



Venture Russia

2018: Results



IN PARTNERSHIP WITH





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INTRODUCTIONS

Greetings to all of you!

Kickoff!!! We've launched anew as Dsight, a project to publish our Venture Russia reports and offer analytics for investment decisions.

The name Dsight is consonant with the word "decide". We found the correlation appealing as we want to help investors decide and act on the analytics we provide.

We have talked to a large number of venture investors, and some doubted the need for another such service. "Crunchbase, PitchBook and other analytical platforms are quite enough," they said. However, we have met a lot of clients that need more than what the existing solutions provide, and will try and outperform our predecessors.

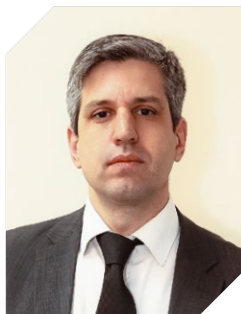
A few words about the Report you have received. Looking back at 2018, we have put together for you our traditional annual overview and market analytics.

Defining the past year as "fairly lucky" wouldn't be an exaggeration. The market grew a bit; new names emerged; a lot of startups made a splash by going global; and corporates kicked into high gear investing across sectors, even where they had been least expected.

Our team elected to continue with sector-focal reporting, and this time we start looking into Technology in Logistics. We polled a few dozen fund managers and found their response interesting. In the next few months we will study the market for logistics tech and share our findings with you.

As always, thanks a lot for all the comments and suggestions as to ways to make ourselves more useful for you.

**Dsight Founder,
Arseniy Dabbakh**



We in EY keep a watchful eye on Russia's VC market as a source of new projects and partners in the technology sector. Insignificant as it still remains for an international onlooker, the market nonetheless gave us hope last year with new activity. In an effort to innovate and build new business models as they head for the digitization of the economy, corporations and government energetically joined in the game. With all the volatility we saw in the numbers and volumes of deals, the Russian VC market inculcated a feeling of increased maturity, professionalism and viability. Rounds still eclipse exits but volumes do give grounds for cautious optimism. Corporate players are becoming increasingly involved in the race for new projects, and the trend already outshines the average global one, a sweet reminder of the 2012–2013 venture boom.

Our VC market has no clear-cut national borders, and some deals can only be considered Russian because of the origin or presence of companies/funds in Russia. Well, having no borders is the way technology business works. Very few national markets have large-scale niches to attract investors to, and the latter will always be on the lookout for projects with global ambitions.

**Technology,
Media & Telecommunications Leader,
Central, Eastern and Southeastern Europe
& Central Asia, EY, Partner,
Anton Ustimenko**



Dsight is a database of deals and analytical platform focused entirely on Russia's venture market. The company publishes Venture Russia reports twice a year and issues sectoral studies on the most attractive VC markets. Dsight also carries out contract-based research for customers on markets, companies, and investors. Arseniy Dabbakh and Sergei Kantcerov are the founders of Dsight.



1

Market growth driven primarily by a greater number of later stage deals

The year 2018 marked a new growth period for Russia's venture market. It rose rapidly, from \$471.3m in 2017 to \$714.7m excl. exits, expanding by a noticeable 51.6% within a year.

The growth owed essentially to an increase in the average value per deal at the later stages. For example, Rusnano Sistema SICAR (a PE fund set up by AFK Sistema and Rusnano) and Skolkovo Ventures, an industrial fund, invested \$8m in Ivideon, which develops video surveillance systems.

2017 2018	Number	Investment amount, \$M	Average value per deal, \$M
Seed	97 139	4.6 11.0	0.05 0.08
Startup	90 76	26.1 21.7	0.29 0.29
Growth	75 61	144.8 112.4	1.93 1.84
Expansion	26 14	100.1 125.9	3.85 8.99
Maturity	14 9	195 443	13.9 49.2
Total*	302 299	471.3 714.7	1.56 2.39
Exits	16 	142.2 95.5	

* Excluding exits

Source: Dsight



MTS Corporation led a \$17m investment round in YouDo (Youdo Web Technologies Limited), an online platform that helps look for doers to accomplish various tasks. Sistema Venture Capital, Flint Capital and United Capital Partners (UCP), as well as Sergey Solonin and Alexander Kabakov, also took part.

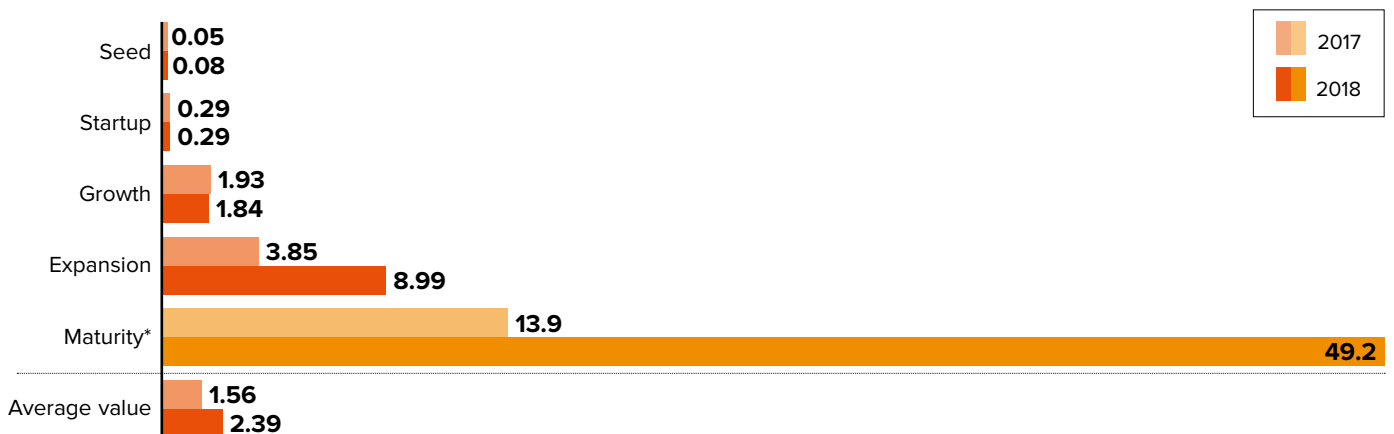
In the global market, Nginx, the Russian developer of web servers for high-load websites, raised \$43m from Goldman Sachs Growth Equity and co-investors.

Please note the three largest deals involving Russia last year. First of all, a ride-hailing service called Gett raised \$80m from Leonard Blavatnik's Access Industries, Baring Vostok, MCI and Volkswagen Group, who had all already supported the company before. The service was valued at \$1.4bn. Secondly, WayRay, an augmented reality solutions developer, raised \$80m from car makers Porsche and Hyundai Motor, joined by Rusnano Sistema SICAR, Alibaba Group Corporation, China Merchants Capital, JVC Kenwood, a consortium of sovereign funds from Japan, Saudi Arabia, Kuwait, the UAE and Bahrain, and the Russia-Japan Investment Fund set up jointly by JBIC and the Russian Direct Investment Fund.

And finally, Ozon.ru, a Russian online hypermarket, received \$61m in support from Baring Vostok and MTS, and as much as \$100m from AFK Sistema and co-investors.

In the above examples, investment rounds were closed by companies that could be referred to as large-scale. This suggests a conclusion that Russia's VC market has reached a stage of certain maturity and, moreover, overcome the prior years' crisis triggered by the sanctions and a decline in venture activity.

