

Tesi's Survey of Investment Returns:

Finnish VC & PE Market

April 2024

Tesi



Introduction

- Annually, Tesi publishes a comprehensive survey that examines net 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 42 funds raised in Finland between 2009–2020 divided between buyout & growth 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 2009–2015) and new funds (23 funds formed between 2016–2020).
- 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, Arttu Suominen, at arttu.suominen@tesi.fi or +358 50 403 5626.

Summary: Main changes compared to previous survey

VENTURE CAPITAL FUNDS

MAIN FINDINGS IN PREVIOUS SURVEY

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

IRR¹ mature funds
(inception 2009-2015)

22 %

IRR¹ new funds
(inception 2016-2020)

18 %

BUYOUT & GROWTH FUNDS

- In alignment with previous surveys, the mature buyout and growth 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.

IRR¹ mature funds
(inception 2009-2015)

17 %

IRR¹ new funds
(inception 2016-2020)

11 %

MAIN FINDINGS IN THIS SURVEY

- Even though the return has declined for the second year in a row the IRR has remained robust in mature venture capital funds, offering investors an attractive annual yield.
- The IRR of new venture capital funds has decreased significantly partly due to the decline in market valuations and a challenging exit market.

IRR¹ mature funds
(inception 2009-2015)

20 %

IRR^{1/2} new funds
(inception 2016-2020)

11 %

- In line with previous surveys, mature buyout and growth funds continue to show stable returns with minor fluctuations in IRR.
- The IRR of new funds has improved from last year's level to 13%, with a portion of the portfolio companies still valued at, or in close proximity to, their acquisition cost.

IRR¹ mature funds
(inception 2009-2015)

16 %

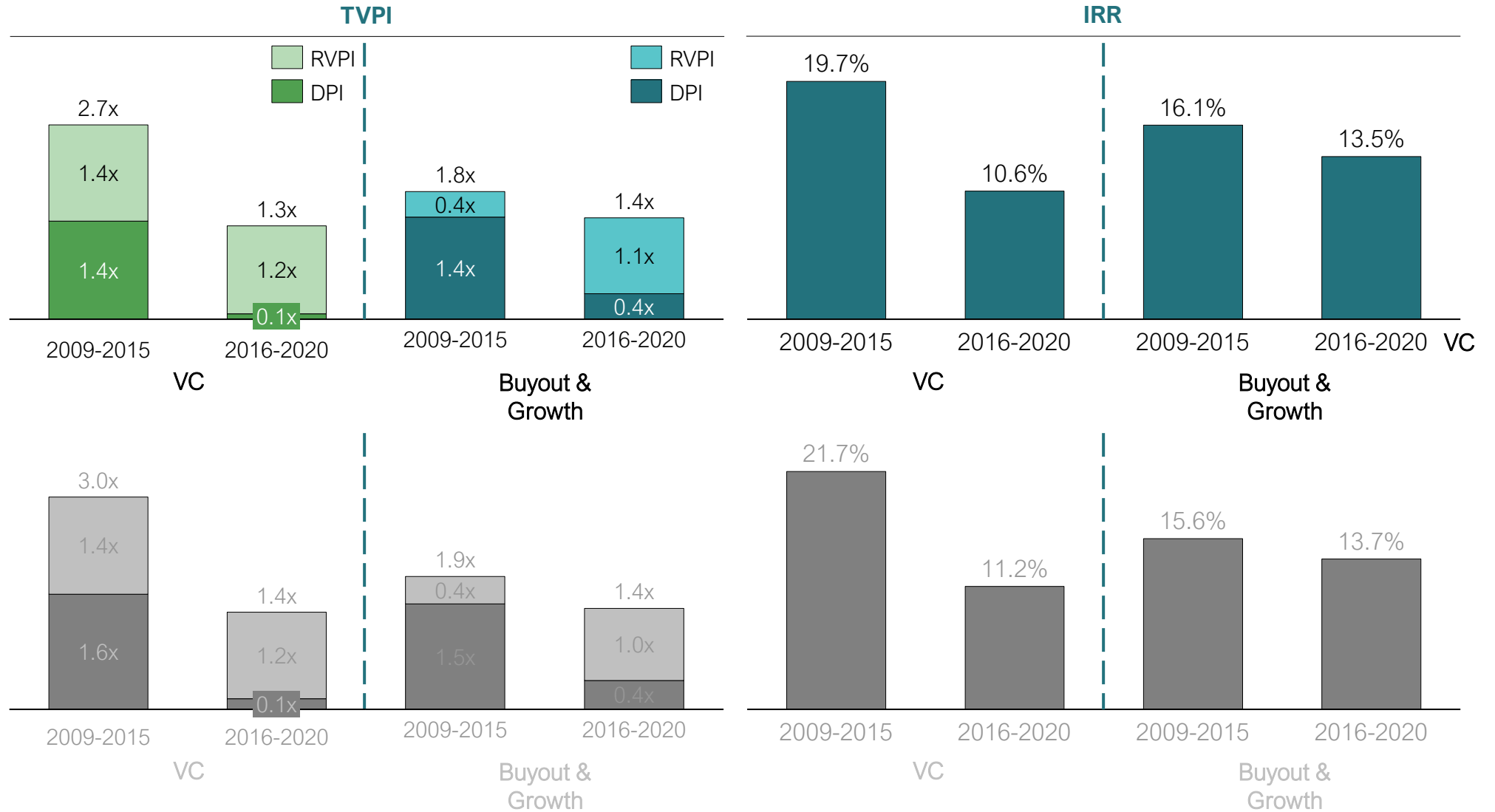
IRR^{1/2} new funds
(inception 2016-2020)

