

ALEXANDRE AZOULAY (H.95), CEO - SGH CAPITAL

FRENCH TECH WITH GLOBAL REACH

When he started his holding SGH Capital in 2008, serial-entrepreneur Alexandre Azoulay (H.95) had only 50,000 euros to invest. Since then, he has poured money into more than 70 disruptive startups in Europe and the US and achieved recurrent successful exits. The 43-year-old investor spends much of his time in Silicon Valley where he enjoys a unique network of famous entrepreneurs and investors. Interviewed by “Hommes & Commerce”, he shares his views about the growing clout of tech giants like Google and Facebook at the age of artificial intelligence.

HEC You have invested in over 60 companies over the last 48 months. The average age of founders is 26. Why do you target such young entrepreneurs?

Alexandre Azoulay I tend to believe that the younger the entrepreneur, the more breakthrough innovation you will see. Three of our most successful companies and exits have CEOs in their 20s. You may consider Kügar's Gary Kurek, 26, who started inventing robots when he was 15 and who is reinventing factory robotics, disrupting General Electric; or Bina Technologies, a human genomic platform, whose CEO is 25 and that was sold

to Roche last year. While we act as a minority venture investor in the US, in Europe we create companies based on our own research and vision and let them be led by entrepreneurs straight out of college. We live in a time when the obliteration of knowledge and the shift in paradigm happen overnight. I believe that the right combination is a smart, young, driven entrepreneur backed by more mature investors and board members who understand what it takes. Interestingly enough, we also constantly learn as investors alongside our entrepreneurs. You will see more out of college grads go after legacy players in all industries and massively succeed.

HEC Your venture capital fund SGH Capital has raised nearly 100 million dollars in a very short period. Only 15% of that money comes from France. How did you achieve that?

A. A. Our base is in France, but I spend 40% of my time abroad, in the Middle East or in the US, both investing and fundraising. My two partners are respectively in Silicon Valley and in Dubai. We met through our respective entrepreneurial endeavours and joined forces to promote a new generation of tech entrepreneurs. We have succeeded and failed in our early careers, so we have a good dose of humility and crazy efficiency. SGH is actually an agile, profitable network, which has attracted prestigious private families and institutions from Kuwait, Germany, Switzerland, Belgium, France and Africa. We are one of the very few French venture firms (maybe the only one) without any local subsidies – so far. We are able to grow thanks to our absolute performance and our entrepreneurial drive.

ELECTIONS LOOMING AHEAD

Regarding tech and startups, what would be your advice to the next US president?

He or she should address the issue of monopolies. The power of the GAFA is starting to be troubling. We have to be careful that those companies will not stifle innovation and crush competition for years. Look at Facebook that was accused of censoring content on the news feed. Is Facebook a social network or a news corporation? Those companies have a huge influence on our knowledge and life...

... And to the next French president?

Most French politicians have been here for 20-30 years. The next president should build his team with fewer technocrats and more non-professional politicians: I mean, people from civil society and entrepreneurs.



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LIFE OF AN ENTREPRENEUR

- 1995** HEC graduate
- 1996** Officer, French Navy
- 1997** Sciences Po graduate (his thesis focuses on Napoléon and Hitler)
- 2003** MBA at Harvard, where he meets his wife Isabel
- 2009** Launches SGH Capital.
- 2015** Best exit: Sells Bina Technologies to Roche with a 11x cash multiple
- 2016** SGH manages USD 100 million dollars of assets

HEC Some funds specialize in one topic, say fintech. On the contrary, SGH Capital invests in various fields including complex ones like genomics. Isn't such a diversification risky?

A. A. Every year we explore a new vertical, such as fintech or autonomous logistics (drones, UAV): we anticipate investment cycles and search for entrepreneurs with matching visions. Expert funds who sell themselves as biotech or late stage for instance may get stuck in industries where innovation is not linear and sometimes get caught up in bad timing. These funds actually lose the edge of both timing and diversification.

As for SGH, we can switch from genomics to retail the same year and be absolutely opportunistic when it comes to the timing, valuation, industry cycle and geography of our investments. That is one massive difference between French venture capital versus American investors, who are usually as agnostic as we are. Complex industries – like finance and genomics – are actually the easiest to disrupt through new technologies and business models. We move fast.

We now have 49 investments in the United States and a dozen in Europe, of which nine were started by our own teams. The default rate across our US/ EU portfolio after 5 years is below 5%. That is 5 to 7 times lower than comparable investment funds.

