



New Directions in CIS & CEE Venture Capital

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**Innovative Ventures Inc.
'New Directions in CIS & CEE Venture
Capital'**

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New Directions in CIS & CEE Venture Capital

Today's Message

1. How Attract Attention/\$\$ to CIS and CEE Countries?
2. What Interventions Are Needed?
 - Finance & Financial Engineering? VC? IP? Business Plan Help? Centers of Excellence? Incubation? Capital Markets? Tax Incentives? Grants? SBIR programs? etc?
3. How Help SMEs, Creation of Technology & SMEs?

How Do You Get Started? Solutions & Priorities

New Directions in CIS & CEE Venture Capital

Emerging Markets Have Much \$\$ (CEE & CIS)

- EBRD, IFC & US Govt. Supported Funds (\$1B+)
- Intel Capital (Corporate VC, much \$\$\$ & budget)
- Russia Technologies (Alfa Group, \$20MM)
- Baltic Investment Fund & Scandinavian Funds
- E. European Funds, e.g., Enterprise Investors (Poland), Advent, Horizonte, etc.

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Little \$\$ Goes to Early Stage Technology

- Capital Seeks the Highest Rate of Return
 - Strong Emerging Market Domestic Growth in Non-tech Sectors, Retailing, Distribution, FMCC, etc.
- Competition from Other Asset Classes with = or > Liquidity, ex. Stock Mkt., Bonds, Real Estate
- Competition from Regions/Countries with Good Deals & Lots of Technologies, Successes

What do with SMEs that are rejected?

Ignore? Sympathize? Seek New Solutions?

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Realities of VC (in Efficient Markets)

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)

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Individual Event

Probability

Company has enough \$\$

80%

Mgt Capable & Focused

80%

PD Successful

80%

Mfging & Component Sourcing Successful

80%

Competitors Behave as Expected

80%

Customers Want Product

80%

Pricing is Correct

80%

Patents Issued & Enforceable

80%

Combined Probability of Success

—————→ **17%**

Low Success Rate = Invest 1 of every 100 deals

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Realities of Emerging Market VC

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

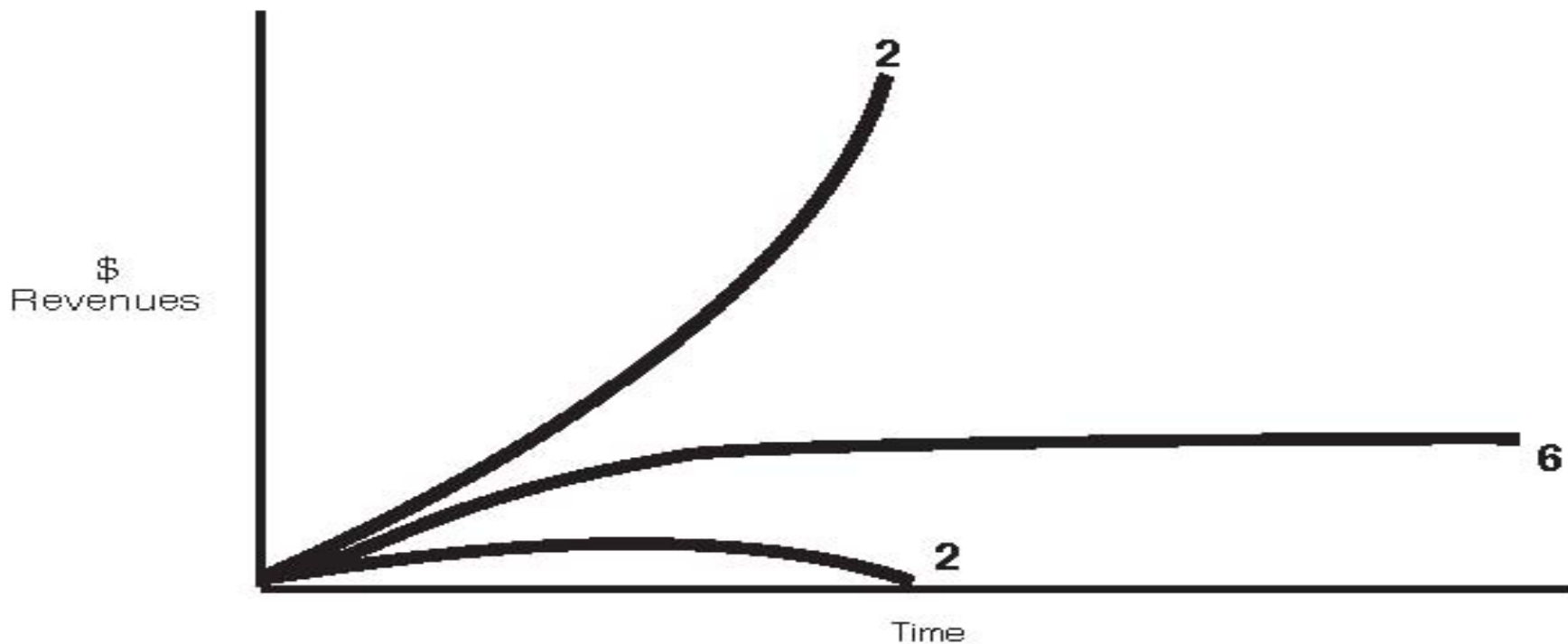
- Undeveloped Opportunity
- Lack of Uniqueness/No Competitive Advantage
- Too much \$\$\$, too much time & too little reward
- People (mgt/employees)
- Lack of Transparency, No Clear Title/Ownership of IP

What to do with the SMEs that are rejected?

