

# Assumptions and timeline: Call for Tenders No. 4

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PFR Starter FIZ

Warsaw, 21 June 2018



## Agenda

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1 Starter: where we are today

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2 Assumptions of Call No. 4

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3 Key areas of assessment

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4 Q&A

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Starter: where we are today




# Starter: where we are today

In Calls 2 & 3, we plan to sign approx. 15 agreements

	Call no. 2	Call no. 3
<b>Tender offers made</b>	<b>69</b>	<b>42</b>
<i>Conversion %</i>	<b>38%</b>	<b>50%</b>
<b>Meetings</b>	<b>26</b>	<b>21</b>
<i>Conversion %</i>	<b>46%</b>	<b>71%</b>
<b>DD processes</b>	<b>12</b>	<b>15</b>
<i>Conversion %</i>	<b>42%*</b>	
<b>Signed agreements</b>	<b>5*</b>	
<i>Conversion %</i>	<b>7%*</b>	

- The total declared capitalization of 5 funds: PLN 210mn
- Average capitalization: PLN 42mn
- Starter's commitment: ~ PLN 165mn
- Expected total number of VC funds: 20-25



 \* As at 20 June 2018 r.  
Source: PFR Ventures

# Assumptions of Call No. 4

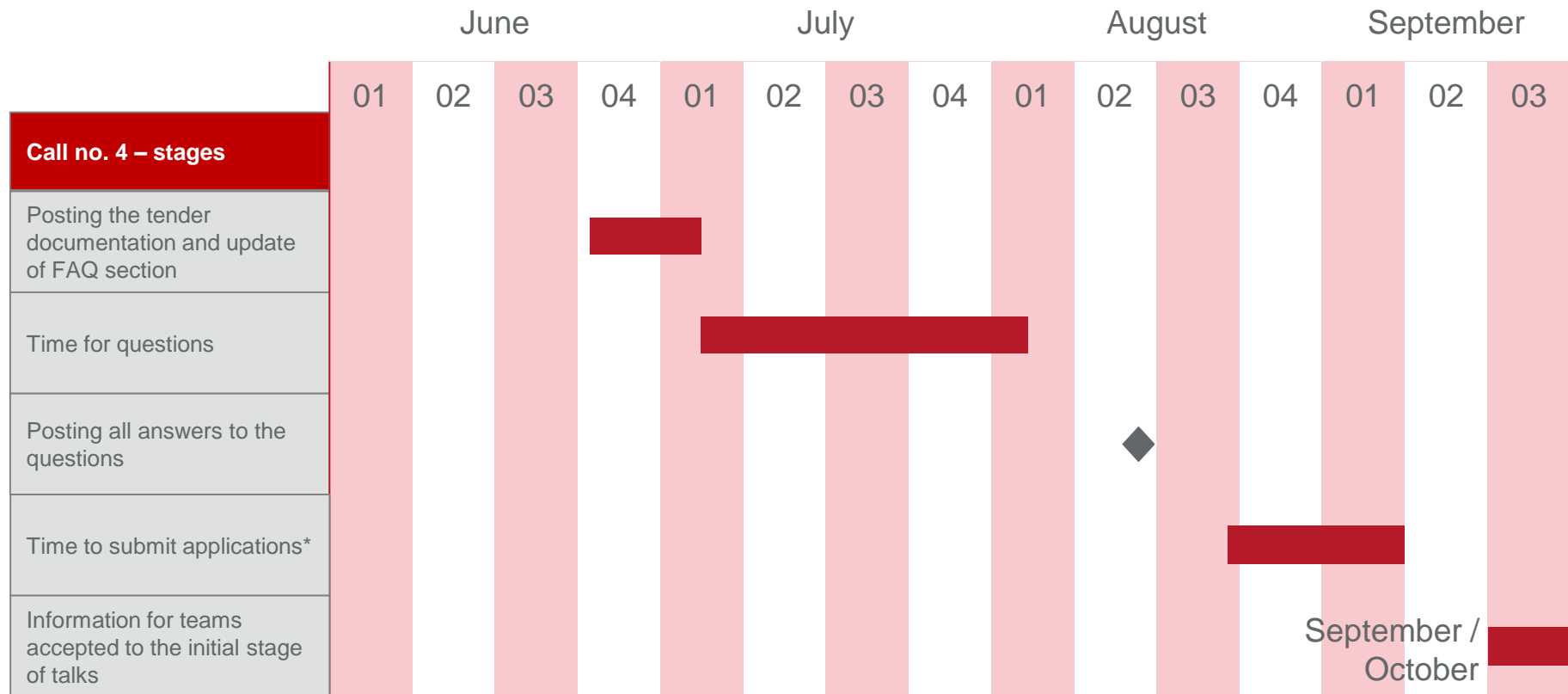


# Assumptions of Call No. 4

## Summary

<b>Investment budget</b>	PLN 728mn
<b>FoF Commitment</b>	PLN 20-50mn; up to 80% of the Fund's Declared capitalization
<b>Team's commitment</b>	Min. 1% of the Starter Fund's Declared capitalization
<b>Investment Horizon</b>	Investment period: 4 years (+ 1 or 2 years; up to 2023) Divestment period: 4 years (+ 1 or 2 years; up to 2031)
<b>Investment Ticket</b>	Up to PLN 3mn in total, first investment up to PLN 1mn
<b>Investment stage</b>	70% of the first investments in Group A companies <sup>1</sup>
<b>Asymmetry of profit</b>	Up to 2.5x share in the profit for Private Investors
<b>Investment decisions</b>	Observer of PFR Starter FIZ with limited veto rights (conflict of interest, non-compliance with national or EU law); no veto right for business decisions

## Timeline



\* We will await applications between 20 August and 7 September 2018.



## Investments

- Companies in the incubation / start-up stages, developing / implementing innovative solutions (product, service, process, marketing and organizational innovations)
