

Visionaries

~ The YVCS Newsletter ~

MBA

Do I Really Need One To Make General Partner?

In an attempt to shed some empirical evidence at this question, we at the YVCS analyzed over 80 of the largest, and most active VC firms. Out of the **615** General Partners looked at, only **58%** had MBAs and not surprisingly from only a small selection of programs.

	Total	Percentage of Total	Percentage of holders of MBAs
HBS	114	18.5%	31.8%
Stanford	83	13.5%	23.1%
Wharton	35	5.7%	9.7%
CBS	20	3.3%	5.6%
U. of Chicago	14	2.3%	3.9%
Dartmouth	11	1.8%	3.1%
Kellogg	10	1.6%	2.8%
UCLA	7	1.1%	1.9%
Virginia Tech	6	1.0%	1.7%
MIT	5	0.8%	1.4%
Boston University	3	0.5%	0.8%
Cornell	3	0.5%	0.8%
UMBS	3	0.5%	0.8%
Bentley	2	0.3%	0.6%
INSEAD	2	0.3%	0.6%
Northeastern	2	0.3%	0.6%
NYU	2	0.3%	0.6%
Tulane	2	0.3%	0.6%
U Santa Clara	2	0.3%	0.6%
U Texas	2	0.3%	0.6%
Univ. Pittsburgh	2	0.3%	0.6%
USC	2	0.3%	0.6%
Babson	1	0.2%	0.3%
BC	1	0.2%	0.3%
Bulter	1	0.2%	0.3%
Carnegie Mellon	1	0.2%	0.3%
DePaul	1	0.2%	0.3%
Fordham	1	0.2%	0.3%
FSU	1	0.2%	0.3%
Georgetown	1	0.2%	0.3%

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The Due Diligence Discussion with Todd Dages



On September 12, Todd Dages, General Partner of Battery Ventures openly discussed the intricacies of Due Diligence to over 80 attendees from such firms as **General Atlantic Partners, Capital Z, Comcast Interactive Capital, Goldman Sachs, CSFB, Shearman and Sterling, Morrison & Foerster, Ernst and Young and Universities, NYU, Columbia, Harvard and Michigan.** . As an increasingly important aspect of the venture capital practice Mr. Dages's insights provided a vital piece of education to this diverse crowd

Mr. Dages kicked off the event with "Due Diligence is an effort to predict the future." As such, "it is both an art and a science." With his focus on the team, the market and the competition, Mr. Dages, has been able to find and develop such successes as Akamai (NASDAQ: AKAM), Arbor Networks and Convergent

"The **management team** is by far the most important part of the deal," said Mr. Dages. "An 'A' team will attract other 'A' players around it but a 'B' team will attract 'C' players." It is therefore very important to get a high level of comfort with the management. Mr. Dages uses several techniques to quickly asses the caliber of management, including "sweating the team" a procedure of putting the team in a difficult situation and seeing how they respond. "Due diligence always involves a little bit of torture."

The second most important aspect of a deal is the **market**. The key is to find a market segment that does not exist yet, but will emerge over the next few years. Timing is critical. VCs have often been burned by backing companies who try to enter a market too early. Such companies burn though their cash before customers are ready to buy, leaving the market ripe for a successor. To learn about the market, Mr. Dages likes to speak with the company's customers and competitors. Occasionally, a competitor will turn out to be a more attractive investment opportunity. "Picking the leader of the segment is absolutely critical," said Mr. Dages. Winding up with number two is not nearly as good. Backing number three might not get you your money back, unless the market is particularly fast-growing, which you don't want to count on.

Lastly, it is important for the company to have a sound **business model**. "The company must be able to sell the thing for more money than it costs to make the thing." Mr. Dages likes to see scaleable gross margins of at least 50%. **Valuations** these days hover in the range of 3x forward earnings. However, these earnings are not taken at face value from management forecasts. The VC derives them by analyzing and verifying the company's pipeline, and factoring potential sale amounts by the probability of closing them. **Pipeline analysis** has been "institutionalized into every deal" at Battery. Separately, Mr. Dages highlighted some of issues facing the vc industry. **Term sheets** have also gotten tougher since the halcyon days of the late 90s, with liquidation preferences and other restrictions being added by VCs. Recent term sheets from west coast vcs have been even tougher than those from their east coast counterparts.

