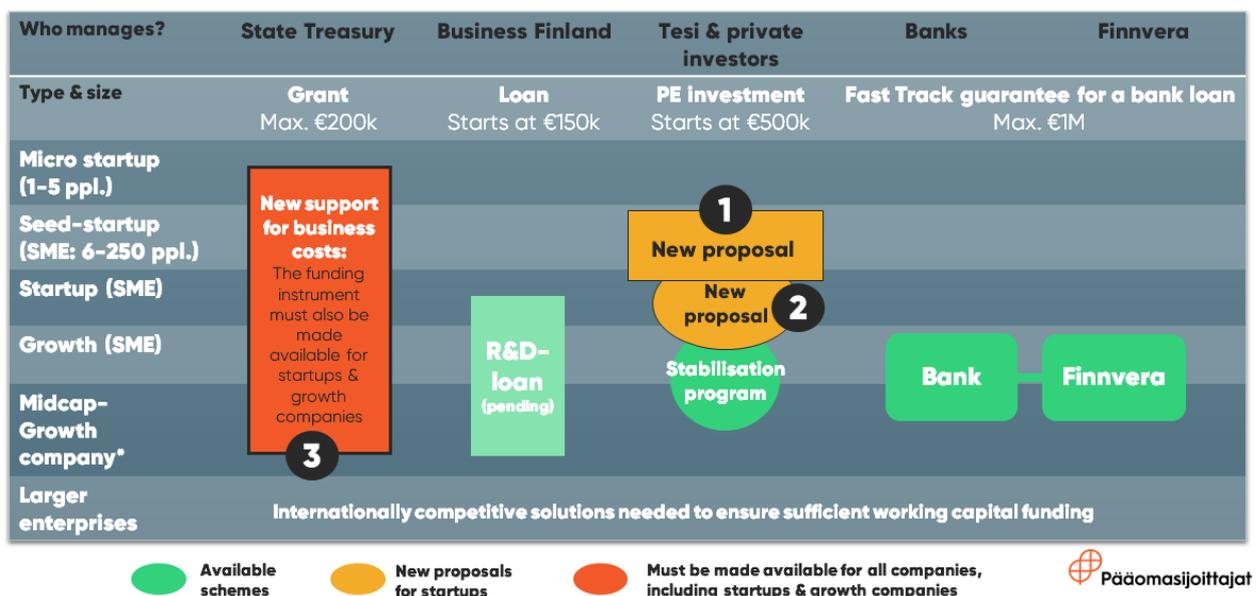


## Finnish Venture Capital Association's Six Proposals to Save the Future Supercells and Growth Companies & The Way Out of The Crisis

While the effects of the global pandemic on our economy are significant, increasing the economy's productivity, boosting growth-orientation, and taking advantage of innovation opportunities are potential ways to overcome this situation. Startups and later-stage growth companies can address these needs, as they act as drivers for the innovation economy and contribute to economic growth through job creation and labour productivity. Now, internationally competitive bridge financing solutions must be created for these companies. New financing solutions are also needed to ensure that even after the crisis, funding to accelerate growth and internationalisation is available to as many growth-oriented companies as possible. The aim of Finnish Venture Capital Association's (FVCA) proposals is also to ensure that Finland continues to be seen as an attractive country for startups and growth companies, investors, and top talent after the crisis, leading us back on the track of sustainable growth, high employment rate and sustainable public finances.

### Finnish Venture Capital Association's Proposals for Startup & Growth Company Crisis Financing



#### PROPOSALS REGARDING STARTUP FINANCING

**Finnish startups received the most VC investments in relation to GDP in Europe in 2019. Despite this, the Covid-19 crisis could cut startup funding by up to 68%, or €300 million, if international investors and other investors reduce their investment activity in the way they did during the financial crisis. According to a survey of VC investors, one-third of startups will run out of cash in less than six months and one-third between 6 and 12 months without further funding.**

**PROPOSAL 1:** A new €100 million equity financing program should be created for promising early-stage startups to cover the next 24 months. The scheme would apply to about 100-150 promising startups with international growth potential. The program would be managed by Tesi and would have the condition that experienced private sector investors participate in the financing round with a 50% share.

