

We're Looking for Attractive Start-ups

Lidové Noviny, 26 February 2008

Our goal is to have the majority of our portfolio make a successful "exit," says Yoav Andrew Leitersdorf, head of the YL Ventures venture capital fund.

*** LN Your fund invests in start-up companies in Europe and Israel. Do you approach companies, or do they come calling on you?**

We find companies in two ways. The first is when start-ups call us. This is also typical for venture capital. The companies write to us or they ask someone to send their business plan to us. But we also try to look for attractive start-ups on our own. We read all the relevant blogs in this field – we have two employees, four interns, and one Indian firm for this purpose. All of these people read through blogs on European and Israeli start-ups and look for something new. When they find something interesting, if someone blogs about an interesting company, they send the information to me and I have a look.

*** LN When you do decide to invest in a company to what extent do you become involved in its daily management?**

We bring a certain added value. We are involved, naturally, in the running of the company, but not in the day-to-day management. We leave this to the CEO of the company. We take care of development, partners, potential customers, and potential buyers for the company.

*** LN So you actually function somewhat like consultants?**

We help out with the development of the company. As soon as a potential buyer materializes we court them. We have a short-term exit strategy. Typically about two years. We attempt to identify potential buyers even before we invest in a company. Afterwards we stay in contact with them and do everything to ensure that the start-up company remains attractive to potential buyers.

*** LN Why do you exit after just two years? Venture capital funds are known to stay with a company for even three-times that long.**

The average is in fact seven years. The problem is, the typical fund has only ten percent of companies that make a successful exit. The remaining firms fail or barely return the investment the fund has made in them. The successful sale of a company you have invested in is such a long and risky process that the majority of companies never get to that point. Our goal, on the other hand, is for the majority of our portfolio to make a successful exit. Reducing the investment timeframe also means lowering the risk and increasing the chances of success.

*** LN Do you adhere strictly to this period?**

Naturally, if I see an opportunity for a better exit in a longer period, I won't sell right at two years. Two years is just a general strategy. But from what I know, other funds don't make such short-term investments. We are the only ones in Europe and Israel.

*** LN What happens after your exit, i.e. after the sale of the company to a large corporation?**

The typical entrepreneur sells a majority share and keeps the rest. He then works for the company that bought his firm for another two or three years and then makes a "second sale" of the remainder of his share.

*** LN What kinds of companies do you invest in?**

We invest in three sectors: internet, mobile applications, and digital media. What's more, we only invest in companies in these sectors that are interesting from a technological perspective. We aren't interested in just new social networks, new business models, or new e-commerce sites. New technology for delivering or protecting content, web analysis, or new mobile technology are things we are interested in.

*** LN What percentage of a company do you typically buy?**

We are a minority investor – we buy twenty to forty five percent. But we have certain veto rights over things like who the next investor will be, who the company is sold to, and similar matters.

*** LN You probably aren't in Prague just for the conference on the importance of innovation. Are you looking around for attractive Czech companies?**

Yes, I am approaching certain companies on my own, and naturally some start-ups are coming to us. We have already spoken with or have plans to speak with seven Czech companies. But I can't say any more than that - venture capital is an extremely private business.

*** LN How many companies have you invested in?**

We have already made one investment and have three more that will be announced in the coming months. The fund will eventually invest in about twelve companies.

*** LN What is the average amount of your investment?**

The maximum is three million euro. But we limit the risk by investing in phases. The first investment is typically a half million to one million euro.

*** LN What are the main problems that start-up companies face?**

I see two basic problems. In Europe this concerns a fundamental lack of early-stage venture capital. It's difficult to make good investments in this early phase of business. There is a great deal of risk, which we try to reduce by shortening the period of investment to two years. The second problem is that start-ups are too far away from the final buyers, which are mainly headquartered in Silicon Valley.

*** LN Who invests in your fund?**

Various subjects from around the world. Independent entities, family funds, companies, other venture capital funds – the mix is pretty interesting. For them we are the maximum five-percent high-risk portion of their portfolios.

For the past fifteen years Yoav Andrew Leitersdorf has worked as an entrepreneur, investor, and advisor in the field of technology and new media. He has founded a total of three software companies, which he then sold after approximately two years to large corporations. For example, after an initial investment of three million dollars he sold his company ExchangePath after two years for twenty five million dollars to the internet corporation CMGI. Leitersdorf worked for two years for an American venture capital fund. He is a graduate of Columbia University in New York and the International Institute for Management Development in Lausanne, Switzerland.

ONDŘEJ MALÝ