

National Venture Capital Association
Venture Capital Oral History Project
Funded by
Charles W. Newhall III

Tape 2 - Reid Dennis and Pitch Johnson

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Tape 2 - Reid Dennis and Pitch Johnson

[Beginning of recorded material]

02:00:33 Reid Dennis: -- say that because -- but the -- 'cause that's his saying and I --

Interviewer: Okay.

Reid Dennis: -- I don't, uh, I don't wanna take it away from him. Oh my, hold on a second.

Interviewer: Yes, sir.

Reid Dennis: Gonna.

Interviewer: So we have it on tape, give us the correct spelling of your first and last name and your firm or affiliation.

Reid Dennis: Okay. First name is Reid -- R-E-I-D. Last name is Dennis -- D-E-N-N-I-S.

02:00:58 And I'm a founder of Institutional Venture Partners.

Interviewer: Great. Tell us --

Reid Dennis: And now a retiring partner, I should say.

Interviewer: Oh. Well congratulations.

Reid Dennis: Yeah, well I hope so.

Interviewer: Over your career, you've seen a lot of change in the industry, what or how has the industry most changed over the last 30 years?

Reid Dennis: Well I think the-the m-m-major change in the industry has been the huge flood of capital that has come into the industry.

02:01:30 This used to be a very, very small industry. It, uh, it wasn't even an industry. It was a-it was very small activity is a better way to put it. Uh, a-a-and I'm sorry, you want -- can we start over again because you-you wanna talk about changes in the industry?

Interviewer: No, you were going --

Reid Dennis: Did I-did I lead into that all right?

Interviewer: Exactly right.

Reid Dennis: Okay, okay. All right.

Interviewer: No, it's perfect.

[Director's comments]

Interviewer: Do you want me to ask you the question again?

02:02:01 You know, you -- well you asked-you asked the question about what are the major changes over the --

Interviewer: [Unintelligible].

Reid Dennis: -- during the period of time that I've been in the industry and-and it really was -- it's an overstatement to have called it an industry when it began. It was a very small activity. It was sort of a sidelight. Uh, when, uh, actually when I got out of college and w-went to work in San Francisco, I was the only security analyst trainee trained as an electrical engineer, uh, that worked on, uh, Montgomery Street.

02:02:34 So there just was no -- there was no interest in, uh, in what we now refer to as high-tech. Uh, it, uh, uh, it just didn't exist.

[Director's comments]

Interviewer: I'm trying to remember. You were the only security --

02:03:07 Reid Dennis: Yeah, uh, well no. I was the only security analyst trainee that was-that was -- that had a degree in electrical engineering. And it just, uh, what we now refer to as the high-tech industry just didn't exist at all. Uh, the -- and I was just f-fortunate to have had a -- the right education at the right time when-when I entered the business.

02:03:30 But this business -- you know, in the early 1970s when, uh, when the NVCA was just getting going, uh, this industry almost disappeared. Uh, I can remember clearly seeing on the-the back of the door of an office to one of the undersecretary's to the Treasury in Washington

D.C. a cartoon that showed two people conversing at the typical New Yorker, uh, cocktail party.

02:03:59 And-and one of 'em says to the other, uh, venture capital, do you remember venture capital? You know, it had-it had virtually gone away in-in-in the early 70s. It just didn't exist.

Interviewer: So what has changed is the flood of money that's come into the industry, but what has remained the same? Are there any qualities that you still recognize today that were there back in the early days?

Reid Dennis: Uh, well, wh-what-what made the major change, l-let's go to that.

02:04:30 Uh, what made the major change was, uh, the move to, uh, reduce the capital gains tax in 1978. And-and then it was further reduced in 1980. But, uh, you know, I have to give, uh, uh, Jimmy Carter the, uh, credit for, uh, really causing the capital gains tax to be reduced because he, uh, came out and made a statement that we ought to abolish all the differences between capital gains and ordinary income.

02:05:05 And that so energized both the venture capital industry and the electronics industry here in California that we went on a full-fledge campaign to, uh, lobby the Congress as -- not as paid lobbyists, but as individual businessmen going back and spending our own time to tell 'em how important this was.

