

Ukrainian Venture Capital and Private Equity Overview 2015



With the support of



SPECIAL THANKS

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Andrey Kolodyuk,

Chairman of the Supervisory
Board of the Ukrainian Venture
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Association, Managing Partner of
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Over the recent years, Ukraine has appeared on the investors' radars as a source of target companies with globally oriented, competitive products. There are literally two investments being closed per week and the number of deals is three times higher than five years ago. Around one half of the capital invested has foreign origins.

The mission of Ukrainian Venture Capital and Private Equity Association (UVCA) is to spread the word about Ukraine's achievements and opportunities and to support investors in every aspect, from providing reliable information to establishing international connections at the industry and government levels. On the other hand, blossoming local technology sector have triggered emergence of new local investors, who certainly benefit from the western peers sharing their expertise and best practices. By building a bridge between Ukrainian and global ecosystems, UVCA facilitates the motion of knowledge and capital in both directions.

An important part of integration into global market is availability and reliability of local data. UVCA members and partners have done great job collecting and structuring information about investment deals. This year we started gathering information from directly from fund managers and we look forward to inclusion of that data into the European dataset that is maintained by InvestEurope (formerly European Venture Capital Association). The report also includes industry outlook by UVCA members, which would be useful for foreign investors considering exposure to Ukraine in the nearest future.

Already at a top of European IT outsourcing charts and being a prolific source of international startups, Ukraine is gaining more attention from global investors, but still remains an undercapitalized market compared to other European countries. We at UVCA are eager to remove the gap, by channeling the power of our network into better awareness and investment climate and by proving that it is worthwhile to INVEST IN UKRAINE.

60

active private equity* investors present in Ukraine in different forms, from deal participation to location of their teams and/or funding sources. Besides active investor universe (we counted only the firms and angel investors who made at least one investment during 2015), there are up to an estimated 20 market players who invested prior to 2015 but remained idle last year. Out of 60 investors, there were 24 VC Funds, 5 PE Funds, 2 Family Offices, 8 corporate investors and 9 angels that participated in the 2015 deals. On top of that, we have noted up to 20 angel investors, who had not disclosed their names.

\$132m

overall value of the PE/VC deals in 2015, a remarkable 3x growth over 2014. Relative to GDP, PE investments into Ukrainian companies increased from 0.10% in 2010 to 0.16%, which is close to the upper level for CEE countries, with only Poland having a higher ratio (0.19%).

66

deals in 2015, the volume being attributable mainly to the venture deals (62) with a focus on seed stage (58 deals). Growth capital deals, however, made the last year's investment in value (\$101 mln).

52%

of capital provided by local investors (defined by either of HQ location or the source of funds) in 2015. With their share consistently close to 1/2, local money goes nose to nose with foreign funds during the last 5 years.

