



# **Tesi's Performance and Results H1 2020**

**Ensuring financing for  
Finnish growth companies  
amid corona pandemic**

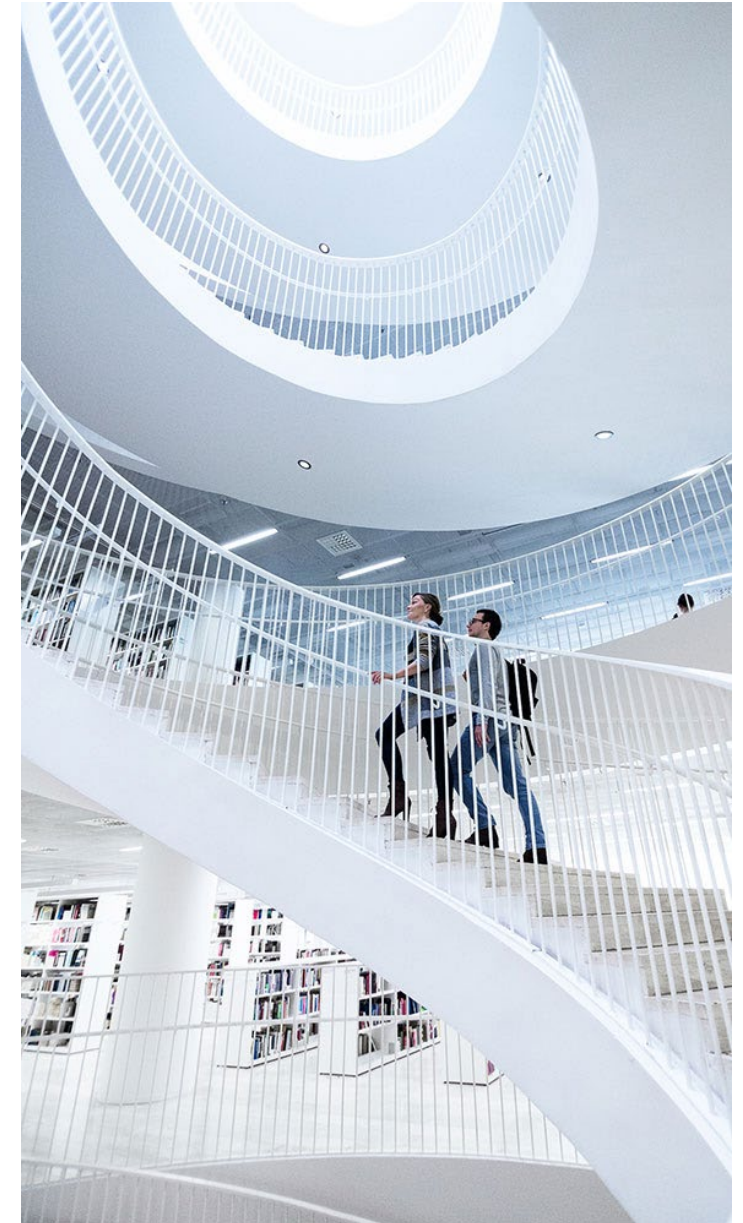
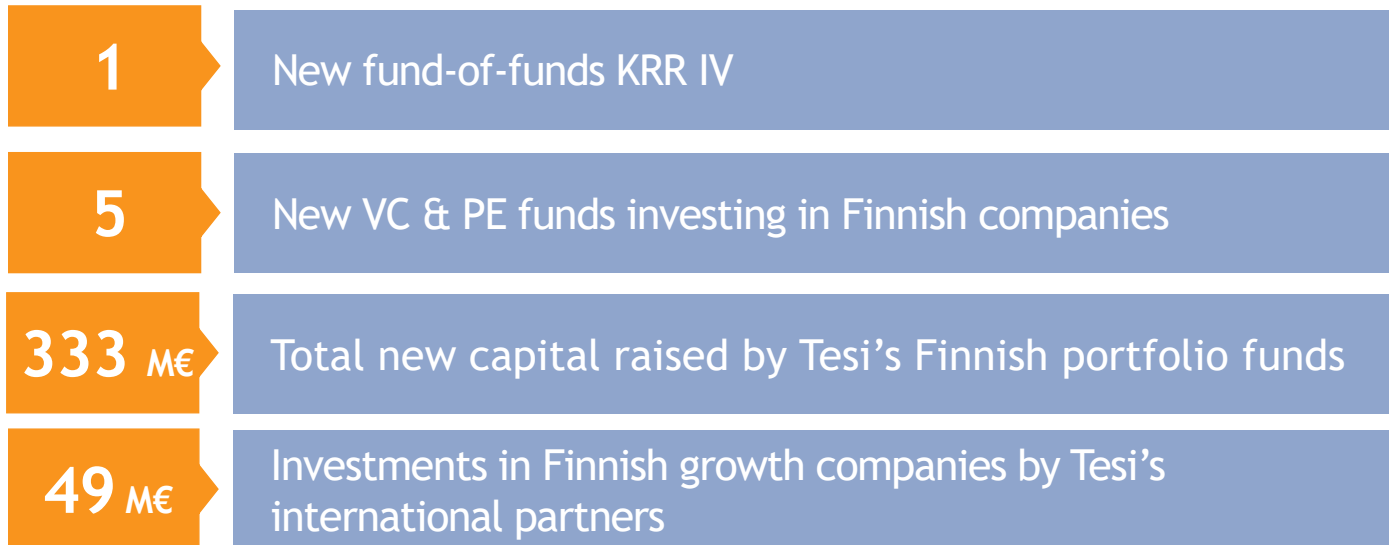
**24.9.2020**

