

Cornell Entrepreneur Network Northern California

Entrepreneurship and the Role of
the Venture Capitalists

- Entrepreneurial Ecosystem (implications to a VC)
- Life as Venture Capitalist (VC)
 - Environment to Raise Money Tied to Returns
 - Sourcing
 - Due Diligence Criteria
 - Board Involvement
 - Exit
- Intersection of Venture Capitalist and Entrepreneur Discussion
- Q & A



Name	Tom McKinley
Title	General Partner
Firm	Cardinal Partners: Funds dedicated to early stage Healthcare IT, Life Sciences & Medical Device.
	Founding investor: athenahealth, Momenta Pharmaceuticals, Sirtris Pharmaceuticals & Visicu
Prior Experience	Partech International
Website	www.cardinalpartners.com
Education	AB, Harvard University
Background	MS, New York University MBA, Stanford University
Other	Married to a Cornell Graduate

Entrepreneur:

- Company founders and management
- Develops company from the idea stage
- Typically earns “sweat”

Venture Capitalist:

- Invests in early and growth stage companies
- Key source of capital for companies until IPO
- Provides managerial and technical expertise in introductions

Venture Backed Success:

Commercial Enterprises

- Apple
- Google
- Federal Express

Social Enterprise

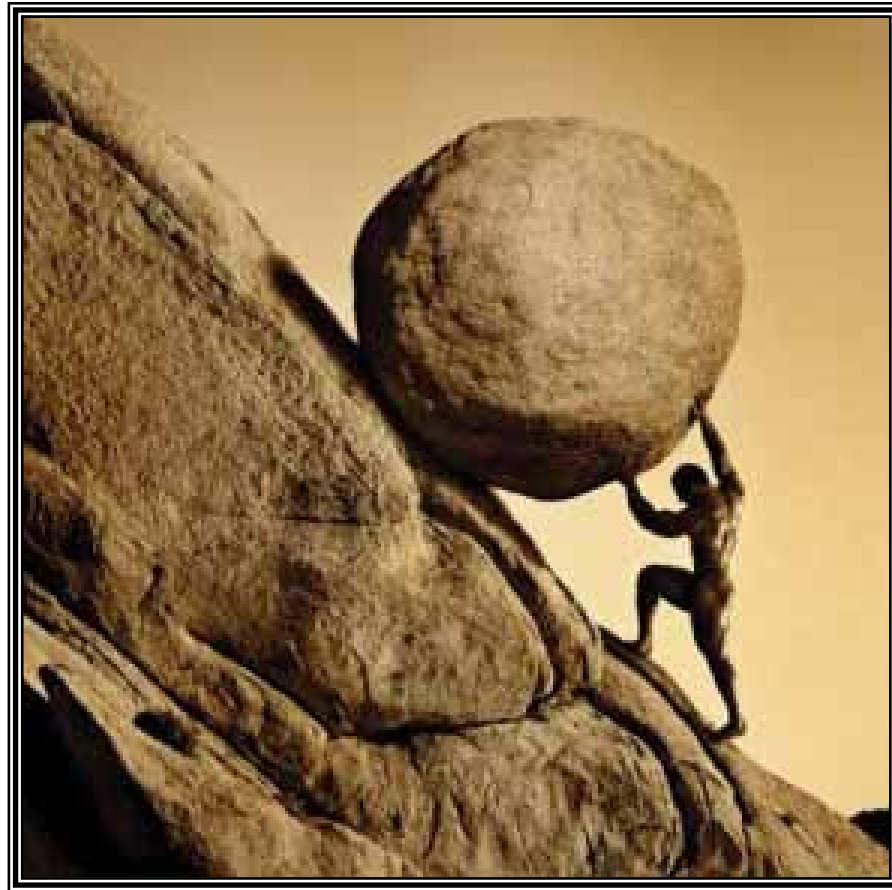
- Tom’s Shoes

Entrepreneurial Ecosystem (implications to a VC)

Why VC's Need Entrepreneurs...

