

VENTURE CAPITAL IN SOUTHEAST EUROPE

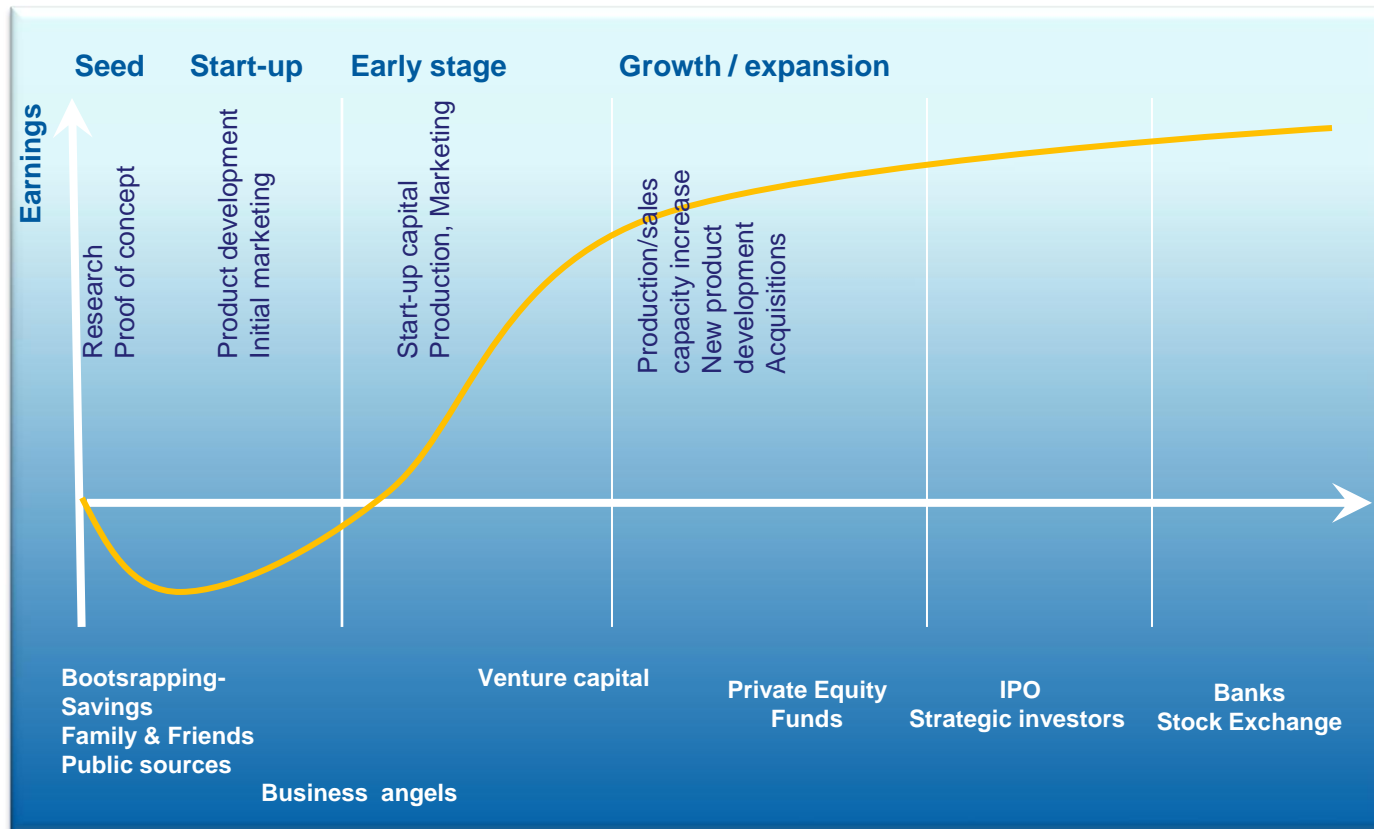
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Upravljanje tveganega kapitala / Venture capital management

Sources of financing and company's development



Informal sources of financing

- Family and friends
- Individuals
- Business Angels

Characteristics

- Relations not formalized
- Enhanced role of investor as a mentor
- Relatively small amounts invested
- Minority shares
- Personal relations

Formal sources of financing

Venture Capital Funds

- Increase of capital in investee company
- Minority share
- Active role in investee
- Investment period 3-5 years, max 10 years
- Smart Money
- Focus on the team, not only the product
- EXIT possibilities

Private Equity Funds

- Buyouts
- Minority or majority share
- Exit strategies: IPO, restructuring...

PE/VC in the region

Type of investor	Slovenia	Croatia	Serbia	Hungary	Romania	Bulgaria
Regional PE/VC	Weak - small market	Weak - small market	Medium - large enough to attract attention	Strong - buyouts predominately	Strong - large market; mainly PE, few VCs	Strong - large enough market
Local PE/VC	Medium - a few active local funds, mainly PE; VC weak	Weak - only one active local fund	Weak - local markets not yet developed	Weak - very few local funds; govermemnt incentives for VC development	Weak - no funds with Romanian capital; no VC	Weak - local funds not yet developed
Corporate	Strong - corporates investing directly in related business	Medium - some direct investments	Weak - local corporates focusing on restructuring	Strong - a number of direct investments	Medium - corporates attracted by the market size	Medium to weak
Angel	Medium - a few wealthy individuals, angel network	Medium - angel network (CRANE), limited investment activity of wealthy individuals	Weak - very little activity of this type	Medium - a few wealthy individuals	Strong - wealthy individuals looking to invest	Medium - nation wide angel network
Banks	Medium - lending to companies, but not very competitive market	Medium - strong competition; financing available to prospective companies	Weak - capital still expensive; banks not chasing SME's	Medium - limited financing of SME's	Medium to strong	Medium to strong

VC industry in CEE

Underdeveloped VC industry:

- Total of EUR 2.5 bn raised in 2008, or **3% of total funds raised in Europe**
- Mainly buyout funds; only EUR 217 mn in 4 VC funds
- Investment activity represented **4,7% of total investments in Europe**; out of which **VC investments only 8%**
- Highly **concentrated investment activity** - 86% of investment value in 5 largest countries: Poland, Hungary, Czech Republic, Ukraine and Romania
- **PE investments** in 2008 **0.209% of GDP** in CEE, compared to 0.404% in Europe
- VC investments accounted for **2.7% of total European VC investments**
- Growing number of start-ups financed; up 19% YoY

What investors are looking for?

