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Finland's thriving ecosystem for world-class growth companies

As one of Europe's fastest growing start-up hubs, Finland offers an ecosystem that nurtures the development of world-class growth companies. While the investor landscape includes local and international players, there are few local growth managers who are able to invest in scale. Mandatum Asset Management Private Equity (MAM PE) is an active Nordic growth equity investor with an extensive history of making sizeable commitments to local companies, supporting their growth ambitions through active ownership and value-add assistance.

FINLAND AS A START-UP HUB

Finland provides one of the most attractive business environments for start-ups. Year after year, the country remains one of the most stable, technologically advanced and innovative countries in the world. In fact, R&D remains extremely important, and the government has recently agreed to target 4% of GDP in R&D spending by 2030, representing a 40% increase over R&D spending in 2020. The country also boasts one of the best educational systems and has historically received top scores in the OECD's Programme for International Student Assessment (PISA). Access to a free and high-quality education has resulted in a talented and skilled workforce, which includes a high proportion of STEM graduates and engineers as compared to other European countries.

Figure 1. Finland provides a stable and innovative business environment.

#1 – Business Environment in the World – Global Innovation Index 2021

#1 – The Most Stable Country in the World – Fund for Peace, Fragile States Index 2019

#3 – Most Innovative Country in the World – Innovation Champion, The Consumer Technology Association 2019

#2 – Most Skilled Workforce in the World – World Economic Forum, The Global Competitiveness Report 2019

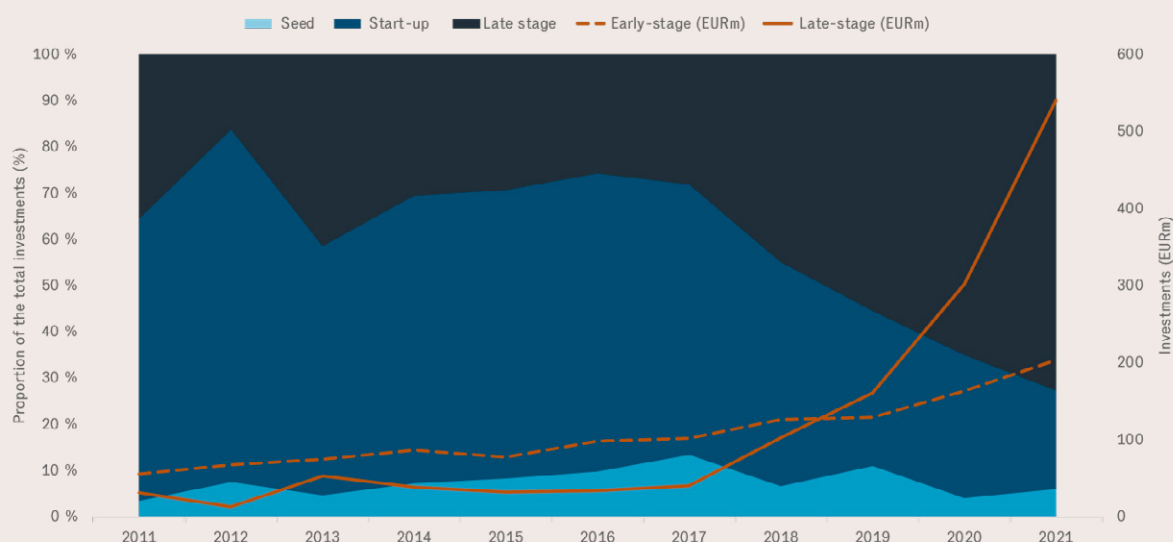
#2 – Most Digitally Advanced Nation in Europe – European Commission, Digital Economy and Society Index (DESI) 2021

#1 – Availability of Scientists and Engineers – World Economic Forum Global Competitiveness Index 2017-2018.

Source: Business Finland and This is Finland.

This business environment has led to Finland becoming one of the fastest growing start-up hubs in Europe. Many of the current venture capital firms were formed in the early 2010s, leading to an institutionalized and functioning ecosystem that consists of many local and international accelerators, angel investors and venture capital firms. Furthermore, the Finnish government is a strong supporter of start-ups and offers various funding programs and services for early-stage companies. As a result and as demonstrated in Figure 2, funding for Finnish start-ups has been significant in the early 2010's, representing approximately 60% of early- and late-stage funding for Finnish companies.

Figure 2. Funding for Finnish companies by target stage.

