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University of California
Berkeley, California

Sanford R. Robertson

EARLY BAY AREA VENTURE CAPITALISTS:
SHAPING THE ECONOMIC AND BUSINESS LANDSCAPE

Interviews conducted by
Sally Smith Hughes, PhD
in 2010

Since 1954 the Regional Oral History Office has been interviewing leading participants in or well-placed witnesses to major events in the development of Northern California, the West, and the nation. Oral History is a method of collecting historical information through tape-recorded interviews between a narrator with firsthand knowledge of historically significant events and a well-informed interviewer, with the goal of preserving substantive additions to the historical record. The tape recording is transcribed, lightly edited for continuity and clarity, and reviewed by the interviewee. The corrected manuscript is bound with photographs and illustrative materials and placed in The Bancroft Library at the University of California, Berkeley, and in other research collections for scholarly use. Because it is primary material, oral history is not intended to present the final, verified, or complete narrative of events. It is a spoken account, offered by the interviewee in response to questioning, and as such it is reflective, partisan, deeply involved, and irreplaceable.

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Sanford Robertson

Project Overview

Early Bay Area Venture Capitalists: Shaping the Business and Industrial Landscape documents through videotaped interview with the first generation of venture capitalists the origins and evolution of venture capital in California. The project explores and explains through the words of participants how venture capital in the state originated in the 1960s and 1970s, its intersection with national legislation and policy, the significance of its location, and its role in creating new companies, new technologies, and new individual and institutional wealth.

The Project

Venture capital was not a term when these narrators began to practice "risk investment" in the late 1960s and early 1970s. The oral histories describe the evolution of the field into the industry of today, focusing on its earliest emergence in Northern California. The narrators describe their circuitous routes into venture capital, their individual approaches to its practice, illustrative investments in key companies, the significance of its location in the Golden State, and its contributions to creating, financing, and building new companies, nationally and, increasingly, internationally.

Conceived and generously funded by Paul "Pete" Bancroft III, the project in its second year has interviewed twelve individuals. In the third and final year, the project scope expands to include interviews with representative investment bankers, attorneys, and early venture-backed entrepreneurs, as well as with additional venture capitalists. Completed oral histories, including those donated by related projects, are available at:

http://bancroft.berkeley.edu/ROHO/projects/vc/

An advisory board meets periodically to select individuals for interviews and advise on general direction.

Members: Paul Bancroft III, William Bowes Jr., William Draper III, Jerome Engel, Charles Faulhaber, Franklin Pitcher Johnson, and Alan Mendelson.

Project Director and Interviewer: Sally Smith Hughes

Videographers: Julie Allen, Caroline Crawford, and Linda Norton

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Sanford R. Robertson Biography

Mr. Robertson is a co-founder of Francisco Partners. Mr. Robertson serves on the board of directors of Dolby Laboratories (DLB) and salesforce.com (CRM). Prior to founding Francisco Partners, Mr. Robertson was the founder and Chairman of Robertson, Stephens& Company, a leading technology investment bank which was formed in 1978 and sold to BankAmerica in 1998. Since the sale, he has been an active technology investor and advisor to several technology companies. Mr. Robertson was also the founder of Robertson, Coleman, Siebel& Weisel, later renamed Montgomery Securities, another prominent technology investment bank.

Education:

B.A. and M.B.A. with Distinction from University of Michigan

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Interview #1: April 22, 2010
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01-00:00:10
Hughes: It is April 22, 2010, and this is an interview with Sanford—better known as Sandy—Robertson. I want to start back with where you were born, a little bit about your family and your education.

01-00:00:37
Robertson: All right. Well, I was born in Chicago, grew up in the suburbs of Chicago. My father [Donald Robertson] was kind of a serial entrepreneur, so genetically maybe I get some of this stuff. He had a candy company and then a very famous restaurant [Hearthstone House, Winnetka, IL], and then sold that. He then had a whole series of little companies. He always said, you will never be happy till you have your own firm. And I said, "Well, Dad, I'll be an investment banker, and I won't be just an employee. If I make it, I'll be a partner of that firm." He said, "Well, we'll see how that is." Well, I was a partner of Smith Barney, and I called him, and he was a week or so away from his eightieth birthday. I said, "Dad, I've always done what you've always wanted me to do. I've started my own firm." He said, "Oh, that's good. I started a new company this week myself." [laughter] So I think I come by this a little bit genetically.

01-00:01:47
Hughes: Yes, it sounds that way. Was there a lot of conversation around the dinner table about what he was doing with his various businesses?

01-00:01:59
Robertson: Yes. I was born fairly late in his life. In the 1920's, he was quite successful in his first company, and he helped several other friends found companies. It wasn't called venture capital in those days. He did it all on a loan basis to people.

01-00:02:19
Hughes: He devised that system on his own?

01-00:02:23
Robertson: He just felt strongly that people should, if they could, be working for themselves and have their own business.

01-00:02:32
Hughes: What happened during the Depression?

01-00:02:34
Robertson: In the twenties he had a hand-dipped candy business, like those white stores that are out there now.

01-00:02:45
Hughes: See's.

01-00:02:47
Robertson: Like See's Candies. He had seventeen stores. When the Depression came along, that was a very postponable expense. He was able to unwind those, didn't have to take it into bankruptcy, got out of every lease, and wound the thing down, of which he was proud that it didn't go into[bankruptcy].

01-00:03:08
Hughes: So he was clever as well.

01-00:03:08
Robertson: I think he was pretty clever, yes.

01-00:03:14
Hughes: Are you an only child?

01-00:03:14
Robertson: I am.

01-00:03:17
Hughes: You went to high school in the Chicago area?

01-00:03:26
Robertson: I went to a very high-powered high school called New Trier, with about twenty-five hundred students at the time. It still continues to be a very tough high school and a very great education.

01-00:03:40
Hughes: Were you beginning to get interested in anything in particular?

01-00:03:45
Robertson: My father's next business was a major restaurant. Duncan Hines, who was the *Michelin Guide* of the time, had rated it one of the five best restaurants in the country. It was large, and so I worked in that and was close to my father's work. I could see it and worked in it, and so I always thought— I happened to dodge a bullet, because he sold it just before I went to college, so I didn't have to go to the Cornell Hotel School and come back and run it. But I could see how hard he worked and what that produced and saw how a business was run at quite an early age. I probably thought I always wanted to be a businessman. I had one grandfather who was a doctor. I considered that for a while. One grandfather was a lawyer, and that didn't appeal to me. But business was always in the forefront of my thinking.

01-00:04:47
Hughes: Did that mean any special emphasis, such as more math? I guess at the high school level it's a little hard to figure out what you take for business.

01-00:04:59
Robertson: I took the normal pre-college courses, the college advanced courses, and yes, I took quite a bit of math, but nothing out of the ordinary. It was pretty well set with what you had to take in high school.

01-00:05:19
Hughes: And then the next step was the University of Michigan?

01-00:05:23
Robertson: The University of Michigan.

01-00:05:24
Hughes: Why Michigan?

01-00:05:26
Robertson: Well, I went to a very, very large high school, and so I thought the next step up would be to be at something larger. I toured the eastern schools and particularly liked Williams and Amherst, which were smaller, but then I though, gee, that's a step down in size. A friend had gone to Michigan a couple of years ahead of me and was really liking it. You could go any direction there. So that's not unlike Berkeley. In fact, when I go to Berkeley it reminds me of Ann Arbor.

01-00:06:03
Hughes: Is it Michigan that has the residential colleges?

01-00:06:15
Robertson: They've just started that in recent years.

01-00:06:16
Hughes: Oh, I see. So that wasn't what you experienced, obviously.

01-00:06:19
Robertson: No. You were just thrown in the lake and you had to swim.

01-00:06:25
Hughes: What happened in those four years?

01-00:06:30
Robertson: Well, I knew again that I probably wanted to go to business school. One other fact on Michigan that led me there is you could get an MBA in a total of five years rather than six. By this time the Korean War was on, and it looked pretty attractive to do that.

01-00:06:50
Hughes: Attractive so you avoided the draft.

01-00:06:52
Robertson: Well, you were going to get drafted when you got out. Something most people don't remember was in the Korean War you took a national exam, and if you scored seventy on it—I don't know what that number really means—you could stay in school through your undergraduate degree. If you got seventy-five, you could go to graduate school before being drafted.

01-00:07:18
Hughes: I'd never heard that.

01-00:07:20
Robertson: So I was able to go through graduate school and thought about going somewhere else for business school. But it was attractive to save that extra year, because you had to have at least two years in the army or go in some officer program.

01-00:07:36
Hughes: Did that mean that, in your senior year or whenever, you could start to take business courses?

01-00:07:43
Robertson: That's exactly right, yes. You kind of overlapped it.

01-00:07:50
Hughes: Looking back at your business school experience, has it helped in what you did thereafter?

01-00:08:03
Robertson: Yes. Business school was very good. It gives you all the techniques. I don't think business school is for everybody. We have people here in the firm that are doing so well, and they understand business so well that sometimes it would be a waste of two years for them to go and get an MBA.

01-00:08:24
Hughes: Are these people who have run business of their own? Is that how they get their experience?

