



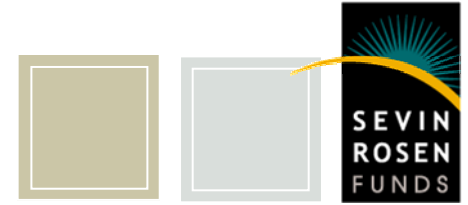
# Myths and Realities What Every Entrepreneur Should Know About VC When Launching a New Company

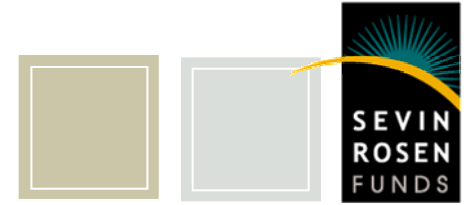


*Information Technology Venture Forum  
October 29, 2004*

# Myth: All VCs are Evil

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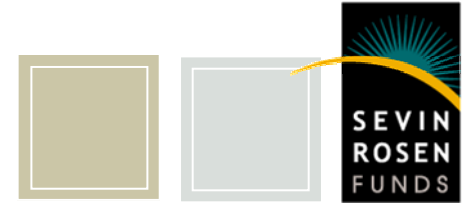
## Reality: Only Some VCs are Evil

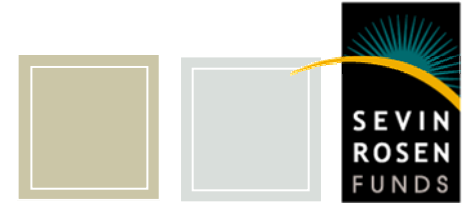
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- Most are benign to helpful
- Some can really add value
  - Experience
  - Rolodex
  - High profile
- Experience usually most important

# Myth: All VCs are Alike

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**Reality:**

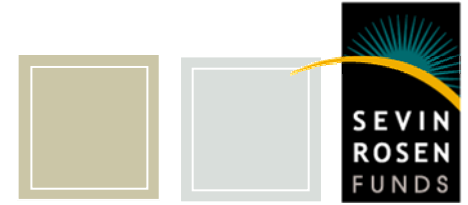
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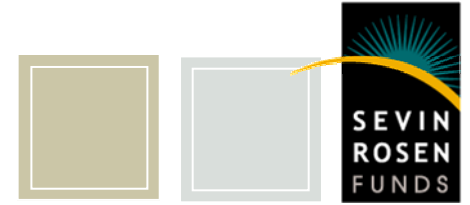
## There Are Many Kinds of VCs

- They vary by
  - Geography
  - Background and experience level
  - Financial capability
  - Tens of other parameters
- Lots of VCs that don't call themselves VCs
- Lots of people that call themselves VCs that aren't
- You sometimes have to kiss a lot of toads

# Myth: All VCs Think Alike

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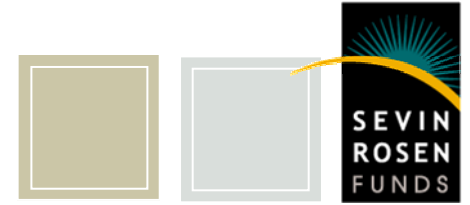


## Reality:

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# Well, Pretty Close The Good Ones At Least

- Common goals
- Common scar tissue
- Key – here to make money
- Most agree on three top criteria: team, market and uniqueness
- After that: crapshoot



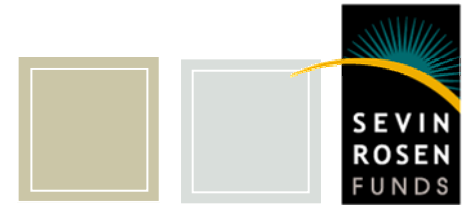
# The Business Plan

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- Three levels of detail
  - Elevator pitch
  - 2-3 page executive summary
  - 15-20 page business plan
  - Make sure they all agree
- Key – address the three top criteria
  - If you don't, nothing else matters
- The investment thesis
  - Is the war winnable?
  - Is it worth winning?
  - Can this team win it?

