Gady Nemirovsky of Inspiration Ventures

Speaker1: [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. Interested in learning more about investing in startups, launching a new startup need to raise funding, the startup Funding Espresso is a daily podcast and a short, concise format delivered to your inbox every day Monday through Friday, the time it takes to drink an espresso. You can learn about startup funding to subscribe, go to Invest, Connect Dog and put your email into the up box. Hello, this is Hall Martin with Investor Connect. Today we're here with Gady Nemirovsky , managing general partner at Inspiration Ventures. Inspiration Ventures is an early stage investment firm that structures its investments in a way that minimises risk for their limited partners and benefits founders. By better aligning the best interests with the founders, their interests are completely aligned with yours. Whether the next step is a follow on venture investment or a company acquisition, your success is their success. Gady . Thank you for joining us.

Speaker2: [00:01:08] My pleasure. Thank you for having me.

Speaker1: [00:01:10] So tell us more about your background. What did you do before investing in early stage companies?

Speaker2: [00:01:15] Well, actually I studied electrical engineering and business at the University of Pennsylvania in the Wharton School and started my career at JP Morgan Investment Management, managing assets for pension funds, endowments and so on. Kind of Wall Street on the buy side. The truth is, I always wanted to be more directly involved in technology. So after a few years of that, I came out here to California back in nineteen eighty nine to join a startup software company, then left to start my own company and then did a few others, very similar startup companies, and ultimately realized that I like working with companies at the very earliest stage. Friend of mine says they have three stages. The commandos stage the army stage in the police stage. So I think I like the commandos stage and made the most sense to create a job for myself where I can be at that stage all the time. And that's the early stage investing.

Speaker1: [00:02:03] Great. So what excites you right now?

Speaker2: [00:02:06] I mean, apart from the fact that the Golden State Warriors are actually going to make the playing tournament for the NBA playoffs? So I'm very excited about, you know, Steph having a great year. I think it's always exciting time for early stage venture to tell the truth. So I love my job, as I'm sure you know, and I'm sure you've heard from others know watching and cryptocurrency is very hot right now, but we actually look for deals that are not always on the beaten path and we've had good success with that approach. I'd say our previous investments in companies like user testing, daily pay, Cabonne systems, these are all companies where we were the very first money in and they were not necessarily on the sexiest path. So we look for the hidden gems. I guess this is what I'd like to say.

Speaker1: [00:02:48] All right, well, appreciate that. So you see a lot of investors and a lot of startups. What's your advice for people investing in startups? What do you tell them to do before they write that check?

Speaker2: [00:02:59] Well, I'd say right now, in particular, as you kind of alluded to, it's a very exciting time for investment because there's a great deal of money chasing deals. And I my advice to investors would be don't be fooled or overpay and be fooled by the hype. I've seen this movie before. It always ends the same way. We've seen it three or four times now. And it's easy to get kind of caught up in the excitement, the momentum, what have you. And and you can lose a lot of money that way.

Speaker1: [00:03:33] Right. And then on the other side of that table, what do you what's your advice for people running startups? What do you tell them to do before they go out to raise that funding round?

Speaker2: [00:03:40] Well, there's a lot of things they can do before, but I think particularly in times like this, when there is a lot of cash chasing deals. And what I'm about to describe is a very difficult thing for for starters to do. And I have been in this situation myself, and that is don't be seduced by the easy money. Right. I mean, I kind of believe that actually too much money is almost worth and too little. It's very hard to resist when people are trying to throw

money at you for. For for what you're doing, very high prices and founders are notoriously very competitive and ambitious neighbors look around, see what somebody else is doing, and they think, oh, he got this price, I didn't get this price. But you can really back yourself into a corner where you raise too much too fast at too high a price. You set the bar very high for the next round and you become fundable. So that's my advice. But it's very difficult, difficult advice to take. I understand that.

Speaker1: [00:04:37] Right. Well, let's talk about the state of investing. How do you see the industry evolving from here?

Speaker2: [00:04:42] It's a good question. You know, in many ways, I think the more things change, the more they stay the same. As I said earlier, I've seen this movie three or four times before. It always feels different this time. But the truth is that the markets go up, they come down, things get frothy, then they die and so on. I think fundamentals remain the same. We as investors, we need to find companies led by exceptional, committed and most importantly, persistent founders. We we have a saying failure is not an option. We look for four founders that have failure is not an option in their DNA and we look for them in large and growing markets. Now, all that said, would I think the thing I would say is perhaps different this time, if I can contradict myself, is that the current emphasis on so-called DII diversity and inclusion, ESG social response, socially responsible investing feels a little different this time in the sense that these notions have been around for a very long time. It just seems that may stick around a little longer this time. We'll see, but it just seems to have more staying power and I think it's a good thing. We'll just see if that turns out to be the case.

