



Venture Capital and Expansion Capital Funds of Funds: The Experience of CDC Entreprises on the French Market

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Background and Identity

CDC ENTREPRISES

- A 100% subsidiary of Caisse des Dépôts founded in 1994
- Dedicated to private equity funds' management focused on SMEs with high value technologies and expansion strategies
- Approved and regulated by the AMF / €3.4b under management
- 40 seasoned investors backed by state of the art MO and BO

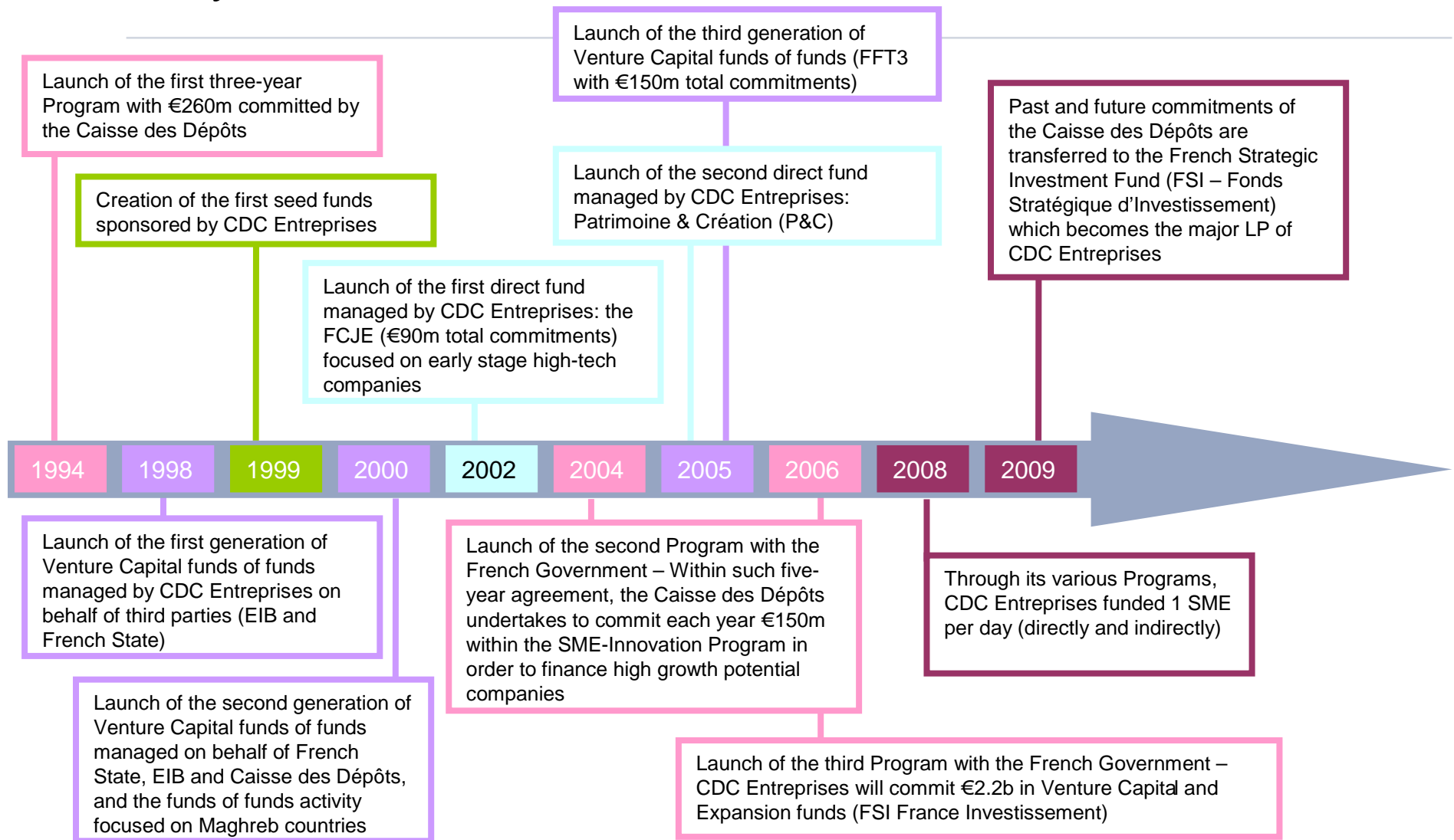


CAISSE DES DEPOTS

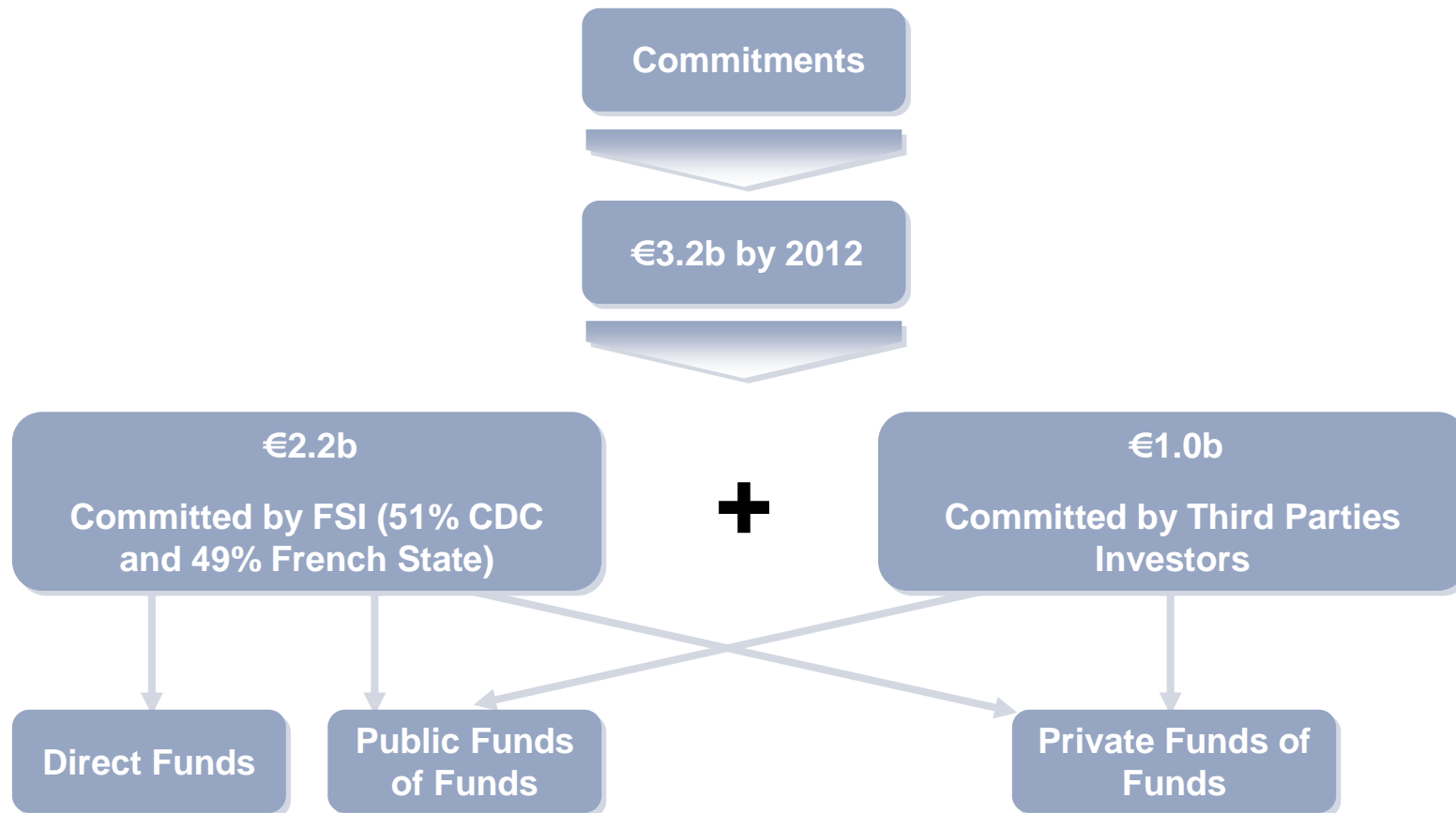
- A French State-owned financial Institution founded in 1816
- “The safest bank in the world in 2007 and 2008”, *Global Finance magazine*
- €221b Total Assets / AAA/aaa Rating
- Established by the Law of 28 April 1816 under the supervision and guarantee of the French parliament / Governed by Articles L 518-1 to L 518-24 of the French Monetary and Financial Code
- Business model combines long-term investments, a portfolio of operating subsidiaries and management of public mandates
- A strategic plan composed by 4 missions: housing, universities, SMEs' equity and environment



