Adrian Mendoza of Mendoza Ventures

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, many other investors for early stage and growth companies. I hope you enjoy this episode. Investor Connect is a 501 C three non-profit dedicated to the education of investors and strives 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. Hello, this is Hall Martin with Investor Connect. Today, we're here with Adrian Mendoza, founder and general partner at Mendoza Ventures. Based in Boston, Massachusetts, Mendoza Ventures is a woman owned and the first Latino owned venture fund on the East Coast. They're an early stage and growth fintech, A.I. and cybersecurity venture fund that provides an actively managed approach to venture capital. Adrian, thank you for joining us.

Speaker2: [00:01:07] Paul, thank you for having me. It's great and excited to a little bit about Mendoza adventures in the background.

Speaker1: [00:01:12] Great. So let's talk about your background. What were you doing before you started investing in early stage companies?

Speaker2: [00:01:19] Yeah, so that's a great way to start. I, prior to being in D.C., I was an entrepreneur. I had two companies in the tech ecosystem here in the Northeast with us, along with the sales team in the West Coast and mostly out of mobile infrastructure, mobile ad tech for our second company. And what really was unique about it was while we were bootstrapping the companies, I actually built a lot of products for the financial services industry. And so it was really nice. One of the first products that we built as we were starting my first company was one of the first apps that went through FINRA. And so I had gotten a lot of background in building fintech applications as primarily mobile, getting through through risk compliance legal. So roll the clock forward. In 2015, as all early stage founders, the board said, Hey, we're going to sell this company, so go find something to do. And we did. My partner, senator, for who now is a partner with me, it was those ventures, was our CEO of both companies. And, you know, I like to say she was our unofficial CFO because they started in our house and we were the company's first investor. So we had had some background in building A.I. infrastructure, mobile infrastructure. And so when we had that event, you know, I spent about six months as the entrepreneur in residence at John Hancock's Innovation Lab, fusing that work, bootstrapping building products along with my experience as an entrepreneur. And both my partner and Jennifer said, Well, what are we going to do next? Are we going to go? And we were being actively recruited by other entrepreneurs and CEOs to run companies. And when we look back at our experience, we said, Look, the most amazing investors we had through our journey were those that were very hands on.

So why don't we take a little bit of our winnings and start focusing on investing? But we didn't want to do it as angel investors. We didn't want to do it in the big angel groups. We wanted to do it. At that certain point, there was a gap in pre-seed funding. Most of the angel groups and the VCs had gone upstream because when I raised money on my first startup, we had raised about 1.2 million and that round was so large in two thousand nine that they had to call it an SSE route. You know, now people are doing 1.2 to two million in safes and convertible notes. So having that experience, we kind of took a step back and said, we know we want to be a hands on investor. We know we want to do larger deals than angel deals. And at the same time, what are the spaces that we know really well? What are the spaces that we have direct experience on? And really what? It came to a head very quickly. That experience and I and then building financial and fintech products was something that we said, look, we want to focus on investing in areas where we have direct domain expertise and not trying to get into a space and then sort of come back into understanding that domain it was. Let's look at places where we can help the entrepreneur like how we were helped with with very active capital. Yet at the same time, leveraging that experience of having put apps through FINRA and the SEC legal governance compliance, you know that that type of background in building the types of products that wasn't commonly known that we can then help influence our own entrepreneurs in our portfolio.

Speaker1: [00:04:48] Great, so what excites you right now?

Speaker2: [00:04:51] Yeah, I think there's one of the you know, the things I hate to say is that COVID has brought fintech to the foreground, even though with what everything's happened, roll the clock back. About two or three years ago, I was at a Gartner security conference and the reps at Gartner were saying, Look by at twenty twenty one, we're finally going to see cloud at the inflection point of cloud spend going slightly over on premise event. And this was probably in twenty nineteen. They were predicting it that it was going to take this far long. Roll the clock last year, cloud spend in leaps and bounds has over, you know, is over gone on premise just because of COVID. And with that, with going to the cloud, the importance of of rebuilding infrastructure, it's really brought fintech to the foreground. So being that we've been in the space, especially in B2B fintech since 2015, for us, it was the perfect storm of knowing the space, knowing the spaces that we wanted to come into. And also at the same time, when you look at what's happening in fintech from the crypto side, from the DeFi side in twenty fifteen to twenty sixteen, we had the first resurgence and then we had a crypto winter.

