

Market Consultation

on the Defence Direct Investment Programme

SMART
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AS SMARTCAP

Sepise 7, 11415 Tallinn, Estonia

Registry code 12071991

info@smartcap.ee

www.smartcap.ee

MARKET CONSULTATION

AS SmartCap, a fund management company established under the laws of Estonia with registry code 12071991 (hereinafter **SmartCap**) is intending to launch an [Investment Programme for Defence Direct Investments] (hereinafter the **Programme**) in order to invest in companies from seed stage to mature companies with export and growth potential that develop technologies and/or manufacture products intended for military and/or dual-use purposes. SmartCap Defence Fund (hereinafter the **Defence Fund**), a fund managed by SmartCap and with total assets at the time of establishment of €100 million, would make an investment in an amount of **€500,000 to €10 million** per company over one or more investment rounds (hereinafter the **Investment(s)**). The Programme shall be open until Defence Fund resources available for investment are exhausted.

The principal purpose and objectives of the Investments will be to develop the Estonian defence industry, contribute to innovation and economic growth, and create economic impact in Estonia, thereby generating market level return from the Investments. For this purpose, Investments shall be made into companies that develop or produce products and technologies or provides services for military use or dual-use with both civil and military use cases (hereinafter **Defence Companies**).

SmartCap invites interested parties to review and **provide feedback on the draft Main Terms of the Programme**. The indicative assessment criteria in Annex 1 serves an informational purpose. The final version of the Main Terms published for the Programme may differ in part or in whole to this draft version published for market consultation.

All comments should be sent no later than **22 November 2024** in English via e-mail to investments@smartcap.ee with a subject line *“Investment Programme for Defence Direct Investments - Market Consultation”*

SmartCap will hold a **market consultation presentation on 13. November 2024** for parties interested in participating in the Programme. Please contact SmartCap directly at the e-mail address provided above, if you are interested to register for the event. Registered participants will receive details of the event by e-mail.

MAIN TERMS OF THE INVESTMENTS

Subject	Term
Requirements for the investee company	<p>The company shall be established as a private or public limited company under the laws of Estonia or similar form in a NATO member country acceptable for SmartCap and according to best industry practices.</p> <p>The (a) team members or related entities of the company, or (b) investors of the company shall not (i) be established or operating in, or (ii) their shareholders or investors (including the UBOs of such investors in case of legal entities) be the citizens of Russia, Belarus, Iran, or the Democratic People's Republic of Korea.</p>
Investment	<p>Direct investment carried out by the Defence Fund shall be in equity or quasi-equity form through capital increases (including SAFE agreements, convertible loans and other similar convertible instruments).</p> <p>Investments will be carried out in:</p> <ul style="list-style-type: none"> • venture capital investment rounds starting from seed stage funding, • private equity investments in expansion capital funding (also called growth capital), • starting traditional companies, <p>with a focus on non-controlling stakes. Other types of deals such as joint ventures might be considered at SmartCap's sole discretion.</p> <p>Investment rounds should be led by an independent private investor(s). The target size of the Investment is EUR 500,000-10,000,000 over one or more financing rounds. SmartCap may selectively lead or co-lead investments.</p> <p>SmartCap may, at its sole discretion, decrease or propose to the company to increase the Investment size, provided that the state aid requirements described below continue to be met.</p> <p>The aggregate holding acquired on the account of the Defence Fund in the company over one or more investment rounds, either directly or indirectly through other investment funds, may not exceed 49%.</p>
Independent Private Investor Contribution	<p>At least 50% of the aggregate amount of capital raised in the investment round shall be raised from private investors, whereas this condition is not absolute and shall be evaluated on a case-by-case basis, with final determination subject to the discretion of SmartCap.</p> <p>At least 30% of the aggregate amount of capital raised in the investment round shall be raised from private investors that are considered "independent private investors" within the meaning of the Commission Guidelines on State aid to promote risk finance investments (2021/C 508/01)</p>

