Pankaj Jain of Saka 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, and many other investors for early stage and growth companies. I hope you enjoy this episode. The Investor Connect is a 501 C three nonprofit dedicated to the education of investors and startups for fund raising. 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: [00:00:38] Well, hello, this is Hall Martin with Investor Connect. Today we're here with Pankaj Jain, managing partner at Saka Ventures. Saka Ventures is a seed stage cross-border fund based in New York City. Pankaj, thank you for joining us.

Speaker3: [00:00:51] All. Thank you so much for having me.

Speaker2: [00:00:53] Great. So tell us more about your background before joining soccer ventures.

Speaker3: [00:00:58] So I started my career on Wall Street here in New York City, spent a couple of years at JPMorgan, Morgan Long Term Capital Management. Back in the late nineties and then after LTCM, we went and we started an infrastructure company called Global Financial Services, providing middle and back office services to hedge funds. So way before fintech became a thing, but that's what it was. It was a fintech company. And a couple of years after I left Global, which is now, SNC decided that I wanted to become an entrepreneur and start a tech business. So I wound up moving to India based on the idea that I had moved to India and tried to figure out my startup over there. But during that process I got very deeply involved in building entrepreneurial communities and founded two nonprofits in India to help promote entrepreneurship across the country and started Angel Investing and accidentally became a VC. Ran investments for 500 startups for a number of years, did about 65 or so investments in India, got a couple of unicorns or unicorns out of that, and a bunch of companies that are, you know, a couple of hundred million dollars in valuation today and also along the way got interested in crypto and blockchain and have been spending a lot of time on that over the last couple of years as well as angel investing and. Here I am back in New York after living in India for seven years.

Speaker2: [00:02:28] Great. Well, you've had quite a ride there between the VC world and the Angel world and everything in between. It sounds like you've had a great run so far.

Speaker3: [00:02:37] Yeah, it's been fun.

Speaker2: [00:02:38] Well, great. Well, so what excites you right now?

Speaker3: [00:02:41] So right now, I think there's a lot of stuff that's exciting right now. I think one of the most amazing things happening is crypto and Web three kind of coming together and creating some incredible opportunities for people around the world. I'm especially excited about how finance is changing because of Defi and the access that it potentially is bringing to parts of the population that had very little or no access to banks. There definitely are some pitfalls, especially to the layering of risk in the DEFI ecosystem, but there are some interesting and easy and low risk ways of entering the space. I'm also excited about SAS opportunities that target a whole new segment of the population, specifically individuals and Prosumers, as well as industries where technology technology hasn't yet permeated. So like small business productivity tools, manufacturing, of course, health care and education have been on fire the last couple of years. And if you've used Google Classroom over the last couple of years, which most parents have, they realize that it's terrible and there's a lot of opportunities to create better tools for online education, not just the content. So, you know, these are some of the things that I've been really interested in recently.

Speaker2: [00:03:58] Wow. Yeah, there is a lot going on right now. But let's talk about your advice for investors. You see a lot of startups out there and a lot of investing through as an angel and as a venture capitalist. What's your advice for people investing in startups for the first time? What do you tell them to do before they write that check?

Speaker3: [00:04:15] Yeah, angel investing is kind of become a fashionable thing these days, and I think one of the things that I like to think about or how I like to think about angel investing is rather than a solo sport, think of it as as a team sport. So getting involved with a group of other angel investors or going on to a platform like an Angel List or August or something like that, and building relationships with other investors and looking at deals together, evaluating deals together, perhaps joining an offline syndicate. Those are some really good ways to get started, right? Like there's a lot of people that have access to capital, but they don't necessarily have access to deals and there's no real way of building up your deal flow until you start getting out there and writing checks. So doing it as as a group a lot of times helps you get access to high quality deals that you may not be able to get access to on your own when you're first getting started. So for angel investors and even like other investors who are just getting started looking at early stage startups, I think that's a really great way to kind of minimize your risk and maximize your chances of getting into high quality deal flow. I think when you look at different sectors and different areas, it changes a little bit. Like there are certain like if you're doing investing in fintech, having a background or an understanding of finance and regulations, and there's B2B, fintech, there's B2C, fintech, a lot of nuances there. But pick one or two sectors that you know really well or have a background in or have resources in and kind of start dipping your toes, investing in startups in those general verticals, because then you can add value to those companies as well. And you're not just another check coming into a company, you're a resource that the founders can rely on and come back to. So I think that's really important and helpful for a lot of people getting started with investing.

