KREOS CAPITAL

Newsletter

Q2 2021

Introduction

Hello and welcome to the Q2 2021 Newsletter from Kreos Capital, where we share recent developments at the firm, the latest activity in our portfolios and market updates from the European and Israeli growth ecosystems.

In this edition of our newsletter we share some thoughts on the robustness of our market as we look beyond the disruption caused by the pandemic and how the market has continued to grow and outperform. We move on to interviews with Ben Kaminski, General Partner at Target Global, and a 60-second discussion with Pierre Poignant, CEO & Co-Founder of Branded. Later we detail some highlights of recent transactions in the Kreos portfolio as well as introducing readers to our Head of Investor Relations, Mat Pearse, who joined us in July 2019.

We hope that you find the insights helpful. If you would like to discuss any of the themes covered in this newsletter, or get more information about Kreos Capital, please do get in touch.

Kreos Observations

While other areas of the business world are in a continued state of uncertainty and transition, the growth markets where Kreos Capital operates have been flourishing.

Since our last quarterly newsletter, the acceleration of digital transformation and technology adoption across all industries has unrelentingly continued. No industry sector is immune from disruption, and as the private markets' appetite for investing in the underlying drivers of this revolution expands, it has opened up enormous opportunities for the broader growth eco-system and for Kreos Capital.

What started in Q3 2020 and Q4 2020 as real momentum in the US market, has now spread globally. As a result, in Q1 2021, the European market has been awash with fresh equity capital and the trends going forward only point toward new records:

- In the first quarter of 2021, global funding reached an all-time record of $125 billion with Europe accounting for c.$20 billion (€17.6 billion) of that total, a new deal value quarterly high for the region
- At the same time, the global equity sponsor-backed exit value in Q1 2021 surpassed the total exit value from the entirety of 2020 – a trend also witnessed in Europe where there were 35 IPOs, generating €17.3 billion in total exit value (see chart overleaf). If this run-rate persists, it will be the highest quantity of sponsor-backed companies publicly listing within a single year
- However, one key difference is that in 2020, the US accounted for only 50% of global high-growth investments, and Silicon Valley only 23%. That is the lowest in over 10 years and is traditionally well over 60%.

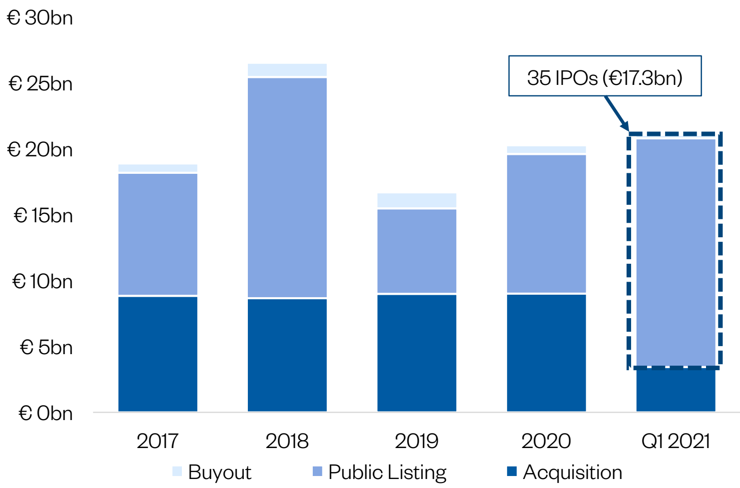
Kreos Observations *(cont'd)*

- Put in raw numbers, high-growth investments outside the Americas totalled $136 billion in 2020. Europe's portion of that growth investment has risen and continued to rise significantly in Q1 2021, driven in part by a number of $100 million+ funding rounds, including the $1 billion+ raised by Sweden-based Klarna – in what was one of Europe's largest growth fund raises ever.

- Despite the extensive publicity attributed to the larger transactions, Q1 2021's overall deal value growth in Europe did not depend solely on outsized follow-on rounds. Exemplifying this, first-time deal value reached €1.4 billion in Q1, which is well ahead of 2020's figures.

- The UK also reached a milestone of over 100 sponsor-backed unicorns in early Q2 2021.

European Sponsor-backed Exits by Type



In the Kreos portfolio, some examples of recent activity include: Aircall raising $120 million with Goldman Sachs valuing them at over $1.0 billon; and ProQR raising more than $103 million.

