

## Class 7: Follow the Money

### logistics

Assignment 2 due Thursday at 11:59pm

Guest lecturer Bruce Gibney on Wednesday

Pitch deck project posted Wednesday night

### outline

1. venture capital and you
2. the view from Sand Hill Road
3. an exponential world
4. perspectives

### funding sources

friends, family and fools

angels

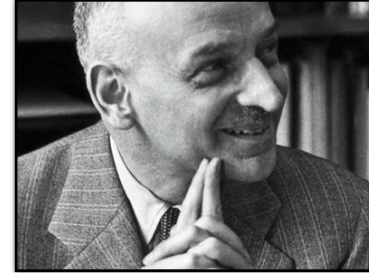
super-angels and angel groups

venture capitalists

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## the beginning



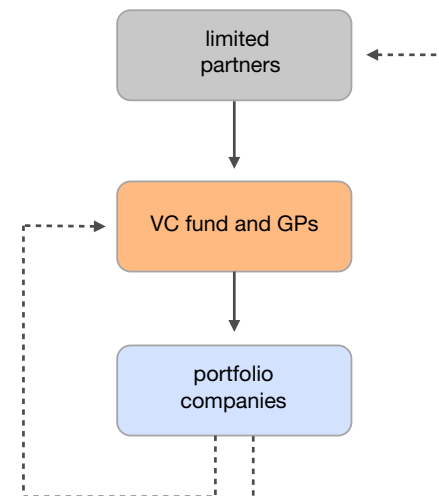
*"A team made up of the younger generation, with courage and inventiveness, together with older men of wisdom and experience, should bring success."*

-Georges Doriot

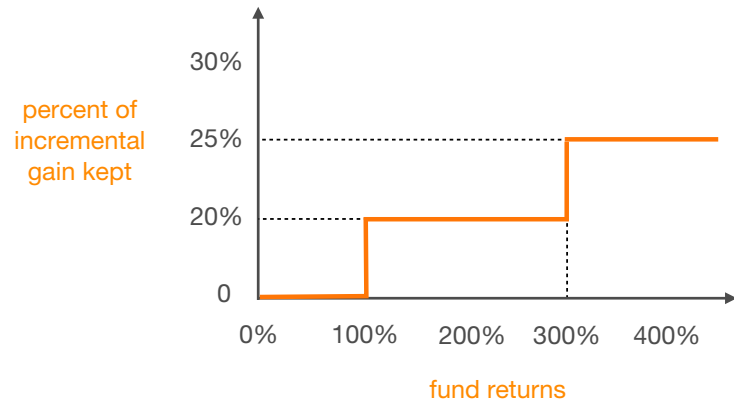
## sand hill road



## the dollar trail



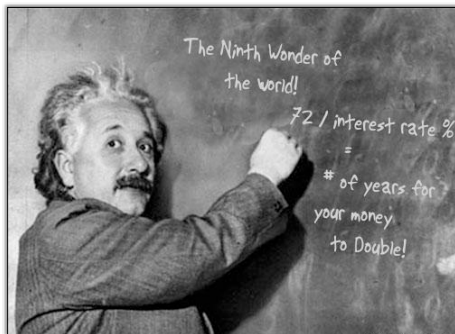
## carry



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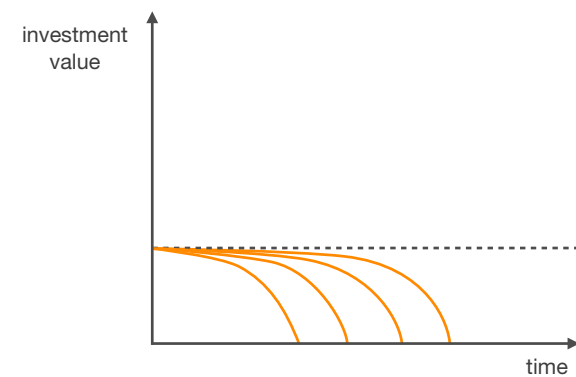
## exponents



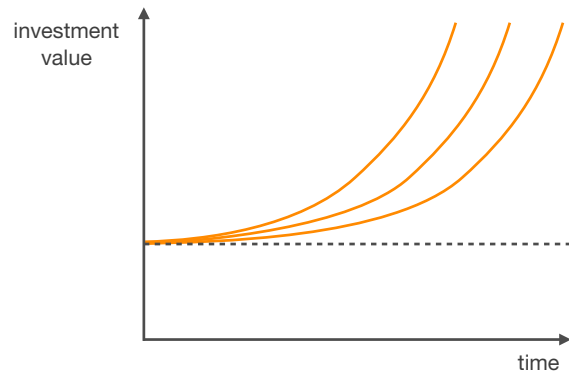
*"The most powerful force in the universe is compound interest"*

