

Raising Capital

- a personal point of view!

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We Aren't Just Talking About Cloud Computing



We are talking about the broader concept of “the cloud,” that fluffy, amorphous concept that can be summed up as the space between client devices and servers

How Did This Come About?

What rose from the ashes of the dot-com bust was Web-enabled services and cloud computing – a wealth of innovative enterprise software companies applying Internet technologies to business processes

You Know That...

- The shift to cloud computing dramatically reduces the cost of information technology
- It frees customers from the expense and hassle of having to install and maintain applications locally
- All major IT vendors have been reassessing and redefining their business boundaries to include cloud computing

Also...

- An interesting phenomenon - given the competition that cloud-hosted voice services present, the only thing traditional Telcos have going for them is inertia
- They're currently providing a substandard service at inflated prices—and relying on brand-recognition to keep them afloat
- This gives a huge opportunity for cloud service integrators who already provide IT services to sell their existing (and new) customers a cheaper, better service

What Are the Users Demanding?

- Today, almost all CIOs must answer the very important question: “Why not run apps in the Cloud?”
- And, some of the issues CIOs consider in answering that question include: Price, Capability level, Service level, and Risk level.
- Specifically, these include, security and data privacy, regulation and compliance, performance, vendor lock-in, integration with existing legacy apps and infrastructure, immaturity, and costs to migrate applications from in house servers to the cloud

How Different is “Cloud” from Mainframe?

- The basic building blocks of computing don't change
 - provisioning, management, security, and networking
- The pieces may change, and different layers (data , storage, provisioning management) may get merged into others which allow you to redefine all the layers
- All the layers are getting reinvented continually

This is Where the Investors Come In!

Investors see the huge potential in this industry segment and try to figure out which are the layers that you can build a company around and which are the ones that become features rather than products

Basic Mantra of the True Investor

Ideally, they look for truly disruptive and visionary technologies and management teams that can bring them to market and monetize them before losing their competitive advantage to the ensuing stampede

Picking the Right Investment

- Successful Investors specialize in sourcing and leading successful investments
- They know how to build value with proprietary expertise and connections, and they have insight into global target areas, best-of-breed investments and emerging markets

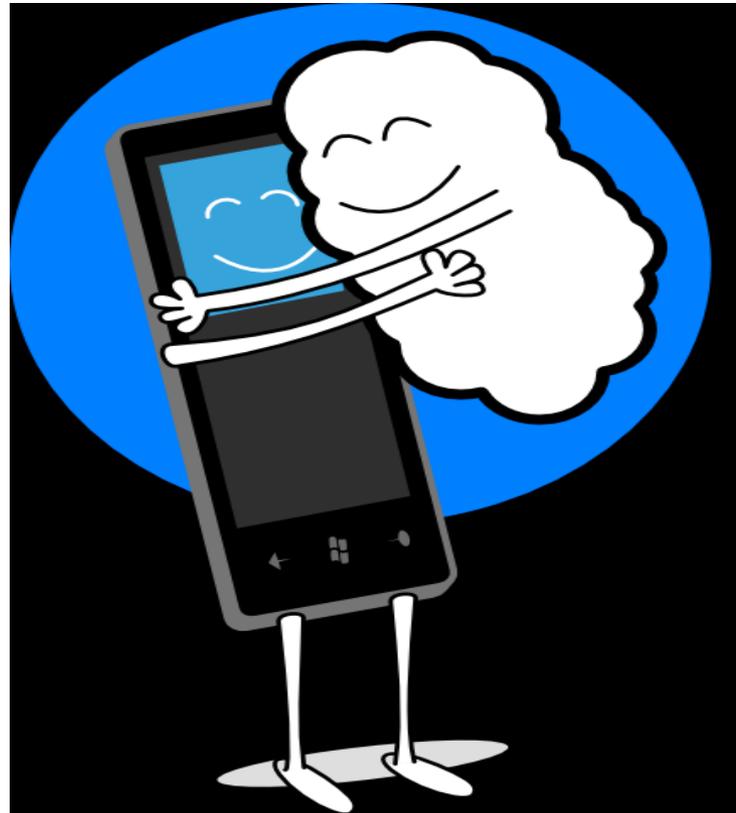
Why Investors Like Cloud?

- Cloud Computing represents a generational change for computing and communications impacting both the business and consumer markets
- It represents a multi-year transformational change for enterprise IT and that there would be many opportunities for new companies to participate

Why Investors Like Cloud?

- Cloud computing is such a disruptive innovation that it has the potential to make a bigger economic impact than the Internet's \$8 trillion exchanged each year via ecommerce
- The disruptive potential of the market represents a huge opportunity across the globe for innovative, early stage companies in the space

Mobile and Cloud – A Happy Couple!



And, That's Another Reason Why Investors Like Cloud?

- Nearly half a billion users will connect to the cloud from mobile devices this year and mobile application downloads are projected to reach 98 billion by the end of 2015
- Business growth in the areas of mobile computing, social networking and data management is resulting in new job creation
- Also, the rapid rise of the iPhone, iPad and other mobile devices is pumping the adrenalin of Investors to run to consumer-facing mobile companies

Investors Believe Cloud is Huge

- Three industry trends are driving the cloud model to be even bigger and create massive business opportunities and hundreds of thousands of new jobs: mobile, social and Big Data
- Facebook, Twitter, LinkedIn, Google+ and other social networking sites would not be possible without cloud computing technologies

VC Investments in Cloud...

- In 2011, Internet or web companies took in a healthy \$10.5 billion in 1185 deals
- Venture capital investment in cloud computing companies accounted for more than a quarter of Internet deal volume and more than a third of Internet investment dollars in 2011

Who is Getting Funded?

