

SECRETS OF SAND HILL ROAD

Venture Capital and How to Get It

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SCOTT KUPOR is managing partner of venture capital firm Andreessen Horowitz. He joined the firm at its inception in 2009 and has overseen the firm's growth from \$300 million in assets to more than 150 employees and over \$7 billion in assets under management. Scott Kupor also teaches courses in venture capital and corporate governance at Stanford Law School and at UC Berkeley's School of Business and School of Law. Scott Kupor previously worked at Lehman Brothers, Credit Suisse First Boston and as business development manager at LoudCloud. He is a member of the investment committees of several nonprofits. Scott Kupor is a graduate of Stanford Law School and Stanford University.

ISBN 978-1-77544-978-2

MAIN IDEA

In 2017, US-based venture capital (VC) firms injected around \$84 billion into companies and startups. The most prestigious and successful of those VC firms operate in Silicon Valley, and the most influential of those headline VC firms have their offices on Sand Hill Road – not too far away from Stanford University.

So what are the secrets of securing venture capital?



To access venture capital funding, you have to know and take into account:

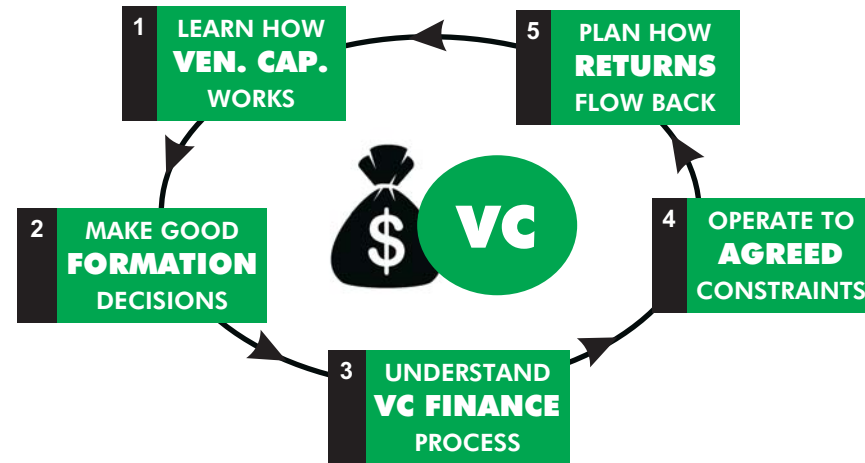
1. How venture capital works
2. The necessary company formation decisions
3. The process of negotiating with VC firms
4. The constraints you will be working under
5. The plan for how returns will be realized

Align your funding requirements with the VC life cycle, and you have a shot at securing the funding you need to grow a company. Miss that alignment and there's no realistic chance that a venture capitalist will be able to work with you. As in most things in business, timing is everything.

"Entrepreneurs and VCs are not on opposing sides, the way one soccer team tries to crush another in the World Cup. Rather, we are partners, and once we agree to work together (and even if we don't), we are on the same side. What we share is a desire to create benign businesses, see them have an impact on and improve the world, and together realize some financial benefit along the way. We need you. We need your ideas and your guts. We need your companies and your commitment to growth. I hope to shine a light on how VC works and why, in order to create more and better company-building opportunities."

– Scott Kuper

The Venture Capital Life Cycle



1. Learn how venture capital works Page 2

Every VC firm has investors who fund them, and incentives and constraints which are specified by those investors. To understand how VCs make their decisions, start by understanding the motivations of the firm's backers first.

2. Make good formation decisions Page 3

Whether or not you can seek VC funding will depend to a large extent on the decisions you make when founding your enterprise. Make sure you make all the right allowances when you form your company, otherwise VC funding won't be an option in the future.

3. Understand the VC finance process Pages 4 - 6

Pitching VC firms is one challenge, but ultimately any negotiations will center around the term sheet, the *Magna Carta* of the VC industry. Know what to include in a good term sheet and you're ready to hunt bear when you talk to VC firms.

4. Operate to agreed constraints Pages 6 - 7

Any funding a VC firm provides will come with a set of economic and governance constraints. Make certain everyone knows and abides by those constraints, particularly your board of directors who will be at the coalface of compliance.

5. Plan how returns will flow back Pages 7 - 8

Money has to ultimately flow back to VC firms (and their backers) in order for the VC cycle to keep operating. Plan how that will happen in your case in great detail. If enough money doesn't make it through the full cycle, the financing hydrant will dry up and disappear.