

Dow Jones Private Equity Analyst

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The Year In Review, In Numbers

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2009 Fund-Raising Was A
Rout. 2010 Will Be A War.
Coverage starts on page 14.

Dealmaking

Digital Sky Technologies

Facebook Inc. and Zynga Inc. are the first two U.S. investments for Digital Sky Technologies. Here's a look at these two deals:

Facebook

In May, Digital Sky purchased \$200 million of preferred stock, representing a 1.96% equity stake at a \$10 billion valuation. Digital Sky also agreed to buy at least \$100 million of common stock from current and former employees. In July, Digital Sky began purchasing these common shares for \$14.77 per share, valuing Facebook at \$6.5 billion. If it spends the full \$100 million, Digital Sky will have about a 3.5% stake in Facebook. Other investors include Accel Partners, Greylock Capital, Meritech Capital Partners and Microsoft Corp.

Zynga

In December, Digital Sky led a \$180 million round that again included a commitment to purchase both preferred and common shares. Most of the investment came from Digital Sky, but Andreessen-Horowitz and Tiger Global Management also invested for the first time in Zynga, while Institutional Venture Partners added to its position. Zynga's other investors, Kleiner Perkins Caufield & Byers, Union Square Ventures, Foundry Group and Avalon Ventures, didn't participate. The company and investors wouldn't say if they sold shares in the deal. Zynga previously raised about \$55 million from those investors.

VC Deal Of The Year

In 2009, Facebook And Zynga Found A New Liquidity Path

By Tomio Geron

If **Facebook Inc.** or **Zynga Inc.** go public this year, as many expect them to do, it will be for the right reason: because it helps them achieve a business objective, not because it offers up liquidity to their shareholders. Both companies now have that freedom, thanks to 2009 investments from **Digital Sky Technologies**, a Russian investment firm hitherto little-known in the West.

Facebook unveiled its \$200 million in new capital at *The Wall Street Journal's* "D: All Things Digital" conference in May. The deal included a unique provision: Digital Sky would also commit up to \$100 million to buy back shares from employees. Not only would Facebook get plenty of growth capital, its employees would enjoy some liquidity, dampening the need for a public offering in the near-term.

It was Digital Sky Technologies' first investment in the U.S., but already the Zynga deal was fomenting. The same day as the Facebook deal came through, Digital Sky Partner Alexander Tamas, who was attending the conference, quietly approached Mark Pincus, the chief executive of social-gaming company Zynga, about the possibility of a similar investment.

Pincus, whose two-year-old company was on the fast track to a public offering, was interested in finding a way to give his shareholders some liquidity without having to worry about the hassles and costs of an IPO.

"I thought, wow, if we could do something similar that would give employees and investors a path to liquidity, [we would]," Pincus said. "And [it would] let us sit back and really think about our opportunity for an IPO at a point where we see it accelerating our business objectives and have that be 80% of the rationale rather than the other kind of liquidity goals."

The result, a few months later, was a \$180 million investment that came mostly from Digital Sky and, as with Facebook, included a commitment to buy back stock from existing shareholders.

These deals could signal the arrival of a new source of liquidity for start-ups: big foreign investors eager to get in on the ground floor of top-flight private companies. Ken Sawyer, managing director of secondary firm Saints Capital, says he's definitely seeing more interest from such investors, even as others like hedge funds and investment banks retreat. "There's been a pickup in other investors in those asset classes," he said.

However, investors with Digital Sky's particular mix of expertise and patience may be rare. The firm was founded in 2005 when Yuri Milner, former chief executive of Russian email company Mail.ru, and Gregory Finger, an early investor in Mail.ru, pooled their money and began investing in other Russian and Eastern European start-ups.

The pair bring substantial knowledge of the Internet sector to the table, both from their mail.ru experience and from investments like ones in Russian online gaming company Astrum Online Entertainment and Russian jobs site headhunter.ru. But they also have Western investing chops: Milner went to the Wharton School and worked at the World Bank, while Finger headed the Moscow office of New Century Holdings, a big Western investor in the Eastern European markets that once counted George Soros as an investor.

Perhaps the most appealing quality of Digital Sky to Facebook and Zynga, though, is its long-term outlook. The firm operates as a holding company rather than a venture fund, giving it a longer time horizon. "We're looking to invest in companies where we stay together with the founders for the long haul: 5, 10, 15 years," Milner said. "That's the Berkshire Hathaway view of investing: Buy Coca-Cola and stick around 20 years with Coca-Cola and see it grow from a regional play to a global one." ■

VC Dealmakers

A look at VC deal trends

In our imaginations, middle-class investors used to get their stock tips via whispered asides at coffee-shop counters, or shared then across back fences. But as the financial markets continue to rise – and social networking continues to infiltrate every cranny of our lives – Web sites that help investors make their investing choices are cashing in. **Seeking Alpha Ltd.**, which has raised \$7 million in Series B financing from DAG Ventures, Benchmark Capital and Accel Partners, provides content from bloggers, transcriptions of company conference calls, a blogging platform for anyone who wants to write about stocks or the markets, and a Twitter-like micro-blogging tool called Stock Talk. **StockTwits**, which raised a \$3 million Series B from Foundry Group and True Ventures, aggregates and sorts Tweets that people have tagged with a "\$" sign. Another investing site, **KaChing Group Inc.**, simply enables members to monitor and copy the investments made by well-known or successful investors. The company just raised \$7.5 million in Series A funding led by DAG Ventures...