- PaaS, SaaS and cloud storage companies like [Dropbox](#) and [Box.net](#) and other true cloud infrastructure players are in this category
- This does not include investments by big enterprise software players such as Hewlett-Packard, SAP, Oracle, IBM, Microsoft, et al.
- These behemoths are all making huge investments in cloud technologies, both in terms of internal, organic development and in their acquisitions

Cloud Impact...

- By 2014, Gartner estimates that the Cloud Computing marketplace will reach \$148bn
- Cisco Analytics predicts that more than 50% of all workloads will be processed in the Cloud
- IDC suggests that Cloud Computing will create 14m new jobs by 2015 in terms of how it delivers economic value to countries, cities, industries, and small businesses

However, There is a Big Funding Gap Between A-Level and All Subsequent Levels

4Q2012 VC Investment

Total \$ Invested	Average \$ Per	Deals
\$5,751,846,300	\$7,588,188	758

Stages	Amount	% of Total	Deals
Later Stage	\$2283M	39.70%	208
Expansion	\$1714M	29.81%	207
Early Stage	\$1613M	28.04%	290
Startup/Seed	\$141M	2.46%	53

What is Today's Investment Strategy?

- In the early 2000s, investors funded science projects. Today, VCs fund the scaling up of already successful companies
- VC money isn't drying up, but today, big money flows in after a product has been developed, not before
- VCs are looking for companies with ~\$3-5 M in revenue and ~\$1 M of EBITDA or companies that can go public in a year or so

Why?

- Startups have more options today.
- There are more angels, accelerators, incubators and even micro-VCs.
- Startups are scaling more from angel funding and delaying taking on big rounds until much, much later.
- Some have been able to forego funding all together
- The main reason startups can do without VC money is cloud computing.

What is the Impact?

- Seed stage companies will have hard time fundraising during 2012.
- Too many seed stage companies have been created and funded in the last 18 months (over 10K by some estimates)
- In 2012 several of these will be looking for their first institutional venture investment, and will not get it
- Many such seed-stage companies will go out of business during 2012
- Moreover, the 'fund and flip' investment model that had been recently re-adopted by entrepreneurs, and angel investors will come to an end

Going Forward...

Inspite of the Current Investor Sentiment,
How Do You Go About Raising Capital For Your
Start-up...

Do You Need Venture Capital To Start a Business? ...



- Broadcom
 - No VC Money
- Cisco
 - \$5M in Revenue & Profitable Before VC Investment
- Dell
 - Raised Money at \$60M in Revenue
- eBay
 - \$4.5M in Revenue Before VC Investment
- Microsoft
 - VC Funded After Being Profitable
- The MathWorks
 - No VC Money
- Oracle
 - Government Contract Funded First Product
- SAS Institute
 - > \$2.6B in Revenue, the Largest Private Software Company, No VC Money
- Siebel
 - Customers Funded First Product

VCs Look for...

- Solving a Real Customer Problem? - Enhancement or Disruptive
- Pass Due Diligence? – Efficacious Team; Scalable Product; Right Market; Supportive Referrals; Achievable Milestones; Realistic Financials; Dependable Partner(s)...
- Within Portfolio Parameters?

Compelling Story?...

- Market(s) Served
- Problem(s) Solved
- Solution(s) Offered
- Uniqueness
- Competitors
- Team
- Financials

Executive Summary

Two-Pager:

- Customer Problem
- Product/Technology Solution
- Market Domain/Size
- Uniqueness
- Competitors
- Customer Validation(s)
- Team/Financials
- Current Status
- Contact Information

VCs Are Aware...

- Every Deal Has Problems
 - No One Can Pick Which Start-up Will Make It
 - Portfolio Returns: ~10%- 10x; ~20%- 1-4x; ~70%- 0-1x
- Need to Work Together for a L-O-N-G Time
 - Interesting project?
 - Compatible with the team?
- The Unexpected is Going to Happen
 - Anticipate Hard Times

Product: Aspirin or Vitamin?



- Customers Change Only When They Have To
- “Don’t Fix What Isn’t Broke”
- Inertia is Huge
- NIH?

Timing and Market Size

- Does the Market Really Need the Product?
- Is the Market Large Enough?
- Is the Market Broad Enough to Maneuver if the First Niche Doesn't Work Out?

Is the Team Really Dependable?

- Does Saying “World Class” Mean One is Really “World Class”
- Support Personnel Background with Company Pedigree, Results, Success...
- Start-up Mentality
- Background Checked Rigorously

Customers Decide Longevity

- Does the Team Really Know the Customer?
- Is the Customer List Strategic or Opportunistic?
- Characteristics of Current/Potential Customer?
- How Much are the Customers Helping?

Due Diligence Would Also Include

- Learn/Verify Information (Market, Technology, Financials, Cap Tables, Resumes...)
- Internal Verification: Personal Knowledge, Portfolio Companies, Friends, Paid "Expert(s)"...
- Follow-up Meeting(s)
- Calls to Customers and Personal References
- Calls to Back-Channel References

After All That, What Will Most VCs Do?

- Innocuous Turn Down
 - Won't Burn Bridges
- No Urgency in Making Decision
 - Wait on Lower Risk (with Time)
 - Watch Milestone(s) Achievement
 - Quarterly Results
 - Prototype/POC Works

And a Few Who Approve, Prefer Syndication

- For the VC
 - Validates Decision
 - Risk Distribution
- For the Entrepreneur
 - Varied Inputs for Better Decisions
 - Less Risk

In a Nutshell...

- Fund Raising is T-T-T-Tough
- Long... Long... Long... Process
- Many... Many... Many... to Talk To
- Tons & Tons of Unsolicited Advise...
- Lots & Lots of Patience
- Very... Very... Very... Thick Skin
- And, Unpredictable Results

But, Do Remember: Venture Capital Not Required To Start a Great Business



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