

KREOS QUARTERLY

EUROPE'S LEADING GROWTH DEBT PROVIDER

Q4 2016

Welcome

Welcome to the Q4 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 of Kreos Quarterly we share some highlights from our sixth annual Growth Finance seminar held in London earlier this year attended by over 200 leading equity sponsors, top tier Limited Partners, management teams of high growth European companies, European advisors, and friends of Kreos. We also discuss some current market trends we are seeing and highlight some of the latest developments across our portfolio. As well, we have interviews with Mattias Ljungman of Atomico, and Eyal Ronen, CEO and co-founder of Kreos portfolio company CellSavers.

We would also like to highlight our new website at www.kreoscapital.com with a refreshed look and feel which has been applied to our newsletter as well.

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

The Kreos Team

Market Observations

We are now ten months into deployment of our most recent growth debt fund, Kreos Capital V. High quality deal flow remains strong and our deployment pace remains ahead of schedule despite the noticeable cooling phase which the private equity market went through in early 2016 as a reaction to the liquidity-driven 2015. Management teams continue to implement cost optimisations in an effort to move their businesses towards profitability since hyper-growth regardless of cost is currently not being rewarded. Accordingly, we continue to see a demand for debt solutions to support these situations and to ensure an ample financing buffer for the years to come. Countering this trend a bit, following the initial Brexit-driven volatility during the summer, the public markets have levelled out. Nonetheless, during the same period the European growth capital industry has now created its first Euro listed "decacorn", when Zalando reached a €10bn market cap and proved its value creation and profitability.

Consistent through these somewhat contradictory dynamics, we continue to see a very active M&A market, and during the last few months several of our portfolio companies have been acquired. For example, just recently ams announced the acquisition of Heptagon at a robust valuation. Large corporates are also active and the recent AT&T/Time Warner and Qualcomm/NXP deals are expected to trigger further activity. We also see several of our portfolio companies actively evaluating their own acquisitions as they are maturing and find new areas to expand, consolidate and strengthen their positions. Kreos is also playing an active role to provide acquisition financing, enabling an efficient and flexible capital structure that unlocks value for a growth company.

Kreos Growth Finance Seminar 2016



Kreos's 6th annual Growth Finance seminar held in London earlier this year, brought together 200 GPs, management team members, LPs and friends from our network for lively discussion on the most relevant current topics in our markets.

The focus of the seminar's theme this year – **Navigating Changing**

Environments – was highly relevant, since a powerful outcome of changes which have a fundamental impact on our markets is the terrific range of opportunities across Europe and Israel which are the focus of activity for all of the day's participants. The aim of our seminar was to provide an opportunity to exchange views on the main dynamics that we are all seeing. *Continued on page 6*

INSIDE:

◆ Interview with Partner at Atomico, Mattias Ljungman p.2

◆ Catch up with CEO of CellSavers Eyal Ronen on p.5

INTERVIEW: Mattias Ljungman

Partner at Atomico

Mattias has been an investor for over a decade, focused primarily on technology with an emphasis on fintech, gaming and social media/communications. He founded venture capital firm Atomico in 2006 alongside Skype co-founder Niklas Zennström, to work with great entrepreneurs and disruptive companies who are primarily based outside Silicon Valley. Mattias has worked closely with a number of portfolio companies on their expansion and exits, including Supercell, 6Wunderkinder, Climate Corporation, Xobni, Massive Media and Power Reviews. He sits on the boards of Hailo, Chemist Direct, FON, Truecaller, Uiplaces and LendInvest and is also responsible for Atomico's investments in Klarna and Evrythng.

Prior to Atomico, Mattias was a private investor focusing on consumer internet, enterprise and deep technology businesses. His investments included bid-up TV (sold to Telewest for \$360m), Amino Technologies (LSE: AMO), Clearspeed (LSE: CSD) and Lunarstorm.



Mattias, we have known each other since the start of Atomico. The history of your firm is special. Could you tell us how you all got started?

It is special. Niklas and I have known each other a long time, in fact we first met when I declined to invest in his company Kazaa! But by 2006, we had come together and our vision was clear. We were both committed to reinvesting in the future of European tech, helping new generations of entrepreneurs scale their companies to become global winners. We had Niklas' expertise as a hugely successful founder and mine as an investor, and it just worked.

