

From the Archives: Y Combinator Founders Paul Graham and Jessica Livingston on Studio 1.0 (2014)

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Interviewer: It's been called the Harvard of Silicon Valley. Y Combinator is perhaps the most prestigious startup incubator in the world. It's funded more than 700 companies to date, including Dropbox, Airbnb, and Stripe. But behind the startup machine is a couple with their own startup story. How did they build Y Combinator into what it is today? Joining me today on this edition of Studio 1.0, Y Combinator founders and husband and wife, Paul Graham and Jessica Livingston. Thank you so much for joining us.

Paul Graham: Thank you.

Jessica Livingston: Great to have you.

Interviewer: So Paul, it's been what, like six months since you stepped down from the helm of Y Combinator? How's it going?

Paul Graham: Oh, it's so great. I wish I had done it two years before. Why? It was so hard running Y Combinator. I mean, I'm not really an administrator, and YC had gotten kind of big. Suddenly I was running this big thing, and I was never suited to it.

Interviewer: You said you would bring back—did you get your brain back?

Paul Graham: Yes.

Interviewer: You're still doing office hours?

Paul Graham: I had this afternoon—I had the best conversation with the founder that I have ever had. I had lunch with Patrick Collison, founder of Stripe. 100% of the conversation was about giant, take-over-the-world ambitious plans, and that is like the best possible office hours.

Interviewer: How involved are you guys?

Jessica Livingston: I'm still very much involved. I'm doing all the same things that I used to do, if

not engaged in different things. I miss working with Paul, but I also love working with Sam Altman now.

Interviewer: Sam was actually the founder of one of your very first companies?

Paul Graham: Yeah, Loopt.

Interviewer: When you stepped down, there were certainly people out there who said, "He's not cut out to be you."

Paul Graham: It's a good thing he's not cut out to be me, because I was not cut out to run something as big as Y Combinator is now. He is better than me at this.

Interviewer: Come on. I was good at giving advice to founders. Is Sam going to be better than PG?

Jessica Livingston: Well, they're going to be different. Um, Sam brings a lot of things to the table that neither of us had, which is just this amazing amount of energy and patience that's needed to broker deals with investors. Y Combinator is doing a lot of different things as a result.

Interviewer: I want to talk a little bit about each of you and where you came from, where you grew up, your parents.

Paul Graham: My family came here from England when I was three and a half, and we lived in Pittsburgh because my father worked in the nuclear business. When you designed a nuclear reactor, he was the one who would figure out if it was going to explode.

Interviewer: So what kind of kid were you?

Paul Graham: I was a bad kid. Half the kids in my neighborhood were forbidden to play with me.

Interviewer: What did you do?

Paul Graham: I was just always, always getting in trouble with everybody, just constantly. I was suspended from school, I think, at least once every year from like first grade to 12th grade.

Interviewer: And then at a certain point you got into computers. Did that help?

Paul Graham: They really didn't teach people computers in school. It was something you did off on the side.

Interviewer: So when did you start coding?

Paul Graham: Uh, I think when I was 15 on an IBM 1401 with 12K of magnetic core memory.

Interviewer: And then you went on to Harvard to get your PhD?

Paul Graham: Yeah, in computer science. But you also took art classes on the side. It was a very disorganized trajectory. I never knew what I was trying to do, and it was always a mess of like random accidents.

Interviewer: Jessica, what about you?

Jessica Livingston: Well, I grew up outside of Boston, and I was an angel. I grew up with my father and my grandmother. His mother had a very happy childhood, and friends wanted to play with me. I knew I liked to write, but I had no idea what I wanted to be or what I wanted to do.

Interviewer: I know ultimately you ended up at a boutique investment bank. Were you technical? Did you ever learn how to code?

Jessica Livingston: I never learned to code, and I'm not technical in the least. Someday when I retire from Y Combinator, I'm going to learn to code, but I was interested in it.

Interviewer: Now Paul, before Y Combinator, you started another company. Tell me about Viaweb. The idea at the time was quite revolutionary.

Paul Graham: Well, the reason the company was called Viaweb is that the software worked via the web, right? It was what is now known as a web app, and it was the first one. It was an online store builder. Got bought by Yahoo and eventually became—still is—Yahoo Store.

Interviewer: What was it like working at Yahoo? How long did you last there?

Paul Graham: The guy who got suspended every year—I was basically getting suspended from Yahoo, too. I hereby apologize to all the people I have ever worked for. So I like barely lasted a year.

Interviewer: And you went on to write—you started writing essays at paulgraham.com?