01-00:08:31
Robertson: In one case, yes. One guy ran a business all the way though college and sold it for quite a bit to another student. So he was a natural athlete in the world of business.

01-00:08:47
Hughes: Is that coming to be a more general perception? That an MBA isn't absolutely de rigueur?

01-00:08:55
Robertson: Well, I think it's still important for most people to have, and you really learn the techniques of creating a business.

01-00:09:05
Hughes: Was the business school at Michigan known for a certain orientation as opposed to, say, the Sloan School of Management or Harvard or whatever you want to take as an example?

01-00:09:27
Robertson: At that time it was known for finance and particularly for accounting. It had the best accounting department in the country.

01-00:09:35
Hughes: Did that resonate with you?

01-00:09:38
Robertson: I did the basic things in accounting, but I didn't get into the details. I was more finance.

01-00:09:46
Hughes: And that you liked.

01-00:09:49
Robertson: I loved that, yes, right.

01-00:09:53
Hughes: We're moving fast, I know, over significant time, but is there anything else you want to say about those five years at Michigan?

01-00:10:04
Robertson: At a school like that, you're really on your own. It's like being out in the real world. And I always felt that that was an advantage. You really had to make all the decisions yourself. There was no—

01-00:10:18
Hughes: No advisors.

01-00:10:19
Robertson: Well, technically, I guess, there was an advisor, but he probably had a hundred people he had to talk to. But you really were on your own. And it taught you to be very independent and make your own decisions.

01-00:10:33
Hughes: Did that have the possible downside of not having a close relationship with your professors?

01-00:10:44
Robertson: No, that *did* happen, that you could have a close relationship with your professor.

01-00:10:51
Hughes: Was there anybody that you would consider a mentor?

01-00:10:55
Robertson: There were a couple of them. One was a finance professor who really got me interested in corporate finance, and another was an economics professor, and another one was the dean emeritus who taught a comparative economics course. They were all people you really remember and think back on.

01-00:11:20
Hughes: Well, before we leave Michigan, you mentioned off-tape that you'd had a Michigan group here yesterday. So obviously you maintain the ties. In what way?

01-00:11:34
Robertson: Well, this whole room yesterday was filled with the University of Michigan investment committee and the investment staff. I've been on the investment committee for about fifteen years, and we have a very active, very good investment committee, and about an $8 billion endowment.

01-00:11:51
Hughes: And it's doing all right, considering the downturn?

01-00:11:53
Robertson: It's doing *very* well.

01-00:11:55
Hughes: Well, that's an exception to a lot of stories.

01-00:11:58
Robertson: We had our advisor, Cambridge Associates, here and they rank all these schools on a code basis. But you can figure out by size who it is. And we have done extremely well versus Harvard and Yale.

01-00:12:16
Hughes: Yes, you read about that.

01-00:12:18
Robertson: Just before this downturn, we ranked second to Harvard one year, second to Yale one year, but on a blended basis we ranked first over the two years. We've had a good investment manager, which is the key to that. We've got seven other guys on this committee and one woman, who are phenomenal.

01-00:12:45
Hughes: Do committee members see an approach the same way?

01-00:12:48
Robertson: No, we all come from different backgrounds. There's a venture capitalist and an M&A [mergers & acquisitions] expert, a pension fund manager, one guy from Goldman Sachs, one from Bain [& Company] bringing in more of a management consulting view toward things, and it's a very outspoken group.

01-00:13:14
Hughes: It must be fun!

01-00:13:15
Robertson: It is a lot of fun, yes, right. It's a way to contribute to the university too.

01-00:13:21
Hughes: That's after many years too. That's quite a contribution on your part. All right, the next step is the navy. So tell me about that.

01-00:13:36
Robertson: Well, the Korean War was on, and when you graduated then you were eligible for the draft, which would have been two years in the army. But there was a

navy program to become a naval officer that was very popular. You had to stay in for three years—three years after going through Officer Candidate School. That program was highly desirable, and there were 450 people in our class out of twenty thousand that applied. It was the greatest bunch of guys I've ever been around in my life—really, really wonderful guys.

01-00:14:22
Hughes: What were the criteria for entry? Was it all about grade point average?

01-00:14:26
Robertson: Well, I guess you took an exam, but everybody there had an MBA, a law degree, or a master's in engineering. So they might have looked at the education. With only five years to get an MBA [1954], I was the most undereducated, because most of the people had six years to get their [MBA]—or seven years for law school. But it was a terrific bunch of guys, and they've all thrived since then. One's been partner at Morgan Stanley, one's a partner of CS [Credit Suisse] First Boston, another one head of a law firm in Hartford, another one head of a New York law firm. I'm still in touch with a half dozen of them—really, really terrific group of guys.

01-00:15:10
Hughes: To what purpose was the navy going to use this group?

01-00:15:15
Robertson: Well, most of us were becoming supply officers—the MBAs and the lawyers. The master's in engineering guys went on to specialized engineering functions, and a couple of people went into navy intelligence. But it was a program, this OCS [Officer Candidate School], where they normally washed out about 30 percent of the people, and then you spent the rest of the time as an enlisted man if you washed out. They couldn't flunk anybody out of this group, and they didn't know what they had. So one week they just canceled all the classes and gave us psychological tests and intelligence tests all day long, which became a real advantage later on looking for a job. If the company gave you an intelligence test or a psychological test, you'd seen the questions before! [laughter]

01-00:16:17
Hughes: What did you end up doing?

01-00:16:18
Robertson: I went to Japan. I had a very good experience in the navy. First I went to Guam and I was a supply officer. It was a cargo-handling battalion, which in wartime would go in after the amphibious troops. But we had different peacetime functions. There were thirteen officers and five hundred men, and then the Korean War by then had ended. So they cut it back to three officers and a hundred men and sent us to Japan. Well, I became the number two officer, the executive officer, in this scenario, which meant that I was the operating person of the group. I learned more, frankly, about running my business later in life by running that navy operation than I did in business

school, because it was really practical, hands-on experience, getting people to work for you, giving an order, working for someone. And when the captain, the number one guy, had to go on emergency leave, I actually had command of a naval unit for about a month.

01-00:17:39
Hughes: How old were you at that point?

01-00:17:41
Robertson: I was twenty-five. So that was a *great* experience after business school. I always thought I was going to waste my time going in the service for a while. However, I got a lot more out of those three years in the navy than I could have as a trainee at some big corporation.

01-00:18:19
Hughes: So that was still occupied Japan, wasn't it? Wasn't [Douglas] MacArthur still there?

01-00:18:25
Robertson: No. It was a little after that, because I was there in '56 and '57.

01-00:18:29
Hughes: I see. An interesting time nonetheless.

01-00:18:33
Robertson: It was a great time to be there, yes.

01-00:18:36
Hughes: Then you went to American Hospital Supply Corporation for one year [1958].

01-00:18:41
Robertson: Yes, when I got out of the navy I thought I either wanted to go to a medium-size growing corporation or get in the investment world. And American Hospital Supply, the year I joined them, went from $65 million in sales to $100. It later became a billion dollar company, more than a billion dollar company, and it was a very growing, interesting company.

01-00:19:10
Hughes: And that's what attracted you? The growth of it?

01-00:19:14
Robertson: That's what attracted me, but I also found out that I really missed the investment world. It was in Evanston, Illinois, near Northwestern University, and at the end of the day I'd go down to their financial library and look up stocks and think about securities, and I thought I should make my avocation and my vocation coincide. So I quit and joined Smith Barney [1959-1969].

01-00:19:42
Hughes: And of course the obvious question is why Smith Barney?

01-00:19:45
Robertson: Well, they were the one that offered me a job! [laughter]

01-00:19:47
Hughes: That’s a good reason. Did that mean Wall Street? Where did you go?

01-00:19:54
Robertson: Well, then I went to New York for a year to work for Smith Barney, through a very extensive, wonderful training program that they had.

01-00:20:03
Hughes: Was it a general training program? Or were they slotting you towards a certain aspect of the business?

01-00:20:12
Robertson: It was a general training program, and they actually put you to work in each department. I worked on the then second largest offering, of A&P. How the numbers have changed. It was an $84 million offering which would hardly get anybody’s attention today. The only one that had been larger had been Ford, which had had a $100 million offering.

01-00:20:38
Hughes: And were you getting more and more convinced that the investment side of things was where your interest lay?

01-00:20:47
Robertson: Oh, I loved it even as the most junior person around. It was wonderful.

01-00:20:52
Hughes: Now did that training serve you well later on?

01-00:20:56
Robertson: Very much so, oh yes.

01-00:20:59
Hughes: So a year in the training program, in New York. Did you have a family yet?

01-00:21:08
Robertson: I did. I had a wife and one daughter at the time. I almost stayed in New York, but I had been hired to go back to Chicago, and I decided to go back there.

01-00:21:24
Hughes: With Smith Barney.

01-00:21:24
Robertson: With Smith Barney.

01-00:21:25
Hughes: And why?

01-00:21:27
Robertson: They were giving me some responsibilities that I thought were very good.

01-00:21:39
Hughes: Were they responsibilities above and beyond the time you'd been with the firm? You'd only been there a year.

