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How Venrock Is Reinventing Itself

By Kerry Dolan
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Making money in venture capital is difficult enough. Throw in the challenge of easing out older partners and passing the torch to younger ones, and that raises the ante. With little fanfare, venture capital firm Venrock Associates is well along the path to accomplishing such a shift. In the past decade—and particularly in the latter half of the decade-–it has transitioned from a New York-centric, semiconductor-investment-heavy firm led by older partners, to a bicoastal firm with fewer, younger partners and flatter management ranks.

It's too early to say for certain whether the change will lead to outsized investment returns, but Venrock watchers and at least one limited partner are optimistic about the prospects for the $600 million Venrock V fund raised in 2007. Promising portfolio companies out of that fund include web performance and security company CloudFlare, healthcare cost transparency firm Castlight Health, online Chinese video site Tudou (which went public and was acquired by rival Youku in 2012) and slide hosting service Slideshare, which was sold to LinkedIn for $119 million in May 2012, earning Venrock 15 times its investment. Positive returns have landed three Venrock partners on the Midas List this year: Ray Rothrock, Bryan Roberts and Brian Ascher.

"If it was the old Venrock, we wouldn't be investing with them any longer. It was very old school," says Geoffrey Love, head of venture capital at the $25 billion Wellcome Trust in the U.K., which has been an investor in Venrock's funds since 2000. Love, who has witnessed attempts at generational transitions at other VC firms, says Venrock has been more thoughtful about the process. Two of the firm's senior partners in the early to mid 2000s, Tony Evnin and Ray Rothrock, "really wanted to see the future of the firm passed on to the next generation," says Love. "That's hard for a lot of people to willingly walk away from controlling the firm."

And yet it has happened.

Venrock's roots lie with Laurance Rockefeller, a grandson of industrialist John D. Rockefeller. In the 1930s, Laurance backed the folks who started Eastern Airlines and McDonnell Aircraft. In 1969 Laurance and his siblings formed Venrock as the professional venture investing arm for the Rockefeller family. Over the years the firm invested in what would later become big winners, including Intel , Apple , 3Com and drug company Gilead Sciences. The firm opened up to outside investors in 1995.

Bigger changes took place starting in 2007. Two partners – Tony Sun in Silicon Valley and Tony Evnin in New York – had alternately and sometimes together run the firm since 2000. But some partners, led by Silicon Valley-based Bryan Roberts (see his Midas List entry), felt it was time for some changes, which included winnowing down the partner ranks. Fifteen partners were involved in the Venrock V fund in 2007. By 2010, only 8 investing partners were involved in the $350 million Venrock VI fund. Partners including Tony Sun and Eric Copeland had left Venrock; while partners Ray Rothrock and Mike Brooks stayed with the firm to focus on previous investments but were not involved in Venrock VI.

Roberts, 46, a down-to-earth guy with a PhD in chemistry and chemical biology, essentially runs Venrock, though he doesn't like to trumpet that fact. You also wouldn't know it from his business card or the Venrock website, because in 2008 Venrock collapsed partners' titles simply to "partner," getting rid of the "managing general partner" and "managing partner" gradations. Roberts has encouraged an evolution toward a more equal partnership. "I spend my time trying to get people to be in charge of things, so they take ownership and care about what we do," he says.

True partnership is evident in the way people now get paid. Since it raised its Venrock VI fund in 2010, all of Venrock's proven investment partners began to get the same carry – the percentage of firm profits on a particular investment – no matter which partner led the investment. That structure incentivizes every partner to act for the good of the whole firm.

"What's been so successful is the concept of collectively working together," says Mark Rockefeller, a great grandson of John D. Rockefeller, the vice-chair of Rockefeller Financial and a member of Venrock Associates Limited Partner Advisory Committee. "They have this culture of doing the right thing. I think that harkens back to [Rockefeller] family values."

Craig Sherman, a managing director at late stage venture firm Meritech Partners, which has invested in a number of Venrock's portfolio companies, points out that Venrock "builds exceptionally strong relationships with their entrepreneurs. Many feel strongly about them. That creates a flywheel."

Brian O'Kelley is one such entrepreneur. Back in 2008, when O'Kelley realized that his startup, AppNexus, could not profitably compete with Amazon web services, he decided that AppNexus should get into the business of digital advertising. But the firm had run out of capital. “I pitched something like 40 VCs between April and July 2008. I was rejected by every one. They couldn’t get their head around the pivot and that we were going after something big,” says O’Kelley. Then he reached out to Venrock partner Brian Ascher in Silicon Valley, who put him in touch with Mike Tyrrell at Venrock’s Cambridge office. Venrock ended up leading an $8 million Series B fundraising in September 2008. Today New York-based AppNexus is growing like a weed, with 500 employees and revenues that nearly tripled in 2012 and are on course to double this year.

O’Kelley says Venrock’s East Coast investing team, especially with the addition last year of Nick Beim in New York, puts the firm in a stronger place. “I would argue that across New York and Boston, perhaps the best three venture firms are Venrock, First Round and Union Square.” Because Venrock was more focused on healthcare and semiconductors when the Internet took off, O’Kelley says the firm missed a few years in the spotlight and doesn’t get the credit it now deserves.

Peter Hecht, the CEO of Ironwood Pharmaceuticals, has two windows into Venrock: the venture firm was an early investor in Ironwood, and Hecht has been a limited partner in Venrock since 1998. “I think they’re quite spectacular investors,” says Hecht. “We started Ironwood in 1998 and did our IPO in February 2010, which is a pretty long time. A number of times between 2004 and 2010, most venture funds would have blinked and said, ‘Let’s get this thing public.’ Bryan [Roberts] was always saying it wasn’t the right time yet. Many venture investors of lesser fortitude would have run for the exits sooner.”

Today Ironwood sports a nearly $1.6 billion market capitalization and its drug to treat irritable bowel syndrome with constipation was approved by the FDA in August 2012. Venrock still owns a decent chunk of the company.

To be sure, Venrock doesn’t walk on water. It hasn’t had a home run like Google. Even though those sorts of successes are rare, that’s what investors are hoping for.

But the firm does treat its investors well. Venrock charges limited partners fees that are a bit less than 2% of assets invested. In 2011 and 2012, the Venrock partners realized they weren’t going to need all the money from the fees. So in the fourth quarter for the past two years, Venrock didn’t request its quarterly installment of the fees. “It’s 100% guaranteed that no one else is going to do that,” says The Wellcome Trust’s Love. “It was a wonderful thing to do.”

Venture investors have the ability to pick the day they want to distribute shares of public companies to their investors. The higher the price of the shares, the bigger the carry for the VC firm. In March this year, when it went to distribute shares of Ironwood Pharmaceuticals to its limited partners, Venrock had planned to give shares out on a Friday. It turned out that Credit Suisse issued a buy report on Ironwood that day, driving the stock up to $18.80 from $17.70 the day before. Venrock decided to distribute the shares at Thursday’s closing price, essentially shaving off some of its profits. “I am now more convinced than ever that they will take the right route,” says Love of the decision.