



New Directions in CIS Venture Capital

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Innovative Ventures Inc.
Grand Rapids MI USA
Moscow Russia

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

New Directions in CIS Venture Capital

Recommendations

1. VC is Only a Partial Answer: Be Flexible to Other Strategies, e.g., Corporate VC, SBIR/SBIC, Quasi-Equity & Project Financing Approaches
2. Document the Depth/Breadth of Technology/SME. Conduct Cluster Analysis & Publish Database Findings
3. Use Incentives to Catalyze Angel Capital & Yozma Type Fund of Fund Schemes (Israel) to Attract Int'l Investors. *But Only Do So When You Have Identified How/Where SMEs Create Value vs. Your Competition*

New Directions in CIS Venture Capital

Background of IVI

Began Operations in 1986

Business:

Manage US Venture Funds

Advisor: Create Int'l & Emerging Market
Venture Funds

Implement Initiatives to Develop Emerging
Market Countries & SMEs for Venture
Investment

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Direct Venture Capital Management

US\$4.3MM Michigan Product Dev. Fund-USA

US\$30MM Lower Volga Regional Venture
Fund-Samara, Saratov & Volgograd Oblasts

US\$440MM US-Russia Investment Fund (Delta
Capital)-Russia Far East

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US\$4.3 MM, Michigan Product Dev. Fund

Financed Seed/Early Stage SMEs

Technologies; Machine Vision, Software,
Instrumentation as examples

Investments structured as royalty,
royalty/equity

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Liquidity Events

Applied Intelligent Systems Inc.

*Machine Vision for
Electronic Inspection
Applications*

US\$700k invested in
US\$1.4MM financing
US\$500k in cash & 10x
equity gains
Acquired by Electro-
Scientific Instruments

Personal Bibliographic Systems Inc.

*Software for accessing &
managing bibliographic
data*

US\$200K invested
US\$150k in cash &
acquired by ISI,
subsidiary of
Thompson Corp.

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Liquidity Events Cont'd

Neogen Corp

*Immunoassay Diagnostic
kits & Electronic
instruments for Animal &
Plant Health Care*

US\$700k invested in
US\$2.8MM financing
IPO; Valuation
increase from
US\$10MM to US\$22MM

Face Technologies

*Computer Motherboards
for PC Applications*

US\$330,000 invested
in US\$500,000
financing

Total write-off & loss
of entire investment

LOWER VOLGA RVF



U.S. Russia Investment Fund



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Advisor in Int'l & Emerging Mkt. Funds

C\$100MM Venture Loan Fund- Federal Bus
Dev. Bank of Canada

€1.5B Financiere St. Dominique - Royalty
Fund for W. Europe

€15MM EU-Technology Performance Scheme

\$5MM E. Africa Fund of Funds - World Bank

\$200MM African Enterprise Fund - IFC

\$30MM South Africa Succession Fund - IFC

Investment Priv'z Funds - Kazakhstan Govt.

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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 seeking VC receive VC financed-High Risk/High Return
(Actual/Potential Deal Flow Pursuing Large Markets
(\$50-\$100MM)
People (Technical, Mkting, Mgt, Support staff, etc.)
3. Requires Access to Liquidity (Capital
Mkts/Strategic Buyers

