

KREOS QUARTERLY

EUROPE'S LEADING GROWTH DEBT PROVIDER

Q1 2017

Welcome

Welcome to the Q1 2017 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 this January's JP Morgan Healthcare conference in San Francisco as well as an interview with Bo Ilsoe of Nokia Growth Partners. You will also find a write-up describing our recent Pharming transaction along with an interview of Pharming's CEO, Sijmen De Vries.

We hope that you find the insights in this edition valuable. We also look forward to seeing you at our 7th Annual Growth Financing Seminar on March 29th in London. The day is filled with exciting company presentations, networking and an in-depth panel discussion discussing our theme, the maturing of the tech landscape. Our next Kreos Quarterly will include seminar highlights. Please email us on info@kreoscapital.com to subscribe to our mailings.

If you'd like to discuss any theme covered in this newsletter or get more information on Kreos Capital, please do get in touch!

The Kreos Team

Market Observations

Over the 19 years we have been providing Growth Capital, we have seen that it takes time to build a large, high quality growth business. An example from our portfolio is Heptagon, founded in 1998, which was recently acquired by ams in a transaction valued at \$1.3bn, Kreos and multiple equity investors have supported the company enabling it's success. This transaction is a reflection of how we've seen the European and Israeli growth markets maturing and becoming more similar to the US, not only in the increase in successful exits and repeat management teams, but also by the varied financing options and capital availability across stages and situations.

Multiple European growth equity funds and corporates including major automotive players have recently raised large growth stage equity funds in order to support businesses achieving their full potential. Nokia Growth Partners (*see page 2 interview*) is an excellent example of this phenomenon. Kreos has been tracking this market evolution and we are continuously broadening our product offerings into later stage and more complex situations. As illustrated by our recent large financings of Pharming and Soundcloud, we are now able to lead financings of several tens of millions in both private and publicly listed late stage growth companies. We have also supported some of our companies for over a decade with several facilities. We initially invested in Wonga in 2007 and have continued to find opportunities to finance them through a cycle of expansion and financial regulation including our most recent €30m facility in early 2016. We look forward to financing many more transactions like these in the coming years from these growing opportunity sets.

News from the JP Morgan Healthcare Conference



Aris Constantinides represented Kreos Capital at the 35th annual JP Morgan Healthcare conference in San Francisco in January 2017.

The conference is an annual "pilgrimage" of the healthcare investment sector such as entrepreneurs, executives, investors,

and intermediaries. There are of course several other healthcare conferences throughout the year but JP Morgan has grown over the years to draw the highest global attendance and achieve its status as a "must go" event. *Continued on page 6*

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INTERVIEW: Bo Ilsoe

Managing Partner at Nokia Growth Partners

Bo Ilsoe is Managing Partner at Nokia Growth Partners. Bo focuses on investments in Europe, and has more than two decades of industry experience. Having lived and worked in the UK, Italy, France, Switzerland, Finland, Spain and Singapore, he brings a global view to his investments.

Bo began his career in the telecom infrastructure business with Alcatel and Nokia where he launched some of the first GSM networks in the world and negotiated GSM supply contracts in Europe and South East Asia. Bo, now at NGP, oversees investments for the broader \$600m growth stage investor sponsored solely by Nokia alongside his US-based colleagues, and NGP recently announced the closing of its new \$350m fund for Internet of Things investments. Bo graduated with honors with a Masters in Electronics Engineering from Aalborg University.



Bo, we have known each other for many years and NGP has been around for a long time; how was the idea around launching NGP formed?

The vision behind NGP was to create a growth investor with global presence specialised on mobile. Back in 2005 when NGP was founded, not many companies had a mobile strategy or the “mobile first” mentality. Our goal was to be able to provide something unique to companies with mobile aspirations: unparalleled operational expertise in mobile, access to global markets and growth funding. Today, mobile first is mainstream and, as a growth investor, we have evolved our thinking to specialise in IoT.

