

Renmin University of China

School of Finance



Financial Challenges and Policy Needs of High Technology Ventures

Jim Cook

December 6, 2001

Preliminary Remarks



- **The practical man adapts himself to his environment. The impractical man continually persists in trying to adapt his environment to himself. Therefore, all progress depends on the impractical man. - George Bernard Shaw (1856-1950)**
- **Every good laboratory consists of first rate men working in great harmony to insure the progress of science; but down at the end of the hall is an unsociable, wrong-headed fellow working on unprofitable lines, and in his hands lies the hope of discovery. - Ernst Rutherford (1871-1937)**
- **So we went to Atari and said, 'Hey, we've got this amazing thing, even built with some of your parts, and what do you think about funding us? Or we'll give it to you. We just want to do it. Pay our salary, we'll come work for you.' And they said 'No.' So then we went to Hewlett-Packard, and they said, 'Hey, we don't need you. You haven't got through college yet.' - Steve Jobs & Steve Wozniak**

Today's Agenda



- **What is “Silicon Valley”?**
- **Why [should Beijing] have a “Silicon Valley”?**
- **Phase I - Forming (Risk Defying)**
- **Phase II - Storming (Risk Eradicating)**
- **High Technology Financing Proforma**
- **Groups of High Tech Investors**
- **Concluding Remarks**

What is “Silicon Valley”

Silicon Valley 1998 - High Tech

- **\$4.7 B in venture funding** ¹
- **\$100 B in revenues (new hi-techs)** ¹
- **12 (est.) Internet IPOs** ¹
- **15% of Work Force in R&D** ¹
- **41 of top High Tech Wealthiest** ¹
- **A new IPO every 5 days (1996)** ²
- **62 new millionaires every day!** ²

¹ Stanford U. Center for Entrepreneurial Studies

² <http://www.businessweek.com/1997/34/b35411.htm>



Why [should Beijing] Have a “Silicon Valley”?

- **Silicon Valley Companies are worth more than all of the French Stock market, and just 5 of them are worth more than the Big Three automobile companies in USA.**
- **The mere production of computers and semiconductors accounted for 45% of U.S. industrial growth.**
- **In the early 1980s Asia's share of the world economy was roughly one-fifth; by the end of the 1980s it was over a quarter; by 2001, it will be around a third.**
- **Asian CEOs lead 30 % of tech firms [in Silicon Valley]. Also Asians represent up to 65% of the technical workforce**
- **Taiwan, Malaysia, England, Boston, Austin are all vying for a “Silicon Valley.”**
- **Asia's Internet usage is growing the fastest at 500% per year and is set to outstrip Europe at a projected 37 million users by 2001.**
- **Leading technology raises the standard of living and respect of the entire Nation!**

Phase I - Forming (Risk Defying)



- **Imagining, Nurturing, Strategizing, Teaming, Committing**
- **Researching, Adjusting, Quantifying, Planning, Packaging**
- **Articulating, Promoting, Selling**
- **CLOSING**
- **Entrepreneurs need:**
 - **Mentors** but not **Delays**
 - **Money** but not **Expenses**
 - **Alliances** but not **Hassles**

Phase I I - Storming (Risk Eradicating)

- Starting, Bonding, Organizing, Specializing
- Delegating, Designing, Developing, Adjusting, Testing
- Documenting, Prototyping, Piloting, Launching
- Operating, Building, Expanding, “Generating”, Exploding
- **DOMINATING**
- **Entrepreneurs need:**
 - **Competence** but not **Consensus**
 - **Integrity** but not **Controls**
 - **Initiative** but not **Certitude**

Groups of High Tech Investors

- **FOUNDERS, FAMILY, AND FRIENDS – 500 to 1,000 x possible**
 - Lottery-like returns based on personal relationships
- **ANGEL INVESTORS – Experienced & Connected – 30 x plausible**
 - Greatly underestimated (\$60 Billion pool in USA)
 - “Gut” based investing
- **VENTURE CAPITALISTS – Professionals/Builders – 5 x expected**
 - “MBA” investors using “other people’s money”
- **MEZZANINE FINANCIERS – Investment Bankers – 1.3-1.5 x likely**
 - Strictly a financial transaction (risk removed by relationships with Underwriters)
- **PUBLIC OFFERING – Underwriters – 15% fee guaranteed**

Phase I – Facilitating Policies



- **Helping the Company/Founders**
 - **a) Easy Corporation Formation and great internet access**
 - **b) Strongest Technology and Business Educational Infrastructure**
 - **c) Strong Novelty Patent Requirements (for prosecution)**
 - **d) Promotion of the Social Value of SMALL Hi-Tech Ventures**
 - **e) High quality of life to attract talent and money**
 - **f) Enlightened certification as a “bona fide” high technology venture**

- **Helping the (Angel) Investors**
 - **g) Capital Gains postponement for Reinvestment**
 - **h) Board Member Liability Insulation**
 - **I) Allow debt as an investment tool**

Phase II – Facilitating Policies



- **Helping the Company**
 - **a) Exemption from Pension payments**
 - **b) Access to promotional media such as television (for free)**
 - **c) Soft Landing and No Stigma Bankruptcy Laws**
 - **d) Strong Intellectual Property protection and inexpensive filing charges**
 - **f) Incubators with “commodity” office/lab facilities for low/no rent**
 - **g) Access to “Public” research results**

- **Helping the Investors**
 - **h) Allow losses to be channeled to Preferred Stocks**
 - **i) Allow Pre-public Liquidity Mechanisms**
 - **j) Creating a “pink sheet” equity market exclusively for high technology.**

Concluding Remarks



- Questions and Answers
- Thank you, again.

You can find a copy of this lecture (150 KB) on the Internet at:

<http://globatech.com/hi-tech.pdf>