13 %

Summary: Returns from the Finnish PE & VC market by vintage group, 31 Dec 2023

MARKET WEIGHTED¹

EQUALLY WEIGHTED²

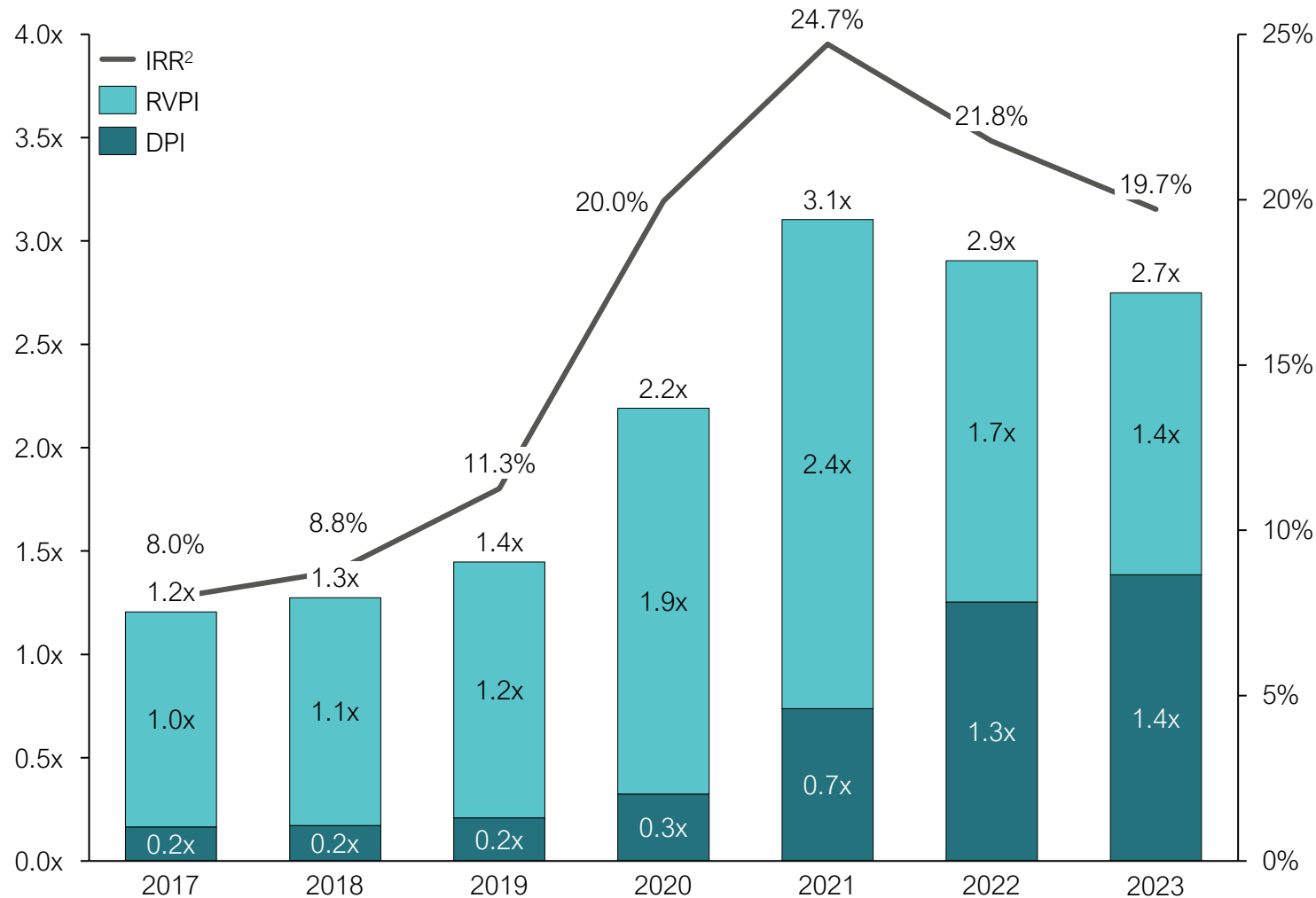




Finnish VC funds

Performance of mature VC funds (vintages 2009–2015)

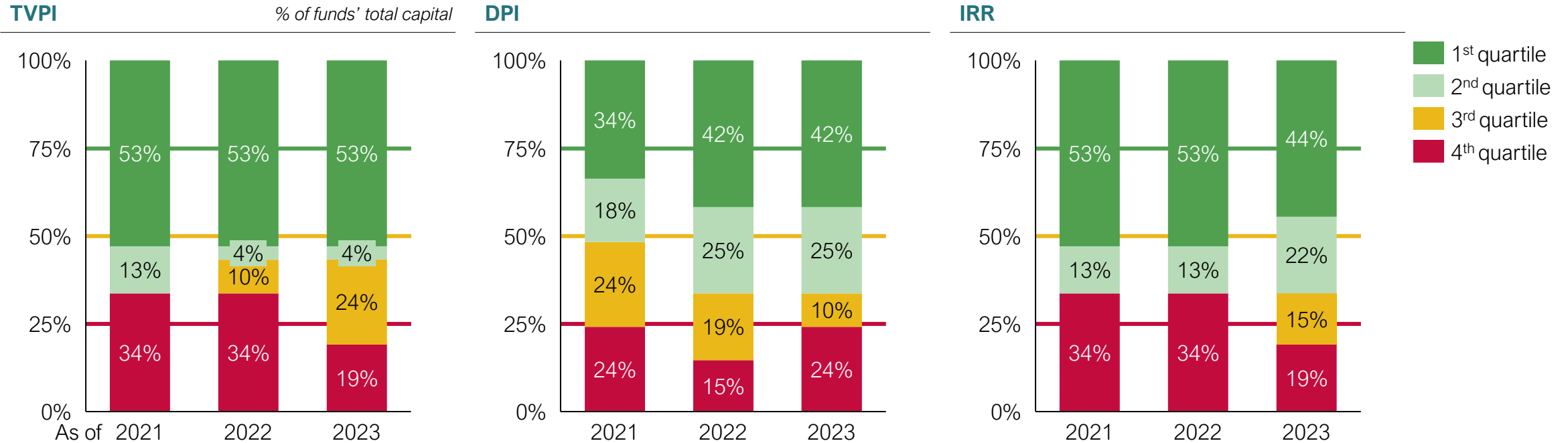
PERFORMANCE 2017–2023¹



COMMENTARY

- Global market turbulence has impacted the performance of the venture capital market, particularly in later-stage companies, adjusting their valuation levels.
- The total return of venture capital funds has maintained a strong level in 2023. The annual and total return of mature VC funds continued its decline for the second consecutive year yet remained robust due to the strong performance in previous years. The TVPI ratio settled at a level of 2.7x, with the IRR standing at 20 percent.
- The robust growth in the DPI ratio observed in prior years has substantially decreased, suggesting lukewarm exit market. With the DPI ratio now standing at 1.4x, approximately half of the total value remains unrealized.
- There are indications that the correction in the venture capital market is stabilizing, as valuations find their levels. The remaining value comprises a significant number of companies with high exit value potential, maintaining a relatively strong RVPI ratio.

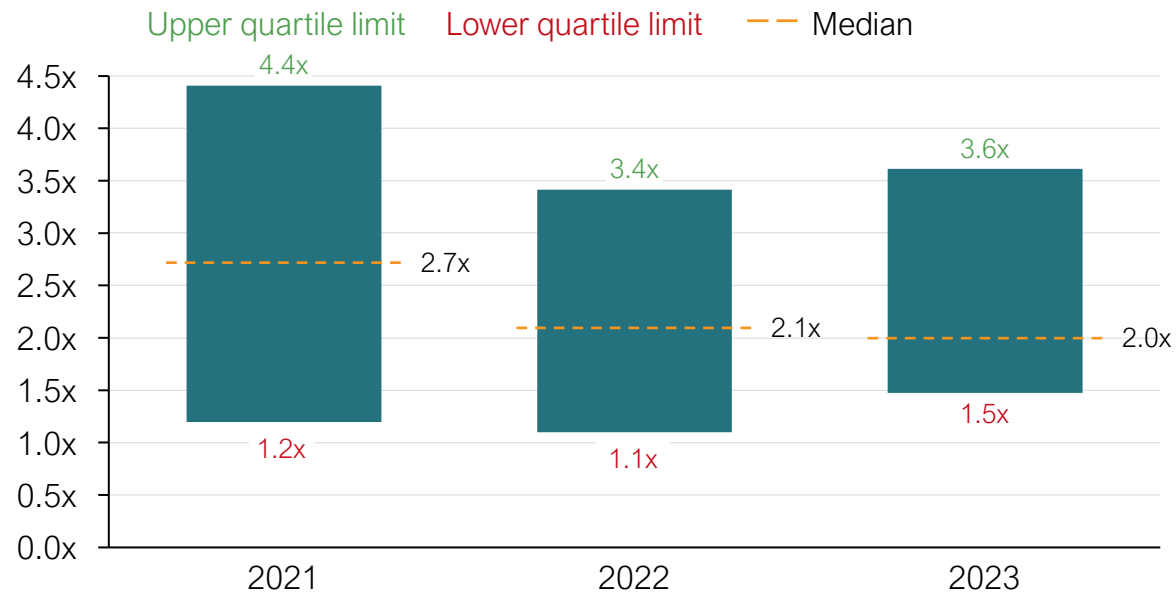
Mature Finnish VC funds' performance compared to European peer group



