STARTUP INVESTMENT & INNOVATION IN EMERGING EUROPE

East-West Digital News

The first-ever comprehensive startup research on 24 countries of Central and Eastern Europe

PART 5: SPECIAL RUSSIA SECTION

2018 EDITION, VERSION 1 – FEBRUARY 2018

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The result of a one-year-long research across 24 countries, this report highlights the main facts, numbers and trends of startup investment and innovation in Central and Eastern Europe. It can be downloaded at no charge from http://cee.ewdn.com

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ABOUT THE PUBLISHER

East-West Digital News is a news and research agency dedicated to the vibrant tech markets of Central and Eastern Europe.

Founded in 2011, the agency publishes news sites (Russia: www.ewdn.com , Ukraine: www.uadn.net) and indusry reports (http://ewdn.com/reports).

A consulting branch, East-West Digital Consulting, provides international players with assistance for business development in Eastern-European companies, and advises local companies on their international strategies (http://www.ewdn.com/services).

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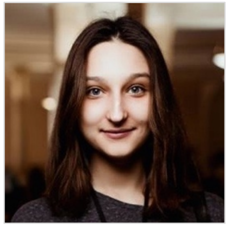

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RESEARCH AND MEDIA PARTNERS

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LOCAL PLAYERS

GLOBAL COMPANIES

THIS REPORT CONTAINS:

PART 1: Regional Trends

- Trend analysis & executive interviews
- Venture deals & VC market data
- How EIF supports venture activity in CEE
- How corporations are getting involved
- Key regional events and industry resources

http://ewdn.com/files/cee_trends.pdf

PART 2: The Token Spring of Central & Eastern Europe

- ICO market data
- Trend analysis & expert opinion
- Case studies & select articles

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PART 3: Artificial intelligence: The New Powerhouse of Europe?

- Trend analysis & expert opinion
- Case studies & entrepreneur interviews
- Select articles

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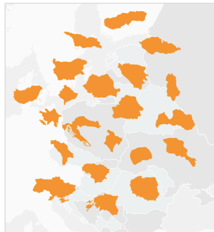

PART 4: Country sections

Discover the startup and venture ecosystems in Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czechia, Estonia, Georgia, Hungary, Kosovo, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia and Ukraine

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PART 5: Special Russia section

- Country data & trend analysis
- Executive interviews & expert opinion
- Select articles

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PART 6: Featured startups & entrepreneurs

Case studies and interviews to discover some of the region's most remarkable entrepreneurs and technologies!

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PRESENTATION & SUMMARY: http://ewdn.com/files/cee_report.pdf

PART 5:

RUSSIA

2018 EDITION, VERSION 1
FEBRUARY 2018

SPECIAL COUNTRY SECTION

- With deeply rooted traditions of technological excellence and more than 90 million Internet users, Russia is, by far, the region's largest market in terms of innovation.
- The local startup and VC ecosystem has reached a high level of development, partly due to massive state interventions.
- With less than $1 billion per year, however, the venture market remains very tiny in comparison with other major global tech powers. A substantial part of Russian capital goes to foreign startups, or Russian founders established abroad, making access to funding more difficult to domestic entrepreneurs.
- In spite of numerous opportunities, many Western tech investors have turned away from Russia as international tensions were growing over the past few years. Giant investment agreements have been signed with China, but with little noticeable effect on the Russian startup ecosystem so far.
- Russian entrepreneurs have strongly asserted themselves on the global ICO scene, placing their country second after the USA in number of ICOs and pre-ICOs in 2017 *(see Part 2 of this report http://ewdn.com/files/cee_tokens.pdf)*.

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This special country section enjoys the support of the Internet Initiatives Development Fund (IIDF), Russia's leading early-stage startup investment fund. www.iidf.vc

SPECIAL RUSSIA SECTION COUNTRY DATA & TREND ANALYSIS

This special country section enjoys the support of the Internet Initiatives Development Fund (IIDF), Russia's leading early-stage startup investment fund. www.iidf.vc

COUNTRY BACKGROUND

RUSSIA

POPULATION: 143.4 million (2017)

- 74.1% of urban population (2016)
- 5.5% unemployment rate (2015)
- 78.7% with tertiary education (2017)

SOURCE: GLOBAL INNOVATION INDEX 2017

GDP: $1.267 billion (2017)

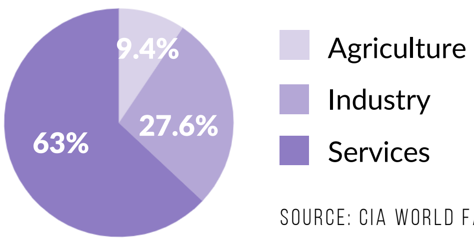
- Average growth rate 2014-16: +3.3%

SOURCE: WORLD BANK

- Per capita: $25.410 (2017)

SOURCE: GLOBAL INNOVATION INDEX 2017

LABOR FORCE BY OCCUPATION (2016)



SOURCE: CIA WORLD FACTBOOK

RUSSIAN HAPPINESS

The country ranks 49th in the UN's World Happiness report (2014-2016)

Old and new Moscow: The Digital October innovation center, established in a former candy factory (red buildings in the center of the picture) and the cathedral of Christ the Savior, built in the 19th century and rebuilt in the 1990s after having been destroyed under Soviet rule. (Photo credit: Depositphotos)

STARTUP & VC DATA

RUSSIA

AMONG KEY TECH INVESTORS BASED OR WITH ROOTS IN RUSSIA

- **AddVenture** www.addventure.vc
- **Altair Capital** www.altair.vc
- **Flint Capital** www.flintcap.com
- **IIDF (FRII)** www.iidf.vc
- **iTech Capital** www.itcap.vc
- **Moscow Seed Fund** www.mosinnov.ru
- **Pulsar Venture Capital** www.pulsar.vc
- **RVC and affiliates** www.rvc.ru
- **Starta Capital** www.altair.vc
- **The Untitled** www.theuntitled.net
- **Almaz Capital** www.almazcapital.com
- **Buran VC** www.buranvc.com
- **Genome Ventures** www.genomeventures.com
- **InVenture Partners** www.inventurepartners.com
- **Maxfield Capital** www.maxfield.vc
- **Phystech Ventures** www.phystechventures.com
- **Runa Capital** www.runacap.com
- **Sberbank** www.sberbank.com
- **Target Global** www.targetglobal.vc
- **TMT Investments** www.tmtinvestments.com

Note: Having internationalized their activities, some of these funds can hardly be considered any more as "Russian funds" (typically Almaz, Flint, Maxfield, Runa, Target Global, TMT...)

KEY VENTURE FACTS & NUMBERS

ESTIMATED NUMBER OF INVESTORS (2017)

- The Firrma-RBC-EY research identified 47 funds based in Russia or with Russian roots having made at least one startup investment between December 2016 and December 2017.

SEE THE RANKING (IN RUSSIAN): HTTP://GOO.GL/ZDMZEP

VC MARKET DATA

- **Total startup investment activity (funds + business angels)** according to the RB Partners-EY-Firrma research

Period	Amount	Nb of deals
2015	$383m	297
2016	$894m	302
H1 2017	$321m	149

SEE THE 2016 REPORT: HTTP://GOO.GL/MCS4JP
LIST OF DEALS: HTTP://GOO.GL/KTHK7K

- **Investment from BAs only:** The National Association of Business Angels (www.rusangels.ru) identified 92 startup investment deals involving individual investors in 2016. A considerable additional number of deals has remained undisclosed.

SEE THE REPORT (IN RUSSIAN): HTTP://GOO.GL/4JFVWI

ARSENIY DABBAKH: "VENTURE INVESTMENT VOLUMES ARE STILL VERY LIMITED, BUT THE ECOSYSTEM IS DEVELOPED AND RUSSIA IS PROBABLY READY FOR A HUGE LEAP AHEAD"

RUSSIA

RB Partners partner Arseniy Dabbakh is an attentive observer of the Russian venture scene, as witnessed by the authoritative industry reports he publishes twice a year. In this interview, he reviews the key evolutions of the sector and their implications for international investors.

The Russian venture market doesn't even reach $1 billion per year. Why such a small size in a country which is known for offering top technologies in a variety of fields?

Before 2014, Russia was – and I believe will be again – among the top ten VC markets in the world. Such poor results are due in part to the political tensions and sanctions imposed on Russia by Western countries, with a range of large Western VCs reducing their presence or turning away from Russia, even though the sanctions didn't formally concern VC activity.

Another reason has been the economic downturn, and the ruble's depreciation in 2014-2015 – by nearly 50% – which led to smaller market numbers in US dollars.

Can the Russian venture industry be described as mature?

If judging by the volume of transaction, the market looks at a very early stage; however, the venture ecosystem is quite developed. Russia has an important number of players, incubators, accelerators, state support programs, and a huge number of private and government-backed players involved in this business. This market is probably ready for a huge leap ahead.

To which extent and how does the industry enjoy government support?

The government has been very active in supporting the Russian VC industry. This is reflected in a variety of grant mechanisms for early-stage startups, tax breaks and subsidies for startups, a large number of tech parks – including Skolkovo, the international tech hub under completion bear Moscow, which has cost several billion dollars, – and many other initiatives. RVC, the state-owned fund of funds, provide hundreds of million USD to VC firms investing in Russia.

Support from the local or regional authorities may be substantial, too, as exemplified by Tatarstan with its venture fund, tech parks and other initiatives supported by the local government.

Does state intervention have more of a positive or negative effect?

This is positive taking into account the lack of long term capital and the need to develop the startup and VC infrastructure. State institutions are filling the gap which has been created by the economic and political situations as well as historic factors. This being said, the government is less efficient when investing directly, and more activity from private Russian and foreign VC firms would be welcome.

Do you expect the government to increase or decrease its involvement in the future?

The government will be more selective in their support. In certain fields, they will intervene even more while in others, they will take a less active stance. For example, I expect the Russian government to push the launch of CVCs from both state-controlled and private corporations. On the other hand, the state is likely to be less active than in the past in forming new institutions and launching dedicated support programs.

ARSENIY DABBAKH: "VENTURE INVESTMENT VOLUMES ARE STILL VERY LIMITED, BUT THE ECOSYSTEM IS DEVELOPED AND RUSSIA IS PROBABLY READY FOR A HUGE LEAP AHEAD"

Do Russian corporations — putting aside pure players — invest significantly in tech companies?

Not yet, and this is an important issue for Russia. The country lacks corporate or strategic investors, which results in a low number of exits. But the diversification of the Russian economy, which has been traditionally focused on oil and gas, has begun, and some large corporations now show more interest in corporate venturing and open innovation.

This evolution started a couple of years ago, when we saw a growing number of large corporations participate in tech conferences and discuss corporate investment. I know for sure that more than 10 new corporate funds will be launched soon. This is coming in addition to the development of tech scouting, corporate acceleration and other related activities.

Are foreign investors active on the Russian venture scene?

Big foreign VCs haven't not been active for the last couple of years, in part due to the degradation of the political climate. However, in 2017 I saw strong interest from Asian VCs – especially from Japan, China and Korea, – while some Western firms were coming back or at least considering doing so.

Read an exclusive interview with Sasha Galitsky, a figure of the Russian and global VC scene

http://www.ewdn.com/files/cee_trends.pdf

These investors are encouraged by the macroeconomic stabilization (since 2015 already) and the increasing number of strong startups in Russia. On their side, Russian investors are very interested in co-investing abroad with established western VCs.

Do you believe that foreign tech investment can gain significant traction while Russia is still experiencing problematic relations with the Western world?

Russia has an obvious interest in developing relations with Western and US players. Cooperation with Asian or even Latin American firms is fine, but it cannot fill the gap left by Western players, should these leave the country. Russian innovation suffers from the lack of capital, which is abundant in the US market, while a variety of Russian technologies and development capacities can be useful to the West.

On the Chinese side, several joint funds or programs, including tech-oriented ones and involving considerable amounts, have been announced over the past two years. Did you record real deals from this side, or these have been mainly announcements?

These were mega-deals, some of them with a political component. So far they didn't translate massively into real business deals, projects or noticeable influence on the Russian market.

(December 2017)

- *Arseniy Dabbakh is Partner at RB Partners (www.rbpartners.ru), a Moscow-based VC, PE and growth advisory firm. He is also an executive member of the National Alternative Investment Management Association (NAIMA) a major Russian investor association (www.naima-russia.org). You may reach him by email at dabbakhad@rbpartners.ru.*

SPECIAL RUSSIA SECTION EXECUTIVE INTERVIEWS & EXPERT ANALYSIS

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PRESIDENTIAL INTERNET OMBUDSMAN DMITRY MARINICHEV: "IN THE TOTALLY NEW TECH WORLD THAT IS EMERGING, THE STATE'S CAPACITY TO INTERVENE WILL DECLINE"

RUSSIA

When and why was the institution of presidential Internet ombudsman created?

The emergence of an Internet ombudsman was primarily due to the fact that the government realized the importance of the digital economy. The Internet is not only penetrating almost all areas of life, it is becoming the driver of the economy.

Illustrating this, President Putin held a meeting with online entrepreneurs in June 2014. During the meeting, he stated that business should not avoid coming into contact with the government, and that cooperation would be beneficial to both the state and entrepreneurs. Thus, the government started a dialogue with the industry.

A few weeks later, on July 17, the post of the Internet ombudsman was created under the authority of Boris Titov, the Presidential Commissioner for Entrepreneurs' Rights.

The second reason is the necessity for the government to support the industry. The digital economy doesn't develop without hurdles. The role of the Internet ombudsman is, first of all, to address the individual inquiries of companies that are experiencing difficulties. The ombudsman also has to identify the essential issues of the industry and analyze the available data on these issues relating to Internet companies.

Thus, the Internet ombudsman represents the interests of the industry and helps solve issues in a dialogue that may involve government bodies, lawmakers, or the judicial branch. We can bypass layers of bureaucracy and speak directly with the presidential administration, for example.

How do you intervene in legislative work?

An important part of our work consists of helping lawmakers improve the quality of legislation. They often lack specific technical expertise on the Internet industry, which may lead to laws or draft laws which can be absurdly inadequate from a business standpoint and be regarded from abroad as "yet another wave of restrictions and censorship."

For example, back in 2014 we intervened in the preparation of the law on personal data storage.[1] We made the text more flexible than it was in its initial version; then we began a dialogue with ministries to have them apply the law as appropriately as possible.

In their effort to regulate or control the Internet, the authorities don't always take into account the technical nuances or the business side. They behave like a bull in a china shop!

Do you receive requests or complaints from foreign tech companies or investors?

Yes, a significant number, including from the Association of European Businesses and the American Chamber of Commerce (AmCham). Many of these requests have been related to the law on personal data storage. Some companies have even been affected indirectly by this law. For example, we helped a European maker of medical X-ray equipment; the equipment in itself had no relationship with data storage, but its use did.

1. Adopted in 2014 and applicable since September 2015, this legislation requires companies operating in Russia to store Russian users' or clients' personal data on servers physically located in the country (see white paper by EWDN and EY: http://goo.gl/Vm8ya7) Many foreign and domestic players are concerned, including global players who tend to store their users' data in borderless clouds. Some foreign companies did not comply, as exemplified by LinkedIn, whose site has been blocked by the authorities (http://goo.gl/fBMyrq).

PRESIDENTIAL INTERNET OMBUDSMAN DMITRY MARINICHEV: "IN THE TOTALLY NEW TECH WORLD THAT IS EMERGING, THE STATE'S CAPACITY TO INTERVENE WILL DECLINE"

We haven't received any requests from VC investors so far, but we would certainly consider them. We usually treat all requests that concern state bodies.

To what extent is the Internet industry affected by corruption or illegal conduct by officials?

Although these things still affect Russian business life to a certain extent, they apply much less to Internet companies. It is hard to illegally seize[2] the assets of companies whose value lies essentially in human resources or immaterial assets. And corruption is more difficult when payments are made online and duly registered.

Since 2014 most Western tech investors (VCs) have left or shown less interest in the Russian market. Meanwhile, some foreign tech companies have been repelled by, or could not continue to operate under, new legal rules.[3] Would you agree that reducing tech exchanges with the West could make Russia's technological, economic and social modernization more difficult?

At the starting point, there was the idea of less reliance on foreign technologies. But this has become, in the view of a part of the political elite, a temptation toward isolationism. In a certain sense, this is a psychological legacy of the past. Russia's elite doesn't have a technologically or globally-oriented mindset – which is partly a reflection of the nation's social mindset in general.

2. Mr. Marinichev refers to cases of property disputes involving corrupt officials ("raiderstvo" in Russian), with legitimate owners losing control of their businesses.
3. Among problematic laws have been the law on personal data storage and what has been nicknamed the "Big Brother law," adopted in 2016 (http://goo.gl/8Bfm3R). This legislation requires telecom operators, email services and virtually any website to store the entire content of their users' communications for a certain period of time. Telecom operators and "organizers of information distribution" will be required to cooperate with the Federal Security Service (FSB) to make their users' communications fully accessible to this organization.

PRESIDENTIAL INTERNET OMBUDSMAN DMITRY MARINICHEV: "IN THE TOTALLY NEW TECH WORLD THAT IS EMERGING, THE STATE'S CAPACITY TO INTERVENE WILL DECLINE"

In his statements over the past few years, which were marked by political tensions with the West, Dmitry Marinichev insistently warned about the risks associated with Russia's potential economic and technological isolation.

Those born and raised in the Soviet Union in the main do not understand, much less trust, the new global technological environment that is emerging before our eyes.

To be fair, one must also say that some people in the Western world, too, may have designs of isolating Russia.

I do not support these views. Import substitution or even protectionism is a legitimate option for certain industries – agriculture, for example. But in the field of IT, this may lead to retardation. IT modernization can only be globally integrated and cooperative. What's more, it requires the development of civil society and higher education. Some people here like to speak about "Russia's own path," but in IT this is practically meaningless. The Russian IT system is the same as in any country in terms of infrastructure, usage, distribution, payments, etc. There isn't any specific Russian background there.

Russia is definitely involved in the globalized, interdependent world. It is legitimate for a government to protect state interests – but we are witnessing the emergence of a totally new world, with people's mindset and behavior changing thoroughly and rapidly. And the state's capacity to intervene and restrict things will decline.

Many people inside ministries understand these trends very clearly. But some lawmakers have a Cold War mentality, and it is also our role to try to open their minds to these new realities.

(December 2017)

- *A successful tech entrepreneur since the late 1990s, Dmitry Marinichev was apppointed Internet Ombudsman by President Putin in 2014. He is also a member of the Expert Committee of the Agency for Strategic Initiatives and a member of the General Council of the Delovaya Rossia business association. He's the author of many publications on technology, innovation and modernization.*

ALEXANDER SMBATYAN, TECH INVESTOR AND ADVISOR TO MOSCOW DEPUTY MAYOR: "NEW TECHNOLOGIES HAVE TAKEN THE CENTRAL STAGE IN MOSCOW CITY'S DEVELOPMENT PLANS"

Operating at the intersection of tech investment and city policy making, Alexander Smbatyan comments on the opportunities brought by technology in the fields of human capital and city development.

So far, your fund Genome Ventures has invested essentially in Russian companies. What makes the Russian market attractive in your eyes?

Genome Ventures isn't an ordinary venture fund. We are a venture building company. It is not so much about the market as it is about people who are capable of building global success stories.

Today this can be done from Russia or any other country; but Russia has a considerable, largely untapped potential in human capital, knowledge and breakthrough ideas. What's more, the Russian market, given its complexity, is a great testing ground. This is why Genome Ventures is building an ecosystem where this potential can be unlocked and transformed into global success stories.

What makes this market difficult or challenging?

It has always been challenging to do business in Russia. But this just equips entrepreneurs with the necessary survival skills such as grit and learning agility. The greatest challenge Russian entrepreneurs face every day is the ability to convert talent into successful ventures. We have the highest rates of education attainment across the world — but although many recognize Russia as a talent hub, very few dare to find, teach, accelerate and lead these talents.

Over the past years, many Russian funds have globalized their activities. Why has your fund remained essentially focused on Russia?

Since we are not a traditional venture fund, we partner with accomplished innovators and leaders.

Whilst they have talent, ambition and technical expertise, we empower them with top-notch teams, Russian and global market expertise and funding, and whatever else is needed to create a truly ground-breaking product. This is much more than traditional venture funding.

Thanks to this support, the companies we launch may quickly enter the global market, even though they started from Russia. Those in our portfolio have already started their expansion to the US, UAE and EU markets. We see great opportunities for technologies developed in Russia to become successful across the globe.

Why does Genome focus on education technologies and smart cities?

Let me reformulate it. We do have a particular focus on developing human capital and designing the environments and spaces where they live, work, learn and are entertained. We truly believe that here in Russia, especially in Moscow, we need to accelerate our effort to place human capital growth high on the agenda. Facing the digital transformation requires to leverage our talents, infrastructure and technological advancement.

Education is a $5 trillion market, double the size of the oil and gas industry. It is a field that won't be disrupted, at least in developed countries, yet the pace of technology adoption has been accelerating and will soon hit a tipping point.

