IvyScope

Quarterly Newsletter
from IvyCap Ventures

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Investor base continues to grow stronger

Vikram Gupta
Founder & Managing Partner, IvyCap Ventures

"IvyCap's overall Fund strategy seems to be working very well.

IVYCAP VENTURES is at a "take-off" stage, with one investment fully completed, another one almost complete, and 3-4 more good projects at final stages of negotiations. Your Fund is streamlining its operations so that it complies with all statutory requirements. We are tracking timelines on potential investment opportunities so as to process them in a timely manner. Venture capital business is all about taking calculated risk and though it is not always possible to evaluate every possible risk in a reasonable time-frame, IvyCap Ventures has taken a cautionary yet progressive approach at every corner.

Despite a challenging fund-raising environment, IvyCap has been able to raise funds and in time, our focus will be to take stock to ensure and move into portfolio management.

FUND UPDATE:

IvyCap has managed to get support of Rs 115 crore from 9 Indian Institutional Investors, in addition to about 100 individual investors. The Fund's total corpus as on date is Rs 165 crore and the team hopes to surpass the Rs 200 crore-mark very soon. Pursuing the potential investment opportunities vigorously, the IvyCap investment team is even looking at the final closing target much beyond Rs 200 crores.

With the investing process underway, the value has already started accruing to the portfolio. Given the momentum the Fund is gaining, there is also potential for the fund to start working on the offshore structure through Mauritius, indicating that this structure becomes especially relevant once the target of Rs 200 crore is crossed.

Plans are afoot to explore the international markets such as South East Asia, Middle East and Japan and tap the sovereign wealth funds, which typically have an affinity for the IIT network, and are looking to invest in India.

IvyCap is also working with Barclays Wealth Management to market the Fund to its ultra-High Net-worth clients.

The transactions that have been completed so far have yielded positive results with the IvyCap team constantly monitoring the progress and adding value wherever necessary. On the anvil are deals that are in various stages of evaluation. These include businesses operating in High-Technology space, Life Sciences, Cyber security and other innovative areas.

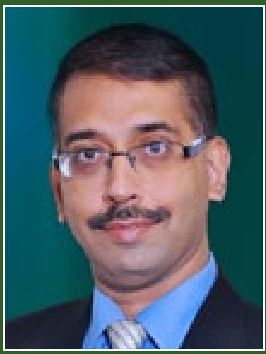
What is the investment strategy?

Given the team's exposure to a large number of promising pre-revenue start-ups, the fund is working on a strategy to tap these high potential pre-revenue start-ups by allocating a small amount to develop the businesses. More clarity on this proposal will be gained in the next Board meeting that is meant to happen in August this year. Till the next update, we sign off on an upbeat note as the team is gearing up to work towards the milestone of Rs 200 crore!

INSIDE THIS ISSUE

A PERSPECTIVE

Why IvyCap?
– Investment Strategy validation



Ashish Wadhwani
Partner, IvyCap Ventures

> A VC investment offers a better stage of investment as compared to a listed stock due to the sheer potential for positive upside at a young stage of investment.

IVYCAP IS A VENTURE CAPITAL FUND. ***At first glance this means that the fund managers look for, and investing in small unlisted companies with potential to grow fast. "So what's different?" When we started IvyCap Ventures, we developed an investment theme, which was unique and designed to deliver superior returns to investors in our fund. With 300 over companies evaluated, 2 deals and 3-4 more in due diligence stages, it's worth doing a check on how our investment thesis is stacking up against reality.***

The rationale of our investment thesis is as follows: ***"Invest in young, post revenue companies which are promoted by professional entrepreneurs and which have differentiated business models that are high - scalable and have a good exit potential."*** Our preferred sectors for investment are technology, healthcare, energy, agriculture and education.

A few tipping points:

1. Catching them Young - In defence of the VC Asset Class

Despite, several and periodic, short-term glitches, the Indian economy has, historically, done very well over the longer term. For any long-term investor, the fundamental outlook for the Venture Capital asset class in India remains robust.

A. India is a bottom-up story. Any 10-year period in India, has blooming examples of young companies that grew into successful national and international companies. Even between mid 80s and mid 90s, we had the Bharat Forge and auto-component companies, and the early technology companies like NIIT, Aptech and HCL. Since late 1990s, several sectors including Pharma, IT Services, Technology, Retail, Real Estate, Infrastructure, Consumer goods have shining examples of young companies scaling up manifold and creating immense value.