- In this comparison, each fund within a group is evaluated against its European counterparts¹ based on its return figures and vintage year, with the results compiled at the group level. If the Finnish market's returns were perfectly aligned with that of the European reference group, each of the four colors would represent a 25% share.
- The quartile comparisons of mature VC funds against their European counterparts have remained strong. Measured by the TVPI, over half of the capital continues to be placed in the top quartile, with the proportion significantly declining in the fourth quartile. Regarding DPI, the upper quartiles have maintained a strong level, with the share of the fourth quartile rising from the lower quartiles. In the IRR benchmark, there has been positive development as share of capital has decreased in the fourth quartile.
- Despite the ongoing challenges in the market, Finnish mature VC funds positioned themselves strongly, outperforming their peers. A contributing factor to the superior performance relative to peers may be the relatively smaller deals, which are easier to execute and exit in the current market conditions.

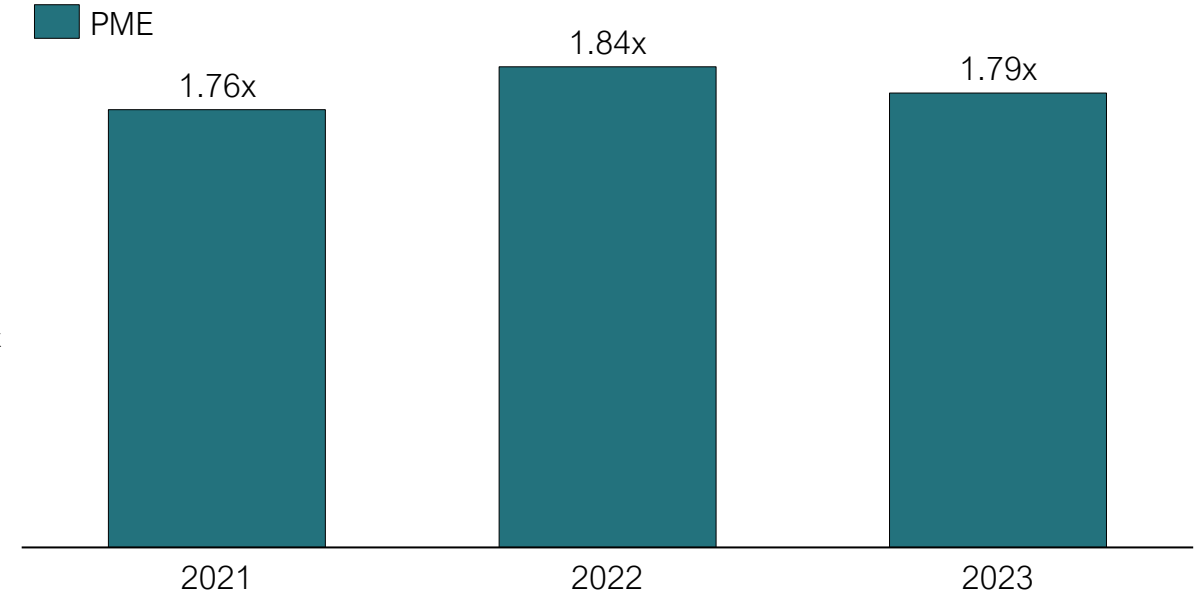
Distribution of mature VC funds' returns and comparison with the listed market

DISTRIBUTION OF RETURNS MULTIPLES (TVPI)



- From the previous year, the return dispersion has continued decreasing but in a slower pace, as the difference between the upper and lower quartiles fell from 2.3x to 2.1x. The upper quartile had a small increase and is now 3.6x, while the lower limit leaped to 1.5x.
- While the return dispersion had only a small correction the returns are now more right-skewed indicating that returns are more concentrated on the lower end of return distribution than in previous years.
- In 2023, the median TVPI for mature VC funds stands at 2.0x.

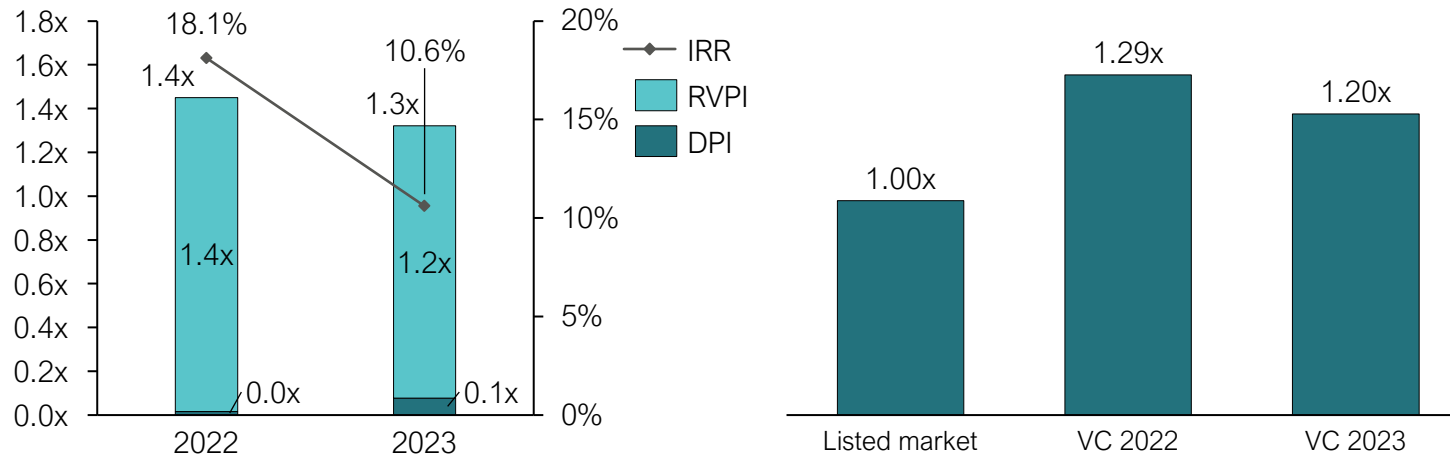
COMPARISON TO LISTED MARKET (PME)¹



- In PME calculations, the cash flows of the funds are indexed against the public stock market (In this case, the OMX Helsinki General Index has been utilized as the benchmark index). This approach offers a benchmark that illustrates the performance relative to investing in the listed stock market at the same time.
- During 2023, the PME for mature VC funds decreased from 1.84x to 1.79x while still maintaining an impressive excess return relative to the listed market. The decrease in the PME multiple is likely due to the VC market's slower corrective movement relative to the listed market, which is now observed to be occurring a year later.