Considerable increase in the average value per deal at the later stages, \$M



*The Maturity stage presented distinctly for a stronger visual effect

Source: Dsight



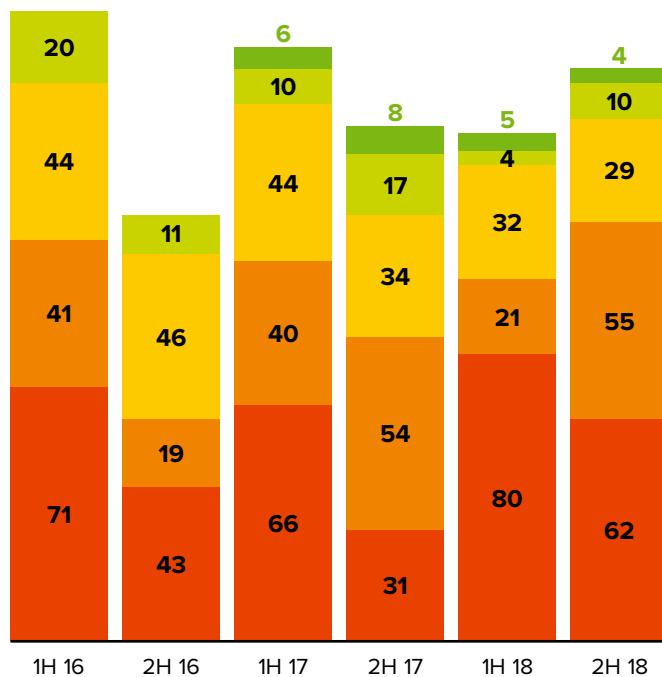
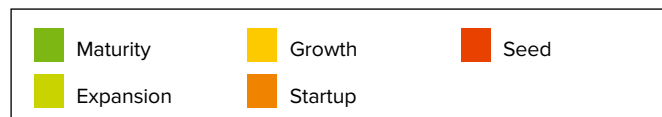
2

Seed stage deals boosted by an increase in corporate acceleration programs

The seed stage has never been truly transparent in the VC market. In 2018, Dsight analysts observed a substantial increase in both the number and volumes of seed stage deals. The number grew 46%, from 97 to 142. Total investment skyrocketed by a record 139% to \$11m.

No new angel investors or seed funds emerged last year to fuel the growth in the Russian market. It was the launch of several corporate acceleration programs that boosted the numbers and moneys. We talk first and foremost about two Sberbank programs: one for the savings bank's internal needs and the other in partnership with 500 Startups. KamAZ, Russia's largest truck maker, and MTS, a telecom operator, also launched their own acceleration initiatives. QIWI Universe extended its program, backing six B2B projects in 2018. Some corporations stuck with RVC Generation S, the annual acceleration program run by Russia's RVC; these include majors such as Alrosa, the diamond producer, Ilim that makes paper, VTB Bank, and others.

Seed stage grew 46% in number of deals last year



Source: Dsight

We may expect a few more corporates to announce their own acceleration programs this year. It's an army of government-owned and parastatal companies that analysts believe will most likely make the move.



National Alternative Investment
Management Association

National Alternative Investment Management Association is an industry body focused on promoting long-term capital in Russia. We work with the professional community, regulators, media and the public to increase awareness of alternative investments as a source of value creation and foster the development of capital markets in our country.

We focus on PE and VC investing, real estate and infrastructure, hedge funds, and impact investing.

We get support from leading investment funds, audit and legal firms, international SROs and other financial market players that are our members and partners.

NAIMA is part of the EMPEA Industry Partner Network and supporter of the Institute of Modern Arbitration.

The Association's core activities include:

- Developing industry-focused education projects, putting together a certification system for alternative investment managers, and delivering ongoing research on long-term capital markets.
- Hosting industry-wide events in Russia and abroad.
- Lobbying for a more investor-friendly legal environment.

More information about NAIMA you can find on
www.naima-russia.org/en/



3

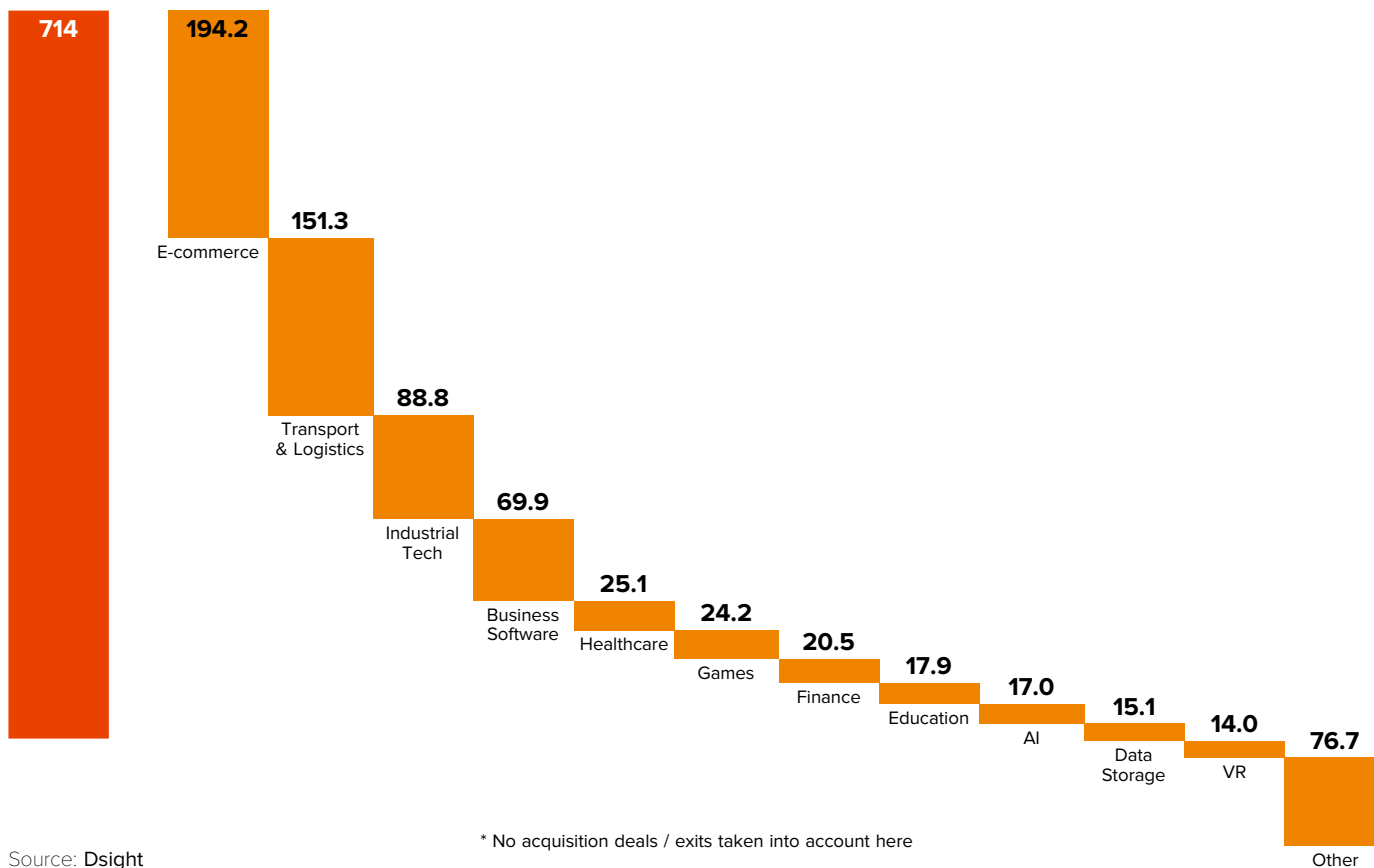
Investor interest in e-commerce revived

E-commerce was clearly on the radars of large-scale corporations and strategic investors in 2018. In the first six months Yandex and Sberbank launched a joint marketplace called Beru (“I take”). In September, Mail.ru Group, Megafon, the Russian Direct Investment Fund (RDIF) and China’s Alibaba Group announced AliExpress Russia, a new joint venture in e-commerce which raised at least \$57m from MTS and Baring Vostok, the lead investors in the Ozon online hypermarket.