Surely EdTech is a bit of a buzzword right now, but look at the gap between real market demand and what is being offered. EdTech leaders and entrepreneurs should develop result-oriented models based on real market data and experience. EdTech is poised to become one of the most profitable markets in the digital industry.

However, there are high entry barriers, product development cycle is longer and to be competitive tomorrow, you have to invest today.

ALEXANDER SMBATYAN, TECH INVESTOR AND ADVISOR TO MOSCOW DEPUTY MAYOR: "NEW TECHNOLOGIES HAVE TAKEN THE CENTRAL STAGE IN MOSCOW CITY'S DEVELOPMENT PLANS"

You are an advisor to the deputy mayor in charge of Moscow's economic development. How important is technology in the city's development plans?

It is difficult today to imagine a global city without a focus on new technologies. These take the central stage in Moscow mayor Sergey Sobyanin's program.

We're talking about technology for the people, technologies that create an environment where citizens and visitors can feel safe, comfortable and mobile. As the mayor put it: "Our support of technological modernization aims to make Moscow a convenient, comfortable, safe and friendly place to live, work or study."

How do these tech-oriented policies translate concretely for inhabitants?

Moscow has been very successful in integrating technology in daily life in a variety of fields. Let me provide a few examples:

- Data is used in a variety of ways — in transport systems, video surveillance, medical services, business and public administration, etc. The city has a Traffic Management Center with a situation room where data from all street cameras are continuously collected and analyzed. The data collected from this Traffic Management Center is also use by Yandex.Transport, a popular mobile trip-planning app.

The Moscow city authorities have launched programs to promote local innovative projects and attract foreign tech companies and investors to launch activities in Moscow.

ALEXANDER SMBATYAN, TECH INVESTOR AND ADVISOR TO MOSCOW DEPUTY MAYOR: “NEW TECHNOLOGIES HAVE TAKEN THE CENTRAL STAGE IN MOSCOW CITY’S DEVELOPMENT PLANS”

- Another example is the city’s video surveillance system, with 160,000 cameras located in all areas. Their main function is to prevent offenses and control the work of housing and communal services. The data from the cameras stored in the Unified Storage Center also helps disclose crimes. Thus, in 2015, 1,727 offenses were discovered thanks to records from the cameras. More than 3,000 of these devices were using a face recognition system which can recognize identity, gender and age on a video.
- As for medical services, we have set up a Unified Medical Records System (EMIAS) which integrates data from all public healthcare institutions in the city. All medical records, including prescriptions and sick leaves, are now processed electronically. Patients can sign up for an appointment on the web site or through an app. So far, more than 34 million doctor appointments have been set via the portal and the app: in 2017, the average monthly number of appointments set exceeded 1.7 million. The app has been downloaded more than 540,000 times via iOS or Android.
- Another demonstration of the city’s focus on technologies is the Digital Business Hub, which has asserted itself as the key venue for city digitalization and innovations.

This being said, in order to be globally competitive, we need to increase the proportion of services in the city’s GDP. Since tech companies account nowadays for the better part of the service industry, it is important to develop further the tech ecosystem and create new incentives for local tech entrepreneurs. .

Do the Moscow city authorities wish to attract more foreign tech players? Can they enjoy specific benefits?

Like other global cities, we are looking to attract foreign direct investments, venture investors and high-tech companies, especially those who may outsource their R&D to Moscow-based companies or launch their own R&D centers in Moscow.

Priority is also given to investors and tech companies who regard Moscow as one of their key markets, and aim to localize their product. We understand that foreigners coming to Moscow may be intimidated, so there is a large support system for those companies — be it in terms of infrastructure (with privileged land buyout prices, special economic zones and industrial parks), financial incentives, R&D or partnership partnership support programs.

The city's centralized system of data collection is a great competitive advantage in the data economy, it opens up unique opportunities for innovation, development and piloting of new services. There is a real demand on the Moscow market for new tech players, including foreign ones. And a very friendly atmosphere!

(November 2017)

- *A serial entrepreneur (Aizel. com, Profilum.ru, Onlinedoctor.ru, etc.) Alexander Smbatyan is founder and CEO at Genome Ventures (www.genomeventures.com). He is also Innovation Policy Advisor to Moscow City Deputy Mayor for Economic development. Mr. Smbatyan received his Ph.D. from the Russian Government's Financial University; he also graduated Cambridge University’s JBS, Moscow School of Management Skolkovo and Stanford Graduate School of business.*

PAVEL TERENTIEV OF ADDVENTURE: "BUILDING A $50-$100-$150 MILLION BUSINESS IN RUSSIA IS A NO-BRAINER, BUT GROWING FURTHER IS MORE CHALLENGING"

Pavel Terentiev is Managing Partner at AddVenture (www.addventure.vc), a fund launched in 2008, at the very early days of the Russian venture industry. In this exchange, he recalls the spectacular development of the Russian venture scene over the past ten years, and explains how savvy entrepreneurs and investors can seize the opportunities of the undergoing digital transformation of our lives.

Back in 2008, AddVenture pioneered the Russian VC market. How did the market look at that time, and what has it become now?

We launched the first AddVenture fund 10 years ago: at that point, the idea was to accelerate seed-stage businesses and bridge them with next-stage investors. In these years, the Russian venture ecosystem was poor with virtually no professional angel investors and a handful of sectoral funds operational. By 2008 just few funds, like RuNet, Softline and Luxembourg's Mangrove were already operating in Russia; Almaz Capital launched that same year.

The market has progressed very substantially since then, be it in terms of size, professional knowledge, integration to major tech hubs (mostly the UK, Berlin and Silicon Valley) or capital availability. Currently, there are two dozen active institutional venture investors, a fairly developed angel network, a clear interest in the sector from more traditional financial players like private equity firms.

Meanwhile, the government supports the market through its fund of funds RVC and, indirectly, the Internet Initiatives Development Fund.[1]

1. Russia's largest seed-stage startup investment fund, IIDF was launched in 2013 following an initiative from president Putin. It is not owned by the Russian state, however.

The two largest Russian Internet corporations, Mail.Ru Group and Yandex, having understood that they cannot do everything themselves, have also been quite active on both the acquisition and equity financing side over the past two years.

We have recently seen some huge transactions involving both domestic and foreign players: Naspers' acquisition of a controlling stake in Avito in 2015 (http://goo.gl/NeVnHa); Mail.Ru Group's acquisition of Delivery Club, Russia's largest food delivery service, for $100 million in 2016 (http://goo.gl/HPwAqQ); the Yandex.Taxi - Uber merger at a $3.7 billion valuation (http://goo.gl/XzfUAa) in 2017; and Sberbank's $500 million investment in the e-commerce marketplace Yandex.Market, aiming to become the Amazon of Russia, in 2017, too (http://goo.gl/SsHjMz).

Does the Russian VC market still lag behind Western Europe?

Undoubtedly, if judging by the size of the Russian market and its stage of development. The numbers speak for themselves: Russian startups received less than $900 million in investment in 2016 vs. some $11 billion for their European peers.

The positive side is that the scarcity of resources – in terms of funding and exit opportunities – makes Russian entrepreneurs really prudent about their company's finances, and work hard to improve capital efficiency. There are many examples of local platforms which have reached results in terms of scale similar to what their peers achieved in other parts of the world – but with five or ten times less cash.

These local companies are helped by Russian consumers' quite advanced Internet consumption patterns and by the overall size of the consumer market (around $600 billion in household consumer spending).

PAVEL TERENTIEV OF ADDVENTURE: "BUILDING A $50-$100-$150 MILLION BUSINESS IN RUSSIA IS A NO-BRAINER, BUT GROWING FURTHER IS MORE CHALLENGING"

Over the past few years AddVenture — like many other Russian funds — has switched to an international strategy. Why did you do this?

Putting aside the economic and political risks related to focusing on one country only, the idea was to go for a big game fishing. Even though, in size, the domestic consumer market is considerable ($600 billion), the consumer purchasing levels and consumption structure are less favorable (30% of Russia's total consumer spending is spent on food vs. 13% in the USA).

Keeping this in mind, building a 50-100-150 million-dollar business locally in our focus verticals is a no-brainer (or close to that), but growing further might be more challenging. Therefore, if you want to build a 2-3 billion-dollar platform within a fairly short horizon of time, it is logical to seek expansion opportunities across several geographies – and that is exactly what we have done.

Which specific value can you, as a Russian team, bring such startups from across the world?

At a very initial point, our proposition was nothing but funding – as well as the generic, consumer-focused transactional e-commerce DNA of an investor who believes in the segment strategically with a first-hand experience in supporting similar businesses the sophisticated Russian market.

Currently, with a processed pipeline of over 100 international platforms and over 15 investments made in the home and local services sector, we offer even more: fast decision making and due diligence process; horizontal knowledge sharing with our other portfolio companies doing exactly the same thing but in a different geography (data analysis and benchmarking, product, marketing, and technological tips); direct access to a pool of potential strategic buyers.

In AddVenture's portfolio…

armut

Armut is a leading local services marketplace in Turkey focusing on home improvement, moving and cleaning. It started as a horizontal market-place introducing contractors to customers; however the service has evolved to fulfil home cleaning and moving requests. This has been a important shift for the company as it allows customers to solve all of their home needs within one platform. Armut has thus established itself as a leading brand. It is well positioned to capture the Turkish home and local services market and then expand beyond it.

CLEANLY

Cleanly provides a 24 hour turn-around laundry service, where everything is picked up and dropped off at a convenient time for you at your home. An average person in the US spends more than eight hours on laundry per month! Cleanly was launched only four years ago but has already managed to capture the New York market (which accounts for 8% of the total US market), Washington and has recently expanded into its first city on the West Coast (San Francisco). The secret sauce behind the success of the company – with positive unit economics from day one – lies in the vast experience of founders in the logistics industry.

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The latter point works extremely well in the opposite side – established Internet players in developed markets and FMCG corporations look for international expansion and show interest in our multiregional sectoral portfolio.

Which are your key criteria in terms of investment?

Now we focus exclusively on the home and local services market, and consider investment opportunities anywhere in the world. This sector is huge: for instance, the US market is estimated at around $1 trillion in annual spend, which translates into a global opportunity of well over $4 trillion.

Basically, we differentiate two business models: horizontal market-places connecting homeowners with service professionals for a wide variety of non-recurring and / or complex projects, and specific vertical transactional platforms addressing customer needs that can be standardized or have a recurring nature, i.e. home cleaning or laundry services.

We see a convergence between these two models into a hybrid one, which is effectively going to be a customer entry point for an entire set of home and personal needs.

While some industry leaders in developed markets (USA, UK) have proven they could be profitable, platforms in other regions still require capital to get to that point. In providing this capital, aside from a traditional market size analytics, we would normally be looking at a fairly standard data set focusing on unit economics of the business, retention levels and marketing payback period, as well as the overall previous capital efficiency.

We can identify weak points and opportunities based on our study of more than 100 platforms in virtually every spot of the planet.

In AddVenture's portfolio…

miso 파트너

Miso is a leading home cleaning platform in Seoul, serving thousands of customers on a weekly basis. The home cleaning market in South Korea is very specific: there is a 'maid culture' that has been well developed over the years and the consumption patterns are completely different from western ones. This has been good news for the startup, which didn't have to educate the market; on the other hand this implies a fairly competitive market with a lot of offline players. Nevertheless, Miso has managed to grow very well; even though it launched recently (in 2015), this young company is close to reach the size where it will measure itself with global market leaders.

Qlean

Qlean is a pioneer in the home services market in Russia. Having started as an eco-friendly home cleaning platform, the startup now also provides a laundry delivery service and on-demand beauty services through a spin-off. With double-digit growth, the Russian home cleaning market is fueled by new demand from people who never outsourced home cleaning before.

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We're also attentive to the team's previous experience with B2C e-commerce platforms, its data-driven philosophy and how our respective market and product visions synchronize. Also, we usually try to work with local co-investors who may bring their specific knowledge.

How do you envision market transformations in these segments, and the upsides for investors?

We see two important macro shifts: changing labor relations and new consumer behavior. These shifts affect virtually all industries simultaneously across the globe.

In labor relations, people now consider the very concept of work in a different way, they look for a job in a different way, and they have different goals at work. More than a third of the working US population are freelancers (part-time and full-time). According to surveys, people tend to make more money than with a "traditional" job; they tend to be happier because they are their own boss and enjoy a flexible schedule. This is a huge shift because there are now hundreds of millions of people willing to take part in the "gig economy." They need solutions to help them promote and sell their skills, and manage their work.

The second shift is in consumer behavior. The change is not only driven by the Millennial generation: we see new behaviors spread to other consumers groups – and these new types of demand need to be addressed by new types of products. People now want up-front full price transparency and, more importantly, they want it right now, not in 24 hours via a quote in an email. Customers expect a pre-screened, vetted, insured contractor to provide a service at a convenient time for them, not during an eight-hour slot on Tuesday.

Most importantly, customers want their "needs" to be addressed, they don't really care for the particular product or brand which can be used.

We don't expect our home and local services market to expand tremendously in absolute terms (it's hard to move a needle in a trillion-dollar market), but we do expect online penetration to grow from 2% (in advanced economies) to around 10% within the next five years. Even that number will still be behind the level we see in other consumer verticals like general e-commerce, food, travel or transportation – which means even greater opportunities in the long term.

What is the approach of industry players, in particular FMCG?

FMCG companies understand these shifts; they see less brand recognition in the younger generations and test different things to address the issue. Traditional means – getting to the consumer through massive TV ad campaigns and buying shelf space from offline retailers – work less and less.

The majors have been pushed to move by such precedents as the uberization of the automotive market (with car manufacturers finally investing massively in taxi-hailing platforms), and the growing impact of Amazon in the USA.

It is now crystal-clear that those hundred-year-old multibillion businesses have to move direct to the consumer to address growing competition from digital disruptors and new customer patterns – either by themselves, or through investments and acquisitions.[2] If these don't invest now, it will be too late in two-three years. And it is not just them being so smart: there are also few guys like Amazon and Google going eyeing this market as well.

(December 2017)

2. Among the recent moves: Walmart has bought Jet.com and Bonobos, Uniliver has acquired Dollar Shave Club and invested (through its venture arm) in Helpling (Europe's largest home cleaning marketplace), Henkel has invested in ZipJet, a European-wide laundry and dry cleaning platform backed by Rocket Internet.

IIDF HEAD KIRILL VARLAMOV: “WE PROVIDE OUR STARTUPS WITH ENOUGH MONEY TO GROW PERHAPS MORE SLOWLY, BUT STEADIER THAN THEIR WESTERN COUNTERPARTS”

RUSSIA

The Internet Initiatives Development Fund (IIDF, or FRII in Russian) is the most active seed and early-stage startup investment fund not only in Russia but in Europe at large. Its director Kirill Varlamov shares comments on the peculiarities, track record and strategy of this fund, and how it contributes to the maturation of the Russian VC and startup ecosystem.

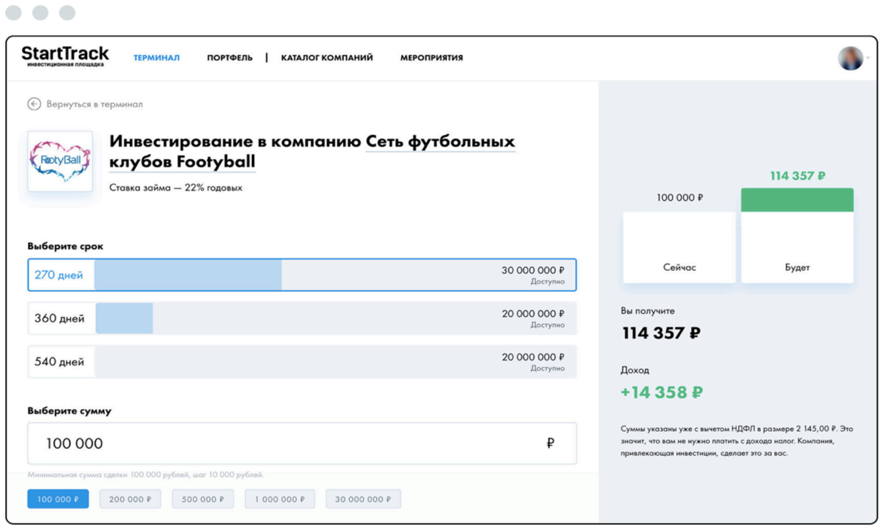
With more than 300 investments in less than four years, the IIDF has been the most prolific startup investor in Russia. Why and how did you build such a big VC business?

The IDFF emerged on the venture market five years ago. Since its inception, we have asserted ourselves as the most active fund in Europe, according to Dow Jones. The IDFF is among top five accelerators in the world, according to Pitch Book.

Our mission is to make the Russian market transparent and accessible to all entrepreneurs willing to launch or expand their business in the field of technology. We have 6 billion rubles [a bit more than $100 million at the current exchange rate] under management. We annually select the best projects out of 10,000 Russian companies, help them develop and invest in them.

Thus, some 85% of the Russian venture pipeline goes through the IDFF, while the fund accounts for over the half of total number of venture deals in Russia annually.

Over the past several years, we have built a full-fledged ecosystem. We hold a range of educational events across Russia – thus last year 28,000 people took part in 265 IDFF events. We develop the angel investment market through special training programs as well as through the crowdfunding platform StartTrack (https://starttrack.ru), which the market leader with more than 2,000 participating investors to date.



Through the IIDF-backed StartTrack crowdfunding platform, anyone can provide Russian startups with a loan or a capital injection in just a few clicks.

We launched our acceleration program after studying the operations of major and the most successful funds and accelerators in the world. This program helps young projects to grow productively, quickly test business ideas, and increase sales and revenue. Thousands of teams have participated in the program. We have gathered a community of experts in the fields of IT, sales, marketing and technology. These experts help our companies achieve maximum results in minimum time.

A variety of players and groups are involved in our activities, from local or international corporations, to industry associations, to students or even children in entire regions. Besides, the IDFF’s experts has been used by lawmakers when drafting regulating IT market regulations and legal frameworks for entrepreneurs and investors.

IIDF HEAD KIRILL VARLAMOV: "WE PROVIDE OUR STARTUPS WITH ENOUGH MONEY TO GROW PERHAPS MORE SLOWLY, BUT STEADIER THAN THEIR WESTERN COUNTERPARTS"

What are the average tickets in your investments?

We invest up to 2.5 million rubles [nearly $44,000] at the earliest stage, from 15 to 50 million rubles [$260,000 to $870,000] at the seed stage, and up to 324 million rubles [roughly $5.7 million] at the Series A stage and further. Since 2014, we have injected over 500 million rubles [roughly $8.7 million] in 326 pre-seed stage companies, while 53 more mature startups have received 2.4 billion rubles [$42 million] from us.

Does your investment practice differ from that of other funds?

Technically, we work under the same standards than any other VC fund. However, the IIDF has some peculiarities. It is an evergreen fund, which is a specific type of fund with an indefinite life period.

Besides, our approach differs from that of many Western VCs, which consists in pushing companies to super-fast growth and quickly selling them. In this model, investors are not discouraged by the absence of revenue, they rather look at growth indicators. By contrast, we support our future unicorns with enough money to stay afloat and grow perhaps more slowly, but steadier than their Western counterparts.

How successful are your startups?

One in three teams successfully graduating from our acceleration program attracted further funding rounds from the IDFF within the next six to nine months.

Today, a substantial part of our portfolio companies – in which we invested at the early stages – show impressive growth and are getting close to business maturity. This is why I am confident that we'll see more and larger exits in the middle term, confirming the success of our evergreen fund model.

Are these startups rather Russia-centered or internationally-oriented?

The majority of our portfolio companies are internationally-oriented. It is logical to consider domestic market as a testing ground for an idea or a business – after which the business can expand internationally, learn from work with clients from different countries, test ideas on other markets.

Is it easy for Russian startups to go global?

The success of a startup lies in the transformation of an idea into a real and globally-oriented business. It is essential for us that the teams create services that are competitive on the global market. We help them to stick to this strategy, which includes providing financing. Some of our portfolio companies target exclusively Western markets, for example Semantic Hub and Data Matrix, which serve major players of the European pharmaceutical industry. There should be no borders for cutting-edge technologies; we encourage our startups to envision a global strategy from the very start than limit themselves to one country.

Does your fund work with international players?

We do collaborate closely with international venture and tech businesses. These include such Y Combinator, 500 Startups, HAX, SOSV, TechStars, Seedstars as well as such major corporations as Auchan, Leroy Merlin, MediaMarkt, Raiffeisen, Visa, Stada, Michelin, BMW, Schneider Electric, Microsoft, Inditex, Quelle, Otto, LG, SAP, Samsung and BCG, etc. Last year, our portfolio companies launched more than 50 pilot projects in cooperation with corporations with our help. For instance, Bayer, Teva and Fasten tested AI-powered HR Robot Vera, while Auchan and Enel tried HoloGroup, an AR solution to build shopping malls. Over 150 other pilot projects are being discussed or pending approval.

