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Tape 3 - Bill Draper and Pete Bancroft

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[Beginning of recorded material]

Male Voice: [unintelligible]

03:00:43 Interviewer: Just so we have it on tape, let me get the correct spelling of your first and last name please, and your firm or affiliation -- however you'd like us to acknowledge you.

Bill Draper: Right, it's, uh, Bill Draper, and I am, uh, managing director of, uh, Sutter Hill Ventures. Uh-uh, sorry, I was. I'm sorry.

Interviewer: That's okay.

Bill Draper: Uh, Draper -- uh, Richards and Draper International.

Interviewer: Gotcha, and that's [unintelligible].

03:01:09 Bill Draper: Founder of Sutter Hill.

Interviewer: D-R-A-P-E-[R]. Okay.

Bill Draper: Uh, D -- oh, sorry. D-R-A-P-E-R.

Interviewer: That's okay. That's okay. You've had a long, successful career. What has changed most over the last 30 years?

Bill Draper: Well, th-the, uh -- I-I was with the f -- very first -- it's more than 30 years -- was the very first, uh, venture firm in the -- in the west -- Draper, Gaither, and Anderson -- and, uh, we got good publicity

because we were, uh, the first, but it was difficult to, uh, sell the concept.

03:01:56 There were a lot of, uh, conceptive venture capital. There had been one, American Research and Development, in Boston -- General Doriot -- and, um, and New York firm, but-but it was an early, um, uh -- it was early days for venture capital. My wife did not know how to explain to her friends what the meaning of the job was, so she called us private bankers.

03:02:28 She said, uh, "Well, he's in the private banking world," which was part of it, but of course not the r -- not the right twist. Uh, the industry was young. Th-the chip had just been, uh, un -- discovered. Uh, the, uh, th-the, um, uh, through Intel, which w -- uh, was very early days, and, uh, e-everybody began to think in terms of Stanford, Silicon Valley -- was not named Silicon Valley.

03:03:08 There was no Silicon Valley. Uh, the term came along many years later, but it was orchards. We went out and in our automobile and knocked on a door that seemed to have electronics hooked to is name, uh, or something technical, because we wanted to focus in that area. Uh, and, uh, there was less traffic. Uh, the houses were a lot cheaper.

03:03:36 Life was kind of good in those days. It was -- uh, it was very romantic here, and-and Stanford was the center. They had invited Hewlett-Packard, uh, actually Hewlett to meet Packard to-to start Hewlett-Packard. They-they had the Varian brothers, and they leased their land -- 9,000 acres. So they leased their land in 99- , uh, year leases, and

Draper, Gaither, and Anderson had one of those very first leases on the Stanford property, and backed a good -- a couple of companies that w-w-were Raychem and, uh, and several others, uh, did, uh, did quite well.

03:04:15 But they were really a little early -- a little too early. And, uh-uh, then, uh, Pitch Johnson, uh, whom I had met at a steel company, uh -- Inland Steel in Chicago -- and we had both worked there for five years. I worked there for five, he probably nine, and, uh, I invited him to come out and start, uh, the forerunner of-of, uh, Sutter Hill, which was called Draper and Johnson, and, um, and we had a lot of fun.

03:04:45 And our-our, uh, our first, uh, d-deal -- w-we paid 20, uh, $250,000 for a quarter of the company, and it was doing about $2 million in sales. Today, you ask about, "Well, how's it different today?" At that time you might think, well, uh -- well, in fact, in that case it was about one-half of sales, uh, -- the pricing of our investment.

03:05:17 Well, once in -- once Wall Street discovered what a profitable business we were in, uh, they began to come out here in droves, and the money began to accumulate, and, uh, so there were, instead of half-sales as a valuation of a company, it's now -- can be 10-time sales.

03:05:45 Now this was yesterday, before the crisis, so maybe, uh, you know, recently we're gonna have an -- more of an adjustment -- and the bubble bro -- burst -- uh, in 2000, so valuations, uh, change a lot. There was much more of a -- but the whole concept of venture capital is to have a, uh -- build a company, not a transaction, not a flip.

03:06:11 And, uh, so the National Venture Capitalist, uh, Association was [now] started. I was on an, uh-uh, or on the board with Tom Perkins, and, uh, a couple of other people, and we just had a little group, and we were trying to bring the capital gain tax down, you know, and that was our-our emphasis in-in Washington. But there's always a reason to have an association that pulls us all together.

