QuickLaunch University Webinar Series Transcript
Venture Capital Year-in-Review and 2018 Outlook

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Presented by WilmerHale Emerging Company Practice Co-Chair and Partner Dave Gammell, Spark Capital Partner Alex Finkelstein, NEA Partner Vanessa Larco, and Pillar Partner Russ Wilcox

Dave: Hello, everyone, and welcome to today's QuickLaunch University Webinar. This is Dave Gammell. I'm a partner at WilmerHale, and the co-chair of the firm's Emerging Company Practice. Over the last year, we've explored many different legal issues faced by entrepreneurs and early-stage companies as they begin to build their businesses. If you are interested in listening to our previous sessions, links to the recordings are posted on our website.

We've invited a panel of leading venture capital investors to share their insights on the current market and investment trends for 2018. I'll quickly introduce our speakers before we begin. Again, I encourage you to submit questions because we'd like this to be as interactive as possible.

I'm joined today by Alex Finkelstein, Vanessa Larco, and Russ Wilcox. Their photos are on the screen. I'll introduce them quickly so we can dive right into the discussion.

Alex is a general partner at Spark Capital based on the East Coast. He's been with the firm since its inception in 2005 and has invested in many successful companies. He's an investor in a few companies that I work with in Della and Flywire. Notably, Alex has led Spark's investment in 5Min Video acquired by AOL and Wayfair, which completed an IPO. Welcome, Alex.

Based in Silicon Valley, Vanessa Larco is a partner at NEA. She joined the firm in 2016 and focuses on enterprise and consumer investing. She also has experience as an entrepreneur. In addition to founding a gaming company in 2012, she worked as the Director of Project Management for Web and Mobile Apps at Box. Welcome, Vanessa.

And Russ Wilcox is a partner at Pillar, a venture capital firm focused on early-stage company formation located in Boston. Russ comes to venture after a career as a serial entrepreneur. He is in Ernst & Young New England Entrepreneur of the Year, a Mass High Tech All-Star and a prior entrepreneur in residence at the Harvard Business School. Thanks for joining us today, Russ.

With that, let's get started. We will quickly look at 2017 as a Year-in-Review, and then we're going to jump right into the 2018 outlook.

When we look at 2018, we will start with funds. Generally, fundraising declined slightly, but LP interest continued to be robust. It was the fourth straight year of $30+ billion being invested in venture funds.

When we look at the amount invested by those venture funds, the total investment increased, but the number of deals decreased. You'll see in the next slide that is consistent with a kind of flattening of the amount of early-stage deals after highs in 2013 through 2015 and a pickup in late-stage investment. Particularly interesting, and we'll talk about its impact on the venture industry, generally, midyear last year, SoftBank's Vision Fund came in and started making investments. This makes for an interesting data point. And shifts from early-stage to kind of an increase in later stage dollars is a trend that we'll be asking our panelists whether they think will continue.

We also saw certain hot sectors. And in 2017, artificial intelligence was all the rage depending on how you group artificial intelligence investments together, over $5 billion invested. Cybersecurity continued to be a hot area with a 40% increase to over $3.6 billion invested. FinTech, as a broad category, continued to see increasing investment with $6.5 billion invested. And genomics funding grew by 142% to $2.5 billion.

At the same time, exit activity declined, which is a really interesting factor and something that we'll talk to our panelists about. There were a few high-profile IPOs, but many of those did not perform as well as people expected. I think this decrease in activity is a symptom of kind of an increase in the access to late-stage capital by private companies, but I'm interested in getting our panelists' perspective on that. The other interesting trend last year was a continued increase in the amount of corporate venture. That grew to over $37.4 billion, and the number of deals increased substantially.

So, that's last year. I'd love to get our panelists' perspective on how the year finished up, the things that they focused on to give the audience some grounding, where their focus was, and how they see the market. And then we can move on to the outlook for next year. Russ, do you want to start, since you're the early-stage investor? What did you focus on last year, and what are things of interest that are going to carry you in the next year?

Russ: We had a very fast-paced deployment into new companies last year. We did about a dozen deals. The three areas of interest for us were, of course, AIML (artificial intelligence/machine learning), which, has increasingly become less the category and more of just a skill everybody needs to provide. Secondly, health, which for us is, because we're in Boston, just prolific. There's so many innovations occurring. Some of that in digital health, and some of that in synthetic biology. Thirdly, blockchain is a big focus for our fund. We saw those three areas being hot and lots of activity, and it continues that way going into 2018.

