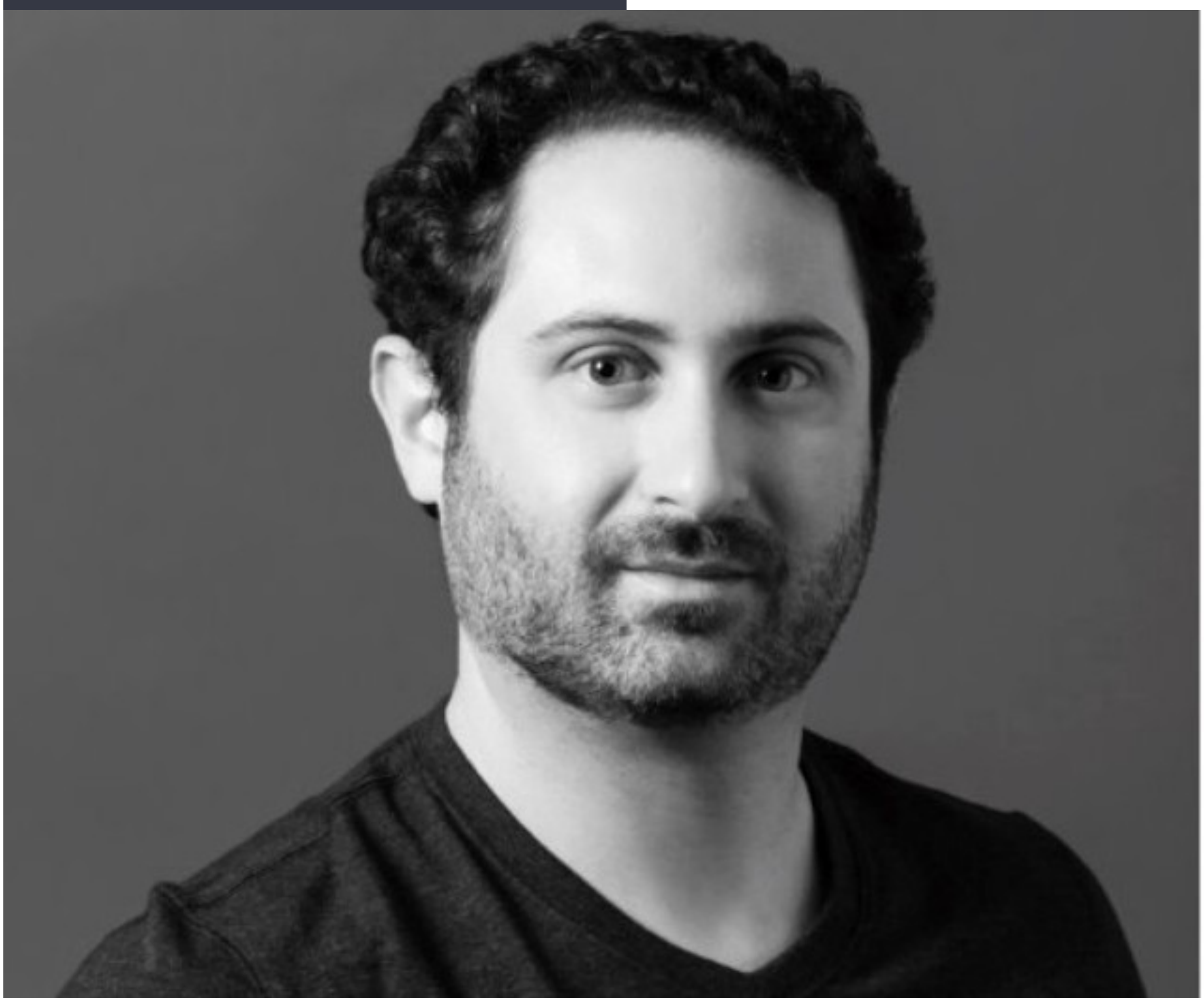
“We back the truck up when we have conviction” How Brian Singerman made Founders Fund’s biggest return ever



A few weeks ago Founders Fund [disclosure: a Pando investor] achieved its single biggest return

in fund history. And almost none of the business press wrote about it.

