

Venture Investors Bet \$250 Million On Vacation-Rental Site HomeAway

By Ty McMahan

While a souring economy may compel people to forgo certain luxuries, several venture investors are betting \$250 million that consumers will still use Web sites like HomeAway.com to find vacation-rental properties.

The new funding for that site's operator, HomeAway Inc., is the largest venture capital infusion for a technology company since 2000 and comes at a time when many entrepreneurs are disheartened by a slowdown in venture capital investing.

Technology Crossover Ventures invested \$175 million to lead the Series D round as a new shareholder, with participation from existing investors Institutional Venture Partners and Redpoint Ventures. Previous investors Austin Ventures and Trident Capital didn't participate, though Austin Ventures, which helped form the company along with Chief Executive Brian Sharples in 2004, remains the company's largest shareholder.

HomeAway Inc., which is profitable, has now raised a total of \$405 million in capital designed to snap up competitors and dominate the vacation-rental category. "We really wanted this funding to be a statement of 'game over' [for competitors]," Institutional Venture Partners General Partner Todd Chaffee said. "We feel like we have this undiscovered gem and we're going to build it into a household name. It's going to be one of the best-known companies on the Internet."

HomeAway was founded in 2004, with \$49 million in equity from Austin Ventures and Redpoint Ventures to fund the acquisition of five vacation rental sites, including Cyberrentals.com in the U.S. and Holiday-Rentals.co.uk in the UK. In 2006, Institutional Venture Partners and Trident Capital led a \$160 million financing round that funded the company's purchase of VRBO.com. The acquisition meant that, along with its flagship site HomeAway.com, the company operates the two largest rent-by-owner sites in the U.S.

HomeAway also acquired VacationRentals.com, Abritel.fr and OwnersDirect.co.uk in 2007 and now has 11 vacation rental sites in its portfolio, as well as EscapeHomes.com, which connects buyers and sellers of second homes and resort real estate.

"Competitively there may have been a question a year ago about someone else, but we bought the competition," Mr. Chaffee said.

Austin, Texas-based HomeAway will use proceeds from the recent investment to eliminate \$60 million in debt, fund acquisitions in overseas markets and increase marketing and promotions efforts. The company announced last month it has selected Publicis and Digitas to handle a global marketing push.

Mr. Sharples said building a war chest for acquisitions was one of the main reasons for the funding round. He said the company is currently looking at potential acquisitions in South America and Australia and could announce a new deal before the end of the year.

"We feel it's a good time to buy and we're probably going to get tighter in our price requirements," Mr. Sharples said.

Mr. Sharples declined to provide a valuation for the company, but said it was competitive with any valuation the company had prior to a slowdown in the economy. "Our valuation is in a range where only a handful of companies could consider an M&A transaction involving us," he said.

Competition for the funding round was high, but ultimately the company chose Technology Crossover Ventures for the opportunity to once again work with General Partner Woody Marshall, who previously led Trident's investment in HomeAway. Mr. Sharples said Technology Crossover Ventures also brings experience in Internet-based travel businesses, having previously backed Expedia Inc. and Orbitz LLC.

The funding is significant at a time in the venture capital industry when investors are being more conservative with capital. Overall, the funding round ties as the 11th largest equity financing since Dow Jones VentureSource began tracking venture capital investments in 1998. The last time a tech company raised as much money was a \$350 million round in late 2000 for wireless company MetroPCS Communications Inc.

"Most of the venture capital industry is making cuts and wanting to know how to survive," Mr. Chaffee said. "You go to a HomeAway board meeting and sit back and smile. They're hitting all the right metrics."

Likewise, the funding comes at a time when consumers may be tightening their budgets and forgoing vacations. Mr. Marshall, a general partner at Technology Crossover Ventures, said he thinks the current economic environment could play to HomeAway's advantage. "If you look at the number of home owners looking to rent their vacation properties and the number of travelers looking to save on accommodations, you see how HomeAway can be successful," Mr. Marshall said.