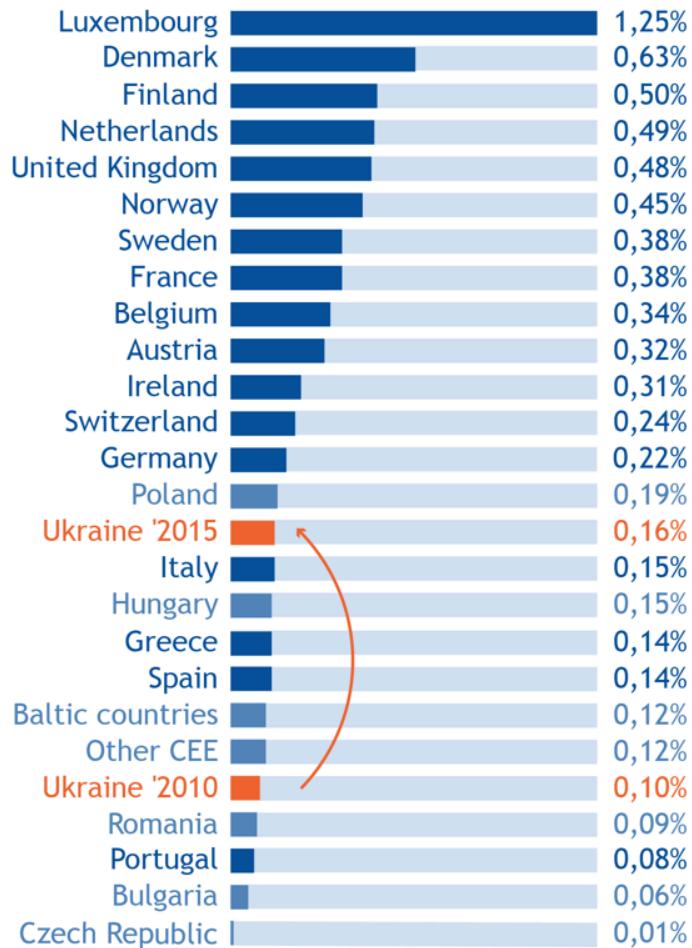
\$400k

average deal size at seed stage. Seed deals continue to account for virtually all the venture volume, yet the size of an average seed deal doubled compared to 2014, indicating investors preference for a late seed opportunities.

* here and throughout the report, “private equity” is used as a common term for Venture and Growth Capital

Ukraine is now #2 in CEE by PE investments to GDP

Private Equity investments as % of GDP, 2015



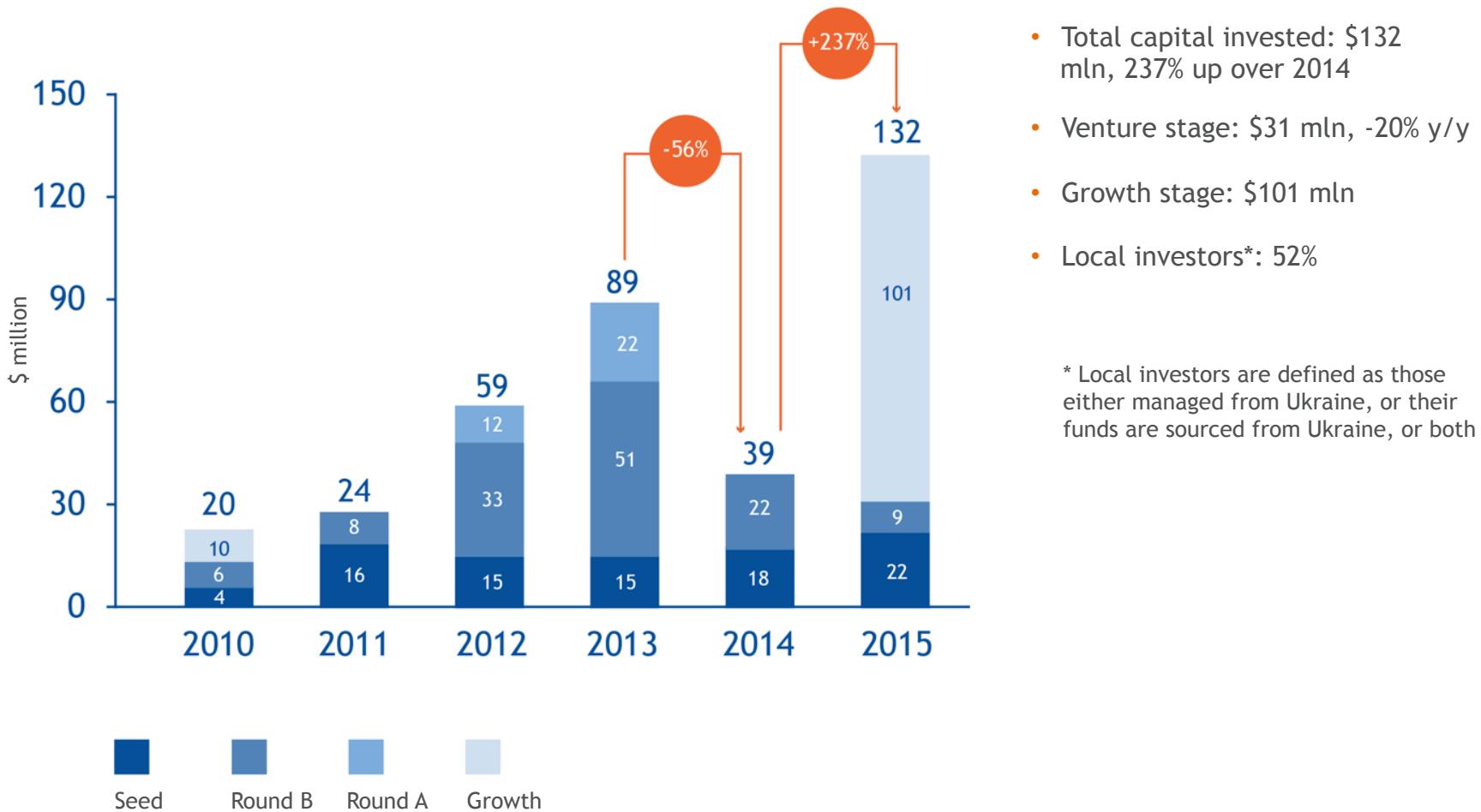
- The value of deals marked an all-time high, \$132 mln.
 - The ratio of PE investments to GDP jumped to 0.16%, leaving behind most of the CEE countries, save for Poland (0.19%)
- In 2015, the \$100 mln of Growth funding (on the back of lower GDP in dollar terms), pushed Ukraine nearly to the top of the CEE ranking by the ratio of PE investments relative to GDP. For the world's most technologically advanced nations like Israel and U.S. this was as high as 1.19% and 0.32%, respectively, and the European average was at 0.30%.
- The number of deals was down by 23%, while average ticket increased to \$1 mln.

