# *Conference Debate Session I—Building Unicorns: Proven Drivers of Success for VCs, Enterprise Venture Funds, Private Equity firms and Business Angels*

Led by: Manek Dubash

**NetEvents**

<u>Panellists</u>:

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| Cack Wilhelm | Partner, Accomplice |
| Victor Chen | Associate, CapitalG |
| Hiro Rio Maeda | Managing Director, Draper Nexus |

**Manek Dubash**

Thank you very much indeed for your erudition. I know there are a lot more questions on the floor and I am sorry we have run out of time. Hopefully we - well maybe we'll try and address that at some point during the event. Let's leave that one in the hands of our event organisers. Okay, we're moving onto the next session. You'll have noticed that I am not [David Burrows] from MIT Technology Review. Sadly he's broken a tooth and had to go off to have surgery so unfortunately you're going to have to make do with me. Can I invite the panel for the next session down please. Building unicorns: Proven Drivers of Success with VCs, Enterprise Venture and Private Venture Firms and Business Angels. Come on down, my three panellists.

Great, thank you very much.

Okay, what we're going to talk about is it's really about the money, it's also about the risk I think and those are the kind of, if you like, I think the underlying trends of what we're going to be talking about and what we have been talking about so far. How do you mitigate those risks, what criteria do you use for investment and those are the kinds of issues that we're going to explore in the next 25 minutes or so and then I'll open it up for questions from the floor.

Before we get into the detail of the questions that we discussed earlier on today, perhaps each one of you could give us a really quick 30 second bio to introduce yourselves to the audience please. Cack.

**Cack Wilhelm**

Sure. I hope I'm situated accordingly.

**Manek Dubash**

I think you have to press the button. Yeah, there you go.

**Cack Wilhelm**

Alright. I'm Cack Wilhelm. I'm with Accomplice. We're a seed stage $200 million venture firm. Short bio. Princeton, I worked at Oracle and Cloudera. I went to business school, University of Chicago. Worked at Scale Venture Partners for three years which was mid stage series A, series B, all B2B and so my move to Accomplice was really a move to [- I wanted to do an] earlier stage and broader mandate. So at Accomplice we'll do frontier tech, crypto, consumer and B2B.

**Manek Dubash**

Victor.

**Victor Chen**

Hi, I'm Victor Chen and I'm from CapitalG. We are a growth equity fund of Alphabet and we make investments purely for a financial return on behalf of Alphabet. We are mostly focused across technology in both consumer and enterprise in three geographies, the US, China and India. My personal background, I'm a UC Berkeley grad. I spent two and a half years at Goldman Sachs before I joined CapitalG.

**Manek Dubash**

Rio

**Hiro Rio Maeda**

Great. My name is Hiro Rio Maeda. I'm a general partner at Draper Nexus. We are San Mateo and Tokyo based. Venture capital have two funds under management, $230 million. We invest globally in early companies from C to A to B kind of range. Japan and US are the main geography that we focus but not limited to. We [unclear] invest across different nations including Finland, Israel, even within the US. [Outside of Valley] is something that we started to focus more and more. Sector wise we invest B2B mainly, enterprise solutions, lots of service securities, lots of [SaaS] companies are the ones that we go after.

**Manek Dubash**

Great, thank you all very much. First of all I want to make it perfectly clear that I don't want to appear smarter than I really am. The questions and themes that we're going to be discussing were in fact set up by David Burrows in the first place. The first one is actually about the nature and notion of unicorns. Now David has put up a question asking has the number of unicorns gone down, but actually perhaps I'd like to ask first, do you believe in the concept of unicorns or is it actually all marketing? Then perhaps talk about whether or not you think that the fact that according to one study by the National Bureau of Economic Research, which suggests the number of unicorns presumably invested in this year, it's not quite clear, from 53 down to 11, suggests the numbers are declining. Is that what you're finding? Is this true? Cack, do you want to start?

**Cack Wilhelm**

Yeah, sure. I mean so truth be told I'm investing at seed so you are going to be closer to unicorn valuations or bestowing unicorn valuations. I'm not bestowing unicorn valuations. I think the unicorn term is a little bit misguided. I think if you take a step back and you think about what is a venture evaluation, it's one milestone in the course of a company growing and a company might take 10 or 15 years to go public or exit. Arbitrarily hitting the billion dollar evaluation mark, that's just saying that one person, one firm, one partner, has bestowed upon you the billion dollar evaluation.

