Stanford eCorner

Early Years of SecondMarket

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"Just open your doors and start a business," is the best advice ever received by SecondMarket Founder and CEO Barry Silbert. SecondMarket started with a very simple operation, experienced profitable growth over the next five years, and now stands to play an even larger role in the secondary markets space. In this clip, Silbert discusses his company's growth history and shares milestones achieved along the way.

Transcript

Like any good banker, I left and took a long vacation in Hawaii with my wife, my wife is here, by the way, and I just kind of decompressed.. I was doing 120-hour work weeks and so I got back from this really relaxing vacation, I started putting together a business plan.. And so I did an investment banker's version of a business plan.. It was like 100 pages, charts and graphs and it was like.... I mean, it was a work of art.. And I started sharing it with people that I knew, people that I trusted and the business plan essentially contemplated us raising $2 million, we're going to go build like this awesome eBay platform and then take over the world.. And so I remember distinctly one person came out.... came back to me and said, "OK, this idea for business, it's a good idea but screw technology.. You don't need technology for this business.. So why don't you just get going..

Don't go try to raise a bunch of money.. Don't go try to build a whiz bank platform.. Just open your doors start a business." So that's what I did.. So in the middle part of 2004 I put $50,000 in the bank, opened up a bank account and started working together.... working on the next version of the real business plan, eventually, was able to secure some Angel funding.. We've raised about $350,000 from a bunch of angels that you've never ever heard of because I didn't know anything about raising money from Angels.. So looking back I guess the $1.7 million valuation I probably sold so much of the company but it got us started.. But what was really, really interesting was when we opened up our doors in the early part of 2005, it was five of us, five telephones, and an Excel spreadsheet.. That was it.. That was our market place..

And the funniest part is The New York Times picked up our launch as a story and left out the facts that it was just a bunch of us in the room making phone calls all day long.. But because we launched that way, because we just went at it, we're profitable in essentially the first day because we had not built a bunch of infrastructure, we hadn't wasted a bunch of time trying to build a whiz bank platform.. So in our first year in 2005 we did about $1 million in revenue, 2006 we did about $2.5 million in revenue.. Now, at that time we had only focused on just one e-liquid asset class and that was restricted stock in public companies.. And we certainly knew that eventually we're going to get involved in other asset classes but for us that was enough of a business.. So along comes 2007 and we're on like a $5 million run rate, very, very profitable and we get a phone call.... I wasn't getting venture phone calls often but I did get a phone call from FirstMark Capital, a venture fund in New York saying, "OK, we like what you guys are doing.. We see that --" I mean, at this point we had built the first version of the platform and so we like what you're doing, we think there's an opportunity to create a more scalable business, help you get involved in another asset classes, we want to invest.. And at the time I was thinking, OK, I'm a first time entrepreneur, I never wanted to look back and say, if we'd only raised that money from this venture capital firm we'd be still around today.. So we ended up raising $3.8 million from FirstMark, I had about a $16 million valuation..

And so with that money we started aggressively hiring and started building technology of our next version of our platform and in 2008 the wheels really fell off the economy.. And we were incredibly well positioned to expand our market place.... expand our platform beyond just this one asset class.. We got involved in auction and securities, we got involved in bankruptcy claims, we got involved with the really toxic stuff the kind of the toxic CDOs and mortgage backs, we got involved with private company stock, which I'll come back to, and then we got involved in whole loans and things like that.. So business is taking off, doing really, really well but a year ago, we then got a phone call from folks with Li Ka Shing and Temasek saying, "OK, we love this business you're doing.. We love the private company market.. We want to get involved and help you take this business to Asia." So we raised $15 million from Li Ka Shing and Temasek about a year ago at $135 million valuation and that money was used for really for scaling and for expansion into Asia.. So today, we are I think arguably the largest market place for buying and selling alternative investments.. We have 140 employees who are based in New York.. We have an office in San Francisco, office in Hong Kong and an office in....

soon we'll have an office in Israel.. And I'm going to attack a popular misconception, we are in fact regulated.. We're very regulated.. We're regulated by the SEC, we're regulated by FINRA, we're licensed in all 50 states, we've got an enormous legal compliance team.. And as you can see from these charts, the business has really taken off over the past year or two.. There's a number of participants if you understand the power of the network-effect that's what we're starting to see now in our business...