



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

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1. About CDC Entreprises
2. Funds of Funds Managed
3. Investment Practice
4. Situation of 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

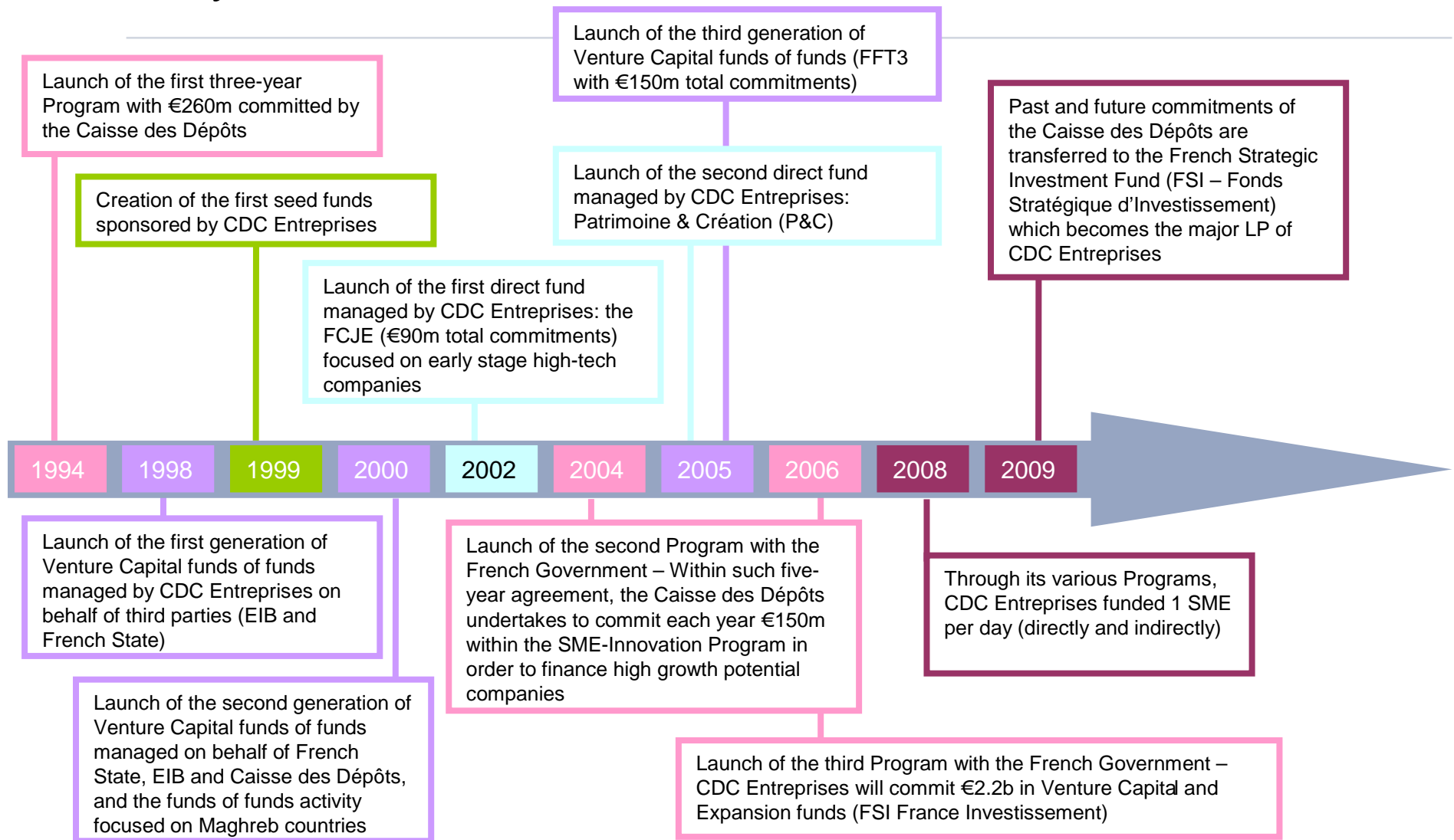


## CAISSE DES DEPOTS

- 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

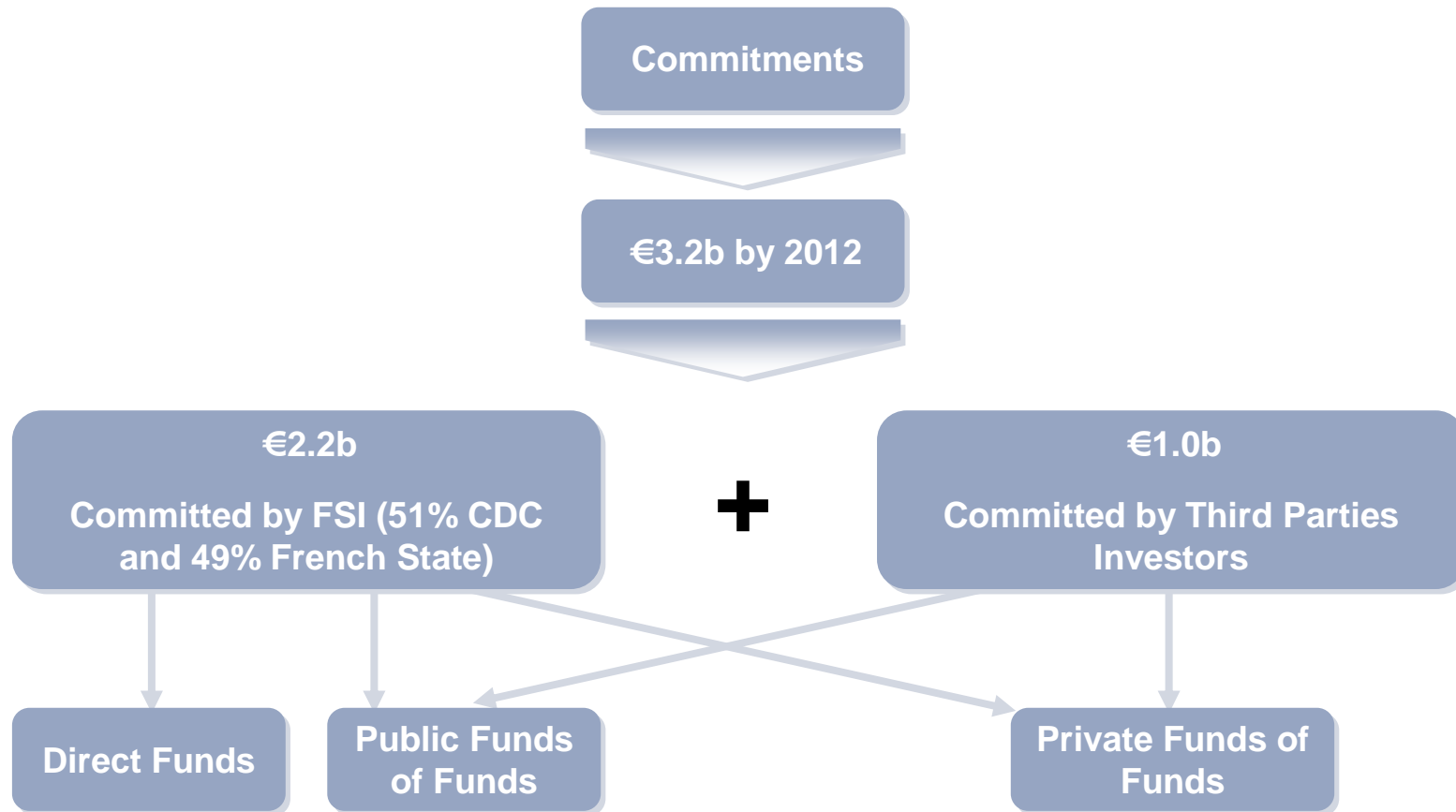


