MoneyTree™
Venture Capital Market Navigator

Overview of Russian venture capital deals in 2013
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The PwC Centre for Technology and Innovation (CTI) and OAO Russian Venture Company (RVC) present the latest edition of the Russian venture capital market report *MoneyTree™: Venture Capital Market Navigator (MoneyTree™: Russia)* for 2013.

Although Russia’s venture capital sector came into being relatively recently (the sector started showing fast growth in 2010), it was in 2012 when it started to approach USD 1 billion. Including major deals and investment in venture capital market infrastructure, total investment in 2012 reached almost USD 1.5 billion, which is comparable to developed venture capital markets such as Israel.

For 2013, total transactions in the Russian venture capital ecosystem, including grants and major deals, came to over USD 100 million, while investment in venture capital infrastructure, as well as deals resulting in investor exits, increased from USD 1.98 billion in 2012 to USD 2.89 billion in 2013. The main growth driver for the venture capital ecosystem was investor exits, increasing to 21 in 2013 from 12 in the previous year, while total proceeds made by investors thanks to such exits grew by over fivefold from USD 372 million to USD 2 billion.

At the same time, with respect to the main segment of the venture capital ecosystem (venture capital deals), the number of venture capital transactions (including deals with undisclosed values) last year increased by 18% to reach 222 compared to 188 deals in 2012 while total investment shrank by 28% from USD 911.9 million in 2012 to USD 653.1 million in 2013 owing to a drop in the average deal value, from USD 5.6 million to USD 3.1 million.

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### Venture ecosystem

<table>
<thead>
<tr>
<th><strong>Year</strong></th>
<th><strong>Value</strong></th>
<th><strong>Transactions</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td><strong>$1.98 bln</strong></td>
<td>12 deals; $372 mln</td>
</tr>
<tr>
<td>2013</td>
<td><strong>$2.89 bln</strong></td>
<td>21 deals; $2 bln</td>
</tr>
</tbody>
</table>

- **Exits**: 12 deals; $372 mln
- **Venture deals**: 188 deals; $911.9 mln
- **Large deals**: 3 deals; $516 mln
- **Grants**: 702 deals; $145 mln
- **Investments in infrastructure**: 8 deals; $37.7 mln

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Source: RVC, Venture Database, RusBase, PwC
It is our position that the decrease in the average deal value was driven by the market’s maturation and the fact that its average indicators more or less are now at par with that of developed markets. According to EVCA statistics, the average value of a venture capital investment in Europe in 2012 came to USD 1.4 million, ranging between USD 800,000 and USD 2.9 million. In Israel, the average deal came to USD 4.1 million for 2012.

There have been several factors allowing Russia to catch up with developed markets. Firstly, Russian players are now more ready to invest money overseas, usually in consortiums with more experienced foreign counterparts who can pass on their expertise and best practices*. Secondly, the experience obtained from the first years of investment in startups has helped Russian players to adjust their approach to valuing companies and assessing risks when making investments. Furthermore, better project development and implementation on the market has raised the requirements for companies at all development stages.

In addition, many investors who started their operations three or four years ago already reached the end of their initial investment cycle in 2013 and are now more focused on managing their portfolios, preparing portfolio companies for sale, assisting in developing business, and dealing with bad investments. Thus, activity and interest in new projects has declined.

At the same time, 2013 proved to be a record year in terms of the number and total value of investor exits, which is one of the main criteria for measuring the venture capital sector. In 2013, a total of 21 investor exits took place worth a combined USD 2 billion, which is more than a fivefold increase over 2012’s results.

* Please note that this report does not include information about deals involving Russia-based investors on foreign markets

**Investment snapshot**

Millions of USD, total transactions

<table>
<thead>
<tr>
<th>Stage</th>
<th>Value (Millions of USD)</th>
<th>Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seed</td>
<td>29.4</td>
<td>96</td>
</tr>
<tr>
<td>Early stage</td>
<td>221.2</td>
<td>51</td>
</tr>
<tr>
<td>Expansion</td>
<td>295.9</td>
<td>18</td>
</tr>
<tr>
<td>IT</td>
<td>611</td>
<td>137</td>
</tr>
<tr>
<td>Industrial technologies</td>
<td>29.1</td>
<td>13</td>
</tr>
<tr>
<td>Biotechnologies</td>
<td>193</td>
<td>13</td>
</tr>
</tbody>
</table>

Source: RVC, Venture Database, RusBase, PwC
This is a very important signal for players in the venture capital sector, primarily since it lets venture capital fund managers show investors the real potential for yields on investments in fund capital. As a result, we expect the positive exit trend to stimulate more inflow of new capital to the Russian venture capital sector, ensuring its further development.

