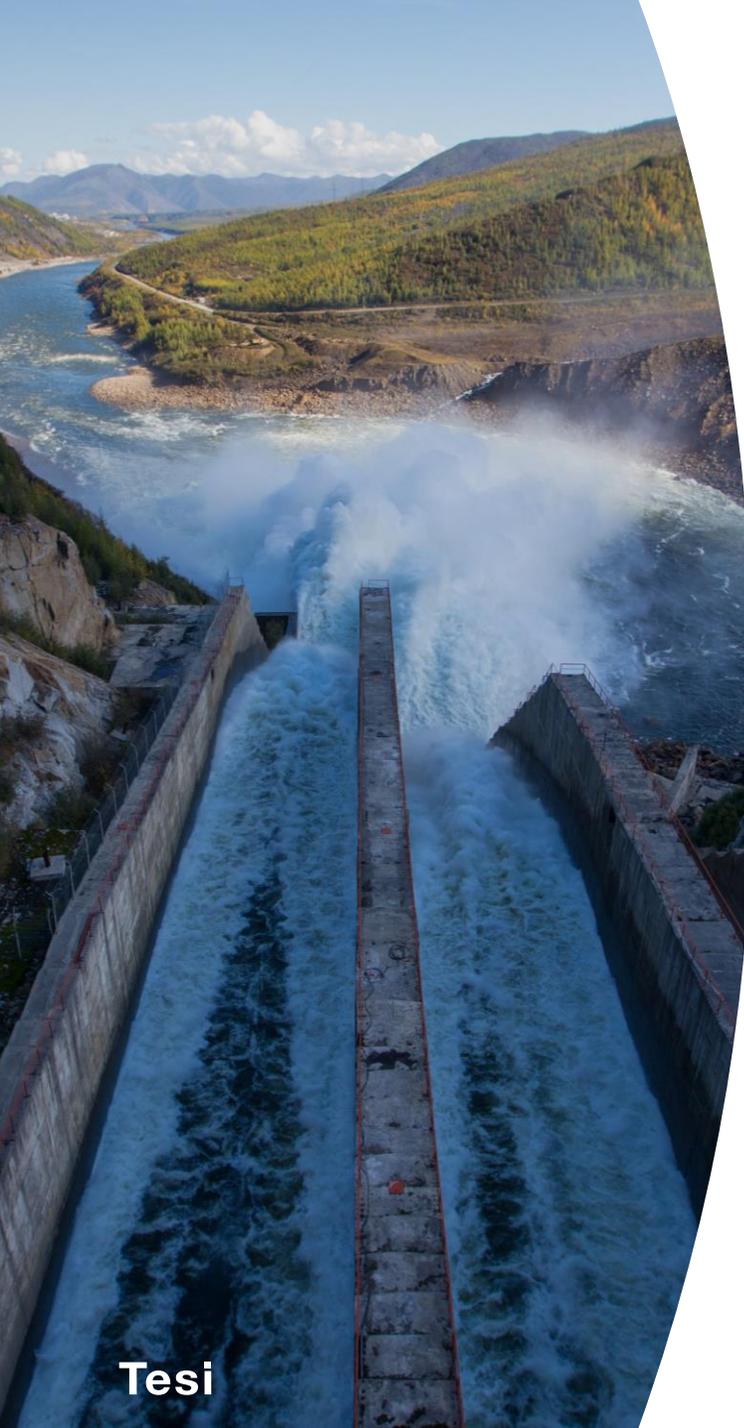




# Survey of investment returns from the Finnish PE & VC market

May 2023

**Tesi**



## Introduction

- Annually, Tesi publishes a comprehensive survey that examines investment returns in the Finnish venture capital and private equity market (VC & PE). This survey is designed to provide general partners, investors, and other industry stakeholders with the most recent information on the sector's performance. First launched in 2018, the survey has been published consistently since 2021.
- The sample for this year's survey consists of 44 funds raised in Finland between 2009 - 2020 divided equally between buyout and venture capital funds. The sample has been divided into two groups based on their initial year of inception (vintage year): Mature funds (19 funds formed between 2009-2020) and new funds (25 funds formed between 2016-2020)
- This year's survey diverges from previous editions in two key ways: First, we have excluded the 2002-2008 vintage funds from our analysis, as their portfolios are nearly fully realized. Secondly, we have expanded the scope to encompass vintages from 2016 to 2020 in order to demonstrate the performance of more recent funds. Lastly, this year the survey includes more detailed analysis of PME's of the whole fund sample.
- A more detailed explanation of the survey's methodology can be found on slides 22-24 at the conclusion of this document.
- Should you have any inquiries regarding this research survey, please do not hesitate to contact Tesi's Investment Associate, Jens Färm, at [jens.farm@tesi.fi](mailto:jens.farm@tesi.fi) or +358 40 566 0067.

# Summary: Main changes compared to previous survey

## VENTURE CAPITAL FUNDS

### MAIN FINDINGS IN PREVIOUS SURVEY

- Returns from the old funds continued to be excellent and showed improvement to previous survey
- As stated in the 2020 survey, exits from VC funds only occur during the final years of the funds – Old funds have also excelled in their realized gains compared to last year

IRR<sup>1</sup> old funds  
(inception 2009-2015)

25%

IRR<sup>1</sup> new funds  
(inception 2016-2020)

N/A<sup>2</sup>

### MAIN FINDINGS IN THIS SURVEY

- The returns from established funds have remained great, albeit with a minor correction.
- Additionally, new funds are demonstrating impressive returns, achieving an IRR of nearly 20 percent.

IRR<sup>1</sup> old funds  
(inception 2009-2015)

22%

IRR<sup>1</sup> new funds  
(inception 2016-2020)

19%

- In alignment with previous surveys, the established buyout funds continue to exhibit a stable return of 17 percent.
- Meanwhile, new funds display an IRR of 11 percent, with a portion of the portfolio companies still valued at, or in close proximity to, their acquisition cost.

IRR<sup>1</sup> old funds  
(inception 2009-2015)

17%

IRR<sup>1</sup> new funds  
(inception 2016-2020)

11%

## BUYOUT FUNDS

- No marked change. The returns of old funds remained steady level
- Old funds repaid called-up capital to the investors last year

IRR<sup>1</sup> old funds  
(inception 2009-2015)

17%

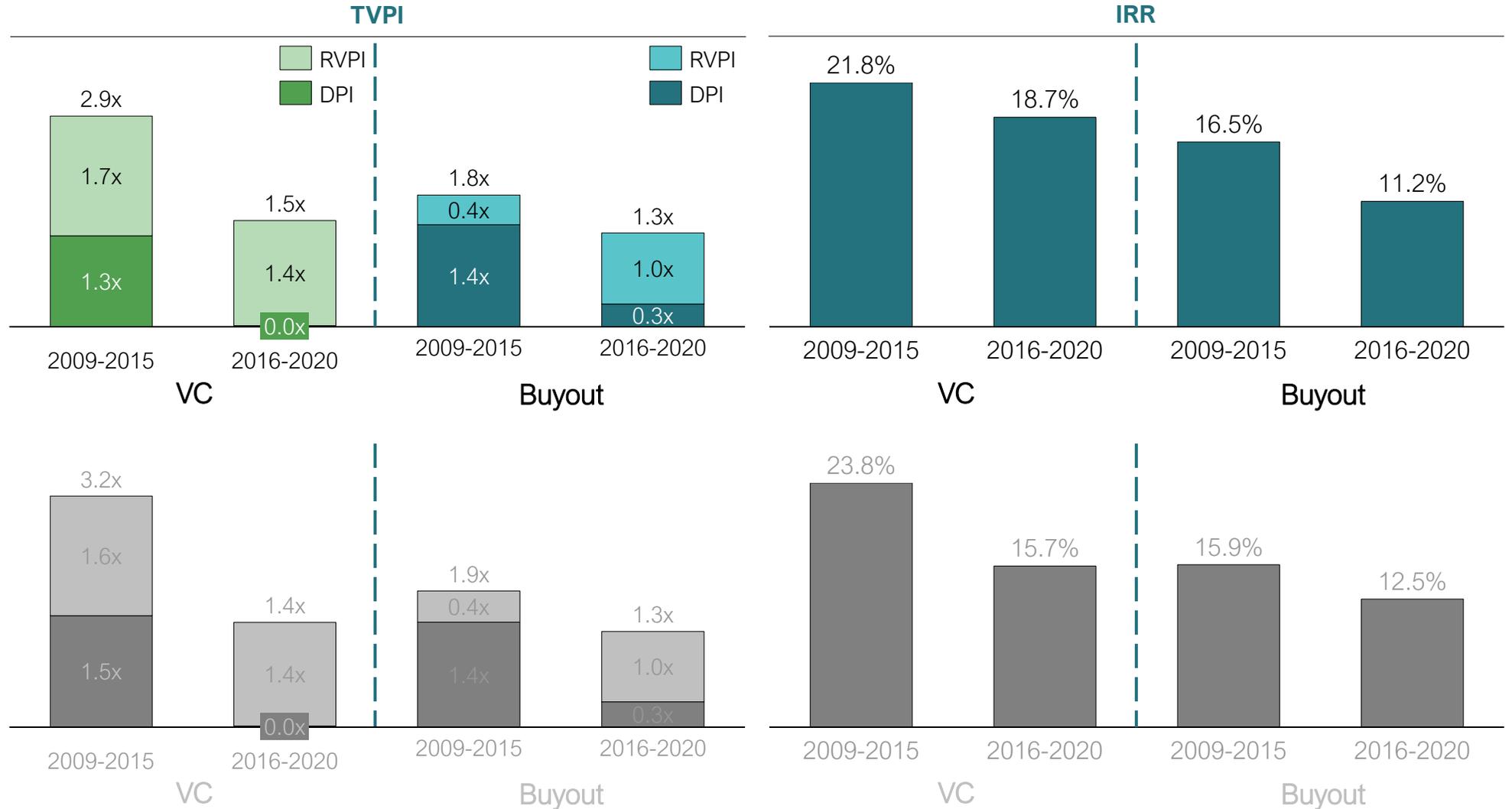
IRR<sup>1</sup> new funds  
(inception 2016-2020)

