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Sequoia's RIP Good Times and Their Subsequent Investments

3-4 minutes

Brian Chesky, CEO and Co-Founder at AirBnB, recently published 7 rejection letters he received from valley VCs in an effort to raise $150k for a 10% stake in AirBnB during mid-to-late 2008. My own view into that era was already published in an email thread between Paul Graham and Fred Wilson that shows how easy it is to miss deals at the earliest stages (I was in the USV pitch mtg with Fred for AirBnb that is the subject of that thread).

Brian's rejection letters are entertaining alone, but they beg a more interesting question which is: who was smart enough to say yes to this attractive proposition? The answer is Sequoia (though not at the exact same time as these rejection letters… it took a few more months to get to "yes"). Sequoia was the first angel in AirBnB, leading a $600k angel round in early 2009, and this is noteworthy IMHO because of the timing.

On 10/10/2008, Sequoia presented to all their portfolio company management teams a deck titled "RIP Good Times", to tell them all that, like the villain in a cheesy horror movie, the reaper of 2001 was back for vengeance. The sky was falling. It was time to make deep cuts to your team, conserve cash, and just try to ride out the storm with the assumption it would be virtually impossible to raise capital over the next few years. And then, a couple months later, Sequoia made their AirBnB angel investment.

I found this timing interesting enough that I took to CrunchBase to see what else they were doing at this time. I looked at all deals done by Sequoia between 10/1/2008 - 12/31/2009 that were either Seed or Series A (meaning other deals around the same time as AirBnB at a similar stage). It turns out there are 31 such deals. In addition to AirBnB there was GreenDot (which IPO'd), Dropbox, YCombinator itself (which was so clever both at the time and in hindsight), and OpenDNS (a recent impressive exit).

In order to set that investment pace and taste in context, I looked at Sequoia's Seed and Series A behavior in another 15 month time period, 3/1/2007 - 5/31/2008. There, Sequoia made 33 such investments, and most notable of which was the Series A in MobileIron (a '14 IPO).

33 deals in good times VS 31 deals in RIP Good Times: remarkably consistent. And their investment taste (or luck?) was even better during "RIP Good Times".

The consistency of investment pace is a wonderful lesson for all environments (good times or not). The taste piece I do not attribute to an artifact of the 2008 nuclear winter. Instead, I think it's just a good lens applied consistently (and also benefitting from the proprietary relationship Sequoia built with YC during that time).

The other lesson to take away here is there is no such thing as a bad time to start a company. The companies founded in late 2008 (when it was incredibly difficult to raise capital) are some of today's biggest successes. So, it doesn't matter when you start; if you want to build a company, start today.