

PFR Open Innovation

Information meeting PFR Open Innovation

PFR Open Innovation investment team
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Main assumptions of FoF PFR Open Innovation FIZ

Program budget

PLN 421 M (dry powder: ~PLN 80 M to be allocated)

Fund's type

Fund of funds

Call for Tenders

Selection of Managing Entities / VC Funds
within a Call for Tenders No 7 (06 – 30.04.2020)

Investments

- (i) Equity investments in VC Funds co-financed by Private Investors
- (ii) Investments with Co-Investors in the deal-by-deal formula

Program goal

Financial support for technological projects implemented in the formula of open innovation, for the purposes of certification of results of R&D works, construction of a demo version or prototype, continuation of R&D works for their implementation and acceleration of already completed / obtained R&D works

Main assumptions of FoF PFR Open Innovation FIZ

Open Innovation formula

Definition

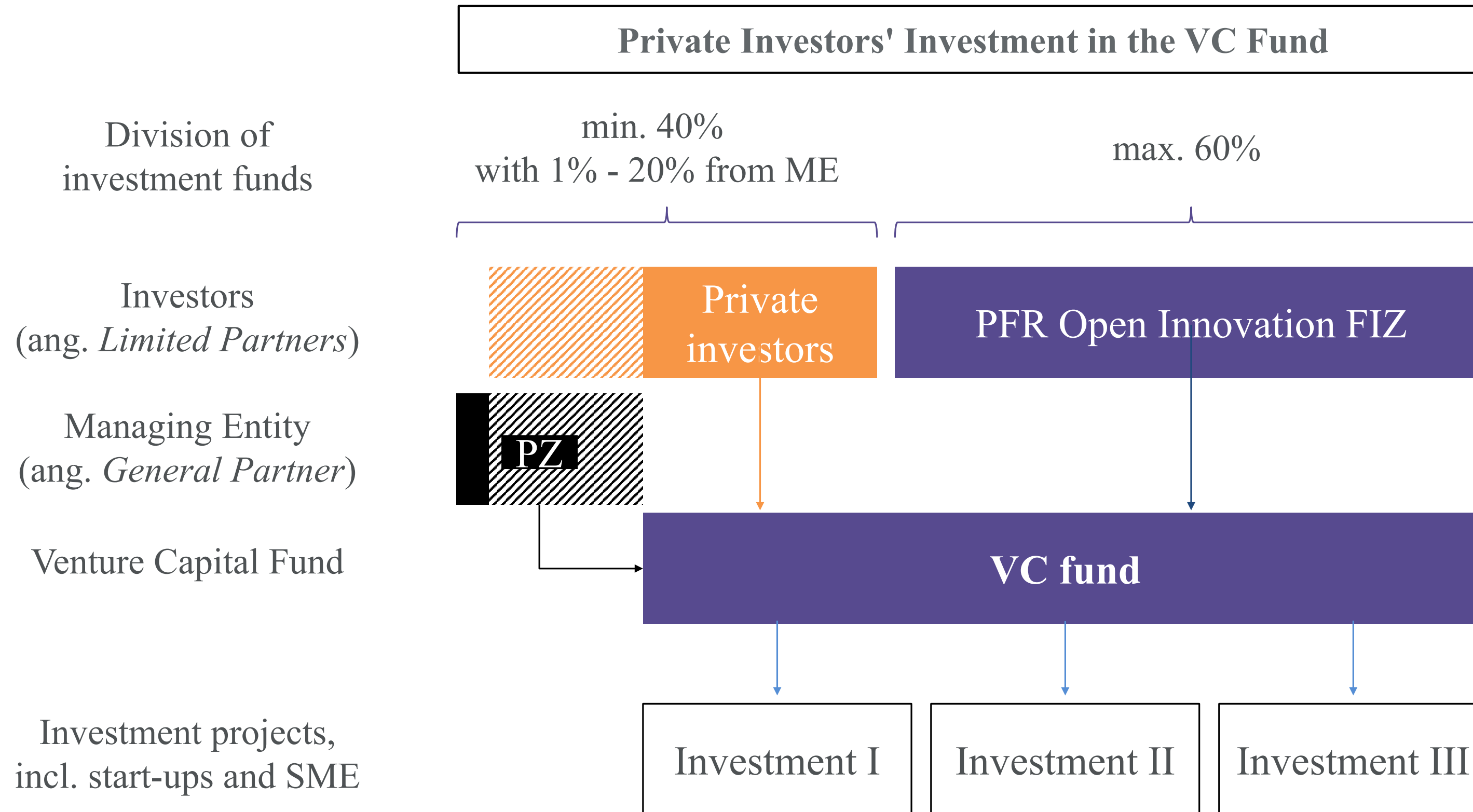
Examples of projects implementation in Open Innovation formula

