

## VENTURE FIRM PROFILE

# Greylock's Network Helps Firm Replenish Deal Flow

REFERRALS FROM ENTREPRENEURS ARE 'LIFEBLOOD' OF A FIRM THAT VALUES DISCRETION

One sign that the venture industry is recovering is that **Greylock**, a quiet firm that is considered one of Boston's powerhouse investors, has made eight new investments this year, just one less than in the previous two years combined.

The deals are bubbling up through its estimable network. Take **Aras Corp.**

Having bootstrapped his software company, CEO Peter Schroer decided that he wanted Greylock and its Waltham, Mass., neighbor, **Matrix Partners**, as investors. "They don't mind backing something that breaks the mold," Mr. Schroer said.

To get in Greylock's door, he enlisted a neighbor who had run one of the firm's health care companies. The neighbor called William Helman, the Greylock general partner who had served on the board.

"Our lifeblood is referrals like that," said General Partner William Kaiser, who joined the Aras board after Greylock and Matrix co-led a \$4.2 million first round for the Lawrence, Mass., company in September. The deal is one of three new investments for Mr. Kaiser this year.

Greylock is far from forthcoming about itself. Its general partners like to say that they are not the stars, the entrepreneurs whom Greylock backs are. The firm is one of Boston's oldest with a stable of loyal limited partners—half a dozen wealthy families and seven elite universities, including **Harvard** and **Yale**.

In 2001, it joined the ranks of firms that had raised billion-dollar funds but has said little about its progress in deploying that capital. Limited partners have pressured some firms that raised big funds to reduce them rather than allow management fees to eat up capital. Greylock, however, is one of the few firms whose management fees are set annually according to a budget that is reviewed by LPs rather than being a straight percentage of committed capital.

It is likely that the firm will not deploy the entire \$1 billion. Even so, given its investment pace, it's hard to believe Greylock would be back in the market before 2005.

Greylock has a sizeable presence on the West Coast, with six of its nine general partners in San Mateo, near San Francisco. Four of the GPs there have joined the firm since 1999—Aneel Bhusri, Charles Chi, Moshe Mor and David Sze. None of Greylock's new investments this year was in a California company, but its San Mateo-based partners have led new deals in Texas and New York.

Greylock also looks to invest in Europe and Israel alongside firms with a presence there. Last January, it promoted Mr. Mor to general partner and said the former Israeli entrepreneur would continue to lead the firm's efforts overseas. So far, according to VentureOne, Greylock has backed one company in Israel and one in Ireland. One of its follow-on investments this year was in an \$8 million third round for the Dublin company **Cape Clear Software Inc.** The company, which also counts **Accel Partners**, Palo Alto, among its backers, is selling Web-based software to integrate corporate IT systems.

Mr. Kaiser said that in investing in Europe and Israel, as well as in Canada, the firm looks for companies planning on establishing a strong U.S. presence. "We have a higher high-bar for companies that are further away because you can't by definition get there as often," he said.

While some early-stage firms saw crashing private-company valuations in 2001 and 2002 as an opportunity to dabble in later-stage deals, Greylock stuck to first rounds. It did six, according to VentureOne. It also made three new investments in second rounds during those two years. This year, six of its eight new investments were first rounds and one was a second. Its other new deal was a \$7.5 million third round for **ClearForest Corp.** Mr. Mor led the investment in the New York company, which also has an office in Israel. It is selling software to tap unstructured data.

Greylock has always liked companies that were

## At a Glance

### Greylock

#### MAIN OFFICE

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#### KEY PERSONNEL

**David Aronoff** | **William Helman** | **William Kaiser**  
General Partners

**Henry McCance** | Chairman

#### BRANCH OFFICE

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**Aneel Bhusri** | **Charles Chi** | **Roger Evans** | **Moshe Mor**  
**David Strohm** | **David Sze** | General Partners

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shipping product. This year, companies at that stage have accounted for seven of the firm's eight new investments.

