

# ÖRESUND INVESTOR CLIMATE

A report by NY Consulting

# INTRODUCTION

## THE INVESTOR CLIMATE IN ØRESUND

This is the second edition of the Øresund Investor Climate Report. The first report was published in 2016 after an expressed interest among NY Consulting clients and partners to improve the understanding of Øresund investment opportunities.

## SELECTION OF RESPONDENTS AND CONCEPTUAL VALIDITY

This report is based on 25 in-depth interviews with VC, CVC, Corporate Finance advisors and innovation supporting organizations from both sides of the Øresund. The interviews were conducted between November 2017 – January 2018.

The qualitative and statistical data presented in this report should be regarded as an indication of the current situation. Many investors and start-ups never disclose detailed information on their fundraising and deals. The report findings and conclusions therefore have a conceptual validity, and should be treated as such.

## SOURCES AND DATABASES

The qualitative interview input has been complemented by reports and data from sources such as Dealroom.co, Pitchbook and general business press. Relevant statements from panel debates at the Biotech and Money conference in London in February 2018 have also been included.

## PARTICIPATING COMPANIES AND ORGANIZATIONS

The report has been possible to develop thanks to interview-time spent with leading investors, companies and organizations in Denmark and Sweden. It has been most interesting to discuss the investor climate with representatives from Johnson & Johnson (INT), Healthcap (SE), SEB Venture Capital (SE), Almi Invest (SE), SweLife (SE), LU Holding (SE), Hadean Invest (SE), Hampus Jakobsson (SE), Malmö Start-ups (SE), Sciety (SE), Connect Syd Sweden (SE), Sedermera Fondkommission (SE), Swedish Venture Capital association (SE), SwedenBIO (SE), Invest in Skåne (SE), Västra Hamnen Corporate Finance (SE), Medicon Valley alliance (DK), Lundbeck Ventures (DK), Novoseeds (DK), Connect Denmark (DK), Copenhagen Capacity (DK), Vækstfonden (DK), Seed Capital (DK), Copenhagen Fintech Association (DK) and a Danish business angel (DK).



The investor climate in Øresund has improved compared to 2016. The general start-up quality is better; there are more business angels emerging, more CVCs interested and more corporate open innovation initiatives started. The past years' success is beginning to pay off in a growing and maturing ecosystem. International investors also recognize this as they visit in increasing numbers. This makes me positive for the future and determined to focus on continued support of cross-border collaboration and investments.”

— Johan Ny, CEO NY Consulting AB

# KEY FINDINGS

## (PRE-SEED)

“Soft” funding

### CHALLENGE

There is a need for improvement of the Danish technology transfer process

### OPPORTUNITY

CVC and big pharma interest in early-stage companies and research projects

## SEED

Business angels

### CHALLENGE

Need for commercial validation of early stage investment cases

### OPPORTUNITY

- More business angels are emerging in the region
- More start-ups are started after inspiration from previous success cases

## SERIES A (Start-up)

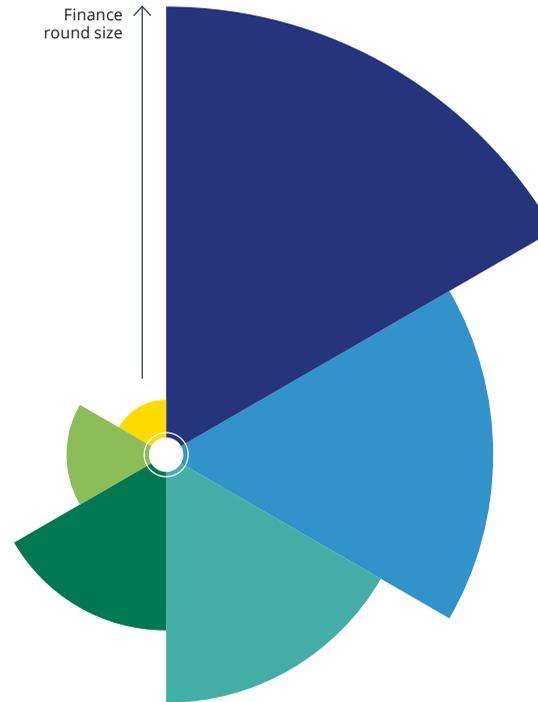
Public VCs / CVCs

### CHALLENGE

Current valuations too low to attract US investors

### OPPORTUNITY

- Increased interest from CVC and corporate incubators started with open innovation initiatives
- Pharma companies continue to buy early-stage companies to build and develop their pipelines
- Pooling of business angel funds to extend into later funding rounds compared to previous sweet spot (in the USA)



## SERIES B-D (Early Growth)

Private and public VCs

### CHALLENGE

Need to find management with scale-up capability

### OPPORTUNITY

A lot of dry powder ready for investment later in the investment process in both the USA and Europe

## SERIES E (Expansion)

Private VCs, International VCs and CVCs

### CHALLENGE

Develop meeting venues and relationships with relevant international investors

### OPPORTUNITY

Syndication opportunities emerging from an increased interest in the “hidden gem Scandinavia and Øresund” from US and European investors

## INITIAL PUBLIC OFFERING

Corporate finance advisors

### CHALLENGE

- The early stage MTFs will experience more follow-on investment rounds during the coming year
- Listed early-stage companies are disqualified from most VC investors
- Long-term business climate projected to change

### OPPORTUNITY

- Growing interest in IPOs and the stock market in Denmark
- Potentially new investor-friendly tax initiatives in Denmark

Please note: Many early-stage companies has performed IPOs at the Swedish MTFs NASDAQ First North and Aktietorget already in the Series A phase. This is a unique feature of the Nordic investor climate.

# MARKET OUTLOOK – USA

## GOOD ACCESS TO VENTURE CAPITAL DRY POWDER

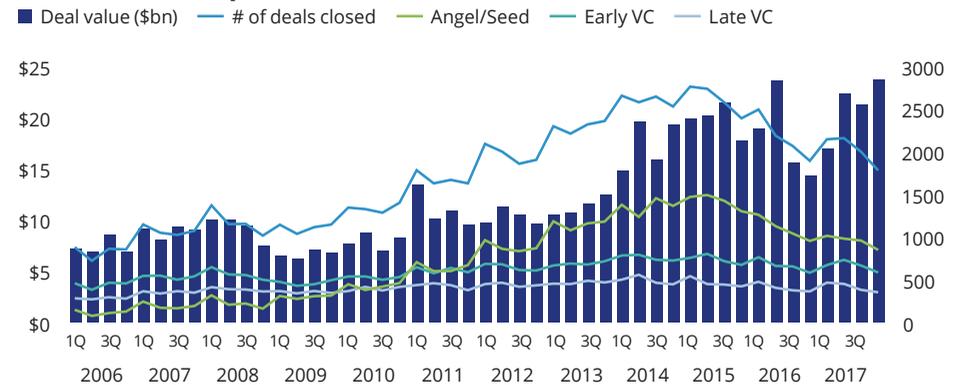
- There is good access to capital dry powder in the US venture capital scene. In 2017, a total of \$32.4 Bn was raised. An additional \$110 Bn was raised in the 2014–2016 period.
- The total invested capital in 2017 surpassed \$80 Bn (\$84 Bn) for the first time since the dot.com era.
- The total deal count fell as investors focused on fewer, but larger deals at higher valuations later in the investment process.

