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The Billionaire Who Friended the Web

It's 8 p.m. on a winter's night in Moscow. Yuri Milner steps into an elevator for the quick, quiet ride to his penthouse apartment. He's invited me for dinner with his wife, Julia, and their two young daughters. Across the marble floor of their palatial living area is a huge set of windows overlooking this old city glittering under heaps of snow. The hallways are painted a wild combination of orange, purple and green. A glassed-in area off to the left has a small grove of lemon trees Julia tends to. There is so much to see. But tonight, like every night, Milner's mind is elsewhere.

"San Francisco is just waking up," says Milner, 49. Sure enough, his iPhone starts ringing. Fund managers and lawyers 11 time zones to the west want to pitch deals. Dotted around the room are nine giant flat-screens airing overseas channels like CNBC and CNN. There are three more screens in Milner's desk area around the corner to the right. One shows a Twitter feed of mentions of Milner or his businesses,DST Global, an investment firm, and Mail.ru Group, Russia's largest Internet company. Even the dining area has screens on three walls.

Our dinner was interrupted several times when Yuri or Julia would look up at CNN. (Egypt was burning.) Information overload? Milner shakes his head and deadpans, "It's my job."

"He's a robot," Julia interjects. Milner sheepishly admits he hasn't been to their holiday home on the Volga, just two hours from Moscow, in almost a year. The last movie he saw was *The Social Network* (arguably work-related). He is away from home at least two or three weeks each month.

It's hard work bankrolling the Web. Thanks to Milner's enviably early investments in Facebook (he controls about a 10% stake), social gaming phenomenon Zynga and the local-discounts company Groupon (Milner controls about 5% of each), this onetime doctoral candidate in particle physics has generated astounding returns, at least on paper. The Milner-controlled stake in Facebook, acquired over time for an estimated $800 million, is worth about $5 billion. Milner has made himself a billionaire and inserted himself atop the pecking order in Silicon Valley by redefining how tech investing is done.

"Yuri is industrializing venture capital. For the first time in a long time, he is approaching venture capital as an asset class rather than as a profession," says Danny Rimer, a partner at Index Ventures in London.

Milner's venture-industrial complex has two parts: DST Global, a privately held investment fund, and Mail.ru Group, a clutch of big Russian websites that attracts 70% of the country's Web traffic and is worth $8 billion on the London Stock Exchange.

The way Milner plays the venture game has rocked the tidy Sand Hill Road cabal because it's a style unlike any they've seen. Milner's three secretaries rotate on eight-hour shifts. DST Global's two dozen employees, many ex-Goldman Sachs bankers, scout deals and raise money from Singapore, Dubai and London. (Oddly, none is in Silicon Valley.) Milner expects them to be available always.

"When Yuri get an idea and call at a.m., be prepared to talk about it till 5," says one source close to DST. Facebook board member Marc Andreessen has referred to DST employees as "walking encyclopedias of Internet business models."

Milner makes huge bets at high valuations. Once in, he refuses to take a board seat. The entrepreneurs behind Facebook, Groupon or Zynga may not hear from him for weeks or months. No wonder Web startups now ask specifically for a "DST deal."

The stakes Milner bought in Facebook, Zynga and Groupon are shared between Mail.ru and DST Global. Milner owns a minority interest in the combined assets of both. He won't say how much; we estimate it's between 10% and 15%. The owner of roughly 75% of DST Global is industrialist Alisher Usmanov, an Uzbek worth $17.7 billion. He owns 27% of Mail.ru.

"What makes Yuri a great investor is that he's a thesis investor. Yuri knows the kinds of companies he wants, and he buys on trends. He doesn't care if people think he overpaid," says Eric Lefkofsky, a cofounder and the largest shareholder of Groupon, and a newly minted billionaire. "Some VC firms think they're thesis investors, but they're not. They get nervous on every deal."

Now he's rewriting the rules of early-stage capital. In January, drawing entirely on personal funds, Milner along with tech superangel Ron Conway lent $150,000, convertible into equity, to every single one of the 43 firms incubated last year by Y Combinator, the startup farm started by one of Milner's heroes, Paul Graham *(see* "The Disruptor*," Nov. 8, 2010)*. Overnight Milner went from buying blue chips to buying in bulk. "It's one of those things that when I read about it, it gave me the shivers–in a good way," says Andrew Mason, cofounder of Groupon. "But it makes sense. Why has nobody else done that?"

Milner is cagey about how much money DST has left to invest, but DST is looking for two or three more deals on the scale of his investments in Facebook and Zynga. In what would be DST's fourth deal, the firm has tentatively agreed to take an estimated 5% stake in the Swedish musicstreaming service Spotify, leading a $100 million round. Milner could announce another big deal by the summer.

