

# 2017 YC Annual Letter

Dear YC Community:

In response to a [comment](#) on Hacker News, I'm going to try writing an annual letter to the YC community with an update on our progress.

Our mission is to enable the most innovation of any company in the world in order to make the future great for everyone. We believe new technology, economic growth, and new ideas about how our society might function are more important than ever before.

As of January 1, 2017, YC has funded over 3,200 founders and 1,470 companies. This year, assuming there is not a macroeconomic meltdown, we expect the total valuation of companies that have gone through our program to surpass \$100 billion. We have also funded more than 30 non-profits.

As always, most of the credit goes to our founders—they, and the astonishingly strong and helpful community they create, are what make YC special. The second-most credit goes to our team—I am incredibly thankful to work with such a talented and driven group of people.

## YC Companies & Investments

We invested about \$27 million in the Winter and Summer 2016 batches, and so far we have invested about \$187 million in later-stage investments from our first Continuity fund.

We are excited to fund companies in any space that we believe is good for the world and can eventually sustain a very large company. Some of the many areas we're interested in are noted in our [Requests for Startups](#).

Our largest exit of 2016 was [Cruise](#), a self-driving car company. We expect to fund many more machine learning-driven companies in the future (I will generally avoid calling out trends in these letters, because I've noticed doing that produced unintended consequences, but this one is so obvious and so important that I'm happy to mention it).

[Helion](#), [Oklo](#), and [Bright](#) are all working toward inexpensive clean energy, an area of great interest to us. [LendUp](#) and [Coinbase](#) are two examples of YC companies innovating in financial services technology. [Boom](#) and [Relativity Space](#) are pursuing strategies in aerospace that most companies haven't pursued seriously in a long time, or ever.

[Gingko Bioworks](#) is learning how to design new organisms, and [Science Exchange](#) is making it easier to get new experiments done. [FarmLogs](#) is making it easier and more efficient to grow food, and [Gobble](#), [Instacart](#) and [Doordash](#) are making it easier to eat it. [Reddit](#) and [9Gag](#) continue to make me waste enormous amounts of time, but I love every minute I waste.

[Docker](#), [PlanGrid](#), [Checkr](#), [Flexport](#), [Gusto](#) are just a few of the enterprise companies we've seen begin to thrive. [Machine Zone](#) has become one of the largest gaming companies in the world. [Rappi](#), [Wave](#), and [Strikingly](#) are some of the many YC companies succeeding on other continents.

In addition to the three companies we are currently best known for—Airbnb, Dropbox and Stripe—more than 50 of our companies are worth more than \$100 million each.

We've funded [a lot of other companies](#), but in the spirit of not exhausting your patience, I'll stop listing them here.

## Hyperscale

There's one more trend I want to mention, though it's not about a specific market. I think we're now in the era of hyperscale technology companies. If you believe Metcalfe's law, it stands to reason that network-effected technology companies are now far more powerful than ever before, simply because the number of people connected to the internet keeps getting bigger, and  $n^2$  gets big really fast.

Companies like Amazon, Facebook, Google, Apple, and Microsoft have powerful advantages that are still not fully understood by most founders and investors. I expect that they will continue to do a lot of things well, have significant data and computation advantages, be able to attract a large percentage of the most talented engineers, and aggressively buy companies that get off to promising starts. This trend is unlikely to reverse without antitrust action, and I suggest people carefully consider its implications for startups. There will of course be areas where these companies are naturally weaker, and these are good areas to start companies.

## **Diversity & Inclusion**

In 2016, we funded 68 female founders at 52 companies. About 22.3% of the companies we funded had a woman on the founding team, and about 12.5% of the founders we funded were women. In 2016, we funded 52 Black and Latino founders at 29 companies. 11.6% of the founders we funded were Black or Latino.

The percentage of women who apply to YC is roughly the same as the percentage of women who get funded. The same is true for Black and Latino founders.

From the data we have available, it seems that the percentage of women and people of color applying to YC is higher than the overall percentage of women and people of color starting startups. This is encouraging, but we

continue to want to understand and address the barriers that prevent more founders from underrepresented groups from starting startups and applying to YC. We still have a long way to go.

While we remain committed to helping more underrepresented founders get started, we believe that's only part of the solution. We still see significant dropoffs at the stages after YC (e.g. raising late-stage capital). The larger startup community needs to consider how little the unicorn-founder demographics resemble the early-stage demographics.

There's clearly a lot more work to do here, and we're committed to help do it. We're hosting our fourth annual Female Founders Conference this year in June, continuing our Open Office Hours with underrepresented communities and bringing in unconscious bias experts to train our team. We're always open to hearing how we can do a better job, so if you've come across practices or programs that work well to support diverse founders, [please let us know](#).

