

ALTA VENTURES

IGNITING INNOVATION



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Q3 2013

Is Peru Ready for Venture Capital?

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Is Peru Ready for Venture Capital?



What is Venture Capital?



"I'd like a no-interest loan, since I have no interest in paying it back."

Target IRR by Alternative Asset

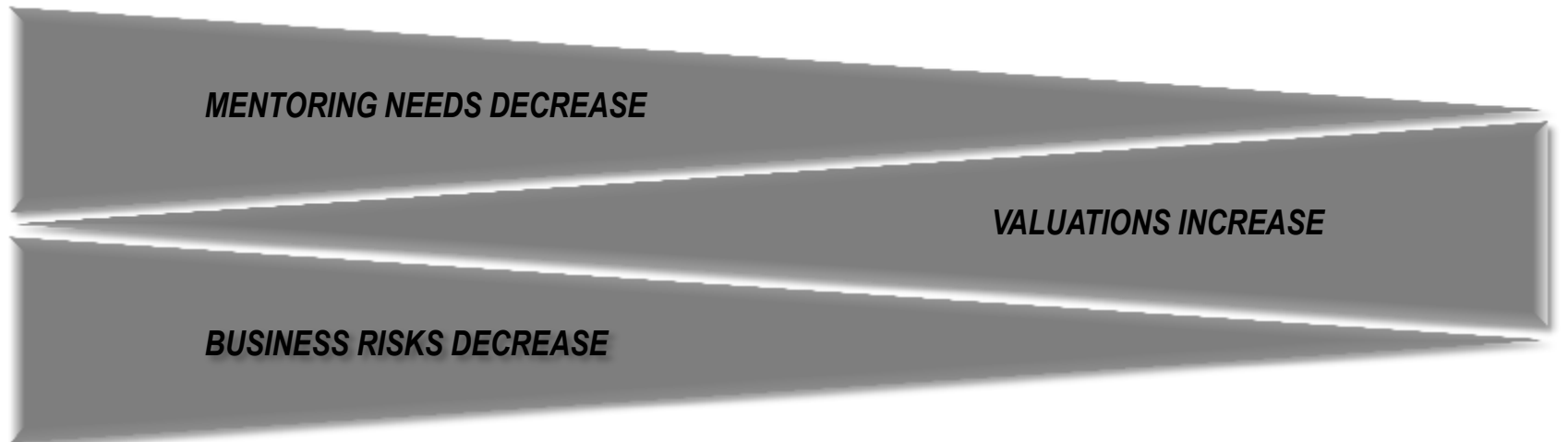
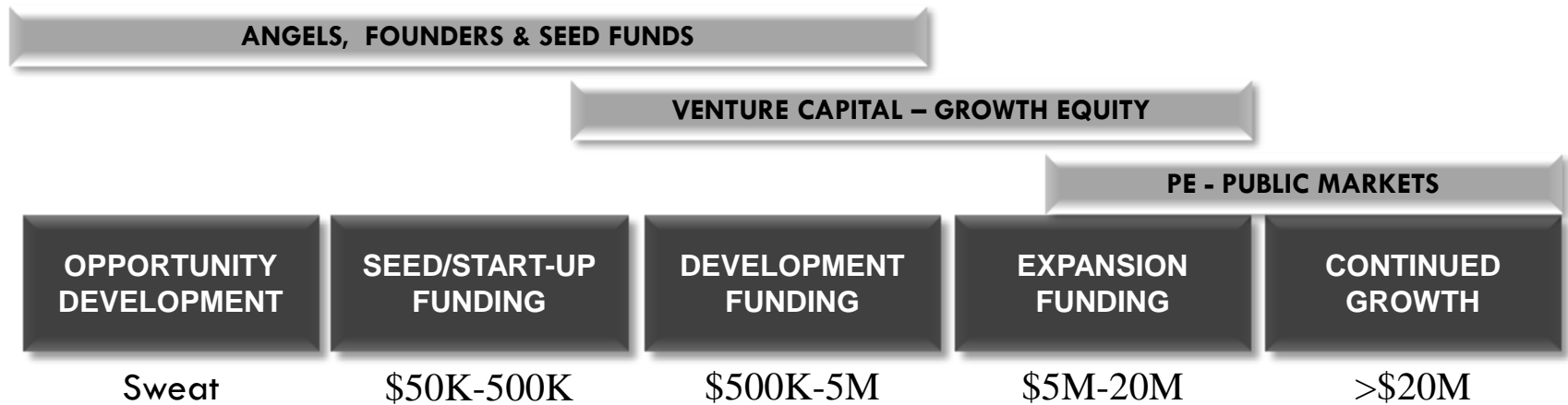
Asset Class	Target IRR
Infrastructure	10-20%
Real Estate	12-20%
Private Equity Buyout	15-25%
Venture Capital	25-35%
Seed Capital	40%+

Equity Investment Funding Continuum

From seed to venture to growth to priv. equity



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All Job Growth in the US Last 30 Years Came from Small & Medium Companies



[Home](#) > [Entrepreneurship](#)



Job Growth in U.S. Driven Entirely by Startups, According to Kauffman Foundation Study

Contact:

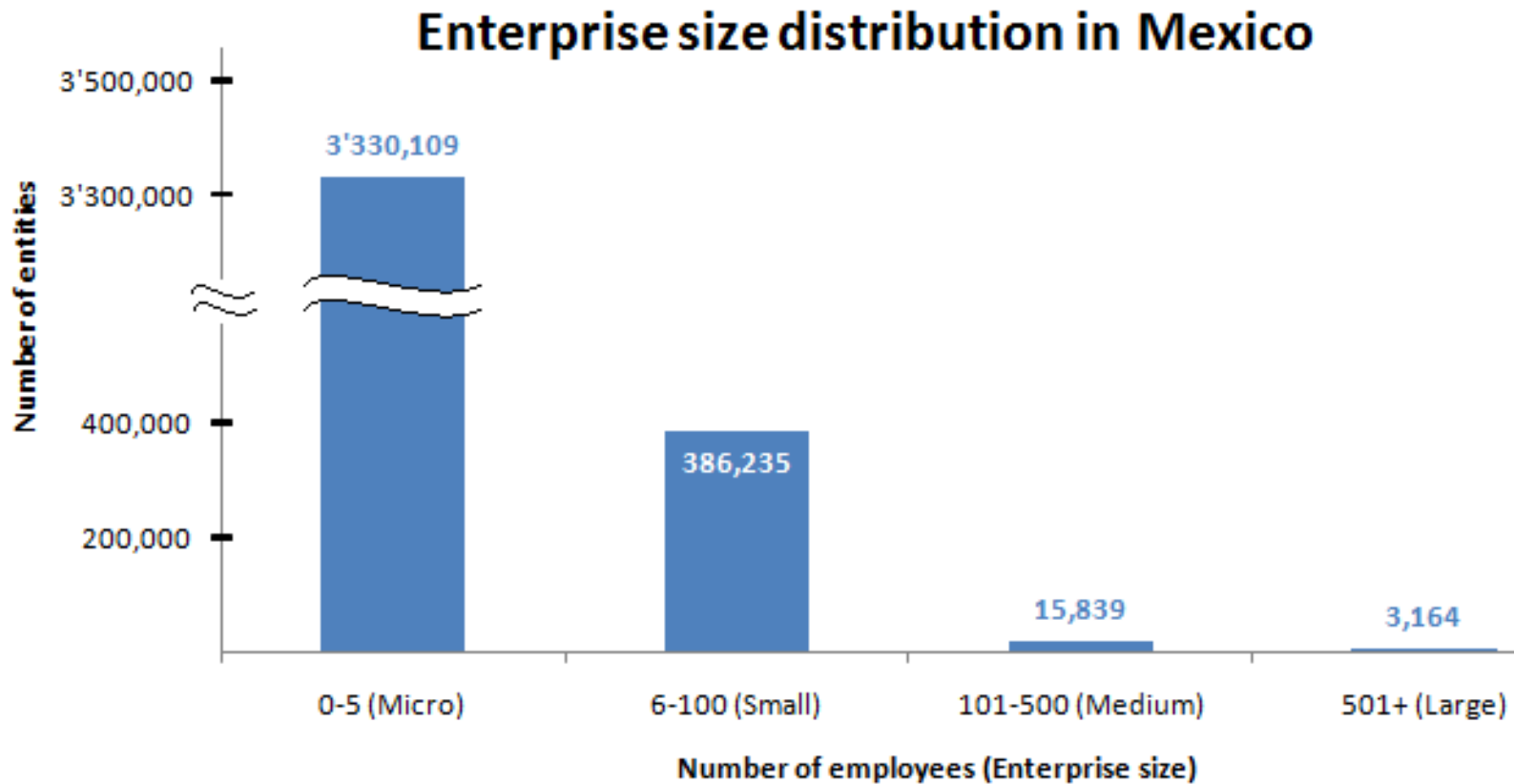
Rossana Weitekamp, 516-792-1462, rossana@weitekamp.com
Barbara Pruitt, 816-932-1288, bpruitt@kauffman.org, Kauffman Foundation

New firms add an average of 3 million jobs in their first year, while older companies lose 1 million jobs annually

(KANSAS CITY, Mo.), July 7, 2010 – When it comes to U.S. job growth, startup companies aren't everything. They're the only thing. It's well understood that existing companies of all sizes constantly create – and destroy – jobs. Conventional wisdom, then, might suppose that annual net job gain is positive at these companies. A study released today by the Ewing Marion Kauffman Foundation, however, shows that this rarely is the case. In fact, net job growth occurs in the U.S. economy only through startup firms.

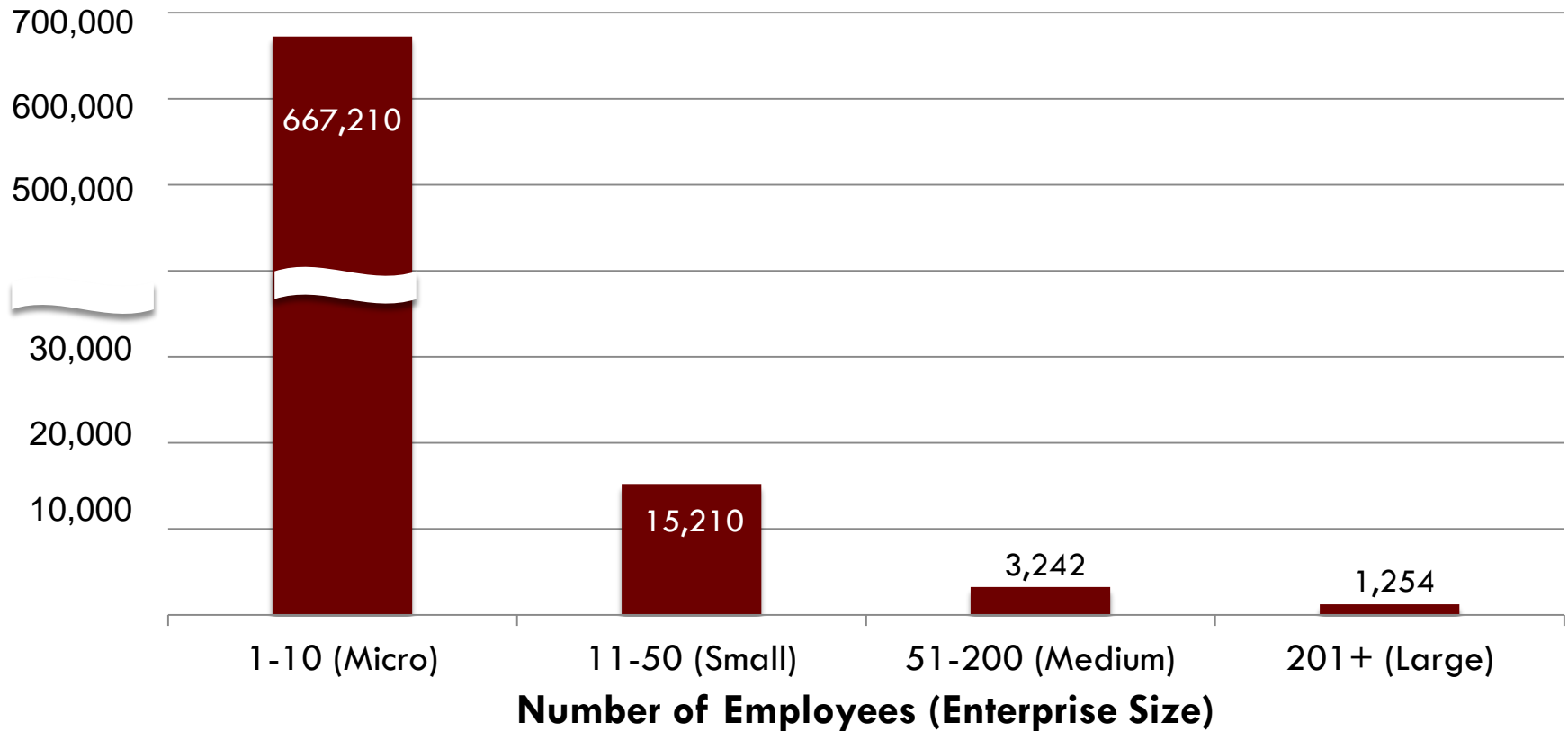
The new study, *The Importance of Startups in Job Creation and Job Destruction*, bases its findings on

Enterprises by size and participation (2008)



Enterprise by Size and Participation

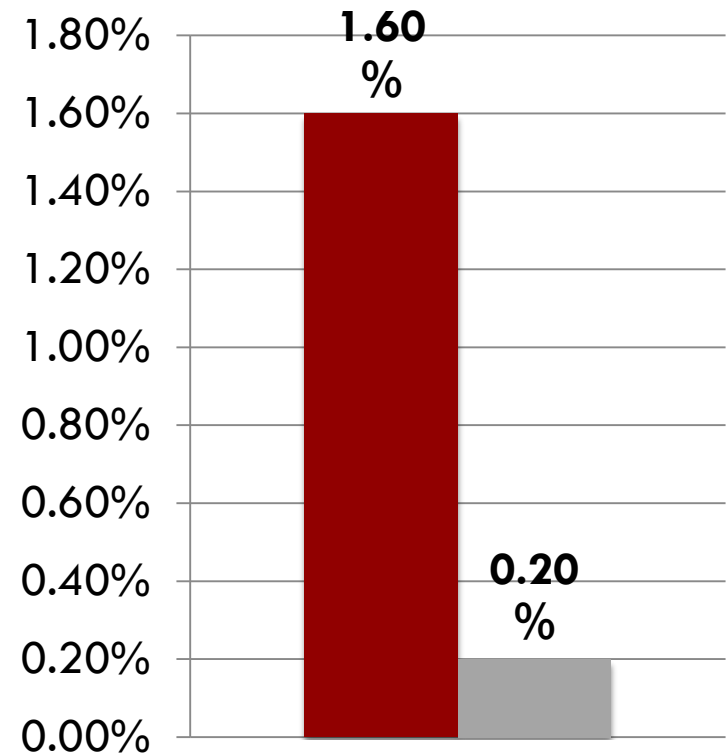
Enterprise Size Distribution in Peru



Impact: VC-Backed Job Creation

Sector	Jobs	%
Software	817,166	80.99%
Telecom	736,961	74.08%
Semiconductors	309,437	73.85%
Networking and Equipment	392,505	58.75%
Electronics and Instrumentation	271,224	51.35%

