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uBiome: FBI's Most Wanted Startup

"When I saw the FBI raiding, I knew exactly why they were here."

When the FBI raided uBiome's headquarters on April 25th, 2019, an employee in the office was hardly surprised – in fact, this was almost expected. He knew precisely why the agents were seizing the computers of his coworkers. uBiome was under investigation by state and federal authorities, ostensibly for fraudulent billing practices. Half a year later, uBiome filed for bankruptcy and ceased all operations. Once a \$600 million startup, how did uBiome as a company get here? It turns out that internal issues had long been growing before the company blew up publicly.

Testing Gut Health

The idea for uBiome came in 2012 from scientists Zachary Apte and William Ludington, fellow students at UCSF medical school. Both were in the final years of their Ph.D. programs and were intrigued by the prospect of studying microbiomes (the community of bacteria living in human bodies, primarily in the gut). Later that year, after Apte had completed his Ph.D., he recruited entrepreneur Jessica Richman to be his cofounder, and uBiome was born.

Like Apte, Richman lived in the Bay Area and had connected with Apte through an entrepreneurship program called Start-Up Chile. The program provided equity-free investment for qualified startups. After founding uBiome, Richman kept in close contact with the venture capitalists of Silicon Valley and raised over \$105 million from investors; in the year before its closure, Richman hauled in an additional \$83 million in its final round of Series C financing. uBiome garnered support from Silicon Valley's top investors including Y Combinator, Andreessen Horowitz, and 8VC. At its peak, uBiome's valuation reached as high as \$600 million. In March 2018, *Fast Company* magazine named uBiome one of "The World's Most Innovative Companies in Data Science."

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uBiome's clinical business model was based on sequencing and analyzing human microbiome specimens via fecal and vaginal samples. The output was supposed to facilitate a discussion between the doctor and patient, exploring whether there could be a pattern associated with a particular disease. uBiome would mail patients testing kits and would bill health insurance companies for each test patients requested with uBiome.

Ethical Controversies: Cutting Corners for Growth

uBiome's business model was part of a new wave of health startups that focus on making healthcare more modular. Benefits of these systems included increased accessibility and faster examinations, but at the risk of potentially cutting corners and failing to provide more detailed and thorough diagnoses for patients. uBiome sought to give patients with a history of gastrointestinal disorders a unique look into their gut's microbiome, offering a far less invasive process in the comfort of their homes.

In April 2019, the FBI raided uBiome headquarters as part of an investigation into potential insurance fraud. The company had been under scrutiny for questionable business practices: aggressively targeting potential customers through social media, sending more testing kits than were requested or medically necessary, and then billing the customer's insurance for all products delivered. Tests were often "upgraded" without any notification, resulting in even higher bills. Oftentimes, the potential usefulness of the upgraded tests was questioned by the user's physicians, and ultimately provided no additional insights into the customer's health. A former employee noted that uBiome would "provide what [the company] called an 'upgrade' – essentially getting the latest version of the test, but ending up running the same sample rather than a new sample [...] not really providing anything new."¹

Why did uBiome pursue this aggressive approach to generating revenue? The company did not appear to be on a particularly tight timeline to produce results. As one former employee recalled, "uBiome was a first mover in its [market niche]." Instead of opting for a more rules compliant strategy, the executives drove the "idea of having to hit certain sales targets that were probably unrealistic."

Employees were aware of the highly controversial business practices that uBiome chose to employ. However, uBiome's culture made it difficult for any objectors to speak out openly; a former employee noted that "[some of their coworkers] would get fired for having a different opinion" from the company leaders. Viable alternative business strategies for growing uBiome went unexplored as the company continued its fraudulent business practices.

Leadership

As uBiome grew its customer base, Richman continued to exert her influence and control over the company. Richman was not a scientist by training and did not have as comprehensive of a background in the science and medicine that went into uBiome's products. Despite her lack of experience, uBiome scientific experts experienced pushback from Richman when offering input. One uBiome employee credited this frustration to a sense of "ego" from uBiome's leadership. "They were hiding things, and they got themselves in that position because of their ego. They thought they knew what was best and that they didn't have to talk to experts who could actually figure out the right way to do things."

Another uBiome employee believed that it was less about ego and more about "insecurity". The employee stated "Our CEO was not a scientist or in a life science field [...] but you don't have to be a scientist necessarily to lead a life sciences company. However, you do need to push your ego to listen to the top scientists and surround yourself with the top people, which she didn't

do.” Due to the differences in backgrounds, it was hard for the employees to connect with Richman just as much as it was hard for her to connect with them.

