Monthly European Technology Venture Capital Bulletin July 2011

The Go4Venture Monthly Venture Capital Bulletin is a publication commenting on the latest results from our European Technology VC Headline Transactions Index®.

Go4Venture's European Tech VC Headline Transactions Index is based on the number and value of transactions reported in professional publications. The Index is compiled on a monthly basis as an early indicator of the evolution of the market for venture capital funding for European technology companies.

For more details please refer to the Methodology Note available at www.go4venture.com/research/hti.htm.

About Go4Venture

Go4Venture Advisers LLP is a London-based corporate finance advisory firm focused on providing European technology entrepreneurs and their investors with impartial advice to help them develop and execute growth strategies.

Our services encompass:
- Financing strategies
- Buy and build strategies
- Exit strategies (trade sale and IPO advisory)
- Strategic advisory and valuation

We are particularly well-known for our international equity private placement services, where we have developed a reputation second to none in Europe among international VCs.

Further information is available at www.go4venture.com.

Go4Venture Advisers LLP is authorised and regulated by the Financial Services Authority (FSA).

Dear Clients and Friends,

Please find attached the July 2011 edition of Go4Venture's Monthly European Technology VC Bulletin, including the latest results from our proprietary Headline Transaction Index (HTI) which tracks technology private financing deals as reported in the press.

As our subscribers know, we have presented a positive picture of venture investing (rather than the venture capital industry itself) for the past two years (since Fall 2009). For the past three months we have however alerted our readers of a venture investment bubble forming, albeit primarily applicable to internet stocks. With the US getting an investment downgrade, and hedge funds looking beyond PIGS (Portugal, Ireland, Greece and Spain) to question the financial stability of Italy or France, we are now clearly living in extraordinary times. The market wobbles of August only confirm this feeling of market hesitations and a generally grim macro outlook.

Whether this favours technology investing (the search for alpha return argument) or whether this clobbers the tech investing renaissance (see the Sequoia memo of 2008 or its more recent – and more reasoned – version from Union Square Ventures), time will tell. With gold at an all-time high (and new vaults being built in London!), and BNY Mellon starting to charge for deposits of $50mn or more, one can hazard a guess of **a probable investment slowdown driven by investors' paralysis**. That is until some deleveraging has taken place and politicians on both sides of the Atlantic show more resolve in implementing structural adjustments rather than joining in a Japanese-style paralysis.

There are in fact signs that the European venture market is softening up. So far the flattening number of HTI transactions (compared to 2010) has not been reflected in the activity by value, with fewer numbers of larger transactions still driving overall investment levels up. However for the first time since Fall 2009, the number of HTI transactions on a monthly basis is lower than the comparable month the year before, and overall investment amounts year-to-date are only up 24% (whereas they had consistently been up 30% or more so far). By the way, figures for the first half of 2011 from Dow Jones VentureSource, one of the VC industry reference sources, are not markedly different, indicating a decline in the number of transactions (-28%) compared to the year before, and flat by value. This is however partly driven by life sciences companies (which we exclude from the HTI and represent approximately 25% of the VC activity tracked by VentureSource), which were down by 44% by number and 24% by value during that period.

It is too early to tell which way the market will go in the coming months and we shall continue monitoring activity levels with care. Regardless of the overall market mood, **profound tech transformations continue driving value creation**. These themes are well known to all: many are the internet rollercoaster playing out as it changes how people are reached (mobile internet), access data (cloud), pay for things (mobile payment/advertising) and relate (social); the rest has to do with cleantech (the other world's preoccupation as resource exhaustion drives commodity prices up and encourage energy, water and waste savings), medtech (to face an aging population's exploding healthcare needs), and all base technologies required to make all this happen at a reasonable cost (so don't underestimate related hardware and software innovation).

Interestingly **we think that Europe is better placed than the US in withstanding the inevitable correction**. Far from us to suggest like Earlybird that deal performance in Europe is outpacing the US, but we believe that Europe will relatively benefit from a/ a larger supply of smaller IP-based bets better suited for a more sober investment mood, b/ structural improvements linked to the growing maturity of an increasingly experienced (if inherently geographically dispersed) tech ecosystem, and c/ the growing (and very beneficial!) influence of US VC investors operating in Europe.

All these trends are in evidence in the write-ups of the Large HTI transactions (more than £5mn or €7.5mn)