# Tesi's key figures H1 2020

## Tesi's investments

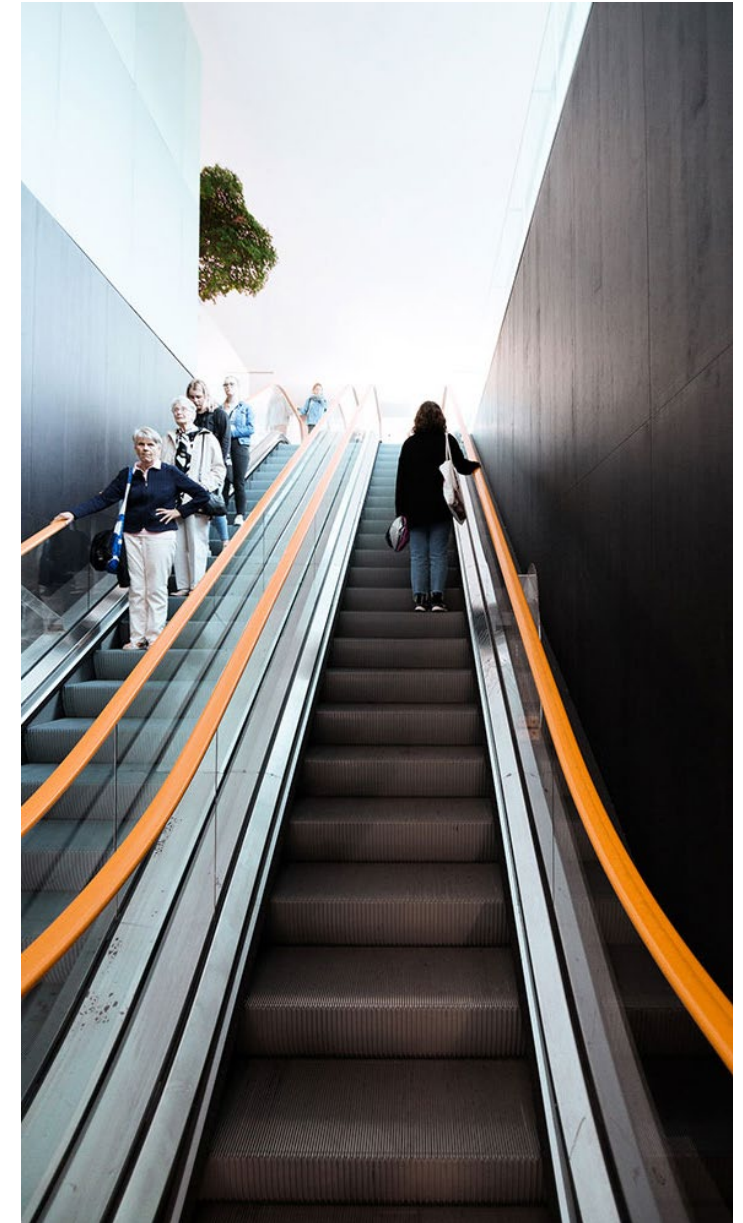


## Impact on growth financing for Finnish companies



# VC & PE market review 1/2

- ◆ Finnish funds raised a significant amount of capital prior to COVID-19, especially on the VC side, meaning that the corona situation has not complicated fund raising on a significant scale. Individual funds have faced some difficulties in raising the target size on schedule due to the market uncertainty.
- ◆ Tesi, Finnish Venture Capital Association and Business Finland Venture Capital conducted a market pulse survey in May, which revealed that Finnish VC & PE investors were, on average, well prepared to follow-on finance their portfolio companies.
- ◆ The more conventional venture capital backed companies and business models (software, digitalisation) have been the winners of the COVID-19 situation. The business operations of these companies have mostly fared well.
- ◆ Securing financing is more challenging for companies that are raising Series A funding rounds yet lack a longer-term track record, and for more atypical business models, in which the presence of, for instance, industrial investors has become emphasized in recent years.
- ◆ The main concern with regard to Finland's GDP is the prospect of falling demand on the global market for the goods and services of more traditional SMEs and of Finland's export sector. Also established consumer-driven businesses have encountered serious challenges.



