



Regional Venture Capital & Entrepreneurship Business Models

NECINA
September 13, 2008
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What is Venture Capital?



Definition....

Venture capital is one type of private equity investing and typically refers to equity investments made in young companies during their launch, early development or expansion.

It is not new....

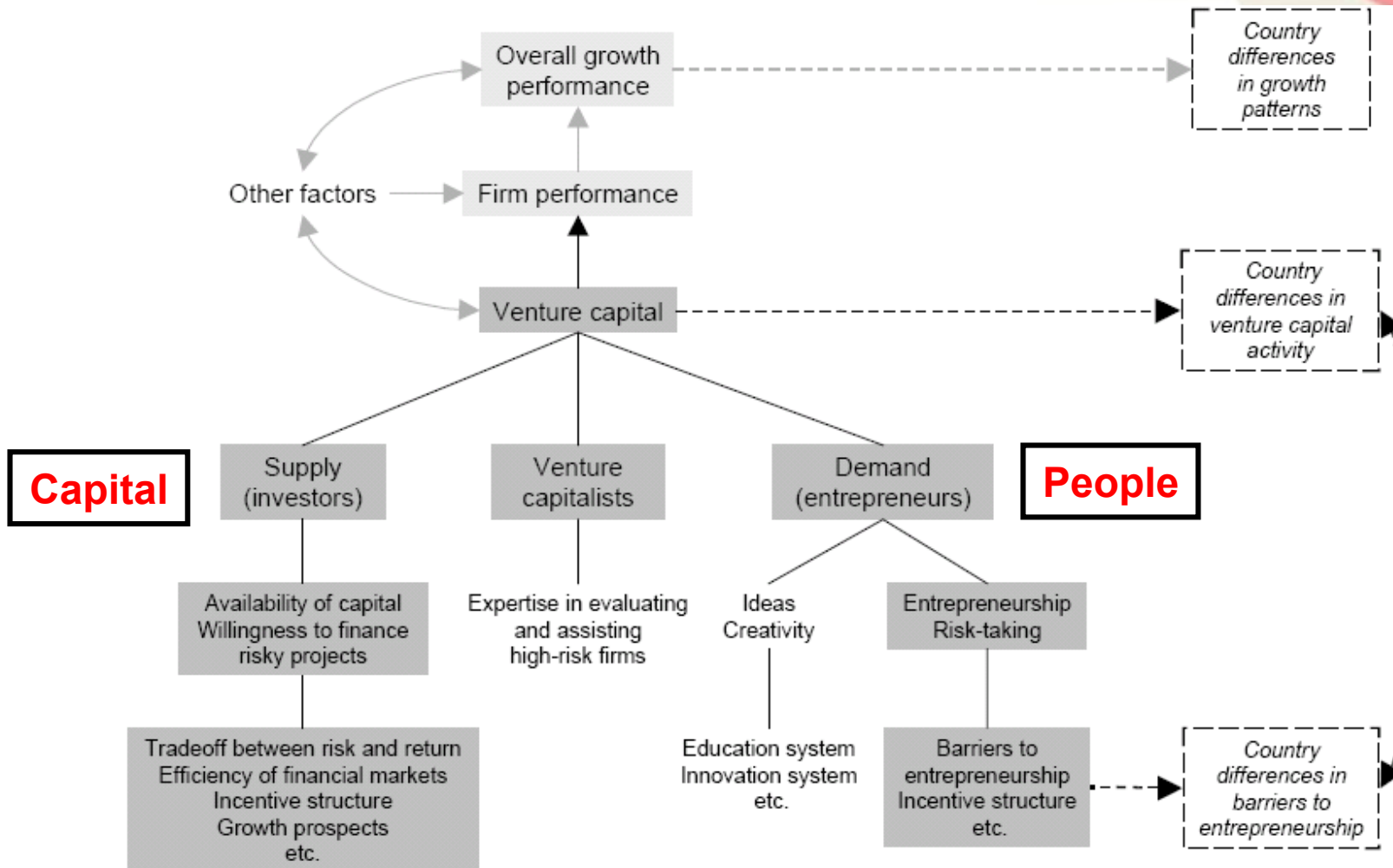
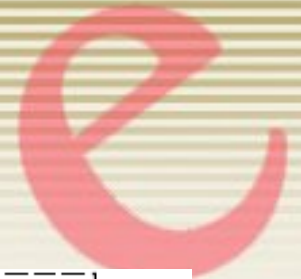
Johannes Gutenberg, a goldsmith, had the idea of producing small, regular blocks of steel with letters on them to be used as mould to mass-produce letter blocks. However, it took many years before he convinced a businessman, Johann Fust, in 1450 to back his invention and loan him 1600 guilders.

Source: The Economist, 31 December 1999.

Launch velocity....

Began in US after WWII and took off in the 1980s driven by ICT. Then took off in Europe and Israel in 1990s and now is taking off in India and China.

