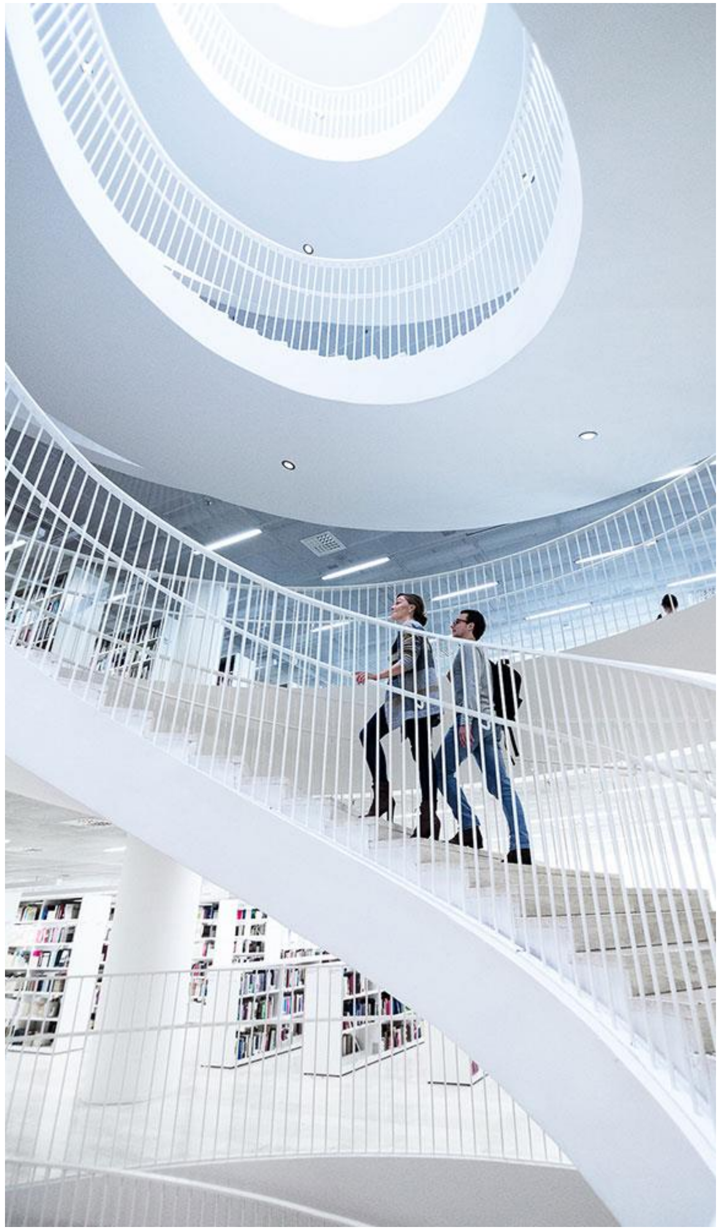
Survey of investment returns from the Finnish PE & VC market

May 2022

Introduction

- Every year Tesi publishes a survey of investment returns in the Finnish venture capital and private equity market (VC & PE). The aim of the survey is to provide general partners, investors and other industry stakeholders with up-to-date information on the industry's returns. The survey was published for the first time in 2018 and it will be published each year from 2021 onwards.
- If you have any questions concerning the research survey, please contact Tesi's Investment Associate Samuel Wendelin (samuel.wendelin@tesi.fi).



Methodology of survey

Types of returns data	◆ The data on returns are calculated from cash flows at fund level. Returns on individual portfolio company investments are not presented. ◆ All figures presented are net return figures for fund investors *(LP; limited partner)*, i.e. 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 survey of returns is based on data derived from Tesi's fund investments. In addition, information has been available in some cases for funds in which Tesi has not invested. ◆ Funds of Finnish management companies operating with national or international investment strategies are included. ◆ Only funds investing mainly in equity have been included. Debt and mezzanine funds, for instance, are not included in the sample. ◆ In total, the survey sample consists of some 40 funds, with an average size of about EUR 100 million (ranging from less than MEUR 10 to about MEUR 350).
Presentation of results	◆ The survey sample is divided into venture capital funds and growth/buyout funds (hereinafter "buyout"). ◆ In addition, the funds are grouped into old (inception 2002–2008) and new (inception 2009–2015) funds. ◆ The returns of individual funds cannot be identified from the aggregated returns. ◆ *Choices regarding the presentation of the results are explained in more detail on the next page.*

Methodology of survey: Q&A

- **Why are returns presented in groups that include funds established in several different years?**
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.

- **The newest funds included are over five years old - why are no newer funds included?**
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 2015. This limitation is the same as for the surveys from 2018 and 2021.

- **Why are unrealised gains shown?**
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[1] that specify the fair value criteria for valuing investments. Therefore, there is relatively good comparability of reported valuations.

