

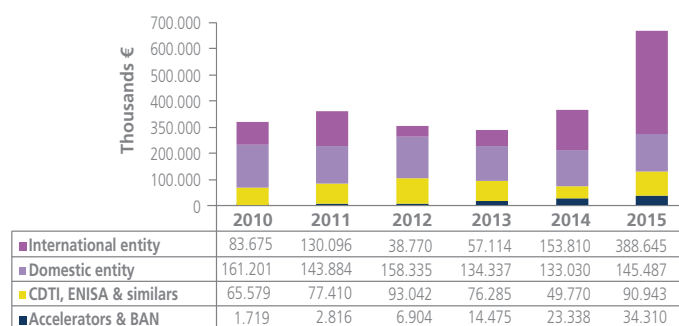
## EARLY STAGE INVESTING IS GAINING STRENGTH.

Global investment in early stage companies continues to grow in the Spanish economy, from both the supply (number of investors and available funds) and demand (startups invested) side, thanks to continued momentum from 2014. This **investment segment was led** both by **Venture Capital entities<sup>1</sup>** and by other complementary operators such as **incubators/accelerators, business angels** (acting alone or syndicated through networks), **crowdfunding platforms** and **public institutions focused on participative loans**.

In 2015, **Spanish companies in early development stages** (seed, startup, growth in startups and late stage<sup>2</sup>) **received over €659.4M** in investments, representing 83% growth as compared to 2014 (€359.9M). The distribution of early stage investments by type of investor is similar to last year's: **Venture Capital entities** stood out, **accounting for 81% of total early stage investments**. Public institutions contributed 14% of total investment, while business angels, crowdfunding platforms and accelerators accounted for 5%.

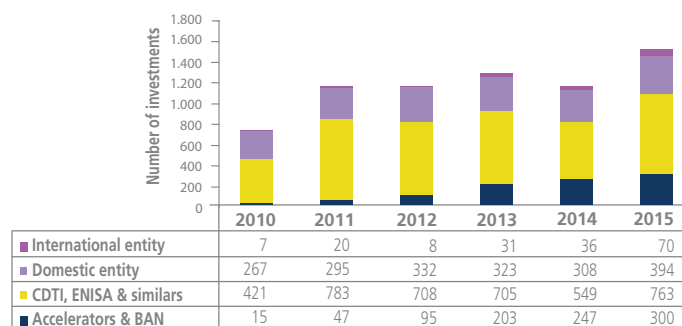
As regards **number of early stage investments<sup>3</sup>**, and counting the entire investment ecosystem, a total of **1,527 investments were closed**, 763 of which were from participative loans granted by public institutions, 464 from Venture Capital GPs (domestic and international) and the rest from accelerators, crowdfunding platforms and business angels (300).

**Evolution of Early Stage Investments by type of entity**



■ International entity  
■ Domestic entity  
■ CDTI, ENISA & similars  
■ Accelerators & BAN

Source: ASCRI / webcapitalriesgo



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The trends identified in the 2014 report deepened in 2015 and are driving favorable conditions in Spain for early stage investments.

**F**irst, the ecosystem for investing in early stage companies (accelerators, incubators, business angels, domestic and international Venture Capital firms, Corporate Ventures, etc.) continues to grow both in the number and diversity of investors.

a) **Increase in business angel networks, crowdfunding platforms and accelerators and incubators**, strengthening seed and startup investment in Spanish companies thanks to their activity (300 investments in 2015).

b) **Venture Capital investments accounted for a majority of the investments made by new international Venture Capital & Private Equity GPs in Spain.** The upturn in number of new entities making their first investment in Spanish startups confirms that international Venture Capital GPs are confident in both the Spanish market and local GPs. In 2015, of the 34 new international Venture Capital and Private Equity firms entering the Spanish market, 30 were Venture Capital funds<sup>4</sup>.

c) **Larger investment rounds evidence the attractiveness of Spanish companies for international Venture Capital GPs.** In 2015, these funds made 11 investments above €10M as compared to 5 in 2014. International funds, through co-investments with local Venture Capital funds, led the main transactions in the sector in terms of the amount received by the company. [A list of the main Venture Capital transactions closed in 2015 is available on page 29 of this report]. The increase in investments from new international GPs is without a doubt a sign of maturity of the Spanish Venture Capital market.

d) **Large corporations continue to pay more attention to startups**, establishing programs to foster the development of innovative projects related to their main business.

e) **Direct investment by large corporations in innovative startups is also on the rise** thanks to implementation by these corporations of an increasing number of specialized investment vehicles (corporate venture).

