

# The Daily Dispatch

## Weekly Special Feature

April 23, 2021

**How Initialized Investor Garry Tan Turned A \$300,000 Bet On Coinbase Into A \$680 Million 'Golden Ticket'**

By: Alex Konrad—Forbes (Published on April 14, 2021)



Garry Tan sees his firm's success with Coinbase as "a golden ticket" to keep building. [CREDIT: OLIVER COVRETT]

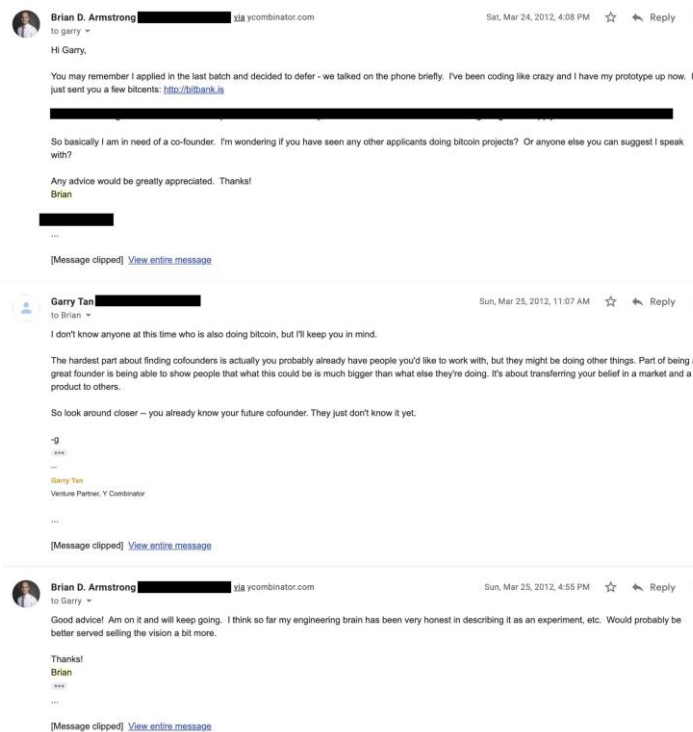
In March 2012, Garry Tan received an email from the founder of a new startup called Bitbank, Brian Armstrong. Armstrong was familiar to Tan, a former entrepreneur himself turned venture partner at the famed startup accelerator, because he held a key role at Airbnb, the buzzy home rental company that was already one of YC's most prominent alumni companies.

"I've been coding like crazy," Armstrong wrote Tan, with a link to his project, a banking app for Bitcoin, the cryptocurrency. "So basically I am in need of a co-founder. I'm wondering if you have seen any other applicants doing bitcoin projects?"

Tan's answer was fittingly cryptic: "You already know your future cofounder. They just don't know it yet." What Armstrong didn't know yet, either: he had a big fan in Tan, who quietly ranked Armstrong an infinite score in YC's admissions software to ensure the founder's acceptance into

the program, which he ultimately attended that summer, no longer as Bitbank, but Coinbase. And when Coinbase went out to raise its first capital – not so much the red-hot deal, at least yet – Tan and his fledgling venture capital firm, Initialized Capital, were quick to invest.

The result: a historic venture return that turned a few hundred thousand dollars into a stake worth hundreds of millions.



Brian Armstrong and Garry Tan talk finding a co-founder in 2012. [COURTESY OF GARRY TAN]

Initialized's \$300,000 combined seed-stage check into Coinbase translated to a stake of 0.66% of the cryptocurrency exchange at the time of its public offering, the firm confirmed to Forbes. That stake rises to 0.8% of Coinbase when you factor in additional checks written in 2015 and 2018. On Wednesday, Coinbase went public via direct listing on Nasdaq. At Coinbase's price at the end of its first day of trading of \$328, Initialized's seed investment stood at a return of more than 2,200x its invested capital.

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Overall, Initialized turned \$1.3 million in invested capital into a stake valued at \$680 million. (Factor in YC's stake, and Tan's involved in gains in the plural billions.)

