How VCs discover and fund innovation

Eight Rules of Venture Capital

Rule #1

"Deal flow is everything."

Marc Andreessen,
Founder of Andreessen Horowitz


Rule #2
success
is rare

Rule #2: Success is rare

Journey of 1,000 companies

Seed Round

- Raise \$250k - \$7m
- Sell 15% - 40% of company

Assume

- 1,000 Companies Funded

CB-Insights

Rule #2: Success is rare

Journey of 1,000 companies

Series A

- $2m - $15m
- Sell 20% - 40% of startup

Success Funnel

- ❑ 46% Raise Series A
- ✓ 14% Exit (1x– 3x)
- ✗ 40% Fail to raise

CB-Insights

Rule #2: Success is rare

Journey of 1,000 companies

Series B

- $5m - $300m
- Sell 15% - 30% of startup

Success Funnel

☐ 28% Raise Series B

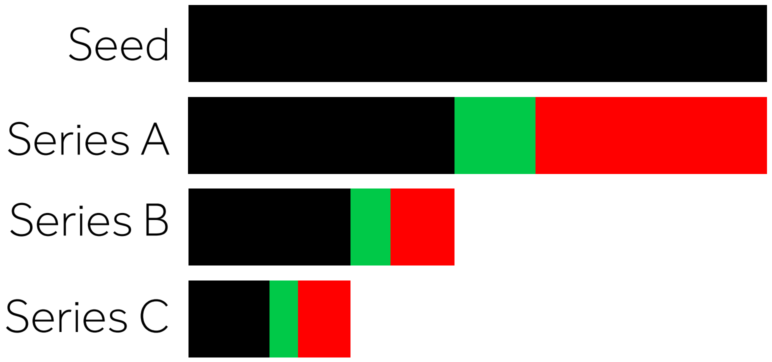
☑ 7% Exit (1x– 3x)

☒ 11% Fail to raise

CB-Insights

Rule #2: Success is rare

Journey of 1,000 companies



Series C

- $10m - $500m
- Sell 10% - 25% of startup

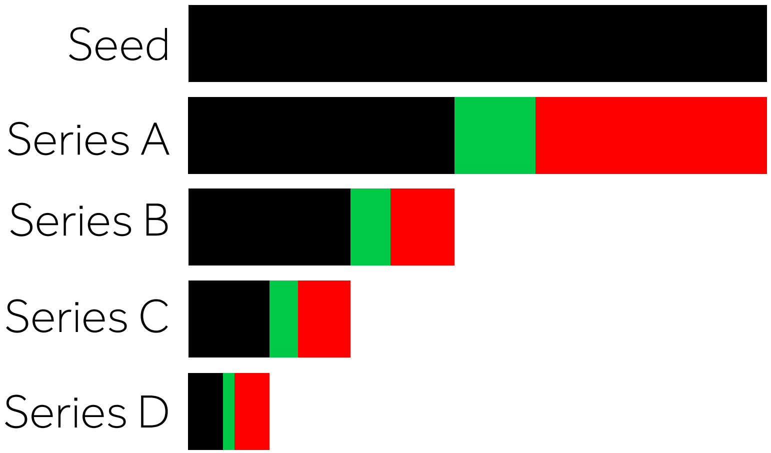
Success Funnel

☐ 14% Raise Series C
☑ 5% Exit
☒ 9% Fail to raise

CB-Insights

Rule #2: Success is rare

Journey of 1,000 companies



Series D

- $10m - $1 billion+
- Sell 5% - 20% of startup

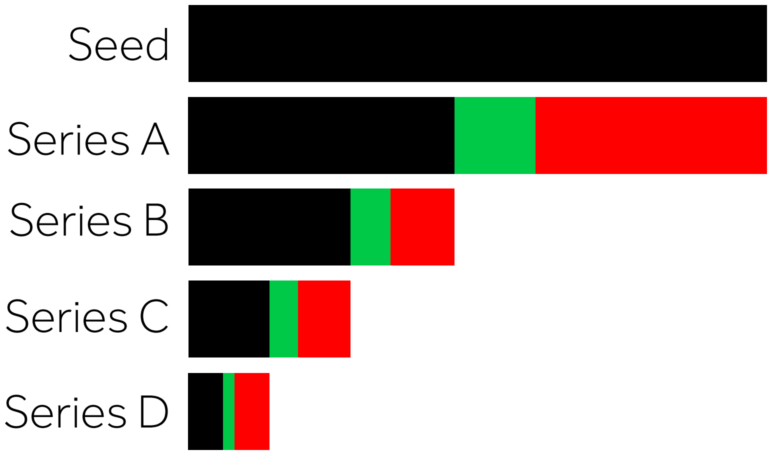
Success Funnel

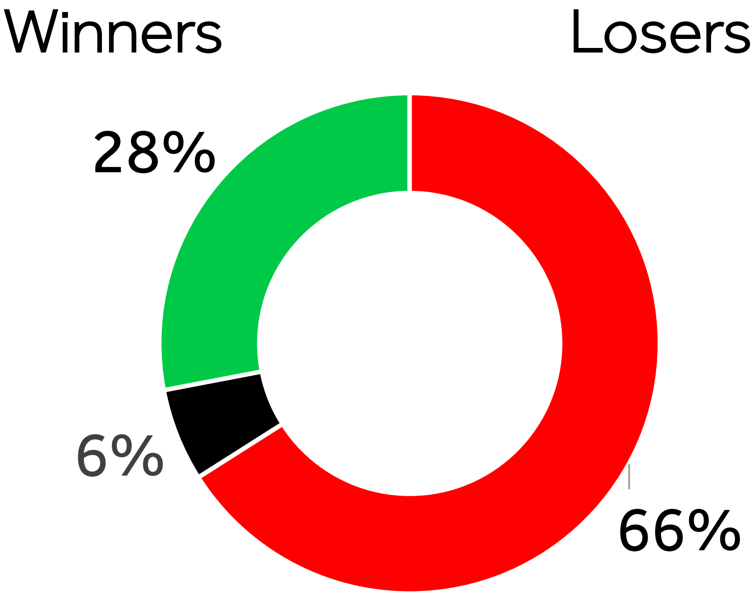
- ☐ 6% Raise Series D
- ☑ 2% Exit
- ☒ 7% Fail to raise

