
Innovation and Venture Capital Climate in Russia Through the Eyes of an Entrepreneur and Investor

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Personal introduction

- Led Soviet National on-board computer program and data-communication program as part of Soviet “Star War” response in late 80th.
- Founded and led 5 high-tech companies during 1991 - 2002 with over 30M \$ investment from western VCs and institutional investors and got capitalization over 250M
 - 802.11 PCMCIA wireless cards and network with Sun Microsystems in 1992-1994
 - First VPN/Firewall appliance and remote agents with Sun Microsystems in 1994-1997
 - One of the first ISP in Russia back in 1991
 - Conclusion #1: its strange, but as more big amount of money you raised – you are getting more small financial return ☺
 - Conclusion #2: Raise money only if you need them and when you know exactly how and for what you will use them
 - Conclusion #3: If you need money – raise only “smart” money
- Made own investment in 6 start-up companies since 2002 (3 in Russia, 2 in USA and 1 in Europe)
 - Conclusion #1: When you invest your own money – you are beginning to understand their real value ☺!
 - Conclusion #2: ... and you are getting the real investor motivation to put money in new business
- In 2005 – 2007 served as Partner with RT-Fund (left in March 2007 after leading an acquisition of portfolio company SJLabs by USA telco Ymax)
- Close business friend for few USA and European based VC
- In process to raise capital for new High-Tech Fund with targeted closure at the end of the year

Market Opportunity



Local Market Growth:

- Post-1990's economic growth & emerging stability
- Recent growth of high tech businesses in Russia
- Russian government's pro-active position on building the new economy

Russian Knowledge Base:

- Fundamental core of developed technologies
- Tremendous human capital
- Evolving entrepreneurial culture

Impact of Economic Growth on ICT Industries

- **GDP growth 2000-04**
 - 2000: \$259B; 2004: \$580B
 - Inflation less than 8% and GDP growth more than 7% in 2006
- **Disposable income growth**
 - 2003: 14.6%
 - 2004: 7.8%
 - 2005: 8.2%
- **Key reforms**
 - 13% flat income tax
 - Reductions in social taxes
 - VAT reduced to 18%
 - Special economic zones
- **IT industry 30% growth 2006**
 - Services increased by 55%
- **Cellular subscribers**
 - 2003: 36M
 - 2004: 66M
 - 2005: 119M
 - 2006: 140M
- **Knowledge economy policies**
 - Techno parks
 - Government VC funds
 - Grant programs
 - Special economic zones
 - Nano-technology program

Russian Market Trends

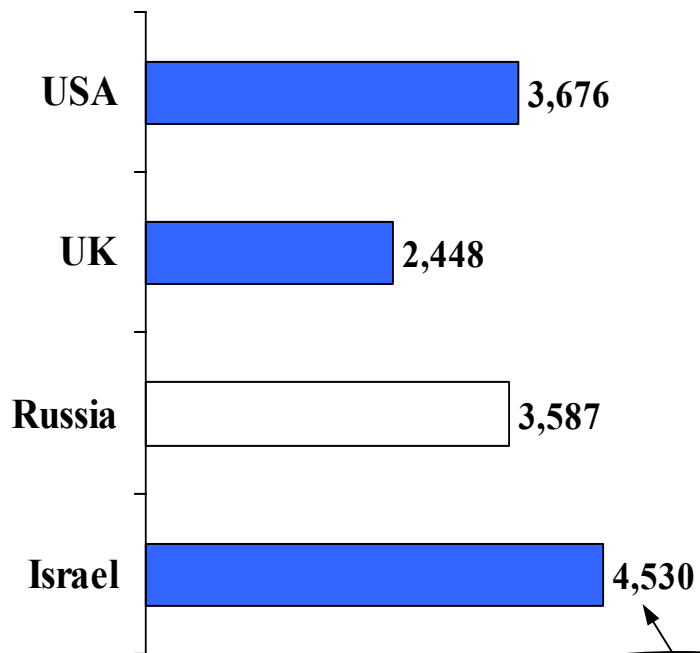
- **Broadband Technologies**
 - Deployment of emerging technologies: WiMax; 3G; PLC
 - Large demand for “triple play” services
- **IP Telephony**
 - Rapid development – move toward Next Generation Networks
 - 2002: \$80M
 - 2003: \$120M
 - 2005: \$200M
 - 2006: \$300M
- **Mobile Content**
 - Highest growth sector in telecommunication services
 - 70% increase in 2006 to \$1.2B

