MoneyTree™
Venture Capital Market Navigator
Overview of Russian IT venture capital deals in 2011
# Content

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening remarks</td>
<td>4</td>
</tr>
<tr>
<td>Introduction</td>
<td>5</td>
</tr>
<tr>
<td>Quarterly analysis of venture capital investment: Investment volume,</td>
<td>6</td>
</tr>
<tr>
<td>number of transactions, average transaction value</td>
<td></td>
</tr>
<tr>
<td>Venture capital investment by development stage and financing round</td>
<td>7</td>
</tr>
<tr>
<td>Venture capital investment by sub-sectors: Investment volume and number of deals</td>
<td>8</td>
</tr>
<tr>
<td>Investment geography</td>
<td>9</td>
</tr>
<tr>
<td>Large innovation deals and IPOs in 2011</td>
<td>10</td>
</tr>
<tr>
<td>The outlook for venture capital investment in Russia’s IT sector</td>
<td>11</td>
</tr>
<tr>
<td>Methodology</td>
<td>12</td>
</tr>
<tr>
<td>Contacts</td>
<td>16</td>
</tr>
</tbody>
</table>
Opening remarks

Dear readers,

This is the first ever MoneyTree™ Report to focus on Russia. For over 15 years, PwC has been issuing MoneyTree™ reports on leading tech markets such as the United States and Israel. For many global venture capital market players, these reports serve as the definitive source of information on current market conditions and recent trends. Venture capital finance development in fast-evolving markets like India, China and Russia meant that comprehensive reviews dedicated to these countries became a necessity.

The Russian market review was only possible thanks to RVC and the PwC Center for Technology and Innovation (CTI). The appearance of this publication is a significant event for the whole Russian innovation market – which has undergone far-reaching change over the last few years. During this period, the market saw significant growth in venture capital fund activity, the advent of numerous new market players and, above all, the appearance of a new generation of entrepreneurs in Russia who were responsible for generating a lot of new, interesting, innovative projects.

This first edition of the MoneyTree™: Venture Capital Market Navigator (the MoneyTree™ Russia Report) 2011 is fully devoted to venture capital investment in the IT sector, which is the most dynamic and transparent sector of the Russian market.

We believe that 2011 was a milestone year for Russia’s venture capital market: 2011 saw a significant number of investors appear on the market, boosting young investment companies’ business activity, lending them a more systematic and comprehensive character. An increase in state development activity, growth in number of entrepreneur support programmes and related events, as well as the creation of incubators, accelerators and technology parks, have all led to a significant increase in the number of promising new startups. This, viewed together with major deals and a number of successful IPOs by Russian tech companies eliciting foreign investors’ interest in Russia’s innovations market, triggered a dynamic growth in innovation activity both of the existing and emerging venture capital market players.

We are confident that Russia’s venture capital industry will continue its rapid growth, as it gains in maturity and ensures Russia’s smooth integration into the global technology market.

At CTI and RVC we are very encouraged by these current market trends. We will continue to contribute our knowledge, resources, and experience to developing Russia’s innovative processes, creating an entrepreneur-friendly environment, and helping innovative startups build successful businesses.

We are confident that many of these companies have a bright future, and we will continue to do everything we can to help ensure their success – signs of which are already visible.

We plan to publish the MoneyTree™ Russia Report on an ongoing basis because we believe that this will help boost the transparency of Russia’s venture capital market, thus drawing new players into the market, and that it also helps foster a more welcoming environment for investing and doing business in Russia.

David Gray
Managing Partner
PwC in Russia

Igor Agamirzian
CEO
RVC
We are pleased to present our new publication the MoneyTree™ Russia Report. The Russian venture capital investment market has rapidly gained momentum in recent years. This is due to an improvement in the broader economic climate, as well as a significant contribution from the authorities aimed at creating a friendly environment in Russia, and at stimulating the further development of the innovative-technology sector of the economy.

These efforts resulted in a rapid growth of IT-related activities, drawing numerous entrepreneurs with projects and ideas requiring relatively small investments of time, money, and human resources. With the numerous of opportunities offered by the Russian IT-market, and a number of notable success stories in the same sector in other countries, the Russian market has witnessed strong growth at entrepreneur level. These entrepreneurs became a driving force behind the inflow of new companies into the sector, which in turn lent a powerful boost to the inflow of investment.

