

Основные риски и тенденции развития рынка венчурного капитала в России

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Аннотация

Статья посвящена анализу рынка VC (Venture Capital) в России, перечислены его основные преимущества и недостатки. Было рассмотрено общее положение токенов на международном рынке криптовалют, описаны тенденции и выявлены риски. Приведены примеры наиболее успешных стартапов, проинвестированных с помощью ICO.

Ключевые слова: венчурный капитал, стартап, инновации, бизнес ангелы.

Main risks and development trends of the venture capital market in Russia

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Abstract

The article is dedicated to the analysis of Venture Capital market of Russia, fundamental advantages and disadvantages of its functioning are highlighted. General position of tokens on

international cryptocurrency market are analyzed, main tendencies and risks are represented. Represented examples of the most successful startups invested with the help of ICO.

Keywords: venture capital, startup, innovation, business angels.

Today, in the context of globalization and the digital economy, the development prospects of any country directly depend on the scientific and technical sector of its economy. This alignment of forces is also true in relation to Russia. And the most important role in this process is played by venture investment. In modern conditions, it is almost the main driver of innovation financing. Venture capital investment is a process in which investors contribute their financial resources to a company and become equity holders of the company, similar to shareholders buying shares. The key difference between venture capital investors and traditional investors is associated with the speed of investment and startup thinking. Venture capital is, to a certain extent, an unsecured loan for a startup with no chance of traditional funding. Venture capitalists, also known as angel investors, provide funding in exchange for owning a portion of the company and its future profits. Unlike the traditional approach of hierarchical organizations and bureaucratic decisions, startups are characterized by flexibility, open communication, and short investment cycles. Such a system destroys the traditional approach to business by improving the market. Also, one of the features of venture investing is an attempt to predict the unpredictable. In traditional valuation of financial assets, investors model a normally distributed return on investment with expected returns at the center. The main goal in venture capital investment is to get to the end of the distribution, far from the center. Asymmetry of investments allows you to cover incurred losses and bring multiple returns in the future. Venture investors think in X categories, i.e. an indicator reflecting the multiple growth in the value of a startup. Getting more X10 is considered an excellent result. X50 is the dream of any business angel or foundation. However, this approach is fraught with limited financial data for detailed analysis and forecasting of cash flow. Key metrics include customer acquisition cost, lifecycle value, and group analysis. Investment professionals with extensive experience in the field of entrepreneurship often make decisions in operations, adjusting the trajectory of a startup.

The development of venture funds in Russia can hardly be called rapid. Unlike the leading countries in this area (such as China or the USA), Russian venture funds are only gaining momentum. According to research by Dow Jones Venture Source, 10 years ago, the total share of Russia in the volume of the global venture capital ecosystem was 0.3%. Now it has risen to 8.5%. At the end of 2018, the market grew by 78% with a mark of \$ 433.7 million against \$ 243.7 million a year earlier. In fig. 1 shows the dynamics of the volume of the venture capital market for the period 2013 - 2018. The positive trend indicates the constant growth of assets against the background of the rapidly

growing attractiveness for new players. Private funds remain the main driver of growth in the aggregate capitalization of venture capital funds - about 77% of the number of new funds in 2018. However, the existing environment changed significantly in 2018: the capitalization of funds created with state participation reached \$ 1,155 million. One of the successful examples are foundations created by RVC together with Skolkovo. The total capitalization in the Skolkovo Venture Fund - Industrial 1 amounted to 600 million, carried out by the Russian Helicopters holding and Russian Railways. Also, the appearance was announced by MTS, Gazprom Neft and Gazprombank, Rosatom, Rostec, testifying to the strengthening of the positive trend over the past two years. A similar trend is observed in the corporate sector: the capitalization of corporate funds, while being relatively stable over the past five years, increased by 18% and amounted to \$ 544 million in 2018 with the share of both private and government structures.

