

Early Stage Investing Presentation

Fuqua School of Business

April 7, 2016

Overview

- Background
- Criteria for an early-stage investment
- Assessing the risk areas
- Value-add from experienced investors
- Examples of success
- Observations

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- Engineer by training, over 20 years as venture capitalist delivering superior returns
- Contender Capital, 2000-now
- The North Carolina Enterprise Fund, 1990-2003
 - \$20M fund, returned \$145M gross
- Intersouth Partners, Partner 1988-1990, Assoc. 1985-1988
 - 3-20x returns on 3 companies with significant responsibility
- Duke University MBA and University of Wisconsin BSEE
- Significant full cycle investment and board experience with early and growth stage information technology companies and small buyouts

Criteria for an early-stage investment

- Information Technology – SaaS, software, payments, mixed-signal semiconductors
- Capital efficient – only require \$3-15 million of capital over lifetime of company
- Pre-revenue to \$2M+ revenue
- 5-10X investment potential – depends on stage
 - Reasons: illiquid, long-term (5-10 years), need to reserve capital, significant time commitment
- Exit strategy – acquisition by publicly traded company for \$50-150 million

Investment Criteria - Continued

- Large addressable market – ideally \$1 billion+
- Potential to be a market leader
- Cost effective distribution of product
- Limited competition
- Barriers to entry
- Entrepreneur (first time or serial) must be willing to take advice
- Regional – RTP, Northern VA, Atlanta

Four Areas of Risk

➤ Product/Technology

- Can the product be developed on time and on budget?
- Do significant technical risks exist?

➤ Management

- Does the existing team have the right skills and background?
- Who needs to be recruited to the team?

Risks -- continued

➤ Financial

- How capital intensive is the venture?
- Can the necessary capital be raised with attractive pricing and terms?
- What are the likely returns?

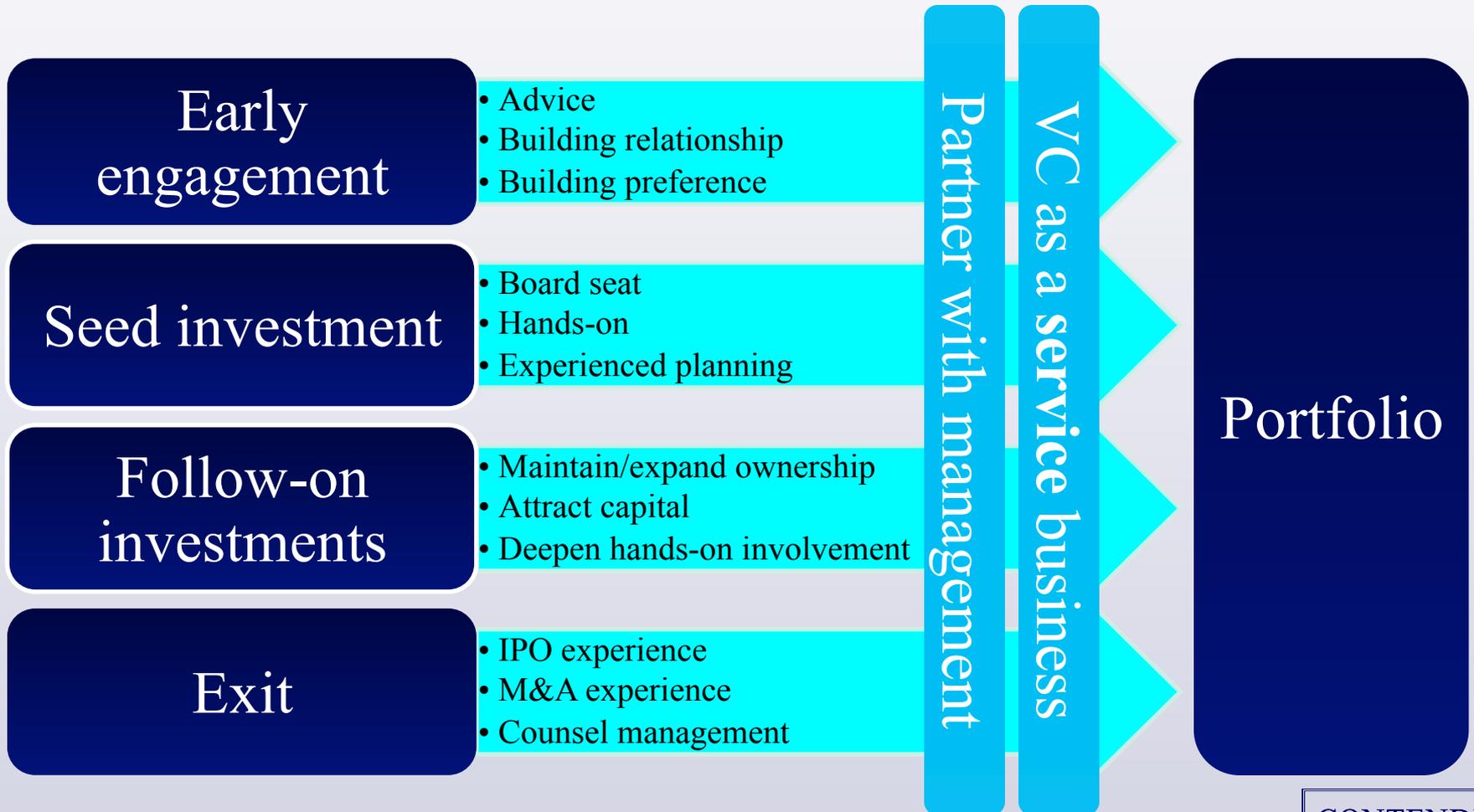
➤ Market (Note: This is the greatest risk!)