02:05:28 And I think that, uh, you know -- I still have my calendars that show the, uh, uh, the, uh, testimony before Ways and Means, the small

business committees, and so forth and so on. And I think that we really got the attention of an awful lot of people at that time because we were there at our own expense, on our own time, and not as somebody paid to parrot, uh, somebody else's arguments.

02:05:56 And-and the reduction in capital gains tax of '78 was the first move and, uh, it was further reduced in-in 1980. And 1980 turned out to be the best year ever to, uh, start new companies, uh, certainly in the-in the high-tech industry.

Interviewer: Let's talk a little bit about the day-to-day work of being a VC.

Reid Dennis: Sure.

Interviewer: What is the most challenging part of the job?

02:06:29 Reid Dennis: Well the real-the real nub of being a-a venture capitalist is-is building up a frame of reference, uh, so that you can judge people. Uh, yeah, I've made some mistakes on technologies. Uh, but the biggest mistakes I've made have been people mistakes, not-not technology mistakes. And-and so you got to, uh -- it's hard when you are very young and have not had a lotta exposure to a lotta different kinds of people.

02:07:01 It's very hard to, uh, uh, uh, make really good judgments about people. I think that, uh, that only comes after you've built yourself a frame of reference. Uh, and the biggest disappointments I have had have-have, uh, been disappointments in people, not because, uh, they didn't wanna

do the right thing, it was because they just plain didn't have the ability to do the right thing.

02:07:30 And, uh, so tho-those are -- but that's-that's the nub of the whole thing is-is being able to judge people, uh, and then to believe in them and get them to believe in you and form a good partnership with them. And-and do everything you can to help them succeed.

Interviewer: What are some of the key components of that partnership between venture capitalist and entrepreneur that makes it work?

Reid Dennis: Well I think trust is-is number one.

02:08:00 There's got to be mutual trust. There's got to be mutual s- -- respect. Uh, you have to respect the entrepreneur's, um, abilities in the-in the fields in which, uh, he or she is operating. And-and they have to believe that you will be there and be helpful to them, uh, through good times and-and, uh, and through disappointing times.

02:08:26 I think that, you know, one of the things we used to say about our business is that, uh, you know, you do all of this research, you read all of this material, you hear all of the-of the talks and then you go to your first board meeting and, uh -- where they have to discuss what's actually going on in the company. And that's where you first -- that's where you really learn what the dickens you're involved in. And, uh, it's, uh, it's s-sometimes a surprise and sometimes a-a shock, but, uh, it's -- but that's all right.

02:09:00 You-you get through that and you learn after awhile that the, uh, when you go to your first board meeting, it's not gonna be as rosy as the, uh, uh, as the business plan that they presented to you when you, uh, made the commitment to invest.

Interviewer: Let's talk about some of the successes over your career. If you had to pick one or two or a handful of companies or innovations that you're most proud of backing or have had the biggest impact on the general public, what are some of the things that come to mind?

02:09:33 Reid Dennis: Well I, you know, I'd -- uh, it's hard to say what, uh -- uh, when-when you talk about, uh, some of the-some of the activities that, uh, uh, that I've been most delighted to be involved in, um, o-obviously my first-my first personal, uh, investment was in a company called Ampex that had a thing called, uh, uh, uh, a tape drive.

02:10:01 And, uh, about all I knew about it was, uh, that I thought tape was gonna be used for more things than just recording Bing Crosby's voice so he could play golf on, uh, on Sunday afternoon. And, uh, I'd really thought it was a very interesting technology and so on. So, uh, Ampex had a huge impact on my life because it, uh, it was my first major commitment. And it was a huge winner.

02:10:31 And I went from having very little money to having a significant amount with which to get started. Uh, if Ampex had been a failure, I wouldn't be here today. You know? I wouldn't be at -- as-as part of this organization or anything else. But, uh, but at any rate, uh, it was a tremendous-it was a tremendous deal.

02:10:51 And, uh, it, uh -- and then after we got into the venture business on a formal basis in the -- in, uh, the early 70s, uh, there were a number of companies -- Rome, which was -- had the first digital telephone was a deal that one of my partners was close to. And we, uh, we backed that lock, stock and barrel right, uh, up -- right on through to the end of it.

