

# Tech Sector Summits REPORT

The European  
**Investment**  
FORUM

The 8th Edition of the European Investment Forum & Technology Sector Summits Programme, held in Copenhagen on 4-5 November 2002, brought together the leading European players in 3 sectors. This **Tech Sector Summits Report** analyses the key findings and conclusions of the event.

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TECH  
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SUMMITS  
Report

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## VCs back in the game

The large number of venture capitalists stalking the Eighth European Investment Forum bodes well for the technology community. "The VCs are back in the game, and they are definitely looking at investing again. I even saw for the first time in two years a VC chasing an entrepreneur at a cocktail party!" said Jean Michel Deligny of Go4Venture. *Overview pages 2-3*

## Network Systems & Solutions: Pages 4-7

### MMS and Java are hot

VCs spy opportunities for startups in the network systems and solutions sector. Multimedia messaging (MMS) and Java technologies were singled out as having the brightest short term prospects. *Page 4*

### NextGenTel mandates banks for IPO

Talk of tech IPOs has been more likely to raise laughter than finance during 2002. Broadband access provider NextGenTel is deadly serious though. It has mandated two banks and is launching a roadshow next month. *Page 5*

## Business Application Software: Pages 8-11

### Big boys warn off new entrants

Microsoft, SAP, Oracle and Convergys doused the flames of ambition by warning startups to develop niche applications for existing systems. Thankfully investors and entrepreneurs were quick to rally and picked out lucrative gaps for new entrants. *Page 7*

### Top 10 IT firm makes LYNX offer

A top ten European IT company has made an offer to buy out business application system provider LYNX Technologies. *Page 8*

## Optics & Semi-conductors: Pages 11-14

### A tale of two sectors

The optical components and semi-conductor sectors are at very different stages of development. While wary of optical components, investors believe that the semi-conductor sector has rich possibilities for startups. *Page 10*

### High hopes for Euro high tech

China may well be the place to manufacture low tech goods, but for high tech look to your doorstep. Bookham Technology CEO Giorgio Anania stressed the need for high tech manufacturing to be in close proximity to customers will ensure that European business will thrive. *Page 11*

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# Shaping up for the upturn

It's been a tough couple of years for everyone in the technology sector, but there were definite signs at **The Eighth European Investment Forum**, organised by **Europe Unlimited**, that all sides of the industry are shaping up to the new challenges of the post boom technology landscape.

As with the previous Investment Forums, it was an action-packed couple of days. Representatives from the world's leading IT corporations and investment firms rubbed shoulders, and locked horns, with entrepreneurs from Europe's fastest growing technology companies.

## VCs back in the game

There were a lot more VCs circulating at this Investment Forum than have been seen out in the open for some time. And impressively, they looked serious about spending their cash once again. "The mood was somewhat different to what it has been for the last couple of years," said Jean Michel Deligny of **Go4Venture**, a London-based specialist equity private placement intermediary. "The VCs are back in the game and they are definitely looking at investing again. I even saw, for the first time in two years, a VC chasing an entrepreneur at a cocktail party!"

One third of the 270 attendees circulating in Copenhagen were investors, "a significant increase on previous events," according to Ronan L'Heveder, project manager at **Europe Unlimited**.

A shift in attitude was also noticed by Arve Johan Andresen, a partner at Nordic focussed VC **Northzone**: "Venture capital has been largely out of favour for the last 12-18 months, but this is a cyclical industry and there was the feeling among investors [at the conference] that now is the time to become active again to anticipate the next wave. We are not on the way down anymore – we're on the way upwards."

What the VCs are investing in is quite different: "It simply has to be IP based – eBay would probably not get funded today," remarked Deligny. There has also been a surge towards later stage investment with companies needing to have customers, if not revenues, be within reach of profitability and as near as possible fully funded to win further investment. Christian Reitberger, of **Apax Partners** added: "Money is not the issue. There is enough money available for everybody in this room to create a business."

## Competition will drive valuations

This is not to say that we are through the woods yet. Expectations in all three sectors are still pretty low in terms of the business environment in the short-term. For many, a lot more restructuring is needed to build a business that has any chance of prospering in the future market.

Valuations continue to be a stumbling block to development.

## THE TECHSECTOR SUMMITS PROGRAMME

The Eighth European Investment Forum in Copenhagen showcased three Technology Sector Summits focusing on Business Application Software, Semiconductors & Optical Components, and Network Systems & Applications.

A total of 57 of Europe's most exciting growth companies from all across Europe presented their wares while corporations represented included Microsoft, Siemens, Cisco, Oracle, Bookham Technologies, Texas Instruments, British Telecom, SAP and Nokia. From the investment community there were senior personnel from 3i, Apax Partners, Carlyle Europe, Kennet Venture Partners, DVC, TVM, Northzone Ventures, Vaekstfonden, CapMan, Atlas Venture, Partech International, SAP Ventures and Vision Capital as well as intermediaries from across Europe.

The next tech sector summits under the spotlight in this series of pan-European events, organised by **Europe Unlimited** in association with the European Commission, will take place in Prague in April 2003, and once again provide a platform for investors and entrepreneurs from across Europe. For more details on future events in the programme – including downloadable reviews of the Stockholm Tech Sector Summits covering Mobile Access Technologies and Customer Relationship Management, visit [www.e-unlimited.com](http://www.e-unlimited.com).

The distance between the expectation of the entrepreneur and the desire of the investors is still too great in many instances. Company valuations were way too high 18 months ago but in some cases they are now at a level where there is little chance of an entrepreneur having any equity left in their company if they opt for rapid growth. "The pendulum is swinging to the other extreme in an unhealthy fashion and it is not sustainable," said Jean-Michel Deligny.

Market forces look likely to drive valuations up again in the near term. For many VCs, under pressure to achieve nearer term gains, there has been a move towards looking for less risky later stage investments and the competition can drive valuations upwards again soon, according to Deligny. The VCs cannot afford to sit on their hands for much longer either. They have already had a year in which they acted a lot more prudently and largely restructured their own portfolios. The limited partners do not expect to see their capital lying dormant for much longer.