## A RECORD YEAR FOR LIFE SCIENCE INVESTMENTS

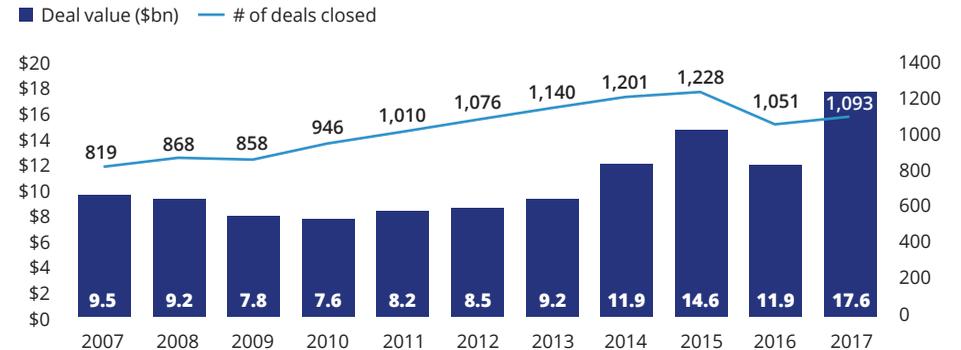
The Life Science sector reached a record of \$17.9 Bn invested in 1,093 companies – the largest amount in a decade. The increase has in part been explained by the joining of forces by traditional VC, CVC and cross-over investors which lead to a very large combined sum of funds focused on Biopharma and diagnostics/tool companies. The Big Pharma companies continued the long-term trend of acquiring early-stage companies to fill their R&D pipelines. This is assumed to improve the time from series A funding to exit to an average of 3.5 years.

“The retail investors do not understand the [life science] newsflow in Europe. The liquidity is also lower at Euronext compared to Nasdaq in New York. If you have a compelling story and good comparables then you get a better valuation and market cap in the USA.”  
 — VC at the Biotech and Money conference, London February 2018

## US VC ACTIVITY BY QUARTER



## US VC ACTIVITY IN LIFE SCIENCES PER YEAR



## THE FINTECH SECTOR IS MATURING

The Fintech sector stands out as an investment area in 2017, after boasting the strongest investment year since its peak in 2015. Total Fintech investment reached an impressive \$6.5 Bn at the end of the year. The leading contributing categories were “alternative lending, payments, wealth management, and more recently blockchain/cryptocurrency, insurtech and real estate tech.” (Pitchbook Venture Monitor, 4Q 2017, page 17)

## INCREASED ACTIVITY AMONG CORPORATE VENTURE CAPITAL

There was an increase in both number of completed deals and deal value for US CVC investors. They participated in 1,268 deals worth a total of \$37 Bn – another record amount. CVCs also syndicated with other CVC units in \$11 Bn worth of deals during the year. The main investment driver is assumed to be the rapid development of emerging technology, and the CVCs wish to access the resulting intellectual property.

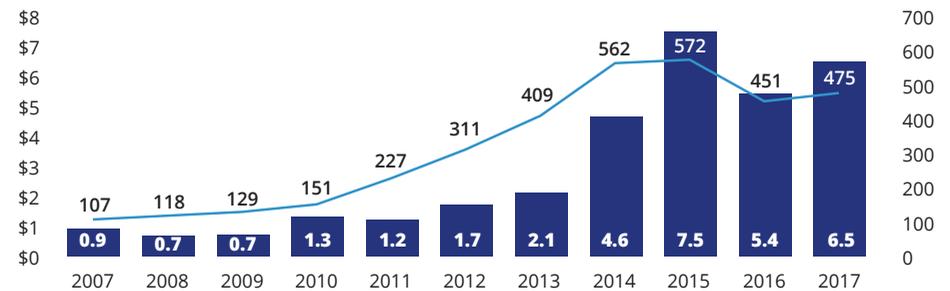
“Big pharma & biotech corporations have also looked to startups that are developing breakthrough technologies and drugs, especially considering the cost of drug development has soared in recent years. For instance, Grail’s \$1.2 billion funding last quarter saw Merck (NYSE: MRK), Bristol – Myers Squibb (NYSE: BMY) and Johnson & Johnson (NYSE: JNJ) all join in.”

— Page 19, Pitchbook Venture Monitor 4Q 2017, 2018

## US FINTECH INVESTMENT TRENDS

US VC Activity in Fintech by Year

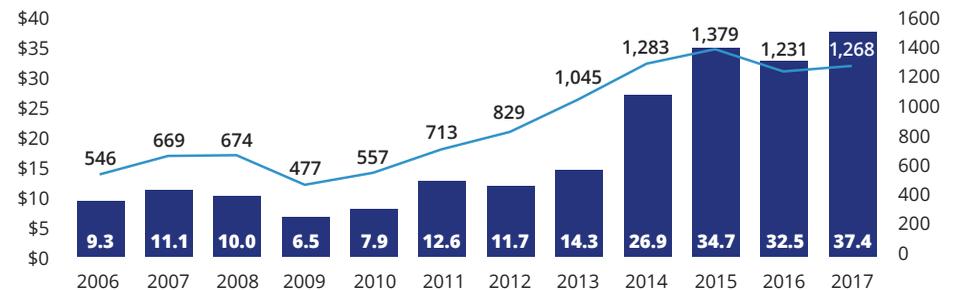
■ Deal value (\$bn) — # of deals closed



## US CVC INVESTMENT TRENDS

US Corp./CVC Activity by Year

■ Deal value (\$bn) — # of deals closed



# MARKET OUTLOOK – EUROPE

## SUBSTANTIAL EUROPEAN VC INVESTMENT ACTIVITY

- European VC investment activity reached €16.9 Bn over 3,306 deals during 2017 – a 13% value increase YOY compared to 2016.
- There were 53 VC backed IPOs raising over €3 Bn which is the highest IPO value in a decade when it comes to both value and volume.
- The average deal size increased in tandem with the U.S. and total deal value rose to record levels.
- The median early-VC stage deal size was €2.3 Mn
- The median late-VC stage deal size was €5.4 Mn
- The most common investment segment was software, followed by Life Science related segments.

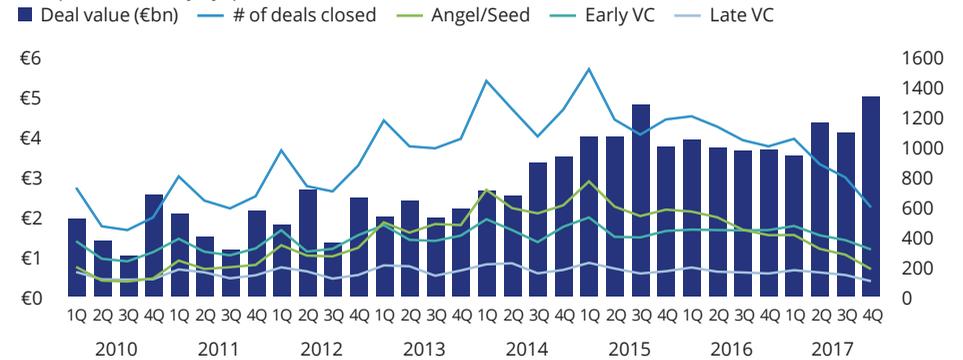
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## LESS SEED INVESTMENT ROUNDS