NGP is unique. You are a financial growth investor without a corporate agenda, but at the same time you have Nokia as your single LP fund investor. How does this make you different in the market for your co-investors and management teams?

Yes, we are an independent financial growth investor acting like any other growth investor. Our goal is to find and fund the best companies within our themes, grow them and support them along the way to good exits. Our affiliation with Nokia can help to provide partnerships, access and insights from a global tech leader with more than 100,000 employees worldwide. We leverage both worlds in different shapes and forms.

NGP has a global focus on investments yet still you are not a very large organisation; how do you manage to operate over so many jurisdictions and time zones?

Managing one fund across the US, Europe, India and China has a lot of upside and our structure helps us provide insights and outside-in views when we analyse deals. It can also help balance local market cycles well and in a flexible manner manage our exposure to these cycles. We are a 24/7 operation and very flexible hours as well as lots of time on phones and video is required, not to forget clocking up air miles. That is all part of the model.

How do you approach exits and ensure you maximise the value potential?

Prior to investing we have conversations with the management team

about their aspirations and strategy for realising value. Some companies can go public and that helps provide liquidity for investors such as us. Other companies are sold through M&A where management often continue in developing and supporting their product or service offering within the new context. Either way a continued dialogue is what we are driving throughout our work with the company. Not being prepared for exit means it mostly does not happen, or happens in a less than optimum way for investors & management.

“Kreos was a core partner and understood very well how to collaborate with the investors in building up the capitalisation structure...”

We have had a positive momentum in the growth market for a number of years: what is your current view on the near and medium term prospects for the industry to maintain an environment of attractive value creation?

Great question. The record low interest rates combined with the growing technology investment sector has created a large appetite from fund investors and limited partners to back growth funds active in the technology sector.

In the near term, we will continue to see increased competitiveness across markets, which is also reflected in the pricing and valuation of companies. In the long term, I think it's encouraging to see that entrepreneurship globally has had an enormous surge and many developed economies have realised that innovation and technology are the only ways to grow economies. Becoming an entrepreneur and striking out on your own is increasingly popular.

For investors, discipline and hard work in assessing entrepreneurs, markets and opportunities are paramount to drive upper quartile returns.

Nokia Growth Partners and Kreos Capital recently concluded a very successful billion-dollar exit by merging Heptagon, a leader in high-performance optical packaging and micro-optics, to ams, a semiconductor firm. What made Heptagon so successful and what role did the investors and debt provider play?

Heptagon is a great example of living through cycles, initially having Nokia as the main customer and surviving through the 2008 downturn, the company switched focus from camera components to broader optical and packaging solutions.

The investors helped re-finance the company through the downturn and also brought in a new CEO who worked alongside the original founders to re-position the company and land new customer contracts. Kreos Capital was a core partner and understood very well how to collaborate with the investors in building up the capitalisation structure of the company in the most efficient way.

What have you learnt from your many years as a growth investor and how do you leverage this in order to find another Heptagon in your portfolio?

As clichéd as it sounds, I am a firm believer that companies succeed or fail depending on the founding teams and the CEO. I would invest behind Christian Tang-Jespersen, the CEO of Heptagon, again in a heartbeat. I continue to look for powerhouse CEOs and great founding teams with bold visions and a desire to win big time. One of the key things I have learned is that a hallmark of good management is an ability to hire well, hire better than themselves, not being defensive, attract strong stakeholders, take facts for the facts they are, listen well but firmly execute their own strategy. No team is perfect but if they possess the aforementioned attributes chances for success are much increased. Luck and timing play a big part as well and good management teams tend to be more "lucky". Further, technology investing is a people business and we at NGP are focused on conducting ourselves professionally and respectfully. We say no to investments 90% of the time. But we know and deeply respect the hard work and adversity that many entrepreneurs have to deal with.