## A maturing industry

The Forum was not just about raising finance. The capital-obsessed approach to building a business, so indicative of the first wave of the internet era, has been left behind for the most part, and there was a refreshing desire among attendees to network for partnerships and customers. Large corporations demonstrated that they are looking for more ways to work with startups – even if many are trying to warn them off

competing with them on anything but their terms. Christian Hunt, the new CEO of organisers **Europe Unlimited** said: "The ability to create and maintain mutually beneficial partnerships will be increasingly vital for the ongoing success of players of all sizes and stages of development. Many of the speakers at the forum echoed this. And again, the forum provided a superb opportunity for companies to seek new funds, partners and international development, as well as gain a significantly increased network of contacts."

While a number of investors remarked that European technology businesses still need to improve their commercial viability to make them attractive investments, the technology sector is maturing fast. What was immediately apparent was the slickness and quality of startup company presentations at this Forum. European entrepreneurs have been on a steep learning curve, and a number of attendees commented on a cross-the-board leap in standards.

"I was impressed by the high quality of most of the presenting companies, both regarding clarity of the business models, unique technologies and management. The overall investment climate has obviously had a positive effect on the quality of investments," said Flemming Bahner, Special Advisor, **Ernst & Young**.

There is still a lot of work to be done, but from this evidence, the European technology sector is starting to get to its feet again.

**DENMARK ENJOYS THE SPOTLIGHT**

Local tech players and investors represented at the Forum in Copenhagen remarked on the importance of bringing such an international event to Denmark. They sense that they have not had as much attention from the investment community as neighbouring countries – particularly Sweden.

"I don't think a lot of people know so much about the Danish market, but this means that technology companies here are actually better off, because they haven't been as badly hit by raising too much money," said Johanne Braendgaard, analyst at Vaekstfonden (the Danish Investment Fund). Braendgaard suggested that network technology and software for industrials were particular strengths in the Danish technology community.

For international investors, a stumbling block to investment can be the smaller amounts sought by companies looking only to grow within their local market. "It is strange that E2m is seen as too small because that's a large amount for local companies. E200,000 is more normal for a first round," said Braendgaard. Although she added that Vaekstfonden itself is looking to team up with international investors to get involved in larger rounds.

Andresen, of Northzone added: "Average deals can be too small, and this can be a problem for the region, but we are already seeing a trend towards to more pan-Scandinavia VCs."

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# Tough times set to get tougher?

There is no doubt about it, it has been a rough year for network systems producers across Europe. 3G costs have weighed heavily and to all intents and purposes telecoms operators have shied away from spending on network systems. Investment from venture capitalists has fallen by a massive 50-75%. At Copenhagen's summit, Network Systems and Solutions entrepreneurs reflected varying levels of optimism, whilst VCs predicted a slow recovery, emphasising that things may get worse before they get better.

The downturn in 2003 will be worse than 2002, according to one senior VC, who foresees a 15-20% fall during the next 12 months. Estimates for a turnaround range from two to four years, because substantial over-investment from 1995-2000 will take a long time to burn off and continued economic malaise will keep a lid on the amount of cash available. Companies seeking investment should not count on sales growth in 2003.

Olivier Protard, general partner at Sofinnova Partners said: "We need to be cautious for 2003 and 2004. We still have to suffer for at least two years. The short-term looks pessimistic but long-term this is a great market to be in."

Karl Heinz Reinfrank, VP Portfolio Strategy Optical Networks at Siemens anticipated a slower recovery. "Revenue growth will be slow for at least the next three-four years and then after that there will be a metered growth rate," he said.

Unfortunately, there was a general consensus that individual companies and investors cannot govern a turn in the cycle. Peter Viereck, chief executive officer of Tellabs Denmark agreed: "There are niches in the market that companies have to identify, but there isn't going to be an immediate miracle that will take the market up. There is no next big thing."

On top of this, venture capitalists are continuing to nurse burnt fingers, as they suffer from substantial over-investment in companies without viable business models – or as one VC put it, "investments in business models that are viable in a bull market but certainly not in a downturn."

The good news is that the investment cycle will pick up at some point, and multimedia messaging (MMS) and Java technologies may be instrumental in this recovery. VCs predicted there should be opportunities for small companies to provide platforms to deliver MMS services.

According to Joerg Ueberla, partner at Wellington Partners Venture Capital, significant creation of value is about to happen. "MMS and Java will reach significant penetration within the next few months," he said.

Although VCs acknowledge that small vendors may find it difficult to sell to the larger operators. There was a general consensus that the metro access market could be the first to turn around.

Northzone Ventures partner Arve Johan Anderson reiterated this view. "The focus going forward is on value creation," he said.

Aside from this, storage networking, IP technology and wireless LAN solutions were also touted as good ideas going forward.

## Quality not quantity

There is still a need for software and solutions that will allow operators to provide premium services. However, the issue is not a lack of VC cash, but whether the ideas tussling for investment are good enough. Quality is the name of the game and proven business plans were highlighted as key to wooing VCs, who stressed the importance of sustainable technology. The relationship between VCs and investee companies has also changed, putting a greater pressure on the management teams to drive a company's customer base. Back in the good old days, the venture capitalists could be relied on to do this, but now the onus is on the management and proof of financial performance.

Startups run the risk of fierce competition from established players and entrepreneurs need to highlight the different business models in the network solutions sector.

VCs indicated that though they had received a lot less financing proposals over the last few months those they had received were of a higher quality.

"Investors want to see customers and evidence that people want to buy the product," commented Tellabs CEO Peter Viereck. "There is some optimism going forward. The core network is growing; a lot of technology has been developed for this," he added. Francois Josserand, Cisco's corporate business development manager, agreed. "It's the return of the show-me economy. We will see a lot of changes and a lot of growth within five years," he said.

There are still openings in Europe where VCs are spending but companies must be realistic on valuation. As Northzone's Arve Johan Anderson emphasised: "There will be fewer larger projects being funded going forward, but there will be money for quality projects." In his summing up of the first session on day one William Schmidt, managing director of Advent International noted: "There are pockets around Europe. Companies have to be creative in finding these pockets."

## Partnering is key

Market tightness and a reluctance of investors to flash their cash means that consolidation is a must in current market conditions, and VCs stressed the importance of joint co-operation from the operators.

"Don't try to do everything on your own," was the advice of one investor.

Joerg Ueberla stressed the need for startups to build direct relationships with each other and service providers in order to create a market leader, but cautioned that such mergers "must make sense for customers."

## Network Systems &amp; Solutions News

**NextGenTel mandates banks for IPO**

Talk of tech IPOs has been more likely to raise laughter than finance during 2002. But Norway-based NextGenTel is deadly serious in its intentions to raise E55m in its public debut in Q2, 2003 though.