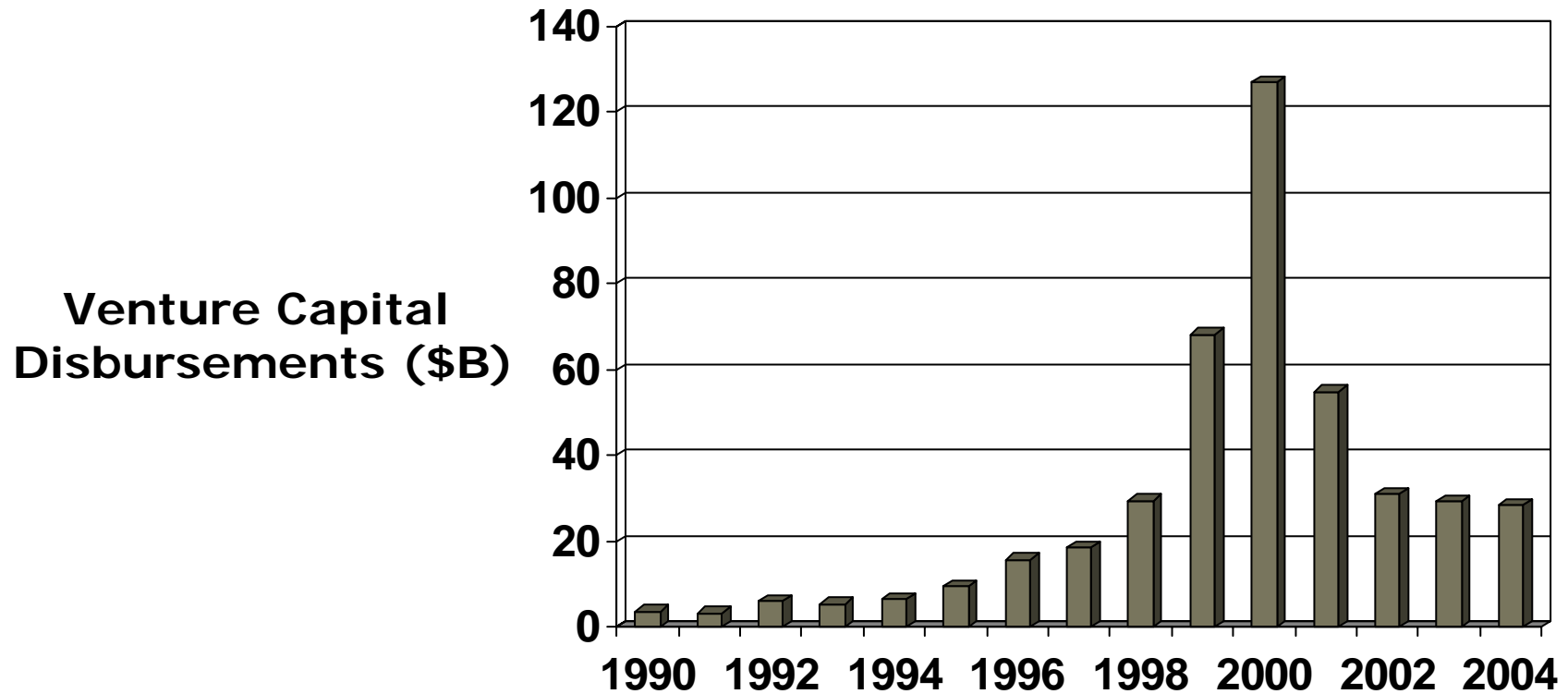
# Myth: VC Blew Up After 2000

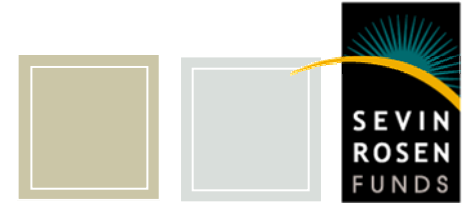
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Reality:

We're Back! (We Were Never Really Gone)

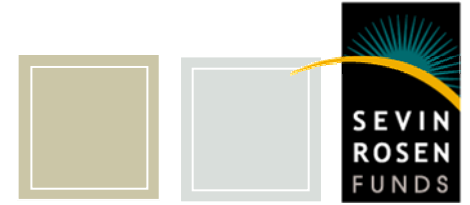




Myth:

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# The VC Wants to Take Over My Company

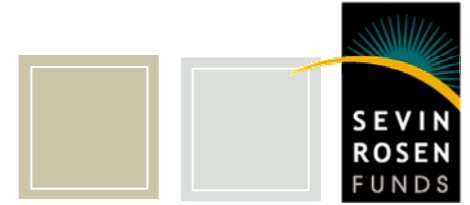


Reality:

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## That's the Last Thing We Want

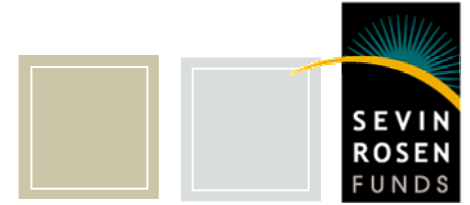
- For one thing, it's not your company
- Our job is to fix the problems of "our" company
  - Right board has 50-100 years of operating and/or VC experience
- Average VC sits on 6-10 boards