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Individual Event

Company has enough \$\$

Mgt Capable & Focused

PD Successful

Mfging & Component Sourcing Successful

Competitors Behave as Expected

Customers Want Product

Pricing is Correct

Patents Issued & Enforceable

Probability

80%

80%

80%

80%

80%

80%

80%

80%

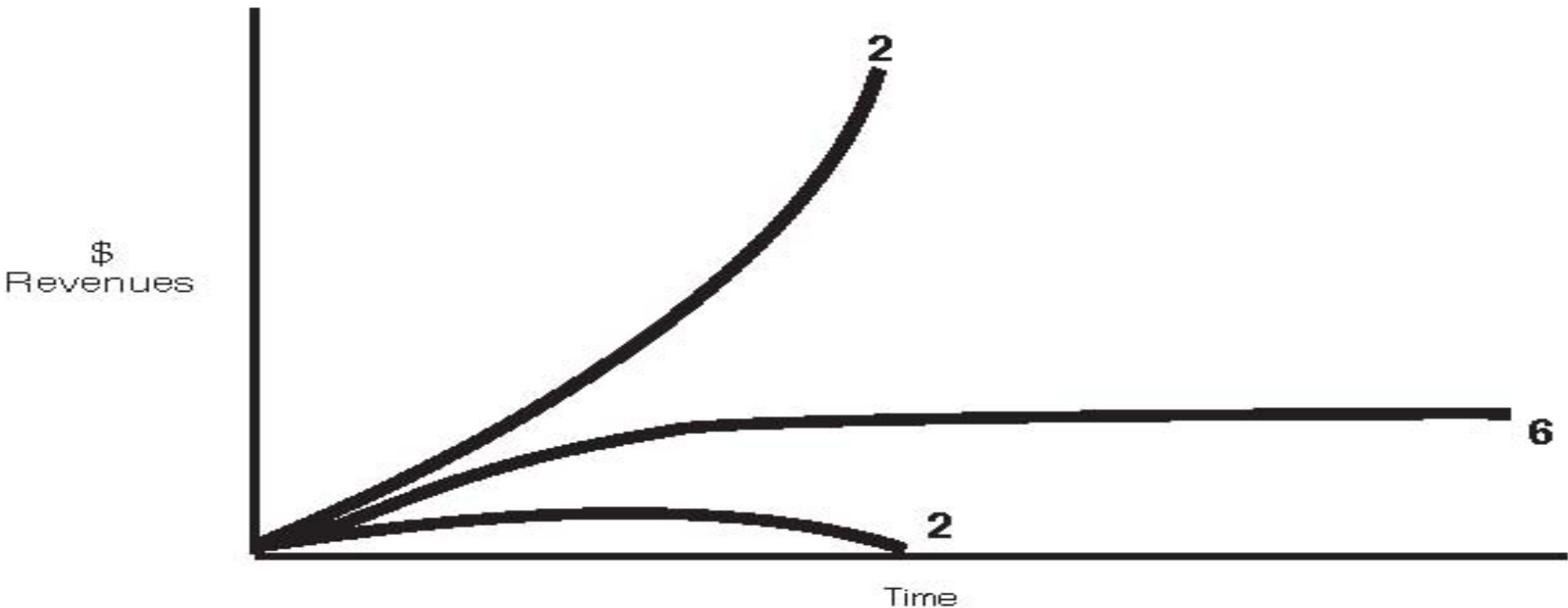
Combined Probability of Success

17%

Reason why Invest 1 of a 100

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Private Equity 2-6-2 DISTRIBUTION OF RETURNS RULE



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Realities of Emerging Market VC (Creating a Domestic Industry)

1/200-300 SMEs seeking VC in the emerging markets receive VC. Reasons for high rejection rate:

- Too small of an opportunity
- People (mgt)
- No liquidity

What to do with the SMEs that seek VC, but are rejected? Ignore? Sympathize? Seek New Solutions?

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Create New Solutions to Improve Access
to S\$ (Additionality)

1. Build Relationships with Int'l Corporations

Cross-border Partnering (R&D, Supply-Chain
Linkages)

VC Investment & IP Commercialization

2. Consider Venture Loan & Royalty VC
Strategies for SMEs that Can't Raise Equity

Medium Growth/Family Held Companies

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Improving Access to More \$\$

Bring More Corporations to the CIS
Characteristics:

Global Search for Technology

Internal Incubation Group

Internal VC Dept., & Invest in VC Partnerships

Objectives: Create Cross-Border VC
Investments, Funding of R&D & Supply Chain
Linkages

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Example: Shell Technology Ventures/Shell GameChanger & IVI

Objective: Identify oil/gas technologies
(exploration, extraction & production) that we can
commercialize to Shell by:

- A Transfer of IP (License/Sale of a Technology)

- A VC Investment in an Existing SME or New SME

Shell's Corporate Characteristics:

- Global Search for Technology

- Internal Incubation Group

- Internal VC Dept., & Invest in VC Partnerships

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Improving Access to More \$\$

