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Charles W. Newhall, III

Alan Frazier

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This collection of interviews, *Venture Capital Greats*, recognizes the contributions of individuals who have followed in the footsteps of early venture capital pioneers such as Andrew Mellon and Laurance Rockefeller, J. H. Whitney and Georges Doriot, and the mid-century associations of Draper, Gaither & Anderson and Davis & Rock — families and firms who financed advanced technologies and built iconic US companies.

Each interviewee was asked to reflect on his formative years, his career path, and the subsequent challenges faced as a venture capitalist. Their stories reveal passion and judgment, risk and rewards, and suggest in a variety of ways what the small venture capital industry has contributed to the American economy. As the venture capital industry prepares for a new market reality in the early years of the 21st century, the National Venture Capital Association reports (2008) that venture capital investments represented 2% of US GDP and was responsible for 10.4 million American jobs and 2.3 trillion in sales. These figures, while significant, greatly understate the collective accomplishments of the venture capital industry.

I'm pleased to have supported this project, which I believe will advance the understanding of the venture capital industry. This collection, along with Paul Bancroft's Bay Area oral history project at the Bancroft Library at the University of California, Berkeley, and Paul Holland's Silicon Valley project for the Western Association of Venture Capitalists, will add significantly to a growing body of venture capital memoirs available to the public sector.

A special note of gratitude goes to each interviewee who generously gave of his time while candidly sharing his memories. Their recollections bring to life the dynamic story of venture capital in the 20th century, providing a powerful perspective on the history of this industry.

Charles W. Newhall III
2009

VENTURE CAPITAL GREATS

A Conversation with Alan Frazier

Alan Frazier is the managing partner of Frazier Healthcare Ventures, a pioneer in healthcare ventures, which he founded in 1991. He is active in evaluating biopharmaceutical and growth equity investments, and he has been integrally involved in growing several successful early-stage life science companies into national prominence, such as: Immunex, Affymax and Affymetrix; he has secured premiere deal flow through early-stage investments, such as: Tularik and CV Therapeutic; and has developed successful growth equity companies such as Trident USA Health Services.

Prior to forming Frazier Healthcare Ventures, Alan was the executive vice president and chief financial officer of Immunex Corporation. Later, he served as the senior financial advisor and chief financial officer of Affymax and worked on the spinout of Affymetrix. Prior to Immunex, Alan was head of the Emerging Business Practice and co-head of the Technology Practice for the Seattle office of Arthur Young Company (now, Ernst & Young). Alan holds a B.A. in Economics from the University of Washington.

Currently, Alan serves on the boards of Alexza Pharmaceuticals, Ascension Orthopedics, Cadence Pharmaceuticals, Calypso Medical Technologies, Portola Pharmaceuticals, and TridentUSA Health Services.

Alan is active in his community, serving on the UW Medicine Board and UW Medicine Strategic Initiatives Committee, both affiliated with the University of Washington School of Medicine. He also serves on the Boards of the Washington Biotechnology and Biomedical Association, the Western Washington University Foundation, and Amara Parenting, an adoption and foster care organization. Alan's continuing drive and passion come from his "love to create" and his "love to build."

The following is an interview with Alan Frazier of Frazier Healthcare Ventures. This interview is taking place at Frazier Healthcare Venture's office at 601 Union Street in Seattle, Washington. Today's date is April 3, 2009. My name is Carole Kolker.

THE EARLY YEARS

Carole Kolker: *Thank you again for giving me this time. As I said, there is an official record in the public domain. I'm interested in hearing about Alan Frazier and who he is. Let's start with the basics: Where were you born? When?*

Alan Frazier: I was born in Seattle, Washington in 1951. My dad was an academic librarian. I'm a third generation Seattleite. That is an unusual thing at this point in time, with Seattle and how it's changed over the years. That's kind of an unusual feature today for somebody in Seattle. So, I was born here. I grew up with my dad in the academic world. We traveled from college to college. That was kind of an unusual feature of my life — going from University of Washington to Drake University in Des Moines; then going up to Michigan State University in East Lansing, Michigan; then back to the University of Washington; and then, finally, my dad ended up at Western Washington University, in Bellingham.

So I feel like I'm kind of like a military brat. I've met people who have been self-professed military brats. That's kind of how I felt, always moving around. What's interesting for the life that I lead now, it is actually fairly helpful, because as a kid going from one school to the next school you're always being thrown into a new situation. As a

kid, very painful. As an adult looking back, perfect training for what I do; I'm always meeting new people as a venture capitalist, and I'm very comfortable with that. So I thank my father for giving me that experience, but it was challenging growing up.

CK: *And your father's name?*

AF: Tom.

CK: *Any siblings?*

AF: I had two brothers. One is a software entrepreneur up in Bellingham and the other one is deceased, but was a general contractor. It's kind of funny, all three of us were entrepreneurs; and my dad was an extreme left-wing liberal, as well as a deeply rooted academic, always being paid by, traditionally, a government job. So he just shook his head sadly and wondered how on earth this occurred.

CK: *How did that happen?*

AF: It's interesting. He was definitely a literary oriented guy, but he had a very strong interest in economics. I don't know about my brothers, because we were eight and twelve years apart; I was the middle child. But my dad talked to me about economics, and he was fascinated by it; and so I remember many, many times talking with my dad about

economics, which led me to my college focus, which was economic history. Undoubtedly he had a hand in what I ultimately ended up doing. He was certainly an independent thinker, and God knows entrepreneurs have to be independent thinkers. I don't know.

CK: *So that's why you were born in Seattle, because he just happened to have his job here at the time.*

AF: As well as he was born in Seattle. My mom was born in the area.

CK: *And your mother's name?*

AF: Kendall. She ran a private school.

CK: *So you were—*

AF: Surrounded by educators.

CK: *What were their expectations for you growing up?*

AF: That's an interesting question. I don't know. Their expectations were clearly I should go off to college. It's interesting you ask that question, because although I got a degree in

econ history, I became an accountant and joined Arthur Young, at the time, one of the Big Eight, and was tracking quite rapidly to partner, had reached the next level down, which is principal.

While I was doing that, I was given this opportunity, which no doubt we'll talk about later, to join Immunex. My parents were absolutely horrified that I would give up the security of a partnership. There was about a three-month period of time when Arthur Young was fighting back to keep me. They offered to send me off to London and do all kinds of interesting things. I would have this dialogue with my parents. Of course, they were Depression-era parents, and they could not imagine what I was doing, what I was giving up.

And of course, in some respects, they were right, because most people in my profession who left accounting to try to find the next Microsoft, which was of course the big star in our community here, joined companies that failed. So many entrepreneurial-backed companies, venture-backed companies do fail. I was obviously quite fortunate to join one that did extremely well. But they were just horrified. So that's a long-winded answer to your question about expectation.

CK: *It sounds like they wanted you to have some security.*

AF: Yes.

CK: *And maybe that's why your father is a librarian and stayed with that, but with this interest in economics at the same time. And of course, as you said, they grew up in the Depression, and that certainly colored their life.*

AF: It certainly did, as maybe our lives all will be colored today by what we've all gone through recently. I wouldn't be surprised that my children, because of this, may grow up a bit more conservative than I. I grew up in what seemed like an endless progression of great economic times.

CK: *They were. And it will be interesting. I hope we're here to see that shift. So the guiding values in your home were?*

AF: Education was number one. My dad was the son of a postman. He had five siblings, and he was the only one to get a college degree, and really the only one that reached some economic well-being of that family. So he was just totally dedicated to the importance of college. And he was a great intellect and valued ideas and valued books. My mom was a little quieter, so she probably valued them as well, but he was much more of a talker. So probably values of intellectual curiosity were a driver from them.

Interestingly enough, again, my dad loved people and loved talking. So I grew up a bit in a shadow of a guy who everybody would meet and say, 'What a great guy.' They would jabber away, and I would kind of sit and listen, and I think that led me to be a little

quieter; I probably take more after my mom in that respect. I could see that he loved to meet anybody, whether it would be walking down a dock and he would strike up a conversation with a longshoreman, or a college professor, or a businessperson; he was very curious. Again, an attribute that helps you as a venture capitalist.

CK: *Do you find various people from academe at your dinner table or gathering at your home, in any way?*

AF: You know, I'm active at the University of Washington, in the economics department, so I go up there and either give talks or listen to talks from time to time, so through that. I would say, mostly though, if you're asking who shows up at the Frazier dinner table, it's more professional and business people.

CK: *I was thinking about growing up, at that dinner table.*

AF: Yes, that dinner table was almost all academics.

CK: *You're the middle child between two boys.*

AF: I am indeed. A classic middle child.

CK: *In what way?*

AF: As well as my wife is a middle child. Amazing. I guess middle child in terms of kind of the steady one, kind of the one who is watching out for family. And my dad did die, so I kind of took over the patriarch status.

CK: *That's a pretty successful middle child, I'd say. Were you competitive?*

AF: Yes.