B. Innovation and Entrepreneurship are thriving. Deals that our team have evaluated suggest that despite deteriorating macro-economic situation, the space of young innovative companies is thriving and in good health. In fact, the environment of innovation and entrepreneurship now has deeper and wider participation. It has found better support from investors/larger players than it has historically.

C. VC Investment offer far higher returns than Small Cap listed companies. They also have a better governance framework:

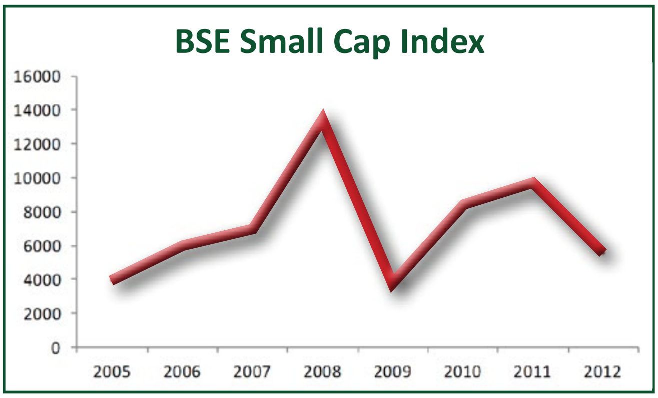
a. Venture Capital offers far better returns than investing in mid-cap and small-cap companies. Total shareholder returns from investing in the BSE small index (including dividends) has been a mere 1% in the 7 years period since 2005, and that too with a very degree of volatility (See graph below)

b. VCs are able to monitor and set better standards of corporate governance than passive investors can in the small cap space in India.

c. Finally, "catch'em young", through a VC investment offers a better stage of investment as compared to a listed stock due to the sheer potential for positive upside at a young stage of investment.

2. Increasing probability of success – The Professional Entrepreneur

From drug researchers and next gen Wi-Fi technology to data security professionals and build-



A PERSPECTIVE

ing warehousing solutions in rural India, the constant emphasis has been on building unique businesses across India.

In the 300-plus companies and business plans that we have evaluated so far, we find substantial early trends that support that fact that this group of entrepreneurs is likely to be more successful. Consider the factors:

- **Easy Due Diligence:** Almost 50% of the deals we get are referred to us from the Alumni network, which offers us unique capabilities to select potentially good promoters and to do a due diligence on the promoter.
- **High Competency Levels:** The business plans that we have come across from professional entrepreneurs typically seem to bring a unique blend of skill or domain expertise or innovation to address a market need.
- **Entrepreneurship spirit:** The traditional argument that professionals are not risk-taking is passe! The hundreds of entrepreneurs, we have been engaged with are professionals of all ages with a strong passion, a healthy risk appetite and an innovation-orientation to make their ventures successful.

  Particularly experienced ones seem to be able to balance professional experience, unique knowledge and traditional entrepreneurial skills better in building their businesses.
- **Network leverage:** Typically professional entrepreneurs have a better ability to leverage the platform and ecosystem that IvyCap brings with it. They recognize how to leverage our business networks for sales, resources, leads and expertise.
- **Cultural alignment:** VC investment is a long-term partnership and it's important that the entrepreneur and the VC speak the same language in building the business. The professional entrepreneur and the VC are typically much better aligned in terms of defining value creation, growth and business building strategies since the two speak similar language in growing their business.

