

Choosing and Making the Most of a Venture Capital "Partner"

By: Daniel H. Aronson*

Raising capital from one or more venture capital (VC) funds is much more than simply effecting a financing transaction; it is the formation of an active "partnership" in which representatives of the VC firm typically become strategic consultants and advisors, as well as members of (and rather vocal voices on) the board of directors. The VC firm – incentivized by its investment position and the need to realize investment returns – can and should function as a value-added partner, assisting and guiding the business in its governance, development, funding, growth and ultimate exit strategy.

With a record amount of funds chasing a relatively small group of promising, high-growth emerging companies, many capital-seeking business owners and managers are faced with several interested VCs and proposed term sheets and, as a consequence, a "choice" concerning which firm should become their investment funding partner. This choice should not be taken lightly.

In addition to providing much-needed funding, a VC investment can and should bring an important "partner" and resource, as well as discipline, to the business. Thus, the venture investor's background and experience, portfolio companies, available professionals and chemistry and "fit" with owners and managers is vitally important.

Accordingly, in selecting the right VC partner, business owners and managers should consider and evaluate a variety of factors, the importance of which will vary from venture to venture. This requires a pro-active, concerted effort, in combination with the advisory team, in advance of sending out executive summary business plans or seeking indications of interest from potential funding sources. Prior to selection, the company should research, question and assess – and, once the funding is closed, should work actively to take advantage of – some or all of these factors:

- How well the VC firm understands your business, market and industry (which can be measured, in part, by the background and experience of its professionals, the thoughtfulness of the firm's approach, questions and due diligence and, of course, the quantity, comparability and success of the firm's other portfolio investments in your industry and market).
- The VC firm's level of interest in and commitment to your company and transaction, and its desire and willingness to reach a shared vision in the growth and development of the company.

* Copyright © Daniel H. Aronson 2007 - All rights reserved. Daniel H. Aronson (DAronson@bilzin.com) is a Partner and Co-Chair of the Corporate & Securities Group at Bilzin Sumberg Baena Price & Axelrod, LLP (www.bilzin.com), a full-service commercial law firm based out of Miami, Florida. Mr. Aronson focuses his practice on mergers and acquisitions, private equity and venture capital, capital market transactions, and general corporate, finance and securities matters, for public and private companies and the market participants that fund them. The views expressed herein are solely those of the author (and not his partners, colleagues or clients). This article – which is based on material included in the author's book, *Venture Capital: A Practical Guidebook for Business Owners, Managers and Advisors* (Bowne Publications 2007) – is intended solely as an educational introduction to the topic addressed. It is not designed to provide, and does not constitute or include, legal, tax or professional advice on any matter, and should not be relied upon for that purpose.

- The VC firm's (and its designated representative's) commitment to devote time, effort and resources to the company and its development and growth; the availability of senior firm representatives (who will be the point persons for your company), including the number and extent of other portfolio company/board of director commitments, should also be assessed; also, the quality, depth and diversity of the VC firm's professional staff, consultants, and external services network, as well as its relevant industry contacts and perceived reputation.
- Good "fit" and chemistry with the VC firm's designated representative, including your comfort in spending significant time with the representative; his/her intelligence, creativity, flexibility, responsiveness, openness and honesty; and the representative's devotion and passion for contributing to portfolio companies, level of planned involvement in management and operational matters, and ability to function calmly in a crisis (remember, you will be spending a lot of time with this new partner).
- The VC firm's "patience" (*e.g.*, anticipated timeframe for achieving operational and growth milestones and ultimate exit strategies) and record for dealing with portfolio companies that have experienced delays, issues and difficulties in achieving important goals along the way.
- The VC firm's ability (based on prior experience), willingness and expectation to provide or assist in securing capital in future investment rounds; also, the ability of the VC firm to attract other VC and funding sources and capital market participants (including strategic investors, financial sponsors and investment banks) to the current round and follow-on investment rounds. (Note that a single capital raise may be – and often is – insufficient to fund an emerging company's entire business and development plan.)
- The VC firm's views on the depth, coverage and adequacy of your management team, and the VC investor's track-record, willingness and ability to assist in recruiting and retaining critical management personnel (including through its portfolio companies, relationships and network of contacts); also, the VC's views on fair compensation for the management team (you should expect a significant emphasis on incentive compensation designed to align the interests of managers and the VC firm in the business's progress and ultimate success).
- The specific investment terms, preferences, restrictions and conditions the VC firm is imposing as a condition to its investment (including those relating to governance, controls, restrictions and exits).

Like any sound business partnership, the company-VC firm relationship requires real and substantial investment and serious, sustained effort to make it work. The advisory team – which should be deep with experience in the venture market and venture capital transactions – can provide invaluable insight and information concerning these and other matters of interest that should guide selection of one or more VC firms suitable to partner with as well as post-closing "good partnering" practices.

Researching, assessing and making a careful selection of a VC firm to provide important funding to your business is essential to transforming a one-time funding event into a long-term, value-added strategic partnership. Those who devote the time, effort and resources to a proper and considered selection, and a two-way-street partnership, should be well rewarded.