01-00:21:48
Robertson: I'd only been there a year, but in the first year it was all in New York in a training program. But in Chicago they were going to give me the responsibility of covering Iowa and Nebraska for them, and I could be out there on my own.

01-00:22:03
Hughes: Was that unusual? Would people emerging from a year's training program usually have been given something as responsible?

01-00:22:11
Robertson: One would usually be behind somebody else. And I *was* briefly. But this guy said he was going to be promoted and I'd have it all to myself.

01-00:22:21
Hughes: And of course you loved that.

01-00:22:23
Robertson: You could call on all the insurance companies, and the industrial companies out there. Also, Warren Buffet and the investment managers.

01-00:22:30
Hughes: How was Smith Barney as your umbrella? I should be more direct because I was hoping to get a flavor for investment banking on the East Coast, as opposed to what's *going* to happen on the West Coast. So I guess my question should be, are you getting a feeling for the culture of investment banking? Is that what you're doing at Smith Barney?

01-00:23:13
Robertson: Yes. It was the East Coast culture at Smith Barney.

01-00:23:20
Hughes: Please expand on that.

01-00:23:22
Robertson: Well, they were looking at traditional companies, both in the East and in Chicago. They weren't looking at growth companies. There weren't the entrepreneurially financed companies to speak of.

01-00:23:42
Hughes: And no high-tech.

01-00:23:43
Robertson: No high-tech. There were some very good companies. The A.C. Nielsen Company was a company we did a lot of work for. And Nielsen then, I think, was the second largest user of computers in the country, using all this data. They were known for their television rating thing. But really what they did

was measure how fast soap and shampoo and goods moved off the shelves in the supermarket. Nielsen had been started by one man. By then it had been in business maybe twenty years, so it wasn't a new startup sort of thing. But most of the companies, at one point, had been entrepreneurially financed.

01-00:24:35
Hughes: And at this point you didn't know of any other way of doing it, did you?

Robertson: No, that's right.

01-00:24:43
Hughes: So you were not questioning why Smith Barney was sticking with relatively conservative, established companies. Are those adjectives right?

01-00:24:55
Robertson: That's absolutely correct. Then when I got to the West Coast, I couldn't train them otherwise. That was one of the reasons I spun off and did my own firm.

01-00:25:07
Hughes: Well, are we there? No—I have 1959 to 1969 at Smith Barney, so that's ten years—that's longer than you've been anywhere else.

01-00:25:21
Robertson: By 1965 I had become the assistant manager of the Chicago office, and overnight they'd fired the head of the San Francisco office. I got called in and they said, did I want to go out to San Francisco. I think they'd thought of me because the firm had no office in Los Angeles at the time, and Los Angeles had just passed Chicago as the second largest city. So I was kind of negotiating with the firm to open up in Los Angeles for them, and they must have thought of me in relation to California.

01-00:26:04
Hughes: And then you would run that office?

01-00:26:07
Robertson: And I would run that office—yes. But that was still being thought about. They fired the San Francisco manager, and I went out and on four hours' notice got in a plane and came to the West Coast. So then on the West Coast—

01-00:26:24
Hughes: But this is still—?

01-00:26:29
Robertson: I was with Smith Barney, so I was running Smith Barney's office.

01-00:26:33
Hughes: In San Francisco.

01-00:26:35
Robertson: In San Francisco, but it had responsibilities for all of the West Coast and Hawaii.

01-00:26:46
Hughes: Was that intimidating?

01-00:26:48
Robertson: No. [chuckling] It was fun! There was a lot to be done. There was a *lot* to be done.

01-00:26:55
Hughes: And did you have a good staff in place?

01-00:26:58
Robertson: Yes and no. I recruited Ken [Kenneth F.] Siebel and Bob [Robert] Colman from other parts of the firm. I'd hired Siebel for Chicago, and he was in New York being trained when I came out, and he was the key guy that I really brought out. No—the office had to be beefed up a lot. So I recruited several people.

01-00:27:28
Hughes: Well, does that reflect Smith Barney philosophy somewhat? That the emphasis is still on the East Coast, and okay, they've got the San Francisco office, but they're not going to put their best people there?

01-00:27:42
Robertson: Well, the fact that they fired my predecessor probably means that they didn't have the right guy, but it needed to be changed quite a bit.

01-00:27:54
Hughes: But the impression I'm getting, and perhaps it's wrong, is that this was *not* a center of real focus for Smith Barney. They were still East Coast-focused?

01-00:28:12
Robertson: Right, and they'd never, ever done a piece of investment banking on the West Coast. It was strictly a brokerage operation. So in one of the fastest growing, most interesting parts of the country they had a big goose egg.

01-00:28:27
Hughes: So Silicon Valley went right over their head?

01-00:28:29
Robertson: They didn't even know the name. And the name probably wasn't being even used then.

01-00:28:35
Hughes: Yes, I think the name comes sometime in the seventies. But there was plenty going on there, name or no name.

01-00:28:41
Robertson: Well, first they said, “Go call on the Bank of America, call on Chevron, call the forest products companies, utilities.” I said, “No, the really interesting companies out here are Hewlett-Packard and Varian Associates and Ampex and Fairchild Semiconductor.” They said, “Semiconductors—that’s bad stuff. They’ll have a good semiconductor one year, and the next year someone else has a better one, and maybe Texas Instruments is better. Don’t worry about those companies.” And I said, “Well, I really think we ought to.” So I went ahead and called on these companies anyway.

01-00:29:38
Hughes: Now why did you have that mindset?

01-00:29:42
Robertson: Well, I think it’s genetic. My father being a serial entrepreneur, I was really interested in small business and growing businesses. Even the year at American Hospital Supply; it was a very interesting company.

01-00:29:56
Hughes: In what way?

01-00:30:00
Robertson: The year I spent there it was a nice, fast-growing company, almost 50%.

01-00:30:04
Hughes: I see, but that was a big company. You’re saying because it was really into growth that you were catching that idea?

01-00:30:14
Robertson: Growth, a growing company, yes. But one of the first things I did was do a private placement for a company called Spectra-Physics, which was the leading laser company in the world, and a very, very fine company. They just dominated— They had 70 percent of the world’s laser market, and it’s how I met Tom Perkins too. But Spectra-Physics was just the leader in its whole field, and I got the firm to do a private placement. We placed some private stock with venture firms.

01-00:31:01
Hughes: When you say a private placement, does that mean Smith Barney funds? Or were you raising—

01-00:31:07
Robertson: Well, both. It was basically raising it to put in some venture capitalists’ hands in the East. But I got the firm to take a $100,000 piece themselves. I said, “You really ought to do this.” Well, this was a little bit far out for the firm. And when I’d go back for a partners meeting, my partners would say, “Hey, Buck Rogers, how’s our ray gun company going out there?” And I couldn’t teach them that this was a valid thing—that lasers were starting to be used as scanners in supermarkets where you passed the barcode over it; they were used in technical instruments like interferometers.

01-00:31:54
Hughes: But Smith Barney didn’t buy that? They just thought it was a flash in the pan?

01-00:31:58
Robertson: Well, they didn’t really realize, in a way, what they had. Then they turned me down on a financing for Fairchild Semiconductor.

01-00:32:12
Hughes: For the same reason?

01-00:32:15
Robertson: The same reason.

01-00:32:15
Hughes: Why do we want those semiconductors?

01-00:32:20
Robertson: Yes, and so at that point I thought I’ve got to start my own firm. So Ken Siebel was the one who I’d really recruited, and Bob Colman. And we brought them in, and the three of us decided to start our own firm [Robertson, Colman, Siebel, Weisel].

01-00:32:33
Hughes: Well, before we move on past the lasers, I do want you to tell me about the Tom Perkins connection. By then he had University Labs, right?

01-00:32:48
Robertson: Well, he had University Labs, and we merged that into Spectra-Physics. Spectra Physics had been making lasers strictly for scientific use—interferometers—and they were doing some barcode scanning, the very early days of that. But Tom had started University Labs that originally made a kit for kids to use in school.

01-00:33:12
Hughes: He didn’t tell me that. I didn’t realize it was for kids.

01-00:33:17
Robertson: Well, that was the original project, and it led to lasers being used in construction. What they did was take the laser, and they used it to make a line around a wall. It would be on a tripod and going around, and then you could put your ceiling tiles in and get them absolutely straight. If you were digging a ditch, a sewer, it had to be maybe dropped three inches every hundred yards to get the flow of the water. Well, that was very difficult to do with a string and tripods and surveying instruments. You could do that with a laser line going down that trench. So they were doing things like that with lasers. The third thing they did was if you were grading a piece of land and you wanted it absolutely smooth, you could use the laser, which is a straight point of light, where a string might have sagginess to it or something. They took lasers and used them in very prosaic but very useful ways. So that’s what University Labs did, and we put that into Spectra-Physics.

01-00:34:27
Hughes: But Spectra-Physics already had a laser of its own?

01-00:34:32
Robertson: Spectra-Physics was manufacturing them.

01-00:34:35
Hughes: Oh, I see how it went. And University Labs, as the name implies, was in Berkeley. But where is/was Spectra-Physics?

01-00:34:47
Robertson: It was in Mountain View.

01-00:34:48
Hughes: All right. So there we get Silicon Valley, don't we.