- Support for the development of the most promising young entrepreneurs with a headquarter / branch in Poland (headquarters in the EU, EEA, EFTA region), dedicated to the development of operations in Poland (regardless of international development plans)
- Flexible forms of investment: equity and quasi-equity financing (including convertible bonds and loans)
- Investment limit (addressing the financial needs of SMEs): first investment up to PLN 1mn with the possibility of follow-on up to PLN 3mn in total
- Covering up to 49% of the equity of SMEs; no more than 10% of the investment's value to buy out existing shareholders





## VC Funds

- The potential number of VC funds (as part of all PFR Starter FIZ calls): min 16, target 20-25
- PFR Starter FIZ commitment: **PLN 20 – 50mn in one VC fund**
- The share of PFR Starter FIZ: **up to 80% of the VC fund's capitalization**
- **Autonomy of making investment decisions by VC funds**
- Basic investment horizon:
  - 4-year investment period, possibility of extension by max 2 years (but not longer than Dec 31, 2023)
  - 4-year divestment period with the possibility of extending by max 2 years
- Focusing on investments in the companies at the earliest development stage, i.e. at least 70% of the value of the first investments in SMEs before the first commercial sale



## Team and management fees

- **Min. 2 members of the Key Personnel – min. 32 h/week declared (not less than 80% of their professional activity)** until the fund fully invests or until the end of the Investment Period
- The opportunity to start fundraising after investing the negotiated part of the Investment Budget
- The commitment from the Managing Entity (the Team) at a **min. level of 1% and max. 20% of the fund's capitalization**, but no more than the commitment of Private Investors
- **The Carried Interest level is proposed by the Tenderer** (depending on the return on the fund)
- The Management Fee, comprised of a **fixed part** (of Declared Capitalization) and a variable part (of the total net amount provided to start-ups), will in no case exceed 20% of the total amount of contributions to the fund until December 2023
- Exact level of the Management Fee is provided in the Term Sheet