**PROPOSAL 2:** A new €150 million equity financing program must be created for scaleups in the phase of international growth. About 60 startups would benefit from the program, which would be managed by Tesi. The share of private investments would be 50% and the terms of the financing would be negotiated with Tesi on a case-by-case basis.

**The main problem for later-stage growth companies is the acute cash deficit they are facing due to the impact of the measures taken to prevent the spread of Covid-19. The problem concerns growth companies that are significant employers both regionally and at a national level, and whose finances were in order before the pandemic. According to a recent survey, 43% of PE investors' portfolio companies will run out of funds in less than six months without further financing. PE firms, as current owners of growth companies, can meet the refinancing needs of portfolio companies in 58% of cases. However, other financing solutions are needed for the remaining companies, as only 41% of later-stage growth companies are certain that alternative financing solutions can be found to address their cash deficit.**

**PROPOSAL 3:** It should be ensured that effective and internationally competitive crisis funding instruments are also available for later-stage growth companies. Working capital financing, which also suits the needs of larger growth-oriented companies, is needed in an acute liquidity crisis. Size or nature of ownership should not be factors that exclude companies from being able to utilise crisis funding instruments. For instance, the new support for business costs granted by State Treasury should be made available for all companies. This must be taken into account both in the notification made to the Commission and in the act on support for business costs.

According to the report of the Vihriälä working group, midcaps – a group of businesses with the potential to grow into major international players – form a particularly important group and there are traditionally too few of these companies in Finland. Vihriälä's working group suggested a follow-up research, which would separately consider the solutions suitable for growth companies seeking international expansion and for established domestic companies. The follow-up research would consider how and through which instruments valuable human and organisational capital could be maintained through the crisis. We see the suggestion as an important and urgent matter to advance.

## STRENGTHENING THE INTERNATIONAL INVESTOR NETWORK

**PROPOSAL 4:** The international investor network must be strengthened during the crisis together with domestic VC investors, Slush, Business Finland, Business Finland Venture Capital, and Tesi. Foreign investors already account for more than 50% of all Finnish startup investments, totalling €295 million (2019), and the share of foreign investors in the funding of established growth companies is also significant. A joint effort must be made to ensure that the withdrawal of foreign investors from the Finnish market is kept to a minimum and that foreign investors return to the Finnish market as soon as possible.

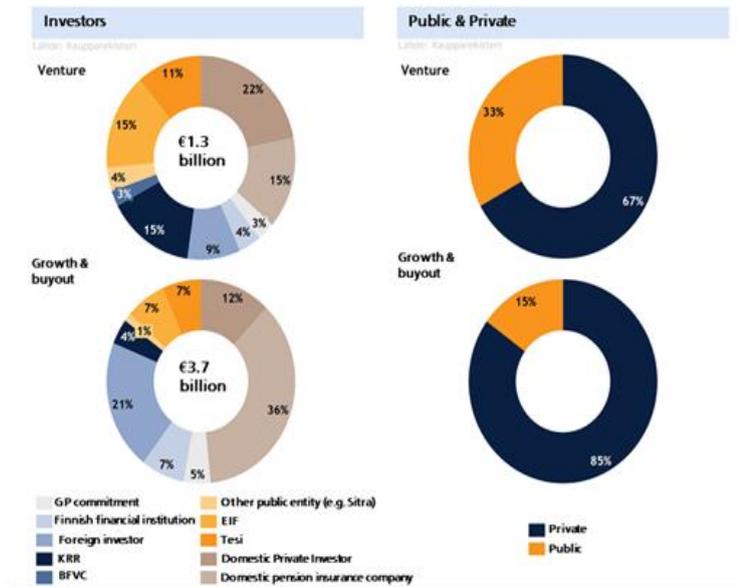
## MARKET DEVELOPMENT THROUGH FUND INVESTMENTS

