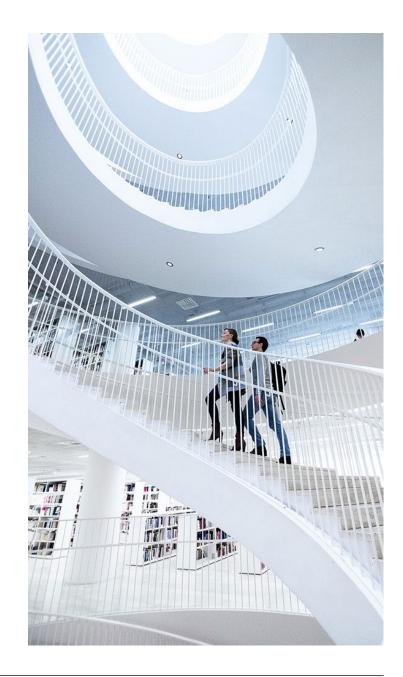


Survey of returns on investments in the Finnish PE / VC market

May 2021

Introduction

- In the spring of 2018, Tesi published for the first time the results of a survey of the returns on investments made in the Finnish venture capital and private equity market. The aim of the survey is to provide fund managers, investors and other industry stakeholders with up-to-date information on the industry's performance.
- This survey is a continuation of the first survey, and it addresses the returns on investments made in the Finnish PE & VC market as at 31 December 2020, from a fund investor's (limited partner's) perspective. Tesi intends to publish such updates annually in the future.
- If you have any questions concerning the return survey, please contact Tesi's Investment Analyst Samuel Wendelin (samuel.wendelin@tesi.fi).



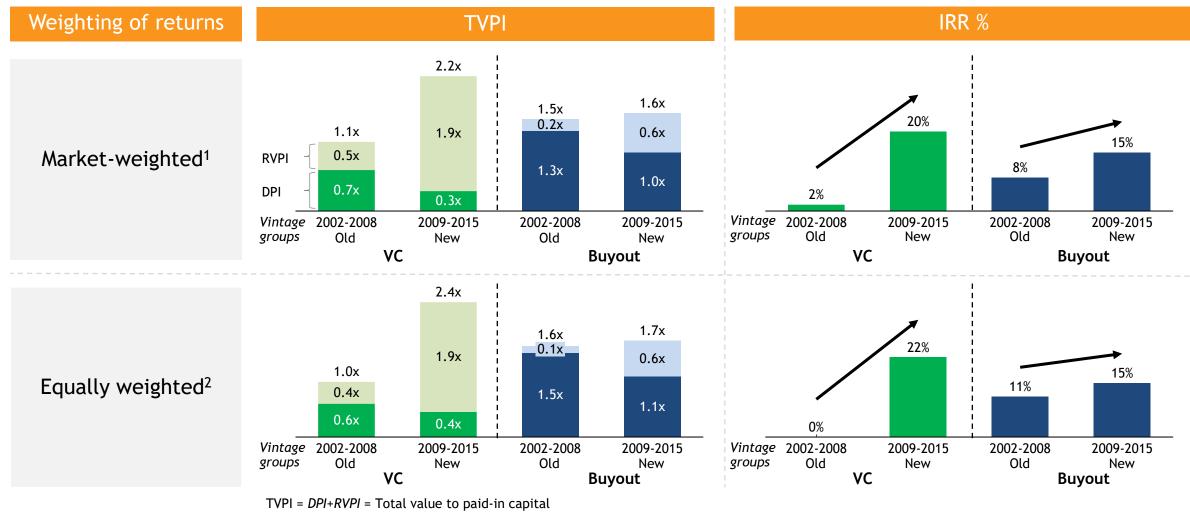


Methodology

Data type	 The data on returns are calculated 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 100 M€ (ranging from less than 10M€ to about 350 M€).
Results	 The survey sample is divided into Venture Capital funds and Growth / Buyout funds (hereinafter "Buyout"). In addition, the funds are grouped chronologically into old (established in 2002-2008) and new (established in 2009-2015) funds. 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. The returns of individual funds cannot be identified from the aggregated returns.



