

Fintech IP Show 3

Participation in the Fintech Segment and What Investors Look for

This is Investor Perspectives, I'm the host of Investor Connect, Hall T Martin, where we connect startups and investors for funding.

In our new Investor Perspectives series entitled "How to Solve the Fintech Problem", you'll hear about participation in the segment and what investors look for when investing.

As the COVID pandemic passes, we emerge into a new world. The fintech space is now undergoing tremendous change across the U.S. Every business is now a fintech business. We have investors and startup founders describe the shift from a centralized to a decentralized fintech market.

I hope you enjoy this episode.

1. [**Marc Michel**](#), Partner & Founder, [**Runway Venture Partners**](#)
2. [**Joshua B. Siegel**](#), General Partner, [**Acronym Venture Capital**](#)
3. **Victor Orlovskiy**, General Partner, [**Fort Ross Ventures**](#)
4. [**Matt Murphy**](#), General Partner, [**Montage Ventures**](#)

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Music courtesy of [Bensound](#).

Our first guest is Marc Michel, partner and founder at Runway Venture Partners. Runway Venture Partners is a New York City-based early-stage venture capital firm, focused on investing in post-product-market-fit SaaS and software-enabled businesses. Runway invests in companies that put seed capital to good use and demonstrate visionary and entrepreneurial leadership, clear product-market fit and strong growth rates. Marc, thank you for joining us again.

[00:07:13] **Hall Martin:** So what is your participation in the FinTech sector so far? Who have you funded, and how's it going?

[00:07:20] **Marc Michel:** So we've done probably across, my last couple of funds, I counted them up, eight FinTech investments. I'd say two were insurance companies, East Central and Scope Now, insurance related I should say, both are serving the old guard of the insurance company, one in East Central tries to bring that new kind of experience to the consumer for the old insurance companies, and giving them that digital experience that they're used to from the new companies, making those old companies look and feel like _____ like new companies, using the digital tools. Scope Now is an anti-fraud detection company using AI big data to detect fraud. Then we've done things like Transactis in the bill paying space, it was a terrific deal. They are another company that serves the big banks and the old guard. They would compete with bill.com that goes direct to their customers. Transactis sold to, I think, 25 of the largest 30 banks around the Transactis platform. And then we've done things like Lenddo which is a unique credit scoring company to let consumers in developing countries give them access to credit, where there's a lack of credit bureaus and strong data to do credit analysis. Lenddo uses alternative data to create credit profiles, and again, they serve the old guard, so letting the old guard make loans to customers that normally they would have turned down.

[00:09:14] **Hall Martin:** Okay. And so when you look at these startups, what do you look forward to invest in, what's your criteria?

[00:09:21] **Marc Michel:** Well, because we are particularly focused on the SaaS companies rather than the direct to consumer companies, we're looking for management teams that really understand their customer base extremely well. It is not easy to navigate a large bank or a large insurance company if you haven't been sort of part of the club and understand how those companies work. I think it's a little easier to do direct to consumer without having those kind of relationships, but going into the old existing companies, I think, requires management knowhow, relationships to get in there, as well as being very sensitive to the fact that those are highly regulated companies. And I think sometimes those customers think that their regulatory concerns are not taken seriously by new entrants. And so I think understanding the regulatory compliance that they, burden that they have, is critical to being successful. And then you have to have a great product, right, that is offering something truly unique to them, that they can't do on their own because these companies have large internal development staffs, so you've got to be bringing them something that they can't do by themselves.

Our next guest is Joshua Siegel, General Partner at Acronym Venture Capital. Acronym Venture Capital invests in unconventional funding rounds in NYC and rising markets with a preference for first-time and diverse founders. They are an opportunistic fund investing into late seed and Series-A rounds of enterprise SaaS and Omni-channel consumer brands that have achieved at least \$1m in ARR. Joshua, thank you for joining us again.

[00:08:24] **Hall Martin:** And so what's your participation in the sector so far, what have you guys done?

[00:08:28] **Joshua Siegel:** So we've done a number of deals in the sector. Unfortunately, I can't really publicly list them. That's sort of one of the challenges of being in VC, you can't really tell everything that you're doing. We haven't invested in companies that do the marketing side of things, that do the reinsurance side of things. We've invested in stuff that's on the logistic side of things, so they're providing insurance on the logistic side of things, which is great. We've invested in companies that are on the mortgage side of things, and part of that is offering insurance to the homeowners or to the renters, depending on what it is. So we do play in a lot of elements of the space. We haven't invested in a pure insurance play right now, because you need a lot of capital to follow on into that. It gets very, very expensive, and it's just an element that we've avoided to date.

[00:09:18] **Hall Martin:** And so what exactly do you look for when you make an investment, what's your criteria on these deals?

[00:09:25] **Joshua Siegel:** So we have a baseline criteria where we want to invest in companies that fall into the late seed Series A stage, which for us means they're generating about a million dollars in annual reoccurring net revenue. Right? So we want to make sure that they meet that number, it's not just gross, but really net. They have a pretty shortened sales cycle, a positive unit economics. Those are just sort of the baseline for the company. But we really invest in teams and product market fit, right? We want to make sure that you know what you're doing. You have the team that's able to execute. You might need to bring in a few people here or there, but you guys really know what you're doing, and with the additional capital that we're going to provide, you're going to be able to scale the company. If you can't do that, it's not right for us. We're not a seed stage fund. We don't invest in ideas. We invest in execution.

Our next guest is Victor Orlovskiy, General Partner at Fort Ross Ventures. Fort Ross Ventures brings together Silicon Valley venture expertise with an extensive network of relationships in the U.S., Israel, and Eastern Europe. Along with their LPs and strategic partners, they actively help accelerate success for their portfolio companies. Fort Ross's two funds combined have a total of \$345 million assets under management. Victor, thank you for joining us again.