First of all, that boast is pretty meaningful from the firm that invested early in Facebook, and whose portfolio includes Spotify, SpaceX, Palantir, and Airbnb. The deal? Little buzzed about Stemcentrx, which sold for AbbVie for between $5.8 billion and $9.8 billion, depending on earn outs and goal payments. The return: A whopping $1.7 billion. Bloomberg described the deal as unusual for Founders Fund, given its size and focus on biotech. But Brian Singerman, the partner who did the deal, paints a different picture. He describes Stemcentrx as exactly what Founders Fund does well, the kind of deal he joined the firm in 2008 to make, and what makes the firm so different from the rest of the venture elite.

Singerman is never one to do the media tour, and it took me a week to get a sit down with him even to talk about such a grand slam homerun.

We also talked about what the deal says about the kind of firm Founders Fund has become. The firm has wound up being something very different from what many people assumed it would become post-Facebook, when the maverick and controversial consumer visionary Sean Parker was hired.

Some thought it could emerge as something like the new Sequoia: The firm that would dominate early stage investing in big consumer Internet bets, with a more founder friendly face.

The new Sequoia turned out to be *Sequoia*, with a reboot of younger (nicer) partners, and a continued dominance on top deals. Founders Fund became something very different, as we discuss below.

Recently, I read a Mattermark post about how there's no magic fund size that makes venture capital "work." This flies in the face of partner after partner who will go through the math of how many partners you need, how many deals they can realistically focus on at one time, the money that has to be put in to get large enough stakes, and how much you need for follow ons. Turns out, if you look at the data, it just isn't true. Like the companies they back, there's no formula to produce 10x returns, there's just some mix of performance, luck, talent, and gut.

To that point, it's interesting that so many elements of what Singerman describes in the interview below that made Founders Fund distinct have been tried at other firms too. They just didn't work. Elevation Partners believed you had to make big bets and invest a sizable chunk of your fund in deals where you have conviction. They simply picked the wrong deals. John Doerr pivoted after the dot com bust to become a VC who wanted to solve the biggest problems of the world, to him, climate change. And many say that's where Kleiner lost its way.

So why has Founders Fund just returned $1.7 billion on that approach? Singerman explains what he thinks is different. (I should note, I asked Singerman about his partner Peter Thiel backing Donald Trump and what that might portend for the firm, but he declined to comment. I should also note that it's not a typo that the CEO of Stemcentrx was named "Brian Slingerland." He does not appear to be an alter ego for Brian Singerman, just a crazy coincidence.)

SL: If you were at any other major valley venture firm you would have been able to do this deal?

BS: Oh wow… At a tech VC? Well actually the life science VCs probably wouldn't have touched this either. The founders wanted to go for not just some quick flip. They wanted to really go for building a really, really valuable thing and taking it a lot further than most biotech does. So it wouldn't have gone to life sciences VCs, and 90% percent of tech VCs probably have a rule against doing biotech, so the intersection of these two ...would be very few. Probably a couple firms would have let me. Not many.

SL: When you joined Founders Fund, was the thought that you want to do deals like this or was the thought you wanted to do the next Facebook?

BS: So the thought was I want to be involved with the world's most important companies. Just find and invest in the world's most important companies and the returns will follow.

The other part is we're total generalists, and I'm a total generalist. If you are going to be "the SAAS guy," how do you know there's going to be a gargantuan SAAS company? You don't. And so it's important to be a generalist, in my opinion. I know this is contrary to the rest of the Valley speak. But it means you are open to whatever comes around.

SL: So when you are a generalist, what is it you look for?

BS: A lot of it is team. That's no. 1. We'd seen a few oncology companies before Stemcentrx, but we had never, ever, ever seen a team like this.

SL: What do you mean?

BS: Not only is the scientist founder top tier and amazing and blew us away-- a lot of times you see that-- no, no, no the business founder was just as out of the box and amazing as the science founder but on the business side. That is required if you are going to build a venture-scale biotech company for this size of fund; if you are not going for get some science to work and then quickly flip to pharma, you need to be pretty savvy on the business side and out of the box, not just standard business.

SL: How did that team come together?

BS: They met on Craigslist. The most awesome coincidence in the world that brought that team together.

SL: Like, founder seeking founder or one of them was buying a couch?