Job Growth '06 - '08



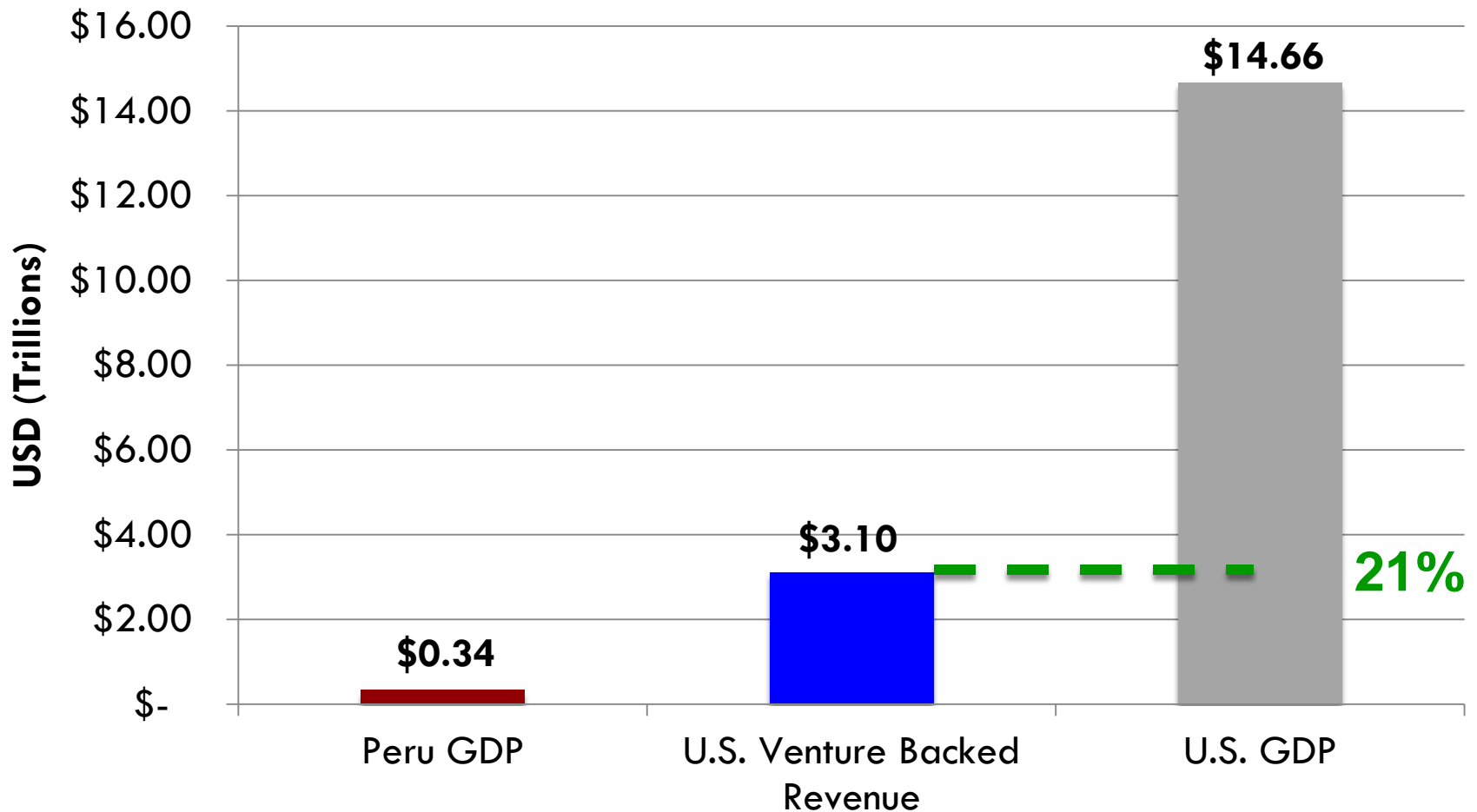
■ VC-Backed
■ Total Private Sector

• 11% of all private sector jobs

Impact of Venture Capital: U.S. VC in 2010



Economic Comparison and VC Impact (2010)



□ Industries Created with VC

- Information Technology
- Biotechnology
- Medical Devices
- Network Security
- Online Retailing

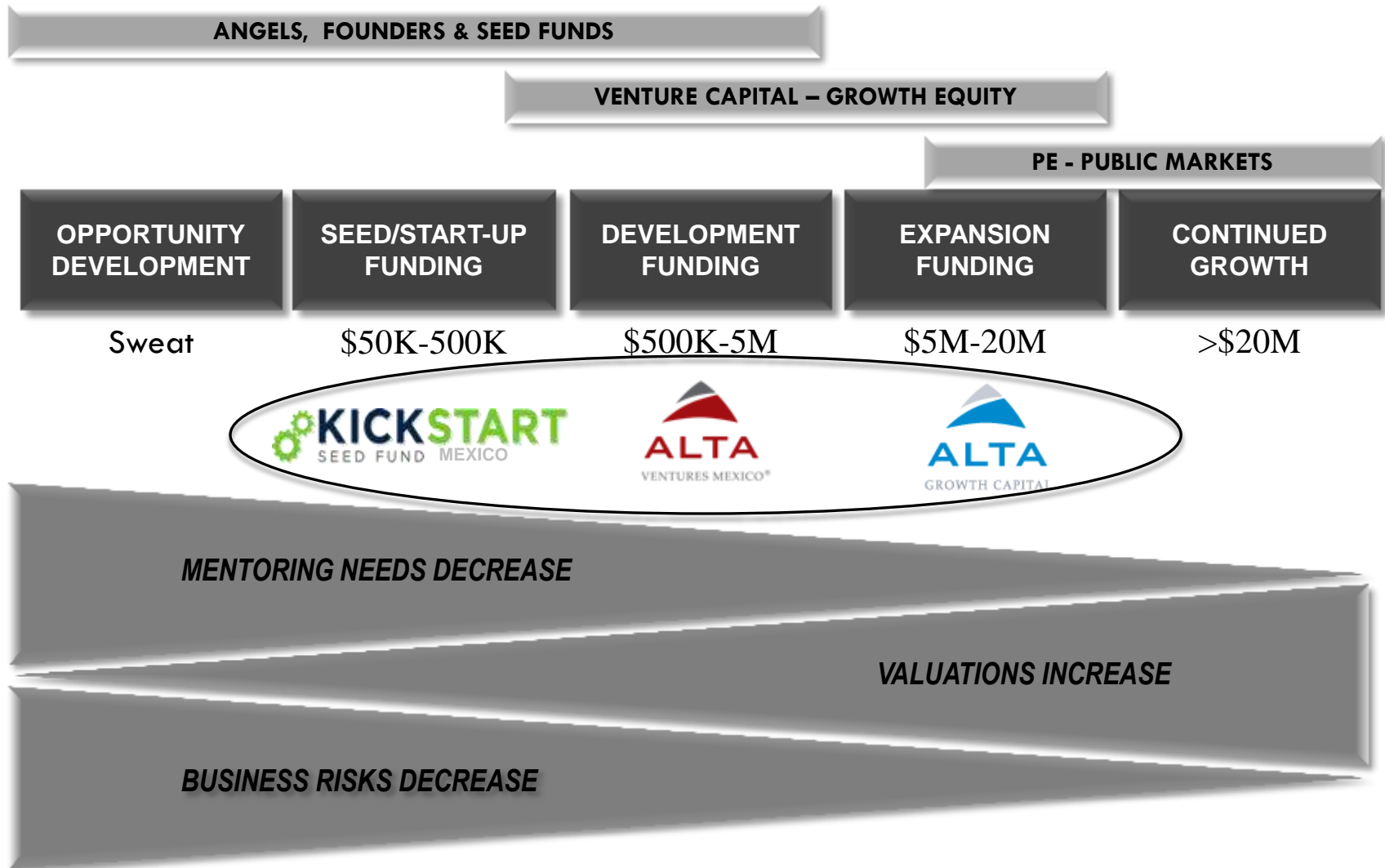


□ Newest Creations

- Social Media
- Clean Technology



Funding Continuum – Filling the Gap



High Growth, Cash Efficient Investment Sectors in Latin America

Technology



Consumer



Education



Security



Mobile & Enter.



Big Data



Going Forward... Additional New Market Opportunities Opening Up

Telecomm



Healthcare



E-Commerce



Clean Tech



Non-banking



Alta Ventures Portfolio by Sector

Clean Tech / Energy



Consumer



Big Data



E-Commerce



Education



Healthcare



Mobile & Entertainment



Non-banking



Security



SaaS

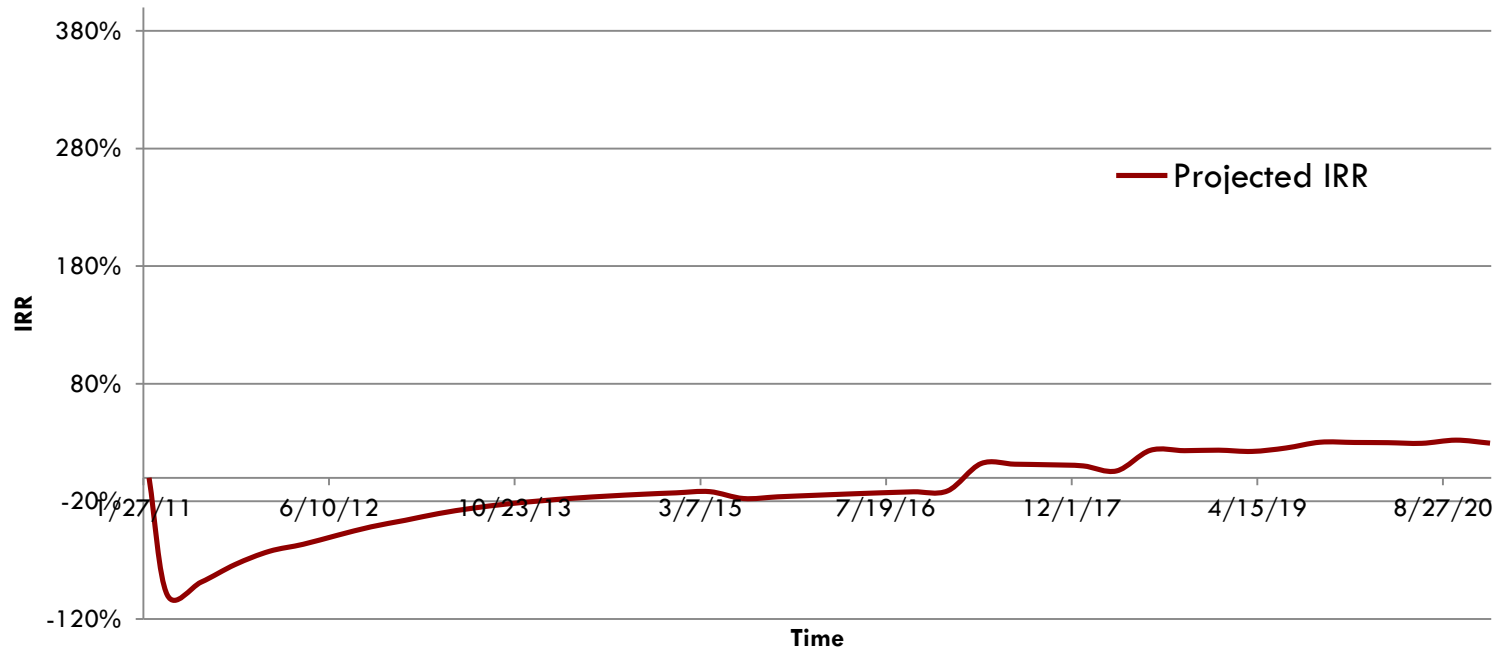


* Pipeline Deals

VC J Curve - Target IRR for venture capital 25%



AVM Fund I Projected vs Actual Performance



Alta Ventures Output Summary – Net IRR*

Pessimistic

Expected

Optimistic

19.9%

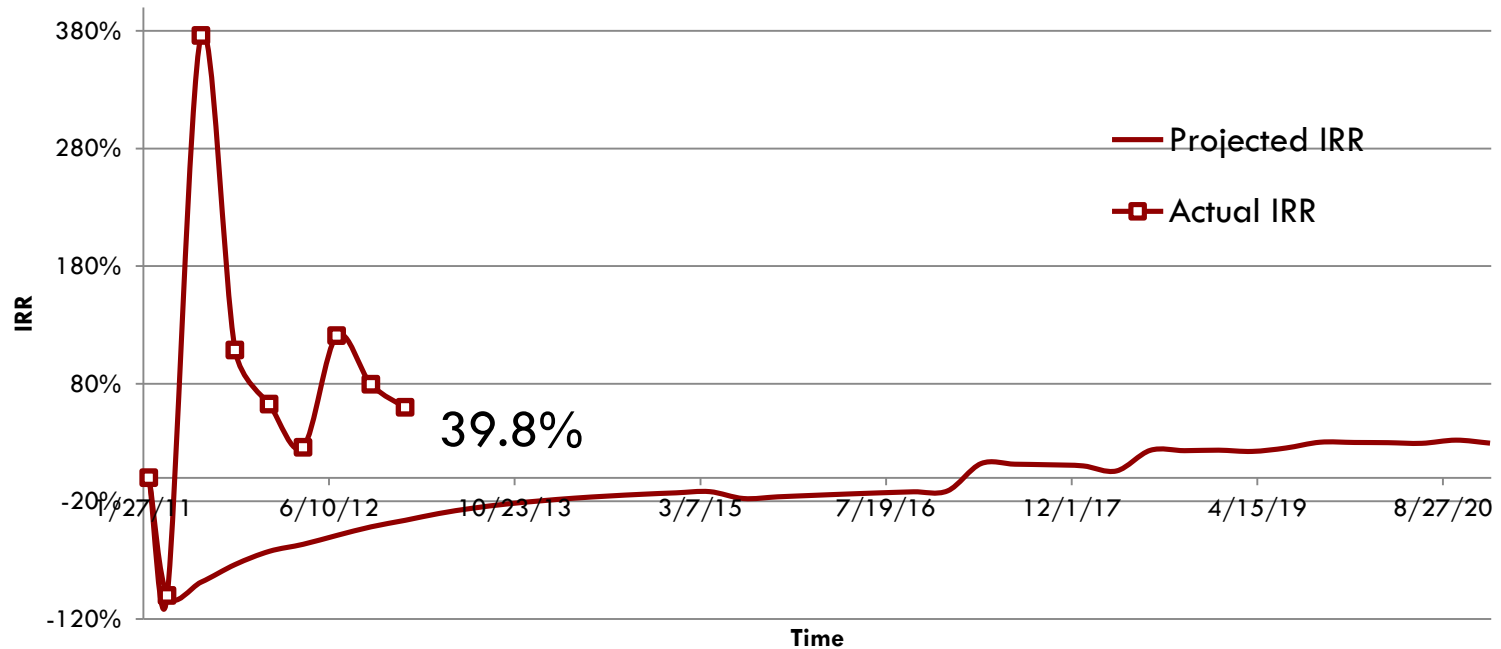
29.2%

38.1%

Alta Ventures Current Net IRR 39.8%



AVM Fund I Projected vs Actual Performance



Output Summary – Net IRR*

Pessimistic	Expected	Optimistic	Actual
19.9%	29.2%	38.1%	39.8%**

* Net IRR for LPs

** Up to June 30th, 2013

How does the VC Model Work?