The broadband access and services provider has mandated First Securities and ABG Sundal Collier, and is launching a roadshow December. It is also negotiating a pre-IPO round to raise around E12m. CFO Lars Erik Larssen said that the investment banks were chosen from a short list of six, all of which had their main offices in Norway. No pan-European banks were considered as the intention is only to list in Oslo at first. Larssen is confident that market conditions will be suitable for the debut in Q2, though he said the firm is prepared to put the deal off until Q3 if necessary. For the current private round, Larssen is looking to bring in new financial investors and expects to complete the fundraising before the end of January 2003.

Although Larssen would not reveal the company's revenues at this stage, as he is waiting for the opening of the roadshow, he did say that customers have risen by four times since the beginning of the year, and are now close to 40,000 in total. Revenues at the beginning of the year were approximately E1.36m per month. NextGenTel is the second largest player in the Norwegian market after the incumbent Telenor and has approximately one third of the entire broadband access market.

The company's current total equity is E35m. NextGenTel investors include Vital Forsikring, Geocapital Partners, Northzone Ventures, Vikerud Venture, Atlantis Vest, Vesta Forsikring, Vesta Liv and Skandia Fondsforsvaltning. NextGenTel was founded in March 2000 and offers broadband DSL services, including ADSL and SHDSL, offering speeds up to 8Mbps, to residential users and small and medium size businesses. In January the company reported that it has around 11,000 customers installed and in operation. ([www.nextgentel.com](http://www.nextgentel.com))

**WAVIUM OPENS ROUND FOUR**

Compact optical cross connects manufacturer **Wavium** is in the process of starting its fourth round of financing, which according to company CEO Mikael Hedlof, it hopes to complete by the middle of next year.

Although Hedlof was positive about future VC activity, he remained wary of his company's relationship with the VC community. "In general, if you listen to the VCs, they are talking about looking at interesting valuations. There is cash in the bank and it might be the right time to invest. But it's difficult to say whether we have a solid business with the VCs at the moment," he said.

Wavium currently has a customer base consisting of incumbent carriers, alternative carriers, utilities and mobile opera-

**VCs AND ANGELS LEAVE GAP**

A worrying gap is emerging between the angel and venture capital community. With more of the larger VCs heading into later stage investment, and the population of angel investors significantly diminished over the past two years, there are fears that the early stage innovators of tomorrow will have trouble getting off the ground.

Where will the new breed of seed investors come from? Public body funding is one possibility. The European Investment Bank (EIB) has already set up one fund to address potential seed funding shortages. There is also hope growing from the increasingly sophisticated technology clusters around Europe – such as in Cambridge, UK. One VC stressed that the clusters are a "work in progress in Europe," but are vital to the future strength of the technology industry as a whole.

tors, but is keen to add some heavy-weight names to its client-list over the next six months.

"We know pretty well what we have to do. We are looking at closing a financing round mid-2003. We have most of the investment criteria in place, but we need some large deals with well known operators in Europe," Hedlof said, adding that the company is currently holding talks with around 30 different carriers around Europe, with some discussions being "in more advanced stages."

Wavium is now seeking to raise E7.5m, and is hoping to bring new international investors on board to allow the company to expand globally, although Hedlof was quick to point out that for now the main focus is Europe.

"We currently have investment from two Swedish VCs, but we would like international VCs in order to use their network and to help global expansion. We would like to increase our capabilities in Europe, and then the US and maybe Asia, but at the moment our main focus is Europe," Hedlof said. ([www.wavium.se](http://www.wavium.se))

**STRATEGIC INDUSTRIAL INVESTORS EYE CRYPTICO**

Copenhagen-based **Cryptico** is in search of early stage/start-up financing up to around E2m. The company hopes to have secured this financing by early next year.

According to VCs, companies with a sustainable technology and a growing customer base were more likely to be top of the financing list. However, there were a lot of positive noises made about the company following CEO Mette Vesterager's presentation. Vesterager was positive about the possible investment opportunities open to her, and a number of strategic industrial investors are said to have already expressed an interest in the company. Commenting after the conference, Vesterager said, "I made a lot of contacts and got very good feedback. It's not necessarily given me results in a couple of weeks, but maybe it will in a few months. It's given me a good network of potential investors."

Protecting confidential information is an important security issue. Cryptico claims its strength is that it provides security and speed simultaneously with its next generation high-

speed encryption technology, which it boasts is 5-10 times faster than existing models.

Cryptico's flagship product is aimed at the telecommunications industry and database market. Given that the existing de-facto standard for high-speed encryption is becoming a dying breed and there is an increasing need for the protection of digital data – Cryptico certainly looks to have found a strong niche in the European and global market. Financing proceeds will be used to secure reference customers, broaden the commercial and academic acceptance of the product and to negotiate licence agreements.

Founded in 2001, Cryptico is very much a fledgling company. However, it successfully raised E500,000 from 2M Invest A/S in its first round of financing in May last year. Cryptic Holding, has a 77.5% share and Invest A/S has a 22.5% stake. (www.cryptico.com)

## ALBANET SEEKS NON-UK INVESTORS

Albanet is looking to raise E1.4m and has already sparked some interest. "We are already in quite advanced discussions with UK-based investors, but we wanted to be introduced to non-UK-based investors to gain access to their existing networks," company chief executive officer, Iain Clark said.

The company is now following up interest from various VCs based in Germany, France and Scandinavia. Albanet will also seek an additional E5m in 2004 to finance international expansion and help take the product into Europe.

One of Scotland's leading IT SMEs, with a Europe-wide reputation, Inverness-based Albanet, which develops service desk software for the management of mid-range size networks, sees a bright future ahead. "We are involved in fairly pragmatic product development, and have demonstrated that there will be a return within a matter of months rather than years," said Clark.

The original company was founded in 1991, specialising in technology research and development, and worked on 11 major EC-funded collaborative projects under the Framework Programme with public sector organisations, multi-national corporations and academic research institutions.

In the late 1990s, the company transferred its focus to more mainstream services, based around IT consulting, managed network services and new product development.

