Fireside Chat: Bernard Dallé, Index Ventures
INSEAD Alumni Event Report

In October 2015 INSEAD alums and guests attended a sold-out event organized and hosted by the Geneva Chapter of IPEC (Roman Pelka, MBA 00J, Montfort Capital; Pan Pan, MBA 03J, Pantèra Ventures) and INSEAD Alumni Association of Switzerland. The event attracted participants from banking, consulting, higher education and industry to hear about value creation and trends in venture capital from Index Ventures' Bernard Dallé, Operating Partner (pictured above).

With offices in Geneva, London and San Francisco, Index Ventures is a multi-stage VC fund manager with a top tier track record, raising 7 venture capital funds totaling US$3 bln since 2005. Bernard Dallé has been with Index Ventures for more than 18 years, after a career in consulting and consumer goods. Moderated by Pan Pan, Dallé gave his view on VC returns, performance, VC industry challenges, luck (it has a 20% influence), technology trends and entrepreneur traits (founders have to be irrational because chances are they will fail). Here below are some excerpts from the fireside chat and from the lively Q&A session with the audience.

Key Takeaways

- More than US$3 billion was raised by European VCs in 2015. Some were first-time funds, reflecting growing limited partner (LP) confidence in the region's returns
- Europe is experiencing unprecedented exit valuations via M&A and IPO
- To compete in the top tier of global VC, a presence in Silicon Valley and London are essential
- Two other reasons to be Silicon Valley are
  1) To be able to help entrepreneurs penetrate the US domestic market.
  2) To have "feet on the ground", to know the trends and gather intelligence
- Biggest tech trends: fintech, big data/cloud computing, robotics/artificial intelligence, cybersecurity, mobility and digital health
- Index Ventures offers a 3 year venture associate program for pre or post-MBAs.

European Venture Capital Insights

On Geneva: Geneva is "almost" a hub for VC. "It attracted a billion dollars in VC fundraising this year alone," said Dallé, pointing out that Highland Europe, a growth-stage technology investor, raised a new US$ 365 million and Index just closed a US$ 700 million fund.

On European Venture Capital: European funds raised more US$ 3 billion this year. Several of them were first-time funds, according to Dallé. Two or three years ago, the view on Europe was negative. Top tier institutional investors said they would invest in VC US, Silicon Valley, India, China, Israel but not Europe. But that has changed. “It has never been as good as in the past few years,” said Dallé, pointing to both institutional investor interest and exit opportunities. Index Ventures raises capital from pension funds, endowments, fund of funds and foundations. Half of its LPs are based in the US. It does not approach banks due to their short term cyclical approach.

The advantages of the US Market: It is easier to start up and launch in the US. It is a single huge market with one language. It is also a very risky move. There is more competition, for one thing. Enter the US market “only if you are very ambitious”. A Pan European or a Pan Asian strategy requires language translation, localized sales teams and more friction in general.

Advice for Swiss start-up founders: Base the R&D in Switzerland where there are top research institutions and programmes, but drive business organization from London or the US where it is easier to attract talent and tap into a deep venture ecosystem.

VC Performance and Strategy

On Measuring Returns: Returns are measured across the entire portfolio. “If you look at an early stage fund, it will have about 30 companies. Over its lifespan of 10 to 12 years, **20% of startups really impact returns and 80% have less importance**. You cannot predict in the first few years which investments will matter. A startup can seem dead but turn around and be a star in 5 years’ time,” said Dallé.

Venture Funds & Performance: Consistency of fund performance is important to be able to raise multiple funds over time. Typically a venture fund aims for a 20% to 40% net IRR (after fees), or 2x to 4x fund multiples.

About the Loss Ratio: "The early stage fund loss ratio is immaterial to performance. It is calculated simply: you take all write-downs and write-offs versus the total money invested. There is no correlation between loss ratio and the performance of the fund. VCs do not worry about losing money. What you should worry about is not backing the big winners," said Dallé.

On picking the right entrepreneur: "Over time, you develop 'pattern recognition' of the entrepreneurs with the highest probability of succeeding," said Dallé. They are the ones that want to change the world and make an impact. They are rarely motivated by money but by their vision. "Our experience shows that there is quite a lot of risk of investing in *successful* repeat entrepreneurs," said Dallé. He said that investing in an entrepreneur who is starting up a second or third venture after "no success or low success" actually delivers a higher chance of success.

Sectors with the biggest potential for VCs: Fintech, big data/cloud computing, robotics/artificial intelligence, cyber security, mobility and personalized health care.---ENDS