



# New Directions in CIS Venture Capital

World Bank Seminar:  
Enhancing Latvian Competitiveness in Innovation  
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Innovative Ventures Inc.  
Grand Rapids MI USA  
Moscow Russia

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# New Directions in CIS Venture Capital

## 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. 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

# New Directions in CIS Venture Capital

## 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



# New Directions in CIS Venture Capital

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



# New Directions in CIS Venture Capital

## 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.

# New Directions in CIS Venture Capital

## 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



# New Directions in CIS Venture Capital

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.

# New Directions in CIS Venture Capital

## Realities of VC (Creating a Domestic Industry)

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. Needs Access to Liquidity (Capital Mkts/Strategic Buyers)

# New Directions in CIS Venture Capital

## 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%

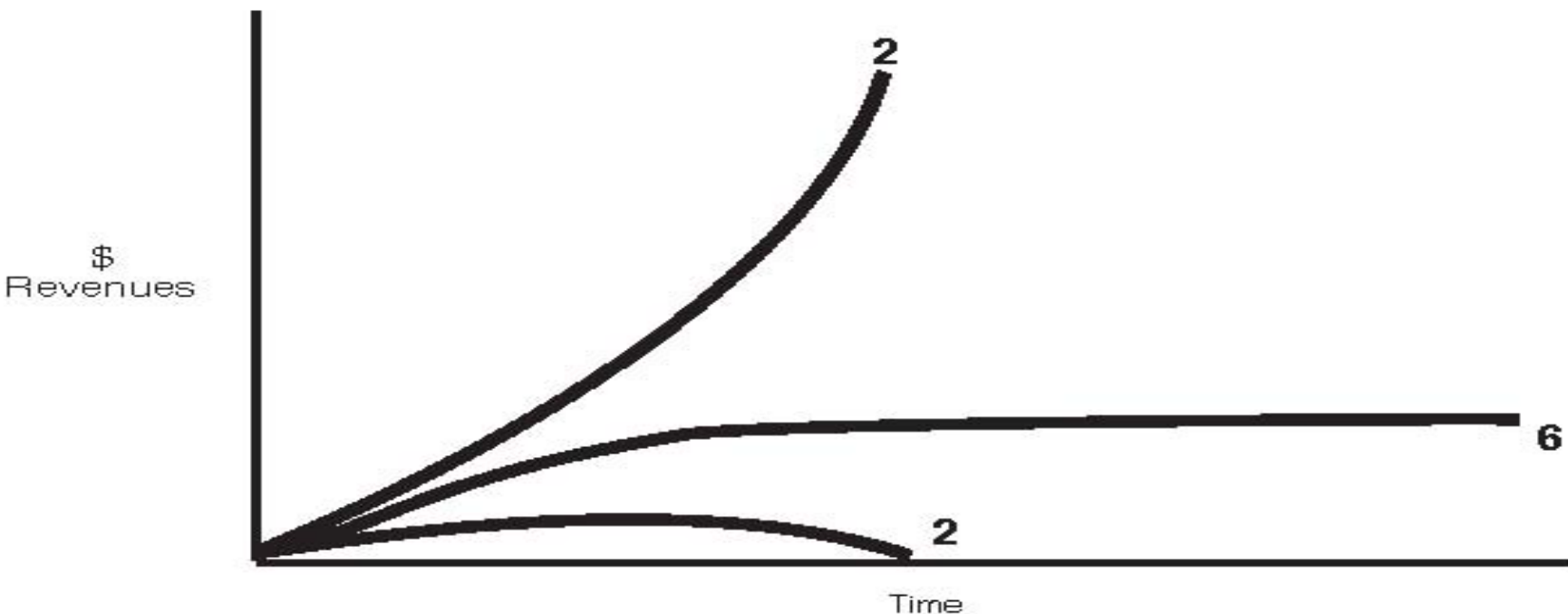
**Combined Probability of Success**

**17%**

**Reason why Invest 1 of a 100**

# New Directions in CIS Venture Capital

## Private Equity 2-6-2 DISTRIBUTION OF RETURNS RULE



# New Directions in CIS Venture Capital

## Realities of Emerging Market VC (Creating a Domestic Industry)

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

Too small of an opportunity

People (mgt)

No liquidity

What to do with the SMEs that seek VC, but are rejected?

