



# Investing in Innovation and Growth

Primus Capital Partners

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# Primus Capital Partners: Early Stage Investor

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## Funds under Management:

- Primus Capital Partners Fund I: started mid-2003 when European VC fundraising was down 44% from its peak in 2000 and at a 4-year low
- Primus Central Europe Fund II: started in February 2006
- Fund Adviser: Hungarian-registered management and financial consultant

## Investment Parameters:

- Technology-based services (e.g. interactive agency)
- Original technology (software, electronics, telecom equipment, medical technologies)
- Media
- Start-up, early stage and expansion stage
- Revenue of less than EUR 4 million, EBITDA positive within 18 months
- EUR 50,000-500,000 per company, in stages
- Aim for Co-investment & EU funding to reduce future funding risk
- Target Period to Exit: 3-5 years

## Use of Funds:

- Develop products/services
- Commercial roll-out also on international markets
- Complete management team, hire sales staff, also international
- Enable receipt of EU and Govt. funding (co's own share 20-50%)
- Advisers and training
- Some working capital
- Attracting Series B investors
- Targeting Trade sale to EU/US multinational (market share or unique technology)

# What we need to have...

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The Standards:

- Track Record of Management: Operational Capability
- Initial revenues or existing customer relationships
- Product to market in 12 months
- Deep technology expertise in teams
- Market demand, to realize revenue growth in excess of 30% p.a
- Low follow-on funding risk (b/e, co-investors, EU/Govt. funding?)
- Geographical proximity to Budapest
- Acceptable valuation
- Sustainable competitive advantage (IP / mkt. share / barriers)
- Realistic business plan
- Exit plans

# And what really matters...

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- How to measure Founders'
  - commitment
  - loyalty
  - “business sense”
  - business ethics
- Can write and explain a Business Plan?
- Flexible in adjusting? (“Marriage factor”)
- Aware and open about company/personal weaknesses? (“Ego factor”)
- People skills in team selection?
- Responsive to email requests (“1 am factor”)
- Passionate vs. Rational argumentation in balance
- Macro and Micro skills: Thinking Big & Doing the Details
- Thorough/Diligent in competitive analysis (c.a.)
- Sense of Reality in c.a. and valuation (“Planet factor”)
- Personal motivation: a business or a way of life? (first timers vs. serial entrepreneurs)
- Personal comfort factors (salary level, car etc.)

## Where we are today (I.)

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sensenet



# Building Companies: Value-added



sensenet



Utilized co-funding opportunity	<i>merger</i>			✓	✓
Helped recruit key staff (CTO, CFO, Sales Dir.)	✓	✓	✓	✓	
Brought new customers	✓			✓	✓
Marketing/positioning	✓	✓	✓	✓	✓
Press relations and PR	✓	✓	✓	✓	✓
Brought in sales process consultant	✓		✓		
Initiated conferences, skills training courses	✓				
Product/Services/HR Strategy	✓	✓	✓	✓	✓

## Where we are today (II.)



- Average Portfolio Revenue Growth:
  - 2004/2005: 53%
  - 2005/2006: 170% (without start-ups)
- Deloitte & Touche Fast 50: 2002, 2003, 2004
- Profitable: all non-start-ups
- Unique intellectual property at each portfolio company, valuation upside.
- Operating in fast-growing markets (eg. digital marketing, DNA diagnostics, video surv.)
- Limited future funding need for 3 of 5 co's
- Attracted Private co-investors & EU Financing:
  - GVOP 3.3.3: EUR 220K
  - HEFOP (HR) EUR 1,000
  - Co-investors (Intellio, Fonzine)
- Potential exit opportunities: 2 of 5 co's