Dave: Vanessa, what did you spend your year doing?

Vanessa: Last year was interesting. NEA as a whole had some good IPOs. The IPO market was pretty favorable to the start-ups that we're getting some exits. We were pleased to see that. On a personal note, I was really excited and encouraged to see some new consumer early-stage companies coming out. Consumer services, a lot of new e-commerce companies, new brand launching, brands getting a lot of traction. I think everyone's really focused on figuring out how millennials are going to shop, someone who's going to shop for small items, like household goods. We made investments which we're really excited about, all the way to big purchases like homes. We were part of an investment in Opendoor.

I think it's been really fun to focus on how millennials will be shopping from small items to big items. In the enterprise, it's been really interesting to understand both IoT and where that's going, and what that will look like when it does start getting better traction. I think there's a lot of promise in AI. But we all started off with this idea of AI platforms, and now we're starting to see more vertical applications of AI which reminds me a lot of how we thought about the cloud when it came out?

So, I see us thinking more about verticalized, in the enterprise, verticalized solutions. And on the consumer side, services for millennials that reflect their shopping preferences.

Dave: Thanks, Vanessa. Alex, how did you spend your year? And how did Spark spend its year?

Alex: I mean, if we look at the data, we try not to turn the market. We've been around for 13 years, and I think we pretty consistently invest kind of on a similar basis year-to-year. We don't put any artificial pressure on ourselves. I think we invested in a number of different categories, from FinTech, a number of different flavors of Fintech, consumer marketplaces, consumerization of the enterprise.

We've also done a number of what we call frontier technology investments. A number of years ago, we backed Cruise, which GM acquired, which seemed a little crazy at the time in the self-driving car space. But recently we've invested in a micro-satellite company, a next-generation food creation company. So, I think we're doing a lot of what we have historically done, but a number of things that are also pushing the envelope, if you will.

Dave: Excellent. Thanks, Alex. So now we can get into predictions about 2018. I think I'm curious as to what you think about the pace of fundraising for venture funds generally because they continue to have large pots of money to invest, but with public markets going up, as an asset class, it seems like there's still a lot of interest there. And I'd be interested in your thoughts about the fundraising atmosphere for 2018. Vanessa, do you have any particular thoughts there?

Vanessa: For a venture firm who's raising funds, I think, everyone was off to the races in the last few years. I think we'll start seeing more discipline from venture firms in making the funds last a little longer, which will, in turn, probably pace out the investments that get made every year. I would start probably seeing it slow down a bit. I don't think anyone's going to slam on the brakes.

We spend a ton and then we pull back, and then we spend a ton and then we pull back. I think everyone I've talked to wants to just be more disciplined and have a more predictable cadence. But I don't think that that will really be noticeable for start-ups raising money. I think if you have a good business plan, a good team, and some good ideas, you shouldn't have any trouble fundraising in the next year.

Alex: I think there's going to be a lot of money in the market. I mean, as I talked to our LPs, there’s going to be a lot of major VC funds in 2018 in the market raising their funds. I think my guess would be '18 will be bigger than '17 in terms of funds raised from a lot of the major VCs. And then you're seeing a lot of $50 to $150 million-dollar funds getting raised very quickly. I think you’ll see a lot of money in the market, and then a lot of later stage funds getting raised with relative ease as well.

Dave: It's interesting, Alex, because I think that Spark in particular has a growth fund and has increased the size of both of its funds as it continues to raise. I would imagine that you guys, with companies staying private longer, see a lot of opportunities for your growth stage funds going forward.

Alex: I think it's an opportunity. We're investing in a $40 million early-stage fund and a $600 million growth fund. But I think what we've seen over the last few years, there's a lot of firms that have done something similar, where they have a quarterly stage fund and then a later stage fund. I've been doing it for a while, but it's a kind of red point, DFJ, CRV… the list is long.

It’s not just the SoftBank Vision Fund, which is up to you playing a different game, but you're just seeing more and more late-stage dollars and you have the more historical players in that space, in the growth space like IVP and Meritech. So, you're seeing just a lot more capital. It's not just SoftBank, which is planning a mega level, but you're seeing a lot of historical funds raising separate growth funds.