CK: *In what areas?*

AF: Sports. I was a tennis player. Not anything dramatic, but definitely a very competitive instinct, as I would suspect all the people you've interviewed.

CK: *They've found a way.*

AF: Yeah. We all show it in different ways.

CK: *And your childhood interests — were you a tinkerer, were you a reader?*

AF: Let's see, I was kind of a classic sports guy. I was not a great student; I just kind of did enough to keep my parents off my back. I think I was kind of reacting to my dad being an academic and so into studying. I was not following; I wanted to go my own way, I guess.

CK: *You resisted until it caught up with you. How about in grammar school, those very early years; were there any mentors, any teachers that you say, "I'll never forget?"*

AF: Not really.

CK: *Were you in scouts or did you go to camp?*

AF: No. Nothing that would take me along one route or another. It's interesting, I hadn't quite thought of this, but in terms of taking me in a direction, I remember in middle school — about the time my dad started to talk to me more about economics — his sister collected *Fortune* magazines and would give them to him to give to me.

And I can't exactly remember how that all got started, but if you go back in time to *Fortune*, it was a much, I think, much better magazine back then. It was a stellar magazine. And I remember reading and rereading those. It kind of got me excited about

a world that I'd never seen. My dad made enough money to have us comfortable, but we did not have a lot of money.

I can remember not having a letterman's jacket because it was, Oh, my gosh, it was $100. It was a little painful. I don't know why, but particularly in high school; my friends all were from kind of the higher economic class. I don't remember being bitter about it, but I guess it just started me thinking about economics, reading *Fortune* magazine about the titans of industry, and that kind of got something going in my head.

CK: *And this is from your aunt, which is so interesting.*

AF: Isn't that something? Yeah.

CK: *Somebody was looking out for you, or maybe saw something in you. They didn't hand you a bathing suit and say, "Go swim," but always encouraging you.*

COLLEGE YEARS: UNIVERSITY OF WASHINGTON (1969-1973)

AF: Yes, isn't that interesting. And particularly, growing up with all those academics around me, it clearly would've been the thing. And I've always kind of had a tussle in my life about economics. Well, a tussle between intellectual pursuits and business. So as an example, I went off to the University of Washington and started in the business

department because I was so excited about business. And I got there, and I found the classes intellectually unstimulating, and had taken a couple of higher-level econ classes as part of the business program, and decided, without any stars going off and rockets and things like that, to shift to economics, and left business behind and got a degree in econ history, of all things. Studying. I remember my senior classes were in the economic history of India, of all things. About as impractical as anything, but I did love it, so it must've been a little bit my dad's influence. Of course, then graduated, and it was when Boeing was falling apart. I don't know where you're from, but around here Boeing is a big influence.

And so I was graduating in 1973, and there were no jobs. That's when Boeing was cutting way back. They said that, The last person leaving Seattle turn the lights out. Kind of a funny sort of phrase. So, I was untrained. I didn't really push myself, so I didn't have great grades to go off to graduate school or something like that.

CK: *When did you first earn money?*

AF: I worked construction in high school for the summers. So that was an interesting experience. Certainly worked hard for three summers. So that was a great, great way to make money — and all of a sudden being thrust into a different set of adults than I was used to. People expected you to act like an adult, so it was kind of a wrenching of a child from playing baseball and tennis to all of a sudden "act like a man." And listen to

Harvey, what was his name? It was the guy who just died from the radio? Paul Harvey, yes. So we'd sit around with our lunch buckets and listened to Paul Harvey. It was a very different world than what I was used to, but it was great.

CK: *It's certainly good exposure. Maybe helped you decide what you might not want to do?*

AF: Yeah. Then I put myself through college working as a grocery checker in a Lucky store that was in, at least in Seattle here, a very poor part of town. So it was fascinating. Great job, but fascinating; another view of a different socio-economic environment.

CK: *Were there any mentors at University of Washington while you were there?*

AF: I had a couple of really fascinating econ professors, but I think they kind of took me down into the academic ways. But nobody that I can remember. The first mentor I really had was my uncle. When I got out of college, there was no work, and my uncle ran a very large bus company in Oregon, Idaho and Utah; that was in Bend, Oregon.

His wife, who was my dad's sister, convinced him to offer me a job, because I had no job. So I went to work in Bend, Oregon, which is a relatively small town. I guess I was excited to get a job, because around here it was economic desolate times.

PACIFIC TRAILWAYS – CONTROLLER (1973-1975)

CK: *This is 1973.*

AF: 1973, yeah. I went off to work for him, and he gave me a job as an office manager, which I had no idea what it was; but I do remember it paid $1,000 a month, which at the time seemed great, which actually was a step down from union wages that I was making at the grocery store. But I was happy to give that up and become a "professional." Doing what, I had absolutely no idea.

CK: *So when you finished college, did you have a plan or a fantasy as to where you wanted to go?*

AF: I thought I would probably get a job at a bank or some big company, although my fantasy always was to be kind of an entrepreneur. I didn't tell the story, but when I was in college, I and a friend of mine bought a lousy piece of rental property — it was a duplex — with my savings from my grocery checker job. He and I bought this for hardly any money and fixed it up and made actually a fair amount of money.

I loved that. It was my first taste of entrepreneurship. That was a lot of fun. I wasn't exactly sure where I was going to go, real estate being kind of in the toilet there at the time I graduated from college. So that wasn't much of an opportunity. So I guess I assumed I would get to work in a big company and be trained.

CK: *Go into a training program where you have to work your way up?*

AF: Yeah. But there was zero opportunity.

CK: *You were working and going to school. Were you involved in anything else? Were you in a fraternity?*

AF: No. Not a very colorful college experience, when you put yourself through school working 24 to 30 hours a week

CK: *You had this sideline here that you were kind of thinking your way, the possibilities. Now you're out of college, 1973, so I want to talk about the path that has led you to Frazier Healthcare, and this magnificent view here. I'm sure it hasn't been just smooth and straight up.*

AF: No.

CK: *In envisioning a professional career, you just said that you were going to be trained in some larger company and work your way up. What I see is you started at Pacific Trailways.*

AF: Right, so I was office manager, which was basically — bus companies have legions and legions of clerks that process pieces of paper. It was a very boring kind of job, but I was to supervise about ten ladies; they were all ladies just working away with their pieces of paper. It was very dull. I think I was there for about a month, maybe two months, and my cousin, who was the vice president/controller — I can remember this so clearly — came in and said, "Why don't you come in and chat with me for a little bit? There are some changes going on." Which I thought, Oh my God, I've lost my job or something. He was a very bright guy, Chicago MBA, very successful, and came back to work in his dad's company. He said, "Well, I've convinced my dad to buy a wholesale travel agency, and I'm getting involved and run it, and so you will be controller." I was dumbfounded, because I had a degree in econ history. I had only one class in accounting. I didn't know a debit from a credit. This could only happen in a family company.

Back then it was a $5 - $6 million a year operation, which in 1973 it was a big company. A couple hundred employees all in. So, I was thrust into that role, and he left. The company he was going off to was located in Portland, and so I had kind of a crotchety old president that had had the job earlier in his life. So between he and the CPA firm, they basically taught me how to be an accountant.

CK: *I'm thinking of you having majored in econ history, which is not a ticket to anywhere but academia — and you said you didn't take accounting—*

AF: One class. Because I started in business, then I shifted over to economics. It was very theoretical. I can remember, Carole, to this day, when I did my first monthly close, and the assets equaled the liabilities, I was dumbfounded, absolutely dumbfounded. Wow — I can remember sitting; I've got this vision; it's about 7 o'clock at night, and My God, it balances. I wonder how that happened! It was very funny. So I did that for two years, and actually found that I really liked this, and, of course, I had had absolutely no exposure to it, and found that I was actually quite good at it.

The CPA had been trained, as many were, in the Big Eight, and so we were talking, and he said, "You should kind of think about going off and becoming a CPA and go work for a national accounting firm." Of course, I had never heard of a national accounting firm; I didn't know what they were. So he was a mentor, as well as my uncle, who was the owner of that business.

His name was Bill Niskannen. He was a real individual. He built this company from nowhere. He had talked with me about business, and he was quite annoyed that I decided to leave. I guess he had hoped that I would take on running that company eventually. But I really wanted to get back to Seattle. It was all my friends. Bend was not a young person's town. So I was probably as much driven to leave Bend, Oregon as to run off to do accounting. So this accountant, Bill Trimble, said, "You should think about that." So I decided I would go—This is a long story, am I talking too much detail?

FRAZIER & CO – CPA (1978-1979)

CK: *No, this is wonderful. I'm just thinking, you're in your early twenties; you're twenty-three, twenty-four-years-old?*

AF: Yeah. So then I went back home to Bellingham, lived with my parents and got into a summer program at Western Washington. I took three accounting classes, which was a big load, and I studied like crazy, which I'd never done before, and I got all As, and it was like, Wow, I kind of understand this. And I worked part-time for a CPA firm. I can't imagine why they gave me a job. I assumed that I would be able to sign up for fall quarter — not planning very well ahead — and I was informed that all the normal kids had already signed up before they left in spring for their fall classes, and all accounting classes were now taken. I had really no money, so, My goodness, what am I going to do?

