



Ladies and Gentlemen, Presenting Europe

Catalyst Venture Capitals charter isnt heavily weighted towards technology. The fund is interested in business - all business. Plus, if therea whiff of a European IPO around a company, theres ready money to be put on the table.

Ella Jacoby-Bashan 23 Aug 00 21:49

Die-hard banker Edouard Cukierman, 33, does not like too many risks. Cukierman, whose father "worked with Edmond for 39 years" (he was president of the Edmond de Rothschild Bank), grew up on the financially conservative lap of continental Europe, and is keenly familiar with its customers. His exit arena is European stock exchanges, and his target audience has started to dapple in the technology venture capital sandbox, but still refuses to take off its bankers suit.

Here is how the idea started: Cukierman issued VCon through consulting firm Cukierman and Partners. Union Bank and the OTTO concern are shareholders in what was formerly investment company Cukierman, Singer Barnea & Co. Eighteen months after investing in the company, OTTO received back \$50 million. In a private placement in OTI by the company, they received a 100% upside on the investment within three months. So Cukierman thought, "Why not make similar profits?"

"We told ourselves that there are no other players in our niche. The only unit doing business in this stage was FIMI, which did not focus on high-tech." Cukierman says he identified a market need, since there was a vacuum in the Israeli market: "Most of the money invested in Israel is invested in the initial stage, due to historic reasons. The venture capital industry started in 1993, and companies reaching a valuation of \$50 million set off for an IPO on Wall Street. Later, this changed - major underwriters dont touch issues with valuations of less than \$200 million. A vacuum was created for companies valued at \$100-150 million.

"Many companies got stuck at this point. They needed money to penetrate international markets or build up joint ventures with sales, but are not ripe for issuing on the US market. The problem was solved only by going to Europe to issue. What happened to the Israeli market is that funds looked for the technologies and financed them, but once the company reached the market and needed more money, there was no-one to raise it from."

"Globes": There are large funds nowadays which invest in companies up to late stages.

Cukierman: "Its true that funds now accompany companies up to late stages, but not up to the pre-IPO stage. In Europe, 80% of money is invested in the development stage, not the seed stage. This is what the companies require, and Europe tends to like reducing the risk. In our fund, its impossible to earn 100 times the investment, but its not necessary to wait six to seven years to exit."

In fact, its hardly necessary to wait at all. Catalyst invests in a company only if there is "some indication that an offering might succeed". This means that the fund goes to its friends in the market and makes sure that when they ring on the stock exchange door in the coming months after investing in a company at the mezzanine stage, the door will be cordially opened.

This was the case with PowerDsine. Catalyst invested in PowerDsine in March at a company value of \$50 million, before money, when \$20 million was raised. Catalyst had first examined if there was "some indication" that the company could be issued at \$150 million before money within a few months. Commitments to Cukierman by a German bank raised demand in the round, originally planned to raise \$5 million. The company was ultimately issued on Nasdaq.

An investment was made in Orex (formerly Digident), which developed a medical imaging product. Catalyst invested \$4 million at a company value of \$12 million, before money, with an option for investing another \$2 million. The goal is to issue the company in Switzerland in early 2001. Another investment of \$1 million was made in MediaGate, a universal messaging company, at a company value of \$45 million, before money.

Cukierman, founder and general manager of Catalyst Venture Capital, and Yair Shamir, former Vcon president and currently chairman of Catalyst Venture Capital, do not rely on luck. When they enter a company, they already have a clear exit strategy. Investors in Catalyst include some of Europes widely spread concerns, such as Germanys OTTO Group, a private company specializing in environmental subjects, with a turnover of more than DM2.6 billion European banking group HSBC, Greeces largest telephony company Argodata, which has an investment fund trading at a market value of \$2.8 billion German bank Hornblower Fischer Dutch bank ABN Amro German group MM Warbourg Union bank and private investors. Cukierman says that an important point is the fact that quite a few of the investors also invest in Israeli companies alongside the fund, which increases the funds standing as the leading investor.

The Catalyst fund has no technology charter. In characteristically European banking style, there is a team that is less technology and more market-oriented. The fund does not ask about the technology before investing. Instead, it asks about sales, mainly to the European market, and whether there is a place for the technology in Europe.

Where in Europe is it worthwhile issuing? It depends on the company valuation. On the Nouveau Marche - up to \$50 million, in Germany - \$200 million, and in Switzerland - \$400 million. Cukierman says Germany and Switzerland are preferable "due to the volume".

One common error, according to Cukierman, is to believe it is easy to issue in Europe. "Many returned without issuing. The culture is different - European investors understand less about technologies, and prefer something more tangible."

"Globes": What do you mean by more tangible - something closer to the end user?

"Not necessarily. It means something that can be sold and explained to the institutional market."

It also depends on being able to explain well.

"It very much depends on management. Before I take a company to the stock exchange, I check how well management can handle a road show in Europe."

What are the advantages to issuing in Europe?

"The process is shorter, simpler and cheaper. A lawyer is not required to sign the prospectus, unlike the US, where fees cost hundreds of thousands of dollars. In Europe, the company's management signs."

Is it more like a gentlemen's agreement, characteristic of long-established financial institutions?

"Yes. Moreover, unlike the US, there are no legal actions, and it is therefore unnecessary to write ten pages about risk factors. Some companies nevertheless do so, and it is like killing a fly with a cannon."

Business Card

Name: Catalyst Ventures Capital

Investment body: Venture capital fund

Investment Stage: Pre-IPO

Investment areas: According to market and financial criteria

Capital managed: \$44 million

Portfolio companies: Power Dsine, Orex, MediaGate

Partners in management company: Edouard Cukierman, Yair Shamir, Joey Sabet, David Salomon

OTTO group, Union Bank, Argodata, Hornblower Fischer Bank of Germany, ABN Amro Bank of the Netherlands, MM Warbourg of Germany, HSBC Bank, ComPartner

Exits: Power Dsine

Website: www.catalyst-fund.com