



MORGENTHALER

Launching your Start-Up in the new Financial Market

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- Morgenthaler was founded in 1968
- Over \$3B in assets under management
- Raised ninth fund, \$400M, in November, 2008
- 50/50 IT and lifesciences
- Early and later stage investing (Seed/A to C)
- We ARE currently investing:
 - Recently closed Lending Club, \$12M Series B
- Past companies funded out of Berkeley:



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- Low opportunity cost
 - Companies are not hiring or have reduced hiring
 - ▲ 45% year over year drop in available technology jobs for March (Dice.com)
 - ▲ Silicon Valley was hit worst, with available tech jobs down 57.7% year over year
 - Companies are focused on cost reduction
 - ▲ R&D is often the first thing to be cut
 - ▲ Working at a large company may not necessarily be the “safe” choice
 - During a boom time, the best idea is to work for the current “rocket ship”
 - The same jobs will be available to you now as will be in 1-2 years
 - “I started a company” is a perfectly good answer to “what have you been doing for the past year”
- Ask yourself: What would YOU rather do?

- Access to talent
 - Unemployment is at 8.5% - highest rate in 25+ years
 - Google, Yahoo, Microsoft are all laying people off
 - Funded start-ups are folding and are not hiring
 - TechCrunch layoff tracker reports nearly 320,000 tech jobs lost since August
- Inexpensive resources
 - Cloud computing (Amazon EC2 and S3) dramatically reduce start-up costs
 - Platforms with APIs reduce acquisition cost
 - Free or sublet office space readily attainable
 - Incubators are an option (Plug and Play Tech Center)
 - Bargain equipment from companies that are folding
 - FREE legal work, etc.
 - e.g., 12seconds.com

Numerous World-Leading Companies Were First Funded During Downturns

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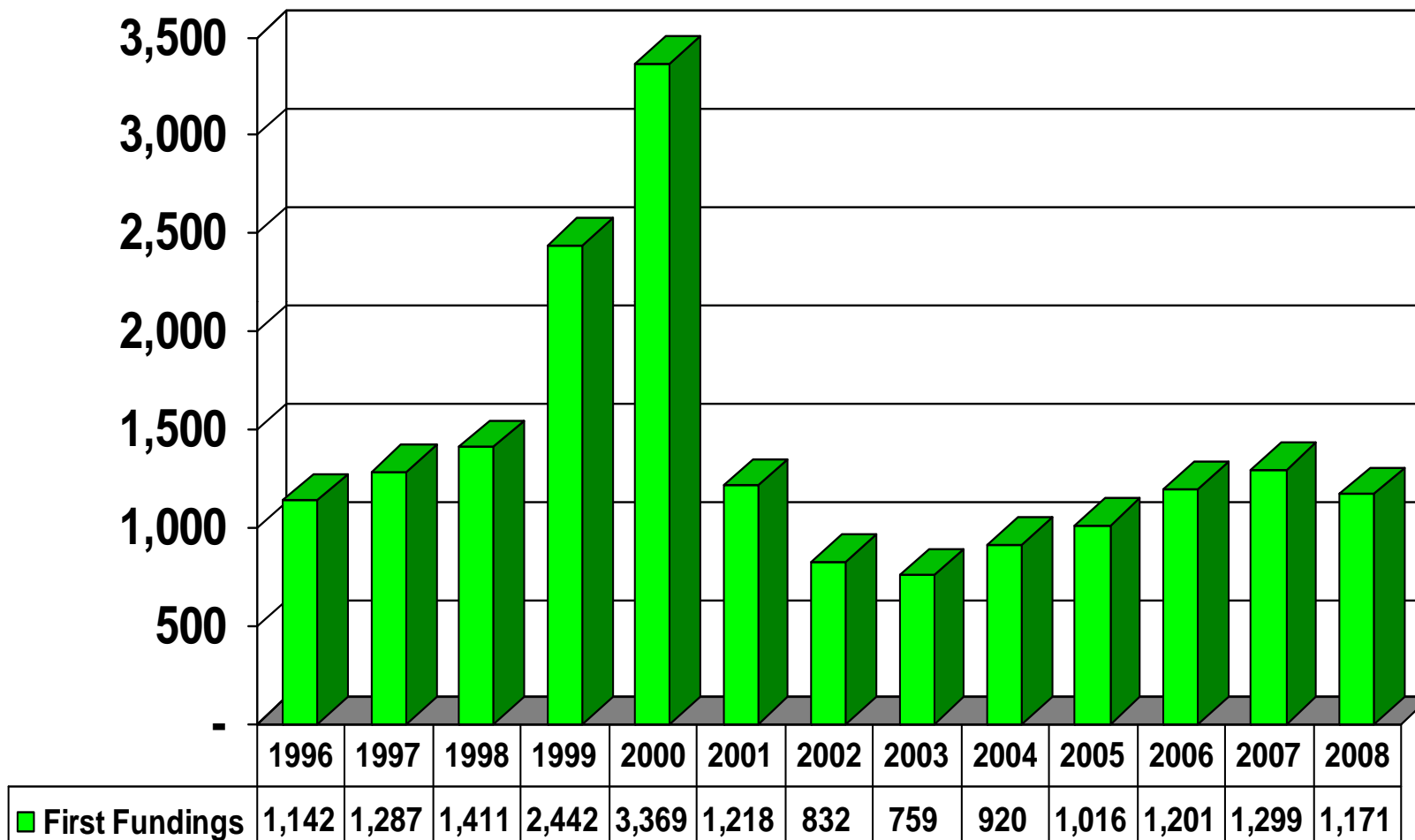