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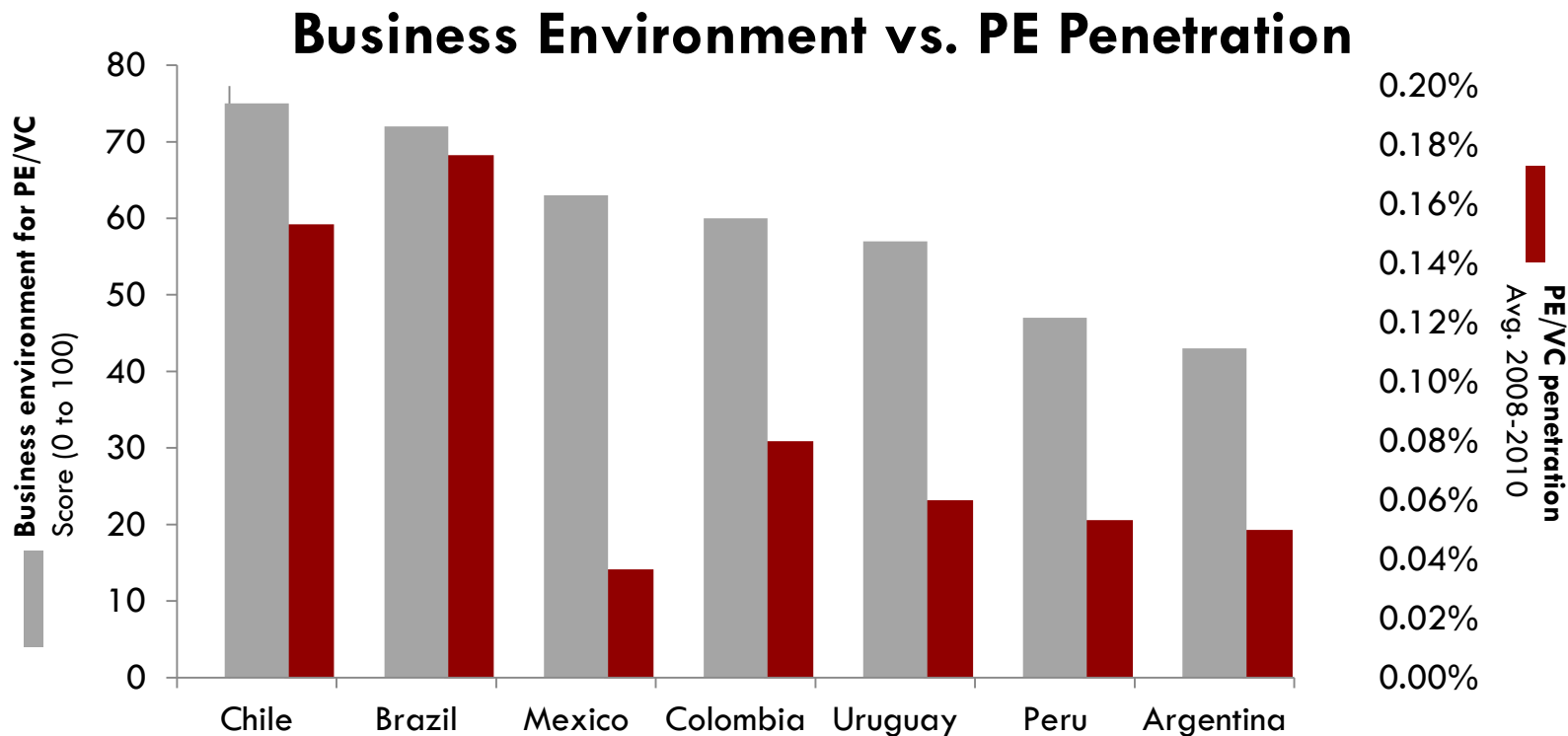
From a 20 company portfolio VC fund:

- 10 companies are shut down – 0x return
- 6 companies are acquired and return sufficient to recover capital – 1x return
- 3 companies generate 1.5X to 5X returns
- 1 company generates >10X returns

PE/VC Attractiveness vs Capital Environment



Peru is very underpenetrated despite its overall good business environment to conduct PE and VC



* Bank credit in Latin America weighted by GDP share. Includes mortgages, credit to consumers and to firms
Source: EMPEA, EIU, LAVCA, Banco de México and S&P Ratings Service; Vander Capital Partners analysis;

Peru Has Limited Exposure to PE and Zero Exposure to Venture Capital

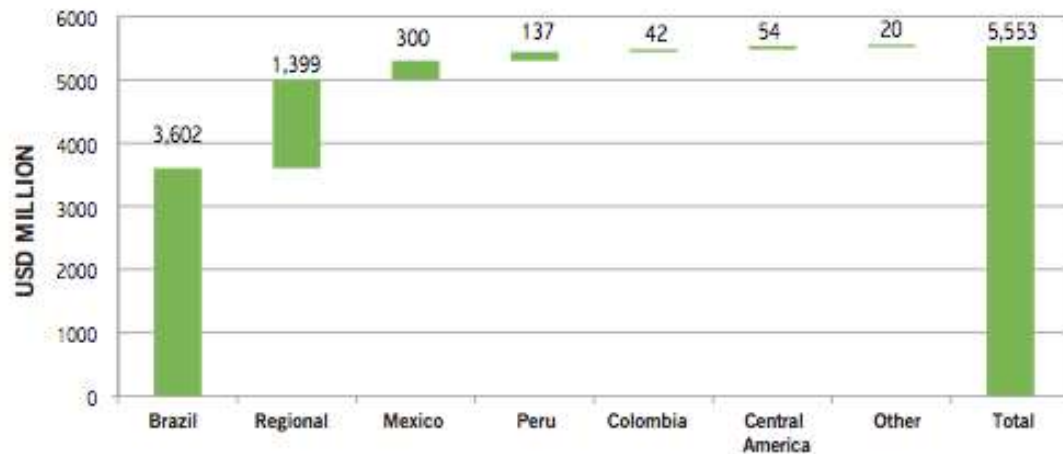


Brazil 25X more capital than Peru

Fundraising by Country/Region

Country/Region	2012	
	Funds Raised	% of regional total
Regional	\$1,399	25.2%
Brazil	\$3,602	64.9%
Mexico	\$300	5.4%
Peru	\$137	2.5%
Colombia	\$42	0.8%
Chile	-	0.0%
Central America	\$54	1.0%
Other	\$20	0.4%
Total	\$5,553	100%

Geographic Focus* of Funds Raised



* The geographic focus was estimated based on fund manager's responses to the survey on how they plan to allocate the funds they raised. It is not based on where the fund manager's headquarters are located.

FUNDRAISING CONCENTRATION		
	% 2012	% 2011
Top 5 firms	52%	71%
Top 10 firms	71%	89%
Top 15 firms	81%	95%

Liquidity fuels venture capital industry

IPO



M&A

 129 acquisitions

 Microsoft 157 acquisitions



48 acquisitions

As markets mature, they go through three stages of Venture Capital Development

1. Cherry Picking - Peru

500 startups



1. Hybrid - Mexico

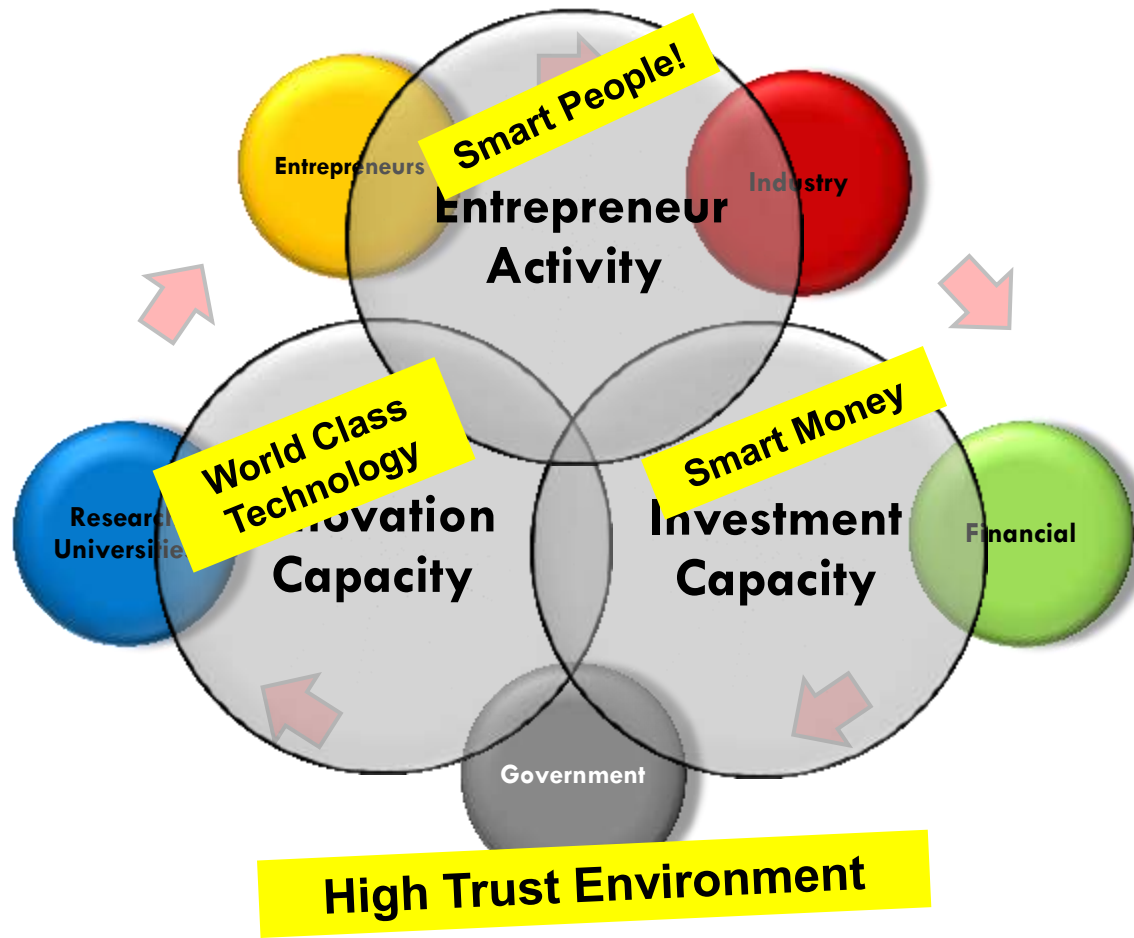


1. Home Grown - Brazil

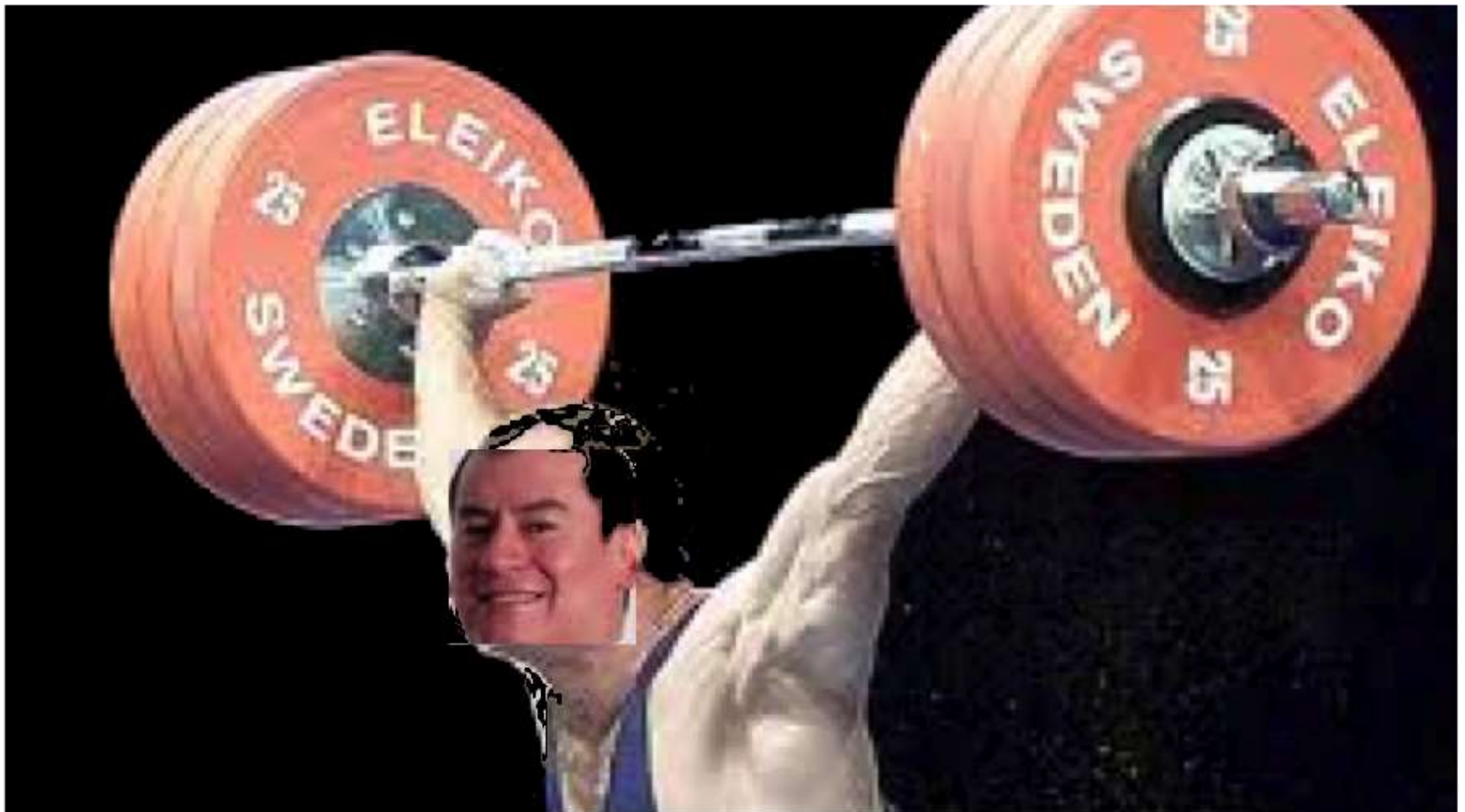


What Are the Key Entrepreneurial Ecosystem Drivers?

