

# Facts and Figures on Private Equity and Venture Capital Activity in Austria

## Background

Although the Austrian private equity market is quite well established it continues to evolve rapidly. Independent players dominate investment activities in Austria and 2002 was marked by stable investment activities and a considerable increase in funds raised. Apart from banks, institutional investors showed a stronger involvement with Austrian private equity and venture capital players. Nevertheless, difficult market conditions persisted during 2002 and were responsible for an increase in follow-on investments while write-offs increased.

## Sources of Capital

Fundraising grew from € 137 million in 2001 to € 177 million in 2002, representing an increase of 29 per cent. Fundraising was again dominated by independent investors who raised € 142 million in 2002, a 46 per cent increase on the € 97 million raised a year earlier. Banks are still the leading providers of capital in Austria although the relative share of total funds raised from banks fell by 22 percentage points in 2002. In 2001 banks represented 63 per cent of all funds raised, whereas in 2002 this fell to 41 per cent.

Fund of funds contributed more than five times the amount they did in 2001, rising from € 6 million in 2001 to € 34 million in 2002. This leaves fund of funds with a 20 per cent share in total funds raised in 2002 compared to only 4 per cent in 2001.

Insurance companies more than doubled their contribution from € 10 million in 2001 to € 27 million in 2002.

Government agencies, which accounted for 8 per cent of total funds raised in 2001, committed € 22 million last year meaning that their share of the total increased to 13 per cent.

At € 10 million, private individuals also invested more in Austrian players in 2002, up from the € 6 million they invested in 2001.

Domestic sources of funds became more important in 2002. Whereas in 2001 only 62 per cent of total funds were raised in Austria, this figure climbed to 74 per cent in 2002.

About two thirds of the € 177 million raised this year are expected to be allocated to venture capital investments, while the remaining funds will flow into buyout deals. This shows a considerable shift of investment focus, since in 2001 nearly 92 per cent were expected to flow into the venture capital segment. € 77 million of the funds raised in 2002 are expected to go into high-tech venture capital deals.

## Investment Patterns

A total of €146 million was invested by Austrian private equity companies and venture capitalists in 2002, which is similar to the amount invested in 2001. Whereas the number of investments fell from 212 in 2001 to 171 last year, Austrian players seem to have gained more of an appetite for larger investments. The average deal size in 2002 was € 0.85 million compared to € 0.69 million in 2001.

As was the case in 2001, independent investors accounted for 70 per cent of the amount invested in 2002, while captive and semi-captive players accounted for 23 per cent. Public sector investment in 2002 was only 16 per cent of the 2001 total.

A total of €146 million was invested in 2002, in line with the €147 million invested the year before. 2002 was marked by a slight shift from venture capital to later stages of development, and in 2002 buyouts and replacement capital deals accounted for 21 per cent of all investment. Venture Capital investment (seed, start-up and expansion) made up 87 per cent of the total in 2001 and 79 per cent in 2002. The number of investments in seed and start-up stages dropped in 2002, whereas the amount invested in replacement capital increased considerably. The amount invested in buyouts remained relatively stable between 2001 and 2002.

In 2002, the computer related sector attracted a 48 per cent increase in investment to reach €52 million. However, the number of deals in this sector fell, resulting in a higher average investment. Industrial products and services made up 13 per cent of the total amount invested in 2002, which is similar to what was observed in 2001.

Other manufacturing more than doubled its share of total investment from 5 per cent in 2001 to 12 per cent in 2002. There was also a 16 per cent increase in the amount of high-tech investment in 2002, a promising sign that even in the prevailing economic climate, investment in innovation continued to thrive.

## Legal and Fiscal Environment

The tax liability for privately realised capital gains in Austria applies in the following cases: speculative gains (i.e. the period between purchase and sale is less than one year) and the sale of a qualified participation (i.e. the vendor held more than one per cent of the capital at any time within the last five years) are subject to progressive income tax (up to 50 per cent). Dividends are taxed at 25 per cent capital yield tax. There is also a 25 per cent withholding tax.