### MAKING MORE DOMESTIC PRIVATE CAPITAL AVAILABLE THROUGH LEGISLATIVE AMENDMENTS

**PROPOSAL 5:** Due to a domestic regulatory barrier, only a small part of the €20 billion investment assets of non-profit foundations is currently channelled through private equity funds to Finnish startups and growth companies. Foreign investors are likely to withdraw from the Finnish market as a result of the current crisis, which is why removing these barriers to allow for all available domestic private capital to be mobilised quickly is crucial. As foundations want to invest in Finland, the problem must be remedied by a simple and quick change in legislation. The proposal is in line with the programme of the Finnish Government and with European practice and does not cause tax losses to the state. The amendment to the legislation would allow an estimated €200 million to be channelled to Finnish companies over a period of 10 years.

### INCREASING CAPACITY FOR PUBLIC SECTOR FUND INVESTMENTS

**PROPOSAL 6:** As a measure to mitigate the impact of the coronavirus crisis, we propose that Business Finland Venture Capital (BFVC) and Tesi be given a broader mandate to make fund investments in special cases related to the crisis. During the financial crisis, the fundraising of PE and VC funds fell by a billion, or a total of 72%, in 2007-2010. The way out of the current crisis needs to be carefully planned, to ensure continued access to funding for growth-oriented companies. The aim of the proposal is to remedy the possible withdrawal of private sector fund investors from the market and LP defaults, as well as to support the startup and growth company ecosystem and financing during and after the crisis. The measures would complement the current fund investment activities of both BFVC and Tesi.



**Image 2. Distribution of capital raised by Finnish PE/VC funds between 2008 and 2019 (Source: Tesi)**

- Due to domestic regulatory barriers, the share of foundations in the fundraising of private equity funds is only about 1.5%, while the share in Sweden was 7% in 2015-2017.
- In VC funds, the share of public fund investments was 33 %.
- In buyout funds, the share of the public sector was 15 %.

## OTHER LONG-TERM MEASURES CONCERNING FUND INVESTMENTS

By promoting fund investor diversity, more know-how and capital can be channelled to startups and growth companies. This can be done through the following means, for example:

- Develop the regulation concerning pension insurance companies, based on Jukka Rantala's preliminary report (in Finnish), so that PE and VC fund investments can be increased. A small increase in pension insurance companies' investments would have a major impact on market development and job creation in Finland. Pension insurance companies at present account for 15% of VC and 36% of buyout fundraising.
- Ensure that the EU's Solvency II regulation concerning life insurance companies is interpreted in Finland in such a way that domestic life insurance companies can also channel capital to startups and growth companies through VC and buyout funds. Insurance companies currently account for only 5% of fundraising.
- Continue Tesi's KRR programme for VC and buyout investments. KRR invests €165 million in VC and buyout funds within a 10-year timeframe. At present, 4% of fundraising to VC funds comes from KRR, and the share in buyout funds is 15%.
- Participate in Nordic (New Nordics) initiatives promoting fund investor diversity.
- New investment instruments or ways to expand the investor network of PE and VC funds should also be identified.

**Finnish Venture Capital Association**  
**Pia Santavirta**

**Facts about the PE & VC industry:** The portfolio companies of Finnish PE & VC investors employ **94.000 people** (7 % of all Finnish companies' employees) and the companies' total **turnover is €22 billion** (5 % of the total turnover of companies in Finland). A study on VC & PE investors' impact on corporate growth found that **the average growth rate of VC/PE portfolio companies was 6 times faster in turnover and 15 times faster measured by the number of personnel**, in comparison to similar companies of the same size in the same industry. PE & VC investors have invested a total of €5.2 billion in approximately 1,200 Finnish startups and growth companies between 2015-2019.