

# KREOS QUARTERLY

EUROPE'S LEADING GROWTH DEBT PROVIDER

Q1 2015

## Welcome

Welcome to the Q1 2015 edition of Kreos Quarterly, designed to give you a snapshot of the latest activity in our portfolio, sharing our insights and those of our equity sponsors and portfolio companies into current market developments, and getting to know our team better. As we are into our final year of commitments for our €240m Kreos Capital IV fund and are preparing to launch fundraising for Kreos Capital V, we continue to be very well positioned as the leader in the pan-European growth debt space, working alongside leading equity sponsors to support companies at all stages of their growth across the region and across multiple sectors.

In this edition, we share some insights with you from two private debt conferences in Q4 2014 – PDI's Capital Structure conference and Private Debt Investor Council. Both events gave us the opportunity to exchange views with the audience, and hear the thoughts of some of the other leading private debt focused GPs and LPs. We also discuss some of the current market trends we are seeing and highlight some of the latest developments across our portfolio, as well as interview Raphaël Wisniewski of Edmond De Rothschild Investment Partners, one of Europe's leading healthcare equity sponsors, and Stefan Smalla, CEO of the rapidly globalising on-line home & living retailer Westwing.

We send you our very best wishes for the New Year, and hope to see you at our Annual LP & GP Seminar in March!

*The Kreos Team*

## Market Observations

As we are now into the final year of Kreos IV's commitment period, with nearly 90 transactions committed in the fund to date screened from over €3bn of potential deals, we are continuing to see a broader opportunity set across Europe's high-growth markets. Where businesses generate significant growth but are not yet translating their success into positive cashflows, they continue to find it hard to secure traditional forms of debt finance, and the need for specialist and experienced growth debt lenders continues to grow.

We also continue to see demand from public companies, as well as companies which are about to go public or to be acquired in the near term, where private growth debt can complement the existing financing structure alongside support from existing investors.

Given the speed at which global businesses grow, equity sponsors' interest in diversification, and management focus on balanced capital structures, it is not surprising that companies have a strong appetite for growth debt at a significantly later stage than in the past, even when they have achieved profitability – and we continue to see many examples of this.

The changing regulatory landscape in Europe following the credit crunch and the de-levering of banks has added to the core demand from growing companies – while we have seen that core demand stay consistent for more than 15 years broadly throughout the macro changes of the more recent past. We are looking forward to a very active 2015.

## Kreos Capital - Q4 2014 Private Debt Conferences



During Q4 2014, Simon Hirtzel, Kreos General Partner and COO, spoke at two of the Private Debt conferences which are becoming an established fixture in the European private debt market space. Both events reflected a positive outlook on the prospects for growth of the private debt/illiquid credit asset class:

- ◆ PDI's Capital Structure conference in London—with over 200 attendees
- ◆ PDI's Private Debt Investor Council in Versailles—an exclusive gathering of 30 leading private debt LPs, GPs and advisors. *Continued on page 6*

### INSIDE:

◆ Interview with EdRIP Partner, Raphaël Wisniewski on p.2

◆ Catch up with the CEO & Founder of leading home & living site, Westwing on p.5

## INTERVIEW: Raphaël Wisniewski

### Partner at Edmond De Rothschild Investment Partners

The Life Sciences team of Edmond de Rothschild Investment Partners (EdRIP) has invested in over 50 companies, of which 11 have exited via public offerings and 10 have been acquired through trade sales since its inception in 2000. With close to €450m under management EdRIP Life Science invests in companies based mainly in Europe, and is active in therapeutic products, medical devices and molecular diagnostics. EdRIP's latest life science fund, Biodiscovery 4, is a €192m 2013 vintage fund.

Raphaël is a Partner of the Life Science team at EdRIP. Prior to EdRIP, Raphaël was a Partner with Goldman Sachs and Citigroup CIB and served as an Associate at Générale de Santé SA and at Compagnie Générale de Sante. Raphaël holds a degree in Business from HEC Paris and a Master's degree in Economics and Finance from IEP Paris. He also studied at Ecole des Hautes Etudes Commerciales in Montreal. In his tenure at EdRIP, Raphaël has served on the board of 15 portfolio companies of whom two were acquired and six exited through public offerings.



Kreos and EdRIP have had a long-standing relationship over many years. Investments we have worked on together recently include:

- ♦ Implanet - Kreos provided €5m of pre-IPO financing in a single tranche to this French medical device company to supply its geographic expansion.
- ♦ Noxxon - Kreos provided €7m of growth financing in two tranches to this Berlin-based drug development company to reach significant clinical milestones.
- ♦ Poxel - Kreos provided €8m of growth financing in two tranches to this Lyon based drug development company active in the diabetic space to reach clinical milestones.

