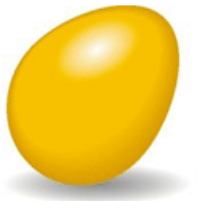


Warsaw, September 2016

VC market in Poland Q2 2016

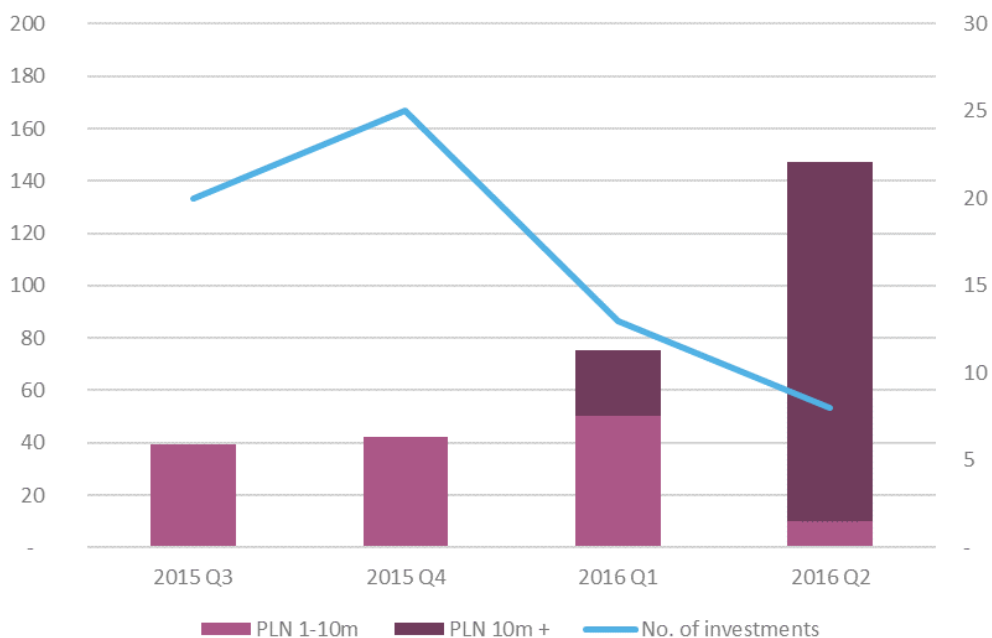


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Inovo's perspective

Polish VC market follows the global trends - the number of transactions declines while the amount of capital invested increases. In Q2 2016 there were only 8 rounds over PLN 1 million, of which 2 companies accounted for 89% of the capital raised - DocPlanner PLN 80 million and Brainly PLN 57 million. The remaining 6 transactions raised significantly less capital than similar transactions in previous quarters. We believe this is related to the end of investment period of several funds supported by the National Capital Fund (KFK) and the National Centre for Research and Development (NCBR) at the end of 2015.

Chart 1. The number and value of transactions in Poland in the last four quarters



We expect a slight increase in the number of transactions and the amount of capital raised by the companies at the end of 2016. Of the surveyed VC fund representatives, more than 25% declared an increase in the number of investments in the second half of the year.

There is an open question on how will the pace and number of investments be impacted by the end of investment periods of the last operating NCF (KFK) funds and whether, when and in what formula new governmental programs will start supporting VC investments, including, among others, Start in Poland programme announced by the Deputy Prime Minister Mateusz Morawiecki worth PLN 3 billion.

It might be a good time to consider increasing involvement in the private VC funds, which will have a chance to participate in the mega-rounds of Polish companies that have lately begun to appear on the Polish market.

Number of transactions

In the second quarter of 2016 there were 8 transactions - this is the worst result in the last 12 months. This represents more than 60% decrease in the number of transactions compared to the record period of Q3 2015 when 20 investment agreements were signed.

Trying to find an answer to the source decrease of the number of transactions, we looked at what kind of investors were involved in transactions in the respective periods. The structure of the investments by the type of investor is shown in the table below.

Table 1. Number of transactions* in the last 4 quarters by investor type

Investor type	2015 Q3	2015 Q4	2016 Q1	2016 Q2
Polish fund	18	24	12	6
Foreign fund	2		2	3
Business Angel	1		1	1
Strategic investor			1	1
Unknown investor	3	5		

*Some transactions involve investors from different investor type groups. In such cases, transaction is assigned to all groups.

It is evident that in absolute terms the biggest drop was recorded by Polish funds, which in the last two quarters of 2015 participated in 18 and 24 transactions in Q3 and Q4 respectively, and in the second quarter of 2016 years - in just 6.