It’s an obvious harbinger of fierce competition set to flare up down the road between the top marketplaces to be hailed as “the Russian Amazon.” Predicting today who will emerge victorious is no easy task.

E-commerce projects attracted more than 30% of all investments

Investments excl. exits, \$M



Source: Dsight

4

PE funds and family offices step up venture investing

This is what triggered growth at the later stages. It's PE funds' increasing activity in venture investing that provided another growth factor. In 2018, the number of deals that involved PE funds grew 1.5 times from 2017 to total 12 transactions. In addition to the above mentioned Ivideon deal involving Rusnano Sistema SICAR, Vostok New Ventures and Baring Vostok also gained a foothold in the VC market, leading a \$9m round in a medical service called Doc+ and investing \$80m in Gett.

Number of deals led by PE funds have quadrupled since 2016



* Featured: Da Vinci, Elbrus, Kismet, Baring Vostok, Larnabel, RDIF, IDEA+

Source: Dsight

5

Government still at the forefront as grantor

Government largess is streaming into Russia's venture market via three main channels. First of all, via funds government agencies have set up, such as Moscow Seed Fund or RVC-spawned ones. Secondly, through quasi-private funds government earnestly helped create. The most vivid example of those is the Internet Initiatives Development Fund (IIDF, aka FRIL in Russian).

A third channel is a variety of grant programs government uses to actively support startups. Dsight analysts found that an estimated \$99m had come to Russian tech companies from the Skolkovo Foundation, the Agency for Strategic Initiatives (ASI), the federal Ministry of Education and Science, the Ministry of Industry and Commerce and some other agencies. For comparison, overall investments in Russia's VC market topped out at \$714.7m last year; so the grant investments were about 13% of the total.

That said, analysts expect the grant bounty to shrink a bit down the road. At any rate this is the case with the Skolkovo Foundation, which has been gradually winding up its grant programs since 2015.



6

ICO collapse

In 2017, a Russian-wide pandemic of ICOs, aka token sales, broke out. A relatively new startup financing technique here, enhanced with a cryptocurrency boom, it made startups think they'd found a nice new fundraising tool.

However, there were analysts even at that time who warned of possible dangerous bubbles in this new market. The ICO fiasco followed mishaps with the star cryptocurrency, Bitcoin, which withered by four-fifths last year and brought into the abyss with it all the remaining key cryptocurrencies — including the Ethereum used in most ICOs. As a result, startups that at the beginning of the year had been able to easily raise a collective average of \$2.5bn a month saw their token sale proceeds shrivel to just \$65m by November.

Most of the startups that had placed their tokens with crypto-exchanges when the Bitcoin was dear brought their investors no profit. According to EY, 86% of tokens issued at crypto-exchanges in 2017 are currently worth below flotation cost.

Another factor that further cooled investors' enthusiasm for ICOs was too much fraud in token sales. Diar found that since July 2016 ICOs have been instrumental in illicitly siphoning an estimated \$100m from owners.

That has resulted in the advent of the security token offering (STO) as an analog of IPOs. National regulatory procedures, including those in the U. S., are being amended to make sure crypto-investors have proper protection. It is therefore safe to surmise that after the crypto-rush the market will level off and stabilize.



7

P2P lending as a “new old” magnet for strategic investors

P2P lending services were all the rage across the world back in 2014–2015. Startups working in this segment raised noticeable funding rounds and the sector leaders such as the U. S.’ Lending Club completed their IPOs. A new financial model had been discovered, as it appeared.

Then, disappointment tarnished the lively picture. The first wrench thrown into the seemingly impeccable works was the high cost of attracting clients and a discouraging level of bad loans. Another one was none other than Lending Club, which had been “doctoring” its own operational data to improve reports, as investigators found. That caused a giant nosedive in the company’s exchange valuation, which then triggered a chain reaction across the P2P lending services market. Another major player, OnDeck, also lost much of its value. International strategic investors turned their backs on such services, and the U. S. toughened regulation in the P2P lending sector.

But new winds appear to have turned the tide. According to Dsight analytics, the largest strategic investors, both in Russia and globally, are revisiting the idea of supporting P2P lending — this time in the form of funding businesses by individuals. It’s the classical VC fund community that used to invest in P2P lending. Russia’s FRIL, for example, once supported the StartTrack business crediting platform. But today giants like Sberbank and Ozon have set sights on the segment. Sberbank is seeking to combine the crowdlending model with its own investments in legal entities that will have come to a P2P lending platform.

Ozon is launching a similar product. Individuals will be able to invest \$150+ on the new Ozon.Invest platform. There’s one limitation, though; the product is not focused on the open lending market but rather on platform suppliers and companies that would sell their goods through the platform.

The already operational Russian P2P platforms should not be overlooked, either. These include the Gorod Deneg (Money City) crowdlending venue which is now part of the General Invest international holding company. Potok (Stream), the Alfa-Bank developed P2P service, has been in the Russian market since 2015. Another P2P service, Penenza, has also been on the rise lately.



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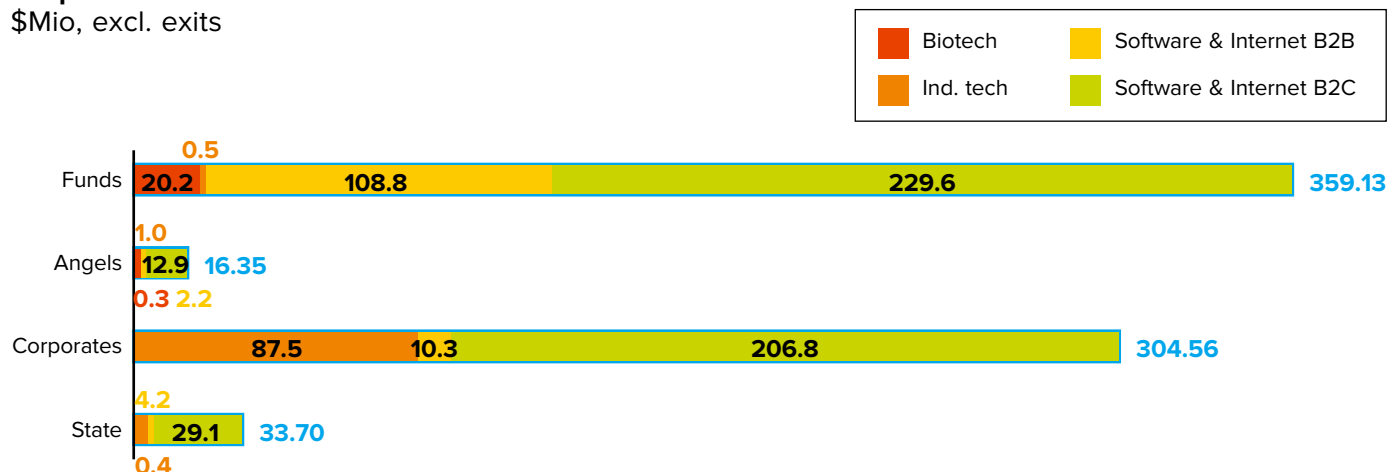
Corporate VC funds multiply

Corporations first revealed genuine interest in the venture market back in 2017, but the trend wouldn't take clear shape until last year.