3. Prospecting for gold in a slowing economy- High Growth Companies in a large space

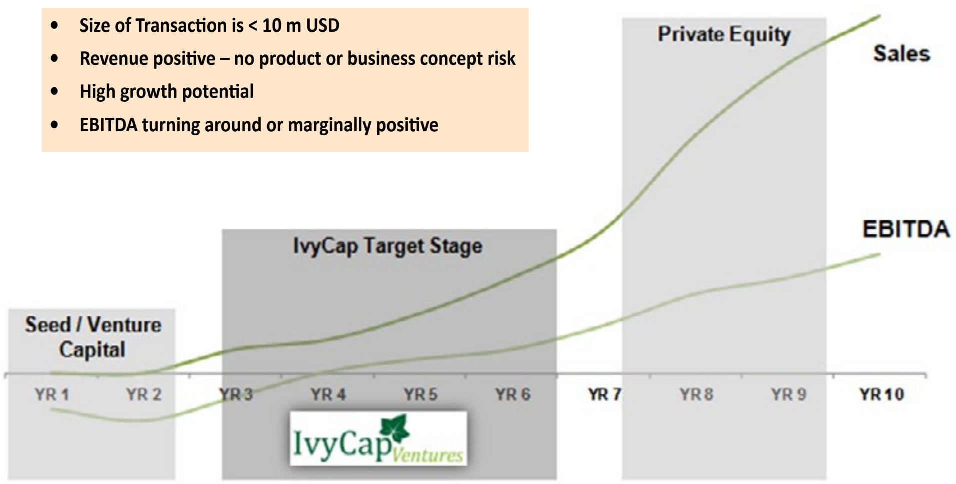
"Only when the tide goes out do you discover who's been swimming naked" - Warren Buffett

Investing in differentiated business models that are highly-scalable is even more relevant in a slowing economy. This approach is more likely to find companies that will grow 6X to 10X in 5 years and retain value.

> "IvyCap has been engaged with are professionals of all ages who have a strong passion, a healthy risk appetite and an innovation-orientation to make their ventures successful.

INVESTMENT STRATEGY

We are positioned between Seed Capital and Private Equity, with focus on young companies, capturing the lower risk while avoiding the competitive entry valuations of late stage transactions.



Strictly Private and Confidential

> Your fund is now well-entrenched to deliver superior returns to our shareholders through our differential capabilities in sourcing, evaluating and managing/ mentoring our investee companies.

Our deal flow substantiates this position. Listed are our observations that are validated by examples and trends:

- Technology is driving discontinuous changes and growth in several industries. Companies are building innovative service offerings or new business models by leveraging technology in industries as diverse as healthcare, education, agriculture and retail. Undoubtedly, tomorrow's stock market darlings will include some such companies.
- Technology as a sector itself is throwing up businesses building new products and services.

  Emergence of mobile commerce and enablement, big data and analytics, the rapid increase in data consumption, multi devices and M2M being some amongst them. Companies building the right businesses around these trends have the potential to deliver hyper growth rates and build assets that are differentiated and unique.
- Several large sectors such as healthcare, education, energy are themselves witnessing changes that provide an opportunity for companies with new business models. So while these sectors in themselves might have modest growth, the new innovative, differentiated business models are able to scale and grow very rapidly. Such business models are likely to be attractive acquisition targets for traditional players or might continue as independently successful businesses.

Finally, valuation levels in a slowing economy and with damp public market sentiments are far more attractive than in a bull market. Data from KPMG on PE returns clearly suggests that deals done when public markets were "soft" or "weak" were much higher than returns in boom years.

4. Optimising Risk-Reward: The attraction of Young Companies

Investments in start-ups are vulnerable to high mortality rates. Empirical data suggests that mortality rate of start-ups in the first year itself is as high as 40-50%. Accelerators and Angels report that only 15-20% of their crop get the next round of funding let alone exits. Besides, the proliferation of angel networks, UHNIs and families that fund start-ups makes this space competitive.

On the other hand, larger private equity deals face competition from other sources of funding and are vulnerable to high-entry valuations and little control over their investee companies. We have avoided both ends of the spectrum. Young companies have proven technology, team, business model and customer acceptance and are much lower in risk for investors than start-ups. For us as VC investors, young companies are easier to evaluate in terms of a clear trajectory of growth than start-ups. Similarly, our experience with young companies looking for Rs 5-25 crore in capital confirms that **we are in a sweet spot with respect to valuation and investor rights.**

Adding Value through Mentoring

Mentoring has proven to be a big draw for our investee companies. Our unique ability to tap the Alumni networks is an asset which potential investee companies value. We are now able to provide strategic help to our investee companies at the mentoring phase, at the Board level, and intensive help to solve critical business issues with respect to their businesses. Here are some data points that highlight the value add of our mentor network

- Tapping a pool of experts in the data security and forensics sector to evaluate a deal
- Regular mentor calls which provide the team additional business, market and technology insights in specific deals under evaluation
- An alumni running a boutique advisory firm in the Bay Area helped in due diligence of an early stage drug discovery company
- Strategic and commercial deal structuring inputs, CXO level contacts to our investee company to grow their business
- Intensive engagement of our mentors to build a technology platform for our investee

In conclusion, our investment thesis is being borne not only out by our deal flow but experience and the feedback received from the market. Needless to say, **your fund is now well entrenched to deliver superior returns to our shareholders through our differential capabilities in sourcing, evaluating and managing/mentoring our investee companies.**

Can we create our own Stanford?