Startup Ecosystem



Capital

People

Regional History of Venture Capital

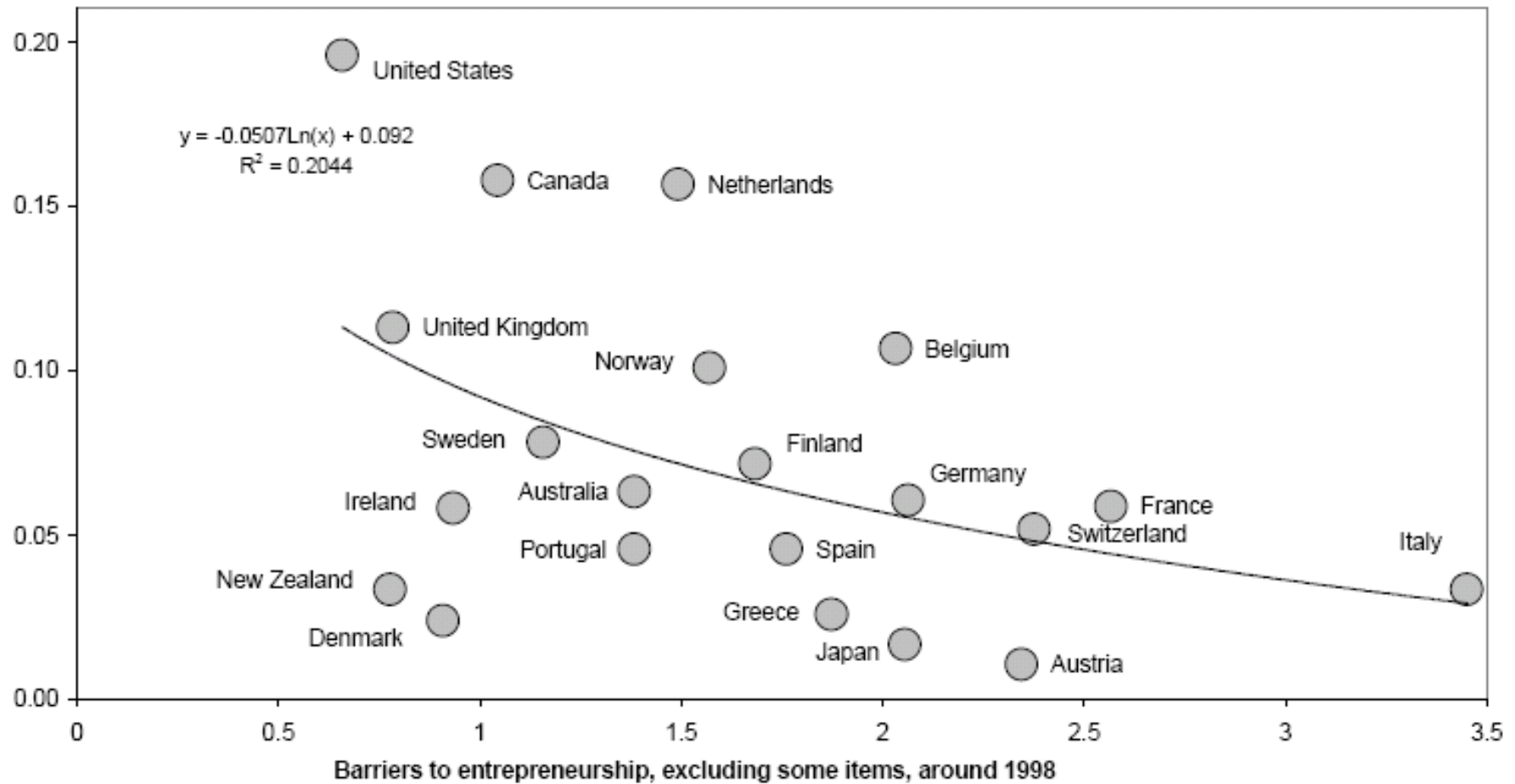


- **US**
 - June 6, 1946 American Research & Development Corp. founded by Georges Doriot in Cambridge, MA
 - AR&D's \$70,000 USD investment in Digital Corporation in 1957 grew in value to \$355 million by 1968
 - NVCA founded in 1973 and today has 470 firms as members
 - In the last 35 years, venture capitalists invested more than \$441 billion in over 57,000 companies in the United States.
- **China**
 - SME and Venture Capital regulation in 2002
 - CVCA founded 2002 and now has 120 firms as members
 - Venture Capital invested increased from \$418 million in 2002 to \$1.27 billion in 2004
 - Between 1995 and 2004 the number of venture capital firms (VCF) in China increased from 21 to 217, many of them US branches but also domestic corporate venture funds.
 - In the second quarter of 2008, U.S.-based venture capitalists invested \$583 million into 47 deals in China
- **India**
 - 1988 regulations allowed 4 state VC funds under World Bank tutelage
 - IVCA founded in 1993 and today has tbd firms as members, many of them US branches but also domestic corporate venture funds.
 - 2000 new regulations similar to US
 - In the second quarter of 2008, U.S.-based venture capitalists invested \$473 million into 40 deals in India