At such prices, Initialized's seed investment will have returned its initial fund by more than 80x alone. And for Tan – now leading Initialized alone of its three cofounders, who include Alexis Ohanian and Harj Taggar – it's the validation to look to build out his firm into a powerhouse that could go toe-to-toe with Silicon Valley's biggest VC brands.

“I feel like now I have the golden ticket,” Tan says. “What I'm excited about is how we build the next big platform, and have that actually mean something.”

## “Not a hot startup”



Brian Armstrong presenting at Y Combinator in 2012.

[CREDIT: GARRY TAN]

As Armstrong passed through Y Combinator in 2012, Tan, Ohanian and Taggar were doing double duty, working as partners at the accelerator while also operating a \$7 million initial fund. They were intrigued by Bitcoin's potential, with Ohanian speaking to cryptocurrencies benefits to skeptical media, while Tan tested out the leading exchange at the time, Mt. Gox. “It felt like I was going to get scammed and never see my hundreds of dollars ever again,” he says of buying his first Bitcoin. “It was almost like a timer, within a year or two, if you were a bad engineer, you were going to get hacked.”

Armstrong, with engineering experience working first-hand

on Airbnb's own payment systems, seemed a good bet to solve that concern. But when Coinbase raised its first seed funding in September 2012, Initialized and a handful of others could only put in \$600,000 of the \$1 million Armstrong was targeting. “It didn't seem to bother Brian that much, because we knew the whole space was so nascent, and he didn't need to hire that many people at that moment,” Tan says now. “But yea, it was not a hot startup.”

Still a side project co-investing alongside YC, Initialized put in \$50,000 at a \$9 million valuation cap, then another \$50,000 at a \$12 million price tag. The following January, as Bitcoin prices soared to what was then an eye-popping \$20 per coin, Tan and Initialized poured in another \$200,000 to help Coinbase avoid a cash crunch around the time that Armstrong finally found his elusive cofounder in Fred Ehrsam, a gamer with the background to talk to Wall Street and regulators. (Now a billionaire, like Armstrong, Ehrsam today is an influential startup investor in his own right at crypto-focused firm Paradigm.)

But the firm stopped at that point until it could put more money into Coinbase's Series C in 2015 and Series E in 2018. In the interim, fellow investors like Union Square Ventures' Fred Wilson, Ribbit Capital's Micky Malka and Andreessen Horowitz's Chris Dixon all built large stakes in Coinbase – ultimately joining Tan on the 2021 Midas List of the world's top VCs – some of seven Coinbase investors on Midas overall, along with later investors Koichiro Nakamura of Sozo Ventures, Andreessen Horowitz growth investor David George and IVP's Tom Loverro.

With the benefit of hindsight, Tan wishes Initialized had invested even more – who wouldn't. But Tan and Ohanian didn't strike out on their own from Y Combinator until 2016, when they raised a \$115 million third fund, while Taggar, now back at YC, set out to launch a startup, Triplebyte. (For more on Initialized's history, see this 2018 Forbes profile.)

“It's easy for us to look back and say, of course this was going to happen, but in the moment, it's actually really hard to have the high conviction to push and do that, round after round,” says Tan. “We didn't always have the capital to push in.”

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## Flashing lights



Garry Tan in the run up to Y Combinator's demo day in 2012, as taken by Brian Armstrong. [CREDIT: GARRY TAN]

One lesson for Tan from his Coinbase success: “When the lights start flashing, you need to do something. That’s when you need to push all the way in.” With Initialized’s more recent funds, including its \$230 million seed fund raised last year, Tan is looking to write larger early checks to get 10% or 15% of companies he believes in, not just 1%.

While some investors may point to Initialized’s massive multiple – well over 400x its initial investment – as proof that ownership doesn’t matter, Tan himself says that’s only the case in the rare businesses that have unlimited, or at least unknowably massive, total addressable markets. Initialized itself is modeled to aim for a \$1 billion-valued company to come out of its investments each year, with the \$10 billion or \$100 billion outlier win something to target “every few years.” “That’s how we turn this into a franchise, which is what I’m shooting for,” Tan says.

