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Benchmark Capital Stays Lean, Even After $14 Billion Bonanza

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7-9 minutes

In an era when venture-capital firms are raising megafunds in the billions of dollars, one of the best-performing investors is resisting the temptation to go big.

Benchmark Capital is sitting on one of the most profitable venture funds since the dot-com boom after scoring early investments in tech highfliers Uber Technologies Inc., Snap Inc. and WeWork Cos. That fund—around $550 million raised in 2011—has multiplied investors' money roughly 25 times, before fees, according to a person familiar with the returns.

Yet when it raises its next fund, expected by early next year, Benchmark plans to keep it at the same size as it has done since 2004, according to people familiar with the matter, to better concentrate on early-stage investments that are its calling card.

The restraint is unusual given the trend in venture capital to raise ever-larger "growth" funds to capitalize on highly valued startups delaying public offerings. Benchmark's rival, Sequoia Capital, is raising the largest-ever fund by a U.S. venture firm at $8 billion, according to a person familiar with the matter, while SoftBank Group Corp. 's $92 billion Vision Fund has helped spur a record level of investments in late-stage companies.

Investors in Benchmark's funds say the firm could easily raise billions of dollars for growth investments and reap huge fees. But at Benchmark's annual shareholder meeting in June, the partners insisted they would stick with a smaller pool of capital, according to a person who attended. The partners have said it helps them stay focused on backing companies early and maximizing gains in the winners. Benchmark keeps a steep 30% of investment profits.

To preserve those profits, Benchmark on multiple occasions helped push out founders it thought stood in its way, as it did last year with Travis Kalanick, then Uber's CEO. The tactic risks tarnishing Benchmark's reputation among founders, jeopardizing access to investments in the most sought-after startups.

Benchmark has six partners making new investments. Another top firm, Sequoia, has dozens of partners making investments world-wide.

All of Benchmark's partners share the profits equally, defying the frequent hierarchical structure at other venture firms where longer-tenured partners keep most of the firms' share of gains. This minimizes internal friction and encourages teamwork, with multiple partners collaborating on an investment, said Fred Giuffrida, managing director at Horsley Bridge Partners, which has invested in every Benchmark fund since it was founded in 1994.

Roelof Botha, who leads Sequoia's domestic operations, said Benchmark's structure gives the partners "incredible clarity" to spot lucrative technologies. He said Sequoia prefers its own model because it gives the firm a "global perspective" and the ability to offer more services to startups.

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> Photo: brendan mcdermid/Reuters

Benchmark didn't always show restraint. In 1999, after making a killing with an early bet on eBay Inc., it raised one of the first $1 billion venture funds. The next year it doubled down with a new European fund three days before the Nasdaq peaked.

During the bust, Benchmark was left holding investments in spectacular failures like online grocery store Webvan Group Inc. It spun off operations in Europe and Israel, and spent years nursing the larger fund to positive territory.

“Good judgment comes from experience which comes from bad judgment,” Benchmark’s longest-serving partner Bill Gurley has often said.

The leaner model has worked. Its 2011 fund, the firm’s seventh, boasts investments in nine companies valued at $1 billion or more, according to a person familiar with the figures. Overall the fund has racked up more than $14 billion in cash and paper gains for the firm and its investors, the person said. The figures value the private companies in the portfolio at the price of their most recent round of funding, the person said.

The 2011 fund also includes Duo Security Inc., which this month was acquired by Cisco Systems Inc. for $2.35 billion, and Stitch Fix Inc., whose shares have doubled since it went public last November.

Stitch Fix’s founder and chief executive, Katrina Lake, credited Benchmark’s Mr. Gurley with helping her at critical junctures. Early on in the online clothing service’s business, Mr. Gurley encouraged her to hire a financial chief when she didn’t think she needed one, and helped recruit the company’s top lawyer.

As a Stitch Fix director, Mr. Gurley isn’t afraid to speak his mind in the boardroom, Ms. Lake said. He pushed back against a lower-priced product, worried it would undercut the brand, she said. Ms. Lake showed Mr. Gurley data that the cheaper product expanded the company’s potential customer base.

“Every now and then I can’t change his mind but he’s going to get on board with what the company is doing,” she said.

As good as Benchmark’s seventh fund has been, most of the gains remain on paper, vulnerable to steep losses if the companies’ fortunes turn south before Benchmark can exit via a sale or IPO.

So Benchmark zealously fights to maximize its gains and cash them in—even if it means going against the wishes of CEOs.

When Uber was hit with a wave of scandals, Benchmark led an investor group to demand Mr. Kalanick step down. Other investors and Mr. Kalanick accused the firm of fighting dirty. A few months later, Benchmark sold $900 million of Uber shares to SoftBank, and it still owns an over $7 billion stake.

Mr. Gurley said in November the firm “suffered certainly some brand hits” from the high-profile Uber fight.

Last month, Mr. Gurley also helped remove founder and Chief Executive Nirav Tolia of neighborhood social-networking company Nextdoor Inc., according to people familiar with the matter. Two of the people said the board didn’t feel Mr. Tolia could maximize the value of the company. Mr. Tolia, who will remain chairman, didn’t respond to a request for comment.

Snap co-founder and Chief Executive Evan Spiegel also stood in the way of Benchmark realizing gains, delaying the Snapchat maker’s IPO indefinitely. The venture-capital firm in 2016 helped design a special incentive package that would give him $625 million of stock if he took Snap public. A Snap spokesman declined to comment.

Another Snap investor said he wasn’t happy when he learned about the package. He felt the company should go public when the time was right.

Snap’s shares have fallen 30% since the offering. Benchmark had sold almost half its stake as of February, according to a public filing, realizing nearly $1 billion in gains.

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