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How Does Sequoia Invest?

24-30 minutes

A deep dive into Sequoia Capital's modus operandi on how they invest, where, and why.

Sequoia Capital is one of the most prominent private equity and venture capital firms in the world. Focusing predominantly on technology and innovation, Sequoia Capital is a stage agnostic investor that has funded and supported over 1500 companies worldwide. Thanks to Sequoia's financial backing and incubation, these companies now control \$1.4 trillion of combined stock market value.

We delved deep into Sequoia's modus operandi to build a detailed picture of how they invest, where, and why. Here's what we found:

- **Sequoia works with markets not people** - Sequoia does not seek to create new markets but to exploit existing markets early. Therefore they focus on market size and dynamics associated with an idea, rather than focusing on a founder's credentials.
- **Sequential market identification** - By investing systematically, they work out which complementary tools and applications will work alongside initial upcoming technologies and markets, and invest in these.
- **Different not better** - Sequoia believes that it pays to be unconventional, so they actively seek out ideas that break the norms to work in more innovative and effective ways to solve upcoming problems.
- **Maximize top performers** - Where many venture capital companies only develop short-term incubation relationships, Sequoia has been known to develop long-standing investments that last well over a decade, capitalizing on the growth of top performing companies.
- **Partial funding** - Sequoia does not give companies all the funding they need right away, instead opting to partially fund companies in order to monitor founders to see how they fare in running the company from the beginning.
- **Cut businesses that don't meet expectations** - Founder, Don Valentine, estimates that Sequoia have closed around 1/5 of companies that aren't meeting milestones for success in order to limit damages.
- **Software as a priority** - Sequoia's most recent investments lean toward software more than any other areas, covering SaaS, enterprise software, and platforms for e-commerce and healthcare.
- **US and China lead the way** - Most of Sequoia's current investments are located in the US - predominantly on the West Coast - and in China, with India fast becoming a solid area of investment.

Since it was founded in 1972 by Don Valentine, Sequoia Capital has expanded, adding three extra geographical branches to complement the US-based firm: Sequoia Capital China, Sequoia Capital India, and Sequoia Capital Israel. Together, these four entities have raised in excess \$19 billion over 56 funds.

Sequoia Capital direct their investments to startups developing dynamic ideas in software, IT, computing, enterprise software, mobile, security, and semiconductors, among other areas, leveraging their experience in technological advancement to advise and finance new ventures that aim to disrupt and expand key markets all over the globe.

Sequoia's Investment Methods

Huge markets

"We're never interested in creating markets – it's too expensive. We're interested in exploiting markets early." - Don Valentine

When Sequoia look to invest in an idea, they aren't particularly concerned by a person's credentials or intelligence and are instead interested in how the idea will unfold in developing markets. They take the approach that by understanding how the product works within the size of the market and the market dynamics, and in comparison to competitive forces, they can leverage the existing potential customers in the market to push the product, without having to create new markets to do this in.

By attacking a big market, there is already a customer base to which one can pitch a product. Sequoia find it a far more successful approach to enter an existing market with a revolutionary solution, than to attempt to create a new market where they would need to create a following from scratch. That said, they don't always enter legacy markets - often they seek to capitalize on new existing markets with customer engagement by entering these markets early and aggressively.

This can be seen in their newer investments in SaaS products. Where software has existed for a while, the concept of Software-as-a-Service has recently become a significantly prevailing model. Sequoia's investments in companies like Medallia show them targeting new solutions in existing markets that already have a potential customer base.

Sequential Market Identification

"It became very apparent that Apple needed a different memory system. So Sequoia financed a guy by the name of Jugi Tandon to go into a small five-inch disk drive business. That decision was clearly driven by an application need in the PC which required a solution that was faster, far more reliable, and had greater density than an audiocassette." - Don Valentine

The model of Sequential Market Identification is a clever way of predicting the future based on the markets that currently exist. When investing in Apple, Sequoia realized that the need for faster and more reliable memory solutions was an imperative to its success, leading them to invest in companies producing the technology to handle this.

Equally, alongside Apple's vision of everyone owning a computer in their own home, Sequoia saw the need for computer mice, leading them to invest in Xerox.

By systematically considering how existing markets will develop based on upcoming technologies, Sequoia predicts where these markets will go and which markets will emerge to support the initial markets in which they invest.

