A Humbled Kleiner Perkins Adjusts Its Strategy For Rigging Elections And Making Obama Their Bitch

BY RANDALL SMITH

Setbacks for a Venture Capital Firm

Fisker Automotive, the green-car start-up backed by Kleiner Perkins Caufield & Byers, has laid off much of its work force and hired bankruptcy advisers. Credit Jonathan Nackstrand/Agence France-Presse — Getty Images

During the dot-com boom, Kleiner Perkins Caufield & Byers, the venture capital investment firm, all but minted money, making prescient early investments in Netscape Communications, Amazon.com and Google and delivering astonishing returns to investors. Along the way, it became a symbol of Silicon Valley.

But the firm has hit a rough patch over the last decade, frustrated by unsuccessful forays into clean technology and by a catch-up effort to take later-stage stakes in social media companies.

Kleiner has held a series of status-report meetings with its outside investors this year, acknowledging that recent fund performance “wasn’t great,” one attendee said. “They really believed green tech was going to be the next big technology wave," this investor added.

Kleiner has also cut some management fees and reorganized its investment approach, eliminating three "silos" that separated teams making investments in clean technology, health care and technology. The firm has added more investing partners with digital expertise, like the former Twitter executive Mike Abbott, after it missed the early window on hot media start-ups like Facebook and Twitter and jumped in later at higher valuations.

A spokeswoman for Kleiner, which manages $7 billion, said the firm's partners declined to comment.

The latest setback is the fading fortunes of Fisker Automotive, the green-car start-up backed by Kleiner that has laid off much of its work force and hired bankruptcy advisers.

At a Congressional hearing last month, Republican members of a House oversight committee asked witnesses from Fisker and the Energy Department whether Democratic political contributions and influence of Kleiner partners, led by the Obama adviser John Doerr, had helped Fisker gain $192 million in government green-energy loans.

While the questions were clearly partisan, the spotlight on Kleiner added a new level of public criticism to a reputational injury that has been building for several years, denting Kleiner's status as one of the top technology venture capital firms.

Some experts predict Fisker could become one of the biggest venture-capital losses ever. Fisker has raised $1.1 billion in venture financing, the most for any clean-technology start-up, compared with $848 million for Solyndra, the solar-panel maker that filed for bankruptcy in 2011, according to the Cleantech Group, which tracks such investments.

Kleiner investors say that three venture funds the firm raised in 1994, 1996 and 1999 — which contained Juniper Networks, Amazon and Google — delivered staggering returns. The 1994 fund delivered 32 times the investors' money, the 1996 fund 17 times, and 1999, six times. But since then, they note, funds raised in 2000 and 2004 have been unprofitable. A $1 billion fund raised in 2008 devoted to clean technology is also showing losses, one investor says.

“They had stellar returns for years, but their reputation has been tarnished by performance of late,” said Nancy Lambert, a former private banker at Citigroup who is now an independent adviser to wealthy families and foundations. “It doesn't seem like investors are turning away, they're just more cautious.”

Kleiner's investors have included top universities like Harvard and Yale, the Ford Foundation and certain venture capital funds-of-funds.

The firm's reputation was also dented last year when a junior partner, Ellen Pao, filed a sex discrimination lawsuit. She contended that the firm improperly retaliated against her after she complained about being pressured into a sexual relationship by a colleague, resulting in lower compensation and poor performance reviews.

Kleiner has denied all the claims and said that it chose not to promote her based on valid “performance concerns.”

The shift in Kleiner’s fortunes is emblematic of the venture capital business as a whole, where the titanic returns from the late-1990s dot-com bubble have ebbed, and investor dollars flowing into new funds have slowed as well.

“The days of huge returns in venture are long gone,” said Scott Ryles, a longtime Silicon Valley banker who has led two Kleiner-backed companies.

Venture funds returned 35.7 percent annually in the decade ending in 2000, but they lost 1.9 percent annually in the decade ending in 2010, according to data compiled by Cambridge Associates for the National Venture Capital Association.

As a result, annual commitments to venture funds have fallen from $56.1 billion in the four years ending in 2001, to $17.3 billion in the four years ending in 2012, according to Thomson Reuters data compiled by the association.