The CPA that I worked for knew the woman that ran the accounting program at Seattle U., Virginia Parks, and called her and said, "I have a great—" I don't know what he said, I presume, "I have a good, young fellow who's very interested in accounting." And so I hopped in my car, went down and saw her, and she said "Great. Let's get you into the accounting program."

She was starting a master's program in accounting, so that's what I was going to do. She was magnificent. They were, like Western Washington, full in their regular intermediate accounting classes, kind of the heart of learning accounting, so I took three other classes,

and she taught me all by herself, intermediate accounting. It was an amazing experience. She was brilliant.

I would meet with her twice a week, and she would assign me a chapter, and I would go off and try to understand as best I could. This is bringing back a lot of memories, Carole. So I come back and I stand up, and there's a chalkboard, and she says, "What are capitalized leases?" And I would tell her. And she's say, "Okay. Well, book an entry. What would this be like?" And then I would try to get my way through it. She would talk to me about it. And we'd do this twice a week. She was just magnificent. Why she would spend her time with me, I have no idea.

CK: *She saw something in you. Her name again?*

AF: Virginia Parks. A wonderful woman.

ARTHUR YOUNG COMPANY (now Ernst & Young) (1975-1978)

CK: *Do you keep in touch with her?*

AF: Not really, sadly. So the same accountant up in Bellingham that I worked part-time for knew one of the partners at Arthur Young; he suggested I could eventually go to work

there. And I assumed that I would stay at Seattle University and get my master's degree in accounting, and then I would go apply for a job at a Big Eight firm, like Arthur Young.

These two guys talked. I can't remember exactly how it all happened, but they said, "Well, Alan should just come in and meet me, because he's had practical experience in being a controller." Of course, not very well trained, but at least as a controller. So I went in, and they said, "Well, you don't really have to finish accounting. As long as you think that you could pass the CPA exam." Oh my God, I only had two courses. Why they would think that, I don't know; they must've been desperate for people or something. So they convinced me to leave Seattle U behind and go work for Arthur Young. Why would I continue to go to school if I already had this great job? So, I decided I would go to work for Arthur Young. Of course, I had to study and pass the CPA exam.

The CPA exam was—I don't know whether it's still murderous. Back then I think only ten percent of the people passed the first time. Son of a gun, I must be a good test-taker, because I passed it. I think I was the only person I can ever recollect at Arthur Young that didn't have an accounting degree — that they would hire an econ historian.

CK: *I hope that Virginia knew that you had finished your CPA.*

AF: Yeah, we stayed in touch. I sent her a variety of thank yous. I was there. I was a young auditor, and plowed my way through that, so that was good. And then about two years in, the tax department said, "Gee, we need people over on this side." And I can't tell you to this day why I decided to leave auditing and go to the tax department, but I think it felt a little more intellectual. Tax work at a Big Eight firm is partly doing tax returns, but a fair amount of it involves almost legal work, so you are trying to understand what the tax code would say for this or that. So that was kind of interesting. I switched over to the tax department; I was there one more year in the tax department. I had a variety of clients, one in particular who didn't like paying Big Eight fees and had a lot of work, and he got another friend of his who had a lot of work, and they both came to me and said, "Why don't you leave, and you do our accounting work?" And at the same time, my brother, who was the general contractor, was saying, "Why don't you come help me a little bit, work with me as kind of a partner?"

FRAZIER & CO – CPA (1977-1979)

Again, my parents were just absolutely dumbstruck that I would do this. So I left and created both a CPA firm, and I went and took my profits from that real estate investment I had told you and plugged it in my brother's real estate business. Kind of a wacky thing to do. I spent two years doing that, and that led to both success and great defeat. It was during one of those periods of the up and down, and my brother's construction company did very poorly and ate up all the profits that I had made, and so I had lost everything there. But my CPA firm business actually did reasonably well.

BACK WITH ARTHUR YOUNG (1979-1982)

And so there I am, two years into it, doing okay, and had my little business going, making more money than I'd ever made, and a principal from Arthur Young called and said, "Would I go out for a drink with him?" Of course. So, we sat down, and he said, "You know, Arthur Young, down in the Bay Area, has done an amazing job of backing technology companies." That was during when Intel and Apple and all of that—You probably don't track this stuff, but Arthur Young had like 80 percent market share down there. Just amazing. So he said, "And so the firm in Seattle has been instructed to think about this strategy." For some reason, they thought I would be somebody who could maybe come back to the firm and be involved in this. I think, because they never really had anybody leave the firm and do wacky things like I did, so they thought, Well, he's kind of entrepreneurial. He was crazy to leave the firm. So in any event, it took a long time to think that through, but I agreed to go back to the firm; and they bought out my practice, and I took over what was then called the Emerging Business Department. It was basically the high-tech or venture capital-backed group, and that was a huge experience. The managing partner, who was the guy that was the brain behind thinking about this, was a guy named Doug Rogers. Deb told me she sent you that article in the book, [*Mentoring Moments* (2009) by Susan Canfield] so you probably heard about him.

CK: *And this is 1979.*

AF: Yeah, '79. So, again, why they would take a chance on me is a mystery to me. That was at a time when the accounting field basically was starting to go through a change to actually going out and thinking strategically and trying to get clients in more of a marketing way. It didn't go down well with quite a few of the partners there; they thought that was—Back then you were called and said, Would you come bid on this? It was slightly uncomfortable for me to be a change agent.

We didn't advertise, but obviously we went out and gave speeches, networking. These guys had never networked in their life. So we were breaking new ground. I spent a fair amount of time down in the Bay Area talking to the people who had done it so well down there. That was interesting.

We got tied in with Cable House, which was really the only venture capital firm up here — started to do work with their companies. Immunex was one of our clients; ZymoGenetics, which is another big biotech company here, we helped with. Costco was something I had found through my networking. So it was quite a success for the firm. Some of these companies, like Immunex started to go public, and ZymoGenetics was thinking about going public, and Costco of course was a very exciting thing. So it was very successful, in part because, not through any of my doing, but all of a sudden venture capital and technology started to explode up here, so that was very interesting.

CK: *What were you thinking about yourself in relationship to this work? Because you always seem to be thinking, maybe it's the "Peter Principle" and you're going to get there and you're not going to be qualified. You think you don't have the qualifications to do what you're doing.*

AF: Yeah. That's interesting you point that out, because I had gotten rapid promotions, and people were very happy with me. I could see that the track was to become a partner. And of course, my parents thought this was all wonderful, and, of course, I was making more money than I'd ever made — just got married. Wow, this is really cool. However, I could see that the other partners weren't kind of out there, entrepreneurial like me. So it was a little bit of, Would I fit? Was that a type of job, long-term, that I would want? And, of course, at the time I was seeing all these crazy entrepreneurs, like the guy at Costco, my God, building things that kind of brought back to mind those early *Fortune* magazine articles or something. And of course, I dealt with a lot of venture capitalists, so that was pretty exciting. And then my competitor, Deloitte, where it was the other big firm in town that was doing a lot of technology and stuff — a guy named Mike Brown was my competitor, and we had a very funny relationship.

CK: *In what way?*

AF: Oh, I don't know, we would laugh at each other. I mean, we would win— Everything came down to: Do you go with Deloitte or do you go with Arthur Young? We were both

very competitive. But you win some, you lose some. We gave a lot of speeches together. And so he had the Microsoft account. They wanted a CFO, and so he directed them to me. He called me up and said, "I really would like to put you out of business, so I'm going to set you up with this great job." So, I got the call and went over and talked to Microsoft, and I didn't take the job, obviously. You read my background. It was pretty intriguing, but it was—Let's see, when would that have been? That would've been probably 1981, and I had just gotten married; and Microsoft was a "grind 'em up, spit 'em out" kind of—Already stories were about people worked 80, 100 hours and got divorced. It was intriguing, but I said no, because I was, I guess, thirty at the time, and I had just gotten married, and I didn't want to ruin everything.

So in large part, I said no to that life style. But it certainly made me think about a world outside of Arthur Young. And then, I think about six months later, the guys at Immunex called up to say— How did that go? They decided they were going to go public, and they of course had no accounting group at all. It was like twenty-five people. When Genentech had gone public, there was a lot of excitement about biotech. This was I guess '82. And so they said, Well, why don't you just join us and create an accounting and finance department? It took a while because, as you have read in the mentoring book, I loved this Doug Rogers; he was just this incredible guy.

