

Venture Capital & Private Equity

LATVIA



**PROBLEM: COMPANIES LACK
EQUITY**

Benefits to Latvian businesses



Providing access to finance



Creating new products, services



Increasing productivity

VC/PE

Benefits from
venture capital and
private equity

**Benefits to investors:
government and pension funds**

Investment recycled
for reinvesting again



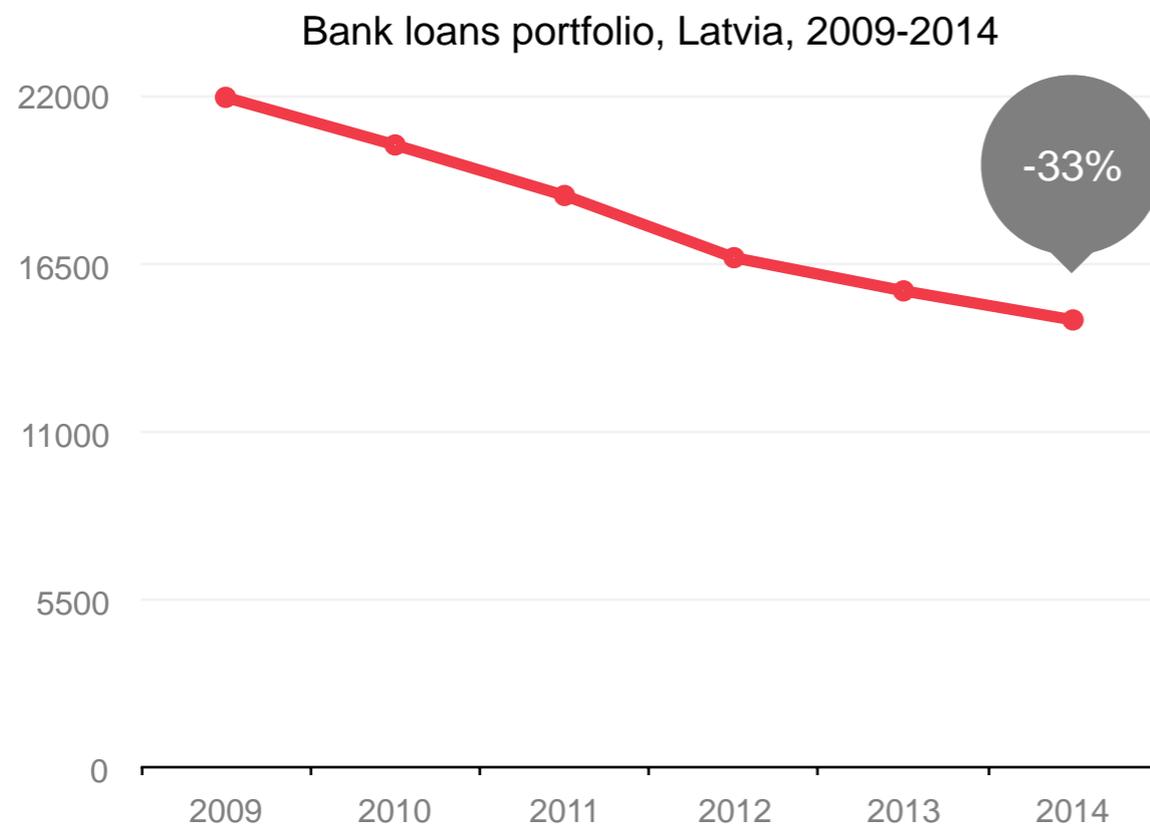
Superior return on
investment



Creating new jobs



Businesses in Latvia have growth potential, but lack financing



Banks require co-investment



Banks require 3 year credit history



Banks require collateral

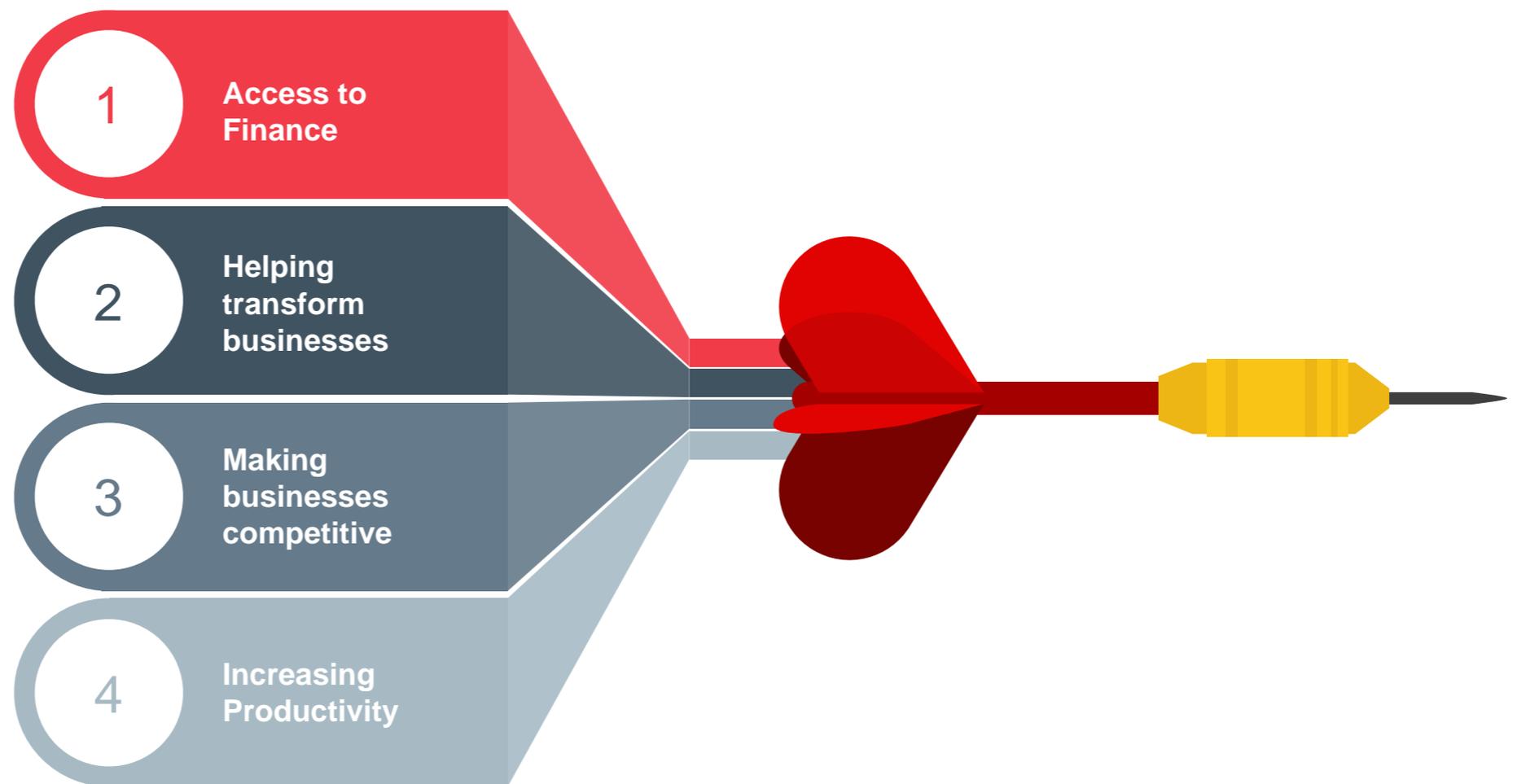
Banks are lending less to businesses. When they do, they set requirements that exclude most high growth new businesses.