IIDF HEAD KIRILL VARLAMOV: “WE PROVIDE OUR STARTUPS WITH ENOUGH MONEY TO GROW PERHAPS MORE SLOWLY, BUT STEADIER THAN THEIR WESTERN COUNTERPARTS”

RUSSIA

Does your fund or its portfolio companies have any particular geographic or industry priority?

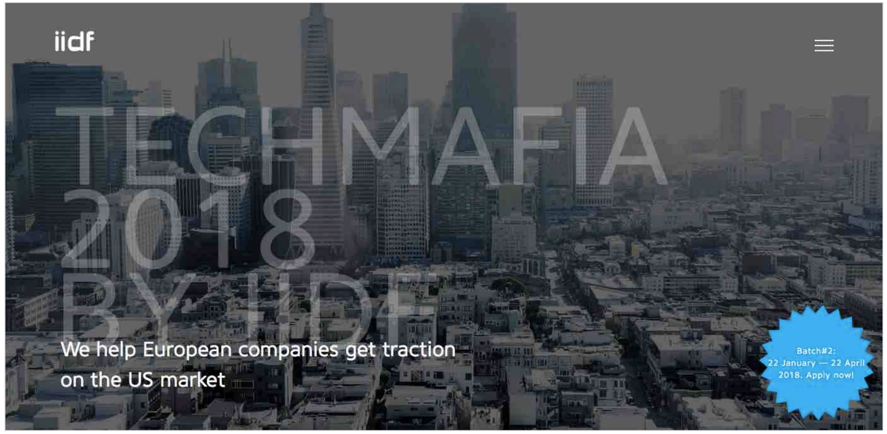
Our portfolio companies are actively considering all the major markets. For instance, last year we launched two US-oriented formats. In spring, we held the first on-site acceleration program Techmafia with advice from our American partners, for example 500 Startups. This is an intensive three-month soft landing program for IT startups to test the US market, check the demand for their products, get insights while communicating with their target audience, and launch their first pilot projects. The second round of Techmafia (http://tm.iidf.vc) started on January 22, 2018. This time we are giving the teams more time to be in San Francisco and interact more deeply with the local community.

In December 2017, in partnership with Sberbank and Fortross, we launched Global Pitch (www.globalpitch.vc) . As part of the project, we will select 20 startups which will go to the Silicon Valley next spring to interact with top international funds and venture experts, and receive expertise and investment. Within the next several years, in cooperation with our partners, we are planning to provide 60 Russian startups with world-class expertise and access to US investors through the Global Pitch project.

Industry-wise, the IDFF invests in IT solutions in the fields of telecommunication, telemedicine, corporate and platform software, education technologies, Big Data and AI, IoT, VR/AR/MR, cyber security, marketing solutions, media and cybersport. We constantly monitor emerging industries — we are curious and flexible in this area.

Did the sanctions affect your international strategy, or could they affect it in the future?

Not so far. I can’t tell about the future, though.



Launched in 2017, TechMafia and Global Pitch are two instruments to help Russian startups grow in the USA and enter the global market.

IIDF HEAD KIRILL VARLAMOV: "WE PROVIDE OUR STARTUPS WITH ENOUGH MONEY TO GROW PERHAPS MORE SLOWLY, BUT STEADIER THAN THEIR WESTERN COUNTERPARTS"

What have been, in your perception, the main evolutions of the Russian startup ecosystem over the past few years?

When the IDFF just started operating, the market didn't have any rules or a common language — it might sound funny, but when referring to the term "market size," investors and entrepreneurs had absolutely different things and figures in mind.

Many things have improved for the past several years. Today it is much easier to launch an IT business than it was ten years ago: technology is more accessible, qualified human resources are more available, and grants will allow you to create the first version of a product within one or a few months. As a result, we see hundreds of startups emerge monthly.

However, difficulties remain. The number of companies meeting VCs' requirements hasn't changed – while the requirements themselves have become more strict. Few projects can avoid the "death valley;" and we are trying to fix this.

Besides, when comparing the Russian market with others, exit prospects are still virtually inexistent. Strategic investors do not show a big motivation to buy startups: in spite of recent progress, corporations in their majority have not realized yet that acquiring a startup may increase capitalization, improve financial performance, conquer new markets, etc.

What can a fund like the IIDF do to stimulate corporate interest?

It's important to create the right ecosystem to stimulate venture investment and open innovation, not just work with players individually. We've created a variety of cooperation formats to bring together companies, corporations, government bodies and startups.

We pay particular attention to raising corporates' interest in startups, teaching them to work with innovations and explaining that startups are not to be afraid of.

Besides, we regularly show technologies from our portfolio companies to potential corporate customers, and contribute to create corporate accelerators. Our latest partnerships in this field involve Rostelecom, Russia's biggest telecommunication company Rostelecom, and X5, the largest retail group.

(January 2018)

- *Born in 1974 in Sverdlovsk (now Yekaterinburg), Mr. Varlamov graduated Ural State Technical University, attended classes at Bradley University, Peoria, IL, and graduated Moscow management school Skolkovo as Executive MBA. In 2012, he won the Entrepreneur of the Year competition (IT section) organized by Ernst & Young. Before heading the IIDF, Mr. Varlamov was CEO at Naumen, a major software development company he co-founded in 2001.*

How state-backed fund of funds RVC attracted 11,000 Russian and foreign startups to a corporate accelerator

See interview with Mikhail Antonov
http://www.ewdn.com/files/cee_trends.pdf

DAVID WAROQUIER OF MANGROVE CAPITAL PARTNERS: "THE TIME HAS COME TO RE-ACTIVATE OUR INVESTMENTS IN STARTUPS FROM EASTERN EUROPE"

RUSSIA

An international early-stage investment fund based in Luxembourg, Mangrove Capital Partners has been an active investor in Russia and several other CEE countries, including Estonia (where the fund backed Skype at the early stage) and Czechia. Fund partner David Waroquier explains the ups and downs of venture activity in Russia and how he works with Russian entrepreneurs and institutions.

Why is your fund interested in Russia and other CEE countries?

Our focus geography is Europe and Israel, but we are very active observing how emerging markets are developing, in particular as we see that innovation tends to emerge from any corner of the world. In general, CEE has a long history of breeding quality technology education and expertise, and Russia is one of the best examples.

More broadly speaking, emerging markets are particularly interesting as they provide large domestic markets which are ripe for innovation and technology jumps, and usually count large communities of entrepreneurs who are eager to succeed.

You were among the first Western VCs investing in Russia, and probably among the rare ones who deeply explored this huge country's potential. Do you still invest in this country "with love," as you said a few years ago? (http://goo.gl/txKAKe)

It is true that we have been particularly active in Russia and made a total of seven investments, our most famous one being KupiVIP (http://goo.gl/st9apH). We have been focusing mostly on Moscow, St Petersburg and Kazan, even though we also met a number of highly promising teams coming from such different other cities and regions as Rostov, Perm, Nizhniy Novgorod, Novosibirsk…

Russia is particularly appealing considering its size and large consumer population, the dynamism of its market expansion and consumerism, the quality of its scientists and technologists. Over the past few years we have also seen an increasing number of teams focusing on deploying their products and solutions on a global scale. These teams draw most of our attention.

Did the sanctions have an impact on your strategy or activities in the country?

They have put our investment strategy in the country on hold for the last years, not because of a lack of interest in Russia, but mainly due to the general freeze by international investors in Russia, combined with well-established Russian VCs shifting their investment strategy outside of Russia. The M&A dynamic has been weak compared to Western standards.

On a more positive note, this trend has begun to change over the past one or two years with a few but significant transactions, such as the acquisition of Delivery Club (http://goo.gl/Bc5AZV) and Pixonic by Mail.Ru Group, HeadHunter by Elbrus Capital as well as Masquerade by Facebook in Belarus.

The sanctions have also had some unexpected and indirect effects. They have dramatically impacted the capacity of Russian startups to raise funds in Russia both at the early and expansion stages; as a result, many entrepreneurs have left the country and/or have learned to develop a business in a more capital-efficient way. Thus, we are now witnessing the emergence of a new generation of hungry entrepreneurs, coming up with well thought-through products targeting the international markets with a particular focus on B2B and SaaS offerings.

DAVID WAROQUIER OF MANGROVE CAPITAL PARTNERS: "THE TIME HAS COME TO RE-ACTIVATE OUR INVESTMENTS IN STARTUPS FROM EASTERN EUROPE"

RUSSIA

To stay ahead of the curve, we believe the time has come to re-activate our investment strategy in Russian startups and in the region in general.

What do you intend to do exactly?

Over the past few years we have been nurturing the idea of creating a (regional) seed fund, and we feel that the conditions for such an initiative are improving. When we decide to go ahead with this strategy, such a seed fund would focus on Russia and entrepreneurs from the former Soviet Union (FSU) with a global ambition from the get-go.

Mangrove's fund performance is best in class, with a number of huge successes, and we intend to continue finding and helping build more worldwide successes. We believe that founders and teams from Eastern Europe can be important contributors to achieving this goal.

How do your Russian portfolio companies feel today?

In Russia, we did our first investment in 2005, and since then have funded seven startups. We are still involved in two companies: KupiVIP, the leading off-price fashion retailer in Russia, also operating offices in Berlin, Belorussia and Kazakhstan, and Paymo, an online payment service provider active in Russia, Kazakhstan and Uzbekistan.

KupiVIP, by far our flagship investment in Russia, is profitable, employs 1,000 people, counts 18 million members, and operates six department stores in Moscow in addition to its mobile and online platforms. It is worth noting that one in five women in Russia made at least one purchase on KupiVIP.

In 2016, in the midst of the crisis, Oktogo.ru, our second largest investment in Russia (http://goo.gl/fAsF7a) was running out of breath. Over the last four years, the travel industry in Russia has been severely impacted by a series of economic and geopolitical issues. After a failed merger as a last resort and due to persistent difficulties to finance working capital, Oktogo had finally been brought to an end in its previous form.

Russian state institutions and state-backed funds play an important role in the Russian startup scene. What is your experience in working with them?

We do not have extensive experience in co-investing with state-backed funds or regional government funds. We have had advanced partnership discussions with a number of them but for multiple reasons none ever materialized into real transactions. Various bodies have attempted to build venture activities through public money, but few have had any success so far. This is not just limited to Russia.

We believe the market is best suited for professional venture firms with years of experience, and with a consistent strategy such as ourselves. In order to help the venture capital industry develop, there is a unique opportunity to build a limited partnership market in Russia that could be led by state-owned corporates and government funds. These would contribute into managed portfolios under regulated entity protections.

This being said, we have already collaborated with institutions like RVC, Skolkovo and Innopolis [a tech hub under completion in Tatarstan, 800km east from Moscow] at different stages.

We all aim to contributing to the development and promotion of the Russian tech ecosystem both in Russia and abroad. As a leading venture capital firm, we believe it is also our responsibility to share experience and contribute locally to the ecosystem; our role does not stop with investing and growing our own successful startups.

(December 2017)

HOW RUSSIAN UNIVERSITIES CAN BECOME MORE INNOVATIVE AND ENTREPRENEURIAL

BY KENDRICK WHITE

RUSSIA

A figure of the innovation scene in Russia, where he has lived for more than 20 years, US investor Kendrick White shares his vision of the innovation potential of Russian universities and the challenges related to its translation into market-oriented products.

Although Russia has a great scientific tradition, it has a long history of failing to commercialize its scientific initiatives. Reforming universities is an important step for Russia to emerge as an innovation-driven economy.

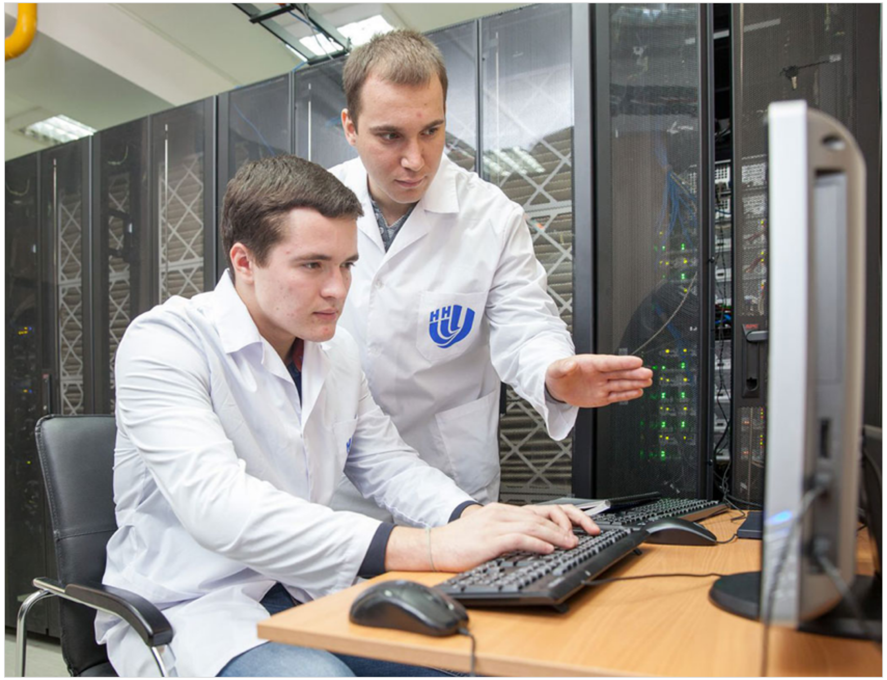
The problem is that Russia cannot simply pick up some instruments that exist elsewhere and plant them down domestically. It should adapt the West's best practices and apply them carefully into a working university ecosystem.

More than 50 years ago the West came to the conclusion that separating university research and university education was not the best approach to encourage creativity, entrepreneurship and new product development. The best way to encourage creativity and innovation is by mixing together researchers and students. Bringing new blood into the system would force scientific researchers to continuously look for new answers to questions from young, enthusiastic and questioning students, thus, forcing them to develop new theories and adjust old thinking.

Such an approach would spur the commercialization of new scientific discoveries into real products and solutions solving real-world problems, which the students could then take forward into industry and form new companies attracting both industrial partners and private capital investment. This could further support science advancement as well as commercialization and job creation.

While the rest of the world has moved on to combine its teaching and research universities and focus on solving real-world problems and developing commercially viable solutions, Russia has continued its practice of separating research from teaching, and this is one of the reasons why it was not able to develop into an innovation-driven economy.

The problem also lies in the fact that some among the academic community are outright resistant to the idea of such modernization and see the goals of the University 3.0 model as incompatible with the traditions of classic education in Russia.



HOW RUSSIAN UNIVERSITIES CAN BECOME MORE INNOVATIVE AND ENTREPRENEURIAL

BY KENDRICK WHITE

RUSSIA

Left to work on their own without any external influence, scientists may be inclined to work forever without ever actually reaching an end, especially if federal grants are allowed to be rolled over year after year without proper guidance to ensure that objectives are not being met. This is a serious problem in today's world of shrinking government budgets.

Many people are just afraid of change. But what is required is not to abandon long-held practices, but rather, to add into the system new methodologies and approaches that can help to speed up the evolution of the system.

The fact remains that economies that have adapted a more entrepreneurial approach to university management and scientific development have been able to dramatically increase overall wealth creation and economic development.

Changing the rules of the game

Russia's University 3.0 modernization program involves upgrading universities step by step to improve the ability to identify technology commercialization opportunities.

Establishing and propping up technology transfer and IP protection departments in universities in Russia will be an essential next step. But they won't work well without setting up fully funded Proof of Concept (POC) centers, which are extremely important in identifying the required commercial applications of new technologies. The POCs are necessary to support the development of proper business models which can then be used to establish the commercialization road maps necessary to determine in which direction to take the next stage of translational research work.

Without this work, university researchers will never be able to connect directly with investors as they will never be able to answer basic budgeting questions angels and venture capital investors would typical want to have answered prior to getting involved.

Investors have little interest in providing open-ended grants for never ending work – they want results, solutions and ultimately products that can be sold into specific markets.

For industrial partners, they need to see and understand the development path of any given technology discovery in order to determine if this discovery will be able to eventually solve any key problems which they face in advancing their own product lines.

The key role of Proof of Concept centers is to bring together experts who can understand both the scientific world and the business world, and bridge the differences, who can work to identify if and how a new technology discovery can actually form the basis for the new product, which can be useful in any given industry. And this is what a university should be responsible for in supporting its scientific researchers, as they themselves are hardly capable of answering such questions. Therefore in order to modernize, university leaders need to support the development of additional mechanisms such as Proof of Concept centers, business incubators, seed funds and accelerator startup programs.

To sum up, universities not only need to look for grant funding and funding for students and tuition, but they should build their own portfolio of intellectual property to maximize the value of that intellectual property in the commercial markets. It is like managing a balance sheet in the business world, where one has assets and liabilities.

HOW RUSSIAN UNIVERSITIES CAN BECOME MORE INNOVATIVE AND ENTREPRENEURIAL

BY KENDRICK WHITE

RUSSIA

For the university, one of the most valuable assets that it owns is its intellectual property (IP). One way to think of the POC is that its job is to help the university management to maximize the value of this asset on its balance sheet.

Case study: Lobachevsky State University of Nizhniy Novgorod (UNN)

The UNN is one of the pioneers in technology transfer in Russia, with a history of developing new university spinout enterprises.

In 2013-2015, the UNN formed a partnership with the University of Maryland (UMD) under the framework of the EURECA program financed by the U.S.-Russia Foundation for Economic Advancement and the Rule of Law (USRF). The terms of the program allowed the UNN's TCC to bring two cohorts per year to visit the University of Maryland for up to two weeks. The purpose of the visit was to investigate the competitive market in order to determine final business models for projects discussed.

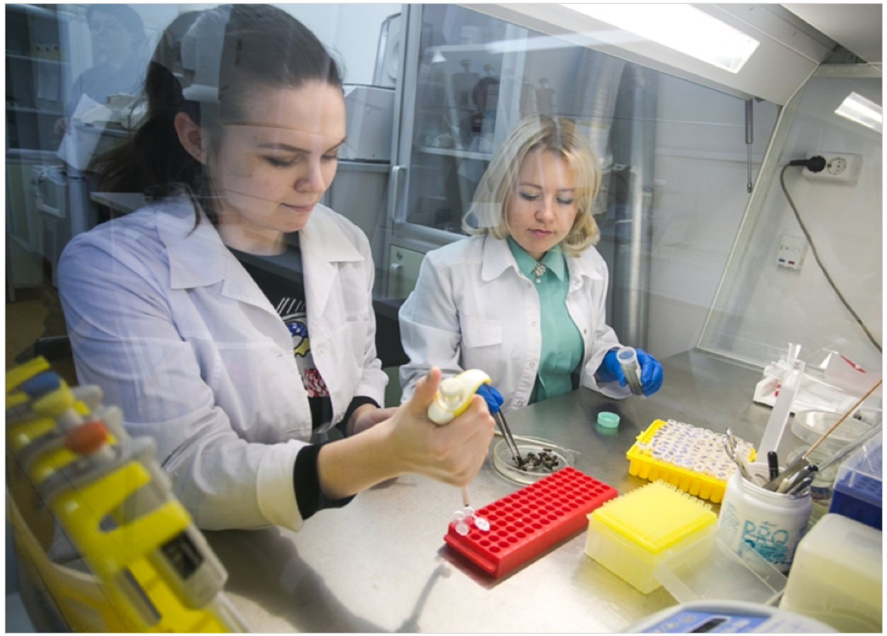
The staff of the University of Maryland M-Tech Venture Accelerator program, along with the UMD International Business Incubator helped the Russian teams to better understand how to adjust their projects' business models and to determine the best market entry strategies for the U.S. and other international markets.

One of the problems that the UNN faced was the lack of funding for the purchase of professionally prepared market research covering new technology and patent disclosures. This is essential information required to assess competitive trends. As part of the EURECA program, the teams were given access to market research supplied by both UMD and the American Councils, another partner in the program.

This information proved itself invaluable to Russian researchers, as Lobachevsky State University did not have access to this information in Russia.

Implications of University 3.0

Russia's authorities need to understand that it is not all about setting up technological parks around the country, but about setting up the support mechanisms required to encourage students and professors to develop solutions and new products to solve market-driven problems. When universities take that as their goal, this would be a fundamental shift.



HOW RUSSIAN UNIVERSITIES CAN BECOME MORE INNOVATIVE AND ENTREPRENEURIAL

BY KENDRICK WHITE

The University 3.0 program could prove to be an excellent way for the top Russian national research universities to attract new funding, new professors, new researchers, new students and new possibilities to realize its science potential into real business solutions.

This, in turn, could reverse the problem of brain drain and create new jobs – one of the key problems for today's Russia. However, to achieve this goal Russian universities, with the support of the authorities, should bolster an open environment, where there are no barriers within the university itself, and between its management and the local business community and the rest of the world.

Herein lies the key to unlocking the potential of Russia's remarkable intellectual property.

