



Why we are touching international geographies and riskiest asset classes

VIII Russian Private Equity Congress

10:00 – 11:30 Panel Session: “Between East and West”

Moscow, 29 September 2016

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Sistema Asia Fund Advisory

Sistema Asia Fund – CVC fund of AFK Sistema



- The fund was launched 11 months ago, and is incorporated and managed in Singapore
- Fund's focus:
 - technology enabled consumer and business companies
 - Series B and onwards
 - India and South East Asia
- Initial Sistema's commitment: \$50M
 - 3 investments completed
 - co-investors include Amazon, Accel Partners, and top-tier Indian funds
- Rationales:
 - Diversify from Russian risk
 - Gain new asset class expertise
 - Leverage our Indian and Russian experience
- Roadmap: build largest European VC Fund in India

End of Industrial Era: technology startups overtake blue chips



- Conventional business (S&P 500 and peers): labor productivity has more than doubled since 1965 (8x growth factor for some industries)
- During the same period Economy-wide Asset Profitability declined 75% (Return on Assets)
- Same research mentions increasing “Topple” rate in blue-chip companies:
 - In 1930’s a company coming on the S&P 500 list could expect to remain there for 65 years
 - In 2000’s the average life-time of a company on the S&P 500 has declined to 15 years (-80%)
- New majors appear more often and grow exponentially, if just recently typical Fortune 500 company reached \$1B MCap within 20 years, lately it has been taking companies significantly less time:
 - Google – 8 years (1998)
 - Facebook, Spotify – 5 years (2004, 2006)
 - Tesla, Uber, coupang, wework – 4 years (2003, 2009, 2010, 2010)
 - lyft, Blue Apron – 3 years (2012, 2012)
 - Snapchat, Games Global, ZhongAn Insurance – 2 years
 - Lianjia – 1 year (2015)
- Majority of new majors have global operations the day after “day one” – enormous scaling potential

How institutional LPs evaluating international PE/VC risk?



- **Fundamental macroeconomics**
- Developed capital markets
- Taxation
- Investors' rights protection and corporate governance
- **Culture and education of the population**
- **Entrepreneurial potential**
- ...

Fundamental macroeconomics – BRICS (illustrative)



- At a very top level Russia looks like relatively small market (and declining)