And so the power of what happened with COVID is that accelerated the need for this type of fintech infrastructure, the need for new products where individuals couldn't go into a bank anymore, so they had to go online. And so one of the things that we saw with COVID was threefold. We saw that the aging infrastructure that people were traditional banks and credit unions were hanging their hat on was falling apart. And so the spend on infrastructure, along with the increased spending in cloud was the perfect storm right there. We also saw an increase in mortgages. You know, people now looking for houses outside in the suburbs where they can work remotely, and that just shot up the mortgage industry. So banks, credit unions are now saying, Well, how do I keep a you app? So mortgage products protect products have now been accelerated up. And then the third one is how do we start distributing PPP loans to companies and being able to inherently get a room for free? Well, of all three, the PPP piece was that the one that was most temporal, the emphasis now on that next generation of fintech and financial services infrastructure along with that piece in the mortgage industry.

So what's been exciting for me is that we saw with COVID really the emphasis on DeFi, the emphasis on open banking, the emphasis on API banking, as well as blockchain infrastructure, as well as, you know, an increase in in wealth management tech. Yes, the market has been doing great, but it's also been going up and down along with interest rates and COVID are now next to zero. So the emphasis on getting out of the, you know, leveraging the market or looking at other wealth tech opportunities is something that really excites us right now. And it's been, I would say, five years in the making of seeing the East Coast fintech ecosystem now finally having West Coast investors calling me last year saying, Why didn't you tell me about this fintech thing? And so it's pretty amazing to now see the SPACs in the unicorns that are fintech focused companies primarily in the BDC space right now. But I think we're going to see a lot more in the B2B space.

We're going to see a lot more acquisitions and we're going to see a lot more emphasis on the financial technology piece of this.

Speaker1: [00:08:39] Right? So what's your advice for people investing in fintech startups? What do you tell them to do before they write that cheque?

Speaker2: [00:08:45] Well, I think for me, when we look at that world, it's understanding that world to a T. Who is the customer who is the partner. Not only that, we see a lot of early fintech entrepreneurs coming to us and saying, I've got this app, yet they don't understand the regulatory piece. They don't understand that if they're giving advice, they have to be in ARIA. They don't understand that they have to do KYC. And so one of the things that still is important in this space is leveraging that domain expertise and domain expertise to be able to educate the market, as well as sometimes maybe educate the investor. We do things where we've invested in a blockchain company focused on the capital markets. And, you know, three years ago when we were raising around, a lot of the investors are like, Wait, wait, what are the capital markets? And it was like, No, let's actually sort of bring it up a level in how you converse about the capital markets, how you converse about the private markets, how you converse about wealth management tech in a more consumable way to investors, for them to understand what are the opportunities that here that are in these markets? Because for us, when we meet an entrepreneur that's trying to disrupt the insurer tax base or the tax base or the insurance or wealth management space we look for, have they spent time in that space? Do they have the specific domain expertise to be able to push it through legal and compliance? And, you know, do they have to get this thing in front of the SEC or FINRA? Because that's something that, you know, if you were in the SAS marketing space, you don't have to deal with. But in fintech, you do have an idea of what are the regulatory pieces that are required to build these products, right?

Speaker1: [00:10:34] Then what's your advice for people running fintech startups? What do you tell them to do before they go out to raise funding?

Speaker2: [00:10:40] You know, the thing about her is build. Having been the entrepreneur that has done this before and has raised money before, treat it like a sales cycle and a lot of time is spent pitching investors that don't understand the space. And for me, for a lot of even our own portfolio companies, CEOs, if they have it invested in fintech, yet, they're probably not going to be investing in fintech and the importance of looking at the list of portfolio companies to be like, who are the. Elements who are the, you know, in their backyard who work up potential competitors into this company, and I think that's advice to anyone raising money. You know why pitch a B.S. or an angel group that has an active competitor in your space and a lot of time can be actively wasted not having the right conversations with the right people?

