

Star Gazer Sam Colella – co-founder of Versant Ventures

Sam Colella specializes in biotechnology investing and co-founded Versant Ventures. Over the course of his career, Sam has had 20 years of successful operating experience in the high technology industry and more than 21 years of investing experience in the healthcare sector. Prior to founding Versant, he established one of the first life science-focused investing groups in the industry as a general partner with Institutional Venture Partners (IVP).

[start box] I make it pretty simple and pretty basic. And there's a lot of argument about whether you should focus on people or technology. And in my mind, the ideal situation is when you have a really strong entrepreneur and/or team, and a great innovative technology. I mean that's Nirvana. When you see that, you get out your checkbook.

Then there are venture capitalists who argue that you should invest in technology, that you can recruit the people. You know I don't buy that totally. Yeah, we can recruit them. But certainly you're ahead of the game if you have passionate, visionary people who really want to build successful, dynamic companies. That's my formula.

If the technology is so novel and unique, and if you have an understanding with the entrepreneurs that you're going to supplement them, and that you are going to strengthen the management team, then I'd go ahead.

But if I get resistance – and I've seen that, and I've walked away. Where you know, the team and the entrepreneur will say, "No. This is my company. I'm gonna run it. And that's the rules." Then I won't invest.

You know I sit around, and people ask me all the time what were the big winners? The companies that I really like to identify may not have had the biggest multiples of return. But I think that I consider them to be successes, because they're going to be ongoing companies that are going to last. I try to build great and lasting companies.

That's my theory on venture capitalism. If you build a great company, you'll get a great return. I've never been a very good stock picker. There are other VCs who will look at a company and say, "Yeah. I can take this company, invest in it, and in two years, I can flip it. Or three years, I can flip it and get ten times my money." That's not my style. Because my background's in operating. I come from the operating world.

An example of this would be Symyx, which is in the Valley. It's a company that is the leader in applying combinatorial technology to the materials science world. It started off in the chemical industry. Then it was also in the pharmaceutical industry. As it broadened its base, they even added software to their portfolio. But it's a great company. And I can talk about what I think really appealed to us in the beginning. It had one employee. He was a young kind of an intern, in a sense. He had just graduated with his PhD.

This company was started by two world-renowned scientists. One was Alex Zaffaroni. And the other one was Peter Schultz. What I loved was nobody in the world had ever done what they were doing, from a technology standpoint. Peter had developed it at the University of California.

The second aspect of it – there's a huge need. As I said before, you have to look at the market. I look at markets. Where is there a huge problem? Because I believe no problem, no sale. So there's a huge problem, in terms of productivity, and finding new molecules, new materials.

What made it an exceptionally great company was the recruiting process. We recruited a team over the course of about two years, starting with a world-class chief scientific officer, who we had to pry out of a university. And then a CEO, and a CFO. And then the original founder, the young guy, turned out to be a great chief operating officer. And that team has stuck together from day one. They still run the company. It's still growing. It has a market capital close to a billion dollars. Growing at 30% a year.

Great technology. Created a great team. They've executed flawlessly. And they've stuck together. So that's one I like to talk about.

The number one lesson that I've learned as a venture capitalist is that I really don't know a lot about how the business really works. I know how to pick a company. I know how to get it started. But the fact is this is a very challenging, difficult business.

When I got into this business, one of my friends, who was a long-term venture capitalist said to me, “Let me give you some guidance.” He said, “If any of our partners walks in and says, ‘I’ve figured this business out. I’ve got the formula. I’ve got an algorithm that’s gonna allow me to pick winners every time.’” What we do is we go to the front door. We lock it. And we take him to the back room. And then we kick the crap out of him.

I’ve seen really bright young venture capitalists come in and say, “I’ve got it figured out.” I haven’t figured it out, to be honest. Companies that we look at, and we invest in, and we think – this one’s a no-brainer – turn out to be difficult. Something pops up out of nowhere. A patent. A competitor. An organizational problem. There’s so many things that can go wrong in this business.

I believe in Andy Grove’s management theory of paranoia.” I’m a paranoid venture capitalist. I know right around the corner is lurking something bad. So that’s the lesson I’ve learned. Never relax. Never take anything granted. And that’s the number one lesson.

Versant Ventures is focused on healthcare – everything from the medical devices, to technology, to healthcare services. The area that I most focused on – although I think all three areas have great opportunities – but I personally am more focused on the biotech side of the business. And then the area I really am intrigued with, and have been for a number of years, is the whole area of personalized medicine. It can be a diagnostic. It can be a therapeutic. It can be a service even.

The idea that all of us are different. We all know we have a different genomic profile. And the way medicine’s done today, it’s one size fits all. And that’s not the way it is. The Henry Fords. Give me one automobile that’s all black, and no options. True medicine, most effective medicine, is going to be when we’re gonna customize medicine to the individual.” [end box]