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Austrian Private Equity and
Venture Capital Organisation

Press Information

*Facts and figures on Private Equity and Venture Capital
in Austria*

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Gerhard Fiala (TecNet Company), Chairman of the AVCO Board

Thomas Jud, Managing Director AVCO

Despite turbult times on international markets, the Austrian Private Equity / Venture Capital industry in 2002 maintained constant investment activities and a saw a growth in raised funds. Improved tax and legal environments are to foster the further development of risk capital in Austria.

The Austrian PE/VC industry first started in the 1990's, and developed rapidly. However, beginning in 2000, the markets began to take a negative turn, just as they did throughout Europe, which led in 2001 to a noticable decline in investment and clear drop in fundraising. Nevertheless, the actual figures for 2002 show a perceptible sign that the situation is on course for a rebound, despite the overall weak economic picture. Investment activity has remained stable, while fundraising has seen a marked increase. Divestment conditions, however, continue to be difficult. In the future, a growing demand for Private Equity and a further development of the Austrian market can be expected, which is soon to be supported by improvements of the tax, legal and policy environment which are being currently discussed: new fund structures, more flexible investment directives for institutional investors and a better integration of PE/VC in the context of RTD and industrial policy should lead to a strengthening of the risk capital sector in Austria.

The Past Situation

Rapid growth of PE/VC activity from mid-1990's

Records in fundraising and investments set in 2000

Although the first approaches to Private Equity took place in the mid 1980's, the Austrian Private Equity and venture capital market didn't really develop until the beginning of the 1990's. Rapid growth can be seen from the mid-1990's, as elsewhere in Europe. Whereas in 1995 the level of Private Equity activities was rather insignificant, by 1997 funds raised in that year had already reached 61 mio Euros, with the sum actually invested coming to 19 mio Euros. In the space of just four years, the volume provided by investors quadrupled, while investments jumped nine-fold, to 235 mio Euros and 163 mio Euros respectively in the year 2000.

Economic situation changes and leads in 2001 to drop in investmenst and sharp fall in fundraising activities

In that year, however, the positive situation felt worldwide began to deteriorate, naturally leaving its mark on Austria too. While investment activities in 2001 were much more stable than in other parts of Europe, there was nevertheless a fall of approximately 10 percent in comparison to the previous year. The drop in fundraising activity was even higher than in the rest of Europe, with Austria recording a minus of 40 percent in 2001.

The Present Situation

Data in 2002 shows signs of recovery

While the continuing economic difficulties in 2002 would point towards a further dip in investment and fundraising activities in the sector, the actual data shows a more complex picture; one which is giving noticeable signs of market recovery.

Fundraising

Fundraising in 2002 rose nearly 30 percent over previous year

Over the past two years fundraising, both in Austria and throughout Europe, has been marked by restrictive investment policies of potential investors, which meant that the record levels seen last in 2000 could not be reached again. In light of this fact, the situation in 2002 gives one more reason for optimism. In comparison with the European picture as whole Austria showed growth of nearly 30 percent in terms of funds raised, bringing the figure to 177 mio Euros, which is nearly the level seen in 1999.

Structural changes:

Banks lose ground, but not pole position

Fund of funds and insurance companies increase stake, pension funds climb aboard again

Fundraising has not only changed in volume, but also in its structure. Whereas in 2001 banks were the main and dominating investors with a total of 63 percent of all funds raised, in 2002 this share fell considerably to 41 percent. Fund of funds increased their participation from 4 percent to slightly over 20 percent, while insurance companies doubled their investments from 8 to 16 percent. The public sector also increased its investments by over 5 percentage points to nearly 13 percent. After a break in 2001, pension funds again take the role of PE/VC investors contributing around 3 percent to the total funds raised in 2002.

Funds available will increasingly be directed to "later stage" investments

If Austria's fundraising performance can be seen as bucking the overall European trend, the expected allocation of funds raised tends to follow the pattern seen in other European countries: Venture Capitalists are focusing more and more on later stage companies. While in 2001 nearly thirty percent of all funds raised were to be placed in the hands of high-tech early stage companies, with only 10 percent scheduled to go to buy-out deals, in 2002 the situation had altered, with high technology firms expected to receive just 13 percent and the buy-out sector nearly 30 percent. Different to other European markets, the expansion-phase dominant in Austria, which was intended to soak up 62 percent of available funds provided in 2001, will be reduced to 48 percent in 2002.