At a time when other sources of finance are difficult to access, private investments have an important role to play.

A private investor becomes part of the company they back, taking a board position, with a long-term goal of nurturing the business.

Private investors are prepared to back companies with new ideas which are prepared to take risks in launching new products or services.

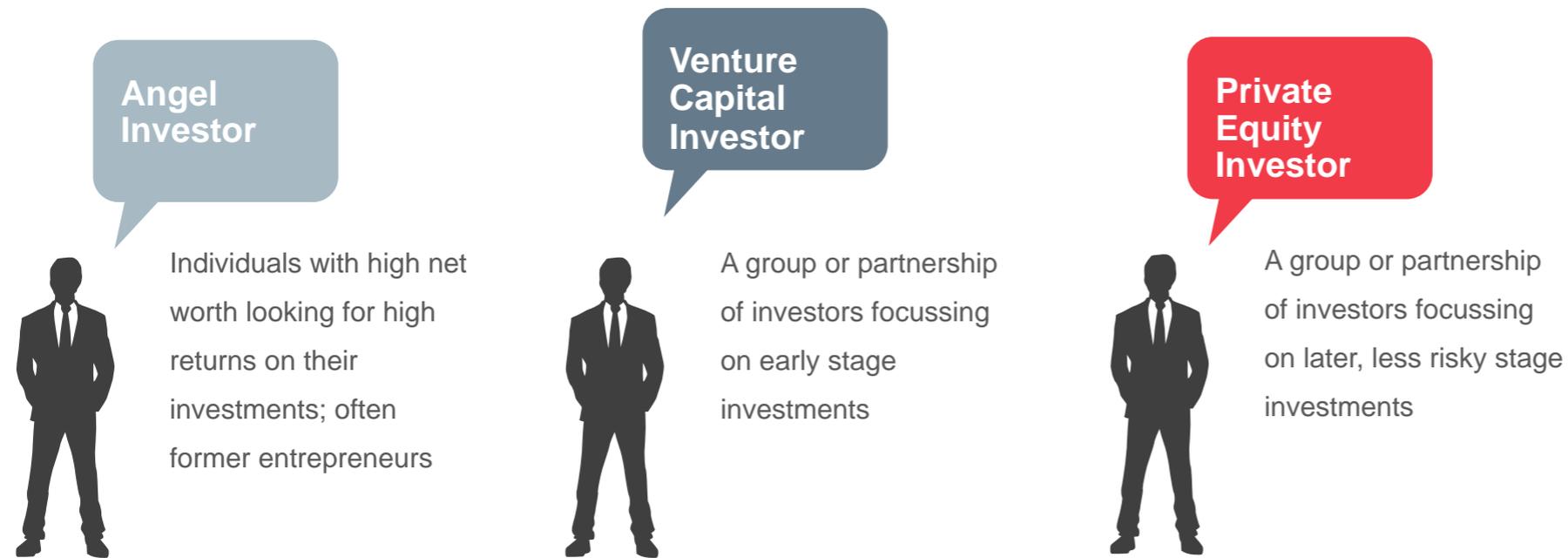
VC/PE backing makes firms more resilient, less likely to fail and more productive - the key is in improving strategic and operational performance.





HOW VENTURE CAPITAL & PRIVATE EQUITY WORKS

Three different types of investors



Venture capitalism is a way for young companies to receive funding from investors that provide the capital necessary to grow or expand a business. Private equity on the other hand focuses on spurring growth for later stage businesses. Both are traditionally seen as a high risk, high reward type of investments and investors are typically seated on the board of the company with a say in decisions and partial equity.

What they do



Focus on startups and high growth companies



Take high risks at the hope of high reward



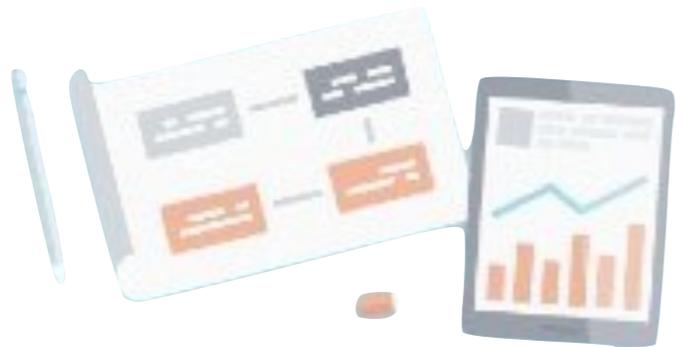
Participate in boards, management, decision making



Invest capital



Plan for long term investment maturation



Business Plan Submitted

venture capitalists review the business plan and speak with the entrepreneurs

1

2

Due Diligence

The prospective investor looks into the business in great detail to get a full picture of the company's strengths, weaknesses, and operations

3

Investment

Capital is provided to the business, usually as a part of the deal trading equity and/or debt

Execution

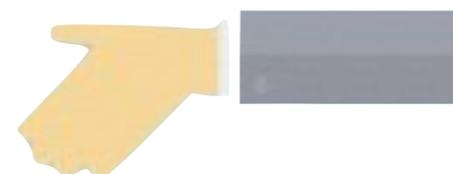
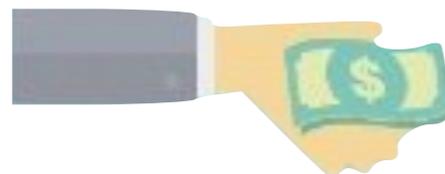
The investor becomes actively involved, providing funds, advice, and oversee milestone completion