Lastly, given your broad experience from the industry, I'm sure there are plenty of great moments and stories; anything in particular you could share?

Well, there are many... Unexpected things happen more often than they should, customers are lost, big contracts won, senior people leave, new hires show sudden great progress. Heptagon landing its first very large contract was a seminal moment. Missing an investment in a large social messaging company which was a \$1bn+ exit was a not so positive one. Exiting Ganji in China through a merger with 58.com, valuing Ganji at \$3.2bn was clearly a highlight. But I must say that the day in day out pleasure of our job really comes from working with and seeing portfolio company CEOs grow and excel and become successful.

Lastly, picking up so many lasting friendships in the industry throughout the years have been a great pleasure.

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



Founded in 2007, SoundCloud is a music streaming platform focusing on the relationship between creators and their fan base; the platform is the go-to place for independent creators, who can upload and stream content. Kreos committed a €22m facility in Q1 2017.

• WORTHY •

Worthy was founded in 2014 as an online marketplace for pre-owned luxury goods including diamonds, brand-named watches, and diamond jewellery. The buyers are professional jewellers, mostly retailers, who bid on the products. Kreos committed a \$1.5m facility in Q1 2017.



Pharming is a Dutch drug development company founded in 1988. It is committed to the development of innovative products for the treatment of unmet medical needs, focusing on the development and production of human therapeutic proteins to provide life-changing solutions to patients. Kreos committed a \$22.5m facility in Q4 2016. *You can find details on the transaction and interview with CEO on page 5.*

hexatier

Founded in 2009, HexaTier's unified software solution provides database security, Database Activity Monitoring, and dynamic data masking in one product that addresses today's database security needs for all organisations. Kreos committed \$1.6m to Hexatier in Q3 2015 and the company was acquired by Huawei in Q4 2016 for a reported \$42m.



Creabilis is a biotechnology company with a primary focus on symptoms of dermatological diseases. Creabilis delivered positive Phase 2b results for CT327 in the treatment of pruritus in psoriasis patients. Kreos committed €7.5m to Creabilis in Q2 2014 and the company was acquired by Sienna Bioharm in Q4 2016.

FreeAgent

FreeAgent is a web and cloud-based accounting platform that focuses on supporting small businesses and freelancers. Kreos committed €1m to FreeAgent and the company had a successful listing on AIM in Q4 2016, raising £10.7m

60 SECONDS WITH PHARMING

Pharming CEO, Sijmen De Vries



Sijmen de Vries is an old friend of Kreos since 2004 when he was appointed CEO of Morphochem, a Kreos II portfolio company. Having kept in contact with us over the years and following his appointment as CEO of Pharming, a Dutch pharma company listed on Euronext, he reached out to Kreos in 2016 for financing of Pharming's acquisition of all North American commercialisation rights for its own product, RUCONEST®, from Valeant Pharmaceuticals. RUCONEST® is an orphan drug designated therapy developed by Pharming, which is already approved for the treatment of acute blood disorder attacks called Hereditary Angioedema ("HAE") in patients in the US and EU.

Kreos led the senior debt tranche taking \$22.5m out of the \$40m. Kreos also subscribed to 50% of the €12m convertible tranche. The transaction was completed in a very short time as funds were paid out within four weeks from signing of the term sheet, Pharming will be able to accelerate its development into a profitable specialty pharmaceutical company with its own independent commercial infrastructure, which will form the foundation for future growth.

Can you tell us the background to the transaction?

As Valeant needed to focus investments, and the company decided to divest some of its non-core products including RUCONEST, Pharming's management saw a great opportunity in being able to capture 100% of the US RUCONEST revenues and to grow sales through a larger sales force, medical science liaison personnel and marketing. In order to finance the upfront payment of \$60m for this acquisition, pay off existing debt of \$15m and provide Pharming with additional working capital to accelerate sales growth in the US and Europe, Pharming executed funding of €104m through a combination of new equity, senior debt, convertible bond and a zero-coupon subordinated convertible in Q4 2016.

