





# Venture Capital seminar

8 December 2005



## Agenda

12:15	Jo Taylor	Introduction and strategy
12:45	Peter Bollier	US Software
13:00	Jean-David Chamboredon	France Communications
13:15	Klaus Stöckemann	Germany Healthcare
13:30	Laurence Garrett	UK ESAT
13:45	Jo Taylor	Closing remarks and Qs and As

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## Key messages

- Improved market conditions/cycle turning
- Fully-aligned team
- Absolutely return focused
- Clear portfolio strategy
- Good quality assets

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## Vision

'To be viewed by the best entrepreneurs, corporates and investors as a value focused, international leader in Venture Capital'



## Strategy

- To be an international VC business operating in three continents (US, Europe and Asia) through a single global team
- An active investor capable of building value through:
  - our unique contact network
  - the proactive involvement of 3i's investment team
  - an ability to provide multiple rounds of investment
  - in-depth knowledge of core sectors

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## Our business model

- Entrepreneurs are our partners
- Our portfolio companies are our products
- The IPO market investors and corporates (for M&A) are our customers

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## Resources

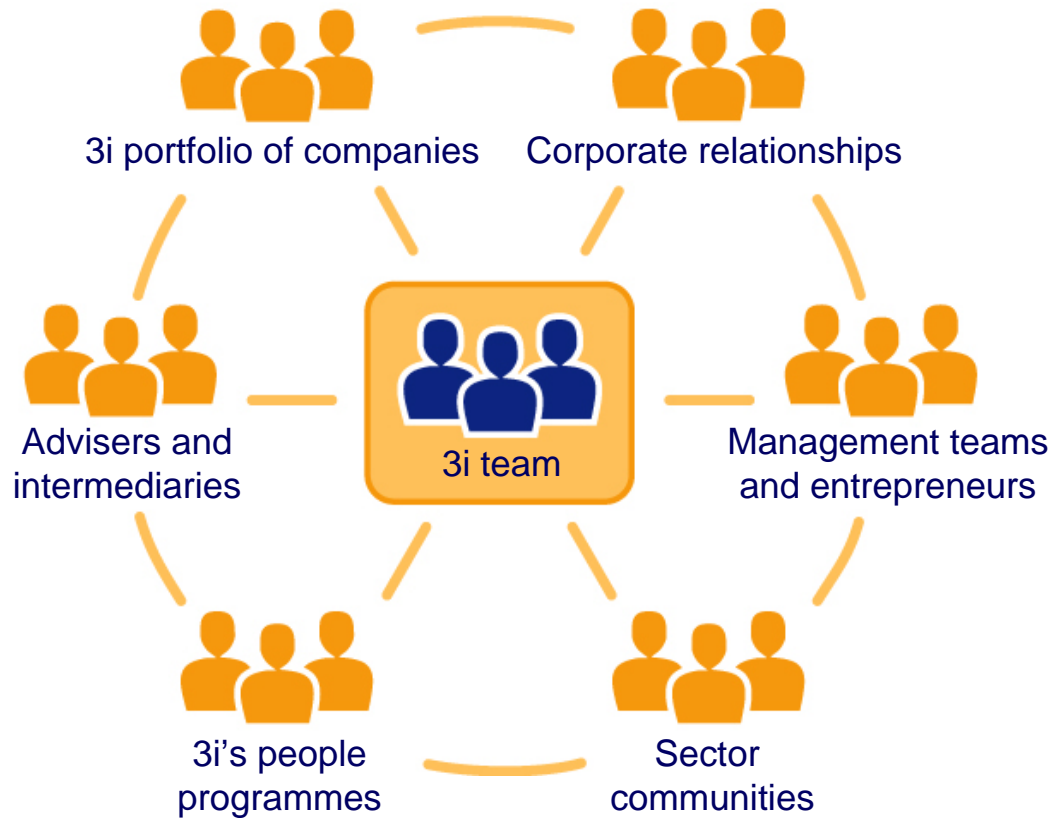
- Global team of 50 investment professionals
- 21 partners
- Six locations in Europe and two in the US
- Supported by a high-quality advisory board

Connected to  
3i's Growth and  
Buyout network  
and integrated  
in 3i's sector  
teams