Venture Capital is a catalyst for growth if other key factors are present: Supportive Government Environment, Innovation, Entrepreneur Culture

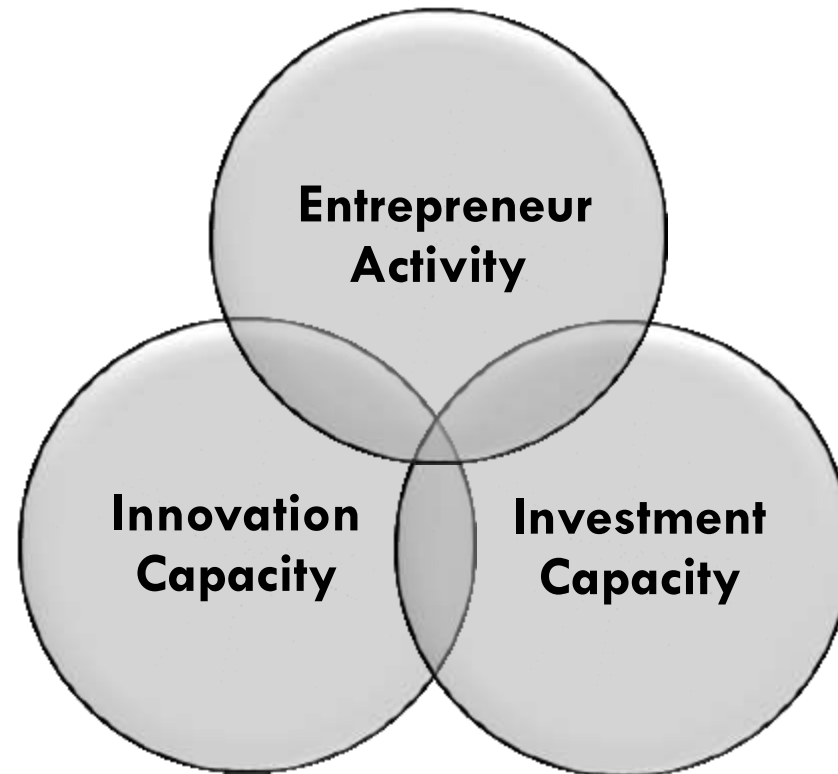


Can community help with heavy lifting of building a successful entrepreneur ecosystem?

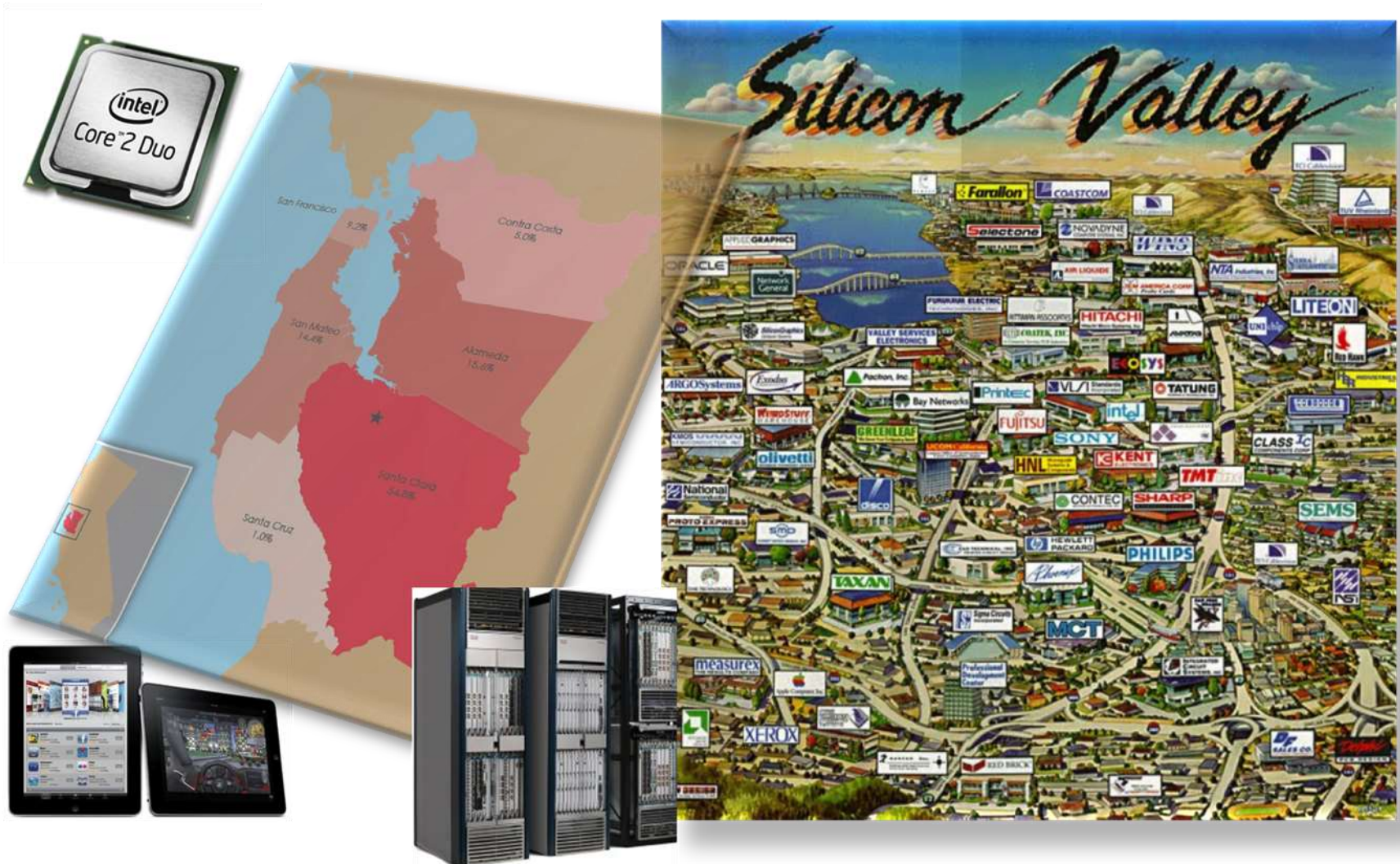


It takes a community effort to build a successful entrepreneurial ecosystem

Critical mass of innovation, entrepreneurs and connected capital in a trusted, business friendly environment



Venture Capital Version 1.0: Silicon Valley



Everyone trying to replicate Silicon Valley



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Silicon Alley – New York, England

Silicon Sloboda - Moscow

Silicon Gulf – Davao Philippines

Silicon Slopes, Utah

Silicon Oasis- Dubai

Silicon Wadi – Israel

Silicon Beach – Australia, Brighton England

Silicon Glen – Scotland

Silicon Gorge – Bristol, England

Silicon Forrest – Portland Oregon

Silicon Prairie – Illinois, Dallas

Silicon Sandbar – Cape Cod

Silicon Border – Mexico

Silicon etc....

But can Silicon Valley be replicated?

What makes Silicon Valley work?

- 1. Critical Mass of Capital, Human Capital and Innovation Capacity tied together with**
- 2. Trusted Informal Networks in an**
- 3. Entrepreneur Friendly Environment (predictable)**

- Innovation Capacity.** Significant Intellectual Capital (Stanford, Xerox PARC, IBM Research Labs)
- Capital.** Robust Investment Capacity (Full Funding Continuum)
- Human Capital.** Critical Mass (Significant Entrepreneurial Activity & High-Trust Culture, Deep Bench Strength, Social Dynamics: OK to Fail, OK to be Rich)
- Trusted informal Networks** (Trusted Service Providers, Shared Community Vision, Predictable & Supportive Government)

Deal Flow - Entrepreneur Ecosystem Support



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Entrepreneur activity

1. E|100 www.e100.mx



2. Endeavor and Enlace mentor networks www.enlacee.org, www.endeavor.org.mx



3. StartupCore – Entrepreneur education www.startupcore.mx



4. International Business model competition: <http://www.businessmodelcompetition.com>



Innovation capacity

1. iTUESDAY www.ituesday.mx



2. TECHNIUM www.technium.com



Investment capacity

1. MVCC – Mexico Venture Capital Conference www.mvcc.mx



2. MX Kickstart Seed Program



3. Mexican Family Offices & Strategic Partnerships



4. Strategic Corporate Partnerships: Spin-Ins/Spin-Outs

INNOVATION: High correlation between Innovation Capacity and VC Investment

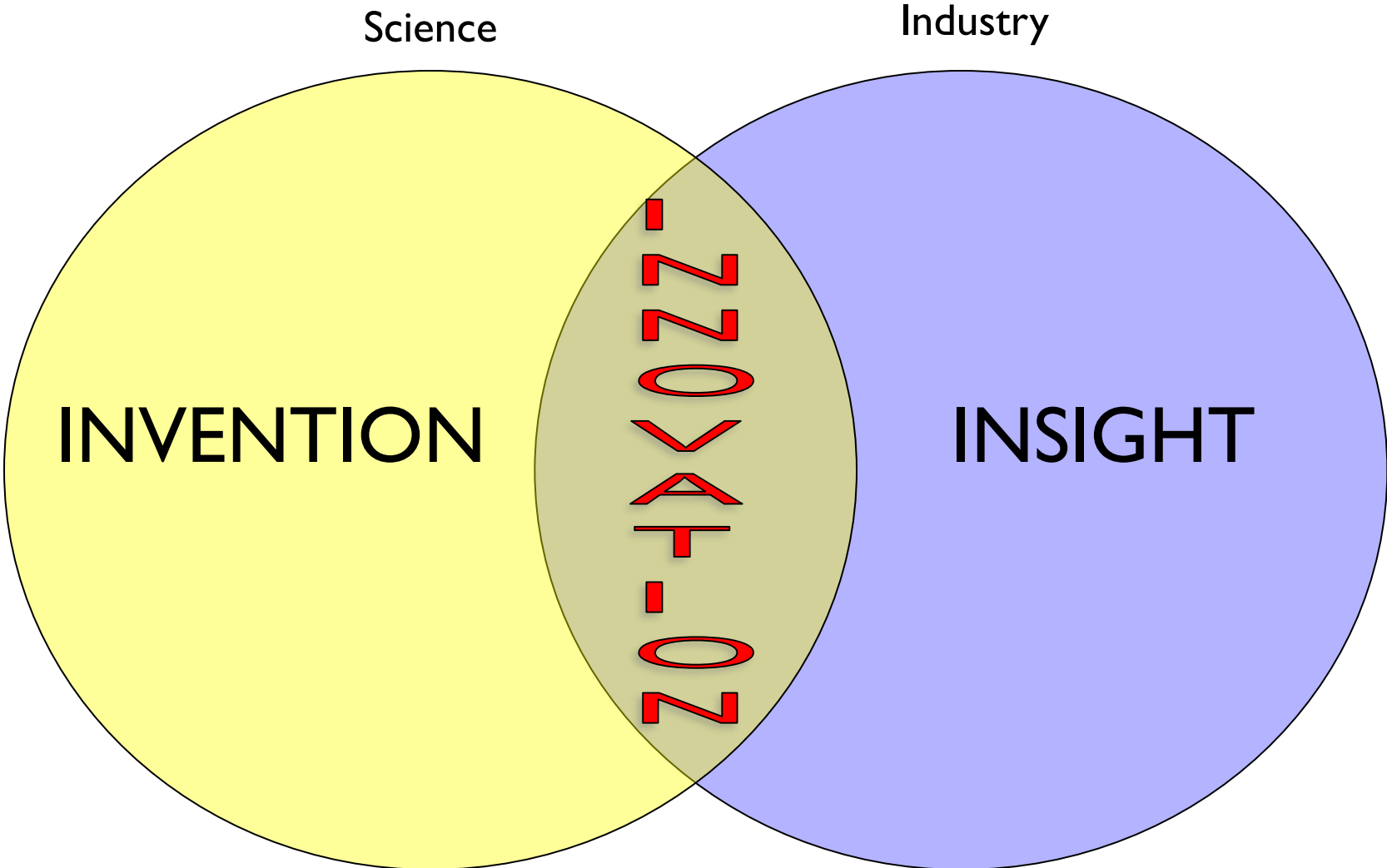


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- **Romain Study.** Technological strength (patenting, R&D investment, etc.) were significant predictors of increased VC investment per country.
 - Romain, A. and B. v. Pottlesberghe. 2004. "The Determinants of Venture Capital: Panel Data Analysis of 16 OECD Countries" Unpublished Working Paper (April).

- **Guler Study of Patents & Scientific Publications.**
 - One standard deviation increase in a nation's **U.S. patents** = 78% increase in US Venture dollars into that country.
 - One standard deviation increase in **Scientific Publications** = 113% VC investment increase
 - No other measures including stock market capitalization, political constraints, or number of students studying in the U.S. were as important.
 - Guler, I. and Guillen, M. F. 2005. "Institutions, Networks, and Organizational Growth: The Internationalization of the U.S. Venture Capital Firms." (November).

INNOVATION: Key to success



Entrepreneurs: How do we identify and support the best entrepreneurs?



Entrepreneur Support: What's missing in Peru?



Endeavor Network

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- Established to support high-growth companies
Extensive global network of mentors
Thousands of mentors and companies
- Supported by major families and corporations in each region
- Significant high-quality deal flow (Gazelles, 30% CAGR)

Entrepreneur Identification and Support – E100



April 20th, 2010
Quinta Real Hotel

TRUST: Honesty, Trust & Integrity are
foundation of success



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**Business happens at
the Speed of Trust!**

* Steven MR Covery

TRUST: Why is Trust So Important to development of a successful entrepreneur ecosystem?



