

What (at least many) VCs want

- Who I am
 - Dan Gordon, Director of Research, Valhalla Partners
 - Early stage venture capital investors in Northern Virginia
 - \$440M under management
 - 24 investments to date
 - IT and telecom; no life sciences
- The Problem I'm trying to address today
 - Disconnect of expectations between university innovators and “institutional” investors
- How we'll address it
 - Look at some of the main sources of disconnect
 - Attempt to learn from them

Disconnect #1: What is the source of value in innovation?

University Innovator

- The innovative idea is 90% of the value of an innovation
- Every great idea can become a source of value

Venture Capitalist

- Building a successful business is 90% of the value of an innovation
- Only certain great ideas (and some not-so-great ones, by the way) can become sources of value

- Working through this disconnect is fundamental to university innovators and VCs being able to cooperate.
- University innovators are naturally drawn to **licensing** ideas as the way to extract maximum value with minimum involvement
- VCs are naturally drawn to **building businesses** as the way to extract maximum value with maximum involvement

Disconnect #2: What is the aim of the Venture Capitalist?

University Innovator

- VC exists to fund great businesses
- Any great business should be interesting to VCs

Venture Capitalist

- VC exists to get great returns from investing
- Only businesses with “VC profile” are interesting to VCs

- When VCs hear about a university-based innovation, we are trying to find out if the proposed activity fits the “VC profile”
- VC profile has to do with
 - the kind of business that can be built around the idea
 - prospects for eventually selling the business in order to realize the profits from the investment

VC business arithmetic

- Assume a VC owns 30% of a business for a \$10M investment
- Assume that businesses in this sector are valued at 3x revenues
- Assume the VC wants a return of 5x on his or her investment within 5 years
- → The business must be operating at revenues of ~55M and be in a position to go public or be acquired for \$167M within 5 years
- **Not all businesses, even good ones, have these characteristics**

Issue #3: Role of the Founder

- Many university innovators do not want to found companies
- Most startups do better with a consistent founder leading the company, at least up to a point
- VCs and founders naturally disagree about what that point is
- VCs may be wrong (as may founders)

Disconnect #4: Planning a business based on university innovation

University Innovator

- Often does not know how to build a business around the innovation
- Has only a hunch of what business problems the innovation must solve
- Needs funding in order to answer those questions

Venture Capitalist

- Often expects those who present to him/her to have at least a preliminary understanding
- Will reject presentations which seem too tentative or vague

- VC and Innovator need to agree on what “experiments” need to be performed in order to gain clarity on the business
- Each side needs to be straightforward about the state of its knowledge

What should the first slide in your presentation look like?

1. Who we are: The innovator, or team, if one is on board.
2. The business problem we are trying to solve
3. The elements of the solution, briefly
4. The size of any investment being requested, if any
5. What the innovator will do with the money

Acme Teleportation

Good first
slide!

- Founded in 2008 by Wolfgang Einstein, Professor of Physics at CalTech
- Acme Teleportation will eliminate commute problems by offering metropolitan area teleportation services
- Einstein has demonstrated proof-of-concept teleportation in the laboratory and in small trials
- AT is seeking an investment of \$15M to build a trial system in Philadelphia, PA



Acme Teleportation

Presents to Valhalla Partners

“Partners in Value”!

Acme Teleportation

Weak first
slide!

- The Problem:
 - Millions of commuters stuck in traffic
 - No Jetsons world! Helicopters are not here yet
- Gartner says traffic jams will grow at 30% CAGR for foreseeable future
- Commuters
 - Are very frustrated by big traffic jams
 - Need better solutions
 - Public transit no panacea