Ignore? Sympathize? Seek New Solutions?

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Private Equity 2-6-2 DISTRIBUTION OF RETURNS RULE



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Most Tech Opts in Int'l Mkts

Where Demand Is

Gaining Access is Expensive

Penetration & Growth Takes Much Time

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Most Tech Opts in Int'l Mkts

Where Demand Is

Gaining Access is Expensive

Penetration & Growth Takes Much Time

Quality & Quantity of Deal Flow is Low in
Russia

Few Opportunities Meet Req'ts for Success

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The GoForward Plan™ For CIS Countries

1. Document & Benchmark the Deal Flow
 - Global Value or Domestic Use & Those % Not Interesting
 - SME Quality/Quantity vs. USA, EU, India, Israel, Ireland?
2. Attract Corporations/Corporate VC to Confirm Deal Quality & Potential as Supplier Technology
 - Go After Corporations that Do Business in CIS
3. Leverage Interest to Get Technologies Adopted to Build Supply Chains- Creates More & Better Deals
4. Then Other Solutions, \$\$, SBIR, etc.

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Background on IVI

US VC Funds (1986)

The Michigan Product Development Fund (\$5MM-Gov/Private)

International VC & PE Funds (1992)

- Canada (\$100MM-Bus. Dev. Bank)
- Europe (\$10MM-EU, \$-Financière Saint Dominique, Paris)
- Africa (\$-IFC, \$-World Bank)
- E. Africa (\$5MM), Sub-Saharan (\$200MM), South Africa (\$30MM)
- Kazakhstan (\$-USAID, \$30MM EBRD)
- Russia (\$30MM-EBRD & USAID)

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Mkt. Dev: IVI, Tech VC & Russian Technology

1997: Transact Russian VC Deals-General Economy

2000: Investigate IT Deals/Sector

2002: Evaluate (Russian) E&P Technologies

For Service Suppliers (Halliburton, Schlumberger, etc.)

2004: Seek VC Investments. Partner w/Corporate VCs

Objective: Id/finance Russian technology

Transfer of IP (License/Sale)

VC Investment in Existing Company or Create New Company to
execute technology into market-Build the Supply Chain

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IVI Strategy: Build Quality/Quantity of Deals

Bring More Corporations to the CIS. Corporate Characteristics to Execute:

- A Must: Do Business in CIS & Global Search for Technology-Fund R&D with SMEs, Universities, Nat Labs
- Better: Internal Incubation Group
- Best: Internal VC Dept., & Invest in VC Partnerships

Objectives: Cross-Border Transactions in R&D & VC. Create New Suppliers & Chain Linkages

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IVI/Shell Initiative: ID & Finance Technologies for the Petroleum Industry

1. IVI Approached Shell. IVI & Shell Co-Fund Budget to Execute. 100% Private Sector Financing (Shell & IVI)
2. IVI Created a Database for Contact
 - IVI Generate Deal Flow-SMEs & Institutes (NO BUSINESS PLANS)
3. IVI Evaluate Deal Flow 1st, then Shell
 - Name of Technology/What it Does
 - Benefits/Value of the Technology
 - Performance Data/Benchmark to Competition
 - IP Status/Patents
 - What Does the Developer Want to Do
3. Conclusions & Next Steps Decisions (IVI & Shell)

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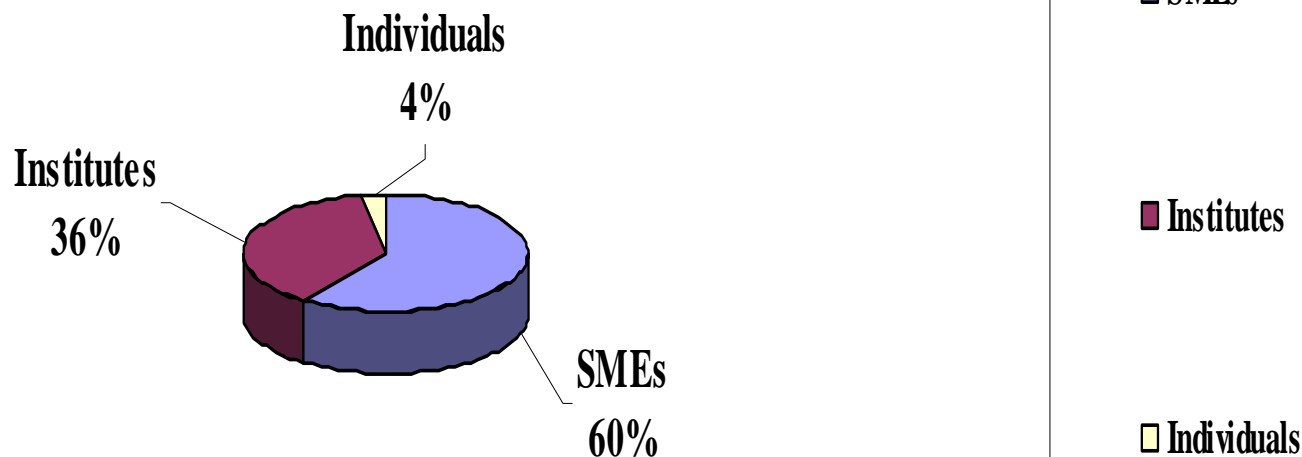
Results: 100 Technologies/4 Short-listed