CB-Insights

Rule #2: Success is rare

Journey of 1,000 companies





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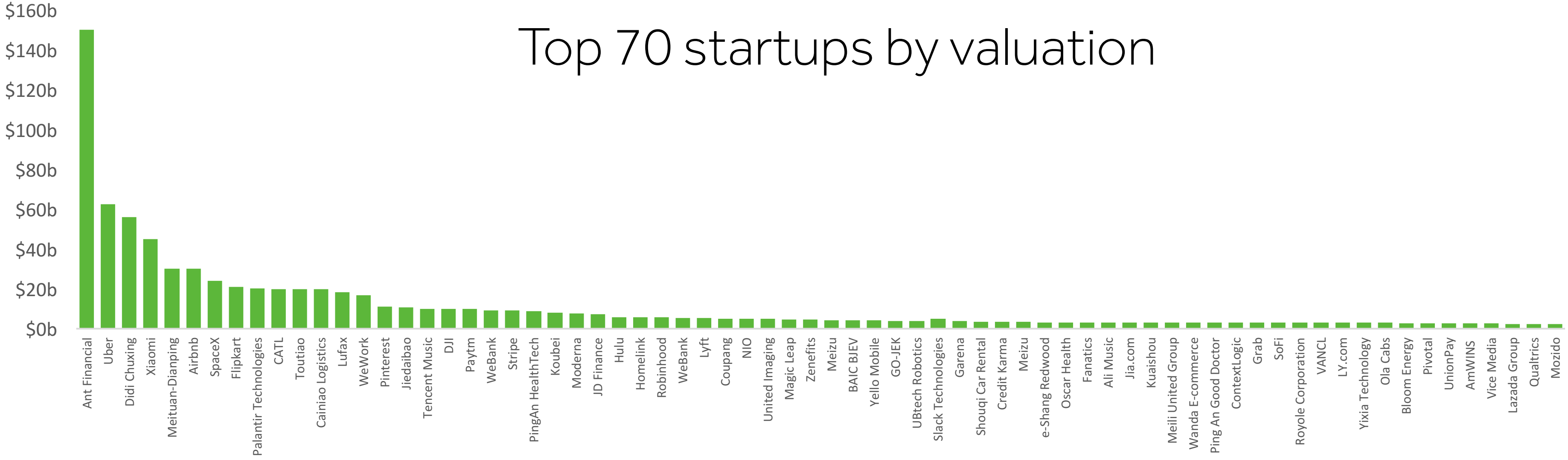
Rule #3
swing for
the fences

Rule #3: Swing for the fences



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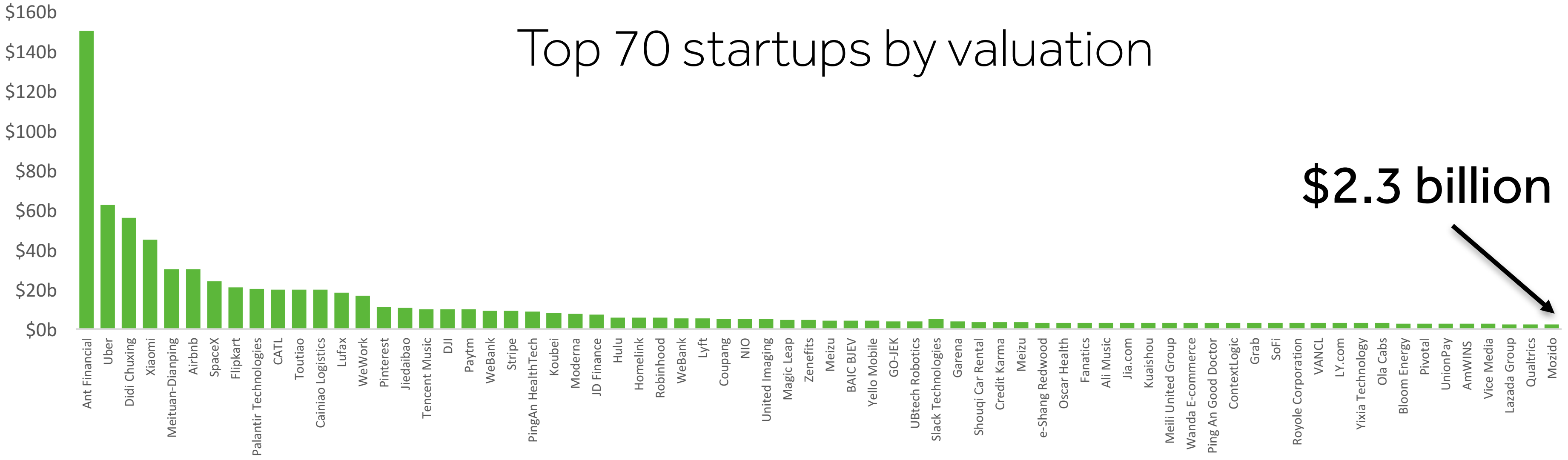

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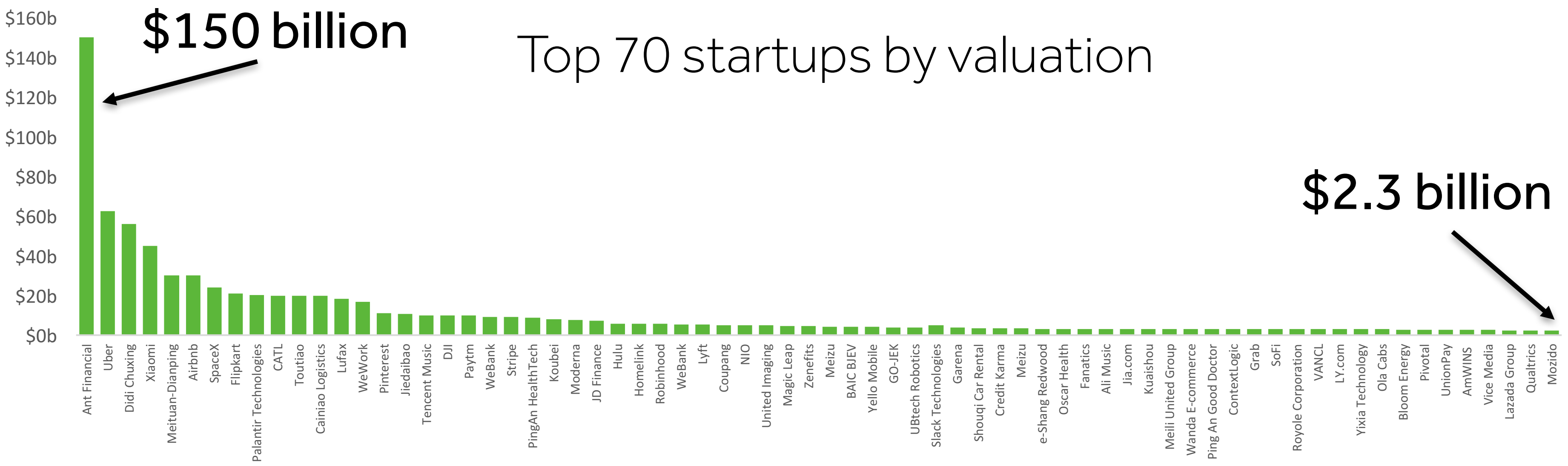