Albanet, the new company, was established in 2001 and since April of that year, start-up financing of E640,000 has been secured to cover the cost of product development

According to Clark, there is a real gap in the market for network management software aimed at medium sized enterprises throughout the UK and Europe. (www.albanet.co.uk)

## PLASUS LOOKS TO EXTEND LEAD

Norwegian-owned **Plasus Technologies** is looking for E1.2m to strengthen the company's sales, marketing, research and development functions. "The funding will help us reach operating profits in 2004 and earlier if things go well," Plasus Technologies' head of investor relations told the Copenhagen summit.

The Plasus official was optimistic about the future of its remote telemetry and control systems for machine-to-machine applications. However, with Wireless Maingate, Data Respons AS, Sikom AS and Telemic OY lining up as competitors, it may have its work cut out to succeed. The scope for a significant market in Norway looks strong, but Plasus may have to hurry to reduce the risk of competition from other companies coming through.

Established in 2002, the company is looking to its home country for its initial sales, followed by a penetration of the Swedish and UK markets shortly afterwards.

Plasus received E13,000 from its first financing round in 2000. (www.plasus.com)

## SNOM SEEKS UP TO E50M VALUATION

**Snom Technology**, a manufacturer of open standard VoIP terminals and SIP software, is seeking expansion and development financing to the amount of E5m in exchange for 2.5-10% of the company's shares.

Boasting a 50+ customer base, which includes big names such as WorldCom, Denwa, Alcatel and Optical Ltd, the Berlin-based company looks to have bright prospects for its flagship product.

Founded in 1996, Snom acted as a consultancy firm until 1999. Now the company is seeking to "diversify and optimise" its product line. "We don't believe in selling it (our product) through the technology channels. We are looking to sell it over the counter. But we will sell to retail later, not straight away," the company's chief executive officer, Nicolas-Peter Pohland, said.

The company received early stage/startup financing in May 2000 from SHS Venture Capital. The amount was undisclosed. (www.snom.de)

## SPEAKANET HAPPY WITH INVESTOR SENTIMENT

**Speakanet** is looking to raise E2m to expand into the Europe market.

Olaf Gronvaldt, CEO of the integrated mobile phone switchboards software producer, was optimistic about the activity of the VCs and felt happy that many now seem ready to get involved in investments again. "I was encouraged, we find ourselves in a pretty tough market in Denmark, but we made some contacts and are following up some conversations, which will hopefully bear fruit next year," Gronvaldt said.

Speakanet currently has customers including enterprises and mobile network operators. It is looking for more European exposure from new investors and is eager to gain VC investments from across the continent.

In July 2001, the company's founding team gave it a cash injection of E70,000. Speakanet is now looking to bring new shareholders on board. The proceeds will be used to increase customer support capabilities as well as broadening the product portfolio. Speakanet's turnover for 2001 was E160,000 and it is on target to increase to E533,000 for 2002. projected revenues for 2003 and 2004 are E800,000 and E3.75m. (www.speakanet.com)

# Big boys warn off new entrants

At least one VC at the European Investment Forum (EIF) confided that it saw business application software as the hottest of the three sectors under the spotlight in Copenhagen. However, there was tension from the start, when in the opening Corporate Outlook session the big boys of the sector doused the flames of ambition by suggesting there was little room for new players.

Representatives from Microsoft, SAP, Oracle and Convergys advised startup companies only to consider developing niche applications to add on to the existing systems and platforms of large vendors. Thankfully, the investors and entrepreneurs at the conference were quick to rally and highlighted a number of opportunities for new entrants.

## BEST-OF-BREED IS OVER?

Peter Perregaard, managing director of **Oracle Denmark**, explained why he did not see the overall power structure in business software shifting: "We are witnessing two trends in the IT sector at present. The first is that the days of best-of-breed are over; all the major players are building suites of products. The second trend is that software is a capital intensive industry and to be profitable you need scale, and we're talking serious money here. As a result, most of the small players will have a hard time."

Perregaard was optimistic about the overall potential of the sector: "The industry is maturing and consolidating," he said. "It is very difficult to see a new vendor emerging. There will be further consolidation, and a winner-takes-all situation." He was also quick to add that there were still opportunities available for startups. "Look to the established vendors and think of them as development platforms. There are lots of business opportunities out there but it depends on adding to, not replacing," he added.

## BUILDING NICHE COMPANIES

It's no surprise that the leaders in a market are keen to replicate Microsoft's domination of desktop software. However, VCs were quick to point out that in such a rapidly changing industry it is unlikely that the existing leaders will remain unchanged in five years time. This is especially true when one looks at the way the larger players have reduced their R&D budgets, and been forced to consolidate their product lines. There are consequently a large number of opportunities for the fast moving newcomer.

Christian Reitberger of **Apax Partners** said: "Functional niches are developing from the special needs of customers. Startup companies should be focusing specifically on solving a particular need."

## BANKERS MUST RETURN TO EARTH

"Please come back to planet earth" was Christian Reitberger of Apax Partners' plea to investment bankers in the technology sector during the Eighth European Investment Forum. Reitberger said the current minimum fee volume of US\$5-10m is making it virtually impossible to do any business with bankers.

Unfortunately the plea fell on deaf ears, as, despite being an ever present at previous Investment Forums, investment bankers were conspicuous by their absence in Copenhagen.

The larger vendors do not disagree. Kim Wiencken, vice president/COO at **SAP Nordic**, said: "My advice to startups is first of all to be very clear about your segmentation or niche. This may be a choice about a specific product, specific industry or geography. Secondly, it's a must to be very clear about the value your company will create for your customers, and finally you must decide on your technology platform, as well as your partner strategy, early in the process. By doing this you will avoid losing money in re-inventing the wheel".

A number of specific areas were repeatedly highlighted as having the most potential. "Opportunities are opening up in several fields – especially real time applications," said Helmut Schoen of **Partech International**. Oracle's Perregaard highlighted Human Resource (HR) Management applications and those offering services on top of HR, as particularly attractive. Several investors were also excited about the opportunities in analytics.

The natural goal in building such niche businesses, particularly if they are likely to attract the backing of venture capitalists, is to be acquired by one of the platform suppliers. However, none of the large corporations in the sector indicated that they were especially likely to become acquisitive any time soon. Microsoft has already made big acquisitions in this sector such as Great Plains in the US and Navision in Denmark. It did not suggest it was planning more purchases. Niels Bo Theilgaard, general manager product development, **Microsoft Business Software** (formerly Navision), had one piece of advice for startups in this respect: "Be on the landscape, be a profitable company and show growth – nothing else matters."

