Venture Russia.
2017: Results

ПАРТНЕР ОТЧЕТА

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Dear colleagues, friends,

We are delighted to present to you our annual VC investment market report for the year 2017. As you read through it, you will see all the helpful numbers, stats and analytics you may need; but let me as a researcher start by summarizing the 2017 results and ruminating on the year 2018.

As a brief reminder: the entirety of 2017 was marked by vacillating headway in the market, on its recovery path from a disheartening 2016. The growth — petty, if not negligible — was further dented by a sweeping ICO boom, a development that certainly chipped away at the VC market. VC funds appeared enamored by the crypto-frenzy as well; look at Flint Capital or Starta Capital, to name but a few. Between late 2017 and early 2018 venture capitalists (the experienced TMT Investments for one) announced a number of cryptofunds, and more are coming. So, the venture industry is alive and negates media rumors of it "being at death's door" in 2017. The ICO market, the purported "killer" of VC, had been predictably puffed up into a bubble by deficient projects and outright crooks, and deflated dramatically at the end of last year. Bringing the "crypto" trend back down to earth is beneficial for the long-standing VC players, as they can join high-quality and promising ICOs like the one put together by Telegram. We expect the crypto-market to evolve into a good toolset for VCs rather than a killer, and believe the 2017 crypto-boom was a fairly positive phenomenon.

Speaking about fundamentals, we have to admit that the market in 2017 hardly grew beyond statistical error values. It's no tragedy, however; the market has hardly seen any new players over the past 3–5 years. Newbies, to be mentioned later on, are no part of the current stats; we won't see them change the landscape until six-to-twelve months from now. The market grew slightly in the number of deals in the seed and angel segments, while declining a bit in investment value (the latter attributed, perhaps, to what appeared to be easy money from ICOs). It's neither good nor bad, but rather a fair reflection of the fundamental value of the industry. Signs of renewed market acceleration like we enjoyed back in 2012–2015 are nowhere to be seen in the next few years, and everybody understands that.

Nonetheless, I dare to forecast a small, yet fundamental elevation starting this year. Where would it come from? First of all, from the newbies, especially corporations. Government-owned giants are typically slow to start, but they have already been coming to the industry out of genuine interest rather than a push by top-ranking officials or the President himself. We have seen activity from corporate funds such as Lanit Ventures, Sever Invest, Realogic and others that used to overlook VC, and direct investments from large-scale companies, including 5 deals by SeverGroup and 7 by Mail. Ru Group. This brings us hope for an increase in exits, a deep-rooted sore point for VCs. Secondly, from continuous growth in the angel investor segment. We typically mention it without analysis as it's not an object of our study; but it's the angel investor that provides feedstock for funds at all subsequent stages.

Thirdly, from an increase in government activity. The state keeps encouraging corporations and LPs (another painful subject!) such as government-owned RVC, Skolkovo Foundation or IIDF to get closer to the VC market; VEB Innovations, an investment arm of VEB Bank, has joined the fray, and so have some others. All these are positive trends that will undoubtedly influence the very core of the VC market.

What key challenges do we expect this year? With exits, funding and other long established problems factored in, the foremost challenge all colleagues talk about is the dearth of good projects that qualify. There's money in the market which would surely be made available to strong promising entrepreneurs — but viable start-up projects are still so few. Whether creating a sustainable ecosystem should be private VCs' headache has yet to be discussed; but irrespective of that, it's a wakeup call for the government development agencies and infrastructure players.

In conclusion, a few words about the report itself. Our objective is to go beyond just a full database of market stats and a handy guide of market analytics — we want to make the report an updated usable tool. New data we add aims to match dry numbers against the real-life market, helping the reader see the picture both in retrospect and in perspective. To this end, we conducted a comprehensive survey among venture investors to find out how successfully the key market players have fared internationally. Their cross-border venture investments began 2–3 years ago and can now be assessed, a topic that is truly interesting. Also, we found it useful to highlight crypto-investments as one of the buzzing investment ideas, and talked to Artem Inyutin, the co-founder of TMT Investments and a crypto-fund.

I wish you an enjoyable read, dear friends.

ARSENIY DABBAKH,
Managing Partner, RB Ventures

2 HOW TO READ THE REPORT

Below is a traditional Russian VC market overview for 2017. No statistics are perfect enough to reflect the reality as is. Numbers often fail to expose even fundamental trends until these manifest themselves fully at a later stage; the deficiency makes the living world look somewhat fossilized. To avoid “petrification,” we made further amendments to the report to make reading it more beneficial, through vivifying the numbers and seeking to give the reader an informed perspective on the market.

To make the most of the reading, please take the following into consideration:

1. Statistical analysis is no magic to reflect all trends and facts that deserve a mention. So we advise you to also read an overview of what we believe were the key events in the reporting period, in order to bring the analytics into the correct context.

2. Each year is marked by its own “super-trend,” and we couldn’t overlook the one from last year, the crypto-boom. The hype is waning, and it’s time for a clear-headed look at the trend. We talked to Artem Inyutin, an experienced VC who teamed up with other TMT partners and Yuly Zegelman, an angel investor, to set up a crypto-fund. Artem shared with us his team’s view of the trend, risks, and prospects.

3. You will also see the results of a survey we conducted among VC fund representatives to highlight for you the 2–3 year long process of Russian funds’ integration in the global investment system.

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CONTEXT: TRENDS THE STATS JUST DIDN'T REFLECT

Increasing corporate presence in the VC market

The trend, currently taking clear shape, emerged from a decree, in which President Vladimir Putin of Russia compelled the key state-owned corporations such as Rostec, Roscosmos, Rosatom, United Aircraft Corp. and United Shipbuilding Corp. to establish their own funds to invest in small innovative companies. In fact, large-scale businesses had first probed into VC opportunities long before that. An array of government innovation-focused initiatives such as RVC, IIDF, the Skolkovo Foundation and their long-term programs like GenerationS, corporate acceleration programs, the National Technology Initiative and others — all have been busy bringing big companies into the ecosystem. But it was the year 2017 that we believe bore first fruit. Facts. Roscosmos, RVC and VEB each announced the launch of their funds. Rostec pledged $17.5 m to support projects in electronics and IT. Private corporations were not just waiting in the wings. For example, Mail. Ru Group, on which Russian VC funds pin their high hopes, closed seven notable deals last year; companies associated with Severstal, the Russian steel giant, and its shareholders also became pro-active, backing five projects. Players that have been in the market for a few years now, such as Sberbank, AFK Sistema, QIWI and some others, lost no momentum. There were newcomers from among big IT players, for example, Lanit. In another remarkable development, Alfa-Bank which had spent at least five years probing into the VC market in the bootstrapping mode finally announced its inaugural deal with Pay-Me. It will be safe enough to predict that this year may become a year of government corporations — and wish them luck on their way.

Crypto: still all the rage

In spite of the obvious waning of ICO and other crypto-hype in late 2017, we are without doubt that the cryptocurrency is no joke and serious investors take stock in it. We expect inexperienced investors and downright fraudsters to vanish from the market later this year, driven away by stricter regulation among other factors, thus laying bare the fundamental risks and prospects. It's clear that the two pre-ICOs by Telegram have fueled investor interest. In these, Roman Abramovich, Sergei Solonin, David Yakobashvili and other HNWIs purportedly participated, with good investors attracted to Pavel Durov's project by a number of top-notch VC funds such as iTech and Da Vinci. On the other hand, ignoring risks may heighten unnecessary losses. Playing with dubious ICOs may cost the Russian economy as much as $1.5bn this year, experts reckon — a prognosis the national authorities just can't disregard. That said, we find VCs' activity in ICOs a trend to keep tabs on. Flint, Vaizra and many others have invested in crypto-focused start-ups; TMT Investments has set up a crypto-fund; and LIFE. SREDA is putting together a $50 m blockchain fund. At the end of the day it's clear that the "crypto" has not assassinated VC, an outcome rumored to be imminent in early 2017, but rather added to the toolset of venture investors.

Government efforts in the VC market

The government goading state-run corporations to support VC was one side of the story. No doubt, the original development agencies and the Internet Initiatives Development Fund (IIDF) have played first fiddle here. Look also at VEB-Bank, a corporation that once tested the venture waters but then braked to a complete halt, and its investment arm, VEB-Innovations; the latter is now managed by Kirill Bulatov who gained much experience working for RVC and the Skolkovo Foundation. Apparent finalization of a new RVC strategy is also of note. Leaked originally to the press as segmented and incomplete ideas, it can now be judged by RVC's first steps as one that is market-oriented. Establishing a Council with active VCs invited is a move to hail. The focal point of RVC's activity appears to be the creation of new funds, making the market increasingly more appealing to corporations and new LPs. The Skolkovo Foundation is likely to undergo a major reformatting of its investment activity as well. The Fund has pooled efforts with RVC in setting up three new funds (for high technology, industrial and biomed projects), with RVC putting up $26 m+ for each of these. To this end, Skolkovo Ventures has been set up, managed by Vasily Belov, a market celebrity, to run projects in partnership with independent private teams. iTech

(IT), Primer (biomed) and i2bf (industrial), three experienced players, have already pioneered this type of undertaking.