Summary: Returns from the Finnish PE & VC market as at 31 Dec 2020



DPI = Distributions to paid-in capital

RVPI = Residual value, net of management fees and carried interest, to paid-in capital

IRR = The annual return of the fund from its inception until the time of review

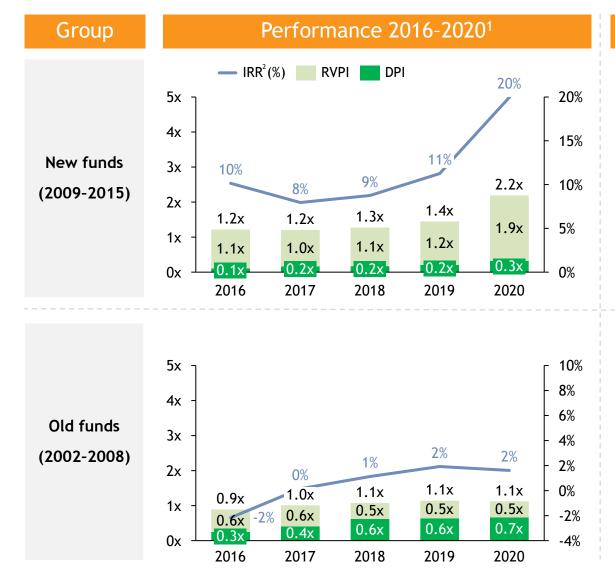


All key figures are fund investor's net figures

1 Each fund has a weight that corresponds to its size in the calculation of return \rightarrow market return as a whole 2 Each fund has the same weight \rightarrow equals the return for an investor that invests the same amount in each fund **Finnish Venture Capital Funds**



Performance of Finnish VC funds

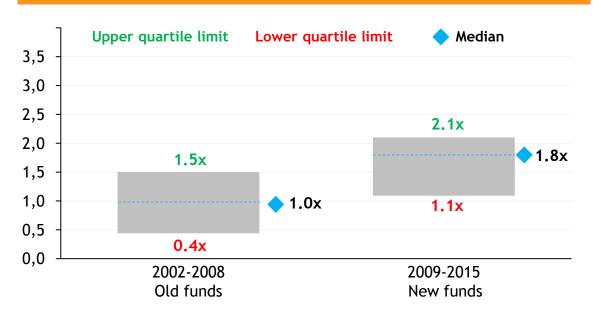


Comments

- The returns of funds established in 2009-2015 have strongly improved in recent years.
- In 2020, in particular, there were strong gains in value fuelled by new financing rounds for a number of portfolio companies that attracted investments from international investors. Funds are no longer making new initial investments, while especially earlier investments in portfolio companies have begun to mature into exit readiness.
- Exits have started, but most of the value is still unrealised. Significant exits are expected in the upcoming years, so DPI is expected to rise. Returns are, of course, subject to uncertainty until exits begin in significant volumes. However, the overall market situation currently looks promising.
- The returns of older funds have been very moderate. At the end of 2020, TVPI was 1.1x and IRR was 2%.
- In recent years, there have been no significant developments in return levels.
- Around 60% of the funds' total value has been realised, so there are quite many portfolio companies left, even though all funds are at least 12 years old.
- Exits are expected in the next few years, but no significant uptick is expected in the total return of the older funds.



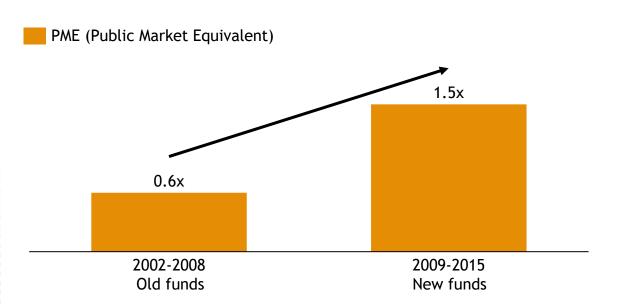
VC funds' distribution of returns and comparison to the listed market



Distribution of returns (TVPI)

- The median returns of newer funds are at a good level half of the funds have reached a TVPI of 1.8x and a quarter of the funds a TVPI of 2.1x. Even though the success of individual investments has had a significant impact on the returns of such a small market, there have been successes across many different sectors. A significant development is also the rise of the lower quartile limit above the 1x level. It should also be noted that the most recent funds have only recently decided to make new investments and significant follow-on investments are still being made, which means that their returns are still lower at fund level.
- With older funds, the median settles at 1x market return level. There is high divergence between different funds around the median.

