

Start-Up APEC Conference II: Business to Global Market

25 September 2013
Lima, Peru

Discussion with Thomas D. Nastas

www.scalingupinnovation.com

www.IVipe.com

With the Trillions of \$ Invested in:

- Real Estate/Construction
- Consumer, Food & Beverage
- Retailing
- Mining & Minerals
- Manufacturing
- Agriculture/Fishing

No Shortage of \$ in Latin America





The Challenge: Catching Money in Latin America

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Model of Development



Another Model of Development

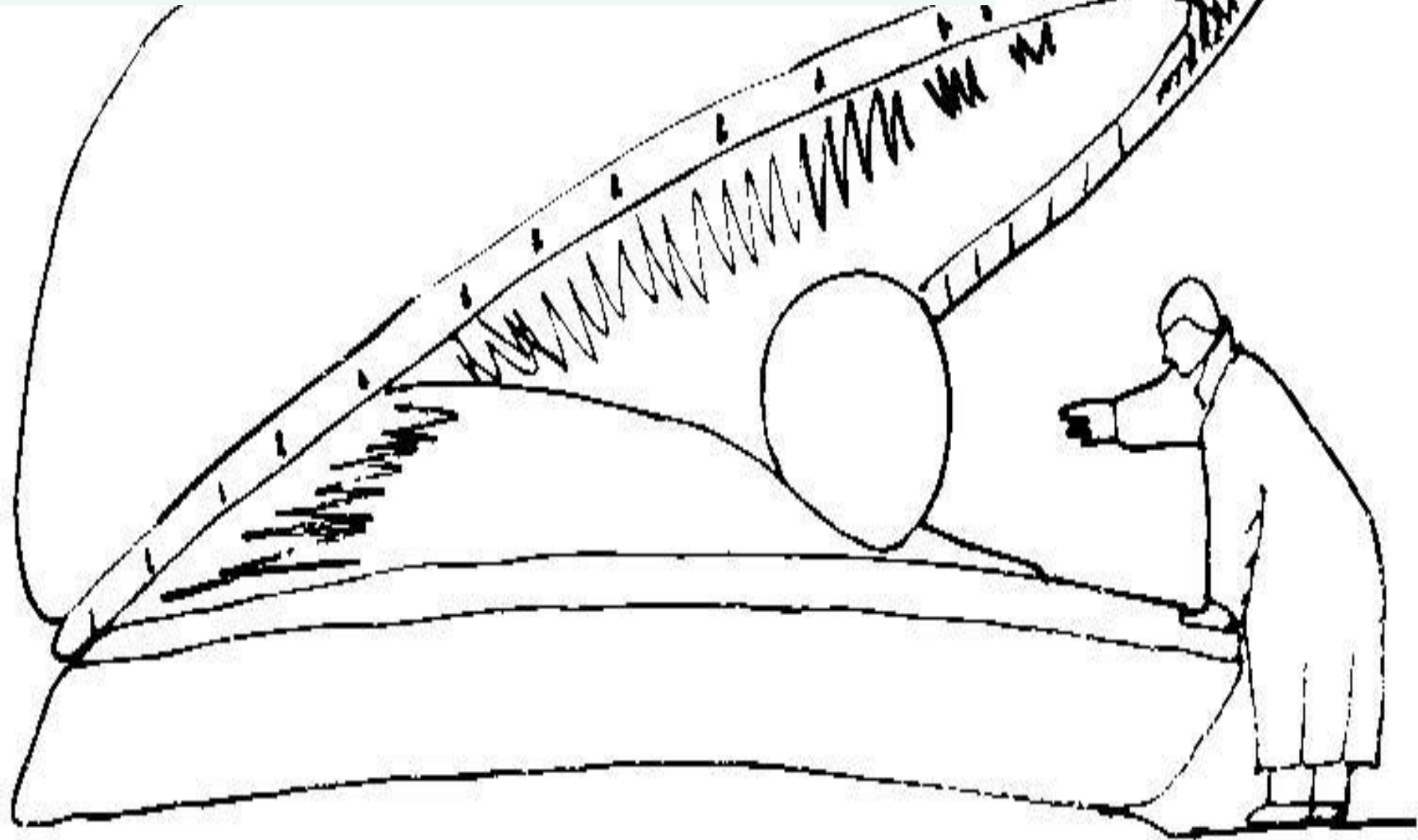


What Worked for Arnold



Didn't Work for Me!