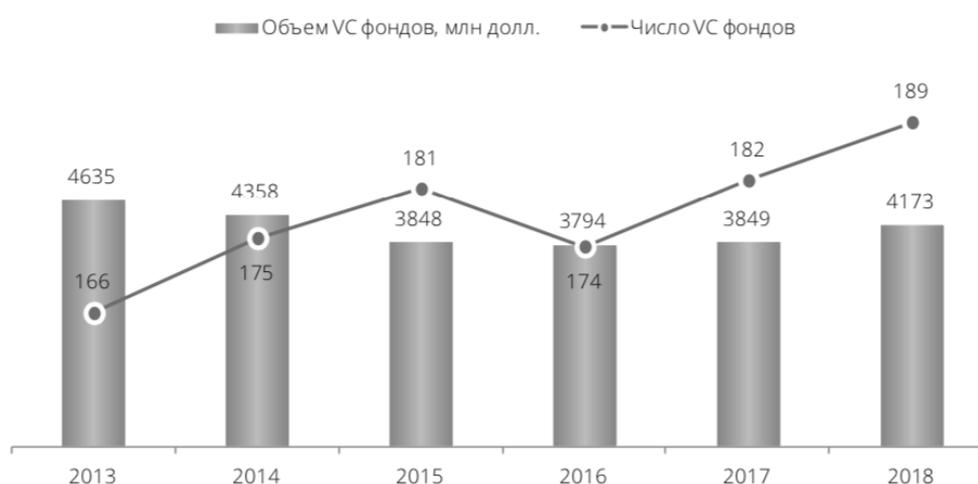


Fig. 1. Dynamics of the venture capital market for 2013 - 2018, USD billion

The sector of information technology, artificial intelligence and machine learning (AI/ML), along with the fintech (FinTech) industry, remains the leader in the number of venture deals and the amount of attracted investments. Transactions in this sector represent on average 75% of the total number of transactions and 84% of the total amount of all transactions. The total number of transactions increased by 288% over the period 2015-2018. (from 97 to 280 transactions) with an increase in monetary terms by 276.1% (from 205.9 million dollars to 568.6 million dollars). The key driver of the growth in the volume of transactions in the IT sector was the acquisition by AFK Sistema of an 18.7% stake in Ozon.ru from the telecommunications operator MTS. The deal took place in the first half of 2019 and was valued at \$ 119.3 million with payment in three tranches until July 2021. Also, 16.3% of Ozon shares belong to the venture capital fund Sistema_VC, in which AFK Sistema owns 80%. As a result, the share in Ozon, directly owned by Sistema, will reach 19.3%. According to leading analysts, this decision will have a positive impact on the speed of strategic decision-making and the effectiveness of control, excluding MTS as an intermediary, which will strengthen Sistema's

position in the online trading segment. In relation to MTS, the experts predict a decrease in the level of the company's debt burden by 3.5%. At the time of the transaction, Sistema's shares were up 1.54%, while MTS shares rose 1.08%.

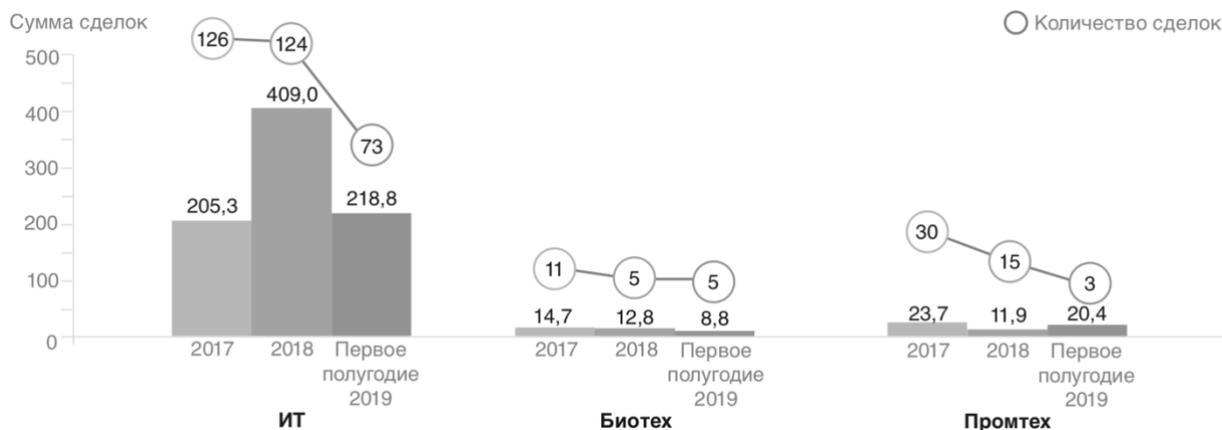


Fig. 2. Distribution of venture capital investments by sector, mln USD

However, FoodTech was also in the top three for 2018. Thus, according to data from the international venture capital fund Target Global, the tech food market is about \$ 1.4 billion today, and its indicators are growing by 20-30% since 2014, because more and more people are willing to pay for the time savings that able to provide services in the industry. It should also be noted that the interest of investors in the Blockchain field has noticeably decreased. This can be largely explained by the lack of excessive attention to ICOs and blockchain technologies, which contributed to the termination of large transactions in this segment. It cannot be denied that investors are encouraged to implement large innovative projects by the desire to remain in the interests of not only traditional, but also new clients. That is why investors are often interested in large areas where significant capital injection is being carried out: at this time, this area is high-tech companies.

