



UCSD SUMMER SEMINAR



What Investors Look for in
New Venture Situations



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Parsing the Question

- What Investors Look for in New Venture Situations
- Investors
- New Ventures
- Criteria

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ANGELS AND VCS

- Angels
 - private/independent
(we don't flock well)
 - friends and family
(personal)
 - “aficionados”
(enamored)
 - mentors
(generative)
- VCS
 - institutional
 - ROI !

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ANGELS AND VCS

<u>Differentiator</u>	<u>Angels</u>	<u>VCS</u>
Reasons	- More personal+financial	- Financial/ROI
Sophistication	- Varied, no staff	- High
Funds	- Usually shallow	- Usually deep/fund stage
Follow-on	- Low \$, low sophistication	- Yes, set aside \$
Use of \$	- Discretionary	- Mandatory
Stage	- Usually early, but varied	- Focused and defined
Patience	- Higher	- Lower, again ROI
Decisions	- Quicker/poorer	- Slower/rational (penguins)
Help	- Uneven, but some mentors - General business	- Opinionated; time ? - Contacts, strategic relations
Valuation	- Higher, but be careful	- Lower, again ROI

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VCs and ROI

- It's everything !
- Caught in a bind
 - more \$, few people = more \$/deal, less risk share
 - more \$, few good deals = high valuations
 - driving toward earlier stage = high risk
- Earlier, higher valuations means need to turn deals quickly to get ROI
- Hot IPO market was saving VCs (what now?)

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NEW VENTURE STAGES AND SOURCES

<u>Stage</u>	<u>Maturity</u>	<u>Sources</u>
Concept Stage	- Biz plan and a model/demo	- F&F and other Angels - incubators
"Early" Stage	- Product beta and beta Customers	- Angels and some VCs
1 st Pro Round	- Product and referenceable Customers	- VCs and some Angels
"Later" Stage	- 1 st Pro round + market validation	- VCs
Public	- Used to be financial validation	- Who are/were these folks?

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CRITERIA

- Major market (50mm+ business here)
- Business (not just a product)
- Model exists (articulated in a plan?)
- With a team who can execute (!)
- Rewarding exit (for me, if not you; 10x in 3-5 years)

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