Speaker1: [00:11:33] Great. Well, let's talk about the state of investing in fintech. You've talked a little bit about the progression so far to open banking, DeFi and so forth. But how do you see the industry evolving from here?

Speaker2: [00:11:45] I think we're going to get to the point in the next couple of years to a maturity in the space. I have always been in the belief that investing in three areas that we cover, primarily Fintech II and cyber risk. You know, the majority of winners are not going to be unicorns. The majority of the winners are not going to be the big SPACs that happen. These are going to be early acquisition targets. And so level setting the frame to the investor that having a five to 10 to 15 x exit is a win because if it happens in three to five years and you get acquired by a large five, very, very fast. That's a win in this book because I always ask other individuals like When's the last guy company that IPO? None. They're all acquired the occasional carbon black and cybersecurity that does IPO. Most of them are sub two hundred and $400 million acquisitions. And so that's very different than looking for the next Uber or the next Lyft, the next Plaid, but really kind of level setting the mind split. Science said that investing in these spaces are more about acquisition targets. And for us, that's validated by the large corp dev and M&A of these strategic investors that come to us and say, You're right, these are the targets of companies that we want to buy to be able to accelerate the development of our own customers and not, you know, they're not going to buy them when they're a billion or two billion dollar companies, they will buy them when they are at two to three hundred or four hundred billion dollars.

Speaker1: [00:13:21] So what we think is the biggest change we'll see and say the next twelve to twenty four months.

Speaker2: [00:13:25] You know, I think what's happening overall at funding, and I would say this has to do with COVID, but also it's had to do with what's happened culturally in the U.S. and

from Black Lives Matter to a cultural change about focusing on groups of color and investors of color. In the last 18 months, we have seen upwards of 30 to 40 brand new venture funds put, you know, run by people that look like me, female African-American come to market. And that's unique along with, I think again, it's a perfect storm along with something like COVID, where for an example of our own fund for about 12 to 18 months, we pitched to individuals on phone and on phone, on and Zoom calls without ever having to travel. And there were investors in our fund that, you know, had come into the fund, and we have never physically seen them until just a few months ago. And so I think that with the abundance of new managers and venture funds coming to market is really creating a whole new set of capital that's in the market than there was when I raised capital, when I raised capital.
There were five investors in Boston, two to three in New York and a bunch of little angel groups. Now we're getting a lot more national presence of when you look at the, let's say, for example, 10 years ago, these funds were. And the large ones. We're 20 to 30 million, you know, in a bomb. Now we're seeing first time managers raising 50 to 60 million, backed by only one person that came to market in the last 12 months. And so it's put a lot more capital out on the street. And what's exciting for an entrepreneur now is to not have to go to the traditional sources of capital. But being able to find interesting new managers that are looking for companies that are going to affect black and brown communities that are going to affect female investors that are going to affect closing the wealth gap. And that's a really exciting time in the market because we've never seen so much new capital in so many new funds to market that's ever before. And I think that's really, for me is super exciting.

Speaker1: [00:15:55] We talked a bit about your investment thesis before, but can you give us a little bit more detail and color around exactly what do you look for? What's your criteria for investing in the startup?

Speaker2: [00:16:06] Yeah, absolutely. So we have two funds in market. One is an early stage fund and where we build a cohort of 15 companies. The other one is a growth stage fund to grow companies from Series A to CVC. In the early stage fund, we're looking for 15 companies. Right now, we have an early stage fund that we're at, like we've just invested last week in company number 10 and kind of the companies that we're looking for there are have to have raised a friends and family before, have to have a product to market and have to have a paying customer. And not only are they within the three lanes, the swim lanes I fintech and

cyber-attack, but the goal is that we're looking at companies that have product market fit, but also have now set a product in our sales strategy in motion so that it's not the first customer that happens to be a friend, but you've set up a pipeline of the first set of customers that are now looked into and where the value proposition doesn't have to be perfect.
But for us, our thesis is to find these companies, but also to be very hands on. I'm very proud to say that the majority of our investors in our funds are men and women that work in the finance industry, and so we leverage them as an expert network to be able to do due diligence, as well as to break the black box of the LP experience and be able to leverage that 20 30 years at a large financial institution to get those down to these entrepreneurs. And so when we are looking for these companies, we're reaching out to these expert network to make sure that we have the right fit and the right companies. As well as that, we can offer the domain expertise that they need to grow those companies. When we look at an opportunity for the growth fund we're looking for now, something that has one to $2 million in annual recurring revenue has a clear product marketing fit and that we could pretty much put growth capital but still be heavily involved in helping them for other companies.

