Stanford eCorner

Approach Capital with Care

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Ernestine Fu, managing general partner of Brave Capital, encourages aspiring founders to remember that successful fundraising does not equal a successful business. She shares stories of times fundraising success didn't necessarily match growth potential, and urges founders to use their capital wisely.

Transcript

- Next thing I wanted to share is this idea 00:00:07,620 of don't confuse a war chest with victory.. And successful fundraising does not equal a successful business.. So we can see in these articles here that really in the last two years, venture funding has slowed down.. It's all over the news.. And so many founders feel like their success is tied to fundraising success, but successful fundraising does not equal a successful business.. Just to share a few stories and things to note, how many of you have played "Pokemon GO" here? Okay, so most of you here.. So, prior to the launch of "Pokemon GO" in the summer of 2016, I remember showing and telling my husband about the company since I worked with my colleagues to get an investment into the company's first round of financing.. And I told him it was going to be the biggest thing ever.. And of course, he didn't believe me, and a lot of investors around the table at the time also did not expect it to explode the way it did.. So when we invested, it was actually at less than a hundred million dollars valuation..

And just a few months later after that investment, they ended up launching "Pokemon GO" and generated 500 million plus in revenue.. So it's probably the only time when the EBITA was actually higher than the valuation of the company.. And that's just one example where the company's valuation and fundraising success doesn't necessarily match its growth trajectory and future potential.. I think another thing to keep in mind is also this concept of liquidation preference.. So it's a way for VCs to get their money back when they're negotiating an investment.. And it really only matters if a company is sold below its valuation.. So that's a good reason to not keep raising at what might be higher than your potential exit price.. And really emphasizing that successful fundraising does not equal a successful business.. And then even on the M&A side, acquisition prices can vary widely within even a few days or a few weeks.. So just to share an example of that, back in early 2020, this was the onset of COVID, I was working on this one portfolio company and flying back and forth to New York, LA, SF, just trying to figure out how to get this compelling acquisition offer for this company that I had been involved with and ended up landing this term sheet..

It was around early March that year, 2020, and was just incredibly proud of myself for being able to get that term sheet there.. But then if you recall what was going on in 2020, about a week later after I got that term sheet, the term sheet ended up getting pulled.. And the reason for that was the entire city and Bay Area all of a sudden was on this mandatory lockdown because of COVID.. The stock market was tanking, everyone was calling it the Startup Winter, this Black Swan event, and companies were encouraged to hold on hiring, really focused on monitoring spend, preserving cash.. So had this acquisition offer and then just a few days later, it just zero, like nothing on the table for it.. But then a few days after that, I ended up getting another term sheet on the table and kind of a side note on why that deal happened was had ended up planting the seeds of a relationship with Acquire that developed into these periodic check-ins and that helped with getting the deal and ended up closing that deal.. It was probably one of the first M&A deals in the Valley to go through during the pandemic.. But the kicker in all of it was that the final value of the deal was actually better than what had originally been proposed.. So even on the M&A side, the acquisition price can widely vary within a few days, and it's not at all because of what you fundraised to date.. So, the next thing I wanted to share is every drop of capital is precious..

Spend it like you plan to build an empire, not rent a penthouse.. This photo is actually when I attended a social event in Silicon Valley recently.. There were camels, monkeys, giraffes, zebras.. Silicon Valley has a lot of flashy elements.. There's zoo parties, there's holiday parties with A-list celebrities, there's like suite tickets to the Warriors game.. Like a lot of what you see on the TV show, "Silicon Valley".. And some of the common mistakes I see after founders successfully fundraise is either hiring too quickly, or spending money on a PR agency, or having some flashy office space, or just adding a bunch of product features at the expense of your core product.. But I think it's important to always keep in mind that really every drop of capital is precious.. And when you're building a company, you should spend that capital like you're planning to build an empire...