	For the avoidance of doubt, neither the Defence Fund nor persons or entities directly or indirectly associated with the company shall be considered an 'independent private investor'.
State aid	No state aid, the Investment is made as a <i>pari passu</i> investment (i.e., the Investment is made (i) at the same time and (ii) under the same terms with independent private investors whose (iii) commitments hold real economic significance).
Follow-on investments	After the Investment is carried out, the Defence Fund is allowed, subject to negotiations with the Company, to provide additional follow-on investments provided that the state aid requirement described above is met (<i>pari passu</i> investment) and the follow-on investment promotes the objectives set out for the Programme.
Defence Company	A company that produces or develops products and/or technologies or provides services for either (i) exclusively for military use; or (ii) for dual-use applications with both civilian and military use cases.
Deal Flow Management and Prioritization	<p>SmartCap may prioritize investments to companies:</p> <ul style="list-style-type: none"> a) whose products or technologies are exclusively for military use; b) that contribute directly to the development of the Estonian defence capacity. <p>Notwithstanding the foregoing, SmartCap shall retain sole discretion when allocating Investments and may use additional considerations when prioritizing its Investments.</p>
Investment Terms	<p>The Investment shall be made based on the customary economic and commercial terms applicable to venture capital and private equity investments according to the best market practice (e.g., liquidation preference, anti-dilution protection, board seats, reserved matters, founder vesting and other undertakings, etc.).</p> <p>The lead investor or another qualified co-investor participating in the investment round is expected to negotiate and agree on the economic and commercial terms with the Applicant.</p> <p>SmartCap has the right to selectively lead investments or renegotiate any terms agreed between the Applicant and such lead or co-investor, including to agree on any additional terms that were not set in place by the lead or qualified co-investor.</p>
Sustainability	The assessment of Defence Companies shall take into consideration the existing or proposed ESG management system that is used to systematically address environmental, social, and governance related risks when carrying out its activities.

Reporting	The company who has received an Investment shall provide at least quarterly and annual financial and operational reporting and all additional information which may be required by SmartCap or by the applicable law or other regulations in effect from time to time or which shall otherwise be stipulated in the Investment Documents. The investee shall also provide annual financial statements in accordance with the applicable law.
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Annex 1 – Assessment Criteria

As part of the assessment each company shall be evaluated based on the Assessment Criteria below:

#	Assessment Criteria	
1	Team	<ul style="list-style-type: none"> • Founders, senior management and key persons (position in company, prior professional experience, time commitment and motivation, sector-specific experience) • Operational, technical and financial capability of the team and team cohesion • Need to hire additional team members
2	Investors and ownership	<ul style="list-style-type: none"> • Current cap table / existing shareholder structure • Governance structure (control of decision making) • Committed and potential investors in current investment round (background info of significant investors, their previous experience and non-financial value for the company) • Lead investor (if any) or qualified co-investor
3	Business model	<ul style="list-style-type: none"> • Business model description • Product Market Fit (PMF) • Unique Value Proposition (UVP) • Go-to-market strategy • Business partners and relevant external stakeholders (government, universities, suppliers, etc.) • Scalability potential, including export potential • Established or proposed ESG management system
4	Product/service/technology	<ul style="list-style-type: none"> • Uniqueness of product/service • Competitive advantage of the product/service • IP protection / freedom to operate
5	Market	<ul style="list-style-type: none"> • Addressable market and market growth potential • Paying and target customers, their reference and diversification • Market structure and competition • Regulatory & political risks
6	Deal terms	<ul style="list-style-type: none"> • Valuation (pre-money valuation of current investment round and valuation methodology; info about previous valuations if available) • Investment round and target amount • Use of funds • Other investment terms (Term Sheet if available) • Planned timeline
7	Relevance to the Programme objectives	<ul style="list-style-type: none"> • Description on how product/service/solution will develop the Estonian defence industry, contribute to innovation and economic growth, and create economic impact in Estonia

8	Metrics and financials	<ul style="list-style-type: none">• Current financial data (balance sheet, income statement, cash flow statement)• Financial forecast• Relevant KPIs and metrics
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