Venture investment

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What they say...

- Kleiner: “we had a diligent system of evaluating business plans. A plan had to stand up to the most exacting scrutiny and the toughest standards.”

- Many investors: “There’s always money available for a solid plan from a good management team.”
Venture investment

(In Billions)

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Numbers of deals

<table>
<thead>
<tr>
<th>Year</th>
<th>Numbers of deals</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>1885</td>
</tr>
<tr>
<td>1996</td>
<td>2715</td>
</tr>
<tr>
<td>1997</td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td></td>
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<tr>
<td>1999</td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>8125</td>
</tr>
<tr>
<td>2001</td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td></td>
</tr>
</tbody>
</table>
Average deal size

1995: 4.07 (In Millions)
1996: 4.07
1997: 4.07
1998: 4.07
1999: 4.07
2000: 13.07
2001: 6.70
2002: 6.70
2003: 6.70

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2003 Q3 by stage

(Percentage of Dollars)

Expansion: 54.7%
Later Stage: 3.09%
Early Stage: ~
Start/Seed: ~

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## VC investments by sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life sciences</td>
<td>27%</td>
</tr>
<tr>
<td>Software</td>
<td>20%</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>11%</td>
</tr>
<tr>
<td>Networking</td>
<td>9%</td>
</tr>
<tr>
<td>Semiconductors</td>
<td>6%</td>
</tr>
</tbody>
</table>
A target? DC metro area

- Software 11
- Biotechnology/Medical 8
- Media/Entertainment 3
- Industrial 2
- Consumer Prod/Services 1

Q3 deals in 2003, average deal $4.65M, total 36 deals.
The value of “insiders”

- Excellent for humanizing the process
- Very good for details of operations
- Pretty good for team organizing
- Not very good about their own *real* personal history
- Absolutely terrible about predicting what will happen to you!
Companies In Richmond

- Includes City, Henrico, Chesterfield
- All companies <99 employees
- Grand total at end of 2003: 23,181
- Number of 2003 venture deals in the entire Congressional District that includes these jurisdictions: ONE!!
Seeking funding

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Know yourself

- Can you,
  - Put in money yourself?
  - Accept a lower starting salary?
  - Carry debt you have to repay?
  - Risk property or other assets?

- How much
  - Control can you relinquish?
  - Ownership can you give up?
Debt

- Have you leased, or purchased?
- Are there assets?
- Can you borrow from suppliers?
- Are grants or loans available?
- Should you
  - Max-out your credit cards?
  - Borrow from your friends and family?
Equity investors

- Angels
- Venture capitalists
- Issues are
  - Deal size
  - Product expertise
  - Portfolio companies
  - Information asymmetry
  - Nature of the exit strategy
Angel investors

- Private individuals
- Not necessarily in business
- Prefer arm’s length first contacts
- Often syndicated deals
- Appreciate the “stamp of approval” from intermediaries who know
- May be as interested in the business as in its financial potential
Venture capitalists

- Rarely do seed investing, or even first round
- Regional focus for most firms
- Pratt’s Guide lists specialties
- A “fund” is a time-limited pot
- “Funds” are raised from insurance companies and pension funds
- Institutions like 30% annual return
Making contacts

- Entrepreneurship centers
- Community associates
- Formal venture capital meetings
- Service providers
- Successful alumni from your college or university
- Entrepreneurs who have visited your classes
Never leave home without…

- Your elevator pitch
- Your domain name, website
- Your business cards
- Knowing how many copies of your business plan are “on the street”
- What meetings you have scheduled
- Something to write with
Competitions

- Can be a source of networking and even funding
- But an “A” isn’t the key to cash
- And, “I told you so…” (p. 321)
  - Integration of the sections
  - Well documented sources of information
  - Accurate assessment of the real world
  - Clear statement of the assumptions
  - Adequate assessment of risk