4

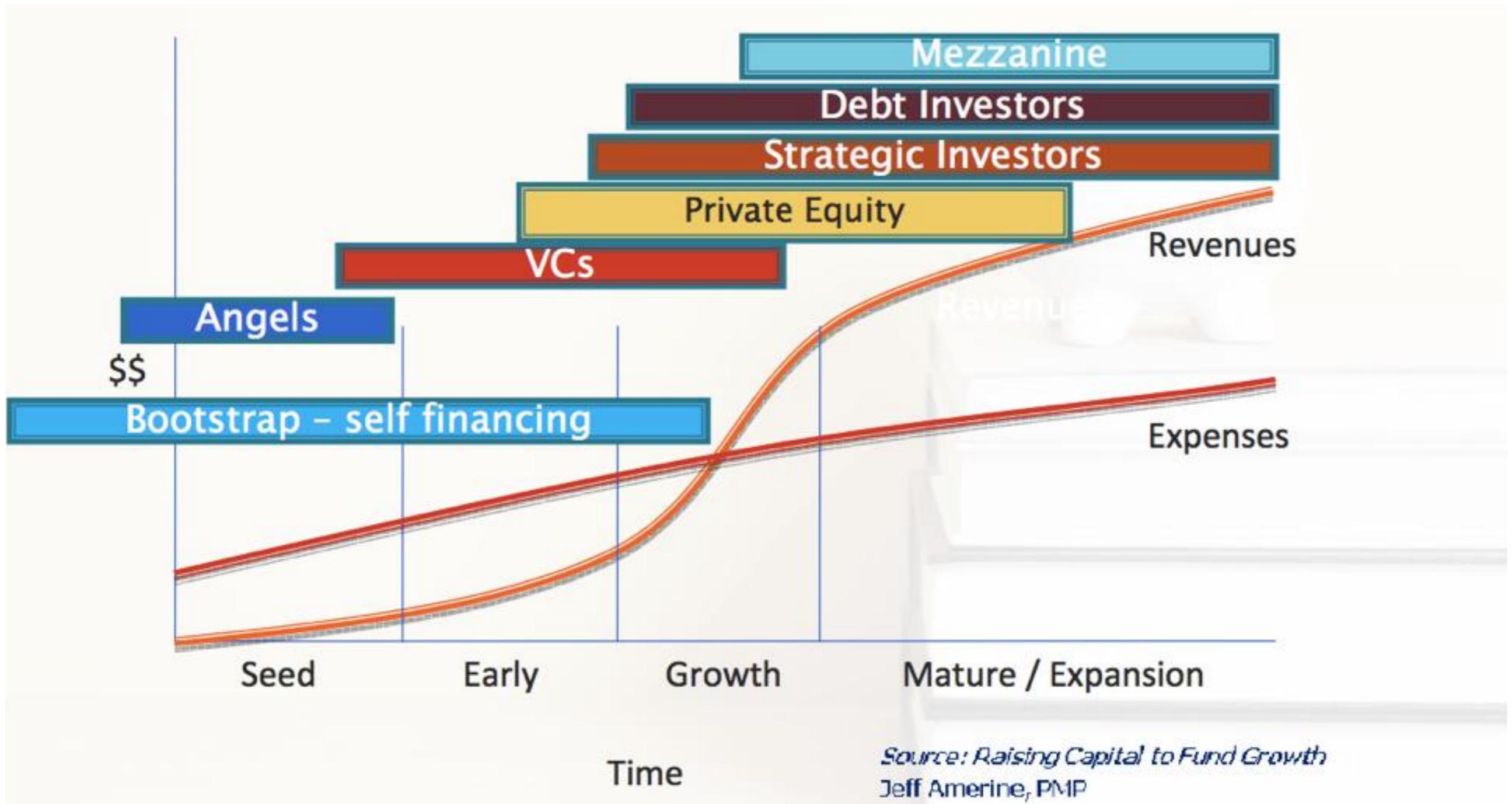
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Exit

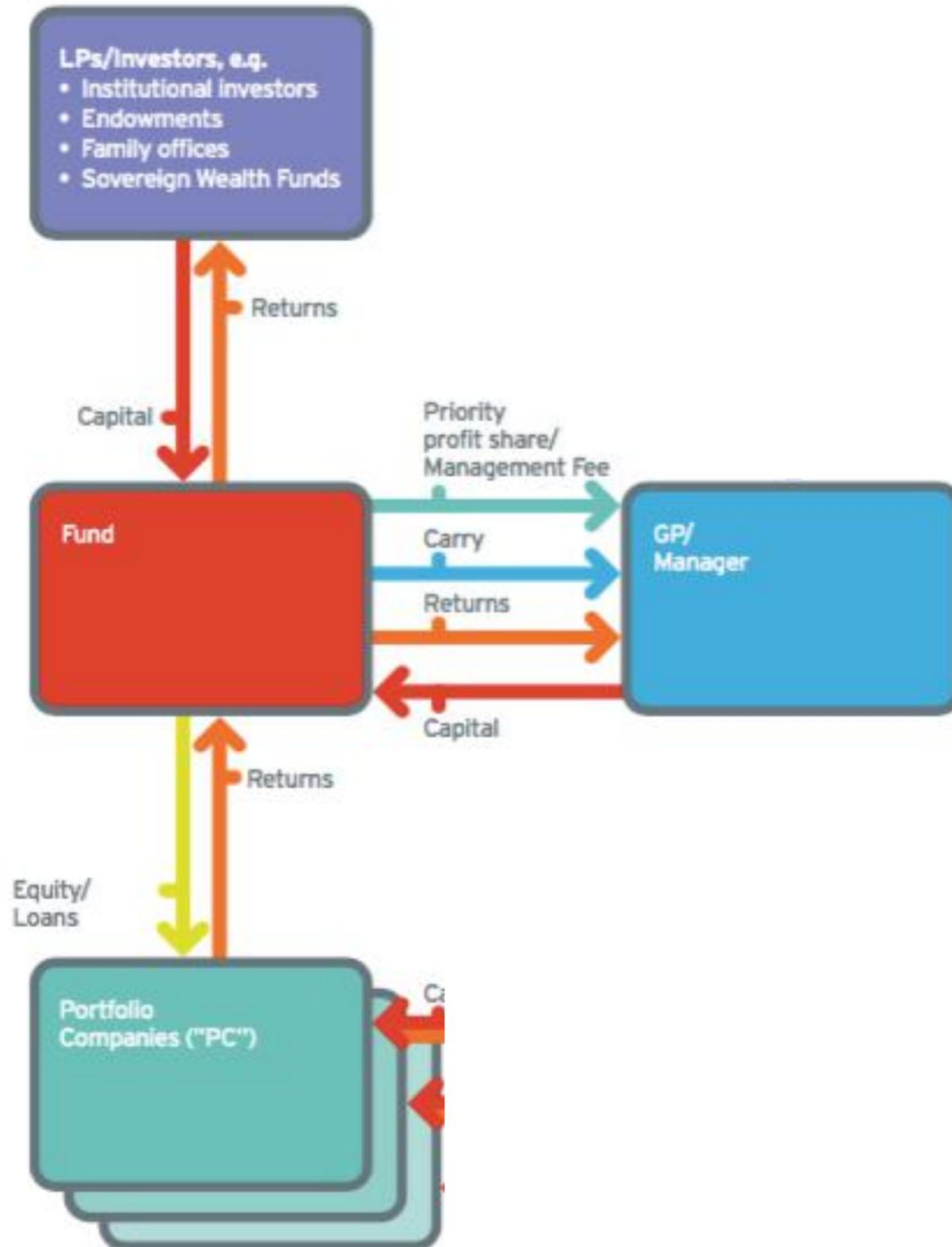
At maturation, the venture funds exit the business, through IPOs (Initial Public Offerings), acquisitions, and mergers