I think what is more interesting is companies hitting milestones like a million ARR, $10 million in revenue, $100 million in revenue, going public on a publicly listed stock exchange. I think the obsession with unicorns, if that's really being interpreted as like how our late stage company is doing and how is tech as an asset class as you get closer to public markets, how is that doing, I'm actually very encouraged. The last two quarters there have been a lot of public exits and the super majority have priced higher than they intended and then they've been trading higher than they're priced. I think that is more interesting than how many companies in Q2 will be crowned unicorns.

**Victor Chen**

I actually completely agree with you on that perspective. I think in terms of looking forward if we wanted to bestow the distinction of a unicorn on companies and we wanted to say are there going to be more unicorns that are popping up over the next five years or so, from my perspective I don't actually see a slowdown today. The markets are extremely fraught that you see a lot of high evaluations that come up. In Q1 there might not have been as many new unicorns that were created but a lot of funding went into existing unicorns. In fact I think the status, like over 40 deals with companies that are valued at $1 billion or above in Q1 and you see that continuing over time with large players such as SoftBank making noise in this space.

I think if you look a little bit longer term what really excites me isn't the fact that there will be more unicorns created, but that there will be more companies that are creating billions of dollars of value from displacing existing infrastructure or offering sort of net new value to its users. You can see that across a variety of fields. Blockchain and AI as examples are re-platforming what we would normally think of as legacy or normal infrastructure. Then as you look, even in sort of things that exist today, even in cloud, there are a lot of different categories that can create billions of dollars of value that are still widely unaddressed today. That comes with security, that comes with a lot of infrastructure management and so you see a lot of areas where there's a ton of opportunity to create a lot of value.

**Manek Dubash**

So there's a lot more to come. Hiro.

**Hiro Rio Maeda**

Yeah, a few comments on unicorns. Unicorn is just a definition. Somebody came up with a company that's over $1 billion valuations and from early investors point of view it's just the company that we invest hoping that they're going to grow one by one and eventually they get to a certain size. I sort of understand that if there is any company that wants the position [unclear] unicorn because unicorn as a term kind of started to walk on its own and has a marketing impact, so they try to make it there quicker than or earlier than they are defined to be. So that kind of creates the over value situation and that - I mean that happens across different stages, even in the early stage or even the mid stage or even at the late stage.

I just wanted to give you one or two cases that kind of came to my eyes. One is in actual portfolio of us that was last year that was - before last year it was valued as a unicorn and it was over $1 billion valuations that was in hyper converged infrastructure. It's basically the storage in the network and the company got bought by HP last year. At that time the definition of unicorn doesn't matter for the buyer. They just go through and scrutinise the number and try to come out with the right valuation and it came down to [$600 million].

That's just one example that realistic things hits at the time of exits. Contrarily sometimes the dream continues. One example that went public in Japan, there was a company called Heroes and the company today values around $1 billion to $1.3 billion, floating around that range. The company's yearly revenue is like US$8 million. So PR wise it's, you know, hundreds of hundreds of PR so it just doesn't make sense. Sometimes the market correct doesn't happen but yeah, that's the view that I have.

**Manek Dubash**

Great insights, thank you. Now I thought it would be interesting, actually picking up David's point that he'd prepared, to look at the whole sort of technology backlash. Now technology of course for a long time has been one of those wonderful things that we've all kind of loved and shared and all this kind of stuff, but over recent years, the last couple of years, I guess we've seen quite a backlash of issues like data privacy. I guess primarily focused on apps like Facebook and of course things like fake news and so on and so forth. If you like, the public view of technology is shifting. It's not quite as, you know, technology is all seeing, all wonderful.

Is that affecting the kinds of companies that you're seeing investment - is it affecting the sorts of criteria that you're using for investment? Perhaps as well, is it worth looking at companies that obviously see an opportunity in that and say okay, let's come and mitigate some of the issues that are raised by those technology problems. Which one of you would like to attack that one first? Victor.

**Victor Chen**

I guess I will quickly. I think as a firm that's associate of the Alphabet we are very focused on this. Ultimately I think when it comes to I guess add businesses specifically a lot of it is just that the market is really a two player space right now when it comes to Facebook and Google. We've looked at obviously a ton of investments in this space and we have an investment with Snapchat, but overall when you think about the competitive landscape the two large players really throw their weight around and you really hope that these players are the ones that create the [tools] and push the regulation to drive this in the right way.

