

Financial Voyage

Vinod Khosla on Venture Investing

"Start ups must make a fundamental economic contribution to be durable" - Vinod

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INTRODUCTION:

Vinod Khosla is one of, if not the best venture capitalist in the world today. He is the general partner of the highly respected VC firm Kleiner Perkins Caufield & Byers. At the age of 27, Vinod co-founded Sun Microsystems and was its first CEO.

He has roughly turned an investment of about US\$ 50 million into US\$ 15 billion from a handful of telecom firms alone. This is not counting what he had done with other segments.

We capture from Vinod statements in interviews to present his strategic perspective on Venture Investing and where he looks to put his money.

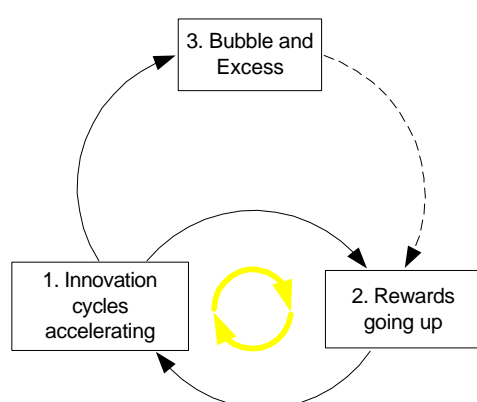


Fig 1

(Fig 1) Vinod believes that despite the bubble bursting, the cycle of innovation continues to accelerate.

In the up and down cycles of investing, the reinforcing loop between Box 1 and Box 2 eventually creates a bubble (box 3) which upon bursting serve to cap and momentarily reverse the ballooning rewards (box 2).

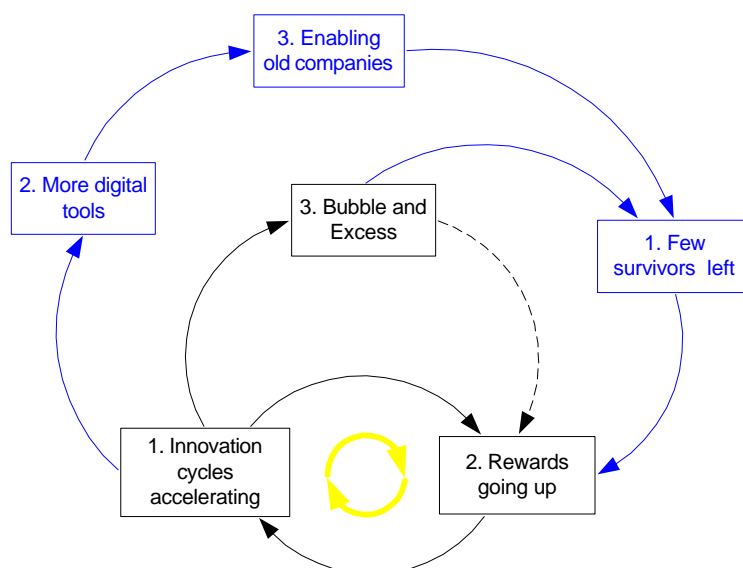


Fig 2

(Fig 2) This takes time, but the few survivors who are marked by their products and services producing enduring contribution to the economy would survive (blue box 1). We marked it here in blue as it represents the next phase

Specifically Vinod sees that these are the start ups which produce digital tools (blue box 2) to propel old companies for the next stage of development. They join the small number of survivors.

Patience is needed here. In his own words, “Business and technology leads take time to build”. On our map, this is the group that will enjoy the fruits. See the blue arrow from Blue Box 1 to Box 2.

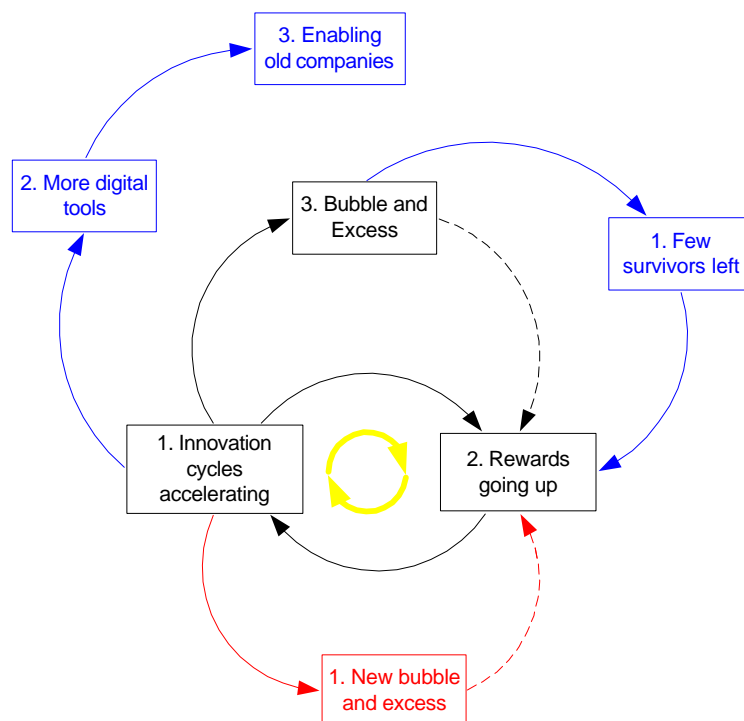


Fig 3

(Fig 3) Then seeing the unbelievable rewards the early birds are getting, the fuel for the next cycle starts all over again (red box 1).

Red Box 1 is essentially the same as Box 3, but happening at some time in the future.

According to Vinod Khosla, this is the cycle of venture investing and what sort of start ups have a good chance of succeeding. The key idea is that a start up must **“make a fundamental economic contribution”**