



## Market Commentary:

Events during 2018's 4<sup>th</sup> Quarter remind us of the inevitable vicissitudes of the equity markets. A recent CNBC headline captured it dramatically: "The stock market's epic fourth quarter reversal is one for the history books." The S&P 500's 19.8% decline in just 11 weeks was certainly noteworthy.

But it was hardly unique. The S&P 500 lost 37% between January 1, 2008 and January 1, 2009. And pity the poor folks who stuck with earlier Wall Street darling GE as its price plunged from \$30.05 at the end of 2016 to \$7.57 at year-end 2018.

Oil has experienced similar disappointment, and its latest extended price plunge has persisted for several years. The year-end price of a barrel of crude, which had ranged between \$92 and \$99 during the period 2010-13, has ranged between just \$37 and \$60 at year-ends 2015-18.

Broad financial markets have, of course, enjoyed buoyant periods as well. As we gaze out to the future, though, we see less likelihood of the sorts of broad, sustained growth experienced since the 1980's. Demographics will be a powerful constraint, as American and European populations age, leaving fewer people in prime working as well as consuming ages. Even China will face that constraint, as its one-child-per-family policy from 1979 through 2015 comes home to roost.

It's not all gloom-and-doom, though. A still shining economic light is the opportunity for growth through innovation. Innovation has always been a key catalyst for economic growth. Consider the growth in recent decades powered by innovators whose names have become household words – Facebook, Apple, Amazon, Netflix, and Google.

Future economic growth will depend increasingly on breakthrough innovation. And fortunately, there's no end in sight for wealth-generating opportunities. We may not know exactly who will wind up on top, but we are confident that advances in artificial intelligence, robotics, satellite communications, and healthcare will enable further economic gains societally, while creating wealth for investors in the future marketplace winners.

In particular, we believe that artificial intelligence will illuminate and inform all innovation and vastly accelerate the progress and pace of innovation. We expect that the convergence of new technologies – e.g. artificial intelligence in conjunction with further advances in DNA related technologies – will enable greater innovative power than the sum of its parts.

And importantly, innovation not only creates wealth for its creators and owners. It also enables economic advances for poor societies that had earlier been left behind, serving as an engine of both economic and social progress.

Our role at VCapital is to identify and bring to you the innovators we believe hold the greatest potential for making a real difference for society while building wealth for their investors.

## Portfolio Update:

Below is a schedule of the investments made by VCapital and BVC during the fourth quarter and the investment amounts as of December 31, 2018.

<u>Portfolio Company</u>	<u>Q4 2018 Investment</u>	<u>Investment at 12/31/18</u>
Atlas Space Operations	\$1,800,000	\$2,305,000
Camras Vision	\$0	\$1,471,000
Intensity Therapeutics	\$1,715,000	\$3,374,667
Padcaster	\$0	\$735,000
simMachines	\$0	\$1,838,500
Synap	\$0	\$559,984
Xaptum	\$0	\$1,082,500

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

On November 7, 2018, VCapital Atlas Space, LLC invested an additional \$1.8M in the Series A round of Atlas, bringing the total VCapital investment in Atlas up to \$2.3 million.

During the fourth quarter, the Department of Defense contracted with Atlas to have Atlas track its FalconSat-6 satellite. This is the first time in history the Department of Defense has contracted with a private enterprise for satellite command, control, and operations. To date, Atlas has flawlessly tracked the satellite from its separation from the launch vehicle. Below is a link to an article further discussing this development.

#### [Atlas article regarding DOD contract](#)

Atlas was also notified by the United States Air Force (“USAF”) of its intention to award to Atlas a prototype development contract worth \$1.5 million over 12 months, with the possibility of it leading to a \$100 million contract opportunity. In addition, during the quarter, Atlas was selected as a ground service provider for Sky and Space Global (“SAS”). SAS is planning to launch a 200-satellite constellation of communications satellites to connect the severely underserved population of the globe with affordable messaging and, eventually, internet data. Atlas is contracted to provide telemetry, tracking and command systems and gateway terminal services through the first four years of operations. The initial value of this contract is over \$1.0 million with options to expend organically.

In addition to these initial commercial achievements, the company’s prospects are buoyed by recent major rocketry advances that may increase even more significantly the numbers of satellites launched that could need the services Atlas provides. In December, SpaceX’s Falcon 9 carried the largest number of satellites ever stacked on top of a U.S. booster (more than 60). In November, U.S.-New Zealand startup Rocket Lab successfully blasted its first commercial payload (six satellites) into space. That company’s goal is to reduce substantially the cost of launching smaller satellites, opening the market to further satellite traffic.

Finally, Atlas recently hired Sean Casey as its VP of Business Development. Sean brings more than 25 years of leadership experience and subject-matter-expertise. Below is an article discussing Sean’s hire at the company.