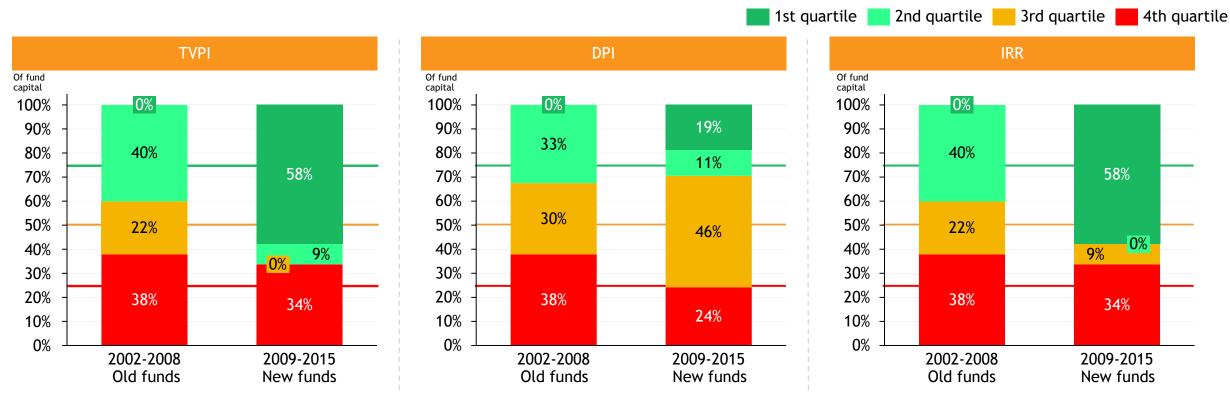
Public Market Equivalent (PME)¹



- In PME calculations, the cash flows of the funds are indexed against the public stock market. This provides a benchmark that shows the return 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 1.5 times the return from the public stock market.
- For the older fund group, maintaining capital at about 1x TVPI represents a significant underperformance compared to the public stock market.



Finnish VC funds' performance compared to European reference group



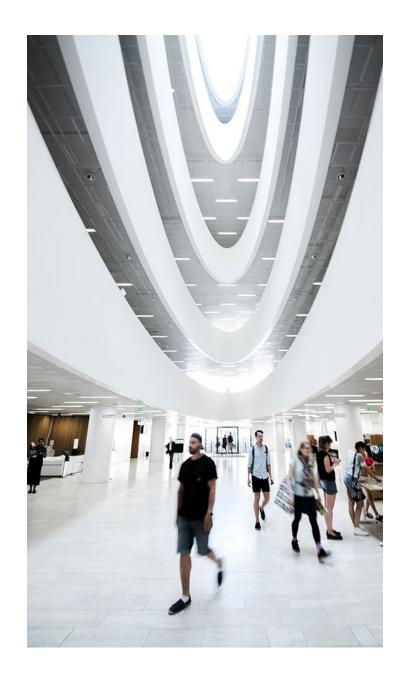
Each fund's returns have been benchmarked against their European peer group¹ consisting of European funds with the same vintage year, and the results have been grouped. If the Finnish market corresponded structurally to European peer funds, each of the four colours would have a 25% share.

- New funds have, on average, performed better than their European peers (measured by TVPI and IRR), i.e., over one-half of Finland's VC capital is invested in funds that rank among the best in the European peer group. On the other hand, the funds are also overrepresented in the lowest quartile, while the group showing average performance is narrow. It should be noted that, especially among the most recent funds, the differences between the performance quartiles are nevertheless small, and there can be significant movement of funds between the quartiles. In the DPI comparison, a significantly smaller proportion of funds rank in the top quartiles, i.e., Finnish funds have returned capital more slowly than their European peers.
- Although the returns of the older fund group are more modest compared to other asset classes, 40% of the capital is invested in funds that have outperformed the European median. No old VC funds rank among Europe's top performers, while Finnish funds are overrepresented in the fourth quartile. It should be noted that the weak performance of older VC funds is a pan-European phenomenon, and Finland does not differ significantly from the rest of Europe in this respect.



Venture Capital: Key findings

- The Finnish venture capital market is currently performing well. The historically modest level of returns has improved and is now at an excellent level, even compared to European peers.
- Much of the improvement has taken place in the recent years, and it remains to be seen how well the market will perform over the long term.
- It is in the nature of VC operations that individual successful investments have a significant impact on the returns of individual funds and on the industry as a whole. However, the funds of many different players have been successful, and the current level of market returns cannot be regarded as resulting from the success of just a few individual players.
- Most of the reported returns are still unrealised and the final performance of the funds is subject to changes in both the portfolio companies and the wider market (exit market, valuation levels, etc.).
- The next development target is to generate more exits. In terms of exit volumes, the Finnish market is still more immature compared to the general European level. The portfolio companies of the newer fund group will be reaching maturity soon, so significant capital returns are expected in the coming years.





