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All European Roads Lead Back to Skype

Company's Sale to eBay Gave Rise to a Club of Wealthy and Revered Alumni Who Pervade European Venture Capital

By [JAMES MAWSON](#)

As [eBay](#) Inc. looks to offload Skype, the executives who sold the Internet telecom firm to eBay have formed the hub of a European network of investors and executives that they hope will rival and even exceed the one in Silicon Valley.



Niklas Zennström

The sale of Skype to eBay for an estimated \$3.3 billion in 2005 became renowned as one of Europe's great venture-capital successes, with more than half the sale price going to employees, according to estimates based on filings for the Securities and Exchange Commission and in Luxembourg. While those kinds of gains have been seen in Silicon Valley, they were practically unheard of in Europe, making Skype alumni stars among European tech entrepreneurs and giving them a cachet in the U.S. that few Europeans could match.

In the years since, ex-Skype employees have invested in other's firms and alongside one another. It will take years to gauge whether these investments were wise, but the scale and speed of the investments has raised hopes that the Skype deal was the boost European venture capital sector needed.

The most prominent of the venture-capital firms is Atomico Ventures, set up by Skype founders Niklas Zennström and Janus Friis and their first employee at Skype, Geoffrey Prentice. Atomico -- based in London -- grew out of their personal investments in new companies, known as angel investments.

It is now raising money from third parties and has so far raised more than €100 million (\$143 million), according to people familiar with the matter, already giving it the heft of peers such as Amadeus Capital Partners and Mangrove. Staff at Atomico declined to comment for this article owing to regulatory reasons as their fundraising was only half complete.

A Global View

Europe's venture-capital firms have worked under the shadow of private-equity firms over the past decade. From World War II until the 1980s, Europe's banks and governments supplied most of the Continent's venture investing. Private-equity firms 3i Group PLC and Charterhouse Capital Partners both began as government-backed venture firms.

In the 1980s, changes in tax and regulations encouraged the formation in Europe of classic venture-capital funds, limited liability partnerships with a 10-year time horizon for their investment.

The European venture-capital peaked with the dot-com bubble, and then burst with it. A lot of established venture-capital firms -- including 3i, Apax Partners and Kennet Partners -- stopped focusing on small companies. Instead they focused on more-developed businesses and on leveraged buyouts, where returns to investors have been better in Europe and economies of scale for the asset manager can be more easily found.

Until relatively recently, venture-capital-backed European firms have lacked the kind of scale in their home market that their peers enjoy in the U.S. They have also struggled to export technology and make connections with overseas investors as many Israeli businesses have done.

"Entrepreneurs now have operating experience and the capital to put back into the ecosystem to fund the next generation of start-ups," said Saul Klein, who joined Index after being global vice president of marketing and e-commerce for Skype. "In Silicon Valley and Israel these cycles and generations have been built, but in Europe the scene is maturing and just needed time."

Atomico has formed links with former Skype employees as they land at fledgling tech companies and established venture-capital firms -- including Index Ventures, based in Switzerland and London and Mangrove Capital Partners, based in Luxembourg.

Last month, Atomico, in conjunction with Mangrove, invested \$4.2 million in the first round money for Jolicloud SAS, an Internet operating system for netbooks. Last summer, Index led a

\$12.5 million second-round venture investment in online video-dating service WooMe, with participation from return investors Atomico and Mangrove.

"If you have been in something successful that happened in just two or three years it is exciting and you want to continue in the same way," said Michael Jackson, a partner at Mangrove and former chief operating officer at Skype. "As board members and investors in start-ups we can have a lot of influence by imparting wisdom or inspiration and the success Skype has had engenders respect."

Other influential Skype alumni include Faisal Galaria, who earlier this month joined online music company Spotify as global head of business development.

An offer from Atomico has become hard for Europe's older venture-capital firms to match. "The bigger VCs are afraid of competing on early-stage deals with Atomico because an entrepreneur will pick Niklas," said one European venture-capital investor. "I have a better investment record but I cannot compete."

An association with Skype is a draw because "very few entrepreneurs in Europe have the mindset or knowledge to build a \$1 billion-plus company," said Tariq Krim, founder and chief executive of Jolicloud. "Whereas there are 10 or more \$1 billion, U.S.-based, Internet-only consumer companies -- and another 50 or so on track to get there -- in Europe it was only Skype."

Howard Hartenbaum, who backed Skype after flying up from Luxembourg to meet the Scandinavian founders when they had sold music-download software company Kazaa in 2002 to Sharman Networks said the Skype founders' experience meant they could talk with entrepreneurs on the same level as U.S. top-tier VCs.

"For U.S. syndicates, people are what matter," said Mr. Hartenbaum, who has subsequently joined U.S.-based VC August Capital. "Niklas and Janus are the leading entrepreneurs [in Europe] as they have done recent, big and disruptive deals and have built relationships with [top-tier U.S. venture-capital firms] Mayfield Fund, Khosla Ventures and Sequoia Capital." The U.S. firms were unavailable for comment.

U.K.-based Brent Hoberman, who having sold lastminute.com to U.S. peer Travelocity in 2005 has since set up venture-capital firm PROfounders Capital, part of Oakley Capital Ltd. with other entrepreneurs, has also done deals with Mr. Zennström, which he called "a positive experience."

Silicon Valley had long been the logical step for Europeans who sought success in venture capital, but some Europeans are returning. Michael Birch, founder of U.K.-based social networking company Bebo, which was sold last year to Time Warner's AOL for \$850 million, moved to Silicon Valley even though Bebo primarily served a U.K. audience. He is now back in Europe and helped Mr. Hoberman found PROfounders.

Atomico has made much of the fact that Skype and Kazaa had a global impact. While praising Silicon Valley as an inspiration, Mr. Zennström has criticized it for having limitations. In an

opinion piece for Newsweek in 2007, he wrote that Silicon Valley's "insularity" had become a disadvantage. "Right now, from Stockholm to Shanghai, new hubs of development are flourishing as a result of ambitious entrepreneurs who are cultivating ideas targeted toward the global consumer audience."

Atomico has set up an international network for investments in Asia and Latin America using former Skype employees, Kelly Poon and Carlos Pires e Albuquerque respectively.

A Different Skill Set

Even if their networking has been impressive, the ex-Skype staff's record as venture capitalists can't be judged for some time, given the 10-year horizon over which venture-capital funds traditionally run.

And not all their post-Skype ventures have run smoothly. Internet television software company Joost -- set up by Messrs. Zennström and Friis in 2006 and backed by Index and Sequoia a year later -- had to change its business model after facing financial difficulties.

"It is different working together versus investing together; it is a different skill set and the results are still unknown," said Mr. Klein from Index. "As founders of a business it is all-consuming 24 hours a day, but as investors you are more detached and the shift takes time."

However, he remains optimistic: "Venture capital was a network-effect business where good returns breed good returns and new funds and good entrepreneurs attract good entrepreneurs."

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