Mr. Sharples predicts continued revenue growth for HomeAway. He said the company's total revenue for this year will be "just shy of \$100 million" and year-to-date figures through the third quarter are up 58% over last year.

The company serves two customers -- travelers and homeowners. The service is free for travelers interested in renting a home, but homeowners are charged about \$275 a year to list properties on the site, which HomeAway's only source of revenue.

"We have people who are making \$200,000 to \$300,000 a year on that \$275 investment," Mr. Sharples said.

Mr. Sharples believes the business will remain strong in a downturn because those who own second homes will be attracted to earning extra income through renting.

"There are so many people who own second homes that don't realize how beneficial this is," Mr. Sharples said. "[Renting your vacation home] is an easy, simple option."

HomeAway: A Find in Online Vacation Rentals

Venture capitalists such as Institutional Venture Partners are pouring \$250 million into the startup, which already is turning a profit

By Spencer E. Ante

There's no place like a second home. Or so the backers of vacation-rental startup HomeAway believe. Venture capitalists are so enamored of the three-year-old Austin (Tex.) company, in fact, that they're plowing a staggering \$250 million into HomeAway—the biggest investment in an Internet outfit since the height of the dot-com bubble in 2000.

"This thing is a very well-kept secret," says Todd Chaffee, general partner with Institutional Venture Partners, a VC firm that ponied up \$45 million in the investment round, announced Nov. 11. The rest of the financing came from Technology Crossover Ventures and Redpoint Ventures. Previous investors include Trident Capital and Austin Ventures, which remains the largest shareholder of the company. "It's time to unveil it and turn this thing into the next eBay or Expedia or very high-profile Internet company," says Chaffee, who led his firm's investments in Yahoo!, Netflix and Verisign.

While many startups are handing out pink slips and scrambling for money (BusinessWeek.com, 10/12/08), HomeAway's investors and executives say it had an easy time raising money for a higher valuation. The reason? HomeAway is one of those rare startups with a high-growth business model that is producing an operating profit. The company is on track to hit revenue of almost \$100 million this year, says Chief Executive Brian Sharples. In February 2005, Sharples founded the company with Carl Shepherd, the former CEO of Hoover's, who now is HomeAway's chief development officer. "This just happens to be a segment that everyone overlooked," says Sharples, former president and CEO of IntelliQuest Information Group. "We see a terrific opportunity to build a great company."

Recession-Proof?

While the economic slump is forcing many consumers to cut back on travel, HomeAway thinks its service could prove resistant to the recession. Renting a home often is cheaper than staying in a hotel. And for second-home owners who don't use their houses that much, renting can bring in extra money when times are tight. "As consumers seek value the category of vacation rentals is appealing," says Henry Hartevelt, vice-president at Forrester Research (FORR).

Thanks to this latest, head-turning investment round, HomeAway is sure to attract a lot more attention—and rivals. Analysts say competition is already growing from property managers, real estate companies, and a host of online players. HomeAway became the world's largest Internet vacation-home service through the acquisition of 10 online vacation-rental sites. Among the next-largest rental sites are Forgetaway.com (owned by Weather.com), Hotels.com, and Group RCI, a division of Wyndham Worldwide (WYN). "There are some new entrants in the market that will pose a credible threat," Hartevelt says.

Other hurdles include the weakening travel market and the increasing need to earn the trust of consumers wary of giving a stranger thousands of dollars to rent a home. "The biggest challenge they have to overcome is in safeguarding that customer experience," says Douglas Quimby, senior director of research for PhoCus Wright, a travel-research company. "It's an unbranded world."

