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The future of Morgenthaler Ventures

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By [Dan Primack](#) November 3, 2011: 4:50 PM ET

Earlier this week [we reported](#) that Morgenthaler Ventures is splitting up, with its life sciences team leaving to hang their own shingle. This basically is the codification of the 42-year-old firm's recent evolution from a generalist into a specialist. For example, it used to raise funds that invested in both venture capital and private equity, before raising a \$400 million VC-only fund in 2008. And, even within that fund, the IT and life sciences teams kept independent P&Ls and benchmarked themselves separately.



So I spent some time on the phone today with Gary Little, a former Apple executive who has been with Morgenthaler since 1997 (the Apple ties are strong -- Morgenthaler not only was an early investor, but also backed Siri).

We talked about the firm's plans going forward as an IT-only venture investor, and some of its most promising portfolio companies. We did not talk about the IT group's plans to raise an independent fund next year -- something we previously reported on but Little can't discuss due to SEC restrictions.

What follows is an edited transcript of that conversation:

Fortune: Explain what's happening at the firm.

Gary Little: "We used to have three investment practices investing out of the same pool of capital: Early-stage tech, early-stage life sciences and small-to-mid market private equity. Each of those evolved to the point where each became so different, not only in terms of domain expertise but different types of distributions, different potential acquirers, different time horizons and the like.

So some time ago we organized it so we weren't all around the same table. We'd coordinate on a monthly basis since it was a shared fund, and would sometimes help each other with due diligence, but this isn't really as much of a change as it may appear. All of the life sciences partners will continue to be partners in our existing funds, attend our annual meetings, etc.

Many veteran VC firms seem to be moving toward the poles of seed-stage and late-stage investing. Are you?

No, we've really remained Series A investors. That's our sweet spot. We're willing to do some seed, but that space has really been well covered by the plethora of angels. It's become so competitive that valuations have begun to rise, although I think that may be cooling off a bit. Likewise, a number of firms have raised sizable growth equity funds, pushing up valuations. I'm not saying Series A isn't competitive, but I think it's a different dynamic where you can develop deep relationships with entrepreneurs and our partners can help add value. It's more like getting married than having an auction, and it's been our traditional strategy.

Your IT portfolio is fairly diverse. Where specifically are you focusing?

Over the last couple of funds we've made a shift by deemphasizing hardware like chips and systems, and emphasizing lighter-weight business models like software, Internet and mobile

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Previously, Dan was an editor-at-large with Thomson Reuters, where he launched both peHUB.com and the peHUB Wire email service. In a past journalistic life, Dan ran a community paper in Roxbury, Massachusetts. He currently lives just outside of Boston. [Email a Tip](#) | [@danprimack](#)

media. In funds six through eight, we were 2/3 invested in hardware and the current fund is more than 85% software-related.

What are the most promising companies in the current fund?

The ones that are easiest to talk about are the ones that others view as our early successes, because they've already raised follow-on funding. One is Evernote. We were the first U.S. investor in the company two years ago, and it has handily beaten its plan in just about every dimension and every metric. One year later Sequoia led a round and then another.

Another one would be Lending Club... That's led by Rebecca Lynn, a newer partner we brought to Morgenthaler from NextCard. She did the deal in the depths of the 2009 credit crunch, but she knew the space and said it would be a winner. One year later Foundation Capital came in with a nice financing and this year Union Square Ventures made it the first investment in their growth fund. My guess is that it's about 20x the size of when we first invested in terms of originations.

Finally, there is Practice Fusion, which focuses on e-health records. The area is taking off right now because the Obama Administration has required doctors to convert to e-health records through four years via incentives and four years through penalties. The entrepreneur in this case picked a SaaS business model and now they're... adding one million patient records every eight days. One year after we invested, Peter Thiel made a rare late-stage investment in the company.

I notice you have a few energy companies in your portfolio. Still an area of interest?

We did a couple investments before the word cleantech was even invented, but it has not been an area we've built a practice around.

There has been some talk in VC circles about "social recognition," in which who knows you almost seems as important as who you know. Blogging, tweeting, etc. Do you subscribe to the theory?

I think it's worked well for a number of people who've committed to it. On the other hand, I think it takes an enormous amount of time to do it and tend to it – time that may not therefore be spent tending to portfolio company investments or due diligence. It's probably more important in seed opportunities than in Series A.

Are you expecting any significant personnel changes to the IT team over the next 12-24 months?

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The team is quite stable. The changes we've made lately have been to bring people on. I mentioned Rebecca, but we also added Mark Goines. Mark was head of product management at Schwab and then at a company that was acquired by Intuit, where he later became head of all consumer businesses. He then co-founded a company in the security space that was successfully acquired, and became a successful angel investor and highly-sought after board member for startups like Mint. He's actually a guy who hasn't blogged a single day in his life, but has entrepreneurs coming to him left and right.

Any plans to change the firm's name?

No. We've had it for 42 years, and plan to keep it.

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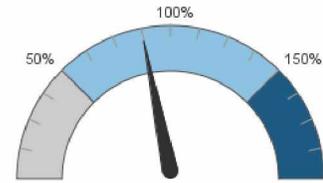
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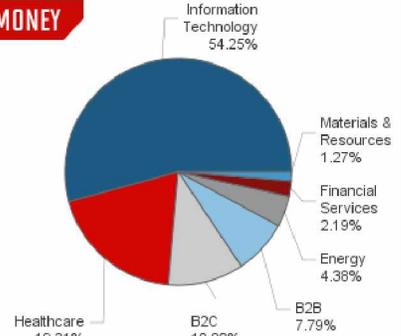
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