As in 2012, the information technology (IT) sector led in total investment raised. For instance, IT counted for almost 87% of total transactions (193 deals) in 2013 and 93.6% of total investment (USD 611 million). Thus, the sector’s share of total deals and total combined investment increased from 2012, when these indicators came to 83% and 87%, respectively. At the same time, total deals in the IT sector rose by 23.7% while total investment declined by 22.9%, from USD 792.1 million in 2012, largely because the average deal decreased in size to USD 3.3 million from USD 5.6 million in 2012.

The industrial technology and biotechnology sectors remained comparatively small both in terms of total transactions and combined investment. For instance, there were 16 deals worth a combined USD 29.1 million in the industrial technology sector in 2013, which was one deal less than in 2012. Also, there were 13 deals worth a total of USD 13 million in the biotechnology sector in 2013, two deals less than in 2012. At the same time, the average deal size in the industrial technology sector decreased, from USD 8.3 million to USD 2.2 million. This indicator for the biotechnology sector went almost unchanged (at USD 1.3 million in 2013 against USD 1.1 million in the previous year). The main financing source for small companies in these sectors remain grants, which we, according to this report’s methodology, do not consider to be venture capital investment. However, even while the total number of transactions in the industrial technology and biotechnology sectors decreased, the number of grants allocated in these segments increased noticeably. In 2013, we recorded 1,693 grants worth a combined USD 102.8 million, 74% of which went to the industrial technology and biotechnology sectors.

Total registered grants increased by almost 2.5 times, from 702 grants in 2012. Although this was partially driven by the appearance of higher quality sources of information, these results, nevertheless, indicate the continuing active role played by both the state and development institutions in supporting Russian innovation. At the same time, the average grant, as with the average venture capital deal, also decreased in 2013, from USD 207,000 in 2012 to USD 61,000 USD in 2013. This was largely driven by the growing involvement of organisations willing to finance earlier project stages within the overall structure of grant financing. Thus, total grants in 2013 came to USD 102.8 million, down from USD 145 million in 2012.

With respect to investment stages in 2013, there were shifts in focus and concentration. The bulk of investors have been shifting their attention from projects’ “seed” stage to later phases such as the “startup”, “early” and “expansion” stages. In 2013, projects’ “seed” stage in IT saw 12% less deals compared to the previous year while both “early” and “startup” stages saw total deals go up by almost 50% (from 31 in 2012 to 46 in 2013) and 37% (from 63 to 86), respectively.

As we noted in our previous reports, in order to generate a more accurate assessment of the market, we look at deals worth over USD 100 million separately from the combined total for venture capital deals. Such deals usually straddle the line between venture capital financing and classic direct investment carried out at the later stages of business development and, as a result, they bear a lower risk profile. In contrast to 2012, when the Russian venture capital market saw three major deals worth a combined USD 516 million, there was only one transaction of this magnitude in 2013 when Lamoda raised a record USD 130 million in investment for the Russian e-commerce segment.

A major factor in the sector’s development has been stable investor interest in venture capital market infrastructure (for instance, institutions like business-incubators and
accelerators). We saw four such deals in 2013 worth USD 2 million. Our analysis does not include such deals even though they undoubtedly facilitate the sector’s overall development and have a risk profile similar to classic venture capital transactions.

The development of corporate venture capital investments was a new trend in 2013.

The development of corporate venture capital investments was a new trend in 2013.

Corporate venture capital investments are understood as an instrument for company investment through corporate allocation of funds into internal and external projects for the purposes of finding new technologies, products and markets. Although only two of the deals that we observed in 2013 with corporate involvement can be classified as venture capital transactions, we nonetheless see the development of this market segment as a definite trend.

For instance, in 2012-2013, many Russian companies announced plans to create corporate venture capital funds, including Sberbank, Probusinessbank, Rostelecom and RusHydro. We expect this trend to continue over the next several years thanks to rising demand on the part of major businesses for innovations, especially in highly competitive sectors like financial services, telecommunications and media. According to expert estimates, total capital in corporate venture capital funds in Russia might reach a total of RUB 34 billion in the next three years.

