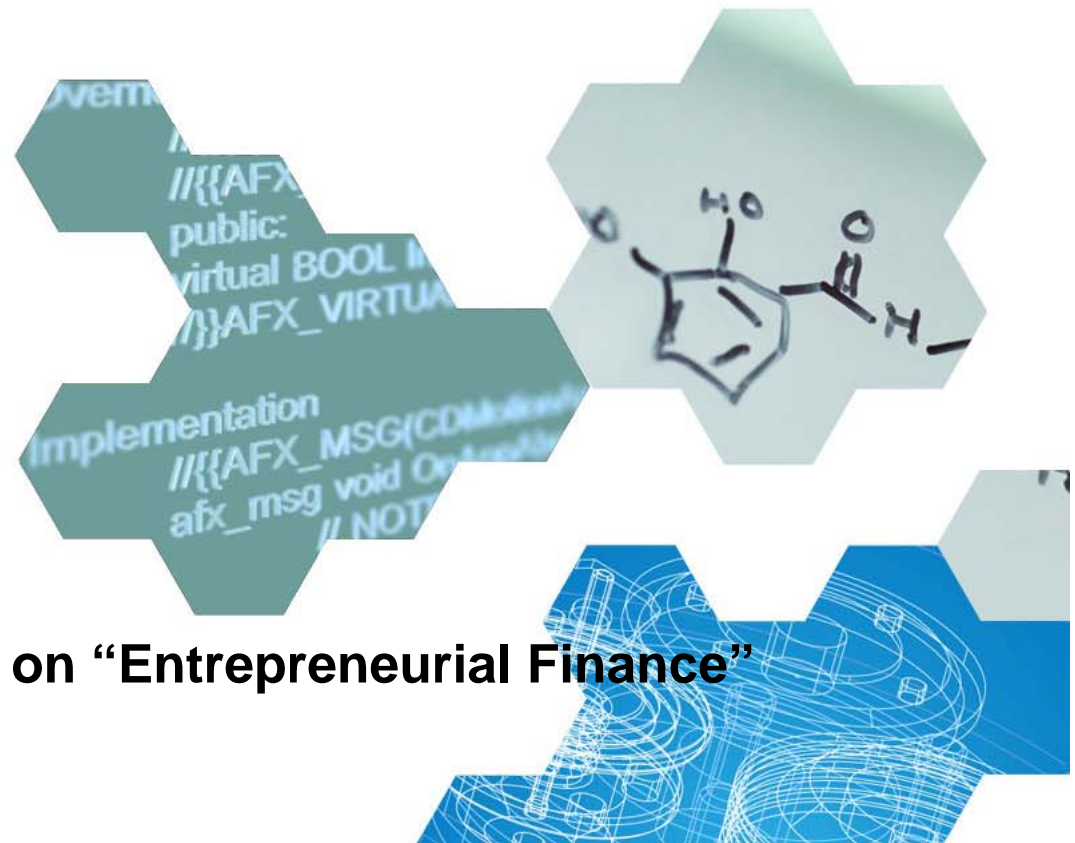




High-Tech Gründerfonds

Experiences from the German High-Tech Gründerfonds



**3rd NORFACE Seminar on “Entrepreneurial Finance”
Berlin, May 21, 2007**

Market failure in early stage venture capital market?



Interesting, but unfortunately not in focus...

Wow, but we are in a major restructuring...

Brilliant, but don't you have some revenues...

Lots of potential, but too early for us. Try these guys...

A loan? Let me see your securities....

