

Private Equity and Venture Capital in Finland

Market Review

23.6.2022



Table of Contents

1.	Summary	3
2.	Introduction: Private Equity Investors - Building Growth	5
	Key Industry Figures	5
3.	Startups and Venture Capital Investors	7
	The investments received by Finnish startups and early-stage growth companies surged to a new record	7
	Development of Finnish Venture Capital Industry	11
	The COVID-19 Crisis and time after the pandemic from the Perspective of the Venture Capital	14
4.	Growth Companies and Buyout Investors	16
	Finnish buyout and growth investors had a record-smashing year in fundraising. The market has remained fairly stable in recent years in terms of investments and exits	16
	The Development of the Buyout Market During and After the COVID-19 Crisis ...	18
	Additional information: Press releases and research about private equity	20

1. Summary

Summary of the Startup Financing and Venture Capital Market

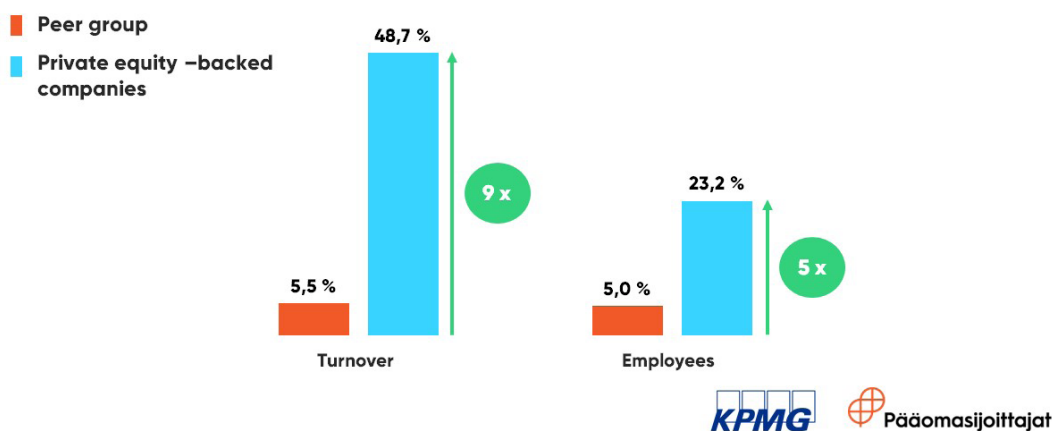
- Finnish startups raised almost 1.2 billion euros in investments and broke the 0.95-billion-euro investment record from previous year.
- The most significant group of investors are domestic and foreign venture capital (later "VC") investors.
- In five years, 2017–2021, the investments of domestic VC investors have almost tripled, and the investments made by foreign VC investors have increased eightfold.
- Domestic and foreign VC investors invested a total of €743 million in Finnish startups in 2021.
- Investments from foreign investors increased by 123 %, from previous years amount of €248 million to €553 million in 2021.
- 74 % of the investments received by Finnish startups came from foreign investors.
- Focusing on the investment stage, the largest increase was seen in later stage venture investments, from €302 million to €540 million. The largest percentage increase was seen in seed-stage VC-investments.
- According to Invest Europe's statistics, in relation to GDP, Finnish startups have collected the most domestic and foreign VC investments in Europe for the fourth time in a row.
- Finnish VC investors are becoming more international: In 2021, 36 % of the invested amount was invested into foreign startups.
- Finnish VC investors have raised almost one billion euros of new funds over the past three years. Additionally, many new thematic or sector-specific funds have been established in Finland.
- The group of investors in the Finnish VC funds have become more diverse and international.
- The average size of a VC fund in Finland is approximately €54 million. In Europe, the average size is around €100 million.

Summary of the Growth Company and Buyout Market

- Finnish buyout and growth investors raised a record-breaking amount of funds in 2021, €1.4 billion in total.
- Assets under management by Finnish buyout and growth investors have increased to €6.5 billion and dry powder to €3 billion.
- Domestic and foreign buyout investors have invested €4.9 billion in Finnish growth companies in 2017-2021.
- Buyout investors made successful exits from over 50 growth companies. After a small hiccup caused by the pandemic, divestments have recovered to record high levels.
- Finnish buyout and growth investors have invested over €2 billion in domestic and foreign growth companies in 2017-2021. In 2021 the amount was €381 million.
- In recent years, more than 90 % of investments by Finnish buyout investors have been directed at Finnish growth companies.

Figure 1. According to the 2020 private equity industry impact study, the revenue of companies owned by private equity investors has grown by an average of more than 50% each year during the first three years of ownership. Revenue growth is nine times faster than in peer companies. Over the same period, the number of employees in companies owned by private equity investors has increased by an average of 23% per year, which is five times higher than in the control group.

Compound Annual Growth Rate of PE-Backed Companies in the 3 Years Following Investment 2010-2020



2. Introduction: Private Equity Investors - Building Growth

Private equity investors are temporary and active **growth-oriented owners** in unlisted startups and growth companies. In addition to capital, private equity investors provide expertise, experience, and extensive networks to support the growth of their portfolio companies. A private equity investment is a significant part of the financing and growth path of the most growth-oriented Finnish companies. With the **combination of capital and expertise** provided by private equity investors, portfolio companies grow significantly faster than other peer companies (Figure 1).

Private equity investors can be divided into two groups:

1) **VC investors** invest from VC funds in startups at different growth stages, becoming minority owners of their portfolio companies.

- **Startups** are young innovative companies that typically strive for rapid international growth through scalable business models.

2) **Buyout investors** make investments in more established growth companies from their private equity funds. For the most part, private equity investors are majority owners. There are also a few investors making minority investments, called growth investors.