As even high-end consumers grow ever more budget conscious, Web sites that offer private sales of discount designer apparel are the new black. **Zulily**, a soon-to-launch site that has raised \$4.6 million in Series A financing led by Maveron LLC, plans to inform members daily of special deals on five to 30 items of merchandise aimed at mothers and babies, at a 20% to 70% discount from retail prices. Another private-sales company, **Ideeli Inc.**, just raised \$20 million in Series B funding from Constellation Growth Capital, StarVest Partners and Kodiak Venture Partners. Designer brands prefer to have such sites move their surplus products rather than see them show up at discount brick-and-mortar stores, which are thought to be oh-so-gauche...

Few things get the heart of a life sciences investor pumping like an opportunity to piggyback on a promising drug that has been well-developed but is not a priority for its corporate owner. After Pfizer Inc. paid \$1.9 billion to acquire Vicuron Pharmaceuticals in 2005, it decided to keep Vicuron's marketed antifungal, Eraxis, but had no use for its injectable antibiotic, dalbavancin. Enter Aisling Capital, Canaan Partners, Domain Associates, New Leaf Venture Partners and Sofinnova Ventures, which have formed a new company, **Durata Therapeutics Inc.**, to spin out Vicuron and finance dalbavancin all the way to U.S. regulatory approval. Also in December, pain-therapeutics start-up **Afferent Pharmaceuticals Inc.** spun out of Roche Holding Ltd., with New Leaf and Domain teaming up with Pappas Ventures and Third Rock Ventures to fund it. The firms figure to have an excellent acquisition target on their hands if Phase II trials for Afferent's chronic pain medication produces positive results. ■

—Tomio Geron and Brian Gormley

Top 10 VC Deals Globally

Zynga Inc. San Francisco Value (M) \$180.0	Industry Entertainment Announced 12/16/09
Investors Andreessen Horowitz, Digital Sky Technologies, Institutional Venture Partners, Tiger Global Management	
Silver Spring Networks Inc. Redwood City, Calif. Value (M) \$100.0	Industry Comm. & ntwk. Announced 12/14/09
Investors Foundation Capital, Google Ventures, Kleiner Perkins Caufield & Byers	
Clear2Pay NV Mechelen, Belgium Value (M) \$74.0 ¹	Industry Software Announced 12/7/09
Investors AGF Private Equity, Aquiline Capital Partners LLP*, Big Bang Ventures, Intel Capital, Iris Capital, Quest For Growth, TrustCapital Partners	
Molecular Partners AG Schlieren, Switzerland Value (M) \$44.2 ²	Industry Biopharmaceuticals Announced 12/11/09
Investors BB Biotech Ventures, Endeavour Vision, Essex Woodlands Health Ventures*, Index Ventures, Johnson & Johnson Development Corp.	
Regado Biosciences Inc. Basking Ridge, N.J. Value (M) \$40.0	Industry Biopharmaceuticals Announced 12/16/09
Investors Aurora Funds Inc., Caxton Advantage Life Sciences Fund, Domain Associates LLC, Edmond de Rothschild Investment Partners*, Quaker BioVentures	
Groupon Inc. Chicago Value (M) \$30.0	Industry Consumer services Announced 12/1/09
Investors Accel Partners*, New Enterprise Associates	
Zoosk Inc. San Francisco Value (M) \$30.0	Industry Consumer services Announced 12/3/09
Investors Amidzad Partners, ATA Ventures, Bessemer Venture Partners*, Canaan Partners	
Ophthotech Corp. Princeton, N.J. Value (M) \$30.0	Industry Biopharmaceuticals Announced 12/15/09
Investors Clarus Ventures*, HBM BioVentures AG, Novo A/S, SV Life Sciences	
Curetis AG Holzgeringen, Germany Value (M) \$27.9	Industry Medical devices & equip. Announced 12/1/09
Investors Aeris Capital, BioMedPartners, KfW Bankengruppe, Life Sciences Partners BV	
SmartDrive Systems Inc. San Diego Value (M) \$25.0	Industry Business supp. svcs. Announced 12/16/09
Investors New Enterprise Associates, * Oak Investment Partners*	

Data is from 11/21/09-12/28/09. *Lead investor. (1) Converted from euros. (2) Converted from Swiss francs.
Source: Dow Jones VentureSource