## Investment Committee and decision making

- Investment Committee - **an internal body dedicated to making investment decisions**, consisting in particular of the Key Personnel, other Team Members along with experts and advisors
- **Private Investor's right to designate one member of the Investment Committee** with the right to vote in investment decisions making as long as the members of the Key Personnel (who also sit on Investment Committee) have the majority of votes
- The right for **PFR Starter FIZ** to appoint an observer
- The observer appointed by PFR Ventures has no voting rights, but still keeps a limited right to veto the investment **by PFR Starter FIZ**, that is, only in case of a conflict of interest, non-compliance with national/EU law or a breach of the Investment Agreement provisions



## Private Investors

- Increased funds for investments in SMEs using up to 80% of public funds from PFR Starter FIZ
- Private Investor's preferential share in the profit of the VC fund in relation to PFR Starter FIZ
- 2 models for accounting of investment profits
  - „Loss coverage” – settlement with capital protection up to 20% of private funds with a "small" preference in profit distribution (1.5x private funds)
  - „Asymmetry of profit” – preferential distribution of profit for private investors (2.5x private funds) without capital protection - the preferred model



# Key areas of assesment



# Key areas of assessment

## Team – key part of the Offer

### Key areas of evaluation



Investment experience



Complementary experience



Connection to the investment profile



Previous cooperation of the Team

#### What we are looking for

- People with solid investment experience within the Team, seed stage experience preferred
- Complementarity of the Team in terms of investment, entrepreneurial and industry experience
- People with experience related to the investment profile of the fund, especially at the seed stage
- A team with the previous track record of joint cooperation in investments, work or other projects
- Fully committed fund managers (members of the Key Personnel)
- Capital commitment from the Team / Key Personnel members at the highest possible level (depending on net worth)

#### Case studies

- The team does not have a person with investment experience or the experience is obsolete (for example last investment occurred 10 years ago) or mainly at the level of the PE fund
- Most of the Team members have only entrepreneurial or industry experience
- Fund focused on the investments in AdTech / MarTech, with no one in the team who has experience in the area of AdTech / MarTech / marketing industry
- Short track record of cooperation of the majority of the Team (for example 1 year), lack of joint investments or projects
- Key Personnel (declaring 32 hrs / week) want to continue their work in corporations or development of their own businesses
- The team / Key Personnel with relatively small experience declares a minimum capital commitment of 1%



### **The size and economics of the Fund**

- Exceedingly high capitalization of the Fund in relation to the Team's investment experience,
- Ineffective fund economics (for example: low remuneration of Team Members resulting from the Team being too large or from the participation of external entities in the remuneration for managing the fund).

### **Investment Policy**

- The fund's industry profile is not covered by the experience of Team members in a given area,
- Very generic description of policy for generating investment projects ("deal flow").

### **Pipeline**

- Low quality and credibility of indicated investment projects,
- Low level of knowledge of selected investment projects.



### Structure of the Managing Entity

- Complicated and unclear ownership structure of the Managing Entity,
- Team's commitment is not contributed by all members of the Key Personnel,
- Inadequately low contribution of some of the Key Personnel Members.

### Carried Interest

- The Carried Interest split is not related to the level of time, money and know-how involvement,
- Carried Interest is shared with people from outside of the Team in a way that significantly reduces Team motivation.





### **Making investment decisions**

- Lack of decisiveness of the Key Personnel in the Investment Committee, for example: Key Personnel with a minority of votes in the Investment Committee,
- No declared contributions to the fund by persons in Investment Committee.

### **Conflict of interest**

- No proposed mitigation of potential conflicts of interest, which may include but are not limited to:
  - Lack of clear separation between GPs and LPs in making decisions
  - Time conflict between Starter and current other professional activities
  - Equity/time involvement of GPs/LPs in the pipeline or portfolio companies



## Next steps

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- Posting the tender documentation and update of FAQ section: **until 10 July 2018**
  - <https://www.pfrventures.pl/en/fund/1/pfr-starter-fiz/>
- Time for questions: **until 29 July 2018**
- Posting all answers to the questions: **until mid-August 2018**
- Time to submit applications: **between 20 August 2018 and 7 September 2018\***
- Information for teams accepted to the initial interview stage: **September/October 2018**





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