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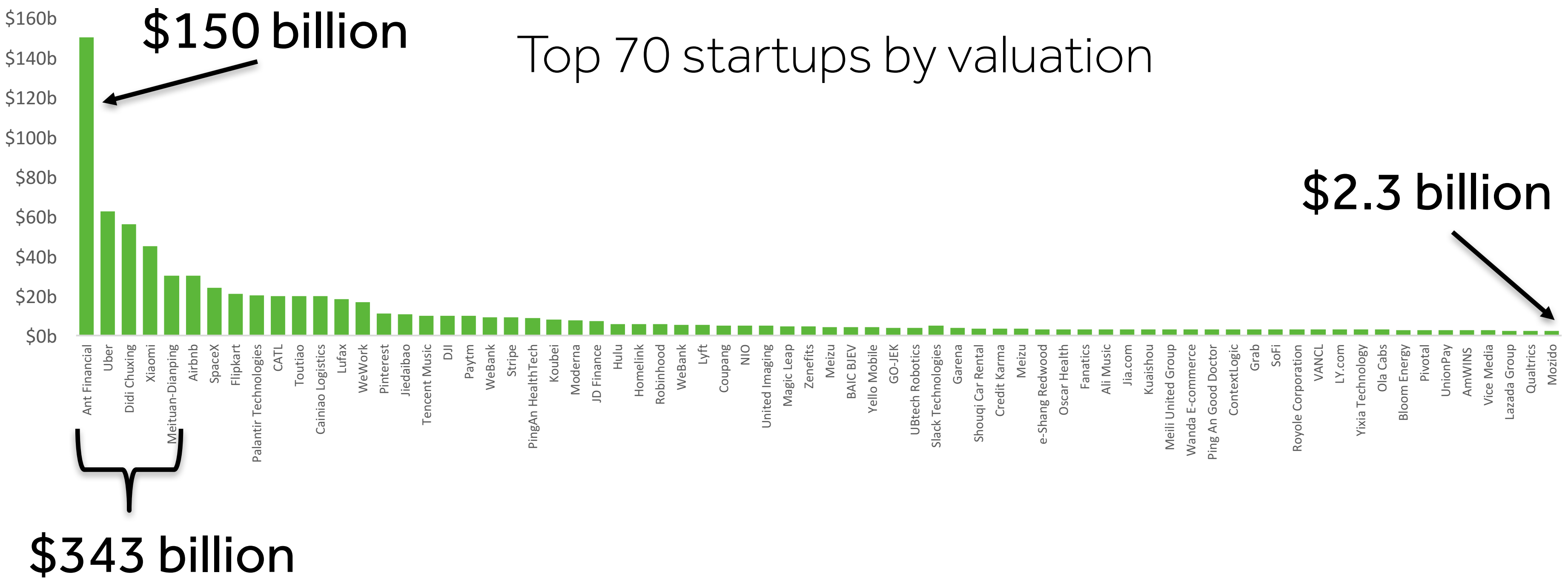

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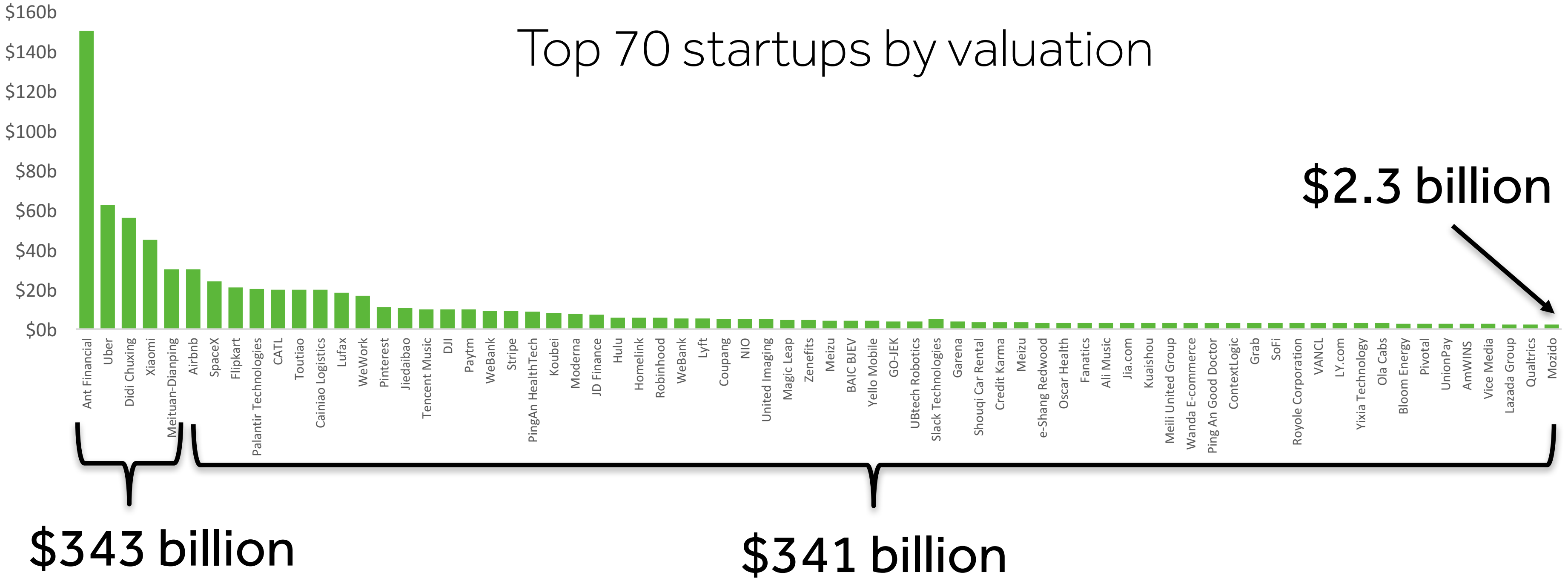

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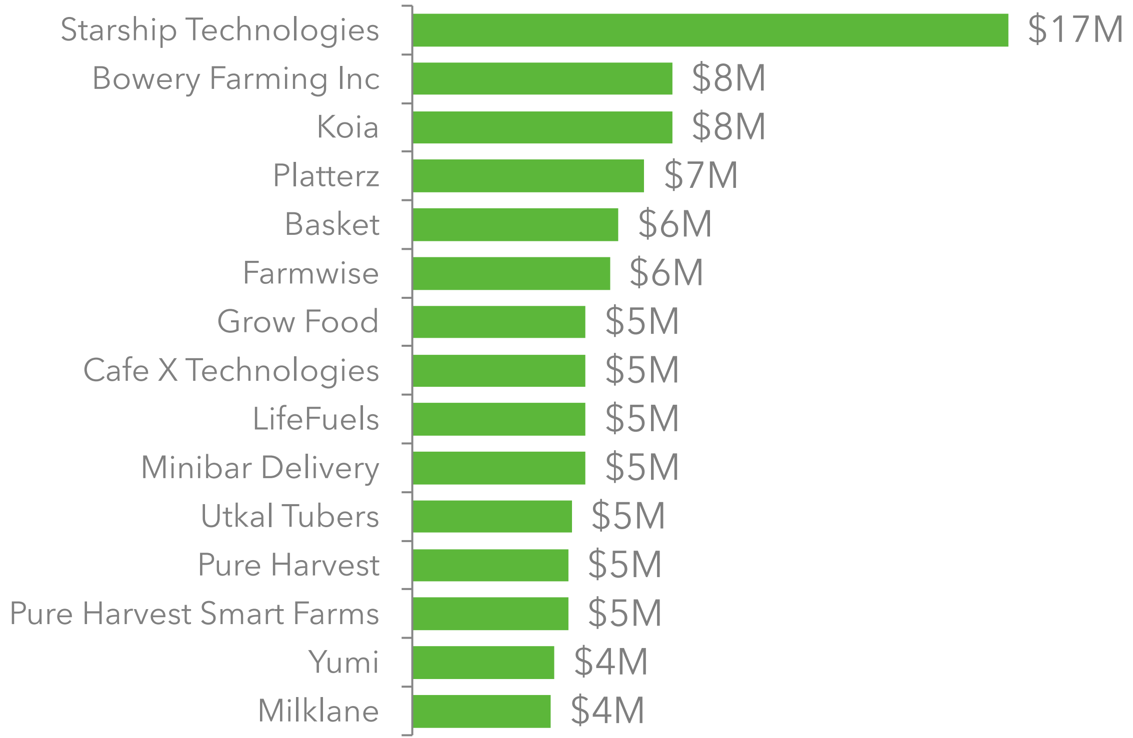
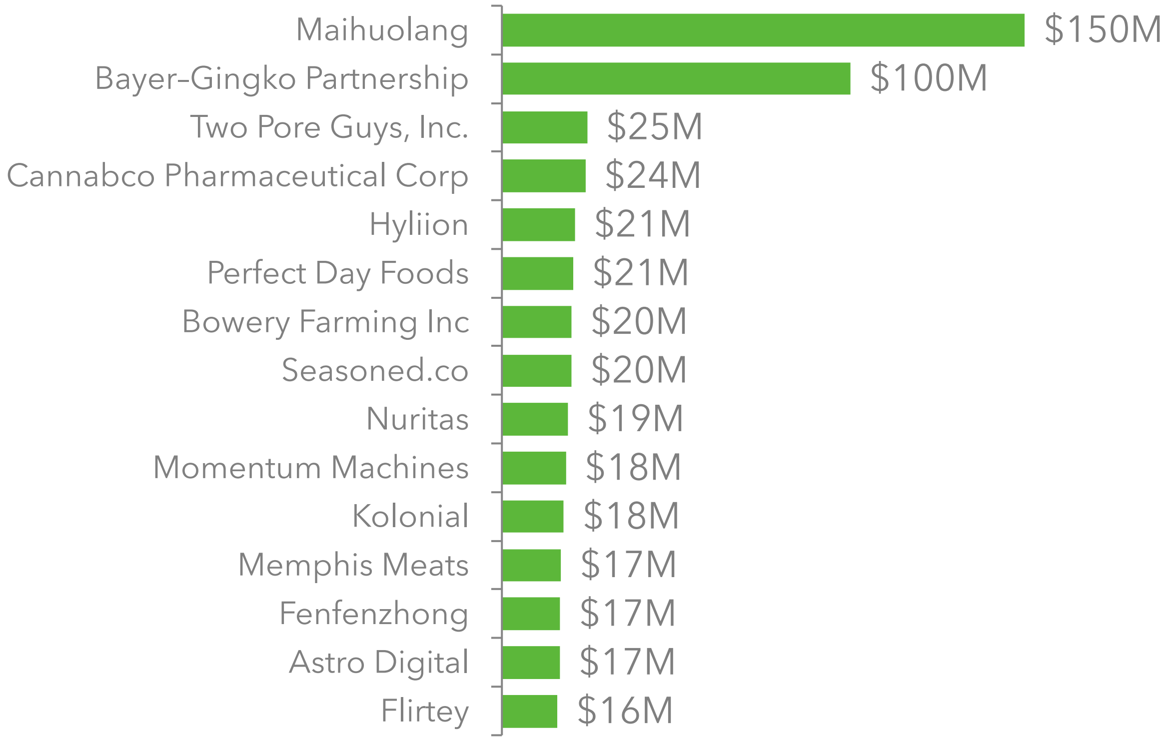
Top 15 Agrifood Tech Startups 2017 – Seed Stage