The Open Innovation formula consists in developing technological innovation (including new products / processes) using knowledge, resources and technologies from external sources, i.e. from the science sector and / or in cooperation with the stakeholders of the organization

- i. spin-offs, spin-outs, establishing companies with external partners
- ii. cooperation on refining product / process technology with employees of research and development units, outsourcing R&D works
- iii. purchase of licenses, patents, ready technologies with devices
- iv. commissioning of laboratory tests, commissioning of technological verification
- v. external pre-implementation analyzes and consultations
- vi. consumer market research, conducting external product tests, after which the product is refined
- vii. other activities taking into account the use and combination of externally acquired knowledge, resources and technology

Main assumptions of VC fund – Model I (fund)

The VC Fund may acquire max. 60% of funds from PFR Otwarte Innowacje FIZ



Main assumptions of VC fund – Model I (fund)

Flexible way of demonstrating private contributions in Model I funds

Variant Ia

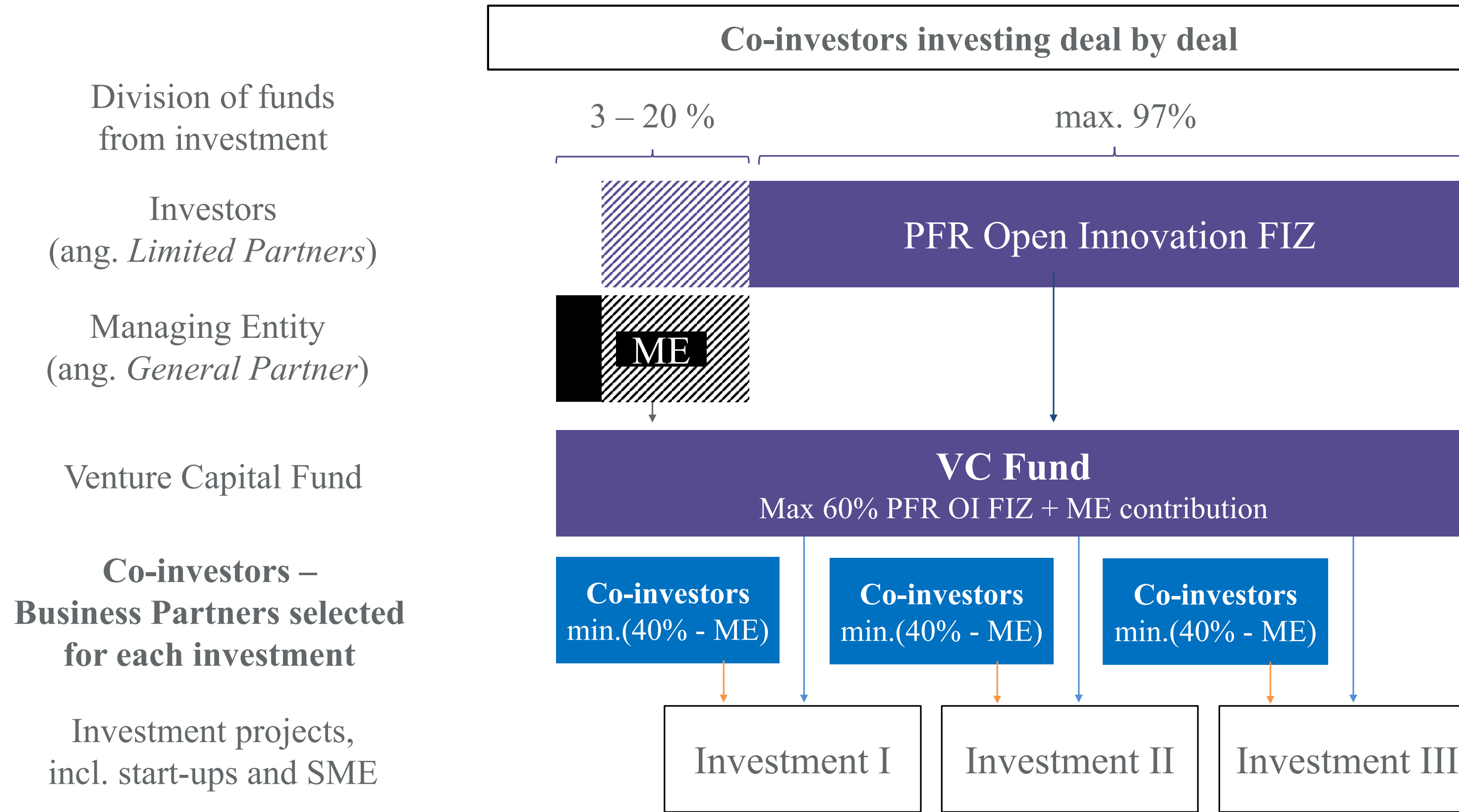
- The Tenderer shows 100% private contribution (i.e. at least 40% of the VC Fund's Declared Capitalization) as part of investor declarations