The size of investment

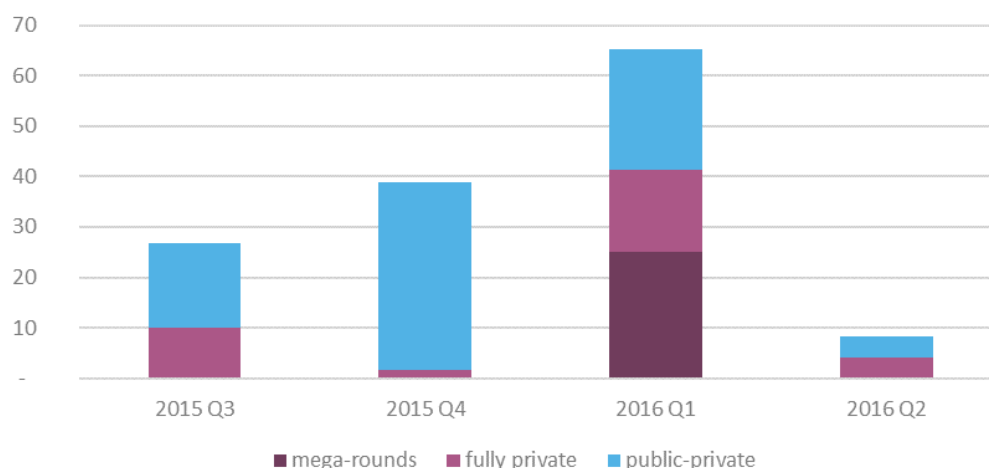
In terms of the amount of capital that was invested in young Polish companies, the last quarter with PLN 147 million looks very good, because this is by far the best result since January 2015, up by PLN 72 million compared to the previously record first quarter of 2016. More than half of the cash that was invested over the last 12 months was invested in three transactions - the last round of DocPlanner, Brainly and SalesManago. If you do not account for mega-rounds (rounds over PLN 10 million), it is evident that the rate at which capital flowed to companies in the last quarter strongly slowed down, reaching a total of less than PLN 20 million in Q2 2016.

Table 2. The volume of transactions in the last 4 quarters, by investor type (PLN mln)

Investor type	2015 Q3	2015 Q4	2016 Q1	2016 Q2
Polish fund	27	39	65	8
Foreign fund	6		7	82
Business Angel	5		1	2
Strategic investor			2	55
Unknown investor	2	3		

The decrease in the volume of investments among the Polish funds is visible both among private entities, as well as those supported by the State funds. In the first case, the image is disturbed by inclusion of SalesManago transaction made by 3TS Capital Partners in Q1 2016. In the case of public-private funds, you will see a significant decline from approximately PLN 15-25 million quarterly to approx. PLN 5 million in Q2 2016, partially due to the end of investment periods of several funds supported by the National Capital Fund (KFK).

Chart 2. The value of transactions made by Polish funds in Poland in the last four quarters.



Transactions in Q2 2016

During the second quarter, there were 8 rounds above PLN 1 million, 2 of which are mega-rounds.

Table 3. Investment rounds in second quarter 2016.

Company	Investors	Sector
DocPlanner	Target Global, Enern, EBRD	Healthcare
Brainly	Naspers, Runa Capital, Point Nine Capital	Education
RemoteMyApp	MCI Internet Ventures	Gaming
Perfect Gym	Innovation Nest, Daft Code	Health&Beauty
44Group	Giza Polish Ventures	HR
Brand24	Venture Incubator	Marketing
Flowbox	Innovation Nest	Video
LokalnyRolnik.pl	Hedgehog, Protos VC	Foodtech

The largest round in the last quarter (as well as from the beginning of 2015) was an investment in DocPlanner, which in part was used to finance the acquisition / merger with Spanish rival Doctoralia. DocPlanner globally raised PLN 120 million since January 2015. Moreover, the second largest round since January 2015 has also been raised in the second quarter of 2016 - it was Brainly Series B round.

There was no sector, which in the last quarter enjoyed more popularity than others.

Most active investors – number of transactions

Looking at the number of transactions above PLN 1 million in the past 12 months, the most active funds were Inovo.vc, Xevin, MCI Internet Ventures, Giza Polish Ventures and Joint Polish Investment Fund. These VC funds were involved in almost 60% of the transactions that took place during this period.

Table 4. VC funds according to the number of investments in the last 4 quarters

VC fund	Number of investments
Black Pearls VC	10
Inovo VC	8
Xevin	7
GPV	6
MCI Internet Ventures	6

In the last quarter, the most active VC investor in the market was the Innovation Nest, which participated in two transactions. The other investors were involved in a single transaction.