Corporate investors are generally taxed on their income at a rate of 34%. Capital gains derived from the sale of shares of Austrian corporations are subject to corporate tax, while income from participating interest is tax exempt. Capital gains and dividends arising from an investment abroad are exempt from tax if the following criteria are met: the investor has been holding at least 25 per cent of the capital of a legal entity comparable to an Austrian corporation for a period of at least two years (international holding privilege).

If certain criteria are met, Austrian private equity companies (MFAGs) are exempt from corporate tax both for any yields realised from their private equity portfolio and for any yields resulting from cash management within five years after their foundation. Income from interest in these private equity companies is to a certain extent exempt from capital yield tax.

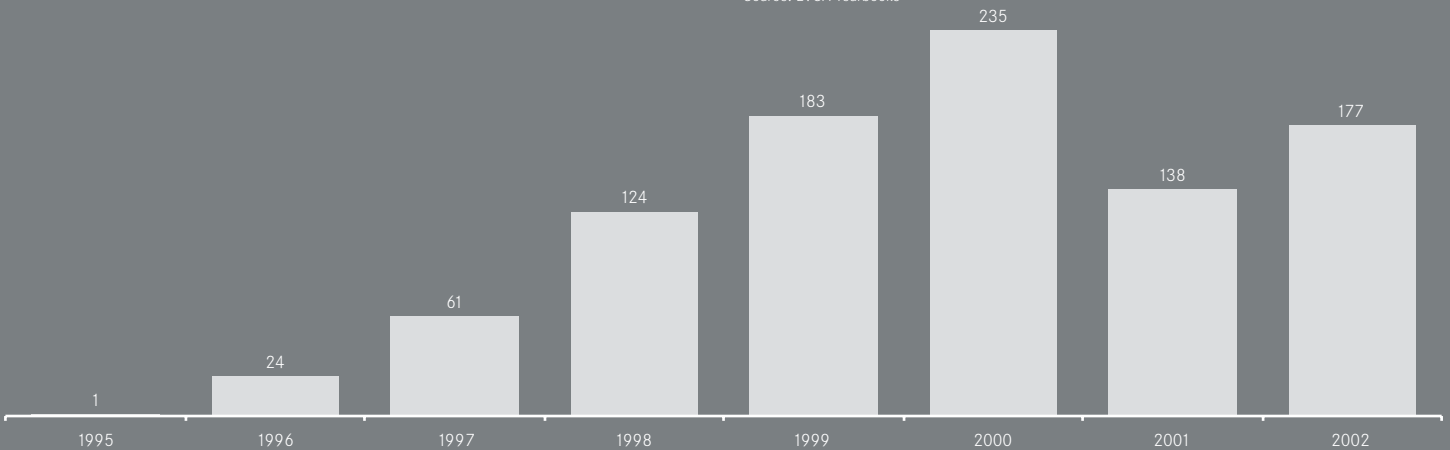
## Divestments

There was a general change in the pattern of divestment in 2002. Total divestment at cost nearly doubled in volume from € 34 million to € 64 million. Write-offs were largely responsible for this increase in the amount divested at cost and represented 64 per cent of all divestment at cost, amounting to € 41 million. Repayment of principal loans, although representing only 16 per cent of the amount divested at cost (€ 10 million), made up nearly 80 per cent of all divestments, with 159 divestments taking place through the repayment of principal loans in 2002. Because of the difficult situation at European stock markets, no IPOs of Austrian players' portfolio companies took place in 2002. The emphasis was shifted to the sale of quoted equity. Trade sales accounted for € 8 million of all divestment at cost in 2002 compared to € 7 million in 2001.