It was President Vladimir Putin's 2017 order to set up venture funds and special departments to invest in startups at Russia's largest state-owned corporations that provided a strong impetus in this process. It took a year for the initiative to bear fruit. As many as 20 corporate acceleration programs, including those with the participation of government-owned giants, were launched within that year, as the official media reported. VTB and KamAZ started their internal acceleration programs; Sberbank put together two programs — one for internal purposes and the other as a partnership with 500 startups.

A new law on private-public partnerships and concessions in the IT sector, which was passed last year, made the creation of new venture funds even easier. Funds with RVC and Skolkovo Foundation capital began sprouting up as a direct result of that. For example, DIT Venture Fund Skolkovo — Industrial I was set up, with two giants — Helicopters of Russia and Russian Railways — anteing up an aggregate of \$9.2m for the effort. Earlier this year, RVC and Da Vinci Capital announced their joint \$92+m Da Vinci Pre-IPO Tech Fund to invest in IT companies that have IPO plans. Da Vinci Capital is expected to bring in at least 1% of the total, and the rest will be raised from institutional investors across Europe and Asia. The average investment per deal will be \$5m, and the targets are Russian companies that have international business presence. Da Vinci Pre-IPO Tech Fund is coming to retire \$120m Da Vinci Pre-IPO, a VC fund set up jointly by Da Vinci Capital and RVC four years ago.

Corporations account for 40% of the total \$Mio, excl. exits



* Syndicated investor deals are included in the group that leads the given round by investment volume

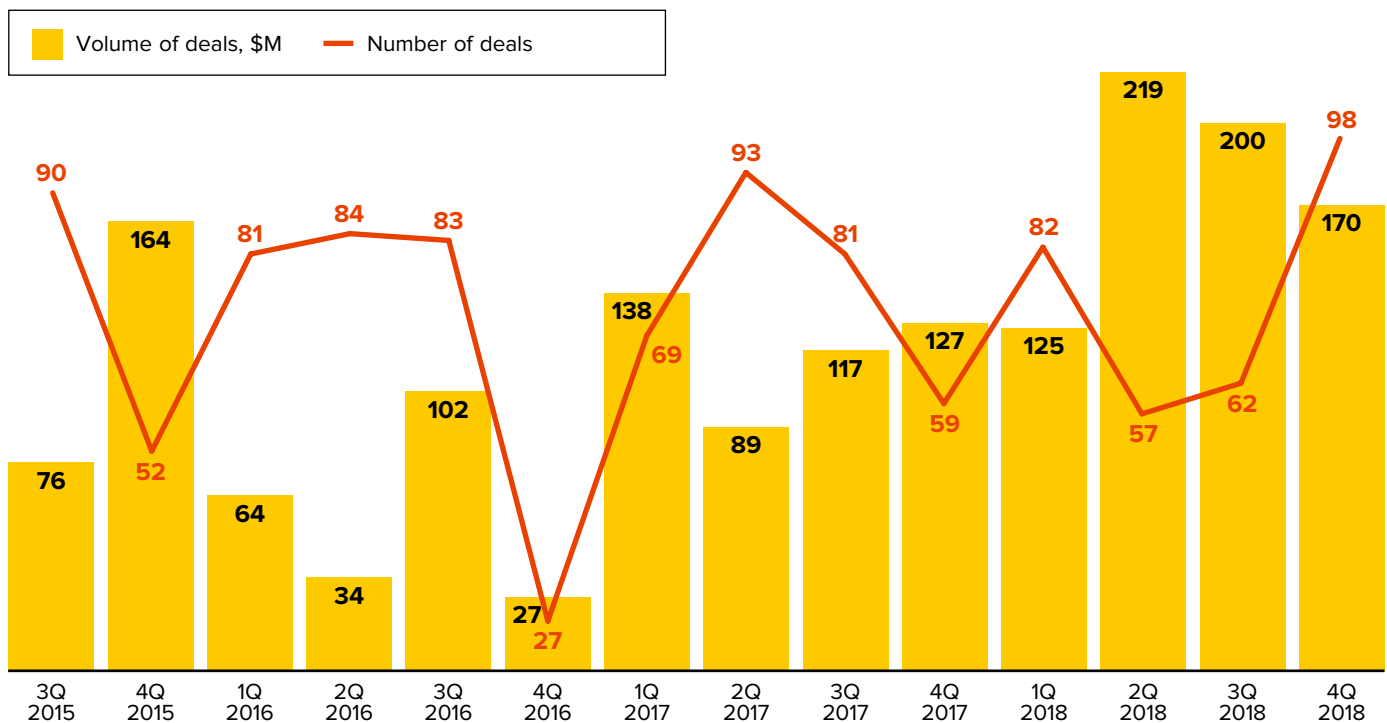
Source: Dsight



Private companies began setting up venture funds long before the presidential decree to do so. Life Group, for one, launched its inaugural fund called Life.SREDA back in 2012. In 2016 it was joined by AFK Sistema's Sistema Venture Capital and Sistema Asia Fund (operates in India).

That said, some corporate funds slowed down a bit in 2018. For example, Bank of St. Petersburg's fund, which supported at least two projects two years ago, closed no deal in 2018. Perhaps it's a sore investment botch that was to blame; the fund had bought into the Babadu children's marketplace but then accumulated debt and was forced to sell its entire 40.8% stake to Nils.ru, a children's clothes and footwear retailer. Lanit Ventures, set up by Lanit Corp. and another fund, Xsolla Capital, also discontinued investing last year.