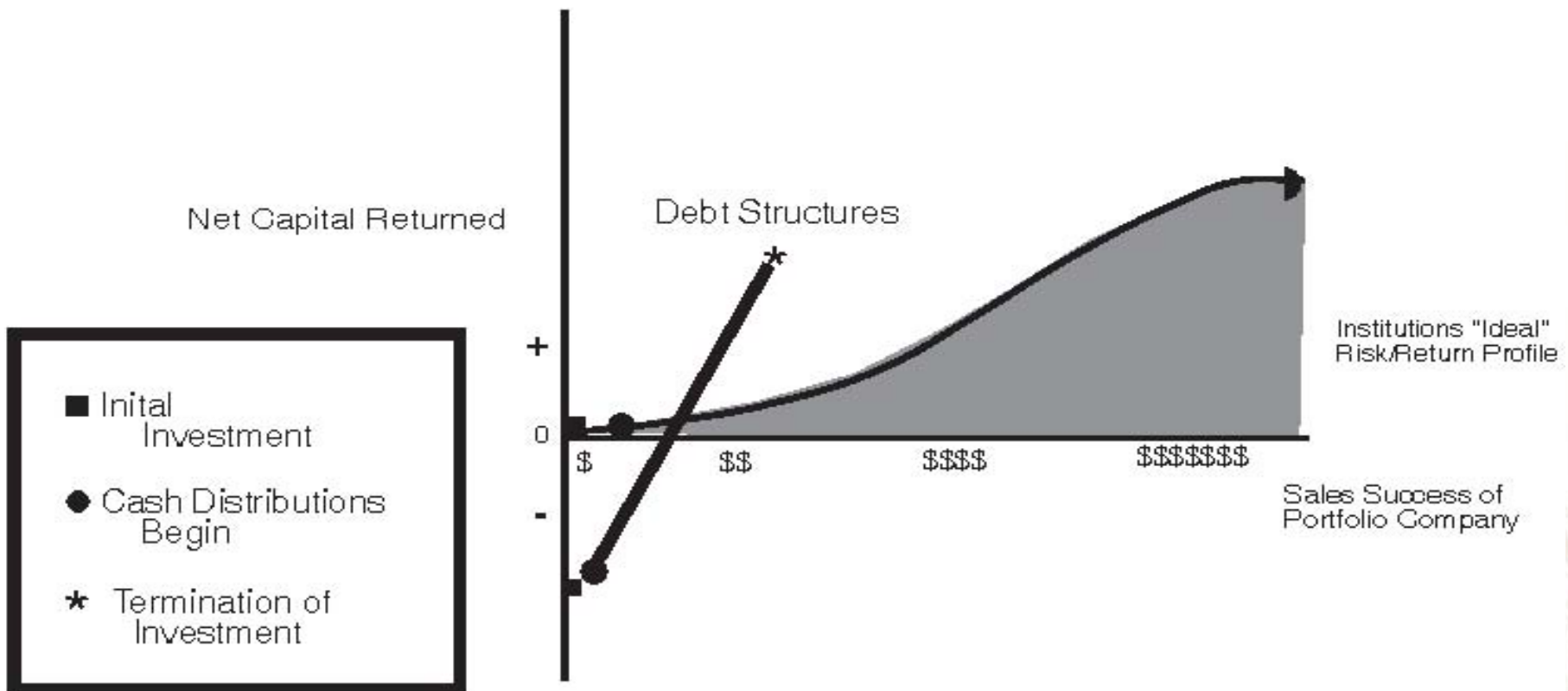
Consider Venture Loan & Royalty VC
Strategies for SMEs that Can't Raise Equity
(VC)

