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# Building and managing startups portfolio

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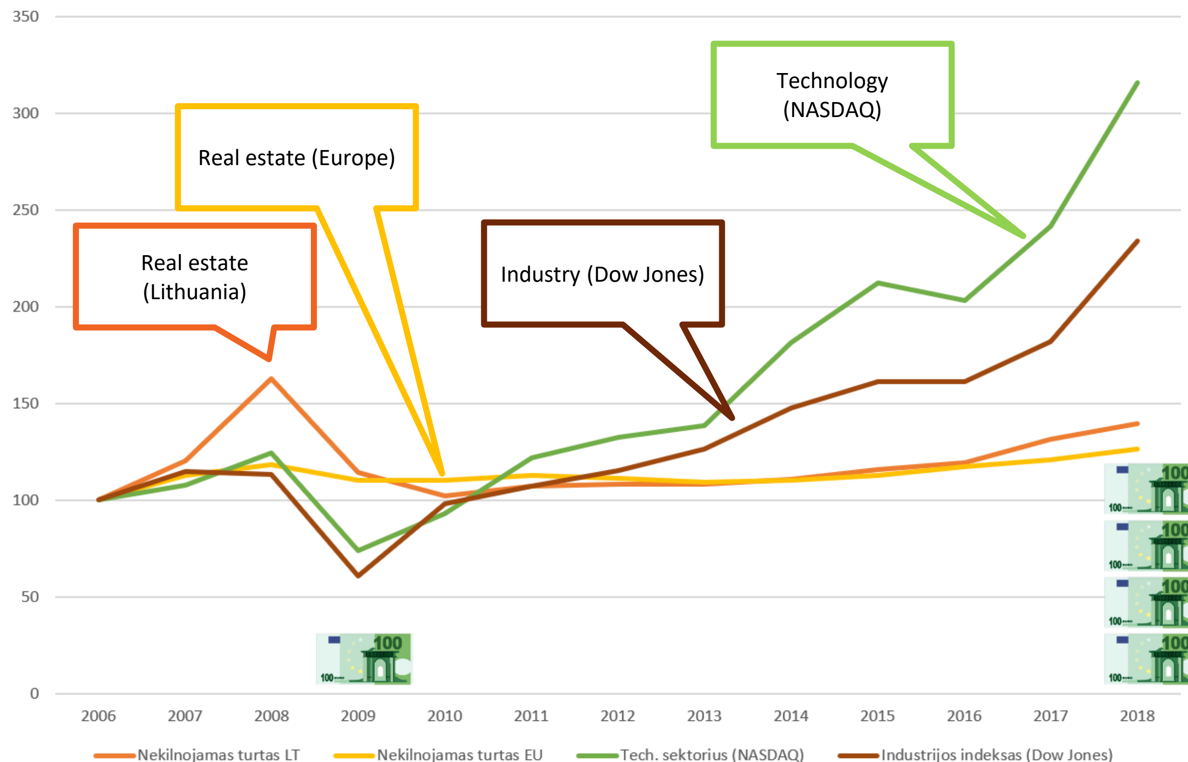
# **Ilja Laurs** / technology investments experience

- $42 million raised as an entrepreneur with VCs including Accel (Facebook) and Tiger Global (Linkedin)
- Largest ever Lithuanian startup round, $25 million from Tiger Global
- First Lithuanian $100m+ startup, GetJar. M&A in 2014.
- Private venture capital,
  30+ startup investments since 2014
- 4 startup cash exits (M&A) in last 12 months
- Technology hedge fund with 20.65% YTD return in 2019
- Artificial intelligence driven algo-trading with 200%+/y annualized returns