Artificial Lift & Advanced Drilling	Enhanced Oil Recovery	Non-Seismic Exploration
Novel Well Construction, Smart Fields & Wells	Hydrocarbon Processing	Earth Modeling
Russian Specific Conditions	Renewables	Off-Shore

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Results & Examples: R&D & Equity Investment Opportunities Exist

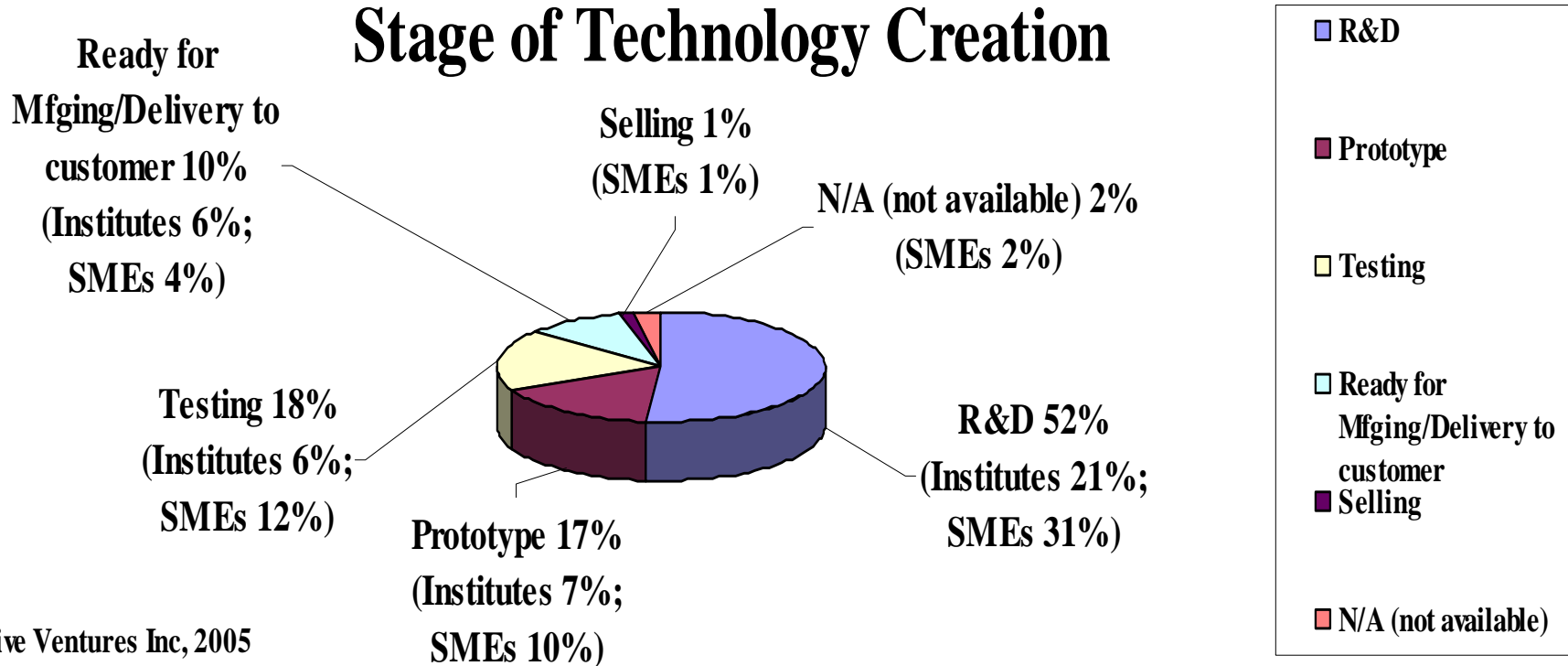
Sources of Deal Flow



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Results & Examples: Co-Dev. & Sales Transactions Possible

