

## Ashu Garg of Foundation Capital

[00:00:04] This is the Investor Connect podcast program, I'm Hall Martin and the host of the show in which we interview angel investors, venture capital, family offices, private equity, many other investors for early stage and growth companies. I hope you enjoy this episode.

[00:00:24] Hello, this is Hall marking with Investor Connect. Today, we're here with Ashu Garg, partner at Foundation Capital Foundation. Capital is a venture capital and private equity company located in Palo Alto, California. Foundation Capital was founded in nineteen ninety five as an early stage venture capital firm there. FinTech enterprise and consumer investments have reinvented industries and defined new markets for a quarter of a century through boom and bust, prosperity or Calamity Foundation capital has endured, evolved and thrived with over three billion in committee capital. Twenty eight IPOs in 80 plus acquisitions to their name as you.

[00:00:57] Thank you for joining us. Thank you for having me today. Right. So what was your background before investing in early stage companies?

[00:01:04] You know, I spent fifteen plus years as an operator, mostly in enterprise software, started my career at McKinsey Co., for instance, and McKinsey did a couple of startups, was a cadence device. It's the right strategy and marketing. But then when I do too long stints at Microsoft, where I both ran field marketing for the enterprise software businesses globally and then also ended up building out the online advertising business with Microsoft. And that was my last job.

[00:01:36] Well, great. So what excites you right now?

[00:01:39] You know, it's a remarkable time to be an entrepreneur and an investor in startups. There is at least on the enterprise side, there's a fundamental disruption that's underway across the enterprise software stack. This disruption is being driven by three major trends. There is machine learning and the use of A.I. that is transforming the way we think about applications. But it's also driving fundamental changes across the infrastructure, supporting that. I think there is the shift to the cloud into a multi cloud environment, and that is upending how we think about infrastructure software, how we think of our platform, their transition to new platforms. And then there's also a big change from proprietary architectures to distributed architectures that do open source. And when you take these three things, all this disruption is creating massive opportunity. And I think we have a 10 year run ahead of us.

[00:02:39] An exciting new time and has given us a whole new set of care about it and a whole new start up cycle to work with. So I agree. So what's your advice for people investing in startups today?

[00:02:52] The hardest part about startups, especially the lens I have, is mostly around enterprise software, is there's a lot going on and whether you are an investor or an entrepreneur. You have to pick and choose where to focus. And so if you're an investor, I would say some investors focus on a certain stage. Some investors take more of a sector or a thematic view, and some investors are more people first. And you have to pick and then whatever your investment approach, I would say, get as laser focused on identifying what's your source of leverage, what's your what's your unique advantage. After all, all these things are really just salespeople with fancy business cards.

[00:03:39] So you got to figure out what are you selling a great and so on the other side of the table. What's your advice for people running startups today?

[00:03:46] You know, as an entrepreneur, you you vote in the best time that has ever had in the time that I've seen sort of technology startups over the last twenty five years. But it's also challenging in the sense that because capital is cheap, there's tons of competition in every pocket of opportunity. So I think the key is an entrepreneur is not to get distracted by all the noise around you focus on a clearly defined opportunity. Focus on finding product market fit and then focus on feeling like crazy, but once you have that product market fit.

[00:04:24] So that's one because it's very easy to get stuck to get defocus from the hype. So focus on finding product market fit and scaling. The second is, I think, take a 10 year view of the opportunity. Everyone, almost everyone I talk to, it talks about the competition today and how the competitive ecosystem is evolving. It doesn't matter what's the competitive ecosystem today. Even the best companies take a decade.

[00:04:50] The scale you've got to think about, what will the ecosystem look like a decade from now when you're trying to go public? The third thing I would say is a startup entrepreneur that you have to really think about is go solve the hardest problem you can find in the largest possible market. It's really hard being an entrepreneur, and it's no harder or easier if you're solving a big problem versus a small problem. So why focus on small problems? Think the hardest problem you can find. Go climb the hill that seems almost impossible to climb. And if you do it, the rewards will be commensurate.