CK: *Talk a little about Doug Rogers.*

AF: Well, he was a very unusual fellow. He had come up on the consulting side, and was definitely an extrovert and big thinker, loved to get new business. He had a CPA, but about as far away from a traditional audit partner or even managing partner. Very unusual guy, but a lovely guy. My wife also was an "Arthur Younger," and he loved us. A very great relationship. And he always was telling me I could do things I didn't think I could do. Of course, you've got to love somebody who thinks highly of you, encourages you. Just a great guy, and of course he was the guy that brought me back to the firm, sponsored me and all that. So he was just a great guy, and the idea that I would leave him high and dry — it was hard, it was very hard, and he didn't make it any easier.

He didn't use guilt; and matter of fact, he encouraged me in the end. But that was a great job and I was okay, but oh my gosh, they pulled out all the stops. I think I mentioned earlier that they said, We'll send you to London and you can have a posting abroad, have that experience. That one we almost did, because my wife grew up in Seattle and had never left Seattle, and we were thinking that'd be quite an adventure. So that was pretty close. I think at that point in time, I didn't really want to stay doing what I was doing.

IMMUNEX: CFO; Executive VP (1982-1990)

CK: *I was thinking about you meeting these different venture capitalists and about the real personality differences.*

AF: Well, what got me excited was finance. The accounting side wasn't very interesting, but I loved the idea I was interfacing with investment bankers and venture capitalists, and the idea of kind of financing companies, that side. I started to think more about capital markets and finance and things like that, so that was intriguing to me. But going to London, holy moly, that was interesting. But in the end, Immunex was seductive as well, and we decided to do that.

CK: *You remarked in your questionnaire that you were lucky to be introduced to the world of economies.*

AF: Yeah. I guess doing audits is kind of a boring sort of thing, so I was introduced, I guess through venture capital or investment banking, into the world of, Wow, you create things by capital markets. And that was appealing to me from an intellectual perspective, because my economic history also was a lot about — I had several classes about Europe, and we followed the innovation of banking, for one, and the other one was the innovation of railroads and how that turned Europe, in particular I think England I was studying, into a real powerhouse. I can't exactly remember what I wrote there, but the notion of new industries arising and making a difference—And of course, we also studied the railroad industry in the United States — how important that was, and how finance was critical to making it happen.

So I guess I kind of also got stirred up a little bit thinking about biotechnology. I had been introduced to Immunex and ZymoGenetics here, and thinking about, Wow, biotechnology, that could be a new industry and changing the whole face of the stodgy pharmaceutical industry. Would that be like the railroads I'd studied in economics? And then you mix up that with capital markets — which I also studied the banking back then, that would allow all these innovations back in the 1700s, 1800s. So I think that's what I referred to—

CK: *You said that you were lucky, and it brings to mind what Chuck Newhall says when he talks of venture capital as a romantic quest.*

AF: Wow, yeah, I would agree with that. When you think back, this was in the late '70s and early '80s; the creation of NASDAQ, from the pink sheets to a real system. It was a romantic quest of taking innovation in these little companies and creating big companies. Kind of the romantic notion of the little guy taking on the big guy was of course fascinating. Microsoft taking on IBM. Genentech taking on Merck, Pfizer, yeah, very exciting.

CK: *What were your values that were guiding you at this time? Would it be hard to identify them; were things moving too fast? Is this too reflective?*

AF: Things were moving pretty fast there.

CK: *What were you learning about yourself?*

AF: Well, that I was a much more capable young man than I would've thought, I guess. I'm sure most of the people you interview for this project come to their own conclusions early in life that when they were thrust into situations that they find, somewhat surprisingly, that they can handle it: "Wow, I can do this." This self-confidence from being able to perform is a common trait of successful people. I don't think I was naturally an incredibly confident person, but being thrust into these situations and doing well built my confidence. So I guess I found myself probably reflecting, although we were moving quickly, so I'm not sure how much time for self-reflection there was. But in hindsight, being able to go in and do new things. For instance, the idea that somebody would hire me to become Chief Financial Officer of Immunex, going public, interfacing with capital markets; I had no experience. Everything I did was a new experience. The fact they're creating financial statements, that was 10 percent of my job, and of course I could do that. But all of this other stuff: human resources, starting up IT, raising money, going public, investor relations, insurance. My God, the closest I had come to insurance was getting my car insurance. Now I was having to get insurance for a big company that might kill people with their drugs. I mean, everything was new. Why anybody would hire somebody like me to do that? But in any event, they obviously did so.

CK: *Before you were a CPA, and now all of a sudden you're a businessperson. How is that a different mindset, a different way of thinking?*

AF: It was lovely. It just kind of freed the shackles of being an accountant and now being a businessperson. Although, because I was given that opportunity by Doug to create a whole new group, that really was being a businessperson. But in any event, it was still within the shackles of being an accountant. So then moving to Immunex and thinking as a businessperson, taking twenty-five guys that basically had come down from Fred Hutchinson — it was an academic group, the Fred Hutchinson Cancer Center, that came down to create Immunex. So it was just exciting. I loved that idea. Of course, I didn't know what I was doing, but I loved the idea of creating a business.

CK: *What had that relationship with Doug taught you? You said he was very supportive and encouraging.*

AF: It was a fairly simple thing that he taught me: That you were not just an accountant; that you had some ability to go out and meet people and convince them and inspire them that you could do their work; and that you knew more than they did in an area of either having their company audited, or introducing them to venture capital, or helping them with business plans. So, he instilled in me self-confidence that I clearly didn't have. If there's one thing he taught me, it was, You can do this. I don't think, as I said before, I was a particularly self-confident guy, and he said, "Oh no, you can do this." And then you can

tell, through going through Immunex and becoming a venture capitalist, that it took a fair degree of self-confidence to do all those crazy things.

CK: *So you move on to CFO at Immunex in 1982, and you're there for eight years.*

AF: Yeah, a lot longer than I thought.

CK: *And what was driving you during this time? What was exciting you about what you were doing? Or maybe you want to use an example.*

AF: Well, it was a whole variety of things. It was that biotechnology was off to the races. Of course, we went through various steps along the way, almost going out of business as an industry, and certainly as Immunex. So, it was part of the excitement of biotech, it was part the excitement of — Immunex was a pretty good success. Clearly, it turned out to be an amazing success. But in Seattle, that was pretty cool, right? I was feeling an important successful guy, so that was kind of interesting.

I really enjoyed, particularly one of the founders, Steve Gillis, who is about my age; he was one of two scientific co-founders. He was just a great guy, and he also thought we could conquer the world and do all this, and I loved working with him. And I spent a lot of time on the road with him, doing deals, raising money; and he was a good, close friend. It was a friendship sort of thing. Ultimately, there were three of us. There was

the CEO, he was older. Steve Duzan was the CEO. Chris [Christopher Henney] left to create Icos, so he was there, probably four years of my eight years, something like that, and he was a very great guy.

But probably the last four years, where Chris wasn't there, was when Immunex really started to grow and become more complicated. Those last four years, there were three of us who were executive vice presidents: Steve, Michael Kranda, who was bringing manufacturing up and ultimately would take on sales and marketing, and myself. So we were kind of the three amigos, and we really bonded, and it was a lot of fun. It wasn't all very easy, obviously, but we bonded as friends and business acquaintances to really build this thing.

CK: *Do you have an Immunex story when you think of your time there, or something that you were doing that was really a challenge or a struggle.*

AF: It was all struggle. Of course, you look now; it got bought out for $14 billion; created Enbrel, which is I think now selling $3 billion or something. You look back and, Wow. But day-to-day, it was filled with products that didn't work, and products that came in number two, and financial markets that were just unbelievably challenging. And it was obviously a company that was in R&D mode for a long period of time, so it was always having to raise money, which was both the excitement, and really, ultimately, the exhaustion of Alan Frazier; every year we had to do a new deal or raise a new financing.

CK: *How were you going about that?*

AF: I would spend a lot of time with investment bankers, hearing ideas and then coming back to the board, coming back to the CEO, coming back to the three amigos to kick these things around. We did lots of things. We were the first one to use convertible debt as a biotech company. The idea of a biotech company that is in a heavy loss situation and is doing convertible debt is kind of a wacky idea.

We followed Genentech's model of creating kind of an off-balance sheet product partnership that would raise money to fund new products that we couldn't afford and we didn't want to do a strategic alliance with yet. So, both Genentech and Amgen used that vehicle. I found my way to suggest that we use that.

Mostly the process was talking to a lot of people, really listening and probing about what vehicles were open to us. That was a lot of fun. I built an accounting and finance department that basically took care of the day-to-day. That was my job, to go out and find money, as well as to work in partnership with Steve Gillis doing deals that would support R & D financial needs. That was fun.

Along the way, we ultimately became a fully integrated pharmaceutical company, which, that was a big deal, because in the early days of biotechnology you would mostly do licensing deals, because we couldn't afford to commercialize products. So you would take your precious product, license it to somebody, they would pay your R&D, and you would just get royalty income.