Investors are not looking to be involved forever in the business they invest in. Typically the investment life-cycle has an entry and exit strategy planned out in advance.



Typical investment fund structure



The diagram sets out a typical fund structure showing the relationship between Limited Partners and General Partners and the Fund and the Portfolio Companies.

Financing options to businesses: bank loan, EU grants, equity investment

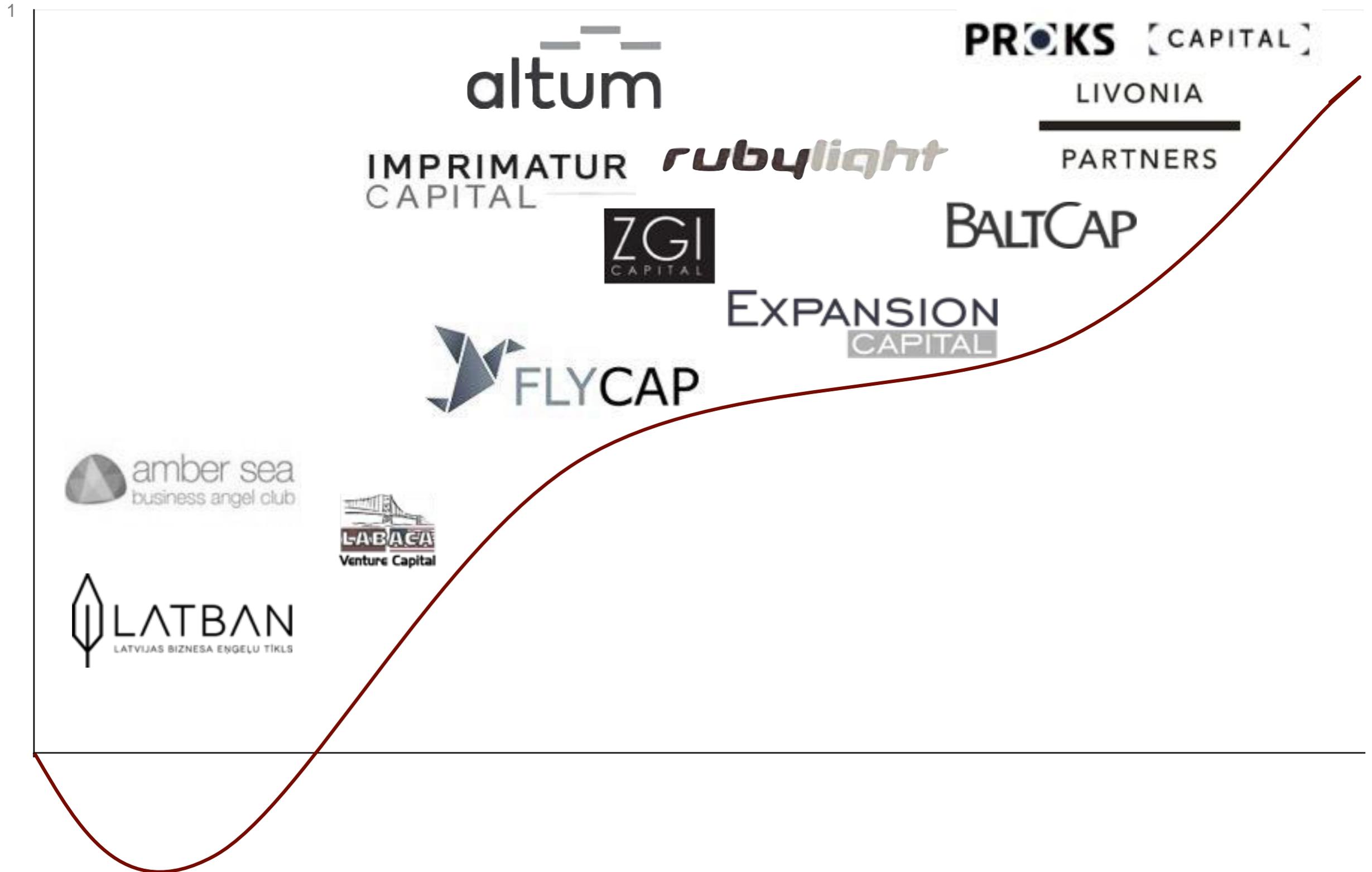
	Bank Loans	EU Grants	Venture Capital, Private Equity
Sharing risk & reward		✓	✓
Immediate financing	✓		✓
No co-financing needed			✓
Public money recycled	✓		✓
Leveraged with private money			✓
Gives access to more loans		✓	✓
Smart money			✓
Does not require equity stake	✓	✓	

