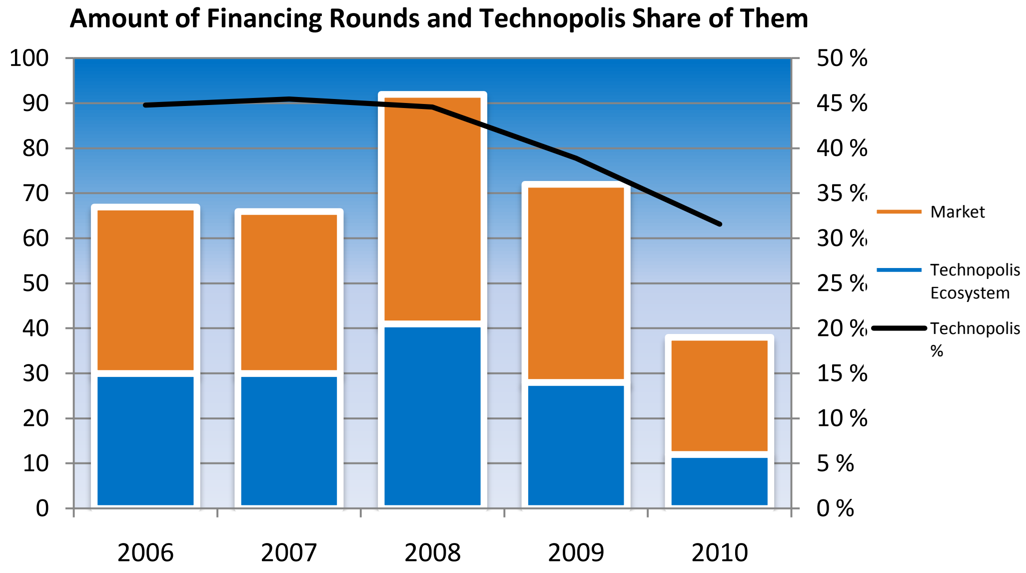

Figure 14 Amounts of Financing Rounds and Technopolis Share of Them

Whilst looking at the euro amounts, the figures are perhaps even more positive from Technopolis' perspective than the quantities (Figure 15). What these two graphs commonly tell, is that Technopolis' Enabled financing cases are actually raising more financing than the cases outside Technopolis ecosystem. You can end up with two different types of conclusions about this; First of all, Technopolis' message has reached the best potential clients, or Technopolis Development Services have prepared the companies in so good way, that they achieved better results in their venture capital raising process. However, this thesis is not meant to decide which one of the two existing possibilities is more alike than the other.

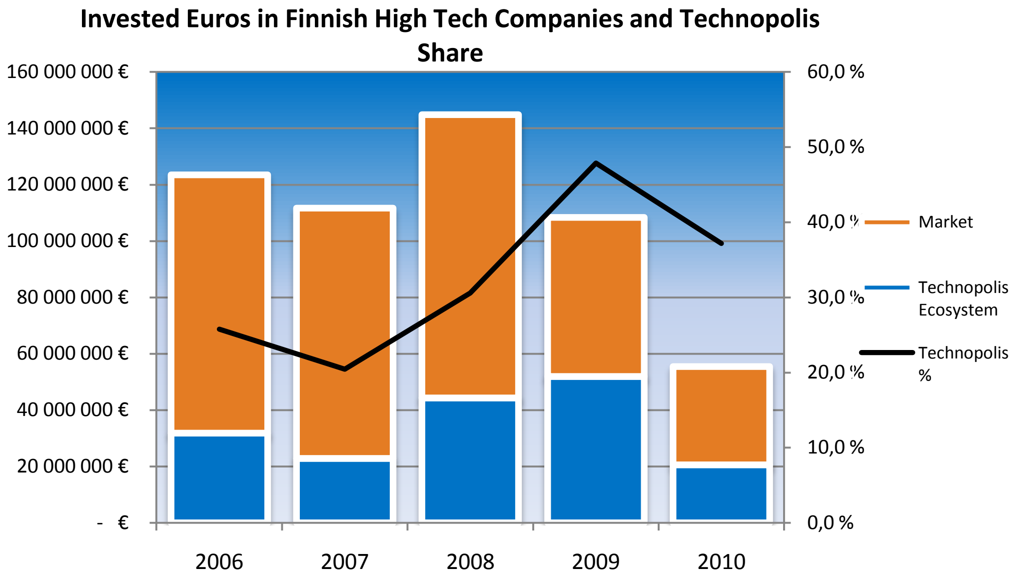

Figure 15: Invested Euros in Finnish High Tech Companies and Technopolis Share of Them

