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# A Venture-Capital Newbie Shakes Up Silicon Valley

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MENLO PARK, Calif.—As a newly minted venture capitalist, Marc Andreessen, co-founder of Netscape, aimed for nothing less than big. "Whale" size, as he puts it.

Associated Press

Game On: Marc Andreessen, right, talking to Zynga CEO Mark Pincus at the Allen & Co. media conference in July. Andreessen Horowitz invested in the social-games maker in 2009.

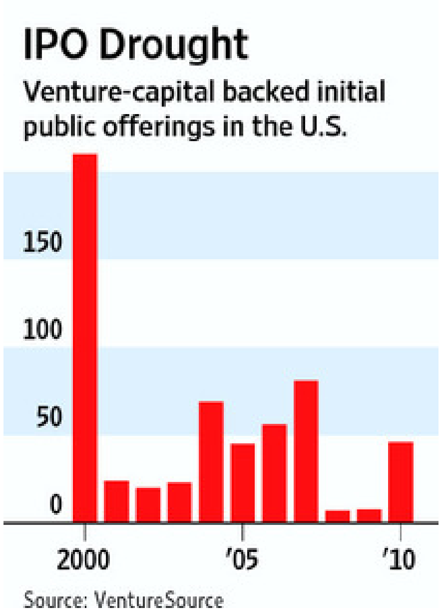
Like other investors here, he'd been eying Web companies with explosive growth and global star power. But acquiring shares in tech titans like Facebook is tricky. Most are closely held and don't trade on a public stock market. Interlopers can't simply waltz in.

So Mr. Andreessen set out to make his own rules—maneuvering his way into hot private deals at huge cost.

Some of his more established rivals weren't amused. They complained about the lofty prices he paid, and about being shut out of the action.

"Hate away," says the unfazed Mr. Andreessen.

The onslaught began last August, after Mr. Andreessen—along with partners Ben Horowitz and John O'Farrell—drew up a "harpoon" list of companies to target.




Over a six-month period, Mr. Andreessen tapped his formidable network of Silicon Valley connections to snag stakes in Facebook Inc., micro-blogging service Twitter Inc. and deals-site Groupon Inc. Other investments include social-game developer Zynga Inc. and Internet-telephone company Skype SA. In the process, he helped to ignite Silicon Valley's latest Web boom and the burgeoning market for private-company shares.

"We wanted to get these deals done because we had a strong feeling [the market] would heat up fast," says Mr. Andreessen, who heads the firm Andreessen Horowitz. "When push comes to shove, would you rather be in the winners?"

Just over a decade ago, Silicon Valley minted millionaires through a reliable venture-capital formula: invest in a nascent company for cheap and grab a large stake in the firm. The next step was to build the company up so it could go public, at which point the start-up's illiquid shares would convert into stock market gold.

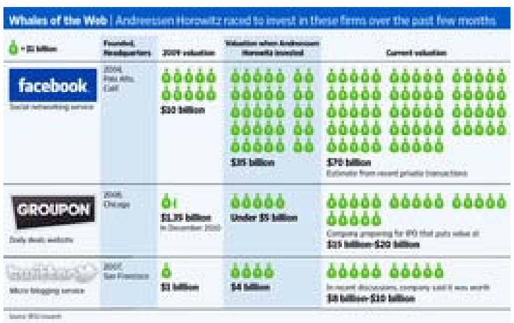
Now, investors like Mr. Andreessen are challenging that equation. Initial public offerings of start-ups have been damped by regulatory issues and the headaches associated with being a public company. Last year, venture-capital-backed IPOs totalled 46, down from 210 in 2000, during the peak of the tech bubble. Private companies like Facebook have said they are in no rush to go public.

The 39-year-old Mr. Andreessen, meanwhile, is in quite the hurry. In November, Andreessen Horowitz spent $50 million to acquire Facebook shares in a private deal that valued the social-networking company at $35 billion, more than triple its 2009 valuation of $10 billion.

