

KREOS CAPITAL

AN UPDATE FROM EUROPE'S LEADING GROWTH DEBT PROVIDER

WELCOME

Welcome to the Q4 2017 edition of the Kreos Capital newsletter, 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 well positioned as the leader in the pan-European growth debt space, as we continue to work alongside leading equity sponsors to support companies at all stages of their growth across the region and across multiple sectors.

In September we were delighted to receive **Investor Allstars' Specialist Debt Provider of the Year 2017** award. We have now been shortlisted in 9 of the last 11 years and have won Kores capital Specialist debt provider 4 times.



Kreos accepts the Specialist Debt Provider of the Year award at the 2017 Investor AllStars

In this edition of our newsletter we share some **highlights from our 2017 Growth Finance Seminar**, as well as an interview with **Omri Benayoun** who co-manages Partech's Growth Fund, along with an interview with **Mark Weiner**, CEO of Reduxio.

We hope that you find the insights into the market and our own portfolio valuable. If you would like to discuss any theme covered in this newsletter, or get more information about Kreos Capital, please do get in touch.

The Kreos Team

MARKET OBSERVATION

As technology and digital business models become key components of every industry, the market for growth investments continues to expand. Kreos's growth lending is following this general market trend, but is in addition also fuelled by an increased range of use cases for our complementary non-dilutive expansion capital financing. Over the last 7 quarters, Kreos has increased its rate of deployment and committed close to €500m in more than 80 growth transactions and the pipeline is stronger than ever. A growth company's strategy and value creation model are not built on simplistic near-term static cash flow analysis but are rather a result of longer term investment decisions supported by committed investors, an agile management team and strong corporate culture. By constantly iterating subjective and objective data points, Kreos has developed risk/reward models and financing structures that match a growth company's different stages as well as varying financing situations and needs. As a consequence, Kreos's credit decisions and specialty financing solutions are similarly based on understanding sponsor relationships and subjective data elements as well as key value driver metrics for the underlying businesses.

A growth company is, by definition, creating true alpha and absolute return compared to an average mature business. As a result, the underlying investment return is primarily a function of growth and value creation, not complex financial engineering. This is why we are passionate about supporting this expanding market with growth debt to support expansion, acquisitions, working capital needs, pre- and post-IPO situations, starting with smaller commitments at entry level through to significant commitments for late-stage growth companies.

KREOS CAPITAL ANNUAL GROWTH FINANCE SEMINAR 2017

Kreos's seventh annual Growth Finance seminar took place on 29th March in London, bringing together about 200 LPs, equity sponsors, portfolio company senior management, and key service providers from our network for a day of presentations, networking and discussions.

This year's discussion was centred around the theme of the Pervasiveness of the Tech Landscape, which set out to explore the strong development of the technology ecosystem in Europe as well as its scalability across almost all industries. The seminar started with an informative overview of the European landscape by Raphael Grunschlag, Managing Director of Technology banking at William Blair, who presented statistics on M&A and notable trends as well as certain landmark deals that characterised the few months leading up to the seminar.

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Catch up with Mark Weiner, CEO of Reduxio p. 4

OMRI BENAYOUN: GENERAL PARTNER PARTECH VENTURES

Omri Benayoun is a General Partner in charge of Partech's Growth Fund, along with Bruno Crémel and Mark Menell. He joined Partech in 2014 for the creation of the Growth Fund.

Before joining Partech, Omri had various senior executive positions, first at PLM software leader Dassault Systèmes where he led the corporate development team, then at worldwide retailer Casino Group, where he led Corporate Planning and Strategy, before being appointed Deputy CEO at Cdiscount.com, the #3 eCommerce player in Europe.



Partech has a great reputation and recently closed its seventh fund at €400m. Congratulations! Can you tell us a bit about the new fund?

