

# KREOS QUARTERLY

EUROPE'S LEADING GROWTH DEBT PROVIDER

Q2 2016

## Welcome

Welcome to the Q2 2016 edition of Kreos Quarterly, designed to give you a snapshot of the latest activity in our portfolio, and share our insights into current market developments. 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 are delighted to announce that Aris Constantinides is joining our team as a new investing partner. Aris has over 20 years' investment experience, and was the Founder and Investment Director of NBGI's early life science investment activity in 2001. Aris will be focusing on originating and executing growth debt commitments in the life science and healthcare sector for Kreos. We are excited that he is joining us! You can see some more background on Aris on page 7.

We also discuss some of the market trends we observed at the Barcelona Mobile World Congress and highlight some of the latest commitments and exits across our portfolio. Additionally, we have interviews with Antoine Papiernik, of Sofinnova Partners, and Nish Kukadia, CEO of Kreos portfolio company Secret Sales.

We hope that you find insights in this edition valuable. If you'd like to discuss any theme or have more information, please do get in touch!

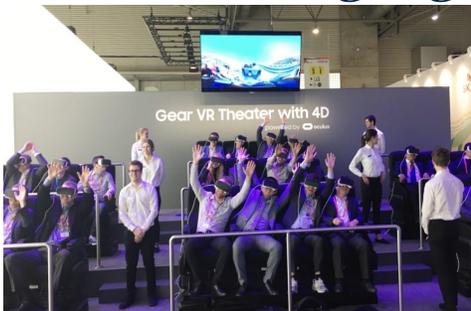
## The Kreos Team

## Market Observations

We are now four months into the deployment of our most recent €400m Growth Debt fund, Kreos V (please see our Q1 2016 edition for more information on the launch) - and are experiencing even stronger deal flow than we had expected, with opportunities to many finance companies in multiple stages and different situations.

The healthy pause in accelerating equity valuations which is being experienced generally in the market is also generating additional investment opportunities for growth debt. Management teams are concerned about dilution from new equity financings at lower valuations than they would like. At the same time, equity investors are ensuring that their financing syndicates and capital reserves for their portfolio companies are strong enough to sustain a period of more challenging fund raising and IPO markets. They are also trimming the cost base of their companies to facilitate a faster break-even point if required. These dynamics create additional demand and an attractive environment for flexible and complementary debt financings which we are seeing directly in our markets. One trend which we have experienced since early 2015 has been a strong demand for Kreos's debt solutions for pre-IPO and pre-M&A financings as well as to serve as a substitute for IPO financings for late stage growth companies. This followed the large capital inflows which we witnessed during 2014 and 2015 into European growth companies from non-traditional growth investors such as hedge funds, mutual funds, corporates and late stage US investors, which boosted valuations and also facilitated the "unicorn" phenomenon. Accordingly, IPO and M&A activity was a bit lower in 2015 than 2014, but was still at a robust level.

## MWC 2016 Highlights Technology and Collaboration



As usual, the Mobile World Congress ("MWC") took place in Barcelona at the end of February with more than 100,000 attendees. Several themes which had been in evidence in 2014 and 2015 were prevalent again this year, for example constant connectivity, wearables, mobile health and the Internet of Things ("IoT").

Other focus areas during this year's 2016 MWC, as expected, centred

around the autonomous car and virtual reality ("VR") and also the infrastructure layer around 5G and cloud-based services. Facebook attracted a lot of attention with its VR solution Oculus Rift (created in collaboration with Samsung), *Continued on page 6*

### INSIDE:

◆ Interview with Sofinnova's Managing Partner Antoine Papiernik on p.2

◆ Catch up with Nish Kukadia, CEO of Secret Sales on p.5

## INTERVIEW: Antoine Papiernik

### Managing Partner at Sofinnova Partners

Antoine Papiernik has over 20 years of investment experience, and is a Managing Partner at Sofinnova Partners. Antoine joined Sofinnova in 1997 and is responsible for investments in both biopharmaceuticals and medical devices. Antoine was previously with CDC-Innovation. He has been an investor and active board member in many pan-European public companies including Actelion, Auris, ProQR, NovusPharma (sold to CTI), Movetis (sold to Shire), Mainstay, Pixium Vision and Stentys. He has also invested in and is a board member of private companies ReCor, MD Start, Shockwave Medical, Reflexion Medical, ProQR and Gecko Biomedical.

