

December 2016

info@armilar.com | www.armilar.com



ARMILAR
VENTURE PARTNERS

Armilar Venture Partners, SCR, S.A.

NEWSLETTER

DECEMBER 2016

SAME TEAM, A NEW BRAND

In the last month of August, it was announced that an agreement had been reached between Novo Banco and a group of investors, led by Sonae Investment Management, for the sale and purchase of Novo Banco's participation in three of the funds managed by Espírito Santo Ventures (ESV), and for the independence of ESV which would become controlled by the management team. On 13th December, we're pleased to report, after all the required procedural approvals were obtained, the closing of this transaction – most likely the largest of its kind in venture capital in Portugal – was announced.

We strongly believe that this is very good news for all those involved. Not only is this transaction an important step for Novo



The AVP Team, left to right: João, Maria do Carmo, Ana, Pedro, Nuno, Joaquim, José, Francisco, Vítor and Duarte.

Banco's divestment strategy to focus in its core banking activity and for Sonae IM's investment strategy to gain exposure to key assets in our portfolio an further enhance its deal flow, but also, and most particularly, for the other investors in our funds and for the teams in our portfolio companies, this deal offers an important guarantee of continuity and stability that puts an end to a 3-year period of uncertainty. Indeed, after ESV had built a rich experience and recognized brand name in Venture Capital (see sidebar for a quick overview of our history working together as a team), the resolution of Banco Espírito Santo (now called Novo Banco) – the former owner of ESV – in early 2014 had put the development of the whole project on hold, putting the cohesion of the team at risk from a lack of perspective on its future. We're now proud of the fact that we stuck together as a team through this period and were able to contribute to this positive outcome; we feel honored to have counted on the trust of the new investors and we're thrilled that we are able to offer – to all our funds, all our investors, and the entrepreneurs of the companies we have invested in – a solution of continuity, that is strengthened by our independence and our enhanced perspective on the future.

Going forward, we will be wearing our new identity as Armilar Venture Partners (AVP) (see article about its meaning elsewhere in this newsletter).

We are very proud of what it represents and we hope that you like it just as much as we do, as we strive to build it into a well recognized and trustworthy brand name.

Now as an independent team, we are resuming

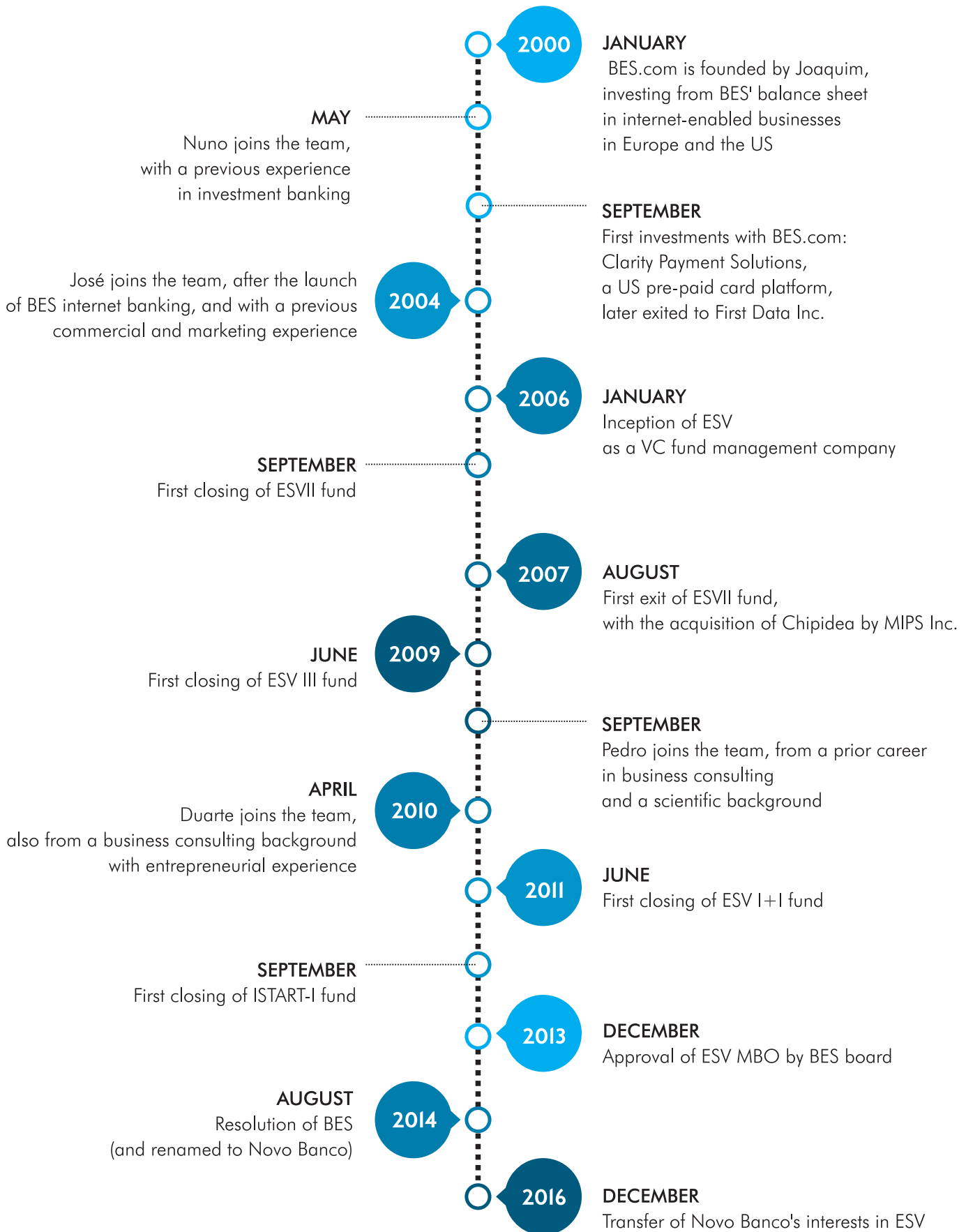
the fundraising of the Armilar Technology Transfer Fund, which was previously discussed in an earlier issue of our newsletter. This will be the first fund we raise as AVP. It will invest in tech-based companies spun-off from European universities and research institutions, leveraging from the high quality pipeline of opportunities that are being generated in the European scientific environment (see article about this fund elsewhere in this newsletter). Further down the road, as our early-stage funds (to be renamed AVP II and AVP III) reach their maturity, we will plan on raising a new early-stage fund, but all in due time. With these instruments, we will be able to leverage on our deal flow and continue to invest in the best seed and early-stage opportunities.