## Networked experience and expertise





## Our ambition

- Cash to cash ~35%
- Cycle volatility +/- 10%
- Vintage year volatility +/- 20%

Absolutely return focused



## Investment strategy

### Early stage

- A&B funding rounds
- R&D/pre-revenue
- Initial investment up to \$10m
- Return target of 10x cash

### Late stage

- Final funding round pre-exit
- Proven technology/business model
- \$15m to \$25m investment size
- Return target of 2x to 3x cash

### Model portfolio:

Early stage – two-thirds by number

Late stage – two-thirds by value



## Investment strategy

- Invest across eight core technology sectors
- Lead investments, take board seats and influence outcome
- Back strong, innovative business propositions
- Identify companies with significant growth potential, disruptive technologies and strong management
- Select opportunities where we can create and realise significant value



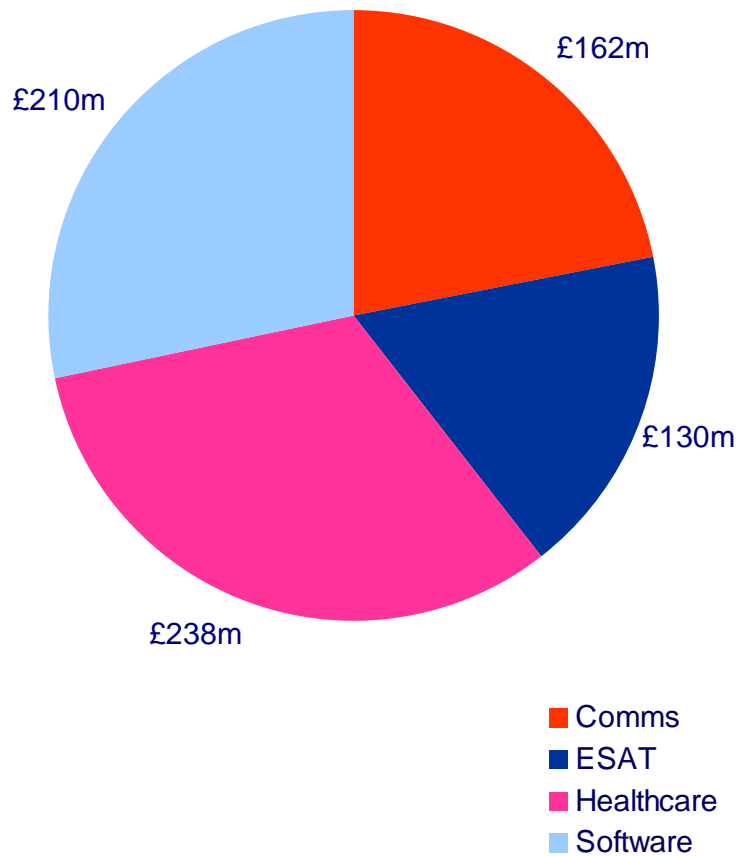
## Sector focus

- Experienced sector focused teams
- Expertise in:
  - Communications
  - Software
    - > Internet
  - Electronics )
  - Semi-conductors ) ESAT
  - Advanced Technologies )
  - Med-Tech ) Healthcare
  - Pharma )