<sup>1</sup> In this chapter we use indistinctly firms, GPs, operators or funds to refer to a Venture Capital entity

<sup>2</sup> Seed capital: investment in companies without sales

Startup capital: capital injections in companies with early sales but negative EBITDA

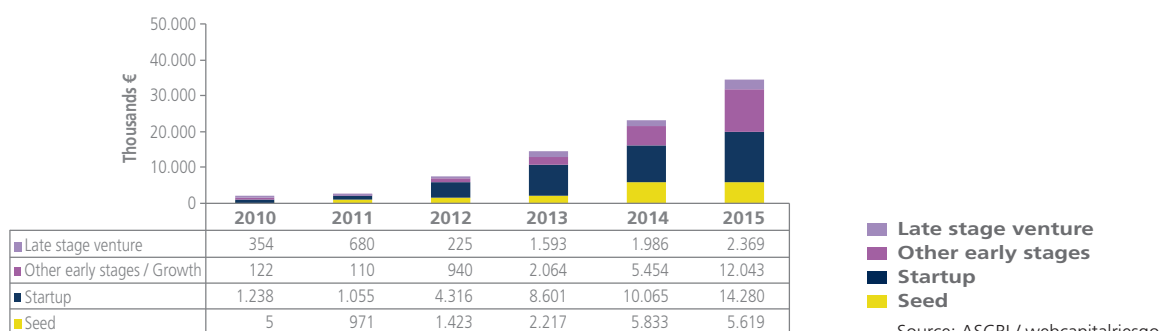
Other early stages or growth: follow on investment or capital contributions to startups through Series B or C funding

Late stage: investment by Venture Capital GPs in growth companies with sales and positive EBITDA

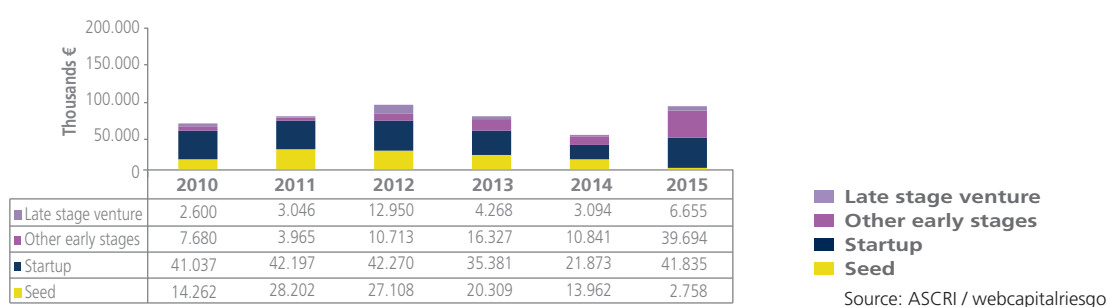
<sup>3</sup> Number of investments represents the number of companies that received funding, meaning that syndicated investments made by several investors may result in double counting.