There's another important development which VCs have been discussing, that the statistics have hardly embraced yet. Russian venture capitalists that nearly flooded Europe, the U. S. and Israel back in 2015 now have to admit serious problems. American and European investors leverage their time-tested reputation and more impressive track records to keep the Russians away from really good deals. Third-tier deals and lower are more accessible, but the Russians are too ambitious to enter those. What remains are very early-stage deals with high risks. Russia sanctions have influenced international entrepreneurs' mindset as well; they tend to choose investors other than those from Russia to avoid reputational risks. All this fuels behind-the-scenes and official discussions among investors at stage A and up who have in 2018 to look again at opportunities in the Russian market they nearly vacated in 2016 and 2017 for angel and seed/A stage investors. Whether they do it or not will only be seen when the 1H 2018 results are made available.

4

RESEARCH FOCUS: STATS AND ANALYTICS

4 RESEARCH FOCUS: STATS AND ANALYTICS

A dead calm — this appears to be the best description of the year 2017. No segment showed any noteworthy departure from its prior trends.

At the very early stages (seed and start-up), in 2H 2017 we saw a resolute year-on-year growth in the number of deals, a pattern that can be referred to as tradition already; and an increase in the overall investment value and the average value per deal was nothing short of dramatic (from $6 m to $70 m and from $0.2m to $1.6 m, respectively, for seed; from $10 m to $48 m and from $0.8 m to $1.2 m, respectively, for start-up). At the start-up stage, the number of deals shot up from 19 to 45, while at the seed stage it barely changed (from 43 to 47). Seed and start-up have been the key drivers of yearly stats for the market for years, and the surge came as no news, owing to a certain extent

Russia's VC market in a two-minute rundown

2016 2H **2107 2H**	Number of deals	Investment amount, $m	Average deal value, $m	Investor structure
Seed	43 **47**	6 **70**	0,2 **1,6**	Seed B C+
Start-up	19 **45**	10 **48**	0,8 **1,2**	Seed A B C+
Growth	43 **35**	65 **41**	1,7 **1,7**	Seed A B C+
Expansion	15 **36**	103 **84**	8,4 **3,0**	Seed A B C+
Maturity	1 **18**	100 **86**	100 **9,5**	Seed B
TOTAL	126 **184**	283 **330**	2,6 **2,4**	Seed A B C+
Exits	5 **11**	153 **109**		

to years of government investment in infrastructure and directly in the early stages, as well as cultivation of the growing angel segment.

At the growth stage, the picture looks bleak — and hardly surprising. There was a fall both in the number of deals and the overall investment value — from 43 to 35 and from $65 m to $41 m, respectively — and only the average value per deal ended up on a relative par with 2H 2016 results ($1.7 m). It was a considerable nosedive, given the general weakness of the stage.

Expansion showed variance, which brings some hope. On the backdrop of a substantial $103 m-to-$84 m tumble in the overall investment value and an even more disheartening $8.3 m-to-$3 m (!) plunge in the average value per deal we saw the number of deals more than double (from 15 to 36). What does look alarming here is the “atomization” of deals, a trend that threatens to demote expansion to growth stage transactions.

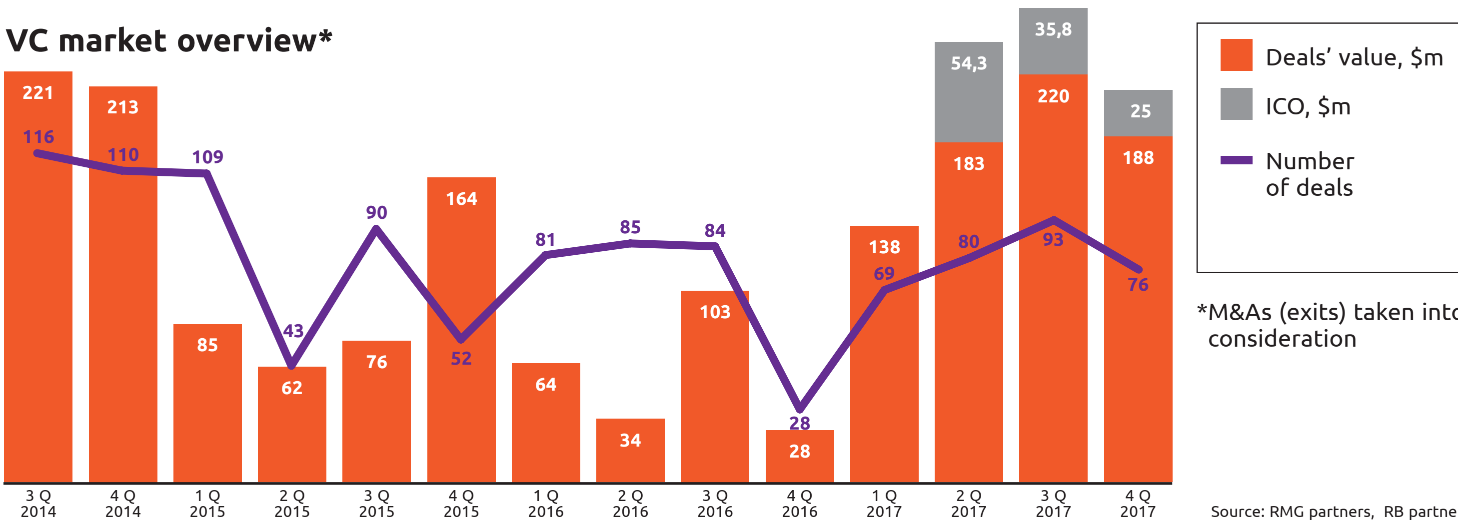
The maturity stage was also ambivalent, going through the roof from 1 to 18 in the number of deals and sagging from $100 m to $86 m in the overall investment value. The average value per deal shriveled from a hefty $100 m to just $9.5 m, but it’s hardly the end of the world; at this stage in Russia, every new deal can alter the statistics dramatically.

Exits doubled from 5 to 11, a symbolic, yet noticeable growth. The deals shrank in value though (from $153 m to $109 m), but the decline should not be taken too seriously as some of the deal makers never disclosed their deals’ values.

To put the year in a nutshell: the number of deals grew from 126 to 184, the overall investment value increased from $283 m to $330 m, and the average value per deal withered a bit from $2.6 m to $2.4 m. It’s important to note that positive stats came only from the seed and start-up stages, and all the later stages were going from bad to worse. Such an asymmetrical pattern of market development is hardly the norm, especially given a next to negligible number of exits. That said, what we saw last year was nearly a replica of the 2016 developments. A dead calm — no need to look for a better definition. Let’s look closer at the trends we found noteworthy.