VC/PE is just one of several funding options

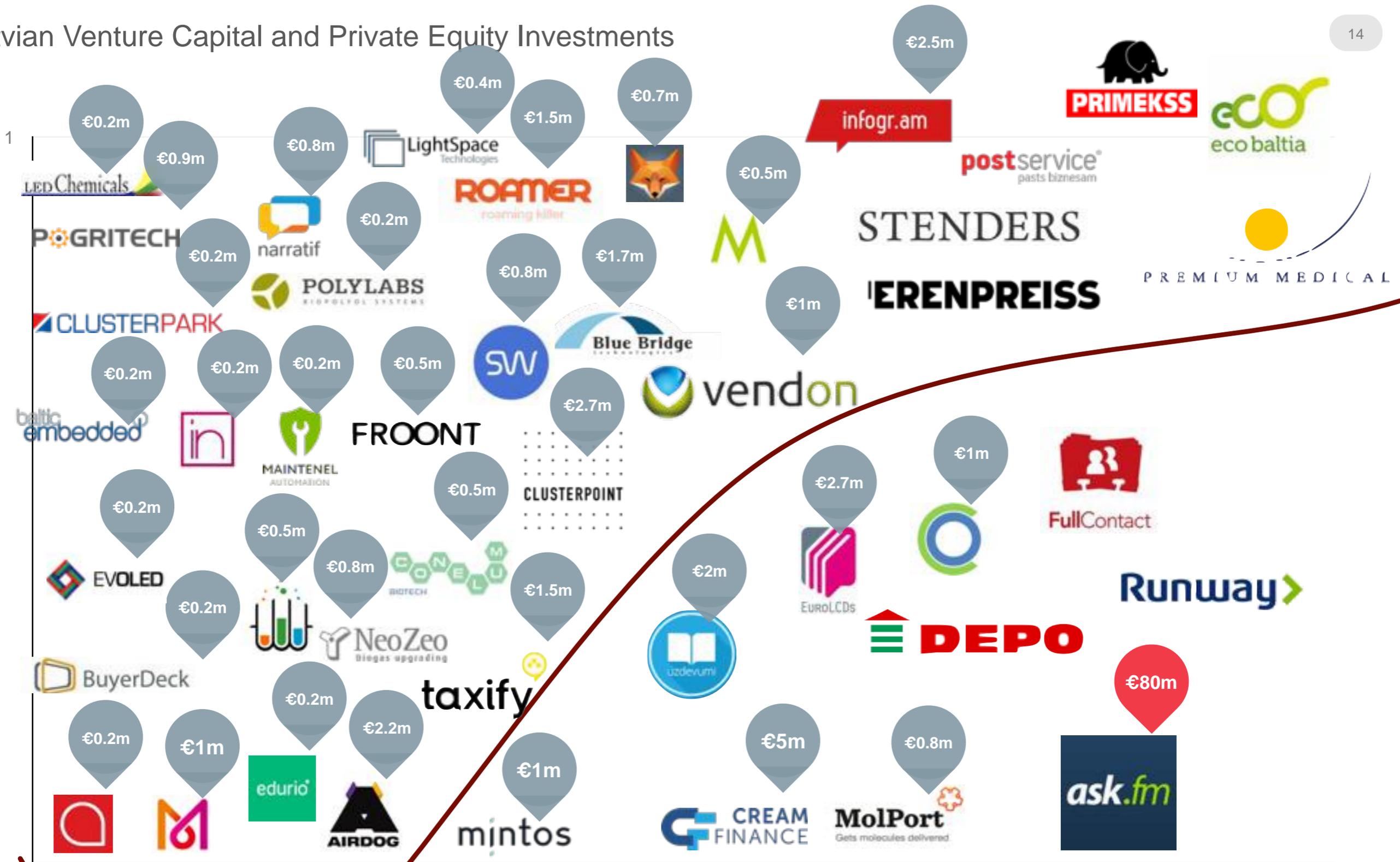
But VC/PE funding provides many benefits compared to EU grants and bank loans. Here are a few.



VENTURE CAPITAL & PRIVATE EQUITY **IN LATVIA**



Latvian Venture Capital and Private Equity Investments



ask.fm

Ask and answer

JOIN NOW

Latvian Investment Example 1: Ask.fm - social network - exit price not disclosed (est.€50-100m)

1

ASK.FM

2

A site, where members answer questions posed by others, founded by two brothers from Latvia, was in 2014 bought by Ask.com and Tinder owner.

3

4

5



Latvian Investment Example 2: DEPO - leading Latvian DIY chain

1

2

DEPO

Five entrepreneurs had an idea - create a Latvian DIY store chain. Banks refused to fund the idea. Instead, Latvian investment funds backed the project. In five years the company created 1000 jobs with turnover increasing from 0 to €113m.

3

4

5



Latvian Investment Example 3: Airdog - First Auto-follow Drone - kickstarter campaign >€1m

1

2

3

AIRDOG

4

World's First Auto-follow Drone for GoPro Camera. AirDog is a camera drone which automatically follows the action for you and operates completely by itself.

5



Latvian Investment Example 4: Naco Technologies - leading nano coating technology

1

2

3

4

5

NACO TECHNOLOGIES

Early stage investment in Naco Technologies idea made possible commercialising the what has become the leading patented nano coating technology for various applications globally. Even in space exploration. And now it serves as a great example of attracting a next stage investor - the industrial giant Schaeffler recently acquired the company to continue developing the technology in Latvia.