Performance of new VC funds (vintages 2016–2020)

RETURN METRICS AND PME

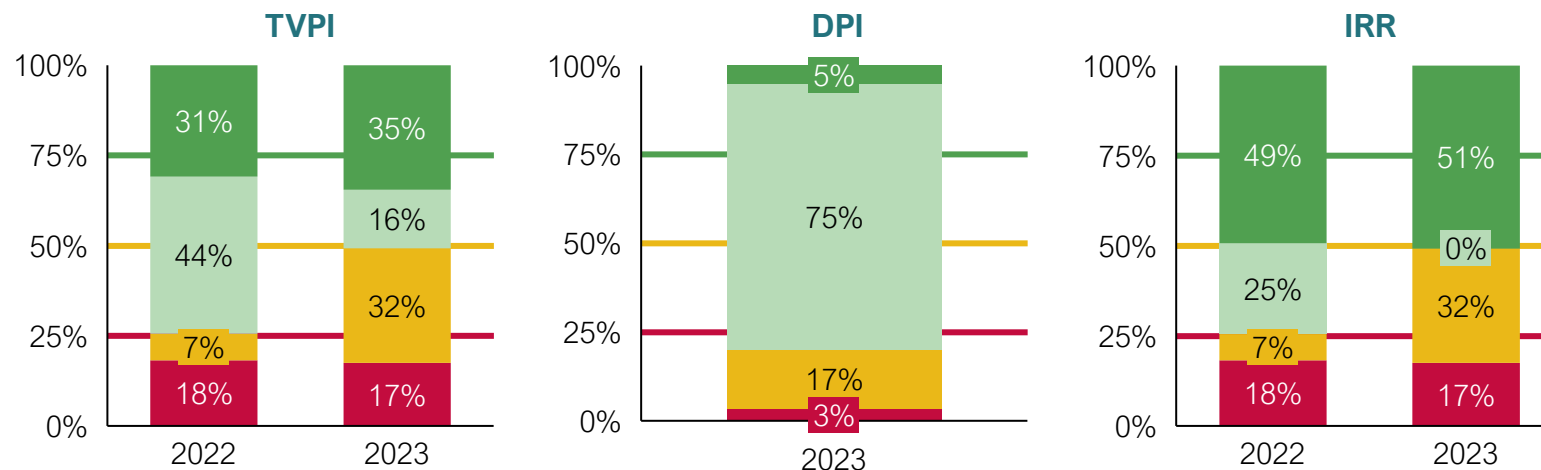


COMMENTARY

- The returns of new venture capital funds have declined to a level of 1.3x from the previous year. Concurrently, annual yields have also significantly decreased to a level of 10%. Some realizations have occurred, but the DPI is still forthcoming, which is expected for the vintages in the sample.
- New VC funds have been able to generate 1.2x the return of the listed market.

PERFORMANCE COMPARED TO EUROPEAN PEER GROUP

% of funds' total capital



COMMENTARY

- The new VC funds have performed well in the first quartile with respect to TVPI and IRR, although the overall share of the second quartile has decreased and share of the third quartile increased compared to previous period.
- Distributions have begun to accrue in new VC funds in 2023. However, it is still early to evaluate DPI as a benchmark, as the funds are still in the early stages.

■ 1st quartile ■ 3rd quartile
■ 2nd quartile ■ 4th quartile

A large satellite dish is silhouetted against a night sky filled with stars. The dish is mounted on a structure on a mountain peak. The sky transitions from a deep blue at the top to a lighter, orange-tinged glow near the horizon. The overall scene is dark and atmospheric.

Venture capital: Key findings

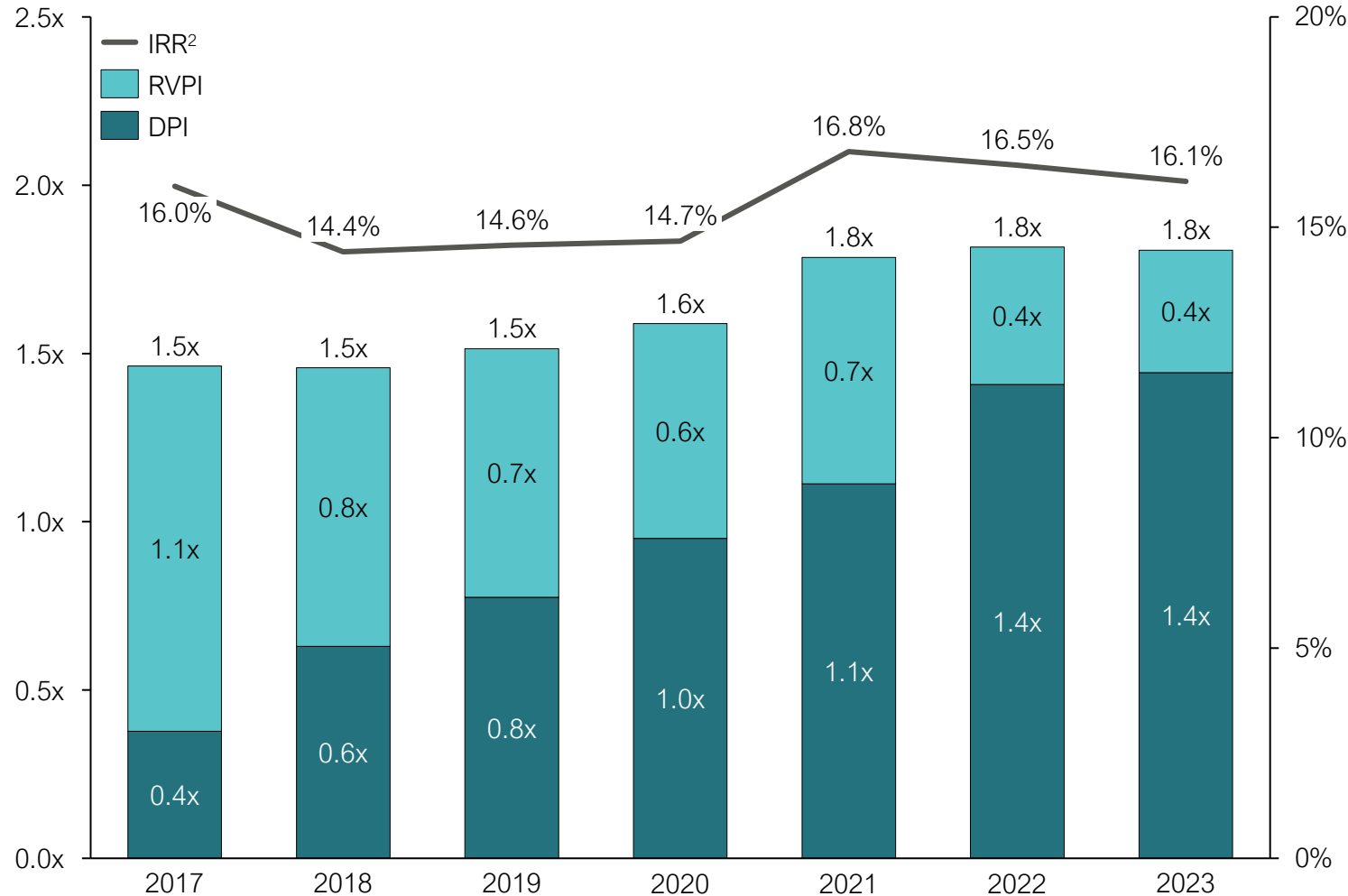
- Despite short-term market turbulence, long-term returns have remained at a favorable level in 2023. The overall return multiple of mature VC funds decreased slightly from 2.9x to 2.7x TVPI yet maintained a strong and attractive level. Distributions increased during the review period, although the challenging market conditions clearly affected the distribution pace. DPI continued to grow to a total of 1.4x, leaving half of the total value of the funds unrealized.
- When compared to European medium- and small-sized VC fund counterparts, mature Finnish VC funds performed exceptionally well across every performance metric. Measured by overall returns, over half of the VC capital is placed in the first quartile. When measured by distributions and annual yield, over 65% of the capital is placed in the upper quartiles. The PME for mature VC funds decreased slightly in 2023, a correction attributable to the slower movement of the VC market compared to more swift correction in the listed market occurred earlier.
- The returns of new VC funds have been at a satisfactory level. The first quartile experienced a slight increase in terms of TVPI and IRR, although the share of the third quartile has increased compared to the previous year. The new Finnish VC funds have also out-performed the listed market. However, it should be noted that some of the funds within the population are still in the early stages of constructing their portfolios and are not yet in the harvest period.
- It is also noteworthy that the market weight of the sample of new venture capital funds is skewed towards the end of the time series, whereby a significant contribution to the sample's results is still in its early stages, thereby making it premature to draw definitive conclusions.
- Despite market turbulence and challenges continuing throughout 2023, Finnish VC funds demonstrated resilience and strong performance.