- Albert Einstein

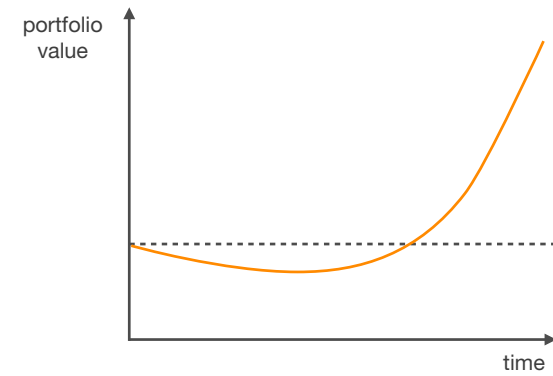
## failures



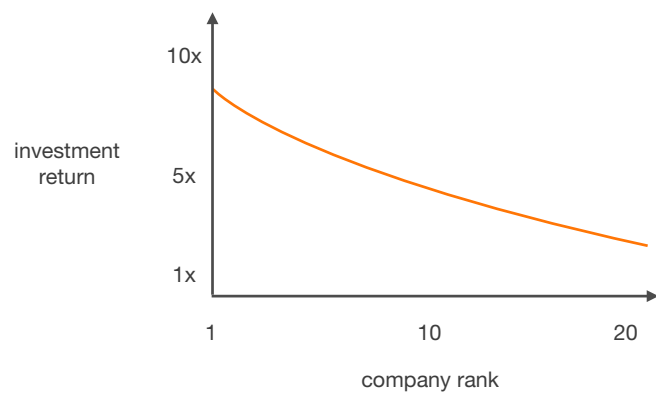
## successes



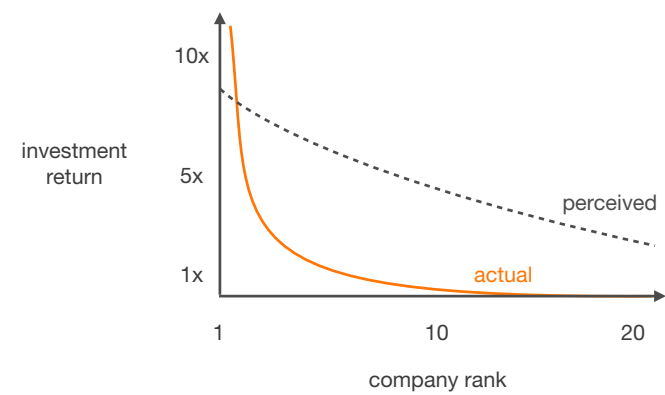
## the fund j-curve



## perceived returns

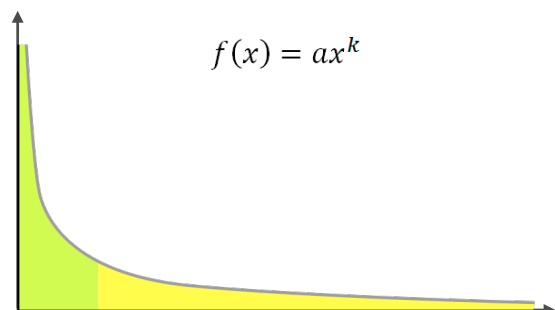


## actual returns



how steep actually is this curve?

## power laws



## FF, 2005-2007 vintage: equity value

### Value of equity stake

$company_i$	$value(co_i)$	$\sum_{i+1}^n value(co_{i+1})$	$\frac{value(co_i)}{\sum_{i+1}^n value(co_{i+1})}$
company 1	\$TBD	\$120M	TBD
company 2	\$64M	\$56M	1.1
company 3	\$23M	\$33M	0.7
company 4	\$13M	\$19M	0.7
company 5	\$10M	\$9M	1.1
company 6	\$6M	\$3M	1.8
company 7	\$3M	n/a	n/a

## FF, 2005-2007 vintage: company value

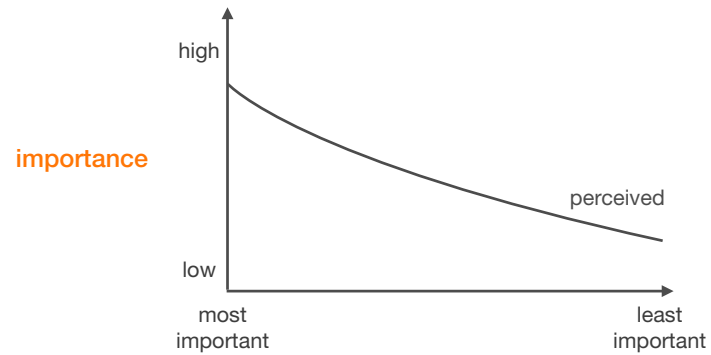
### Portfolio company valuation

$company_i$	$value(co_i)$	$\sum_{i+1}^n value(co_{i+1})$	$\frac{value(co_i)}{\sum_{i+1}^n value(co_{i+1})}$
company 1	\$TBD	\$5.2B	TBD
company 2	\$4B	\$1.2B	3.3
company 3	\$500M	\$710M	0.7
company 4	\$400M	\$310M	1.2
company 5	\$200M	\$110M	1.9
company 6	\$75M	\$35M	2.2
company 7	\$35M	n/a	n/a

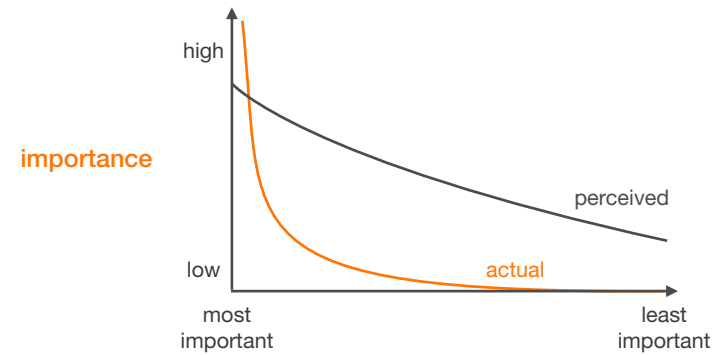
## portfolio returns

To a first approximation,  
a portfolio will only make money  
if its best company ends up  
being worth more than the whole fund

## personal application - perception



## personal application - reality



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