## Early Stage Investment by company stage and type of entity

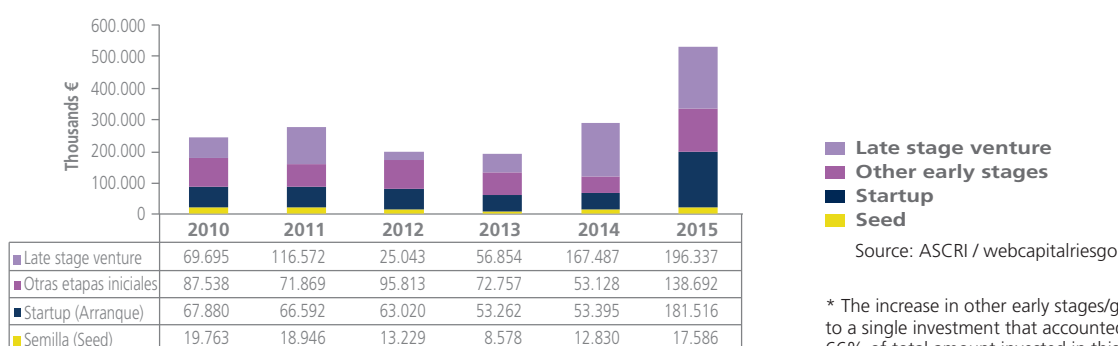
### ACCELERATORS AND BUSINESS ANGELS\*



### CDTI, ENISA AND SIMILARS



### VENTURE CAPITAL



\* The increase in other early stages/growth is due to a single investment that accounted for nearly 66% of total amount invested in this class.

The early stage investment sector had a total of 273 operators in this market at the end of 2015<sup>5</sup>, 109 of which were domestic Venture Capital GPs (92 private and 17 public) and 87 international Venture Capital GPs<sup>6</sup> (none of which have an office in Spain yet). Of these 196 Venture Capital funds, 125 carried out at least one transaction in 2015. There are 5 public institutions focused on participative equity loans and 70 business angel groups, crowdfunding platforms, accelerators and incubators.

Second, availability of new funds for investment continues to increase thanks to the reactivation of domestic fundraising and the incorporation of new Venture Capital vehicles set up by entrepreneurs that have successfully divested their own startups.

In 2015, thanks to fundraising activity, total funds raised by private domestic Venture Capital firms exceeded €292M

(-16% from 2014). The most relevant new vehicles include: **Caixa Invierte Start**, the new fund of the manager Caixa Capital Risc (€20M), **Bullnet Capital III** (€42M) of Bullnet Gestión, **Axon ICT III Spain** of Axon (undisclosed amount), **Nauta Tech Invest IV** (€70M, first closing) of Nauta Capital VC Partners and **Santander Innoventures** (approx. €80M) a Venture Capital vehicle of Banco Santander, as well as several undisclosed capital extensions in Venture Capital & Private Equity vehicles. In addition, over 20 funds are engaged in fundraising activities.

The programs launched by CDTI (Invierte) and ICO through Axis (FOND-ICO Global), have become anchor investors in many of the new funds launched. The contribution of public funds to Venture Capital funds remained consistent from 2014, sitting around 28%.

<sup>4</sup> See page 15 of this report for a list of the international entities that started investing in Spain.

<sup>5</sup> Includes all investments with an outstanding portfolio of Spanish startups and the activity of which was able to be included in this report.

<sup>6</sup> These funds are Venture Capital and Private Equity firms with an investment focus on Venture Capital and that have portfolios in which seed, startup, other early stage and late stage venture account for at least half of the portfolio.

## VENTURE CAPITAL ACTIVITY

**All-time high in volume invested by Venture Capital funds in Spanish companies, supported by the strength of international funds. Focusing on the activity of the 125 Venture Capital GPs** (both domestic -66 funds- and international<sup>7</sup> -59 funds-) that invested in Spain in 2015, **€534M was invested** during the year, representing **86% growth** from investment in 2014 (€286.8M). This supportive figure can be explained by the intense activity of international funds that continue to show interest in Spanish startups through their participation in Series B or further investment rounds (some for large amounts). In particular, **investment from international funds grew by 152.6%** from 2014, totaling an all-time high of **€388M** (73% of total Venture Capital investment). These funds made a total of 70 investments in 28 companies.

Investment by **domestic Venture Capital funds** increased slightly from 2014 (€133M), totaling **€145M**.

As forecasted in 2014, Venture Capital investment in Spain will continue to grow over the following years, not only due to the interest of international Venture Capital funds (whose presence in the Spanish market continues to increase) in Spanish startups, but also thanks to the significant resources (both in number of funds and fund volume) available to local Venture Capital funds in order to maintain and even increase their investment levels in the future.