CP

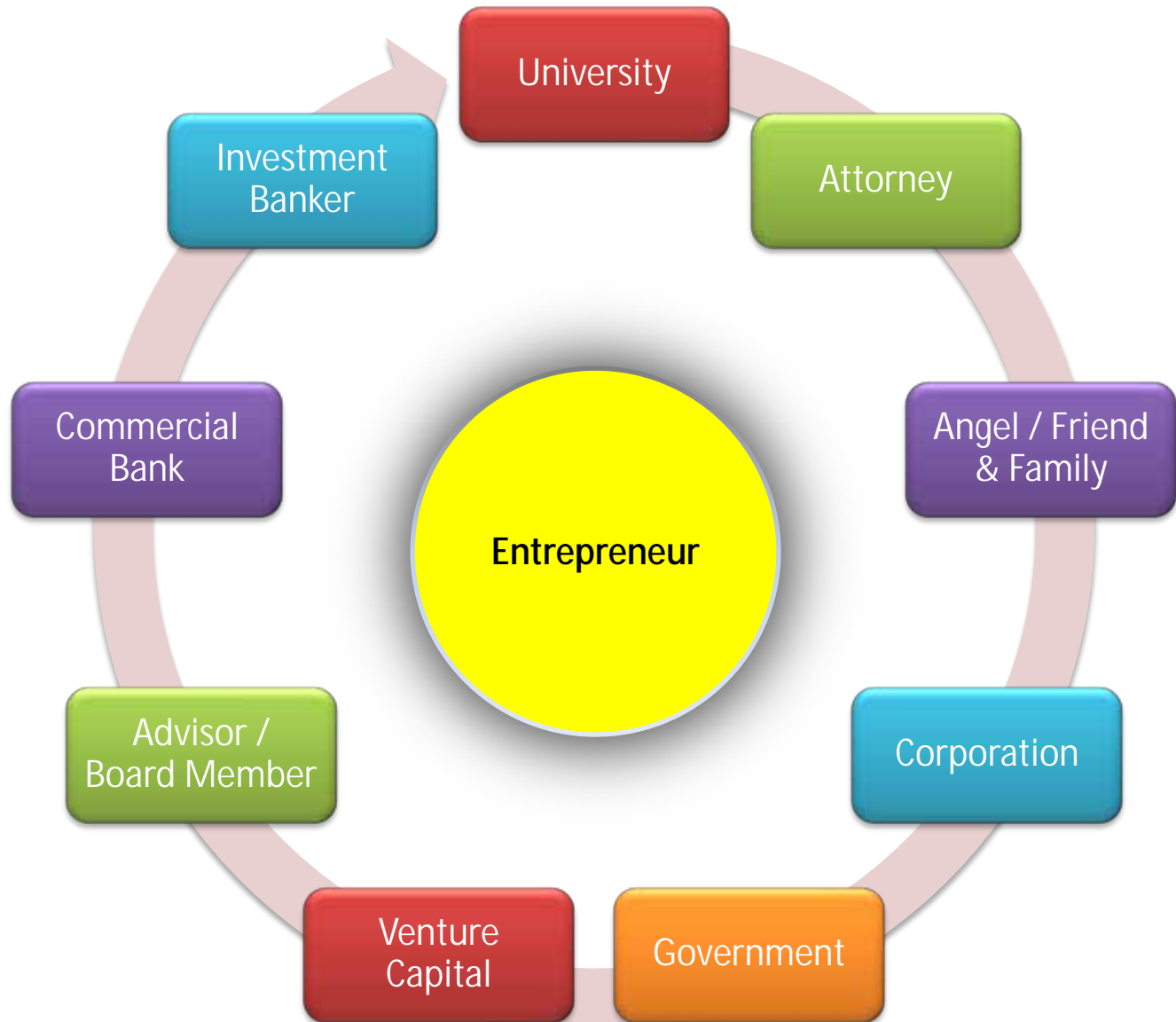
CARDINALPARTNERS



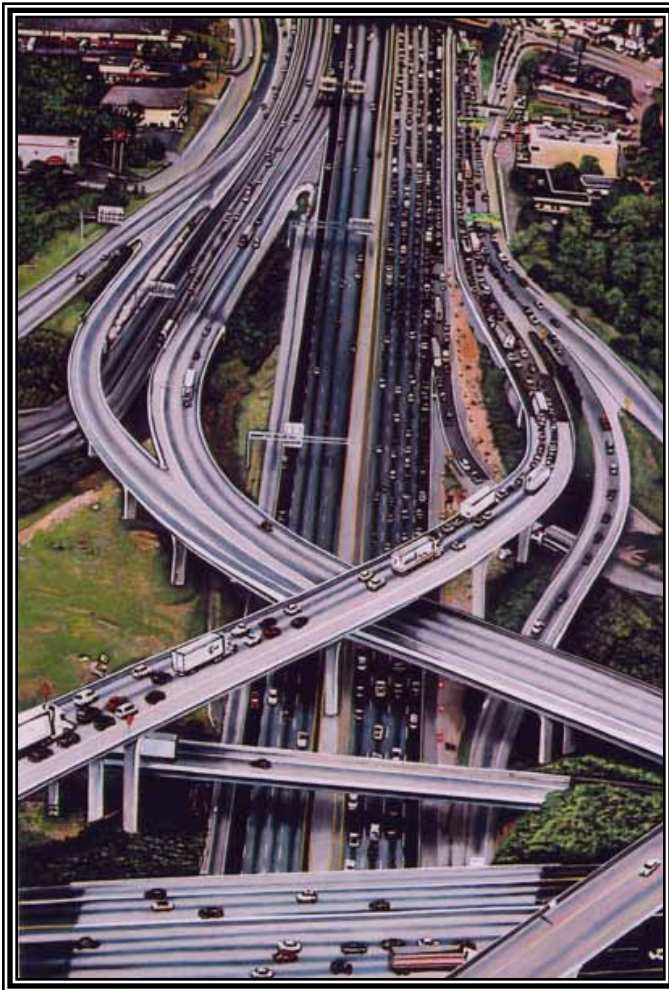
Entrepreneurial Ecosystem

CP

CARDINALPARTNERS



For Entrepreneurs:



Venture Capitalist

Why That "Need" Doesn't Always Show

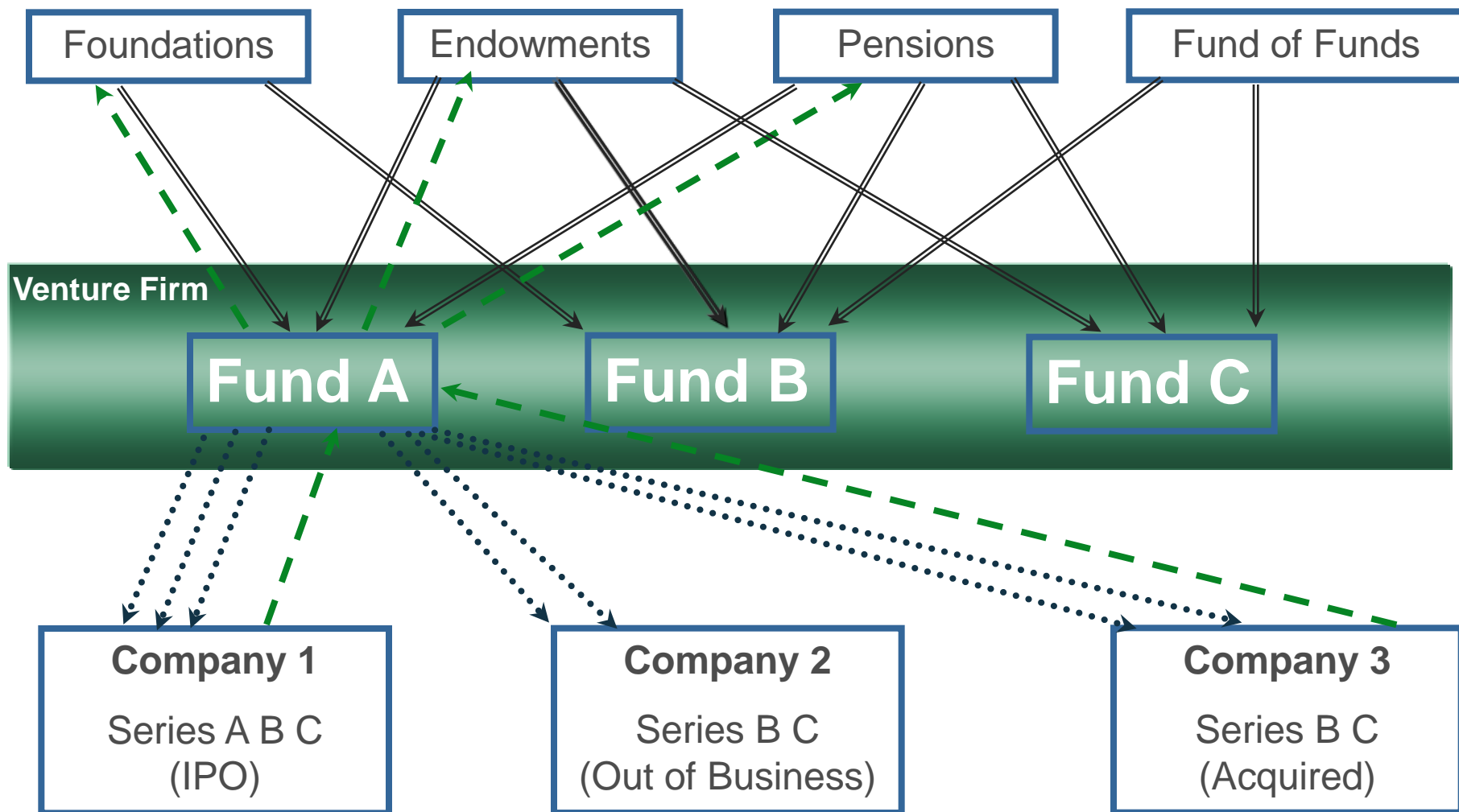
CP

CARDINALPARTNERS



- Raising money for a venture fund
- Sourcing investment opportunities
- Due diligence (processing deals)
- Active board involvement
 - Recruitment
 - Strategy
 - Execution
 - Raise money for portfolio company
- Monetization (return money to investors)