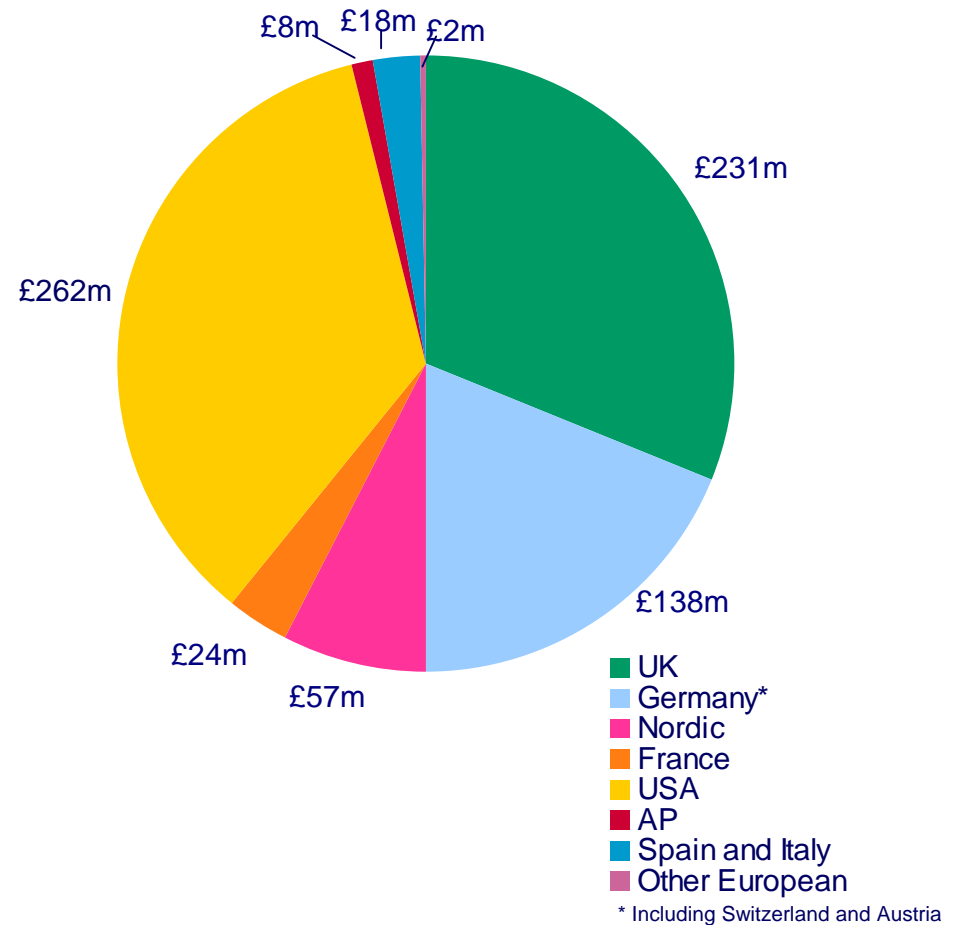


# Portfolio (as at 30 September 2005)

## Sector

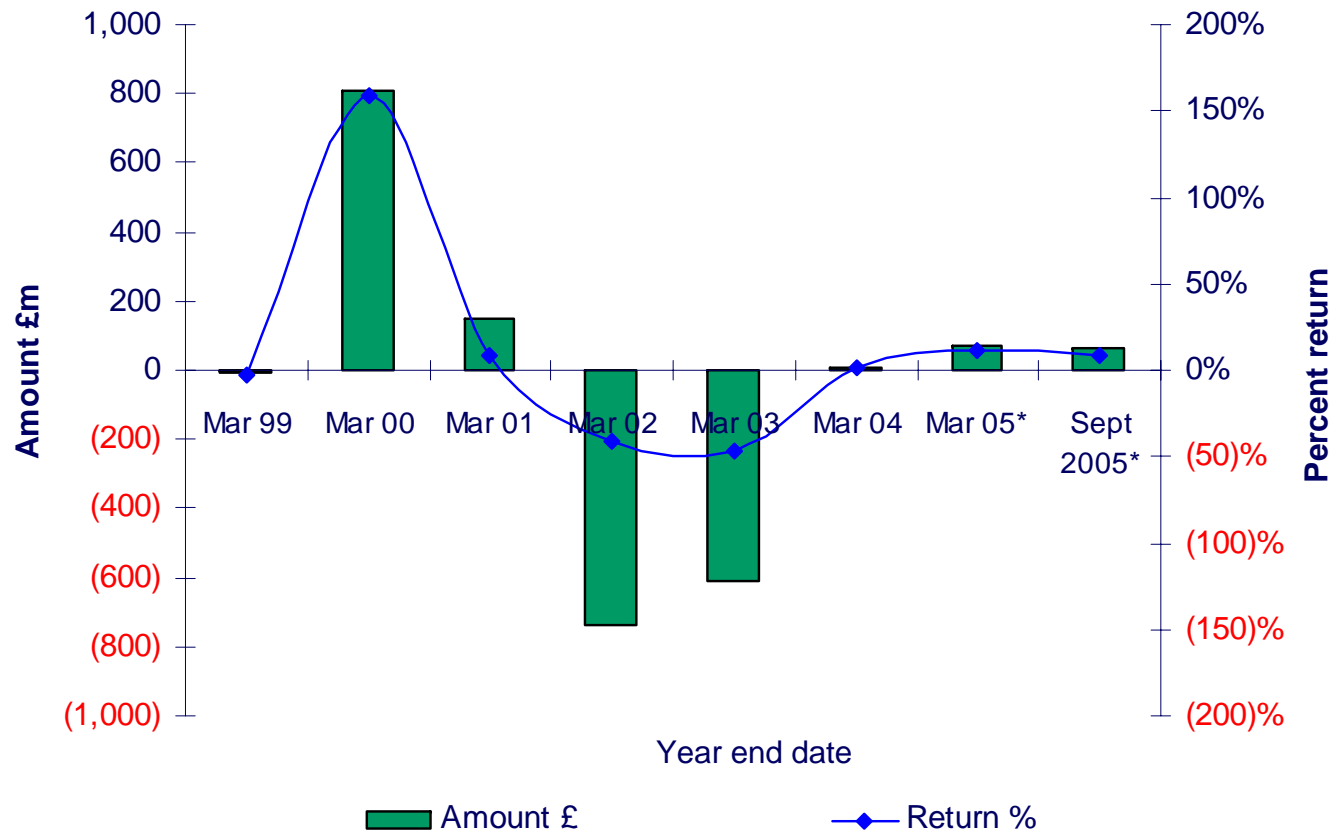


## Geography





## Gross portfolio return (1999 to present)



\*At March 2005, the returns generated on SMI investments were separated from the Venture portfolio. In previous years (ie 2004 and prior, these SMI returns are included in the gross portfolio return figures shown above)



## Portfolio management (Funds)

- Fund 1: all vintages prior to 2002
- Fund 2: vintages 2003 and 2004
  - sector based approach introduced
- Fund 3: vintages 2005 and 2006
  - European/US carry introduced
- Fund 4: vintages 2007 and 2008
  - global carry being introduced

We have organised our teams and portfolio as virtual global funds





## Fund 1 portfolio value

Exit Fund 1 to recover cost in next three years

- £2.3bn cost of portfolio
- £1.6bn returned\*
- ~£500m of value remaining

\*as at 30 September 2005



## Investment activity

- Good level of market activity
  - late stage represents half the total capital being invested
  - early stage investment at its highest level since 2001
- 3i invested £58m in the first half
  - 12 new 3i investments
  - good quality pipeline



## Improved European IPO market

- Seven 3i IPOs in 2005  
(~20% by number of European venture-backed IPOs)

<b>Company</b>	<b>Market</b>	<b>Market cap</b>
Interhyp	(Frankfurt)	€435m
ProStrakan	(FTSE)	£207m