Paul Graham: Yeah, and that's when you started building your following. I suppose so. I didn't really think I was building.

Interviewer: What were you writing about?

Paul Graham: I started just writing about software, then I gradually realized that no one would come and drag me away if I started writing about other things, too.

Interviewer: At what point did you guys meet?

Jessica Livingston: We met at a party at Paul's house in Cambridge that I almost didn't attend.

Paul Graham: So Y Combinator almost didn't exist.

Jessica Livingston: It almost didn't exist. It's scary how close it was.

Interviewer: Yes. How did you come up with the idea for Y Combinator?

Paul Graham: Well, Jessica was very interested in startups. She was writing a book that I read when I moved to Silicon Valley.

Jessica Livingston: Really, you're never tired of hearing stories like that. It was really hard to find any information on startups, and I was so fascinated by all the stories that I heard from these guys.

Interviewer: And then you gave the talk at Harvard?

Paul Graham: Yeah, about—that became the essay "How to Start a Startup." One of the things I told them was that they should raise money from people who had gotten the money from starting a startup, because then they could get advice. They were all looking at me expectantly, like baby birds looking at their mother wanting to feed them. But then afterwards, I felt sort of bad because I had always thought I was going to do some angel investment. I still hadn't gotten around to it because I didn't know how. I thought, "All right, I'll do it. I'll finally start doing some angel investing." It was not supposed to grow into this big thing. This is one of the things we tell founders so often: the best way to start a startup that's really going to take over the world is don't even try to start a startup. Just try and start a project that you think would be cool to work on. And YC was an instance of this.

Interviewer: How did you come up with the name Y Combinator?

Paul Graham: The original name was Cambridge Seed. Yeah, but then we thought—I mean, it's a cool name, we were in Cambridge, but it was too tied to one place. The Y Combinator is a trick in the Lambda calculus, which is a formal language for expressing algorithms. It's a math concept,

basically.

Interviewer: How did you guys decide to work together on this? Because you weren't married yet, but that's a big decision.

Jessica Livingston: It was—that was—it was scary because we had only been dating for a year.

Interviewer: There are myths about so many of the great companies, startups, founders that are boiled down into legend. And what is the myth of Y Combinator, and what is the reality?

Paul Graham: People just do not realize how, like, not interested we were in making money. I'm thinking of all these people saying on forums, "Oh, it's so self-serving." But honestly, in the beginning, we were not trying to make money. It was all an experiment to see if these, like, new ideas could work.

Interviewer: A lot of people think of it as Paul Graham's Y Combinator.

Paul Graham: Oh, there's a myth. There's a really big myth. You've called Jessica the secret weapon. Like, nothing has ever happened at Y Combinator that Jessica did not, like, set her seal of approval on, right? There is—she basically has veto over everything.

Interviewer: And this is the first time that you guys have been interviewed together?

Jessica Livingston: Yeah, I can't believe that.

Paul Graham: Well, let's face it, I'm not as interesting as you. I don't make colorful remarks, and I've chosen to be behind the scenes. I'm more comfortable behind the scenes. I like running things. This is why she is the secret weapon. She is one of these people who has perfect pitch for character. She can talk to somebody and fairly quickly tell whether they're a good person or not.

Interviewer: So tell me about the first class, eight companies. But you didn't know if anyone was going to even apply, right?

Paul Graham: Right. We had no idea if people were going to apply, and we had like a few hundred applications.

Interviewer: The most critical innovation with the YC model is to fund a bunch of startups at once. So it's better for the investor, but also better for the startups because they have colleagues.

Paul Graham: That is the big thing you're missing in a startup. It's so lonely. And now it's like it

has some of the advantages of being part of a company without the disadvantages.

Interviewer: At what point did you decide to take money from investors? Because obviously you had—

Paul Graham: When we had things about VCs? No, we had to. Frankly, I ran out of money. And it takes—I mean, how long does it take? We don't even know yet how long it takes for the big exits, but like 10 years, maybe.

Interviewer: You're going into your 19th funding cycle.

Paul Graham: Mm-hmm.

Interviewer: What do you consider the most successful YC companies?

Paul Graham: It is pretty much the ones with the high valuations. The three with the highest valuations are Airbnb, Dropbox, and Stripe.

Interviewer: Did you know early on that there were going to be hits?

Paul Graham: We knew the founders were good.

Interviewer: What was it about Drew Houston and Brian Chesky? What was it about them that—

Paul Graham: It was different things. It was different things about the two of them. In Drew's case, he was the guy who could write the software. Dropbox succeeded by solving an almost impossibly hard problem, whereas Airbnb is different. Airbnb is like this mass movement where everyone's staying in other people's houses worldwide.