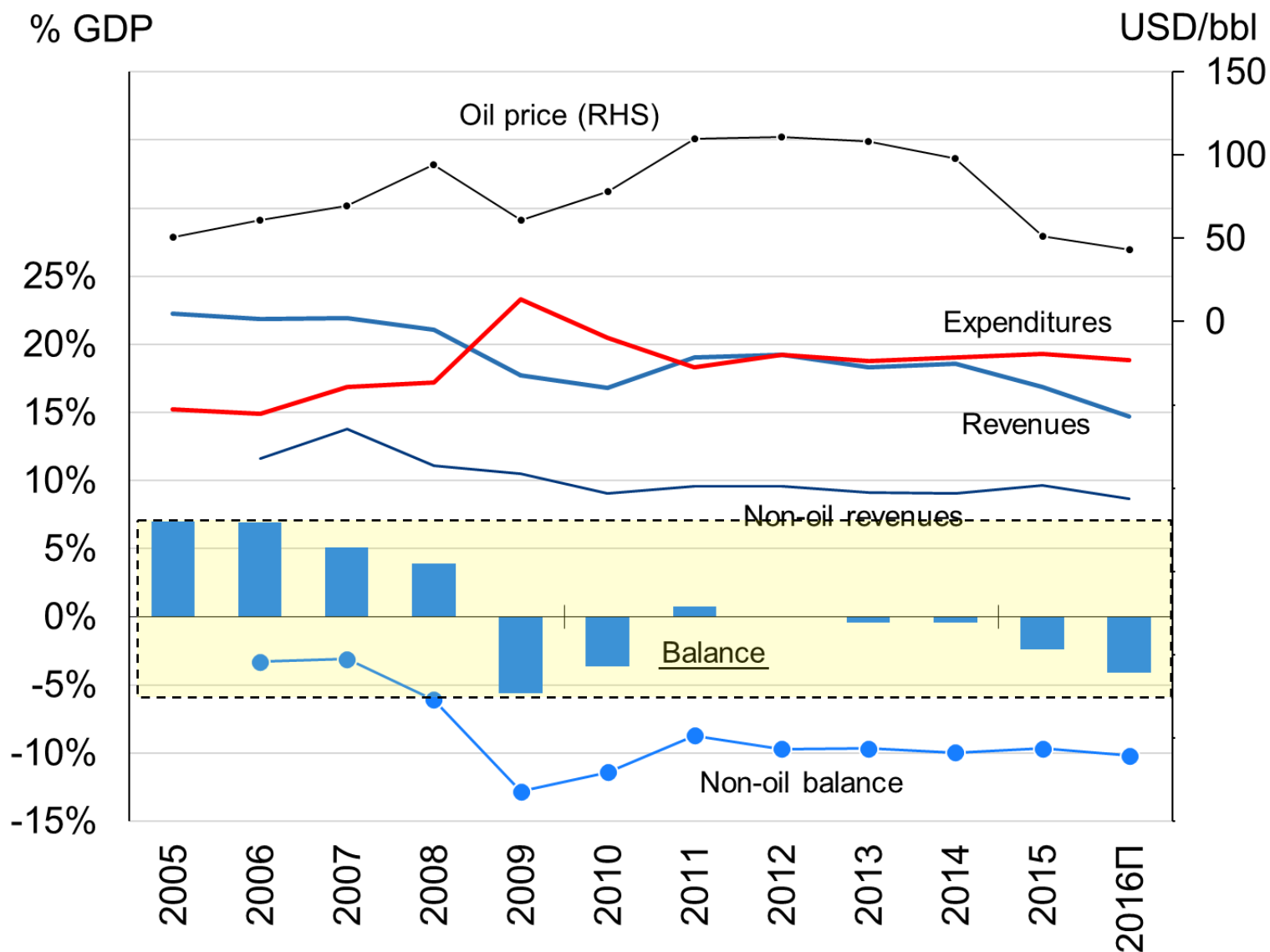
					
Population, M	204	144	1 281	1 368	55
GDP, \$B	1 773	1 201	2 119	10 873	313
GPD/capita, \$	8 707	8 341	1 654	7 950	5 735
GDP growth, %	- 3.7	- 3.7	7.4	6.8	1.5

Russian economy in mid-2016



- Low point of the cycle and consumer demand – already behind
- Investment demand will depend on economic policy and cost of capital
- Fiscal consolidation is a headwind to growth
- Modest advance in export volumes (grain, metals, machinery) on the back of weaker currency and the government's support for exports