01-00:34:52
Robertson: Yes, and Charles Townes, who had gotten the Nobel Prize for the laser, was on an advisory board for them.

01-00:35:00
Hughes: We have a huge oral history with him, by the way.

01-00:35:03
Robertson: Do you really?

01-00:35:05
Hughes: It's online.

01-00:35:06
Robertson: Oh, well—good! I met him one time. He's a very, very nice guy.

01-00:35:17
Robertson: Anyway, that's how I met Tom—through that.

01-00:35:20
Hughes: I know from talking to him fairly recently that he made money when University Labs was sold, of course. He didn't immediately leave Hewlett-Packard, but I think the fact that he had money to play with was instrumental in the idea that he wanted to go into venture capital.

01-00:35:52
Robertson: Yes, it gave him his stake away from Hewlett-Packard, and he was very important to Hewlett-Packard. He was running the computer division. But he had an entrepreneurial bent, and he was investing in some things other than just University Labs, and Hewlett-Packard was very approving of this. They thought it gave their people more entrepreneurial spirit, and they liked that. A lot of companies wouldn't let someone do that, but Hewlett-Packard apparently did.

01-00:36:30
Hughes: Well, tell the story, please, about your introduction of Tom Perkins and Gene Kleiner.

01-00:36:40
Robertson: Well, when we started our firm, we decided we wanted some limited partners. Number one, for capital, but number two, to help us find business. We had some capital partners; we had some General Mills founders who put $100,000 in, and a real estate guy, and then Tom Perkins. We thought he was in touch with the growing companies that we might want to know. It was part of our Rolodex to have a farm system and have people like Tom point us toward companies. Eugene Kleiner was another one.

01-00:37:28
Hughes: How had you known him?

01-00:37:33
Robertson: Eugene—I don't think I knew Gene that well. Ken Siebel and I went and called on him cold and told him what we were going to do. As a matter of fact, we had not met him until we had that meeting.

01-00:37:48
Hughes: Was he still at Fairchild?

01-00:37:50
Robertson: No, he'd left Fairchild. And he'd done another company that was doing educational terminals. You could do some interactive learning through the terminals, and he sold that to Raytheon. He had started another company that had been successful and sold it. But he was a Fairchild founder. He had a couple other companies, but the one that he was known for secondarily, after Fairchild, was this educational company. Ken Siebel and I called on him cold and talked to him, and he committed $100,000 on the spot. He liked what we were going to do.

01-00:38:39
Hughes: Was it the high-tech emphasis that caught him?

01-00:38:42
Robertson: Yes, exactly. And we said that we wanted to underwrite high-tech companies.

01-00:38:47
Hughes: When was this?

01-00:38:49
Robertson: That would have been in '69.

01-00:38:51
Hughes: Do you call it, in investment banking, a fund?

01-00:38:58
Robertson: No, it was not a fund. It was an investment banking firm.

So anyway, we had about eight limited partners. Kleiner was one, Perkins was the other. They didn't know each other. I'd had lunch with Tom one day, and he said, "You know, at some point I want to leave Hewlett-Packard and do a venture fund." Then I also had lunch with Eugene one day, and he said, "The Hillman family wants to give me a couple of million dollars to do a venture fund." This is 1972. Brentwood Associates in Los Angeles had been trying for two years to raise a $5 million fund, and it had taken them two years. I happened to run into them, and they said, "Oh,! We've finally got our fund together after working on this for two years." And so I knew there's probably some money around. So I said to both Tom and Eugene, "I think maybe there's a little bit of money around for some venture capital now," and I wanted to introduce them to each other.

So we met at Rickey's Hyatt House, which was the place you met for breakfast in those days. I guess it's now Buck's. But in those days it was Rickey's Hyatt House, and we met at 8:00. The chemistry was wonderful right from the beginning. We finally got kicked out of there about quarter of twelve when they wanted to set up the place for lunch. Eugene had the semiconductor world covered, and Tom had the computer world covered. And they overlapped a little bit with their friends and Rolodex. They hadn't known each other before, but they really hit it off.

01-00:41:03
Hughes: But very different personalities.

01-00:41:05
Robertson: *Extremely* different personalities.

01-00:41:07
Hughes: I unfortunately never had a chance to talk to Gene Kleiner, but just from what I've read—

01-00:41:13
Robertson: Eugene was just a wonderful individual, very quiet, very thoughtful, and a really fine, fine person, just a wonderful human being.

01-00:41:26
Hughes: And so he and Tom clicked on a personal level too?

01-00:41:30
Robertson: It was on a personal level too. That was a Thursday morning, and they said, "Well, we'll get together over the weekend and talk." And they talked most of Saturday and most of Sunday and called me on Monday morning and said, "Let's go raise a fund!" We were going to try for a $10 million fund, and I guess we must have started raising the money right after Labor Day. By the first week in December, we had $8.4 million raised. And it was so tenuous; we thought over Christmas someone might change his mind. Maybe we'd better close this thing out at $8.4 million.

01-00:42:13
Hughes: Was that the economy? I know the early seventies weren't a great period in general for risky investment. But was that also because people didn't *know* what venture capital was?

01-00:42:31
Robertson: Partly. It seemed very risky to people, extremely risky to people. The economy in '72 had gotten a little bit better. It wasn't horrible. We'd taken a couple of companies public for the first time that year. We didn't from '69 through '72—so till early '72 we hadn't done any offerings. There was an IPO market a little bit, but it was thought to be very risky, and there was nothing really developed in this area. And a $5 million fund was a big fund, it was a really huge fund. So we thought we were going to try for 10, and we had 8.4. We thought, boy, over Christmas we might lose a couple of these guys, so let's close it out. In reality, Kleiner Perkins never spent the full 8.4.

01-00:43:30
Hughes: Why? Because you couldn't find good enough deals?

01-00:43:35
Robertson: They couldn't find enough deals, and then they were about to do Fund II. Then people wanted to put more money into it, and so they did Fund II.

01-00:43:47
Hughes: Was that pretty quickly after that?

01-00:43:50
Robertson: That one was called Kleiner Perkins Caufield & Byers, rather than Kleiner & Perkins.

01-00:43:57
Hughes: So that's maybe about '74-'75-ish?

01-00:44:01
Robertson: It was probably '74-'75, maybe '74. So out of the $8 million, they probably put only five or six to work. They were thinking about buying some public stocks, but the limited partners didn't give them money to put in public stocks. The limiteds could do that themselves.

01-00:44:23
Hughes: Would that be legal to do that?

01-00:44:25
Robertson: Yes, it would.

01-00:44:27
Robertson: But when people put money in venture capital, they want you to put it in venture capital. They don't want you to buy Intel when it's cheap, or something like that. They can go do that themselves. You can *tell* them you think it looks cheap, but they really want the risk/reward ratio of venture capital. Both Tandem and Genentech came out of that fund.

01-00:44:56
Hughes: It was all right, wasn't it.

01-00:44:58
Robertson: And a couple of others that were probably doubles or something like that, nothing like the multiples on Tandem and Genentech.

01-00:45:09
Hughes: Now did your firm ride on this success?

01-00:45:15
Robertson: Well, we were the placement agent for them. So we raised the money and then we were close to them. When they had a company ready to go public, we hoped that we would have a chance to take it public.

01-00:45:32
Hughes: But that wasn't a hard and fast understanding?

01-00:45:37
Robertson: No, it was just sort of friends, right. And we did take almost all of them public. I can't think of one of the Kleiner & Perkins companies in the early days we didn't take public.

01-00:45:46
Hughes: But you were a new company. You'd only been founded since 1969. As you said, you had Tandem and Genentech in that first fund.

01-00:46:15
Robertson: Yes, *they* had it in their first fund.

01-00:46:16
Hughes: Maybe it wasn't obvious yet what a success that fund was going to be. I'm wondering about the interaction between the Kleiner Perkins fund and your company trying to get off the ground.

01-00:46:29
Robertson: Well, we were off the ground by the time we raised the money for them. We weren't huge, but we were part of the "four horsemen" at the time who were doing deals.

01-00:46:48
Hughes: And who are the four horsemen?

01-00:46:52
Robertson: Well, it basically was Hambrecht & Quist and ourselves, and [L.F.] Rothschild, Unterberg, Towbin, and then Alex Brown [& Sons].

01-00:47:01
Hughes: Are they all on the West Coast?

01-00:47:03
Robertson: Alex Brown was in Baltimore. Then Montgomery [Securities], which our firm began—and we spun out—that's a whole other story, kind of became the other four horsemen and Unterberg, Towbin went away. But there were always four of us doing these deals.

01-00:47:27
Hughes: I'm also interested in what happened when Thom Weisel arrived—four partners. How were you four working together?

01-00:47:47
Robertson: Well, what happened—the firm was originally Robertson, Colman & Siebel. And in '72, we added Weisel. He had been with another firm. And then a year later we put his name on the door. It was Robertson, Colman, Siebel & Weisel about '73. Ken Siebel retired to become a money manager, which was his function, and do his own firm—on a very friendly basis—in probably '76 or '77. And then in 1978, the firm split in two.

01-00:48:41
Hughes: And that was unhappy, wasn't it?