BS: It was a roommate situation. The [CEO Brian Slingerland] was at Qatalyst one of the co-founders at Qatalyst with [Frank Quattrone] and met [Scott Dylla] and was like "Oh this is amazing," and then turned around and left everything on the table at Qatalyst and invested his own money and became CEO of Stemcentrx. You just don't find guys like that running early stage biotech companies and can also talk the talk on biotech. We need the combination. It's important but not enough to have an amazing scientist.

SL: And, I would imagine, the desire to build something big. I was covering biotech investing when the genome was decoded, and there so much enthusiasm that we'd see more Genentechs and Amgens and what ended up happening largely is what you describe, where they end up flipping to big pharma.

BS: That's right. And that's why these guys didn't want to take money from life science VCs.

SL: How did they come across you?

BS: Two of the founders put a lot of their own money in, so not every company has that advantage. I was introduced to them by the WTI guys who had given them some debt before. The Stemcentrx team didn't know there was an intersection of a VC firm [that would go long] and be willing to invest in biotech at the same time.

SL: Well, there aren't many. Were they even out pitching?

BS: No, but they took debt and the WTI guys said "you should talk to Singerman…" and I met the founder and the rest is history.

SL: So how did you know that you weren't getting a Theranos…. Since you are a generalist?

BS: That's a great question. Being a generalist, you are open to everything but if it's something you don't know a lot about, you then have to supplement your own knowledge. From the perspective of the team-- that we're uncompromising on. That we can do regardless of the industry. And that is absolutely the first hurdle. And then, on this one absolutely, we brought in scientist experts to help us on the diligence on this. To say: Yes, the science very makes sense. This could work.

SL: Again, stupid question, but how hard is that to do? Because you had very smart people investing in Theranos.

BS: They aren't going to know 100%, but they'll know more than we do. There is no way you can 100% know, but you do the best you can and do the most diligence you can and you eventually become convinced this is going to work.

SL: But it is more of a risk than doing an IT deal…

BS: Maybe… but if you actually can develop and manufacture an efficacious drug in oncology that's worth a lot as-is. Whereas in the IT space, it's not enough just to have a cool piece of technology ... there's all this other risk associated with it.
So a lot of Silicon Valley venture is willing to take that business risk, but I'm not sure one is riskier or not riskier than the other.

There's no sure things in IT. There's no sure thing in this, but you do enough diligence and invest in teams you think can pull it off.

SL: When they were describing the sector to you when you first met with them… was it as simple as "This could actually save lives!"… was that what hooked you?

BS: No. Anything in oncology has the potential to save a lot of lives, so that's necessary but not sufficient. The thing that took it to the next level was I met with the CEO who wasn't even the scientist and he completely blew me away. That was the thing that put it over the edge. I had never, ever, ever seen a biotech CEO like that, and I had seen a lot of biotech CEOs

SL: So, it sounds like what you are describing is such a unique confluence of events, even down to Craigslist, even down to it being founded by guys who had money they could put in, even down to the WTI guys recommending you… Would it be fair to say this deal validates the Founders Fund model and approach, or it's just such a one off?

BS: I don't think we're one off on this. I think we have lots of companies that are world changing companies across lots of sectors. You asked one question early in the interview

about when I started at Founders Fund, was this why I came on board. Well, let me tell you why I started at Founders Fund. In 2008, I had left Google and was doing my own investing. I had a small angel fund and was writing my own individual checks, and I was like, "I really want to be doing something more interesting than this." And I met up with the Founders Fund guys.
They hadn't made the investment, but were considering this crazy investment in something called SpaceX, and I was like, "Oh I want to be part of stuff like this." And so I came on board, specifically, because SpaceX didn't need a $50k check, SpaceX needed a real check. And I wanted to be part of that. That to me was an example of a world changing company. That is one of the most important companies on the planet. I came on board because I wanted to do stuff like that.

People at that point thought, "What do these people know about rocketships? Haven't they ever heard of Lockheed and Boeing?"

SL: People just thought Elon was crazy-- full stop. Like "Wait, you are doing a car company and a rocket company? You are a madman."

BS: But my point being the Stemcentrx thing is an extension of that kind of thought. We would not have invested in

SpaceX had it not been Elon Musk running it. We would not have invested in Stemcentrx had it not been Brian, Scott, and [Dan Reiner] running it. I don't think it's a random occurrence. I think we are dedicated to it and good at finding these companies that can be the most important companies in the world.

