

# THE WALL STREET JOURNAL.

---

## The New Rules of Raising Cash

by Pui-Wing Tam

Raising money for start-ups is relatively easy in Silicon Valley these days. But longtime entrepreneurs and venture capitalists say it is still nowhere near as simple as it was in 1999 and 2000, when a cash flood fueled the dot-com bubble.

Today, many entrepreneurs can quickly raise small amounts of money—several hundred thousand dollars or less—to get their ventures going, with plenty of individual "angel" investors and others willing to plunk down the cash.

But entrepreneurs and venture capitalists who were around more than a decade ago during the dot-com mania say fund-raising today requires meeting a higher bar—namely, a working product and some marketplace traction—than it did in the late 1990s. Then, a clever idea often was enough to attract investors.

Take Jeff Tangney, an entrepreneur who co-founded Epocrates Inc., a maker of mobile medical software, in 1999. That year, he said, he raised \$5.5 million from venture capitalists—all without a product to show them.

"We had some slides and maybe a little bit of a demo," said Mr. Tangney, who was finishing up his M.B.A. at Stanford University at the time. "It was about staking your claim more than it was about what you'd built."

This year, Mr. Tangney began raising money for a new company, Doximity Inc., a San Mateo-based maker of a networking tool for medical professionals. While he brought in more money out of the gate this time—\$10.8 million—Mr. Tangney had a working product available for three months and had signed up 10,000 doctors to use the app. Few venture capitalists would have paid attention if he had shown just a bunch of slides, he said.

"All else being equal, it was easier to raise money back then in 1999," he said. "If you could fog a mirror, you could raise VC money."

Yet some signs of froth are evident now, too. Venture capitalists and other investors have pushed up the valuations of Facebook and other hot Web companies such as Zynga Inc. and Twitter Inc. to multibillion dollar sums, with the competition to invest increasingly fierce.

But the different funding dynamic is reflected in venture-capital investment data. In 2000, VC funds pumped more than \$94 billion into U.S. companies, according to VentureSource. Last year, even amid the growing boom around consumer Web companies like Facebook Inc., venture capitalists put just over \$26 billion into start-ups.

Todd Chaffee, a venture capitalist at Institutional Venture Partners, agreed there is no comparison between raising money now versus 1999. Back then, the fund-raising environment "was just silly," he recalled.

Now, however, many start-ups that are seeking funds "have real revenue and real margins," Mr. Chaffee said. "Now the Internet is real and mature and mobile is real," which helps spawn more sustainable businesses, he said.