1 http://www.privateequityvaluation.com/Valuation-Guidelines & https://www.investeurope.eu/industry-standards/professional-standards/investor-reporting/

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* [1]
	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%.*

1 Kaplan-Schoar PME (KS-PME)

Summary: Main changes compared to previous survey

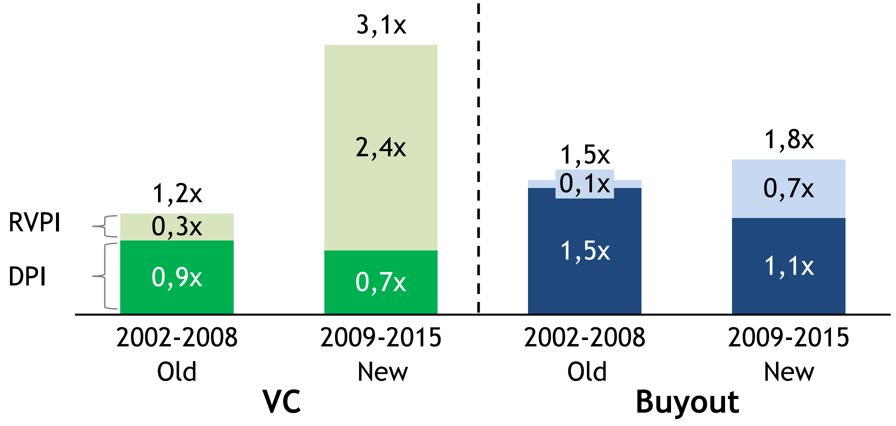
	Main findings in previous Investment Returns Survey (12/2020)		Performance since previous survey (situation at 12/2021)	
Venture capital funds	The performance of new funds has further improved from the previous study: returns are currently excellent. In VC operations, capital circulates slowly and exits only occur during the last years of the funds. Therefore, current returns are still largely unrealised.		Returns from new funds have continued to be excellent and show improvement compared to the 2020 survey. As stated in the 2020 survey, exits from VC funds only occur during the final years of the funds – New funds have also excelled in their realised gains compared to last year.	
	IRR[1] old funds (inception 2002-2008)	IRR[1] new funds (inception 2009-2015)	IRR[1] old funds (inception 2002-2008)	IRR[1] new funds (inception 2009-2015)
	2%	20%	2%	25%
Buyout funds	No significant changes in performance: Returns analysed at the IRR[1] level have remained buoyant. Returns are realised steadily at a good pace.		No marked change. The returns of both baskets have remained at their own steady levels in recent years. New funds have drawn slightly ahead of old funds and last year repaid called-up capital to investors.	
	IRR[1] old funds (inception 2002-2008)	IRR[1] new funds (inception 2009-2015)	IRR[1] old funds (inception 2002-2008)	IRR[1] new funds (inception 2009-2015)
	8%	15%	9%	17%

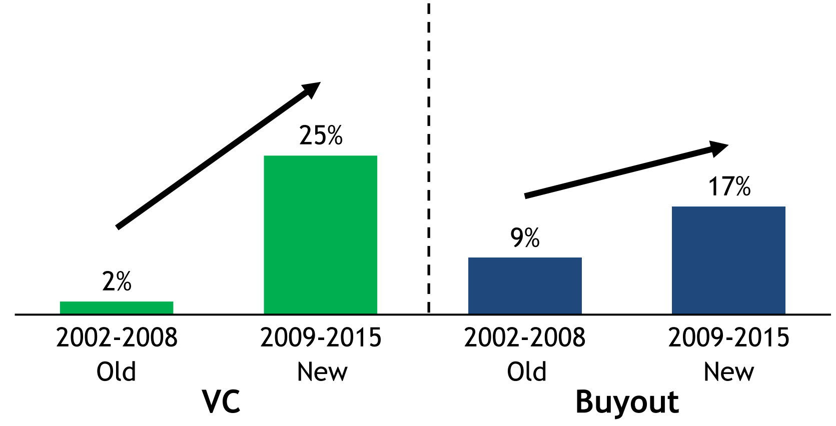
1 Funds are weighted by size in the calculation