Magyarország célba ér

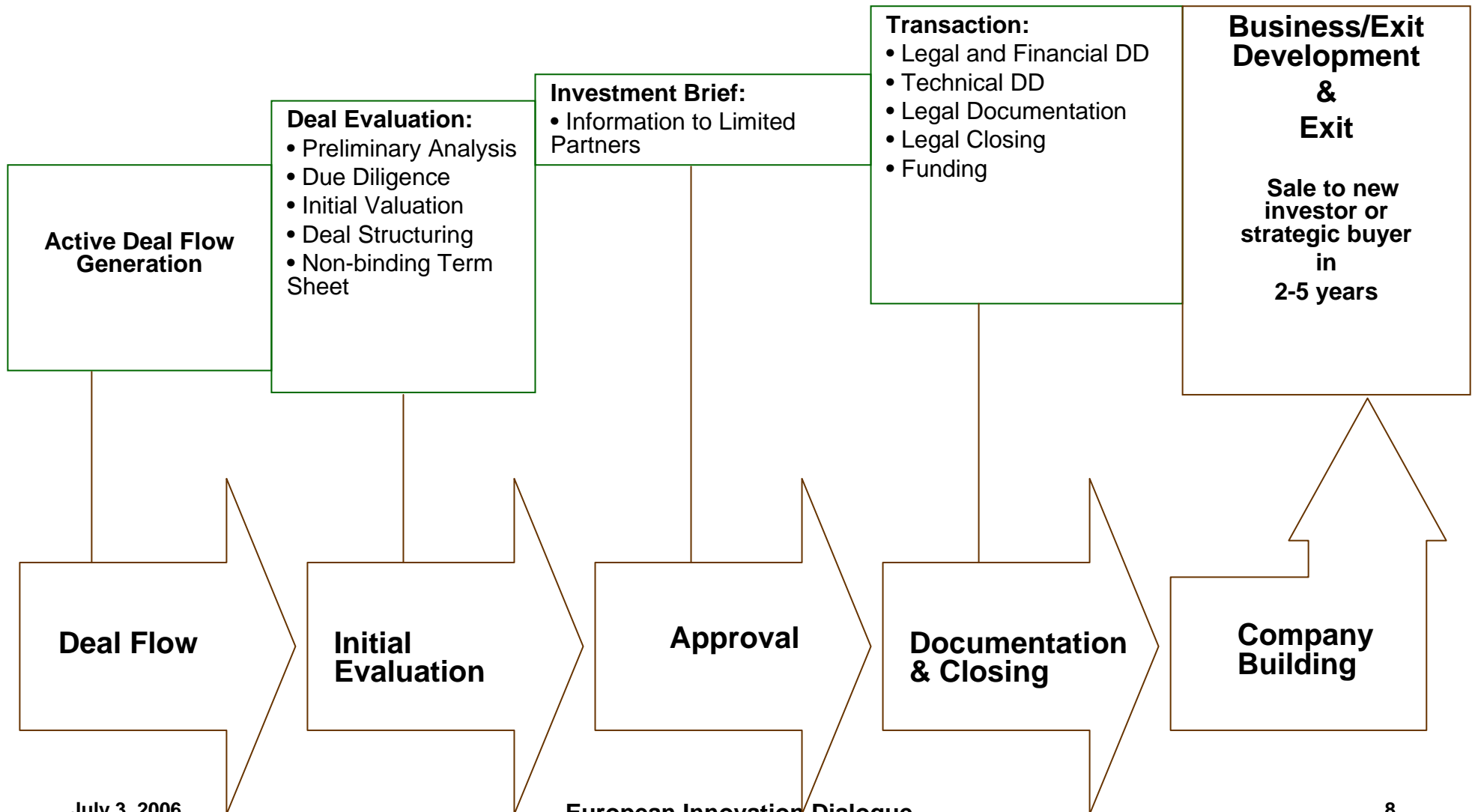


Deloitte  
Technology Fast  
50 & 500



# Investment Process

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# Standard Elements of Primus Investments

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## Corporate governance:

- Board of Directors seat in all cases
- Hands-on investment style: operations
- Active Monitoring of financial performance
- HR decisions
- International business development
- Help select Supervisory Board, Board of Advisers
- Identify co-investment partners
- Manage future funding

## Investor Rights in Documentation

- Preferred shares, 8% cumulative
- Minority protection for investors:
- EBITDA/revenue milestones
- Anti-dilution
- Preferred liquidation rights for principal plus cumulative 8%
- Right of first refusal
- Reinvestment option @ discount to next round
- Pre-emption rights
- Drag along
- Tag-along rights
- Flip-over rights (start-ups if not majority)
- Veto over dividends, hires, large expenses, among others.

## Use of Specialist Advisers

- Cost-effective use of outside advisers for
- technology
- HR
- org. development
- IP
- Tax
- Sales
- Legal issues

# State Funding Sources: Competitive or Compatible?

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- **Competition:** Better terms?
  - Equity = Virtual Loan
  - Fixed interest between 6%-20%
  - Put option to exit to management
  - Call option to control 100%
  - Personal liability of Founders for funds
  - Value-added
- **Companion:** Co-investor.
  - Secured on company and private assets
  - Call option to buy 100%
  - Willing to support in trouble?
  - Legal structure: How flexible / compatible with VC terms?
- **Complementer:** Buy-out of State Investor in Series B.
  - Larger investment amount needed
- **Compatible?**
- **Solution:** Qualify for co-investment of Funds based on formal criteria, invest on same terms of investor (SBIC, NZ), help leverage private funds

# Primus Capital Partners

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