- Companies are not spending on R&D
 - Where will they get the new technology?
 - What do they/will they need?
- Public companies have a record \$1.7T of cash on their balance sheets
 - ▲ Cisco (CSCO): \$29.5 billion
 - ▲ Apple (AAPL): \$25.6 billion
 - ▲ Microsoft (MSFT): \$20.7 billion
 - ▲ Google (GOOG): \$15.9 billion
 - ▲ Intel (INTC): \$11.8 billion
 - ▲ Oracle (ORCL): \$10.6 billion
 - ▲ Hewlett-Packard (HPQ): \$10.2 billion
 - ▲ Yahoo (YHOO): \$3.5 billion

- Contrary to popular belief, VC firms are still investing
- BUT it is more difficult to get angel and venture investment
- VC firms are much more selective and expect more from startups
- Many VC funds are just trying to keep their current companies alive
- Net: VC's have money, but many are sitting on the sidelines until things shake out

Despite a tough 4Q, VCs funded 1,171 NEW companies in 2008

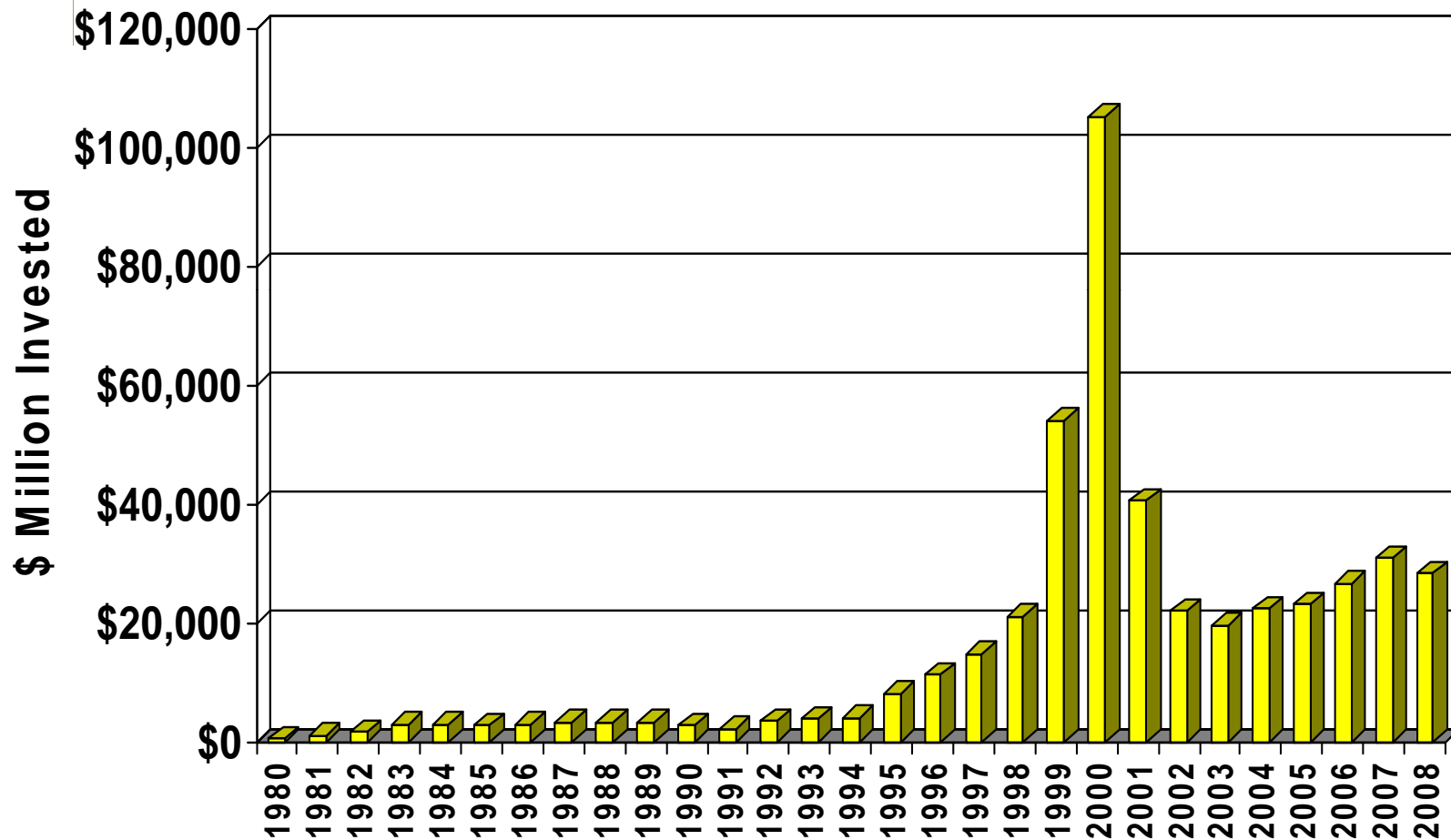
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Source: PricewaterhouseCoopers/National Venture Capital Association MoneyTree™ Report, Data: Thomson Reuters

