



Clusters & (VC) Capital: Scaling Up for Innovation

Russia/BII US State Dept: Biotech for Regional Development
Kirov Russia, 26/28 June 2007

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Clusters & (VC) Capital: Scaling Up for Innovation



Today's Message

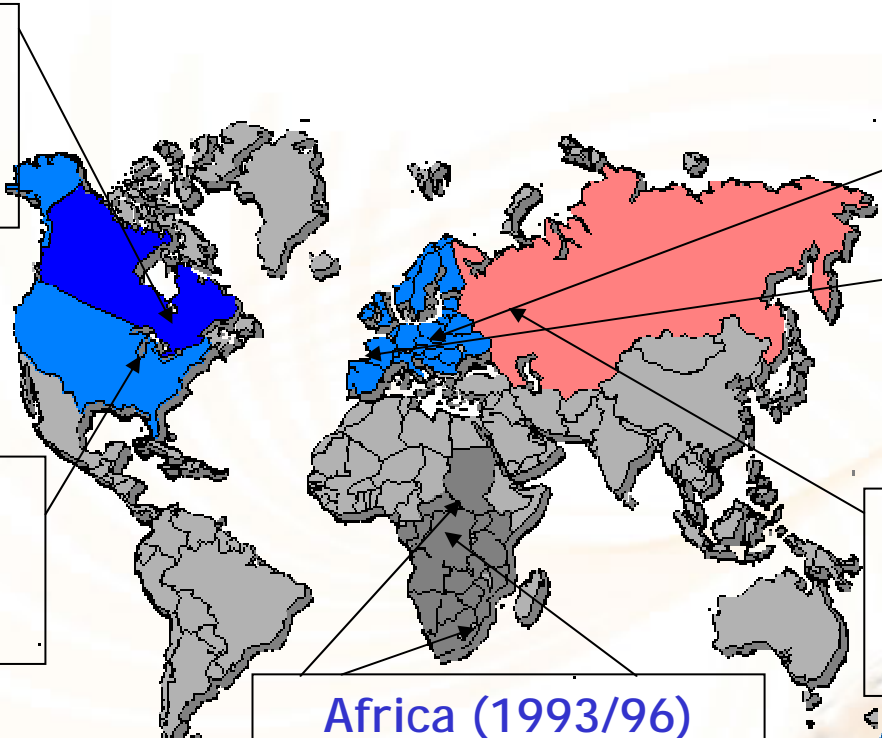
1. What's Happening in the Market?
 - The Good & the Bad
 - Issues: \$ & Deal Flow, Other?
2. GoForward Plan to Spur More \$\$
 - Strategies & Structures
 - Boosting Quality/Quantity of Deals
 - How Do Supply Chain Needs as Clusters Fit into the Picture?

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)

Successes in the Market Since 2001



Baring Vostok Capital Partners



PBC Lasers & Wostec



Multinationals w/R&D Labs in Russia



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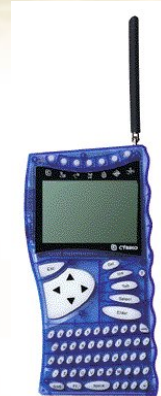
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Some Clouds Too: Learning Curve Lessons



Optiva (\$49M) liquidates:
Nanotech's 1st big flame-out

Startup doctors ease portfolio
pain-Trustworks (\$23M)



Cybiko Ceases
Operations

Not Seeing Entrepreneurial SME Creation from MNC R&D Labs

Multinationals w/R&D Labs in Russia



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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?