Arpida	(Swiss)	€167m
Jerini	(Frankfurt)	€155m
Paion	(Frankfurt)	€122m
Ardana	(FTSE)	£61m
Phoqus	(AIM)	£46m

- Delivered £120m of realisation proceeds in first half



## Performance

Year ended 31 March	2004	2005	2006 (half year)
Income £m	14	6	2
Realised profits £m	34	50	36
Value movement £m	(43)	27	23
	—	—	—
Portfolio return £m	4	83	61
<b>Portfolio return</b>	<b>0.5%</b>	<b>11%</b>	<b>8%</b>



## Vintage returns

- Fund 1 (vintage pre-2002) – good proceeds
- Fund 2 (vintage 2003 & 2004) – strong returns
  - three exits achieved already with UbiNetics, Pedestal Software and Arakis
  - considerable further potential:
    - > Vonage, Transmedics (US)
    - > Sulake (Nordic)
    - > EVE (France)
    - > Mindjet (Germany)
    - > Microsulis, Domantis (UK)
- Fund 3 (vintage 2005 & 2006) - early days



## Summary

- Clear portfolio strategy (Fund 1)
- Good quality portfolio (Fund 2 and Fund 3)
- Absolutely return focused
- Improved market conditions
- Team focused on delivery

Business in good shape



Peter Bollier

US, Partner



## Software sector overview

Sector includes:

- Development companies selling to consumers, businesses and governments
- Internet-based businesses





## Software – what we look for

Focus on companies with disruptive business models that do not rely primarily upon perpetual licences or high levels of product integration.

Particular interest in capital efficient and highly scaleable opportunities.