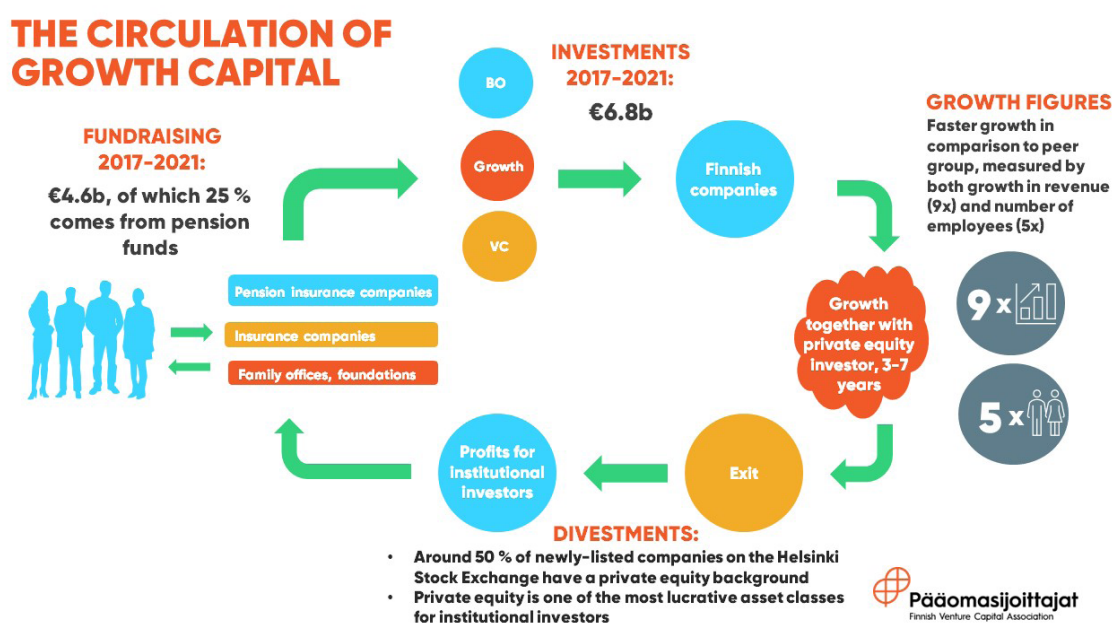
- **A growth company** is a company with a well-established business, revenue, and potential for continued growth. Revenue can range from a few million to hundreds of millions.

Key Industry Figures

- In 2017–2021, **€4.6 billion was raised in private equity funds** to invest further in startups and growth companies.
- Finnish pension insurance companies make up the largest fund investor group investing in private equity funds. **Pension insurance companies have accounted for about a quarter of the private equity funds' capital over the last five years.**
- Private equity investors have invested **€6.8 billion in nearly 800 Finnish startups and growth companies between 2017–2021.**

- The portfolio companies of private equity investors **employ about 73,000 people** (over 5% of the total number of employees in Finnish companies), most of whom are in companies owned by buyout investors. **The revenue of companies owned by private equity investors before the COVID-19 crisis has been over €25 billion** (over 5% of the total revenue of Finnish companies).
- The average growth rate of private equity portfolio companies has been 9 times faster in terms of revenue and 5 times faster in terms of the number of employees compared to the peer companies in the same industry and size class (Figure 1).
- The growth achieved through active ownership in portfolio companies is also reflected in fund returns. According to the statistics of the Finnish Pension Alliance TELA, private equity investments are one of the most profitable asset classes for Finnish pension funds.
- According to Tesi's Survey of Investment Returns 2021, the returns of Finnish venture capital funds have risen to an excellent level, also when compared to the European comparison group. The research results also show that the returns in the buyout market have stabilised at a good level, and the value of investments is steadily realised. 53 % of the VC funds and 45 % of the buyout funds established between 2009-2015 were included in the top quartile of European funds.
- Private equity investors are also important for the vitality of the Helsinki Stock Exchange. About half of the Finnish companies listed on the stock exchange in the last five years have been private-equity backed.

Figure 2. The circulation of capital from fund investors through private equity funds to startups and growth companies. Private equity investors, as active owners, accelerate the growth of portfolio companies, and at the same time, with the increase in the value of the companies, returns are generated for fund investors.

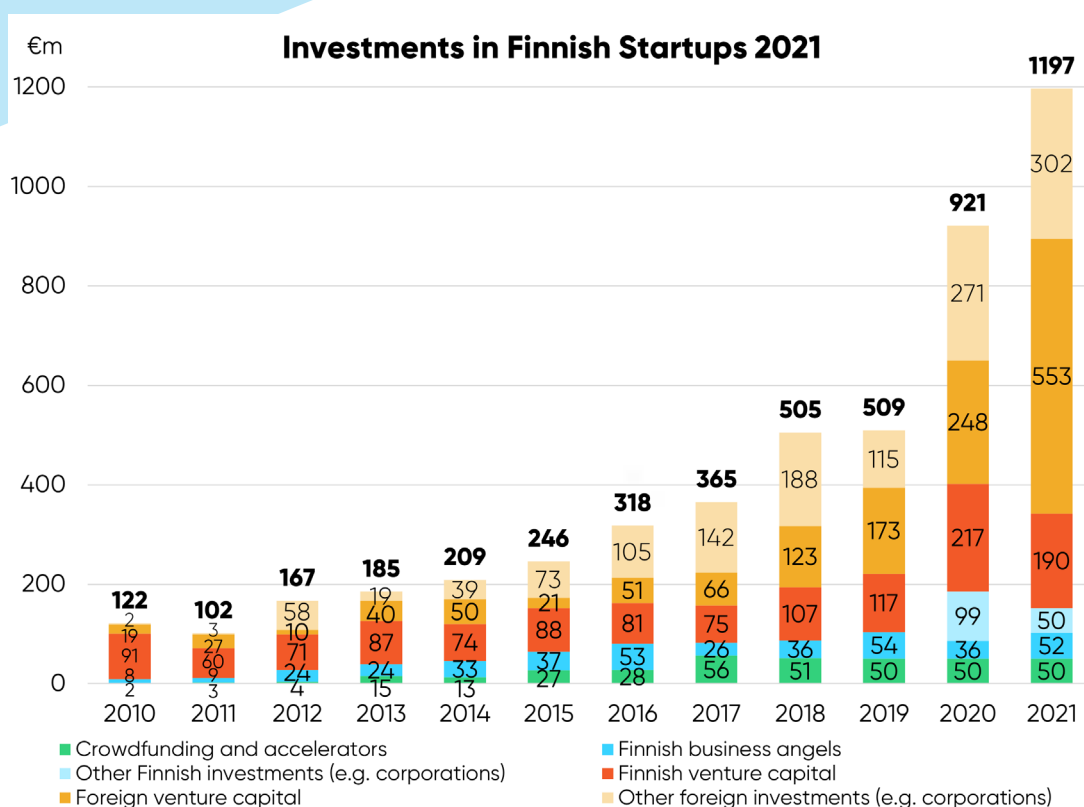


3. Startups and Venture Capital Investors

The investments received by Finnish startups and early-stage growth companies surged to a new record

Finnish startups raised almost 1.2 billion euros in investments in 2021. The amount of funding increased almost a third from the already record-breaking level of €921 million in the previous year, and in five years the amount of investments received by Finnish startups has more than tripled. The largest group of investors are domestic and foreign VC investors, who in 2021 invested €743 million in Finnish startups. The amount invested by business angels and the amount of crowdfunding have both stabilised at around €50 million. Other domestic investors, e.g. companies, invested also around €50 million in Finnish startups in 2021. Other foreign investors, such as companies and private investors, invested over €300 million in Finnish startups. Altogether, foreign investments accounted for 71 % of the total amount, totalling €855 million. In previous year foreign investments accounted for 57 % of the total amount. (Figure 3).