Investments

Investment activity remains stable

As is the situation in other parts of Europe, the investment activities in Austria have remained relatively stable at about 146 mio Euros, even taking into account a small drop of less than one percent. The relation between initial and follow-on investments has hardly chan-

changed and remains as in the previous year, despite a small shift in favour of follow-on investments, in the relationship of about 3:1.

Early-stages lose, expansion stage increases slightly, replacement capital expands markedly

Early-stage engagements lost ground, giving up 8 percentage points to replacement capital. Expansion-stage and buy-out deals show only a small shift in favour of expansion.

The number of companies being financed fell by eight percent and thus markedly more than the amounts invested, meaning that the average deal volume rose slightly in comparison to the previous year. The structural changes between investment stages show the expected picture, if one takes into account increasing deal volumes from early to later stages.

Divestments

Exits remain a problem area

Clear rise in write-offs

One problem zone continues to be the area of divestments, which, because of continuing problems on the international capital markets as well as in M&A business, were only able to show clear gains through write-offs.

Look into the Future

2002 shows positive signals for the future

Although divestments continue to be difficult, we can observe positive signals for the future in the stable investment situation and the increase in funds allocated to PE/VC which is an indicator of rising investor confidence. The PE/ VC industry has established itself as an integral part of the Austrian capital market, and can rely in the future on a growing need for risk capital.

Considerable potential for further development is available ...

An ever increasing number of the 6.000 to 7.000 Austrian SMEs, which are interesting for PE/VC investments, are concentrating on the development and marketing of innovative products and processes, in order to underpin expansion and internationalisation strategies. Therefore they are coming to rely more and more on risk capital and competent partners particularly in the face of Basel II. As studies show, nearly twenty-five percent of Austrian SMEs will require succession solutions in the next few years, making many of the traditional family-owned businesses, which form a large segment of the Austrian economy, ripe for buy-out transactions.

In addition the number of start-ups in Austria has increased significantly. While the figure for 1995 was 14000, by 2002 that number had doubled. Around eight percent of these are in the high-tech field and are therefore an attractive target for early stage Venture Capital investments.

In order to tap potentials for further development and growth of the Austrian PE/VC industry, an advantageous environment is neces-

sary. Apart from a positive economic situation, this means that appropriate legal, tax and economic policy conditions have to be in place under which PE/VC can operate. In this respect Austria clearly shows the need to catch up, as the EVCA report, "Benchmarking European Tax & Legal Environments" points out. In a ranking of 15 European countries along factors such as fund structures, tax system, investment directives for institutional investors, entrepreneurial environment and so on and so forth Austria takes the last position.

... and should be fostered through appropriate policy measures.

These deficiencies were recognised by policy makers before the publication of the EVCA study, which led AVCO, as the official representative of Austria's PE/VC industry, in coordination with the Austrian Federal Ministry of Finance, to prepare proposals for a reworking of this environment. Although details of a reform to come have not yet been finalised, the following points should be in the package:

New fund structures, more flexible regulations for institutional investors and ...

- Introducing new fund structures based on international good practice in order to reduce administrative costs for investors, to be more flexible in realising PE/VC investment strategies and to make fund raising from national and international sources easier.
- Making regulations for institutional investors more flexible in order to improve their access to PE/VC as an attractive asset class.
- Embedding PE/VC in a better way in the context of technology, innovation and industrial policy, in order to avoid crowding-out and to utilise any possible synergy effects.

... the embedding of PE/VC in the context of discretionary policy measures should strengthen risk capital.

in addition AVCO works on "investor relations" guidelines ...

In order to tap windows of opportunity which might open up by new and more fitting regulations and to provide a mid-term impetus to the inflow of capital to the PE/VC industry, AVCO has been working in parallel to and in coordination with EVCA on "investor relation" guidelines. These guidelines should improve the knowledge on the working of the asset class, make clear the rights and the involvement of investors in decision making and reduce the amount of resources necessary to monitor and manage fund investments.

... supported by the first Austrian fund of fund

Along with representatives of the PE/VC industry and legal experts, one of Austria's leading equity houses, the Raiffeisen CENTROBANK AG, which is about to set-up the first Austrian fund of fund vehicle, is deeply involved in this undertaking. Especially from this new fund of fund investor, we can expect to see an impulse to the development and growth in the Austrian PE/VC market. It should enable easier entry for investors with little or no experience in this sector and above all it can attract additional inflows

of international capital for the Austrian PE/VC Industry in order to fully tap available potentials in the future.