~Article by Alon Bochman

MBA

Do I Really Need One To Make General Partner? ~Continued

Indian Institute of Management, Ahmedabad	1	0.2%	0.3%
London School of Business	1	0.2%	0.3%
Loyola	1	0.2%	0.3%
Oregon State	1	0.2%	0.3%
Pace	1	0.2%	0.3%
S. Illinois University	1	0.2%	0.3%
St. Joseph	1	0.2%	0.3%
U British Columbia	1	0.2%	0.3%
U of Ireland	1	0.2%	0.3%
U of Pittsburgh	1	0.2%	0.3%
U of Scotland, Strathclyde	1	0.2%	0.3%
U of Washington	1	0.2%	0.3%
U San Francisco	1	0.2%	0.3%
U St. Thomas	1	0.2%	0.3%
U. Minnesota	1	0.2%	0.3%
Ucal Berkely	1	0.2%	0.3%
Ucal Irvine	1	0.2%	0.3%
UNC	1	0.2%	0.3%
Western Michigan University	1	0.2%	0.3%
General Partners w MBA	359	58.4%	
General Partners w/o MBA	256	41.63%	

Total Sample Size 615

Hot Off The Press

For those seeking a better understanding of the essentials of term sheets, this work provides an easy to understand manual.

Term Sheets & Valuations – by Alex Wilmerding

While working in VC for a number of years, Mr. Wilmerding has captured the critical and influential components of a term sheet such as **liquidation preferences, dilution, board approvals, registration rights**, and others. Moreover, he defines and highlights how each aspect affects the individual parties. Specifically, the book emphasizes the investor favorable, middle of the road and company favorable examples for each term being discussed with genuine terminology extracted from actual term sheets.

The book's succinct and clear explanation of VC's most important procedures is worth the time. Additionally, it is a comprehensive tool to use and refer to on a continual basis.



Dolphin Equity Partners

President's Address

An Interview with Samantha Beinhacker and Cynthia Massarsky (Deputy Directors)

Yale School of Management – The Goldman Sachs Foundation Partnership on Nonprofit Ventures



1) How did the National Business Plan Competition for Nonprofit Organizations and the Partnership on Nonprofit Ventures come about?

During the last decade, the distinction between nonprofit and private sector practices has blurred. Nonprofit organizations are becoming more business and marketing oriented as they learn the rewards of selling, as opposed to giving away, their much-desired products and services. It is not unusual to observe the business community discovering new market opportunities, as well, in areas that were once the near exclusive domain of nonprofits.

Earned income ventures are sexy. They are in vogue. But they are serious endeavors that require a significant amount of research and planning. And they usually require a change or shift in attitude among board and staff, as well. Nonprofit organizations developing earned-income ventures have limited opportunities to share their experiences or learn from others in the field. In addition, many nonprofit managers lack the business skills required to launch or otherwise grow successful ventures.

Yet, despite these challenges, the movement toward income generation continues to build as an increasing number of nonprofits investigate and initiate business ventures. Some of these ventures succeed, yet many more fail to meet either their social or financial goals. Clearly, the field lacks well-defined criteria, standards, and strategies for achieving success in this area.

Recognizing this national trend, The Pew Charitable Trusts commissioned a feasibility study to test the feasibility of a business plan competition for nonprofit organizations as a way to provide guidance and resources to nonprofits most capable of launching and operating revenue-generating business ventures. The Competition would also encourage sound business practices, provide the sector with important guidelines for achieving scale, sustainability and impact, and serve as a positive vehicle for communication among practitioners and funders.

To inform the process and, ultimately, the design of the competition, The Pew Charitable Trusts worked with Cynthia Massarsky and Samantha Beinhacker to conduct a study, "Enterprising Nonprofits: Revenue Generation in the Nonprofit Sector" to research and summarize the landscape of nonprofit business ventures. (See our monograph summarizing the results from the survey, <http://ventures.yale.edu/factsfigures.asp>)

The Pew Charitable Trusts' research indicated that there are many factors involved in launching and growing successful business ventures. Among them, two are perhaps most critical to nonprofit organizations: (1) understanding and implementing the processes involved in creating and building a profitable enterprise, and (2) securing sufficient capital to fund and sustain a profitable enterprise. In the world of nonprofit ventures, there was no single venue that offered nonprofits access to both of these key ingredients.

Back to School

YVCS Presentation to U. of Michigan Business School Students

Recently, the YVCS held a small informal get together with some members of the upcoming class and alumni of the University of Michigan's Business School. The hour long presentation entailed a brief overview of the YVCS mission, accomplishments and future events and services to be offered. Though most questions surfaced around entering the business, the topics soon changed to how vc funds are structured, the general skills necessary to be a successful vc and the resources available to further educate oneself.