That was interesting, but royalty income would not create what the investors really wanted. And really, with the CEO's encouragement and leadership we had a huge cathartic conclusion that we couldn't go down that route. We had to own our own products. So we bought licenses back and took some of Steve Gilles's new ideas; and with some wacky financing along the way, we kind of left that old model behind and went out to create this new business model for Immunex where we would sell the product. It was very capital-intensive; however, instead of somebody else paying the cost of development, we had to find that money ourselves. We did a public offering of a product partnership and another equity offering to raise the money. The Street didn't like the change in direction, so it was very tough going, but we did it. Obviously if we hadn't gone that direction, Immunex wouldn't have had the product sales that later drove its $14 billion sale to Amgen.

CK: *Why does it take so long to get a product to market? R&D seems to take an enormous amount of time.*

AF: Well, in part, we were blazing trails using biologics that people had never used before. First, discovering it was basic human biology and physiology of how the body creates its own medicines, if you will. That's really the idea behind biotech: A little response, a human immune response that we're engineered to have; you would find that little protein and you would scale it up and give it to a human in a more massive way.

The FDA, very appropriately, wants you to be very careful about what you're doing, so they insist on a lot of trials. Because, maybe if you were humanly engineered to react to a cancerous element in your body, well, if you massively trigger immune response to take care of that, what's it going to do in your brain, or in your eyes? It can't be just delivered right to that. So it required a lot of testing, and of course a lot of failure. Right? It wasn't obvious. There's a chain of immune response with many, many proteins involved, and which one do you take? There's a gazillion ILs, interleukins. Did you do IL-4, did you do IL-6, did you do IL-2? We started with IL-2, and it proved to be too early in the cascade of immune response. So, which one did you pick? That's why it takes a long time; it took a lot of scientific discovery before we even got to the human trials.

CK: *How interested have you gotten in the scientific aspect of your work?*

AF: You know, I've gotten very interested. It's funny you should mention that. When I agreed to go on as CFO at Immunex, I said, I never took biology, never took biology. I took one chemistry class that I did terribly in, and I said, You know, if I'm going to do this, I have to really understand the science, at least at an elemental level. And so I said, "Okay, here's the deal: I will be CFO, but you have to assign a scientist to teach me a course, an internal course. I'll study, read textbooks to try and understand more about biotechnology." And they said, Great idea, excellent idea. So I start, and the week that I start investment bankers start showing up for the IPO. There was no time then, and I

never did that course. I was always working too hard on building the company, so I never did that series of courses I was promised. Which was sad, you know.

CK: *And then after eight years — I noticed that by the time Leukine and Enbrel had gotten their FDA approval, you had moved on?*

AF: I had moved on. I stayed for the GM-CSF [Leukine], which to me, I wanted to stay until we got our first product approved and launched. So I stayed until that. GM-CSF was an interesting product. It was an early product. Ultimately, it became $200-$300 million in revenue, but it started off very slow. But it was our first product, so that was great. Enbrel was just getting going in human development when I left, but it obviously turned out to be a great product. I am proud of that.

CK: *Was it a stressful time?*

AF: Oh yeah.

CK: *How do you handle stress?*

AF: I internalize it, which isn't necessarily good. I probably took care of stress by the fact that we had four kids; so when I would come home it was kind of like chaos, so I

couldn't even think about work or the stress. It was just jump in and help Mary. And of course I was traveling a lot, so when I would come home it was kind of, What can I do? And would jump in to help.

CK: *Why did you leave?*

AF: One, I was very burned out. It was hard; every year a new financing. It was stressful, and I think I was ready for a change — eight years doing the same thing. I probably could've made more money just by staying on and staying with Immunex. But I made some amount of money and could afford to do something different. So I think I was just ready for a change and I was burned out.

So when I left, I thought that I was going to work part-time and play golf. I was so burned out. I told my wife, "We have enough money that you don't have to worry, but I'm going to work part-time—" NEA and Mayfield, who had been our backers at Immunex, they were encouraging me to sit on boards for them and help their companies. So I thought that that's what I'd do. A friend of mine had an office. So I was just going to take my corporate finance background and help some of their young, emerging health care companies.

CK: *You're only in your forties?*

AF: Let's see, probably thirty-nine, something like that. I cashed in some chips from Immunex. I had left without an idea of really being a venture capitalist. So I went on boards for those guys, rubbing elbows with venture capitalists. Also, I worked in the early days with Alex Zaffaroni, who is an amazing fellow in the world of biotechnology; he was the guy who created Alza; I don't know if you're familiar with that, but it was a big success. He wanted me to come help him; he was creating a new company that was going to kind of take medicinal chemistry and kind of go off in kind of a new direction via advances in combinatorial chemistry. It was a company called Affymax. So I helped him take that and get it built along with many other people, and ultimately take it public. So I was a senior financial advisor to him. So I'd had kind of about a year where I was sitting on boards for venture capitalists and helping Alex take his company public, Affymax.

CK: *As an independent consultant in some way?*

AF: Mm-hm. I mean, I did it under Frazier and Company, was what I called it back then, and I had a young guy that came in and helped me. So I was kind of getting that started. And then it was clear to me that I needed more people, and I needed to kind of institutionalize myself; so I decided I would work full-time and build out Frazier and Company.

FOUNDED FRAZIER HEALTHCARE VENTURES: 1991

CK: *I was wondering how many rounds of golf you had gotten in.*

AF: Yeah, not very much. I left Immunex in January, and I believe it was August of that same year, '91, that I formalized Frazier and Company, and that's when I really started to work full-time. I said to one of the investors in Affymax, "You know, I think I really want to get this started, raise a little money, become kind of a quasi-venture capitalist." He was part of the Pritzker family group, and he said, "I'll make you a deal." I remember this very clearly. "If you help Affymax get public" — which we did with great success — "I will then help you raise money for your little investment company. Maybe I'll raise about $5 million." So that was the deal we struck, and he was true to his word. Wonderful guy, Jerry Cohn. It was important to have his support, because I had never invested in my life. I had been a financial executive; I didn't know I could make a good investment or a bad investment. He had faith I could.

CK: *Here you go again.*

AF: Yeah, so here I go again. Jerry Cohn was his name, he was a marvelous man. He still is alive. And so he brought capital, and I brought in money from various people like Dick Kramlich and Glen Mueller, who were venture capitalists, who had backed us at Immunex, invested. A guy named Ken Langone, who's in the mentoring book, who

would be worth a whole other set of discussions, if you're interested; he invested. And of course my wife and I invested. So we did a little $5 million fund. It was an interesting time to start, because at that point in time, as you chronicle the history of venture capital, that was a time of a big change. So, instead of general venture capital firms, we start now to see specialty venture capital firms. Jim Blair, are you interviewing Jim?

CK: *Yes.*

AF: Jim was out ahead of us by maybe about a year or two with Domain. There was, him, Health Care Ventures, and I guess maybe five other venture firms that decided they were going to specialize in life sciences. So I was part of that chapter in the history of venture capital of being a specialist firm. The limited partners didn't like that idea, frankly. They liked the diversification that NEA or Mayfield would have of investing broadly.

So it was a tough one to do, but ultimately we were successful and raised one fund after another. My success, frankly, was mostly due to two things: One, as a CFO I had raised all this capital, and I was a corporate finance expert at a time when biotech and medical device were becoming very capital-intensive models, which is another discussion we'd probably have to have; in part, because the FDA was requiring more trials, a whole variety of things, and the business model that I described to you at Immunex of taking on more of your own product and not having it supported by all these strategic alliances, that required a lot more capital.

So I had an expertise that the industry needed; and I had these great relationships with NEA and Mayfield. So they pulled me into their deals, which was very generous of them, but that was my kind of quid pro quo — CV Therapeutics, which just got sold; Tularik, a big biotech company; a variety of companies that they pulled me into very generously, so that was great. Everybody needs an angle, so that was my angle; I knew people. Being in Seattle was not—

CK: *I want to hear about being in Seattle. Why did you stay here?*

AF: Yeah. I certainly had the opportunity to join venture capital firms down in the Bay Area, if that's what I really wanted to do. My wife's family is here, my family is here, I love Seattle. Over all the years — nineteen years — I think we've only invested five percent of our money here in Seattle. So it was not a great place to be. But it's where I wanted to live. So, unfortunately I also live on a plane to do this. I don't think I'd do it any other way. All of our friends were here, and my wife's family is here, and my family. And I have a lot of allegiance to Seattle. But just about five years ago we started a Menlo Park, Palo Alto office, and that was very important in our development — that we would have an office there. But we're like NEA; we're a national firm. We invest in New Jersey, Pennsylvania, all over the place, mostly in California, that's the biggest.

CK: *You mentioned Glen Mueller and Dick Kramlich and this network. This is another theme that Chuck's talked about to me. I'm sure it comes from his military experience: a sense of a band of brothers. Is that how you'd see this?*

AF: Yes. I was kind of the second generation. Clearly, Dick and Chuck, they were pioneers, people I hold in high regard. Glen, another pioneer, was one of the founders of Mayfield, a marvelous firm. He's passed away. Those guys were clearly way out ahead of me. Jim Blair was way ahead of me. I was very lucky to be on their coattails.

