THAW ON THE RUSSIAN VENTURE CAPITAL MARKET

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CONTENTS

MESSAGE FROM RB PARTNERS

Dear friends!

I am pleased to bring to your attention the latest in our series of reports on the Russian venture capital market. This issue looks at developments in 2016.

Many people will remember it as a year of crisis in Russia, with major difficulties in the economy and politics. But in the context of the Russian tech market, I would call it “a year of rethinking and transformation.” We will try to justify this wording in detail in the Report. But I would note the four key points right away:

1. The government wound down its investment activity, partly replacing investments by grants
2. The angel investor community moved up a gear
3. Russian corporates stepped up their involvement in the venture market, looking to acquire technologies and tech companies to meet their own industrial needs, and also creating funds to invest on the venture market. Funds have been set up by such powerful players as Sberbank, Rostelecom, AFK Sistema and others
4. Mail.ru Group was the hero of the venture market in 2016 thanks to its acquisition of Delivery Club and Pixonic. Such a start-up buying spree was long awaited

As a result, there turned to be more deals and more exits and, in general, more activity on the market. Sustaining this momentum is the challenge for 2017.
We hope that the current Report will prove to be informative as regards the current status, trends and challenges on the Russian VC market.

I will genuinely appreciate your comments on the research contained herein, including the identification of errors and inconsistencies, as well as areas worth highlighting in future reports. Please email me at: dabbakhad@rbpartners.ru. I will be happy to respond to your message.

ARSENIY DABBAKH
Partner, RB Partners

MESSAGE FROM EY

We continue to take an active interest in Russia's venture capital market, watching it grow and participating in its development. The euphoria of 2012-2013 was followed by two years of apathy as Crimea-linked sanctions and the plunge of oil prices and the ruble took their toll. Very little new investment was seen in that period. But an upturn in exits in 2016 makes us hopeful that a significant part of this money will come back into the innovation ecosystem, offering a boost in 2017.

Domestic VC funds show no signs yet of reversing their emergency reorientation in 2014-2015 to markets outside Russia, where they can obtain acceptable profits in dollar terms. Indeed, many of these funds can no longer be properly called "domestic". Progress by funds that remain focused on the Russian market has been slow. Many of those, which have been longest on the market, have already drained their original funds and are now raising new money. That is no easy task, since the key investors for Russia's VC funds are not institutions (as elsewhere in the world), but high net worth individuals and their families – a relatively small population, many of whom are already deeply involved in venture investment.

The other major potential investors – large Russian corporations – remain unsure just what new technologies and digital advances mean for them, and how best to invest in them. So their role in the venture ecosystem, both as investors in funds and through their own corporate funds buying portfolio companies from other VC funds, remains limited. The innovation policy of Russian corporations has to be better prioritized, including development of a deal strategy. I see a possibility of more interest from corporations following numerous successful exits in 2016.

In their justification, corporations point out that Russian start-ups often fail to tick boxes that would make them into attractive acquisitions. This is something that accelerator programs could address. Clearly, there is huge potential for more efficient interaction between venture funds and corporations, and this is one area that could drive an upturn on the venture market in 2017.

ANTON USTIMENKO
Partner, EY

KEY FINDINGS

THAW ON THE RUSSIAN VENTURE CAPITAL MARKET

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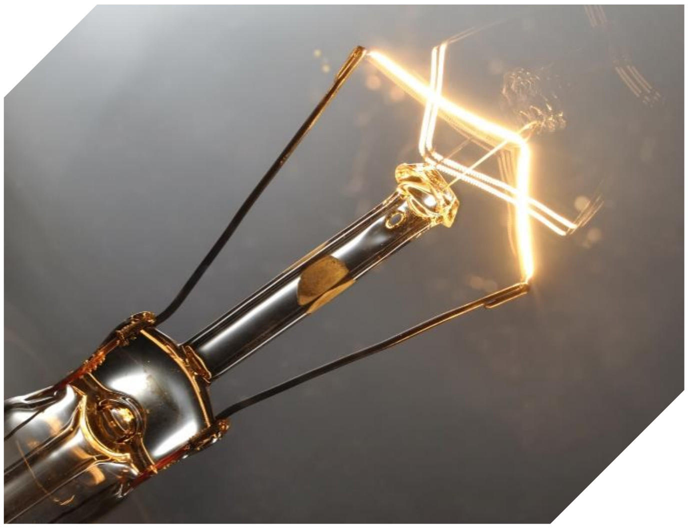
1 KEY FINDINGS



The B2B segment changed in 2017. Traditional areas (corporate management systems, platforms, e-commerce and search/recommendations) shrank by a half or more, while service start-ups reigned supreme (a symptom of uberization, perhaps).

Software and Internet remain dominant investor targets, and that will not change in the foreseeable future. However, industrial tech is becoming more popular thanks to government and quasi-government investors and private-public partnerships, matching the strategies of Russia's rulers for development of the national economy. Corporates with long-term, non-venture (non-exit) strategies are among the main investors in industrial tech

There was a little change in 2016 from the doldrums of 2015 by deal numbers, which inched up from 297 to 302, but much bigger improvement in overall investments, which grew from $383m to $894m.

Decline in both deal numbers and deal values at the earliest stages (seed and start-up) continued in 2016. Overall market growth was driven by strong progress at the growth and expansion stages

Private VC funds were focused on the (least risky) growth and expansion stages. Corporate investors played a role at advanced stages, while seed and start-up projects had to peck up crumbs thrown by the government and the angel community

Investments by the government, which has been the main sponsor of seed and start-up firms, were reduced and became more targeted on research-intensive projects and technologies. These ones often do not become available to the private sector at all. This is a part of the reason for the reduction of early-stage investments.

2016 IN NUMBERS

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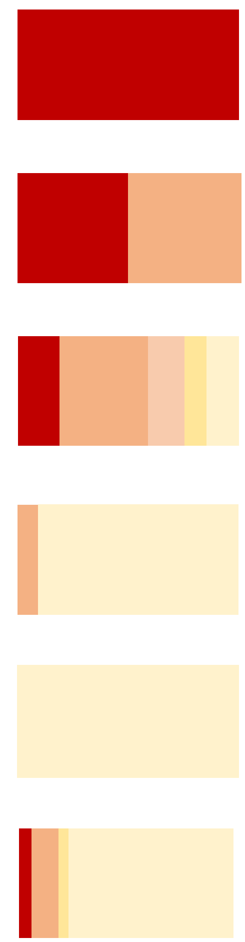
2016 IN NUMBERS

Trends in 2016 can be seen at a glance through statistical comparison with 2015

	Number of deals		Investment, $m		Average deal value, $m	
	2015	2016	2015	2016	2015	2016
Seed	128	107	32	10	0.3	0.1
Start-up	101	58	79	28	1	0.5
Growth	24	95	67	94.5	3	1.2
Expansion	22	40	183	758	9	22
Maturity	3	2	4	3	2	3
TOTAL	297	302	383	894	1.3	3
of which, Exits	4	14	11	663		

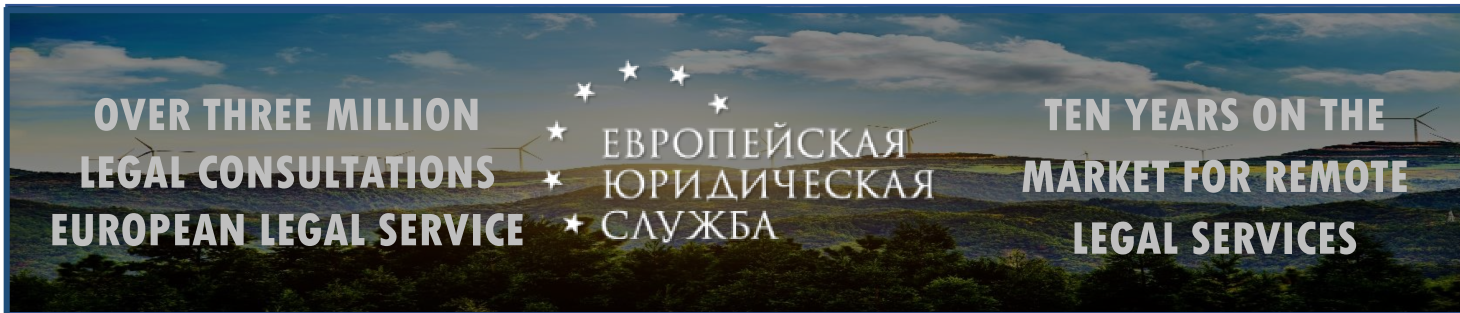
Investor structure



LEGEND

Years
2015
2016

Funding rounds
Seed A B
C+ Exit



European Legal Service was set up in 2007 and was the first Russian firm to offer a full range of remote legal services

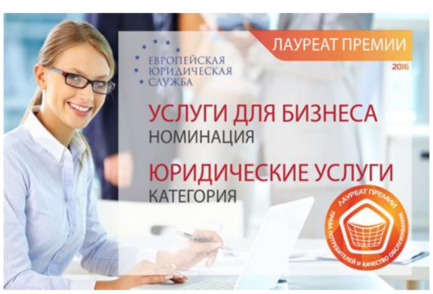
The Company now employs 110 legal specialists with vast experience in various branches of the law

Company services are accessible 24/7 by a range of communications channels, including phone, email, online chatroom, Skype or a call via the user dashboard on our site

www.els24.com

European Legal Service has been in business for over ten years, and has provided more than three million legal consultations to an aggregate client database of about 500,000 people

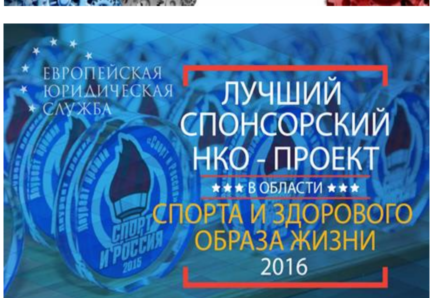
The Company is already present in seven countries (Russia, Georgia, Azerbaijan, Belarus, Kazakhstan, Armenia and Poland) and plans to expand further in the former USSR and Eastern Europe as well as entering markets in Western Europe



European Legal Service is developing its own IT capabilities to achieve greater automation of services and use of artificial intelligence. The Company now has its own legal cloud service, and a chatbot offering support in four areas of law.

The Company partners include Russia's largest banks, insurers and other players, including:

Тройка Д Банк	БИНБАНК	Альфа Страхование
Банк Санкт-Петербург	Почта Банк	Восточный банк
Абсолют Банк	Промсвязьбанк	ОТП банк
Тинькофф	БИН Страхование	Московский Индустриальный Банк



EUROPEAN LEGAL SERVICE WELCOMES COOPERATION WITH STRATEGIC AND FINANCIAL PARTNERS

RUSSIAN VENTURE INDUSTRY IN RETROSPECT

THAW ON THE RUSSIAN VENTURE CAPITAL MARKET

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3 RUSSIAN VENTURE INDUSTRY IN RETROSPECT

The mood on Russia's venture market in 2016 was one of restrained optimism, in contrast with the despondency of 2015. The numbers and the opinions of market players (see below, Part 6 of this Report) justify a view of 2016 as the start of the post-crisis period.