N/A<sup>2</sup>

# Summary: Returns from the Finnish PE & VC market, 31 Dec 2022

MARKET WEIGHTED<sup>1</sup>

EQUALLY WEIGHTED<sup>2</sup>

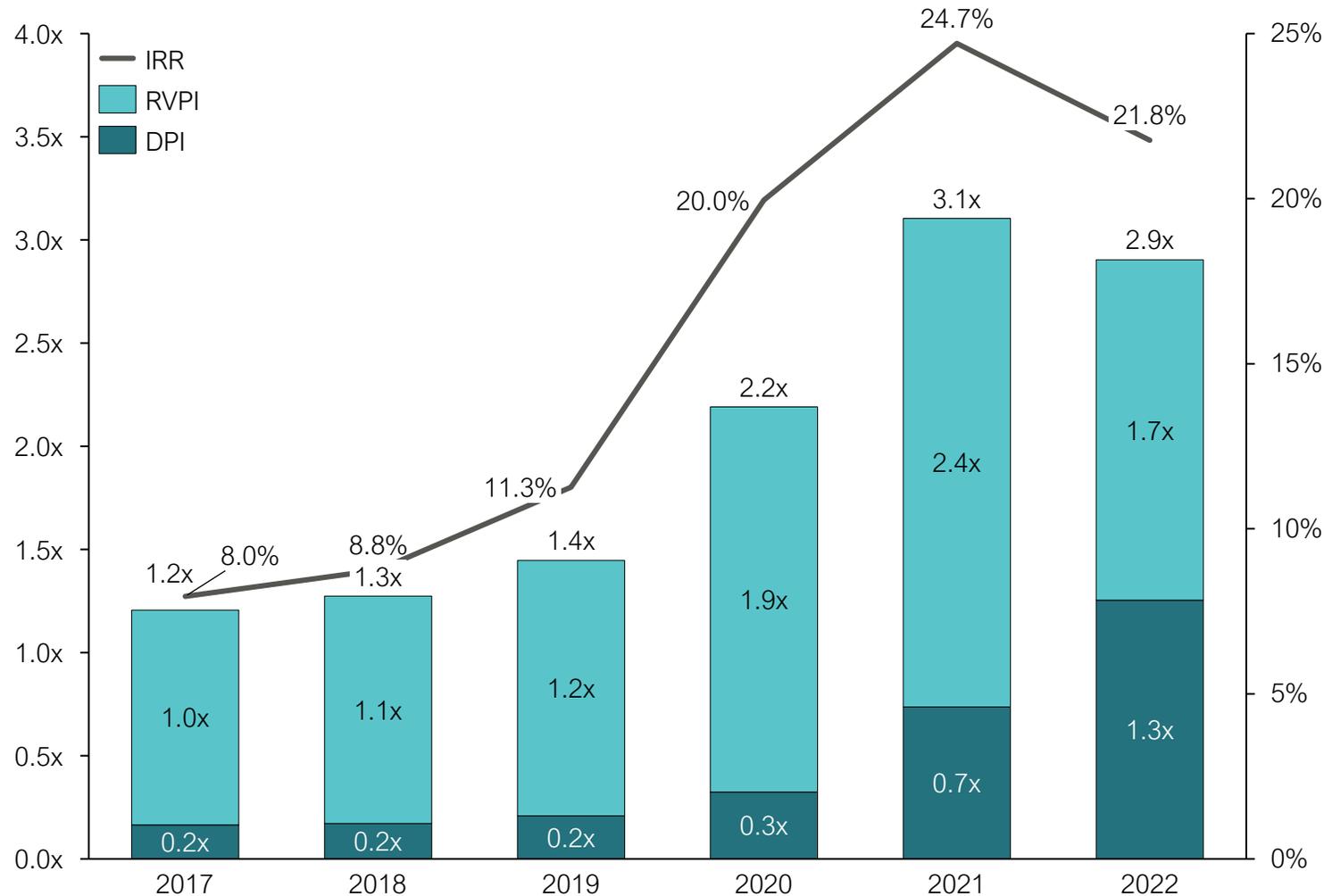




# Finnish VC funds

# Performance of mature VC funds (vintages 2009 – 2015)

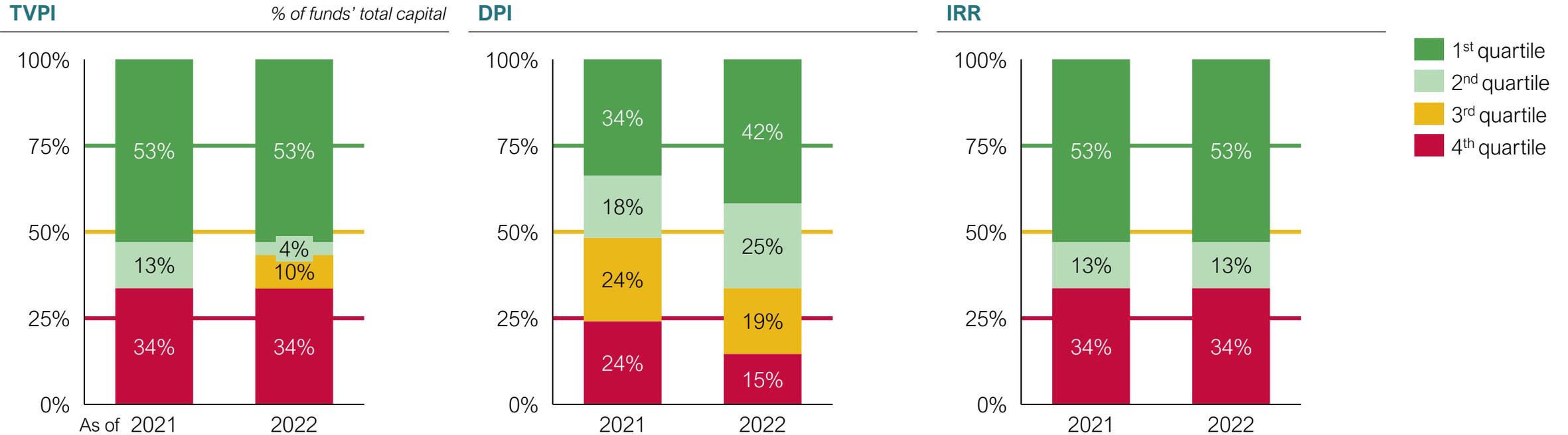
## PERFORMANCE 2017–2022<sup>1</sup>



## COMMENTARY

- The global market turmoil has impacted the venture market as well, with later-stage companies, in particular, experiencing a noticeable decline in valuations.
- To date, mature Finnish venture capital funds have generated an impressive annual return of 22 percent. The robust performance in the past two years has served as a buffer for the current year, maintaining a TVPI of 2.9x.
- Despite the uncertain market conditions, older funds have nearly doubled their distributed capital, marking the best year on an absolute basis during the 2017-2022 period. The DPI now stands at 1.3x, with over half of the value still pending realization.

