STANFORD BUSINESS GRADUATE SCHOOL OF

CASE: E-630
DATE: 04/15/17

PEAR VC

Mar Hershenson, cofounder and managing partner of Pear VC ("Pear"), contemplated what she would say to Pejman Nozad, Pear's other cofounder and managing partner. It was the beginning of 2014, and Hershenson had just finished meeting with Alex Austin, Mada Seghete, and Mike Molinet, students at Stanford's Graduate School of Business. The three budding entrepreneurs were working together in Stanford's Venture Studio program on a company called Kindred Prints, and Hershenson was convinced of their entrepreneurial potential. To Hershenson, the trio checked all of the boxes for a strong start-up founding team: The three had known each other and worked together for more than a year; they possessed a wide and complementary set of skills; they had extensive knowledge of the problem they were solving; and they exhibited an unabashed hunger to succeed. Having just closed Pear's first venture capital fund, Hershenson and Nozad were eager to put Pear's capital to use. And having known Nozad for several years, Hershenson was confident that Nozad would be equally impressed by Austin, Seghete, and Molinet.

Yet while Hershenson was excited by the Kindred Prints *team*, she was not so excited by the *concept* they were developing. Austin, Seghete, and Molinet were building a mobile app that would allow customers to turn digital photographs into high-quality prints. As an angel investor, Nozad had invested in a company in the photography space that had recently failed, as the industry was rife with competition. Furthermore, the market for printed photographs was not nearly as large as Hershenson and Nozad preferred for an early-stage investment. The question for Hershenson and Nozad was whether the upside of the Kindred Prints team outweighed the limitations of the photography space. And, if so, how much should Pear invest?

For seed-stage investments, Hershenson and Nozad sought to write initial checks for at least a few hundred thousand dollars in exchange for equity stakes of 10 to 15 percent. Although this was not a hard-and-fast rule, the reasons for this target range were twofold. First, Hershenson and Nozad sought to work closely with all of Pear's portfolio companies. With a fund size of $50 million, Pear would have to invest in hundreds of companies if its investments were in the

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Ryan Kissick (MBA 2014) and Robert Siegel, Lecturer in Management, prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

range of just a few percent (including follow-on investments). Hershenson and Nozad recognized it was not tenable to spread their attention and focus across such a vast network of portfolio companies.

Second, from an economic standpoint, seed investments of 10 to 15 percent ensured that Pear could generate impressive financial returns even if a portfolio company's potential market capitalization was less than Hershenson and Nozad originally estimated. Hershenson explained, "We want to maximize our ownership in massive, category-defining companies with market sizes in the billions of dollars. But if we overestimate the market size for a given company, an investment of 10 or 15 percent ensures that we can still generate sizable returns for companies that do great in slightly smaller markets."[1]

Against this backdrop, Hershenson wondered how to approach the potential investment in Kindred Prints. On the one hand, neither Hershenson nor Nozad was enthusiastic about the market for a photo-printing app, especially given Nozad's recent experience in the space. Furthermore, Hershenson was confident that she and Nozad would come across many fantastic start-ups—the two anticipated that Pear would evaluate more than 2,000 investment opportunities in a given year, many of which would be tackling much more impressive markets than Kindred Prints. On the other hand, the Kindred Prints team fulfilled all of the criteria that Pear sought in its entrepreneurs. Hershenson knew that it was rare to find such a promising founding team, yet she was not sure whether the economics justified an investment in a photo-printing app, regardless of the team. As she weighed these considerations, Hershenson knew that she would somehow have to establish an opinion in spite of the ambiguity, as Nozad would undoubtedly want to know whether Pear should seriously consider investing in Kindred Prints.

BACKGROUND

Growth in Early-Stage Investing

In the 2000s and 2010s, several trends led to a dramatic rise in early-stage investing around the world. First, the cost of launching a high-growth start-up dropped significantly.[2] Whereas venture capitalists once had to invest millions of dollars to fund a start-up, they could now finance companies with investments as small as $10,000.[3] In addition to the reduction in capital needed to launch a venture, technological advancements provided entrepreneurs with immediate access to global markets, shorter product cycles, and vast amounts of information needed to build a successful start-up.[4] Furthermore, a vast array of scalable digital marketing tools, including Google, Facebook, and e-mail marketing, allowed companies to reach audiences that they never could have reached prior to the Internet, as well as immediately measure the effectiveness of advertising campaigns. Entrepreneurs could grow their start-ups into massive companies more cost-effectively than ever before, and in a much quicker timeframe. As such, early-stage

[1] Interview conducted with Mar Hershenson on February 10, 2017. All quotations are from this interview unless otherwise noted.

[2] David Blumberg, "The Ascent of Early-Stage Venture Capital," *TechCrunch*, June 7, 2014, https://techcrunch.com/2014/06/07/the-ascent-of-early-stage-venture-capital/ (March 13, 2017).

[3] "The Global Startup Ecosystem Ranking 2015," *Compass*, 2015, https://startup-ecosystem.compass.co/ser2015/ (March 13, 2017).

[4] Blumberg, loc. cit.

investors could invest the same amount of capital in far more companies while achieving a quicker and larger return on their investments.

Coinciding with these trends was a rapid increase in early-stage investments. According to the Center for Venture Research at the University of New Hampshire, the U.S. angel market grew from $17.6 billion in 2009 to $24.1 billion in 2014.[5] As the angel market grew, new organizations emerged that specialized in seed and early-stage investing, including micro venture capital firms, incubators such as Y Combinator, and AngelList, a platform for early-stage start-ups. Micro venture capital firms were those companies that raised funds of less than $100 million, with more than 80 percent of initial investments going toward seed rounds. According to CB Insights, the number of micro venture capital firms grew from 42 in 2011 to 236 in 2015.[6]

Founded in 2005, Y Combinator is an accelerator for early-stage start-ups. During Y Combinator's three-month program, entrepreneurs receive funding, mentorship, and connections to top talent and future investors in exchange for a portion of the start-up's equity. Starting with a batch of eight start-ups in Cambridge, Massachusetts,[7] Y Combinator has expanded rapidly. The accelerator funded more than 200 companies in 2015 alone.[8]

Created in 2010, AngelList began as a blog that provided advice to entrepreneurs, but soon turned into a platform connecting start-ups with investors, potential hires, and incubators like Y Combinator. From 2011 to 2016, the number of investors registered on AngelList grew from 2,500 to 30,000.[9] Whether it was through AngelList or other forms of networking, entrepreneurs had access to an increasing array of early-stage investors. As a result, more start-ups received seed funding than ever before, although the percentage of those start-ups that received a Series A follow-on investment decreased significantly (see **Exhibit 1** for the number of seed deals and follow-on Series A investments from 2008 to 2016).