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Honesty & Individual Integrity..

...TRUST (enables speed & flexibility)

➤ FLEXIBILITY (Provides freedom to fail)

➤ CREATIVITY

➤ INNOVATION (Deal flow)

➤ INVESTMENT (Fuels growth)

TRUST: Trust is Key to Success

Corruption in Emerging Markets #1 Problem



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- World Bank: “Corruption is the **single largest** obstacle to economic and social development”
- **\$1 Trillion** in bribes paid globally
- Reduction of corruption could increase per capita GDP by **400%**



Public Policy: Need to Peru's Public policy as it relates to Venture Capital



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2013

Lack of a clear public policy

Weak legal frame work

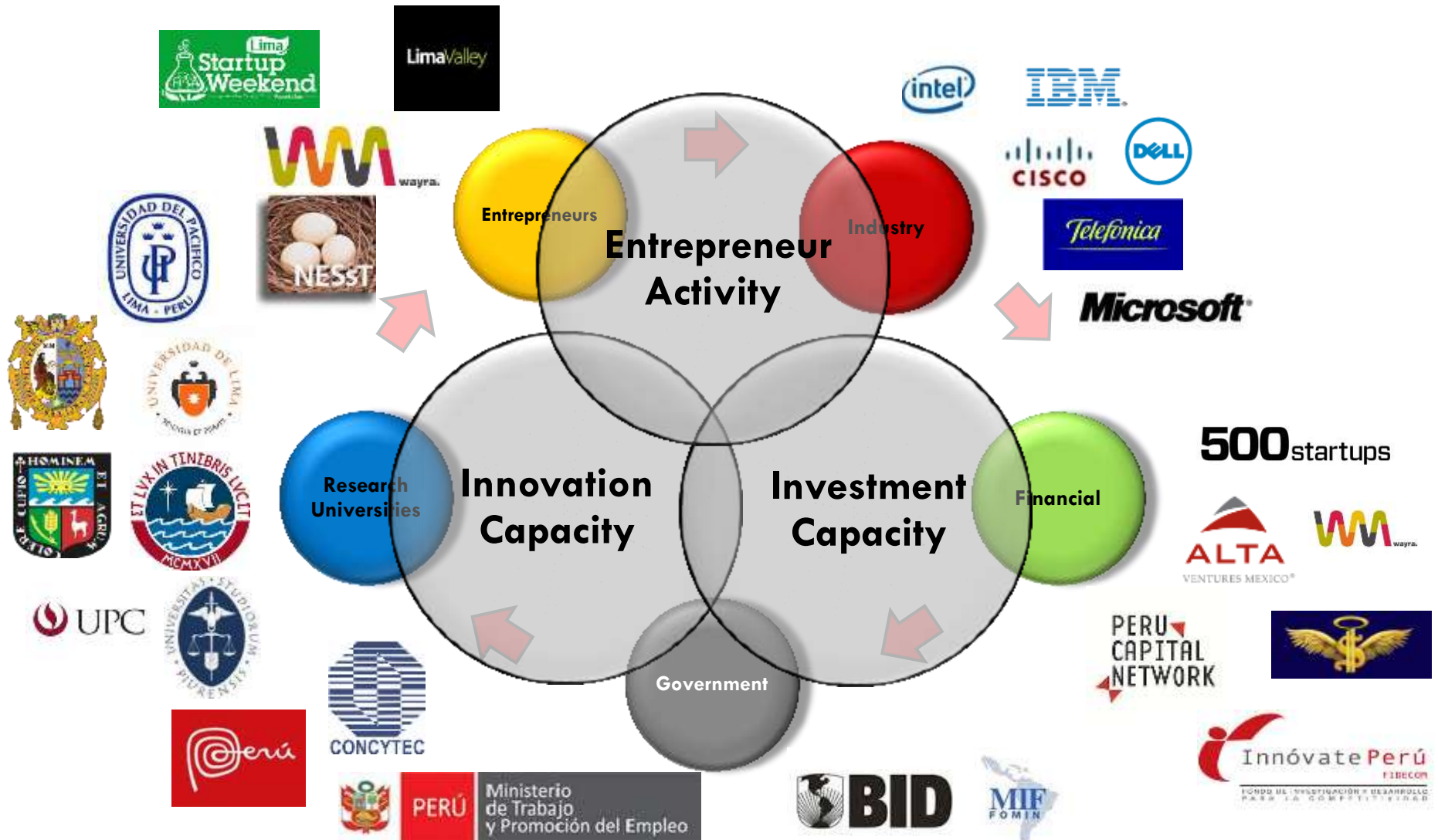
Limited industry knowledge within the country and limited number of specialists

Limited impact in the market of the efforts done by development banks

Few institutional investors focused on early stage

Lack of deal flow and venture capital oriented entrepreneurial culture

Peru's 2013 Entrepreneurial Ecosystem Stakeholders



Can we establish a VC industry in Peru?

U.S. VC History

□ Influential Families (1900-1960)

- Pre WWII- Wealthy families begin conducting first PE transactions: Carnegie and Phipps (Bessemer Ventures), Vanderbilts, Whitneys (Whitney and Co.), Rockefellers (Venrock) and Warburgs (Warburg Pincus)
- 1957- Georges Doriot- “Father of Venture Capital”, Dean of HBS and founder of ARDC invests in DEC which returns 500X
- 1958- Small Business Investment Act
- 1959 – First West Coast VC Firm of Draper, Gaither & Anderson
- 1959- Rockefeller family (later Venrock) funds Fairchild Semiconductors and launches the integrated circuit industry



digital

How can we establish a VC industry in Peru?

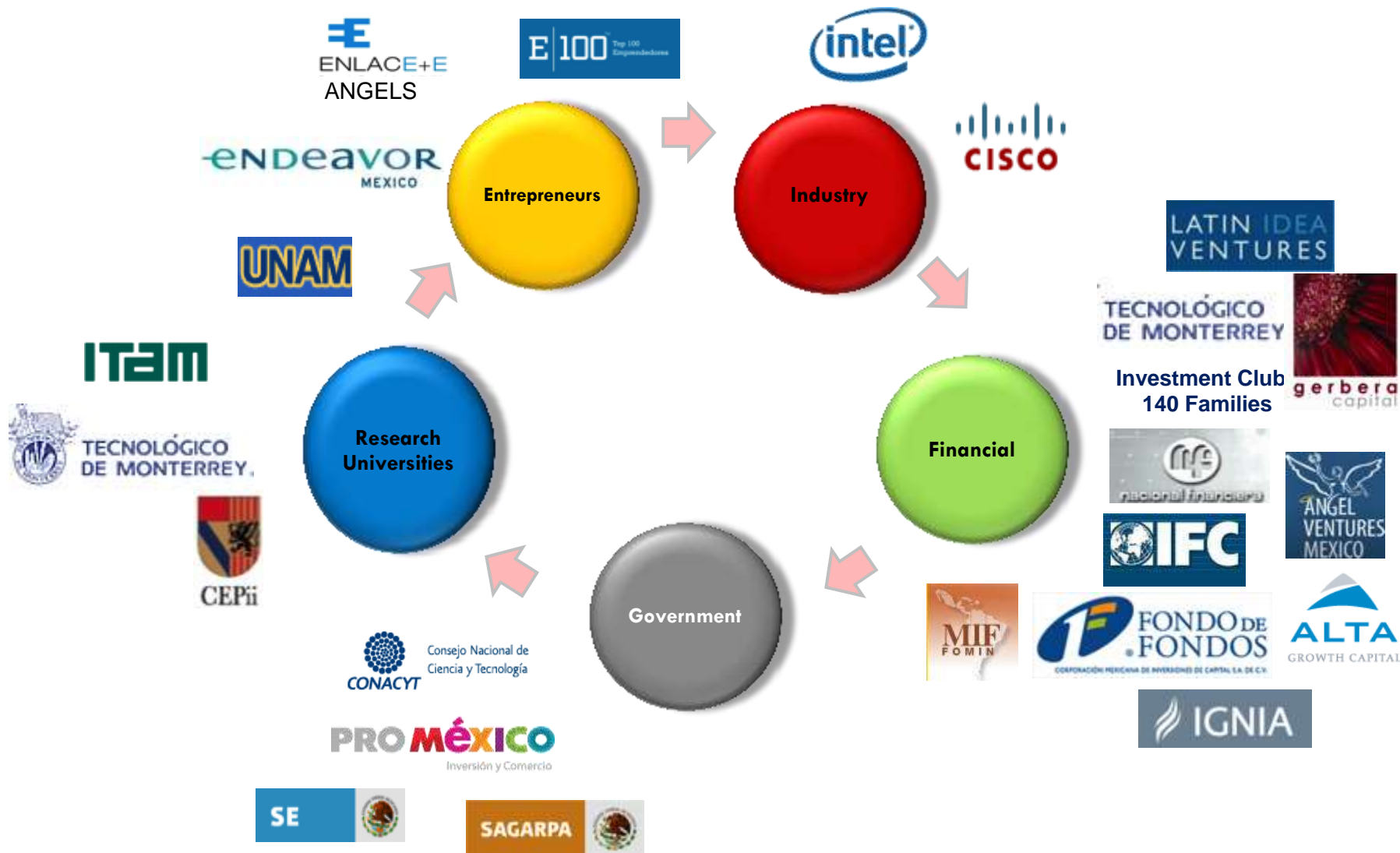
U.S. VC History

□ Institutional Capital (1960-2010)

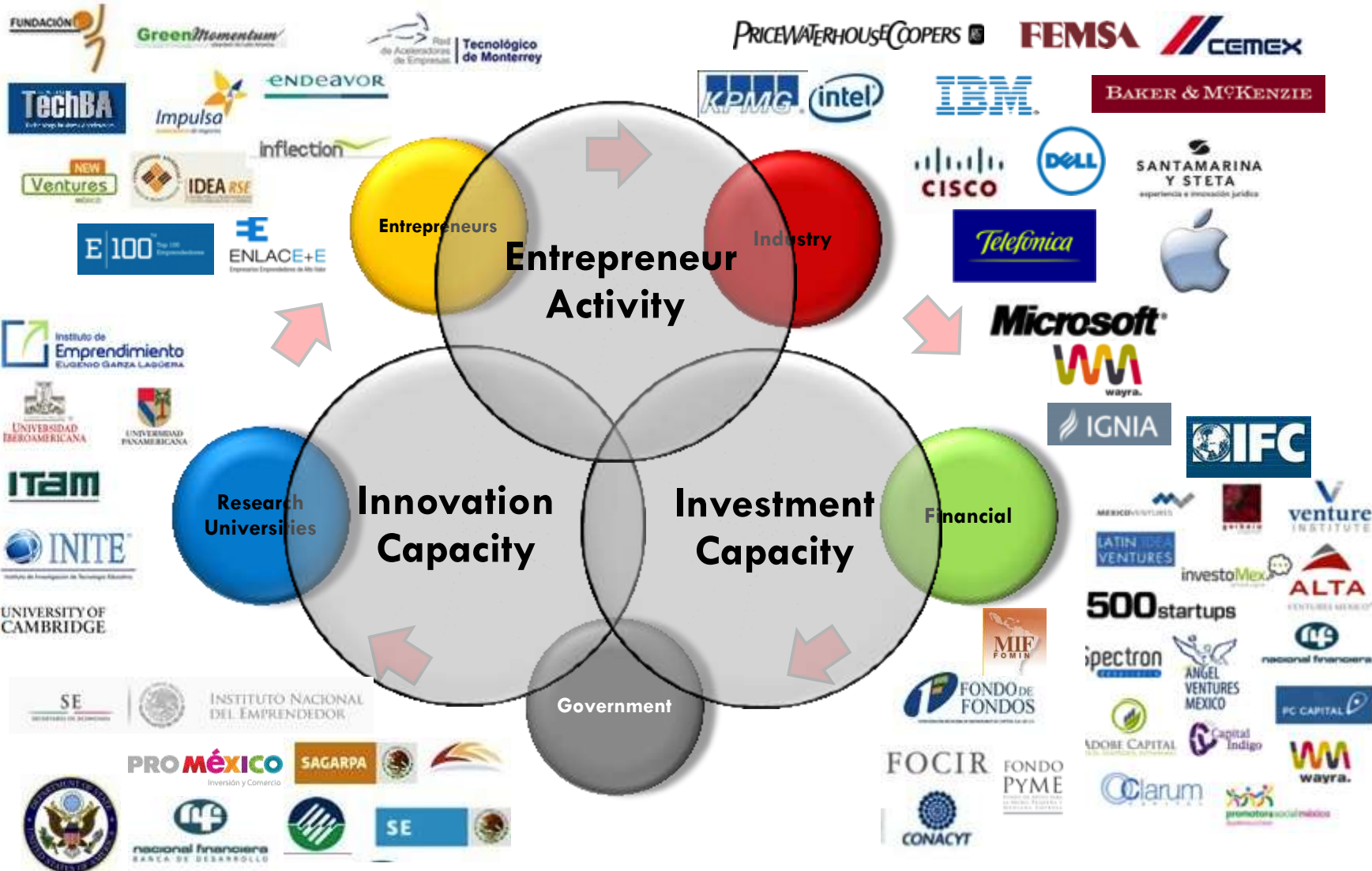
- 1960s- PE/VC Industry formalizes and develops fund model
- 1972- KPCB and Sequoia launch in Silicon Valley, built deal flow, distribution and exit networks and sustainable competitive advantage
- 1978- Allows pension funds to invest in the asset class; fundraising jumps 14X in one year
- 1980-2000- Apple, Genentech, FedEx, Cisco, Microsoft, Amazon, Ebay, Intuit, Sun Micro
- 2000+ Tech bubble bust, beginning expansion to emerging markets in search of growth
- 1997-2007- Average early-stage venture returns were *40% compounded annually



Case Study: Mexico's Entrepreneur Ecosystem 2009



Case Study: Mexico's Entrepreneur Ecosystem 2013



Case Study: Silicon Valley Started in this garage

1940

1950


1960

1938

Stanford University graduates William Hewlett and David Packard begin working together in a garage in Palo Alto, with \$500 in cash and a used drill press valued at \$38. Their first successful product is a precision audio oscillator. Hewlett-Packard becomes a company on Jan. 1, 1939 – after a coin toss to determine the order of their names.

Two Stanford University graduates, David Packard and William Hewlett, founded the Hewlett-Packard Co. in 1939 in this Palo Alto garage. The structure is listed on the National Register of Historic Places.
(Courtesy of Hewlett-Packard Co.)