Interviewer: We were skeptical, though.

Paul Graham: I just remember thinking, "I don't really care what the idea is, these founders are awesome. We're funding them." Patrick Collison from Stripe, I have known since he was like 14, back when he was this high school kid in Ireland. He used to email me questions about the Lisp programming language, and I had no idea he was a kid.

Interviewer: Now that these companies are worth multi-billions of dollars, when you look back, if they had had the opportunity, would they have sold?

Paul Graham: Almost everyone, if someone came along with a big enough offer at the right

moment, would have taken it. We do know with Drew, actually, because in the Y Combinator application early on, we used to ask, "If someone came along, offered you money for your company right after YC, what's the least you would take?" I think Drew answered a million dollars. So it's really convenient for everyone involved that no one wanted to buy Dropbox early on.

Interviewer: Now that you've been doing this for so many years, can you identify the future Drew Houstons and Brian Cheskys, the future Dropboxes and Airbnbs, earlier, sooner than everybody else?

Paul Graham: We might be able to identify them better than other people, but there are limits.

Interviewer: To how well you can identify them, there's a good deal of luck. If you had to boil it down into one word what you're looking for, it's authentic. You're looking for people who are real friends, not just people who got together for purposes of this startup. You don't want people who are just in it for the money. Zuck's not in it for the money; he never was, and that was why he turned down the Yahoo Store acquisition offer. And without having done that, he would never—Facebook wouldn't be what it is today.

How has the interview process evolved? We first started out—was it 40 minutes? I think it was 40-minute interviews, and now with the 10-minute interviews, we really don't have like a pitch. How can you really know in 10 minutes? You can't know for sure. Here's an interesting test: after each minute, how likely are you to change your mind? If you had another 10 minutes, you might only change your mind two percent of the time.

Interviewer: What is the average valuation of all the Y Combinator companies?

Paul Graham: I know what their valuation is. It just crossed 30 billion.

Interviewer: What's your stake in that?

Paul Graham: All the money is in the few big hits, right? And so you have to ask what percentage do you end up with a few big hits after dilution, and we assume it'll end up being like three percent, something like that.

Interviewer: So three percent of 30—see, I've literally I've never done this calculation—900 million. But until you asked me that, I had never actually multiplied those numbers together. An article was written recently that Sequoia has made more money on Y Combinator than Y Combinator has.

Paul Graham: Yeah, strictly speaking, I believe more of that 30 billion dollars worth of equity

belongs to Sequoia than us.

Interviewer: And your policy is that you don't make follow-on investments, right? Would you ever consider changing that policy in order to make money off the hits that you picked?

Paul Graham: We never say never, but the problem with that, Emily, is that here's a signaling thing, right? And so if we were to do follow-on investments, we're telling other investors who we believe are going to be the best, and that would hurt the founders who are probably great investment opportunities, but we just didn't choose to do a follow-on in.

Interviewer: Does it bother you that Sequoia has made more money than you have?

Paul Graham: No, who cares? I'm happy for them. I really like Sequoia.

Interviewer: Y Combinator has gotten so much praise but also a lot of criticism. Why do you think it's so controversial?

Paul Graham: One of the most surprising things I realized as Y Combinator became more successful is that the more famous something becomes, the more people want to attack it. It's always been a mystery to me, though, because honestly, every night I go to sleep, I think, you know, did we help the founders today? And the answer is almost always yes.

Jessica Livingston: Actually, she goes to bed at night and she says, "What is everyone saying? All these mean things about us?" That's so not true.

Interviewer: You've said that other investors have tried to stab you in the back. Do you think they're—are they jealous?

Paul Graham: There have been some things that you just can't believe someone's going to do that to you. I don't know why they—I mean, it's probably boils down to money and power. I don't know.

Interviewer: One thing that people have said to me is that, well, YC has invested in over 700 companies, there's only a handful of hits. Is that a good track record?

Paul Graham: You either have a couple hits or no hits; those are the only two options, right? So yes.

Interviewer: Are YC companies overvalued?

Paul Graham: Maybe. Maybe all startups are. And so I've heard investors claiming that the YC startups at Demo Day are like 2X overvalued, and that is the greatest compliment. That means we can take people into YC and, even if we did nothing else, they would be able to get twice the valuation they would have otherwise.

Interviewer: But is that a good thing?