Summary: Returns from the Finnish PE & VC market, 31 December 2021

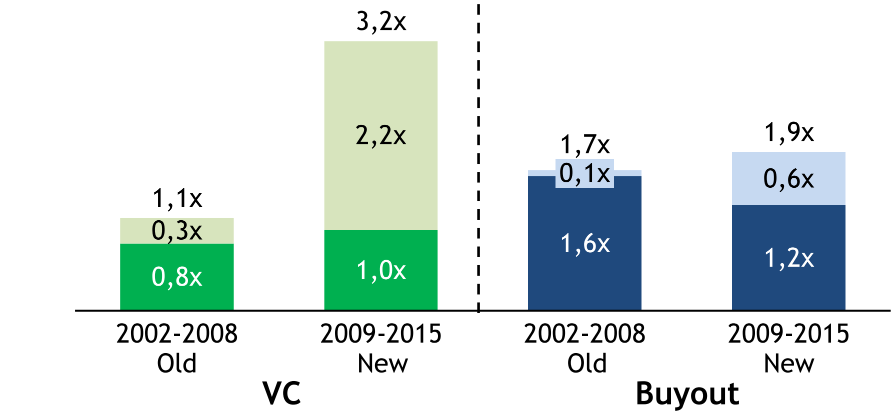
Weighting of returns	TVPI	IRR %

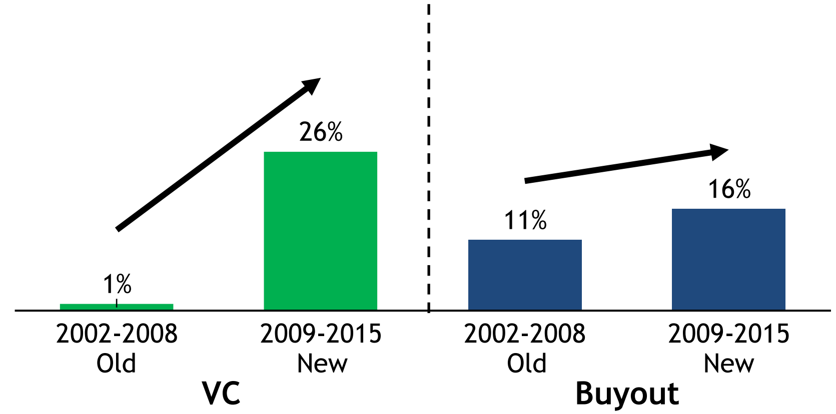
Market weighted[1]





Equally weighted[2]



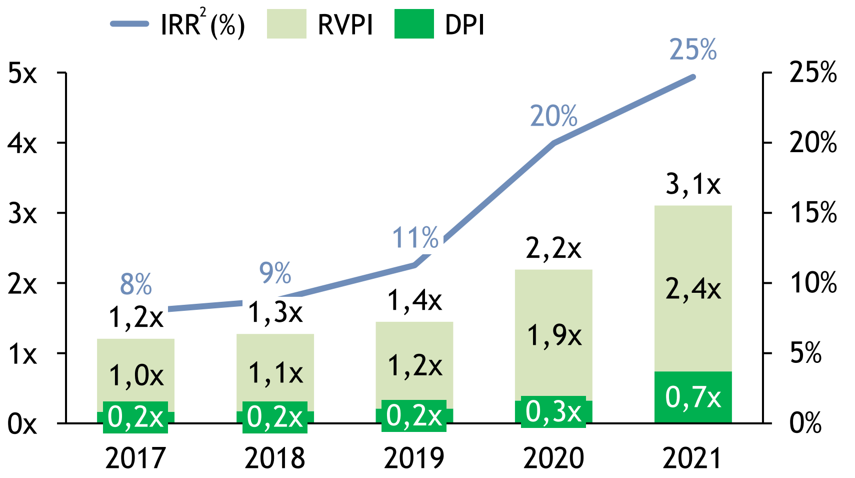
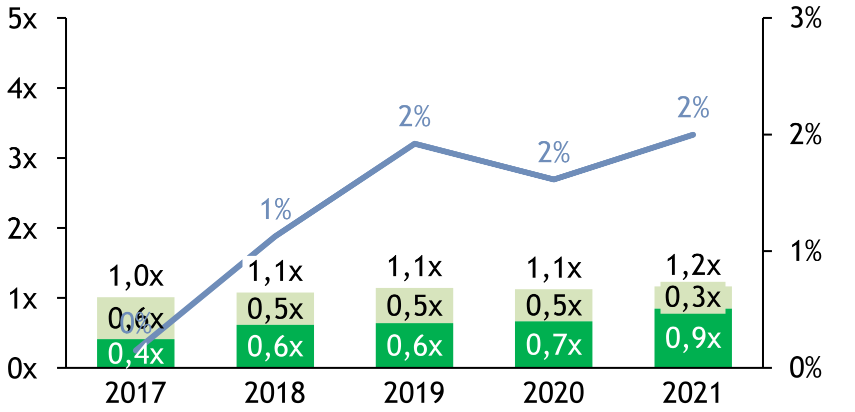


TVPI = DPI+RVPI = Total Value to Paid-In = (Distributions + Net Asset Value) / Paid-In capital
DPI = Distribution to Paid-In = Capital distributed to investors / Paid-In capital
RVPI = Residual Value to Paid-In = Current market value of unrealized investments / Paid-In capital = TVPI - DPI
IRR = The annual return of the fund from its inception until the time of review.

All performance indicators are fund investor's net figures
1 Each fund is weighted according to its size in calculating returns→ market returns as a whole
2 Each fund is equally weighted → corresponds to the returns for an investor who invests the same amount in each fund

Finnish VC funds

Performance of VC funds

Group	Performance 2017-2021[1]	Comments
New funds (2009-2015)		◆ Last year's strong rise in valuations continued during 2021. New venture capital funds have generated an average annual return of 25%. ◆ Capital returned to investors doubled during 2021. New funds had returned roughly 0.7x the called-up capital to investors by the end of 2021. ◆ Although capital was returned during 2021 at a good pace, some exit processes from portfolio companies stretched into 2022, and therefore will only appear in the following year's investment return figures.
Old funds (2002-2008)		◆ Returns from the old fund vintage have continued to be moderate. TVPI has grown to 1.2x and IRR has stayed at around 2% – Returns have remained at broadly the same weak level over the long term. ◆ Older VC funds have also completed some exits during the year – at the end of 2021 some 75% of the funds' value had been realised and returned to investors. ◆ No significant changes are foreseen in future returns from funds in the older class.