VC investing vs Barriers



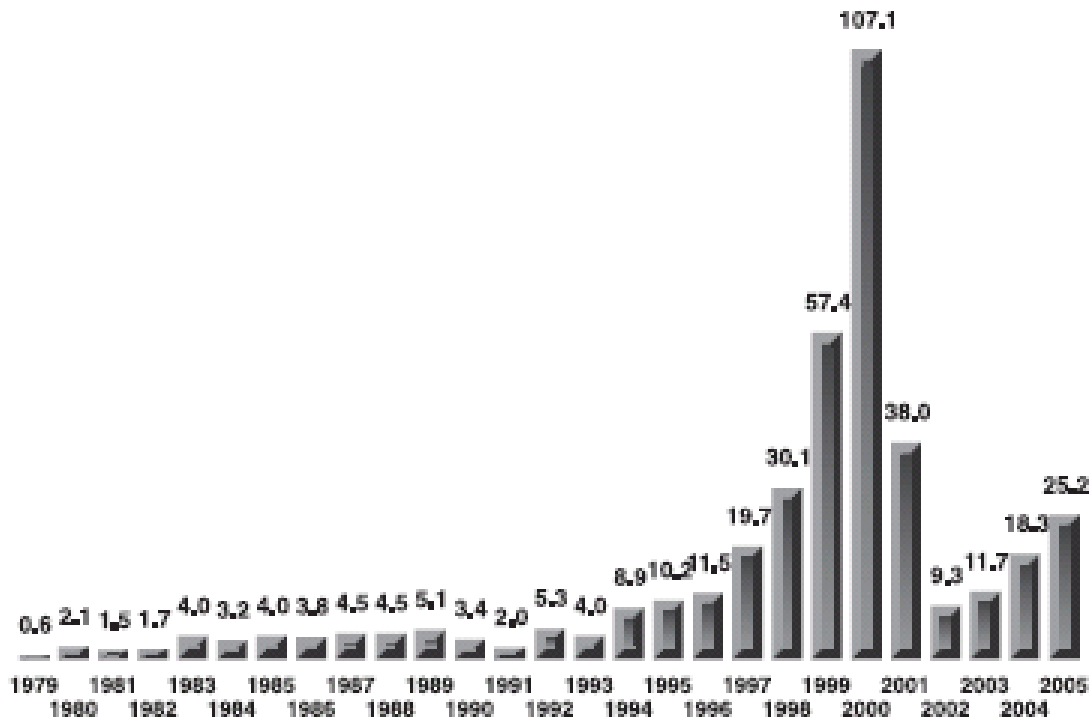
Venture capital investment in early stages and expansion as a percentage of GDP, 1995-98



US Venture Capital Invested



Capital Commitments to
U.S. Venture Funds (\$ Billions)
1979 to 2005



US - 2006

- \$25.7bn
- 1446 transactions
- \$10.5m average investment

Europe - 2006

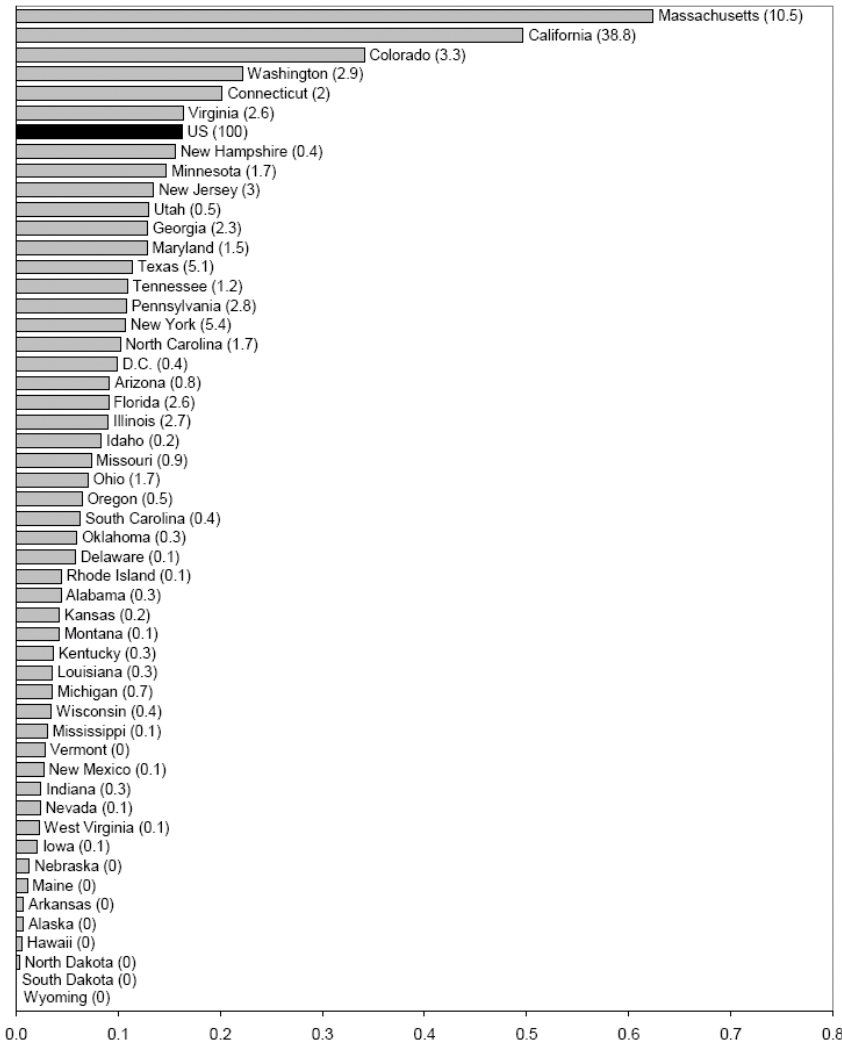
- €4.1bn
- 867 transactions
- €14m average investment

NVCA

Regional US Disparities



Figure A 1: Venture capital intensity for US States
(investments relative to Gross State Product), 1996-98



Figures in parentheses indicate the State share in total investment.
Source: Venture capital figures from NVCA, Gross State Product from BLS.