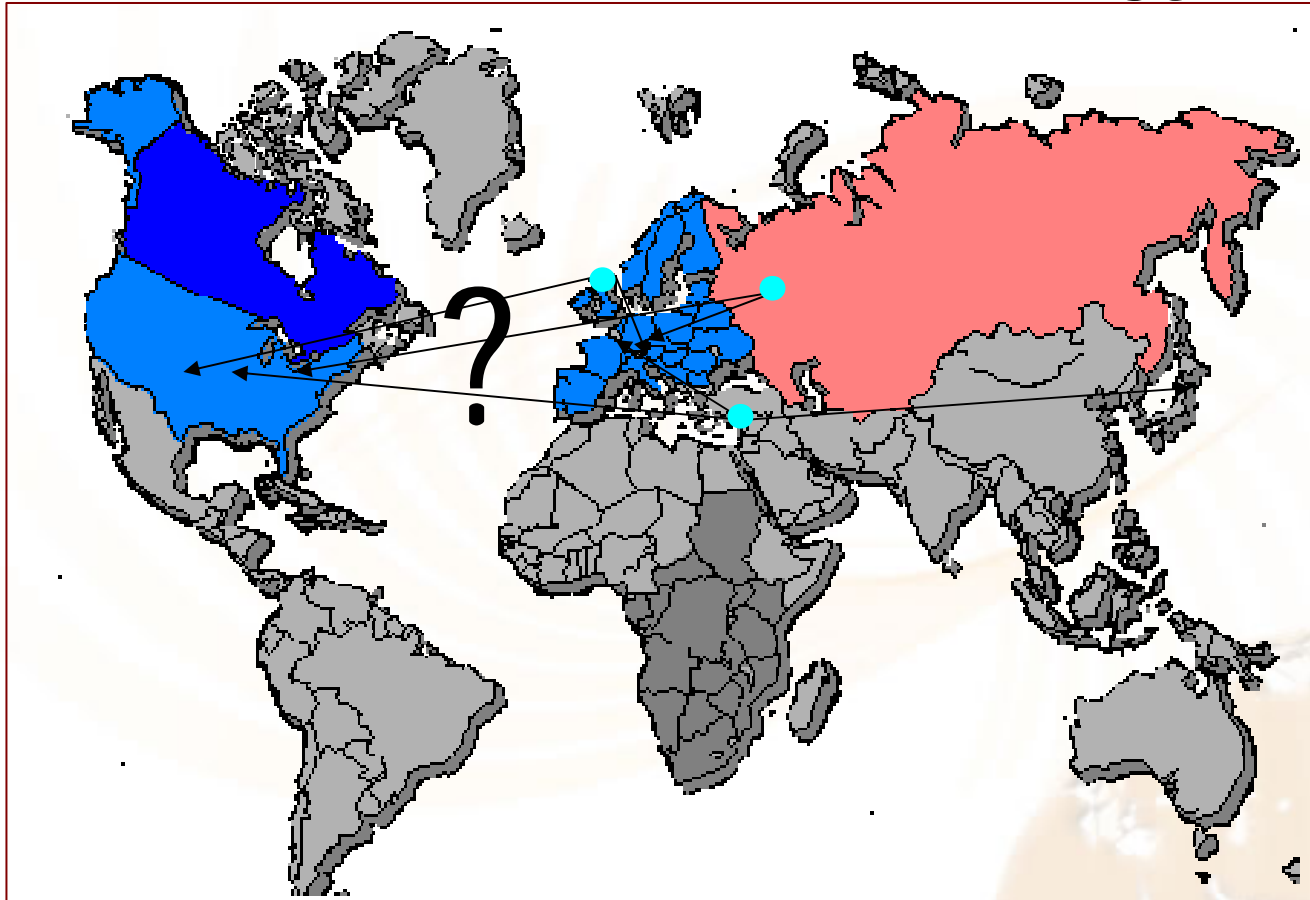
Ignore? Sympathize? Seek New Solutions?

What's Working Against Early Stage Tech & VC in Russia

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

Russian Tech for Global Mkts: Alternative Strategy?



GoForward Plan: Action Item #1

1. Invest in Tech for Domestic Mkt

- Link w/Corporates: User Pull, Testing, Deployment & Commercialization
- Solve Tech & Supply Chain Needs
- Don't Worry about Small Volumes
- Build Locally, Upgrade Later for National & Int'l Expansion

Possibilities for Investment: Build the Supply Chain

Agricultural
Feedstock & Chemicals

Drugs &
Pharmaceuticals

Medical Devices
& Equipment

Hospitals

Research, Testing, &
Medical Laboratories

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

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

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

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

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

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Product-Oriented

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Service-Oriented

Where's the Customer Pain (Need) in the Industry?

1. MORE Perf, Execution & Cost Reduction
 - Not GameChangers; blocking/tackling tech so customers meet business plan
2. MORE Local Content
 - More Value-added Tech
 - Tech Sold to Multiple Customers
 - Generate Supplier Sustainability thru Multiple Products/Services
3. What Else?