Specifically looking at the growth debt market, Kreos are seeing overall penetration rates for the use of non-dilutive growth debt finance are increasing and believe they will continue to do so.

To that end, during the pandemic, Kreos were able to increase our current fund to >$1.0 billion in order to service all the growth needs in the market.

We maintain that this is still only tapping the surface of the total potential market and that there is still a significant "liquidity gap" in the upper end of this market which few established managers can satisfy.

The continued uncertainty of the COVID pandemic has led to a noticeable "flight to quality" and we predict that more emphasis will continue to be placed on the small number of providers that can fund across the life cycle of each asset and scale to match a company's growth.

Some of our recent deals are good examples of this - Oda, Branded and Infinidat are companies which are all generating in excess of $100 million annual revenues and growing, and Smava, where, due to our longstanding relationship with the company, we have been able to scale our facilities significantly over time as the company has grown.

On the equity side, we would caution that the side effects of the strong equity markets are that the target metrics for funding rounds are evolving - valuations have increased and time scales for closing deals are compressing. Speed and flexibility are the new advantage with both traditional and non-traditional investors prepared to invest heavily for continued growth.

With considerable sums of dry powder to deploy and a finite number of companies achieving the growth metrics necessary to deliver sufficiently attractive returns, these trends look set to continue through the rest of 2021.

As we highlighted earlier, strong exit markets have also accelerated the number of realisations.

From the Kreos portfolio - examples include: Rockley Photonics and Arbe Robotics announcing SPACs that value them at $1.2 billion and +$700 million respectively; the acquisition of Brandwatch by Cision for $450 million, and the acquisition of Decibel by Medallia for €135 million.

Kreos Observations *(cont'd)*

As far as other notable trends in the market:

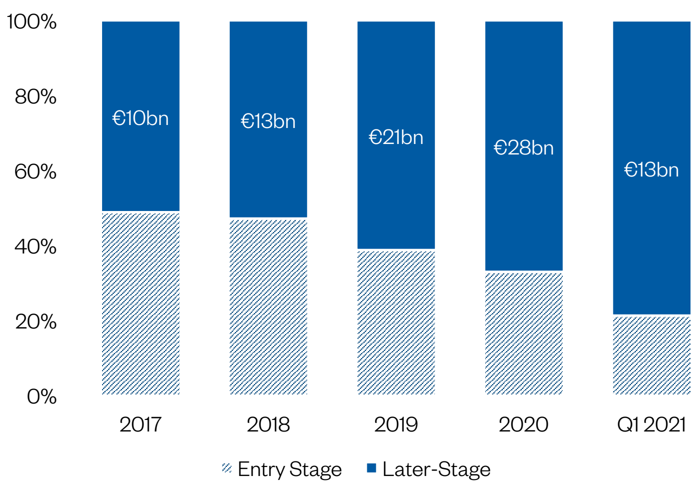
1. **Companies are growing faster than ever**

Thanks to the fundamental shifts toward cloud-based solutions, automation, and the future of work, European companies like UIPath and Hopin are able to grow to more than $100m in revenue in just a few years (or months in some cases!).

2. **There is a fundamental shift from public markets to private markets.**

Companies are staying private longer, increasing the capital needs and adding to the median age of a company going public by 50% since 2001. This has led to increasing volumes of larger and more later-stage transactions (see chart)

European Sponsor Transactions by Stage



3. **Funds are getting bigger, and the cheque size is expanding across all rounds.**

According to Pitchbook, nearly 50% of new growth capital is being managed as part of funds larger than $1.0 billion

4. **A significant imbalance in supply and demand.**

With a similar number of companies but with more capital in the market, the fundamental dynamics of supply and demand mean that larger funds have to invest larger amounts earlier to access the top opportunities in the market

5. **Adaptating to the new reality means no standing still.**

Reputations and long-term relationships are not enough. Funds have to offer the unique ability to fund across the life cycle, the flexibility to structure deals based on the unique applicable circumstances, and agility to move quickly.

So, for the foreseeable future, our outlook is one of continued optimism for the wider high-growth eco-system and for the Technology and Healthcare industries we focus on, with disruption and innovation producing expansive opportunities - for companies, equity sponsors and institutional investors alike.

**Data Source - Pitchbook*

Ben Kaminski, Partner - Target Global

Ben joined Target Global in 2018 after spending more than a decade at Goldman Sachs across the firm's London, New York and Tel Aviv offices. While at Goldmans, Ben led numerous high-profile M&A transactions, capital raises and institutional investments across the tech and mobility sectors. He also helped pioneer Goldman Sachs' global coverage of next generation mobility and auto tech working both as an advisor and investor with leading strategic players in the field such as Uber.

