

SCOTT R. BAKER
PAOLA SAPIENZA
SIDDHARTH DEEKSHIT '17
SOUMYA HUNDET '17

How Venture Capitalists Evaluate Potential Investment Opportunities

This case comprises excerpts from interviews with six prominent venture capitalists in the US about evaluating investment opportunities.

The first three interviews are with domestic investors: an early- and mid-stage investor (Promod Haque, Norwest Venture Partners), followed by two mid- to late-stage investors (Brian Paul, Tenaya Capital, and George Bischof, Meritech Capital).

The next interview presents the perspective of a growth equity investor (Woody Marshall, Technology Crossover Ventures). The final two interviews focus on investing in international markets. The first is with an investor with broad experience in the US and international markets (Neill Brownstein, Footprint Ventures) and the concluding interview shares the experience of an investor that has been active in the Chinese market (Jenny Lee, GGV Capital).

Detailed biographies for interviewees and firm profiles are available at the end of the case.

Promod Haque, Norwest Venture Partners

Promod Haque serves as senior managing partner at Norwest Venture Partners. He joined Norwest in 1990 and has invested in more than 70 companies. Haque focuses on investments across a wide

©2018 by the Kellogg School of Management at Northwestern University. This case was prepared by Professor Scott R. Baker, Professor Paola Sapienza, Siddharth Deekshit '17, and Soumya Hundet '17. Cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management. Some details may have been fictionalized for pedagogical purposes. To order copies or request permission to reproduce materials, call 800-545-7685 (or 617-783-7600 outside the United States or Canada) or e-mail custserv@hbsp.harvard.edu. No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of Kellogg Case Publishing.

variety of sectors, including systems and IT infrastructure, healthcare IT, software and services. He received a BS degree in electrical engineering from the University of Delhi, India, a PhD in electrical engineering from Northwestern University, and an MBA from the Kellogg School of Management at Northwestern University.

What is your typical investment strategy in a company?

We are stage-agnostic, investing from seed through Series C or later. These could be follow-on or late-stage investments. In some cases, we are invited to join a later round by another investor in our network.

In addition to venture investing, we also have a growth equity team that backs companies that are often self-funded and have reached critical mass and achieved EBITDA breakeven. We often go in and provide liquidity for these companies. There might be a family leadership transition, for example, or the founder wants to retire and take money off the table.

Check sizes vary between venture and growth equity investments. For a venture seed investment, we will fund smaller amounts. For a Series A round, we are looking at higher investments ranging from \$4–5 million. For Series B or Series C rounds, we invest in the \$10–20 million range. During the lifetime of a company, it is not unusual for us to invest a total of \$40 million. In a growth equity transaction, it is not uncommon for us to put in \$60–80 million. With the latter, the risk is lower, the companies are farther along and profitable, and they're looking for larger amounts of capital. With early-stage venture investments, there is always a chance of losing money; however, the investment size is much smaller initially.

In addition to being stage-agnostic, we are also sector-agnostic. We invest in many different industries such as technology, information services, business services, financial services, consumer products/services, and healthcare.

We have specialized teams for each investment sector. For example, we have an enterprise team that understands the market when we are looking at companies focused on infrastructure, SaaS, cloud, mobile, cybersecurity, and AI. We also have teams that focus on consumer, healthcare, and growth equity. On the consumer side, we have invested in companies such as Jet.com, Minted, and Casper. In the healthcare space, we focus on healthcare IT, wellness, and analytics companies such as Omada Health, Health Catalyst, and Qventus. Our growth equity team invests in much larger established companies ranging from jewelry company Kendra Scott Design to 1010data and The Rainmaker Group.

Another part of our strategy is geographic diversity; 15 to 20 percent of our investments are made outside of the US. We invest in Israel, mostly in the technology sector within consumer internet and enterprise. We also have two subsidiaries in Mumbai and Bangalore, India. So we are diversified by stage, sector, and geography.

How do you typically source your deals?

We take a few different approaches to sourcing new investments. On the venture side, most opportunities come to us directly. Norwest has been in business for many years and has an established reputation, so we do enjoy a fair bit of incoming deal flow from entrepreneurs who approach us. In addition, we receive inbound investment opportunities from other VC firms with whom we have previously worked and who need a partner in a new investment round.

We also reach out to prospective companies. Our analysts and associates track trends in different sectors and identify which companies look interesting from an investment standpoint. Lastly, we track entrepreneurs who sell their startups. Many entrepreneurs sell their startups and once their non-compete is over, they will build something new. It's important for us to maintain relationships with these entrepreneurs and to be top of mind when they start new companies.

On the growth equity side, we field a fair bit of inbound and also focus on proactive outreach to established companies that are focused on their next level of growth.

Given your fairly broad and diversified investment interests, what type of people do you hire? How do you coordinate activities internally given that these teams have different target areas?

At the entry level, we typically hire associates for a two-year position. We will hire associates from investment banks focused on specific domains such as technology or healthcare. They bring in domain experience along with the necessary financial skills.

At the more senior level, we bring in partner-level investors. Most partners come in with significant operating experience and impressive resumes. They may have been SVPs or CTOs at established startups or larger companies. As an example, before I started my venture capital career, I had been a VP of product engineering, a COO, and a CEO at several startups. That experience gave me the necessary perspective on the challenges facing entrepreneurs.

When we hire at the partner level on the enterprise team, we look for candidates from companies such as Salesforce, Oracle, Cisco, or similar companies. On the consumer side, we search for people who have relevant startup experience and those who have occupied senior roles at Facebook, Google, Twitter, or similar companies. In the healthcare space, we have two investment partners who are also doctors, so they deeply understand the health ecosystem and how it works.

What do you look for when deciding to invest in a startup?

It's really a combination of the potential of the market and the promise of the team. In the seed stage, if a founder comes to us, we look at the entrepreneur's background. Let's say a successful entrepreneur who ran a hotel chain wants to start a security software company. That's not going to interest us—despite a past record of success—because there is a background mismatch. We would

prefer working with a founder who has been in the security domain for about a decade and is familiar with existing products, knows what customers are looking for, and has an understanding of what market leaders are doing.

A key aspect of a founding team is a combination of different functional skill sets. We look for founders who understand product well, such as a CTO or engineer, and we also want a founding team member who understands the market, such as a product manager. When we reflect back on some of our companies that have failed, very seldom have they failed because they weren't able to build the product. It's usually because they didn't understand the market or customer need. That's where product marketing and product management expertise comes in. While there are certainly impressive exceptions, an engineer or developer tends to be isolated from the market. They do not necessarily have external contacts. We value someone who knows what customers are seeking, what "state-of-the-art" products look like today, and how to get them to the next level.

Sometimes, we play matchmaker. If we know of an entrepreneur who has only engineering skills, we can introduce them to someone with product marketing expertise. Being in business since 1961, we have access to a large network of entrepreneurs and executives around the globe, so it's very easy to pick up the phone and call people working at Cisco or IBM, or to call customers who are CIOs at Morgan Stanley or Netflix to understand if the customer need claimed by a startup is, in fact, real.

In addition to market need, we also look at market size. If it is a small niche, we are less likely to invest. However, if there is a clear and massive need for the product or service, we are much more likely to be interested. Scalability is very important to us.

Another important aspect is avoiding "herd-like thinking." There's often a wave of new companies in the wake of a successful one. Often, a startup will come to us with an idea and our research tells us there are several other companies already doing the same thing, some of which are much further along the journey. If this is the case, it is usually too late to invest as there are no early-mover advantages left to exploit. We seek to back the first players in any space because they have a market advantage and will get to market faster.

We have seen this many times over the years. Back in 1997–1998, optical transmission was becoming interesting. The browser was invented in the mid-1990s and a whole slew of dot-com companies were getting started. Internet access was quickly becoming an issue as telephone infrastructure was not suited for the internet. Optical transmission held a lot of promise.

Betting on this trend, we funded Cerent in Petaluma, California. The company was run by sharp founders who were the first to solve this particular problem. Cisco bought them for billions. Cerent was a career-defining investment for me. We made about \$1.5 billion in gains just on that one deal, which was unheard of back in those days.