Mr. Kaiser said this is because the firm is coming across entrepreneurs who saw the damage suffered by companies that raised huge amounts during the Internet and telecom bubbles and "decided to do it the old-fashioned way." Entrepreneurs are finding early sources of revenue, tapping friends and family and their own bank accounts, and spending carefully to get a product developed.

"It just builds a discipline and builds a culture into the company that can't be overstated," Mr. Kaiser said.

### 'Experience Matters'

In creating Aras, Mr. Schroer, the CEO, rounded up a team of veterans in what is called product-lifecycle-management software. Used by large manufacturers to manage the engineering of products, the software is sold mainly by established players such as IBM and MatrixOne. It costs millions and requires armies of consultants to implement.

Mr. Schroer and his team figured they could use the latest programming technology to come up with a product that would be easier to deploy and would greatly reduce the consulting work required to install it. They launched the company in March 2000 with prospective customers paying the bills and helping to develop the product. The company also did consulting work on the side to bring in revenue.

Impressed with the CEO and with what he had achieved, Greylock was ready to invest and thought that Matrix General Partner David Skok would be a good addition to the board because of his software industry background, Mr. Kaiser said. Greylock likes to invest alongside other veteran firms.

"Experience matters," said Mr. Kaiser, who likens the venture business to a craft such as woodworking or leatherworking. "As long as you're willing to be creative and think outside the box and build on your experience rather than just trying to repeat your experience, you really do get better."

Greylock in recent years has favored software, a preference that shows no sign of changing. All but one of its new deals were in the sector. Mr. Kaiser's two other new deals have been in companies tackling key network-performance issues. **Lumigent Technologies Inc.**, Acton, Mass., sells software that helps companies preserve the integrity of their data by reversing transactions that corrupt it and tracking how insiders access it. The technology is important for protecting such critical information as medical records, Mr. Kaiser said. **North Bridge Venture Partners**, Waltham, Mass., and **Solstice Capital**, Boston, also invested in the company's \$7 million first round.

**Reflectent Software Inc.**, Lowell, Mass., Mr. Kaiser's

third new portfolio company, sells software that monitors each desktop computer at an enterprise. This gives system administrators "a quantitative and qualitative look at [the question of] are my users happy today," he said. **Sigma Partners**, Menlo Park, also invested in the \$3.5 million first round.

Mr. Helman, who did not join a portfolio company board in 2001 or 2002, according to VentureOne, has done two new deals this year. One was an \$11.5 million first round for **OATSystems Inc.**, Watertown, Mass., another deal Greylock did with Matrix. The company is shipping software for tracking products tagged with radio chips, known as RFID tags.

Greylock's only non-software deal this year was Mr. Helman's other new investment, a \$10 million first round for **Reveal Imaging Technologies Inc.**, Bedford, Mass., which is developing imaging technology to detect explosives in airport baggage. **General Catalyst Partners**, Cambridge, Mass, and **IDG Ventures**, San Francisco, also invested. The IDG general partner who joined the board was Charles "Chip" Hazard, who left Greylock in 2002 after eight years to help launch IDG's Boston office, becoming the first Greylock GP ever to jump ship.

### Investment Snapshot

<b>Companies Backed Since 1997</b>	<b>95*</b>
Public	11
Acquired	18
Out of Business	7

Breakdown by Sector		Breakdown by Rounds	
Electronics	2	Seed	4
Semiconductors	5	First Round	68
Information Services	12	Second Round	13
Consumer/Bus. Services	13	Later Stage	7
Communications	13		
Software	41		

**Minimum Investment** \$500,000

**Maximum Investment** \$20 million

**Number of Investments in 2002** 17 (5 new)

**Number of Investments This Year** 12 (8 new)

**Current Fund** \$1 billion (closed in April 2001)

**Select Limited Partners** Dartmouth College, Duke University, Harvard University, MIT, Princeton University, Stanford University, Yale University

**Capital Left to Invest** N/A

**Next Fund** 2005

\*Includes United States, Europe and Israel

Source: VentureOne