#### [Atlas article regarding Sean Casey](#)

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

The filter clogging issues the company previously experienced have been resolved based on laboratory and animal testing; it will next be tested in humans to verify its resolution. The revised shunt design (Rev 8) has been documented, tested and implemented in manufacturing, and will be used in the upcoming Manila and Mexico trials.

The first Manila trial has been completed and the new Manila trial is scheduled to begin in late February. Regarding the Mexico trial, three surgeons have been recruited for a multi-center trial (30 patients). The regulatory approval for this trial is in process and the target start date is April 2019.

Because of the delays associated with the clogging issues mentioned previously, the company plans on raising a \$3.0M+ Series A-1 round in early 2019. These funds will provide the company with enough cash through QIII 2021. Details will be communicated to our investors in the near future.

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

Intensity continues to make solid progress. 20 patients were treated during 2018, a significant increase from the 7 treated in 2017. Thus far, there have been only two instances where a patient has experienced more than a moderate adverse event, and even both of those were not significant. Even though this initial clinical trial is focused on confirming product safety, substantial product efficacy has also been apparent in a number of patients, which is extremely exciting. While still early, we are very encouraged by the results and the direction of this company. The company's fourth quarter report can be found below.

[Intensity QIV 2018 Report](#)

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

Padcaster reported strong year-end results, as follows:

- Revenue of \$3.7 million for the year, a 43% increase over 2017
- Revenue of \$862k for QIV 2018, a 32% increase over QIV 2017
- 1,662 customers in 2018 vs. 910 in 2017, an 83% year-over-year increase

The above results show that there is good demand for Padcaster's products. The sales momentum the company generated early in the year continued to accelerate during the holiday season, fueled by global demand for the company's existing products as well as new products: The Verse-Go product and the Padcaster Parrot Teleprompter Kit.

In 2019 the company will focus on expanding its product line with new, higher margin products, accessories and kits. Padcaster will also focus on launching and growing its new software, app, training, and service offerings.

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

simMachines ended 2018 with revenue of \$771k, with current monthly recurring revenue of \$82k. Several contracts which were expected to close in December, totaling \$924k, are now scheduled to close in early 2019.

The company has several initiatives for 2019, including enhancing their GUI "workbench," releasing an audience-centric ad effect measurement tool, and developing several Dynamic Predictive Audience tools. As mentioned in prior reports, the company has a long sales cycle characteristic of selling to large corporations. To help with this, the company is increasing its "sales funnel" of prospects, including some

smaller businesses that can respond more quickly and thereby provide further learning, and will soon be launching its first ad campaign.

Finally, simMachines has been selected as a recipient of the 2019 Edison Award in the Applied Technology Artificial Intelligence category. This award recognizes innovation and excellence in the development, marketing and launch of new products and services.

Below is a link to simMachines fourth quarter report.

[simMachines QIV 2018 Report](#)

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

The company has completed their product and is now ready to go to market. The company hopes to have product trials with five potential major customers during the first half of this year. Xaptum is continuing to build out its sales funnel and is having numerous preliminary conversations with potential clients. The company is truly an early stage startup, seeking to capitalize on major technological innovation to address what is clearly a major societal need, as billions of devices connect to the Internet.

### **Companies in Due Diligence:**

Promising potential new investments currently in due diligence include: (a) an artificial intelligence company currently performing trials with the government, (b) a medical device and software to help doctors detect and diagnose cancer much earlier, thereby significantly improving the probability of patient survival, (c) a medical device company developing a user-friendly device to compete with EpiPen, (d) a company attempting to disrupt the wine and spirits distribution industry, and (d) a diagnostic company working on a test for colon cancer, to compete with Cologuard, using blood instead of stool samples.

Below is a link to a report we authored discussing current trends in the Venture Capital industry that we think you will find informative.

[Report on Trends in the Venture Capital Industry](#)

### **New Team Member:**

We are happy to announce that Rich McMenamin has joined the VCapital team as VP – Business Development. Rich’s primary responsibilities are to further broaden the investor base of high net worth individuals seeking access to top grade venture capital investment opportunities. This is important to all VCapital investors, as a broadened investor base will enable the firm to pursue high potential ventures whose cash needs may exceed our current fundraising capacity, especially as even early stage deals are growing in dollar size. A broadened investor base will also help us respond to situations where fundraising speed is important. This greater fundraising capacity will better enable VCapital to pursue the best deal opportunities on behalf of our high net worth individual investors.

Drawing on his extensive industry experience in multiple sectors (financial services, electronics manufacturing, graphic arts, industrial distribution), Rich has a unique entrepreneurial background of starting, operating, and selling businesses. He has also served in an advisory capacity in the professional services industry, working with a wide range of technology companies, from start-ups to established middle market companies and publicly traded entities. For 5 years at BDO and 8 years at CLA - both top 10 public accounting firms - Rich concentrated his activities in the private equity marketplace, becoming National Director of Business Development and helping lead the growth of CLA’s Transaction Services team.

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

Sincerely,

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