The High-Tech Gründerfonds is based on substantial know-how and experience



**Initiative of
German
government/
BMWi**

- „Partner for Innovation“
– how to tackle market failure in the seed segment

Tbg / KfW*

- Experiences made in earlier government sponsored financing programs

**Venture Capital /
Corporate VC**

- Lessons learnt from successes and failures

**High-Tech
Gründerfonds
set-up in August
2005**

*) Tbg = Technologiebeteiligungsgesellschaft; KfW Mittelstandsbank

Key facts of the High-Tech Gründerfonds



- Volume:** 272 Mio. EUR; 12 years investment and de-investment period
- Investors:** BMWi, KfW, BASF, Deutsche Telekom, Siemens, DaimlerChrysler, Robert Bosch, Carl Zeiss
- Focus:** Innovative high-tech companies in the seed phase, i.e. younger than 1 year
- Investment:** 500.000 – 1.000.000 EUR equity per company for a 15% stake and convertible loan (as anti-dilution)
- lead investor
 - founders need to invest themselves
 - Co-Investment limited to 100.000 Euros
- Portfolio:** 67 companies (as of May 20, 2007)

Government subsidy program or venture capitalist?



“Venture Capital”

- **Venture Capital model:** HTGF business model is based on appreciation of shares, exit
- **Fund is limited to 12 years, investors demand their money back**
- **Focus on high-tech and growth companies**
- **Long-term incentive based on payback to investors**

“Government subsidy program”

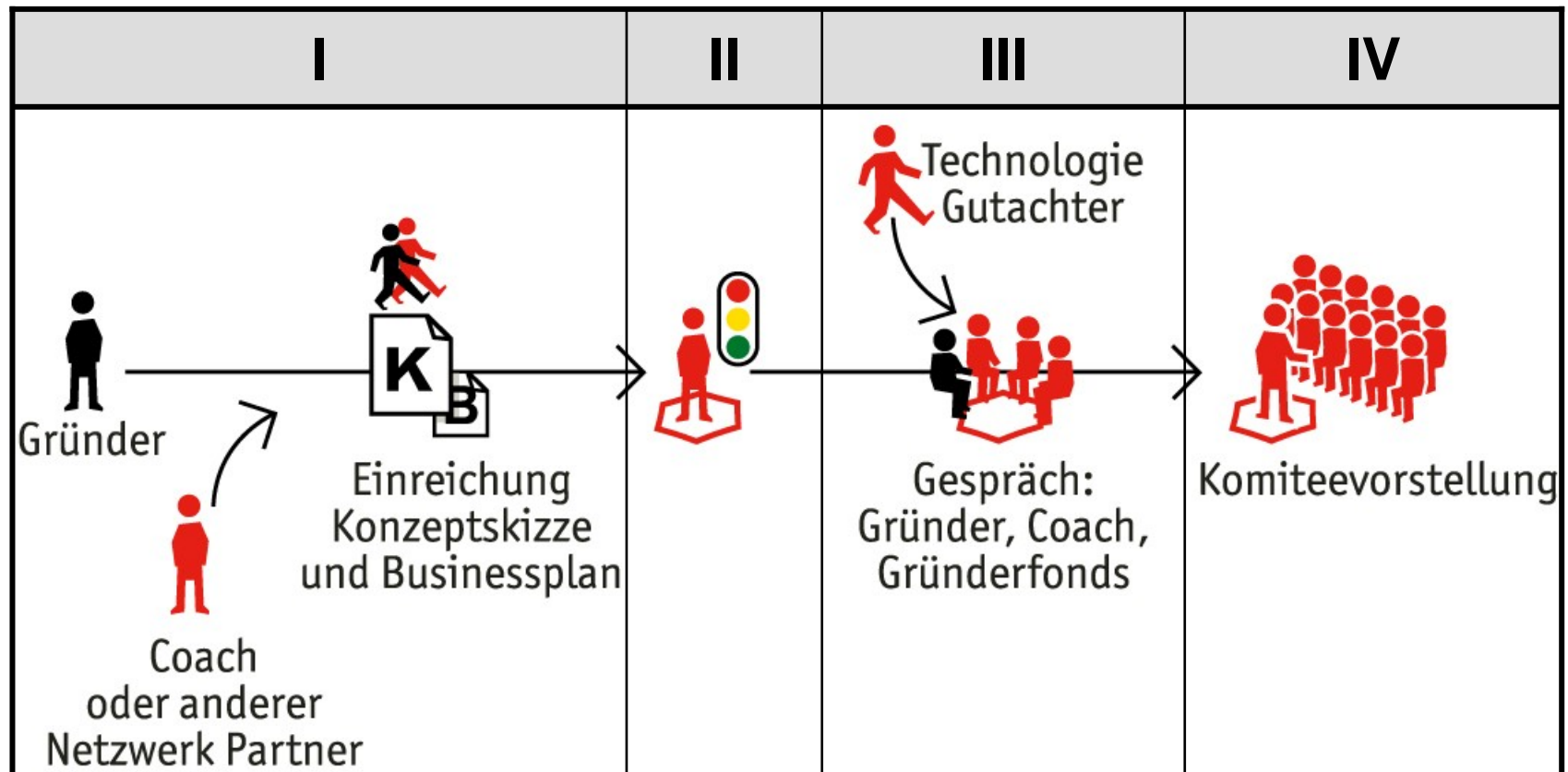
- **Standardized, attractive product:** 1. round: 500.000 Euros for 15% shares plus convertible loan as anti-dilution
- **Higher risks**
- **High number of investments**
- **Focus on German companies younger than 1 year**

