



White Paper

The Business Case For Adopting the Studio Model to Early Stage Tech Investments.

March 2019



Money on the Table:

The current model where angel investors and VCs invest in **diversified markets** *and* **diversified teams** (“VC Model”) is broken





VC Model is Broken Because Too Much Focus on Team Vetting

- **Standard practice** is to focus on Team first, and market opportunity second.
- More resources spent on **vetting team** than market opportunity.
- Despite **additional resources** on team vetting, no two teams are alike and no team is perfect. This creates **variable execution risk**.

Problems with VC Model:

- **Wasted Resources** on Team Vetting
- Despite vetting, **high variance in execution risk**.
- **Missed market opportunities** because no competent Team.

Investors are acting more like headhunters and throwing money at talent. Still getting **high variance in competence and execution risk**

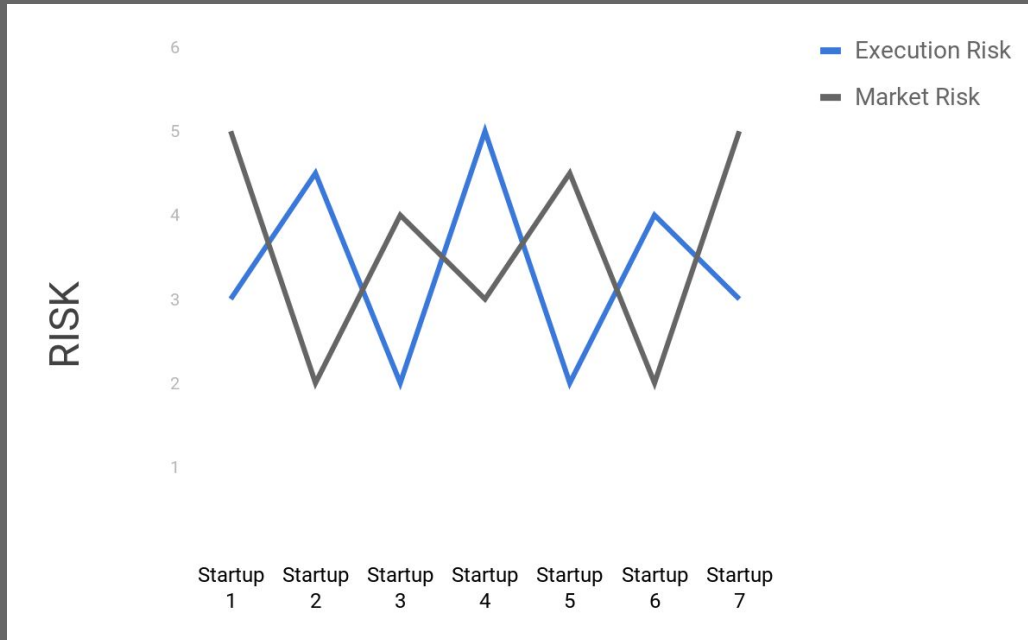
“Risk comes from not knowing what you are doing.” - Warren Buffet

“The Venture Capital industry is inefficient because VCs generally invest in inexperienced entrepreneurs who then go and make the same mistakes concurrently. For example...the same hiring mistakes. There is little aggregating of knowledge.”

Tim Morgan, CEO Mint Digital



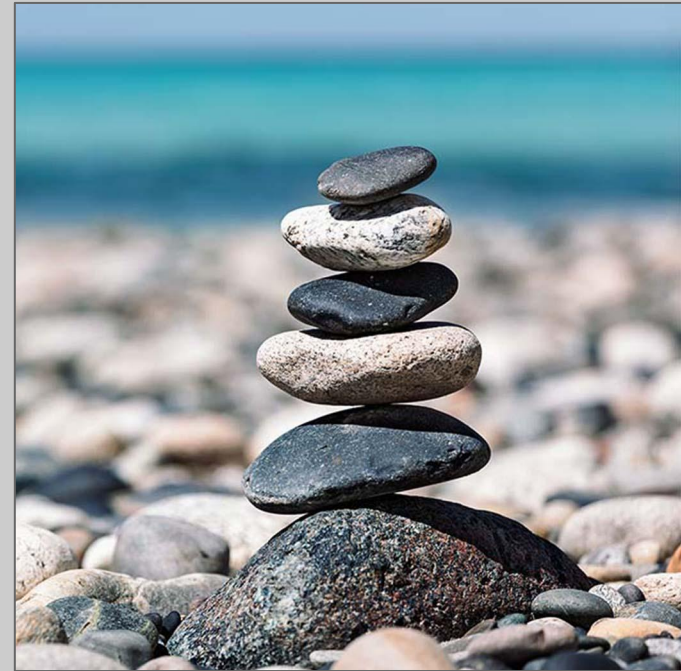
Risk Variance of Portfolio: VC Model



Solution:
Studio Model.
Consolidate Operations.
Stabilize Execution Risk.