- *Kendrick White is the founder and CEO of Marchmont Capital Partners, an investment advisory firm active in Russia during the past ten years. He is the former Vice Rector for Innovation, at Lobachevsky University (2013-2015) where he created a comprehensive tech transfer and commercialization infrastructure, including Russia's first Proof of Concept (POC) Center. During 2015-2017 Kendrick worked as an Advisor to the UNN Rector assisting the Russian Ministry of Science & Education in developing the new NTI "University 3.0" program focused on modernizing Russia's tech transfer and IP protection policies. During the past 25 years, he has built unique know-how in commercializing early stage investment projects in Russia. This included the positions of Director of the EBRD's $50 million Central Russia Regional Venture Fund, advisor to the Nizhniy Novgorod administration, and other. Mr. White completed his MBA in international finance from the Kellogg Graduate School of Management (1990) and has a BA in international economics from Stetson University.*

SPECIAL RUSSIA SECTION REMARKABLE STARTUPS & ENTREPRENEURS

This special country section enjoys the support of the Internet Initiatives Development Fund (IIDF), Russia’s leading early-stage startup investment fund. www.iidf.vc

LYUDMILA BULAVKINA OF RENTMANIA.COM: “SHARING IS NOW IN THE AIR, AND IT WILL PENETRATE EVERY ASPECT OF DAILY LIFE.”

RUSSIA

Lyudmila Bulavkina is co-founder and CMO at Rentmania, a Moscow-based startup whose success illustrates the traction of the new sharing economy models. She recalls the story of her company, from the difficult early days to the current global development prospects.

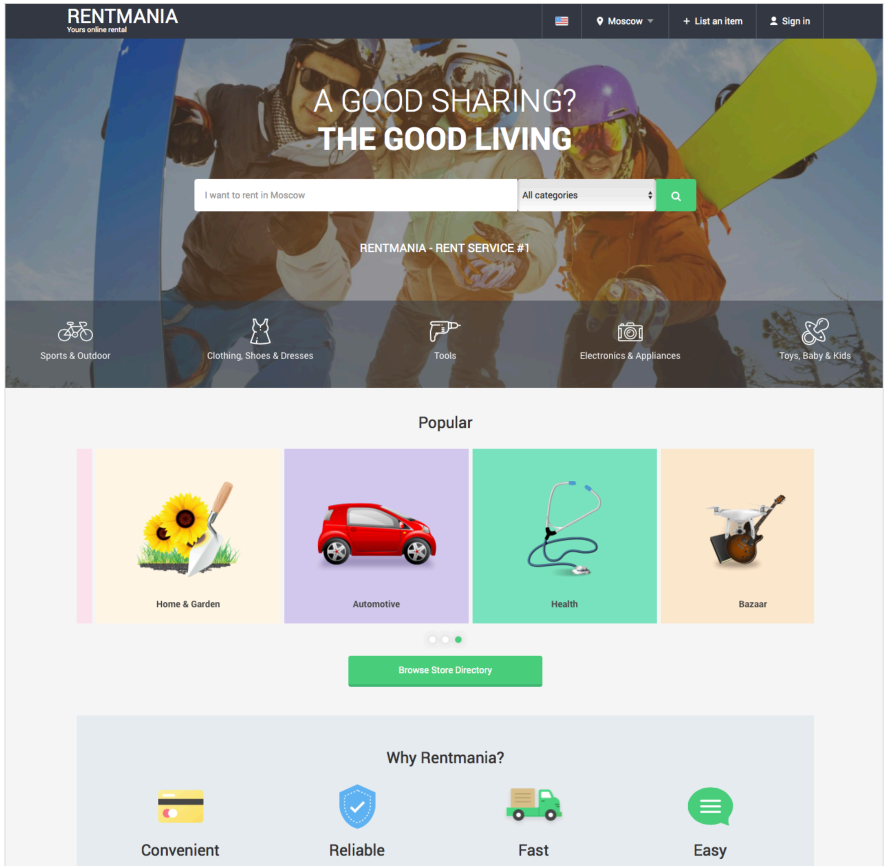
How and why did the idea of Rentmania come to your mind?

Our founder, Arkadiy Meshkovsky, was inspired with the idea of sharing economy while studying at RMA (Russian Internet Business School). A lifestyle in which one uses goods without purchasing them sounded very attractive. At that time, his house was full of items like bikes, tents, gadgets and DIY tools, most of which were getting zero regular use. The market was wide open and Arkadiy decided to launch the first online goods-sharing platform.

What were the challenges of switching from such a concept to a real business?

Rentmania's very first MVP [minimum viable product] was launched in November 2013. This first year was very hard. We had no chance competing for an audience against global companies that offered to buy goods. We had no suppliers and no renters; it was a period of bootstrap subsistence, one step away from “death valley.” Each team member volunteered for the sake of the idea. And this persistence and focus helped us.

Then in 2014, as we were hunting for team members and trying out our business model, the economic crisis hit Russia hard. As a result, consumer purchasing power decreased dramatically, and the opportunity to rent goods was warmly welcomed among Russians. We secured a pre-seed investment from the IIDF [Russia’s leading seed stage fund — ed.].



Born in Russia, Rentmania prepares for international expansion

LYUDMILA BULAVKINA OF RENTMANIA.COM: "SHARING IS NOW IN THE AIR, AND IT WILL PENETRATE EVERY ASPECT OF DAILY LIFE."

RUSSIA

We gained recognition through several startup contests, and made genuine headway among early Russian adopters of sharing economy. It was an ideal time to grow fast.

Do people use your service only because it is cheaper to rent something than to buy it? Or are there other reasons as well?

There are two main rationales for using Rentmania. The first one is to avoid purchases and cut expenses. People who like calculating and saving fall in love with Rentmania at first sight, since you can save about 250 euros per month by renting goods rather than buying them. At the same time, our users gain additional profit from sharing: active users can easily make up to 400 euros in extra cash.

We also offer a sustainable consumption lifestyle. There is no need to buy something just for a couple of days if you can rent it and pay considerably less for the same item. Rentmania lets you live better and experience more in a very affordable manner.

Do you believe this sharing economy segment could one day become as popular as other segments — such as home or car ride sharing?

Car ride sharing and home sharing have grown rapidly in just the last two years. Sharing is now in the air, and it will penetrate every aspect of daily life. As for now, we are happy to have strong business neighbors!

You're now planning to expand into new markets. Isn't this a bit premature?

The US market has the highest potential for growth. Americans have a rich history in the rental business, and they are open to sharing in urban conditions. There is also no clear leader in our domain. That said, we understand that US customers are very picky and that we'll have to compete hard for their attention. But we like challenges!

We've spent about three years testing various models to attract customers and address a variety of issues like deal insurance, payment security and deposit processing. We have demonstrated our success in Russia and today are the leading service in P2P goods sharing. Now it's time to test our model beyond Russian borders.

- *After serving corporations during more than 10 years (ABBYY, Odnoklassniki), Lyudmila Bulavkina became a tech entrepreneur, creating or taking part in such projects as YouDo, Boommy and Look100. A teacher at leading Moscow universities, including HSE and MGIMO, she authored more than 70 articles on business development, marketing and related issues.*

COMPANY INFORMATION

- **Created:** November 2013
- **Financing:** Grant from Bortnik Fund (Autumn 2014); pre-seed from IIDF (Summer 2014); seed from individual investors (Summer 2015); convertible loan from individual investors (Summer 2016).
- **Headquarters:** Moscow
- **Number of employees:** 25
- **Financial results:** undisclosed

YOUDO.COM FOUNDER ALEX GIDIRIM: "THERE IS SOMETHING DISRUPTIVE IN THE KINGDOM OF SEARCH ENGINES AND CLASSIFIEDS"

RUSSIA

Serial entrepreneur Alex Gidirim is the founder and CEO of YouDo.com, a platform that matches people requesting and providing day-to-day services (see case study in the AI section of this report). In this interview, he analyzes the evolution of consumer services and the looming disruption of the online classifieds industry.

What was your background prior to founding YouDo.com?

I should have been a banker, but I never finished university. I was probably a born entrepreneur; I've never worked for anyone. I sold my first company when I was 21; it was a small ecommerce business selling souvenir car plates. I was so excited by our success that I took bank credit for a new venture and... failed. For the next three years I barely made ends meet.

Many years later I got into affiliate marketing, which gave me experience we still use widely at YouDo.com. Together with different partners I also launched three game development companies; two of them are already sold and the third is a mature and growing company with over 250 employees. I also participated in a number of other startup projects as investor, mentor or advisor.

How did the idea of YouDo.com come to you?

The idea of getting people with reciprocal needs together in one place had inspired me for many years; I saw huge potential in it, the idea really drove me. In 2012 my partner and I launched YouDo.com. One of the first tasks was to get my beloved morning coffee from a coffee shop. At that time food delivery was not yet popular.

With comprehensive experience in affiliate marketing, I thought we could create a platform where people could get in touch and deal with each other without middlemen.

What is the current level of development of online on-demand services in Russia compared with other countries?

While certain types of services attract considerable numbers of customers – food delivery, for example – others are undeveloped. The market is huge and very fragmented, with lots of small mono-vertical players. We believe that Russia has its own way of doing things – including its own market-leading search engine, Yandex, and one of the world's biggest online classifieds services, Avito.ru.

We also believe that the time is ripe for another big local player who can aggregate most available services in one place. And that market is just enormous. Look at BlaBlaCar: Russia is on the verge of becoming their largest market. Tourism is growing, European and Asian travelers can be seen everywhere, so my guess is that that Airbnb in Russia is also growing rapidly.

Russia's big players – such as Yandex, Avito and Mail.Ru Group – are not sleeping. The latter recently launched Beepcar, competing with BlaBlaCar. Yandex Taxi is in the process of merging with Uber on the Russian market.

Technology can help win an entire market segment, since competition is rather low in each vertical. For example, in the USA and most European countries, the biggest companies are mono-vertical – Handy.com, Homeadvisors.com, etc. – and there is no big multi-vertical player in online on-demand services.

In Russia, the situation is different: it looks more like certain Asian markets than the European or US markets. In Asia, there are big multi-vertical players, including Go Jek in Indonesia and Wechat, which has managed to aggregate many services in one app.

YOUDO.COM FOUNDER ALEX GIDIRIM: “THERE IS SOMETHING DISRUPTIVE IN THE KINGDOM OF SEARCH ENGINES AND CLASSIFIEDS”

In a global perspective, how do you envision the future of such services? Do you believe we could see something entirely new emerge again?

We can see the evolution of consumption patterns on YouDo.com. We also see that we are becoming a significant job seller to people. In short, I’m sure that the old ways of consuming services are outdated.

Let me give you an example. Let’s imagine that you are looking for a plumber or a foreman for a home improvement job. What will you use to search for them – search engines, classifieds or you will ask your neighbors for recommendations? All this is time-consuming. You have to spend considerable time on various listings and call many potential providers to ask about availability and pricing. Very few of these providers will offer background checks, transaction histories, insurance and so on.

The new way to consume services is simply to declare what you need and add a few criteria (time, price, location). It takes you around a minute to fill in the necessary fields – and that's it! You can go play football, drink beer or spend time with your family. Within a short time, you’ll get a number of offers with prices, verification status, consumer reviews, etc. And there’s no pressure to call, you can reply to them at your earliest convenience.

For service providers, it's a great opportunity to earn additional money. No need to get a payday loan and pay crazy interest on it. For some people, it’s becoming the main source of income. We already provide jobs to tens of thousands of people every month and this service is growing like crazy.

We collect lots of data. Big data and artificial intelligence are at the core of the matching system, which we call “the magic box.” This represents something disruptive in the kingdom of search engines and classifieds.

But how can this “magic” operate? Where do you find enough relevant and reliable data about these individual service providers?

First of all, we collect the maximum available information on service providers and clients and chart their behavior, habits, etc. This helps us create personalized forecasts and predict user behavior.

What differentiates us from other companies that also use big data and artificial intelligence is that we have lots of information about users’ offline behavior, not just online. Service providers use our app in the course of a day and we know a lot about them.

Does a Russian startup have a chance to compete with established giants on the global market?

There are not many examples of Russian companies becoming truly global, but there are many examples of companies with Russian founders and Russian brains doing exactly that.

I see the entrepreneurial spirit growing in Russia, and it’s just a matter of time before we’ll see global companies being launched there. One likely venue is the cryptocurrency market, where Russians are very active.

OSKAR HARTMANN: “I HAVE BEEN ABLE TO BUILD MANY BUSINESSES HERE ASSUMING THAT EVERYTHING WOULD BE THE SAME IN RUSSIA, JUST A LITTLE BIT LATER”

Born in Soviet Kazakhstan, Oskar Hartmann emigrated to Germany as he was still a child. In 2008, at the age of 27, he moved to Russia with the aim to launch his first business. He founded KupiVIP, Russia’s first flash-sales fashion site. Supported by international investors, and taking advantage of the opportunities of the Russian consumer Internet at its early days, the site became one of Russia’s most notable online success stories. Hartmann subsequently involved himself in a variety of new projects, asserting himself as a top figure of the Russian tech entrepreneurship scene.

Back in 2008, why did you decide to launch a startup in Russia — rather than Germany where you came from, for instance?

The main reason for moving to Russia was that I was so happy in Russia, I love Russia so much, so I wanted to live in Russia. The question of what I should do in Russia came second. I wanted to build a business where I live, as I became a father, so I decided to build a business in Russia.

How did the Russian and the German ecosystems compare when you arrived in Russia — and now?

When I came to Russia, my first big kind of insight was that Russia was about let’s say 7-8 years behind Germany in the development in almost all the things related to the Internet. It was very easy to predict the future because my basic assumption was that Russia would do the next 5-10 years exactly the development stages which Germany had gone through from 2000 to 2007.

So, basically, for example, if you take the online fashion market in 2007, the entire German e-commerce market amounted to €16 billion euros with fashion accounting for 25% of it — €4billion!

At that time, the entire Russian e-commerce market didn’t even reach €4billion, and fashion was zero — just like in Germany ten years before. Then my assumption was: in the next five years, maximum ten, the Russian e-commerce will reach the same size as the German, and fashion will be also 25% of the e-commerce market. Everybody was saying: maybe Russia is special, people won’t buy fashion online. But for me the picture was clear — in China, the fashion was already growing; so why not in Russia?

Now, if you look at the 2016 numbers, the Russian e-commerce market reached around €16 billion, of which fashion accounted for €4 billion (in spite of the ruble’s huge depreciation in 2014). So, basically, Russia is now at the same point as Germany was in 2008. Further, if we consider that the German e-commerce market is now around €50 billion euros, we can predict what will happen in Russia in the next five years.

We may say the same about other segments: other e-commerce segments, dating, services… By number of users, Russia became the biggest Internet market in Europe in the early 2010s; and since the average age of Internet usage is growing, Russian e-commerce can expect a bright future.

Aren’t there any differences between Russia and other markets?

I didn’t focus on what is different in Russia, I focused on what is the same. Because focusing on what is different gives you no opportunities. But if you think Russia will be the same as Europe, you have a lot of opportunities.

Take another example, Blablacar. While it was already very successful in France, everybody believed this business model would never work in Russia, because Russia is this or that, but now Russia is becoming the biggest market for Blablacar.

OSKAR HARTMANN: “I HAVE BEEN ABLE TO BUILD MANY BUSINESSES HERE ASSUMING THAT EVERYTHING WOULD BE THE SAME IN RUSSIA, JUST A LITTLE BIT LATER”

And if you look at the top 100 business models in Russia — you have classifieds, mobile classifieds, car classifieds, real estate — these are basically the same as in Germany, France, the UK and Spain. Conversely, you can see that there is no really unique business in Russia that is successful there but would not exist anywhere else.

I was able to build many businesses because of the assumption that everything would be the same in Russia, just a little bit later. This assumption made investment decisions relatively easy.

Has the new international context since 2014 with the sanctions and counter-sanctions affected the Russian startup industry?

In the Internet sector, which has not been targeted by the sanctions, business operations haven’t been affected. Nothing has changed in building a business, attracting customers, solving problems, etc.

The only difference is access to capital. Basically, people are afraid to invest in Russia. Since there is no capital coming to Russia due to the sanctions, capital has become scarce and very expensive. What investors can get in terms of shares and rights is much-much higher than in Western Europe. And the return on capital is much-much higher in Russia. So, capital is very valuable.

Meanwhile, the quality of the businesses which are being created now is superior than in the past – and not only because entrepreneurs need to be cautious about capital. People used to believe that they could build a business and then sell it to Western European and US companies. So a lot of companies were built to be sold.

But this is no longer a good strategy, as acquisitions to enter the Russian market have become rare. So now companies are created to be developed independently, to become real businesses.

OSKAR HARTMANN: “I HAVE BEEN ABLE TO BUILD MANY BUSINESSES HERE ASSUMING THAT EVERYTHING WOULD BE THE SAME IN RUSSIA, JUST A LITTLE BIT LATER”

Overall, I think Russia has been very resilient to the sanctions. An amazing number of new companies have been created to produce locally, be it in food production or other segments.

How do you envision the future of the Russian startup industry?

I believe that Russia is perfectly positioned for the future. Historically, Russia was not strong in mass production. So, in the last industrial revolution Russia wasn’t among the biggest winners. But in the current industrial revolution, what was historically the weak sides of Russia is now being replaced by robots and computers.

Meanwhile, Russia has plenty of strong sides to leverage in this new revolution – from IT, to mathematics, to data science and creative problem solving. The Russians are absolutely amazing in these fields. There’s here an absolutely crazy number of teams and startups. The ecosystem is very healthy, not only in Moscow but in virtually all regions and all cities – even small ones. In such important fields as AI, you have absolutely the best infrastructure in the world to find talent.

How many digital projects did you launch in total in Russia?

I have been involved in more than twenty startups. I built or invested in companies essentially at the very early stage because I was a young entrepreneur, I didn’t have any capital.

What have been your best successes and worst failures?

Of course, we had big successes and failures as well. There are all kinds of reasons for failures. In one or two cases, customers didn’t really need what we offered. In other instances, we underestimated the resources required to build a business. We were trying to do more with less – which sometimes turned out to be impossible. So, basically, either the customer or the investors didn’t want to support the business. This was never due to regulation or government intervention. These were market forces — like everywhere else.

Do you have projects outside Russia?

In 2017 Igor Rybakov – one of the richest men in Russia (Forbes 117) – and I joined forces to launch a fund, Larix VC. It aims to align itself with the most active founders who believe in digital transformation. We are entrepreneurs ourselves, so we like to support people who are building similar things in other countries.

Thus, Larix VC invests in IT platforms globally, from Australia to the USA, closes deals quickly, and supports projects through its expert community. We invest at the early stage and up to Series B. The amount of the fund is $100 million of which no less than 20% is provided by the General Partners.

Tell us a bit about your non-profit activities.

I spend a lot of time on nonprofit work. I really love entrepreneurship, so I initiated or took part in various projects to support entrepreneurship. One of them is a foundation which provides scholarships to the most talented students who want to build their own business. Another one, Preactum, is a contest for student projects from all universities across Russia. It is open to both profit and non-profit projects. We also have leadership programs for people to increase their self-confidence, lower their fears of failure and find their team mates. Another organization, called R2, provides entrepreneurs with an independent board of advisers. It is for people who are already successful but want to grow their businesses ten times more. We also created entrepreneur networks and cooperate a lot with universities and schools.

One of our latest initiatives is the World Entrepreneurship Foundation, which was launched this year. This endowment fund gives funding to leadership programs around the world in order to develop entrepreneurial tracks inside leadership programs.

(December 2017)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AMID SCAMS AND FRAUD, A MOSCOW-BASED STARTUP AIMS TO LEVERAGE HUGE POST-ICO MARKETING BUDGETS

AB-CHAIN

RUSSIA

By Vladimir Kozlov, East-West Digital News

How will blockchain and cryptocurrencies impact the advertising industry? Rather than waiting several years to learn the answer, some entrepreneurs have already begun writing the next chapter in the history of advertising – an industry they hope will continue to be as receptive to technological innovation as it has been in the past.

The idea of introducing cryptocurrencies in ad networks came to Moscow entrepreneur Vladimir Dyakov just six months ago. Ad networks are among the prime specialties of this 37-year old former programmer, who has run several advertising and consumer loyalty projects for big Russian companies in previous years.

Dyakov had been thinking of launching an international project for some time and checked out various possibilities before turning his attention to blockchain and cryptocurrencies.

"I noticed that these technologies were generating a lot of traction around the world. I also saw the emergence of several interesting projects aiming to apply them to advertising," he says.

Dyakov also saw an opportunity in the fact that companies raising considerable amounts in cryptocurrencies through ICOs – some $4 billion in 2017 – would need to advertise their products. According to their investor documentation, marketing would account for up to 40% or even 50% of their planned expenses post-ICO, Dyakov noted.

Keeping these companies in mind, Dyakov launched his own startup, AB-Chain, aiming to create a platform that would allow advertisers to finance campaigns in cryptocurrencies.

The startup uses the blockchain technology, but sparingly. "We only apply what is most profitable in this technology and relevant to our case," Dyakov says.