VC Investment Peaked in 2000 and Remains above “Normal” in 2008

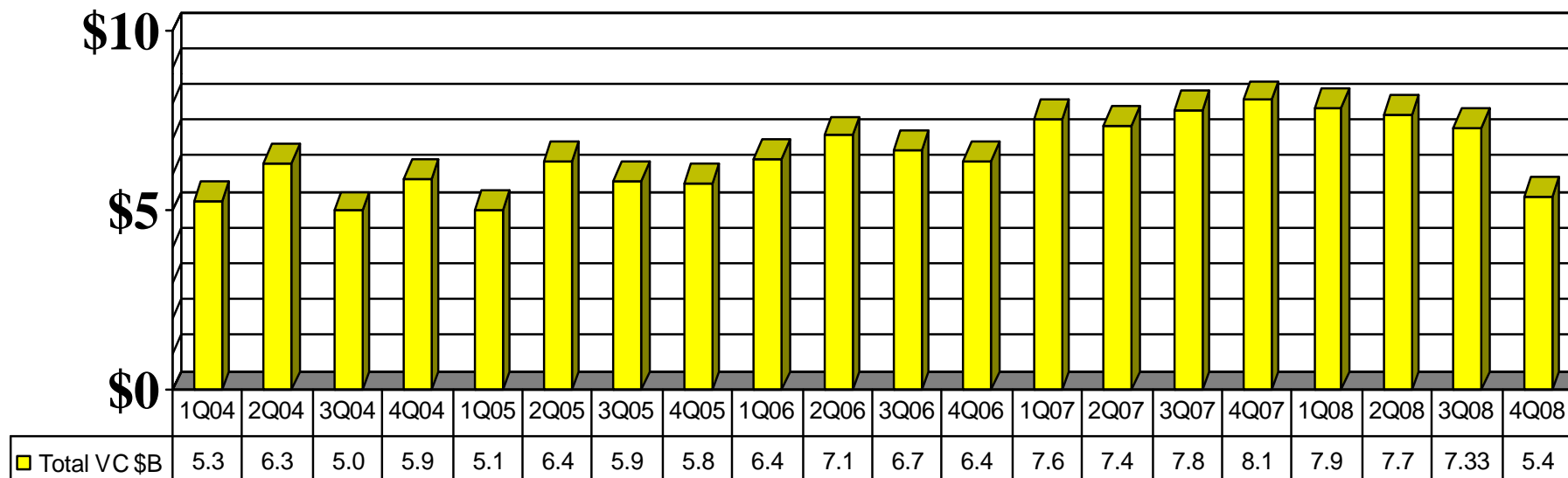
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Until 4Q 2008 Recent Quarters Had Been Consistent

