Funding the Best Starts-ups: How Asia's Wealthy can Become Super-Angels

Ian Sosso, Founder & Managing Partner of Monte Carlo Capital, has built a disciplined and unique approach to investing in start-ups around the world, combining the best of angel investing and venture capital. An ex-investment banker and today a lecturer on venture in Monaco, his company has helped unearth some exciting opportunities that have produced remarkable success stories and returns. He wants to spread the word amongst Asia's high-net-worth investors.

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"I **AM A BUSINESS ANGEL**, which means I invest my own money in start-ups." he told the audience at the Hubbis Independent Wealth Management Forum. "A former investment banker, I began Monte Carlo Capital around a decade ago and over time built one of the most active group of private investors in start-ups in Europe, and we invest both In Europe and the US". He added "I wanted to build a group that combines the best of business angels and venture capital. The best of business angels as we invest early, our interests are aligned with the

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founders and our co-investors as we invest our own money, and we are hands on. The best of venture capital as we have a disciplined investment process, we can help scale a business across continents, and we have the investment capacity of a small VC fund"

Ian explained that he is not a fund manager . "I saw a gap in the market. The average investment size of a group of business angels in Europe is EUR 175,000. In the US it's around USD 300,000. At the same time, global VC firms wont usually consider an investment below a few millions. The gap between the 'angels' and the VCs is what we call the valley of death in the financing cycle, as it is where most start-ups fail for lack of financing. This is precisely where we come in, nowadays coming in the range of USD 500,000 to USD 2 million when first invest, and usually doing the follow-on investments too"

"Because of our unique approach, we have been able to attract great businesses". "We sold a biotech business a few months ago for USD 200 million that we had seeded just 3 years ago," he explained. "And we are currently doing a follow-on investment in an e-commerce business at a valuation of USD 200 million that we seeded at a valuation of USD 4 million just two and a half years ago. We kept investing as the business grew and it is now working on an exit which at a multiple of that. Getting from USD 4 million to USD 1billion in less than 4 years would of course be unusual. There has also been some dilution along the way and anything can happen till the exit." Ian added "It is important to understand some businesses will fail so investors need to build a portfolio of at least a dozen businesses over time to be able to achieve significant returns whilst being diversified".

Ian highlighted some of the key research carried out on the performance of business angels. The best one having been carried out by US based Kauffman Foundation, which has identified a median IRR of 27% over 17 years on a sample of business angels. "But what is most fascinating is that the returns escalate dramatically for greater due diligence, so we see that the median ROI for those investors doing more than 40 hours of due diligence is 5.9 times their money, whereas it is only 1.1 times for those doing less than 20 hours. In short, we find that the highest engagement produces the highest returns, the lower returns emerge from lower due diligence, which is also why due diligence is critical to our own investment process".

Ian addressed the sourcing of deal flow as a key factor, as well. "Clearly, the more deals you see, the higher the quality, the higher the potential for unearthing exceptional businesses. Accordingly, a lot of my time is spent on deal flow, leveraging my firm's brand and my expertise and relationships. I am a member of several key organisations, for example a board member of the Venture Capital Association in Monte Carlo. I'm also on the main board of the European Business Angels Network (EBAN), which is the Brussels based trade association representing business angels and early stage investors throughout Europe, with members in 50 different countries."

The result, he reported, is an incredible deal flow. "I won the award two years ago of the best performing new member of EBAN. I am also speaking at conferences throughout the world year-in, year-out, to build connections and deal flow. The ecosystem I have created and the advisors and partners of Monte Carlo Capital bring in about a 1000 business plans each year, and by that, I mean qualified business plans, or what we can call proper opportunities to consider."

The next step is the filtering process that reduces 1000 down to a handful of investable ideas. "First, we look for businesses that know something that no one else in the world does," he explained. "Solving big problems, usually backed by intellectual property, what we call deep-tech, such as businesses in pharma, medical devices, AI, robotics, Internet of Things, Big Data, and so forth. The business that sold for USD 200 million a few months ago was in the biotech space and we invested in that only three years ago."

The second type of business is a disrupter, which moves smarter, faster, cheaper than anyone else. "For example the business mentioned previously which we funded at $4 Mio less than three years ago has created an innovative e-commerce business."

Ian also aims to identify the highly experienced entrepreneurs. "There are many great ideas out there but without experience, it is easy to mess it up," he observed. "Someone with the right experience will generally find a way make it find success."

Mining down further into the filtering process, Ian explained that it is a several tier refinement system, where 1000 companies are reduced first to 30 or 40 opportunities and then the process becomes more intensive to reduce the number to the five or six best opportunities each year. "The last phase is what we call the 'deep dive' due diligence," he explained, "where we try to leave no stone unturned."

The initial funding involves Ian structuring the deal and negotiating terms and writing the first cheque in the business. "Because we invest as I mentioned in the so-called 'valley of death', I am hardly ever competing for a deal. So we can basically negotiate attractive terms".

As to Ian's co-investors, they are private investors and family offices across markets such as Hong Kong, Switzerland, Monaco, the UK, and others. "We have advisers in the US, Europe and Asia. After we have invested, we can open doors across the globe. We then help the businesses all the way to a potential exit."

Ian also explained that his goal now is to be able to finance the best businesses to exit. "Our businesses have raised close USD 150 million over the past 12 months only and we anticipate a financing need of USD100 million per annum as some of our earlier stage businesses grow. Accordingly, I am now extending our relationship with family offices, those who like we are doing, who want to participate and join the club. Those are investors would like to come in for USD 500,000 to USD 10 million tickets, the larger ones being for the more mature businesses in expansion or pre-exit mode.". "We are also working on a fund that will co-invest with us".

Ian closed by noting that the niche Monte Carlo Capital has carved out for itself and its investors offer a world of opportunity. "Asia's HNWIs and ultra HNWIs can become super-angel investors, that is our message," he stated. "The returns can be remarkable and it is a very exciting journey." ■