Speaker2: [00:06:14] Great. And then on the other side of that table, what's your advice for people running startups? What do you tell the founders to do before they go out to raise funding?

Speaker3: [00:06:22] There's a lot of housekeeping that founders need to do. And I think that's one thing that a lot of very excited and very smart engineers, especially sometimes forget, really think through not just the product itself, but think through the customer. What is the customer really looking for? What does the customer need? What is the problem that you're really going to be able to solve for this customer and really try to separate out problem versus in terms of need versus wants, right? So if somebody wants something, that's great, but if somebody needs something that's really, really good and the chances of you being able to find product market fit improve. So think that through you're going to raise money, you're going to iterate, you're going to experiment and try and find the right answers along the way. But having that thesis early on really will help you raise money better and more quickly, because investors will see that you've really done your research on not just building out a great product because you're a wonderful engineer, but building out a business, right? And laying the foundations of what that business will be, who your customers are going to be. So do a little bit of that housekeeping, do a lot of research. The other thing that founders really don't do is. Approach investors that. Are looking to invest in the space that you're in. Right. And sometimes that's a little hard, but a lot of investors are on Twitter, they're on LinkedIn, they're writing posts, blog posts, there's on podcasts. They're talking about what they're investing in. Right. So spend a little bit of time and do your research on the investors that you're going to be approaching. Make sure that what you're doing and the stage that you're doing it at fits with their thesis and their investment style, because otherwise you're just going to be wasting your time and their time. So do a lot of research up front that will really help you save time and improve your chances of closing the investors that you're actually speaking to.

Speaker2: [00:08:25] Great. Let's talk about the state of startup investing. There's a lot of changes going on right now. How do you see the industry evolving from here?

Speaker3: [00:08:34] You know, there's a lot of really interesting things that are happening. And, you know, you can talk about everything from the state of the economy and the war going on to supply chain disruptions. But I think one of the biggest things that have really changed the industry right now is the amount of money that has flooded the market and how that has really changed the way valuations are looked at, how money is raised, how quickly money is raised, and people's perceptions of what is a successful investment. A lot of times you are seeing, especially today, you invest in a company. In three months later, they raise money at five X or three X, the multiple of where you invested in. And, you know, to me that's a little bit reminiscent of the late nineties and what was going on in the Internet bubble right at that time, where everyone was a stock picker and everyone was throwing darts and investing in these Internet companies. I've seen that movie before. It doesn't end well, so I'm a little cautious about that right now. And I think there are some really, really great businesses that are getting built. I think it's useful for investors to spend time evaluating businesses not that are hot, but businesses that are going to build longevity into their DNA. And I think that's really important to think about. Those quick and easy mark ups are wonderful. They look great on paper. But we also need to think about liquidity and to build a real solid business. It's going to take 7 to 10

years to build great businesses, and you're going to see a lot of ups and downs during that 7 to 10 years as an investor, as a founder.
So being prepared for that, I think is really important and not focusing on these quick markups that a lot of people are seeing, the markups are great, but you've got to find a price point to get into a company that makes sense as well. Right. Like I look at it and say, well, if I'm looking at a company that is at the seed stage and perhaps raising at a 15 mill cap kind of high, they may have a product, they may have a little bit of traction, but. I have to walk it backwards and work in reverse and say, well, you know, as an early stage investor, I'm going to invest in this company because I'm thinking that I could get a 50 to 100 X return on this. Right? And that's after dilution. So if there's a chance of me getting 50 or 100 X on a $15 Million cap immediately, I'm looking at at least one and a half to $2 Billion bare minimum exit point for this company. And that's assuming no dilution. You add on dilution 20 to 30% each round before the company gets there. Well, you're probably looking at a company that's around 5 to $6 Billion in enterprise value when it exits. Right. So I have to really be able to feel comfortable saying that the company is going to get there.

