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BVA.news is the Belgian Venturing Association's newsletter; it appears three times a year.

Your suggestions, remarks and questions are more than welcome: please email them to info@bva.be

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Word from the President

Dear BVA-Members,

I am confident that you all studied and discussed the EVCA-statistics on the year 2002. Our Belgian Private Equity activities did not perform so well compared to our European colleagues, in particular with respect to the write-offs of almost 350 M EUR or 86% of total divestments. We believe a lot of funds cleaned up their portfolios or were conservative in their annual valuation process. It cannot be denied that PE-returns for the recent vintage years are disappointing, but this was even more the case for other asset classes.

Investment levels nevertheless remained high and the total portfolio almost reached the 2001 level. The general feeling is still positive, as was also the case at the annual EVCA-meeting in Vienna. The deal flow looks good and opportunities arise thanks to the economical down cycle. The number of Belgian PE-players is stable and the number of PE-executives rose at everyone's surprise. We hope the use of the "Private Privak" will stimulate new initiatives and the set-up of new Funds operating in- or outside Belgium. Unfortunately, the buy-out market remains small in Belgium, but one can hope that the Ontex-deal will spur the market.

Fortunately, the Early stage investments remain high in Belgium (30% of total investments), which should give comfort and hope to young entrepreneurs in search of new funding.

Realistic business plans and reasonable pre-money valuations are prerequisite conditions in the current venture capital market.

The BVA will continue to act as a reliable industry organisation providing you with sector data, information, training and networking opportunities through the organisation of interactive Presidents' meetings, conferences on hot topics and the annual VC-summit. Furthermore, our mission also consists promoting and defending our industry through active communication to the outside world, lobbying, ...

Threats like IAS, Basle II, unfavourable fiscal and legal legislation we should tackle as soon as possible. We should also participate in discussion groups around new governmental initiatives.

All members who are interested in supporting the Board's efforts and initiatives are invited to join forces with us.

I wish you all a pleasant holiday and hope to see you at the next Presidents' meeting or at the very promising casual day in September.

Frank Claeys

BVA Members

BVA's membership base is continuing to grow. As of June 30th, 2003, we have the pleasure to welcome two new members:

- **Platina Finance** (London)
Contact: Karim-Frederick Dhanani
- **Gevaert NV** (Antwerp)
Contact: Philippe de Vicq

EVCA

At the Annual EVCA Symposium in Vienna, **Prof. Herman Daems**, Chairman of GIMV, has been elected as Chairman-Elect for 2004/05 – Congratulations!

Through BVA Belgium is actually very well represented on the different EVCA levels:

- **Prof. Herman Daems** (GIMV),
Executive Committee and Chairman-elect
- **Piet Serrure** (Origo Management/Finco),
Executive Committee and Treasurer
- **Dr. Jos Peeters** (Capricorn),
Member Conference & Training Committee
- **Alex Brabers** (GIMV),
High-Tech Committee
- **Bernard Peeters** (Tiberghien & Co)
Tax & Legal Committee
- **Georges Noël** (BVA/Ostbelgieninvest),
National Venture Capital Associations Committee

2 other Belgian representatives are part of the following Working Groups:

- **Geneviève Casterman** (Fortis Global Private Equity) Basle II
- **Philippe Deville** (CD-Technicom)
Entrepreneurship Toolkit

Activities NVCA Committee

The focus of this committee on the public affairs priorities is actually geared towards very important lobby actions in relation with the

- New IASB
- Basle II regulations
- The preparation of the fall 2004 Policy Meeting between EVCA and the European Commission.

In addition, a working group has been set up in order to coordinate the production of the yearly activity and performance statistics on the basis of a single methodology.

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On the VC Learning Curve

by Armin Schwienbacher

The venture capital industry in Europe and the United States has experienced the entry of many new venture capital firms during the second half of the 1990s. This stemmed from the increased interest in financing innovative start-ups after several success stories accomplished on both sides of the Atlantic as well as from the building of new stock markets for high growth companies in Europe, which created new exit opportunities for venture capital and private equity investments. These new venture capital firms started their business at a time where fund raising and exit was easier than ever.

