



# Where Does VC/PE Fit into India M&A Transactions?

India M&A Forum 2007  
26-27 July 2007, Mumbai India

Innovative Ventures Inc.  
Haslett, MI. USA  
Moscow, Russia

Thomas Nastas  
President  
Tom@IVIpe.com  
www.IVIpe.com

# Where Does VC/PE Fit into India M&A Transactions?



# Today's Message

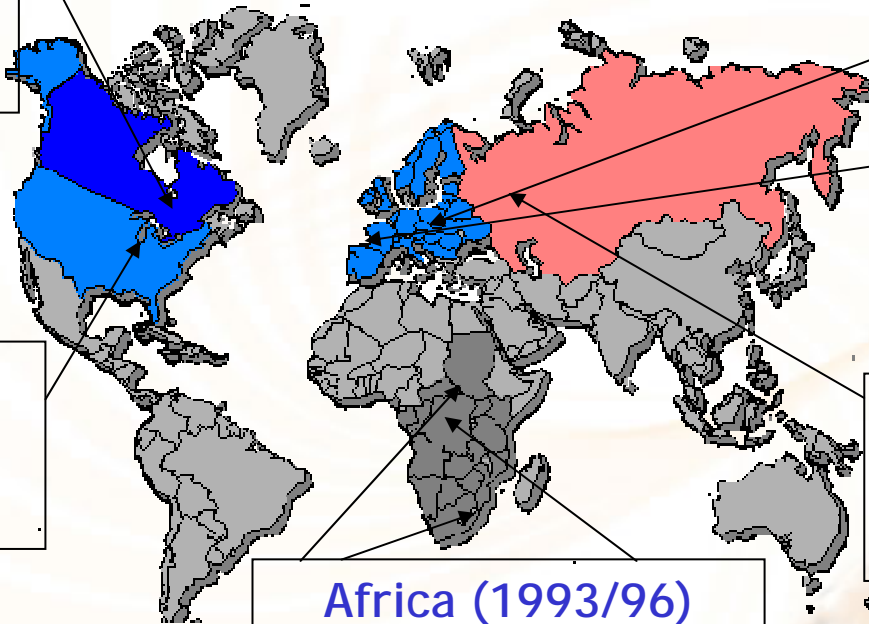
1. VC as Ingredient in M&A Ecosystem
  - Provides the targets for Acquirers as seek:
    - New Growth, access new markets, fill gaps in product line & Corporate capabilities
    - Statistics-Growth in India
2. Contributions of VCs
3. GoForward Plan-Spur More Deals
  - Strategies & Structures
  - How Do Supply Chain Needs as Clusters Fit into the Picture?

# IVI History-Direct Invest & Advisory

**Canada (1992)**  
 C\$100MM-Canadian  
 Bus. Dev. Bank



**USA (1986)**  
 The Michigan Product  
 Dev. Fund (\$5MM)



**Europe (1992/94)**  
 TP Fund, \$10MM-  
 EU, \$-Financière  
 St Dominique,  
 Paris



**Russia (1997)**  
 HP LP, \$30MM-EBRD &  
 USAID



**Africa (1993/96)**  
 E. Africa \$5MM, Sub-  
 Saharan, \$200MM, South  
 Africa, \$30MM, IFC/WB

# IVI in Russia & Russian Tech

- 1997: Transact Russian VC Deals-Infrastructure
- 2001: IVI's Russian Technology Investment Forum (2 day biz plan comp, 35 top IT SMEs) & VC Workshop (2 days; education/trainings-presentations & elevator pitch)
- 2002: Russian Tech for Oil/Gas (e.g., SLB), IT, Biotech, Medical, Homeland Security (Global)
- 2004: Partnership with Shell (STV/GameChanger)
  - 'Snapshot' the mkt, invest in Gamechanging tech for global mkts & start a relationship to build a portfolio
  - Member, Russian Tech Tour Committee (biz plan)