In our last Report, we described 2015 as "autumn" on the Russian JV market. By contrast 2016 felt like an "early spring": full of promise, but still unsettled

The trend can be seen if we go back to 2014 and trace developments, step by step, for each of the last three years.

It is important to remember that, despite dramatic devaluation of the ruble, the fall of Russian financial and share markets, and growing pessimism among venture capitalists, 2014 was not a bad year for Russian VC, as negative events only accumulated in the second half of the year and didn't have time to mar full-year figures.

However, investors understood that the market was entering a period of turbulence with high levels of risk. A number of transactions were put on hold at the end of 2014.

3 RUSSIAN VENTURE INDUSTRY IN RETROSPECT

Here are the forecasts, which a couple of Russia's top VC fund managers shared with the country's leading business daily, Kommersant, in late 2014*:

Dmitry Chikhachov
Runa Capital

Alexander Turkot
Maxfield Capital

« *Technology risks as such will remain unchanged, despite the situation in the economy. Investments in technology are less vulnerable to political and macroeconomic risks than other types of assets, and we even look relatively attractive in comparison with them. Geographic diversification of the Runa portfolio also reduces risks.*

Investments in the VC market will deteriorate further. This is because of the cyclical nature of the market. We saw strong growth in the last two years, when investment volumes increased by more than ten times. A measure of cooling will even be good for the market. »

« *There will be fewer international investors, including those focused on advanced stages. We are likely to see a contraction in the number of exits through sale of stakes to a foreign financial institution. But the negative trend will be offset to an extent by the emergence of new Russian funds. This was already visible in 2014 when Ocean Capital, Run Capital and others made their entry.*

Some of the most active and successful funds will continue to work with bigger geographical reach. The Russian domestic market is OK for launching a company, but to make a venture truly lucrative it has to gain a leading position in one large or several medium-sized regional markets; so funds will be seeking out deals right across the former Soviet Union. »

As we see, at the end of 2014, after years of exponential growth, venture capitalists were suddenly very cautious in their forecasts.

* *http://www.kommersant.ru/doc/2630822*

3 RUSSIAN VENTURE INDUSTRY IN RETROSPECT

The key facts of the Russian VC market in **2014**:

1. Decline in an average deal value and increase in a number of deals at early stages, mainly thanks to a new “hyperactive” player – the government-owned Internet Initiatives Development Fund (Russian acronym “FRII”).

2. Syndications grew more frequently due to hedging of risks, shrinkage of cash in funds, and better communication between funds.

3. The government, quasi-government and private-public funds got more involved. The FRII notched up 122 deals, followed by the Moscow Seed Fund with 12 deals, then RVC Infrafund and SBT with five deals each (figures reported by the funds themselves).

4. New corporate funds continued to emerge despite the weaker market. Corporate funds made many deals in 2014: QIWI Venture (10 deals), Softline (3 in its first fund and 4 in its second fund), LETA Capital (6 deals), etc.

5. Investments in financial technologies emerged as a new strong trend, challenging the dominant SaaS and e-commerce segments

6. Russian funds stepped up investments in foreign assets, shifting their focus from Ukraine to Israel and the US (e.g., Runa, TMT, Altair, LETA Capital, Flint Capital, etc.).

So, 2014 gathered a rich harvest before the storm clouds burst. But it was clear to all players that the next year would be very challenging. And so it was. Here, in short, the key results of **2015**:

1. The market slumped by deal numbers (from 436 to 278) and overall investments (from $788m to $365m). Exits plummeted from 29 to 4.

2. The balance between deal numbers at different stages changed. There was a slight increase of deal numbers at very early stages and a decline at later (A, B and C) stages.

3. International investors quit Russia en masse. The traditional Firrma and RVC ranking of activity by VC funds showed 10 foreign funds making at least 2 deals in 12 months during 2013, then only 5 foreign funds making 2 deals or more in 2014 (including Ukraine’s TA Ventures) and no foreign funds with 2 or more deals in 2015.

4. Growth in activity by seed and angel investors was the only hopeful sign. FRII (the government-owned Internet Initiatives Development Fund) was among the most active investors accounting for 25-35% of the venture investment market (estimates differ). FRII reported 74 deals in 2015. Altair was in the second place with 22 deals.

3 RUSSIAN VENTURE INDUSTRY IN RETROSPECT

Comments by two leading players regarding the market in 2015 are worth quoting (reported by Firrma.ru):

Sergei Gribov
Partner at Flint Capita and angel investor

« *All the smart money has left Russia. The earlier surge is still bringing a few private investors to high-tech, but the smartest of them are putting money into funds that invest outside Russia. They want help investing in the States.* »

Sergei Vasilyev
Chief Investment Officer, Starta Capital

« *The overall economic downturn is having major impact. I have spoken to private equity investors recently, and they are choosing to sit on their cash and wait. A lot of VCs are doing the same. They don't know what they're waiting for, but they don't want to invest now.* »

Better trends began to emerge at the end of the year. Angel investors remained active, an average deal value rose from $1m to $3m, and investments at the growth stage began to recover (see the Russian VC Market Overview for 2015 by RMG Partners). But the market size in 2015 was down by between 30% and 50% y-o-y (estimates vary). That was the situation at the start of 2016.

IPOboard offers new opportunities for privately held companies to raise capital.

IPOboard is a crowd-investment platform that funds privately held promising companies at early growth stages (pre-IPO) and subsequent flotation of their securities in the OTC market.

The platform is an integral part of the Innovation and Investment Market at the Moscow Stock Exchange working closely with the Exchange itself and with Russian development institutions, including the Russian Venture Company (RVC), Rusnano, Skolkovo, etc. (35 in total).

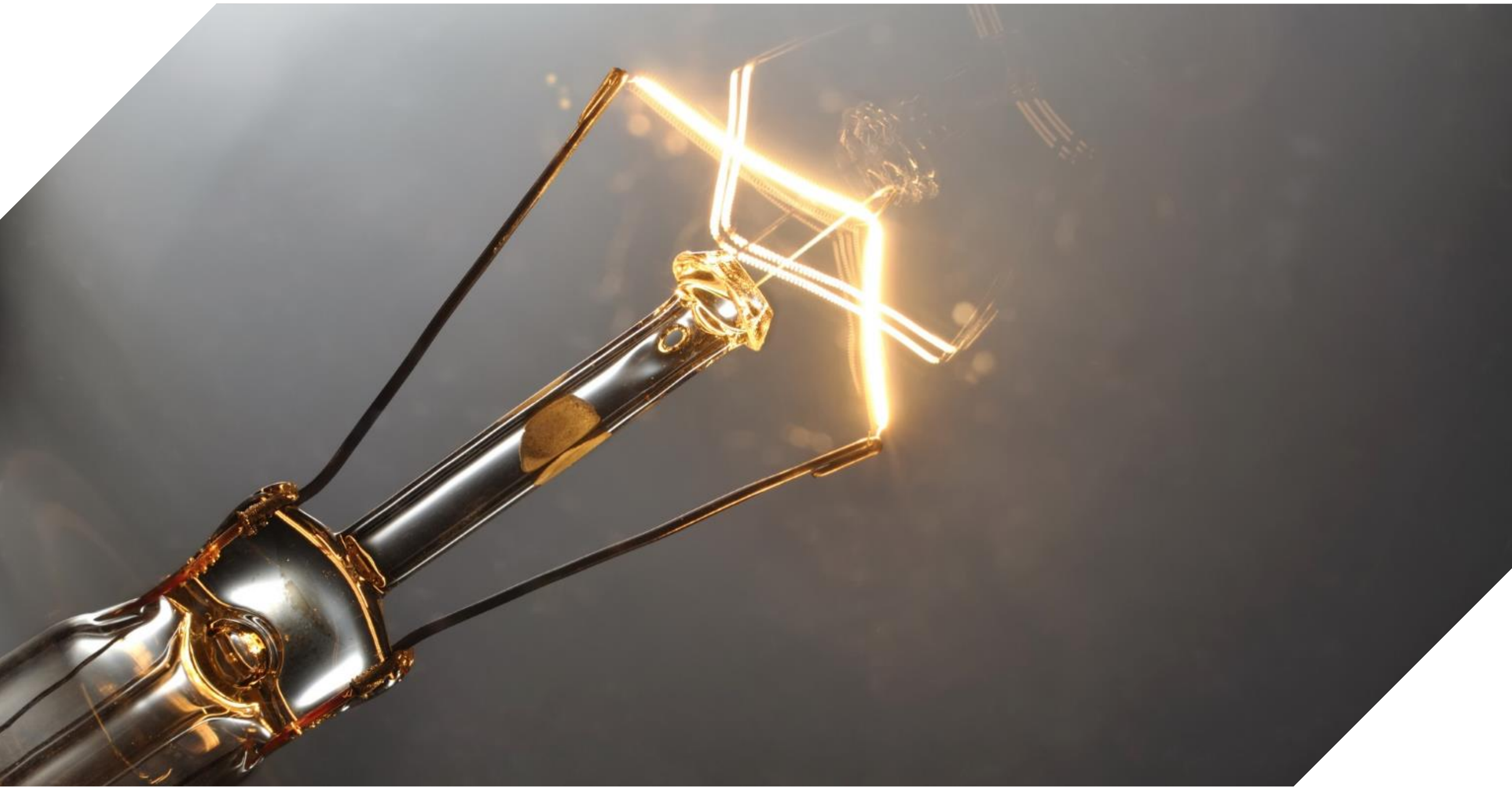
In March 2017, an Agreement was inked with the government-backed Industry Development Fund for promotion of the IPOboard crowd-investment platform and cooperation in fundraising for high-tech industrial companies. IPOboard will offer Russian industrial companies a simple and efficient tool for raising funds from a wide range of investors, and will give retail investors the opportunity to co-invest in promising high-tech industrial companies selected by the Fund.

Companies can use their shares and bonds to raise sums between 30 and 500 million rubles (about $500,000 to $9m) on IPOboard. Twelve accredited intermediaries are responsible for company screening and investment paperwork.