You're having some of those growth funds that are saying, "We're just going to invest in our breakout companies within the venture portfolio." You're having other funds saying, "We're not going to invest at all in our venture portfolio." So, there's no signaling. And you have some that are doing a combination of the two. But, overall, I think it's a lot of money in the market, which should be very good for early-stage companies that are breaking out because I think they can really get into some competitive situations where a lot of VCs want to invest. And I think it's going to be good for those early-stage entrepreneurs. So, it's an interesting dynamic.

Dave: And Russ, you kind of play on the opposite end of the growth spectrum. You are at company formation stage. How has fundraising been there? How do you see the fundraising aspect for an outlook for funds like yours?

Russ: I totally agree with what Vanessa and Alex are saying about the larger context and the way it plays out. The early-stages are kind of choppy and complicated. The big theme is that the world is awash in capital. The central banks have all got low interest rates. The business environment seems fairly stable and kind of trending up, profits are up. We've globalized and the world has gotten wealthier. We have so much capital. And what's happening is the big later stage guys seeking better valuations kind of move upstream to middle. The middle guys move upstream too early. And then the early guys move upstream. And there's so much capital.

And then two factors make that complicated for the entrepreneur at the beginning. One is that means there's a lot more things getting funded or that potentially could be funded, so it's very competitive. And that means you want to actually raise more money so you stand out. And then the flip side is VCs tend to like to own a certain percent. Some like to own 20%, some like to own 10%, and they really haven't given up on those ownership targets. So, when you have more money and the same targets, it means that valuations are up. It means that you can get your deal funded really easily if it is a high potential deal that could support all this capital.

Conversely, it may mean that if you're going after a small business that doesn't have legs to be $100-million dollar and up exit, if it can be a $20-million exit, you may no longer find VC to be a suitable or even micro VCs to be a suitable answer for you, because everybody's looking for that big, big multi-billion-dollar Cruise, or these other IPOs you guys have been having over at NEA and Spark.

I would say that you're seeing at the early-stage this competitive, heterogeneous environment where people start to look at alternatives to venture capital. And they largely confine them because early-stage only needs a couple million dollars. A lot of options there.

Dave: What are some of those are alternatives that you're saying, Russ?

Russ: Everybody's moving upstream. So, in addition to the VCs, there’s sort of two flavors, these major VCS, like NEA and Spark, a lot of capital. Then there's a ton of micro VC funds at 50 to 100. But you increasingly have family offices that are looking and training themselves to do direct deals. You have corporate VC. You have corporations just flat-out buying people, $5 million, $10 million, just buy them quickly. You have Kickstarter. And, of course, you know, notoriously, you have ICOs and blockchain.

You have so many options now to raise a couple million dollars that it's hard for early-stage people to compete by providing capital. They can be providing expertise, wisdom, and big counsel. These are what's valuable at the early stage. And going back to someone's original comment, you should be able to get money for a good idea now. It's a question of getting the right fit and the right match to your business opportunity.

Dave: And for Vanessa or Alex, once the company is funded and you guys are looking at these companies, I know, historically, over time, we've said, "Well, it was really hard to raise a B." And then there became a time where it was easy to raise a C but hard to raise an A. Are you seeing all this capital percolate too many ideas up that then become unfundable after they've been tested? And how do you guys think about placing bets and then following on? And I imagine that the answer will be to only bet on companies that you think will be great, and so you're going to be great follow-on investors.

But, if you talk about the industry more generally and how money is getting allocated really early and then followed up on, that would be helpful to the audience.

Vanessa: I hear from some founders that raising a seed is actually really hard these days, and raising an A is so hard. And I think each round is hard but for very different reasons. For the seed round, you have all these micro VCs and all these seed funds, but they're all looking for a very specific thing. For a lot of founders, there's just a lot of noise. They can spend a lot of time pitching to the wrong seed funds, and then it can feel very very hard and daunting.

In the A, there's a lot less noise, or there's fewer, but it's still very competitive. Y have a lot of firms that typically won't invest in seed rounds, doing seed just to get a foot in the door for the As. And then when it comes to the B round, I've been a part of several teams doing diligence on Series Bs and Cs, and they're still very competitive for the firms just to try to win over. The good ones that have metrics, that show growth, that show product market fit, that show increasingly improving margins -- everyone just fights over those. If at each round the metrics that you need to hit could be really compelling for that round in the amount that you're looking for, then it gets a lot easier.

I think as you go up and around, if your numbers aren't quite there, or you need a bit of a bridge, you're not quite up to B, or you're not quite up to C, but somewhere in between, that's where it gets hard. A lot of VC firms just want to bet on the ones that they know are going to be outstanding blowout winners. You want to make sure that when you raise a round, you have enough to get you to the next round and not fall short. I've been encouraging our companies to raise a little more than they typically would just to make sure that they're not in a position where they're just eight months short of where they need to be to actually have a competitive round.

