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## With Promising Portfolio, IVP's Chaffee Takes The Long View

By Lizette Chapman

With three companies going public in 2011 (Zynga, HomeAway and Carbonite) and a portfolio packed with other hotshots including Twitter, Dropbox and LivingSocial, late-stage venture capital firm Institutional Venture Partners would seem to have its fortunes entwined with the IPO market.

Not so, says Todd Chaffee.

A general partner at IVP, Chaffee says the firm has been able to achieve a whopping 43.2% average internal rate of return over the past 30 years, largely because it invests in company growth for the long term.

Here's an excerpt from a conversation with Chaffee on the IPO market, VC myths and why he doesn't mind if founders cash out some shares early.

### What's your take on the IPO market right now?

It's tough and believe it or not, that's a good thing. What we need is an IPO market that accepts good quality companies and gives them a reasonable multiple and a reasonable valuation. When the IPO market gets crazy that's when it's unsustainable. Bubbles aren't healthy.

### So what's a "reasonable" valuation?

It depends on the company's growth rate. But if you've got a company growing more than 30% then I think 15-20X the Ebitda is reasonable.

### Shares of many newly public companies, including Zynga and Groupon, are now trading below the IPO price. Does that create challenges for shareholders, like IVP?

The big myth out there is that the IPO is an exit. Most smart VCs know that they're better off holding their position well beyond the IPO. We don't really care about the IPO price or six months later when the lock-up period ends either. What we really are about is how that company is going to do.



### When do you typically exit?

We don't exit until the growth shows. We like to hold our investments. Generally it's 2-5 years, sometimes it's 6-8 years. A lot of people think of IPOs as an exit. We don't. We think of it as a funding event.

### A portion of late-stage rounds to private companies have been going to founders and early employees. Any concerns about entrepreneurs cashing out too early from their own company?

It's a company-by-company situation. (Cashing out) provides liquidity to early investors and is actually fine as long as founders don't get too carried away. It's important that they still hold a major position and their interests are aligned with the company's.