IPOboard is working hard to promote crowd-investment mechanisms enabling private investors to co-invest alongside professional investors. The system for selection of investment targets, maximum information disclosure and the screening by accredited intermediaries and development institutions substantially lower risks. Raising capital via the IPOboard crowd-investment platform is the first step for emerging high-tech companies on their way to a possible IPO. As of today, 18 companies have successfully attracted funding and four of these have since carried out an IPO on the Moscow Stock Exchange.

www.ipoboard.ru **support@ipoboard.ru**

OVERVIEW:
THAW ON THE RUSSIAN VC MARKET



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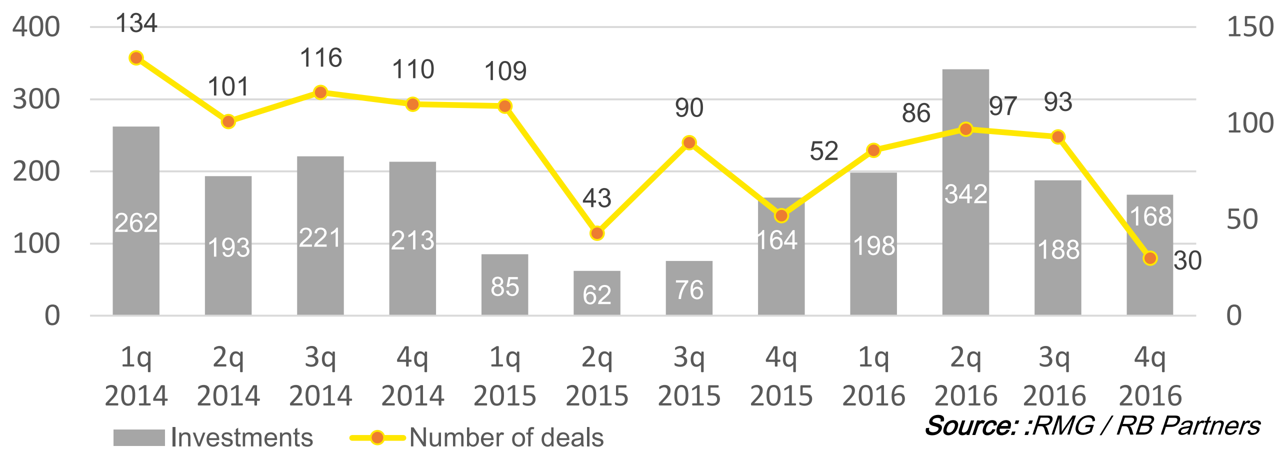
4 OVERVIEW:
THAW ON THE RUSSIAN VC MARKET

Investments ($m) and deal numbers



Source: :RMG / RB Partners

** The graph includes acquisitions (exits)*

There was a token increase of deal numbers y-o-y in 2016 (from 297 to 302), but the increase of investment volumes was much bigger – from $383m in 2015 to $894m in 2016. However, the trend was driven by exits, which grew in number from 4 to 14 and in value from $11m to $663m y-o-y, accounting for two thirds of the entire market in 2016.

The biggest deals in 2016 were purchase of the online recruitment service, HeadHunter, by the Russian investment consultancy, Elbrus Capital; purchase of Delivery Club, Russia's biggest food delivery service, by the internet group Mail.ru; and $300m paid by Volkswagen for a minority stake in the online cab-booking platform Gett. Although Gett is an Israeli company, we count the last deal as part of the Russian venture scene, due to the Russian origin of the company founder and the fact that Russia is a major market for the company.

All three "super-deals" are treated by us as exits. This is not strictly true in the case of Gett, but its treatment as an input of cash to the Russian venture market would be even further from the truth. The size of the Gett and Headhunter deals puts them beyond our upper limit of $100m for a deal to qualify it as "venture", but our approach allows deals above the limit, provided that the companies are defined as "tech", which is certainly true for Gett and Headhunter. We also note that Uber (for example) is commonly described as a "venture start-up", despite its capitalization of $60 billion.

Russian VC investments in 2016 without exits were actually down in comparison with 2015 (from $373m to $231m). However, we view exits as a vital contribution to the health of the Russian VC system, as much of this money is earmarked for re-investment in venture projects.

Largest deals and exits in 2016

Date	Asset	Investor	Amount ($m)	Stake	Company stage
Feb.16	HeadHunter	Elbrus Capital	130	n/a	expansion
Feb.16	E96.ru	Technosila	4.5	n/a	expansion
Apr.16	Megaplan	1C	3	27%	maturity
May.16	Gett	Volkswagen Group	300	n/a	expansion
Jun.16	System Solutions	Ekaterina Ignatova	1.5	99%	n/a
Jul.16	R-Style Softlab	Asseco GroupSoftlab	12	30%	expansion
Jul.16	Inoventica	Regional initiative	1	5%	expansion
Oct.16	Pixonic	Mail.ru Group	30	n/a	expansion
Oct.16	amoCRM	1C	10	51%	growth
Nov.16	Delivery Club	Mail.ru Group	100	100%	expansion

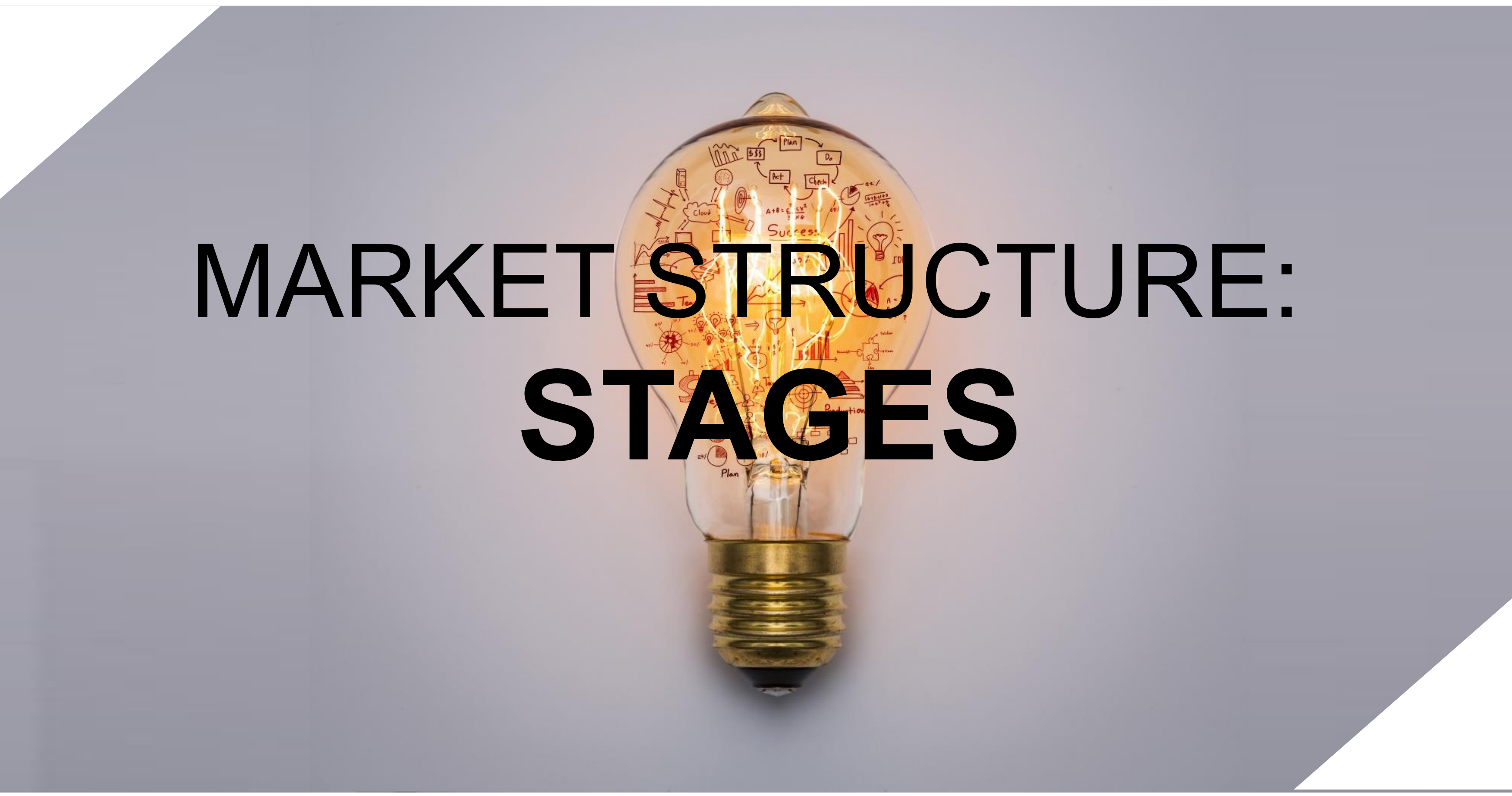
Investment flows were fairly strong in the first quarter, partly due to completion of deals that were postponed in late 2015. The second quarter was the strongest in the last three years. Volumes sagged in the third quarter and remained unchanged in the last three months of the year. But every quarter was better than the respective period in 2015 and total investments were even better than 2014, when they were $788m.

Clearly, a number of VC investors judged in 2016 that the worst was over for the Russian economy and broke the investment moratorium, which they had kept since 2014. Companies already beyond the risky seed and start-up stages were the most popular with commercial investors.

It is unclear why deal numbers plunged in the last quarter, but the effect may be due to a slow-down in activity by early-stage (including the government) investors, who had accounted for a large share of early-stage deals in the previous two years (more of this below). We hope to see a number of deals, which were held over from Q4 2016, being completed in Q1 2017.

Many advanced-stage investors turned away from the Russian market in 2016, seeking acquisitions elsewhere in the world.

OVERVIEW:
THAW ON THE RUSSIAN VC MARKET



MARKET STRUCTURE:
STAGES

THAW ON THE RUSSIAN VENTURE CAPITAL MARKET

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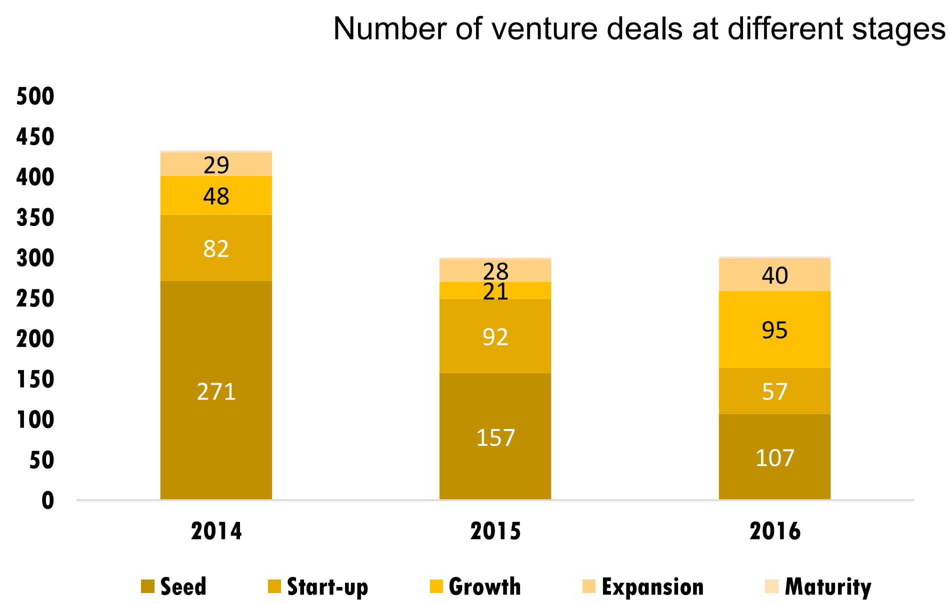
MARKET STRUCTURE: STAGES



Source:
RMG / RB Partners

The most worrying feature of the 2016 statistics is a major drop in deal numbers and the money invested at the earliest seed and start-up stages, which experienced a decline even in comparison with 2015. Early-stage investment was weak throughout the year and particularly in the last quarter.