Alex: One thing I would add: I think the size of these rounds have gotten huge. The A round, which used to be 5 to 8 is now 10 to 12. And the B round which used to be 15 has become 20 of the 25. We're seeing that kind of all day.

Dave: Great. Thank you very much. It'd be great if you would each tell me what things are particularly interesting to you and your funds for this upcoming year and what you think will be hot sectors more broadly for venture capital investing. And, Russ, maybe you want to start us off because everybody does some early-stage investing. You guys are particularly focused on company formation.

Russ: That's right. Well, I explained the three sectors that we're looking at: AI, digital health, and what we call decentralized labs. So that's sort of a mix for us of blockchain and IoT. And we really see a lot of fields in each of those areas that we're active on. So, I don't see that switching in the short-term. I liked very much Vanessa's comment that AI has moved from platform to vertical applications. And I think blockchain is still back at the platform stage, although we're always interested to see the vertical applications.

And then on digital health, it's really application of AI to all the massive amounts of health data. The opportunities are huge. The barriers are also huge. So, a lot of shots on that are possible there. All these things are interesting to us and we see a lot.

Dave: When you think about blockchain, are you looking at more public application of blockchain or private application of blockchain? And how do you think about that and interacting with larger FinTech? A lot of the banks are investing in blockchain these days and are doing a lot of their own investment. We represent a lot of the banks and investing in companies that I would never have thought they would have been interested in spending their time and energy on investments of that size, but they're very active these days.

Russ: We're fascinated by it because after Sarbanes-Oxley, IPO market started to wither. You can do a mini-IPO 12 months into the venture, which is crazy. Well, it's happening to the tune of billions of dollars coming in. And, famously, more money went into ICOs last year than all of early-stage venture combined, $3 to $4 billion from ICOs.

It changes the venture model dramatically, because you might still take a seed investment to get yourself off the ground, but then there's no B, or C, or D, or E because you're public. We have a portfolio company. You know, very quickly, their coin was worth $200 million. And when they need more money, they just sell some coins. I mean, it's crazy. There's never been anything other than the seed. So that has our full attention. We're working to figure out new models and new structures.

And the question is how will that be sustainable or is it "flash in the pan before the SEC clamps down?" Nobody knows the answer to that. But we would like to pay close attention.

Dave: Great. Alex, where is Spark spending at the time?

Alex: I think the areas I mentioned briefly earlier: marketplaces, Fintech, Frontier Tech, consumer, at the end of day we're really looking for that special entrepreneur. We're looking at all these spaces, but it's really that...especially out of our early-stage fund, that entrepreneur that somehow launched something that couldn't be earlier, maybe the one or two person-company. And, you meet that individual and it's just a special person. That is really what we're looking for.

We're looking at all the spaces that I think a lot of firms are looking at, probably a little bit more in Frontier Tech. There may be some others. But we're really looking for that special entrepreneur at the end of the day.

Dave: And Vanessa, I know you gave us some flavor, but anything else you want to add there?

Vanessa: I think a lot of the themes are starting to carryover. We are spending a lot of time also looking at blockchain and everything in the stack, so all the way to cryptocurrencies, security of cryptocurrencies, and blockchain. We're looking at every corner of it. Personally, I've been digging into ICOs and trying to find, you know, what advice you can give our companies that would consider an ICO.

I think the craziness that we saw last year will not hold over this year. We've already started to see some maturity in the ICO process. So, you know, a lot of founders that really want to build long-term businesses are being a lot more careful about their ICO and who they let in. We're seeing people go the route of a private ICO where they have an ICO but it's only open to investors that they know who they are, and they don't want to take on the risk of having a bunch of investors they don't know, and then the SEC starts coming down. They don't want to be in a bad position, you know.

I'm very encouraged by that. I think there was a lot of fraud that went on last year. I'm glad to see some maturity coming to that process. I think you'll hear a lot more about blockchain. I hope to see the performance of blockchain improve. I think it's still too slow for a lot of the use cases that people are excited about. I think cryptocurrency is going to continue to be very volatile. But I still think it'll be part of the conversation come this time next year.

Dave: It's interesting the SEC has dipped their toe into the water with a very chilling effect. And we are seeing a lot of our clients certainly taking a more rigorous approach to thinking about ICOs and steering clear of retail investors, and really adding a lot more structure to their ICOs. It's an interesting space for sure.