[00:05:27] What's good advice? So let's talk about the state of investing today. How do you see the industry for venture evolving?

[00:05:35] You know, venture has been historically a cottage industry. If you look at capital deployed in venture relative to capital, deployed across other asset classes. It's traditionally been tiny. And I think that's changing. It's a journey venture has become more mainstream in the last few years. You're seeing venture firms that look more like asset management houses when they do venture firms. You're starting to see a lot of the growth stage investors coming into early stage. You're starting to see large public market funds like T. Rowe Price and PIMCO start to invest in pre-IPO companies. You're seeing the hedge fund investors start to invest in the early stage. So there's a lot going on. I think is an industry that is growing up is the way I would think about it. As it grows up and it scales, there's disruption and I think there's upward disruption in venture creates opportunity for new investors.

[00:06:32] So what do you think the biggest change you see is coming up next for Venture?

[00:06:37] I think the I think historically venture has been historically venture has been a business where brands and firms have mattered less than individuals and people.

[00:06:57] Which is why you see firms evolve and fragment and from the ashes of every successful firm, multiple view firms have emerged. And even today, it feels a little bit like that. You're seeing the emergence today of solo capitalism as a major new trend. I think over time we will start to see actually a consolidation and we'll start to see a handful of firms become.

[00:07:24] Money warehouses and have multiple products and have scale, and then we'll start to see the best in class boutiques focusing on specific sectors and stages, and I definitely think that when things settle down, the industry will look very different from what it does today.

[00:07:43] You think a handful of venture capital funds will actually be those money funds, or do you think it will come from the big tech like Google or Amazon or Facebook?

[00:07:53] I think it's definitely a standalone venture capital firms. I think I think the large platforms, technology companies, they go through ups and downs and their commitment to investing and to venture goes through its ups and downs. We've gone through a phase that over the last decade the Nasdaq has grown at over 20 percent year over year for a 10 year period. So the tech giants have had an enormously successful decade. It's unclear whether the next decade will look the same for them. So so I think venture firms, dedicated specialized venture firms are here to stay for many decades to come.

[00:08:32] Very good. So let's talk about your investment thesis for your your fund is highly successful.

[00:08:38] What is your investment thesis?

[00:08:40] We focus on two broad sectors where very significant investments in fintech and within fintech as a firm. Our bet is that consumer banking and consumer financial services are being disrupted with technology where investors and companies like Current States title and many others that are disrupting consumer financial services and consumer insurance. On the enterprise tech, where very large investors in cognitive applications or this idea that the next generation of applications would be first and will go from being workflows to actually having task automation embedded into workflows, that's been a very successful category for us. We have startups like Eightfold that are in that thesis that are doing exceptionally well. We've also made significant investments in the underlying enabling infrastructure at the bottom of the stack. So we're we're seeing explosions in the use of storage. We're seeing the need for a next generation of computing systems. And as a result of that, we've invested in Cerebus, which is really a completely new computer architecture for deep learning and is doing exceptionally well. We're also investors in Kohji City, which is reinventing storage and data management at the bottom of the stack. And then between those, there's two big layers we're very excited about. One is security and data privacy. I think one of the largest challenges for every organization is the fact and this is not every tech organization, it's every organization in the world is while data is the new oil, it is also the US Vestas.

[00:10:20] And every company has to deal with the fact that they may have an asbestos like liability due to all the data they hold and control. So that's that's an important challenge for every organization. And I think there's a handful of companies in our portfolio like Sky Flow and for Penix that are going after solving that problem. Last thing I would say in terms of our investment thesis is we're huge believers in the fact that we're seeing an explosion in data scientists, data science as a category. And it's a very broad category is exploding and our data scientists of all types and flavors. And at the same time, there's an explosion in developers. Every individual, every professional, every White-Collar professional is either a citizen data scientist or a citizen developer, and in many cases, both. And so the explosion in data science and software development is creating huge new opportunities for tooling and infrastructure are very good.