When it comes to investments in the ad space I wouldn't say that necessarily the tech backlash has impacted any of our investment judgment. Per se we are still very focused on competitive dynamic based on the market dynamics that I just talked about. Then overall I think the areas that make you feel very encouraged are that the customers are the ultimate people who drive the business and the customers in this case are ad buyers. These guys have been starved for solutions for years. Most of their businesses are dependent on Facebook and Google to grow. From that perspective what excites me is that there are a lot of different opportunities of young players who pop up who try to offer more value to those advertisers that drive business and that would create more opportunity going forward.

**Manek Dubash**

Sure. Rio.

**Hiro Rio Maeda**

Since I invest more on the early side of the phases of the companies, so my view will be shifted to that. If I pick the tech backlash as one of the issues around like a data protection [stata], privacy issues around Facebook or the GDPR in Europe it just - I think it's this week that's become in effect.

**Slavik Markovich, Demisto**

Tomorrow.

**Hiro Rio Maeda**

Tomorrow. Thank you Slavik. Tomorrow, so it's creating enormous impact both in the large corporations and the start-up on the early side, in a positive way for the start-up. For the large corporations, for the last two to five years, machine learning and AI based application and analytics became so powerful that enterprises have been adopting them in a very accelerated way. They're hiring data scientists right to left. For example, Amazon is just opening 1,100 job openings with AI and data scientists, spending $200 million to do that. So they have hired those people and started to crunch the data but then this whole thing happened and they were like trying to block everything and not letting it be touched by the data scientists.

It's a real pain point today that those data scientists can not do anything about it, but then there's a whole new category of granular data governance sector that's just emerging in the early side of the start-up that is controlling the data based on the character of the data and also the regulations that enterprise is facing, there has to be a right control and monitoring that needs to be there. There are a few companies that - such as [unclear ID] in Utah, [Okera], there are several companies that are going after that and that's a very interesting emerging market that's coming out of those backlash, so that's my view.

**Manek Dubash**

Yeah, I've seen a few of those too. Yes, Cack.

**Cack Wilhelm**

Yes. I think interpreting the question a little more broadly, so tech backlash, like how is it impacting us as investors or market, what markets are going to emerge? You spoke to some specifically with regard to data and GDPR. I would argue broadly that crypto really is - the emergence of crypto decentralised web, Web3, is all a reaction to, you know, Facebook owns all of our data and maybe we don't feel as comfortable with that. Google too, Twitter, down the line none of us any longer have access to - we have access to our data today but we didn't a year ago.

So with crypto - I mean take something like Ethereum, what is Ethereum? Ethereum is really just a public database that's permanently storing all digitally recorded transactions. I looked. I wanted to make sure - the way that they describe it is it's cryptic graphically secure so really that just means it's using mathematical algorithms. It is a transaction singleton machine and that means that there's a single machine, meaning there's a single source of truth, there's a single global state and that is the truth, it can't be messed with. So Facebook can't go in, as they were earlier discussing and change something. Then lastly, shared state, so everyone has access to that same state at any given time. That is the antithesis of Facebook. You're going to see things like Ethereum and all these distributed blockchains. Lots of people think these are the answer to what, you know, what access do we have to our data? Well, in this particular case, everyone has access to the data.

**Manek Dubash**

Great, thank you. Now we are obviously in the heart of Silicon Valley here and we've made a bit thing about it but it's not the only place in the world. It's not the only place where investment happens. It's not the only place where start-ups start up. Now how are you seeing that unfolding? I mean it is, I mean obviously from a Japanese, perhaps Canadian point of view and perhaps a US point of view, what effect is that having, this kind of globalisation of start-ups? Is it an effect? Hiro, go first.

**Hiro Rio Maeda**

I guess the theme of today is the unicorn, so if you look at the - last time I looked at the data was some months ago. There were like 200 something unicorns and 50 per cent US and close to 30 per cent China. Victor, you can talk about China. One to two per cent from Japan and so that doesn't look that optimistic from a Japan point of view. Especially within the US Valley has been just way over expensive and there are so many companies that we looked at started to have diverse teams across different nations. Many companies, especially like a cybersecurity company that we invest, they started to have a split team in Tel Aviv and the Valley, or some interesting companies that are making the R&D shop and the machine learning team just in Portugal kind of thing. That kind of global phenomenon, it's happening to many of my companies.

But when it comes to the - going back to the unicorn, Japan is - because I invest - half of my fund goes to Japanese companies, and Japan is somewhat unique in the way that we don't need a unicorn. Japan is somewhat small to be - the market itself is small for the entrepreneur or the start-up to grow into as a market to go after, but large enough for them to go public. So, if you have $10 million to $20 million revenue, they could go IPO and with some hundreds of million-dollar valuation, which is a good accident; it was just a good way to get money from the public.