Medium Growth Businesses

Family Held Businesses

New Directions in CIS Venture Capital

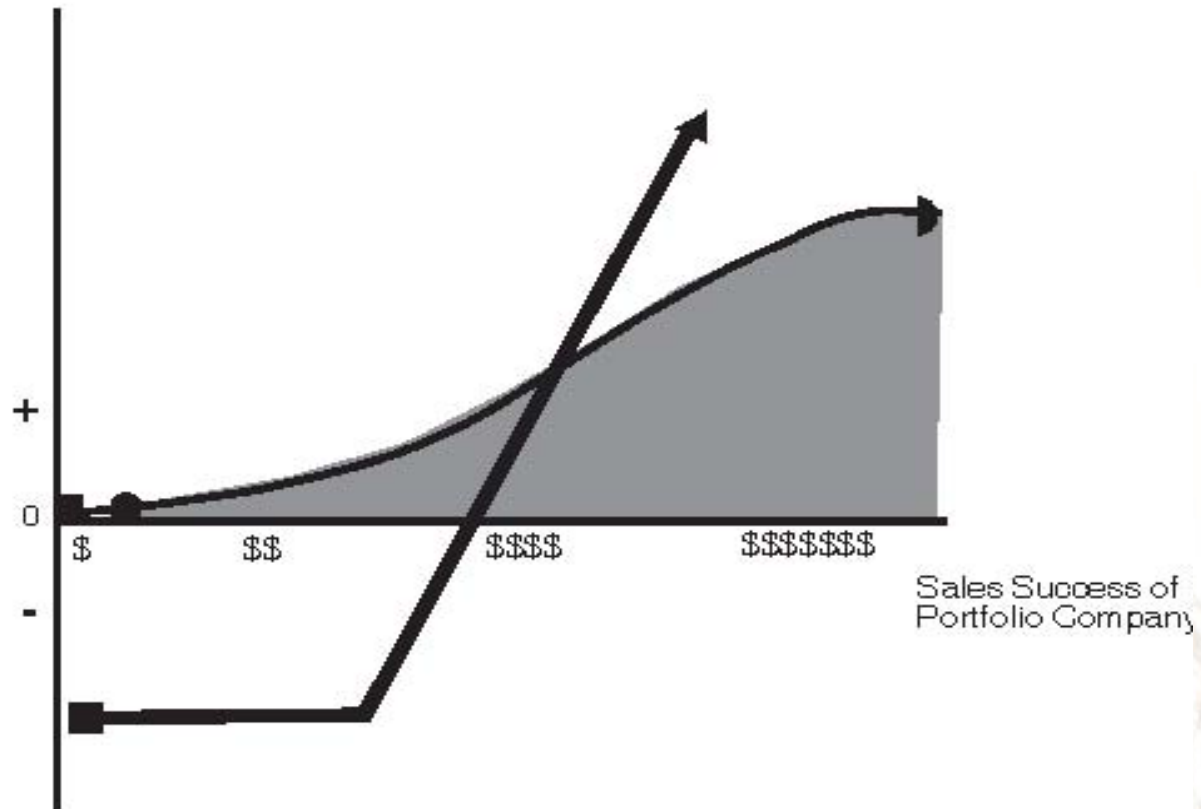
RISK / RETURN PROFILE: DEBT



New Directions in CIS Venture Capital