# VC as Ingredient in the M&A Ecosystem

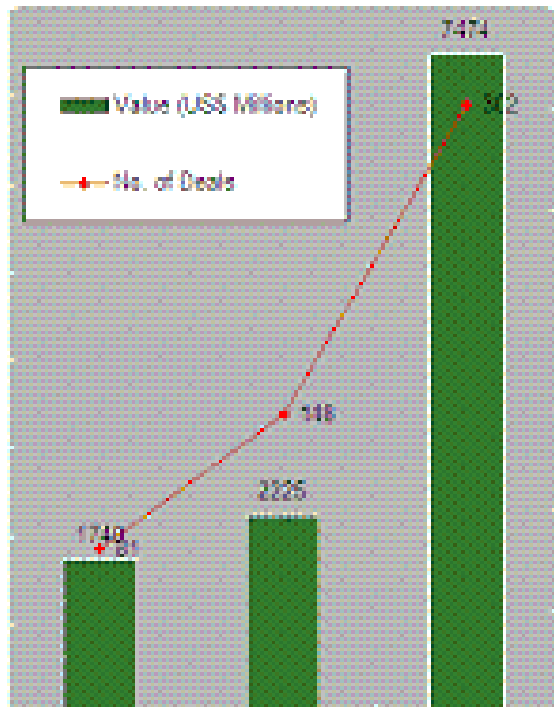
1. Provides the targets for acquirers as they seek new growth to:
  - Access new markets
  - Fill gaps in product line & Corporate capabilities
  - Is the feeder, the pipeline to/for M&As

# Role of VC/PE in M&A

## US VC Exits: M&A vs. IPO

	#, M&As	# M&As w/Disclosed Value	IPOs & \$Value
2003	291	123; \$7.7 Billion	29: \$2 Billion
2004	339	186: \$15.5 Billion	93: \$11 Billion
2005	347	168: \$16 Billion	56: \$4.4 Billion
2006	340	147: 16.6 Billion	57: \$5.1 Billion

# Indian VC/PE Successes 2004-2006



# Contributions of VC/PE to Reduce Risk

## What Comes with VC \$\$\$?

1. Operate to Corporate Governance Principles
  - Open & Transparent Decision Making
  - Accounting & Financial Reporting to Int'l Stds.
  - Investor Influences Direction on Board of Directors
  - Build the Team to Implement the Business
  - Team Manages the Business for the Shareholders
2. Growth: Domestic & Cross Border
3. Economic Interests Aligned, Equity Gains vs. Cash
4. Sell the Company in 5-7 Years

# GoForward Plan to Spur More Deal Creation

Sectors of Interest: VC/PE

<b>India</b>	<b>Russia</b>
Growing interest in tech VC, but still undeveloped	Zero interest except for one-off deals
Internet, IT, Biotech, Drug & Pharmaceuticals	IT (Internet), Software
Strong Interest/Investment in PE, \$7+ Billion in 2006, est. 30% in VC	Ditto for Russia too: PE investment, 2006, \$2 Billion, <10% in VC

# GoForward Plan to Spur More Deal Creation

Sectors of Interest: VC/PE

India	Russia
Mfging takes over from IT. Engineering & Construction emerge as favorites	Natural resources, construction, real estate & FMCGs the favorites
61% in Late Stage & PIPE, 12% in Early Stage & 14% in Growth	90%+ in Expansion, < in Early Stage, & << in Tech
49% Capital from Int'l Fnds, 47% from Indian Funds 26-27 July 2007	60% from DFIs,ERRD & IFC), 40% from others

# Actions to Spur More VC

1. In Russia, the issue is quality/quantity of deal flow, not \$\$
2. In India, the issue is lack of capital for the sector, not deal flow, although work can be done to strengthen deal flow

The Paradox: Action of the Russian Gov't is to create a \$500 million fund-of-funds to address the issue

# GoForward Plan: Action Item #1

## 1. Establish a Indian Fund-of-Funds

- Create more Indian VC funds
- Link w/Corporates: User Pull, Testing, Deployment & Commercialization
- Solve Tech & Supply Chain Needs

# Possibilities for Investment: Build the Supply Chain

Agricultural  
Feedstock & Chemicals

- Agricultural processing
- Basic organic chemicals
- Ethyl alcohol mfg.
- Organic fiber mfg.
- Fertilizers
- Pesticides and other agricultural chemicals

Drugs &  
Pharmaceuticals

- Medicinal & botanicals
- Pharmaceutical preparations
- Diagnostic substances
- Biological products

Medical Devices  
& Equipment

- Laboratory apparatus & furniture
- Surgical, medical, dental, ophthalmic & analytical instruments & equipment
- Irradiation apparatus & electromedical equipment

Hospitals

- Specialty hospitals
- University medical research hospitals
- Clinical research institutions

Research, Testing, &  
Medical Laboratories

- Biological research
- Commercial medical research
- Testing laboratories
- Medical laboratories & diagnostic imaging centers

26-27 July 2007

Product-Oriented

[www.IVIpe.com](http://www.IVIpe.com)  
[Info@IVIpe.com](mailto:Info@IVIpe.com)

Service-Oriented

# GoForward Plan: Action Item #2

1. Invest in Tech: the Domestic Market

2. Capitalize a 'Mini-Grant' Program

- Define biz opts for a technology
- Cost is US\$3,000-US\$10,000/technology
- Not a biz plan, but 3-4 document on tech's potential

