

## Market Update:

In the first quarter of 2018, a total of 1,683 venture-backed companies raised \$28.2 billion in funding, marking the fourth consecutive quarter of more than \$20 billion invested in venture backed companies. For two consecutive quarters, early stage investments (in which VCapital primarily invests) totaled more than \$9 billion. For comparison, in all of 2010 a total of \$10.5 billion was invested in early stage, and prior to QIV 2017 there had never been a quarter where more than \$8 billion was invested in early stage deals. The median size of early stage deals in QI was \$9.2 million, an increase of 3.1x compared to five years ago. A primary reason for this increased deal size is that venture investing is shifting into later stages of the business lifecycle and thereby require increased amounts of capital. The median age of companies that raised a Series A or Series B round in QI 2018 reached 3.3 and 5.1 years, respectively, both of which are more than a year older than companies raising funds at the same stage a decade ago.

In QI 2018, the Internet sector received the most funding (\$7.3 billion), followed by healthcare (\$5.3 billion), mobile & telecommunications (\$3.5 billion), and software (\$1.9 billion). Artificial intelligence investments totaled \$1.9 billion in 116 deals during the quarter, its highest amount ever and a 29% increase from the prior quarter.

As for exits, there were 144 disclosed venture-backed M&A transactions during the first quarter, which is flat as compared QIV 2017. In QI 2018 there were 15 venture-backed IPOs, continuing the strong trend from the prior quarter. The recently passed tax legislation, including the repatriation provisions, may provide corporations with additional capital to make strategic acquisitions of venture-backed companies which could boost M&A activity in the future.

*Statistics in the Market Update section were obtained from either (a) the 1Q 2018 Venture Monitor report published by PitchBook and the National Venture Capital Association, or (b) the Q1 2018 Money Tree report published by PwC and CB Insights.*

## Portfolio Update:

Below is a schedule of the investments made by VCapital and BVC during the first quarter and the investment amounts as of March 31, 2018:

<u>Portfolio Company</u>	<u>QI 2018 Investment</u>	<u>Investment at 3/31/18</u>
Atlas Space Operations	\$505,000	\$505,000
Camras Vision	\$271,000	\$1,471,000
Intensity Therapeutics	\$0	\$2,321,667
simMachines	\$0	\$1,203,500
Synap	\$0	\$559,984
Xaptum	\$0	\$150,000

**Atlas Space Operations (*Developing Products for Space Communication*)**

Atlas modernizes satellite communications by offering a system that is both more advanced and cheaper than competitors' offerings. Atlas' advanced technologies allow satellite owners and operators to communicate with multiple satellites simultaneously and process data much faster than today's products.

During the first quarter, VCapital invested \$505,000 into Atlas in the form of a Convertible Note.

In March, NASA announced that it is collaborating with Atlas, to test its technology to determine its compatibility with NASA's ground-based communication network, the Near-Earth Network. After testing and development in the lab, Atlas will conduct live "shadow" passes of missions currently supported by NASA's network to validate whether the Atlas platform could potentially support NASA's communication networks. If these are successful, the Atlas platform could be used by NASA to deploy temporary ground stations in areas where NASA does not have permanent structures and could also supplement backup measures at current NASA ground stations to ensure mission data always reaches the ground. A link to the press release announcing this collaboration can be found here. [Atlas Press Release](#)

During the first quarter, Atlas closed its first commercial contract with Black-Sky Global and is in final negotiations with LaserLight, which combined increases the total future value of contracts closed to \$5.8 million. The company's sales pipeline has grown to over \$20 million in opportunities that are in the final negotiation phase and \$20 million in opportunities quoted.

The company is currently determining what funds it may need to raise in the near future given its current cash position and potential revenues from the above and other contracts, and expects to raise such capital by the end of the summer. We will keep you informed if/when the company determines it needs additional funds.

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

As noted in our last quarterly report, Camras is currently conducting human trials in the Philippines. Based upon these trials, the company is pursuing design improvements to the Camras Shunt to extend the life of the device. The company also expects to shortly begin trials in the Dominican Republic, as site training and clinical coordinator training has occurred, and patients are being recruited. The IDE submission to the FDA has been drafted and is under review by the company's regulatory consultants; they expect to file it with the FDA in May.

The company has retained new intellectual property counsel and is actively pursuing additional patent filings throughout the world. It also recently hired a new Senior Director for Clinical Affairs and is currently recruiting for a Director of Product Development.

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

Some of you may have been at the luncheon we hosted on April 17 where Lew Bender, the CEO of Intensity, gave an update on his company. Thus far, 11 patients have been tested, and none have experienced any adverse effects. In addition, the tumors for which the company has data appear to

be regressing. Because of the success of these Phase 1 trials in superficial tumors, the company has been approved to administer its drug into deep body tumors. Two subjects with such tumors have been treated and several more are being screened. In the next 12 months, the company expects to initiate new cohorts for their trial, which allow for various dose frequencies and volume. The company expects that the data collected this year will allow it to design a Phase 2a expansion of its tests.

