

Venture Capital Lessons from Eastern Europe

Stanford University

European Entrepreneurship & Innovation Thought Leaders

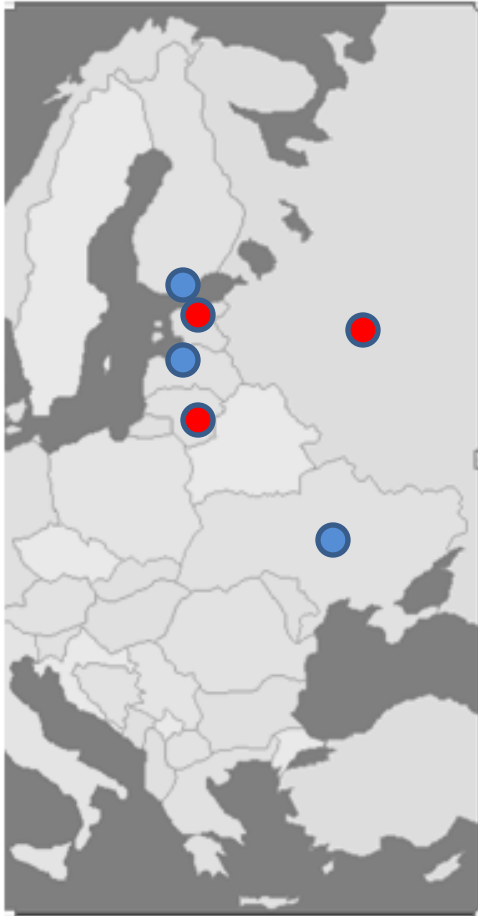
School of Engineering

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MTVP

MTVP summary



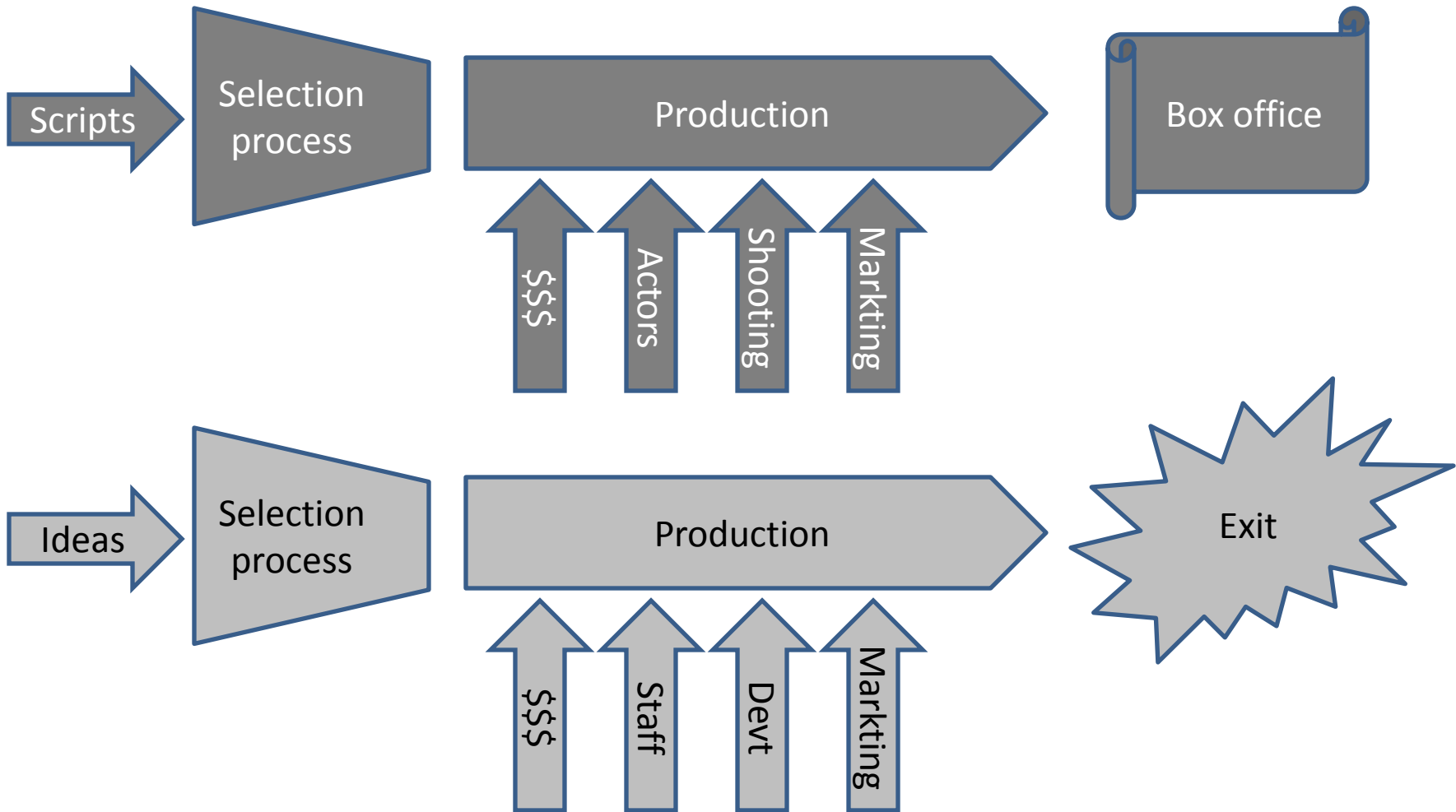
- Eastern European VC
- Focus on internet and software
- 3 cities
- 4 people
- 9 companies (3 exited)
- >20m in Fund I
- Fund II in process



