Stanford eCorner

What Numbers Do VC's Look At?

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January 16, 2002

Video URL: http://ecorner.stanford.edu/videos/84/What-Numbers-Do-VCs-Look-At

Roizen believes that in the VC business, most companies fail. Therefore, the rare successes of their portfolio companies has to be big. Often you hear 10X, i.e. you should see 10 times your capital coming back, she says. It is also calculated as dollars in, dollars out, or internal rate of return (IRR). The Mobius fund today has an IRR of 90%. Roizen notes you will almost never hear a VC use IRR.

Transcript

That's an interesting question because of course, we are in the high risk business and high risk means we need to have high return. And in our business, most things fail. So in order for the successes to make up for all the failures and then some, they've got to big, right? So often, you hear 10X; it's like if you can't see 10 times your capital coming back, you probably shouldn't be making the investment. Now, it's also dollars in, dollars out. I mean in a funny way, it's interesting because there's what you make and there's what the LPs look for. So IRR is another one, right? If I don't make as much money but I turn around very quickly, then that counts on my score sheet, right? So my LPs, if they see like, again I don't know if the numbers are public or not. So somebody will probably shoot me afterwards or something but life to date, the Mobius Venture Capital Fund Series has had an IRR like 90%. Pretty good. That's counting everything. That's kind of even our bad stuff.

So anyway, you look at the IRR and you say, well IRR is awesome. But from my position as a GP, if I invest 2 million and a year from now I return 4 million, that's a hell of an IRR. But it was only $4 million. And so the issue too is the more time you can play with the money and the bigger it grows, as a GP at the end of the day, you get back the lunch money. Your LP can take that money and invest it somewhere else. But once we return the money, it's gone. Right? We've got to go raise a new fund and start all over again. So there's an interesting dynamic there that it's sort of ultimately doing it. To a VC, it's cash-in, cash-out. You almost never hear a VC say, guess what my IRR in the last deal was, right? They'll either saysay, I've got something X.

Or they'll say, I made this much money for the fund.