„Despite a turbulent and difficult past two years, the Austrian PE/VC industry has managed to establish itself as an integral element of the Austrian capital market”, says Gerhard Fiala, AVCO Chairman. “In the coming years significant developments can be expected on the Austrian scene in comparison with other more mature markets. Due to an ever increasing market evolution and a growing professionalism within the industry, interest of domestic as well as international investors will see a marked increase in the future.”.

“Despite the positive signals in the past year, a guarantee of automatic future growth in the Austrian PE/VC market can not be taken for granted. In other words, proactive engagement on this topic is a must. Growing demands on fund managers as well as portfolio companies have intensified competition and the demand for quality and professional standards”, says Thomas Jud, AVCO managing director. “Therefore AVCO is engages in enhancing fund structures, in improving the access of institutional investors to PE/VC and it prepares investor relations guidelines, in order to make the asset class more understandable and transparent.”.

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For more information please contact:

Thomas Jud

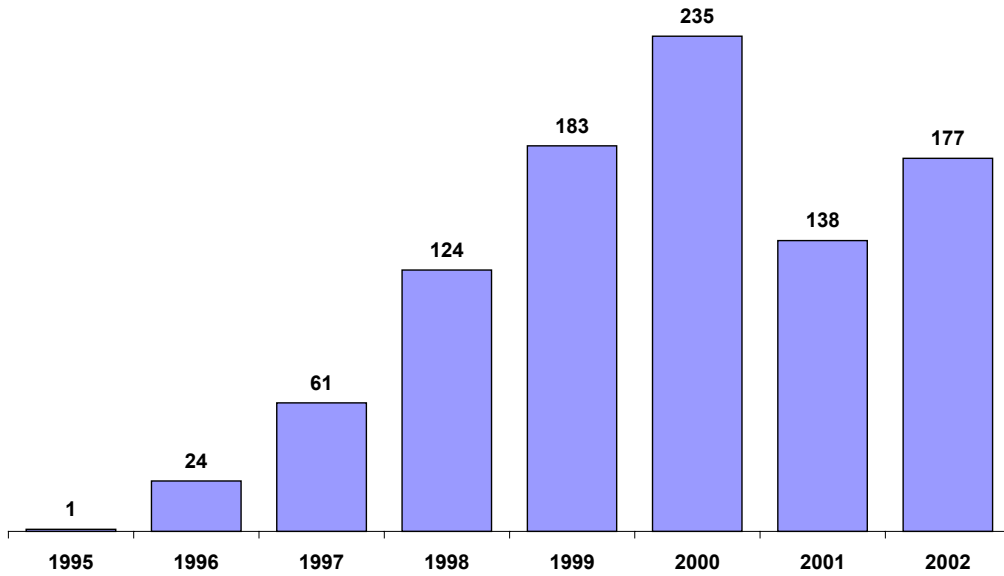
AVCO – Austrian Private Equity and Venture Capital Organisation