VC market overview

VC market overview*



*M&As (exits) taken into consideration

Source: RMG partners, RB partners

Exits in the VC market in 2H 2017

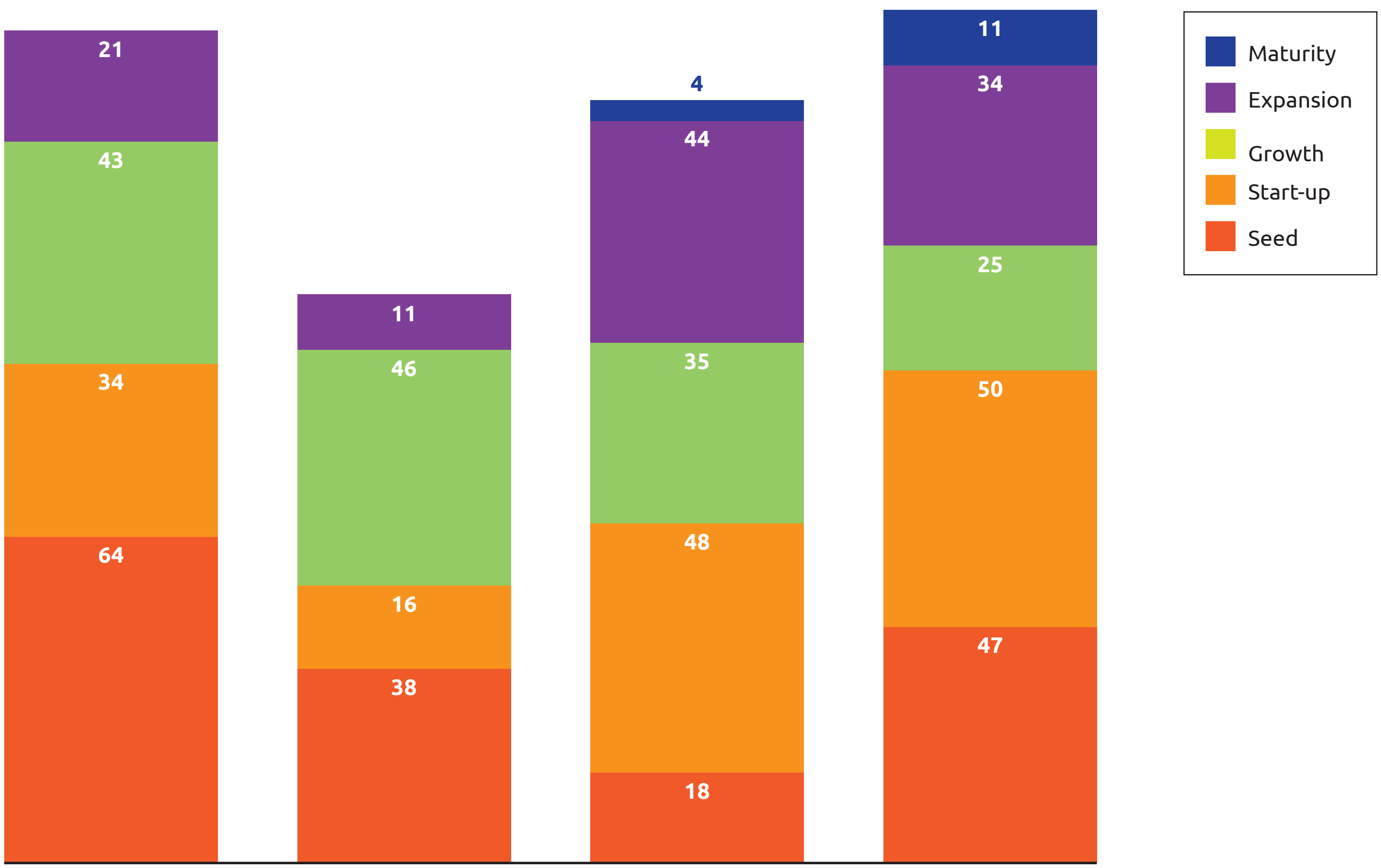
Date	Target	Investor	Amount, $Mio	Company stage
Jul	e96.ru	Linija Toka Ural		Mature
Jul	Insight	Softline	6	Startup
Jul	Potok	Severgrup		Mature
Jul	Rosrabota.ru	Hearst Shkulev Media	1.5	Mature
Aug	Esky.ru	Dochki-synochki	55	Mature
Sept	Datalogija	Moskovskaja birzha	1.5	Startup
Oct	LiteBox	MTS	10	Mature
Nov	JungleJobs.ru	Impulce VC, the Untitled	6	Expansion
Nov	Busfor	Inventure Partners	20	Startup
Nov	Individuum	Bookmate	1	Mature
Nov	Nacional'nye telematicheskie sistemy	Igor' Rotenberg, Andrej Shipelov		Mature
Nov	Foodfox	YandexTaxi	8.5	Expansion

It would be curious to compare 2017 from quarter to quarter with the 2014–2016 chronology. Almost like a carbon copy: no surges, plunges or eye-openers. A smooth (and predictable) rise in the 2017 overall investment value from $138 m in the first quarter, $183 m in 2Q, $165 m in 3Q, and to $162 m in the last three months of the year.
We can see very similar dynamics in the quarter-by-quarter number of deals: 69, 80, 93, and then a decline by the year-end to 76.

For comparison, let's also take a look at quarter-by-quarter amounts raised through ICOs in the Russian market: $54.3 m in 2Q, $35.8 m in 3Q, and $25 m in 4Q. As we can see, the results correlate well with those in the VC market (and these are exclusively Russian ICOs).

Market structure: Stages

VC deals dynamics at different development stages



Source: RMG partners, RB partners

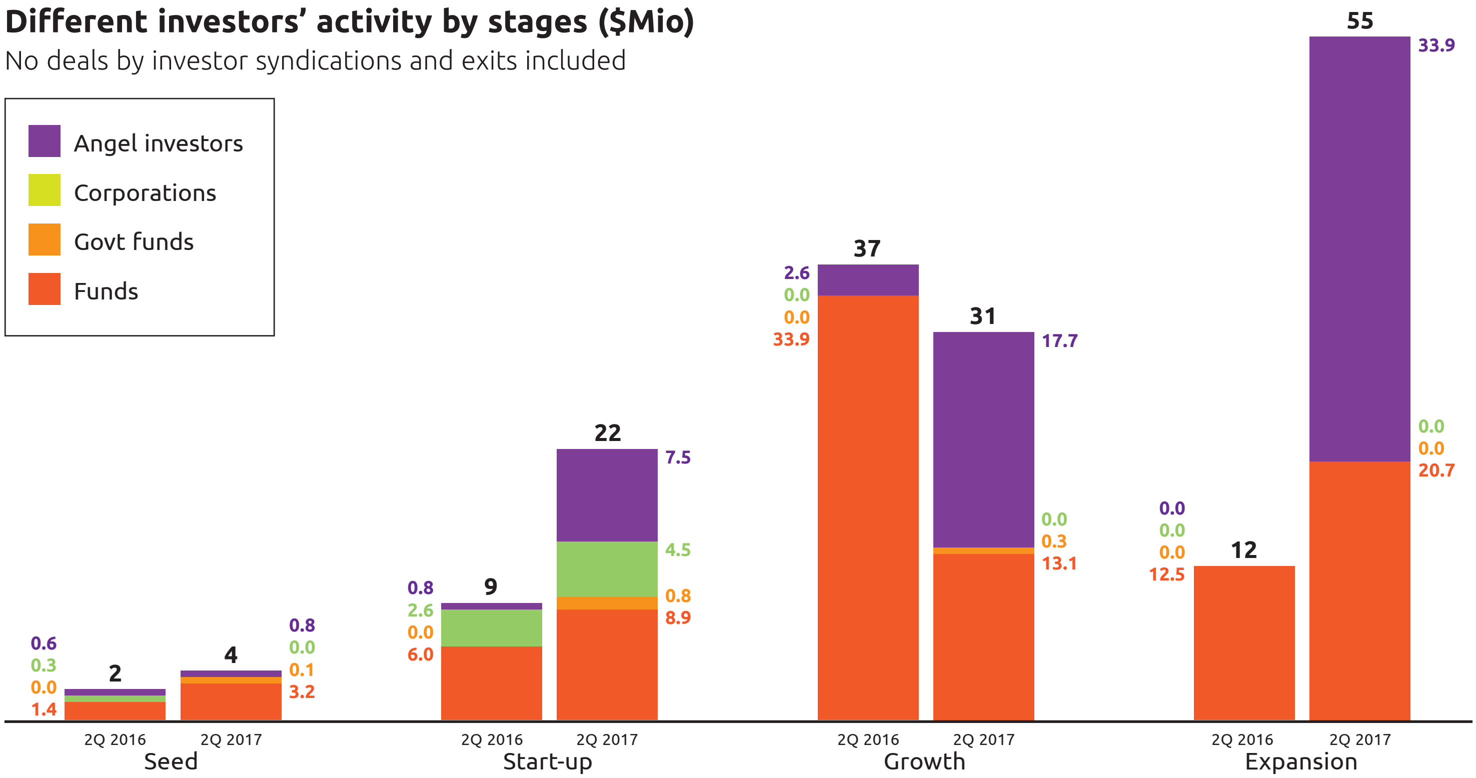
It's visible to the naked eye: 2H 2017 brought more deals than 1H, and 2017 as a whole outshone the previous year in this aspect. Let's go a level deeper, though, and compare 2H with the first six months of 2017.

Seed. Soared from 18 to 46.
Start-up. Inched up from 48 to 50.
Growth. Ironically, fell from 35 to 25.
Expansion. Dropped from 44 to 35.
Maturity. Shot up from 4 to 11.

Once again, we can see the early stages fueled overall growth in 2Q. The maturity stage is not informative because of the rarity of deals. Once again we repeat: it was a near flat year. It's interesting to note that in 2016, the 1H-to-2H situation was almost a mirror image, with 2Q losing to 1Q at all stages except growth. So, 2017 did make headway — not by much though.

Different investors' activity by stages ($Mio)

No deals by investor syndications and exits included



Source: RMG partners, RB partners

Comparing 2H 2017 with 2H 2016 would serve best to get the picture here (please note that no mixed deals have been considered).

Seed. Funds and angel investors' dominance here came as no surprise. Funds doubled investments from $1.4 m to $3.2 m on a year-on-year basis, and this deserves a closer look. At this stage, 2Q 2017 slightly outperformed the same period a year before.

Start-up. Corporations took the stage — somewhat timidly, though ($2.6 m and $4.5 m, respectively). Still no foray from funds: an unimpressive $6 m and $8.9 m. Angel investors unexpectedly participated in earnest with a $0.8 m-to-$7.5 m year-on-year upsurge, filling (to a certain extent) the gap the funds left. At this stage, 2Q 2017 outstripped 2Q 2016 considerably.