■ The Studio Model to Early Stage Tech Investment:

The Studio Model **stabilizes** (and reduces) **Execution Risk** and has more resources to manage **Market Risk**



How Does the Studio Model Reduce Variance in Execution Risk?

Flawless execution is a given under systemized best practices by optimal managers at a high standard.

Stabilized (and lower) Execution Risk in

- Product Development
- Product Promotion
- Legal Due Diligence
- Sales, General, Admin
- HR, Team mgmt.
- Innovation

Studio Model Formula

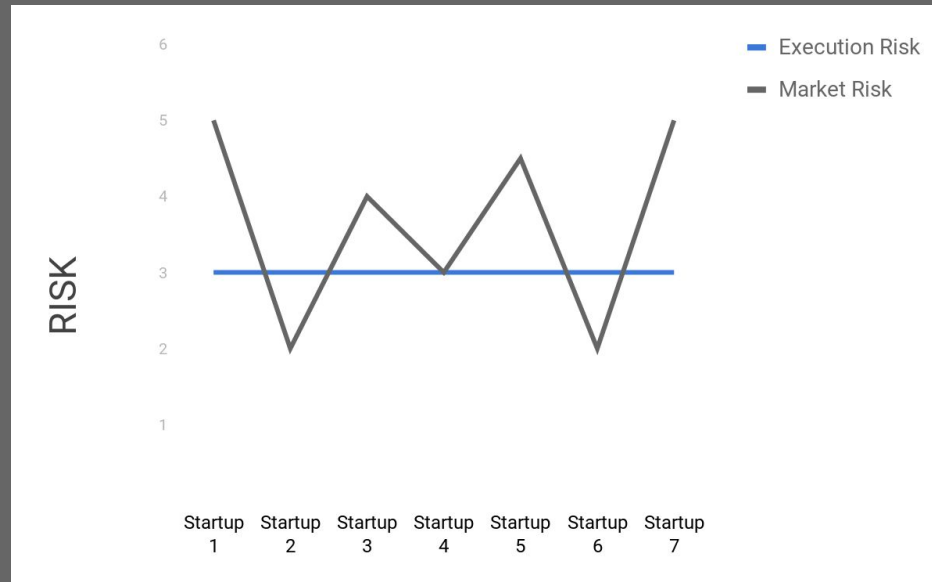
The Studio Model marries seasoned expertise with legacy technology under one roof to:

- Aggregate resources
- Reduce output costs
- Stabilize execution risk

“The companies who make the fewest mistakes win”

Mark Zuckerberg

Risk Variance of Portfolio: Studio Model



Arguments Against Studio Model:

- Resources spread too thin
 - *Overcome through proper organization*
- Team lacks motivation because not founders
 - *Untrue in other industries. Creative options to incentivize team*
- Wall Street uses VC Model
 - *Public companies are more mature and competent. Execution risk is not a concern*

Case Study: Studio Model

Mint Digital



- Leading software and design studio in London and New York
- Strategy: **Studio Model** (mintdigital.com)
- Launched **64 Startups** between 2011-2015
- 5 year **IRR was 275%** (3 out of 64 made money)
- Average IRR for VC during same period was 20-30%

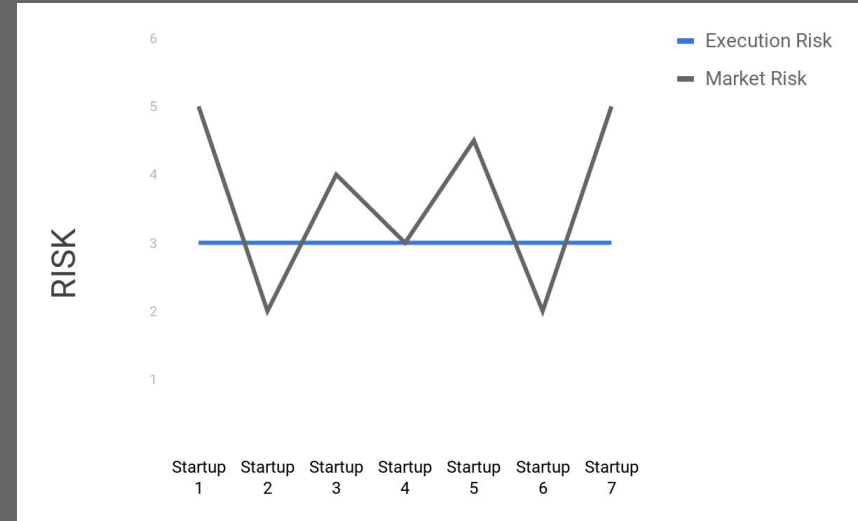
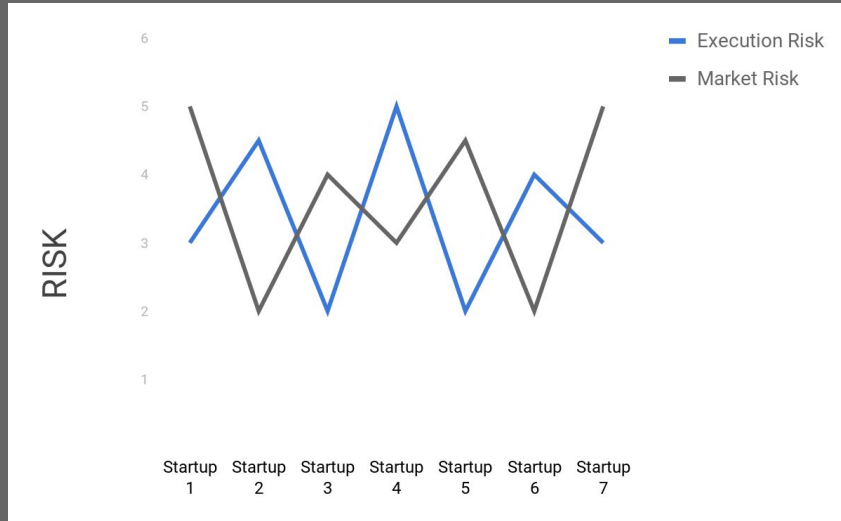
See: <https://mintdigital.com/blog/Startup-Studio-IRR-Vs-typical-VC-IRR>