This is why we decided that our first study should focus on reviewing the IT-sector as the most active and developed in the Russian economy. According to our research, this segment of Russia’s innovations market attracted the absolute majority of venture capital investments.

Russia’s venture capital market is characterised by its diversity: on the one hand, it involves a large number of small private investments in the youngest startup projects (that are impossible to count), and, on the other hand, it has also seen several major deals involving established, successful companies. Our review did not include the majority of transactions with a volume of below USD 50,000 or major deals over USD 50 mln that currently are not a regular occurrence. We also excluded grant funding for innovative companies from this review as they represent a non-market instrument. Our research focused on the market segment that showed the highest level of investment activity and represented the key foothold for its participants’ activity*.

According to the data obtained, total venture capital investment in Russia’s IT-sector in 2011 amounted to USD 237 mln in 139 transactions.

E-commerce and projects related to entertainment and social networking are among those areas that brought in the most investment: USD 107.6 mln and USD 57 mln of the venture capital investment could be attributed to these lines of business.

Over half the investments (USD 124 mln) took place within the first funding round. This came in 47 deals.

We believe our findings are an accurate reflection of investment activity in the IT-sector. It also should be mentioned that, according to various estimates, data on up to 50% of the market may not be available due to the confidential nature of the deals involved.

Nevertheless, both our assesment and the views shared by the experts surveyed indicate that the market exhibits a strong trend towards increasing transparency. These deals are receiving an increasing amount of media coverage, while investors and companies are becoming ever more aware of the importance of information disclosure as an instrument that can be used to manage value.

We are confident that Russia’s venture capital investment market is just beginning to gather pace, and that it offers extensive opportunities to all players: professional investors, investment funds and entrepreneurs in Russia as well as international venture capital market participants. As the Russian venture capital investment market develops, new issues of the MoneyTree™ Russia Report will cover developments in the existing trends, and the emergence of new trends in the IT-sector, as well as other segments of the Russian innovation and technology market.

* For more details on the methodology see page 12
The greatest volume of venture capital investments in IT sector companies was observed in the second and the third quarters of 2011. In the second quarter, companies received about USD 68 mln in total (45 deals), and in the third quarter – more than USD 91 mln (25 deals). The average deal size in the third quarter was significantly higher, at USD 3.6 mln compared with the average for 2011 which was USD 1.7 mln.

By year end, this trend had changed, as the investment amount fell to approximately USD 43 mln in the fourth quarter, with the number of deals closed comparable to that in the second quarter (39). The figures for the fourth quarter do not include those deals which were essentially closed in January 2012 (4 deals involving total investment of USD 1.2 mln). Therefore it is certainly possible to phrase this discussion in terms of a growth of investment activity in 2011.

“Having taken part in the survey, we came to understand that trends on the venture capital market depend on investment deal volume. The more investment deals the market sees, the faster the experience level and professionalism of Russian innovators grows, and the more startup successes we see. These success stories, in turn, prompt more people to get involved in entrepreneurship.”

Vitaly Akimov, CEO, StartupPoint
If we analyse venture capital investment in 2011 by development stage, we can see that over half the investment deals, 77 deals, but a total investment of just USD 30.6 mln went to projects at the seed stage. Projects at the startup stage attracted USD 38.8 mln in 34 deals – nearly a quarter of all venture capital deals by number of transactions. Meanwhile, projects in their early growth stage attracted the most investment (USD 94 mln in just 16 deals). These figures are highly characteristic of the young Russian IT-tech company market, which only really started to take off a few years ago, and which has felt the lack of startup investment keenly since then.

Over half of all investment activity took place within the first financing round. In total there were 47 such transactions, putting the overall volume of investment at USD 124 mln is indicative that seed investment accounted for 72 (USD 28 mln) out of a total 139 deals identified for 2011.