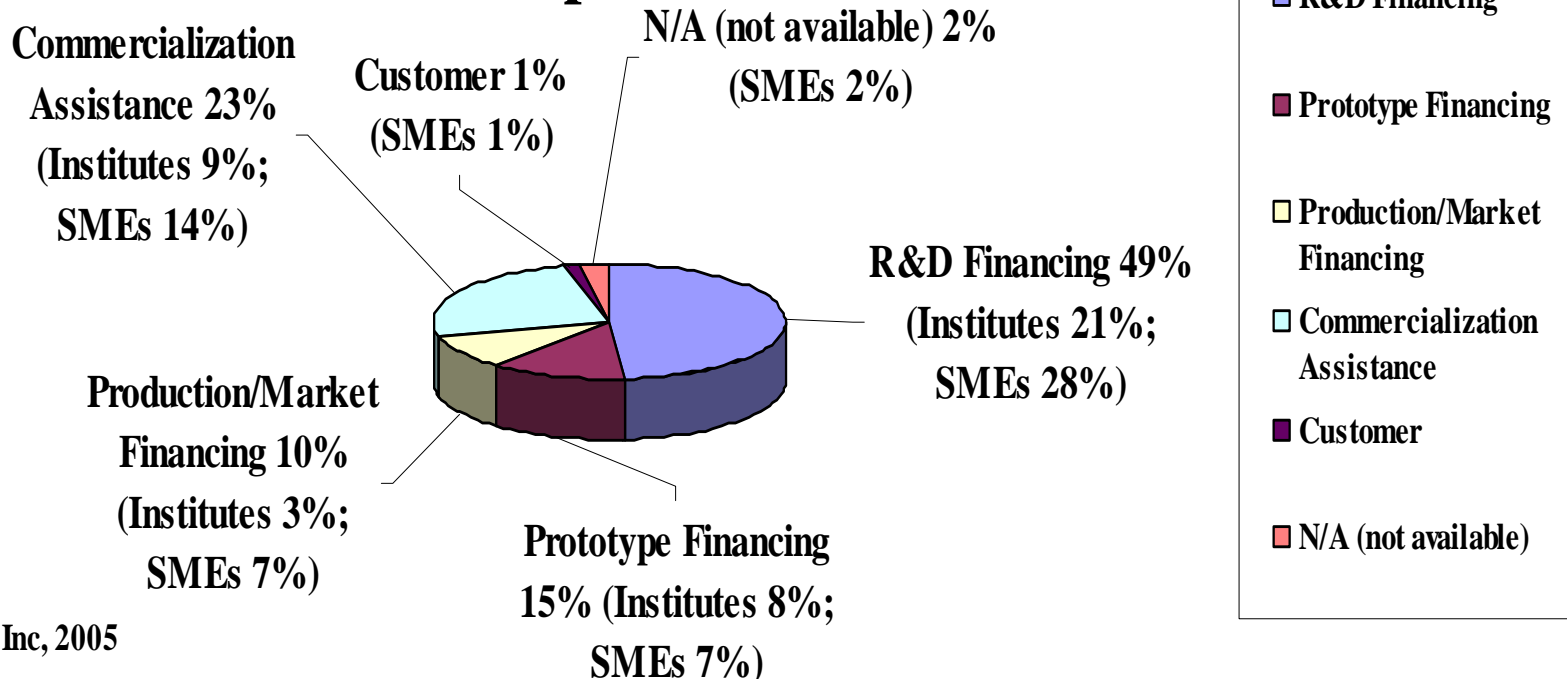
Stage of Technology Creation



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Results & Examples: Actions Needed for Commercialization