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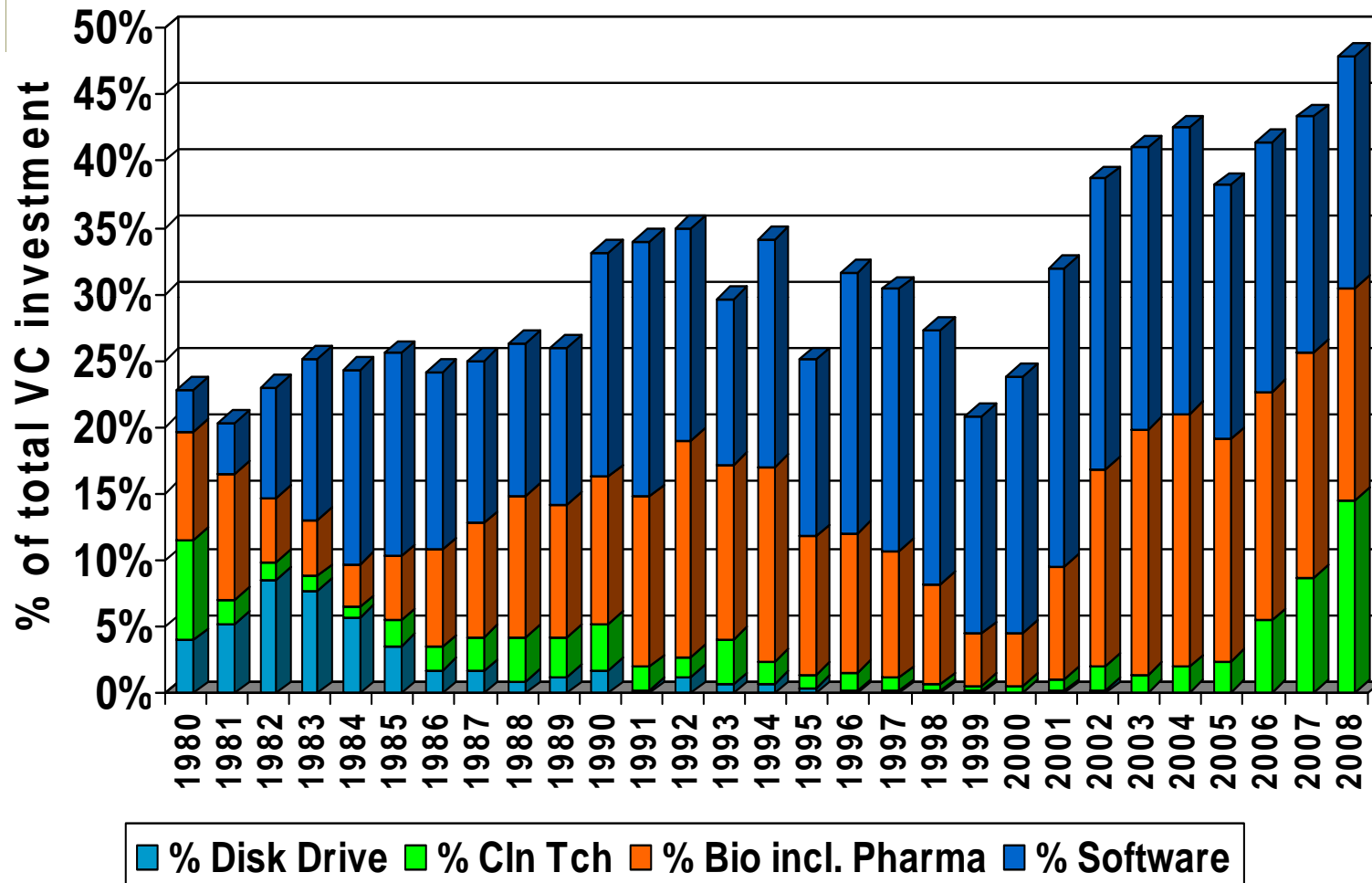
Source: PricewaterhouseCoopers/National Venture Capital Association MoneyTree™ Report, Data: Thomson Reuters