The total number of Seed investment rounds decreased by 39% compared to 2016. Early stage investors seem to focus on more developed companies later in the investment process. Angel investors are also syndicating to a greater extent which allowed access to later stage deals. The European Business Angel Network (EBAN) experience growing membership numbers and the organization support them in deal syndication and cross-border investment syndication. The European investment fund (EIF) have also established The European Angel Fund that “provides matching equity investing that facilitates networking and co-investing”. (European Venture Report 2017 Annual, Pitchbook 2018, page 4)

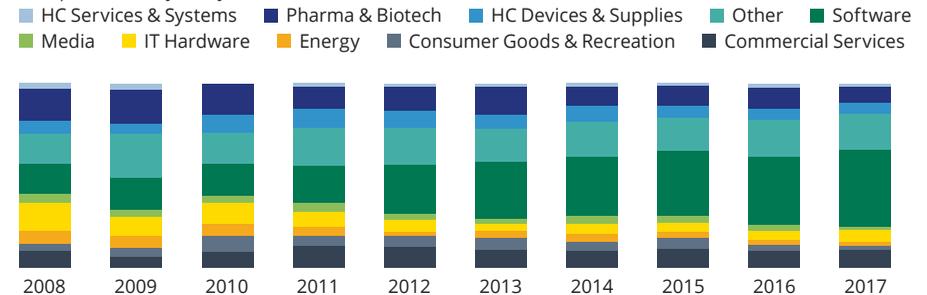
## OVERALL EUROPEAN INVESTMENT TREND

European VC activity by quarter



## MOST COMMON INVESTMENT SEGMENT

Europe VC activity (#) by sector



### INCREASED INTEREST FROM US INVESTORS

Larger deals were possible due to deep-pocketed US VC investors, who were involved in over 17% of all European VC deals in 2017. This was an increase from 12.8% seen in 2016. US investors also took part in 7 of 10 of the largest investments during the year. This illustrates the increasing interest from US investors to fund companies in Europe.

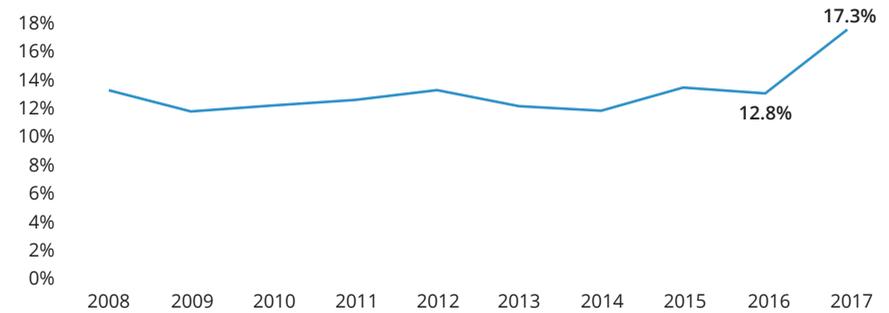
### CVC DEALS INCREASE IN VALUE

CVC investment activity reached a record high of €6.5 Bn in 2017. While the number of deals decreased, deal size increased, similar to trends seen in the U.S. CVCs focused 60% of their investments on early-stage deals. The Pitchbook team suggest that the increased CVC activity is driven by the will to complement and improve traditional R&D. The CVC approach “offers a few advantages: potential financial return, intellectual property sharing, lower upfront cost of both capital and time and acquisition optionality”. (European Venture Report 2017 Annual, Pitchbook 2018, page 7)

“ According to Invest Europe figures, almost a third of corporate venturing programs in Europe have been established since 2010, a development that has boosted the ecosystem. Over the last few years, these investors have recruited experienced teams that work together with VC firms to build great companies.”  
 — Invest Europe, Acceleration point VC Report May 2017

### INCREASED US VC PRESENCE IN EUROPE

US VC participation rate in European VC Deals



### EUROPEAN CVC INVESTMENT TRENDS

Europe VC activity with CVC participation



# MARKET OUTLOOK – DENMARK

## REPORT, DATABASE AND DESK RESEARCH FINDINGS

- Life Science and Fintech represented the largest deals in Denmark during 2017.
- When it comes to cities, Copenhagen raised the highest amounts, but Aarhus also managed to close transactions of substantial size.
- Orphazime topped the total amount raised, after a €80.2 Mn IPO.

## SIGNIFICANT TRANSACTIONS COPENHAGEN 2017

- 1 Orphazime (Life Science €80.2 Mn – IPO)
- 2 Trustpilot (Review community €16.4 Mn – Debt)
- 3 Labster (Life Science €8.1 Mn – Series A)
- 4 Trustpilot (Review community €6.2 Mn – Late VC)
- 5 Peakon (Analytics software €6.1 Mn – Series B)

## SIGNIFICANT TRANSACTIONS AARHUS 2017

- 1 ViaBill (Fintech €40.0 Mn – Series A)
- 2 Lunar Way (FinTech €4.5 Mn – Early VC)
- 3 Lix Technologies (E-learning/SaaS/Ed-Tech €4.4 Mn – Series A)
- 4 Mobarø (Fintech €1.9 Mn – Early VC)
- 5 Flsens Aps (MedTech €1.6 Mn – Grant)

## SIGNIFICANT IPOs AND PUBLIC FUNDRAISING 2017

- 1 Orphazime (Life Science €80.2 Mn – IPO)
- 2 OmniCar Holding (Software – €1.37 Mn IPO in Sweden)\*
- 3 RealFiction Holding AB (3D-signs – €2.14 Mn IPO Sweden)\*\*
- 4 Initiator Pharma (Biotech €2.03 Mn – IPO Sweden)\*
- 5 2cureX (Cancer treatment €1.82 Mn – IPO Sweden)\*\*

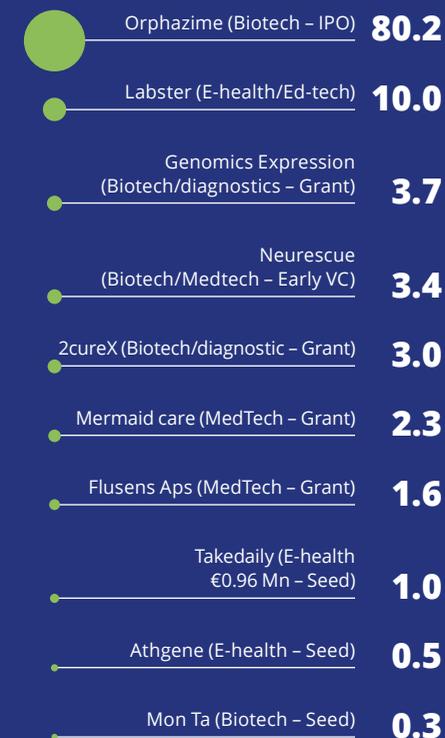
## SIGNIFICANT TECH TRANSACTIONS 2017

Based on amounts in millions EUR



## SIGNIFICANT LIFE SCIENCE TRANSACTIONS 2017

Based on amounts in millions EUR



# ØRESUND/DENMARK



8 of 9 expect continued growth in investor activity



4 of 9 takes a cautious approach to investments the coming year



7 of 9 mention a better investment climate in Sweden compared to Denmark



5 of 9 mention similar or better deal flow during 2017 compared to previous years



4 of 9 mention a quality improvement of early stage companies



5 of 9 mention an increase in open innovation initiatives



5 of 9 stress the importance of the industrial venture capital funds in pharma and biotech



4 of 9 mention a lack of experienced management as a challenge for growth in early stage companies

## A POSITIVE OUTLOOK DESPITE MACRO ECONOMIC CONCERN

The Danish respondents have a mixed outlook towards the future. They are positive for 2018, but expect an eventual change of the business climate after several years of strong growth.