The Belgian market was no exception to this trend, where the entry of new venture capital firms was accompanied by huge increases in capital inflow after 1996, peaking at EUR 807 million in 2000 (source: EVCA).

Starting with this fact, many questions arise regarding potential differences between this new generation of venture capital firms and the more established ones in the way to structure their deals. In a recent study done in six European countries and the United States, I aimed at shedding light on this question. Survey questionnaires have been sent during summer and autumn 2001 to examine particularities of these new firms. In what follows, the “younger” venture capital firms are defined as the ones established after 1996.

While some differences directly arise from different market conditions and lack of history by new venture capital firms, other differences deserve being discussed further. The first striking difference is the lack of syndication compared to deals of more established venture capitalists. This is not only observed through a lower proportion of deals syndicated but also in the average number of investors involved in the deals. Furthermore, the study provides evidence that their participation in cross-country syndications is also lower. Another difference between both generations of venture capitalists is that replacement of founders is less often done in companies financed by “younger” venture capitalists.

Both differences, in terms of syndication and non-replacement of founders, seem to have to do with requirements by investors of in-depth knowledge of the product markets and contacts to partners. “Younger” venture capital firms may lack both of these.

But the probably most striking difference is with respect to the use of convertible securities. While it is a puzzle to some academic researchers why there is already an important difference between their use in the US and outside the US more generally, it is equally striking to

observe that convertible securities are even less often used by “younger” venture capitalists. Many academics believe that convertible debt and convertible preferred shares (which provide to their holders the option to convert the preferred shares into common shares at a pre-specified conversion rate) ideally combine protection against downside risk and participation in the upside potential of ventures while also providing tax advantages to founders.

Based on conversations with investors in Belgium and in the US, one reason seems to be that the “younger” venture capital firms were ready during the late 1990s to invest in start-up companies with less downside protection than their more established colleagues. Due to their accumulated experience and reputation, the latter were able to join deals with better terms than the former ones in a market of very high valuations.

When comparing it with US data (which is also done in this same study), the differences are even more striking. Although there is some variance among respondents, the use of convertible preferred equity seems to be commonplace there, in particular among more established venture capitalists. On the other hand, these same differences are smaller in the US between “younger” and established venture capital firms.

Since much of these differences also exist overall between both sides of the Atlantic (i.e., without distinction between “younger” and “older”), an interesting question is whether there will be a convergence in the long run or if some of these differences will remain as European specificities. Only the future will tell us what is to come.

Reputation is key to future successful fund raising. Some venture capital firms in the US even chose to give back to their limited partners some of the funds raised in the hope of being able to raise new funds again in the future and thus to survive in the long run. “Younger” venture capital firms will probably find it hard to raise new funds in the future if they were not able to accumulate sufficient reputation through successful exits during the boom period. One possible way is to build partnerships with other venture capital firms in Belgium but also abroad. This may still be the best way to continuously learn and increase quality of the services provided to portfolio companies.

The author obtained a PhD degree in Business Administration in December 2002 at the University of Namur, and will hold in August a position as assistant professor of finance at the University of Amsterdam. He largely benefited from working with Ulrich Hege (HEC School of Management, Paris) and Charles Van Wymeersch (FUNDP), who respectively acted as co-advisor and advisor of his doctoral dissertation. Financial support by the Intercollegiate Center for Management Sciences (ICM) in Brussels is gratefully acknowledged. A copy of the complete study can be obtained upon request (email: armin.schwiebacher@fundp.ac.be).

With the goal to enhance co-operation and communication between EVCA and the NVCA's, Marie-Annick Penninon, former S.G. of AFIC, is now responsible for coordinating the different lobby actions of the NVCA's on EVCA level.