IT market growth

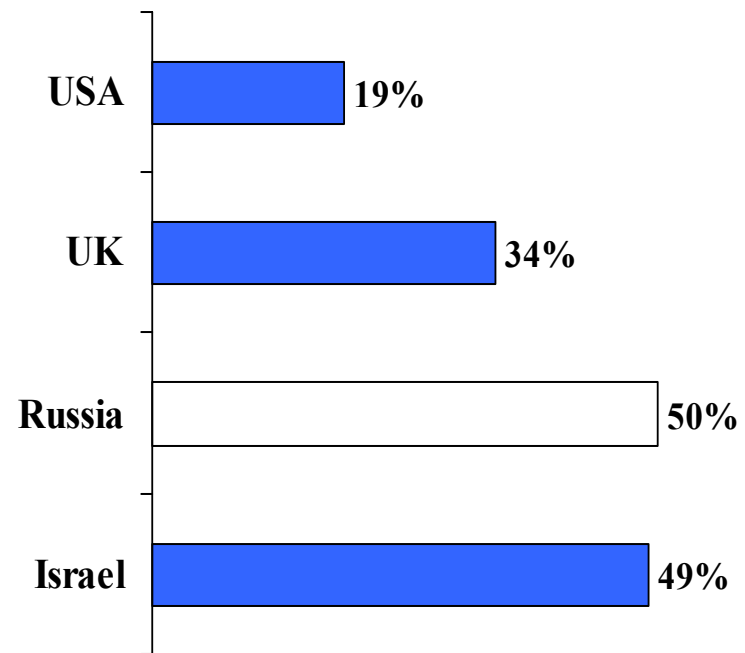
- Russian IT market achieved 11,5 billion USD growth in 2005 and it is 20% growth in comparison to 2004 and it is 30% growth in 2006 in comparison to 2007
- Ministry of IT and Communication projects that IT market will achieve 30-40 billion USD by 2009

Russian Human Capital Resources

Scientists and engineers in R&D
per million inhabitants



Science & engineering students
(% of tertiary students)