Largely, but increasingly not solely, through its YC ties, Initialized has backed a bevy of other unicorns beyond Coinbase. The firm’s portfolio currently includes grocery delivery service Instacart, valued at \$39 billion, logistics company Flexport, valued at more than \$3 billion, and creator platform Patreon, which achieved a \$4 billion valuation in April. Add that to healthcare startup Ro, which recently raised \$500 million, human resources unicorn Rippling and real estate software company Opendoor, which went public via SPAC in December.

## Turning it to 11

For Initialized’s future, Tan hopes to see the firm he co-founded outlast all its original partners. He nods to Paul Graham and Jessica Livingston, Y Combinator’s founders, who eventually stepped away from day-to-day roles, only to see their creation grow. “I never wanted it to be just the ‘me show,’ or the ‘Alexis show,’” says Tan.

The latter part is easier now, as Tan’s long-time business partner Ohanian departed Initialized to start a new firm, Seven Seven Six. The split wasn’t easy: Tan calls it a “conscious separation,” terminology reminiscent of Gwyneth Paltrow’s famous description of her own split with singer Chris Martin. Ohanian preferred a smaller, more autonomous investment approach, says Tan; he hopes instead to keep growing Initialized, taking a consensus-driven, multi-stage approach. Executive coaches helped the duo with the transition. “We started thinking about the world in slightly different ways, but we also wanted to support each other,” says Tan.

Ironically, a big part of Tan’s strategy for building Initialized feels similar to Ohanian’s approach to his new firm, his marriage to tennis legend Serena Williams, and advocacy on a range of issues including parental workplace rights: “turn it to 11,” especially on social media. Initialized prides itself on supporting its companies with public relations, Tan says; on a personal level, Tan has invested heavily in his time and resources into building a presence on YouTube, where he has 77,000 subscribers; Twitter, where he has 150,000-plus; and Clubhouse, where he has 188,000. After years producing it all himself, Tan hired a producer earlier this year for his videos and works with an editor to get out content each week.

“We’ve clearly learned over the past 10 years that every business is still a meme,” says Tan. “And if we the VCs can help make that meme, that helps with customers, with employees, that’s actually a big part of the war to get the best engineers, designers and product people to work at these places.”

Highlighting founders on his channels has led to them hiring top executives or meeting board-level investors, Tan says; even his educational content creates a positive feedback loop of happy entrepreneurs and referrers of deal flow. “I

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basically just try to put out content that doesn't bore me," he says. "It's powerful to be able to click a button and have 1,000 people listening to whatever I want to talk about."

To build on Initialized's past success, Tan will have to compete with a market that's seen a record amount of funding flow into startups in recent months. His final lesson from Coinbase's early struggle to raise money is one helpful to would-be investors and entrepreneurs starting out alike: "The limiting reagent isn't capital, clearly," Tan says. "The limiting reagent is actually good investors who won't eff up companies."

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Source: Alex Konrad (2021) 'How Initialized Investor Garry Tan Turned A \$300,000 Bet On Coinbase Into A \$680 Million 'Golden Ticket',' *Forbes*. Available at <https://www.forbes.com/sites/alexkonrad/2021/04/14/initialized-investor-garry-tan-turned-300k-bet-on-coinbase-into-680-million/> (Accessed 21 April 2021)

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TODAY'S TOP NEWS

## BPI eyeing bid for Citi consumer, retail banking biz

MANILA, Philippines—Ayala-led Bank of the Philippine Islands (BPI) is keen on bidding for the Philippine consumer and retail banking business of Citi, which plans to exit this segment as part of a global downsizing program.

## PH raises more than P122B via biggest euro bond sale

Bureau of the Treasury sees it as sign of investor confidence in country's strong postpandemic recovery. The Philippines has raised 2.1 billion euros (over P122 billion) through the sale of global bonds, its biggest issuance in the euro debt market to date.

