

PFR CVC programme assumptions under the new FENG perspective

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Fundusze Europejskie
dla Nowoczesnej Gospodarki



Rzeczpospolita
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PFR Ventures

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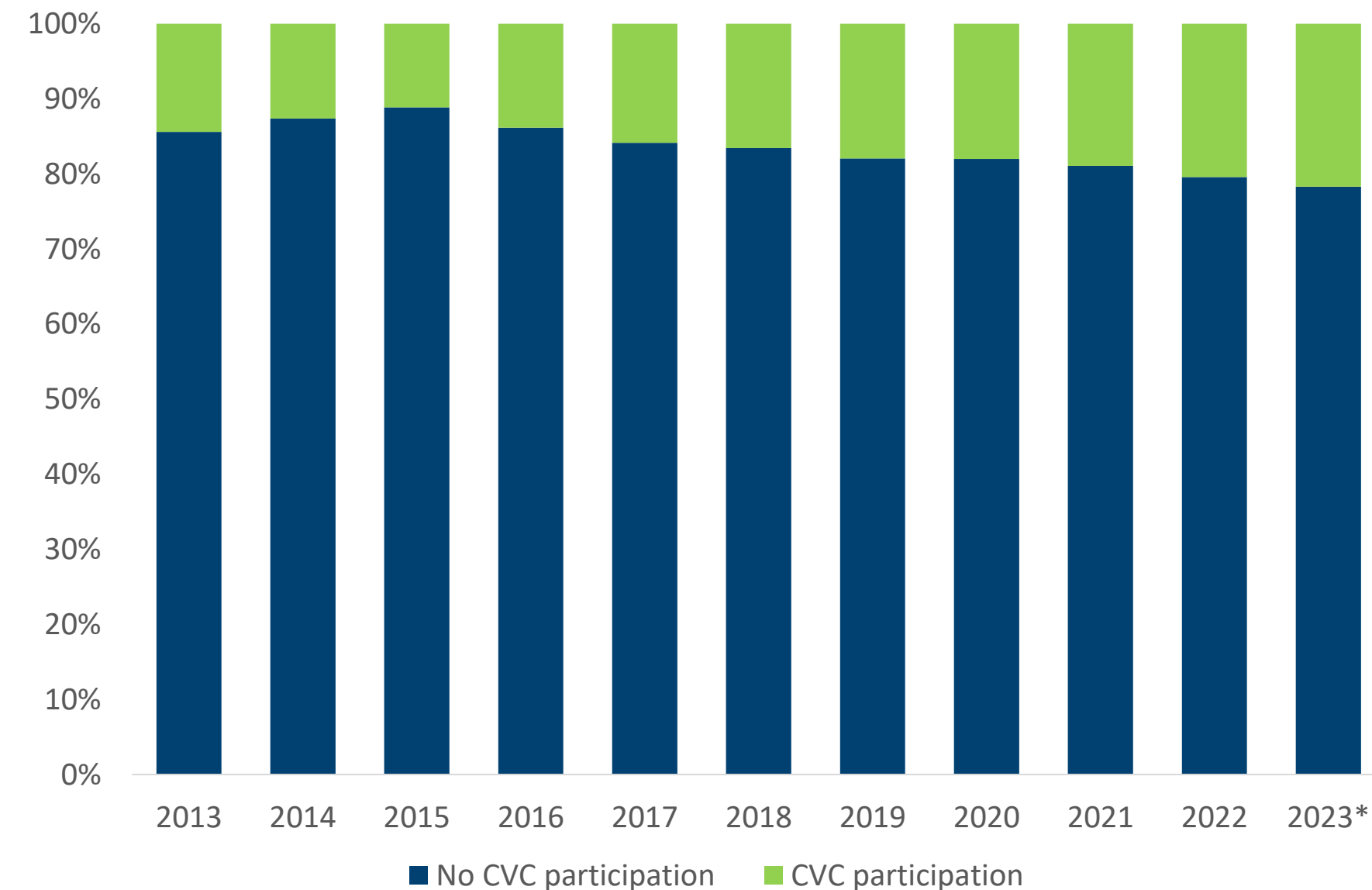
Corporate Venture Capital Model

Corporate Venture Capital model

What is the Corporate Venture Capital model?