# New Directions in CIS Venture Capital

## Improving Access to S\$ (Additions to VC)

### 1. Build Relationships with Int'l Corporations

Corporate Cross-border Partnering

Corporate VCs (Int'l)

(Improves deal flow too)

### 2. Consider Venture Loan & Royalty VC Strategies to Finance SMEs that Can't Raise Equity (VC)

Medium Growth/Family Held Companies

# New Directions in CIS Venture Capital

## Improving Access to More \$\$

Bring More Corporations to the CIS

Corporate Characteristics:

Global Search for Technology

Internal Incubation Group

Internal VC Dept., & Invest in VC Partnerships

Objective: Create Cross-Border VC  
Investments & Funding of R&D

# New Directions in CIS Venture Capital

## Example: Shell Technology Ventures & IVI

Objective: Identify technology to commercialize to market by:

- A Transfer of IP (License/Sale of 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

# New Directions in CIS Venture Capital

## Improving Access to More \$\$

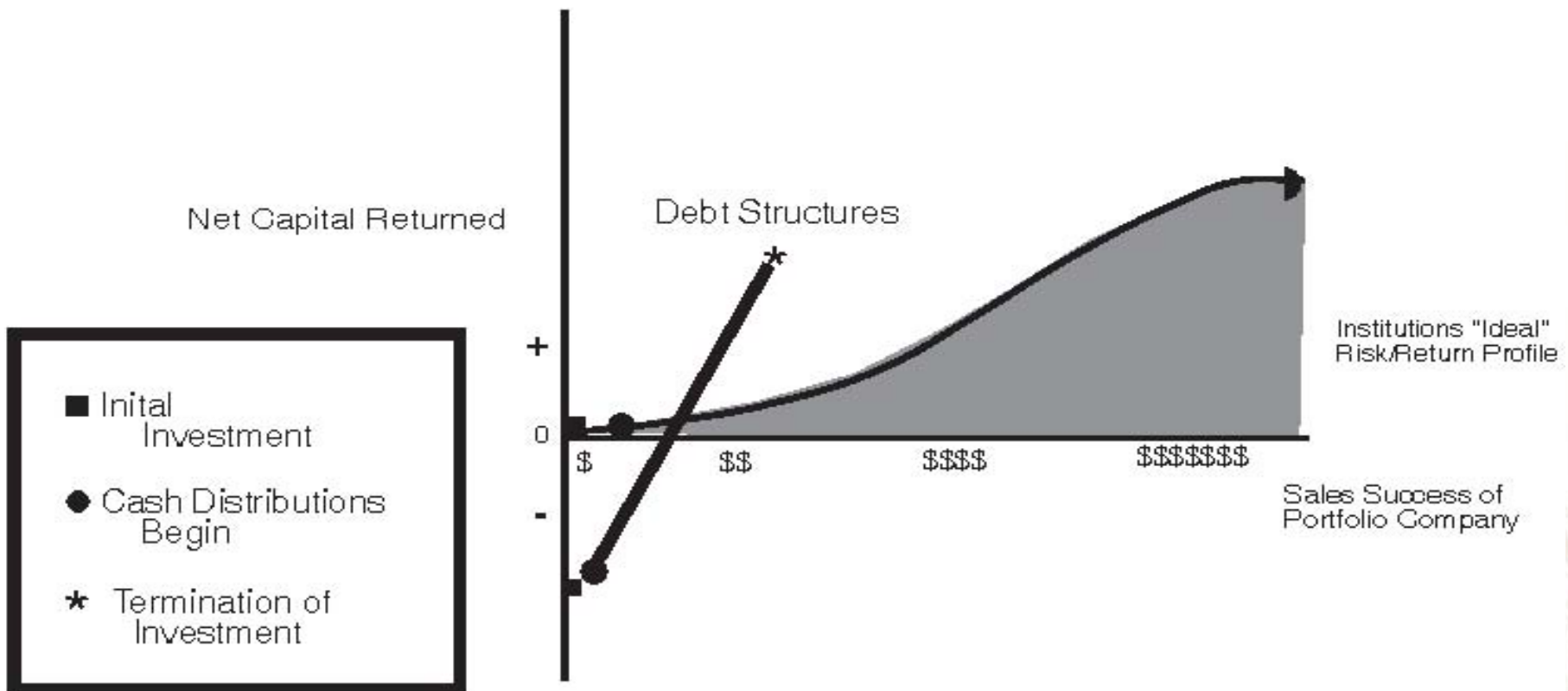
Consider Venture Loan & Royalty VC  
Strategies to Finance SMEs that Can't Raise  
Equity (VC)