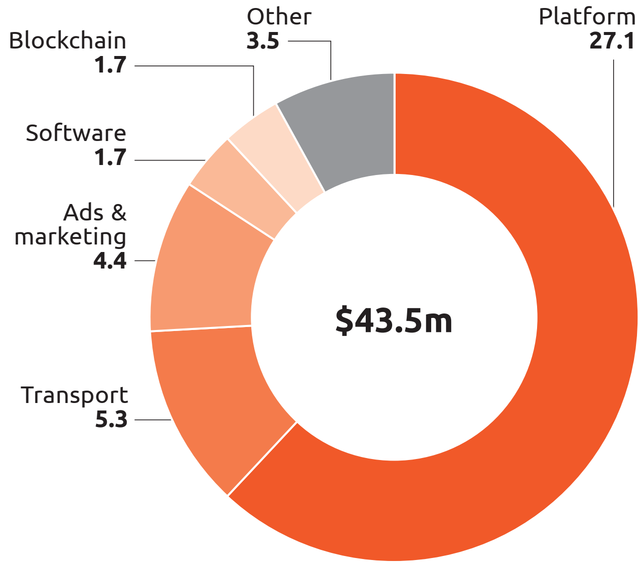
Growth. As an exception, 2Q 2017 lost to the same period a year before. Angels and funds — no other players in sight. Angel investors were on the offensive, stepping up investment remarkably from $2.6 m to $17.7 m y-o-y, while funds gave way with an astounding $33.9 m-to-$13.1 m regression.

Expansion. This stage more than tripled in 2Q 2017 y-o-y. No trends could be inferred from the rise, though, as deals were few in volume but sizable in value. Funds were predictably active there. NB! — the large proportion of angel investors is no mistake here; the stats incorporated deals by a number of big private players such as Igor Rybakov, for example (Technonikol and Rybakov Fund).

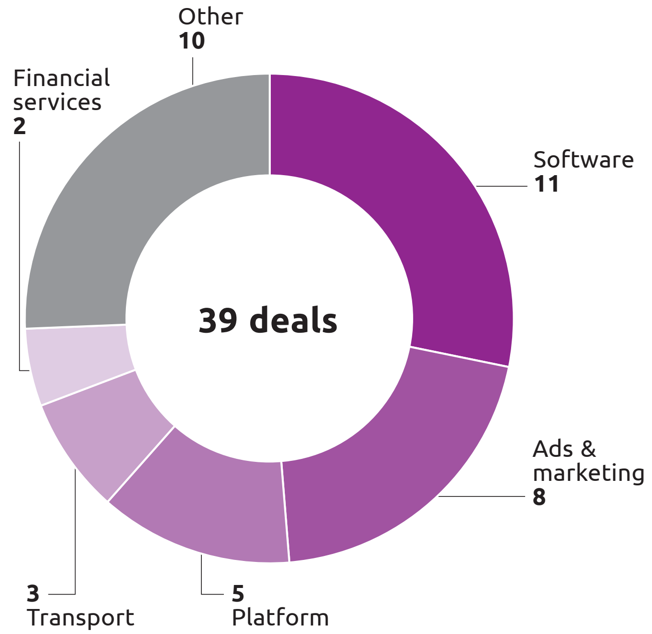
Conclusions to draw here appear somewhat discouraging. There were basically two types of investors that almost solely inhabited the huge VC landscape: funds and angels, with the latter by far outdoing the former. Corporations and government funds — the richest players that could lend a strong hand to others, primarily private funds — were nowhere to be seen, or so it seemed.

Software & Internet B2B

Deals structure by sectors ($Mio)



Deals structure by sectors (numbers)



* Acquisitions / exits not included

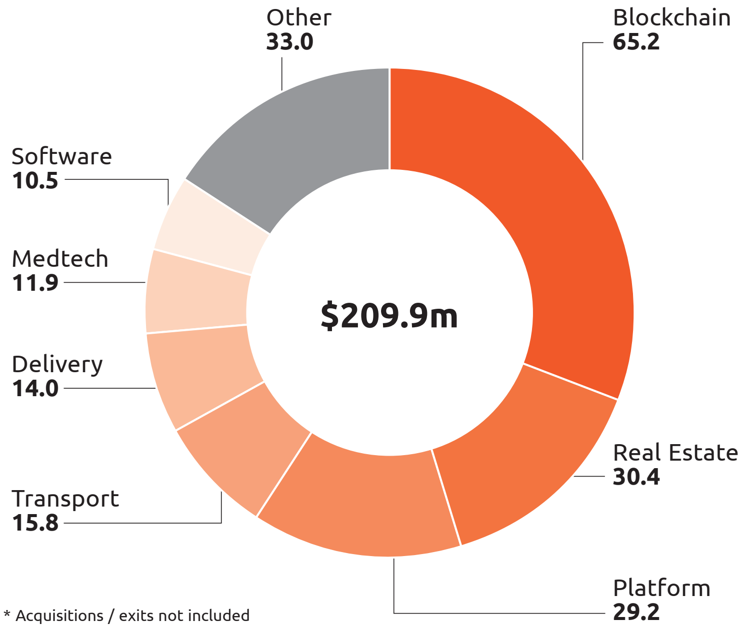
We start our traditional sector analysis by looking at IT which covers both software and the Internet. As usual — no signs of IT ceasing to be the primary driver of Russia's VC market. So, let's see what investors backed with their $43.5 m. There are some slight, yet visible changes over the years, of course; the software segment lost some momentum in money terms. This is hardly a fundamental shift, though; above that we can see sectors du jour, with platform outpacing all others by a long way ($27.1 m, or 62%), followed by transport ($5.3 m, or 12%), advertising and marketing (an "old-timer" sector with $4.4 m, or 10%) and software ($1.7 m, or 4%). Oddly, it's blockchain that wraps up the group ($1.7 m, or 4%). If we look at the numbers, we will see a very different picture; and comparison between the two gives much food for thought. Here, software is convincingly in the lead ($11 m, or 28%); the runner-up is advertising and marketing ($8 m, or 21%), followed by platform ($5 m, or 13%), transport ($3 m, or 8%), and financial services ($2 m, or 5%). In a nutshell: investors obviously, and unsurprisingly, bet on sectors that have the potential to deliver fast returns (the Internet per se) and are ready to shell out money for up-to-the-minute things like blockchain. At the same time, we can see that it's exactly software, as well as advertising and marketing which investors have been fond of for years, that offer fundable projects. Little has changed here over several years.

Exits in 2H 2017 in Software & Internet B2B

Company	Investor
Insight	Softline
Potok	Severgroup
LiteBox	MTS

Software & Internet B2C

Deals structure by sectors ($Mio)



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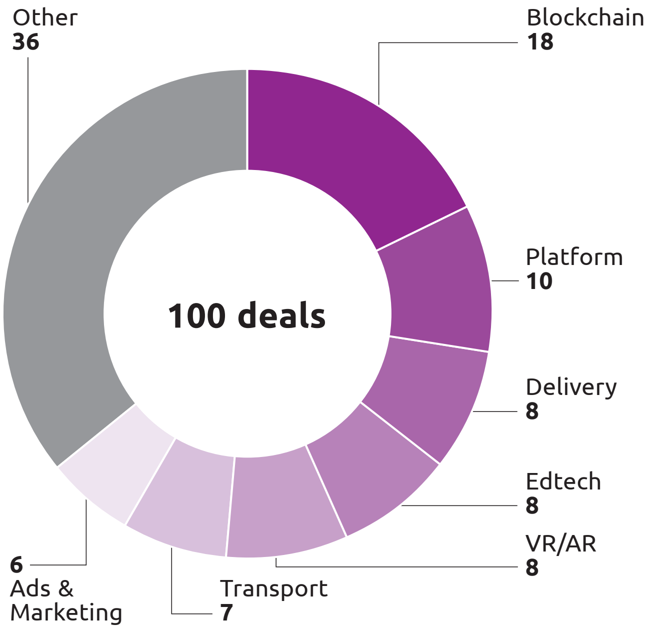
Deals structure by sectors (numbers)

