

**Giuseppe Curatolo (Partner at Pioneer Point Partners, Advisor at European Bank of Reconstruction and Development)**

**How did you come into the technology business?**

- I went to Stanford Business School in 1994. It was the years when the Internet happened. So I was in Silicon Valley in 1994-1996, it was when Yahoo, Netscape went public. It was almost impossible to not be involved in technology business if you were there at that time. When I finished School I wanted to know more about the world of internet and technology. I remained in the Valley for another 3 years. I worked for strategy consulting firm Bain & Co. All of our clients were in technology from San Francisco office. In 1998 Morgan Stanley in which I used to work before Business School took me back into the private equity group where the following year I become responsible for their Venture Capital business in Europe. So I started my investing career in 1998 in Morgan Stanley after spending 5 years in Silicon Valley.

**- Why are you in Ukraine now?**

- I have been following developments in the region for many years as at Pioneer Point Partners we are always interested in emerging areas of growth in our sectors of focus, In addition I am an advisor of the new venture capital program of the EBRD. That's why I come here maybe 2 to 4 times a year.

**- Is there any development of projects and ecosystem here from year to year?**

- From year to year there is clear improvement in the quality of people. I see much better investors, better management, better content. The ecosystem is developing nicely. It doesn't take one year. It usually takes 5-7 years to become really mature. It's nice to see that Russian investors are here. Still the quality of projects is very variable. And a lot of them are very early. It would be nice to see more mature product.

**- What was your most successful project as an investor?**

- There are many of them but one that I always remember is company called Immobilien Scout I invested in in 2000-2001 in Germany. It is a real estate web-service. It was a company which seemed at that time to take on the very large companies, because market at that time was owned by newspapers. And it proved that internet is such a powerful media. For certain categories of services it is so much better than alternatives. It completely displaced the existing old methodologies much quicker than we could think. We invested in it in 2000-2001 and sold in 2007. It was very large exit, almost 600 mln. euros.

**- What is the percent of failed investments in your career?**

- In my particular case it's probably 20% of failures. But it is characteristically low, because I've tended to invest in much later stage projects. I've been quite lucky and I'm quite conservative as an investor. But I think the average failure rate in Silicon Valley is 30% really fails, 30% doesn't fail and doesn't succeed either (you only get your investments back), 30% succeeds and 10% really really really succeeds.

**- Paul Graham recently wrote that the correct strategy for an early-stage fund is to take as many projects as possible and one of them, in case of success, will cover all the costs. Is it a right strategy?**

- Yes, it's proven. It is not the matter of opinion. If you look at any VC fund at Silicon Valley, and look back at their returns, 90% of returns has come from 2 or 3 companies from their portfolio.

**- So it means that more startups will get investment.**

- It means that funds will have a strategy to invest in lot of them. And they know perfectly well that they take a lot of risks, and they know that their returns will come out of this.

I was involved in a fund in 2001-2002. That fund at some point exited 3 investments out of 60-70 others. That were Skype, Focus Media and Baidu. These three investments have returned the fund size multiple times. And even if any other company won't perform (but I'm not sure in this particular case, I think they will), it still will be a very successful fund. That proves that venture investor should invest in very large set of companies, each one of them having a very big upside, and the only thing that really matters is how big are the winners. Not how many.

**- What about big funds. Are they going to come into the CIS Region now?**

- Yes, of course. Will they open an office or will they work through their headquarters, or will they back a local VC depends on their strategy. But the opportunity in CIS is now better than it is in Europe for venture. There is more growth, there are less established projects. In Western Europe and in the US you have to innovate a lot, here you can start with a much lower level of innovation. It means lower risks.

**- Which spheres are in trend now?**

- For me, any project that is looking at Russia and Ukraine as a domestic market. So it is any form of internet services, any form of consumer and business internet services. There is a language barrier here. And there is a lot of space to do things that are already done and are proven. I also believe that there will be some good global technology firms, but it's a high risk.

**- How many executive summaries do you get every day?**

- Typical VC gets around 3000 projects a year. In Silicon Valley it can be as high as 20000.

**- Very big number. And personally you are later stage investor, right?**

- In EBRD we do both, early and later stage investments. Pioneer is a buyout firm.