Unlike IPOs, in which any investor can participate, private share deals are typically arranged through third parties who have access to shares in a company. The deals aren't subject to normal regulatory disclosures, since the company isn't issuing the shares. Investors can turn a profit when the company goes public or is sold, or if they re-sell their shares to other buyers at a higher price.

**Whales of the Web**

*Andreessen Horowitz raced to invest in these firms over the past few months.*




Mr. Andreessen's Facebook deal was an inflection point. Other firms soon raced in at even higher valuations. Within a few weeks, for example, Goldman Sachs Group Inc. and an investor group put $1.5 billion into the company, crowning Facebook with a $50 billion valuation.

Andreessen Horowitz continued its own campaign. In December, it poured roughly $50 million into a Groupon fundraising that valued the start-up at under $5 billion, up from $1.35 billion in 2009. In January, it shelled out $80 million to purchase Twitter shares in a private transaction that valued the company at around $4 billion, up from $1 billion in 2009.

Mr. Andreessen's detractors privately gripe about how the newbie venture capitalist is driving up the price of deals and gaining access to shares due to his extensive web of relationships. Others say Andreessen Horowitz may lose money based on the high prices it pays to acquire shares.

"I wouldn't bet against them but I probably wouldn't bet with them," says Mac Hofeditz of San Francisco-based Probitas Partners, a private-equity services firm.

Along Sand Hill Road, where many venture firms are located, some argue that private-share deals don't even count as venture capital.

"There's also money to be made in pork bellies and oil futures, but that's not what we do," says Matt Cohler, a partner at Benchmark Capital and a former Facebook executive.

Venture-capital veterans like Tom Perkins, who co-founded Kleiner Perkins Caufield & Byers 40 years ago, says most firms still generally prefer to "get involved early" and help foment young companies. At the same time, he says, many are nervous about being left behind in the changing deal landscape. "It's better to be in a deal than not at all," he says.

Mr. Andreessen dismisses the idea that he overpaid in certain transactions. "We realize we have to demonstrate returns and staying power," he says. He believes that companies like Facebook and Groupon still have a lot of "growth runway" since they have yet to fully tap major markets like China and Brazil.

Unlike the dot-com boom that touched—then burned—ordinary investors a decade ago, the current investing frenzy is largely confined to a clubby world of big-money financiers with access to companies like Groupon and Twitter. Mr. Andreessen enjoys a prime place in this Silicon Valley nexus, commanding board seats at Facebook, Hewlett-Packard Co. and eBay Inc. among others. He is also known for mentoring famous charges—including Facebook CEO Mark Zuckerberg.

Connections have become a powerful form of currency. Some companies, like Groupon, specifically wanted in on Mr. Andreessen's vast network.

Twitter, however, was cautious about having his firm make a direct investment because Mr. Andreessen also sits on the board of rival Facebook, people familiar with the matter say.

To spread their bets, Mr. Andreessen and his partners are also investing in tiny tech companies—nurturing them with development help, in the old-school way. At the same time, they have told investors they expect to at least triple their money in Facebook and other Web companies, even at the valuations they paid. Andreessen Horowitz last month raised an additional $200 million to continue doing big, late-stage deals.

Web companies failed during the tech bubble because there wasn't sufficient Internet traffic to sustain them. "All of the ideas on the Internet in the 1990s are all happening now," says Mr. Andreessen, who believes that Silicon Valley is in year 15 or 16 of a 25-year tech cycle.

The six-foot-four Mr. Andreessen seems to delight in quirky ideas and is known in local circles for deviating from the mean. Rather than collect pricey wine—the hobby of many Silicon Valley types—he buys fine whiskeys. He prefers not to stray far from Silicon Valley and rarely travels to conferences. Mr. Andreessen values his privacy and is a neatnik. He keeps Purell wipes in bowls at the office and asks guests at his home to remove their shoes.

After Netscape's early success and 1998 sale to America Online Inc., some wrote off Mr. Andreessen as a has-been. In the late 1990s, he launched Internet-service company Loudcloud Inc. Mr. Andreessen was chairman, with Mr. Horowitz CEO; Mr. O'Farrell later joined as a senior executive.

