Lead Left Interview – Scott Kupor (Part 2)

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This week we continue our conversation with Scott Kupor, managing partner and COO, Andreessen Horowitz. Andreessen Horowitz is a $4 billion venture capital firm, founded in 2009 by Marc Andreessen and Ben Horowitz. The company is headquartered in Menlo Park, California.

Second of two parts – *View part one*

The Lead Left: As a top unicorn investor, are you as nimble with smaller start-ups that may need?

Scott Kupor: As a venture capital investor, the vast majority – about 75% – of our investments is in very early stage startups – are well before they ever become "unicorns." To help these early-stage companies accelerate their growth on a path toward hopefully becoming unicorns, we've built a unique operating model in the venture industry. We employ more than 100 professionals in the firm, 2/3 of whom are engaged full-time to help our companies post-investment achieve their growth initiatives. We are using the brand and reach of the firm to, among other things, connect our portfolio companies with large, Fortune 500 companies that might be likely customers or business development prospects, connect them with top executives and engineers who might be interested in working for our portfolio companies and to connect with the appropriate leaders in the business press and trade press who can help with broader PR coverage. The central goal of all of these operating functions is to accelerate the growth of our companies in a way that increases the likelihood of them becoming large, self-sustaining businesses.

TLL: Seems like fewer VC-backed tech companies going public or selling to strategics. Is this a blip or something more fundamental?

SK: There is a real sea change in both the IPO environment for technology companies and the M&A environment. Regarding IPOs, we are at approximately 35-year lows in terms of the number of technology IPOs being transacted. We are also at 35-year highs in terms of the time from founding of a company to IPO – 11 years in 2014. These trends are a function of a number of changes, among them being the structural changes in the capital markets that make it very hard for companies to go public at low market caps (sub-$2b) because they lack the necessary support infrastructure – research coverage, market makers and, thus, adequate trading liquidity. At the same time, due to the activist pressures on large cap companies to return cash (in the form of dividends or buybacks), transformative M&A activity is also at historic lows. The net effect of both of these trends is that liquidity for venture investors is likely to continue to be elongated.

TLL: What's the state of VC financing? Other than Silicon Valley Bank, it's tough to see banks doing it.

SK: I don't expect traditional commercial banks to play a significant role in venture capital in large part because the loss ratios in the business are simply too high. But, we have seen a number of structural changes in venture financing in recent years. First, we have seen the growth in the number of seed stage funds; there have been 50+ seed stage funds formed over each of the last six years. These are small funds – assets under management average less than $50m – that target the earliest stages of financing for startup companies. In prior years, seed investing was done largely by individuals investing out of their own checkbooks, but the recent growth in funds has institutionalized funding for seed capital. This is largely a function of the lower costs of capital required to start companies; advances in technology have driven down the costs associated with starting companies. On the complete other end of the spectrum, we have seen the entrance into the private financing space of non-traditional investors – in particular, public markets investors – into late stage venture capital. Mutual funds, hedge funds and large cap private equity buyout funds have all begun investing in the pre-IPO rounds of private venture companies in recent years. I believe this is a function of companies staying private longer (and thus deferring IPOs for a longer period of time); for these investors to buy "growth" companies, they need to invest earlier in the cycle – into private financing rounds – to capture the appreciation attendant to such companies.

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