# Key dates

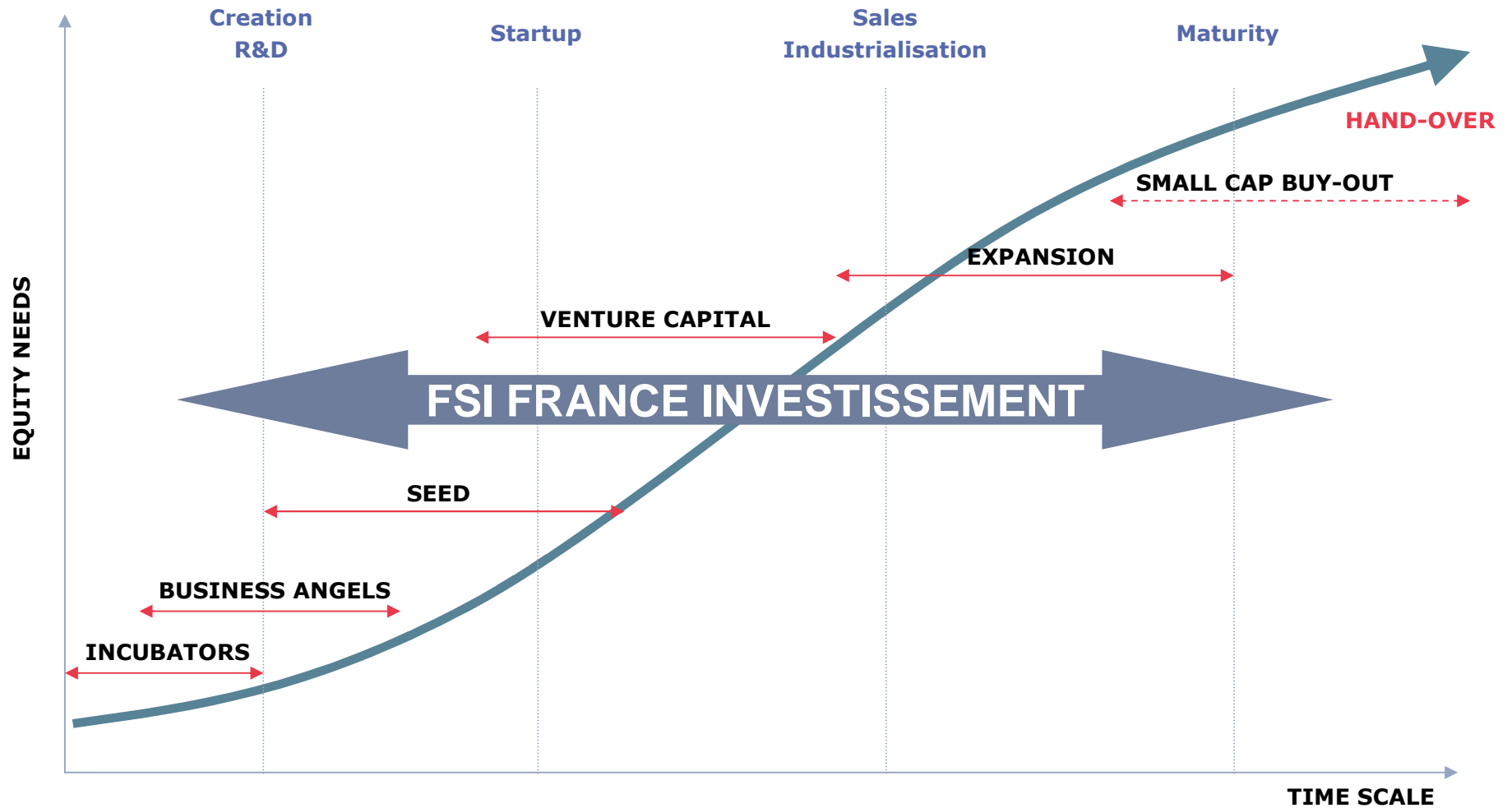


# FSI France Investissement Purpose

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# 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

