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

Dear BVA members,

The year 2002 was a difficult one for our sector. Because institutional investors became even more risk-averse than before, there was a 75% drop in new fund raising compared to 2001. We also evolved from a sellers' to a buyers' market, which meant investors could make higher demands.

Investment realisations, essential to rebuilding the sector, remain difficult or impalatable and the public equity capital markets for mid and small capitalisation issues are effectively closed.

The economic downfall, that is lasting very long, has put pressure on the portfolio companies' performance. In these circumstances, most of the PE providers had to shift their focus from investing to monitoring their investments. Still, the current situation should be put in the right perspective: like every sector, the PE business is cyclical, with recurring waves.

The fundraising and investment levels are still high, compared to the late 80's and early 90's.

In a few years time, the current downfall might be barely noticeable in the growth pattern PE has known in the last decennia and will know in the future.The fact that in the mean time, more professional teams and funds will dissapear, is something we will have to accept. These hard times of economic downfall can also give us the opportunity to become more dynamic and to restructure. The expected result is that the remaining teams will be stronger and that the Belgian market will undergo a consolidation.

The BVA wants to further professionalise her services, as was sufficiently proven by the first edition of the BVA Academy.
The BVA also wants to create a forum for interaction between her members and entrepreneurs through the Belgian Venture Capital Summit which will take place on February 18th, 2003.
Of course, BVA takes your well-being at heart and wishes you all a healthy and successful 2003!

Guy Mampaey

BVA Website – www.bva.be
Our new website has been active since August 2002 and has so far been a huge success. Here are some statistics (averages) that will convince you:
No. of hits per months: 4,612
No. of visits per month: 1,026
Top 5 of most visited pages:

1. Homepage
2. Members
3. Internal organisation
4. Links
5. What is venture capital

EVCA
The BVA was represented at the meeting of EVCA's National Venture Capital Associations Committee in Brussels.

The NVCA Committee is responsible for the coordination of all EVCA's lobbying activities on national levels. The main topics covered by this committee are: Basle II, Merger & Takeover Regulation, IAS, Pension Funds directive and EVCA statistics.

One other important achievement during 2002 was the launch of the "Entrepreneurship Toolkit" destinated to the Professors of Finance & Entrepreneurship of all major European Universities and Business Schools. This important project has been realized under the leadership of our member, Philippe Deville *(CD-Technicom)*.

BVA Academy 2002
This major 2 1/2 residential training aiming at young Private Equity & Venture Capital professionals was initiated by Past Chairman Bart Sonck and took place in November in Oostende. The purpose of the training course was to teach about the full cycle of our investment activities, starting with deal flow generating and ending with the exits.

Gathering 18 participants and thanks to the volunteer-speakers, mainly from our member organizations, this event was very successful, so that we definitely intend to organize a second session during Q4, 2004.

The following persons accepted to support this event by teaching about one of the topics:

Jos B. Peeters	Capricorn Venture Partners
Herman Wielfaert	Creafund Management
Alex Brabers	GIMV
Alain Keppens	GIMV
Guy Mampaey	GIMV
Anne Masson	Marsh
Piet Serrure	Origo Management
Georges Noël	Ostbelgiëninvest
Gilles Capart	Sopartec

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Valuation of biotechnology firms: the option valuation model

Tine De Langhe (1)

It is a common feature of biotechnology firms to incur losses in the first 5 to 10 years of their existence. Initial costs to develop a drug are high, the way to approval takes many years and revenues lie in the future and are highly uncertain. Success hinges also on other products yet to enter the market. This has certain implications for the valuation of biotech firms. Analysing financial reports is no longer sufficient, instead one has to dwell a little longer on the different possible expectations about the company's future. Therefore biotech companies are valued based on the potential of their technologies and drugs pipelines. This way their value can be calculated despite the fact that their products are still in early stages of development. In this article we will describe one of the valuation methods that can be used to value such companies, the option valuation model.