Culture of Risk in Emerging Markets Drive Investor Behavior



Nastas—IVI: Investors/Partners & Funds—Financing Entrepreneurs

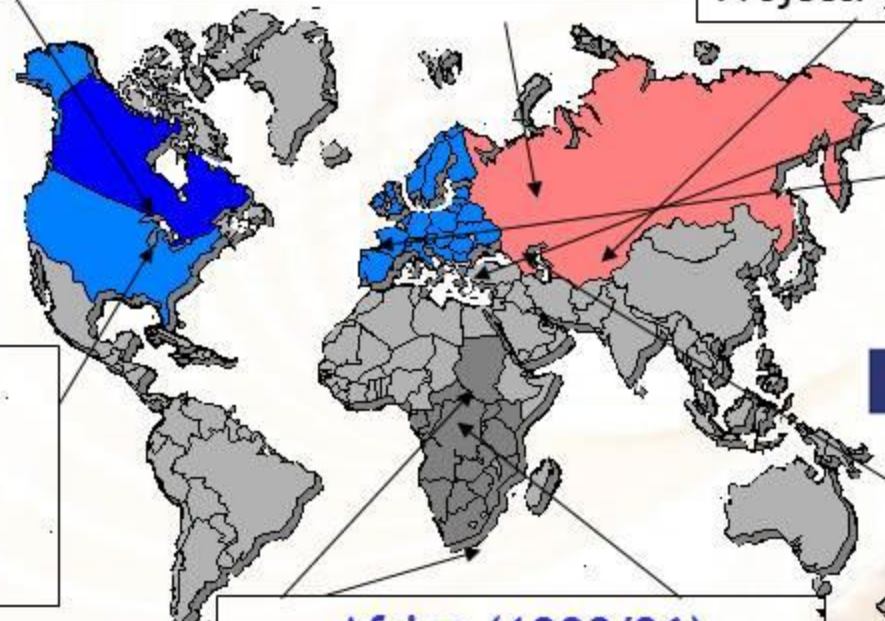
Russia (2005): CIS Hi Tech Partnership Initiative: Investor-Shell Oil, Shell Tech Ventures + IVI



Kazakhstan (2010)-Present
 \$85MM Tech Commercialization Project. \$ from



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



Europe (1992/94)
 Tech Fund, \$10MM-EU, \$5MM Financière St Dominique, Paris



USA (1986)
 Investor-The Michigan Product Dev. Fund (\$4MM)



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



Africa (1993/96)
 E. Africa \$5MM, Sub-Saharan, \$280MM, South Africa, \$30MM, Investors-IFC/World Bank



**“Lessons from the
Battlefield”**

**“Lecciones del
campo de batalla”**





**“Failure Accepted
in the USA”**



The Culture
Enabled these
Early Failures to
Achieve



WELCOME
TO
FAIL
POPULATION: YOU

**But Failures in L.
America are
Losers for Life**



= Learning

Experimentation
is Financed in
USA



**Experiments
Simply Waste \$
in L. America**

**With So Much \$ Seeking
Opportunity**

Why is it Such a Struggle?

to Get Local Investors to Open Their Wallets



**& Finance Technology, 1st time
Entrepreneurs & Early Stage SMEs?**

For Example—Russian Oligarchs: Plenty of \$ to Invest in Tech



Net Worth-\$14 Billion



Net Worth-\$15 Billion




Net Worth-\$11 Billion



Net Worth-\$18 Billion

Reasons Why Wealth Not Invest in Tech—Say Entrepreneurs

Reason #1 “Wealth Takes No Risk, Only Invest in Sure Things”



