

BRUSSELS DEFENDS STARTUPS

The European Union's antitrust enforcer hinted he may step in to defend startups against entrenched telecommunications firms manipulating high internet access charges and loaded conditions.

There have been a number of complaints of discrimination from newcomers and competition commissioner Mario Monti said he may step in to "ensure a level playing field". Monti said progress remained "extremely disappointing" despite years of efforts to increase competition, especially among providers of high-speed broadband service.

Those urging Monti on against the incumbents included Germany's Arcor and QSC, France's Cegetel, Italy's Wind and Cable & Wireless of Britain.

As well as prices, complaints have centred around the conditions at which new entrants are allowed to install equipment in the premises of current dominant players. Many complained of inferior services and delays placed on newcomers.

the third quarter of 2002. Ericsson is being advised by *Goldman Sachs*, *Morgan Stanley* and *Schroder Salomon Smith Barney* as well as local houses, *Enskilda Securities* and *Handelsbanken Securities*. The issue of new shares will only be used to improve liquidity and to meet deadlines on borrowing after 2003.

FLEXTRONICS BUYS INTO INSTALIA

Flextronics Networks is acquiring installation company, **Elisa Instalia Ltd**, from Finnish telco **Elisa Communications** for E37.2m in cash. The sale follows a formal tender process in which 10 parties originally expressed an interest in the company.

The closing of the transaction requires approval by the Finnish Competition Authority and is expected to take place at the end of August.

Elisa was seeking a co-operating partner that would eventually become Instalia's owner and is part of Elisa's plan to dispose of non-core assets. However, the bid received from Flextronics is for 100% ownership of Instalia.

The disposal of the installation business will only slightly decrease Elisa Group's total revenue, since a large part of Instalia's revenue comes from Elisa Networks. Elisa Instalia specialises in the construction and maintenance of telecoms networks and offers customers construction and maintenance services for mobile and fixed telecom networks in Finland and abroad.

■ **Telenor Business Solutions**, part of Norwegian telecoms group Telenor, has taken a majority stake in Swedish digital subscriber line and internet protocol network services provider **Song Networks**.

ANOTO ATTRACTS HITACHI

Wireless digital pen developer **Anoto** has pulled in private strategic investment of E1.6m from Japanese electronics giant Hitachi.

Anoto raised around US\$45m from its parent company C Technologies earlier this year and claims to be on target to break even in mid-2003. Hitachi is to pay E2.50 per share, which represents a 40% premium on the Swedish company's average share price over the previous 10 trading days.

Denmark

Microsoft completes Navision buy

For the record, **Microsoft** announced it has closed its acquisition of Danish enterprise software maker **Navision Software AS** for approximately US\$1.45bn in cash and stock.

Goldman Sachs provided Microsoft with financial advice, and *Gorrissen Federspiel Kierkegaard* and *Preston Gates & Ellis* provided legal counsel. *Schroder Salomon Smith Barney* and *Nordea Securities* provided financial advice for Navision and its law firm was *Kromann Reumert*. (See Technology Finance archives for details.)

■ **Homelinc**, a consumer electronics company developing a device that enables users to integrate domestic consumer appliances, has raised E1.2m in a second round of financing.

■ Norwegian-based **Scalable Linux Systems (SCALI)** has obtained an undisclosed amount in second-round funding from new investor Four Seasons Venture III and existing investors Kongsberg Gruppen and SND Invest, all Norwegian investors.

Austria

Lemon42 considers two options

Enterprise application software developer **Lemon42** is pondering two options for its development over the next 12-24 months, said CEO Wolfgang Krainz. Based on seed capital and funding from the Austrian government (see below), a programme of moderate growth could be financed by positive cash flow, and, following breakeven at end-2002, profitable trading in 2003. An alternative programme of more rapid growth would require additional external funding. For this, Krainz anticipates approaching VCs in Munich, London, or other European centres.

Lemon42 develops enterprise application integration software: for example linking corporate databases run on SAP or Oracle to a web front end. While there are many large software companies providing this service, in Austria and central

SSB MISSES OUT ON LARGEST WEB BASED MERGER

The year's biggest merger so far for web based companies, eBay's US\$1.5bn acquisition of Paypal, was advised by Goldman Sachs and Morgan Stanley respectively. Salomon Smith Barney was bookrunner on Paypal's February IPO and its June follow on offering but missed out on the all stock US deal.