02:11:22 And, uh, when it was merged into IBM, uh, Seagate Technology and the disk drive business, I have on my desk at, uh, uh, in my office the first 5 1/4-inch, uh, disk drive that Seagate ever delivered and, uh -- which was presented to me as my perfect attendance award by -- it was presented to me by Al Shugart as a perfect attendance award for having never missed a board meeting over a five-year period.

02:11:51 And, uh, and it was a wonderful deal for us, for our firm, and for all of our investors. Uh, on the, uh -- it was an investment in, uh, uh, in, uh, the first IVP fund -- uh, Institutional Venture Partner fund. And, uh, on the third anniversary of that fund, we gave every one of our investors three times their money back, uh, on-on that one investment.

So, uh, it was a -- uh, that was a spectacular deal.

02:12:26 Uh, uh, you know, I-I-I was -- you know, it's hard to say, are you proud of that? Uh, well no I'm pleased with it. I felt awful lucky. You know? But th-th-the pride really goes to the entrepreneurs who built the company.

Interviewer: What keeps you going? Well you're retiring but --

Reid Dennis: Well I'm semi-retired. No, I-I'm semi-retired. I-I-I have a lot of activities that keep me off the streets and outta the bars. And, uh, and it's, uh, and I-I-I just -- I do think it's, uh -- one-one needs, uh -- you need to keep your mind active.

02:13:05 So I'm-I'm, uh, I'm currently, uh, uh, working on several things that are small companies that are, uh, uh -- that, uh, are outside the realm of-of, uh, the kind of things that our venture-venture firm do.

Interviewer: Is there anything that you'd like for us to capture that my questions have not brought out?

02:13:26 Reid Dennis: Well I think that, uh. . .uh, I-I-let's talk-let's talk a little bit about the -- you know, what are some of the challenges facing the industry today.

Interviewer: Sure.

Reid Dennis: And-and really one of the-one of the challenges that is facing us is the fact that there is so much money available in the industry -- huge amounts of money -- that it has driven up the prices of -- that-that venture capitalists have to pay in order to get into something.

02:14:04 It's driven up the prices of the later rounds of those financings of those companies. And now in-in, uh -- now in-in, uh, 2008 we have the, uh - - excuse me, I gotta take a second.

Interviewer: Mm-hmm.

[Off-topic conversation]

02:14:40 Reid Dennis: But, uh, but now-now that we find our-now that we find ourselves in-in 2008, uh, with the current liquidity crisis with, uh, uh, a number of Wall Street firms going out of business, uh, we-we find that, uh, the product that we have been used to growing and building and being proud of, uh, uh, doesn't have a market.

02:15:06 I mean we've raised the price of-of, uh, high-tech companies to the point where it's very, very hard to take them public. And with the shrinkage of the-the investment banking industry, it's gonna be even harder to take them public. And-and I think that we have in a way sort of, uh, sullied our own nest, uh, by, uh, raising the price to the point where now liquidity is the-is the objective.

02:15:36 And we find ourselves as an industry investing in companies that we are trying to build to sell to somebody rather than building them to last. And I think that-that-that the-the-the biggest, uh, accomplishments that this industry had over the last 30 years was building companies like Intel, which, uh, which we were not involved in.

02:16:07 But, uh, which, uh -- and I-I think that someone like, uh, Arthur Rock who has continued to be involved in that company as a-as a member of the board, member -- chairman of all of the important committees and

stuff, uh, i-is a wonderful accomplishment. And I just think that-that time has disappeared from us now.

Interviewer: So what's the answer? There's too much money coming in, so should we stop taking [LP]'s money?

02:16:32 Reid Dennis: Say that again?

Interviewer: Should we stop taking LP's money?

Reid Dennis: Well I think --

Interviewer: [Unintelligible] coming [unintelligible] --

Reid Dennis: No, I think-I think -- yes, there is too much money coming into the business. And I think that one of the-one of the things that will happen as a result of current conditions is that will begin to dry up, uh, because the returns are not there.