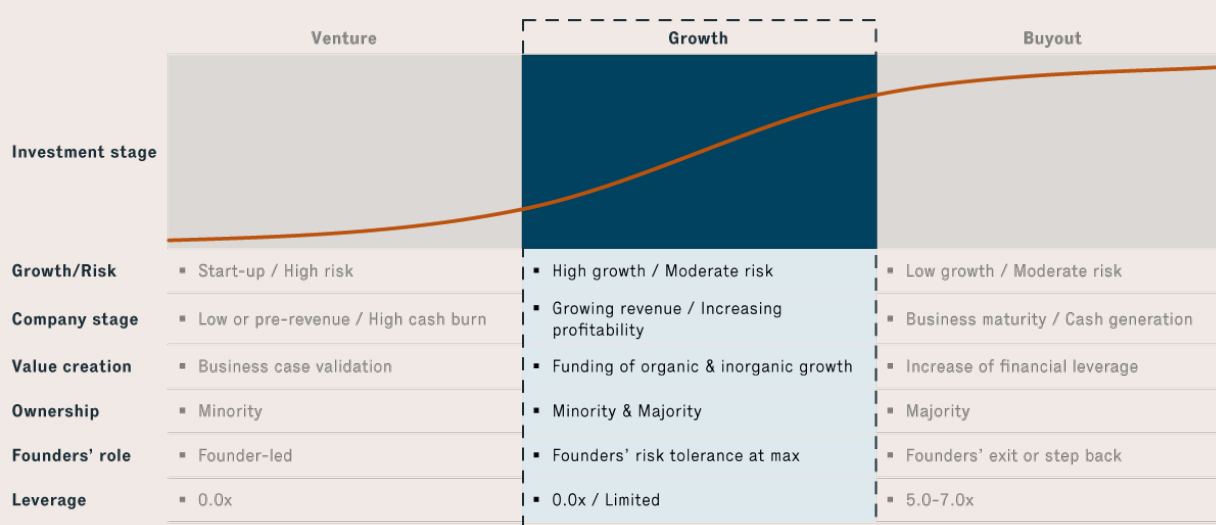


Source: Finnish Venture Capital Association, 21.4.2022. Early-stage includes seed and start-up funding. Late-stage refers to later funding stages, which is herein referred to as growth.

EMERGENCE OF FINLAND'S GROWTH ECOSYSTEM

Funding and support for Finland's start-up companies have paved the way for the development of companies in later funding stages (growth companies). Compared to start-ups, growth companies usually raise money through Series B or later-lettered funding rounds, and they also have a proven business model along with emerging and growing revenues. As a result, many of these companies have a lower probability of business model pivot and lower cash-burn. Equity funding is used to support the rapid scale-up of these companies, either through M&A, entry into new markets or other operational expansion.

Figure 3. Private equity market segmentation.



Source: Mandatum Asset Management

Finland has produced a pool of mature and profitable high-growth companies through its start-up ecosystem. Approximately 2,500 companies are growing at rates of more than 15% annually, while an additional 1,500 companies are growing at a rate of more than 30% annually.¹ As companies at a critical stage in their development, they require significant funding to reach their targets and growth ambitions, and Figure 2 demonstrates that funding for growth companies has increased exponentially since 2017. In 2021, approximately 70% of early- and late-stage funding in Finland was directed to growth companies, showing the natural evolution of start-ups (that likely received funding in the early 2010's) becoming present day growth companies.

The Finnish start-up ecosystem is expected to continue to generate a pipeline of growth companies. Figure 2 shows that while funding for growth companies has increased in the late 2010's, funding for start-ups has also been steadily increasing on an annual basis. In fact, 2021 was a record-breaking fundraising year for start-ups,² indicating that these start-ups will likely develop over the next few years into growth companies in need of funding for their scale-up phase.

¹ Orbis, May 2022.

