TECH

Andreessen Horowitz's Returns Trail Venture-Capital Elite

Rare look at startup investors' performance shows Andreessen Horowitz lags behind Sequoia, Benchmark, Founders Fund

Andreessen Horowitz, co-founded by web pioneer Marc Andreessen in 2009, is routinely mentioned among the pantheon of great startup investors. **PHOTO:** BLOOMBERG NEWS

By Rolfe Winkler

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Andreessen Horowitz's first three venture funds have nearly doubled their investment capital or better since inception, according to documents reviewed by The Wall Street Journal that provide a rare look at the performance of one of Silicon Valley's top venture-capital firms.

But an analysis of its returns, compared with funds from top rivals and industry averages, shows that Andreessen Horowitz hasn't yet earned its reputation as an elite firm.

The firm, co-founded by web pioneer Marc Andreessen in 2009, is routinely mentioned among the pantheon of great startup investors with the likes of Sequoia Capital, a status that has allowed it to command higher fees than some of its peers.

Sequoia has separated itself from the pack thanks to its consistently high returns. Its 2003 and 2006 venture funds have both risen eightfold net of fees, according to a person familiar with the matter. The first bet on LinkedIn Corp. and YouTube, the second on Airbnb Inc. and Dropbox Inc. Sequoia's 2010 fund is up 5.5 times and, unlike other venture funds that are mostly sitting on paper gains, has been able to generate massive cash returns, mostly after WhatsApp—in which the fund invested—was purchased for $22 billion by Facebook Inc. in 2014, the person said.

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Another venture firm, Benchmark, has multiplied investors' money 11 times net of fees in its 2011 fund, according to a person familiar with its performance. It includes blockbuster investments like Uber Technologies Inc. and Snapchat Inc.

Founders Fund, co-founded by Peter Thiel, posted solid returns thanks to bets on Space Exploration Technologies Inc., Palantir Technologies Inc. and Airbnb. Its 2007 fund has increased in value by nearly seven times net of fees, according to a person familiar with its figures, and its 2010 and 2011 funds are both up 3.6 times.

Since its founding through last year, Andreessen Horowitz had returned a total of $1.2 billion in cash to investors, net of fees. Sequoia returned more money on WhatsApp alone. Benchmark's gains in Uber and Snapchat remain on paper.

A spokeswoman for Andreessen Horowitz declined to comment.

In a blog post late Thursday after a version of this article was published online, Andreessen Horowitz Managing Partner Scott Kupor said the Journal was wrong to say his firm's returns trail those of elite rivals because the difficulty of valuing illiquid, private companies can complicate comparisons between firms. "Only real, actual cash and stock distributions matter," he wrote. "Venture capital is a long game."

The partners who run high-profile venture-capital firms generally guard their investment data, saying it helps them make long-term bets away from public scrutiny. Critics say the secrecy can allow venture funds to hide poor returns and lofty fees.

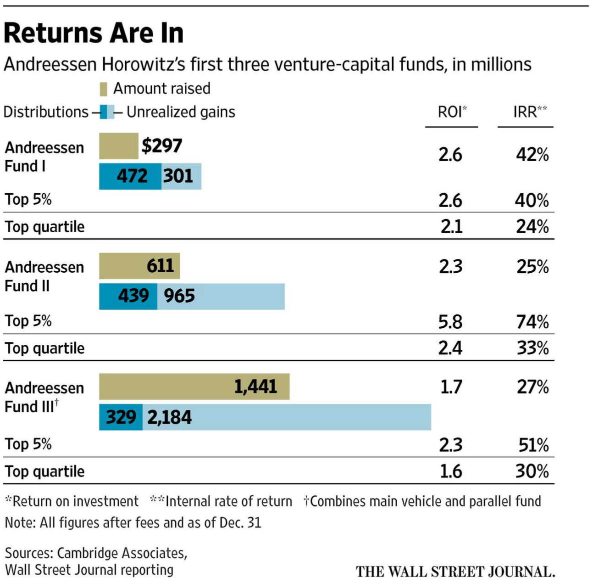
Venture-capital firms raise money from universities, pension funds and other institutions to wager on startups. They typically raise a new fund every few years, operating a handful at the same time with each expected to wind down after 10 years.

Though they fall short of their top-notch rivals, all three Andreessen Horowitz funds—whose bets include Instagram, Airbnb and Pinterest Inc.—have outperformed the average of venture funds raised in the same years, according to benchmark data from investment adviser Cambridge Associates. The earliest fund, raised in 2009, ranks in the top 5% of venture funds from that year; the second fund, raised in 2010, ranks in the top 50%; and the third from 2012 ranks in the top 25%.

Most of the gains are still on paper as many of the companies haven't been acquired or haven't staged initial public offerings, the main ways venture firms cash out. Promising investments like Airbnb could still deliver bigger gains.

The performance could also erode if some of the investments lose value. In the first quarter, for example, Andreessen Horowitz wrote down the value of health-benefits broker Zenefits Inc., according to a person familiar with the matter.

Andreessen Horowitz's data are of particular interest due to the firm's unique structure and investment strategy, as well as the high profile of Mr. Andreessen, the Netscape co-founder who was labeled "the most influential VC in Silicon Valley" on a 2012 Wired magazine cover. Mr. Andreessen and business partner Ben Horowitz hired scores of workers to cater to startups' every need, from recruiting new hires and customers to drumming up press. Meanwhile, some investors say the firm has often overbid for stakes in hot companies, driving up valuations more broadly.



That recipe has turned Andreessen Horowitz into a premier brand among startup founders, giving the firm access to more hot deals. But amid a drought in tech IPOs, Andreessen is still waiting for the kind of blockbuster that can cement a venture firm's legacy.

Andreessen Horowitz has raised more than $5 billion across five funds, including a $1.5 billion fund raised this year. It commands premium fees, keeping 30% of its profit after returning the initial cash back to investors, rather than the standard 20%.

Its first three funds have enough history behind them to begin gauging their performance. Investors in venture funds caution, however, that it usually takes up to 10 years, the typical life of the fund, to determine investment prowess.

Mr. Andreessen has said "top tier" venture investors look for firms to return more than three times their committed capital after 10 years.

Andreessen Horowitz's first fund from 2009, totaling $300 million, had returned about $472 million in cash through last year and has another $300 million in value on the books, according to the documents reviewed by the Journal. That translates to a return of 2.6 times invested capital.

The fund included Instagram, Andreessen Horowitz's biggest winner in terms of multiplying cash invested. When Facebook bought the photo-sharing app for $1 billion in 2012, the firm said it made $78 million on a $250,000 investment.

The second fund, a $650 million vehicle raised in 2010, includes two of Andreessen Horowitz's biggest stars: Airbnb and Pinterest. That fund invested $30 million in each startup, according to a person familiar with the matter, positions valued at over $700 million combined at the end of March.

The second fund had distributed $439 million net of fees and includes another $965 million in paper value through last year, for a return multiple of 2.3, the documents show.

The third fund, which raised $1.5 billion in 2012, had cashed in $329 million while holding $2.2 billion of paper value as of year-end—generating a return of 1.7 times invested capital, according to the documents. The data came before the Zenefits write-down, though other investments in this fund may have appreciated.

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