

“Web 2.0 was certainly over-hyped and over-valued a year ago”

Interview with Ken Elefant, general partner, Opus Capital

Located on the legendary Sand Hill Road in Menlo Park which is home to the world's most famous venture capital firms including Kleiner Perkins and Sequoia, Opus Capital is focusing on seed and series A financings in the US and Israel. The firm, which has been an early investor in companies such as DoubleClick, FedEx and Informatica, manages assets of over one billion USD. Out of roughly 3,000 business plans that reach Opus Capital each year, the five general partners pick about ten companies to invest in. Ken Elefant, a general partner of Opus Capital, talks about new ideas, promising sectors, and the lack of threats to top-notch Silicon Valley venture firms.



Ken Elefant meets Andreas Uhde in Menlo Park, California.

VC Magazin: What are the most important qualities you are looking for in an entrepreneur?

Elefant: There are three things we look for. One: does the team have really good domain experience for the kind of problem they are solving, or does it have a good track record of success? The best scenario is when the team has both attributes. Two: is the company attacking a small but rapidly growing market where they can position themselves as market leader? By definition, if a start-up is attacking a large market, there are already large competitors in the market. So, I much prefer companies that are addressing small but rapidly growing markets. Third: what is the key differentiation for the company? Usually there is some sort of technology differentiation, but it could also be distribution channel differentiation. What is it that keeps the company far ahead of its competitors?

VC Magazin: And what is it that an entrepreneur should look for in a venture capital firm?

Elefant: If a good venture capital firm is interested in a company, it should open up the door with another entrepreneur, another company, or some other kind of partner that can help grow the business. If an entrepreneur wants to test whether a venture capital firm is serious, he could ask the venture capital firm in an appropriate way for a contact that will be helpful in evaluating the investment opportunity – but one that is also helpful to the entrepreneur. A warning signal would be if a venture capital firm doesn't open a door for an entrepreneur and is just kind of “kicking the tires”.

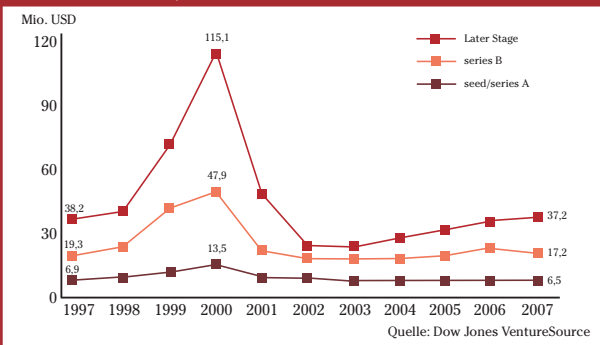
VC Magazin: Which sectors do you find most promising at the moment?

Elefant: We, as a firm, invest everywhere in technology, from semiconductor companies all the way through to the internet stack. I personally think that compliance companies in the software area are very interesting. I was involved with a company called Virsa Systems, which is a Sarbanes-Oxley compliance company. I think that there are many other areas in compliance that need to be better augmented. Video advertising is another very interesting area. We just invested in a company called Jivox. Jivox was started by a gentleman named Diaz Nesamoney, who we had backed actually twice before, initially at Informatica and then at Celequest. The video advertising area is a very interesting one in terms of users going online and the amount of interaction with these ads. According to TNS Research, here in the US for the latest NCAA college basketball tournament, the ad dollars on a per user basis generated online – 4.83 USD – were higher than the ad dollars generated by a TV viewer – 4.12 USD. It was the first time that this happened. What I also like to focus on is cloud computing. What Amazon is doing in storage with the S3-initiative and its Rent-A-Grid, which they call their Elastic Cloud Computing platform (EC2), will only be the beginning. There are many other areas in cloud computing where you can extract part of the software that every company is spending a lot of time and energy on.

VC Magazin: Is valuation a big issue in an early-stage round?

Elefant: If you look at this chart you see that for later-stage companies, valuations have gone up. But if you take out the year 2000, it stayed pretty flat for seed or series A

**MEDIAN PRE-MONEY VALUATIONS IN THE US
BY ROUND CLASS, INFORMATION TECHNOLOGY**



investments over the last decade at around 6 to 7 million USD pre-money per round.

VC Magazin: Are there certain sectors which you consider to be overvalued?

Elefant: Web 2.0 was certainly over-hyped and over-valued a year ago. I think it is coming back down to reality. In Web 2.0, I am looking not only at great teams but also making sure that there are interesting metrics and long term business models around these companies.

VC Magazin: Does this mean you would not invest in a Facebook 2.0 or the nth dating platform?

Elefant: It would need to be very differentiated. I recently invested in a stealth company in the online gaming area. The founders, who I have not backed before, sold their last company for more than 200 million USD. For online games they have a real value proposition for the users they are targeting and are leveraging new technologies to do so. That makes for a good business case.

VC Magazin: Do you think a rising number of users will be willing to pay for these games?

Elefant: Yes, if the games provide the value. I much prefer online games that have a subscription basis associated with them.

VC Magazin: How do you manage your portfolio in terms of responsibilities?

Elefant: Every company we invest in needs to be approved by all of our partners. We figure out who the right partner is for each deal that we do. We then have one partner who takes a board seat in that investment and a second partner who helps the first partner. All of the four general partners that focus on the seed and series A investments are generalists, but we have our majors and minors, or sectors that we are more interested in. My majors are the internet, infrastructure software, and some enterprise software. Carl Showalter was the VP marketing at Juniper Networks; before that he ran a billion-dollar-division at AOL as a general manager. He does a lot in semiconductors, networking, and mobile infrastructure. Dan Avida started two companies before: Electronics for Ima-

ging and Decru, a storage security company. He looks at security, storage, systems management, data center operations as well as graphics and systems. Gill Cogan has been a venture capitalist for over 25 years. He does a lot of analog semiconductor companies, wireless, enterprise software, and media investments.

VC Magazin: Do you always take a board seat when you invest in a company?

Elefant: Yes. We are always the lead investor or co-lead in any financing round we participate in because we want to actively add value to the companies in which we invest.

VC Magazin: Is the subprime crisis affecting you at all?

Elefant: It is not affecting early-stage investments in my opinion because the most important thing in early-stage is making it to the next milestone, which could be a release of a product that reduces technology risk or the signing up of initial customers that reduces market risk. We also believe that we should be in these companies for six or seven years. So, we are not in any rush to sell companies. Where it could be an issue is if other businesses are affected by the mortgage crisis causing them to reallocate money to their core business – money that could otherwise have been used for acquisitions.

VC Magazin: Could fundraising for VC firms become more difficult in these circumstances?

Elefant: The top performing venture capital firms will always have plenty of funding available. We were well over-subscribed at our current fund, which we closed at 280 million USD. But we think this is the right size for our strategy.

VC Magazin: Do you see any threat to venture capital at all?

Elefant: If I were to look at venture capital from the outside, I would come to the conclusion that early-stage investing is really promising – if you have a strong general partnership, meaning folks with a great track record, and operational experience. That strategy will continue to pay off.

VC Magazin: Thank you for sharing your ideas with me! ■

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The interview partner

Ken Elefant is general partner and co-founder of Opus Capital. The Silicon Valley venture firm is currently investing its fifth fund, a 280 million USD fund that will invest in a total of 25 to 30 companies. The firm has over one billion USD of capital under management. Opus Capital has its roots at Weiss, Peck & Greer Venture Partners, which has been around since 1971 and became Opus Capital in 2006.