Hershenson and Nozad Form Pear VC

In 2004, Mar Hershenson founded Sabio Labs, a software start-up based in Palo Alto. When it came time to raise seed capital for her venture, Hershenson reached out to an unlikely source—Pejman Nozad, a prominent rug salesperson and budding angel investor in Silicon Valley. Shortly after emigrating from his native Iran to the United States in 1992, Nozad began working at the Medallion Rug Gallery in Palo Alto. As he got to know his customers, Nozad became enthralled with the companies, technology, and innovation being generated around him, and he decided to start investing in early-stage entrepreneurs (see **Exhibit 2** for Nozad and Hershenson's biographies). To meet as many entrepreneurs as possible, he began hosting meetings, events, and parties at the rug store—including a meeting with Hershenson's husband

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5 Jonathan Ortmans, "The Rise of Angel Investing," Ewing Marion Kauffman Foundation, March 28, 2016, http://www.kauffman.org/blogs/policy-dialogue/2016/march/the-rise-of-angel-investing (March 13, 2017).

6 Samir Kaji, "Small Giants: The Past, Present, and Future of Micro VCs," CB Insights, August 4, 2015, https://www.cbinsights.com/blog/past-present-future-micro-vc/ (April 4, 2017).

7 Christopher Jackson, "Y Combinator's First Batch: Where are they now?" The Next Web, August 5, 2012, https://thenextweb.com/insider/2012/08/05/y-combinators-first-batch-where-are-they-now/#.tnw_6uhAKkyt (April 4, 2017).

8 Sam Altman, "YC Stats," Y Combinator, August 26, 2015, https://blog.ycombinator.com/yc-stats/ (April 4, 2017).

9 Data provided by Pear VC.

Matt in 2000. Nozad funded Matt's venture, Danger, at a time when non web-based technology companies struggled to raise money. Hershenson recalled:

> Danger went up and down Sand Hill Road for nine months and nobody would give them money. At a time where everything dot-com was getting funded by VC money, nobody wanted to fund a smart phone. Then, finally one day Matt came home and said, "We found a guy that will give us money!" "Who?" I asked. "This guy at a Persian rug shop on University Avenue." I replied, "You must return it—it is probably some sort of money-laundering operation." This is how I first heard of Pejman. He invests in people no matter what they do.

Four years later, Hershenson pitched Sabio Labs to Nozad. She described the interaction:

> I told Pejman that we were making software for analog circuit design, using convex optimization. He said, "I have no idea what you guys are talking about, but I like you, so I think I should give you money. I'm going to have you chat with some people that I know that know about what you do." He connected us with a bunch of other angel investors and venture capitalists and put together our entire round of financing. From that point on, he was our go-to person whenever we needed any help or any connections. Long before it was fashionable to be nice to founders, he would ask us, "How are you doing? What's worrying you? What can I do to help you?" It was hard not to love him.

Hershenson sold Sabio Labs to Magma Design Automation in 2008, where she stayed on as vice president of product development. Less than two years later, Nozad asked Hershenson to join him in creating an early-stage venture fund (see **Exhibit 3** for Nozad's original business plan). Hershenson politely declined the offer, as she enjoyed working in technology operations. However, Nozad was persistent, and Hershenson eventually agreed to consider the opportunity. She recalled, "Pejman really wanted to make this happen—and the way he did it was by sending founders to meet with me. He'd say, 'Mar, I really think you can help this founder.' Before I knew it, my calendar was filled with meetings that Pejman had set up. So I agreed to give it a try."

For nearly six months, the two worked at Coupa Cafe in Palo Alto, discussing their views on investing and analyzing various start-ups. Near the end of 2013, Hershenson and Nozad decided to raise a venture capital fund for their newly formed company, Pejman Mar Ventures, which was later rebranded as Pear VC in August 2016. Neither had raised a venture fund from limited partners (LPs); as such, they hit some early roadblocks in their efforts to raise money. However, after refining their pitch, Hershenson and Nozad were ultimately successful in raising a $50 million fund, which they closed in 2014 (see **Exhibit 4** for a timeline of Pear's major milestones).

Investment Strategy

Pear made initial investments in start-ups spanning three stages of company development: 1) pre-seed, which Pear termed "soil"; 2) seed; and 3) Series A.[10] Founders or teams at the pre-seed stage did not necessarily have a product or even a specific problem to solve. Pear invested at the pre-seed stage because Hershenson and Nozad believed strongly in an entrepreneur or team and had confidence that, with the appropriate resources and mentorship, the founders would ultimately develop a solid company. Nozad elaborated: "At the pre-seed stage, we're looking for teams that don't yet have a working product. Ideally, they have a prototype, but a prototype isn't necessary if we find the right entrepreneurs."[11] Pear invested up to $500,000 per company at the pre-seed stage.

Companies at the seed stage had already developed a strong idea and validated their idea with customer research or early traction. Pear invested $500,000 to $1.5 million per company at the seed stage to help companies develop a foundation for rapid growth. This included helping founders hire the right team, refine product/market fit, and acquire customers in a cost-efficient manner. Pear also made initial investments in companies that had successfully established product/market fit and were ready to raise Series A financing. Pear's Series A investments of $750,000 to $3 million per company assisted companies with scaling an already-proven concept and business model.

With regard to initial investments, 90 percent of Pear's capital went to pre-seed and seed-stage financings, while 10 percent went to Series A financings. However, Pear allocated the majority of its capital for follow-on investments as opposed to initial financings. Hershenson expounded, "We reserve about two-thirds of our capital for follow-on investments. In other words, for every $1.00 that we invest up front, we reserve $2.00 for future investments. This is critical in maintaining our ownership position in subsequent financings." Across all of its investments, Pear targeted a 5x return on the total fund.

Investment Criteria

Unlike some venture capital firms, Pear invested across a wide variety of industries. Nozad recalled:

> If you look at our portfolio companies, we've invested in consumer apps, drones, genomic companies, B2B solutions—it's all over the map in terms of industries. And the reason for that is because if you're a good seed investor, you look at the signals of the founders. It's all about working with exceptional entrepreneurs. At the pre-seed and seed stage, there's not much data to look at—it's not like we can call customers or look at revenue numbers. So a lot of successful investing at this stage is a matter of pattern recognition about what makes a good entrepreneur and founding team. It's kind of like having a good wine—once you have a good wine, you know it, but it's hard to explain it or put words around it.