In Moscow, this Construction Site Sat Unfinished for 2 years, No Cash Flow, No Revenues, No Customers

\$2 Billion Invested—No Customers, No Cash Flow—Nastas Comment: “Gee—Seems like Big Risk to Me”

Reasons Why Wealth Not Invest in Tech—Say Entrepreneurs

Reason #2 “Wealth Does Not Invest in Start-up Projects”

Every Building Begins with a Hole in the Ground



Nastas Comment: “Gee—Looks like a Start-up Project to Me”

Reasons Why Wealth Not Invest in Tech—Say Entrepreneurs

Reason #3 “Tech is Small \$”

IPO Valuation: \$11 Billion

ЯНДЕКС



IPO Valuation: \$5 Billion

@mail.ru
group

Nastas Comment: “Gee—Seems Like Big \$
to Me”

Risks Typically 'Bought:'

- Real Estate/Construction
- Consumer, Food & Beverage
- Retailing
- Mining & Minerals
- Manufacturing
- Agriculture/Fishing

*Even in Greenfield Projects,
Markets & Customers Are
Guaranteed*

Results Assured if Execution
is Successful



Uncertainties of Technology



“Does a Market Exist?”

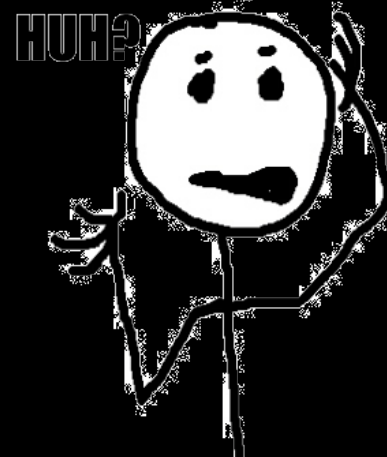


“Will They Pay?”



“Will the Tech Work?”

“Do Customers ‘Get It’?”

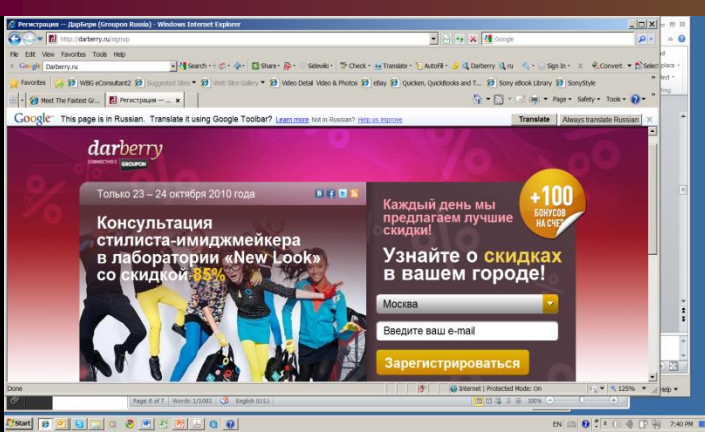




So How Impact the DNA of Investors?

- for Tech/Innovation
- to Venture Stage SMEs
- Possible to 'Shape' Deals to
DNA of Investors?

**Execute Business Models Which
Match the Risk Behavior of Local \$ in
Emerging Markets—Risks Which
Domestic Investors ‘Buy’**



Darberry, a Groupon Clone, localized for the Russian Market

1. Feb 2010—raise \approx \$10k, programming, staff of three.
2. May 2010—raise \$50k, market launch, staff of eight.
3. July 2010—raised \$100k—for sales & mkting
4. August 2010—acquired by



Darberry Major Force in Catalyzing the 'Start-up of Russia:' Tsunami of E-Commerce Clones

- Last Count, 80+ Seed Deals Transacted
 - 45+ Early Stage SMEs
- Total \$ Committed > \$1 billion
- Deal Size, \$100k-\$90MM