Thank you! This fund completes the comprehensive investment program that Partech has built to serve tech and digital entrepreneurs in Europe and the US. Our partnership now operates three families of funds, each of them focusing on a different investment stage: seed, with €150m available for disruptive tech companies; a €400m fund dedicated to companies at series A and B rounds; and our growth equity fund, with €400m for emerging champions to help them grow into large global leaders. Each fund is managed by a distinct team, supported by in-house resources for transaction and value creation. As with all our funds, this 7th Growth Fund will be pan-European and transatlantic, thanks to our 50 people team spread across our offices in Paris, Berlin and San Francisco. We were very happy to see our existing LPs come back to this new fund, as well as welcome new insurance companies and pension funds from Europe and the US. Worth noting that among the new joiners there are some industry leaders that came in to supplement their financial performance with strategic business development: Accenture, Cisco, Nokia, Adecco, L'Oréal, Unibail-Rodamco, among others. It is a key piece in our value creation secret sauce!

You have successfully invested in a large number of companies over the years: tell us about your current investment focus.

Our investments cover the entire scope of digital and IT sectors, which are shaping the future of major industries, for both consumers and businesses. For earlier stage investments, there is often a strong emerging technology in fields such as artificial intelligence, components and infrastructure, augmented and virtual reality, blockchain, data privacy and cybersecurity, and more. In the case of our growth fund, I note two main themes emerging in the deals we have done: B2B SaaS companies such as Brandwatch or SendinBlue; and online brands, growing fast with a direct-to-consumer model, such as Made.com or TheBouqs.

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

In Partech's history, there have been more than 20 IPOs and 50 exits above €100m, including recently Teads (to Altice) and Comptel-Nickel (to BNP Paribas). In our investment approach, team comes first. We therefore look for outstanding teams, and founders and CEOs with whom we share the same values and vision. Then, other usual criteria include: a large and growing market; strong differentiation; cash efficiency.

Our approach to exit is very simple and will not surprise your readers. The cardinal rule is, at initial investment, to partner with outstanding founders dedicated to building great companies. A great company will always find a satisfactory exit. After initial investment, for each and every one of our 130 portfolio companies, we continuously work on maximising the value potential of our investments, and we do it in a systematic way with four main processes.

First, we help shape the strategy of the portfolio company; this activity is the one with the most leverage for value creation of course. Second, we consider that cross-fertilization between portfolio companies is key, as management teams often encounter issues that other teams have faced and successfully solved before; this activity is managed by both the investment team and our business development team, and gives meaning to what it means to be part of "the Partech family".

Third, we are able to expose our companies to C-level executives from our global network of corporate partners — on a weekly basis, thanks to our dedicated business development team; this helps accelerate business for our portfolio companies in a meaningful fashion. Fourth, we help expose them early to potential acquirers on both sides of the Atlantic, and when a first bidder is knocking on the door we help expand the number of suitors quickly.

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

Well, not surprisingly, I am particularly proud of our Growth Fund online brand companies such as UK-based furniture brand Made.com and US-based flower delivery company The Bouqs. We are also privileged to have invested in four remarkable B2B SaaS companies: UK-headquartered social media intelligence leader Brandwatch; Finland-headquartered Enterprise Content Management disruptor M-Files; France-headquartered leader in supply chain Corporate Social Responsibility ratings Ecovadis; and France-headquartered new-generation digital marketing platform for SMBs SendinBlue.

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?

One of the good stories was our meeting with M-Files during Slush 2015 in Finland. We met thanks to the matchmaking tool of the event and we rapidly organised other meetings that led to a €33m investment in a few weeks, despite Christmas!

QUARTERLY INSIGHTS INTO THE KREOS PORTFOLIO

A SUBSET OF KREOS'S PORTFOLIO



FEATURED RECENT TRANSACTIONS



Pharming is a Dutch drug development company listed on the Euronext Amsterdam exchange. It produces a human therapeutic protein to combat a rare condition called Hereditary Angioedema (HAE). Kreos led a \$40m syndicated term loan facility and exited via a refinancing shortly thereafter in Q2 2017.