Investment criteria



- ✓ **Management:** Willingness to succeed, get things done, honesty, experience, flexibility, ...
- ✓ **Technology:** Basis for sustainable competitive advantage, marketability, innovation, ...
- ✓ **Market:** High growth potential, clear customer benefit, low entry barriers, ...
- ✓ **Competition:** Competitive advantage, favorable competitive environment, no direct competition, partnering strategies, ...
- ✓ **Business model:** Manageable, successful, profitable, ...
- ✓ **Business planning:** Based on reality, consistent, ...
- ✓ **Exit:** Trade sale, IPO, buy-back, secondary
- ✓ **Balanced chances / risks (not necessarily “huge deal”)**

Selection process: 4 phases



Main results since august 2005



Operations

- Closing of 67 companies¹⁾ / 90 commitments
- Closing of 14 follow-on investments by third parties²⁾
- Set-up of a high-number of working partnerships
- Set-up of a high performance organization
- Fun

Impact in market

- Mobilization of private capital (private investors in High-Tech Gründerfonds, side investors, follow-on investments)
- Examples are set that high-tech companies can be successfully set-up in Germany
- Significant impact on seed market in Germany³⁾ maybe even instrumental in positive dynamic in Q1 2007

1) 4 in 2005, 52 in 2006, 11 in 2007

2) Various public and private investors

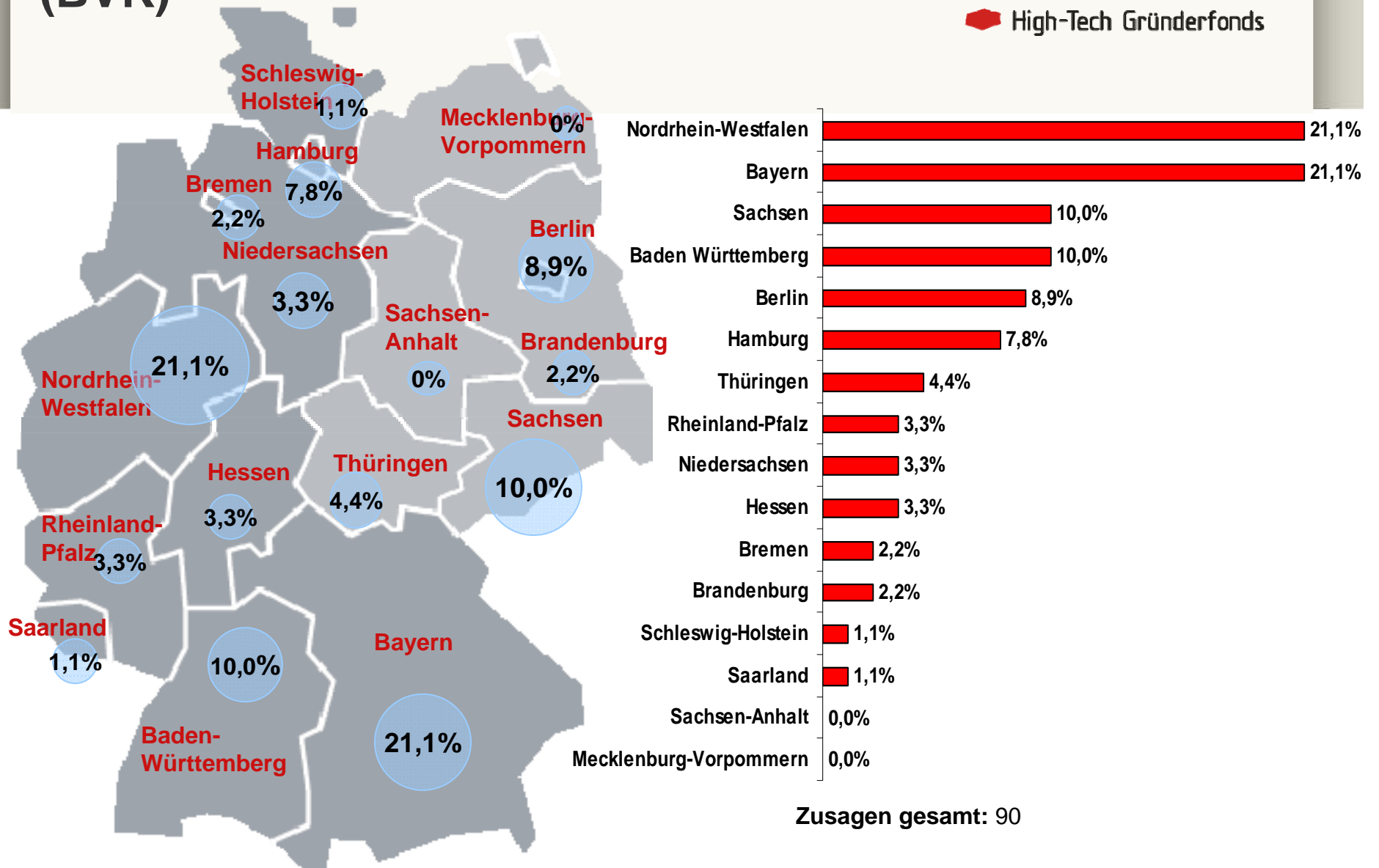
3) BVK: 2005 20 investments (16 non HTGF); 2006 68 investments in seed segment (16 non HTGF), 54 in Q1 (43 non HTGF)!