03:06:37 But now it's, you know, thousands of members, I suppose. And then it was about 10 of us. Uh, we, uh, we had -- we had fun in those days. I think a little of th-the fun has gone out of it. It was more cooperative in those days. Um, we'd get a deal, and-and we'd help put it together, and we'd share it.

03:07:04 We'd try and -- we'd get Kleiner Perkins or, um, Mayfield, and we'd share [unintelligible] at Sutter Hill, I'm thinking, particularly, and we'd share it and start to, um, build a company cooperatively. Uh, today, you know they're -- they've got so much money. Everybody wants to hold on to every -- "Oh, this is the best thing, and I don't wanna share it," you know, so greed has come in much, uh, in a much more aggressive way than-than -- I suppose we're all greedy to a certain degree, but I'm, um, I'm not so, uh, I'm not so confident that, uh, that it's all changed for the better.

Interviewer: What are the key components?

Male Voice: [Keep asking the questions.]

Interviewer: Okay. What are the key components of a successful relationship between a venture capitalist and an entrepreneur? What makes it work?

03:08:03 Bill Draper: Okay. First of all take the venture capitalist. The entrepreneur has to pick the venture capitalist, and he looks for cooperation, connections, but mostly money. I want to make sure he gets the money. But if he's good, and he's got a choice, he's going with the one that seems to have the most professionalism and leadership in building companies and-and a good reputation.

03:08:42 The venture capitalist probably doesn't, um, have as much -- as many data points on the -- on the entrepreneur, as he has on them. So I have always said that what the -- what the venture capitalist should look for first and foremost is high quality, integrity -- high quality in the -- in the people they're dealing with -- integrity -- but then -- and honesty, and all the things that goes with -- um, i-i-in, uh -- but mostly, uh, he's got to have the drive, determination, leadership qualities, intelligence, vision, and ready to go over the w-wall to drive this company forward.

03:09:36 And as, uh, as we all say -- venture capitalists all say it's the entrepreneur that is the hero or heroine, and they are the ones that carry us forward. We take a lot of credit, but the truth is they are sweating this thing -- the highest divorce rate. They work 14 hours a day. They-they really put out.

03:10:00 And that h -- it has, uh, always been, uh -- so the connection between the two -- they both looking for quality. Uh, they-they compromise

that quality only if competition forces them to-to-to get something lesser than perfect. But it's a -- it's a symbiotic relationship that is marvelous.

03:10:26 It's-it's -- if it works and it's successful, you know, they can't compliment the other one too much. And, uh, if it's not, it's kind of sad, because the entre -- the entrepreneur is told he doesn't have it, he's got to -- we've got to make a change. We can't put in more money, uh, because you're-you're just a failure, but you say it in nice, sweet terms in order that he cooperates -- or she -- uh, and-and we change entrepreneurs.

03:10:57 But the-the heart of -- I mean, I've been known, uh, more for my, uh, ability to pick people than for any great vision into the future of what the next best thing is. Uh, so I'm, um, uh, I-I-I do think that's the most important thing -- a really good founder -- entrepreneur -- can change the product or the service that he -- that he designed the company to-to do if he finds that it hits a brick wall.

03:11:36 A weak entrepreneur and a hell of a good idea is not going to be nearly as successful, and, uh, and it's very hard to, uh, to make a successful company without a successful entrepreneur.

Interviewer: Let's talk about . . .

Male Voice: [unintelligible] we've got to wind it down, because we're losing [unintelligible].

Interviewer: Okay, let me as this one last question. Is that okay?

Male Voice: Oh, you bet.

Interviewer: Okay. Let's talk about some of your successes.

Bill Draper: Right.

Interviewer: Give us a few.

03:12:05 Bill Draper: Um, well, I backed Apollo Computer and, uh, and, uh, a company, um, called Hybritech that actually came around. Uh, I-I love that company because, uh, it went -- uh, it came up with the, uh, prostate cancer check that every guy over 40 takes, and, uh, and I ended up, uh, getting prostate cancer, and I wouldn't have discovered it had it not been for the Hybritech, uh, test.

03:12:39 Um, and I-I ba -- the most recent one was Skype, which, uh, I don't know, you may use it. Everybody does, uh, who-who's with it, because it's free phone service, and-and that, uh, was the most successful company in a -- in a -- it was a thousand times my-my investment, and, uh, it was i-incredible luck.