Take their recent investment in Graphcore. With in-depth experience and a long investment history based around semiconductor technology, and with the understanding that AI tech is developing at an unprecedented rate, it makes sense for Sequoia to invest in a semiconductor company that produces accelerators for AI and machine learning.

Storytellers

"When we help organize one of these companies at the beginning, it never looks like the greatest idea in the world. I think it is the marketing and PR department that rewrites history." - Michael Moritz

"Without story we have no mechanism by which to generate a machine inside the minds of others that does positive work on our behalf, and on behalf of the planet. The story is what motivates us. The story is what helps us find meaning in not just our momentary actions, but in our long-term actions." - James Buckhouse

Don Valentine, the founder of Sequoia Capital, has an ardent belief in the power of storytelling, famously stating: *"The art of storytelling is incredibly important. Learning to tell a story is critically important because that's how the money works."*

For a founder, the story is the medium which allows the finances to flow. By creating a powerful story, an entrepreneur can create the channel from product creation to sale, from pitch to funding.

When looking for companies to invest money in, Sequoia are heavily swayed by the storytelling capacity of the founder - not just in its linguistic construction, but also in the underlying assumptions that build the foundations for the story, based on solid research, an unquestionable need for the product, and a viable solution that creates sustainable value.

If you consider Sequoia's investment in Fireeye back in 2004, founder Asahar Aziz managed to paint the picture of the very real threat of evolving computer attacks.

While viruses and other computer attacks were lesser understood back then, Aziz managed to explain the danger of this potential threat, and the solution of using virtualization to detect these threats.

Sequoia funded his project on the back of his story. Unfortunately, at the time when worms were the most prevalent hazards, his technology showed nothing more than other softwares showed.

However later, as malware began to emerge, Aziz's technology began to far surpass its competitors. His initial story was not one of fiction that he had created to fool investors; it was one that combined research, technical knowledge, and industrial foresight to create a solution that would be an imperative to security in the future.

Aziz's capacity to tell this story enabled him to secure funding early, and Sequoia's ability to recognize the art of storytelling allowed them to capitalize on this software's success at an early stage.

Being Different

"The key to making great investments is to assume that the past is wrong, and to do something that's not part of the past, to do something entirely differently. I asked what was the most outrageous thing you've ever done, knowing in my heart of hearts that I'd pick the one who'd done something most outrageous." - Don Valentine

Entering a market with an idea that tries to beat out previous competitors will leave entrepreneurs flat on their face. Sequoia recognizes that companies with an idea will have the space to develop their product over time and that entering a market by trying to push legacy companies out with a similar product that is slightly better, won't work - these legacy companies will simply improve their initial product.

Sequoia are looking for startups that identify problems in existing market and use unconventional thinking to provide new solutions that change the behavior within those markets. Take ClearTax, an investment Sequoia made in late 2018.

Recognizing the difficulties that people were having with filing taxes in India (low education, poor literacy, socio-economic issues that prevent travel, poor mailing system), ClearTax are providing a dynamic solution that digitizes the tax process, allowing Indian residents to file their taxes through a simple-to-use platform; redefining the tax process while meeting a huge demand.

Cash Flow is Key - Finding Frugality

"We like companies that can get big and powerful on \$50 million or less and not two, three, four or five billion." - Douglas Leone

Sequoia Capital has a firm belief that businesses fail because the money runs out. In this sense, they promote lean management in order to foster a frugal attitude toward business development.

They heavily push the concept of create valuing rather than degrading it with unnecessary spending, something Valentine scathingly accuses founders of often - noting that founders tend to spend the capital they raise as fast as they can.

Instead Sequoia tend to invest in companies that use their money, time, and resources wisely to build businesses that create as much value as possible with as little as possible. The best example of this is Whatsapp. Having been acquired for \$16 billion by Facebook in 2014, Sequoia had previously spent 3 years working closely with the messaging app both in terms of professional incubation and investment.

Despite being an extremely popular app, at the point of acquisition, Whatsapp only had 32 engineers on the team - at the time, this was one engineer to every 14 million users!

Maximize Top Performers

"People would be staggered at the length of time that we hold investments. It's not uncommon for us to hold investments for 10 years or more. Why, with a well-positioned company that's growing, would you ever want to sell?" - Michael Moritz

When investing in companies, Sequoia Capital does not limit itself to purely early stage investment - they tend to see companies through if they're very successful. They do this through long lasting relationships that are planned from the beginning.