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[10] "How we Invest," Pear VC, https://www.pear.vc/how-we-invest/ (March 6, 2017).

[11] Interview conducted with Pejman Nozad on February 10, 2017. All quotations are from this interview unless otherwise noted.

With no specific industry focus and limited data to work with, Pear examined a few key criteria in potential investments. The first, and most significant, consideration was the caliber of the founding team. More specifically, Hershenson and Nozad looked at a team's skills and knowledge, making reference checks to ensure that a team could develop a scalable product or service within their selected industry. Hershenson explained:

> It's rare that a single founder has everything you need to start a company. It's possible, but it's rare. So we look for an MVT—a minimum viable team. In other words, we look for the basic skills needed to launch a company in a given industry. So let's say a team is building an e-commerce business. They would need experience in operations, website development, and branding. If those three ingredients aren't in the founding team, there's something missing. In addition, we like entrepreneurs who are really close to the problem they're solving, whether that's through their education or work experience. And finally, we typically want at least one founder to have a technical background.

Beyond specific skills, Hershenson and Nozad evaluated several intangible qualities among founders. Nozad discussed a few of the things that he and Hershenson considered most important:

> We like teams that have a history together, whether they worked together at Google, went to the same high school, or go rock climbing every weekend. We like teams, and especially CEOs, who are willing to walk through walls to make something happen. We like founders who are paranoid in a healthy way—those who are confident in where they're going, but question themselves every day. This was the case with the Kindred Prints founders, who eventually pivoted away from their photo idea to a new idea related to in-app communications. Their new company, Branch, gained rapid traction, and is a great example of the fact that strong teams find a way to succeed, regardless of their initial ideas.

Another significant consideration, although less important than the quality of the founding team, was market size. "We look for companies that have the potential to achieve a \$1 billion market cap," Nozad explained. "In our first fund, there were a few times that we miscalculated the potential market size for a company and realized that the market was not as big as we originally thought. So we've learned to spend a lot of time getting this right."

When it came time to make an investment decision, Hershenson and Nozad had to be unanimously aligned. Nozad explained:

> For all of the decisions we've made, Mar and I have been in agreement. That doesn't mean we agreed throughout the process. There have been plenty of times where we've disagreed on a start-up at first, but ultimately came together. If one of us has a really strong feeling about a company, we listen to each other's judgment. We have so much respect for each other's opinion, and we've never had an issue where we have really strong opposing viewpoints.

HELPING ENTREPRENEURS BUILD GREAT COMPANIES

Along with financial capital, Pear provided its portfolio companies with the tools, network, support, and mentorship needed to grow their businesses. Hershenson and Nozad took great pride in Pear's high-touch, values-driven approach, which they deemed "partnering" rather than "investing" (see **Exhibit 5** for Pear's values and operating principles). The two spent significant time helping start-ups develop into sustainable, category-defining companies, whether that meant assisting with an operating plan, introducing founders to potential employees, or connecting teams with experts in a given industry.

Hershenson and Nozad maintained large networks in Silicon Valley, and the two relished the opportunity to connect founders with the people who could help them achieve their vision, including more than half a dozen operating partners who exhibited thought leadership and domain expertise within relevant disciplines (see **Exhibit 6** for a visual depiction of Pear's team and vision). Beyond their mentorship and entrepreneurial network, Hershenson and Nozad offered a wide array of informal and formal programs, including speaker series, hackathons, pitch nights, CEO dinners, workshops, and networking events.

Pear Dorm

In addition to programming for Pear's portfolio companies, Pear developed four programs that helped entrepreneurial students pursue their start-ups: Stanford Garage, Pear Launchpad, Pear GSB, and UC Berkeley Challenge. Hershenson described the genesis of these four programs, which were part of a broader initiative called Pear Dorm:

> Today, we have a specific name for the initiative—Pear Dorm—and the programs within Pear Dorm. But all of these things started much more naturally and informally. When we started Pear, Pejman was well-known for his parties at the rug store, parties that were famous for the incredible food and music. Through his parties, Pejman was able to connect all sorts of amazing people. Pejman truly loves people, and he is a genius at bringing people together through great events. So when we started Pear, Pejman wanted to continue hosting great events. One of his ideas was to get students and founders to work together in a house. So we reached out to a few computer science students at Stanford and asked, "Is there anything we can help you with?" One of them said, "We feel like we can build anything, but we don't know what to build. It would be great if you could connect us with people in different industries that would tell us what to build. What are the major problems in the world?" So we put together talks featuring all sorts of people, including people in logistics, media, e-commerce—and that was how Stanford Garage got started. The other programs came together in a similar manner, thinking about how we could help students achieve their entrepreneurial vision.

Stanford Garage

Stanford Garage, an annual program that began in October and ended in June, was open to Stanford University students campus-wide, including undergraduate, graduate, and postdoctoral students. Students applied to be a part of Stanford Garage, either as an individual or as a team.

Applicants did not need to have a product or even a prototype in mind, but instead could apply with a simple idea. Once accepted, students gained access to a wide range of benefits, including office space at Pear's office in Palo Alto; mentorship and meetings with Pear's partners; project stipends up to $1,500 for expenses related to students' projects; free resources, including credits from AWS and Google Cloud, discounted legal assistance, and special deals with online tools such as the website mockup tool Balsamiq; a speaker series with renowned Silicon Valley entrepreneurs; founder workshops; and social events.

The time commitment for Stanford Garage was at each student's discretion, and students did not have any obligation to pursue a project after the program finished. Furthermore, Pear did not receive any equity from the students in Stanford Garage. As of 2017, Pear admitted 15 to 20 students into Stanford Garage per year, most of whom were recommended by other students, entrepreneurs, or investors.

Pear Launchpad

Pear Launchpad was a full-time, 10-week program for early-stage start-ups. In order to apply to Pear Launchpad, at least one founder had to be a current student or a recent graduate from a top-tier university. Similar to Stanford Garage, individuals could apply as solo founders or as teams of up to four individuals. Ten to fifteen teams were admitted to Pear Launchpad, which ran from the middle of June until late August. Those who participated in Pear Launchpad received all of the same benefits as those who took part in Stanford Garage. In addition, start-ups in Pear Launchpad received funding to the tune of $7,500 per individual and $5,000 per team plus additional funding on a case-by-case basis up to a maximum of $40,000 per team, structured as an uncapped convertible note. Pear also requested the option to invest up to an additional $250,000 in a start-up's next round of funding.

