

# The role of CDC Entreprises in French public policies to promote risk capital

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1. Overview of CDC Entreprises

2. Focus on the venture funds of funds activity

# CDC Entreprises – Summary

- **Portfolio management company** approved by the French Financial Markets Authority (AMF) since 2001
- 100% subsidiary of the French **Caisse des Dépôts**

Main characteristics of the Caisse des Dépôts:

- ⇒ Total assets: €200 bln
- ⇒ €19 bln equity
- ⇒ 2006 profits: €4.5 bln
- ⇒ ROE: 12.5%
- ⇒ €205 bln savings' funds
- ⇒ Rated AAA/Aaa

- ✓ Exclusively focused on private equity
- ✓ Corner stone of the **France Investissement** program

## Key figures :

- ⇒ €2.5 bln under management, including €2.1 bln on behalf of the Caisse des Dépôts
- ⇒ Over €330 mln committed per year
- ⇒ Over 2,500 companies financed through 195 portfolio funds
- ⇒ 50 expansion companies directly financed
- ⇒ 50 professionals including 25 investors
- ⇒ 9 investment vehicles

# A wholly owned subsidiary of the Caisse des Dépôts:

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- In charge of **private equity activities** serving public interest
- Covers **all stages, from seed capital to small-cap buy-outs**:
  - ⇒ seed capital
  - ⇒ high tech venture capital
  - ⇒ expansion
  - ⇒ buy-out
  - ⇒ local private equity
- Operates mainly as a **fund of funds**, but also through **direct investments** (Patrimoine & Création) and through **direct co-investment** in companies alongside portfolio funds
- Aims to execute investments of **€15M at a maximum** in each underlying portfolio company

# CDC Entreprises, the corner stone of the France Investissement program

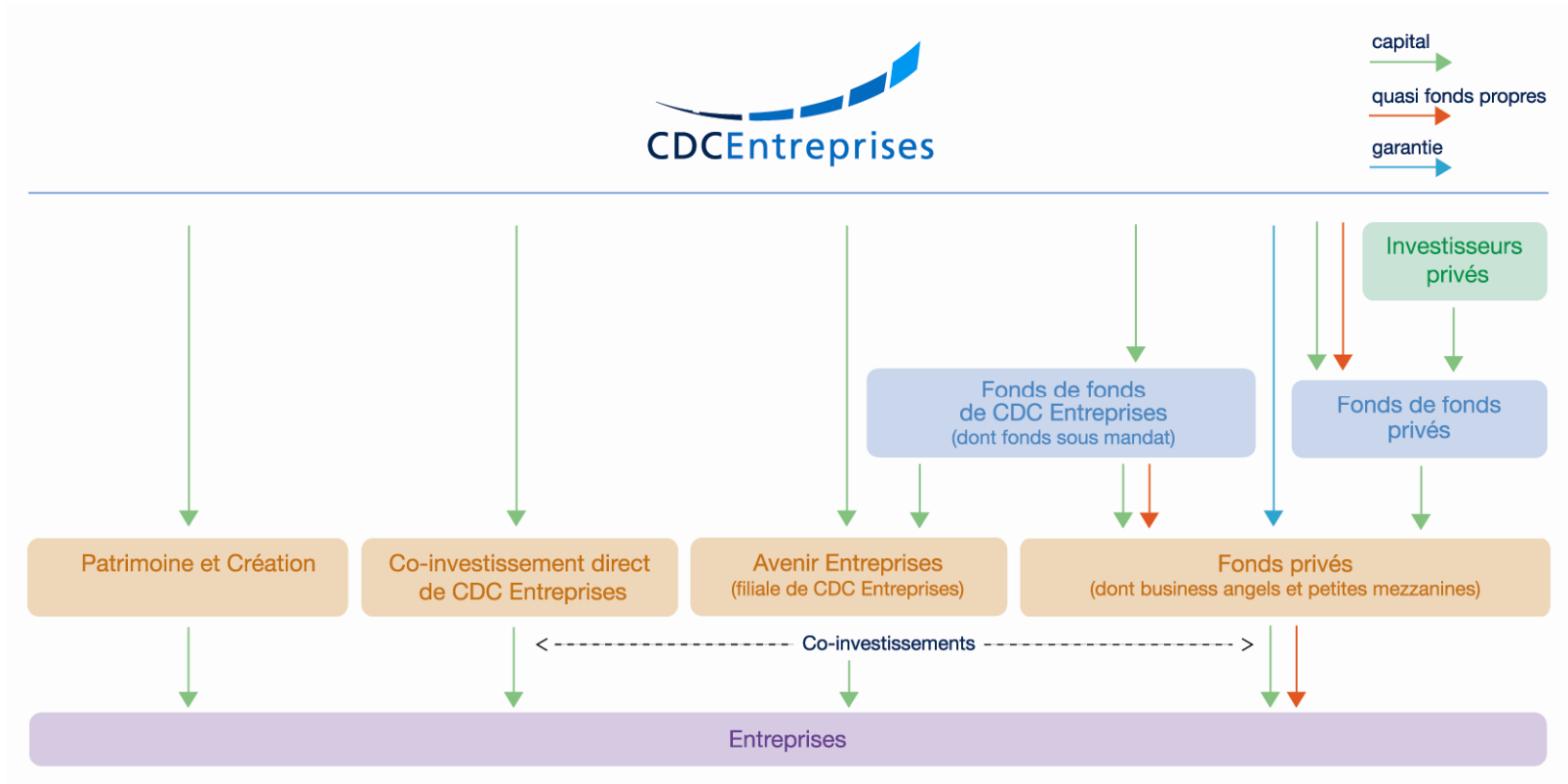
France Investissement = double commitments of the Caisse des Dépôts dedicated to private equity