* includes ex-Yugoslavia countries

Source: Europe - EVCA, Ukraine estimates - UVCA based on "Dealbook of Ukraine 2014-2015"

Investments up 237% on sizable growth-stage deals

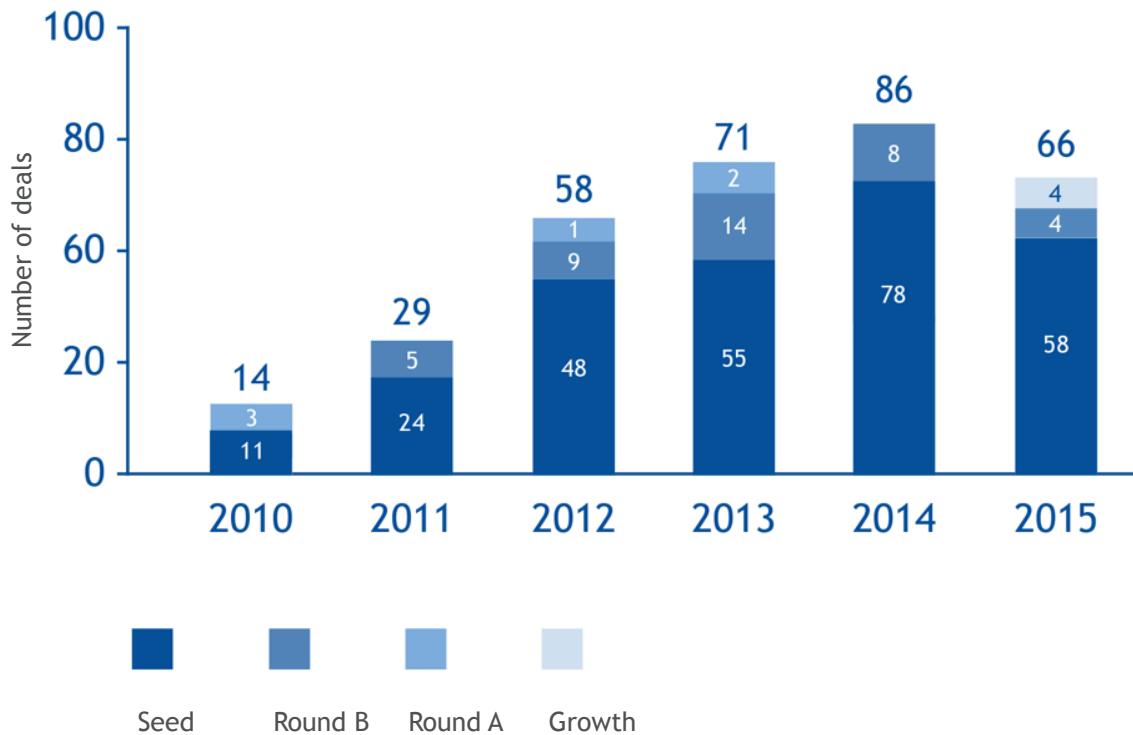
Private Equity investments in 2010-2015, \$ mln



Source: "Dealbook of Ukraine 2014-2015" by Ukraine Digital News and AVentures Capital