7 CONCLUSIONS

7.1 MoneyTalks® perspective

Consequently, it was rather simple to see that the relation between receiving venture financing and pitching at MoneyTalks events existed. Still, it was very difficult to determine how strong the relation was and how strongly the other factors – like macroeconomic environment – affected in the company's success in fundraising. However, to emphasize the mathematical relation that could be seen, the key percentages are summed up (figure 16) to somewhat verify the relation.

MoneyTalks Statistics	*numbers*
Companies	*87*
Valid for Analysis	*70*
Financed Companies	*36*
Financing Rounds	*47*
Received Financing %	*51 %*
Received Financing After Event	*26*
Received Financing After Event %	*37 %*
Financing Took Place (Avg months after)	*8,53*
Financing Took Place w/o Extremes (Avg months after)	*7,28*

Figure 16: MoneyTalks® Statistics

The most important finding was the lack of international investments to companies who have pitched in MoneyTalks events. Yet, there is no clear reason why the technically superior Finnish companies have been poor to raise international financing. However, the same "unknown" applies to the companies we qualify from tens of applications to present their businesses to the investors.

Other important findings were that the focus of investments is exclusively in the capital region, and that most of the financed companies are either seed or early stage. Even though these are the trends in the macroeconomic level as well, the differences were even larger in our samples.

A very positive signal was the significant amount of angel investments to the companies. The involving of angel investing community in MoneyTalks events is a vital task and obviously the co-operation has been carrying good results this far.

The same financing challenges that are present in the macroeconomic level are also strongly present in MoneyTalks events. Thus, it would be wise to adopt the best development ideas from the national level to serve Technopolis purposes as a matchmaking organisation that benefits the start-up ecosystem. Not to forget the own development targets as well, of course.

7.2 Technopolis Ecosystem perspective

The fact that the link between university world and Technopolis has became weaker through the change of strategy is concerning. Span off of the incubation activities and several other partly government-backed programs could severely backfire in future. However, the strategic goals being set in another way, the conclusion and development ideas, doesn't take sides whether it has been a good or a bad decision. For example, current and previous profitability of Technopolis operations is out of the subject in these conclusions.

Altogether, excluding the profitability and strategic objectives, the decreasing share of the "born global start-ups" should be addressed fast. The longer the matter remains unaddressed, the more severe and challenging it will become. If the trend remains like this in the coming years, the Technopolis Ecosystem's share of financing rounds slump to under 20 percent in two years. Few more years and it will be only ten percent.

This thesis won't also take sides which could be the best ways to ensure the continuance of the quality deal flow, and to be frank, there is no one right way to address it either. However, here are some suggestions which could be utilized during the coming years:

- Improved measure system through a platform offered by a service provider, which would need to be precisely planned as a tool to follow-up the deal flow and successes.
    - Integration of the measuring system to existing tools (e.g. Technopolis Online and CRM)
    - Increased activity in feedback gathering in all areas of activities
- Proposals to strap-up important entrepreneurship organizations from universities
    - HMEA, LaureaES
    - AaltoES, HelsinkiES
    - Metropolia Entrepreneur's Club
    - Other sites
- "Start-up wing" to one of the existing buildings
    - Three level of working spaces; open space for ideas, small premises for young companies and proper offices for companies who are already on growth stage
    - Lowered rents, perhaps partially paid by entrepreneurship societies or universities
- Giving up freedom for enthusiastic entrepreneurs to arrange events and activities – making Technopolis environment young and energetic again
    - The hype would be created by entrepreneurs instead of us, this would make the marketing seem more genuine
- Being more present in the events, where growth entrepreneurship is pushed – in a fun way
    - There are things you can do with 500€ that everyone will remember and then on the other hand, there are things you can do with 100 000€ which will go unnoticed by the public
- Improving the service portfolio to truly offer something for the growth companies during their whole lifecycle
    - Offering value-added services to growth companies once they agree to rent premises. The services would serve as a tying force once they are considering of leaving
- Clarifying the new message; Technopolis no longer offers incubation activities, however, we still want you to grow, because when you grow – we grow.

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9 TABLE OF FIGURES