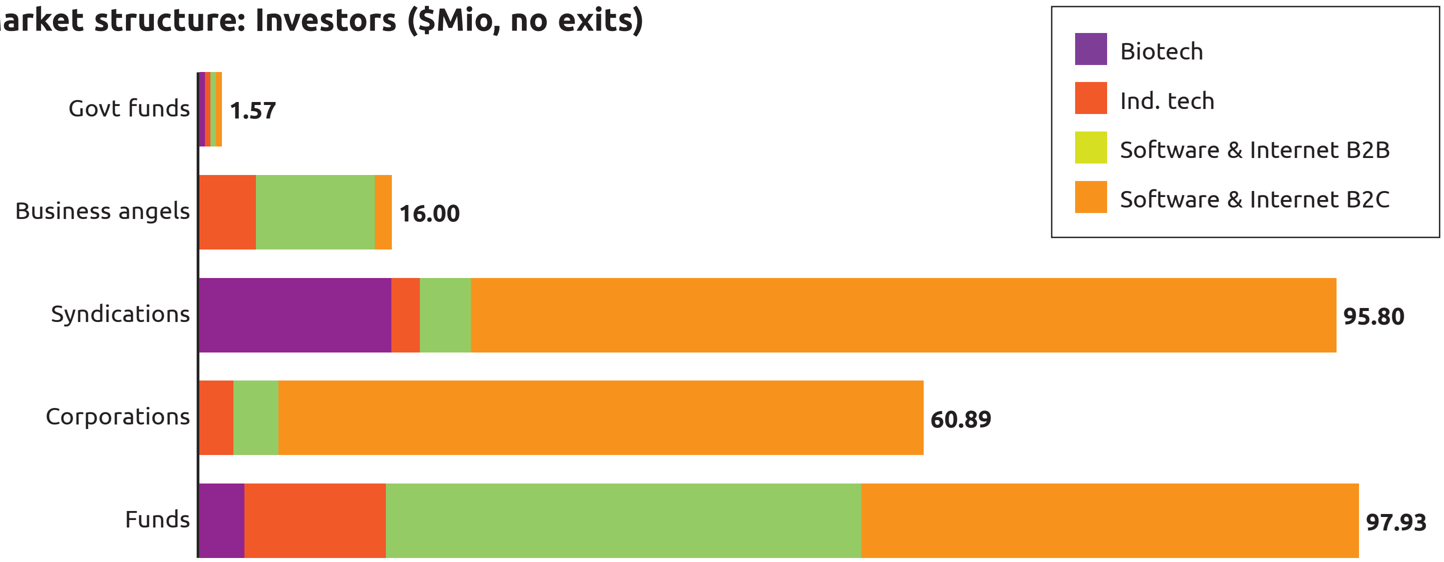


In the IT and Internet B2C sector, 100 deals were closed in 2H 2017, worth a total of $209.9m. The most money came into blockchain ($65.2m, or 30%); the lesser investor magnets were real estate ($30.4m, or 14%), platform ($29.2m, or 13%), delivery services ($22.5m), ($15.8m, or 7%), medtech ($11.9m, or 5%), software ($10.5m, or 5%); and a miscellany of "other" segments that raised a total of $33m, or 15%. Let's not jump to conclusions, though, and get a load of numbers first. Here, blockchain is once again in pole position ($18m, or 18%), followed by platform ($10m, or 10%), delivery services ($8m, or 8%), edtech ($8m, or 8%), VR/AR ($8m, or 8%), transport ($7m, or 7%), and advertising/marketing ($6m, or 6%). But in fact, "other" is once more in the true lead ($36m). No binoculars are required to see that in B2C, investors were nearly "omnivorous," acting diversely, with taste and style, despite a comparative decrease in absolute numbers—a sort of testing range for new ideas and trends. Please also note: blockchain outshone others both in deals and moneys. Investors appear to have faith in the technology in spite of an array of legal, regulatory and even technological risks that come attached.

Largest exits in 2H 2017 in Software & Internet B2C

Target	Investor
e96.ru	Linija Toka Ural
Rosrabota.ru	Hearst Shkulev Media
Esky.ru	Dochki-synochki
Datalogija	Moskovskaja birzha
JungleJobs.ru	Impulce VC, the Untitled
Busfor	Inventure Partners
Individuum	Bookmate
Nacional'nye telematicheskie sistemy	Igor' Rotenberg, Andrej Shipelov
FoodFox	YandexTaxi

Market structure: Investors ($Mio, no exits)

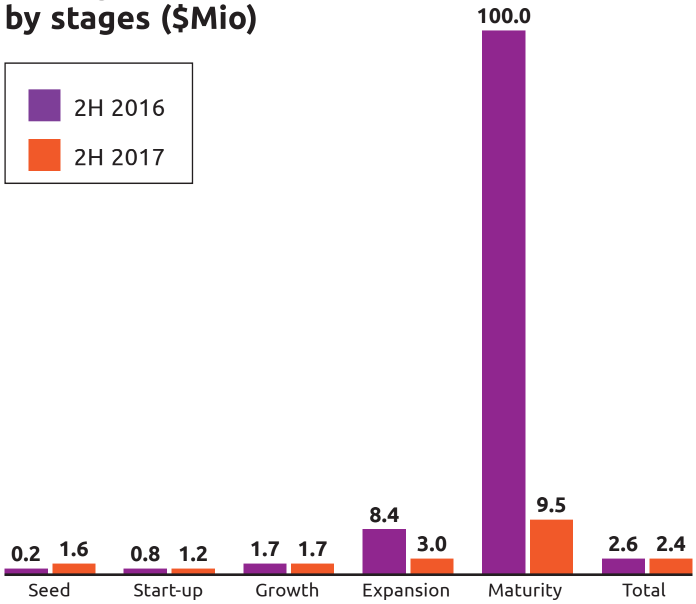


Let's take a look at the investor structure in the most plentiful sectors such as Software & Internet B2B, Software & Internet B2C, Biotech, and Industrial tech. Private funds are predictably the most active players, and equally venerated the Internet/software and shunned biotech with its long investment cycle and technological complexities. However, they were eyeing industrial tech, an obviously positive tendency. Angel investors, the second most active group (outside of syndicated ones), had a soft spot for Internet & Software B2C and much less so for Internet & Software B2B; industrial tech got a morsel from them, and biotech appeared too far below their radars to attract anything at all. Corporations preferred Internet & Software B2B and industrial tech, a rational bias for strategic players, while Internet & Software B2C interested them least of all. Government funds looked somewhat diffident investing in Internet & Software B2C, an odd coyness for such players. Syndicated groups, of which the composition is difficult to specify, invested heavily in Internet & Software B2B and biotech. We take the liberty of assuming that there are some government funds and corporations behind the interest in biotech. Investor preferences by groups (with the exception of government funds, perhaps) came as little surprise: software and the Internet almost everywhere. Industrial tech and biotech keep modestly waiting in the wings for VCs to heed them.

The average value per deal deserves no special comments as it barely changed in 2H 2017 y-o-y, except perhaps the expansion and maturity stages where it usually takes just one big transaction to turn the stats upside down. From $2.6 m in 2H 2016 to $2.4 m in 2H 2017 — it all looks self-explanatory.

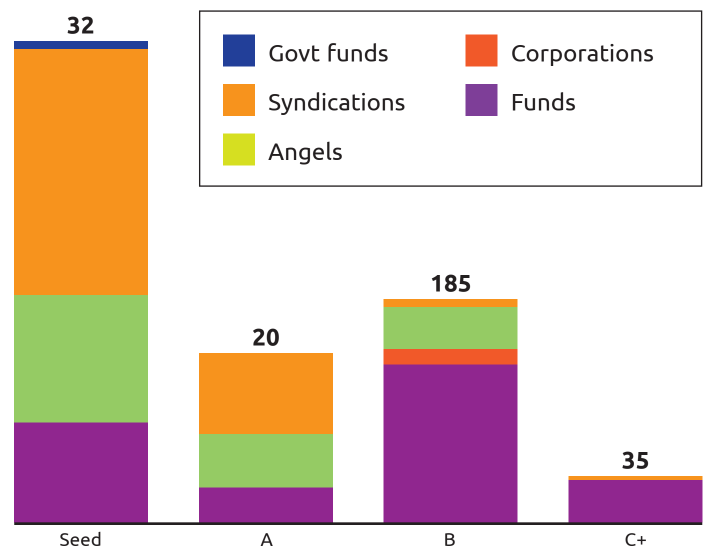
The investor structure by rounds in money terms is a much more interesting object to study. Looking at market oddities, we should note an unusual effervescence by angel investors who advanced as far as B rounds to be the runner-up there (taking the lead at seed and following funds in A rounds). Corporations must have worn an invisibility cloak; they didn't show up in earnest, not even in C rounds, a development that makes things look a bit dreary. Government funds did no better — unless their money played a veiled role in syndicated investor groups. One way or the other, they invested in the seed and A stages, which looks peculiar. At the end of the day, we barely saw large-scale investors in the market. Whether it's good or not so is for everyone to decide on their own.