## Pricing innovation provides key?

Although the long term prospects for the business software sector look bright, most agreed that in the short term things were unlikely to pick up. Sonali Dhawan of Atlas Ventures said: "Our position is one of cautious optimism right now. We don't see any meaningful recovery in corporate spending until 2004. Everyone is still suffering from the overpricing that took place in the boom time."

One of the most popular survival tactics suggested to startups was to integrate with one vendor and take on common customers. It is also advisable to look at the outsourcers not

just as customers but as potential acquirers of technology. Jean-Michel Deligny of Go4Ventures urged startups not only to think about technology innovation but also about pricing innovation. He suggested this was one area where the more nimble new entrants really could take on the giants in the sector. Deligny questioned whether you should sell licences at all and suggested one alternative was to adopt pay-as-you-use models. He argued that in many cases the larger players are less able to be so flexible because they have large overheads. Bart Vanhoutte, CEO of start-up MediaMine, questioned the viability of this approach though. He said that he was aware of the larger players "virtually giving away software licences" if they really want a customer on their client list. He added: "To win against the big players you have to compete on functionality, not on price."

### Exploding the money myth

One myth the VCs were intent to explode was that there is not enough funding around, and that scaling down business plans is imperative. VCs are certainly attracted to late stage businesses that do not need a lot of money and have a fast ROI. However, they are not interested in startups with low aspirations. Companies seeking only E2m in funding were seen as too limited in focus for many VCs, particularly international ones, to get involved.

International aspirations are seen as vital for any serious startup, even if it is operating in a tight vertical. Although it was commented that most VCs like to see a business fully funded before it goes international, businesses were encouraged to look at different ways of entering overseas markets. After all, years ago SAP made its first foray into the US market on the back of a customer.

Christian Reitberger of Apax Partners warned against startups being undercapitalised because they "don't look serious enough." He said: "Money is not the issue. There is enough money available for everybody in this room to create a business." Deligny of Go4Venture made the comment that the structure of funding rounds is also evolving. "People are starting to realise that complicated term sheets (such as those involving several times liquidation preferences) are dysfunctional. Tranching (drip feeding the money vs milestones) is however still very much in vogue," he said.

### VCs and entrepreneurs stand off

There was a sense that both the venturing sector and the software community in Europe have some way to go before they agree on how best to tackle the stranglehold of the dominant business software players.

VCs face criticism that they have lost the courage to fund truly innovative companies. However, entrepreneurs have also been accused of lacking the business acumen to take the next step. Everyone agreed that the standard of companies and personnel at this Investment Forum showed the technology community in Europe is growing up fast.

However, Christian Reitberger of Apax, echoed a number of investors' thoughts: "There is definitely not a lack of great ideas and geniuses in Europe, but there is a lack of people who have been there and done it. There is still a relative lack of genuine marketing and sales talent in the technology sector."

## Business Application Software News

### Top 10 IT firm makes LYNX offer

A top ten European IT company has made an offer to buy out business application system provider LYNX Technologies, according to chairman Roger Arnesen, who was presenting his company at the Investment Forum. "We're still considering the offer and we are at this event to talk to investors so we can weigh up other options first," he said.

LYNX, which is based in Norway, is considering raising around E2m in exchange for 30% of the company, to accelerate the growth of the business as an independent entity. Arnesen said he has not ruled out avoiding external finance and continuing to grow the business organically.

Arnesen describes LYNX as "a very niche product." It works in the contract management, and health, safety and environment market, targeting companies with over 100 employees. The product claims to allow the development of customer specific applications in a fraction of the time needed by its competitors. Revenues have been doubling year-on-year since 2000, and are projected to reach E2m this year, and E8m by 2004.

Arnesen says that so far this has been done with virtually no marketing. He claims "word of mouth" and the fact that they have "never lost a pitch" has driven the business forward thus far.

Key customers include Shell International. Woodside Energy Ltd, Apache Corp, Ocean Energy, UK Atomic Energy and BHP Billiton. Competitors include Syntex Solutions, CamHealth, Contraxx and SAP. ([www.lynx-technologies.com](http://www.lynx-technologies.com))

### ALTA IN CASH AND PARTNER TALKS

#### JUST LIKE FINDING A WIFE?

One VC's advice to entrepreneurs looking for the right venture capital investor followed more simplistic social guidelines than usual. "It's a little like trying to find a wife," said David Carrat, managing director of Kennet Venture Capital, "do the same thing - hang out in the places where you think people like you are going to hang out in." Holger Heims, managing director of Deutsche Venture Capital added "and be persistent!"

A third investor, who did not wish to be named, added "And make sure you do your due diligence on your VC!"

Supply-chain and event management software company **ALTA A/S** is in the process of raising around US\$4m for further overseas expansion. Tony Larsen, CEO of the Copenhagen-based company, said advanced negotiations are also underway to accelerate expansion through partnering with "one of the biggest players" in the sector.

Founded in 1992, ALTA has just the type of profile that a lot of VCs claim to be looking out for. It is late stage, close to fully funded, nearing profitability, operating in a fast growing niche and pursuing overseas expansion. Larsen said that the business is a good way towards securing the fourth round of funding and he is certain that it will be the last round needed. Previous investment to the tune of around E15m has come from the likes of 3i (22%), HP/Compaq (4%) and Baekstfonden (the Danish Growth Fund) (4%).

ALTA already has two small offices in the US, as well as operations in Denmark, Germany, the UK and France, and wants to expand further, especially in North America. Larsen said: "Already this quarter half of our revenues have come from the US." ALTA's revenues for this year are on target to reach E4m and the firm is predicting E10m in turnover for next year. "We are two quarters away from profitability," said Larsen.

ALTA's supply chain management software is built to order and is used by customers such as Delphi and Ryder Systems. Larsen said: "We are primarily competing with smaller companies but this is a very fast growing area, so it is only a matter of time before [the big players] enter. We need to partner with them too and we're talking to one of the biggest players about this at the moment." Competitors include BRAIN. ([www.alta.net](http://www.alta.net))

## CONFIDENCE VOTE FOR L&C

**Language and Computing (L&C)**, which provides natural language processing solutions software, is looking to raise E6-8m for its third round private placement. It already has the promise of further backing from existing investors, according to Luc Wanton, vice president of business development at L&C. The Belgium-based company is expecting to release around 30% its shares in exchange for the new capital.