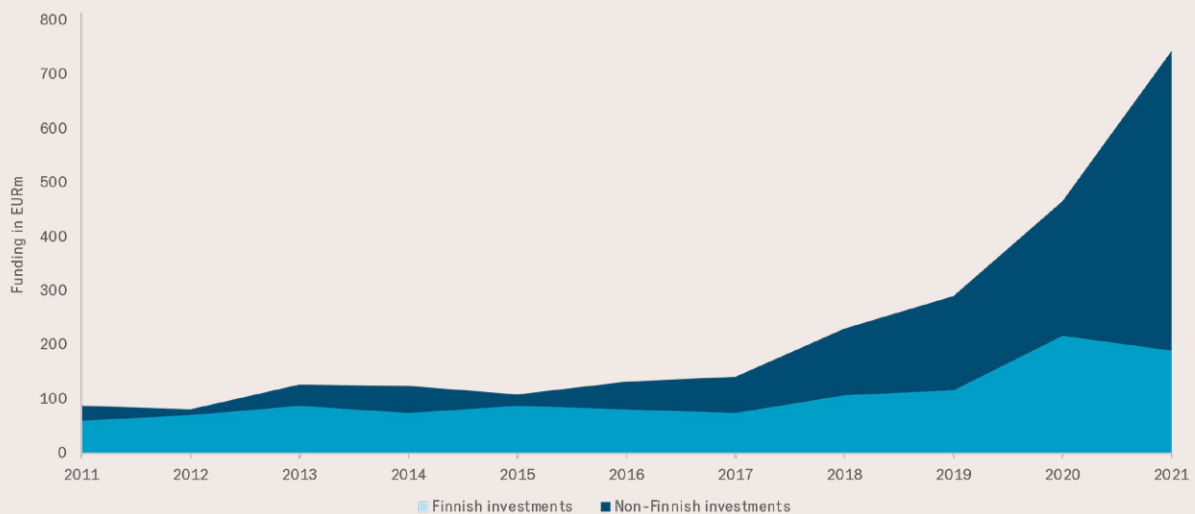
² Source: Finnish Venture Capital Association, "Finnish Startups Smashed Investment Record", April 2022.

In addition to a well-functioning start-up ecosystem, growth companies are also expected to require additional funding as they continue to stay private for longer.³ Most recently, an IPO via public markets has not been a viable option for many companies, particularly as the IPO window has been closed due to current market conditions. On the other hand, companies recognize that the private markets may offer significant flexibility and benefits in furthering their growth. Partnering with the right manager or investor can provide access to contacts in new markets and operational expertise to accelerate profitability.

SOURCES OF FINNISH GROWTH EQUITY

There has been an interesting change in the sources of funding for Finnish companies in the 2010's (Figure 4). In the early 2010's, Finnish investors represented the majority of funding for local companies, however, this has recently shifted to international investors. In 2021, international investors represented 74% of total funding for Finnish start-up and growth companies, and the majority of growth investors in Finland are actually international investors. Furthermore, the required growth equity check sizes seem to favour international investors. In later-lettered funding rounds, the average commitment size increases, and international investors are more likely to be able to commit to growth companies in scale. This provides a significant opportunity for sizeable local managers, who are more familiar with the market and have built networks of experts and partners.

Figure 4. Funding for Finnish companies by investor domicile.



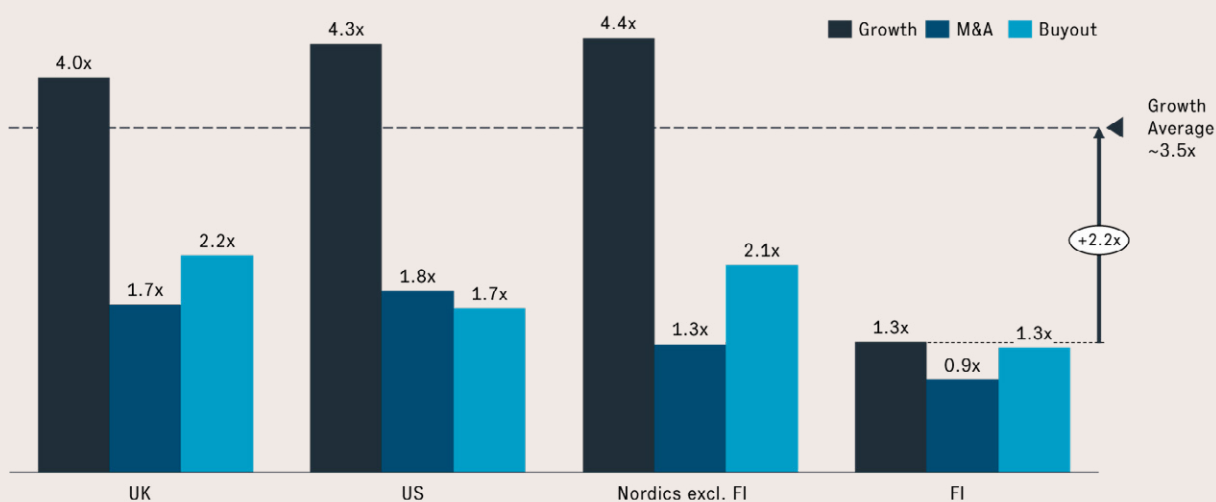
Source: Finnish Venture Capital Association, 21.4.2022.