\* Source: Talouselämä

# VC & PE market review 2/2

- ◆ Finnish start-ups raised a record-amount - some 330 M€ - in venture capital in the first half of the year 2020.
- ◆ Valuations of venture capital backed companies have remained mainly unchanged.
- ◆ International investors are currently quite active in the Finnish market. In spring, there was a short slump in international investors' activity. As capital markets normalised, international investors have returned to deal negotiations.

## The largest venture capital rounds raised by Finnish companies 2020 \*



\* Source: Talouselämä 24/2020

# Tesi's objectives and results H1 2020

## OBJECTIVES

## RESULTS

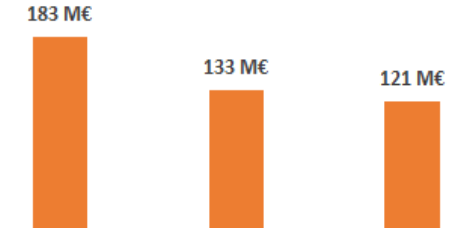
H1 2020 2019 2018

We invest in Finnish companies' growth



New investments **183 M€**

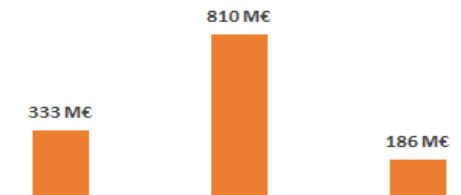
- **6** fund commitments, incl. FoF KRR IV
- **23** direct investments (**9** initial, **14** follow-on investments)



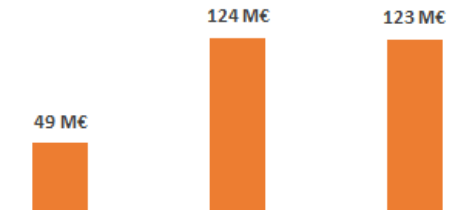
We develop Finland's venture capital and private equity market



