

URL: <https://ecorner.stanford.edu/clips/connecting-with-vcs-and-government/>

Josh Wolfe, co-founder and managing partner of Lux Capital, responds to a question about how he identifies entrepreneurs to work with and how he thinks startups should collaborate with government. The value comes from the founder, not the venture capitalist, he says — VCs are competing to get the chance to partner with great founders. Regarding government collaboration, he gives an example of a new type of model from a company he invested in.



Transcript

Questioner I'm curious about how you 00:00:04,440 think about identifying entrepreneurs versus venture formation, and how you collaborate with the government.. So certainly, there's just geniuses out there who've been thinking about a problem for decades, and then there's expert venture capitalists who can say, "Here's a problem with the market.. We should design and implement a solution." How do you think about that, those different options when you think about identifying a solution to a problem, and then when you find a solution to a problem, how do you work with the government, which is, in my experience, very hard to work with.. And some VCs are doing it better than others, and how do you think about that? - Okay, great question.. 00:00:36,840 So first one is, we really are not valuable, okay? The one thing that we do that's valuable, aside from raising money from people who have interest to make a lot more money, foundations and endowments and wealthy families, is that we believe before others understand.. That is our key mantra, to identify.. So if you said, "I think that there's this unmet need.. I served, I know the communication systems, or I know the armor systems, there's a huge gap.. It sucks.. This is something to solve..

I've got the team, I've got the technology, I've got the will to do it." We love that and we wanna back you, right? So that's the most important thing.. All of the value is from the entrepreneur.. It's not from the VCs.. VCs are relatively commodity, okay? We have different styles, we have different reputations, but it's really the founders, and we are competing to get the chance to partner with the great founders across all the sectors that we fund.. So what we're looking for are people that can tell stories, that truly can execute.. 'Cause you can have great people that can BS and raise money, but they can't deliver.. The best people are able to raise money, tell a story.. It happens to be true because they really have that deep conviction that they believe in it.. People will part with their money.. People will move across the country with their spouses and drop what they were doing to join them..

That kind of galvanizing force is so powerful.. So that's really what we're looking for, is somebody that can really galvanize talent and capital and then actually execute and be held accountable.. How do we work with government? Anduril is really the great case study of this because historically in defense tech companies, you got cost plus contracts and it took forever, and something has happening now that hasn't happened in at least a generation, maybe two since the Cold War.. The first is we have real, pure competition, particularly with China.. Russia's important, but China's really important, and particularly the

CCP.. And so you have a motivating force to say, "Wait a second, are we behind? Are we behind in satellites?" Yes.. "Are we behind in hypersonics?" Probably not.. "Are we behind in AI?" Today, no.. But those are the kinds of things where we look and say, okay, where's the sort of surface area that you can attack problems? In working with government, what Anduril decided to do is we're not gonna go after cost plus contracts.. We're gonna raise a lot of money..

And right now, they've got nearly \$2 billion on the balance sheet now.. And they're gonna fund it, and they're gonna do demonstrations and the customer is going to buy it because it's a better product, and that's really the bet that they've been taken and paid off.. And I think it's gonna usher in a wave of other startups that follow that model.. Let's raise from equity and debt dollars.. Let's execute and then the government will buy.. Very different model..