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Some Venture Funds Hit 'Pause' on Big Deals

By Pui-Wing Tam

SAN FRANCISCO—Over the past year, Marc Andreessen invested in a series of high-profile Web companies, including Facebook Inc., Twitter Inc. and Groupon Inc. Now the Silicon Valley venture capitalist is hitting the pause button on such big-name deals.

Since participating in a \$112 million funding of Web darling Airbnb Inc. in July that valued the online room-rental company at more than \$1 billion, Mr. Andreessen said his venture-capital firm Andreessen Horowitz has "taken a step back."

With some deals for private companies "definitely on the expensive side" amid a choppy stock market and concerns over a European debt crisis, Mr. Andreessen said he is looking to invest in fast-growing tech start-ups that aren't as well known and where "pricing is still under control."

Mr. Andreessen is the most visible of a group of venture capitalists dialing back on certain deals after a breathless year of venture investing that had some comparing 2011 to the late 1990s dot-com bubble. Many venture capitalists said they now are increasingly passing on companies seeking frothy valuations, and some are trying to get off the beaten path to find cheaper deals.

While there still is clamor to invest in the best-known and priciest start-ups—human-resources software-maker Workday Inc. and online file-sharing start-up Dropbox Inc. commanded valuations of more than \$1 billion each in recent months, people familiar with the matter have said—there is a change from 2011 when "investing was indiscriminate," said Todd Chaffee, a venture capitalist at Institutional Venture Partners.

"Now it's definitely slowed some, and investments aren't as thoughtless as they were," Mr. Chaffee said.

As a result, some tech companies on the hunt for new cash have had to reduce the prices they are seeking. Several venture firms passed on investing in security-tech company LifeLock Inc., which has been looking to raise funds at a valuation that some investors considered too high, people familiar with the matter said. One person said LifeLock was asking for a valuation of around \$600 million, which it has since brought down to around \$500 million.

A LifeLock spokesman declined to comment.

The slowdown compared to earlier in 2011 is showing up in the data. U.S. venture investment totaled \$6.95 billion in the third quarter, up from \$5.3 billion a year earlier but down 12% from \$7.9 billion in the second quarter, according to the National Venture Capital Association and Pricewaterhouse Coopers. Venture investors pumped \$1.6 billion into Internet-specific companies in the third quarter, down 33% from \$2.4 billion in the second quarter. Fourth-quarter figures will be released sometime during this year's first quarter.

Barry Kramer, an attorney at Fenwick & West who analyzes venture financings, said the flood of venture money into young companies earlier in 2011 was "an unsustainable situation." That is because venture capitalists are investing more money than they are raising each quarter, he said. The venture industry only raised \$1.7 billion in the third quarter, or about a quarter of the money invested. "That has to correct," Mr. Kramer said.

Geoff Yang, a venture capitalist at Redpoint Ventures in Menlo Park, Calif., said the move has become more pronounced after tepid stock-market debuts of some tech initial public offerings. The most prominent of those was social-games maker Zynga Inc., which closed Tuesday at \$9.45, below its \$10 IPO price of mid-December.

Any breather may be healthy to slap back private-company valuations, said some venture capitalists. Craig Sherman at Meritech Capital Partners, which invested in Facebook in 2006, said his venture firm was cautious about throwing money at start-ups in 2011 because "private-company values were higher than public company values."

Temperature Change

A sampling of investments that venture capitalist Marc Andreessen participated in earlier in the year and now

Company: **Airbnb**

When: July

Investment: \$112 million round of financing that

valued the online room-rental company at around \$1.3 billion

Company: **Twitter**

When: January

Investment: \$80 million investment that valued the micro-blogging service at \$4 billion

Company: **Actifio**

When: November

Investment: \$33.5 million round of financing that valued the data-and-storage management company at around \$200 million

(Source: WSJ Research)

Now, however, venture capitalists "have time to thoroughly evaluate deals again," Mr. Sherman said. "Earlier in [2011], we only got to make a split-second decision."

At Andreessen Horowitz, the change is visible in a pair of investments. In July when Mr. Andreessen's firm invested in Airbnb, numerous venture firms sought to snag a piece of it and had to make a decision quickly. The San Francisco start-up, which had doubled the pace of bookings from a year ago, ultimately bagged a \$1.3 billion valuation, up from a \$7 million valuation last year.

By November, Mr. Andreessen and his team were on the hunt for less well-known names and called up Actifio Inc. The Waltham, Mass., start-up, founded in 2009, works in the unsexy area of data and storage management. Actifio founder and Chief Executive Ash Ashutosh said he had no expectation of landing a stratospheric price tag. Revenue doubled in the previous few quarters, he said without being more specific, and the company is unprofitable.

"Certainly we're not at the stage of a Twitter or Groupon," Mr. Ashutosh said. "I wouldn't even expect to get a valuation like those companies."

In November, Actifio received \$33.5 million in a funding round led by Andreessen Horowitz. The start-up's valuation: around \$200 million, up from its previous valuation but far below the billion-dollar range.