**Venture capital investment by development stage and financing round**

<table>
<thead>
<tr>
<th>Project Stage</th>
<th>Number of deals</th>
<th>Investment (USD mln)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seed</td>
<td>77</td>
<td>30.6</td>
</tr>
<tr>
<td>Startup</td>
<td>34</td>
<td>38.8</td>
</tr>
<tr>
<td>Early</td>
<td>16</td>
<td>94.2</td>
</tr>
<tr>
<td>Expansion</td>
<td>1</td>
<td>14.6</td>
</tr>
<tr>
<td>No data</td>
<td>11</td>
<td>59.7</td>
</tr>
</tbody>
</table>

Note: "No data" – no information on investment project stage is available.

Source: RVC, StartupPoint, PwC

---

“Startups need more than internal resources to succeed. There has to be a network of support promoting innovation and entrepreneurship. The progress made by the Russian institutions is remarkable, and now almost all the elements of the innovation ecosystem are in place. Entrepreneurial success stories will follow.”

Alexandra Johnson, Managing Director, DFJ VTB Capital Aurora
E-commerce related projects attracted the most investment in 2011. This sector saw 33 deals raising approximately USD 107 mln in investment.

Trailing the leader by the number of completed deals, venture capital projects related to entertainment and social networks saw 31 deals and USD 57 mln in investment attracted. Projects related to the development and application of cloud computing technologies ranked third by the number of completed deals - at 29. Although investor activity in this sub-sector was high, venture capital investment under these deals only amounted to USD 17 mln.

Projects related to the development of data services and remote learning services raised about USD 33 mln in 21 deals in 2011. It is also worth noting that the telecoms subsector attracted nearly USD 5.5 mln in venture capital investment (5 deals) and the advertising technology subsector raised USD 1.4 mln (7 deals).

"The funding will allow us to build a world class e-commerce company. Russia is a challenging environment for e-commerce and we are building the full infrastructure to ensure we deliver customer satisfaction."

Oscar Hartman, Founder and CEO, KupiVIP
Our research also focused on the investors’ geographical origin. Although investors of Russian origin, as expected, account for the main impetus driving the development of the Russian market (participating in 74 deals), it is interesting to note the significant number of deals involving foreign participants, including: United States (14 transactions), Germany (8), and France, Canada, Sweden and Switzerland (a combined total of 6). It is also worth noting that 20 deals were concluded involving investors registered in offshore jurisdictions (Cyprus – 11 and the Netherlands – 4, Virgin Islands – 2, Cayman Islands – 2 and Jersey Island – 1).

“Overall, the market outlook seems positive and fundamental drivers favour the further growth of venture capital investments from both Russian and foreign players. The market is driven by such factors as continuing growth of Russia’s internet population, reallocation of advertising budgets offline to online, the development of consumer e-commerce and online services markets. However, unpredictable macroeconomic conditions may reduce investors’ appetite for new deals in the short to medium term. This is especially true considering the ongoing concerns over the mounting national debts of several EU countries and the possible threat of a new recession, unfolding of which will result in very different scenarios for the second half of 2012 and 2013, should these risks materialise.”

Maxim Krasnykh, Director, Intel Capital Russia/CIS
In 2011, 6 deals (including IPOs), involving over USD 50 mln each, were concluded. Investment in these deals totalled USD 1.9 bn. These are milestones for Russia’s venture capital market. On the one hand, they indicate the appearance of major foreign investors on the scene, and, on the other hand, they demonstrate the emergence of mature projects in Russia.

Thanks to these transactions, the market is receiving an inflow of capital that stimulates competition and fosters infrastructure development. This comes in addition to the emergence of new players benefiting from the actions of major players.

These transactions also help investors to ensure successful project exits in coming years, which will also serve to indicate the market’s increasing maturity.