After that sale, it was interesting to watch 80 to 100 other startups crop up that were based on the same idea. A few years later, all of those companies had died off. Only two companies in this space made it—Cerent and Ciena. Before the others had a chance at succeeding, the dot-com bust occurred, traffic died down, and all of a sudden all of the startups in this space failed. So our view

is if there is a new trend and you are not one of the first two to three companies to market, then you have lost the opportunity to succeed in that market. There are obviously exceptions, but more often than not you are probably too late.

As someone who invests internationally in countries like Israel and India, do you have a different approach for such markets?

I think there is a big difference between Israel and India. The Israeli market is small but it reminds me of Silicon Valley. With only 8.5 million people in their country, most Israeli companies have to expand their reach and target customers in other markets. A major source of their revenue is from US and European customers, which makes them similar to Silicon Valley startups. Israel is an impressive source of technology and similar to the US from an investment standpoint. The US is where the products sell and it is also where these startups get sold, to companies such as IBM, EMC, or Google.

India is different. In the past, Indian IT services companies were able to capture the US market. Moving forward, those companies may struggle in their current form because of advances in artificial intelligence and other technologies. On the other hand, India's local economy is growing impressively. Norwest has made a few investments in the banking sector that serve the local economy. Those investments have performed well. We have also invested in the e-commerce sector in India, and so far those have proved to be disappointing.

It is very difficult to achieve liquidity in India. The challenge is that unlike in the US, in the Indian stock market, listings are based strictly on P/E ratios. You will never hear of a company that is losing money list itself on the BSE (Bombay Stock Exchange) or NSE (National Stock Exchange of India). All those companies have to come to the US to go public if they are not EBITDA positive. American investors are currently wary of international investing. People don't understand India well. While a lot of the investment play is in e-commerce, it is very tough. Valuations are out of control. Amazon is making huge investments because they have the money and the brand is making it a little easier for them to succeed. We have made good money in the banking sector, so overall we have done okay—but not as much as we thought because of our losses in e-commerce.

How do you syndicate with other firms?

We do syndicate with other firms, but not with every investment. If it is a seed investment or a small \$5 million Series A round, we do it ourselves. For Series B, we often bring in other firms. The reason for syndication is that it takes a lot of money to fund companies these days. Costs have gone up. Salaries paid to engineers have dramatically increased and living costs in the Bay Area have become very expensive. The rule of thumb is it takes about \$80–100 million to create a successful company from startup to exit. In some cases, it is even higher—up to \$200 million. That said, it can be difficult for one venture fund to be able to fund the entire amount.

As a VC, you want to diversify rather than put big money into one company. We are a large fund so we are comfortable putting in \$40–50 million out of the \$100–200 million total requirement. For a larger Series A we will usually syndicate, and certainly with a Series B. The dynamics of syndication are very easy. We work with people we know and have worked with before. We are friends with partners at other firms, so we invite them to take a look at our investments and see if they want to co-invest. It is usually a close-knit circle of people you know and respect. Venture capital is very much a relationship-based business.

What is the right exit strategy for a startup? Have you found yourself at odds with the entrepreneur on when to exit and how? How do you negotiate that?

It does happen from time to time and, obviously, the relationship will vary from founder to founder. Some founders are overly optimistic. That becomes a challenge sometimes when they think they are going to be the “next big thing” but don’t want to acknowledge they are rapidly losing significant amounts of money.

Once a company becomes EBITDA positive, it becomes less of an issue. Let’s say a company gets to breakeven, and the entrepreneur says he or she does not want to sell and that the founding team wants to keep going and go public. That is acceptable, usually. On the other hand, when a company is losing money and an offer shows up, it can be more of a challenge. In such situations, the price is often not exciting to the founder and the tendency could be to try and raise more money and delay the sale.

In these situations, it’s important to connect with the entrepreneur and have that difficult discussion. I try to explain that they are losing money and that their business model may not be working. We tell them that it makes more sense to sell the company because if they don’t and they choose to raise more money instead, they are merely postponing the inevitable and exacerbating the problem. I explain that their liquidation stack is going to go up and with the liquidation preferences baked into term sheets, they will have even worse problems a few years down the line. Chances are that they will not add significantly more value to the company by accepting more people on the cap table, but the investment stack is just going up and they are getting even more diluted.

These are difficult but important conversations. I cannot tell you the number of companies—and this makes me sad for the entrepreneurs—where we have advised the entrepreneur to sell but he or she decided not to and a few years later, they walk away with nothing to show for their effort. I’ve had entrepreneurs come back and say, “I wish I had listened to the feedback and sold.”

You must understand that as a VC I am diversified, so I’m fairly sheltered if some of my investments don’t do well. The entrepreneur, on the other hand, has spent several years of his or her life on this one pursuit and if it doesn’t turn out well, it is unfortunate. By the way, it’s not just founders who can be irrationally exuberant. Sometimes VCs get caught up in the hype too. We all have to guard against such exuberance.

Can you walk us through a deal that meant a lot to you?

FireEye is a great example of a company we are proud of. We made the initial investment in 2005, before cybersecurity became the big issue it is today. We exited in 2014 and made \$750 million on a \$26 million investment. The interesting thing about FireEye is that it wasn't a clear success from the outset; in fact, the company had to pivot twice and came close to shutting down.

If you ask the founder, he will tell you that he twice had difficulty raising money and so Norwest stepped up to fund the next round. In fact, FireEye had some down rounds. Some of the other investors didn't want to participate and I had to speak with the senior partners in those firms face-to-face before we were able to secure some more money. Those were very early days for cybersecurity—it wasn't as big of an issue or market in 2005–2006. It was only beginning in 2008–2009 that we realized that this was a great investment.

Brian Paul, Tenaya Capital

Brian Paul is a founder and managing director of Tenaya Capital. He has been a member of the Tenaya investment team since 1999. Previously, Paul spent 10 years as a technology and healthcare investment banker for both Lehman Brothers and First Boston. Paul holds a BS in economics from the Wharton School of the University of Pennsylvania and an MBA with distinction from the Kellogg School of Management at Northwestern University.

What is the typical the size of your investment and your preferred ownership in the company?

We at Tenaya Capital are mid- to late-stage investors, so we typically own anywhere from 10 to 20 percent of our businesses. Our investment size varies and can be anywhere from \$5 to \$20 million. We usually invest in second or third institutional rounds.

We try to create a diversified portfolio for each fund, and hence invest in a variety of tech companies, which could be applications, infrastructure, or consumer. We also tend to lead most of the rounds (around 80 percent), but we are willing to follow as well.

As a mid- to late-stage investor, we're all generalists rather than specialists. There are five investing partners in Tenaya, and we can honestly look at anything in the spectrum of technology. But in terms of size, if it's an early-stage company, we might write a check as small as \$5 million. On a later-stage company, where we don't think there's follow-on capital, we could write a \$20 million check. But the goal is to have \$10 to \$15 million in each of our companies across the lifecycle of the investment.

Are most of the companies generating revenue when you invest in them?

Eighty percent of our companies are doing \$1–5 million in quarterly revenues. So they're real businesses—we don't do "two guys and a dog" and we don't do Series A. The companies we invest in have typically been selling and generating revenues, but we've also done pre-revenue companies and we're perfectly comfortable there as well. Additionally, we've also done very late-stage companies like Zappos or Kayak, where they're doing hundreds of millions of dollars of revenues. But our sweet spot is around \$1–5 million (in terms of revenues). So they're still trying to figure out product-market fit.

What are the key metrics you examine before making an investment?

I think it starts with people, then the business and market, and lastly, the investment. And it's in that order. So if you don't have any of the three, we just won't move forward.

When we write a check, we must be confident that we're investing in the right set of people. We must like, trust, and respect the people across the table from us. The team does not necessarily need to have run a company before. Additionally, our definition of "people" also encompasses the syndicate. So we ask key questions like: Who else has invested in the company? Do they understand that space very well? Do they have a history of good outcomes?

When I say business, it's the market opportunity. Some key questions we ask here are: Is there a real problem they're trying to solve, and is it a large market opportunity if they solve that problem? And then, how competitive is the business? Are there moats? Are there competitive barriers to entry? Are they a leader? Are they first to market? Do we believe they can capture that market opportunity?

Lastly, if those pieces fit, we make sure the investment make sense. So valuation comes in at the end only after other pieces fit well. We believe that a good financial deal can't solve a bad business.