Alex: I also think it's not just the SEC. For a lot of companies that raise ICOs, it was kind of their last resort and the only way they could raise money. I think there'll be some good companies that did ICOs, but I think of the healthy number of companies that it was kind of the only way they can raise capital. So, I think over the next six to eight months, you'll see decent amount of carnage in that space as well.

Dave: And many of the companies that did ICOs had no product whatsoever other than an idea for a product. So now that they actually have to deliver on some product and make the tokens useful for something other than trading on that exchange, it might be an interesting time for sure. What are some of the sectors that you think people are moving away from? I mean, ICOs and cryptocurrencies will continue to be very interesting marketplaces. But what are things like SaaS (Software-as-a-Services) and what are SaaS values doing? What are current multipliers?

SaaS is, you know, one of those words or phrases that you heard in everyday vernacular, that was the hottest thing going. And as some of these other areas have become more the flavor of the day, you don't hear as much about SaaS. Is SaaS an area that you are still actively looking at? I know it's a very broad category and not well-defined so it's kind of a misnomer to even ask about it as a category. But is that an area you're still interested in, or are there other areas that you think maybe lost a little bit of their luster or there are still opportunities there?

Russ: Well, for us, I echo what Alex said, and I'm sure Vanessa would agree. It's the entrepreneur first. Entrepreneur trumps sector, and a great entrepreneur in any sector is someone we want to talk to and back. And I'm not a SaaS expert. You know, what I'd say about it is it's a more accepted business model now than it was a couple of years ago. People are more familiar and comfortable with the amount of capital you need to invest in order to build up a business to break even. But on the other hand, it's also kind of been picked over quite a bit. The investments we're doing that are in marketing technology for example, there's 70.

Even cybersecurity, you know, there's a ton. There's a lot of noise out there. You better have a great proposition, a really talented team that knows how to execute, knows how to compete, and that they will raise a lot of capital. So, I would not say no. Of course, we will look at those things for good entrepreneurs. For example, the Frontier Tech areas that I've mentioned, those are interesting because they're completely new under the sun. So that seems to be capturing a little more of our interest at the moment, but we'd always talk to a great entrepreneur.

Vanessa: I would say... SaaS is still our bread and butter. NEA has done really well with SaaS. We know exactly what we're looking for. Obviously, it starts with team. And then we want to make sure that they are in a space that it still has a lot of green field left. And then we have a ton of metrics that we can benchmark companies against. There’s no such thing as a safe bet in venture, but I would say that we're really well-informed on what SaaS companies were successful and break out.

But I would say there’s a category leader in the majority of industries. If you're in SaaS, you want to make sure that you're going after an industry that there's no winner there yet. Or if there is a winner, it was a winner of many many many years ago and it's ripe for disruption. But SaaS is still very interesting. So, it may not be the hottest thing right now because everyone's talking about blockchain and crypto and AI, but if you have a good business and have a great team, there are plenty of investors who are very interested in funding SaaS companies.

Alex: I agree. I think there are a lot of verticals that haven't been updated in 10, 15, 20 years that may seem backwater, not that huge, but the more you dig in, they're really, really interesting. I think you're seeing a number of vertical SaaS companies. It's already happened obviously over the last five years, but I could see another five years of meaningfully-sized vertical SaaS companies being built in areas that maybe at first, don't look that sexy, but the more you dig in, they're really really interesting. And I think there's just going to be a number of other more broad SaaS companies.

I definitely don't think it's a space that's done by any stretch.

Dave: Are there spaces that were hot, but that are not as interesting these days that you're willing to name?

Alex: I think it's what Russ was saying. If you look at AdTech five to seven years ago, everyone saw those maps, and you're like, "Oh my God. There's a million companies. I don't know..." It's hard to tell who's doing what. I think that happened three years ago when the blending space, whether it was hundreds of companies doing different flavors of the same thing. I think as an investor, you have to be careful. What is the next one going to be that looks like that where there's 100, 200 companies that are all kind of overlapping and doing something similar and it's tough to really differentiate?

I think we'll find ourselves in that again and again. Crypto will probably be a version of that. As an investor, you need to get out early from an exit standpoint, but I think it happens over and over again.