Some of Ben's most notable investments at Target include Zego, REEF, Cazoo, Choco and Flink. In addition, Ben is the co-founder and Chairman of Branded, a global operator and acquirer of online e-commerce consumer businesses, which has raised over $150 million since its inception less than 12 months ago from prominent investors including Target Global, Declaration Partners, and Tiger Global

Kreos Capital General Partner and co-founder, Marten Vading, interviews Ben to discuss the latest developments at Target, key themes in the market and his thoughts on the European market.

Ben, thank you for taking the time - you've been with Target for a few years now - can you give us a quick overview of what the firm looks like today?

Target Global is an international growth capital investor headquartered in Berlin, with over €1.5 billion in AuM. With offices in London, Tel Aviv, and Barcelona, we connect the key European tech eco-systems and leverage the unique DNA of each of our target geographies across our global network.

Since our founding in 2012, we have developed a successful multi-stage platform investing in fast-growing tech companies in Trillion Euro markets.

We're proud to have built a growing team of seasoned investors with substantial operational and investment experience looking to help exceptional entrepreneurs build market leading companies.

Regarding our founding - the founding partners each come from an entrepreneurial or investment background and have worked together to source, develop and sell businesses for a significant time ahead of starting Target Global. Alex Frolov and Mike Lobanov co-founded Target Global in 2012 to continue a strong track record of venture and growth investments, and were joined by Yaron Valler and Shmuel Chafets in 2015 after having successfully partnered on several projects.

Today, Target Global's portfolio counts 100+ investments, including some of the key European success stories such as Auto1, Delivery Hero, Docplanner, Rapyd, TravelPerk, WeFox, and Zego.

(Interview continues overleaf)

TARGET GLOBAL

You are in the process of closing a fund - how have you found fundraising during the COVID period?

Over the last 5 years, Target Global has grown its AuM to over €1.5 billion, making us one of the European growth / venture powerhouses today. This success has been fueled by the continued trust of our long-standing investors and growing interest from new relationships.

We were in the early stages of the fundraise for our second growth fund when the COVID restrictions set in and had to adapt to a fully remote working and fundraising environment alongside our investors.

We wanted to be a helpful partner to our investors in the newly created uncertain environment and made it our priority to create a seamless investor experience online.

Our focus on software and technology companies meant that demand for our strategy increased significantly, as COVID has generally been an accelerator for the sector.

We received interest substantially above our cap from both existing and new investors and the fund is now oversubscribed, making Growth Fund II our largest fund to date. As part of this process, we are pleased to onboard several new institutional relationships alongside our long-standing partners.

Congratulations - as you look to invest the new fund, what are some of the key themes you are looking to capitalise on?

Our investment approach is focused on identifying growing themes in Trillion Euro industries, with significant scale potential for companies when capturing even a small fraction of the market.

We look for technology-enabled verticals in industries ranging across Financial and Legal Services, Retail & Consumer, Manufacturing & Automotive and Healthcare.

Alongside our flagship and growth funds, we also have a dedicated Target Global Mobility 2.0 Fund, investing specifically in disruptive start-ups in the automotive, logistics and transportation space. We are seeing innovative companies in this space, alongside eCommerce, that are shaping how individuals and businesses operate, consume and move.

The automotive, logistics and transportation space is currently experiencing some of the most dramatic changes it has had in over a century, with new technologies and business model innovations revolutionising the way people and goods move. This ranges from the unbundling of the vehicle stack, where we have invested in MDGo and Cazoo, to the emergence of inner-city supply chains, where we have backed REEF, Flink and Choco, which are paving the way to the widespread adoption of eCommerce with fast delivery.

On the eCommerce side, COVID has been a massive accelerator in the continued shift of consumers towards online shopping, with US eCommerce penetration increasing from 16% to 27% in the first 8 weeks of the pandemic.

Simultaneously, more and more entrepreneurs are building their own companies on the Amazon marketplace, with third-party sellers (3PS) having fueled Amazon's exponential growth and accounting for $200 billion and 60% of Amazon's global revenue.

This trend is a direct result of Amazon's incredible investment in global logistics and technology and we expect it to continue.