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 co-led a \$70m debt financing in Q1 2017 and exited via a \$170m equity refinancing by Raine and Temasek in Q3 2017.



Blackwood Seven was founded in Copenhagen in 2013 by a group of former CEOs from the advertising market in partnership with artificial intelligence experts, who wanted to revolutionise the way advertisers select their advertising and media mix by bringing artificial intelligence to media analytics and planning. Kreos committed €5m in Q3 2017.



Kiadis Pharma is a biopharmaceutical company focused on limitations of hematopoietic stem cell transplants in blood cancer patients. The company has blood cancer products in clinical development that offer novel treatment options for terminally ill cancer patients addressing high-unmet medical needs. Kreos committed a €15m facility in Q3 2017.



Biom'up, is a French-based company that has developed an innovative collagen based solution to stop bleeding during surgical procedures. Kreos committed €9m in Q4 2016 in a pre-IPO financing and the company has now achieved an IPO on NYSE Euronext raising €38m in Q4 2017.



Puls (previously Cellsavers) is an instant services company that connects consumers with expert technicians for rapid-response repairs and on-the-spot support for the devices at the heart of digital life. Puls has offices in Tel Aviv, San Francisco, and San Diego. Kreos committed a €2m facility in Q2 2016 and a further €1m in Q2 2017.

60 SECONDS WITH: MARK WEINER, CEO of REDUXIO

Mark Weiner is the CEO of Reduxio, founded in 2012. Reduxio is a computer hardware/software company based in Israel and the US that develops and commercializes hybrid flash disk storage/management solutions for the enterprise storage market.

Mark is a veteran of the storage industry, with over 20 years of experience in technical, sales and executive roles. Mark joins Reduxio from Exanet, a Clustered NAS vendor where he served as Chief Executive Officer, growing its sales and leading to its eventual acquisition by Dell.



What is the biggest challenge for your business?

Companies and organisations of all sizes are drowning in a relentless data deluge. Mankind has created more data in the past 18 months than in all of history. It's almost impossible to even wrap your head around this statistic. This will only continue to grow as more industries transform to the digital economy. As a result, everyone is struggling to store, manage and protect this ever growing body of critical business data. Therefore, the biggest challenge for the data storage industry in general, and for Reduxio as well, is to continue to provide innovative, effective solutions that are purpose-built for the latest business processes and media types.

What are the key trends in your industry?

Firstly, lines of business are taking an increasing leadership role in defining their business and application requirements to central and business unit IT groups. As a result, technology has to be simple to use, as everyone has been conditioned by the ease of use and user experience of their iPhones and other well-designed consumer technology products and apps. Enterprise vendors, including those selling into the data centre, must get on board.

Secondly, in an always-on, always-connected digital economy, where instant gratification is no longer a luxury but an expectation, there is intense pressure to move toward zero recovery point objective (RPO) and zero recovery time objective (RTO) for data recovery, from today's unacceptable but widely practiced 24 hours-plus RPOs and RTOs, which are the best available from every major legacy vendor today. This is well documented by global market research firm IDC. This includes recovery from the five thousand plus malware and ransomware attacks that penetrate organisations every day in the US alone and that have received increasing visibility, based on the recent devastating attacks on the national health institutions in the UK, Maersk in Denmark, Toyota in Japan and FedEx in the US. If the CIA and NSA can be hacked, then anyone and everyone can, and is. It's not a matter of if, but when. Reduxio is helping to pave the way with its unique TimeOS™ operating system and its truly revolutionary "Backdating™" capability.

Thirdly, as customers look for simplicity, the storage stack is collapsing, and again Reduxio is helping to pave the way. While many user organisations have made massive investments in a wide range of fragmented sub-optimised data storage solutions, Reduxio is now delivering a unified data storage and management stack, with both primary and secondary storage in one integrated platform, along with built-in data protection. It dramatically reduces both TCO and complexity while delivering huge improvements in user/ administrator productivity.

What have been your key learning experiences so far?