Dave: Great. I'm really interested in geography as well. I know that to build early-stage companies, it takes a lot of interaction. And part of the value that each of you is selling is your expertise and your ability to guide companies when there are lots of different places for good entrepreneurs and good companies to get capital. Have you guys thought about geographies other than your typical Silicon Valley, New York, and Boston? Are you looking outside those?

I know there's lots of pressure in those markets on workforce, on finding talent. You've got big tech companies hiring people for obscene amounts of money. How do you look at geography?

Alex: We have offices in Boston, New York, San Francisco. We're focused on all those core areas. In a few hours I'm jumping on a plane to Barcelona. I just closed my third deal in Barcelona. I have three deals in Berlin, and one deal that Dave and I work on together, which is in Africa. I think you're finding a lot of really interesting young entrepreneurs that are kind of product-focused, customer-first-focused, and a lot of interesting areas geographically.

Obviously, Silicon Valley is the hub and I don't see that necessarily going away in the near term. But I think you can build these companies anywhere. For a company of mine in Berlin, I just interviewed someone that is 35 years old, and has a great track record with the most interesting companies in Silicon Valley. And he went through with Europe for five years with his family. I'm seeing more and more of that where people move somewhere for 5 to 10 years as a family experience, and they're finding really good, very fast-growing global companies in other parts of the world. I think there's a lot of opportunity in a lot of different places.

Vanessa: We have offices in New York, and DC, and San Francisco. And we're doing deals all around the world. I'm spending a lot of time in the Southeast. I think there's a ton of great engineering talent. The quality of living is great down there, and so a lot of folks don't want to move here. I think you'll see great companies being founded everywhere. It's not just the Bay Area. And I think as there are more successful software companies, folks from the Bay Area and from New York are moving back to their hometowns or their home states to be closer to family. And they'll bring all that knowledge that they learn from these places over there. I don't think that the coasts will have a monopoly on innovation or successful start-ups.

Dave: Great. That's good to hear that we're spreading opportunity around the country a little bit more, being a boy that grew up in the Midwest. I'd like to address a few of the audience's questions, and I want to also move into some of the other themes that we think are going to be interesting in 2018. We've talked a little bit about initial coin offerings (ICOs) and cryptocurrency. One of the questions we have from our audience is around the impact of the tax law changes. It seems to me that corporations, as a result of the tax law changes, are likely to have more dollars to invest here, more dollars to acquire here.

And one of the questions we have from our audience is, how is corporate VC changing, if at all, the way that you think about investment? How do you view partnering with corporate VCs, and how did that change the dynamic with the company? And does it impact the dollars that you're investing?

Russ: We do see a lot of corporate VC activity, and, again, sort of moving upstream to the point where you'll see a multi-billion-dollar company offering to be part of seed investing with a 500K check. It's impossible to think it would actually move the needle for them. And in the back of their minds it's an acquisition or just learning about a space. I think that this is an area where an entrepreneur can do a lot of good but also a lot of harm. Because once you've attached a corporate VC into the DNA of your company, you pick up a lot of their competitors as your enemies. You pick up a lot of their processes as sort of entanglements.

And the benefit you can get out of a large corporate partner is it's really tough to acquire when you're a small company because you just don't have the people to keep pushing on and working with, and partnering with these large companies. There's a mismatch. I generally prefer to see people stay away from the corporate deals certainly at the seed stage, ideally even at the A stage, so that's a little easier, and just wait to see how your company evolves a little bit before you lock in these partnerships that might last 5 or 10 years. I think even though there's a willing audience now, it's better to put it off if you can.

Dave: Vanessa, do you have views on this?

Vanessa: I think it's really valuable for the right time in the right phase of the company. So, I think, too early, and you're picking a fight that you don't need. But much later on, it can be really valuable to have them in the syndicate as you're trying to raise more money or make these rounds bigger, that they last longer. We've had really great relationships with a lot of these corporate VCs, and we'll pull them in when it makes sense. But we've also advised some of our start-ups that now is not the best time to take this on.

And to be honest, I haven't seen the acquisition part pan out the way I expected. But, again, this is my small sample size. Just because you do have a corporate VC does not mean that they're going to acquire you. For a lot of founders, they see that as a potential back-up plan or a safety net, and that I would just not even consider that a possibility. If you have them in there, it's because they have strategic value. They can introduce you to customers. They can give you insight into the market. They can facilitate certain things. But having them in just as a pure safety net is not worth it in my opinion.

Alex: We use a rule of thumb. Don't really like that. At the same time, Microsoft put a lot of money into Facebook and that worked out well.

