



How to design and implement the most appropriate Public – Private Venture Capital instrument in Kazakhstan

Astana, 29th May 2014

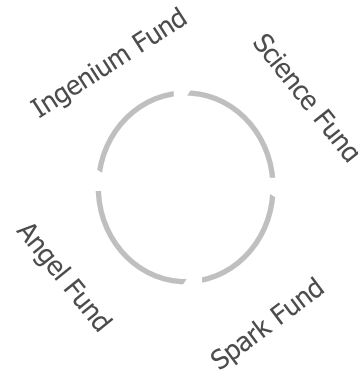
Luigi Amati, CEO - META Group

Shaping Policies
Consulting

Entrepreneurial Regions
Entrepreneurship Development

Investing in start-ups
Fund Management

Zernike META Ventures is the **firm** for regional **co-investment funds**. Thanks to more than 20 years of experience in the field, Zernike META Ventures has a **unique ability** to execute customized solutions of early stage funds.



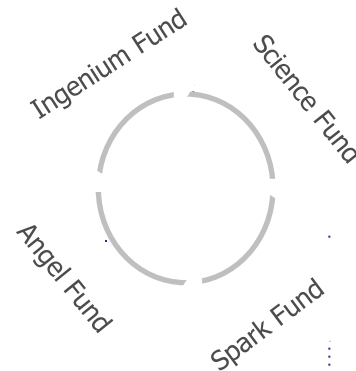
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Ingenium is an early stage risk capital co-investment fund typically of a few million inhabitants focused on Seed and Start-up but also considering expansion phase, companies with high value of intangibles, knowledge intensive companies with high growth potential, Regional coherence of sector of activity.

Angel Fund is the fund of and Business Angels Network. It has been created on the basis of the experience and results reached in the USA, the Netherlands, France and the United Kingdom.



Science Fund act as the missing link between academia and industry, providing the much-needed seed capital and business counselling to academic researchers, start-up companies and potential entrepreneurs.

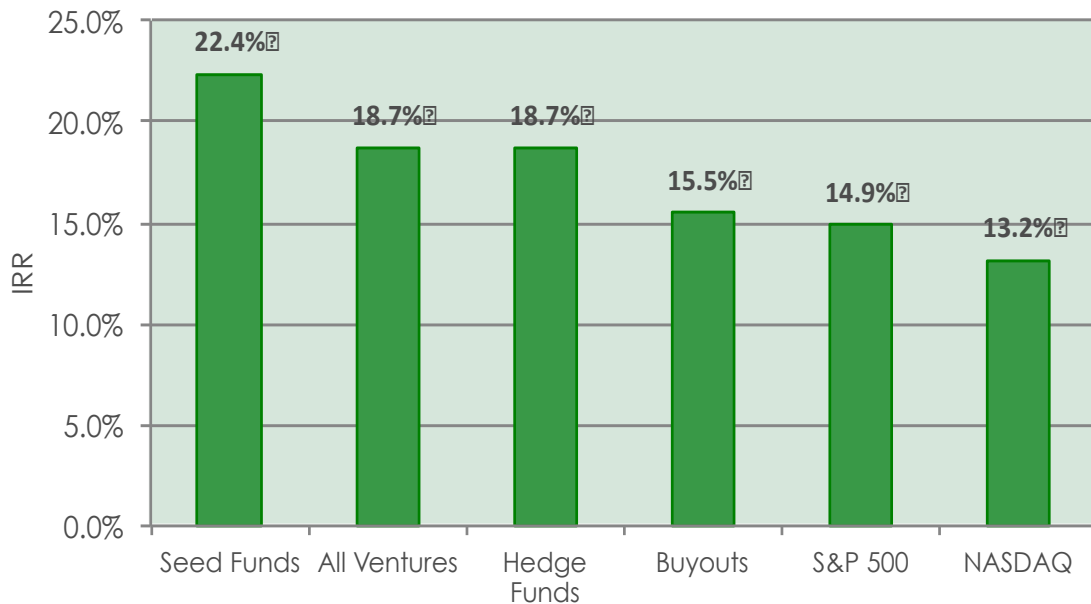
Spark Fund makes it possible for individual science parks to access venture capital by creating a partnership among a number of them thus reaching critical mass for a fund to be financially successful

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Historical 20 Year Returns for alternative Assets



Source: Venture Economics, HFRI Equity Hedge Index

Early stage returns:
“The study’s results showed that, on average, exits generated 2.6 times the invested capital in 3.5 years from investment to exit. The angel investors achieved an average 27% internal rate of return on their investments.”