More than €2Bn committed over 6 years (2006 – 2012) – i.e. €330M per annum on average to reinforce equity investments in French SMEs, through its subsidiary CDC Entreprises:

- **Commitments** of former “PME Innovation” program increased;
  - Focused on funds of funds / €150M per annum
- **New strategy based on direct co-investment** (alongside portfolio funds) in order to contribute to the creation and development of future global champions;
- **An expanded business area**
  - Minority commitments in private funds of funds
  - New instruments (guarantee OSEO, business angel funds, etc.)



# General overview of CDC Entreprises' activities



# Funds of funds

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Continuation of the prior activity consisting in commitments made in **private equity** structures:

- venture capital, seed capital, and expansion
- national and local
- in accordance with standard market conditions

Commitments are made on behalf of the **Caisse des Dépôts**, and on behalf of **third parties** investors (French State, EIB, EIF, Caisse d'Epargne, etc.).

⇒ *Maximise leverage on private commitments in targeted funds*

# Direct co-investment

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- Since 2002, co-investment activities of CDC Entreprises were exclusively focused on second financial rounds in high tech companies
- Co-investment team is composed of experienced investors completed by newly hired professionals
- New strategy consists in **contributing to the creation and development of future French global players** by:
  - Accompanying **finalization of financial rounds**, particularly those rounds that exceed the capacity of venture capital and private equity funds, for high tech and other sector companies
  - Investing alongside such funds on a non-competition basis and in accordance with **standard market conditions**
  - Making minority equity investments

# Commitments to private funds of funds

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- Increase commitments for French venture capital and expansion funds
  - Increase commitments by of funds of funds
  - Minority commitments by CDC Entreprises
  
- Selected in accordance with France Investissement investment principles
  - Relevance of the investment strategy
  - Profitability and value creation potential
  - Teams' experience and sustainability
  - First closings

# Investments in private funds of funds

- €100M committed per year by CDC Entreprises within the France Investissement program dedicated to venture capital and expansion fund investments
  - Exceptional commitment of €200M over the 2006/2007 period
- As of 2007, 6 funds of funds raised by private institutional investors:
  - 5 funds of funds raised to date: AGF, CNCE, Finama PE, Natixis PE and SGAM
  - 1 in progress: Axa PE
- Independent investment decisions
- Governance rules
- Transparency
- Reporting



# Support to additional SME financing players

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Promote the coordination of business angels in order to:

- Initiate an evolution towards Anglo-Saxon standards
  - 4,000 business angels in France (France Angels figures)
  - 40,000 in the UK; 400,000 in the USA
- Reinforce contribution of business angels
  - Financial contribution
  - Experience, coaching, networking
- Reach critical size funds able to complete the offer of seed and venture capital funds
- Professionalize business angels' standards

# The France Investissement Guarantee Fund, managed by OSEO and committed by CDC Entreprises

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In 2006, €290M guarantees were granted to venture capital funds, to the benefit of 600 portfolio companies

Four improvements within the France Investissement program:

- Business angel companies have access to such guarantee;
- Guarantee contracts executed with FCPRs (private equity French legal structure) at fundraising raising, during their full term;
- Proposal for an alternative offer (increase of indemnification limit) dedicated to local funds;
- Guarantee contracts available for companies existing since more than 7 years (on an case-by-case basis).