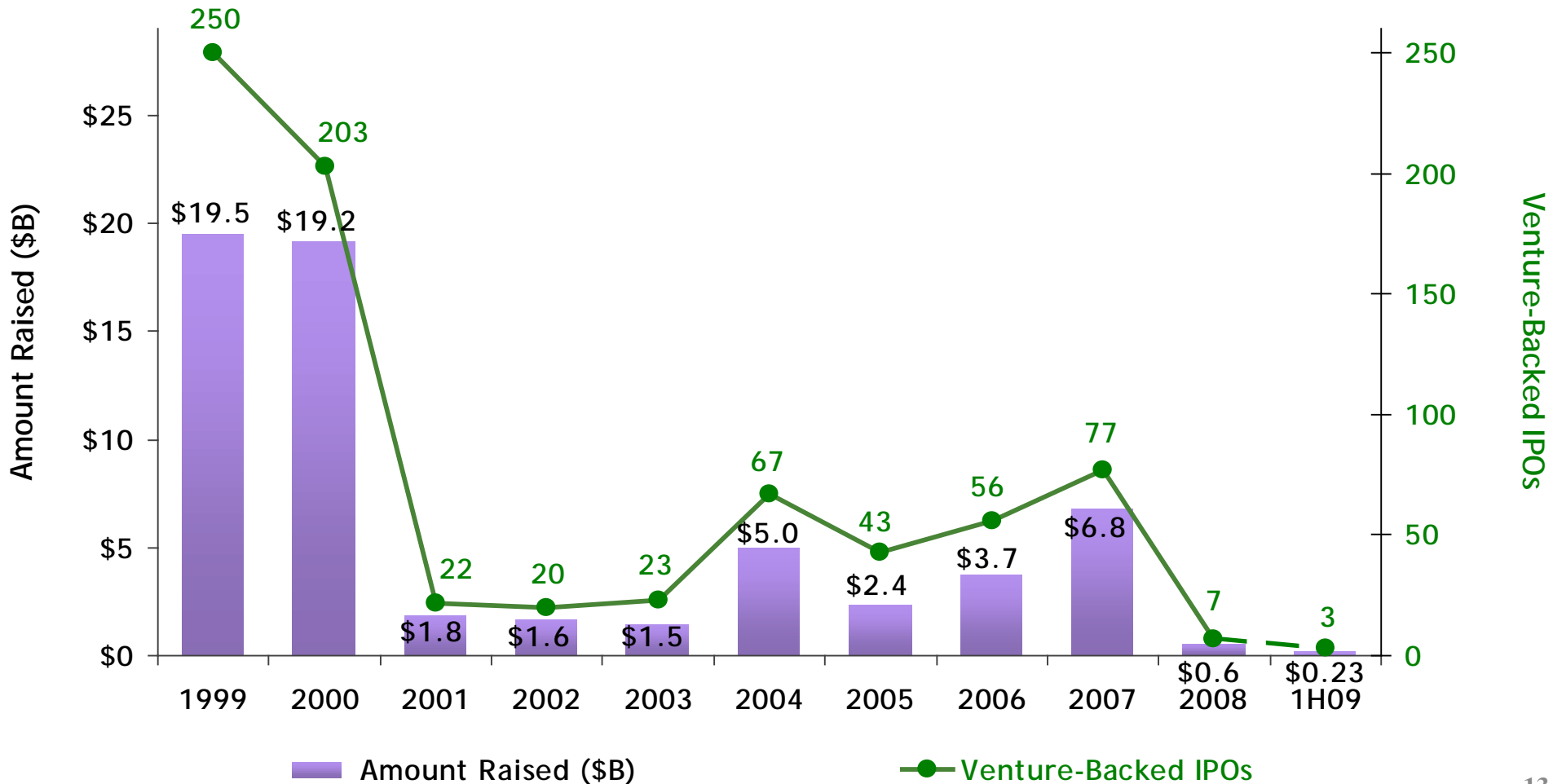
MONEY FLOW



Environment to Raise Money Tied to Returns

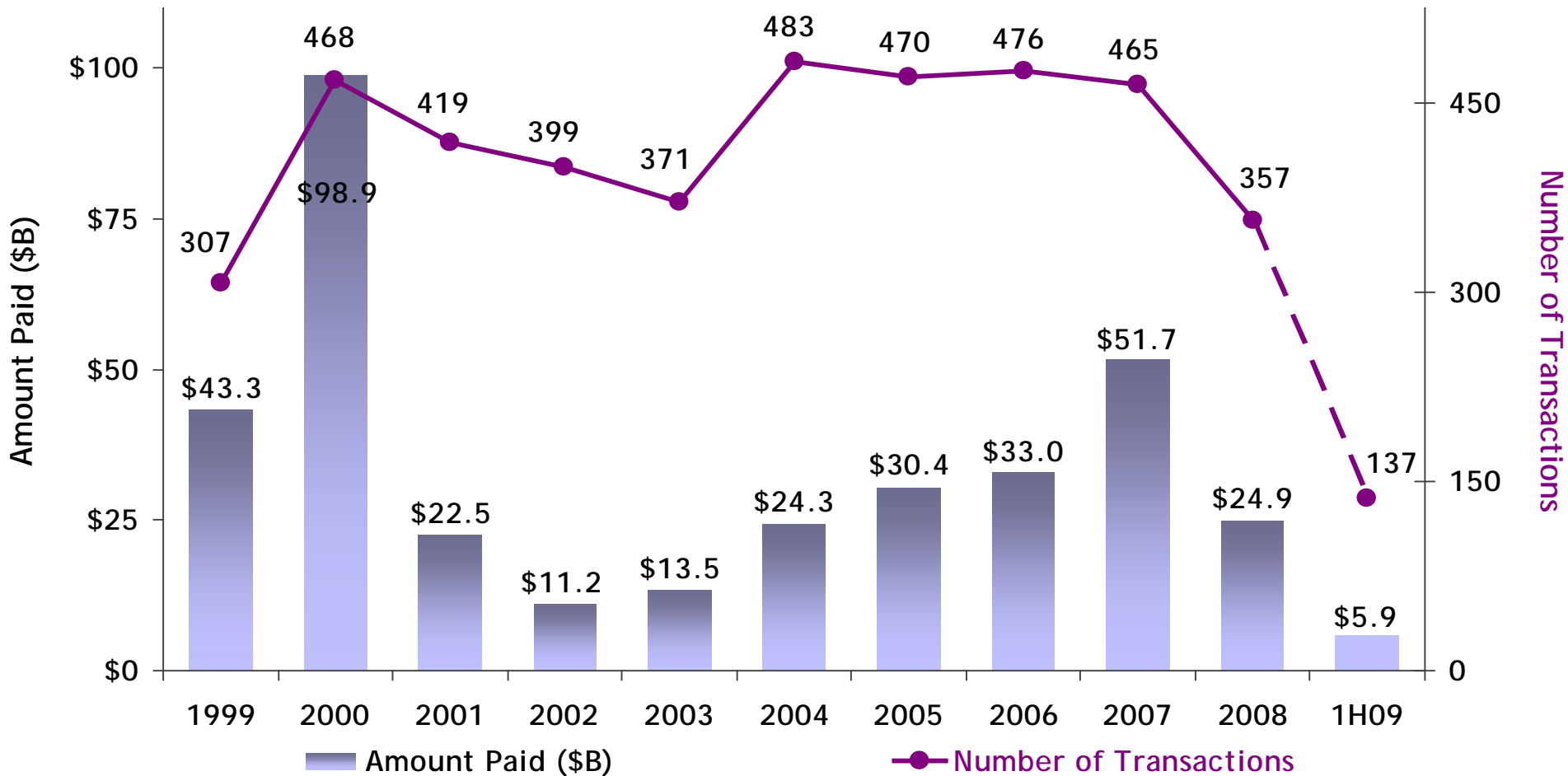
IPO Activity Remains Low in 1H '09

Deals and Amount Raised Through IPOs



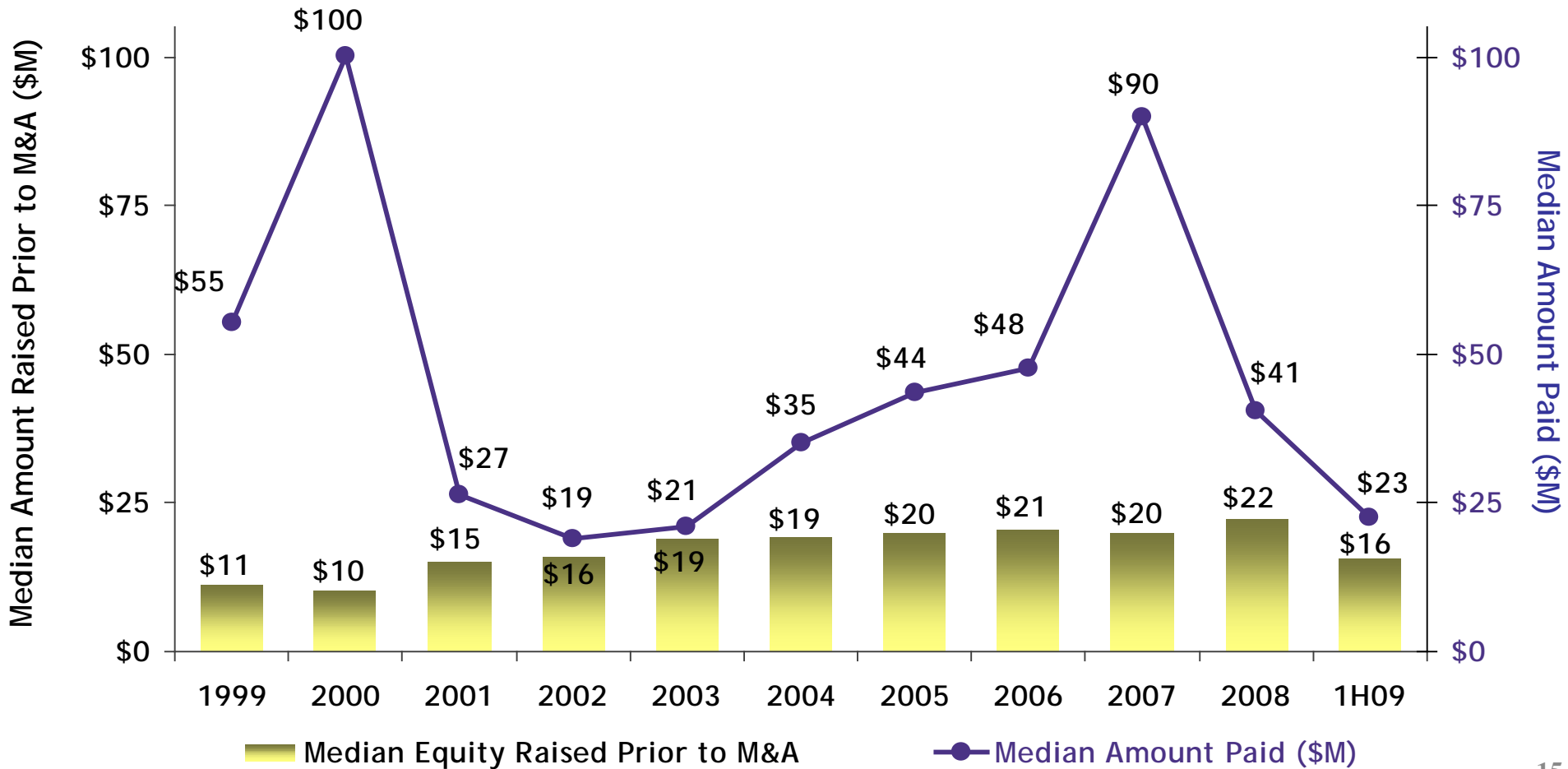
M&A Activity Low in 1H '09

Transactions and Amount Paid in M&As