AgFunder

Top 15 Agrifood Tech Startups 2017 – Series A



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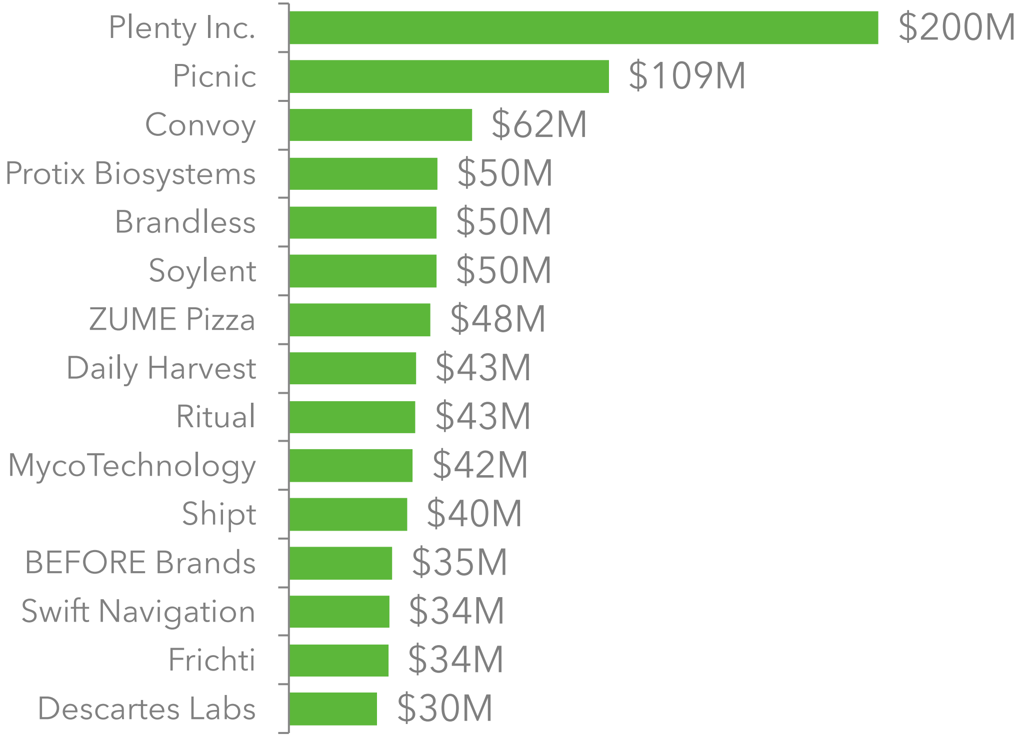
Top 15 Agrifood Tech Startups 2017- Series B



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Rule #3: Swing for the fences