Sharples says the cash infusion will put the company in a position to strengthen its business. Before this round, HomeAway had raised \$405 million in equity and \$110 million in debt. Of the \$250 million, \$88 million has been used to retire remaining debt, much of it incurred amid the acquisition spree. The rest will be used to buy more companies, strengthen marketing, and create a stock buyback program for a small number of longtime employees. To devise a new marketing strategy, the company earlier this year hired Mike Butler, the former chief marketing officer of T-Mobile USA (DT). Two weeks ago it brought on Publicis (PUBP.PA) to help craft a new advertising campaign. "We want to have a \$10 billion market capitalization in five years," says Chaffee.

Global Reach

Following the purchase of five of the 10 largest vacation-rental sites in the U.S. and several in Europe, Sharples wants to expand into South America, Canada, Asia, and Eastern Europe. "Travel is worldwide business," he says. "To lead this category we have to make sure we have homes all over the world and travelers from all over the world."

Like eBay (EBAY) or Amazon.com (AMZN), HomeAway is trying to create a simple yet efficient consumer experience on the Web in a highly fragmented market. Homeowners pay \$275 annually to list their property for one year. The company expects to end 2008 with 325,000 paid listings, up from 250,000 last year. Vacationers use the site to browse listings and user reviews, view pictures, and check pricing and availability. The site also guarantees transactions up to \$5,000 in case of a rip-off. In the next few months, Sharples says, the company is going to introduce a payment service that will allow consumers to pay for the rental through the site with a credit card or via eBay's PayPal.

"We want to make it as easy as booking a hotel room," Sharples says. "We invested pretty heavily in staff and technology to scrutinize the listings."

With a dead market for initial public offerings, Sharples says HomeAway is not interested in selling shares to the public soon. But he did say an IPO in five years could happen. "My best guess is this funding will take us through an IPO," he says. Asked if he was open to being acquired, Sharples simply says, "No."

Vacation Rental Site Raises \$250 Million

By Claire Cain Miller

HomeAway, the largest online vacation rental marketplace, announced Tuesday that it has raised \$250 million in venture capital, an extraordinarily large amount of money for an Internet company. The new round, which is the biggest a tech company has raised since 2000, brings the four-year-old start-up's total venture funding to \$405 million.

The Web site connects vacation homeowners in the United States and Western Europe with travelers who want to rent their homes. It is the dominant vacation rental site thanks to its strategy of snapping up competitors. In four years, the company has made 10 acquisitions, including two similar Web sites in Britain, one in Germany, one in France and two in the United States: VRBO and VacationRentals.com.

The site, which charges \$300 a year for a homeowner to list a property, has 325,000 paid listings and visitors have used it to book between 225,000 and 300,000 vacations each month, according to the company. The average homeowner earns \$20,000 a year in rental income through the site, said Brian Sharples, its chief executive and founder.

The travel industry has been hit hard by the recession, as people shy away from spending money on discretionary expenditures like vacations. Visits to travel Web sites are down 3 percent from a year ago, according to comScore Media Metrix.

But Mr. Sharples insisted that people will be more likely to rent vacation homes, which are cheaper than hotels. He might be right: traffic to HomeAway is up 58 percent from last October and the average homeowner on the site has been getting more queries than a year ago. Still, travelers are much less likely to go somewhere to which they have to fly instead of drive, Mr. Sharples said. "Hawaii and the Caribbean are suffering at the expense of local markets," he said. "People are still taking vacations, but a lot of people are taking them closer to home."

The economic crisis has also left more people stuck with second homes they can't afford and can't sell. A few years ago, he said, the site was growing quickly because sales of vacation homes were booming. "Now it's growing because all those people who bought those vacation homes are looking for ways to pay for them," he said.

A handful of start-ups compete with HomeAway (though the company might just buy them, too — Mr. Sharples said he plans to spend some of the \$250 million he raised on more acquisitions.) Big travel sites are also getting into the business. Orbitz has a vacation rental section, powered by Zonder, and TripAdvisor, owned by Expedia, has invested in FlipKey, a vacation home review site.

