

# Menlo Ventures Raises \$250M Fund



*Photo: The team at Menlo Ventures, which just raised a \$250 million opportunity fund to invest in early growth stage companies. Photo Credit: MENLO VENTURES*

**By TOMIO GERON**

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Startups have faced an increasing dearth of funding in the growth stage as nontraditional and venture funds have pulled back.

Now, Menlo Ventures has raised \$250 million for a Menlo Opportunity Fund to fill this gap. The fund, the first of this type for Menlo, will focus on “early growth,” or Series B and C deals.

The fund, which was oversubscribed, will invest about half of its deals in existing Menlo portfolio companies and half in new companies, with average check sizes of \$20 million to \$25 million and up to \$50 million. The opportunity fund, to be run by Menlo managing directors Venky Ganesan, Matt Murphy, Mark Siegel and Pravin Vazirani, will invest concurrently with

Menlo's existing \$400 million early stage fund XII; it will only invest alongside Menlo XII.

Industrywide, total funding for second round deals dropped to \$2.03 billion in the first quarter of 2016 from \$3.08 billion in the year ago quarter, according to industry tracker Dow Jones VentureSource. There were 205 such deals in the first quarter of 2016, which was down from 238 in the year ago period. VentureSource, like The Wall Street Journal, is owned by Dow Jones & Co.

Meanwhile, the drop in later stage deals was even sharper as mutual funds and other nontraditional players have pulled back. Total later stage funding was \$8.33 billion in the first quarter of 2016, down from \$11.09 billion in the year ago period. The number of later stage deals was 299 in the first quarter of 2016, compared with 327 in the year ago quarter.

Mr. Murphy believes those trends will continue. "That's going to get worse, which is why we're excited about this opportunity. We think this 'venture valley' will get bigger."

Last fall, Menlo noticed later stage investors slowing their investing pace while traditional venture growth funds were moving much later. "We talked to our LPs about it and there was a lot of enthusiasm. They have a lot of exposure at both ends of the spectrum but a not lot in the middle."

The new fund not only provides for filling this gap with new companies but also provides more dry powder for its own companies that are experiencing massive growth. The opportunity fund has already made its first investment, which hasn't been made public yet. Menlo has previously invested in companies such as Uber and 3Par in this early growth stage.

Despite the recent strength in fundraising for venture funds, there is still a lack of funding for promising startups in the Series B and C stages, Mr. Murphy says. He attributes some of the venture fund fundraising to typical fund cycles. "(VCs) have gone through their funds, maybe faster than expected, not because they want to ramp up now," he says. "Just when the market is tightening up a little more, there's more need for a fund like this."