WHAT THEY SAY ABOUT HIM

Audrey Stewart (H.13), Cofounder of Origin Investing

Alex is excellent at building businesses even in complex, fast-changing, regulated industries. I met him during my HEC Entrepreneurs master. After a trip to the US, we came up with an idea: a platform that would improve investment in startups and SMEs. Origin was born.

Thibault de la Baronnière (M.09), Managing Director at Investibox

Alexandre has a unique ability to arouse investors' interest on the projects he backs or develops. He is always looking for the next game-changing innovation. Working on his side is an amazing opportunity.

Corentin Denoeud (M.08), Cofounder of Wijet

I was 23 when I created a private jet airline with Alex! This guy is living 10 years ahead of us. He can process a ton of concepts and options and still get things done. At the same time, he reads a lot and is very open to art and culture. He's a very inspiring personality.

HEC How do you get the necessary skills to invest in those areas?

A. A. With my two cofounders and two associates, we do constant research, matching technologies, market trends and teams. We are entrepreneurs and we know how to project ourselves in an new environment. Most importantly, we are not alone. We have built a network of over 30 top-notch partners and co-investors on three continents. Most are entrepreneurs; some of them have led the executive teams at Google, Cisco, Oracle; others have invested in the early stages of Paypal, Dropbox and eBay. If we have a complex biotech/health project for instance, we may have direct access to the minister of health of a prominent Middle-East country, or to the chief technical officer of the largest genomic company in the world. We connect data points and people and we build on it.

We are a decentralized though totally coordinated organization. Our investors are part of this ecosystem and they love it!

HEC That certainly helped you guys launch the UK-based company Oximy...

A. A. Absolutely. Oximy is pulling human genomics out of the lab into the hand of consumers, so they can control their lifetime health and actively prevent curable diseases. Per se, Oximy is the first human genomics platform in Europe, and it was initiated by SGH. Tomorrow, you will be able to sequence your genome, evaluate your metabolomics and leverage an extended blood panel so you can assess your health risks and prevent them.





Cofounded by **Audrey Stewart (H.13)** and Alexandre Azoulay, Oximity is a crowdlending platform that issues bonds for companies with over 10 million euros of sales.

Photo : Stéphane Lagoutte Agence Res Challenges



As cofounders, we received a large stake in Oximity upon launch. In five years, when Oximity is worth hundreds of millions, our return may be crazy. But that is a positive assumption, right? *(he smiles)* Our capacity to get equity for free as cofounders in some European companies triggers amazing returns for our investors, compared to other typical venture funds.

HEC Among all the projects you have funded, what is your crush, your favourite one?

A. A. It would probably be Zipline: a US drone delivery project that initially launched in Rwanda to deliver blood and drugs to secluded parts of the country. Zipline has built the longest range, fixed-wing drone in the world with a drop accuracy of ten feet. This amazing team – which actually comes from Nasa and SpaceX – is now looking into the delivery of goods in developed countries. You rarely encounter a project with such an impact on human lives.

Let me also mention a French project in which we invested last year. Fretlink was started in 2015 by two young entrepreneurs. They are building a full digital marketplace for trucking in Europe. They are on their way to disrupting a multi-billion dollar market, with an initial investment of 200,000 euros from us.

HEC What are the hot topics that get investors excited in Silicon Valley right now?

A. A. Last year it was consumer apps, especially food and goods delivery, but that industry is maturing fast. Now is the time of AI (Artificial Intelligence). It is a game for big boys, though. Remember that DeepMind was acquired by Google. Tech giants are not leaving much space for startups. If you look at the R&D budget of Google and Apple combined, it accounts for 20 billion dollars a year, while the total VC industry in the US accounts for 28 billion dollars! The GAFA (*editor note: Google, Apple, Facebook and Amazon*) are still, maybe increasingly, agile, and I fear that they could pre-empt capital-intensive industries like AI. Investors like us have to find an angle into this exciting vertical.

HEC California governor Jerry Brown has recently announced that “the best days of the Silicon Valley tech boom may be over”.

Do you anticipate a dotcom bubble in the months to come?

A. A. Silicon Valley is slowing but it is not dying. I don't foresee any bubble bursting. However, investors are getting more selective. They are willing to test a lot of seed concepts, but fewer will make it to Series A. It is much more difficult to raise capital now. There will be fewer companies, in much more complex industries, much more capitalised, with a massive impact.

HEC You split your time between Paris and San Francisco. Do you have the feeling to switch from one universe to the other?