Answering the objection that well-funded blockchain companies might still, after their ICOs, prefer to run campaigns using classic ad networks and classic payment means, Dyakov says that if they did so, these companies would hit a bump.

"As long as your advertising budget is $10,000 a month, you can exchange your bitcoins into dollars with a small conversion commission," he explains. "But if you need to convert, say, $1 million, the commission could go as high as 40% or more because the liquidity of the cryptocurrency market is low."

From immediate opportunity to long term strategy

The recent dramatic increase of cryptocurrency capitalization is excellent news for AB-Chain: when cryptocurrencies see their value grow five-fold, the value of the funds raised through ICOs and the subsequent marketing budgets also increase considerably.

Such revenues will not come immediately, however. "Startups that have just completed their ICOs will start spending on marketing a year from now, or even later," Dyakov expects. “Even those having already attracted substantial funding will have to test their product before selling it on the mass market, so it will take a while before they can become AB-Chain clients.”

Meanwhile, demand has emerged for ad campaigns at an earlier stage – to promote ICOs, with budgets in the hundreds of thousand dollars minimum per campaign.

Dyakov was not ready to seize this opportunity when it emerged, on an unexpectedly large scale, in early 2017. But AB-Chain aims to be among the first in early 2018 with the capacity to run ICO support campaigns – assuming the current ICO wave doesn’t end abruptly – whenever these companies have cryptocurrencies to spend.

AMID SCAMS AND FRAUD, A MOSCOW-BASED STARTUP AIMS TO LEVERAGE HUGE POST-ICO MARKETING BUDGETS

In the long term, Dyakov hopes to see the emergence of a full-fledged advertising market in cryptocurrencies. "In a slow but irrepressible trend, cryptocurrencies will penetrate the entire economy," he explains, citing Ethereum founder Vitalik Buterin. "And this will inevitably translate into ad budgets and ad offers in cryptocurrencies."

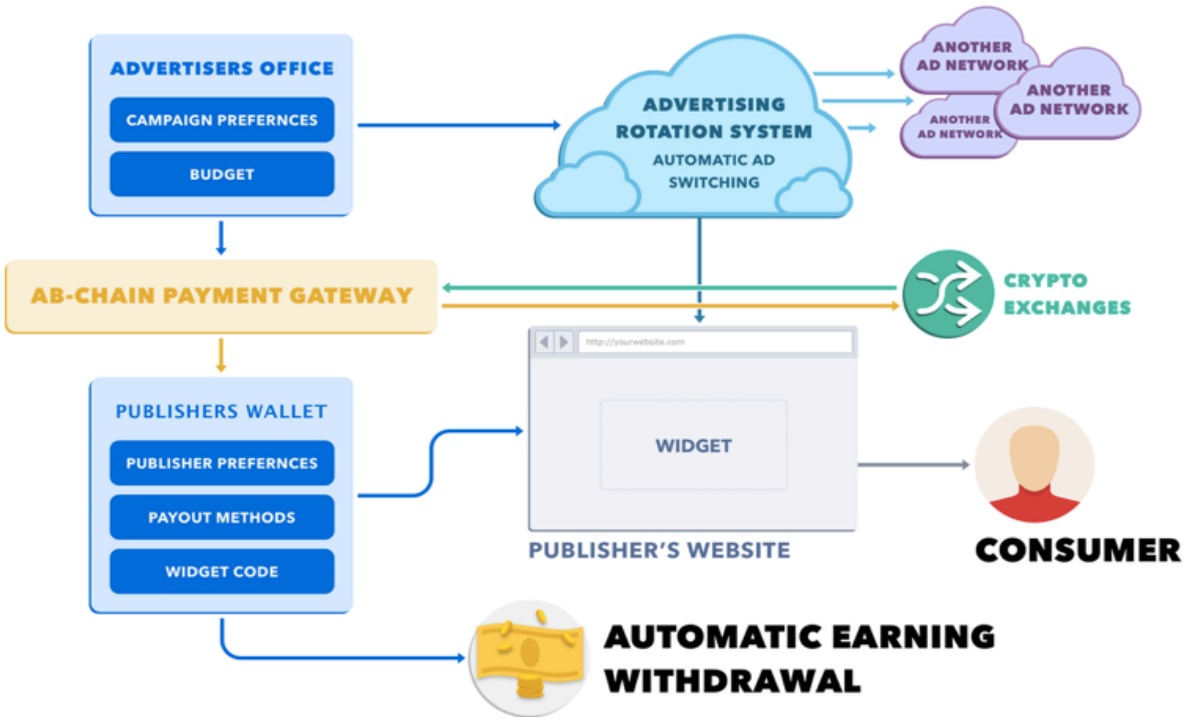
Dyakov concedes, though, that traditional ad networks will be slow to adopt cryptocurrencies as a means of payment. And this is leaving aside giants like Google and Facebook, which may not embrace crypto-currencies for years, until all the legal and regulatory details are settled.

Startup development amid fraud and scams

To bring his idea to life, Dyakov invited Russian industry professionals he had long known to join the startup. He has also attracted advertising and blockchain experts from as far away as the USA, France and Hong Kong to help fine tune the AB-Chain concept and develop the project.

Meanwhile, as AB-Chain moved from concept to execution, challenges began to arise.

"There's a lot of fraud among ad platforms," says Dyakov. "It's impossible to completely avoid scams when operating in this market, but it is possible is to minimize damages."



Read the full interview with AB Chain's founder Vladimir Dyakov

http://www.ewdn.com/files/cee_tokens.pdf

AB-CHAIN

AMID SCAMS AND FRAUD, A MOSCOW-BASED STARTUP AIMS TO LEVERAGE HUGE POST-ICO MARKETING BUDGETS

RUSSIA

To weed out dubious ad channels, AB-Chain goes beyond expert analysis and evaluation and invests small amounts of money in various ad platforms to test their efficiency. "The vast majority of ad channels generate a very low response, and we quit them. But when we see an effective channel, we continue investing in it."

AB-Chain successfully attracted funding at the pre-ICO stage, raising nearly $370,000 in September 2017.

But further funding might not be so easy, as the recent wave of ICOs has cast suspicion on the market.

"Scams and projects that are either unscrupulous or simply immature have been so frequent lately that ICOs have become controversial," Dyakov notes. "This is typical of any new market growing at light speed – but the shadow that has been cast over the industry affects even legitimate projects."

Dyakov also fears that cryptocurrency owners' objective capacity to invest in ICOs may have diminished: "After the ICO fever of 2017, they are left with more limited means for further investment; this situation will obtain until a new generation of crypto-investors emerges on the market."

To address the ICO image issue and enlarge the circle of potential investors, Dyakov has changed his fundraising strategy. "We will no longer talk about an ICO, but about a multi-channel and multi-format fundraising operation targeting crypto-investors as well as classic investors." These will include business angels and venture funds "as well as certain types of players from the advertising industry."

Welcome classic investors

Some of these classic investors are not fans of tokens, Dyakov says. "Individual investors or funds from outside the industry aren't familiar with the nuances of issuing tokens and increasing their value through blockchain mechanisms. Or, they might simply be formally unable to accept tokens in exchange for their fiat money," the entrepreneur acknowledges.

Thus in addition to issuing utility tokens that will circulate within its platform, AB-Chain will offer investors classic equity shares, yielding a part of the company's ownership.

"Many companies have started doing this without saying it openly. Behind their claims to raise millions in cryptocurrencies, a part of their ICOs rely on classic investors, sometimes using classic investment mechanisms," Dyakov says.

After its fundraising, which it hopes to complete in the first quarter of 2018, AB-Chain will develop its project at the global level. The startup's primary target markets are the United States and China. "More and more and campaigns are being rolled out in various countries, and this is particularly true in the field of high tech," Dyakov notes. "Many of our advertisers will need a global answer to their global needs."

Moreover, blockchain and cryptocurrencies might become the means to overcome traditional obstacles to entering certain markets.

"The Chinese market is promising, but the country's market regulator doesn't let Western advertisers fully operate on it. AB-Chain might become a game changer there," Dyakov observes hopefully.

(January 2018)

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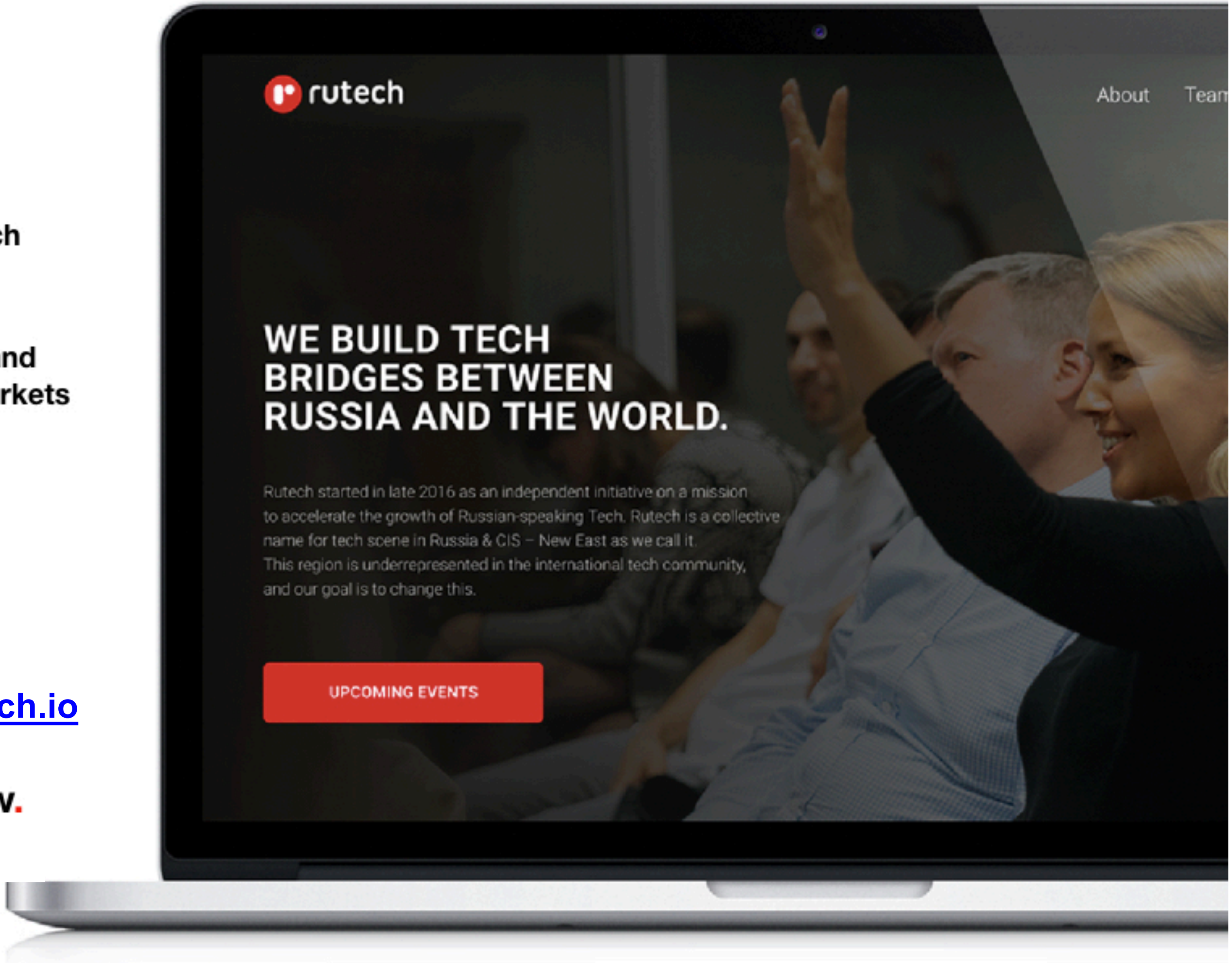


Rightech

RIGHTECH: HOW A SOVIET-BORN ENGINEER DECIDED TO CREATE “THE ANDROID OF IoT”

RUSSIA

By Adrien Henni, East-West Digital News

Rightech, a Moscow-based startup manned mostly by IT specialists from the central Russian city of Orel, is working on developing a platform for Internet of Things, which it hopes will become some kind of "Android of IoT".

Currently, Rightech provides IoT services, such as data storage, processing and transfer, as part of its IoT Cloud. This platform allows programmers to develop and modify IoT applications without even having any specific IoT skills or knowledge.

"Using the platform, companies can launch IoT projects in short terms and with a minimum number of employees, focusing exclusively on their idea," says Rightech founder and CEO Ilya Bykonya.

"Our goal is to open the gate to IoT to the highest possible number of companies.”

From Soviet legacy to tech entrepreneurship

Although Bykonya was just one year old when the Soviet Union collapsed, he in some ways benefited from the Soviet tradition of technical excellence. He attended advanced extracurricular physics and math classes at secondary school and later studied at Orel State University under Vladimir Vargashkin, currently a member of London institute of Physics.

While still at university, Bykonya, who self-taught programming at age nine writing code in a notepad without even having access to a computer, started working at GK Navigator, one of the leading telematics providers in Russia at the time, doing projects for the likes of oil and gas major Rosneft and agricultural machinery manufacturer Rostselmash.

Bykonya had dreamt of becoming a scientist since childhood but he was soon faced with a choice between academia and business. In his graduation year, he was doing an internship at iconic Soviet factory Orleks' special design bureau.

"Right in the middle of my internship, the bureau was shut down, which came as a shock to the entire city and to me personally," Bykonya recalls.

Choosing between a theoretical scientist's low-paid job and an engineer's career in business, Bykonya opted for the latter and stayed at GK Navigator. But as the company was cutting costs, providing little incentive for young and ambitious employees, Bykonya soon realized that he could develop his theories and bring his ideas to life only by becoming an entrepreneur.

The idea of an IoT platform came to him when he still worked at GK Navigator and found himself a supporter of "smart software" as opposed to "smart hardware" in the conflict of two engineering approaches.

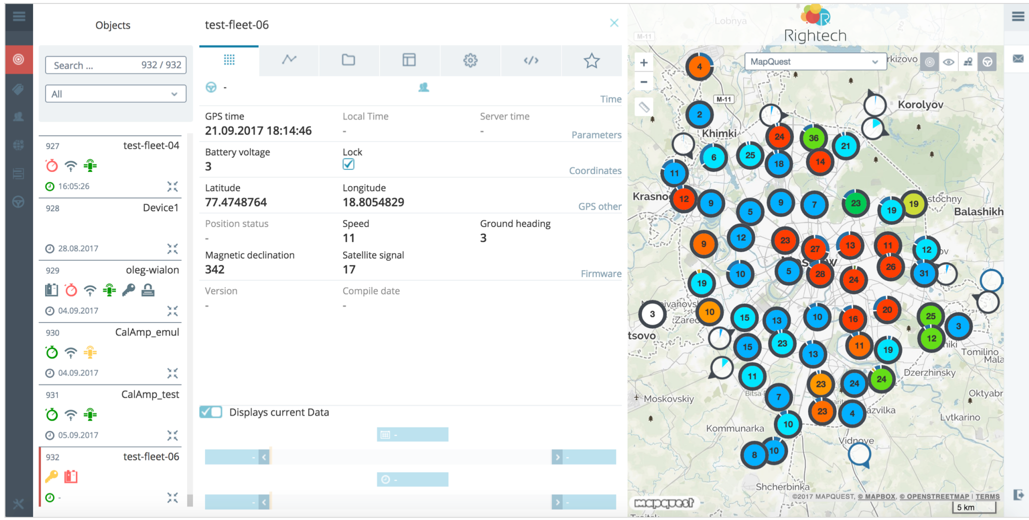
"The 'smart hardware' approach created huge problems for software developers because each modification even minor requires them to modify the code and update it on each device," he says. "These modifications tend to happen very often and distract developers from improving the technology."

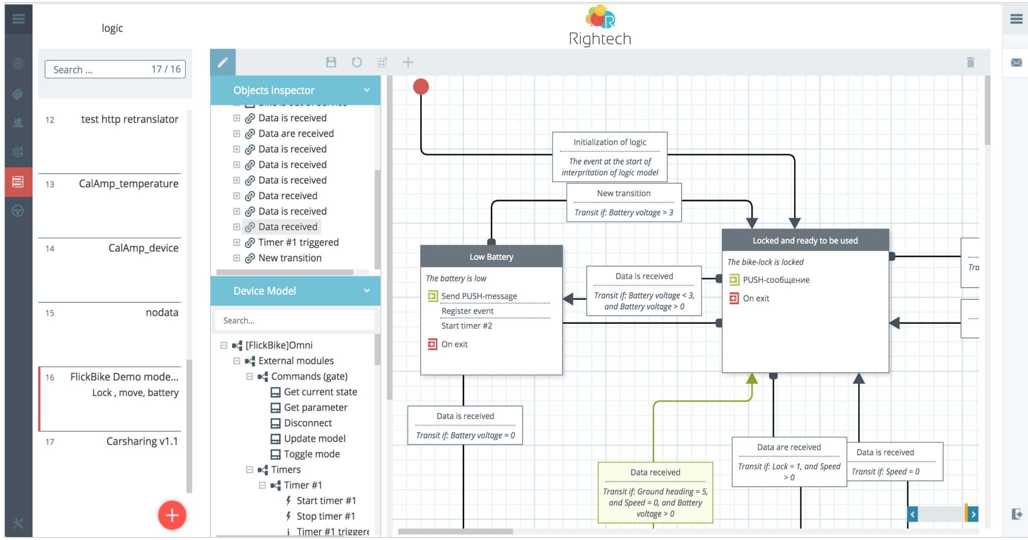
His idea was to develop smart and flexible software acting as a platform instead of an end-point solution, allowing developers to avoid massive routine work and to concentrate on developing and improving target user applications.

Rightech

RIGHTECH: HOW A SOVIET-BORN ENGINEER DECIDED TO CREATE "THE ANDROID OF IoT"

RUSSIA





Bykonya and a few other GK Navigator graduates moved to Moscow, where Rightech was founded in 2016.

Currently, the company employs 14 people, but plans to dramatically grow to just under 100 as soon as investment comes through.

Rightech's clients include two Russian car sharing services (Delimobil, the market leader, and Carenda, its young challenger), as well as EGGS TV, a provider of advert streaming in bars, restaurants and sport clubs. Pilot projects are under way for ALD Leasing and Sberbank Leasing (corporate car sharing) as well as with agricultural wholesale distribution center network RAM (objective control).

A seed investment of $300,000 came from Vincenzo Trani the founder of Delimobil.

The challenge of finding the right people

The main challenge Rightech faced was hiring. Although the core team was formed by Bykonya's former colleagues at GK Navigator, finding new members was far from a cakewalk.

"Experienced professionals required for IoT are very rare and expensive," says Bykonya.

The current lineup came about as a result of hours of university presentations and online and personal communication.

Rightech

RIGHTECH: HOW A SOVIET-BORN ENGINEER DECIDED TO CREATE “THE ANDROID OF IoT”

RUSSIA

Still, it is sometimes difficult for new member to adapt to the company's management style, which is based on every member’s expertise rather than traditional boss vs. subordinate hierarchy.

"Newer employees have difficulties adapting as they are used to relying on their accumulated authority in knowing some technologies or processes better than other team members," Bykonya explains.

"That puts them in a slightly stressful state until they learn to earn real authority by solving problems and cooperating to achieve mutual goals.”

In pursuit of 'the Android of IoT’

The first version of Rightech IoT Cloud is "very close to mature product", according to Bykonya, but the plan is to go much further.

"Our strength lies in Rightech’s protocol-agnostic connectivity and its accessibility to all developers regardless of their IoT skills. Thus the entry barrier into IoT is being lowered as never before, still making it possible, nevertheless, to develop sophisticated IoT applications," Bykonya says.

"Our weaknesses are data visualisation and analytics tools," he admits.

Responding to the issue, Rightech plans to add various data analysis tools based on neural networks and flexible data visualisation capabilities with freely configurable dashboards that are in high demand for IoT projects.

Other prospective features of Rightech IoT Cloud include automatic analysis of incoming data and finding new parameters, actions and events without participation of a human user, as well as active data storage based on self-analysis tools.

"The platform is not going to become an 'artificial intelligence' and its capabilities will not be comparable to the human’s," concedes Bykonya. "But it will definitely be comparable to an insect such as an ant. And you will be able to just set a development vector for it and it’ll find the best way by itself.

In the future, Rightech expects to focus on making available its platform as an online service and a universal IoT framework. The company will also support solution development and integration, “essentially for marketing purposes.”

"We’ll make special emphasis on promoting our technology among the programmers’ communities as we believe they have the most influence on decision making when it comes to fundamental technologies like frameworks," Bykonya concludes.

THIS RUSSIAN ROBOT IS ENTERING THE US MARKET AFTER AUTOMATING RECRUITMENT IN 220 RUSSIAN COMPANIES

RUSSIA

By Adrien Henni, East-West Digital News

Artificial intelligence tends to find applications in virtually every field today, and HR is no exception. A Russian startup called Stafory, launched two years ago with less than $10,000 in capital, has created a recruiting robot called 'Vera' ('faith' in Russian).