How much financial due diligence do you do? What are some of the metrics you use?

As a mid-stage/late-stage investor, we do a lot of financial due diligence since these are operational businesses and hence there are a lot of metrics to evaluate the company on. For instance, some of the metrics that we look at are revenues, growth rates, unit economics, margins, sales efficiency, cash burn rate, and other similar things that can tell you a lot about the health of the business. For example, if it is an 80 to 90 percent gross margin business, somebody is ascribing great value to that. On the other hand, if it is a 10 percent gross margin business, is it a commodity product?

However, these are not the only parameters that we evaluate a company on. Typically there is no "magic number" that would influence our final decision to invest. Even when we look at a

great number, there is a second level of due diligence to understand why it is a great number. For instance, if the company is growing at 100 percent per year, we want to understand where that growth is coming from. If there are some negative numbers, like if the company is burning a huge amount of money, then what is the reason for that burn? If we look forward one to two years, how will that burn rate change?

Relative to early-stage investors, late-stage investors have a huge advantage because we invest in an existing business where we can look at more financial metrics. But again, we put it in the context of the bigger picture of the three buckets of people, business and market, and then the investment.

How much operational expertise do you typically provide to your portfolio companies?

For early-stage startups, the management teams are sometimes looking for VCs' expertise in operating the businesses. However, as late-stage investors we invest in businesses that have already gained momentum. So we are not value players. We are not trying to find a business that will have a great outcome if we fix a few things. We look for businesses that are doing well today and that can do even better if we add a little fuel to the fire.

Even though we don't manage the operations of the company, we do add value through our previous experience as investors. What I bring to the table, in my opinion, is a fair amount of pattern recognition. Most management teams are brilliant but have done this at most three or four times, whereas we have seen the show across the entire portfolio, which might be over 100 companies. Hence, we can leverage this experience to help the company scale and also create awareness around exit (IPO, M&A).

In the end, I firmly believe that I've invested in the company and management for them to drive the business, not myself. And therefore I feel it is very important to have the right set of people run the company.

Do you syndicate with other VC firms? What do you look for when syndicating?

We never invest in a company alone. As I mentioned before, we own 10 to 20 percent of a business. Since we're mid-stage/late-stage investors, we typically participate in the second or third institutional round. In many of the rounds we do, the existing investors are putting in more money. So it's often Tenaya plus the existing investors.

While we put emphasis on early-stage investors, we definitely don't have a predetermined set of venture capital firms that we would only invest with. Instead, we have deep relationships with many of what we hope are the best early-stage VCs. The quality of the early-stage venture group matters in a couple of different ways, such as recruiting management teams, follow-on financing, branding, etc. When you do a follow-on financing, a strong syndicate can help in raising funds,

especially in challenging times. Lastly, during syndication, the venture firm is important but individual partners play a very important role as well.

Can you walk us through a deal that taught you a lot?

The most interesting deals tend to have a lot of challenges, since the level of involvement is greater in those situations. Some time back, one of my portfolio companies hit some tough times, as these companies tend to. I always say that venture capital and venture companies are non-linear outcomes—you take two steps forward, one step back.

However, this company hit a really rough patch. I still thought the market was good, but we had to do a full recapitalization. Probably half of the investors decided that they no longer wanted to participate and half of us thought there still was an opportunity. In those kinds of periods, there is a lot of ambiguity that adds stress. It is easier when times are good, since as investors you only need to put fuel on the fire.

But when things haven't gone the way you anticipated, having the courage or the vision to still believe despite what might be some challenging realities of the situation—it can be very rewarding to continue to believe when there are others, even in your own venture capital firm, that don't. Most tough decisions are not unanimous. You sit around a table and debate it and you hope you make the right decisions.

It is in these troubled situations that you can get great economics if it works because you've adjusted the capitalization table so that you may own significantly more than you did previously. You took a risk putting more capital in, but the outcome, if you get it right, is substantial as well. These would typically be the deals that as an investor you would always cherish.

How do you decide the right exit strategy for a firm? How do you anticipate and manage possible differences of opinion with the entrepreneur and managerial team?

I believe that at the end of the day, the management teams are the drivers of this equation. If a management team doesn't want to sell, you can't sell. If a management team wants to sell and you think you should go long, you really can't do that either. All you can do is influence them, and try to say, "Instead of selling to a big company for \$200 million, I think there's a billion-dollar opportunity if we have the courage to continue." As investors, our side of the fence is trying to influence, but the decision-making sits on the other side of the table.

Additionally, the management teams that are willing to start companies or build companies in tough times, they're pretty rock solid. They're the passionate ones. It's not money that drives them. And I think if I look across the portfolio, the entrepreneurs who are really driven by passion as opposed to money are the ones who do the best.

We're long-term investors. And what I mean by long-term is, we're not looking for quick exits. Most of the time, we're encouraging management teams to stay the course and hope for a bigger outcome. We typically invest in companies that we think can be large standalone companies. We're not always right about that, but that's what we hope to do.

Can you share an example of an investment you made that did not turn out the way you envisaged? What did you learn?

One recent example was related to syndicates. I made an investment in a company that had an atypical syndicate—it wasn't the venture capital groups we typically invested with, and there were strategic investors that had a different philosophy about when and how to exit. The company received an offer to sell, which most people felt was an adequate return and a good outcome for the company, given some of the challenges it was facing. The management team and the preponderance of the board felt like an exit was the best option at that point. However, one of the investors thought we shouldn't sell and wanted to drive a certain return. So there was a block there—typically, everyone expects that syndicate partners will make rational decisions when the time comes. But that's not always the case. Sometimes people will make an irrational decision.

Thus, despite having a buyer, it took too long to get our side right as we negotiated amongst our own syndicate and the deal fell apart. In hindsight, maybe I should have spent more time and thought more about governance.

The venture capital business isn't an easy business, so we learn a lot of lessons. You have to be humble and take in all the different things. But when we have an outcome within our grasp that is reasonable and we sort of blow it, those are frustrating—more frustrating than the ones where our investment thesis was wrong and we lost money. That's part of our business and you have to accept that.

George Bischof, Meritech Capital

George Bischof is a managing director at Meritech Capital. He has been part of Meritech since 2008. He focuses primarily on SaaS and cloud infrastructure software, data center and enterprise infrastructure, storage, and consumer internet services companies. Prior to Meritech, Bischof spent eight years as a general partner with Focus Ventures and worked in Robertson Stephens' technology investment banking group. He holds a BA from Stanford University and an MBA from the Kellogg School of Management at Northwestern University.

You typically invest in mid- to late-stage companies. What is your typical investment strategy?

Meritech Capital is a late-stage venture capital firm that was formed in the late 1990s. Ironically, at that point in time, it was much easier for companies to go public rather than to raise

late-stage capital. Companies could go public back then with less than \$30 million in revenue. In 2017, the average revenue threshold for companies going public is closer to \$100 million.

At the same time, there was very little maturity in terms of the late-stage venture asset class. Meritech Capital was formed to fill that void. (TCV was one of the only few other late-stage investors at that time.) During the late 1990s and early 2000s, we had to evangelize that there was an opportunity in late-stage investments. Now, this asset class has become a lot more efficient and there is a realization that you can make money if you do late-stage well.

What is the typical size of your investment and your preferred ownership?

For our existing \$500 million fund, we will be investing around \$20 million across 25 companies. This gives us the opportunity to diversify across our fund. We typically invest around \$15 million in the initial investment and save reserves for additional financing.

In terms of pre-money valuations, we have a vast range of valuations. For instance, last year we invested in companies with valuations as low as \$20 million and as high as \$16 billion.

Unlike early-stage investors, we do not dwell on ownership. We instead focus on what the potential return will be on our investments. Our return profile on our investments is 3x to 5x over a period of typically three to five years, but occasionally this ends up taking seven to ten years. For Facebook, we only owned 1.6 to 1.7 percent, which traditional investors would say is too small a stake.

We take board seats about half the time and we prefer to have them. However, there are times when a startup already has three to four VCs and the management cannot offer more board seats and rather wants a board observer instead. We are fine with situations like those as well. Even as board observers, we have been able to exert influence because of the trust that we earn with the management.

What are the key metrics you examine before making an investment?