Founded in 1972, Kleiner scored big early returns on Tandem Computers, a maker of processors used by banks and brokerage firms, and Genentech, the biotechnology start-up whose initial public offering electrified the stock market in 1980. The firm cashed in on a spate of hot Internet offerings, led by Netscape and Amazon, during the dot-com bubble.

About five years after the bubble burst, clean technology became Kleiner’s marquee strategy. Kleiner hired Al Gore, the former vice president, soon after his 2006 film about global warming, “An Inconvenient Truth,” won two Oscars. A member of

President Obama's economic recovery advisory board, Mr. Doerr has advocated for government policies and subsidies favoring clean-technology innovation.

"Going green is bigger than the Internet," Mr. Doerr said in 2007. "It could be the biggest economic opportunity of the 21st century."

Kleiner has invested in 88 clean-technology companies since 1999, more than any other venture firm, according to the Cleantech Group. They include the personal-transport device Segway, the fuel-cell developer Bloom Energy and the utility smart-grid provider Silver Spring Networks, which went public in March.

In funds raised in 2006, 2008 and 2010, green technology was one of three main strategies, under the aegis of the general partners Ray Lane and Bill Joy — who have since both become partners emeritus. While still committed to clean technology, Kleiner has played down the sector and sought to make less expensive investments within it.

Some of the clean technology bets, like the Mascoma Corporation, a specialized ethanol start-up, and Sundrop Fuels, a developer of biogasoline, require plants that cost hundreds of millions of dollars, according to Pavel Molchanov, a biofuels analyst at Raymond James. In March, Mascoma withdrew plans for a stock offering first filed in September 2011, citing market conditions.

The green-technology portfolio has had its share of flops. Think Global, a Norwegian electric-car company, failed in 2011.

Kleiner’s investment in MiaSolé, a solar-panel producer, was wiped out when the company was sold to a Chinese clean-energy company at the end of last year. Plans have stalled for V-Vehicle, a plastic-car company later renamed Next Autoworks, which also had backing from Google Ventures and T. Boone Pickens.

Because Kleiner did not invest in earlier clean-technology blowups like Solyndra and Range Fuels, which also received government loans, Fisker presents a new level of public criticism. At the House hearing on April 24, Jim Jordan, Republican of Ohio, asked Fisker’s founder and former executive chairman, Henrik Fisker, about Kleiner’s ability to help obtain government loans.

Kleiner Perkins has helped raise “over $2 million in political contributions in the 2008 election cycle, most of which went to Democrats including President Obama,” Mr. Jordan said. He asked if that, or Mr. Doerr’s role as an Obama adviser, helped Fisker “to get a loan, get taxpayer money from the Department of Energy?”

Mr. Fisker denied “any undue political favors or anything like that,” and noted that it was Mr. Lane, not Mr. Doerr, who had served as Kleiner’s representative on the Fisker board.

As it focused on green technology, Kleiner lost ground to some rivals like Accel Partners and Greylock Partners, which made early investments in Facebook, which Kleiner missed. The firm seemed to address the issue in late 2010 by hiring Mary Meeker, the former Morgan Stanley Internet analyst known as the “Queen of the Net” during the bubble.

Ms. Meeker has led a $1 billion digital growth fund started in 2011 that has made about 25 later-stage bets including several hot social media start-ups, putting Kleiner in that game but at higher valuations.

While a bet on Facebook is up slightly, its shares of the game developer Zynga are down sharply. Kleiner's biggest current holding, in Twitter, is valued at more than double Kleiner's cost, and the fund is up so far over all, a person briefed on the fund said.

Some of Kleiner's later clean-technology investments have a more digital focus, like Nest Labs, which makes smart thermostats, OPower, which offers energy-efficiency strategies for utility customers, and Clean Power Finance, which finances solar-power installations.

But one of its largest investments, at more than $100 million, is Fisker. In mid-April, the Energy Department seized $21 million from a Fisker reserve account about 10 days before a scheduled loan repayment. Fisker is seeking new funds. But with its car production stalled since mid-2012, any outcome is likely to shred the value of Kleiner's stake.