

**What does growth mean for the future of Finland?
Growth or Profitability?**

VC perspective: public policy, not innovation, is Finland's challenge

Mikko Suonenlahti

Korjaamo, Helsinki, 9 November 2010

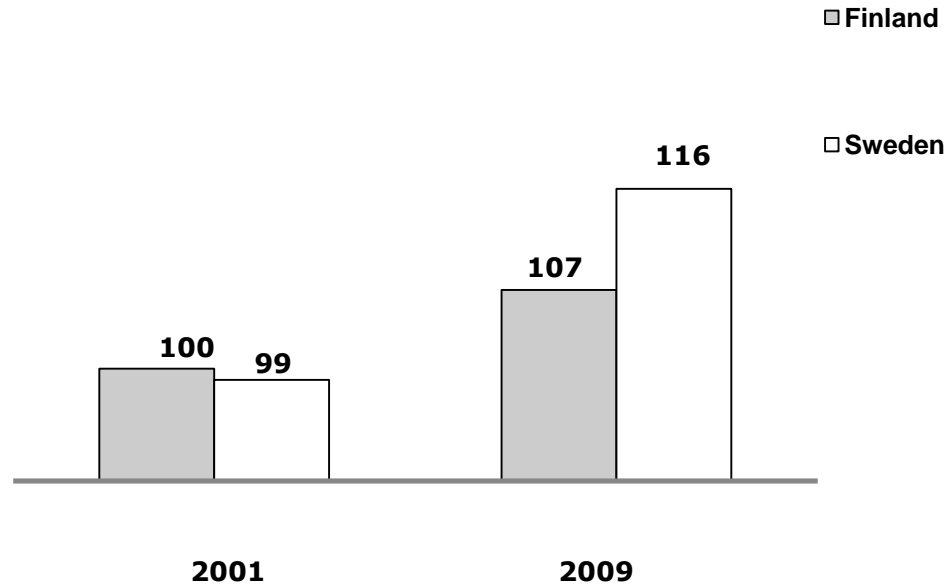
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Mikko Suonenlahti

- **Senior Adviser for DFJ Esprit, the European affiliate for Menlo Park, California based Draper Fisher Jurvetson and Veraventure in Finland. A Chairman or Board Director of five high growth innovative firms**
- **25 years of global management experience in business building of start ups:**
 - *15 years as a successful "hands on" VC in the US and in Finland*
 - *Partner 3i US, co-founder of SFK Finance Oy (acquired by 3i)*
 - *board member of over 20 businesses, 15 have been acquired:*
 - *two for a 20x return*
 - *one acquired prior to IPO*
 - *latest in July, 2010*
 - *Unrealized portfolio includes a business that filed to go public in October, 2010 and one that closed a pre-IPO financing round in May, 2010*
 - *10 years in operations, P / L responsibility as Managing Director of Qatar Capital Partners and 3D Computing Oy and as a Manager with Nokia Data Oy. Served with Unisys European HQ and as a consultant with McKinsey*
- **MBA from the Helsinki School of Business and a BBA from Portland State University, Oregon, USA. Executive education at Harvard Business School**

TO GROW, OR NOT TO GROW?