Over the course of 10 weeks, teams built a product roadmap, developed a go-to-market strategy, identified early customers, and enhanced their networks with the goal of scaling their nascent start-ups. Pear Launchpad culminated in a Demo Day with top venture capitalists and industry executives. In 2015, eight teams presented at Pear's Demo Day; four of the companies received seed funding, and one of the companies was purchased by Google.[12] In 2016, 100 investors attended the event, in which 13 teams pitched their start-ups.[13] These teams ended up raising more than $12 million from top-tier venture capital firms.[14]

Pear GSB

Pear GSB sought start-ups with at least one founder who was an MBA student at the Stanford Graduate School of Business (GSB). Solo founders or teams of up to four people could apply to the program, which accepted three teams. The program began in March and provided the same benefits as Stanford Garage. In addition, each team in Pear GSB received $5,000 plus $7,500 per team member, with a maximum of $25,000, structured in an uncapped convertible note. Every Pear GSB team was invited to participate in Pear Launchpad, where they would be eligible

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[12] Connie Loizos, "At Pear Demo Day, 13 Companies to Watch," *TechCrunch*, September 1, 2016, https://techcrunch.com/2016/09/01/at-pear-demo-day-13-companies-to-watch/ (March 6, 2017).
[13] Ibid.
[14] "Pear Launchpad 2017," Pear VC, https://www.pear.vc/launchpad (March 6, 2017).

for additional funding. As of March 2017, Pear-backed GSB start-ups had raised more than $250 million in venture financing.

UC Berkeley Challenge

In 2015, Pear expanded its programmatic reach across the San Francisco Bay when it launched the UC Berkeley Challenge, in which one entrepreneurial team would win seed funding and join the Pear portfolio. To qualify for the challenge, at least one member of a start-up's founding team had to be a student or alumnus of a degree-granting program from the University of California, Berkeley. The winning team received up to $250,000 in seed funding in exchange for a 5 percent equity stake, with an additional 10 percent ownership stake going to UC Berkeley.[15] Pear did not offer the challenge in 2016, but opened the program again in 2017 with the thought that the challenge would henceforth exist on an annual basis.

Pear Fellows

In addition to Pear Dorm, Hershenson and Nozad developed the concept for Pear Fellows in 2016. Pear Fellows were undergraduate or graduate students across the United States who promoted the Pear brand, researched areas of interest, and organized events on campus. Nozad explained, "When it comes to Pear Fellows, our first goal is to find students who are ambitious and excited about entrepreneurship. From there, we talk about each student's areas of interest, whether it's a specific industry like fin-tech or drones, a certain research topic, or deal flow due diligence."

Where to Focus?

To Hershenson and Nozad, there was little doubt that these programs were successful in promoting the Pear brand while at the same time expanding Pear's network and introducing the team to promising new start-ups. However, it was not clear how they could measure the success of each program, nor how they should prioritize new programs in the future. Nozad elaborated on the challenge:

> Mar and I are consistently thinking about how we allocate our time, including the time that we spend developing and running Pear's events and programs. For example, Stanford Garage and Launchpad have been very successful, so we ask ourselves, "Should we spend more time growing those programs?" One option would be to offer Launchpad three times per year instead of just during the summer. Another option would be to offer programs like Stanford Garage at different universities across the country. A third option would be to develop new types of programs within Pear Dorm. Alternatively, Mar and I wonder whether we should just spend more time investing in companies and focusing on our portfolio companies.

Figuring out the appropriate mix of events and initiatives was one of Hershenson and Nozad's primary strategic challenges for 2017. Striking the right balance would be critical in ensuring

[15] "UC Berkeley Challenge," Pear VC, https://www.pear.vc/berkeley-challenge/ (March 6, 2017).

that Pear continued to play a prominent role in the development of some of the world's most talented entrepreneurs and start-ups.

COMPARING TWO FUNDS

Hershenson and Nozad closed Pear's first fund in 2014. The fund totaled $50 million and included 40 investments. Some of the most prominent investments from Pear's first fund were Branch, DoorDash, One Concern, Memebox, and Guardant Health. Pear's second fund closed in the summer of 2016 and totaled $75 million. Upon closing the fund, Hershenson and Nozad also announced the rebranding of the firm from Pejman Mar Ventures to Pear VC, as well as the addition of new partner Ajay Kamat, founder and former CEO of Wedding Party, a Pear portfolio company.[16] Several founders and investors had become familiar with Pejman Mar Ventures and resisted the name change. Yet Hershenson and Nozad believed that the firm needed a new name that reflected their ambition to grow the company into a leading seed fund—a fund that was bigger than its two cofounders and would exist long after Hershenson and Nozad ultimately retired. After much thought, they agreed upon the name Pear VC because it evoked many important aspects of entrepreneurship—just as pears need water, soil, and the right weather to thrive, founders need support and the right conditions to succeed. Hershenson and Nozad strove to create that ideal environment and community, where they not only shared knowledge, resources, and networks, but also worked together to navigate obstacles.[17]

Similar to their original fund, Hershenson and Nozad targeted a 5X return on Pear's new fund. However, the duo's approach to the second fund differed slightly based on what they had learned with Pear's first fund. Hershenson explained, "One of the most obvious differences between our first fund and second fund was the source of our deal flow. In 2014, almost all of our deal flow came through Pejman's personal network. But now, nearly 50 percent of our deals come through initiatives like Pear Launchpad. We think that this is a much more scalable approach to finding the best entrepreneurs on a consistent basis."

Hershenson and Nozad also learned that at its current size, Pear had the resources to effectively support approximately 30 portfolio companies. As such, Hershenson and Nozad increased the percentage of Pear's investments that resulted in an equity stake of at least 10 percent, while reducing the number of investments that resulted in 2 to 5 percent ownership. However, the two agreed that they did not want to turn these guidelines into a rule. Nozad elaborated:

> Every so often, it's impossible to get a 10 percent stake. For example, when we met DoorDash, there wasn't much room to invest. But we believed this could be a multibillion-dollar company, so we agreed to a smaller equity stake. When the right team walks in the door, it's important to take what you can get, regardless of the guidelines you put in place.

