

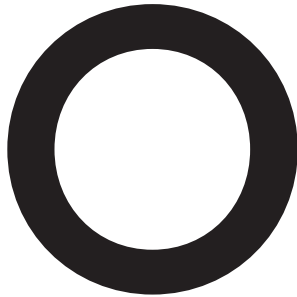
Forbes

CONTRARIAN • INNOVATION / CLOUD 100

Cloud Pipe Dream

By **Kenrick Cai**

Let others worry about what it all means. FIVETRAN is proving there's a fortune to be made just by piping data from place to place.



On a brilliant summer day in August 2021, George Fraser was trying to relax at his family's lakeside cabin deep in the woods of Wisconsin. Instead, the CEO and cofounder of Fivetran was worrying about his job and the company he had spent nine long years building with his childhood friend Taylor Brown, whose family also summured in the same patch of northern pines.

The two had a great idea: Help companies gather data from all sorts of disparate sources—Twitter mentions, credit card transactions—then charge them to funnel it to a big-data analytics firm like Snowflake or Databricks, which could, ideally, tell them what it all meant. Fraser and Brown had gone through Y Combinator together. They had raised about \$160 million. They had spent countless hours sweating the technical details. But they still didn't

Long-Term Relationship

Fivetran cofounders George Fraser (*left*) and Taylor Brown's families have been friends for four generations. "My great-grandparents gave his grandparents for their wedding this frog doorstop," Brown says. "It's a weird gift, but we now have it as our [company] mascot."



have a product designed for large companies.

“For years it was always the big problem we needed to solve,” Fraser says. “We were looking at a multiyear journey.”

One of Fivetran’s board members was Bob Muglia, who had been CEO of Snowflake. Muglia knew a thing or two about the stakes. He recalls that “Steve Ballmer beat the crap out of me” after he lost enterprise customers to Oracle while a president at Microsoft. (In 2011, Satya Nadella, Microsoft’s current CEO, replaced Muglia.) He spent five years building Snowflake but was shown the door just a year and a half before the company had one of the largest IPOs in Silicon Valley history. Now he was warning Fraser that time was running out. “I just railed on them,” Muglia says. “I said, ‘Damn, there’s no product here.’”

Seated behind a desk that had belonged to his great-grandfather, who had been president of Chicago Title and Trust starting in the 1930s, Fraser stumbled upon a decidedly old-school solution to his problems. He would buy his way to viability. HVR, a competitor located in San Francisco, just across the bay from Fivetran’s Oakland headquarters, had been beating them to enterprise deals. He’d heard through the tech grapevine that it was available to buy for \$700 million—but only if he could line up a bid before the end of the week.

The deal would get them enterprise revenue and a product they could then work to perfect. The problem was that Fivetran, valued not much higher at \$1.2 billion, did not have the cash. But Fraser did have a lot of fans in Silicon Valley—and a huge reserve of brute force persistence.

“Most folks, after several years in the wrong direction, will completely shut down the company and go elsewhere,” says Y Combinator president Geoff Ralston, who endearingly counts Fivetran as one of the ultimate “cockroaches” out of more than 3,800 startups that have gone through Y Combinator. “What was different about these guys is they never believed they were at a dead end.”

Fraser dialed up five blue-chip tech investment firms, including San Francisco-based Iconiq Capital and New York’s D1 Capital Partners, on a Saturday and told them he needed \$565 million to bankroll the deal. Within 72 hours, all agreed to wire the money. “It was a bit of a rabbit out of a hat,” Fraser says. “The business leapt forward by a couple of years.”

The transaction upped Fivetran’s value to \$5.6 billion, but HVR’s roughly \$30 million of revenue from large companies with big tech budgets was the real prize, giving Fivetran more solid footing than many of its peers. Many of these compa-



HOW TO PLAY IT

By John Buckingham

Despite its stock being off more than 20% in 2022, cloud investors should focus on **Microsoft**, one of the leaders in the space. Fiscal Q3 revenues for Microsoft Cloud, which includes Azure, Office 365 Commercial and parts of LinkedIn, jumped 32% to \$23 billion, nearly half of total company revenue. With a gross margin of 70% on the Cloud biz, cash is raining from Microsoft’s skies. Even better, Redmond’s finest funneled \$12 billion to shareholders via buybacks and dividends in the most recent quarter while maintaining a cash-rich balance sheet. The pullback this year, we think, makes MSFT a reasonably priced stock with terrific growth potential.

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PATRICK WELSH FOR FORBES

nies, including direct competitor Airbyte (valued last year at \$1.5 billion despite earning less than \$1 million in revenue), say they are now considering ways to conserve cash. “We don’t have that problem because our multiple is not that crazy and revenue has grown so much,” Fraser says.

The company, which lands in 27th place on this year’s Cloud 100 ranking, forecasts \$189 million in revenue this fiscal year (ends January), more than double last year’s figure. It now counts JetBlue, Forever 21 and chicken chain Nando’s among its customers. *Forbes* estimates the two cofounders each own a tenth of the company, putting their net worth at about \$500 million apiece (we apply a 10% discount for private companies). Martin Casado, a partner at VC firm Andreessen Horowitz, which was a lead investor on Fivetran’s last three funding rounds, touts its market lead in data pipelines as “unassailable.”

The top selling point? Ease of use. “It’s the most brain-dead simple thing on the planet to set up,” Muglia says. But that simplicity belies a great deal of complexity behind the scenes. Originally the product funneled data once a day, at midnight. Fraser made a daily ritual of staying up and monitoring the pipes. If anything broke—and early on, “things were breaking left and right”—he would spend the next few hours fixing it like a plumber. “It’s very rare that you have someone as smart as George working on a problem as mundane as this,” says Casado, the investor. (Among his other accomplishments, Fraser has a Ph.D. in neurobiology from the University of Pittsburgh.)

While Fivetran’s war chest—it still has about \$200 million in cash on hand—may seem large enough for it to survive a venture capital winter, Fraser says he plans to raise another funding round within the next two years regardless of market conditions; after that, he plans to take Fivetran public. Failure is not an option—partly because of the small-town pressures of their tiny Wisconsin cabin community.

“You hear about what everyone is up to, and there’s a whole rumor mill,” Fraser says. “The unexpected consequence of starting this company was that all these people knew about it. Now we really have to make this work, or we’ll never live it down.”

FINAL THOUGHT

“IT IS A VERY SAD THING THAT NOWADAYS THERE IS SO LITTLE USELESS INFORMATION.”

—Oscar Wilde