Average deal's value by stages ($Mio)



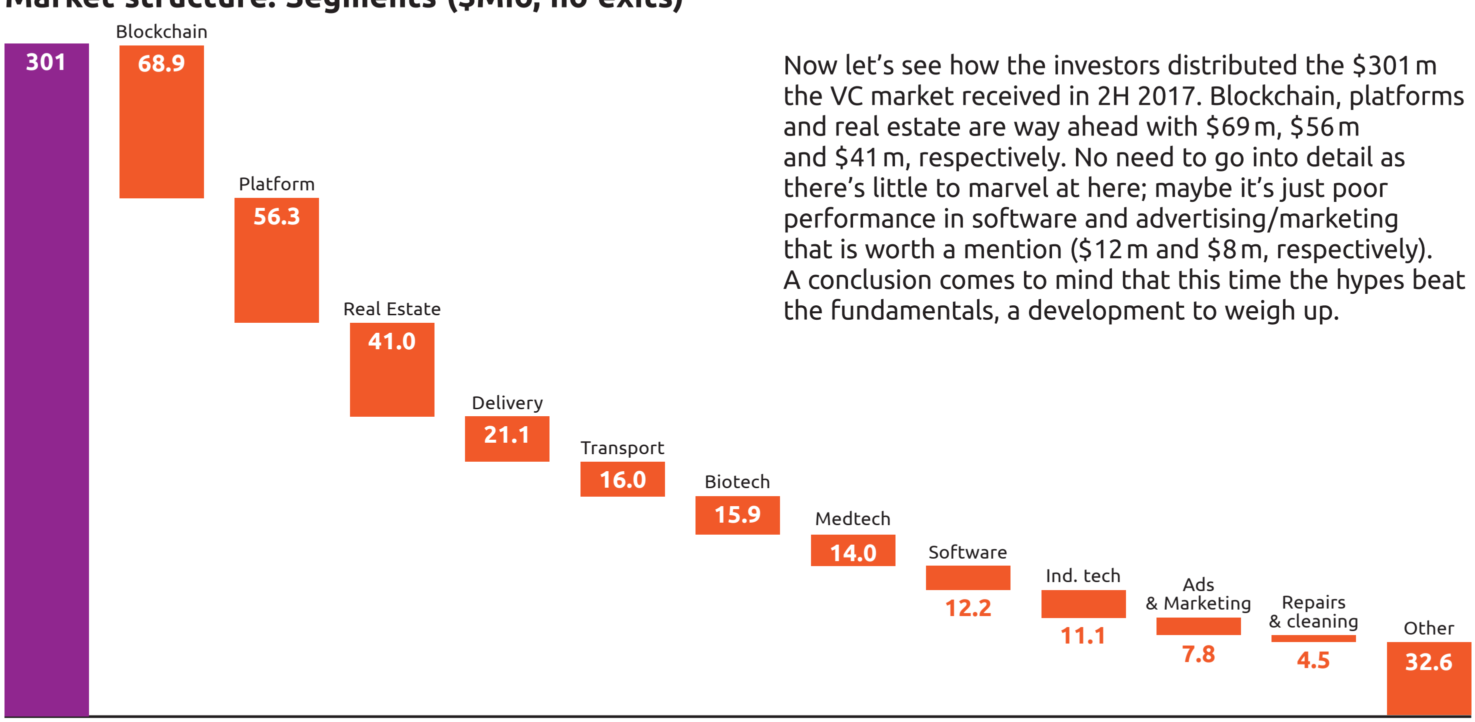
Source: RMG partners, RB partners

VC investment by rounds, 2017 ($Mio, no exits)



Source: RMG partners, RB partners

Market structure: Segments ($Mio, no exits)



Now let's see how the investors distributed the $301 m the VC market received in 2H 2017. Blockchain, platforms and real estate are way ahead with $69 m, $56 m and $41 m, respectively. No need to go into detail as there's little to marvel at here; maybe it's just poor performance in software and advertising/marketing that is worth a mention ($12 m and $8 m, respectively). A conclusion comes to mind that this time the hypes beat the fundamentals, a development to weigh up.

5 RUSSIA: CONCLUSIONS

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**The year 2017 brought us no surprises.
Let's summarize the key developments.**

- ✓ It's the early stages, seed and start-up, that propelled the market
- ✓ Growth seen in the number of deals and the overall investment value — driven predominantly by the early stages
- ✓ Angel investors won the "Heartiness" nomination
- ✓ Investors' sector preferences barely changed
- ✓ Deep pockets held their fire, letting funds and angels do the job
- ✓ Blockchain exorbitantly high on the list of investor preferences

6

WHAT MARKET PLAYERS THINK. SURVEY

6 WHAT MARKET PLAYERS THINK. SURVEY

We reached out to active market participants to learn their opinion regarding rumors (a hot topic in behind-the-scenes discussions) of Russian funds failing to get a toehold abroad. Please take a look at the feedback provided by seven top managers of Russia's most aggressively investing funds, and the conclusions that follow.

Did the Russian funds' "go West" march in 2014-2017 prove successful?

Yes	3
No	3

Did the effort meet Russian investors' expectations (up to 5 points)?

2 points	1
3 points	4
5 points	1
abstained	1

What are Russian investors' weaknesses in competition for good deals?

The most prevalent answers were as follows:

- Lack of connections/networking/traction/brand
- Lack of experience
- No or low "added value" to help in tough competition
- Political risks
- Lack of infrastructure in destination countries

What are Russian investors' strengths in competition for good deals?

The most prevalent answers were as follows:

- Fast decision-making, no bureaucracy
- Extensive help for portfolio companies
- Access to the Russian market

Please name the markets where Russian investors currently feel most welcome.

Israel	4
Eastern Europe	1
Western Europe	1

Is nationality a factor that influences competition for deals?

"No"	3
"To a certain extent"	2
"Yes"	1

What were the most prominent deals, both entries and exits, Russian investors had abroad? Your personal top-3.

There were no identical answers, and we filtered out answers, in which the respondents named their own funds; so all the answers are below:

- Ziyavudin Magomedov and Hyperloop
- Roman Abramovich and AFC Energy
- Target and IPO Delivery Hero
- DST Global and Facebook
- DST Global and Spotify
- ru-Net and RingCentral (both entry and exit)
- Inventure and Cityscoot

Flint and Flo
Inventure and Gett (exit)
Grishin Robotics and Ring (exit)

Are you expecting a partial homecoming of Russian investors within the next 12 months?	
“No”	5
“Yes”	2

Please now see what the VCs shared with us during in-depth exchanges.

Ivan Protopopov,
Managing Partner, North Energy Ventures

In our sector, in oil and gas, there has been no systemic westward movement.

We spent about two years purposely considering international deal flow, and inked agreements on investment opportunities exchange with some of the big players, including Saudi Aramco Energy Ventures and Energy Innovation Capital in Houston. As we progressed, we would see on a regular basis some top tier investment opportunities for participation in syndications at early stages; such chances would come first and foremost because co-investors hoped our involvement would become a potential key to the Russian oil service market — largely unexplored, yet so enormous.

We have not even done a single deal so far in this area. In top tier investment opportunities (as we could see even after term sheets were agreed upon with all the leading funds), early-stage companies dominate which have huge valuations of $20 m and up with a single successful $100K start and annual $500K pipeline, with $5 m+ rounds, and an expected level of annual spending which is comparable to the size of a round. We found it hard to see attractive economics for an investment fund of our size and stage in deals like these. Technological and market due diligence is by far less rigorous with big funds that take the lead in such deals than it is with us, which caused numerous problems in interaction with the founders of companies.

That has led us to reconsider our prior focus on oil and gas deals abroad. There are interesting options in Norway, but local start-ups find no trouble raising seed investments from the state, and we face problems competing. Scotland is a no-go, no start-up market culture in place as yet. Outside of Houston, Aberdeen and Stavanger, there’s hardly any other hub for projects in high tech oil service. On top of that, we have much to accomplish in Russia.

Alexander Chachava,
Managing Partner, LETA Capital

We have not gone West. We watch our colleagues from DST, Grishin Robotics or Ru-Net do so and are glad they are successful. But they began it earlier. It’s a bit premature to draw conclusions regarding those who went in 2015. Don’t count your chickens before they hatch, as the saying goes; I didn’t study other people’s portfolios. Speaking about Flint, Maxfield, Runa, Almaz and others, I can affirm that their teams are surely better than those of third-tier funds in America. It’s difficult to compete with the top ones, and not because of teams. We opted not to go there, not only because we are less competitive, but because we saw more opportunities at home. Others made a different decision, and maybe they were right.

I am not going to personally judge my colleagues, as it's not tactful. Russian funds have got the strongest foothold in Israel, no mistake. It's because our funds are not as rigid as Israeli ones have been historically, and in their flexibility the Russians are ready to spend time on the early stages — unlike the Americans. Last but not the least, with our mentality Russia is closer than Europe and the U. S. are to Israel (a million Russian-speaking Israelis just can't be disregarded); for example, Chinese funds find it harder to work there as they are barely understood. That's why I look at Israel as a country which is very friendly to Russian funds. We have been working a lot there and are happy and competitive.

I don't watch each individual deal closely. Well, Ring made a splash; I liked the Avito-Naspers deal. But these were not abroad, and the investors are not quite Russian. Gett-VW was also a good one. There've been very few memorable deals with enough information disclosure over the past three years. I remember five (no names here) that looked like a bombshell on the face of it, but turned out to be a down round.

Everybody is willing to look at good Russian projects, but there are few fundable ones; most are incomplete, unfortunately. Not sure if funds, after they saw well-packaged quality projects abroad, are ready to work with "semi-finished products" domestically, as we do, for example. On the contrary, many feel tempted by advanced stage projects. That said, they have begun to do sporadic deals in Russia anyway.

So, as we can see, notwithstanding the fact that Russian funds do have to sweat to work their way into the global venture capital community (the points above are pretty self-explanatory), they never lose optimism and have no plans to give up on their international crusades.

