



Visionaries

~ The YVCS Newsletter ~

UPCOMING EVENTS

Fall

Breaking Into VC/PE

This educational event will focus on the how professionals from investment bankers, operational executives, engineers, b-school students and others can best obtain careers in the venture capital space.

Winter

Raising a Fund – an LPs Perspective

This interesting and educational discussion will feature limited partners views on investing in VC/PE. Helpful hints, strategies and connections will be born from this evening's event

Future Events

Media and Interactivity

Valuation and Term Sheets

Life Sciences – Primer

Deal Sourcing

Technology Workshops

Entertainment Investing

Email: info@yvcs.org for more information

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Titans Series – An Interview with Ann Winblad, General Partner, Hummer Winblad

May 28, 2008

By: *Mathew Gulner*

[Q: How do you approach or view early stage deals and early stage investing](#)

~ In early stage investing we don't get to know a lot of facts. Most of the companies that we fund have between two and ten people. They may have only a well articulated product concept or at most a prototype of their software solution.

There is a debate in the venture capital industry on whether VCs should go out and find really smart people and believe they will create great companies, or whether VCs have to really look beyond people and look at the market opportunity, or whether VCs need a combination of both. The way we at Hummer Winblad Venture Partners look at early stage deals, no matter how you cut it, you have to believe there is a **large market opportunity**.

Our focus is in the enterprise software area. A significant benefit in this sector is that the market bats last and you can talk to the batters; the CIOs, CTOs, CMOs, CSOs or Architects. In open source, customers have probably used the open source software, long before the target company decided to be a commercial open source company. So you as a VC have chance to look backwards and ask the enterprise user well "you downloaded this, what are you using it for? would you pay money for it in the future?" You get the chance to talk to the marketplace. Without that chance, you have to determine "how do I validate that there is a large market here." And that is where really understanding your domain and the customers is important. We constantly have a parade of Chief Investment Officers (CIOs) and enterprise customers through our office. We try to do pattern recognition from both sides. We try and examine from the entrepreneurs side that present possible software solutions to us and from the marketplace saying "where are their pain points." Between that, we try to invest early enough so we get a head-start on these markets. So that is the tough part, **you have to become a good pattern matcher to become a good investor**. And you cannot just match the pattern to the teams or smart person or the idea that this is an interesting product. That is the easy part. How do you figure out the pattern of "is this a large market?" "Am I funding a product or a business, am I funding an aspirin or a real pain killer here?" "What is the size of the opportunity?" All young companies do a little bit of maneuvering or wandering around once they get funded because not all of your answers are 100% perfect; so you need to work hard at due diligence to ascertain the opportunity.

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YVCS Partners



The Young Venture Capital Society is pleased to announce a partnership with Bradon Technologies Inc., to offer **YVCS members free access** to Bradon's SAVii™Desk VOIP collaboration platform for a period of sixty (60) days. SAVii™Desk is an all-in-one online meeting tool that delivers voice, video and desktop presentation over the internet.



Bradon's SAVii™Desk product can be used by YVCS members for Internet-based meetings, presentations and training sessions, and also allows for the transfer of video, audio and desktop sharing which can be done 100% over the Internet (phones are entirely optional).

The SAVii™Desk Desktop presentation tool enables the meeting's host to visually present themselves and their desktop to an audience of any size, while they all talk in a group conference call over the Internet. At the host's option, SAVii™Desk allows other members of the meeting to present to the participants with the same functionality as the host. Whatever you choose to show on your desktop, the audience sees.

Here are the key features of SAVii™Desk:

- Live video, voice and data to an audience of any size;
- SAVii™Desk participant, is less than 400Kb in size and is a fully functional application that contains its own audio engine;
- It is a Software as a Services (SaaS) solution that deploys each time it's used, making it easier to deploy & support;

[Article continued on the next page]

Q: How do younger VCs create rolodexes of CIOs, procurement professionals and the like to do effective due diligence?

~ You don't necessarily need a network do that. At one time I was a first year venture capitalist, with a brand new fund and a brand new firm and my name on the door. Previously, I ran a software company but only in one segment, mid-market ERP, and it is exactly the same as when you are a young entrepreneur. It is the same thing we ask our entrepreneurs to do- walk through doors where the people don't know you. It is pretty easy through LinkedIn.com or the Internet to find people in major corporations who have the right jobs. You just need to pick up the phone and call them or email them and I think people will be surprised at how easy it is to make connections. Interestingly enough, in the software marketplace there is not a large company on the planet that does not have software as a core component of their strategy. Companies are very interested in talking with innovators. They are also very interested in talking with venture funds. So your calling card as "I work at XYZ venture fund" is enough. That is how you build your network.