Fewer deals, higher average tickets

Total number of deals, 2010-2015



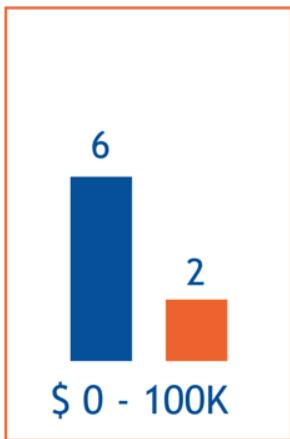
- Total number of deals in 2015: 66
- Venture stage: 62 deals (mainly seed funding), -24 vs 2014
- Growth stage: 4 (none in 2014)
- Local investors: 34 (45 in 2014)
- Average ticket: around \$1 mln, \$0.4 in seed segment and \$2 mln in Series A rounds

Source: "Dealbook of Ukraine 2014-2015" by Ukraine Digital News and AVentures Capital

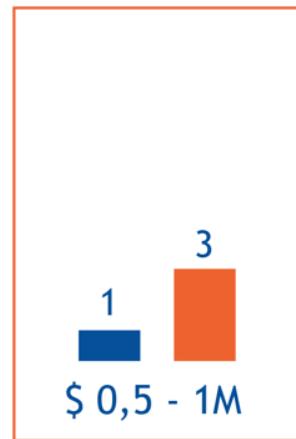
Fewer deals, but higher tickets

Amount invested in 2015 and the plan for 2016 (# responses)

Typical
Early Seed
\$ range



Typical
Late Seed
\$ range



2014
actual 2015
plan

- Higher tickets in the same market point to later stage investments. The responses obtained by a joint survey by EY Ukraine and UVCA indicate that the investors' demand for later stages is going to increase further in 2016.

Source: EY Ukraine & UVCA Investor Survey, April 2016

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Notable deals in 2015

	<p>Looksery: Founders' exit of the year Deal type: Corporate Buyout Buyer: Snapchat Deal Value: \$150 mln (est.)</p> <p>Acquisition of Looksery by Snapchat marked the largest deal in Ukraine's IT sector in 2015. Looksery specializes in face tracking, face modification and band with optimization technologies for real-time video. Looksery B2C app provides live augmented reality filters for selfies. Using face tracking Looksery identifies all facial features, tracks and maps facial expressions and emotions. The app allows to modify facial features, correct skin tone, apply special effects or transform into a 3D avatar. Achievements: App Store Best New Entertainment App in U.S., in the top 10 in 20+ countries, Best App of 2014 by Vogue, Winner of the Best Innovative Startup Award at the SVOD'14 Conference.</p> <p>Source: Crunchbase</p>
	<p>Petcube: Biggest seed funding in 2015 Deal type: Venture Capital, Late Seed Investors: Almaz Capital, AVentures Capital, Y Combinator Deal Value: \$2.6 mln</p> <p>Petcube is an interactive wireless pet camera that helps you stay connected to your pets when you are not at home and share access to your pet video cam on Petcube network. Connected to your home Wi-Fi network, Petcube is a 4-inch cube that has a wide-angle camera, microphone, and low-intensity laser pointer. Petcube pet monitor system lets you watch, talk and play laser games with your dog or cat from anywhere using your smartphone. Petcube is the first entirely Ukrainian startup who joined the Y Combinator in Winter 2016 class.</p> <p>Source: Petcube media release</p>
	<p>Depositphotos: The only Round B deal in 2015 Deal type: Venture Capital, Round B Investors: European Bank for Reconstruction and Development, TMT Investments, Undisclosed investor Deal Value: \$5.8 mln</p> <p>Depositphotos is one of the fastest growing micro-stock agencies in the world and a popular resource for premium high-quality stock photos, illustrations, vector images and video. EBRD's Venture Capital Investment Program chose Depositphotos as its first financing project in Ukraine's IT sector. The company's earlier investor, TMT Investments, has also participated in the round.</p>



Ciklum: First big international PE deal since Maidan

Deal type: Growth Capital

Investors: Soros Fund Management / Ukrainian Redevelopment Fund LP

Deal Value: Undisclosed

Ciklum is a global company engaged in software development and outsourcing IT services to organizations across various industries. The deal was the first investment of the Soros Foundation in Ukraine and the first in the field of IT services outsourcing.



