

Tip Of The Day

“Socialism never took root in America because the poor see themselves not as an exploited proletariat but as temporarily embarrassed millionaires.”

John Steinbeck



Secrets and Tricks of the Venture Industry

VLAD PAVLOV, ROLLAPP INC

Angel List (<http://angel.co>)

WIKIPEDIA
The Free Encyclopedia

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AngelList

From Wikipedia, the free encyclopedia

AngelList is a U.S. website for [startups](#), [angel investors](#), and job-seekers looking to work at startups.^[1] The platform has a mission to democratize the investment process. It started as an online introduction board for tech startups that needed ~~good funding~~. Now, the site allows startups to raise money from

AngelList

Type of site	Investor matchmaking
Available in	English
Headquarters	San Francisco, US
Website	angel.co 
Launched	April 22, 2010; 6 years ago

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One Crowdfunding Platform Is Behind 3 Billion-Dollar Startup Exits This Year AUGUST 10, 2016


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One Crowdfunding Platform Is Behind 3 Billion-Dollar Startup Exits This Year

by Erin Griffith

@eringriffith

AUGUST 10, 2016, 11:46 AM EDT



AngelList co-founder, Naval Ravikant 

Nivi.^[4]

company is also looking at [equity crowdfunding](#) cites his own experiences as a serial AngelList platform.

From Angel List

Minnesota Angel Investors

\$4.3M AVERAGE VALUATION



1,074 COMPANIES

4,675 INVESTORS

103,625 FOLLOWERS

56 JOBS

California Angel Investors

\$4.9M AVERAGE VALUATION



44,079 COMPANIES

5,411 INVESTORS

133,440 FOLLOWERS

11,543 JOBS



CNET > Tech Culture > Can't get your startup funded in Silicon Valley? Think Minnesota

Can't get your startup funded in Silicon Valley? Think Minnesota

Minnesota's entrepreneurs are fiercely loyal to the North Star State and proud of its non-cutthroat, collaborative atmosphere. They also say it's easier to attract investors there.

Tech Culture

September 13, 2015

5:00 AM PDT




by *Terry Collins*
 @terriscollins

To the tech entrepreneurs who've set up shop on the Silicon Prairie, there's no better place to be.

Silicon Valley ideas get meshed with Midwestern values, resulting in a low-key and collaborative community of startups in Minnesota that



Click above to see where we've been on CNET's Road Trip 2015.



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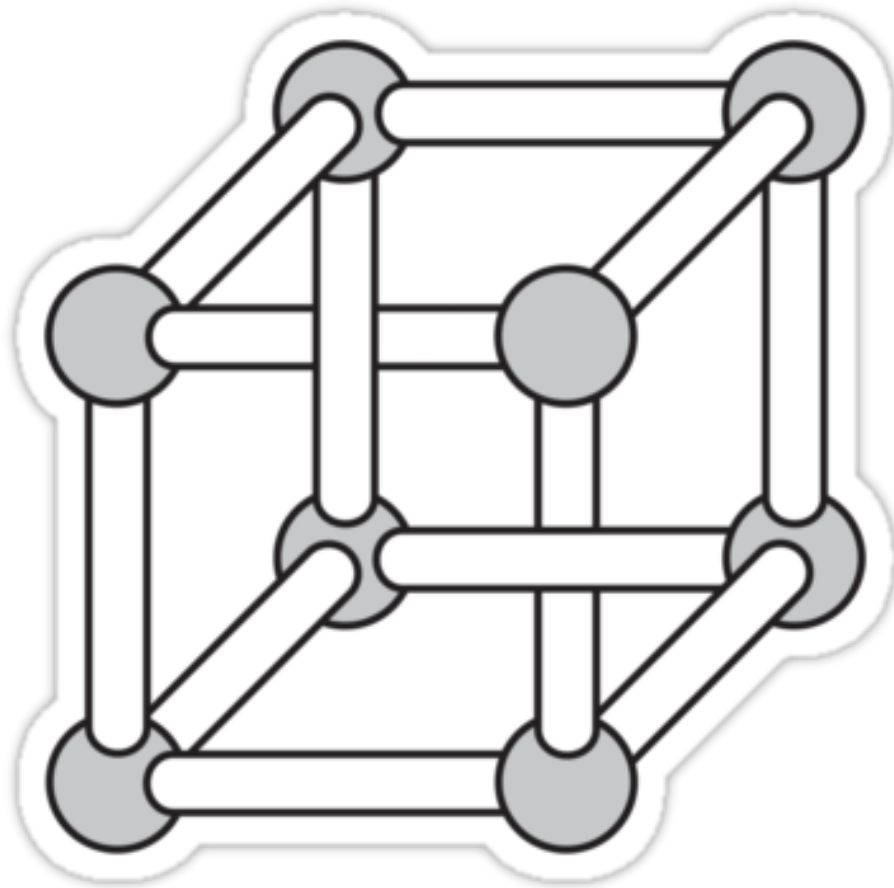
1.00% APY

on balances of \$10,000 or more

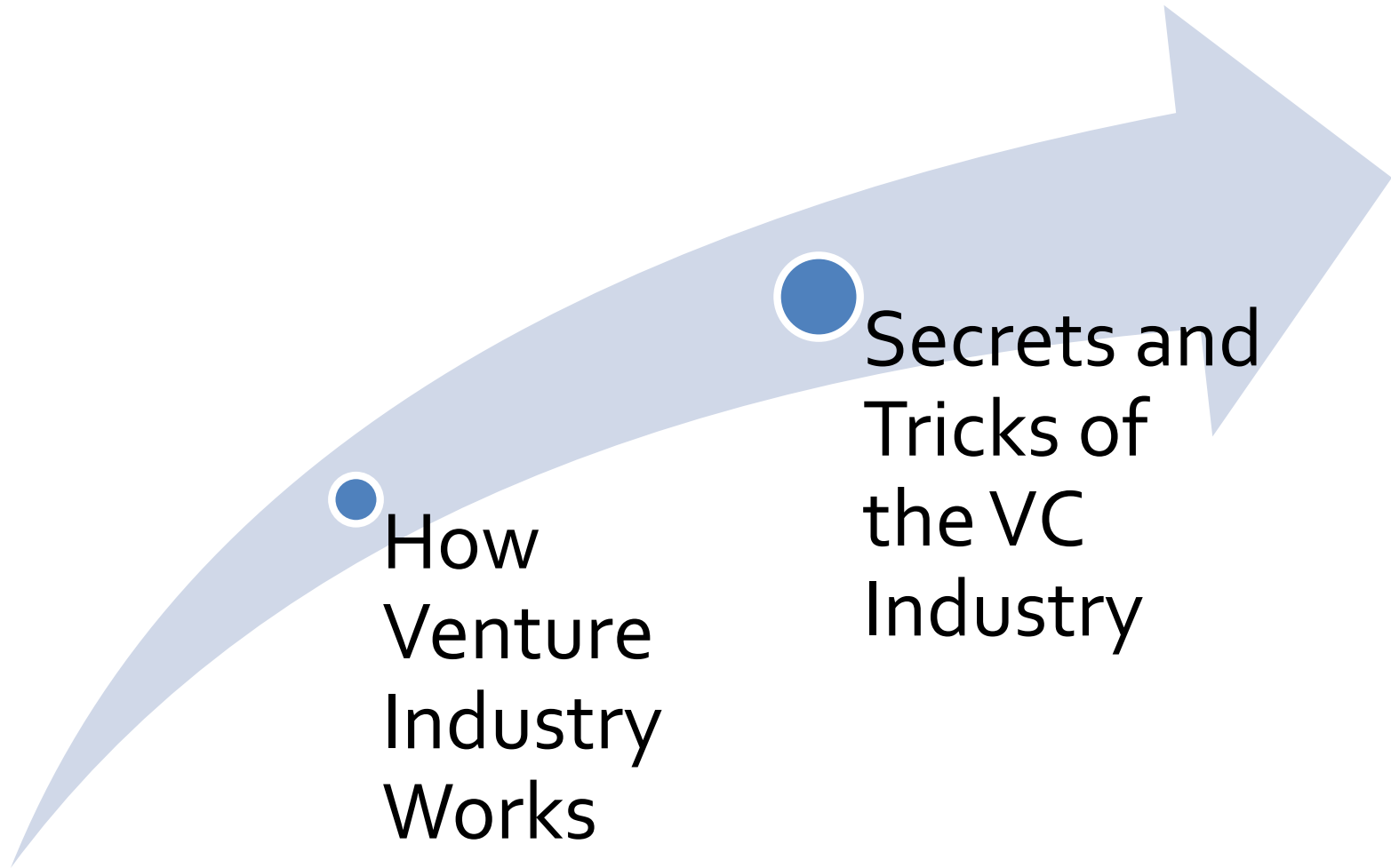
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Paradoxes, Illusions and Tricks in Venture Industry



Agenda



Vlad Pavlov

15+ years of serving on executive positions

- for a wide range of companies from seed-stage startups
- to Intel and Microsoft, to \$1 bln. venture fund
- in the USA, Ukraine, Russia and Poland

a frequent speaker/author

- in 2006 was included into ACM Top-10 list
- Chair-Emeritus at CEE-SECR
- bio is published in Marquis' Who's Who in the World

www.linkedin.com/in/VLPavlov

Case Study: WhatsApp

- Founded in California by Jan Koum (native of Kiev) and Brian Acton in 2009
- Raised \$ 58 mln in 3 rounds
- Created cross-platform instant messaging service
- Acquired by Facebook for \$ 22 bln in 2014
- By the time of acquisition the company had 55 employees in the USA



Case Study: WhatsApp (cont.)