Finnish buyout and growth funds

Performance of mature buyout and growth funds (vintages 2009–2015)

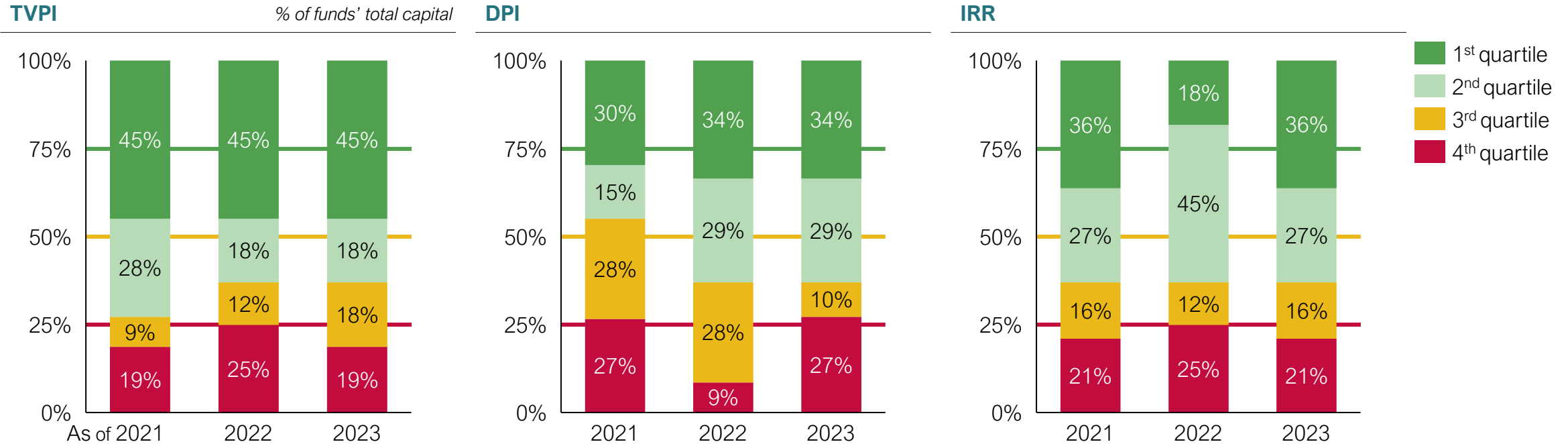
PERFORMANCE 2017–2023¹



COMMENTS

- There were no major changes in the performance figures of mature buyout and growth funds in 2023. Cumulative distributions increased marginally while the remaining value and annual yield decreased slightly compared to the previous year. The IRR settled at a solid level of 16%, with the TVPI remaining steady at 1.8x
- The distribution pace for buyout and growth funds in absolute terms, was down compared to last year, keeping the DPI at the same level of 1.4x as the previous year.
- There are still some realizations to be completed within the portfolios of mature buyout and growth funds. Total unrealized value is currently valued at 0.4x.

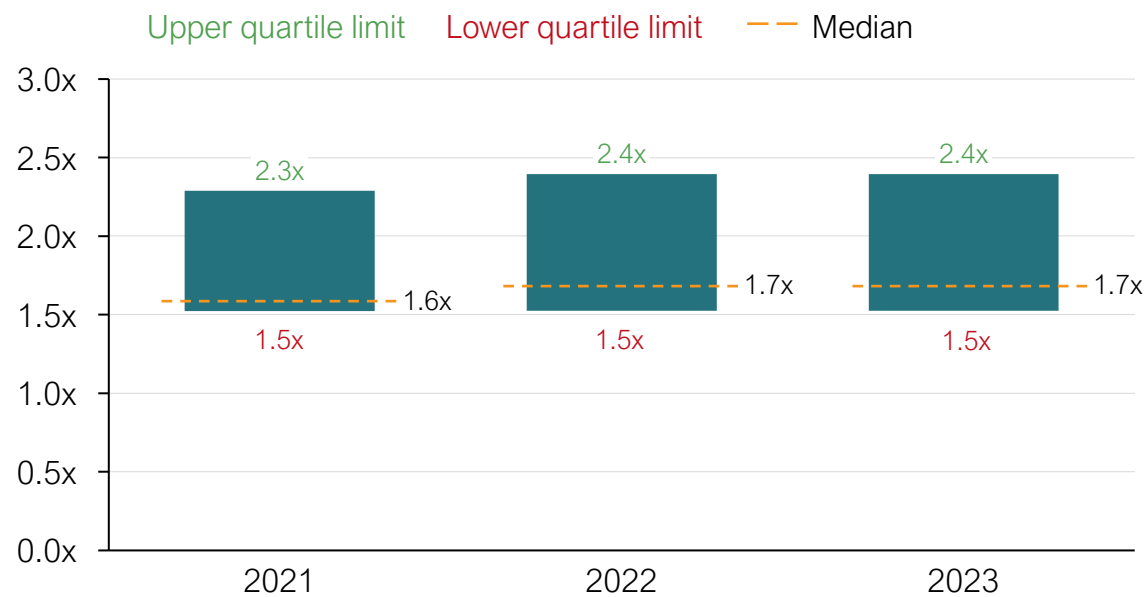
Mature Finnish buyout funds' performance compared to European peer group



- In this comparison, each fund within a group is evaluated against its European counterparts¹ based on its return figures and vintage year, with the results compiled at the group level. If the Finnish market's returns were perfectly aligned with that of the European reference group, each of the four colors would represent a 25% share.
- The mature Finnish buyout and growth funds exhibit strong performance compared to their European peer group. In terms of TVPI, Finnish buyout and growth funds are over-represented in the upper quartiles, with 45 percent of the capital in the first quartile and over 60% performing in first and second quartile.
- The positive development in DPI's fourth quartile last year has turned back to a weaker direction. However, the first and second quartiles are still overrepresented when comparing to European peers.
- Comparing IRR to last year the capital have now concentrated more to the first quartile while the share in lower quartiles have remained in same level but more allocated to third quartile. Nearly two-thirds of the capital is in the first and second quartiles.