Uptrend remains prevalent in the market



* Excluding exits

Source: Dsight



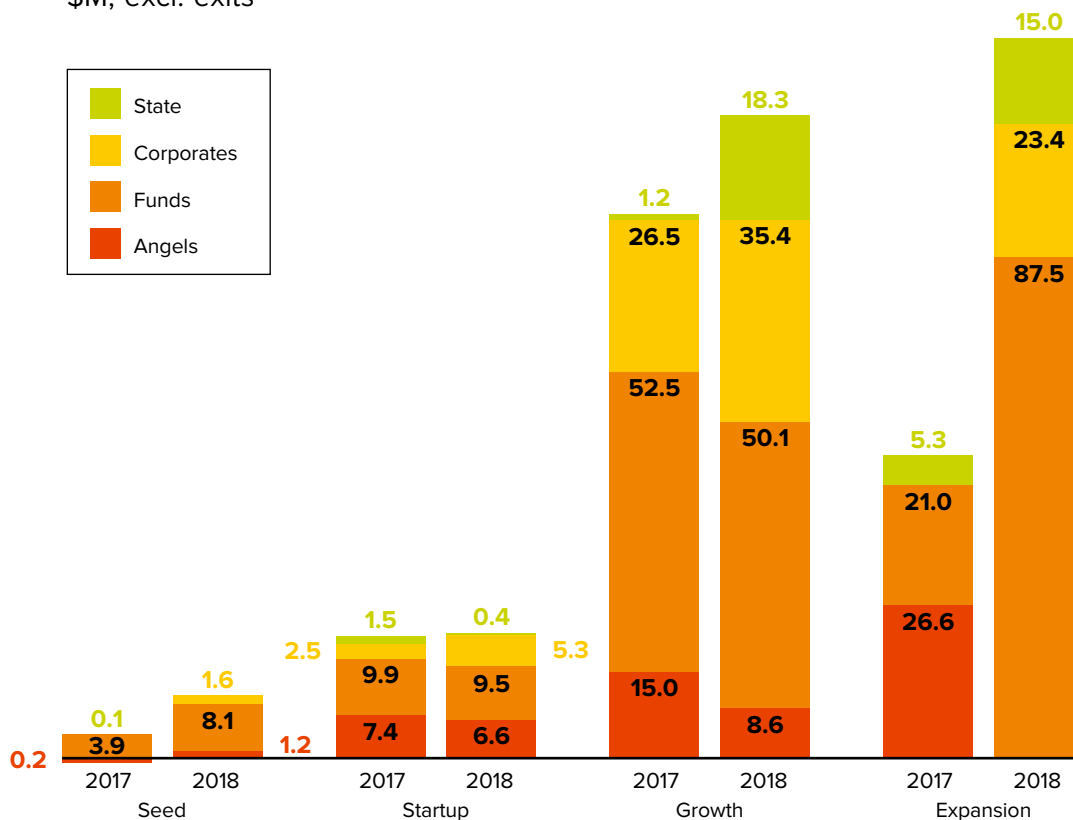
9

Private investors rotate and shun publicity

Private venture capitalists, or angel investors, have never wanted to be in the limelight in Russia. Most of them are guided by the good old “money loves silence” principle. That 80+% of angel investors announced just one (or zero) deal in 2018 came as no surprise.

What also makes the segment worth studying is the annual rotation of names we observe in it. Some investors leave the stage, and new ones surface each year. The “top three” remain the same year after year, though. The angel leadership list keeps featuring Alexander Rumyantsev, Sergey Dashkov, and Igor Ryabenkiy.

Activity of investors of different types by project stage
\$M, excl. exits



* Angel-led seed stage deals are difficult to follow; most become known only when a larger investor comes into a project.

Source: Dsight

10

2018: a boom in the sharing economy and foodtech

Dsight analysts highlight two segments in the Russian market which really burgeoned last year. These are services related to the sharing economy and foodtech. It was the purchase by Yandex of an 83.3% stake in Partiya Edy (Meal Party), a meal ingredients and recipes delivery service, that turned heads in the foodtech segment. The formal buyer was Yandex.Taxi, Yandex's hail-riding service, a maneuver to enable the foodtech startup to make the most of the service's logistics. Yandex earlier bought Edadil, another food startup.

Yandex Group has had its own ready-made meals delivery service, Yandex.Eda, a direct competitor to Mail.ru Group owned Delivery Club. Hypermarket Ozon has plans on the table for the launch of meals delivery from restaurants starting mid-2019. A lot of subscription-based ready-made meals delivery services have sprouted up over the past couple of years, with Grow Food being perhaps the most prominent of those. The segment for meals delivery from supermarkets is also on the rise; the service is being touted on the websites of such major retail chains as Perekrestok and O'Kay.

The year 2018 saw renewed strategic investor interest in the sharing economy, with a clear focus on transport across both Russia and the outside world. A number of vehicle rent services focused on big cities raised sizable funding rounds (Lime, Bird, Yellow and some others). The micro-mobility segment also showed determined growth; Uber, for example, launched its electric bicycle and scooter rent service.

The market is mushrooming in Russia as well. In February 2018, Yandex rolled out its own car rent service that took a few months to take the lead in the Moscow city market by number of cars (6,000 as of November 2018). Other services emerged last year, too (TimCar, CheryDrive and MatreshCar). Delimobile, a car sharing company, launched its Delisamokat to rent out electric scooters and then took over Anytime, one of Russia's most established car sharing services.

Moscow City Minister of Transport Maksim Liksutov recently estimated the car sharing market in the Russian capital alone to have reached 15–16,000 cars by the beginning of 2019, making Moscow the world's second-largest city with developed car sharing.



Annex: Deals by Segment & Exits



ANNEX: DEALS BY SEGMENT & EXITS

Top venture deals

Date	Target	Investor	Amount, \$M	Company segment
Jan18	Skyeng	Baring Vostok	10*	Education
Jan18	Neurogaming	Wargaming, Vrtech	16	Games
Mar18	Grabr	Foundation Capital	8	Transport & Logistics
Mar18	Ozon	Baring Vostok, MTC	61	E-commerce
Mar18	Citymobil	Megafon	26	Transport & Logistics
Apr18	Appodeal	Impulse VC	8	Advertising & Sales
May18	Ixcellerate	Goldman Sachs	15	Data Storage
Jun18	Gett	Access Industries, Baring Vostok, MCI, Volkswagen Group	80	Transport & Logistics
Jun18	NGINX	Goldman Sachs Growth Equity	43	Business Software
Jul18	Promobot	VEB Innovations	7	E-commerce
Aug18	DOC+	Vostok New Ventures, Baring Vostok, Yandex	9	E-commerce
Aug18	InDriver	LETA Capital	10	Transport & Logistics
Sep18	Active Component	Elbrus Capital	20	Healthcare
Sep18	Simple Finance	SBI Group	15	Finance
Sep18	YouDo	MTS	17	E-commerce
Sep18	WayRay	Porsche, Hyundai Motor, Alibaba Group	80	Industrial Tech
Oct18	Ivideon	Rusnano Sistema SICAR	8	Video-Audio
Oct18	Arena Space	Rucard	7,7	VR
Oct18	Deliver	Mudalala, RDIF	7,5	Transport & Logistics
Oct18	Wallarm	Toba Capital	8	Business Software
Dec18	Ozon	Sistema VC	100*	E-commerce
Dec18	SmartCat	AltaIR Capital	7	AI