What is the biggest challenge for your business?

Our biggest challenge is to execute on the US commercialisation plans. To this extent we have very quickly brought a very experienced team together and we are now preparing to get them operational in the coming month or so. The team consists of the now extended RUCONEST account manager overseen by two experienced regional directors led by an HAE veteran VP of commercial operations.

We are also in the process of hiring a small market access team and a dedicated patient services and reimbursement support team. Last but not least, we have hired the necessary Medical Science specialists, such that in-market medical affairs support will also be available. On the marketing side we have also hired some

experienced marketing specialists. In close collaboration with our already existing EU/ROW marketing team, product messaging is being overhauled and an extensive number of US field force supported activities are being set up, most of which will also be used by the EU team.

What will be the biggest driver of growth going forward?

The main key driver for us will be the growth in US sales, followed by growth in EU sales. At the same time we are keen to continue to push forward our pre-clinical stage new development programmes and are now actively looking for additional rare disease assets that are closer to market to leverage our US and EU commercialisation capabilities.

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

I would at the earliest possible moment raise debt financing. We did this, well prior to becoming operationally profitable and in a situation where we did not directly need the funds. This in turn led us to be able, on the basis of our track record, to raise a significantly higher amount of debt from Kreos and other lenders through a combination of debt and equity instruments (totalling €104m) to finance the upfront payment for the re-acquisition of our US commercialisation rights. As result, we now have the opportunity to bring operational profitability forward by up to three years, without having to go through more dilutive equity financing rounds.

www.pharming.com

News from the JP Morgan Healthcare Conference

From page 1

A few people have speculated why this event in particular has managed to draw such an unusually large audience. Several explanations have been offered, ranging from it being the first event of the calendar year, so attendees start their year fresh and with an accurate and up to date pulse of the sector, through to the size and prestige of a bank like JP Morgan attracting the most promising large and smaller companies, or simply that the setting in San Francisco is a pleasant destination for January usually offering plenty of warmth and sunshine.



This year was a slight exception as San Francisco had its worst storm in years during the days of the conference resulting in a lot of travel disruption and broken umbrellas!

Aside from the bad weather and the concerns surrounding the Trump administration which was being sworn in around the time of the conference, the mood was upbeat as analysts expect a

healthy year ahead for the sector.

Overall JP Morgan recommends an overweight rating to healthcare which remains a compelling sector for investment due to expected outperformance over the market as a whole in terms of revenue growth (9% vs 6.9%) and earnings growth (12.7% vs 11.8%) as well as due to attractive valuations (15.5x p/e vs 18.8x p/e for the overall S&P 500).

In terms of underlying sectors, analysts expect a stronger year for biotech and pharma following a challenging 2016 with trading performance at -21% and -15% respectively. Medtech as well as managed care facilities should continue their positive trajectory in 2017 following 7% and 12% uplifts respectively in 2016. Finally caution remains on tools and diagnostics as reimbursement and budgets remain tight.

However policy uncertainty in healthcare is still significant due to the incoming Trump administration whose impact is still unclear. On the positive side there are suggestions of less regulation and of strong US government support for

technology, which are positive for development stage companies such as those backed by Kreos - but there is uncertainty surrounding drug prices as well as the repeal of the Affordable Care Act which create nervousness and may limit price growth. The pace of healthcare IPOs moderated in 2016 at \$20bn raised, down from \$28bn in 2015, with services being a more active sub-sector than biotech mostly due to price volatility. Biotech IPOs demonstrated greater reliance on existing investor participation particularly in H1 2016. However the 2017 outlook is positive as the buy side remains focused on healthcare IPOs as a source of growth and alpha generation. In addition, attractive aftermarket performance in 2016 (73% of IPOs above offer price) and a large and growing pipeline, position 2017 as another active year for IPOs.