> “COVID has been a massive accelerator in the continued shift of consumers towards online shopping”

Some interesting insights in to consumer behaviour during the pandemic there - do you have any specific examples of success stories through COVID or companies that have exceeded expectations?

Since the first cases of COVID-19 in early 2020, we have been monitoring the situation very closely across our investment teams and held several strategy sessions to understand the impact of the pandemic on our investment theses. It was clear to us very early on that eCommerce and logistics would be two of the key verticals which would benefit from a fully remote lifestyle. While many of our portfolio companies have exceeded our expectations, I would like to highlight especially eCommerce acquirer Branded as well as eCommerce provider Flink.

Regarding Branded, as mentioned previously, COVID has been a massive accelerator in the continued shift of consumers towards online shopping. This has been coupled with the aforementioned supply increases from entrepreneurs on Amazon's marketplace, and supported by Amazon's investment in technology and logistics investment in the past decade.

Seeing this enormous market opportunity, together with an amazing team and great partners, we incubated Branded, a next-generation consumer products platform that partners with and invests in leading e-Commerce and marketplace brands.

In under six months, Branded has become a Top-20 FBA ("Fulfilled by Amazon") seller, uniting a portfolio of beloved marketplace brands with over 700,000 reviews having raised over $150m from Target Global and other leading global investors such as Tiger Global, Declaration Partners, Kreos Capital and Kima Ventures.

Another trend that has significantly accelerated due to COVID is the rise of delivery and quick commerce models, especially in the field of grocery delivery.

With a market size of €2.2 trillion, the European offline grocery market is ripe for disruption. Spearheading the transition to online quick grocery retail, Flink is allowing consumers to order out of 2,000 SKUs and receive the order within 10 minutes by relying on an inner-city logistics warehousing network.

Since our investment in March 2021, the company has opened 50+ "dark stores" in major cities across Europe - essentially warehouses, or distribution centres that can either be used to facilitate a "click-and-collect" service, or as an order fulfilment platform for online sales. Branded is proving to be the fastest growing player with best-in-class operations in its space and this has been rewarded with the recent $240 million round from global Tier 1 investors, such as Prosus, Bond and Mubadala.

Any thoughts on where you see the European Growth eco-system going in the next 5 years given several consecutive, strong fundraising and investing years?

Looking back at the past decade, Europe's start-up eco-system has been reaching new heights.
While capital invested in Europe rose over 6x from €7 billion in 2001 to €45 billion in 2020, the cumulative number of unicorns in the region also increased 10x from ~5 in 2010 to +50 in 2020.

Very impressively, European equity sponsors have also managed to outperform US peers over the past 10 years (15.2% net IRR vs. 14.7% net IRR for US peers), which shows the growing maturity of the European ecosystem.

Personally, I have a strong positive view on the European start-up and growth ecosystem.

One of the trends we have been monitoring is the increasing number of US sponsors coming to Europe.

This not only forces European sponsors to step up their game in terms of process and performance but will also lead to a better financing landscape for European founders.

Additionally, we are seeing more and more 2nd and 3rd time founders, such as our portfolio companies Choco, Flink and Cazoo, which not only leads to faster and more sustainable growth but also educates the entrepreneurial talent of the future.

> "European equity sponsors have outperformed US peers over the last 10 years"

Any final thoughts?

One thing we haven't touched on is our recent work with Kreos.

During Target Global's incubation of Branded, we had the pleasure to work with Kreos on several key strategic initiatives and projects.

We were all highly impressed by your responsiveness and high level of market understanding, making you the perfect partner in helping to build Branded.

Kreos has been deeply involved in our early transformational acquisitions and we are excited to continue our partnership on future projects.

Thank you Ben for your time and for your insightful responses

60 Seconds: Pierre Poignant Co-founder & CEO of Branded

Pierre Poignant is Co-Founder and CEO of Branded, one of Amazon's leading FBA platforms. Branded acquires and partners with top performing Amazon businesses, transforming them in to global brand leaders and has become a home to some of the most beloved brands online

Since inception, Branded has grown rapidly, generating +$150 million in combined gross revenues in 2020 and is in the process of building a truly global, digital consumer products platform with a presence in Europe, Asia and the United States.

Kreos Capital General Partner and co-founder, Marten Vading, interviews Pierre Poignant to discuss the attractiveness of the FBA market, Branded's key differentiators and future plans for growth.

Pierre, you co-founded Lazada and also led the company as a CEO after the sale to Alibaba. What have been your key learnings over those years that you are now applying in Branded?