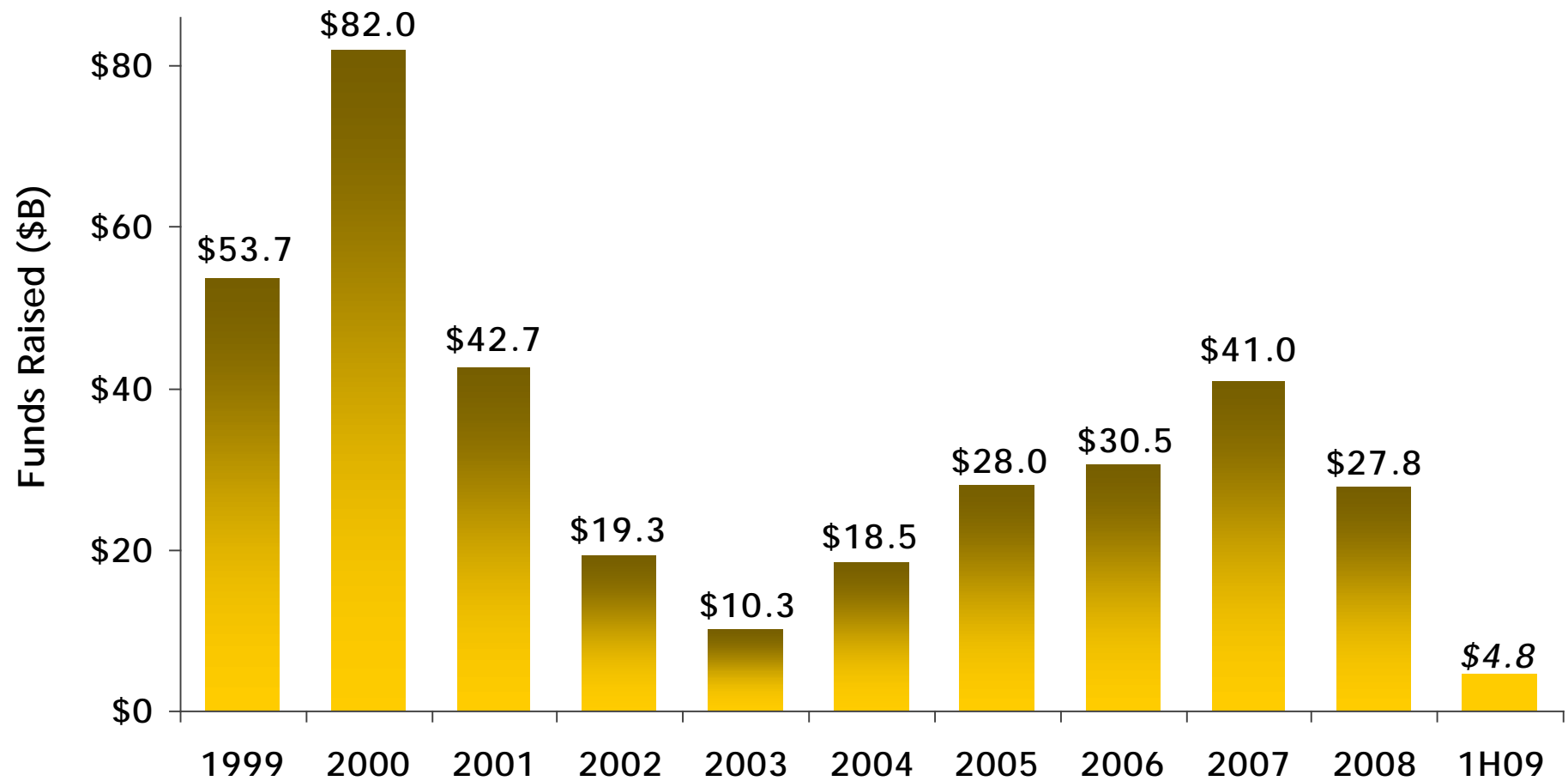
Median Amount Paid Drops in 1H '09

Median Amount Paid in M&As vs. Median Amount Raised Prior to M&A



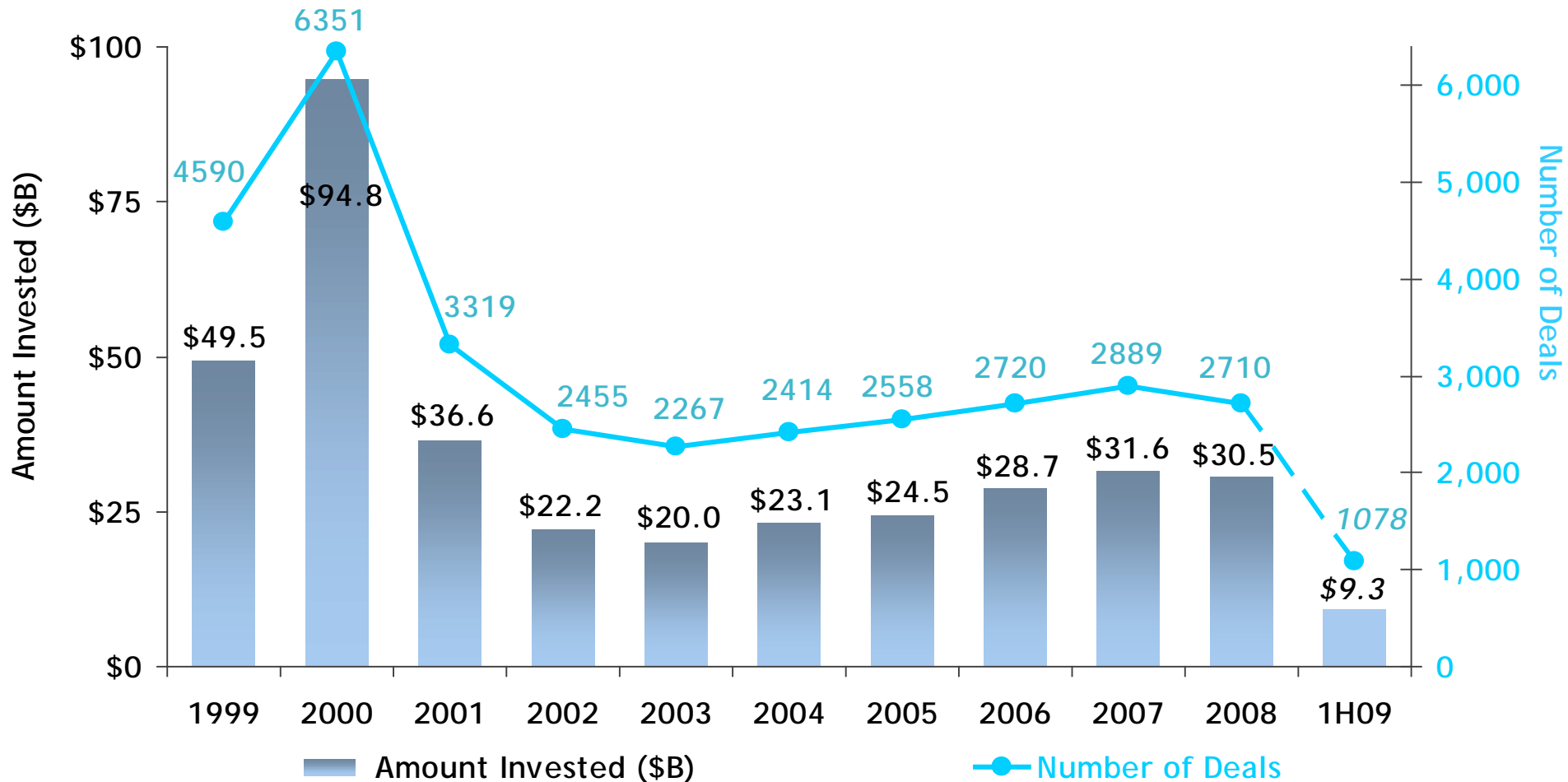
U.S. VC Fundraising Slow in 1H '09

Commitments to Venture Capital Funds
(based on multiple closings)



Investment Off Pace in 2009

Deal Flow and Equity into Venture-Backed Companies



Sourcing

- **VC finds deals through**
 - Industry leaders, professors, lawyers, etc.
 - Proactive research and networking
 - Incubate an Entrepreneur in Residence (EIR)
 - Industry conferences
 - Cold calls ≈ common sense
- **Entrepreneur finds VCs / funding through**
 - Professors, angels investors, lawyers, etc.
 - Target funds that invest in space
 - Networking
 - Cold calls

Due Diligence

- Venture capitalist funds 2 or 3 out of 300+ proposals per year
- Funding process
 - Introduction
 - Succinct business plan
 - Pitch (PowerPoint presentation)
 - Due diligence process
 - § Multiple meetings
 - § Customer references
 - § Competition
 - § Personal references