Tesi's Finnish portfolio funds secured a total of **333 M€** in new capital



Tesi's international partners invested **49 M€** in Finnish growth companies

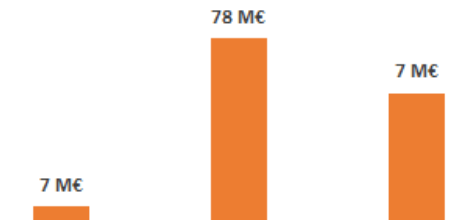


We are financially profitable



Consolidated net profit **7 M€**

Retained earnings from Tesi's operations, total **426 M€**





# Investments

**Special focus areas:**

**FoF KRR IV**

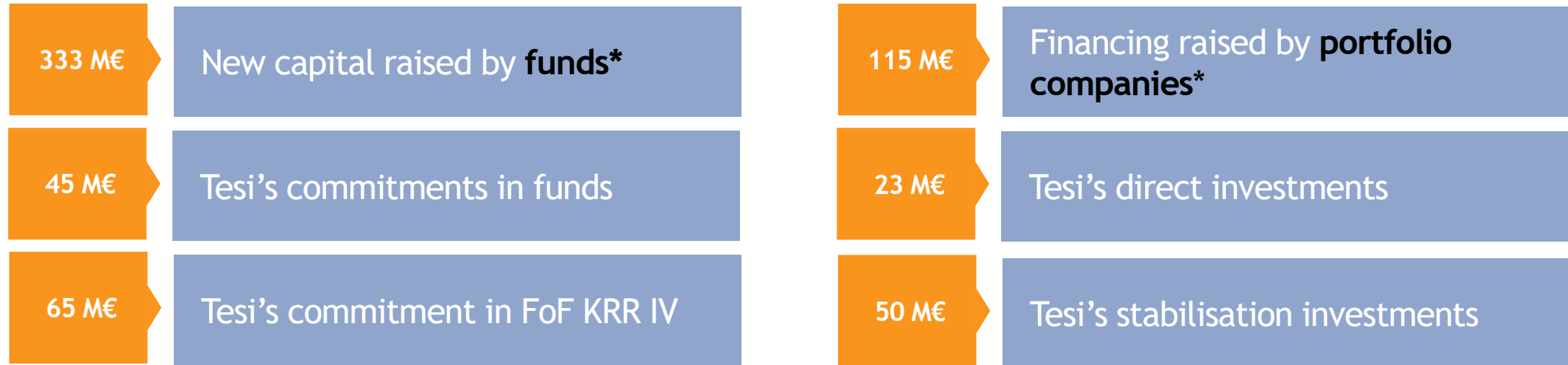
**Circular economy**

**EFSI financing**

**Stabilisation financing**

**Venture Bridge**

# Investments and commitments H1 2020



\* Tesi's new Finnish portfolio funds H1 2020

\* Financing rounds, in which Tesi participated H1 2020



icebreaker

COMMUNITY x CAPITAL

VERSO  
CAPITAL



Swappie

Nordic Rescue Group

# KRR funds-of-funds: case Icebreaker.vc



## KRR funds-of-funds

- ◆ KRR are funds-of-funds jointly established by Tesi and Finnish pension and insurance companies. The funds are managed by Tesi.
- ◆ To date, KRR has invested a total of 383 M€ in 32 Finnish venture capital and private equity funds.
- ◆ KRR portfolio funds, in turn, have invested in almost 240 Finnish companies that employ some 23 000 people and generate net sales of over 4 billion euros.
- ◆ KRR IV is a 175 M€ fund-of-fund that was launched in Spring 2020. In addition to Tesi, investors in KRR IV include Finnish institutional investors Ilmarinen, Keva, State Pension Fund of Finland, Elo, LocalTapiola, Veritas and Fennia.

## Case Icebreaker.vc

- ◆ Icebreaker invests in early-stage technology companies that showcase strong technological and industry-related knowhow.
- ◆ The company has developed a community, where over 1000 domain experts with 5+ years of work experience are brought together to learn, network and develop new strong tech companies.
- ◆ The fund was founded by Lasse Lehtinen, Aleksi Partanen, Riku Seppälä and Leo Giertz.
- ◆ The fund commenced operations in Spring 2020 with a first closing of 50 M€. The target size of the fund is 75 M€.
- ◆ Investors in the fund include KRR III as well as institutional investors OP, Nordea, Varma, Ilmarinen and Tesi.

”The KRR funds offer large institutions like us an excellent channel for allocating capital to Finnish VC and buyout funds and for becoming exposed to smaller players in the market. From our point of view, KRR is a very effective concept. The funds have a relatively long horizon, but the development and results of KRR I and KRR II have been very encouraging.

Henri Ågren, Keva’s Senior Portfolio Manager, Private Equity



# Circular Economy program has positive environmental impacts: case Swappie



## Circular Economy program

- ◆ In 2018 Tesi launched a 75 M€ investment program for financing circular economy companies. In addition to direct investments, the target is to create venture capital funds investing in Finland's circular economy.
- ◆ The circular economy is a broad concept encompassing renewable materials, lengthening product lifecycles, products as a service, resource efficiency & recycling, and a sharing economy.
- ◆ The objective is to boost the growth and internationalisation of existing companies and encourage the creation of new funds investing in the circular economy.
- ◆ Tesi has given fund commitments worth 5,5 M€ (ETF 3 fund) and invested 12 M€ directly in companies (Partnera Glass Recycling, Foamit Group, Endev, Swappie) from the program.

## Case Swappie

- ◆ Swappie is the leading end-to-end online marketplace for buying and selling refurbished smartphones.
- ◆ Research shows that less than 1% of smartphones are recycled properly. By refurbishing iPhones to the highest standards, Swappie is reducing environmental waste and saving natural resources.
- ◆ Swappie saw its revenues quadruple to some 35 M€ in net revenue 2018 - 2019. The company recorded a fivefold increase in net revenue growth in April and May 2020 compared to the same period last year. Currently operating in Finland, Sweden, Denmark and Italy, Swappie plans to use its Series B funding to drive rapid expansion across Europe, starting with launches in Germany, Ireland, Portugal and the Netherlands this summer.
- ◆ Lifeline Ventures, Reaktor Ventures, Inventure and Tesi invested in the Series B funding round of 36 M€ this spring.

"Every business and investment criteria should be based on circular economy thinking. We hope that some day circular economy becomes mainstream to such a degree that the term itself becomes redundant. No other than circular economy businesses would then exist.

Heli Kerminen, Director, Tesi's Venture Capital team

# EFSI, growth financing for the ambitious: case Varjo Technologies



## EFSI financing

- ◆ A 100 M€ program channelling financing from the European Fund for Strategic Investment (EFSI) into Finnish companies.
- ◆ Part of the Investment Plan for Europe, which aims to boost the investment and competitiveness of European SMEs.
- ◆ The financing (15-30 M€ per company) is targeted at growth-oriented SMEs and innovative midcap companies.
- ◆ One-half of the investment will come from EFSI and one-half from Tesi, with private investors participating to an equal amount. The model will supplement the financing currently available.