7 HIGHLIGHTED TREND: CRYPTO-BOOM VS. REALITY

Expert:
Artem Inyutin (TMT Investments, TMT Crypto Fund)

In 2017, TMT Investments partners and Yuly Zegelman, an angel investor, announced a new crypto-entity, TMT Crypto Fund. Artem Inyutin, one of the co-founders, shared with us his outlook on prospects and risks that the cryptocurrency market is facing.

How do you assess the situation in the crypto-market? General trends? Quality of projects?

The market is volatile as never before; just look at the cryptocurrency rates insanity. On the one hand, the technology is winning hearts; new cryptocurrencies are announced almost daily. Even governments are infatuated; Sweden and Estonia, for example, are mulling over their own national cryptocurrencies. On the other hand, other governments adopt tough regulatory measures to control mining and ICOs. Crypto-exchanges faced some problems working with the regulators before, having to wait indefinitely until their licenses for security token sales were issued. However, recently a number of the most deep-pocketed financial players have unveiled their acquisitions. Circle, a start-up connected with Goldman Sachs, took over Poloniex, a sizable crypto-exchange; the Japanese brokerage Monex is weighing up the purchase of the hacked Coincheck; Mitsubishi UFJ Financial Group, the Japanese banking giant, is launching its own crypto-exchange. All of this is clear evidence that the big financial companies can see potential in the market and could leverage their clout for easier arrangements with the regulators regarding exchange licensing and other problems that need solving.

Project-wise, the market is at its very infancy. This can easily be likened to the dawn of the Internet market, the "dot-com" crisis and the ensuing emergence of large-scale corporations such as Amazon, Google or Facebook. At this early stage we can see a swarm of poor-quality scamming projects, infrastructure projects that begin growth, and an ICO crisis. To my mind, bad projects account for more than 95%.

What are the risks?

In my opinion, risks are considerably higher today than in the VC industry, but returns might be higher, too. The tip of the deals iceberg is no investment but rather speculation, with investors aiming to get rid of their tokens in the short term and earn a margin rather than grow a company and prepare for an exit. The primary risk for each player to face here is the lack of expertise and the impossibility/inability to understand the team, the project technology, and the finances. So, this is what we have here: a speculator who comes in with little or zero knowledge and rosy expectations for their token selling horizon, and a project which is far from professional, pre-designed to cheat or lacking the skills conventional VCs have with their project evolution from incubators and mentors to funds and strategic partners. At all stages of their development these projects have to fight for the right to live and grow.

Prospects?

Blockchain projects' prospects may, I think, be a replica of the Internet story. The bubble of shallow projects and easy money is likely to burst. Investment professionals will be coming. Market regulations will be finalized in a couple of years, and the authorities will scare participants with endless hints at stricter measures no more. I hope exchanges will have their SEC licenses for security tokens approved at last, and good infrastructure projects will emerge with some muscles already, paving the way for our own unicorns to turn up.

No more hype, you believe?

If by hype you mean that every schoolchild can't wait to take part in mining, then I hope it's here no more. I think we've had enough of the cryptocurrencies' long unpredictability and too many bad ICOs. Some may still not get it, but I hope the year 2018 will open their eyes. In my opinion, if one wants to work with finance, he'd do better to contract with pros to reduce the risks dramatically.

Any legal risks, to your mind?

They are high enough now. In fact, founders don't hold themselves accountable for utility tokens. That's why our fund has adopted a completely different *modus operandi* for blockchain projects, and so have some sizable Silicon Valley based funds. Here's an example of how we work today with our pipeline projects. Financial, legal and technological due diligence comes first. The deal is structured in a way that gives us project shares in addition to tokens. Bringing professional co-investors on board which have believed in the project and its roadmap is also a must. Very important: the project is expected to be a real business and have revenue, evolving towards blockchain.

What prompted you to decide on the crypto-fund?

As a VC fund, TMT Investments has been doing deals in Silicon Valley, Eastern Europe, Israel and Russia. Forty-five deals, seven exits, a fourfold portfolio increase — not bad for seven years' work. Our fund is LSE listed, and we are one of the world's most transparent funds. We think it is appropriate to leverage the experience in finance and the tech expertise in venture investing by bringing all this to the currently unruly blockchain market that has huge potential. Our goal is to employ VC standards in order to help good infrastructure blockchain projects grow and our shareholders to receive good returns.

"If by hype you mean that every schoolchild can't wait to take part in mining, then I hope it's here no more"

At the dawn of the "crypto" boom some thought it would kill the VC market. Any comment on this?

Certain order must be established one day for the ICO procedure to be able to protect investors and hold project owners responsible. On the one hand, an improved KYC procedure will give people more information on a potential investor; of course, certain legalization of crypto-proceeds will be required. But commitments will hardly be as stringent as in the IPO procedure, making the process look more like some sort of huge crowdfunding. On the other hand, projects must be as transparent and efficient as possible. Venture funds can do a great favor to the market by investing in blockchain. They will encourage project owners to produce viable technology and business plans, and will assess the team and its track record of success stories. For example, the likelihood of success in blockchain is immeasurably higher with Telegram that has shown a string of profitable projects than with a "no name" team with a vague concept. The ICO market will never kill the VC one. When the bubble stage is completely over, the market will first dwindle substantially and is then expected to pick up steam again upon reinventing itself on higher quality projects. The ICO itself will evolve into a good toolset for raising investment alongside venture money, or even a combination of VC investment and an ICO in one long round.

What will be your mandate and overall strategy?

If you ask about our new TMT Crypto Fund, it will work with blockchain projects across the world. We want these to primarily help solve the infrastructure problems the market is facing. It is going to be a diversified portfolio with more than 30 projects. As a rule, we'll be entering projects long before their ICOs are on the table, getting both shares and tokens on terms that differ much from those stipulated for an ICO. That will ensure increased yield and safety for our investors. The fund's investors may not only look forward to the fund's security tokens but also to the tokens of our portfolio projects, a way of boosting token liquidity.

What are your expectations for returns?

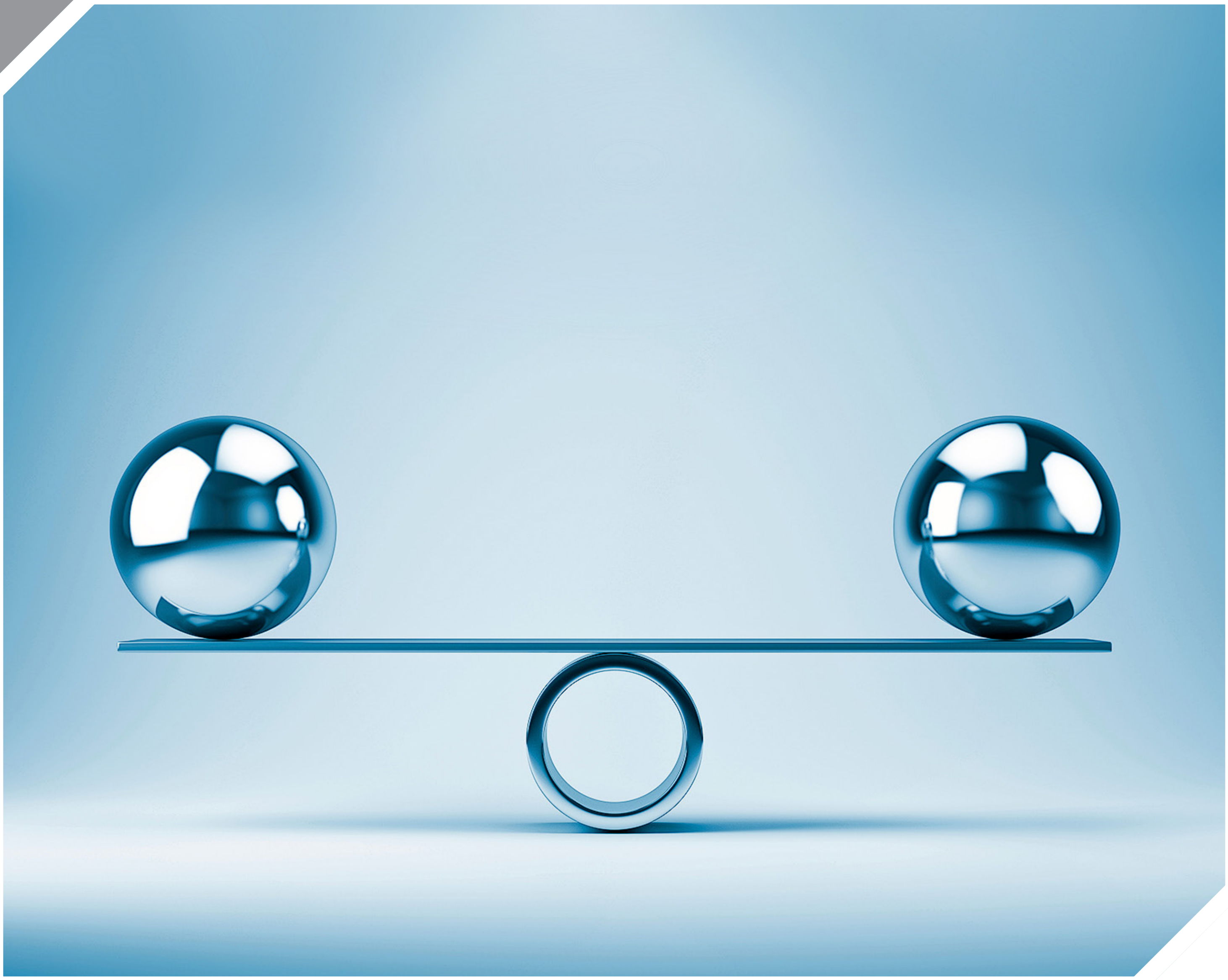
I believe that the new fund will beat TMT Investments in yield as a result of explosive blockchain growth. Yes, the market is likely to see a much lower percentage of good projects than in the VC market, and it will take more effort to find promising ones.

