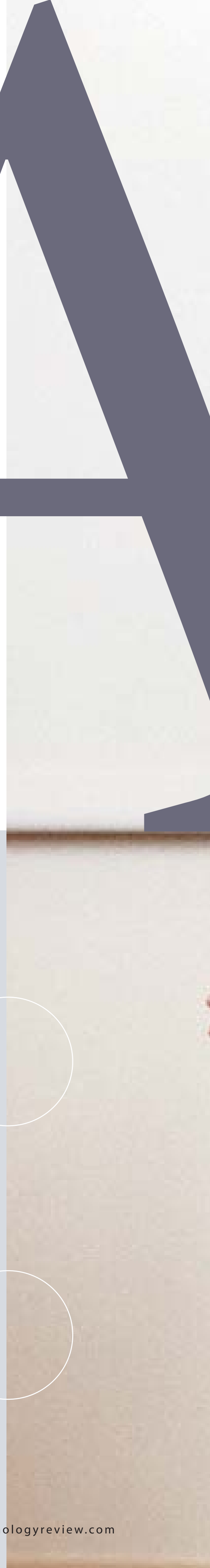
Q&A



Michael Moritz

THE HOTTEST VC ON THE PLANET

With Yahoo! behind him and Google's initial public offering rumored to be on its way, Sequoia Capital's Michael Moritz may be the world's preeminent venture capitalist—and he says technology is back.

BY SPENCER REISS PHOTOGRAPHS BY DEBRA MCCLINTON

You'd be smiling, too: If Google goes public, Michael Moritz stands to make hundreds of millions for Sequoia and its clients.

SOMEWHERE RIGHT AROUND the time you're reading this, odds are a headline will be crowing, "Google's $20 Billion IPO Ignites New Internet Boom." Here we go again? From a certain point of view—say, that of young college grads and hopeful entrepreneurs bubbling over with bright ideas—let's hope so.

But if we didn't already know it, what Google's epic launch surely shows is that venture capitalists are the consummate alchemists of the information age. Algorithms bubbling up from a university computer department don't on their own transform into a household verb—much less into a company spewing profits. Increasing the (slim) odds of this happening is where VCs come in—and few do it as well as Michael Moritz.

Moritz is a general partner at Sequoia Capital in Menlo Park, CA, where conference room walls are lined with mementos from three decades of fueling Silicon Valley startups—including infotech icons like Apple, Cisco, and Oracle. Together with another of the valley's VC heroes—John Doerr of Kleiner, Perkins, Caufield, and Byers—Moritz was tapped in June 1999 to join Google's six-member board, which met around a Ping-Pong table. (Between them, the two—often rival—VC firms put up $25 million for an undisclosed share of the upstart search engine company, then still only six months out of a Menlo Park garage.) Doerr's claims to fame included Compaq, Lotus, Netscape, and Amazon.com. Moritz was lower profile, but he had an ace in his hand: four years earlier, he had written a $1 million check to underwrite another quirky Internet "navigation" company with the curious name of Yahoo!

Will Google follow Yahoo! this spring with a spectacular Wall Street debut? Moritz and the rest of the company's Mountain View, CA-based team aren't saying. But the Welsh-born former journalist with a history degree from the University of Oxford and a Wharton MBA was happy to talk with *Technology Review* about the venture business, the perils of startups, and how to turn ideas into billion-dollar markets. I met him at Sequoia Capital's offices off Menlo Park's famous VC warren of Sand Hill Road, overlooking the Stanford University campus.

TR: **One happy man who has done Google and Yahoo!: it's almost as if someone did Coke and Pepsi. Is it just dumb luck?**

MM: Yes.

TR: **Jack Nicklaus used to say, "The more I practice, the luckier I get."**

MM: I don't think so. A few years back I was bemoaning the fact that the venture business never seemed to get any easier, and I remember our founding partner here, Don Valentine, saying to me, "Well, why would you expect it to?"

THE MORITZ DOSSIER
Director of **Flextronics** » **Google** » **RedEnvelope** » **Saba Software** » **AtomShockwave** » **Plaxo** » **Pure Digital Technologies** » **Next Estate**
Founding director of **Agile Software** » **Global Center**, acquired by Frontier » **LinkExchange**, acquired by Microsoft » **eGroups**, acquired by Yahoo! » **NeoMagic** » **Quote.com**, acquired by Lycos » **Visigenic**, acquired by Borland » **CenterRun**, acquired by Sun » **Yahoo!**