Speaker1: [00:05:54] All right. What's the biggest change you think we'll see in, say, the next five years in this space?

Speaker2: [00:05:59] In the in the investing space, startups investing, huh? Well, the biggest change, I think, is that that is going to be a bit of fall to reality. Perhaps, though, you don't know if it's going to happen tomorrow or five years from now. I think there's already been I think that there's been a shift to things like accelerators. And back when we started doing early stage investing, we were one of the early pardon me, one of the very few that were actually doing that. Now, there are quite a lot of them, and these things go in cycles. I think that's going to

they're going to fall away again when markets are not so good. I also think, interestingly, that the pandemic and the the fact that we're doing this over Zoome and the fact that I now attend pitch sessions over Zoome is going to change how these accelerators work. It's very it's hard to predict precisely how, but I already see a shift in that it's possible for me to attend five of these things at a time. Much better for us, to be honest, much better for better to go find parking. I don't have to find a seat. I can only pay attention to the ones I'm interested in. But I think it's far worse for the founders because they don't get to meet us, which of course is where they go to be. So I can't it's hard work. I think that's going to have some kind of effect on how things come out of accelerators.

Speaker1: [00:07:21] It seems like we're going to become more productive at this and so we can do more deal flow and will be able to get to the better deals faster and see more people get more feedback. It just seems like a big positive all the way around.

Speaker2: [00:07:33] Yeah, apart from the fact that people dying, obviously. Yes, I think it's a big positive. I mean, for us, again, I mean for me, frankly, I think that for me in the past and perhaps even today, accelerators are perhaps the worst place to find new business, by which I mean new startups to invest in. And I say that because places like Y Combinator and Greg and Jessica did a fantastic job building that brand. But it's so powerful now that they show two hundred and forty deals every six months, talk for 60 seconds. I learn nothing and I have two hundred people in the audience bidding them up. I mean, that's a very it's a very hard to find something there that's going to be of interest at a reasonable price that somebody else hasn't seen, which of course is what we look for. So now, though, with the way they're done today, as I said, you can see money at a time. You can get only information you want. You can do your own screening. Yeah, it's better for us, but it's worse for the entrepreneur, I think.

Speaker1: [00:08:37] So let's talk about your investment thesis. What is it and what's your criteria for making an investment?

Speaker2: [00:08:43] Yeah, it's a very good question. So. We believe that the most important part, the best indicator of whether a company will succeed or not is the founder and the founding team. And I know that a lot of investors say that. I think if you then ask them what you look for in an investor, everybody has a different view. Some say we want people that have done

it before. We want people who have worked together before they know the space. I don't think any of those things are the most important, the most important of what I said earlier, which is. You need a person and and she has to attract people who are similar in the sense that they just refuse to accept defeat, because in my experience, it's very rare for a company to end up succeeding at what they started off doing. I mean, history is full of these. PayPal's originally infinity. It was beaming money between hand-held devices. Twitter was originally Ottos podcasting company. I mean, it goes on and on and on. And so if you invest in an idea or an approach or something like that and it changes, which it almost always does. What are you left with, right? So we look for founders that have obviously all the obvious things smart, hardworking, ambitious, but mostly you want people who are just extremely persistent and cannot conceive of not succeeding because that's what they're going to need.

Speaker2: [00:10:07] The art of it is it's very hard to know if you have a person like that in a one hour pitch. Right. You have to kind of look at a lot of different things. So we don't have a sector focus. We look for capital efficient companies that naturally excludes some sectors, biotechnology, things like that. But mostly we're looking for really strong founding teams and big and growing markets. As for our criteria, we like to be we're often the first money and we don't have to be the first money in. We like price deals, which I think a lot of people don't like. So I think that sets us apart a little bit. We're not big fans of doing a safer convertible note. We have done them on occasion, but we like to get on the same side of the table as an entrepreneur. And to me that means doing an equity deal where the next round we're both equally going to benefit or not, and which is not the case with some of these other instruments. So we usually put it in, I'd say a million to two million dollars, maybe half a million to two million dollars first time and and then go from there.