01-00:48:44
Robertson: That was unhappy. The other firm had the New York Stock Exchange seat, so effectively Robertson, Colman, Siebel & Weisel became Montgomery Securities. We bought a new seat and started Robertson, Colman, Stephens, later called Robertson Stephens.

01-00:49:04
Hughes: And what was the unhappiness?

01-00:49:09
Robertson: Well, Weisel was very difficult to get along with, so we could have gone internally and had a big fight, and the firm probably would have split apart anyway. So we just quietly resigned at the end of the fiscal year and went our separate ways and took the name. We took the name; they took the NYSE seat.

01-00:49:28
Hughes: I've never heard what it means to buy a seat.

01-00:49:36
Robertson: There's a market in seats. There was always a bid and ask. And we bought that seat very cheaply at about $75,000.

01-00:49:49
Hughes: What would it be nowadays?

01-00:49:52
Robertson: Now it's publicly held, so it is not comparable. We bought the seat for $75,000. It had been over $500,000 in the late sixties, and then it crashed down to about $75,000.

01-00:50:18
Hughes: So you were fortunate.

01-00:50:19
Robertson: We did it with perfect timing. It’s no trouble buying one, but you do have to take some exams, and you have to show that you’re competent, and you’ve got to get approved by the committee. But that’s not difficult to do. If you haven’t had experience in the business, they might want to put you through some training, particularly if you’re going to work on the floor and actually trade with specialists. You’ve got to know some technical procedures.

01-00:50:54
Hughes: But nobody in your firm intended to do that, did they?

01-00:50:58
Robertson: No. We would have someone else do it for us.

01-00:51:00
Hughes: So is this now Robertson Stephens that we’re talking about?

01-00:51:06
Robertson: Now we’re talking about Robertson Stephens.

01-00:51:07
Hughes: 1978 to September 1998 is what I got from your bio.

01-00:51:17
Robertson: That’s right.

01-00:51:22
Hughes: What to say about Robertson Stephens! There’s so much! [laughter] Well, first of all, who’s Stephens?

01-00:51:30
Robertson: Paul Stephens. He’s a money manager in town. Stephens Investment Management, and he had been with us at Robertson, Colman. He’s a guy I hired out of Berkeley, as a matter of fact.

01-00:51:46
Hughes: So was that a natural for the two of you to be partners?

01-00:51:52
Robertson: Yes. He had worked with Ken Siebel, and when Ken left he kind of took over that function in the firm. They were close friends, and Siebel’s still a very close friend. I’m about to go to his daughter’s wedding in a couple of weeks. But Paul kind of took over that brokerage and money management function for us, and that’s what Ken Siebel had been doing.

01-00:52:20
Hughes: Were there other people that you transferred from the old firm? Or did you have to start from scratch?

01-00:52:29
Robertson: No, it was two-thirds/one-third. We kept the people that we wanted.

01-00:52:34
Hughes: I see, so there wasn't a huge lag period between the old firm and starting up the new?

01-00:52:42
Robertson: No, there was about a month in there because wehad to get re-registered with the SEC and all that sort of thing.

01-00:52:49
Hughes: And how did you divide up your clients?

01-00:52:53
Robertson: We were competing for them. Montgomery and Robertson Stephens were both after them! [chuckling] We actually had most of the banking clients. I think we had all of the banking clients.

01-00:53:05
Hughes: Now why was that?

01-00:53:09
Robertson: Because investment banking was my function.

01-00:53:11
Hughes: All right, so it was a vote for Sandy Robertson.

01-00:53:14
Robertson: And Weisel was on the trading desk. He covered the institutional clients, and the institutions deal with everybody. So we took the banking clients, but they still had the institutional relationships, and so did we.

01-00:53:26
Hughes: You took them, but isn't it more accurate to say they chose to go with you?

01-00:53:30
Robertson: The ones that came with us, yes.

01-00:53:33
Hughes: You couldn't just say, "You're coming with us, boys." [chuckling]

01-00:53:37
Robertson: No, that's right.

01-00:53:38
Hughes: I don't know this area, so I'm asking some naïve questions.

01-00:53:48
Robertson: Everybody we asked to come over came, except one. And he had a pretty good situationwhere he was.

01-00:53:53
Hughes: Well, that's a pretty good vote of confidence, isn't it?

01-00:53:56
Robertson: That's right, yes.

01-00:53:57
Hughes: So this is 1978. Things are getting better in the economy, aren't they?

01-00:54:18
Robertson: [pause] Yes—that was an okay year. It's relative to what we've seen—the numbers have changed so dramatically. We've not added one zero, but two zeroes in some of these things.

01-00:54:36
Hughes: Well, I know that was the year that Congress reduced the capital gains tax.

01-00:54:43
Robertson: That's right.

01-00:54:44
Hughes: And that must have made a difference to you.

01-00:54:48
Robertson: Yes, I was very involved in that as a matter of fact.

01-00:54:49
Hughes: Oh, were you? Well, tell me that story.

01-00:54:51
Robertson: Ed[win] Zschau, who later ran for the senate here and had been a professor at Stanford Business School, headed the American Electronics Association committee on getting the capital gains tax reduced. And that's right—it was during 1978 that that all happened. I was a member of a team that went and testified before Congress on the bill. Ed was there, and David Morgenthaler, Sr., who was from Cleveland, but he was head of the National Venture Capital Association. And then Bob [Robert N.] Noyce of Intel.

01-00:55:42
Hughes: Oh, really! Bob Noyce!

01-00:55:44
Robertson: Who was phenomenal. He had this booming, deep voice.

01-00:55:51
Hughes: There's a phenomenal biography of him.

01-00:55:55
Robertson: I've read a couple of them. He was a wild man! [chuckling]

01-00:55:58
Hughes: He died too young.

01-00:56:01
Robertson: I just saw Ann last weekend at a party.

01-00:56:07
Hughes: Do you know Reid Dennis?

01-00:56:08
Robertson: Yes.

01-00:56:08
Hughes: Because he was also a part of that campaign.

01-00:56:11
Robertson: Yes. He wasn't a part of that particular thing that we did, but he was part of it, yes. I saw him at the same party last week. He was there.

01-00:56:23
Hughes: All right. Back to a really basic question. I see a lot of overlap between what *you* are doing and what venture capitalists are doing. So could you clarify the distinction?

01-00:56:45
Robertson: Well, the venture capitalists create the companies, and when they need liquidity, they like to take them public or merge them out, and that's where the investment banking function comes in. So we could go call on Kleiner Perkins or another venture capitalist, and talk to them about their portfolio. They'd say, "Well, we've got these three companies that are really growing along, and, rather than do one more private finance, we think they might be ready for a public market." So then we'd go call on those companies for them and take them public and get the venture capitalists liquid. And if the company maybe wasn't doing quite so well or needed a lot of money and needed a big corporate partner, then we would be brought in to try to merge it with somebody else.

01-00:57:36
Hughes: I see, and all this is in the context of what's going on in the wider economy, right? You're not going to take a company public in a down market, right?

01-00:57:51
Robertson: That's correct, yes. For instance in the last couple of years now, it's been a very quiet IPO market, but that's changing all of a sudden.

01-00:57:58
Hughes: So what does that do to your business?

01-00:58:01
Robertson: Well, you have to make it from things other than the IPO market.

01-00:58:06
Hughes: All right, so talk about those other things.

01-00:58:09
Robertson: The other thing you would do is you have a research department where they know these technologies in depth. You give those ideas to the institutional investor, and they gave you brokerage business in return. It was a very steady business. Most of these stocks were over the counter, so you made markets in those stocks, and maybe you took an eighth between the bid and the ask and made money that way.

[End Audio File 1]

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02-00:00:00
Robertson: The venture capitalists create the companies, and then when they're ready to get liquid on a company and take it public or merge it out, this is when the investment banker comes in. So we can go to a venture capitalist and say, "What are your best companies? Which ones do you want to get liquid on now?" Then we would go and work directly with those companies about taking them public and getting them liquid so the venture capitalists could sell some stock and get liquid. And then if the company isn't quite ready to go public, maybe they need to be merged out. So you do a merger or acquisition.

02-00:00:49
Hughes: Well, when you say a company is not quite ready to go public, what kind of things are you thinking about?

02-00:00:57
Robertson: It's either their top line or their bottom line isn't large enough.

02-00:01:01
Hughes: It's really as simple as that?

02-00:01:05
Robertson: Yes. It's basically as simple as that. And that may be because they don't have their product quite developed, or they're waiting for a second generation to come along which would be better suited for a larger market. But basically it's either that top line or the bottom line isn't enough yet.

02-00:01:27
Hughes: Well, before we get too much further, I would like you to tell that lovely story about your wife's definition of investment banking.

02-00:01:38
Robertson: When I was dating my wife, she didn't quite know what an investment banker was and didn't know how that related to being a commercial banker. We had two uninterrupted hours driving to Monterey for an American Electronics Association conference, so she said, "Let's take this time—you tell me about the business." So I told her, talked for two hours about investment banking and what we did. She says, "Okay. Now I've got it." And she's never asked me another question again. But at the end of that she said, "Well, it's pretty

easy what you do. You take money out of one pile, and you smoosh it around, and you put it in another pile." And I said, "Well, that's probably true, that's all we do, but it's very competitive." [laughter]

02-00:02:29
Hughes: That's very nice. I do want to talk about biotech, and you just mentioned products as one of the aspects of your consideration of what to do with a company. Biotech when you began associations with companies like Hybritech and Chiron and others, there were no products. So did you have to readjust your criteria for how to deal with these new companies?