SL: But why do you think you guys are better at that than others? Because every VC is looking for that huge homerun. It is such a homerun driven business. But you aren't just looking for a homerun; you are looking for a homerun that isn't another photosharing app.

BS: We are looking for anything that can be the most important company on the planet. Maybe something in the early days doesn't look like it, maybe it looks like it later. Like Facebook is clearly one of the most important companies on the planet now. If you had seen it earlier, it would be like "Oh this is a way to look for girls." It's clearly one of the most important companies on the planet right now. So we have a ruthless focus on finding the most important companies on the planet. The reason we have a large fund is so we can write big checks. Not only are we sector agnostic, we're stage agnostic. We invest in a company once we see it can be one of the most important companies on the planet. We came into Airbnb at the $2.5 billion round. Not the $5 m round. But when we do see that what differentiates us is we

go big. [Note: Singerman wouldn't go into details on the record of what changed about Airbnb during that time on the record]
The key to the strategy once we have conviction we are willing to invest a lot. So with Stemcentrx, over the multiple rounds of this company, we invested something like $300 million. It's not enough to think something is going to be one of the most important companies on the planet you have to back it up. So, to me, venture capital is about having conviction and putting a lot of money behind it. If you had put just a little money behind Stemcentrx or SpaceX, great! It might be one of the most important companies on the planet, but you still aren't going to return a large fund. You have to be able to back it up with a real check, that's a substantial percentage of your fund.

SL: Do you have a limit on what you can invest?

BS: That's a good question. There are somethings we have to go to our advisory board to talk about it, but no our LPs expect we are going to be doing [big deals.] This builds up over time, but they expect we are going to do large investments and fortunately on our largest investments, we have been right
Certainly SpaceX, Airbnb, Stemcentrx. And Palantir. By money in, those are our largest investments. We back the truck up when we have conviction.

SL: Let's get back to Stemcentrx. Do you have other bets in the oncology space?

BS: Maybe some earlier stage ones we haven't talked about. Nothing this far along.

SL: So when you have a hit like this … human nature is, "I should look for more of this!"… how do you resist against that?

BS: It's just how we're built. The same way we didn't then go look at every rocket company. If you invest in Facebook, you don't go look for every social network company. Just because Facebook worked doesn't mean every other social networking company will. It's probably just the opposite. I'd say we are the same exact open-ness to a therapeutic biotech company as we were before Stemcentrx, which is open as long as it has all these other things we talked about.

SL: Obviously the return was good, but given there aren't any stand alone biotech companies being built these days and the original ambition, is there any sense of regret that this could have been a stand alone company?

BS: Sure. Of course. As the board of a company, you make decisions along the way that you think at that time are in the best interest of the company. Yeah in maybe a different world. I'm not saying it wouldn't have been nice to have done that, but it would have taken a very long time and it would have taken focus a little bit away from the R&D and clinical and manufacturing and put it into commercialization, which is not necessarily in the core DNA of the team. They could have built that, but it would have taken a long time.

SL: Do you find it's hard to find co-investors, because you think about this business differently?

BS: We don't ever think about coinvestors. We've made so many investments where we were the only ones in for a long time, like Palantir and Stemcentrx. People ask "Didn't you want someone to come in and give validation?" What do I need validation from another VC for? No. If there's another VC firm that really believes in the company, and they can be helpful, great. But I'm not looking for any validation from them.

SL: When I wrote about one of your companies, Postmates, recently as being dismissed by the Valley elite, someone tweeted that Founders Fund is part of that elite. Maybe, but I don't consider it part of the mainstream of Silicon Valley. You've never had offices on Sand Hill Road. You don't seem to care what the rest of the Valley is doing. Do you think that's a fair assessment?

BS: I think from a returns perspective we are part of the Valley elite. But we don't ever think about other firms. Our job remains the same regardless of macro cycle or whatever else. We focus on finding the most important companies in the world and returns will follow. And fortunately our returns are top, top, top tier.

SL: At one time -- 2007ish-- there was a view that Sequoia could be stumbling because they missed Facebook, and certainly Kleiner could be stumbling, and a point of view that after Facebook that Founders Fund could replace them. You haven't continued to dominate consumer Web investing; you've done lots of other things. I've spoken with people who are surprised at where Founders Fund ended up. Is it surprising to you where Founders Fund has ended up as a firm?

