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## TECHNOLOGY SERIES

MARCH 2018



## Investing in an *AI future*

Technology as a topic has captured the world's imagination. As new terms enter our vocabulary—artificial intelligence (AI), machine learning, big data—we're hearing how technology will transform the way society lives and interacts.

At Crestone, we are committed to learning about and helping to provide exposure to future investment themes—while also managing portfolios to cater for the current environment.

We recently invited a group of Australia's leading venture capital (VC) investors to provide their views on various technology themes and how they are likely to impact the world in which we live. Our panel included **Daniel Petre AO**, Co-Founder and Partner from AirTree Ventures, **Niki Scevak**, Managing Director and Founder from Blackbird Ventures, **Emma Weston**, Co-Founder and CEO from AgriDigital, and

**Paul Bassat**, Co-Founder and Partner from Square Peg Capital. The panel was moderated by **Ian Gardiner**, Head of Start-up Ecosystem, Australia and New Zealand from Amazon Web Services.

Key themes to emerge from the event were:

**AI will have the most significant impact** on technological advancement over the next decade. However, it is not sufficient simply to invest in AI as a theme. Instead, investors will need to select businesses that can apply AI well and demonstrate 'domain expertise' in areas where competition is less.

**The VC investor must know how to identify a business** with a sustainable differentiation over a long period rather than rely on current valuations.

**Australia has a supportive VC environment**, with both tax advantages and increasing support from the superannuation industry. However, there is an important balance between not having too much capital (overpaying for investments) and too little (starving the space).

# OUR PANELLISTS



## EMMA WESTON

CO-FOUNDER AND CEO  
AGRIDIGITAL

As Co-founder and CEO at AgriDigital, Emma leads all aspects of the business' strategy, stakeholder engagement, blockchain and talent management, with oversight of the sales, broader technology and operational environments. AgriDigital (formerly Full Profile) was founded in 2015 and is based out of Sydney, Australia.



## DANIEL PETRE AO

CO-FOUNDER AND PARTNER  
AIRTREE VENTURES

Daniel has been a key player in Australia's technology industry for more than 30 years, and has held leadership positions in technology-based businesses, including working for Bill Gates at Microsoft's headquarters in the US. He has also been a leading technology investor in Australia founding AirTree Ventures, Ecorp and Netus.



## IAN GARDINER

HEAD OF START-UP ECOSYSTEM, AUSTRALIA AND  
NEW ZEALAND  
AMAZON WEB SERVICES

Ian is a technology entrepreneur working to grow the start-up ecosystem in Australia and New Zealand as part of Amazon Web Services. He also co-founded and helps to run Innovation Bay, a networking and angel investment group for start-ups.



## NIKI SCEVAK

MANAGING DIRECTOR AND FOUNDER  
BLACKBIRD VENTURES

Niki is a co-founder of Blackbird Ventures, a venture capital firm with the mission to be a partner to the greatest business stories born from Australia. Prior to Blackbird Ventures, he founded Startmate, an accelerator that helps young tech entrepreneurs become great CEOs and build global start-ups. Before that, he founded Homethinking and worked at Jupiter Research in New York.



## PAUL BASSAT

CO-FOUNDER AND PARTNER  
SQUARE PEG CAPITAL

Paul co-founded SEEK in 1997 and served as joint CEO from 1997 to 2011. SEEK has market-leading businesses in Australia, China, Brazil, Mexico and throughout South-East Asia.

Paul is Director of Wesfarmers Ltd and a Commissioner of the Australian Football League. He is also on the board of Innovation Australia and the P&S Bassat Foundation.

# INVESTING IN AN AI FUTURE

## WHICH THEMES WILL DEFINE THE WINNERS IN NEW TECHNOLOGY?

**Bassat** feels most of the important technology disruption today is driven by software-enabled business models. “There are lots of exciting things happening—everything’s moving to the cloud, which is a really important theme, and we’re ten years into that theme.” The defining theme in the next 20-30 years will be AI, “which will change the world in ways we can’t imagine”.

**Scevak** agrees that the over-arching theme will be AI—but suggests that it’s not necessarily an AI company that will be the most successful. “The AI window has opened up all these possibilities for driverless cars, for medical diagnoses—for all these different problems to be solved in better and cheaper ways.” So, while he thinks that AI is the correct category, he stresses the importance of digging deeper to find companies using AI to solve problems and really reinvent the user experience.

Traditionally, space has been the domain of government-funded research institutes. However, **Scevak** explains that the cost of launching satellites has dropped significantly, which has opened up some interesting opportunities in the space industry. For companies wanting to build a network, they no longer need to dig up the ground or install a tower on top of a building. By sending a satellite into space, they can obtain wide coverage at limited expense. This has opened up endless possibilities for the next generation of entrepreneurs.