02-00:03:18
Robertson: That's right. In the biotech world, you saw what phase trials they were in and what the prospects were. Right now in 2010, it's pretty difficult to finance a biotech company because it takes so long to get through the FDA, and there's not a lot of money around to keep financing these things. So these companies are hoarding their cash.

In the very early days, people were betting—in a Genentech, for instance—that they could raise enough money to get through all these trials and get their products to market. And it's a fairly speculative bet.

You were talking about Tom Perkins before. My first ever conversation about biotechnology was with Tom, and we were having lunch at the Pacific Union Club, where you're not supposed to talk business or bring papers out on the table. And Tom wanted to explain to me how Genentech worked, so he pulls out a piece of paper, and he draws a circle and he says: you take this slice out of an *E. coli* bacteria and you put this other thing in there. And they came over and said, "Oh, Mr. Perkins. I'm sorry, but you can't have papers on the table." We've always laughed that that might have set biotech back five years! [laughter] But it was a totally new area for people, and there was a lot of education to be done.

02-00:04:56
Hughes: What was your attitude towards biotech?

02-00:05:00
Robertson: It was extremely exciting stuff. Very, very exciting things, yes.

02-00:05:07
Hughes: Tell me a little bit more why. It was new.

02-00:05:12
Robertson: It was new. I'd always had an interest in the healthcare world, partly because of working for American Hospital Supply for a year, which gave me a cross-section view of the industry. In later years, I realized that it wasn't a wasted year because I got such a background in the healthcare world. But this was a whole new area. It had great promise. It could do things that chemistry couldn't do, and it was very, very exciting.

02-00:05:48
Hughes: And you had Tom Perkins beating the drum.

02-00:05:52
Robertson: We had Tom, and Brook Byers had started Hybritech, and we took that public. And then we sold that to Eli Lilly. We did more deals for Chiron than any other client. We did ten or eleven transactions for Chiron to keep them financed and viable.

02-00:06:14
Hughes: Of what nature?

02-00:06:16
Robertson: First would be the IPO. Then maybe a secondary for them, really a second primary offering. We did convertible debt for them; we did mergers for them; we advised, along with others, on their final sale to the Swiss [Novartis], et cetera. So a company like that always needed money, and so they were very good banking clients. They also were very subject to being merged, because you could take two bio companies with two different product lines and put one layer of management over them rather than two layers of management—one in each company—and it would be more efficient.

02-00:07:10
Hughes: It doesn't sound to me as though you were much stymied by the fact that there were no products in these companies at first—no certainty that there would be any near term. Why didn't that bother you? Or did it bother you?

02-00:07:33
Robertson: Well, you had to assess the risk. We had a very good biotech analyst by the name of Mark [J.] Simon, who then became a biotech investment banker for us. He was extremely good. He had worked in Wall Street as a number two to a very famous biotech analyst. Then we discovered that he was at Harvard Business School, and we made him a job offer and put him on the payroll six months before he graduated just so he wouldn't get hired away by someone else. And he turned out to be a great, great analyst.

02-00:08:11
Hughes: Did he have a biomedical background?

02-00:08:16
Robertson: I think he had an undergraduate science degree, and his father and brother were both doctors, and he had a sense of it. He's been extremely successful.

02-00:08:26
Hughes: Knowing the technology, I'm assuming because you haven't mentioned it all along, doesn't seem to be critical to your deciding to associate or not with a company. A clearer way of saying that—the fact that you don't have a heavy technological background doesn't stop you from deciding on investing?

02-00:08:57
Robertson: You mean personally?

02-00:08:58
Hughes: Yes, and your company as well. Is knowing the technology an important aspect of the investment decision?

02-00:09:06
Robertson: It is. I consider myself a generalist because I do semiconductors and software and biotech. But we had a stable of security analysts eventually that were very vertically oriented, very much looked at different companies indepth. The biotech analyst though, as opposed to a semiconductor analyst, said, "Gee, every time you bring us a new company to look at, I'm looking at a different industry." And he was somewhat correct, because the biotech companies differ so much versus a chip company where you know what market they're going to go into, and you know how they're doing the chip. A chip analyst can be much more vertical, but the biotech analyst had to be vertical *and* horizontal in looking at different things. So we ended up having three biotech analysts at one point. So the investment banking side would rely on our own in-house analysis—or we'd have to go outside. We had consultants who were at NIH or in major pharmaceutical companies who we could rely on, and we had a network of doctors and researchers.

Apropos the science degree, as we speak today, I have a grandson in New York who has a science degree, just graduated from Dartmouth in December. He's interviewing to work in investment banking in the biotech area or to join a biotech company, not as a scientist, although he's worked in a lab and been paid in a lab, because he wants to go into the business side of biotech. He got his first offer yesterday. [chuckling]

02-00:11:04
Hughes: Good. Another sign that the economy is getting better too.

02-00:11:08
Robertson: A little bit better.

02-00:11:11
Hughes: People with those bridge backgrounds, at least in the previous economy, used to be really hot tickets.

02-00:11:21
Robertson: That's right.

02-00:11:27
Hughes: I've often wondered whether the people that were first interested, invested in, doing commercial biotech, if they really realized how hard the road was going to be. FDA drug approval is one big hurdle, but there are other things too. The science doesn't always work.

02-00:11:57
Robertson: Getting the science right. Yes, exactly.

02-00:12:00
Hughes: What is your feeling about how gung-ho people were, maybe overly gung-ho about where this new sector could go?

02-00:12:09
Robertson: There's a lot of bodies around. A lot of companies didn't make it or got merged out. Maybe they had three products, and maybe one was half decent, so it got merged out. But a huge number did not make it. I'm a director of one biotech company at the moment, and we've been in business ten years and expect to get final approval sometime this year. But it's been a ten-year process.

02-00:12:44
Hughes: You've obviously been willing to stick with it.

02-00:12:48
Robertson: That's right, and they've done their financing beautifully. They have a corporate partner now, so they have almost $200 million on their balance sheet, and the corporate partner is taking all the science risk from here on.

02-00:13:05
Hughes: Do you think that because it is a long-term investment in almost every case, you and others think harder about associating with a biotech company?

02-00:13:20
Robertson: As an investment banker you looked long and hard on this. Yes, very much so, very much so.

02-00:13:27
Hughes: And probably your old-time peers at Smith Barney would say you were crazy! [laughter]

02-00:13:34
Robertson: That's right, exactly! Well, about ten years after we started, the old-time peers called on us and said, "Gee, let's do some deals together. Bring us some of the deals." I said, "We don't have to bring them to you anymore. We can do them ourselves."

02-00:13:54
Hughes: I mentioned off-tape that Bill [William J.] Rutter had responded to a question from me about you, and I thought you might like to hear what he wrote back. "Sandy is one of the REAL important players in Biotechnology at the Investment Banker level. You can ask him how much trepidation he had when

representing rookies like Chiron, etc. [Robertson laughs] with minimal venture backing. He will have a lot of stories."[1]

02-00:14:27
Robertson: Well, that's right. They didn't have a lot of venture backing. But Bill and Ed [Edward E.] Penhoet were a great team, and you have to make a judgment sometimes on the people as much as on the product line. We had our analyst looking at what they were doing, and it was coming out favorably. We liked it, and then you talk to Ed and Bill. Bill had a fine reputation from UCSF, and Ed had a great reputation at Berkeley, so we were betting on people as much as anything.

02-00:15:11
Hughes: You didn't become associated with Chiron until they were ready for the IPO, which was 1983.

02-00:15:20
Robertson: That's right, that's right. They were ready to go public, or they thought they were ready to go public, and that's when we met them. We didn't know them before that.

02-00:15:28
Hughes: I believe you just barely got under the wire there with Chiron's IPO. The market closed down very soon after.

02-00:15:37
Robertson: Probably did, right after that. Eighty-two was a barn-burner year, and then '83 was okay, and then it shut down.

02-00:15:44
Hughes: So people do count. That's interesting.

02-00:15:49
Robertson: Oh, people absolutely do count, yes.

02-00:15:53
Hughes: Would you go so far as to say that even if the financials and everything else are right that if you have doubts about the people you might not do the deal?

02-00:16:08
Robertson: We did one deal— I'm trying to think of how specific to be. We did one deal, and we took the company public. We turned down doing the secondary because our analyst was starting to have some reservations about the president. And years later, I think we were right. That president went to jail. The company's been okay, but our analyst sensed the character right, and we turned down doing the next round.

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[1] Rutter to Hughes, email correspondence, April 21, 2010.

02-00:16:53
Hughes: I don’t know what proportion of successes you have had to failures. Would it be instructive to also talk about a failure?

02-00:17:14
Robertson: Sure.

02-00:17:15
Hughes: Is this a time to look at the list [of companies with which Mr. Robertson has been associated].

