John Zic of EQUIAM

Speaker1: [00:00:04] This is the Investor Connect podcast program. I'm Hall Martin. I'm the host of the show in which we interview angel investors, venture capital, family offices, private equity and many other investors for early stage and growth companies. I hope you enjoy this episode. The. Investor Connect is a 501 C three non-profit dedicated to the education of investors and startups for fundraising. Please consider donating $100 to the program to help others in their investor and entrepreneur journey. You can find the Donate button on the Investor Connect org website.

Speaker2: [00:00:39] Hello, this is Hall Martin with Investor Connect. Today, we're here with John Zic, partner at EQUIAM. EQUIAM is a nontraditional, systematic VC firm who use deeply researched proprietary, data driven algorithms to make their investment decisions. John, thank you for joining us.

Speaker3: [00:00:55] Thanks, Hall. Great to be here today.

Speaker2: [00:00:56] Great. So tell us more about your background. What were you doing before you got involved in early stage investing?

Speaker3: [00:01:02] Absolutely. So prior to sort of entering this world of venture investment, I was in the management consulting field and actually with a heavy focus on data analytics, big data science. And what that allowed me to do was really develop this robust analytical skill set and, you know, lent itself to my time at Ford, which was where I was right before Requiem. And I don't know. For those unfamiliar, forges a brokerage platform that facilitates transactions between capital members of startup companies ranging from early growth stage to late stage, and allows investors to get access there so very early, their six employee help to build out that platform. And then it was also leading a variety of data initiatives there, including creating an index of the way companies trade through time based on secondary trading metrics. And a lot of that sort of carried over into my work at Aquiline. And so we'll obviously touch on a lot more of that later. But, you know, been a very data focused investor and sort of data focused person my whole life. So good to see that all play out today and what we do.

Speaker2: [00:02:05] Great. So what excites you right now?

Speaker3: [00:02:08] Yeah, so I mean, right now, we're excited about just the growth of data in the private market. And so, you know, looking back a decade, what we're doing today would be simply impossible. There just wasn't that much data. But today there's so many reams of data from from hiring growth through time looking at the way that companies generate revenue through time. You know, every time there's a mention of any sort of financial metrics, you know, there's internet sources that aggregate that information, compile it into databases and allow investors like us to really rebuild and sort of reconstruct the way that venture investments happen by looking at a more top down approach as opposed to the more traditional bottom up approach, you know, shaking a CEOs hand look in the eye. We do a lot of our pre diligence with this amazing, the amazing reams of data that exist today and the broader market.

Speaker2: [00:02:53] Right, well, you see a lot of the startups and a lot of investors out there. What's your advice for people investing in startups? What do you tell them to do before they write that check?

Speaker3: [00:03:02] Yeah, I mean, you know, it's it's an interesting question. So our approach is obviously that data driven approach. And I think that, you know, the typical process many people use data that confirmatory element to their process as opposed to sort of the precursor before they even have a conversation. And we're really trying to change that dynamic and encourage people to use the data available to them and, you know, at their disposal. Now obviously, what we do is sort of institutionalized and it's and it's more challenging to do on an individual scale, but even doing cursory checks and understanding where these firms fit within their peer group understanding, Hey, this company a, they've grown their headcount 200 percent, whereas Company B's only grown by one hundred and twenty percent. Those can be little sort of signals within that that they can think about before they go. And they, you know, whether it's meeting with the CEO addressing a company, you're thinking about potentially exposing themselves to a new investment. So that's kind of my my thought on it. And you know, we believe that data is kind of the oil of the internet and is going to continue to be that way as people think about whatever action they're doing, whether it's investing or simply just, you know, researching things for their own needs.

Speaker2: [00:04:08] So on the other side of that table, what's your advice for people running start ups? What do you tell them to do before they go out to raise funding in this new data driven world?

Speaker3: [00:04:16] Yeah, I mean, I think part of it is optimizing, obviously, you know, their metrics to some extent. You know, I think there's more investors turn to using more data driven models. Part of that, you know, part of the things that founders can do is increase the quality of their internal metrics. Know we're super obsessed with the efficiency metrics, you know, almost like Moneyball for V.C.. And what you've seen in sort of, you know, the sports world, I think that's coming to the investing world. And startup CEOs can do their part in providing and sort of calculating these own ratios and his own sort of internal signals for, you know, they can provide to venture investors. So that could be a great way where startups can really sort of conceptualize and understand where maybe more data driven venture investors are coming from. So I think that could be really, really compelling. So really coming up with those unique statistics that every business is unique in the way that they generate revenue, the way they track their success. And so at least bringing sort of their version of success to the table with that data backdrop, I think, would be super compelling for us if we were if we were met with that, you know, at the first conversation, that's already going to be really encouraging for us and then obviously doing our own analysis as well.

