



Rio Bravo Technology Entrepreneurs' Council

October 20, 2009

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The Bad News

Raising Money is Hard

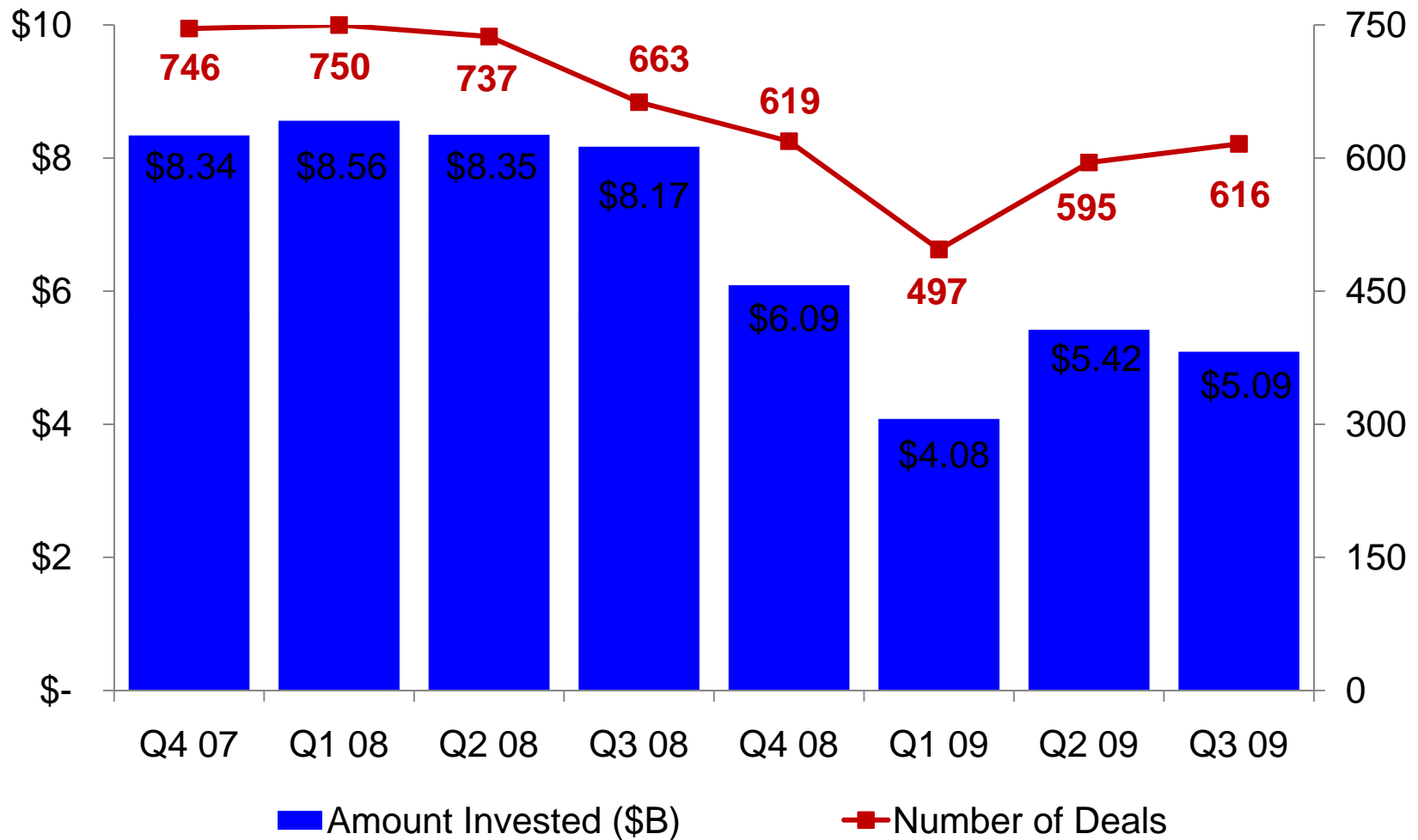
The Worse News

Raising Money Today is Really Hard

The Market Today is Uniquely Bad

- **Investment Activity is Down**

Trends in Venture Investing



Source: Dow Jones VentureSource

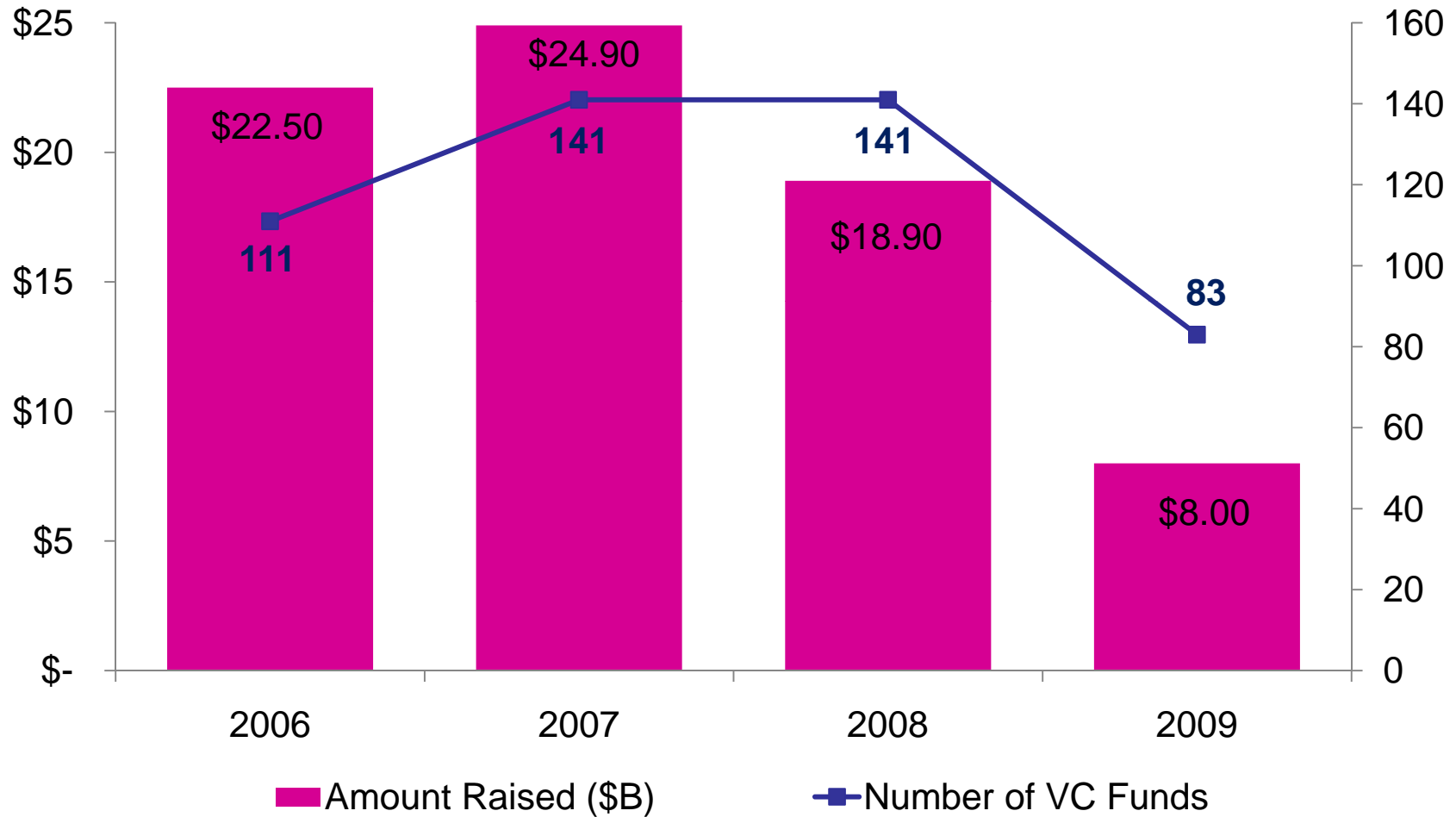
The Market Today is Uniquely Bad

- Investment Activity is Down
- Valuations are Down
- The Venture Industry Is In Flux

The Current VC Model: Not Sustainable

- **Today's Focus: All about the Home Run**
 - “The Fund Returner” – 10x or 20x the original investment
- **But this gets harder with bigger funds**
 - A \$400M fund needs to get 20x on a \$20M investment to “return the fund” (or 10x on \$40M)
 - The result: later stage investing; huge markets required
- **The VC industry is already beginning to contract**
 - Q3 2009 – New fund raising declines 51%
 - NVCA membership declining
 - “bubble” funds are reaching end of life