Some of the factors that we use to evaluate companies are similar to what early-stage investors examine:

- Is it a very large market opportunity?
- Is it an exceptional team?
- Does this company have the leadership position in this market?
- Is the technology superior and differentiated?

Since later-stage companies have been around longer, they also have more data for us to be able to review. We can do more work on the quality of the product/market fit. We can assess

whether the team can execute very well and if the business has demonstrated strong growth. We can test whether there is a strong underlying business model. At the end of the day, later-stage businesses need to check more boxes for investors, but this is fair because the investors are being asked to pay higher prices.

Financial due diligence varies according to the company and the type of space that we invest in. For example, for a subscription-based company, some of the metrics that we would look at are growth in subscription revenue/bookings; expansion and churn within the installed base; quality of customer cohorts over time; and sales efficiency metrics such as magic number, payback period, and LTV (long-term value) to CAC (customer acquisition cost). There is no metric that tends to dominate. We look at the composite.

It is important to note that the qualitative inputs we get during our diligence matter a great deal to us. It is not all about the financial numbers. We need to assess teams. We need to understand from customers whether this product is transformational or tactical. All these kinds of inputs matter. Diligence is part science and part art. The same can be said for valuation analysis.

What are the key things you look for in a management team? What makes for a great team?

We are big believers in founder-backed teams. Founders bring tremendous vision and passion, which is hard to replace. They are essentially the heart and soul of the company. If for some reason there is a need to change the founder, we ensure that the founder somehow stays involved with the company.

We look for entrepreneurs that lead through “product-driven leadership.” This requires tremendous understanding of what the customers really want and then translating that to a product/service. This has changed from, let’s say, the ’90s, when there was a large emphasis on people who could sell due to the perpetual license model dominant in the software industry at that point. However, the subscription-based model has changed that and the emphasis now is no longer on a one-time sale. Customers need to get value from the product or they will leave.

One thing I’d underscore is that venture capital is a “people business.” Many fall in love with product/technology and this is understandable as it is such a key factor in a company’s success. However, ultimately it is people who make these technology companies happen. Key questions we ask ourselves to judge the capability of the team are whether they can manage growth and make the right strategic calls to continue to deepen or re-invent the company’s advantage. The skill in identifying the people who can do this and the ability to continue to bring more people into the company that can bring this dynamic is vital to any startup success.

Companies are relatively stable at this [late] stage. How much operational expertise do you typically provide to your portfolio companies?

At this stage, companies we invest in are growing rapidly and are relatively well-positioned. However, scaling is an extraordinary challenge even for well-positioned companies. Growing from 150 employees to 5,000 employees or growing from millions in revenue to billions is always difficult. This is where late-stage investors like us can add value.

Most people would say that at this stage we should just provide more resources and help them grow more by hiring more people in sales or engineering. However, the value-add here is a lot more subtle. Most companies struggle through execution and scaling-related issues. Since we work with a lot of companies and have seen that cycle multiple times, we can guide them in the right direction. By asking the right questions of the management teams, we hope the executives can work on issues more proactively and not need to put out as many fires.

Another part of our value-add comes from the fact that at Meritech, a lot of us have investment banking experience we can leverage in advising startups on the right exit strategy. A lot of VCs focus on getting in the right companies, but it is also important to optimize the exit.

How often do you syndicate with other VC firms? What do you look for when syndicating?

We syndicate with other investors on the vast majority of our investments. We have been the sole institutional investor in some companies in the past but this is the exception.

How do you decide the right exit strategy for a firm? How do you manage and anticipate possible differences of opinion with the entrepreneur and managerial team?

Most of the time the management team of the company and the VCs are on the same page. However, there are a few tricky situations and in my career such instances have happened only two or three times. In such situations, we give our view and then leave it to the management team to decide.

More often than not, we want our companies to go public; however, if there is an immediate M&A opportunity, we would not block that decision. The entrepreneurs realize that we have a lot of experience and all of the decision-making happens through a very collaborative process.

Walk us through a deal that taught you a lot.

Every single deal is unique and brings its own set of learnings. Hence, you learn something from every single deal. I have learned more in situations where things did not work out the way

we expected, since it gives one the opportunity to do a lot more soul searching and postmortem analysis. Most of these deals happened really early in my career and could be blamed on timing (2000–01) and inexperience.

Problems occur when the management and board start to think more about how the financial markets would react to a story rather than what the customer actually needs in terms of a solution. One such instance was a company that sold online e-tailing capabilities to brick and mortar retailers. Customers wanted the software storefront but also help with complexities related to inventory management and logistics and shipping. As opposed to offering a turnkey set of software and services, this company started to think about how it would be viewed on Wall Street and opted for offering a higher-margin software-only platform. We did not meet the customer demand as a result.

Since we interact with entrepreneurs a lot, there is a tendency to get attached to the people and the relationships that are formed along the way. It gets increasingly hard to balance the personal and professional relationships. One of the biggest challenges here is to separate the two and understand the right time to make changes to the team.

What are the main reasons things don't go the way you initially envisage them?

Often it is the case that the idea was right but the timing was wrong. For startups, being too early is the same as being wrong. From our experiences, we incorporate the question of “why now” in our due diligence. For example, in today's scenario we all know about virtual reality, augmented reality, artificial intelligence, etc. The key question now is, “When will the timing be right?”

Also, the most difficult part of being a late-stage investor is not usually determining if a company is strong or not. It is usually figuring out how to value it and determining what price to pay. For example, paying \$500 million for Facebook seemed ludicrous to many when Meritech invested, but it is the best investment we ever made. The management team made us look smart in hindsight. The trick is there are very few Facebook-like breakout companies. One can always look back in hindsight and say you should have paid more for the winners. However, it is really hard at time zero to know which companies will be the Facebooks or the Friendsters.

There is also a strong degree of luck that plays a part in any given investment. There will be factors outside of your control and influence that come into play after making an investment that you could not possibly factor into your decision. This can be a humbling business as a result. There have been many times when we have been spot on with our investment thesis but the outcome has disappointed because an external factor changed the timing of adoption or some other important variable.

Woody Marshall, Technology Crossover Ventures (TCV)

Woody Marshall joined TCV in 2008 and has been working in the venture capital industry since 1995. He focuses on investments in the fintech, internet, digital media, and entertainment industries. Prior to joining TCV, Marshall spent 12 years at Trident Capital, a leading venture capital and private equity firm, where he focused on the payments, internet, and mobile markets. Marshall earned his BA from Hamilton College and his MBA from the Kellogg School of Management at Northwestern University.

What is your preferred ownership when you invest in a company?

We don't actually think about ownership, and I'll explain why. TCV is a growth-stage investor focused exclusively on technology. We don't think about the world as Series A, Series B, Series C—those are arbitrary classifications because many of the companies we invest in have never taken any institutional money before.

One-third of the companies we invest in have name-brand investors; one-third of them have very small investors; and one-third have never taken any money from external investors before. The latter are the bootstrapped, founder-owned companies.

The smallest company we'll invest in is probably between \$20 million and \$50 million in revenues, and the largest can be well over \$1 billion. Our ownership stake can vary pretty dramatically. When we bought secondary stock in Facebook, we owned about 1.5 percent of the company, which was very small for us. But that's a company that's got a \$350 billion market cap today, so we think the opportunity is significant.

We're currently investing out of our ninth fund. It is a \$2.5 billion fund, so when we think about a small investment it's in the \$50–75 million range. The mean of the distribution is more than \$100 million, and we've invested over \$250 million in a handful of companies. We are equally comfortable investing in minority or majority positions. Since inception in 1995, we've invested over \$9 billion in technology companies.

What metrics do you use to evaluate companies?

It depends on the company. At a high level, we look at market size, product or service differentiation, target customers (consumer vs. enterprise), management team credentials, and business model.

A lot of times, when you think about metrics, they relate to usage or the economic model. If it's a consumer application, what is the growth in usage? Is there some measure of engagement? One traditional engagement measure is DAU/MAU (daily active users/monthly active users), which measures how often people are coming back to use a particular application. If it's a subscription business, we look at retention rates. If you acquire customers in a particular cohort, what's the

retention on the cohort after 12 months, 24 months, and 36 months? We also look at monetization. Traditional measures are “per user per unit time.”

