

# Venture veterans

*Institutional Venture Partners has a storied past, but is focusing on the future under a new generation of leadership.*

**By Jennifer Harris**

Institutional Venture Partners has been around the block a few times. Though perhaps not as much of a household name as its neighbors Kleiner Perkins Caufield & Byers or Sequoia Capital, IVP was nonetheless one of the very first tenants of Sand Hill Road.

The firm's patriarch is Reid Dennis, who began investing in Silicon Valley start-ups in 1952. He founded IVP's predecessor, Institutional Venture Associates, in 1974, with backing from American Express, for whom he had previously managed mutual funds. He raised \$19 million from six insurance companies for IVA's first fund. By the end of that decade IVA's assets under management had grown to \$180 million.

In 1980, Dennis's two partners, Burt McMurty and Burgess Jamieson, left to form their own funds, Technology Venture Investors and Sigma Partners respectively. Dennis remained, changed the name of his firm to Institutional Venture Partners, and raised a \$22 million fund. In 1989 Dennis brought on partner Norm Fogelson, and over the next two decades four other partners – Todd Chaffee, Steve Harrick, Sandy Miller, and Dennis Phelps – joined the firm as well. Chaffee came from Visa International, Harrick from Internet Capital Group, Miller from 3i and Phelps from Battery Ventures and ICG.

The firm, which focuses on internet/digital media, enterprise IT, and communications/wireless, has invested in some 200 companies, and executed around 85 IPOs over the years. Among them are Silicon Valley success stories like Seagate Technology, LSI Logic, TiVo and Netflix.

A long and illustrious history can't hurt in Silicon Valley, but as Harrick says, sought-after entrepreneurs are quick to ask, "Okay, what have you done lately? What's relevant to me in the current environment?"

## Narrowing the focus

The partners at IVP are currently investing IVP XII, a \$600 million fund that closed last year. The last fund brought IVP's total committed capital up to \$2.2 billion. The firm's target sectors haven't changed. But like many veteran VCs, in recent years IVP has narrowed its focus to later stage investments: companies with more than \$10 million in revenues, who are market leaders in segments growing more than 30 percent per year.

"In the past we've made a wider range of investments, but over the last eight years, we've concluded that the later-stage investing is an excellent place to be," Fogelson says.

Of the three sectors, internet and digital media is probably the hottest right now, he says. On the software side, IVP has been interested in software for service-based companies, and subscription-based business models.

Three of its recent investments were Gaia Interactive, an anime-themed online social network, Zynga, a social gaming company, and RGB Networks, a company that services cable companies making the transition to high definition.

Ultimately IVP XII is designed to invest in between 20 and 30 companies, averaging \$25 million for each investment. It's about one-third invested to date, and the partners don't anticipate that it will be hard to deploy the remainder of the capital.

"A lot of IPOs have been suspended or pulled, and those companies still need financing," Fogelson says. "So it's a great opportunity for us to talk to them about doing a later-stage round of financing. You might say it's a target-rich environment."

Despite this slowdown in the market for IPOs, however, IVP has been able to execute four M&A exits and three IPOs in the last two years. Among these was the \$50 million IPO of security software company ArcSight this February, the only technology IPO in the first quarter of this year.

As a later-stage investor, IVP finds that the caliber of the existing backers of a company is nearly as important as the strength of the underlying company.

"We do look for hands on, earlier-stage investors who have been helpful to the company, to make sure it's governed properly, has all the controls in place and is on the right track," Harrick says. "But we work with everyone in the business, and the merits of the company itself are what we emphasize."

In last several dozen investments IVP has made, the firm has worked with 30 different venture firms, including Kleiner Perkins, and Sequoia, Accel, Benchmark Capital, Greylock Partners and many others.

"We really work with what I like to think are all the top firms in the business," Fogelson says. "But we're very neutral; we're not tied to any one firm."

## Generational evolution

In addition to shifting the scope of its investments, IVP has undergone institutional changes. When the partners began to raise IVP XII, Reid Dennis stepped down from his position as a general partner, and now plays an advisory role in the firm.

It's something that many firms in the industry struggle with: the departure of a charismatic, well known founder. There's the question of whether the firm's brand can survive without its patriarch, and often there's a struggle over who will take the reigns in his absence. But at IVP, the transition was smooth.

"When we were raising IVP XII, [Dennis] was 80 years old, and he said 'I probably shouldn't sign up for another 10 years,'" Fogelson recounts. "And that was of his own volition. Some firms have real fights about this, over carried interest and who's going to stick around and who's not, and we've dealt with that generational transition and evolved very smoothly."

The five remaining partners are equal "both in spirit and economically," he says. They are all generalists, rather than specializing in specific areas, and the division of labor among them is even.

"We think in terms of decision-making and judgment and that can't be delegated," Harrick says. "So we try to make sure that the partners are very much hands on on every deal this firm does."