Speaker2: [00:05:23] Right, well, let's talk about the state of investing. How do you see the industry evolving from here?

Speaker3: [00:05:28] Yeah. So I mean, I think the venture capital industry in itself has been evolving sort of rapidly over the past, you know, call it decade or so. I mean, we've seen all sorts of different dynamics taking place. You've got proliferation of early stage and seed stage show focused managers. I think, you know, the amount of sort of new fund launches over the past year has been just phenomenal. I think part of that's been driven by obviously the sort of the COVID tech explosion that's occurred. You know, obviously we had the drawdown in, you know, early 2020 with COVID, but then it's just been an unbelievable run for technology and growth in this space. I think a lot of people are trying to toss their hat in the ring. And now obviously when things get crowded, you know, that requires more discretion. And so I think it's important to obviously understand that there's new sort of new risk involved. You know, unfortunately, it's the sort of the law of averages, and many of these new funds will undoubtedly fold up, fold up shop within the next couple of years. But a handful of them will come out and become, you know, sort of the next generation sequoia or whatever it may be. And, you know, we're taking the approach, you know, heavily trying to de-risk our process with this data backdrop and and really looking to take advantage of. Obviously, if I alluded to earlier that that unique sort of data dynamic that exists today.

And I do believe that there's going to be other venture firms that are really going to be sort of following our process or sort of leaning into this more data driven approach. Because as the market becomes more competitive, you go from the sort of venture 1.0 world which was, you know, closed door meetings, handshake deals, sourcing deals, your network too. You know, we're calling Venture 2.0, which is you need to look at the entire universe because in order to generate consistent alpha, you can't just have your 10 closest allies be showing you the occasional deal you need to be going across the world, across the country, you know, finding those greatest pockets of future growth potential because Silicon Valley is now expanding, you're seeing huge pockets of tech development in Texas, Colorado, New York, Florida, and then I'm sure that's spreading them. There's, you know, subsidies like Nashville, you know, Indianapolis, like there's all these little pockets where tech is tech development is happening. And so it's important not to ignore that and really look at what the data is showing as opposed to. Oh yeah, my, you know, my neighbor's son launched a company in San Francisco. Let's go take a peek at their deck. And so I think we're going to see see that shift continue. In order for managers to stay relevant in the next next two decades.

Speaker2: [00:08:04] So as we shift into a data driven world, what do you think is the biggest change we'll see and say the next 12 to twenty four months?

Speaker3: [00:08:11] Yeah, I mean, I think I think one of the things we'll see is the old time frames compressing. So, you know, we invest into primary rounds, but we're also very active in that direct secondary market. And some of the things we've seen in the secondary market have been really compelling. And I think we're going to see that play out in the primary market as well. But three or four or five years ago, when we first got started in this space, the old time frames are anywhere from three to eight weeks in the secondary market. Today, those very same deals are closing within 24 to 48 hours. So if you haven't come to the table with pre diligence done, you're going to miss out on that transaction. I think with the amount of capital today being thrown at venture deals both in the secondary and primary space, we're going to see a dramatic compression of deal time frames. Your average primary deal in some cases, it could be six months from the time they get their term shooter into the time of closing that that round. But for the most hotly sort of desired companies and those where the most dollars are going to be chasing it, we could see that timeline shortened to two weeks from the time that that term she's written at the time that they're fully subscribed now they may extend the deal or expand the size of the round. But I do think speed is going to be paramount, and I think that's going to be a huge driver of sort of the next evolution of where venture investment goes. And, you know, I'm always bringing it back to that data component because if you don't have great data, you can't make that decisions. You are going to get left behind and sort of the VC 2.0 of the future.

Speaker2: [00:09:38] Right, and so let's talk about your investment thesis. What exactly is your criteria for deals that are coming through? You mentioned the efficiency metric, but what else are you looking for in particular?

