



Private Equity Week

5 questions with Peter Rip

By Alex Haislip

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Peter Rip, author of the blog EarlyStageVC (<http://earlystagevc.typepad.com/>) has made his first investment since joining Crosslink Capital. Senior Writer Alexander Haislip sat down with Rip to find out what he liked about on-demand software company LucidEra and how Crosslink's unique structure helped Rip think through the \$15.6 million Series B deal.

Q: On your blog, you write that doing your first deal at Crosslink was like meeting your wife. What did she have to say about that?

A: She laughed. When I met my wife, she was our banker. I had a little company and I was raising money from Menlo Ventures.

I was quite truthful about that blog post. Ken Rudin, LucidEra's CEO, had a clear idea of what customers really wanted from having run his own consulting company. He had a profound understanding of why people wanted this service instead of coming in and discussing its algorithms. It was really pretty easy to decide to do the deal.

It's a greenfield opportunity. There's no significant player in this market. We decided to invest before we got back to our offices.

Q: Crosslink partners always talk of how the venture arm works with the hedge firm arm to do due diligence. How did it work in this deal?

A: It was a textbook example. We're invested in Omniture (Nasdaq: OMTR). We invested before the IPO and again after the IPO. We've got half a dozen on-demand public companies we're invested in. I went through and looked at the rate of adoption at all of these companies and tried to track that against their valuations to determine when it would ramp up. We had to extrapolate from the fundamentals we saw in the comparables to the value in this early stage company and estimate how it would turn out.

Q: Crosslink must have connections at the public companies it invests in. Did that affect how you looked at the deal?

A: It's not about tips. We didn't hear whispers about what Business Objects was going to do or anything like that. We looked at it more from fundamentals.

Q: Does owning stock in the public companies that are potential acquirers or industry leaders help?

A: It's not the ownership that matters because we're not a substantial owner. We bring value because we're having conversations with people in the industry. If you're talking to the CFO because you're an intelligent investor and they respect your point of view, and you say they should check out a private company, then that comes from the relationship.

The reason we're called Crosslink is because these markets, public and private, are linked. We look at communications services companies, public and private, on-demand software companies public and private.

Q: Other hedge funds are increasingly moving into venture. Does that make you nervous?

A: We hear a lot of it, but we don't see a lot of it. The difference between hearing and seeing is big. I haven't seen any early stage quality deals that have gone for hedge fund money in lieu of venture capital. I've seen people in the later stages who wanted cash and took it from hedge funds.

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