- Realize that the bar is higher
- Companies need to:
 - Be capital efficient
 - Be able to generate revenue quickly
 - ▲ no more “eyeball” models
 - Have a working proof of concept if possible
 - Show that customers want the product
 - Have a good, relevant team
 - Always consider: Who will buy me? Why?

1. Truly disruptive technology or business model
2. Addressing a \$1B + market
3. Platform play and not a single application
4. Strong founding team
5. Exit potential

Which sectors are VCs investing in?

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Source: PricewaterhouseCoopers/National Venture Capital Association MoneyTree™ Report, Data: Thomson Reuters

- Many VCs have recently raised a fund
 - Focus on funds that raised in the last 18 months
 - Average life of a fund is 3-4 years

Funds that Closed in 2008/09	Funds that Closed in 2007
<ul style="list-style-type: none">•Morgenthaler Ventures•Benchmark Capital•Hummer Winblad•Canaan Partners•Kleiner Perkins•Lightspeed Venture Partners•Sequoia•Interwest Partners•USVP•Charles River	<ul style="list-style-type: none">•IVP•Highland Consumer Fund•Bessemer Venture Partners•Shasta Ventures•MDV•Accel Partners•Vantage Point•Battery Ventures

- Valuations have come down rapidly
- On average, VCs have discounted their current portfolios by at least 20%
- Expect lower valuations than you would have received a year ago – the world changed
 - \$3-5M pre on a series A is market
 - “Flat is the new up”
- Some VCs are stacking on aggressive preferences
 - Be wary!

- There ARE other options
- Lifestyle businesses are good businesses
- Few business ideas truly need VC money
- iPhone app developers can make good money

- If you take venture money, realize:
 - \$10 - \$20M exits are no longer an option
 - You are on a path to a sale of the company in 5-7 years
 - You may lose control of the company

- Take venture money if you want to “swing for the fences,” or you need a lot of capital to start out, or you must scale quickly