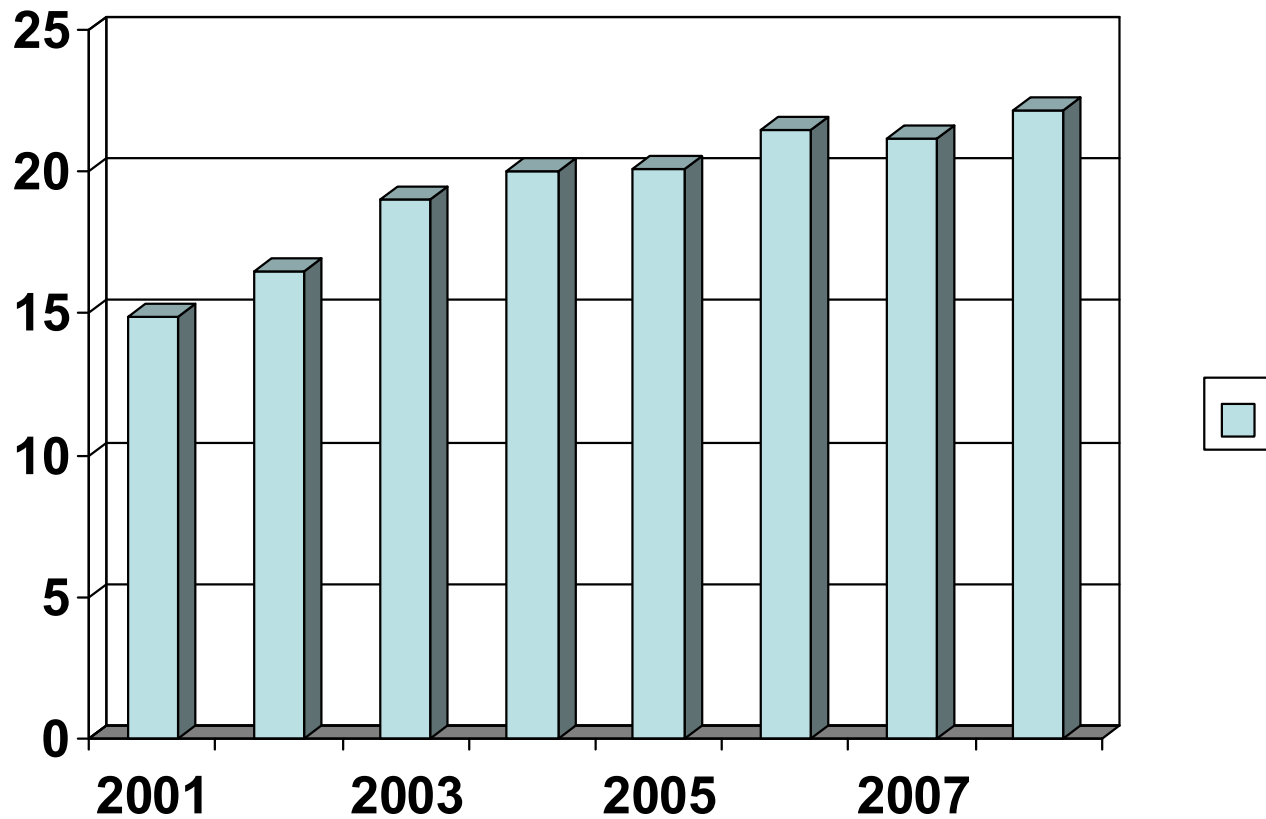
Massachusetts vs Silicon Valley



- Compared top 10 GPs in Boston vs SV from 2006 Midas list
- No significant differences except the number of IPOs
- Several on list were investors in Skype