The Corporate Venture Capital model involves corporations investing in innovative enterprises within their **own organizational structure**, a **separate structure** managed by dedicated corporate employees, or through an **external fund** managed by an independent investment team.

The share of CVC funds in European financing rounds is growing steadily



Source: Harvard Business Review, PitchBook

PFR CVC programme pursues a number of business goals



Development of the Corporate Venture Capital market, including the establishment of new management teams.



Financial support for technological projects by financing innovative SMEs.



Implementation of the best VC standards in Poland.



Attracting corporate investors and encouraging them to make investments and co-investments with VC funds, and then maintaining them on the market.



Development of human capital with a high degree of specialization and experience in innovative solutions.



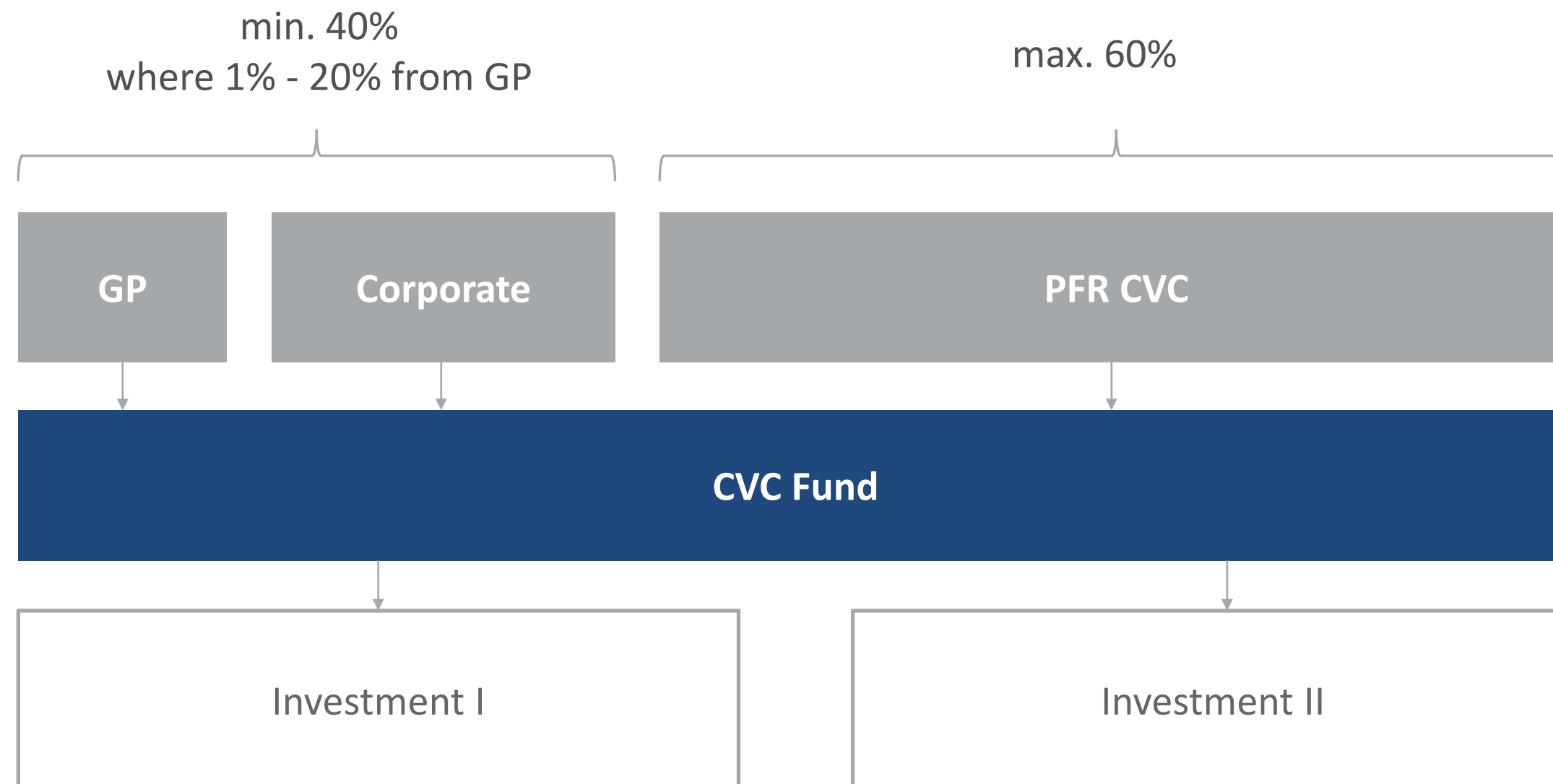
Increased internationalization of business activity, including the expansion of Polish companies into foreign markets.