Figure 3. Investments received by Finnish startups.



In 2021, Finnish startups and early-stage growth companies received a record amount of €743 million in investments from domestic and foreign VC investors ([press release 21.4.2022](#)).

During 2021, foreign VC investments increased by as much as 123 %, from €248 million to €553 million. Domestic VC investors invested €190 million in Finnish startups, the amount decreased slightly compared to 2020, but is still considerably higher than the average over the past years. The total amount increased by almost €280 million from the previous year, which equals to an increase of over 60 %. 182 Finnish startups received funding from Finnish and foreign venture capital investors in 2021.

Focusing on the investment stage, the biggest percentage increase was seen in seed-stage VC investments, from €19 million to €45 million. Also, the number of companies receiving seed-stage investments is going up. 67 Finnish startups received seed funding in 2021, which is 16 companies more compared to the previous year. The largest increase in the euro amount was seen in later-stage venture investments, where the total funding amount increased from €302 million to €540 million.

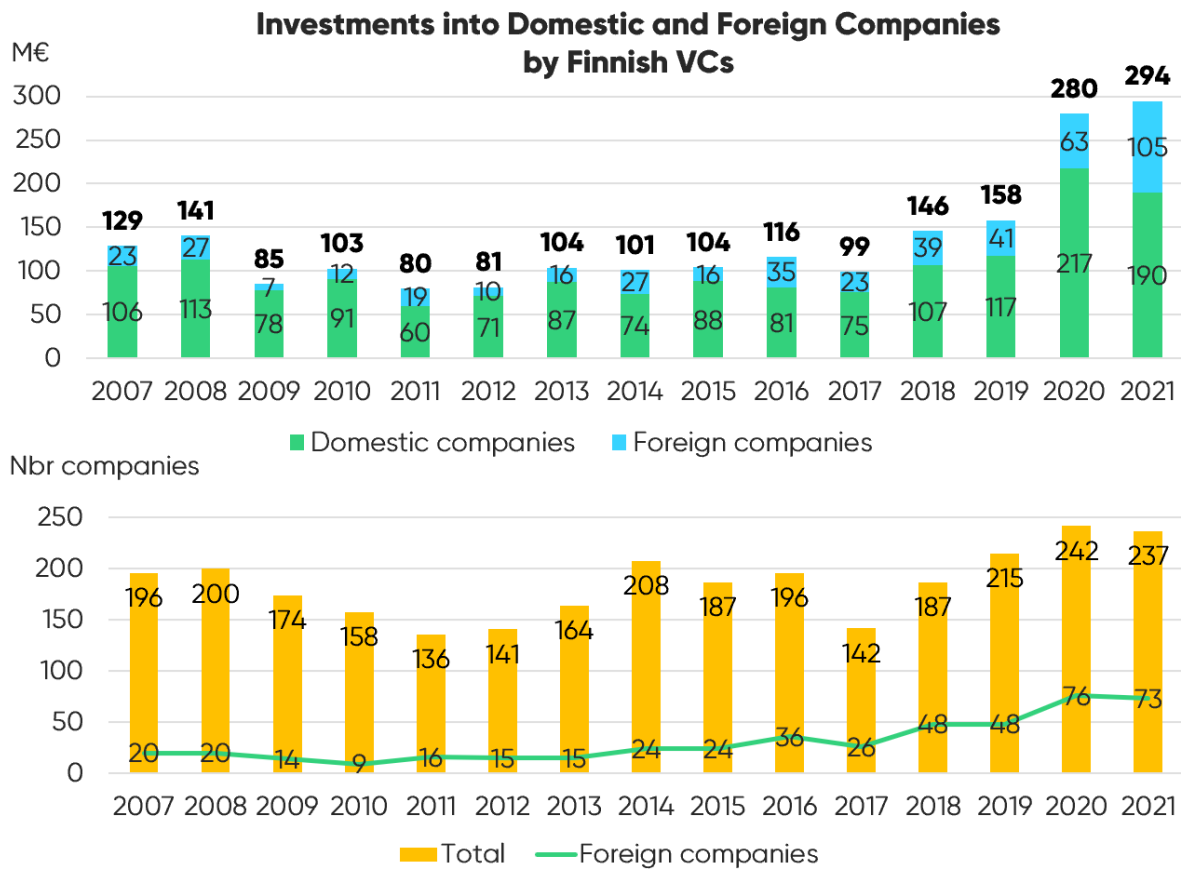
Taking all the investment stages into account, the average¹ VC investment into Finnish startup was €4.1 million in 2021. The number increased by 56 % compared to the previous year. Especially the average of later-stage venture investment has increased a lot, to €25.7 million (+154 %), due to increasing number of large VC funding rounds. The average seed and start-up stage investments are also going up.

An increasing amount of VC funding for Finnish startups and early-stage growth companies comes from abroad – in 2021, the amount of foreign VC investments reached a new record, €553 million (Figure 4). However, the share of foreign VC investments in terms of number of target companies is still quite small, albeit growing positively – a total of 37 Finnish companies received an investment from a foreign VC investor in 2021. Apart from somewhat low number of companies invested in by foreign investors, the total amount has increased significantly over the past years. The impact of foreign investors is most clearly seen in the growth of later-stage VC investments.

The amount invested by domestic VC investors has almost tripled and the amount invested by foreign VC investors has increased eightfold during 2017–2021.