L&C, founded in 1998, raised its last round of E15.5m back in late 2000 from GIMV NV, Ibervest NV and Belgacom Multi Media Ventures NV. GIMV is currently the largest shareholder with 25.7%, followed by founders Maarten Laga and Werner Ceusters, who both hold 31%.

L&C delivers its natural language understanding (NLU) solutions to the healthcare-IT, life science and generic semantics markets. Key customers include MedQuist, Eclipsis, WebMD, First DataBank and IDEWE. Competitors include Apelon, Health Language Inc, iPhrase and A-life Medical.

Annual turnover has been increased from E460,000 in 2000 to E800,000 in 2001, to E1.7m in 2002. An even steeper increase is being predicted with revenues of E5.1m targeted for 2003, ramping up to E12.5m in 2004. The firm currently has 30 employees and expects to increase this to 87 in two years' time. ([www.landc.be](http://www.landc.be))

## MEDIAMINE DIGS FOR INTERNATIONAL FUNDING

Belgium-based **MediaMine** is looking to raise E2m to strengthen its management team and expand into the French and German markets. Bart Vanhoutte, CEO at the product information management and cross-channel publishing company, said he was looking for more international exposure from a new investor.

Vanhoutte is keen on gaining a London-based VC. Some VCs at the event expressed the view that it was difficult to invest in companies that were only seeking to raise around E2m. However, Vanhoutte suggested that the current inactivity in the market makes it more sensible to raise a smaller amount and grow the business at a slower rate until the market picks up. "Customers just aren't willing to spend millions of dollars on licences at the moment," said Vanhoutte.

MediaMine's flagship product, **MEDIMINE ENTERPRISE**, enables companies to accelerate and control the release of new products across sales channels, media and countries in a multi-cultural, multi-lingual environment. Vanhoutte claims MediaMine is about to sign on a customer that is expanding into Germany from a local implementation in Belgium. This could offer MediaMine a great opportunity to follow them into the German market. MediaMine sees this as a particularly effective way to expand. One of Medimine's customers Xerox, is already using MediaMine applications across Europe. ([www.mediamine.com](http://www.mediamine.com))

## SURFKITCHEN SEEKS NEW WAVE OF FUNDS

Next generation portal developer, **SurfKitchen**, is looking to raise E7m in a second round of VC funding.

The UK-based company provides service development and delivery platform and application suites for companies ranging from internet services companies to mass market users. CEO Phillip Letts claimed that SurfKitchen is unique in the market in its focus on the telecom market. TDC Sunrise, Mmo2 - Manx telecom, Tiscali (LOI) and Alpha Telecom are customers. Revenues for 2002 are approaching E0.8m and are projected to grow to E3.1m next year.

Current SurfKitchen investors are Add Partners and Delta Partners. ([www.surfkitchen.com](http://www.surfkitchen.com))

## TWO-YEAR OLD BUSINESS SEEKS FIRST ROUND

Privately held and self-funded **NetEconomy** is seeking its first round of venture financing of E7.5m to fund expansion.

The company provides real-time risk management solutions to the financial services sector, with particular focus on addressing the numerous new laws that have been implemented in the industry over the past few years.

Netherlands-based NetEconomy's revenues for 2001 were US\$3m and it is estimating an increase to US\$5-6m for 2003. Customers include ING, BT and Nationwide.

([www.neteconomy.com](http://www.neteconomy.com))

## A tale of two sectors

The optical components and semi-conductor sectors are at very different stages of development, and this was reflected by the aspirations of the companies in the EIF. The semi-conductor sector is more mature than the optics sector, and is not suffering as much from the collapse of telecoms spending. The figures speak for themselves: whereas the worldwide market for semi-conductors is worth around US\$150bn, the market for optical components is worth just US\$2bn at the moment. This difference was reflected in the attitude of investors at the summit, who were wary of the uncertainty in optical components, but believed that the semi-conductor sector has rich possibilities for startups.

### Surviving the optics wilderness

Senior players in the optics sector did not hold out much hope for a recovery in optical plays until 2005/6, following the 95-99% correction in the market. Industry consolidation is very much on the menu for the foreseeable future. Current key trends show that telecom operators are buying from "safe" companies and new entrants are struggling to gain access to a global market.

"Everyone agrees that the spectacular growth of internet traffic will continue, and therefore there will be bandwidth bottlenecks and thus the need for new systems and new components again in the future. However it will be challenging for companies to manoeuvre from today's situation of no demand and overcapacity to this future scenario," said Christian Reitberger, principal, at **Apax Partners**.

It is a tough time to be growing a business in the optical components sector right now. But for those that can get through this period, the long term prospects look bright.

Giorgio Anania, CEO of **Bookham Technologies** said: "The sector is undergoing a period of serious cost-cutting, consolidation and contraction. One thing is certain, however, despite a very tight market situation, the sector has a very bright future."

"Everyone agrees the future is bright and will require a huge amount of systems and a huge amount of components," added Reitberger.

### Looking to the East

In both semi-conductors and optical components, discussions are dominated by China-compatibility, or reducing costs by establishing a manufacturing base off-shore. On the optical component front, Anania commented that the key areas of growth will be in datacommunications, access and enterprise, while long-haul networks remain frozen. "Pay as you go" network systems instead of huge 40Gb networks are the order of the day. Anania's optimism was underlined through his company's intention to remain committed to

### EIF PARTICIPANT SCOOPS IST GRAND PRIZE

Copenhagen was really awash with technology people in the first week of November, as IST (Information Society Technologies) 2002, organised by the European Commission, was also taking place in the city.

The annual event enjoyed the biggest attendance since 1999, with more than 4,000 people taking part and 350 company presentations on display. Participants in the European Investment Forum were whisked down to the event to watch France Telecom's new chief Thierry Bretton smoothly presenting the IST Grand Prize awards. The three winners of E200,000 included Swedish startup Decuma, which had already generated a lot of investor interest at the European Investment Forum itself.

Decuma has developed unique handwriting recognition software which gives the user full control over text input on mobile devices like PDAs and mobile phones. The other winners were MRC Systems of Germany, which provides ultra-fast software for optimisation of high-precision radiotherapy tumour treatments and Oticon of Denmark, which has developed solutions to some of the most important problems hearing instrument users face today. ([www.ist-prize.org](http://www.ist-prize.org), [www.oticon.com](http://www.oticon.com), [www.decuma.com](http://www.decuma.com), [www.mrc-heidelberg.de](http://www.mrc-heidelberg.de))

high levels of R&D, high financing, continued technology investing and European manufacturing bases. Jorgen Bardenfleth, general manager of the optical components division of **Intel** toed the Anania line, but added that key words in the future development of the market would be features, density and power. Bardenfleth indicated that despite continuing investment in start-ups, their strategy would focus on partnering and licensing, as opposed to out-and-out acquisition.