European markets the prices charged by these large vendors are out of reach for many SMEs. This creates a large market for Lemon42. Its clients include tourism company Rogner-Gruppe, the post office Post AG and the Wiesen jazz festival. The company began as a spin-off in early 2001 from Augsburg-based IT company Informatik AG. The transaction was done on a friendly basis, with some 30 staff, along with clients and associated liabilities being separated into the new company Lemon42.

Initial financing came from Lenox Capital Management, a Vienna-based financing boutique, which invests in and develops a small number of IT companies.

The next stage of financing came from the Forschungsförderungsfonds (FFF), an investment vehicle of the Austrian ministry of economy. The FFF invests in start-ups in biotechnology, semiconductors and software that require substantial amounts of research and development expenditure, and which will employ qualified people. The FFF provided E612,000 in two tranches – debt and a straight grant. The debt was provided as a five year loan at 2-2.5% interest, without security or guarantees. The financing is provided in accordance with EU guidelines, which restrict public funding as a proportion of equity.

Financing from the FFF is often followed by similar funding from other government agencies, and Krainz is actively pursuing this possibility.

The sales strategy has rested on direct sales to corporate customers in Austria, and Lemon42 is now entering Germany and Hungary. Krainz is also talking with systems integrators such as T-Systems and Siemens Business Services, with a view to adding channels.

Revenues in the first year were about E1m, and the company employs 35 staff in Vienna. (www.lemon42.com)

VIENNA TECHNOLOGY SPIN-OFFS TO GROW

The Vienna University of Technology (TU Wien) should ramp up its activities in spinning off technology companies in the coming months by INiTS, the university's newly branded spin-off unit, said Thomas Bereuter, head of the Entrepreneurship centre at the TU Wien. Recently funded spin-offs include software developer tecco and smart antenna solutions company Symena.

The acceleration of TU Wien's programme is helped by a new legal framework in Austria. The parliament (Nationalrat) approved legislation on July 11 which radical-

ly reforms Austrian universities and will allow to own assets and behave like private companies, but still be owned by the public sector (as Gesellschaft Oeffentlichen Rechtes). "This is especially important for intellectual property rights," said Bereuter. "Before, the IPR of any discoveries belonged to the ministry (and was usually transferred to the innovator), not the university."

The Entrepreneurship centre at the TU Wien was set up in March 2001. The company agreement for the succeeding INiTS was signed at July 3 representing the basis for a five year public/private partnership to help academics turn bright ideas into viable business plans. Its E8.4m five year budget comes from the central government (45%), city of Vienna (35%) and private sector (20%). For further five years a 50% funding by the public sector is committed as well.

The private sector contribution is in the process of being assembled. It is likely to include corporate investors, who may become strategic partners, reference customers, licensees as well as venture capitalists. One corporation that has already committed is Frequentis, a specialist and global player in secure voice communications e.g. for air traffic controllers, set up by Mr. Bardach, a TU Wien graduate. Frequentis employs 500 staff with turnover of ASch1bn. As a follow up support for startups working in the field of voice communication Frequentis has established its own incubator.

Industrial partners will reflect the sectoral focus of INiTS: At the beginning IT/telecoms is expected to be the largest component, followed by biotechnology and medicine.

INiTS has secured the commitment of Austria's two leading universities – the University of Vienna and the Technical University of Vienna – as well as enough of the country's research institutions to account for 60% of the national total academic potential. Links are also established with EXIST, an initiative supporting entrepreneurs in the region of Karlsruhe, Germany.

Although recent developments could accelerate the pace of spin-offs, the university has spawned "dozens" of spin-offs over the last 10 years. "Our transfer centre run by Mr. Heimerl has been very active, and individual staff like Professor Paschke in the electrical engineering department have been instrumental in establishing an entrepreneurial culture," said Bereuter. Many spin-offs have to leave Austria to access the North American marketplace, but R&D often stays at home where the close relationship with TU Wien proves useful. Continuing two-way communication between university and companies is encouraged.

Hitherto the university has not taken equity stakes in spin-off companies, partly because of a shortage of manpower to take on executive roles. It is possible that the new powers to set up companies and hold equity stakes could tilt the balance into making it worthwhile to invest management time. "We plan to develop along the US and UK model for university spin-off departments, with a "hands-on" approach. When academic entrepreneurs see that these services can increase their chance of success, they will be more likely to seek them out," Bereuter said. Support services will range from training, coaching, loans, accommodation and facilities, to professional/technical advice, and assistance in fund-raising.