Martin Tobias of Incisive 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. Investor Connect is a 501 C three nonprofit 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: [00:00:44] Hello, this is Hall Martin with Investor Connect. Today, we're here with Martin Tobias, managing partner at Incisive Ventures. Incisive Ventures is a $10 million Pre-seed fund based in Seattle, currently seeking limited liability partners. They focus on technology companies that reduce friction at scale, targeting high-friction industries like fintech, supply chain, vertical SAS, and health and fitness. Martin, thank you for joining us.

Speaker3: [00:01:06] Hi, thanks for having me.

Speaker2: [00:01:08] Right. So where are you calling from today?

Speaker3: [00:01:11] I'm at my office in Spokane, Washington, and I spend most of my time in Spokane or Seattle or Hawaii.

Speaker2: [00:01:19] Well, great. So tell us more about your background. What did you do before starting Decisive Ventures?

Speaker3: [00:01:26] Yeah, I've been in the tech business for a long time. I was at Microsoft before the IPO. I graduated in business and computer science, and I've always loved solving business problems with computers. When I was at Microsoft, I started investing a little bit in startups because I was working with startups at Microsoft and investing in venture funds. And so I've been investing for about 25 years, mostly as an angel, sometimes as a I was a venture partner at Ignition Partners. It has 2 billion under management in Seattle, and when the pandemic started, I was running a company in LA, but that company got closed by COVID and I had to figure out what to do. And I decided to go back to investing sort of full time my own money. And I have about $2 million a year that I write as an angel into early stage tech companies. And it was going so well that a lot of my friends said, Hey, why don't you start a venture fund? Because we want to invest with you. You seem to have some good companies that you invest in, a good thesis and so on. And so I started doing that and I did a few things on Angel list. But this fund that I'm raising now is my first fund with all of my own entities under my own brand and everything. In the last three years on this same thesis, Reducing Friction at Scale. I've invested in 65 companies, four of which were unicorns. About 20% are worth more than $100 million, and the IRR is pretty good. So I'm excited to continue this strategy, especially going in to what I think I've been doing it for 25 years. I think in the next two or three years are going to be the absolute best time for company formation and investing that I've seen in my lifetime and I've seen a lot of these cycles.

Speaker2: [00:03:15] So what excites you about the next three years? What specifically is reason for this is going to be the right time?

Speaker3: [00:03:22] Well, if you look historically after downturns like 2000, 2089, after a downturn, what happens is you get a ton of company formation and venture capital firms. If you look at the vintages, the returns of vintage venture capital firms, some of the best venture capital firms ever were started and were deploying their capital, new capital, in the beginning of a downturn. And I believe that that's what we're in now. We're in a bit of a downturn. So if you have a new fund and you're deploying new capital as opposed to trying to work out a bunch of problems you had from the last three years, I think that's going to be a good time to do it. And historically it has been. But why is now even better than before? It's because you look at the cost of creating a company today and the amount of people that could do that, it's better than ever today. You can start companies very cheaply with some of these Web primitives, the cloud services that you have and all these API services. You can start companies cheaper than ever before. And with the slowdown that we've had in big tech, for example, I'm sure you saw yesterday Elon Musk closed his deal on Twitter and says he's going to fire 75% of those people.

Speaker3: [00:04:36] I actually have friends at Twitter who are going to be fired. And their question is now, what do I do? Do they go try to find another big tech company who none of whom are hiring right now, Facebook and nobody's hiring? Or do they start a company? What tends to happen in these layoffs is that they tend to start more companies. You know, I talked to a guy who's at Harvard Business School right now in the current class. He said 30% of the people at HBS are there to do a startup. That's the highest percent it's ever been. I have friends who went to HBS, you know, 20 years ago, and it was like 5% that we're going to do startups. Most of them were going to go to investment banking or some big finance company. Right. But the mood today is we're going to do a startup. And that's why I want to have a venture fund to fund those smart people at HBS or ex Twitter employees or Facebook employees who now have an idea that they think will change the world and it's cheaper than ever to start a company. So there you go.

Speaker2: [00:05:39] Well, that's great. So you see a lot of startups out there and a lot of investors. What's your advice for people investing in startups? What do you tell them to do before they write that check?

Speaker3: [00:05:49] Well, the first thing I did when I started investing in startups is I joined a venture capital firm as an LP because I had a professional manager who was in the business all day long and making decisions, and I learned from what they were doing. My first fund was Silicon Valley Angels, which was Ron Conway's fund, and luckily for me and him, he was in the series Day of Google and as an LP, he gave those shares to the LPs. I still own some of those shares. My cost basis for Google is under $1, and that really embedded in my mind the power of being in early stage tech. But I also got that allocation because I was an LP in a fund and I learned what he liked and how he liked to invest in companies. And I suggested everybody wants to invest directly in in companies to start as an LP in some early stage funds to understand how managers think about it. And then you can write checks, but into the companies from those managers that are starting to get to raise a series A or a B or something like that, that's the best way to become a manager in early stage company or an investor in early stage companies is to do it in partnership with somebody who's a professional at it, frankly. And obviously I have an interest in that, but I'm doing that because that's how it played out in my own investment journey and it was very successful.