Source: “Returns of Angel Investors in Group Report”. Angel Capital Education Foundation, Kauffman Foundation.

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Portfolio	Zernike Meta Ventures	Zernike Group
Time Period	2006 – present	1993 – present
Average deal size	€ 1.000.000	€ 400.000
# of Exits	5	105
Notable companies	Biogenera, S5Tech, Angiodroid, Paperlit	Function Control, ProSensa
€ Invested	€ 34.000.000	€ 223.000.000
Total NAV*	€ 89.000.000	€ 360.000.000
Average holding period	5-7 years	5-7 years

* For companies not exited is based on pre-money valuation of last round or other company's valuations

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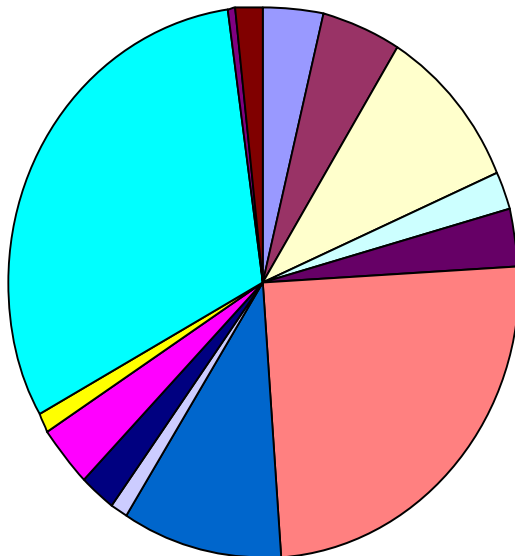
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Investments by industry

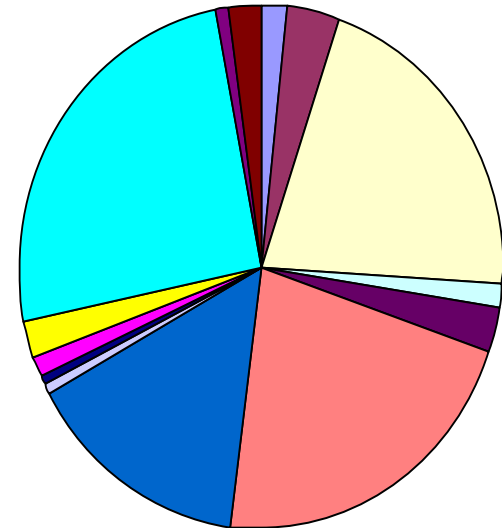
Number of companies

Investments by industry

Amount (€)



- Agriculture
- Business and industrial products
- Business and industrial services
- Chemicals and materials
- Communications
- Computer and consumer electronics
- Consumer goods & retail
- Consumer services
- Education
- Energy and environment
- Financial services
- Life science
- Real estate
- Transportation