Medium Growth Businesses

Family Held Businesses

# New Directions in CIS Venture Capital

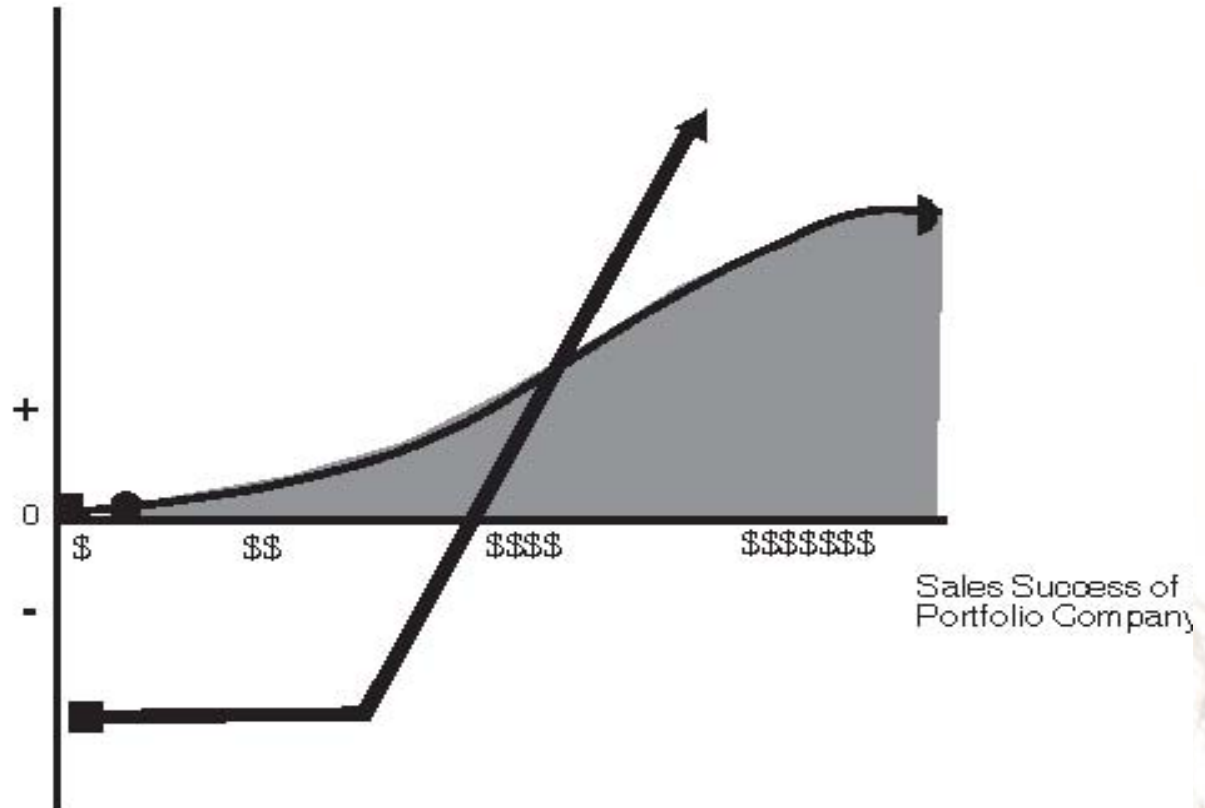
## RISK / RETURN PROFILE: DEBT



# New Directions in CIS