## BSP: PH can meet 2023 digitalization goal

The country's top monetary regulator believes the Philippines can meet the central bank's ambitious goals for improved digitalization and financial inclusion in two years as a means of boosting inclusive growth among citizens.

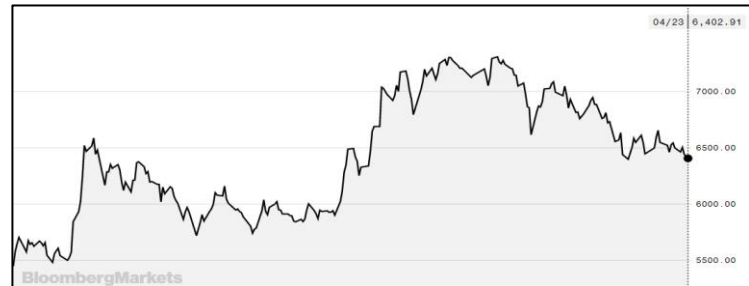
## Capital Economics sees 7.5% GDP growth

Capital Economics downgraded its 2021 Philippine economic growth forecast, noting that the country will likely experience the slowest recovery in Southeast Asia. In a report, the consultancy firm said the country's gross domestic product (GDP) is projected to grow by 7.5 percent, down from the earlier 9.5 percent forecast.

## Maynilad hopes for new water deal 'soon'

Maynilad Water Services Inc. is hoping to ink a "fair and reasonable" concession agreement (CA) with the government soon. President and CEO Ramoncito Fernandez said "formal communications" between the gov't and Maynilad have started but did not provide a timeline as to when the ongoing discussions will be concluded.

## Philippine Stock Market Update



Previous Close:

6,415.53

Open:

6,423.30

52-Week Range:

5,390.97 - 7,432.40

1 Yr Return:

16.53%

YTD Return:

-10.13%

Source:

Bloomberg

## Foreign Exchange

As April 22, 2021

US Dollar	Philippine Peso
1	48.41

## BVAL Reference Rates

As April 22, 2021

Tenor	Rate
1Y	1.893
3Y	2.691
5Y	3.211
7Y	3.620
10Y	4.177
20Y	4.926

## Daily Quote

Life is 10 percent what happens to me  
and 90 percent how I react to it.

-- Charles Swindoll

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## MORE LOCAL NEWS

### Japan Firms Invest P10.5B In PHL

The Philippines listed additional investments of P10.5 billion from Japanese wiring harness manufacturers, which are projected to generate 18,650 jobs, the Department of Trade and Industry (DTI) said on Thursday.

### Vista Land Income Declines By 45%

Vista Land and Lifescapes Inc., the listed property development company of the Villar Group, on Thursday said its income last year fell 45 percent to P6.4 billion, from the previous year's P11.6 billion as the pandemic took its toll on most of its businesses.

### Shareholders approve ALI-Cebu unit merger

Ayala Land Inc. said its shareholders approved the planned merger with Cebu-based subsidiary Cebu Holdings Inc. and three other units. Shareholders approved Ayala Land's merger with CHI, Asian I-Office Properties Inc., Arca South Commercial Ventures Corp. and Central Block Developers Inc., with ALI as the surviving entity.

### SM to open 3 new malls

SM Prime Holdings Inc. (SMPHI) will open three new SM Supermalls this year as it continues to bet on the economy's recovery following the onslaught of the COVID-19 pandemic. This will bring the total number of SM malls in the Philippines to 79.

### Manila 3rd most expensive city to live in ASEAN

The Philippine capital is the third most expensive city to live in in Southeast Asia, with cost of living in Manila significantly higher than the salary of an individual, a survey showed.

### DTI-registered businesses hit 430,000 in Q1

Businesses registered with the Department of Trade and Industry (DTI) reached over 430,000 in Q1. Speaking at the DTI Region 1 Youth Entrepreneurship Program (YEP), Trade Secretary Ramon Lopez said business name registrations from January to March reached 432,962 as many Filipinos turned to entrepreneurship to tide over the

### Converge inks deal for undersea cable system

Fiber broadband provider Converge ICT Solutions Inc. has signed a binding term sheet with Singapore-based Keppel Telecommunications & Transportation (Keppel T&T) to get capacity from a 15,000-kilometer undersea cable system and develop a branch that will land in Davao.

