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Foundations of the KOFFI program under the new FENG perspective

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Fundusze Europejskie dla Nowoczesnej Gospodarki | Rzeczpospolita Polska | Dofinansowane przez Unię Europejską | PFR Ventures

Agenda

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- KOFFI 1.0 (SGOP) vs. KOFFI 2.0 (EFME)
- Program assumptions under the FENG perspective
- Selection criteria for VC fund managers
- Decision timeline
- Q&A



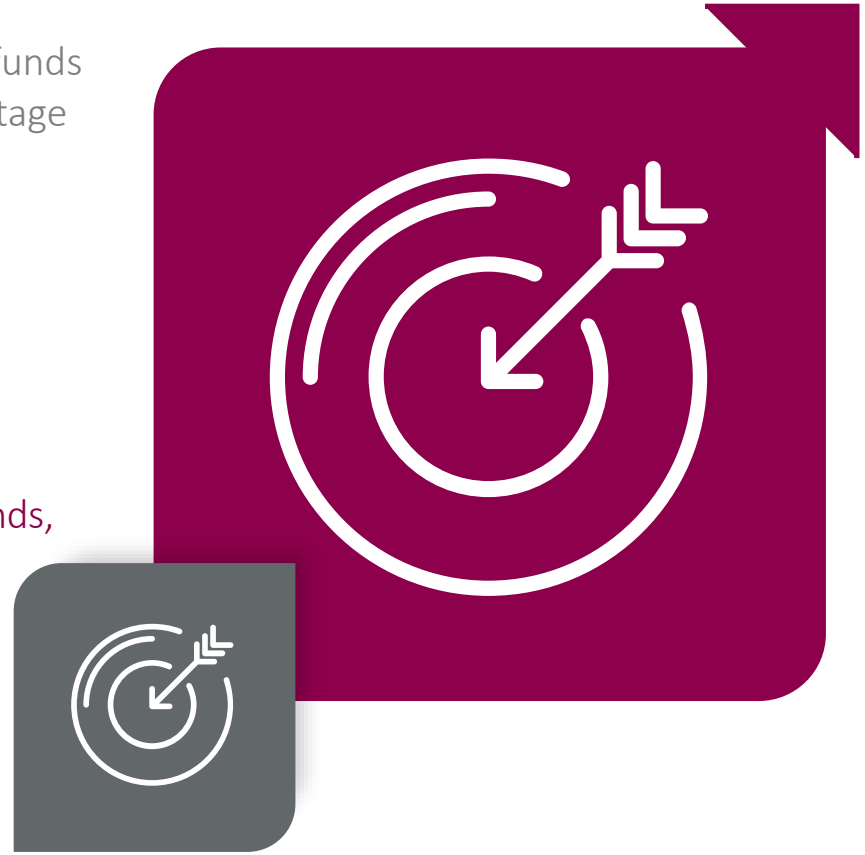
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KOFFI 1.0 (SGOP) vs. KOFFI 2.0 (EFME)

The KOFFI program pursues a number of business goals

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- Development of the venture capital market, including support for existing funds or building new management teams specialized in growth and expansion stage investments.
- Support the development of as many SMEs as possible in the growth and expansion stage
- Implementation of the best VC standards in Poland.
- Attract private investors and encourage them to make investments in VC funds, and then keep them in the market.
- Development of human capital with a high degree of specialization and experience in innovative technology solutions.
- Increase in the internationalization of business, including the entry of Polish companies into foreign markets.



Changes under KOFFI 2.0 are a response to the needs of the Polish VC market

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- PFR KOFFI 2.0 investment ticket in VC fund: up to **PLN 80 million** / previously up to PLN 60 million
- Participation of PFR KOFFI 2.0 in the VC Fund: **up to 60%** - state aid / previously up to 50%
- Introduction of asymmetry in profit distribution (multiplier **up to 1.5x**) - state aid / previously pro-rata
- Limit on management fee + fund costs: **22% of capitalization** over the entire investment horizon
- Carried Interest **up to 30%**
- Support for the local ecosystem: at least **85%** of the funds invested in Polish companies and a maximum of **15%** of the funds invested in foreign companies with a Polish element



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Program assumptions under the FENG perspective

Main principles of the PFR KOFFI 2.0 program for VC funds

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Target group

VC funds investing in growth and expansion stage startups (post-seed)