The picture for healthcare M&A was also similar and global volume was down in 2016 at almost 20% vs. a record year in 2015, driven by a lack of large (\$5bn+) transactions. Despite equity markets and valuations being at record highs, acquirers increased the use of cash consideration, taking advantage of the low-cost funding environment. The regulatory environment (clampdown on inversions) was not helpful to deal making and had an impact particularly on healthcare M&A activity with a record \$800bn+ of cancelled deals. China had a record year of outbound M&A activity and continues to be a viable buyer of ex-China assets. 2017 is expected to be a strong year for healthcare M&A, driven by the strategic need to improve growth and pipeline profile, attractive capital markets, strong cash balances and continued investor interest in strategic acquisitions.

While the conference is mostly centred around public companies, representatives from hundreds of private companies from around the world attend for business development, fundraising, discussion of M&A transactions or meeting with new investors. From Kreos' portfolio, several companies attended the event, including MyTomorrows (which also used the event to announce the closing of a \$10m financing), Pixium Vision (which announced at the event the completion of its clinical trial with the 10th patient implanted) as well as Biom'up, Dysis Medical and others.

Now back at our London base we are busy following up on the several exciting meetings, new contacts and leads we developed last month which promise new business opportunities for the years to come!

www.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

- ◆ **Hexatier**, a database security company, is acquired by Huawei for \$42m
- ◆ **Creabilis** is acquired by Sienna Biopharmaceuticals
- ◆ **Reduxio** raises \$22.5m in Q1 2017
- ◆ **FreeAgent** raises £10.7m in AIM listing
- ◆ **Kreditech** raises another \$10.4m
- ◆ **MyTomorrows** raises a further €10m to help access drugs in development
- ◆ **Pharming** announces completion of financing & acquisition of all North American commercialisation rights to its core product
- ◆ **Artesian** makes top 3 spot in Global Sales Intelligence Software for Enterprise
- ◆ **Pippa & Jean** ranks 24th among the 500 fastest growing companies in Germany and takes 3rd place in the Retail category
- ◆ **Seal Software** wins KMWorld Promise Award in Q4 2016
- ◆ **Quali** named in CIO Review's 20 Most Promising DevOps Solution Providers 2016
- ◆ **DYSIS's** systems are adopted by US Veterans' Administration in Texas clinics
- ◆ **Kaiima** announces collaboration with Horizon AG to develop new rice varieties for the US market using Kaiima's EP Technology Platform
- ◆ **DueDil**, a data intelligence firm, releases a map visualising the performance of companies local to Tube lines and stations in central London, and is named in Growth List's top 25 UK B2B startups to Watch in 2017
- ◆ **Mcor** expands in US, Europe and Asia with new sales channels and increased global staffing
- ◆ **GoCardless** wins Best Place for Developers to Work at the Techies 2017 awards
- ◆ **Roli's** Seaboard Grand keyboard becomes musical instrument star in Oscar winning film, La La Land
- ◆ **Cellnovo's** mobile-enabled insulin pump system shortlisted as health tech finalist for AXA's Health Tech & You 2017 Awards

Team Spotlight - Krishnan Patel



Krishnan joined Kreos Capital as an Investment Analyst in 2016. Krishnan supports all aspects of the deal life cycle including pre-investment analysis and post-investment monitoring from both a debt and equity perspective.

Krishnan has worked on closing a number of transactions since joining Kreos including GetPixie Technology, Seal Software and Pharming.

Prior to Kreos, Krishnan worked as an Analyst on the Rates Middle Office desk at Barclays Capital where he worked on international compliance, global operations and supported interest rate derivatives trading. Previously, Krishnan was a Wealth Management Professional at Goldman Sachs executing strategy and servicing ultra-high net worth clients across a variety of asset classes. Krishnan holds a BSc in Economics from Surrey University. Krishnan is based in the London office, and can be reached at krishnan@kreoscapital.com.

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