Forbes **The Midas List** In partnership with TrueBridge Capital Partners



#1 Jim Goetz

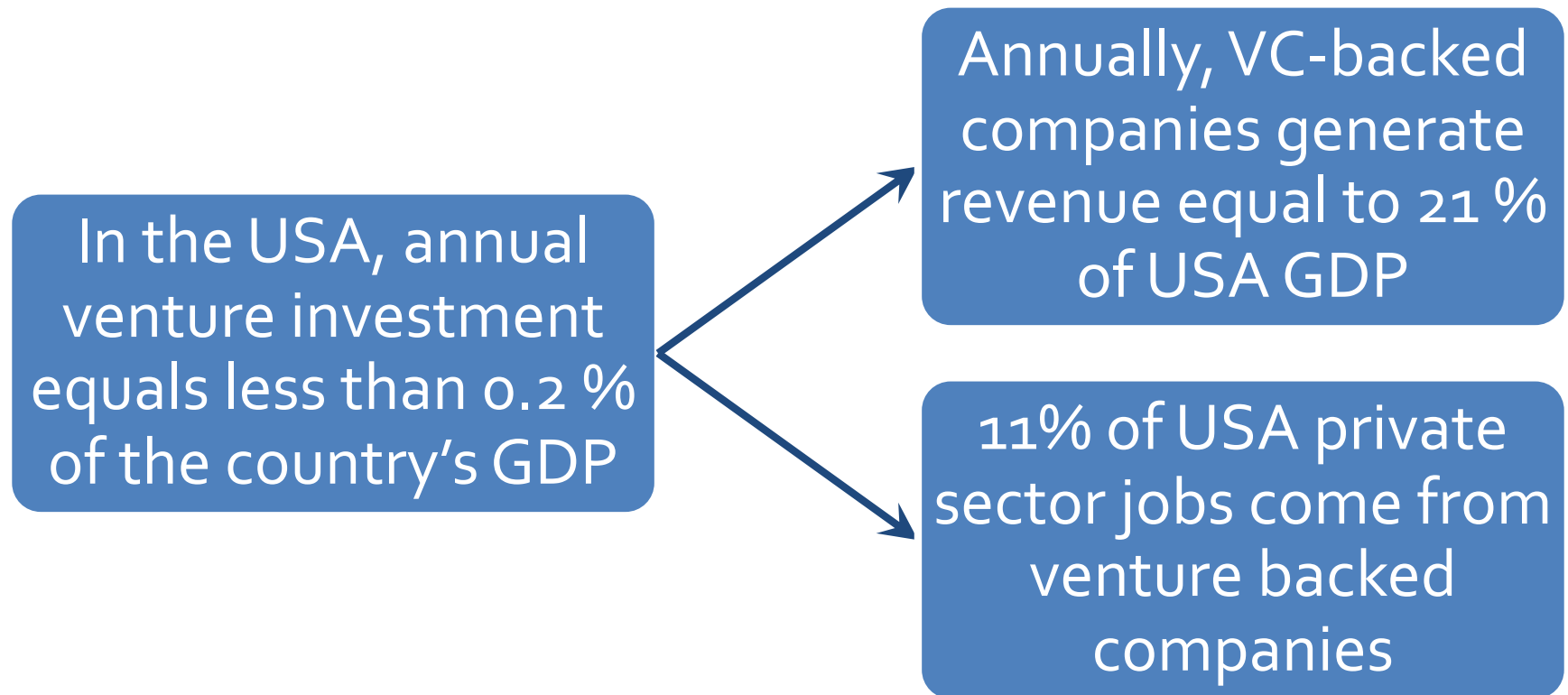
Firm: Sequoia Capital

A year-and-a-half after the sale of WhatsApp to Facebook for near \$22 billion, Jim Goetz continues to enjoy the glow from his early bet on the global messaging service. As the sole investor in the company, Goetz embodies the Midas touch, transforming \$60 million or so over three rounds into more than \$3 billion in Facebook stock, returning Sequoia's \$434 million 2010 fund six times over with one deal, making it one of the best deals in venture capital history.

[SEE FULL PROFILE](#)

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Economic Importance of Venture Capital in 2010

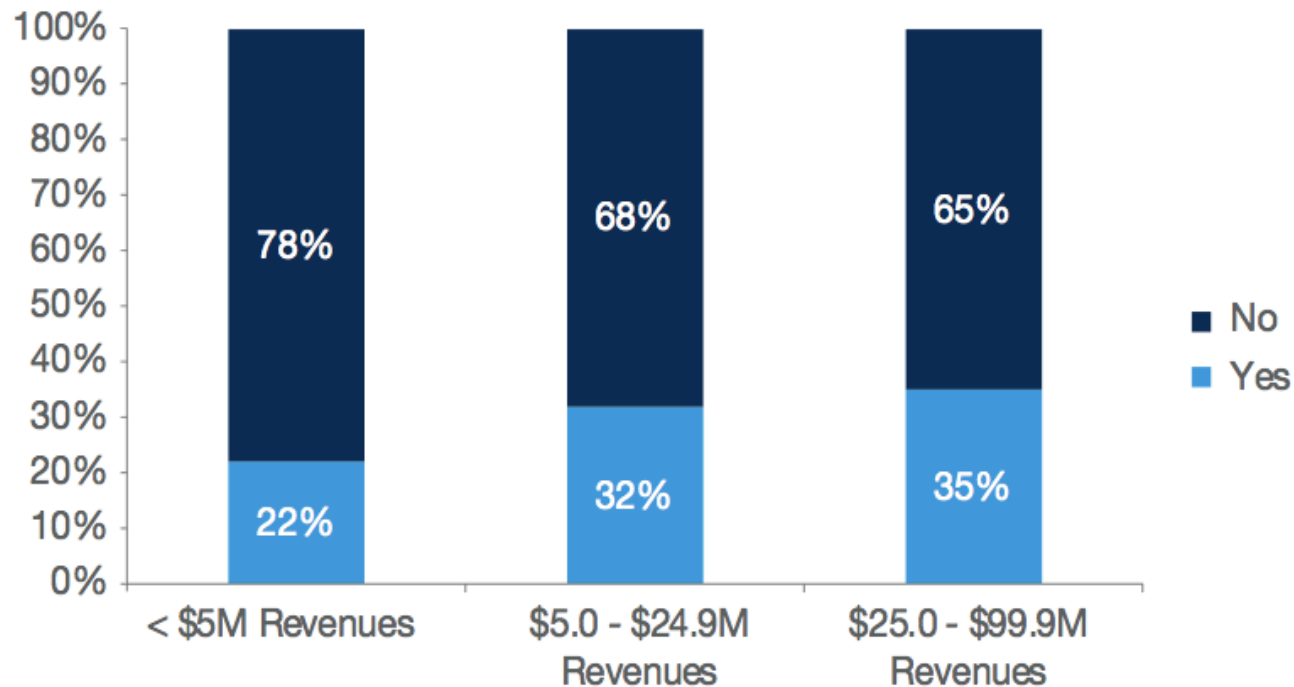


Startup and Venture Investors

- A startup is a company designed to grow fast...The only essential thing is growth. Everything else we associate with startups follows from growth
 - Paul Graham, Y-Combinator founder
- Venture capital is a type of private equity, a form of financing that is provided by firms or funds to small, early-stage, emerging firms that are deemed to have high growth potential, or which have demonstrated high
 - Wikipedia

Traction Is Everything!