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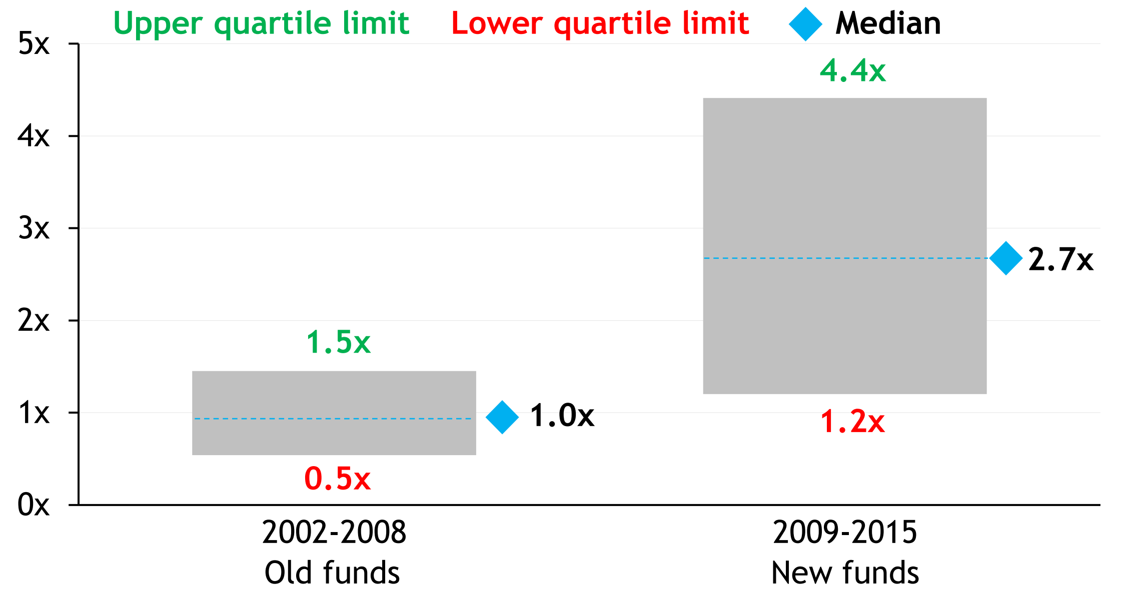
1 Market weighted
2 IRR does not represent returns for the year in question, but instead the group's annual returns since inception of the funds until the last day of the corresponding year

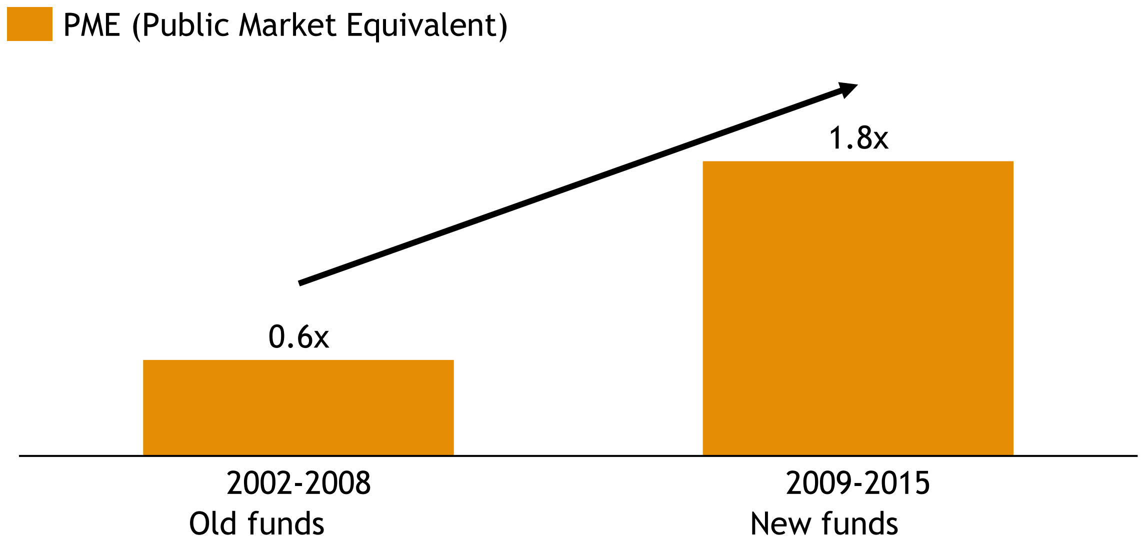
Distribution of VC funds' returns and comparison with the listed market

Distribution of returns multiples (TVPI)



- The returns from new funds are still excellent. One-half of the funds reviewed have achieved a TVPI level of 2.7x and 25% a level of 4.4x. For new funds, the distribution is fairly high because individual fund investees affect the figures for the funds' returns. Nevertheless, many new VC funds have had proven success.
- There have been no major changes in the distribution of returns from old funds. The median level for TVPI remained at around 1.0x.