03:13:06 I mean, the whole thing is, kind of, luck. You play -- you play the, uh, the game of-of-of, uh, placing a variety of bets, and then you hope one of them will pay for a lot of dumb moves, and I have made a lot of dumb moves. So, uh, and it's worked. Business is good.

Interviewer: Perfect.

Male Voice: Thank you.

Interviewer: Yep.

Bill Draper: Thank you very much.

Interviewer: Thank you so much.

Male Voice: Okay.

Interviewer: Uh, just so we have it on tape, let me get the correct spelling of your first and last name, and your firm or affiliation.

03:13:38 Pete Bancroft: Okay. My legal name is Paul -- P-A-U-L -- Bancroft -- B-A-N-C-R-O-F-T.

Interviewer: When we put your name onto your face, when you show up on . . .

Pete Bancroft: Yeah, when I'm . . .

Interviewer: Do you like Paul, or do you want Pete?

Pete Bancroft: I -- well, actually, I'd prefer Pete. I've always been . . .

Interviewer: You want Pete?

Pete Bancroft: So it's, you know, Paul, quote Pete, and unquote.

Interviewer: Okay, great.

Pete Bancroft: It's sort of like Ned [Heiser] was . . .

Interviewer: Sure.

Pete Bancroft: in the -- in the early days.

Interviewer: Mm-hmm, and it's B-A-N-C-R-O-F-T.

Pete Bancroft: C-R-O-F-T, right. Mm-hmm.

Interviewer: And firm or affiliation?

03:14:04 Pete Bancroft: Uh, main one was Bessemer Securities Corporation in New York.

Interviewer: Okay.

Pete Bancroft: Before that, out here, in the very early days, it was Draper, Gaither, and Anderson.

Interviewer: Which would you want us to . . .

Pete Bancroft: I think Bessemer -- I was here . . .

Interviewer: Bessemer.

Pete Bancroft: I was here 25 years.

Interviewer: Okay. Let's talk about your career and what you're most proud of over the years you've been a venture capitalist.

Pete Bancroft: Well, I started out in the investment banking business, and I suddenly found that, uh, every year, whatever I did, at the beginning of the next year I had to start all over again, because I wasn't building up any kinds of, uh, credits or anything -- reserves and equity -- that I could use, and when I discovered the venture capital field I said, "Wow! That's the right place to be," because you can be an equity investor in a company, and, uh, if it works, uh, you're building up your equity and your credits, and, uh, I thought that made a whole lot more sense.

Interviewer: What do you think has changed over the years in the industry?

03:15:12 Pete Bancroft: Well, it was a very small industry at the time we started. Uh, I got into it in the, uh, very early 1960s, and there were, uh, very few of us in it. In the East there were the, uh, the Rockefellers and-and the Phippses, and, uh, Jock Whitney, and, of course, AR&D up in Boston. Uh, and in the West there was, uh, Bill Edwards and-and, uh, [John Bryan], and Arthur Rock, and Tommy Davis, uh, and Ed Heller, and-and, uh, very few others.

03:15:48 Uh, so it was a very small-knit community, and we all knew each other well. And I entered the field in 1962 when I came out to, uh, join

Bessemer -- uh, not Bessemer -- Draper, Gaither, and Anderson -- and I spent five wonderful, happy years here. They were not particularly good for the business, but they were intriguing in the sense of starting young companies, and watching them grow, and creating jobs, which always seemed very appealing and very exciting.

Interviewer: Let's talk about what makes it work between a VC and an entrepreneur.

03:16:24 Pete Bancroft: I think the main thing is that in a start-up company you cannot know, uh, a business plan is only a business plan, and-and, uh, it's -- everything is for the future, and nothing-nothing has been proven. I think there has to be -- I think you have to build up trust, as between the VC and the entrepreneur. And I think if you don't have that faith going in, you're not going to bet on it.

03:16:51 Uh, basically, what w-we always tried to do was to look at all-all the com-competition we could find -- uh, the other companies that were trying to do what the entrepreneur was trying to do -- uh, see if he made sense, uh, to us -- see if there was a market -- uh, or if you thought a market might develop -- uh, see if he had any realistic idea of profit margins.

03:17:18 Uh, and then you'd go home and think about it and sleep on it, and the eventual decision, to me, was always made at 4:00 in the morning when I'd wake up and say, "Okay, I'm gonna bet on this guy," or, "No, I'm not," and sometimes we were right, and sometimes we were wrong.

Interviewer: Did you make a wake-up call and tell them at 4:00 in the morning? What is the most difficult part of the job -- just day-to-day? What's the most [unintelligible]?