Let's talk about some of the deals we have done together, and what you see as their characteristics.

We have worked with Kreos on several occasions with some of our life science and medical technology companies as well as web-services companies. The French orthopaedic company Implanet is a good recent example, which went public in November 2013. The company is generating strong revenues and needed further funds to commercialise their new spinal implant, notably in the US.

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*"Kreos maintains a constant relationship with the industry and the investor community..."*

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Kreos provided a loan in mid-July 2013 which with the contribution of the existing investors supported the company until the IPO was completed. We have been working with Kreos on a few life science companies where Kreos provided loans on top of existing investors to reach further funding or clinical milestones. Kreos is also able to operate in certain geographies in Europe where other growth debt providers may not focus on.

## Are there some general themes about the way we work together?

Kreos maintains a constant relationship with the industry and the investor community through regular contacts and conference attendance such that there is a constant dialogue as the opportunities emerge. We work on several themes with Kreos:

- ◆ short term financings before an IPO, which enable existing equity investors to maintain their reserves to support the IPO
- ◆ topping up an internal or external private round to reduce the amount of equity and therefore the dilution to management and existing investors
- ◆ milestone linked financings which enable companies to achieve clinical milestones without equity dilution

## What are your views on the current conditions for high-growth companies in Europe?

We have seen company formations continue at a fast pace, as there is significant financing and resources to develop earlier-stage companies. However, there continue to be relatively fewer growth equity investors which creates a bit of a financing shortage for fast-growing companies and can create some complexities for growth financings and syndicate building.

Investors are asking companies to do more with fewer resources and tranching financings. In general, management teams are responding well to the challenges. More recently the IPO market has revived particularly on Euronext where biotech and med-tech companies have been able to raise funds to pursue their development and commercialisation.

## What areas do you see opportunities for your future deal-flow?

With our Biodiscovery 4 fund of €192m raised in 2013, we are very visible and active in continental Europe and therefore we will continue to expand our activities to areas such as Scandinavia and the UK. We are also selectively active in the US. In line with our consistent investment policy two thirds of our deal-flow is made up of biotechnology companies with opportunities

in oncology and inflammation and the rest of medical technology companies (areas like cardiology, neurostimulation etc.).

## Are you still seeing a financing gap where European SMEs are finding it hard to get debt financing?

Even for med-tech companies generating significant revenues, securing traditional debt financings from banks (such as receivable loans) is not an easy task. This is quite understandable as some of these companies are not yet profitable, which do not make them ideal candidates with banks and lower generally mid-market private debt funds, which are generally not equipped to evaluate high growth med-tech companies.

## How can Growth Debt financing fill this financing gap?

The growth debt market can fill that gap quite ably as the growth debt funds are much more flexible than banks and can provide customised solutions while requiring less rigid criteria. As you know, the European growth debt market has fewer players than the US, where it is widely used by high growth companies. This is due to a lack of established lenders in this market segment in Europe. Accordingly, there are sometimes misconceptions as to the relatively low cost of growth debt when comparing to an equity investment. We have typically found that the cost of capital for a growth debt round is 20-25% whereas, an equity round will typically drive 35%-40% dilution, so there are certain advantages to growth debt for investors in companies that are not a fit for bank financing. Of course, there is a need for detailed due diligence as to the ability for the companies to repay the loan at its term and therefore the capacity for companies to generate enough free cash flow and raise additional equity in order to be able to support taking on growth debt. As you know, the loan providers look to the quality and financial strength of the equity providers supporting the company and this is an important consideration for which companies may realistically be able to attract debt financing as well.

All in all we see a bright future for growth debt financing funds in Europe as the banks continue to pull out of the market and high growth companies emerge out of Europe looking to grow globally or make acquisitions.

# Quarterly Insights Into The Kreos Portfolio

*A subset of Kreos's portfolio*



In the second half of 2014, Kreos approved new commitments to eighteen new facilities, totalling €80.6m. A select group of these commitments are shown below, as well as our featured exit for last quarter.

## Featured Recent Transactions



DensBits is focused on developing technologies to address the need for low-cost, high-performance flash-based storage systems. DensBits designed the world's first Memory Modem which dramatically improves flash memory reliability. DensBits received \$5m from Kreos IV in Q3 2014.



Founded in 2006, Panaya is a SaaS company which simplifies Enterprise Resource Planning systems' (ERP) upgrades and maintenance by providing a cloud-based solution. Kreos IV committed \$7.9m in Q3 2014.



Creabilis is a late clinical stage European technology company focused on the symptoms of dermatological diseases. In Q2, Creabilis presented their most advanced lead product CT32L Phase 2b Data at the American Academy of Dermatology's annual meeting. Creabilis agreed a €10.5m facility with Kreos IV in late Q3 2014.