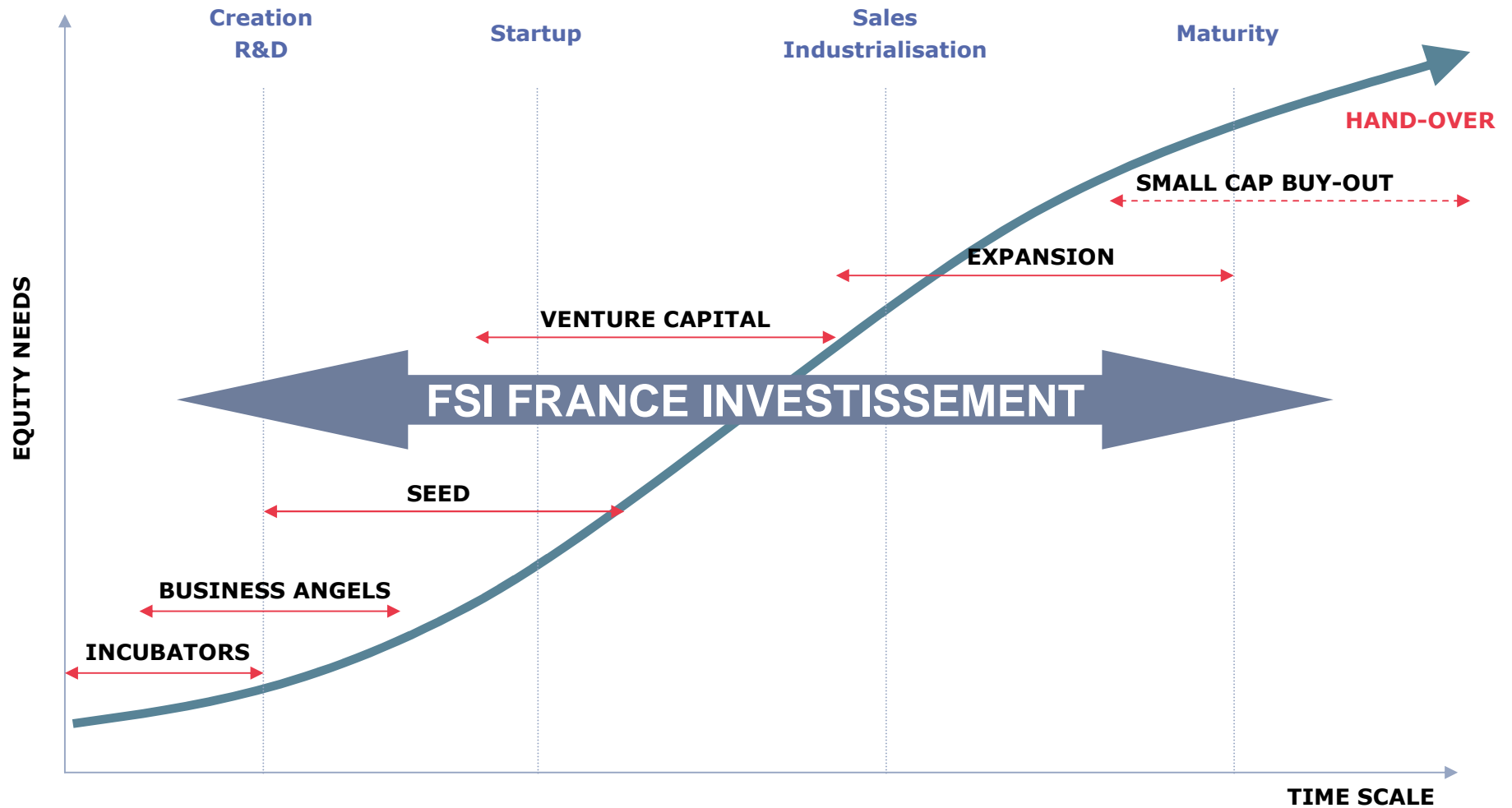
Key dates



FSI France Investissement Purpose



FSI France Investissement Coverage



Key Figures as of January 1, 2010



+ 15 years experience in small
cap private equity
(1994-2010)