HomeAway, based in Austin, Tex., is profitable and will bring in just under \$100 million in sales this year, Mr. Sharples said. In addition to acquisitions, it will spend its new money on marketing. So far, most customers have learned about the site from friends, but HomeAway has just hired its first chief marketing officer and advertising agency.

The new funds will help pay off HomeAway's \$88 million in debt and buy back shares from employees who would like some extra money, since it is unlikely the company could go public for a few more years, given the current state of the markets, Mr. Sharples said.

The fund-raising round is the largest a technology company has raised since November 2000, when MetroPCS, which went public in 2007, raised \$350 million. HomeAway's latest round was led by a new investor, Technology Crossover Ventures, which invested \$175 million. Existing investors Institutional Venture Partners and Redpoint Ventures also participated in the round. HomeAway has raised money in the past from Trident Capital and Austin Ventures, which is the largest shareholder.

Early investors' stakes were diluted by this huge new round, but Mr. Sharples said they made the decision that it was worth it because the company was valued at a very strong price. He did not say what that price was, but it was around \$500 million in November 2006, when HomeAway raised its last big round of \$160 million.

To make the investment worthwhile for the venture capitalists, HomeAway will have to eventually sell itself for a high price or raise a lot of money in the public markets. "Everybody believes that's very doable," Mr. Sharples said. The company has lots of room to grow, he said — there are between 3 million and 4 million homes for rent in the United States and Europe, and HomeAway lists only 325,000 of them. The vacation rental marketplace in the United States is valued at \$24 billion, according to travel industry research firm PhoCusWright, and the market in Western Europe is about the same size, according to research firm Illuminas.

Internet Company Raises \$250 Million. In This Market?

By Heidi N. Moore

A profitable Internet start-up company is almost as rare in 2008 as it was in 1999.

It should be no surprise, then, that investors and bankers greeted closely held Internet start-up HomeAway.com with a measure of enthusiasm. The Austin, Texas, company, said to be profitable by its CEO and investors, considered nearly 10 venture capitalists as it sought to raise \$250 million.

"It's pretty tough to obtain capital right now, but it's the opposite if you have a company that has strong earnings. I've never seen so much competition for financing," said CEO Brian Sharples said.

HomeAway needed only three firms to meet its goal of \$250 million, \$175 million from Technology Crossover Ventures and \$75 million from two existing investors—Institutional Venture Partners and Redpoint Ventures.

HomeAway.com is kind of an eBay for vacation-home rentals, and it has done booming business amid the downturn as many owners of second homes look to rent out their country houses to get additional cash. The company sought additional cash to make acquisitions as the market values of competitors fell.

The company was no stranger to big capital-raises or acquisitions, pulling in \$160 million in November 2006 and completing 10 acquisitions in the past three years. The company used some of that cash to expand globally—30% of its revenue now comes from overseas, according to Technology Crossover Ventures partner Woody Marshall.

To keep that expansion going, HomeAway flirted with a public listing: in October 2007, the company and its bankers, Goldman Sachs Group and Credit Suisse Group, "did 95% of the work toward putting an IPO together," but pulled back before officially filing it with the Securities and Exchange Commission.

"I didn't feel comfortable taking a company public in a market that would be under pressure," Sharples says now. "The way I look at it now, I'm sort of grateful. There are big pros and cons to going public. It's hard to go public and operate as you'd like to. The pros of going public are raising large amounts of capital at a good price and having liquidity for shareholders."

Sharples says HomeAway might reconsider a public listing. "A couple of years from now, if the markets are right, we'll consider going back to them," he told us, confirming that Goldman and Credit Suisse would remain the likely underwriters.

Public or not, HomeAway still wanted to pay down its debt — \$88 million from American Capital—and make sure that longtime employees could cash out some of their stock.

Enter TCV, IVP and Redpoint. Sharples called the three firms to raise \$250 million, the amount that the company needed to help employees cash out, pay back its debt and have enough left over for acquisitions. Sharples and his management team also identified

seven more investing firms that had previously been eager to put money in HomeAway; Sharples quipped to us that he has been "tailed and trailed" by banks and private-equity firms looking to do deals with the company.