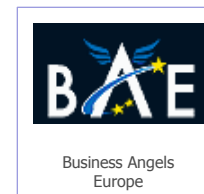


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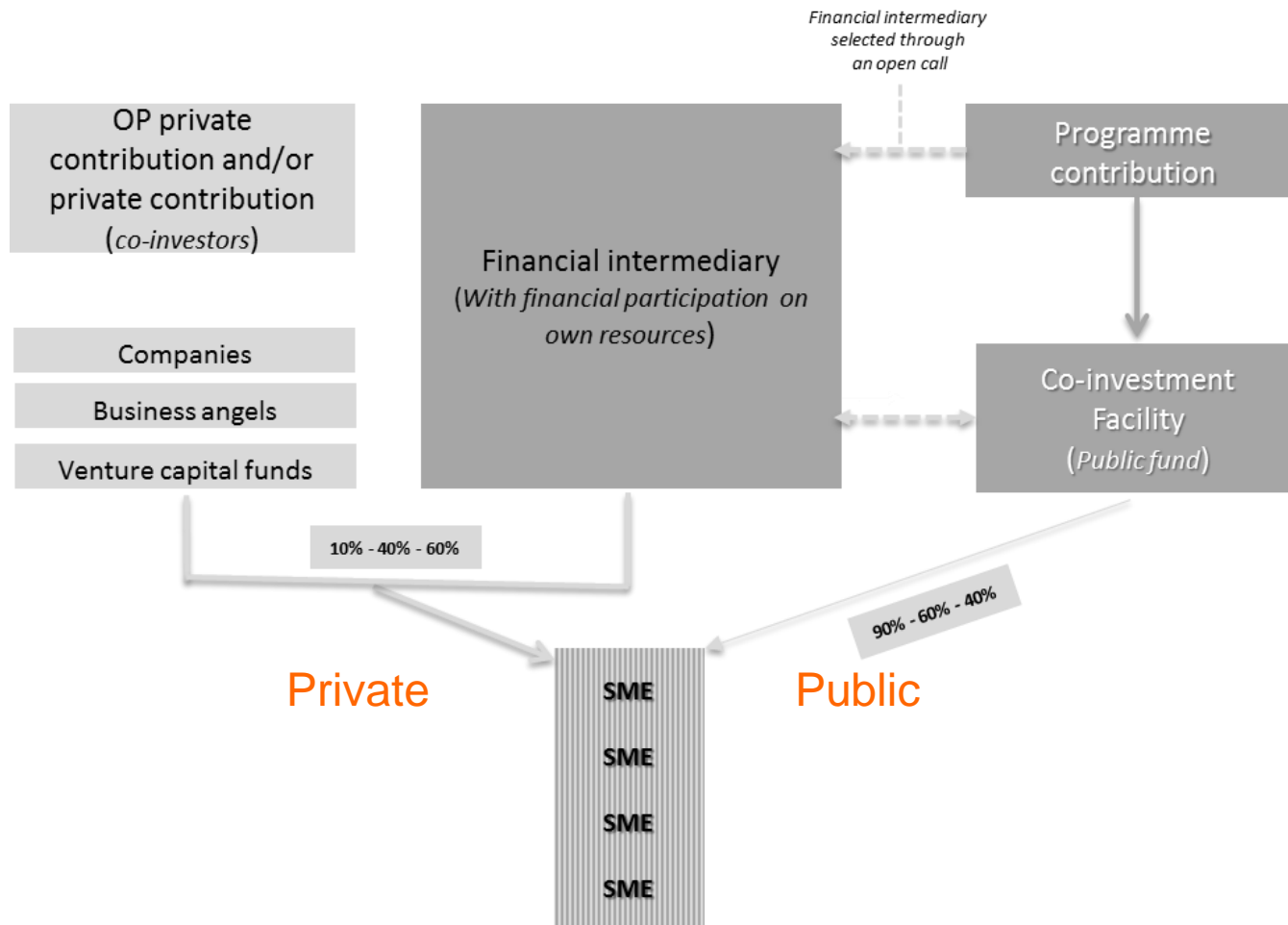
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- 8 **seed capital funds** (approximately 100M EUR) currently under management in the EU
- Leveraging on the relationship with **international informal investors** (members of the BoD of IBAN, BAE and members of AIFI Venture Capital Committee)
- Unique expertise in designing and implementing **public / private seed vehicles** (co-investment mechanism, compliance with state-aid rules, the *pari passu* principle, etc.)
- Design and **feasibility studies for seed capital** vehicles run for the major financing players / donors in the EU and at the International level (EIF, EIB, IADB, World Bank)



Equity Investment Fund for SMEs and start-up companies based on a co-investment model (Co-investment Facility)



The Co-Investment Facility

- Provides **equity** and quasi-equity to eligible SMEs.
- Co-invest in **SMEs** at seed, start-up, expansion stage
- The **duration** is ten years + two of grace period (with the consent of the managing authority).
- will be a **revolving** instrument.
- Not only finance but also services
- Size between an indicative range of **minimum** EUR [10] million and maximum EUR [50] million.
- Could invest up to 15M in a single SME.

The Co-investors

- Economically and legally **independent** from the co-investment facility.
- **Qualified** long-term investors including venture capital funds, business angels, high net worth individuals, family offices, or companies with proven and sophisticated know-how and operational capacity in identifying, assessing, and structuring investments in final recipients.
- Must provide a **different %** of funding according to the stage of the target SMES:
 - 10% for seed companies;
 - 40% for start ups;
 - 60% for expansion companies

Key elements

The Financial Intermediary (FI)

- Is a **private** or public entity.
- Takes all investment/divestment decisions with the diligence of a **professional** manager.
- Is economically and legally **independent** from the managing authority.
- Should **invest into** the facility at least 1-3% depending on the stage of investment).
- Will undertake, on a deal by deal basis, the due diligence to ensure a **commercially** sound investment strategy.
- Must **select** suitable co-investors.
- Investments within an eligible SMEs have to be **profit-driven**.

