

EDITORIAL

We are probably not taking a risk by saying that the US will continue to be a hotbed of innovation for the foreseeable future, nor could we be very wrong if we said that South East Asia will produce more innovation than it does today. We may raise a few eyebrows, however, by saying that "Eastern Europe" will produce some of the big technology hits of the next decade.

Our firm has been looking at companies in "Eastern Europe" for a couple of years and we are struck by how many terrific ideas and great people we have come across. While the number of companies being created is still not important, it is the desire to try to create that strikes us – entrepreneurship by any other name.

We frankly thought it would take much longer for us to see entrepreneurship point its nose in the east. After all, 50 years of communism does take some getting over. The page has, however, turned. Allpeers of the Czech Republic (www.allpeers.com), one of our recent investments and Quintura of Russia (www.quintura.com), are both good illustrations of the region's potential to innovate.

While the region does come with uncertainties, it has many advantages for the European investor, not least of which is proximity. From our point of view, European venture capital has an emerging venture market within its reach. We encourage you to take a look.

[COMPANY IN THE SPOTLIGHT]

Properazzi

Properazzi is a vertical search engine specialised in residential property listings. The service will aggregate more than one million listings from thousands of property agencies, covering every country in Europe.

In the late 1990's, a first wave of innovation saw property listings move off of newspapers and onto the Internet. This added lots of value to consumers, as it became much easier to look at listings; the listings themselves were much richer, with longer descriptions and more photos.

Consequently, the leading startup companies from this first wave have in the past few years become highly profitable, fast-growing stars (e.g. Rightmove in the UK, Idealista in Spain, SeLogger in France, ImmoScout in Germany, Daft in Ireland, etc.).

Now, the industry is ready for a second wave of innovation, one that will be driven by the unique tools Properazzi will provide consumers and agencies. The key aspects making the service so disruptive and new include:

- **Focus on the most advanced search technology.** An innovative



toolset allows having more listings than any other website in Europe; those same tools help users filter through the vast selection to find exactly what they're looking for.

- **Coverage.** Properazzi will be the only truly multinational listings engine; all the major players have until recently competed only in their national markets.

- **Business model.** The company will bring real performance-based marketing solutions to agencies to help make their spending more efficient and accountable.

The target market is very large: estimated to gross 40-50 billion Euros in commissions, agencies in turn spend between 15-20% of that in marketing their services and listings. Even today, after more than a decade of the first wave of Internet adoption, the bulk of this marketing budget is still spent offline.

With a world-class technical team that has together built more than a half-dozen vertical search engines in different categories, the company will make a unique and disruptive contribution to the ongoing specialisation and development of search technology in one of the world's largest, most important industries: **residential property.**



ABOUT MANGROVE

Mangrove Capital Partners is committed to turn entrepreneurial visions into realities as a means to drive capital appreciation for investors. Our hands-on philosophy in all areas of business and technological development is the cornerstone of our investment strategy and positions us as a true partner for growth.

Mangrove Capital Partners has invested in among other the following companies: Skype (www.skype.com), Securewave (www.securewave.com), Dialcom Networks (www.dialcom.com), Paseosoft (www.paseosoft.com), Sapiens Tech (www.sapienstech.com), Nimbuzz (www.nimbuzz.com) AllPeers (www.allpeers.com), Properazzi (www.properazzi.com).

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[PORTFOLIO
NEWS]

SecureWave

WWW.SECUREWAVE.COM

SecureWave passes the 1.5 million license mark and launches hardware vendor partnership program. To date 7 companies have joined the program including Kingston and Kobil systems. SecureWave also announced a partnership with Lexar Media, Inc. (Nasdaq: LEXR), a leading manufacturer of removable flash memory cards and USB flash drives, to develop and market an enterprise-class privacy solution for controlling personal storage devices.

WWW.PASEOSOFT.COM

Banctec, a leading provider of process automation solutions, and long-time partner of Paseosoft, has acquired Paseosoft's banking division. This transaction provides additional resources for the company to focus on its core strategy.

WWW.DIALCOM.COM

Dialcom has recently completed raising a series B financing round of € 3.5 million. Proceeds will be utilized to further the company's presence in key European markets as well as setting up activities in North America.

[INTERVIEW]



Howard Hartenbaum, General Partner, Draper Richards

Who is Howard Hartenbaum?

I am 40 years old and have lived overseas for 10 years. I joined William H. Draper, III, 5 years ago because I was interested in venture capital and I wanted a mentor in the industry. Mr Draper is one of the most senior venture capital investors in Silicon Valley. He has funded hundreds of early stage technology companies, many which have gone public and grown into world class companies.

I now live in Silicon Valley, which is exciting. I am still not used to the almost daily 7:30 am breakfast meetings! There are always new ideas being developed by bright entrepreneurs here, and I learn something new and interesting every day of the week. Each morning when I get up, I wonder what I will learn new during the day.

Howard Hartenbaum

How do you know Mangrove Capital Partners ?

I lived in Luxembourg for 3 years, and met the Mangrove team in Rome in late 2001, just before my move to Europe. We have become friends and business associates, and have invested in several companies together thus far. We enjoyed working together on the Skype investment for several years, often testing new beta versions together, enjoying the highs of new successes, and commiserating when there were troubles. I am really looking forward to continuing our professional and personal relationships far into the future.

One thing I love about the Mangrove team is that they understand the risks of venture capital. When most of the "big" VCs in Europe passed on Skype because it was "too risky," Mangrove had the vision to take the risk, and they (and their investors) were richly rewarded. Higher risk equals higher return. Mangrove understands that perfectly.

What are the trends you can observe on the technology market?

We all know that things are cyclical. The macro cycles are obvious and well understood.

I think the micro cycles are fascinating. Whenever I am pit-

ched by some sharp entrepreneur about a new company, one thing is for sure – there will be 2-5 similar companies coming down the path in just a few short weeks. It is all about the founders involved, because the ideas are rarely unique. The latest big trends in the start-up technology market are (a) online video solutions, (b) any flavour of social networks, (c) content delivery via mobile devices and (d) a dearth of enterprise software companies.

What are your thoughts about European venture capital ?

There are certainly a lot less European venture capitalists than American venture capitalists. In fact, in Silicon Valley, there are so many it is overwhelming at times. European venture investors are lucky in that there is little rush or competition on "hot" deals and this gives them a bit more time to evaluate good investment opportunities. European venture investors come in as many flavours as there are countries in Europe. I have only had the pleasure of working with a few European venture investors to include Mangrove, Pentech, Benchmark and Index. All great people and in the business for the right reasons – help entrepreneurs build great companies, and great financial returns will result.

From the Market

Innovate Europe 06

Organizers of Innovate Europe 06, one of Europe's premier technology

conferences, have awarded Mangrove Capital Partners "Investor of the year" at the annual conference in Zaragoza in May of 2006.