Antoine has an MBA from the Wharton School of Business, University of Pennsylvania. In 2011 and 2012, Antoine was selected by Forbes for its "Midas List" of the world's top high-tech and life science investors. Antoine is one of the only Europeans on the list, and one of the few life science investors as well.



**Antoine, your firm is one of the key European players in life sciences. Can you describe**

**Sofinnova's strategy in the market place?**

Sofinnova Partners is 100% focused on investing in life science companies, with about two thirds of our companies originating in Europe, and the other third in North America, principally in the US. We today have €1.5bn under management. Our main funds are focused on early stage healthcare investments, and we recently raised our last vehicle, Sofinnova Capital VIII, which closed at its cap at €300m last December.

We are also active in another segment of life sciences, namely Industrial Biotech, with one fund actively investing in the field and another vehicle currently in fundraising. On the healthcare front, our strategy has not changed an iota for decades, and consists in backing from the start visionary entrepreneurs with a paradigm-shifting technology or product.

Our strategy centres on what we call "large stakes / large returns" - owning and keeping a large percentage ownership of our portfolio companies until the end.

**Can you give us a sense of Sofinnova's history and track record?**

Sofinnova is actually one of the oldest groups in the world! The original firm was created in 1972 in Paris by a visionary guy who had witnessed the emergence of players in the US investing in innovations, like Georges Doriot, a French born investor who founded ARDC and was the main backer behind DEC.

Sofinnova is actually an acronym for "company investing in innovation", so it was all in the name. Jean Deléage was responsible for our early experiences in life science investments, with major wins such as Genentech, Chiron and Biogen. The legend says that we said no twice to Amgen, for good reasons at the time. I guess you cannot do them all! The contemporary history actually started close to 20 years ago, in '97, when the team organised a buy-out of Sofinnova from its original forefathers.

*"...we have been particularly fortunate in the last decade, with many of our companies maturing nicely to become strong leaders in their field, going public or being sold..."*

This is also when I joined the firm, by the way. Sofinnova's subsidiary in the US participated in this buy-out, and we now have two firms on both sides of the Atlantic, Sofinnova Partners in Paris, whom I represent here, and our cousins Sofinnova Ventures, based in the Bay area. We are totally independent of each other, but we consider them as family, and often work with them. As far as our strategy is concerned, we were born with a hybrid investment model, investing in both life sciences and IT. Contrary to the rest of the world, we decided over the last 20 years to concentrate gradually on life sciences, the field in which we had the strongest track record. About six or seven years ago, we decided to be 100% life science focused, and the last two funds have been pure-play life sciences funds. Contrary to many of our peers, we have stuck to our original model of backing companies with a vision from the very start, and we have been particularly fortunate in the last decade, with many of our companies maturing nicely to become strong leaders in their field, going public or being sold to large corporate buyers. In the last five years alone, our companies generated more than €6bn of equity value. Thanks to our "large stakes / large returns" strategy, a very significant part of that value translated into performance for the Sofinnova funds.

### **Can you tell us a few examples of companies you are particularly proud of?**

One of the wonderful things in our business is to be able to make money for our investors while financing companies who bring life saving drugs or devices to market. In my own experience, over the past 20 years, some of the best examples are companies like Actelion, Corevalve or Ethical Oncology Science. Actelion revolutionised the treatment of pulmonary hypertension, a lethal disease affecting young women, with their drug Tracleer; it is now a \$15bn company with several billions in sales. Corevalve (since sold to Medtronic), transformed the treatment of aortic valve stenosis with their percutaneous valve, and their product has now saved the lives of more than fifty thousand people who otherwise had a six month life expectancy. EOS (since sold to Clovis Oncology), is developing Lucitinib for the treatment of breast and lung cancers.