Speaker2: [00:11:43] Absolutely. These frothy valuations are very difficult to figure out. How do we get from here to there? And so going forward from here. What do you think is the biggest change we'll see in the markets?

Speaker3: [00:11:56] Well, you know, I think we're going to see some price compression. I think it's inevitable as the IPO market kind of tightens a little bit, that's going to impact late stage companies that were perhaps looking at IPO this year or next year. The Fed has indicated that we're looking at perhaps up to 3% Fed funds rate. Right. That's going to slow down a lot of things. And I think venture is going to be part of that. So I think we're going to start seeing the IPO window closing. I think we're going to see we're going to see exit valuations come down as well. And that will eventually trickle down to the early stage and international markets as well. So I think we will see price compression over the next 12 months, which I think is important because you need prices to come back to reasonable levels.

Speaker2: [00:12:47] That's great. Well, tell us a little bit more about your investment thesis. What do you look for and what's your criteria?

Speaker3: [00:12:53] So, you know, I've been doing a lot of things. I've been doing some crypto stuff. I've invested in a couple of hardware companies recently and one's a crypto hardware wallet. Another one is a robotics company. Another one is some ecommerce and video. I think that's another really interesting space. My background is really more SAS data analytics. So I really gravitate towards that type of stuff and spend a lot of time on that. So I've done a SAS company recently. I do look at a lot of cross border stuff, stuff that is specifically Indian startups. I did spend a lot of time living in India and investing in India, so I've seen a lot of amazing companies come out of India targeting the US and other global markets. One of them is a unicorn that I invested in a couple of years ago. So that's to me is a really, really interesting market where you have a very large domestic market, you have a growing GDP, you have a very young population. Right. I think the average age or the median age in India is 27 years old. Right. So you've got 1.4 billion people where the median age is one is 27 years old. That's a very young population. So the adoption of technology. It's an environment that focuses on education very heavily. Right. So the number of engineers that come out of India is significant. You see a lot of them are not coming to the US anymore. Instead they're choosing to stay in India and build products. So you have really interesting dynamics now where you have some very large startups or companies that were startups ten years ago today are publicly traded companies in India hiring and going global. And then you also have a lot of the US technology companies earlier and earlier going into India because they want to hire high quality talent and also at the same time look at the Indian market for customers as well. So there's some really interesting dynamics that are happening in the cross-border space between India and the US, so that that's really exciting to me.

Speaker2: [00:15:07] Do you see a lot more Indian companies coming to the US or back the other way, given it's a good market to sell to now?

Speaker3: [00:15:13] Yeah, I think it's still predominantly Indian companies coming to the US and many of them are becoming US companies like Fresh Works, right? Fresh Works IPO'd last year, you know, Girish, the founder, he moved to the US a couple of years ago. They've been growing their business in the US hiring. So, you know, we're creating a lot of jobs in the US as well and we're really bringing that intellectual property into the US, right? So I think net net that creates a huge opportunity for us where we have the customer base, we have the knowhow, we have the capital base, we have the public markets, the depth and breadth. And now we can bring in really high quality entrepreneurs to start businesses and really blow that up significantly. So that's really exciting. We're seeing more and more companies that are younger looking at the Indian market and targeting the Indian market. But the problem is that Indian market is still relatively small. I think the GDP of India is around 3 trillion right now. Right, whereas our GDP's over 20 trillion. So it's significantly smaller than the US. But because it's such a young population and everyone is very technology savvy, everyone's got a cell phone with Internet access and they want access to the same things that we do in Austin or in Silicon Valley or in New York. Right. They want to place an order for their food and have it delivered. It doesn't matter where they live. So you're starting to see like Uber went into India really, really early. I think Uber launched in India, I think in 2012 or 2013.