Variant Ib

- The Tenderer shows at least 50% of the private contribution (i.e. at least 20% of the VC Fund's Declared Capitalization) as part of investor declarations
- If, at the stage of submitting a Tender under the Call, the Tenderer fails to show 100% of the private contribution, the remaining Private Investors must be obtained by the Tenderer in an open, transparent and competitive manner, within no more than 3 months from the conditional signature of the Investment Agreement
- In justified cases (e.g. advanced stage of negotiations with the Private Investor) it is allowed to extend this period
- In the absence of implementation of fundraising, it is considered that the Tenderer has not met the conditional criterion. As a consequence, the declaration of PFR OI FIZ's contribution to the VC Fund expires

Main assumptions of VC fund – Model II (deal by deal)

VC Funds invests with Co-investors deal by deal



Main assumptions of VC fund – Model II (deal by deal)

Tenderers choosing Model II present a list of potential Co-Investors

Co-investors list

- As part of submitting the Tender in Model 2, the Tenderer should provide a list of potential Co-Investors, which will be taken into account during the substantive assessment
- It is preferred that Tenderer present letters of intent or other forms that authenticate ME's cooperation with Co-Investors

Acceptance of Co-investors

- PFR Open Innovation FIZ may accept all or part of listed Co-Investors who will be able to co-invest with the VC Fund in the Company
- Co-investors who were selected for the Investment and were not presented during the submission of the Tender will be subject to due diligence for their approval by PFR Open Innovation FIZ
- Co-investors who have been approved by PFR Open Innovation FIZ (during the evaluation of the Tender or before joining an earlier VC Fund Investment), in the case of subsequent Investments, will not be subject to further due diligence

Main assumptions of VC fund

At least two KP members declare min. 80% of working time in the activities of the VC Fund

Key Personnel	<ul style="list-style-type: none">▪ Key Personnel - responsible for managing the VC fund▪ Declaration of working time and their own contribution to the VC Fund▪ Possibility to change ME as a result of an appeal (on Investors' initiative) or in connection with ME's resignation
Time commitment	<ul style="list-style-type: none">▪ At least 2 members of the Key Personnel declare a time commitment in the investment activity of the VC Fund in not less than 80% of professional time (with not less than 32 hours / week), until reaching a minimum of 70% of the allocation of the Investment Budget or until the end of the Investment Period▪ In justified cases, it is possible to submit a declaration of temporary postpone time commitment up to a maximum of 6 months from the start of the investment activity. In this case, the level of commitment must be at least 8 hours / week during the postponement period
Non-competition clause	<ul style="list-style-type: none">▪ Non-competition for Key Personnel to ensure that there is no conflict of interest towards the VC Fund