This includes:

- software-as-service business models
- open source business models
- security technologies
- web services
- second generation internet plays



## BlueLithium - ebusiness

- Fastest growing on-line advertising network in the US
- Proprietary technology
- 1,000+ publishers within the BlueLithium network
- Delivering 2bn impressions monthly
- Representative advertisers: British Airways, T-Mobile, Wells Fargo, Nokia, Astra Zeneca, Blockbuster, Vonage



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## The opportunity

- Current market is >\$9 billion
- Growing at 30% per annum
- Major disintermediation of advertising dollars
- Proprietary software and algorithms
- Global presence



## Our value add

- Provided funding in first institutional round of \$11.2m with Walden VC
- Assisted in launching London-based European team
  - worked with CEO to agree targeted strategic expansion strategy for Europe, beginning with the UK market
  - 3i UK team identified recruiter and assisted in hiring process for European MD
  - our UK team and 3i portfolio provided assistance in UK subsidiary start-up
- Helped recruit board NXDs and leading board committee working with CEO to complete recruitment of key management positions
- Introductions to New York advertising contacts and portfolio opportunities in the 3i network (from both the US and Europe)



Jean-David Chamboredon

France, Partner



## Communications overview

- We define Communications as being equipment, infrastructure and services which enable telecommunications and data communications
- Includes the following sub-sectors:
  - Handset Software
  - Next Generation Wireless
  - OSS Operational Support Systems
  - VoIP and Convergence
  - Entertainment and Games
  - Quality of Service
  - Security and Spam



## Communications – major drivers

- The four main players driving the sector are:
  - Telecom infrastructure companies
  - Enterprises
  - Consumers
  - Telecom equipment manufacturers
- These vary geographically as follows:
  - Western Europe and North America
  - South East Asia
  - Eastern Europe
  - Rest of World



## Communications – what we look for

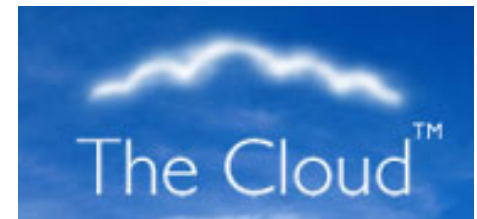
- Opportunistically investing in emerging sub-sectors using our market understanding to forecast the likely commercial success
- Building a portfolio group which can leverage off the network that 3i builds around that sub-sector
- Focus on industry mega-trends as they become clear, such as:
  - VoIP
  - cellular subscription growth
  - mobile/digital media
  - content and convergence
- We can add extra value by building a portfolio and knowledge around selected mega-trends and working with entrepreneurs





## The Cloud – Service provider, wireless broadband

- Delivers high speed, ubiquitous, secure wireless internet access to all, today
- Europe's fastest growing, sophisticated public access wireless LAN network
- Provides public wLAN access in over 6,000 locations in the UK, Germany and Sweden
- Partners include: Vodafone, BT Openzone, Skype, O2, Inspired Broadcast Networks, Intel, Ericsson





## The opportunity

- CEO met Jo Taylor at ETRE and then the whole Comms team at 3GSM 04
- Our key differentiators to win the deal were
  - our sector knowledge
  - our geographical reach
  - insights provided by Cometa, a 3i portfolio company
- We liked
  - proven CEO and recognised him as a high calibre visionary
  - largest operator in the UK
  - had developed own proprietary management platform
  - ability to manage international carrier customers in a “neutral” manner



## The value add

- Introduced high calibre Non Exec Chairman: Geoff Unwin
- Drove the recruitment of experienced COO (out of BT)
- Several introductions to potential UK partners/customers
- Supported the negotiation with Vodafone D2 in Germany
- Introduced General Manager for Germany (former CEO of a 3i portfolio company)
- Looked for opportunities in other geographies (eg France)
- Worked on the further funding and strategy of the business



## The exit

- Potential to be a significant win:
  - high calibre team
  - market dynamics favourable and improving
  - position significantly enhanced post Vodafone deal
  - convergence GSM/Wifi for voice will add strategic value
- Long term play and will require patience and further 3i support
- Strategically ahead of plan



Klaus Stöckemann

Germany, Partner



## Healthcare overview

- This sector is broad and includes
  - Pharmaceuticals
  - Generic medicines
  - Services to Pharma/Biotech
  - Over the Counter (OTC) medicines
  - Biotech (development of products from biological origin)
  - Medtech which covers all medical devices
  - Diagnostics
  - Healthcare Services