1 The average investment is calculated from investments of individual VC investors, not from the whole funding rounds received by startups.

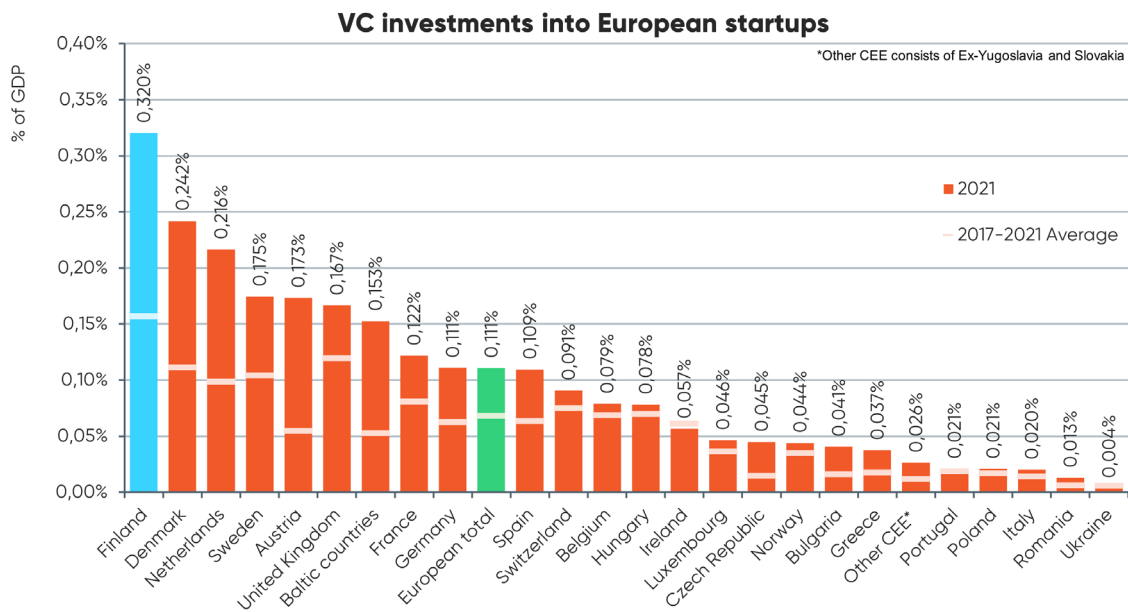
Figure 4. Domestic and foreign VC investments in Finnish startups in 2007-2021.



According to Invest Europe statistics, Finnish startups receive the most venture capital funding in Europe, when the invested amount is examined in relation to gross domestic product (Figure 5). Finland has already held the top spot for four consecutive years, and in the 2021 statistics Finland stands out as a clear number one ([press release 16.6.2022](#)). Also, when looking at the last five years averages, Finland is in the top spot. In the Invest Europe comparison, Finland is 32 % ahead of Denmark, which holds the second position – and already 82 % ahead of Sweden, which holds the fourth place. The comparison takes into account domestic and foreign VC investments in startups in each country.

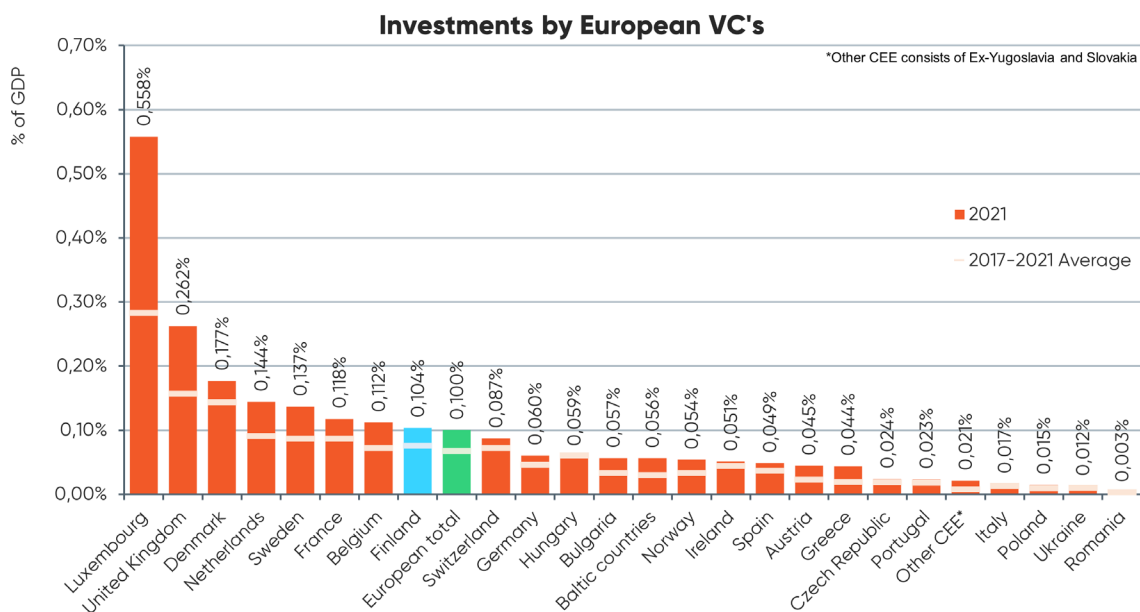
Finland’s position on top is not a miracle of one year but result from long-term development and effort. In addition, Finnish startups have already raised numerous significant investment rounds in 2022 – for example, Relex (€500m), Aiven (€200m) and Iceye (€120m) – most of the investment amount received from VC investors.

Figure 5. Invest Europe statistics: Finland clearly number one.



However, when looking exclusively at the relative strength of the Finnish VC industry compared to other countries, Finland is far from the top positions. Finland has slightly increased its position in 2021, but over a five-year period, the amount of Finnish VC investors' investments in domestic and foreign startups is at the European average (Figure 6). The number one position in VC investments into Finnish startups in the European comparison (Figure 5) is based on the cooperation of domestic and foreign VC investors and the excellent quality of Finnish startup companies and their ability to attract more foreign capital for the growth and internationalisation. To keep up with the European development, the domestic VC market must also be constantly developed.

Figure 6. In the five-year period, the amount of Finnish VC investors' investments is at the European average, but Finland's position has risen in 2021.



