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## QIV 2017 Investor Letter

### Market Update:

Venture capitalists invested \$84.2 billion into 8,076 US backed companies during 2017<sup>1</sup>. This robust amount of investments reached a level not seen since the dot-com era. The uptick in investing activity can be correlated to the ample amounts of capital ready for deployment, as investment funds raised \$132.4 billion between 2014 and 2017<sup>1</sup>. As a result, the median deal size has increased across all stages of investment in recent years.

Early-stage venture capital investment dramatically increased during Q4 by 40% over Q3. Over \$10 billion was invested in early-stage companies during the fourth quarter, the highest amount of any quarter in the past decade. The total number of deals, however, dropped to only 582. The high dollar amount and low number of deals is indicative of early-stage funds seeking to make larger investments in order to employ unused capital.

The aforementioned market dynamics have led to an environment that is often favorable for companies to remain private longer. Companies are showing a preference to grow larger and seek institutional financing later in their lifecycles. The median company will seek Series A round investments at approximately 3.5 years of age with Series B investments near year 5. The median round size for early stage companies has grown to \$6 million<sup>1</sup>. As a result, company valuations have significantly increased within the private market. The challenge, as always, is for investors to gain access and reap the benefits of the new wave of high-growth companies.

A key trend of 2017 was the rise in life science investment. Biotech companies, once viewed as a niche investment strategy, have become mainstream. Both established mainstays such as Andreessen Horowitz and new players have dedicated funds focused on the Biotechnology sector. Scott Gottlieb, the current FDA commissioner and former venture investor, is expected to reform the FDA to better advance future healthcare innovation.

Another key trend, and one that has received much publicity, is the rise of Bitcoin and other cryptocurrencies. According to research firm Token Report, a total of \$6.5 billion was raised in 2017 through Initial Coin Offerings (ICOs), and \$1.7 billion has been raised thus far in 2018. These amounts, however, only include “closed” offerings and therefore do not include two of the larger “open” offerings, Telegram Group and block.one, which together have already raised \$2 billion and are still raising funds through their ICOs. Only four IPOs during 2017 and 2018 raised more funds than the \$1.5 billion raised thus far by block.one. The enthusiasm around the cryptocurrency sector extends beyond those companies that have raised money through ICOs as, for example, the stock prices of shares of Eastman Kodak and Atari SA surged after they announced that they licensed their names for coin offerings.

There are also reasons to be cautious regarding cryptocurrencies. The SEC and CFTC have increased their oversight of the coin-offering market, with the SEC recently bringing enforcement action against several ICOs. The CFTC recently issued a customer advisory advising people to avoid certain schemes and offering whistleblowers a monetary reward for successful enforcement actions. Regarding fundraising, Ernst & Young reports that less than 25% of the ICOs in November 2017 hit their fundraising targets, down from 93% in June.

VCapital continues to monitor this space for investment opportunities that may fit our disciplined investment strategy and will pursue an investment if it meets our criteria.

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<sup>[1]</sup> TARHUNI, NIZAR, et al. “Venture Monitor Q4 2017.” National Venture Capital Association, NVCA, Pitchbook, Silicon Valley Bank, Perkins Coie, Solium, [nvca.org/research/venture-monitor/](http://nvca.org/research/venture-monitor/).

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### Portfolio Update:

#### **Intensity Therapeutics (*Developing a New Approach to Fight Cancer*)**

The National Cancer Institute is working closely with the company and has indicated that based on early signs in the lab that the potential for success and probability of FDA approval is strong. If this continues on path, it will likely be a major advance against most solid tumor cancers. The company compiled some of the strongest data in animal testing; killing stray metastasis and stimulating a vaccine-like effect so the cancer could not reoccur.

Intensity Therapeutics is now in human trials with the FDA and Health Canada. Currently five advanced cancer centers, including three of the top ten rated centers worldwide (University of Southern California, Johns Hopkins, University of Toronto), are conducting these trials. The safety trials are going well. At very low doses, surface tumor cancers are regressing, and the growth of metastasis has been checked. Squamous cell carcinomas, thyroid and ovarian cancer tumors all appeared to respond well to the drug. Study Cohort A is now complete with no dose limiting toxicities, no systemic toxicities and no severe treatment side effects. Recently, the company announced that the Study Steering Committee of the Phase 1/2 trials has approved the company's testing of patients with deep tumors, and the first patient has been dosed. Below are links to a press release announcing this news, the company's year-end report, and a recent article from *The Economist* about investing in cancer drugs.