Main assumptions of VC fund

The Open Innovation program is dedicated to Polish and foreign funds

Legal form	<ul style="list-style-type: none">▪ FIZAN, limited company (spółka kapitałowa), limited joint-stock company (spółka komandytowo-akcyjna), joint investment institution (instytucja wspólnego inwestowania)		
Headquarters	<ul style="list-style-type: none">▪ UE member states, EFTA or EOG		
Capitalization	<ul style="list-style-type: none">▪ Min. PLN 60 M in Model I, min. PLN 37 M in Model II▪ Possibility to increase capitalization, provided that at least 70% of the Investment Budget is invested before the end of the Investment Period		
Contribution of funds to the VC Fund	<table border="1"><tr><td>Model I:<ul style="list-style-type: none">▪ PFR OI FIZ: max. 60%▪ IP + PZ: min. 40% (incl. ME from 1% to 20%)</td><td>Model II:<ul style="list-style-type: none">▪ PFR OI FIZ max 97%▪ ME min. 3%</td></tr></table>	Model I: <ul style="list-style-type: none">▪ PFR OI FIZ: max. 60%▪ IP + PZ: min. 40% (incl. ME from 1% to 20%)	Model II: <ul style="list-style-type: none">▪ PFR OI FIZ max 97%▪ ME min. 3%
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Time horizon	<ul style="list-style-type: none">▪ Investment Period: 3.5 year, max. until 2023 r.▪ Deinvestment period: 5 years + possibility of extension by 1 year, max. until 2031 r.		

Main assumptions of VC fund

PFR Open Innovations FIZ has no impact on investment decisions¹

Investment Committee

- Internal body dedicated to making investment decisions, created by the VC Fund / ME
- The composition of the Investment Committee will be proposed by the Tenderer when submitting the Tender
- The Investment Committee consists of members of the Key Personnel as well as external experts and advisers

Impact of PFR Open Innovations FIZ on investment decisions

- Investment decisions on market conditions - no PFR Open Innovations' veto right for business decisions
- The right to appoint one observer whose role will be limited to examining the compliance of the Investment with the Investment Strategy and the provisions of EU and national law

Impact of Private Investors on investment decisions

- In Model 1 - the right to appoint at least 1 member of the Investment Committee with voting rights in making investment decisions, but it is required that they have a minority of votes

¹ PFR OI FIZ ma ograniczone prawo weta w przypadku niezgodności decyzji inwestycyjnych z prawem unijnym lub krajowym oraz strategią inwestycyjną Funduszu VC

Main assumptions of VC fund

Wide investment ticket that allows financing technologies from various segments

Investment stage	<ul style="list-style-type: none">▪ Obtaining certification of R&D works, building a demo and / or prototype, as well as supporting the continuation of R&D works for their implementation and acceleration of already completed / acquired R&D works
Follow-on investments	<ul style="list-style-type: none">▪ No restrictions on the % of the Investment Budget▪ The total amount of Investment in a given Portfolio Company will not exceed 20% of the Investment Budget
Investment ticket	<ul style="list-style-type: none">▪ PLN 5 M – 20% of Investment Budget (but max. PLN 60 M)
Refinancing (buy-out)	<ul style="list-style-type: none">▪ Up to 20% in Portfolio Companies from Group A▪ Up to 33% in Portfolio Companies from Group B▪ Up to 50% in Portfolio Companies from Group C
Minimal pace of investing	<ul style="list-style-type: none">▪ Min. 15% allocation of Investment Budget after 1 year▪ Min. 45% allocation of Investment Budget after 2 years▪ Min. 70% allocation of Investment Budget after 3 years

