Capital Crunch: Predicting Investments in Tech Companies

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Abstract

For many start-ups, lack of investment and capital has become the bottleneck for development. This phenomenon inspires us to use machine learning algorithms to find patterns in investment behavior from major investors. We propose to use various domain-specific features to predict which investors would potentially invest in a particular company. This would not only reveal important information about investment strategies and behaviors of investors, but also give startups ideas on where to seek potential investment and how to adjust their strategies so as to attract potential investors.

Our work is grounded in CrunchBase, an accessible knowledge base that maintains full records of company and people information.

There are two primary goals of our work:

(1) To predict whether an investor would invest in a particular start-up based on textual, topological and domain-specific signals from both the investor and start-up.

(2) To analyze and reveal the factors that would prompt an investor to invest in startups so as to shed light on the adjustments the start-ups could make to attract more investments.

1 Dataset

We downloaded all the data from *CrunchBase.com*, one of the biggest databases with company information.

CrunchBase provides indexing data and an API for full access of their data. We requested the CrunchBase education plan API, which gives us a much higher throughput when acquiring data, and we were able to get the full dataset.

The full CrunchBase dataset includes 214,290 companies and 286,659 people. We also parsed all known investments in CrunchBase, and got 31,942 investments.

2 Approach

2.1 Data Model

The CrunchBase dataset has a variety of entities: organization, person, product, etc. There are also different relations including investment, acquisition, degree, founder, etc.

Our currently focus is on investment relationships. For simplification, we categorize organizations into **startups** and **investors**, and we care about predicting **investment** relationship between them.
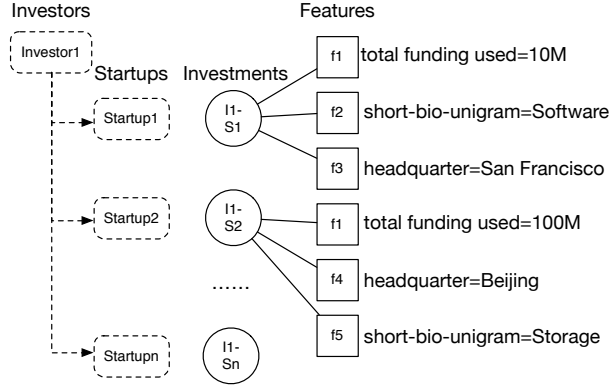
The data model is defined below:

Figure 1: Logistic Regression model (for a single investor)

- *Startup*(*startupId*, [*attributes...*])
- *Investor*(*investorId*, [*attributes...*])
- *Investment*(*investorId*, *startupId*, *isTrue*)

Where we use attributes (features) in *Startup* and *Investor* entities to predict *Investment* relations.

2.2 Problem definition

Our formal problem is:

Definition 1 *Problem: given the full **Startup** relation and **Investor** relation, predict **isTrue** value in **Investment** table, which determines if any given investor invests a startup.*

The desired output is a predicted probability between each investor and a startup.

2.3 Algorithm

In our initial model, we train an independent logistic regressor for each individual investor, which takes a feature vector of a start- up and predicts a label.

The logistic regression model is a subcase of a factor graph model: each *Investment* relation is a boolean variable that we are predicting, and the features are unary factors applied to variables. The factor graph for logistic regression is demonstrated in Figure 1. Each circle is a variable and each square is a unary factor. Note that the figure only represents the factor graph for a certain investor. For each investor we train a model like this, and their factor graphs are disconnected.

The drawback of this model is that it cannot utilize investor-based attributes and higher-level knowledge such as network topology.

As an improvement, we propose a factor graph / CRF model that correlates features across this graph. In a factor graph, and features in both sides of investors and startups can be correlated.

Figure 2 presents a possible design of a factor graph model. In this design, we add a binary factor $f3$ to connect factor graphs:

A factor $Equal(I_1S_1, I_2S_2)$ is applied if I_1 and I_2 has a common attribute a_i, and S_1 and S_2 has a common attribute a_s, and the weight (coefficient) is determined by (a_i, a_s). Intuitively, **investors that have similar interest would prefer to invest in similar startups,** and the degree is determined by the specific attributes.