Q: How did you source quality deal flow when you were first starting out? What advice for others would you have, whether they are partners or junior professionals?

~ That is probably the most important question you can ask, because the quality of your deal flow is what makes or breaks your ability to be successful in the venture industry. As an early stage investor, if we rest on our laurels with our rolodexes we miss a lot of good deals. I'll give you a good example, we recently invested in a great young company based in New Hampshire called VKernel (<http://www.vkernel.com>). And one of our associates asked how did you find some of these great venture deals that you had in the past? We said you just have to have your truffle snout on all of the time. You have to be good at finding truffles. So our associate, Lars Leckie, was attending a conference, and we said you are going to get there and there will be 10,000 people there and it will be hard to find your buddies even if you have a good network. And in fact you don't even want to get stuck with your buddies or else you'll miss the other 9,000 people at the conference. Just follow the traffic flow. And see in the smaller booths, see where the traffic is going and low and behold he found that the most popular booth was a tiny booth for a virtualization utilities company based in NH, VKernel. They were not thinking of going out for venture capital because they were doing well on their own. They didn't really know a lot of venture capitalists and they are turning out to be a fabulous company.

You have to be very creative. We didn't have LinkedIn.com and the ability to create our own alumni networks, from our colleges, our previous jobs as well as our LinkedIn networks. We had to go find these companies on foot. Even as recent as 15 years ago, so there is probably no excuse for not getting creative and reaching out to entrepreneurs. For instance, assume there is a building down the street that has 50 companies in it. One strategy may be to sponsor a cocktail party or beer bash there one night. It really is the same kind of things you might have done in college to start your own social club. "How do I meet new people, how do I surround myself with very smart, entrepreneurial people who that are likely to start companies, even if I don't have companies to seek after right away?" The key is to fish in the right ponds.

[To read the entire article in full, log on to www.yvcs.org]

- All content is 100% synchronized;
- VoIP (full duplex) for all meeting participants regardless of audience size;
- Mobile Device Functionality - The SAVii™Desk Client runs on Windows Mobile 5.0 and 6.0 based devices;

To register as a host, go to www.saviidesk.com/yves and follow the instruction online to create an account using your email address. SAVii™Desk will then generate a unique password that can be used or changed later. Once successfully registered, you will receive a confirmation email to your inbox. When you are ready to use SAViiDesk, go to www.saviidesk.com and enter your username and password to schedule an online session and send invitations. After entering the email addresses of the participants, each participant receives an Outlook-friendly email invitation. At the time of the scheduled event, the user clicks on the event link and is automatically connected to the session online.

About Bradon Technologies

Bradon Technologies Ltd., the creator of SAVii™Desk, is committed to innovating, developing and delivering the world's most advanced online presentation tools and VoIP technology. By combining exceptional voice/audio quality with online collaboration software, Bradon is quickly becoming a leader in online communications. Leading Bradon's innovation is an international team of experts specializing in the field of Internet voice communications and voice compression. While speaking at international conferences and publishing numerous articles, our specialists have devoted the past decade to developing new technologies that are now setting the standards for tomorrow's Internet voice communications. Bradon's technological focus is on how to maximize the transport of voice data via the Internet in order to improve voice quality and call reliability. This level of innovation is changing the face of online communications and it is this vision that is quickly earning Bradon a reputation as an elite provider of online communications technology and tools.

www.bradontechnologies.com

[To read the entire article in full, log on to www.yvcs.org]

TechWatch:

Web Innovation: Have we seen the best or is it still to come?

July 7, 2008

By: Eric Olson

More and more posts about the web I come across seem to lament over the state of the web these days. Specifically these posts suggest that we aren't trying hard enough to innovate. Some also suggest that we really aren't innovating on the web anymore, that we're just creating small iterations on what already exists. In fact Mark Cuban said as much in a post the other day:

Personally, I think Web 2.0 already is tired. When social networking or Twittering applications that are nice to have, but not a need to have, are the best we can do. We ain't doing much. Lets get real. As much fun as Twittering can be, shouldn't we all be able to agree that if its the latest and greatest application, the Internet has Jumped the Shark ?