Main assumptions of VC fund

The final beneficiaries of the program are companies operating in Poland

Company	<ul style="list-style-type: none">▪ limited company (spółka kapitałowa), limited joint-stock company (spółka komandytowo-akcyjna)▪ Status of micro, small or medium-sized enterprise▪ Company is not listed on the WSE and NewConnect▪ One of the following conditions is met:<ul style="list-style-type: none">• Does not operate in any markets• Has been operating on any market for less than 7 years since the first commercial sale• Has been operating on any market for more than 7 years since the first commercial sale (as long as the R&D investment exceeds 50% of the average annual turnover in the previous 5 years)
Form of investing	<ul style="list-style-type: none">▪ Equity and quasi-equity financing
Place of conducting business	<ul style="list-style-type: none">▪ At the time of payment, the Company's registered office should be located in Poland, EU, EFTA or EEA and▪ The company should run a business in Poland

Management Fee Limits

Increasing semiannual	0,5	1	1,5	2	2,5	3	3,5	After the eligibility period
Fixed remuneration (%/semi-annum)	1,25%	1,25%	1,15%	1,00%	1,00%	0,85%	-	-
Variable remuneration (%/semi-annum)	1,25%	1,25%	1,25%	1,25%	1,25%	1,25%	1,25%	0,75%

Rolling limit

- 20% total contributions transferred to the VC Fund

Model 2 The possibility of charging fees from Co-Investors

- Possibility of partial coverage of transaction costs (including due diligence) in potential Investments, e.g. 2% of Coinvestor's contribution to the Investment
- Management fee coverage for the duration of the Investment, e.g. 2% per annum of the Coinvestor's contribution to the Investment

¹ Zakładając 4-letni okres inwestycyjny

Model I – settlement of the VC Fund

Private Investor with 1.7x profit asymmetry upon exiting the investment

1 Contributions	<ul style="list-style-type: none">▪ Proportional to participation in the VC Fund Capitalization▪ Until 100% refund of contributions made	
2 Hurdle Rate	<ul style="list-style-type: none">▪ Refund to investors up to the amount of min. rates of return▪ Proportional to participation in the VC Fund Capitalization	
3 Investment Surplus	Carried Interest	<ul style="list-style-type: none">▪ Defined by PZ at the stage of the Call for Tenders (max. 30%)
	Share in profits for PZ	<ul style="list-style-type: none">▪ Proportional to participation in capitalization
	Share in profits for Private Investors	<ul style="list-style-type: none">▪ Defined as a 1.7x multiplier▪ Not more than 80% of the Investment Surplus –▪ Carried Interest
	Share in profits for PFR Open Innovation FIZ	<ul style="list-style-type: none">▪ The remaining part of funds from the part of the Investment surplus after taking into account Carried Interest