As it was clearly the most important of the responses, accentuating your underlying skill sets is what will get you in. Unfortunately, a direct approach is not always the best approach. For those with experience in sales and marketing, the right route is sometimes through fund's investor relations teams versus applying for the investment professional positions. These ideas were also highlighted by Alan Patricof, in his discussion with the YVCS in June.

Additionally, for fund structures, a helpful book has been written by Harvard professors Josh Learner and Paul Gompers. The book highlights some of the more detailed aspects of the venture capital industry, including terms and concepts relating to fund management.

Lastly, the traditional backgrounds, of vc professionals usually contain at least one, if not more, of the following: Transactional experience (Investment Banking / Consulting), Operations experience, and an engineering degree. However, for the more focused venture capitalists in bio-tech, medical experience and more specific degrees are usually seen.

The YVCS is a constantly evolving organization that looks to its members, attendees and readers for guidance on how to improve.

We welcome all suggestions, comments and questions. Please feel free to contact us at:

info@yvcs.org
sponsorship@yvcs.org

In the fall of 2001, The Pew Charitable Trusts made a three-year \$3 million grant to the Yale School of Management to "build and house" the Competition and other activities to help improve the practice of nonprofit enterprise. Shortly thereafter, The Goldman Sachs Foundation joined with a two-year \$1.5 million grant to launch the Yale School of Management - The Goldman Sachs Foundation Partnership on Nonprofit Ventures.

The Partnership educates nonprofits about nonprofit enterprise, serves as a mechanism for capitalizing promising profit-making ventures with financial support, and provides intellectual capital to build the practice of social entrepreneurship in the nonprofit sector at-large.

2) **What are the overall goals for The Partnership on Nonprofit Ventures?**

The Partnership on Nonprofit Ventures aims to bring together three strands of Yale School of Management's teachings- entrepreneurship, business skills, and social responsibility- to nonprofit organizations, infusing its program with the philosophy that superb business and management skills are a critical ingredient for leadership in every sector of the economy- private, public, and nonprofit.

Its goal is to serve as a leader in disseminating knowledge and learnings about nonprofit enterprise and social entrepreneurship. Through its Website, www.ventures.yale.edu, The Partnership reaches nonprofits large and small, urban and rural, in all sub-sectors of the community. It reaches funders and investors who seek to learn about nonprofit enterprise and support it through grants and awards. It reaches researchers and academics who study and write about the practice of nonprofit enterprise. The Website on Nonprofit Ventures is the medium that can help bridge the gap between the business idea, the plan, and the seed capital to get it on its way.

3) **What are future directions for The Partnership on Nonprofit Ventures?**

The Partnership's signature event, The National Business Plan Competition for Nonprofit Organizations, has attracted an overwhelming response: 650 nonprofit organizations entered the Competition. Several elimination rounds will occur over the course of the year, and the final judging round will take place at the Annual Conference and Awards Ceremony scheduled for May 1-2, 2003 in New York City.

At the Conference, the 20 finalists will present their business plans to a panel of expert judges for evaluation. The grand-prize winners and semi-finalists will be announced at the Annual Conference and Awards Ceremony in May 2003. Nonprofit organizations, academics, funders, and others are invited to attend the Conference to view the presentations.

In addition, the Conference will be a place for nonprofit organizations, academics and students, foundation and corporate investors, venture capitalists and others to gather and network with one another, celebrate award winners, and participate in a host of activities that inform the process of business venturing among nonprofit organizations.

A second competition is planned to begin in May 2003, culminating in May 2004.