**Strengthening of the startup ecosystem: 38 more companies than in 2014 received Venture Capital funding for the first time.** In 2015, 464 **Venture Capital investments** were completed in a total of **342 companies** (+28% from 2014), **190** of which **received Venture Capital funding for the first time** (+25% from 2014). Capital injections in 152 companies were follow ons (+31%). Furthermore, **investment volume in companies funded by Venture Capital for the first time** grew (**€206M** as compared to €73M in 2014). Investments in follow ons doubled, totaling €327.7M.

**Size of Series A funding rounds for new investments grew.** As regards investments that received **Venture Capital funding for the first time, by the company's stage of development** (Table 1), **all categories grew from 2014: seed stage** companies received investment of **€17.6M** (+39% from 2014) in **66 companies** and **startup capital** reached total investment of **€130.5M** (+269% from 2014) in **93 companies**. In 2015, **new Series A** investments not only increased in number but also **in size, increasing from €0.5M in average investment per company to €1.4M in 2015**. Series A funding rounds grew in size in part thanks to the many domestic Venture Capital GPs that increased their average investment amounts as a result of their maturity and performance. The **most active private domestic Venture Capital GPs in 2015** were: Caixa Capital Risc, Inveready, Nauta, Kibo Ventures, Sinensis Seed Capital and Cabiedes & Partners. In the public sector: Sodicaman, Sodena and Xesgalicia.

### New Venture Capital Investments by Stage

(Volume M€)	2014	2015	2014 / 2015
Seed	12,6	17,6	39%
Start up	35,4	130,5	269%
Other early stage Growth	6,6	7,1	3%
Large stage venture	18	51	179%
	73	206,5	183%

Nº of companies	2014	2015	2014 / 2015
Seed	52	66	27%
Start up	72	93	29%
Other early stage Growth	14	17	21%
Large stage venture	14	14	0%
	152	190	25%

Source: ASCRI / webcapitalriesgo

**Funds managed by private Venture Capital GPs led investment activity.** By type of GP, private entities accounted for the most significant investment weighting (**95% of total volume**), with an investment of **€507.4M** in 2015, **as compared to the 5% invested by public entities (€26.8M)**. In general terms, public funds operating in the Venture Capital sector have seen a decrease over time in their ability to make direct investments (lower investment budgets and steady number of GPs) and some

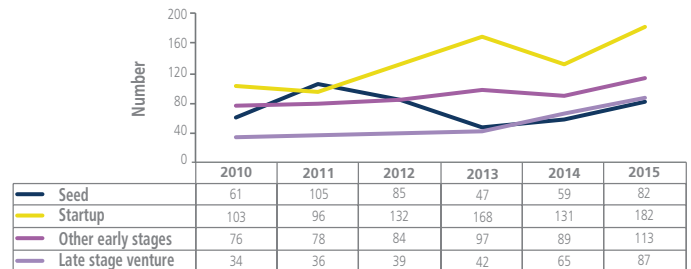
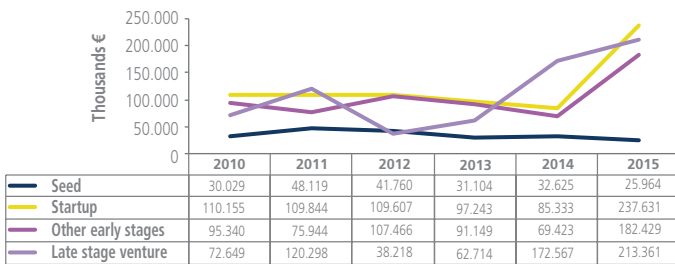
of these firms are conditioning this part of their investments on the granting of small equity loans. Nevertheless, their contributions to fund Spanish startups is being supplemented by their activity as investors in Venture Capital funds (LPs) with the Innvierte (CDTI) and Fond ICO Global (Axis/ICO) programs. The number of private Venture Capital firms, as well as their available capital, continues to grow year after year, resulting in increased investments.

<sup>7</sup> This chapter focuses on the activity of domestic Venture Capital funds and of those international Venture Capital funds that invested in Spanish companies, excluding investments by domestic Venture Capital funds in startups outside of Spain (€75.9M in 2015).