Preferred legal form

Limited partnership, Limited joint-stock partnership

PFR KOFFI 2.0 contribution

Up to PLN 80 mln
Max. 60% of fund capitalization

Time commitment

Min. 2 KP member for 80-100% of professional time

Investment Committee

KP member + PFRV observer (limited veto right)

Carried Interest

Max. 20-25-30% (quoted by VC)

Hurdle Rate

At least 6%

Investment Period / Investment Horizon Length

5 year (until 2029)/ max. 12 years

GP's contribution

Min. 1% of Declared Capitalization

Profit asymmetry

1.5x the private investor's share of the profits compared to their participation in the VC Fund

Main principles of the PFR KOFFI 2.0 regarding investments in companies

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Investment stage

Expansion/Growth stage (post-seed)



Investment ticket

At least PLN 4 mln



Minority holdings

Less than 50% in First Investment



Limit on shares acquisition from existing shareholders

Buyback of up to 50% of the investment value



Follow-on investments

Up to 60% of Investment Budget



Follow-on after the Investment Period

Max. 30%



Company headquarters

Min. **85%** of portfolio – Poland

Max. **15%** of portfolio – foreign* + Polish element

*EU, EFTA, EEA, UK



Polish element

Significant portion of operations in Poland (min. 50%)



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Selection criteria for VC fund managers

Selection Criteria for VC Funds by PFR KOFFI 2.0.

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Key Persons and Operating Team	40%	• Investment experience • Cooperation between Team Members • Complementarity of the Team • Time commitment of Team Members to ensure proper management of the VC fund
Investment Policy of the VC Fund	30%	• Complete, high-quality and effective Investment Policy • Demonstrated potential to bring in smart money • Display of a realistic and effective Investment and Operating Budget • Feasibility of execution of the Investment Policy • Investment Policy corresponding to the experience of Key Personnel • Consideration of sustainable development (ESG) factors in the evaluation of investment projects
Prospective investment projects	16%	• Credible list of potential investment projects • Demonstration of an effective way to build deal flow
Other criteria	14%	• Contribution size of Private Investors and the Management Entity • Presentation of an effective incentive system for Key Personnel and the Operations Team • Credibility of the organizational capacity and readiness and efficiency of the VC Fund's organizational structure to achieve the objectives of the Tender and the project schedule

Team as a key aspect to be evaluated in the Tender

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Obszary krytyczne w ocenie Zespołu


Investment experience


Complementarity of experience


Experience in line with the investment policy


Previous cooperation of the Team

Who/what we are looking for

- ☑ Individuals with solid investment experience within the Team, particularly at the expansion stage
- ☑ Complementary of the Team in terms of investment, entrepreneurial and industry experience
- ☑ Individuals with experience in companies consistent with the fund's investment policy
- ☑ A team with an existing track record of joint collaboration in investments, work or other projects
- ☑ Credible full involvement of Key Personnel members in the fund's activities
- ☑ Commitment of capital of members of Key Personnel at the highest possible level (adequate to their asset value)

Most common undesirable situations

- ☒ Lack of any member of the Team with investment experience, or the experience is outdated or inadequate (e.g., buyout investments)
- ☒ Actual experience and professional achievements significantly different from those declared in the Tender
- ☒ VC fund specialization not backed by experience of Team members
- ☒ Short track record of cooperation of the majority of the Team (e.g. 1 year), no joint investments or projects
- ☒ Key Personel (declaring 40 hrs/week) planning to continue other professional activities
- ☒ Team/Key Personnel declaring a minimum capital commitment of 1%

Most Common Mistakes from Call no. 1

Formal Mistakes



- Lack of signature **in the form specified in the Rules for the Submission and Selection of Tenders**
- Lack of **complete documentation submitted for evaluation**
- Submission of an attachment **in a different file format** than indicated in the Rules for the Submission and Selection of Tenders

Substantive Mistakes



- Planned investment amount in the Portfolio Company **is not in line with the program's assumptions**
- Presented contribution of Private Investors **is not verified** through Letters of Intent or its total value is significantly disproportionate to the Investment Budget of the planned fund

Other undesirable situations in tenders based on experience with SGOP 1/3

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Fund size and economics



- High target capitalization of the fund compared to their investment experience
- Inefficient fund economics (e.g., low salaries of Team members due to too large a Team or participation of external parties in the fund management fee)
- Team too small in relation to the target capitalization of the fund

