

Where the Smart Money Is:

What venture capitalists are buying these days

By REBECCA BUCKMAN December 18, 2006

Wondering what the next hot investment opportunity will be? It may help to look at how and where venture-capital firms are spending their money right now.

Top venture firms like Sequoia Capital, Kleiner Perkins Caufield & Byers, Mayfield Fund and Accel Partners are pouring money into consumer-focused Internet start-ups among other companies, hoping to cash in on the frenzy over Web services like sharing photos and videos online and chatting with friends.

Sequoia, for instance, has a significant stake in video-sharing site YouTube Inc., a company Google Inc. announced in October it would buy for \$1.65 billion. That blockbuster deal could bring Sequoia profit of around \$500 million.

Accel Partners of Palo Alto, Calif., had a big win in April when software company Red Hat Inc. agreed to buy open-source outfit JBoss Inc. for \$350 million, plus an additional \$70 million subject to certain conditions. Accel had invested \$3.5 million in JBoss in 2003 and owned just under a 10% stake. The firm made about six times its money on the deal, Accel Managing Partner Jim Breyer says. Accel also scored with the late September initial public offering of Riverbed Technology Inc., a network-infrastructure company whose shares soared 57% on their first day of trading.

Others firms are going for companies with a very specific focus. John Doerr, a Kleiner partner, says his firm is looking at Internet companies that are aimed at a particular market or demographic and are "much more focused" than some of the e-commerce companies that sprang up during the first dot-com boom. Many also involve computer hardware, in addition to software. "The Web is still in its early adolescence" and has plenty of room to expand, Mr. Doerr says.

Many investors and academics wonder if the current rush to fund untested Internet start-ups is reminiscent of the late 1990s Web boom, which ended badly for some investors when many of those companies flopped. To avoid that fate, some venture firms are hedging their bets.

Editor's Note: Cartel Funding, LLC, a Venture Capital **Fund**, Organized to acquire stock in qualified private companies preparing for IPO, Merger or Acquisition -a company which does not acquire stock in unproven start-ups, and further, hedges its positions by providing its investors more than a single PreIPO potential in its investment portfolio- plans to score heavily with its recent acquisition of Netword, a former public company (on the Pink Sheets) that went private in January 2003. Netword selected Venture Capital to acquire the funding it needed to upgrade its Natural Language Navigation patented technology to become the only Internet Search Browser catering to exclusive national and zip-code advertisers whose websites will resolve alongside every major search engine when Netword users conduct searches on the internet.

An analysis by Accel shows that the median acquisition price of a venture-backed technology company in the five quarters ended Sept. 30 was \$185 million, representing 4.3 times the equity invested. The median value of high-tech, venture-backed IPOs during the same five quarters was \$297 million, for a multiple of 5.9 times the equity invested. There were about twice as many merger-and-acquisition deals as IPOs.