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New Canaan GP Warren Lee Talks Myspace, Twitter and Bubble in Social Media

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Meet Warren Lee, head of Canaan Partners' New York office. A specialist in digital media, Lee was promoted to general partner in June after spending six years with Canaan. He recently sat down with peHUB for a quick Q&A on a wide range of topics:

Q: Is there a bubble in tech?

A: I think there are bubbles in selective categories such as flash sites and social media startups. There are too many 'me-too' startups without any real differentiation getting funded by investors. How many different services can your average online consumer subscribe to before getting fatigued?

Q: What did you think of Specific Media buying Myspace for \$35 million?

A: I was surprised the price was so cheap. Thirty five million isn't a lot if you can execute and take advantage of the asset.

[They've] gotten a fair price. They've also gotten Justin Timberlake and you can't beat that combination. There's still lots of traffic [at Myspace] and lot of profiles. They'll get value out of it.

Q: What do you think of Twitter's high valuation? Is it worth \$7 billion?

A: That valuation is pretty aggressive given the revenue that the company is doing now. That \$7 billion valuation implies that Twitter will have to ramp up revenues significantly over the next few years. At \$7 billion, there are not many acquirers who can pay a premium. There's probably one or two acquirers who can [buy them].

With this round, Twitter is probably focused on being a public stand alone company. As a public company you are valued on financial metrics, which includes revenues, profitability and growth. To be a public company above that \$7 billion valuation implies they need to build significant financial scale to go public.

Q: There's also been a lot written about Skype's employment agreement (execs who leave before the sale to Microsoft goes through may lose their options). What's your take?

A: Skype was not a startup when it was spun out of eBay. Silver Lake is private equity firm, not a VC. Employment-friendly options are more traditionally found with startups rather than with PE. When Silver Lake and other investors acquired Skype from eBay for \$2.75 billion in 2009, the company was generating significant revenues [\$551 million in 2008] and had well over 400 million registered users. They were clearly not a startup. It was a PE transaction, which has different rules than that of a startup deal. Salary, compensation and options are different for PE vs. startups. It was really a misunderstanding. Skype is one of the most successful startups in last 10 years. But when Silver Lake invested in them, they were no longer a startup.

Q: How do you think Groupon will do with its IPO?

A: They will do well, but they will see challenges as a public company and as they build that business. Although revenues have grown significantly over the last couple years, [Groupon's] spending has also grown substantially both in terms of sales and marketing and infrastructure costs. With all the new and existing competition in the local deals category, it's unclear what Groupon's sustainable economics will look like.

Q: Is New York a good place for VCs?

A: Yes, absolutely. Not only for making investments, but also developing valuable industry contacts and knowledge of media, advertising, and commerce/retail. It also has some great restaurants.