**Selected co-investments
in 60 SMEs**

LP in over 200 funds
Financing 2,500 SMEs
180 are French funds

€3.4b under management

People

INVESTMENT TEAM

- 40 professionals including 15 dedicated to funds of funds
 - Complementary backgrounds (business schools, engineering schools, universities)
 - Composed of highly skilled people having diversified experiences including inter alia direct investment (venture capital and expansion), investment banking, business law, audit and consulting
-

BACKED BY INTEGRATED SUPPORT FUNCTIONS

- Dedicated compliance officer registered at the French Financial Markets Authority
 - Strong middle-office
 - Back-office with an extensive experience in reporting to numerous and various LPs
 - Integrated HR management
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Existing Limited Partners

FINANCIAL INSTITUTION



GOVERNMENT



BANKS



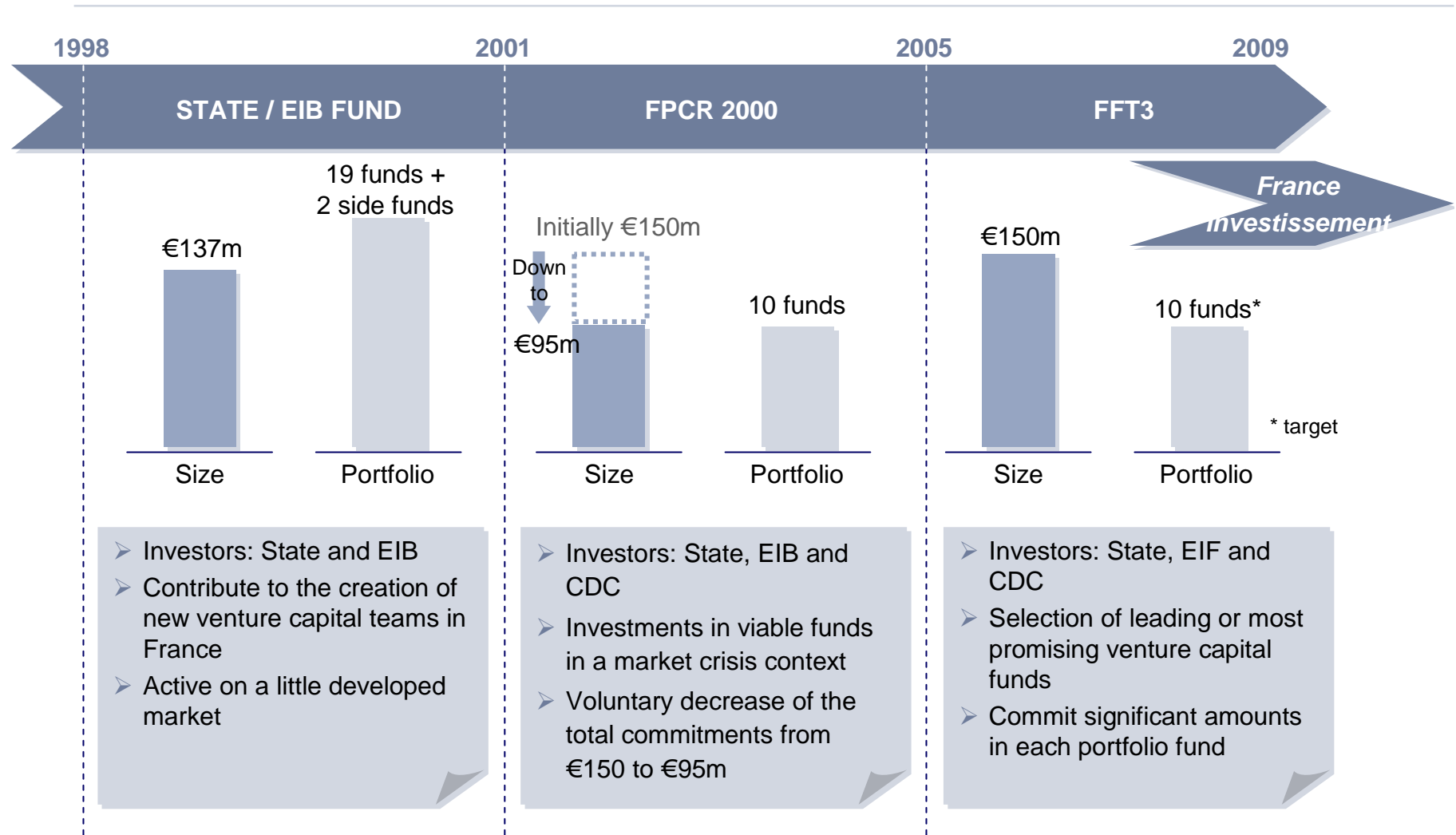
CORPORATE



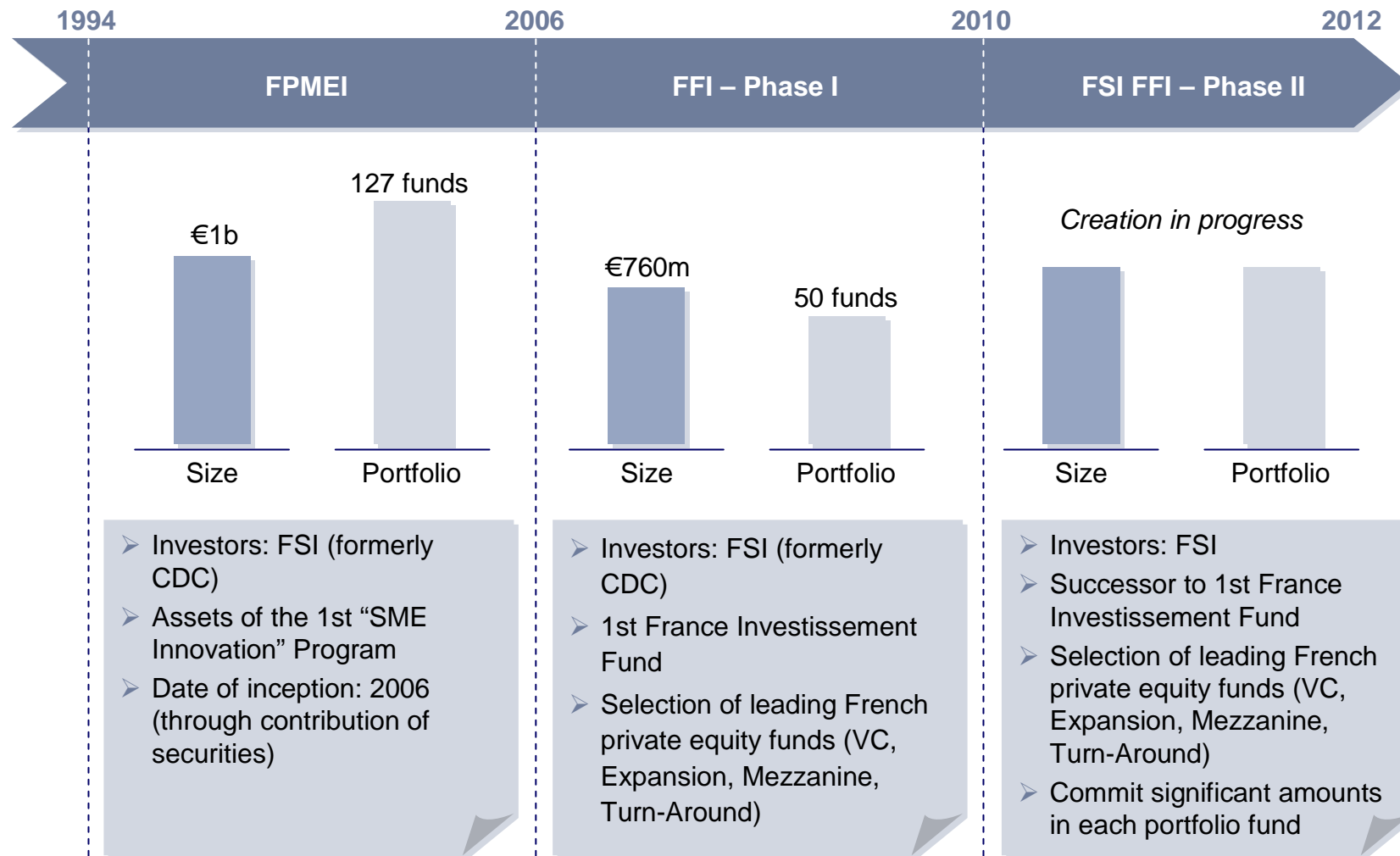
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We managed 3 generations of VC funds of funds