Are you considering projects in Russia? What's your opinion of the quality of Russian projects?

We certainly are. Geographical boundaries never hold us back; we look at many regions, picking what we believe will be a trend in the next 5–10 years. The quality of Russian projects currently leaves much to be desired; they are like kids whose age already suggests going to college but who are mature enough only for kindergarten. But I believe Russian projects will begin to grow up fast. The investment climate will improve within the next five years, and so will the population of IT entrepreneurs, a vital prerequisite for a successful project. With the kind of PR we have seen in the market recently the number of people employed in blockchain is likely to grow dramatically and technologies are expected to improve.

Your personal advice to those investing in the "crypto".

I would advise that investors step up requirements for the quality of crypto-assets. Dealing exclusively in the cryptocurrency makes little sense; that would be a new rendering of roulette. Do be particularly careful before investing in projects; do not trust every "prospectus" devised by project owners. Investing is a profession that requires attention 24/7 — and in fact one's whole life. Also, no single person can possess the full knowledge of blockchain and finance, so you'd better watch pros invest, and do likewise with them. Keep your private portfolio as diversified and reliable as you can. And, of course, I wish you luck.



8

ANNEXES:

Reference list; Methodology; Terminology; About RB Partners; Acknowledgements; Contact information

REFERENCE LIST

1. PitchBook
2. Firrma
3. Rusbase
4. VC.ru
5. FRII
6. Vedomosti
7. Kommersant

In this Report, we used methodological recommendations that have been put together by the Russian Venture Capital Association (RVCA) and domestic venture capitalists. The "venture investment" term describes an investment of up to $100m (at an official ruble/dollar rate current at the time of writing) in risky technology projects that promise an IRR of at least 15%.

As an exception, we might consider deals with a bigger price tag if investees are innovative high-tech companies.

"Investment" is referred to as a purchase of a shareholding or charter capital in a privately-held legal entity and/or access to a convertible loan under various payback terms. An investment can come from both funds (as legal entities under Russian or foreign jurisdiction possessing enough capital from one or more sources to invest in privately held companies and promoting themselves as such in the market) and private individuals/groups of such individuals.

When assessing volumes and dynamics for Russia's VC market, we exclusively took into account venture investments in companies that predominantly operate in Russia. Deals involving Russian investors and investment recipients that are focused on markets beyond Russia were not considered in this Report as contributors to the overall value of Russia's VC market.

Investment-related information used in this Report is first and foremost the information that became publicly open through the media, blogs, corporate websites, public presentations and start-up databases. In any other instance, we contact a newsmaker, or source, for confirmation.

Describing "corporations" in this Report, we refer to corporate funds whose capital comes from corporate founder's internal sources and whose investment activity is not limited to exclusively supporting affiliated companies.

Analyzing the overall value of Russia's VC market, we did not consider exits and investments in market infrastructure. Token placements (ICOs) were also singled out for separate analysis. "Investment in market infrastructure" is referred to as investment in venture funds, business incubators, accelerator programs, technoparks and other institutions that operate in the VC market but are not venture companies. When assessing the VC market, we also took into account grants and investment loans. While a grant is a gratis subsidy for R&D, we did consider them as contributions, alongside repayable investments, to the development of commercially driven venture projects.

"Seed" is the very first round of investment when a developer raises funds to set up a company.

"Rounds A, B, C, etc." are later stage rounds to raise additional funding.

The letter "A" indicates a round that immediately follows seed; "B" means next one, etc. Beyond C, "C+" is used to designate further rounds.

"Exit" is referred to as a special type of deal which results in no additional investment in a project; instead, one or more shareholders sell their stakes to a strategic investor or in an IPO.

METHODOLOGY

For the purposes of this Report, four venture project development stages are singled out:

- Seed, when a project exists on paper or in labs only.
- Start-up, with a legal entity being set up or already operational in its infancy, no sales achieved.
- Growth, when new production begins, a product is being marketed; initial small sales done.
- Expansion, with a boost in output and sales, an increase in market share and office space, etc.

For the purposes of this Report, all venture projects come within seven sectors, including Biotech, Industrial Tech, Computer Tech & Equipment, Other Tech, Software & Internet B2B, Software & Internet B2C, and Other IT. The first four form the Technology macrosector, and the rest form the IT macrosector.

BIOTECH: projects in the field of healthcare, pharma, diagnostics and medical equipment.

INDUSTRIAL TECH: laser, energy-related, space, robotics, environmental protection and other technologies for use in industry.

COMPUTER TECH & EQUIPMENT: telecom, data storage, mobile tech, computer hardware.

SOFTWARE & INTERNET B2B: apps and web-based services with legal entities as customers. This subsector includes, among other things, business management and marketing solutions and IT product development.

SOFTWARE & INTERNET B2C: apps and web-based services with individuals as customers. This subsector includes e-commerce, content providing, search, consumer finance, education, games, social networks and other consumer-focused services.

The Deals List is based on information published in media reports, open databases (Rusbase, AngelList and others), as well as on proprietary information from RMG Partners. The date of a deal indicated in the appended Table is the date of a deal announcement in the media, the blogosphere or company reports, unless the other is specified. The deal value is exactly the publicly announced investment amount for a project, including investment amounts to come; no payment division by tranches or other transaction closing particulars are considered. Deals involving project loans (a frequent case with government institutions) and subsidies (government procurement contracts) for R&D and product commercialization are considered like any other investments in projects.

TERMINOLOGY

Development stages for an investable start-up:

Seed
An early development stage between the formulation of an idea and the building of a team, new hypotheses verification, and the start of commercial activity.

Start-up
An early development stage, at which a company begins ongoing and full-fledged commercial activity with sales proceeds and plans for growth.

Growth
A hyperactive company development stage, when commercial hypotheses are corroborated and the business needs external funding for explosive growth.

Expansion
A hyperactive company development stage, when the company steps up business and enters into new markets.

Maturity
A stage of sustained and unremitting growth—less dynamic, perhaps, than at the previous stages, which reduces investment risks considerably.

Venture investment stages:

SEED
Roughly corresponds to the project development stages from seed through growth. Investment amounts vary between $100K and $1m.

A
Roughly corresponds to the expansion and maturity project development stages. Investment amounts vary between $1m and $3-4m (in the Russian VC market).

B
Roughly corresponds to the maturity project development stage and beyond. The average deal value in the Russian VC market ranges from $4m to $7-8m.

C
The average deal value ranges from $8m to $25-30m.

EXIT
At this stage, a publicly traded company is established through the selling of an investor's shareholding to another strategic investor in an M&A deal, through an IPO, or through management buyout.

RB partners

MEMBER OF GLOBALSCOPE INTERNATIONAL M&A ADVISORS

In 2017, RMG Partners joined forces with RB Partners to step up investment and M&A activity.

RB Partners

An international group of companies, set up in 2004 to focus on investment and banking services for Russian and international midcap companies. Since 2004, RB Partners has successfully completed more than 80 M&A preparation and support projects worth a total of over $2.5bn. In 2010, RB Partners joined the international Globalscope M&A Association (www.globalscopepartners.com) with a membership of more than 50 investment consultancies in 41 countries with special focus on M&A's and corporate finance.

RMG Partners

In the market since 1993. Company specialists help increase customers' corporate value and investability. Working with fast-growing companies in need of evaluation and fundraising, the company comes up with business development strategies and identifies future growth drivers.

The company provides operational support and pre-investment services, and helps look for international partners and streamline capital transactions.

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PARTNERS

SPECIAL THANKS TO:

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CONTACT INFORMATION

Moscow, Russia
2 Smolensky Blvd, 119034

St. Petersburg, Russia
15 Chapaeva St., 197101

Tashkent, Uzbekistan
4B Afrosiab St., of. 205

Almaty, Kazakhstan
24 Zhandosova St., of. 15

Hong Kong
Wan Chai, 151 Glocester St., AXA Centre

Larnaca, Cyprus
48 Inomenon Eton

www.rbpartners.ru

Arseniy Dabbakh
Partner

Mob: +7 (903) 596-37-92
Tel: +7 (495) 726-59-17
DabbakhAD@rbpartners.ru