* deal's estimated value

Exits

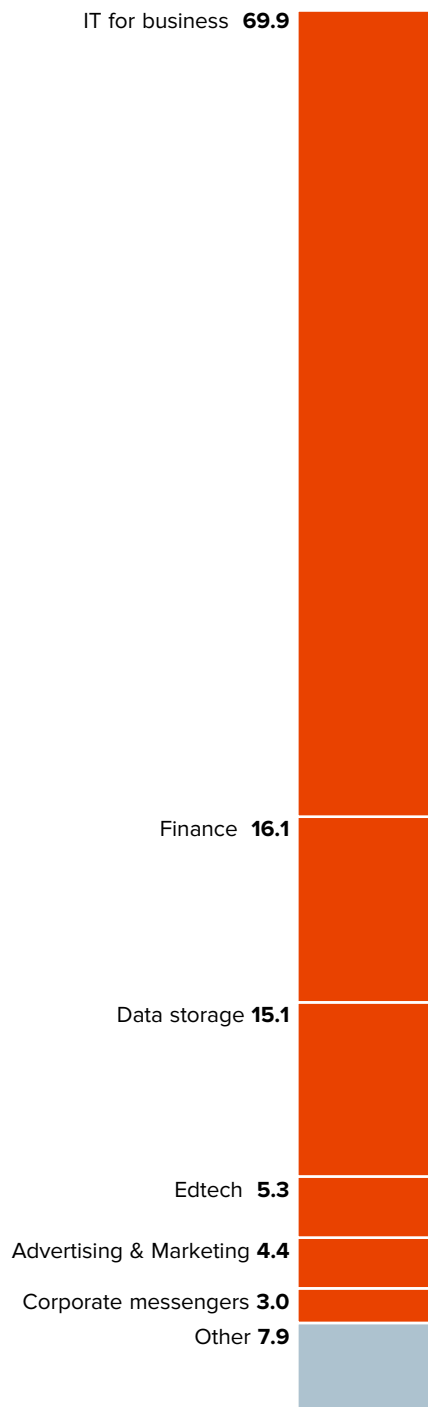
Date	Target	Investor	Amount, \$M	Company segment
Jan18	Gambit Esports	MTS	10*	Games
Jan18	Pay-Me	Alfa-Bank	5*	Payments
Jan18	Larixon Jobs Network	Hearst Shkulev Media	8	Content Management
Jan18	Dealway	Epicstars	0.5*	Advertising & Sales
Feb18	Handybank	InfoWatch	4	Finance
Feb18	Timepad	Sergey Solonin	10	Event Management
Mar18	Brandspotter	Youscan	3*	Advertising & Sales
Mar18	Transas	Wärtsilä	0.25	Business Software
Mar18	Dialog	Sberbank	1*	Communication
Apr18	33 Elephants	Mail.ru Group	3*	Rent
Apr18	Amulex	iTech Capital II	2	Legal
Apr18	Nalogia	European Legal Service	1*	Legal
Apr18	Tranzaptor	amoCRM	0.5*	Payments
May18	Solar Security	Rostelecom	23	Security
Jul18	Skillaz	Sergey Soldatenkov, Anna Serebryanikova	0.4*	HR
Jul18	Platinus	Sberbank	1*	Advertising & Sales
Aug18	Fuel in Tank	Yandex.Drive	3*	Other
Sep18	Gett	Da Vinci Capital	20*	Transport & Logistics
Oct18	Edadil	Yandex	3*	Advertising & Sales
Oct18	Meal Party	YandexTaxi	3*	Transport & Logistics
Oct18	HayTaxi	YandexTaxi	0.5*	Business Software
Nov18	Aizel.ru	Genom Venture	2*	E-commerce
Nov18	Intercom	Sberbank	17*	Business Software
Dec18	Kakprosto.ru	Rafael Nagapetyants	2.5*	Social Media
Dec18	Justlady.ru	Rafael Nagapetyants	2.5*	Social Media
Dec18	Teleport	Snap	8	Software & hardware

* deal's estimated value

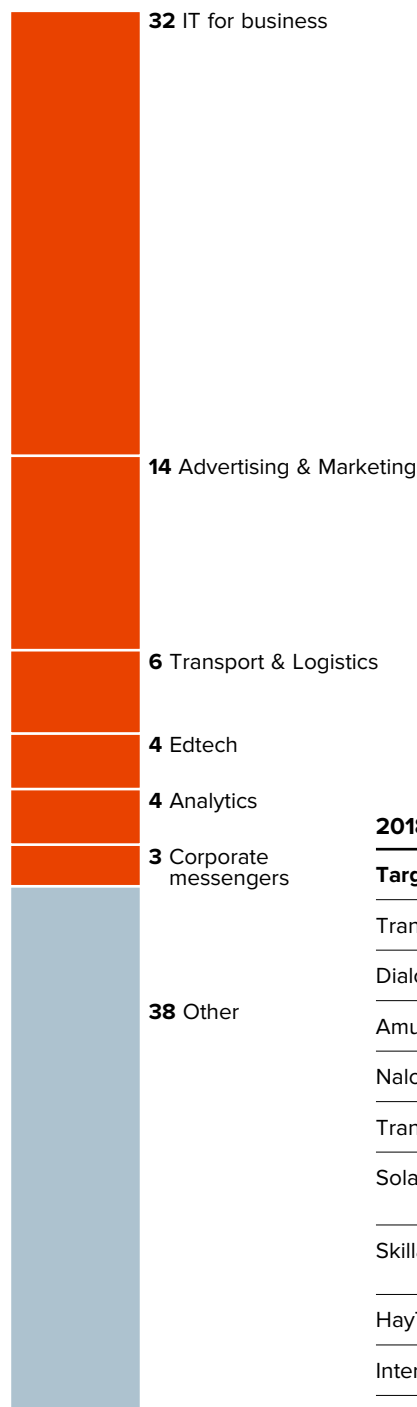


Deals by Segment – B2B

Deals structure by sector*, \$M



Deals structure by sector*, numbers



2018 exits in Software & Internet B2B

Target	Investor
Transas	Wärtsilä
Dialog	Sberbank
Amulex	iTech Capital II
Nalogia	European Legal Service
Tranzaptor	amoCRM
Solar Security	Rostelecom
Skillaz	Sergey Soldatenkov, Anna Serebryanikova
HayTaxi	Yandex.Taxi
Intercom	Sberbank
Teleport	Snap

* No acquisitions (exits) taken into account

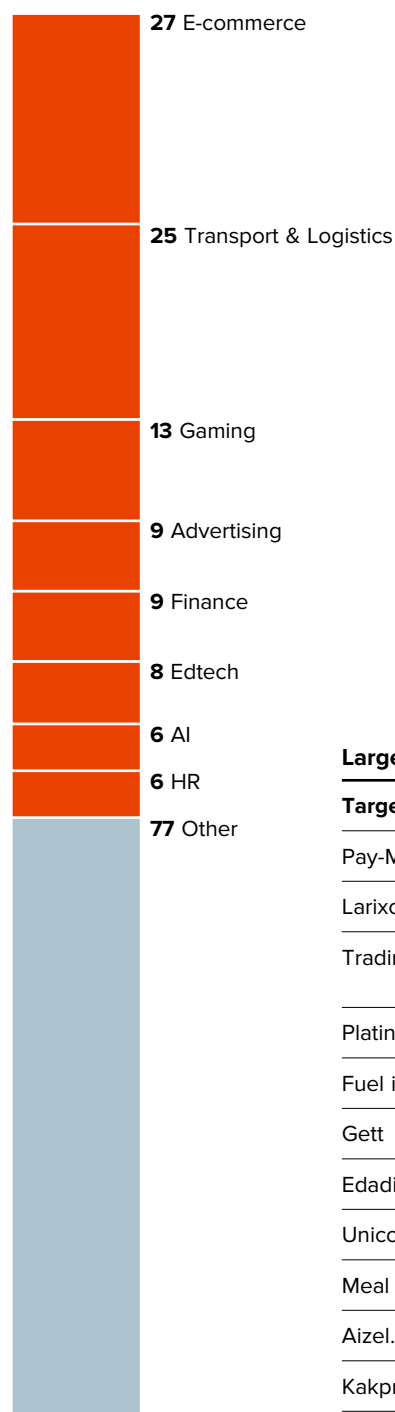


Deals by Segment – B2C

Deals structure by sector*, \$M



Deals structure by sector*, numbers



Largest 2018 exits in Software & Internet B2C

Target	Investor
Pay-Me	Alfa-Bank
Larixon Jobs Network	Hearst Shkulev Media
TradingView	Insight Venture Partners, Jump Capital, DRW Ventures
Platinus	Sberbank
Fuel in Tank	Yandex.Drive
Gett	Da Vinci Capital
Edadil	Yandex
Unicorn	ER-Telecom Holding
Meal Party	Yandex.Taxi
Aizel.ru	Genom Venture
Kakprosto.ru	Rafael Nagapetyants
Justlady.ru	Rafael Nagapetyants