## Healthcare – major drivers

- Dominated by some global companies that have grown through consolidation
- The market is driven and substantiated by:
  - growing elderly population
  - significant unmet medical needs
  - pharma's requirement for new products
  - increasing expectation from consumers/patients for better therapeutics
- Healthcare spend is a significant proportion of GDP in developed countries
- Patients are willing to pay for effective treatments



## Healthcare – what we are looking for

- Global investment independent of location
- Targeting late stage opportunities in speciality pharmaceutical, medtech, services or health IT businesses
- Early stage opportunities in highly innovative, patent protected products. These companies will be predominantly in the medtech sector
- Later stage drug development companies that have one or more of the following:
  - products in clinical trials
  - have an opportunity to partner with larger pharmaceutical companies
  - are able to launch a product in a niche
- Opportunistic investing in life science tools and diagnostics where we believe there is truly disruptive technology



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## elbion - Healthcare/drug development

- Drug development company focusing on new treatments for the central nervous system and inflammatory diseases
- Drugs in Ph-I and Ph-II trials
- Formed as a spin-off/MBO from Degussa/AWD in Germany





## The opportunity

- Interesting entry valuation and significant amount raised in first round
- 3i led and closed at €16m and then further built an international syndicate of investors (EU, US and Japan) with final close at €35m
- Partnership with big player in place and international network established
- Alignment among shareholders to building a late stage inflammation and CNS\* play
- Capitalise on deep pipeline and in vivo pharmacology know-how

\*(CNS=Central Nervous System)



## Value add

- 3i is on the board and chairs Finance and M&A committee
- Introduced company to ex head of pharmaceutical development at Bayer now retained as adviser and other experts in field
- Introduced elbion to major pharmaceutical company
- Initiated discussions on M&A with EU and US companies

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## Exit

- Building profile for international exit markets
- Most likely exit IPO
- Targeting early 2008



Laurence Garrett

UK, Partner

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## ESAT overview

- Consists of three prime sectors:
  - Electronics
  - Semiconductor Components and Services
  - Other Advanced Materials/Technologies



## ESAT – what we look for

- Early stage opportunities in technologies in which high entry barriers can be built that have significant market opportunities preferably within existing markets
- Late stage opportunities where the management is strong, the business model scaleable and products developed and showing early commercial traction

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## UbiNetics – Wireless equipment and hardware

- Forward looking wireless communications company
- Developing 3G, 2.5G and 2G products for wireless data and voice applications
- Customer benefits are: ease of integration, robustness of solution, acquisition of the knowledge of the complex world of multi-standard communications
- UbiNetics had over 40 customers and sales were c.£20m at time of exit

UbiNetics





## The opportunity

- First saw the company in 2000 and passed due to price
- Direct marketed the company again in 2003
- Won the deal in competition from Apax, Advent and Carlyle
- Our key differentiators to win the deal were:
  - knowledge of the sector via TTPCom which we took to IPO in October 2000
  - our network of people
  - partnership approach with key founding shareholder PA Consulting
- We liked:
  - scale of the business
  - complexity of 3G market and where UbiNetics were positioned
  - the parentage of UbiNetics



## Our value add

### People

- Directly joined the board
- Recruitment of new CFO
- Appointment of new NXD

### Exit

- Adviser selection and negotiation
- Trade not IPO
- Introduction of one of the buyers

### Operational

- Closure of the TM 200 product line
- Chair of Remcom and resolution of share options
- Split of the business into two companies
- Closure of Swindon



## The exit

- Initiated the split of the business in September 2004
- Sold Test and Measurement division to Aeroflex in May 2005 for \$82m
- Sold Handset division to CSR in August 2005 for \$48m
- Total net deal proceeds of greater than \$137m
- 3i return is 2.7x and an IRR >90%



Closing comments



## Summary

- Clear portfolio strategy (Fund 1)
- Good quality portfolio (Fund 2 and Fund 3)
- Absolutely return focused
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Business in good shape



## IT recent successes ...

### IPOs



### Trade sales



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...and a strong portfolio to support





## Healthcare recent successes ...

### IPOs



### Trade sales





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...and a strong portfolio to support