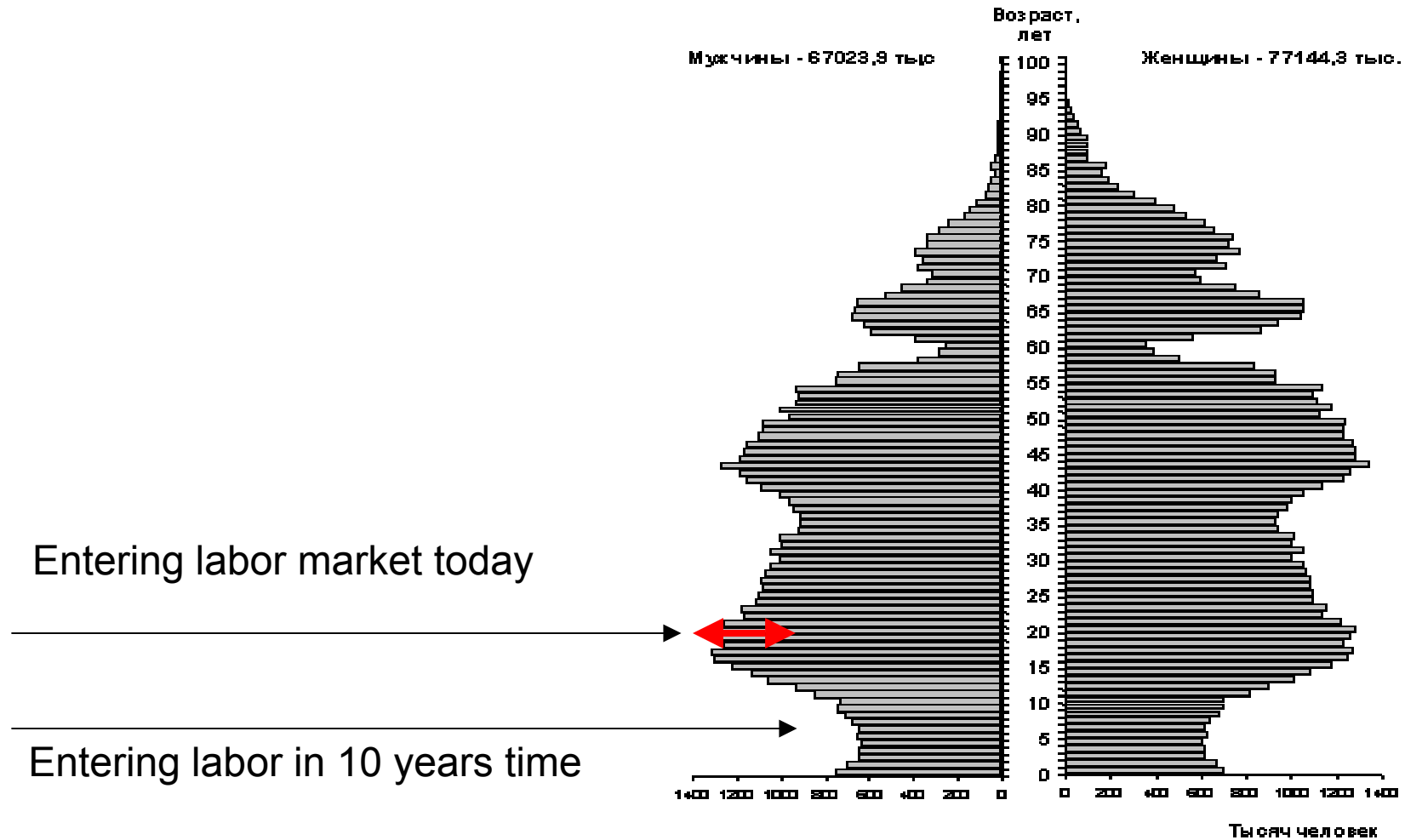


Large % immigrated from
Russia and CIS

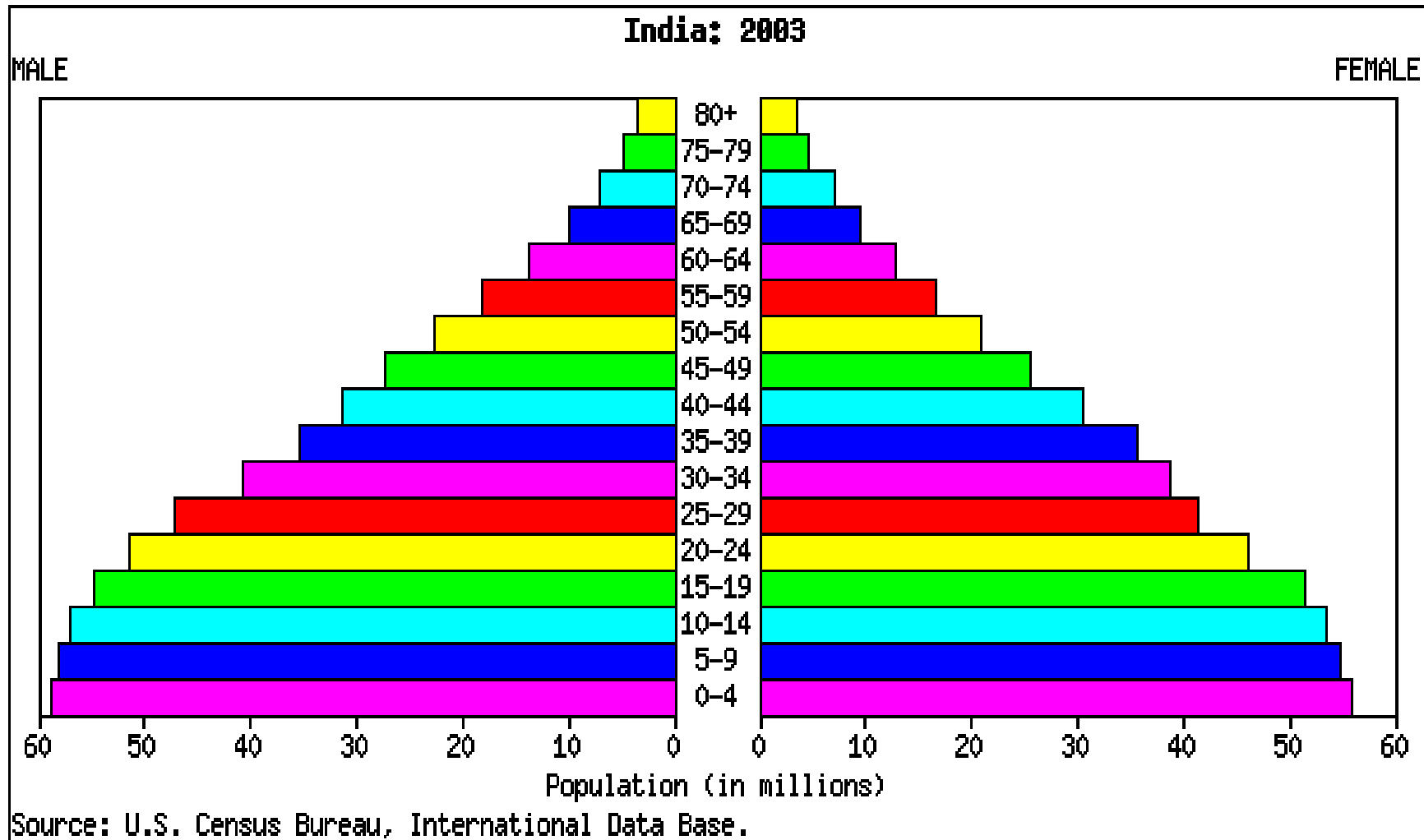
Russian IT Human Capital Growth

Russia's New IT Labor	2002-03	2004-05
Number of IT engineering graduates	42,138	47,804
Number of math and physics graduates	21,577	23,132
Number of non-IT engineering graduates capable of entering IT workforce	69,072	81,430
Number of graduates (other disciplines) capable of entering IT workforce	70,631	83,232
Total fresh IT labor supply	<u>203,418</u>	<u>235,598</u>

