ANGELS OF ASIA UNITE!

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There is a common trend that characterizes the funding of entrepreneurs and start-ups in three of the largest macroeconomic systems of Asia— India, China and South East Asia. All of these three regions have seen tremendous growth, the rapid creation of new ventures, and a shift from low value added industries to technology. These three regions are also witnessing on a daily basis the emergence of successful industrialists becoming new high net worth individuals.

In this climate it is not difficult for a young entrepreneur with a bright idea to be taken under the mentoring wing of a savvy self-accomplished businessman, and in fact there is quite a rich Business Angel community in all of these three geographic areas. Nevertheless the capacity of an Angel to finance and support a start-up is usually as deep as the pockets of a single individual, and very rarely are there pockets that can go as deep as the entire lifespan of a new venture. Furthermore, the Venture Capital community in these three geographic areas is today only starting to take a fresh new look at early stage companies. It is still a rarity to see a top tier VC firm invest south of 5 million US dollars, and normally a start-up needs far less than that. That is why there is a gap today between how far an Angel will typically go, and where a VC is willing to start. The gap varies from country to country: it can be as low as 200,000 US dollars in India, or as high as 1 million US dollars in China, and somewhere in between in Singapore. (Surprisingly, though technology in Singapore is quite mature, the typical cost of a tech start-up is cheaper than in China). At Upstream Ventures we realized that this market gap needed to be addressed and have chosen Singapore as the location to launch an Asian early stage technology fund. Not only is Singapore an ideal starting point for expanding into the larger markets of China and India, but Singapore itself offers quite a rich number of opportunities for investing in young nimble tech start-ups. In fact, for a foreign entrepreneur wishing to tap into Asian growth, or a researcher wishing to commercialize the fruit of years of work, Singapore offers a unique gateway to Asia, and it is not surprising that its research laboratories and incubators are crowded with foreign talent.

Upstream Ventures cannot obviously fill the entire market gap in early stage technology funding, and I suspect as VCs warm up to smaller deals, Angels will also find a way to work towards larger deals— for example by leveraging the existing angel networks, and syndicating deals. In this context there are few reminders an angel should bear in mind, which fundamentally stem out of the difference between Angels and VCs. For one thing, Angels are usually entrepreneurs, or have been entrepreneurs, and are thus motivated by a common creative passion shared with the company they are mentoring. The same is not necessarily true of VCs, who often come from a financial or corporate background and may not be accustomed to the intricacies of building a start-up from the ground up. Rarely will an Angel make of his investment activity a full time job, and (assuming he is a balanced person) will only invest what he can afford to lose. Venture Capital on the other hand is a very full time job, and must provide earnings to its shareholders. Here lies the most fundamental difference, for whereas an angel does not have a boss to answer to, and can afford to wait, or can see returns on his investment come in the form of dividends, a VC must eventually sell off the company to provide the returns requested by his shareholder. In other words Angels and entrepreneurs must bear in mind that though Venture Capital has proven to be— and will continue to be— one of the most extraordinary instruments for the generation of technology companies, it is also a financial instrument which must respond to the financial interests of its shareholders. Finally, one last recommendation to Angels is that of setting specific targets with the companies they are mentoring. Though the added value a top tier or a large VC can bring to the table as a shareholder, both in terms of instruments and network, is undisputed, VCs through the thoroughness of their due diligence have a far stronger negotiating power than any Angel. It is still the norm in the industry to see a VC buy into a company at a lower valuation than the previous Angel round notwithstanding the time and money already spent into the company. A way for an Angel to minimize this risk is to set specific targets for the company at the time of his investment. Technology start-ups will want speed to grow and capture the window of opportunity provided by the distraction of a market leader. Before the Dot-com Bubble, VCs were playing the 'raising game' for tech deals. In today's climate, where VCs are only starting to get over the psychological trauma of the Bubble, I would focus above all on positive cash flow. When a company is self-sustaining, no matter its size, it is just mesmerizing how much stronger its negotiating power towards a trade sale or in securing growth capital becomes.