### Large innovation deals and IPOs in 2011

<table>
<thead>
<tr>
<th>Company</th>
<th>Sector of Investee’s operations</th>
<th>Investor</th>
<th>Level of investment (USD mln)</th>
<th>Closing date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yandex</td>
<td>Search engines</td>
<td>IPO</td>
<td>1,300</td>
<td>May 2011</td>
</tr>
<tr>
<td>1C Company</td>
<td>Software</td>
<td>Baring Vostok Capital Partners</td>
<td>200</td>
<td>October 2011</td>
</tr>
<tr>
<td>Qiwi</td>
<td>Payment terminals</td>
<td>Mitsui &amp; Co.</td>
<td>150</td>
<td>January 2011</td>
</tr>
<tr>
<td>VKontakte (VK)</td>
<td>Social networks</td>
<td>Mail.ru</td>
<td>112</td>
<td>July 2011</td>
</tr>
<tr>
<td>Ozon</td>
<td>E-commerce</td>
<td>ru-Net Holdings, Rakuten, Alpha Associates, Index Ventures</td>
<td>100</td>
<td>September 2011</td>
</tr>
<tr>
<td>KupiVIP</td>
<td>Shopping club</td>
<td>Accel Partners, Mangrove Capital Partners, Direct Group, Oliver Jung, ARLAN, Balderton Capital</td>
<td>55</td>
<td>April 2011</td>
</tr>
</tbody>
</table>

“*The largest investments in the sector that we received in September 2011 are aimed at improving service, expanding our logistics network, i.e. increasing the number of distribution points in Russia, and building a new warehouse facility in Tver. In addition, investment is needed to develop our online travel agency OZON.travel and to expand our IT-team. A proportion of the funds went on the purchase of the online footwear retailer Sapato.ru.*”

Maelle Gavet, General Director, OZON holding

“The Russian internet will experience a real boom once a sufficient number of players comparable in size to Ozon, Mail.ru, Yandex appear on the market and start to compete in various areas of activity, including the purchase of technology/startups. This is a medium-term prospect: two to four years. The rapid development of the venture capital market also requires that the existing, established corporations come to understand that technology purchasing can deliver breakthrough growth.”

Victor Belogub, Director, Venture capital, VTB Capital
We anticipate that, providing the positive trends in the Russian and global economy continue, 2012 will see the Russian venture capital market continue to grow and achieve new records. According to our estimates, the volume of venture capital investment in the Russian IT-sector in 2012 could increase by over 50% and exceed USD 450 mln.

An increase in the number of investors on the market and an expansion of the areas they work in will boost the further development of Russia’s venture capital market. We expect to see sustained qualitative change in the market. In particular, the market will become more transparent, and investment and corporate governance standards will come into line with those in developed countries. This will allow leading international venture capital companies, which have been eyeing the Russian market eagerly for the last few years, taking only preliminary steps to test the market, to become involved in major deals involving projects in the later stages, converting this interest in Russian innovation into a stream of real investment deals, in both the late and early stages.

Successful IPOs by Russian tech companies abroad will boost the confidence of Russian and international investors who have, to date, held back from investing in early-stage projects, as should the success stories which market participants expect to take shape in the near future – as we see the first exits from the market for the investors who have invested in these companies in recent years.

In addition, as companies that received investment in the years 2010-2011 mature and move to the next, more capital-intensive, investment rounds, this too will stimulate the further expansion of investment. In addition, the general trends to higher standards of entrepreneurship and improving quality in startup projects, the appearance of a new class of serial entrepreneurs, the development of the market infrastructure, and also the next steps to stimulate and popularise innovative entrepreneurship from government development institutions, will all ensure a flow of seed investment in new companies.

“I believe that the venture capital investment market in 2013 will at least see growth at the same pace as in 2012. In particular, I view it as positive that a number of private funds have emerged, which are managed by successful online businessmen and which are focused on specific niches of the broader IT-market. Needless to say, many non-specialists who made money in quite different areas are attempting to gain a foothold on the market. I believe that they will gradually realise that it is better to place the money under the management of industry people, and the market will proceed towards the classic LP-GP model faster.”

**Dmitry Repin, Partner, Bricolage**

“A great number of projects that received seed investment in the past 12-18 months, have already shown growth, and now need further financing to reinforce the successes already achieved, enter the market, and scale up their business. Against the background of high activity among Russian and international venture capital investors in Russia, and the appearance of a great number of new players – many of these companies stand a good chance of attracting subsequent interest in the larger investment rounds this year.”

**Anton Abashkin, Head of the PwC Accelerator in Russia, PwC CTI**
This report was compiled using the MoneyTree™ Report methodology (www.pwc.com/globalmoneytree).

The MoneyTree™ Russia Report contains information from RVC, StartupPoint that PwC used in the analysis.