## YC Organization

Y Combinator is currently made up of 5 groups. I'll talk a little about each of them here. We expect to add several more over the next few years, and in general you should expect us to try a lot of stuff (though of course not all of it will work). You should also expect us to continue to grow the number of companies we fund.

## YC (our flagship program)

In October of 2016, [Michael Seibel](#) took over responsibility for our main program as CEO of YC. He's doing an outstanding job, and I expect the program to significantly strengthen over the course of 2017 and beyond.

In 2016 (and the first part of 2017), we added three remarkable partners to the flagship group: Tim Brady, Adora Cheung and Daniel Gross.

One of my partners that I'd like to especially thank is Dalton Caldwell. Dalton has been a YC partner since 2013, and now runs our admissions team, which is perhaps the most important function we have. Dalton has taken a process that used to be stressful and deeply imperfect and improved it by a huge amount. Though I'm sure we'll still make mistakes, I sleep better at night thinking that we're making far fewer in this area than we used to.

While I'm on the topic of recognizing partners, I'd also like to thank the three partners at YC that get some of the least public recognition. Kirsty Nathoo is our CFO, and Jon and Carolynn Levy are our General Counsels. They are full partners at YC but since they don't advise our companies (as much) on business as the other partners, they are less well-known. However, they work incredibly hard and thoughtfully, and they are one of the secrets to our success. In fact, one of our most successful founders recently said to me "I tell every startup I meet they should do YC, and the reason is Jon Levy. I don't get how he managed to take my calls at all hours of the day, because the other founders in my batch said he did the same for them, but he solved more problems for us than I can count, and also just listened to me when I had a bad day."

Finally, I'd like to thank our entire software team, lead by my partner Jared Friedman. We've had an incredible improvement in our software over the past year, and someday when the history of YC is written, I expect that people will talk about software as one of our secret weapons. This shouldn't be so secret—one might reasonably expect technology investors to understand the importance of great software for themselves—but it is generally not the case.

We give companies in this program \$120k for 7% ownership in their company, and work with them intensively for 3 months and then less intensively for the rest of the company's life. We run this program twice a year, and currently fund about 125 companies per batch. While at YC, founders get access to a range of resources, advice, connections, and special deals.

Anyone can [apply](#) on our website, and all sorts of people do (here are some [common misconceptions](#) about who YC accepts).

Companies often ask us how we decide who gets into YC. There are four questions I consider:

1) Will this company build something lots of people really love?

*If so, and if 'lots' is sufficiently large, the company has the chance to produce substantial earnings.*

2) Will this company be easy to copy?

*The most successful companies I've worked with have a significant competitive advantage—network effect, proprietary technology, complex coordination, or barrier to entry of some other sort. I understand in theory it's possible to build a very successful commodity company, but I don't know how to do it.*

3) Will these founders develop into "forces of nature"?

*As most people say, it's hard to make money unless you invest in great founders. Defining what that means is usually left as an exercise to the reader. Here are some questions I ask myself: Are these founders relentlessly determined? Are they original thinkers? Are they smart, and especially do they have new insights I haven't heard before? Are they good*

*communicators (and so will they be able to hire, sell, raise money, talk to the press, etc)? Are they focused and intense? Do they always seem to find a way around obstacles? Would I work for them?*

*This is often the hardest factor for me to evaluate, because you have to make a judgment about trajectory—you are trying to predict where someone will be in five years.*

4) Does this company have a clear and important mission?

*Without this, I usually get bored. More importantly, companies that don't have this usually have a hard time recruiting enough great people to work with them, and thus struggle to become very large.*

We especially like founders who have some sort of non-traditional background; we are somewhat suspicious of founders with extremely “tracked” lives. Startups are not a resume item, and we don't like founders who view YC as a stop on the way to B-school. Although in many ways it's a good problem to have, the increase in the value of YC's brand means we have to work harder to find people doing a startup for the right reason: to bring an idea they're obsessed with to life, and willing to do something unreasonable to see it happen.

We have had great success funding “unknown” people, and we will keep doing this—it's one of our two or three best secrets. Please help us spread the message: you don't need to be experienced, well-known, or have an impressive resume to get into YC. We fund smart, ambitious people with a great idea and evidence that they can build things.

If you know a founder who should apply to YC, [you can recommend them to us](#). That said, companies don't need a recommendation or introduction, and most companies we fund don't have one.

As I mentioned before, I think the strength and quality of our community is one of the most important things we have to offer. As with any community, this emerges from a complex set of factors, but I'll mention three here.

One of the most important cultural values PG and Jessica put in place was to do the right thing for founders, even when it is not in our own short-term interest. When I was going through YC, it was the thing that most stuck out to me as different from other investors.

Another cultural value they created is to try to fund only good people (in the sense of doing the right thing, though separately we evaluate for effectiveness). We sometimes get this very wrong, and dealing with the repercussions is the most unpleasant part of our job. However, we manage to get it right a lot.