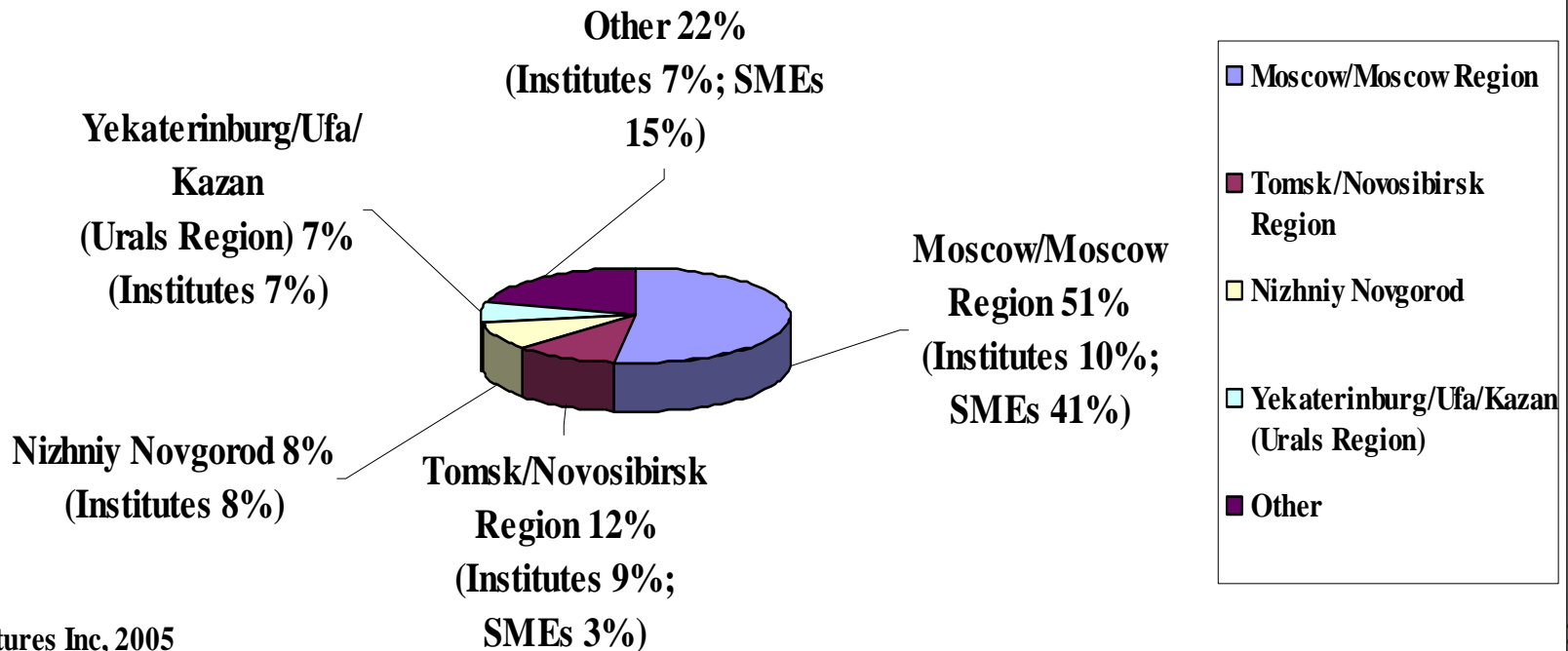
What Developers & SMEs Need



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Results & Examples: Finding Technology is Possible

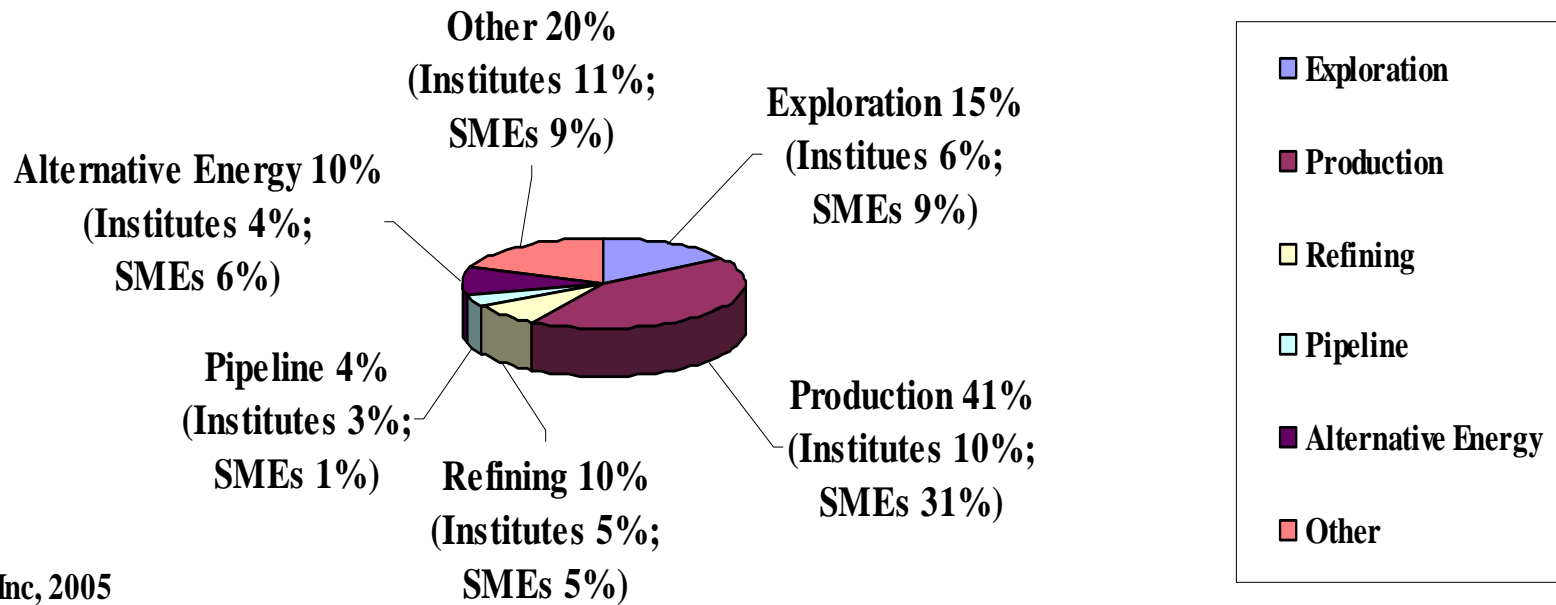
Regions of Innovation



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Results & Examples: Tech Dev. Matches
 Strategic Priorities of Int'l Partners & Buyers