* No acquisitions (exits) taken into account



In Focus: Technology in Logistics



Technology in logistics

As we set about preparing for a profound study on technology in logistics to be published later this year, we approached angel investors and fund/corporation managers with several questions. A total of 50 respondents from 35 funds took part. The subject matter was defined as follows:

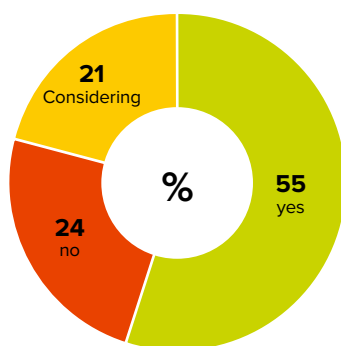
Technology in logistics as a body of techniques and tools to ensure efficient merchandise management/supply through the use of special software that solves logistics problems.

26 of the polled confirmed that either they or their organizations do invest in such projects. Most said they each had just one logistics project in their portfolio; one claimed to have nine.

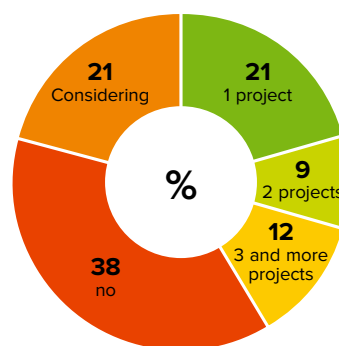
Most of the polled expect major changes in the logistics business in the next 3 to 5 years. Some, however, sounded skeptical about the possibility of making a critical improvement without support from the top market players.

The respondents underscored as a rising trend the importance of developing autonomous transport and machine learning aided artificial intelligence; other trends emphasized included the need for broader big data applications and the development of airborne goods delivery technologies.

Have you invested in logistics-related technologies?



How many logistics projects do you have in your portfolio?



Source: Dsight

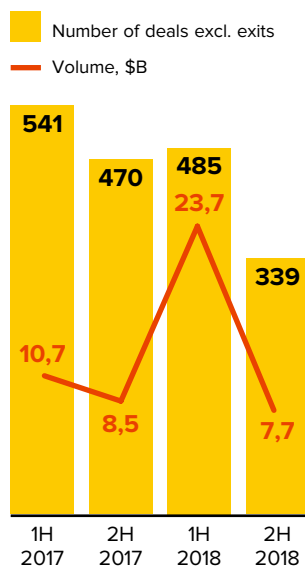


That said, one of the experts pointed out that expecting “old-style” logistics companies to step down soon as technology advances is a bit premature; practices to be optimized are so numerous and multifaceted that relying on an IT platform for processing and coalescing those without human involvement doesn’t appear feasible at this stage of development.

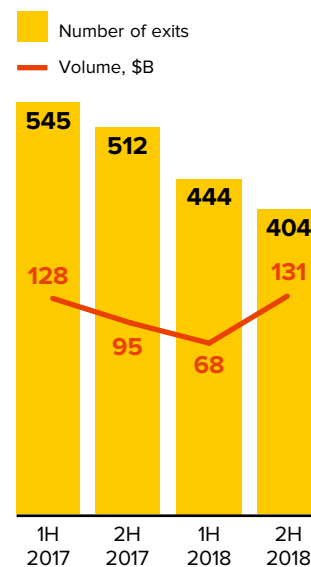
Another expert noted that the very concept of a transporter is changing in the logistics market. “Logistics startups used to play a limited role of information and/or payment go-betweens; today, they are increasingly focused on raising the efficiency of transportation itself (improved routing, fleet payload optimization, multimodality, etc.).” In addition, the respondents emphasized that it’s critical to develop multimodal logistics services and platforms that combine transportation by road, rail, river/sea and air.

Last mile delivery services and same-day-delivery models are expected to undergo the most dramatic technological transformation.

Global logistics market growing even though number of deals is decreasing



Number of exits is also declining, but volumes are on the rise



Source: Pitchbook

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Tech Investment Overview: Eastern Europe and Central Asia

Provided by East-West Digital News



Tech investment volumes in Eastern Europe and Central Asia were modest last year, if compared with the Chinese, US or Western European markets. However, 2018 was marked by giant corporate deals involving international players while a series of smaller venture transactions illustrated the diversity of the regional startup scene.

In this review, which encompasses Russia, Ukraine, Belarus, Kazakhstan and other Central Asian republics – all former parts of the Soviet Union where Russian language still dominates business life – East-West Digital News chief editor Adrien Henni offers a glimpse into local market activity and its international implications.

Major corporate deals in Russia

Last year was marked by several important corporate moves involving foreign players. In February Yandex, the NASDAQ-listed Russian search giant, and Uber completed the merger of their taxi-hailing activities in the region. The combined business was valued at some \$3.8 billion on a post money basis, with a 53.9% stake for Yandex and 36.9% for Uber.

The deal appeared as Uber's second retreat from a major market globally, as the US giant needed to improve revenue and narrow losses. (In a comparable move, in 2016, Uber left China in exchange for a minority stake in rival Didi Chuxing, after losing more than \$2 billion battling its competitor.)

Far from retreating, French carpooling giant BlaBlaCar consolidated its leadership on the Russian market. In August 2018, it acquired BeepCar, a competing service launched by LSE-listed Mail.Ru Group the year before. Among BlaBlaCar's investors is a major Russian PE firm named Baring Vostok.

Mail.Ru Group, meanwhile, invested \$26 million in Citymobil, aiming to compete with its archrival Yandex in the taxi-hailing service market.

Leading the social network, digital communications and gaming markets in the region, Mail.Ru Group intends to become a major e-commerce player, too. In September 2018, the group announced an alliance with Alibaba Group to create "one-stop platform for social, communications, gaming and shopping."

The move illustrated the growing appeal of Russian e-commerce in investors' eyes. According to a Morgan Stanley research, this market could exceed \$50 billion by 2023 – up from around \$18 billion in 2017 (physical goods only).

Also, in the running, Yandex has teamed up with Sberbank to create a huge e-commerce platform, based on a \$500 million investment from this leading state-owned financial institution. As a result, two marketplaces were launched in late 2018, in addition to the existing marketplace Yandex.Market.

Sberbank also launched a joint-venture with Rambler & Co and UCS to create a multifunction food service platform.



On its side Ozon, a major player also inspired by the Amazon model, announced plans to raise several hundreds of million USD in equity in the first half of 2019. The capital injection may come either from Ozon's existing shareholders (among which are Baring Vostok, a major Russian PE firm, the conglomerate Sistema, and telco MTS), or new investors, including foreign ones.