By tallying the analytical results of the venture capital sector’s development in 2013, we can easily recognise the sector’s maturation. For instance, the professionalism of market players is on the rise while the quality demands for project implementation have also improved. Investors are careful in their selection of companies for investment and are eager to mitigate their risks by putting less money into each project financing stage. In order to obtain investments, companies, in their early stages of development, now must have a tested business model, an experienced team and a product that has clear market demand. This generally indicates that private investors now have more preference for putting funds into more mature companies. It is proven by the fact that the number of deals for the "startup" and "early" stages, which is when a business starts posting tangible results and fast growth, increased most of all for the year, up by 44%.

In this respect, the state still plays a major role in the "pre-seed" and "seed" stages of project development through such mechanisms as various grant programmes, as well as efforts to stimulate investment by business angels in the venture capital sector. Such efforts help to ensure the critical number of projects for a stable venture capital ecosystem in the near future.

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Corporate venture funds may become a platform where startups can cooperate with companies, as well as serve as the main interfaces for finding common ground with startups. Corporate venture programmes offer access to intellectual property because they can bring in new ideas, technologies and solutions. In addition, companies, which use corporate venture capital, have stronger internal R&D departments, which, in turn, can help find and implement solutions in a company. On the contrary, internally developed solutions can be promoted to new markets. All of these aforementioned approaches can boost a company’s innovation potential.

Vladimir Kosteev, Executive Director, iR&D Club
In addition, 2013 saw another important trend in the development of the venture capital industry. As earlier mentioned, many market players who started up their projects three to four years ago are nearing the end of their first investment cycle. Nonetheless, new players are appearing on the market, including both institutional (new funds and corporations) and private investors who manage funds that showed initial successes in 2010-2012. Furthermore, new funds have been springing up, which have encouraged further growth in investments and tougher competition for quality projects.

In addition to the overall improvement in the quality of projects, investors also note a deficit on the market which has, even with a growing number of investors and more capitalisation, not only sparked a drive for “good deals”, but also has resulted in a rising number of syndicated deals and more active cooperation between market players, thereby spurring on further accumulation, a boost in market transparency and greater ease in tapping capital for entrepreneurs.

The landscape of Russia’s venture capital market saw some noticeable changes in 2013. Specifically, the government’s activity intensified, resulting in the creation of large government and government-related funds. In 2014, the market will continue to develop steadily in terms of the number of funds and startups, investment volume and, potentially, the number of exits from the market. Large corporate funds will likely be set up while ‘secondary’ funds will also be launched by leading management groups. On the back of this growth, we can see a deficit in available resources for investment through funds. The market is lacking in many forms of classic institutional investors and Russian highnets (high-net-worth individuals) prefer to use venture money themselves. On the positive side, I should note an increase in the number of syndicated deals, which is a sign that both the market and its players are maturing. Another indication of maturity is a shift from a ‘whatever attitude’ towards specialisation. More and more funds are finding attractive niches (clusters) where they can select their investees. We have operated based on a cluster strategy from inception and believe that this is the best option for Russia’s venture capital market.

Alexey Solovyev, Managing Director, Prostor Capital
Information technology

Venture capital investment by quarter

According to this report, information technologies (IT) remains on top as the most dynamically developing sector in Russian technology and innovation as it is still very attractive for the majority of venture capital investors. IT companies alone accounted for 87% of the investment deals closed in 2013.

Total venture capital deals in the IT sector rose from 156 in 2012 to 193 in 2013. At the same time, total investment of funds in IT companies decreased by 23% to USD 611 million from USD 792.1 million in 2012. The main reason for this was a decrease in the average transaction size, from USD 5.6 million to USD 3.3 million. This, in turn, was primarily driven by the market's maturation and, as a consequence, the fact that the average indicators for transactions have become more on a par with developed markets such as Europe, where the average deal size comes to USD 1.4 million, varying between USD 800,000 and USD 2.9 million in various countries. This trend is also driven by growing outbound investments by Russian investors, who usually work in consortiums with more experienced foreign partners and draw on their expertise. As investors enrich their experience, they can better assess projects and inherent investment risks. This results in stricter requirements for project development by entrepreneurs and more stringent terms of deals.

Venture capital deal trends in the IT sector in 2011-2013, total deals (millions of USD)

Today, Russia’s venture capital market, while being active, is also going through the painful process of self-identification. This period can be compared to a teenager who has grown up too quickly, became disappointed in childhood dreams and is now looking for his/her way in life against its daily humdrum. The fairy tales on which the first generation of Russian investors and IT startups grew up have since fallen to pieces, but still have managed to attract a large number of smart and active people to the industry, who are not inclined to give up. Therefore, a new system of values based on the current reality, personal abilities and people’s persistent vision is emerging in the Russian venture market. All market players now have clearer heads and are more focused on the stability of their companies and cash flows. They also have a better understanding that the client is not the one who just clicks, but the one who pays. Market players are now developing their own approaches that differ from glossy traditions and are more suitable for the current standing of the Russian market and its prospects.