**Myth:**

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**VCs Say They Love You, Then They Abandon You**



**Reality:**

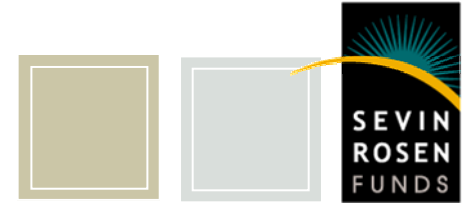
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## We Seldom Quit Too Early

- We want 100% winners
- Key aphorism in our business:
  - You have to be in the game to win
- We stay with it until it doesn't make sense

# The VC's Perspective

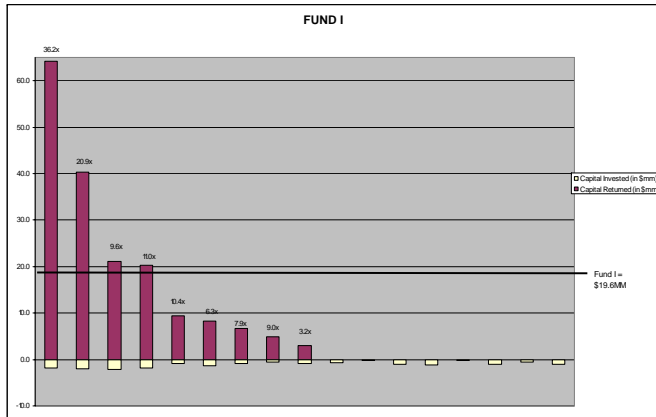
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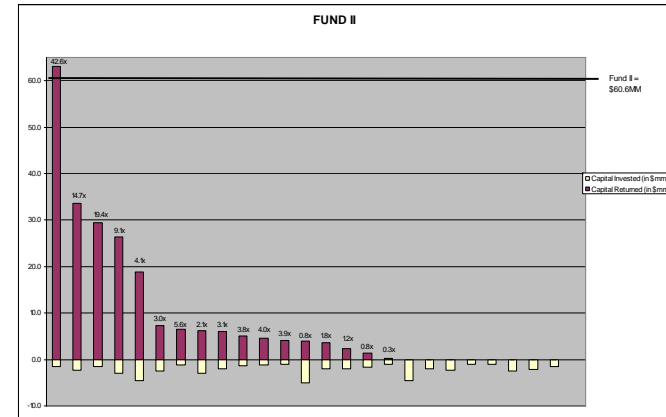
- We expect all deals to be 10x ex ante
- Reality is, of every 20 investments:
  - 10 will fail completely
  - 5 will return 0.5x to 1.0x
  - 3 will return 1x to 3x
  - 1 will return 10x
  - 1 will return 30x to 50x
- Bottom line – we make most of our money on 2 deals