Startups' Profitability (By Revenue Level)



Good Example:
Yury Milner's
investment into
Facebook

Angels vs. VCs in 2015 in the USA

	Angels	VCs
?	<ul style="list-style-type: none">Invest into startups their own moneyInvestment activities are hobby or side businessInvest in a range \$ 10 K- 2 MOften make "emotional" decisions	<ul style="list-style-type: none">Invest into startups the money, provided by LPsInvestment activities are the main businessInvest from \$ 0.5 M to \$ 2++ BMake "rational" decisions
#	<ul style="list-style-type: none">305 K angels10 - 15 K the most active angels jointly invest via about 400 angel groups	<ul style="list-style-type: none">~800 managing companies1200+ funds
\$	<ul style="list-style-type: none">\$24.6 B into 71 K deals (including 31 K first sequence investments)	<ul style="list-style-type: none">\$59 B into 3700+ deals (including 1400+ companies that got their first sequence venture investments)

2015

Country / State		USA	Russia	California	Minnesota
GDP / GSP	\$, bln	17,947	1,326	2,449	335
Population	mln people	321.8	143.5	39	5.5
GDP per person	\$, thou per person	55.8	9.2	62.8	60.9
Deal count	#	4,380	180	1,779	30
VC invested	\$, mln	59,066	233	33,867	372
Avg deal size	\$, mln	13.5	1.3	19	12.4
VC invested	% of GDP	0.33%	0.02%	1.38%	0.11%
Deal density	1 deal per # of thou people	73	797	22	183

Lifecycles

Startup

- ***From a few months to virtually eternally***
- Seed/Angel investment round
- Several venture investment rounds
- Exit (M&A or IPO)

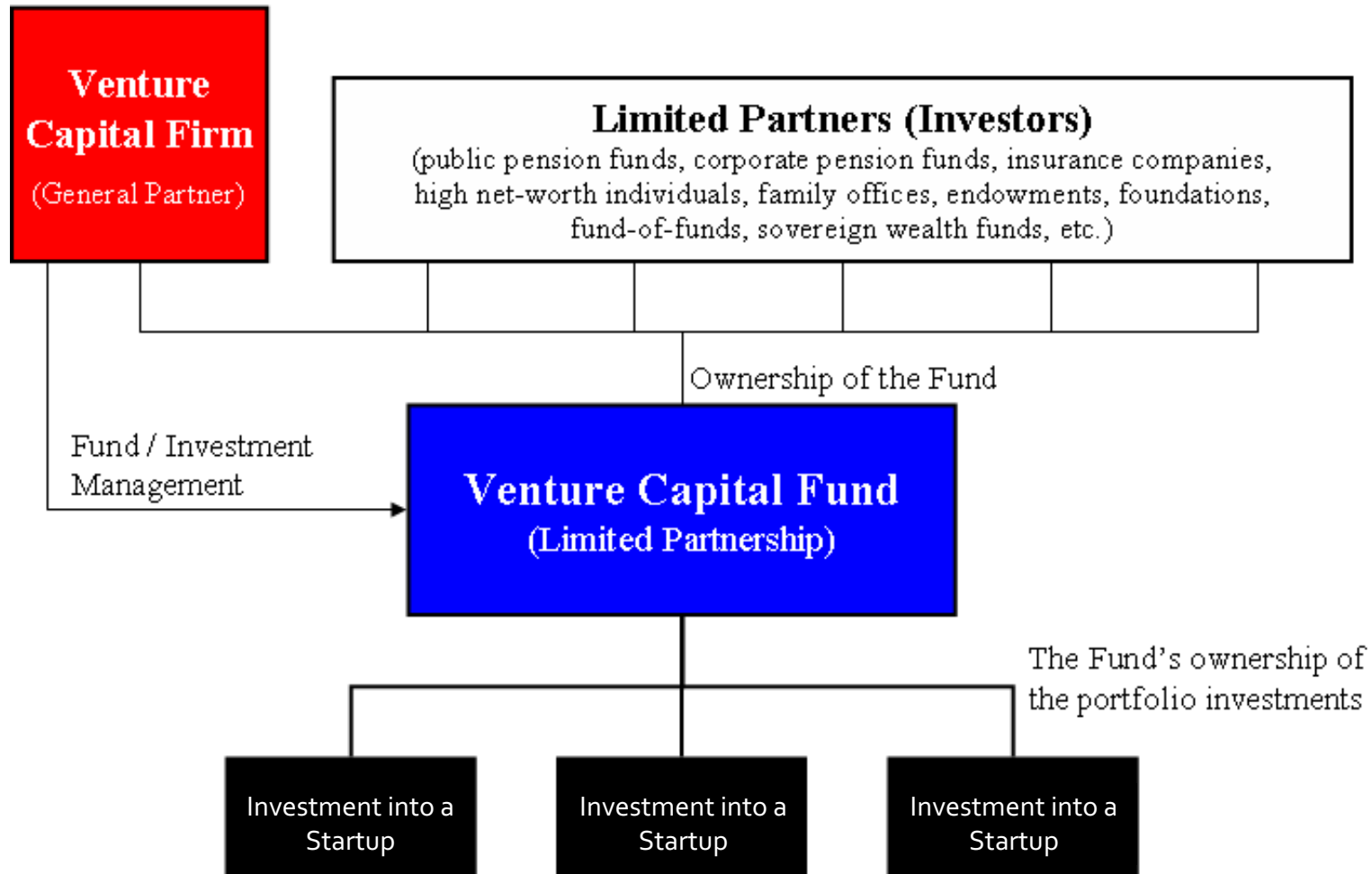
Fund

- ***10-12 years***
- Investment phase
 - Follow-on phase
- Harvest phase

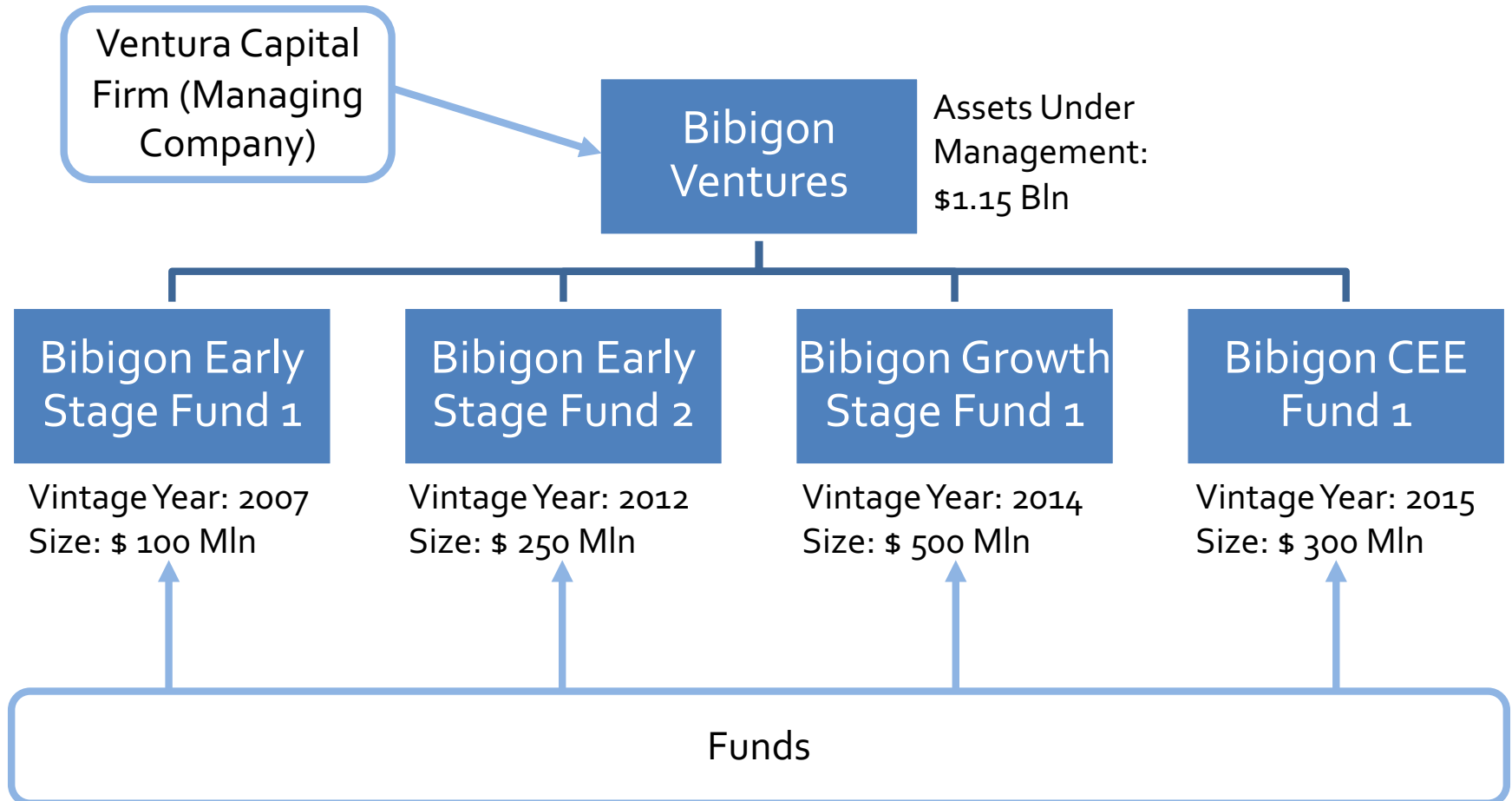
Managing Company

- ***Virtually eternally***
- Every few years an MC raises money from outside investors (called LPs) and launches a new fund

Structure of a Generic Venture Capital Fund



Several Funds Over Time



How VCs Make Money:

The 2:20 Rule

Management fee: usually 2%

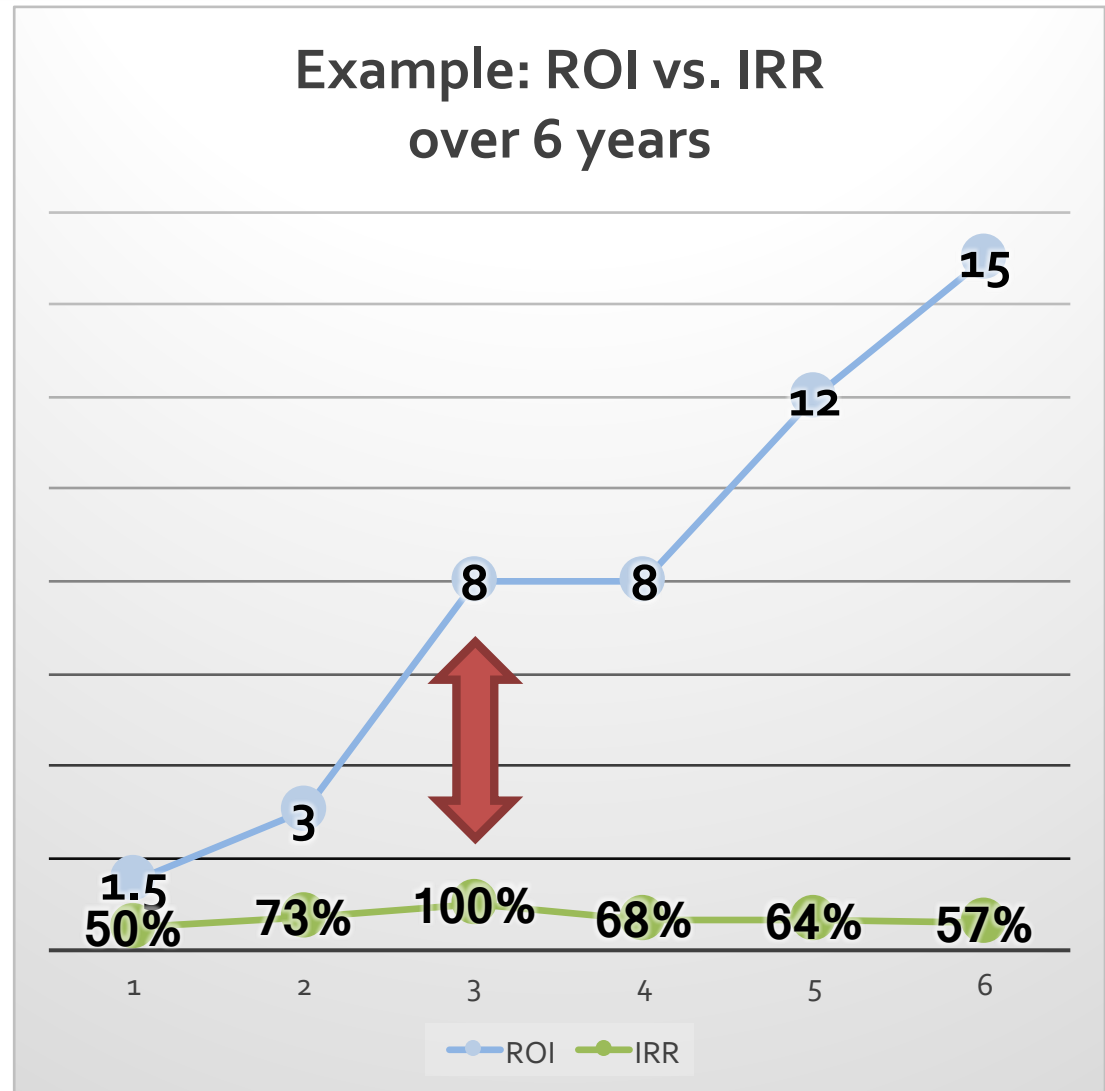
- a fee charged to the limited partners in a fund by the Managing Company. Management fees in a private equity fund usually range from 0.75% to 3% of capital under management, depending on the type and size of fund. For venture capital funds, 2% is typical.
- may be variable, for example: 2.5% flat for 7 years, then 2.25%, then 2%, then 1.75%;

Carried interest: usually 20%

- the share in the capital gains of a venture capital fund which is allocated to the Managing Company. Typically, a fund must return the capital given to it by limited partners before the Managing Company can share in the profits of the fund. The Managing Company will typically receive a 20% carried interest, although some successful firms receive 25%-30%.

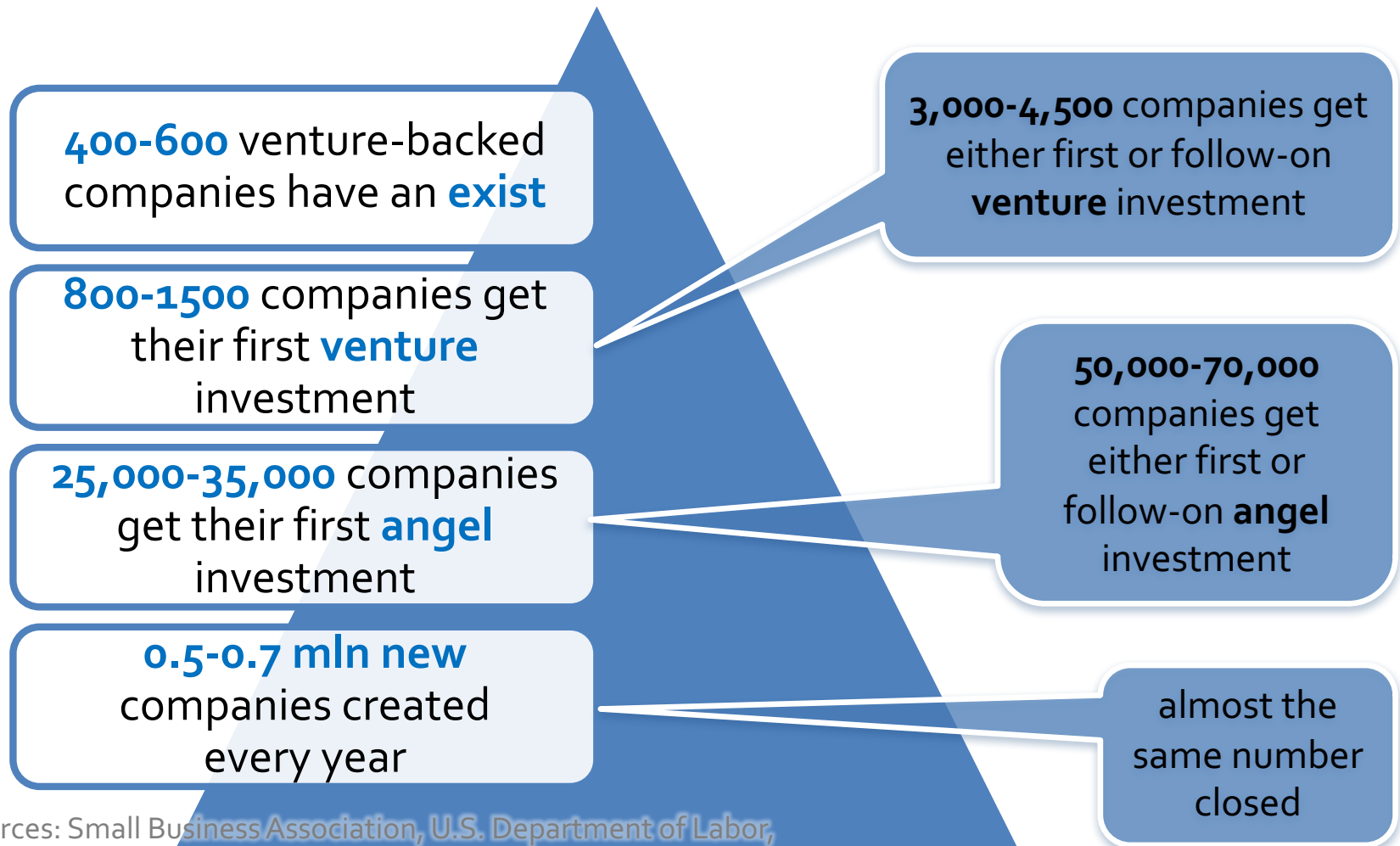
Success Measurement: ROI vs. IRR

- **ROI:** Return on Investment
 - “distance”
- **IRR:** Internal Rate of Return
 - “speed”
- From the investor's perspective, the best time to exit is when IRR reaches its maximum