## Case Varjo Technologies

- ◆ Varjo is the world-leader in industrial-grade VR/XR hardware and software
- ◆ Varjo is the first and only company in the world to deliver human-eye resolution virtual and mixed reality devices to meet the most demanding enterprise applications across training and simulation, design and engineering and research.
- ◆ Global enterprises including Volvo Cars, KIA, Lockheed Martin, Boeing, Audi and Siemens utilize the company's products.
- ◆ In Spring 2020, the company raised 46 M€ in a Series C funding round, with new investments from NordicNinja, Swisscanto Invest by Zürcher Kantonalbank, and Tesi, in addition to follow-on investments from existing investors Lifeline Ventures, Atomico, EQT Ventures and Volvo Cars Tech Fund.

”Varjo has established itself as a proven industry leader, as evidenced by its ability to continually push the boundaries of virtual and mixed reality and support the most demanding enterprise applications across industries. Tesi’s active role in the investment negotiations and the utilization of the EFSI instrument enabled the significant investment in Varjo together with a number of international investors amid a difficult market situation.”

Keith Bonnici, Investment Director, Tesi’s Venture Capital team

# Stabilisation program

- ◆ In April 2020, Tesi launched a stabilisation program for mid-sized companies in response to the coronavirus pandemic. Investments done under the stabilisation program differ from Tesi's normal operations and offer companies facing an acute liquidity crisis financing to overcome the situation. Tesi plans to exit from investee companies after the crisis.
- ◆ Tesi will make investments under the stabilisation program either as equity investments or convertible loans.
  - Investments will be between 1 M€ and 10 M€ in size.
  - Companies' net sales must be at least 10 M€.
  - Number of personnel above 50.
  - Positive EBITDA before the crisis
- ◆ By the end of June 2020, Tesi had received stabilisation financing applications amounting to 138 M€ from 38 companies.
- ◆ By the end of June, Tesi had invested a total of 50 M€ under the program in nine companies. These companies employ altogether 8,200 people in Finland.

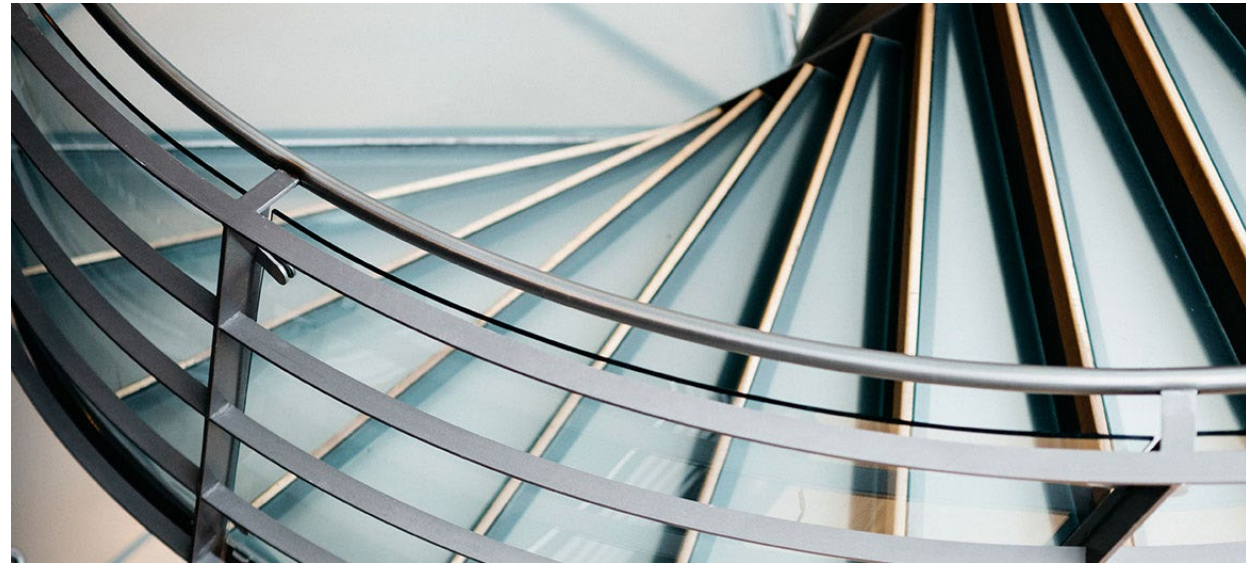
## Status 30 June 2020

Industry	Applied financing from Tesi (€M)	#	Investments (€M)	#
Manufacturing	61	12	28	3
Water & sanitation, waste disposal	10	1		
Construction	11	4		
Wholesale & retail sales	8	3		
Transportation & storage	2	1	2	1
Hotel & restaurant services	23	6	13	3
Information & communications	6	4		
Real estate activities	2	1		
Professional, scientific & technical activities	3	1	3	1
Administrative & support activities	3	1		
Education	4	2		
Arts, entertainment & recreation	5	1	5	1
Other services	2	1		
<b>In total</b>	<b>138</b>	<b>38</b>	<b>50</b>	<b>9</b>

# Venture Bridge program

- ◆ In mid-June 2020, Tesi launched Venture Bridge for innovative companies that have previously raised at least seed financing from professional venture capital investors and have had to postpone their next external financing round due to COVID-19.
- ◆ Investments through the Venture Bridge program will be made on equal terms with professional venture capital investors. The investments will be made as convertible loans.
- ◆ No investments under the Venture Bridge programme had yet been made in June. By 10 September 2020, Tesi had invested a total of 2.4 M€ in altogether five companies.