In addition to seeking fewer portfolio companies, Hershenson and Nozad sought fewer limited partners for Pear's second fund. Hershenson explained, "In our first fund, we had far more

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[16] Pear VC, "Let's Pear Up," Medium, August 16, 2016, https://medium.com/@pearvc/lets-pear-up-1d49579d2d23 (April 12, 2017).
[17] Ibid.

individuals as LPs. The problem is that each LP takes time to manage. For our second fund, Pejman and I knew that we had to get more efficient, which meant cutting back on the total number of LPs."

By investing in 40 deals in Pear's first fund, Hershenson and Nozad also developed keen insight into the most critical components of a pre-seed and seed-stage term sheet (see **Exhibit 7** for a list of Pear's investments from its first fund). Clearly, a company's valuation was critical in determining Pear's financial returns. However, Hershenson and Nozad believed that there were additional terms of equal importance, including Pear's pro-rata investment rights, information rights, and board seats. These components of a term sheet were essential if Pear wanted to maintain its ownership percentage in subsequent financings (see **Exhibit 8** for a sample Pear term sheet).

Finally, Hershenson and Nozad became even more adept at identifying top entrepreneurs. Hershenson explained:

> By 2017, we had invested in more than 50 companies. This was on top of the dozens of early-stage projects we worked with at Stanford, not to mention the 150-plus companies that Pejman had invested in prior to starting Pear. Working with this many entrepreneurs allowed us to improve our skill in the thing that matters most in early-stage investing—determining the quality of founders.

LOOKING FORWARD

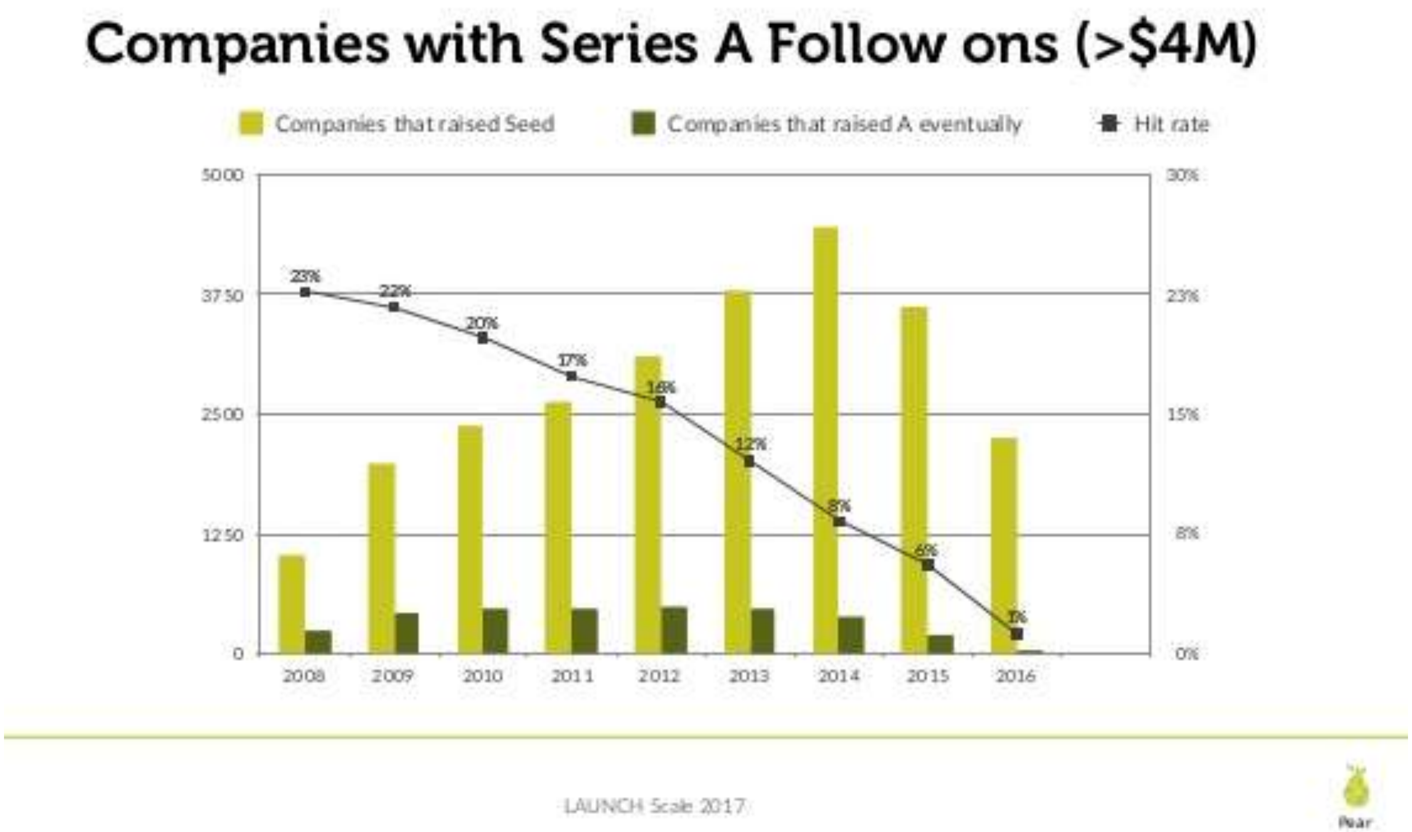
Near the beginning of 2017, Hershenson and Nozad discussed the major challenges confronting Pear, as well as their vision for the future. They wholeheartedly agreed that they wanted Pear to continue its growth—and continue to help an increasing number of entrepreneurs fulfill their dreams. Yet in order to do this, Hershenson and Nozad would have to continue building out the infrastructure required to scale Pear's impact.

The two had already taken several steps towards scaling Pear, including hiring additional employees to manage Pear's numerous initiatives and investing in systems to make Pear's operations more efficient. Yet these investments in Pear's infrastructure posed an interesting dilemma for the Pear business model. Hershenson explained:

> If we want to grow, we need to hire more people and make investments in our internal systems. But in order to make these types of significant investments, we have to raise a larger fund. A larger fund would require us to invest more money, which would mean focusing on later-stage investments. And then, we're no longer a seed-stage VC firm. So how do we grow while maintaining our focus on early-stage founders and start-ups? That's the challenge we need to navigate in order to support as many entrepreneurs as possible.

Nozad elaborated on Pear's potential for growth and lasting impact, "I know that some people don't care whether their companies survive after they retire. But that's not how I feel about Pear. The way I see it, 100 years down the road, when someone writes a book about Silicon Valley, we want to have a chapter in it.