### **Can you tell us about what sort of companies you are investing in?**

We start investing at series A, where there is an awful lot you don't know about the future, and continue investing with the company through its lifecycle. This forces us to concentrate on things that will really make a difference if the plan pans out - what we would describe as "paradigm-shifting" technologies - and on people we feel have the entrepreneurial vision and drive to get the company to where it needs to go. This is still a large span of businesses, and you will see us invest in new platform technologies based on ground-breaking science on the one end, to spin-offs from pharma on the other end, with an ambitious clinical plan to bring a product to market in short order.

### **How would you describe the team at Sofinnova Partners?**

We are small team with a total of 25 people based in Paris, and a great mix of experience and diversity. We are one of the few firms out there with gender parity at the partner level. We are also proud to have over eight nationalities in this small group, with twelve languages spoken, from French to Chinese, Danish to English, Croatian to Korean, Spanish to Dutch. To us, this mix makes us better aligned with our pan-European strategy.

### **What is your outlook for Life Science companies in Europe?**

The European life science scene has made immense progress in the last 20 years. You can judge that in a pretty effective manner by the number of companies that went public on European exchanges or were sold to corporate buyers in this period.

Of course, when one compares this to the situation in the US, one can still say that we have a long way to go. The total market capitalisation of the whole European biotech sector is worth just one of the many mid-size NASDAQ listed biotech companies in the US. But Europe started 20 years after the US, and I would argue that the life science market in Europe has now reached a point of maturity, and from this point onwards will generate many new great success stories and returns in the years to come.

# Quarterly Insights Into The Kreos Portfolio

*A subset of Kreos's portfolio*



A select group of recent commitments from both Kreos IV and Kreos V are shown below, as well as some of our portfolio companies recent exits.

## Featured Recent Transactions



### TAKE EAT EASY

TakeEatEasy is a food delivery platform for premium restaurants, available in the UK, France, Spain, Netherlands, and Belgium. It is already signed up with more than 150 popular London restaurants, and recently closed a £12m round. Kreos committed a €5m facility in Q1 2016.



Altair Semiconductor develops ultra-low power, small footprint and high performance 4G chips for Long Term Evolution (LTE) wireless technology devices. The company was founded in May 2005, and Kreos committed a €10m facility in Q4 2012. The company was acquired by Sony in Q1 2016.



### CURRENCY CLOUD

Currency Cloud is a London-based fintech company that delivers cross border payments as a service through a secure payments engine. More than 150 companies use Currency Cloud and they in turn have a total of more than 500,000 end users. Kreos committed a €4m facility in Q1 2016.



### INNERACTIVE

Inneractive is a Supply Side Platform (SSP) primarily focusing on the mobile advertising/monetisation space. The business provides a solution for publishers to monetise their products through a number of advertising channels such as display, video, commerce and search. Kreos committed a facility in Q1 2014, and the company was acquired by RNTS Media in Q1 2016.



Founded in 2008, Mister Spex is the leading on-line retailer in the German eyewear market which includes contact lenses, prescription glasses as well as prescription and non-prescription sunglasses. Kreos committed facilities in 2013 and 2014 totalling €10m and a further €3m in Q2 2016.

### onefinestay

OneFineStay is a London-based service that hosts over 2000 luxury holiday homes in London, Paris, New York and Los Angeles. Kreos approved a facility in Q3 2014. AccorHotels acquired OneFineStay for \$170m in Q2 2016.

## 60 SECONDS WITH...

### Secret Sales CEO, Nish Kukadia

Kreos Capital portfolio company Secret Sales was founded in 2007 by brothers Sach and Nish Kukadia. Secret Sales has grown to become the number one UK based online designer fashion brand "flash sales" retailer. The company helps top brands such as Jimmy Choo, Adidas and Dior clear inventory through short online sales campaigns, which are promoted daily to a private members audience - and with over 4m of those members in the UK alone, Secret Sales revenues are growing strongly every year.