Realize that the liquidity window is currently closed

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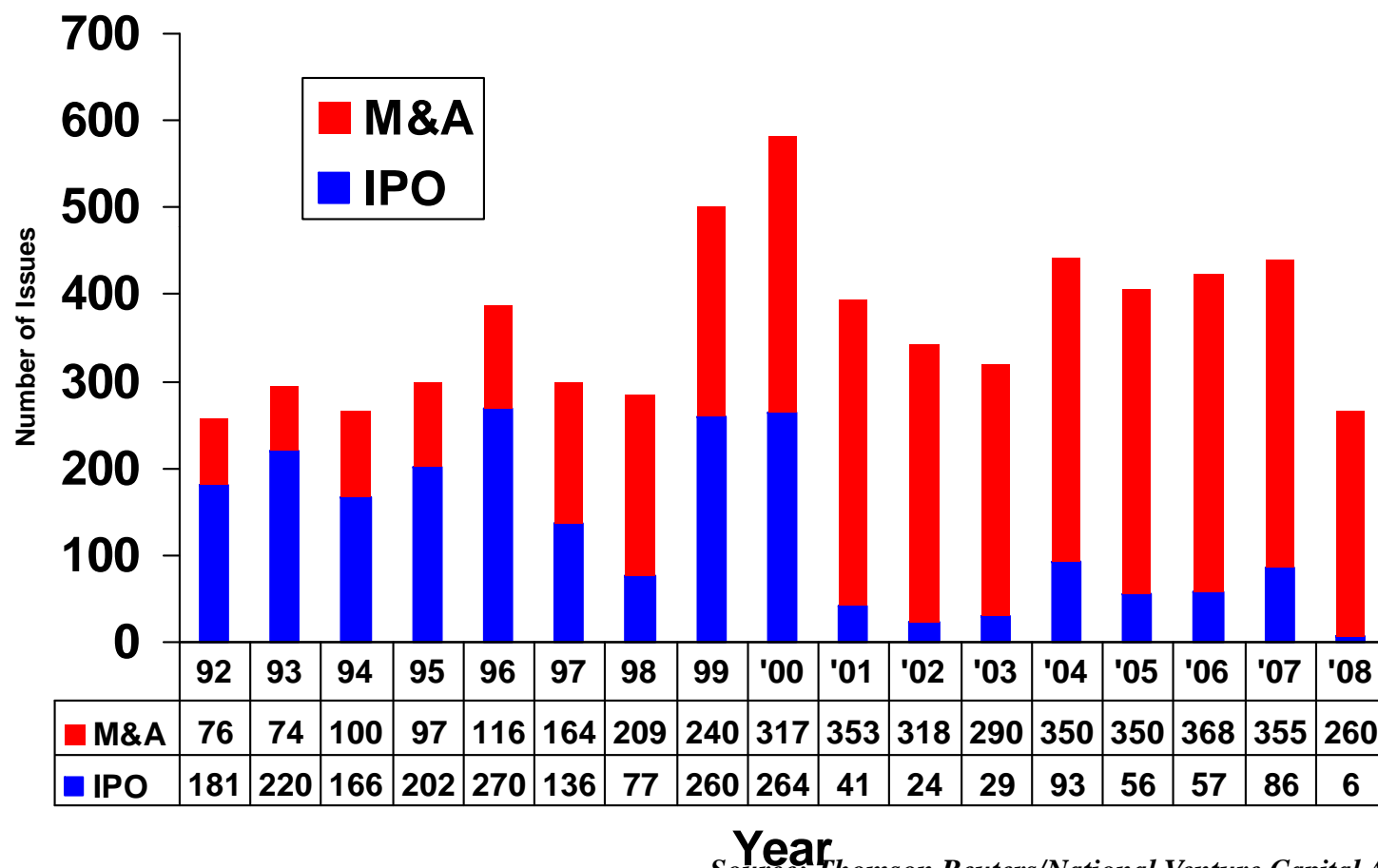
- 2008 was the worst IPO environment since 1977
 - 6 venture backed, \$470.2 million in proceeds
 - Average time to IPO is currently 8.3 years
- M&As were few and were a buyers market
 - Only 325 venture-backed M&As in 2008
 - ▲ Lowest number since 1999
 - Average time to M&A was 6.5 years



Source: VentureSource

Venture Exit Counts- IPOs and M&A by Year - 2008 is Dismal!