 Enlarge

History of Silicon Valley University & Govt Support

1940


1950

1942

During World War II, Stanford professor Fred Terman visits Harvard to lead a secret government lab developing radar countermeasures. He returns to Stanford after the war and helps attract federal funding for electronics research. Area companies will also engage in defense-related work during the Cold War.

Fred Terman holds a fluorescent tube lit by energy from a jamming antenna, at the Radio Research Lab at Harvard University, Nov. 20, 1945. Terman encouraged his former students David Packard and Bill Hewlett to work together. (AP)




 Enlarge

1953

The new Stanford Industrial Park gets one of its first tenants: Varian Associates, founded by brothers Russell and Sigurd Varian, who invented a key component used in radar and other microwave technology. Other early tenants include Hewlett-Packard, General Electric and Lockheed.



 Enlarge

In 1956, Lockheed opened a facility on 22 acres in the Stanford Industrial Park. By the late '50s, Lockheed was the area's largest employer, with nearly 5,000 workers at the park and in nearby Sunnyvale. (Courtesy of Lockheed Martin)

Smart People: Silicon Valley Startups created by brilliant students in supportive environment



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□ **1975 Microsoft**

- ▣ Bill Gates and Paul Allen found Microsoft



□ **1976 Apple**

- ▣ Steve Wozniak and Steve Jobs form Apple Computer in Jobs' garage in Cupertino



□ **1977 Oracle**

- ▣ Larry Ellison founds Oracle Corporation



□ **1998 Google**

- ▣ 1998: Stanford students, Larry Page and Russian-born Sergey Brin, launch Google

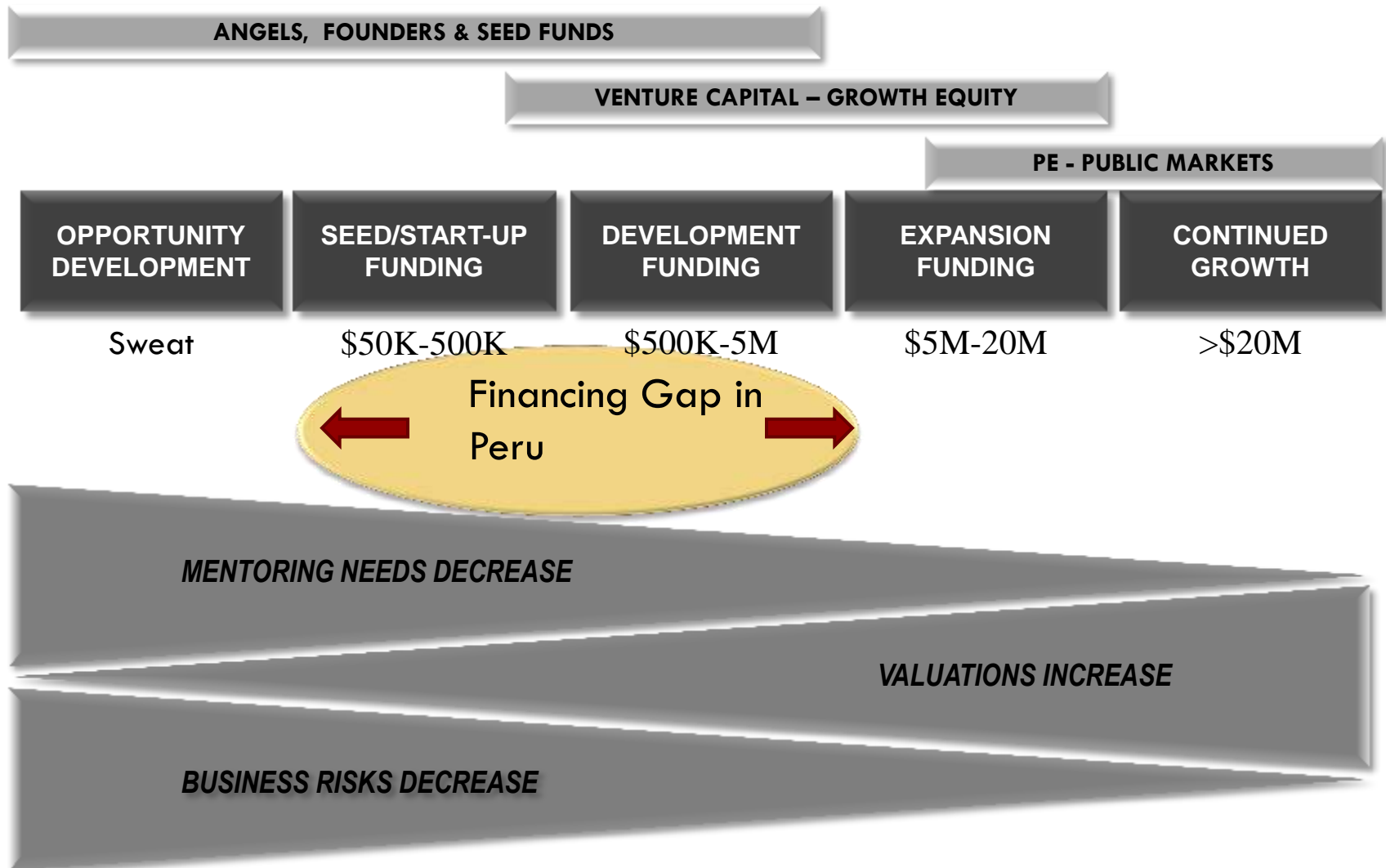


□ **2004 Facebook**

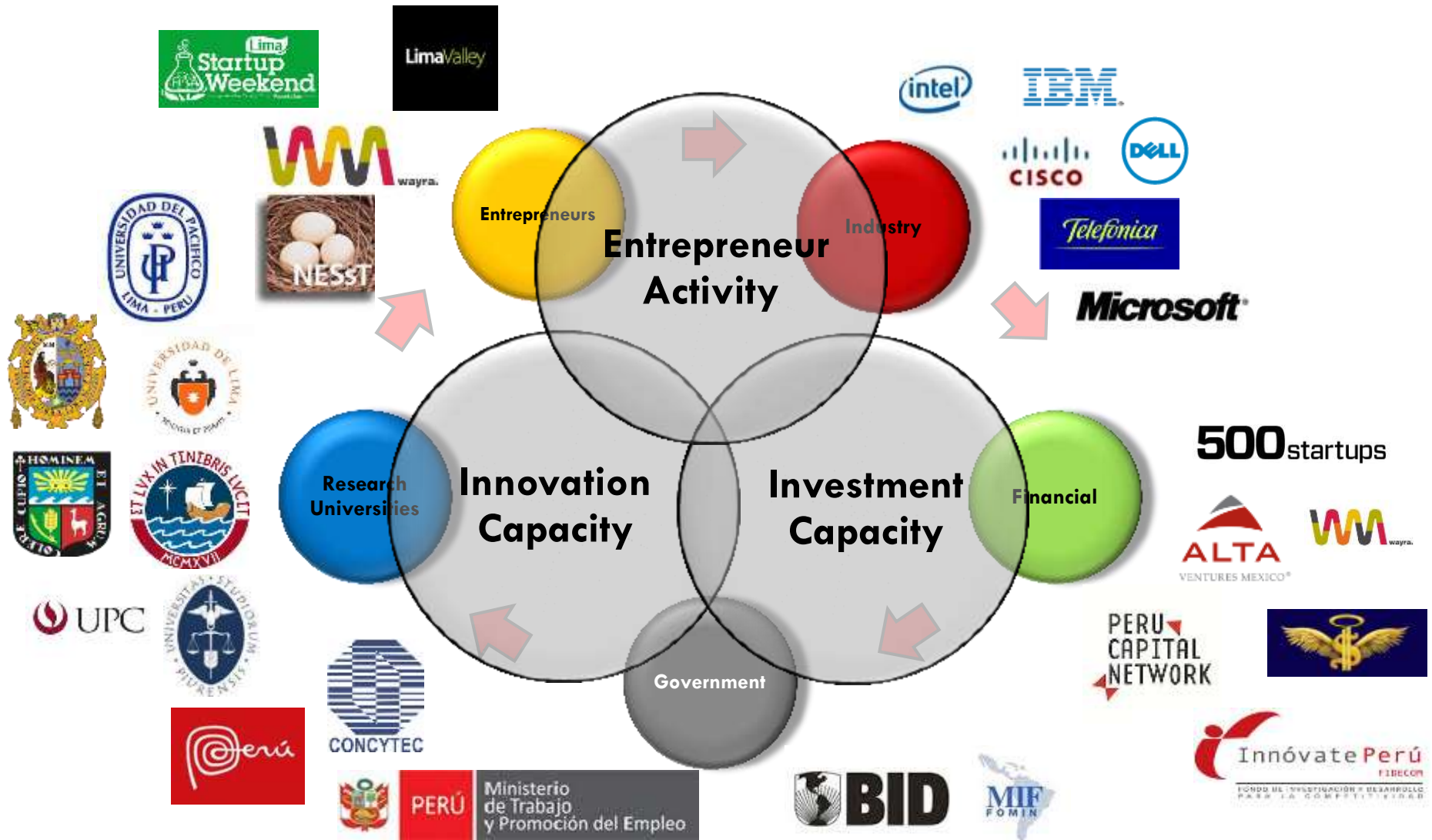
- ▣ Mark Zuckerberg founds Facebook



Build Entrepreneurship Ecosystem before filling Early-stage Equity Funding Gap



Together we can do this!



Thank You

- Paul Ahlstrom
- Twitter: @PaulAhlstrom



Appendix

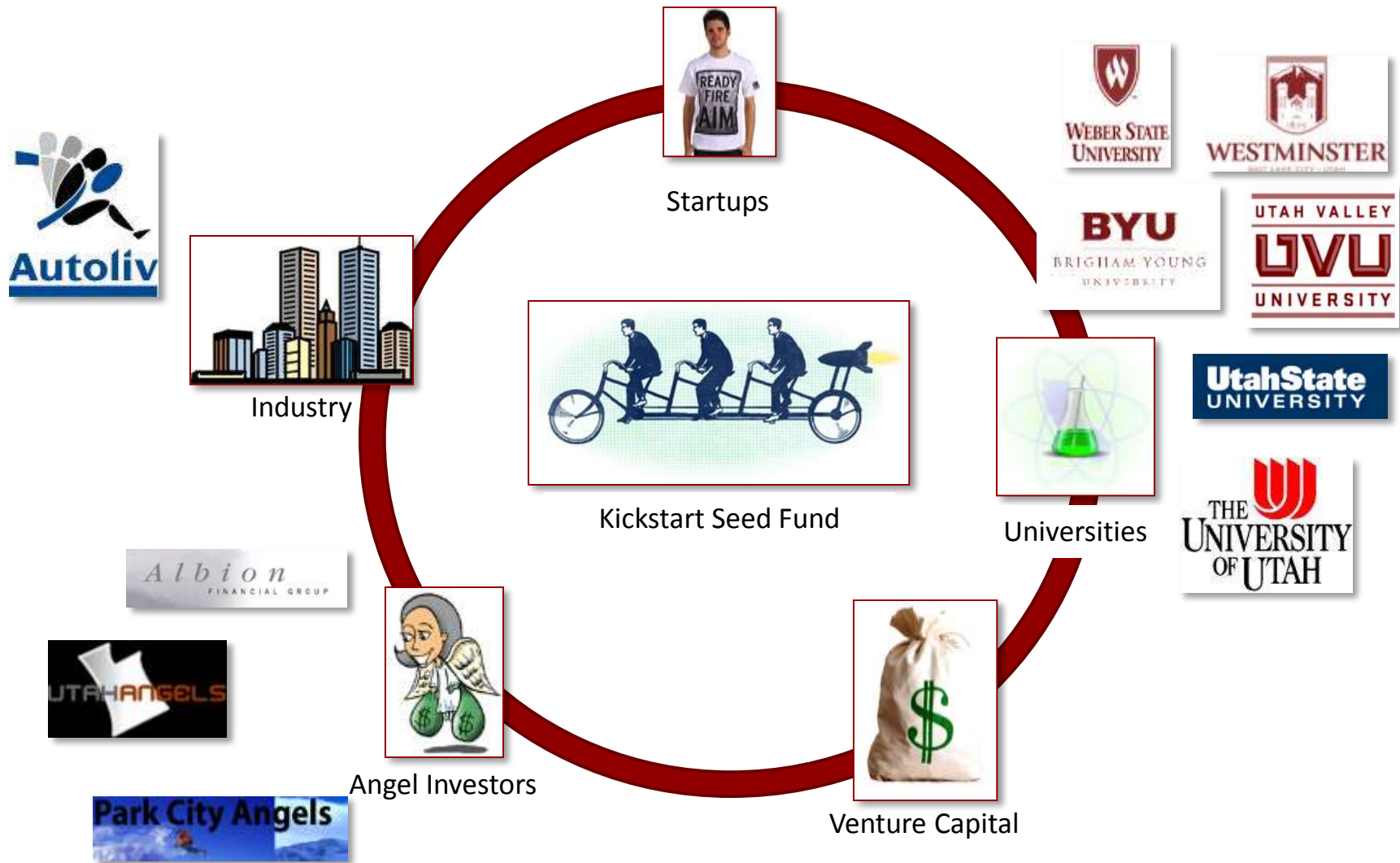


THE FEAST AND FAMINE OF VENTURE CAPITAL



RAISING VENTURE CAPITAL IS EITHER LIKE BANGING YOUR HEAD AGAINST A WALL UNTIL CASH COMES OUT OR GETTING BURIED IN SO MUCH MONEY YOU HAVE TO SHOVEL YOUR WAY OUT. I'M PREPARED EITHER WAY!

Kickstart Model: Identify & Recruit the Key Ecosystem Players



Have Monthly Meet-ups of community - iTuesday



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The 2010 Monterrey Venture Capital Conference brought together all of the key players in Mexico's venture capital ecosystem for the first time. The MVCC was successful in attracting institutional investors, economists, policymakers, researchers, entrepreneurs and venture capitalists and launching Mexico's Venture Capital industry (Industria del Capital Emprendedor).