Milner drops few hints about what that might be. It could be in China, a gaping topic he all but refuses to discuss. His bigger bets tend to be in established, late-stage Web startups with big, rapidly growing markets, millions of users and defensible positions. Milner researches a company for at least a year before investing. There are 10 to 20 factors he considers before acting. “You can’t write a formula,” he says. “It’s partially science, partially art.”

He confesses admiration for the location-based social networking site Foursquare but says it is too early to invest. Milner is keeping an eye on Twitter’s experiments at monetizing its traffic, but he believes you can’t always predict the right path to making money online. “Google never knew how successful key words would be. Facebook didn’t know how successful Zynga would be,” he says.

Even as his profile has risen, Milner remains an aloof, unassuming figure. Diminutive in height, he keeps his dark hair cropped close. Typical attire is a zip-up sweater over a light blue shirt and dark blue slacks. You wouldn’t think twice if you passed him on the street. That’s how he likes it. Milner has just 57 friends on Facebook and 330 friend requests he will probably decline (though we just friended each other). He never tweets. Milner is like the nightclub owner who never goes on the dance floor because he’s too busy studying the guest list and counting the money.

It took several minutes for Milner to warm up at our first meeting on his home turf. (We had met the month before in London). At the swanky Manon restaurant in central Moscow, he sat, arms folded, eyes darting everywhere, and laughed at questions about a typical day in the life. It starts at 7 a.m. with exercises and a review of a mandatory report from his daughters about their previous day. “That’s how they train memory,” he says. He says he plays chess with his 4-year-old on the weekend and notes that “she’s very quantitative.” Milner was aghast at dinner that night when the two charming girls were too shy to speak in English at the dinner table and thus verify their prowess at chess.

Milner loses all reticence when he talks about the future of social media. He says we live in the “age of the mathematician,” in which inordinate power and riches will go to the people who create the algorithms that end up dictating who and what we know.

The amount of information people digest, says Milner, is doubling every two years, now that so much of our time is spent in front of screens. That overload leads to shorter attention spans, shorter units of communication and a dire need for curation. Our friends are filling that role on Facebook, but before long, Milner believes, the machines will be more involved, much the way Facebook now suggests new friends for you. “You need a second degree of curation.”

Milner agrees with Oxford University anthropologist Robin Dunbar’s theory that our brain can handle only 150 stable social relationships at any given time. But while the size of our circle may not change, the mix will. Someone in China who speaks no English may be a better social connection than someone you’ve known for years. In a decade or so automatic language translation will make it seamless to communicate with new friends in China. “Facebook now is mostly about people you know," he says. "In the future it could be about people you know less but are more important."

Milner also sees Facebook competing with Google to become the place you go to search for information. "Facebook can be an accumulation of different intelligences," he says. "Ask a question, [get it] translated into many languages and somebody, somewhere in the world, will have an answer."

"Facebook will get to 1 billion users" in the next couple of years, says John Lindfors, an ex-Goldman banker who joined DST Global last year. "It's the platform for a new Internet ecosystem."

Yuri Milner was born into a family of Moscow intellectuals. His father, Boris, was a professor specializing in American management practices. His mother, Betty, worked at the capital's state-run laboratory for disease control. He has a sister, eight years older, who became an architect. Until a year ago if you Googled "Milner," you'd find out more about Boris, whose books are still used in Russian business schools, than Yuri.

During high school Milner took classes in programming three nights a week, learning to code in BASIC and Fortran on mainframes. His first real introduction to business came at 28. It was 1989, and Milner had been working on a Ph.D. in particle physics at Moscow State University but dropped out. The Soviet Union was crumbling, and at one point the ruble was so depressed Milner was earning the equivalent of $5 a month. A friend who was selling PCs knew Milner's father owned a sedan and asked Milner to be his driver. Milner eventually started selling and was making 1,000 rubles a week, not bad considering an apartment at the time cost 20,000 rubles to buy.

Boris Milner disapproved of his son's dabbling in such a piddly business. In 1990, partly to please Dad and partly out of his own ambition, Milner took a scholarship to the University of Pennsylvania's Wharton School. He became the first non-émigré from the Soviet Union to attend the elite business program.

It was tough blending in. On his first day of class Milner turned up in a suit and tie. "That was the way you did it in Russia," he says. Everyone else was in sneakers, shorts, even pajamas. He was a novelty, The Guy From Behind the Iron Curtain, and spent a lot of time studying in his dorm. Professors saw potential. One told the *Daily Pennsylvanian,* the school paper, that his first-year student from Moscow had "a very sharp mind to formulate problems and to analyze them," and "could have a great future."

