



MERITECH

CAPITAL PARTNERS



LESSONS IN FINDING GREAT COMPANIES

Craig Sherman

Managing Director, Meritech Capital Partners

MOMENT 2016

⚡ LATE STAGE
ONLY

⚡ 7 EQUAL
PARTNERS

⚡ ALL TECHNOLOGY
SECTORS

⚡ 3X+ OPPORTUNITIES

⚡ FUNDAMENTALS
BASED INVESTMENT
MODEL

⚡ SECTOR LEADING
FRANCHISE COMPANIES

⚡ TARGET
6 - 9 INVESTMENTS
PER YEAR

MERITECH

INVESTING STRATEGY

SUCCESS IN THE RIGHT SECTORS

BIG DATA / ANALYTICS

cloudera

Greenplum

NETEZZA

tableau
SOFTWARE

CONSUMER / INTERNET

EVERNOTE

facebook

PopCap

snapchat

zulily

MEDICAL DEVICE

Acclar^{ent}

Ariosa[®]
DIAGNOSTICS

GLAUKOS[®]
Changing Perspectives

IntraLase

SAAS

cornerstone
realize your potential

NETSUITE

salesforce

yammer

SECURITY

FORTINET

IMPERVA

proofpoint

SOURCEfire

STORAGE

BLUEARC

box

FUSION-io

MERITECH

NET LIMITED PARTNER IRR OF

25%

SINCE 2003¹

MCP III IS THE

#1

PERFORMING VENTURE FUND
OF 2005 VINTAGE²

45

IPOS/SALES OF PORTFOLIO
COMPANIES SINCE
SEPTEMBER 2009

MERITECH

1. As of June 30, 2016

2. Cambridge Associates First Quarter 2016 Venture Capital Industry
Benchmark Statistics Report, Report provided free of charge.

ABOUT ME

- COO at ancestry.com
- EIR at Benchmark Capital
- Independent board member at 8 different companies
- 18 angel investments
- Joined Meritech in 2011
- 6 investments at Meritech
- 11 exits so far

BIGGEST EXITS	
 ancestry™	\$2.5B
lynda.com 	\$1.5B
 Zillow®	\$6B
 zulily	\$2.4B

MERITECH

LESSONS WE'VE LEARNED

CHARACTERISTICS OF GREAT-POTENTIAL COMPANIES

B2C

- Momentum
- Huge market
- Value Proposition
- Retention
- Weak/old/slow competitors
- Talented team with huge ambitions and aggression - but not reckless
- High gross margins
- Riding a secular behavioral change₈

B2B

Same as B2C, but also:

- Enterprise traction
- Upsell rates
- Financial planning

WHY

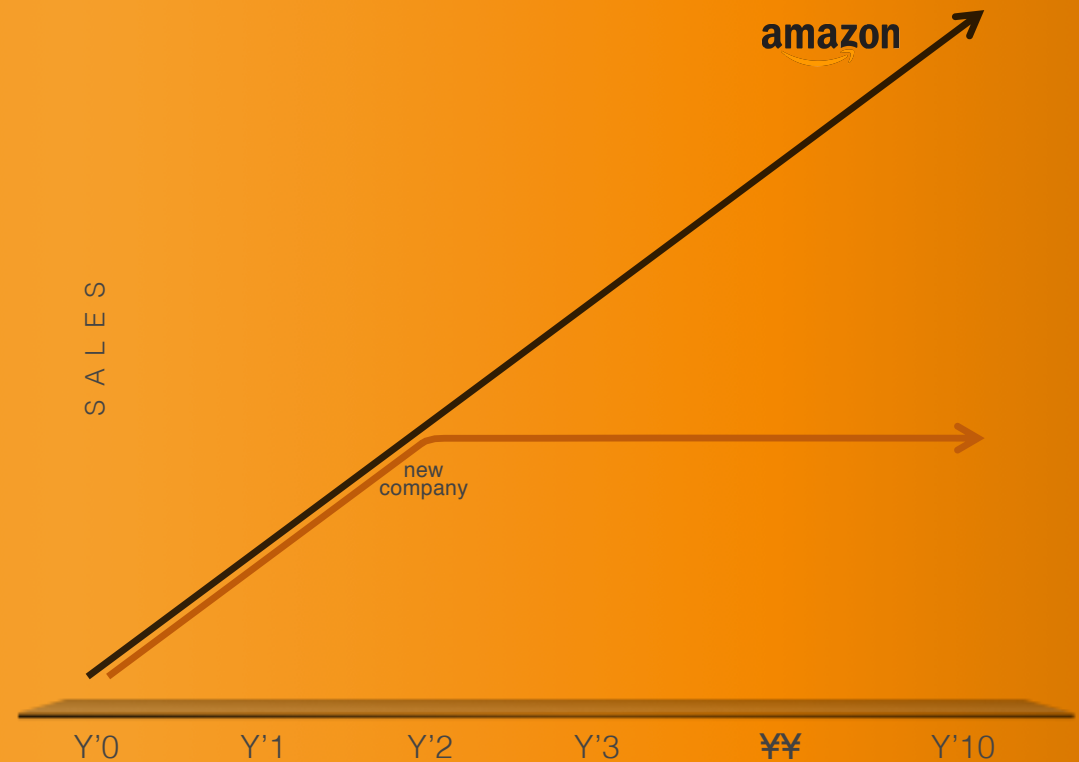
MANY GOOD COMPANIES DON'T BECOME GREAT COMPANIES:

▀ B2C

- Market is smaller than you think

▀ B2B

- Competition
- Market wasn't ready



WHY

GOOD VC'S OFTEN STILL MISS THE GREAT ONES:
SOMETHING IS UNINTUITIVE (I.E.: NEW)



Watching others play video
games live



Sleeping in someone
else's home

UBER

Using a non-professional
driver instead of Taxi

Company is at the forefront of a secular change that we don't understand

CONCLUSION:

IN THE FACE OF NEW THINGS, YOU MUST

#1

You must recognize new (unintuitive) trends
- Use, research, talk

#2

Pick the winner

- Follower often wins
- Examples:  zulily  mercari

CASE STUDY: ZULILY

 **2007 - 2010:**

Flash Sales e-commerce Companies


Fab.

GILT



MERITECH

How can you structure your VC to make good judgements?

- Encourage diversity of opinion and voting process
- Hire young people and give them authority to invest
- Psychologically safe environment
- Minimize reports and paperwork!
- Example:  **ancestry**[™]

SUMMARY:

- We've had some success but we're still learning
- Always opportunity for us – and you – to up your game



MERITECH

CAPITAL PARTNERS