Venture Capital

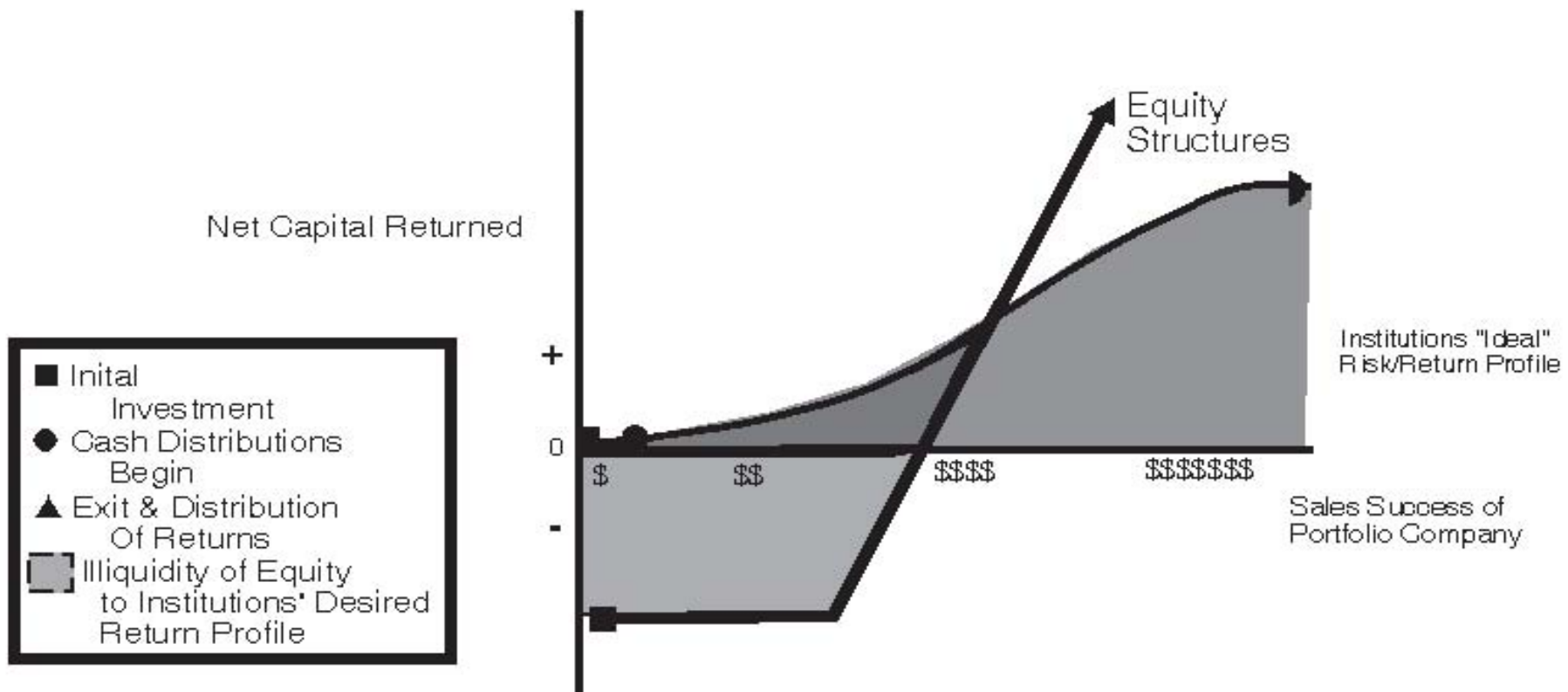
## RISK / RETURN PROFILE: EQUITY

Net Capital Returned



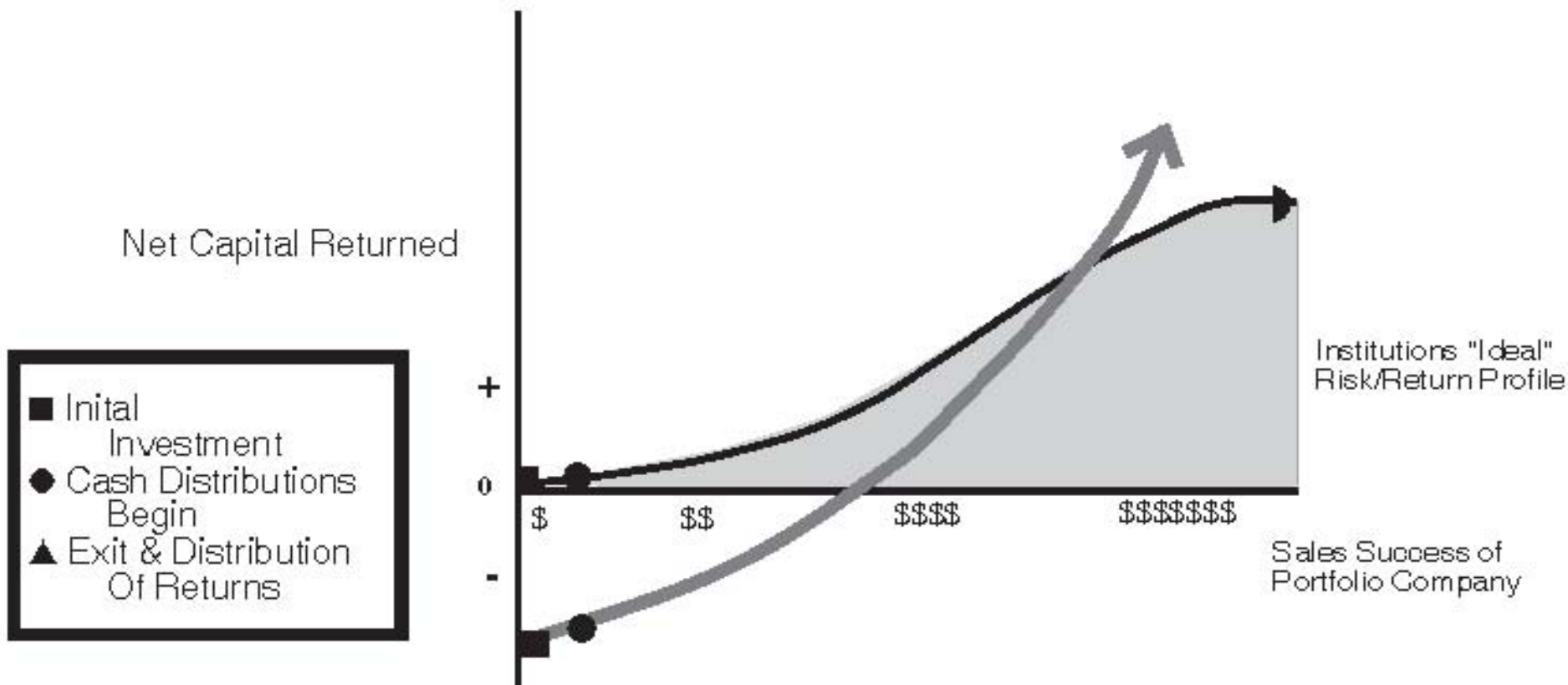
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