We look at marketing statistics. Our companies have a CAC and LTV, so we look at CAC payback. We also suggest that people calculate LTV appropriately. A lot of times you see revenue-based LTV, which is flawed. If you look at a contribution- or margin-based CAC or LTV, you need to ask, is it a five-year LTV? A three-year LTV? Is it a total lifetime LTV you’ve calculated based on some retention curves that you’ve created, but you only have a year of experience, so everything after Year 1 is kind of your guesswork?

These are all things we focus on, but there is the expression “garbage in, garbage out” related to assumptions. So a lot of times there is no right answer. Understanding the dynamics and trend lines is as much art as science, but there are certain ways we think about calculating.

There are metrics that are more granular to a business: the gross margin of the company and the operating expenses compared to similar companies. Calculation of gross margin needs to be accurate. You have to make sure that you’re putting appropriate costs where they belong. You need to look at sales and marketing as a percentage of revenue, R&D as a percentage of revenue, and G&A as a percentage of revenue. Those are basically the big operating metrics that we focus on.

Tell us about your syndication strategy.

We don’t usually syndicate. There are obviously some cases where we will be part of an investor group, but if we can write a \$150 million check, a lot of times we don’t need anybody else. There are sometimes small tag-alongs, or there’s a strategic investor that gets involved. Sometimes insiders—people that were there before—will want to participate, but we’re typically not in a situation where we get involved.

That said, we do play well with others. If a check is bigger than \$250 million, we’ll probably find some other folks to invest, but we have a lot of investors in our fund that would also invest. Hence, syndication is not a big part of our business.

How much operational expertise do you contribute when you invest? For example, do you have industry experts who can guide entrepreneurs?

A lot. I think we’re on the board of about nine out of every ten investments we make. And I would define it as stage-relevant. We’re trying to take companies from where they are to being a public company. If you think about the operational support, whether it’s strategic partners or whether it’s helping with advisors or management team members, you’re focusing on people who have the relevant experience at the scale of the businesses. It’s operations-intensive in the sense that we’re trying to help our companies make better decisions faster; it’s just that the decisions and the scale of the decisions and the problems are different.

We're industry specialists on our own, and we have executives who work with us in certain areas. However, we don't have a dedicated portfolio marketing team or a technologist on staff. We actually think that these are responsibilities that a company needs to own. Our view is, as opposed to some firms that have a chief marketing officer who helps all the portfolio companies, we would rather help the company find the right chief marketing officer. In the meantime, we have a bunch of advisors and internal resources that can help in all those areas, and we work as quickly as we can to put those teams together. We also have a head of marketing at TCV who works with our companies on defined projects and provides support.

Can you walk us through a deal that meant a lot to you?

I'll give you the example of Dollar Shave Club that we exited last year. On some levels, it was bittersweet. We led the Series C financing in the summer of 2014.

It was led by a great entrepreneur with a disruptive business model. When I first met with him, I wasn't sure if it was a real business. I subsequently spent time with him and not only is he a very engaging, likeable, and charismatic leader, he's also very smart.

And he had built a really interesting business. When we talked about all those metrics around subscription businesses, his numbers crushed it—huge retention, and LTV to CAC numbers were phenomenal. You looked at that business and said, "You should spend more money to acquire more customers because you're getting them really cheaply and they're really sticky." And he had started to prove that adding incremental products was increasing the LTV, not only on a profit basis.

We ended up leading a \$50 million round and wrote a \$40 million check, which was small for us. We helped him find his chief financial officer, who happened to come from our portfolio and helped us with due diligence.

A year later, we put in more money and led another round with an outside investor. We were excited about it, so we wrote another \$40 million check. Now it was a reasonable-sized investment for us. And then at the beginning of last year, we had a big strategic knock on the door talking about partnerships and talking about investing. Eventually they bought the entire business in the summer.

He successfully scaled this business that originally had 45 people in a little firehouse in Venice, California. When we invested in the business, it had just come off a \$20 million year in revenues. The plan for the year that we invested was \$50 million. They did \$65 million. And last year they did close to \$250 million of revenue.

When you have solid financial performance, you have a solid return potential for investors and you get to work with really good people. That's a great outcome for all involved. But now I don't see the CEO as often as I used to, so it's bittersweet.

How do you think about exits? Did you have a thesis for the Dollar Shave Club, for example, that laid out the time horizon for which you wanted to stay invested?

We base most of our investments on five-plus year holds. We help most of our companies go public, and we've had our fair share of great strategic sales. Our focus is to build great companies and the exits take care of themselves. If you looked at our investment memo for Dollar Shave Club, we talked about building a public company. As things turned out, we exited without going public. We think hard about what the profit margins could look like in the future given the company's scale, marketing budget, and pace of growth.

Just remember, once you have a profitable business, the world is your oyster. If you're worried about growth slowing, then you would look to do something like an acquisition to re-bolster growth or sell the business. But the difference between that and the startup world is that most startups are cash negative. They have a runway. They might hit the wall at some point and might have to raise new financing, sell the business, or go out of business. I would argue that the businesses we invest in have enhanced liquidity potential because they are real businesses. You can sell them or take them public most of the time because of their scale.

How much do you invest in international companies? Are you more US-focused?

We are more US-focused. We have 40 people here in the Bay Area and 10 in London. However, almost all of our companies have European businesses. International is a big opportunity and Europe is critical.

When you think about the population that you're going after, the situation in Europe is that everything has to change just a little bit for every country. So typically there are leaders in a particular market. They obviously speak different languages, so it's not like in the US where you can launch in all of North America. I think in some European markets the US business model cannot be copied, but Europe's actually ahead of the US in certain things. They certainly were in mobile technology back in the day. I think it's a lot of cultural differences. Privacy is a big one that we see in internet businesses, so you have to be careful about that. Certainly, anything in financial services includes regulatory requirements.

Neill Brownstein, Footprint Ventures

Neill H. Brownstein is a co-founder of Footprint Ventures. Brownstein has been a private investor since January 1995 and has extensive international experience in Taiwan, Hong Kong, Japan, and Israel. From June 1970 to January 1995, he was associated with Bessemer Securities Corporation and Bessemer Venture Partners and was the co-founder of Bessemer Venture Partners. Brownstein received an MBA from the Kellogg School of Management at Northwestern University and a BA from the Columbia College of Columbia University.

What are your key decision criteria before you invest in a company?

At Bessemer Ventures and Footprint Ventures, we looked for markets on the brink of a change in demographics, technology, or regulation. India was a highly regulated economy with a tightly regulated banking system until the 1990s, when the markets opened up. The recent demonetization of certain bank notes by the Indian government is one example of how regulatory changes affect the economy. Despite a lot of upheaval in the general economy, companies like Wibmo and PayTM are in great shape. Wibmo is a fintech company that is the white label engine behind the payment system PayZapp owned by HDFC, India's second-largest private sector bank.

The quality of the team also is essential—there cannot be an investment without having a quality team. One of the mistakes we made in India was that early on we did not demand that companies have a quality team all in place. We assumed that a great team could be built over a period of time. However, the quality of the people and the team is critical for the success of a company.

Can you walk us through a deal that taught you the most?

One of our investments is Educational Initiatives, which provides educational content to the top 5 percent of private schools in India at a 30 percent profit margin after tax. The company was established in 2001 to make a difference in education through personalized learning. It does this by working with leading organizations like the World Bank, the Michael and Susan Dell Foundation, Google, and the Azim Premji Foundation, and using interactive tools that can be easily adopted by teachers and students to aid in their learning. The key factor for the success of this business was the people/team. They were particularly interested in growth.

Another investment is Hector Beverages, which provides unique, healthy, and tasty beverages under the brand name “Paper Boat.” Its beverages are authentic indigenous Indian drinks (13 flavors currently) that are packaged in single-serve flexible pouches. They are produced using local spices, flowers, and fruits, some of which grow wild, such as jamun and kokum.

For Hector Beverages, we felt that the people/team and market were both key to its success. We were able to partner with Narayan Murthy (founder of Infosys, India). The founding team was able to understand the needs of a broad population and developed a product that appealed to the masses. Paper Boat was named one of the best brands in India. It does have challenges with sourcing and distribution channels, but despite all that it has been able to raise a lot of money and create a great brand. We hope for great success.