TR: No learning curve?
MM: You'd think by now we would have figured out a way to avoid making mistakes, and we haven't. The venture business is the ultimate humbling experience.
TR: One thing Google and Yahoo! have in common is being "free" to the user.
MM: Other than Netflix—which ships its subscribers a physical product, movie DVDs—you can't name a subscription-based Internet service that has grown very fast. Obviously, people who use Internet portals are paying the cost of having search results surrounded by advertising. But network television is perceived as being "free," as is radio. The same dynamic—although far more cleverly—is true on the Internet.
TR: Yahoo!'s quarterly profits are up 62 percent. Google's heading toward what could be Silicon Valley's biggest IPO ever. The Dow and Nasdaq are up on the ceiling again. Is it 1999 again?
MM: People are out of hibernation, but we don't necessarily welcome another generation who think they can come to Silicon Valley and make a quick buck. In every cycle there are limos that convey various people with large pretensions around. The same limos—the same drivers, at any rate—will be back, but with different passengers. It really poisons the atmosphere.
TR: What goes into the decision to take a startup company public, and has that changed?
MM: In 1999 it was easier for a company to go public than to fail. That clearly is not the case today.
TR: The result was, a lot of companies went public and then failed.
MM: It will seem peculiar today, but in 1999 it was easier to raise a quarter of a billion dollars than 20 million dollars. So yes, there were some spectacular failures.
TR: So the crash of 2000 had a silver lining?
MM: Clearly. But I've never believed that notion that you can't go public when the stock market is bad. We filed to take PayPal public in September 2001, probably one of the worst months in the last 30 years. There are even some advantages, because the customers aren't used to seeing young, reasonably fast-growing companies. You can get a lot of their attention.
TR: Still, the venture business went into a deep freeze.
MM: Pick whatever verb you want—people evaporated or vaporized or went into hibernation. But there were also a few firms that kept investing, Sequoia among them. We've averaged 15 or 16 investments each year for the last three years. In retrospect, I think the period we've just been through—companies funded in 2001, 2002, 2003—will turn out to be one of the very best venture periods of all time. You're able to do more with a lot less.
TR: In a downturn?
MM: People should understand that in any five-year period, Silicon Valley is capable of producing only a handful of very distinctive companies. It's unrealistic to expect this little portion of the universe to generate 35 great companies a year.
TR: Let's look at some currently hot sectors. Voice over IP?
MM: It's one of those currents that should only get stronger.
TR: Any worries about startups being swamped by the big boats?
MM: We tend to be optimistic about that, and it doesn't matter whether we're dealing with components or systems or software. There's always a big company lurking somewhere.
TR: How about spam—or maybe we should say, anti-spam?
MM: I think we can count on the infinite creativity of nefarious characters around the world to keep this lively. It's like the antivirus market: everybody thought that would go away in the late 1980s, and obviously it's been an enduring business. We have investments in a couple of companies, including Corvigo; it does a filtering appliance for enterprises.
TR: Authentication, online identity?
MM: Again, there are a lot of big companies lurking around, and one of the questions a little company has to solve is how to become a trusted entity. We have one company in particular that's working on that, but we haven't even talked about it yet. It's early days. There are a lot of big players out there who want to own this.
TR: Speaking of big players, Bill Gates is very keen on Web services. A lot of people still don't understand what that means.
MM: Well, join us: we don't understand it either. It used to be everybody was supposed to have an artificial-intelligence investment. Right now you're supposed to have Web services in your quiver.
TR: But what is it?
MM: At the moment, it seems to be anything you want it to be. But there are certainly companies that will make their living based on the coming trend toward XML [Extensible Markup Language, a protocol for organizing data on the Web]. That sounds very bland—"doing real things for the customers." The good news might be that I haven't heard the phrase "Web services" for some time now. I think it's last year's wallpaper.
TR: How about security?
MM: Absolutely, in all shapes and forms. For us, it's security in the enterprise; it's security around wireless devices; it's securing major Web sites. We have an investment in a public company called Netscreen, and also in some private companies, Netscaler and RiverHead. It's a very complicated area, and again, it looks as if it's going to be one of these things that will be with us for a long time.
TR: One more: "social networking"—the whole Friendster craze. Maybe we're missing something, but it's hard to see people swapping friends the same way they swap DVDs on eBay.
MM: Community areas—if they do something real for the community—have been good places to invest. We were happy investors years ago in LinkExchange and eGroups. But all of these companies have to build businesses, and none of them have yet shown that they can do that. We're invested in a company called LinkedIn, which is focused on the professional marketplace.

TR: **Could you give a hint about where you're looking for ideas?**

MM: I never answer that. It's like expecting a product company to announce its future products.

TR: **Sequoia's Web site says you look for "the marriage of extraordinary passion with an enormous market potential, preferably billion-dollar-plus." That's a pretty high bar.**

MM: Internet advertising was a zero-million-dollar advertising market in 1995. Last year it was probably $12 billion. Outsourcing manufacturing services is a hundred-billion-dollar business that didn't exist in the mid-'80s. The trend you latch on to may only be a $50 million marketplace today, or it may not even exist. But you've got to feel convinced that the dynamics are there so that it can blossom. Otherwise it's just not worth the effort.