Russian demographic issue



India's demographic pyramid



Growth factor: availability of staff

- Current supply of potential IT workers in Russia (*):
 - 40-50K per year of pure IT specialities
 - 200-250K per year of related specialities
- Supply of students will **drop 2 times** in the next few years
- Reduced supply will lead to growth in salaries
- **“Unlimited Russian talent pool” is not a valid long-term assumption**

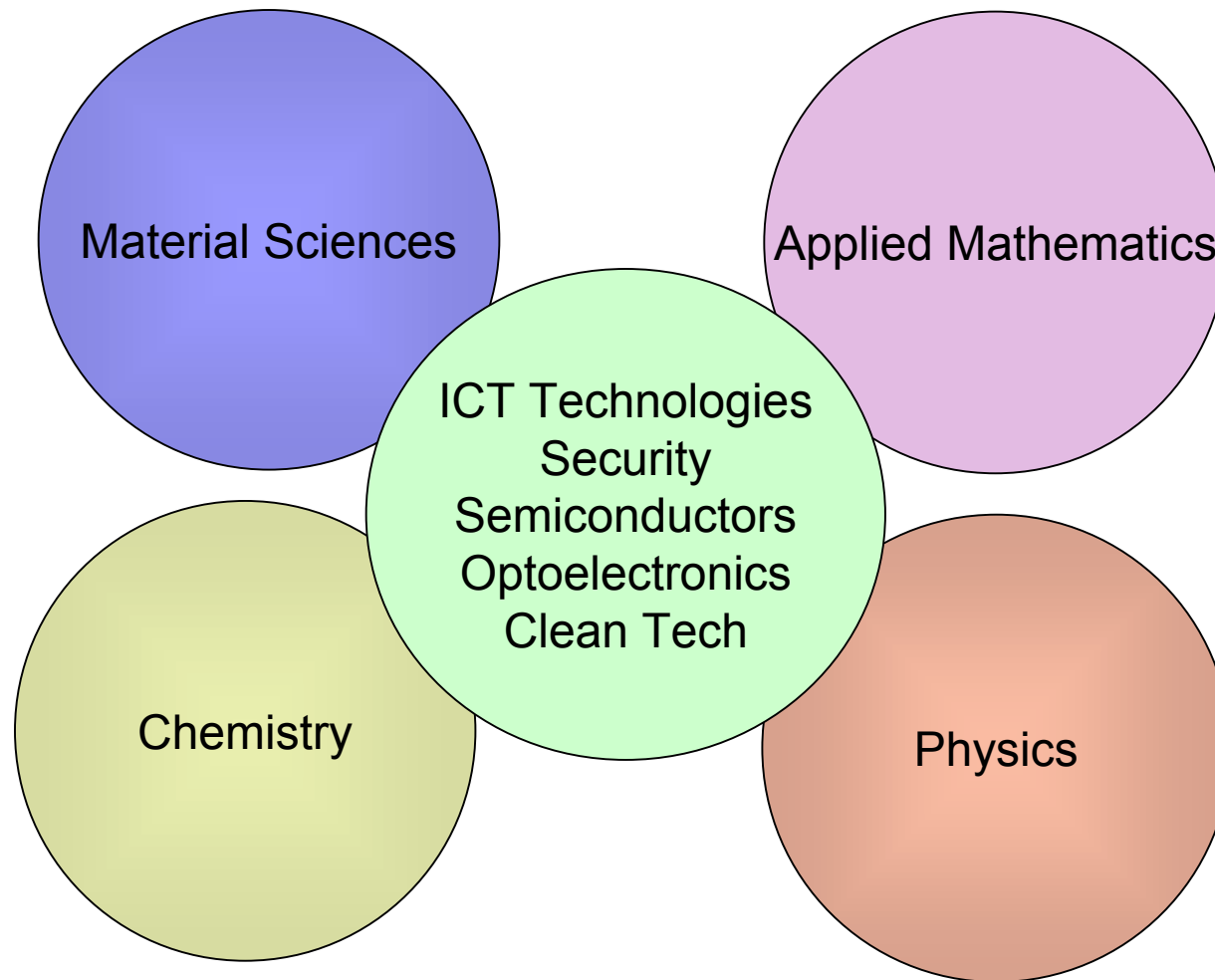
Which strategy to follow?