Vanessa: You always had those stories in VC but as a rule of thumb.

Dave: The corporate venture capitalist often comes with, in our experience, a catch. They're not there as a financial investor always and they often want terms that can be traumatic to the growth of the company because they want extra things, be it strategic or intellectual property related, or even to guide your development, which can change the trajectory of the company. They're out there, but it's something to be cautious of in our experience. And, Vanessa, my sample size, I don't know if it's larger or smaller, but it's the same experience that they're rarely the ultimate acquirer of our portfolio despite them investing in many companies that we represent.

One of the things that I think would be interesting to talk about because it's been in the press a lot is the impact of SoftBank's Vision Fund and sovereign wealth funds (SWF), and the wash of money that is out there. Have these folks changed the way that you think about the market and think about investing? Russ, I wonder if even at an early stage they matter very much too you?

Russ: I see it as part of the overall trend of the world being awash in capital and the way it affects me. I'm like a little cork bobbing on the wave in the middle of the tides. But I think the way that we see it turns out to be bigger rounds with higher valuations.

And it's an interesting question to speculate whether next year we'll get back together or we're going to see some fallout as it turns out venture returns go down because it’s cyclical. This is contributing in an adverse way to the VC business. But for an entrepreneur, I think if you've got a good idea, it's a very good thing because it's just part of the overall capital availability. So, good time to start a company.

Dave: Alex, do you have thoughts?

Alex: Dave, I think one interesting dynamic is that money can win a market. You'd have two companies that are really late-stage growth companies. They're picking one. And they're going to give that company hundreds and hundreds of millions of dollars to really win the market with money. You can have companies that are growth companies that are at a similar stage, kind of neck-and-neck. I think it will be interesting. I guess it's part of their strategy.

We've raised money from SoftBank. And we bet them kind of both sides of that. I think that'll be an interesting dynamic to see how that plays out over the next 18 months. And, obviously, companies are raising money from those types of groups, don't have to go public as quickly which I think there's positives.

Dave: Vanessa, have you seen those kinds of investors impact the thinking at your fund at all?

Vanessa: Not yet, to be honest. Not yet.

Dave: That's fair. I think it's interesting because the other trend that we're seeing amongst our portfolio is, not only do you not have to go public as soon because there is this mass amount of capital that you can continue to grow on and stay private, but the other pressure that you see a lot of is liquidity for founders or early-stage investors. And I think a lot of these large institutions are providing some of that liquidity, which I think could further exacerbate the lack of attractiveness of the public markets to some extent.

We see portfolio companies that are becoming very long in the tooth, but kind of the impetus to get them out is that the insiders would like some liquidity and we're seeing some of that liquidity be achieved through secondary markets and private transactions rather than public transactions. I think the countervailing force to what otherwise you would think would be a good time in the public markets in an accelerating pace of public offerings.

Alex: Related to that, I think one surprise from last year is a lot of big tech companies were not that acquisitive. There were not a ton of huge, huge acquisitions, which I think a lot of bankers told you would happen last year. So, when you see kind of more cash coming back into the U.S. because of Trump, the question is will you see a number of major, major acquisitions both from tech players and non-traditional players?

I think the prediction was probably wrong in '17, and it'll be interesting to see how that plays out in '18 if there's a large number of mega acquisitions.

Dave: Absolutely. It is an interesting dynamic because you've seen lots and lots of pundants say that the M&A market will heat up substantially. And, with all the capital out there and companies' performance improving and the market improving at the end of last year, you would have thought that we would have seen more of an acceleration than I think we've seen today. It'll be interesting.

I wanted to answer a couple more questions for the audience. Russ, you said that we're just awash in capital. One of the questions from the audience is how do I find out what firms invest in my sector? Because I think everybody said, "We have themes. We're going to back great entrepreneurs. But with all this capital out there, you've got to get some signal from the noise." And how do they separate signal from noise and how do you find companies out there? And how do they find you?

Russ: I think, as an entrepreneur, you have to go through a little bit of a research exercise, and you're going to be subscribing to the periodicals and websites to cover entrepreneurship in your ecosystem, and seeing who is blogging and who's posting about your sector. And you want to pick maybe a couple of big brothers or sisters that are companies kind of like yours, maybe analogous to yours that are two or three years older and see from whom they raise capital. And maybe those partners who are backing those kinds of companies would be interested in yours.