Tel. +43 (1) 526 38 05 0

office@avco.at

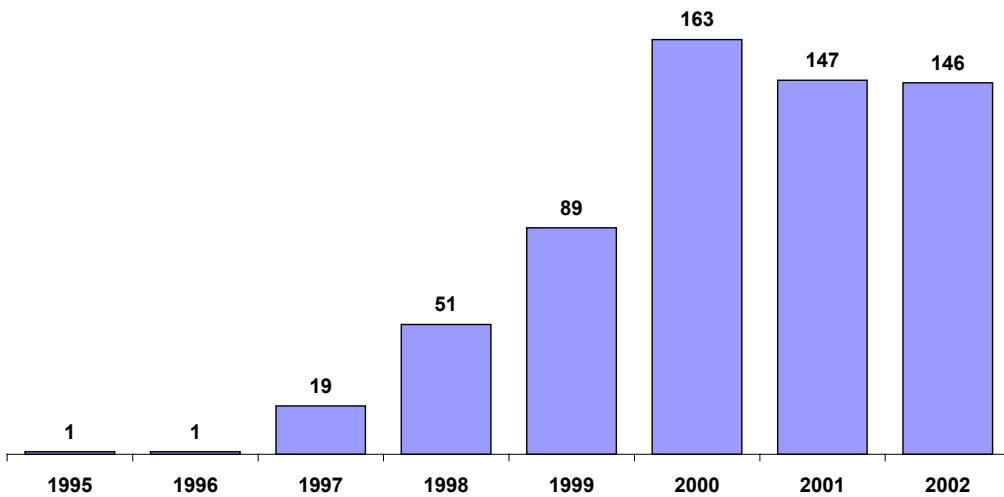
Fund Raising Austria, in Mio Euro

Source: EVCA Yearbooks



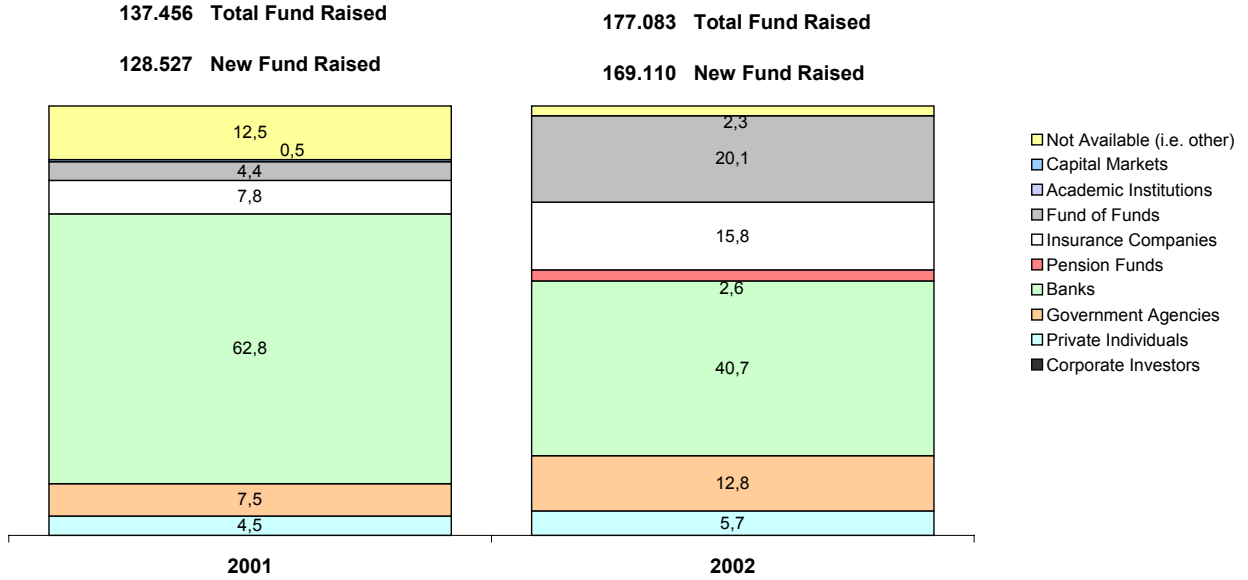
Investments Austria, in Mio Euro

Source: EVCA Yearbooks



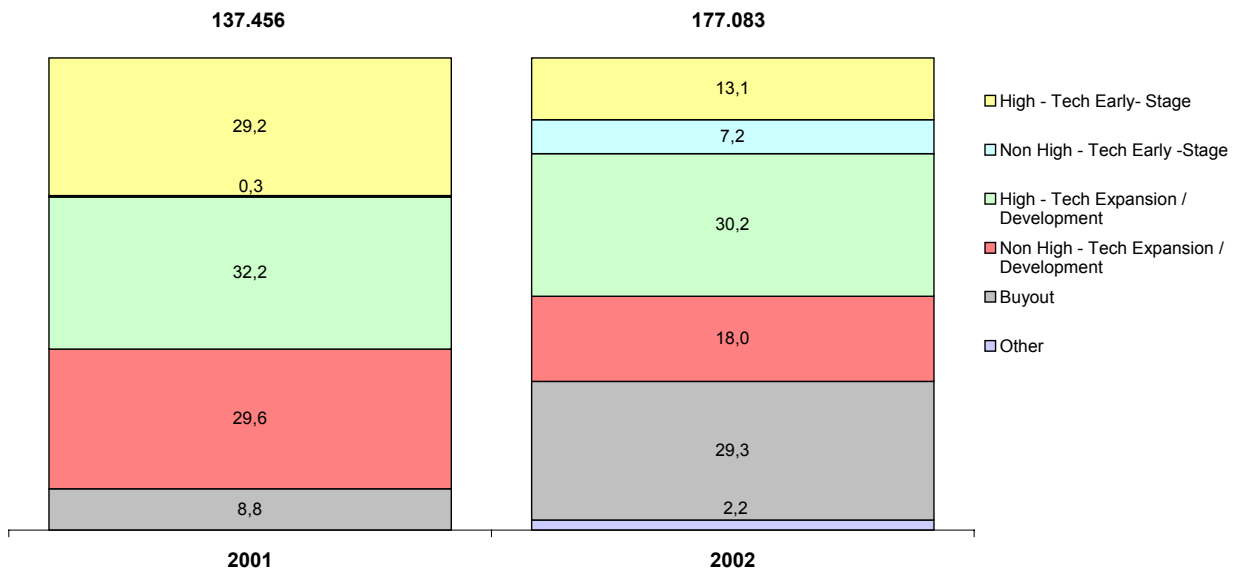
Austria: Private Equity Raised by Type of Investor - in %, Total in Mio. Euro