Stafory initially developed an online platform intended for companies to interact more efficiently with recruitment agencies.

Setting for itself the goal of "automating mass recruiting," the startup was not short of ambition.

"We aimed to offer an alternative to recruitment in the old-fashioned way, seeking to reduce the cost of hiring new staff, remove monotonous and routine tasks in HR departments, and speed up the whole selection process," Stafory's Chief Business Development Officer and co-owner Alex Kostarev explains.

Step-by-step, Stafory enhanced its platform towards more automation. The initial version, which Kostarev calls a marketplace, involved recruitment agencies to fill the vacancies manually.

Then Stafory set up a call center, replacing recruitment agencies with its own operators. Afterwards, resume download and search were automated.

The ultimate stage came in late 2016 with the introduction of artificial intelligence in the process. Automatic dialing was added with video interviewing conducted by Robot Vera.

The interview process is enhanced by Vera's virtual reality features and natural language processing capacities.

THIS RUSSIAN ROBOT IS ENTERING THE US MARKET AFTER AUTOMATING RECRUITMENT IN 220 RUSSIAN COMPANIES

1,000 recruitment calls every 5 minutes

"Hello! My name is Vera and I'm a robot". Nearly 1,000 applicants from all across Russia hear this sentence from Vera every five minutes; and hundreds of them are invited to an interview every day.

Vera goes along the recruitment chain, from search and selection of potential employees across the largest recruitment sites, to calls and invitation of suitable applicants, to a video or face-to-face interview.

Thus, Vera has learned to recognize emotions during video interviews.

"This capacity will help HR managers analyze applicants' emotional state, for example when they react to the mention of the company's brand," says Kostarev. Stafory claims that, thanks to Vera, recruiters can find candidates "ten times faster than a human."

Vera is not the only AI-powered recruitment solution, concedes Kostarev, who cites Arya, Call-em-all, Mya, Skillaz and VCV as examples in the global market.

"But the distinctive advantage of Robot Vera is that it participation in virtually all stages of the recruitment process, including the final interview."

First steps in the USA

In mid 2017 the Internet Initiatives Development Fund (IIDF, or FRII in Russian, the country's biggest startup fund) pledged to invest 50 million rubles (some $800,000) in the startup. The fund, which had already invested in Stafory twice, will increase its stake in the company to 32%.

The startup will use this money for R&D purposes and commercial development in Russia and beyond.

For the moment, the startup operates essentially in Russia, where it claims to serve some 220 customers. Among them is Pepsico, on behalf of which Vera made over 40,000 calls, sent 37,000 emails, and conducted more than 100 video interviews.

This past spring Vera debuted in the US market under the Wendy brand.

"We have conducted two pilot projects: one with a big taxi service-aggregators, Fasten, and another with the American subsidiary of the Japanese corporation NTT," says Kostarev.

All user scenarios were translated into English. Vera's performance is similar in the US and Russia.

In October 2017 Vera was distinguished at the Unleash (HR Tech World) startup competition held in Amsterdam, winning an award of €10,000.

Vera plans to land in China in 2018.

iidf

THE MOST ACTIVE RUSSIAN VC FUND AND ACCELERATOR

IIDF (Internet Initiatives Development Fund) is the most active early-stage venture fund in Russia and Europe, according to Dow Jones.

We have $100m under management, having closed since 2013 more than 367 deals ranging between $20k and $5.5m.

We invest in more than 100 startups every year, which accounts for 80% of Russia's early-stage venture capital market.

iidf.vc

iidf presents

Three bright Russian technologies that are turning heads around the world

★ Promobot's robots are designed to provide people with helpful information in crowded public places and entertain them. They can converse with people they meet and later remember their faces. They have been known to crack jokes and even flirt. They are already used in many countries, including Russia, the USA, the UK, China and Turkey.

Read more: http://goo.gl/t2aS72

★ Cinemood has developed mini cinema projectors for children. The flagship product, 'Storyteller,' is a cloud-connected mini cinema projector that can project content onto any surface. It features expertly curated content so that users can pick from movies, cartoons, audio stories, digital books and fairytale adventures. Mashable has featured it as one "the coolest gadgets for Generation Z."

Read more: http://goo.gl/bUHhfb

★ Data Matrix is a provider of software, data management and biostatistics services for clinical trials. Its solutions automate the processes of trials, with users managing and monitoring online the ongoing trials. Since 2009, Data Matrix has conducted 139 projects with pharma and biotech companies and CROs, allowing some of them to reduce R&D costs by 15%.

Read more: http://goo.gl/yqGxjY

SPECIAL RUSSIA SECTION SELECT ARTICLES

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This special country section enjoys the support of the Internet Initiatives Development Fund (IIDF), Russia's leading early-stage startup investment fund. www.iidf.vc

NASPERS ACQUIRES CONTROLLING STAKE IN AVITO.RU IN ONE OF EUROPE'S LARGEST STARTUP EXITS

EAST-WEST DIGITAL NEWS, OCTOBER 23, 2015

By Adrien Henni

Naspers announced today a $1.2 billion transaction to become the largest shareholder in Russia's leading online classifieds site Avito.ru — just weeks after the company aired its IPO plans. After buying shares from existing shareholders, Naspers will increase its stake from 17.4% to 67.9% on a fully diluted basis.

Kinnevik is selling its entire 31% stake to the South African giant for $846 million, and Accel Partner and Northzone are also fully exiting the business, Tech.eu has confirmed. The deal, which values Avito at some $2.7 billion, is one of the largest European VC-backed company exits ever.

Naspers expects to "strengthen its position as global leader in online classifieds."

"The Russian e-commerce market is expected to grow significantly, with more people gaining online access. Over time, ecommerce ratios should move in line with other large countries," said the group's CEO Bob van Dijk.

"We believe this deal is mutually beneficial, and, from our perspective, we welcome Naspers's very long-term view on Russia and especially on Avito", says Filip Engelbert, CEO and co-founder of Avito, who will retain his position.

The transaction is still subject to approval by the competent South African authorities. The acquisition may initially be funded from Naspers's existing cash resources and debt facilities, but the group stated that it is "currently evaluating suitable long-term funding alternatives" to avoid "increasing its existing debt profile in the medium term."

NASPERS ACQUIRES CONTROLLING STAKE IN AVITO.RU IN ONE OF EUROPE'S LARGEST STARTUP EXITS

EAST-WEST DIGITAL NEWS, OCTOBER 23, 2015

RUSSIA

A Russo-Swedish success story

One of the most successful Internet companies in Russia, Avito was founded in 2007 by Swedish businessmen Filip Engelbert and Jonas Nordlander. In 2011, Swedish investment company Vostok Nafta Investment, one of its early investors, called it the "real romance" of its portfolio.

In May 2012, Avito.ru secured $75 million from Baring Vostok Private Equity Fund IV and Accel Partners as well as from existing investors Kinnevik and Northzone.

In March 2013, Avito merged with its competitors Slando.ru and OLX.ru, creating the fifth most popular Russian website and one of the world's top classifieds websites. As part of the deal, valued at more than $570 million, Naspers — which owned Slando.ru and OLX.ru — invested $50 million in cash into Avito in exchange for a stake in the new group.

Over the past years, the company expanded into classifieds verticals and now is a leading player in five verticals: General Goods, Auto, Real Estate (including Domofond.ru), Jobs and Services.

The platform kept growing amid the crisis that hit the Russian economy in 2014-2015.

The company reported revenues of $76.5 million for full year 2014, up 76% from the previous year, with an EBITDA margin of 50.6%, Naspers announced. In the second quarter of this year, Avito's revenue reached 1.57 billion rubles ($24 million), up 47% in one year, Bloomberg reported.

By comparison, Avito's revenues amounted to just $8.5 million in 2011. The company was then valued at $158.73 million, according to the financial reports of one of its shareholders.

TNS estimated Avito.ru's monthly traffic at 25.7 million Russian users between 12 and 64 years of age in July 2015. More than 50% of Avito's traffic is now coming from mobile devices, compared to 32% at the beginning of 2014, according to Naspers.

Read the original story in East-West Digital News :
https://goo.gl/a3MiBb

MAIL.RU GROUP ACQUIRES ROCKET INTERNET' RUSSIAN FOOD DELIVERY BUSINESS FOR $100 MILLION

EAST-WEST DIGITAL NEWS, NOVEMBER 3, 2016

RUSSIA

By Adrien Henni

Today Mail.ru Group, a leading, LSE-listed Russian Internet company, announced the acquisition Delivery Club, the number one food delivery company in Russia owned by Rocket Internet's Foodpanda.

The Russian group is acquiring 100% of Delivery Club for $100 million in an all cash transaction, with 90% of the amount to be paid in November and the remaining part in early 2017 for the remaining 10% of Delivery Club.

The deal is not subject to any third party approvals, stated Mail.ru Group, which will fully consolidate Delivery Club.

"While Mail.Ru Group has the lead in the Russian mobile space, the acquisition of Delivery Club further enhances our mobile offering. The Food delivery market continues to show steady growth and the combination of our network, resources and expertise with the leading market position of Delivery Club will allow us to take this business to even further success," Mail.ru Group Chairman and co-founder Dmitry Grishin commented.

"Transitioning our business to Mail.Ru Group, a local internet market leader, allows foodpanda to focus more on the expansion in the Asian, Middle Eastern and Eastern European markets, solidifying and expanding our leading market positions," stated Ralf Wenzel, founder and CEO of Foodpanda Group.

Founded in 2012, Foodpanda has focused primarily on emerging markets, and operates under different brands in some regions, such as Hellofood in Africa, Latin America, and the Middle East, notes VentureBeat.

Early fundings and acquisition

Pioneering the Russian online food delivery business, Delivery Club raised $400,000 in 2009, followed by $1 million from AddVenture and prominent Russian businessmen in 2011, and another $4 million in a round led by AddVenture in 2012.

The Russian startup completed its fourth round of financing in December 2013, with $8 million secured from Phenomen Ventures — which also invested in Foodpanda — as well as from existing investors AddVenture and Guard Capital.

In June 2014, Delivery Club was taken over by Rocket Internet's Foodpanda and its affiliated brand Hellofood. The size of the transaction remained undisclosed, but the Russian media reported that it stood at around $50 million.

Delivery Club is now the leading player in the growing Russian food delivery market. The company claims that it has over 4,500 connected restaurants and generates 20,000 orders per day. The Delivery Club mobile app accounts for over 72% of these orders.

In H1 2016, Delivery Club's net revenues reached 296 million rubles (a little more than $4 million at the average exchange rate for that period). The business was "broadly EBITDA neutral," Mail.ru Group indicated.

Among the other recent moves on the Russian online food delivery market were, this past summer, the acquisition of a stake in ChefMarket.ru by Mitsui; and a $1 million funding round for Foodfox.ru. This round was led by Target Global, an international fund with Russian backers which had previously invested in related businesses Blue Apron, Delivery Hero and Lemoncat.

Read the original story in East-West Digital News :
https://goo.gl/ZdqTcg

HIGH TECH LENDER ID FINANCE SECURES $50 MILLION TO EXPAND ACROSS LATIN AMERICA

EAST-WEST DIGITAL NEWS, FEBRUARY 20, 2017

RUSSIA

ID Finance, a Barcelona-headquartered company with Russian roots, has just secured $50 million in debt funding to fuel its expansion across Latin America. The funding includes $15 million from TKB, a Russian bank which is supported by the EBRD and the IFC, among other backers.

After several years of operations in Russian-speaking countries, Spain and Poland, ID Finance launched its online lending service Moneyman in Brazil in December 2016.

The $50 million funding will be used to develop further this Brazilian business as well as to launch near-prime credit products and online POS-lending service in new countries of the region.

“We’re eyeing Columbia, Peru and Mexico, in particular,” the company’s Head of PR Dmitry Gorokh told East-West Digital News.

The Latin American online lending market has a huge potential, Gorokh believes.

“This region has about 630 million people, including 360 million with high-speed Internet access and 200 million smartphone users. E-commerce and online lending are growing as telecom services are becoming ubiquitous. The potential annual volume of online lending in Brazil alone could soon reach $7 billion,” he said.

In emerging markets there is “a massive structural consumer demand for credit [while traditional players tend to offer] highly uncompetitive financial services, making credit insufficiently available,” commented ID Finance co-founder and CEO Boris Batine.

ID Finance launched its Moneyman online lenduing service in Brazil in December 2016

ID Finance defines itself as a data science, credit scoring and digital finance business. Founded in 2012, the company relies on an advanced IT and risk management system, which “collects and analyzes thousands of data points in real time.”

The company uses alternative sources of data to target “a much larger portion of the population” than those usually applying for loans.

ID Finance reached breakeven in 2015 and claims to be the number one online lender in Russia and neighboring Russian speaking countries. It also operates in Poland, Spain and most recently Brazil, now issuing in total over 50,000 loans every month.

Read the original story in East-West Digital News : [*https://goo.gl/fWi2oF*](https://goo.gl/fWi2oF)

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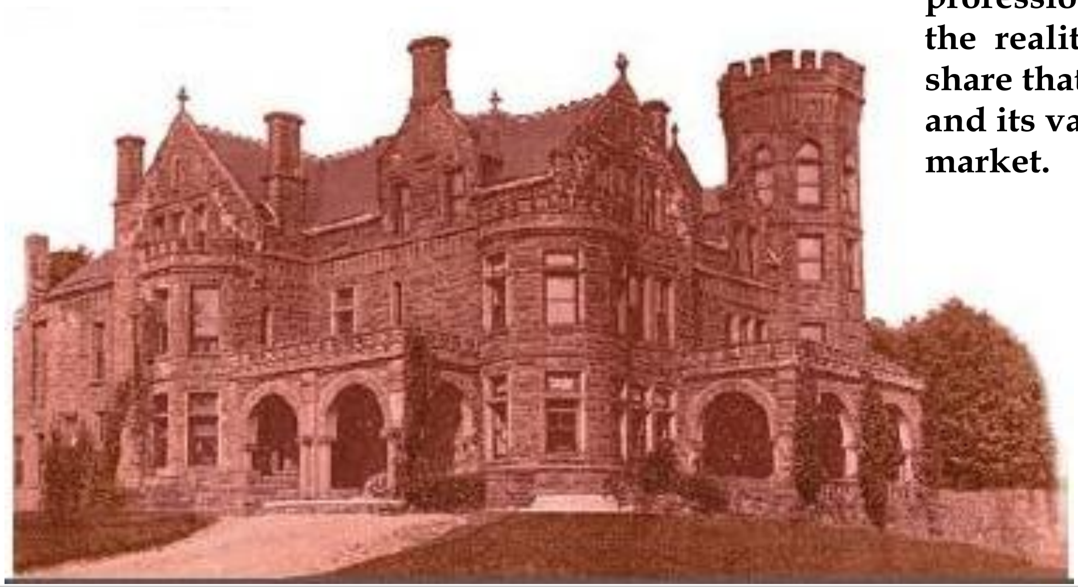

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MAIL.RU GAMES VENTURES

MAIL.RU GROUP ANNOUNCES $100 MILLION GLOBAL INVESTMENT PROGRAM IN ONLINE GAMING

EAST-WEST DIGITAL NEWS, APRIL 25, 2017

By Adrien Henni

Today Mail.Ru Group, an LSE-listed Russian Internet company, announced the creation of a new division to invest in game development, technology and marketing worldwide.

"Up to $100 million" is allocated to this investment program, of which $10 million has already been spent for the first deals, which have not been disclosed.

The group targets "accomplished game studios and publishers that need funding for scaling, as well as young game developers," using a variety of investment strategies from venture financing, to royalty investments, to acquisitions.

In addition to receiving funding, the partners will benefit from the global publishing opportunities offered by Mail.Ru Group and its internationally-oriented subsidiary My.com. They will also be able to "leverage [the group's] software solutions, extensive analytics and unique marketing opportunities on a global scale," said Ilya Karpinsky, Director of Games Investment Division at Mail.Ru Group.

A sizeable player on the global gaming scene

Mail.Ru Group opened its own game division back in 2007. "We united top Russian gaming studios and teams and became the number one gaming business in Russia with an almost 45% share of local gaming market," Karpinsky told East-West Digital News.

Thus at that time the group acquired controlling stakes in Nival Online, IT Territory, TimeZero, and NIKITA which were merged into the Astrum Online Entertainment and ultimately organized as the group's gaming unit.

Now Mail.Ru Group's portfolio includes more than 50 MMOs, social and mobile games. Among the most succesful ones are Skyforge, Legend: Legacy of the Dragons, Allods Online, Lovely Farm, Evolution: Battle for Utopia, Jungle Heat, Warface, ArcheAge, Perfect World and others.

According to Karpinsky, the group's games attract a total audience of more than 95 million users all over the world, the better part coming from Russia and Russian-speaking countries, Europe and North America.

In 2016, the company's MMO games revenue grew 21.2% year-on-year to 11.39 billion (some $170 million) on a pro forma basis.

Mail.Ru Group's latest investment in the gaming industry took place in October 2016 with Pixonic, a Moscow-based mobile game developer and publisher, being acquired for $30 million.

Last month Alibaba teamed up with Mail.Ru Group among other partners to establish the "Global Strategic Alliance of Game Distribution." The alliance aims to enhance mobile game distribution between China and Russia, Europe, Japan, the Middle East and the USA, and to optimize local users' gaming experience.

Read the original story in East-West Digital News :
https://goo.gl/HMMfji

3 DEALS IN 6 MONTHS: MAIL.RU GROUP CONSOLIDATES RUSSIAN FOOD DELIVERY MARKET

EAST-WEST DIGITAL NEWS, MAY 2, 2017

Today the LSE-listed Russian Internet group Mail.Ru Group announced the acquisition of food delivery startup ZakaZaka. This is an all-cash transaction which values ZakaZaka at $20 million. Signed on April 28, the deal is not subject to any third-party approvals.

With 2,600 connected restaurants and 126,000 orders in March 2017, ZakaZaka claims to be the number two player in the Russian food delivery market. Its revenues amounted to 56 million rubles in 2016 ($835,000 at the average exchange rate) and grew to 30 million rubles (a little more than $500,000) in the first quarter of this year.

ZakaZaka's mobile app accounts for over 87% of total orders.

In November 2016, Mail.Ru Group announced the acquisition of Delivery Club, the market leader in Russia, previously owned by Rocket Internet's Foodpanda. The company was fully acquired for $100 million in an all-cash transaction.

"[The acquisition of] Delivery Club proved to be a successful [move]: Delivery Club has displayed very significant growth in all operating metrics," said Dmitry Grishin, Mail.Ru Group co-founder and Chairman of the Board.

Through this acquisition, Mail.Ru Group also got a minority stake in ZakaZaka, of which Delivery Club was a shareholder at that time. After increasing its stake to 9.91% in March 2017, the group is now acquiring the remaining 90.09%.

In December 2016, Mail.Ru Group took part in a $1.6 million round of funding for Instamart, a Moscow-based startup that organizes food deliveries from offline retail outlets.

Last year also saw the acquisition of a stake in ChefMarket.ru by Mitsui; and a $1 million funding round for Foodfox.ru. This round was led by Target Global, an international fund with Russian backers which had previously invested in related businesses Blue Apron, Delivery Hero and Lemoncat.

Read the original story in East-West Digital News :
https://goo.gl/DW3MaQ

UBER AND YANDEX.TAXI TO MERGE IN EASTERN EUROPE INTO A $3.7 BILLION COMPANY

EAST-WEST DIGITAL NEWS, JULY 13, 2017

Yandex.Taxi, the taxi service of Russian Internet giant Yandex, and Uber have agreed to merge their businesses in Russia and neighboring countries Azerbaijan, Armenia, Belarus, Georgia and Kazakhstan. Should it receive regulatory approvals the transaction is scheduled for completion in late 2017, stated Yandex.[1]

“This deal is a testament to our exceptional growth in the region and helps Uber continue to build a sustainable global business,” Pierre-Dimitri Gore-Coty, Uber’s chief for Europe, Middle East and Africa, said in a separate statement.

The deal may also appear as Uber’s second retreat from a major market globally. Last year, Uber left China in exchange for a 17.5% stake in rival Didi Chuxing, after losing more than $2 billion battling its competitor. The US giant needs to improve revenue, narrow losses and resolve its legal issues, notes Bloomberg.

As part of the deal, Uber and Yandex intend to invest $225 million and $100 million respectively, in the new entity, valuing it at $3.725 billion on a post-money basis.

On a pro forma basis, Yandex will own 59.3% of the combined company, Uber will own 36.6%, and employees will own 4.1%. The two teams will be integrated with Tigran Khudaverdyan, the current Yandex.Taxi CEO, managing the new entity.

The combined company will cover 127 cities across the covered countries. The two services provided 35 million rides in the month of June, generating $130 million of gross bookings, according to Yandex.

“Seamless global roaming”

In a practical perspective for end users, the Yandex.Taxi and the Uber apps will operate as before. Users of both apps will enjoy “seamless global roaming” across the two platforms: for example, “an Uber user arriving in Moscow from Paris will be able to order a Yandex.Taxi straight from their Uber app.