³ Initial Public Offerings: Updated Statistics Jay R. Ritter Cordell Eminent Scholar, Eugene F. Brigham Department of Finance, Insurance, and Real Estate Warrington College of Business, University of Florida 352.846-2837 voice January 5, 2022

ATTRACTIVE INVESTMENT TARGETS WITH COMPETITIVE VALUATIONS

Given the stage of their development, growth companies are attractive investment targets. They have established products or services, are on the cusp of becoming profitable and have the ability to rapidly expand operations. Furthermore, growth companies in Finland remain extremely attractive based on their valuations (Enterprise Value-to-Sales multiple) as compared to their Nordic or European counterparts. Figure 5 demonstrates that Finnish companies have a median valuation of 1.3 times revenue, while other Nordic companies (Norway, Sweden, and Denmark) have median valuations of 4.4x. Furthermore, US and UK median company valuations are also above 4.0x, representing a significant premium.

Figure 5. Median company valuations by country and transaction type.



Source: Pitchbook, April 22, 2022.

With Finland's positioning as an attractive business environment, its start-up scene has grown significantly since the 2010's. In the past year, activity has been staggering – record breaking fundraising, new unicorns in the form of Oura, Aiven and Relex and the acquisition of Wolt at a valuation of approximately €7 billion. As the sixth highest European country by number of start-ups per capita,⁴ Finland continues to maintain a well-functioning ecosystem that will foster the development of world-class growth companies in need of scale-up funding. While funding has been significant from international investors, there are few local investors able to commit to these companies in scale.

MANDATUM ASSET MANAGEMENT'S GROWTH INVESTMENT PRINCIPLES

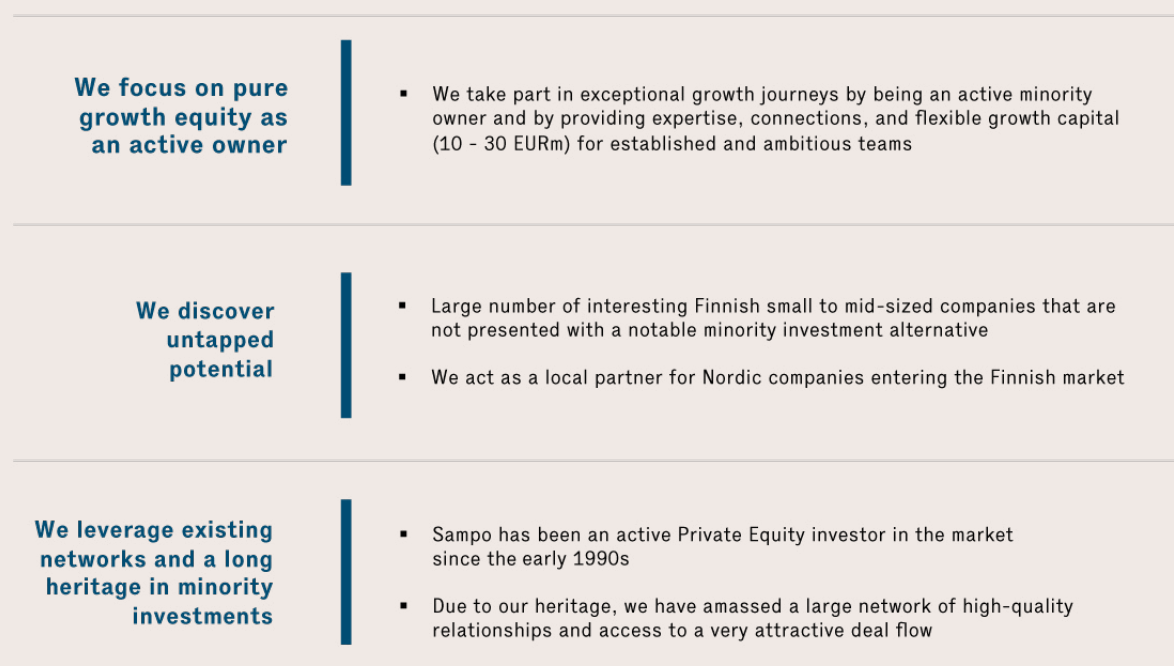
Although funding for growth companies has remained strong, there is still a significant opportunity for local managers. The local growth investor landscape remains quite small, however, MAM PE has been an active growth investor with over 30 years of experience across direct growth equity investments, co-investments alongside top-tier global managers and commitments to private equity funds. MAM PE's growth equity strategy focuses on sizeable minority investments and active value-add ownership to scale fast-growing Nordic companies.