### Early Stage Venture Capital Investment by company stage

Volume

Number of companies



— Seed — Startup — Other early stages — Late stage venture

— Seed — Startup — Other early stages — Late stage venture

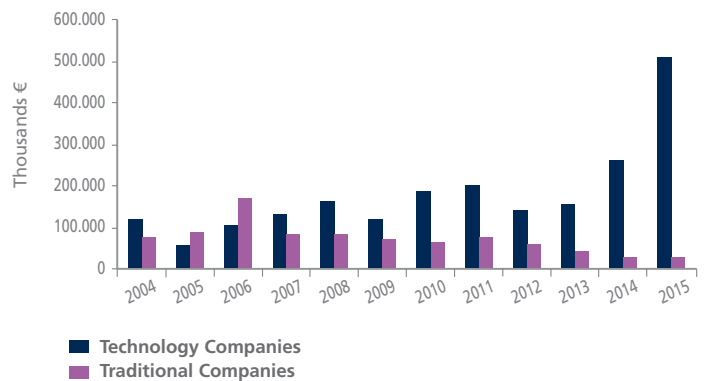
Source: ASCRI / webcapitalriesgo

**Venture Capital investment in Spain is focused on the technology sector.** Recent growth in the Venture Capital sector have led to greater investment in technology companies as compared traditional companies. This change in trend started in 2009, primarily as a result of:

1.- A change in the profile of Venture Capital GPs in Spain, resulting in lower investment by public GPs that tend to focus on the traditional economy, whereas private Venture Capital activity, which focuses more on technology and innovative companies, continues to grow every year.

2.- Increasing deal flow in the technology sector. In 2015, **amount invested in technology companies** reached an all-time high of **€509M**. As regards number of investee companies, technology is also in the lead with **260 companies**, representing 76% of total companies invested by Venture Capital GPs during the year. This trend is likely to continue in the coming years, as the new funds being raised and the new Venture Capital firms being established have a clear focus on technology.

### Venture Capital Investment Volume by Technological Content

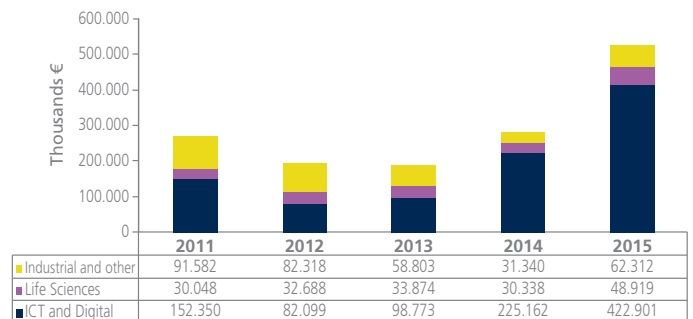


Source: ASCRI / webcapitalriesgo

**ICT and Digital projects accounted for 78% of investments in companies receiving Venture Capital funding for the first time.** In particular, **€161.5M** was invested in **ICT and Digital companies that had previously never received any Venture Capital investment** (+207% from investment amount in 2014). The remaining €206M applied to new investments was allocated to Industry (€32.8M; +148% from 2014) and Life Sciences (€12M; +66% from 2014). **New capital being directed at startups that had never relied on Venture Capital funding** prior to 2015 was aimed **primarily at ICT and Digital (120 companies)**, followed by 48 companies in Industry and 22 in Life Sciences.

A majority of international Venture Capital GPs are funding Series B or further rounds (growth in startups) in the ICT, Digital and Life Sciences sectors. On the other hand, Series A funding in these sectors was led primarily by domestic Venture Capital funds. Attracting new international Venture Capital and Corporate Venture investors to fund startups in the Life Sciences sector has driven total investment volume to an **all-time high (€48.9M)**. Prior to 2015, this sector only received capital from local Venture Capital funds.

### Venture Capital Investment Volume by sector



■ Industrial and other  
■ Life Sciences  
■ ICT and Digital

Source: ASCRI / webcapitalriesgo