Most active investors – Investment value

The precise assignment of the volume of investments to individual investors based on public information is impossible. The following data should be treated as estimates, after reading part on the methodology for estimating these values. At the same time, we encourage the funds that have not done so to send more comprehensive data on their investments in subsequent periods.

Additionally, classifying investors according to the amount of capital committed in the last 12 months, the first places are taken by investors, which participated in the super-rounds: Naspers, Target Global, 3TS Capital Partners, EBRD and Enern. Because of their incidental nature, we exclude the mega-rounds in this part of the analysis.

Table 5. VC funds by invested capital in the last 4 quarters

VC fund	Invested Capital
Joint Polish Investment Fund (JPIF)	22
GPV	16
Inovo VC	14
Black Pearls VC	13
Experior Venture Fund	12

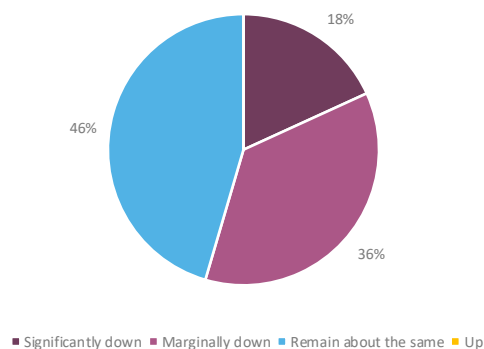
In terms of invested capital in the last 12 months, 4 funds, ie. Joint Polish Investment Fund, Giza Polish Ventures, Inovo.vc and Experior Venture Fund, have contributed more than 60% of the capital. According to the available data, no other fund has invested during this time, more than PLN 10 million.

Valuation expectations in H2 2016

In order to widen the perspective of this analysis, we decided to ask representatives of the funds in an anonymous survey to share their feelings about the situation on the market in the coming months.

According to representatives of the funds the valuation pressure will decrease, leading to lower valuations of startups in the coming months. 46% of surveyed funds are expecting decline in valuations in the second half of 2016 and no one believes that we will see an increase in the valuations.

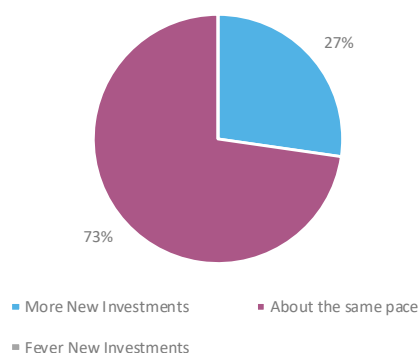
Chart 3. Do you expect valuations to go up, down or remain about the same in H2 2016? (n=11)



Expectations on number of transactions in H2 2016

Representatives of VC funds do not assume significant changes in the rate of making new investments. Only one in five believes that he or she will make more new first check investments. Given the small number of transactions in the second quarter of 2016 it may mean that there will be no significant recovery, and the market will remain in the vicinity of 10 transactions over PLN 1 million a quarter.

Chart 4. Do you think your firm will make more new first check investments or fewer in H2 2016 vs. H1 2016? (n=11)



Methodology

The criteria used in the selection of transactions for the purposes of this analysis:

- transaction is at least for PLN 1 million (transactions over PLN 10 million are classified as mega-rounds);
- company is based in Poland
- information on the transaction was provided by the industry portals, is available in the public databases or was submitted by the investment fund involved in the transaction.

For investments which involved more than one investor, in the absence of other information, we assumed that all investors participated in the round evenly. Alternatively, if there is information on the leading entity (ie. Lead investor), we assigned 50% of the round to it and the rest of the amount is

divided equally among the remaining investors. Keep in mind that this is a simplification, which for the majority of transactions will not be true.

In addition, it should be noted that some funds do not report in detail the investment rounds, and in response to our questions indicated only names of companies they have invested at least PLN 1 million. In this case, we assume that PLN 1 million was the value of the round.

We would also like to draw your attention to the fact that certain funds and / or the companies provide the maximum possible value of the round after taking into account all tranches, conditional entries etc. Due to the fact that the detailed provisions of the investment agreements are usually confidential, in good faith, we assume that the value provided to the public is likely to be received as a result of the company's normal business, unless we have additional information.

Acknowledgements

We wanted to thank all the people whose feedback has enabled the creation of this report. In particular we want to thank:

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- Protos VC
- RTA Ventures
- Satus
- Skyline Ventures
- SpeedUp Venture Capital Group
- Xevin
- Venture Incubator