Oleg Seydak, Partner, Flint Management
Venture capital investment by project development stage

The data gathered on the breakdown of venture capital investments by the various stages of a project’s lifecycle allow us to conclude that Russia’s venture capital market will continue to mature. As in 2012, we are continuing to see a considerable funnelling of capital from the "seed" stage to later stages, including the "startup", "early" and "expansion" stages.

In 2013, 12% less deals were made for projects' "seed" stage compared to the previous year. Considerably more deals were recorded for projects' "early" stage (up from 31 deals in 2012 to 46 deals in 2013) and the "startup" stage (from 63 to 86 deals). There was also slight growth for the "expansion" stage (up from 13 deals in 2012 to 18 transactions in 2013).

In addition, there is more awareness about the need for investment in early stages both on the part of new investors who came on the market in 2012-2013 and more experienced players who have started identifying special areas for investments in such phases. Market players are more or less unanimous regarding the need for developing seed investment and institutions to support companies in their earliest stages of development.

Distribution of investment by project stages in the IT sector, total deals (millions of USD)

<table>
<thead>
<tr>
<th>Stage</th>
<th>2012</th>
<th>2013</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seed</td>
<td>49</td>
<td>43</td>
<td>0.6</td>
<td>0.4</td>
</tr>
<tr>
<td>Startup</td>
<td>63</td>
<td>86</td>
<td>1.8</td>
<td>1.3</td>
</tr>
<tr>
<td>Early stage</td>
<td>31</td>
<td>46</td>
<td>8.5</td>
<td>4.5</td>
</tr>
<tr>
<td>Expansion</td>
<td>13</td>
<td>18</td>
<td>43</td>
<td>16</td>
</tr>
</tbody>
</table>

Russia’s venture capital market is still in the development stage. Today we can identify three players that are actively working towards creating such a market: investors, startups, and state-sponsored development institutions. But, there’s no question that the market lacks key infrastructure, such as: business angels, incubators, accelerators, and private investors. This deficit hampers efforts to find that unique balance in the relationship between startups and investors where raising investment is often more important than building the business. To my mind, this problem should disappear once we see a greater number of early-stage investors, experts and mentors entering the scene, as well as business angels who can offer their broad practical experience and acceleration programmes.

Kirill Varlamov, Director, Internet Initiatives Development Fund (IIDF)

Source: RVC, Venture Database, RusBase, PwC
In our analysis of total investment, we have seen a decrease in the average size of deals at all stages of the investment cycle. For instance, at the "seed" stage, the average deal decreased from USD 600,000 in 2012 to USD 400,000 in 2013, at the "startup" stage – from USD 1.8 million to USD 1.3 million, at the "early" stage – from USD 8.5 million to USD 4.5 million, and at the "expansion" stage – down 60% (from USD 43 million to USD 16 million). The overall decrease in the size of average deals hints at more careful behaviour on the part of investors. Investors are now more careful in their selection of projects and assessment of investment risks.

In their eagerness to mitigate risk, investors are raising their quality demands on companies while also structuring their transactions so that investments in each project stage are kept at an allowable minimum. To obtain project financing, companies must now have a market-tested business model, an experienced team, and a product with market demand.

Venture capital investment by investment round

The data on investment rounds correlates with the statistics for companies’ development stages. There has been growth in the number of deals for all rounds expect for the "seed" stage. The number of deals for the "seed" round slipped from 69 in 2012 to 63 in 2013. At the same time, there was an increase of 43 deals for the A round (from 54 in 2012 to 97 in 2013) while rounds B and C both saw growth of four deals, respectively. However, upon inclusion of transactions worth under USD 50,000, which under our methodology are not considered in the market calculations, one could then see that "seed" transactions are actually increasing (from 88 transactions in 2012 to 117 in 2013) even though this is mostly because of small deals by private investors.