Rozetka: The biggest ever PE investment in local e-commerce

Deal type: Growth Capital

Investors: Horizon Capital

Deal Value: Undisclosed

The company is the indisputable market leader in the fast-growing Ukrainian e-commerce segment. Rozetka enables customers from all over Ukraine to purchase a wide range of goods and services online - from laptops and smartphones to toys and fishing rods, as well as train and airline tickets. According to GfK Ukraine, Rozetka was the most popular internet store in Ukraine in 2014 by a wide margin.

Source: Horizon Capital

Among all liquidity events of 2015, we have identified four exits made specifically by financial investors from Ukrainian startups.



OpenFund, a Greek micro-VC fund with the European Investment Fund being its major investor, has sold its stake in YouScan, social media monitoring startup, to Yell.ru, a Russian online directory. No further details were disclosed.



Two local investors, Digital Future and GrowthUp+, exited Jeapie, a service facilitating mobile and web push notifications, on its acquisition by the Canadian Mobify.



EastLabs, a local startup incubator owned by the EastOne Group, as well as unnamed business angels, sold their stakes in Kabanchik.ua, a “Ukrainian TaskRabbit” to Prom.ua, an e-commerce platform for small business with Naspers among its investors.

In 2015, the only publicly known private equity fundraising deal was Soros' investment into New Ukraine Fund, sponsored by Dragon Capital (Ukraine). The fund raised an undisclosed amount (\$20-50 mln by our estimates) from the Ukrainian Redevelopment Fund LP managed by Soros Fund Management. This is the Dragon Capital's second PE fund, the first one being the \$57mln Europe Virgin Fund* launched back in 2010 with EBRD and SIFEM among the LPs.

The screenshot shows the Dragon Capital website. At the top, there is a navigation bar with links for Home, Careers, Press, Search, and Login. Below the navigation bar, there is a main menu with categories: About Us, Institutional Investors, Retail Investors, Corporations, Become a Client, Company Profile, Management, Transactions, Awards, Media Centre, Careers, and Contact Us. Under the Media Centre section, there are links for Press Releases, Our Comments, Photo, and Video. The main content area features a headline "The New Ukraine Fund" and a sub-headline "Deal type: Fundraising". It also lists "Investors: Dragon Capital (Private Equity arm, Ukraine) - GP, Soros Fund Management/Ukrainian Redevelopment Fund LP - LP" and "Deal Value: \$20-50 mln (estimate)". Below this, there is a detailed paragraph about the fund's purpose and investors, followed by quotes from Michael Vachon and SFM. A footer at the bottom of the page includes links for About Us, Media Centre, and Press Releases, along with a copyright notice for 2015.

The New Ukraine Fund

Deal type: Fundraising

Investors: Dragon Capital (Private Equity arm, Ukraine) - GP, Soros Fund Management/Ukrainian Redevelopment Fund LP - LP

Deal Value: \$20-50 mln (estimate)

Ukrainian Redevelopment Fund, LP (URF) is a private investment vehicle that focuses on special situations and private equity investments in Ukraine and companies with significant operations in Ukraine. URF endeavors to make targeted investments that have the potential to promote economic and social development in Ukraine. The principal investment adviser to URF is Soros Fund Management LLC, a private investment advisor to a number of private investment funds that are managed exclusively for Soros family clients.

Source: Dragon Capital website

* In March 2016, the management of the Europe Virgin Fund spinned off from Dragon Capital as 4i Capital Partners, which now continues to manage the fund.

Outlook quotes by UVCA members

UVCA



Andrey Kolodyuk, AVentures Capital, UVCA



“The Soros private equity fund and EBRD Technology Fund made their first investments in Ukraine, regardless of political and other factors. These transactions are a signal for the big global investors to take a look at companies in Ukraine and begin investing here. In 2015 many Ukrainian projects got into international accelerators, such as YCombinator, TechCrunch, etc. Growth is most significant in the segment of Internet of Things. A lot of successful Ukrainian companies appeared on Kickstarter and Indiegogo. Another example is the recognition of Ukrainian projects in the world at this year's largest annual Consumer Electronics Show (CES) in Las Vegas, 7 Ukrainian startups were presented there. Projects were not just present on the exhibition, but received innovation awards (e.g., Ecoisme) and recognition.”