VC Fundraising Drops

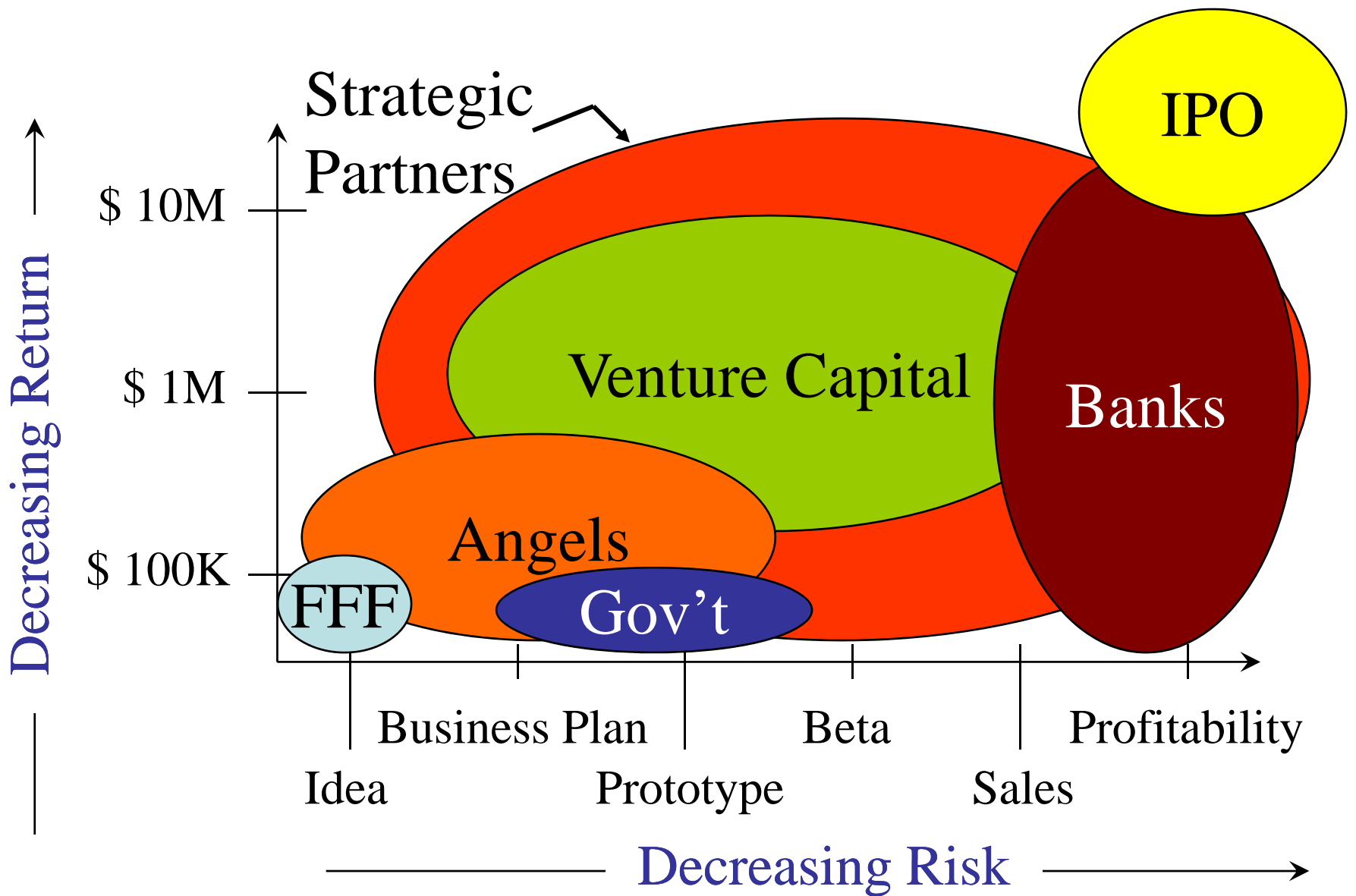


Source: Dow Jones VentureSource

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Fortunately, VCs are not the only source of Capital



Who Cares About Geography?

