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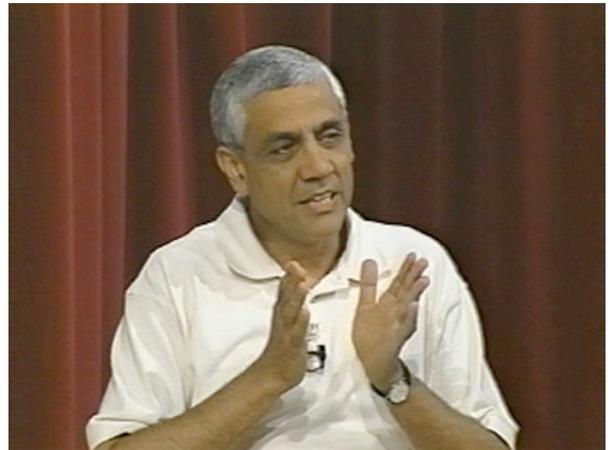
Role of VC in Valuation

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Things aren't ever as good or as bad as we think. Today (2002) is one of the best environments to be an investor. The last three or four years were not a lot of fun--if Khosla went to someone to build a reasonable business, the response he would get was that another company was willing to give more money for less work. He would have to explain that the role of a VC was to help companies develop a real economic model and to give an honest valuation.



Transcript

The fact is things aren't ever as good as the number one venture capitalist in the world - there is no such thing, and that things are never as bad. Today to answer your question more directly, it's one of the best environments to be an investor. The last three or four years was not a lot of fun. And it wasn't a lot of fun for the following reasons: If I went to somebody and said, "Here's what you need to do to build a reasonable business." The response I almost always got was, "That other venture capitalists willing to fund me for 10 million dollars." There was a small group called Centroda. They won the MIT 50K competition entrepreneurship competition came to me and I said, "You don't have a plan. You're doing peer-to-peer which is a terrible area from a business model point of view. But I like some of the things you're doing and the way you guys work. So, we'll fund you but we'll fund you with a million dollars which you have to make last a year." And in the process developed, they came back to me and said - but in another VC offered them 10 million dollars. And so I had to sit down with them and explain. I wasn't going to give them 10.

I wasn't going to give them a 10-million dollar valuation. I was going to put them to the ringer in developing a real economic model for a year, before he even knew what he got funded and he have to make his choice. And he could go take the 10 million dollars. He agonized over it for a long time. Actually, this is a small group, the team agonized over it and finally decided they'll work with us. Today, I think they'll tell you, if they've taken the 10 million, they wouldn't be in business today. But I've seen 90 percent of the people take the 10 million dollars. It was hard to argue they shouldn't.