10x

Returns

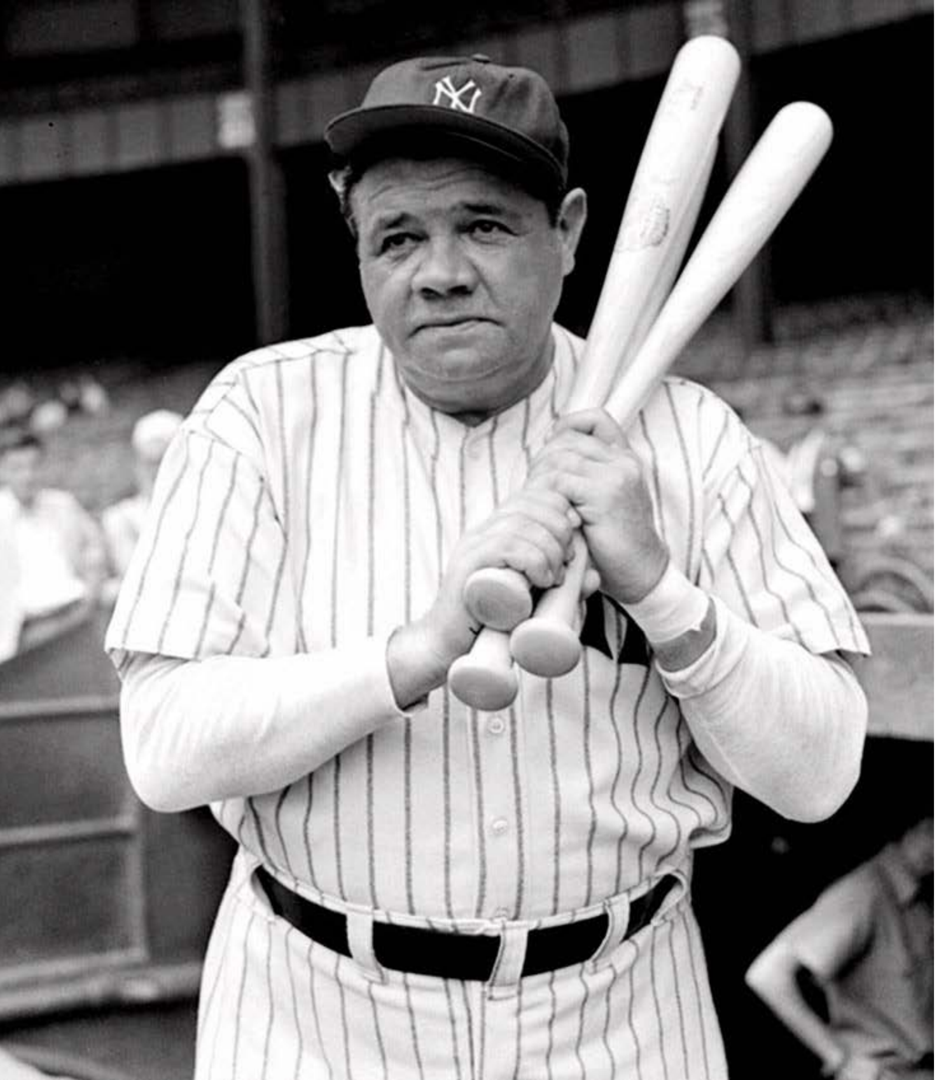
Rule #3: Swing for the fences

10x

Returns

$1B

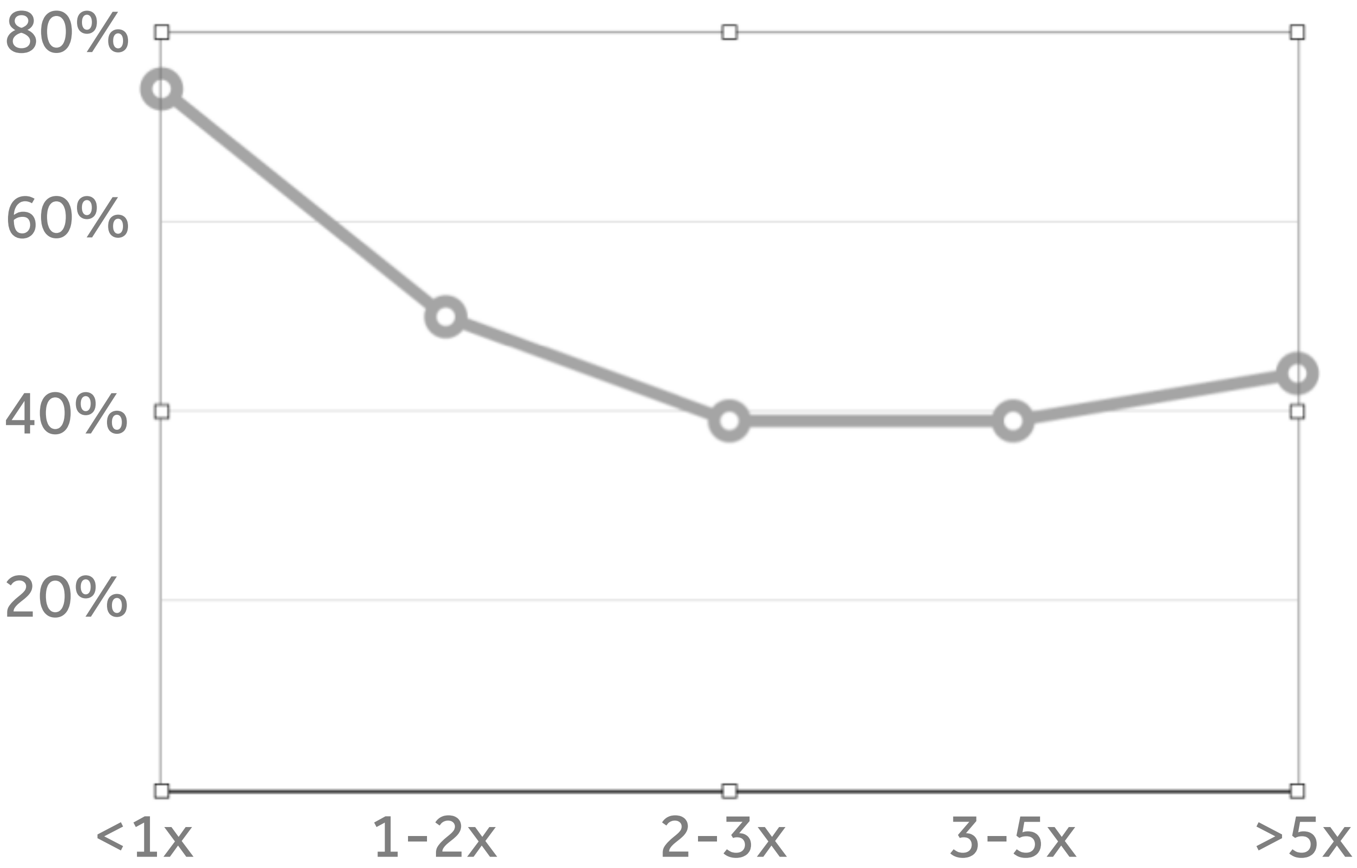
Markets



Rule #4

swing often

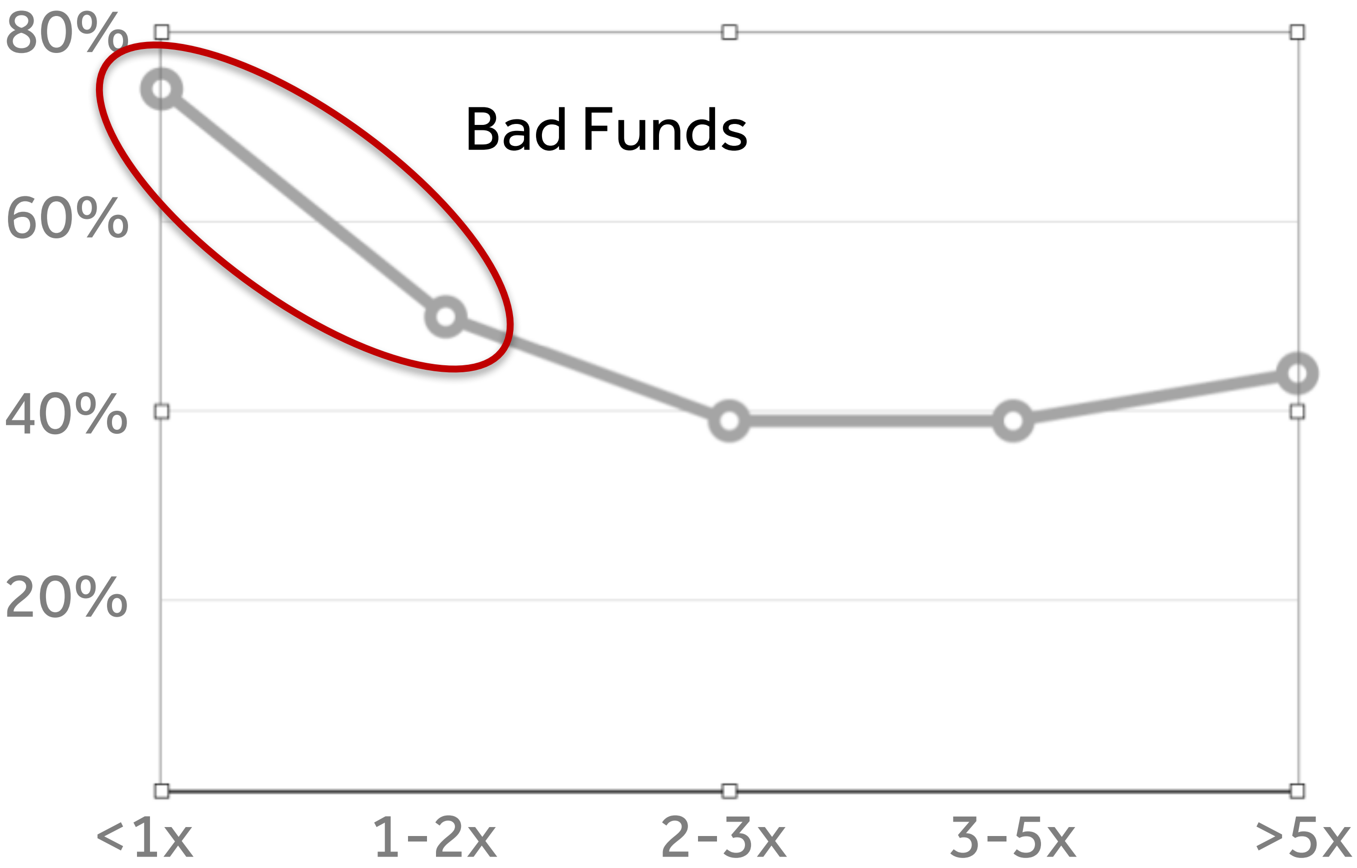