# Technology vs Real Estate & Industry




Before crysis

**100€**

invested in **2006**

were worth in **2018**

Real estate (LT) : **139 €**

Real estate (EU) : **126 €**

Industry (Dow Jones) : **234 €**

Technology (NASDAQ) : **315 €**

After crysis

**100€**

invested in **2009**

were worth in **2018**

Real estate (LT) : **122 €**

Real estate (EU) : **114 €**

Industry (Dow Jones) : **385 €**

Technology (NASDAQ) : **426 €**

# Betting on technology: stock market vs startups

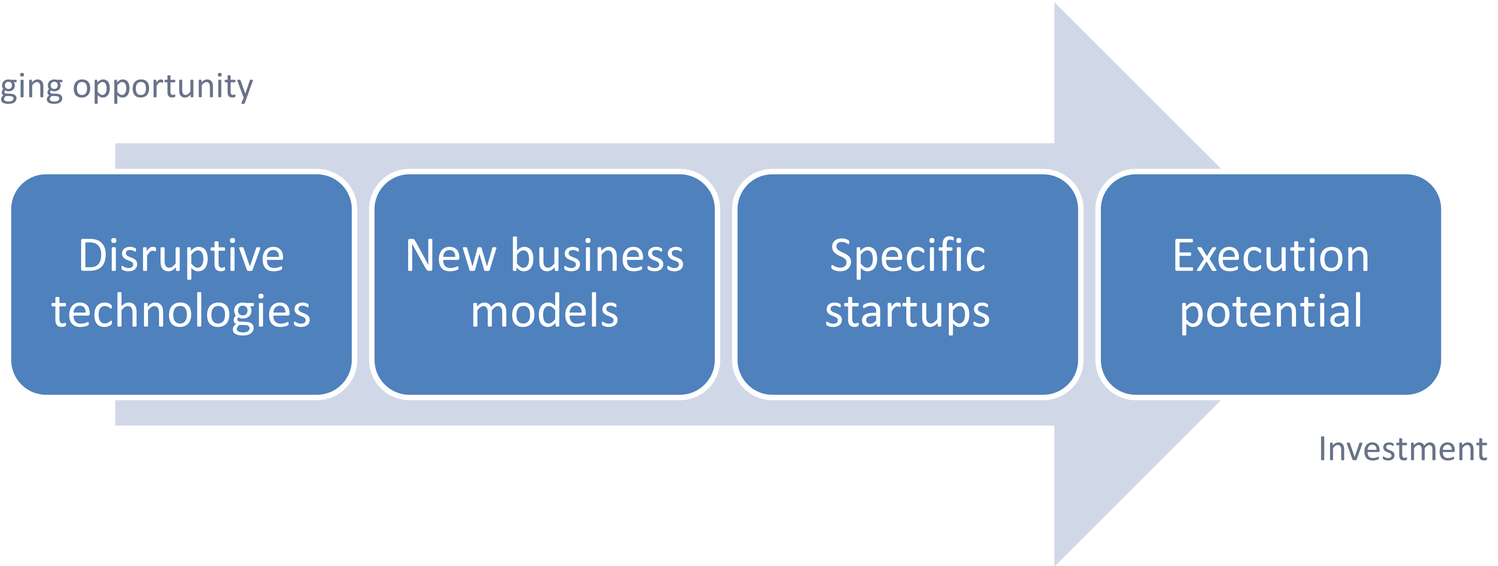
- Moderate returns averaging 14%/y
- Larger volatility/returns relative to industry stock
- Passive strategy

- Super high risk/reward ratio
- 10% success rate with 1000%+ returns
- Very hands on

# VC/startup investment principles

- Very hands-on. “Unsupervised” money tends to disappear.
- Best option is syndication with a trusted lead. Angel/VC networks are very effective.
- Best investment point – proven business model, before scaling.
- 10+ portfolio is a must. Better to write 10 small checks than 1 large.

# Top-down investments target approach



# The “sweet minority” spot

- Ideal equity range 10-15%. Owning 15% statistically brings significantly higher absolute returns than 30%.
- Investment protection/returns through stock preferences not equity.
- Investment amounts ideally < 1/2 of the current value of the company, regardless of the valuation.
- Typical startup has 3 rounds, sells 50% to investors. Investors owning >50% is risky (investor-controlled company).

# The “valuation” game

- Optimizing for chances to succeed, not equity level.
- Super early stage is guesswork and standards as oppose to hard rules. E.g. EU valuations of 300k are common for idea+team stage, US starts with 1m.
- Founders’ future commitments (secured through vesting, etc.) is a must.
- Invested amounts ideally don’t exceed company value or founders’ time/effort to-date and future commitments.
- Startups with revenue, growing 2-4x/y could be valued 10-20x annual revenue in the U.S. High contrast with established business valuations of 4-6 EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization).

# Portfolio management

- Regular (weekly, monthly, quarterly) meetings is a must.
- Tight KPI/budget control, lot of hand-holding.
- Cash is king, optimizing for strong revenue growth and slight/near profitability is best.
- Clear understanding the goal of each round, never sending good money after bad money.
- 10 portfolio companies per VC (investor) partner is a good rule.

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# Questions? Let’s connect