Investment Policy



- Industry profile of the fund not supported by the experience of Team members in the relevant area
- Lack of compliance with the program's term-sheet
- Unrealistic or vague investment policies, such as deal flow generation

Pipeline



- Low quality and credibility of the indicated investment projects
- Lack of clear investment theses for the indicated projects
- Investment projects inconsistent with the fund's investment policy (lack of innovation, companies with commercial revenues, foreign companies with limited ties to Poland)

Other undesirable situations in tenders based on experience with SGOP 2/3

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Structure of the Managing Entity



- Complicated and unclear ownership structure of the Managing Entity
- Inconsistency between the ownership structure and the structure of contributions made
- Inadequate contributions of Key Personnel members in relation to their assets
- Lack of Key Personnel members on the Managing Entity's board of directors

Carried Interest



- Allocation of Carried Interest inadequate for time commitment, financial commitment and contributed know-how
- Carried Interest over-allocated to persons declaring low time or financial commitment
- Part of Carried Interest allocated to investors or persons/entities affiliated with investors

Investors



- Affiliations of investors with the Management Entity Team
- Declarations from investors with reputational problems
- Undiversified investor structure (a min. of 3 investors is welcome)

Other undesirable situations in tenders based on experience with SGOP 3/3

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Investment decision process and criteria



- Limited decision-making of Key Personnel members declaring full time commitment to the Investment Committee
- No / low declared contributions to the fund by those making investment decisions

Management of conflicts of interest



- No market-based valuation validation rules for investments in companies affiliated with Key Personnel or Private Investors
- Affiliations of Team members with other funds/incubators/venture builders generating conflict of interest risks
- Direct investments by KP members or funds affiliated with KP members in competition with the fund
- Management of another VC fund that is in the investment period and engaged in competitive activities

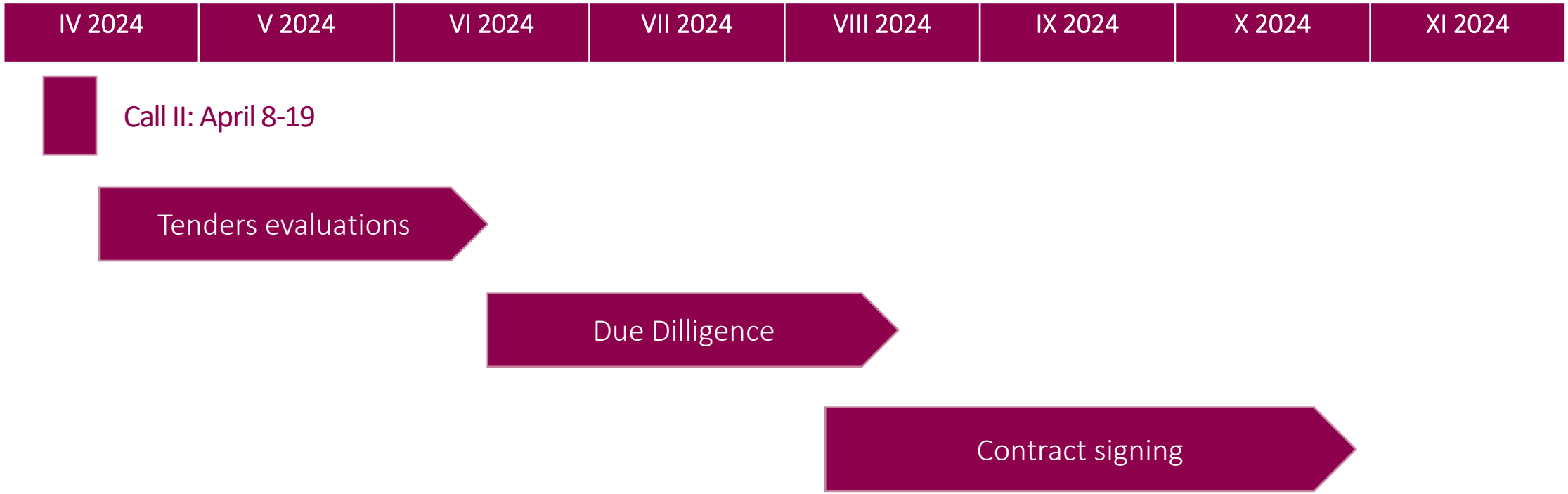
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Decision timeline



Call schedule for the PFR KOFFI 2.0 program

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Q&A

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