

VC PROFILE

IVP Casts Wide Net In Search For Late-Stage Deals

By Laura Kreutzer

Over the course of its 27-year history, **Institutional Venture Partners** has learned that in a constantly changing environment, being nimble isn't just wise — it's a necessity.

The firm has had to deal not only with the Internet boom and bust, but also the departure of most of its two early-stage investment teams in 1999. It handled the chaos relatively painlessly, morphing from a multi-stage health-care and information technology investor to a later-stage, IT-only firm. Indeed, the transformation proved to be a blessing, giving the firm more bandwidth to pursue not only traditional late-stage venture investments within the IT space, but buyouts and public stakes as well.

"You have to have the flexibility to move where the market opportunities are," said Partner Todd Chaffee. "If you only back communications equipment deals in the private market and then that market changes, it can be tough."

Late-stage growth investments in private companies are the firm's bread and butter, accounting for 60% of the roughly 45 deals it has done since 2001. Typically, IVP targets companies with revenue of at least \$10 million in industries such as communications and wireless, enterprise technology,

and Internet and digital media. It often leads later-stage rounds for companies backed by early-stage firms that it has gotten to know over the years, including **Sequoia Capital**, **Kleiner Perkins Caufield & Byers** and even **Redpoint Ventures**, one of the firms founded by its former colleagues.

But IVP also uses the expertise it has built in these sectors to do other types of deals, such as buyouts and investments in public companies.

Sometimes, public company valuations can be more attractive than those of their private counterparts. When IVP looked at Internet security software in 2001, for instance, the stock market decline had left a number of publicly-traded companies in the sector looking like bargains.

"You could find a public company with \$50 million in revenues and \$50 million on its balance sheet selling for \$75 million," General Partner Norm Fogelsong said. "That was a better opportunity than you could find in the private markets."

That realization led IVP to publicly-traded **WebSense Inc.**, a provider of software that helps corporations monitor their employees' Internet activity. The company had roughly 70% of its market, according to Fogelsong, and the firm also knew some of its prior VC backers.

IVP, which tends to hold its stakes in public companies for at least three years, bought **WebSense** shares beginning in late 2001, when the company's stock was trading around \$12 a share, and sold in early 2005, at more than \$60 a share.

Throughout its history, IVP has also occasionally bought out high-growth companies. **HomeAway Inc.**, an online vacation rental company that IVP helped to buy in 2006, typifies its strategy in this arena.

The **HomeAway** deal consisted of \$60 million of debt and \$100 million in equity, a low debt-to-equity ratio for a buyout but one that IVP is comfortable with. **HomeAway** used the capital to buy one of its biggest competitors, **VRBO.com**, and subsequently did several more add-ons.

"Most of Wall Street is looking for mature companies with predictable cash flows that they can leverage," Fogelsong said. "We're investing in growth companies, [which are] hard to leverage because of the inherent risk."

As the private equity industry enters a period of uncertainty due to the clampdown of debt markets and a decline in public markets, Chaffee believes IVP is well-positioned to benefit.

"Our strategy works in a bull market or a bear market," he said. "If there's a big correction and Nasdaq dives, it becomes harder to take companies public and there's more demand for our capital." ●

At a Glance

Institutional Venture Partners

Location: Menlo Park, Calif.

Principals: The firm's five core partners are Todd Chaffee, Norm Fogelsong, Sandy Miller, Steve Harrick and Dennis Phelps. Founder Reid Dennis has cut back his role and doesn't plan to lead deals from the latest fund.

History: Dennis founded IVP in 1980 and over the years built up three different investment practices within the firm: early-stage health-care, early-stage information technology and late-stage IT and public investments. In 1999, the two early-stage groups spun off to form **Versant Ventures** and **Redpoint Ventures**. The late-stage team regrouped under the IVP banner and has since raised a total of \$1.25 billion across three late-stage funds. The latest, **Institutional Venture Partners XII LP**, closed at its \$600 million cap in May.