As a founder of Skype, Niklas Zennström has an impressive track record and is obviously a cornerstone of Atomico but you also have a very diverse and experienced team today. What makes Atomico different in the investor community?

It's true that Niklas' entrepreneurial legacy is important to the company, but we've built a team around him that's outstanding in its own right.

Atomico's team of investors and advisors now includes founders of six billion dollar plus companies, and operational leaders who were responsible for global expansion, hiring, user growth and marketing at companies from Skype and Google to Uber, Spotify and Facebook.

With fresh capital available, you are obviously very active in the market at the moment. What is the current investment strategy of Atomico, and what type of companies and situations are you looking for?

We invest in internet based growth companies, primarily outside Silicon Valley, which are led by outstanding entrepreneurs with the vision and ambition to disrupt established industries, and we help them to scale their businesses domestically and globally. We focus on Europe in particular and are currently excited about hubs like London, Berlin and Stockholm, and in areas such as

“European tech is on fire, and major institutional investors are beginning to catch on to the opportunity it presents.”

FinTech and AI amongst others. We invest at growth stage so are interested in any company with a great product, underpinned by excellent technology, with the potential to become an international category winner!

www.atomico.com

There have lately been some larger funds raised in Europe, including the fund that you are currently raising. What do you think is the reason we are now seeing much larger equity funds in Europe and what will this mean for the future?

In short, European tech is on fire, and major institutional investors are beginning to catch on to the opportunity it presents. We've laid the foundations for a strong ecosystem: Europe has produced \$41bn companies since 2003, we have over 5000 active angel investors and over 1.6m developers, while we produce twice as many STEM grads per year than the US. \$4.6bn was raised by VCs in Q2 2016 alone and it's only a matter of time before we see the next generation of multi-billion dollar companies founded in Europe.

Do you have some favourite moment that you could share with us from your time as a venture capital investor?

My favourite moments are meeting truly inspiring founders, clichéd as that might sound - people like Sebastian Siemiatkowski of Klarna and Christian Faes of LendInvest. I love seeing how European tech has matured in such a short period of time - when I first met Niklas, everyone thought he was crazy founding a tech company in Stockholm and now, just over a decade later, nobody would challenge that. European tech is now leading the way in truly disruptive technologies like AI, gaming, music services and parts of Fintech.

We still face challenges, but I'm more excited than ever to be an investor in European technology.

What are Atomico's strengths, and how do you differentiate yourself as an investor in the market?

Atomico's unique team is its greatest strength, and it really does differentiate us from our competitors as I mentioned earlier. It's amazing to be able to work with accomplished entrepreneurs within our portfolio as well as within our own team - entrepreneurs like Siraj Khaliq on our investment team (who founded

the Climate Corporation and sold it for over \$1bn), our entrepreneur partners like Ilkka Paananen at Supercell and Alex Asseily of Jawbone, and other experts on our unique value creation team. With them by our side, we're able to truly partner with our founders and help them to build the next generation of global winners.

Which companies are you most proud of having backed?

I'm proud of all of the companies we've backed and we've had a chance to work with some incredibly ambitious entrepreneurs. So far in 2016, I've been especially proud of the Finnish companies we've worked with, as two of them in particular have had a blockbuster year. One of our earliest investments, game-making company Supercell has shown that Europe can produce tech companies worth over \$10 billion, by securing the biggest tech M&A deal in Europe. Meanwhile Rovio, creator of the game Angry Birds, has grown into a globally successful entertainment company, with Angry Birds the movie taking the number one spot at the box office in the US and 50 other countries.

We're also super excited about many of our newest investments that are disrupting traditional markets, companies like LendInvest that are shaking up financial services and the guys at Farmdrop, who are revolutionising the food chain. 2016 has already been a great year!

What do you think is the key role and value of an investor backing a growth company?

I think it's really what you make of it. We set up Atomico to invest in tech companies by sharing our experience and expertise - as well as our capital. Our model is designed to add value to our portfolio companies in the areas where we can make the biggest impact, from global expansion and hiring, to user growth and marketing.

Most of our team are entrepreneurs themselves, so they know that founders need different help at different times. When our portfolio companies want us to solve a challenge, we roll up our sleeves; when they need space, space is what they get.