**We very much thank EVCA as well as PricewaterhouseCoopers for providing this text, which is an excerpt from the EVCA Yearbook 2003, slightly modified by AVCO.**

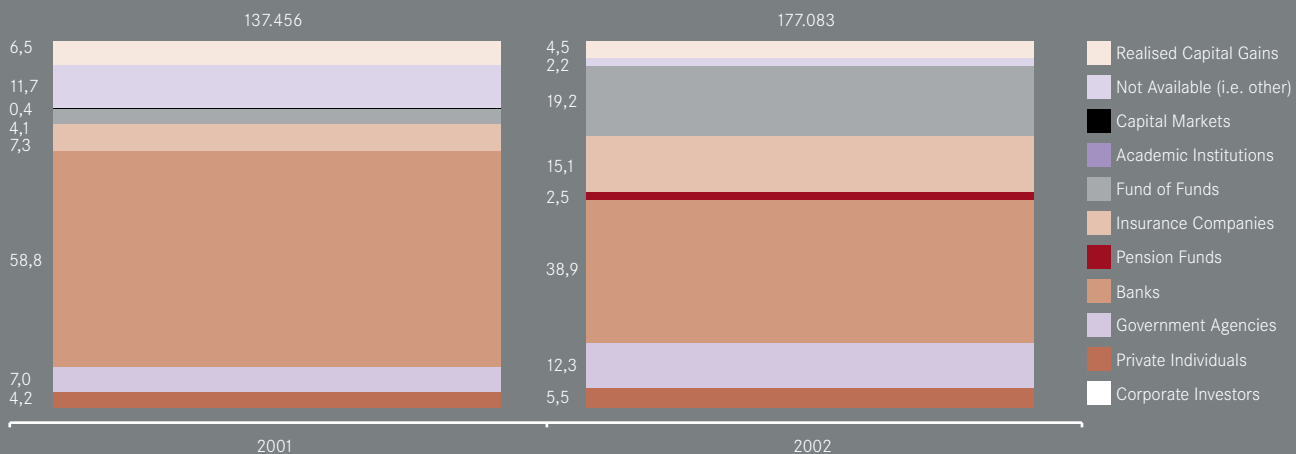
Fund Raising Austria, in Mio. Euro

Source: EVCA Yearbooks

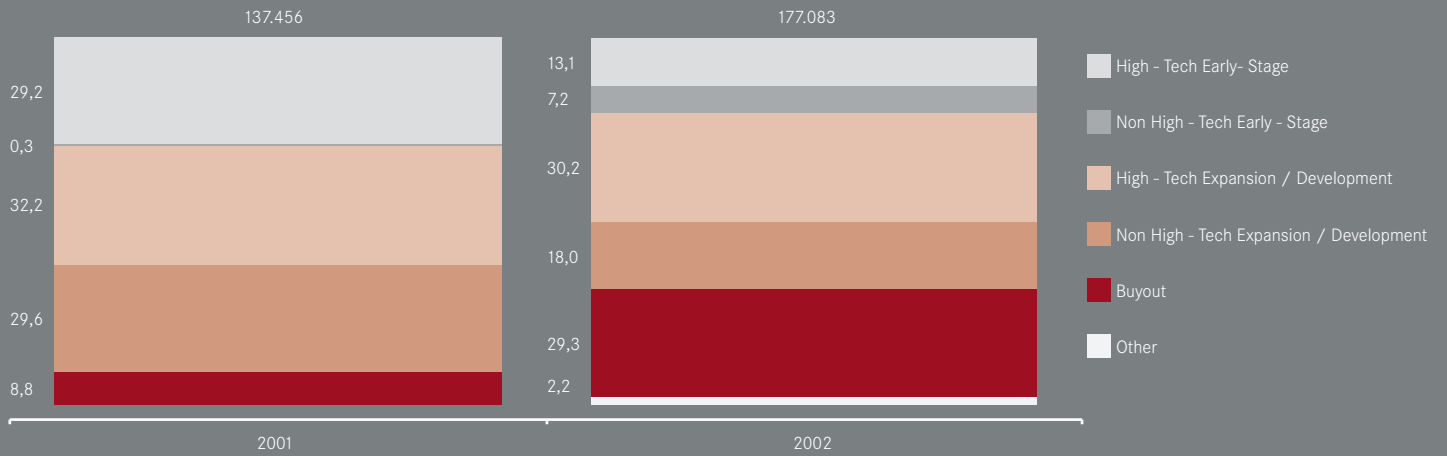