Category	Cares?
Friends/Family/Fools	No
Angels	Yes
Venture Capitalists	Maybe
State or Fed. Government	S – Yes, F – No
Strategic Partners	No
Public Equity Markets (IPO)	No
Commercial Banks	Maybe

Strengthening Your Geographic Position

- **Bootstrap**
 - The earlier the investor, the more important the location
 - The larger you are, the harder you are to move
- **Build Unique Geographic Value**
 - Connection to sources of technology
 - Connection to manufacturing capabilities & costs
 - Connection to a bi-lingual base
 - Connection to markets
- **Cultivate Regional Sources of Capital**

NVCA Regional Growth Data

Fastest Growing Venture Regions

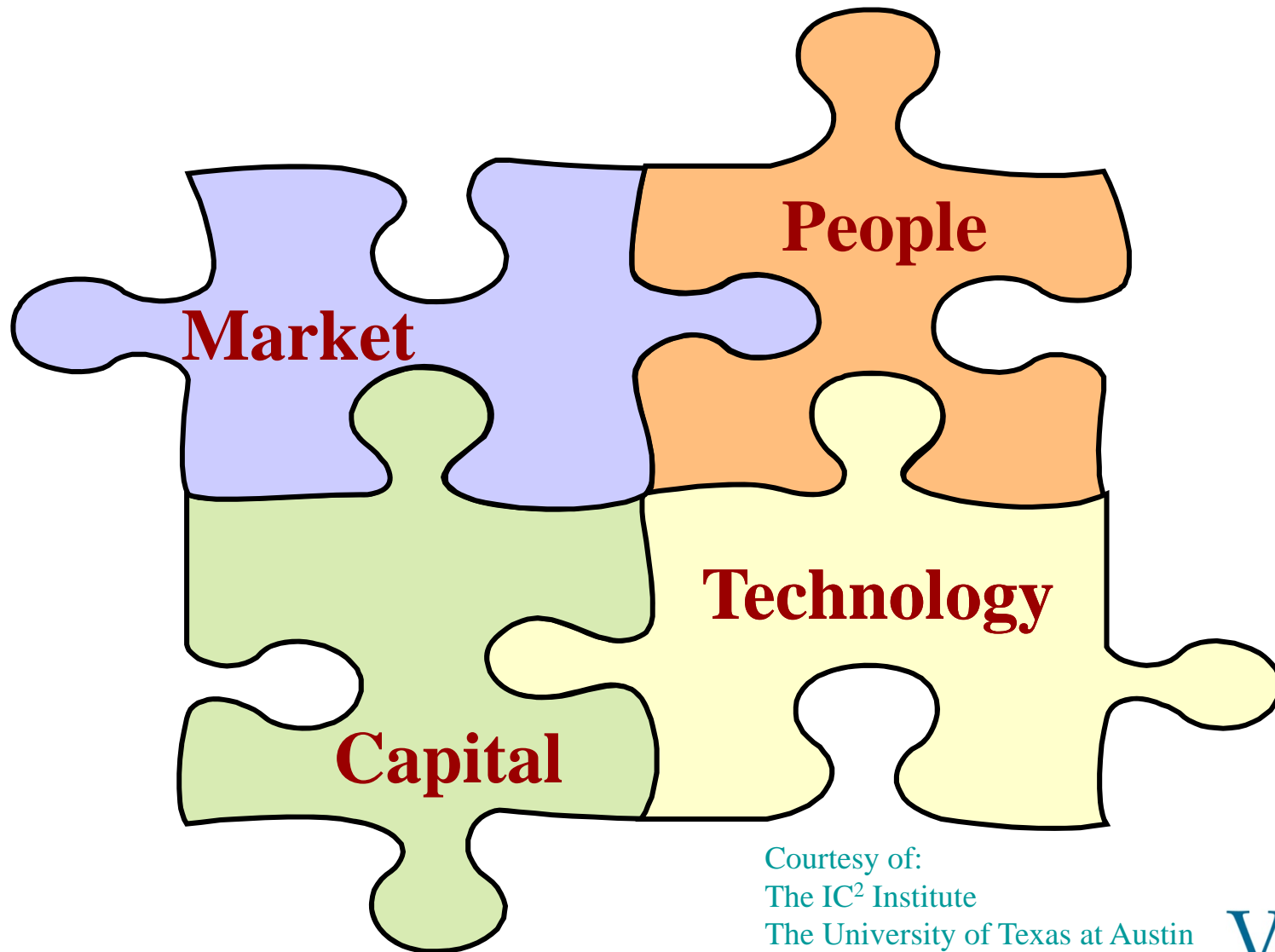
	Number of Companies		
	2007	1997	% Change
New Mexico	21	3	600%
Pittsburgh	44	12	267%
Seattle	132	65	103%
Los Angeles	124	72	72%
Washington Metroplex	180	105	71%