Founded in 1988, Vero develops and distributes software solutions for design and manufacturing processes. Vero has offices all over the world and is the global leader in CAD CAM software. Kreos III committed £4.7m in 2010, and in Q3 2014 the company was acquired by Hexagon AB.



MedicAnimal.com is an e-commerce site focused on veterinary pet products and high-end dietary products for animals, which operates in the UK, Spain, France, Germany and the Netherlands. Kreos IV committed £7m in Q4 2014 to support the business's continued growth and acquisition programme.



Founded in 2007, Dreamlines is a specialist e-commerce site focused on cruise travel. Dreamlines offer their customers more than 30,000 different cruises and following success in Germany, Dreamlines has since expanded into France, Brazil, Italy, the Netherlands and Australia. Kreos IV committed €3m in Q4 2014.

## 60 SECONDS WITH...

### Westwing's Founder and CEO, Stefan Smalla

Kreos Capital IV portfolio company Westwing is a leading home and living e-commerce company; its biggest markets include Italy, Germany, France, Spain and Brazil. With over 17 million members worldwide and significant financing under their belt, Westwing is continuing to invest in its global growth and has impressive ambitions for 2015.



**Kreos Capital committed €10m of growth debt financing to Westwing in Q2 2013.**

**What's the biggest driver of growth in your business?**

Westwing is a leader in the home & living e-commerce market, so we benefit from three important growth drivers: 1. e-commerce penetration, coming from a low level in this nascent home & living e-commerce market, is growing in all our geographies. 2. We are heavily marketing in online channels like Google and Facebook, as well as Display, and increasingly on TV – so we generate new customers via these means. 3. In addition, our customers are extremely loyal with >70% of our orders coming from repeat customers every month.

**What's the biggest challenge for your business?**

Our biggest challenge is building a company at the rapid growth rates we are experiencing and continuing to execute well across all dimensions. Balancing between marketing, customer experience, operations, technology and style – and executing well – while improving across all dimensions at the pace we are driving Westwing is the major challenge for us. The key driver for success here is the hiring and retention of great team members, which we focus on relentlessly.

**What have been your key learning experiences so far?**

We have had both positive and negative learning experiences. Good experiences include the confirmation of our strategy as attractive in a nascent fast-growing market. If we execute continuously on it, a great company can be built and growth be achieved. We have also learned the hard way that executing on the operational basics of a retail business across three continents with seven warehouses and products that

are complicated to ship is tough, and requires constant focus and never letting go of any detail. Retail is detail: as clichéd as that sounds, it's completely true.

**How big can Westwing become?**

Potentially very big. The way we think about it is that the offline home and living market in the 15 countries we serve have >700m people in them is sized at €150-200bn. If e-commerce will only achieve 20% penetration in the coming 5-10 years in our market (and I believe it can be potentially more, where for example the US fashion e-commerce market is already >10% of the overall market today and still heavily growing), then we're talking about an addressable market of €30-40bn. If we can be the market leader in that market, well, that should be one sizable company. But we have to build the company correctly to capture the opportunity, so we don't think about market potential too much; we recognise that the market is plenty big enough to build a massive, multi-billion company and focus on the day-to-day of building the company.

**What advice would you offer to other growth companies about how they finance their businesses?**

Raise capital when it's available – in the end you'd rather have a large pie and possibly a smaller piece in it, than having limits to building your company because capital might be scarce when you need it. Choose the right financing partners, as they have to walk with you through good and bad times (and there will be bad times). And last but not least, aim at a financing structure which retains your flexibility. We did that when in addition to equity capital we took on Kreos debt that helped us through a particular period in our company's lifecycle.

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#### Key facts about Westwing:

- ♦ *established in 2011*
- ♦ *operates in 15 markets, including most of Europe and South America*

**[www.westwing.de](http://www.westwing.de)**

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# Kreos Capital - Q4 2014 Private Debt Conferences

Here are a few observations from the conferences which we thought would be of specific interest to our Kreos Quarterly readers:

## Private Debt asset class growth across both private debt and private equity allocations:

While the private debt asset class has already grown significantly over the past several years, one of the themes of the discussion at the Capital Structure conference was that many LPs who had not yet allocated to the private debt asset class were about to implement private debt allocation programmes over the next year – suggesting that additional LP capital will be entering the market. Speakers at both conferences indicated that currently LP commitments to private debt funds are coming from both dedicated private debt allocations as well as opportunistic/special situation private equity allocations, and that the size of these allocations will continue to increase. Additionally, over the next several years an increasing percentage of allocations to private debt funds will be coming from LPs' fixed income allocations which had previously been invested in government bonds and are now being shifted to private debt and illiquid credit allocations in search of increased yield. A dramatic example of this phenomenon was shared by a pension fund manager whose fund had recently shifted its entire 30% fixed income allocation to be split 7.5% each between four private debt strategies.