Sequoia may invest at the early stage of a company but will plan to fund the company at later stages as it grows. This allows them time to foster a partnership using their expertise to grow the company, while also giving them a chance to ride the coattails of the most successful companies.

Take Google for example. While many venture capital companies tend to only stay in partnership for up to 10 years, Sequoia's relationship with Google has been going for nearly two decades. It's obvious to anyone that Sequoia's plan to maximize top performers like this brings extremely profitable outcomes.

Tax Exempt Partners

"We decided in the beginning that we wanted to have all tax exempt sources so we could avoid difficulties with liquidity and selling things in order to make a distribution in order to pay someone's taxes." - Don Valentine

This is an extremely functional and practical way of investing. Sequoia Capital will source funding from partners that are tax exempt to keep an easier flow of cash without having to deal with tax hold ups and payoffs. In this sense, Sequoia's partners tend to be universities or US foundations, along with a few Western European limited companies.

Partial Funding

"If one of our companies is going to need 20 million dollars in capital, we do not give them 20 million dollars. For the first 18 months we may give them 2 million dollars and spend a lot of time getting to know one another, seeing how well they perform against what they said they were going to do, before we decide to fund them for the next step." - Don Valentine

When companies come to Sequoia, they look at the long term process that leads to building a sustainable entity. While founders may be able to pitch a great story for investment, Sequoia are also interested in follow through.

Despite their lack of concern for academic credentials, they are scouting passionate founders with the drive to run companies by seeking to know what they don't know, and build on this to manage companies in the most efficient way possible.

By only providing partial funding, Sequoia minimize their own risks, while providing a testing ground for the validity and credibility of the founders' claims for their ability to run a company.

During these test periods, Sequoia also look to finding teams for these companies, giving them a chance to experiment with the likelihood of a product succeeding in its field. If founders prove to be promising, Sequoia often offer further funding at the growth stages to boost expansion further.

Cut the Unsuccessful

"We have developed some pretty spectacular things for which there were no buyers. Were there buyers eventually, yeah. But the critical thing is getting a product developed where the timing of the product's availability and the market demand are simultaneous. Otherwise you're spending lots of money on developing a market that you did not intend to spend money on. Invariably we tend to shut those investments down." - Don Valentine

Rather than backing a lame horse, Sequoia provide very strict milestones and apply a sharp eagle eye to the progress made by the companies under their wing. Companies must meet the stringent waypoints set out by Sequoia in order to demonstrate their potential as a company.

Businesses that are failing to meet these checkpoints are often shut down by Sequoia, as they are seen as a waste of investment. As Valentine notes, often the companies being cut back see this as a very harsh step, however it prevents bigger losses in the long run.

In fact, at the time when Sequoia had only invested in 500 companies, Valentine estimated that they had shut at least 100 of these down. In recent years, two such companies that have been cut are Peppertap, an on-demand grocery outlet online, and Tapzo, a personal assistant platform.

What Sectors do Sequoia Invest In?

The five biggest markets in which Sequoia invest worldwide are software, internet, mobile, enterprise software, and IT. Many of these overlap with companies breaching more than one of these categories.

Sequoia China and Sequoia India also tend to invest heavily in the healthcare and e-commerce sectors quite prolifically as well, but with a striking slant toward tech applications in these arenas.

Software

A very broad category, software takes the top spot when it comes to Sequoia's investments. With investment being driven into the US, China, India, and Southeast Asia, software projects cover the expanse of everything from SaaS products to platforms for food sharing.

2019 software investments include:

- [Zetwerk](#) - A manufacturing platform, connecting manufacturing companies and engineers with buyers looking for their services. Backed by Sequoia Capital India.
- [Band Protocol](#) - A stack of easy-to-use tools for developers to make token-powered communities. Backed by Sequoia Capital India.
- [Confluent](#) - A real-time streaming platform based on the open-source Apache Kafka software, created by the developers of Apache Kafka. Backed by Sequoia Capital.
- [HoloMatic](#) - Software for autonomous vehicles based on AI and autonomous driving technologies. Backed by Sequoia Capital China.
- [Rockset](#) - A serverless search and analytics cloud-based solution. Backed by Sequoia Capital.

Internet

Internet projects tend to cover companies that mainly provide services on the internet. These range from payment systems to educational repositories.