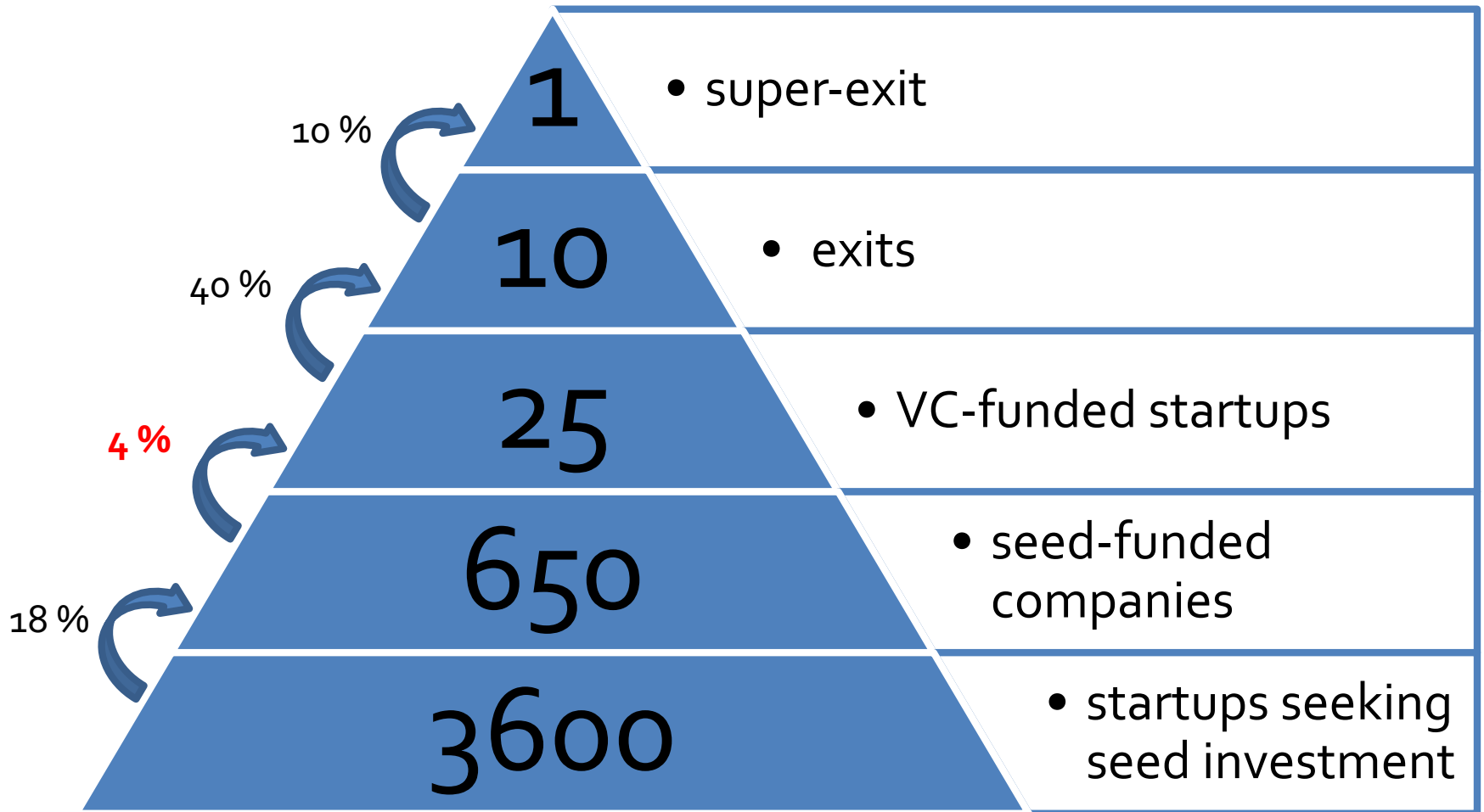
Yearly Venture Funnel

USA, 2005-2015



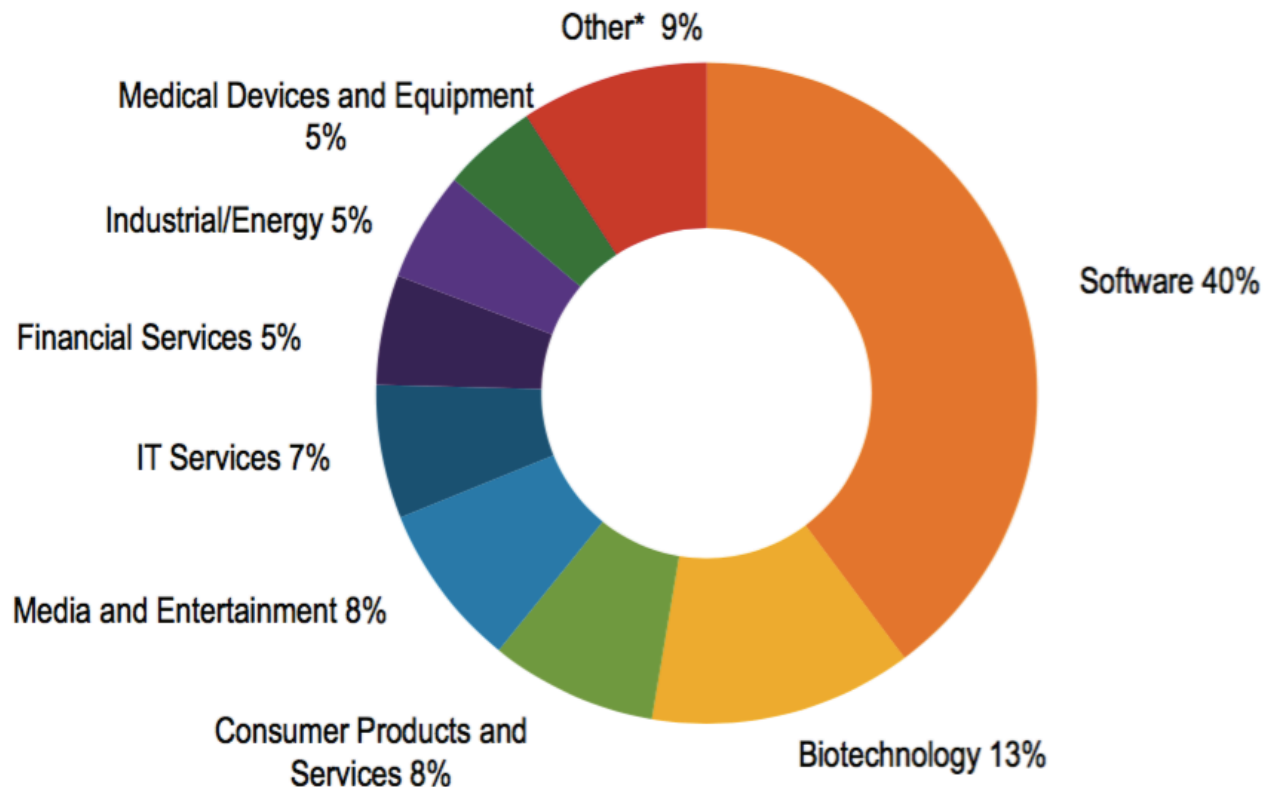
Sources: Small Business Association, U.S. Department of Labor,
U.S. Census Bureau, National Venture Capital Association,
Center for Venture Research at the University of New Hampshire

Yearly Venture Funnel at a Glance, USA, 2005-2015



Sources: National Venture Capital Association,
Center for Venture Research at the University of New Hampshire

VC Investments in 2015 in the USA (% of \$ invested)



*Includes: Retailing/Distribution 2%, Healthcare Services 1%, Semiconductors 1%, Computers and Peripherals 1%, Telecommunications 1%, Business Products and Services 1%, Electronics/Instrumentation 1%, and Networking and Equipment 1%

Startup Funding Cycle

Seed (angel) rounds

- Angel Investors / 3F-s (Friends, Family and Fools)

Venture rounds

- Series A Round
- Series B Round
- Series C Round
-

Exit

- M&A
- IPO

Why Would Some Company Want to Buy a Startup?

Startup's
technology

Startup's
users

Startup
team

...

Case Study: DarBery

- Founded in Russia by Elena Masolova in March 2010
- Raised \$800,000 in seed investment
- Was acquired by Groupon in August 2010 for about \$50 mln (estimate)



Case Study: Viewdle

- Founded in Kiev in 2006 by Egor Anchishkin and co-founders
- Raised \$ 12.5 mln in 3 rounds
- Created face-recognition technology
- Was acquired by Google in 2012 for \$ 30-45 mln (estimate)
- By the time of acquisition 90% of 50+ Viewdle employees were based in Ukraine (Kiev)

