

Kiyan Zandiyeh of Sturgeon Capital

[00:00:04] This is the Investor Connect podcast program. I'm Hall Martin and the host of the show in which we interview Angel Investors, venture capital, family offices, private equity, many other investors for early stage and growth companies. I hope you enjoy this episode.

[00:00:24] Hello, this is Hall Martin with Investor Connect. Today, we're here with Kiyan Zandiyeh, CEO of Sturgeon Capital. Sturgeon is the leading frontier markets investment boutique. Since the establishment of Fine One in 2016, they have made nine investments. Sturgeon focuses on technology enabled businesses that offer a product or service which solves unserved acute pain point for a large addressable market they see to be meaningful equity partners alongside entrepreneurs helping businesses reach their full potential. Thank you for joining us.

[00:00:51] Pleasure to be speaking with you. So can you tell us about your background?

[00:00:55] What did you do before you started investing in early stage companies?

[00:00:59] So I was one of these strange because I started investing from a young age, roughly the age of 13, and my focus was the public markets, because at the time that was the most accessible to me. I started a fund in my late teens also following on kind of investments. I always had more ideas than money. And then from there I particularly got interested in emerging and frontier markets. At the time, I was working for a well known economist, Nouriel Roubini. Dr. Doom, as is called, famous for predicting the financial crisis. And then over the years, taking a deep look at these countries. What was abundantly clear was a lot of them were dealing with the hangover states dominated economies, and the private sector really wasn't playing much of a role. But once you were traveling to these countries, you would see that was private sector with entrepreneurs in the truest sense of the world. That is, if you wanted a job you ever had to work for the state or by default, you had to be an entrepreneur. And well developed also over the past five to ten years was just the level of digital infrastructure in these countries. So you saw Internet, the smartphone penetration go from 10 percent to nearly 70, 80 percent. And yet the business model that we've been accustomed to in the more developed world hadn't yet been developed in these countries. So really wanted to start working on an investment framework and the fund could focus on these opportunities within these developing countries.

[00:02:20] Well, that's great. So so what excites you right now?

[00:02:23] Well, just the ever evolving landscape. So a lot of the countries that we invest in, we're effectively the first venture investors in these countries. And I would argue that to an extent we have a blank canvas for the technology ecosystem, looks like in this country over the next five to 10 years. So that process of seeing that change, the intellectual exercise of thinking as to how one should strategize around that is what excites me the most.

[00:02:49] Great. And so what's your advice for people investing in startups in this space that you work in? What do you tell them to do before they write that first check?

[00:02:58] Well, again, if you if you're looking at developing country as opposed to developing like the US, the level of information available to an investor is obviously very different. So you have to go in and do the hard work or the legwork to be able to get that information necessary to do an appraisal. And the best way to do that is to have covered it somewhat difficult, but it's just to just travel. What you often find is that the reality is very different to the perception that you have, even if it's an educated perception by just being there on the ground, given that there's a lack of competition, gives you a significant edge in wanting to get capital.

[00:03:31] And so what's your advice for people running startups in these frontier tech places? What do you tell them to do before they go out to raise funding or grow their business?

[00:03:39] So, as you can imagine, the funding ecosystem, again, is not as developed as you would find in the US. So in many cases, with the companies that we're investing in, we're the first outside investors. So as opposed to the US where you can run a strategy where you have losses for for a period of time in the hope that you can raise capital to then get profitable, we'll be fine in developing countries, is that the first order of priority? Should be profitability, should be a business that to an extent can be can stand on its own two feet and be sustainable. And then when an investor comes in, it's just to accelerate the growth that you already have.

[00:04:15] And so how do you see this segment evolving? How is this industry growing from this point of view?

[00:04:21] So what we've seen over the past year especially, is a lot of success stories coming out of developing countries. You saw Stripe acquirer payments provider in Africa, probably not on the radar of a lot of your listeners, but there was a company out of Kazakhstan, which is a country with a population of 18 million, which was a fintech such marketplace business and the IPO a few weeks ago to six and a half billion dollar valuation. And that's the company that makes four or five hundred million in net

income. So it's not particularly a crazy valuation for the benefit of such events or news is that it really boosts the incentives of early stage entrepreneurs see and believe that they can truly be successful and that there's a there's an opportunity for them to monetize their efforts. And so we find fascinating.

[00:05:05] In so what's the biggest change you see in these economies that you're working with now?