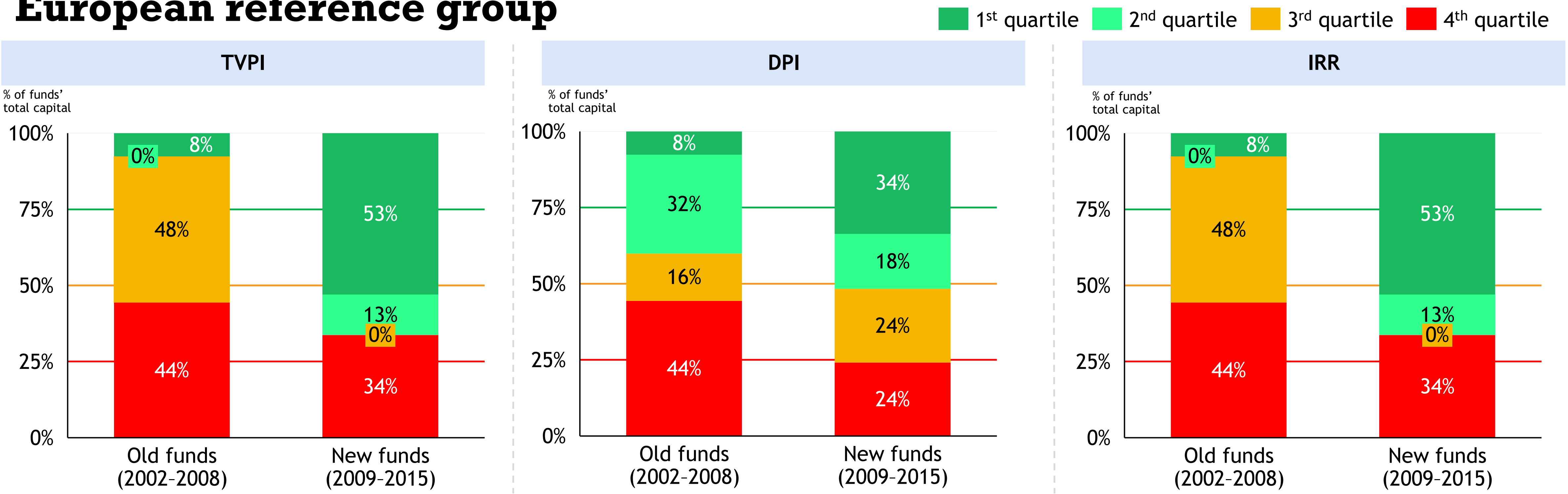
Comparison to listed market (PME)[1]



- In PME calculations, the cash flows of the funds are indexed against the public stock market. This provides a benchmark that shows the performance compared to if the same investments had been made in the listed stock market at the same time. The OMX Helsinki General Index has been used as the benchmark index here.
- The return from the newer fund group corresponds to 1.8 times the return from the public stock market.
- For the older fund vintage, maintaining capital at about 1x TVPI represents a significant underperformance compared to the public stock market.