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



LeadDesk is a Finland-based cloud call centre software company. It allows call centre administrators to quickly and easily augment their core software with features that optimise their workflow, meet their local market and campaign needs, and help their agents close phone sales. Kreos committed a €3m facility in Q2 2016.



Bonesupport is a Swedish medical technology company dedicated to the development of injectable bone conductive biomaterials that support the re-growth of damaged bone which could be caused by osteoporosis, trauma, disease or surgical procedures. Kreos committed a €15m facility in Q4 2016.



Nosto is a Finnish software company founded in 2011 that focuses on the ecommerce sector. The company has developed a platform which allows ecommerce retailers to tailor visitors' online experiences based upon their consumer behaviour using real time data. Kreos committed a €6m facility in Q2 2016.



Heptagon is an industry leader in sensing, illumination and 3D imaging solutions. The company has recently been acquired by Austrian company ams for up to €850m to become a worldwide leader in optical sensing. Kreos originally committed €8m to the company in 2007 and 2008.



Aternity have developed an APM tool that is designed to enable IT teams to proactively monitor, manage and rectify any IT performance issue on all devices (e.g physical, virtual, mobile) The company was founded in 2005. Kreos originally committed a facility in 2007, and a further \$5m in Q1 2016. The company was acquired in Q3 2016.



Founded in 2004, Agnitio is a world leading company in voice biometrics technology via selling a software product that enables speaker recognition. Voice biometrics is the science of identifying people by voice. Kreos committed a €2m facility in Q3 2013. The company exited in Q3 2016.

60 SECONDS WITH CELLSAVERS

CellSavers Co-Founder & CEO, Eyal Ronen

Eyal Ronen is co-founder of CellSavers, an on-demand smart device repair service whose technicians fix your phone anytime, anywhere. Ronen is a seasoned executive and entrepreneur (founder of Gotigo and CMate, which was acquired by Oberon Media), with extensive experience in product life-cycles from inception, design and development to marketing and sales. CellSavers recently raised \$15m to expand their service.



What are the key trends in your industry?

Consumers are getting used to services being delivered on the spot, very efficiently and exactly when they want it. Just compare how we were used to

hail a cab in the rain 10 years ago vs how simple it is to get a ride today with a click of a button. We expect services to be more efficient, act quickly and deliver an exceptional experience. We see the same behavior in many industries. In our case, users are dealing with retail stores and local providers that are offering an “old fashioned” service. We rely on our unique matchmaking technology and wonderful team of ‘Savers’ to offer an amazing repair and support experience in minutes and not days, and in a transparent and efficient way to the consumer. Our goal is to utilize our core service DNA on any repair and support verticals in our day to day life. Users demand a better experience.

What is the biggest challenge for your business?

Any time you revolutionize an old status quo, you have to educate the market about it. Bringing a new type of service which is very different than the current one, even a one delivering a leap in quality (i.e standing in line at your wireless carrier or local repair shop, handing your device to a stranger in the back of a store) is a unique challenge. We are used to having our time spent waiting on service technicians, and never knowing what price we should pay. Trust or lack thereof is a huge factor here as well. Today, this is a completely backwards experience and we aim to change it. The other big challenge is matching supply and demand. An experience like ours, which is based on matchmaking between Savers, skills, parts, consumer and time/location are all about finding the right balance between supply and demand. If you have many consumer asking for a service and not enough technicians to serve

them, or not enough spare parts or skill, you get frustrated customers. On the other hand, saturated market with too many ‘Savers’ ready to work, but with no service calls, will create a frustration on their side. Finding and growing the right formula, as we expand, is a massive challenge for every company. We take great pride in creating a community for technicians and investing in their success. We know, that by making the experience for both the consumer and the provider excellent, we will succeed.

What will be the biggest driver of growth going forward?

As we continue to rapidly grow our business, we are focusing on 3 major growth engines: additional services around the lifecycle of devices (upgrade, support, repair), expanding into additional markets (covering the US to start with and going internationally afterwards) and expanding into additional repair and support verticals. Each one of those growth engines, has a tremendous expansion potential. We are working very hard on finding the right way to grow correctly. It’s not only about growing our revenue and service, it’s also about maintaining our core service DNA.