Some are envious of the Swedish investor climate when it comes to IPO opportunity and access to investors with larger ticket sizes. There are however many positive aspects to highlight in Denmark.

The strong corporate investors are mentioned as instrumental in the start-up ecosystem. One example is the corporate open innovation initiatives that have been started, which will be interesting to follow.

The new start-ups emerging are in general of a better quality compared to previous years; even though some VCs are concerned over the access to experienced management.

This leads to an all in all positive outlook as long as the global investor climate keeps the current momentum.

# DEAL FLOW

## THE TECH SECTOR DOMINATED THE DANISH SCENE IN 2016

The tech sector dominated the deal flow in the 2016 report. The large pharmaceutical companies were mentioned as instrumental to the Danish Life Science ecosystem and it is still true today. Lundbeck and Novoseeds are believed to account for 70–80% of investments and grants for early-stage companies. This is a competitive edge for Denmark compared to Sweden. However, the early stage funding is still a challenge and the Swedish university technology transfer system is described as more efficient.

## A PROMISING DEAL FLOW DURING 2017

A majority mention a similar or increased number of potential investment cases during 2017. Many of the funds have managed to meet and evaluate more cases due to an increased number of investment managers scouting new cases. Success cases in both Life Science and tech sectors have increased the start of new companies and projects seeking capital. The quality of the start-ups has generally improved, most likely due to a new generation of founders attracted by the hype of being an entrepreneur. There are more incubators

and entrepreneur initiatives which spurs the number of cases and quality when it comes to investibility.

## THE FINTECH SECTOR IS GROWING

There are many new Fintech companies in Denmark and the ecosystem is starting to produce more and more companies in series A and B funding rounds. There are also start-up hubs with a specific Fintech focus that support the overall sector growth. Copenhagen University for instance has a large focus on Blockchain technology, and have been highly involved in the development of the European Blockchain Center research facility. (Learn more at ebcenter.eu). There were more than 10 Fintech funding rounds during 2017 with Viabill coming out on top raising €40 Mn in a series A round (dealroom.co, Feb 2018).

## CORPORATE OPEN INNOVATION INITIATIVES

There are many examples of European cross-industry initiatives where

established corporate players start open innovation initiatives to support the regional ecosystem and improve their innovation activities. The greater Copenhagen area has many examples of this where they open up and allow access to internal infrastructure such as the Leo Pharma Open Innovation Lab, Tryg Forsikring insurance intrapreneur hub the Camp, Danske Bank Growth/The Hub, Maersk – Growth Initiative, Danfoss – The Ramp, ISS – Corporate Garage, Telia – Jump, Novozymes innovation campus, and IKEA Space 10. This will most likely be beneficial for both Life Science and tech ecosystem and create early stage company growth. It is also potentially beneficial for the local corporations when it comes to improvement of their own R&D.



As the CVC market has developed, it has become an increasingly popular strategy to invest and as an augmentation to traditional R&D.”  
— European Venture Report 2017 Annual, Pitchbook 2018

“The total no-go investment cases are gone and the founders of today understand the need for scaling and growing the company outside of Denmark from the start.” — VC

# CHALLENGES

## THE NEED FOR ENTREPRENEURS WITH SCALING CAPABILITY

There are many great ideas in Denmark but also a need for skilled management and entrepreneurs that can develop and scale start-ups. This is a European challenge, not specific to Øresund. The objective is to reach the critical mass of benchmark regions such as the Boston and the San Francisco Bay area.

## THE TAX SYSTEM IN DENMARK IS AN INVESTOR CLIMATE CHALLENGE

There are mentions of tax challenges in relation to employee stock options and an overall high tax level in both Sweden and Denmark. The Berlin area is mentioned as an example of a more liberal and attractive area for starting, scaling and investing in early-stage companies.

## NEED TO INCREASE CROSS-BORDER INVESTOR UNDERSTANDING

There are still many investors that prefer to remain close to home and avoid crossing the bridge between Malmö and Copenhagen.

The facilitation of cross-border investments is one of the ultimate goals for this report and it will hopefully improve over time. SEB Venture Capital is one of the good examples of VC that invest on both sides of Øresund. However, there is room and opportunity for many more. More interaction creates the foundation for trust and investments.

## TEACHER'S EXEMPTION ADVANTAGE

The Danish TTOs seems to have a challenge compared to Sweden due to the lack of teacher's exemption. There are many university systems where this works well, but respondents mention that Denmark in general needs to improve the commercialization and technology transfer process. The Danish TTOs should ideally have been represented in this report to explain their process and methodology further. However, it has not been possible but will be an objective for the next Øresund Investor Climate Report.

It should be noted that technology transfer is an international challenge

which was mentioned at the Biotech and Money conference "Every university has a Venture arm now, but it is hard for them to commercialize their projects." — Big Pharma CVC

## A NEED FOR MORE VC FUNDS WITH DEEP POCKETS

Novoseeds is one of the VC funds mentioned with access to enough funds to take an early-stage company from idea all the way to market. This is rare in the Øresund area and there is, therefore, a need for more syndication and interaction with international investors that can support similar growth projects.

## TALENT ATTRACTION IN COMPETITION WITH OTHER EUROPEAN START-UP HUBS

The Øresund region is in a constant competition for talent with other start-up hubs in Europe and the USA. Many respondents mention the need for multiple actions to improve the Greater Copenhagen potential to attract more of

“ The TTOs own the IP in Denmark and the tech transfer process does not work in an optimal manner. The Swedish teacher's exemption is better.”  
— VC

“We have more interaction with investors in the UK than across the Øresund.” — VC

the important founders and specialists needed for the ecosystem to gain and keep momentum. Copenhagen capacity is one of the organizations that aim to support this with focused Life Science recruitment activities. (newsøresund.com, 2018-02-16)

It should also be mentioned that the Nordics and Øresund scored very well in the World Economic Forum report on the talent attraction capability of different regions in the world. (Learn more on weforum.org)

# OPPORTUNITIES

## SUCCESS CASES IN DENMARK

The number of start-up success cases is rising in many different sectors – Vivino and Trustpilot are two tech examples, but more companies are emerging in the growing ecosystem. This has positive side effects for continued growth as more people become entrepreneurs. There are even comments about positive snowball effects from the fundraising successes of Klarna and iZettle in Stockholm, attracting investors all the way to Øresund.

## NEW INVESTORS ENTERING THE SCENE

There are comments on more business

angels and High Net Worth Individuals entering the investor scene in Denmark. They are attracted by the early stage success cases and the fact that traditional asset classes have reached historic high valuation levels. They are typically entrepreneurs that have achieved successful exits, but a new group is the “traditional” HNWI and family offices that wish to invest directly in start-ups in different growth phases. This is a shift compared to 2016 and represents an opportunity for syndication and collaboration on both sides of the Øresund. Local business angel networks

such as Danban (danban.org) are an important rally point just like their European equivalents EBAN.

## NOVOSEEDS IS CONSIDERED BEST PRACTICE FOR EARLY-STAGE INVESTMENTS

Novoseeds seems to have cracked the code on how to invest in early-stage companies. They offer grants to promising research projects in the pre-seed phase and then monitor them as they incubate and mature to an investable case. They can invest in cases with good potential and grow them with their internal resources and international investor network. They have also had a long-term focus on international relationship building and syndication with leading life science investors which contribute to attracting capital to the Øresund region.