Money
Loosing
Investments



Return Multiple of the Fund

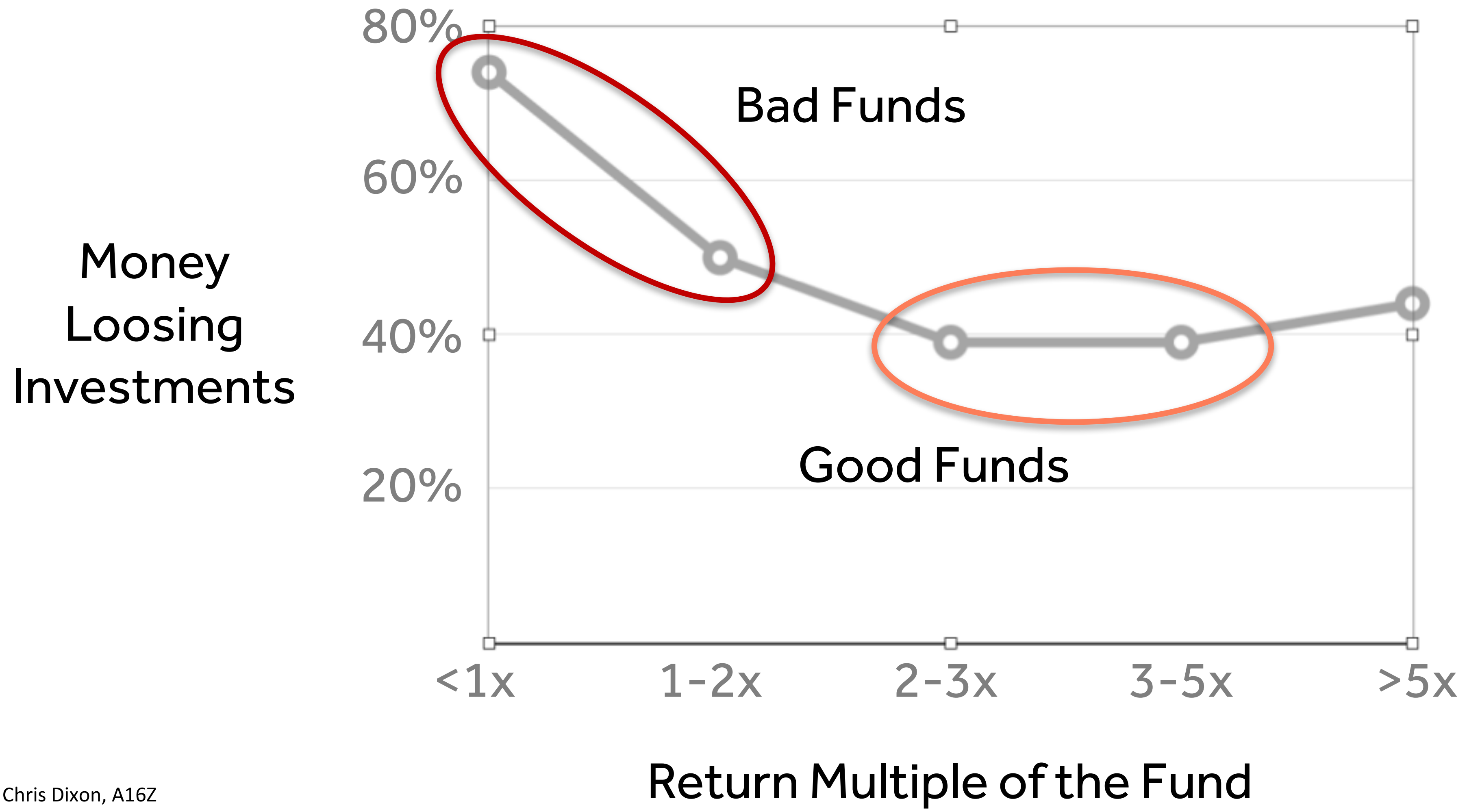
Chris Dixon, A16Z

Money
Loosing
Investments

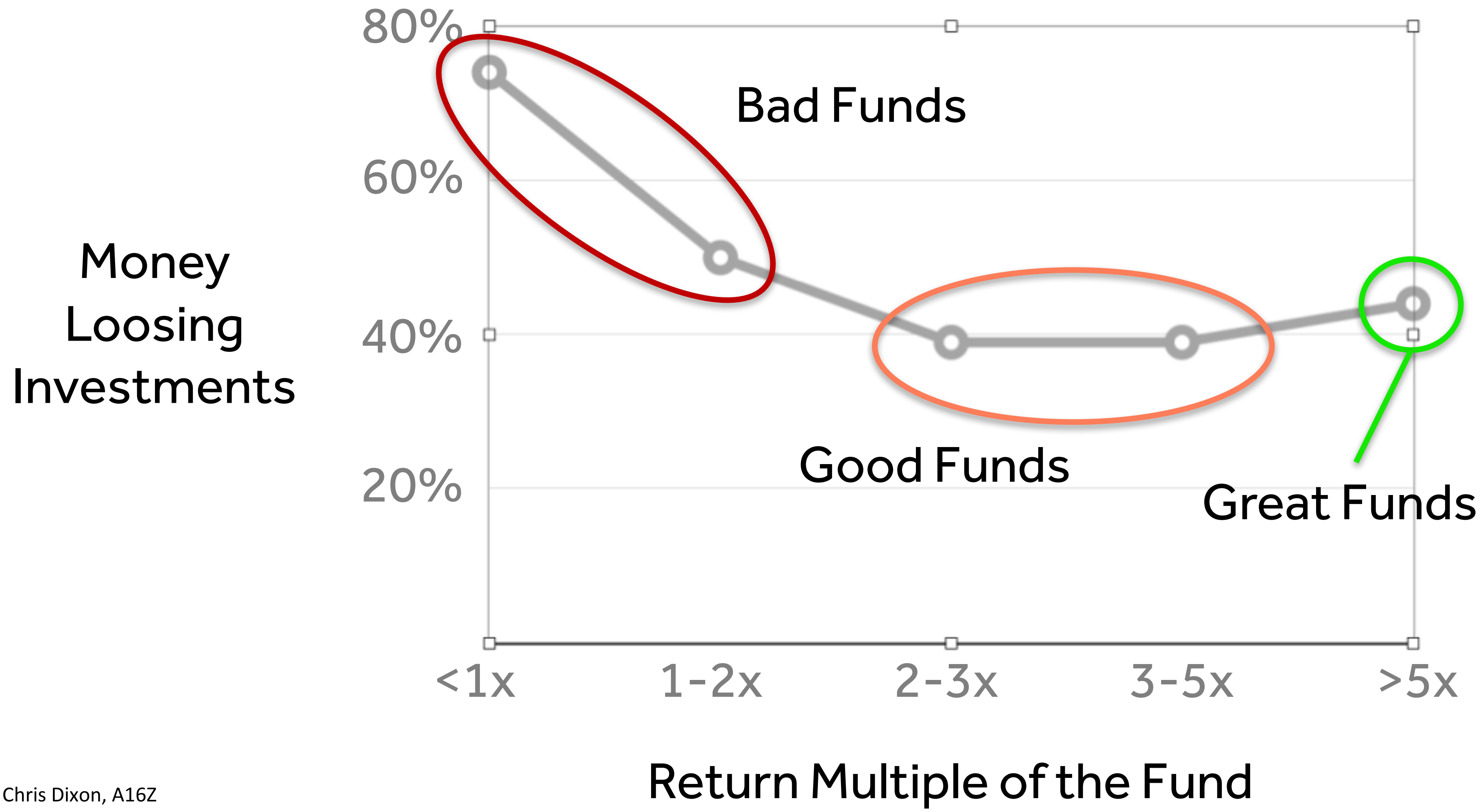


Return Multiple of the Fund