Clones Circumvent the Risks that Scare Local \$

- Low Investment
- Fast & Big Revenues
- 3-6 Months, Concept to Launch

Cloning as a Start-up Strategy

- **Many Possess the Revenue & Investment Characteristics of Expansion Stage SMEs**
- **Are Business Models which 'Match' the Risk Behavior of Local \$, i.e., Domestic Investors in Emerging Countries**

Clones Drive Innovation into the Supply Chain

- **Logistics and Delivery**
 - **Payment Systems**
- **Investors Gain Experience Needed for More Ambitious Investing as the Market Develops**

Which Explains Why Cloning is the 'Virus' Sweeping the Developing World



Other Initiatives

**To Scale the Start-Community & the Venture
Capital Ecosystem?**

Deal Flow Funds Centered Around a Platform

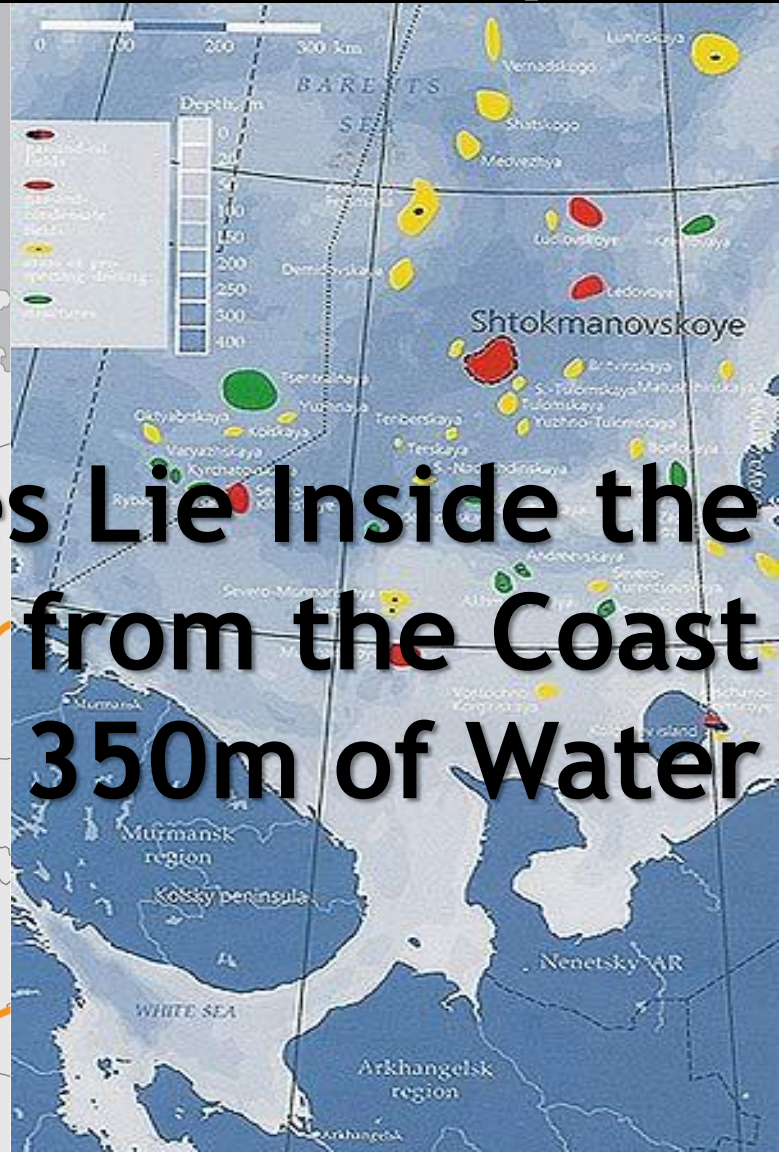
Deal
FLOW

Finance Creation of New Technologies & Technical Solutions

- Focus & Channel Scientific & Engineering Talent to Specific Needs to Specific Problems