- Team
- Industry and market opportunity (high potential)
- Economics
 - Profitability of the business
 - Capital efficient
 - Potential return based on comparables (IPO / trade sale)
- Unfair advantage (out smarts competition)
 - Typically technology
 - Distribution channel
- Competition
- Other factors
 - Syndication
 - Board
- Reference: <http://sequoiacap.com/ideas/>

Board Member Role

Board Involvement

- Long term commitment, 7 to 10 years (monthly)
- Tasks
 - Recruitment
 - Recruitment
 - Strategy
 - Execution (introductions)
 - Raise money for company
- Challenges
 - Founders
 - Angel investors
 - Co-investors (shared vision)
 - Fiduciary role (company employees, shareholders, lender & own fund)

Exit

Monetization of an Investment

- Harder than you think (outcomes less than planned)
 - Financial marketing timing
 - Product / company positioning
 - Team
 - Industry health / dynamics
- Early stage VC outcomes

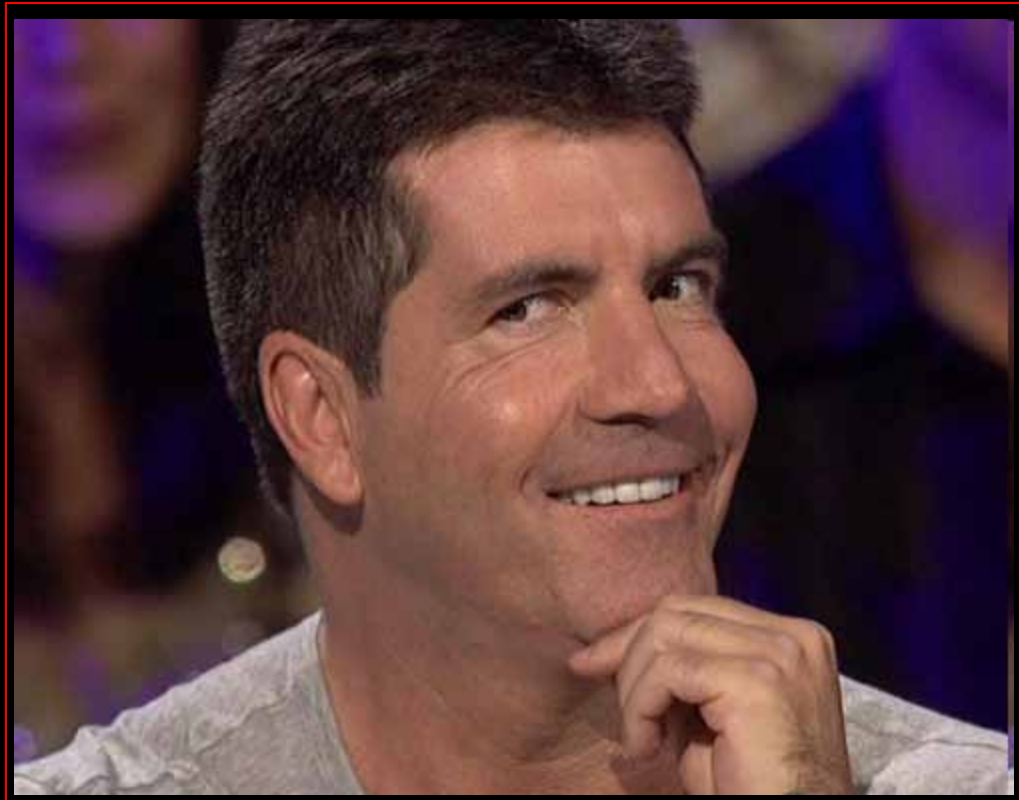
1 - 2 companies	7 - 12 multiple of investment
2 - 3 companies	3 - 5 times
2 - 4 companies	↓ ½ - 1 ½ time
5 - 2 companies	zero
- Exit options
 - IPO
 - Recapitalization
 - Merger (stock for stock)
 - Merger (cash)
 - Liquidate (asset sale / chapter 7 or 11)

Intersection of Venture Capitalist and Entrepreneur



REALISM

"OUR FINANCIAL PROJECTIONS ARE CAREFULLY CALCULATED
TO BE EXACTLY 700% TOO HIGH"



HUMILITY

"I'LL BE HAPPY TO STEP DOWN AS CEO ONCE YOU CONVINCED STEVE JOBS TO QUIT APPLE AND TAKE THE JOB"



CONSISTENCY

"WE'RE ALL ABOUT REAL-TIME, JUST LIKE WE WERE ALL ABOUT THE IPHONE LAST QUARTER, AND FACEBOOK APPS BEFORE THAT"

VC Non-Admission #

1	2	3	4	5	6	7	8	9	10	11	12
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ACCEPTANCE

"THE ONLY VALUE WE BRING TO THE DEAL IS MONEY."

VC Non-Admission #

1	2	3	4	5	6	7	8	9	10	11	12
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ATTENTIVENESS

"IT WAS RUDE OF ME TO CHECK MY
BLACKBERRY DURING THE MEETING."

Q & A