These are two examples that reflect the entrepreneurs and their visions. They are in entrepreneurship on their own terms, and definitely not in it for just the money. They are there for the call of creativity/leadership and this reflects in the way they have executed their companies.

After you invest, how involved are you in the development of the companies/teams?

As a small early-stage investor, we are involved mainly in cheerleading/morale boosting for the companies we invest in. Often when the entrepreneurs come to us with their problems, we do not dismiss them; instead, we try to encourage them. In the case of Hector Beverages, Sequoia Capital came in at a later stage and added a lot of value to the company.

Please talk about your experience with VC investing outside of the US.

I have had experience investing in India and Israel. India went through reformation in 1991, which ultimately led to the opening of Indian markets. Around the same time, I was active in Israel, which adapted to the venture capital world quickly and successfully. We felt that we could replicate similar success in India.

At that time, venture capital and the number of startups in India both were very small, but we felt there was definitely a market and we started with a fund called Footprint Ventures. Unfortunately, it has not met with the success we envisaged it would. One of the many people we spoke to before investing in India (who was the owner of a PE fund) recommended against investing in the country. He said that Indian startups, real estate, and other infrastructure were not prepared for venture capital as compared to the US and especially Silicon Valley, and that the legal and capital markets also were not prepared. To summarize, the ecosystem for startups in India was not up to the mark and we expected that to change dramatically. It did not.

We also assumed there would be many Indian entrepreneurs that would be happy to go back and work in their home country. However, most of the entrepreneurs, once they went back to India after having worked outside of the country, felt as much out of place as we did. They did not know how to navigate the system.

However, some firms have had good experiences. For instance, Accel Partners invested in Flipkart, a popular e-commerce website that competes with Amazon. Unfortunately, Flipkart recently had a down round. Intel Capital cashed out of Snapdeal, another popular e-commerce website.

Are the exit opportunities in international markets different from those in the US? Are there any legal, cultural, or market barriers?

In Israel, regulatory and cultural barriers were taken down really fast to facilitate investments in technology and build the ecosystem required. Almost all of the companies in Israel eventually came to NASDAQ for an IPO.

For an Indian-domiciled company, it is almost impossible in the current regulatory environment to do an IPO in NASDAQ. There are a few exceptions to this, like Mu Sigma, but other exit opportunities like mergers and acquisitions are still feasible exit opportunities in Indian markets.

Please summarize your experience and key lessons regarding investing in India.

I feel that now might be a good time to invest in India compared to 2005–06. We felt that we would be successful in India, just like Israel. However, the bureaucracy in India delayed that success. I feel that capital markets in India are easing up a bit now and that has changed from the time that we started to invest. So hopefully there will be some changes going forward.

Jenny Lee, GGV Capital

Jenny Lee joined GGV Capital in 2005 as managing partner and was instrumental in setting up GGV's presence in China. Lee's areas of focus are the consumer internet and SaaS companies, especially those in the mobile, social, Internet of Things (IoT), finance, and education sectors. Lee graduated from Cornell University with a master's and BSc in electrical engineering and holds an MBA from the Kellogg School of Management at Northwestern University.

What is your typical investment size and strategy? Does it vary between your investments in the US and China?

GGV Capital was founded in 2000 with a vision to create a different type of venture capital firm. It is a US and China cross-border fund. We have one fund and one team for both markets. Most VC funds tend to be very regional in focus. You might have a US fund looking for investments in Silicon Valley or you may have a China fund making investments in China. Unlike such funds, we have a single team operating in both markets. For example, if we are looking at gaming companies in the digital media space, we would be looking at companies in China as well as in the US. In the two markets, we will find the best deal that can generate the right return profile for our funds.

Our knowledge of both markets gives us the ability to drive more value post-investment. For example, we can help a Chinese company expand or publish their games to the US, or find partners in the US. On the other hand, we can make recommendations to a US company that wants to do business in China.

Because of our multi-stage structure, our funds allow us to come in at the Series A level with a smaller check size, but also later for Series B or Series C. We address different rounds with different funds. The size of our investment varies, but a typical investment would be about \$5–15 million. We prefer to own 10 to 15 percent of the company if we come in later, but if we come in earlier, we would typically want to take more in terms of ownership—15 to 20 percent—with a smaller check size.

Does what you look for in a startup vary with geography?

Fifteen to sixteen years ago, when the US was more advanced and had more internet users and China was growing in terms of users, there were certain sectors in China that were still behind the curve. Today, the US and China are almost on equal footing in terms of size and technology adoption, so by and large they are similar.

The sectors we are looking at right now cut across both the US and China. The first is e-commerce and what the Chinese call “consumer upgrade,” which focuses on how different consumer groups purchase products and services online. We look at both US and Chinese companies as well as companies trying to do cross-border e-commerce (for example, sourcing from China and selling to the US).

The second sector is internet services, which is a broad category. In China, the government calls it “internet plus,” which means changing, revamping, and disrupting traditional businesses with internet technology. In the US, Uber is an example of changing the whole transportation sector. In China, a similar example would be Didi. Internet services leverage technology to disrupt industries such as transportation, food delivery, finance, and education.

The third sector is frontier technology. In frontier tech, we’re talking about new categories: autonomous driving, leveraging artificial intelligence, robotics in the workplace, and robotics at home. This category is all about creating new products that may not have existed before. This is a nascent sector. The US has strengths in talent and software and China has strengths in manufacturing hardware. By and large, we are seeing that companies in frontier tech tend to be a bit more global because they need to leverage both resources—the right talent pool and the right back-end supply chain.

The last area is B2B enterprise services. The first three areas tend to be a little bit more consumer-facing but this one is focused on the enterprise. This is an area the US has traditionally led, with a lot more SaaS (software as a service) companies that have gone public. China is behind the US by about three to five years. There are interesting developments on this front in China and, in our view, B2B enterprise services in China are primed for growth.

Can you tell us a little bit about differences between capital markets in the US and China? With differing regulations, how does your role change?

The exit environment is different in China. For a US company, there are quite a few ways to exit. You may IPO. You may get acquired. You could exit by selling back your shares to a new investor or you could sell them back to the company in a secondary sale. A Chinese company can have an IPO in the US as an ADR (American Depositary Receipt) or it can choose to list in China.

Right now, a US company cannot choose to list in China; it can only list internationally. So, in that sense, the Chinese market offers more exit opportunities for a Chinese startup—it can choose to go international or it can stay domestic.

The Chinese regulatory framework for capital market reform targets only China-based companies at this point. China is not an open market from a capital perspective because of the controls on the RMB currency. I think in the US, there is less legal hassle. The US regulatory framework for VCs has been around for a long time.

When you evaluate companies, what are the key parameters you look for? How do you contribute?

First, we look for founder-product-market fit. What kind of market is this company or this founder targeting? Is he the right person to target this market? Is the timing right?

We will look at whether the product makes sense because we have to compare that product to other products in the market. If the market is highly competitive, the question is, “Why are you different?” Then the fit becomes important and the market also becomes important.

For example, in China, every five to ten years you see new products coming to market because what 15-year-olds want from products undergoes major changes every five to ten years. How they consume internet interaction can be very different from one decade to the next. So that’s the product-market fit.

The second aspect is investor-founder chemistry. This is also very important. People don’t talk a lot about this, but it is important because as a VC, we make a long-term investment. It is a long-term relationship, often 10 to 12 years in duration. As an early-stage investor, if you come in from day one as a VC, there is a certain level of trust you need with the founder so you can sit down and talk about things, both good and bad. This is a very important aspect. We try to ascertain if the founder is passionate and willing to make the right type of sacrifices for the company to go places. People can call it gut feel, but we prefer founder-investor fit. So I would say it’s down to the judgment of the person or the founder team after we investigate the product-market fit.

In terms of thinking about our role, we like to view ourselves as a partner to the CEO or the founder as he/she grows the company. The CEO/founder is the driver and we are the co-passengers. We can help them see what is coming up. Our role is to be with them through the ups and downs and share some of our learnings and experiences based on what we have done with other companies.

For example, a company in Series A, many times, is still in the team-building phase. So it may actually be looking for more talent—complementary talent—or, if there’s only one founder, he may be searching for a co-founder. Helping build the team may be the most important thing at this stage of the company’s life.