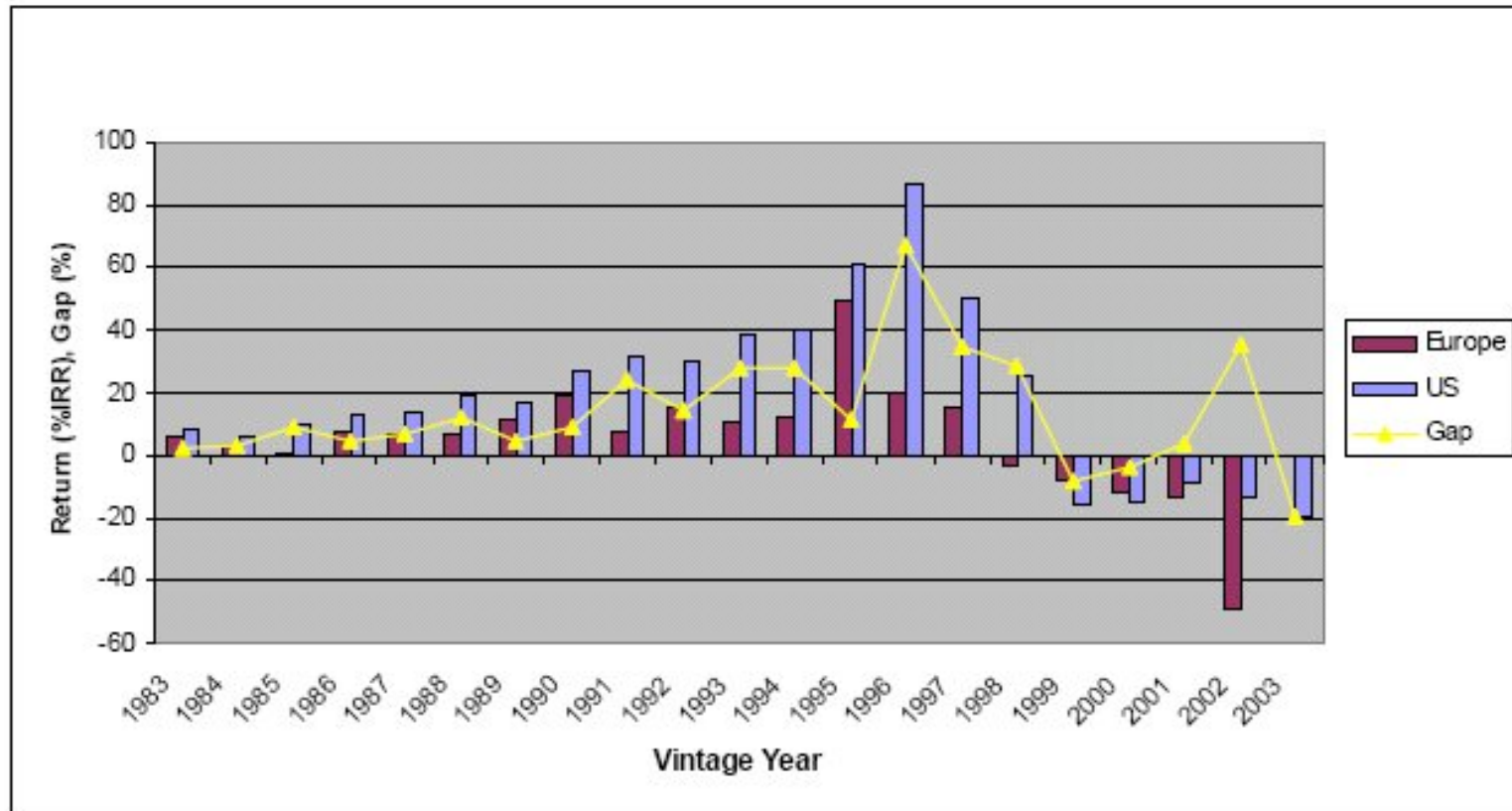
	IPO	Operating Experience (years)	Immigrant	MBA	Hits
Boston	8	4	2	6	Flarion Skype
SV	23	5	3	8	Google YouTube Skype

Funding prior to Liquidity (US)



VC Returns

European and US venture capital funds established in 1983-2003
Cumulative pooled average IRR since inception
by vintage year