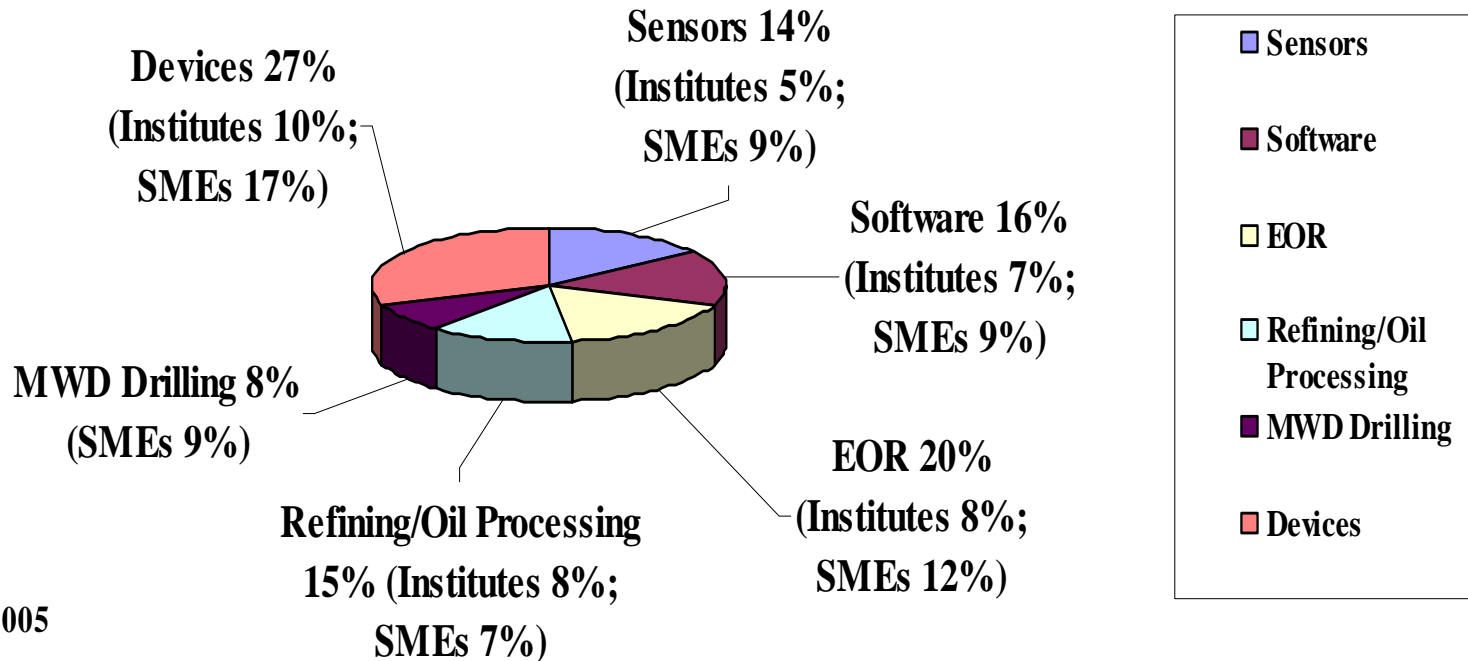
Opportunities & Strengths by Technology



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Results & Examples: Enabling & Platform
 Technologies of Strategic Priority Exist