### Europe needs developers

Other commentators, which included John Hudson of **Texas Instruments**, acknowledged the growing value of Far Eastern contract manufacturers and OEMs, but stressed the need for new end application developers to stay close to affluent markets. "The innovation cycle feeds on proximity to end markets, and the European end market is educated and affluent," said Hudson. He also emphasised the importance of break-through technologies such as integration (a la Bookham/Alcatel Kymata), lambda changing technologies and silicon optical amplifiers.

Michael Hochholzer of **Infineon Ventures GmbH** spoke of driving trends and also called for tailored applications in the enhancement of mobility for consumers in the voice, data and video areas. Moreover, Hochholzer pointed towards the need for entrepreneurs to work with big players to deliver innovative solutions to their customers, and hinted at nanotech regimes becoming increasingly important on a manufacturing level. The strategy for Infineon as the world's No.6 semiconductor manufacturer is to invest at the first and sec-

ond round in a lead, co-lead or syndicated role with regional investment split between USA (52%), Europe (28%) and Israel (17%). Investment will concentrate on infrastructure, components and subsystem level enabling cost-effective broadband delivery.

### Investors singing from the same term sheet?

Investors were quick to stress that they had sufficient cash available for investment. They were also adamant that the fewer competing companies there are in the markets, the worse it is for everyone.

The underlying message from investors was that start-ups need to re-discover the beauty of the balance sheet, and ensure that they are targeting a niche market for their product.

## Optics & Semi-Conductor News

### High hopes for Hymite

Component packaging play, **Hymite A/S** of Denmark, is seeking expansion and development capital of E15m, but Niels Hersoug, CEO, wanted to highlight his company's relaxed attitude to any potential financing.

Expansion of the company in terms of processing facilities will depend on industry conditions, according to Hersoug. The Hymite solution aims to reduce drastically component packaging costs, using silicon and glass technology with hybrid integration and hermetic packaging. For the immediate future, Hersoug would like to concentrate on creating relationships, although one particular VC did express concern on how long the company could exist without a significant investment round.

The company was founded in 1999 with seed capital from the Center for Advanced Technology (E740,000) with a second round coming in 2001 from Dancap, Vertex Management, Olicom and the Danish Growth Fund (E5.3m). Hymite has 25 employees based in Copenhagen and Berlin. ([www.hymite.com](http://www.hymite.com))

### E10M WILL CUT COSTS FOR HyWIRE

Israeli semi-conductor solution provider, **Hywire Ltd**, is seeking to raise E10m in order to reduce costs and implement a sales and marketing strategy.

Charismatic CEO Moshe Stark explained that Hywire specialises in search-engine based hardware and software solutions for high-end routers and switches. The firm claims its unique RSE chip enables a substantial reduction in power consumption, enhances functionality and performance and has a significant advantage over more traditional products based on TCAMs or ASICs.

Hywire has completed the development of its first product, and already has some key customers, mainly in California, along with a key partnership with Infineon Technologies

### VCS WILL PAY FOR COMPLEX DEALS

One session in Copenhagen was entitled "VCs under the spotlight" in which venture capitalists commented on their favourite deals of the year. Sceptics might suggest that this was not the easiest of tasks considering the inactivity of most VCs over the last 12 months.

David Carratt, managing director of **Kennet Venture Partners**, chose to talk about the his firm's part in the unusual VC backed acquisition of **Content Technologies**. In this deal Kennet formed part of a syndicate of VCs which invested a total of £22m into startup **Clearswift Corporation** so that it could buy the Baltimore Technologies' e-mail security subsidiary **Content Technologies** for £20m. The deal involved backing a new management team and essentially funding the formation of a new company comprising an established spin off.

Such complicated deals are likely to be more frequent over the next twelve months, but they will not come easily. One particularly interesting revelation Carratt made, concerned the extent of the due diligence that his VC undertook to ensure the deal was water tight. Carratt explained that an enormous amount of in-depth canvassing of over 200 of the customers of Content Technologies took place. All in all the due diligence process alone for Kennet cost a whopping E1.5m. Carratt stressed that though considerable, this was deemed worth it to be really convinced of the target company's market size. It was also noted that, by representing a VC the canvassers could also ask questions that a competitive company would be unlikely to get the answers to.

which is a shareholder.

The new funds will also be used to develop next generation products in conjunction with existing partners. Current development costs are US\$4m, and Stark claimed that competitors would face three times those costs if they sought to develop the same technology. Revenue is expected to climb year on year. Other shareholders include Infineon Ventures, Yozma, Ofer Brothers and Star Research Ltd, which also provided seed capital when the company was founded in August 1999. The firm now has 50 employees. ([www.hywire.com](http://www.hywire.com))

### SECOND ROUND FOR SECOND PHASE EXPANSION

Institute of Technology spin-off, **BeamExpress** of Switzerland, is seeking a second round of US\$7.5-10m in order to finalise product development and bring products to market. The new capital is also required for a recruitment drive to add designers and professional management members to the board.

BeamExpress develops, manufactures and sells opto-electronic components addressing access and transport applications for next generation metropolitan and optical fibre networks based on VCSEL technology. CEO Jean-Claude Charlier, a former Agilent Technologies executive, made a presentation at the EIF. Following a first round of finance from Index Ventures in

September 2001 (E3.75m, based on a E7.5m valuation) the company now hopes for moderate growth over the next five years.

Current BeamExpress customers include Cisco, ADVA and Ciena. Its product advantage relies on vertical cavity optics architecture based on "localised wafer fusion" technology.

Revenues are expected to hit US\$10m in 2005, when break-even is also expected. Revenues of US\$88m are on the cards by 2007. ([www.beamexpress.com](http://www.beamexpress.com))

#### PROBING FOR INVESTMENT

Capres A/S is seeking expansion capital of E3.3m to demonstrate its applications to clients and ramp up production. CEO Bo Svarrer used the EIF occasion to advocate the virtues of electrical characterisation of materials at micro and nano scale using the firm's revolutionary "point probe" technology. It was claimed that higher sales figures are being driven by the semiconductor industry's move towards such smaller circuitry.