As companies progress and they grow, there is a lot more discussion around business model. Should the company charge for the product/service it offers? When is the right time to begin charging, and how should you go to market? The strategy piece becomes more important; there is a lot more brainstorming and looking at different models because different companies and different sectors require different skill sets.

The strategic discussion may be around partnerships. What kind of investors should you bring in? What kind of other resources should you bring in? Do you want to go international? If you are in China and you have 60 percent market share, should we now think about going global or focus on expanding share domestically?

If companies fail to do well, then we have conversations around pivoting. Can the company change its business model? Does it need to change its team? These are difficult conversations to have. If it runs out of capital, when do you decide to shut down the company? So there's no specific role, but as you can see, the idea is really being the go-to partner to the CEO in different stages of their development.

Since you invest in mid- to late-stage companies that are generating revenues and might have stable financials, do you perform financial due diligence? What are some of the metrics you use?

Whether they are early- or late-stage, once we've decided the business due diligence is good and the team due diligence is good, then we complete financial and legal due diligence.

This will be conducted with third parties, such as lawyers. If companies are more advanced and they are larger in size, we may bring in an auditor. If companies are only in their first year, all they have are expenses. In such circumstances, there is often no need to bring in an auditor. We also have our own team of financial staff, who are audit trained.

Regarding exit strategies, if you and the founding team are not in agreement, what do you do?

I think this can happen and it has happened.

If we are partners with the CEO, we like to sit down and discuss this. Taking the legal route is always the last resort. That's why the chemistry is very important when we make the investment. As an investor, it is important for us to understand why the CEO wants to go forward. If he has the commitment and the conviction and wants to build a large company, by and large we will support the CEO. I think aligning interests is part and parcel of that conversation.

It's very rare that we have a situation where we decide to exit and the CEO disagrees. If the CEO or founders don't agree, it's very likely that the discussion isn't going to go anywhere. You don't see a lot of venture deals going to court because usually there's nothing left after you go to court.

Can you talk us through a deal that made you really proud and share a few important points?

GGV has a great portfolio and I have seen a lot of companies grow from very small to extremely large. I'll highlight a deal that has gone through all types of situations and scenarios. This company

is in the IT services space in China. GGV co-led the investment in Series A when it had about 100–200 employees and revenue was \$4–5 million.

This company is partially owned by a Chinese government-owned entity. So the first thing we had to do was try to educate the government officer about what VC is, why we should change the structure of the company to allow VCs to come in, and how we as foreigners could help the team to grow and become a more global company.

As the company grew, we realized that the founder was local, but for the business to grow, he needed to be more global. First of all, language was a barrier to him—he could not speak English. If you're going to try to target overseas customers, language becomes very important. So we had to change the CEO, in this case with his help.

It took some time to talk to the founder and let him know that if he had the conviction and passion to grow the company he would have to take a back seat and bring in someone else. In China, this is very rare. In the US, you can change CEOs all the time or bring in people, but in China, you have to understand that most founders view their companies like babies, so they will never let them die, even if they have to sell their house. The mentality may be a bit more Asian, but making founders move away from their companies is actually very hard.

This was one situation where the founder did agree to step away, help us find the right CEO, and move himself to a chairman position. The company grew and went public. It grew from a few hundred employees to a couple thousand employees and became a leading player in China and then went public in the US. The new CEO was able to grow the team and take the company public.

In a bid to try to grow to scale, the company merged with another company. Subsequently, the listed company was privatized. So it went public, merged, and then was taken private by a private equity firm. After being private, it has recently been acquired by a huge Chinese conglomerate and the direction is to relist it in China.

It is a pretty long journey, but through that journey you can see all the different phases and mechanisms and structures that can happen to your portfolio company. I'm the only board member who's been with them from day one. I only recently got off the board after they got acquired. Every phase, every challenge that they went through, I was there with the team.

You mentioned you co-led the investment in Series A. Do you syndicate deals regularly? How do you approach syndication?

Yes, we syndicate. Having been in the market for 17 years, you realize that success is never due to just one fund or one person—it's because you have the collective brainpower of the people on the board and of the shareholders and investors as well.

As a rule, in about 80 percent of the deals, we are board members and we lead. The fact that we lead does not mean that we take the whole round. If it's a \$10 million round, we may invest \$7–8 million and leave \$2–3 million to our syndicate investing partners.

When we syndicate, we look for complementary partners. For example, if it's in China and the company is in a sector we know very well, then very likely we will end up leading the round. If we bring in, say, a second or third syndicate partner, it's because we think they add strategic value.

We're known as a partner that can come in, roll up our sleeves, and fix problems, so our syndicate partners actually want us to come in. Sometimes they'll come to us and say, "This is our portfolio and these are our three top companies. We would like for you to take a look because we know that if GGV comes in, together we can help bring this company to a higher level."

Sometimes they come to us and say, "I have an issue here, but I think this is still a good company with great potential. Maybe we're going to do a down round, but I need someone who can come in with us to do this." There are cases where it's the company's end point and there are cases where companies may not be doing well, but they have the right potential. That is really a collaborative effort as well. It's important to keep that reputation out there.

Finally, if you have gone to battle with another VC on the company, and together you have seen this company go public and get acquired and you've all made money, that is a very different relationship than if you've always invested with this fund or with this partner and you have lost money. You've got to cultivate strong relationships with the right people in the ecosystem—it's part and parcel of being a VC.

For deals that did not go the way you predicted, what were the most common patterns?

Anything can go bad. Markets can change, government policies can change, and even the management team can change. Remember, at the point of investment, some founders are 25 years old. When they are 30 years old, they can be very different people. When they're 35, they can change even more. The management team must be able to grow with the company, the market, and the competition. Sometimes they get better and sometimes they don't.

Companies can fail because there is a downturn in the market or because they didn't manage their cash cycle well. They may have a good product and a good team, but they forgot to manage their cash, or they didn't fundraise at the right time, or the market crashed unexpectedly.

We would have a different solution depending on the situation. In the last example I gave where the team is good, the product is good, and the DAU numbers are climbing, syndicate investors become very important. Then it becomes a very critical time to have good partners around the table to support the company, because maybe all you need is to support them for three months, and then they are in a breakeven situation.

It's never a happy time when we have to shut down businesses, but knowing when to quit is part of the VC business. You also need to know when to tell the CEO to move ahead because there

are new markets to go after and new business models to go after. But if you've truly lost the battle, then it's important to be able to recognize that you've lost. It's not easy because we lose capital, we lose time, and the CEO loses his time, effort, passion, and sometimes money as well, but we need to be able to sit down and say, "This is the time to quit."

Exhibit I: Detailed Biographies of Interviewees (in Alphabetical Order by Last Name)

George Bischof—George Bischof is a managing director at Meritech Capital. He has been part of Meritech since 2008. He focuses primarily on SaaS and cloud infrastructure software, data center and enterprise infrastructure, storage, and consumer internet services companies. Prior to Meritech, Bischof spent eight years as a general partner with Focus Ventures and worked in Robertson Stephens' technology investment banking group. He holds a BA from Stanford University and an MBA from the Kellogg School of Management at Northwestern University.

Bischof was previously ranked on the Forbes Midas List of Tech's Top Investors and recently selected by CBInsights in the list of top 100 VCs. He helped more than 60 companies raise over \$4.5 billion in public equity offerings and private placement transactions. Selected previous investments (Focus Ventures): Barracuda Networks (IPO), EqualLogic (acquired by Dell), Extricity (acquired by Peregrine), G-Log (acquired by Oracle), Isilon Systems (IPO and acquisition by EMC in 2010), QuinStreet (IPO), Wily Technology (acquired by CA Technologies). Selected previous investments (Meritech Capital): BigFix (acquired by IBM), Box (IPO), Coupa (IPO), ExtraHop, Fusion-io (IPO), Hybris (acquired by SAP), LifeSize, Model N (MODN), SimpliVity (acquired by HPE), Springsource (acquired by VMWare).

Neill Brownstein—Neill H. Brownstein is a co-founder of Footprint Ventures. Brownstein has been a private investor since January 1995 and has extensive international experience in Taiwan, Hong Kong, Japan, and Israel. From June 1970 to January 1995, he was associated with Bessemer Securities Corporation and Bessemer Venture Partners and was the co-founder of Bessemer Venture Partners. He received an MBA from the Kellogg School of Management at Northwestern University and a BA from the Columbia College of Columbia University.