## RISK / RETURN PROFILE: EQUITY



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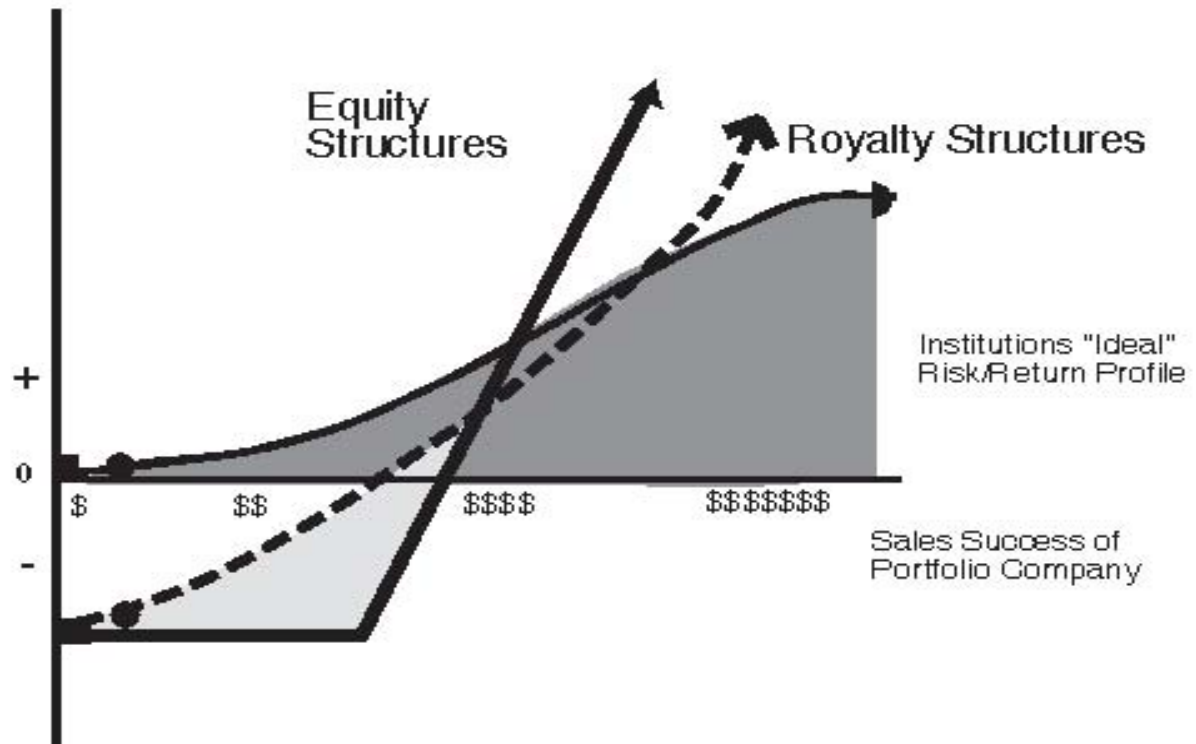
## RISK / RETURN PROFILE: ROYALTY