Speaker3: [00:09:48] Yeah, absolutely. So within our model today, we've got about 13 14 different data sources that come in, ranging from funding round history to revenue data to hiring growth to to traction both in social media website visits. Sentiment signals ranges from internal internal sentiment signals amongst the employees external amongst your customers in all sorts of other sort of unique market level data, including secondary trading marks. And so all that comes into our model. And from there, it gets ingested, aggregated, transformed so that we can generate unique insights. And so I did mention efficiency and we and we love efficiency across many different dimensions, both capital efficiencies, the way these firms are putting capital to work. Revenue efficiencies. So, you know, for every new hire that comes on board, how does that impact the way they're generating capital through time or generating revenue through time? I should say we're looking at geographic expansion of their team. We're looking at sort of the subsector of their company that's growing. Are they expanding their sales team or are they expanding their engineering team? And what are the impacts of that? You know, does that mean there are 15 months away from a massive revenue uptick or is it six months away? How is the raised capital being used? So, you know, many firms have raised capital through time, but not all of them are generating organic value. Many firms just like that money on fire and just sort of, you know, burn through it and then they turn back to venture markets, and in some cases they can keep raising money. But what we're looking for are those really unique outliers that raise just a little bit of venture capital to get them to sort of launch velocity, but then they generate just explosive organic growth.

] I think one spectacular example that is a stripe, for instance, you know, tiny fraction of these, he's been raised in comparison to their total value that they've created. And so then we're looking at, you know, obviously signals related momentum, signals related to valuation. I think in this market, with so many dollars chasing venture deals, it's absolutely critical that you're ruthless on valuation. You know, not not necessarily. Are these deals going to be more fairly valued than, say, a large public competitor, but they can be more fairly valued than their venture, their venture capital backed peers. And so that's one of the things we're really looking at. You know, we'll also look at, let's see, I think we've really touched on all of it. Yeah, I mean, so we're looking at this huge dimension. I think today we've got about 85 unique signals within our model that fit within many of those buckets I just discussed. And each company gets scored on those various eighty five dimensions. The scores get aggregated and ultimately they get a final ranking score within our model, which is then coined the genius model. It just stands for generating exceptionally novel insights, using systems. So ultimately, that's what happens. They get their genius score, and then our process is limited to investing in the very top 30 ranked firms within that model. And so it dramatically limits our scope and allows us to focus all of our efforts in that, you know, ninety nine point eight percentile of companies in the entire private universe. And this includes, you know, the vast majority of U.S. venture backed startups, as well as a handful of international startups as well.

Speaker2: [00:12:45] Can you mention one or two startups that fit that thesis, that or maybe portfolios now?

Speaker3: [00:12:51] Yeah, absolutely. So I mean, we've made, you know, dozens, dozens of dozens and dozens of investments over the past two years. Our first fund launched in February 2019. We've made fifty nine investments since the launch of that first strategy or second fund just closed in June of this past year. And so, you know, a handful, you know, a couple of companies that we've invested in recently in the logistics tech space, we just made a recent investment in QIPCO, which is really, really doing some super unique things on that front. We're investing in cloud security companies, companies like signified companies that are really, really jumping out to us. And so, you know, right now our focus is in that I'd call it the, you know, just past sort of the hyper early stage. So we're coming in at the Series B plus round. That's where we see this really unique opportunity, where companies are well capitalized. They've proven, you know, they've raised at least three rounds of venture funding. They've proven their sort of growth growth metrics in the space. They've got, you know, robust revenue generation. They've got to increase market share and they're we're looking at them as is massively disruptive to whatever sort of sub industries they're operating in. And we find that that segment of growth to be really compelling. So it's a bit de-risk. So you may be limiting your top level upside, but you've got the opportunity to generate five to 15 tax returns over a short period of time. So, you know, so. So as mentioned, it's really looking for this unique subset of companies. We're generally sector agnostic, but there are models genius in the sense that it identifies where the pockets of venture capital are flowing. And recently we made our very first blockchain infrastructure investment in OpenSea. So, you know, super excited about obviously a lot of developments on that front as well.

Speaker2: [00:14:31] So let's talk about the challenges startups and investors face in this data driven world. On the startup side, what is the challenge founders face to actually accommodate this?

Speaker3: [00:14:42] Yeah, I mean, I think if they if they're lacking sort of robust internal metrics, if they're lacking a sort of a quantifiable advantage that they can point to over their peers, they're going to have trouble, trouble raising capital in this environment. I do believe that it's going to become more and more competitive. There's a lot of entrepreneurial vigor at the moment. I think COVID has caused a lot of people to reassess their lives if they ever want to become an entrepreneur. This post-COVID environment is when they're going to be doing it. So you've seen a lot of these dynamics play out, but I do believe that really understanding where they fit in the competitive framework is going to be going to be absolutely paramount to raising capital.