We believe that the government policy is most to blame for this development. Russian government agencies have increasingly turned away from direct investment in venture projects, preferring instead to back scientific research and early-stage projects by means of grants and similar forms of support that are not pure investments and are not repayable. We count grants and similar funding in our measurement of VC investments (even though they are not repayable), since they contribute to the commercial value of projects. However, we exclude grants to fundamental science (non-commercial projects).

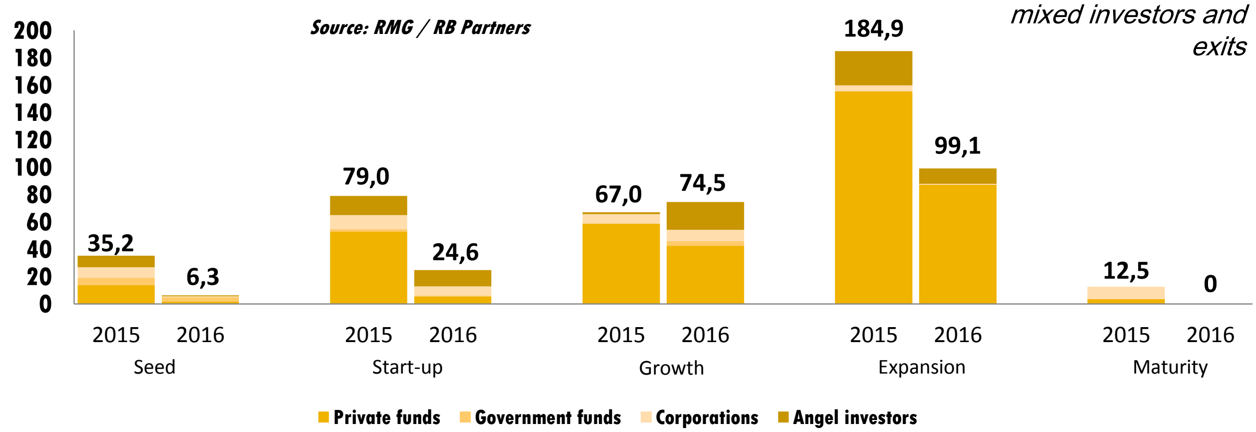
Government and para-governmental entities offering grants are numerous, from the Bortnik Fund to various federal and regional development institutions, universities, etc. Such funding is generally on a smaller scale than direct investments and more of it is going to fundamental science. Hence the drop, which we show, is in early-stage funding in 2016.

In theory, grants should be a blessing for the industry. Certainly, the government is fully justified in focusing on seed and start-up stages, which are unpopular with commercial investors. However, there are doubts about objectivity and efficiency in the choice of investment targets. An even more serious problem is that many recipients settle into the “armchair” of grant funding, failing to reach out to markets and private investors, and cocooning themselves in endless fundamental research (perhaps, an echo of Soviet mentality). A new term, “grantoyezhki” (“grant guzzlers”), has even become current in the Russian language in the last five years. Innovation support institutions need to pay serious attention to this problem.

MARKET STRUCTURE: STAGES

Investor activity by stages

$m, not including mixed investors and exits



The growth and expansion stages were strong in 2016, with the number of deals higher than 2015 in all quarters and higher than 2014 in some quarters. Deals at the growth stage were particularly impressive last year, exceeding 2015 by a total value even without exits, which were a major part of the market in 2016, as we already explained.

These are the stages, which Russian private investors are focused on, and it is pleasing to see a large group of investor-attractive, young companies that have survived the difficult environment of 2015-2016 and raised new funding rounds.

Private funds accounted for the majority of all investments in 2016 as in previous years. But angel investors and Russian corporations also played a significant role at some stages. Years of effort by the Russian government to persuade the country’s biggest corporations to invest in the venture market are beginning to pay off, as several corporations (AFK Sistema, etc.) have now set up VC funds that are taking stakes in projects, which offer synergies or future profits.

The graph of investor types at different stages shows the extent to which private funds have refocused away from seed and start-up towards growth and expansion stages. This trend would be even more evident if the graph included exits.

MARKET STRUCTURE: STAGES:

Top Russian private funds continued to shift their investment activity out of Russia last year. The latest fund rating by Firrma estimates that at least half of deals in 2016 by Russia's top-10 funds (including Runa, Almaz, Flint, Maxfield, Target and InVenture and Ru-Net Holdings) were outside the country and all of them have at least one office outside Russia run by a partner or a venture partner. Ru-Net Holdings, once a purely Russia-based fund, is rumored to have completely relocated abroad.

Investors of Russian origin are expanding their geographic presence and entering new markets. In 2014 and 2015, they tested the waters in the familiar Israeli market (Russian emigres are a large part of the local population) and in the US (the largest market in the world). In 2016, Russian venture investors opened offices in Europe: Flint in Berlin, Runa in London, Target in Berlin, etc.

Another important factor that limited local investment by private funds in 2016 was shortage of free cash. Nearly all funds that were three years old or more were engaged in creation of new funds in 2016, and this put brakes on investing. Some funds, including Prostor, reportedly suspended new investment altogether. Others (Runa, Almaz, Buran, InVenture and Target) closed second funds last year. More fund closures by top market players are expected this year. However, it looks as if the new money will be largely invested outside Russia.

Investment amounts were fairly modest across stages (barely in the tens of millions of dollars), except at the expansion stage. A few large deals typically shape the statistics at both expansion and maturity stages.

** according to the statistics provided by colleagues from Firrma, from the most recent "Funds Ranking"*

OVERVIEW: **THAW ON THE RUSSIAN VC MARKET**

MARKET STRUCTURE: **INVESTORS**

THAW ON THE RUSSIAN VENTURE CAPITAL MARKET

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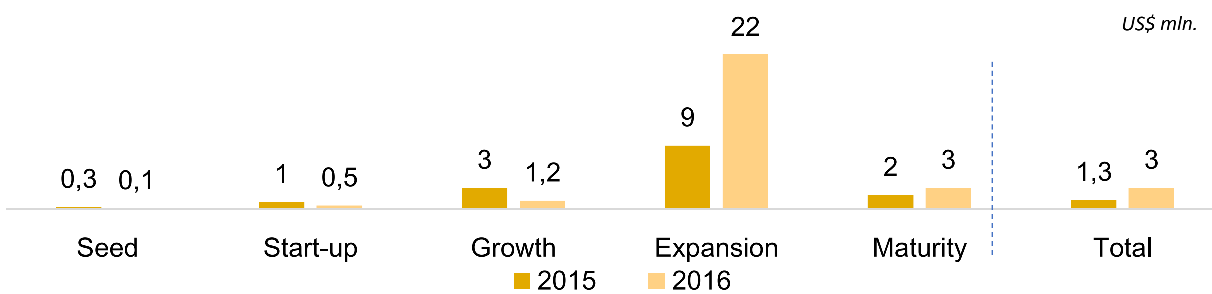
MARKET STRUCTURE: INVESTORS

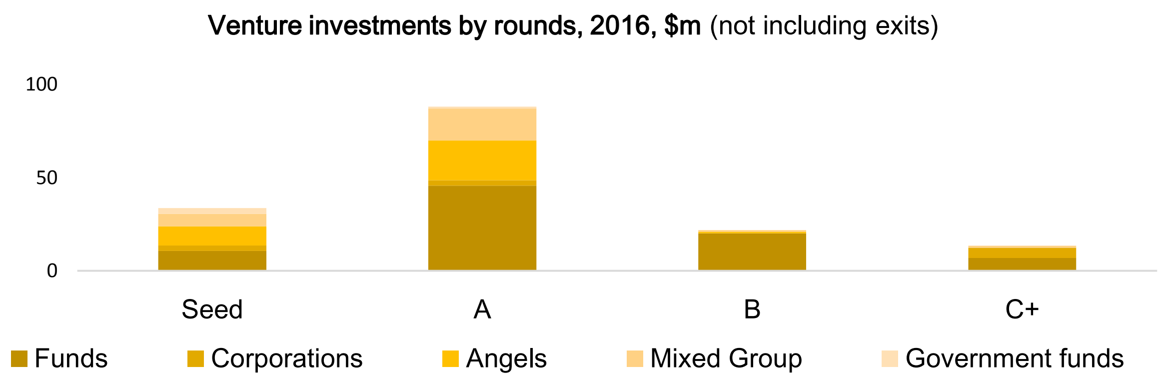
Average deal value by stages



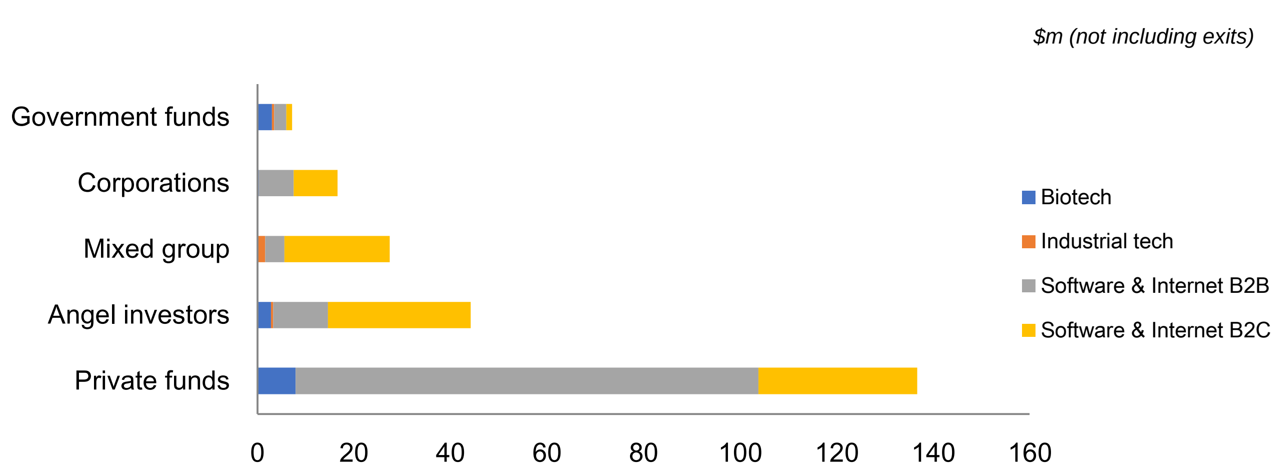
Source: RMG / RB Partners

Average deal value increased considerably from $1.3m in 2015 to $3m in 2016. However, this was largely due to a few large late-stage deals, while seed and start-up deal size shrank.