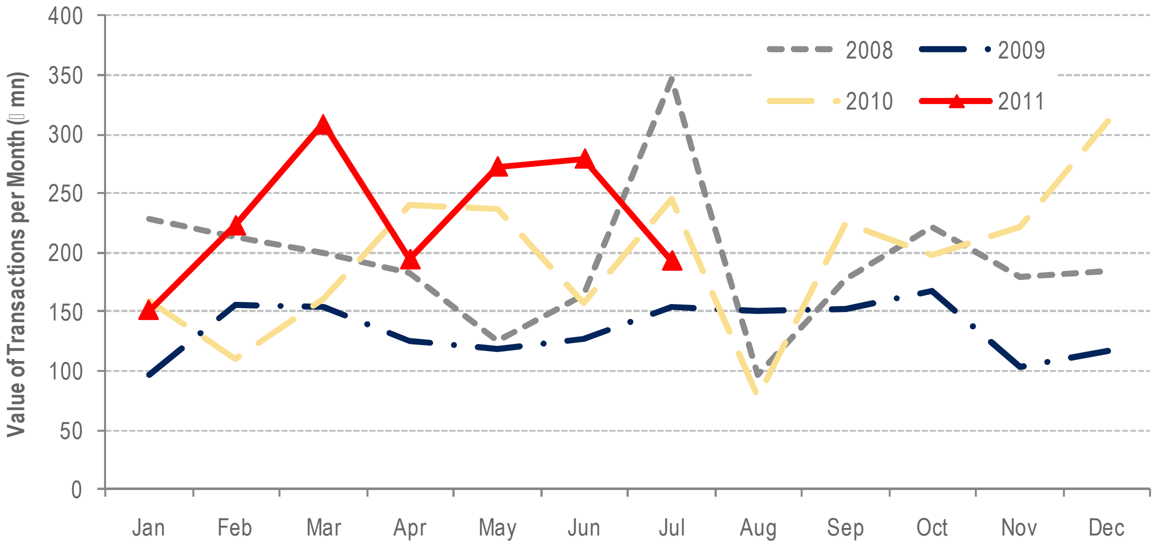
- If again, two landmark transactions (more than €20mn) dominate this month's activity (46% of the amount invested), seven others are more measured bets on a variety of A/B/C stage companies gaining momentum.
- From a sector standpoint, internet (Spotify, Worldstores, and Ostrovok) and cleantech (ECO Plastics, Neura and Orège) represent six of the nine companies featured. The rest are medtech (Prosonix) and a couple of hardware companies for mobile (PoLight) and oil & gas (Senscient).
- Accel and Kleiner Perkins are driving some of these European investments. It is rather interesting that both Tier 1 US funds are now repeat European investors. In the case of Accel, this is the result of an early commitment to the European market, as early 2001 which is now handsomely paying off.

Enjoy the reading. Please direct any questions or comments to vcbulletin@go4venture.com. If you do not wish to receive future HTI updates from us, please send an email with the title "unsubscribe" to vcbulletin@go4venture.com.

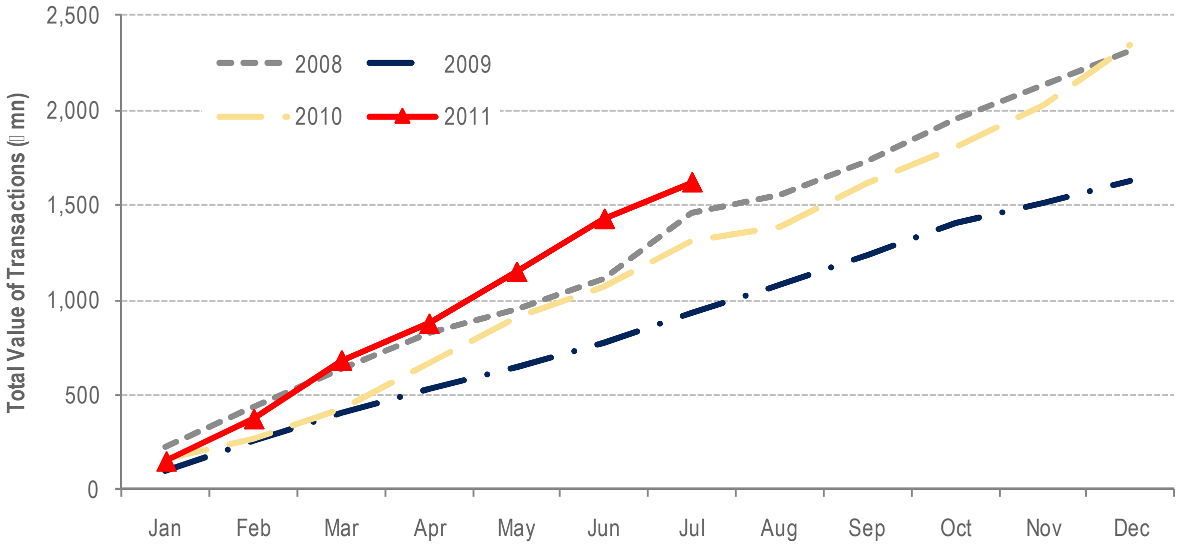
The Go4Venture Team

Investment Summary

Go4Venture HTI Index by Deal Value



Go4Venture HTI Index by Cumulative Deal Value



July		2010	2011
Landmark Deals	#	1	2
	€m	50.0	96.1
Headline Deals	#	9	7
	€m	101.7	69.2
Small Deals	#	28	13
	€m	92.9	43.6
All Deals	#	38	22
	€m	244.7	208.9

Year-to-Date		2010	2011
Landmark Deals	#	9	19
	€m	286.2	778.1
Headline Deals	#	42	37
	€m	477.6	421.5
Small Deals	#	168	154
	€m	547.2	438.6
All Deals	#	219	210
	€m	1,311.0	1,638.1

Large Headline Transactions Summary

(> £5mn / €7.5mn / $10mn)