- Israeli model is working already for core technology and ICT, but :
 - It requires well skilled and experienced managers
 - Russian market is big enough and European entrepreneur will find Russia as more convenient place vs. USA, since it is only 2-3 hours flight to homeland

Note: one - two successful IPO could bring a lot of great entrepreneurs to high-tech market
- Growing telco momentum could bring a good platform for value added services innovation. These services could be moved on the international markets including India and China
- Space only for few big off-shore software players
- Creation of innovative climate in Russia
 - R&D needs to be maintained on the European part
 - Production facilities could be created on the Far East
- Open policy for migration from Europe, USA and Israel is required... and controlled labor migration from former SU and China

Russian Areas of Excellence

Investment Opportunities: Multidisciplinary, simple solutions to complex problems



Where software talents are located?

- **2006 World Champions - Saratov State University**
- **Rank - Name - Solved – Time**
 - **1 Saratov State University 6 917**
 - **2 Jagiellonian University – Krakow 6 1258**
 - **3 Altai State Technical University 5 681**
 - **4 University of Twente 5 744**
 - **5 Shanghai Jiao Tong University 5 766**
 - **6 St. Petersburg State University 5 815**
 - **7 Warsaw University 5 820**
 - **8 Massachusetts Institute of Technology 5 831**
 - **9 Moscow State University 5 870**
 - **10 Ufa State Technical University of Aviation 5 980**
 - **11 University of Alberta 4 479**
 - **12 University of Waterloo 4 636**
- Programming competition champion – also from Russia

Possible Investment Targets

ICT	Mobile content, collaboration tools, enterprise software, search engines, etc.
Security	Information security, video and radio surveillance, RFID and biometric systems, etc.
Semiconductors	Chip design, new materials, devices, multicore systems on the chip, etc.
Optoelectronics	Photonic crystals, display technologies, lasers
Clean Tech	Solar, water purification, ethanol production

Russia Technology Success Stories

- **Technology immigration model of 90s**
 - ParaGraph, Genesys, ELVIS+, Parametric Technologies, Transmeta
- **Product immigration model of new century**
 - **Aelita, Acronis, SWSoft, A4Vision, TrustWorks, EverNote, Senesys (Elvees), etc.**
 - **ISDEF movement (PhamaTech, Elcomsoft, SmartLine, MAPILab, etc.)**
 - **Note: I am waiting Acronis IPO**
- **Locally developed success Stories**
 - RBC, 1C, Yandex, Kaspersky Labs, ABBYY, Softkey, Rambler, Nikita
- **Foreigners invest heavily in Russian R&D centers**
 - Intel, Boeing, Sun Microsystems, Motorola, Samsung, LG, General Motors
 - New comers – Google, Cisco, IBM, HP

Russia needs success stories!