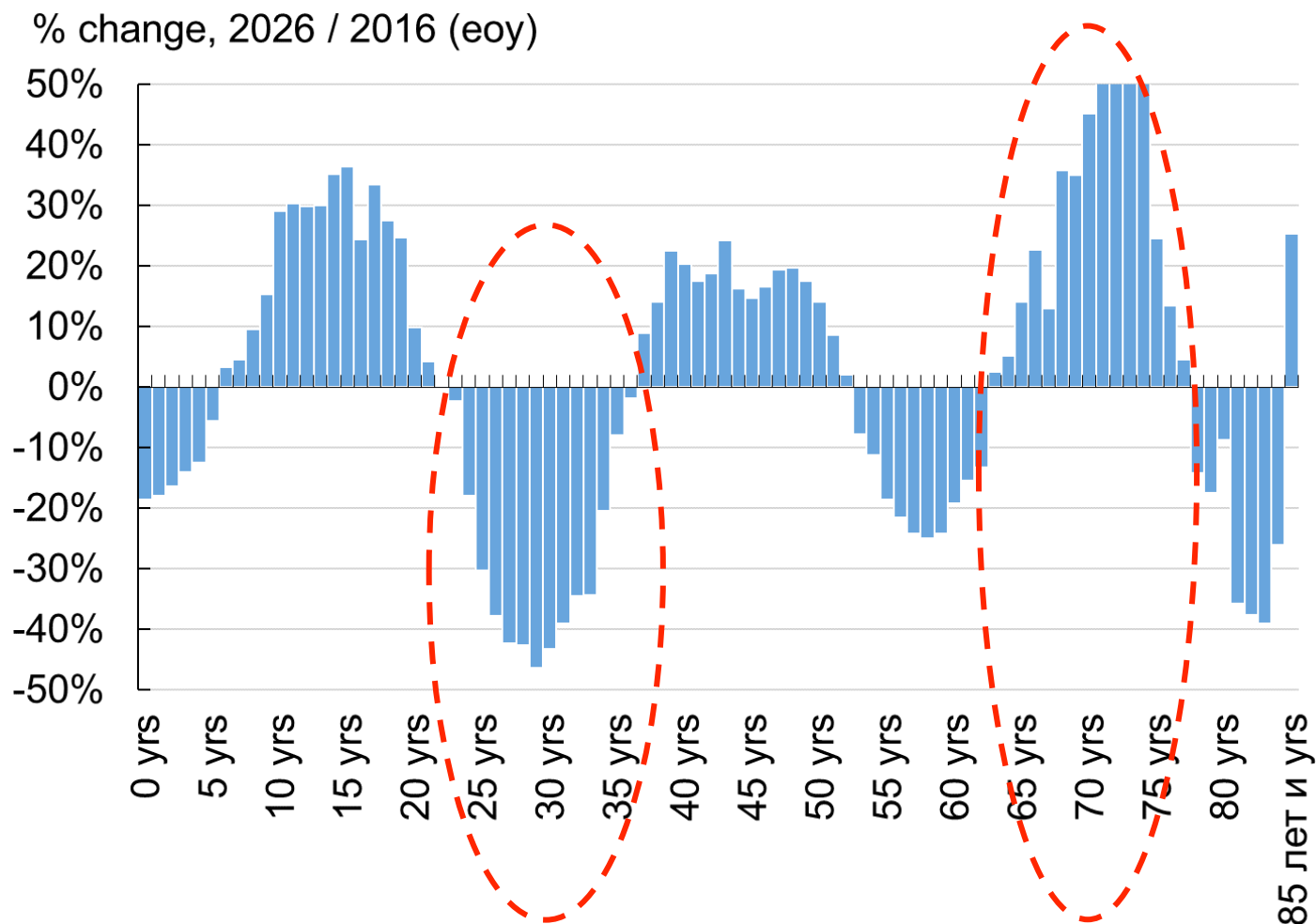
Ten years witnessed dramatic swing in the federal budget's balance



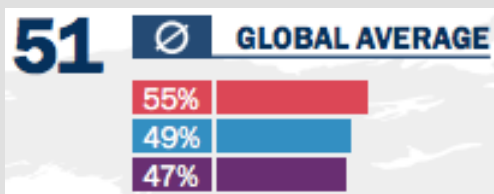
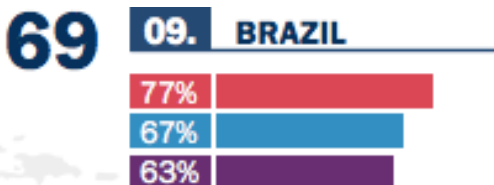
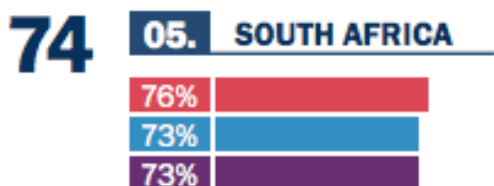
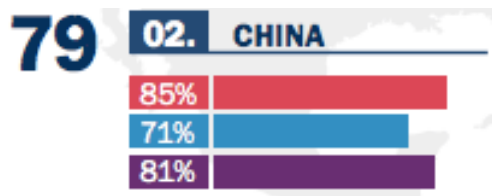
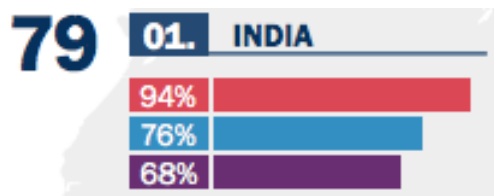
Unique Russian demography is kicking painfully



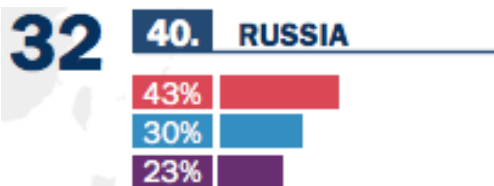
- Most significant changes are in 25-35 yo and above 65 yo cohorts



2015 Amway Global Entrepreneurship Report – BRICS Summary



INDEX	RANK	DESIRE	STABILITY	FEASIBLE
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India: macro trends and penetration of technologies