Speaker1: [00:11:09] You talk about one or two startups that fit that thesis

Speaker2: [00:11:13] In our current portfolio

Speaker1: [00:11:15] Or previous one where

Speaker2: [00:11:16] You just think if we're looking for. Well, as I mentioned, the so to two examples, of course, among our most successful user testing based here in Mountain View, we

made that investment back in January of 2009 when nobody was writing checks and they were tiny little company that two or three people, just Daryl and Dave. We were the first money in we did a price round. And that company has done phenomenally well. They had a banner year this year. I can't remember how many employees they have now, but it's in the hundreds. Another interesting one is a company called Dalip, which is based in New York. And the interesting thing about daily pay is that that one actually came in over the transom, which is very rare, as you know. I mean, like everyone else, we get a lot of deals that are just address that partner and inspiration ventures or inspiration ventures. Most of them, frankly, are terrible way more than most of them, ninety nine point nine percent. Right. But I try to read them all. And that particular day, having to be sitting at my desk, it's actually, frankly, quite hard, difficult to read these and not discount them all out of hand. So you can't do too many at a time because by the time you get to the fifth or sixth one, you're like they all stick.

Speaker2: [00:12:31] I'm not going to do any of this. This one happened to come at a time when I was having me sit on my desk in between things. So I pull it up and was one of the best business plans ever seen, frankly. So we did that deal, I think in late twenty fifteen. And it has just been a it's been a rocket ship. The companies done extraordinarily well there. They've pioneered a space called the earned wage axis or early wage access space based in New York, that office in Minneapolis as well. And what I like to say about that particular situation is the good news is found a deal that's very likely nobody else was looking at because it came in over the transom. So people don't really read us. The bad news is now I have to read them. All right. So the hundreds and hundreds of deals I get all the time, I have to find a way to get through them all. But we do. And I think the critical thing there also is we're not relying on somebody else to screenies. I mean, why would I believe that an accelerator can do a better job of screening these than I can and I don't. So we try to read them all.

Speaker1: [00:13:33] Right, we talked about the challenge of space and meeting investors when it's all online these days, but aside from that, what are the challenges that you see startups face today?

Speaker2: [00:13:43] Well, apart from the usual challenges which are hiring, staying focused, finding the breakout strategy, I think the critical thing in this market is what I said earlier, which is be careful about raising too much, too fast. See this a lot where it's just hard to turn down

that money. People will promise you a lot. There's a lot of money looking for a home. Probably know more about the statistics than I do. And it's great to be a hot deal, but. I think that many founders and not to put too fine a point on many founders coming off accelerator's, seem to believe that raising money is the end game, right? Oh, I've done it. I've raised this big round. The truth is, that's where the story begins, right? That's where it gets really hard. And more people have to understand that. I mean, again, I've seen this movie before. I moved out here in nineteen eighty nine. Ninety three was a very difficult time for a lot of folks. It was. But then in ninety six, ninety seven again it became like Founders' with the new rock stars. Right. This is true again. But I guarantee you and I don't know when of course if I did I'd be very rich men. But it's going to change and it's going to it's it's going to stop being that way. I can't predict when that will happen. But people got to stay. People got to get into it for the right reasons, not because they're chasing the wrong thing. So.

Speaker1: [00:15:07] So what are the challenges for the investors in this space? You were talking about finding the needle in the haystack, the size that. What do you see investors struggling with most today?

Speaker2: [00:15:16] Again, I'd say the flip side of that, which is it's really hard to get a lot of money chasing a few good deals. It's hard to know. It's always hard to know. I mean, we're in the business of evaluating risk, right? So we're always going to take a chance on things. But when when money is so easy and prices are so high, it's two orders of magnitude more difficult. And older oldy kind of historically obvious challenges continue, which is very hard to find a breakout strategy. Our view is you have to stay in the game. It's like basketball. You got to be closed at the end of the game so you can find the winning strategy. It's a very rare company that figures it out straight out of the blocks. So in many ways, like I said, the more things change, the more they remain the same. The challenges are very similar. The markets perhaps are a little different. But finding the really talented founders who will keep at it, win or lose, until they figure it out. That's the difficult part, right?

Speaker1: [00:16:17] We see a lot of different sectors and applications out there as you're agnostic here, to take one or two that you think are really good opportunities for investors to pursue today. What do you put at the top of the list?