“This creates one of the most convenient ride-sharing roaming agreements in the world!” claims Khudaverdyan.

Meanwhile, the driver apps will be replaced by a unified platform, allowing drivers to receive orders both user apps. “This combined driver platform will significantly increase the number of available cars, reduce passenger wait time, and boost vehicle utilization,” expects Yandex. “Drivers will be able to perform more trips per hour while passengers will continue to enjoy affordable prices.”

The new company will also operate the UberEATS service in the region. “We will bring together the great international expertise of the UberEATS team and Yandex’s expertise in mapping and pedestrian navigation to improve on the logistical complexities of online food delivery,” Khudaverdyan stated.

Russian brains for next-gen transportation technologies

The merged entity will benefit from Yandex’s technology assets in the field of transportation, which are not negligible. Over the past decade Yandex — which started operating in the mid 1990s, even before the inception of Google in the USA — has developed advanced navigation and mapping technologies.

1. The merger was cleared in Nov. 2017 and completed in Feb. 2018

UBER AND YANDEX.TAXI TO MERGE IN EASTERN EUROPE INTO A $3.7 BILLION COMPANY

EAST-WEST DIGITAL NEWS, JULY 13, 2017

To make taxi drivers' life easier, Yandex claims to have made "several significant leaps in our routing and ride-assignment algorithms" over the past year, having thus "significantly increased vehicle utilization."

"For example, now, during rush hour, drivers can perform 30% more trips than before. Unifying our drivers platforms will create an even greater opportunity to improve the quality of our services and further boost vehicle utilization," according to Khudaverdyan.

Last year the Russian company was reported to have built its Yandex.Navigator service into some Toyota and Honda cars, aiming to provide these and other car manufacturers with better-adapted products for the Russian market.

Yandex also announced projects for the truck industry, including the development of AI assistants for drivers and of a driverless minibus shuttle.

Just weeks ago, Yandex.Taxi unveiled the prototype of an autonomous car project, presenting it as "a step towards a comprehensive set of driverless technologies for application across a wide range of industries." The prototype incorporates Yandex proprietary technologies in the fields of mapping, real-time navigation, computer vision, object recognition, and others.

A competitive market

The size of the Russian taxi market is subject to various estimates, from $3-4 billion (Gett), to more than $8.4 billion last year (VTB Capital data cited by Yandex). Informal rides by "gypsy cabs" account for an additional volume of some $1.9 billion, believe government experts cited by Yandex.

Uber arrived in Russia in 2013, but began developing there actively only in 2015. While visiting Moscow two years later, its Vice President Ryan Graves underlined the importance of Russia in Uber's strategy.

Yandex.Taxi was not the only competitor of the US giant on the Russian market. Gett, a global player launched in Israel in 2011, covered nearly 70 Russian cities as of late 2016.

In September 2016, the company announced a $100 million investment plan until the end of 2017 to cover new Russian cities, aiming to control 50% of the Russian market. Two months later, the company received a $100 million loan facility from Sberbank — which is a partner of Uber and even one of its shareholders via Sberbank's venture arm SBT Venture Capital.

Smaller players are also in the running. One of them, the taxi service Takeit, received $2 million from Russian business angels in early 2016. Traditional taxi booking services should be mentioned too. Maxim, a leading player, operates in more than 130 Russian cities, according to media reports.

Read the original story in East-West Digital News :
http://goo.gl/Wenvsr

FROM INTERNATIONAL SANCTIONS TO MISMANAGEMENT: HOW WIKIMART.RU WENT BANKRUPT AFTER RAISING DOZENS OF MILLIONS FROM INTERNATIONAL INVESTORS

RUSSIA

EAST-WEST DIGITAL NEWS, JULY 6, 2017

By Adrien Henni and Vladislav Shirobokov

Last month this Russian B2C e-commerce marketplace shut down, putting an end to a long agony. Launched in 2008 by Stanford graduates Maxim Faldin and Kamil Kurmakaev, Wikimart had the initial ambition to create a Russian analog of eBay.

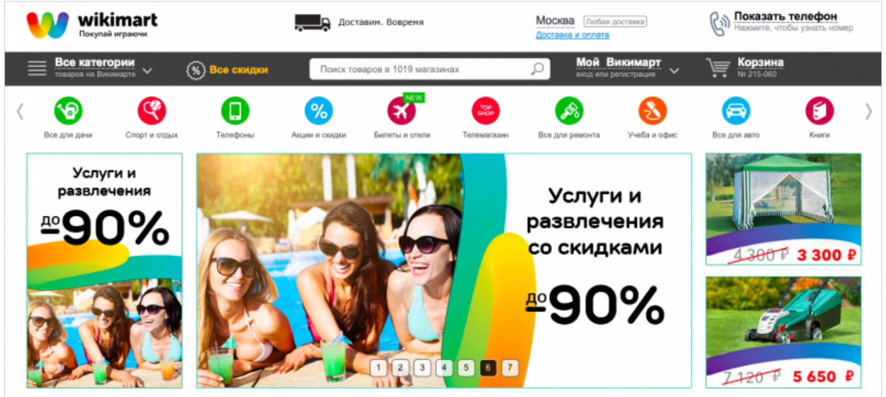
The project was heavily funded by Western investors, with Tiger Global Management investing some $30 million in total in 2010, 2011 and 2012. Business angels Fabrice Grinda, Chris Herndon and Jonty Kelt also backed the startup at an earlier stage, in 2009.

Russian investors joined later with substantial contributions, investing more than $52 million starting from 2012. The latest investment, led by Finprombank chairman and co-owner Anatoly Goncharov, took place in September 2014 after Wikimart failed to attract Western money again.

India more appealing than Russia

This failure was directly related to the international political climate, claimed Faldin at that time:

“Goncharov was a minority shareholder with 15%, while Tiger had about 50%, and they were actually leading the development strategy. It was necessary to develop the business, to invest in it. (...) In July we agreed on everything — but the Boeing fell in the southeast of Ukraine and the world changed. Only 12 hours after the fall of the Boeing, I had a conference call with New York and they said: ‘We can no longer fund the company, do whatever you want.’ We sat for two months without money and with wage arrears.”



Big discounts on entertainment services were not enough to save the Russian marketplace

“Then, when I arrived in October to New York, I learned that Tiger Global was raising a huge investment round, and their main investors were representatives of the Republican Party. It all became clear. On the same day, they clinched a $1 billion deal in India.”

There was no plot against doing any business with Russia, though: “It was rather a question of the business environment: somewhere at a cocktail party someone said something. You’re not going to risk rounds worth billions in order to invest an additional $15 million in Russia, which then will bring you $50 million,” Faldin said.

Commercially, the company seemed to develop successfully in the first years on the young Russian e-commerce scene. With thousands of affiliated merchants, the platform’s turnover neared $130 million in 2013, according to data cited by Oborot.ru.

FROM INTERNATIONAL SANCTIONS TO MISMANAGEMENT: HOW WIKIMART.RU WENT BANKRUPT AFTER RAISING DOZENS OF MILLIONS FROM INTERNATIONAL INVESTORS

EAST-WEST DIGITAL NEWS, JULY 6, 2017

Acquiring loss-making assets

However, the company never broke even, although Faldin hoped this goal could be reached by the end of 2015. This situation is no exception on the Russian e-commerce scene.

In September 2014, Wikimart bought two retailers — Terminal.ru and Mallstreet.ru — to strengthen its offline presence in the regions and use Terminal.ru's warehousing.

Thus the company inherited a number of offline points of sales — but these were "all terribly unprofitable," conceded Faldin, who soon after the acquisition was "thinking of what to do with them."

In the autumn of 2015, Wikimart launched its first 24/7 offline warehouse stores in Moscow and Novosibirsk, which walked back from the twenty-four-hour service in early 2016. Simultaneously, the company built a network of Wikimart's pickup points called "Wikimart express."

Meanwhile, Wikimart began developing sales under its own brand, in addition to its traditional marketplace function. The company pivoted even further, announcing its new positioning as an "online commercial and entertainment center."

In the spring of 2015, to implement the new strategy, the company hired a new general manager, Andrey Klenin, a former executive from leading Russian e-commerce company Ulmart. Faldin kept a seat on the board of directors.

The new strategy did not work well, however, with several key executives leaving the company in 2015 and serious financial issues appearing in 2016. Soon after Finprombank went bankrupt in September 2016, Wikimart stopped paying salaries in time.

Unpleasant truths

On December 16 Faldin told unpleasant truths to Wikimart's employees on his Facebook page. According to him, Wikimart practically did not exist anymore:

"After almost a two-year break, I have spent two days at the company. Majority shareholders abandoned it. The company does not have assets to save and competencies to preserve. Twenty months of my absence have allowed the "professional" top managers to kill the company using the money of rich oligarchs. They have spent (in rubles) twice (!) more than we, Kamil Kurmakaev and I, spent since the company's inception in 2008 till August 2014. And EVERYTHING has been lost or stolen — mostly lost."

As a matter of fact, the company's offices in Moscow and several other cities shut down during the winter, while legal procedures revealed that Wikimart was in debt to suppliers, contractors, and landlords.

Even though the company is not formally bankrupt today, Wikimart.ru has stopped all online activities, while its central office has been sealed, reports Oborot.ru.

Faldin did not answer EWDN's questions.

FROM INTERNATIONAL SANCTIONS TO MISMANAGEMENT: HOW WIKIMART.RU WENT BANKRUPT AFTER RAISING DOZENS OF MILLIONS FROM INTERNATIONAL INVESTORS

EAST-WEST DIGITAL NEWS, JULY 6, 2017

RUSSIA

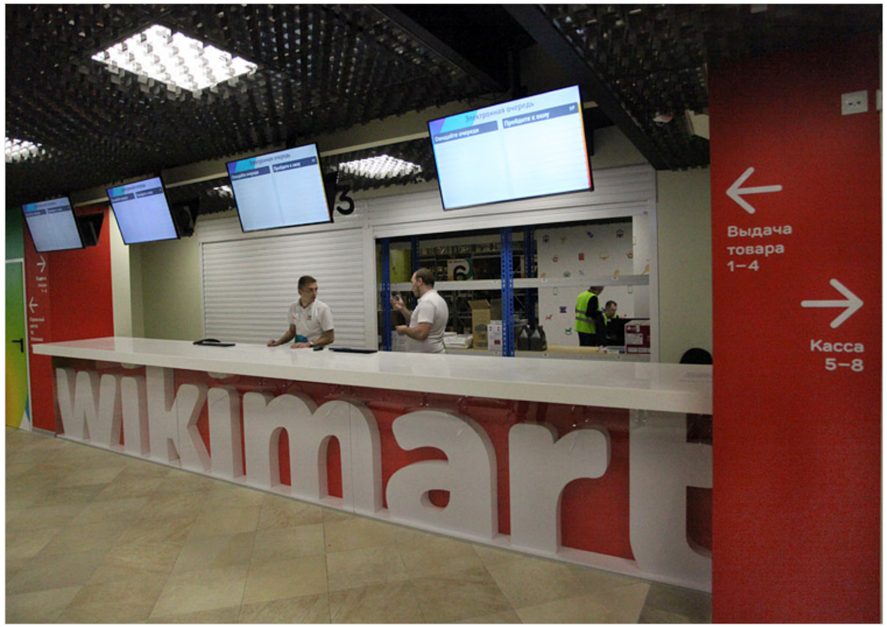
The highs and lows of market leaders

Wikimart is not the only Western-funded Russian e-commerce having experienced difficulties recently. Oktogo, an online travel agency which received nearly $40 million in total since 2010 from Mangrove (Luxembourg), Ventech (France), ABRT (Russia) and MCI (Poland), also went bankrupt earlier this year.

Ulmart, a St. Petersburg-based company with a pioneering online-offline concept, was Russia's number one e-commerce company in 2015. That year, its total sales exceeded $1 billion, including almost $600 million in online sales. However, the company's IPO ambitions have been made irrelevant by a disastrous shareholder dispute under both Russian and international jurisdictions, not to mention legal procedures initiated by dozens of creditors. Among Ulmart's key shareholders is American-born businessman August Meyer. The Ulmart press service did not answer EWDN's questions.

Exist.ru, a Russian online retailer of car parts, was also affected by a shareholder conflict until this past spring. The company is now owned by one single shareholder, Evgeniya Nazorova, following a transaction which has valued the company at just $42 million, according to Kommersant. Exist was ranked number one e-commerce company in 2013.

Crippled by debts, Enter.ru, an online-offline network launched in 2011 under a $300 million investment plan, was at agony six months ago. After a seemingly successful start, the company was affected by the insolvency of its main shareholder Maxim Nogotkov among other factors. In March 2017 an unnamed Russian investor from the e-commerce industry pledged to rescue the company with a 300 million ruble investment (approximately $5 million) before the end of this year.



Russian e-commerce still growing fast

Fashion retailer Wildberries, which was the number one Russian e-commerce player last year, and Citilink.ru, which sells electronic devices, are widely regarded as being currently among the country's most successful companies.

Petrovich.ru (DIY) and Vsemaiki.ru (fashion items) are among the fastest-growing sites.

FROM INTERNATIONAL SANCTIONS TO MISMANAGEMENT: HOW WIKIMART.RU WENT BANKRUPT AFTER RAISING DOZENS OF MILLIONS FROM INTERNATIONAL INVESTORS

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EAST-WEST DIGITAL NEWS, JULY 6, 2017

Ozon, one of the most established players in the industry, is not profitable yet, but its growth has continued amid the economic crisis over the past few years. The company has been supported by a $150 million capital injection in 2014.

KupiVip, Russia's leading flash sales platform backed by Western investors, became profitable in 2015. However, its sales revenues decreased by 9% last year, according to independent estimates.

Lamoda.ru, a Rocket Internet creature launched in 2011 (now part of the Global Fashion Group – GFG), made huge losses during the first years, but recently improved its financial performance. In 2016, the site's sales grew by 39%, according to independent estimates.

On their side, offline retailers, both domestic and foreign ones, are investing massively in e-commerce. Thus IKEA recently launched online sales in Russia while Leroy Merlin opened a 100,000 sq. m. warehousing facility on the outskirts of Moscow – the largest retail distribution center in Russian history – to serve its fast-growing offline and online activity.

According to EWDN's Russian E-Commerce Report, online sales in 2016 exceeded $26 billion, growing more than 20% year-on-year. Included in this figure are some $16 billion for physical goods and $10 billion for online travel, according to Data Insight. The cross-border segment is the fastest growing, up 26% by value and 80% by number of parcels and small packages, and exceeded $4 billion for physical goods alone, according to Russian Post and industry association NAMO.

Read the original story in East-West Digital News :
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FROM "BRIGHT FUTURE" TO RETREAT: HOW 500 STARTUPS' RUSSIA PLANS WERE IMPEDED BY GLOBAL POLITICS

EAST-WEST DIGITAL NEWS, JANUARY 18, 2017

500 Startups, a prolific US seed fund and accelerator investing globally, has run into some setbacks in its international-fund ambitions, Wall Street Journal reported earlier this month.

The fund has pulled back from investing in China, put its Nordics and India fundraising on hold, and dropped plans for a Russia and Eastern Europe fund.

Members of the 500 Startups team interviewed by the US newspaper attribute these setbacks to geopolitical and economic factors as well as strategy reasons.

A few years ago, 500 Startups founder David McClure was a firm believer in Russia's high tech potential. "The market looks pretty f…ing good in Russia for the next ten years. So the future is f…ing bright! Time to buy sunglasses!," he stated in a Moscow event in 2012.

In September 2015, the fund announced new investing partners to invest in several new countries of the world, including Russia and Eastern Europe along with Japan, Germany, Israel and Turkey.

Diana Moldavsky, who previously worked with a successful Russian game publisher, joined the organization as Investment Partner covering Eastern Europe, Russia/CIS, Israel, Central Asia.

"Markets in the Eastern European region are still underserved at the seed stage. There are many top tech universities and as a result top level talented technical folks but not as much business expertise, experience building global businesses or doing business internationally," Moldavsky stated at that time, saying she will "help fix this by bridging the continents."

Since then Moldavsky has left the fund, while sanctions imposed on Russia and related political events have put a damper on the 500 Russia plan, McClure said to WSJ.

"You can't control for global politics all the time," he added.

500 Startups was initially formed as a general fund investing globally. More recently it began launching microfunds, focused on a geographic region. Six foreign microfunds have been raised to date, in Southeast Asia, Latin America, Thailand, Japan, South Korea, and Turkey.

Additional microfunds are planned in Canada and the Middle East, and 500 Startups is raising second funds for Southeast Asia and Latin America, WSJ reports.

Read the original story in East-West Digital News :
https://goo.gl/hDpgbt

U.S. VCs STEER CLEAR OF RUSSIAN STARTUPS

CRUNCHBASE, NOV. 15, 2017

RUSSIA

By Joanna Glasner

About six years ago, a number U.S. venture investors were bullish about Russia's startup scene. Well-known VCs like Accel and Intel Capital led rounds for emerging Russian Internet brands. Cisco also targeted the region, backing a fund focused on Russia and Eastern Europe. In 2012, the peak year for cross-border deals, U.S. VCs backed nearly 50 rounds for Russia-based startups.

But that was then. More recently, U.S. investment in Russian venture deals has slowed to a halt. No Russian startups have disclosed venture rounds with U.S. investors so far this year, according to Crunchbase data. Most of the big name firms active early in the decade haven't done a new deal in years.

There are plenty of developments in recent years to dampen U.S. investor enthusiasm. Their exodus coincides with the imposition of U.S. and European sanctions tied to Russia's military interventions in Ukraine. It also coincides with the beginning of a protracted collapse for the Russian ruble, tied to sanctions as well as falling oil prices. During that time, Russia's economy also slipped into recession.

Yet while it may be explicable, the shift in U.S. investment is nonetheless dramatic, and it contrasts with patterns for Russian VCs investing in U.S. startups. As we reported previously, Russian investment in U.S. startups has fallen from peak levels, but still numbers a few dozen deals a year, roughly half peak levels.

To put some perspective on the state of U.S. venture investment in Russia, we take a look below at the brief history of deal-making, touch on major investments, and look at the current funding environment.

How it was

There was a time when U.S. venture firms found much to like about a new generation of Russian Internet startups emerging as regional category leaders.

During the peak two years for cross-border investment, U.S. investors participated in at least 82 funding rounds for Russia-based startups, according to Crunchbase data. The largest funding recipients were principally Internet companies, including fashion e-tailer KupiVIP, online used car broker CarPrice.ru, and classified ad platform Avito.ru.

As mentioned, prominent venture firms participated in many of these financings. Intel Capital, the largest U.S. corporate VC, was an investor in ten funding rounds for Russia-based companies between 2010 and 2014, according to Crunchbase data. (Since then, it's done zero.)

Accel backed large rounds for three of the most heavily funded internet companies: hotel booking site ZenHotels, along with KupiVIP and Avito. (Avito later sold a majority stake to Naspers in 2015 for $1.2 billion.)

Other well-known U.S. firms that did one or more deals include Bessemer Venture Partners (KupiVIP, Enforta) and Summit Partners (Lamoda).

Perhaps the most active, and one of the earliest entrants into the market, is Almaz Capital, which counts Cisco as a key backer, and has been investing in Russia and Eastern Europe since 2008. Almaz had an early hit with a 2009 investment in Yandex, the Russian language search engine. Yandex went public in 2011 and has held a market cap above $10 billion for the past few years.

U.S. VCs STEER CLEAR OF RUSSIAN STARTUPS

CRUNCHBASE, NOV. 15, 2017

RUSSIA

How it is now

This year, U.S. investors haven't shown much interest in Russian startups. Crunchbase recorded no traditional venture financings into Russia-based companies with U.S. backers. The closest thing was IXcellerate, a Moscow-based data center operator, which raised $15 million in convertible debt funding from Goldman Sachs.

Investors seem a bit more interested in Russian founders who scale their startups elsewhere. Almaz, for instance, hasn't listed any investments in Russia-based companies for a couple years, according to Crunchbase data. Currently, the firm said its strategy is to invest in promising entrepreneurs from Silicon Valley, the Baltics and Eastern Europe who "will be incorporated in western jurisdictions."

It's not just U.S. VCs who are investing less. The volume of investments in Russian companies that include a foreign venture or private equity backer fell by more than two-thirds from 2014 to 2016, according to the Russian Venture Capital Association.

Yet while private investors have scaled back, the Russian government's role in startup funding has grown. In 2016, the number of investments by venture capital funds totaled 210, up from 190 the prior year, RVCA estimates, though average deal sizes have been trending lower.

A more detailed analysis shows that state entities and entities under the government's umbrella ensure the deal flow from year to year, RVCA noted in its last annual report. In 2016, the group estimates that 28 percent of funding consisted of government money, and 45 percent through the Internet Initiatives Development Fund [a private venture capital fund which was launched following an initiative of President Putin – ed.]

