

The VC View: Todd Chaffee Aims High

by Kirsten Grind

Todd Chaffee's venture firm Institutional Venture Partners has invested in Twitter, Zynga, and LivingSocial, but the general partner says his biggest mistake was missing out on Facebook.



Todd Chaffee says he's had chief executives run reference checks on him. (Image: Institutional Venture Partners)

Todd Chaffee is a fame-wary travel lover who has spent the last 11 years as a general partner at Institutional Venture Partners, the Silicon Valley late stage venture firm. If you'd like to get Chaffee's attention, first look at his firm's roster (with \$3 billion in capital)—Twitter, Zynga, LivingSocial, Dropbox—and then aim high. Very high. He gamely answered questions for Portfolio.com on everything from fighting over Facebook to playing favorites—among companies, that is.

On the current deal environment: We have companies we've never seen before that are growing faster than anything we've ever seen—Groupon, Living Social, Zynga. They're just moving up the ramp like a rocket ship. I'm worried about the overall macro environment—the European crisis and just in general. Within that, tech is a bit of a safe harbor. Our limited partners tell us: "Where are you going to go?" Believe it or not, venture capital is a low-risk asset class, even though you have this cloudy environment right now. There are rocket ships penetrating through those clouds.

On whether he fears a bubble: You know, I think it's a situation where valuations are really high—too high, but if you take Marc Andreessen's point of view, then we are in the next wave of information technology that's still going to drive a lot of growth. You can't really lay back and wait for the bubble to pop—you could be waiting a long time and, in the mean time, miss some

fantastic investment opportunities. You kind of have to play through the cycles no matter what.

On what he's looking for in a company: We see thousands of companies every year, and we actively evaluate hundreds. We make only 10 investments a year—we're super selective. We end up picking from the best companies, and it's almost always the market leaders. What's their market share? How's the management team? You really want to back the A teams. We look at the business model—is it a proven business model? Is it more of a speculative thing where we think we'll find a business model?

On his favorite company: Twitter is fun. It's unlike anything I've ever seen. We knew it was special when they came in, and we had to fight hard to win that deal. It's one of these companies that defied gravity and keeps going, becoming even more pervasive.

On reference checks: This often happens with really high-profile companies. The CEOs of those companies have a lot of options—they will actually do reference checks on us. They'll talk to other CEOs. Twitter was calling the CEOs of my other portfolio companies. That's what happened with Dropbox too. There's a certain class of companies that everyone wants to invest in, and they have to choose which investors they like. Are we helpful? How do we help? Are we strategic? Do we have deep pockets? We take a team approach to our companies and try to act as a really strong resource to them.

On the firm's missteps: Facebook—that was our biggest mistake. We got a quick look at a \$550 million valuation (in 2006), and we didn't have enough time to get in-depth on the work, and we weren't able to aggressively get in on that. We put in a term sheet for \$500 million, and they did a \$550 million (valuation).

On his propensity to fly: I've got a real passion for travel, and that's one of the reasons why I've made so many travel investments. My favorite place is probably St. Barts. It's physically beautiful, it's French, it's sophisticated, and it's just a great place. I was an investor and on the board of Exclusive Resorts (the travel destination club), and one of the things I found about their model is that you have a certain number of vacation weeks, and you have to take them. It forces you to plan and go on vacation.

On whether he's envious of the media attention bestowed on other venture firms: It doesn't bother us at all. It works to our advantage. We're not trying to be super high profile. The LPs know who we are. We really try to make the company shine first, and we're just in the background. I gave a keynote interview at the Venture Capital Journal Conference (in San Francisco in October)—it feels a little weird sometimes. It kind of feels like it's a big circus. Somebody comes up to you after the speech and their hands are trembling as they're shaking hands. It happens all the time.