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

First and foremost, finding the right investors to your company is key. The right team of investors can help open many doors, and assist in the thinking process. Make sure you find people you enjoy working with and that’s their opinion and experience you value. We have partnered with Kreos earlier this year and find the relationship and people extremely supportive and helpful. We found that growth debt was extremely helpful for continuing our company growth in parallel to achieving our new equity rounds goals.

- ◆ Selected for Amazon’s Home Services in the US
- ◆ Raised almost \$20m to date, with continued growth plans

www.cellsavers.com

Kreos Growth Finance Seminar 2016

From page 1

Chemi Peres, co-founder and managing director of **Pitango**, and **Chairman of the Peres Center for Peace**, addressed the changing global environment.

Chemi described how innovation is now almost frictionless, with innovative companies in downtown industrial spaces in cities across the world. Innovation driving social impact is also far-reaching - many more people want to utilise social innovation to do something meaningful to impact the world. We are often over-optimistic about radical innovation in the short term, but in the long term underestimate its profound impacts – which challenges everyone who invests in fast-growing disruptive businesses. As an example of emerging services, autonomous car sharing is receiving significant investment with the objective that cars become shared resources more like ‘horizontal elevators’ which solve the problems of accidents, parking, pollution and 90+% idle time. While it will be challenging to meet near-term investor objectives, such as Tesla’s production targets, in the long run the impact of shared car services will indeed be profound.

Chemi also discussed that the world has new macro challenges including energy, water and cyber security. And new approaches to governance and collaboration are required to meet these challenges. For example, he noted that our increasingly global economy, where data and IP have become more important, needs different sorts of taxes.



In addition to Chemi leaving us some food for thought, several of Kreos’s portfolio company CEOs had joined us for the day,

and shared with us how their businesses have been driven by some of the global changes that Chemi discussed.

Graham Cooke, founder and CEO of **QuBit**, the data analytics platform, highlighted that our economy has evolved from resources extraction, through manufacturing, to delivery of goods and services, and now to an “experience economy” that is just opening up, with data at its heart. Daily life is becoming a personalised journey providing unprecedented amounts of data to services able to connect with a customer – which drives businesses to focus much more on users’ daily lives.

Joe Steele, CEO of **Bookatable**, talked to Kreos partner **Mårten Vading** about his experience of building a real-time reservation platform for 13,000

restaurants across 12 countries by focusing on the customer’s experience, culminating in its successful sale to Michelin in January 2016.

Jan Thiel, deputy CEO of **Paddle8** (formerly Auctionata), described how the online auction house runs 3-4 auctions a day by connecting to their customers wherever they may be (nearly 50% of their customers are on mobile devices), and as a result has the highest average basket in the e-commerce space.

Eido Gal, co-founder and CEO of **Riskified**, explained the shifting focus of eCommerce fraud prevention. Traditional approaches to screening seemingly fraudulent transactions cost merchants \$10bn in managing risk, and \$35bn in lost revenue annually in false declines and negative customer experience. Riskified allows some “grey area” transactions to pass, which are analysed to develop more sophisticated screening techniques.

Ronald Brus, founder and CEO of **MyTomorrows**, told his own inspiring story of developing a model providing early access to new drug development for deployment in compassionate use programmes.

To round out the day, our panel was moderated by **Stewart Licudi** of **William Blair**, who led a discussion of the changing environment in the growth and financing of companies in Europe and Israel. He was joined by **Hubert Birner (TVM)**, **Adam Kostyal (NASDAQ)**, **Mathias Ackermann (Transmode; NASDAQ 2011)**, and **Jussi Wuoristo (Vitruvian)**. Some of their observations included:

- ◆ the last 12 months has been a complex picture, as the record numbers of IPOs of the previous 3 years have reverted to previous lower levels, yet private investment appetite is strong and there is no shortage of cash availability.
- ◆ high quality private companies now have a choice between 5-8 potential investors rather than 2-3. Founders also need to understand whether they are on a 10-year journey with their investors, or face shorter horizons.
- ◆ as an exit strategy, the IPO is still an ideal for many companies and investors – but it is a tough journey, needing 18-24 months to prepare the business and strengthen the management team.
- ◆ management teams with cash should spend it wisely; investors competing for deals need to meet companies early and differentiate the value they bring beyond just cash; and markets need to readjust to greater focus on M&As and secondary sales as exit channels.