**Petre** stresses the importance of not following a theme, such as AI. Instead, he says “you need to ask the question of whether a company can disrupt a market place”. He says it is also important to ensure that the company you’re investing in has created a differentiated offer in ‘white space’ where nobody else is. One area he finds particularly interesting is the application of machine learning in medical science, where image recognition will dramatically change the delivery of medical diagnoses. An example of this is how software can now diagnose melanoma with greater accuracy than humans—and at a fraction of the cost.

**Weston** believes the ‘new black’ is domain expertise. She explains how it’s important to identify companies that fundamentally understand their domain, the problems that need to be solved, and who will pull any technology that is useful (new or old) so they can solve that problem. She also feels that an ecosystem is evolving where people are watching the way entrepreneurs are cooperating with each other and how they’re bypassing incumbents to access novel technology.

**Petre** also notes that the current mega-technology companies could be vulnerable to regulatory risk in the future because of their rapidly-growing scale.



**NIKI SCEVAK**  
MANAGING DIRECTOR AND FOUNDER  
BLACKBIRD VENTURES

*“AI has opened up possibilities for different problems to be solved in better and cheaper ways.”*



**EMMA WESTON**  
CO-FOUNDER AND CEO  
AGRIDIGITAL

*“The new black is domain expertise.”*

## HOW DO VENTURE CAPITAL FUNDS PICK SUCCESSFUL COMPANIES?

The panel agrees that start-up valuations are largely secondary when picking companies to invest in.

**Scevak** explains that, while the public market may be willing to invest in any company at the right price, in VC you may want to “invest in the ‘right’ company at ‘any’ price”.

The distribution of returns in new technology ventures is so extreme that it’s important to have a deep understanding of a company’s relevance. In the early stages, you’re looking for a pattern of repeat customer behaviour and a deep love of the product, even though there may only be a small number of customers.

**Petre** says he’s looking for companies that demonstrate sustainable differentiation, as well as sustainable growth over long periods.

**Bassat** suggests that the starting point should be to ask “is this an amazing company and is it solving important problems?” Valuations then become a secondary consideration. “We’re no longer living in a world where you can be the best in your suburb. You’ve got to be the best in the world in order to have a sustainable business in most areas.”

## AUSTRALIA AND INNOVATION—WHAT DO WE NEED?

**Bassat** explains that, while a lot of things are going well for Australia, we need to be more innovative. We need more companies that are the world’s best at what they do. He also believes that we need to be smarter about the way we harness the capital available in our superannuation industry. This is an important source of funding that should allow us to create value “not just for tomorrow, but also for future generations”.

The VC programmes (such as Early Stage Venture Capital Limited Partnerships and Venture Capital Limited Partnerships) are seen to be a positive step for the industry. The taxation benefits for registered early-stage and VC limited partnerships include an exemption to investors from capital gains tax on gains. “This has been a phenomenal motivator to push capital into the market,”

**Petre** claims.

**Petre** also discusses the importance of Australia encouraging a strong flow of skilled workers from overseas. Figures from the US have shown that a strong corollary exists between where money is invested and foreign-born talent.

When asked whether Australia should encourage more technology companies to list on the ASX, the panel agrees that where a company is listed is largely irrelevant. **Bassat** explains that what is relevant is where companies operate. The only way in which a country can create value sustainably over a long period of time is through productivity growth. And the most highly-productive jobs being created by newly-emerging businesses are being created where those companies are founded.



**PAUL BASSAT**  
CO-FOUNDER AND PARTNER  
SQUARE PEG CAPITAL

*“You’ve got to be the best in the world to have a sustainable business in most areas.”*

## WHERE ARE VENTURE CAPITAL FUNDS RAISING CAPITAL?

**Gardiner** asks how the process of raising funds has changed over time, and what some of the difficulties are that VC firms face in raising funds to support start-up opportunities.

**Petre** highlights the tension between seeking corporate funding (which drives one third of all VC in the US) and his ideal of creating a funding ecosystem from a broader array of investors that could support start-up investment for generations to come. He also explains the importance of ensuring the 'right' amount of capital flows into the industry, claiming too much may be just as detrimental as too little.

**Bassat** believes that Australian VC is still experiencing a radical undersupply. While he feels there is a slight risk we may end up with too much capital, he believes this would be better than receiving too little.

Australia's large superannuation funds are seen to be helping the process, increasingly supporting VC funds. However, the panel acknowledges that the majority of support is still coming from entrepreneurs, family offices and high-net-worth investors. The panel also notes there has been a huge amount of demand to fund new technology from offshore investors, particularly from the US.

**Scevak** describes how the 'private life' of a company has extended from five or six years to an average of about 11 years. This means companies are often no longer 'pre-revenue' when they IPO, but bona fide businesses where significant valuation uplift may have already occurred. However, subsequent VC funding rounds, before IPO, still present an opportunity for investors to participate in any valuation uplift.



**DANIEL PETRE AO**

CO-FOUNDER AND PARTNER  
AIRTREE VENTURES

*“VC programmes have been a phenomenal motivator to push capital into the market.”*

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