Exhibit 1
Number of Seed Deals and Follow-on Series A Investments (greater than $4 million): 2008 to 2016



Source: Pear VC company materials.

Exhibit 2
Biographies of Mar Hershenson and Pejman Nozad

Mar Hershenson
Born in Barcelona, Spain, Mar Hershenson attended the Universidad Pontificia de Comillas in Madrid, where she graduated with honors with a B.S. in electrical engineering. After graduating, Hershenson moved to the United States to continue her studies in electrical engineering at Stanford University. While at Stanford, Hershenson developed a ground-breaking technique for optimizing the design of analog semiconductors, and in 1999 she received her PhD. Hershenson was able to commercialize her graduate research through the start-up Barcelona Design, where she served as co-founder and chief technology officer. Several years later, Hershenson founded Sabio Labs, which was acquired by Magma Design Automation in 2008. In 2011, Hershenson co-founded Revel Touch, a mobile e-commerce platform company that was acquired by Yahoo in 2012. In addition to co-founding three start-ups, Hershenson served as a consulting professor at Stanford University from 2002 until 2012.

Hershenson has been recognized by MIT Technology Review as a Top Innovator Under 35, named a Champion of Innovation by Fast Company, included by *EE Times* in its listing of the Top 10 Women in Microelectronics, awarded the Digital Automation Conference’s Marie R. Pistilli Achievement Award, and recognized in the Midas Brink List of Top Tech Investors in 2015.

Pejman Nozad
Born in Tehran, Iran, Pejman Nozad immigrated to the United States in 1992 with $700. While in Iran, Nozad was a prominent sports journalist, hosting the most popular radio show in the country. Despite his success in Iran, Nozad arrived in California’s Silicon Valley without a job and unable to speak English. However, shortly after his move, Nozad had learned English and began working at a yoghurt shop in Redwood City. Without a permanent home, Nozad convinced the shop’s owner to allow Nozad to sleep in the attic above the shop. While living above the yoghurt shop, Nozad saw an advertisement for a sales job at the Medallion Rug Gallery in Palo Alto. Although he had never worked in sales, Nozad was hired for the role, and subsequently was able to move out of the attic.

Over the next few years, Nozad became an incredible salesperson, selling up to $8 million of rugs in a single year. During this time, he developed close relationships with dozens of customers, many of whom were technology entrepreneurs or investors. Nozad became fascinated by the growth and excitement of Silicon Valley companies, so he decided to start investing in early-stage start-ups. Along with Amir Amidi, Nozad’s boss at Medallion Rug Gallery, Nozad began meeting as many entrepreneurs as possible—oftentimes hosting meetings, events, and parties at the rug store. Slowly, Nozad amassed a wide and powerful network within Silicon Valley and became a one of the most prominent angel investors in the world. Some of Nozad’s most successful investments included Dropbox, Lending Club, Danger, and Zoosk. In 2012, *Forbes* named Nozad one of the most successful angel investors. In 2013, Nozad and Mar Hershenson co-founded Pejman Mar Ventures, which would later become Pear VC.

Source: Interviews with Mar Hershenson and Pejman Nozad.

Exhibit 3
Pejman Nozad Original Business Plan for Pear VC (*originally called "Smart House"*)

Prepared for: Mar Hershenson
Prepared by: Pejman Nozad

December 19, 2009

Executive Summary

Objective
Creating a high-tech incubator that serves world-class entrepreneurs and supports their efforts with know-how, network, and capital.

Goals
Helping entrepreneurs build successful and profitable companies.

Solution
Smart House selects early-stage companies/projects and provides offices, constant guidance, and capital. In addition, we assign each project to a world-class team of advisors who help entrepreneurs at the very early stages in areas like product design, marketing, partnership, strategy, etc.

Investment
We invest in Smart House portfolio companies. In addition, we will invest in companies outside Smart House.

Smart House Environment
Entrepreneurs work in a fun and energetic environment that encourages them to share ideas and collaborate with other entrepreneurs. We will have regular weekly visits by a member of our network, brainstorm sessions, and fun events.

We also encourage entrepreneurs to follow a healthy life style. "Smart House" will have its own bicycle team and maybe some Kite surfers!

Focus
Consumer Internet, e-commerce, mobile, video, media

Deal Flow
Through our network, business plan competitions, and events

Team
Pejman Nozad (Amidzad)
Mar Hershenson (Stanford, Sabio Labs, Magma)

Expansion
We will explore possibilities of creating similar centers in Latin America, Eastern Europe, and South Asia in the future.

Source: Pear VC.

Exhibit 4
Pear VC Timeline

Date	Event
January 2000	Nozad and Hershenson meet after Nozad invests in Danger, founded by Hershenson's husband Matt.
January 2004	Nozad syndicates the seed round for Hershenson's second company, Sabio Labs.
July 2010	Nozad and Hershenson invest in their first company together as angel investors (Qwiki).
September 2010	Nozad proposes to Hershenson the initial idea for Pear VC, with the initial name "Smart House" (see **Exhibit 3**).
March 2013	Nozad and Hershenson begin angel investing as a team.
September 2013	Nozad and Hershenson close preliminary funding for their first institutional fund, Pejman Mar Ventures (later named Pear VC), and begin investing; the company's first investment is DoorDash.
October 2013	Pejman Mar Ventures (later named Pear VC) hosts the first Pear Garage class.
November 2013	Pear invests in Branch, the first investment from Pear Dorm.
Spring 2014	Pear closes Fund I.
Summer 2014	Pear hosts its first Summer Launchpad.
August 2015	TechCrunch names Pear Launchpad its favorite new demo day in Silicon Valley.
October 2015	Pear launches the first Berkeley Challenge.
August 2016	Pear closes Fund II and officially rebrands to Pear VC.
January 2017	Pear announces the first Pear GSB program.

Source: Pear VC.

Exhibit 5
Pear VC "Why Us?"

Why Us?

WHAT WE STAND FOR

- **We're self-made immigrants with pretty humble roots** – Pejman lived through the Iranian revolution and was homeless at one point in life. Mar immigrated from Spain to get her PhD in EE from Stanford.
- **We've been in your shoes** – Between us, we've founded four companies (Mar 3X, Ajay 1X) and experienced the highs of public accolades and exits and the lows of struggling to find product-market fit and staying motivated with a scant few months of runway. We get it!
- **We're privileged to have seeded a number of category defining companies** – including DropBox, Lending Club, Gusto, DoorDash, Guardant Health, and Branch Metrics.
- **We're hyper-networked in the valley and beyond** – and our network is your network.
- **We're strongly values-driven** – we're founder-first, we value ambition and conviction, we explicitly 'partner' rather than 'invest', and we hold integrity, humility, and trust as central tenets in what we do.