When I first read that section of Cuban's post I was floored. Then I started to think about it and wondered if he may be on to something. I started to agree with him. There are bigger problems to solve with technology. Why are we spending so much time, money, energy and intelligence on things like Twitter? Do services like Twitter really matter?

After thinking on that for a bit I came to realize that we may simply be in an innovation valley right now. If you were to look at innovation over time you would see that bursts of innovation hit followed by a lull and then another burst. Innovation is cyclical in the way that evolution is. Bursts followed by relatively long lulls, etc., etc.

So maybe the web hasn't "Jumped the Shark." Maybe we haven't reached the limits of what the web can do. Perhaps we're just in a valley, in the midst of a lull which will head into another burst of innovation.

Looking at things another way I also realized that innovations like Twitter could be the way the web, and computers in general, we meant to evolve from the very beginning. After all in the early 1960s, Robert Fano, at the time MIT's Ford Professor of Engineering, organized Project MAC at MIT to demonstrate the feasibility of "general-purpose, independent, on-line use of computers by a large number of people" (cite: MIT's Technology Review Magazine - July/Aug 2008 - p.96).

Fano organized the project because he believed that the power of computers didn't necessarily lie in their computational power, he believed the power of computers could be found in their ability to connect people and allow for collaboration and the sharing of information. Aren't these same high level goals that services like Twitter carry forward? I'd say so.

While Twitter may not be a technological marvel it is furthering how we communicate and that is really what computers and the web do best.

Are we in a lull? Perhaps. Are we simply taking the next steps toward better electronic communication? Sure. So, perhaps the future of the web isn't as bleak as people like Cuban suggest. Of course only time will tell.

A New Kind of Venture Competition

The Social Equity Venture Fund (www.sevenfund.org) has recently launched the VINE (Virtual Integrated Networking Experience) Competition. The unique competition, open to all, merges the world of commercial financial investment with open innovation to promote a broader free flow of ideas for investment in emerging market SMEs.

This online competition asks participants to answer the following question in 750 words or less : "What indicators can outside investors measure to help them predict the potential success of emerging market SMEs?" A \$50,000 prize will be shared among all those who contribute to the winning idea, starting with the originator and continuing to contributors or nodes along the two-phased "vine." This competition is the next step in SEVEN's efforts to accelerate the rate of innovation in the area of enterprise solutions to poverty.

Getting involved is simple. We are accepting submissions through our website between July 15 and November 15th. The online competition invites anyone with ideas to submit, collaborate, and refine them. Once complete, S.E.VEN hopes to evaluate, develop, and publicly release a set of metrics that can be used to help improve investor confidence and stimulate investment in promising emerging market SMEs. **To participate, contributors can view more information about the competition and submit their ideas at <http://www.sevenfund.org/vine>.** The first phase of the competition will remain open until November 15, with the second phase of wiki-based collaboration taking place between November 16 and December 15 at the VINE Project's Web-based wiki which will be made publicly available in November. The online VINE community will select finalists and a jury of experts will award the grand prize. The winner will be announced in January 2009.

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Effects of the Credit Crunch on Private Fixed Income

June 23, 2008

By: Matthew G. Kosara, CAIA

As the shakeout from this credit crisis continues it seems that few have avoided much pain, from real estate, to publicly traded stock, to the US dollar and beyond. In the private investment space the limelight has been shed, these past months, on the plentiful mega-deals that private equity shops have had to back away from (mostly through the use of Material Adverse Change, or MAC, clauses) due to heavy tightening in credit. Much news has also been directed to the fact that private equity going forward will focus on small to middle market deals where multiples are perhaps better, but more so that astronomical leverage need not be employed. Leverage on equity deals, however, is not the only effect of this credit crunch on the private investment landscape. On the other side of the balance sheet, in the fixed income / debt area of financing, lending standards and covenants have tightened, many banks aren't lending at all, economics on bank loans, mezzanine and others are changing, and distressed debt is starting to come back into the regular parlance.

A confluence of events in the credit markets seems to have brought us to the point we are at now. Over-speculation and a previously strong economy lead to heavy purchases of real estate, not solely by those of lesser means through so-called subprime mortgages, but also by many others hoping for the promise of the American Dream, this also due in no small part to low global interest rates. But with thoughts of fast money for some and ever increasing home values for many, the herd mentality was not meant to be. Like any market, real estate too cannot increase in value into perpetuity and the overextension of cheap leverage, together with a zealous packaging of the paper in thought-to-be fool proof investment structures, began with cracks in residential real estate that quickly spread through the rest of the credit leaden economy.