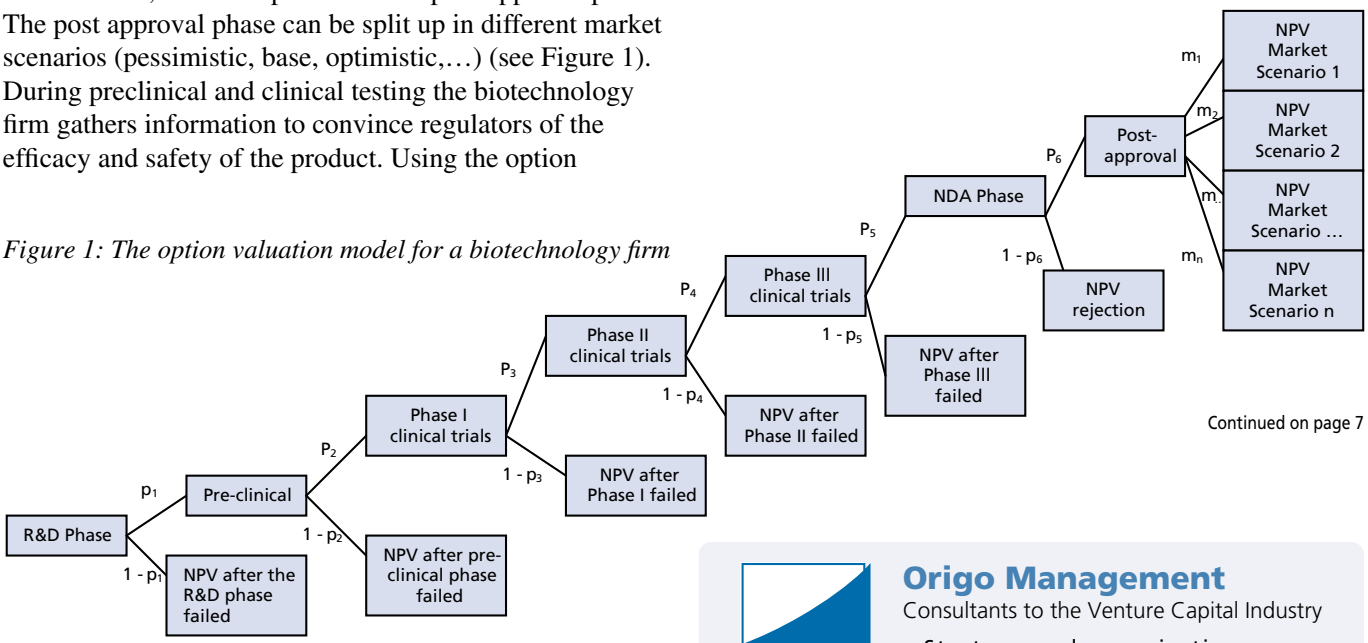
This approach calculates the value of a biotechnology firm by calculating the probability adjusted sum of the discounted cash flows in each drug development stage. The value of the firm is derived from the expected free cash flows of the products in the pipeline and their related costs.

Several stages exist in the development process of a drug: the R&D phase, the preclinical phase, phase I, II and III clinical trials, the NDA phase and the post-approval phase. The post approval phase can be split up in different market scenarios (pessimistic, base, optimistic,…) (see Figure 1). During preclinical and clinical testing the biotechnology firm gathers information to convince regulators of the efficacy and safety of the product. Using the option valuation model, a discounted cash flow is calculated for each of these development stages and market scenarios. In order to calculate the expected net present value (ENPV), one has to assign probabilities to the different scenario's. For these probabilities, we can use industry standards or decide to deviate from these standards on the specific merits of the case.

Let's illustrate this approach with an example. Let's assume Biotech company ABC has one product in the pipeline, a novel drug that enters phase III testing. It is possible that these tests would show that the product has e.g. undesirable side effects and that it is decided to drop further development. ABC will have incurred the development costs and have received some milestone payments. One can build a NPV model reflecting such a scenario and calculate the NPV. In our example we assume a 33% probability that Phase III will fail and that the NPV for this scenario is EUR 50 million negative.

Of course, there remains a 67% chance that the product is successful in its Phase III tests and goes on to the next phase: New Drug Application (NDA). Here again the product can be approved (90%) or rejected (10%). Note that the resulting overall probability of rejection, viewed

Figure 1: The option valuation model for a biotechnology firm



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Origo Management
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- Investment management
- Fund raising
- Board representation

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(1) Analyst at Origo Management

Stefan Odeurs	Stibbe
Bernard Peeters	Tiberghien
Luc Wynant	Van Olmen & Wynant

The vast majority of the participants was very pleased with the contents of the BVA Academy, but we did get a few good suggestions for next time, e.g.
more group work
Increase case illustrations on the "legal topics"
introducing a glossary to the documentation
spend a short session on the different VC players in Belgium, profile and investment focus.