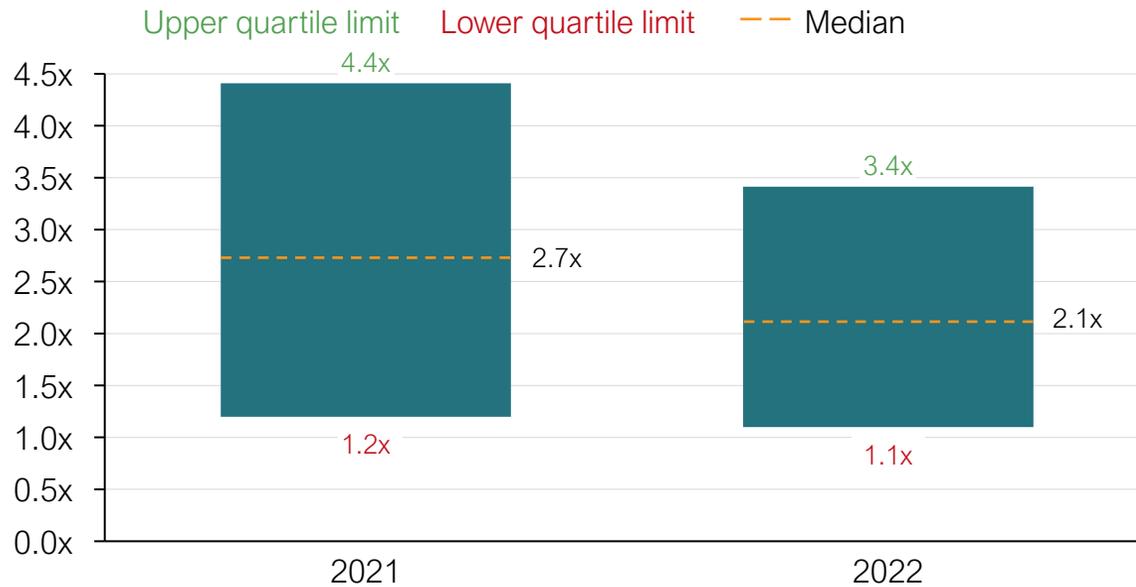
# Mature Finnish VC funds' performance compared to European peer group



- In this comparison, each fund within a group is evaluated against its European counterparts based on its return figures and vintage year, with the results compiled at the group level. If the Finnish market's structure perfectly aligned with that of the European reference group, each of the four colors would represent a 25% share.
- In 2022, over half of the Finnish VC funds' capital is in the first TVPI quartile when compared to the European peer group, a proportion that remains unchanged from 2021. Last year, 10 percent of the capital dropped to the third quartile, with Finnish funds continuing to be over-represented in the upper quartiles. Examining the IRR, there is no change from the previous year, as two-thirds of the funds' capital remains in the first and second quartiles, along with a slight over-representation in the bottom quartile.
- Despite the challenging market conditions in 2022, Finnish VC funds outperformed their European peers in terms of capital distribution to investors. In the previous year, approximately 50 percent of the capital was in the upper quartiles, which increased to over 65 percent in 2022.

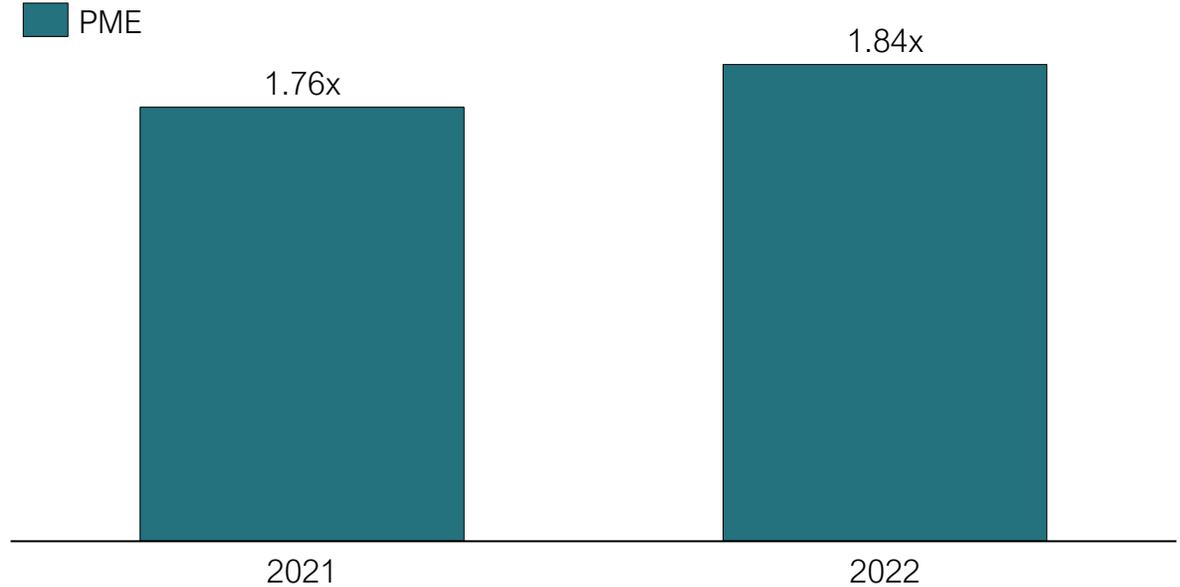
# Distribution of mature VC funds' returns and comparison with the listed market

## DISTRIBUTION OF RETURNS MULTIPLES (TVPI)



- From the previous year, the return dispersion has decreased, as the difference between the upper and lower quartiles fell from 3.2x to 2.3x. The upper quartile limit is now 3.4x, while the lower limit is just above 1.0x. Despite this change, the returns from established funds remain strong.
- Although the return dispersion has narrowed since last year, the distribution remains relatively high, which is typical in venture capital as individual fund investees can significantly influence the funds' returns.
- In 2022, the median TVPI for older VC funds stands at 2.1x.

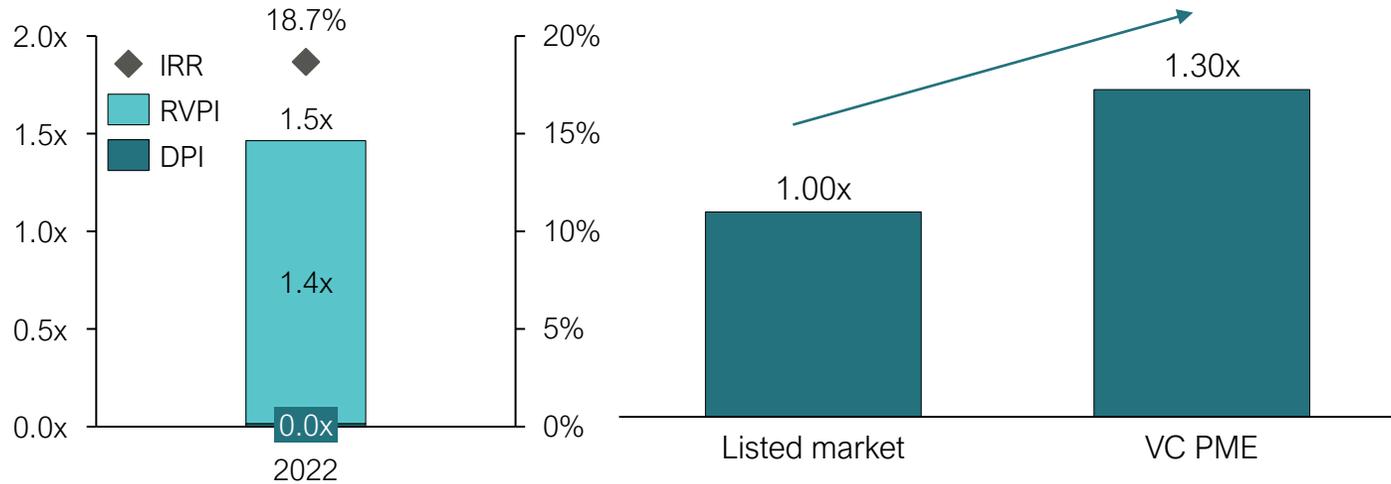
## COMPARISON TO LISTED MARKET (PME)<sup>1</sup>



- In PME calculations, the cash flows of the funds are indexed against the public stock market. This approach offers a benchmark that illustrates the performance relative to investing in the listed stock market at the same time. In this case, the OMX Helsinki General Index has been utilized as the benchmark index.
- During 2022, the PME for established VC funds increased from 1.76 to 1.84. This is an impressive figure; however, the modest rise is likely attributable to the swift correction in the listed market compared to the more gradual adjustment in the private market.