Models for securing private capital

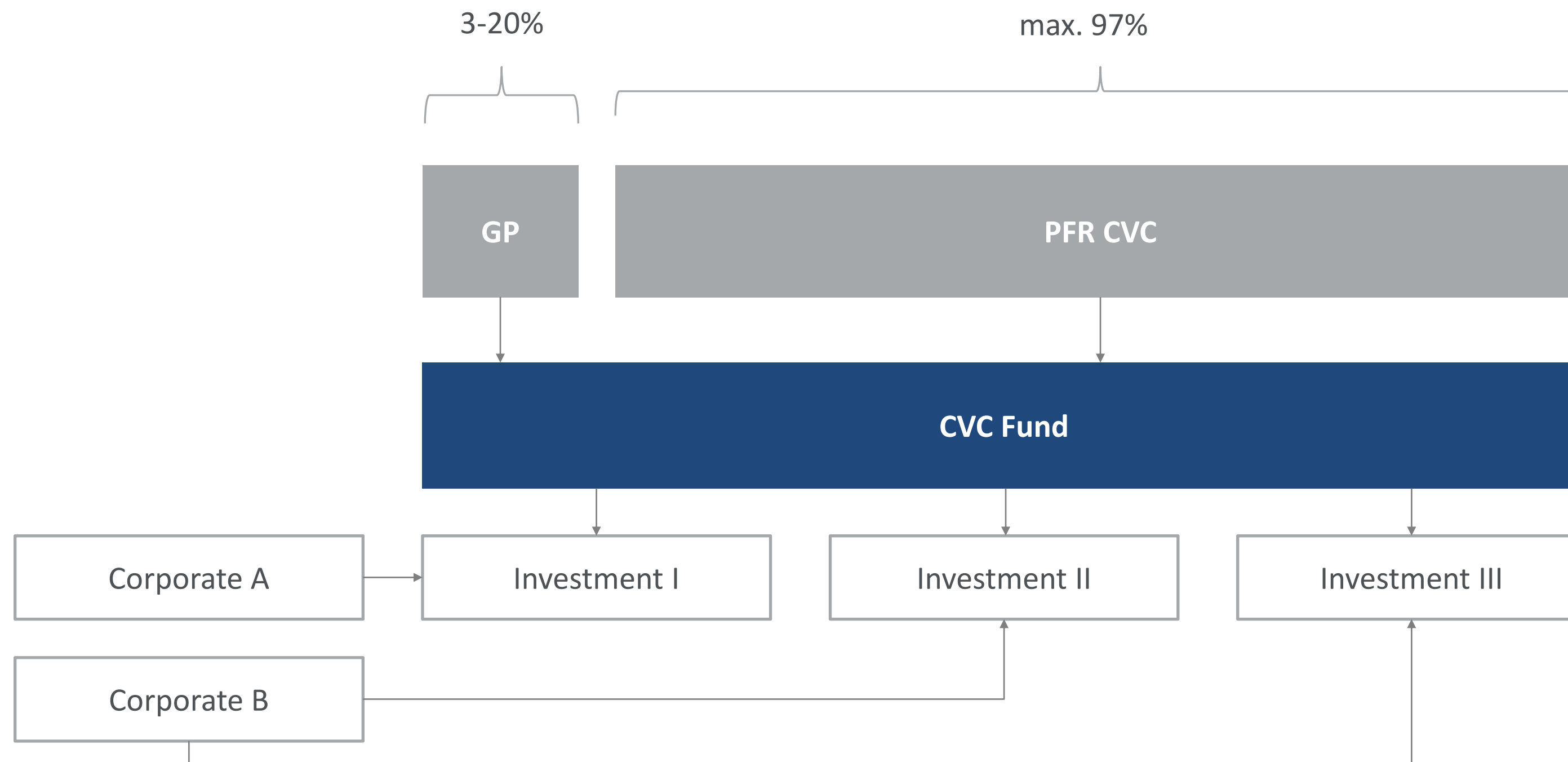
Model 1 – commitment model

Corporate invests in a CVC fund



Capital is committed by PFR CVC and the Corporate Investor at the CVC Fund level. Subsequently, the General Partner (Managing Entity) decides on investments in portfolio companies.

Model 2 – *deal-by-deal* model



PFR CVC and the General Partner commit capital at the CVC Fund level.

Subsequently, the GP selects corporate Co-Investors for individual deals.

In this model, the profits are shared between the CVC Fund and the Co-Investors deal by deal.

Summary of past tenders under POIR

Funds from the POIR perspective supported 4 CVC funds

50

Financed start-ups

6

Corporate Investors

141

million PLN transferred to start-ups from the PFR NCBR CVC programme

146

million PLN from Corporate Investors

PLN ~415 MM

Declared capitalization of 4 CVC funds

PLN ~203 MM

PFR NCBR CVC commitment

Our CVC fund portfolio:

EEC
MAGENTA

SpeedUp
ENERGY INNOVATION
POWERED BY:  ventures

ICOS
CAPITAL

ff^v_c
TECH AND GAMING
DESIGNED BY KRAKOWSKA

PFR CVC programme assumptions

Summary of the most important changes: POIR vs. FENG

	POIR		FENG
PFR CVC commitment (PLN MM)	326	→	373
PFR CVC contribution (%)	50%	→	60%
Profit asymmetry	No	→	1,0x-1,5x
Co-Investment Model	No	→	Yes

Selected assumptions of the PFR CVC programme under the FENG perspective regarding VC funds