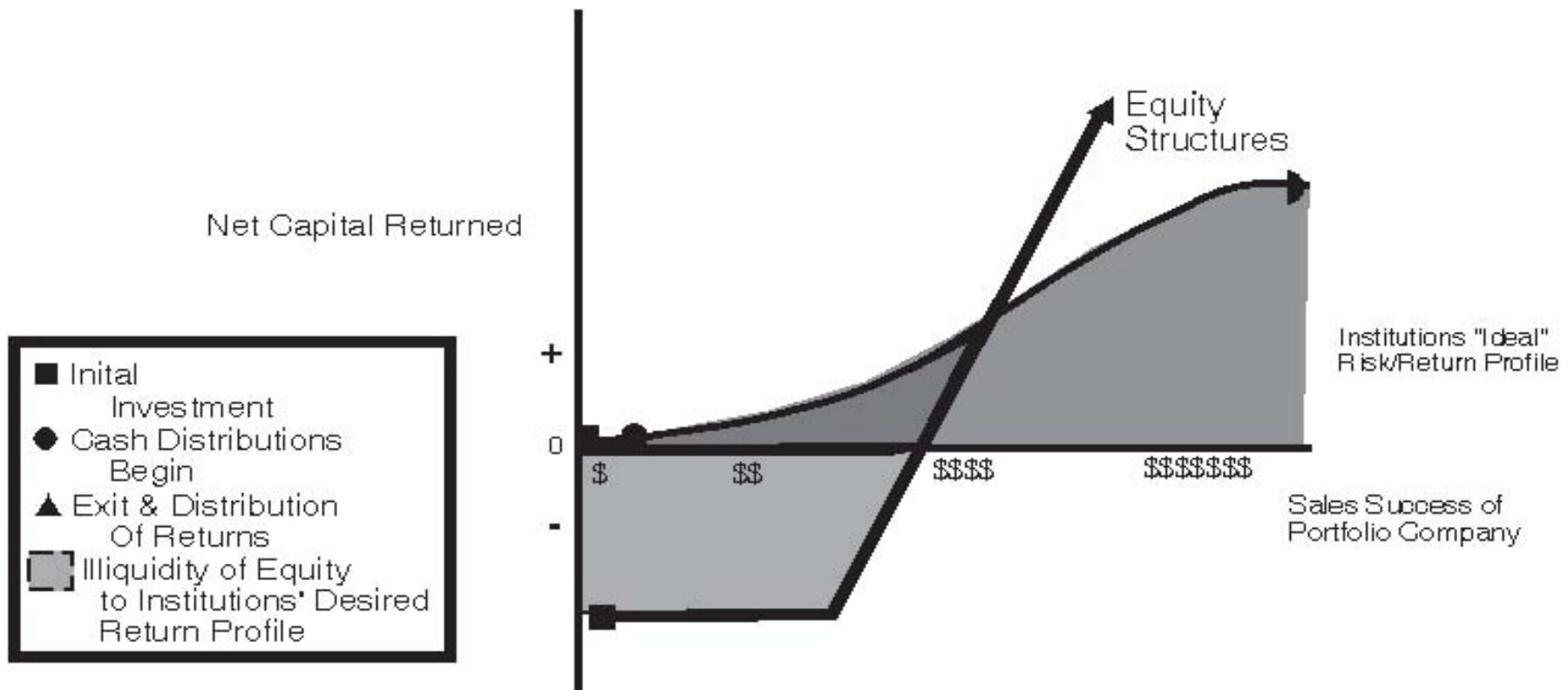
RISK / RETURN PROFILE: EQUITY

Net Capital Returned



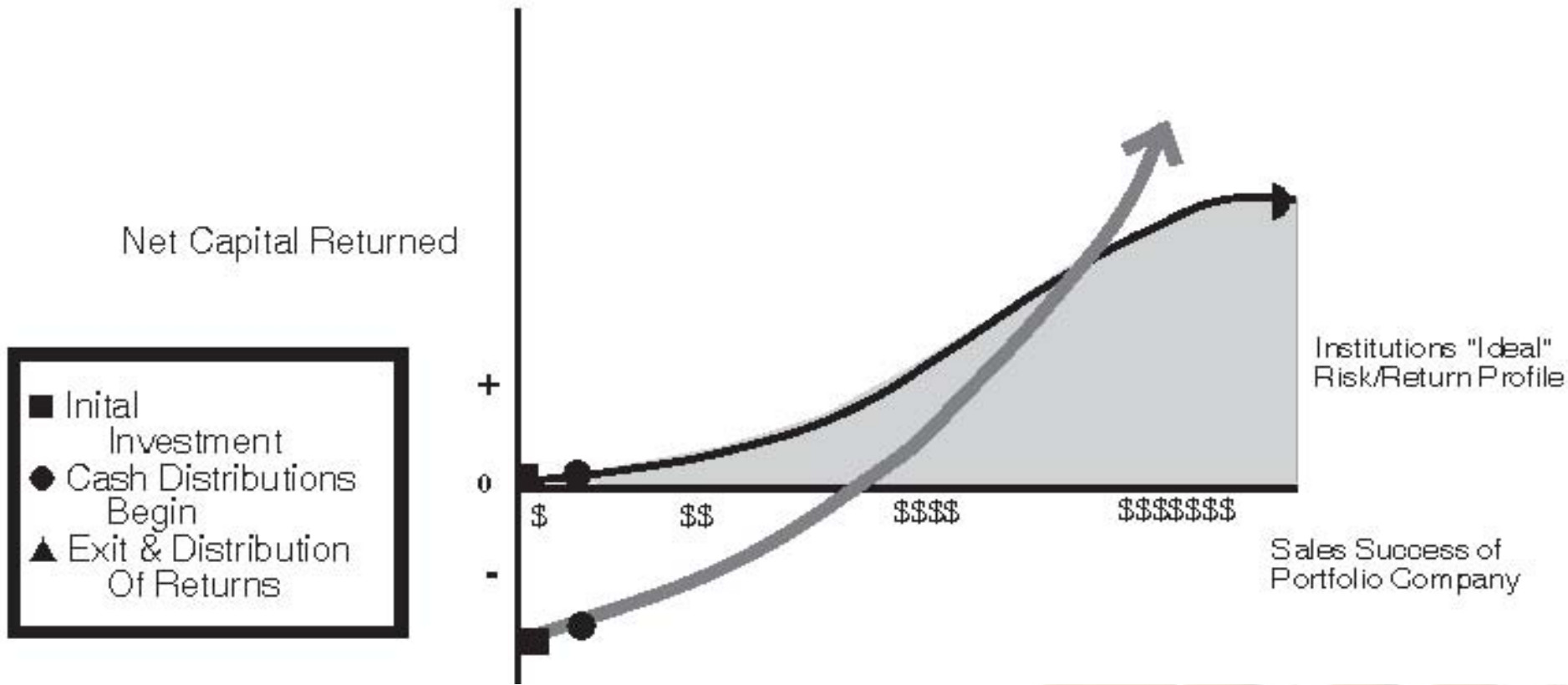
New Directions in CIS Venture Capital

RISK / RETURN PROFILE: EQUITY