03:17:47 Pete Bancroft: Oh, the most difficult part of all, once having been invested in the company, is finding out that the, uh, founding chief executive, uh, was really a superb technical person who had invented the product, uh, or had gotten it going. But usually with beginning companies it's-it's, uh, it's a little bit like chamber music.

03:18:15 Uh, the founder is the first violinist, and he may have two or three others that make up a quartet, uh, but as the company grows and develops, you have to add to it and broaden it out, and when you try to broaden it out, uh, you need to create a symphony out of -- out of the quartet. And as often as not, the founder isn't willing to become a conductor.

03:18:42 Uh, he will not give it up, and the most -- the toughest part I always had w-when those things happened was to try to convince him that he ought to give up the reigns of being CEO, go back to the laboratory, and create the next generation of product, and let us bring in a seasoned business person to run it. And most of the time they wouldn't do it, and they'd get mad and leave.

03:19:07 And that always broke my heart, because they would leave their own company, and, as often as not, we would see the company succeed, and hope that they had kept their stock. In a lot of cases they didn't.

Interviewer: What are some of the -- what brings you to the job every day? What excites you about it? What gets you up in the morning?

03:19:33 Pete Bancroft: Fundamentally, instead of just going to work, uh, you look in the mirror and you smile, and you say, "Hey, I think I'm helping to create, uh, a new kind of business, uh, that's going to employ new people, uh, that is going to do well, as well as doing good," uh, and-and it was just very exciting to try and watch these companies grow, and hope they would. And many of them did. Some didn't, but, uh, it was always a high-stakes game, uh, and it was a fascinating game.

Interviewer: What advice would you give to the young VC now, coming out into the space that you have occupied for so long?

03:20:18 Pete Bancroft: [unintelligible], okay. Uh, actually I have not occupied that space for so long. I've -- I started in this in the '60s, and I got out in the '80s. The world has changed a whole lot, and I do want to focus with you, shortly, on the founding of the NVCA, because to me that was very significant. Uh, and-and we'll-we'll come to that. Uh, I guess the best advice I can give is that if they focus on-on the entrepreneur and, uh, and the business plan, and where they think they can go, uh, I think that's terribly important.

03:20:59 I think that what has happened in the industry is that, uh, so many funds have gotten so much money, uh, that the VCs and others are getting fees, and I think this has been a change since the '60s and '70s,

where the fees for putting deals together and-and providing advice has often become more important in recent years than the actual generating of the capital gains, which is what the business was all about.

03:21:29 And in the ear-early days we never had fees, so we all scratched each other's back, uh, in the sense of we would bring to our friends the deals we found. But, uh, the specific answer is I don't think any different than it ever was. Uh, it-it is the fundamentals of, "Is he just reinventing Kleenex, or has he got something new, and, if so, is there a business plan that will make it work?"

Male Voice: Okay, someone needs to get a bag [unintelligible].

03:22:01 Pete Bancroft: I did.

Male Voice: [unintelligible]

Pete Bancroft: I did indeed. The founding of the NVCA -- the reason . . .

Male Voice: Can you start over one more time?

Pete Bancroft: I'm sorry -- I . . .

Male Voice: All settled?

Male Voice: Yep.

Male Voice: Okay.

Pete Bancroft: Uh, the founding of the NVCA -- the reason it's important to me is I feel, in many ways, uh, that it was the most important thing that I was able to contribute to in my life in business, uh, particularly in venture capital, and this was reinforced tonight with Dixon Doll saying that, uh, the plight that, uh, the industry is facing today is really no different than what we were facing in 1973.

03:22:42 And I was sitting with two of our early members at dinner tonight, uh -- with Reid Dennis and Charlie [Lay], and we were both saying, as Yogi Berra used to say, "This is deja vu all over again." And what I mean by that is that in, uh, 1973, when the, uh, NVCA was founded -- and if I could give you just a little background beyond that -- a little earlier than that, in 1969, there were 548 companies that had initial public offerings.

03:23:19 Those companies had net worths of $5 million dollars or less, but [they] were 548 companies that had initial public offerings raising $1.4 billion in 1969. Thereafter, the market went down. The economy stagnated in much the same way as Dixon was talking about today, and five years later, in 1975, there were only four companies that went public of the small, young companies -- four compared to 548 -- back in 19, uh, 69.