With a leader ostracized from much of the company, uBiome started to tumble down a dark path. Ethical and regulatory concerns began to arise for uBiome, but Richman dug her heels in and proceeded to push uBiome’s business model onto more investors and potential consumers. At this point, according to former employees, it was Richman’s way or the highway. “The fact that company leaders thought that they knew everything and didn’t need to listen to the people that they hired about the right way to do things or take the time to learn about it is where many of the issues come from.”

Culture of Fear

Leadership affects key factors regarding organizational culture, community norms, and a company’s path toward success. According to a uBiome senior official, its organizational culture was best described as a “culture of fear.” While “the science was great and the people were great,” uBiome’s employees pointed to the company leaders’ controlling, authoritarian style as a key factor contributing to uBiome’s failure. Researchers have defined authoritarian leadership as “a leadership style that uses authority to control subordinates and demands unquestioning compliance or absolute obedience from subordinates.”² For example, at uBiome, any decision had to be approved by two of the three C-level executives. Already a bottleneck, this was exacerbated when “one is traveling, the other is busy all day with meetings or one is not checking their emails.” This practice continued even after the company had grown to more than 300 employees in size.

In addition to controlling decision-making practices, employees reported that company executives did not want to listen to the experts’ opinions when it clashed with their own. Medicine-related fields are highly regulated so companies need to be especially mindful of their practices. An employee described it as “a lot of nuanced regulations that can cause serious problems when they are not followed.” When concerned with how certain uBiome practices were in the “gray zone,” an employee tried to raise awareness among executives. However, these concerns were rarely heard and those who tried to insist and raise red flags faced the risk of being fired. Some employees became fed up and walked away on their own. A former uBiome employee states: “Everyone was afraid to speak up...anyone with any level of experience would not last more than a month.” Such leadership practices led to a high employee turnover and loss of expertise across departments.

The authoritarian leadership style seemed to stem from the leaders’ belief that without extensive control, the employees would not be able to operate effectively and accomplish organizational needs. The pressure and the stress of the leadership team trickled down the hierarchy, leading to ineffective and irrational decisions. Causing the employees to lose their trust in the executive team significantly decreased employees’ morale, and led to suppression of emotions.¹ Another uBiome employee states: “The issue was that since these types of products are so highly regulated, it doesn’t mix well with this culture of fear because when we, as the experts, had better ideas regarding compliance, we didn’t want to speak up because we were scared we could lose our jobs if the CEOs didn’t agree.”

Moving Forward

After the FBI eventually raided the uBiome offices, Richman, along with Apte, were placed on administrative leave and removed from their positions as co-CEOs. For former uBiome employees, however, their removal was actually the only thing that might have been able to save uBiome’s downward spiral.

“We didn’t know exactly what was going on but we knew they were not good leaders, not good at their jobs, and not good at running a company. However,

when the co-founders were eventually removed, and there was some restructuring, a consulting business firm was brought in and they knew how to run a company. At that point, we thought it would be possible to rescue uBiome from the ashes and make it the company it was supposed to be all along. Unfortunately, that never happened because the damage was done.”

According to media reports, interim CEO Curtis Solvig acknowledged the founders “implemented certain business strategies” that had “operational (but not scientific) flaws and, in some instances, were of questionable legality.” In the bankruptcy filing, he cited issues including “improper insurance provider billing practices, improper use of a telemedicine physician network, overly aggressive and potentially misleading marketing tactics, manipulation of customer upgrade testing, and improper use of customer inducements.”⁷

In short, uBiome’s bankruptcy in September 2019 was not due to a lack of ingenuity in their ideas and scientific processes. Employees emphasized the potential of this industry, as uBiome was essentially treading in uncharted waters when it came to commercial microbiome testing. Unfortunately, there were numerous factors that got in the way of uBiome’s success. From controlling leadership and to a culture of fear, uBiome tumbled down a road that ended in unethical business practices.

When looking back on their time at uBiome, former employees offered ways in which they might have run uBiome differently and insights they gained from their time at uBiome. “We would like to use our expertise and our academic, scientific, and medical training to carry our microbiome research ethically and with the most scientific integrity. We want to use microbiome knowledge and research the right way.”

Exhibit 1 The screening kit *Smart Gut* that samples guts microbiomes.



Source: <https://www.mymicrobiome.info/news-reading/screen-your-microbiome-for-free.html>

Exhibit 2 uBiome's screening kit that includes 6 possible test samples



Source: <https://www.indiegogo.com/projects/ubiome-sequencing-your-microbiome#/>

Endnotes

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