



BANKING ON SINGAPORE ENTERPRISE

Seeing the opportunities and incentives presented by Singapore, a venture capital firm makes the Lion City its home base.

by Pierre HENNES

Why would someone stake his and his family's money to set up a seed venture fund in Singapore, a place supposedly barren of entrepreneurial spirit at the turn of the century?

Carmelo Pistorio thought otherwise; instead he saw a land filled with many potentially good early-stage start-ups with perfectly capable individuals, competitive technology, and decent — often great — opportunities. After successfully investing as an angel in several Singapore-based ventures, the exciting experience whetted his entrepreneurial fire that was somewhat dimmed after a failed exercise in Europe during the dot.com crash. In early 2003, he set up Upstream Ventures in Singapore with the vision to transform his angel investment activities into a professional venture capital (VC) firm.

The eldest son of former STMicroelectronics CEO Pasquale Pistorio dipped into his own money and a family fund of start-up investments to continue his investment activities and build a world-class organisation. Upstream expanded its team of operationally-focused professionals and its global network, and

became an early partner of the Singapore Economic Development Board's Startup Enterprise Development Scheme (SEEDS) programme that matches investors' funds one-for-one.

Returns from an exit early in the life of the fund were ploughed back into the company, allowing Upstream to continue its investment activities. Today, the firm's portfolio includes companies in Singapore, India, China, and the US across multiple sectors such as Internet and new media, wireless and telecom, semiconductors, and advanced materials.

Upstream also developed an Entrepreneurs in Residence (EIR) Programme to nurture entrepreneurship by hosting bright, young individuals to research and develop a unique idea with the understanding that the investment firm may choose to back the resulting company.

With the addition of a team of investment professionals in India and China, Upstream is leveraging its Asian experience to raise a pan-Asian fund focused exclusively on investments in early-stage companies in India, China, and Singapore.



Carmelo Pistorio

Pierre Hennes

Start-up Challenges

One often-heard grouse about investing in early-stage companies in Singapore is the shortage of good deals. The problems usually appear as issues in valuation, shareholding structure, business model, and cash flow management. If addressed early, these can become opportunities that facilitate growth and valuation, but if neglected they can delay or even kill an otherwise promising venture. Unrealistic expectations, or greed by another name, destroy more value than anything else.

Upstream tries to address these issues at the early stage, concentrating on companies it feels it can add value, and where expectations on both sides are fair and reasonable. The decision to invest is strongly based on whether the investors can work with the investees and if the latter appreciate what the VC is bringing to the table.

Upstream's key differentiator is its unique position in the market for venture financing – it fills the market gap for funding, expertise, and networks available for early-stage ventures. This high-risk undertaking requires not only financial skills, but a broad range and depth of experience in operations, management, technology, and relationship management. It is really going back to the earlier days of VC where a large fund worth US\$20 million was run by a few partners who had worked in the industry and knew the business, and who did not mind working closely with and mentoring their investees.

The best angel investors are also in this category, but angels often lack the deep pockets to continue funding the company, and normally encounter heavy dilution in the face of larger investors. Angels also may not have the same network and reach

as a professional VC firm. Professional investing is a full-time job and angels often are retired or have day jobs. Most of all, entrepreneurs should be aware of any investor who bullies a naïve start-up into a low valuation, and turn away experienced investors because they feel they have “grown” the company by some ridiculous multiple.

Exit Strategy

To recoup its investments, Upstream generally looks for a trade sale, but the Asian bourses are increasingly promising as exit vehicles. Hedge funds and later-stage VCs are also showing promise as exit vehicles. VC investments are managed on a portfolio basis, recognising the significant risks of individual investments.

Fund managers work on reducing risk on two levels: the individual deal – with selection, structuring, management, and exit – and the overall portfolio. Upstream believes in cutting losses early – it is a truism in the industry that the bad investments take the most time and energy to manage. One of the common mistakes is to follow the losses, which can lead to more disaster.

Upstream has already completed one significant exit at 45 times invested capital; another is under negotiation, and two others under discussion. These start-ups are all in the mobile telecom space.

Spotting the Winners

Upstream has in-depth understanding about convergence and knows what ideas to look for in today's competitive business market, and its insights in Asia give it an edge. According to the VC,

key drivers for growth in the region's investment opportunities include: the region becoming more and more a nexus for global research and development, large new consumer markets, and increasing capabilities in local management in understanding how to build and grow companies. In addition, many returnees to India and China are bringing back very valuable international experience. For example, the Government of Singapore has made some smart investments in R&D and not coincidentally in areas that Upstream thinks have great promise: wireless, nanotechnology, advanced materials, semiconductor design, and biotechnology.

When investing in potential ideas, Upstream considers something that makes sense. If the entrepreneur spots something that perhaps no one else does, but can explain it credibly and after some rigorous examination still holds up, Upstream conducts its own due diligence, which is basically searching for the warts. The investor does not really have to understand quantum physics, but needs to know how this is going to change the world in ways that

will make money for the fund. If the entrepreneur cannot explain the business model in a comprehensible and convincing way, then it is time to move on. No "give me money and trust me" deals.