# What Really Happens

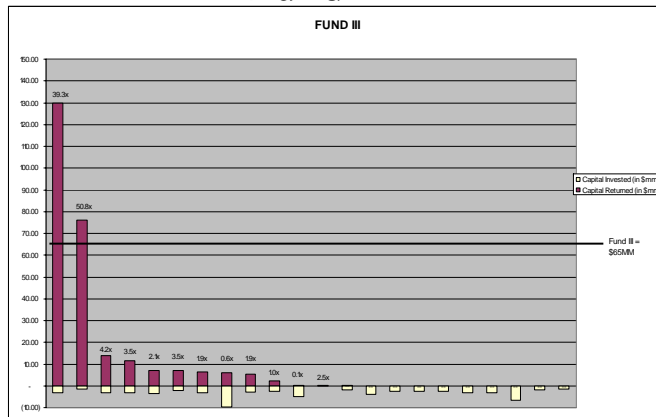
## Fund I



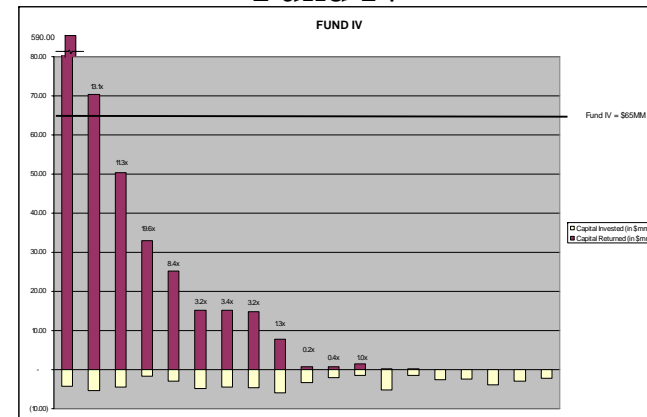
## Fund II



## Fund III

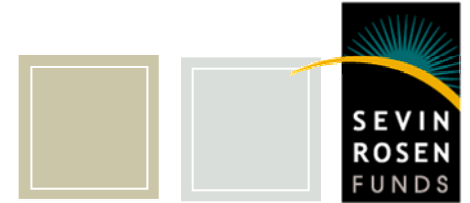


## Fund IV

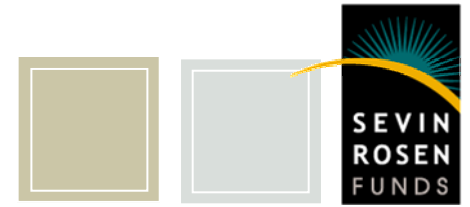


# What That Means

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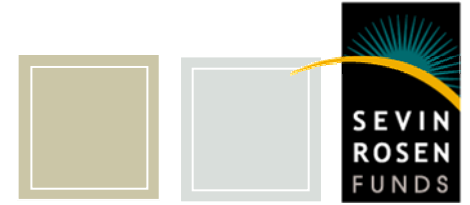
- Venture capital is a hits business
- VCs are looking for entrepreneurs that want to win big
- VC interest in your company is non-linear
  - 50¢ vs 60¢ on the dollar not worth the effort



Myth:

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Those Odds Work Irrespective of  
VC's Efforts

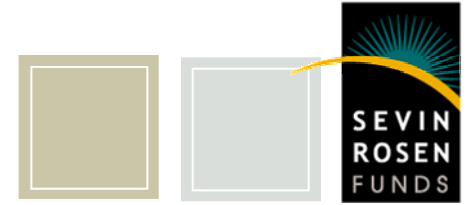


## Reality:

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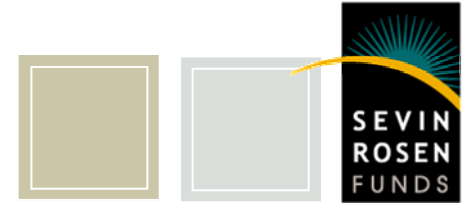
# Whether It's Effort or Wisdom – Your Choice of VC Matters

- Remember – this is a VC's perspective, but...
- Good VC adds a lot
  - Mistakes they don't let you make
  - Key moments of truth
  - Oh, and money
- Just ask the LPs



**Myth:**  
**One Slip and Your VCs Kill You**

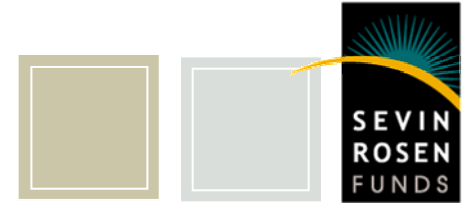
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## Reality:

# Two Slips and Your VCs Kill You

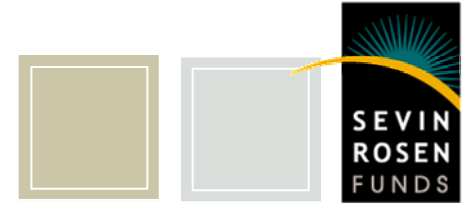
- Just kidding
- No mistakes = not trying
  - Key: learn and move on
- Critical success factor: luck
  - Company's job is to be lucky
- Entrepreneurial companies
  - Key advantage: can move on a dime
  - Cardinal sin: not taking advantage of that



**Myth:**

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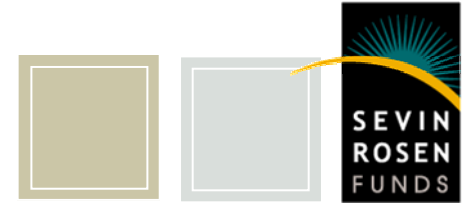
**VCs Want to Bring In Their Own  
CEO**



## Reality:

# We Just Want to Win

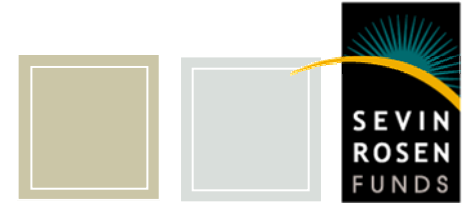
- Truth is: we do best when the original CEO works out
- Good CEOs are hard to find – we wish we had a stable full
- Most founders aren't "the one"
  - There is lots to do besides being CEO
  - Founder characteristics often orthogonal to CEO skill set
- Most companies have multiple CEOs – Ken Olsen is the anomaly