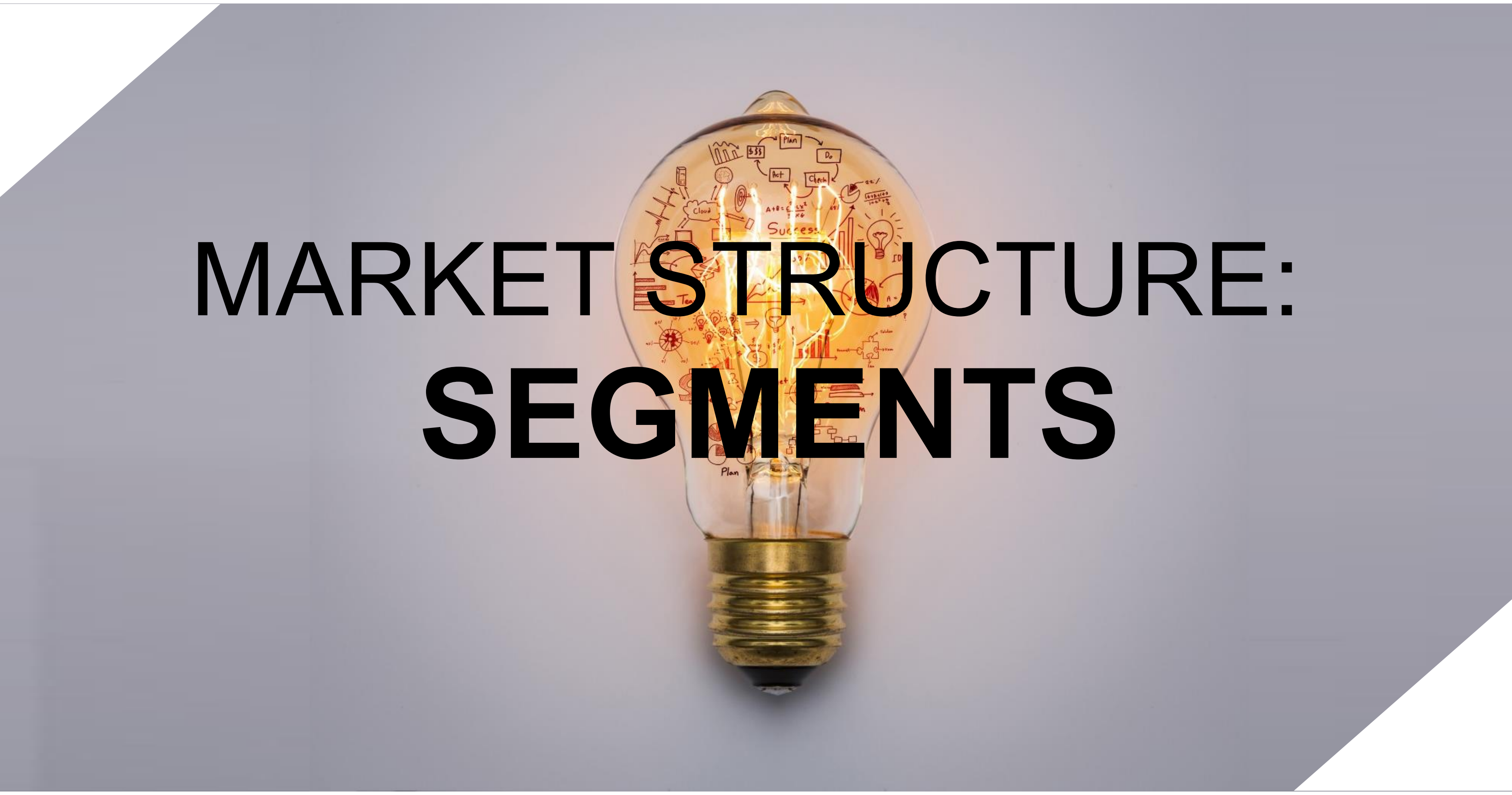
MARKET STRUCTURE: INVESTORS



***Source:** RMG / RB Partners*



OVERVIEW:
THAW ON THE RUSSIAN VC MARKET



MARKET STRUCTURE: **SEGMENTS**

THAW ON THE RUSSIAN VENTURE CAPITAL MARKET

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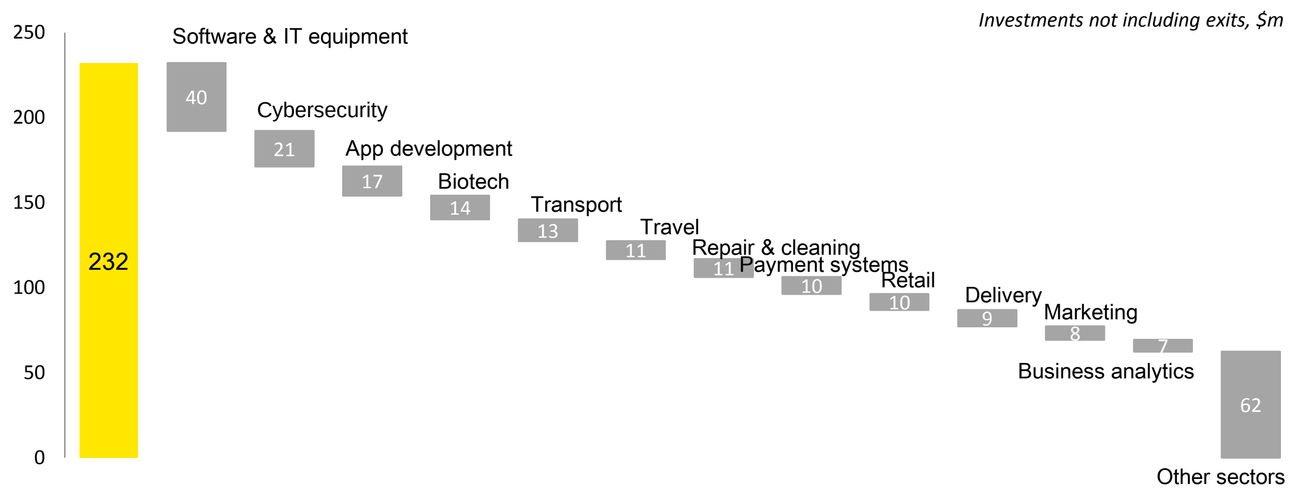
MARKET STRUCTURE: SEGMENTS

Average deal value by stages

Source: *RMG / RB Partners*



IT and internet based projects kept their absolute dominance of the Russian venture market in 2016. This will not change in the foreseeable future. However, while biotech has taken undisputed second place in the past, industrial tech has taken a greater role in the last couple of years. Industrial tech challenged biotech for second place after IT in 2016 (see page 25).

Growth of interest in biotech is likely to be a long-term trend for a couple of reasons. Firstly, because of the government emphasis on modernizing the Russian economy. This goal will be pursued by government and quasi-government investors and also via private-public partnerships, which set themselves the goal of development of the national economy. The second reason for increasing emphasis on industrial tech is growth in the market role of corporate investors with long-term, non-venture business strategies (eventual exit may not be part of the strategy of such investors).

These investors, and not private funds, will lead the charge in industrial tech (there are no more than 10 private funds on the Russian venture market at present, which declare an interest in industrial tech).

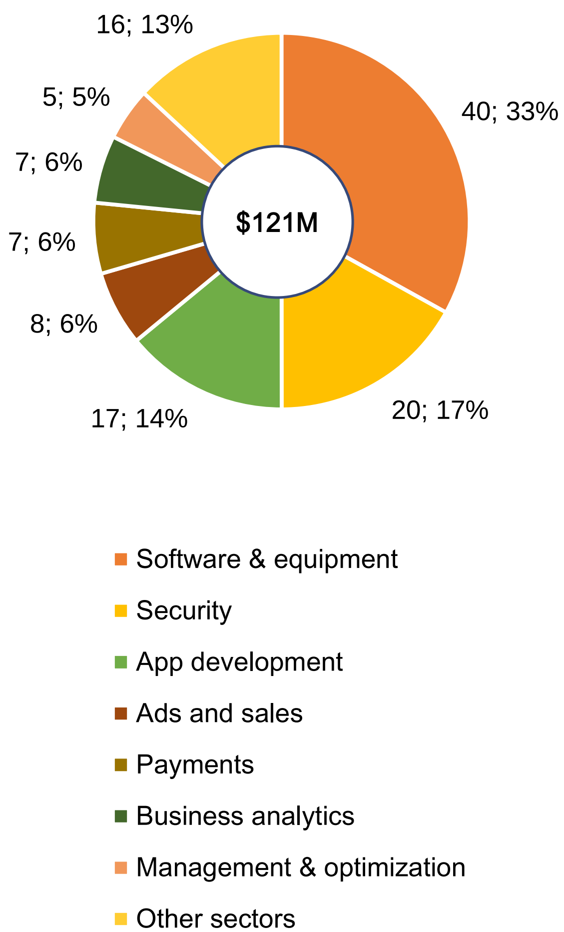
MARKET STRUCTURE: SEGMENTS

Shrinkage of the B2C market last year should be noted. This is hardly unexpected, as difficult economic conditions have put the squeeze on household incomes and therefore also on consumer retail business. Preferences also changed in the B2C segment. Investments in e-commerce and search/recommendations declined dramatically, a result of both consumer market contraction and a change of technology paradigms. Investors turned instead to transportation, travel, repairs and cleaning, perhaps, reflecting the uberization vogue. There was also a strong growth in the gaming segment (a global trend based on fast-developing VR/AR and AI tech solutions).

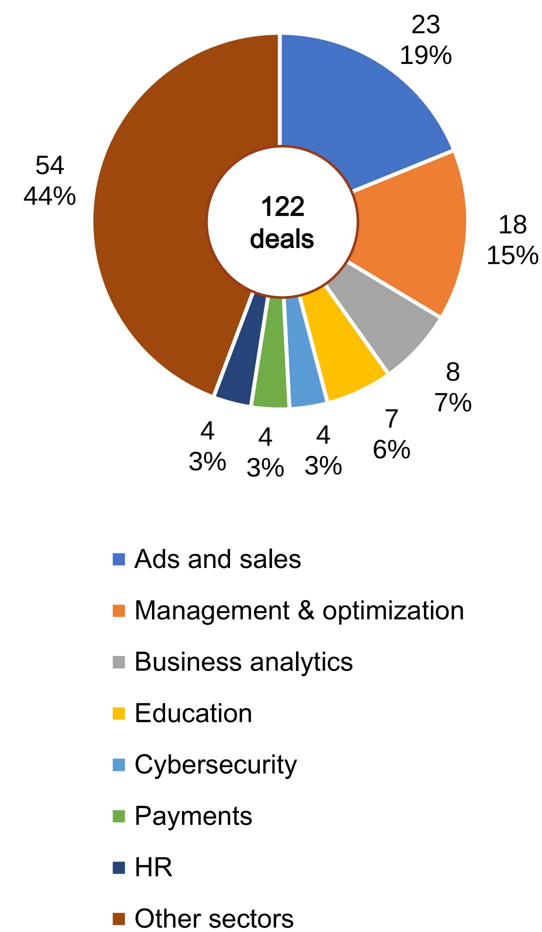
B2B benefited as a safe haven from the woes of B2C. Major changes that occurred last year within the B2B segment are not easy to explain. Time-tested areas like corporate management systems, platforms and traditional B2B solutions shriveled in 2016, and preference was given to software and equipment, cybersecurity and apps. One possible reason is lack of clarity over government-backed import substitution programs in IT (many domestic developers and investors had pinned hopes on these programs).