Source: EVCA Yearbook 2003



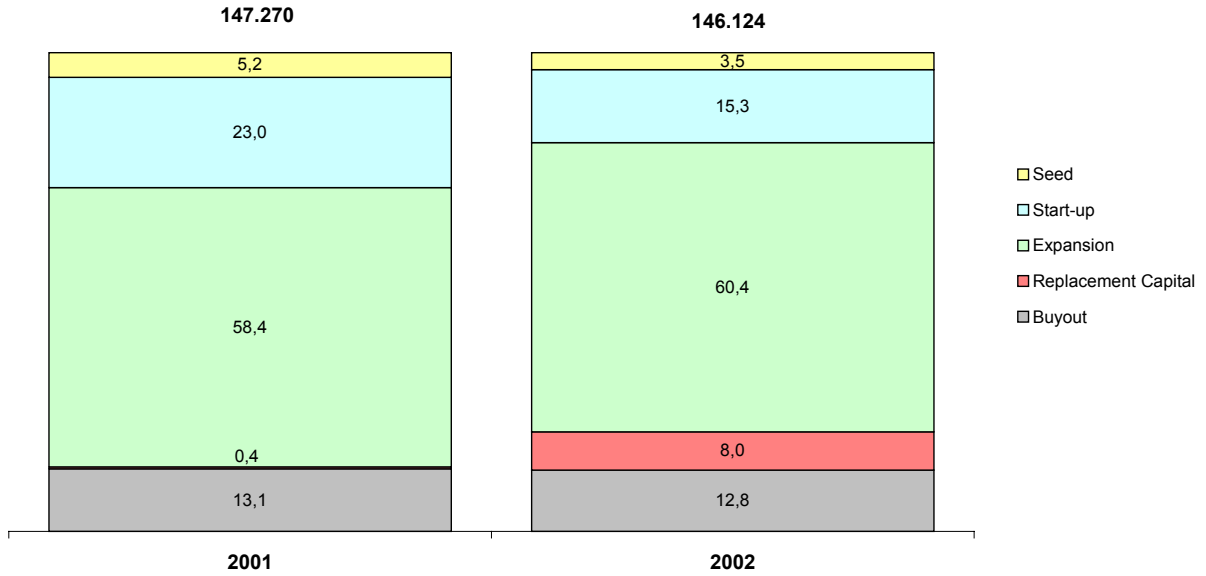
Austria: Expected Allocation of Funds Raised - in %, Total in Mio. Euro