02:16:51 I-if you look back historically at every major financial boom in the -- over the last several hundred years -- uh, the tulip bulb boom and the -- and, uh, and I dunno, back in the 1700s and the-and the South Sea Bubble and all these things, there've been other bubbles. Uh, and they've-they've exploded and-and we've gone onto the next thing.

02:17:19 I-I think that the -- I think there are a number of people today, uh, investing in venture capital who really don't have the slightest idea

what they're doing and who don't have any interest in being long-term investors in the companies that we're building.

And I think that is one of the major things that has changed -- is that when-when we, uh, uh, when we were building things, uh, we were building to last and we stayed with them and we wanted to continue to be shareholders in an exciting and growing companies.

02:17:58 And that spirit has sorta gone out of our industry today. Enough?

Interviewer: That's perfect.

Male Voice: That's a beautiful thing. Thank you.

Interviewer: Thank --

[Abrupt end of recorded material]

02:18:04 [Beginning of new interview]

[Director's comments]

Interviewer: Just so we have it on tape -- Pitch, standard spelling. Is that how you like to be known?

02:18:16 Pitch Johnson: Pitch is my name.

Interviewer: Okay, Johnson.

Pitch Johnson: It's my middle -- my middle name's [Pitcher] and Pitch is what everyone calls me.

Interviewer: Is it really?

Pitch Johnson: Mm-hmm.

Interviewer: I didn't know that. And affiliation or firm that you'd like us to put up on the screen when we --

02:18:29 Pitch Johnson: Just put Pitch Johnson, Asset Management Company.

Interviewer: Asset Management Company.

Pitch Johnson: Mm-hmm.

Interviewer: Great. First let's talk about how venture capital is different from other asset classes. And I'll just warn you that Reid Dennis said you have a famous saying that I'm hoping you're going to give me. So we'll see.

Pitch Johnson: W-well, first of all --

[Director's comments]

02:19:03 Pitch Johnson: Tell me that famous saying he said so that I can remember it.

Interviewer: About blowing on the dice.

Pitch Johnson: About what?

Interviewer: About blowing on the dice. Venture capitalism where you get the --

Pitch Johnson: Oh yeah, that's not the asset class part. That's a different answer.

Interviewer: That's a different answer?

Pitch Johnson: Yeah.

Interviewer: He told me that was your answer for this one. Okay. Well you give me your answer for this one. So how is venture different from. . .

Pitch Johnson: Well, uh, to-to call it an asset class, you gotta think it's part of the money management business. And it is for many people, but there's a whole group of venture capitalists of which I am one who really sort of scrambled around and managed their own money or money from the family and started off so that we weren't -- we aren't an asset class in the sense that we are back by institutions.

02:19:40 But as an asset class, I'd say illiquidity, uh, is one, uh, uh, characteristic. Uh, the whole portfolio isn't so risky, but any one deal

is risky. So that as an asset class, I think that the thing that most people look at is, what are the possibility of returns?

02:20:00

And they been a little low lately, but in the upper teens and twenties is what it's been over many, many years. So I think money managers would invest in venture funds. Think of it as something that, uh, can generate in the upper teens and low twenties.

There's been periods of much higher returns like in the late 90s. I'm talking about IRR returns. But it's a high return for the risk level, uh, in my view. But I don't think of us as an asset class because we're private venture capitalists and there were a lot of us in the beginning and not so many now.

Interviewer:

How has the industry changed over the last 30 years?

02:20:35

Pitch Johnson: Well the main thing that changed is size. Uh, when we got going in -- I got going in the early 60s. We had-we had a group of 12 people that had dinner once a month or so that were i-i-in venture capital, I guess you'd call it. At least we were running small business investment companies. And it was -- uh, there were very few deals, very little money, and you could get into anybody's deal by giving 'em a call on the phone.

02:21:02

And you'd let them in if they called you -- very cooperative, very, uh, very fraternal, and, um, it-it-it es- -- so that part has -- uh, uh, uh, has changed a lot. It's just -- it's a huge big -- you don't know everybody in it.

Uh, another thing though that's k- -- stayed the same -- I really liked about it is -- with some exceptions but very few -- it's been a business where your handshakes are good. You talk to people. They're square with you. It's been a very fine group of men and women that have practiced this profession.