Thirdly, we have a 'pay-it-forward' mentality. Startups in the batch know they can ask any alumni for help, well beyond normal Silicon Valley expectations. Later, when they're successful alumni, they help new companies without us ever asking.

## **YC Continuity**

YC Continuity is our growth-stage fund. We started it in 2015, and it's run by Ali Rowghani. Last year, Anu Hariharan joined as our second YC Continuity partner.

We do this to provide a source of friendly growth-stage capital to companies and founders that go through the YC program, especially to companies that other investors may not fully understand. We also hope to be a force for good in the growth-stage investing market.

YC Continuity will begin to experiment with programs to provide more advice



and resources to growth-stage companies in 2017.

## YC Research

YC Research is a non-profit research division of YC. Although we think startups are a good structure to align people to solve a problem, they are clearly not the best solution for everything. For some important problems, a non-profit research lab is a good approach.

We sometimes fund and run internal groups, and sometimes fund external organizations.

So far there are 5 groups: [Basic Income](#), [OpenAI](#), [HARC](#), [New Cities](#), and [Universal Healthcare](#).

Basic Income is studying the effects of giving people unconditional monthly cash. We are currently in our pilot phase in Oakland. We are continuing to learn and make changes, and work with various public agencies and governments to enable the full-scale study. We are planning to run a larger study than we originally intended, and we hope to start fundraising for it soon.

OpenAI is trying to develop artificial intelligence for the benefit of humanity. In our first year, we released Gym, Universe, and a number of new ideas that were at the limits of my understanding but that I enjoyed reading about. In 2017, we hope to achieve significant new milestones that are not possible with current AI technology.

HARC is a group headed by Alan Kay inventing new ways for humans to learn and understand more. My visit to [Bret Victor's lab](#) last year, which is a sort of computerized interactive room, remains one of the new technologies I think most about.

New Cities is still in the exploration phase, but we hope to have more to share over the course of this year.

Universal Healthcare is a project on which we are partnering with Watsi to study how we can use technology to make healthcare both better and more affordable.

We grew a little faster than we were expecting, so we are trying to take a breather on further growth at YCR. But we may still add one more group in 2017.

## **Startup School**

Startup School is our new MOOC (which we will supplement with our existing series of conferences). It will be open to anyone (unless we get absolutely overwhelmed with interest) and is free. We will stream talks like the ones that happen during YC dinners, provide advice to startups, and help them connect to other startups in the program and other people that may be helpful.

Although we clearly stand to gain from this, we are doing it because we believe spreading the message about entrepreneurship and making the necessary information, community, and connections freely accessible to everyone who might want to start a company is important.

This year, I'll be teaching it.

If this goes well, we hope to offer it every year. In future years, we also hope to explore how something like 'financial aid' might work for people that need a small amount of capital to help get their startup going.

## **Hacker News**

Hacker News (HN) is an internet forum, created by Paul Graham shortly after YC got started and now run by Daniel Gackle. Its original purpose was to try out the programming language PG was developing—a dialect of Lisp called Arc, that HN still proudly uses today—and to be a place to find interesting things to read.

HN's initial users were fans of the essays PG had been publishing about startups, programming, and a lot of other things. Soon it became a hub for everyone interested in YC and startups YC was funding. YC and HN grew up together, and many YC founders started as HN users.

HN remains focused on startups, programming, and lots of other things—anything intellectually interesting goes. The HN community has developed many unique features over the years, such as the "Show HN" format, where users share something they've made, and monthly "Who Is Hiring" threads that have helped many community members find jobs.

Hacker News has 3.4 million users per month and 350,000 users per day, with 4 million pageviews a day. There are just under 1 million registered accounts, with several hundred added each day. Users post around 1,000 articles and 6,000 comments to the site per day.

These numbers are all growing, but relatively slowly, and we like it that way. Internet forums are notorious for degrading over time—one of the ways PG described HN was as an experiment in seeing how long a forum could stay good before it deteriorated. We've mostly managed to stave that off, for 10 years now, but we're always mindful of this risk.

HN has grown into the leading community for tech and startups on the internet, known for its emphasis on civil, substantive discussion—at least in theory! Our team affectionately refers to HN as "the worst internet forum, except for all the others".

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We are only about 30 years into the age of software, about 20 years into the age of the internet, and about 2 years into the age of artificial intelligence. Each of these by themselves is a technology revolution that I believe we will look back on as being extremely significant; taken together, I believe they will represent the most significant technology revolution in human history—I believe we are likely to have less in common with whatever we call the most intelligent species on the planet in 600 years than we did with humans 60,000 years ago.

It's an exciting time to do what we do.

Sam Altman

President, YC Group