A key learning for us is that, given the huge challenges as I have described, large scale customers are less risk averse than they have ever been in buying from rapidly emerging, innovative companies like Reduxio. Some of our customers include the largest public utility in the US, one of the largest travel ecommerce sites in the world, and major universities like the prestigious Technion Institute in Israel, the University of Georgia and the University of Southern California in the US, the global heavy equipment manufacturer Kubota, the ramen king, Nissin Foods, maker of the iconic "Top Ramen" product, and many others. Further, the sense of urgency is so great that we are seeing sales cycles of only 60 days, which is unprecedented in my 25 year career in the data storage industry, with 70% of sales not even requiring a Proof of Concept. This is a clear indication that customers are hungry for solutions that just work, easily and cost effectively.

What will be the biggest driver of growth going forward?

For Reduxio, we continue to expand our direct sales force and distribution network of preferred, technology-forward value added resellers. Today, we operate in all major US cities, have offices in London, Paris, Brussels and Amsterdam, and a very strong presence in Israel. We are seeing rapid increases in sales productivity in our sales regions. The next step is to move toward a high velocity viral model, with easy-to-download freemium versions of key features to expand awareness of our unique capabilities, and to continue to build a global community around Reduxio using open innovation events like Hackathons and other innovation tournaments.

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

Don't get caught up in the Silicon Valley mindset of go big or go home and raise massive amounts of capital at unrealistic valuations. That will only backfire, as it has spectacularly for several of our competitors. Have a "Lean Growth" philosophy. Think cash efficiency. Wait until something is about to "break" before you hire an FTE. Focus on a path to profitability from day one. Keep pushing on increasing ASPs and gross margins. Goal your sales force on net contribution. Use cost effective digital and social media marketing & stay away from expensive and time consuming trade shows that steal time and cash without producing quality leads. Finally take a global perspective when assembling your investor syndicate. We have investors from Israel, Europe and the US – amongst which lies Kreos - and we are looking to bring on an investor from Asia next.

KREOS CAPITAL ANNUAL GROWTH FINANCE SEMINAR 2017

Raphael particularly remarked on the strong growth of the software industry showing several examples that supported the oft-used quote that “software is eating the world”. Trends he highlighted included the strong growth of vertical software where there is an opportunity to create industry-specific software leaders, or big data, deep tech and analytics solutions that are experiencing strong demand across multiple industries. Of particular note were cybersecurity which has become a C-level issue across most organisations, and the global device inter-connectivity of IoT that is blurring the lines between industries. To explore the theme further we assembled a panel of experienced leaders from a range of industries and backgrounds including, **Naveed Sultan**, head of Citi’s Transaction Bank; **Laurel Bowden**, General Partner at 83 North; **Marcos Battisti**, Managing Partner at C5 Partners; **Nezahat Gultekin**, Director at Temasek and **Jonne de Leeuw**, Principal at HPE Growth Capital. The panel was moderated by **Pietro Strada**, Managing Director at Silverpeak. Each panelist gave their own perspective of how technology today is pervasive across all industries and examples of the disruptive effect it has had on their respective sectors.

As always one of the main highlights of our seminar were the select Kreos portfolio companies invited to present the ways in which their products create significant change in their respective markets. It was interesting to note that our presenting portfolio companies come from a wide range of industries, ranging from software and media to pharmaceuticals and agritech, demonstrating how innovation and disruption through technology is truly happening in almost all industries.

Riok Gruebel, CEO of Israeli agritech business Kaiima, kicked off the company presentations describing how his company is developing non-GMO technology aimed to enhance the yield of crops such as wheat, soybean, rice and corn. Additionally Kaiima is one of the only companies that has developed and is already commercialising a higher yielding version of the castor plant that is used to produce castor oil, a global \$2bn market.

This was followed by **Mark Williams**, CFO at Seal Software, who detailed how his company is transforming the storage, archiving and analytics of companies’ legal documents and has achieved significant scale with a number of top-tier and diverse clients such as Merck, Deloitte and PayPal.