Conferences
On December 12. 2002, BVA had its last conference of the year, generously organised and hosted by ***Ernst & Young***. The topics were very interesting:
"Risk/return Management" by Mr. Tristan Dhondt and Mr Peter Bruggeman, Ernst & Young Valuations
"Management Due Diligence" by Mr. Jan Paul Steenbergen, ***TMP De Witte Morel***.

For those who weren't able to attend the conference, you can find the presentations in the news section of our website.

Belgian Venture Capital Summit
Please don't forget that BVA and Europe Unlimited are organizing the second ***Venture Capital Summit*** on February 18th, 2003 at the Marriott Hotel in Brussels. This will be the place to be, since this event brings together the entire VC community as well as numerous venture-backed companies and the country's most dynamic entrepreneurs. This year, it will be committed to MBO's and later stage investments. Already more than 250 professionals are attending, so be there!!! You can check out our website for the program and more information on how to register.

Projects
The BVA launched a new working group with the goal to conduct a comprehensive academic study based on interviews with venture-backed companies on the "Economical Impact of Venture Capital in Belgium". This very important and long term project (18 to 24 months) will be realized under the academic leadership of Prof. Sophie Manigart ***(Vlerick Leuven Gent Management School)*** together with Prof. J.-Cl. Ettinger ***(Solvay Business School)***, Prof. Georges Hübner and Prof. D. Sougné ***(Ulg/HEC Liège)***, Europe Unlimited and the BVA.

Other projects, such as the *"Venture Backed Company Directory"* and the formulation of a *"White Paper on the State of Private Equity & Venture Capital in Belgium"* for the attention of the federal and regional governments have been reported to 2003/4 because they are of lower priority level.

BVA Members
As of January 1st, 2003, BVA has 34 full and 15 associate members, amongst whom are three new members.

- Investsud
  Avenue de France 6, 6900 Marche-en-Famenne
  contact: Benoît Coppée
- SIBL
  Boulevard Emile de Laveleye 191, 4020 Liège
  contact: Jean-Michel Ludovicy
- Sopartec
  Place des Sciences 4, 1348 Louvain-la-Neuve
  contact: Gilles Capart

Press
On the 1st of January, ***Quest for Growth*** has changed its investment policy with regard to investments in unquoted companies in order to approve its functioning under the actual economic environment.

For investments in unquoted companies, Quest for Growth – as before – will still be looking at companies in a later development stage in the technology and life sciences area. But from now on, Quest for Growth's targeted exit horizon is 36 months, whereas previously a period of 18 months was envisaged.

Venture capital firm ***Capricorn Venture Partners***, the Katholieke Universiteit Leuven and KBC Investco, the private equity arm of KBC Bank & Verzekering, have decided to cooperate in the field of venture capital investments in the so-called early-stage segment. As part of the agreement, K.U. Leuven will invest EUR 3 million and KBC Investco EUR 10 million in Capricorn Venture Fund II, a venture capital fund created by a number of parties around Dr. Jos B. Peeters who jointly invest EUR 7 million.

Capricorn Venture Fund II invests in so-called early-stage technology-based growth companies active in industry sectors such as information technology, healthcare, biotechnology and advanced materials. The geographical focus of the fund's investment strategy is on Belgium and the surrounding countries.

With these investments, the capital raised by Capricorn Venture Fund II now amounts to more than EUR 20 million and Capricorn Venture Partners has ongoing negotiations with other candidate investors to increase the capital further. To date, the fund has taken equity stakes in Amplexor NV (B), i-Merge NV (B), aXelera Solutions NV (B), UroGene SA (F) and 4 AZA Bioscience NV (B).

The three partners agreed to participate actively in the investment process under the overall management and

final responsibility of Capricorn Venture Partners. K.U. Leuven and KBC Investco will be represented in the various fund management bodies and will contribute to the screening, the analysis and the evaluation of the investment opportunities. Furthermore, KBC Investco will refer its entire flow of early-stage investment opportunities to Capricorn Venture Fund II. The follow-up and management of the portfolio companies will mainly be taken up by investment managers of Capricorn Venture Partners.

———

NIB Capital Private Equity and Halder have reached an agreement on the sale of All Crump, a Belgium based producer of chocolate and hazelnut spread, to the management and Gilde Participations.

Headquartered in Malle (Belgium), All Crump N.V. is a European market leader in private label chocolate and hazelnut spread. By selling its shares to the management and Gilde, All Crump can retain its independence and will be able to continue its successful growth strategy based on product innovation and a customer oriented approach. "With experience in the European nutrition and food field, Gilde will further contribute to the international expansion of All Crump" says Harry Zijlstra, General Manager of All Crump. All Crump has approximately 90 employees and a turnover of EUR 36 million in 2002. The buy out will not effect employment.

