

## Q&A

### Surge in VC-Backed IPO Activity Expected This Year: Menlo Ventures' Murphy

A wave of VC-backed enterprise companies will be taken public in late 2016 and early 2017 amid stronger investor appetite for new listings, according to **Menlo Ventures'** managing director **Matt Murphy**. Menlo is currently investing a \$250 million special opportunities fund, which closed this year, and its twelfth flagship fund, which closed in 2015 with \$400 million in commitments. He spoke to Bloomberg News's Sarah Chaney and Bloomberg Briefs' Ainslie Chandler on Aug. 10. Comments have been edited and condensed

#### **Q: How is the exit market at the moment?**

**A:** We had three tech IPOs go out in the first half of the year and do well, especially in their after-market performance. What that showed the market is that there's appetite out there for new issues. People were waiting to see how the public markets reacted to the initial wave of IPOs, which generally get priced lower because the market's more conservative. When people realized there's more supply there than they expected, the IPO prices and valuations go up. And more companies feel comfortable going public because they think they'll be appropriately valued or won't be overly diluted. The second half of the year will be much, much different in the number of mature enterprise companies that decide to go out. There's been some good later-stage M&A, among companies that have been public for a couple years or more.

#### **Q: So you expect a stronger tech IPO market for the rest of the year?**

**A:** You want to go out when you think public markets will be receptive to your story, your level of maturity. There are a number of those dynamics that companies had enough lines of sight on for the last six months. In the back half of the year and into 2017, you'll see a lot of these mature companies go public. I really mean that on the enterprise side. On the consumer side, you're still seeing some of the best companies like Airbnb and Uber still raise huge amounts of

capital, probably higher than they could raise money in the public markets. On the enterprise side, probably over 50 companies doing over \$50 million of revenue plus are within a year of being able to go public.

#### **Q: What have your LPs been asking about? Have there been concerns about the exit environment or the valuations?**

**A:** LPs are curious about so many companies staying private longer. When is that going to change? What does that mean for liquidity? Is it the best thing for these companies for LPs to keep doing these private rounds? Or would they be better off in the public markets where liquidity is more of an option? The main thing is: Are the fundamentals still strong? The answer to that is a resounding 'yes.' We have really strong cycles on both the consumer side with mobile and access to global markets, and we have really strong trends on the enterprise side as there's a large shift going on to the public cloud.

#### **Q: Is there anything that keeps you up at night regarding venture capital?**

**A:** M&A accounts for half of the returns in venture capital. Historically, we've seen more M&A in mid-stage of a company's growth. That's how a lot of larger companies end up getting into adjacent markets or finding the next product. And so far most of the M&A has been

concentrated in these public companies. The sweet spot of M&A, between \$200 and \$750 million, where people are buying a business, has been kind of slow. That's been muting some of these potential exit environments. A lot of the best public assets have been acquired and a lot of the acquirers will start looking down market.

#### **Q: Will unicorns continue to snag a lot of venture capital funding?**

**A:** Some of the data showed that venture capital funding is not down that much in aggregate. But if you look one layer below that, a lot of the dollars were concentrated in the late stage of the market and you see the unicorns and the Airbnb financing money. Series A investments are doing pretty well, Series B and C are down and Series D and beyond are still pretty strong because there's a barbell in the market around risk.

#### **Q: What else do you think is important in VC at the moment?**

**A:** If you ask people what are the hottest consumer companies out there, they're probably still the same five that have been hot for the last few years. It's Snapchat, it's Airbnb, it's Uber. We're in this time where there's a bunch of mature companies doing well. On the enterprise side, there are a lot of new, emerging companies. The next big consumer thing is a little unclear and evasive right now.

## AT A GLANCE



**Age:** 49

**Based in:** Menlo Park, CA

**Brief career history:** Managing director at Menlo Ventures, previously a general partner at Kleiner Perkins Caufield and Byers, director of product at NetBoost, business development manager at Sun Microsystems, consultant at Andersen Consulting

**Degrees:** BS Electrical Engineering, Tufts University; MBA, Stanford GSB

**Favorite restaurant (and city):** Ristorante Buca Mario (Florence)

**Favorite toy:** Still my iPhone!

**Best recent vacation:** Brush Creek Ranch

**Hobbies/favorite pastimes:** My kid's sports, especially basketball and football