B2B: SOFTWARE & INTERNET

Breakdown of deals by segments* ($m)



Breakdown of deals by segments* (numbers)



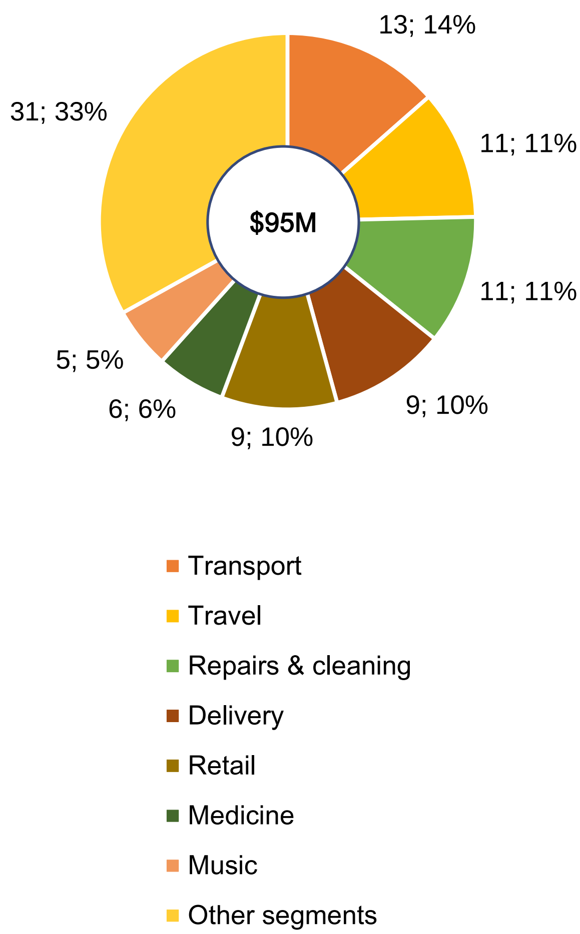
**acquisitions (exits) not included*

Largest exit deals for 2016 in «Software & Internet B2B»:

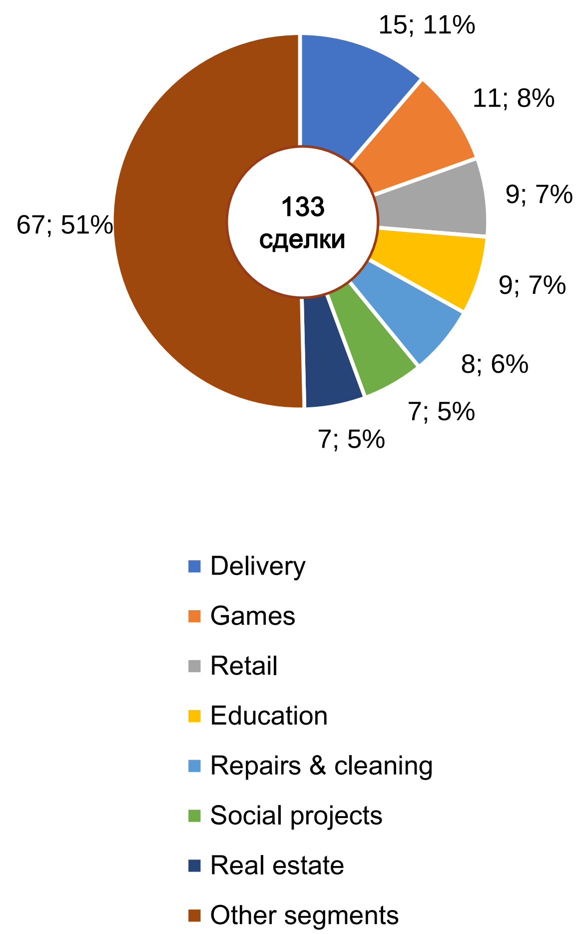
Date	Object	Investor	Amount ($m)	Stake	Company stage
Jul.2016	R-Style Softlab	Asseco Group Softlab	12	30%	expansion
Oct.2016	amoCRM	1C	10	51%	growth

B2B: SOFTWARE & INTERNET

Breakdown of deals by sectors ($m)



Breakdown of deals by segments* (numbers)



**acquisitions (exits) not included*

Largest exit deals for 2016 in «Software & Internet B2C» sector:

Date	Object	Investor	Amount ($m)	Stake	Company stage
Feb.2016	HeadHunter	Elbrus Capital	130	n/a	expansion
May.2016	Gett	Volkswagen Group	300	n/a	expansion
Nov.2016	Delivery Club	Mail.ru Group	100	100%	expansion

CORE TRENDS

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5 CORE TRENDS

Based on performance of the Russian VC market in 2016, we would highlight the following trends, which are likely to determine the market in 2017.

1 Government-owned funds and funds using government money are reducing their investments, exiting projects or closing. VTB Capital's venture arm and Leader Asset Management have all but ceased to operate; Rusnano has lost interest in the expansion stage and generally in private equity investment. The Skolkovo Foundation seems to be alone in resisting the trend: the Foundation has ongoing grant programs and has announced plans to open new funds.

2 Investing by corporations is on the rise in various forms, particularly corporate accelerator programs (IKEA, SAP, InspiRUSSIA, etc.) and corporate investment funds (Sistema VC and Sistema Asia Fund are particularly active, and there are others). There are many collaborations between large Russian corporations and start-ups, particularly in financial technologies (the newly launched Fintech Lab accelerator is one example). Greater involvement of corporations was one reason for more frequent exits and VC investor optimism about M&As last year.

3 Angel investing is vibrant, including formation of angel and microangel investor groups and P2P and crowdfunding platforms. These include Venture Club, StartTrack, the Investor Club at the Moscow Skolkovo School of Management, the FRII Investor Club, SmartHub and some others. We also saw a new wave of investments in 2016 from what appear to be a new type of private venture capitalists, including senior corporate executives and SME leaders, both in Moscow and in the regions.

4 Russian start-ups and funds are going global, though with a limited success. The best examples include Prisma, a Russian internet start-up that gained international recognition and was at the top of the AppStore and Google Play downloading lists for some time. Most of the biggest Russian private VC funds now have one or more offices outside Russia (in Tel Aviv, San Francisco, Berlin, etc.).

5 Hopes for a return of Russian venture projects to public capital markets and successful IPOs on the MICEX and Asian stock exchanges have not come to fruition.

6 Russian VC investor preferences have shifted from social networks and e-commerce to education and games. Industrial tech is also increasingly popular.

KEY MOVES IN 2016

SELECT STORIES FROM EAST-WEST DIGITAL NEWS

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Mail.ru Group acquires Rocket Internet's Russian food delivery business for $100 million Nov. 3, 2016

Today Mail.ru Group, a leading, LSE-listed Russian Internet company, announced the acquisition Delivery Club, the number one food delivery company in Russia owned by Rocket Internet's Foodpanda.

The Russian group is acquiring 100% of Delivery Club for $100 million in an all cash transaction, with 90% of the amount to be paid in November and the remaining part in early 2017 for the remaining 10% of Delivery Club. The deal is not subject to any third party approvals, stated Mail.ru Group, which will fully consolidate Delivery Club.

"While Mail.Ru Group has the lead in the Russian mobile space, the acquisition of Delivery Club further enhances our mobile offering. The Food delivery market continues to show steady growth and the combination of our network, resources and expertise with the leading market position of Delivery Club will allow us to take this business to even further success," Mail.ru Group Chairman and co-founder Dmitry Grishin commented.

"Transitioning our business to Mail.Ru Group, a local internet market leader, allows foodpanda to focus more on the expansion in the Asian, Middle Eastern and Eastern European markets, solidifying and expanding our leading market positions," stated Ralf Wenzel, founder and CEO of Foodpanda Group.

Founded in 2012, Foodpanda has focused primarily on emerging markets, and operates under different brands in some regions, such as Hellofood in Africa, Latin America, and the Middle East, notes VentureBeat.

Early fundings and acquisition

Pioneering the Russian online food delivery business, Delivery Club raised $400,000 in 2009, followed by $1 million from AddVenture and prominent Russian businessmen in 2011, and another $4 million in a round led by AddVenture in 2012.

The Russian startup completed its fourth round of financing in December 2013, with $8 million secured from Phenomen Ventures – which also invested in Foodpanda – as well as from existing investors AddVenture and Guard Capital.

In June 2014, Delivery Club was taken over by Rocket Internet's Foodpanda and its affiliated brand Hellofood.

The size of the transaction remained undisclosed, but the Russian media reported that it stood at around $50 million.

Delivery Club is now the leading player in the growing Russian food delivery market. The company claims that it has over 4,500 connected restaurants and generates 20,000 orders per day. The Delivery Club mobile app accounts for over 72% of these orders.

In H1 2016, Delivery Club's net revenues reached 296 million rubles (a little more than $4 million at the average exchange rate for that period). The business was "broadly EBITDA neutral," Mail.ru Group indicated.

Among the other recent moves on the Russian online food delivery market were, this past summer, the acquisition of a stake in ChefMarket.ru by Mitsui; and a $1 million funding round for Foodfox.ru.

This round was led by Target Global, an international fund with Russian backers which had previously invested in related businesses Blue Apron, Delivery Hero and Lemoncat.

On-demand ride service Gett receives $100 million loan from Russia's Sberbank Nov. 30, 2016

Today Gett announced that it has received a $100 million loan facility from Sberbank CIB, the corporate and investment banking branch of Russian national savings Sberbank.

This funding comes on top of $540 million previously raised by the company since 2010, according to Sberbank CIB. The last round of financing took place in May 2016, with Volkswagen Group investing $300 million in Gett.

“This loan agreement will strengthen the long-standing partnership [between Sberbank and Gett]. Both companies have a similar vision – to change peoples' lives through technology and innovation,” stated Gett's founder and CEO. This loan agreement will further strengthen our partnership, support Gett's rapid growth, and help us achieve our ambitious goals.”

“With this transaction, we are announcing that our Merchant Banking & Advisory Department is open for business with rapidly growing tech companies. These may not yet have access to traditional bank financing, while venture loans can be an attractive solution,” said Oscar Ratsin, Vice President, Head of Sberbank Merchant Banking & Advisory, in a reference to the fact that venture lending has been a virtually unknown practice in Russia so far.