Task Force Walloon Region

For the last 6 months BVA has taken an active part in the "Task Force Finance" initiated by the W.R. under the leadership of Rudy Aernoudt.

One outcome of this working group is the new regulation of the W.R. with respect to the subsidization of independent board members in SME's (for more information see our Website news section).

This task force also worked on other important issues as the possible introduction of SBIC's into the W.R., the financing system "Tante Agathe", the foundation of a mezzanine fund to contribute financial means within the transmission process of SME's as well as some other projects related to enhance the availability of financial facilities for SME's.

BVA Press Conference

After returning from the Vienna Symposium, BVA held its annual Press Conference on June 11th. Under the leadership of Chairman Frank Claeys, assisted by Bernard Peeters and Georges Noël, a comprehensive information package about the evolution of the Private Equity industry in Europe and in Belgium during 2002 was provided to the journalists.

A special information point was made by Bernard on the new Private Privak regulation which constitutes a best practice in Europe with respect to tax transparent fund structures.

Workshops & Roundtables

After the successful Early Stage Workshop organized in May by the BVA in partnership with Capricorn Ventures (see separate article), BVA plans for two further workshops, one in September committed to Buy-outs and one in November gathering the most important Belgian institutional investors into the asset class.



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CAPRICORN VENTURE PARTNERS CELEBRATES 10TH ANNIVERSARY

Capricorn Venture Partners is ten years old. Created in 1993 by Dr. Jos B. Peeters as one of the first independent venture capital fund operators in Belgium, the company has now become a known brand name in early-stage technology investing in Western Europe.

Its first fund, Capricorn Venture Fund I, was set up in 1995 and currently holds nine portfolio companies active in the ICT, life sciences or advanced materials sectors (ORTEC BV, Curl Corporation, Devgen NV, EcoPhos SA, FillFactory NV, BioAlliance SA, Orthivita Inc., Omrix Biopharmaceuticals Inc. and Xplanation NV). In 2001, Capricorn Venture Fund II was created, in a strategic partnership with KBC Investco and K.U. Leuven; the second fund has made five investments to date (i-Merge NV, Amplexor NV, aXelera International Group NV, UroGene SA and 4AZA Bioscience NV) and continues to invest actively.

The Capricorn investment team has considerably grown in size and depth over the past five years: Dr. Marc Lambrechts (ICT and advanced materials) joined in 1998 from I.W.T., Claude Stoufs (life sciences and advanced materials) in 2000 from FMC Corporation, Geert Schoukens (financial analyst) in 2000 from university, Christian Mouthuy (ICT) and Lieven Jaspaert (ICT) in 2001, from Arthur D. Little and Sun Microsystems EMEA, respectively. The team continues to enjoy a large high-quality deal flow from early-stage technology companies in Western Europe, despite the current slump in this segment.

Whilst the VC industry has gradually shifted towards later-stage, non-technology investment opportunities over the last two years in response to the grim market environment, Capricorn Venture Partners has strengthened its brand as a "Certified Early-Stage" and technology-oriented venture capital investment management team and has emerged as one of the few remaining active promoters of entrepreneurship and early-stage technology investing in Benelux and in Europe.

BVA ORGANISES SUCCESSFUL DISCUSSION WORKSHOP ON EARLY-STAGE INVESTING

On May 13, 2003, the Belgian Venturing Association has organised an interactive workshop in Leuven to address the issues faced by early-stage companies in general, and by Belgian research & development institutions that spin-off technology companies in particular. Over 35 representatives from various sectors

(Flemish and Walloon universities, R&D centres, the venture capital and private equity industry, corporate finance and legal consultancy firms and policy makers) participated in the lively discussion. The event was sponsored by Capricorn Venture Partners NV.