I would say because we came along, we were one of the pioneers in health care ventures, so kind of a band of brothers, I guess, if you will, of all the people who've created life science companies, and that's fun. It's one of the things I will be very proud of whenever I have to hang up my gear, that I would be part of the beginnings of what turned out to be, I guess, a second chapter of venture capital specialization.

It's been obviously a little tough. In the early days, things went extremely well. But beginning in 2000, it has been much harder. Everybody went to the Internet in '99, 2000, and abandoned health care. Firms like NEA cut way, way back. Kleiner Perkins cut way, way back. Mayfield got out. IVP got out. So that was a tough time. We felt abandoned, but we also felt a little emboldened that we were, with Jim Blair and others — Versant that got started, those were the people that left IVP — and a few other firms that created — Sam Colella, I don't know if you're interviewing him or not, but he was one of the founders of Versant.

So we kind of were the ones who carried on the torch. It was scary because syndicates were changing like mad. We couldn't depend on Kleiner Perkins and NEA and others like that. So that was frightening. But that was kind of another chapter in health care venture. It was hard. I mean, we who were left, we tried new things, we tried health care IT, which was a disaster; we lost a lot of money.

We tried services, which ultimately didn't do very well as a venture model. It proved to be another model, which we need to speak of, which would be growth equity, which Chuck's firm really did well and continues to do well. We, at that time, began to shift our model a little bit towards growth equity, as we failed in other places.

So we started to grow growth equity. Now it's over 50 percent of our business. And we were a little ahead. Clearly, NEA was ahead of us, but at least we adopted that model, and other venture capitalists didn't. Now they're starting to, but we certainly got something right there that's proven to be a very successful model over the last ten years or so we've done it. And now when we're having a very difficult time in the capital markets for biotech and medical devices, growth equity has proven to be a very solid part of the platform. So we're very fortunate to be out ahead in that.

CK: *Where was Frazier Healthcare positioned in terms of the bubble?*

AF: We weren't positioned particularly well because biotech got left behind, and really a lot of the limited partner money went to those types of firms. We tried to do our own little thing with health care IT and genomics and things like that. That did not work very well.

CK: *What was your mission when you started Frazier Healthcare?*

AF: I think we wanted to follow the Domains of the world, those early world-class pioneers in biotechnology and medical devices, and be just like them. I didn't really, at the time, think about services or growth equity. At first, when we started, I wanted to be a strong mezzanine, that meaning later stage investor, pre-public stage. Because having taken companies public, I knew I could bring that expertise. The first partner that I really brought in was a Kidder Peabody biotech analyst, Bob Kupor. So, between the two of us, we were pretty good in terms of spotting what could go public and what couldn't. That was a more limited role, kind of late stage; I wanted to do that really well, be considered amongst the best. Certainly didn't start out with the idea we were going to be as large as we are, or be as broad in stages as we are, but wanted to do things well.

CK: *What has been your relationship with the entrepreneurs? That has to be an interesting side.*

AF: It is. That was another strength of the firm, because I had been one of them via Immunex. As many venture capitalists have told me, Gee, I wish I had had that kind of experience. And of course it was a wonderful, wonderful experience to have. And that helps us relate to our entrepreneurs, so I can tell the stories of success of building a great company. Telling stories is a very important part of this business. When you're trying to

convince a company to go a different path, you can tell them stories as evidence of your suggestion.

CK: *Are entrepreneurs wired differently?*

AF: They come in so many different flavors. A scientist in biotech that has a germ of an idea is a very different entrepreneur than a three or four-time successful entrepreneur in medical devices; in devices they tend more to be serial entrepreneurs. And then the growth equity people are, again, very different as well. So it's a little hard to broadly answer your question.

CK: *Do you establish relationships with them?*

AF: Yeah. Very close relationships. Their pain is your pain; their success is your success. There's nothing that compares to the thrill of being an entrepreneur and creating a great company. When I am on my deathbed, and I'm reflecting on my life, I would undoubtedly look back at Immunex as the crowning success of my life, just creating — I mean, it was a team of guys, not to overplay my role there, but that was an amazing experience. Obviously, creating Frazier Healthcare Ventures, which has turned out to be a big, important firm in health care, would be equal, probably equal to—But creating a big drug that's helped so many people with rheumatoid arthritis — it wouldn't have

gotten there without Steve Gilles and his brains. It wouldn't have gotten there without my finding the money to get it going. So those are two crowning achievements in my life. Of course, I would love to go back and do things differently, do things better, but we did okay.

CK: *I've read that you started a technology fund.*

AF: Yes. That was during the bubble. Yeah. Actually, Dick Kramlich was a very important advisor to me at the time. A lot of people were asking, Why weren't we doing that? There weren't a lot of technology funds up in Seattle, and clearly with the success of Microsoft and others it was a pretty heady time. And so we went off and did that. Dick suggested at one point that we should change Frazier Healthcare to be something more like NEA and do healthcare and technology together. It was interesting. Right about the time we were trying to finalize that decision — I think the cracks had started to break just a little bit — he suggested that we not do that, that we create it as a separate company, which I'm glad we did. It certainly proved to be a very different business than health care, and I think some of the issues that led to the big firms — Mayfield and others — saying, Gee, we're not going to do health care — I think what they all were saying was, It's such a different business.

CK: *How was it different, having done both?*

AF: Yeah. The technologies are so different, and in particular software, which is a lot of what they do up here, that's not a very capital-intensive business, and quick to market. Very different from what we do.

CK: *Faster-paced?*

AF: Faster-paced? I don't know faster-paced. Just a different pace — more different business models. And the tools that you need to spot a good company on that side versus this side are very, very different. So we got started with that. The first fund was not very successful, as most know. Back then, the funds that got started in the bubble proved not to be very successful, and we were no different. Hired the wrong people to do that. It took us a while to figure out. We retooled. Our second fund on the tech side has been pretty successful, one of the better track records. So I was glad we did it separately. I'm not really very involved — more of a godfather, if you will, to those folks; in part because it proved to be very, very different. My skill set isn't particularly relevant. How you build a venture capital fund is relevant, and how you treat limited partners, and how you establish culture has been very important, and that's what I add. But their picks, I wouldn't know a tech—Various people, like Dick Kramlich, are amazing; he can do both, but not me. I'm rooted in the health care side.

CK: *That doesn't interest you. It sounds like your heart is in health care.*

AF: Yeah, it has to be. I take great excitement and thrill from their victories on the tech side, but I can't add a lot. And I think the other thing is, on the health care side, it's tough, and so I have to put myself 150 percent into this. I feel badly I don't have enough time to give them. But they're a talented bunch of people, and they've created some good companies and made some money.

CK: *What are you most proud of about Frazier Healthcare?*

AF: What am I most proud of? Probably at the broad sweep: that we're one of the top, biggest funds in our industry, that we have a great reputation of particularly being effective in really helping companies. So we are early, create companies, do all the classic venture things of helping recruit the great people and put the companies together and be a lead investor. I'm sure you've heard that term.

CK: *Is there any one particular company you want to identify.*

AF: Not really. We've had successes and losses and things like that. I think if I had to take one of my pleasures, it's been more from the macro side than a particular company. Obviously, each one of the companies you take, you're very proud of. But I think the fact that we're a diversified fund, I think, has helped us tremendously. So when biotech

is cold, we've had other legs to the stool. So I would think we're one of the few firms that are one of the top biotech and top medical device investors. So that's a macro thing that I was certainly helpful in doing. The fact that we do both early and all the way to doing PIPE investing and growth equity investing, different models if you will, has helped us tremendously.

The fact that, with my partner, Nader Naini, who really took the lead —doing growth equity way ahead of—Well, I'll certainly give NEA credit for being the lead, but we were thought of as a very odd group that we would do growth equity. People thought that that was so far different from venture investing, and sometimes we had to kind of push our limited partners that this was a good thing to do. It's more like a buyout, if you will. And now we are one of the larger growth equity investors in health care. So again, I take great pride of doing the navigation along the way of doing those.

CK: *So you don't have some company that you say is your greatest success?*

AF: I don't think so. You take great success along many of the—

CK: Or *the greatest challenge? Might not have succeeded, but it kept you up at night.*

AF: (Laugh) Yeah. Well, it's funny— Maybe two stories: One we did with NEA, which was called NeoPath, and it was an automated pap smear diagnostic. It wouldn't have been

successful if I hadn't been involved in particular helping the financing execution, because it needed capital at a fairly significant amount; we helped raise a couple of big rounds when it wasn't obvious it was going to be a success. So, that is kind of cool. We made a lot of money on that one and got out. And then unfortunately they had a hiccup with the FDA sometime after we left, and the stock dropped. It was tough. They eventually did okay and sold the company. But it was very important for us that we made a lot of money back then. As a late stage investor, we made a big multiple on that. That helped us propel and attract limited partners and other things. But I guess, just personally, that the raising of money for that one was critical. We brought in two of the large rounds, and that was clearly the difference between going out of business, or creating a product.