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## **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
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## **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

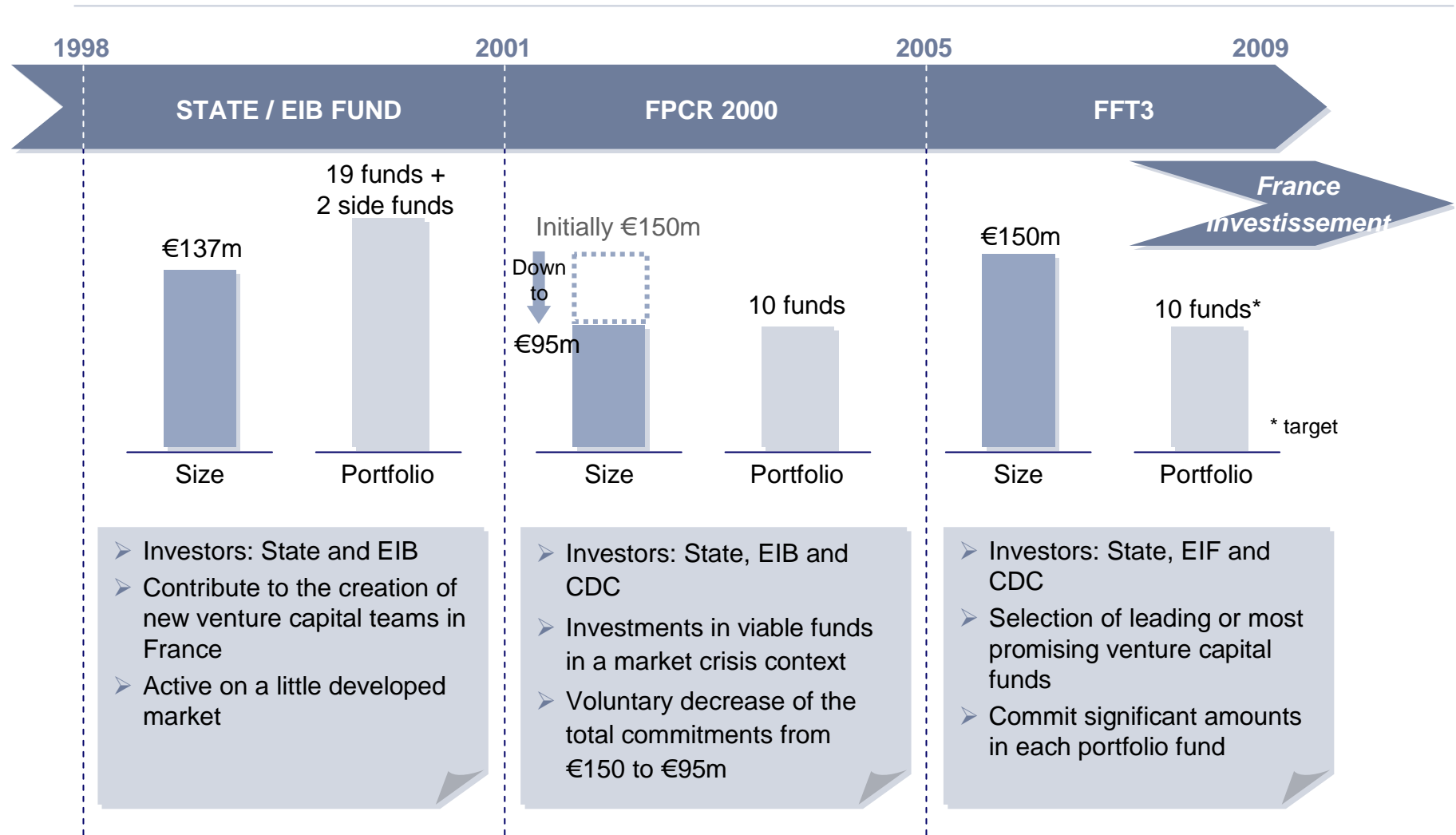


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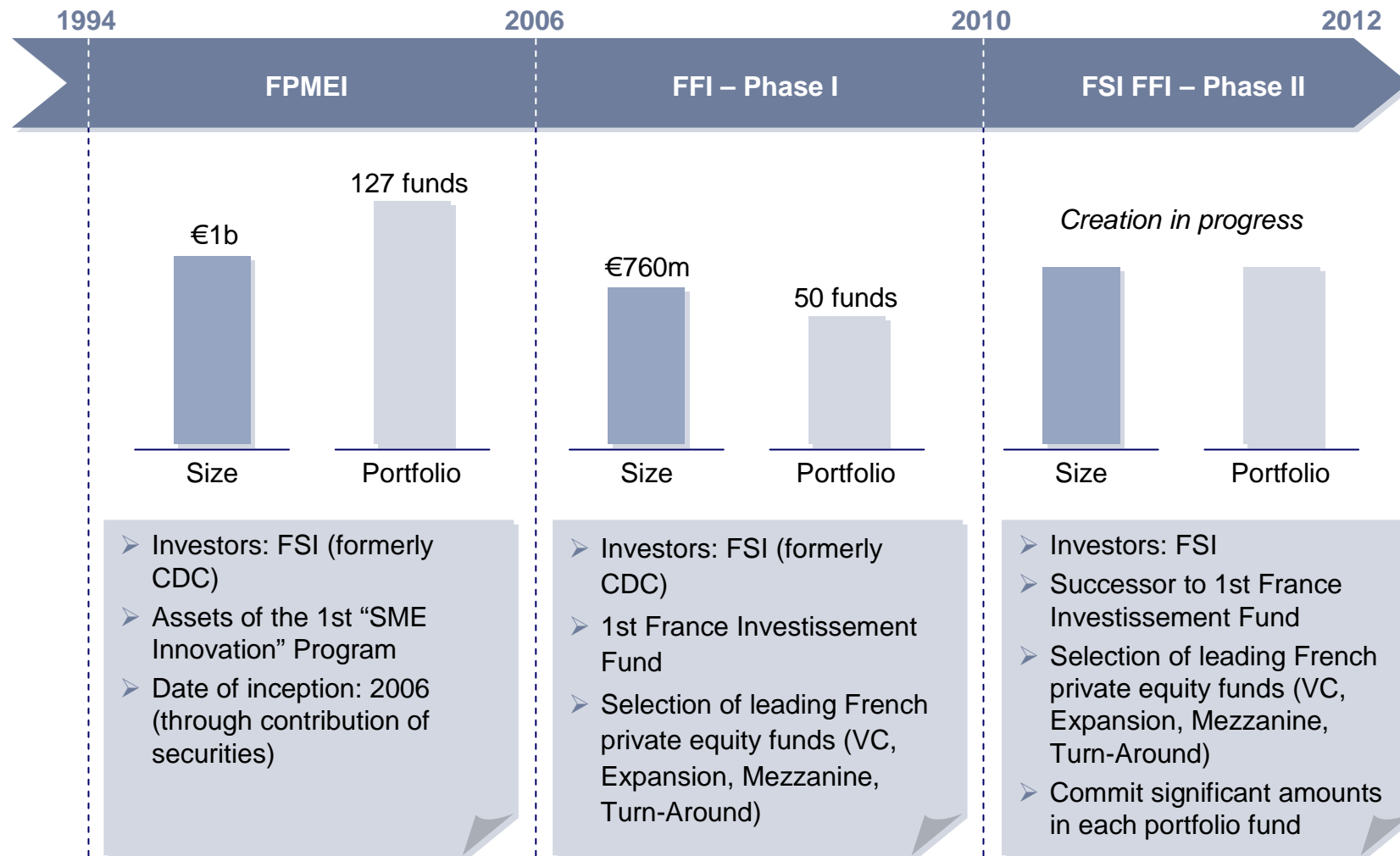
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# We managed 3 generations of VC funds of funds