Having been All Crumps' shareholders during 9 years, NIB Capital Private Equity and Halder are pleased to sell All Crump to the management. Working together with the management has resulted in a considerable company growth and the company has become an important player on the European chocolate spread market. The new management that has been appointed to implement the turn-around, can now realise its dream by acquiring the company through a management buy out.

———

TrustCapital Partners has sold its stake in Passage Fitness to the English group Fitness First Plc.

To achieve its goal, becoming the biggest fitness chain in Belgium and Luxemburg, PASSAGE FITNESS found the support it needed in 1999, with two partners, the English Fitness First Plc, quoted on the London Stock Exchange, and the investment company TrustCapital Partners. In different stages, TrustCapital Partners invested a total amount of EUR 3.4 million in Passage, partially in equity and through loans.

In this exit, TrustCapital Partners realised an excess value of EUR 2.1 mio on equity, which leads to an IRR of 38% on a yearly basis. The loans were also paid back.

———

Fundus was recently set up on the initiative of a group of entrepreneurs, most of whom are members of the Vlerick Business Angels Netwerk: Joris Brantegem (Brantano), Tony Neven (Sentinel and Care4Data), Jan Kumpen (Bouwbedrijf Kumpen), Dirk Mertens ("De Boer = Waterdicht"/Vercammen) and Ignace De Bock (ex Barco Graphics and ex Enfocus Software). Fundus was set up as a close-end fund for a period of 10 years.

Fundus wants to invest in young companies that have to take the next step in their development and to this end need not only capital but are also looking for an active and experienced partner.

Fundus mainly wants to take minority stakes in healthy companies that have successfully completed their start-up period and show a sound and well founded growth profile.

People on the move

Since last November Paul F.H. Janssen has joined *Tauw*. As Director Corporate Environmental Affairs of a large, world-wide company in the packaging industry (150 operations in about 50 countries), he has gained significant experience in overall SHE management: establishment of environmental management systems, multi-site audits, communication management, merger & acquisitons, remediation projects, insurance policies, data management and reporting, among other.

In close cooperation with international staff, Paul will give support to further improve Tauw's performance in Environmental Due Diligence Audits to achieve even greater client's satisfaction. Tauw staff will all work closely to internalise the client's demands and to transpose these into customised, high quality solutions and tangible results.

Environmental Due Diligence

Koen Bontinck (1)
Hans Nieuwenhuis (2)

For the private equity market, as with other markets, 2002 was a difficult year due to political uncertainties and signs of weakness in the major economies and the stock markets; 2003 will also be affected by these uncertainties. Private equity players need to limit their risks wherever appropriate. More due diligence is therefore required, which includes environmental due diligence.

Environmental Due Diligence in Perspective

One can see an evolution in the M&A Market in terms of a need for Environmental Due Diligence (EDD). Prior to the 1990's, there was practically no need for attention to EDD. The increasing demand for environmental due diligence has come about because of various factors. Competition in the markets leads to high prices and investors cannot afford any risks. Stakeholders will not allow management to make mistakes during take-over. Also, the introduction of more stringent environmental legislation, stricter enforcement, growing public awareness, more transparent financial reporting and environmental management as part of corporate governance, has lead to an increased demand for EDD. Thus, in the current market buyers must protect themselves against acquiring unwanted environmental risks in commercial transactions. Primarily the aim of environmental due diligence is to identify material environmental risks and liabilities of the company or the sites to be acquired. Secondly, protection against these risks can be worked out and negotiated, including, in the case of private equity transactions, provisions for the proposed exit route.

What risks are we talking about?

Very obvious risks are hidden soil and/or groundwater contaminations and their resulting liability and clean-up costs (remediation). Operational liability is another environmental risk: ensuring compliance with (forthcoming) legislation, e.g. with respect to air emissions, wastewater treatment, or storage of chemicals may require significant capital expenditure. A third category relates to health and safety issues, such as asbestos and other types of claim.

Execution of EDD

The scope of EDD work has to be appropriate to the deal and the type of business that is being bought or sold, so that not only is it effective but also it does not have an impact on the timescale of the deal. In the bid phase, only limited EDD work is required and possible. However, during the exclusivity phase, full Phase I assessments (site visits, document reviews, interviews with key personnel) are carried out, all in order to check compliance with environmental permits and regulations. This is potentially followed by a Phase II investigation (typically soil and groundwater investigation, but could also include an asbestos survey). In case a more time consuming Phase III (remediation) is required, this is usually carried out after completion of the deal, based on a negotiated frame.