## Private Debt allocations are increasing across multiple LP sectors:

Speakers at both conferences indicated that private debt allocations are coming from a broad set of LPs. When allocations to private debt started to increase substantially approximately 3 years ago, pension funds and insurance companies served as the main drivers. While they continue to be the largest allocators to the space and will continue to provide the bulk of future growth (especially from the shift of fixed income allocations as noted), an increasing number of endowments, foundations, funds of funds, family offices and private wealth asset managers are increasingly allocating to private debt managers as well. This was also indicated by the high proportion of LPs speaking at and attending the conferences from these LP sectors.

## LPs are increasing the breadth of private debt strategies they are committing to:

A number of LP speakers at both conferences indicated that they were increasing the different types of private debt strategies they were committing to. Many private debt LPs have been working on deploying their core commitments over the past several years and are now actively seeking niche strategies with compelling risk-return profiles which complement their core private debt portfolio. Interestingly, several LPs that were just entering the private debt asset class indicated they were building their programmes from the ground up with niche private debt strategies as part of the core initial commitments.

*US LP's indicated their preferences for Europe as their preferred geography for private debt allocations....*

## US LPs interest in the European private debt asset class is continuing to build momentum:

The number of US LPs who traveled to Europe to speak at and attend both conferences was strikingly high. A number of US LPs indicated their preference for Europe as their preferred geography for private debt allocations, as well as private debt as their preferred asset class for their European geographic exposure. The key reasons cited were that European private debt offers LPs:

- ◆ a sustainable and growing market opportunity due to the major structural factors of the banks withdrawing from the lower mid market and lower current penetration of the European market by private debt funds, which has led to...
- ◆ higher yields combined with similar net loss and recovery rates when compared to the US, enabling a compelling risk-return profile.

If you would like more colour on these or additional themes discussed in this brief overview, feel free to be in touch with us at [Kreos.capital@kreoscapital.com](mailto:Kreos.capital@kreoscapital.com).

## Select News & Portfolio Developments

To read these stories in detail and keep up to date with all other Kreos portfolio company news, please visit [www.kreoscapital.com/news.aspx](http://www.kreoscapital.com/news.aspx)

- ◆ Leading LTE chipset developer, Altair Semiconductor partners with D-Link and Roundbox to develop the world's first LTE eMBMS-enabled HDMI dongle which gives consumers access to a wider range of content. Sandisk also announced a strategic investment in the company
- ◆ ASK has a successful listing on Euronext Paris
- ◆ Nabriva's latest product receives fast-track status from US Food and Drug Administration
- ◆ Delivery Hero acquires Brazilian online delivery service, Subdelivery, with more plans for growth in Asia and Latin America
- ◆ Onefinestay raises \$40m series-C to expand into more international cities
- ◆ Wahanda raises additional \$26m & acquires Germany's Salonmeister
- ◆ RealMatch is ranked in Top 25% of Inc. 5000's fastest growing companies
- ◆ Qubit raises \$26m to expand into the US
- ◆ Online auction house Auctionata launches in the US, Czech Republic, Slovakia & Hungary

### Team Spotlight

Kasia Koleda joined Kreos Capital as an Accountant in 2012. Kasia works alongside Kreos's Financial Controller and Fund Accountant and is responsible for monitoring our portfolio and investments, as well as assisting with reporting and compliance for our international offices.



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*ReWalkers in London*

Kreos IV portfolio company **ReWalk Robotics** has been hitting the headlines recently and not just for appearing in one of TV's most popular programmes, *Glee*.

In mid 2014, ReWalk announced that the US Food and Drug Administration had cleared their personal system for home use, making their exoskeleton system the only product of its kind to be approved. Shortly thereafter, in Q3 2014, ReWalk launched a successful IPO which was very well received by investors.

## Events

The Kreos Capital team have had a number of recent speaking engagements including:

- ◆ Private Debt Investor Capital Structure conference – Kreos participated in panel discussions on growth debt financing opportunities for high growth companies.
- ◆ IIR Alternative & Mezzanine Finance forum – Simon Hirtzel served as a panellist and discussed growth debt financing opportunities for European SMEs.
- ◆ PDI Private Debt Investor Council – Kreos was invited to participate in discussions on all aspects of private debt with leading private debt GPs, LPs and advisors.

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If you would like to learn more about Kreos or discuss any of the themes covered in this newsletter please do not hesitate to contact us.

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