So, this first number of the AVP newsletter is quite simply about us. It is about this announcement and what it means for you, whether you're an investor, an entrepreneur, a partner or simply a friend, reassuring you that, in essence, nothing changes other than our name and our renewed unity and focus on how best to serve you. It is about our brand and about our plans for the short term. We feel privileged to have had you alongside us through our journey so far, and we hope that you join us in our shared commitment to grow Armilar Venture Partners as an enduring organization and a reference in the Portuguese and European investment ecosystems.

We humbly thank you for your continued trust.

[The partners,](#)

Joaquim, Pedro, Duarte, José and Nuno



Technology Transfer Fund

Armilar Venture Partners is raising a seed fund, to invest in tech-based ventures spun-off from universities and research institutions. It will be one of the largest European funds of its kind, with its main focus in Portugal, but open to invest in other European ventures.

In its Q1-2015 newsletter ES Ventures announced it was raising a new Technology Transfer Fund. Due to the events described elsewhere in this number of our newsletter, those plans had to be put on hold for a while, until we were able to complete the creation of Armilar Venture Partners (AVP) which embodies the full independence of this management team. Now, with that process behind us, we believe that the relevance of such a fund is even greater than it was at the time, as the startup ecosystem has continued to evolve very favourably, the tech transfer offices of the institutions that provide investment opportunities for such a fund have continued to develop, and still the investment in companies deeply rooted in technologies developed in the academia has remained underserved. The original backers of this proposed fund have corresponded to this belief and continued to support us throughout this period – we are humbled to have had that privilege –, and as such, AVP is reviving this project as the first fund to be raised under its new identity. What follows is a recovery of the article originally posted in our 2015 newsletter, with the appropriate adaptations.

Why a Technology Transfer seed fund?

AVP is best known for its early-stage funds II and III (i.e. funds designed to invest typically in companies that are still in their infancy, but who already have a product to take to market). But historically, seed-stage opportunities (i.e. businesses at their birth, at a time that a team is being put together to prepare a product or service for market launch) have represented more than half of AVP's Portuguese investment opportunities (or *deal flow*, as we call it), of which nearly 40% were sourced from university ecosystems.