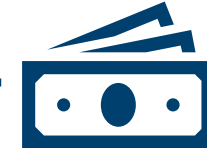
Who is the programme intended for?

Corporations willing to create an externally managed CVC fund/ready to participate in co-investments



Preferred legal form

Limited partnership, limited joint-stock partnership



PFR CVC contribution

Model 1: up to 60%, max. PLN 110 MM at the fund level
Model 2: up to 60% at the deal level



Time commitment

Min. 2 KP members for 40h/week/100% of professional time



Investment Committee

KP members with voting rights + PFRV (observer) with veto right + optionally a non-voting representative of private investors



Carried Interest

Model 1: up to 30%, Model 2: 20-30%, depending on the level of co-investments with corporate investors



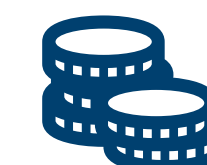
Hurdle Rate

Model 1: proposed by the Team,
Model 2: not applicable



Investment Period/ Investment Horizon Length

5 years (+1)/ max. 12 years



GP's contribution

Model 1: 1-20%
Model 2: 3-20% (CVC fund without a corporate investor at the fund level)



Profit asymmetry

Model 1: 1,0-1,5x
Model 2: 1,0-1,35x

Selected assumptions of the PFR CVC programme under the FENG perspective regarding portfolio companies



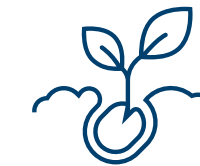
Investment ticket

up to 15% of Investment Budget



Portfolio company

SMEs, at the time of VC fund's investment - are not listed on the stock exchange (e.g. WSE, NewConnect)