Annual guarantee commitment by CDC Entreprises: €20 M in 2007

# CDC Entreprises' 2007 activity

- Over €480 mln committed



- Organization of a Middle Office with a specific software solution (FrontVentures)

# General investment rules

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- CDC Entreprises makes commitments on a **fund selection basis**
- In accordance with **high market standards**
- Alongside **private investors**
- In order to act in the best interest of **third parties investors** and the **Caisse des Dépôts**
  - ⇒ Extensive due diligences
  - ⇒ Commitments in accordance with standard liquidity and returns expectations
  - ⇒ Balanced portfolio allocation
- Active **investment follow-up** through Advisory Committee

# Investment process

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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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# Overview

## National funds of funds

### Investment policy

- Primary investments (and incidentally secondaries)
- In funds targeting €80 to 200 mln (€50 mln minimum size)
  
- ⇒ High tech venture capital and expansion
  
- ⇒ Expansion / small-cap buy-outs (no more than €15 mln in any one portfolio company)
  
- ⇒ Sponsorless mezzanine (no more than €15 mln in any one portfolio company)

### Vehicles

- 3-génération funds of funds managed on behalf of third parties investors
  - ✓ Venture capital
  - ✓ Proprietary deal flow
  
- 2 funds of funds managed on behalf of the Caisse des Dépôts
  - ✓ Venture capital
  - ✓ Expansion / small-cap buy-outs
  - ✓ Sponsorless mezzanine

# Specialized venture funds of funds

## Investment strategy

- Focus on leading French venture capital teams
- In order to increase equity investments in early stage innovating companies
- Focus on high technology
- Team selection
- Proprietary deal flow

## 3 successor funds

- 1998-08 : Fonds de Promotion pour le Capital Risque Etat / BEI  
€137 mln  
19 portfolio funds
- 2001-11 : FPCR 2000  
€95 mln  
10 portfolio funds
- 2005-15 : Fonds de Fonds Technologique 3 (« FFT3 »)  
€150 mln  
6 portfolio funds  
2 funds in progress

**Capacity for 2 additional commitments**

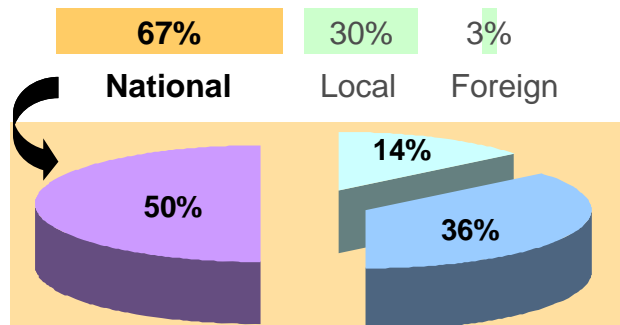
# Investments on behalf of the Caisse des Dépôts

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National funds of funds

## 1<sup>st</sup> FCPR: FPMEI

- Assets of the 1st “SME Innovation” program (1994-06)
- Date of inception: 2006 (through contribution of securities)
- Term: 99 years
- Size: €1 bln (€730 mln committed)
- Number of investments: 144
- Allocation of commitments:



