VCAPITAL

As VCapital approaches the middle of its fourth year, we are pleased to report that our investment strategy appears to be working extremely well. Our investment portfolio continues to expand, and the companies are performing well.

Key elements of the VCapital strategy include:

- Early stage focus, with follow-on investments limited to ventures whose prospects remain exceptional.
- Extreme selectivity. We review 100-200 ventures for every one selected for investment. We invest only in ventures that we believe have home run potential.
- Focus primarily on information technology, the key driver of economic progress, and healthcare, which accounts for 17% of US GDP.
- Interest especially in Midwest-based ventures. We seek to capitalize on the Midwest's market-leading investor returns, enabled by the region's more conservative investors relative to Silicon Valley as well as lower costs relative to the coasts and, in turn, lower venture development costs.
- Bias toward business-to-business versus direct-to-consumer ventures due to their more reliable profit-generating business models, enhancing successful exit odds.

This approach has served investors well in earlier Batterson-led venture capital firms, and we expect it to result in very attractive returns for VCapital investors.

Portfolio Update

VCapital's portfolio currently consists of 7 ventures as well as opportunity to invest in VCapital itself and thereby its total portfolio.

Below is a schedule of the investments made by VCapital (along with dollars invested by BVC in these portfolio companies) before 2019, during Q1 2019, and the investment amounts as of March 31, 2019. An estimated $2 million raise for Raydiant Oximetry is currently in process, scheduled to close at the end of May. Additional investment opportunities will be offered over the next several months.

Portfolio Company	Investment @ 12/31/18	Investment During Q1 2019	Investment @ 3/31/19
Atlas Space Operations	$2,305,000		$2,305,000
Camras Vision	$1,471,000		$1,471,000
Imagineer Tech. Group (Synap)	$559,984		$559,984
Intensity Therapeutics	$4,036,666		$4,036,666
Padcaster	$735,000		$735,000
simMachines	$1,838,500	$552,500	$2,391,000
Xaptum	$1,067,500		$1,067,500

While it is too soon to claim victory, the prognosis is extremely encouraging. Of the seven portfolio companies, two look like potentially huge winners -- Atlas Space Operations and Intensity Therapeutics. Three more continue to progress well and exhibit solid success potential -- Camras Vision, Padcaster, and simMachines. For Imagineer Technology Group (successor to Synap) and Xaptum, it is too early to project outcomes.

Highlights for each of these 7 follow.

Atlas Space Operations *(Innovative Products and Services for Satellite Communications)*

Atlas is establishing itself as a disruptor in the marketplace, expected to progress over the next year from basic market penetration into a position of market creation and market restructuring. The company's growth opportunities are tied closely to market availability of small satellite launch capabilities.

Recent developments in the commercial satellite market are very encouraging for the company. Atlas' recent sales activity shows that commercial customers recognize the value of its technology to manage and automate large satellite constellations. Atlas is attracting "mega-constellation" operators because of its unique solutions and demonstrated ability to scale as customers' own business models mature and scale. Examples include:

- Selection by Sky and Space Global to provide network services for their eventual 200-satellite constellation of communications satellites.
- Awarded contract with PlanetIQ to provide network services for their planned 40-60 satellite constellation of Earth Observation satellites, with first satellites scheduled to launch in November.

The company's progress in selling important US government pilot programs that could develop into major revenue opportunities is especially exciting. Highlights include:

- Already working with the National Oceanic and Atmospheric Administration, a scientific agency focused on conditions of the oceans and atmosphere.

- Awarded a contract with the US Air Force for rapid prototyping of the Atlas LINKS antenna system to meet DoD Multi-Band Multi-Mission requirements. Once the government sees sufficient prototyping progress, they may at any time decide to go to production. The company is receiving positive feedback from the USAF that its approach is one they want to take to production. While obviously not guaranteed, if the USAF does decide to move to production, a 5-year contract worth as much as $100 million is anticipated.
  ATLAS article regarding USAF contract

- Chosen by the Air Force Research Lab and the Catalyst Accelerator to participate in the Resilient Space Communications Cohort. See announcement.
  Air Force Research Laboratory and the Catalyst Accelerator Announce Third Cohort

- NASA awards Atlas with contract for the Space Communications and Navigation Program's Space Relay Partnership and Services Study. Press release here.