We manage 3 generations of generalist (VC and Expansion) funds of funds



VC Funds Investment Strategy

- Investment strategy covering all stages:
 - Seed/early stage
 - Late stage including high tech expansion capital
 - Venture loan

- Target fund size increased over time with a minimum size of first closing at 50 M€ for capital intensive investment strategies (since 2005)

- Funded VC funds allowed to invest, to a certain extent, abroad, especially in other EU countries

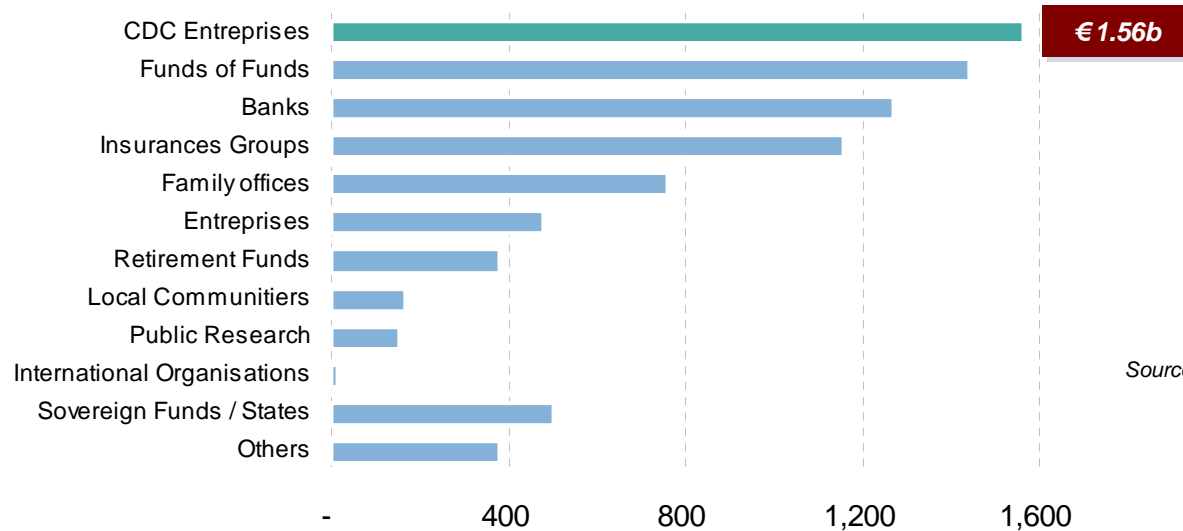
- Focus on leading French venture capital funds as well as first time funds or even first time teams when a sound strategy and a substantial experience are presented

Expansion Capital Funds Investment Strategy

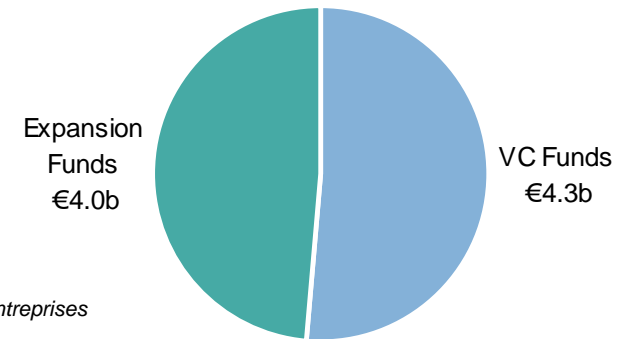
- Investment strategy covering:
 - Pure expansion capital (minority investment in equity)
 - Sponsorless mezzanine
 - Turn around
 - For a limited part, small-cap buy outs (primary and mainly MBOs or OBOs)
- Small caps expansion capital is clearly a national activity: only one cross border fund (CATHAY PE which invests in France and in China)
- Focus on fund managers creating value through growth (internal or external) of portfolio companies. Leverage must be limited