### Philippine economy remains fragile

The Philippine economy remains fragile amid the still limited boost in consumer and business confidence as COVID cases continue to escalate, the Asian Development Bank (ADB) said. In a webinar yesterday, ADB country director Kelly Bird said there remains a huge uncertainty in the economy especially with the still increasing COVID-19

### AC Energy gets approval to sell P16.48b shares

The Securities and Exchange Commission said Thursday it approved the P16.48-billion share sale of AC Energy Corp. AC Energy will offer up to 1.58 billion in primary common shares at P6 to P8.20 apiece. The offering comes with an over-allotment option of up to 100 million common shares.

### Smart tops coverage and speed in Opensignal study

Smart Communications Inc. overtook its rival in terms of 4G coverage, speed and experience in the latest report by independent mobile analytics firm Opensignal. The report, which covers Jan. 1 to Mar. 31, 2021, showed Smart beating the competition across all metrics in three essential aspects of service: coverage, speed and experience.

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## TODAY'S TOP ASIAN NEWS

### Taiwan begins to plan for zero emissions by 2050

Taiwan has begun to assess how it can reach zero greenhouse gas emissions by 2050, President Tsai Ing-wen said on Thursday, after environmental groups criticised the government for not doing enough to fight climate change.

### Chipmaker TSMC approves \$2.8 bln for expansion

Taiwan Semiconductor Manufacturing Co's (TSMC) (2330.TW), board has approved \$2.89 billion in spending to increase capacity, the company said on Thursday, responding to a global chip shortage that has affected carmakers in particular.

### Tencent, Sequoia invest in startup at \$200m valuation

[HONG KONG] WakeData, a Chinese enterprise data services provider, has raised US\$25 million from investors led by Tencent Holdings and Sequoia China at a post-money valuation of US\$200 million.

### Singapore firms roll out green finance initiatives

A string of Singapore-based companies announced sustainable finance initiatives on Earth Day on Thursday (April 22). A Singtel subsidiary launched its first sustainability-linked revolving credit facility of \$750 million.

## TODAY'S TOP GLOBAL NEWS

### Citi retail units seen fetching \$6b as sales kick off

Citigroup could fetch as much as US\$6 billion from the sale of retail banking assets in 13 markets across the Asia-Pacific region, Europe and the Middle East as the lender forges ahead with plans to fine-tune its global branch network, people familiar with the plan said.

### Biden to float tax increase on investment gains

President Joe Biden will roll out a plan to raise taxes on the wealthiest Americans, including the largest-ever increase in levies on investment gains, to fund about \$1 trillion in childcare, universal pre-kindergarten education and paid leave for workers.

### Musk puts \$100 mln jolt for carbon removal

Billionaire entrepreneur Elon Musk on Thursday offered inventors \$100 million in prize money to develop ways to fight global warming by removing carbon dioxide from the atmosphere or ocean.

### Mattel mulls tapping into NFT craze

Mattel Inc (MAT.O) will consider turning its collector brands into non-fungible tokens (NFTs), the toymaker said after posting a record 47% surge in quarterly sales as Americans snapped up Barbie dolls and Hot Wheels cars in the usually slow post-holiday months.

### Prosus, Tencent invest US\$80m in online broker BUX

[JOHANNESBURG] Prosus and Tencent Holdings are investing in European online-trading group BUX, giving the internet giants a greater foothold in the fast-growing sector.

### Blackstone bets on reopening, travel revival

Blackstone Group is doubling down on a post-Covid 19 economic recovery, investing heavily in businesses that will benefit from a world that's gradually reopening. Blackstone invested US\$17.7b in the first 3 months, buying hotels including Extended Stay America, private-jet operator Signature Aviation and UK travel company Bourne Leisure.