Company	Sector	Round	€mn	Description	Investors
Spotify UK) www.spotify.com	Digital Media	D	69.0	Provider of streamed music services both over the web and via smartphone apps.	Accel Partners, **DST Global**, **Kleiner, Perkins, Caufield and Byers**.
ECO Plastics (UK) www.ecoplasticsltd.com	Cleantech	Late Stage	27.1	Plastic bottle recycler.	Ludgate Environmental Fund, Coca Cola.
Prosonix (UK) www.prosonix.co.uk	Medical Technology	B	12.9	Developer of ultrasonic particle engineering technologies.	Ventech, Solon Ventures, Quest for Growth, Entrepreneurs Fund, Gilde.
PoLight (Norway) www.polight.no	Hardware	B	12.8	Producer of autofocus lenses for camera phones.	Investinor, Viking Venture, Alliance Venture, SINTEF Ventures.
WorldStores (UK) www.worldstores.co.uk	Internet services	B	9.6	Online retailer.	Advent Venture Partners, Balderton Capital.
OCTPOBOK.ru (Russian Federation) www.ostrovok.ru	Internet services	A	9.5	Hotel price comparison website.	**Accel**, Atomico Investments, Founders Fund, **General Catalyst Partners**, Individual Investors.
Senscient (UK) www.senscient.com	Hardware	C	8.3	Provider of gas detecting products.	Emerald Technology Ventures, **Lime Rock Partners**, Yellowstone Capital.
Neura (Austria) www.neura.at	Cleantech	Late Stage	8.0	High performance heat pump manufacturer.	**Climate Change Capital.**
Orege (France) www.orege.com	Cleantech	A	8.0	Waste water treatment technologies for industrial effluent.	**Climate Change Capital**, Oraxys.

Source: Go4Venture

Key
Bold indicates lead investor(s)
* Internal round
** Led by existing investors

Company	Sector	Round	mn	Description	Investors
Spotify (UK) www.spotify.com	Digital Media	D	69.0	A provider of streamed music services over the web and via smartphone apps.	Accel Partners, **DST Global**, **Kleiner Perkins, Caufield and Byers**.

Spotify (**UK**), a provider of streamed music services over the web and via smart phones, raised €69mn in a **Series D** round co-led by **DST Global** and **Kleiner, Perkins, Caufield & Byers** with participation from **Accel Partners** and a number of high profile **angel investors**. The money is being used to support roll out in the US this summer.

Founded in Sweden, but now with its headquarters in London and holding company in Luxembourg, digital music provider Spotify has achieved much since it last featured in our bulletin in August 2009:

- Spotify has made its music services available to smart phone users with apps for iPhone and Android devices (Q3 09), Symbian phones (Q4 09), Windows phones (Q2 10), and now the iPod (Q2 11).
- The company has collaborated with Mobile Network Operators (MNOs) such as Telia in Sweden and 3 in the UK to bundle Spotify with their other services. This lets MNOs provide extra value to their customers and allows Spotify to deliver its service across more channels.
- Device companies such as Logitech with its Sqeezebox, wireless multi-room hi-fi manufacturer Sonos and home cinema company Onkyo have partnered with Spotify to integrate its services into their devices.

Perhaps most important commercially, however, is Spotify's experimentation with different fee structures for its users. In 2010, the company introduced Spotify Unlimited and Spotify Open to go alongside its existing Spotify Free and Spotify Premium services. This gives users a spectrum of options ranging from a completely free ad-supported service to a premium subscription based service with access to an online music library and the ability to listen to music off-line.

In common with many other digital music providers, although slightly ahead of the curve, Spotify has gradually made its service more social, having added social and music sharing functionality in Q2 2010.

According to regulatory filings, this investment consists of two separate rounds - €55mn from unspecified existing investors and €14mn new investors Accel, DST and Kleiner, Perkins, Caufield & Byers. This funding makes Spotify a new member of TechCrunch's Billon Dollar Valuation Club and allows Spotify to launch in the US where it can compete with the world's other multi-billion digital music company Pandora.

There are, however, some niggles. Firstly, just like Pandora, the company is not yet profitable. Its 2010 filing reported losses of €26.5mn despite having exceeded the much-vaunted landmark of one million paying subscribers in March 2011. Secondly it is worth pointing out that €22.5mn of the contribution from existing investors was in kind rather than in cash. Industry speculation is that the music labels agreed to waive royalty advances in order not to be diluted.

In addition, investors may have concerns about Apple's new subscription model for iPhone apps. Under this model, Apple takes 30% of all revenue from in-app subscriptions. This further increases the cost base of digital music companies which can already pay out half their revenues in royalties to the major music labels.

The transaction was co-led by Digital Sky Technologies (DST), a late-stage internet investment fund launched in 2005 with offices in Moscow, London and Hong Kong. The firm is led by well-known investor Yuri Milner who made his name via NetBridge – an internet incubator and investment vehicle he co-founded in 1999 and which rescued Russia's free e-mail service Mail.ru prior to its London IPO in 2010. DST has backing from Goldman Sachs, fund manager Tiger Global, Chinese internet company Tencent and Russian oligarch and owner of Arsenal Alisher Usmanov.

DST has previously invested in only a few companies – $1.7bn in Facebook in May 2009 and January 2011, $1.1bn in Groupon in April 2010 and January 2011, and $180mn in Zynga in December 2009. Effectively, the firm is making particularly large bets on internet businesses with a strong social aspect and acting as a reference momentum investor.

DST has often been criticised for overpaying but has single-handedly started the rush to internet stocks. Risk managers would complain that DST has not yet exited its profitable positions. Right now, however, the firm's stake in Facebook is now trading at five times what DST paid for it, with similar performance from its other investments.

Mr Milner is developing a reputation as a particularly entrepreneur-friendly investor. For his large deals, he has bought not only preferred stock from the investee companies but also common stock from long-term employees. As a momentum investor, he is very hands-off. He also personally partnered with SV Angel to back every single Y Combinator start-up in the most recent batch without reading the business plan – a portfolio of 40 – and offered each company $150k in convertible debt with no valuation cap and no discount on conversion.