- Partnership with Raytheon BBN on a USAF-sponsored project to demonstrate proof of concept regarding how the USAF can leverage commercial Low Earth Orbit satellites to augment DoD communications capabilities. Progress through the USAF multi-phase procurement process is encouraging, with the Atlas/Raytheon team understood to be the leading project contender. If awarded, the project will last 9 months at an estimated $1M. After the 9 month pilot period, a follow-on operational contract would be expected, valued at up to $500M (split between Atlas and Raytheon) over 5-8 years.

- Selection as the service provider for Falcon-ODE, an experimental satellite program developed by the US Air Force Academy and funded by the Air Force Research Lab. This is expected to establish Atlas as a viable pathway toward Department of Defense adoption of commercial services providers.

In response to these business development successes, the company is accelerating product development and capacity scaling to meet emerging demand. During Q1 it integrated and activated antenna sites in Finland (establishing presence above the Arctic Circle) and Guam (providing transmission reception capacity over the Pacific). It also initiated its "Polar Express" program, integrating antenna sites in the Arctic and Antarctica, to serve polar orbiting constellations.

In addition, Atlas has established collaborative agreements with owners of existing teleport antenna capacity. This expands its network capabilities significantly, which will be key to serving mega-constellation operators. Such collaborative partners include:

- US Electrodynamics, through which 5 of that company's existing 9 teleports are available to Atlas for network services. The agreement allows Atlas to sell capacity on their partner's existing antennas as if they were Atlas' own, instantly extending Atlas' global presence to Australia, South America, southern Africa, Europe, and the Arabian Peninsula.
- Speedcast, to jointly pursue the Low Earth Orbit (LEO) IoT market. Speedcast is a global GEO Teleport and Telecommunications services provider within the Maritime, Energy, Mining, Broadcast, and Government markets among others. As it is doing with US Electrodynamics, Atlas can leverage Speedcast's current global infrastructure and interconnectivity to rapidly scale to meet the demands of current and future LEO customers.

By June, Atlas' technology platform and expanded physical network will be responsible for over 100 satellite passes per day (i.e. the number of times a given satellite is in communication with one of Atlas' ground stations). The company is on track to scale to as much as 1000 satellite passes per day by Q1 2020.

To accelerate further network growth along with multiple commercial and governmental pilot programs, Atlas is implementing a supplementary "Series A-4" fundraising round in which VCapital is participating, targeting to close in June. Our allocation is approximately $1m out of a total raise of around $3m. We anticipate this round will have high demand and it will close rapidly. Please be on the lookout for an email in the coming weeks for specifics.

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

On April 17, the company announced that the FDA had accepted its request for Fast Track Designation (FTD) for the further testing/development of its proprietary drug, INT230-6, for triple negative breast cancer (TNBC). TNBC patients have the worst outcome of all breast cancer patients, and tens of thousands die each year.

More broadly, following treatment of 27 patients in Phase I clinical trial during 2017-18, an additional 8 patients were treated plus one earlier one re-treated during Q1 2019. Product safety continues to prove excellent. While Phase I is focused on confirming product safety, substantial product efficacy has also been apparent in a number of patients, which is extremely exciting.

Based on VCapital industry research, FTD can reduce time to FDA approval by 1 year over drugs without an FTD. We believe that this FTD for TNBC might facilitate the FDA's granting INT230-6 Breakthrough status for TNBC, and possibly for other tumor types for which there is no effective treatment, once additional positive data is available. Our research shows that Breakthrough status could lead to FDA approval during phase II (or even late in phase I).

Management continued to press ahead urgently during Q1, including:

- Beginning to design phase II studies, to test efficacy.
- Initiating a manufacturing program to enable a 4-fold increase in INT230-6 batch size.
- Initiating research measurement of biomarkers that could demonstrate improved immunity activation.

- Stepping up commercial efforts -- meeting with multiple pharmaceutical companies (under strict confidentiality agreements) to discuss partnering and collaboration; and meeting with financial industry leaders to build company awareness that might accelerate and/or increase the company's ultimate exit value.

To be clear, medical research is never guaranteed. The timing of milestones is difficult to predict. However, INT230-6's FTD along with the above initiatives increase success odds.

For additional material on Intensity, please listen to the 25 minute podcast available on Soundcloud.com by clicking here. The interview was conducted by Forbes, the iconic business media company, and Advantage, one of the largest business book publishers. The two groups partnered to create ForbesBooks, which has a Radio division as well.