We use DeepDive [4], a highly scalable inference engine to tackle the problem. L-1 regularization is applied during weight learning, and Gibbs Sampling is used for inference.
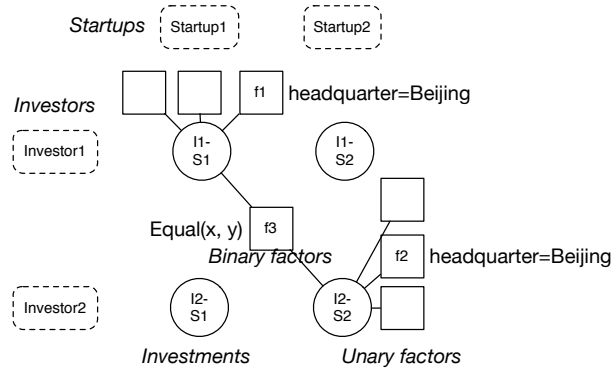
Figure 2: Factor graph model that captures similarity

2.4 Features

A rich set of features can be applied to predict investments. A list of features are described as below:

Basic attributes:

- Headquarters: the location of headquarters of the startup. We find that some specific VC likes to invest the startups in some specific areas.
- Category: the category of the service of the startup. We know that some VC are fond of the startups running on some certain kinds of service.
- Founded year: it is used combining with the total funding rounds. We use this to generate the negative example.
- Number of Competitors: we think the more competitors the start-up has, the less likely it will get the investment.
- Number of websites: we think that the more official websites the startup, the startup are more likely to get the investment since websites are indicative of the marketing potential.
- Current team size: the size of founders in the start-up. We think the larger it is, the more likely it will be invested.

People attributes

We think that investors will have the detailed evaluation for the founders and CEO of the startups and it highly affects whether the investment will happen or not. So we extract the following important features of founders and CEO of startups.

- Names: the names could reveal which race the founders are or which countries the founders are from.
- University of graduation: some investors have certain preference of people from some specific universities.
- Has obtained MBA: the investors have preference to people who has MBA degree.
- Number of degree obtained: the more degree the founders or CEO have, the more likely they get the investment
- Company worked in: this helps the investors to evaluate the working experience of founders.

Linguistic attributes

We try to utilize the linguistic attributes of startups to help improve the performance of the model. These linguistic features are extracted from the description of the startups. We think the description could kind of reveal some important information.

We use Stanford CoreNLP to extract the following features from the description:

- Location phrases

Category	Positive Example	Negative Example
Total	7749	43207
Training	5831	32462
Test	1918	10745

Table 1: Dataset Statistics

- Unigram of lemmatized nouns

2.5 Getting Labeled Data

2.5.1 Positive Examples

To train the predictor, we take ground truth investments in CrunchBase as positive training examples, that is, if an investor I has invested in a startup S, we obtain a training example $(I, S, true)$ in *Investment* relation.

2.5.2 Negative Examples

For the negative training examples, it might not be desirable to simply label all pairs of $(investor, startup)$ that do not have a known investment as negative, because (1) this makes positive examples extremely sparse and introduce a data skew, (2) this yields too many training examples and makes training harder, and (3) even if an investor have not invested a startup right now, it is still possible that the investment will happen in the future.

So we take startups that satisfies both following conditions

1. Have been founded more than 6 months.
2. Have not been invested or acquired.

For each startup S among these, we randomly generate edges with known investors in I, to obtain negative examples $(I, S, false)$.

2.5.3 Train / Test Split

We randomly hold out investment edges for 25% startups from all labeled data as test set. Table 1 shows statistics for the training set and test set.

3 Evaluation

3.1 Evaluation metrics

We evaluate our models based on ground truth investments (positive examples) as well as randomly / heuristically labeled negative examples. Specifically, we hold out a fraction of training examples, and use the predictions on these relations for evaluation.

We examine the calibration plots, where we layout the predicted probabilities and the accuracy in test set in buckets. A discussion of interpreting calibration plots is in the paper [4].

We look at the accuracy of most confident predictions: we hope to get a trained system where the most confident predictions are very likely to be true. Specifically, we evaluate the precision where the system predicts a probability above 0.95, as well as the recall.

We also evaluate the recall of predictions above probability 0.5, as well as the recall.

We compare our results with a naive baseline model: a random predictor that predict random labels based on class priors. An oracle model would be one that knows all existing investments and give correct predictions, which have precision and recall of 1.0.
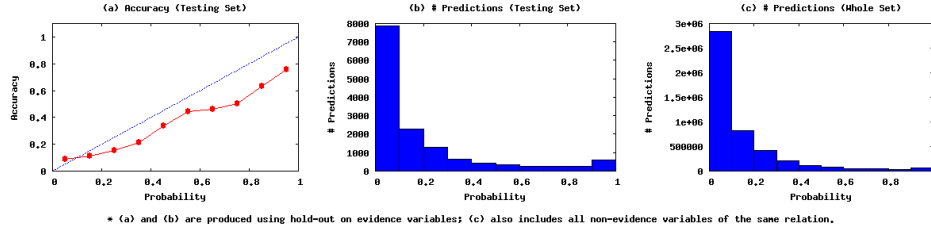
* (a) and (b) are produced using hold-out on evidence variables; (c) also includes all non-evidence variables of the same relation.