By contrast, transaction co-leader Kleiner, Perkins, Caufield and Byers (KPCB) (€140mn (2010); AUM €2.8bn) has a portfolio of hundreds of companies spanning the life sciences, digital and cleantech industries. Like DST it has close ties with China with offices in Shanghai and Beijing. Despite these links, KPCB is unlikely to encourage Spotify to venture into China any time soon. With much music freely available via China's Baidu.com search engine, Chinese levels of music piracy are such that record companies have given up on royalties. Musicians earn their living through sponsorship deals with major brands. Similar, problems would be involved with entering the Russian market via DST.

KPCB featured in last month's bulletin with an investment in another music discovery company Shazam. Spotify and Shazam already have close ties, having signed an agreement in January to integrate Spotify across the full range of Shazam's free and premium apps for iPhone, iPod and Android.

Interestingly, from the point of view of valuations, KPCB's involvement is thought to have included former Morgan Stanley equity analyst Mary Meeker who joined the firm as a partner in December 2010. Criticised by the press for her role in hyping internet stocks during the dot com bubble, Meeker was not charged with any wrongdoing during the fraud investigations which followed; although Morgan Stanley and other firms were compelled to participate in a global legal settlement which totally changed the equity research business.

Like DST, new investor Accel Partners (€340mn (2008); AUM €5bn) has also invested in Facebook and Groupon, although at an earlier stage. Accel led the first round in Facebook in 2005 and the third round in Groupon in 2009. Not including an investment in Ostrovok which appears later in this issue, this is the eleventh deal by Accel we have tracked this year.

Amusingly, Spotify's arrival in the US has already provoked a law suit. Embedded multimedia software company PacketVideo is suing Spotify for infringement of a patent filed in the 1990s which it bought as part of its acquisition of Switzerland-based ADC in 2007, although the patent is widely thought to be too broad to be enforceable.

Company	Sector	Round	€mn	Description	Investors
Prosonix (UK) www.prosonix.co.uk	Medical Technology	B	12.9	Developer of ultrasonic particle engineering technologies.	Entrepreneurs Fund, Gilde, Quest for Growth, Solon Ventures, **Ventech**.

Prosonix (**UK**), a developer of ultrasonic particle engineering technologies, raised **£11.4mn** (**€12.9mn**) in a **Series B** round led by **Ventech** with support from fellow new investor **Gilde Healthcare** and existing investors the **Entrepreneurs' Fund**, **Quest for Growth** and **Solon Ventures**. The money will be used to finance phase II clinical trials and to research other therapies.

Prosonix' business is based on ultrasound technology which can be used to control the crystallisation of chemicals such as the Active Pharmaceutical Ingredients (APIs) in medicines. This technology is used to manufacture drugs intended to be administered by inhalation, most often for Asthma, Chronic Obstructive Pulmonary Diseases (COPD) and other respiratory conditions.

This technology allows pharmaceutical manufacturers to control particle size and morphology better than traditional high energy milling methods. From a clinical point of view, this makes drug delivery more reliable and hence gives more consistent dosage delivery. Other benefits include prolonged shelf life.

Although the company demonstrated the commercial scalability of its proprietary technology in March 2010, only four years after the company was founded in 2006, the company's technology goes back much further. The technology was originally developed by C3, a division of Accentus, the medical technologies company spun out of the UK Atomic Energy Authority via its commercial arm AEA Technology. C3's management was considering an MBO when Accentus was sold to Coller Capital in 2005 as part of a £40mn portfolio. Instead of an MBO, the management team managed to persuade Coller to spin out C3 from Accentus. It was this company which became Prosonix.

It is this long history of R&D under Accentus and the UKAEA that explains the extremely rapid development of Prosonix in comparison with other pharmaceutical innovations. Prosonix' previous funding was limited to a €7mn round in November 2007.

Lead investor Ventech (€150mn (2007); AUM €370mn) straddles the technology and life sciences sectors. Stage agnostic, Ventech typically investing €1-8mn in European businesses. Readers may remember Ventech's participation in a €38mn round for Crocus in our May issue.

Fellow new investor Gilde Healthcare (€50mn (2009); AUM€400mn), which usually prefers to act as transaction leader, is a subsidiary of Dutch investment firm Gilde (AUM €2bn) specialising in therapeutic, diagnostic, medical device and healthcare services. Other Gilde funds specialise in mid-market MBOs and private equity.

Entrepreneurs' Fund (AUM €100mn) is the venture arm of the family-owned COFRA group. The fund makes early stage and growth investments in European companies with a particular emphasis on the life sciences and cleantech. Also a returning investor, Quest for Growth (NAV €100mn) is an unusual investor in that it is structured as a 'Privak'. A Privak is a type of Dutch closed-end investment vehicle created by Royal decree in 1997 and designed to convert capital gains into tax-free income for retail investors with a view to encouraging investment in venture capital and unlisted companies. Solon Ventures is the successor firm of Thompson Clive Venture Capital, a successful early-stage venture capital firm of the 1990s. Solon Ventures invests up to £1mn in British healthcare and technology companies of all stages.

Company	Sector	Round	€mn	Description	Investors
PoLight (Norway) www.polight.no	Hardware	B	12.8	Producer of autofocus lenses for camera phones.	Alliance Venture, **Investinor**, SINTEF Ventures, Viking Venture.

PoLight (**Norway**), a producer of autofocus lenses for camera phones, raised **NOK100mn** (**€12.8mn**) in a **Series B** round led by **Investinor** with participation by existing investors **Alliance Venture**, **SINTEF Ventures** and **Viking Venture**.