- Unique product or service; significant entry barriers
- Growth potential
- Scalability
- Team
- Intellectual property and clear ownership
- Exit possibilities
- Reasonable valuation
- Compatibility with the team members

Dealbreakers

- Is there sustainable growth potential?
- Is the team able to implement its business idea?
- Does expected return correspond the risk?
- Does the investment proposal meet the investors' criteria?

Main showstoppers

- The company is not the owner of IPR
- Significant market entry barriers
- Poor exit options
- Problems with investment management

An investor decides on the basis of business plan and the team

Term sheet

- **Deal structure:** Investment, valuation, ownership structure, purpose
- **Investor's priority rights:** Liquidity preference, anti-dilution
- **Controlling rights:** representative of investor in company's management/supervisory board; flip-over & liquidity trigger
- **Responsibilities, remuneration and bonuses:** stock option plan
- **Sherholders' rights:**
 - Right of first refusal
 - Tag along / Drag along
 - Lock-up
 - "Bad leaver" clause
 - Information available to investor

RSG Capital, Venture capital management

By investing capital in promising early and growth stage companies RSG Capital encourages entrepreneurial initiative and supports creation of valuable, globally successful companies in Central and South-Eastern Europe.

Our team, together with an extensive partners' network, helps companies to cope with the challenges they face during the critical stages of company development.

We help them to create high value added and provide above-average returns also to our investors; we help our stakeholders not only to meet, but to exceed their goals.

Creating environment

Apart from being a VC management company, RSG Capital together with its partners supports creation, identification and development of globally successful companies.

Partners' network

- Support institutions (R&D institutes, universities, incubators, technology parks...)
- Established companies
- Investors: recognized, globally oriented companies with their own networks, expertise and competencies
- Financial institutions
- International connections
- Extensive network of experts and partners in different technology areas

Background

2006:

- Established as a spin-off of Slovenian Chamber of Commerce and Industry (CCI)

2007:

- Advisory and project financing in early development stage
 - Convertible loans
 - Bridge financing
 - Advisory, fundraising and partner search

2008:

- Starts to operate as a venture capital management company
- Establishment of VC fund Prvi sklad and first closing
- First investment

2009:

- Two new investments
- Second closing

Presence in the region

Together with its partners, RSG Capital is covering entire region, in particular markets of former Yugoslavia, but also Hungary, Bulgaria and Romania



RSG Capital Strategy in the region

Since we believe that local presence is necessary for a good insight into investment opportunities, our effort in the past year was to create a network of partners (agents) in the region.

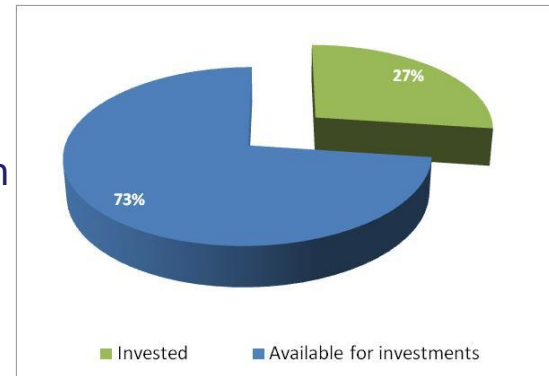
In this respect, we:

- Have an agent in Croatia;
- Have contracted an Investment Manager in Serbia, who also covers Montenegro and Bulgaria;
- Co-operate with the Center for Executive Development (CEED), regional center with affiliates in Slovenia, Croatia, Serbia, Macedonia, Romania and Bulgaria, in the process of establishing their offices in Albania and Kosovo, as well;
- Are actively involved in activities of USAID in Macedonia, which include close co-operation with SMEs, in particular in the area of providing financing for their growth and development;
- Agreed on the potential to co-invest with SEAF South Balkan Fund B.V., covering Serbia, Montenegro and Macedonia

VC FUND: Prvi sklad



- **Vintage year:** 2008
- **Assets under management:** EUR 10 million
- **Investment size:** Up to EUR 1.5 million
- **Investment period:** 3 – 5 years
- **Investment focus:**
 - SMEs in early and growth development stages
 - No industry specialization
 - Central and South-Eastern Europe



- Typically initial investment at early stage, seeking to participate in all stages of venture financing
- Typically lead investor, but will also consider co-investing with other VCs or strategic partners

Investment criteria

Investment characteristics

- Investments in early and growth stage high-tech companies
- Characteristics sought:
 - A cost-effective solution to a significant problem
 - A new, broad and enabling technology
 - A focused development approach with realistic, clearly-defined milestones
 - A strong competitive position
 - Targeting global market
 - Business model: Strategies for commercialization and profitability
 - A superior management team
- Exit possibilities identified

Decision-making process

Decision-making process:

- Investment opportunities evaluated by RSG Capital's team
- Expert opinions on technology when needed
- Proposal discussed and approved/rejected by Investment committee

Investment committee:

- 5 members with voting privilege (RSG Capital managing director and 4 independent experts)
- 4 non-voting representatives of investors



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