Source: EVCA Yearbook 2003



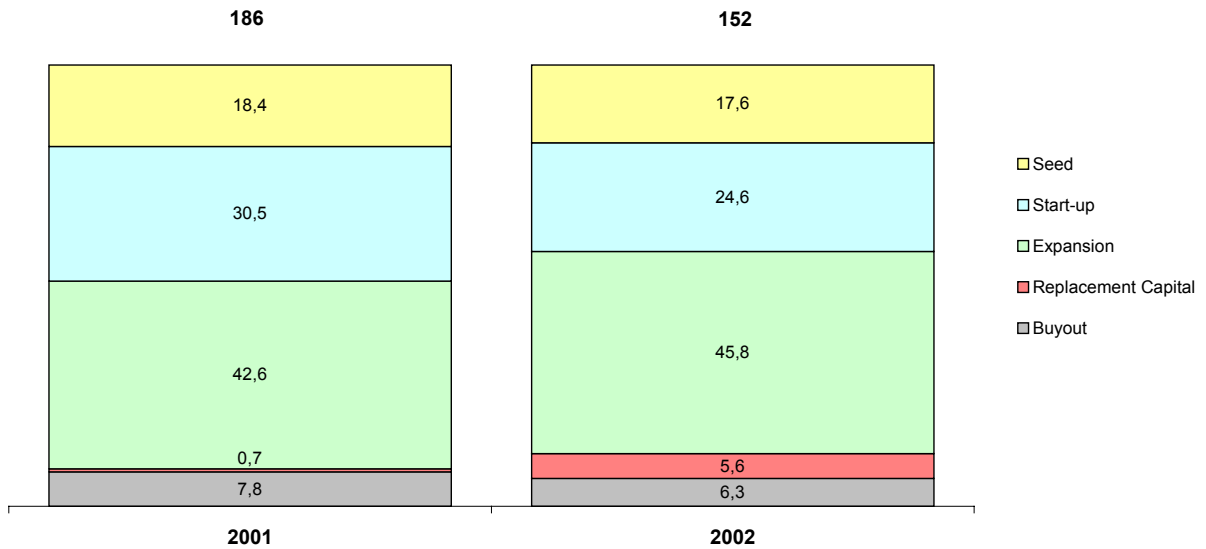
Austria: Stage Distribution of Investments in Year - in %, Total in Mio. Euro

Source: EVCA Yearbook 2003



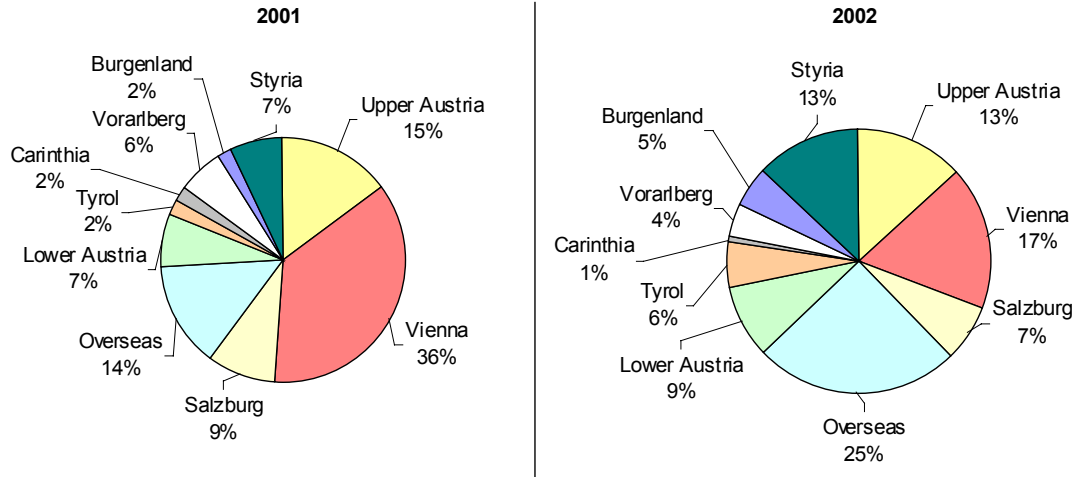
Austria: Stage Distribution of Investments in Year - in %, Total absolute Companies