Speaker2: [00:07:12] Great. Then 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: [00:07:20] The first thing I tell them to do is to try to learn as much as you can about the investors that you potentially want to talk to. And I know a lot more investors are being more vocal on their blogs, on Twitter and stuff about the kinds of companies they like and the kind of investors they're looking at because this VC founder matching thing is an incredibly low probability event. I say, no, I get 300 companies a month, I invest in one. So that's like a 99.9% no rate. Most CEOs get about a 90% no rate when they talk to VCs as well. So you've got two groups looking for each other in a very low probability event. How do you improve the odds of that? You communicate much more and you do your research. You know, I say write on my blog. I don't do crypto investing. I still have founders pitch me crypto companies. They are wasting their time. If they had taken 5 seconds to read my Twitter feed on my blog, they would have known they were wasting their time. I encourage CEOs to spend a lot more time understanding what kind of deals the venture capitalists they hope to talk to are doing and do more personalized outreach. Look, I saw you invested in this company. We're doing something similar, but different, and your probability of finding a match is going to be much higher.

Speaker2: [00:08:42] Great. Well, as you mentioned before, the world is changing very rapidly. We're in a new phase here with new technologies and lots of startups coming into being. How do you see the industry evolving from here for startups along the lines of funding? What are we going to see in the investor side of this new new wave of startups?

Speaker3: [00:09:03] Well, I mean, the unfortunate part for a lot of founders that have only started in the last sort of 8 to 10 years, you know, in November ended probably the greatest bull market for venture capital and for founders ever. It was ten years of craziness. And that was only minorly interrupted by the pandemic for about three months there. And you had companies, you know, starting I invested in Opensea in the pre-seed, and two years later it was a deck of corn worth more than $15 Billion. That was the fastest deca corn ever. That is. People need to realize that that was an unusual time. And what we're doing is I believe we're going back to the more normal timeline, which is it can take a company ten years to be worth $15 Billion, not two years. So we're going back to a more normal and rational time for founders and founders. But what is happening is that expectations of both sides need to be reset. Founders who have raised money in the last two or three years are going to have to reset their expectations in terms of valuations and timing of funding rounds. It's going to be slower and take longer than you think and valuations are going to be lower than you think. But I think that's a good thing for everybody because it then allows people to grow in a more measured pace than just this hype that we have had.

Speaker2: [00:10:32] Great. So let's talk about your investment thesis. What exactly is it and what's your criteria for making an investment?

Speaker3: [00:10:39] Oh, thanks. So, I mean, I'm a generalist software technology investor and the buy generalist. I say I invest in in many different sectors. But my theme is I invest in technology that reduces friction at scale. And I discovered that theme by looking at the 150 investments I'd done prior to 2020 and figuring out which ones perform better and what did I know. And so, for example, I was on the team at Ignition that led the series and DocuSign. And DocuSign is exactly that. Like it's technology on your phone that allows you to sign a document and it reduces the friction. The friction was the fax machine printing and all of that stuff, but it also did it at scale, millions of signatures a day, right? And so that's what I'm looking for. And I find friction in, as you mentioned in the introduction, lots of industries that are tend to be low penetration for it. So health care and technology, insurance, supply chain, you still have people in the supply chain, you know, sending around PDF files of shipping documents. And in health care you have doctors asking you to fill out with a paper and pen a new patient form on a clipboard. When you walk in industries that you see those kind of things happening or people still using Excel to build models. Those are industries with a lot of friction, and I think we're going to see a lot of innovation in those industries.

Speaker2: [00:12:11] Great. Well, you mentioned some great startups there. Are there any portfolio companies you like to call out that fit that thesis?

Speaker3: [00:12:17] Yeah. So I mean, I was an early investor in Open City and the idea there was buying nfts was hard in a marketplace can make it easier. I've been a pre-seed investor in Catalyst Fitness, which is a at home electro muscular stimulation suit. It's kind of like Peloton, but for strength training. And you can in 20 minutes get the benefits of an hour and a half workout. The friction you're reducing there is making workouts more efficient with technologies. And there's another company that I just invested in, in the supply chain in India. They're creating a vertical market, SAS for independent warehouses. There are a million warehouses in India that are 30,000 square feet or less. There's no central directory of them. Everyone uses local brokers that are very expensive. So if you're a brand and you're trying to book warehouse space in six different cities, you have to deal with dozens of agents. And it's really hard to find stuff. These guys have a software solution that allows warehouse owners to list their properties and have it be booked by a single brand in multiple cities at a lower commission cost. It's a pretty basic workflow automation tool, but something that is nonexistent in India. They have signed like 10,000 warehouses in six months. They're profitable, they're growing like 50% month over month. When you hit that reducing friction, when you're saving somebody a significant amount of time or money, the market pulls the solution into the market for you. This is something that doesn't have to be sold. It's something that can be pulled. And that's why I love this thesis of reducing friction, because when you create enough value, the market will pull your solution in.