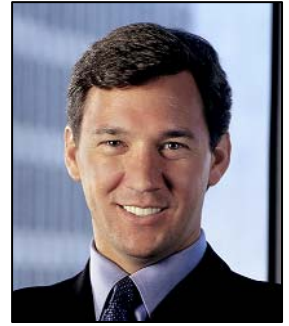
Sharples chose TCV because Marshall, the lead investor there, had close ties with another HomeAway investor, Trident Capital, where he worked for 12 years before joining TCV several months ago. Marshall didn't lead Trident's investment in HomeAway but worked closely with board member John Moragne in doing the due diligence on the company.

TCV, for its part, wanted to invest in HomeAway because the company was similar to its previous Internet-based portfolio companies: Orbitz.com and Travelocity, as well as Netflix and eHarmony. In those cases, TCV bet on companies that could succeed in a "fragmented" market full of competitors, filled with customers that had multiple options in finding what they needed.

5 questions with Todd Chaffee

Todd Chaffee, general partner of Institutional Venture Partners, talks about vacation rental portal HomeAway raising \$250M

By Joanna Glasner, Senior Editor



In the current sluggish fund-raising climate, it's impressive when an Internet startup secures even a couple million dollars in financing.

So, when vacation rental portal HomeAway announced last week that it closed a \$250 million expansion round (see story, page 11), Todd Chaffee knew it would raise a few eyebrows in VC circles.

"Absolutely it's contrarian timing," says Chaffee, an Institutional Venture Partners general partner and HomeAway board member. Including the latest round, Austin, Texas-based HomeAway has now raised \$480 million in equity funding, most of which it has used to acquire rival sites. The latest round, which was led by Technology Crossover Ventures and includes IVP and Redpoint Ventures, represents what the company says is the largest minority investment in a U.S. Internet company in the last eight years.

For Chaffee, who managed Visa's technology investment portfolio before joining IVP in 2000, HomeAway is the latest of several ambitious Internet startups he's backed over the past decade. Others include Netflix, VeriSign and Yahoo.

Chaffee tells PE Week Senior Editor Joanna Glasner that he's focusing on HomeAway and waiting for valuations of other compelling investments to come down.

Q: Why did HomeAway raise so much during a tough economic environment?

A: We've got opportunity in terms of acquisitions and internal organic growth, and we also wanted to eliminate debt.

As far as the economy, we think that because more and more people can't sell their second homes, they're going to be looking for additional income sources. For travelers, vacation rentals are a much more cost-effective way to take a trip. Rentals are about half the cost of hotels, on average. So even in a tough economic environment, HomeAway will do well.

Q: Was the fund-raising process different for such a large round?

A: It was way oversubscribed. We had more than 10 firms trying to lead this financing, and it attracted not only later stage venture capital, but also private equity firms.

At the end of the day, it came down to Technology Crossover Ventures being a well-known West Coast partner that has quite a bit of travel and Internet experience, with prior investments in Expedia, Orbitz and Netflix.

Q: Are there advantages to investing in a down market?

A: One benefit of contrarian timing is that HomeAway is a rollup. We are consolidating a fragmented industry, and our acquisition pipeline looks great. Our thought process is that we now have the resources to acquire other companies while prices are down.

Q: What other areas are you looking to invest?

A: For me, it's travel, media and Internet companies. I especially love the travel space. It's one of the biggest industries in the world, and I like the tailwind of all the Baby Boomers starting to retire. The No. 1 thing they want to do is to travel.

Q: How does deal flow look?

A: Deal flow is starting to increase because we focus on later stage investments. We had a huge group of companies that were looking to go public, but they can't now, so our pipeline of deals has increased.

We're waiting for valuations in private markets to drop to be more comparable with public market valuations. They're coming our way slowly. There are still the ghosts of valuations past that sort of hang on.