Speaker1: [00:18:09] Great. Well, you see a lot of challenges that startups in investors face. What do you think is the main challenge the startup faces today in this market?

Speaker2: [00:18:18] I think in this market, it always will come down to capital. And I think especially with so much capital sloshing around in this market, it's about finding the right capital that can help you. Having been the entrepreneur before and been surrounded by amazing investors for us, the ones that brought the domain expertise and the support not just with the dollars, was something that was really important for us. And so in that market, I think it's also because of so much capital out there now and so new managers and market. It's also great to be able to, you know, as an entrepreneur, pick and choose, who are your right investors? And I think that's the important piece is making sure that you get access to those networks, but also making sure that the right capital is there to accelerate the business. Because that's where we still see a lot of entrepreneurs fall flat is that they may have raised money, but there's no domain expertise, especially in really more, you know, technical complex spaces like fintech.

Speaker1: [00:19:26] And what's the challenge the investor faces in today's market?

Speaker2: [00:19:30] I think it's go back to access to capital. I think with so many options out there, you see deals that traditionally might have been much smaller. Rounds are getting larger and larger and larger, with some other groups that are now heavily allocating in the early stage. One of the things that we're seeing even in San Francisco, is by the time a company may get to a Series A, it's an insider round. And so those investors that want to sit back and wait till the water is safe and that they're, you know, it's nice and warm at the Series A or Series B are not getting access to those deals. And so it's really now pushing a lot more of these funds to be earlier and earlier in their lifecycle because they realize they wait, they are going to be sitting on capital that they can't deploy.

Speaker1: [00:20:25] Well, you see a lot of different sectors and applications inside the fintech segment. If you had to pick one or two that you think are really good opportunities for investors to pursue today, what would you put at the top of the list?

Speaker2: [00:20:37] I think on my top two is open banking and its connection to DeFi, as well as wealth management tech. I think there are two spaces that with sort of the rise of the neo bank, the challenge your bank with the rise of decentralized finance that we are now in this amazing space where this infrastructure is really helping build new startups and companies that didn't exist before.

Speaker1: [00:21:06] Right. Well, in the last minutes that we have here, what else should we cover that we have in?

Speaker2: [00:21:10] Yeah, I think. Always happy to open it up to how people can reach out to us. We're really active on LinkedIn. We're really active on our website. We post a lot about our founders and we're always looking for interesting connections to introduce them. So we're happy to sort of put that out there on how do we reaching out to us making sure we're active. We also encourage that if someone does reach out to us that it's just not a cold intro, that it's tailored to why this would be a good fit. And as I said, here we have very open guidelines on what we're looking for that we published on our site that we talk about in every podcast, making sure that we're checking those boxes every time you do reach out to us.

Speaker1: [00:21:50] Right. So how best for listeners to get back in touch with you?

Speaker2: [00:21:54] Great. I'm very active on LinkedIn. If someone wants to reach out to me on LinkedIn, I'm happy to respond. I was doing a talk at Betterment and I said the same thing and someone messaged me, and five minutes later I responded to it and they said, Holy cow, could you respond on LinkedIn? The other thing is funny enough we do have a team that looks on inbound on the website that if someone does come out to me, we will have. We're swamped now because of a lot of the press we've been getting, but we do try to get back to everyone, if you can.

Speaker1: [00:22:22] Right? Well, I want to thank you for taking time to join us today, and we'll include those in the follow up notes and hope to have you back soon for the next presentation.

Speaker2: [00:22:31] Thanks, Paul. I appreciate it.

Speaker1: [00:22:34] 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. Talk to 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.