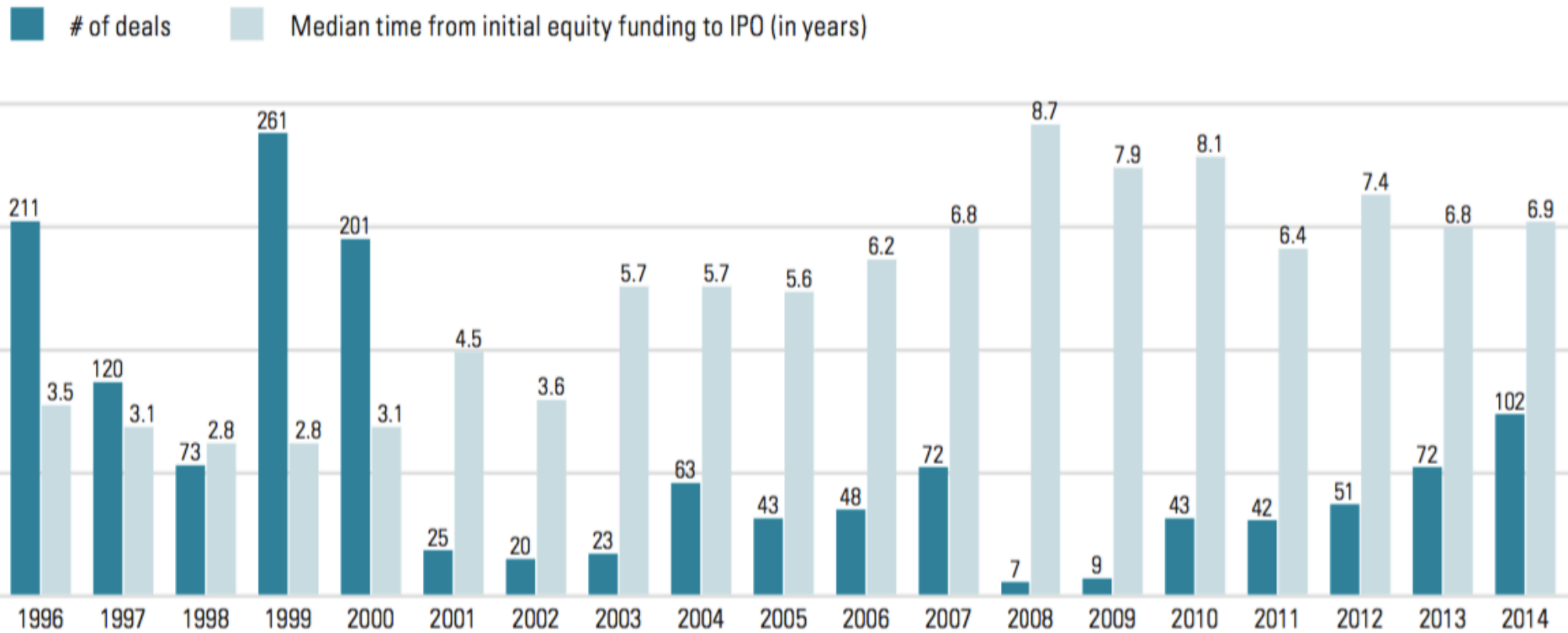


Case Study: Elbrus

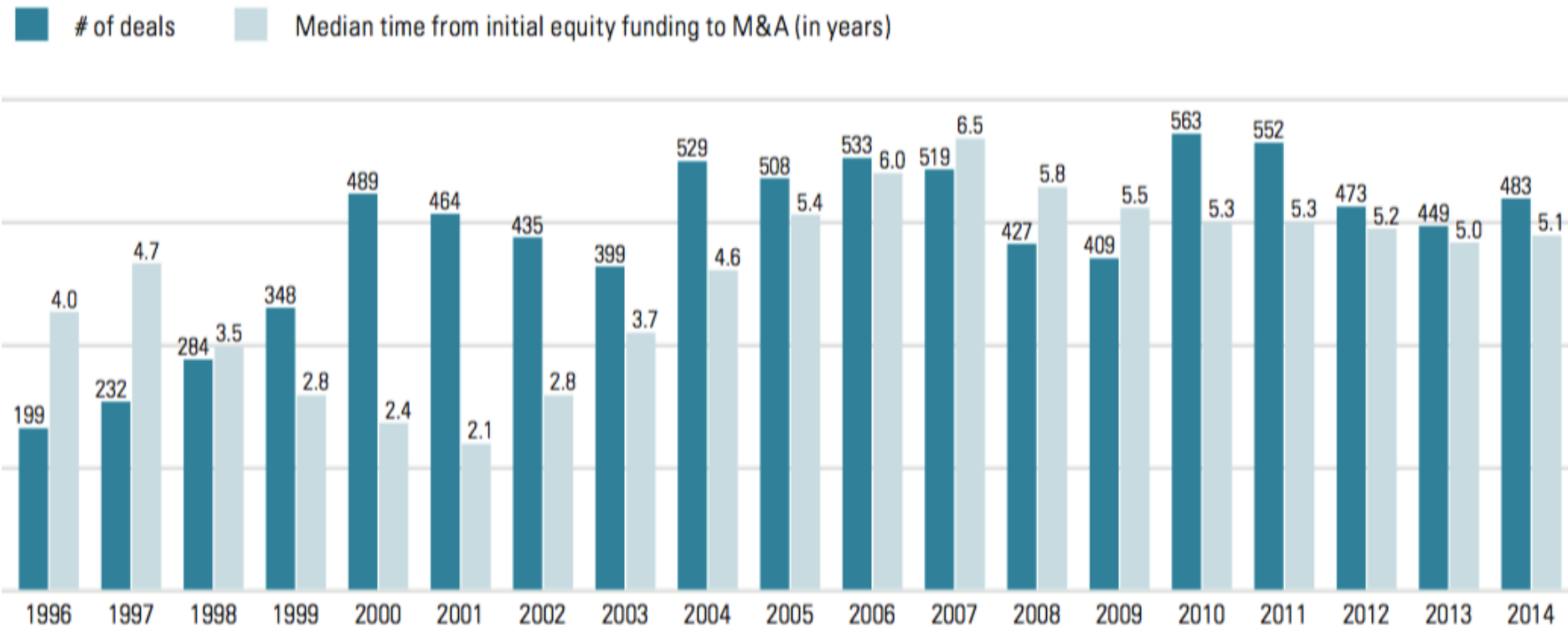


- Elbrus-MCST and UniPro were founded in 1992 by the team from a Russian research institute that created the last Soviet super-computer called “Elbrus-3”
- Over 90% of Elbrus-MCST and UniPro revenues were coming from software outsourcing projects
- In 2004 Elbrus-MCST and UniPro were acquired by Intel. As a result, Intel got a team of over 500 world-class engineers and some intellectual property
- The deal was structured as “hiring event”

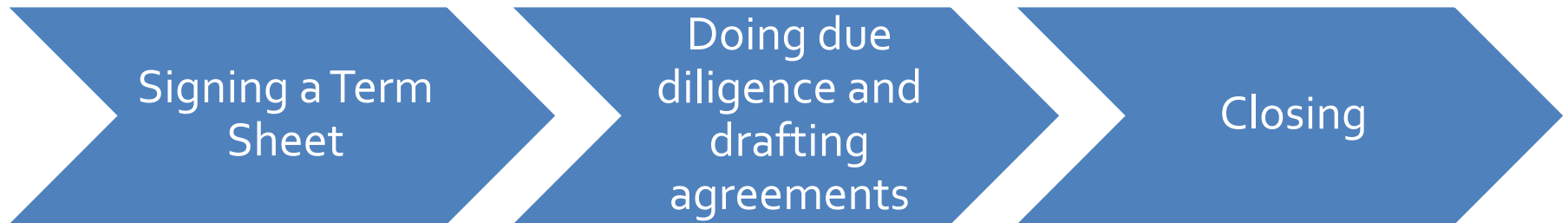
How Long Does It Take to Get to IPO?



How Long Does It Take to Get to M&A?



Process Side of an Investment Deal



Sample VC Due Diligence Check-List

1. Corporate documents: Articles of incorporation, bylaws, proxies, amendments and all agreements between and among shareholders and Capitalization table.
2. List of financial and lending institutions with which the company has relationships with a description of relationships, amount and condition of lines of credit, equipment and other leases.
3. List and copies of the contracts with any entities and individuals.
4. List of any pending or threatened litigation actions and related documents.
5. Income Statement and Balance Sheet, current and projected.
6. Tax returns for the last 3 years.
7. Any patent-/trademark-related documents including of disputes if any.
8. Business Plan and Executive Summary.
9. Business Presentation.
10. Links to any articles about the company/its technology.
11. Any important information that may have material effect on Investor's decision to invest into the Company.

Sample Startup DD Check-List

Talk to them and their portfolio companies

1. Are your strategies aligned on a high-level?
2. Do you have synergies with their portfolio companies?
3. Does the deal structure makes your specific goals aligned?
4. Do you connect on a personal level?
5. Did they have successful exits?
6. Did they have write-offs?
7. How did they help their portfolio companies with
 - a. Hiring
 - b. Business development
 - c. Raising next rounds
 - d. Exits
8. How did they behave when the things went wrong?

Dealflow

Screening

- A VC offers a term-sheet only to 0.2%-2% of the screened startups
- 10 term-sheets a year means 500-5000 screened proposals

Deal closing

- VCs compete for the right to (co-)invest into the best startups
- Two-way competition: deal terms and value-add