New Directions in CIS Venture Capital

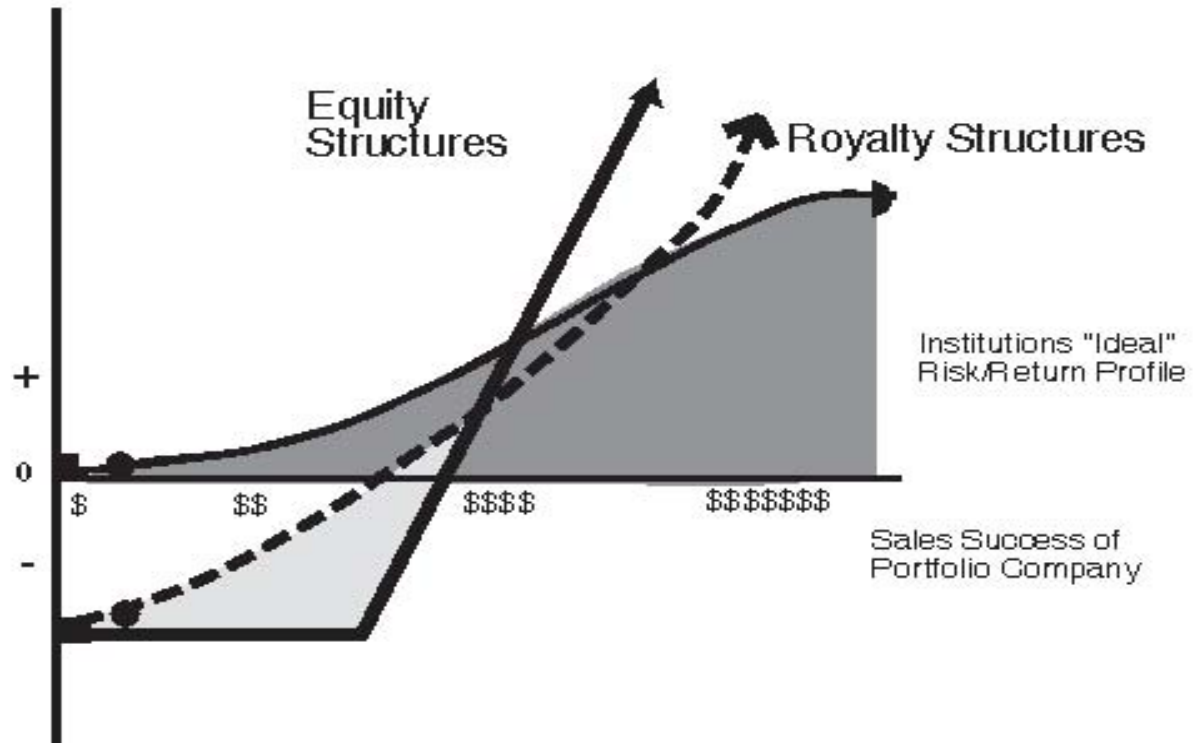
RISK / RETURN PROFILE: ROYALTY



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RISK / RETURN PROFILE: ROYALTY & EQUITY