Speaker2: [00:16:27] Well, certainly blockin. And I want to be careful about that because it's very hot right now, as I said. But we've been following and blocking a space for some time now, and I'm talking about blocking a separate from cryptocurrency. Right. I think that the the the technology, the implications of blocking for many industries things like title insurance and property insurance and actual digital currencies that are digital currencies and not roulette wheels like Bitcoin. This is very interesting, but it's being kind of subsumed or obfuscated by what's going on in a lot of cryptocurrency and all the press that it's getting. But I would say I think has a lot of promise. I think that things that come in and out of vogue when they kind of fall out of vogue, they have they have promise. We have an investment, a very interesting company in our in our third fund, the current fund we're investing out of called Appreciate. And they're capitalizing on the remote nature of business now where, yes, everybody uses Zoome or Teams or WebEx what have you. But those are not set up for kind of many people's social functions and appreciate just a really good job with that. I think there are opportunities there that have not been I think the world has changed. I don't think it'll stay exactly this way, but I don't think it's going to go back to the way it was. A lot of travel is going to go away. People can do a lot more things. We were doing them. Now I think opportunities will come up there.

Speaker1: [00:18:04] Well, in twenty seventeen, we saw irrational exuberance around block change in the form of icons and white papers, and we all know how many of those ended up. Here we are four years later. Are we actually seeing real world applications of block change coming into the market, generating revenue? And do you think that's turning the corner or think it's still a few more years out?

Speaker2: [00:18:26] At the risk of being vague, I think both are true. I think there have been new there have been entrants in the space, if you just don't get to hear about that, are utilizing lockshin to do things that. Don't don't get a lot of press, but I also think that. As far as currency is concerned, the big money center banks and the government are now understand that this is inevitable. And I think eventually you'll have the Fed or other governments essentially bless some type of digital currency. And that, to me, is the real danger of all these bets and other places they could get crushed when the when the government or the Fed and the money center banks decide, no, we're going to do our own thing. The other space, that is interesting, but it perhaps has been on the fringes, cannabis. Right. That's going to become legal nationally eventually. It's not something we're going to do until it does. But when it does, I think it is going

to be a just an absolute gold rush. I mean, you have all of the obvious place for it is the spirit space. You can see people like Seagrams and an RJR tobacco space getting into this area. So I think that's very interesting. But a lot to sort out. There are a lot of risk there. So I don't think it's anything I would touch right now. But it's coming

Speaker1: [00:19:49] Right when the last few minutes that we have here, what else should we cover that we haven't?

Speaker2: [00:19:54] You know, I think you've done a few things, done a great job with the questions. I think it kind of presents the essence of what we are. I think that what sets us apart, if I could do a little plug for us as we try to be as honest as we can with the founders that we talk to, I think that what people are our portfolio company founders and even the folks we talked to who we ultimately do not invest in, what they appreciate from us is candor. And I one of the things that I despise the most about raising money when I was doing it was how rare and difficult it was to get a straight answer out of venture capitalists. They won't tell you why they're doing it or why they're not doing it. We always do. And what we always say to people is, look, this is what I would do in your place, whether or not it serves me. So we get a lot of referrals from folks who came from referrals from people who we've turned down. They send they send other entrepreneurs to us because they know that they're going to get value from the meeting even if we're not going to do it. And I like that. I like that people do that. I wish people had done that for me when I was a. Pitching my company's so great.

Speaker1: [00:21:03] Well, so how best for listeners to get back in touch with you

Speaker2: [00:21:07] Probably sent me an email, Godet Inspiration v.C comments on our website. Probably going to be up on the podcast here in like I said, I try to read everything, but don't expect a quick return. Unfortunately, my inbox is pretty crap, right?

Speaker1: [00:21:24] Well, we'll include that in the show notes. I want to thank you for joining us today and get you back for a follow up soon.

Speaker2: [00:21:30] I hope so as well. Thank you.

Speaker1: [00:21:37] Investor Connect helps investors interested in startup funding. In this podcast series Experience, investors share their experience and advice. You can learn more at Investor Connect, Doug. Alti Martin is the director of investor Canek, which is a 5.1 C3 nonprofit dedicated to the education of investors for early stage funding. All opinions expressed by Hall and podcast guests are solely their own opinions and do not reflect the opinion of Investor Connect. This podcast is for informational purposes only and should not be relied upon as a basis for investment decisions.