



Building Successful Startups

Alain Hanover

**Sr. Managing Director
Navigator Technology Ventures**

ENET

Sept 8, 2009



Alain Hanover

NTV Sr. Managing Director

- ✧ **Sr. M.D. at NTV, 2002-present. Led all deals and investments in 12 portfolio companies: 2 good exits, 7 closures/sales, 3 remaining.**
- ✧ **Prior to NTV, helped start, invest or advise over 25 private companies, including Eprise (public), Bitpipe and Applix (public).**
- ✧ **Co-Founded CommonAngels, Boston's leading Angel firm. Lead 2 major liquidity events in last 5 years leading to their success**
- ✧ **Founded InCert Software, an MIT-Spin-off, that provides software fault detection and prevention solutions, raised \$9M in VC, then sold to Geodesic, then Veritas & Symantec.**
- ✧ **Founded ViewLogic Systems, an MIT Spin-off & electronic design software provider, raised \$16.5M in Venture Capital and grew it to \$150 million in sales before sale to Synopsys**
- ✧ **Entrepreneurial Manager at DEC's VLSI chip group and Xylogics. During college worked for 2 startups**
- ✧ **Boards: Actuality Med, HistoRx, Sionex, Gaterocket, Mass Tech Collab.**
- ✧ **MIT: B.S. EE & Math, Harvard: M.S. Applied Math, HBS:OPM Program**



Navigator Technology Ventures Highlights

- ✧ **Started by Draper Lab to encourage startups from local community and Labs**
- ✧ **Ran NTV with Rana Gupta since 2002**
- ✧ **Technology-focused early-stage firm focused on prime deal flow in emerging technologies in Northeast, especially Boston-area research labs**
- ✧ **Sought capital-efficient deals that allowed taking significant share of companies with small capital requirements**
- ✧ **Early stage companies with low valuations allows us to have excellent return with ~ \$50M exit valuation**
- ✧ **Winding down first fund as Draper exiting VC arena**
- ✧ **12 investments – 2 successful sales, 7 writeoffs, 3 potential hits remain – HistoRx, Polychromix, Sionex**



NTV Niche

Early Stage - Small Cap Deals

- **NTV sought out Entrepreneurs seeking only \$0.5-3.0M to launch company and get \$1M+ sales**
- **Sought lower valuation (\$.5M-3M) at early-stage**
 - **Gets NTV larger % ownership and higher returns**
 - **Yields excellent returns on exit of \$50M+**
- **Problem with this**
 - **All companies needed more money than planned**
 - **Development took longer than projected**
 - **Subsequent cram-down rounds**
 - **Need deep pocket investors to continue funding**
 - **Many ended with forced sale/shutdown**



Why Start a Company

- **Have vision of better way to tackle a major problem**
- **Customers are in need of a solution to this daunting problem**
- **You have team that are Experts in area**
- **Have experience working in or doing previous startups**
- **Have good reputation and connections in VC and entrepreneurial circles for advice, money, staffing, and support**



New Company Musts

- **Need Idea with Large Market opportunity**
- **Experienced World-class Team**
- **Business Plan – Roadmap and shows expert knowledge**
- **Have PPT with Bus plan summary**
- **Raise Money – Angel/VC/Self-fund**
- **Outstanding Product**
- **Implement Plan on Target**
- **Get initial customers**



Want VCs Look For

- **Must be compelling value prop**
- **Must be pain in the market (Must have vs nice to have)**
- **Must have potential customer list willing to attest to value**
- **Must have prototype or product in the market**



Want VCs Look For

- **Rapid time-to-profitability**
- **World-class experienced management team**
- **Early value creation and continual value creation steps**
- **Maximize value and limit number of investment rounds**



Raising Capital

- **Contact VC's and Angels through connections**
- **Investors must believe in your plan and in the team**
- **Must find a lead**
- **Finding money takes a long time**
- **Lots of feedback (Some good, some bad)**
- **You never raise enough**



Example Investment: Sand Video

(First HD-DVD MPEG4 - H.264 Encoder/Decoder Chip)

Timetable

\$\$ Value

6/02

NTV Bridged
Company*
\$1M

- NTV led Bridge Round
- Negotiated Term Sheet and Note

10/02

First Round
Closed
Valuation: \$16M

- NTV took Board Seat
- NTV sought out other investors

2/04

Broadcom
Unsolicited
offer
\$60M

- NTV worked with company and Investment Bankers to stage an auction
- One more suitor found

4/04

Company
Sold to
Broadcom
Price: \$77.5M

- NTV assisted in final negotiations for sale

Multiple: 5.5X

IRR: 185%

*Jointly Bridged with CommonAngels (CA)

22 months



Investor Climate Good & Bad News

- Technology development pace hasn't slowed
- Many entrepreneurs around due to major consolidation last year
- Many Funds have new money or are not fully invested
- Lots of support infrastructure to help entrepreneurs
- Most VC's and Angels want revenues now
- Deal terms are tough
- Most VC's unwilling to lead or do deals without co-investors
- Lots of deals, VC's invest on 1 out of 100 BPs
- VC investors want faster returns



Personal Lessons Learned

- Take chances early, you only live once - key attribute of an entrepreneur is the ability to tolerate ambiguity and live with unanticipated and unquantifiable risks and neutralize them
- It is very difficult to Bootstrap - young companies should raise enough money to survive
- You always need more money than you think. So, even if you are successful, you will wind up owning a relatively small amount of your own company
- Things never work out the way you planned them - success is based on the ability to adapt to unexpected problems and opportunities
- It's better to have tried and failed, than never tried at all