Investment stage

early stage/growth/expansion



Company headquarters

the company should be located in the EU, EFTA, EEA or UK



Follow-on investments

up to 60% of Investment Budget



Sector

Sector agnostic
(sector restrictions in accordance with the exclusions indicated in point 10 of the Term Sheet)



Geographical limitations

max. 15% in foreign companies with existing strong ties with Poland



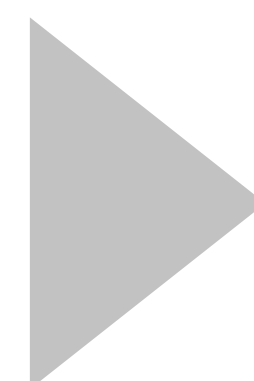
Limit on acquisition of shares from existing shareholders

up to 50% investment value, buyout combined with the purchase of new company instruments

POIR vs. FENG – selected changes

POIR vs. FENG – changes in selected assumptions as a response to market needs

Parameters	POIR	FENG
Commitment size (PLN MM)	326	373
Estimated number of VC funds	6	3-5
Max. PFR Ventures commitment	not specified	up to PLN 110 MM
Max. PFR Ventures commitment (%)	50% of Declared Capitalization	Model 1: up to 60%, Model 2: up to 97% at the fund level (and up to 60% at the deal level)
Profit asymmetry (Model 1 / Model 2)	none	1,5x / 1,35x
Management fee (%)	up to 20%; 1,5% in the Disinvestment Period of the net invested capital	up to 22%, Investment Period: 2.5% of the Declared Capitalization, Disinvestment Period: 2.5% of the net invested capital
Zaangażowanie czasowe członków Kluczowego Personelu	min. 2 people for 80% professional time and 32h/week*	min. 2 people for 100% professional time and 40h/week*
Milestones	none	10%-25%-40%-55%-70% execution of Investment Budget after 1, 2, 3, 4, 5 years
Carried Interest	to be proposed by the Team	to be proposed by the Team, up to 30% in Model 1; 20-30% in Model 2; Carried Interest in Model 2 depends on the level of investment with corporate Investors



* Allowable deviations to a level of no less than 80%/32h/week in cases where: (i) the Key Personnel Member is involved in a previous VC fund during the divestment period, or (ii) the side activity is of limited scope, synergistic and does not generate a conflict of interest.

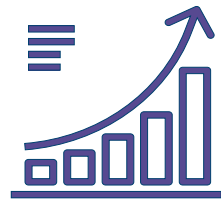
Selection criteria of VC Fund Managers

Selection criteria of VC funds by PFR CVC



Other undesirable situations based on experience from POIR perspective 1/3

Fund size and economics



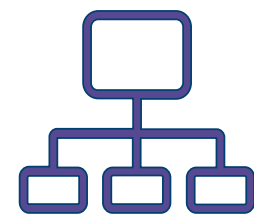
- High target capitalization of the fund in relation to Team's investment experience
- Inefficient fund economics (e.g., low salaries of Team members due to excessive Team structure or participation of external parties in the fund management fee)
- Too small Team in relation to the target capitalization 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
- Limit credibility or vague investment policies, e.g. in terms of deal flow generation

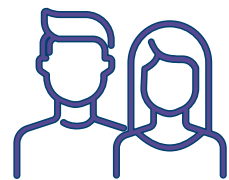
Pipeline



- Low quality or low 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 based on experience from POIR perspective 2/3

Structure of the Managing Entity



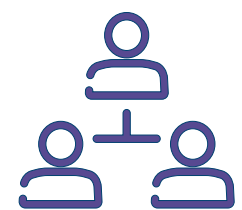
- Complicated and unclear ownership structure of the Managing Entity
- Inconsistency between the ownership structure and the structure of contributions made
- Inadequate contributions of Key Personnel members in relation to their assets
- Lack of Key Personnel members on the Managing Entity's board of 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 Managing Entity Team
- Declarations from investors with reputational problems
- Lack of an effective strategy for attracting Co-investors

