

UNITED NATIONS ECONOMIC COMMISSION FOR EUROPE

International Conference:

Policies to Address Financing and Entrepreneurial Challenges in
High Growth Innovative Firms

Public policy, not innovation, is Finland's challenge

Mikko Suonenlahti

Helsinki, 2 – 4 June 2010

mikko @ suonenlahti . com
+358 50 302 7043

Mikko Suonenlahti

• **Present Senior Adviser for Veraventure in Finland and for DFJ Esprit, the European affiliate for Menlo Park, California based Draper Fisher Jurvetson and a Chairman or Director of five high growth innovative firms**

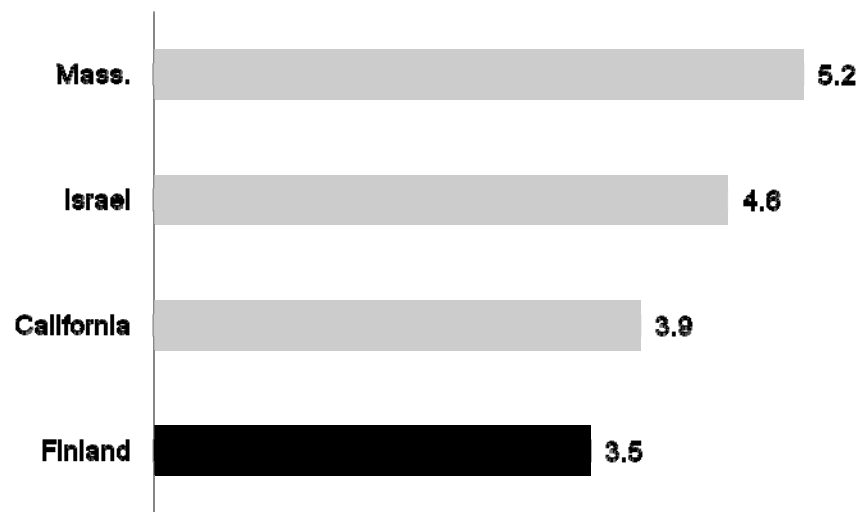
• **25 years of global management experience in business building**

- 15 years as a successful “hands on” VC in the US and in Finland
- Former Partner with 3i US in Boston, US and a co-founder of SFK Finance Oy in Finland, which was acquired by 3i (a FTSE 100 company)
- A board member of over 20 businesses in the US and in Finland, of which 15 have been acquired
- 10 in operations
- P / L responsibility as Managing Director of Qatar Capital Partners and 3D Computing Oy and as a Manager with Nokia Data Oy. Served with Unisys European HQ and as a consultant with McKinsey

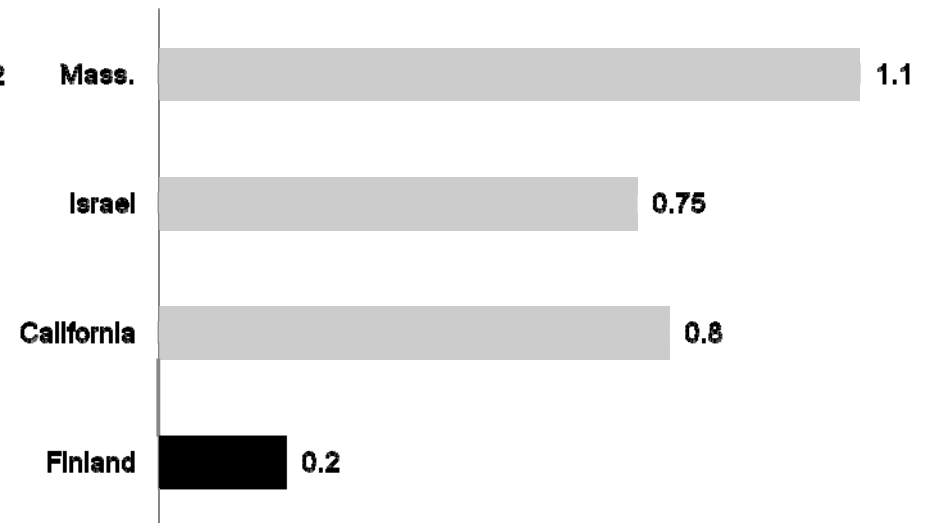
• **MBA from the Helsinki School of Business and a BBA from Portland State University, Oregon, USA. Executive education at Harvard Business School**

FINLAND'S LOST OPPORTUNITY?

Over 100 Finnish technology businesses are now looking for funding of > €500 million, while the supply of capital is non-existent



R&D per GDP %



VC INVESTMENTS PER GDP %

Government and VC

- **No shortage of innovative companies, ideas or individuals in Finland**
- **The government has an important role in funding basic research. A diverse pipeline of 300 – 400 start-ups has been financed. Many of them require, and deserve, further funding of €20 – 30 million each**
- **Government and VC have a symbiotic relationship in bringing new inventions and innovations to market, but private sources of VC is rare in Finland. Fund formation should be encouraged**

VC and Public Policy

- **The challenge is building companies from scratch**
- **VC is one of the most risk intensive asset classes in the world**
- **Start ups rarely have collateral for loans, few assets or track record**
- **Often the only source of long-term capital (7 – 12 years) are VC companies**
- **A VC takes on this risk by providing the capital for a minority % of a company**
- **Risk profile increases or decreases through public policy**
- **Changes in public policy may ensure a vital source of economic growth**

The Consequences

- **In 2008 in the US, venture capital-backed companies accounted for 11 % of private sector employment and represented the equivalent of 21 % of GDP – based on \$ 456 billion of venture investment from 1970 – 2008**
- **TechColumbus, Ohio, US: \$ 1.6 billion invested since 2002 has created 9 519 direct jobs and 45 464 indirect ones at a cost of \$ 58 000 per job. Investment expected back from increased tax revenue. \$ 700 M more requested from voters in 2010: “Yes for issue 1 for jobs”**
- **Even the US is reacting in 2010 – President Obama’s tax initiatives and Intel’s increased investments in high growth businesses**
- **Many countries are adjusting their tax and regulatory policies, in order to offer the same competitive advantages that U.S. VC backed companies have to attract the best scientists and entrepreneurs to their teams**
- **In Finland, by not fostering an environment of rewarding risk investment has potential negative consequences**
 - **Loss of investment in 300 – 400 growth companies**
 - **Limiting a source of future employment growth and value creation**

The Solution

- **Common sense, transparent long-term tax policies are required. Favourable tax policy is required to reward long-term investment and encourage calculated, entrepreneurial risk taking**
- **reduced capital gains and corporate taxes for high growth firms**
- **loss carry forward to be further extended**
- **options (a driver of the U.S. VC industry, rarely if ever used in Finland)**
- **carried interest for VC funds**

- **The government needs to motivate VC fund formation, by encouraging pension funds, family offices and business angels to invest in VC funds**

- **Small changes in policy could have a huge impact**

***Without a change in public policy,
there will be no Finnish
venture capital funds or risk takers to
build businesses***

THANK YOU