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The Credit Crisis Hits Sand Hill Road

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Will the nation's famed investment avenue suddenly reach a dead end? The map toward future investment could be marred with tighter coffers in a poor economic climate, says Mohr Davidow Ventures partner Erik Straser, though good and intrepid companies will likely continue to find backers. Alternative sources of capital are a necessity in a global financial crisis, says Straser, and emerging technologies will likely feel the pinch of the higher cost of capital resulting from the credit crisis of 2008.

Transcript

Sand Hill Road and the venture community is going to run out of capital at a certain point.. And we need to have the companies far enough along so that other forms of capital will come in and help us build them.. And where do you see those later-staged sources of capital? Are they as excited about this as the Sand Hill Road community seems to be? Well, they might have been until last week or the week before.. Did something happen? Well, for those of you that will watch this later, the company and I think more representatively, the world is in a serious financial crisis.. And it's a credit crisis and most of the monies that are used to build out the project basis of these companies and many of the investors that would participate in the late clean tech rounds are also the same kind of investors that are private equity firms, hedge funds, investment banks, some of the people that are in a significant financial straits today.. So I think it is unclear on a going forward basis how much if any pullback there will be.. I suspect there will be some.. Like most things, nothing is as bad as it is when you hear the worst news and it's not as great as it was when you heard the best news.. I don't mean to say on a specific company to share anything proprietary but as you look as you portfolio, are you doing anything to respond to the current conditions that maybe, say, extend the runway for the venture money that they do have? Yeah, I think that's a real good point.. Whether you're a single person, a small family, a small business, venture back startup or a large corporation, there is a giant pullback sound you hear today..

I was speaking with a former CEO of a large automotive company who said, people with 700 credit score, which is a high credit score, there's a 50 % chance you won't get financing if you try to go buy a car today.. That's a phenomenal thing to say that the credit is just not available in a whole bunch of different dimensions.. So what it tells us as basically managers of about 100 startup portfolio is that it's incumbent upon us to reach out to our CEOs and tell them the cost of capital is changing.. We need to be thoughtful about what resources we're adding.. We need to be thoughtful about what equipment we're buying, and we need to make sure we increase the likelihood with as much cash as possible of hitting our milestones.. I don't think we're about to see something that we saw in part of 2002 where more or less the startup market just dried up.. That's the only time in my career in 11 years in the venture business where I've seen actually good companies die.. Now is a really difficult time because capital was just not available in any form.. I think it's going to be tougher for good companies, but I think good companies are still going to be financed...