HOW WE OPERATE

- **We're a team** – there's a saying that when you marry a person you also marry their family, and that applies to how we operate. In our particular family, we also have quite a number of 'extended relatives' or 'operating partners' at your disposal.
- **We lead and are often the first check** – we move with conviction and speed, and aren't afraid of being the first (or only) check.
- **Foundation-laying** – we help companies lay the foundations of sustainable, category-defining companies. We're with you every step of the way if you need us to be - from developing an operating plan to organizational structures and processes that'll scale
- **We're really good at helping our companies hire A-caliber talent** – we've helped founders find their cofounders, hire their CTOs, data scientists, engineers, biz dev people, etc.
- **We're really good at getting companies from Seed to Series A** – see case studies.
- **We're big on community** – we host CEO dinners, workshops, speaker series events, and hackathons regularly in support of our companies and the broader community

Source: Pear VC, "Why Us," https://www.pear.vc/why-us (April 11, 2017).

Exhibit 6
Pear VC "Who We Are"

We understand what it means to build something from nothing. That journey defines each of our life stories. We are immigrants, having come to America penniless, but with big ideas.

We've been entrepreneurs, determined to build great companies. We know now that success emerges only for those who have endured setbacks and overcome hurdles. We've learned from our failures, and we know what it takes to succeed. There are no shortcuts when it comes to building something extraordinary. All of this finds expression in our work.

Source: Pear VC, "Who We Are," https://www.pear.vc/who-we-are (March 13, 2017).

Exhibit 7
Pear VC Investments from its First Fund

Company	Date	Stage	Description
DoorDash	Sep-13	Seed	Food delivery
Sensor Tower	Sep-13	Seed	Mobile apps analytics platform
Solvvy	Sep-13	Pre-seed	Customer support SaaS using deep learning
True&Co.	Sep-13	Seed	Online lingerie brand
BetterWorks	Oct-13	Seed	SaaS platform for enterprise feedback and goals
Heap Analytics	Oct-13	Seed	Marketing analytics platform
Wevorce	Oct-13	Seed	Online divorce platform
Branch Metrics	Nov-13	Pre-seed	Deep linking platform
Wedding Party	Dec-13	Series A	Mobile app for sharing wedding photos
Fieldbook	Apr-14	Pre-seed	Spreadsheets for relational databases
Guardant Health	Apr-14	Series B	First liquid biopsy
Memebox	May-14	Seed	Fast-beauty e-commerce
Lumoid	Jun-14	Seed	Electronics rental e-commerce platform
Thinknum	Jul-14	Seed	Financial data modeling platform
Aurora Solar	Aug-14	Pre-seed	Cloud-based platform that enables sophisticated solar PV engineering
Mattermark	Aug-14	Seed	Lead qualification SaaS platform
Nitrio	Oct-14	Pre-seed	AI for sales processes optimization
PRENAV	Oct-14	Pre-seed	Autonomous drones for industrial inspections
Polarr	Nov-14	Seed	AI for photo editing
Affinity	Dec-14	Pre-seed	Next generation CRM
Elevate App	Dec-14	Series A	Brain training mobile app
Endor	Dec-14	Series A	Business predictive intelligence
Bluesmart	Mar-15	Seed	Connected travel devices
JetSplash	Jun-15	Pre-seed	Largest virtual airline
Revfluence	Jul-15	Seed	SaaS platform for managing and optimizing influencer marketing
Seed Platform	Jul-15	Seed	Mobile small business banking solutions
Gusto	Aug-15	Series B	SaaS HR solutions
One Concern	Aug-15	Pre-seed	Emergency response preparedness and management solutions
Paid API	Aug-15	Seed	Accounts receivable solutions
BioAge Labs	Sep-15	Seed	Anti-aging drug discovery
Call 9	Nov-15	Seed	On-demand nursing services
Rooster	Nov-15	Seed	Local community mobile app
Aaptiv	Dec-15	Pre-seed	On-demand exercise classes
Acusense	Dec-15	Pre-seed	Deep learning for multi-media search
DotDashPay	Dec-15	Pre-seed	Hardware payment platform
Doxel	Dec-15	Pre-seed	Autonomous drones for construction
Emburse	Dec-15	Pre-seed	Reinventing corporate expense cards
Honestbee	Dec-15	Seed	On-demand delivery services in East Asia
Infinite Uptime	Dec-15	Pre-seed	Industrial connected sensors
Mindori	Dec-15	Pre-seed	E-commerce search via voice commands
Ripple	Dec-15	Seed	Local news consumer application

Source: Pear VC company materials.

Exhibit 8
Pear VC Seed-Level Term Sheet (Anonymous)

SUMMARY OF TERMS
OF
SERIES SEED PREFERRED STOCK FINANCING
OF
_____[COMPANY NAME]__, INC.

[DATE]

The purpose of this document is to memorialize certain key terms of the proposed private placement of shares of Series Seed Preferred Stock by [Company Name], a Delaware corporation (the "Company") to one or more investors (the "Investors") including Pear Ventures, L.P. ("Pear Ventures"). This document is not intended to be a binding agreement between the Company and any Investor except for the paragraphs captioned "Confidentiality," "Expenses," "Exclusive Dealing" and "Governing Law". A binding agreement will not occur unless and until all necessary Investor and Company approvals have been obtained and the parties have negotiated, approved, executed and delivered the appropriate definitive agreements. Until execution and delivery of such definitive agreements, all parties shall have the absolute right to terminate all negotiations for any reason without liability.