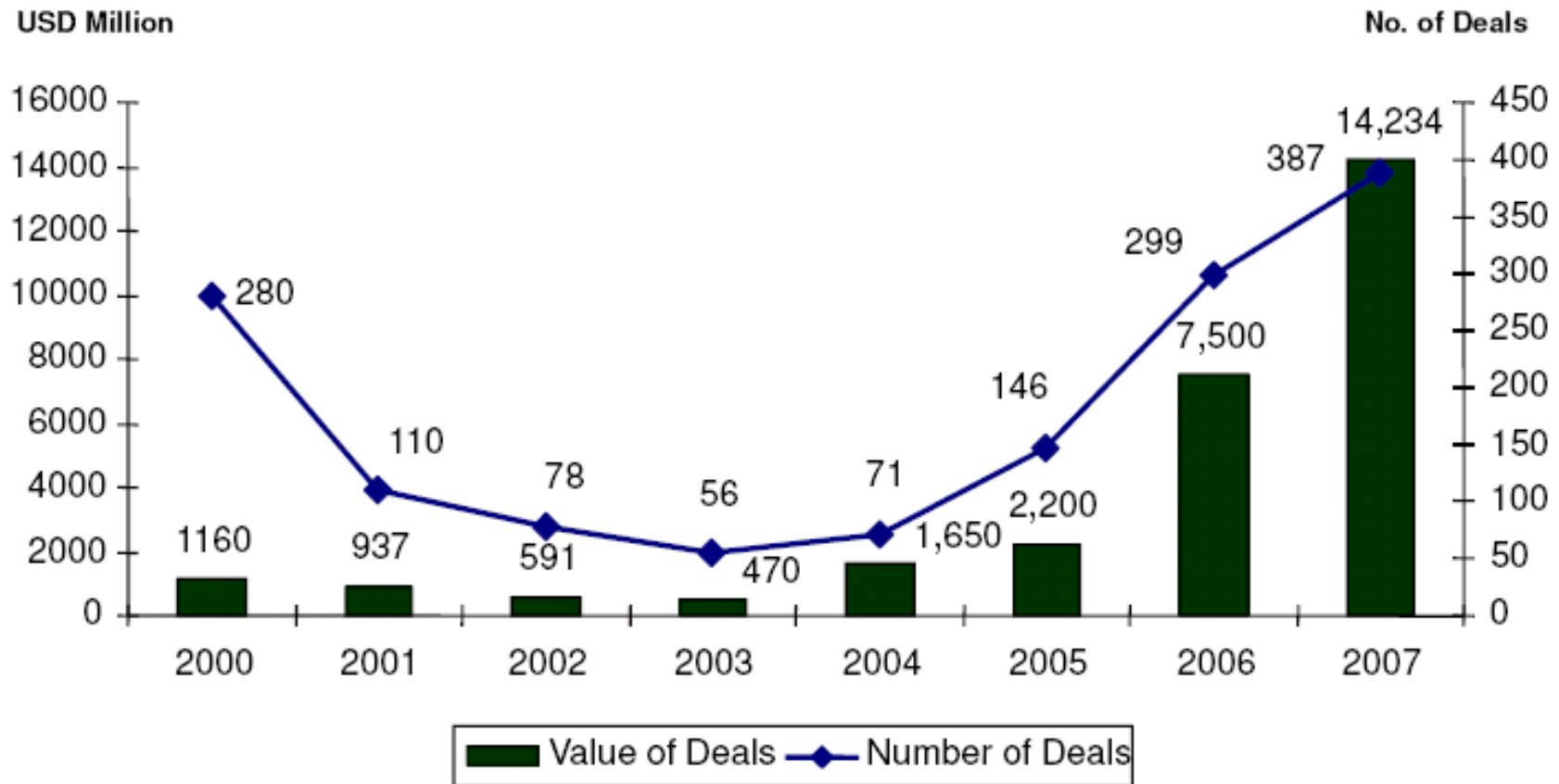
Data source: Thomson Venture Economics

Emerging Market VC/PE



- US\$33 billion raised in 2006
- US\$59 billion raised in 2007, by 204 funds, a 78% increase
- Fundraising dedicated to the emerging markets 2004-2007 has totaled more than US\$118 billion, versus only US\$13 billion 2000-2003.
- LPs getting better returns in emerging markets than US and EU

India Venture Capital Invested



Skilled Labor



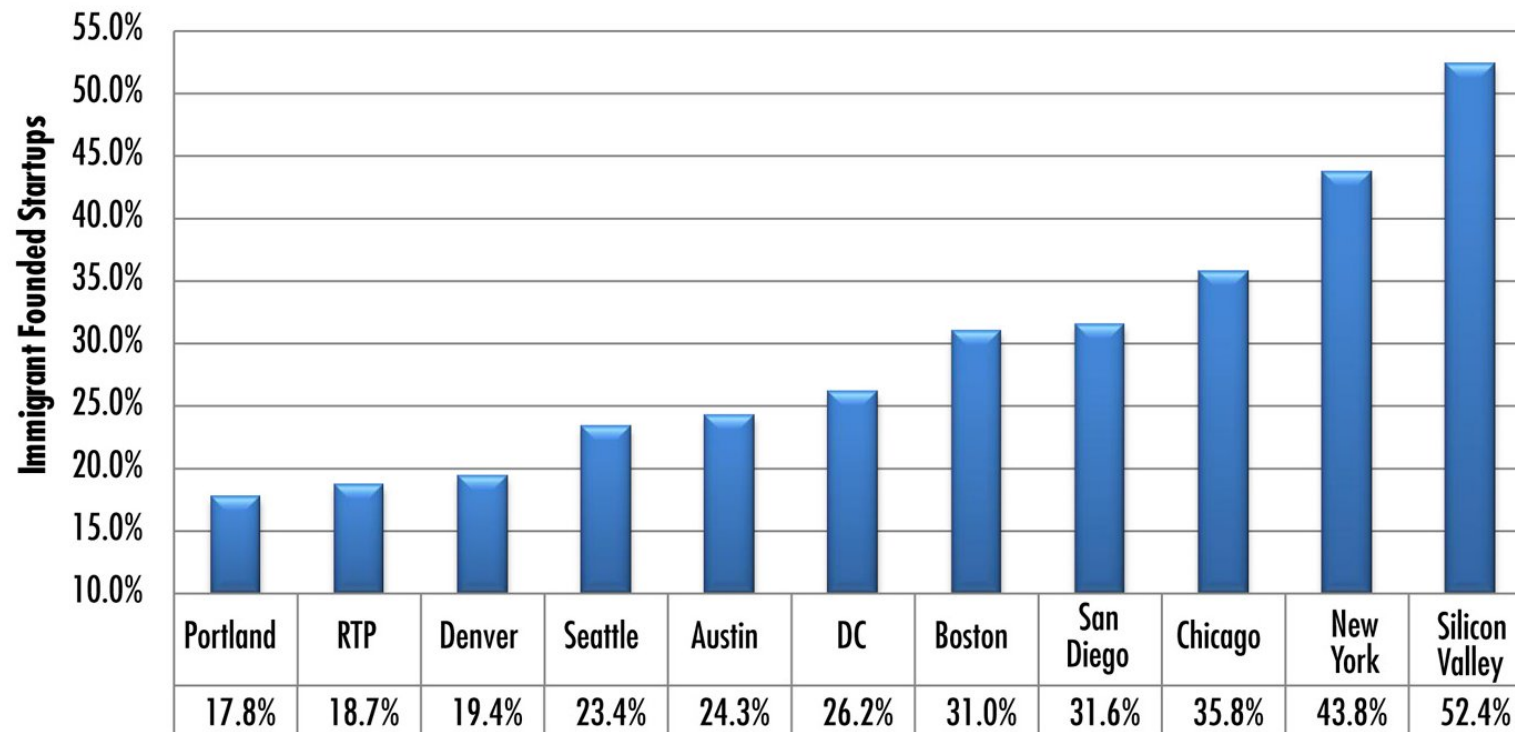
- Global shortage of skilled labor?
 - Salaries of skilled people are rising 15-20% annually in India and China
 - Likewise in the US, CEO pay is rising rapidly
 - US graduating approx. 7,000 PhDs, India 1,000 and China 9,000(??)
- Skilled immigrants have contributed to greatly to US industrial growth but there is a huge immigration backlog:
 - Legal, Educated, skilled workers currently waiting for green cards:
 - 500,040 in main employment-based visa categories plus 555,044 family members
 - 259,717 international graduate students plus 38,096 in practical training (includes postdoctoral scholars)
 - Over 1 million skilled immigrants waiting for yearly quota of 120,000 visas – with 8,400 max/country