⁴ State of European Technology 2021, May 2022.

MAM PE has a structured approach to growth investing, as referenced in Figure 6. Most importantly, MAM PE seeks to invest in companies with proven business models and that have already shown notable traction in their field with products that are not easily replicable. Additionally, while MAM PE is industry-agnostic, it focuses on industries with clear structural tailwinds and trends that continue to propel growth.

MAM PE's target commitment size ranges from €10 to more than €30 million, which can be committed at once or increased over the life of the investment. As mentioned, there are few local players focused on growth investing who can commit in such scale, providing MAM with a key competitive advantage in its local markets.

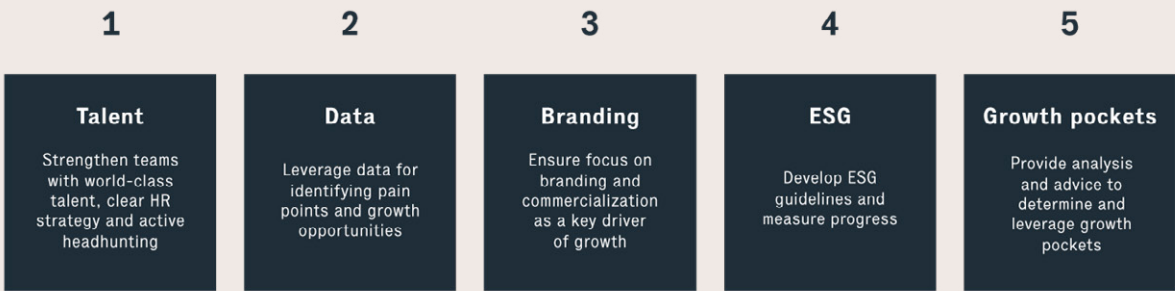
Figure 6. MAM PE's investment strategy.



As a part of Sampo Group, MAM PE is able to source best-in-class opportunities through its broad contact network of high-quality relationships. MAM PE maintains its positioning in the growth ecosystem by meeting with start-up companies on a regular basis and tracking their continued growth and development over time. With a broad sourcing funnel, MAM PE has a rigorous diligence process and has historically declined 90% of all potential investment opportunities, resulting in a portfolio of investments in some of the most attractive, local growth companies.

Finally, MAM PE does not just write sizeable checks when it invests in a growth company – MAM PE also provides strategic assistance to companies on their growth journey. Throughout the lifecycle of an investment, MAM PE is an active owner and provides its expertise and access to local and international partners to support significant value creation. MAM PE develops value creation plans with its portfolio companies from day one, even before completing the transaction, to ensure a common strategic direction. As shown in Figure 7, MAM PE has a number of tools and approaches to support its companies’ growth ambitions, starting from go-to-market strategy , including talent management, data driven management, branding & marketing, ESG and identification of attractive growth pockets.

Figure 7. Supporting MAM’s portfolio companies.



Given the significant market opportunity in Finland for growth equity funding, we believe that MAM PE fulfils the need of providing sizeable local growth capital to companies with proven business models. As a leading Nordic growth equity investor with over 30 years of expertise within private equity, MAM PE has built a large network of local and international partners and a track record of supporting its portfolio companies as an active owner through value-add assistance.

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Mandatum Asset Management

Mandatum Asset Management (MAM) is the asset management arm of Sampo Group, a significant insurance group in the Nordics. MAM offers discretionary and consultative asset management for institutional and other professional investors and manages a variety of investment products within its core areas of credit, alternatives and equity selection. The firm was formed in 2021 by combining the investment organisations of Sampo plc and Mandatum Life Group, and MAM manages €29 billion in client and balance sheet assets. As a part of Sampo Group, MAM leverages the investment heritage, expertise and broad resources of one of the most successful institutional investors in the Nordics. MAM and its sister company Mandatum Life belong to Mandatum Holding Ltd, a wholly owned subsidiary of Sampo plc.

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