Encouraged by this observation, in early 2012 AVP set up ISTART-I, a small seed fund, created with the support of Instituto Superior Técnico (a leading Portuguese engineering school, based in Lisbon), to invest in technology-based companies created by teachers, researchers or students from Portuguese universities and research institutions. With only €3M of committed capital, ISTART-I was a key experiment to test the assumption that a Technology Transfer seed fund was a viable

and potentially profitable initiative.

Success will be measured in terms of the fund's return to its investors, and it's still too early to tell the outcome of ISTART-I in that respect. But from the point of view of deal flow size and quality, ISTART-I results are very encouraging: the fund invested in a total of eight companies that originated from several different Portuguese academic and applied research institutions, with promising technologies from disparate disciplines (computer sciences, biotech, materials, industrial processes) and with disparate industry applications (software development, healthcare, animal health, industrial textiles, Internet-of-Things, sports gear), led by brilliant entrepreneurial teams. The progress of these companies from inception until today is nothing short of amazing.

Elsewhere in Europe, we see a matured Venture Capital industry, with record levels of investment (particularly at the startup and later stages), capable of generating large successful startups and of attracting foreign investment. According to Invest Europe, out of €3.8Bn invested in European companies in 2015, €313M came from non-European investors, namely from much experienced US investors – which was a rarity only a few years ago. Europe may still be under-capitalized in VC when compared to the US, but it is not inexperienced any longer. This is

playing an important role in fostering the birth of new businesses based on state-of-the-art technology, and in developing the individual companies that get created locally. We are confident that the number and quality of technology transfer opportunities will continue to increase over time. The mind-set of both young and older researchers has changed to accept entrepreneurship as a valid professional option (something that was inconceivable not too long ago). The institutions themselves have that as a goal – their curricula now incorporates entrepreneurial courses and their Technology Transfer Offices are now professional structures that foster entrepreneurship, educate on what it means to be an entrepreneur, and support the entrepreneurial projects to create university spin-offs. Society at large contributes to making information about entrepreneurship abundantly available, and the whole ecosystem has burgeoned and blossomed with professionalised incubators and accelerator programmes, many social initiatives with full media coverage, and, of course, a range of investors.

The Technology Transfer Fund

The TTF is a European technology-based seed-stage venture fund, with a strong focus in Portugal, which will leverage relationships that AVP has forged with top research institutions to invest in companies

that offer the most attractive business potential, with the capacity to provide financial and management support to the best projects through their development stages.

The fund's investments shall directly lead to the commercialisation of research output.

The fund's geographical scope will be the European Union, with 70% of the investment to be deployed in Portuguese companies. The industry scope is aligned with AVP's historical practice, encompassing technologies in the spaces of CleanTech, ICT, and Healthcare & Well-being.

As an important characteristic, the fund will have the ability and the capacity to do follow-on investments on the best performing seed companies of the portfolio, after they have gone through their seed-stage development. This feature not only provides entrepreneurs with the comfort that – provided performance is solid – its investors can continue to support their venture, but is also an important means to protect the investors' interests, preventing unwanted dilution and providing additional exposure in the best-performing assets.

The fund will have a minimum size of €30M of committed capital for its first closing, to occur in the first half of 2017, and will target some

larger amount for its final closing, one year later. It has a strong backing of the **European Investment Fund**, who, after a thorough due diligence not only of AVP but also of the Portuguese ecosystem, was invaluable in lending its expertise, specifically in Technology Transfer funds, to help design this unique fund. The fund will also have a symbolic participation from AVP, and from partner institutions such as the main Portuguese universities, signalling the importance of the fund and their strong commitment to its success. The remaining capital will be raised from market-oriented investors.

We believe that the fund will play an important role in fostering technology transfer from academia to the economy, through creating and supporting companies promoted by the institutions' students, teachers and researchers. It will create a strong symbiotic relationship with the partner institutions:

- they are a key source of qualified deal flow for the fund, with the responsibility to promote entrepreneurial initiatives, identify potential projects and help them prepare for investment, and they can also contribute with their ability to provide deep technical expertise;

- for them, the fund will help with the promotion of entrepreneurship within the institutions, will provide guidance to all of the candidate projects that it analyses, and, most importantly, will be a key source of funding, guidance and management expertise to fully develop the best projects, ultimately leading to the

valorisation of the Universities' IP assets (hence, potentially, providing a source of revenue).

We are very confident that this unique fund will find excellent business projects among the best research being conducted in the best research institutions – in fact, we are already working with

them, building a very promising pipeline of candidate projects.

We feel privileged to count with the support of our investors and our partners in this new venture – particularly the partner institutions that are at the origin of these promising opportunities – and we're looking forward to start investing!