Figure 3: Calibration plot for investment predictions

3.2 Initial Results

We run experiments on a filtered dataset where each investor have at least 5 investments. We randomly label investor-startup pairs that do not have known investments as negative examples with probability of 0.01. This yields a dataset of 9,521 positive examples, and 47,490 negative examples.

Factor graph size:

- 4.7 million variables
- 115 million factors
- 3.1 million different weights

Calibration plot: See Figure 3.

High confidence (probability > 0.95 predictions):

- Precision 81.22% (over labeled data)
- Precision 0.91% (if count all predicted unlabeled data as false positives)
- Recall 3.13% (over all 2460 held-out positive examples)

Half confidence (probability > 0.5 predictions):

- Precision 59.34% (over labeled data)
- Precision 0.37% (if count all predicted unlabeled data as false positives)
- Recall 40.7% (over all 2460 held-out positive examples)

3.3 Initial error analysis

The results are not optimal. Specifically, we see severe underfitting from the calibration plot. Possible reasons include inexpressive features or models, or bad labeling strategy. We will discuss improvements in future work.

Table 2 shows some high-confidence examples with features. A view like this is useful for future error analysis.

3.4 Result analysis

Here is a list of top indicative features for the investor *Sequoia Capital*:

- headquarter=Shanghai
- headquarter=Beijing
- num_websites==5
- num_competitors==2
- category=Web Hosting
- founded_on_year=2005
- short_bio_1gram=services
- num_websites==4

investor_id	startup_id	is_true	expectation	features
sequoia-capital	influitive	f	0.982	category=Communities, category=Marketing Automation,...
new-enterprise-associates	liquidia-technologies	t	0.988	category=Nanotechnology, founded_on_year=2004,...
intel-capital	mobixell	t	0.998	category=Mobile, founded_on_year=2000,...
index-ventures	abes-market	t	0.98	category=E-Commerce, founded_on_year=2009,...
y-combinator	homejoy	t	0.982	category=Hospitality, founded_on_year=2012, headquarter=San Francisco,...
high-tech-gruenderfonds	fraud-sciences	f	0.99	category=Security, headquarter=Palo Alto,...
insight-venture-partners	twitter	t	0.996	category=Messaging, category=MicroBlogging,...
amicus-capital	getable	t	0.992	category=Curated Web, founded_on_year=2010,...

Table 2: Examples of predicted relations

- headquarter=Houston
- num_competitors==10
- founded_on_year=2004
- category=Databases
- headquarter=Pune
- category=Technology

We see some interesting results in these features: this investor prefers Asia startups, in field of web hosting, services, databases and technology.

Analysis like this might help startups find ideal investors, making marketing strategy and technical decisions.

4   Future Work

We clearly see several directions of improvements towards a better predictor:

(1) Improve features. We will add textual features in company descriptions, rather than using simple unigrams of short-bio. We have already parsed all the sentences in company descriptions using Stanford CoreNLP. We have also downloaded information about startup founders, which might help improving features.

(2) Improve models. We will add the similarity CRF rule discussed above, and propose more expressive rules such as people-related rules, or propose HITS/PageRank-like models (good investors invest in good startups, and vise versa), whose idea is similar with a previous work discussed in [3].

(3) improve supervision methods. We should integrate the heuristics of generating negative examples discussed above. Further questions include: how many negative examples to generate? How to do proper train/test split? Specifically, we might hold out start-ups, rather than single investment edges.

5 Related Work

In the paper [1], the author discussed a methodology to match proposals from start-ups to the potential investors on Kickstarter with linear regression, SVM-linear, SVM-poly and SVM-RBF, with an accuracy rate of 82% for static data features and 73% for dynamic data features. Their features are mostly updates made to the tweets, number of comments and so on, and we could widely expand the feature set.

Another paper [2] used a discriminant analysis to classify the potentially successful and unsuccessful companies. Their feature sets are worth noting, including individual characteristics of the entrepreneurs, the efforts by entrepreneurs (i.e. whether they actively look for resources and help), degree of innovation and so on. Though this paper is more on the social science side, we would like to scrutinize the feature sets so as to explore more meaningful and insightful features. For example, we could extend individual characteristics to how many start-ups the CEO has founded and their histories.

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