The evolution of camera phones has been driven by trade-offs between hardware size, cost, power consumption and image quality. In particular, image quality on a camera phone is limited by the fact that better quality pictures require more sophisticated focussing which needs large, power-hungry components.

Up until about 2005, camera phones used fixed focus lenses with no auto focus or zoom and hence took pretty lousy pictures. Introducing a focussing mechanism was tricky, however, because traditional electromechanical stepper motors used to alter focus in digital still cameras were just too big. Today, most camera phones use Voice-Coil Motors (VCMs) – which work by balancing a spring holding the lens in the infinite-focus position and a VCM which displaces the lens by an amount proportional to the current applied.

PoLight started as a spin-out from Ignis ASA, a company specialising in optical components and tuneable lasers for fibre-optic communications which, until recently, was listed on the Norwegian Stock Exchange. PoLight's patented technology is consists of a deformable polymer film 'lens' mounted between two glass supports. Application of voltage to piezo-electric films on one of the supports deforms the polymer 'lens' into the right focus.

In principle, this addresses two key industry problems. Firstly, everything can be made on a silicon wafer rather than having to manufacture a traditional lens and focussing motor, and separately a CCD or CMOS based image detector. Secondly, PoLight claim that their camera modules are robust enough to be 'reflowable' – in other words they can be attached to the rest of the phone during manufacture by heating the module until the solder re-melts.

Both of these would make camera modules smaller and cheaper. According to PoLight, this technology is also faster than VCM focussing and reduces power consumption by 50%. While piezo-electric focussing has been around in principle for several years, technical problems have prevented it supplanting the simpler VCM technology. If PoLight has really cracked it then this could be hugely significant.

According to Japanese market analyst TSR the global market for camera phones was over a billion units in 2010 and some forecasts have this doubling by next year. The company has already said that it anticipates extending this round with new investors and an additional NOK30mn by Q2 2012.

Government funded regional investor Investinor (AUM NOK2.2bn) only started investing in 2009, having obtained its mandate from the Norwegian Parliament in 2008, but it is becoming a well-known name and featured in our bulletin with its investment in Think (August 2009) and Chapdrive (April 2010). Investing through equity and subordinated loans, Investinor aims to invest on a purely commercial basis even though its holding in any one company is normally limited to 49%. Early stage Norwegian technology investor Alliance (NOK340mn (2006); AUM NOK 430mn) has built up a portfolio of more than 20 companies since being founded in 2001. Readers may remember Viking Venture (AUM NOK 1.1bn) from its investments in Chapdrive and Nanoradio last year. Investing after seed stage and preferring to take a 'significant stake', Viking focuses on electronics, software, oil and gas, materials and cleantech. SINTEF is a Scandinavian contract research organisation with a turnover of NOK2.8bn and 2,100 staff.

Company	Sector	Round	€mn	Description	Investors
ECO Plastics (UK) www.ecoplasticsltd.com	Cleantech	Late Stage	11.3	Plastic bottle recycler.	Coca Cola, Ludgate Environmental Fund.

ECO Plastics (**UK)**, a recycler of plastic bottles, raised **£10mn** (**€11.3mn**) in a **Late Stage** round with **Coca Cola** and the **Ludgate Environmental Fund** each contributing £5mn. Additional new banking facilities of £14mn make up the headline figure of **£24mn** in the press. The money will be used to expand the company's recycling plant at Hemswell in the north of England in order to double its production of food-grade recycled plastic for soft drinks bottles.

ECO Plastics, originally known as AWS Eco Plastics, was founded in 2000 by its current Managing Director Jonathan Short who started his career in his family's scrap yard business. The company buys used bottles and other plastics which it turns into recycled PET (rPET) and High Density Poly-Ethylene (rHDPE) which are used primarily by the drinks and dairy industries respectively.

Between December 2007 and May 2009, the company raised €15mn of investment from Curzon Park Capital (recently renamed Disruptive Capital Finance), E-Synergy (from which Curzon Park Capital broke out), NorthStar Equity Investors and Robeco, which it used alongside its own resources to build a recycling plant at Hemswell in the north of England. By 2009, annual production capacity was 80,000 tonnes. To put this into context, at that time the UK was recycling 260,000 tonnes of plastic bottles a year.

Despite a serious fire in its storage and sorting facilities in August 2009, the company has managed to bounce back, with 2010 revenues of £18.5mn compared to £13.5mn in 2009, and £35mn forecast for 2011. The company is also now profitable, having made a pre-tax profit of £0.9mn in 2009.

When the firm first started trying to raise finance early this year, it was initially thinking in terms of a £15mn equity investment. It has ended up with a joint-venture (JV) with Coca Cola Enterprises (CCE) and an investment from the Ludgate Environmental Fund. .

The first part of the deal was put together in March of this year when ECO Plastics signed a JV with CCE. As well as a 10-year supplier agreement which will almost double ECO Plastics' revenues, ECO also received a £5mn equity investment for the construction of a bespoke facility at the company's Hemswell site. This will more than double production of high-quality rPET in the UK and will help CCE meet its target of 25% of rPET in all its plastic bottles by 2012. The JV alone will create 15 jobs during the construction phase and up to 30 new jobs once the facility is operational.