Speaker2: [00:13:57] Well, great. Well, we talked a little bit about the change in the marketplace that's out there today reverting. I mean, I guess is what it is. And so there are many challenges now for the startup and the investor for the startups that you deal with. What do you think is the main challenge they face today?

Speaker3: [00:14:13] The main challenge they face today is being able to raise enough money to meet their next set of milestones and to know what those milestones are. You know, prior to November of last year, startups could pretty much guarantee that they could raise money every six months on very little additional traction. I mean, there was a very open funding market and it was easy to raise money. Right now, startups have to make material traction with the rounds that they raise, and the bar that they have to get to is constantly moving up. So it's sort of a moving goalpost. So let's say you raise $1,000,000 in a pre-seed How far do you have to get before the next seed investor is going to want to write a check? That bar is moving up while the amount of money has stayed fixed, so the goalposts are moving in the middle of the game. Is the big challenge that everybody has right now for investors and for companies? I think that's the biggest challenge is if the goal post, it's unclear where the goal posts are in the middle of the game.

Speaker2: [00:15:20] Great. Well, as an investor, what do you think is the challenge that they're facing in this market in addition to the goalpost moving.

Speaker3: [00:15:27] It's really what's the ultimate value of the company and how do you get it there? If you look at what's happened in the public markets, just look at a secular vertical like SAS software companies. Sas software companies in the public markets were trading at about 25 times annual revenue. They're now down to trading at five times annual revenue. And you've got startups that are trying to get priced on low revenue numbers at 40, 50 times revenue. And so now the investors are faced with the problem. Well, if in the end, if this company is successful, it's going to be valued at five times revenue. Why am I paying 40 times revenue now? Like it's this spread in the valuation? You know, it's like if I give them enough money at a higher multiple to get to that. The problem is the end state valuations have come down so much it's hard to know what the intermediate state multiple valuations should be to get to those end states. That's the problem with investors now.

Speaker2: [00:16:34] So how do you coach startups that raised at a very high valuation during the pandemic, but then post-pandemic were coming back to Earth, so to speak, and those really can't justify that anymore. Do you recommend a down round or what do you what do you tell them?

Speaker3: [00:16:49] The CEO has one job. One job. Very simple. Don't run out of money. If you run out of money, your company's debt. Right. You have only three ways to get my money. Sell something, cut cost or raise financing. And if you have done everything you can on cutting cost and selling something and you still need to plug it with venture capital, you have to take money at whatever price is available because a smaller percent of something is better than 0% of nothing. And we are still in the middle of that process where founders are trying to decide, decide they were anchored on a high price in the past. But my point is, listen, if you want your company to survive, you should take money at any price you can. I know it doesn't feel good, but the options are worse.

Speaker2: [00:17:43] Absolutely. Absolutely. Well, you see a lot of different technologies coming into the market. This is a great time to run a startup. If you could start a business tomorrow, what would that business be?

Speaker3: [00:17:54] Well, I'm starting a venture capital firm, and what I want to do with my time, I think it's the highest value I have in the world. I have been a venture funded CEO three times and part of before I started investing. That was part of my decision. Would I start another operating company? And frankly, I don't really want to do that because it's an 80 hour a week job as CEO. I know how hard the CEO job is. I personally would not start any kind of operating company as CEO right now.

Speaker2: [00:18:26] Great. Well, in the last minutes that we have here today, what else should we cover that we haven't?

Speaker3: [00:18:31] For limited partners that are thinking about how to invest in venture. Historically, the early stage venture precede the kind of things that I do have the best returns. And if you want to invest directly in companies investing in a venture fund that is going to give you those opportunities is one of the best ways to do it. I started doing that 25 years ago. It's worked out very well for my portfolio and I think it's a great strategy for people that want to get more exposure to venture. And I'm excited about being able to be a partner like that.

Speaker2: [00:19:04] Great. So how best for listeners to get back in touch with you?

Speaker3: [00:19:07] Probably the most active way is follow me on Twitter. I'm Martin Tobias, and I answer direct messages on Twitter. And I also have a website, Incisive Dot DC, where you can find my blog articles and my portfolio and you can reach out that way as well.

Speaker2: [00:19:25] Well, that's great. We'll put that 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: [00:19:31] Well, thanks, Tom.

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