Carlos Pascual
United States
Ambassador in México



Josh Lerner
Jacob H. Schiff Professor
of Investment Banking at
Harvard Business School



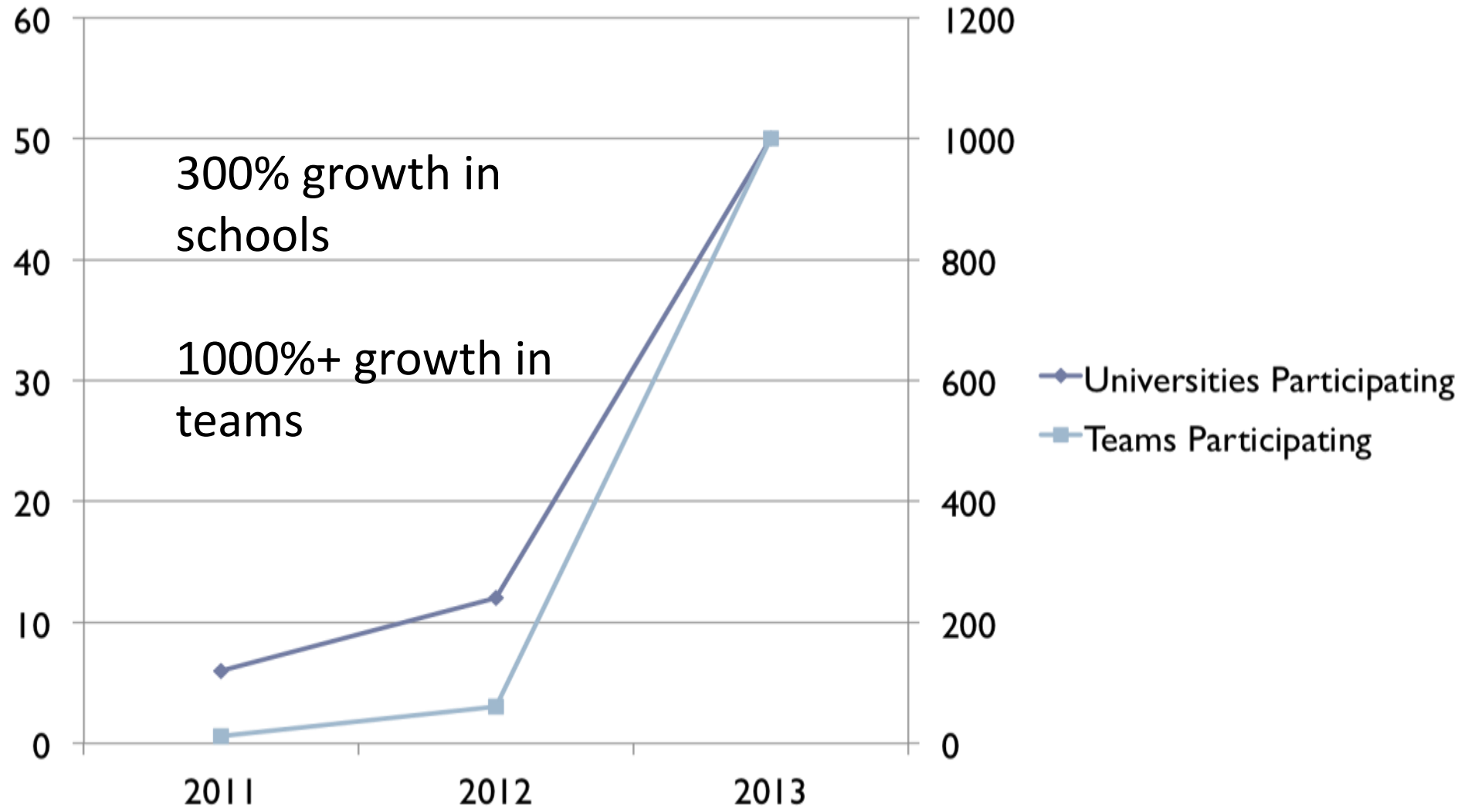
Carlos Dominguez
Senior Vice President
Cisco

**Brought together MX Ecosystem to Launch
Mexico's Entrepreneur Capital Industry**

Entrep. Education: Adopt the Business Plan Competition at all universities



Business Model Competition Global Momentum



"No Business Plan Survives First Contact With A Customer"

The International Business Model Competition represents a radical departure from the past and the crest of a new paradigm in entrepreneurship. The IBMC is not a business plan competition. Participants won't be rewarded for doing lots of library research, drawing fancy graphs, or crafting the perfect sales pitch to venture capitalists. Instead the IBMC rewards students for:

- Breaking down their idea into the key business model assumptions
- Getting outside the building and testing their assumptions with customers
- Applying Customer Development / Lean Startup principles to make sure they nail the pain and solution, and
- Learning to pivot (change) until they have arrived at a customer-validated business model.



International Business Model Competition Winners

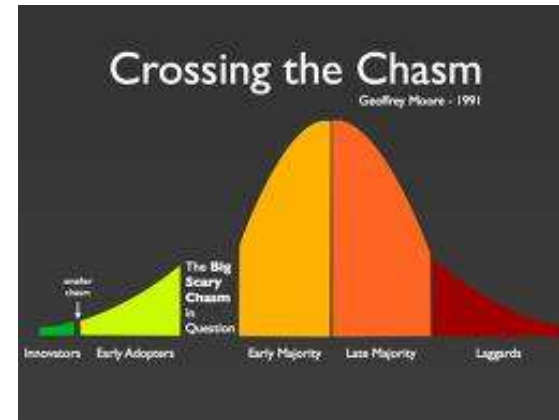
2012 IBMC Winner
XoomPark

2013 IBMC Winner
Owlett



See winning IBMC presentations on YouTube

Student Business Model Competitions Based on New Startup Models – Nail It Then Scale It!



Innovation: TECHNIUM.COM

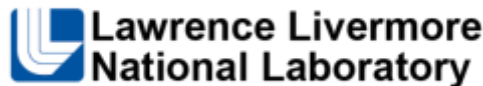


TECHNIUM

Turn Invention Into Innovation

Technium is a collaboration with the International Business Model Competition and laboratory partners spanning federal, university, and corporate labs to unlock the technologies and put them into your hands to create the next groundbreaking company and spark new innovation.

Winners of the IBMC will earn \$150,000 in investment from Alta Ventures and investment partners and a license to the technology. Additional resources will be given by the respective lab for commercialization.



Case Study: Utah - Can an entrepreneur ecosystem be built outside of Silicon Valley?



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Utah Case Study

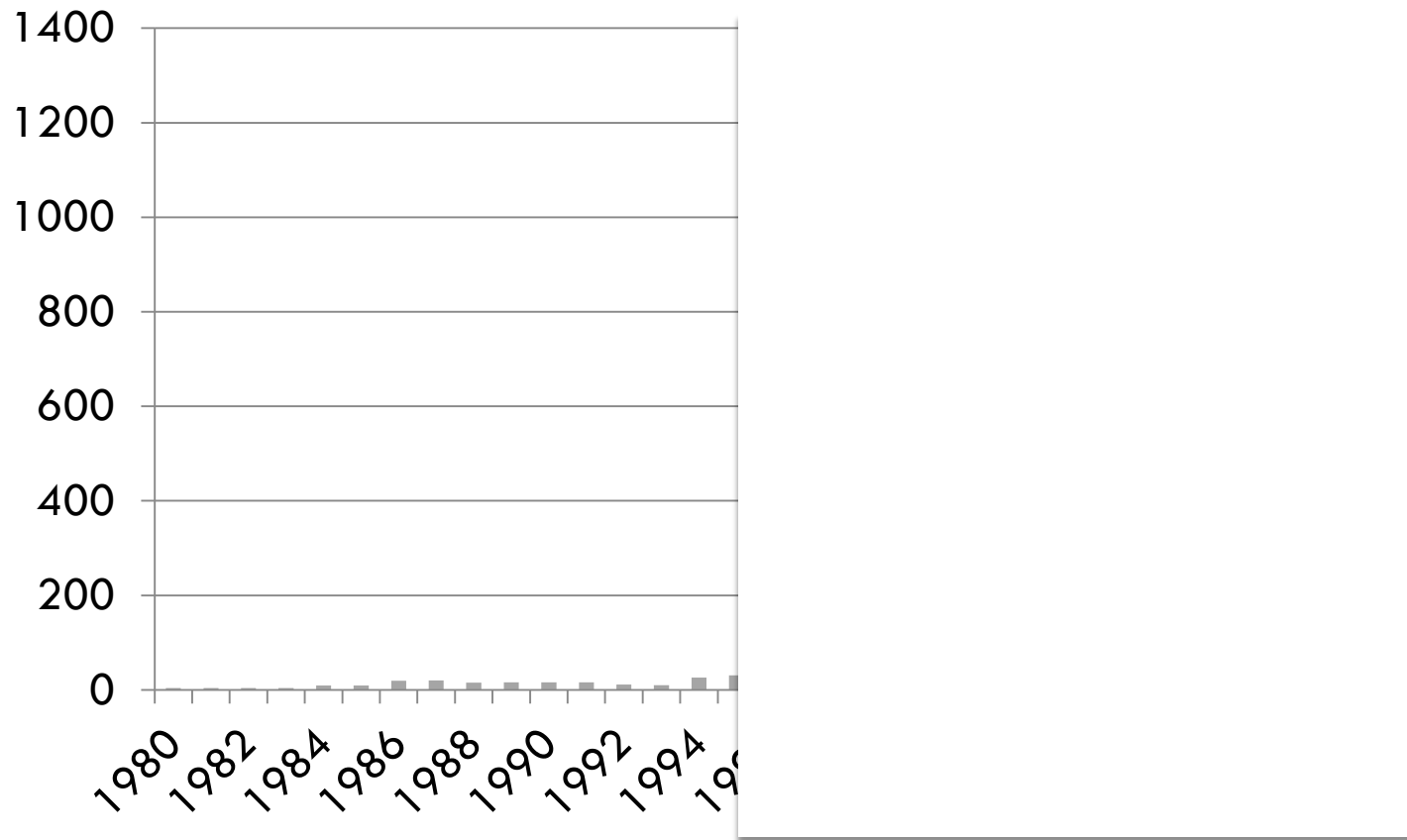


Utah Case Study: Limited Local Capital available for Early Innovators



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Limited Venture Capital Under Management in Utah



Utah Entrepreneurial and Investment Community Came Together



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Key Drivers of Positive Outcomes for Utah's Entrepreneurial Ecosystem

1. Trusted Informal Networks
2. Innovation Capacity
3. Entrepreneurship Activity, Culture and Human Capital Development
4. Trusted Service Providers
5. Local Investment Capacity
6. Aligned Government and Regulatory Environment
7. Creative Destruction: The loss of jobs in Utah's tech sector was unplanned and unwanted, but probably the biggest driver of deal flow.

Summary: Top Lessons for Building a Successful Entrepreneur Ecosystems

- ❑ Culture: OK to Fail - Takes Time to Build Culture
- ❑ Entrepreneurship Education
- ❑ Innovation & Deal Flow Before Investment
- ❑ Partner with Top Research Universities
- ❑ Involve Students: Business Model Competitions (NISI)
- ❑ Optimize for Trust, stamp out corruption
- ❑ Identify Regional Technology Capabilities (Clusters)
- ❑ It is good to be lucky!

Summary: Top Macro Factors Behind Utah's Success Story



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□ **Starting Point:**

- Early Success of Large Tech companies
- Crisis, creating Creative Destruction, freeing up resources
- Condensed Region (Sandy/Draper, Utah County region)

□ **Secret Sauce:**

- High Trust Entrepreneur Culture & Education System

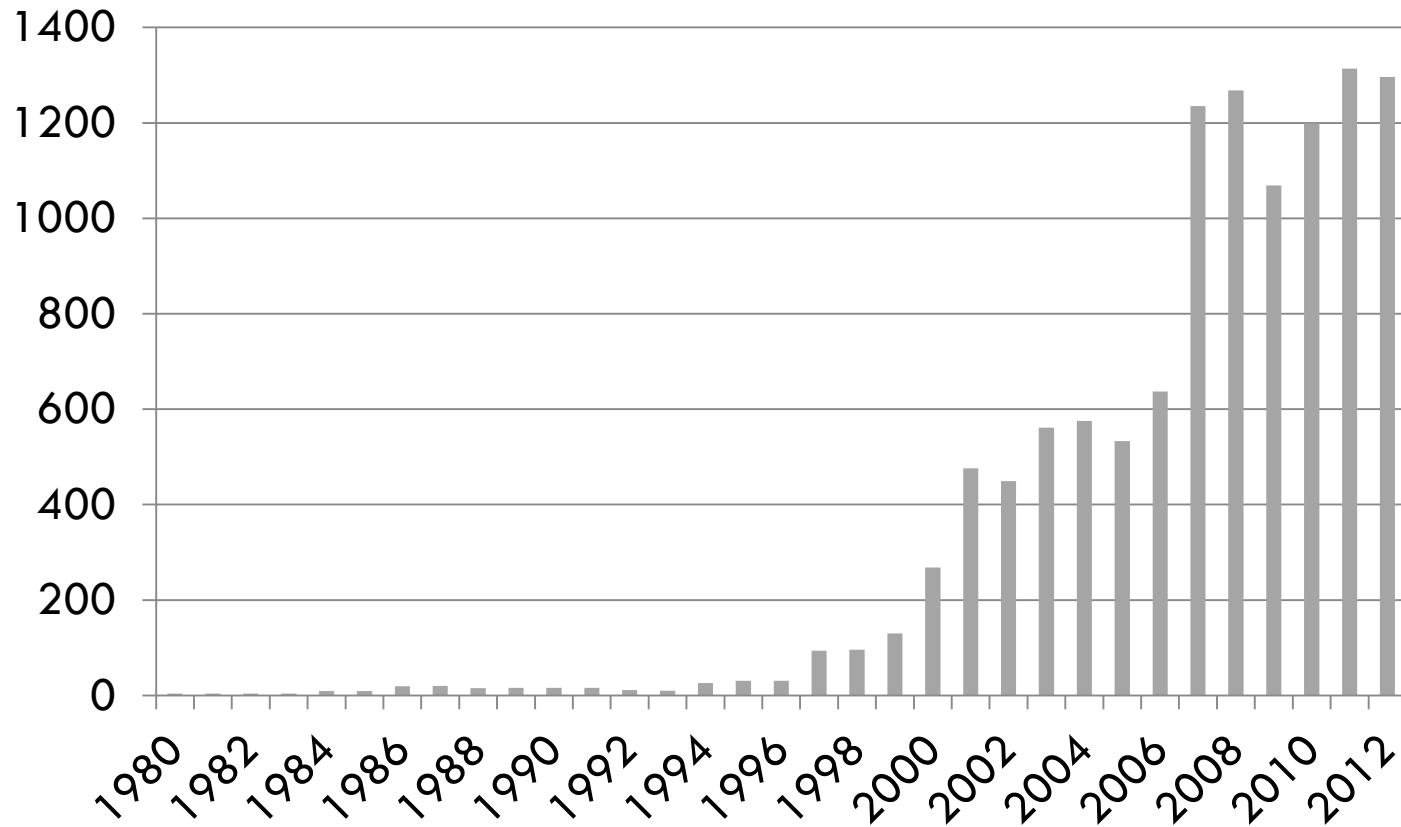
□ **Sustaining Factors:**

- Innovation capacity & Investment Capacity
 - Capital & local funds to drive it into the local economy
- Quality of Life, Quality Infrastructure, Reasonable Cost