Development of Finnish Venture Capital Industry

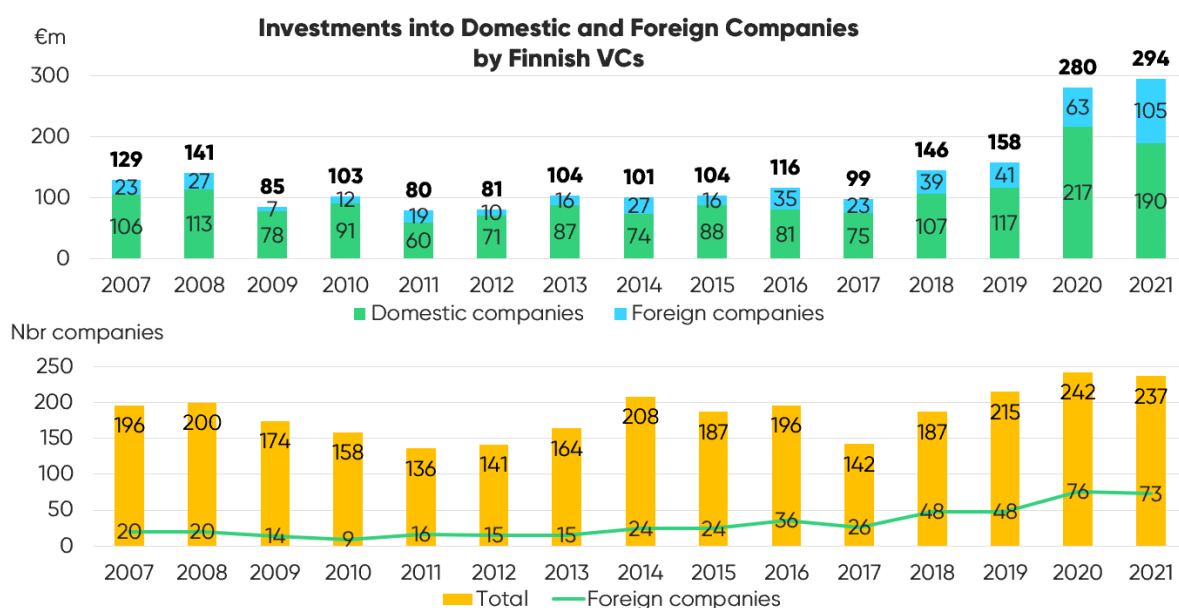
Investments and Exits of Domestic VC Funds

Positive signs of the continuous work to develop the Finnish VC market are apparent. In 2021, domestic VC investors invested a record €294 million in domestic and foreign startups and early-stage growth companies. The number represents a 5 % increase from the previous year. The biggest percentage increase was seen in seed-stage investments, which rose to a new record, totalling €52 million. Also start-up-stage investments increased, from €118 million to €152 million, compared to the previous year. All in all, Finnish VC investors invested in 237 companies, of which 95 were seed-stage startups (+12 %).

Finnish VC investors are becoming more and more international. In 2021, a record breaking €105 million of the €294 million amount invested by domestic VC investors was invested into a total of 73 foreign startups (+67 %). Thus, already 36% of the total amount was invested in foreign companies (20 % in 2020). With the internationalisation of the venture capital scene in Finland, investors gain more expertise and wider networks, which enables the investors to help portfolio companies better on a more international scale. International operations also make funds more attractive to foreign fund investors, whose share of raised funds has been increasing.

Sales of portfolio companies, i.e. exits, increased significantly in 2021. Finnish VC investors exited successfully from 36 companies (+38 %) in 2021. The divestment activity is at the ten-year high when successful exits are taken as a measure. On top of that, the number of write-offs is in historically low level despite the pandemic.

Figure 7. Investments of Finnish VC investors in domestic and foreign companies.



In 2019 and 2020, the fundraising of Finnish VC funds broke records, and the level has remained high. In 2021, the third highest amount, €268 million, of new funds was raised to be invested in startups and early-stage growth companies. Finnish VC funds have raised almost one billion euros of capital in the past three years (Figure 8). Raised funds will be invested in domestic and foreign startups in a few years' time. The universe of VC funds becomes continuously more and more diverse, which is good news for Finnish startups.

The Finnish venture capital industry has developed enormously in the recent years. 17 completely new VC funds by new teams have been established in Finland during the last six years (2016–2021). New teams have established thematic funds, which invest in specific sector or theme. Typically, first funds are smaller, and fund sizes increase as the team establishes their next funds.

Over the past five years nine under €20 million funds have been founded in Finland. On top of that six large, over €100 million, funds were established during the same period. In Europe, the average size of a VC fund has been over €100 million for a few years. Currently the average size of a VC fund in Finland is €54 million.

The group of fund investors have become more diverse. Over the past three years around a fifth of the capital raised is from public sector investors, like Business Finland Venture Capital, Finnish Industry Investment and European Investment Fund (EIF). Next biggest investors in VC funds are pension funds (12%), family offices (12 %), funds of funds (11 %), private individuals (11 %) and corporate investors (11 %). The group of investors investing in Finnish VC funds has not only become more diverse, but also more international.

Finnish VC investors have attracted a notable amount of investments in to their funds from foreign fund investors over the last three years, €243 million in total. A large share of that sum comes from the Japan-based NordicNinja, that set up its headquarter in Helsinki, and which raised €101 million in to their new fund during the period. Over the last three years (2019–2021) European Investment Fund (EIF) has doubled its investments in Finnish VC funds, from previous €40 million level to €85 million. On top of that, other foreign investors have invested €57 million into Finnish VC funds between 2019–2021, the amount has previously been practically zero. It is extremely important to attract foreign fund investors to invest in Finnish funds to increase the local fund sizes.

Finnish VC funds have increasing amount of capital to invest. Thanks to the successful years in fundraising the amount of capital managed by Finnish VC investors has risen to record highs, €1.95 billion (+23 %). 48 % of managed capital (€935 million) is still available for follow-on and new investments in promising domestic and foreign startups.

Figure 8. Development of fundraising by Finnish VC funds in 2007-2021. During the last three years Finnish VC funds have raised almost one billion euros.