A key feature of our seminars is the ample networking time over lunch or coffee where our invited guests, including our LPs, equity sponsor partners and management teams, have a chance to mingle. Given that deep rooted and long-lasting relationships with our community are a key part of our DNA there are several opportunities for our friends to interact and meet each other. The entire Kreos team was as always close by to help make mutually beneficial introductions.

On either side of the coffee break we enjoyed presentations from the CEOs of Pharming and SoundCloud, **Sijmen de Vries** and **Alex Ljung**

Pharming has developed Rocunest, a drug for treating a rare hereditary disease called angioedema, and in December 2016 Kreos led the debt component of a €104m financing that allowed Pharming to re-acquire the license of Ruconest from Valeant, a US pharma company. On a different note, Alex the founder of Soundcloud, presented us with his vision and described his success in building the world’s largest music and audio platform that brings together both creators and audiences. The company has today signed up more than 19 million creators who can create and distribute music to hundreds of millions of listeners without the added complexity of publishing companies and record labels. Since our event, the deals with both Pharming and Soundcloud quickly generated significant returns and have been exited.

Our seminar closed with presentations from **Mark Weiner** and **Khalid Ishaque**, the CEOs of Kreos companies Reduxio and Pixium Vision. While the two companies couldn’t be further apart in their objectives they are both using revolutionary technologies to create highly innovative products.

Reduxio’s vision is to redefine data management and protection by creating a unique storage platform that provides breakthrough efficiency in data recoverability, as further outlined in his interview on page 4.



Pixium Vision combines ground-breaking technologies such as photovoltaic printing with advances in sensors and battery technology to create ophthalmic implants that can restore a degree of vision in blind patients. Khalid screened a powerful video showing a blind patient switch on the device and see the night lights of the Eiffel Tower, which left several members of our audience misty eyed.

Last but not least we were delighted to have a demonstration from our portfolio company **ROLI**, which has developed a very unusual premium piano-style synthesizer that has recently become a centre of attention in Apple stores, and entertained us during the coffee breaks with their unique sound which bridges the gap between electronic and acoustic.

We hope that all those who joined us on the day enjoyed our seminar very much, and we look forward to welcoming all our friends at our eighth annual event in April 2018 in London.

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TEAM SPOTLIGHT: MELISSA DONOHOE



Melissa joined Kreos Capital in early 2017. As a member of our analyst team, she supports all aspects of the deal life cycle including pre-investment analysis and post-investment monitoring.

Prior to joining Kreos, Melissa worked as a Strategy Analyst at Accenture, focusing on pre- and post-deal M&A and growth strategy. Previously, Melissa worked in monetary policy & macro-economic research in the Central Bank of Ireland. Melissa holds an MA in International Studies, studying economics and finance at both the Graduate Institute Geneva and the University of St. Gallen.

Melissa is based in the London office and can be reached at melissa@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

- Kreos Capital wins **Specialist Debt Provider of the Year** at the 2017 **Investor AllStars**
- Kreos co-led a \$70m debt financing in Q1 2017 for **SoundCloud** and exited via a \$170m equity refinancing by Raine and Temasek in Q3 2017
- retail deposits platform **Savedo** acquired by fellow fintech Deposit Solutions
- **Kreditech** secures €110m investment from global online payment service provider PayU
- **Pharming** raises \$100m facility from Orbimed,
- **MariaDB** completes series c funding led by Alibaba Group, finishing 2017 with \$54m in global investment
- Cellsavers rebrands as **Puls** and raises \$25m to expand its instant services for smart devices
- **Nosto** lands \$17m to own ecommerce personalization
- **Proveca**, children's medicine developer, raises £4m
- NASDAQ welcomes **Bonesupport** to the Main Market
- **TiGenix** has been granted orphan drug designation (ODD) by FDA for stem cell therapy in Crohn's disease
- Pharrell Williams joins **ROLI** as their Chief Creative Officer and latest investor

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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