Latvian Investment Example 5: Stenders - global cosmetics producer and retailer

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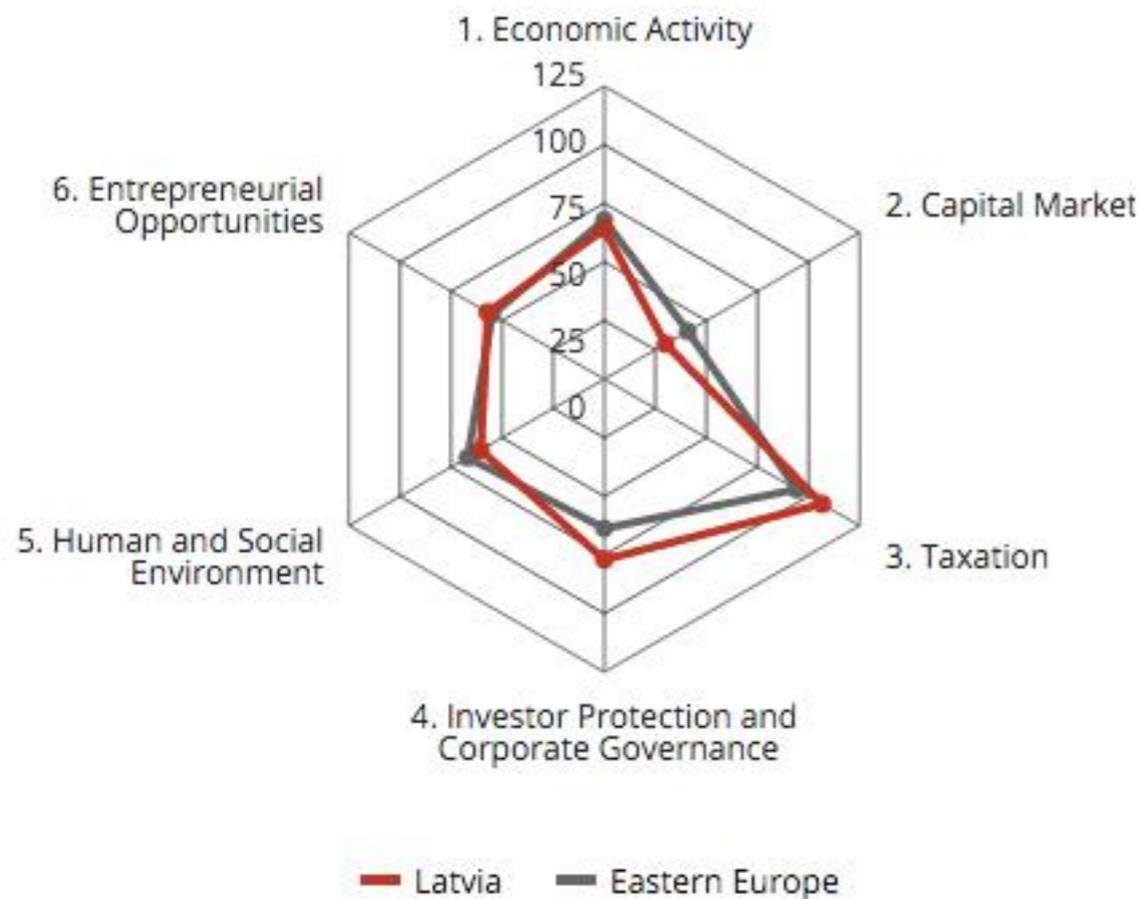
5

STENDERS

One of the biggest cosmetics producers in Northern Europe. Provides more than 320 products and lives in more than 225 shops in 23 countries of the world.