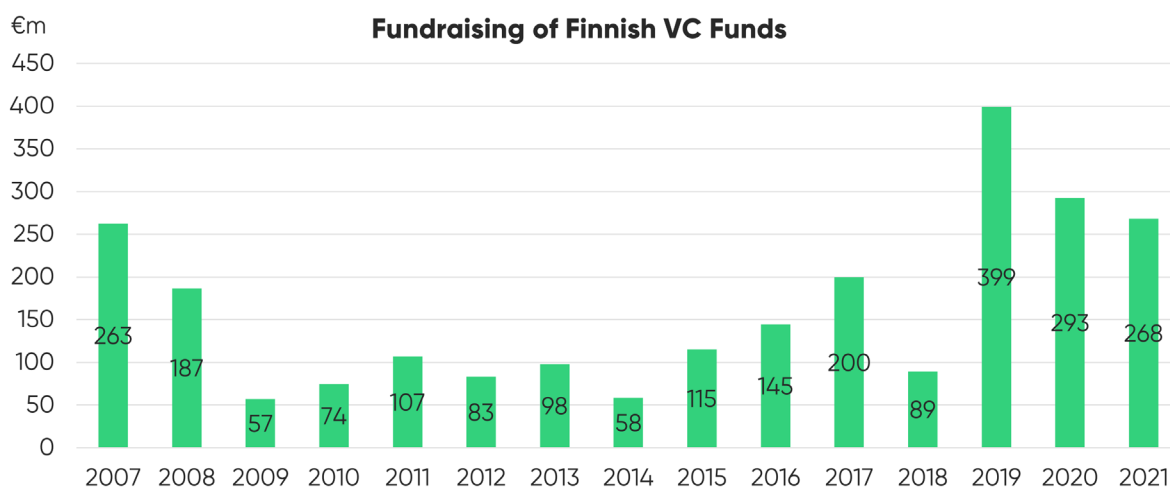
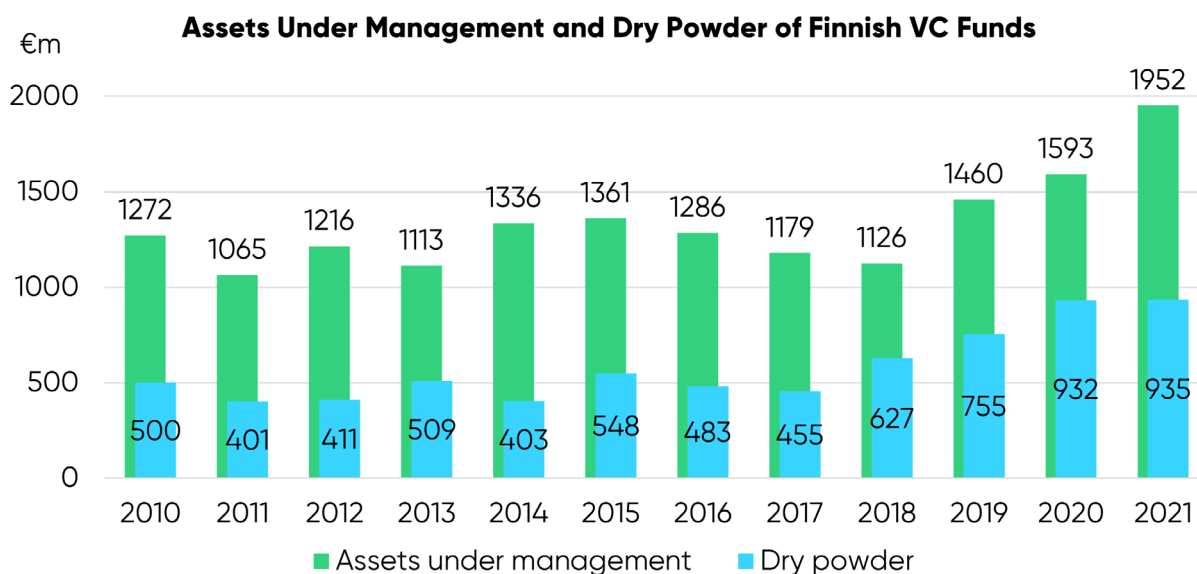


Figure 9. Assets under management and dry powder of Finnish VC funds. VC funds have increasing amount of capital to invest.



According to Tesi's survey of investment returns in the spring of 2022, returns of Finnish venture capital funds have developed positively compared to the beginning of 2000s. The most recent group of funds reviewed are established between 2009-2015. The so called next-generation venture funds have produced an annual return of 25 % for their investors and topped the European league. 53 % of the VC funds established during the period were included in the top quartile of European funds. Funds have also returned capital to their investors on record pace ([press release 5.5.2022](#)).

The COVID-19 Crisis and time after the pandemic from the Perspective of the Venture Capital

Despite the COVID-19 crisis Finnish startups have raised record breaking amount of funding in 2020 and 2021. In the spring of 2020, preparations were made for the potential withdrawal of international investors from the Finnish market, which had been experienced during the financial crisis. As a result of the financial crisis, the investments of foreign VC investors in Finnish companies decreased by about 58% in 2008–2009 compared to the previous level. At the same time, the caution of domestic investors increased, as in 2009 domestic VC investments decreased by 44% from the previous year. Fundraising also became more complex, from the previous annual fundraising of around €200 million the amount decreased to less than €100 million for several years (Figure 8). The Venture Bridge program was prepared to tackle the possible shock in growth financing from 17.6.2020 onwards. In addition to the amount of money invested through the program, it had an important signalling effect which strengthened investors' confidence in that normal investment activity could continue despite the uncertain outlook.

Statistics from 2020 and 2021 show that domestic startups managed to raise funding despite the COVID-19 situation. There was no decline in investment volumes, vice versa startup funding hit new records. Also fundraising has remained strong despite the pandemic. Actions of the government, strong relations with international investors which had been built for years, and the development of the domestic VC market, made the positive outcome during the last years possible.

Due to tightening international competition and from the point of view of domestic ownership, various governmental working groups have stated that we need more early-stage funding combined with expertise. It is important to have domestic and foreign capital and expertise available throughout all the stages of a company, from an idea to scalable business. [Ala-Pietilä's report published on 6.5.2022](#) stated the following about domestic investors (translated from Finnish):

"The number of venture capital and private equity funds in Finland have increased but still Finnish growth companies are in lack of domestic capital. Despite the growth of the [VC&PE] industry in recent years, there are still shortages in early-stage funding of research-driven and deep tech companies as well as more broadly in the whole field of growth companies looking after later-stage funding in global scale, where quickly growing companies are typically receiving tens or hundreds of millions in funding."