BS: Not at all. I came on board in 2008 when we were looking at SpaceX. Airbnb is very much a consumer company, and we are a large shareholder in it. Just as we're not closed to things like biotech, we are not closed to consumer. It doesn't surprise me at all where we've turned out.

SL: You've mentioned that you don't need validation of coinvestors, and certainly you don't need their money since you are willing to go long, but do you think the

Valley would be a better place if more firms really looked at venture capital in terms of *venture* and *capital* not just spreading small bits of money in things that look like other things that have done well?

BS: There's no one right way to do venture capital. We have our version that works for us, and our style, and I'm not going to go say anyone is wrong or I wish they did XYZ … I don't think people can do exactly what we can do. I think we are by far the best in our game.

SL: Is that game necessarily valley centric? Is it necessarily US centric?

BS: It tends to be.

SL: But not by rule?

BS: We go where we know the rules and have our own advantages. So a lot of our networks are US-based and Valley-based. We know more when it comes to Silicon Valley stuff.

SL: When you talk about companies that could be most important companies in the world… I don't think most people would put Lyft in that category. Most would consider such a distant also ran to Uber…

BS: Well not when we invested. And I still don't think they are… but you know when we invested in Lyft they were going for building this technology driven ridesharing platform. They are still going for that.

SL: …and that's when Uber is still focused on black car?

BS: Yeah… it's a great company, but I still think Lyft is doing a pretty amazing job.

SL: You are still bullish on them, long term?

BS: Yeah. Uber has not killed Lyft by any stretch. Lyft continues to grow.

SL: What sectors have you not bet on you'd like to?

BS: No sector that is off limits. Venture capital is very much a microeconomic space. In other words it's all about the companies. If we haven't seen a company, that's the reason we haven't invested in that space.

SL: We talked about Altschool before we sat down, and how passionate you were because of how you learned differently than other kids. You don't have spaces like that where you say "God this is so broken…."

BS: It’s a great question, and it’s a difference between the proactive style and the reactive style of venture capital. For me personally, I don’t think there’s one right way. [Sean Parker] is a phenomenal pro-active venture capitalist. I am not a proactive venture capitalist. I am a reactive venture capitalist. I think I’m an excellent reactive venture capitalist. And I think in order to be truly, truly, truly sector agnostic, you have to be reactive. Because if you have this vision of “Hey! This is this thing that needs to exist!” then it makes you less open to whatever comes through the door. But I do think there is huge room for that approach. It’s just not me.

SL: I should ask you about Postmates since I just brought that article up. Everything food related-- whether its meal kids, Uber and Amazon getting into this category, Postmates and DoorDash-- it is just such a glutted category of trying to solve “dinner.”

BS: I don’t think that is Postmates’ long term goal…

SL: Or initial goal either… i’d love to get your view of what you think Postmates has done really well in such a hyper competitive category. The answer in the last couple of years has been spending, which people keep accusing them of doing, but according to everything I’ve heard they haven’t been.

BS: That's not what they've been doing. The contrarian answer to this is, yeah, [Postmates CEO Bastian Lehman] is really not good at playing the Silicon Valley game. That's not his strength. That's what I loved about him. Honestly, Postmates is one of the very few really early stage investments I've made recently. We did the Postmates Series A early, because Series A is really all about the team and Bastian was so not Valley, and yet so freaking smart on vision and business execution and his cofounder Sean was such a good tech guy that I was like, "This is a team I'm investing in."
He was so good at actually having such strong business senses, which is so important to us.

SL: Which is interesting because i don't think a lot of VCs say that at Series A.

BS: Well, I do.

SL: I think a lot of people feel like that's a gap they can fill in later.

BS: Again no one right way to do venture capital, I tend to do best with [teams like that].

SL: So back to my question: What did Bastian do well?

BS: Like hardcore business optimization, phenomenal business deals, which are big deals but don't also drive the company under or take the focus away to solve one deal. They've got some huge names, and they are doing well with them. Some [companies] do well with big names and it drags them down. Not this company. He's very sharp about knowing how much resources to put into [each one.] How much to subsidize and when to pull back. He's very good at optimizing that business.