Milner spent three years in the early 1990s in Washington, D.C. at the World Bank's financial sector branch. It was a time he calls his "lost years." He traveled often to Moscow but was mostly watching from afar as Russia was privatizing mines, oil refineries and car factories. People with the right connections bought them on the cheap and established their status as oligarchs.

Milner made plenty of connections in Russian banking circles and eventually met the now imprisoned oil baron Mikhail Khodorkovsky, who after a few meetings created a position for him in 1995 as head of his investment brokerage, Alliance-Menatep. If there was a proper route home, he finally found it. At Menatep Milner spearheaded the first hostile tender offer for a public company in post-Soviet times, a Russian candy giant called Red October. He also met Gregory Finger, who ran the Moscow office of U.S.

hedge fund New Century Holdings, one of the biggest buyers of Russian securities at the time. “We had chemistry,” Milner says of the Russian national, who likewise had lived in the U.S. Their partnership deepened after Milner pitched Finger on starting a new venture fund.

In 1999 Milner had read a report by Morgan Stanley Internet analyst Mary Meeker (now a partner at VC firm Kleiner Perkins Caufield & Byers, who chats monthly with Milner) about the future of online business. Sites like eBay and Geocities were growing madly with steep margins. “Nobody was talking about the Internet [in Russia],” he says.

New Century agreed to put up $2.25 million but only if Finger and Milner each invested $750,000. Milner had made enough in the stock market to fund his share but kept the rest of his savings (about $200,000) in nontech firms like Gazprom, Norilsk Nickel and Alfa Bank to stay diversified.

The fund, called NetBridge, started looking for anything in Russia that resembled big online firms in the U.S. They bought stakes in an online auction site based on eBay called Molotok and an Amazon clone called 24×7. The companies struggled to take off amid the bursting of the dot-com bubble, and 24×7 was shut down in 2001. But Milner made the most of the downturn, persuading the popular online portal Port.ru to merge with his NetBridge.

The combination, dubbed Mail.ru, would be run by Milner as CEO, but even then he was a hands-off manager. After doing the cost-cutting himself, Milner gave his chief technology officer, Dmitry Grishin, just 22 years old, free rein to rebuild around Mail.ru’s most popular services. “Yuri at that time was very focused on high-level stuff” such as dealmaking, says Grishin, who is now CEO of Mail.ru.

By 2005 the Russian Internet had become a three-horse race between Mail.ru, search engine Yandex and a site called Rambler. While Mail.ru focused on developing its social networks, Rambler suffered from a series of management changes and lost market share. Mail.ru gained users and started evolving beyond copycat tactics to yield its share of innovations. The company experimented with virtual credits and online gaming before Facebook began offering games. Mail.ru integrated instant messaging with e-mail in 2007, before Facebook released Chat in April 2008.

Once the economy picked up again, Milner started looking for fresh capital. In 2005 he created Digital Sky Technologies as an investment holding company with Gregory Finger and Mikhail Vinchel. Their first target was the Russian Web. “I was real isolated,” he says. “I didn’t have any contacts in the U.S.”

But by then Russia was starting to be taken seriously as a home for foreign investors. Milner began opening Digital Sky to new outsiders. As one of the country’s few digital veterans, he felt he should get a premium for what he had built. In 2006 Yahoo wanted to buy Digital Sky’s stake in Mail.ru. Milner said no. A few months later South African media conglomerate Naspers sought a similar-size stake that valued the portal at $550 million, nearly double what Yahoo had offered. “He was immediately justified in making a bold move” to turn down Yahoo, says Elbrus Capital Managing Partner Dmitri Krukov, one of Digital Sky’s early backers. Naspers continues to hold 31% of Mail.ru but is not in the newer fund DST Global.

Also buying into Digital Sky at the time was New York hedge fund Tiger Global, which took roughly 12%. Goldman and Renaissance Capital each bought in for 5%. Milner and Finger kept 50%. They were primarily interested in the growth potential of Mail.ru, which made up about two-thirds of Digital Sky's portfolio. The investment rounds came at values of 20 to 30 times Mail.ru's earnings. "Buying into DST even at that time was not for the faint-hearted," says one of his original investors, adding that in negotiations with Yuri things were "never cheap."

Mail.ru has invested $1 billion in 30 businesses since 2005. It owns five European social networks and ICQ, the instant-messaging service once owned by AOL. It also holds a 32.5% stake in vKontakte, the largest Russian social net, plus 21.4% of Qiwi, the leading Russian online-payment service.