In aggregate, CDC Entreprises is the 1st investor of its portfolio funds

Breakdown of investors by category, as of end of 2008



Distribution of total commitments managed by portfolio funds



Source: CDC Entreprises

CDC Entreprises represents 19% of the total commitments of the 169 portfolio funds, i.e. €1.56b as of December 31, 2008 (+26%)

- 18% of the commitments of venture capital funds (€782m)
- 19% of the commitments of expansion funds (€780m)

CDC Entreprises finances, inter alia:

- 36% of the commitments (i.e. €450m) managed by seed teams
- 22% of the commitments (€1b) managed by local/regional teams

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Investment Policy Drivers

- Long term investor:
 - Commitment to the venture capital asset class (regardless the financial markets' and economy's situation)
 - No expectation of value creation on a short term basis nor through excessive leverage

- Target a reasonable and sustainable IRR on the long term for our sponsor and investors

- Investment policy driven by financial and economic rationals

- Primary investments (and incidentally secondaries in funds in which we are already an investor)

- As the case may be, creation of new leading players on underserved market segments

General investment rules

- CDC Entreprises makes commitments on a fund selection basis
- In accordance with high market standards (consistent with ILPA guidelines)
- Alongside and pari passu with private investors
- In order to act in the best interest of its LPs:
 - Extensive due diligences
 - Commitments in accordance with standard liquidity and returns expectations
 - Balanced portfolio allocation (in terms of stages and sectors)
- Active investment follow-up through Advisory Committee

A professional and market practice Investment process

1. Assessment of attractiveness of fund project on the basis of PMM and 1st meeting with team
 - ⇒ Investment strategy and main terms and conditions of the fund
 - ⇒ Credibility of the team
 - ⇒ As the case may be, quality of the business relations with CDC Entreprises
 - Review in weekly Executive Board (CDC) or monthly Investment Committee (third parties investors)**
 2. Extensive due diligences
 - ⇒ Attractiveness of investment strategy / Opportunities for investing in the fund's targeted market
 - ⇒ Quality of the team's deal-flow
 - ⇒ Reputation, experience and track record of the team
 - ⇒ Detailed portfolio analysis
 - ⇒ Transparency of business practices of the team
 - ⇒ Quality of reporting to investors
 - ⇒ Compliance
 - ⇒ Commitment and fund-raising at first closing
 - Approval and sign-off of Investment Committee**
 3. Negotiation of fund's terms and conditions
 - ⇒ Main provisions of the fund (key man, divorce, fees and expenses, etc...)
 - ⇒ Review viability of management company / GP
 - Finalization of legal documentation and subscription to the fund**
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Funds of Funds portfolio's sample

Venture Capital teams



Expansion Capital teams



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Situation of the French Venture Capital market

- Numerous teams on the market
 - Limited number of LPs willing to commit to VC funds and some are currently exiting this asset class or involved in special situations (e.g. mergers, etc.)
 - Funds' sizes are decreasing but duration of fundraising is increasing...
 - A move to later stage investments
 - Underperforming teams are going to go out of business
 - Seed financing is substantially decreasing: the French "Grand Emprunt" will dedicate €400m to seed funds and CDC Entreprises should be the operator
-

Situation of the French Expansion Capital market

- A limited number of pure plays, but expansion capital transactions are back
- A lot of funds managers moved to mid-market buy out – it will be difficult for them to go backwards... Managers who remained on their initial market are well positioned in the current situation
- Mezzanine investments (convertible bonds with warrants) are developing
- Duration of fundraising is also increasing for expansion capital funds...
- Leverage is no longer the value creation focus!
- Expansion capital funds managers do not invest much in high tech companies even when they are profitable

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Synthesis

GENERAL

- Public funding must be pari passu alongside private investors (e.g. subordination must be excluded)
- Strong fund selection and market practices are a required
- A dedicated highly skilled professional managers team is required

VENTURE CAPITAL FUNDS

- Investing in the VC asset class requires a long term perspective
- VC is an asset class requiring very specific characteristics on the GP side as well as on the LP side
- Focus on leading VC fund managers as well as first time funds / teams which have a genuine strategy focused on market inefficiency

EXPANSION CAPITAL FUNDS

- Expansion capital funds (with minority stake holding) where ignored by most of LPs, but they are currently demonstrating that they are relevant!
- Focus on expansion capital funds (including some OBOs and MBOs) not relying on high leverage as a main source of value creation

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