#### How do you see the current e-commerce market conditions & what trends are you seeing?

Gone are the days where you build a top-line e-commerce growth story, so today's champions are increasingly focused on sustaining better unit economics and improving customer life-time value. That force is behind many of the recent trends including utilising big data as a means to personalise shopping experiences and thus improve customer loyalty. This year we are seeing personalisation 'grow up' with machine-learning algorithms being used by e-commerce businesses to continuously learn what consumers want and to infer choices. Already IBM's Watson is being trialed by several British e-commerce companies and at SECRETSALES.com we've been building our own algorithms, including one to re-rank our homepage every 10 mins to ensure the optimal blend of brands are visible. Additionally, there have been increasing investments in service interactions to deliver convenience. To that effect we are predicting a greater number of pure-play businesses to open multi-channel touch-points. Last month we announced the launch of our Click & Collect service in partnership with Hermes, giving our customers access to collection sites nationwide, adding a new dimension to their experience.

Another trend that's rocked the industry, particularly in the UK last year, has been Black Friday. A whole new generation of retailers has learnt the hard way that uncontrolled discounting will damage their full-price sales. Consequently more brands than ever are choosing to partner with us to manage their sales.

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

Each year I find better ways to assess new recruits. In a high-growth business you'll naturally burn employees out and make some bad decisions, so I've learnt to over-invest in the front-end of the hiring process. Keep pushing for negative references because everyone has points of improvement; you need to flush those out and know your new

employee's boundaries. Our latest trick is handwriting analysis, which has been extraordinarily accurate so far.

#### What is the biggest challenge for your business?

Running an ecommerce company has plenty of challenges, but a specific pain-point has been balancing scalability with growth. We have rewritten our entire platform since 2012 in Symphony2, but I wish we had built a better foundation in the initial years of the company - that would have helped attract better talent earlier as well as improve both efficiency and progress. Refactoring so extensively has often felt like performing open-heart surgery on someone running the marathon.

#### What will be the biggest driver of growth going forward?

We have outstanding customer retention, for example, 78% of our 2015 revenue was generated by customers from 2014 or earlier. We have almost 100% customer cohort revenue retention every year, bolstered by increasing spends and frequency of purchase. In fact one customer made 247 purchases last year alone. Whilst we have proven acquisition channels such as sponsorship on TV, developing customer loyalty will underpin much of this year's growth. Aside from the existing personalisation and service improvements, our main aim is to reduce any customer interactions that drive disloyalty - a common oversight that is relatively inexpensive to remedy.

#### What advice would you offer growth companies about how they finance their business?

Always choose investors that support your vision and see the market opportunity. We have partnered with Kreos since 2012 and count on growth debt as an important pillar in our funding strategy. It's a turbo-charger for our equity finance, giving us a chance to grow value even further without the dilution - an important balance for founders.

- ◆ *Founders awarded Entrepreneur of The Year at the 2015 Asian Awards*
- ◆ *Awarded Lloyds Business of the Year in 2014*

[www.secretsales.com](http://www.secretsales.com)

# MWC 2016 Highlights Technology and Collaboration

From page 1

...and also around its efforts to bring mobile connectivity to the remaining billions of people in the world through the Telecom Infra Project, where the company is collaborating with operators and manufacturers to develop new methods for building cheaper mobile networks, facilitating "free" connectivity.

Industry collaboration was a frequent theme at MWC as the world is getting more integrated, and increasingly often several technologies are combined into new solutions and the cost of manufacturing is driven lower. As a prime example, Ericsson and Cisco continued to highlight their strengthened strategic partnership for end-to-end solutions and Ericsson also announced a cloud collaboration with Amazon. This development will not only result in continued strategic partnerships within the communications industry but also

*"The connected evolution is raising new questions around ethical rules, digital integrity and security, as well as user behaviour adoption..."*

business models and transform today's industries. As an example, the driverless car is more than just a consumer feature, as it will challenge today's car manufacturing industry and service models and create totally new business models. Correctly positioned, today's manufacturers can be a part of the new service solutions even though they might sometimes lose their direct contact with the end user – similar to what happened in the mobile phone industry where operators rather than manufacturers often have the most extensive end user relationship (an obvious exception being Apple).

The rise of IoT, cloud-based services and 5G provides operators with opportunities for new revenue streams, but will require service agility and new network buildouts with a cloud-driven approach. In this race, there is a risk for operators of being challenged by over-the-top ("OTT") services that take advantage of these developments. The adoption of IoT in businesses will also

require further standardisation. The two standards bodies for connected industries, Plattform Industrie 4.0 (Germany) and Industrial Internet Consortium (USA), recently announced that they will cooperate, which could be seen as a first step towards unified standards for industrial IoT.