[00:11:26] Well, aside from the the challenges you just mentioned, such as cybersecurity and so forth, what challenges do you see your startups facing every day in running their startup?

[00:11:36] You know, the challenge is for every startup are unique. Every startup is a snowflake. While there are common patterns and common experiences, every founder, every market is unique. So I

hesitate to generalize. But to the extent that it's possible, I pick a couple of themes. I think in the early days, finding product market fit is really hard. And it's an argument of science, and so you have to know, but that's the focus.

[00:12:05] Every company has to really laser. The only thing that matters in the early days is do I have product market fit?

[00:12:12] Once you have product market fit, the most important question you have is do I have a scalable, repeatable go to market process? And, you know, you have that when the average salesperson can sell the product to the average customer without anyone from headquarters being involved. And that's a very high bar. But once you've been cleared that bar, then sort of all the issues are on company building and company scaling and getting the right leadership team and all of those things kick in. But I really focus on the first two sort of milestones.

[00:12:50] And so on the other side, for investors, what do you think the main challenge for the investor is in today's climate, the world around us, in startups, because of all the opportunities we earn an opportunity rich environment.

[00:13:02] And when you have an opportunity rich environment, the hardest part is focus. It's very it's very easy to get distracted by the next shiny new object. And I think that's a challenge for most investors. I think the second challenge for investors is applying the lessons of the past to the present and the future. And doing it appropriately, on one hand, would be foolish not to apply the lessons of the past to the present in the future, I mean, that's that's what experiences on the other hand, it's also what biases. And so you have to make sure that you're leveraging your experience, but not translating that into a bias just because a certain type of individual was successful in your prior life or just because your experience has been with a certain type, a certain class of people, that doesn't mean that's the only class of individuals that can be successful in the future. So being open to possibilities, but that's that balance is really hard as an investor to maintain what was true yesterday may or may not be true today and tomorrow look very good.

[00:14:06] So you see a lot of different applications in sectors out there in the market. If you had to pick two or three that you think are good immediate opportunities for investors to pursue, what would you recommend people look at today?

[00:14:18] You know, I always think that investors need to take a step back from the specific consumer to say what are the biggest macro trends in society? And I think one of the largest macro trends in

society is this notion that while data is the new oil, it's also the US business. And that macro trend, I think, creates massive opportunity. The second big macro trend, I would say, is. Every company is becoming a software company. Nike is a software company today, vilely, the mining company is a software company. Goldman Sachs is a software company in the world where every company is a software company. Every company is also getting into the data business. So if you're if you imagine a world where every company is a software company and every company is in the data business, there's a huge number of downstream opportunities from that. There are implications of that microcredit.

[00:15:14] So in the last few minutes that we have here, what else should we cover that we haven't?

[00:15:19] You know, I think the lesson I've learned after having spent more than a decade, frankly, failing more often than I've succeeded with early stage startups is you've got to start from first principles and you've got to focus on the people and you've got to focus on solving the really hard problems that matter. So that would be my advice, first principles focus on the people. Solve hard problems that matter great.

[00:15:48] Well, I appreciate your taking time to share this with us today. How best for listeners to get back in touch with you.

[00:15:53] My email is the best way to reach me, a guard at foundation dot com and try to send me a targeted email. You've got to find a way to communicate in the first paragraph or two why what you're doing is a good fit for me and I will read every single email I get. I will not respond to most of them. And so just for practical reasons. So the first paragraph gets me engaged. It feels like this is something that's a fit for me. You will hear back from me.

[00:16:24] Well, that's good advice for everybody. I want to thank you for taking time to join us today and hope to have you back for a follow up soon.

[00:16:30] Absolutely. Thank you very much for having me.

[00:16:33] Investor Canek helps investors interested in startup funding. In this podcast series, experienced investors share their experience and advice. You can learn more at Investor Connect, Doug.

[00:16:49] Alti Martin is the director of Investor Connect, which is a viable one C3 nonprofit dedicated to the education of investors for early stage funding. All opinions expressed by Hall and podcast guests are

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