1

Macro context:
*significant changes
in parallel*

Growth in per
capita income and
consumption

Urbanisation

Development of
Retail

Technology
Adoption

... multiple sectors leapfrogging to internet & mobile models

2

Real scale
in internet & mobile,
with imminent
explosion
in Apps + Data

	2005-06	2013-14	2016-17
Internet users (penetration)	40m (4%)	165m (13%)	350m (27%)
Mobile subscribers	75m	867m	> 1bn
Smartphones	< 3m	67m	382m
Data: 3G/4G subscribers, (penetration)	0 (n/a)	56m (5%)	266m (27%)
Apps and games: market size / number of downloads	\$26m no data	\$80m > 2.2bn	\$450m > 12.4bn

Established usage,
proven
monetization, lower
exit risk
+
imminent hyper-
growth & new
categories

3

Increasingly
attractive climate for
great product
companies

	# of Tech Start-ups	# of Accelerators	# of VC deals	\$ in VC financing	Talent pool est.	Best VC deals
2005-06	>1,000	4	271	\$1.1bn	142,000	\$0.7bn
2013-14	>3,000	>50	1,409	\$9.3bn	314,000	\$15bn

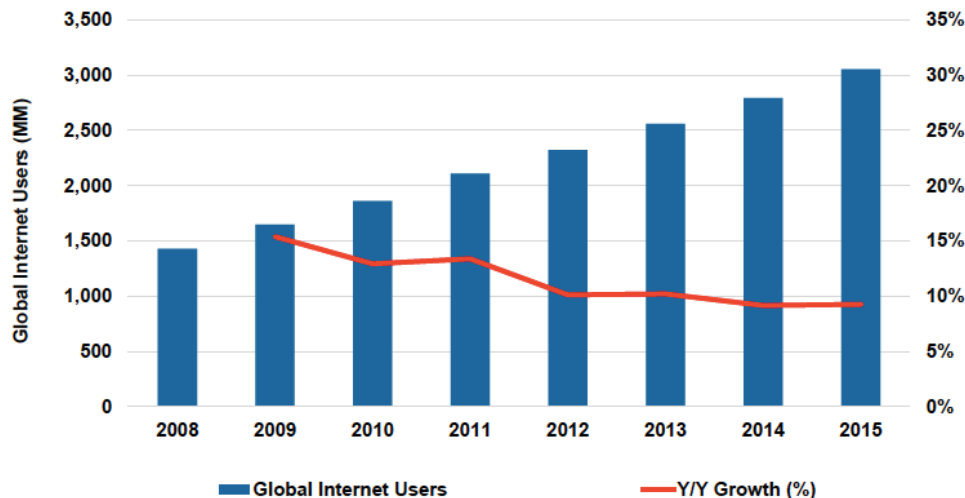
Higher quality & volume in deal flow & talent + Non-linear & global growth potential

India in the context of global internet trends

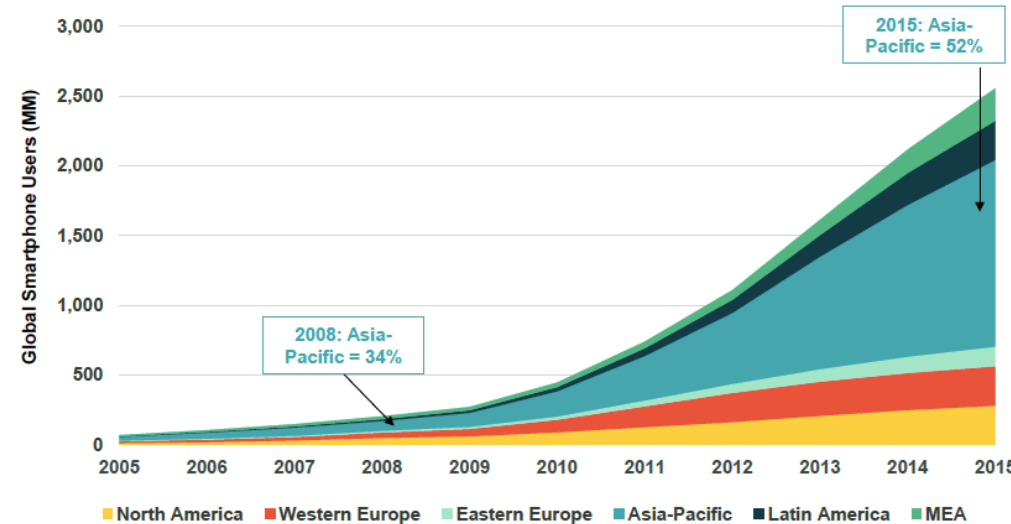


- Global internet users – 3 billion people
- Global growth is flat, around 9% YoY
- India internet user growth *accelerating* (+40% vs. +33% YoY)
- With 277 million users India passed USA to become #2 global user market behind China
- Global smartphone users are slowing (+21% vs. +31% YoY), global smartphone unit shipments slowing dramatically (+10% vs. 28% YoY)
 - however, Asia-Pacific region (more than half of the market) still growing at +23%