The firm looks at around 1,000 opportunities a year, Harrick says, and of those engages in active due diligence on around 100. At this point, whichever partner brought the deal in becomes the point person for the potential investment, responsible for directing due diligence and managing IVP's interaction with the entrepreneurial team. If IVP decides to proceed to the point of considering serious valuations and terms, a second partner

## Institutional Venture Partners

**Year founded:**

1980

**Offices:**

Menlo Park, San Francisco

**Total employees:**

24

**Assets under management:**

\$2.2 billion

**Sector focus:**

Internet &amp; digital media, enterprise IT, communications &amp; wireless

**Key personnel:**Todd Chaffee, general partner  
Norm Fogelsong, general partner  
Steve Harrick, general partner  
Sandy Miller, general partner  
Dennis Phelps, general partner  
Melanie Chladek, chief financial officer  
Gina Bauman, marketing director**NOTABLE EXITS:**

Name	Sector	Initial investment	Exit notes
Synchronoss	Communications & wireless	September 2005	IPO June 2006
comScore	Internet & digital media	August 2000	IPO June 2007
ArcSight	Enterprise IT	October 2002	IPO February 2008
Quigo Technologies	Internet & digital media	December 2004	Acquired by AOL in December 2007.
Business.com	Internet & digital media	December 2006	Acquired by RHD for \$350m in July 2007
Danger	Communications & wireless	June 2004	Acquired by MSFT for \$500m in April 2008
MySQL	Enterprise IT	December 2005	Acquired by JAVA for \$bn in February 2008

is assigned to the deal.

“[The second partner] serves as a good foil for due diligence, reviewing all information and asking questions about what we might have missed and other things that we should consider,” Harrick says.

Due diligence is led by the point partner, and when it comes time to make a decision the two partners do a write-up of the deal and present it to the full partnership. The partnership must have a full consensus before a deal is approved.

Aside from the partners, the firm is staffed with three associates, a vice president, a chief financial officer, Melanie Chladek, and a marketing director, Gina Bauman. The firm is relatively small and flat, Fogelsong says, without “layers and layers of hierarchy.”

The vice president, Jules Maltz, and Bauman are both recent additions to the firm, and newly created positions. Maltz came on board in August, just after graduating from the Stanford Graduate School of Business. He had previously worked with IVP partner Sandy Miller at 3i, investing in the later-stage venture deals. The new position is part of a larger effort by IVP to put in place a “generational evolution” in the stewardship of the firm. Its current partners are in their 30s, 40s and 50s; the creation of a lower tier will bring in talent in their 20s as well.

The younger members of the firm add value not only through modeling, analyzing markets and pulling data together, but by bringing in deals.

“The way we approach it is that a good deal can come from anywhere, and partners certainly do a lot of the sourcing, but our associates and vice president can also bring in companies for us to take a look at,” Harrick says.

### Bolstering the back office

Bauman’s addition was part of a conscious effort to raise the firm’s public profile. She has spent her time thus far on improving the firm’s website, reaching out to the firm’s various stakeholders, and making sure IVP’s message reaches the broader public.

“Our partnership group spent a lot of time talking about what ought to come in-house and what ought to be outsourced,” says Harrick. “Our recent decision to make sure that we had a dedicated professional for mar-

keting is an example of the emphasis and the importance of communication in the business environment. We want to make sure people know what we’re interested in investing in, what attributes we’re looking for, and we want to really do a good job with communication and outreach, a better job than we’ve done in the past. We’re really just putting our best foot forward in terms of external communications.”

The changes to the firm’s website are not drastic, Bauman says, but simply designed to enhance communications. The site is intended to serve limited partners, but also entrepreneurs.

“It’s important to keep [the website] current, because the good later-stage deals are competitive deals, and an entrepreneur is going to jump right to the web to take a look at what we’ve invested in, what type of companies, what kind of success we’ve had, and also who this partner is that is going to be working with them,” Harrick says. “Keeping that current and your bio reflecting what you’ve been spending your time on and the companies that you’ve partnered with, is really an important part of making sure you’re selected to lead a financing.”

IVP brings in outside executive recruitment firms, both for its own hiring needs and to find professionals to staff its portfolio companies. The firm also outsources its IT functions, although the firm does not rely on comprehensive software packages for fund administration or performance benchmarking. Chladek, IVP’s CFO, stays in touch with all of the portfolio companies to obtain financials from them on a regular basis. IVP does use the virtual data room service IntraLinks to share information with its LPs, a transition that greatly enhanced the efficiency of that communication.

But with seven active funds under management, managing all this information is a big job, so the firm is looking to add a comptroller in the coming months.

But for the most part, the firm will look to grow dollars under management rather than increasing its staff in the near future.

“We don’t anticipate doing a lot of hiring in the short term,” Harrick says. “What we’re all focused on is investing. We think it’s going to be an active time and there are going to be some really exceptional opportunities at the expansion stage.” ■