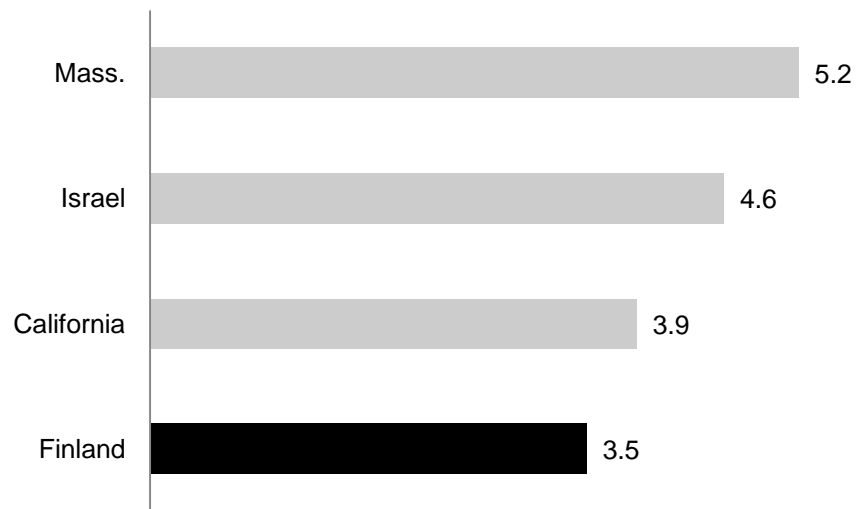
PURCHASING POWER PER HEAD*



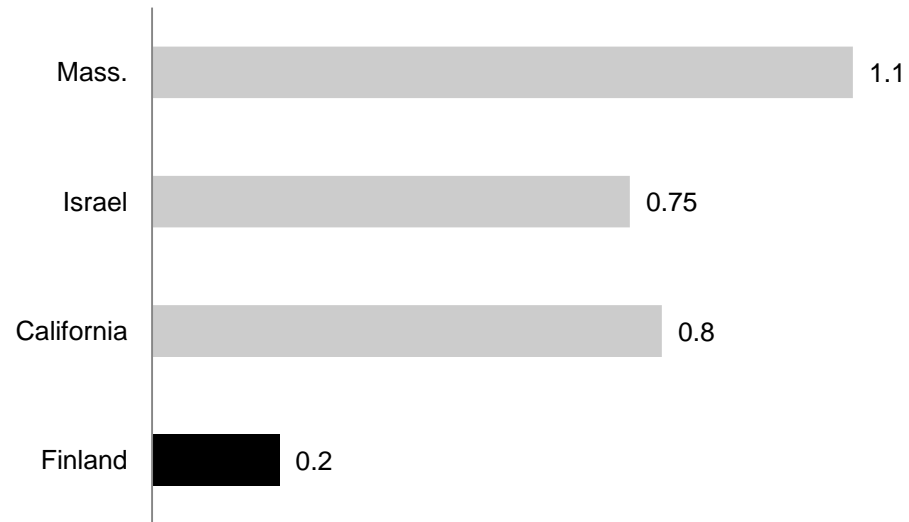
*GDP PER HEAD IN PURCHASING POWER PARITY (FINLAND 2001 = 100, US = 143)

SOURCE: THE ECONOMIST, STATISTICS FINLAND, MJS ANALYSIS

FINLAND'S LOST OPPORTUNITY?



R&D per GDP %



VC INVESTMENTS PER GDP %

UK, DAVID CAMERON, 4 NOVEMBER 2010

- ¶ **TRADITIONALLY IDENTIFY BIG TICKET INDUSTRIES WHERE BRITAIN IS STRONG, NOW BACK BIG BUSINESSES OF TOMORROW, HIGH GROWTH INNOVATIVE COMPANIES**
- ¶ **SILICON VALLEY IS THE LEADING PLACE, NO REASON WHY IT HAS TO BE PREDOMINANT**
- ¶ **GOVERNMENTS ALL OVER THE WORLD HAVE TRIED, BUT THERE IS NO GRAND CENTRALISED PLAN. DON'T INTERFERE, BUT DO HELP – NEEDS TO BE EASY FOR NEW COMPANIES TO START UP, VC FIRMS TO INVEST, INNOVATIONS TO FLOURISH, BUSINESSES TO GROW**
- ¶ **MAKE LONDON ONE OF THE WORLD'S GREAT TECHNOLOGY CENTERS:**

✓ £ 200 M MORE OF EQUITY FINANCE FOR HIGH GROWTH BUSINESSES AND OPEN UP GOVERNMENT PROCUREMENT BUDGETS FOR SME'S

✓ IMMIGRATION: A NEW ENTREPRENEUR VISA, WHEN INVESTMENT RECEIVED

✓ INTELLECTUAL PROPERTY: ENCOURAGE CREATIVE INNOVATION THAT EXISTS IN AMERICA

✓ CISCO INNOVATION PARK, MCKINSEY EXPERTISE, BT SUPERFAST BROADBAND, QUALCOMM EXPERT ADVISE, VODAFONE VENTURES, SILICON VALLEY BANK, BARCLAYS, INTEL RESEARCH LAB, GOOGLE INNOVATION HUB, FACEBOOK DEVELOPER GARAGE...