Other undesirable situations based on experience from POIR perspective 3/3

Investment decision process and criteria



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

Management of conflicts of interest



- 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

Management of conflicts of interest



- Lack of any Team member with investment experience or with experience that is outdated or inadequate / lack of Team member with experience in cooperation with Corporate Investors
- A short track record of cooperation between most of the Team (e.g. a few months), no joint investments or projects
- Manager (declaring 40 hours/week) planning to continue other professional activities

The most common mistakes in submitted offers

Formal mistakes



- Failure to submit a **signature in the form specified in the Recruitment Rules**
- Failure to provide **complete documentation being assessed** before the recruitment window deadline
- Submitting an attachment in a **format other than indicated** in the Recruitment Rules
- Submitting an attachment using **the wrong form** (usually attachments from POIR or in the form of a project)

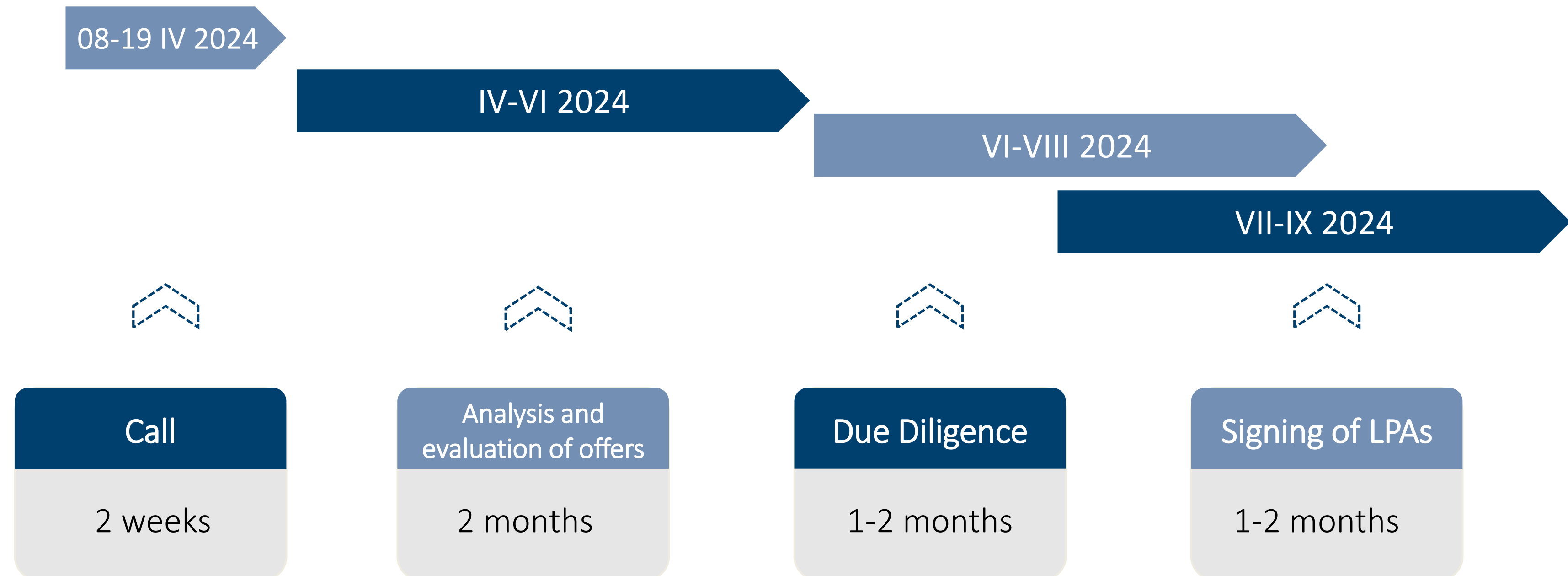
Substantive mistakes



- The planned amount of investment in the Portfolio Companies is **not consistent with the assumptions of the program**
- The presented commitment to the Declared Capitalization from Private Investors is **not authenticated** through the Letters of Intention or its total value is significantly disproportionate to the Investment Budget of the planned fund
- No experience of cooperation with Corporations
- No indication of Corporate Investors/Co-Investors

Call Schedule

Call schedule for the PFR CVC programme



Q&A

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