The competition for smart capital is global, and the business environment needs to be competitive so that domestic and foreign investors are willing to invest in Finland. Funding rounds are getting bigger and bigger and often made in cooperation with domestic and foreign investors. Ala-Pietilä's report stated that competitiveness needs to be observed even more carefully nowadays (translated from Finnish):

"In order to keep domestic experts here and attracting the best foreign experts to Finland the business environment needs to be competitive enough. Russia's attack to Ukraine with its consequences decreased Finland's attractiveness from foreign investor's point of view. Thus, we need to pay attention even more to the competitiveness of Finnish business environment."

Tightening monetary policy by FED and high inflation numbers have decreased company valuations in the beginning of 2022. Especially valuation levels of tech companies have come down quite a lot. Startups and growth companies generating positive cash flows are in a strong position. On the contrary, tech startups generating highly negative cash flows and dependent on funding of PE investors may be in trouble. VC investors are more careful with their initial and follow-on investments. It is clear that receiving funding is not as easy as before, but on the other hand after the successful years of fundraising and record high amount of dry powder, there will certainly be funding available for the best startups in the future.

4. Growth Companies and Buyout Investors

Finnish buyout and growth investors had a record-smashing year in fundraising. The market has remained fairly stable in recent years in terms of investments and exits

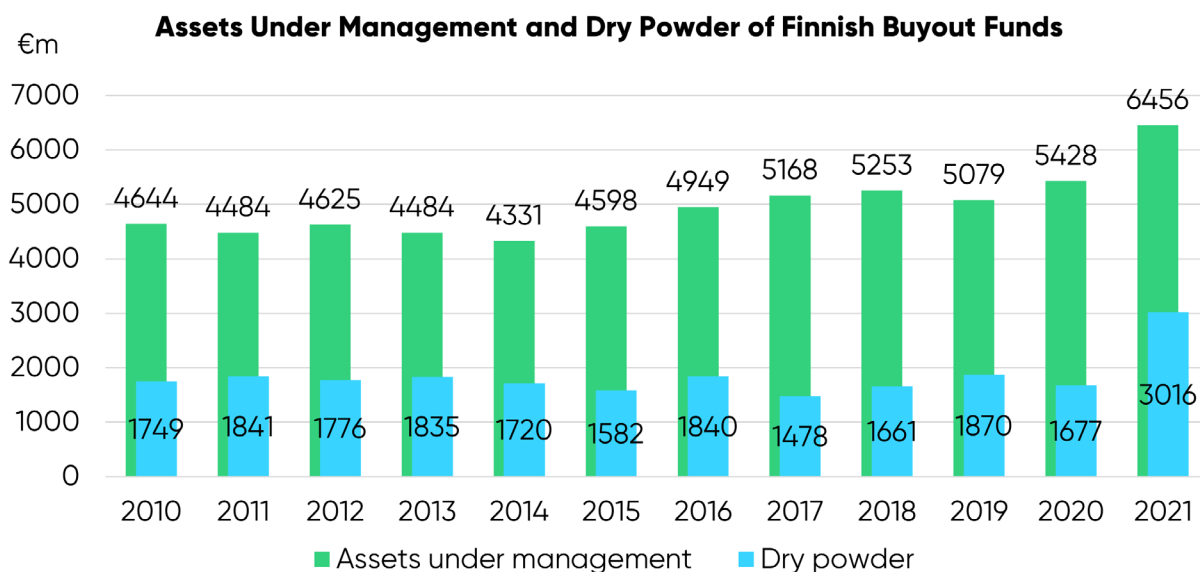
In 2021, Finnish buyout and growth (later “buyout”) investors raised a total of €1.4 billion in new funds from fund investors. The total amount of funds raised grew as much as 223 % compared to the previous year’s amount. Between 2017–2021 the average amount of fundraising has been €670 million annually. Many of the biggest Finnish buyout firms, e.g., Intera Partners and Vaaka Partners, were raising funds in 2021. In addition, the grown sizes of funds explain the historically large amount raised. Raised funds will be invested mainly in Finnish small and medium sized companies in the upcoming years to boost the companies’ growth.

Buyout and growth funds have increasing amount of capital for investments. Thanks to the successful years in fundraising the amount of capital managed by Finnish buyout investors have risen to record highs, to €6.5 billion (+19 %). Especially the amount of dry powder has increased significantly to €3 billion (+80 %).

“2021 was an excellent fundraising year for Finnish buyout and growth investors. The funds available for investments have risen to 3 billion euros. This is great news for companies that are seeking funding and an experienced partner for growth.”

– **Pia Santavirta**, Managing Director of the Finnish Venture Capital Association (FVCA)

Figure 10. Assets under management and dry powder of Finnish VC funds. VC funds have increasing amount of capital to invest.



The largest group of investors in buyout funds are pension funds and the fastest growing group is family offices. In 2021, over a third of raised funds came from pension funds (36 %). Second, third and fourth most capital was raised from funds of funds (16 %), family offices (12 %) and public sector (12 %) consecutively. Public sector fund investors are important especially for small buyout and growth funds as well as for new teams establishing their first funds.

