Judah Taub of Hetz 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] Hello, this is Hall Martin with Investor Connect. Today we're here with Judah Taub, managing partner at Hetz Ventures. Hetz Ventures is a leading Israeli seed stage venture capital firm, taking a thematic approach to early stage investing. With nearly $300 million under management, the fund invest in and support startups and DevOps dev tools and open source data, fintech, cybersecurity and other enterprise verticals due to. Thank you for joining us.

Speaker3: [00:01:02] Thank you for having me.

Speaker2: [00:01:04] So where are you calling from today?

Speaker3: [00:01:06] I'm in Jerusalem at home.

Speaker2: [00:01:10] Great. Good deal. So tell us more about your background before joining Heads Ventures.

Speaker3: [00:01:16] So I was in the military for five years. I did a variety of different things. Do we do that or is that a hedge fund? Afterwards, I was fighting a very large hedge fund based in London, and then following that, we started in 2018.

Speaker2: [00:01:34] Great. And so what excites you right now?

Speaker3: [00:01:39] A lot of different things. But from a sector perspective, the sectors you mentioned early on are probably the ones that are most interesting to us still. So

DevOps dev tools, things that are typically sort of productivity enhancement. We're very fond of those.

Speaker2: [00:01:57] Cool. Cool. So you see a lot of startups and a lot of investors out there every day. What's your advice for people investing in startups? What do you tell them to do before they write that check?

Speaker3: [00:02:07] If these professional startups or these individuals, who am I talking to here?

Speaker2: [00:02:14] I would say any investor that's an angel or venture capital or family office. So someone that's making a serious investment with some serious money.

Speaker3: [00:02:24] I mean, it's very different between those individuals. But I would say, number one, you should ask yourself of what why this deal has come to you frequently. I mean, in Israel, you hear of a lot of people who come over here and say, you wouldn't believe what startup I happen to meet on my visit, that I came to Israel. And I'll tell me some story about how it happened to me that I met this one cybersecurity company, which is just like, incredible. So, so often the best companies will know how to navigate themselves to the most suitable investors. And if you happen to be somebody that doesn't come from this sector and doesn't typically invest in these types of startups, I would start off by asking why? Why I have this deal. If you are my institutional investor, you do this more regularly. Then I would talk about maybe a strategy that you want to try and put together. My guess is for venture capitalists out there is something they do fairly well, or at least they ask these questions fairly frequently.

Speaker2: [00:03:23] Well, great. And on the other side of that table, what's your advice for people running startups? What do you tell them to do before they go out to raise funding?

Speaker3: [00:03:32] So a lot of things. If I had to just pick one, it would probably be. I actually find myself saying this to entrepreneurs quite often, and especially this was true in 2021, but I think it's no less true in 2022. In the new environment today is the person who's taking the biggest bet on your startup is is you. It's not the person giving you the money. It's you. And the reason for that is take me as an example. I mean, we work

very, very hard to try and make sure that the startups we invest in good ones and disproportionately successful. Having said that, we have a portfolio of things. We're not putting all our eggs in one basket, and the entrepreneurs are by definition doing that. And if you are really good entrepreneur, then especially sort of at the very beginning, you have the opportunity cost that you're paying to do your startup. So the test of whether your startup is a good idea is not whether you can persuade the venture capitalists to invest it. It's the test is whether the startup will end up being very successful down the line. So you as an entrepreneur really need to build the conviction yourself. Doesn't mean to be closed minded to others, but like you really got to believe in yourself and the success market is not going to be well. I raised x amount of dollars at whatever valuation it's am I going to build a big business? Have I built a path that I really believe and I can get proof points along the way, not raising money, real proof points from from the ground, from, from customers from whatever the startup is that that reinforces that that belief. Well, great.

Speaker2: [00:05:12] Well, let's talk about the state of startup investing. How do you see the industry evolving from here?

Speaker3: [00:05:18] Um. Well, today we're in a very different environment than we were definitely sort of three or four months ago or six months ago. But the environment has changed quite dramatically. Just to double click on that. The way I see it is that there's two trends that we were seeing in quite an extreme way over the last couple of years, which was sort of. The KPI is that startups have to reach to qualify for their next round coming down. So you want that to get to the. I'm talking say for B2B software series A. It used to be sort of $100,000 in recurring revenue, sort of monthly recurring revenue deals that moved to booked, moved to $1,000,000 in R, which moved into sort of like potentials that of $1,000,000 by the end of the year, which at some point transitioned to of on GitHub, which then transitioned to like I'm making a little bit of a joke here, but the reality is these KPIs trended downwards pretty rapidly. And then the flip side was the amount of money that you raised with those KPIs, which was more and more so used to raise when you hit that whatever that metric was of your series, there used to be sort of six, seven, $8 Million that moved to ten, 11, 12, which then moved to 15. And then you started hearing even crazier numbers. I'm talking in averages here, but but it was moving up. So basically what was happening is you ended up having a

situation where you didn't have to get as far. And when you got there, which wasn't as far, you got a lot more money. So that's a very friendly environment for an entrepreneur.