“We’re headed for a massive reverse brain-drain”... Vivek Wadhwa, Duke University

Immigrant Entrepreneurs

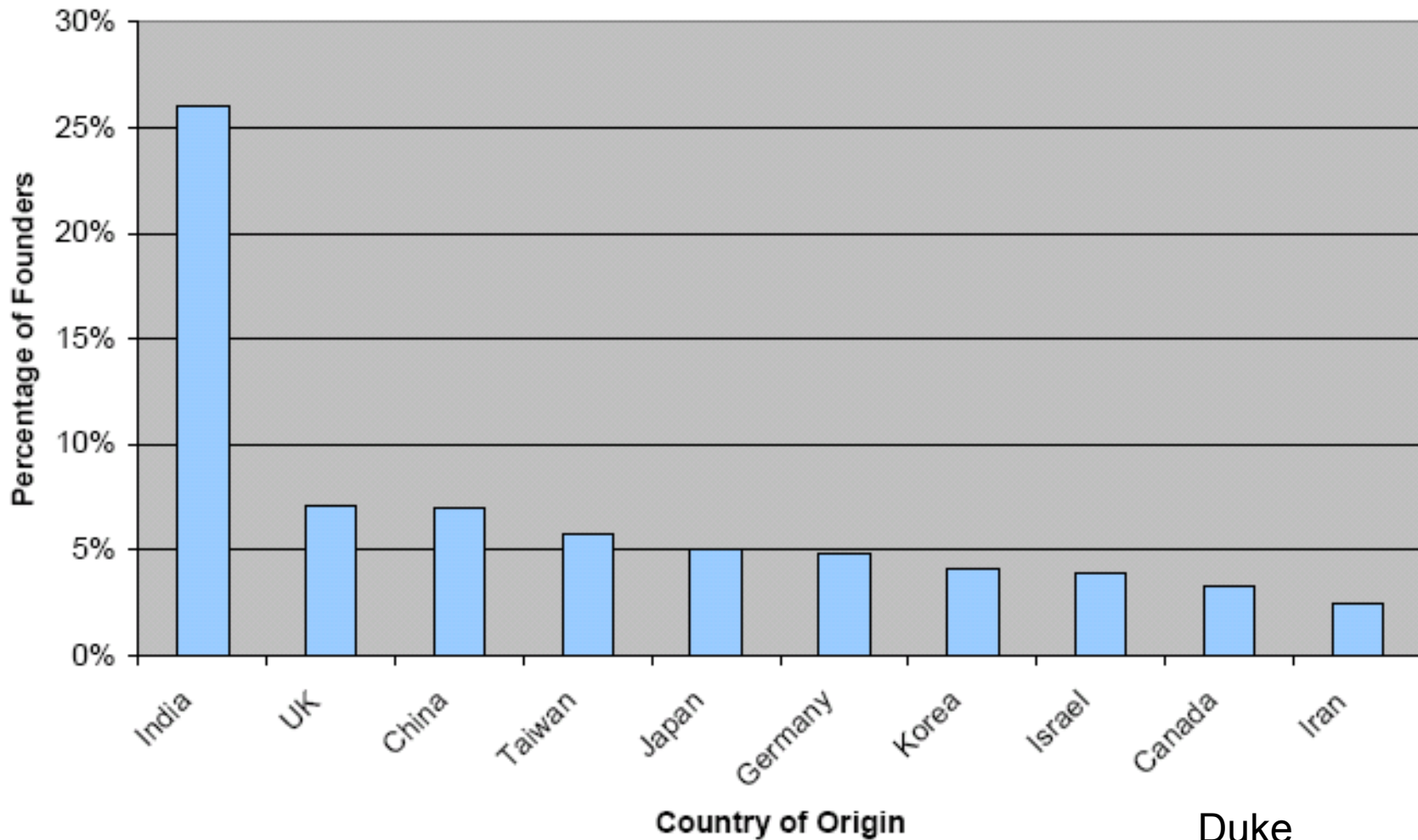


Figure 14: Immigrant-Founded Engineering and Technology Companies as Percent of Total Startups in Tech Centers



Source: Master of Engineering Management Program, Duke University;
School of Information, U.C. Berkeley; Kauffman Foundation; 2007