[00:05:10] It's really how these technology companies are changing the landscape. I mean, if we take a particularly esoteric country like Uzbekistan, 50 percent of the population that do not have a bank account and if to. Percent of the population has ever taken a loan from a financial institution, and it's really the technology companies that are meeting the requirements of that challenge as opposed to traditional banks. And so you're seeing really technology companies change the nature of Day-To-Day life for the average population and that evolving landscape we find particularly fascinating. All right.

[00:05:44] So so what exactly is your investment thesis? What do you look for in a startup to fund?

[00:05:50] So our investment thesis is first hand. Look at what business models that we know well of Worth and the rest of the world. And when I say work, they mean that a strong, clear, positive unit economics that is scalable. And as you pointed out in your introduction, it's an acute pain point of society. What we ideally look for is a business that has been operating for a number of years, has shown a clear track record of being able to become the market leader and then providing the capital and hopefully expertise and advice to really help those companies accelerate their growth.

[00:06:20] Right. And you have any staff that fit that thesis. Can you mention maybe one or two companies that are a good fit?

[00:06:25] Yes. Our largest investment at the moment is a company called XHTML and effectively runs an e-commerce marketplace in Central Asia. And today is the largest business within that area. It started in number twenty. Eighteen is the most downloaded shopping up in every country. It operates in a six and a half million downloads over the past year has really benefited from Coit in the sense that its headline GMV back in March was an annualized two million dollars. As a speaking, that's 50 million dollars that has been growing at about 80 percent a month. So that fits our criteria in the sense that we know e-commerce marketplaces are worth across the world. We've seen WhiteWave works and this business has been great, localizing the solution to really bring e-commerce to the broader population. Right.

[00:07:12] And so what are the primary challenges your starters faced when they launch? A business, of course, is in a undeveloped area.

[00:07:17] But if you had to call out one or two things that you think are the key critical factors, what are those?

[00:07:23] So, again, if you compare it to the US, I would say the level of infrastructure available for startups to really be able to scale is very strong. So you have logistics providers marketing. You have everything that you need to be able to start a company. I mean, in the case of e-commerce that we were talking about, you typically don't even have a logistics solution in terms of payments you're looking at.

[00:07:45] As I said, 50 percent of the population doesn't have a bank account and less than 10 percent of the population that has a Visa or MasterCard. So as a startup, you really have to be integral in building up the infrastructure necessary for your business to work as opposed to it being immediately available to you as an investor. One challenge, as I alluded to earlier, is simply being able to collect the information you need to make an appraisal to understand whether you want to invest or not by being on the ground, by being committed. These are all problems that are solvable.

[00:08:17] Yeah, right. Well, a moment ago you mentioned that the challenge for the investor was finding the information because it's not readily available.

[00:08:23] It takes a lot of legwork. Aside from that, what other challenges do investors face in these areas?

[00:08:29] So on a very basic level, it's a language. So a lot of these countries, some of the entrepreneurs and some of the best opportunities that we fund that have actually been found is that those speak English and so on. Our team, we have to have individuals that obviously are capable of speaking the language. You also don't have typically a strong ecosystem for later stage funding. And so our role as an investor is to be early stage investors to really help the company develop. And then once they've developed to proactively go out and reach out to investors across the globe to provide a late stage funding. So it's really the full stack of services that you have to be able to provide as an investor to these companies. Right.

[00:09:14] Well, you mentioned fintech is an application you see come up in these areas. What other applications or sectors do you think are good opportunities for investors to pursue?

[00:09:24] So we see fintech as an added service. But when you have in the US, as you have fintech in the sense of online banks that are trying to compete with traditional banks, our approach is somewhat different. As we say, one of the business models that can capture a large customer base that has enough touch points to that customer base through that process can collect a lot of data on a customer base to then overlay financial services. So two examples. One is obviously e-commerce where everyone needs to shop. E-commerce is generally known to be more efficient solution. And by collecting a large customer base, we can then overlay financial services. That is, let's say, consumer loans to not only accelerate purchases of e-commerce, but to be a lender as well. Similar similarly access software focusing to small and mid-sized businesses which typically dominate the economies in these countries. Again, the solution there is to provide software where the economics are well known as high margins Hiriko. Revenue for the provision of software, you're collecting a lot of data on the underlying customer base, you have a captive customer base because obviously the very essence of software, the recurring revenue is very high. And then again, we can overlay financial services on top of that. So one of our portfolio investments is a company that provides inventory management and account management software, some small and midsize businesses. And the BUECHLER is your free provision of the software. You're collecting data on all of these companies, inventory management cycle, cash management, cash management cycle, which is extremely valuable data for banks, which you can then use their balance sheet for to start providing working capital loans to these merchants as well as which countries are you spending the most time in these days?

