



Stanford eCorner

Finding Entrepreneurs

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Video URL: <http://ecorner.stanford.edu/videos/1547/Finding-Entrepreneurs>

Penchina discusses the process of finding entrepreneurs and then investing in them.



Transcript

It's how do I find on entrepreneurs and then when I do, you know, what does it takes to invest to them essentially. And it's funny, I have been doing it for eight years and when I started I just got married and I sat down with my wife and I said, "Sue, I am planning to go lose a lot of money." And she said, "Well, that sounds dumb." I said, "Well, here's why, you know, I want to go do this investing thing and I know that because I don't know anything about it and I've never been invested before, I probably going to suck." Right, and I'm going to suck on several dimensions. I'm going to have bad judgment because I don't really know what's good and bad. I don't really have a good network of people to refer staff to me. So I probably going to get really crappy deals. And I don't even have a good sense of smell for like how this should work and what evaluations are and any of that stuff. So you're pretty much assumed the first five or ten are just going to be flushed down the toilet. She's like "Great, fabulous!" Then I proceeded to do that and what I found is true with anything. The more time you spend doing something, the better you get it and the bigger you're network gets and the more skill you gain. And so I progressed from really, really bad deals to sort of smelly deals, to OK deals.

I now get more and more referrals to the point where I probably won't talk to people if they don't know somebody I know because I get so many from the people I do know and trust that I don't, you know, I don't need to take a 100 cold calls. Although that may change because there's a journal article mentioning the yesterday and the spam level has got up a lot in my LinkedIn mailbox and I will answer those. So I do now take it primarily to people I know, and in fact I'm part of a sort of modest network of angels like Reid Hoffman, the LinkedIn founder and Mark Henderson and Josh Kopelman and Mark Pincus were all in the same milieu of web 2.0 and consumer internet investing. We all look pretty much at the same stuff. So today it's much more, OK somebody I know and trusts likes this guy and knows him and, or knows this per-this woman and think she's great. In terms of investing, no absolutely not. In fact angels preferred not to have venture money. We want to be the first money in and we much rather keep the BC's out and give you enough money to get going. And I have seen, it's a sense of, feels more like 98 to me than 99 but the bubble is coming. And I can tell because 18 months ago, I would do an angel round and we'd raise a \$100 thousand from a group of people for a million dollar valuation.

And a few months ago, I invested in a \$3 million angel round. And I called up the guy who I know and I said, "Hey you know, \$3 million, that's like a lot of money. Who set the evaluation on this thing?" And he goes, "What do you mean?" And I said, "Well, you know who's leading it? Who's the BC or whatever?" And he goes "Yes, the BC." So how do you decide on \$15 million per year and 18 million posts? He goes "I don't know. That's what people are willing to bear." I was like, alright I'm in. There's no Science to this, you know, I like him, I like him, it's a good idea, and he's got, you know. You bring your checkbook today? Yeah, no but I have PayPal account so I can email it but, no, but you know, again right this is. And I think what's different this

time around especially if the angel is, there a lot of been there done that people, you know. And so this guy Jayson, he'd been COO and then CEO of a fairly significant publicly traded internet company and he was going off to do another internet company. I'm like "OK." You know, excuse on risk equals zero. I know Jayson, you know, the big question is, you know, is it going to work or not.

Like our consumers going to get excited about it or just sort of excited, I can't predict at. But a lot of the risk has been taken out and you're seeing more and more of that now where you find these serial entrepreneurs that have taken companies public, sold them for a lot of money, putting their own money in, getting things started and asking people they know and like to join with them and that is a much lower risk profile. And so that's how you justify, you know, an eight-figure evaluation for a piece of PowerPoint, is you go "Okay, it's Jayson, I mean Nokia got founded, you know, with \$4 million with, you know, essentially no business players." Like well "It's Jimmy Wells, he did Wikipedia, and he wants to do another one." I get it, you know, what else can you really tell me that's going to change my opinion?