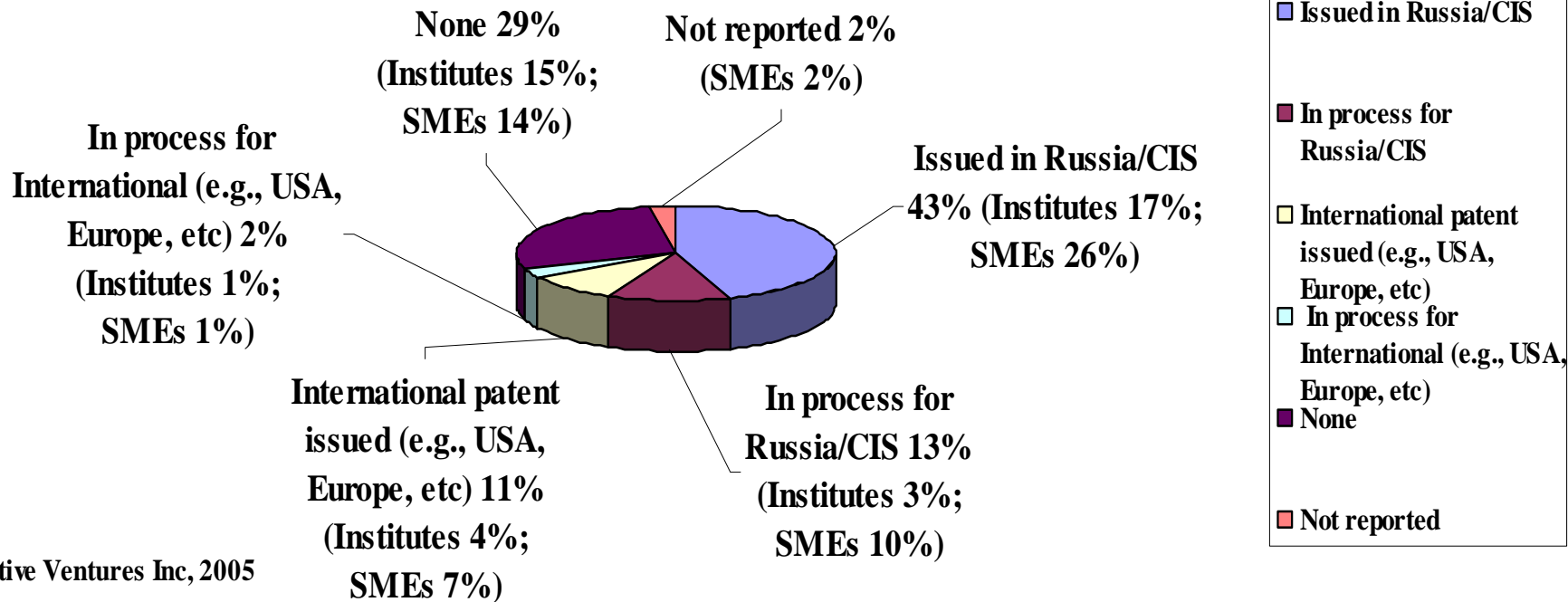
Targets of Technology Development



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Results & Examples: The Majority of IP is Protected

IP Status of Technologies



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Reasons: Technologies Interesting or Rejected

Interesting & w/Follow-up for R&D & VC Investment:

1. Opportunity Unique - Test Data, although not to Int'l Standards
2. Global Application or Domestic Use & Potential to Upgrade
3. Developers Responsive-Want to do business

Rejected:

1. No Uniqueness nor Competitive Adv/Tech for a Service Supplier
2. No test/performance data-no projected performance, no targets
3. Developers Not Responsive

Note: Rejection not due to lack of IP, Bus. Plans, VC, Mgt., Capital Mkts, Financial Structures, Tax Incentives, etc.

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Conclusions: CIS Technology Value Exists To;

1. Create Business Models

Opts. to Mix & Match CIS & Western technology

- Match CIS platform technologies w/Western strengths in systems, mgt, planning & execution
- Mix others w/Western technologies & skills as enabling & complementing technologies to create the total solution

2. Localize Product Content-Create New Supply Chains to Reduce Mkt. Barriers

3. Develop the Market-Increase Revenues

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Results: GameChanging Solutions w/Global
Value

Distributed Temperature/Pressure System
(Sensors/Software) SME Technology

Disc Crystallizer (Refining) SME Technology

EOR 2 Stage Combustion Technology (Institute Tech)

Low Frequency Seismo-Acoustics-3 km/20km (Inst)

Novel Well Testing (Software) (Institute Tech)

Ceramic Vitrification of the Borehole (Institute Tech)
(Case-less Lining)

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Results: Solutions for CIS Specific Needs

(E&P, Transport, Processing, etc.)

Ex: Cold Weather, Large Geography, Off-Shore

Applications where performance 1 step below
world class, but significantly lower cost/\$\$

Developed in environment of cheap oil &
different (Soviet) E&P policy vs. international

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Opportunities to Capitalize

Expand commercialization in CIS w/Western bus dev know-how, mgt., enabling & complementary technologies

Upgrade to world standards for value pricing & price sensitive segments

- Example: Russian Gas Separation & Sphere Plastics (cold weather) Technologies

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The GoForward Plan™ For CIS (Do This)

1. Characterize the Deal Flow, Performance & Quality
 - Capitalize on what you have 1st. Define where technology exists/needed and exploit those opts.
2. Establish Industry Consortia. Go After Corporate Investors vs. Financial Investors
3. Fund the Consortium w/Resources & \$\$. Few in the private sector fund these projects/budgets
4. Then Spend Time & \$\$ to Create New Technologies
5. Later IP Funds, Quasi-Equity, SBIR, Grants, Yozma

