



## Twitter Shuns Venture-Capital Money as Startup Values Plunge

Nov. 12 (Bloomberg) -- Evan Williams raised \$22 million in funding for **Twitter Inc.**, a Web site used by everyone from **Britney Spears** to **Starbucks Corp.** to **Barack Obama**. Sales? Those could come later -- that was, until the economy tanked.

Twitter may charge companies for access to its users so it doesn't have to ask venture capitalists for more cash, said Williams, the company's chief executive officer. As the value of Internet companies **plunges** this year, investors are asking for a bigger chunk of the startups they invest in.

"The VCs have the money, but they'll just negotiate harder," said Williams, who sold his previous venture, Blogger, to **Google Inc.** in 2003. "I want to manage things so I don't have to raise money in 2009."

The financial crisis is rippling through Silicon Valley, driving down the value of fledgling companies just when they need more money to survive. Startup valuations -- used to determine how much equity entrepreneurs give up to investors -- have fallen at least 20 percent in the past year, said **Michael Patrick**, a partner at Fenwick & West. The Mountain View, California-based law firm publishes a quarterly report on valuations.

Venture capitalists are getting pickier about where they invest, adding to the challenge for startups. VCs raise money from banks, university endowments and individuals, which pledge contributions to the funds. VCs ask for money through so-called capital calls, and some investors are having trouble delivering.

"That's just starting to happen" with banks, said **Laurence Allen**, managing member of NYPPEX Holdings LLC, a Greenwich, Connecticut-based company that trades stakes in venture funds. "The next group will be the endowments and foundations. They're bedrock investors in this industry."

'Everybody's Worth Less'

Twitter, based in San Francisco, had a "really good" valuation when the company raised money in June and July, Williams said. Since then, the economy's tailspin has made it tougher for all startups, he said.

"Everybody's worth less," said Williams, 36. "The ecosystem takes a hit as a whole."

Still, global visitors to Twitter rose almost fivefold to 5.57 million in September from a year earlier, according to Internet researcher **ComScore Inc.** in Reston, Virginia.

Users send each other short messages -- or tweets -- that are up to 140 characters. They post updates with information as mundane as their breakfast choice to the latest plunge in the Dow Jones Industrial Average.

'Very Cautious'

To make money, Twitter will explore ways of charging companies to reach its users, such as sending out coupons or promotions to those that volunteer, Williams said. Twitter could also charge companies that want to use the site to gather feedback on their products, or display ads on its search engine, he said.

Both startups and venture capitalists are under more pressure to perform as the dearth of acquisitions and initial public offerings eats into their returns. There were six venture-backed IPOs in the first nine months of the year, down from 55 in the year-earlier period, according to the **National Venture Capital Association** in Arlington, Virginia. Acquisitions fell 27 percent this year to 199 as of the end of September.

"The industry as a whole is being very cautious about putting the money to work," said **John Taylor**, vice president of research at the association. "There is no place for these companies to go."

'Everything Possible'

**Doodle AG**, a Zurich-based company that helps people plan parties using the Web, has raised more than \$1 million from investors in Europe. Co-founder Reto Laemmler says he's wary about raising more money in the

``buyers' market" for venture capitalists and is looking for ways to sell more ads.

``You do everything possible to not have to raise another round," said Laemmler, 33. ``You would have to lower your valuation."

Other entrepreneurs say startups should seek outside investments if they want to expand, even if it's tough right now. **Become Inc.**, a Sunnyvale, California-based comparison- shopping Web site, raised about \$25 million this year and can survive on that money for almost a decade, CEO Michael Yang said. He sold his previous online-shopping site, MySimon, to Cnet Networks Inc. for \$700 million in 2000.

``Entrepreneurs that have a viable business should raise capital," said Yang, 47. ``You have to be realistic about what the valuations will be in this environment."

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