The company's 2001 IPO was a disappointment. Later renamed Opsware Inc., it wasn't the same runaway hit that Netscape, known for its web browser, had been. Ning Inc., a social-networking start-up co-founded by Mr. Andreessen in 2005, shook up its management after a strategy shift and remains closely held.

During the slow years, Mr. Andreessen's personal life was on a faster track. On New Year's Eve 2005, he met Laura Arrillaga, daughter of billionaire Silicon Valley property developer John Arrillaga, at a small San Francisco dinner arranged by a former eHarmony CEO. Mr. Andreessen and Ms. Arrillaga wed in late 2006 and have since settled near Stanford University, where she teaches philanthropy.

Mr. Andreessen had begun "angel" investing—putting $25,000 to $250,000 at a time of his own money into fund tiny start-ups—in 2003. Over the next five years, he made about 50 such commitments. One of those, in 2007, was Twitter. Mr. Andreessen had emailed Twitter co-founder Evan Williams to say he was interested in the service's technology.

Immersing himself in the start-up world, Mr. Andreessen says he had frequent meetings with entrepreneurs at a Palo Alto diner called Hobee's. When he and Mr. Horowitz discussed launching a venture firm, friends like Jim Breyer helped. Mr. Breyer, an Accel Partners venture capitalist who is also on Facebook's board, introduced the pair to institutional investors to help get their fund going.

In 2009, Andreessen Horowitz set up shop with a $300 million fund on Sand Hill Road. That year, the firm plowed about $50 million into Internet-telephone service Skype, its first large-company deal.

By then, companies such as Facebook, Groupon and Twitter were on a tear. That prompted Mr. Andreessen and his partners to craft their harpoon list of about a half dozen Web juggernauts.

In September 2010, they launched a road show to raise money; within three weeks, they raised $650 million from institutions such as Princeton and Stanford.

Over Halloween weekend, an opportunity in Facebook popped up. Even though Mr. Andreessen is a board member, he had been unable to buy shares directly from the company since it wasn't in fund-raising mode.

Accel venture capitalist Mr. Breyer called Mr. Andreessen to offer him the chance to buy a small part of its stake, at a $35 billion valuation. The sale would reap Accel a return of more than a 250 times its 2004 investment.

Mr. Andreessen's team swung into action. They divided into two groups, "red" and "blue," to argue the pros and cons of investing in Facebook at $35 billion. Within 48 hours, the firm yielded to the blue team—which had probed several facets of Facebook's advertising rates and market penetration—and bought a part of Accel's stake.

The deal closed in November. Facebook declined comment on the transaction.

Around the same time, Mr. Andreessen was laying the groundwork to invest in Groupon. He'd met Groupon CEO Andrew Mason at Allen & Co.'s conference in Sun Valley, Idaho, last July. Mr. Mason later introduced Mr. Andreessen to Groupon co-founder and chairman Eric Lefkofsky, and the men kept in touch.

The networking paid off in December when acquisition talks between Google Inc. and Groupon foundered and the start-up was looking for new capital. While there was intense competition from other investors, Groupon made space in the deal for Andreessen Horowitz.

"We were only dealing with the very best of the very best firms," says Mr. Lefkofsky.

In January, Groupon raised a total of $950 million. Mr. Andreessen got a slice of the company and was also named a nonvoting board observer.

His January deal with Twitter was thornier. Because Facebook and Twitter compete for Web users' attention, and Mr. Andreessen is a Facebook board member, Twitter was circumspect, say people familiar with the situation.

But Mr. Andreessen's network again came through, this time via Silicon Valley angel investor Ron Conway. Mr. Conway is on a short list of Twitter-authorized people who can arrange private share deals, say people familiar with the matter. Mr. Conway packages the shares in such a way that outsiders can invest, these people say.

Mr. Conway and Mr. Andreessen are also longtime friends and Mr. Conway's oldest son, Ronny, works at Andreessen Horowitz. In January, Mr. Conway offered the firm the chance to invest in some Twitter shares at a nearly $4 billion valuation.

Mr. Andreessen and his partners got on a conference call before deciding to put in $80 million. "It was a 24-hour decision," says Mr. O'Farrell.

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