Let's Take the Natural Gas Shtokman Project as 1st Example



Reserves Lie Inside the Arctic, 555km from the Coast of Russia, in 350m of Water

It Contains Breathtaking Wealth

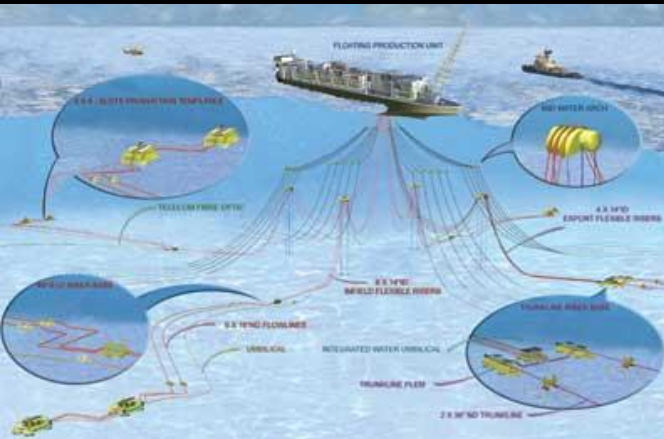
- Gas Reserves=3.2 Trillion cubic meters + 31MM tons of condensate, spread over an area of 1,400m²



- Exploiting Reserves, Environmentally Safe & Economically Requires New Technology That *Does Not Now Exist*

Challenge #1

Design, Build & Operate the 1st Floating Platform for Pack Ice



- Ice, 3m Thick, Uneven Ridges
 - Able to Withstand Impact of Icebergs Weighing 1-2 Million Tons, Drift at 0.25m/second & 1.2m Drift Ice Moving 1m/second



Challenge #2

Transport Gas Over an Uneven Seabed 565 km from Production to Receiving

- Operate to -45C°



Accomplished

- Reliably
- Environmentally Safe
- Economically Viable Over the Entire Supply Chain



Deal
FLOW

Finance Creation of New Technologies & Technical Solutions

- Focus & Channel Russian Scientific & Engineering Talent to Specific Needs to Specific Problems
- Oil/Gas as a Fund Too Broad & Too Horizontal to Catalyze Ideas



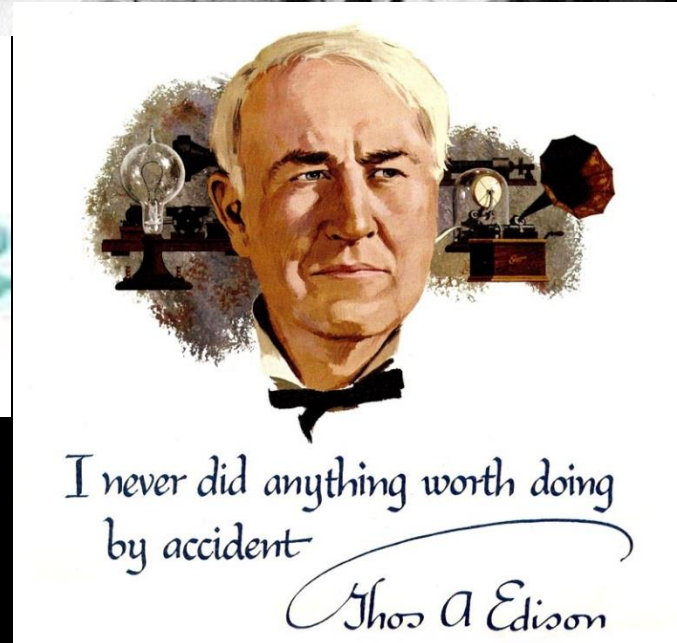
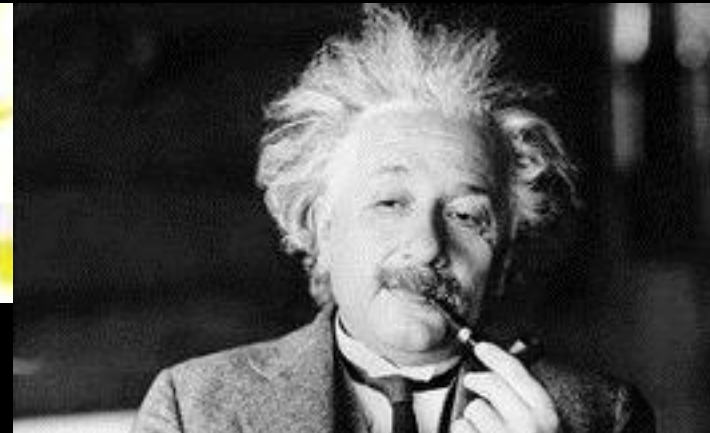
Tech Solutions Not Russia Limited