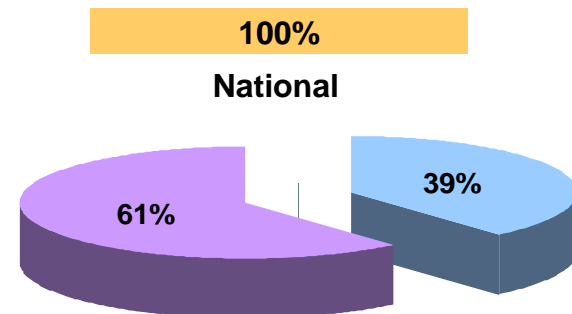
Seed

Venture capital

Expansion

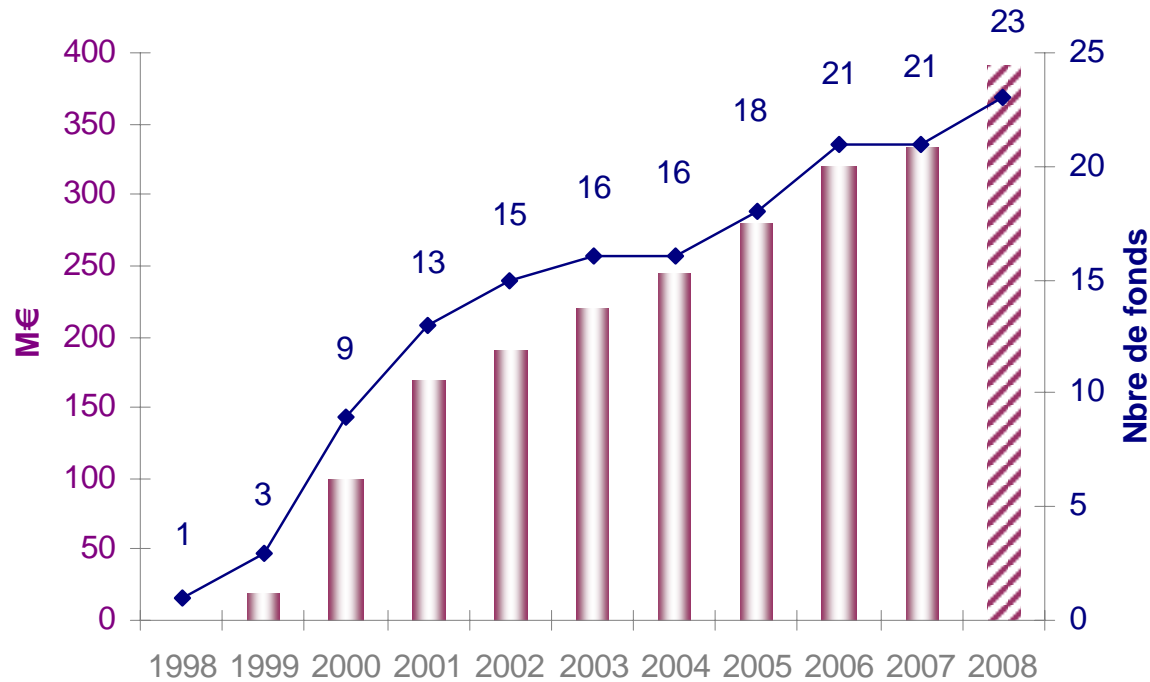
## 2<sup>nd</sup> FCPR: FFI-A

- 1<sup>st</sup> France Investissement Fund (« A » container dedicated to national activity)
- Date of inception: 2007
- Term: 99 years
- Size: €330 mln (3-year investment period)
- Number of investments: 8
- Allocation of commitments:



