

THE PERFECT VICTIM

*Highly esteemed Co-Investors!
Dear Friends and Partners!*

Of the many trends and developments we have seen in the industry over the last 20 years, we would like to share with you one of the most recent ones which would be quite amusing were it not so sad.

Due to the recent disastrous results, the Venture Capital and Private Equity Industry is seeking new victims – or as they prefer to call them “investors” – to instil their existence with “fresh blood”.

In the VC/PE lobbying news there is a lot of grievance that the established investors are so very hesitant to further invest in this asset class. There is a lot of argument that this is a good time to invest. Historically and up to 10 years ago, this approach has actually been quite correct. The latest downturn in 2000/2001 should have provided excellent opportunities to invest. However, only a very small number of VCs have been able to take advantage of the situation – according to our estimate less than 5%! Most of the established investors such as institutions, pension trusts, endowment funds and others have been so severely disappointed by the poor performance that they are withdrawing from this asset class – or they have become much more selective than ever before.

Hence the desperate search by VC investment advisors (or as they call themselves “General Partners” or “Investment Managers”) to find new investors into this asset class. They have been successful for more than one and a half years. Now the buzzword is “family offices”, and they are “the new kids on the block” which seem to be working for the investment advisors.

Here are the reasons why: -> Page 2ff

We trust you will find our insights on this subject helpful and look forward to any response you would like to share with us.

Sincerely

Your

Manfred Moschner &
the ACS VCP-Team



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Let me thank you for all your thoughts and contributions, and at the same time let me encourage you to continue discussions!



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The REASONS WHY

1

Many of these family offices were established after an entrepreneur successfully sold his company and then began looking for ways of investing the proceeds.

It is human nature that anybody who has successfully raised poultry or manufactured bolts believes that they are somehow extremely smart and therefore do not only understand the business of raising poultry and manufacturing bolts, but are extremely smart in all and every facet of business.

As a result, they do not talk to each other and they do not share experiences as they do not believe that anybody else's experience might be of any value to them.

2

Another common trait of successful entrepreneurs is a characteristic which probably made them successful in the first place, i.e. their straightforwardness and honesty!

If you are a top player in a certain industry, especially in real-world manufacturing or services, you have usually earned a reputation for being tough but fair, or for being what is known as a "reliable player". The word of such people carries weight and they are naturally used to being treated similarly. If anybody violates these principles, he is usually out of business sooner or later.

Unsurprisingly, in relation to the financial industry, they apply the same rules as they cannot imagine that even written documents are fake or foul.

Hence what we call "extreme naïveté" is actually based on the pure common decency of these individuals.

3

Being operative people from real economy, they have a tendency of being overly intrigued by the financial world. It is therefore understandable that they feel elevated when entering the financial world from the down-to-earth industries, to find themselves "in the centre of Wall Street" (by the way, this is a quote and comparison made by one of the most famous investors, David Swensen, formerly manager of the Yale Endowment Fund!).

This is another reason why they believe too firmly in whatever they are told.

Of course, being courted by the "great financial people" can also feel rather nice.

4

There is even one category topping what we have already covered, i.e. those who feel extremely smart because their parents were successful business people.

*"If you want to make a man happy, add not to his riches
but take away from his desires!"*

Epicur



WHO is on the Other Side of the Table?

The "Masters of Financial Marketing" – people who are perfectly trained and abundantly experienced in grand-standing, manipulating figures or simply uttering untruths.

Just one example which many of you have certainly witnessed: of the many thousands of VCs we all have ever met, each was "top quartile" – an interesting mathematical phenomenon!

Out there is an army of sophisticated financial marketing people (calling themselves "Investment Managers") with no other intention but re-allocating money from investors' pockets into their own.

It is surprising how many millions are thrown away – the more accurate expression for "being invested" – by victims from family offices.

It is similarly surprising how, without proper due diligence, this money is invested based purely on the data the family offices are fed by smart vulture capitalists.

We have given up warning these people as any kind of information sharing or communication is being avoided, or being considered as unnecessary. This type of investor obviously thinks that mischief/misfortune which happened to others is not going to happen to them. Usually it takes 4–8 years to awake the responsible family office managers!

There is one additional issue: entrepreneurs usually are advice-resistant.

They persevere with this attitude also in relation to investments within family offices.

Wake-up time is long as we have previously learned hence we can only quote an old proverb:

"Whoever does not learn is condemned to repeat other people's mistakes".

CONCLUSION

- ▶ **Avoid investments which are based on data and information provided by those whom you invest with or their paid-hands (Do not forget that with the money they collect from you they can pay an army of fawning followers praising them. A whole biotope of followers has developed in this industry!).**
- ▶ **Communicate with people experienced in this industry – investors who have put their own money at stake. Avoid the vultures and their breed.**



ACS Moschner & Co Ges.m.b.H., the General Partner of ACS Venture Capital Partners KEG offer to share its knowledge and experience gathered during two decades of investing in VC/PE:

- ▶ To those who want to avoid becoming victims to the prevalent grandstanding, manipulation of figures or simply wrongful information, as well as
- ▶ To those who have already fallen victim and want to know what kind of investment they actually hold, what the real value at a certain point in time is and what the potential value might be. Usually the question is > "Will I ever get my money back?"

Even for a sophisticated investor it is extremely difficult to penetrate through the veil of misleadingly compiled and presented figures which only serve one purpose well: disguising the (extremely) poor performance of most players in the Venture Capital and Private Equity arena.

Especially for newcomers to the PE and VC investment field it is absolutely vital to learn what kind of information they might expect, should they ever receive it.

We remember well several cases where CFOs of VCs were virtually shouting at us because we dared to ask for real facts. They actually expected us to sign for millions-of-dollars' interest purely on the reference to an inexperienced institutional investor placing his first investment in a VC has already signed!

Quite often, the arrogance and conceit of VC investment advisors (so called "Investment Managers") is so stunning that it catches investors completely unprepared.

For those wanting to avoid the traps which proved fateful to so many investors in the last 10–15 years, **ACS Moschner & Co offer a review of VC and PE opportunities** in the following ways:

MODULE 1



Simple review of documentation provided by the seller of the VC/PE investment proposal

MODULE 2



Thorough review of material and figures including requests for additional information and/or explanation from the respective VC/PE

MODULE 3



Full-Scale Due Diligence including visits of portfolio companies of the respective VC/PE

In all 3 Modules, you will receive a Summary plus a Manual for further procedure, should you wish to continue evaluating a certain VC/PE proposal.

Of course, this offer is only for those who do not shut their eyes in self-delusion trying to deny reality.

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