Chris Dixon, A16Z



Chris Dixon, A16Z



Chris Dixon, A16Z

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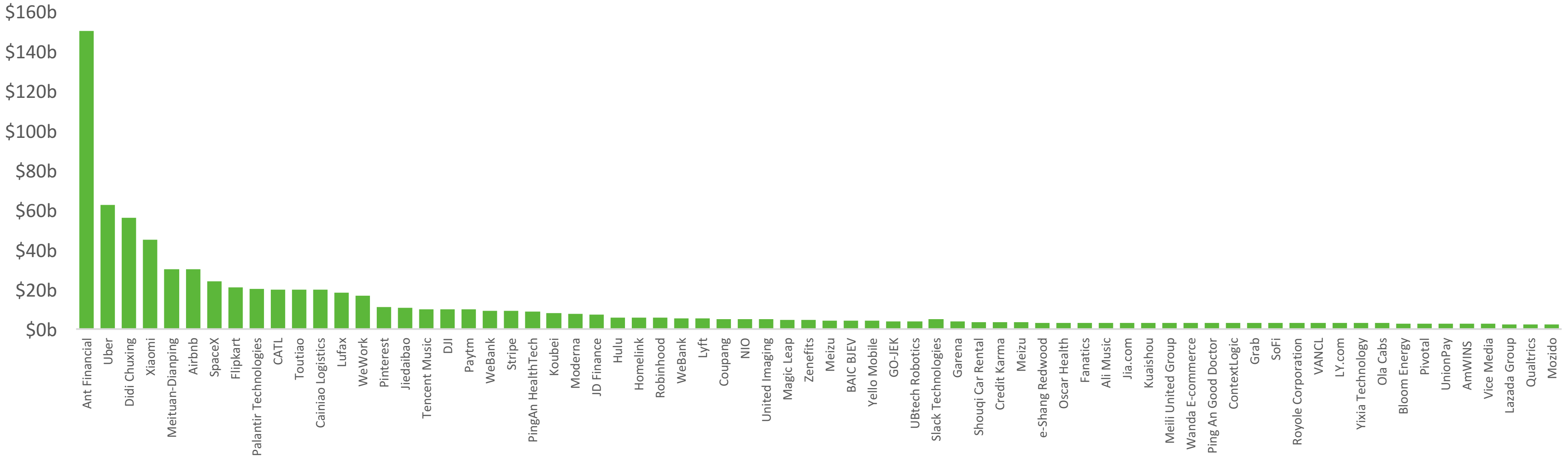
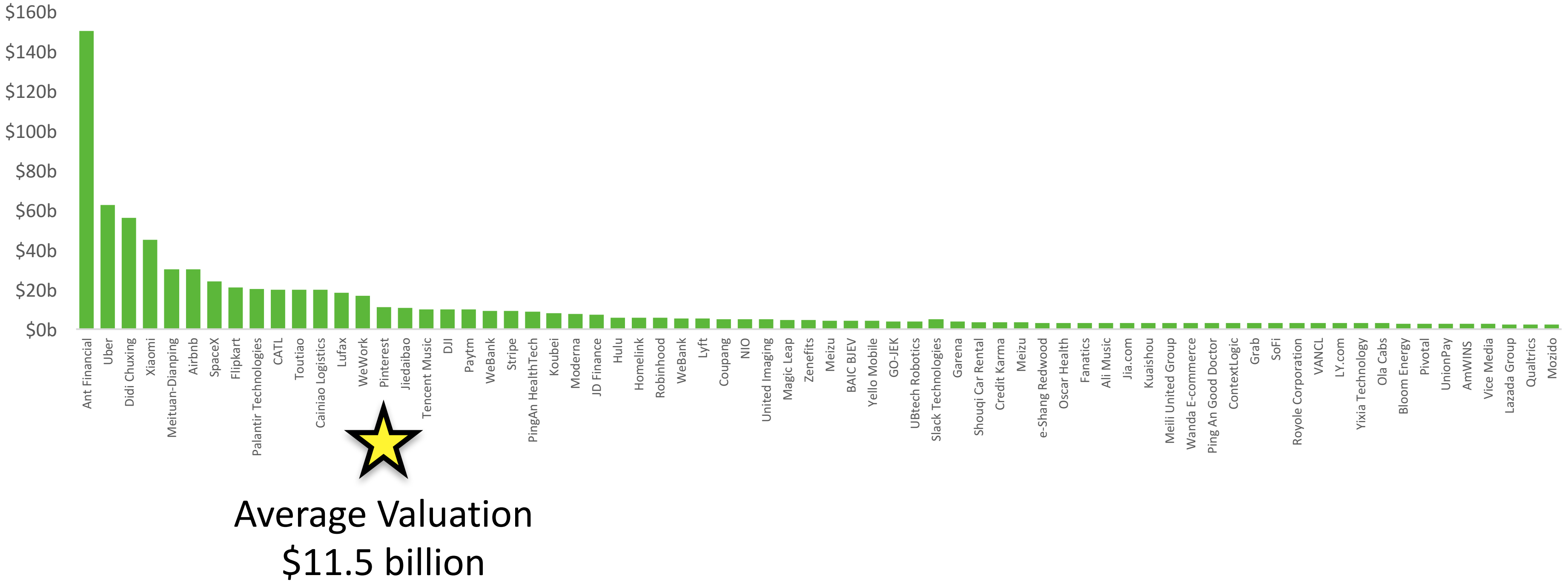


