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An interview with Keith Rabois – High Growth Handbook

11-14 minutes

Keith Rabois (@rabois) is an investment partner at Khosla Ventures. Since 2000, he has been instrumental in driving five startups from their early stages to successful IPOs, with executive roles at PayPal, LinkedIn, and Square, and as a board member with Yelp and Xoom.

At KV, Rabois has led investments in a broad array of startups including, DoorDash, Stripe, Thoughtspot, Affirm, Even Financial, and Piazza. While working as a VC he simultaneously cofounded Opendoor, a startup in the real estate tech world.

In this second part of our interview, Keith and I spoke about taking companies public.

Elad Gil:You've been involved with a number of companies, either as an executive or board member, which have gone public: PayPal, LinkedIn, Square. Yelp and Xoom as a board member. A lot of founders today don't want to go public. What is your view of the pluses and minuses of being a public company?

Keith Rabois:
My view is pretty simple, which is companies should go public as soon as they can. Increased transparency and accountability is always a good thing. It's something we always teach and proselytize through our organizations, to our executives. And being prepared to go public creates a discipline, a focus, that most other processes don't.

It's also very binary. Once you are public, you have a lot of tools and levers at your disposal, about incremental financing, acquisitions, M&A. It unlocks a lot of potential that you may not otherwise be able to take advantage of or avail yourself of.

For example, Facebook tried to acquire Twitter. You know, there was a lot of debate about a $500 million offer. Had Facebook—at the time it was still private—had liquid currency, Facebook might have been able to acquire Twitter, which I think would have changed history. Twitter is a very successful independent company that actually has more influence in the world than Facebook, at least in my view. And that acquisition couldn't happen because there was a big debate about the value of Facebook's currency. There are a lot of examples like this.

I think the reasons why people don't go public are basically excuses. For example, people frequently talk about innovation. Well, ask anybody in Silicon Valley what the top five most innovative companies on the planet are, and inevitably you get some version of the following answer: Google, Facebook, Tesla, SpaceX, Apple, maybe Amazon. Five of those six are large-market- cap, publicly traded companies, and they're innovating at a pace that's clearly better than private companies. With the right leadership, you can innovate on the public stage better actually than on the private stage. So I think that's an excuse.

Second thing is people talk about the distractions of stock price and things like that. The truth is, when you run a company, people are distracted by lots of things: gossip in the office, the food you serve, these days their cryptocurrency holdings. At least when you're public, you as an executive have the same perspective as your employees, and you can tell when they're going to be distracted. You have knowledge and then you can countersteer against that. Whereas when they get distracted because you're taking away their bacon or some perk in the office, you actually don't have a lot of visibility into that. It also lags. I think countermanaging against distractions is part of the job as a leader or an executive or a CEO.

In addition, people talk about the cost of going public. Truthfully, that's overrated as well. You have a year post going public to implement most of the compliance burden. By the time you actually have to put in place the SOX compliance measures, you've already been public for a year and clearly have the resources. You probably raised several hundred million dollars to a billion dollars in going public. You can pay for four or five more accountants and some software at that point. I think that's another excuse.

Discipline around financials and reporting is also good and healthy to start as early as possible in the company's history. Doesn't mean you have to be profitable. I think lots of companies go public that are not profitable. In fact, I suspect most technology companies went public, historically, when they were unprofitable. I don't think that's a gating factor.

I think some people learned the wrong lessons from earlier companies. PayPal, for example, had a pretty searing experience of going public. We filed to go public the day before 9/11. We had a state regulator sort of attack us on the precipice of our IPO. And I think Peter Thiel learned from that lesson that going public is kind of a pain in the ass, and I think he's proselytized a little bit too much about that. Because it was an unusual set of circumstances that affected PayPal. That said, we did eventually go public, and I think everybody thought it was a good thing.

Yelp went public and it really boosted retention. A year before going public, everybody was motivated and excited about the opportunity to go public and create a permanent stand-alone company. And post going public, the company's retention of engineers and general employees actually went up by double digit percentages. So I think it was very healthy, even though Jeremy had originally been hesitant.

Elad: I think people in general underestimate the impact on employees in terms of retention and the ability to attract and compensate great employees. I was talking with one recruiting firm, and their data shows that after a company goes public they close a higher proportion of people with lower offers.