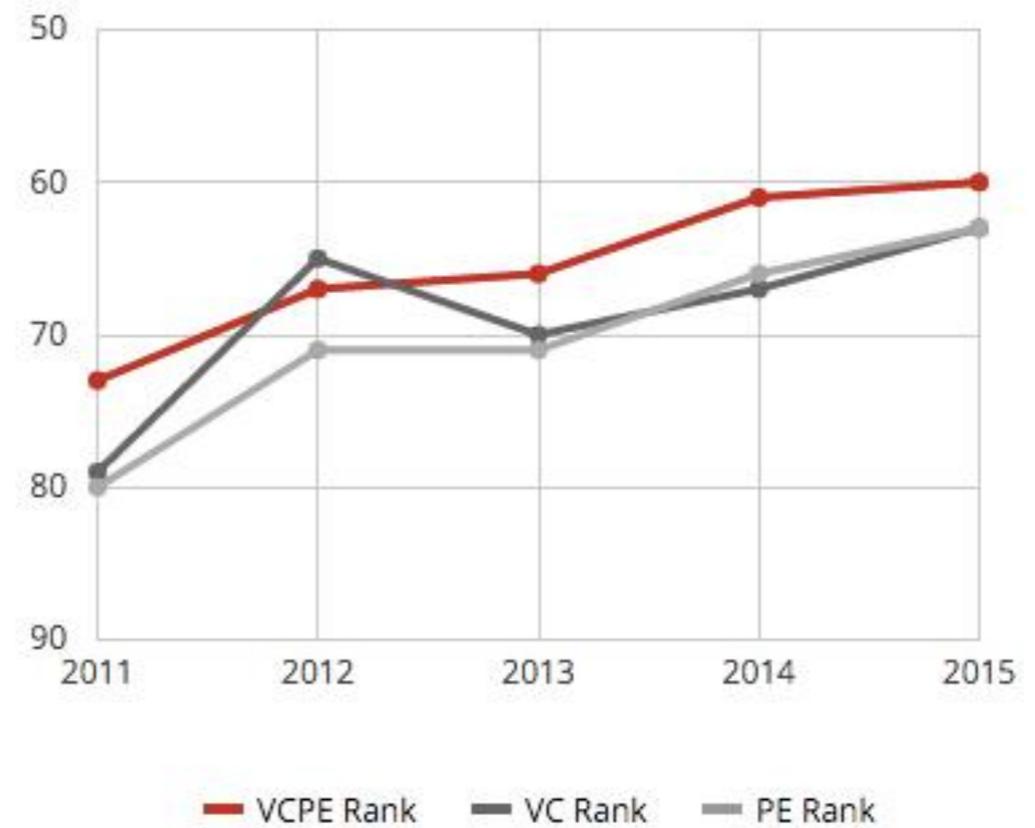
Key Driver Performance

— United States = 100 points —

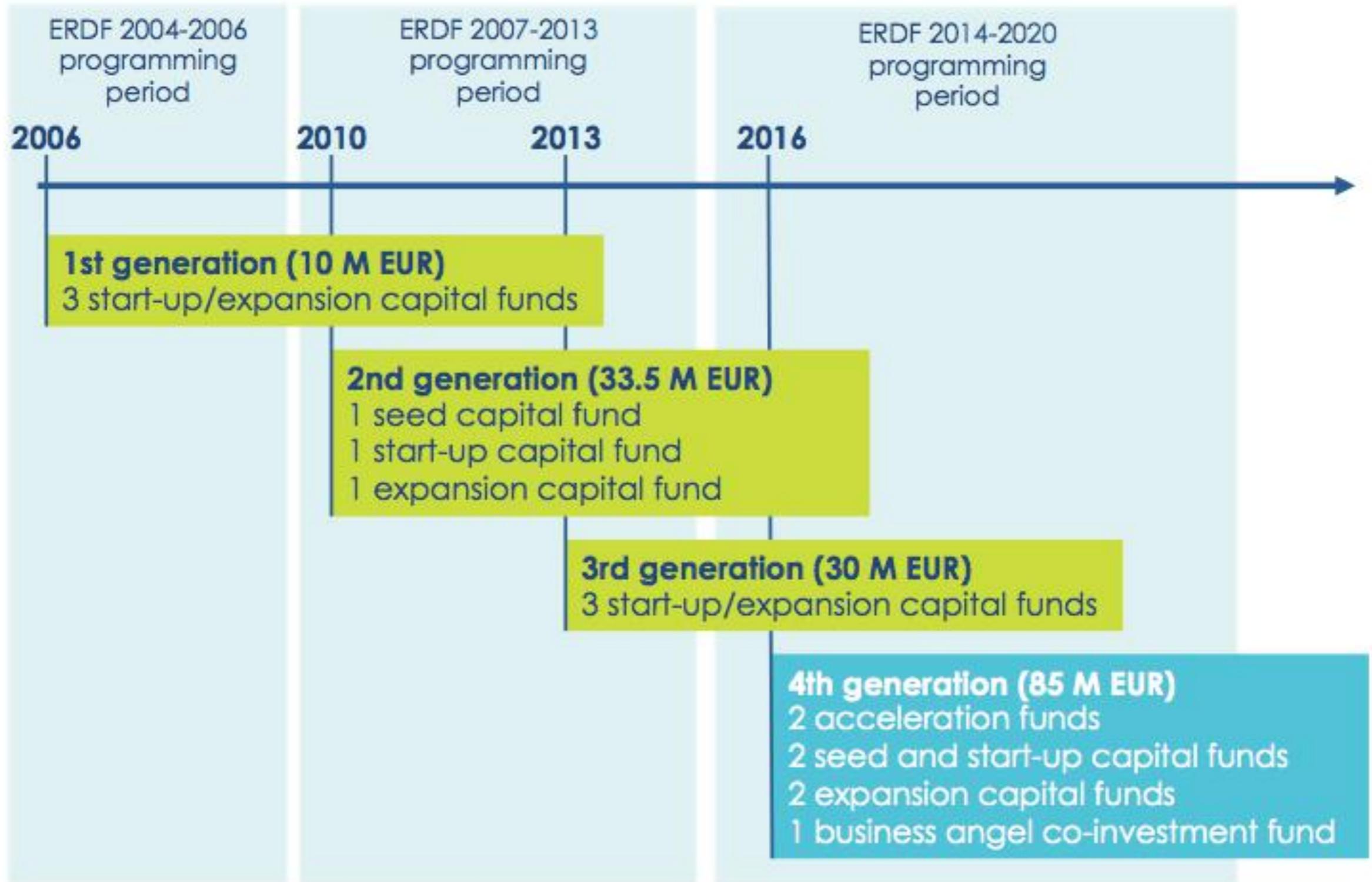


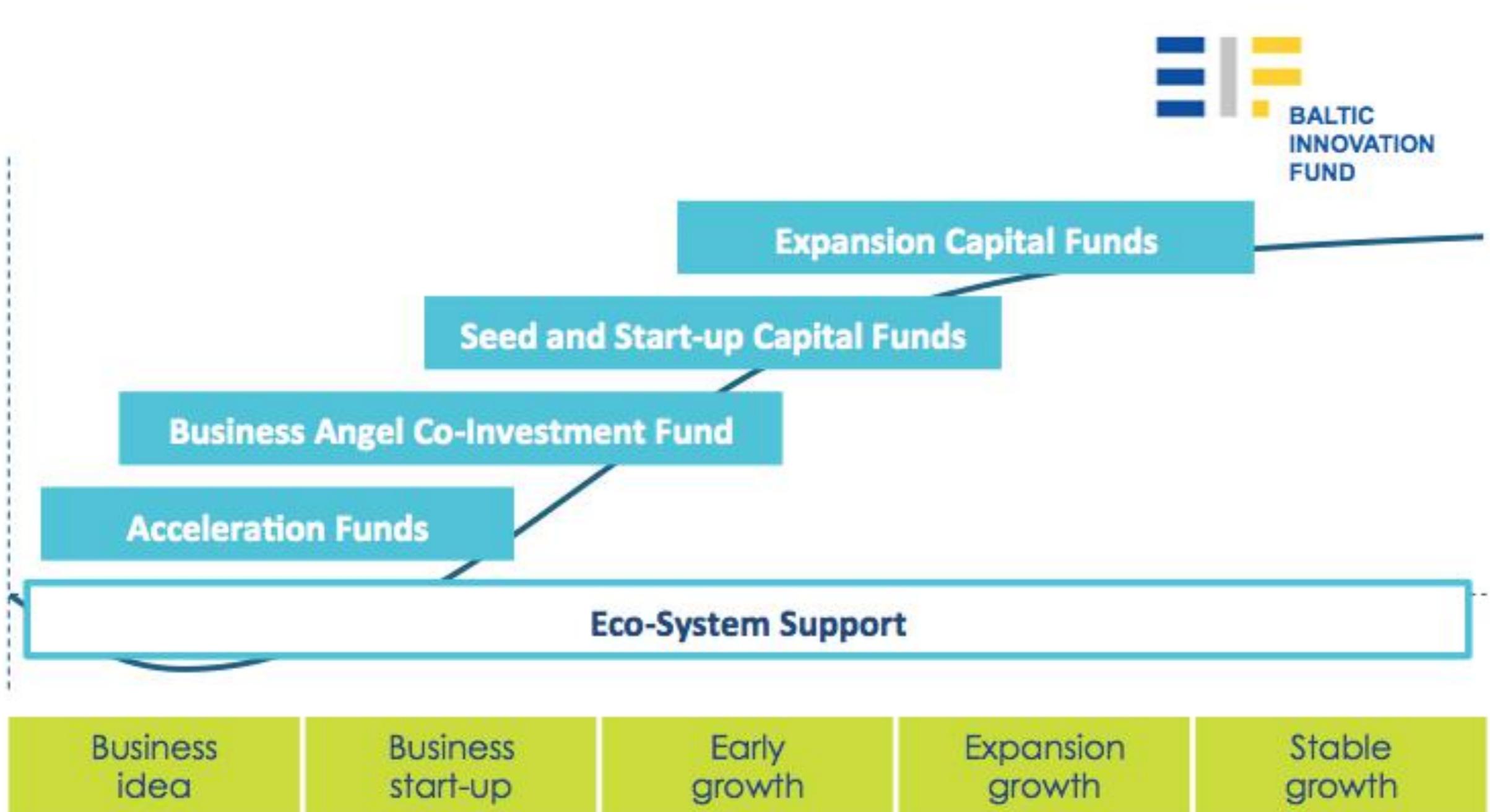
Historic Development

— Separate VCPE, VC, and PE Index time series —



Taxation environment in Latvia is one of the most attractive in Europe. Economic activity and capital markets is a factor difficult to influence. Policy makers should focus their attention on investor protection, human resource availability, and nurturing the startup environment and venture capital, private equity sector.