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



# VC Funds Investment Strategy

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- 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

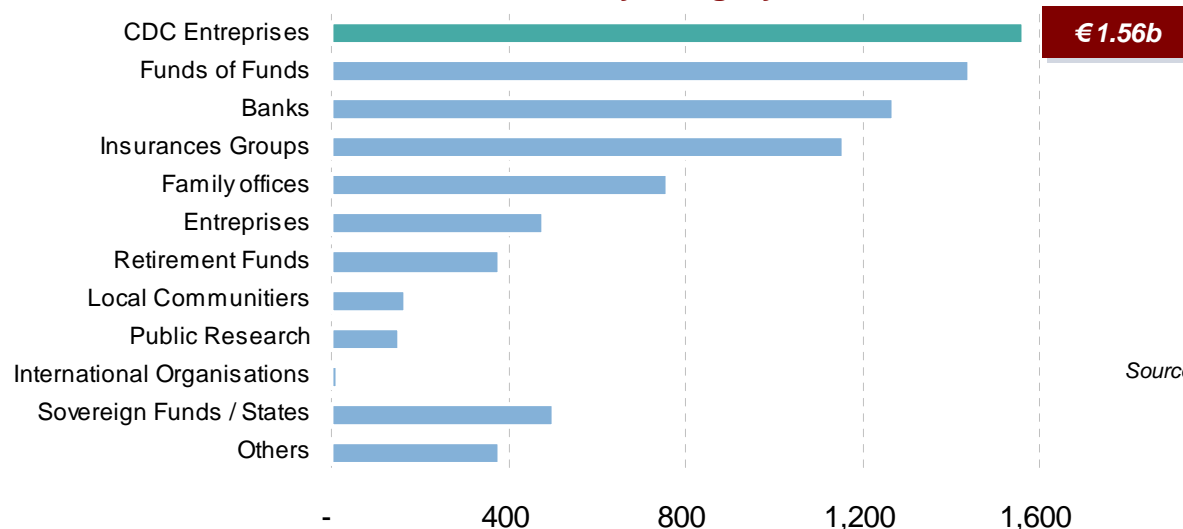
# Expansion Capital Funds Investment Strategy

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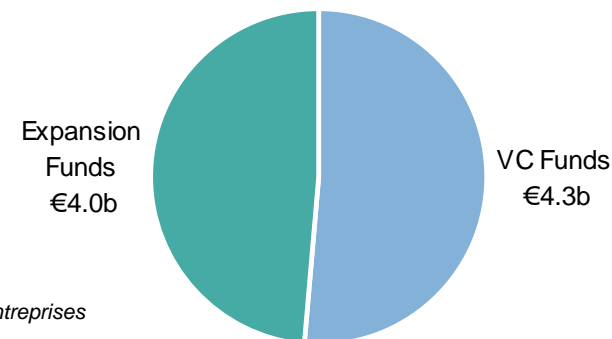
- Investment strategy covering:
  - Pure expansion capital (minority investment in equity)
  - Sponsorless mezzanine
  - Turn around
  - For a limited part, small-cap buy outs (primary and mainly MBOs or OBOs)
- Small caps expansion capital is clearly a national activity: only one cross border fund (CATHAY 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

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- 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

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- 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

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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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# Funds of Funds portfolio's sample

## Venture Capital teams



## Expansion Capital teams



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# Situation of the French Venture Capital market

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- 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
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# Situation of the French Expansion Capital market

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- 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

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## 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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