02:21:32

That part was early -- good in the early days and it's still been good.

Um, the other thing that's changed -- h-has not changed much is the -- I'd call it the nature of the business. You're trying to find people with good ideas and the ability to make those ideas into companies. Lotta people think we're backing technolo-technologies. That is not really a correct statement. We're backing, uh, people who can take technologies and serve markets, thereby serving people and building great companies.

02:22:01

So, uh, the-the main thing is -- different though is size. And the most important thing that's the same I think is the level of integrity in the business and, uh, then the-the whole job of whether you're doing it en mass or if a few people finding co- -- guy -- men and women who can build great companies.

[Director's comments]

Interviewer:

You talked about what venture does is really back people, not technology. So, if you would, brag a little bit and tell us about some of

the people that you have backed. And if you had to pick one or two or a handful of success stories, which ones come to mind?

02:22:43 Pitch Johnson: Well I just would modify your question a little bit that we back people for sure, but we back people trying to serve big markets. The technology is usually -- and-and the way we do the business is part of it. But we're not backing technology as such. And you're quite right in saying people.

02:22:58 Oh I would say, uh, uh, some of the most interesting people that I have backed, uh, uh, would be the, uh, George Rathmann who started Amgen -- turned out to be a very great company. George had a vision of what could be done with the kind of biotechnology that they, uh, were able to, uh, uh, develop.

Uh, I would say that, uh, a company called Boole and Babbage -- which a couple of guys named Ken Kolence and Dave Katch started -- which was one of the first-one of the first two companies that sold or at least, uh, uh, rented out, I guess you'd call it, leased software so people didn't have to write their own software.

02:23:34 The idea of packaged software is so common now you wouldn't really pay attention. That was -- those guys really built a great company, although sadly enough neither one them really was able to develop fast enough to lead the company when it got bigger, which was a major problem, of course, in venture capital. But I-I certainly pay tribute to them for having an idea, getting it going, and building the basis of a company.

02:23:57 Uh, Tandem Computers was another one, which I was the number two venture capitalist in it, not the first one, which was-which was Tom Perkins. But, uh, Jim Treybig was an extraordinary guy. He was able to spot a market. He was able to project what he was going to do. He's the only company I've ever been involved in where they -- with it -- for five years straight met their projections almost exactly. It's unheard of.

And, uh, so Jimmy Treybig I would describe him was one of the top guys I've been involved with in terms of vision and-and a-and a person who took some technology and built a great company.

02:24:29 There's been a whole num- -- I've had a series of fortunate and succe- - fortunately successful biotechnology companies. Uh, one was a-a-a little company in, um, in, uh, Berkeley called Chromatronics, but was the beginning of a whole bunch of 'em, uh, including Hybertech and, uh, IDEC and then Amgen and now our high hopes for our company Novocell that is working on a cure for type 1 diabetes.

02:24:58 So I-I think those -- I think the most exciting things, even though computer companies get big, is doing biotech companies where cures for tough diseases are developed. There's that second satisfaction. I love making the money, let's not be insincere. But I love the idea that, in this case, millions of people have been helped by the drugs that are developed by those companies.

Interviewer: What are some of the key parts of the relationship between you and your entrepreneurs or venture capitalists and entrepreneurs that are important for success?

02:25:31 Pitch Johnson: Well we contribute three things. Many of you all think we're basically people that invest money. We invest money, we invest, uh, uh, a lot of, uh, consulting and time and helping the companies, and we invest stomach lining in those companies because any venture capitalist with his or her salt gets emotionally involved. They -- you n- -- you can't be that detached because the entrepreneurs are very emotional people who want to succeed.

02:26:00 They're winning type of men and women. And they are like athletes. And you're-you're like someone who's their coach and you have to have that same enthusiasm they do.

And what makes that hard is sometimes, and not in-infrequently but not never, those people that you've worked hard with, you've been their confidante, you've been their friends, and they -- you-you know they can't go any farther with the company 'cause they're running out of gas. Then you have to make a change. It's the hardest part of the business -- is going with someone whose -- that you've developed a lotta trust with.

