



Stanford eCorner

Watching How People Handled the Downturn

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Video URL: <http://ecorner.stanford.edu/videos/75/Watching-How-People-Handled-the-Downturn>

Roizen says VCs look at how companies behaved during the downturn. Mobius was upfront with their LPs about where they stood and this paid back. Entrepreneurs that were gracious and upfront will be backed again, she notes.



Transcript

I think that for both the venture capital firms and the entrepreneurs we invest in, how do people behave when the crap hit the fan, it's a great indicator of how they might do again when things turn around. I will tell you there are entrepreneurs that we've lost a lot of money on that we'll back again because the way they handled the downturn and the drive they put into it and the way they managed their teams and the way they took responsibility and the way they didn't get greedy for themselves when it was clear the ship was going to sink that will come back to reward those people. The ones who behaved differently, there's a little list of those people and they probably won't get funding, at least from us again. I think the same thing is true what we've heard from the LPs is what they appreciated is that we were upfront. A lot of venture funds, you don't actually mark an investment up or down until there is an event, until it raises money or goes out of business. Well, let's be real. There are some venture funds that are carrying firms on their books valued at \$100 million that raised money in '99 that are going to be out of money in six months that are worth maybe either zero or five. So I think a big dose of reality happens between September ending quarter and about now where a lot of took write-downs. I think one of the interesting things is we kind of took the medicine early. We decided it was better to just assess the value of these companies and be upfront with our LPs about where we stood.

One of the nice things about that is again, I can't get into too much detail because it's confidential information, but having just had our monthly LP call yesterday, the total reported value of our portfolio yesterday was higher than it was last quarter. For most VC firms, I would bet you it's lower because I bet you a lot of them waited till December to take the medicine. So the December numbers they're reporting are kind of shocking numbers.