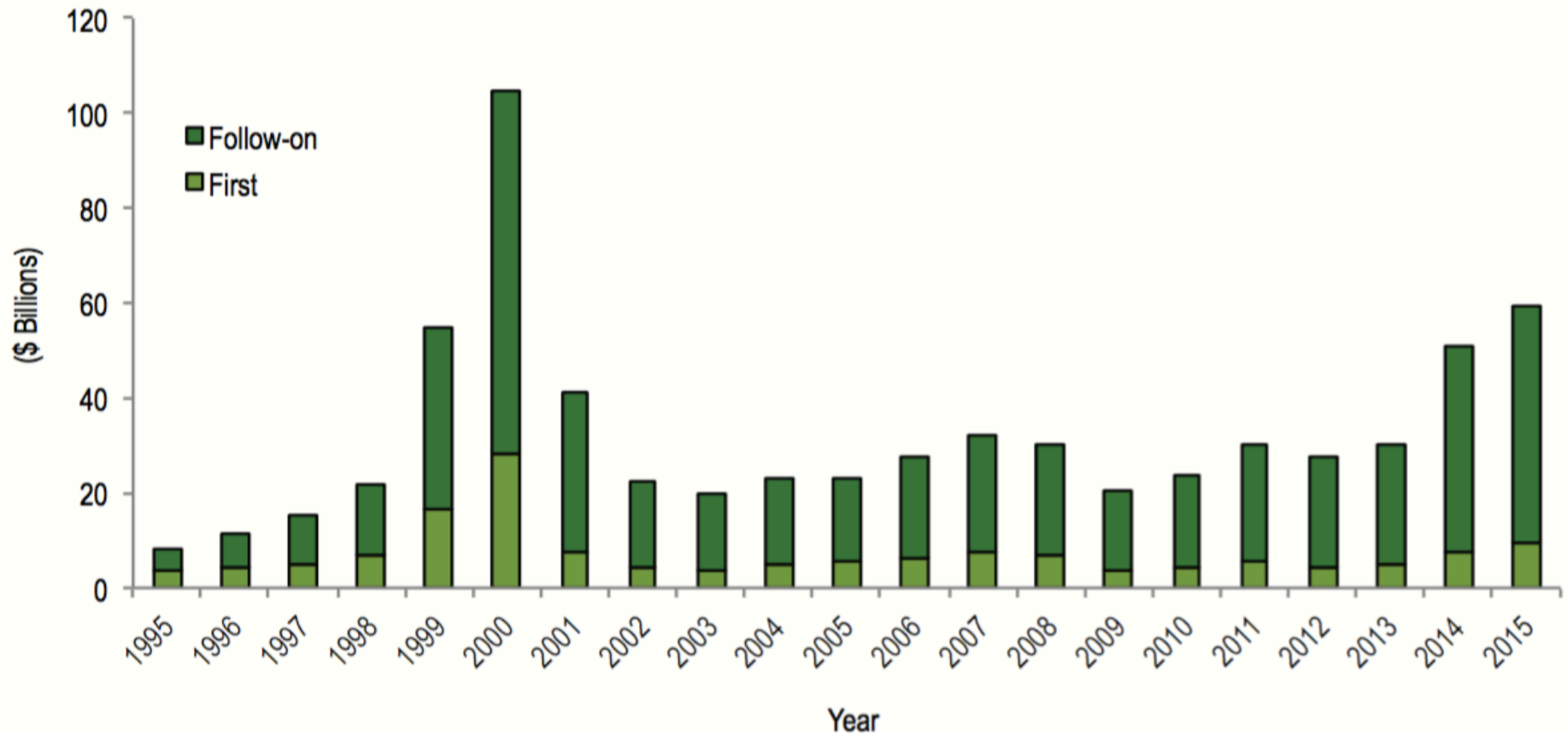
Syndicates

- Syndicate
 - a group of investors that agree to participate in a round of funding for a company
- Lead investor
 - the venture capital investor that makes the largest investment in a financing round and manages the documentation and closing of that round. The lead investor sets the price per share of the financing round, thereby determining the valuation of the company

Follow-on Investments

- Prorata investment rights
 - give investors the right to invest in a startup's future fund-raising rounds and maintain their ownership % in the company as the company grows and raises more capital
 - valuable for both past and future investors (why?)
- Most of venture funds reserve 50%++ of their money for follow-on investments

VC Investments in the USA



Delaware is the Jurisdiction of Choice for Venture Firms and Startups

- Why is Delaware called “offshore”?
 - Tax benefits
 - Shareholder register
- Delaware is extremely business-friendly

Vesting

- For founders it's typical to have four year vesting stock arrangement with a one year cliff
- Vesting works with stock (for founders) or stock options (advisors, Board members, key employees)
- Reserve stock option pool for future employees

Whom Am I Talking To?

Venture partner,
Investment
partner

- Helps find startups to invest into

General partner,
Managing
partner

- Runs the fund, makes investment decisions

Limited partner

- Provides \$\$\$ to the fund

Zombie Investors



New Fund Managers Are Statistically More Successful?



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Conference Details:

Opal's **Emerging Managers Summit** is a great way for investors to find, meet, network with and learn from new managers as well as minority owned managers. Research suggests that Emerging Managers are out performing some of their larger counter parts making them a great contender for allocation from pension plans who are in need for returns, as well as for family offices, endowments and other institutional investors who are looking to be aggressive with their allocations.

The Emerging Managers Conference will provide the unique opportunity to access a diversified group of up-and-coming performance-oriented managers and manager of managers. The conference will explore the benefits and opportunities offered by investing in emerging managers as well as new strategies for implementing an emerging managers program.

Emerging managers will not only have a great opportunity to network with institutional investors, they will also be able to learn how to overcome the challenge of getting overlooked by investors and consultants. They will also be able to meet companies that can help them in building the infrastructure and placing the correct team in place to

A vertical navigation menu with five blue rectangular buttons, each featuring a small image on the left and text on the right. The buttons are: 'UPCOMING EVENTS' (with a photo of people), 'UPCOMING WEBINARS' (with a photo of a globe and laptops), 'REGISTER NOW AND SAVE' (with a photo of a pen and a calendar), 'HOW TO BECOME A SPONSOR' (with a photo of people in a meeting), and 'REQUEST MORE INFORMATION' (with a photo of a man in a suit).

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Since 2001, Gerbsman Partners has been involved in maximizing enterprise value for 91 technology, life science, medical device, digital marketing, cyber security, fuel cell, and solar companies, through its proprietary "Date Certain M&A Process" and has restructured/terminated over \$ 810 million of prohibitive real estate and equipment leases, sub-debt and creditor issues. To date, Gerbsman Partners has been involved in over \$ 2.3 billion of restructurings, M&A and financing transactions.

Steven R. Gerbsman participates as a Mentor at Stanford for MBA students and is also a guest lecturer at University of San Francisco MBA program, the McDonough School of Business at Georgetown, and Haas School of Business at Berkeley, Venture Capital Executive Program.

Gerbsman Partners has offices and strategic alliances in Boston, New York, Washington DC, McLean VA, San Francisco, Orange County, Europe and Israel.

Exits

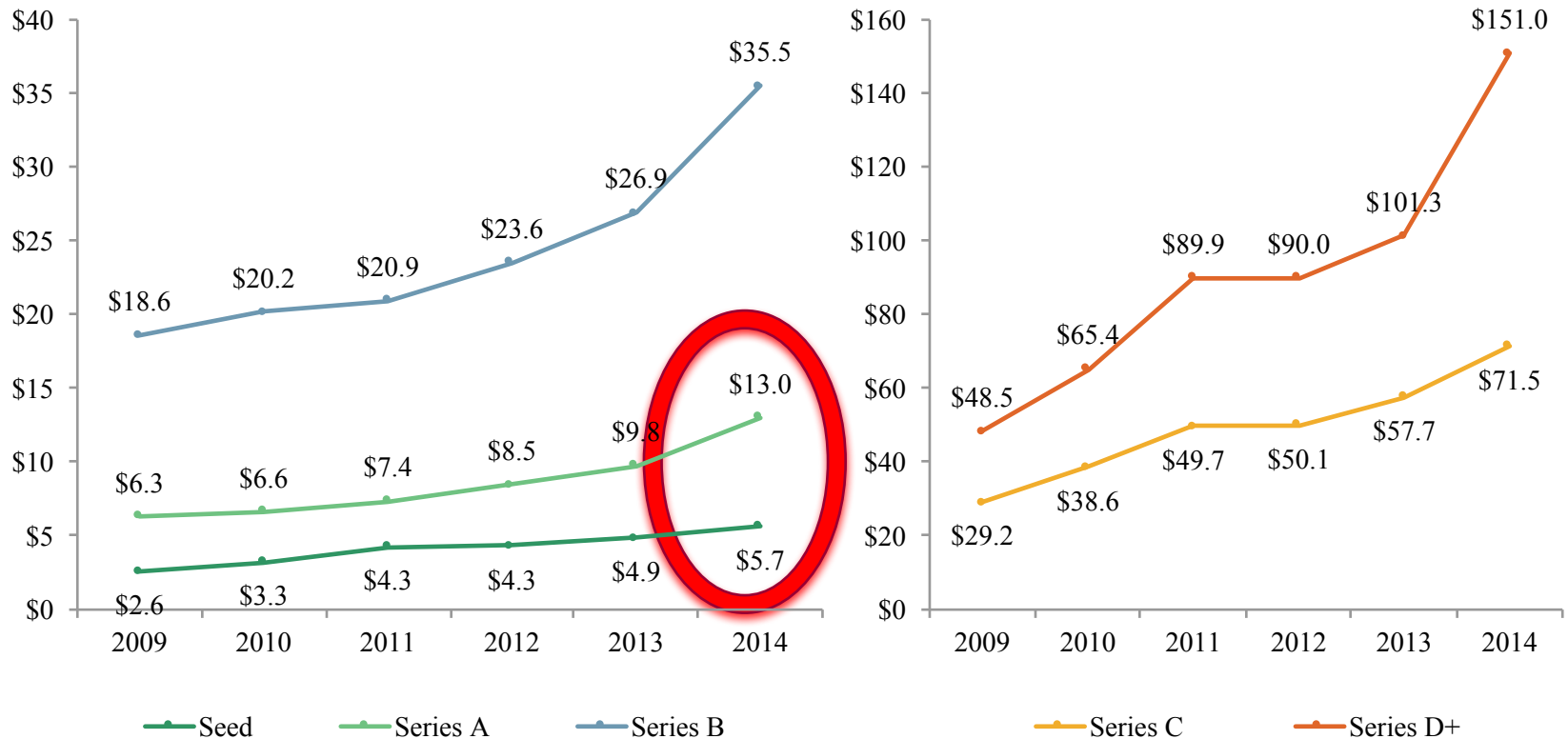
Traditional

- IPO
- M&A
(strategic)
- M&A
(financial)

Untraditional

- Fire-sale
- Spin-Off

Average Valuations in the USA (mln, \$)



But Sometimes Things Go Wrong Way

Flat Round

Down Round

Silicon Valley Celebrates Failure



Embrace Your Mistakes. Build Your Success.