What does Venture Capital
produce?

Mature Companies

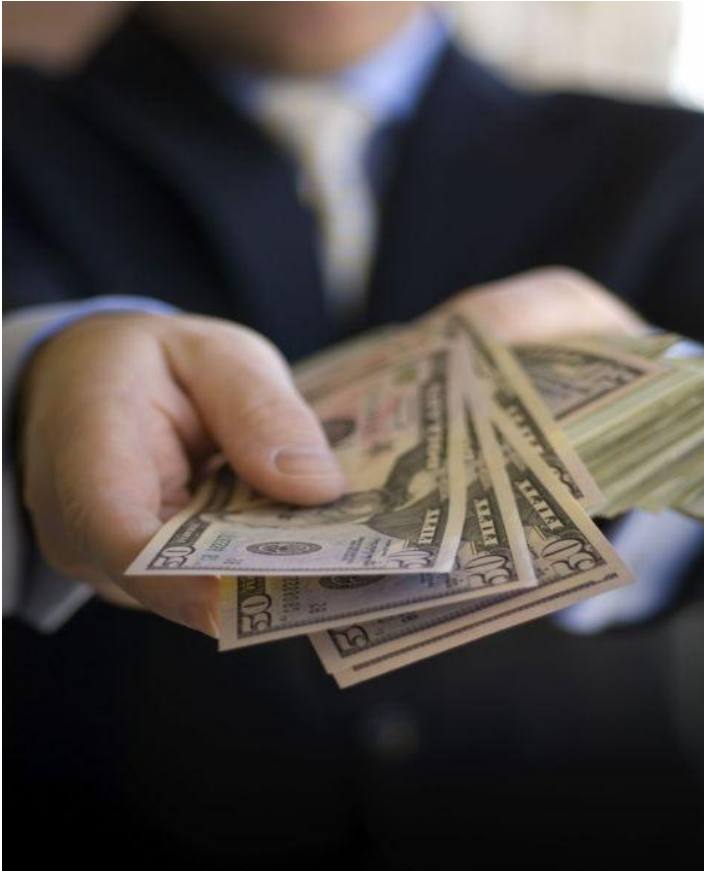
Hollywood vs Venture Capital



Hit-driven



And return-driven



**The 3x
magic**

Silicon East?