Vishal, who has a grip of the US environment, often receives feedback and suggestions on IvyCap Ventures. In this section, he shares five key lessons that pertain to IvyCap's US Exposure. Read on to know more:

In recent times, IvyCap has received a lot of exposure amongst the Indian diaspora in the US. A majority of this has come about via organic means – through informal social networks and alumni associations that are an important part of the Indian American communities in most major cities. The buzz that our fund has generated in the US among the diaspora pockets has been gratifying. Probably the most interesting such hub is the San Francisco Bay Area, where the Indian diaspora is well informed about venture capital investing and its pros and cons. Most people you meet are entrepreneurs themselves or have some links to entrepreneurs. Summary of 5 key takeaways:

1. **The alumni spirit is alive and well.**

   Alumni from the premier educational institutions of India – especially the IITs – are in general doing well in their careers and they give some of the credit to their alma maters. IvyCap's give-back model strikes a chord with all alumni, many have struggled to find ways to contribute back to these public sector institutions. To be able to do that in the process of maximizing investment returns, combined with the clear, targeted and professional approach that IvyCap brings to the table is appealing to a majority of alumni.

2. **"How can we create our own Stanford?"**

   A recurring theme that I have come across has been the desire to see educational institutions in India replicate the ecosystem that surrounds top US universities like Harvard and Stanford. How can an Indian university create an environment that fosters innovation and entrepreneurship within the campus, abundant access to capital, a professional network that maximizes value creation, and a vibrant endowment systems that brings money back to support the next generation? IvyCap is planting the seeds for such an ecosystem to develop!

3. **Expectations from investments in India are more realistic**

   The early venture investors in India were burdened with unrealistic expectations – India and China were the places you had to get into – astronomical growth was expected as the norm rather than the exception. As the venture landscape in India has matured and the first funds have reached their terms, the expectations from venture investments have also become more grounded. This has also combined with stricter US controls over foreign investments, and requirements for tax reporting for individuals investing in foreign assets. Differentiated funds like IvyCap appeal to experienced and mature investors.

4. **A motivated pool of experts**

   Alumni that I have come across are eager to be a part of the Board of Mentors, as they would like to contribute to one of IvyCap's portfolio companies. They have advanced degrees from top US universities, work in some of the most recognizable companies and are often considered as experts in their fields. Specialists from diverse areas like biotech, software and semiconductors are excited and motivated to be a part of our mentor group.

5. **Demand from the US investors**

   Finally, there is a significant demand from investors who are eager to invest in IvyCap. What our fund offers is a unique blend of strong investment thesis with a give-back model that allows alumni from top Indian institutions to be a part of a growing, well-connected and a powerful ecosystem.

Vishal Guari
President, Nagarro Inc.

"There is a significant demand from investors who are eager to invest in IvyCap – its unique give-back model is what inspires them!

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IvyCap Ventures Advisors Private Limited (IVAPL) is guided by an entrepreneur-centric investment approach. It has been set up as a Venture Capital (VC) Fund Management Company with an approach to focus on high-quality professional entrepreneurs from the premier education institutions of the country. IVAPL focuses on investing in early and growth stage companies across sectors such as Healthcare, Education, Energy, Agriculture / Rural, Technology and other innovation oriented businesses. Our mentors bring the requisite skills, industry experience and passion to support creation of distinct value in our portfolio companies.

In addition, IVAPL is also working towards building a strong entrepreneurial ecosystem across educational institutions of the country. Towards this goal, IVAPL has created a unique "Give Back" program to share part of its own profits with the educational system of the country, primarily to encourage further entrepreneurship.

Editorial : Hemamalini Venkatraman