Among Brownstein's most recent investments are Canvera Digital Technologies Pvt Ltd, Wibmo, Hector Beverages, Canvera Digital Imaging, and Educational Initiatives. Brownstein has been the venture founder of Telenet, VMX, Ungermann-Bass, Four-Phase, Maxim, Mosel-Vitellic, Veritas, and Businessland. He also served as a director of Vyvo, Inc., Giga Information Group, Inc., DSP Communications, and Gartner Group.

Promod Haque—Promod Haque serves as the senior managing partner at Norwest Venture Partners. He joined Norwest in 1990 and has invested in more than 70 companies. Haque focuses on investments across a wide variety of sectors, including systems and IT infrastructure, healthcare IT, software and services. He received a BS degree in electrical engineering from the University of Delhi, India, a PhD in electrical engineering from Northwestern University, and an MBA from the Kellogg School of Management at Northwestern University.

Haque's investments have been worth more than \$40 billion in aggregate exit value to date. Twenty-five of his portfolio companies have gone public and 37 have been acquired (or have gone public and been subsequently acquired). In 2014 and 2016, Forbes recognized Haque as a "Hall of Fame" investor. The year 2017 marked his thirteenth appearance on the annual Forbes Midas List,

including 2004, when he was ranked #1 based on performance over the previous decade. He was also recently featured on the 2017 CBInsights list of top 100 VCs.

Prior to Norwest Venture Partners, he spent 18 years in various operational roles at various public and private companies, including Siemens International, Thorn EMI, Emergent Technologies, and Dimensional Medicine, Inc. Haque serves on the global advisory board for the Kellogg School of Management.

Key investments include FireEye (IPO), Skybox Imaging (acquired by Google), Apigee (IPO), Palerra (acquired by Oracle), Virtela (acquired by NTT Communications), AmberPoint (acquired by Oracle), Cerent (acquired by Cisco), SPSS (acquired by IBM), and Yatra.com (acquired by Terrain 3). Haque was the founding investor and chairman of the board of Virtela, a company that Norwest incubated.

Jenny Lee—Jenny Lee joined GGV Capital in 2005 as managing partner and was instrumental in setting up GGV's presence in China. Lee's areas of focus are the consumer internet and SaaS companies, especially those in the mobile, social, IoT, finance, and education sectors. Lee graduated from Cornell University with a master's and BSc in electrical engineering and holds an MBA from the Kellogg School of Management at Northwestern University.

Since 2011, Lee has been on the Forbes Global 100 VC Midas List of top venture capitalists, ranking as the #1 woman and #10 overall in 2015. In 2016, she was named to the Vanity Fair New Establishment list, Fast Company Most Creative People in Business list, and was recognized by The New York Times and CB Insights among the top 100 venture capital investors worldwide.

Previously, she gathered operational and finance work experience with Singapore Technologies Aerospace, Morgan Stanley, and JAFSCO Asia. She also is a member of the board of directors for Kauffman Fellows, a leadership organization for innovation and capital formation.

Lee has led GGV's investments in hiSoft (NASDAQ: PACT), 21Vianet (NASDAQ: VNET), SinoSun (SHE: 300333), and YY (NASDAQ: YY) and successfully helped them go public. She has also served on boards of other innovative private companies, including eHang Technology, Keep, Kingsoft WPS, Niu.com, Phononic, Xiaozhan (Education), 51zhangdan (Finance), and UCWeb until it was acquired by Alibaba.

Woody Marshall—Woody Marshall joined TCV in 2008 and has been working in the venture capital industry since 1995. He focuses on investments in the fintech, internet, digital media, and entertainment industries. Prior to joining TCV, Marshall spent 12 years at Trident Capital, a leading venture capital and private equity firm, where he focused on the payments, internet, and mobile markets. Marshall earned his BA from Hamilton College and his MBA from the Kellogg School of Management at Northwestern University.

Marshall currently serves on the boards of directors of GoFundMe, Minted, Spotify, and Varsity Tutors. His other active investments include Airbnb, Believe, Electronic Arts (NASDAQ: EA), Netflix (NASDAQ: NFLX), Payoneer, and VICE Media. Prior investments and board

memberships also include Dollar Shave Club (acquired by Unilever), Green Dot (NYSE: GDOT), Groupon (NASDAQ: GRPN), HomeAway (acquired by Expedia), and XRS (NASDAQ: XRSC).

Brian Paul—Brian Paul is a founder and managing director of Tenaya Capital. He has been a member of the Tenaya investment team since 1999. Previously, Paul spent 10 years as a technology and healthcare investment banker for both Lehman Brothers and First Boston. Paul holds a BS in economics from the Wharton School of the University of Pennsylvania and an MBA with distinction from the Kellogg School of Management at Northwestern University.

Paul has been included on the Forbes Midas List of Top Tech Investors and was selected as one of the 15 top venture capitalists on the East Coast by Business Insider. Selected past investments include Empirix (acquired by Thoma Bravo), HubSpot (IPO), Isilon Systems (IPO, acquired by EMC), LifeSize Communications (acquired by Logitech), Meru Networks (IPO), Platfora (acquired by Workday), ShoreTel (IPO), and VideoIQ (acquired by Avigilon).

Exhibit 2: Venture Capital Firm Background Information (in Alphabetical Order)

Footprint Ventures—Footprint Ventures is one of the few venture funds based out of India that is entirely focused on early-stage opportunities. Footprint Ventures invests in a broad range of companies, from SaaS to mobile VAS, education, lifestyle, healthcare, and other technology enabled services.

GGV Capital—GGV Capital was founded with the unique idea to have a single team operating in both China and the US. These two locations give the team a truly global perspective. This global approach has helped identify the next big trends in tech, internet, mobile, hardware, cloud, and SaaS in the world's two largest tech markets. Since its inception, GGV Capital has \$3.8 billion under management across eight funds and 28 IPOs.

Meritech Capital—Founded in 1999, Meritech Capital focuses on late-stage venture capital investments in technology companies with a focus on consumer internet and media, software and services, enterprise infrastructure, and medical devices. Currently, Meritech has a team of six partners. Some of Meritech's exits and notable portfolio companies include Facebook, Salesforce.com, Box, MuleSoft, Fortinet, Coupa, Netsuite, Fusion-io, Snapchat, and Zipcar.

Norwest Venture Partners—Norwest Venture Partners is a global venture capital and growth equity investment firm that manages more than \$6 billion in capital. The firm targets early- to late-stage venture and growth equity investments across a wide range of sectors, including technology, information services, business services, financial services, consumer products/services, and healthcare. Headquartered in Palo Alto, California, Norwest has offices in San Francisco and New York and subsidiaries in Mumbai and Bengaluru, India, and Herzlia, Israel. The firm has funded more than 600 companies since inception.

TCV—Founded in 1995, TCV is a leading provider of capital to growth-stage private and public companies in the technology industry. Since its inception, TCV has raised nine funds and invested over \$9 billion in leading technology companies, including Altiris, Dollar Shave Club, ExactTarget, Expedia, Facebook, Fandango, GoDaddy, Genesys, HomeAway, Merkle, Netflix, Redback Networks, Rent the Runway, Sitecore, Splunk, Spotify, VICE Media, and Zillow. TCV has taken 60 companies public and the firm's M&A experience includes more than 50 strategic sales. TCV is headquartered in Palo Alto, California, with offices in New York and London.

Tenaya Capital—Tenaya Capital is a leading venture capital firm that invests in early growth venture-backed technology companies. Tenaya Capital is managed by a cohesive group of partners that have worked together for over a decade. Tenaya Capital's investments range from companies that are in the initial stages of revenue generation to companies seeking pre-IPO mezzanine capital. It invests across technology sectors, including software, consumer internet, IT infrastructure, communications, and electronics. Tenaya typically is the lead investor in a financing round, with average initial investments ranging between \$5 million and \$15 million. A few of Tenaya's exits and notable portfolio companies include Endeca, Eventbrite, Kayak, Isilon, Lyft, New Relic, Palo Alto Networks, and Zappos.