So, that has become the standard for Japanese market and so that's why we'll probably see more and more unicorns outside - from Japan but I think it's going to be gradual growth. But I think China is going to continue to be big.

**Cack Wilhelm**

I guess I'll quickly touch on China. I think China - I can completely agree with you - going to be a very large market over the next five or 10 years, and there's several reasons why I say this. The first reason is just the amount of capital that's being deployed today and that's going to compound over time. One stat I saw is last month China actually beat - led the entire world in mount of venture dollars deployed with $16 billion deployed in just a month, which is something that's really amazing.

There's several dynamics that are different from what we see in the US. In China you see the three large companies, Baidu, Alibaba and Tencent all actively participating in investments, and you have the TMD, or Toutiao, Meituan and DiDi coming right up after them and making investments of their own, which is something you don't see as much as US large strategic players; very, very active in the venture space.

The second thing that's very unique to China is that the government is very invested and obviously, in a single party government it's very easy to change regulation or make regulation more favourable to push tech agendas. The Chinese Government is very, very forward-leaning on this topic in the sense that AI is now sort of a national initiative for them and they're changing regulations to give start-up companies an easier way to grow.

Then I think lastly what's really exciting about China is that they're not really encumbered by legacy infrastructure in the same way that the US is. A big example of this is mobile payments. If you go to China today, nobody's paying with a credit card, they're all paying with their phones through either WeChat or Alipay. There's other ways that China is leapfrogging.

For example, China doesn't have a FICO score system and so there's a bunch of companies that are popping up to help China solve that issue by gathering consumer data to establish some creditworthiness. There's no MLS system in China, so there's companies that are trying to build real estate inventory to become the MLS. Those are opportunities that you feel are really exciting that you don't find in the US and it's very, very unique the dynamics to push that forward in China.

**Manek Dubash**

Thank you. Cack, is there a Canadian perspective?

**Cack Wilhelm**

Yes. Well, I don't know, Canadian perspective. I am definitely American. All the deals I've ever done are American. Accomplice does have 16 portfolio companies in eastern Canada, so Toronto, Montreal, Waterloo. I think scoping it down a little bit to North America - these guys were talking about Asia - there has historically been an attitude in Silicon Valley prevalent amongst many firms that it's Silicon Valley or bust. You're headquartered here, or you move your company here or we're not going to invest. I think that's changing in two ways slowly, or quickly for some.

I think, one, distributed teams are becoming more and more common and socially acceptable. Lots of teams have done it successfully and been very outspoken about it, so I think there is a recognition that hiring engineering talent in San Francisco is really hard, so if you can do so in Budapest or Portugal or Mexico City, there's a comfort with that that there wasn't before.

I think the other is before moving to China and Japan, there's still Chicago and Toronto and Minneapolis and lots of other cities in the greater United States that haven't been Silicon Valleyed, but VCs are more willing to travel now, more willing to invest in companies that are a flight away instead of board meetings being local. So, I think we're going to see that continue to happen. I don't see Silicon Valley being upset by some other [GO] in the United States anytime soon, but there are.…

There's more regional activity outside of California.

**Manek Dubash**

I don't know what you said to upset them [laughs]. Okay. I've got a couple more questions but how are we doing for time, by the way? I'd like to throw questions - are there any questions from the floor? If so, hold your hand up now. There is one just there.

**Scott Raynovich, Futuriom**

Hi. Okay. My name, I am Scott Raynovich, and I am the founder, principal analyst of Futuriom.com and I'm from the United States.

A question: what do you guys think of the threat of crowdfunding and ICOs to the traditional venture model? It seems like this whole distributed approach has now crept into the investment space and offers a big challenge to you.

**Cack Wilhelm**

Of course, I'm a VC, I'm going to say it's complementary. I do think it's complementary. I think what you're seeing is even - there are ICOs that are legitimate and those that are illegitimate for lack of better nomenclature. For those that are legitimate in that these are companies that probably could raise venture funding if they didn't do so through an ICO, you are finding that what they actually want is they want equity and an equity presale, and they want to get that equity from a conventional VC.

Lots of the big names - like [Andresen] has been very outspoken about doing crypto. Having Andresen or Polychain or MetaStable or some of the crypto-focused investors on your pre-equity cap table in advance of doing your token sale means that your token sale will just go that much more successfully. I think the - we've all read about the scams out there of people doing ICOs to raise money for nefarious activity or for things that probably would never have been funded in Silicon Valley. Those, good riddance.