Model II – settlement on a deal-by-deal level

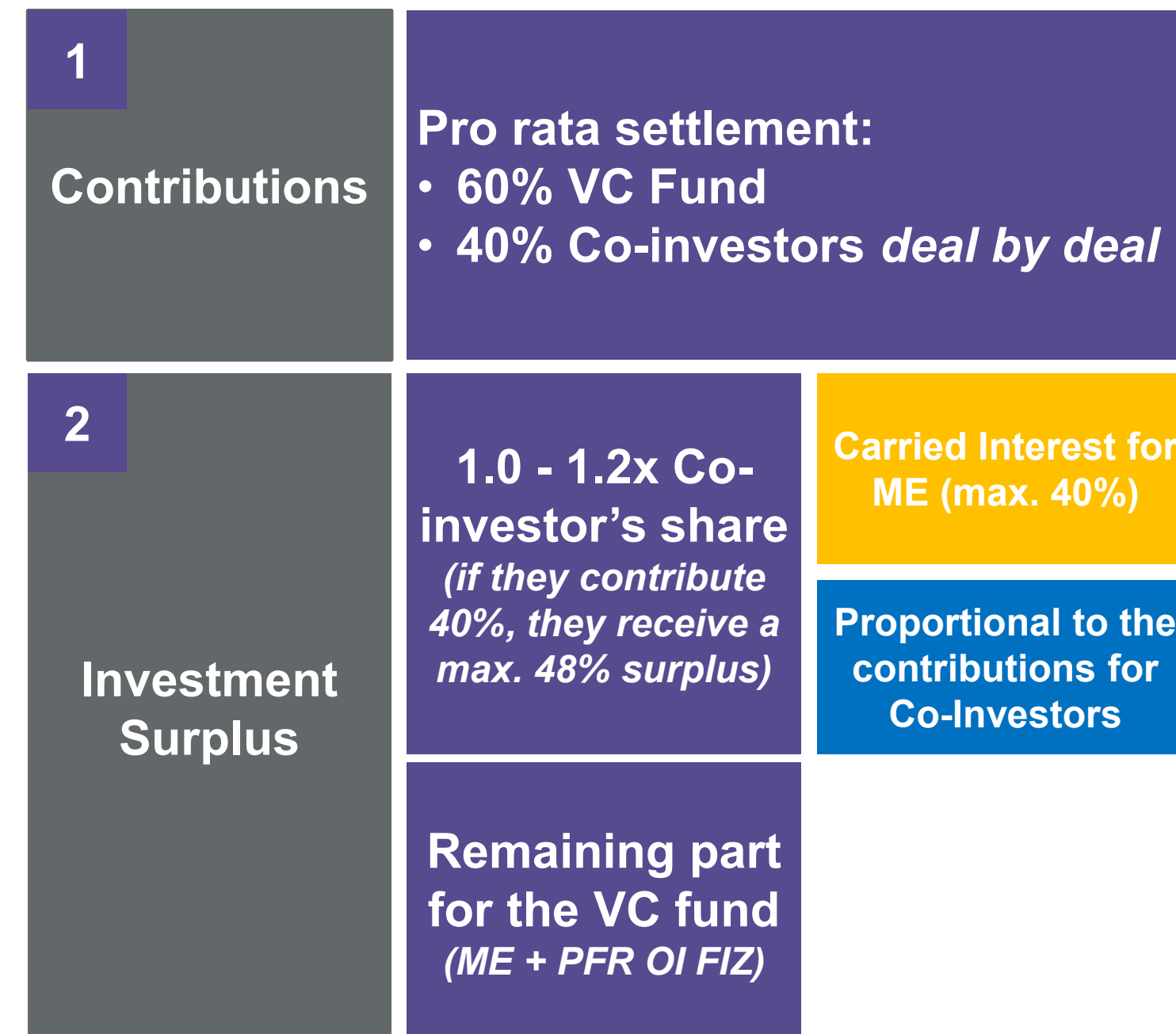
Co-investors with profit asymmetry up to 1.2x upon exiting the investment

After exiting each Investment (company), the settlement between the VC Fund and Co-Investors takes place *deal by deal* in the following order:

1) Return of contributions made to the Investment **in proportion to the contribution (pro rata)**. No hurdle rate. After returning 100% of the contributions, the **Investment Surplus is divided:**

- a. **Profit asymmetry** - Co-investors receive (**up to 1.2x share in the Investment**) from the investment surplus. From this amount they can withdraw Carried Interest¹ for the Managing Entity
- b. The rest is for the VC Fund

2) **Carried Interest and Profit Asymmetry are negotiated each time** between the Managing Entity and Co-Investors deal by deal. The amount of Carried Interest can be max. 40% while maintaining a rational approach to the Carried Interest level relationship and management fees