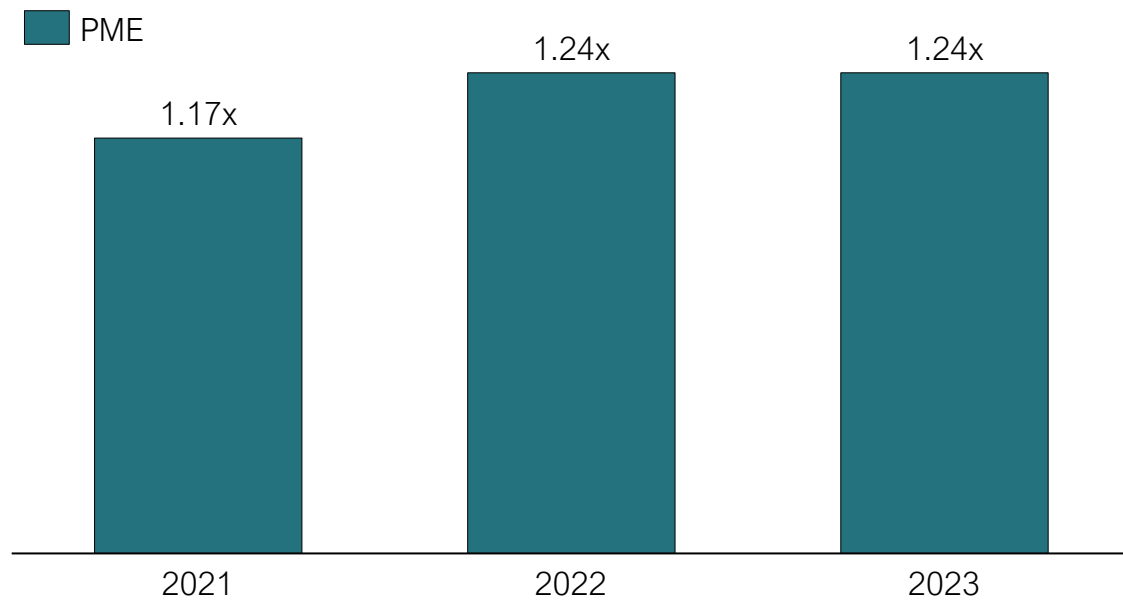
Distribution of mature buyout and growth funds' returns and comparison with the listed market

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 on a good level. The quartile limits and median remained the same levels as previous year.

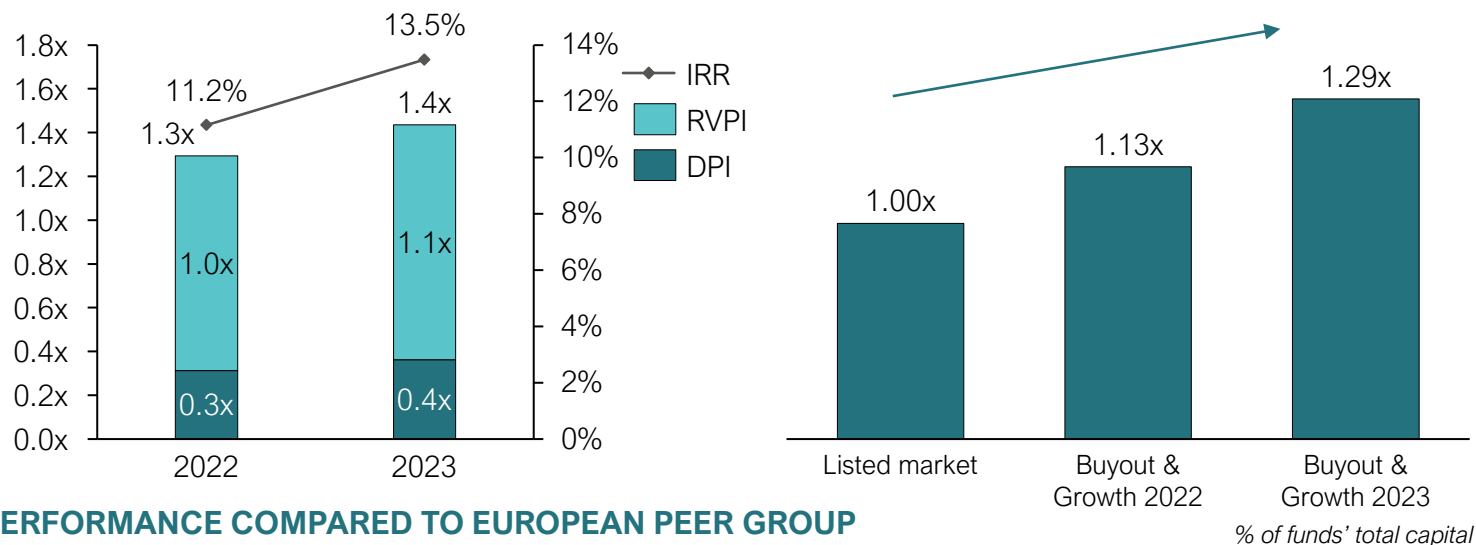
COMPARISON TO LISTED MARKET (PME)¹



- In PME calculations, the cash flows of the funds are indexed against the public stock market (In this case, the OMX Helsinki General Index has been utilized as the benchmark index). This approach offers a benchmark that illustrates the performance relative to investing in the listed stock market at the same time.
- The PME for mature buyout and growth funds remained at the same level from 2022 at 1.24x during 2023.

Performance of new buyout and growth funds (vintages 2016–2020)