### Distribution by investment rounds in the IT sector, total deals

<table>
<thead>
<tr>
<th>Round</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>No data</td>
<td>9</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Seed</td>
<td>69</td>
<td>63</td>
<td>88*</td>
</tr>
<tr>
<td>Round A</td>
<td>54</td>
<td>47</td>
<td>10</td>
</tr>
<tr>
<td>Round B</td>
<td>8</td>
<td>2</td>
<td>16</td>
</tr>
<tr>
<td>Round C</td>
<td>4</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Round D</td>
<td>8</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Round E</td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
</tbody>
</table>

*including deals less than USD 50,000

Source: RVC, Venture Database, RusBase, PwC
During the last couple of years the number of projects has significantly increased in Russia. The international success of Russian IT companies and the growing number of startup venues in Russia are the drivers of these changes in the market. Overall, Internet projects will prevail with travel, e-commerce, mobile applications and educational projects at the fore.

Igor Ryabenkiy, Managing Partner, Altair Capital
Breakdown of investment in key IT sub-sectors in 2012-2013, total deals (millions of USD)

- **E-commerce**:
  - 26 (395.6) in 2012
  - 28 (172.8) in 2013

- **Cloud computing, software**:
  - 26 (100.3) in 2012
  - 23 (44.7) in 2013

- **Social networks**:
  - 25 (24.8) in 2012
  - 17 (26.4) in 2013

- **Mobile apps**:
  - 6 (11.6) in 2012
  - 13 (29.3) in 2013

- **Financial services**:
  - 8 (11.8) in 2012
  - 16 (50.0) in 2013

- **Education**:
  - 6 (12.6) in 2012
  - 10 (13.5) in 2013

- **Tourism**:
  - 10 (47.2) in 2012
  - 8 (59.5) in 2013

- **Telecoms**:
  - 3 (82.1) in 2012
  - 4 (105.9) in 2013

- **Medical and lifestyle services**:
  - 6 (11.6) in 2012
  - 3 (2.9) in 2013

Source: RVC, Venture Database, RusBase, PwC
We have seen clear cut growth in sectors tied to traditional sectors such as advertising, telecoms, retail, media, education, healthcare, financial markets and educational services. These industries are best positioned for implementing innovations. They demonstrate high capitalisation, so investors offering popular products can build their businesses with a significant monetisation potential and based on proven business models. These businesses attract investors since the relevant market risks are highly predictable.

Venture capital investments by IT sub-sector and stages of project development, total deals (millions of USD)*

* The diameter is proportional to the volume of investment
Source: RVC, Venture Database, RusBase, PwC
The industrial technology and biotechnology sectors remained comparatively small both in terms of total transactions and combined investment. For instance, there were 16 deals worth a combined USD 29.1 million in the industrial technology sector in 2013, one deal less than in 2012. Also, there were 13 deals worth a total of USD 13 million in the biotechnology sector in 2013, two deals less than in 2012. At the same time, the average deal in the industrial technologies sector showed the largest decrease in value, down from USD 8.3 million to USD 2.2 million. This indicator for the biotechnology sector went almost unchanged (at USD 1.3 million in 2013 against USD 1.1 million in the previous year).

There are few number of investors on the market specialising in investments in these sectors. The main financing sources for startup projects in these sectors still include grants, financing from scientific institutions and R&D organisations, and, in the case of major projects, banks and private investment funds. Even while the total number of deals in the industrial technology and biotechnology sectors has decreased, total grants allocated in these segments have nevertheless increased significantly. For instance, we saw 1,693 grants given in 2013, 74% of which went to the industrial technology and biotechnology sectors. For comparison, a total of 702 grants were provided in 2012.

Some of the main reasons why the development of venture capital investments in these sectors has slowed down may include their high capital costs, as well as longer and more complex development cycles. For instance, companies engaged with “difficult” innovations usually require significantly more time to develop and commercialise a suitable product for the market while intellectual property cannot always be protected.

In Russia, cultivation of such projects faces further difficulties owing to the particularities of the Russian economy. In addition, traditional corporate demand for such innovations remains relatively low while many unique products do not get to see practical introduction and implementation.

Bearing in mind these issues, investors in these sectors are often forced to take on much bigger risks. Thus, even some Russian funds with the necessary expertise and specialisation in working with companies in the industrial technology and biotechnology sectors often prefer to pursue operations overseas, either by investing in foreign projects (such transactions were not included in our research although we have noted their growth) or assisting Russian companies in developing their businesses outside of the country.

Nonetheless, the experience of developed venture capital markets has shown that the aforementioned challenges can be overcome as long as system-wide changes appear and multiply. Furthermore, the potential for innovation in these sectors, which is now supported by non-venture capital sources (grants, state and regional programmes to support innovation-focused activities), could generate much investor interest over time.