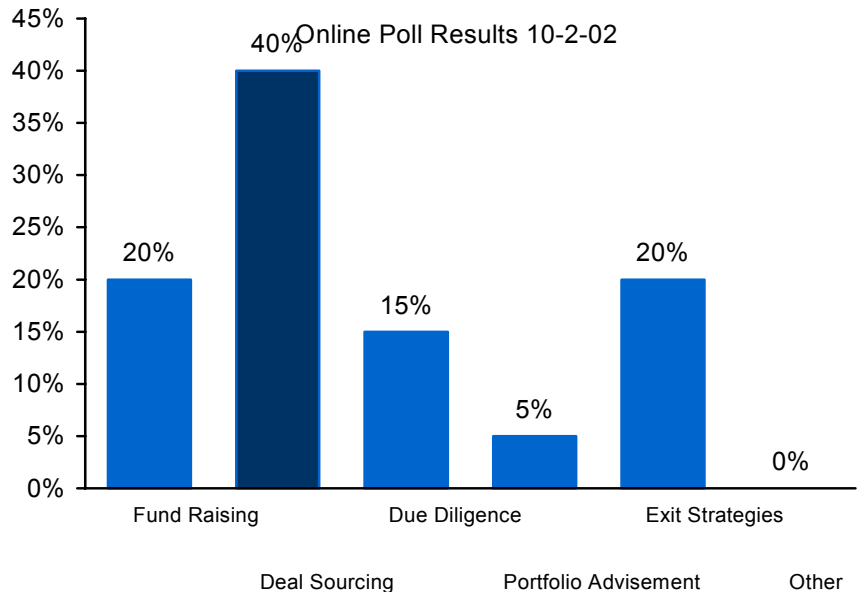
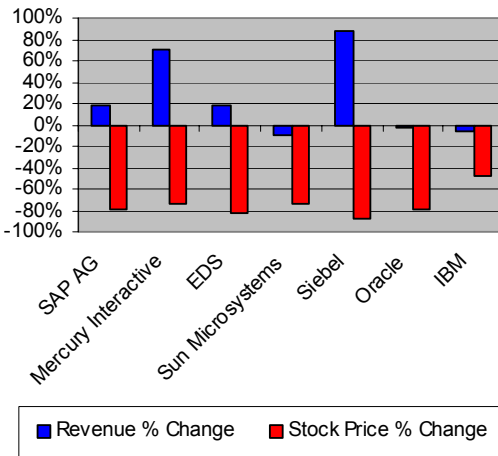
Enhancements to the program include continuous updates to the online Resource Center, with its searchable membership directory and online discussion group, customized library and extensive bibliography, research reports, calendar of events, and links to affinity groups and related organizations. Visit <http://ventures.yale.edu/aboutresourcecenter.asp> to learn more.

Sales Revenues rise while prices plummet

By Alon Bochman

How have technology bellwethers such as SAP, EDS, IBM and Oracle done since the peak of the bubble in March of 2000? According to conventional wisdom, these companies are gasping for air – losing clients and watching their stock value evaporate. Conventional wisdom is only half right. Looking at 7 of the largest enterprise software goliaths, we see that have actually enjoyed rising revenues. Although this may be of little consolation to these companies' shareholders, the economic fundamentals of enterprise software may not be as bad as the media would have them. In one extreme example, WebMethods, which filed its first 10K in 2000, has seen its LTM revenue soar **4120% since March 2000 while its stock price swooned 97%**.

How Technology Bellwethers Fared since March 2000



TOP LINKS

- National Venture Capital Association
- PriceWaterhouseCoopers
- VentureReporter
- Private Equity.com
- VentureWire Alert
- VentureWire People
- Boston Globe
- Red Herring
- Harvard
- Stanford
- MIT
- Kauffman Fellows Program
- VC Buzz

- <http://www.nvca.com>
- <http://www.pwcmoneytree.com>
- <http://www.pwcvc.com>
- <http://venturereporter.net>
- <http://www.privateequity.com/>
- <http://alert.venturewire.com>
- <http://people.venturewire.com>
- <http://digitalmass.boston.com>
- <http://www.redherring.com/vc>
- <http://www.library.hbs.edu>
- <http://www.gsb.stanford.edu/ces>
- <http://libraries.mit.edu>
- <http://www.kauffmanfellows.org>
- <http://www.vcbuzz.com/new/vc.cgi>

Kauffman Fellowship

By Alon Bochman

The Kauffman Fellowship (www.kauffmanfellows.org) is a unique institution which places a select group of young people with venture capital firms for 18 months and pays a generous \$110,000/year stipend. These "Fellows" spend most of their time in practicing the investment process "hands on" under the guidance of seasoned industry mentors. Throughout the Fellowship, Kauffman Fellows engage in all phases of VC investing, including deal prospecting, terms negotiation, due diligence, and management and exit of portfolio companies. Kauffman Fellows come together several times a year for customized learning programs, designed to complement their day-to-day experience. Karen Kerr, a winner of the Kauffman fellowship in the first or "charter" class called it the "Best route to get into venture capital." She added, "Perhaps the most valuable aspect of the Kauffman Fellows program is the network of Fellows alumni and mentors to which you have access." The Kauffman fellowship is now accepting applications for its 8th class. Applications are due October 15th.



Be a Contributing columnist!

If you have an interest in writing something that could benefit others interested in venture capital send your work to info@yvcs.org

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- **Standard Registration**
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