# New Directions in CIS Venture Capital

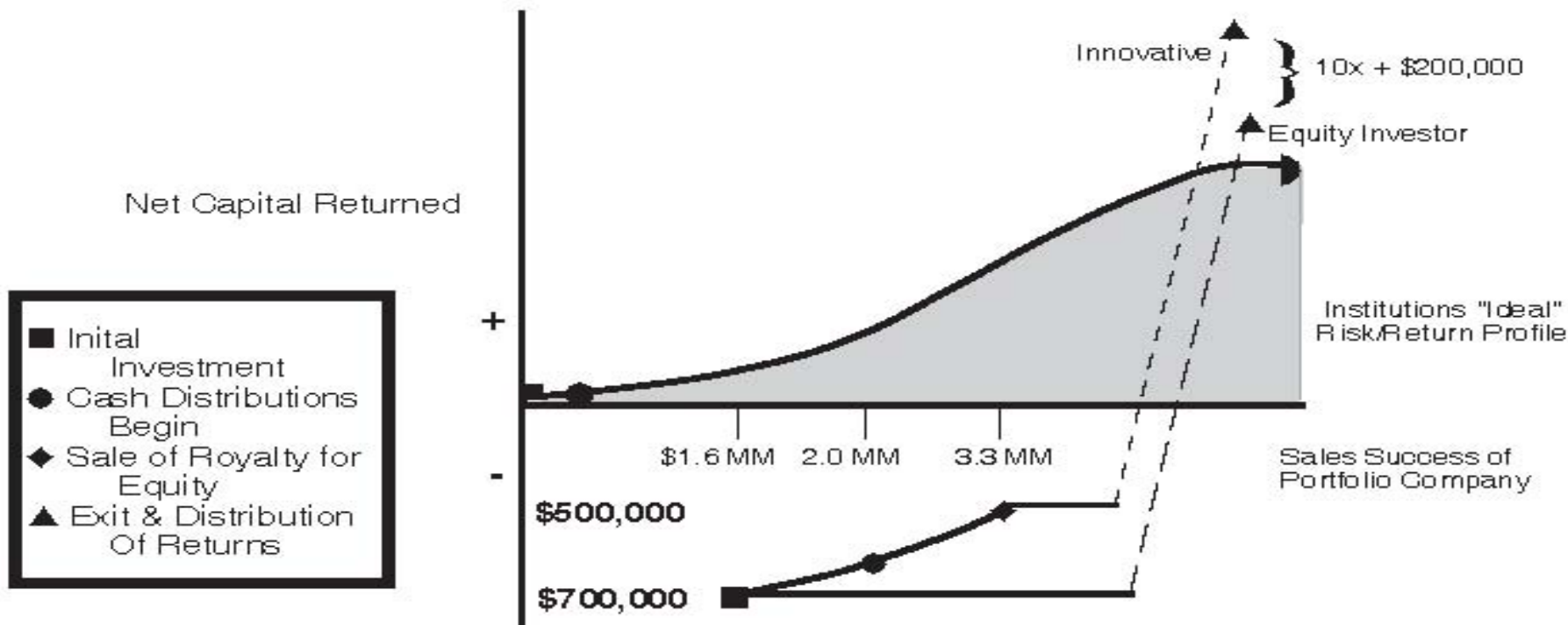
## RISK / RETURN PROFILE: ROYALTY & EQUITY

Net Capital Returned



# New Directions in CIS Venture Capital

## RISK/RETURN PROFILE: MACHINE VISION TRANSACTION



# New Directions in CIS Venture Capital

## Experiences in Venture Loan/Royalty Bases Schemes

C\$100MM Venture Loan Fund- Federal Bus  
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2. Create the Environment for VC: Conduct Cluster Analysis & Publish Database Findings

# New Directions in CIS Venture Capital

## 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

# New Directions in CIS Venture Capital

## Examples of Clusters

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

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

# 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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