

# Adrian Wajsbrem Blog

## The Yoav Andrew Leitersdorf Interview



Yoav Andrew Leitersdorf, managing partner of the newly launched fund [YL Ventures](#) recently interviewed with Launchpad Israel. Billed ‘The future of venture capital, today,’ further information about Yoav and his fund can be found in the fund’s recent [press release](#).

### **1) How does YL differentiate itself from a standard VC fund in view that entrepreneurs are likely to seek many funds before choosing their eventual capital partners?**

YAL- YL Ventures has a very different strategy than other VCs in that it aims for medium size exits (around \$20MM) rather than homeruns (billion-dollar IPOs/acquisitions), in much shorter timeframes (holding periods). Entrepreneurs that are backed by YL Ventures (and their shareholders) benefit from a higher likelihood of exit because exit strategies (i.e. potential acquirers, typically known to the fund) are identified and contacted prior to YL Ventures making investments, and YL Ventures works hard to facilitate those exits starting immediately after initial investments. YL Ventures’ overall fund strategy ensures that entrepreneurs have a higher chance of cashing out, albeit at modest rather than sky-high (often unrealistic) valuations.

### **2) Would you say that the YL philosophy provides a system for large companies to outsource Research and Development as a substitute to their own?**

YAL- Absolutely, and with the enormous benefit of hindsight. In other words, corporations that wake up one morning and regret not to have invested in some technology (due to business unit conflict, lack of vision, or any other reason), or suddenly notice a ‘disruptive technology’ from a small startup threatening their business, have the chance to bid for and acquire that ‘outsourced R&D’.

### **3) Does a company’s successful path from YL’s funding to its planned liquidity event depend greatly on active participation and guidance from the potential acquirers arranged?**

YAL- Well, the active participation and guidance is mostly the role of YL Ventures – a value-add venture fund. Having said that, YL Ventures seeks behind-the-scenes steering from the potential acquirers, and in some cases, YL Ventures invites these potential acquirers to become early customers or minority investors of portfolio companies.

### **4) Please explain an ‘earn-out’ and how that might be a viable substitute to an IPO for an entrepreneur?**

YAL- Potential acquirers are never interested in just the technologies or just the products. These corporations rely on M&A activity as one of the most effective ways of recruiting outstanding talent. In addition to that, potential acquirers would like to see acquired startups succeed and thrive within their walls. Therefore, almost

every medium-size acquisition involves an earn-out scheme for the entrepreneurs whereby typically the entrepreneurs retain a certain portion of their equity post-acquisition with a put/call option which basically says: that remaining equity will be sold to the acquirer within a certain period (typically 2-3 years) at a certain price which depends on two main variables – how long the entrepreneurs have actually stayed onboard post-acquisition, and whether the entrepreneurs performed as expected (based on set criteria that is determined at the time of acquisition).

**5) Would you say that a large corporations such as IBM or Motorola would be disinclined to get involved in YL's strategy because they already have large R and D functions?**

YAL- Absolutely not. As mentioned above, these corporations miss the boat all too often. They make a lot of good R&D decisions, but they make some bad ones too. Business unit managers sometimes argue over which unit will assume the R&D costs of risky projects, and company employees are sometimes not compensated well enough for coming up with innovative ideas – these are just two of many reasons why corporations don't always get it right when it comes to R&D. YL Ventures provides a good mechanism for them to 'undo' and get back on track, because unlike with other venture capital funds, YL Ventures sells at valuations that (a) represent low capital at risk for the acquirers and (b) can be done at the division or VP-level, in many cases not involving the CEO or board of directors.

**6) What are some of the hands-on activities that the fund will provide portfolio companies?**

YAL- YL Ventures seeks to partner with entrepreneurs that are excellent managers of their businesses but do not necessarily have the skills, experience and network to guide their companies to successful exits. We see our role as the facilitator of the liquidity event, which involves many functions, including the following: (a) influencing company strategy to better align with potential acquirers through communication with both the management team and the potential acquirers, (b) introducing a portfolio company to marquee international customers that can provide validation and increase its valuation, (c) introducing the portfolio company to acquirer candidates and then negotiating and closing the exit transaction, (d) helping package portfolio companies for exit, which includes initiating audits/licenses, IP protection, hires, partnerships, 'cap table cleanup', and more, (e) address companies' financial requirements thereby allowing entrepreneurs to focus on running and growing their businesses.

**7) Is execution of YL's strategy dependent on the degree to which its portfolio companies' staff cooperate with YL staff and the degree to which YL has control over a company?**

YAL- Yes and no – cooperation between YL Ventures and its portfolio companies is paramount to achieving successful exits, but YL Ventures does not seek control over a company. Before investing in companies we carefully study the human factor and ascertain to the best of our abilities whether a true partnership can be created. We also invest in stages to ensure that a friendly divorce is possible in case things don't work out.