The second tranche of equity comes from AIM-Listed cleantech investor Ludgate Environmental Fund, a Jersey domiciled closed-end investment company which has circa £60mn of assets (as of 30 June 2011) Focussing on minority investments of £3-10mn in European recycling, energy and water businesses, Ludgate frequently brings in its fund investors as co-investors. At £5mn, this equity investment accounts for almost 9% of Ludgate's assets under management. Ludgate', does, however, have significant insight into the packaging industry through its investments in environmentally friendly packaging manufacturer Rapid Action Packaging (€5mn in April 2008 and €1.2mn in July 2009).

Expansion financed by this investment will increase processing capacity from 100,000 tonnes to 140,000 tonnes per annum – about two billion two-litre bottles. This accounts for roughly half of the UK's bottle recycling and means that ECO Plastics accounts for almost 90% of the UK's production of recycled plastic for food packaging. It also makes the plant one of the largest in Europe. According to a 2010 report by the Waste and Resources Action Programme (WRAP) this year, UK demand for food-grade recycled plastics continues to outstrip demand, with prices typically ranging up to £40 a tonne.

Company	Sector	Round	mn	Description	Investors
WorldStores (UK) www.worldstores.co.uk	Internet services	B	9.6	Online retailer.	Advent Venture Partners, Balderton Capital.

WorldStores (**UK**), an online home and garden retailer, raised **£8.5mn** (**€9.6mn**) in a **Series B** round led by **Advent Venture Partners** with participation from **Balderton Capital**. The money will be used to expand their range of product categories and to improve the company's delivery service.

Founded in 2003, WorldStores now operates 77 specialist web stores including BedroomWorld.co.uk, GardenFurnitureWorld.co.uk and ShedsWorld.co.uk serving markets worth a total of £30bn. The company sells around 175,000 different products from over 400 suppliers and aims to maximise customer choice by offering the widest range of goods in any particular category, either on- or off-line.

The company also aims to differentiate itself by delivering in days rather than the more traditional weeks. This requires very close collaboration with its suppliers. For example, with their mattress business, they operate a just-in-time mechanism whereby their Yorkshire supplier receives an order, manufactures the mattress within 20 minutes and a van picks it up for delivery next day.

Unlike early e-tailers, who for the most part simply sought to reduce costs by doing traditional retailing on-line, WorldStores was founded by two former SEO executives (Joe Murray and Richard Tucker) who spent two years analysing Google searches to really understand customer demands.

Despite the down-turn, the company has been growing revenues at over 70% a year and expects 2011 to be its third successive year of growth. Approaching a turnover of £40mn, this investment is intended to help the company build for scale rather than to fund losses. WorldStores is also thought to be looking at German expansion to compete with market incumbent FP Commerce which runs Möbel-Profi.de.

WorldStore's business model is similar to that of Boston-based CSN Stores which runs over 200 specialist home and garden stores, made $383mn in sales in 2010 and expects to surpass $500mn this year. CSN has just raised $165mn from Battery Ventures, Great Hill Partners, HarbourVest and Spark Capital in the company's first ever investment since being founded in 2002. Although CNS is now also trading in the UK, the implied valuation provoked much press criticism with Forrester Research analyst Sucharita Mulpuru saying that CSN reflects the 'Internet madness wave of crazy valuations'. Others were more charitable but also questioned how CSN would fare in competition with firms like Walmart, Macy's and Sears.

Apart from 2005, when the firm raised its fourth technology fund and the founding partners handed over to a younger team, Advent Venture Partners (€85mn (2010); AUM €730mn) has consistently been doing 4-5 technology deals a year since we began tracking technology investments in 2002.

Advent has just been voted Firm of the Month by unquote magazine on the back of four exits in as many months at an average 6x return. Quite a birthday present for the 30 year old firm and time for an August holiday!

Readers will be familiar with Balderton Capital (€325mn (2008); AUM €1.6bn). This is the fourth Balderton deal to feature in our bulletin so far this year, the others being Wonga, KupiVIP, and Wooga. In addition to these, Balderton also participated in a €7mn Series C round in Livebookings in April and a €10mn Series B round in eWise in June.

Company	Sector	Round	€mn	Description	Investors
OCTPOBOK (Russian Federation) www.ostrovok.ru	Internet services	A	9.5	Hotel price comparison website.	Accel, Atomico Investments, Founders Fund, General Catalyst Partners, Individual Investors.

ostrovok.ru

Ostrovok (**Russian Federation**), a price comparison site for hotels, raised **$13.6mn** (**€9.5mn**) in **Series A** funding from **Accel**, **Atomico Investments**, **Founders Fund**, **General Catalyst Partners** and **individual investors**.

Googling "hotel price comparison" yields over 30mn results. Even allowing for the fact that you probably Googled in English, it is striking that almost all the results are from firms based in Western Europe or North America and are targeted at an audience coming from the same region. It was precisely this that brought former Google employees and serial entrepreneurs Serge Faguet and Kirill Makharinsky to Russia to set up Ostrovok – a global hotel price comparison site in Russian and for Russians.

Both Faguet and Makharinsky have a track record of entrepreneurship. Educated at Winchester and Cornell, Russian born Faguet worked briefly for Google before starting video communications company Tokbox while doing an MBA at Stanford. Having raised $4.5mn from Sequoia Capital, Faguet sold his stake in 2008 for an undisclosed sum. Eton and Oxford educated Makharinsky helped start student entrepreneurial society turned incubator Oxford Entrepreneurs. In October 2007 he co-founded YouNoodle – an online platform for entrepreneurs, investors, service providers and journalists. He was also a co-founder at Quid – a company developing software that captures, structures and visualises large data-sets and in July 2011 raised $14mn from Atomico Ventures, Founders Fund and business angel Peter Thiel.