The managing authority (MA)

- It shall **not be involved** in any individual investment/divestment decisions taken.
- It will **evaluate** the measure according to:
 - numbers of projects financed;
 - value of the investments financed;
 - number of jobs created
- It must selected the financial intermediary through an open, **transparent and non-discriminatory call**

The co-investment agreement	<ul style="list-style-type: none">o Contract between the Financial Intermediary and co-investors, which defines the terms and conditions for parallel investment in the final recipients.
The funding agreement	<ul style="list-style-type: none">o It is the agreement between the Financial Intermediary (FI) and the Managing Authority (MA).

Additional measures linked to the development of the instrument

- The Co-investment fund may be **combined** with a grant type of support such as aid for initial **screening** prior to a formal due diligence OR **advisory service** to support the business development of the companies benefiting from the co-investment facility.
- The grant **can be part** of financial instrument operation or it can be provided through a separate operation supported by the operational programme.

Ex Ante assessment

- Identify market failures or **suboptimal** investment situations and investment **needs** to ensure effective added value and consistency with the objectives of the programme.
- Justify the **size** of support to the financial instrument. This will typically be between an indicative range of minimum EUR [10] million and maximum EUR [50] million.
- Determine the **co-investment allocation** within one financial intermediary to ensure sufficient diversification,

Indicator	Emilia Romagna	Sardinia	Slovenia	Poland
Population	4.357.700	1.671.700	2.000.092	38.200.037
GDP/capita	24.396,00	15.895,00	17.500,00	9.300,00
Inhabitants/Km²	195,8	69,4	100,0	121,9
Youth unemployment rate	18,3%	44,7%	12,4%	23,7%
Public exp in education (% GDP)	2,9	5,3	5,2	5,38
Number of Universities	4	2	4	24
Productivity Level	44.500,00	38.600,00	29.323,30	16.914,40
EU Patents applications per million inhabitants	118,64	7,16	118,85	3,5

Ingenium ER I	2004-2013 (€9Mill, fully invested) 7 companies in portfolio. Average investment €800K.
Ingenium ERII	2010-2020 (€14Mill) 7 companies in portfolio (2 follow-up Ingenium I); 3 in pipeline. Average investment €800K
Ingenium Sardinia	2009-2019 (€34Mill) 13 companies in portfolio; 2 follow on in pipeline Average investment €1500K
ATI PRISMA I	2004-2014 (€30Mill) fully invested 12 companies in portfolio
ATI PRISMA II	2010- in progress (€3Mill) 7 companies in portfolio 5 exits Average investment €100K
Ingenium Catania	(€3Mill) Seed capital fund 3 company in portfolio Av. investment €400K Scouting and Business plan competition
META Ingenium doo	2010-2019 (€10Mill) 1 Investment, 4 in pipeline
Ingenium Poland	2012-2022 (€20Mill) 1 investment, 3 in the pipeline

According to META Group **experience** in managing public-private risk capital funds:

- Knowledge Intensive Companies (**KICs**) are key for any country/region and need equity
- **Financial instruments** (FIs) can be used to support KICs
- **Co-investment** facilities are suitable FIs for Institutions willing to support **KICs** and R&D results **exploitation** and looking for Public Private Partnerships (**PPPs**)
- A **deal by deal** approach is key to leverage at its best the contribution of the **private sector**
- Co-investment **facility** (not only funding but also services) including grants and advice to improve impact (investment readiness etc.)

- Better **combination** of FIs with other forms of support (grants and/or Technical assistance)
- Co-investment instruments must be designed in close co-operation with the **private sector** because is not just money but also expertise and **know how** (services, **coaching** ,etc)
- Going from seed (including proof of concept) to expansion they are flexible facilities allowing, with good design, to reach multiple objectives.
- Fund manager must be independent and takes all investment/divestment decisions with the diligence of a professional manager.
- An **ex-ante assessment** is mandatory prior to any money allocation

- **The size of the fund must be consistent with the investment focus** of the fund: the financial need of an early stage company generally is smaller than an expansion deal
 - A good size for an early stage fund is around €10/15 million;
 - A good size for an expansion fund is around €30/40 million;
- **“Scouting” costs could be relevant** for smaller funds: such as early stage funds cannot be able to reimburse the costs to the Management Companies. MAs can provide grants to cover this costs;
- **The co-investment instrument attracts more private investors** (Bas, VCs) and contributes to **professionalisation** of the local community of investors.

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