There are a small number of investors on the market specialising in investments in biotechnology and industrial technology. The main financing sources for startup projects in these sectors still include grants, financing from scientific institutions and R&D organisations, and, in the case of major projects, banks and private investment funds.
There was one major deal and 21 investor exits in 2013. In contrast, 2012 saw three major deals, two of which involved companies from the industrial technology sector. In 2013, market players invested a record amount for Russia in e-commerce company Lamoda.

Furthermore, 2013 was also a record year in terms of the number and total value of investor exits, which is a key indicator of the state of a venture capital market. For instance, a total of 21 investor exits took place worth a combined USD 2 billion, which was a more-than-fivefold increase over 2012, when there were 12 transactions representing a total of USD 372 million. For players in the venture capital sector, this is a very important signal, primarily since it lets venture capital fund managers show investors the real potential for yields from investments in fund capital.

As a consequence, we expect this exit trend to stimulate a further inflow of new capital into the Russian venture capital industry and encourage its development.

### Investor exits and major deals

**Major deals**

IPO, large venture deals and exits with volume of USD 50 mln and above

<table>
<thead>
<tr>
<th>Project name</th>
<th>Deal type</th>
<th>Sector of investee's operation</th>
<th>Investor / Buyer</th>
<th>Deal value, $ mln</th>
<th>Closing date</th>
</tr>
</thead>
<tbody>
<tr>
<td>TCS-bank</td>
<td>Exit / IPO</td>
<td>Financial services</td>
<td>IPO</td>
<td>816</td>
<td>October</td>
</tr>
<tr>
<td>Vkontakte</td>
<td>Exit / M&amp;A</td>
<td>Social networks</td>
<td>UCP PE Fund II</td>
<td>700</td>
<td>April</td>
</tr>
<tr>
<td>QIWI</td>
<td>Exit / IPO</td>
<td>Financial services</td>
<td>IPO</td>
<td>244</td>
<td>May</td>
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<tr>
<td>Lamoda</td>
<td>Round C / Expansion</td>
<td>E-commerce</td>
<td>Access Industries, Summit Partners, Tengelmann</td>
<td>130</td>
<td>June</td>
</tr>
<tr>
<td>Luxoft</td>
<td>Exit / IPO</td>
<td>Software development</td>
<td>IPO</td>
<td>80</td>
<td>June</td>
</tr>
<tr>
<td>Kinopoisk</td>
<td>Exit / M&amp;A</td>
<td>Social networks</td>
<td>Yandex</td>
<td>80</td>
<td>October</td>
</tr>
<tr>
<td>B2B Center</td>
<td>Exit / M&amp;A</td>
<td>IT and telecommunication</td>
<td>Elbrus Capital</td>
<td>52*</td>
<td>April</td>
</tr>
</tbody>
</table>

* Including additional company investments

Source: RVC, Venture Database, RusBase, PwC
An important indicator for the development of the venture capital sector is the allocation of grants, even though they are considered to be a non-market financing source and thus are not factored in when measuring market density.

A total of 1,693 grants were given out in 2013 worth a combined USD 102.8 million. Compared to the previous year, total grants grew almost threefold (from 702 grants in 2012) while the value of total grants provided decreased (from USD 145 million in 2012). Also, the average grant in 2013, along with the average venture capital deal, also declined in size, from USD 207,000 in 2012 to USD 61,000 in 2013. This was primarily driven by the growing share of organisations financing the earliest project stages within the overall grant financing structure.

State financing for projects in the earlier stages of development plays an important role and ensures the expansion of project “funnels” for classic venture capital investments.

Nonetheless, there was a decrease in the number of major grants worth over USD 500,000 provided by the Skolkovo Foundation, down from 107 in 2012 to 35 in 2013*. The greatest portion of grants was issued by the Fund for Promoting the Development of Small Businesses Engaged in Science and Technology (the Bortnik Fund).

We should also note that the biotechnology and industrial technology sectors account for the greatest number of grants that have been allocated to support research-intensive startups. In 2013, the industrial technology and biotechnology sectors accounted for 1,250 of total grants received.

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Sector</th>
<th>Number of projects</th>
<th>Investment volume, USD mln</th>
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<td>IT</td>
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Source: RVC, Venture Database, RusBase, PwC, data from corporate web sites

* The report includes data on grants that were announced before 15 January 2014.
As the research results have shown, our forecasts for 2013 were largely proven correct. The rate of growth on the Russian venture capital market slowed considerably while total investment also decreased. This was primarily the result of the sector’s maturation. Despite an increase in funds’ capitalisation and the inflow of new players, investors generally have become more careful while the quality demands for projects have been raised.

