

SVCA *Singapore Venture Capital
& Private Equity Association*

ON TRACK

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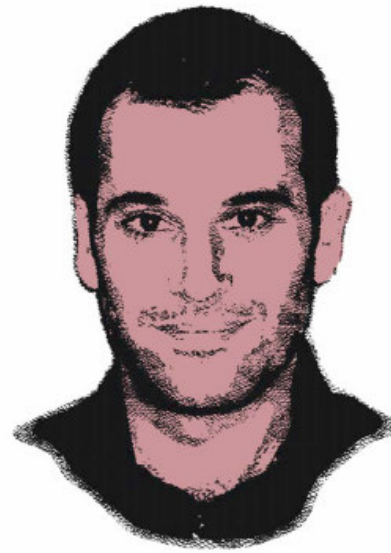
FOR PRIVATE CAPITAL

Last Quarter
Carlyle
expands in
Asia, more
biotech firms
get funded,
and growth-
stage compa-
nies are the
hot favourites

**Carmelo
Pistorio's
UpstreamVentures
is CATALYSING
high-tech startups**



AN EARLY BIRD ON AN EXCITING FIELD



Carmelo Pistorio, Pierre Hennes, David Wynne (L to R) of Upstream Ventures see Singapore as a test bed for new ideas. They have been putting money behind early-stage technology companies in Singapore.

There is a perception that Singapore is not a hotbed of entrepreneurial activity. The founder of Upstream Ventures, Carmelo Pistorio, says it is not grounded on reality. "There are enough companies and ideas here, but not many VCs who are willing to back early stage deals," he says.

Mr. Pistorio wants to catalyze the growth of high tech businesses in Singapore—he himself has a strong technology background. Along with his three other partners - Pierre Hennes, David Wynne and Cristiano Torressi - he has invested close to \$5 million in high tech companies such as XID Technologies (biometrics), ETS (computing solutions), and i-POP (mobile services) over the last two years.

The Upstream team believes that Singapore is well-positioned to capitalize on some exciting possibilities. A market of 5 million people, Singapore can be a test-bed for new products and ideas before they are rolled out in the big consumer markets of China and India. This would require investment in promising ideas that can be grown into big businesses.

Mr. Pistorio, along with Pierre Hennes, spoke to *On Track for Private Capital* about how this could be possible.

What exactly does Upstream Ventures do?

Mr. Pistorio: Upstream Ventures fills a gap in the high-risk/high-reward market for early-stage venture capital. We invest in early stage companies, often pre-revenue companies with prototypes that have been tested in a couple of verticals. The early-stage industry in Singapore is itself in an early stage; the market for VC is not as sophisticated as in Silicon Valley, and not as competitive, so we tend not to limit ourselves to a specific sector. In fact, we find that deal prices are considerably cheaper here than in the US and even China.

There tend to be more deals on the table than money for early stage companies. This puts us in a very advantageous position, allowing us to select from the best deals available. Also, since we are Western in origin, we offer a familiar, friendly face to foreigners seeking to invest or set up companies here in Singapore.

Most of the deals we see come primarily from two sources: home-grown technology developed in Singapore, whether by Singaporeans or foreigners; and technology or ideas developed and tested in other countries that are now seeking a safe home in Singapore before rollout to Asia.

We are definitely not the only players in this field, but we want to be one of the best. That is the motivation. We are in this field because we believe there's a hugely lopsided supply market.

There's an argument that there are not enough companies around in Singapore to absorb capital. What is your view?

Mr. Pistorio: That's just not true. There's an abundance. In fact, one of the advantages of the deal flow in Singapore is that the average VC investment in companies is several times lower than that of US levels, and often even lower than the average deal in China. Considering the amount of IP coming out of Singapore, and the number of new tech companies here, it demonstrates that a technology company here is competitive, even versus one in China.

Mr. Hennes: You have to sit back and look at what is happening. If you look at Asian countries like China, Indonesia and Singapore, they have seen phenomenal annual GDP growth rates of 8-10 per cent. Huge consumer markets that are bubbling right now in India and China are equivalent to the size of the population in the USA. Also, education is booming. So you can see a lot of science and engineering graduates in all of those Asian countries. You combine all of that together with a drive towards consumerisation and the convergence of technology, and you come out with tremendous demand.