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

Camras Vision, led by CEO Ray Krauss, a 30+ year medical device veteran who led the operations effort at Summit Technologies, the first company to bring PRK/LASIK to the market, is focused solely on its innovative, superior glaucoma-treating shunt. Glaucoma is a leading cause of irreversible blindness worldwide, affecting 4 million in the United States and a projected 80 million people worldwide by 2020.

Previously reported filter clogging issues have been resolved. A second trial in Manila began in February, with the new filter design implanted in 4 patients. At least 6 additional patients are being recruited to complete this small study. Unfortunately, a larger 30-patient multi-center trial in Mexico has been delayed due to the election of their new President and subsequent changes in regulatory requirements. The anticipated start date for that trial is TBD.

Regulatory submission with the earlier product design was completed in Spain and Poland, and has already been approved by Spain. An amendment now needs to be filed due to the device modifications since the original submission. Pending government approval to the amendment, the estimated start date for the modified device trial is Q4 2019.

Camras' primary engineering focus now is on reducing mucin formation in the eye. The company is currently pursuing two promising approaches. Engineering improvements are expected to be implemented in Q2 2020.

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

This company is an "outlier" in VCapital's portfolio. Its basis for projected success is astute recognition of market needs along with clever product design and engineering, including a number of patents, but not as fundamental technological innovation as characterizes the other portfolio companies (e.g. new advances in cancer treatment, space/satellite communications).

2018 revenues, generated solely by the tablet accessories line and with very limited marketing and sales resources, were $3.7 million. Q1 2019 sales continued to grow, gross margins remained a robust 70%+, and the company delivered a positive bottom line. Frankly, we believe Padcaster has barely scratched the surface, with tremendous growth potential through substantive marketing and distribution programs and rollout of its smart phone accessories line, to capitalize on consumers' ubiquitous smart phone video use.

We believe more aggressive, faster growth would enhance the company's chances for sustainable market leadership and timely exit for outstanding investor returns. VCapital is working with Padcaster management to explore the opportunity for a much larger follow-up fundraising round in the near term to capitalize on its exceptional potential.

simMachines *(Artificial Intelligence Software that Provides the Reason Why for its Predictions)*

Leveraging further product development progress, the company has been pursuing a more focused marketing and selling program with encouraging early results. The greater focus is reducing selling complexity and the number of proof-of-concepts required, shortening sales cycles and delivering value faster for partners and customers.

The sharpened focus is also accelerating inroads with major customers, who had been holding off working with simMachines while the company was having to demonstrate its value first with smaller customers. Examples of recent major customer progress include:

- Commitment from Amex Accertify for a behavioral identity product
- Deloitte Innovation Center licensing simMachines for a key corporate initiative
- License negotiations now being finalized with Transunion
- Opportunities with Citigroup advancing rapidly.
- Contract discussions now advancing with two of the world's five largest advertising/marketing services providers, Dentsu and the Interpublic Group.

During Q1, simMachines was selected to receive the 2019 Edison Innovation Award for Applied Technology for Artificial Intelligence. It was chosen from among 7,000 companies globally by a panel of more than 3,000 leading experts.

In April, simMachines announced the addition to its Board of Directors of: (a) John Morris, former CEO of Cleversafe, who led that company through major business ramp-up and then its sale to IBM in 2016; and (b) Jeff Liesendahl, Managing Partner at Island Peak Capital, who earlier was CEO/Co-Founder of Accertify, a leader in fraud prevention which was acquired by American Express in 2010.

Imagineer Technology Group/Synap *(customer relationship management platform that facilitates information sharing and collaboration)*

The first quarter of 2019 was a productive one on many fronts. The company made meaningful progress on its product development road maps for each of its three product lines, added 20 new clients to the Clienteer and WebVision product families, and initiated trials of Synap with a number of large asset allocators, including Australia's largest superannuation fund ($450 billion AUD).

Imagineer's early growth has been concentrated in the hedge fund industry, posing risk in light of that industry's volatility. Encouragingly, the broader hedge fund industry seems to have put up solid numbers recently relative to the overall asset/investment management market performance. Heading into the second quarter, management is hopeful that the recent positive trend will continue, encouraging hedge fund managers to loosen their purse strings.

While the pipeline for new fund launches appears to be healthy as well, it is taking new firms longer to raise enough money to make a serious run at building a business. Further, those that do launch are doing so with smaller amounts of money, and so deal sizes continue to be small and the sales cycle remains long.