Thanks to accumulated experience and the recognition of initial failures, as well as more cooperation both domestically and internationally, which has encouraged an exchange of expertise, investors have not only revised their criteria for assessing projects but also adjusted their approach to deal structuring. In their eagerness to mitigate risk, investors put fewer funds into all stages of the investment cycle and have also significantly raised their demands on companies with respect to the effective use of capital invested.

As a result, we saw a drop in the average deal size while it also came more aligned with the level of several developed markets. Also, investor activity is now more focussed on later project stages as the number of seed transactions has decreased. At the same time, many funds have focussed their efforts on working with already financed portfolio companies and have significantly toned down their investment activity.

Therefore, a clearly positive trend in 2013 was the increase in the number and value of investor exits. If this continues and last year’s records are not just a one-time occurrence, both fund managers and their stakeholders will become more confident in the potential of venture capital investments, and will be encouraged to expand their investment activities.

Another positive trend has been more awareness of demand for investment in early project stages on the part of both new investors, who joined the market in 2012-2013, and more experienced players who have started designating special areas

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**Conclusion**

Although Russia still has great investment potential, the venture industry will grow slowly both in terms of volume and total deals in the next two years. This can be explained by various diverse trends. The increasing number of projects that have been shut down shows that the market is ‘sobering up’. We can expect several funds to terminate their operations and some business angels to quit the market in the near future. Also, the macroeconomic factors impeding the activity of Western funds on the Russian market do not leave any hope for high level venture activities. At the same time, a number of factors have had a positive effect on the development of the industry. The number of experienced and ‘serial’ entrepreneurs, as well as professional investors, is growing. Infrastructure is developing rapidly while incubators and technoparks are being created. A joint working approach has been widely applied, conferences are being conducted and development institutions are stepping up their work. These are all elements of an entrepreneurial ecosystem. I should also note that, in general, there is a good deal of money in the market, partially because other investment instruments such as stock markets have been showing poor results over recent years.

Egor Rudi, Co-founder and CEO, Eruditor Group
for investment in early project stages. Market players are almost unanimous regarding the need for developing seed investment and institutions to support companies in their earliest stages of development. As long as the number of grants provided by development institutions continues to grow, this trend over the midterm should ensure the venture capital sector with the necessary base for further growth through creating new project funnels and boosting their overall quality.

As in previous years, IT was the main segment of the Russian venture capital market in 2013. This sector's share of total venture capital investments grew in 2013 in terms of both the number of transactions concluded and also their overall volume (although the total combined value of these deals was less than in 2012). At the same time, the sector's potential is far from exhausted. Investors will continue to flock to new projects as long as IT and traditional industries such as finance, education, healthcare, media and telecommunications converge extensively while the number and potential of monetisation options for creating added value grow in these sectors.

With respect to projects in industrial technology and biotechnology, investor activity is still fairly random owing to the small number of specialised players. Furthermore, the early stages of such projects are largely financed through grants. Nonetheless, as long as the market continues to mature and the number of corporate players and special venture capital funds increases, there is every reason to believe that this part of the Russian venture capital sector will show the fastest growth.

It is our position that 2014 will be a challenging year for the Russian venture capital market. Although the sector is currently not experiencing any lack of money, overall macroeconomic instability might entail a drop in entrepreneurial activity and further solidify more conservative attitudes on the part of investors. Nonetheless, the positive preconditions that have formed over recent years gives cause for hope that the qualitative development of the sector will not slow and that the Russian venture capital market will continue to expand over the midterm once it overcomes its current hurdles.
This report has been prepared according to the MoneyTree™ report methodology (www.pwc.com/globalmoneytree).

The MoneyTree™: Russia report is prepared by PwC in cooperation with RVC and based on Venture Database and RusBase data.

In analysing the data, we consider venture capital investment actually received during the first round of financing from business angels, investment companies, and private, corporate and public venture capital funds not exceeding USD 100 million. If a company has received investment in two or more rounds, each round is viewed as a separate deal. This study covered deals that were formally concluded in the period from 1 January to 31 December 2013.

The term “venture capital investment” is understood here to mean the acquisition of an equity stake or charter capital share in new or growing companies, but less than a controlling stake. Funds invested are primarily directed toward developing business, and not toward the purchase of shares owned by a company’s existing shareholders (founders). This report covers companies active in Russia’s IT, biotechnology and industrial technology sectors.