What Does This All Mean?

■ Advantages of Studio Model:

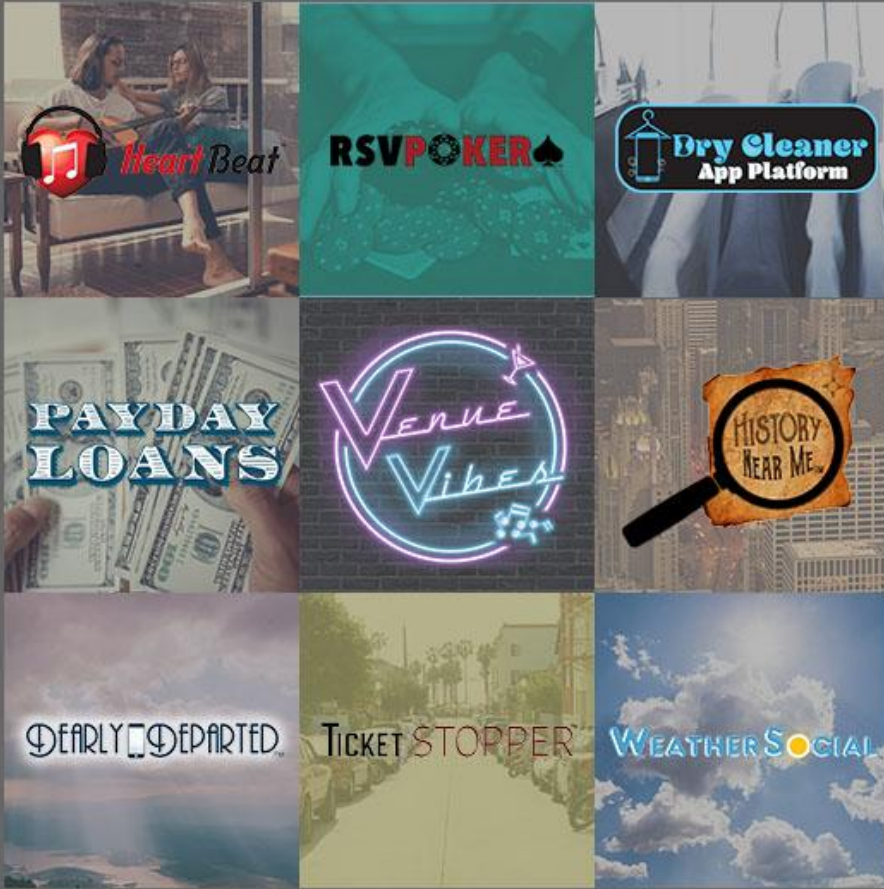
- Synergies and know-how across portfolio
- Reduced variance in execution risk
- More resources dedicated to managing market risk
- Scale and reduced per-unit costs
- 100% intellectual property ownership and control

VC Model vs. Studio Model



VC Model vs. Studio Model

	<i>VC Model</i>	<i>Studio Model</i>
Variable Market Risk	Yes	Yes
Diversified Portfolio	Yes	Yes
Motivated Team	Yes	Yes
Control of Venture	No	Yes
Synergy/Network/Crossover	No	Yes
Reduced Per Unit Cost	No	Yes
100% IP, Profits, Control	No	Yes
Stabilized Execution Risk	No	Yes



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