You have to do some sleuthing, and then your time is your most vital asset at that stage. Definitely do your research on the venture partner that you're going to speak to, and make sure they've done deals with similar models or similar sectors to yours. And then you'll have a high-quality interaction. So that's work you can do that saves you and them some time.

Dave: We have another question that I think I get asked a lot. A little off-topic, but it's about engaging with you. "Investors that they've spoken with are very hesitant about signing an NDA." I think you have to break this into categories. I love your perspective. As firms, generally, I imagine you don't sign a lot of NDAs. With individual Angels, that might be a very different story about how you think about that. But, Russ, you're at the leading edge of company formation. How do you think about these things?

Russ: I mean, the odds that you're going to get into a level of detail in your one-hour conversation with a venture capitalist that actually poses a threat to your intellectual property are, I think, quite low. When I was raising money as an entrepreneur, I never bothered with an NDA. And I would advise most entrepreneurs not to bother. On the other hand, you know, I do think you're seeing a new generation of micro VCs and big VCs who are trying to be very friendly.

And so, part of being investor-friendly is, if we do run into someone who would absolutely insist that we think it's an interesting business, yes, we'll sign NDA if that's part of it because we'd rather hear about the deal than not. But we tend to sign a very limited NDA that covers a short period of time. Many VCs won't do it, and I generally don’t think it's necessary. File your patent. That's how you get yourself protected.

Dave: You're probably focused on the wrong part of the conversation if you're disclosing that kind of information to the venture capitalist anyway, right?

Russ: Yes.

Dave: Alex, Vanessa, do you guys have used NDAs generally?

Alex: Yeah, I think we're pretty similar.

Vanessa: Again, in line with what's already been said, I haven't had any. I think I've had one person present me with an NDA and it was just very strained. I mean, I'll sign it but, chances of you getting into that much detail, highly unlikely. Second of all, the chances that your idea is unique and we haven't seen it before is also probably rare. Most of the time, we've seen a flavor of this already. And what we're really looking for is team and a unique angle. And then you also have to realize that the reputation in the VC industry is really important.

So more important than an NDA that you may try to enforce, our reputation is what we care about the most. So, we're very sensitive to what we talk about and what we disclose when we're talking to start-ups. When we look at two competing start-ups, we're very, very careful to make sure that there's nothing from one that leads to the other and vice versa. And that's mostly to protect our reputation so that people do trust us moving forward.

Dave: Vanessa, since you have direct experience as a female founder, I'll pose this one to you. What is the best way for female founders to access funding or venture capital introductions? Do you have any suggestions?

Vanessa: One of my pet peeves about this industry is that the way you get in front of a VC is typically through a warm introduction from someone else. And cold outreach rarely works. If you're not already plugged into the network that's plugged into the VC network, it's just very hard to break in. This frustrates me. I don't think it's fair. I think there's many ways that VCs can reverse this trend. I give kudos to Social Capital with their program where you can just apply online and put in your number. And if you meet their criteria, they fund you without even having to meet you. I think that really helps break down the barriers to entry.

My suggestion is go to the events, try to get in front of the VCs that you think will invest in you. I wouldn't only target female VCs because there are not very many of us. And we also don't exclusively invest in females. If you can get an introduction through someone, then that's great, too. Warm introductions are great. Warm introductions from someone in their portfolio is even better. You can also try cold outreach. It doesn't work that great.

Another thing that would be interesting is reaching out to the associates or the younger folks that are newer to the firm. They tend to be much more open because they're building out their network. They tend to be more open to cold outreach than more established senior VCs. And they'll do a lot of their homework. And if they're excited about your idea, they'll bring you through the more senior person. And it's in their best interest to make sure that you're prepared and that the meeting goes well. They'll coach you, and they'll vouch for you, and they'll really help you have a successful meeting.

I know a lot of people say, "Don't waste your time with the junior folks or with associates. Go straight for the general partners." But if you don't have a very good way in in meeting a general partner, I would absolutely not start there. I would actually start with a junior person.

Dave: It sounds like great advice. Alex, Vanessa, and Russ, I want to thank you very much. That brings us to the end of our presentation. Thank you, audience, for joining us. We hope you'll join us for our next session on March 1st. My colleagues will provide an update on the legal and regulatory landscape of initial coin offerings and cryptocurrencies. You'll receive information about that in the coming weeks. If you have additional questions about any of the topics discussed today, please feel free to reach out to me directly. My contact information is on the screen. I'll also direct you to our website, www.launch.wilmerhale.com. Thank you again, and have a great day.

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