- Does a real market need exist?
- Size of market; length of sales cycle; cost of selling into the market

Value-add to entrepreneurs

Problems entrepreneurs may face	Contender Capital's value-add
First-time entrepreneurs/CEOs	Company-building experience
Incomplete management teams	Experience building teams
Limited market relationships	Industry/customer contacts
Strategy & business planning	Strategic planning expertise
Lack of fundraising experience	VC network, finance partners
Maximizing exit value	M&A and IPO experience

Engagement model



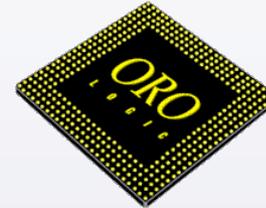
Well Established Network

Contender Capital has a well established network of entrepreneurs, managers, top-tier venture capitalists, and investment bankers who are essential to building and maximizing the value of a portfolio.

NCEF success stories



- Co-led Series B financing in December 1993, \$8.5M pre-money valuation
- Pure play in the wireless market at the component level
- Technology and network independent
- Served as a board observer until the IPO
- IPO in June 1997. Qorvo (QRVO) current market capitalization \$6.5B
- NCEF \$1.7M investment returned \$12M



- Seeded Orologic in October 1997 with \$200,000
- Communications ICs for infrastructure equipment
- Served as an active board member dedicating 1-2 days per week
- Orologic only raised \$3.8M of equity and \$1.2M of debt
- Acquired by Vitesse Semiconductor in March 2000 for \$450M
- NCEF \$2.5M investment returned \$122M

Recent exits

POWERPRECISE Solutions

- Mixed signal semiconductor company
- Next generation battery management chips for notebook PC lithium ion battery packs
- \$9M of equity from OnPoint Ventures, TSMC VentureTech Alliance, PTI Ventures, and Intel Capital
- Served as an advisor since company formation in 2002 and as the independent board member from 2004 to 2007
- Acquired by Texas Instruments in October 2007 for an undisclosed amount – a very positive outcome for all shareholders

Efficient Channel Coding

- Components and systems that increased efficiency of advanced satellite, wireless, and wireline communications
- Innovators of forward error correction technology
- Founded by three entrepreneurs in 1996
- Built a very profitable business with no outside capital
- Served as an advisor to the founders from 2001 to 2005
- Acquired by ViaSat in December 2005 for \$25.5M cash

Recent exits

Modality

- One of the first iPhone app developers
- Primarily focused on medical reference apps – over 120 apps developed
- \$3M of equity from private investors
- Served as an advisor since September 2006 and as the independent board member from June 2009 to 2010
- Acquired by Epocrates in November 2010 for \$13.75M

Inlet Technologies

- Leading provider of Adaptive Bit Rate (ABR) digital media processing platforms
- \$20M of equity from Technology Venture Partners, TD Fund, Core Capital, and Capitol Broadcasting
- Served as an advisor since 2004, joined the board as the independent director in July 2005, and served as Chairman from late 2005 to early 2008
- Acquired by Cisco Systems in March 2011 for \$95M

Observations

- Entrepreneurship is in vogue everywhere
- Companies are much more capital efficient and the barriers to entry are lower – more competition overall to sell product, recruit talent and raise capital
- Beware of entrepreneurs who do not respect capital
- Building a company is a team sport
- Understand your investors' expectations
- Technology companies are bought – not sold