**8) Once acquired, a YL portfolio company's sales and marketing functions are likely to be of little value to an acquirer. How much of that function will you encourage or plan prior to a company's acquisition?**

YAL- Very little. With regards to sales and marketing, our only goal pre-exit is to seek marquee validation for a portfolio company's technology and products. Some revenue can indeed help foster that validation. But we are certainly not looking to fund massive marketing campaigns or worldwide sales offices. We believe that these activities are much more successful if done within the potential acquirers.

**9) Would you please elaborate on the role of strategic co-investment by marquee customers and potential acquirers in the life of a YL startup?**

YAL- In some cases, we expect potential acquirers to be extremely interested in certain portfolio companies, so much so that they will be willing to take some early bets, before YL Ventures has had a chance to fully prepare these companies for exit. Some ways in which these potential acquirers can get involved early is by becoming early customers or co-investing with YL Ventures, in some cases with an option to acquire the portfolio company down the road at certain terms. In all of these scenarios, YL Ventures draws on its experience to ensure that such arrangements do not hurt a portfolio company's chances to be acquired by other potential acquirers.

**10) Are you concerned that devolving information to potential acquirers could create temptations in the potential acquirer to compete via corporate espionage rather than cooperate as a result of obtaining such information?**

YAL- YL Ventures is extremely careful with how it manages its relationships and communication with potential acquirers. The portfolio companies are always priority #1. In most cases, only a subset of the information about a portfolio company needs to be communicated to the potential acquirers. For example, describing what a technology does (the end results) is usually better than communicating how it does it. YL Ventures draws on the strength of its relationships with potential acquirers, careful communication of information, certain legal tools such as non-disclosure agreements and patents, and common sense to protect its portfolio from such threats.

**11) Do you feel that portfolio companies as a result of collaborating with potential acquirers are better positioned to have a 'big exit' rather than 'selling themselves short' to the potential acquirers for whom they initially collaborated?**

YAL- Well, big exits take a long time and usually require significant investment, revenue and profit traction. None of these are likely to happen to YL Ventures portfolio companies. However, if we identify a relatively low-risk opportunity to significantly increase a portfolio company's valuation in a definite amount of time, we may very well decide to take advantage of the opportunity.

**12) Will you allow or encourage NDAs to be signed by potential acquirers in due-dilligence stage?**

YAL- We will allow and certainly encourage NDAs. In some cases, potential acquirers will not sign them and we would have to rely on other forms of protection, such as managing the level of detail of the material that is disclosed.

**13) What did you learn at Draper Fisher Jurvetson Gotham as an associate that might have influenced your work at YL Ventures?**

YAL- I've always learned the most from my mentors. At DFJ, I learned by working with a fantastic partner by the name of Danny Schultz, and watching another partner by the name of Tim Draper. I don't think I would have been able to launch a venture capital fund without having experienced and studied the inner workings of such a fund from the inside. I watched, I learned and now I get to innovate.

**14) What would happen if you were approached by entrepreneurs whose businesses do not suit the range of acquirers you have at bay or in mind, yet you still retain confidence that an investment would yield a positive financial outcome?**

YAL- I would probably have to turn the investment down and refer the entrepreneur to another investor, because unless YL Ventures can provide a potential portfolio company 100% of its stated added value, the fund does not invest.

**15) What are the main steps and milestones you foresee in the life of a typical YL Ventures portfolio company from inception to acquisition?**

YAL- A typical YL Ventures portfolio company, at the time it is added to the portfolio, has spent about 1-2 years and \$500K-\$1MM on highly unique R&D that is based on a 'disruptive' technological idea. That company typically has 4-12 employees and several angel investors, and possibly one or two Beta customers. YL Ventures invests in stages, initially to fund the first 6-9 months of burn rate (usually about \$500K), and then continues to invest in stages up until the acquisition. During this 'holding period', a portfolio company's major milestones will include proof-of-concept deployments with marquee customers, changes/additions of product features and junior and mid-level staff, and increased collaboration/integration with potential acquirers.

**16) What led you to this new approach to venture capital?**

YAL- My own experience. I didn't sit around one day and come up with the idea, but rather reached the realization that what I have been doing my whole entrepreneurial career should form the basis of a venture capital fund that is more 'switched on' to the post-bubble era of Sarbanes-Oxley regulations ( i.e. closed IPO windows), highly-volatile financial markets (that sometimes hinder high-valuation acquisitions), open-source code and cheap connectivity and processing power (i.e. entrepreneurs need less capital and less time to get to great results).

**17) Taking the YL philosophy a step further, can you see the day when YL Ventures becomes a 'hot-house' for innovation, where acquisition is the only path for a portfolio company to generate a return, and where YL's companies take on no sales and marketing functions of their own, with the fund receiving projects briefs from companies who would like to co-invest in the companies they initiate?**

YAL- Absolutely. And taking that vision yet another step – YL Ventures currently only covers Europe and Israel and only specific sectors. The YL Ventures philosophy can be applied in many other geographical regions both in the developed and developing world, and to many other sectors such as healthcare for example. YL Ventures Fund I needs to prove a model based on which a worldwide cross-disciplinary financial powerhouse may emerge.