The key to successful environmental due diligence is to get consultants involved as early in the process as possible. This enables the work to be timetabled so that the key findings can be factored into the bid and incorporated in the reports of other advisers, where relevant.

Requirements of the consultants

A requirement of the consultants is that they have local people on the ground who are of course familiar with auditing techniques and legislation, but also speak the native language and are aware of the local culture and relationships with applicable authorities. In addition, they should be aware of the transaction context, and should be able to handle sensitive issues in a professional way.

Experience of Tauw

Tauw has carried out hundreds of EDD projects for a variety of clients, including CVC, Gilde, NeSBIC, ABN AMRO, and is an associate member of EVCA and BVA. In addition, Tauw has an unrivalled position as environmental consultant in cross-border lease transactions. Tauw is member of the CAT Alliance Ltd., a joint venture with COWI from Denmark and Enviros (previously Aspinwall) from the UK, which has resulted in one of the largest providers of EDD services worldwide, with a network of local partners in more than 50 countries. CAT Alliance is also an associate member of EVCA.

(1) Director Tauw Belgie
(2) Senior consultant Tauw Nederland

Valuation of biotechnology firms: the option valuation model

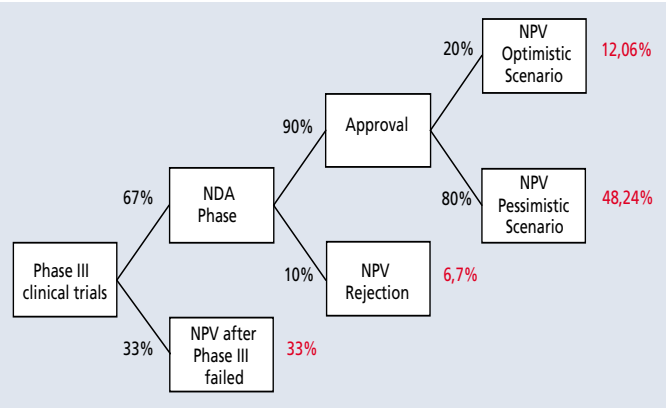
Continued from page 3

from our current point in time, is 6,7%, i.e. 67% * 10%. One can again calculate the NPV of all costs incurred and milestone payments received up to this stage. (EUR – 60 million in our example).
In case of approval, the NPV is still uncertain, as the market success of the product is unknown. In the example, we assume two possible scenario's: an optimistic market scenario with a NPV of EUR 500 million and a pessimistic scenario with a NPV of EUR 100 million. Attributing a 20% probability to the optimistic scenario (however, since ABC still is at the start of Phase III, the probability to be used for calculating the ENPV today is 12,06% (= 67%*90%*20%)), and 80% to the pessimistic one (meaning an overall probability of 48,24% (= 67%* 90%*80%)) the ENPV can be calculated (Table 1).
As a result, we would value ABC at this point in time at about EUR 72 million.

Table 1: ENPV Calculation for company ABC

	Scenario NPV	Probability	Wheigthed NPV
Stop after Phase III	-50	33%	-16,5
NDA rejection	-60	6,7%	-4,02
Optimistic marketscenario	500	12,06%	60,3
Pessimistic marketscenario	100	48,24%	48,24
ENPV		100%	71,94

Figure 2: Option valuation model company ABC



In our example, ABC had only one product. Most companies, however, have a portfolio of products. In this case, the same approach should be applied to each product individually, and the results added up.

One of the great merits of this method is that it requires making a judgement on each of the steps in the drug development process, judgements that are implicit in most other methods. The main negative is that it requires a lot of information and that it is laborious.

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Agenda

- 10/02/03 — Board Meeting
- February 18/02/03 — Conference 1
  Venture Capital Summit +
  BVA General Assembly
- 17/03/03 — Board Meeting +
  Presidents' Meeting at De Warande
- April 23/04/03 — Conference 2
  Board Meeting
- 10/06/03 — BVA Press Conference
  18/06/03 — Board Meeting +
  Presidents' Meeting at De Warande
  (this date will be fixed in relation to the date the EVCA figures are published)
- September 03/09/03 — Conference 3
  Board Meeting +
  Presidents' Meeting at De Warande
- November 05/11/03 — Conference 4
  Board Meeting
- 03/12/03 — Board Meeting +
  Presidents' Meeting at De Warande