# Typical Founder Issues

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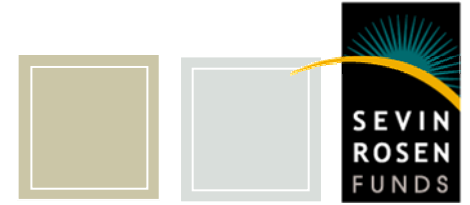
- Usually visionary; risk taker; evangelist
- Often not team builder; leader; business oriented
- Classic problem sets:
  - Initial team too equal or too unequal
  - Can't delegate
  - Hires mediocre people
  - Low EQ



**Myth:**

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**Top VCs Not Interested Unless You  
Need \$5 Million Or More**

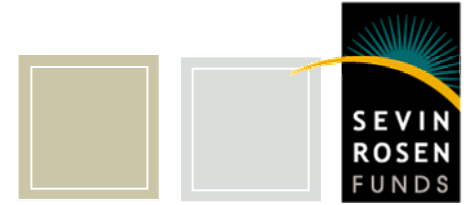


## Reality:

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# Size Doesn't Matter (Or At Least Not the Way You Think)

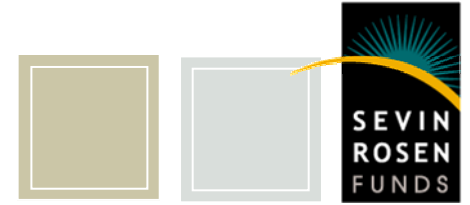
- Less is more
  - We (and you) want to use as little capital as possible
- \$500K investment works fine
  - Return still needs to “move the needle”
- Reality: most big opportunities require at least a reasonably large investment



**Myth:**

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**Top VCs Require a Complete Plan  
and Team**

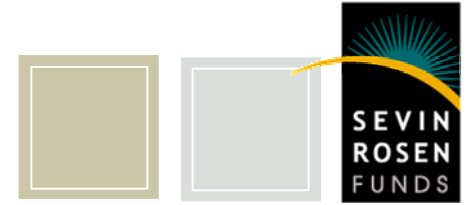


## Reality:

## Depends On the VC

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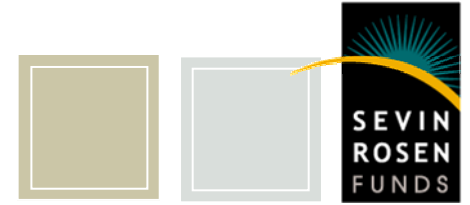
- Truly early stage firms **require** almost nothing
- But – rough edges have their cost
- Some VCs are less comfortable there than they tell you
- Look at the track record
  - The firm
  - The partner



**Myth:**

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**Most VC Failures Are Due to  
Technology Failures**

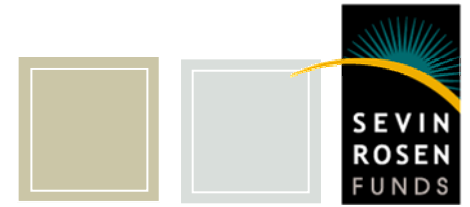


Reality:

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## Technology Is Seldom the Problem

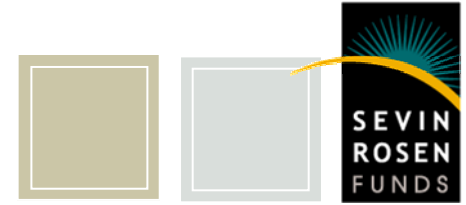
- Can count “technology failures” on one hand
- The big problem: Marketing 101
- Next most popular: underestimating the competition
  - U.S. is a big place with lots of smart people
- Oh, yeah, and people (yes, that includes directors)



## If You Walk Away With Nothing Else Today, ...

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- VC is not for everybody
  - Know why or why not
- If VC is for you, not every VC is for you
  - We are not all alike – talk to lots
- Picking a VC is balancing risk and return
  - A good VC increases your odds, at a price
  - Take the best one that will have you
  - Chemistry is very important



## How to Pick a VC

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- Interaction dynamics
  - Ego quotient - are questions really questions
  - Blackberries and drive-by financiers
  - Due diligence colonoscopy
- The partner matters
- Do what we do – call references



SEVIN  
ROSEN  
FUNDS