

# Y Combinator known for picking winners

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By late 2008, the creators of Airbnb were broke and selling cereal online to support themselves as they watched their credit card bills pile up. They made one final pitch for their fledgling company - a website where travelers could rent a room in someone else's house and sleep on an air mattress - to the startup accelerator Y Combinator.

"We were, frankly, on the verge of quitting," said Nathan Blecharczyk, Airbnb co-founder and chief technical officer. "Things were in a pretty dire place."

All that changed when they were accepted into Y Combinator, a three-month, bone-grinding, sleep-depriving, brain-busting boot camp that offers aspiring entrepreneurs business advice, access to some of the valley's most high-profile investors and tech leaders, and an infusion of cash - with the goal to create the next hot company.

"With Airbnb, we sort of laughed," said Jessica Livingston, 43, a Y Combinator co-founder. "We all were skeptical. But the founders were amazing. We funded them and didn't look back. Now the biggest surprises are how big these companies get."

Today, Airbnb is valued at \$10 billion, and more than 11 million people have used the site to book a room or home rental. And it's just one in a growing list of successful and increasingly wealthy startups - Reddit, Dropbox and Instacart, to name a few - that were propelled to stardom at Mountain View, Calif.-based Y Combinator.

"Neither Steve nor I had any connections in the tech industry," Alexis Ohanian, co-founder of the online forum Reddit, said of himself and co-founder Steve Huffman. "We didn't go to Stanford. I was probably going to be a lawyer or something. I was just a middle-class kid; my parents didn't know anything about tech. What changed the game for us was Y Combinator."

From its roots as a bootstrapped experiment in Cambridge, Mass., where co-founders Livingston and Paul Graham, who are now married, let entrepreneurs work out of their house, Y Combinator has grown into what many experts consider the most prestigious [startup](#) accelerator in the world. About 630 startups have gone through the program, and some go on to raise hundreds of millions of dollars from investors.

"Y Combinator has done a great job searching for the best entrepreneurs who have a great return on investment," said Alfred Lin, venture capitalist at Sequoia Capital, a Menlo Park, Calif., firm that has invested in several Y Combinator companies, including Airbnb, Dropbox, Stripe and Instacart.

Now Graham is handing the reins to 28-year-old Sam Altman, an entrepreneur and Y Combinator alum who has been Graham's sidekick for years. With Graham relinquishing his leadership of Y Combinator and most of his duties - he will continue advising startups - the organization loses the man who shaped not only Y Combinator but the companies born out of it. Graham, 49, of Palo Alto, Calif., declined requests for an interview.

"Paul (Graham) retiring is kind of like Steve Jobs' going away," said Steve Blank, a Silicon Valley serial entrepreneur, startup adviser and instructor at the University of California-Berkeley and Stanford University. "Just like Apple didn't fold and won't fold in a day, neither will Y Combinator, but Apple's innovation era is over."

He added, "Is there another Steve Jobs at Y Combinator or is Tim Cook running the show?"

Altman has yet to prove himself in his new role as Y Combinator president, but the St. Louis native and Stanford dropout, who turns his head to gather his thoughts before answering a question, is not intimidated by the task. Altman is grooming Y Combinator for explosive growth: He hired four new partners, including two women; he's preparing to move the headquarters to a larger building next door; and he expects to accept about 60 to 80 startups from a pool of 3,000 applicants and 350 interviews, a dramatic increase from the first cohort of eight startups in 2005.

"We're creating thousands more startups, and if 5 or 10 percent of them go on to change the world, that's a very impactful thing," Altman said.

Under Altman's leadership, Y Combinator has increased its investments in startups from \$97,000 to \$120,000, because, he says, "the cost of living in the Bay Area has gone up substantially," and in exchange for a 7 percent stake of each company.

But entrepreneurs come to Y Combinator less for the cash than to join a growing and star-studded network of technologists, politicians, investors and celebrities. Facebook CEO Mark Zuckerberg, Yahoo CEO Marissa Mayer and former Vice President Al Gore are among the speakers who have shown up for the regular Tuesday night dinners at Y Combinator. The boot camps culminate with Demo Day, when each company makes a two-minute pitch to investors, and which are attended by the likes of Joe Montana and Ashton Kutcher.

On Thursday, President Barack Obama will visit Y Combinator as part of a fundraising tour through Silicon Valley; Altman and Mayer will host the expected 250 guests.

Y Combinator isn't a guarantee for success - in the summer of 2012, Y Combinator hosted 84 startups, and to date, 12 have failed. Seventeen percent of companies that attended Y Combinator in the summers of 2011 and 2010 have folded.

Some critics say the accelerator doesn't give fair consideration to math- and science-based companies - maintaining it's interested only in the sexier technology like social media - and some alumni have gotten a free pass to repeat the program, taking seats from first-time entrepreneurs. And as Y Combinator becomes more competitive, some worry it is too much pressure for untested, and often young, entrepreneurs.

But the experience can be life-changing.

Michelle Crosby, a family law attorney and founder of Wevorce, a 2013 Y Combinator startup that helps divorcing couples resolve their dispute outside of court, said she and her co-founder each worked 2,000 hours in four months, or nearly around the clock.

"You have to have the tenacity to keep going," she said. "Ideas are a dime a dozen. You have to be able to execute day in and day out. It is not for the lighthearted. It is really fun to have an idea, but Y Combinator teaches you that to get out there in the world and fight for it is really gut-wrenchingly awful - and awesome."

## Y COMBINATOR ALUMNI:

Here are some companies that have gone through Y Combinator:

Reddit (San Francisco):

-What: Microblogging site for online discussion

-Founders: Alexis Ohanian and Steve Huffman

-Y Combinator year: 2005

-Funds raised: \$80,000

Disqus (San Francisco):

-What: Software that powers comments on online forums and news websites

-Founders: Daniel Ha and Jason Yan

-Y Combinator year: 2007

-Funds raised: \$20 million

Dropbox (San Francisco):

-What: Cloud-based file and storage and sharing service

-Founders: Arash Ferdowsi and Drew Houston

-Y Combinator year: 2007

-Funds raised: \$1.1 billion

Airbnb (San Francisco):

-What: Website to rent privately owned homes and rooms

-Founders: Joe Gebbia, Brian Chesky and Nathan Blecharczyk

-Y Combinator year: 2008

-Funds raised: estimated \$776 million

Hipmunk (San Francisco):

-What: Online travel service and discount airline ticket provider

-Founders: Adam Goldstein and Steve Huffman

-Y Combinator year: 2010

-Funds raised: \$20 million

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