

URL: <https://ecorner.stanford.edu/in-brief/vc-case-study-dealing-with-a-disruption/>

What if an external event - say, a global pandemic - arrives as a VC is about to close a deal with a founder? Should the VC continue moving forward as if nothing happened, use the event as an opportunity to get more equity for the same investment, or simply postpone the deal? In this brief case study, Stanford professor of the practice Tina Seelig and Redpoint Ventures managing director Annie Kadavy explore that suddenly very timely question.



Transcript

- Okay, this is very timely.. You're in the middle of negotiating a deal with a startup.. Okay, and all of a sudden the world changes.. Maybe there's a pandemic that changes everything in the world.. Do you continue the negotiation in good faith? Do you use this as an opportunity to get a better deal asking for more equity for example, since it's a higher risk? Or do you put out the deal for now and put it off and tell them to come back later? So let's see what people think.. I mean, do you just continue as if nothing's going on? You know, we're in the middle of this deal.. Do you say hey, you know what the world has changed, we gonna squeeze a little more out of this, or do you pull out for now? Say come back later when things get better? All right, let's see what people say.. And Andy, what do you say? - Sure, so oh, how interesting.. Okay, do you want to read the results Tina? - Yeah, so let me let me just do this.. So a 43%, say continue in good faith..

So that's really interesting, 25% say uses an opportunity to get a better deal, and 32% say pull out.. I mean, it's really even, gosh! This is so fascinating.. So what would you do Andy? - Okay so, in some sense, I would say that everybody can be right here.. And the reason is that it depends what your definition of in the middle of negotiating a deal is.. So in some sense, this demonstrates the nuance of the process of negotiating a deal.. So, the answer that I give is number one, and this is the right answer, but of course, not always what is going to happen.. And specifically, I would give this answer and say you with the caveat that it depends where exactly the negotiation is.. And if I define it as there is already a term sheet out, I have already said I want to invest this amount of money.. I've already signed my name on it.. I have already said we are signed up to work together for a very long time, then there shouldn't be a backtracking of that..

That is forced by me.. There could still be if there is a conversation where we talk together and say, hey, the valuation environment is going to come down probably after this.. Are we sure that we want to do this deal at this valuation? Is that going to be the best thing for the company? But that's a mutual conversation as opposed to, hey, I'm pulling this term sheet and instead, I'm gonna give you something that's 50% devaluation.. And that said, if it's preterm sheet signing, and you are still in a conversation, saying, hey, I think I'm interested in investing what might that look like? How much exactly do you need to raise? What kind of valuation are you thinking? And then I think it's completely reasonable to bow out if the world has changed because your appetite for whatever that valuation whatever that investment amount was, very well might have changed...