Dr. Ludo Deferm (IMEC), Mr. Paul Van Dun (K.U. Leuven LRD) and Dr. Tim Minshall (Cambridge University) each gave an account of the top-of-mind issues they were facing in getting their spin-off companies properly funded. Their main messages were that (1) significant Intellectual Property currently remains unexploited, (2) they were actively setting up sources of funding for their spin-off companies providing an alternative to venture capital, (3) the main issue for them lies in providing pre-seed funding to promising in-house spin-off candidates, (4) in times of capital scarcity, the Intellectual Property they are contributing to their spin-offs is undervalued and the equity share it earns them dilutes too quickly, (5) industrial corporations are currently more accessible sources of funding than the venture capital industry itself, (6) governmental agencies should not intervene but rather continue to foster a climate that promotes entrepreneurship and removes remaining obstacles for a thriving venture capital sector and (7) investors should learn to become more patient with their portfolio companies, in the face of the unfortunate absence of exit opportunities.

The ensuing discussion zoomed in on some of the points raised by the three speakers. It was concluded that (1) Belgium still lags vs. its neighbours in terms of dynamic entrepreneurship and all stakeholders in the venture capital industry needed to promote entrepreneurship much more actively, (2) as a consequence, not enough high-quality entrepreneurial skills were available in the Belgian market, an issue to be addressed urgently, (3) in a cyclical industry like ours, both venture capitalists and entrepreneurs need to become more adept in reading and exploiting the sector's cyclical pattern, (4) spin-off facilitators should focus on alternatives to venture capital for funding pre-seed development and, in turn, early-stage companies should adapt their business model to focus better on early sales opportunities and alternative revenue streams from services, and (5) the fragmented Belgian venture capital industry should start consolidating beyond national borders by forming alliances and partnerships with peers in other European regions.

The BVA wishes to express its gratitude to the speakers at this event, its organisers (Mr. Raf Moons from Fortis Private Equity and Mr. Lieven Jaspaert from Capricorn Venture Partners) and its sponsor, **"Certified Early-Stage"** investment manager Capricorn Venture Partners. Given the success of this kind of workshop, the BVA plans similar events in the coming quarters to focus on specific topics relevant to our industry.

CAPRICORN VENTURE PARTNERS ORGANISES THIRD ENTREPRENEURSHIP SUMMIT

Every two years, Capricorn Venture Partners NV organises an Entrepreneurship Summit in Leuven that hosts all prominent actors in the Belgian economy. With these biennial events, Capricorn Venture Partners seeks to promote entrepreneurship and early-stage technology investing in Belgium, in keeping with its strong brand name of **"Certified Early-Stage"** and technology-oriented European venture capital investment management company.

This year's issue of the Summit, which also celebrated Capricorn Venture Partners 10th anniversary, was held on May 13th, 2003 and was attended by over 250 participants from the management of its portfolio companies, research, education, government, industry and finance. This year's Summit centered on the theme: **"University Spin-offs, Seeds for Growth"**.

During the academic session, the attendants heard lectures from Dr. Jos B. Peeters, Founder and Managing Partner of Capricorn Venture Partners NV, Prof. Dr. André Oosterlinck, Rector of the K.U. Leuven, Mr. Paul Van Dun, Director of K.U. Leuven LRD, Dr. Tim Minshall, University Lecturer at the Centre for Technology Management at the University of Cambridge and Dr. Philippe Haspeslagh, Professor Business Strategy at INSEAD. The discussion panel was moderated by Ms Katharine Campbell, former journalist on the venture capital industry with the Financial Times and now with Cambridge Associates, a leading adviser to the fund of funds investment sector.

The event was livened up by a musical intermezzo brought by Belgian 'early-stage' violinist Jolente De Maeyer (18 years old, who is preparing for the Queen Elisabeth Contest Violin in 2005), accompanied on the piano by Nikolaas Kende. The Belgian two-some played Ludwig von Beethoven's Sonata for Piano and Violin, Opus 12 nr 2 and **"La Ronde des Lutins"** by Antonio Bazzini.