A. A. France is moving in the right direction, for sure. I think starting a company in Paris, for the first 2 or 3 years, may be the best deal. You have funding available and competitive labor (a tech developer is 3 times cheaper than in California). Also, France is a tight ecosystem, so it is easier to pre-empt the country as a whole. France is a great lab, but you badly miss the scale. Let me also mention the fact that Los Angeles is emerging as a vibrant and creative community for entrepreneurs, beyond Snapchat and Maker Studio. If I were to move to California as a young entrepreneur, I would choose Southern California.

HEC Fundraising in the French startup scene increased by 25% in Q2 2016, with some key operations like Drivy, MisterFly and Dashlane. Do you think a city like Paris can now compete with Berlin, or even London?

A. A. Indeed, a recent report even shows Paris just behind London. But when you look in detail, much of the money is coming from the government. If you only look at private investment, Paris is #6 or 7, behind Stockholm and Berlin. Private investors have to take over as bpifrance cannot carry the country alone.

HEC How would you assess the French government's action regarding startups and the so-called French Tech?

A. A. I believe in free markets and I think you get what you deserve through your own efforts. We are in France, however, and the state accounts for over 50% of our economy. The French government has done a great job at jump-starting the tech environment by pouring billions into tech networks over the last decade. These continuous efforts, once legit, may lead to valuation and survival distortion at the company level, and performance distortion at fund levels. We just have to be careful.

HEC You have invested in Crowdpac, a startup that does objective scoring for political candidates...

A. A. Yes, Crowdpac was cofounded by Gisel Kordestani, a dear friend met at Harvard, and Steve Hilton, the former senior advisor to UK Prime Minister David Cameron. The platform has millions of members in the US. It uses big data to create transparency, crunching everything a politician has said, voted and written in his lifetime, and positioning him/her on a matrix. It is coming to France in October (*editor note: the interview took place in September*).

HEC So Crowdpac measures honesty and consistency over time?

A. A. Exactly. But it also allows everybody to propose a program and raise money for themselves. Tomorrow a new political figure could emerge and be elected without going through a party. He/she could raise money through the crowd, online. That will tone down the power of political parties down the road... Crowdpac is hacking democracy (*he laughs*).

HEC To manage their supporters' database, presidential candidates Alain Juppé and Jean-Luc Mélenchon are using NationBuilder; the Nicolas Sarkozy team has launched the Knockin app; while Emmanuel Macron is working with French startup Liegey-Muller-Pons. Will tech play a critical role in the next elections?

A. A. For sure. Big data helps parties know their voters and find correlations to map the "mind of the country". Along with finance, data is the main driver of disruption in politics.

Do French startups need closer ties with French-based multinational companies?

A. A. French large corporations do not acquire enough local startups. A recent study actually shows that US companies acquire four times more startups than EU



In 2009, Alexandre Azoulay cofounded private jet airline Wijet with **Corentin Denoeud (M.08)**. In October, Wijet acquired its largest competitor in Europe. The company now has 19 aircrafts and claims to be the largest air taxi fleet in the world.

companies do¹. US multinationals have understood that they could be disrupted overnight. European ones... not so much, and the wakeup call will be somewhat painful.

HEC What about companies like AccorHotels?

I actually know their head of acquisitions very well! These guys are kind of unique for now. They've been acquiring one startup every 6-8 weeks (*editor note: for instance, Onefinestay (luxury holiday rental) and John Paul (concierge services)*). That is a good exception. Another one would be Crédit Mutuel Arkea (*editor note: which has acquired Leetchi and invested in Pret d'Union*). Their CEO **Ronan Le Moal (H.95)**, a friend from HEC, is a unique top banker who has a vision and a sense of technology.

HEC How would you convince an HEC alumnus to start his/her own tech business?

A. A. I would quote Bob Dylan. "If you are not busy being born, you are busy dying". So my advice is: keep learning and trying. You can start a company at 20, 50 or 60. My father is an entrepreneur. He is now 89. He started his most successful company when he was 55 years old and I still remember his "ahaha" moment in 1984! There is no good timing. Would you rather regret or have remorse? Your kids and wife will love you for what you try, not for what you don't do. You owe that to yourself. ●

1. Source: Crunchbase. More info at <https://lc.cx/owKn>

A TRANSATLANTIC PORTFOLIO

61 companies at SGH Capital (12 in the EU, 49 in the US)

7 industry verticals: finance, transportation & logistics, health & genomics, robotics, retail, corporate services, artificial intelligence & data.

4 cash exits in the last 18 months

11x multiple for Bina Technologies, sold to Roche in 2015, and average exit multiples over 4x