Thanks a lot Marten. I co-founded Lazada in 2012 and was appointed CEO in 2018, succeeding Lucy Peng & Maximilian Bittner. I have been able to many learnings from my 8 year journey at Lazada & Alibaba in building Branded.

At Lazada I learned to scale an eCommerce start-up from 0 to billions in GMV. One of my key areas of focus was Operations, spending a considerable amount of time on Logistics & Supply Chain during one of the transformational moments of eCommerce.

I developed, over the years, a deep network in China - particularly helpful as Branded's supply chain starts in the industry belts of China.

As CEO of Lazada, I was also part of the Alibaba management team, reporting directly to Daniel Zhang.

Not only did this give me first hand exposure to the rise in eCommerce trends like shop entertainment (live streaming, social & content) that will take the US and Europe by storm in the coming years, but it also made me realize the importance of leadership, sustainable culture and management systems when growing a team from a few employees to 25,000 Lazada colleagues.

If there's any proof of the trust we built together, it's that many of my Branded colleagues today were part of the Lazada journey, including our co-founder Alexis Lanternier.

The third-party sellers FBA ("Fulfilled By Amazon") market is growing quickly. What is the attractiveness of the market and the explanation of the underlying trend?

Branded is responding to a monumental shift in consumer behavior and is building the consumer products company of the future. Traditional CPG companies have been driven by two mantras: first, consolidation and scale in order to achieve efficiency, and second, the belief that only one or two brands can control a specific category.

Factbox – Kreos's History with Branded

- Kreos has partnered with Branded over multiple transactions since being introduced to the company in 2020
- The most recent transaction was part of Branded's $150 million finance round that was raised in order to complete a large, previously identified acquisition target in 2021
- Since that time, Branded has acquired other smaller targets and continues to efficiently execute its strategy

The rise of eCommerce has massively upended this model. Whereas in traditional brick & mortar retail product shelves are finite, the recent market expansion of marketplaces allows for shelves to be endless. This means that for each product search a consumer does, he or she will find a product that specifically caters to his or her needs. One of the results is the rise of micro brands and private label businesses. So while today they cater to the majority of demand in e-Commerce, these businesses have produced tremendous fragmentation in the market which creates a huge consolidation opportunity.

We are engaged in this transformation and we are becoming one of the fastest acquirers & builders of third party e-commerce sellers online.

Our aim is to develop a portfolio of some of the most beloved and sought after products and brands online by creating the "digital" CPG leader of the future. Amazon's colossal investment in global logistics and leading technology has led to a marketplace with about 10 million third-party sellers worldwide - a $300 billion market opportunity.

What do you believe is the key differentiation of Branded versus other FBA teams in the market?

First, we focus on Brands. Our vision is to build the next generation digital platform to build, acquire & scale consumer brands. To win, we will invest in Product Development, Branding and Supply Chain (in particular in China industry belts).

Second, to succeed in eCommerce, and more specifically on Amazon, one needs distinctive and highly scalable operations. Our team has top notch eCommerce operations & scale-up experience from Lazada. This is complemented by Technology. Everything we do is Tech powered. We are building a distinctive Tech stack to deploy AI and bring our operations to the next level.

Third, we are building a Global institution. We are Global from the get go. We are based in Europe and the US, with significant roots in Asia and deep expertise in China.

Finally, our founding team has deep experience with capital markets. Michael Ronen, our co-founder & President, was previously a founding partner of Softbank's Vision Fund and a partner at Goldman Sachs, and is focused on raising significant capital to build Branded's legacy.

Branded has raised significant equity financing from top-tier investors and a sophisticated and sizeable debt structure from Kreos. What has been your thinking around the design and choice of the financing structure?

Target Global jointly established the company with partner Ben Kaminski as a co-founder and led the round with participation from other leading global funds including Declaration Partners, Tiger Global, Lurra Capital, Regah Ventures, Kima Ventures, and Vine Ventures.

Prominent entrepreneurs including Mark Pincus (Founder of Zynga), Jon Oringer (Founder of Shutterstock), Max Bittner (CEO Vestiaire & Founder of Lazada) and a dozen other business leaders participated.

We have also raised a significantly sized debt facility from Kreos. What was critical in deciding to work with Kreos was finding a true partner for Branded. One of the key considerations for us is to be able to deploy capital quickly and to constantly adapt to a fast changing environment. Kreos has provided us with both depth of financing as well as thought partnership on building Branded.