Speaker3: [00:06:52] If you sort of if you if you think you're in an analogy of somebody running a marathon and somebody running a marathon, it is constantly being given more energy to get to the end. And actually the finish line is moving closer every time. And now what we are is we've had those two trends reverse. We've had people sort of start asking questions about the size of the runs, how much money they have to give these startups, which I think is reversed, not in such a meaningful way yet, but a second KPI, which is which has happened much bigger, is, is that you actually have to hit milestones that are much harder than your goal. So what's happening now is the opposite. Entrepreneurs who built their roadmaps a year or two ago thought that if they only reached sort of this milestone or whatever milestone they they set out, they would easily raise the next round and an evaluation that was very comfortable. And what they're finding out today is that that milestone is actually not the same milestone anymore. They actually might have to get a little bit further on that. And not only that, when they do get a little bit further than that, that the carrot at the end of it is not quite as big or as juicy. You can quantify it as it however you want. So quite a lot and we're very much in the middle of it, especially the later stages is not where we missed it today. It really is sort of a tough market. I think where we are today at the earliest stages, it's you see many more folks investing, but it's still in full swing.

Speaker2: [00:08:16] Great. So what do you think is the biggest change you'll see and say the next 12 months in the startup world for funding? Which way do you think it's going to go?

Speaker3: [00:08:24] It's exactly that. It's exactly what I just explained. I mean, 12 months to 12 months ago, people were deploying capital at a rate never seen before. These were raising capital in cycles of 18 to 24 months. Reserve ratios were down below sort of 1 to 1. Some people were literally reserving nothing. And these things are flipping back. People are not going to go back to market as quickly negative, sort of extend their investment period back to sort of three years, four years. Some people may have even longer stretching. Those that the math is is quite painful. So just to double click on that, if you are a venture firm taking an early stage firm, when you have, say, $100 million that you're investing $50 million a year, so 5150 the second year, you then

turn that into four years. If you're halfway through your cycle, you now have to take the $50 million that you're left and spread that over three years. I mean, I may have got into a little bit of some complex math, but if you actually do the math on a fund that's halfway through, you'll find that it turns out it means that they're going to be deploying sort of roughly 70% less capital. I've put on a few blog posts as this as well, if anybody actually interested in seeing the math. But but it means that capital can dry up pretty quickly and people can slow things down quite dramatically. Great.

Speaker2: [00:09:44] So let's talk about your investment thesis for your fund. What exactly is it and what's your criteria for making an investment?

Speaker3: [00:09:52] Yeah. So what is the magic? And what that means is that we have a pretty strong top down approach to what we do or why we do what we do. So we're first of all, we focus on a specific geography. So we focus on Israel. A lot of entrepreneurs are not always based in Israel. And even those that do end up moving out of Israel at some point to carry on growing their companies. But but we have a pretty strong focus on Israel, and that's where we have a very, very strong network and we see a huge portion of the deals. The second thing we do is we focus on a number of specific sectors or verticals you can call them, which are the ones that you really have earlier. But just to maybe explain it slightly differently, we're all technical. We all have a software background in some shape or form in different areas, and we've all worked internationally in those areas. So these are the type of startups that we can naturally sort of feel closer to them. And then the third and final one is that. So we're not only focused on a geography and on verticals, but we're also very focused on the stage that we invest in. And so every investment that we've made to date is on seed companies, 90% of them we've led. And if you sort of cross those three data points, they get together. That's where we focus and we think that that's actually the right place to focus and that the returns there from a thematic perspective, putting aside stock picking, will be sort of compelling and strong regarding regardless of any sort of stock picking abilities, which we think we do. Relatively well. Great.

Speaker2: [00:11:22] Well, can you talk about a couple of startups, perhaps portfolio companies that fit your thesis?

Speaker3: [00:11:28] Yeah. I mean, all of them. So I would I would argue maybe the most interesting thing is that they all do. Unlike many other voices out there, and there's a strong argument for being opportunistic. We are not we are thematic with our approach. We know exactly what other types of startups we are likely to invest in and which are the ones we don't mind that we didn't see them at Seed or at Ceres. They may be great for their outside of our thematic approach, and as a result, every single startup in our portfolio will fool some of them in a more obvious way than others. And of that thematic approach that I just described. Great.

Speaker2: [00:12:08] Well, let's talk about the challenges for the startup and investor in today's economy. You've talked about it a little bit before, but for example, the startup that maybe raised at too high of a valuation. How do they overcome that challenge at this point? What can they do to get out of it?