And it's being driven from countries like Singapore, which have created a complex infrastructure in support of fostering innovation and value creation.

COVER STORY

What is special about Singapore?

Mr. Hennes: Singapore is a “safe home” because of its infrastructure and the eco-system that it has been developing over the past few decades. It is marked by excellent IP protection, governance practices, physical infrastructure (telecom, transport, etc.), sources of financing (private equity industry) and exit opportunities (primary board, secondary board, OTC, MNCs).

Mr. Pistorio: When I first came to Singapore in 2001, people were almost jumping out of windows. Everyone was convinced that Singapore had lost its role and that everything was moving to China or to India. I had the good fortune of understanding that the best possible moment to start is when you happen to be at the bottom. And there are entrepreneurs who cannot afford the risk of going to China right away.

Singapore still continues to be the ideal platform, the ideal exchange between South East Asia, China and India. India still has a stigma and a real handicap in terms of infrastructure and in terms of manufacturing facilities and capacities. China has just as much a handicap in terms of corporate governance.

Singapore has understood that it has to re-invent itself. We have a world-class infrastructure. Let's add to our capabilities by way of places that motivate innovation - MNCs, universities, incubators, government agencies etc. Let's create a concept of a five million-sized test market, where you can develop new ideas and products, try them out in a controlled and isolated market and then roll them into the rest of Asia and the world.

Possibly the criticism is because not enough companies have moved to the next level. Take **Encore Technologies**, which came out with the **Simputer**, which got a lot of media attention... How has it done for you?

Mr. Pistorio: The reason why Simputer didn't achieve the kind of success that it should have was because it was targeting the wrong audience. They thought of making a computer that's easy to use for people who don't know how to use a computer, whereas there are millions of people who are capable of using a computer but do not have the purchasing power to buy a sophisticated PC.

There is a space between a fully loaded PC and a mobile phone. You move away from a specific product and you become a customized solutions provider. This shift in strategy has worked very well for ETS and the company has seen tremendous interest from large MNCs striving to get a piece of the burgeoning market for low-cost computing.

A recent article in *The Economist* said that in India alone there is \$1-billion market for low-cost computing machines. So if you take China, India, Brazil or Russia, you have disposable incomes that are growing, education that is very cheap, and engineers that are graduating by the

thousands...and they don't have US\$3,000 to buy a PC!

What trends do you see shaping the 21st century?

Mr. Hennes: We see several “mega trends” that are shaping the economic and social balance of the world to come. Consumerisation: R&D is increasingly focused on the end-consumer, particularly in the realm of technology. Convergence: Multiple technologies and functions are converging onto a single platform (mobiles take photos, cameras communicate with printer, etc.) Connectivity: always-on, everywhere computing (through wi-fi, RFID, digicasting, GPRS, etc.) The presence of maturing Asian economies that are creating a major shift of economic power to Asia, along with the growth of huge consumer markets, making this continent a world center for manufacturing and, eventually, R&D. Social Responsibility: A greater corporate focus on the social impact of business practices, more specifically with regard to technology. Like identifying opportunity in disparity, by “bridging the digital divide”.

The combination of these trends has resulted in a revised definition of what will drive success for companies

in the 21st century, namely being able to deliver the “right product to the right market, faster than your competition”. The large corporations, though at the forefront and driving R&D in Asia, are already outsourcing development to smaller, more agile teams of designers that are close to their markets.

Which are the sectors you focus on?

Mr. Hennes: In our eyes, the fastest growing markets in Asia are semiconductors; security & biomet-

rics; mobile content & applications; IT software & solutions; new media with a particular focus on brand development; and biotechnology & life sciences. Singapore has heavy R&D investments in many of these fields.

When making an investment decision, we look at whether the company plays in a fast-growing market, whether we can add value to it and whether it adds value to our portfolio. Investing at an early stage requires us to choose companies with large, fast-growing markets - we don't have the luxury of funding high-end technology R&D because of the long gestation periods involved. We need to get in, add value and get out quickly. This means that we also look for a star team - probably the most important element - for it is the team that's going to drive the success at such an early stage. ■

“Singapore has
understood
that it has to
re-invent
itself”



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VENTURES**

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