THE US STATUS QUO

- **VC backed companies in the US accounted for 11 % of private sector employment and represented the equivalent of 21 % of GDP. In Massachusetts 21 % of private employment is in VC backed companies**
- **US now investing more \$ 100 billion to spur innovation, appointing a Chief Technology Officer to promote technology innovations within the government**
- **President Obama proposing tax initiatives (no taxes) for growth businesses**
- **TechColumbus, Ohio, US: \$ 1.6 billion invested since 2002 has created 9 519 direct jobs and 45 464 indirect ones at a cost of \$ 58 000 per job. Investment expected back from increased tax revenue**
- **Intel ´s increased investments in high growth businesses (to counter innovation from Finland, among others)**

FINLAND - NOW ON A NEW, LEVEL PLAYING FIELD, BUT PUBLIC POLICY, NOT INNOVATION IS THE CHALLENGE

- ✓ **WORLD LEADER IN MATH AND SCIENCE EDUCATION IN SCHOOLS AND MOST PATENTS FILED IN THE WORLD PER CAPITA (ECONOMIST)**
- ✓ **NO SHORTAGE OF INNOVATIVE COMPANIES, IDEAS OR INDIVIDUALS IN FINLAND RESULTS IN A STRONG FOUNDATION OF 300 – 400 EARLY STAGE BUSINESSES, WITH 50 MORE EVERY YEAR, BASED ON PUBLIC FUNDING AND INCREASINGLY FROM ANGEL INVESTORS. MANY REQUIRE, AND DESERVE FURTHER FUNDING OF € 20 – 30 MILLION**
- ✓ **EIGHT START-UPS ACQUIRED BY US BASED COMPANIES DURING THE LAST FEW YEARS, INCLUDING A > \$ 1 BILLION ACQUISITION. FOUNDERS ARE A NEW BREED – SERIAL ENTREPRENEURS, HIGH AMBITION LEVELS**
- ✓ **WHEN WE GET IT RIGHT, WE BUILD GLOBAL MARKET LEADERS LIKE SUUNTO (DIVING COMPUTERS), POLAR ELECTRO (VENTURE BACKED, HEART RATE MONITORS), VAISALA (WEATHER INSTRUMENTATION), LINUX (OPERATING SYSTEM) AMONG MANY OTHERS**

FINNISH GOVERNMENT AND VC

- **Government and VC have a symbiotic relationship in bringing new inventions and innovations to market, in Finland as well, but private sources of capital are scarce**
- **Strong demand for capital, but lack of supply:**
 - >100 Finnish technology businesses looking for funding of > 500 million*
 - 10 Finnish VC funds are being raised*
- **In Finland, by not fostering an environment of rewarding risk investment has potential negative consequences**
- **Loss of investment in 300 – 400 growth companies results in “lifestyle entrepreneurs”**
- **Limiting a source of future employment growth and value creation**

SMALL CHANGES IN POLICY COULD HAVE A HUGE IMPACT

- **Many countries are adjusting their tax, regulatory and immigration policies, in order to offer the same competitive advantages that VC backed companies have in the US, Finland should as well**
- **Favorable, common sense, transparent long-term tax policies are required to reward long-term investment and to encourage calculated, entrepreneurial risk taking:**
 - ✓ *reduced capital gains and corporate taxes for high growth firms*
 - ✓ *loss carry forward to be further extended*
 - ✓ *options (a driver of the U.S. VC industry, rarely if ever used in Finland) taxed according to income tax rates, need to be according to capital gains taxation*
 - ✓ *changes needed for carried interest taxation for VC funds*
- **Skilled people should be separated from broader immigration issues, to attract the best scientists and entrepreneurs to Finnish teams**
- **Encourage international companies like Intel, Cisco and others to establish R & D units in Finland, as well as international VCs**
- **The government needs to motivate VC fund formation, by encouraging pension funds, family offices and business angels to invest in VC funds**

***Without a change in Finnish public policy,
there will be no growth,
no VC funds or
risk takers to build businesses that create employment***

THANK YOU

VC BASICS

- **The challenge is building companies from scratch**
- **VC is one of the most risk intensive asset classes in the world**
- **Start ups rarely have collateral for loans, few assets or track record**
- **Often the only source of long-term capital (7 – 12 years) are VC companies**
- **A VC takes on this risk by providing the capital for a minority % of a company**
- **Risk profile increases or decreases through public policy**
- **Changes in public policy may ensure a vital source of economic growth**