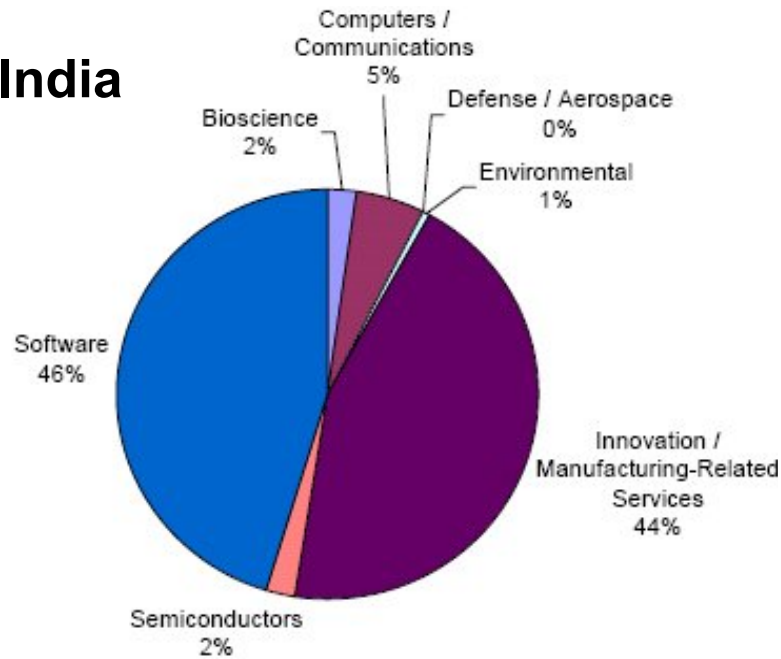
Origin of Immigrant Entrepreneurs



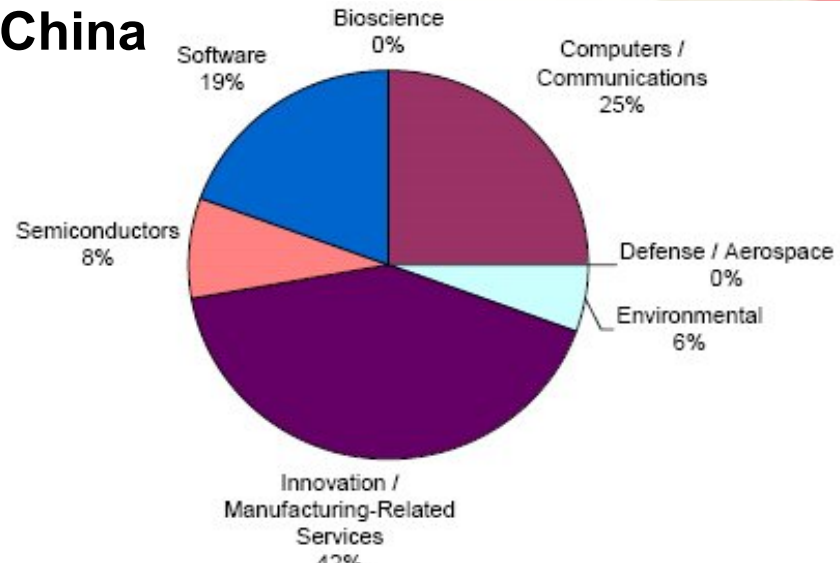
Immigrant Entrepreneurs



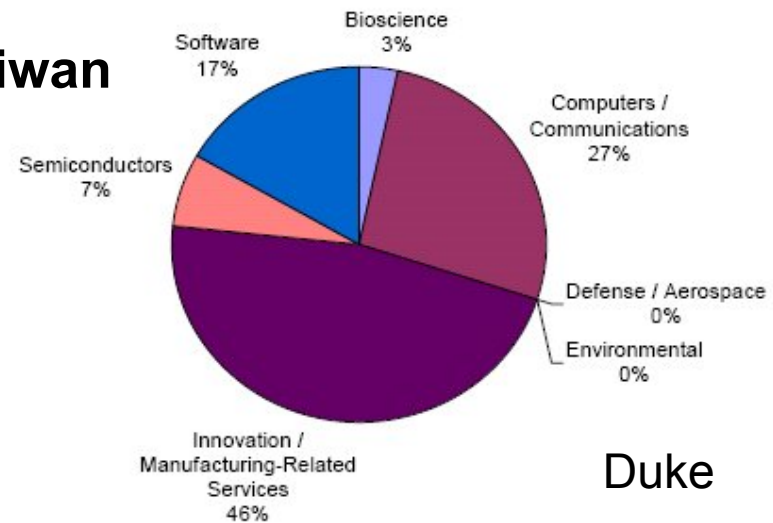
India



China



Taiwan



Duke



Conclusion

- Asia is becoming the largest market for several products: Wireless telecom, Automobiles, Textiles, Processed Food
- Startup as “micromultinational”: markets are global, talent is available globally and venture capital is available globally
- Chinese/Taiwanese and Indian entrepreneurs know the US and Asia
 - Cross border M&A
 - Cross listing on exchanges
- Venture industry is starting to diversify
 - 88 percent of venture professionals are white, eight percent are Asian Pacific, decreases to 80% for under 5 years of experience
- There is no better time to start a company especially if you are an Asian entrepreneur