Speaker3: [00:12:28] So there's a number of things. So growing your topline obviously won't hurt. So you can to an extent sometimes grow out of your problem. The other one is we're big proponents very much in favor of taking a down round or flat round rather than compromise on the type of investors that you raise money from or compromise other types of terms that speak into the term sheet. I think if you take it down round, lat, round and up round, but the up round, you initially imagine you are still sort of on track to success. You have just like the public market adjusted your valuation and from here on, hopefully it's sort of up to the right or you're sailing with the right direction, etc.. Other areas that you can try and put a bandaid on, like taking money from investors. You want to imagine taking over, moving down the tiers or with certain types of clauses that can sneak into the parachute. Those are things that, while they may make you feel good at the beginning, are more likely to hinder your startup long term.

Speaker2: [00:13:38] I see. And then on the investor side, what is the challenge they face in today's market? What do you see them struggling with the most?

Speaker3: [00:13:48] Investors.

Speaker2: [00:13:49] Yeah. On the investor side. Is it? During the pandemic, I saw a huge number of startups out raising funding and from my point of view, there was just a lot of noise in the marketplace that seemed to be a bit of a challenge just to sort through

to find the real deals. I think after the pandemic, in the recent change in the market, as you said, a lot of those are out of the way. They're not in the market anymore. There's less noise. There's only real deals in most cases out there. So if you look, you lose. But still, it's a lot simpler to go look through. But what challenges are you seeing?

Speaker3: [00:14:23] I would disagree, first of all, with what you said. I think that apart from the first maybe three months in the pandemic, where people really did stop and sort of wait, the last 18 months were, I mean, obviously unprecedented. Like I haven't been around that long, but definitely sort of some of the years that I've been around and most of the folks that I've been speaking to unprecedented definitely in the last couple of years with the amount of companies that have been raising the amounts they've been raising, the renovations they've been raising. And as a result, I'd say today, there is a lot of companies out there that I don't want to say shouldn't have got funded, but definitely shouldn't have got funded at the valuations they got funded and the quantities they got funded. And now, like investors, I think have sort of two challenges. So number one, they're all asking themselves, how does this market pan out? And there's always a big price one pays on uncertainty. So are we. Have we hit the bottom? Are things going to deteriorate from here? Just knowing the answers to those questions would give everybody a lot of comfort because because things, as I mentioned, are still sort of very much at play.

Speaker3: [00:15:32] And then the second is that there's a lot of companies out there that even with the rejigging of their formulas and trying to cut costs, are going to need to come back to market with very different pitches than they initially imagined. So investors don't want us to be paying over overpaying at this stage, especially in today's market. And at the same time, their own portfolio is probably not doing as well as they initially imagined they would do 12 months ago. I mean, there's so many stories of start ups that have grown hundred or 200 or sometimes even three or 400% of their revenues, but their valuations are still dropping below what they initially imagined. So for investors like this is not a fun time either. They're trying to understand, quantify the new the new scenario to try and figure out what they're doing with their portfolio. And then also sort of build a new investment thesis that they can run with.

Speaker2: [00:16:27] Great. No, that's good. Good advice there. And so you see a lot of different sectors and applications and technologies out there. If you were in a place to

start a business tomorrow, what would you what would you start a business in that would leverage your experience from looking at all these different technologies out there?

Speaker3: [00:16:45] I am not sure that any I mean, I'll speak about myself, I think as a VC you really. Builds a. Skill for identifying over time where there may be problems, may be sort of raising flags as a board member early on, helping to steer people in the right direction. That is a very, very different skill from coming up with an idea and actually sort of an innovative idea and sort of pushing it over boundaries and through like the areas we like, areas that I mentioned earlier, like productivity enhancement, which could be areas like dev tools and it could be in other areas as well. And the reason we like them is because they're really quantifiable. You can really go to the customer and see how much, whether it's time, whether it's a cough, whether it's anything else. This is actually sort of saving or enhancing, quantifiable. It's easy then to sort of roll out a plan, envision how this works at scale. So we like that element. But just going back to your question, I wouldn't give myself particularly high scores on coming up with a new idea because I've been in a VC for a couple of years.

Speaker2: [00:18:04] Great. Okay. Well, the last minutes that we have here. Well, should we cover that? We haven't.

Speaker3: [00:18:09] I mean, overall, I think these questions have been have been good. No. Everything's okay. I mean. Be interesting to see the market, as you mentioned, in 6 to 12 months time. I think overall it was also do a lot of good. It's worth mentioning. It's not it's not easy, it's not fun. And it will be painful both to investors and to entrepreneurs. But if you look at the start ups that didn't sail through previous crises or crashes or big swings, they tend to come out much stronger on the other end. And I think you would do a lot of good to the industry overall. Great.

Speaker2: [00:18:47] Well, so how best your listeners get back in touch with you?

Speaker3: [00:18:52] I'm on LinkedIn, so it's pretty easy to reach out there. We just have a website. We've got a whole bunch of people on our team which are much smarter, nicer, better than me in a lot of different areas. So they should feel free to reach out to everybody.

Speaker2: [00:19:07] Great. We'll include that in the show notes and want to thank you for joining us today. And we hope to have you back for a follow up soon. Thank you.

Speaker1: [00:19:19] 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 dot org. Hall Tim Martin is the director of Investor Connect, which is a 500 1c3 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.