

PRO VC COMMENTARY ANALYSIS

# Founders Fund, a Premier Venture Firm in Transition, Has Outsize Returns

Silicon Valley investment firm co-founded by Peter Thiel, looks to rebuild team with a high-profile hire



Founders Fund is the premier venture firm co-founded by Peter Thiel in 2005. PHOTO: JONATHAN ERNST/REUTERS

*By Katie Roof*

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Founders Fund, the premier venture firm co-founded by Peter Thiel in 2005, is regrouping after several partner-level departures, but documents show the firm continued to rack up outsize returns for its investors and kept deal flow steady.

The firm rose to industry prominence with bets that turned into golden exits, such as Facebook Inc. and Stemcentrx Inc. Now it has a couple more marquee initial public offerings on the horizon, including Airbnb Inc. and Palantir Technologies Inc., the secretive data-mining specialist that Mr. Thiel co-founded.

Founders Fund just made a high-profile hire with investor Keith Rabois, who spent the last six years at Khosla Ventures.

He joins at a time the firm has been delivering above-average returns—in some cases, stellar returns—to investors. On paper, every dollar that Founders Fund invested from its 2011-vintage

fourth fund has more than quadrupled to \$4.60, as of the third quarter last year, powered by investments in billion-dollar startups such as Airbnb and Stripe Inc., according to documents containing firm data that were reviewed by WSJ Pro. The industry average for funds of that vintage was \$2.11 during the same period, according to market tracker Cambridge Associates. Its third fund from 2010 has seen its dollars go up to \$3.80, above the average of \$3.15.

Those returns reflect an investment multiple known as TVPI, or total value paid-in, which measures realized and unrealized value of a fund as a proportion of the total paid-in, or contributed, capital. These returns include estimated private-market valuations. The data could change after more of the firm's startups go public or get acquired.

Investment dollars from Founders Fund's fifth fund, dating to 2014, had grown to \$2.40, including the value of the firm's stake in ContextLogic Inc., the online discount retailer better known as Wish. Peer funds of that vintage had grown to \$1.48, according to Cambridge data.

The data show that Founders Funds' earliest funds, from 2005 and 2007, now have grown sixfold and more than eightfold, respectively, and include investments in Facebook, Palantir and Space Exploration Technologies Corp., or SpaceX.

Despite those returns, which are at least three times better than the industry average, significant turnover in leadership at the firm is drawing industry attention. Additionally, Mr. Thiel faced criticism in Silicon Valley after donating to the Trump presidential campaign and speaking at the Republican National Convention in 2016.

Earlier that year, Mr. Thiel also stirred up controversy in tech and media circles when it was revealed that he helped fund a lawsuit between Hulk Hogan and the blog Gawker Media LLC, which led to the news outlet's bankruptcy. Since then, Mr. Thiel has moved to Los Angeles, a decision that stemmed from his concerns about the San Francisco region's predominantly homogeneous views, he said in an interview with Fox Business last year.

Mr. Thiel declined requests to comment.

Mr. Thiel and Brian Singerman have been the two general partners running the firm. The third general partner, Ken Howery, could be heading out as he awaits confirmation as the U.S. ambassador to Sweden.

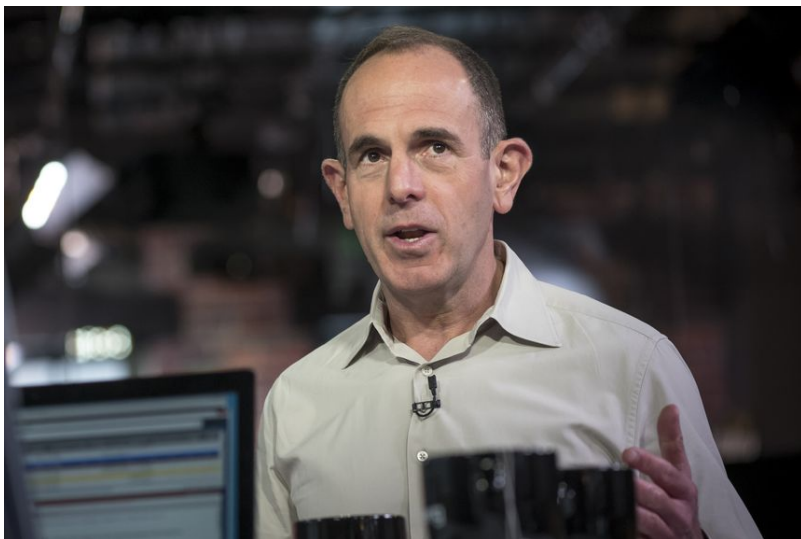
Several investing partners also have left the firm in the past two years, including Luke Nosek, a founding partner who left in 2017 to launch his own firm, Gigafund; Geoff Lewis, who had been a partner went on to create Bedrock Capital, which is backed by Founders Fund as an investor. Former partner Kevin Hartz, a co-founder of Eventbrite Inc., left last year.

Mr. Rabois said he was recruited to Founders Fund by Mr. Thiel, a longtime friend, and by Mr. Singerman, who has emerged as a key leader at the firm after internal promotions.

“Peter’s been the most influential person in my career and the ability to work with him again was just compelling,” Mr. Rabois said. “He’s the smartest person I’ve met.”

As a general partner, Mr. Rabois will now be one of the firm’s most senior investors. While a veteran of the technology industry, Mr. Rabois has only been a full-time venture capitalist for six years.

He also has a long relationship with Mr. Thiel. They were classmates at Stanford University, worked together at PayPal Holdings Inc. and have co-invested in several startups. Mr. Rabois subsequently became chief operating officer of payments business Square Inc. and he co-founded home-selling platform OpenDoor Labs Inc. As an investor at Khosla Ventures, Mr. Rabois wrote checks for DoorDash Inc., Stripe Inc. and Affirm Inc.



Keith Rabois as a general partner with Founders Fund will be one of the firm’s most senior investors. PHOTO: DAVID PAUL MORRIS/BLOOMBERG NEWS

Mr. Rabois and Mr. Thiel also are known for their contrarian views, often publicly voicing politically conservative opinion. Mr. Rabois, however, has been critical of President Trump at times in some of his tweets.

A number of founders and venture firms have said they continue to do business with Founders Fund, because they are impressed by the firm’s investment record.

Sam Rosen, founder and former chief executive of storage startup MakeSpace Labs Inc., which was backed by Founders Fund, said the political leanings of some of the firm’s partners wouldn’t stop him from working with them again.

He adds that he admires their courage: “They’re willing to speak up for things they believe in.”

When asked whether Mr. Thiel’s views led any startups to avoid working with Founders Fund, Cyan Banister, a partner with the firm, said, “It’s entirely possible someone has passed on us for

that reason.” She added, in her written response, that “if that’s what they think, they are usually more private about it and we don’t see those deals.”

There is no sign of the firm’s deal flow slowing. It recorded 67 investments in 2018 compared with 46 in the previous year, according to PitchBook data.

—*Tomio Geron contributed to this article.*

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