## COLLABORATION AND INTERNATIONAL SYNDICATION

There are many corporate venture capital funds active in the region and

“The CVC investors must have a local anchor investor in order to invest in the region.”  
— CVC

some syndicate with regional funds. The respondents mention Novartis, Böhlinger Ingelheim, Roche, Pfizer and MERCK Ventures. On the tech side Google Ventures, Salesforce and SAP stand out. The large banks such as Nordea and SEB but also JP Morgan are mentioned. This creates a great starting point for building syndicates for local and international deals where local investors act as anchor investors. This is one of the key investment criteria for international funds as they struggle to evaluate and manage their investments on a global scale. There is also interest from other types of international investors such as High Tech Gründerfonds in Germany. It is the largest seed investor in Europe and it is mentioned in relation to the interest in Danish start-ups. J&J is a big pharma example with an office in Stockholm and presence in the Øresund region.

“Novoseeds is an outstanding example of a fund that has managed to create a great method for commercialization and international investment syndication.” — Swedish VC

“There is a new type of investor entering the scene these days – HNWI from the province that has made a lot of money in traditional industries and now wishes to invest in start-up companies.” — Innovation supporting organization

# IPO ACTIVITY

## A POSITIVE IPO CLIMATE IN 2017

There have been many Danish companies listing in Sweden the past years. This created groups of optimists and pessimists among respondents in 2016. There is a similar sentiment among respondents today, where they stress that the IPO is only the start of a long journey for early-stage companies. They must meet agreed milestones and consistently communicate with the market to create long-term liquidity and trade interest in their stocks.

## THE DANISH IPOS ARE FEW BUT LARGE

The Danish IPOs are more traditional as mostly large-cap companies list themselves. The major IPOs were launched on the Nasdaq Copenhagen main list in 2017. The Life Science IPO

scene in Denmark is starting to improve, especially with the first sector IPO in a long time with Orphazyme raising €80.2 Mn. (nasdaqomxnordic.com, 2018-02-23). Another Danish company Zealand Pharma (ZEAL) was introduced in New York at a market cap of \$89 Mn in August 2017 (nasdaq.com, February 2018 and cooley.com, 2018-02-23) which further adds to the positive sentiment for new IPOs in the country.

There is no comparison with the Swedish MTFs Aktietorget and NASDAQ First North Stockholm when it comes to early-stage IPO volume. However, the Danish market is waking up to early-stage companies too, as Greenmobility and Confereize were listed on First North Copenhagen in 2017. (nasdaq.com, 2018-02-23).

## AN IPO ON A SMALL CAP LIST HAS CHALLENGES

It could be a great investment path to list an early stage company on the Nordic small cap lists. It is however not always a clear exit for the original investors since their equity is turned into shares that need to be sold to retail investors. This creates a need for liquidity and frequent trading of the individual stocks which is not always the case.

## THE IMPORTANCE OF INVESTOR ACCOUNTS AND TAX IMPROVEMENTS

The Swedish tax infrastructure and public stock market investment tradition is a common envy of Danish respondents. It is currently not as beneficial to invest privately in the Danish stock market. This will most likely change if a new tax model could be introduced based on Swedish precedence during 2018. (finansdanmark.dk, 2018-02-23).

## DANISH IPOS IN SWEDEN

There were 5 Danish Life Science and Tech IPOs in Sweden during 2017. This is on par with the 2016 IPO level within these sectors. (Aktietorget, NASDAQ Stockholm)

## DANISH LIFE SCIENCE AND TECH IPOS IN SWEDEN 2016-2017

2016

Aktietorget

2\*

2017

Aktietorget

3\*

NASDAQ First North  
Stockholm

3\*\*

NASDAQ First North  
Stockholm

2\*\*

“There is often limited trading and liquidity in the individual stocks after a small cap IPO which makes it challenging to achieve a complete exit for original investors.” — CVC

\* Aktietorget

\*\* NASDAQ First North Stockholm

# THE FUTURE

## A GENERAL POSITIVE SENTIMENT IN 2016

The future projection in the 2016 report was overall positive. A majority of the investors believed in a continued growth as long as the public economic stimulations from the ECB continued. There is still a positive outlook on the near future, but with an addition of caution about the unbroken growth that is unlikely to continue forever.

## ENTHUSIASM IN THE DANISH BIOTECH SECTOR

There is a positive sentiment in the Danish biotech sector after successful IPOs and increased interest for private investments. The large corporate investors will most likely continue to stimulate the ecosystem.

## A PROMISING BUT POTENTIALLY VOLATILE YEAR

The investors stress the importance of the US economy when it comes to the development of 2018 investor climate. Many anticipate further growth of investments and exits throughout the year. However, these positive prognoses might soon shift as this may be the last year of growth before the market environment changes. This has been said for several years and will happen eventually – the challenge is that no one really knows when.

## CONTINUED GROWTH IN THE FINTECH SECTOR

The Fintech sector is believed to continue the past years' growth with new start-ups emerging. The ecosystem is maturing and attracting more investors.

## CLOSING OF THE LOWER FUNDING GAP

It seems like a constant challenge to improve the lower end of the funding process; as too many investors wish to avoid the risk associated with this investment phase. This is still especially valid for Life Science companies with their complexity and longer lead times to market. There are on the other hand new business angels entering the field which is promising for early-stage companies.

There is a general decline in seed funding rounds in the world. However, there is an increase in the number of business angels. A report from Pitchbook suggests that business angels syndicate to a higher degree and thereby pool funds to reach investment phases beyond seed. This remains to be seen in the Øresund region – it would represent a future potential.



“ We are approaching a plateau, but the risk appetite is still high. The enthusiasm in the Danish biotech sector is creating a large expectation that everything will continue to grow. If the investor climate changes, I hope for a gradual decline, not a crash.”  
— Innovation supporting organization

# MARKET OUTLOOK – SWEDEN

## REPORT, DATABASE AND DESK RESEARCH FINDINGS

- The Swedish national investments were dominated by tech companies in general and iZettle in particular that conducted several rounds during the year.
- The Life Science sector saw an impressive transaction activity with E-health related tech companies raising substantial amounts. This is part of future projections from Big Pharma “The involvement of tech in science is an exciting part of the biotech area right now. There is a prevalence with great science and combination with tech that you have here in the UK, Germany and the Nordics.” (German VC, Biotech and Money London February 2018)
- The Øresund region transaction track record was led by Min Doktor raising €22.6 Mn followed by Sol Voltaics at €19.4 Mn.