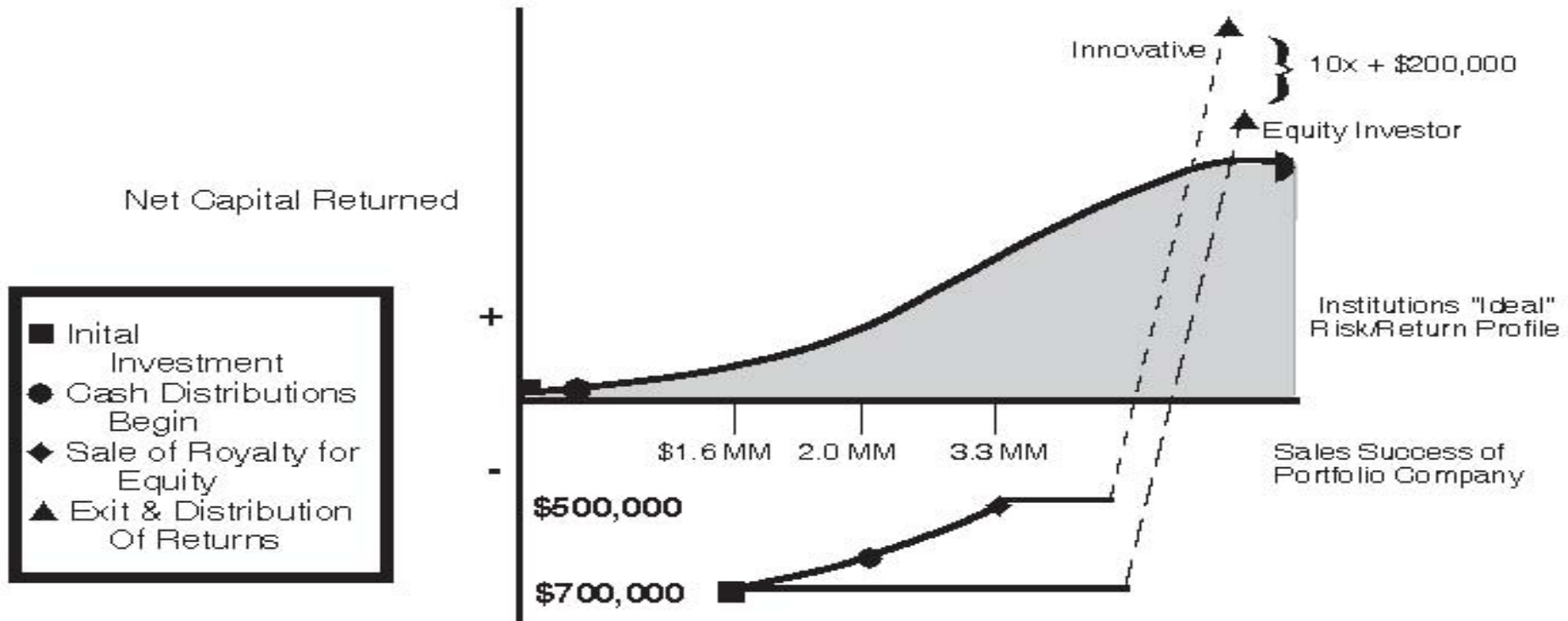
Net Capital Returned



- Initial Investment
- Cash Distributions Begin
- ▲ Exit & Distribution Of Returns
- Improvements in ROI, Royalty v. Equity, to Institutions' Desired Return Profile

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RISK/RETURN PROFILE: MACHINE VISION TRANSACTION



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Experiences in Venture Loan/Royalty
Bases Schemes (New Model vs. 'Sweeten'
ROI

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Recommendations:

1. VC is Only a Partial Answer: Be Flexible to Other Solutions, e.g., Corporate VC, SBIR/SBIC Approaches, Quasi-Equity & Project Financing Structures are Viable to Finance SMEs
2. Create the Environment for VC: Conduct Cluster Analysis & Publish Database Findings

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Document Deal Flow

Conduct Cluster Analysis & Publish Database
Defined: 1) Critical masses - in one place, of unusual competitive success in particular fields; 2) Geographic concentrations of interconnected companies & institutions in a particular field

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Examples of Clusters

Silicon Valley (hi-tech), Hollywood
(entertainment), Detroit/Bavaria (cars) &
Canada (Ex)

Use: Demonstrate to Investors the Presence
of Deal Flow in a Region

Critical Success Factors

- **Entrepreneurial Spirit**

- Canada typically ranks as top 10 entrepreneurial economy in the world (GEM)
- 6th most open economy in the world (A.T. Kearney)
- 4th largest amount of invested private equity in the world (PWC)
- 2nd most active technology venture capital activity market in the world (PWC)
- Projected to be the most competitive economy globally through 2007 (Economist)
- 3rd most competitive economy in the world in 2003 (WCY)

- **World Class Talent**

- Highest penetration of post-secondary education in the world (WCY)
- 2nd largest outsourcing destination for US companies after India
- 8 of the top 100 business schools in the world, 18 of top 40 engineering schools
- Highest computer literacy in G-7
- 1st in the world in management practices (WCY)