Keith: That doesn't surprise me. I've never rigorously analyzed it. But based upon the Yelp data where that was true, it wouldn't surprise me if that's true globally.

Elad: What do you think is most unexpected to first-time founders about having a public company?

Keith: Well, there is some incremental drag in board meetings. You wind up having a more process-oriented board meeting. I think both of us would probably advise startups having a smaller board, three to seven members max. Probably five more typically. When you go public, because of the committee requirements—audit committee, nomination committee—and various structural requirements, you wind up with a larger board, which does create disadvantages in having dialogue and debate, versus just presentations.

Now, there's ways to countermanage around that. Obviously you don't have to make the formal board meeting your only strategy session. So that can be solved. But it is different.

The type of employee that you attract is a little bit different, too, more compensation- focused definitely. More of the market is compensation focused today because the cost of living in the Bay Area is so high. Even people who might in other eras have been more willing to take more upside and equity and less cash are focused a bit more on their cash compensation.

I think the ability to attract younger colleagues that are recent graduates goes up. The recent graduates from CS departments at Stanford, CMU, other top universities are starting their careers, and they're looking for a place to learn. Now, some of those will become founders and go to YC and other escape ramps. But a lot of the meat-and-potato software engineers want to go to a stable company for at least two years. And once you're public, parents and significant others think of it as a stable entity. So candidates run into a lot less resistance from people that are important to them in their lives in accepting those offers.

And I think you can learn something from a large company. There are some practices that are very destructive for people who want to start their own company and that you wouldn't want to adopt. But there are a lot of things you can learn from large companies, too.

Elad: You mentioned that you think companies should go public as soon as they can. What are signs that a company is ready? How do you know that it's time?

Keith: I think predictability is one. Meaning you can easily forecast your next quarter, your next six months. That means that, underneath that, you understand the levers of your business. There's a business equation of X x Y x Z, and you have precisely mastered that equation. You know exactly how what you do in one part of the company affects the next part which affects the final result, which is, let's say, your contribution margin.

Once that's well understood and the N is large enough so that the variance is rare, then I think you're ready to be a public company, assuming you're at some level of scale, which probably means about $50 million in revenue.

Elad: A lot of private company founders don't think the public market cycle itself is important. They say that it doesn't matter if the S&P or NASDAQ is at an all-time high. They can go public at any time. What do you think about the macro market cycles relative to time frames for going public?

Keith: I think that's somewhat naïve, and it's a function of having probably grown up in an environment that was very stable. If you think that since the global financial crisis of 2008, we've basically been in a hot market for the last ten years. Most founders have grown up, professionally and psychologically, in a fairly stable, attractive market.

Whereas if you started your career when the bubble collapsed or in the aftermath of the bubble, in 2000–2003, you understand what happens when there isn't liquidity in the market. For example, a lot of our companies use debt as an oxygen to grow. It's part of the business model of Opendoor, it's part of the business model at Affirm, it's part of the business model at Upstart, as examples. The price of that oxygen can change very radically and very quickly. Bill Me Later and Zappos famously had to sell, even though their businesses were performing quite well, because their access to debt was affected. Just as access to debt is affected by general macroeconomic changes, the ability to use money as a resource to grow can be completely changed overnight.

I think of money, of capital, like oxygen. Imagine if we all had to live our lives and pay for every breath. We might live our lives differently. Like we might not work out as much; maybe we couldn't afford to run or sprint. But because oxygen is free, we don't even calculate it. In a hot market, everybody thinks that capital is sort of free, but that changes really fast. The price of capital has moved many, many times over the last hundred to two hundred years. And the virtue of having lived through various cycles is you're always calculating that in the back of your mind.

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> – Keith Rabois

Elad: Are there any IPO process tactics that you'd recommend?

Keith: Yeah, I think having a DRI or directly responsible individual can be a great strategy. We did that at PayPal. We took one of our corp dev directors or VPs, and he became the DRI. He quarterbacked everything. So treat it like a major initiative. Assign somebody who you trust and who has credibility within the organization to the task, so they can stitch everything together and motivate people.

This interview has been edited and condensed for clarity.