Austria: Private Equity Raised by Type of Investor - in %, Total in Mio. Euro

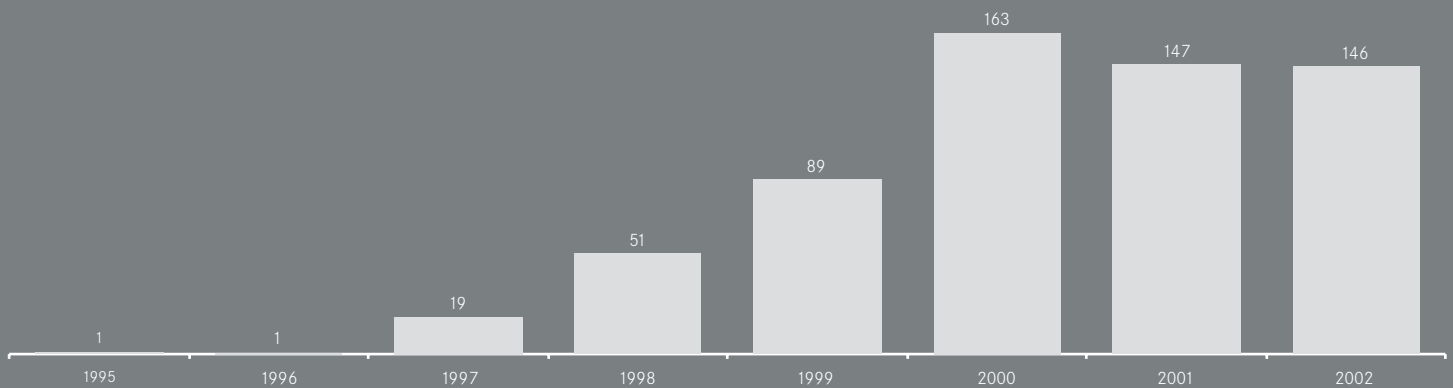
Source: EVCA Yearbook 2003



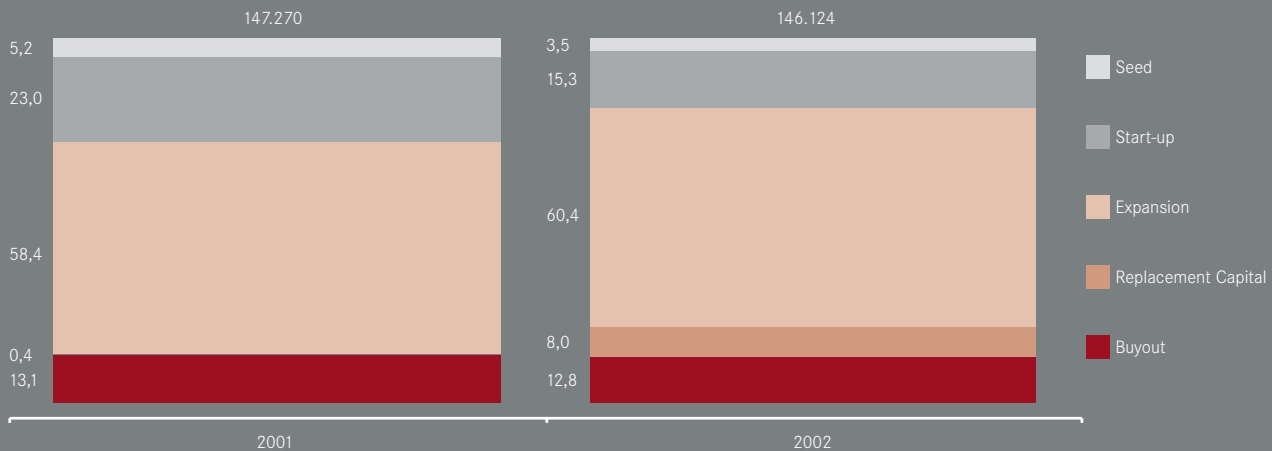
Austria: Expected Allocation of Funds Raised - in %, Total in Mio. Euro  
 Source: EVCA Yearbook 2003