02:26:30 And you really have to sit down and make a decision -- you have to make a decision, then you have to tell them that you can't go any farther with them -- very hard work.

Interviewer: Speaking of hard work, what's the most difficult part of being a VC?

Pitch Johnson: I-I just described it.

Interviewer: That is the most difficult.

Pitch Johnson: Changing managements is the hardest thing. Uh, you know, sometimes -- o-one of the things we have to be able to do is walk away from a deal that isn't working and not put anymore money into it. If you put enough money and enough time and you can almost make anything succeed. But of course, we're trying to generate some kind of decent returns.

02:27:01 So that, uh, it's-it's hard to just say no, we can't go any farther. You're-you're missing the plans. I don't think the odds of success are great enough. So it's a-it's a-it's another way of having to tell somebody something unpleasant, but part of our business is walking away from deals that aren't working.

Interviewer: When you look back over your career, what's one of the things you're most proud of? What are you most --

[Director's comments]

Interviewer: What are you most proud of over the course of your career?

02:27:32 Pitch Johnson: Well there're two major somewhat separate things that I'm proud of. Uh, I think that-that series of biotech

companies in which we develop products that are so helpful and important to so many people at a satisfaction level -- uh, people write you -- write the company letters and they-and they come and see the company. And they tell you sometimes, if they meet you and they know you're involved, what it's meant to them, what their lives have been -- their lives have been saved, lengthened or i-improved greatly by the drugs that s-several of these companies have developed especially Amgen, which is-is-is a-is a lifesaver for people on kidney dialysis.

02:28:10 The second thing is-is much different. By some good luck, I got involved in teaching and developing a class in ven-venture capital. It was, I believe, the first class in venture capital ever taught in a-in a business school -- a major business school. It was Stanford Business School, although my-my alma mater was Harvard Business School.

02:28:29 But I think in terms of those 650 students that I taught over 12 years, the relationships that that has engendered, the keeping up with them and seeing how they're doing, and, uh, having had a chance to systematize what venture capital is and teach it, by the [K-System] I might add, probably is the deepest satisfying thing is I've done. It wasn't even directly business but it was passing in-information along to a new generation, giving them tools to think about the business and not just practice it. I feel a lotta pride in that -- probably more pride than I deserve but it was a great experience.

Interviewer: What do you think about cleantech investing these days? Any thoughts on that?

02:29:07 I think it's an important area. I think that, uh, it is, uh, not a -- I think it's a market that is gonna be big. The -- one of the problems with it it's hard to do cleantech with little deals like we-we tend to do. Cleantech takes a lotta money. You're gonna build a company to change-change a new kind of automobile or some kind of a energy modification or-or energy changing.

02:29:31 So I think-I think-I think it's a great area. I think we're not gonna do much of it because we're-we're a smallish company 'cause we're private capital -- just my own family and a few other families, uh, are - - is what our fund comprises.

But I'm sure that people will do well in it for the usual -- for the same reasons -- big markets and good people serving those big markets. But it'll -- I think they'll be primarily larger funds who can put tens of millions of dollars in one place.

Interviewer: And last thing, is there anything that you think is important for us to capture here tonight that my questions haven't brought out?

02:30:05 Pitch Johnson: I sort of touched on it, but I-I-I think the mo- -- important thing that I think that the old guard like me can-can, uh, say i-is what I said earlier. I'll just repeat it 'cause it's so important. This has been a business of [relief] gentlemen-gentlemen and gentlewomen. It's been people whose handshakes are good, whose conversations are good, who don't reveal information that's private. And we -- there's been exceptions. I'm not saying everybody's wonderful.

02:30:30 But I-I can't -- I'm very proud to have been in it. I-I didn't help set those standards. I certainly followed the ones of the other pioneers. But those of us who were early in the business really did trust each other. And I think that engendered trust and honesty among the succeeding generations of which we are now at least in the fourth generation of venture capitalists.

So I-I think that's the thing -- the most important thing about our business is the high level of integrity, which has been, um, certainly started with that and-and it-it-it's -- it sh- -- it goes through the entire industry right now.

Interviewer: Thank you very much.

02:31:02 Pitch Johnson: Okay.

[End of recorded material]