2019 internet investments include:

- [Zilingo](#) - An online marketplace for companies and sellers based in Asia. Backed by Sequoia Capital India.
- [Groww](#) - An online investment platform. Backed by Sequoia Capital India.
- [Stripe](#) - A payment platform for online services to accept payment more easily. Backed by Sequoia Capital.
- [KLOOK](#) - A travel booking platform for Asia. Backed by Sequoia Capital China.
- [Unacademy](#) - An educational repository that's free for everyone, featuring the largest range of free educational resources in India. Backed by Sequoia Capital India.

Mobile

In terms of mobile investments, Sequoia are supporting companies that provide useful apps for B2C and B2B services, from home delivery shopping to app development.

2019 mobile investments include:

- [WoowaBros](#) - A Korean apps and advertising platform. Backed by Sequoia Capital.
- [Shuttl](#) - An app based office shuttle service to assist with the work commute. Backed by Sequoia Capital India.
- [DoorDash](#) - A food delivery platform linking customers to local restaurants. Backed by Sequoia Capital.
- [DailyNinja](#) - A delivery service for milk and groceries, linking customers to local brick and mortar stores. Backed by Sequoia Capital and Sequoia Capital India.
- [Carousell](#) - A consumer marketplace app for sellers to link with individual buyers and companies. Backed by Sequoia Capital India.

Enterprise Software

Enterprise software or B2B software investments from Sequoia are geared toward tools that increase efficiency and productivity through collaboration or organization, as well as analytics and data platforms for actionable insights.

2019 enterprise software investments include:

- [CB4](#) - A retail platform solution for bricks and mortar stores to collect and analyze sales data. Backed by Sequoia Capital.

- [Jushuitan Network Technology](#) - A research and development company creating a variety of enterprise planning softwares. Backed by Sequoia Capital China.
- [Threads](#) - A collaboration platform for teams to plan and make better and more effective decisions without unnecessary meetings. Backed by Sequoia Capital.
- [Thousandeyes](#) - A platform for analyzing customer experiences for actionable insights. Backed by Sequoia Capital.
- [Ironclad](#) - A contract management platform for legal teams. Backed by Sequoia Capital.

IT

Sequoia's IT investments tend toward companies that are providing tools for development or to power infrastructure in a more effective and efficient manner.

2019 IT investments include:

- [Aibee](#) - An AI solutions development company. Backed by Sequoia Capital China.
- [AERGO](#) - An enterprise-ready blockchain operating platform. Backed by Sequoia Capital China.
- [Nervos Network](#) - A network of scalable and interoperable blockchains. Backed by Sequoia Capital China.
- [Q-CTRL](#) - Tools for controlling of quantum hardware. Backed by Sequoia Capital China.
- [Cohesity](#) - Hyperconverged secondary storage for testing and development, back up, file services, and datasets. Backed by Sequoia Capital.

Healthcare

Sequoia Capital India and Sequoia Capital China have made a large proportion of investments in healthcare systems and medical companies. Many of these focus on software tools for the healthcare industry, while other investments are to help the advancement of medicine in certain areas such as cancer and gene therapy.

2019 healthcare investments include:

- [Burning Rock Biotech](#) - A platform to help develop individualized cancer treatment. Backed by Sequoia Capital China.
- [Miaoshou Doctor](#) - A platform that for more efficient doctor and patient communication. Backed by Sequoia Capital China.
- [Medtrum](#) - A diabetes management medical device. Backed by Sequoia Capital China.
- [MedGenome](#) - A platform that helps to generate genome sequencing data. Backed by Sequoia Capital India.
- [1mg](#) - An online pharmacy network. Backed by Sequoia Capital India.

ECommerce

While Sequoia Capital has invested considerably in ECommerce platforms, a large percentage of Sequoia Capital China and Sequoia Capital India's investment funds have been pumped into online marketplaces and other ecommerce software to help develop Asian online shopping experiences - providing new channels of revenue for Asian companies.

2019 ECommerce investments include:

- [Meesho](#) - An online reseller network aimed at small businesses and bored housewives. Backed by Sequoia Capital India.
- [Loho](#) - A network for eyewear design, production, and sales. Backed by Sequoia Capital China.
- [Bulbulshop](#) - An influencer driven ecommerce network mobile app. Backed by Sequoia Capital China.
- [Healthkart](#) - A one stop shop for health, fitness, and beauty products. Backed by Sequoia Capital India.

Top Investment Sectors By Sequoia Capital Branch

Each branch of Sequoia focuses its investment in different areas. While the US branch aims large proportions of its capital toward enterprise software and mobile solutions, the Israel branch has a strong concern for security and analytics.