Source: USA Today, March 11, 2008

The Funding Process, Start to Finish

- **Generally takes 3-12 months**
 - Early rounds take the longest
 - Average Verge Fund time to first investment: 10 months
- **Requires significant commitment**
 - Will take most of the time of 1-2 members of the team
- **Moving the process forward is key**
 - You want to get into DD quickly or get a “no”
 - Getting a “no” out of a VC is actually harder than you might think
- **Get to know how the investors think**
 - **WHAT** you are going to do is initially more important than **HOW** you are going to do it
 - Having a good **STORY** is as important as having a good **PLAN**

Elements of a Successful Growth Company



Courtesy of:
The IC² Institute
The University of Texas at Austin

Verge
FUND

Verge: How We Evaluate Deals I

Start with Market Opportunity



- How much of a need exists today?
 - Market reports are OK, but primary research is better
 - Interview customers when possible
 - Not just the *opportunity*, but the *pain*
- What does the competition look like?
 - Who are they?
 - How will they react to this new threat?
- What is the adoption history of new technologies?
 - Example: Healthcare devices vs. Healthcare IT

Verge: How We Evaluate Deals II

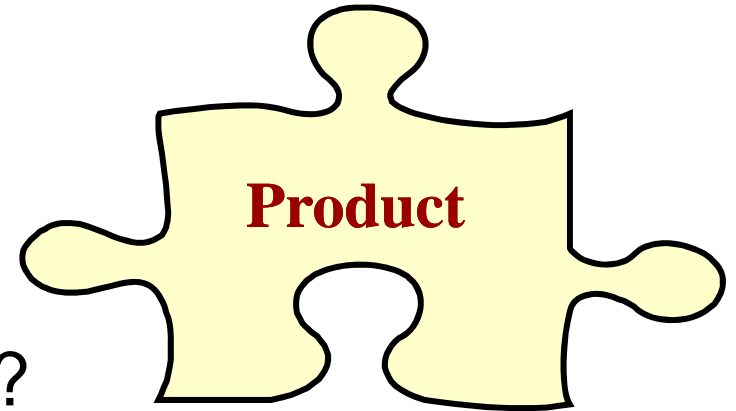
People, People, People



- Look closely at the founding team
 - Do they take advice and direction?
 - What are their post-funding salary expectations?
 - **Conduct reference checks**
- What holes remain in the team?
 - Are they relatively easy or hard to fill...in EP?

Verge: How We Evaluate Deals III

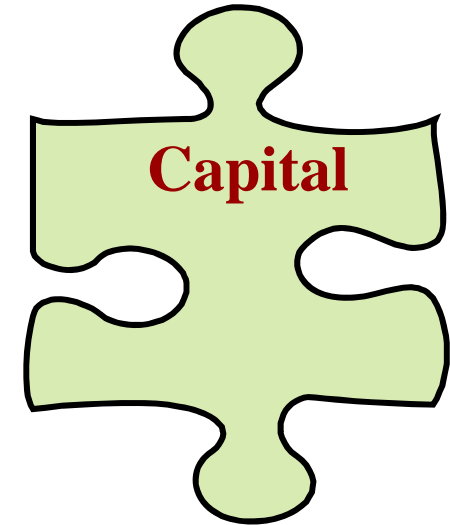
Technology & Product



- How unique is the product?
 - Do IP searches (or have the company do them)
 - **Understand what the Competition WILL have**
- How much risk is there in development?
 - Software: Low; Medical Devices: High
- Is the Founder in love with the technology?
 - Very easy to focus on the product and not the rest of the business: sales, service, administration

Verge: How We Evaluate Deals IV

Financial Statements



- These are the price of admission
 - The only certainty is that they will be wrong
- We view the following as a “Reality Check:”
 - Founder salaries
 - Gross Margin in out years
 - Additional capital requirements