Sberbank, which is among Gett's largest corporate clients in Russia, also has a strong relationship with Uber. In September 2015, Sberbank and Uber announced a partnership “to explore the co-development of financial technologies with global potential.” In particular, Uber showed interest in Sberbank's mobile payment technologies and online banking systems for entrepreneurs. In turn, Sberbank considered providing the growing network of Uber partner-drivers in Russia with different vehicle financing opportunities.

In addition, SBT Venture Capital, Sberbank's venture arm, took part in Uber's latest equity funding round.

A battlefield for global and local giants

Both Gett and Uber — as well as French car sharing giant Blablacar — consider Russia as a key market in their respective global expansion strategies. The Russian market for taxi services amounts to some $3-4 billion, according to Gett's EMEA VP Maxim Krasnykh, or even $7 billion, according to the Russian government's Analytical Center.

Aiming to control 50% of this market, Gett recently announced a $100 million investment plan until the end of 2017 to cover new cities and develop new types of delivery services beyond its core taxi service business.

Thus last week the company made its service available in 29 new Russian cities, bringing its total coverage to 69 cities across the country. As reported by business daily Vedomosti, the newly covered cities include mid-sized agglomerations such as Kursk, Irkutsk and Khabarovsk as well as popular resorts like Minvody and Kislovodsk.

Uber's presence in Russia has been more modest so far. The US company arrived in the country in 2013, but began developing there actively only in 2015. While visiting Moscow in December 2015, its Vice President Ryan Graves underlined the importance of Russia in Uber's strategy. He announced plans to expand to 10 new cities by the end of 2016.

Yandex.Taxi, the taxi booking service of the Russian search giant, is a strong competitor, covering 40 cities in Russia and actively developing in neighboring countries.

Smaller players are also in the running. Thus Takeit, a taxi service launched in July last year, has received $2 million from Russian business angels.

Traditional taxi booking services should be mentioned too. Maxim, a leading player, operates in 137 Russian cities, according to Vedomosti.

Russia's Softline secures $40 million from Da Vinci Capital, prepares acquisitions in emerging markets Aug. 9, 2016

Two funds managed by Da Vinci Capital Management — Da Vinci Private Equity Fund II L.P. and Da Vinci Pre-IPO — have invested in Softline, a Moscow-based international software licensor and IT service provider.

The news was reported last week by Russian business daily Kommersant based on exchanges with Softline top executives.

The details of the transaction has not been disclosed, but Kommersant learned from sources close to the deal that it amounted to some $40 million.

Da Vinci Capital founder and managing partner Oleg Zhelezko said: "Companies providing value added cloud and IT services have among the highest growth rates globally, which spurs investors' appetite. We believe in Softline's high growth potential and found this investment opportunity particularly attractive in the perspective of an IPO."

Softline's founder and main owner Igor Borovikov is keeping control of the company, with existing shareholders Sovkombank and Da Vinci owning minority stakes.

"Our strategy is to pursue further growth through acquisitions in the BRICS countries and by increasing the share of service and cloud products in our product mix," Borovikov commented.

The company is planning to close "over 20 acquisition deals in the BRICS countries," said Softline Investment Director Elena Volotovskaya.

IPO prospects

Softline intends to go public on within three years. The company, which initially targeted the Hong Kong exchange, now says that the place and time of the IPO have yet to be determined.

Founded in 1993, Softline offers a broad range of services, including software, hardware, as well as cloud, security and IT consulting.

The company gives access to the solutions offered by some 3,000 vendors. In 2015, its turnover exceeded $800 million while its EBITDA reached almost $40 million.

"Russia and neighboring countries account for 60% and 40% of the revenue respectively. The share of the neighboring countries will grow as the company is intensively expanding abroad by acquiring local players. When we go public, we expect our revenues to come from Russia, Latin America and Asia in similar proportions" said Volotovskaya.

Currently, the company is active in 28 countries.

With over $300 million under management, Da Vinci Capital has been operating in Russia and neighboring countries since 2007. Among its portfolio companies are Russia's main electronic trading platform B2B-Center, one of Russia's leading debt collection companies First Collection Bureau, online broker ITinvest and the fund management company ITI Asset Management.

Sources: Da Vinci Capital, Kommersant.

IIDF teams up with billionaire Arkady Rotenberg to invest up to $50 million in edtech startups

Oct. 19, 2016

The Russian textbook publishing house Prosveshchenie ('Enlightenment' in English) has agreed to support the accelerator of the Internet Initiatives Development Fund (IIDF or FRII in Russian) targeting edtech startups.

The publishing house — of which Russian billionnaire Arkady Rotenberg is chairman and a shareholder — intends to invest up to 3 billion rubles (approximately $48 million at the current exchange rate), as reported by the business daily Vedomosti last week.

On its side, FRII will select startups and contribute 500 million rubles (roughly $8 million at the current exchange rate) to the program, reported Vedomosti, referring to representatives of both organizations.

As specified by FRII representative Sergey Skripnikov, the initiative targets startups in the field of education technologies, including online courses as well as projects related to robotics, virtual reality and augmented reality applied to education.

According to FRII's standard terms, each selected startup will receive 2.1 million rubles (roughly $33,000 at the current exchange rate) from FRII in exchange for a 7% equity stake in the company as part of the first stage of the program. FRII's next-stage capital injection may amount 15 million rubles, almost $240,000, in exchange for a 10-15% equity stake. Prosveshchenie will either contribute part of these amounts or provide additional funding. The publishing house is setting no limits to the amount spent on this program, Sergey Grigorenko of Prosveschenie said to Vedomosti.

From electrical power to textbooks

Arkady Rotenberg and his brother Boris are co-owners of the SGM (Stroygazmontazh) group, the largest construction company for electrical power supply lines and gas pipelines in Russia. Once judo sparring partners of Vladimir Putin, they are reported to have kept close ties with the Russian president.

Arkady became the chairman of Prosveshchenie in 2013. Following a reform of textbooks which turned out to be more favorable to this publishing house than to some of its competitors, Prosveshchenie consolidated its leadership on the textbook market, as reported by The New York Times.

Arkady's current net worth is estimated by Forbes at $1.34 billion. His share in Prosveshchenie — whose profit margin exceeds 50% — is not disclosed, as noted by Vedomosti.

The Russian businessman is subject to personal sanctions by the US government related to his alleged role during the Ukrainian crisis.

Shrinking capital

FRII was created in 2013 following an initiative by Russian president Vladimir Putin to invest in online projects at the early stages. The fund's capital, which came from undisclosed backers, amounts to 6 billion rubles, which equalled to some $200 million at the moment of launch, but to just $85 million today as a result of the ruble's depreciation.

Each year the fund invests in 80 to 90 startups at the pre-seed stage in the framework of an acceleration program. At later stages, FRII may invest up to 324 million rubles ($5 million) in a single company, Dania Shumilkina, Head of Communication Projects, told East-West Digital News.

So far FRII has invested in more than 245 companies. One of its latest investments went to Metacommerce, a Moscow-based startup which has developed an e-commerce analytics platform.

InVenture Partners launches second, $150 million international fund July 27, 2016

InVenture Partners, a venture firm with Russian roots whose portfolio includes taxi booking app Gett, is launching a second, $150 million fund. The new fund is currently raising money from undisclosed limited partners, with 10% of the capital being contributed by Inventure's managing partners Sergey Azatyan and Anton Inshutin.

Inventure Partners II will support consumer Internet projects, said Azatyan in an exchange with Russian business daily Vedomosti. The geography is the same as that of the first fund, encompassing Israel, Russia, Germany and the UK.

InVenture Partners I has invested its $100-million capital in 14 companies, according to CrunchBase. Among them are Gett, formerly known as Gettaxi, in which the fund invested in 2012.

InVenture sold a part of its stake to Volkswagen in May 2016, Azatyan told Vedomosti, earning "dozens of millions of US dollars" from the deal.

In May this year, the acquisition of Fogg — in which the fund had injected €7 million — by GlobeTouch came as another successful exit, said Azatyan, who claims that the annual internal rate of return (IRR) of Inventure Partners I reached 38%.

Among the other portfolio companies of Inventure Partners I are the US telemedicine startup American Well, Russian retail analytics startup CrowdSystems, e-learning platform Netology and mobile payment service 2can, as well as Russo-Ukrainian bus-ticket software developer Gillbus.

Rostec partners with China CYTS to create $500 million tech fund July 10, 2016

Last month in Hong Kong, Rostec, a major, government-backed Russian tech corporation, signed a memorandum of understanding about "strategic cooperation" with China CYTS Industrial Development. The partners intend to launch a fund with "an initial $4 billion target" to develop projects related to China's 'One Belt One Road' — an economic development strategy which includes the 'Silk Road Economic Belt' and the '21st Century Maritime Silk Road' across Eurasia.

Part of the fund's resources will be used to fuel jointly-approved Russian IT and other high-tech projects.

The fund will be managed by China Baoli Technologies Holdings Ltd. While China CYTS will contribute $500 million to the fund, which will be reserved for cooperation with Rostec, the latter's role in the fund is not financial.

The Russian corporation will "originate project pipeline, provide GR communication and local support in Russia."

China CYTS Industrial Development is a branch of China CYTS (China Youth Travel). This company is directly owned by the Communist Youth League Central State Holding Co., which owns assets in a variety of sectors.

In addition, according to the MOU, the Chinese partner will prepare a roadmap to promote Rostec's business interests on the Chinese market of IT-technologies. Rostec's subsidiary RT-Business Development, a company engaged in the management of financial-industrial groups and the holding of companies, will in its turn make an effort in promoting a dialogue between China CYTS Industrial Development and the leading Russian financial and industrial groups.

Russian corporations launch giant startup investment programs

May 24, 2016

Since the beginning of this year, at least six corporate venture funds have been launched or started operations in Russia. Four of them were created by AFK Sistema, a Russian, LSE-listed conglomerate. Sistema Venture Capital, the most recent one, started operating last month in Moscow. It has raised 10 billion rubles (approximately $154 million at the current exchange rate) to support globally-oriented early-stage startups from Russia and neighboring countries.

Sistema Venture Capital will invest in platform solutions and marketplaces, as well as projects in the fields of communitainment, Internet-of-Things, advertising and finance. The fund's shareholders – apart from AFK Sistema – have remained unnamed. The fund expects to close soon its first deal – a capital injection in Erfid, a Russian developer of RFID software solutions.

"Now it's the right time to invest in Internet companies. Despite the crisis, there are still many strong teams offering products with global potential in Russia and CIS countries," commented Alexey Katkov, president at Sistema Venture Capital. "Meanwhile, following the ruble's depreciation, the price for development services has fallen," he added in the exchange with Kommersant.

In April, AFK Sistema announced another corporate venture initiative in association with Rusnano, Russia's national nanotech investment corporation. The joint fund will amount to at least $80 million to support high-tech projects, as reported by RBC Daily. The fund's strategy has yet to be specified, but the first deals could be closed this year.

Just weeks before, AFK Sistema launched a $50-million Asia fund to support Indian startups operating in the technology and niche consumer retail segments.