Wikipedia

Rule #4: Swing often



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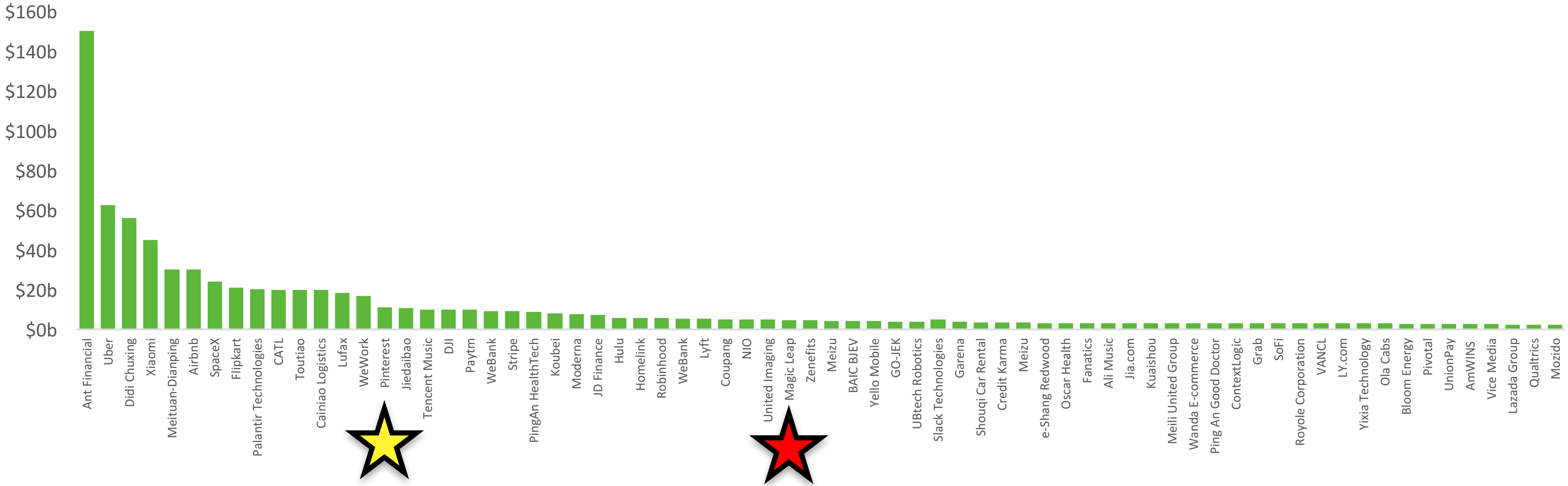
Rule #4: Swing often



Average Valuation
$11.5 billion

Median Valuation
$4.5 billion

Wikipedia

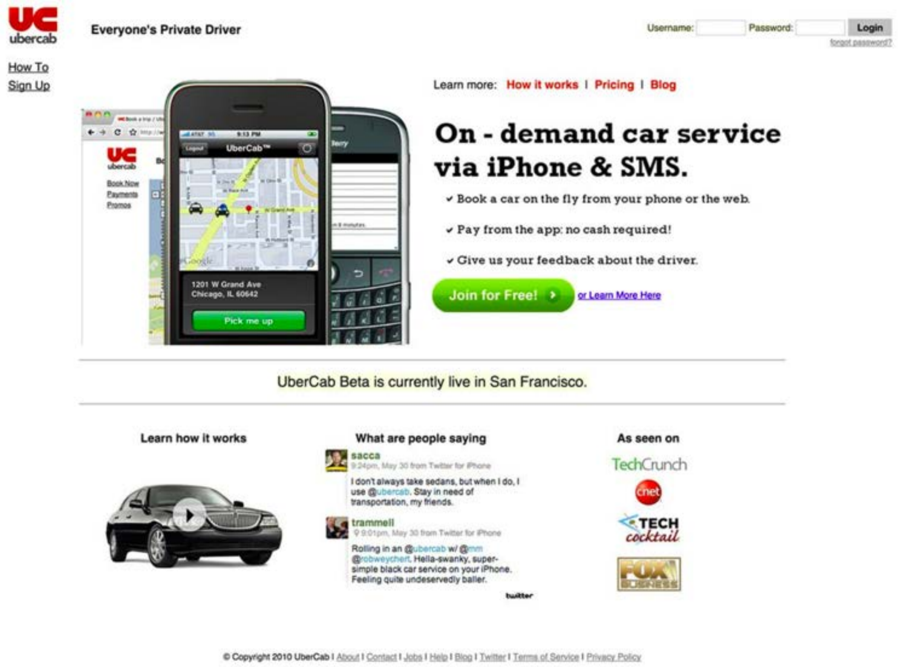
Rule #5

Understand Expected Value theory

Rule #5: Understand Expected Value theory

Uber

2010 - $4M Valuation



Rule #5: Understand Expected Value theory

$$EV = -(\text{Loosing\%} \times \text{Cost}) + (\text{Winning\%} \times \text{Reward})$$

Rule #5: Understand Expected Value theory

$$EV = -(99.9\% \times \$1M) + (0.1\% \times 5\% \times \$100B)$$

Rule #5: Understand Expected Value theory

EV = -$990k

\+ $5M

Rule #5: Understand Expected Value theory

$$EV \approx \$4M$$

Rule #6

Great startups often seemed like stupid ideas

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"Stamps? Coins? Comic books? You've GOT to be kidding ...No-brainer pass."

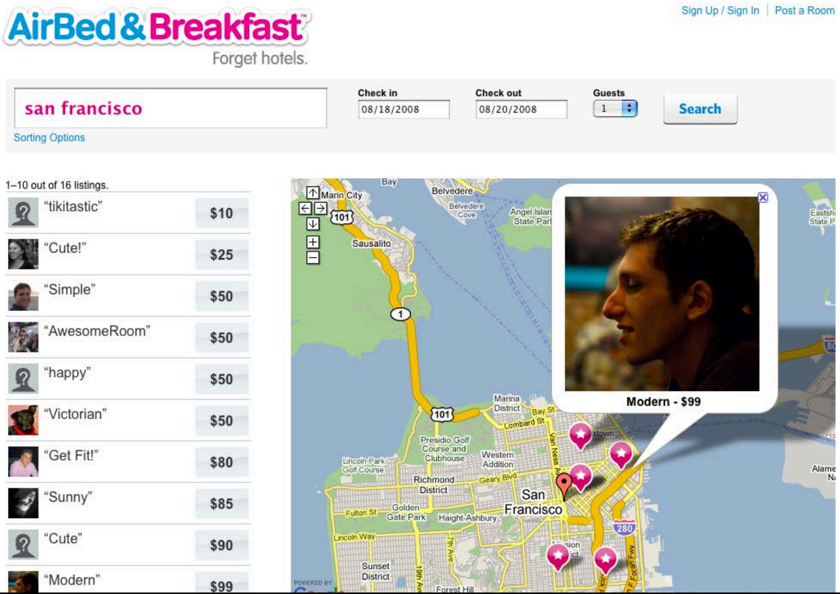
-David Cowan, Bessemer Venture Partners

Rule #6: Great startups often seemed like stupid ideas

"Rookie team, regulatory nightmare."

-David Cowan, Bessemer Venture Partners

Rule #6: Great startups often seemed like stupid ideas



"We thought Airbnb was a bad idea. We funded it because we really liked the founders. They seemed so determined and so imaginative. Focusing on them saved us from our own stupidity."

-Paul Graham, Y-Combinator

Rule #7

Invest

in the

A-Team

Rule #8

Invest in pain killers, not vitamins

Recap

1. You need great deal flow
2. Success is rare (and so you will fail)
3. Swing for the fences
4. Swing often
5. Understand Expected Value theory
6. Look for stupid ideas
7. Invest in A-Teams
8. Invest in painkillers, not vitamins


Parrot