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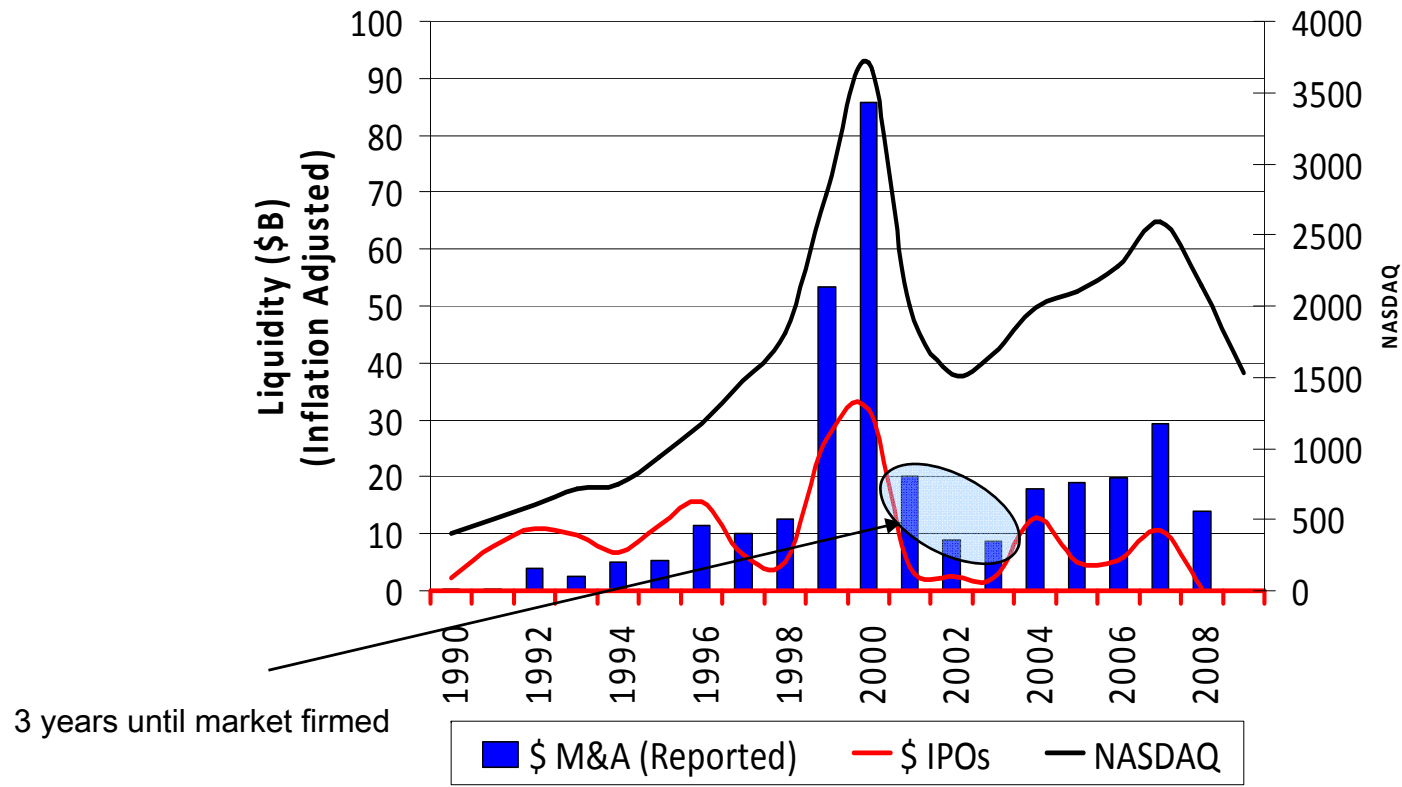


Understand where you are in the market cycle

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- No clear indication when markets will return
 - At least until 2010 is general consensus
 - M&A will return before IPOs and large IPOs will not return for a while

Liquidity vs. the NASDAQ



- A downturn is a great time to start a company
 - Opportunity costs are low
 - Access to free and inexpensive resources
 - Great upside when the economy recovers
- Venture capital firms ARE still funding companies, but the bar is higher
- Venture capital is not the only game in town
- Realize that your exit is an acquisition, not likely an IPO, and therefore position yourself accordingly

- BE SCRAPY!!
- USE YOUR NETWORK

Thank You!

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