# Performance of new VC funds (vintages 2016 – 2020)

## RETURN METRICS AND PME

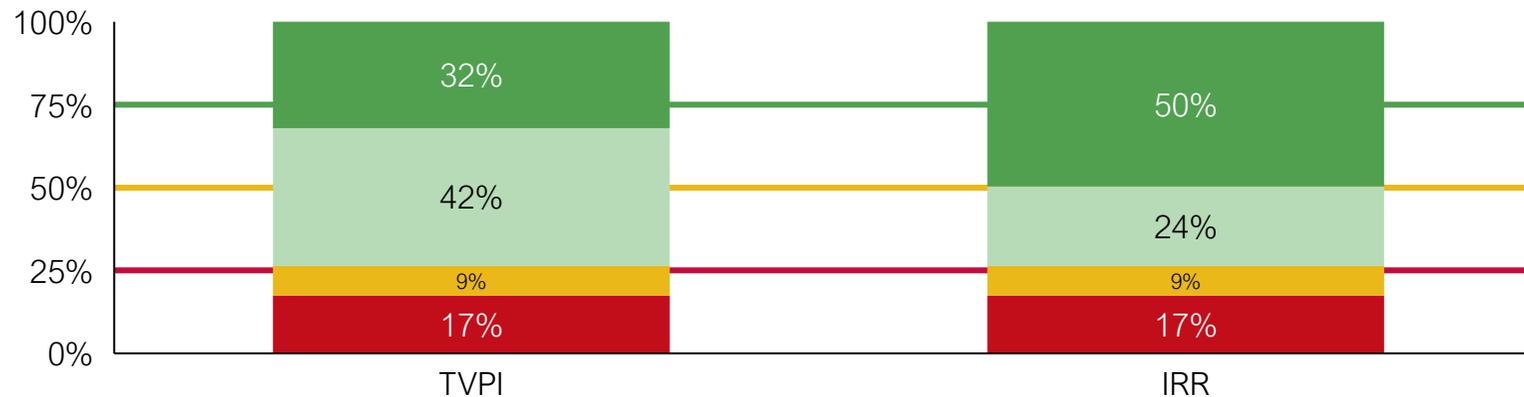


## COMMENTARY

- The returns for new venture capital funds currently stand at 1.5 times the called capital, with 19 percent annual returns. Marginal realizations have occurred, but the DPI is still forthcoming, which is expected for the vintages in the sample.
- When compared to the returns of the listed market, younger venture capital funds have been able to generate 1.3 times the return of the listed market.

## PERFORMANCE COMPARED TO EUROPEAN PEER GROUP

*% of funds' total capital*



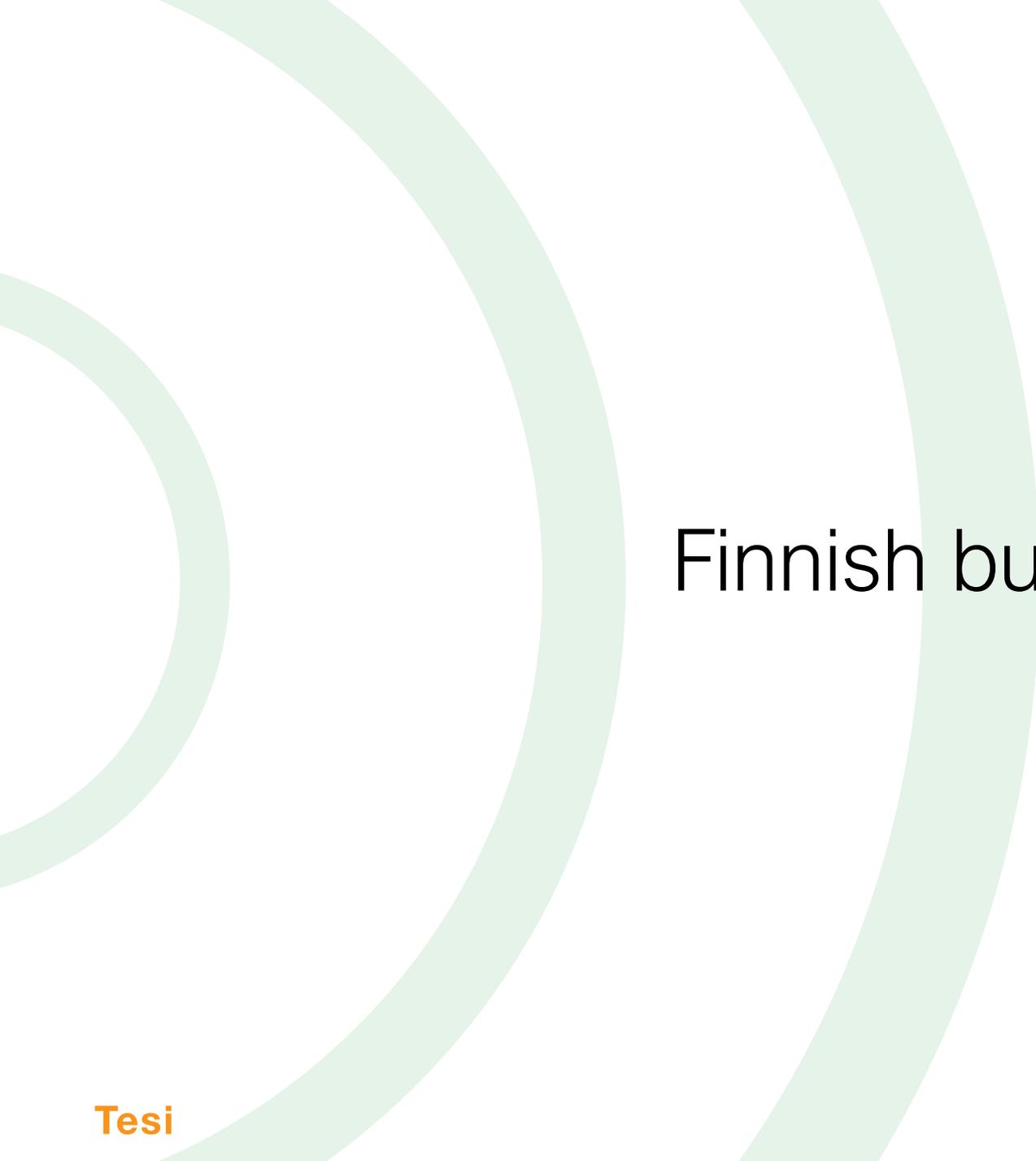
## COMMENTARY

- New Finnish VC funds have demonstrated strong performance in comparison to the European peer group. Approximately 75 percent of these funds are in the first and second quartiles, with only 18 percent in the bottom quartile.
- A DPI comparison has not been conducted in this case, as it is not relevant for funds at such an early stage in their lifecycle.