- **Quality of Life**

- Top 10 in the UN Quality of Life Index 7 years in a row
- Vancouver, Toronto, Ottawa & Montreal rated in top 25 cities in the world (Mercer)
- Vancouver best city in the world for expats (Economist)
- Same language, time zones, 90% of Canadians live within 1 hour flight to US

Critical Success Factors

- **Infrastructure**

- 2nd in the world in technological infrastructure (WCY)
- 1st in broadband and internet usage in G7, 2nd in the world (Comscore, WCY)
- Top 3 most e-ready countries in the G7 (Booz, Allen Hamilton)
- 4th in the world in business efficiency (WCY)
- ¾ of the world's internet traffic runs on Canadian equipment (ICHRDD)

- **Government**

- 1st in e-government in the world (Accenture)
- 1st in administration of justice in the G-7 (WCY)
- 11 billion in spending on R&D and Innovation by 2005, 2000 new research chairs

- **Low Cost of Doing Business/Competitive Tax Policies**

- Technology labour can cost half as much & often twice as educated
- Canada most cost effective in the G-7, including Austria and Netherlands (KPMG)
- 3rd in the world in tax competitiveness (EIU)
- Capital Gains is now lower than the US, Corporate Taxes to follow
- Personal income tax is in on par, or lower, in many Canadian jurisdictions
- Healthy R&D grant and tax credit system, best in G-7

The Canadian Lineup

Based in Canada or Founded/Taken to World Class Status by a Canadian

- Research in Motion
- Spar
- Ballard Power
- ATI
- Celestica
- Openwave
- Inktomi
- Akamai
- Macromedia
- Electronic Arts
- Sycamore Networks
- QLT
- Red Hat
- Friendster
- Cognos
- Crystal Decisions
- Yahoo
- Creo
- Q9
- Yodlee
- Corel
- Descartes
- eBay
- Platform Computing

Canadian Market Leadership

- **Internet** (eBay, Yahoo, Ice)
- **Aerospace** (Spar, Bombardier)
- **Life Sciences** (QLT, Xenon, Paladin, Aventis Pasteur)
- **New Media** (EA, Discreet, Alias/Wavefront, Softimage, ATI)
- **Alternative Energy** (Ballard Power, GH)
- **Wireless** (RIM, Sierra Wireless)
- **Software** (Red Hat, Akamai, Inktomi, Crystal Decisions)
- **Networks** (Nortel, JDS Uniphase, Mitel, Sycamore)

The Clusters

Canada Second Best Tech Cluster in North America (D&T Fast 500)

Vancouver (Northern Tip of the Venture Silk Route)

- **Schools:** UBC, SFU, Langara, Douglas, Kwantlen & BCIT
- **Strengths:** New Media, Wireless, Life Sciences and Alternative Energy
- **Residents:** Ballard Power, Sierra Wireless, QLT, Electronic Arts & Creo
- **Venture Capital:** Ventures West, Discovery, Yaletown and Banyan

Toronto (Silicon Alley North)

- **Schools:** UofT, Ryerson, York Humber, Seneca & OCAD
- **Strengths:** Software, BioTech, Software, Aerospace & Telecom
- **Residents:** Spar, Celestica, Open Cola & Q9 Networks
- **Venture Capital:** Mosaic, McLean Watson, Jefferson Partners & Edgestone



The Clusters

Waterloo (Technology Triangle)

- **Schools:** U of W, Laurier & Conestoga
- **Strengths:** Software, Wireless and Infrastructure
- **Residents:** Research in Motion, Descartes, Sandvine and Open Text
- **Venture Capital:** Tech Capital Partners

Ottawa (Silicon Valley North)

- **Schools:** U of O, Carleton & Algonquin
- **Strengths:** Software, Telecom, Wireless and Photonics
- **Residents:** Mitel, Corel, JDS Uniphase, Accelio & Ceyba
- **Venture Capital:** Eagle One, Celtic House & Skypoint

Montreal (Les Techabitents)

- **Schools:** McGill University, U de M, Laval, Concordia & CEGEP
- **Strengths:** Software, Telecom, New Media & Aerospace
- **Residents:** BCE Emergis, CGI, Bombardier & Zero Knowledge
- **Venture Capital:** Sofinov, Innovatech Grand Montreal & GSM



New Directions in CIS Venture Capital

This is Not Cluster Analysis

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



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Questions & Answers Discussion

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