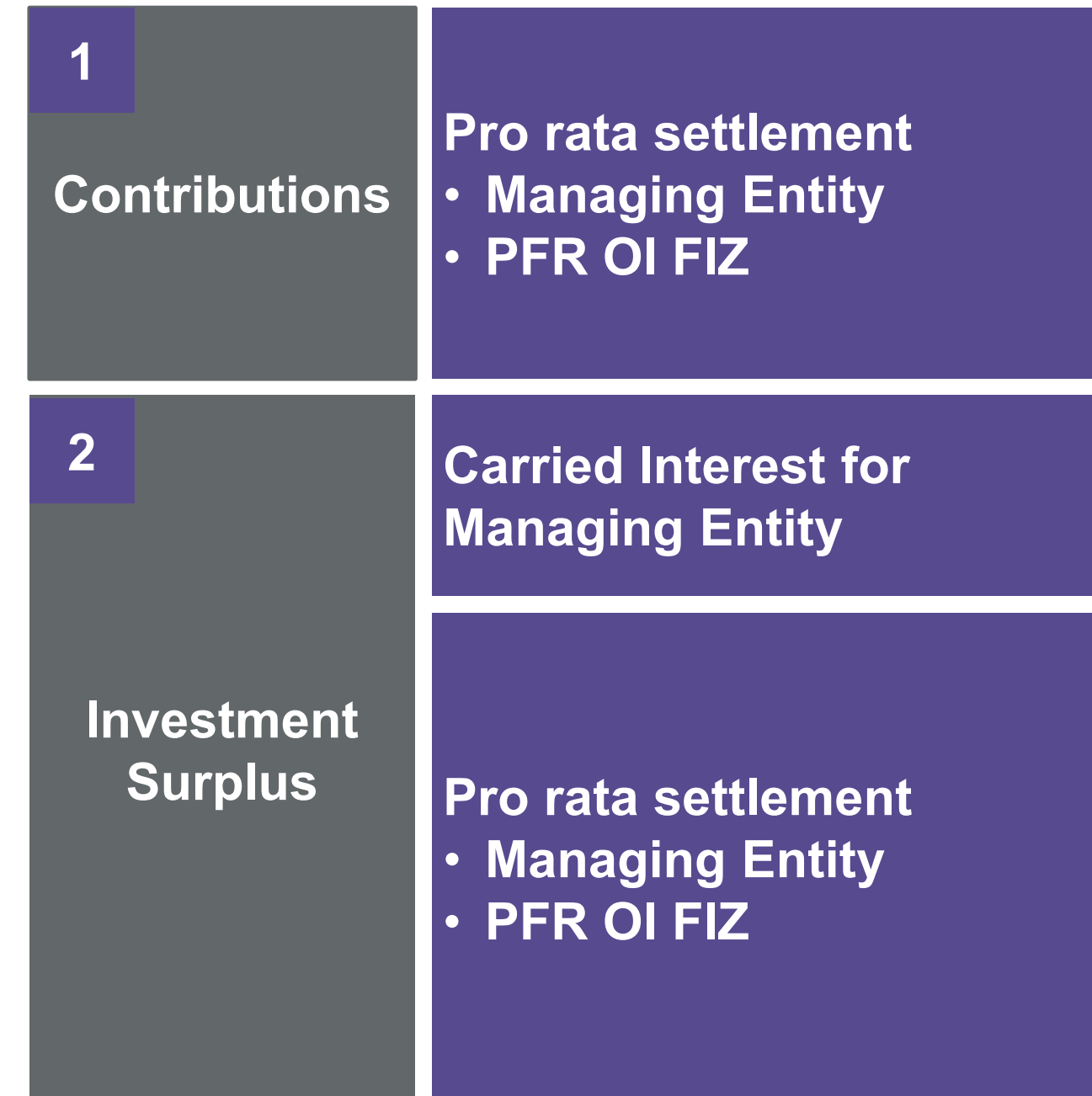


Model II – settlement of the portfolio

ME receives Carried Interest at both deal by deal and portfolio level

After exiting the Investment, the VC Fund receives refunds and they are settled between the Managing Entity and PFR OI FIZ by portfolio in the following order:

- 1) **First, the contributions made to the Financial Intermediary are returned** in proportion to the contributions made (*pro rata*)
- 2) Then, **after return of 100% of the contributions**, the Surplus is divided:
 - a. **Carried Interest** for the Managing Entity
 - b. The remaining part of the **Surplus is settled *pro rata*** between the Managing Entity and PFR OI FIZ



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