1 The PME returns presented are market weighted. Calculation method Kaplan-Schoar PME (KS-PME)

Finnish VC funds' performance compared to European reference group

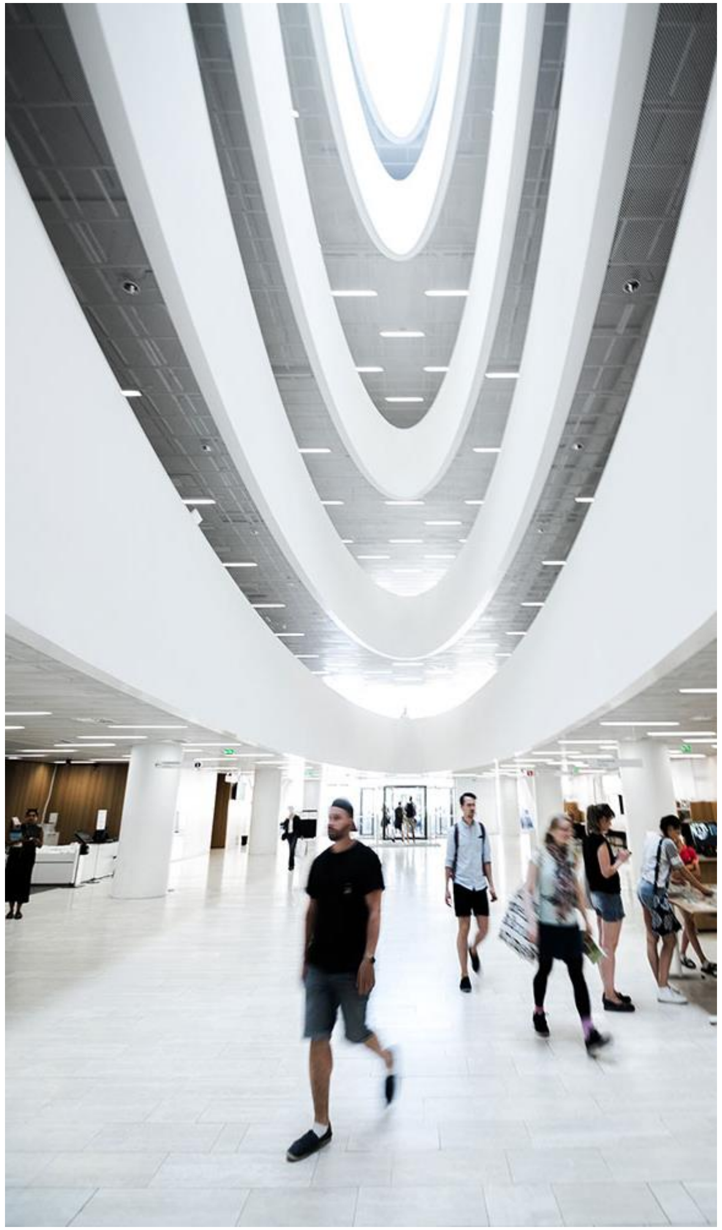


- In the comparison, each fund in a group is compared to the funds in the European reference group[1] based on its return figures and its vintage year, and the results have been collated at group level. If the Finnish market's structure corresponded perfectly with that of the European control group, each of the four colours would represent a share of 25%.
- Some two-thirds of the capital of new VC funds is in the first and second quartile in the European reference group, when returns are measured by TVPI and IRR. The capital allocated to the lowest quartile is also over-represented. When measured by DPI (distribution to paid-in), the profile of Finnish funds' returns corresponds very well to the European reference group. Overall, new funds have performed extremely well in the European comparison.
- There has been a slightly more significant change in the old funds. Over 90% of the capital in old funds is in funds that have generated below the median level in the European reference group. In terms of returns, the situation is slightly better: roughly 40% of committed capital is in funds with a DPI higher than the European median. Overall, old funds have performed weakly compared to their European peers.

1 Reference group consists of European venture capital funds, source: Pevara/eFront

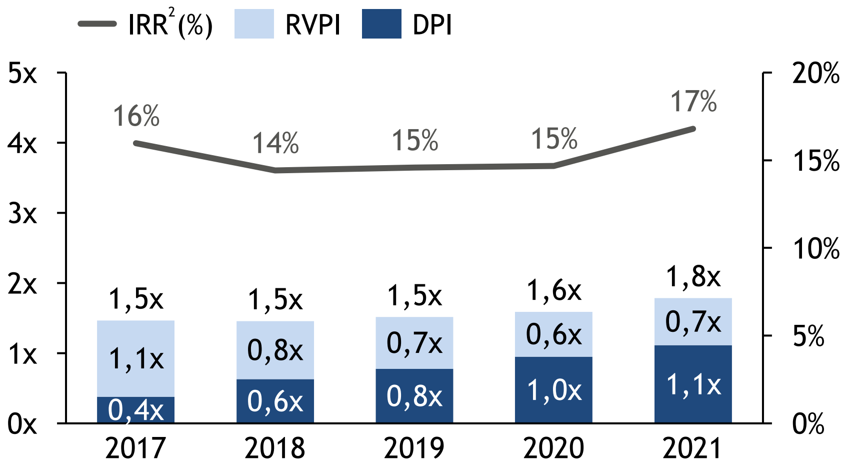
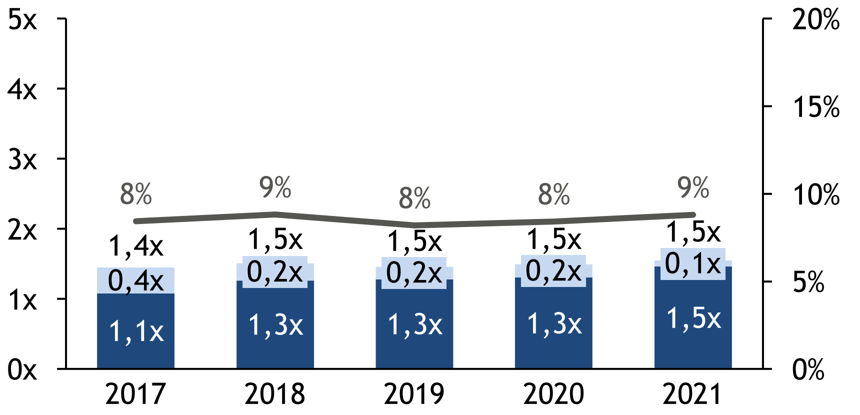
Venture capital: Key findings

- The Finnish venture capital market is performing well. Newer funds have performed exceptionally well in the European comparison.
- Most of the improvement in returns occurred during 2020 and 2021. It remains to be seen whether the positive sentiment will continue and the funds in the end produce returns of above the European average for their investors.
- It is typical of this asset class that it takes some time to return capital to investors. Newer VC funds have returned capital at a slightly faster pace than the European average.
- The next development step for Finnish venture capital funds is continue making significant exits.