### SIGNIFICANT VC TRANSACTIONS MALMÖ 2017

- 1 Min Doktor (E-Health €22.6 Mn – Late VC)
- 2 Orbital Systems (Tech €17.0 Mn – Series B)
- 3 inRiver (Software €10.5 Mn – Late VC)
- 4 Kollektiva (App/software €3.0 Mn – Angel)
- 5 Point by Minute (IoT €2.0 Mn – Seed)

### SIGNIFICANT VC AND GRANT TRANSACTIONS LUND 2017

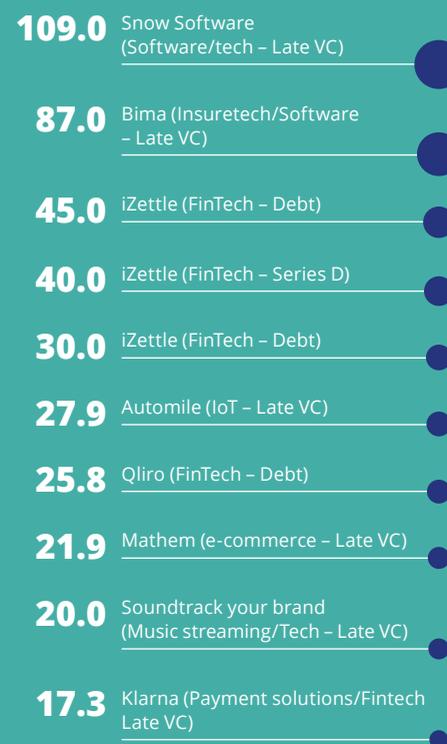
- 1 Sol Voltaics (Tech €19.4 Mn – Series D)
- 2 Dark Matter\* (Tech €19.2 Mn – Early VC)
- 3 Earin (Tech €3.1 Mn – Series A)
- 4 Winfoor (Tech €2.1 Mn – Grant)
- 5 Brainlit (IoT/tech €1.0 Mn – Early VC)

### SIGNIFICANT IPOs AND PUBLIC FUNDRAISING LUND 2017

- 1 Cantargia (Oncology – €22.8 Mn Rights issue and preferential rights issue)\*\*\*\*
- 2 Acconeer (Micro radar technology €14.92 Mn – IPO)\*\*\*
- 3 TerraNet (Telecom €9.86 Mn – IPO)\*\*\*
- 4 SenzaGen (In-vitro toxicology testing technology €8.88 Mn – IPO)\*\*\*
- 5 A1M Pharma (Kidney treatment – €7.9 Mn Preferential rights issue)\*\*

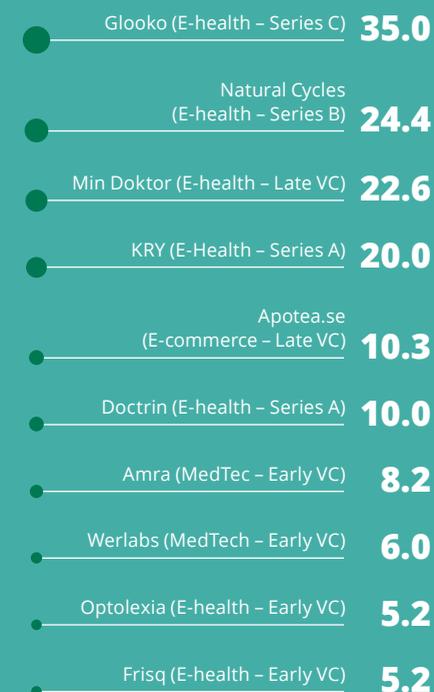
## SIGNIFICANT NATIONAL TECH VC TRANSACTIONS 2017

Based on amounts in millions EUR



## SIGNIFICANT NATIONAL VC LIFE SCIENCE TRANSACTIONS 2017

Based on amounts in millions EUR



Source: Dealroom.co, transaction database Feb 2018

\* Dark Matter is based in Helsingborg

\*\* Aktietorget.se 2018-03-02

\*\*\* NASDAQ Stockholm

\*\*\*\* Cantargia press release 2017-12-21

# ØRESUND/SWEDEN



12 of 16 have a positive outlook on the coming year when it comes to deal flow and investment opportunities



8 of 16 expect a market correction within 12-24 months



7 of 16 have met with more potential investment cases



7 of 16 investors have noticed a quality improvement of investment cases



7 of 16 believe in a continued positive outlook for IPOs on the Swedish small cap lists



6 of 16 mention an increase in early stage investments



6 of 16 would like to increase collaboration with corporate venture funds



6 of 16 mention an increase of business angels and private investors



5 of 16 mention an increase of valuations



5 of 16 respondents have met with foreign investors



5 of 16 wish to find syndication partners for investments



5 of 16 mention an increase in corporate venture capital funds

## POSITIVE OUTLOOK FOR 2018 BUT POTENTIAL LONG-TERM CHANGE

The overall trends are positive in Sweden except for a cautious approach to the long-term macroeconomic perspective.

The investors have met with more potential investment cases during the year, mostly because of an increase in their staff and bandwidth to perform more meetings. This also had to do with an increased number of cases seeking capital.

There seems to be a general high investment activity with new business angels emerging, CVC investors entering the region and openness to syndication which is promising for the coming year.

The long-term outlook is, similar to Denmark, based on an expectation of a slowing down of the global economy. The logic of this is based on the fact that the economy can't continue to grow forever.

# DEAL FLOW

## A SIMILAR SITUATION TO 2016 BUT INCREASED DEAL FLOW

The deal flow was promising during 2016 with especially good access to both early-stage tech and Life Science companies in Sweden. Many respondents mentioned that there were even more investment cases during 2017. This is due to an increased VC investment manager presence and more meetings with potential cases in the region. This has increased the access to potential investment cases and therefore also the total deal flow.

## OPPORTUNITY FOR EARLY INTERACTION WITH POTENTIAL ACQUISITION PARTNERS

There are mentions that Big pharma scouts have increased efforts to identify

and develop relations with early-stage life science companies. Some even extend to interaction and dialogue with research projects still at universities. This is one approach used to secure an optimal development of early-stage projects with potential. This will contribute to improving chances for licensing or acquisition later in the clinical trial process as the projects mature under supervision and support by potential partners.

## A DEAL FLOW DRIVEN BY COMMERCIAL SUCCESS

The deal flow is similar to Denmark driven by previous successful commercialization of university research within Life Science as well as successful tech company launches. This was established already in

2016. There are successful entrepreneurs within academia that lead the way and sets the example for others to follow such as Carl Borrebaeck at Lund University. He is involved in successful cases such as Immunovia, SenzaGen, Alligator and Bioinvent. The Lund based Diaprost and Camurus are two great examples of Life Science partnering success. There are similar examples on the tech side with Hampus Jakobsson (business angel and one of the TAT founders) and Jan-Erik Solem (Polar Rose and Mapillary). There are also success cases from the rest of Sweden that attract attention to the Øresund such as Spotify, iZettle and Klarna.

## AN INCREASE OF SWELIFE APPLICATIONS

The number of applications for soft funding within the Swelife funding programs increased during 2017. The quality of the applications was in general very high in both of the two Swelife calls in 2017 and 7 of 36 grants were awarded to companies from the Øresund region. The

increased number of applications implies an increasing number of investment cases in development in early-stage Life Science, but is likely also a result of increased awareness for the Swelife funding opportunity among companies and projects.

## INCREASE OF CONNECT SPRINGBOARDS

Connect Sweden has experienced an increased application volume for their springboard programs. More companies are applying for the support Connect can offer. This could be due to improved recognition of these programs among start-ups, but most likely due to more companies in development in the region.

## THE INCUBATORS AND BUSINESS PARKS DRIVE DEVELOPMENT

Many new small companies are developing in the Øresund region. Many of them find a good growth environment at Medicon Village, Medeon, the SMiLE incubator, MINC and Malmö Start-ups The Ground.

“ Many researchers have gone through successful commercialization processes which have served as inspiration for others to follow. This improves the total deal flow from our university.” — TTO Sweden

“ Our holding company has been part of successful IPOs such as Acousort, SenzaGen, B!BB-instruments and Acconeer – which leads to improved opportunities to support new early-stage cases.”  
— TTO Sweden

# CHALLENGES

## **SIMILAR CHALLENGES TODAY AS IN 2016**

The challenges in 2016 were centered around the need for experienced management and serial entrepreneurs, a deeper understanding of life science investing and the fact that Stockholm is the financial center in Sweden. The lack of experienced management trend seems true not only in Sweden, but across Europe too.