] Right. Very few American companies were looking at India as a market at that point, but Uber saw the opportunity. They went into India really early in India became one of their largest markets. Same thing with Facebook. Facebook went into India a long time ago and really spent a lot of time building out an infrastructure to target Indian customers and users. India is now one of the largest markets for Facebook globally, and Facebook has invested some crazy amount of money between 20 and 21 into India and into Indian companies, including telecom companies. So you're seeing a lot on both sides. It's still predominantly younger companies from India coming to the US, but you're seeing more and more US companies realizing that, you know, China is a different market and it's a market that's very difficult to understand for a lot of people. And it's a closed market. Well, India is a capitalist economy, it is a democracy, and it has a lot of the same underpinnings that we do, which is rule of law and democracy. Right. So it's easier to figure out how things work there. Of course, there are cultural differences and all that. But if there's a problem, well, your courts there's a well-known court system. So a lot of us businesses are finally realizing that this large market is a better market to start investing into now versus China and some other markets which are more disparate than the US market. So I think that's that's a lot of interesting opportunity that's opening up on both ends.

Speaker2: [00:18:31] Quite, quite a bit. So. Well, let's talk about the challenges in today's market that we alluded to a few moments ago. What do you think is the main challenge startups face in today's market?

Speaker3: [00:18:42] Well, I think, you know, finding product market fit and really figuring out what your customer needs is the hardest thing. And that that hasn't changed, you know, versus ten years ago. I think startups still struggle with figuring out. What does a customer really need and what are they willing to spend on it? And, you know, there are better ways of figuring that out today than there were a couple of years ago. So there are more tools that founders can employ. You can go to market much more quickly and much more cost effectively, and you can put a lot more. Trials into your product in front of customers earlier on and iterate faster. So I think if you're able to iterate quickly, you'll figure out what the customer is telling you, even if they're not saying it to you just by their usage or non usage of your product, you'll be able to figure some of those things out. So I think product market fit is still a significant challenge for most founders. I think if you look at the consumer space, it's even more so, right? Because customers or consumers have so many choices. It doesn't matter what it is, whether you're talking about ridesharing or your grocery delivery or social media, you know, do I spend my time on Snapchat or do I spend my time on Instagram? I don't know. But if you're building on top of those platforms, it becomes a really important thing for you to figure out as a startup and decide, should I spend my time building on top of Snapchat or not? Should I go to Instagram? And now, because of the technology and the tools and the layers that have been built, you can experiment with both and you can test those relatively quickly, right? So as as a startup, you can iterate much more quickly. You can run those tests and hopefully find product market fit faster. And you could do it cheaper than you could before because you don't need to hire more engineers to build all that stuff out. You can go and get some developer tools and pay for that service and integrate that in relatively quickly.

Speaker2: [00:20:46] And then what do you think is the main challenge investors face in today's market?

Speaker3: [00:20:50] Getting into deals and paying really high prices for deals. You know, deals have become so competitive that even if you are a well known value add investor, it's becoming harder and harder to get into deals and get the allocations that you want. You know, I do worry about the concentration of capital going into the large funds getting larger and larger and larger. Andreessen Horowitz has, what, 12 or $13 billion under management now? Right. That's insane. Right. Whereas at the same time, at least in the US, you have this proliferation of smaller funds at their early stage. And I think we're going to have this challenge of this series B ish crunch at some point, depending on which way the market goes. I think if the market tightens too quickly, I think there's going to be a lot of seed investors putting forcing capital out into Startups Hands

Series A I think there's more than enough serious investors in the US that will continue writing those checks, but I think we might see a Series B crunch at some point. So I think that's something to think about. And a lot of your entry point into these startups and the valuation that you're getting at is going to determine whether you're going to be able to get that company to a Series B at a reasonable valuation or not, and a reasonable markup for you.

Speaker2: [00:22:21] Great. Well, you've talked about a lot of new business opportunities that have come up. If you could start a business tomorrow, what would that business be?

Speaker3: [00:22:29] It would definitely be in the web3 and crypto space. You know, I think there is a tremendous amount of opportunity there. The industry is incredibly fast moving and filled with some brilliant people. I think products are still hard to build in the space and you still need to be fairly technical to be a user. Just setting up a metamask wallet can be quite a task for most people. So if you want to build a NFT exchange, for example, great. But onboarding customers is still hard because the underlying technology around blockchain and crypto and that whole stack still needs a lot of tools. So I think what I would probably want to do is get in to help build tools that actually make it easier for people to build products that customers can use easily.