Ostrovok – written OCTPOBOK in Cyrillic – is Russian for island and was founded in 2010 with $1mn in seed funding from its co-founders, General Catalyst Partners, Kite Ventures and a couple of private investors. Although it has only just launched, this €9.5mn Series A investment values the company at almost €30mn.

Interestingly this deal has a syndicate of US and European investors, which exemplifies how the international boundaries of venture capital are blurring, This deal was co-led by well-known global investor Accel Partners (€340mn (2008); AUM5bn) which runs a US as well as a European fund, and US seed, VC and growth capital investor General Catalyst Partners (€510mn (2007); AUM1.4bn). Founded in 2010, General Catalyst straddles the US with offices on both the East and West Coast.

The other companies investing in this round are Atomico Investments (€120mn (2010); AUM €200mn) and Founders Fund ($250mn (2010); AUM $520mn). London-based Atomico was founded by Skype co-founder Niklas Zennström in 2006 and will be familiar to readers from its investments in FON and Rovio. Not to be confused with the Samwer brothers' investment vehicle the European Founders Fund, San Francisco-based Founders Fund was started by the even more famous entrepreneur turned venture capitalist Peter Thiel. Having sold his first start-up (PayPal) to eBay for $1.5bn in 2002, Peter set up a global macro hedge fund (Clarium Capital Management), an analytical software company (Palantir Technologies) and made a number of angel investments. He launched Founders Fund in 2005 with PayPal co-founders Ken Howery and Luke Nosek.

Apart from Thiel (also a partner at Founders Fund) and Zennström (who set up Atomico), the VCs have made room for a whole host of high profile business angels believed to include Mark Pincus (Zynga), Esther Dyson (Yandex board member), Fritz Demopoulos (Qunar), Sebastian de Halleux (Playfish), Naval Ravikant (Epinions, AngelList), Felix Shpilman (DST), Scott Banister (Ironport, Slide), James Hong (Hotornot) and Sam Shank (Hoteltonight).

Company	Sector	Round	€mn	Description	Investors
Senscient (UK) www.senscient.com	Hardware	C	8.3	Provider of gas detecting products.	Emerald Technology Ventures, **Lime Rock Partners**, Yellowstone Capital.

Senscient (**UK**), a developer of line-of-sight flammable and toxic gas detection products using lasers, raised **€8.3mn** in a **Series C** round led by **Lime Rock Partners** with participation from existing investors **Emerald Technology Ventures** and **Yellowstone Capital**. The money will be used to expand Senscient's manufacturing facilities following successful trials, as well as to expand its sales capability.

The detection of hazardous gases using Open Path Gas Detectors (OPGD), often based on Non-Dispersive InfraRed (NDIR) spectroscopy, is not new. Many refineries, petrochemical plants, gas transmission stations and other industrial plants use this technology to monitor the build-up of hydrocarbon gas leaks. However, such technology is prone to disruption from things as simple as rain, snow, fog and even sunlight.

Founded in 2004 with support from a DTI SMART R&D grant, Senscient has developed a patented alternative using Enhanced Laser Diode Spectroscopy (ELDS™). Senscient began commercialising this product in 2008 and conducted trials with well-known blue chip firms such as BP, Conoco Philips, Exxon Mobil, Petrobras and Shell.

As well as being over three orders of magnitude more sensitive than traditional OPGD technology, Senscient's detectors can be made to detect combinations of toxic or flammable gases thus significantly reducing costs. Importantly, given the environment in which they are deployed, Senscient's products include SimuGas™ – the ability to remotely simulate a gas leak and hence test their gas detectors from the control room without having to either send personnel into hazardous environments or shut down plants for testing.

Transaction leader Lime Rock Partners (€530mn (2006); AUM €2.8bn) is a multi-national growth capital firm specialising in the energy industry. Unusually in the current climate, Lime Rock is not a cleantech specialist and its investments encompass the entire energy industry including energy services, oil service technologies, exploration and production. Its strategy is to back the management teams of growing energy companies, typically by buying out the assets or subsidiaries of large corporates. Lime Rock has built up a portfolio of over 40 companies and has over 20 successful exits to its name.

Existing investor Emerald Technology Ventures (€150mn (2007); AUM €300mn) is a cleantech specialist focussing on energy, advanced materials and water. Founded in 2000, Emerald was one of Europe's first Cleantech funds. With a team of 18 investment professionals and offices on both sides of the Atlantic in Switzerland and Canada, Emerald is one of the larger cleantech investors. It has built up a portfolio of some 26 active investments and achieved some notable exits including IPOs for Evergreen Solar (Nasdaq:ESLR) and RuggedCom (TSX:RCM). The firm recently sold its stake in water technology firm Inge, whose €5mn Series D investment we tracked in July 2009, to BASF.

Amongst the plethora of American firms which have recently started to invest on this side of the Atlantic, Texas-based boutique buy-out and venture firm Yellowstone Capital (AUM €80mn) is quite unusual. Specialising in industries as disparate as alternate energies, industrial and energy equipment, healthcare and life sciences and branded food and beverages, Yellowstone typically invests $3-10mn in buy-outs and between $50k-3mn in venture deals.

Company	Sector	Round	€mn	Description	Investors
Neura (Austria) www.neura.at	Cleantech	Late Stage	8.0	High performance heat pump manufacturer.	**Climate Change Capital.**

Neura (**Austria**), a manufacturer of heat pump systems and their associated software, raised **€8.0mn** in **Late Stage** funding from **Climate Change Capital (CCC)**. The money will be used primarily for the expansion of the company's manufacturing plant in Regau, Austria.