In analysing the data, venture capital investment actually received from business angels, investment companies, private, corporate and public venture capital funds not exceeding USD 50 mln in the first round of financing were taken into consideration. If a company received investment in two or more rounds, then each round is viewed as a separate transaction. This study incorporated deals that were formally concluded in the period from 1 January 2011 to 31 December 2011.

The term “venture capital investment” is understood here to mean the acquisition of a stake or capital in new or growing companies, acquiring less than a controlling share. Resources invested are primarily directed to business development, not to the purchase shares owned by existing shareholders (founders) of the company. The company receiving the investment is active within the Russian Federation and is related to the IT sector.

The IT sector includes the following subsectors: e-commerce; data exchange and communication; the development of cloud computing; telecoms; advertising technology; mobile apps; entertainment and online gaming as well as services and apps related to the creation and development of social networks and online communities.

Stages in the life-cycle of a project/company, and their definitions:

**Seed stage:** The company has a concept, idea for a product, but no final product; work is underway on the prototype.

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

**Early stage:** The company has a product ready to enter the market, demand is being tested.

**Expansion stage:** The product is available on the market, sales and demand growth can be observed.

**Later stage:** The company is becoming a major organisation, showing signs of a public company.
RVC is a government fund of venture capital funds, a development institute of the Russian Federation, and one of Russia’s key tools in building its own national innovation system. RVC was established by the Russian Government in accordance with Order Number 838-r of 7 June 2006.

RVC’s authorised capital stands at over RUB 30 bn. It is 100% owned by the Federal Agency for State Property Management (Rosimuschestvo).

As of June 2012, RVC-backed funds boast a portfolio of 118 companies. Invested capital totals more than RUB 10.2 bn.

RVC’s main goal is to stimulate the creation in Russia of a domestic VC investment industry, and significantly increase venture capital funds’ financial resources.

An important area of RVC’s work is creating and supporting a special-purpose service infrastructure for VC market players, to increase transparency of investee funds and companies, to ensure Russia has an environment in this area that is conducive to international investors and entrepreneurs, and to optimise legislation affecting the development of innovative business.

The publication of the report *MoneyTree™: Navigating the venture capital market* is a crucial step in supporting the development of the infrastructure of the Russian venture-innovation ecosystem, with RVC participating as a development institute. *The MoneyTree™ Russia Report* is prepared on a basis of RVC project “Database of the Russian venture-innovative ecosystem (Venture Database)”. Company StartupPoint acts as a partnering company of RVC project to collate and compile data on deals and venture-innovative market players.

StartupPoint is the first, and largest, ru-net community for professional search for venture capital investment funds and projects to invest in, the company has been active since 2008.

StartupPoint evaluates the investment attractiveness of startups and maintains a quality stream of projects in its database. StartupPoint offers projects the opportunity to get noticed and gain access to investment, while also helping investors to find worthy projects in which to invest.
**PwC Center for Technology and Innovations (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, accommodate these innovations in laws and develop the infrastructure for the innovations market. For more close work with fast-growing innovation companies CTI opened its 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 work 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, the 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 and Luxembourg, thus offering Russian startups direct access to global markets.

The CTI encourages innovation and actively publishes information on new tech and venture capital financing. Our publication *Technology Forecast* has for many years been an important source of information about the latest trends in IT technologies and their impact on the future of business for the key market players. 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 in Russia (www.pwc.ru) provides industry-focused assurance, tax, legal and advisory services. Over 2,500 professionals working in PwC offices in Moscow, St Petersburg, Kazan, Ekaterinburg, Novosibirsk, Krasnodar, Yuzhno-Sakhalinsk and Vladikavkaz share their thinking, experience and solutions to develop fresh perspectives and practical advice for our clients. The global network of PwC firms brings together more than 169,000 people in 158 countries.
This report has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this report without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this report, and, to the extent permitted by law, RVC, PwC, its members, employees and agents accept no liability, and disclaim all responsibility, for the consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this report or for any decision based on it.

© 2012 PwC, RVC. All rights reserved.

*PwC" refers jointly to ZAO PricewaterhouseCoopers Audit, PricewaterhouseCoopers Russia B.V. OOO PricewaterhouseCoopers Advisory, or, as the context requires, other member firms of PricewaterhouseCoopers International Limited (PwCIL).