Another one was Rigel, which we invested in as a venture capitalist, and it went public; Morgan Stanley took it public, and it looked great. It had a bump along the road, and the stock went down dramatically; and we came back in and invested as a PIPE investor, which was kind of unusual that venture capitalists would be doing PIPE investing. At the time, much more the Wall Street guys would do PIPES. But with the folks from MPM, Alta, and ourselves, we provided capital for the PIPE. No Wall Street people believed. It would've gone under if we hadn't done that. So that was exciting, and the stock went up dramatically, and the company has done very well. The investment still has the highest IRR in our firm's history.

And within, I think we went in and out of it in about fifteen months. It was a tremendous success for us and kind of kept that company going. It ultimately had a great product,

then had another setback, and it's now doing well again. But it's kind of the story of biotech. It's a rollercoaster. It's another book for you to be involved with, is the story of biotech.

I was sitting around a dining room table with about five CEOs who had been part of great biotech companies, and they had all had these experiences where they woke up to a scientist coming in and saying, "Clinical trial didn't work." And they were public, and they had to tell— And you'd go from great euphoria to disaster. Just every company, whether it was Amgen, Immunex, Cor Therapeutics, Biogen, they all had that. It's crazy.

CK: *Heart-stopping.*

AF: Yeah.

CK: *Are you a risk-taker?*

AF: Definitely a risk-taker, yeah. A believer, a positive thinker; a risk-taker.

CK: *You've been in venture capital.*

AF: Nineteen years.

REFLECTIONS

CK: *How has this industry changed?*

AF: Well, now we're talking about today, and it is changed a great deal. So it's gone from the early days of kind of, you trusted your gut kind of investing. I mean, clearly we had scientists with us, and MDs who would kind of help us. But it was big ideas, and early ideas. So, Immunex was betting on immunology, that proteins would actually do something as biological therapeutics. Big ideas.

To now, we're much more conservative, in part because, two things: One is, the stakes are so high — the capital that has to go into these things. You can't take that dream of a bet. It tends to be, you have to be more conservative. And so you bring in scientists and PhDs. And we have advisors that have been heads of GSK's [GlaxoSmithKline] R&D, Tachi Yamada here, or the head of [Eli] Lilly's R&D, Gus Watanabe. When we make a decision, we've got an army. It's like that Verizon commercial where the guy shows up and he's got an army of people, I'm sure you've seen that ad. That's us. The number of phone calls—Today's venture capital versus when I started nineteen years ago — it's amazing the difference.

CK: *Has it taken the romance out of it?*

AF: Right now, yeah. In part because Wall Street doesn't want innovation, right. I mean, they want innovation, but it comes with financing many, many rounds that you have to do just believing that this is going to turn out to be the next Genentech or Immunex, and they don't want to do that. So you are creating companies that are very, very different. They have to be much more conservative. So there's less romance. But you know what? At the end of the day, creating a great company — whether it's like Jim Blair, and I, and Versant have backed a company called Cadence, which is the IV formulation of Tylenol; not very exciting, right? But the romance of creating a company, going through the hard times — and we had some product issues, but it's now being filed with the FDA, and it's turned out to be a great winner. The romance of helping the board, helping management create a company is still there.

CK: *So you're falling in love all over again?*

AF: Yeah. That's fair to say. Not all over again; I've always found that to be exciting. And now doing growth equity; that's not quite as exciting. Right? You're not funding innovation. But it's still exciting to put things together. I'm just putting together a company called Trildent, and it's taken us over two years to put a company together that will be the leader in ancillary services to the long-term care community.

It's not very exciting trying to come up with mobile imaging for the old ladies in the nursing home. That's not very romantic. I will be one of them; (laugh) I will appreciate it at some point in time, so I don't have to be taken out by ambulance to the hospital; I can have mobile imaging done there. But it's not like creating the biotech industry.

But it's creating what is now a company of $230 million of revenue and $30 million of EBDA. And we stitched together five companies; we went out and found a great CEO, another firm Audux and ourselves; we have all done this. And we're now certainly the number one player in that industry throughout the United States.

We're now thinking about very interesting ways of adding technology to our rather mundane base business, to make health care better for people, make it better for the homes, make it more cost-effective, kind of playing into what President Obama wants us to do — is create more health care for less money. That's pretty cool.

So I've been jazzed by that. I'm talking to Dick Kramlich about investing in a company in China. Wow, that's different. It's in the drug distribution business. It's taking the power and the expertise of drug development and drug distribution in the United States to China. And now we're starting to be involved with bringing health care to the masses of China. That's pretty cool. So, maybe, you're right, the romance is always there, but a new story will get you excited.

One of my partners, we were talking about some reduction of force in one of the companies, and he said, "You know, Alan, you're a builder." That's kind of an

interesting term. I'm a builder. I love to create; and I'm sure any one of the people that you are talking to is the same. I loved to create when I was at Immunex as an entrepreneur, or I love to create here at Frazier Healthcare through entrepreneurs and people you help. I love to create; I love to build; yeah.

CK: *Everybody has a different story, that's what's so fascinating about people in general, as you know. Everybody sees the world a little differently. Everyone is unique in that way. So, thank you. This says a lot about what this has meant to you, because thinking back to the beginning of our conversation this morning and the path you've taken, I don't think you would have ever thought you would be sitting here making a statement like that.*

AF: No. It's all little steps, aren't they? You never think about a grand path when you're taking each step forward.

CK: *Is it a challenge to be working in Seattle?*

AF: Yes. Well, mostly it's a personal challenge. So, for my family and I think everybody here in the Seattle office, we all travel probably three days a week. So that's a challenge. The Menlo Park office, they don't have to travel as much because there's so many companies right there in Menlo Park.

CK: *You don't have that networking here in the same way that you would have it in another—*

AF: It isn't so much the networking. It's just a community like Seattle — we have various companies here, but there just aren't as many entrepreneurs that fit with what we invest in that are here.

CK: W*hy is Seattle a good place for you to be?*

AF: It isn't. For venture, we should all be located in Boston or Menlo Park. For growth equity, it doesn't really matter where you're located, because your investments are throughout the United States.

CK: *Do you have any early venture capitalists or great venture capitalists that you see as role models?*

AF: Well, so my role models would be probably Dick Kramlich, in the early days Dick Kramlich, Glen Mueller. So those were people that I watched operate in a boardroom, and I was just very, very impressed with. What Brook Byers did at Kleiner Perkins, I'm very impressed with. I think what Chuck [Newhall] started to do in growth equity was very impressive to us, and obviously we've taken heart to that. Many people are my age, right, or younger; we're finding our way as we have gone from a very small industry to a very large or at least capital-intensive industry.

CK: *I did say to Chuck, "Why am I interviewing Alan Frazier? He's only fifty-seven-years-old.*

AF: (laugh) What did he say: 'Gee, is that all? He looks like he's seventy.'

CK: *He said, "Well, it's a premier health venture capital firm."*

AF: Nice to hear that from your peers, or hear that from people who are more than my peers, my leaders.

CK: *As you know, he has funding this project. It's very meaningful to him, and he's selected the people whose stories he feels will make a contribution to the understanding of the history of venture capital.*

AF: Who are they? Who did he select?

CK: *Charlie Lea, Peter Crisp, Tony Evnin, Ed Glassmeyer, Jim Blair; and then I think there are a couple more coming up. This is just from the East Coast. Paul Wythes, Bill Draper, Dick Kramlich and Jim Swartz were interviewed by Mauree Jane Perry.*

AF: I'm bringing the average age down.(hardy laugh)

CK: *You are. So when we get into reflections, I'm thinking, Are you too young to reflect? Certainly not too inexperienced. And I think you just answered the question about what drives you and what you love about this work. What qualities do you see in yourself that you think have made you particularly suited for venture capital?*

AF: Being an optimist, having energy, loving people; and really that loving people is kind of a broad term, but you know, not all these people are really folks that you want to take home to dinner. I don't mean that in a derogatory fashion. It's just that people are—It kind of goes back to what I was talking about my dad; there's something interesting about all these people; and maybe it's a little bit to your business, Carole, is everybody's got a story.

Everybody you can learn from. So, that's pretty important. I think the love of creation and building. If you're in it because of the love of money, maybe you can be successful. But if you're really going to be successful, if people are going to say: Hey, I want you on my board, it's because you really love and you exude the excitement and reward from the endgame of building great companies and the process towards that. That carries over when a company has a setback, which every company does. It just doesn't seem like you're going to be able to climb that last mountain. Somebody like Chuck has done it so many times, or myself, encouraging that entrepreneur that, "Hey, we can do it." That's a

very, very important set of qualities. I think the last one is — I think being a good storyteller is important. I think that there are so many brilliant people in our field, but if they can't persuade by telling stories, they have to persuade by, "Damn it, do it this way!"(shout) Well, that doesn't work very well. But if you have somebody get to your point of view because you've told stories about how you've done it in the past or your experiences led this way, and it's a good analogy for you as you're looking at, "do I go left or do I go right;" I think it's a powerful way of getting them there. They feel like it wasn't just being a powerful debater. It's because, I've been there before, or my companies have been there choosing between A and B, whatever that might be. And I know that's gray; but, "here's what happened when I went A, and here's what happened when I went B".