What are your key focus areas over the coming years in order to build the company stronger?

To deliver on our ambition, our strategy is to acquire great targets with high potential and develop them by leveraging the strengths of our middle platform and our technology, from supply chain to marketing including logistics, catalogue, multi-channel, etc. To that end, our ability to execute on our strategy depends mainly on the team we are building. People, organization & culture will remain at the top of our agenda for years to come!

What is the long-term vision of Branded, how big can the company become?

We want to become the first $100 billion platform that builds, buys and operates consumer brands online. Nothing less!

Our thanks to Pierre for this thoughtful contribution.

BRANDED

Portfolio update

Recent featured transactions, follow ons & exits

Recent New & Follow-on Investments

FUNNEL

Funnel is a data aggregation tool which integrates with over 400 platforms to collect data for customers to effectively measure and predict their marketing efforts across different ad distribution channels. Having previously provided a smaller facility, Kreos provided a further €10 million facility in Q1 2021 as the company maintains a strong growth trajectory and continues to scale.

Grover

Grover is a German-based B2C Fintech company offering customers the opportunity to rent high end consumer electronics (phones, laptops, game consoles, drones etc.) over the short to medium term. Kreos provided a facility of €15 million in Q4 2020 to facilitate the company's continued growth.

Quali

Quali is a leading provider of Enterprise Software Solutions for Lab Management, Device provisioning and Test Automation in a wide range of industries, including network equipment manufacturers, telecom operators, enterprises and electronics device manufacturers. Kreos committed $12 million to the company in Q1 2021 as part of our follow-on strategy, having previously held investments in prior Kreos funds.

smava

Based in Germany, Smava is an online broker for consumer credit that has partnered with over 25 banks to become the destination site in the market to offer cheaper loan options to consumers. Kreos has provided multiple facilities across the life-cycle of Smava's growth with the most recent €59 million facility from Kreos in Q1 2021 in order to acquire the #3 player in the market, Finanzcheck

Recent Exits

3D HUBS

3D Hubs is a leading on-demand manufacturing marketplace based in the Netherlands, connecting global supply and demand for low volume manufacturing parts. In Q1 2021, the company was acquired by Protolabs for $280 million generating a healthy warrant gain for Kreos LPs and repaying the debt.

Kiadis pharma

Kiadis is a late-stage, private company based in the Netherlands focused on the clinical development of novel cell-based products for treating end-stage blood cancer patients. Kreos has a long association with the company over multiple funds, since providing the first facility in 2010. Kiadis was recently acquired by Sanofi for €308 million subsequently repaying the most recent $20 million facility and generating a strong yield enhancement gain.

Planday

Planday is a provider of a SaaS based workforce management platform for small, mid and large sized businesses that have a shift-based workforce The company was acquired by Arma Partners for €183 million in Q1 2021, generating a healthy warrant gain for Kreos LPs and repaying the debt.

TILLER

Tiller are a provider of digital point of sale (PoS) systems in France, Spain and Italy providing iPad cash registers, management tools and support for third party integrations. Kreos had provided €4 million facility in Q2 2019 which was profitably repaid as the company was acquired by SumUp for €50 million in Q1 2021

A subset of our portfolio

ABIVAX
aircall
arbe
BIOCATCH Less Friction. Less Fraud.
BRANDED
BUX
centrical Formerly GamEffective
CLARK
Currencycloud
Docplanner
EarlySense
EGYM
FUNNEL
GOCARDLESS
Grover
JENAVALVE
kandou
Kolonial.no
INFINIDAT
INOTREM control innate immunity
MISTER SPEX
MIXTILES
opiant
PlusDental
ProQR
Quali
Readly
ReCharge
riskified
SCANDIT
smava Ihr Kredit ist da.
VARJO
ViCentra
voi
Zerto

Team spotlight

Mat Pearse, Head of Investor Relations

Mat joined Kreos in July 2019 and plays a central role in Kreos's liaison with investors and in broader marketing efforts. Mat is responsible for the coordination of all investor communications, fundraising processes and aiding the Kreos Partners in business development.

Prior to joining Kreos, Mat spent several years at Asante Capital Group, a global private placement agent, across London, New York, and Hong Kong.

Mat's additional experience includes time as an analyst in the Markets & Investment Banking Strategy team at the Royal Bank of Scotland and RBS Group Investor Relations

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