[00:11:07] So our focus really is the Soviet Union, Central Asian countries. So you see, as I said, Take Eco-Systems developed in Africa and Southeast Asia. But this region has really been overlooked and combined.

[00:11:20] It has under 40 million people demographics on Gregor's roughly 60 percent under the age of 35. As I said, you have very strong digital infrastructure. You have smartphone internet penetration of 70, 80 percent. And so for us, it's really the area where the business models, again, that we've been accustomed to really haven't been developing. There's a lack of venture ecosystem, which for us is an opportunity.

[00:11:43] And where you find the education to be like, what level do people normally have? And it does that help the startup world at all?

[00:11:50] Well, the beauty is that you have the Soviet hangover, which is very high education and focused on the hard sciences, which one can argue is the best form of education you can have. So typically what you find our graduates are engineering, math, physics and computer science. So the raw

ingredients are already there as well, which if you combine with my earlier point that the very nature of the population is entrepreneurial makes quite a strong confluence of factors.

[00:12:14] You find there's a strong software development component. They do a lot of outsourced software development for the rest of the world, or they're just building their own companies for their own purposes and providing software support that way.

[00:12:25] A bit of both. So, for example, in a country like Ukraine, you have a lot of outsourced developers for, let's say, US or UK or European companies. But obviously they see the opportunity set themselves to use their skills to build businesses. So I would say that the hybrid of the two are great.

[00:12:41] And do you find it easy to get to these places or is it very difficult from where you are?

[00:12:46] Well, typically the benefit of being in London, obviously perk of it, is that it's quite easy to travel anywhere you want. Obviously, you're an American's somewhat more difficult. But what we do is we have a team on the ground in every country that we operate in which during this period has allowed us to continue to invest and monitor our existing portfolio in an efficient and effective manner.

[00:13:06] I'm very good. So well, in the last few minutes that we have here, what else should we cover that we have?

[00:13:10] I think one interesting dynamic that you see in emerging markets within the tech space that we don't really have in the countries like the US or the UK is the emergence of what you can call super apps.

[00:13:22] So if you look at what Alibaba and Financial is, I would argue that that business model probably wouldn't be able to be created in the US. That is, if you look at non-financial in the space of 10 years, this creates the two hundred billion financial services business, which is effectively come out of an e-commerce marketplace. And what's interesting is if you if you think rationally, Amazon, they should probably be the largest consumer lender, financial services business in the US. All you have there is regulatory block. You don't really have that in developing countries. And so you have this you have the ability for companies to really, through technology, be able to touch every aspect of a consumer's life, whether it be e-commerce, whether it be financial services, whether it be for them to be able to pay for their utility bills or logistics, or seen companies provide an end to end solution off the back of one initial business that captures a very large cuts.

[00:14:15] And this still sounds like regulatory really hasn't been put in place at this point in.

[00:14:20] Maybe not coming for a while. Is that your take on it?

[00:14:24] Yeah, I mean, I think a lot of these countries, the regulators are probably slow to act on what you see as companies becoming dominant market place. And frankly, as a government, once that has happened, there's nothing you can do. You can shut them down. But that would upset a lot of the population which are benefiting from the services. You can try and take the acid away, but there is no assets is intangible value. And so the worst that happens is probably what happened in China, where effectively the government says, well, share data with us, but we'll allow you to operate in a normal manner. So that's that's kind of the lay of the land, so to speak, I think.

[00:15:02] Well, that's great. Well, how best for listeners to get back in touch with you so.

[00:15:08] Well, I think my email will be on the on the podcast notes. And similarly, my colleague Alex Branton, if anyone ever entrepreneur investor is interested to learn more, the best way is just get in touch. Great point.

[00:15:21] Thank you for joining us today. Kitty, back for a follow up soon.

[00:15:25] Thank you very much.

[00:15:27] Investor Canek helps investors interested in startup funding. In this podcast series, experienced investors share their experience and advice. You can learn more at Investor Connect, Doug.

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