We look forward to you joining us for our 7th Kreos annual Growth Finance seminar in the Spring of 2017!

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

- ◆ High end optical packaging company, **Heptagon** is acquired by ams for up to €850m
- ◆ Volkswagen invests \$300m in **Gett** (formerly GetTaxi)
- ◆ **Aternity** is acquired by Riverbed Technology
- ◆ Branded mobile ad platform **Widespace** secures \$17m in capital
- ◆ **Pontis** is acquired by Amdocs for \$80+m
- ◆ **Bonesupport** raises \$37m to continue product growth to treat patients with fractures and bone voids
- ◆ **CellSavers** raises \$15m for its on-demand repair service across the US and Israel
- ◆ **Smava** and **Searchmetrics** receive further investment from Swedish investor, Verdane Capital
- ◆ **Totango** raises \$8m in Series C funding
- ◆ **Roli** acquires software instrument maker, FXpansion following its \$27m Series B round and launches new music-making product, Blocks
- ◆ **ReWalk Robotics** achieves its milestone of 100 personal systems sold
- ◆ **Currency Cloud** passes the \$20bn mark in currency transactions
- ◆ **Kaiima** continues global growth plans, and expands US operations
- ◆ **Kreos** named as one of the leading investors in Israeli hi-tech by Geektime
- ◆ Marketing and technology company **Adbrain** opens new office in Seattle
- ◆ **MisterSpex** named one of “Deutschland's beste Online-Shops 2016”
- ◆ **DueDil** wins Best Due Diligence Software at the 2016 Trade Finance Global Product Awards
- ◆ **GoCardless** founders, Matt Robinson & Hiroki Takeuchi, named in LendInvests’ top 10 list of FinTech entrepreneurs in Britain
- ◆ **MyTomorrows** is expanding to the US, bringing its recipe for patient access to clinical trial drugs

Team Spotlight - Chris Church



We are delighted to welcome Chris Church to Kreos Capital as an Associate this year. Chris is based in the London office, and can be reached on chris@kreoscapital.com.

Chris works closely with our General Partners and Principals in the entire deal life cycle including identifying, and assessing potential deals and performing investment analysis, as well as post investment monitoring.

Prior to joining Kreos, Chris worked as a Senior Associate for the Parthenon Group performing commercial diligence for private equity funds and large corporates. Previously Chris worked in the corporate finance teams of EY and Deutsche Bank in Melbourne, Australia.

Chris holds a BCom in Finance and Economics from Otago University and is a Chartered Accountant with the Institute of Chartered Accountants of Australia and New Zealand.

Contact Us

Kreos Capital
25 Old Burlington Street
London W1S 3AN
t: +44 (0)20 7758 3450

Birger Jarlsgatan 2
114 34 Stockholm
Sweden
t: +46 8678 7200

6 Hamenofim Street
Ackerstein Towers
Building B, 10th Floor
Herzlya Pituach
46725 Israel
t: +972 9 9514434

47 Esplanade
St. Helier
Jersey JE1 0BD
t: +44 (0)1534 835716

9A boulevard Prince Henri
Luxembourg L-1724
t: +352 2621 5400

www.kreoscapital.com

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.

To receive this newsletter quarterly in your inbox, and keep up to date with the latest Kreos developments, please subscribe to our mailing list by emailing info@kreoscapital.com with the subject title **Subscribe**.

KREOS  CAPITAL

None of the information contained in this publication may be reproduced in whole or in part without prior written consent of Kreos Capital. The opinions, estimates, charts and/or projections contained herein are as of the date of this presentation/material(s) and may be subject to change without notice. Kreos Capital seeks to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that we believe are accurate and complete. However, Kreos Capital makes no representation or warranty, expressed or implied, in respect thereof, takes no responsibility for any errors and omissions contained therein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this presentation/material(s) or its contents. Information may be available to Kreos Capital or its affiliates which is not reflected in our presentation/material(s). Nothing contained in this presentation constitutes a solicitation, recommendation, endorsement, or offer to buy or sell any investment product.