Founded in 1999 with E2.7m in VC funding, Capres' products are protected by three world-wide patents and Svarrer says the firm has a three year lead time on its technology being duplicated. Capres claims to have no direct competitors, and quotes IBM as one of its first customers.

Capres' sales in 2002 stood at E250,000 and are projected to reach E5.1m in 2004, with break-even due in 2005 on a turnover of E6.5m. Capres' business model focuses on all market segments via the licensing route. ([www.capres.com](http://www.capres.com))

#### TESTING TIMES FOR TEMENTO?

Electronic design automation company **Temento Systems** (TS) is looking to raise E2.5m for marketing (40%), technical support (30%) and R&D (30%). The capital is also required for sales development and to improve product performance. Up to 15% of the business is currently being offered in exchange for the capital injection.

TS delivers software tools dedicated to the testing of electronic systems. It targets EEMs (Electronic Equipment Manufacturers), CEMs (Contract Electronic Manufacturers), SOC (System on Chip) plays and FPGA (components engineering) design centres. In presenting the company, CEO and co-founder Patrice Deroux-Dauphin projected E6m in sales through a network of distributors, OEMs and telesales staff.

TS was founded in 1995, with early stage financing from Enterprise en Croissance (E1m) and IXCore (E1.3m). The company has made a E4m R&D investment to tackle its E600m market. Customers include IBM, Hitachi, STM and Alcatel. The company is looking to achieve its market share objective of 15-30%. ([www.temento.com](http://www.temento.com))

#### DAS SEEKS FUNDS FOR CHINA AND US

DAS – Duennschicht Anlagen Systeme GmbH is seeking E8m to take its products into the Chinese and US markets.

DAS operates in an often forgotten area of the semiconductor industry-waste gas abatement. German outfit DAS treats gases for the likes of Infineon, Texas Instruments, UMC,

Grace, Winbond and Motorola. The environmental technology company was founded in 199, and has built up a world-wide presence with a market-share of 4%. Their main competitor, BOC Edwards, has a market-share of 41%. DAS president Dr Horst Reichardt is aiming for a 30% market-share and E50m revenues for the company over the next five years. Reichardt went on to provide an exit scenario in the shape of a trade sale.

#### START-UP FUNDING FOR NEW TECHNOLOGY

Danish owned start-up **Micro Managed Photons A/S** (MMP) has high hopes for its brand new technology which develops integrated optical circuits using single to two dimension optical light using a gold metal surface. The company is seeking E1.5m to be used for R&D in developing prototypes of integrated optical devices for the telecom market.

The new technology is designed to decrease the actual size of the component without light propagation loss. It increases functionality for advanced photonic circuits. MMP has filed several patents in the US. It counts Intel, Alcatel, Lucent, Nortel, Tellabs and Ericsson as customers.

The MMP business model is primarily focused on licensing, with profitability expected in 2004. CEO Bonni Kryger spoke of the E2.4m already raised based on a E5m valuation, and the firm's intention to seek the next round from a non-Danish source. Shareholders in the company include Wise Venture, CAT Seed and Lønmodtagernes Dyrtdidsfond.

#### E15.3M SERIES C MEANS PROFIT FOR ZETTACOM.

US-based fabless networking outfit **Zettacom** is looking to raise E15.3m, which will be sufficient to take the company through to profitability. Existing investors are expected to put in between US\$7-10m of the required funding, making the target achievable, according to CEO Drew Nixon. "We have numerous investor board members, and current employees have been with us for more than two years," he said. Zettacom has already raised US\$60m and counts JP Morgan Partners, Infineon Ventures and the Development Bank of Singapore among its previous investors. Zettacom addresses the traffic manager and switch fabric aspect of the OC-12 to OC-192 markets. Nixon is confident that despite current muted markets, his organisation can deliver four consecutive quarters of revenue growth. Zettacom operates in a sector that will top US\$3bn in 2006. In his closing comments Nixon said: "Zettacom has delivered products on time and carried out its promise to provide an open standard solution for seamless integration." Zettacom claims six paying customers with 9 more ready to be invoiced in six months.

Founded in 1999 with a Series A round of US\$11m from Venrock Associates and Norwest Partners, Zettacom went on to raise a further US\$47.5m in expansion capital in 2001 from Granite Global Ventures, Development Bank of Singapore, Infineon Ventures and previous investors. Nixon commented that Zettacom could make an attractive acquisition target for AMCC, IBM or CNXT.

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### SHAZAM SIGNS SERIES B TERM SHEET

Shazam Entertainment has signed term sheets for its second round of VC financing, according to founder Chris Barton, who presented at the EIF in Copenhagen. The startup, which provides mobile music recognition services, is seeking further investors to come in on the round which it hopes will raise US\$6m for working capital in the UK and international expansion.

Shazam has developed a real time song identification service, which enables users identify a song they hear by dialling a number from their mobile and holding the phone up to capture 15-30 seconds of the song. The name of the song and artist will immediately be sent to them by text message, along with purchasing options.

Shazam has deals in place with all four mobile operators in the UK where it is predicting revenues of over E2m for 2002 with an increase to E11.8m in 2003 and E17.3m in 2004. Expansion is aimed at Germany, Japan and the US. Investors include IDG Ventures Europe, Lynx New Media and FLV Fund. (www.shazamentertainment.com)

### MMS REVENUES TO REACH US\$8.3BN BY 2004

Multi-media messaging has the potential to generate revenues in excess of US\$8.3bn by 2004, the lion's share of which is expected to come from content delivery and provisioning. According to UK firm Juniper Research Limited, content delivery and provisioning will generate US\$5.6bn in revenues in 2004 while pure peer-to-peer messaging is expected to pull in just US\$2.7bn of the total.

Particularly good news for startups too, as Juniper expects two-thirds of the US\$5.6bn to go to third parties. It also predicts that business users will account for a further US\$1.4bn of revenue in 2004.

Juniper interviewed over 40 industry leaders and concluded that significant action is required to meet these figures. Firstly, operators must hurry to implement cross-network MMS and roaming facilities, to allow the market to reach the necessary critical mass of enabled users. Also, operators must quickly make available MMS enabled handsets and cameras that are affordable and user-friendly - in order to open up the mass market (with a particular emphasis on youth).

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