03:23:59 And instead of raising $1.4 billion, they raised $16 million. In other words, the market had totally collapsed -- uh, [four] young, innovative companies being able to have the exit strategies that Dixon was talking about tonight. Uh, a-and it was just a disaster, because I was in the

field all through that, and we saw that we no longer had any exit strategies, and we had to find a way to change the scene.

03:24:28 And so in 1973, uh, a couple of us got together in New York City -- a fellow named Charlie Smith, uh, who worked for the Rockefellers, and I -- and we had lunch, and we had a Martini -- even in those days -- only one. We said, "We gotta do something about getting Washington to focus on the fact that we need some help, because taxes are killing us."

03:24:53 And Charlie turned to me and he said, "You know, I don't think that if a representative of the Rockefellers, and of the Phippses, and of Jock Whitney, and from AR&D in Washington -- I mean in Boston -- go down to Washington, I don't think we're get-getting any help. I-I don't think there's any way this'll work. We've got to form an organization that is broadly-based of our whole industry, whatever our industry might be."

03:25:21 And that was really how it began. And a few months later, uh, I got together with Ned Heiser, uh, and Charlie Lay. Uh, Charlie and Ned both think that we wee the only three in the room at the, uh-uh, at the Red Carpet Room at O'Hare. I happen to remember, but we're all getting faulty of memory, that-that, you know, perhaps Dave [Margenthaler], uh, and-and, uh, perhaps Lionel [Finkus] were also with us, but, in any event, a few of us got together and started writing the preamble for the, uh, charter for the National Venture Capital Association.

03:26:00 And we went back to our respective communities, and we put the organization together, got it chartered, uh, hired Stan [Rubel], uh, as a part-time executive director. [He] said, "We've got to have an organization that can represent our industry. Well, in 1973 there were only 37 members of the National Venture Capital Association. Uh, we brought in the people we thought were legitimate venture capitalists.

03:26:29 But there were only 37 of us, and we put out our first, uh, manual or r-r-r -- book of who we were -- in 1974, and began trying to figure out how we could impact tax strategy, because at that point, uh, capital gains taxes were 49 percent, as was income taxes. Everything was 49 percent. The economy was getting into more and more of a turmoil.

03:26:54 We had all the gas problems -- not dissimilar from what we have today. And, uh, as I said earlier, we suddenly saw the exits going from, uh, 500 on companies, down to, uh, four companies, and a $1.4 billion down to $16 million. So we put together a study called, uh, Emerging, Innovative Companies and Endangered Species, and we went to M.I.T. and we got some other research, and we put together, uh, all the information we could find to show that the youngest companies in the country, that were just being formed, were hiring the most people, uh, were exporting more products, and were paying more in taxes than the biggest companies in the country, uh, who were not, basically, hiring people during that period.

03:27:41 And then -- that old study still exists, but we use that study to go down to Washington and start talking about, "Hey, how about the little guys? Uh, we're the ones that are creating jobs, and, uh, you ought to pay

attention to us." And we ran into a wonderful congressman named Bill Steiger, and Steiger was the guy that did the Steiger Amendment, and in 1978 the bill finally got passed to reduce capital gains taxes from 49 percent -- first to 28 percent, then to 20 percent, and now, of course, down to 15 until next year, and then we'll see what happens.

03:28:21 But I believe that as a very small organization, with very few people, uh, we had a huge impact at the beginning of this. Again, there were 37 companies in the venture capital field in 1973. By 1980, two years after Steiger's amendment got passed, there were 95 companies in the venture capital field.

03:28:46 Uh, in 1973 we only had $600 million to invest among all 37 of us. By 1980, it was up to $1.4 billion. Uh, and then, of course, in the next 25 years it just took off, so that by the 25th anniversary there were 570 venture capital companies, uh, in business, uh, investing $95 billion.

03:29:12 But the catalyst, I think, was in those very early years, and-and I think it was the first, uh, few people to get it started that I remember the most. Ned-Ned Heiser was our first president . . .

Male Voice: [unintelligible]

Pete Bancroft: in 1973, and then, uh, Charlie Lay succeeded him for a couple of years, and then I succeeded Charlie, and then Dave Margenthaler came in, and the organization has had a wonderful history since -- of growth -- and I just hated to hear, uh, Dixon tonight saying, "Hey, we're back to same fix.

03:29:46 There are no public offerings." Uh, so we got to start all over again.

Interviewer: That's excellent. We needed all that history recorded. Thank you.

[End of recorded material]