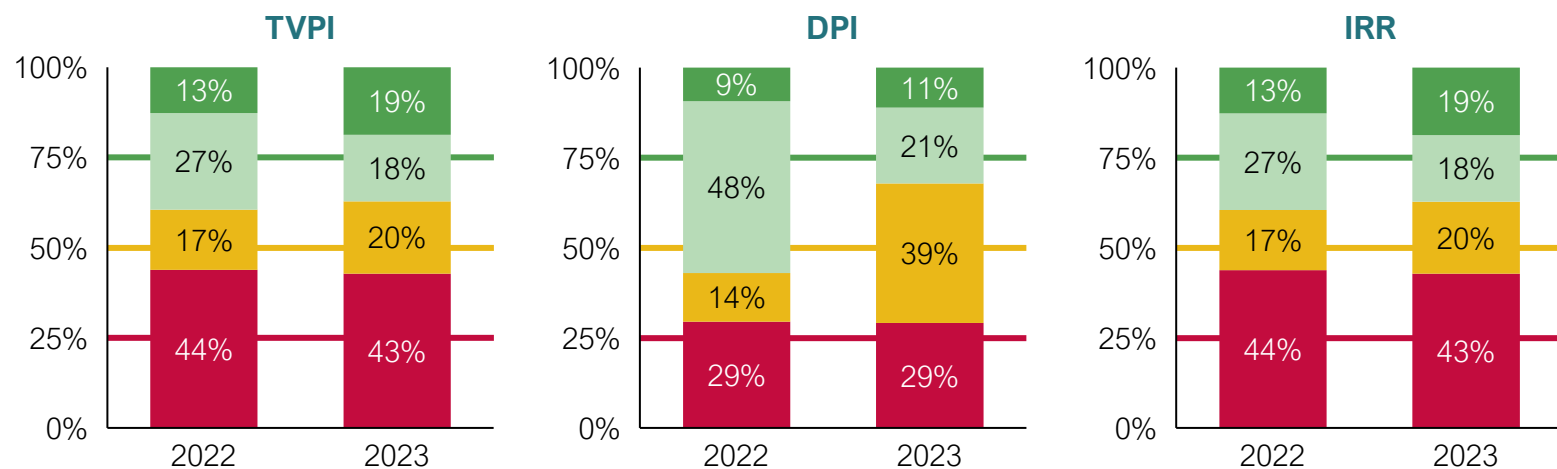
RETURN METRICS AND PME



COMMENTARY

- The new Finnish buyout and growth funds have performed well with TVPI rising to 1.4x and IRR raising to 13.5%.
- There has been growth in distributions in 2023, with the DPI ratio currently standing at 0.4x. The remaining value is valued close to the acquisition price in anticipation of an increase in value.
- There has been significant positive development in the PME ratio as the total returns of Finnish buyout and growth funds have performed 1.29x the return of the listed market.

PERFORMANCE COMPARED TO EUROPEAN PEER GROUP



COMMENTARY

- In terms of performance metrics, the Finnish buyout and growth funds are under-represented in the upper quartile and significantly over-represented in the bottom quartile.
- Regarding DPI, significant amount of capital has concentrated to third quartile in 2023 while the share of the second quartile has decreased significantly from last year.





Buyout and growth: Key findings

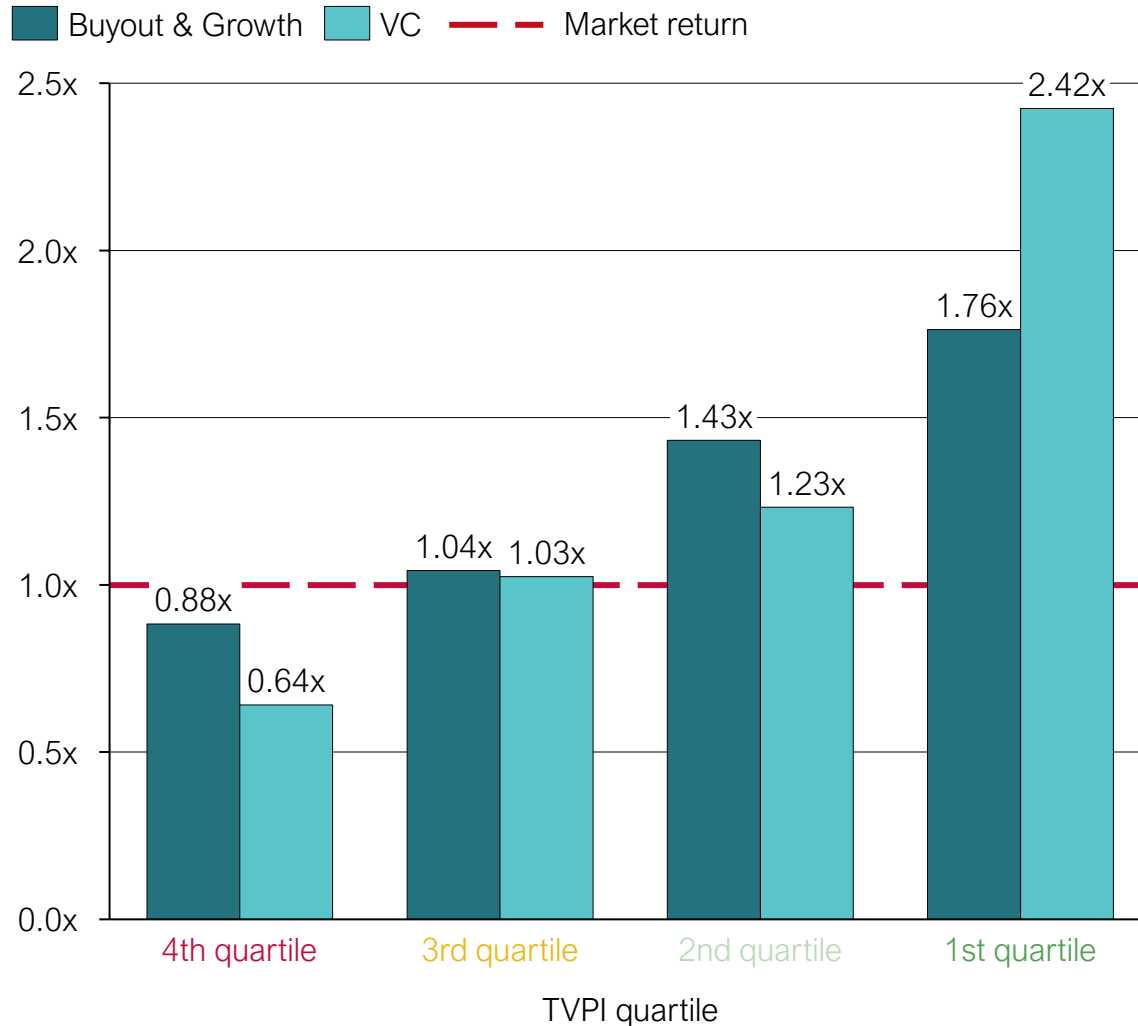
- The Finnish mature buyout and growth funds maintained their strong overall returns at the same level as the previous year although the year 2023 can be seen as a transitional year in terms of the development of value and returns. With the weaker development of distributions, the annual yield decreased slightly compared to the year before. While the majority of the funds' returns have been returned to investors 0.4x of RVPI remains to be realized.
- Mature Finnish buyout and growth funds continued to outperform their European small and medium-cap buyout peers with robust performance. There is strong emphasis on upper quartile performance in TVPI as 45% of the capital is in the first quartile and over 60% in the first two quartiles combined. Buyout and growth funds have also distributed capital to investors at a faster rate compared to their peers. The PME for mature buyout and growth funds remained at the same level in 2023 at 1.24x compared to listed market.
- The new Finnish buyout and growth funds have exhibited good performance, with the TVPI reaching 1.4x and the IRR increasing to 13.5%. In 2023, there has been an increase in distributions, with the DPI ratio reaching 0.4x. The remaining value of the assets is valued near the acquisition cost, expected to rise in the future. Additionally, there has been a significant positive development in the PME ratio, indicating that the total returns of these funds have outperformed the listed market by 1.29x.
- The new Finnish buyout and growth funds have been able to generate stable returns over time although they slightly lag behind their European counterparts.