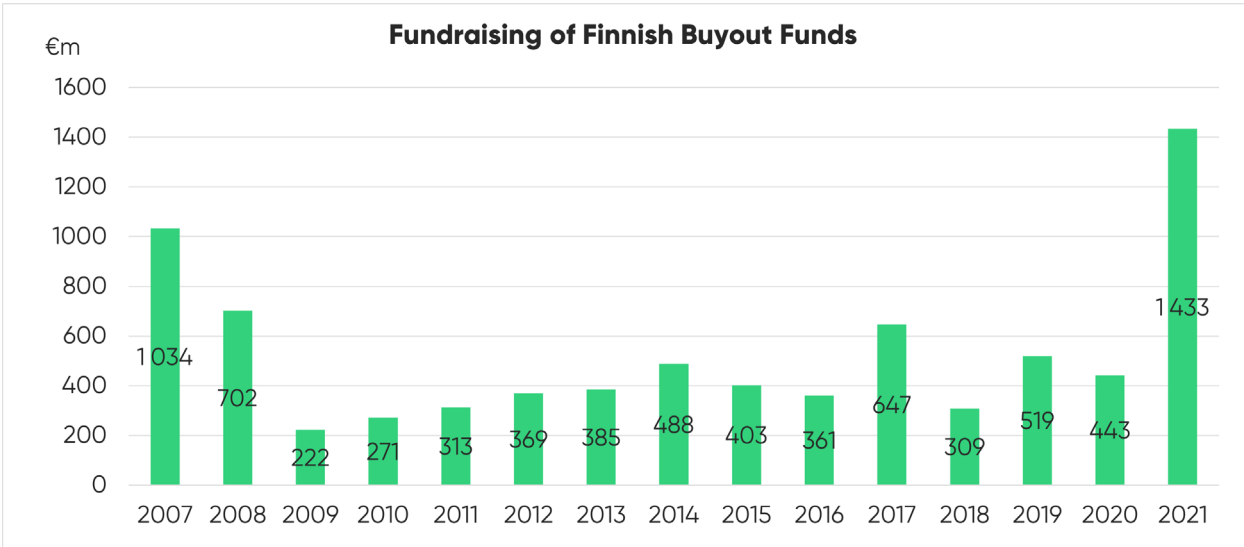
Private equity-backed buyout and growth companies have grown outstandingly. According to FVCA's impact survey they have grown nearly five times faster compared to peer companies. The returns are generated when exiting the company and distributed to the fund investors. After a small hiccup caused by the pandemic, the number of divestments has recovered to record high levels.

Buyout and growth investors made successful exits from over 50 growth companies. In 2021, the number of exits increased by 49 % compared to previous year and in total 52 companies were divested by Finnish buyout investors. The most popular exit method was a trade sale with 20 exits in 2021. The IPO activity was also high, and around half of the companies listed in Nasdaq Helsinki in 2021 were private-equity backed. The number of write-offs remained on a low level despite the pandemic.

In 2021, Finnish buyout and growth investors invested €381 million in growth companies. This investment sum was distributed among a total of 86 companies, of which 74 were domestic. Investments are typically made in situations of change of ownership or generational transition and, more generally, in situations where companies have the desire to grow and internationalise. Finnish buyout investors have invested over two billion euros in total during the past five years (2017–2021), and over 90% of the investments went to boosting the growth of Finnish companies. On average the amount invested by Finnish buyout investors has been €400–500 million annually, which can be expected to increase due to successful years in fundraising.

According to Tesi's survey of investment returns Finnish buyout funds excelled in comparison to their European peers and funds also show good progress. The most recent group of funds reviewed are established between 2009–2015. Generating annual returns of 17 % for their investors, the funds have beaten the listed market clearly. 43 % of the buyout funds established between 2009–2015 were in the top quartile of all European funds ([press release 5.5.2022](#)).

Figure 11. Fundraising of Finnish buyout and growth funds between 2007–2021. A record-smashing year in fundraising.



The Development of the Buyout Market During and After the COVID-19 Crisis

The buyout market has survived the COVID-19 crisis well, and investments to Finnish growth companies have remained relatively stable over the last years. During the pandemic, a major challenge for private equity investors' portfolio companies was the acute cash deficit caused by the COVID-19 restrictions, especially in the service sector and at the beginning of the crisis. The problem affected growth companies that were significant employers both regionally and nationally and whose financial situation had been on a sound footing before the COVID-19 crisis. Finnvera's guarantee arrangements and ensuring the availability of working capital financing were considered the most important measures to solve these issues. According to information received by FVCA, during the pandemic many companies reviewed their business strategies, which enabled fast adaptation to new environment.

According to feedback from private equity investors, there was only a momentary decline in the interest of institutional investors in the spring of 2020. In 2020, four new funds (Bocap, Verso Capital, CapMan Growth, and Sponsor Capital) were established, and in 2021 fundraising hit new records. In total five new funds were established (Intera, DevCo, Vaaka Partners, Korona Invest and CapMan) raising over 1.4 billion euros, which means new growth opportunities for Finnish growth companies. All in all, the effects of COVID-19 crisis were relatively small from perspective of fundraising.

It can also be estimated that Finnish companies’ desire to innovate will undergo concrete changes due to the COVID-19 pandemic. It is clear that the aspects of renewal, digitalisation, and also sustainability are becoming increasingly important, and in all these areas, private equity investors, as active owners, can bring their own growth and strategy know-how to help companies. There is currently a particular need for private equity investors’ growth expertise, as companies are required to be more innovative than ever in the fast-changing environment.

Finnish buyout and growth funds have record-breaking amount of assets under management and from this €6.5 billion amount over €3 billion is dry powder, ie. waiting to be invested. Due to increasing required rates of return and decreasing valuations at the beginning of 2022, the large amount of dry powder enables attractive investment opportunities for Finnish funds. Also, more and more companies intending to list on public stock exchange have turned to PE investors because of the IPO market slowing down.

Foreign investors are participating especially in the largest acquisitions in Finland which causes big variation between annual investment amounts, and in 2021 this amount decreased substantially. The share of foreign buyout investments in terms of units is quite small but foreign investors have traditionally formed the greater part of the total amount invested. We wait to see how the increased country risk of Finland after Russia’s attack to Ukraine, and the current uncertainty factors on the market will affect foreign investors investments in Finnish growth companies. For now, there has not been any strong signs of Finnish companies becoming less attractive.



Additional information: Press releases and reports about private equity

1. Towards parliamentary election

- Information about private equity industry in Finland and FVCA's objectives for the next parliamentary term 2023–2027 ([press release 16.6.2022](#))

2. Startup and VC investments 2021

- Once again, a record year for Finnish startups ([press release 21.4.2022](#))

3. Buyout and Growth Investments 2021

- A successful fundraising year for Finnish buyout investors – record amount of funding available for growth companies ([press release 18.5.2022](#))

4. Growth of PE-backed Companies

- Companies Owned by Finnish Venture Capital and Buyout Investors Are the Fastest-Growing Businesses in Finland ([press release 7.10.2021](#))
- Invest Europe's Private Equity at Work Report (2022) ([Press Release 22.4.2022](#))

5. Investment Returns

- Tesi's survey of investment returns 2021: Finnish VC & PE funds top European league ([press release 5.5.2022](#))

6. Listing on a stock exchange

- The busy IPO year continues – New industries present in this year's list of potential listing candidates from Finnish private equity investors' portfolios ([press release 15.6.2021](#))

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