The Russian conglomerate was also reported to be in the process of creating a venture fund in partnership with China's TUS Holdings. This fund's capital will not exceed $100 million at start, with the Chinese side contributing 70% of this amount.

From cybersecurity to hospitality innovation

On its side, Kaspersky Lab has announced that it will start investing in seed-stage startups globally by the end of the year. Each project may receive anything from $50,000 to $1 million. Kaspersky will target startups in such areas as mobile and cloud security, Internet-of-Things, physical security, machine behavior and adaptive cybersecurity technology.

In addition to funding, the startups will benefit from access to Kaspersky Lab's technology and expertise. Moreover, the investor said it will help young entrepreneurs expand to the global market.

Last but not least, Gazprom-Media Holding, the leading diversified media holding in Russia and Eastern Europe affiliated with gas giant Gazprom, has announced the launch of its own corporate fund.

Christened 'Gazprom Media Ventures,' the fund expects to close its first deals by the end of the year. It will trade marketing campaigns for a share of the generated revenues ("media for revenue share") or a stake in the company ("media for equity"). It will target e-commerce and other technological companies.

Among other recent initiatives on the Russian corporate venturing scene have been Ikea's startup accelerator launched last year and Accor Hotels' hackathon held last month in Moscow.

In December 2015 GenerationS, a competition organized by the state-owned fund of funds RVC, ended with 35 startups receiving investments from more than 150 of the project's partners. These included foreign and Russian companies such as SAP, IBM, Samsung, Microsoft, Johnson&Johnson, Sberbank-Technology, NPO Saturn, and others.

Sources: RBC Daily (1, 2, 3), Kommersant, Sistema Venture Capital

Quirky mobile photo app leads App Store ranking, raises millions from top investors June 27, 2016

An art filter app launched by a Russian programmer, Alexey Moiseenkov, is leading Apple's App Store ranking in Russia and several neighboring countries ahead of Whatsapp, VK, Instagram, Viber, Aliexpress and other traditional leaders in the region.

In a totally unexpected surge, the app has been number one in these countries everyday since June 20 (just a week after launch) according to AppAnnie data.

Dubbed 'Prisma,' the app invites its users to add stunning artistic effects to their photos by combining them with works of art. A photo of your cat can look like a Picasso painting, with the cat as the source for content and Picasso artwork the source for style. The transformation is made instantly.

Even Russian Prime Minister Dmitry Medvedev has started using Prisma on his Instagram account.

To create such fantastic images, Prisma's algorithm uses convolutional neural networks. Speed and availability are key:. "That really matters because you get the result right here, right now. You can capture every moment in just a few seconds — and this right in your pocket," Moiseenkov said.

When asked why Prisma has not got such traction beyond Russian-speaking countries so far, Moiseenkov said: "I think because it's out pet market. We didn't do any marketing or PR activity here. It just went viral. I believe it will be the same in other countries but a little bit later. Of course we have some cool features ready to match cultural fit."

Moiseenkov believes "there are a lot of ways to monetize the app while keeping it free for users."

Prisma's success on the App Store has been enough to trigger Mail.ru Group to invest in the project, with participation from Gagarin Capital, a California-based fund with Russian roots, and XBT, an international Internet hosting company. Moiseenkov was product manager at Mail.ru Group before he launched Prisma.

Mail.ru Group's investment went through My.com, its Silicon Valley-based subsidiary launched in 2013. Vedomosti heard from unnamed sources that the range of the group's investment was comprised between $1 million and $2 million in exchange for a 10 to 25% stake.

Obviously Gagarin Capital has not been involved in the Prisma deal by chance. Co-founded by Nicholas Davydov, a Russian VC who now lives in the Valley, Gagarin Capital had backed Masquerade last year. This Belorussian startup had developed a filtering app for selfies before being acquired, in March, by Facebook.

Quirky photo and video mobile app started gaining traction even before, with the acquisition of Looksery, a startup with Ukrainian roots, by Snapchat, in September 2015. The Californian messenger reportedly spent $150 million to enable its users to have fun with a variety of face effects while taking selfies.

2017 FORECASTS FROM MARKET PLAYERS

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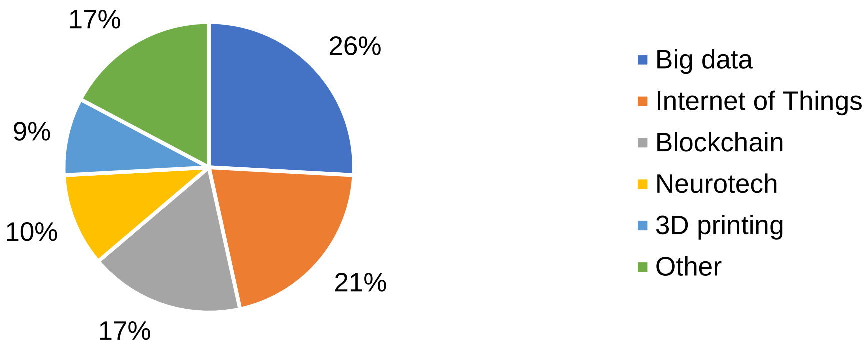
6 2017 FORECASTS FROM MARKET PLAYERS

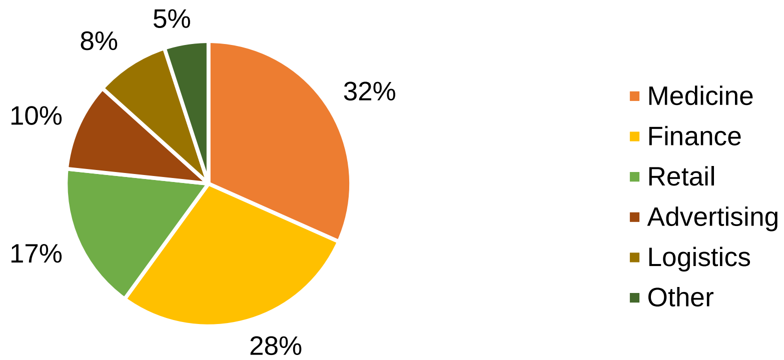
RB/RMG Partners held its annual survey of fund managers and market experts at the start of 2017, asking them to name growth drivers in the VC market and to pick out technologies and vertical markets that would be of most interest to investors in 2017.

Growth drivers in the VC market in 2017

Most investable technologies in 2017



Most investable vertical markets in 2017



REFERENCE LIST

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REFERENCE LIST

1 RB/RMG Partners' proprietary database of transactions.

2 Analytics: RMG Partners' Overview of Russia's VC Market for 2015; Firrma's 2016 VC Funds ranking; Prostor Capital's Venture Barometer 2016.

3 Russian business and tech media: Vedomosti, Kommersant, RBC daily, Firrma.

4 TechCrunch and AngelList databases.

5 East-West Digital News (EWDN.COM)

6 National Alternative Investment Management Association (NAIMA) databases

METHODOLOGY

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METHODOLOGY

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

“Investment” means the purchase of a shareholding in a privately-held legal entity and/or provision of a convertible loan. The investment may come from funds (legal entities under Russian or foreign jurisdiction with sufficient capital from one or more sources to invest in privately held companies, and promoting themselves as such in the market) or from private individuals/groups of such individuals.

In calculating volumes and dynamics of Russia’s VC market, we only include venture investments in companies that operate predominantly in Russia. Deals involving Russian investors and investment recipients that are focused on markets outside Russia were not considered in this Report as contributors to the overall value of Russia’s VC market.

Most of the investment-related information used in this Report became public through the media, blogs, corporate websites, public presentations and start-up databases. In any other instance a newsmaker or source was contacted for confirmation.

Exceptionally, we may consider deals with a bigger price tag if the investees are innovative high-tech companies.

The term “corporations” is used in this Report to refer to corporate funds, where the capital comes from internal sources of the corporate founder and where investment activity is not limited exclusively to supporting affiliated companies.

This Report does not include investments in market infrastructure in its analysis of the overall value of Russia’s VC market. “Investments in market infrastructure” refer to investment in venture funds, business incubators, accelerator programs, technoparks and other institutions that operate in the VC market but are not themselves venture companies.

Out estimates of the VC market include grants and investment loans for commercial projects. However, we do not include grants for pure R&D (fundamental science).

METHODOLOGY

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

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

The letter “A” indicates a round that immediately follows seed; “B” is the next round, etc. “C+” is used to designate any further rounds beyond “C”.

“Exit” means a deal which does not bring additional investments to a project, but which involves the sale by one or more shareholders of their stakes to a strategic investor or in an IPO.

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

- “Seed”, when a project exists on paper or in labs only.
- “Start-up”, when a legal entity is being set up or is already operational, but no sales have yet been achieved.
- “Growth”, when production begins, a product is marketed and initial sales are obtained.
- ”Expansion”, when output and sales expand, market share and office space increases, etc.

For the purposes of this Report, all venture projects are grouped within seven sectors: Biotech, Industrial Tech, Computer Tech & Equipment, Other Tech, Software & Internet B2B, Software & Internet B2C, and Other IT. The first four are the Technology macrosector, and the remainder are 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 provision, 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 deal date shown is the date when a deal was announced in the media, the blogosphere or company reports, unless otherwise specified. The deal value is the publicly announced investment amount, including amounts committed for the future; division by tranches or other transaction particulars are not considered. Deals involving project loans (a frequent method of financing by government institutions) and subsidies (government procurement contracts), which serve towards product commercialization, are considered like any other project investments.

TERMS AND CONCEPTS

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Development stages for an investable start-up:

SEED
An early development stage between the formulation of an idea and the building of a team, verification of hypotheses 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 rapid growth.

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

MATURITY
A stage of sustained growth, generally less dynamic than previous stages and with much reduced investment risks.

Venture investment stages:

SEED
Roughly corresponds to the project development stages for a company from seed through to growth. Investment amounts vary between $100,000 and $1m.

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

B
Roughly corresponds to the maturity stage and beyond for companies. 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 sale of an investor’s shareholding to a strategic investor in an M&A deal, through an IPO, or through a management buyout

ABOUT RB PARTNERS

RMG Partners merged with RB Partners in 2017 to enable more effective investment and M&A activity

RB Partners
RB Partners is an international group of companies set up in 2004 to focus on investment and banking services to Russian and international mid-cap companies. Since 2004, RB Partners has successfully completed more than 80 M&A preparation and support projects worth over $2.5bn in total. In 2010, RB Partners joined the international Globalscope M&A Association (www.globalscopepartners.com), which has a membership of more than 50 investment consultancies in 41 countries and is particularly focused on M&As and corporate finance.

RMG Partners
The RMG brand representing the same group of senior executives has been in the Russian market since 1993. RMG Partners help to increase the corporate value and investability of clients. We work with fast-growing companies in need of valuation and fundraising, providing business development strategies and identifying future growth drivers. RMG Partners provide operational support and pre-investment services, help to find international partners and streamline capital transactions.

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