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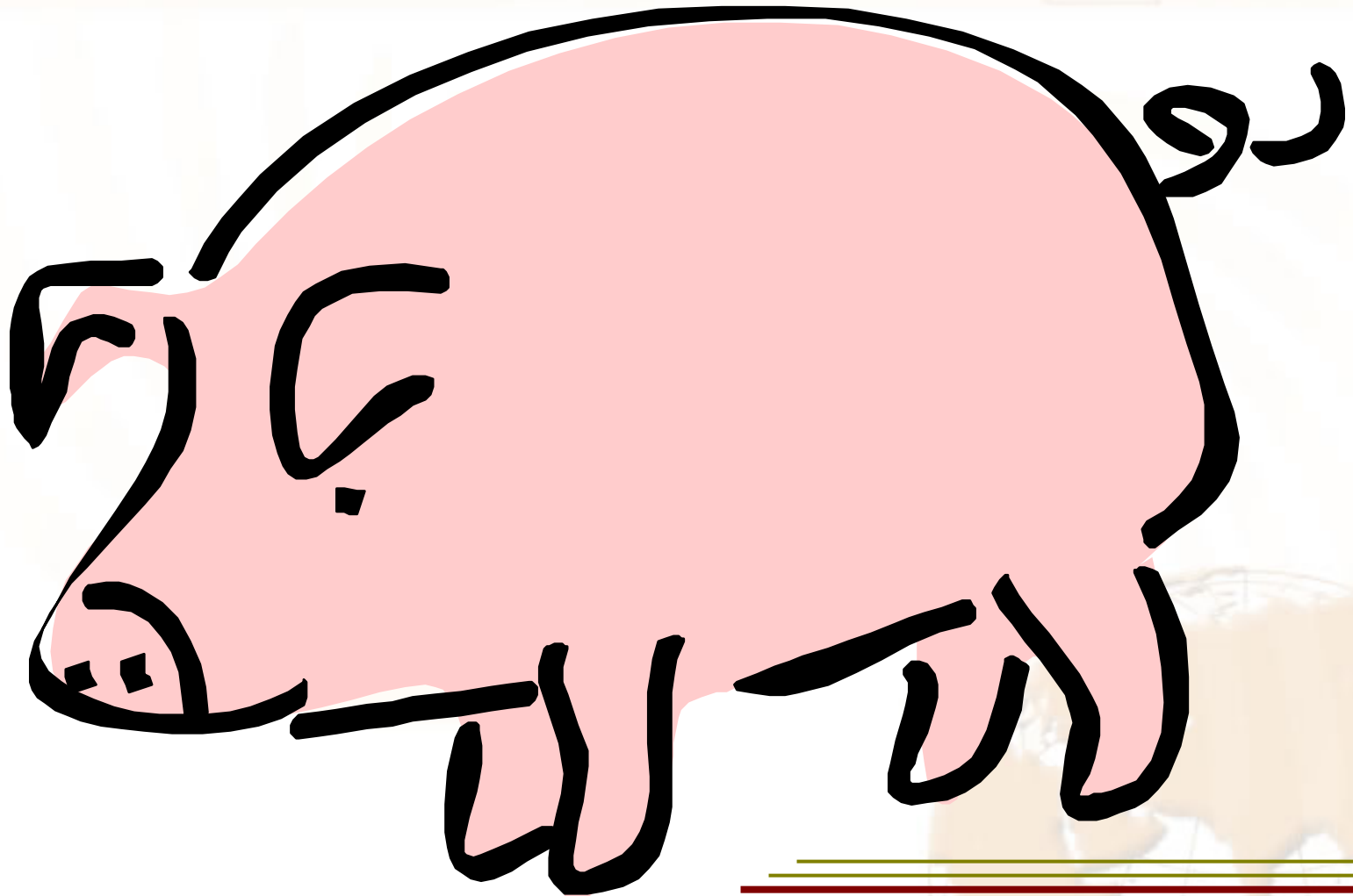
Don't Do This (Not Relevant)

- Education focused on science & technology
- Technology pool strong in space, avionic & military
- Large pool of scientists & high-tech specialists
- Still competitive cost of development
- Major improvements in business environment
- 250MM domestic population & growing market
- Western educated Russian managers & engineers returning to Russia
- Ability to spin-off a technology from institute



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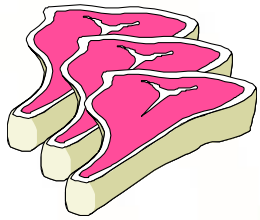
Ex: How Much Value (Added)? Where's the Technology?



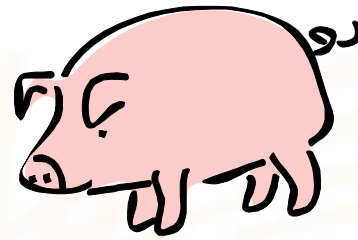
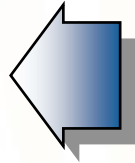
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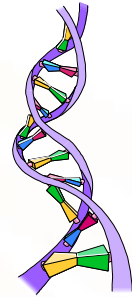
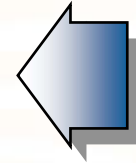
Technology (Value) In Many Places! Just Look & Create



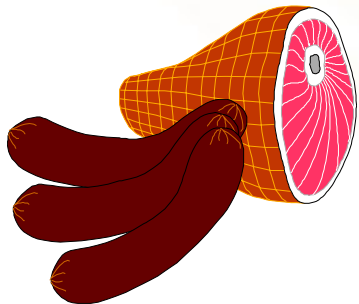
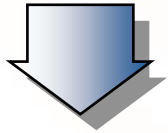
Slaughter



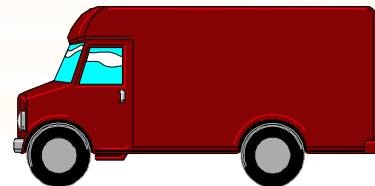
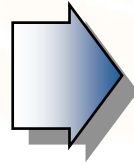
Raising



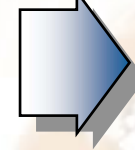
Genetic Engineering
& Breeding



Processing into Ham, Kielbasa



Distribution, Storage &
Delivery



Retail Locations

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The IVI GoForward Plan™

CIS High Technology Oil & Gas Consortium

- Several Oil Multinationals & Service Suppliers (Oil & IT)

Objective: Finance & Commercialize Russian Technologies (IP, R&D & VC Equity Investment)

- Upstream & Downstream
- Renewables
- Related technologies used in the petroleum industry, IT, sensors, communications, etc.



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