02-00:17:27
Robertson: These are all successes.

02-00:17:31
Hughes: Well, please think of a failure and why that might have been.

02-00:17:38
Robertson: Well, we also did some retailing deals. I remember Nolan [K.] Bushnell who did the first Pong game at Atari and did a company called Pizza Time Theater. There are still some of them around, where they had characters that came out and laughed—it was a pizza place. And we were thinking about taking them public, and I took my wife over to have dinner at one restaurant. The pizza was very expensive. The kids would put quarters in the games, and it would cost you a lot of money to get in and out when the kids played all these games for a quarter apiece. My wife said, “This is terrible. Don’t do this deal.” Well, we did it. It was very successful at the beginning, extremely successful. The institutions loved it and everything, but it wasn’t well run. Nolan was a great innovator, but he wasn’t a restaurant chain manager. And so that did go under, and my wife said, “See? You need me on your commitment committee for this sort of thing.” [laughter]

02-00:19:08
Hughes: Did you listen to her from then on?

02-00:19:11
Robertson: [chuckling] In the technology world, the companies didn’t go bankrupt as much as get merged out, and maybe got merged out at a fraction of what they’d gone public for, or a fraction of what the venture capitalist had in them. But I’m trying to think of a bankruptcy that we did. It’s not deliberate, but I can’t think of one, because they really would kind of fade away or the technology would be sold to somebody.

02-00:19:44
Hughes: In the investment banker world, is it usually a preference that a company stage an IPO rather than merge with an existing company? Is there a preference one way or the other?

02-00:20:10
Robertson: Well, I always call it Eugene Kleiner's Law. Kleiner's Law was if you're a venture capitalist and you're about to invest in a company, he would say, "Don't invest in it if you think you're just going to merge it out. Only invest in it if you think you can take it all the way to being a public offering." And that's very good advice, because usually if you're selling it, there's a limited number of other strategic buyers to sell it to, so you don't get an auction going on. If you take it public, you get the world looking at it, ready to buy their security. In the old days, if you had a company that you couldn't take public and you merged it out, the entrepreneur would kind of think of that as being a failure. Not so much anymore because you can sell it to Cisco or Google for a billion dollars, and you're in pretty good shape.

02-00:21:15
Hughes: Do the financial rewards tend to be greater with an initial public offering?

02-00:21:34
Robertson: They do. But back in '99-2000, Kleiner Perkins was very smart. They had some companies that were somewhat competing with Cisco, and they were about to take them public at billion-dollar valuations. And if they did, they then could have only sold a little bit of stock on the offering, and they would have had to ease it out over some period of time. They sold two or three companies to Cisco at huge valuations, almost the valuations that they might have gotten in the public market—maybe not quite, but good valuations. Then they took Cisco stock, which was totally liquid—they probably couldn't sell it for three or six months—but it was much more liquid security than XYZ Corp., where they would have owned 80 percent of it still, and they couldn't have sold it on the market. They would have had to do that over five years. But Cisco was so large they could sell that stock almost immediately.

02-00:22:40
Hughes: So Kleiner Perkins jumped on that in a way that other venture funds didn't?

02-00:22:51
Robertson: Actually just one of their partners. That was his strategy, and he did it very successfully.

02-00:22:59
Hughes: Is that John Doerr?

02-00:23:01
Robertson: No. [chuckling] No, it wasn't John. It was Vinod Khosla.John held on. John was involved with Amazon and with Google, and he just kept those, kept those going.

02-00:23:19
Hughes: Going back to the relationship between investment banking and venture capital, do you ever find yourself, as an investment banker, at odds with what the venture capital partnership wants to do? How symbiotic *is* that relationship?

02-00:23:55
Robertson: Well, our job is to be honest with them, and so sometimes they'd want to take a company public, and we'd say, "It's not ready." And maybe they'd go to another firm, maybe another firm wouldn't do it, or maybe they'd want to do something we'd disagree with. It was a symbiotic relationship, but it wasn't always 100 percent in phase.

02-00:24:24
Hughes: Does a venture capitalist think of Robertson Stephens or what you are now, Francisco Partners, as being conservative or non-conservative in terms of deciding when a company is ready? What is your general reputation?

02-00:24:59
Robertson: In the middle of that. At Robertson Stephens, we acted as an intermediary to a marketplace. We would try to figure out in advance what the company would be worth to the institutional investors and try to pick that price. Sometimes our competitors would say, "Oh, you're worth 2x ," what we'd say. And the venture capitalist would say, "Oh, he loves me more. We'd better go with him." We always tried to be very conservative in telling what we thought companies were worth. Then if we could sell it for a higher price, we would. But it was a testing of the market, and that's where our function came in, to say, "This company is going to be worth $150 million in the public market; therefore, it's going to be $10 a share. We think that if we bring it at $10 a share, it will open at $12, and then would grow from there." That would have been the perfect way to do it. So we had to be honest with them and a little bit on the conservative side.

02-00:26:15
Hughes: Of course now you have years and years of reputation behind you. An entrepreneur would know Robertson Stephens, that's why he came to you, and now presumably that extends to Francisco Partners. The entrepreneur might say to himself, "Well, these people have been in this field for so long, who am I to question their judgment?"

02-00:26:46
Robertson: Yes, but Francisco, a private equity firm, is on the other side of the equation now. What we're doing is buying divisions of other companies or, as I like to say, our Statue of Liberty companies: "Give me your tired and your poor." We're looking at companies that are doing poorly in the marketplace and can be revived, or divisions that larger companies no longer want. We're looking at one now that we took public years ago, and it's kind of a living dead. We think we can buy it, fix it up, and make a viable company of it again. So that's what Francisco does. So now if the investment banker is coming to us and saying, "Oh, you've got this interesting company." I say, "It's now doing very well. Shouldn't we take it public again?" We have an offering going today, as a matter of fact.

02-00:27:34
Hughes: Does that use basically the same skill sets that you've been using all along?

02-00:27:44
Robertson: Yes, we're looking at it from the other side of the equation, but it's the same set.

02-00:27:48
Hughes: Why did you decide to do that?

02-00:27:50
Robertson: Well, we sold Robertson Stephens. The other Four Horsemen got sold as well. And they all got ruined by the banks that bought them.

02-00:28:02
Hughes: Why did they sell in the first place?

02-00:28:10
Robertson: Because the big guys were coming after us. The Morgan Stanleys and the Goldmans were coming after us.

02-00:28:17
Hughes: That was because you had expertise that they needed?

02-00:28:22
Robertson: No, they weren't coming after us to buy us; they were coming after us to compete, to take a Tandem or a Genentech public.

02-00:28:30
Hughes: Oh, I see, because they were moving into this field, seeing what you had done.

02-00:28:34
Robertson: So they wanted to do that, and they were successful at it.

02-00:28:39
Hughes: Because they were so big.

02-00:28:41
Robertson: Because they were so big, particularly Morgan and Goldman. And then CS First Boston later. But they were big. So then the other banks, the commercial banks who didn't have investment banking, came. Chase bought Hambrecht; Bank of America bought us; NationsBank bought Montgomery; Bankers Trust bought Alex Brown. But they were absorbed into their commercial banking, and the entrepreneurial spirit, or the spirit of these companies, all disappeared.

02-00:29:21
Hughes: Nobody anticipated that?

02-00:29:27
Robertson: They really didn't. It was also a way to capitalize an earnings stream. We could have gone public or sold out.

02-00:29:42
Hughes: People have been wondering about Genentech and Roche: will that entrepreneurial, risky, moving-on-a-dime kind of culture be killed by the big company?

02-00:30:11
Robertson: Yes. I think Roche should not have bought it, because when it still was Genentech stock trading, they could give Genentech options for people. So those people could participate in the growth and the success of Genentech alone, without being a whole part of Roche. So I think there are reasons for it to be done, so I think it changes the character of Genentech.

02-00:30:43
Hughes: Yes, well, that's going to be unfortunate. And for Roche too, because from my limited understanding, a lot of Roche's successful drugs came from Genentech—I mean Genentech before the total acquisition.

02-00:30:59
Robertson: Exactly. And they lost Susan Desmond-Hellmann, who was one of their co-presidents and now chancellor at UCSF. Maybe she might not have been as attracted to that job if they were still partly independent.

02-00:31:19
Hughes: Well, and Art Levinson is no longer CEO.

02-00:31:21
Robertson: I didn't know that.

02-00:31:23
Hughes: He's chairman of the board but not CEO.

02-00:31:26
Robertson: He's on the Roche board, I know. I talked to him not long ago.

02-00:31:31
Hughes: It's a Roche person, whose name I can't remember [Ian Clark], who was made CEO. So time will tell. [chuckling]

02-00:31:42
Robertson: Yes, well, that will take care of itself. I know Art's on the Roche board, and he's enjoying that portion of it.

02-00:31:51
Hughes: Was it a big disappointment/disaster for you when Robertson Stephens was bought up?