Source: EVCA Yearbook 2003



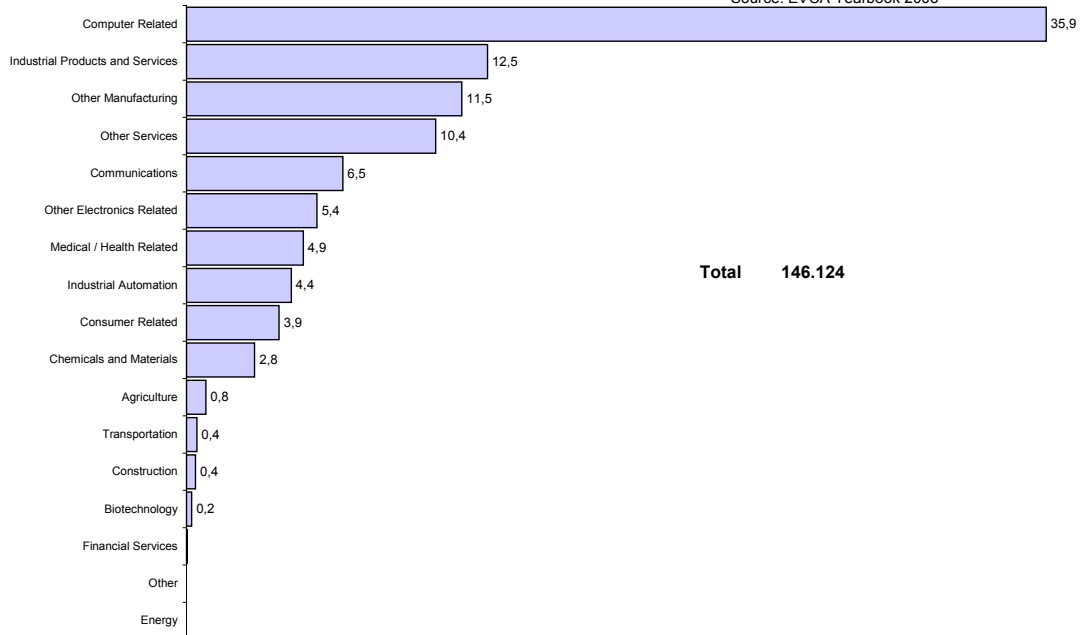
Austria: Geographical Distribution of Investments

Source: WIFO (AVCO) 2002, AVCO 2003



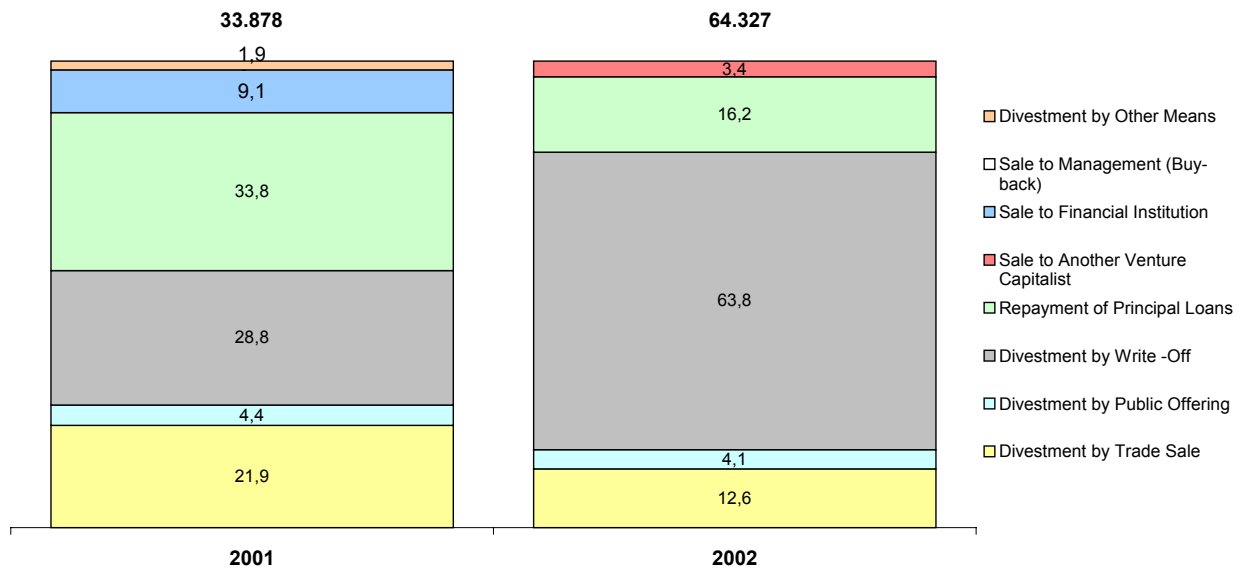
Austria: Sectoral Distribution of Investments in Year - in %, Total in Mio. Euro

Source: EVCA Yearbook 2003



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

Source: EVCA Yearbook 2003



Notes:

The Survey on Austrian PE/VC Activity 2002 was analysed and produced as a co-operation between AVCO, EVCA and PricewaterhouseCoopers - PWC. AVCO was primarily responsible for gathering the data and for checking its validity, and was supported in this by PWC-Austria. The survey deals not only with AVCO members, but covers all Austrian PE/VC investors, whereby a return rate of 74 percent was registered. The evaluation and preparation of the data was carried out by EVCA and PWC.