Finnish buyout funds

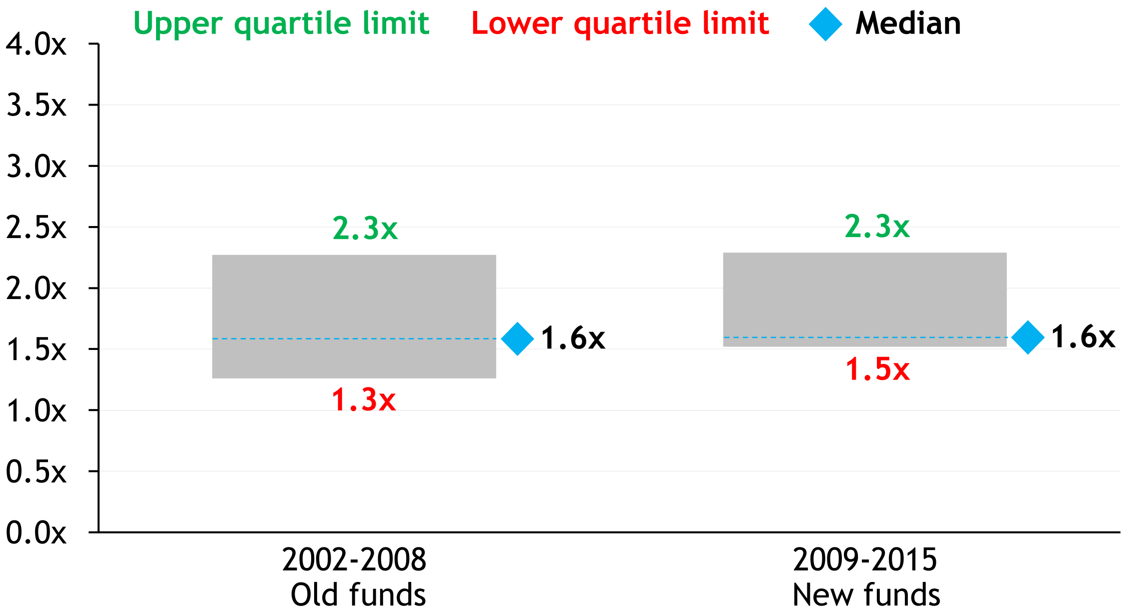
Performance of buyout funds

Group	Returns 2017-2021[1]	Comments
New funds (2009-2015)		• In the case of newer buyout funds, the figures for returns have continued on a steady basis, with IRR remaining at about 15%. New buyout funds have maintained a good steady pace also in returns. • In the last review, the corona pandemic was reflected in the returns performance of individual companies, but not at the market level. Russia's attack on Ukraine early in the year has, like the pandemic, impacted funds' portfolio companies. Preliminary indications are that the impacts on portfolio companies are moderate, but it remains to be seen how much the impacts will be felt in funds' returns.
Old funds (2002-2008)		• Old funds have continued to exit from their investees and have returned to investors about 1.5x their invested capital. There are some portfolio companies still in the funds that will not significantly change the final figures for returns. • The basket of older funds have performed relatively well compared to the publicly listed market, although their lifecycle included the financial crisis.

1 Market weighted
2 IRR does not represent returns for the year in question, but instead the group's annual returns since inception of the funds until the last day of the corresponding year

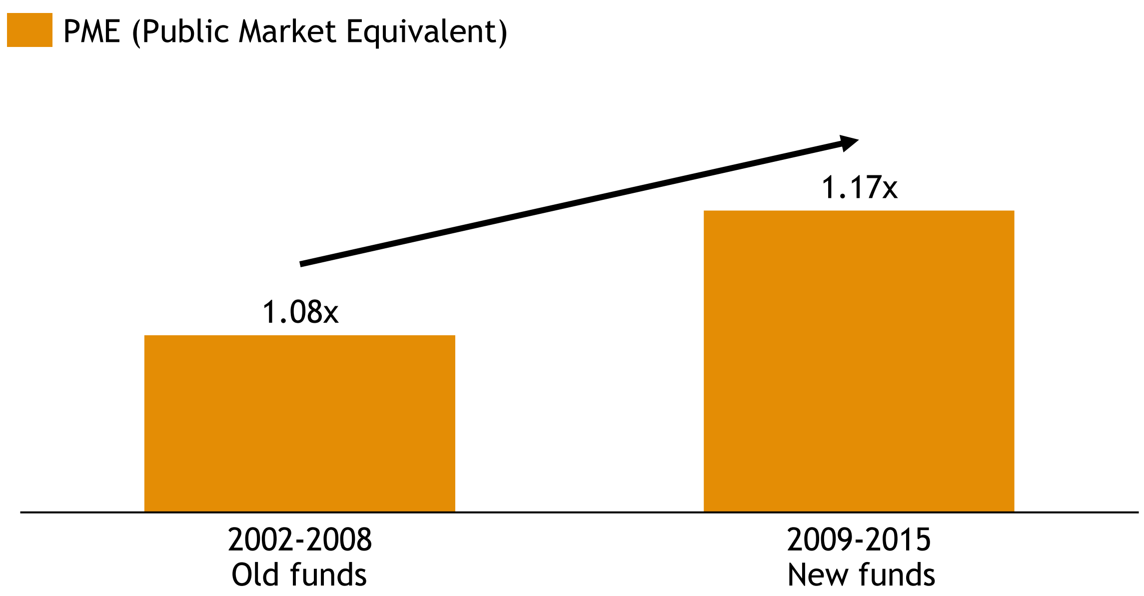
Distribution of buyout funds' returns and comparison with listed market

Distribution of returns multiples (TVPI)



- The distribution of new funds' returns has declined compared to the previous survey. The top quartile has remained unchanged and the bottom quartile has risen slightly.
- Measured by TVPI, new buyout funds have generated returns just as well as old buyout funds. Median returns are the same in both groups.