The Summit continued until late at night in the form of a walking dinner under the marquee set up on the renovated Capricorn premises at the **"Jonge Sint-Jacob"** medieval brewery in Leuven and was abundantly blessed, albeit in a contrarian fashion, by the weather gods.

The next edition of the Entrepreneurship Summit is planned for the late spring of 2005. If you wish to be invited, send your coordinates by email to capricorn@capricorn.be, with as Subject: **"Invite Me to your Entrepreneurship Summit 2005"**.

BIZkapitaal: micro venture capital for start up companies

LRM invested up till now EUR 55 million venture capital (growth capital, MBO's, project financing) in 35 small and medium sized companies. Start-up companies now represent only a small minority of the LRM-portfolio. For that reason, LRM recently launched BIZkapitaal.

The BIZkapitaal offer

1. Venture capital

BIZkapitaal takes a minority stake (eventually supplemented by subordinated debt) in start-up companies. Focus: start-up companies incorporated not more than 2 years. **BIZkapitaal** invests in all industry sectors (retail, hotels and building contractors are excluded).

2. Assistance

BIZkapitaal does not require ready made business plans. The **BIZkapitaal** investment managers can assist starters in that process. Of course, the entrepreneur must have a bright idea, vision and the relevant expertise. Projects can be introduced via www.BIZkapitaal.be or via direct contact.

3. Follow up

BIZkapitaal acts as a committed financial partner. Via the Bizkapitaal network of captains of industry, a starter has access to informal advice on strategic matters in his field of activity.

The BIZkapitaal formulae?

BIZkapitaal always becomes a minority shareholder (25 to 40%) and completes larger needs for risk bearing money via subordinated debt. **BIZkapitaal** invests EUR 25.000 up to maximum EUR 125.000 (and up till 3 times the investment of the entrepreneur) per project. **BIZkapitaal** and the Belgian Participatiefonds recently agreed that a start-up company can apply for a subordinated loan from the Participatiefonds for an amount equal to the Bizkapitaal investment. Bizkapitaal can assist in the application process.

EVCA events calendar

EVCA Conferences

- 1-3 October 2003
EVCA Technology Investment Conference, Amsterdam, The Netherlands
- 20 November 2003
European Private Equity Summit & Awards, in association with Real Deals, Paris, France

EVCA Institute

- 9-12 September 2003
Financial Officer and Fund Administration Course, Brussels, Belgium
- 7-10 October 2003
Introduction Course, Barcelona, Spain
- 24-28 November 2003
Advanced Course, Lausanne, Switzerland

EVCA Workshops

- 11-12 September 2003
EVCA Life Sciences Workshop, Scottish Equity Partners, Edinburgh

New additions to the EVCA Team

EVCA is pleased to announce the appointment of Véronique Bockstal, Marketing Director and Justin Perrettson, Public Affairs Coordinator.

- **Véronique Bockstal** heads up EVCA's marketing team and will contribute to further raising EVCA's profile and visibility through marketing & communication activities towards its various stakeholders.
- **Justin Perrettson** joins EVCA's Public Affairs team. Justin will work to further promote EVCA's public policy priorities through dialogue with the European institutions and related policymakers.

Amaury Hendrickx joins NIB Capital Private Equity

Amaury Hendrickx worked for several years in the City of London in mergers & acquisitions for Bankers Trust, and subsequently for Deutsche Bank where he focused on providing M&A advice to buy-out funds.

In 2000 Amaury left the bank to co-found Eurasia Software Limited, a financial software company based in London. Within two years, the company attracted a strong US and European client base, and was acquired in 2003 by a leading financial software company. Furthermore, Amaury was a non-executive director of Dreams Interactive BV, a Dutch software developer.

Amaury holds an MBA from the University of Chicago and studied Applied Economics at the KU Leuven.

By joining the buy-out team of NIB Capital Private Equity in Belgium, Amaury brings significant buy-out experience as well as some strong relationships to the team. His hire will further position the firm to take advantage of mid-market buy-out opportunities in Belgium.