Deal
FLOW

- More Exploration in Hostile Environments—Extreme Cold, Deep & Far Off-Shore
- New Tech for Export, a Small But Substantial Success for Russia in the Global Community



Connect Scientific Talent & Entrepreneurs



Linked to National Priorities Requiring Solutions



Solution #2: For Investors

Venture initiatives (e.g., deal flow funds) 'shaped' to risk behavior of local investors
+
mentor to build an early stage tech portfolio

Solution #1: For Entrepreneurs

'Shape' business models (e.g., clonentrepreneurship) to risk behavior of local investors
+
mentor entrepreneurs to 'sell risk—then opportunity'

Solution #3: For Development Finance Institutions & the Gov't
Grant schemes which make technology more commercial, e.g., model to \$85MM Tech Commercialization Project in Kazakhstan

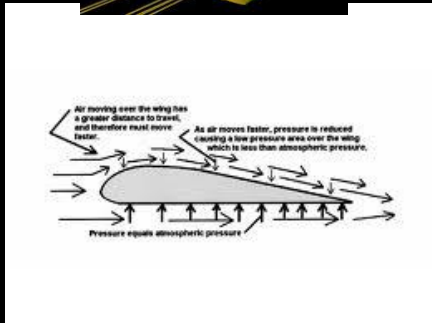
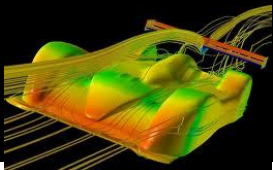
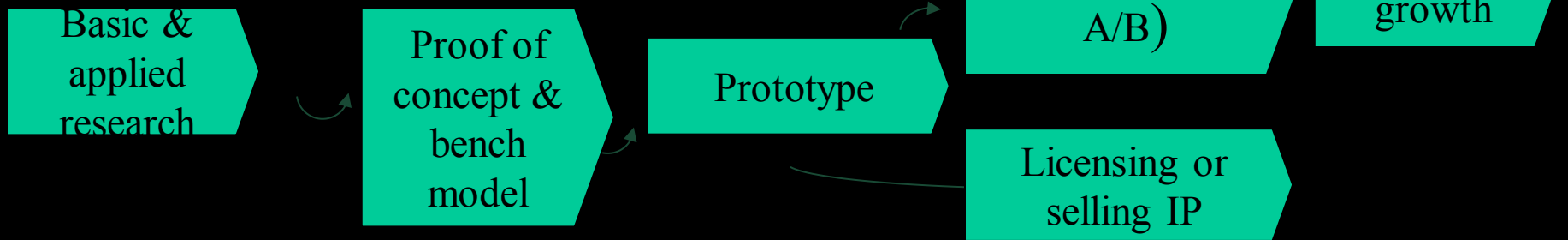
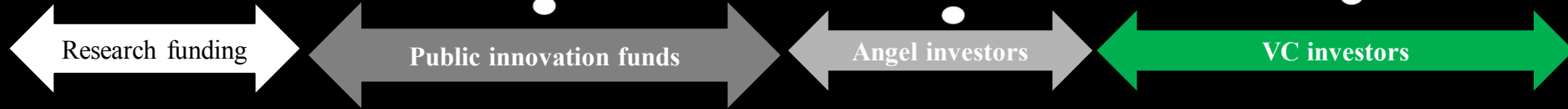
"Initiatives to Build a VC Ecosystem"



Other Ecosystem Issues: How Create?

- Culture of Licensing
- Culture of Commercialization
 - Globalize Talent

What Gaps Exist in Your Country?





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