# Financials

# Positive result in a challenging environment

- ◆ Profit for the review period was 7 M€.
- ◆ The strong result of 36 M€ by funds can be explained by the good first half of the year, which saw several positive exits.
- ◆ Direct investments produced a net loss of 12 M€, which mainly resulted from the decrease of the fair value of the portfolio companies at more mature stages, and the weakening of their business environment due to the corona pandemic.
- ◆ The weakened market situation also reflected to financial securities as they produced a loss of 10 M€.

<b>Consolidated statement of comprehensive income</b>			
EUR thousands	1-6/2020	1-6/2019	1-12/2019
Net gains from funds	35 882	11 290	41 560
Net gains from direct investments	-11 907	-14 874	23 001
<b>Net gains from investments, total</b>	<b>23 975</b>	<b>-3 584</b>	<b>64 561</b>
Net gains from financial securities	-10 105	25 419	38 723
Income from fund management	613	613	1 225
<b>Other operating income, total</b>	<b>-9 492</b>	<b>26 031</b>	<b>39 948</b>
Personnel expenses	-2 891	-2 462	-4 966
Depreciation and impairment	-249	-261	-523
Other operating expenses	-2 028	-2 051	-3 494
<b>Operating profit</b>	<b>9 316</b>	<b>17 673</b>	<b>95 526</b>
Financial income and expenses	-121	-41	-41
<b>Profit before taxes</b>	<b>9 195</b>	<b>17 633</b>	<b>95 485</b>
Income Taxes	-1 935	-4 186	-17 736
<b>Profit after taxes</b>	<b>7 260</b>	<b>13 447</b>	<b>77 750</b>
<b>Total comprehensive income for year</b>	<b>7 260</b>	<b>13 447</b>	<b>77 750</b>