New Jobs

The companies where Latvian funds have invested have hired 12 new employees on average. In just 1.5 years.



Growth

Companies where Latvian funds have invested have grown by 3.5x on average. And most of the revenue is export. In just 1.5 years.



Additional Financing

Every €1 invested by Latvian VC/PE funds has resulted in attracting additional financing of €1.6.

Despite only **1.5 years** on average since investment made, the impact on Latvian economy is substantial.

LIVONIA PARTNERS

2015



Biggest VC/PE Achievement in Baltics 2015

Awarded by European Investment Bank every year to an outstanding VC/PE industry achievement in Baltics

Latvia - best jurisdiction for an investment fund

Livonia Partners is a new late stage investment fund established in 2015 and with a focus on Baltics. The fund size is €70m provided by investors - The European Bank for Reconstruction and Development (EBRD) and European Investment Fund (EIF). The fund team had to select the jurisdiction of incorporation for the fund. They researched and evaluated alternatives, including Luxembourg, Netherlands, Jersey, Guernsey, UK, and Baltics.

Their chosen jurisdiction - Latvia. The main reasons Latvia was a superior choice:

- ✓ Most attractive VC legal environment
- ✓ Lowest setup cost: €20-150k
- ✓ Least expensive maintenance: audit, accounting, tax structuring
- ✓ Fastest setup - 3m vs 7m in Luxembourg. And all in English
- ✓ Completely Tax Transparent - no dividend tax, no capital gain tax



Luxembourg



Netherlands



Estonia,
Lithuania

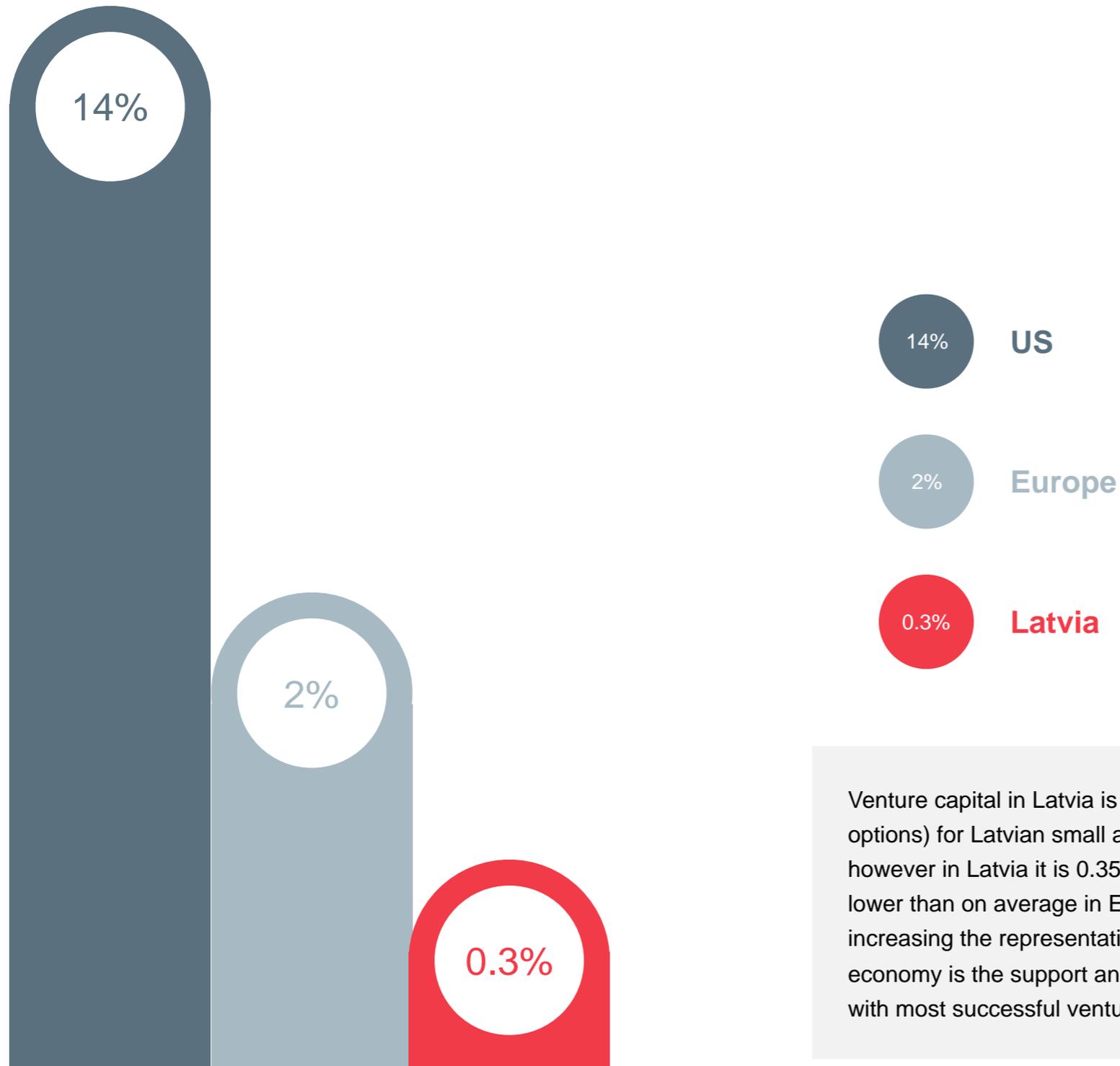


Latvia

The award presented by European Investment Fund and the daring decision of Livonia Partners fund team presents an unprecedented opportunity for the Latvian policy makers and stakeholders - to create for Latvia a reputation to be the choice for incorporation location for international investment funds and establish a substantial revenue source for the Latvian government budget.

Venture Capital is rarely a source of financing in Latvia

Source: Source: Prohorovs, Beizitere, 2015; Prohorovs et al, 2015; Michel Barnier,2012



Venture capital in Latvia is a negligible source of financing (among all financing options) for Latvian small and medium size enterprises. In Europe - 2%, US -14%, however in Latvia it is 0.35% from the total volume of SME financing. It is almost 6x lower than on average in Europe, and 40x lower than in US. A decisive factor to increasing the representation and positive impact of venture capital sector on the economy is the support and supply of funding from the government, as countries with most successful venture capital sectors suggest.

LVCA

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