At the height of the financial crisis in 2008, Milner was audacious enough to attempt to raise a new fund. He wanted into Facebook, by then the biggest social network of all. "We had invested in four social networks before that. So we had experience and insight into how powerful they could be, including on monetization. And we thought that the same should apply to Facebook," says Milner.

He found no takers among institutional investors in the West and had already been turned down by two Moscow billionaires when a personal friend and fellow Internet investor put him in touch with Alisher Usmanov, a steel and iron ore tycoon.

Russia's fifth-richest man, Usmanov is an oligarch straight out of central casting *(read about his passion for saber fencing)*. He started out selling plastic bags and spent six years in the 1980s in an Uzbek prison for fraud and embezzlement before Uzbekistan's Supreme Court exonerated him, ruling that the case was fabricated. He is tight with the Kremlin and runs the investment subsidiary of state-owned gas company Gazprom. He's acquired stakes in several newspapers and TV stations.

As luck would have it, Usmanov was already looking to make an investment in the Russian Internet. A source familiar with the negotiations says that Usmanov had narrowed his choices to either Yandex, Russia's largest search engine, or Mail.ru. In 2008 Usmanov put $350 million into Mail.ru. "I found Mr. Milner's vision on the Internet's future and the way he developed his business appealing," says Usmanov.

Still, Usmanov needed six months of convincing by Milner before agreeing to fund the new investment fund DST Global in late 2008. (Usmanov has since put in a reported $1 billion.) Milner was now ready to approach Facebook. He had met Mark Zuckerberg that summer, but one encounter wasn't enough to get past the guy who then screened investors, former Facebook chief financial officer Gideon Yu. In January Yu politely rebuffed Milner, suggesting it wouldn't be worth his time to fly all the way out to Palo Alto to meet again. Reportedly, Milner showed up anyway at 11 the next morning. Yu and he talked, and Yu was impressed enough with Milner's knowledge of social networks to bring him back to see Zuckerberg.

Five months later DST Global announced it was buying its first 2% of Facebook for $200 million with a commitment to buy up to $100 million more in shares from employees. Bloggers in the U.S. began darkly muttering about the Russians buying up their social network. One post called Usmanov "the scary Russian oligarch seducing Silicon Valley." (They needn't have worried. The purchase was made with retained earnings from Mail.ru's balance sheet, not Usmanov's money.)

Milner didn't try to deflect the suspicion, focusing instead on explaining DST Global's strategy to the venture community. "It was like a closed circle," he says. “At first we were seen as mysterious. But as we got to know people after Facebook, this started to change.”

Milner meets with Usmanov several times a year. He admires him for his research-driven style of investing. “Every time I see him he has organized stacks of paper on his table. He is constantly reading and multitasking,” Milner says.

Usmanov likes Milner’s bets so far. Facebook is, after all, up more than fivefold since he bought in. “For us, Facebook is a long-term investment,” he says in an interview with FORBES. “I do not have any exit plans at present, but things may change at a certain level.”

Such a comment implies Usmanov may, in fact, be looking to sell. Milner denies DST has sold any Facebook shares. But one investor with knowledge of both men says that, given Usmanov’s exposure in DST, he will likely get his way in investment decisions. “He’s operating on the principle of what is right and what he believes is fair.”

Milner so far is all about entries, not exits. The day the Facebook purchase was announced, Yuri’s colleague Alexander Tamas, an ex-Goldman banker, quietly approached Zynga founder Mark Pincus at a tech conference. A few months later DST Global led a $180 million venture round in the maker of FarmVille and Mafia Wars.

When Groupon was considering raising a Series E venture round in March 2010, its cofounder, Lefkofsky, mentioned it to Milner during a brief phone call. Milner told him to wait and showed up in Chicago the next day. A few hours after he landed the Groupon deal was done.

Milner turns 50 on the portentous date of 11/11/11. His wife is planning the party, and he’d better be in town for it. Other than that he has given himself no other firm goals to achieve before then. “I don’t think you should make plans,” he says, half joking, with a habitually raised eyebrow, as his car whizzes down a Moscow freeway.

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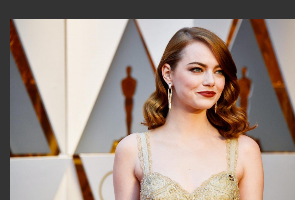

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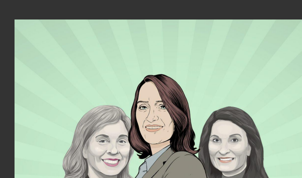

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