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 Russian Gov't Initiative/PPP

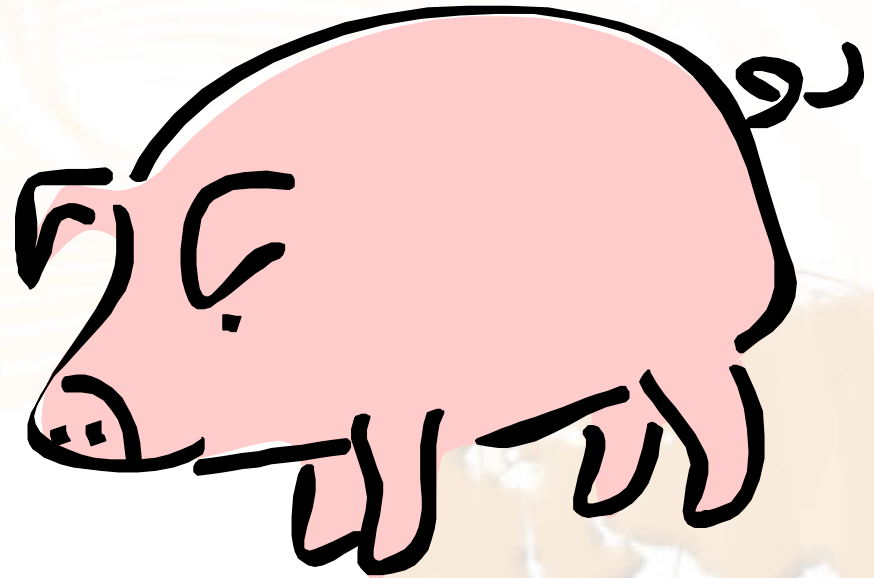
GoForward Plan: Action Item #7

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

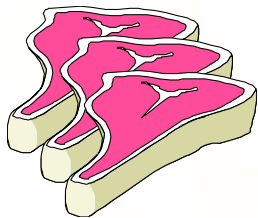
- Go After Corporates & Corporate Investors vs. Financial Investors
- Interaction between R&D developers & Corporations & Corporate VC
- Corporations fund R&D, guide development & access opts in the supply chain
- Lower dev risk & get to market quickly
- Establish Industry Consortia

Concluding Thoughts

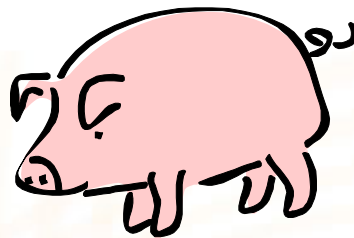
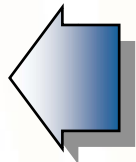
New Zealand is a Fitting Example of Success
Not Emerging Market, but Small & Remote



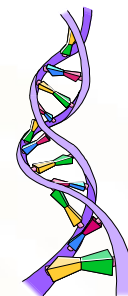
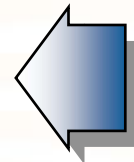
Technology In Many Places! Just Look & Define



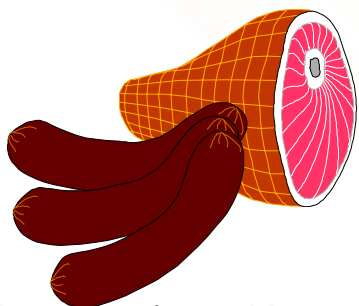
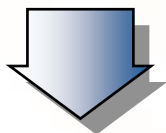
Slaughter



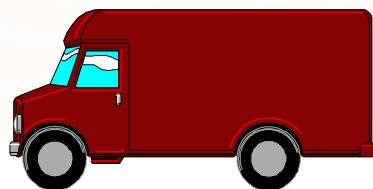
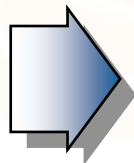
Raising



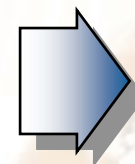
Genetic Engineering
& Breeding



Processing- Ham, Kielbasa



Distribution, Storage &
Delivery



Retail Locations



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Back-up Slides Follow

Best Practices

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

Best Practices

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

Best Practices

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

Best Practices

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

Best Practices

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

Best Practices

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