Oleksii Vitchenko, Digital Future



“We expect to see more professional players in the market, probably fewer deals, but larger average size. Overall ‘quality’ of targets is getting higher and more investors seek later stage opportunities to balance the risk of their earlier investments in seed rounds. We don't think there will be massive interest from foreign funds, while investment pattern will gradually change from speculative to strategic. Those who do come will likely be from Europe and Israel. On the other hand, we note an increasing demand for innovation from corporates and receive more inquiries from local non-IT/Internet players willing to invest in digital economy. We believe there are lots of opportunities at the confluence of digital and traditional technologies and we hope to see new startups attempting to capture those.”

Outlook quotes by UVCA members (cont'd)



Olga Afanasyeva, UVCA

UVCA | UKRAINIAN VENTURE CAPITAL AND PRIVATE EQUITY ASSOCIATION

“Partners from the funds in US, China, Dubai, Finland and other countries are also showing interest in infrastructure and agricultural sector. In addition, promising projects are at the intersection of IT and agro, IT and medicine.”



Alexander Soroka, Startup.Network

 Startup Network

“In the first quarter of 2016, we received almost four times as many applications [from IT and Internet startups] than in the first quarter of last year.”



Michael Ryabokon, Noosphere Ventures

 NOOSPHERE ventures
Humanity. Knowledge. Technology.

“Foreign investors would invest in products and companies in Ukraine if their investments were protected and there was overall stability within the country. Otherwise, any projects started here would have to migrate to other countries with more favorable and stable economic climates in order to grow.”



Bogdan Kupych, KM Core

 KM Core

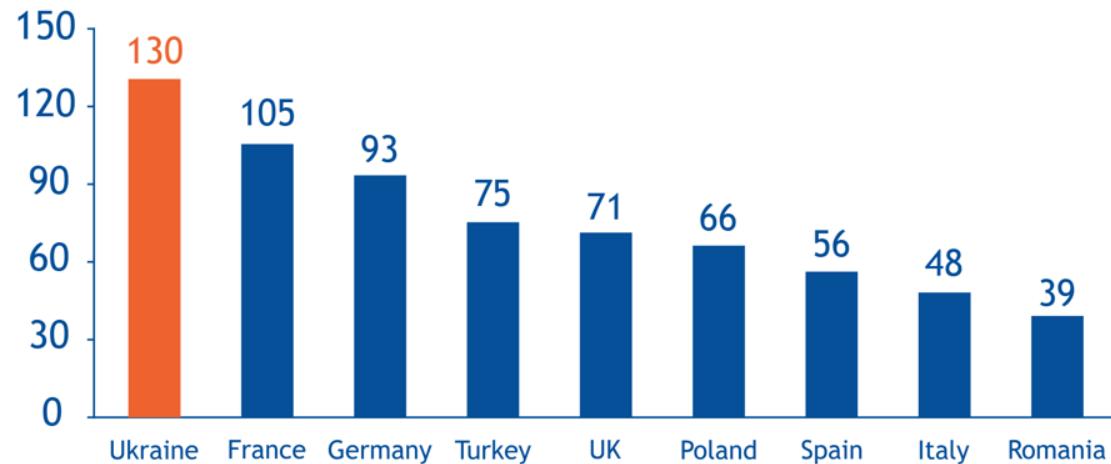
“Ukraine has appeared on the radar screen. If Ukraine’s economic situation stabilizes, economic growth is established and the business environment improves, interest in Ukraine will continue to increase.”

Industry drivers

- Education
- IT outsourcing
- Foreign R&D
- Labor and living costs

EDUCATION

Engineering graduates per annum in European countries, thousand students

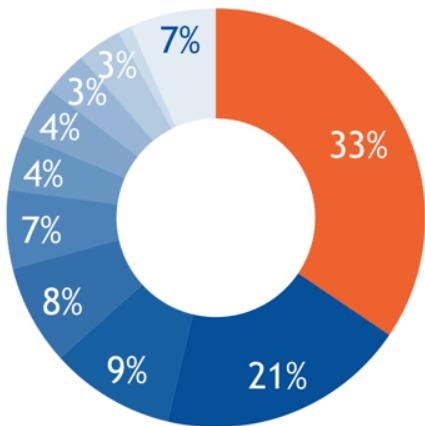


Source: Horizon Capital

Industry drivers (cont'd)

IT OUTSOURCING

Top CEE countries by IT freelance outsourcing, %



Top CEE cities by IT freelance outsourcing, %

	Kharkiv	6.7%
	Kyiv	6.6%
	Lviv	3.4%
	Zaporizhya	3.1%
	Omsk	3.1%
	Moscow	2.8%
	Minsk	2.7%
	Novosibirsk	2.6%
	Bucharest	2.5%
	Belgrade	2.3%