Finnish Buyout Funds



Performance of Finnish buyout funds



Comments

- Newer buyout funds have performed well and improved steadily. At the IRR level, returns have flatlined at around 15% in recent years. At the TVPI level, however, no development has been witnessed in the last few years. This is largely due to the funds making new initial investments at a steady pace, with more and more new 1x-valued companies coming into the funds all the time.
- The COVID-19 pandemic has, of course, had a significant impact on some individual portfolio companies, but has had no significant effect yet on market returns as a whole.
- Capital turnover is steady and by the end of 2020 the funds in the group had already returned the capital invested in them. TVPI is expected to grow in the coming years as even the most recent investments of funds mature.
- There have been no major changes in the group of older buyout funds in recent years, as the funds have already returned most of their capital and there are few companies left.
- The old fund group has performed slightly worse than the new fund group. This is largely due to the financial crisis, as old funds made a significant portion of their investments in the pre-crisis period, and the crisis had a major impact on many of their portfolio companies. However, the level of returns is good, and this is also reflected in the comparison with the listed market.



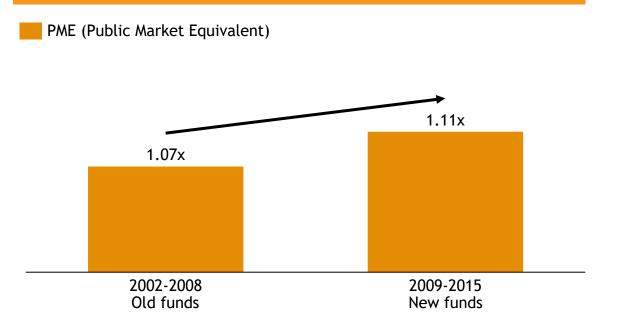
Buyout funds' distribution of returns and comparison to the listed market



Distribution of returns (TVPI)

 Buyout funds' distribution of returns has remained stable over time. The median TVPI for both older and newer buyout funds is 1.5x. In the case of buyout funds, it should also be noted that the most recent funds in the new funds group have only recently decided to make new investments, which means that their returns are still lower.

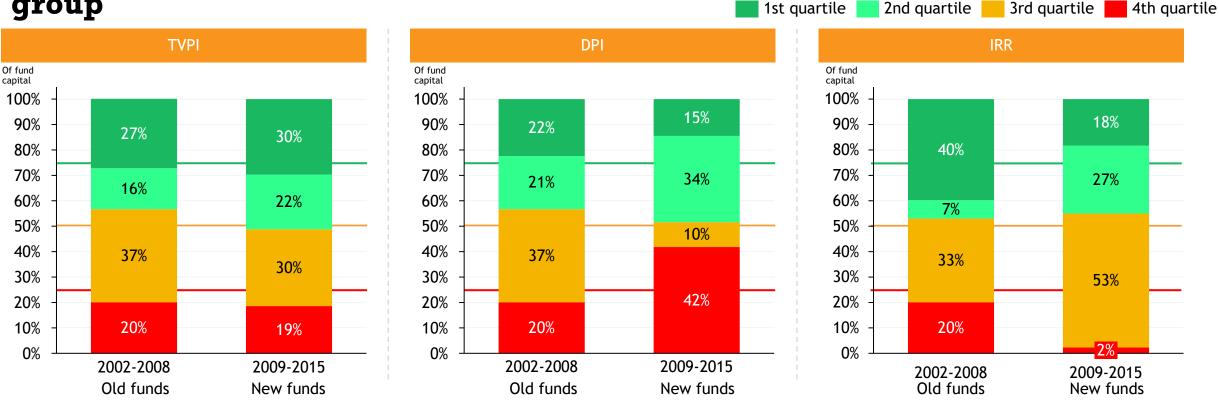
Public Market Equivalent (PME)¹



- In PME calculations, the cash flows of the funds are indexed against the listed 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, Finnish buyout funds have generated a multiple of money invested of ~1.1x in relation to the listed stock market.
- There has been no significant change in performance since the previous survey of returns.



Finnish buyout funds' performance compared to European reference group 1st quartile 2nd quartile 3rd quartile



 In the comparison, each fund in a group is compared to the funds in the European peer group¹ 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%.

 The structure of Finnish market's returns corresponds relatively well with that of the European peer group. Since the number of funds in the groups is rather small, placing an individual fund on either side of a specific line can greatly affect the distribution. Consequently, no hard conclusions should be drawn based on the differences. It is also worth noting that, especially with more recent funds, the differences between quartiles are small, and there can be significant movement of funds between the quartiles.



Buyout: Key findings

- The Finnish buyout market has fared well and steadily improved. Returns have stabilised at a good level, and investment value is being realised at a steady rate.
- Returns from the funds' portfolio companies can vary greatly but variation at fund level remains more moderate.
- A year of the COVID-19 pandemic has significantly affected individual portfolio companies but, in general, not returns at the market level.
- Over time, the returns are comparable both to the listed market and to the European reference group.

