Venture capitalist says 2017 looks bright for tech startup market

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After a tough slog through 2016, tech startups (at least the good ones) have reason to be optimistic about the year ahead, says Scott Kupor, managing partner of Andreessen Horowitz.

IPO activity has started to pick up and investors are writing checks again though they're being pickier than in prior years, all of which points to a healthy, if prudent, 2017. Kupor should know - he's been running powerhouse venture capital firm Andreessen Horowitz, based in the Silicon Valley city of Menlo Park, since its inception in 2009.

Kupor sat down with The Mercury News to discuss which investments he'll jump on this year (artificial intelligence, all the way), which he might skip (on-demand delivery services) and what he would do if he weren't a venture capitalist (sing country music in Nashville). The interview has been edited for length and clarity.

Q: What's going to be the next hot thing in 2017?

A: We're spending a lot of time at the intersection of life sciences and computer science. The basic idea is - how can you apply machine learning to biology to help improve the ways you diagnose cancer or the ways you figure out what are the right treatments for cancer?

We've been spending a lot of time on a similar thing which is the intersection of computer science and financial services. And that's everything from lending platforms like lending club, but there's also lots of other things happening in interesting insurance companies, interesting payment platforms.

And the third area which is really an extension of those is the application of artificial intelligence and machine learning to lots of different verticals.

Q: What other areas could benefit from artificial intelligence and machine learning?

A: Self-driving cars is definitely one of them. So we've done a number of investments where again it's kind of using machine learning to try to improve autonomy. We've got this company Comma.ia that's doing that for cars. We have a company that's actually doing it for drones. Similar idea which is basically, how do you teach drones to be able to do autonomous flying?

Q: Is there an industry that's over-hyped right now or that you've seen too much of?

A: When you think about why technology companies are valuable over time, they tend to be valuable because either they have very high margins that scale so they're just very profitable businesses, and/or they often have some kind of real deep intellectual property that gives them some serious long-term competitive advantage.

Some of the service category companies, for example in the food delivery space, they are constrained growth margin businesses because there is actually a significant cost of delivering the service. They're never going to be a 90 percent gross margin business like a software business. And so I think what's happened, and we've all done this in the industry, is we've tended to over-fund categories of those companies that kind of look like technology companies at core but when you think about the long-term margin structure and the long-term competitive structure they really don't have those kinds of characteristics that will allow them to be very, very high valued companies.

Q: How is the investment landscape in 2017 going to look compared to the past year?

A: Things came pretty much to a halt kind of at the end of 2015 and first half of 2016. It was a bad market for almost any company where there just weren't a lot of deals getting done.

But starting in May and the second half of the year, it's been what I would describe as a good market for good companies, meaning that deals were getting done. They're getting done at more rational prices, so on the whole prices are down from where they were in the peak of mid 2015. But it's a market that's actually working and functioning as opposed the first half of the year which was kind of non-existent.

And so I think 2017 will look a lot like '16, which is good companies will get funded. People are back in the motion of doing deals, the IPO market is healthy.

Q: What do you look for in a company when you're deciding whether to invest, and how, if at all, has that changed from the highs of 2015?

A: The biggest thing that's changed probably is we have more time to do some of these things because the number of companies that come in today who say, 'Gee I have five term sheets and I need a decision in the next 24 hours,' that pressure has definitely alleviated.

But the criteria are the same. We're mostly early stage investors and so there's not a whole lot of quantitative metrics and stuff to look at. The way we think about it is kind of three pieces.

One is, how big is the market opportunity, and how interesting is that market opportunity? The next most important thing then becomes team. Then, once we get past that, we do look at product.

But the reason I put product last is because we know that what people say about the product today is probably not going to bear 100 percent resemblance to what the product actually looks like.

Q: What is the investment opportunity your firm most regrets passing up?

A: I think the biggest one we missed, which we remedied - albeit later - was we had an opportunity to look at Airbnb's initial round of financing, which unfortunately our friends at Sequoia ended up doing. You can get too constrained by what the existing market is and fail to sometimes have enough imagination as to what the market can be. I think we did too much of the analysis when we first thought about it of saying, 'Really interesting business, but how big is the market for people sleeping on other people's couches?' And shame on us for thinking myopically about that.

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Scott Kupor

Age: 45

Born: New Haven, Conn.

Education: Stanford University, followed by Stanford University Law School

Position: Managing partner at Andreessen Horowitz

Previous jobs: Senior vice president at Opsware. Before that, he worked at Credit Suisse and Lehman Brothers.

Residence: Los Gatos, Calif.

Family: Wife and three daughters, ages 16, 13 and 10

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Five facts about Scott Kupor

Kupor, who grew up in Houston, Texas, wears cowboy boots to work every day. He plays guitar in his spare time, and his dream is to move to Nashville and become a country music singer.

He used to be a marathon runner, and ran about 10 marathons before he says he aged out.

Kupor loves to read and recently finished (and enjoyed) "Hillbilly Elegy" by J.D. Vance.

He teaches a venture capital class at the University of California at Berkeley.

Kupor's other extracurriculars include serving as chair-elect of the National Venture Capital Association (he will become chairman in April) and sitting on the investment committee of groups such as St. Jude Children's Research Hospital.

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