SWSOft and Parallels

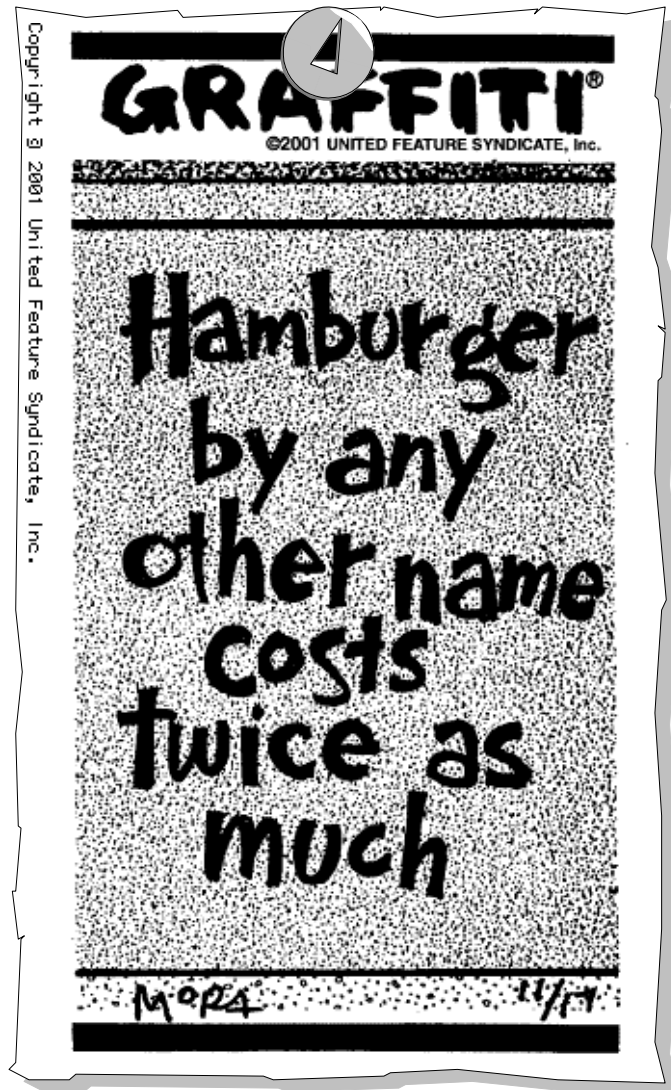
- Leading software virtualization and automation vendor for utility computing and internet hosting
- Direct competition from VmWare (EMC) and Microsoft is growing
 - Managed by Russian CEO
- 180% growth over last year
- Over 750 people (R&D – 600 people in Russia)
- Backed by Bessemer Ventures, Insight Partners, Intel and few private investors
- In 2006 got into the list of IT Week – “Best 100 vendors 2006”
 - Two SWSOft products got the Product Excellence Award

NOTE: I cross my fingers!

Government initiatives

- Russian Venture Company (fund – of – funds)
 - 500M USD are allocated
 - 50M USD for each new fund on 50 – 50 rule
 - May 14th – THE Date when first 4 winners will be announced
- Special economic zones
 - 4 R&D zones – Moscow (Zelenograd), Dubna, St. Petersburg and Tomsk
 - 2 Industrial zones – Lipeck and Elabuga
- Technoparks

Some Russian specifics nice to know 😊



“When I would to show an essence of Russian technology thinking to western people – I am bringing western people to Kremlin.... ” – A. Galitsky, January 2000, Davos WEF

We need to change traditional Russian “grandiose” way of thinking

We need to develop the art of prioritizing

We need to learn to see “trees for the forest”

Questions

**Company (s):**

AV Galitsky Holding B.V.,

Chairman: *ELVIS+ (RU), EzWIM (NL)*

Advisory Board: *SWSOft (USA), Parallels (USA), PGP Inc. (USA), Elvees (RU)*

Investor: *Start-Telecom, SWSOft/Parallels, EzWIM, S-Terra, NavMaps (now TeleAtlas)*

Other activities: *Stockholm Challenge, ISDEF, Russian Foresight , AP KIT*

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