## Venture capital: Key findings

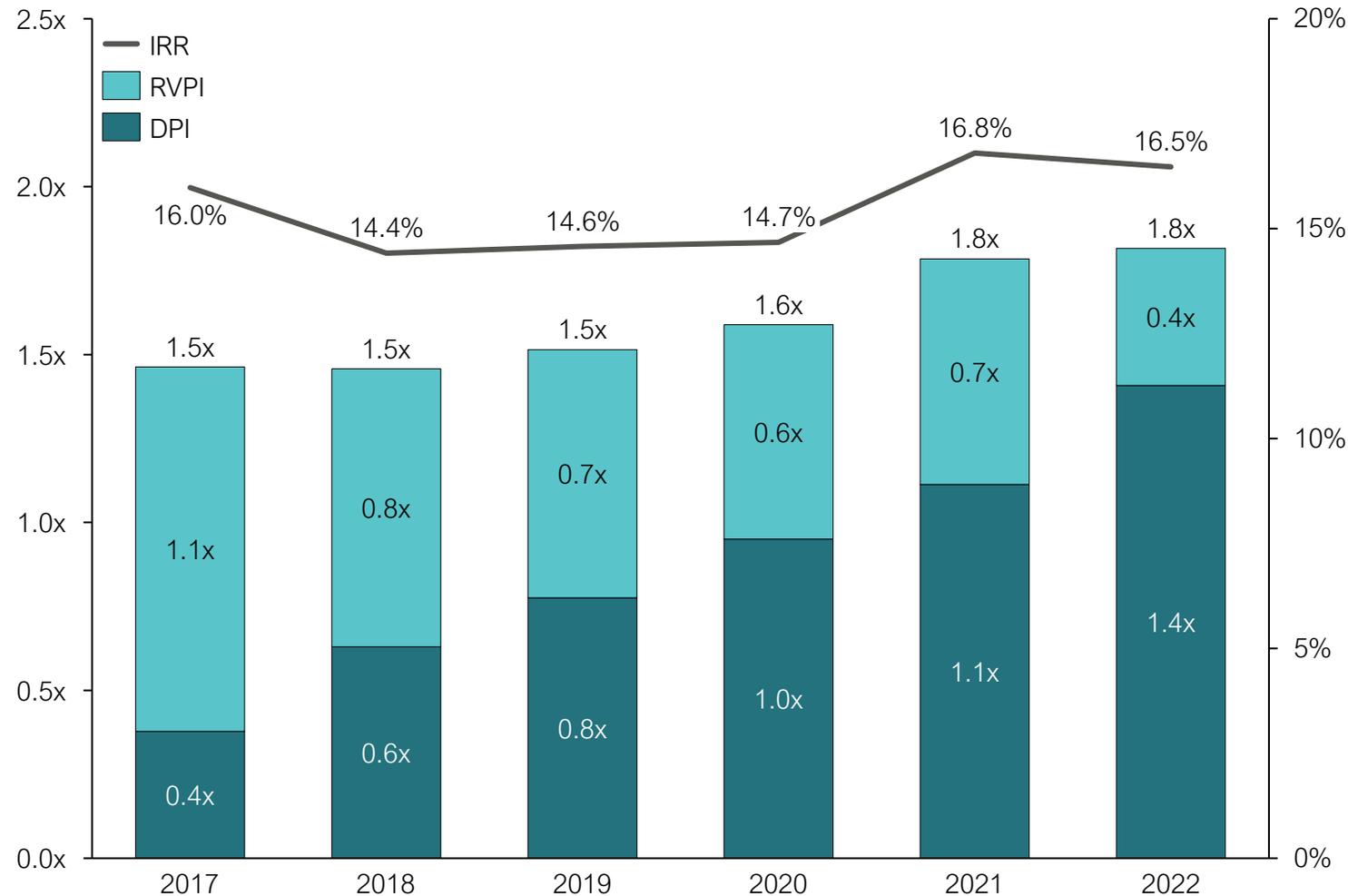
- The Finnish venture capital funds are performing well. Mature Finnish VC funds have generated a robust annual return, maintaining a 2.9x TVPI despite market uncertainty. These funds distributed investors' funds back in 2022 as the DPI nearly doubled from the previous year to a total of 1.3x. Still, over half of the value still pending realization.
- When compared to their European peers, over half of mature Finnish VC funds are in the first quartile regarding overall returns, but also outperformed in capital distribution, with over 65% of total capital in the upper quartiles in 2022. The PME for established VC funds increased slightly in 2022, a modest rise attributable to the swift correction in the listed market.
- New Finnish VC funds have generated great returns on called capital, also out-performing the listed market. New Finnish VC funds also demonstrated strong performance compared to their European peers, with 75% of total capital in the first and second quartiles.
- Overall, the findings show that Finnish VC funds have shown resilience and strong performance despite challenging market conditions.



# Finnish buyout funds

# Performance of mature buyout funds (vintages 2009 – 2015)

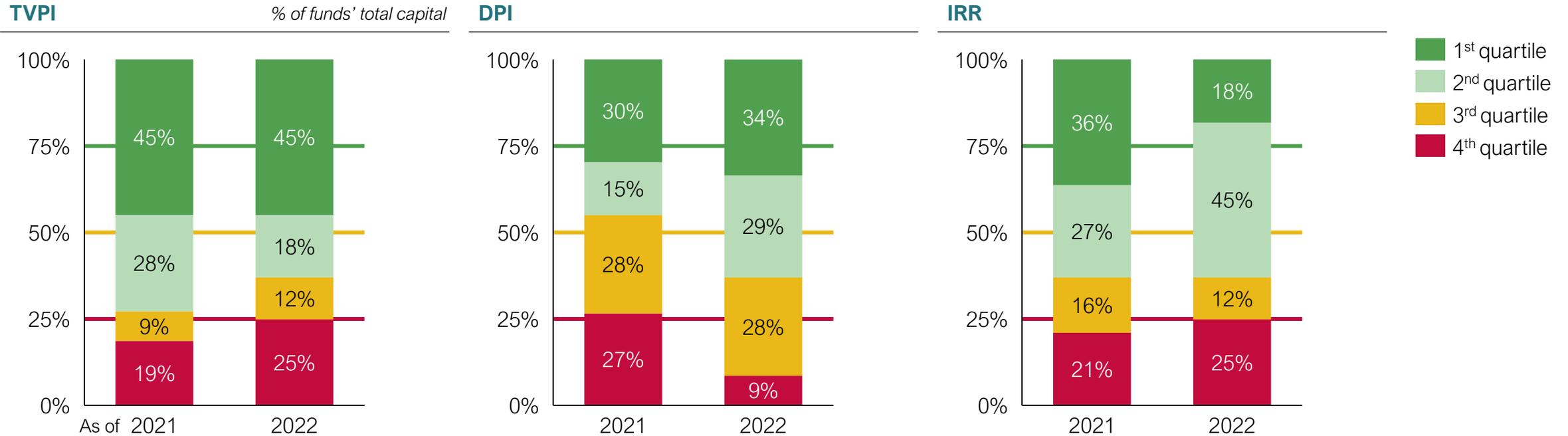
## PERFORMANCE 2017–2022<sup>1</sup>



## COMMENTS

- The mature buyout funds continue to track steady returns as in previous years, with a 17 percent IRR. The TVPI has remained roughly at the same level, standing at 1.8x, with the majority of the portfolio realized.
- Similar to the mature venture capital funds, the buyout funds distributed a record amount in absolute terms last year, with DPI rising from 1.1x to 1.4x.
- There are still some realizations to be completed within the portfolios of mature buyout funds. Total unrealized value is currently valued at 0.4x.

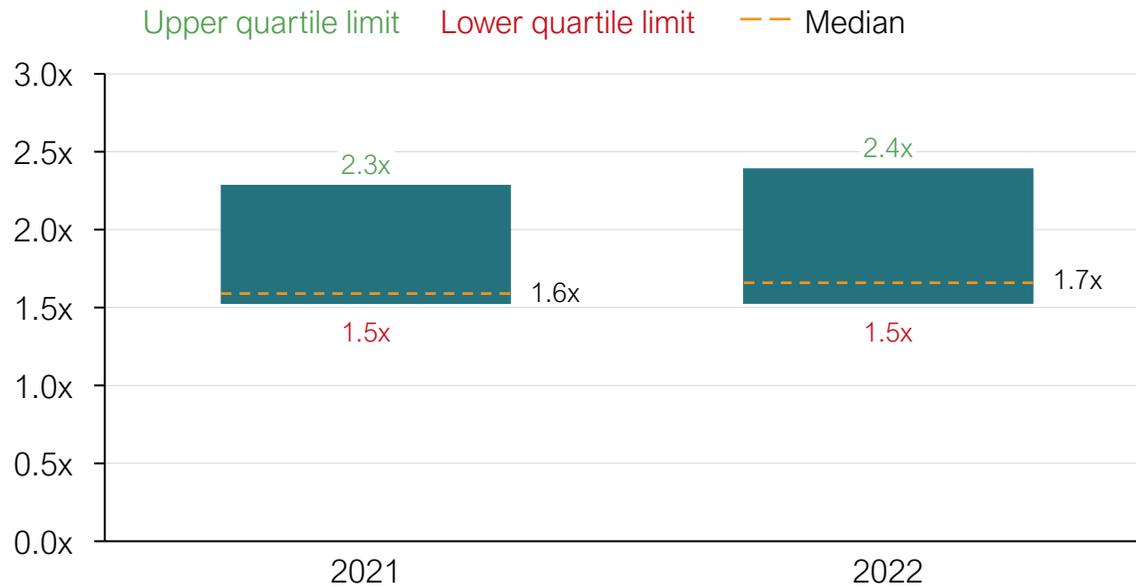
# Mature Finnish buyout funds' performance compared to European peer group