I think if they want to go raise with an ICO, that's fine. I don't think it's competitive to venture because I don't think they would have raised venture capital money otherwise. I think where it gets a little bit interesting is you do your pre-equity, your pre-token equity round, then there's probably a gap in what would conventionally would be series A, series B where if you've raised $50 million you probably don't need another $10 million or $15 million from venture capital. I think once you get later you might end up raising equity again and then you're raising $100 million, $200 million from Victor. So, I don't think it's going to go away.

**Manek Dubash**

Okay. Victor.

**Victor Chen**

Yes, I would agree. I think on the later stage you see less of that as a competitive threat, especially as companies start raising $50 million plus. I would say as we look at ICOs and look at blockchain and crypto, a lot of what we see is, as you mentioned, ICOs raising off a white paper without any proven management team. A lot of it is for nefarious purposes and so from that perspective we don't really feel like it's necessarily that competitive. I think we are focused on companies that are doing ICOs that are legitimate because those can eventually be opportunities for us down the road. So, from the later stage perspective that's my view.

**Hiro Rio Maeda**

Yes. My friend in Japan just did a successful ICO and over 100 million raised, and he is running a legitimate business, so I don't want to say anything negative. But many of the - as Cack mentioned, I wouldn't say many but some of them are not going to be legitimate and that's why the regulation needs to be in place.

Putting that aside, I think - I hope that this money is not just the capital but more about bringing the expertise and knowledge and networks and all that, so that's how the company and enterprise grow to the next phases. Without those kinds of supports, I think there's a limit to how they could grow out of it. So, it's just like crowdfunding. I think it's a good use of capital for the initial kick but eventually somebody has to step in then and foster the company to grow into the next phases.

**Manek Dubash**

Interesting you say that because that leads on in a way to the next question, which is about how do you spot the losers. There's always a kind of tendency I think to get a bit rah-rah about these things, but we know that, what is it, about one in 10 succeeds and the other nine don't. Are there any warning sign you can spot? How do you spot the losers? Thoughts? Come on, one of you.

**Cack Wilhelm**

I focus very little on spotting losers; I focus a lot more energy on spotting winners, just because - nine out of 10, there's probably 99 out of 100 that are going to do less well than you hoped. So, it's very easy to sit in the pitch and there's always something wrong with it, it's not as far along as you hoped, or you don't have the space, or the CEO doesn't come from a background that seems relevant to this. So, it's very easy to make the laundry list of reasons why not to do a deal or not to invest or not to believe.

I actively try to be open-minded and think if this did go well, what greatness could follow. I focus a lot more attention on the nuances of what I think are extra-special about a founder or founding team, market, like changing landscape to imagine like in the one per cent case that it could be successful. The obvious like integrity and all those things are just like red flag, no way Jose, but otherwise I try to think of the - imagine the good case.

**Hiro Rio Maeda**

One thing that I hate to see is this company supposed to be a winner, and maybe they are a winner at one point, and because they are growing too fast and in the hyper-growth stage, and because of that they lose some grip on the organisation and it started to break down and become a loser eventually. That is something that should be [recoursable] by the support of the management team and the board members, and that is something that we can do together, but when that happens, winner becoming losers, that we all should feel responsible and should respond to it. Instead of spotting the loser, that's what I care more about.

**Manek Dubash**

So, it's really about your involvement, deeper involvement?

**Hiro Rio Maeda**

Yes. Involved heavily and not to try to make the winner turning into the losers.

**Manek Dubash**

Yes. Victor.

**Victor Chen**

I think as later-stage investors, we obviously do a lot of diligence around a lot of things, so market size, unit economics, competitive dynamics, modes et cetera. I think all that can be fine but at the end of the day the biggest bit whenever we discuss an opportunity is always can this team execute, and if they can't execute, it's - as you mentioned, it's really hard to actually maintain your leadership in a space.

From that perspective, if there are [flags] with the management team, that's something that we'll look for to say absolutely not. There's businesses we've bet on with phenomenal management teams where we can bet on a product - more new products coming to the market or having new offerings that take off in the future, but if there's a team in a leadership position where the management team just isn't the right team to lead the business, that's a red flag for us.

**Manek Dubash**

Okay. Right. If there are no more burning questions, I've had the kill sign. So, I think we have to stop it there and move on to the next session. Thank you very much to the panel.