Paul Graham: If the company is not really worth that—if it's worth a lot, then it was a bargain anyway, even if it was overpriced.

Interviewer: Now, something else that you've been in—I know this is something that Jessica has thought a lot about—is not admitting enough women. Is that true?

Jessica Livingston: We don't have enough women applying, which is what we're really making an effort now on trying to do. We don't ask on the application what someone's gender is. We're trying to get the word out there that more women should be starting startups. We've hosted a female founders conference that we're going to do again this winter where we bring, you know, successful female founders and tell their stories to inspire more women.

Interviewer: Some of the words people use are harsh. I mean, they've called Y Combinator a frat house. How many women have you funded?

Jessica Livingston: In the past, it was usually around four percent of the founders in the batches were female, and now it's more like 12. And obviously that's not where we ideally want to be, but it's moving in the right direction. How do we get more women founding? Women who are Larry and Sergey examples are what makes everyone want to start startups.

Interviewer: How have you changed the interview process in subtle ways to make sure you are getting the best people, that you're not discriminating, that everyone has an equal shot?

Paul Graham: Well, one thing that's changed recently is that we have a female partner in every one of the interview rooms.

Interviewer: Why not completely blind screen everyone?

Paul Graham: Can you tell if they were telling the truth? Then I couldn't observe their interaction.

[Music]

Interviewer: You've got two kids. What kind of parents are you?

Jessica Livingston: Paul is the best father I've ever met. I'm going to say that because you wouldn't say that yourself. He spends so much time with them, teaching them things, exposing them to things—things that I've rarely seen a lot of other fathers do. So I lucked out.

Interviewer: Now, how do you manage being married and being colleagues?

Jessica Livingston: It always worked really well. It was really easy. We never disagreed on anything, really, I think.

Interviewer: Have you ever thought about Y Combinator?

Paul Graham: I think so. No, no, I don't believe it. It's really true, and the secret is the same secret that's true for co-founders in general, which is you have different responsibilities, right? Each person is in charge of their own thing, and they're experts in that thing.

Interviewer: What is the hottest Y Combinator company that we don't know about yet?

Paul Graham: Boosted Boards.

Interviewer: Why Boosted Boards?

Paul Graham: Let's just say they have bigger ambitions than making skateboards.

Interviewer: What is the biggest fire you've had to put out at a startup?

Paul Graham: I put out fires at least one a week of co-founder disputes. That, and fundraising interactions with investors, and investors maltreating the startups. We intervene.

Interviewer: But can you think—how do you intervene? Like, how do you protect a startup from its own investors?

Paul Graham: At this point, you don't have to make explicit threats, right? You just sort of say, "Come on guys, be nice." But the investors know that behind the "come on guys, be nice" is, "If you don't, we won't send any more startups to you, and if you don't, all of the Y Combinator founders will know about it like the next day."

Interviewer: Biggest regret?

Paul Graham: It's a bit grim, but it's very easy for me to say now what my biggest mistake is. I can

answer—I'll do my answer. My biggest regret is I kind of squandered my college education. I didn't learn as many things as I could learn or work as hard as I could have, and I always, you know, compare myself to the founders we fund who are doing so many interesting and ambitious things, and I think I kind of like squandered a little bit of my youth.

Paul Graham: Paul, I have to say it very carefully so I can remain in control of myself, but remind your parents to be screened for colon cancer. I understand. My father passed away. There are many things that I would like to tell him, yeah, and do for him. Colon cancer, man, it's just—if they catch it early, it's so preventable. You know, you gotta remind me to make him go get screened.

Interviewer: So what is next? I mean, is YC—will there be a second act from Paul and Jessica?

Jessica Livingston: I am like fully just as enthusiastic about Y Combinator as I was the day we got started, if not more so. We're doing so many exciting things. It actually seems like a good idea.

Interviewer: How about you, Paul?

Paul Graham: I'm going to go back to writing. That's what I was doing before Y Combinator, and that's what I always was hoping to do.

Interviewer: How do you guys want YC to be remembered?

Paul Graham: You know, I don't want YC to be remembered. I want it to still exist, right? I want YC to be like this institution that persists for a long time. It could last a lot longer than a product company does because, structurally, it's more like a university. It could, in principle, last for hundreds of years.

Jessica Livingston: I want it to be remembered as changing a lot of people's lives, and hopefully making the world a little bit of a better place.

Interviewer: Paul Graham and Jessica Livingston, thank you so much.

Paul Graham: Thank you.

Jessica Livingston: Thank you for doing this and being our guests on Studio 1.0.

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Interviewer: Thank you.

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