Comparison to listed market (PME)[1]



- In PME calculations, the cash flows of the funds are indexed against the public stock market. This provides a benchmark that shows the performance compared to if the same investments had been made in the listed stock market at the same time. The OMX Helsinki General Index has been used as the benchmark index here.
- Throughout the observation period, old Finnish buyout funds have generated a multiple of money invested of 1.08x in relation to the listed stock market and new Finnish buyout funds 1.17x.
- There have been no real changes in the performance of the old basket, while in the new basket PME has grown some 1.1x → 1.2x.

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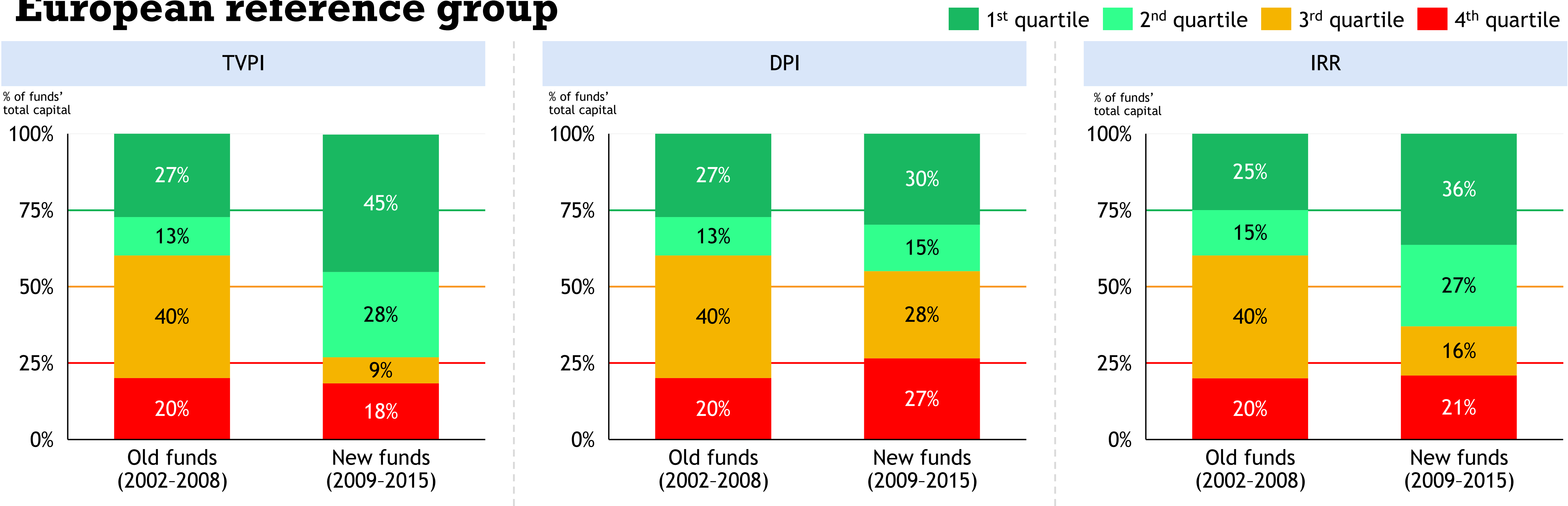
1 The PME returns presented are market weighted. Calculation method Kaplan-Schoar PME (KS-PME)

Finnish buyout funds' performance compared to European reference group



- In the comparison, each fund in a group is compared to the funds in the European reference group [1] based on its return figures and its vintage year, and the results have been collated at group level. If the Finnish market's structure corresponded perfectly with that of the European control group, each of the four colours would represent a share of 25%.
- In terms of TVPI and IRR, Finnish new buyout funds have generated manifestly better returns than their European peers. The returns on about ¾ of the euros invested have been better than the average, as measured by TVPI. Finnish funds have, nevertheless, returned capital slightly more slowly than the European average.
- The lower quartiles in the figures for old buyout funds are over-represented.

1 Reference group consists of European small and midcap buyout funds, source: Pevara/eFront

Buyout: Key findings

- The Finnish buyout market is performing well and has steadily improved. Returns have stabilised at a good level, and value is being realised at a steady pace.
- Returns from the funds' portfolio companies can vary greatly, but variation at fund level remains more moderate.
- Over time, the returns are comparable both to the listed market and to the European reference group. The funds' net IRR has improved by 1-2 percentage points over the past year.
- COVID-19 has significantly impacted some portfolio companies, but at the market level there is no discernible impact on investment returns.
- Russia's attack on Ukraine has temporarily weakened the exit market and hampered the operations of some portfolio companies by impacting, for instance, the availability of components and talent, supply chains and sales. The initial impacts affect a very small proportion of Finnish VC- or PE-backed companies, but what later impacts there will be remains to be seen.