Investments Austria, in Mio. Euro  
 Source: EVCA Yearbooks

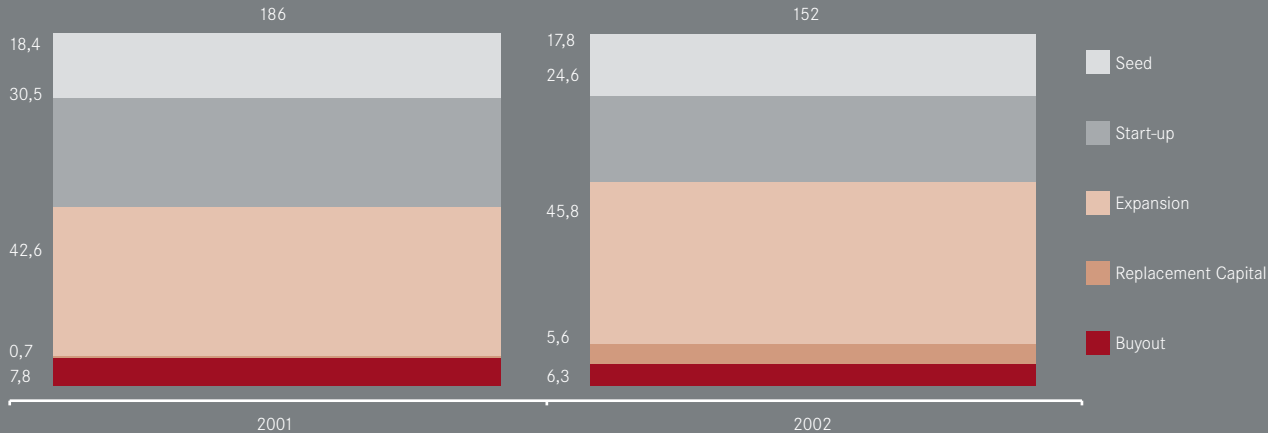


Austria: Stage Distribution of Investments in Year - in %, Total in Mio. Euro  
 Source: EVCA Yearbook 2003



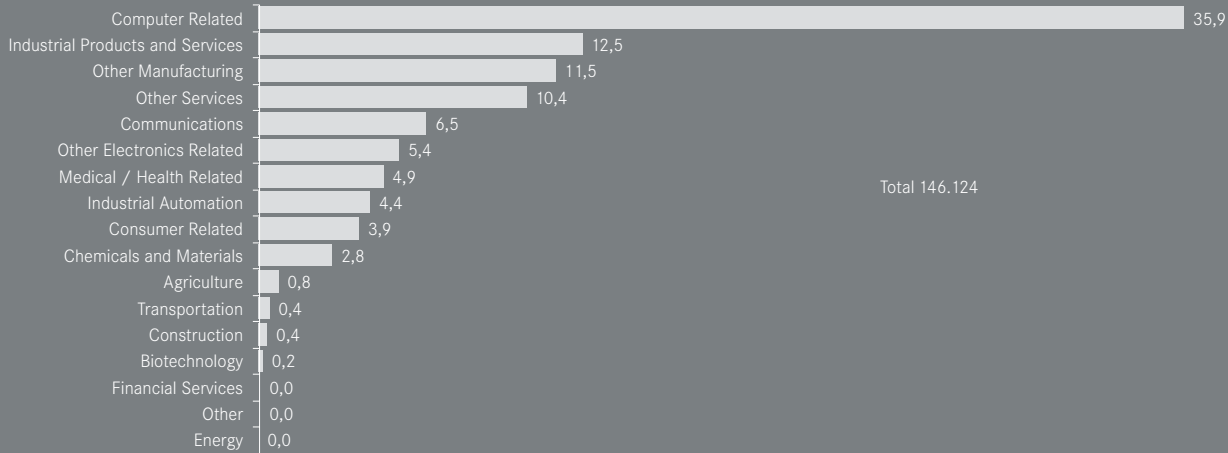
### Austria: Stage Distribution of Investments in Year - in %, Total absolute, Companies

Source: EVCA Yearbook 2003



### Austria: Sectoral Distribution of Investments in Year - in %, Total in Mio. Euro

Source: EVCA Yearbook 2003



### Austria: Divestments - in %, Total in Mio. Euro

Source: EVCA Yearbook 2003