Founded in 1979, Neura manufactures heat pumps for both residential and commercial use. The company claims that its current range of heat pumps is 15-20% more efficient than those of its competitors. In addition to the obvious benefits, this also means that kilowatt for kilowatt Neura's heat pumps are smaller than their competitors. Commercially this opens up a new market sector to them as more conventional heat pumps are often too large to be installed in houses built on small plots of land.

The key innovation which enables the firm to do this is Neura's Direct Expansion (NDX®) technology. Unlike conventional heat exchangers, Neura has managed to do away with saline solutions and additional heat exchangers thus reducing losses and increasing efficiency.

In common with the trend for European home-owners to want more control over their energy consumption through the installation of home monitoring equipment (see for example our coverage of AlertMe in our October 2010 bulletin) Neura's systems can be controlled either over the web or by smart phone using the company's proprietary WEBDIALOG® operating system. Moreover, Neura is adapted for Europe's so-called smart-grid and has the ability to feed in excess power to the grid. According to CCC, Neura's system is the only smart-grid enabled operating system currently available.

Through its 70 direct employees and a network of resellers in France, Holland, Ireland, the UK and Eastern Europe, Neura sold over approximately 2,000 residential and commercial heat pumps last year. Roughly 80% of these were exported, primarily to Germany, Britain and France. This produced €7mn in turnover. Following two years with a CAGR of 40%, the company expects to double this in 2011 as well as achieving EBITDA break-even.

By 2015, the company plans to be selling 30,000 heat pumps a year with up to 300 employees. While such growth is ambitious and may require significant capital, it is by no means impossible as in Germany – Neura's key export market – almost 20% of houses have heating systems more than 25 years old.

Although this is the first investment in Neura, we have categorised it as Late Stage owing to the company's long history. This is supported by the fact that half the funding was provided as a convertible note.

Climate Change Capital (€80mn (2010); AUM €1.1bn) is sometimes known as CPE (Climate Change Capital Private Equity) to avoid confusion with the investment manager's other businesses. In particular, the firm runs property, energy infrastructure, and carbon trading businesses which are separate to the growth capital and buy-out funds run by its private equity business. With a €10-20mn sweet spot over the life of its investments, CPE prefers to invest a minimum of €5mn, primarily in Europe. With €200mn allocated to its private equity business, CPE has built up a portfolio of ten investments.

Company	Sector	Round	€mn	Description	Investors
Orège (France) www.orege.com	Cleantech	A	8.0	Waste water treatment technologies for industrial effluent.	Climate Change Capital, Oraxys.

Orège (**France**), a developer of water treatment technologies for industrial effluent, raised **€8.0mn** in a **Series A** round led by **Climate Change Capital** with participation from **Oraxys**. The money will be used to manufacture a fleet of Orège's mobile water treatment units as well as to hire specific oil, gas and chemical industry expertise with a view to expanding beyond France.

Founded in 2005, Orège has developed wastewater treatment technologies for effluents and sludge from the oil & gas, petrochemical and chemical industries:

- Patented Specific Physico-Chemical Reactor (SOFHYS®) for the treatment of wastewater which combines the cracking of pollutant molecules with hydroxyl radicals produced through electrolysis and the hydrodynamic separation of solids or colloids.
- A patent pending treatment for sludge known as SLG (with a high proportion of suspended solids or pollutants in emulsified forms or colloids).

Commercially, Orège sells its technology either through the sale of treatment lines on a turn-key basis or through the sale of treatment services. Even when the firm sells its equipment to the end user, however, it normally sells a global support contract comprising both maintenance and process support. It will also offer the client an operating agreement as Orège has a strong preference for the provision of services rather than the sale of hardware.

The company plans to use this investment to expand its service provision capabilities. In particular, it plans to build a fleet of mobile SOFHYS and SLG treatment units. In order to better serve its clients it also plans to hire dedicated teams of experts from its customers' industries in order to make its customers more comfortable with outsourcing their waste treatment. Up to now, given the reputational, legislative and clean-up risks inherent in effluent treatment, many corporates prefer to deal with effluent treatment in-house.

Orège benefits from two legislative changes. In 2007 the OSPAR Commission, which was set up in 1972 by 15 Western European countries to protect the North Atlantic, limited the hydrocarbons contained in marine drilling and production effluents to 30mg/l Secondly, in 2009 the EU amended its REACH (Registration, Evaluation, Authorisation and Restriction of Chemical substances) regulation to further limit the discharge of 120 substances. Secondly, in the light of the Deepwater Horizon oil spill, many corporates in the relevant industries are bolstering their CSR programs in this area.

For transaction leader Climate Change Capital (€80mn (2010); AUM €1.1bn), which contributed €6mn to the round, this is the second transaction this month and the fifth we have featured this year. The others were an internal round in PV solar company Sulfurcell in January, and investments in Enecsys and Nujira in May, manufacturers of micro-inverters for solar cells and wireless power amplifiers for mobiles respectively.

Less well known is Luxembourg-incorporated Oraxys which makes equity or mezzanine investments of €0.5-4mn in industries which benefit society in terms of the environment, public health or energy. Its preferred investments are minority stakes in profitable SMEs with a turnover of up to €120mn.

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This report has been compiled by Jean-Michel Deligny, Managing Director – for and on behalf of Go4Venture.