Pre-Money Valuation	[$XX] pre-money valuation on a fully-diluted basis, including an unallocated stock option plan reserve representing a [X%] post-money ownership interest.
Amount of Financing:	Up to [$XX] of new capital in multiple closings: Pear Ventures — [$X: Amount invested by Pear in dollars] Other investors reasonably acceptable to the Company and Pear Ventures — [$Y: Amount invested by others in dollars]
Initial Closing:	The initial closing, involving the issuance and sale of not less than [$X] worth of Series Seed Preferred, shall be as soon as practicable. One of more subsequent closings involving the issuance and sale of up to [$Y] worth of Series Seed Preferred may be held not later than sixty (60) days following the initial closing.
Securities to be Issued:	Series Seed Preferred Stock ("Series Seed Preferred") at a purchase price per share (the "Purchase Price") resulting in the post-money capitalization set forth below.
Capitalization:	The post-money capitalization of the Company, assuming the issuance and sale of [Amount raised in dollars] worth of Series Seed Preferred, will be as follows:

outstanding common stock and options	[XX.XX%]
unallocated option plan reserve	[XX.XX%]
Pear Ventures	[XX.XX%]
other investors	[XX.XX%]
TOTAL	100.00%

Exhibit 8 (Continued)

Dividends:	Non-cumulative, paid pro rata among holders of the Series Seed Preferred and Common Stock.
Liquidation Preference:	In the event of any Liquidation Event, the holders of the Series Seed Preferred shall be entitled to receive, prior and in preference to any distribution to the holders of the Common Stock, an amount (the "Preference Amount") equal to one (1) times the Purchase Price plus all accrued but unpaid dividends thereon. After the full Preference Amount on all outstanding shares of Series Seed Preferred has been paid, any remaining funds and assets of the Company legally available for distribution to shareholders shall be distributed among the holders of the Common Stock. A merger, acquisition or change of control of the Company shall be deemed a "Liquidation Event."
Conversion:	Convertible into Common Stock at a 1-to-1 rate, subject to adjustment to reflect stock dividends, stock splits and similar events and as provided in Antidilution Provisions below. Automatic conversion at IPO with gross proceeds of at least $20 million (the "Qualified Public Offering") or upon majority Series Seed Preferred vote.
Antidilution Provisions:	The conversion price of the Series Seed Preferred shall be subject to adjustment on a broad-based weighted average basis for issuances at a purchase price less than the then-effective conversion price with customary carve-outs.
Voting Rights:	The Series Seed Preferred shall vote together with the Common Stock on an as-converted basis and not as a separate series, except as provided by law or as provided in "Protective Provisions" and "Board Composition" below.
Protective Provisions:	Consent of holders of a majority of the outstanding shares of Series Seed Preferred required for: (i) any change to the rights of Series Seed Preferred; (ii) any change the authorized number of shares of any class or series; (iii) creation of any senior or pari passu class or series of shares; (iv) redeem or repurchase any shares (other than pursuant to the Company's right of repurchase at original cost); (v) declare or pay any dividend, (vi) any Liquidation Event, or (vii) any increase or decrease in the size of the Board of Directors.
Board Composition:	Holders of Series Seed Preferred shall have the right to elect one (1) member of the Board of Directors voting as a separate series, who shall be a designee of Pear Ventures.
Stock Purchase Agreement:	Customary and standard in form, including customary representations and warranties of the Company and the purchasers of Series Seed Preferred (the "Investors"). No opinion of counsel to the Company shall be required.

Exhibit 8 (Continued)

Investors' Rights Agreement:

Future Rights:	The Company shall agree to grant to the Investors the same rights (including registration rights) as the next series of Preferred Stock, with appropriate adjustments for economic terms.
Information Rights:	Customary unaudited financial information and inspection rights to purchasers of at least [$XX] worth of Series Seed Preferred (each a "Major Holder").
Rights of First Offer:	Each Major Holder shall have a right of first offer to purchase up to its pro rata share (based on its percentage of the Company's outstanding shares of Common Stock, calculated on a fully-diluted, as-converted basis) of any equity securities offered by the Company in the next equity financing, subject to customary exceptions. The Company shall agree that the definitive agreements for the next equity financing shall ensure each Major Holder's continued pro rata pre-emptive rights so long as such Major Holder continues to hold at least [$XX] worth of Series Seed Preferred. To the extent not exercised by the Company, the Company shall assign its right of first refusal to purchase shares of Common Stock to the Major Holders on a pro rata basis.
Founder Matters:	All founder Common Stock shall be subject to vesting as follows: 25% of the shares shall be vested nine months on the date after the initial closing, and the remaining 75% of the shares shall vest monthly over the next 3 years. All founders shall have signed proprietary information and invention assignments agreements.
Documentation:	Counsel to the Investors shall prepare the definitive investment agreements for the financing described herein: [Legal Counsel Contact Information]
Confidentiality:	The terms and conditions described in this document as well as its existence shall be confidential information and shall not be disclosed by the Company to any third party without the consent of Pear Ventures. If the Company determines that it is required by law to disclose the contents or existence of this document, it shall first consult with Pear Ventures before making any such disclosure and seek confidential treatment for such portions of the disclosure as may be requested by Pear Ventures. Pear Ventures has agreed to permit the Company to disclose the proposed financing to its prior investors.
Expenses:	Each party shall bear its own expenses in connection with the preparation and negotiation of definitive transaction documentation and due diligence. If the financing is consummated, at the initial Closing, the Company shall pay or reimburse (which reimbursement may be effected by way of offset against its investment amount) up to [$XX] in legal fees of Pear Ventures.

Exhibit 8 (Continued)

Exclusive Dealing:	For a period of 30 days following execution and delivery of this document by the Company and Pear Ventures, the Company, its officers, directors and stockholders agree that none of them shall, without the prior consent of Pear Ventures, (i) enter into any direct or indirect discussions, negotiations or solicit offers for the sale of any equity securities or securities convertible into equity securities of the Company; or (ii) provide any information concerning the Company to any third party in respect of or in contemplation of any of the foregoing potential transactions. During such period of exclusivity, the Company will provide Pear Ventures notice of and a copy of any correspondence received or provided by the Company in respect of the foregoing.
Governing Law:	This document is to be construed in accordance with and governed by the internal laws of the State of California without giving effect to any choice of law rule that would cause the application of the laws of any jurisdiction other than the internal laws of the State of California to the rights and duties of the parties. All disputes and controversies arising out of or in connection with this document shall be resolved exclusively by the state or federal courts located in Santa Clara County in the State of California, and each party hereto agrees to submit to the jurisdiction of said courts and agrees that venue shall lie exclusively with such courts.
Acceptance of Terms:	In order for the Investors to instruct counsel to prepare definitive agreements reflecting the terms hereof, this non-binding proposal for financing must be accepted in writing below prior to 5:00 pm Pacific Time [Expiration Date], or else it shall be deemed withdrawn.

Exhibit 8 (Continued)

TERMS PROPOSED BY:

PEAR VENTURES, L.P.

By: Pear Ventures GP, LLC

By:________________________________
[General Partner Name], Managing Director

TERMS ACCEPTED BY:

COMPANY NAME

By: ____________________________
[CEO Name], President

Source: Pear VC company materials.