**- What are the typical entrepreneurs' mistakes on the meetings with investors?**

- A lot of them. Most times these projects are not really suited to venture capital. There is misunderstanding that every technology company is a prospect for a venture capital. This is a fallacy. 99.9% of technology companies, while potentially good companies, are not suited to venture capital as a form of finance. Venture capital is only suited to companies, that require quite a large capital (Venture capital won't invest \$50000), for companies that can become very big home runs. A lot of projects that we see are companies that could become good firms but they will not be big enough. They will be 20-30 mln. of revenues and maybe 2-3 mln. of profits, which for entrepreneur is fantastic outcome. I wish I had a company like that. But it's not suited to the VC model. The ecosystem is not really able to educate the entrepreneur as to what form of financing will work. Because venture capital is not the only form of finance. You have government, you have angels, you have friends and family, you have customers, you have bootstrapping etc. Venture is just a small portion that only works for a very unique set of companies. It needs a very large market, a highly ambitious team, a very big opportunity which requires

capital and a very clear plan to go after that very big opportunity. Maybe 1 of 100 projects coming to us suits those characteristics.

**- And what about pitches?**

- Yes, often arguments are not well taught, the pitches are long, they talk about a lot of less important aspects, beside a few things that are really important. Some other mistakes are that they don't know what the particular VC does. The main problem is that the project doesn't fit to the strategy of that certain VC.

**- There is a well-known idea of elevator pitch. Have you ever talked with startups in elevator?**

- Never. What's true is that in the presentation, in the first few minutes, you probably form a view if it is something that is in your field of interest or not. The concept of elevator pitch is that if you cannot explain in a simple way why you think you have a big opportunity, you won't be able to explain it in a very complicated way. Normally, something that needs 1 hour to be explained, can be a symptom of confusion. My recommendation is to think about 2 questions (in elevator pitch):

1. What is the market opportunity and why is it big.
2. Why are you the best vehicle to go after this market opportunity?

If you don't articulate those 2 things, you have do not have an elevator pitch.

**- Let's talk about investors. Are there differences between our investors and European?**

- In general European VCs are not very successful as a class. We see a relatively young industry in Europe. But for 14-15 years people were trying to understand this market. So there is some experience. There are differences, but it's just a market on the early stage of development. I don't think that there is something completely different between Ukrainian consumer or Italian consumer or French consumer. Of course there are some differences but I think they will change over time.

In 1999 we thought that the internet wouldn't work in Germany, France or Italy, cause it wasn't a Silicon Valley. It sounds ridiculous now. And it will sound ridiculous about the Ukrainian market. People here are intelligent, educated and they want to do things better and they will. It's just a matter of time.

**- I heard that Berlin is rapidly growing in venture capital now. Which countries are the leaders of this sphere in Europe now?**

- It's the UK of course. It's Germany. There are some pockets in other regions, like Nordics.

**- Did you meet some startups here?**

- I've seen some interesting projects but they are very early. So time will tell.

**- Are you doing angel investments?**

- No. I've done it in the past, but not now. That particular risk return profile is not one I am comfortable with.

**- Denis Dovhopolyy said that one of the biggest problems of our ecosystem is the lack of angel investors. Do you think that it can really cause a problem in the region?**

- Yes. But ultimately that's a "chicken and egg" problem because you need some winners before the angels will come into the market. Once you get some success stories the people of these companies will make a lot of money. And some of them will reinvest in early-stage companies. People make money and invest them in their friends or companies they like. You really have to create some success story to jump fast and create the angel ecosystem.

**- Almost everyone I talked with told me that the entrepreneurs all over the world are the same. Do you agree with this statement?**

- I agree. Each one of them is different. But I wouldn't think that there is some kind of genetic cultural differences in entrepreneurs. I just met with one of the biggest Russian entrepreneurs and he is just as good, brilliant and intelligent as Silicon Valley entrepreneurs.

**- The last question. What is your advice to entrepreneurs and investors in this region?**

- For entrepreneurs is to be very thoughtful about what they do. It's true that entrepreneurship is about emotions, instincts and enthusiasm. You need that. But you also need to be very thoughtful and very structured about how you do it. Seek advice – be a good listener. Talk to people and listen. And ask them to criticize you. To tell you what you can do better. Your enemy in entrepreneurship is defensiveness. You need to be clever and motivated to be an entrepreneur. Because you can listen to everybody but at the end of the day you have to make your own decisions. But you have to be open to some learning and suggestions from the people who have more experience than you have in some respects. So it's important to be motivated, aggressive but at the same time thoughtful. Think about your business, think about the weak aspects of your business, as well as the strong aspects of your business. Think about the risks, think about how to position your company to be in the best risk return area.

For investors it's different. They know their job as well as I do. Be patient, be very disciplined, invest your time in few projects, select them for the quality of the people, more than any other things. And make sure you can bring to these guys as much support as you can, because they need it.

It will be a very good market here. You have to wait some time.