# GoForward Plan: Action Item #3

1. Invest in Tech: the Domestic Market
2. Capitalize a 'Mini-Grant' Program
3. Create 'Tech Proof of Concept' Fund
  - Transform ideas = deals
  - Generate data to confirm performance, show weaknesses vs. competition & alternatives.
  - Benchmark to int'l standards

# GoForward Plan: Action Item #4

1. Invest in Tech: the Domestic Market
2. Capitalize a 'Mini-Grant' Program
3. Create 'Tech Proof of Concept' Fund
4. Inventory Your Tech & Publish as a Database on the Internet

# GoForward Plan: Action Item #4

## 4. Inventory Your Tech & Publish as a Database on the Internet

- Org by tech, product & mkt
- Benefits by cost & performance
- Stage of dev., R&D, PD, Testing,
- Plan w/Timetable, milestones, budgets
- IP issued/filed & competing IP

# GoForward Plan: Action Item #5

## 5. Establish a Biz Dev Office

- Scouts for Opts in SMEs & Institutes
- Develops projects for 'Mini-Grant' & 'Proof of Concept' Funds
- Sells to Customers
- Keeps the Team Focused. Align Interests
  - ✓ Sell Data or Provide Answers?
  - ✓ Incentives: Cash/Salary or Equity?
  - ✓ Transparent or Opaque? Responsive or Egocentric?

# GoForward Plan: Action Item #6

## 6. Create an IP Fund

- Fund costs of Filing IP, especially Int'l
- Pay-back as a Royalty on Sales
- Funded by Indian Gov't Initiative/PPP

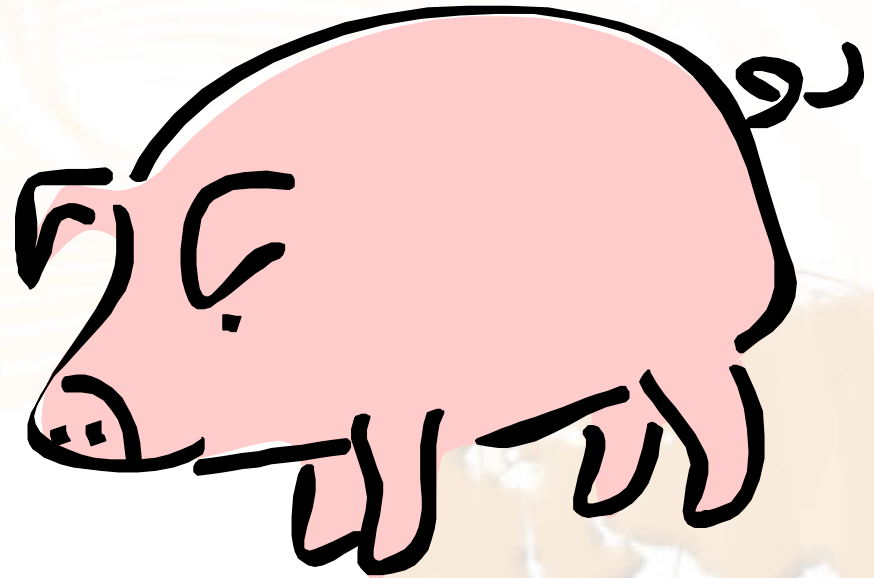
# GoForward Plan: Action Item #7

## 6. Organize R&D & Supply Chain Competitions for Users of Tech

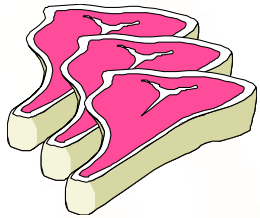
- Go After Corporates & Corporate Investors vs. Financial Investors
- Interaction between R&D developers & Corporations & Corporate VC
- Corporations fund R&D, guide development & access opts in the supply chain
- Lower dev risk & get to market quickly
- Establish Industry Consortia

# Concluding Thoughts

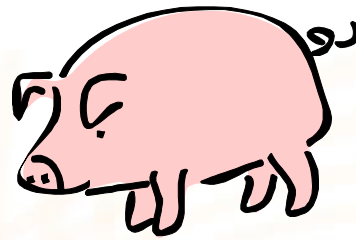
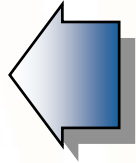
New Zealand is a Fitting Example of Success  
Not Emerging Market, but Small & Remote



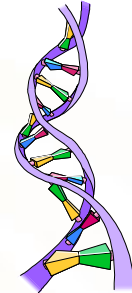
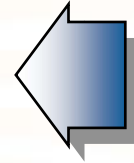
# Technology In Many Places! Just Look & Define