- In this comparison, each fund within a group is evaluated against its European counterparts based on its return figures and vintage year, with the results compiled at the group level. If the Finnish market's structure perfectly aligned with that of the European reference group, each of the four colors would represent a 25% share.
- The mature Finnish buyout funds exhibit strong performance compared to their European peer group. In terms of TVPI, Finnish buyout funds are over-represented in the upper quartiles, with 45 percent of the capital in the first quartile and almost 75 percent performing above the median. When examining the IRR of these funds, nearly two-thirds of the capital is in the first and second quartiles, though more concentrated in the second quartile.
- Mature Finnish buyout funds also excel in the DPI benchmark. Over 60 percent of the capital is above the median, and only 9 percent is in the fourth quartile. A significant shift has occurred from the lower quartiles since the previous year, with over half of the capital represented in the upper quartiles in 2022.

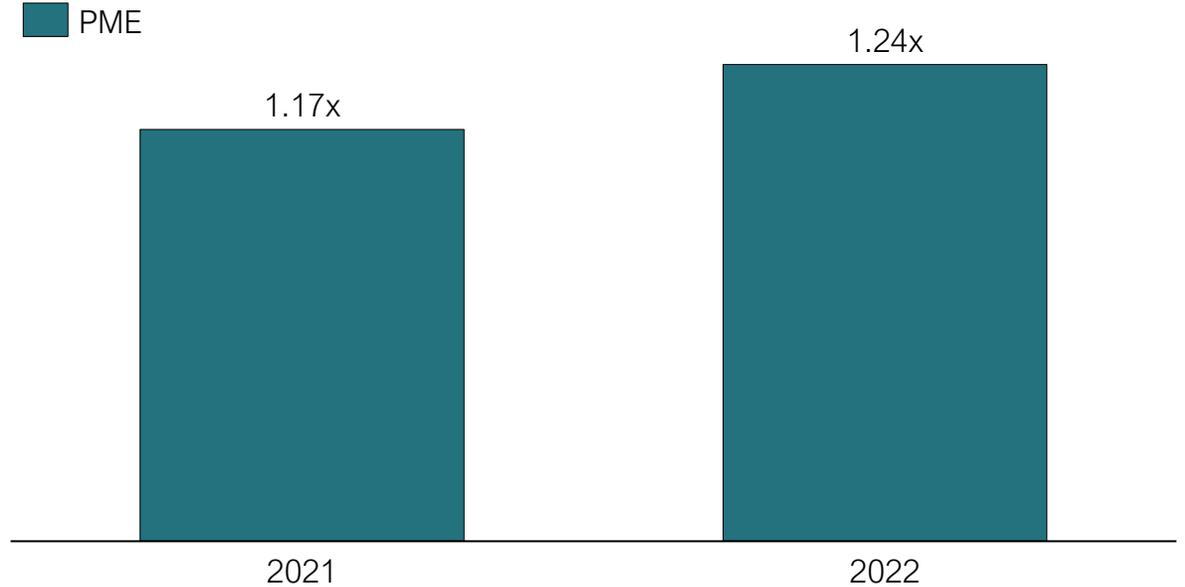
# Distribution of mature buyout funds' returns and comparison with the listed market

## DISTRIBUTION OF RETURNS MULTIPLES (TVPI)



- There were no major changes in the TVPI at the fund level from the previous year, and the multiples remained great. The upper quartile limit and median experienced a slight increase from last year, reaching 2.4x and 1.7x, respectively.

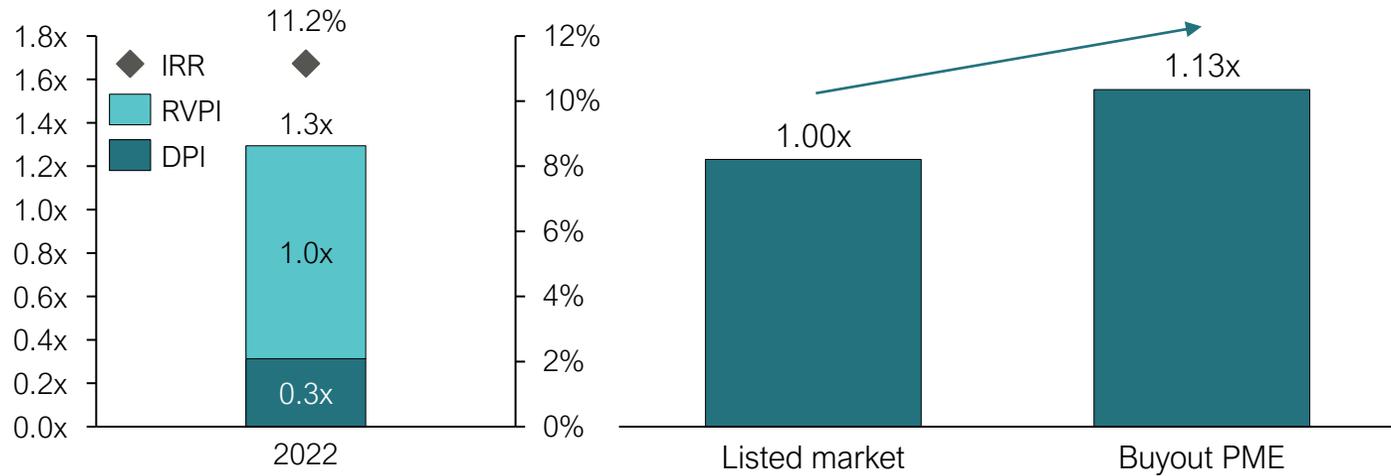
## COMPARISON TO LISTED MARKET (PME)<sup>1</sup>



- In PME calculations, the cash flows of the funds are indexed against the public stock market. This approach offers a benchmark that illustrates the performance relative to investing in the listed stock market at the same time. In this case, the OMX Helsinki General Index has been utilized as the benchmark index.
- The PME for mature buyout funds rose from 1.17 to 1.24 during 2022. As previously mentioned, the modest increase is likely attributable to the rapid correction in the listed market compared to the more gradual adjustment observed in the private market.

# Performance of new buyout funds (vintages 2016 – 2020)

## RETURN METRICS AND PME

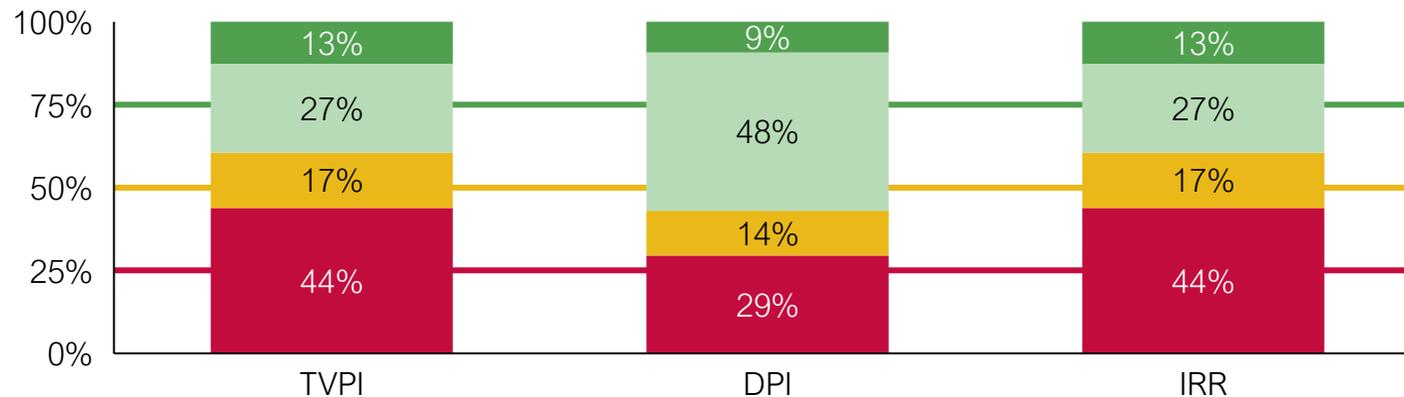


## COMMENTARY

- The new buyout funds are generating 11 percent annual returns, with a TVPI of 1.3x. Some funds in the sample are still in the investment period, and a significant portion of the portfolio companies are valued close to their acquisition price, with value appreciation yet to occur.
- There have already been some distributions in the new buyout funds, with DPI standing at 0.3 times the called capital.
- When compared to the returns of the listed market, new buyout funds have been able to generate 1.13 times their return.