# Seed funds

Evolution des capitaux gérés et du nombre de fonds

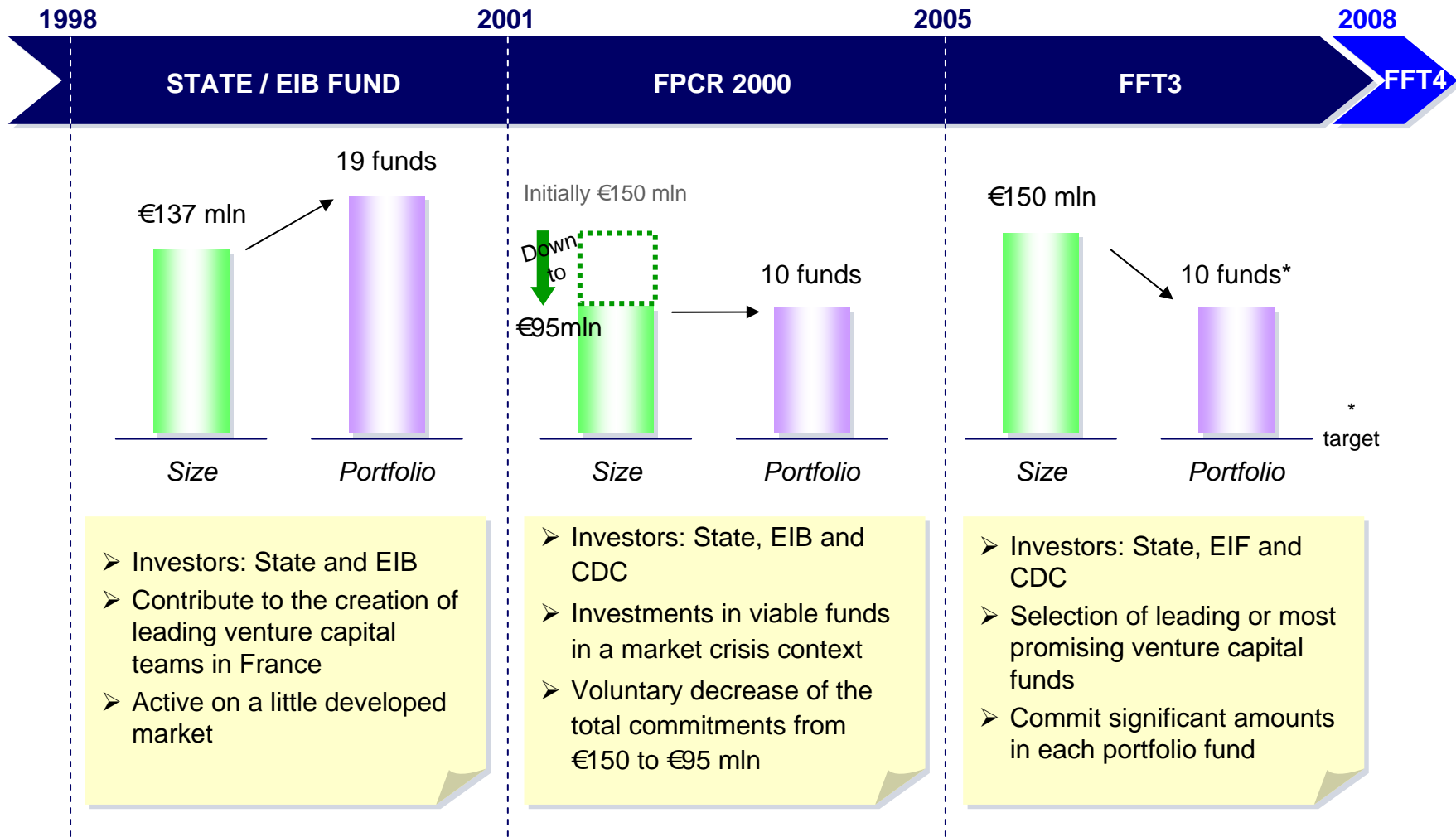


- ✓ Secant **1998**
- ✓ G 1<sup>er</sup> Jour
- ✓ I-Source
- ✓ Primavera
- ✓ FAM
- ✓ Emertec
- ✓ Bioam
- ✓ C-Source
- ✓ T-Source
- ✓ Sophia Euro Lab
- ✓ I-Source 2
- ✓ Le Lanceur
- ✓ Cap Décisif
- ✓ Inovam
- ✓ Amorçage Rhône-Alpes
- ✓ Emertec Energie Env
- ✓ Emertec 2
- ✓ Alsace Amorçage
- ✓ Inserm Transfert Initiative
- ✓ Minatec Amorçage
- ✓ I-Source 3
- ✓ Cap Decisif 2 **2008**
- ✓ Emertec 4

# High tech private equity background

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National funds of funds



# Update on high tech private equity

## 2005-2008: the FFT3

- Selection of teams and projects
- 6 portfolio funds:
  - ✓ Auriga III
  - ✓ Ventech III
  - ✓ Matignon Technologie II
  - ✓ Innovacom VI
  - ✓ Alven III
  - ✓ ETMF III
- 2 funds in progress :
  - ✓ Serena
  - ✓ Truffle Capital II
- 2 additional commitments prior to the end of the investment period