THIS CHART INDICATES THE NUMBER OF DISCLOSED FUNDING ROUNDS FOR RUSSIAN STARTUPS THAT INCLUDED A U.S. INVESTOR, AS WELL AS THE TOTAL INVESTED IN THESE FUNDING ROUNDS. THE FUNDING TOTALS INCLUDE ALL INVESTORS IN THE ROUND, NOT JUST U.S.-BASED FIRMS.

U.S. VCs STEER CLEAR OF RUSSIAN STARTUPS

CRUNCHBASE, NOV. 15, 2017

RUSSIA

What next?

In the current geopolitical environment, the Russian government's heavy involvement in the startup funding space may be a double-edged sword for founders with global ambitions.

On the one hand, state-controlled funds have provided capital at a time when foreign sources were scarce. On the other hand, startups hoping for future support from Silicon Valley and other global tech hubs might find potential backers shying away from signing on with the Russian government as a co-investor.

Read the original story on CrunchBase: http://goo.gl/qR7nPw

LARGEST RUSSIAN ROUNDS WITH U.S. LEAD INVESTORS

- **Lamoda (e-commerce):** $130 million round led by Access Industries in 2013
- **Avito.ru (online classifieds):** $75 million round led by Accel in 2012
- **B2B-Center (B2B marketplace):** $55 million round led by Insight Venture Partners in 2012
- **Enforta (broadband provider):** $40 million round led by Bessemer Venture Partners in 2008
- **Wikimart.ru (e-commerce):** $30 million round led by Tiger Global Management in 2012

Sources: CrunchBase,, EWDN

THIS CHART SHOWS THE NUMBER OF RUSSIAN STARTUP ROUNDS INVOLVING A U.S.-BASED LEAD INVESTOR. THE NUMBER OF ROUNDS WITH A U.S. BASED LEAD INVESTOR PEAKED IN 2012 AND HAS BEEN TRENDING DOWNWARD EVER SINCE.

FROM 'TECHMAFIA' TO 'HACK TEMPLE,' RUSSIAN INVESTORS NURTURE STARTUPS IN SILICON VALLEY

EAST-WEST DIGITAL NEWS, NOVEMBER 30, 2017

Last week Sberbank, Russia's national savings bank, the Internet Initiatives Development Fund (IIDF, or FRII, Russia's largest early-stage startup investment fund) and FortRoss Ventures (formerly known as Money Time) announced the launch of a platform called Global Pitch to help Russian tech entrepreneurs develop in the USA.

Global Pitch expects to introduce dozens of Russian startups to the US investor and corporate community, helping them acquire international experience.

"Our role is that of a vehicle to integrate talented Russian entrepreneurs with Silicon Valley's advanced venture market. By investing in Silicon Valley, we bring innovation to Russia's largest companies. By bringing Russian companies to Silicon Valley, we build ties with the local venture community," said FortRoss Ventures Managing Partner Viktor Orlovsky.

Global Pitch project participants will be eligible for TechMafia. Behind this judiciously chosen name is a three-month acceleration program, including one month in San Francisco, designed by the IIDF to help Russian startups start their business in the USA.

Other support mechanisms for Eastern European startups in the USA include GVA Capital in San Francisco and Starta Accelerator in New York City. The latter, supported by the Russian fund Starta Capital, provides startups with investment, work space and coaching. Several dozens of startups from Russia, Ukraine and the Baltic states as well have participated in this accelerator since its launch in 2015.

Toxic atmosphere

However, amid the toxic atmosphere in the USA concerning all things Russian, developing a Russia-related tech business in the country is not easy. Pavel Cherkashin, a Russian serial entrepreneur who now manages GVA Capital's activities in the Valley, gets skeptical questions from local entrepreneurs as soon as they hear his accent, he told The New York Times.

"Prospective partners and startups invariably ask the same question: Is your money clean? I don't think people would ask this question to a manager from another region," Cherkashin complains.

Backed by a group of investors, Cherkashin has invested more than $11 million to turn a church in San Francisco into a tech space. He planned to call it 'Hack Temple,' but is now having second thoughts about the name.

Potential local tech partners worry they may accidentally get into business with the Russian government, notes Julian Zegelman, a lawyer who represents and invests in startups with Russian roots. "They don't want to be invested or dealing with companies whose technical talent is captive in Russia," he said.

FROM ‘TECHMAFIA’ TO ‘HACK TEMPLE,’ RUSSIAN INVESTORS NURTURE STARTUPS IN SILICON VALLEY

EAST-WEST DIGITAL NEWS, NOVEMBER 30, 2017

RUSSIA

From hysteria to business focus

Cybersecurity firms, big tech companies, government customers and large venture capital firms may also be wary about working with new Russian immigrants, in spite of their technical excellence, the lawyer added.

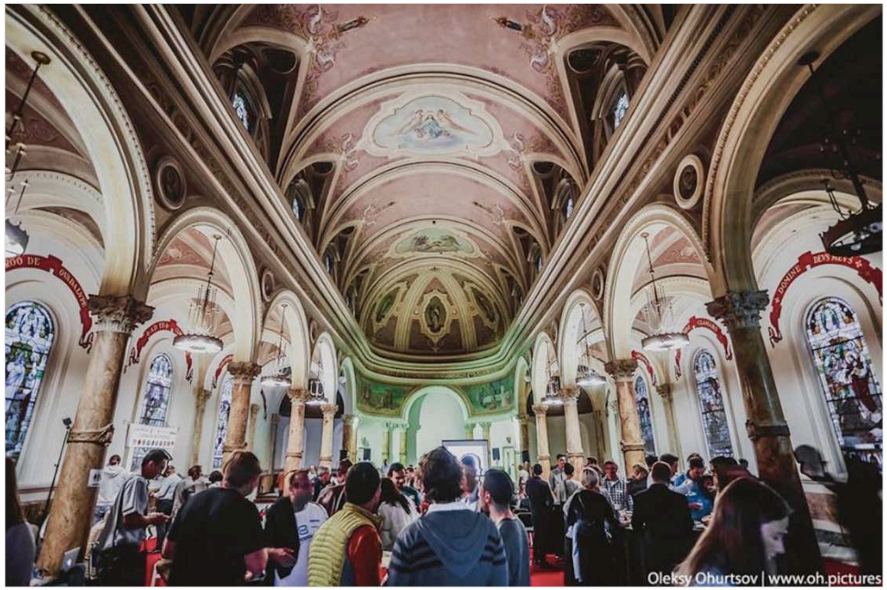
The New York Times reports that several Russian-born engineers claim to be treated differently socially and in their companies. Meanwhile, to protect sensitive data, some tech firms are installing tighter security measures applying to foreign-born coders specifically.

“Yet, some startups and small investment firms are more interested in Russian talent now,” Zegelman believes.

Russian entrepreneurs should not feel intimidated or discouraged, and focus on the business perspective, said Katya Dorozhkina, co-founder of Starta Accelerator, in a media interview earlier this year.

“Since we’re a business accelerator that brings in strong tech companies that then become US companies, as far as American investors and others in the business are concerned, this is all about making money. If the investor is smart and understands where the money is, they don’t care about politics,” she believes optimistically.

Read the original story in East-West Digital News :
http://goo.gl/dj4zGo



GVA Capital, a fund with Russian roots, has invested more than $11 million to turn a church in San Francisco into a gorgeous tech space. (Photo credit: GVA Capital)

2 ACQUISITIONS AND 1 ICO: THE RUSSIAN ESPORTS MARKET IS HEATING UP

EAST-WEST DIGITAL NEWS, JANUARY 30, 2018

RUSSIA

By Adrien Henni

The beginning of this year saw major moves on the Russian eSports scene, a sizable European market with established players operating globally. Thus, last week Mail.Ru Group — an LSE-listed Internet company which controls the largest Russian-language social networks and a range of online gaming companies — announced the full acquisition of ESforce.

This company, which generates around 60% of its revenues in euros and US dollars, owns two world-class clubs: SK and Virtus Pro. It also controls 14 websites; 209 social media groups and video production studios; the event organizer Epic eSports Events; CyberBase, the largest eSports global database; as well as trading and analytics platforms.

ESforce is also behind Yota Arena, a huge eSports tournament venue in Moscow, and Fragstore, a merchandising retailer present in 20 countries, according to the company. In 2017, these businesses attracted 116 million users with 440 million sessions and over 120 million hours watched of online content via streaming platforms, according to Mail.Ru Group's press-release. The revenues of that year are expected to be around $19 million, up 150% from 2016.

However, ESforce had negative EBITDA in 2017, estimated at $15 million.

With 500 sq.m. and 90 chairs for athletes, Yota Arena in Northern Moscow is one of the largest eSports area in Europe. (Photo credit: Yota Arena)

ESforce's acquisition — still subject to third party approvals — is expected to close in Q1 2018. Mail.ru Group intends to acquire 100% of ESforce in an all cash transaction; the amount has been defined as being "$100 million less any outstanding debt at closing, with a further KPI-based payment, likely to be around $20 million, at the end of 2018."

Commenting on the acquisition, Mail.Ru Group CEO (Russia) Boris Dobrodeev said: "The very obvious strategic fit with Mail.Ru Group needs little explanation and we will be looking to leverage our unrivalled position inside of the social networks and gaming in order to drive ESforce to even greater success."

2 ACQUISITIONS AND 1 ICO: THE RUSSIAN ESPORTS MARKET IS HEATING UP

EAST-WEST DIGITAL NEWS, JANUARY 30, 2018

RUSSIA

A mobile operator in the running

Just days before, MTS, a leading Russian mobile operator, announced the acquisition of Praliss Enterprises, the parent company of Gambit Esports, for an undisclosed amount.

Gambit Esports has four teams (16 players in total) participating in the most popular cyber game disciplines: Counter-Strike: Global Offensive (CS:GO), League of Legends (LoL), Dota 2 and FIFA. Gambit Esports teams have repeatedly earned world and European championship titles, as well as silver and bronze medals, in the largest international competitions. The club owns such exclusive assets as rights to participate in prestigious international tournaments, an own production of branded clothing and a studio for creating media content.

The primary sources of the club's income are sponsorship contracts, prizes, sales of brand attributes and digital goods, remuneration for participation in leagues, as well as transfer revenues, according to MTS. Gambit Esports will retain its 16 players and its staff while its CEO Konstantin Pikiner will continue leading the project as Chief Gaming Officer at MTS. The teams and players will continue competing at the international arena under Gambit Esports brand name.

"Our cybersport strategy includes marketing initiatives, as well as development of new products for gamers and their fans. To achieve these goals, we have created a separate eSports division within the company's Innovation Center," MTS stated. The operator intends to "utilize the opportunities offered by Gambit Esports for branding purposes" and to "offer sponsorship cooperation to interested corporate partners."

"Our digital strategy aims at developing products that lie outside the traditional telecom sector, to push boundaries and innovate," MTS added. Today, the operator offers more than 25 mobile applications (MTS Taxi, MTS Music, MTS Books, etc.), B2B cloud solutions, data analysis based on Big Data, cybersecurity systems and telemedicine services.

A blockchain platform to reward eSports viewers

Meanwhile, Play2Live (P2L), a startup with roots in Belarus and Russia launched last year, is making its first steps on the eSports scene. It has just launched 24/7 live rebroadcasts (https://p2l.tv) in six languages: English, Korean, Japanese, Spanish, Russian, and Chinese.

The platform also wants to attract eSports aficionados by increasing Internet speed. Play2Live is in the process of deploying blockchain-based decentralized P2P networks. Thus, users of the same content will join together to pool their own resources and bandwidth.

The startup also aims to "create a new economy" based on a revenue-sharing model. "Streamers will be able to monetize their content in 11 ways vs. just four or five on existing streaming platforms. They can earn right from their very first stream, regardless of the size of their follower base," Play2Live's founder and CEO Alexey Burdyko told us. Viewers, on their side, can monetize their content in several ways — a first in the eSports video-streaming industry, claims Play2Live.

"They can earn money by watching ads, performing tasks set by streamers, voting for content, and sharing their internet bandwidth via peer-to-peer CDN. Viewers may also place bets with bookmakers without leaving the P2L site, and purchase games using tokens," said Burdyko.

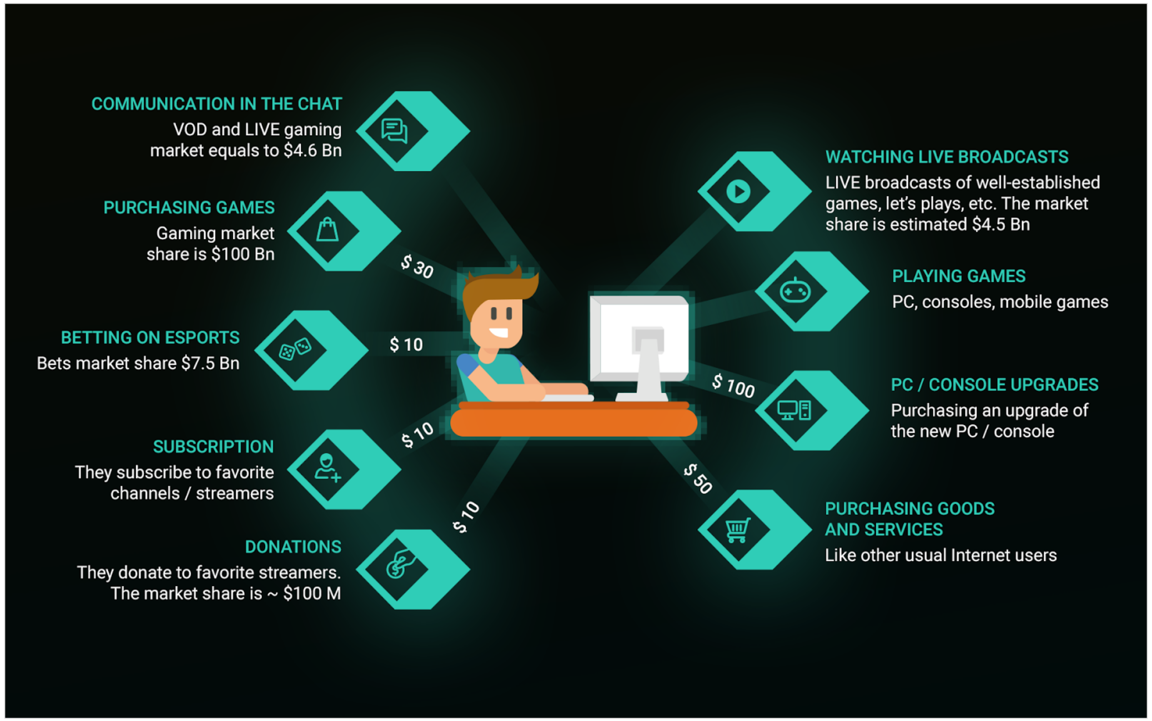
2 ACQUISITIONS AND 1 ICO: THE RUSSIAN ESPORTS MARKET IS HEATING UP

EAST-WEST DIGITAL NEWS, JANUARY 30, 2018

RUSSIA

Called Level Up Coin (LUC), these tokens will be the only mean of payment in use on the platform. They can be converted to other cryptocurrencies or to fiat money through a gateway/API.

Play2Live claims to have raised already the equivalent of $16 million in private and public token pre-sale events which started earlier this month. The startup aims to collect up to $30 million (hard cap) until the end of its ICO in March 2018 (https://play2live.io).



A $1.5 billion market

The global eSports industry reached $1.5 billion and is forecasted to grow up to $ 2.3 billion in 2020, according to data from Superdata Research cited by MTS. Another research by PayPal and Superdata Research indicates that the Russian eSports market (the second largest in Europe after Sweden) amounted to $35.4 million in 2016 (http://goo.gl/yLqr38).

In 2016 the Russian government officially recognized eSports (also known as "competitive video gaming" or "computer sports" in Russian) as a sport discipline. Cyber-athletes can thus receive such official titles as "Master of Sports of Russia," "International Master of Sports" and "Honored Master of Sports of Russia." (http://goo.gl/u1U4nh)

In 2015, Russian billionaire Alisher Usmanov announced an investment of "$100 million or more" in Virtus.pro (http://goo.gl/7roMZQ). More recently Winstrike, a Russian globally-oriented eSports company, attracted $10 million from private investor Nikolai Belykh and several business angels (http://goo.gl/ekWjVR).

Read the original story in East-West Digital News: http://goo.gl/tfXDYM

RUSSIA AND CHINA LAUNCH GIANT PROGRAMS TO SUPPORT HIGH TECH PROJECTS

COMBINED REPORTS FROM EAST-WEST DIGITAL NEWS

RUSSIA

Over the past years, several large Russian and Chinese organizations (mostly government-backed) have announced a series of initiatives to develop high-tech projects involving the two countries.

Through these programs, Russia hopes to facilitate technology transfers from both sides and increase the share of high-tech in Russian export. The experience of China's public policies to support innovation may also be a source of inspiration for Russian policy makers.

Among the main announcements in this field, as reported by East-West Digital News, have been the following:

- In January 2016, Rusnano, Russia's national nanotech investment corporation, and Zhongrong International Trust, a major Chinese investment and banking corporation, agreed to launch a joint $500 million fund in the field of nanotechnologies (http://goo.gl/Sj3fyB).
- In June 2016 Rostec, a state-owned conglomerate, and China CYTS Industrial Development announced a fund with "an initial $4 billion target" to develop projects related to China's 'One Belt One Road.' Under plans, a part of the fund's resources will be used to fuel jointly-approved Russian IT and other high-tech projects (http://goo.gl/rp4MMN).
- Almost simultaneously, Russia's sovereign fund RDIF agreed partnerships with several Russian and Chinese industry players to develop and manufacture medical robots (http://goo.gl/VZULXL).
- In November 2016, the Russia-China Investment Fund (RCIF, backed by sovereign funds from both sides) agreed with Chinese TUS Holdings to establish a joint Russia-China Venture Fund (RCVF). This fund will invest "up to $100 million" in the development of trade and economic, investment, scientific and technological cooperation between the two countries. Among the fund's targets are Russian tech companies, including startups, with a potential for further development in the Chinese market (http://goo.gl/6wQFmn).
- In June 2017 Vnesheconombank (VEB), a major state-owned Russian bank, and Chinese Harbin Bank signed a memorandum of understanding and a framework agreement to launch a group of funds with a total target amount of $700 million to support innovative projects. These Russian-Chinese funds will aim to stimulate R&D in the industrial sector, support high tech export, and promote bilateral trade and economic cooperation, according to VEB. Their fields of intervention include industrial technologies, software, Internet, digital multimedia, e-commerce, communications and semiconductors (http://goo.gl/6wQFmn).
- That same month, Harbin Bank agreed to join SBT Venture Capital, an investment vehicle of Russia's national savings bank Sberbank, investing in it up to $50 million. While the Chinese bank is eyeing Russian fast-growing tech companies, SBT Venture Fund – which had invested so far essentially in Western countries – seeks to co-invest in Chinese tech companies (http://goo.gl/6wQFmn).

RUSSIA AND CHINA LAUNCH GIANT PROGRAMS TO SUPPORT HIGH TECH PROJECTS

COMBINED REPORTS FROM EAST-WEST DIGITAL NEWS

RUSSIA

- In July 2017, VEB announced a framework agreement with the China Development Bank (CDB). This major government-backed bank, created in 1994, intends to inject up to $850 million in Russian innovative projects over the next 15 years. One of the stated goals is to support Russia's National Technology Initiative, a long-term government program to support Russia's leadership ambitions in the global high-tech markets over the next 15-20 years (http://goo.gl/6wQFmn).
- In November 2017 Russia's VEB announced an agreement with the Export–Import Bank of China (China EximBank) for an "up to $3 billion" framework line of credit. The Chinese party will provide long-term loans to finance Russian projects in the fields of infrastructure and technologies as well as knowledge-intensive and innovative projects launched in Russia. These include projects related to China's 'One Belt One Road' — an economic development strategy which includes the 'Silk Road Economic Belt' and the '21st Century Maritime Silk Road' across Eurasia — and the Eurasian Economic Union (http://goo.gl/KnGqv6).

Private initiatives and small businesses

More modest initiatives have come from the private sector. This in March 2016, the Russian conglomerate Sistema was reported to be in the process of creating a venture fund in partnership with China's TUS Holdings. This fund's capital was not to exceed $100 million at the start, with the Chinese side contributing 70% of this amount (http://goo.gl/Z84H38).

At an even smaller scale, in June 2017, the Siberian venture firm Kapinvest 21 announced a partnership with Chinese investors to launch cryptocurrency-based fund (http://goo.gl/oxXhzh).

A potential for cooperation between the two countries in the field of high technologies does exist — not only for large companies but also, at least theoretically, for small and medium-sized enterprises, according to a 2016 survey conducted among Russian SMEs from various technological fields.

Only 8% of the respondents had an existing experience of cooperating with China. The vast majority of these companies (80% of 8%) considered their experience as being positive. More than one third of the respondents (35%) expressed interest in entering the Chinese market, or had already worked there. Almost 50% of those who expressed interest in the Chinese market either had already entered it or were planning to do so in the short term (http://goo.gl/rf6iQW).