[Intensity Press Release](#)

[Intensity Year-End 2017 Report](#)

[Cancer Investing Article](#)

#### **SimMachines (*Developing Artificial Intelligence Software*)**

The SimMachines sales pipeline currently has 44 late stage opportunities amongst a number of major global customers. The company expects a minimum of \$2.6M in revenue for the year but has a more aggressive target of \$4.1M. As noted in last quarter's letter, the company continues to work with major clients including Trans Union, Acxiom, Accertify (American Express), Accenture, and Bank of America. SimMachines has also been focusing on raising capital from additional sources. We will continue to monitor and help with their progress and capital raising needs.

Attached is a Briefing Note report on simMachines prepared by Cognilytica Research, an analyst firm that focuses on Artificial Intelligence.

[simMachines Report](#)

#### **Synap (*Developing CRM solutions for Customer Success Teams*)**

Synap has recently announced its merger with Imagineer Technology Group (ITG), a leading provider of investor relations and fund marketing software to the asset management industry. Jeremie Bacon, the CEO and Founder of Synap, will be the CEO of ITG, and the rest of the Synap management team will join him at the new company. The terms of the merger are that Synap is assigning all its assets to IMG in exchange for a 13.7% ownership interest in ITG. Also, in conjunction with the merger, ITG received a \$1.5 million investment from the Kemmons Wilson Family Office, the company's primary backer. Synap found it challenging to raise sufficient funds without a merger partner that would help it scale faster. While the VCapital/BVC ownership percentage has declined from 5.5% of Synap to 0.8% of the new entity (ITG), it is more likely that the merger with Jeremie Bacon as the CEO of the merged enterprise will prove successful. As

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the company develops it is also likely that additional capital investment will be needed so there should be an opportunity to increase our ownership percent as the company scales.

Below is a link to the press release announcing the transaction.

[Synap Press Release](#)

### **Camras Vision** (*Developing a New Device to Treat Glaucoma*)

Camras Vision continues to conduct medical trials across the globe. In the Philippines, 19 patients have been implanted with no new implants planned until Q2 2018. In Canada, the company is awaiting approval from regulators to begin treating the first patient. In the Dominican Republic, Camras Vision conducted site training during February and prospective patients are being screened. It is anticipated that the first patient will be implanted in April. Within the United States, Camras Vision anticipates filing with the FDA in April for an early feasibility study.

The company has agreed to extend its current financing round until April 1<sup>st</sup> and hopes to raise an additional \$1.3M. They have raised just under \$6M thus far in this Series A raise at an \$8M pre-money valuation, with VCapital and BVC raising a total of \$1.5M. Please let us know if you have an interest in participating in this financing.

### **Padcaster** (*Products to turn Smartphones and Tablets into Video Recording Studios*)

Padcaster reported sales of approximately \$4M in 2017, a 100% increase over 2016. Now with three full-time salespeople, the firm is forecasting \$10M of sales in 2018 and is projected to reach \$40M in revenue by 2020 and be profitable each year. The company has added additional intellectual property to its portfolio with the prototype design completed of a lens adaptor system that will permit almost any existing lens to be attached simply and easily to either the iPad or any Smartphone. This development is expected to be game changing, particularly when combined with four new internally developed software programs, which will enhance both margins and customer appeal. In addition, in the second quarter of this year the company plans to introduce a new product line for smartphones, the Padcaster “Verse,” aimed at the consumer market.

The Padcaster financing is still open for investment at a pre-money valuation of \$10 million.

## New Opportunities:

We are happy to announce that we have recently committed to two new investment opportunities. The first, **Xaptum**, has created a “Secure Private Internet of Things” – an Internet of Things (IoT) optimized network that connects sensors and devices (the “Things” in IoT) to the applications that monitor, analyze, and make sense of the data coming from the Things. VCapital recently invested \$150,000 in the company in the form of a SAFE (Simplified Agreement for Future Equity) instrument, and we will soon be raising an additional \$1.0 million in a Series Seed Plus Preferred round. Below is a link to a report on the company from 451 Research, a global research and advisory firm.

[Xaptum Report](#)

The second company, **Atlas Space Operations**, is developing products that modernize satellite communications by offering a system that is both more advanced and cheaper than competitors’ offerings. We are currently raising \$300,000 for Atlas in the form of a bridge note and anticipate raising an additional \$1.0 million sometime thereafter. Below is a link to our “Our Take” report on the company. ***Our goal is to fund the bridge loan investment in the next 7-10 days and demand will be high. Please let us know as soon as you***

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*can if you wish to participate, as well as give us a call or email with any questions or further information that would be helpful to you.*

[Atlas Our Take Report](#)

Below are links to an article on aspects of early stage venture capital investing and the year-end Venture Monitor report from Pitchbook and the NVCA.

[Article](#)

[Venture Monitor Report](#)

Thank you for your continued support of our firm, and feel free to contact either of us if you have any questions.

Sincerely,

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