PME analysis

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

AVERAGE PME'S



COMMENTARY

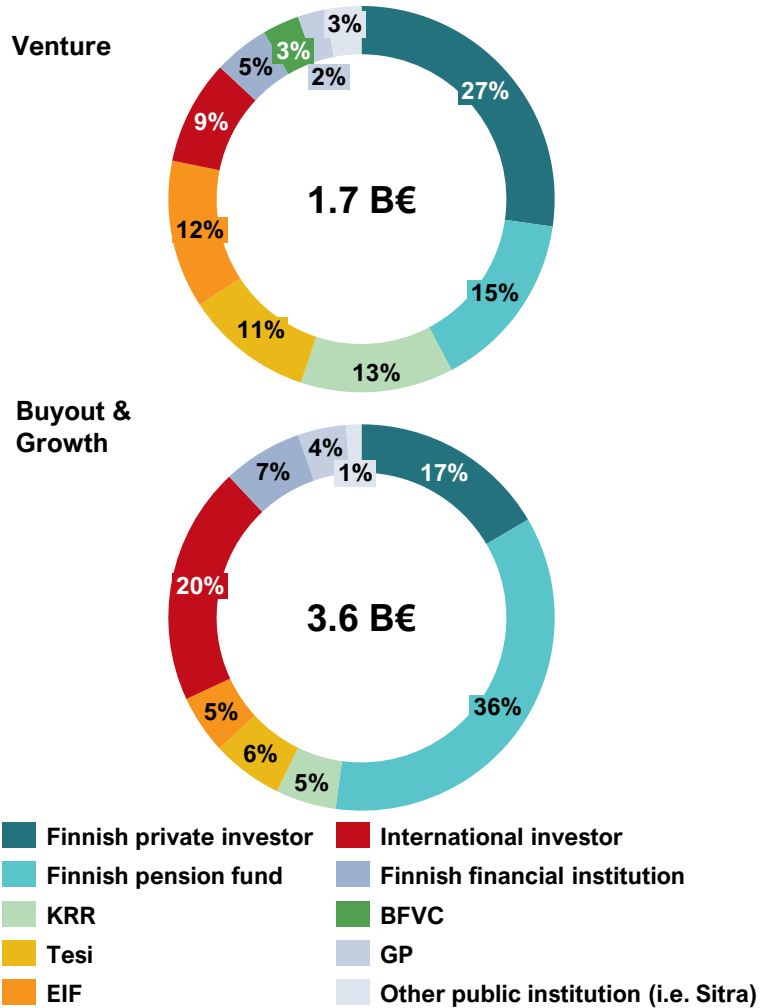
- The graph on the left illustrates the average PME's for each TVPI quartile, encompassing both buyout & growth and venture capital funds raised in Finland over the past 12 years. The sample comprises a total of 42 funds, 22 buyout and growth funds and 20 VC funds.
- For buyout & growth and VC funds, the average PME for above third quartile funds exceeds 1x, indicating that 75% of the Finnish buyout & growth and VC funds have generated higher returns compared to the listed market.
- The average PME for venture capital funds in the top quartile is a commendable 2.42x. Remarkably, Finnish venture capital funds beginning from the third quartile upwards have surpassed the performance of the listed market, with third-quartile funds achieving an average PME of 1.03x.
- The higher variance in returns of VC funds is also reflected in the strong fluctuation of PME across different quartiles.
- In conclusion, Finnish buyout & growth and venture capital funds have outperformed the listed market from the third quartile upwards. Funds in the fourth quartile, however, have underperformed relative to the listed market.



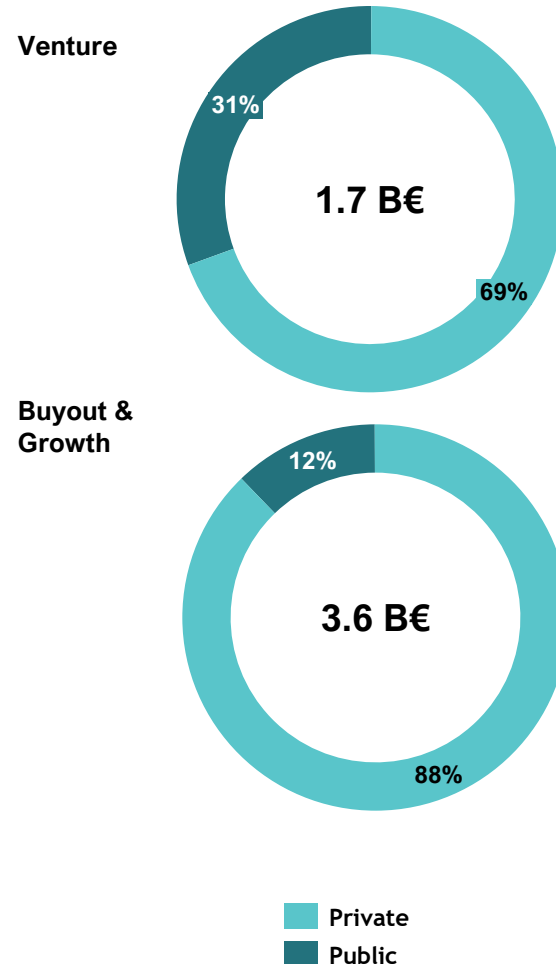
Investor base

Investor base of Finnish funds: Funds raised between 2009–2020

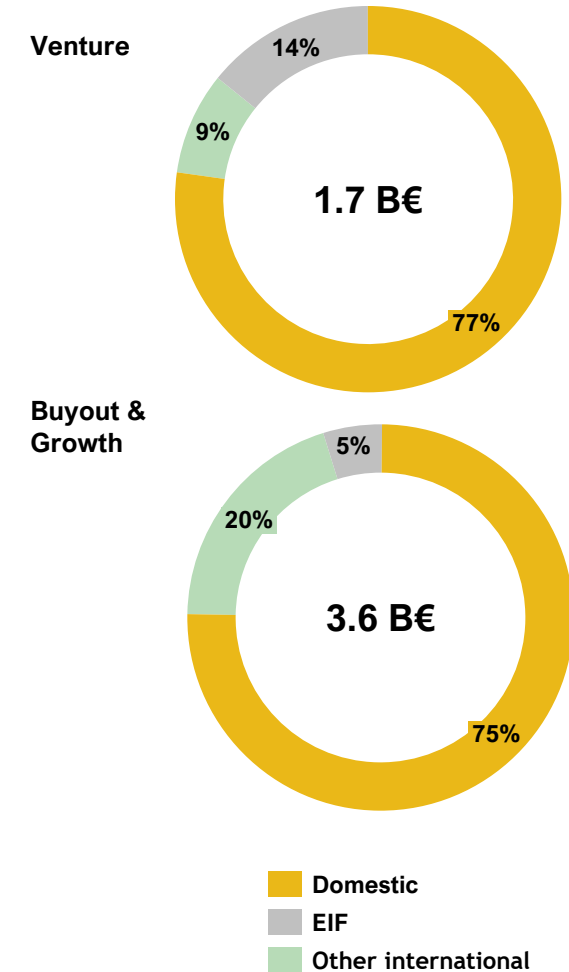
INVESTORS



PRIVATE & PUBLIC



INTERNATIONAL & DOMESTIC





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 equity have been incorporated into the survey. Debt and mezzanine funds, for example, are not part of the sample.
- The survey's sample comprises 42 funds, with an average size of around EUR 100 million (ranging from less than MEUR 10 to about MEUR 450).

PRESENTATION OF RESULTS

- The survey sample is categorized into venture capital funds and buyout & growth 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?

- 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. Each fund's returns are still benchmarked against their own vintage.

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 2020.

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 Guidelines¹ 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 more mature 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%.*

If you have questions, don't hesitate ask



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