FOREIGN COMPANIES R&D

North America



Europe



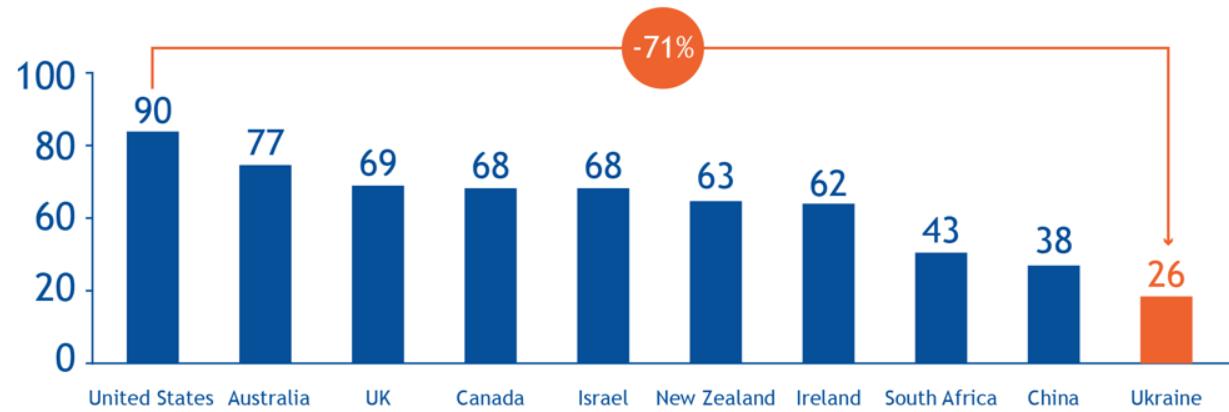
Asia



Industry drivers (cont'd)

LABOR AND LIVING COSTS

Average programmer salary, comparable skills, thousand \$ per annum



Source: Horizon Capital

The Ukrainian Venture Capital and Private Equity Association (UVCA) was established in 2014 and promotes investment opportunities in Ukraine for foreign investment funds, conducts market research, lobbies laws for improving investment and business climate, implements Invest in Ukraine activity.

Our membership covers early stage investors (accelerators, incubators, angel networks), private equity funds, venture capital funds, funds-of-funds headquartered in Ukraine accelerators. Our members also include financial advisors, academic institutions, non-governmental organizations.

For two years of existence UVCA has more than 35 members, also Association is a member of European Venture Capital and Private Equity Association (InvestEurope). Based on its mission, members interests and market potential UVCA has established 5 committees - Legal, Research, Invest in Ukraine, ICT and Energy Committee.

UVCA Members and Partners

UVCA

WOLF THEISS



SIGULER
GUFF

INNVenture



SYWORKS
GROUP

greencubator
українська мережа інноваційних інвесторів



Startup
Network

ONcore

intel
Capital

EY
Building a better
working world

EMPIRE STATE
CAPITAL PARTNERS

DIGITAL
FUTURE

CIKLUM
ENGINEERING COLLABORATION

GROWTH UP

BRAIN BASKET
FOUNDATION

Horizon Capital

BAKER & MCKENZIE

Arzinger

AT GROUP

GEG
GROWTH UP GROUP

Aventures

EAST GATE
CAPITAL GROUP

KCM
ADVISORS
UK LIMITED

STARTUP
MARANI

Kyiv School
of Economics

European Bank
for Reconstruction and Development

BITCOIN
FOUNDATION
UKRAINE

FISON

WANNA BIZ

IFC
International
Finance Corporation

SMRK VC FUND

Deloitte.

UVCA achievements in 2015

Joined European Venture Capital and Private Equity Association (InvestEurope, formerly EVCA), that has made the first overview of Ukrainian investment market by virtue of UVCA

Participated in creating of 3 legislative amendments focused on improvement of investors' activity in Ukraine, 2 amendments supported

Worked out a Memorandum that contains specific suggestions of investors to enhance the investment climate in Ukraine by the government

Initiated Venture Capital Tours for investors to the countries with developed startup ecosystem (Israel, U.S., etc.)

Organized more than 30 workshops and participated in more than 50 international investment conferences and other events in Ukraine and abroad



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