Management is *the* key common factor in the success of a company. Establishing a transparent and trusting relationship early on enables both investor and investee to weather the worst of times together.

Intellectual honesty figures highly in a VC's checklist of a great entrepreneur's attitudes. Charisma, drive, people skills, and leadership are the common attributes of good leaders. At the end of the day, it is important to spot the winners.

To contribute to the development of an entrepreneurial ecosystem, Upstream's partners participate on the Board and Executive Committee of the Singapore Venture Capital and Private Equity Association, and as committee members of The Enterprise Challenge (TEC) under the Singapore Prime Minister's Office. Upstream firmly believes in its responsibility to help encourage entrepreneurship and actively participates in events such as

GROWING STARS IN UPSTREAM'S INCUBATOR

XID (www.xidtech.com)

XID Technologies is a biometric face recognition company that designs and deploys innovative solutions for the advanced security of people, data and assets; the company delivers mission-critical solutions to real world environments, answering the growing security needs of individuals, corporations and governments.

XID's unique, patented, award-winning Predictive Face Synthesis technology overcomes the problems associated with a conventional systems sensitivity to lighting conditions, facial pose and facial artefacts such as glasses — enabling them to function in

uncontrolled environments. From one 2D image, XID's Predictive Face Synthesis automatically produces a multitude of images to enrich the reference information available for any face recognition engine and thus, considerably enhances its performance. XID has developed tailor-made solutions on consumer electronic giant Sharp's smart card that will equip systems integrators with face verification solutions for biometric passports.

Mikoishi (www.mikoishi.com)

Mikoishi is a leading developer and operator of network multiplayer games for mobile phones. Founded in 2001, Mikoishi's games operate on handsets equipped with Java, Brew, or i-mode technology and run across today's and tomorrow's high-speed wireless networks such as GPRS, EDGE, CDMA, WCDMA, and EVDO. The firm operates its games globally in partnership with major mobile operators, publishers, retailers, and handset manufacturers.

Mikoishi's gaming content formats deliver a unique and highly compelling entertainment experience to end users through collaborations with world-class brands, operators, and media partners. The company was chosen as the preferred developer by THQ Inc and Lucasfilm Ltd to produce Star Wars Battlefront Mobile, launched exclusively on Cingular Wireless in the US last



Mikoishi's games for mobile phones.



industry conferences, business plan competitions, lectures and personal mentoring.

Why Singapore?

Singapore is a first-rate place to invest, to grow companies, and to live. The Government is doing an excellent job of supporting the entrepreneurial culture and the VC industry. The EDB in particular is one of the most proactive, efficient, and supportive agencies of its kind. Singapore offers both local and foreign companies many advantages over its neighbouring countries – a world-class infrastructure, an efficient legal system, high standards of corporate governance and transparency, access to financial markets, tax incentives, strong intellectual property (IP) protection, and advanced research facilities, universities, and incubators. Similarly, thanks to close historical, cultural, and commercial ties with China and India, Singapore companies enjoy privileged access to large, high-growth markets in these countries. Singapore is also

a great place to protect IP and grow companies.

It is hard to see how Singapore can do more to further stimulate entrepreneurship. The challenge comes in part in the comfort zone – if the environment is too comfortable and the safest and most rewarding career path is with the government or a corporation, less incentive exists to be an entrepreneur. The most entrepreneurial people in Singapore are often those who do not have the advantages or opportunities for these kinds of careers.

Some words of advice for aspiring entrepreneurs – be prepared and be clear; try to see the proposed idea from the investor's point of view. Cash is king so think carefully about cash flow. Draw up an action plan that makes sense. Remember, a start-up is a kind of military campaign, and while history books talk about the grand strategy, the success often lies in the simple logistics and always in the execution. **i**

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November. Star Wars Battlefront features for the first time in a mobile environment game play within the Star Wars universe and is one of the most features-rich multiplayer games ever made for cell phones. Mikoishi has published original titles in over 20 countries worldwide and continues to work with world-class games developers and publishers.

Tagit (www.tagit.tv)

Tagit Pte Ltd has developed an integrated image-recognition and customer-interaction platform that transforms the underutilised power of the camera-phone into an unprecedented, highly versatile, be-anywhere mobile data machine. It enables anyone to connect with any physical space or media channel – print, TV, or billboard – and interact with it for instant gratification.

Tagit mobile image recognition technology consists of a system of visual tags with digitised codes. The tags can be attached to any physical space, advertised product, or media channel, enabling anyone with a camera-phone to make an immediate connection for “pulling” information or making a purchase. Group M, the world's leading media conglomerate and a member of the WPP Group, has joined hands with Tagit to offer innovative mobile marketing solutions to brand advertisers in the booming Indian market. The vibrant mobile market in India, growing at the rate of 2 million phones a month, will serve as the launching pad for the start-up as part of a global roll-out plan. Nokia, which enjoys over 70% market share in India, has bundled the application on all multimedia phones to create a huge captive user base for Tagit in the populous country.