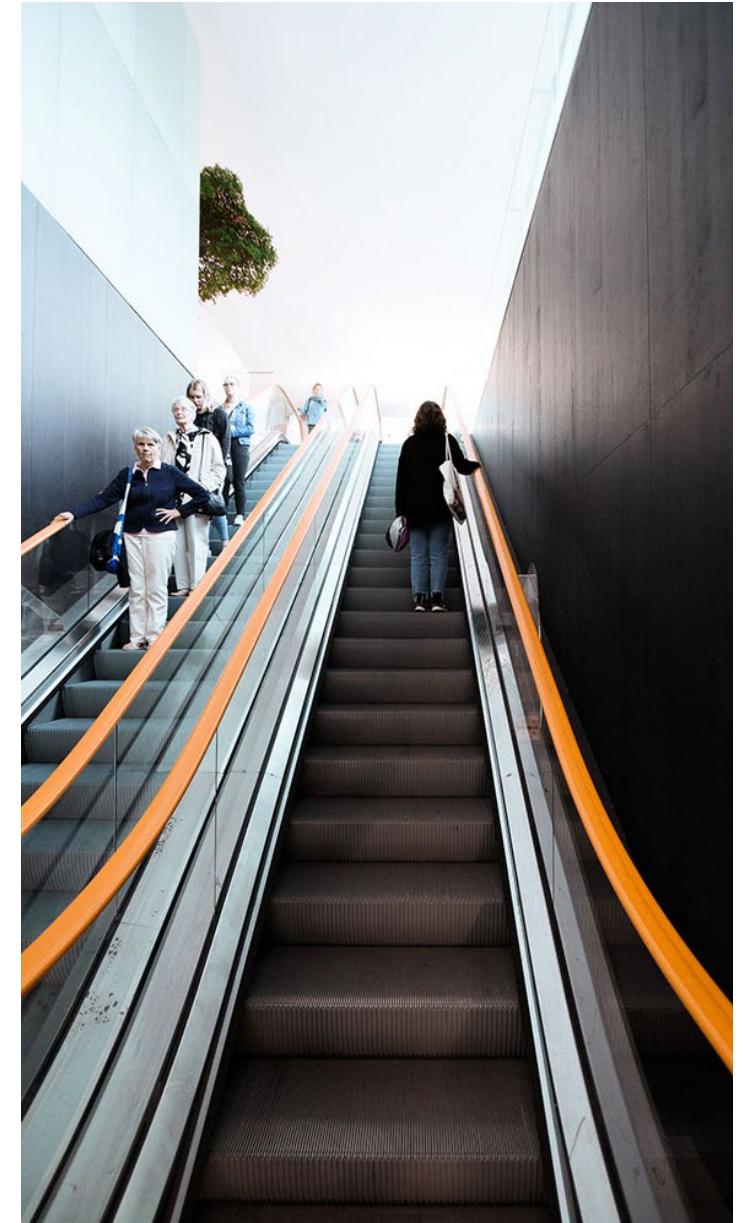
# Balance sheet

- ◆ Carrying value of VC & PE investments increased by 85M€, of which stabilisation investments were 50 M€.
- ◆ Carrying value of financial securities (non-current and current assets) and cash & cash equivalents was 477 M€, which covers the company's off-balance-sheet commitments amounting to 611 M€, including commitments to investment programs.
- ◆ The most noteworthy change in Tesi's equity of 1.245 M€ was the capitalisation of the company by 150 M€ by the Finnish state.

<b>Consolidated balance sheet IFRS</b>			
EUR thousands	30.6.2020	31.12.2019	Change
<b>Assets</b>			
<b>Non-current assets</b>			
VC & PE funds	455 673	419 399	36 274
Direct investments	340 423	291 528	48 895
<b>VC &amp; PE investments, total</b>	<b>796 096</b>	<b>710 927</b>	<b>85 169</b>
Other non-current assets	39 351	39 955	-604
<b>Short-term assets</b>	<b>452 076</b>	<b>378 786</b>	<b>73 289</b>
<b>Assets, total</b>	<b>1 287 522</b>	<b>1 129 668</b>	<b>157 854</b>
<b>Equity, total</b>	<b>1 245 469</b>	<b>1 088 209</b>	<b>157 260</b>
<b>Non-current liabilities</b>	<b>39 123</b>	<b>37 693</b>	<b>1 430</b>
<b>Current liabilities</b>	<b>2 931</b>	<b>3 766</b>	<b>-835</b>
<b>Liabilities, total</b>	<b>42 054</b>	<b>41 459</b>	<b>594</b>
<b>Equity and liabilities, total</b>	<b>1 287 522</b>	<b>1 129 668</b>	<b>157 854</b>

## Capitalisation by the state and commitment to capitalise Tesi in case of a worsening economic situation

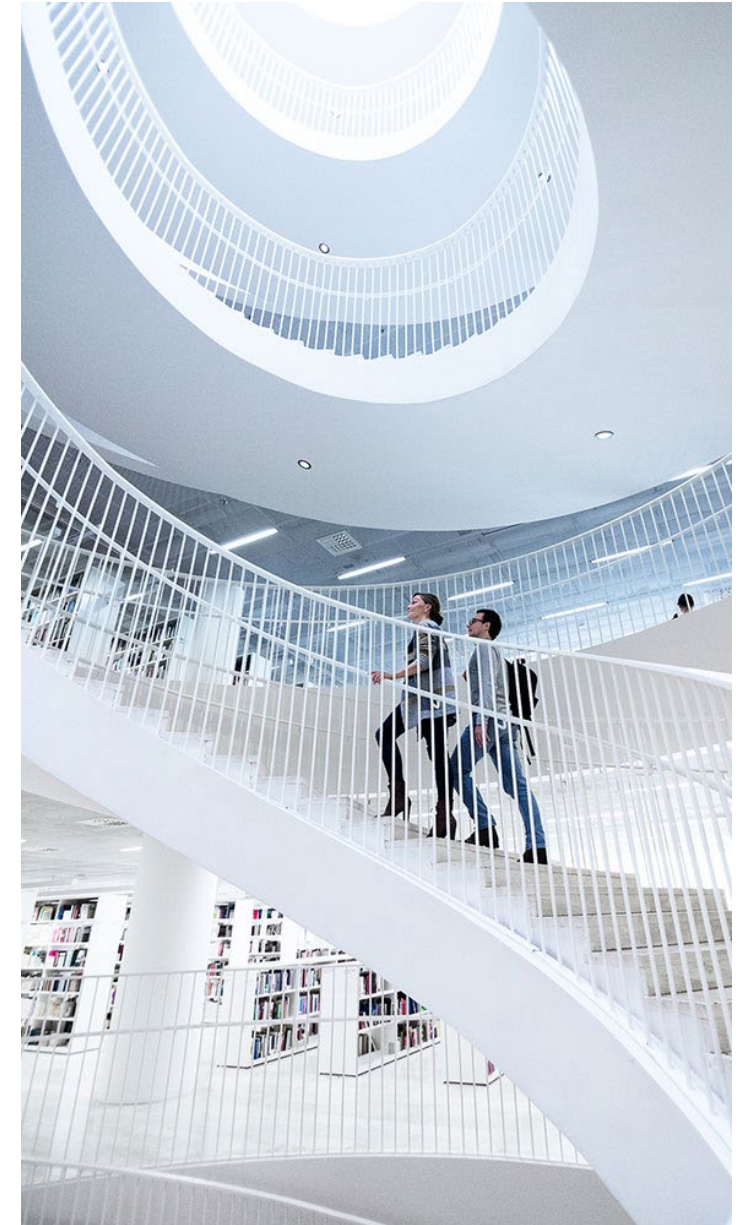
- ◆ The Finnish state capitalised Tesi by 150 M€ in the 2020 supplementary budget II for financing the stabilisation program. Stabilisation investments are targeted at mid-sized companies encountering sudden and temporary difficulties because of the coronavirus pandemic.
- ◆ In preparation for the possible worsening of the economic situation, the Finnish state committed a further €250 million for capitalising Tesi in the 2020 supplementary budget IV. The additional capital will be channelled flexibly according to the market situation, into fund investments, direct venture capital investments and the stabilisation program, over the next two years to mitigate the disruption caused by the coronavirus.
- ◆ The appropriations from the supplementary budgets already paid, and those to be paid in the future, will be returned to the Finnish state when Tesi exits these investments.





