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Alexander Haislip



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Contents

Preface	ix
Acknowledgments	xv
1 Industry Overview	1
What Is Venture Capital?	1
How Venture Capital Works	8
Performance Expectations	16
Venture Capital in Crisis	28
Summary	37
Notes	38
2 Careers and Organization	39
Launching a Career	39
Nurturing Your Career as a Venture Capitalist	43
Firm Structure and Organization	54
Planning for the Future	60
Summary	64
Notes	66

Contents

3	Fundraising	67
	Fundraising Is a Venture Capitalist's Number-One Priority	68
	What Limited Partners Want	71
	Working with Limited Partners	73
	Why Invest in Funds That Lose Money?	80
	First-Time Funds	89
	Bigger Funds	97
	The Future of Fundraising	99
	Summary	101
	Notes	103
4	Investing Basics	105
	What Makes a Good Deal?	105
	Macroeconomics of Investing	109
	Investment Process	114
	Stock Classifications	118
	Typical Preferred Stock Clauses	120
	Stock During Different Stages of Development	128
	Syndication	131
	Valuation	133
	Summary	140
	Notes	142
5	Finding Investments	145
	Gathering Opportunities	146
	Hunting for Investments	148
	Growing Your Own Investments	159

Contents

Alternative Methods	163
Missed Opportunities	169
Summary	170
Notes	172
6 Getting the Money Back	175
Gains from Investment	176
Going Public	178
Getting Acquired	188
The IPO Crisis	195
Solving the IPO Problem	197
Are Fewer IPOs a Bad Thing?	200
New Strategies and Adaptations for Liquidity	204
Summary	216
Notes	219
7 Booms, Bubbles, and Busts	223
Riding the Waves	225
Boom Beginnings	230
Bubbles	237
Busts	242
Summary	249
Notes	251
8 Going Global	253
Strategies for Foreign Investing	254
Venture Capital Outside the United States	263
Israel	264
China	270

Contents

India	277
Russia	283
Europe	288
The Rest of the World	296
Summary	300
Notes	303
About the Author	307
Index	309



Preface

I left New Jersey in June of 2004 and drove my white Toyota across America on Interstate 80. After five days on the road, I pulled into the parking lot of a Residence Inn in Mountain View, California. It was the middle of the night.

Mountain View is in the heart of Silicon Valley, north of San Jose and south of San Francisco, and just a town over from Stanford University. It is a city of mixed residential buildings, low-slung apartment complexes, quarter-acre lots, and 1970s-style office parks. Tall redwood trees pop up between the buildings, punctuating an unremarkable skyline.

The city abuts Moffett Federal Airfield, which features the single most notable building in Mountain View, a 1930s dirigible hanger shaped like a gigantic caterpillar, three football fields long and 200 feet tall.

Giant gray C-130 Hercules turbo-prop planes buzz the town on Air National Guard training days, their massive bodies hanging fat and heavy against the blue sky.

Mountain View is a place practiced in the art of launching massive endeavors and has served as home to several large technology

P r e f a c e

companies. Google was king while I was there and its employees seemed to have invaded the city. You couldn't walk down Castro Street, the city's main drag, without going past five or six people wearing T-shirts with the company's colorful logo.

They appeared so self-assured in the summer of 2004. Google was poised to go public and it was easy to imagine the employees smugly calculating the value of their stock options in their heads. The dot-com boom had come and gone, but the techies were going to cash in one more time. Google promised to be a phoenix flying out of the ashes of excess from four years before.

“Every few years, there must be that spectacular reminder that the merry-go-round still offers riders the brass ring,” writes Silicon Valley Journalist Michael Malone.¹ After the dot-com bust, Google's initial public offering (IPO) was surely that: proof that entrepreneurs, engineers, and financiers could still launch lucrative new industries.

The process of going from idea to multibillion-dollar business fascinated me and I decided to learn as much about it as I possibly could. I spent my first year in Mountain View interviewing anybody who could teach me the business of technology.

One of the first lessons I learned was that there are two types of technology start-ups: those that *had* raised money from venture capitalists and those that were *trying* to raise money from venture capitalists.

Google raised over \$25 million from Sequoia Capital and Kleiner Perkins Caufield & Byers, and was worth \$27.2 billion the day it

¹ Michael S. Malone, *Going Public* (New York: Edward Burlingame/HarperCollins, 1991) p. 233.

Preface

went public. Kleiner Perkins's John Doerr and Sequoia's Michael Moritz had invested when Google was little more than two computer science dropouts in a garage. Five years later, it was an Internet juggernaut.

It snapped the Silicon Valley ecosystem into focus for me and helped me understand why venture capitalists were treated with such reverence. They were both technological clairvoyants and the gatekeepers to great wealth.

But the success of Google was a bright spot in an otherwise cloudy and confusing time for venture capital. The basics of the business were under constant question as investor performance waned.

What had once been a cottage industry of casual partnerships had been transformed by the dot-com boom but had yet to find a firm footing in its new role. Technology was no longer a part of the U.S. economy, it was *the* U.S. economy, and venture capital was one of its most important catalysts.

Venture capitalists raised over \$100 billion in 2000, and the traditional models of investment were no more built for that kind of boom than a Volkswagen Beetle is built for the Indy 500. The industry was forced to evolve.

This book will help you understand how the venture capital industry is changing. It will show you the incentives that individual investors face and how those incentives dictate the evolution of the industry. If you're uncertain about how venture capital works, or want to understand recent developments in the business, this book is designed to quickly get you up to speed.

You can read the book straight through or pick out the chapters that interest you most.

P r e f a c e

Chapter 1 serves as an overview of both the basics of venture capital and the major changes and challenges the industry has faced during the past decade. This chapter will help you get up to speed on how venture investors operate and what makes them successful. You will learn how government regulation, industry consolidation, and new technologies have changed the finance of technology start-ups.

In Chapter 2, you will learn how to build a career as a venture capitalist. You'll see how different firms manage their staffing, growth, and succession, and understand how best to fit in.

Chapter 3 will show you several key fundraising strategies that work even in challenging macroeconomic environments. These will help you craft your pitch to potential investors. Understanding how firms market themselves will allow you to differentiate your approach and increase your chances of successfully connecting with cash.

Chapter 4 will introduce you to the basics of making investments. You will learn what venture capitalists look for in an investment and what factors affect their financing decisions. This chapter also describes how professional investors create special kinds of stock to protect their money.

Chapter 5 will show you how to find good investments. You will learn that venture capitalists have three major strategies for connecting with the best entrepreneurs and how to execute each strategy. Whether you are interested in how to make smart investments or in how to raise money for your own start-up from venture capitalists, this chapter will help you.

Chapter 6 is all about getting your investment dollars back. It compares taking a start-up public to selling it, which are the two major ways venture capitalists get their money back. It will help

P r e f a c e

you evaluate the ongoing IPO crisis and introduce you to innovations designed to overcome it.

Chapter 7 is your guide through the ups and downs of the venture capital business. You will learn what drives the continual process of boom, bubble, and bust. You will be able to spot each part of the business cycle and execute strategies for investing effectively at any point in it.

Chapter 8 will walk you through the path to going global. You will see how successful firms have taken what works well in Silicon Valley and modified it to pursue opportunities abroad. This chapter will help you appreciate the difference between doing business in Israel, China, India, Russia, and other emerging markets.

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This book is informed by more than half a decade of research, and reporting on every aspect of venture capital and technology finance. I have spoken with well over a thousand investors, executives, entrepreneurs, and technologists, as well as a myriad of lawyers, accountants, and public relations executives too numerous to name. I am grateful to them all.

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