## **NEED FOR MORE EARLY GROWTH INVESTORS**

There are many new business angels in the ecosystem and there are also soft funding opportunities for companies starting out. However, there are still mentions of a lack of funding opportunities in the series A segment around €1-2 Mn rounds. This is

before the entrants of established VC but after the typical business angel consortia sweet spot.

## **LACK OF EXPERIENCED MANAGEMENT IN EUROPE**

VCs in the Swedish venture scene points to a lack of founder management teams with experience from previous start-up commercialization. This is true for both tech and life science companies focused VC funds. This is also part of a larger international trend where funds compare the access to experienced management in Europe to the USA and start-up hubs on the east and west coasts. This seems to be a challenge across Europe, rather than an isolated phenomenon in the Nordics and Øresund. The trend is developing in the

right direction as more start-up exits and serial entrepreneurs emerge and start new companies.

## **CHALLENGE TO UNDERSTAND LIFE SCIENCE CASES**

There are still challenges among many investors to understand the complexity of life science cases. This leads to fewer investors entering this segment in early stages. There are however more Big Pharma entering early in the investment and clinical trial process, but it remains to be seen if this can compensate for the relative lack of angel capital.

## **VALUATIONS ARE ON THE RISE – A US INVESTOR PREFERENCE**

Many investors mention that valuations are on the rise from a general pre-money first round valuation of €1 Mn to €2-2.5 Mn. This could be a challenge for many regional investors. It is at the same time an opportunity as the valuations are much higher in the US and investors are currently looking for other regions and

cases with more attractive valuations. It is also a challenge since the average US investor supposedly would be interested in companies with a minimum investment ask of €5-10 Mn. There are not yet many cases that can meet these valuations and asking levels. However, there is potential upside if US investors could be attracted to the region.

## **LISTING OF EARLY STAGE COMPANIES COULD DISQUALIFY VC INVESTMENT**

Many life science and tech companies in Øresund are listed at the Swedish small cap Multi Trading Facilities (MTFs). This has led to good access to short to medium term growth capital. It could, however, turn into a challenge as it in some cases also disqualify from later stage VC involvement. Their investment criteria will in many cases prevent them from investing in listed companies.



In Boston, there is an entrepreneur on every corner. In London, and further North, there is a lack of entrepreneurs that have done the Journey before.”  
— Life Science VC at Biotech and Money in London 2018



I still miss experienced management teams in Scandinavia that has gone through the complete growth and commercialization journey; we need individuals with international experience and access to investors.”

— VC

# OPPORTUNITIES

## **THE ØRESUND REGION HAS A GREAT REPUTATION**

The Øresund region has a “hidden gem” status among many investors in Europe and the USA. There are more and more investors that find their way to the Nordics in general and the Øresund region in particular. Many of the VCs and CVC representatives mention the combination of outstanding science, an efficient cluster, and often more commercially validated cases which sets the region apart. One reason for this is that many companies involve commercial specialists at an early stage which support and increase development speed and partnering relevance. The valuations are also supposedly lower compared to the rest of Europe and especially the US.

## **FINTECH – A PROMISING SEGMENT**

The financial technology sector has experienced a massive growth on both sides of the Øresund. There are many investors that find their way to Sweden and Denmark in search of the next Klarna.

The ecosystem is growing and there are cross-border industry organizations such as Copenhagen Fintech Association and Øresund Fintech. This is a promising development for harnessing the growing industry in the region.

## **INCREASE IN NUMBER OF BUSINESS ANGELS AND EARLY STAGE INVESTORS**

More business angels have emerged in Sweden as a result of a positive stock exchange growth and successful exits in the tech and life science sectors. Many serial entrepreneurs decide to invest capital gained from their exits in early-stage companies where they can make a difference with their expertise. The organization Connect has seen a lot of interest in signing up for their business angel courses as well as pitch events and springboards. This is a positive development for the ecosystem.

## **CORPORATE INNOVATION COLLABORATIONS**

The increase in CVC investment trend seems relevant in Skåne and Sweden too. Success cases within computer vision have attracted car manufacturer CVCs to the region. There is also a general sense of a strong cluster with leading universities, business parks and incubators that produce many viable companies. Life Science Corporate investors are also mentioned such as Pfizer, J&J, Abbvie, Eli Lilly, MSD and Bøhringer Ingelheim.

## **ACCESS TO A LOT OF CAPITAL IN THE USA**

There is a lot of available capital in the USA and the low valuations here in the Nordics is an opportunity for Øresund start-ups. Many companies sooner or later include US VC investors to bring their companies to scale and market. This is a trend in both the Nordics and Europe – one example is tech where the most active foreign investors originate from the UK (32%) and the USA (23%)



FINTECH companies in Sweden have attracted 10–20 times more capital compared to Copenhagen if you compare numbers from Nordic Tech list.”

— Innovation supporting organization

according to Swedish Tech Funding report 2017 by Industrifonden.

## **INCREASE IN SYNDICATION OPPORTUNITIES**

The fact that new investors entering the field opens up for more syndication. This could allow for investments in more companies when business angels and early-stage VC funds share risk. There is also a need for local investors to act as anchors when international funds seek syndication with Nordic partners – a pre-requisite for them to invest in the region. This is currently being facilitated in the SwedenBIO initiative “VC-2-VC”. The objective is to create meeting venues where international and local investors can meet, create trust and share leads to establish deals together.

# IPO ACTIVITY

## THE SWEDISH SMALL CAP LISTING MARKET IS UNIQUE

Sweden is one of few markets with the possibility for public financing of early-stage growth companies. The London-based equivalent AIM is the only other example where similar listings are possible. In 2017 – 44 companies were floated there raising nearly £2 Bn (€ 2.27 Bn). Over £5 Bn (€5.67 Bn) has been raised on AIM in follow-on fundraising from existing issuers in 2017, which is +27% compared to 2016 (Iseq.com, 2018-02-16)

## TEMPORARY DECLINE DURING APRIL-JUNE 2017

There were some unsuccessful IPOs at the end of spring during 2017. A possible explanation for this according to respondents was that there were too many ongoing IPO processes at the same time. The situation changed after summer, where the market recovered and saw a consistent flow of IPOs on both Aktietorget and Nasdaq First North until the end of the year. The Swedish

Life Science and Tech sector companies reached a record of 31 IPOs on NASDAQ First North and 17 IPOs on Aktietorget. There were a total of 85 IPOs and 110 rights issues across all sectors at the main Swedish MTFs during 2017 raising a total of €1.01 Bn (57 IPOs NASDAQ First North Stockholm raising €588.6 Mn and 28 IPOs at Aktietorget raising €134 Mn). There were 67 rights issues at Aktietorget raising €147.4 Mn; and 43 rights issues at NASDAQ First North raising €140.5 Mn.

## THE NEED FOR MARKET VALIDATION AND MEETING MILESTONES

There were a lot of companies approaching corporate finance advisers to start the process of an IPO in Sweden. Many of them were too early for a listing and first needed to validate their business and develop reasonable plans with milestones possible to use as a foundation of a memorandum.