# Events after the review period and market outlook

- ◆ After the end of the review period, Tesi has given a commitment to CapMan Growth Equity Fund II, made a direct investment in Varjo Technologies, and investments totalling 2.4 M€ in altogether five companies under the Venture Bridge program.
- ◆ Despite the coronavirus pandemic, Finnish startups raised a record amount of capital during the first half of 2020. The impacts of the pandemic on international venture capitalists' activity remains to be seen. The negotiations for many of the large financing rounds that took place in the summer and early autumn were already initiated before the pandemic struck.
- ◆ The second half of the year is likely to be challenging for more traditional SMEs. The challenges are, however, sector and company-specific. Shortened order books will have wide consequences for engineering companies. Furthermore, Finland having a post-cyclical economy, the full impacts will not be seen until later.
- ◆ Tesi's deal flow is normalising. Tesi is, however, well prepared for worsening conditions for growth companies by ensuring the fund-raising of VC/PE funds, expanding its role in direct venture capital investments, both in Venture Bridge and in larger financing rounds, and by offering stabilisation financing to mid-sized companies that were profitable pre-coronavirus.
- ◆ The key driver of Tesi's operations is to make a positive social impact. The main methods for promoting positive social impacts are channelling capital to companies that will use their expertise and solutions to make a net impact on society that is as beneficial as possible and producing information on the impacts of operations.



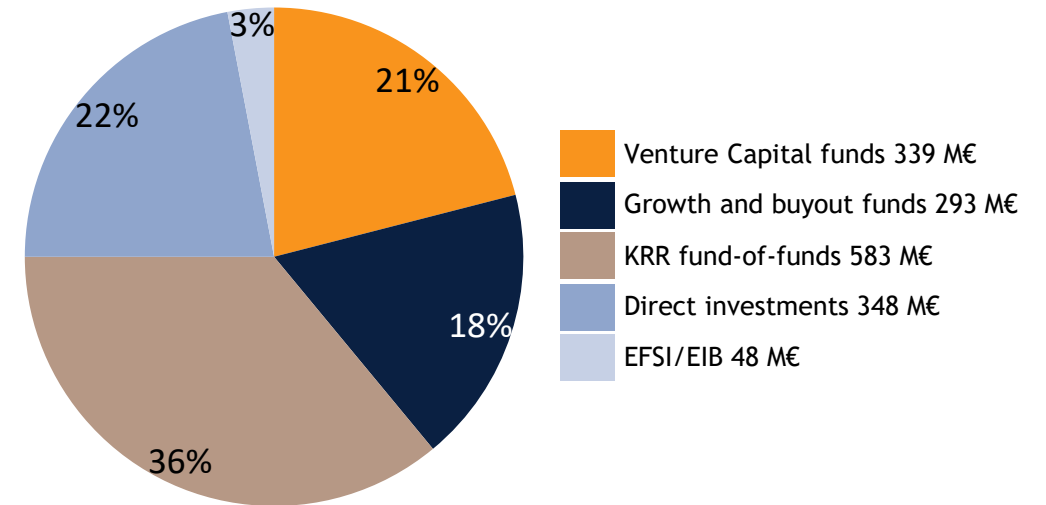


**More about Tesi**

# We develop the VC & PE market so that Finnish companies have resources for international expansion

- 4 funds-of-funds
- 98 portfolio funds
- 63 direct portfolio companies
- 100-150 M€ new investments / year
- 25 years' experience of developing Finland's VC/PE market
- 300 years' experience of VC/PE investment and corporate financing
- 37 employees in Helsinki
- 100% state-owned

Investments under management 30.6.2020  
1.611 M€



\* The KRR funds managed by Tesi (4 altogether) include a total 348 M€ of pension funds' capital

# A network of Finnish and international partners