Since this point many lenders have had to write down loans and other such assets as dictated by FASB Rule 157, hammering valuations and leading to a lack of lenders in the market. This, then, has lead the remaining loan originators, select banks and niche underwriters (and a surprising number of hedge funds themselves) to see much more loan paper than they traditionally see. With lower leverage multiples for their own books as well, though, they aren't simply stocking up on as many loans as they can. Rather lenders are using equity reserves to pick up the most choice investments available AND are able to get stricter covenants and higher economics on top since, well, where else are many companies going to go to get necessary financing.

Similar stories persist in the mezzanine space and further down the capital structure as well. Companies that a year or two ago would have gone to their banks or first-lien lenders, or perhaps even the IPO route, have had to lighten their economic outlooks and perhaps find financing with expectations not only of giving up those higher economics, but also larger equity warrants or other kickers to bolster lenders should things go wrong (not to mention the amount of sway these sources of financing have because of the lack of options for borrowing companies).

While defaults on residential mortgages have risen precipitously in recent months (the New York Times reports a Mortgage Bankers Association default figure of 8.8% through the first quarter of '08, compared to 7.9% at the end of '07¹) corporate loan default rates remain at historic lows.

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Interview Questions

YVCS is looking to build an interview question and answer database.

Whether you are interviewing for a position within the venture capital/private equity space or a job at an established company or startup, we want to know what they asked you. And better yet, we plan to ask the YVCS members to help answer those questions!

Once obtaining critical mass, the database will be easily searchable to segment technical questions (financial, economic, or engineering) from behavioral questions (strengths, weaknesses, stress management etc).

Send over your information to info@yvcs.org



Get Involved!

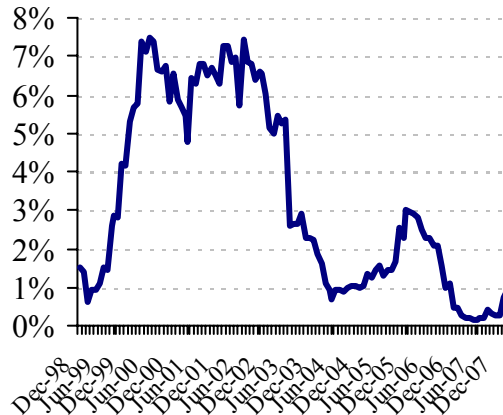
YVCS is looking for individuals interested in assisting the team in the following areas:

- Managing and organizing events
- Researching and writing articles (on any related topics)
- Creating and developing online tools and new resources
- Engaging sponsors and donations (we are a non-profit, ya know).
- Managing regional chapters
- Overseeing technological issues (Chief Technology Officer and also Webmaster)

If you have an interest in any of the above, please contact us at info@yvcs.org

As of March 30, 2008 the default rate as reported by S&P Leveraged Lending statistics stood at 1.83%, well below its normal range² (see chart below). Now with a slowing economy few anticipate defaults staying so low, but this opens market opportunities for investments through lenders with higher lending standards and stronger covenant restrictions. As general market default rates rise through year end, strong loan portfolios will continue to increase in value as the market percentage of performing loans declines.

Lagging 12-months Default Rate by Principal Amount



Source: Standard and Poor's LCD and S&P/LSTA Leveraged Loan Index

Rising default rates lead to distressed paper making its comeback into the conversation of potential investments. With write downs and negative credit events come investors who see great value in these opportunities. Distressed investments offer the ability to purchase loan paper for pennies on the dollar and potentially be in a control position if investors can choose the best of distressed situations and help to put a company back on its feet. This affords investors in the typically low return fixed income markets some of the outsized potential profits historically seen in the buy-out, venture and other equity spaces.

These opportunities together with breakups and necessary liquidity for many CLOs / CDOs, broken bridge financing, and many others continue to make this a fixed income buyers market for those who understand the intricacies of their investment and can be patient for the best deals to come along.

¹ Bajaj, Vikas & Michael M. Grynbaum. "About 1 in 11 Mortgageholders Face Loan Problems". New York Times. June 6, 2008.

² Source: Standard and Poor's LCD and S&P/LSTA Leveraged Loan Index