Returning to the promising areas of venture capital investment, it should be noted that fintech is the most attractive area from the point of view of both participants in the venture process: both investors and business founders. However, what should be meant by this area? The financial technology segment that is part of IT includes digital banking, asset and investment management, payment services in the form of wallets and online payment acceptance systems, borrower scoring methods, and enterprise lending platforms. Interest in the Russian fintech market is just beginning to gradually gain momentum: there are still quite a few investors here who are ready to invest in projects, but there is still interest in the industry. This is due to the need for the constant introduction of new technologies, because even the most developed and successful companies can fall behind yesterday's startups. According to KPMG research, in 2017, transactions worth \$ 38 billion were made, while in the first half of 2018 alone, 875 transactions worth more than \$ 58 billion were made. The world's

largest companies are actively cooperating with fintech startups. For example, JP Morgan pays great attention to digital products, Goldman Sachs invests in the development of online lending, while Citibank focuses on databases and cybersecurity.

As for the Russian market, in addition to venture funds, banks or subsidiaries of Sberbank PJSC, Alfa Bank JSC, Tinkoff Bank JSC show the greatest interest in it. The interest in fintech can be explained by the rapidly increasing demand for new solutions in the field of financial services to provide high-quality, convenient and, most importantly, fast customer service. For example, SKB-Bank in 2017 acquired the fintech startup Ecombank, Tinkoff Bank acquired 55% in the CloudPayments payment service, Alfa-Bank at the beginning of 2018 became a co-owner of the Pay-me service for payment from mobile devices. Thus, although investments in the Russian fintech market are quite small, we can still observe a gradual increase in their inflow. For example, a significant for the industry transaction in fintech between Alfa-Bank and CardsMobile took place in May 2018 (As a result of the transaction between Alfa-Bank and the developer of the mobile application Wallet CardsMobile (Beskontakt LLC), the first received a 25% stake in companies, and the second is investments).

However, the venture capital market is inherently risky. The success of a team largely depends on its composition. Venture capitalists carry a huge risk on the human side of the equation due to unpredictable team behavior. Despite their wide experience in appraisal, business angels cannot guarantee whether a startup will shoot a talented team or stay afloat. Also, venture capital funds are by definition looking for companies with high growth potential. The risk factor is contained in the word "potential". Market trends can affect the growth of a company that was previously close to success. Venture capitalists seek to invest in a company's business with a competitive product, often based on. While a pre-disbursement check is based on forecasts and assumptions about the future of the product, market position and development of competition, the decisive word for the fate of the company remains with the factors of the external market. Along with economic factors, government regulations are serious and often unpredictable barriers to starting a startup. Corporate intellectual property theft and patent infringement are other obstacles to success, creating investment risk. The lack of confidence in the market on the part of investors can be explained by the lack of transparency in the compensation system. The most common methods of paying off investors are initial public offerings and buybacks. Business angels face the risk of failing their planned exit strategy. A startup may not generate enough income to enter an IPO (Initial Public Offering).

Thus, it is impossible to unambiguously assess the venture capital market since all its components can be represented by both new opportunities and significant threats. The existing asymmetry in the attractiveness of the spheres for business angels is fraught with certain

consequences. In the segment of industrial technologies in Russia, there is a liquidity crisis. The main problem is the lack of players in the market with sufficient funding. This segment is much inferior to the IT sector, which is typical for the Western economy, but on a smaller scale. Also, the existing barriers are largely associated with an insufficiently high level of intellectual property, which allows maintaining prospects and minimizing associated risks. Meanwhile, in Russia in the summer of 2018, the law "On Amendments to Certain Legislative Acts of the Russian Federation" came into force, which included explanatory notes on the transfer of exclusive rights to the results of intellectual activity to a private partner within the framework of a public-private partnership, which will give a new impetus to growth in the world of digital assets and venture capital investments.

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