## PERFORMANCE COMPARED TO EUROPEAN PEER GROUP

*% of funds' total capital*



## COMMENTARY

- Currently, the upper quartiles are under-represented in the new Finnish buyout funds, while the bottom quartile is heavily over-represented
- In terms of DPI, new Finnish buyout funds have returned capital somewhat faster than their European counterparts.



## Buyout: Key findings

- The Finnish buyout market is performing strongly and has delivered steady returns for investors in the past years. Mature buyout funds have maintained a steady IRR and TVPI. The majority of the funds' returns have been returned to investors. Also, these funds distributed a record amount in absolute terms last year, raising the DPI by 0.3x
- Compared to their European peer group, mature Finnish buyout funds show strong performance, with almost half of the capital in the first quartile and nearly two thirds in the first and second quartiles for TVPI and IRR, respectively. Mature Finnish buyout funds have also been able to distribute the capital faster to the investors than European peers. Also, the PME for mature buyout funds increased slightly in 2022, attributed to the rapid correction in the listed market.
- Younger buyout funds have had a good start, and these funds have already distributed capital back to investors. The overall returns are not yet as good as the mature funds but some of these new funds are still in the investment period and the value of their portfolio companies is expected to appreciate in the future. By now, these funds have performed better than the listed market.
- Overall, the Finnish buyout funds have demonstrated consistent performance and strong returns, even outperforming their European counterparts in some metrics.



# PME analysis

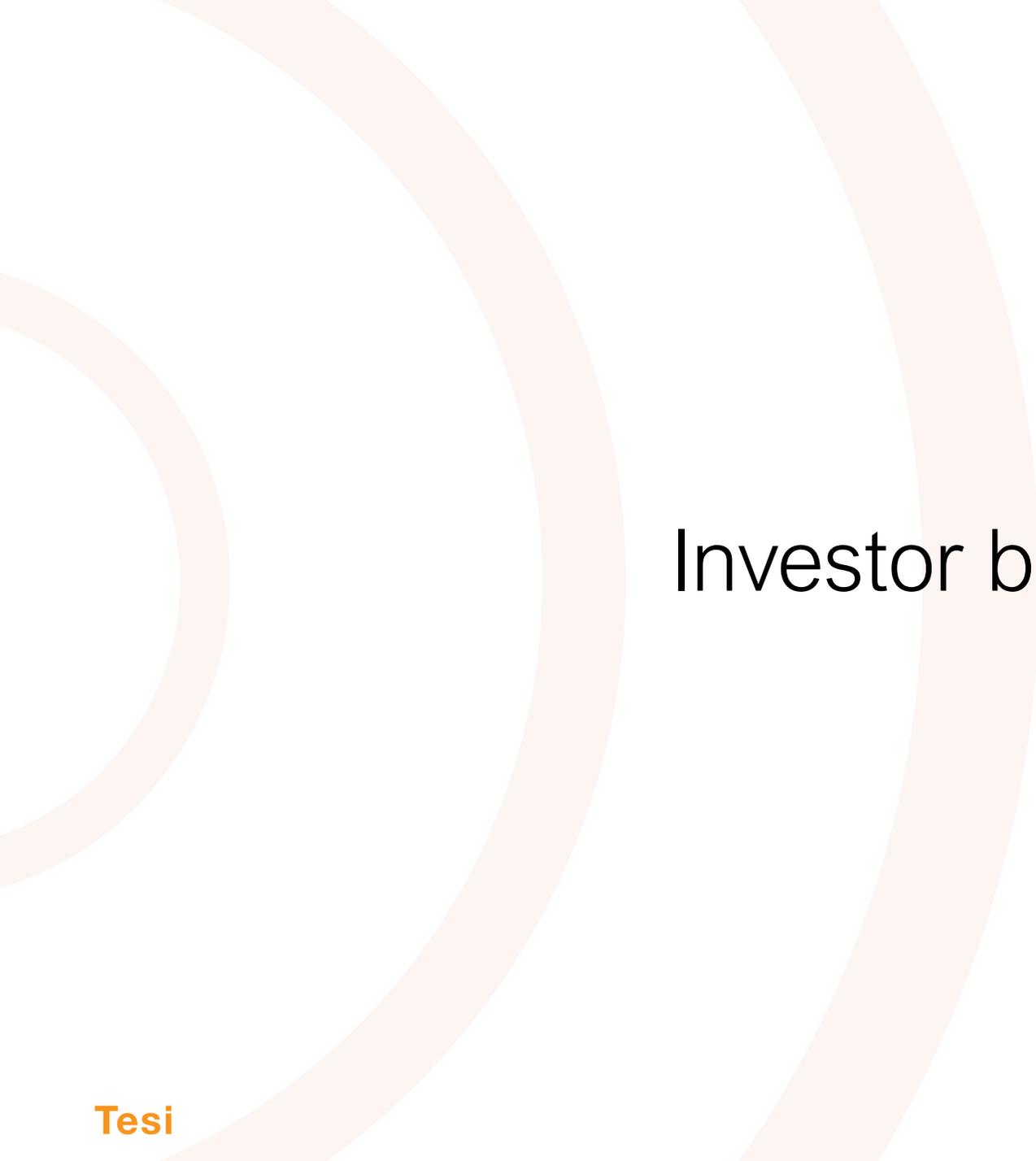
# PME-analysis – whole fund population raised between 2009 – 2020

## AVERAGE PME'S



## COMMENTARY

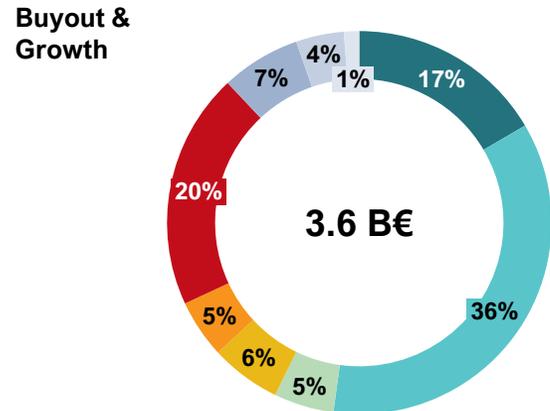
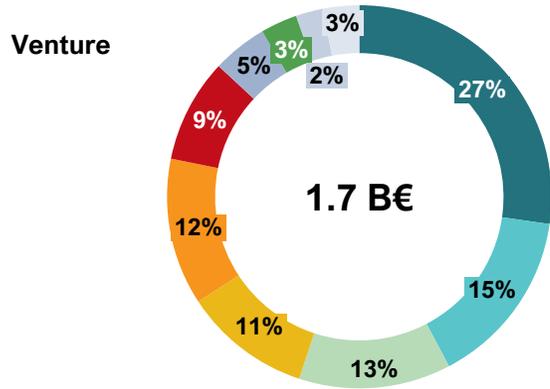
- The figure on the left illustrates the average PME's for each TVPI quartile, encompassing both buyout and venture capital funds raised in Finland over the past 12 years. The sample comprises a total of 44 funds, evenly distributed between buyout and venture capital, with 22 funds in each category.
- For buyout funds, the average PME for above-median funds exceeds 1x, indicating that half of the Finnish buyout funds have generated higher returns compared to the listed market. Notably, the average PME for third-quartile funds stands at 0.99x, nearly on par with the returns of the listed market.
- The average PME for top-quartile venture capital funds is an impressive 2.57x. Intriguingly, from the third quartile onwards, Finnish venture capital funds have outperformed the listed market, with an average PME of 1.06x for third-quartile funds.
- In conclusion, Finnish private equity funds in the upper quartiles have consistently delivered PME's above one for investors, including third-quartile venture capital funds. Only fourth-quartile funds have yielded returns below the listed market over the past 12 years.