Please note that this report does not include information about deals involving Russia-based investors oriented toward the US market.

In addition, as non-market sources of funding, grants have not been factored into the total market volume.

This report also covers deals related to investor exists. However, similar to grants, these transactions are not factored into the total market volume.

Definition of sectors and sub-sectors:

The biotechnology sector includes companies involved in the development of medical equipment and pharmaceuticals, medical research, and the provision of innovative medical services.

The industrial technology sector includes entities involved in the development of equipment and technologies for application in clean technology-based operations; manufacturing of machinery and equipment for various purposes to be used in industrial production; chemicals production; and automated industrial operations.

The IT sector includes the following sub-sectors: e-commerce; development and application of cloud technologies; telecommunications; cellular applications; services and applications for the creation and development of social networks; Internet groups, information and recommendation services; tourism (hotel reservations, tickets, recommendations and reviews of tourist services); development of electronic and computer equipment; services and resources for the collection, processing and transmission of audio and video material (media); medical and healthy lifestyle services; educational services; and financial services.

Stages in the lifecycle of a project/company and their definitions:

Seed stage: The company has a concept or idea for a product, but no final product; work is under way on a prototype.

Startup stage: The company has a pilot version of a product, or an initial demonstration version; testing is under way.

Early stage: The company has a product that is ready to bring to market, and demand is being tested.

Expansion stage: The product is available on the market, and there is visible sales and demand growth.

Later stage: The company is becoming a major organisation and exhibiting the characteristics of a public company.
The PwC Center for Technology and Innovation (CTI) was opened in Russia in autumn 2009, with its stated goal being to foster the development of the Russian innovation and technology market. CTI specialists help companies and governments design strategies for innovative development, create technology clusters, draft innovation-related legislation and develop infrastructure for the innovations market. For closer work with fast-growing innovation companies, CTI opened an office in the Digital October technological entrepreneurship center in October 2011. Supporting young innovation companies is one of the Center’s main roles. Drawing on our many years of experience working with the world’s largest technology companies, we have a clear vision of how they succeed, and what obstacles they have to overcome on their road to success. Collaborating with young companies and entrepreneurs, CTI not only pools the experience and knowledge of its experts in Russia, but also draws on the experience and knowledge of experts and its wide net of contacts across the entire global network of PwC firms. Similar centres are operating in PwC USA, Luxembourg and Singapore, thus offering Russian startups direct access to global markets.

We are confident that the MoneyTree™: Russia report will become an important tool for the further development of Russia’s venture capital market, helping to open it up to a host of foreign players.

PwC Russia (www.pwc.ru) provides industry-focused assurance, advisory, tax and legal services. Over 2,600 people work in our offices in Moscow, St Petersburg, Ekaterinburg, Kazan, Novosibirsk, Krasnodar, Voronezh, Yuzhno-Sakhalinsk, Rostov-on-Don and Vladikavkaz. We share our thinking, experience and solutions to develop fresh perspectives and practical advice to open up new vistas for business.

The global network of PwC firms brings together about 184,000 people in 157 countries.
RVC is a government-operated fund of venture capital funds, a Russian Federation development institution, and one of Russia’s key instruments in building its own national innovation system. RVC’s charter capital stands at over RUB 30 billion. The Russian Federation Federal Agency for State Property Management (Rosimushchestvo) holds a 100% equity stake in RVC. RVC has formed 15 funds with a combined value of RUB 25.4 billion. RVC’s own share in these funds comes to RUB 15.8 billion. RVC-backed funds boast a portfolio of 147 companies with invested capital totalling RUB 13.6 billion.

The publication of the MoneyTree™: Venture Capital Market Navigator report, with RVC’s involvement as a development institution, is a crucial step in supporting the expansion of the infrastructure that Russia’s innovation-venture capital environment requires.

VENTURE DATABASE

Venture Database is a statistics provider for the innovation venture capital market in Russia. Industry professionals get insight on investment deals, projects and market participants; corporations get perspective on new business models and innovation ideas.

RUSBASE

RusBase is the main channel for interacting with the Russian venture capital community. This is a platform that provides news, market data and services that help to launch a business or invest in Russia. As a media platform, RusBase covers all trusted news and current trends of the Russian VC market. This database also contains relevant and up-to-date information about the Russian startup ecosystem. The English version of RusBase is an online guide to the Russian venture capital market for international investors and startups.
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