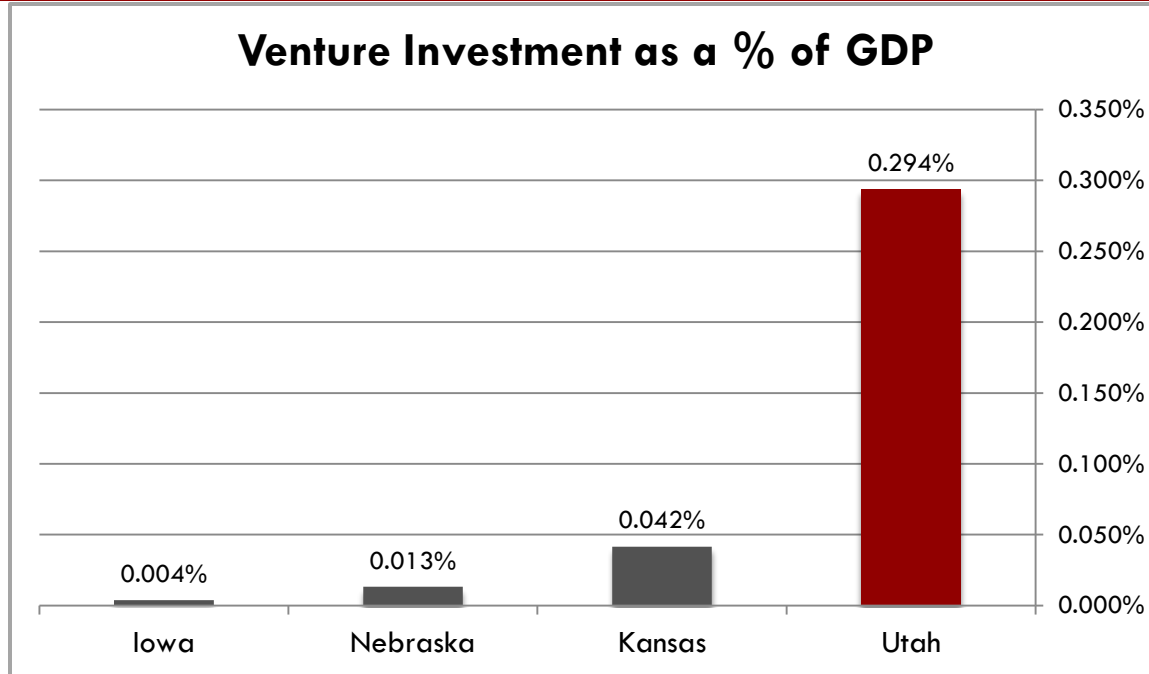
Utah Results: Capital under management Up!



Venture Capital Under Management in Utah (millions)



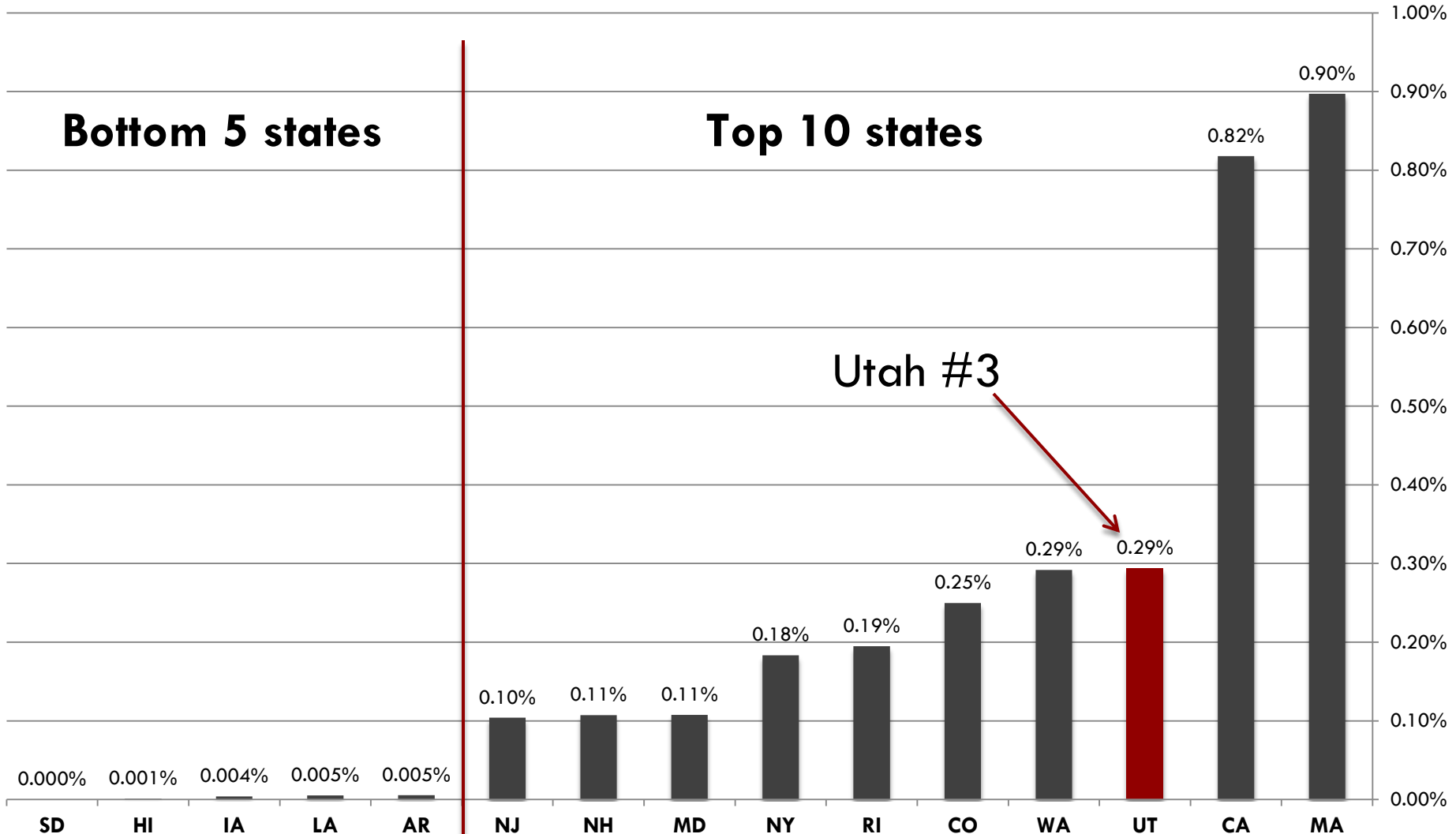
Utah Results: Utah #3 VC %GDP



State	1980 Real GDP	1995 Real GDP	2010 Real GDP	Annual Growth
Utah	\$33.7 BB	\$60.0 BB	\$106.2 BB	3.9%
Kansas	\$59.3 BB	\$80.6 BB	\$113.4 BB	2.3%
Iowa	\$65.6 BB	\$86.7 BB	\$126.2 BB	2.5%
Nebraska	\$37.3 BB	\$55.8 BB	\$79.7 BB	2.4%

Source: PricewaterhouseCoopers, MoneyTree - Venture Capital Report 2012; U.S. Bureau of Economic Analysis.

Utah Results: 2012 US Venture Investment as a % of GDP by State... Utah #3



Source: PricewaterhouseCoopers, MoneyTree - Venture Capital Report 2012; U.S. Bureau of Economic Analysis.

UT Results: Out of the Ashes of WordPerfect & Novell, Billion Dollar Companies Formed



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Acquired by Adobe in 2009 for \$1.8 billion - 1200 employees



\$1.6 Billion Exit in 2012 – 850 employees



Acquired by Avocent for \$416M in 2006 – 500 employees



Acquired by Symantec for \$830M in 2007 – 600 employees

Utah Results: The hits keep coming!



IPO exit for \$1.5 Billion in 2011 - 450 employees



Acquired by Blackstone Group for \$2 Billion
Exit in 2012 – 5,500 employees



Acquired by EMC for \$76M in 2007 – 500 employees



IPO exit for \$690M in 2007 – 600 employees

Utah Results: One Gig Google Fiber to every home



iProvo – Google Fiber

3rd city in World to get Google Fiber

Once connected, Provo Utah will be one of the first cities in the world where access to broadband will flow like water or electricity," Kevin Lo, general manager of Google Fiber



Google

Utah Results: Significant increase in investment capacity



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After 15 Years Utah has 30+ Local Investor groups Managing \$4 Billion+

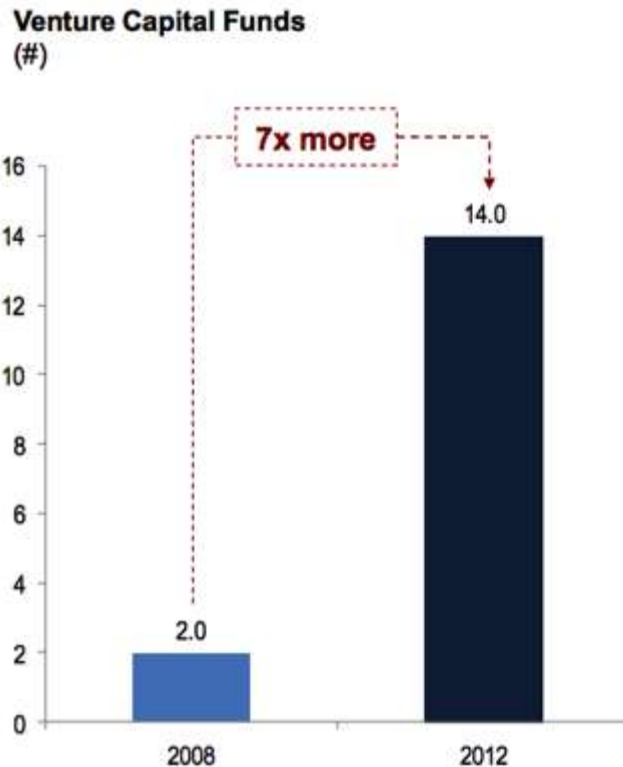
- **Utah Angels**
- **Park City Angels**
- **Salt Lake Life Science Angels (SLLSA)**
- **Olympus Angels**
- **Dixie angels**
- **Grow Utah Ventures**
- **Top of Utah Angels**
- **Aries Capital**
- **Ash Capital**
- **Banyon Ventures**
- **Canopy Group**
- **RenewableTech Ventures**
- **Cherokee & Walker**
- **Cougar Capital**
- **Cross Creek Capital**
- **Dolphin Ventures**
- **DW Healthcare Partners**
- **Epic Ventures**
- **H&G Capital**
- **Intel Capital**
- **InnoVentures Capital Partners**
- **Kickstart Seed Fund**
- **Mercato Partners**
- **Dakota Pacific**
- **Signal Peak**
- **Monarch**
- **Peterson Partners**
- **JCP Capital**
- **Prospector Equity**
- **Sorensen Capital Partners**
- **ThinkAtomic, Inc.**
- **University Venture Fund**
- **Upstart Seed Fund**
- **Utah Fund of Funds**
- **Pelion Venture Partners**
- **42 Ventures**
- **Alta Ventures**

Mexico Case Study



MX Results: New Venture Funds Entering the Mexican Market

- Mexican PE investment in first half of 2012 grew to \$228 MM USD from \$84 MM USD in the same period of 2011*.



Source: LAVCA

Assortment of Institutional Funds in Mexico

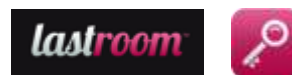


*LAVCA

MX Results: Regional Entrepreneur activity bubbling up...

76

- Founded in 2007 in US
- In Mexico, 1 event in 2010
- 28 events in 2012
- Forecasted 50 events in 2013
 - +6,000 participants
- From Tijuana to Cancun, more than 25 cities.
- Although focus is not starting a company...

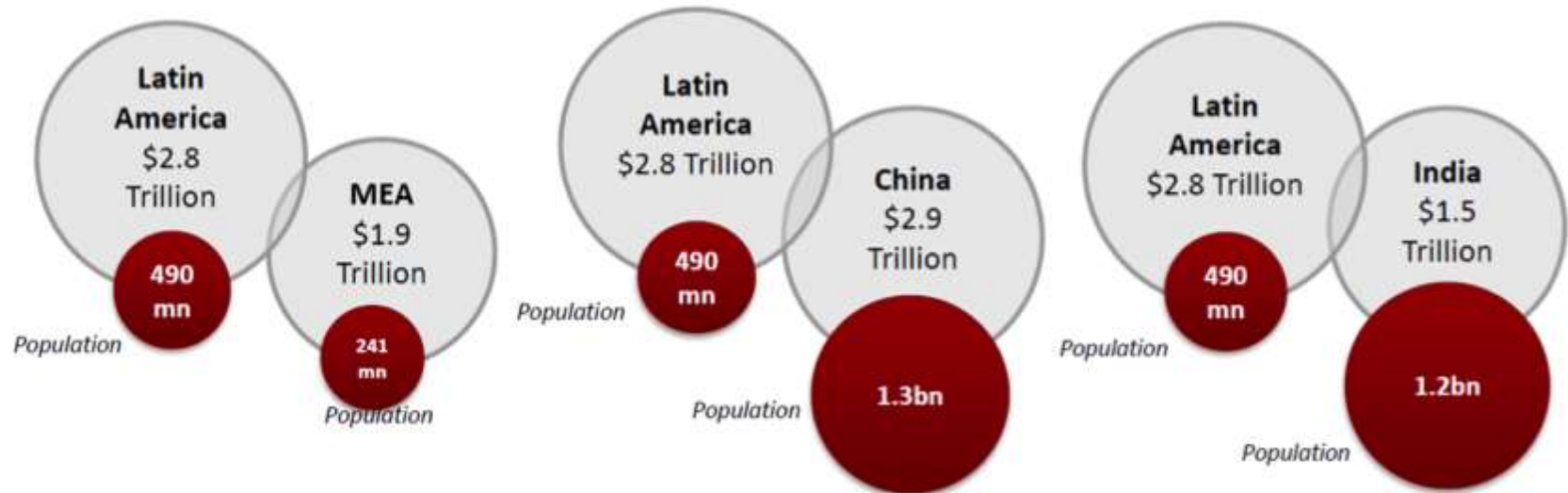


MX Results: Quality Deal Flow Increasing...



CONSUMER

Personal Disposable Income 2010



Disposable Income Per Capita (US\$)

Latin America	MEA	China	India
\$5,714	\$7,884	\$2,231	\$1,250