I think that's the great value of venture capitalists who've been around for a long time; they've gone both directions, they know pluses and minuses going both ways: "Let me tell you my stories, and let's work with the experience of today with the stories of the past, and see, Wow, it really should be path B." I think that's pretty powerful.

CK: *What a great skill, moving someone along, like you say, without beating them. Do you ever doubt yourself when you're looking at a company or making a decision?*

AF: I should—

CK: *Also, in your view, what do you see as the contributions in venture capital, especially in health care, to the country? Personally.*

AF: Oh, a huge contribution. There are so many drugs and devices that are out there that wouldn't be there without venture capital. The whole funding of innovation has just made dramatic difference to the health care of people in the United States, as well as the world. I'm sure you're well aware that most drugs are created here, developed here, and taken abroad.

That's not to say that we hold all the intellectual genius for this, but we've been provided — the United States government has helped support us through National Institutes of Health, grants to the institutes, Fred Hutch or Sloan-Kettering or whatever they've given grants to that come up with drugs, and then we take them the next step; it's been fabulous.

It's been fabulous, frankly, that the health care industry, insurance, Medicare, etc., pays for this, and we've been able to make a meaningful difference in people's lives. It's a very tangible—It's not just the economy, I think that was one of your questions. Clearly we've created huge numbers of jobs. But when you think about — we have a cancer company that is coming up with complete responses to people who have failed so many therapies. Doesn't that touch your heart? That could be your mother; that could be me. It could be your mother, your father, it's somebody's child of somebody who has failed all those therapies. Wow, that's just amazing.

Rheumatoid arthritis, Enbrel. My goodness, if you've got rheumatoid arthritis, your life is pretty miserable without drugs. That's just marvelous. I think that that certainly overshadows the impact on the economy, but we as a venture capital industry—I think I saw something that NVCA put out: I think 10 percent to 15 percent of all jobs out there in the broad economy have some connection to venture. Intel had venture, the whole software, we've touched everybody's lives. And look, it's all about the entrepreneur; it's not about our capital, but it's a partnership with them. So we have to take a certain amount of pride of creating, frankly, the whole world of innovation.

CK: *You took the risk.*

AF: So that's wonderful.

CK: *Was there more reward with health care than with technology?*

AF: I don't know. I think so.

CK: *For you.*

AF: Yeah. Because you're changing somebody's life, not just that now you can get entertainment on your laptop, but that somebody's life has been changed or saved.

CK: *I want to look at some of your other interests and your local involvement. I certainly read with interest Susan Canfield's interview with you about your mentoring in her book, "Mentoring Moments." How did you get involved in this mentoring program?*

AF: I think it was my wife that inspired me. Well, a variety of things. My wife went to the University of Washington MBA program, and they had no mentors. It seemed so sad. It was such a single dimensional aspect of graduate education, as if you are being taught things by textbook. My experience — I obviously don't have an MBA — I think you learn by sitting down and talking to people about how they grew their company or failed or succeeded, or failed three times and succeeded.

You learn from stories, don't you? So it was very interesting. My wife and I attended Doug Rogers' funeral, and I was giving a eulogy. I had been asked to do it on the spot, so it was stream of consciousness. And I said, "Doug made all the difference in my life, that he would first believe, that he would mentor me to say, 'Gee, you can do this, and this is why I think you can do it,' not just that he threw me out on the street corner saying all of a sudden, 'Build a high technology practice.'"

And so I gave that eulogy, and then about a week later the dean of the University of Washington business school was in talking to me about what they are doing at the University, and said, "We really think most business schools don't do mentoring, and we've started this program." And so Mary and I adopted that program. So we've given them money for that book, and I do mentoring as well as we help contribute to that

program. I mentor, usually eight kids a year. And so I give talks to them, and then, because we have so many young MBAs here, I always get them together one-on-one or two-on-two and talk to them about their careers.

CK: *How long have you been doing this?*

AF: I guess about five or six years.

CK: *What are the rewards?*

AF: It's all personal rewards. It's a little on the softer side; but seeing their enthusiasm with what we've done, I don't know, will any of them follow our path or reach some of the successes we've had? I don't know. But you inspire people to dream. Somebody taught me how to dream.

CK: *You're also interested in placing foster children. Tell me about that program.*

AF: We have four kids, and we adopted two of them at birth. There's a little foster care in that process. So, I know how important it is that little ones that are relinquished by their birth parents find somebody to love and provide a long-term relationship. So it's there every day in my family. I just had the great fortune to have a friend of mine, who left the

business world to be executive director of an adoption foster agency, and he asked me to help, and I didn't realize the foster care situation was so horrible. Of course, you read about it, but you read about it and move on, right? So, he showed me right upfront the terrible situation that is out there. It's, of course, being handled by the state. In the old days it was handled by communities. Communities helped people in the community that are having problems with adoption or foster care. Now we've handed that over to the state, and the state is ill-equipped to do that, and they don't have the money or the resources. They try their best. So I'm now doing it. My wife is now taking care of foster babies; unbelievable at our age. So I do the board work and write some of the checks, but she's doing it in a much more personal way. Although I fed the baby last night, so I'm part of it. At 3 o'clock in the morning, I'm up feeding a baby that's four weeks old. It's been relinquished to the state. It's very different from sitting here in boardrooms and trying to influence life that way, and then just holding this little kid. It brings tears to your eyes, it really does. It's amazing.

CK: *You're able to do all this — you're very fortunate. This is the Amara Family Services. And your involvement with the Fred Hutchison Cancer Research Center?*

AF: It's been very rewarding. It's a little bit of giveback, because Immunex got created by the Fred Hutch. It was a group of scientists that were a good part of the immunology department there and decided to leave, and the Fred Hutch had helped them, not a great

deal, but it kind of sprang from there. So when I was first getting a venture capital fund started, somebody reached out and asked me if I would start to be involved, and I got involved just a little bit. And then I was on the board of trustees, probably ten years. I just rotated off, but I still help them. So that was kind of a giveback — very rewarding.

CK: *And then the Gladstone Institutes in San Francisco.*

AF: And the University of Washington Medical School. I helped both of those. Those are big, very rewarding. Being able to take your business career and help somebody. We're very dependent if innovation is going to continue to occur; it starts really at those very blue chip, high-profile medical institutes.

And the other thing that we do is we provide scholarships up at Western Washington University for kids who are first-generation college kids. It's in honor of my dad, who, as I told you, was the first in his family to be in college, so we provide scholarships for those kids. The letters you get are just, again, tears to your eyes. Usually they're from the students. We've gotten a couple from the parents. It obviously makes such a huge difference to their families, their kids. So, that's very rewarding. That and my kids, that's my life right there. Not much time for anything else.

CK: *You mention your family, and I don't want this to end without having the names of your children.*

AF: Colin is the 20-years-old. He's taking a different tact and going into culinary school, doing very well at that; and then my daughter Lizzie is studying biology at Loyola Marymount, and my son, Andrew, who's seventeen, is a junior in high school and is going to be an engineer. He's already a pilot, just an amazing kid. Isn't that just astounding? And then my daughter, Joanna, who's fifteen, goes down a different path. They all went down different paths. She loves horses, and is a great student. They're all different. Beautiful children.

CK: *You're busy. You have a full life. So how do you unwind?*

AF: Not a lot of time to unwind. So, unwind with friends; friends are very important to us, so we enjoy that. And we have a place in Montana where we ski. That's probably my favorite thing to do: fly over there and ski or fish or take hikes, or even better, sit on the porch, look at the mountains with a glass of wine, not have anybody to talk to, spend time with my wife.

CK: *When did you start skiing?*

AF: I didn't start skiing until I was in my twenties. But really it was when my kids came along. We had kids a little bit later in life, and then we started to go off skiing with them. So it was a little bit late.

CK: *Keeping up with them?*

AF: Well, no longer. But it's a great family sport. We love to do that.

CK: *I always like to include the family as part of the story.*

AF: They are indeed. I clearly wouldn't have done this without my wife. It's amazing that she would give me the support to go off and do this. Maybe I could've done it anyway. But the fact that at thirty-eight, thirty-nine, to semi-retire, and then— The prospect of having me at home raising those kids, that was probably pretty cool. And then a year later for me to say, "Well, I'm not going to be home much." That's an adventure that she shares. I certainly couldn't have done it without her.

CK: *It sounds like you're both quite fortunate.*

AF: We are very fortunate.

CK: *Thank you so much for your time, and your extended time. And thank you from Chuck Newhall, who is really the heart and soul of this project.*