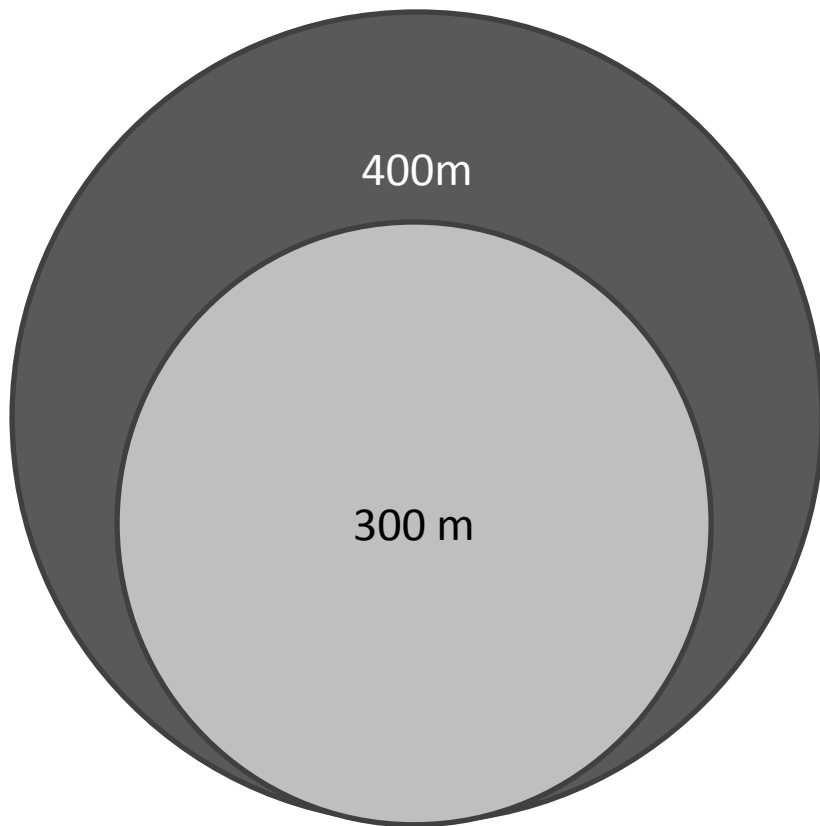
CEE in a nutshell

- 400 m people *
- 28 countries
- >50 languages
- 300 m cellular users
- 135 m regular internet users

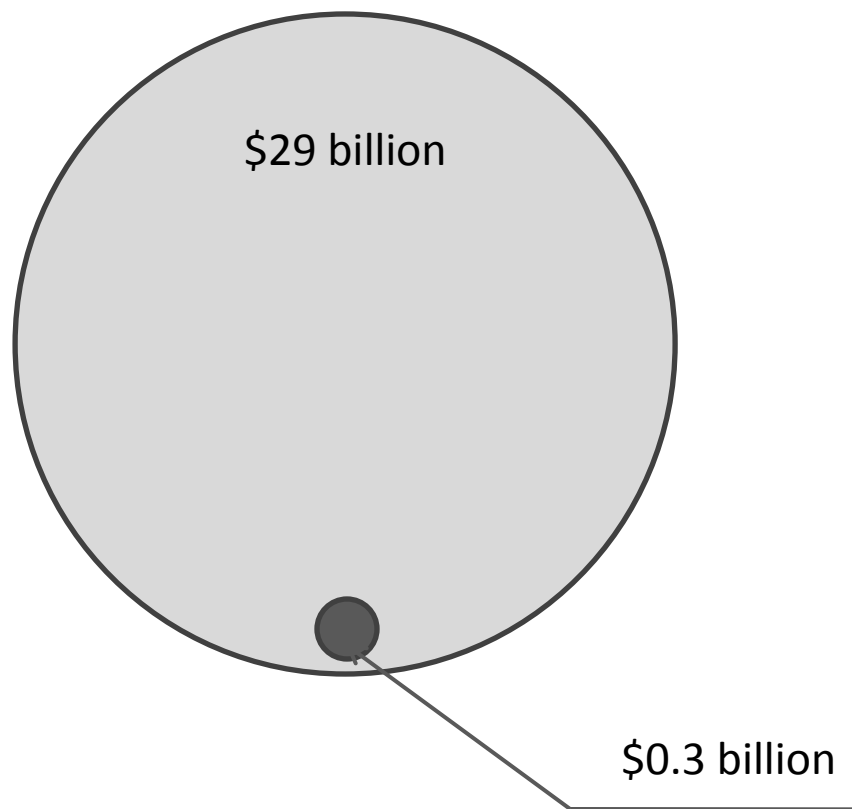


- (*) includes Central Asia

Population



VC financing 2008



United States



CEE

Three waves of CEE VCs

Vintage 1999-2003

- Launched into dot-com boom
- 5-6 funds
- Backed by financial institutions or corporations
- Strong returns after initial failures
- 3TS, Intel Capital, Runet Holdings, LHV New Economy Ventures, MCI