## CONTINUED IPO ACTIVITY

A majority of the respondents believed that the IPO window would remain open for the

foreseeable future when the interviews were conducted. (Nov 2017 –Feb 2018).

## MANY LISTED COMPANIES WILL NEED MORE CAPITAL IN THE NEAR FUTURE

Many companies have been listed over the past years on a promise of achieving a set of development milestones – many will succeed, others will fail. This will influence their ability to ask for follow-on investments from existing and new shareholders. It is likely that many listed companies will attempt to perform follow-on rounds during 2018, which will add to the competition for public funding according to the respondents.

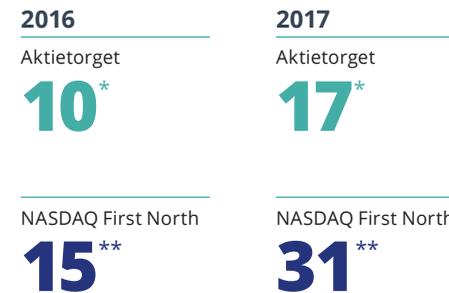
## A MARKET CORRECTION DURING FEBRUARY 2018

There was a market correction originating from the USA and spreading throughout the world during the final stages of the development of this report (February 2018). (“Stocks Plunge as Market Enters ‘Correction’ Territory”, Phillips & HSU, NY

“ In the past year, the Stockholm exchanges were responsible for more than 80% of the IPOs in the Nordics.”  
— Dagens Industri, November 2017

Times, Feb 8, 2018). It remains to be seen if this is part of a more long-term trend or temporary. The objective of this report is to capture long-term trends and there was a consensus on a positive outlook for the near future and a more cautious projection in the longer perspective.

## SWEDISH LIFE SCIENCE AND TECH IPOS 2016-2017



\* Aktietorget  
\*\* Nasdaq Stockholm

# THE FUTURE

## CONTINUED INVESTMENTS IN EARLY STAGE COMPANIES

There is still a lot of liquidity in the market that looks for offset outside of the public markets. This opens up for early-stage investments and the rise of business angels and Family offices that wish to invest directly in start-ups.

## INCREASE VISIBILITY OF THE REGION AND INVESTMENT CASES

There are many great potential investment cases but at the same time a need to attract VC and CVC to invest in the region. One suggested method is to increase the visibility of scientific projects and successful cases; another could be to facilitate investor/start-up meetings to a greater extent. It would also help to join forces across the Øresund and find ways to attract potential international investors. In other words, increase cross-border interaction and collaboration. There are a few business angels and funds that do that today, but many more should take the opportunity. Medicon Valley

Alliance is one of the cluster organizations that manage to facilitate and spur collaboration across the Øresund, which hopefully will continue during 2018.

## THE SWEDISH STATE FUND OF FUNDS INITIATIVE SAMINVEST INCREASE ACCESS TO VENTURE CAPITAL

The Swedish state organization Saminvest is tasked to increase the access to venture capital in Sweden by investing in new VC funds focused on relevant industries. Three funds received investment during 2017 – Hadean Invest (Life Science), Luminar Ventures (Seed fund focused on university tech companies) and Spintop III (Seed fund focused on digitalization). This will hopefully support the investor collective and start-up ecosystem. (Learn more on [www.saminvest.se](http://www.saminvest.se)).

## A CAUTIOUS BUT POSITIVE OUTLOOK FOR 2018

Many respondents comment on the past ten years of consistent growth and therefore start to expect a correction and change of financial policies within the coming 12–36 months. They also stress the challenge to know when or what could trigger such an event, but some point to a potential raising of interest rates in the USA and Europe. There is no single variable mentioned that could trigger a correction but many monitor the market closely. Similar statements were mentioned in the 2016 report.

A majority of the participants were, market correction aside, still positive towards the general investment climate for 2018 even though some are cautious for the long run. The corporate finance firms believe in a steady flow of IPOs, and TTOs as well as VCs plan to continue investments in the region. There is, in general, good access to liquidity, even though there are challenges in early investment stages.



“ We need to increase the visibility of our region among VC and investors if we are to get Øresund to grow for real. We need to create more venues for relationship building, but VC funds must increase presence too.” — VC

# CONCLUSIONS

## **SUCCESS BREEDS SUCCESS**

More success cases were emerging in the Øresund ecosystem in 2017 – one of the most important factors for creating a positive investment climate. It inspires new founders to start companies, it attracts local HNWIs to invest in start-ups, it attracts international VC investments and syndication opportunities and it creates jobs and prosperity during the process. The more investors join forces throughout Øresund and the Nordics, the more funding options will enable companies to succeed in both Life Science and Tech sectors.

## **OPPORTUNITY TO INTERACT EARLY WITH BIG CORPORATE INVESTORS**

The large corporate investors spend more and more efforts in identifying and collaborating with start-ups to improve innovation and development of their products and services. Many respondents mention frequent interaction with large companies in the region across different industries. The increasing CVC

investment activity trend is valid for both the USA, Europe and Øresund. This is an opportunity that must be activated by the small companies and the more collaboration and sharing of connections the better – in both Denmark and Sweden.

## **POTENTIAL TAX IMPROVEMENT IN DENMARK**

It will be interesting to see if the investor tax system changes in Denmark will come into effect in 2018. The Danish respondents agree on the need and hope to see it happen.

## **IMPORTANCE OF ATTRACTING US AND EUROPEAN INVESTORS**

There is a lot of major investors with dry powder looking for deals in Europe which represents an opportunity for the Øresund ecosystem. US investors are already present in the largest tech deals and should be convinced to participate and syndicate with local anchor investors in as many segments as possible. They seem to prefer larger deals if the trend from 2017 continue.

## **IMPROVEMENT OF DANISH TECHNOLOGY TRANSFER**

The respondents mentioned improvement opportunities for the Danish TTO process. This was especially true when comparing to the Swedish system where the teacher exemption has proven itself with good results. One opportunity for the future is to join forces with the many ongoing corporate innovation initiatives and corporate investors that already plays an important role in Denmark.

## **CHALLENGING TIMES FOR LISTED COMPANIES**

The coming year might prove challenging for listed companies as some of them need to raise follow-on rounds from existing and new shareholders. This will be a test of the public market liquidity, and hopefully, be successful.

## **CROSS-BORDER OPPORTUNITIES**

There are still a lot of untapped potential for cross-border collaboration between Denmark and Sweden as well as the rest

of the Nordics and Europe. We live in a globalized world with many possibilities, but also requirements, to build trust and relationships that lead to investment syndication, licensing, partnerships, M&A and growth across industries. The European angel investment syndication initiative is one example that should be activated between Denmark and Sweden – Connect and DanBan are good starting points.

## **INCREASE VISIBILITY OF EARLY-STAGE CASES**

Early-stage companies should put more effort in meeting with investors to build long-term trust and relationship. This will increase the likelihood of successful funding during the development of the company.

# THANK YOU

NY Consulting would like to thank all respondents for generously taking the time to discuss the investor climate with us during the past months. We would also like to thank Dealroom.co and Pitchbook for use of their data. We hope this report adds transparency and interesting perspectives on the Øresund investor climate.

## **A PROCESS BASED MANAGEMENT CONSULTANCY**

NY Consulting develops, refines and implements business development strategies for early-stage Life Science and Tech companies. We are a process based consultancy working together with technology transfer offices and Venture Capital funds in Scandinavia. We are headquartered at Medicon Village in Lund, Sweden in the heart of Medicon Valley.

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