The connected evolution is raising new questions around ethical rules, digital integrity and security, as well as user behaviour adoption. As always in the evolution of technology, the initial hype and inflated expectations will move into a reality-check phase before broader market adoption and real revenues materialise.

Once real revenues materialise and the IoT industry grows, we anticipate there being significant opportunities for our growth debt and pre-M&A and pre-IPO debt solutions.

across different industries, for example among the several car manufacturers present at the event, and a general increase in M&A activity in the technology area.

IoT is facilitated by technology developments such as hardware miniaturisation, constant wireless connectivity and cloud computing power at low cost, which enable new

Since 2014, our Newsletter interviews have profiled a wide range of successful investors and portfolio company managers from across our investor and portfolio network:

- ◆ Jean Schmitt – Jolt Capital
- Niklas Östberg – Delivery Hero
- ◆ Daniel Waterhouse – Balderton
- Oded Melamed – Altair
- ◆ Raphaël Wisniewski – EdRIP
- Stefan Smalla – Westwing
- ◆ Stuart Paterson – SEP
- Tal Brener – Gett
- ◆ Laurel Bowden – 83 North
- Ronen Faier – SolarEdge
- ◆ Davor Hebel – 8Roads
- Jamie Thomas – Qubit
- ◆ Antoine Papiernik – Sofinnova
- Nish Kukadia – Secret Sales

You can access all previous editions on our website, as well as being able to sign up so you don't miss our future editions.

[www.kreoscapital.com/newsletter](http://www.kreoscapital.com/newsletter)

## 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](http://www.kreoscapital.com/news)

- ◆ In case you missed it! **Kreos** closes its latest Growth Debt Fund at €400m earlier this year
- ◆ **OneFineStay** is acquired by AccorHotels for \$170m
- ◆ **Inneractive** is acquired by RNTS Media
- ◆ Israeli innovator of LTE modem chip technology **Altair** is acquired by Sony
- ◆ **Marley Spoon** raises €15m in its Series B investment round and announces US nationwide expansion plans
- ◆ Online lending platform **Spotcap** raises \$40m
- ◆ Branded mobile ad platform **Widespace** secures \$17.2m in capital
- ◆ **Riskified** secures \$25m in growth financing round, and wins Emerging Technology Award at MRC Vegas 2016
- ◆ Taxi app **Gett** announces its acquisition of London black cab Radio Taxis & launches courier service
- ◆ **Savedo** MD & Co-founder Christian Tiessen makes the Forbes 30 Under 30 list
- ◆ The **Rewalk Robotics** exoskeleton system is deemed “medically necessary” by independent medical review organisation
- ◆ Europe’s leading online optician **Mister Spex** expands its multi-channel approach and opens its first store in Berlin
- ◆ **Totango** CEO Guy Nirpaz releases a new book that challenges conventional thinking about customer relationships in business
- ◆ **Cellnovo** partners with US company TypeZero on a new Artificial Pancreas programme and markets its Diabetes Management System in Italy
- ◆ **TakeEatEasy** adds a new dimension to London’s premium restaurant delivery trend
- ◆ Data intelligence company **DueDil** announces the launch of LinkedIn-style networking features that will help the platform’s users connect with other decision-makers

## Team Spotlight



We are delighted to announce that **Aris Constantinides** is joining Kreos Capital.

Aris brings more than 20 years’ investing experience to the Kreos team and has had significant experience identifying, originating, investing in, monitoring and managing European life science transactions. Prior to joining Kreos, Aris established NBGI’s life science investment activity in 2001, as Investment Director and Founder – Aris was responsible for its management, and for NBGI’s presence in the life science sector. Previously, Aris worked as Vice President at Deutsche

Bank’s investment arm. Before joining Deutsche Bank, Aris was part of CSFB’s Cabot Square Capital Fund team. Aris began his career at Bankers Trust as a derivatives specialist.

Aris is based in our London office, and if you would like to get in touch with him about potential investment opportunities, please email him at: [aris@kreoscapital.com](mailto:aris@kreoscapital.com).

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