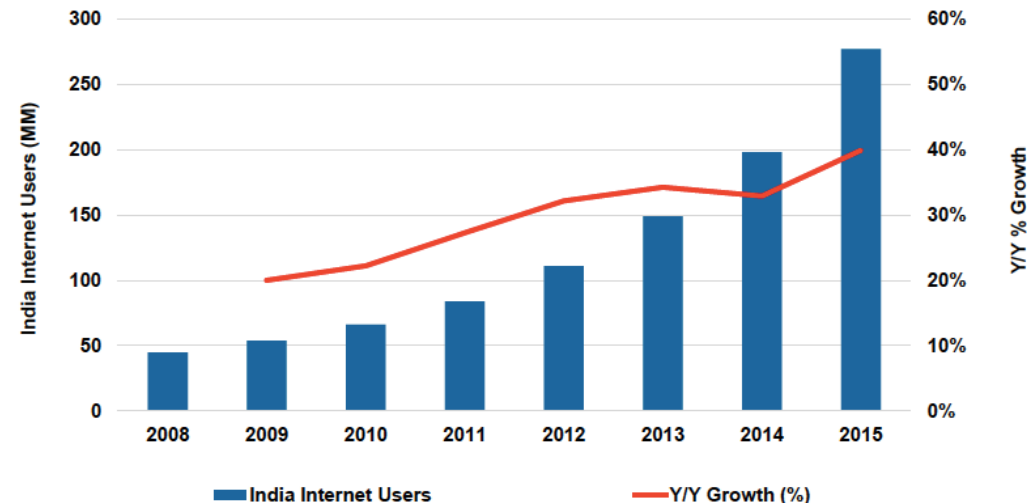
Global Internet Users, 2008 – 2015



Smartphone Users, Global, 2005 – 2015



India Internet Users, 2008 – 2015





6 Indian Unicorns provided 62 exits opportunities

- 4 out of 7 unicorns are in e-commerce/marketplace, with substantial funding from top-tier investors (Flipkart \$3.21B, Snapdeal \$1.74B, Quikr \$350M, Shopclues \$266M)
- Unicorns in active investing mode (Flipkart invested in 16 companies, Snapdeal – 13, Zomato – 12, Paytm – 11, Quikr – 5, Olacabs – 5, Shopclues – 1), acquiring VC backed startups in complementary sectors – e-commerce technology, logistics, social platforms, app software, media & information services, payments, internet retail, etc.

Flipkart	\$15	8/6/2012	India	eCommerce/Marketplace	Accel Partners, Digital Sky Technologies, Iconiq Capital
Olacabs	\$5	10/27/2014	India	On-Demand	Accel Partners, Matrix Partners, Sequoia Capital
One97 Communications (Paytm)	\$2	5/12/2015	India	Fintech	Intel Capital, Sapphire Ventures, Alibaba Group
Quikr	\$1	4/7/2015	India	eCommerce/Marketplace	Tiger Global Management, Norwest Venture Partners
Shopclues	\$1.1	1/12/2016	India	eCommerce/Marketplace	Nexus Venture Partners, GIC Special Investments, Tiger Global Management
Snapdeal	\$6.5	5/21/2014	India	eCommerce/Marketplace	Intel Capital, Kalaari Capital, Nexus Venture Partners
Zomato Media	\$1	4/10/2015	India	Social	Sequoia Capital, VY Capital

- PE Funds and Corporations should not ignore **VC** asset class anymore
- Investment opportunities should ideally be **technology** enabled and **globally** scalable
- Russian macro has depressed young and promising VC community, the impact is severe, but **hope** is still there and **talent** is widely available
- Indian economy is **leapfrogging** to internet and mobile models, and shows top-quartile metrics as a market
- It is **hot** in India even though “winter is coming”...