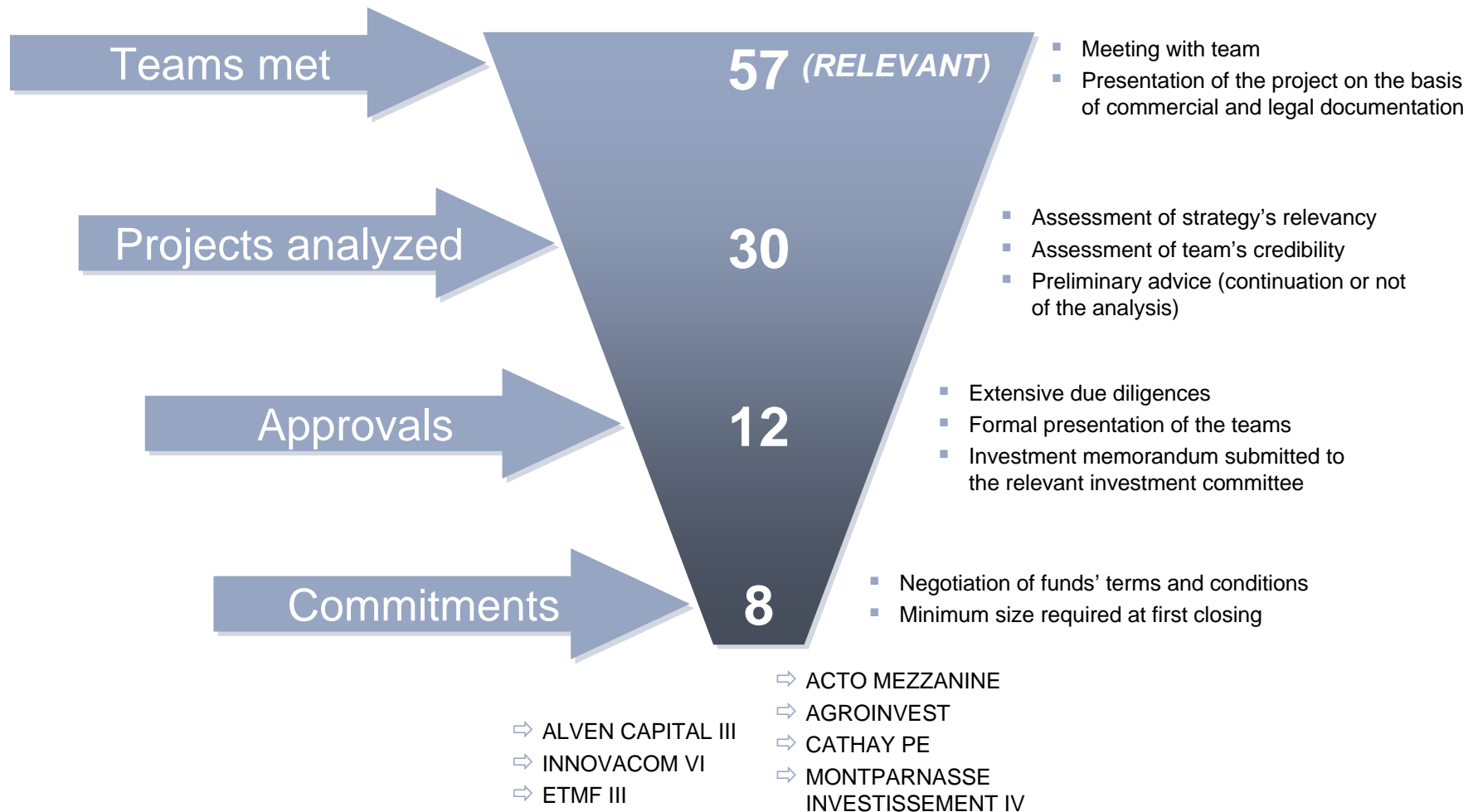
## 2008-2010/11: the FFT4

- ⇒ Fundraising in progress
- ⇒ Target: French high tech private equity funds (early/late stage, expansion)
- ⇒ High team selection thanks to a sharp knowledge of the market and an active presence on it
- ⇒ 8 to 12 commitments during a 3/4-year investment period
- ⇒ Funds having a €150 to 200 mln target size
- ⇒ CDC sponsoring

# 2007 deal flow

**FOCUS**

National funds of funds



# French small-cap opportunities

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- Venture capital becomes attractive:
  - ⇒ Multidisciplinary engineers' education
  - ⇒ Excellency of French research organizations in the fields of telecom, nanotech, mathematics, life science, etc.
  - ⇒ Returning serial entrepreneurs
  - ⇒ Skillful and experienced venture capital investors
  
- Expansion, a renewing market:
  - ⇒ Small-caps' market is inefficient and presents many opportunities
  - ⇒ Sponsorless mezzanine is a new way of investing in expansion
  - ⇒ Potential value creation with build-up transactions and companies going global

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