The company therefore continues its efforts toward de-leveraging itself from the hedge fund vertical. Offsetting that de-leveraging, Imagineer continues to make inroads with asset allocators through its Synap line.

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

After hiring additional staff in Q4 2018 to launch its product, Q1 2019 focus has been on early business development efforts. The sales pipeline has several projects in the works with high probability of converting, providing encouragement regarding product-market fit. Some of those early projects include:

- US military-related project through a third party partner for which a trial effort was authorized and trial is already underway. The third party partner is also in discussions with the Australian military.
- Major railroad/transportation company project, where cybersecurity is a big issue. The initial project phase is about to be authorized, through which the customer hopes to qualify a viable large-scale solution by the end of 2019.
- Channel partner project with a major manufacturer of IoT gateways. This prospect would intend to sell its gateways with Xaptum technology to provide a secure IoT solution for its customers. Commercial terms for such a joint offering are currently being discussed.

Other pipeline opportunity prospects include an Illinois municipality (for a Smart City project), a major building automation and controls provider, major water companies (public and private), and other manufacturers of IoT gateways.

Opportunities Currently in Due Diligence

Entigenlogic

entigenlogic is an Artificial Intelligence software company whose breakthrough Natural Language Understanding (NLU) technology enables computers to read and extract information from text, thereby achieving an understanding of concepts and relationships. Simply put, the company’s breakthrough technology enables computers to synthesize information and thereby seemingly think like people. Its first application, *Franklin*, is designed for analysts (e.g. government intelligence analysts, business analysts) who must read and understand large volumes of text-based information to find critical details revealing potential advantages or threats.

SentiAR

SentiAR is a digital healthcare software/device company bringing innovation to clinical practice in interventional procedures. This venture, initially conceived at Washington University in St. Louis, MO, has developed the first 3D visualization platform using real time holography of the patient's anatomy and catheter location. This provides the clinician with superior patient internal visibility, enabling faster, more effective, and safer patient care.

Market Commentary

Venture funding caught its breath during Q1 2019, following dramatic growth since 2012. Per the Q4 2018 Pitchbook-NVCA Venture Monitor, during 2012-2018 venture funding grew 21%/year, with an especially strong +58% in 2018. Per the PWC/CB Insights Money Tree Q1 2019 Report, venture funding during Q1 2019 declined 36% versus Q4 2018, to $24.6 billion.

We attribute the Q1 decline in part to 2018's breakneck growth, but in part as well to venture capital industry and market focus on the many anticipated unicorn IPO's. Following recent IPO's for Lyft, Pinterest, and Zoom, several more are coming near term to capitalize on unexpectedly strong early 2019 stock market conditions.

Recent trends to fewer but larger deals continue. The PWC/CB Insights Money Tree Q1 2019 Report showed 1,279 VC-funded deals in Q1, down from 1,328 in Q4 and down even more from an average of 1,510 per quarter during the 6 previous quarters. Q1 average deal size of $19 million, while below Q4 2018's average $29 million, was still greater than average deal size in all but one of the previous 6 quarters.

The trend to larger deal sizes is occurring at all deal stages. We believe that the reverence now accorded entrepreneurs and start-ups is driving greater friends-and-family cash accessibility, helping start-ups go further before needing more formal support. As a result, initial formal seed financings and the Series A deals that follow are getting bigger. Median seed financings are now approximately $2 million, while median A rounds are in the $7 million range, generally requiring multiple venture capital firms.

The percentage of all deals that are seed deals has also declined, down from the 30% range before 2018 to 25% during the second half of 2018 and 24% for Q1 2019. As increasing dollars have gone to expansion and late stage deals, industry focus on early stage deals seems to have waned, which is helping VCapital see more high-quality early stage deals.

Exits during Q1 continued to occur primarily through M&A, with 154 M&A exits during the quarter versus just 15 through IPO. This is like previous periods and supports VCapital's interest particularly in ventures where likely potential M&A suitors are apparent from the start.

Ten more ventures reached unicorn status (i.e. valuation of $1 billion+) during Q1. While down from 17 and 21 ventures reaching unicorn status during the previous two quarters, the number of newly minted unicorns still exceeded unicorn exits, increasing the number of US-based unicorns to 147, up from 139 at 2018 year-end and 112 at the end of Q1 2018. These unicorns' ultimate exit outcomes and hence returns for late stage investors are anyone's guess. We will continue to focus on early stage deals while valuations are low and investor return has greater potential.

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

Sincerely,

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