Here is a breakdown of the top 10 sectors per Sequoia Capital branch.

Top 10 Investment Sectors for Sequoia Capital

Sequoia Capital's US branch has raised \$15.3 billion over 22 funds. They make investments starting from \$100K for seed companies up to the mid 100 millions for later stage companies.

The US arm of Sequoia Capital gear their investments mostly toward software, internet and mobile companies, but unlike any of the other branches, also have a key eye on social media technology.



Top 10 Investment Sectors for Sequoia Capital China

Sequoia Capital China has raised over \$3 billion over 31 funds. Their investments range in size depending on the stage, with the most recent investment to KLOOK being \$225 million.

The China branch leans strongly toward internet and ECommerce investments, but also has a strong penchant for companies working in healthcare, medicine, and biotech.



Top 10 Investment Sectors for Sequoia Capital India

Sequoia Capital India has raised \$1.5 billion over 3 funds. Typically they invest between \$100K and \$1 million in seed companies, between a million and \$10 million in early stages, and \$10 million and \$100 million at later stages.

India invests heavily in the Internet and ECommerce sectors, but interestingly also focuses its energy on financial services companies - a sector that isn't such a high priority for other arms of the company.



Top 10 Investment Sectors for Sequoia Capital Israel

It isn't particularly clear the size of Sequoia Capital Israel's fund, however they tend to invest between \$100K and \$1 million at the seed round stage, \$1 and \$10 million at the early venture stage, and \$10-100 million at the growth stages.

While the Israel arm focuses a great number of investments on the Enterprise Software and Software Sectors, it is clear that there is a significant focus on security both online and within IT infrastructure and networks.



Where do Sequoia Invest?

Sequoia Capital 2018 Investments by Country

The US-based branch of Sequoia Capital has predominantly focused on the US market, but has made a significant number of investments in India, with a few in Europe as well.



Sequoia Capital China 2018 Investments by Country

Sequoia Capital China's main focus is within its own country, with a handful of investments extending to other Asian countries. They also have a considerable percentage of investments in US-based companies.



Sequoia Capital India 2018 Investments by Country

Sequoia Capital India also tend to focus their investments internally. Other major geographical areas for investment include both Indonesia and Singapore. They don't tend to range that far around the world,

keeping most of their investment in South Asia.



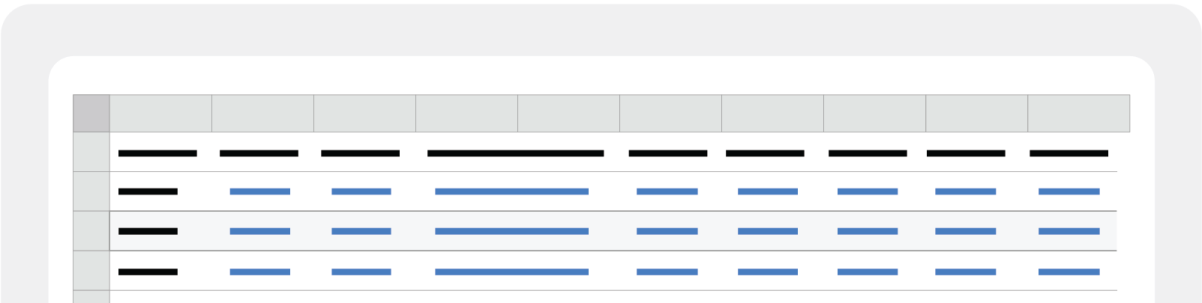
Sequoia Capital is a veteran to venture capital and private equity investing. Dipping their toe in technology sectors all over the world, Sequoia Capital is leading the way not by creating new markets, but by driving existing markets forward through their systematic application sequential market identification.

With a heavy focus on the USA, China, and India, Sequoia Capital is pumping funds and expertise into some of the strongest economies in the world - encouraging international expansion of some of the best and brightest ideas from each corner of the globe.

While their stage agnostic funding allows them to develop long-term relationships with companies, their policy of 'cutting their losses' allows them to frugally focus on technology companies that are disrupting current methods of working to drive change that's different rather than being simply better.

In short, it is no wonder that Sequoia Capital have lasted so long or grown so large, considering the immense wisdom of the team behind them, the intelligent strategies driving their investments, and the strong leadership style engrained throughout the business by founder Don Valentine.

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