[00:17:14] **Hall Martin:** So what is your participation in the Fintech segment so far?

[00:17:20] **Victor Orlovskiy:** Well, yeah, so we have this great company called eToro. So eToro is a pioneer of social trading, that's this company out of Israel. I see, I'm not sure if you have ever heard of this company, but obviously you've heard of Revolute, sorry Robinhood, right? Robinhood is something what you know well about. So eToro is probably a better and more, like, technologically driven, more technologically advanced than Robinhood because Robinhood is just zero commission trade. Right? And you can just do the same in Chase or other investment vehicles. I mean, everyone now is trading free commission stock, zero commission stock, right? So it's not – it's just a new normality here in US. So but, yeah, again, Robinhood is a better experience, right? They give you a better UI/UX. But this is not something different from what others are doing. So it's always doing a couple of different things. So you can just do what is called corporate trading. So I'm trading a lot on eToro, and the reason for that is that I'm not an experienced trader first. I don't have time to monitor trading activities, and trading is complex. So you need to constantly monitor what's going on. So you have to buy and sell at the right time. I'm constantly busy with something else. So what eToro enables you to do is you can link your investments to any other investors on the platform, and you see real time performance of those investors, of those traders. And then you just link your investments to those investors who you believe are approaching the right strategy. So you see the strategy, you see everything going on, you see performance, and then you put your money to work with traders and traders get rewarded for that. So it's like a social network like Facebook, if you will, which is purposely designed for trading. And this is like a real exciting experience, when you trade like others, real time online. And this is not like you're repeating Warren Buffett, because, I mean, you could not repeat Warren Buffett, you need to know what work Warren Buffett is doing real time online, and you don't. You only know it when he posts his reports publicly available. But by that time he could have sold already whatever you're going to buy. So here in eToro it's like all happening real time online.

Another cool thing is that you may create ETFs on the fly. So I can trade like you and like any other person on the platform, but then I may create an ETF out of you and this other person. And then I will just trade like you and this other person in a kind of weighted form, right? So I can create all these new instruments. So it just allows people to create new instruments on the fly. You can trade commodities, you can trade specs, you can trade a lot of other assets like fixed income, currencies, not only US equity but equity from across the globe. And you can do it in a way that you create your financial instruments on the fly right in the _____, and it's like really awesome technology. And this technology is positioned for this next century consumers

who want to have the social trading as part of their trading activities. Maybe other company I would think of is LendingHome. This company in Fintech space, they do commercial and business in breach purpose mortgage here in US, the company is really quite significant in scale. I can't give you exact numbers but it's a relatively large company now, and they're doing really, really great in this market. Their market leader far exceeding the growth rates of the market and other places.

[00:21:34] **Hall Martin:** So what do you look forward to invest in a Fintech company, what's your specific Fintech criteria that tells you to go forward with it?

[00:21:43] **Victor Orlovskiy:** Well, we are investing at the stage one company _____ some results, right? We are investing \$5 to \$10 million in the rounds of \$20 to \$80 million. So we put money when company has got at least \$8 million dollars in _____. And it means that we may deep dive into that _____ rate of growth and the numbers, right? So what makes really exciting is opportunity to invest in great teams, yet, I mean, we are relying on great things. And also, we are quite bullish as I said in a couple of verticals in Fintech, such as disrupting large markets like mortgage for example with its incumbent and legacy players trading. So we are looking at companies similar to eToro, but who are also doing more maybe like gamification and gaming across trading platforms. We look at what is called infrastructure, banking infrastructure as a service, companies that enable banking to become cheaper and more efficient. So it's not _____ Fintech but companies that are around Fintech, that help Fintech to innovate.

Our final guest is Matt Murphy, General Partner at Montage Ventures. Montage Ventures is a venture capital firm actively investing in financial services, e-commerce, marketplaces, and healthcare startups. Matt, thank you for joining us again.

[00:14:05] **Hall Martin:** So what's your participation in this segment so far?

[00:14:09] : So we're a very active investor in the Fintech space across all of its segments, investing, banking, lending, asset management, insurance, PropTech, embedded finance. We've backed over 30 companies over the last seven years at Montage. I've been at Montage for three years, before that I was with a company called Renren which is a large Chinese conglomerate, but has a very active venture arm, and so at Renren we backed companies like SoFi or Aspiration or Motif or LendingHome or Fundrise. So, in my career, I've backed well over 40 or 50 Fintech plays and I come in, in the early days. I come in at the seed stage with my partners at Montage, where we like to partner up with founders and really partner up in areas that we have a deep understanding in from our operating experience or from our experience helping build other companies in this space, and then really figuring out how can we add value to these companies. And so, we like to be a partner with that founder or those founders and really help them. Help them think through the product mix. Help them think through the user experience, think through the monetization strategy, marketing, sales, distribution, partnerships; and then figure out what does the right board look like, who are the right investors to bring on. And so, when you take an investment from Montage, and I'd say, any of our 200 plus founders who have taken

capital from us would echo is that we start every meeting with how can we help, we end every meeting with how can we help, and for us, it's really about just helping giving founders leverage so that they can achieve more.

[00:15:50] **Hall Martin:** So what do you look forward to invest here in this space?

[00:15:54] **Matt Murphy:** So, like I said, seed stage, we will invest pre-product, but our preference is really an initial product in the market in an area that we have deep experience, where we can add the value that I mentioned too. But we want to make sure that the team has pushed something live that is either monetizing or has some customers coming in or maybe as a large strategic partnership lined up, that is really kind of the sweet spot for when we come in. And we'll write a \$1 to \$2 million check, and be in it with them for the journey.