Speaker2: [00:23:26] No. I thought that was great. If I were to build a business tomorrow, I'll be making blockchain easier to use with nice user interfaces. I've never seen anything so hard and I understand now why we call it crypto is just very cryptic is how you interface with so many of the different blockchain tools out there. What's your take on that?

Speaker3: [00:23:45] Yeah. You know, it is very difficult to use. You know, I started my crypto journey in 2013 and yeah, that was a little bit earlier, but I didn't really dive in until about 2017. And, you know, I still remember in 20 2017 I was registering my first Ethereum name service domain and it was like I was scared the whole time. I was like, okay, am I doing this right? Is my, you know, am I going to send ether to the wrong address? Is the wrong thing going to happen? Like you were running things on the command line and all kinds of weird stuff. It was really, really difficult to do today. It's a lot easier to do. But it's if I if I asked my mom or my wife or even most of my friends, Hey, go register your own domain name on Ethereum. They would just look at me like I had 16 heads. So there's a lot of work that's still really needs to be done to make it easier and user friendly for people like you need simple user interfaces and you need easier ways for people to access money, right? This is their money that's sitting in their wallet and you're paying for every transaction. So people are naturally going to be scared like, Hey, well, what if this doesn't work or if it goes, do I lose my money? But even at a more basic level, you know, wallet security is tough because, you know, if you forget your passphrase, your money's gone, right? So you have to have a hardware wallet.

Speaker3: [00:25:27] You have to back up those 24 words somewhere. But if you leave them lying around, is somebody else going to get their hands on all your money? Right. There's a lot of things that need to be fixed and made easier but still maintain security. Right. So how do you balance the two? And I think that's a tough thing as we've seen, like the number of hacks that continue going on on most services, it continues to increase. Right. And I don't know about you, but I have given up on trying to remember passwords. I write them down or I put them in a password manager. But, you know, at some point that password manager is likely to get hacked or leak a password. Well, what happens then? So balancing that security versus usability is a tough problem to solve. And I think, you know, I think we're going to see more hardware based solutions to that, hopefully.

Speaker2: [00:26:17] Understood. Well, in the last minutes that we have here, what else should we cover that we haven't?

Speaker3: [00:26:22] Well, let's talk about getting started as an investor. Like we touched on some of the challenges that investors have. But when you're getting started as an investor, I think one of the hardest things for me at least was where do you start? You know, if I want to exposure to startups and technology, where do I even begin? I think that's it's an interesting problem that a lot of folks have. A lot of people that I've met and spoken to have an interest in getting in to tech and startups, and they're just confused about where to go. And even if you tell them like, Hey, just go on to angels, create an account and start looking there. For most people, that's still a huge challenge. So I think one of the things that people that are experience investors may want to do is do like little dinners, investor dinners, right? Like get together with a couple of your friends who have exhibited interest in investing in startups and just do a dinner and say, hey, we're going to get five, seven, ten people. We're going to go out to dinner and maybe we'll invite one startup founder to come and talk to us about their startup, right? No pitching or anything, but just explain the startup, talk about the startup and just start getting get getting these investors exposed to the lingo, the the structures, how things work, what are the products that people are building? What's interesting and what's not so I think for for some of us, it almost becomes a little bit of a job that we have to do in getting our friends involved in some of these things.

Speaker2: [00:28:05] Absolutely. So how best listeners to get back in touch with you?

Speaker3: [00:28:10] So one of the best ways is Twitter. I'm pretty active on Twitter. P.j. in on Twitter is my handle and that's a great way to reach me. Otherwise, email pancake J at BK is a great place to email me as well.

Speaker2: [00:28:28] All right. 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: [00:28:34] Thank you very much. All I appreciate it. It was wonderful.

Speaker1: [00:28:40] 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. Org. Hal Team Martin is the director of Investor Connect, which is a 503 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.