02-00:32:06
Robertson: Oh, we were sold first to BancAmerica, and that was working very well. Then when BancAmerica and NationsBank merged— NationsBank had bought Montgomery, and we spent a week seeing if we could put the two together, and it just wasn't working. So BancAmerica, before the merger was

consummated, sold us to BankBoston, and the character of the people at BankBoston was much different than the BancAmerica people. BancAmerica had said, “We’re going to leave you encapsulated. We’re not going to change your way of doing [things]. You can step out of your capsule and bring capital in or call on our clients. That was working. They were doing a good job at that.

02-00:32:58
Hughes: They were letting you alone, essentially.

02-00:32:58
Robertson: They would help us win a piece of business. I remember I even flew to LA on a Saturday morning with the chairman. One of their clients was about to do a merger, was about to be hired by Montgomery, or he’d hired Montgomery to do something, and we came in at the last minute. And as BancAmerica, we took the business away from Montgomery. But Bank of America was willing to hop on a plane on a Saturday morning to go do things like this for us, and it was working very well.

The BankBoston people were a different caliber. Frankly, they weren’t as smart, and they were a different— So I left soon after we went there. I didn’t want to work with these people. Then that BankBoston and Robertson Stephens became very contentious. They really hated each other. And one day they just shut the firm down. I happened to be on the phone with the then president. I was in Hawaii, and I was throwing him a piece of business—a tender offer as a director of a company. Goldman had quoted $2 million, and they’d quoted $1.5 million, and we were going to give the business to them. In the middle of the conversation he said, “I can’t even finish this conversation. They’ve just shut us down.” And two armed guards walked into his office so he wouldn’t take any files with him. And so I was there, at the end, by telephone.

02-00:34:53
Hughes: What a dramatic story.

02-00:34:53
Robertson: Very dramatic. They just shut the thing down cold. They should have just spun it off. One of the Minneapolis banks bought Piper Jaffray in Minneapolis, and then later spun it off to shareholders and created a huge amount of value. BankBoston could have done the same thing, but they weren’t very smart people. There’s a party given every year in July for all the alumni association of Robertson Stephens—one in New York and one here—a cocktail party to celebrate, and people get together. I’ve been a couple of times; it’s kind of fun. I wasn’t there at the end, but it’s still fun to go to. But in short, I’m glad the thing is shut down rather than something with my name on it being run poorly.

02-00:36:03
Hughes: Well, we're running out of time, and we've skated over Francisco Partners. What more do you want to say about that? It looks like a big operation here!

02-00:36:21
Robertson: [chuckling] Well, we have about $7 billion under management, and we're a private equity or a leveraged buyout fund, only for technology. So we're using our background in this. And the guy running the firm now is someone I hired out of Berkeley years ago for Robertson Stephens. He was the best young corporate finance analyst we ever had. We put him through Stanford Business School. He rejoined us, made him a vice president the first day out of business school, which we never had done before. He then did our semiconductor business—he headed our semiconductor group. He left BankBoston Robertson Stephens to join Texas Pacific Group, TPG. Then he and I and a third guy in late 1999 formed Francisco, to do buyouts only in technology.

02-00:37:27
Hughes: And was that more or less your decision?

02-00:37:30
Robertson: Well, I was just being a corporate director at the time. I was on three publicly held boards, but I was doing investing of my own. It was actually *his* idea, and I thought it was a great idea.

02-00:37:49
Hughes: Do you want to have his name on tape?

02-00:37:50
Robertson: Yes, his name is Dipanjan Deb, or D.J. Deb.

02-00:37:56
Hughes: Is he Indian?

02-00:37:56
Robertson: He's Indian. He's a real talent. I like to say I was his senior partner, and now he's my senior partner. [chuckling]

02-00:38:08
Hughes: And you're happy doing this?

02-00:38:11
Robertson: Very happy doing this.

02-00:38:12
Hughes: Do you think about retirement?

02-00:38:14
Robertson: I'm never going to retire, like my father. At eighty years old he was still starting companies. It's much more interesting than playing golf.

02-00:38:26
Hughes: Well, two more sets of questions. One is about this region. We did a bit of compare and contrast with the eastern philosophy as opposed to the western. But what is there to say about this region, and the fact that we have a Silicon Valley here that people around the world are trying to duplicate? But there are other things about it that have made it such a rich place, until very recently with the recession, for high technology and risk investment and investment banking, and all the things that you've been involved with.

02-00:39:13
Robertson: Right. Well, a spark starts and then it spreads. Going way back into the forties—late thirties and forties, Dean [Frederick E.] Terman at Stanford got Hewlett and Packard together. Then the semiconductor business, which could have been in New Jersey, moved out here, and Fairchild then fathered all that industry. Once you get something started, it really kind of grows upon itself. Maybe someone had made enough money on his Fairchild options to say, "Okay. I can live off this for a year while I start another semiconductor company." That spark happened here and in Boston. Interestingly, Boston seems to be quieting down, and some of those venture firms are really moving more of their operations to the West Coast. This still has the entrepreneurial spark, and that's picked up in other areas of the country—Seattle. There have been spinoffs of Microsoft up there. Austin, Texas is becoming very good. A lot of the semiconductor industry moved to Texas, from Silicon Valley, and you have a big university. San Diego has been a big center because of Hybritech starting there. Something has to get going to get it going. Ann Arbor, I thought the University of Michigan—that spark hadn't happened until just recently, in just the last about five years.

02-00:40:59
Hughes: Does that often boil down to an individual or a set of individuals?

02-00:41:05
Robertson: It boils down, usually, I think, to a company starting, where some people made some money and there's an example. There was a company in Ann Arbor years ago that Hambrecht took public, that was very successful. I thought that was going to spark things there, and it didn't. And then the orientation there was toward robotics for the automobile industry, which didn't turn out to be a very big market. It only had three or five customers or maybe ten worldwide. So that wasn't that good. Now the biotech spark has gotten going back there. Warner-Lambert Pfizer used to have a big plant, a big research facility there. So there are these seeds that make things grow. California is way ahead of everybody else because we've been here seventy years.

02-00:42:04
Hughes: But Silicon Valley has been really hard hit by this recession. Do you have any feeling about the long-term repercussions?

02-00:42:18
Robertson: Well, I don't think it's as bad as other parts of the economy. Technology has recovered faster than other parts of the economy, and yes, we've been hit. And California is a tougher place to live with our tax burden, et cetera, here now. So lots of companies are building plants, they're going to— Texas is a very attractive place to go. So rather than expand here, they may do the next plant in Austin, Texas.

02-00:42:51
Hughes: I see, but they still keep an operation here.

02-00:42:54
Robertson: Absolutely, an operation. And a lot of the manufacturing of semiconductors, for instance, has gone overseas. The design is still here. But now the design is starting to be done in China and India. They've got lots of engineers doing lots of good things. We haven't lost the leading edge here yet, but it's going to be more competitive.

02-00:43:22
Hughes: Well, the last thing—and of course you speak up, too, about more topics—is philanthropy. What are your interests in terms of philanthropy?

02-00:43:48
Robertson: In terms of philanthropy—education and healthcare. I'm involved with Michigan and have given them some money, and my wife has been very interested in UCSF. She's been chairman of their foundation. She's still on their board. She's not chairman at the moment, but it doesn't seem like anything's changed. She was a part of different teams that raised $37 million for them last year and is working on a $100 million gift from someone at the moment. So she's very involved in the healthcare world. She also had sons with mental health problems who are at McLean Hospital, which is Harvard's teaching hospital for mental health, and she's been very involved in the mental health world as well. And those are where education and healthcare overlap a little bit.

02-00:44:56
Hughes: Yes, I can see that. And then, as we were talking with Caroline Crawford [the videographer] off tape about your interest in jazz.

02-00:45:05
Robertson: That's right. Jazz is the great American art form. It's almost more appreciated in Europe than it is here. We go to the symphony and the ballet, and so much of these things are European composers or choreographers. But jazz is an American art form, and it was started here and developed here.

02-00:45:32
Hughes: Is it a lifelong interest of yours?

02-00:45:37
Robertson: Yes, it is. My father played the piano by ear, and he wrote the Northwestern football song ["Rise, Northwestern."] I don't have the talent in my hands that he did, but I love music, yes.

02-00:45:50
Hughes: Do you play an instrument?

02-00:45:52
Robertson: I play the piano privately. [laughter]

02-00:45:59
Hughes: Well, this has been a pleasure for me. Do you have anything that you want to add?

02-00:46:06
Robertson: Well, technology is still one of the two best things that the United States does better than the rest of the world. The other one is agriculture. We have massive farms using heavy capital equipment. We can grow food cheaper than any other country in the world, and we've become a little bit of a bread basket for them. But then the other thing that's really important for our country is our semiconductor base, our software base. These two things together have kept us ahead of the rest of the world in technology, and we have to run fast to stay there. I think we'll have that leadership for years, but we've got to keep that leadership. And it's an extremely important part, and an increasing part of the U.S. economy.

02-00:46:58
Hughes: Education, I can well imagine, is an important part of that.

02-00:47:03
Robertson: And education feeds into that. Right. We've got to change our visa problems, and let some of these graduate students stay here and contribute to our economy. With our visa problems at the moment, the PhDs that we train are going back to China and India, Taiwan, Israel. We should keep them here.

02-00:47:25
Hughes: Well, I thank you.

02-00:47:28
Robertson: It's been very much fun. Thank you!

[End of Interview]