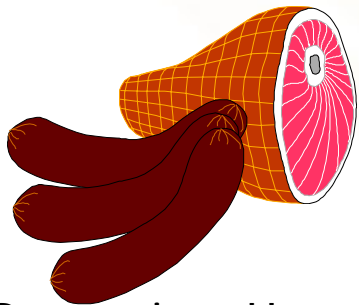
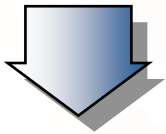
Slaughter



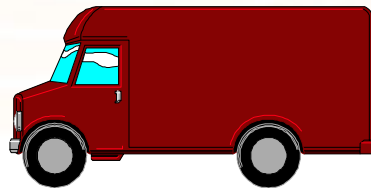
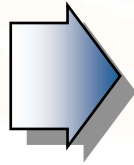
Raising



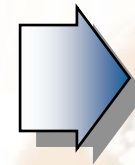
Genetic Engineering  
& Breeding



Processing- Ham, Kielbasa



Distribution, Storage &  
Delivery



Retail Locations

26-27 July 2007



Innovative  
Ventures  
INCORPORATED



**Thomas D. Nastas**  
**Tom@IVIpe.com**  
**www.IVIpe.com**  
**Tel. 7.985.103.47.27**

**Innovative Ventures Inc.**      **Moscow, Russia**  
**Haslett, MI USA**

26-27 July 2007

[www.IVIpe.com](http://www.IVIpe.com)  
[Info@IVIpe.com](mailto:Info@IVIpe.com)

# Back-up Slides Follow

26-27 July 2007

[www.IVipe.com](http://www.IVipe.com)  
[Info@IVipe.com](mailto:Info@IVipe.com)

# Best Practices

Factors of Success	Best Practice
Engaged Institutes with Active Leadership	<ul style="list-style-type: none"><li>✓ Institutes engaged in econ dev &amp; committed to tech transfer</li><li>✓ Have mechanism for tech commercialization</li></ul>

# Best Practices

Factors of Success	Best Practice
Capital is Available	<ul style="list-style-type: none"><li>✓ Programs for commercialization, pre-seed, &amp; seed financing gaps (help establish &amp; build SMEs)</li><li>✓ Active informal angel networks</li><li>✓ Investors include private &amp; and public entities</li></ul>

# Best Practices

Factors of Success	Best Practice
Discretionary R&D Funding	<ul style="list-style-type: none"><li>✓ Receive significant federal funding</li><li>✓ Centers serve as anchors for a region's bioscience base</li></ul>

# Best Practices

Factors of Success	Best Practice
Talent Pool	<ul style="list-style-type: none"><li>✓ Talent is the #1 the variable to build comparative advantage</li><li>✓ Educational institutions responsive to training students to meet the needs for workers at all skill levels, e.g., scientists, technicians, &amp; production workers</li></ul>

# Best Practices

Factors of Success	Best Practice
Specialized Facilities and Equipment	<ul style="list-style-type: none"><li>✓ Leading bioscience regions have private markets that provide facilities for bioscience SMEs</li><li>✓ Specialized bioscience incubators and research parks are a growing trend</li><li>✓ Access to specialized facilities and equipment</li></ul>

# Best Practices

Factors of Success	Best Practice States/Regions
Patience and Long-term Perspective	<ul style="list-style-type: none"><li>✓ Building a critical mass takes years or even decades</li><li>✓ Early technology pioneers took 25 years, now 12 to 14 years to mature</li></ul>

# Realities of VC

Equity is a Great Product, but:

1. It's Expensive (% ownership)
2. Very Selective-1/100 SMEs (in the USA) seeking VC receive \$\$\$-High Risk/High Return
  - Sales \$ Need Big Markets (\$50-\$100MM)
  - People (Technical, Mkting, Mgt, Support, etc.)
3. Requires Access to Liquidity (Capital Mkts &/or Strategic Buyers, Domestic or Foreign)

# Realities of VC (Emerging Mkts)

1/200 SMEs seeking VC in emerging markets receive \$\$\$ Reasons, high rejection rates:

- Undeveloped Opportunity
- Lack of Uniqueness/No Competitive Advantage
- Too much \$\$\$, too much time & too little reward
- People (mgt/employees)
- Lack of Transparency, No Clear Title/Ownership of IP

What to do with the SMEs that are rejected?

Ignore? Sympathize? Seek New Solutions?

# What's Working Against Early Stage Tech & VC in BRIC

Plenty of \$: It's Competition:

- Domestic Growth, FMCC, F&B, Retailing, Financial Services, Media, etc.
- Keeps Entrepreneurs in Non-Tech
- From Other Asset Classes w/Quicker & > Profits, e.g., Stocks & Real Estate
- From Israel, Ireland, USA, etc., with Good Deals, Technologies, Entrepreneurs & Successes