Vintage 2004-2009

- Launched into CEE growth boom
- 20-30 funds
- Backed by the governments, financial institutions or corporations
- Often very young management teams
- Questionable returns
- MTVP, ASI, Cisco, VTB, Troika etc

Vintage 2010-2015

- To be launched amid global scepticism
- 5-10 funds
- Often backed by the governments
- Strong and experienced management
- Strong returns

CEE success stories >\$500m



CEE success stories €50-500m

DELFI



Centrum.cz



begun™

mamba™



<epam>



PROKOM
SOFTWARE SA



aelita
SOFTWARE

KASPERSKY.io

LogMeIn®



GRAPHISOFT
Virtual Building Solutions

Who have been successful?

- 😊 Local internet companies
- 😊 Software product companies
- 😐 Service companies
- 😐 Mobile content & software
- 😞 Global or regional internet companies
- 😞 Electronics & equipment

Hurdles in VC process

- **Fundraising:** Extremely complicated in post-2008 era
- **Pipeline:** hundreds of companies per year, mostly very early stage
 - Main problem: Lack of ambition
 - Solution: Find ambition, teach skills
- **Dealmaking:** often high valuation expectations
- **Adding value:**
 - Main problems: understanding of corporate governance + expansion on international scale
 - Solution: Pick teams with right chemistry, make early cross-border push
- **Exits:** relatively problem-free

Winning VC formula

- **Fundraise** wherever you can, merge with other VCs if necessary
- Cast a **wide net** over the region to see **all** promising teams
- Initiate deals **actively**
- Negotiate **reasonable** teams
- Push companies to become **international** very quickly
- Build “internal Silicon Valley” – seek portfolio **synergies**
- Keep **costs** down and be ready for **surprises**
- Exit to **global** or at least regional players

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MTVP Fund I portfolio

Exited		<ul style="list-style-type: none"> ■ Russian offshore software development company ■ Sold to Technoserv in 2008
		<ul style="list-style-type: none"> ■ Lithuanian data communication provider ■ Sold to Baltnet in 2008
		<ul style="list-style-type: none"> ■ Baltic franchise of Music Television ■ Sold to Ananey Communications in 2008
Remaining in the portfolio		<ul style="list-style-type: none"> ■ Hosting and data centre provider in Lithuania ■ Annual growth of service revenue of 40% over the last three years
		<ul style="list-style-type: none"> ■ Leading computer game & multimedia publisher in Russia ■ EUR 90m in 2008 sales, growth 100% (2007), 60% (2008)
		<ul style="list-style-type: none"> ■ Leading social networking operator in Balkans & other “exotic Europe” ■ 2 m monthly users, EUR 0.4m in 2008 sales
		<ul style="list-style-type: none"> ■ Finnish operator of casual games communities ■ 1.5 m monthly users, EUR 2m in 2008 sales
		<ul style="list-style-type: none"> ■ American-Ukrainian developer of synchronization technologies ■ EUR 3.5 in 2008 sales
		<ul style="list-style-type: none"> ■ Baltic video portal startup

CEE VC landscape

Fund	Geographic focus	Years in the market	No of investments	Comment
MTVP	CEE, Russia, Finland	4	9	Fund I (2005), Fund II (2009)
Runet Holdings	Russia	9	15	Rather a holding backed by VC/PE funds
Digital Sky Technologies	CEE, Russia	3	~10-15	Development company backed by successful internet entrepreneurs and few investors
Mint Capital (Mint I)	Russia	8	6	Mint II focuses on larger cap PE investments
Almaz Capital	Russia	1	1-2	\$100m+ fund, backed by Cisco and IFC
VTB-DFJ Aurora	Russia	1	12	Backed by state fund-of-funds RVK and VTB
Finam IT	Russia	6	~10	Backed by mother-company investment bank Finam
OpenView / Insight Venture Partners	Global	5	3	Only later stage software companies. Driven by S. Maxwell (ex-Insight; MP OpenView)
Mangrove Capital	Global	8	4	Invests in Russia together with ABRT fund
Ambient Sound Investments	Global	3	11	Private fund backed by Skype's Estonian founders
3TS Capital Partners	CEE	10	18	2 tech funds (Sitra, 3i, Cisco), 1 general PE
MCI Management	CEE	10	~20	Listed management company, 3 tech funds under management