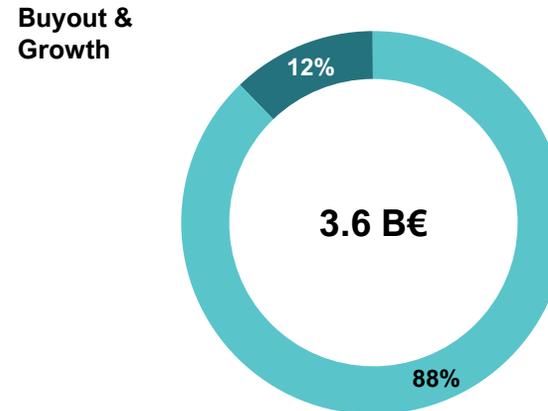
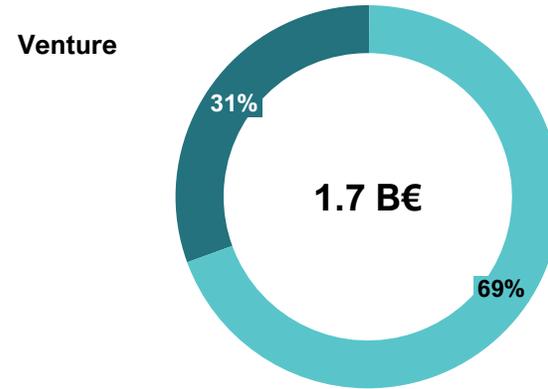
Investor base

# Investor base of Finnish funds: Funds raised between 2009-2020

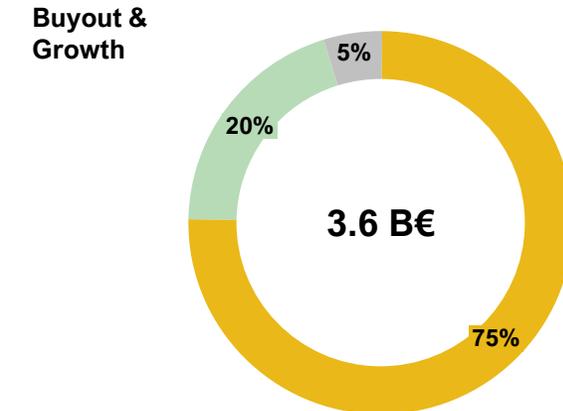
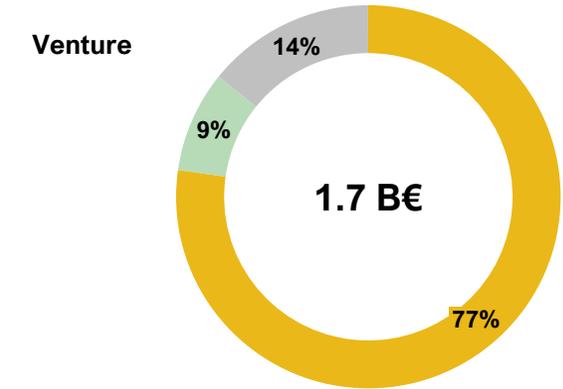
## INVESTORS



## PRIVATE & PUBLIC



## INTERNATIONAL & DOMESTIC



- Finnish private investor
- Finnish pension fund
- KRR
- Tesi
- EIF
- International investor
- Finnish financial institution
- BFVC
- GP
- Other public institution (i.e. Sitra)

- Private
- Public

- Domestic
- EIF
- Other international



# Methodology

# Methodology

## DATA TYPE

- The return data is calculated based on cash flows at the fund level, with individual portfolio company investment returns not included in the presentation.
- All figures displayed represent net return figures for fund investors (LP; limited partner), meaning that management fees, performance fees (carried interest), and other expenses payable to fund investors have been deducted from the returns on individual portfolio company investments.

## DATA SOURCES

- The return survey is based on data obtained from Tesi's fund investments. Additionally, information has been accessible in some instances for funds in which Tesi has not invested.
- The survey includes funds managed by Finnish management companies that operate with national or international investment strategies.
- Only funds primarily investing in equity have been incorporated into the survey. Debt and mezzanine funds, for example, are not part of the sample.
- The survey's sample comprises 44 funds, with an average size of around EUR 100 million (ranging from less than MEUR 10 to about MEUR 350).

## PRESENTATION OF RESULTS

- The survey sample is categorized into venture capital funds and growth/buyout funds.
- Additionally, the funds are grouped based on their inception year, with mature funds being those established between 2009 and 2015, and new funds from 2016 to 2020.
- It is important to note that the returns of individual funds cannot be discerned from the aggregated returns presented in the survey.

# Methodology: Q&A

## WHY ARE RETURNS PRESENTED IN GROUPS THAT INCLUDE FUNDS ESTABLISHED IN SEVERAL DIFFERENT YEARS?

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- The Finnish market is small, so funds are not established regularly. Most years, only individual funds are established so it would not make sense to examine returns based on individual years. If individual years were examined, the returns of individual funds would be revealed but no conclusions on the performance of the market as a whole could be drawn from the returns of individual players. By grouping funds, we try to provide the most realistic and balanced picture possible, despite the small size of the market.

## WHY ARE NO NEWER FUNDS INCLUDED?

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- VC & PE funds typically have a five-year investment period during which the funds invest in new companies. After the initial investments, portfolio companies will be developed, follow-on investments will be made (especially in venture capital), and funds will eventually make their exit. The target period from the establishment of the fund to the exit from the last portfolio company is 10–12 years, but it can often be longer. Concrete development of funds' performance based on the development of portfolio companies can typically be seen in about five years, when the funds' first investments have been active for some time, and the funds no longer invest in new companies (which are typically valued at acquisition cost for the first 1–2 years). Consequently, we have decided to limit the sample to funds set up in 2020.

## WHY ARE UNREALISED GAINS SHOWN?

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- Due to the operational logic described above, it takes a long time to obtain figures for the final realised returns of the funds, so showing only realised returns does not give a true picture of the current market. Obtaining an up-to-date market snapshot thus necessitates monitoring partially unrealised returns. The funds report in accordance with international IPEV Valuation Guidelines<sup>1</sup> that specify the fair value criteria for valuing investments. Therefore, there is relatively good comparability of reported valuations.

# Concepts used in this presentation

## FUNDS' OPERATING MODEL

- Venture capital and private equity funds buy shares in unlisted companies and actively participate in the development of their portfolio companies. The fund is managed by a **general partner (GP)** and the fund's investors are usually **limited partners (LP)**.
- The fund is operated by **an administrator / a management company**. One management company can have several different funds, but usually only one of the funds makes new investments at a time, while older funds are in the value development / exit phase.
- Fund investors pay **a management fee** to the administrator / management company for investing in their funds and, if the return exceeds a certain pre-defined minimum level, also a share of the fund's return as **a performance fee**.
- Typically, the fund has **a term** that lasts for 10-12 years. The first five years of the term form **the investment term** during which the fund makes **initial investments**, i.e., investments in new portfolio companies. Investors do not transfer their funds to the fund all at once, but rather **capital calls** are made to transfer them gradually as investments are made. At the end of the investment term, **follow-on investments** can still be made, in companies in which the fund has already invested. Venture capital funds in particular often make follow-on investments. As the portfolio companies develop, they (or shares in them) are sold and the proceeds are **returned** to investors. The aim is to sell the last investments in 10–12 years, but if that is not possible, the term will be extended.

## THE CONCEPT OF RETURNS

- TVPI**      *DPI+RVPI = Total Value to Paid-In = (Distributions + Net Asset Value) / Paid-In capital*
- DPI**        *Distribution to Paid-In = Capital distributed to investors / Paid-In capital*
- RVPI**      *Residual Value to Paid-In = Current market value of unrealized investments / Paid-In capital = TVPI - DPI*
- IRR**        *The annual return of the fund from its inception until the time of review; internal rate of return. The calculation addresses all cash flows (capital calls and distributions) from the fund's inception to the last date of the review period, and the fair value of the fund unit on the last date*
- PME**        *Returns compared to the public market; corresponds TVPI, but deducts returns from the public stock market during the same time period = (Index-adjusted Distributions + Current market value of unrealized investments) / Index-adjusted Paid-In capital <sup>1</sup>*
- Quartile**    *In fund comparisons, the observation set is usually divided into quartiles. The 1st quartile consists of the best 25%, the 2nd quartile consists of the second best 25%, the 3rd quartile the next best 25% and the 4th quartile consists of the lowest 25%.*