As of March 31, 2018, the company's cash balance was \$5 million. They are finalizing plans for a \$9 million raise which would enable them to finish the current Phase 1 trial and complete the design for Phase 2. Details regarding VCapital's allocation and availability will be forthcoming.

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

simMachines' relationship with Accertify (American Express) continues to grow. The company is currently supporting Accertify in building and deploying the model for Grainger. In addition, Starbucks, a key Accertify customer, has requested more control over their fraud models and simMachines will be demonstrating its product to Starbucks in late May. Accertify has proposed using the simMachines fraud solution to replace its incumbent fraud provider in China. The company expects the Accertify relationship to generate a minimum of \$552k in revenue per year.

The company also has a relationship with ISID-Dentsu as a reseller of simMachines' products in the U.S. and Japan. ISID-Dentsu has built a sales pipeline with limited support from simMachines and is in negotiations to close licenses with Toyota and Abeam JBS. They earlier staged proof of concept projects with Nitto Denko, Honda, and Mizhou.

In addition to large enterprises, the company is now also targeting mid-sized enterprises as such companies are more likely to make a faster adoption decision. IT corporate budgets are increasingly including predictive analytics as a high priority item in their budgets, which bodes well for simMachines product offerings.

The company is currently raising additional capital and is in discussion with a number of investors. The CEO of the simMachines has committed to personally invest \$500,000 up to \$1 million in this financing. We will let you know the details of such financing as soon as such information is available.

### **Imagineer Technology Group (f/k/a Synap) (*Developing CRM Solutions for Customer Service Teams*)**

During the first quarter, Synap completed its merger with Imagineer Technology Group (ITG). As noted previously, Jeremie Bacon, the CEO and Founder of Synap, is now the CEO of the combined company. The company has made customer satisfaction a priority, as it recently completed a customer satisfaction survey and has started an effort to get in front of their key accounts to conduct relationship reviews. Post the merger, the company lost two engineers and is actively recruiting for four developer positions, two of whom have been recently hired. The company is also looking to hire three new people in inside sales and marketing, and potentially two new client service associates.

As of the end of the first quarter, the company lost customers representing \$271k, or 4%, of annual

recurring revenue (ARR), two of which (JP Morgan and Millennium Management) represented \$191k of the total. The company has identified other customers who have a high termination risk and is working hard to mitigate the change of them terminating their services. The company is aggressively marketing its services and products; during Q1 it generated 150 marketing qualified leads and 84 sales qualified leads, of which 64 are active in the sales pipeline and 12 have been converted to paid customers.

For further information on the new company, please follow the link below.  
[igtny.com](http://igtny.com)

**Xaptum (*Developing Security for the Internet of Things (IoT)*)**

Xaptum is the world's first hardware security provider for the IoT. The company's products help organizations by providing a secure, scalable, agile and robust private network to exchange data between devices and the cloud.

During the first quarter, VCapital invested \$150,000 in Xaptum in the form of a Simple Agreement for Future Equity (SAFE).

The company is currently in negotiations with Dell, ADLINK, Intel, and Unicom as possible customers for its product.

The company is currently raising a \$3.5 million Series Seed Plus Preferred round, of which VCapital's allocation is \$1.05 million, of which \$800k has been committed. Please let us know as soon as possible if you are interested in participating in this financing and we can provide you the applicable documents.

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

Padcaster was recently the live broadcasting partner at the fifth annual Omaha Dialogue. This event, which is held in conjunction with Berkshire Hathaway's shareholders meeting, attracts top-tier institutional investors and VCs in China. The live feeds were broadcast to a wide audience in the global investment community and was a great opportunity for Padcaster to elevate its brand.

We expect to finalize our investment in the company very shortly as we are currently reviewing the investment documents for our investment.

**Companies in Due Diligence:**

We continue to see a large number of potential investment opportunities. One of the more promising opportunities is a company developing artificial intelligence technology to be applied to search that strives to not only know the word or concept that it's trying to describe, but deeply understand its context and the unique object that is being described. Simply put, it's making computers, which historically have only been able to recognize phrases and repeat what's been told to be able to answer complex questions as well as continue to learn on its own from inputted information. The potential market for this type of product is very large. We will let you know if/when we commit an investment



to this company.

We encourage you to visit our website ([vcapital.com](http://vcapital.com)) to learn more about our current portfolio and investment opportunities.

We appreciate your continued support of VCapital, and please feel free to reach out to either one of us should you have any questions.

Sincerely,

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