



ALLIANCE TECHNOLOGY VENTURES

Maintaining Investment Focus

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Maintaining Focus

- ◆ Know Your Focus
- ◆ Classic Problems with Focus
- ◆ Deal Flow Management
- ◆ When to Change Focus
- ◆ Keep Your Promises

◆ Know Your Focus

- Who are your investors? What do they want?
 - Economic development (*state, region*)
 - Public relations / community links
 - Technology edge (*corporate*)
 - Capital gains (*classic financial investors*)

Know Your Focus (2)

- What did you promise them?
 - Deal stage
 - Industry sector
 - Geography
 - Potential return
 - Unique capabilities of your fund
- Define boundaries up front and stick to them.

Know Your Focus (3)

- The time to change focus is when you're raising a new fund
 - Past performance
 - Market conditions
 - Competitive environment
 - Resource mix (*retiring partners, newly-promoted associates, etc.*)
- Be careful what you ask for...

◆ Classic Problems with Focus

Losing focus:

- ◆ Bracket creep
- ◆ Overextension
- ◆ Bandwagons

Staying *too* focused:

- ◆ “Steady as she goes”
- ◆ “Band of Brothers” syndrome
- ◆ Protecting the nest

Bracket Creep

- Recent trend towards “mega-funds”
- Bigger funds make bigger investments.
 - Can skew decisions on deal stage, industry sector.
 - Harder to form syndicates.
- Make sure any shift is *intentional* and shared with your investors.

Overextension

- Additional resources (dollars and people) can lead to overextension:
 - “We can do any type of deal, at any stage, anywhere in the world!”
- Dilution of unique success factors from previous funds.
- Victims of their own success.

Bandwagons

“Everyone else is doing an Internet pet-food store... We should do one, too!”

- Venture capitalists are supposed to balance fear and greed.
- During 1998-2000, decisions got made based on envy.
- Easy to forget your focus when you're chasing the new hot sector.

“Steady as She Goes”

- “If it worked before, it will work again!”
- “That was a dumb idea then, and it’s a dumb idea now.”
- Viewing every deal through the prism of past successes (and failures).
 - Especially a problem for very successful GPs
- Building battleships in the 1930s.

"Band of Brothers"

- Successful (*and unsuccessful*) entrepreneurs want to do it again.
- Successful startups breed new entrepreneurs within the team.
- Successful funds want to re-invest in these people.
- *Challenge:* Breaking out to find new talent, fresh ideas.

Protecting the Nest

- Pride of ownership in previous deals, previous markets
- Clinging too long to old models can cause you to miss a new wave.
 - Client/server vs. Web-enabled apps vs...?
- *Challenge:* You have to be willing to finance the company that will kill one of your previous successes.

◆ Deal Flow Management

- Each individual deal can sharpen your focus... or make it fuzzier.
- Concentrate on the portfolio:
 - ◆ Filter aggressively
 - ◆ Question each investment
 - ◆ The "LP Test"
- Are you building the portfolio you want to raise money on next time?

Filter Aggressively

- You can't do every deal.
- You can't spend quality time with every deal.
- Allocate your time to the deals that fit within your focus.
 - If you know you're not going to do consumer deals, don't fill up your calendar with consumer companies.

Filter Aggressively (2)

- Leverage your business partners to perform first-level filtering:
 - Existing co-investors
 - Limited partners
 - Lawyers, bankers, accountants, etc.
- Never give up on finding the diamond in the rough!
 - ATV has invested in a cold-call deal that was e-mailed to our Web site.

Question Each Investment

- After you fall in love with a deal, test it against your fund's objectives:
 - Deal stage
 - Industry sector
 - Geography
 - Potential return
 - Unique capabilities of your fund

The “LP Test”

- If you feel uncertain about a deal, imagine that:
 - It has completely imploded, and
 - You are explaining it to your toughest, most cynical LP.
- Do you feel embarrassed? Defensive? Stupid?
- Do you really want to do this?

Sanity Checks

- Quarterly measurements:
 - Deal stage
 - Industry sector
 - Geography
 - Partner responsible
- Are you coloring in the whole map?
What should your next three deals look like?

◆ When to Change Focus

In fast-changing markets, a venture investor can't afford to wear blinders:

- ◆ Watch the competition.
- ◆ Ignore the public market.
- ◆ Listen to your portfolio.
- ◆ Get feedback from LPs.

Watch the Competition

- Other venture firms share your ecosystem:
 - How are they investing?
 - Any lessons for your fund?
- Don't imitate—but don't be stupid!
 - Maintain your fund's unique advantage(s)...
 - But don't become the Greater Fool.

Ignore the Public Market

- It's easy to get distracted— especially lately!
 - Today's trend is tomorrow's turkey.
- Try to manage your LP's expectations.
- IPO windows may open and close... but good companies can always return value.

Listen to Your Portfolio

- Your existing portfolio companies are your best connection to market conditions:
 - New technologies
 - New business models
 - New market entrants
- Listen to your CEOs, and apply their insights to your next deal.

Get Feedback from LPs

- Quarterly reports are a legal requirement... use them as a chance to over-communicate.
 - *Goal:* No surprises.
- Consult frequently with key investors (*Advisory Committee, etc.*)
- Your investors will warn you if you're losing focus!

Changes in Focus

- When conditions change, the GPs should plan a change in focus *first*, then look for deals that fit:
 - Deal stage
 - Industry sector
 - Geography
- *Trap*: Doing an opportunistic deal, then rationalizing it after the fact.

◆ Keep Your Promises

- Remember that it's not your money.
- You're going to see these LPs again during fundraising.
- Changes in focus should have been:
 - Communicated in advance.
 - Justified by subsequent events.
 - Consistent with your LP's objectives.

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