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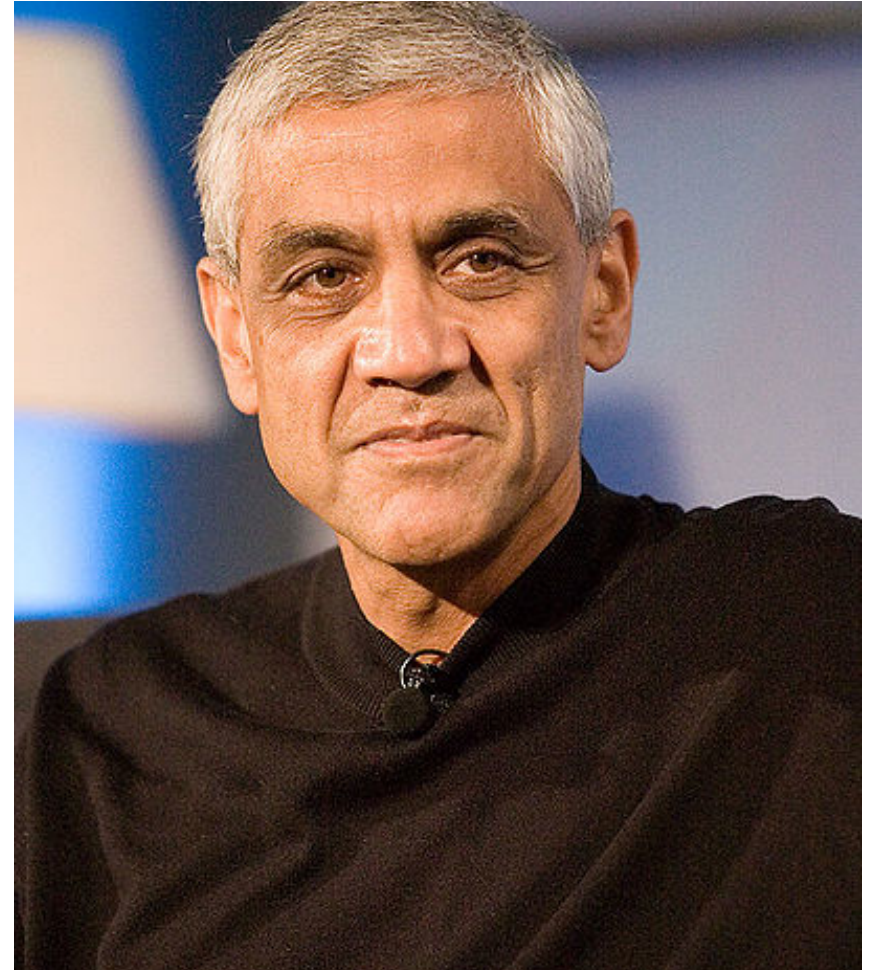


Bangalore



Vinod Khosla

- One of the co-founders of Sun Microsystems, where he served as its first CEO and Chairman in the early 1980-s.
- In 1986, he became a general partner of the venture capital firm Kleiner Perkins Caufield & Byers, where he remained through the early 2000-s.
- In 2004 Khosla formed his own firm, Khosla Ventures, which focused on venture investments in various technology sectors, most notably clean technology.



Two Approaches to Derisk

Aligned Goals

Detailed Plan

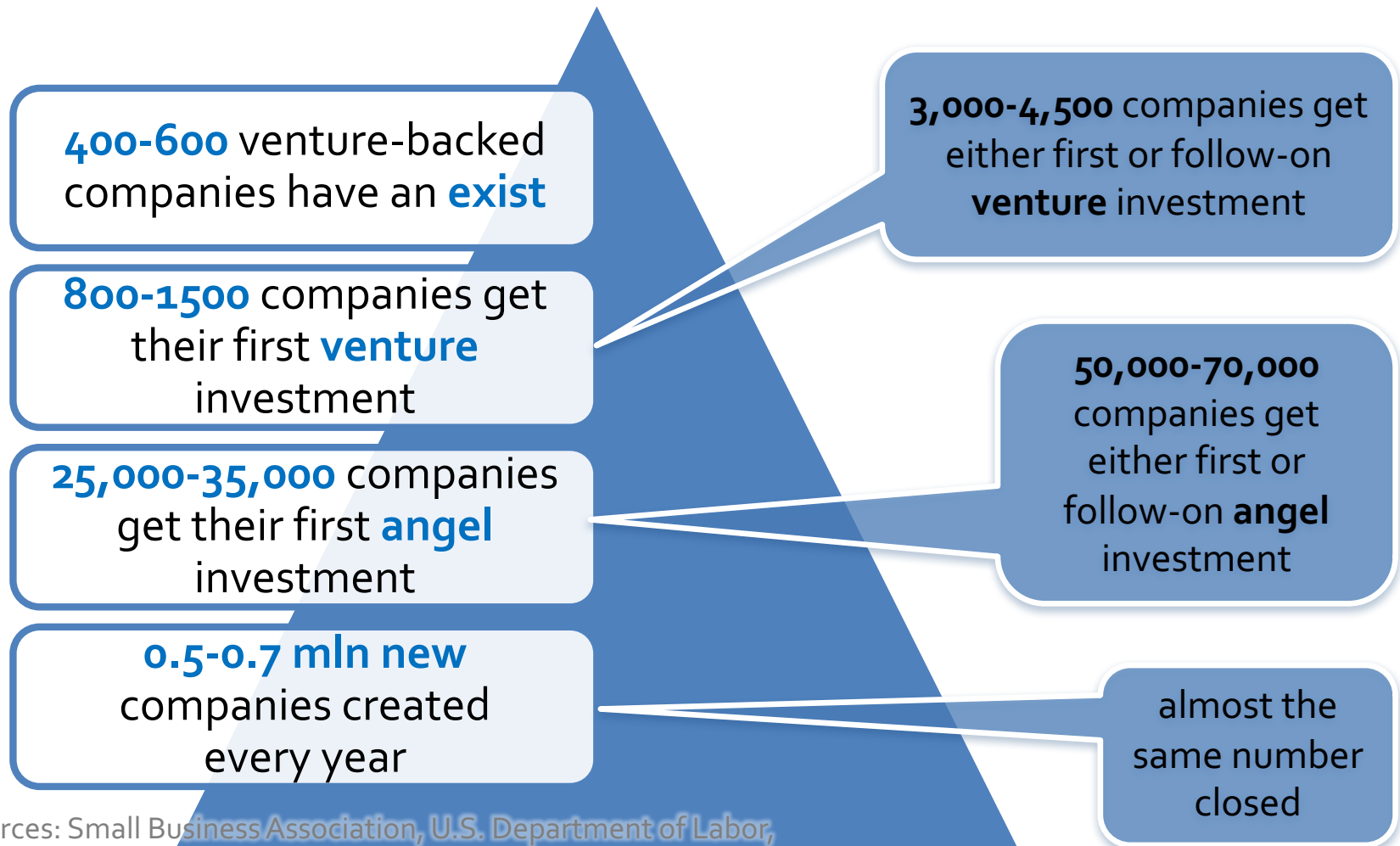
How does Silicon Valley differ from the rest of the world?

Vinod Khosla Says:

- There is some value in creating a business plan; there is no value in following the business plan...
- ...Founders, who had successful exits in the past, are less hungry and more relaxed; they listen less to the others and more easily make mistakes...
- ...I do not like going to the Board meetings anymore. I always vote with the founders, even if I disagree with them – but with one exception

Yearly Venture Funnel

USA, 2005-2015



Sources: Small Business Association, U.S. Department of Labor,
U.S. Census Bureau, National Venture Capital Association,
Center for Venture Research at the University of New Hampshire

Must Read

Geoffrey Moor

- **Crossing the Chasm: Marketing and Selling High-Tech Products to Mainstream Customers**

Steven Blank

- **Four Steps to the Epiphany: Successful Strategies for Products that Win**

Alexander Osterwalder

- **Business Model Generation**

Brad Feld, Jason Mendelson

- **Venture Deals: Be Smarter Than Your Lawyer and Venture Capitalist**

David Cohen, Brad Feld

- **Do More Faster: TechStars Lessons to Accelerate Your Startup**

Thank you!

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