High Peaks Venture Partners

- ~$50MM fund
- Member of Village Ventures network of funds
- Located in Troy, NY (Albany area)
- Focus on early stage technology companies
- Invest $500K to $2MM in early stage tech companies
- Portfolio:
VC Realities

What Is Venture Capital?

A very small industry that gets a disproportionate amount of attention...

- VC’s purchase equity in your company
  - You sell part of your company
    - You get money
    - You get another “boss” – a Board of Directors
    - You may get a lot of help or you may get a “pain in the…”
  - The investor gets:
    - Shares of preferred stock in your company
    - Vicarious entrepreneurial thrills, either a nice financial success or a “pain in the…”
Question

- What Percentage of VC Firms Invest In Start-up or Seed-Stage Deals?
  A. 50% or greater
  B. Between 30% and 50%
  C. Between 10% and 30%
  D. 10% or less

Answer

- What Percentage of VC Firms Invest In Start-up or Seed-Stage Deals?
  A. 50% or greater
  B. Between 30% and 50%
  C. Between 10% and 30%
  D. 10% or less (actually its approx. 6%) (as a % of $ invested its approx. 3%)
Question

• Do VC’s Invest In Technology?
  A. True
  B. False

Answer

• Do VCs Invest In Technology?
  A. True
  B. False (VCs invest in technology based businesses)

The message is:
To increase the probability of an investment, you must turn the TECHNOLOGY into a PRODUCT(S) that could be a minimum $50MM+ revenue BUSINESS
Why Is This The Case?

Building a successful business from scratch is not easy...

Idea is Feasible
Technology Works
A Customer Buys

Seed Funding
Early-Stage Capital
Go-to-Market Capital
Expansion Capital

P(success) = 30%
Req'd IRR = 100%
P(success) = 40%
Req'd IRR = 70%
P(success) = 50%
Req'd IRR = 50%
P(success) = 80%
Req'd IRR = 30%

Risk (β)
Capital

Valuation

Where is the Value Created?

Most of the value is created once a company is selling a product....
So What’s the Point?

- Venture capitalists must generate **superior** returns to stay in business: at least 20-25% IRR
- But most startups fail to generate returns for their investors
- VCs do not assume that your business is the “sure thing” that you may believe it to be
- Every deal must have **realistic** 10x potential
  - Can the post-money value of a business increase tenfold within 5-7 years of investment???
  - Companies typically will need other sources of capital to advance from Tech to Commercial Product

Other Sources of Early Stage Capital

- Customers
- Government Grants
- Bank loans
- Friends & Family
- Angel Investors
- Joint Ventures
- Strategic Investments
- Venture Capital….**just one of the options**
VC Opportunities

What VC’s Look for in a Deal

• Management, Management, Management

• Large, fast growing *addressable* market

• Market validation

• Profitable, scalable business model

• Differentiated advantage in the market

• Realistic valuation expectations
What VC’s Look for in a NANOTECH Deal

- Management, Management, Management
- Large, fast growing *addressable* market
- Market validation
- Profitable, scalable business model
- Differentiated advantage in the market
- Realistic valuation expectations

Nanotech: An Historical VC Perspective

- A few early deals in the 90’s
- Second wave 5 years ago—“The Next Big Thing”
- Limited real success stories
  - Commercializing the tech often proved difficult
  - Expensive processes and materials
  - Harder to find pain points and solutions than expected
  - Not as disruptive performance as at first believed
  - At the mercy of customers and partners for end product
  - Result: not many exits and long holding periods
- Reinforced VC concerns about “materials deals”
- Some “nanohype” negative fallout…
Nanotech: Current VC Perspective

- Nanotech is not an investment category
- How is the nanotechnology applied to a customer need?
- Do you have a truly disruptive application?
- Invest in a COMPANY that itself will bring an END PRODUCT to market, not just an enabling technology
  - Moves up the value chain
  - Control your own destiny
  - Higher risk, higher potential return
  - Requires more capital
- Cleantech is the new hot space right now
  - Some VC’s going earlier and more aggressively in this segment
  - From nowhere 5 years ago to #3 investment sector
  - Will need exits to sustain beyond 3-5 year wave

What You Can Do

- Access other sources of funding to advance the technology towards commercialization and real customers
- Focus on 1 or 2 application areas
- Cleantech is where the most money is right now
- Really think through your technology and where it fits in the value chain
- Build credibility with a scientific advisory board and a regular board of directors
- Identify the minority of firms that will consider early stage, Nano deals and contact them—stay in touch
- Try to be patient