AVP's investment criteria for the Technology Transfer fund:

- 1. The company should make use of a unique technology, preferably developed at a Partner Institution, and should be the best in its field.** Related IP must be fully and clearly assigned to the project, whose objective should be the commercialisation of the developed technology.
- 2. It should offer a valid business application, with a global addressable market of at least €1 billion,** and be a disruptive solution to a significant market problem, with demonstrable signs of market interest.
- 3. The candidate company should be at an early stage of development, but capable of fast growth.** Fundamental research should be concluded, with demonstrable results vetted by the institution's and external experts.
- 4. Have knowledgeable, honest and resilient managers, fully dedicated to the project.** The team should include high quality technical managers with an entrepreneurial vein, and the key researchers. Eventual gaps (e.g. in management) should be clearly identified, to be filled for market entry.
- 5. The project should offer a valuation potential of at least 5x, in the medium term,** taking into account possible follow-on investments to occur within 5 years of first investment.

To be eligible for a follow-on investment, **the company should have successfully accomplished its milestones**, for example, having successfully introduced its product to the market, **and generally continue to show evidence of business potential.**



ARMILAR VENTURE PARTNERS

and the Armillary Sphere

Armillar Venture Partners. Such is our new name and our new identity, represented in the stylised armillary sphere of our new logo (“armilar” is, obviously, the Portuguese word for “armillary”). We feel that it very strongly conveys a number of things that we identify ourselves with, as a team, and we were unbelievably thrilled to find it. It is both profoundly linked to our Portuguese identity and of a multi-cultural nature. It is an object that pays respect to both the rigour of science and the beauty of art. It carries both a significance of respect for history and a connotation with the adventurous, with the advancement of knowledge and new discoveries.

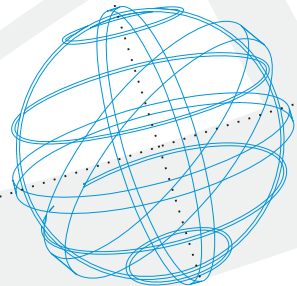
The armillary sphere was, primordially, an instrument of science, more specifically, of astronomy. It is a model of the path of celestial objects, consisting of a spherical framework of rings (annulets, or “armilas” in Portuguese), centred on Earth (the more common Ptolemaic armillary spheres) or the Sun (the Copernican armillary spheres). In its most essential modern version, it includes rings for the polar meridians, the equator, northern and southern parallels and the ecliptic. The scientific minds of the 16th and 17th centuries in Europe developed it into very intricate mechanisms of great precision that were equally fitted to show either the real rotational motion of the Earth or the apparent motion of the celestial dome around the Earth. This resulted in beautiful, artful objects that are a tribute to the resourcefulness and resolute of those great minds.

But the origins of the “modern” armillary spheres date back to far more ancient, and very disparate, cultures. It is believed to have been invented separately in ancient China, in ancient Greece and developed in the Islamic world. In China, representations of the armillary sphere date back to the 4th century BC, with several improvements being successively made through several Chinese dynasties. In ancient Greece the invention of the armillary sphere is traced to the 3rd century BC, where it was already used in teaching. Persian and Arab astronomers picked up the Greek armillary sphere and developed it further in the 8th century, in what is believed to be the origin of the spherical astrolabe which evolved into the more modern (and portable) navigational instruments used by European navigators later on. Eventually, the armillary sphere was introduced in western Europe in the 10th century, where it continued to be developed as the prime instrument for astronomers for determining celestial positions, until the advent of the modern telescope in the 17th century.

Armillary spheres were among the first complex mechanical devices, with their development leading to many improvements in techniques and design of precise mechanical instruments. Renaissance scientists and public figures often had their portraits painted showing them with one hand on an armillary sphere, which represented the height of wisdom and knowledge.

Following its introduction in Europe and its important symbolic weight, the armillary sphere was extensively used in heraldry, being mainly known as a symbol associated with Portugal, and specifically with the Portuguese Empire and the Portuguese discoveries from the 15th century. Its intense use in documents, monuments, flags and other supports during the reign of King Manuel I of Portugal transformed it into a national symbol. To this day, it survives as a central piece of the Portuguese national flag.

We will strive to honour the significance of all this symbolism. We hope that you are witnessing the birth of a brand that will be long lasting and successful, and we hope that you like it as much as we do. We couldn't be prouder of wearing, henceforth, the name Armilar Venture Partners.



ARMILAR
VENTURE PARTNERS