Startup investment in Russia

In Russia, just a few domestic VC deals exceeded \$10 million. Among the main ones were:

- A \$17 million capital injection into AI-powered service platform YouDo;
- A \$10 million investment in InDriver, a Russian ride-hailing startup which started gaining traction on the US market;
- An investment from Baring Vostok in e-learning platform Skyeng at a \$100 million valuation.

A number of smaller deals involved domestic private or public funds. The most prolific investor, IIDF (FRIL), backed more than 360 startups since fund launch in 2013.

Several deals involved large Russian corporations. For example, mobile operator MTS acquired two event ticketing companies and an eSports club — in addition to its participation in YouDo's round of funding — in a strategy to develop products outside the traditional telecom sector.

Foreign VCs — which showed interest in the Russian market before being repelled by international tensions in 2014–15 — are now practically absent. Among the main deals of last year were:

- A Japanese fund's \$15 million injection in SimpleFinance;
- An investment of \$7.5 million in a Russian online freight service, involving the Abu Dhabi sovereign fund;
- A \$2 million round for e-logistics startup Dostavista, involving New York-based FJ Labs;
- A \$4 million round for Busfor, involving VNV, a Swedish fund whose previous "romance" with a Russian startup ended up with a multi-billion-dollar exit;
- An investment of up to \$1.5 million brought by Austrian fund Speedinvest in AI startup Conundrum.

Some foreign corporations were also in the game, including Japan's Mitsubishi, South Korea's Cosmo & Company, and several French, Austrian and US companies chasing Russian startups. Meanwhile, French accelerator NUMA injected small amounts in half a dozen startups, while 500Startups helped Sberbank launch an internationally-oriented accelerator.

Total foreign investment in Russian startups has been estimated at slightly more than \$200 million over the year (source: RVC, Inc. Russia). This number includes major deals involving Russian-founded startups established abroad (see below).



The Russian government remained a key backer of the local startup ecosystem, with support from such institutions as Skolkovo, the international tech hub at last close to completion on the outskirts of Moscow, and RVC, the state fund of funds dedicated to innovation.

Startup investment in Ukraine

The renewed tensions with Russia did not affect much local startup activity. eSports startup DreamTeam involved Mangrove in its ICO, while local e-commerce leader Rozetka bought from Naspers a 56% stake in EVO Group.

Most other deals involved small amounts from local funds or international crowdfunding campaigns, while larger amounts went to Ukrainian-founded startups established abroad (see below).

Meanwhile, IT outsourcing and software development companies from Ukraine remained attractive assets:

- Switzerland's Partners Group purchased stock worth \$1 billion in Ukraine's GlobalLogic;
- Kiev-based AVentures and Horizon Capital backed Ukrainian IT outsourcing companies CoreValue and Intellias, respectively;
- Blam!, a game studio from Odessa, Ukraine, was acquired by a Lithuanian game publisher;
- US company DXC Technology intends to acquire Luxoft, a software development provider with Russian and Ukrainian roots, in a \$2 billion deal.

Given the political context, the Ukrainian government's effort to support tech innovation appeared as very modest, with the announcement of a \$1.3 million state-backed startup fund.

Startup investment in Belarus

In this country, startup investment activity was also modest in 2018, but often involved foreign investors.

Belarusian fund VP Capital and Russian family office Larnabel Ventures made investments in two Belarusian startups: \$7 million went to Banuba, which develops AR technologies for mobile apps, and \$2 million were injected into Facemetrics, which is working on an AI-powered parental app.

Period tracker app Flo completed a Series A round involving Mangrove Capital Partners (Luxembourg), Flint Capital (Russia) and Haxus (Belarus).

Meanwhile Wargaming, the famous Belarusian game publisher, participated in a \$16 million investment operation to make the tank battles of the World of Tanks available in virtual reality format.

The Belarusian authorities did much to support the emergence of the startup ecosystem. A December 2017 law and a March 2018 decree created an unprecedented regulatory environment for the IT industry and related investment activity. No fewer than 264 IT companies were registered at Hi-Tech Park Belarus in the course of the year.



Startup investment in Central Asia

In Kazakhstan, a Central Asian state known essentially for its natural resources, startup activity is becoming noticeable. In 2018 Clockster, which offers “a new way to clock-in and clock-out employees,” and Wunder, an online coding school, completed modest rounds of funding involving Russian and Singaporean investors, respectively, while 4G hotspot maker Nommi successfully completed a crowdfunding campaign.

On its side, Chocolife, an e-commerce startup launched in the early 2010s with support from a Dutch business angel, was in the process of preparing an IPO.

A five-year state program adopted in December 2017 aims to develop corporate innovation, e-government services, education and transportation technologies through 120 projects. In November 2018, in a bid to boost tech entrepreneurship and attract venture financing, the government opened Astana Hub and appointed a US tech entrepreneur, Joseph Ziegler, to head it.

Innovation is also burgeoning in other countries of Central Asia. In August 2018, young girls from Uzbekistan reached the final of Technovation, an international tech contest intended for female teens in which this country participated for the second time. In November, the reformer-president of Uzbekistan Shavkat Mirziyoyev signed a decree to liberalize investment activity and attract international investors, in particular in the field of innovation.

Meanwhile Dushanbe, the capital of Tajikistan, saw the launch of a startup hub dubbed ‘StartupStan.’ Its instigators aim to develop synergies among Central Asian players involved in startup development.



Eastern European founders go global

The most impressive deals of the year involved startups with roots in the region but having established themselves under a foreign jurisdiction (typically the USA or Western Europe).

Exemplifying this trend was GitLab, an open source software startup with Ukrainian origins, which raised \$120 million in two consecutive rounds in California. Another Ukrainian-founded startup, People.ai, landed \$30 million from US investors “to deliver on the true meaning of predictive enterprise.”

Software publisher RealtimeBoard and web server company Nginx — both US-headquartered companies founded by Russian entrepreneurs — raised \$25 million and \$43 million, respectively, in the United States.

Waves, a Russian-founded Blockchain solutions developer incorporated in Switzerland, secured \$120 million to develop its project Vostok.

Born in Russia but also headquartered in Switzerland, WayRay — a developer of an advanced car driving AR solution — completed a \$80 million Series C round led by Porsche and China Merchants Capital.

From Russia with venture money

Last year saw the launch of sizable international tech investment funds or programs backed by Russian players. Among the main initiatives were:

- Fort Ross Ventures announced a \$200 million fund for US startups interested in the Russian market;
- Leonid Boguslavsky’s RTP Global (previously known as Ru-Net) launched a \$200 million fund focusing mainly on Indian startups;
- Russian asset management firm Leader and China’s Shenzhen Capital launched a \$100 million tech fund for Russian companies to develop on the Chinese market;
- Grishin Robotics announced a \$100 million investment program in partnership with US game developer Epic Games;
- Russian security solution developer Leta launched a new \$50 million fund to help software startups “eat up the world;”
- Airline company S7 announced plans to launch an international \$50 million venture fund
- Russian state-owned fund of funds RVC announced plans to create 10 new funds to stimulate VC activity in the country, including a \$100 million vehicle dedicated to education technologies.

Over the past ten years, tech funds with Russian backers supported hundreds of tech companies across the globe — even more in the USA and Asia than in Russia. Thus Airbnb, Alibaba, Dropbox, Facebook, Hyperloop One, Rocket Internet, Shazam, Spotify and Uber, to name just a few, were fueled by “Russian money.”

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