Some examples

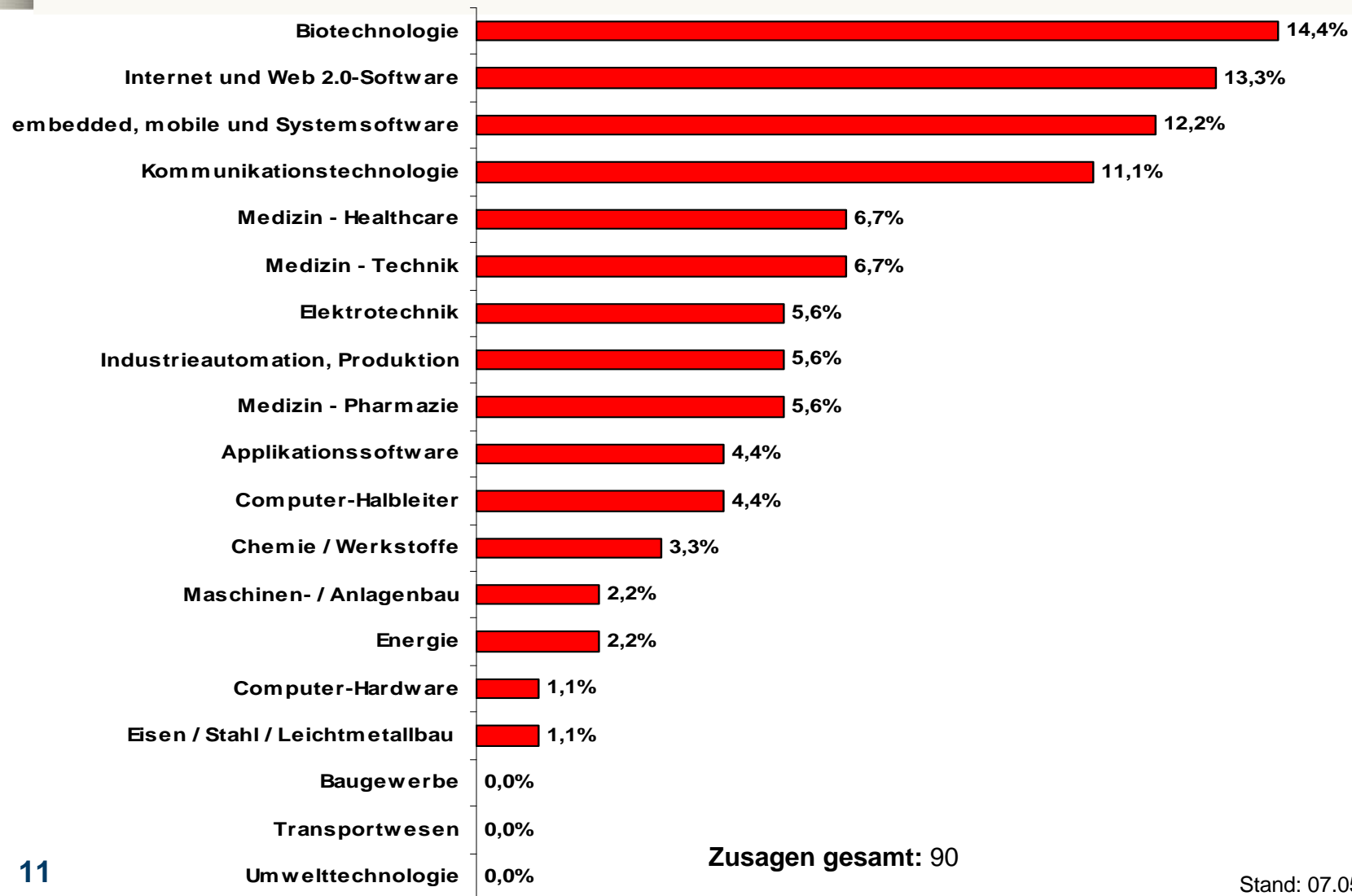


- **Alea:** ERP Software for mail order business
- **Zweitgeist (weblin.com):** Chat and more on any web site
- **Heliatek:** Organic photovoltaik
- **Nanda:** Inline wafer inspection
- **Resoimplant:** Implants that can be absorbed
- **Aacure adhesives:** Nanoparticle based glue
- **Visumotion:** Software and tools for 3D monitors

Commitments by technology sectors (BVK)



Commitments by technology sectors (BVK)



Some highlights, lowlights and open questions



Highlights

- Technology and entrepreneurial basis for start-ups is amazingly positive
- Economic environment is (very) positive
- Good companies are capable of acquiring follow-on financing (especially public funds are available)
- HTGF concept is working well

Lowlights

- (Very) aggressive behavior when there is no cake, when the cake is small and when the cake is large
- Entrepreneurs often overestimate themselves
- Public money is sometimes treated (very) disrespectful

Open questions

- Follow on financing: Will it happen in sufficient quantity (and quality)?
- Exit channels: Will they remain open?
- Scalability: How scalable is the HTGF business?
- How will the seed segment (both on supply and demand side) develop?
- Economic success: HTGF and broader impact?

The team and our contacts



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