TR: **It also says you "prefer a simple product with lots of prospective customers over patent-protected devices." Not exactly encouraging words for someone in a top university lab.**

MM: That's a bit of hyperbole. Obviously, if you can have a product that you can sell to lots of people that you can have technology barriers around, that's a wonderful thing. But lots and lots of customers probably afford your business better protection than a few patents.

TR: **Do you see any shifts in the relative importance of what we'll call "pure" technology ideas—an innovative bit of hardware or a software application—and the more services-oriented plays?**

MM: Not really. Advances at the component level still fuel everything that happens further down the food chain.

TR: **Can you see a time when the Internet ceases to be a "technology" area and becomes just another business? Once upon a time, light bulbs and automobiles were the bleeding edge.**

MM: For the better companies, making headway on the Internet has always been a business.

TR: **We don't hear much these days about "Internet time." Is that still a valid idea?**

MM: The only time that matters is time to market.

TR: **How about "first to market"?**

MM: An utterly dreadful phrase. I way prefer to focus on how a company becomes first *in* market.

TR: **And "passion"? You've cited Steve Jobs and Steve Wozniak at Apple and David Filo and Jerry Yang at Yahoo! as examples of entrepreneurial drive. But the same could be said about the founders of eToys and Webvan, and look how they turned out!**

MM: People who haven't worked at a small company don't understand how difficult it is to get one off the ground, and the amount of drive and tenacity and enthusiasm—passion, in other words—you need in order to build the business out of nothing. Yes, some of them go awry; many of them disappoint.

TR: **Was the problem in the late '90s just too much money?**

MM: It certainly flew in the face of everything that we try to preach, about how the best venture capital returns actually come from companies that don't take a lot of capital to get off the ground and that get profitable fairly early.

TR: **What's the worst company you've ever put money into?**

MM: We fail a lot and make tons of mistakes. But clearly the worst investment we ever made—not the worst company, by the way—was Webvan. It was a 16-wheeler nightmare. I feel a migraine coming on as soon as I think about it.

TR: **You've had companies where the founders tried to kill each other…**

MM: The little companies we invest in are stacked with all sorts of human drama. Some of the soap operas would just stun you. We did indeed have a company where one cofounder drove a pickup truck through a plate glass window in an effort to exterminate another. It was a more dramatic example of the gulfs that sometimes occur between management teams or cofounders.

TR: **Midnight phone calls?**

MM: The dreadful news travels a lot more quickly than the good news. We had a call just this morning—a new CEO frantically announcing that a creditor had swept all the cash out of their bank account. That was eight hours ago.

TR: **You've done investments in less than 24 hours.**

MM: Frequently they're ones we come to regret.

TR: **Are there things you won't even look at?**

MM: You'll think I'm kidding, but again, I got an e-mail this morning about some guy who wanted to know whether we'd consider investing in pig farms in Russia. A little bit beyond the ken, but we will look at every business plan; we'll look at every e-mail for the sectors we work in.

TR: **What's the best idea Sequoia Capital has turned down?**

MM: Silicon Graphics. And more recently, Netflix. It came along during a period when we didn't have enough time to think—there was such a hurricane of new ideas every day.

TR: **Best idea that you wish you'd had a chance to turn down?**

MM: Expedia, but Mr. Gates owned that one.

TR: **Entrepreneurs are often associated with risk taking. What's the risk-taking weather report? Did people go into hibernation again on risk taking for the last couple of years?**

MM: Yes, they certainly did, although you could look at it the other way: the people that you really want to be in business with are the people who have the fortitude to want to try and start a business precisely at the time that everybody else doesn't.

TR: **Do you see the PC's status diminishing?**

MM: Potentially, but I think computing in general will play an ever bigger part of everyone's life. I remember 25 years ago listening to Gordon Moore telling about all these computers that would be in cars, refrigerators, and everything else. Well, I just sold one car that had too many computers—they all kept going wrong.

TR: **Outsourcing: are you worried that "jobs moving overseas" will undermine support for free trade, with calamitous effects on the world economy?**

MM: Outsourcing will have calamitous effects on all the people who are in denial about it. We have investments in a company called 24/7 Customer that operates call centers in India. It makes the companies here that use its services much stronger companies.

TR: **The Internet: over- or underhyped?**

MM: I'd say underused compared to where it will be. We don't spend a lot of time here thinking about the economy or talking about the information economy or the industrial economy. We just want to invest in a business or a company—to be the entrepreneurs behind the entrepreneurs. I know that sounds simplistic, but it's the reality of what we do.

TR: **Last chance for a lesson from your amazing run of "luck" launching Internet companies?**

MM: Small amounts of money, tight groups of very focused people, an unwillingness to splurge when temptation calls, constrained infrastructure, outsourcing all that is unessential. In other words, less makes more.

Spencer Reiss specializes in interviewing people smarter than he is.