Speaker2: [00:15:19] And on the other side of that table, what's the challenge investors face using this model?

Speaker3: [00:15:24] Yeah, I mean, I think, you know, our models is unique and that that really sifts through that universe. I mean, I think some of the challenges are data quality, right? So if we're lacking quality inputs, you know, not every company or a model do we have sort of robust data room access for us. So at times there are assumptions to be made and that's going to be the risk with using a data driven sort of private market focused approach. You know, the public want investors that have sort of pioneered some of these concepts, you know, really came to came to flourish in the 70s and 80s. So, you know, I would say the private market is about 30 years behind at minimum where the data quality is in the public market. But it's super exciting because we think the next three decades are going to be sort of this, this golden era of private market quant investing. So I think right now it's data quality concerns, but we've begun to layer in obviously an artificial intelligence concept, machine learning concepts to help fill in those gaps using models that are sort of learning upon themselves as we get more and more and better data through time.

Speaker2: [00:16:26] Well, you see a lot of different sectors and applications out there in this world. If you had to pick one or two that you think are really good immediate opportunities to pursue, what would you put at the top of the list today?

Speaker3: [00:16:36] Yeah. So I really am intrigued by the cloud security sector. Companies within the sector continue to score out exceptionally well within our model. You're seeing explosive growth, massive adoption. The customer bases are growing exponentially. You know, as you've seen hacks, I mean, you had to Twitch.tv leak the other day. I mean, it's just unbelievable amount of risk that these startups are facing startups and also, you know, more mature private companies are facing with their data storage and with all sorts of various IP related elements of their businesses. And you know, with the remote workforce is and obviously people needing to access very sensitive sort of cloud infrastructure from all parts of the world, it's becoming absolutely critical to have the most robust security solutions in place. So we're really excited about cloud security. You know, certainly isn't kind of the newest thing, but I think now it's becoming one of the most important things that we're going to see explosive growth in that sector. As mentioned earlier, we love the blockchain infrastructure space. Obviously, we're not in the business of speculating on cryptocurrencies, but we're extremely excited about the infrastructure, the picks and shovels, so to speak. Behind the scenes. They're really laying the base for just incredible growth in that in that blockchain sector over the next next decade. So it's a super, super excited about those, those two sectors in particular.

Speaker2: [00:17:54] Great. Well, in the last few minutes that we have here, what else should we cover that we haven't?

Speaker3: [00:17:59] Well, it's it's a great question. We've touched on touched on quite a bit today. You know, I think I think one of the pieces that we haven't really laid into or sort of discussed at length here is that direct secondary market. So, you know, if you think about obviously the employees and the investors that have either given their capital or their time to build these businesses, you know, many of these individuals have been limited in their opportunity to liquidate and sort of generate realized value until the IPO. And I think that you've seen this, this, you know, behind the scenes kind of robust development of the secondary market. And I think the secondary market is going to go from kind of, you know, a sort of a steam release valve to a critical component of how these firms operate in the private sphere. So not just raising capital for the balance sheet, but also empowering their employees and their investors to realize some of their liquidity and some of their sort of value they've created earlier in the cycle. And so firms like AQIM, and there's a few other firms obviously in the market that are, you know, big in the secondary buying function. You know, we look at ourselves as liquidity providers, the private market, and I really do think that this is going to become a massive and growing segment of both value creation for our investors in our funds, but as well as value creation for the the individuals that have put their blood, sweat and tears into building these companies from the ground up. So I think we're going to see some really cool dynamics, you know, massive expansion and growth over the over the coming few years in the direct secondary market.

Speaker2: [00:19:29] Great. So how best listeners to get back in touch with you?

Speaker3: [00:19:32] Absolutely. So, you know, one of the greatest ways to get in touch, obviously coming to our website. If you'd like to join our mailing list, ask for more information. We've got a couple of different signup forms for people to access. There can also be accessed via LinkedIn. I believe those links will be shared after the call, but those are two of the best ways to get in contact with me.

Speaker2: [00:19:52] Great. We'll include those in the show notes. I want to thank you for joining us today and hope to have you back for a follow up soon.

Speaker3: [00:19:57] I often think of.

Speaker1: [00:20:02] Investor Connect helps investors interested in startup funding. In this podcast series, experienced investors share their experience and advice. You can learn more at Investor Canaccord. Paul T. Martin is the director of Investor Connect, which is a 501c3 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.