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## TECHNOLOGY

# Hype Hangs Over Dropbox

*A \$4 Billion Valuation, Celebrity Investors, Hit Product; Now a Moment of Proof*

By GEOFFREY A. FOWLER and JESSICA E. VASCELLARO

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Dropbox Inc. followed the Internet start-up playbook to a tee last year.

The online file-sharing company became a hot property in Silicon Valley and snagged a \$250 million in venture capital at a \$4 billion valuation. It even secured celebrity investments from U2's Bono and his bandmate, The Edge.

Now comes the hard part: Living up to the hype.

At that valuation, five-year-old Dropbox is worth as much as companies with multi-billions in revenue, such as Cablevision Systems Corp. and Expedia Inc.

Through little more than word-of-mouth the company has racked up more than 50 million customers who use its software to store and retrieve their photos, documents and videos from Web-connected devices.

Dropbox is now racing to keep up with that growth and prove its business is sustainable. The 100-person company recently moved into an 87,000-square-foot office in San Francisco where it plans to hire hordes of engineers and product managers. It made its first acquisition in February to grab personnel with experience from the early days of Facebook Inc.

Online storage start-up Dropbox went viral last year and snagged \$250 million in venture capital at a \$4 billion valuation. Now comes the hard part: living up to that valuation, as Geoffrey Fowler explains on The News Hub. Photo: FREDERIC J. BROWN/AFP/Getty Images.

The company is also forging partnerships with device makers and app developers to get its service on mobile devices and televisions. And it's pushing a premium service into businesses where it will meet competition from start-ups such as its closely-named rival, Box Inc.

At the same time, Dropbox must battle tech giants including Apple Inc., Microsoft Corp. and Amazon.com Inc., all of which offer online storage and sharing that is tightly embedded with their own services. Google Inc. is close to launching its own cloud-storage service called Drive, say people familiar with the matter. (A Google spokesman declined comment.)

Drew Houston, Dropbox's 29-year-old co-founder and chief executive, said he doesn't spend much time thinking about the competition or living up to a big valuation. Instead, he said he focuses on building a team that can fulfill its big ambitions.

"Companies die from not being eaten by their competitors, but from self-inflicted wounds," Mr. Houston said. "They don't have discipline. Their best people get frustrated. They chase all these shiny objects that aren't core to the business. They become complacent because of early success."

While studying at Massachusetts Institute of Technology, he and another student, Arash Ferdowsi, co-founded Dropbox in 2007 after becoming frustrated with email attachments and forgetting their USB storage drives.

That same year, Microsoft launched its SkyDrive storage service as many consumer tech companies began to see the value of shifting consumers to the "cloud"—convincing users to rent digital space, rather than owning it on their computers. In 2009 Apple CEO Steve Jobs approached Dropbox with a buyout offer as Apple sought to enable its customers to sync their files between iPhones, iPads and Macs. Mr. Houston refused. (Apple declined to comment.)

Apple launched iCloud in October, and to date more than 100 million consumers have signed up for accounts. Amazon also introduced its online storage service Cloud Drive last year. Microsoft, meanwhile, is trying to jumpstart SkyDrive by better integrating it with its software.

Even with the competition, venture firms such as Index Ventures and Benchmark Capital were clamoring to invest in Dropbox last year at the \$4 billion valuation. Mr. Houston wouldn't disclose Dropbox's revenue but said it is profitable even though a minority of its users pay fees, which begin at \$10 per month for 50 gigabytes of storage.



Drew Houston, Dropbox's co-founder and chief executive *Getty Images*

Last fall, Dropbox joined the exclusive class of Web start-ups such as Airbnb Inc. and Square Inc. that have raised hundreds of millions of dollars at high valuations, which can "create huge pressure on these companies," said Matt Murphy, a partner at Square investor Kleiner Perkins Caufield & Byers. The trick to surviving high employee and investor expectations, he says, "is a maniacal focus on the user experience and product."

At least one early Dropbox investor has been pushing the company to complete another financing round to cash out existing shareholders, according to people familiar with the matter.

Mr. Houston said investors "are thrilled we are on plan." He said he's "not focused" on an initial public offering, right now and Dropbox doesn't need

any more capital. "We don't think of financing or other milestones as endgames," he said.

Ali Partovi, a Dropbox investor and adviser, said the company's biggest challenge is establishing processes as it grows. They have to "hire people fast enough and get them into a streamlined organization efficiently enough that they can capture all of the opportunity." He and his brother Hadi have increased their initial investment in the last round, Mr. Partovi said.

Dropbox has faced snafus. In June, a programming error temporarily allowed any password to be used to access any account. The glitch affected fewer than 100 accounts and was quickly corrected, but it was an embarrassment for a company that touts its encryption.

The incident was "an important reminder to us that security and reliability and not losing data require specific attention," Mr. Houston said.

Besides ensuring its safety to users, Dropbox is also trying to get its service in front of as many consumers as possible.

In October, the company updated its open software platform that allows other developers to build Dropbox inside their services to better support websites. Dropbox says thousands of developers have used its platform.

Quickoffice Inc., which makes software for working with business documents that is installed on 400 million devices, first integrated Dropbox into its software in 2009. The company was drawn by Dropbox's "ease of use and the massive, quick user adoption," said Kristine Rogers, the company's vice president of business development.

But Quickoffice isn't an exclusive Dropbox partner. It also integrated with Google Docs, Box, and other cloud storage providers, though it says Dropbox is popular with users.

Another app developer, mobile-game maker Pocket Gems Inc., said Apple's iCloud makes more sense to integrate into its games. "It's already part of the platform, and it's fully integrated," said Chief Technology Officer Harlan Crystal.

Mr. Crystal said his company has discussed iCloud with Apple, but not yet integrated it into its games. He adds that he would consider Dropbox if being compatible across different smartphone operating systems was more of a concern.

Dropbox also plans to survive the competitive onslaught by offering its service across a growing array of devices. It has forged partnerships with handset makers such as HTC Corp.

The company recently launched a service for phones powered by Google's Android software that automatically syncs photos taken on the devices with a Dropbox account.

Services from companies such as Apple and Microsoft "work really well on their own platform, but others are an afterthought," Mr. Houston said. "No matter what you use, Dropbox will work."

**Write to** Geoffrey A. Fowler at [geoffrey.fowler@wsj.com](mailto:geoffrey.fowler@wsj.com) and Jessica E. Vascellaro at [jessica.vascellaro@wsj.com](mailto:jessica.vascellaro@wsj.com)

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