

Transcript of Pedro Sorrentino

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Hall T. Martin: Hello, this is Hall Martin with Investor Connect. Today I'm here with Pedro Sorrentino, founder and managing partner of Admin Capital. Admin Capital is a cross-border early stage venture capital firm. Admin Capital invests in the US as well as Latin America. Pedro, thank you for joining us.

Pedro Sorrentino: Pleasure to be here, hall and appreciate the invite.

Hall T. Martin: Great. So where are you calling from today?

Pedro Sorrentino: I am in Miami.

Hall T. Martin: Great. Well, tell us more about your background before joining Admin Capital. What did you do before this?

Pedro Sorrentino: Yeah, absolutely. So I've been in venture for about eight years, so, so born and raised in Sao Paulo, Brazil. I'm 34 now. I moved to the US when I was 21, to pursue a master's at, uh, CU Boulder in Colorado. And I lived in Boulder during my early twenties and after that nine years in San Francisco. And then, uh, consider myself a refugee of, uh, communism, having escaped California, moving to, Miami.

Just because, you know, during the pandemic, things really shifted in San Francisco and I just, uh, made the [00:01:00] decision to leave. and you know, we still have a partner there and the Bay areas, uh, remains a fundamentally important part of our business. So we have one person in San Francisco, one in London, one in New York, and I have in Miami.

Hall T. Martin: Well, great. Well, tell us more about starting a business in the area of venture capital. What do you look for and what do you tell the people that are starting these businesses to do before they, they launch that business?

Pedro Sorrentino: Our whole ethos is to partner with inevitable people. I think that in the early days of my career as an investor, you tend to have the emotional bias that you wanna work with people that fundamentally need your help. And it's actually quite the opposite. You want to invest in founders that make you irrelevant by how competent they.

When we look back at the most transformational companies, uh, it's very difficult to point out that, you know, Facebook, Uber, Google, or Pinterest or you know, any of these businesses, they were very successful because of investor X, Y, and Z. They were successful because of the founders, and that's why, we have a whole, 10 [00:02:00] step ethos towards what makes a person inevitable.

and that's why the ethos behind the firms should partner with inevitable people. Second part of your question regarding being an entrepreneur in the world of venture, certainly the most important aspect of what we do is have access to capital. Before you're in the business of funding, other entrepreneurs are in the business of, have building trust and managing money for other people and their portfolios.

And I think that a lot of people starting in, ventures, specifically the ones that are starting their own firms, forget that before they are in the startup funding game. They are in the money game.

Hall T. Martin: . That's a good point. So tell us more about your investment thesis. What exactly do you look for in funding startups?

Pedro Sorrentino: Well, our investment heuristic, you know, follows a very simple step by step process, but it starts with a large market. so usually a bottom up tam of 2 billion in five years, followed by the whole inevitable ethos. So, you know, it's [00:03:00] market people. And by product we mean the ability of that team to basically fail on a consecutive basis and iterate ship code fast.

, and understand that, success is actually a combination of a bunch of trials. You know? And, you're gonna get things right, you're gonna get things wrong. But the important thing is to always iterate and iterate. So we look for that typical speed slash base velocity of, these, iterations as well.

Hall T. Martin: Well, great. And so how are you different from other, a venture capitalists? What do you think is the most unique, feature you have there?

Pedro Sorrentino: One of the biggest things that we have, and this is something that we spoke with over 100 founders before putting admin together is my third chapter in the asset class. And we built this thing that we call the admin aor, which is ultimately a, it's a community of CEOs. we have 24 today. Now we have regular LPs, but these are, all investors in the fund.

And whenever they bring deals to [00:04:00] us, we pay them 15% of our 20% or whenever we bring them to a certain opportunity. And I found that, the entire narrative online or as well as offline, was being reduced where people were not really sharing the truth. So wanted to build a place in which folks could be extremely comfortable by really sharing their thoughts, opinions, concerns, while also not only sharing values and principles, but also having the right incentives at the table in order for us to be the most trusted place for these individuals, as well as c deals ahead of others.

So this community of entrepreneurs that we put together. That invest in the fund that have leveraging their personal network in the form of the fund is, a key differentiator that, that we have.

Hall T. Martin: Great. . And so what advice do you give to your startups when you fund them? What do you tell them to do after you're, they've launched with a, a VC investment.

Pedro Sorrentino: Well, the heuristics and how we're building the portfolio for this fund, it's all about how [00:05:00] can we find alpha by investing in a recession, and right now is certainly a prime time. to actually find right, like needles in, in this massive, haystacks because we have no exposure to any of the noise, uh, of people that are having to crack their portfolios or might have overpaid for, for deals.

In the past, since, you know, we only have three portfolio companies in the fund, it's a very new fund. All these businesses are, overfunded. More than what we tell them. I would say that is what do we look for so we don't have to tell them the obvious, right? So typically we're investing in second and third time founders with very, very simple business models that are easy and to scale, it needs to look obvious.

and. In markets in which, you're gonna be able to take advantage of, you know, favorable conditions, o over time, but certainly. The horizon for what does it mean for you to raise the next round of [00:06:00] financing is more, it's quite murky at this point in time, meaning that the constant thing that we've been telling all of our portfolio companies right now is to just have a plan for profitability if you need to activate it and really be mindful of, of runway.

So then you can actually have optionality towards when do you think it's the ideal time to fundraise versus having to fundraise? you know, we were coming from a cycle where a lot of paper markups were happening and they were

happening very fast. And I think now it's gonna take, uh, Far more time for the J curve temperature in an appropriate way.

And because of that, these businesses have to have enough oxygen over time. And so cash management is the number one name of the game right now, and it's where we focus our time in terms of the very first type of advice. But, You know, we try to look for entrepreneurs that are fundamentally aware of that before we fund them.

I think if we fund someone and we have [00:07:00] to tell them about the importance of that, we've made a mistake.

Hall T. Martin: All right. Well, we went through the pandemic when valuations went way up, when the interest rates went way down, and now that situation's reversing. How are your companies doing in this new, uh, economy?

Pedro Sorrentino: So fortunately we managed to actually, execute on a multiple secondaries at the end of 2021, which really helped us, and we returned capital through, our ILPs at a moment in which that was a contrary move. So we're quite grateful for that opportunity. , the biggest change, I think it's that, you know, we're coming from a place in which if you were growing 15, 20% month over month, and all we would take it would be for us to get in touch with 60 plus VCs.

And in six to seven weeks you're gonna get it. A few term sheets, that was a formula. that's not the case anymore. And I think that each firm is going through a different, stage in time. We have, you know, Y Combinator for instance, shutting down their continuity fund, whereas on the other [00:08:00] side, we have other firms that are still doing growth equity, but.

Probably having to figure out who are going to be the portfolio companies that we're gonna save, adding a lot of structure to follow on capital and so forth. So, it used to be the case that. You kind of knew who you were meeting with before you met them because of what they've done in the past. But since bad news don't get shared publicly at the same time as good news, the process of raising additional capital right now is just, more laborious.

The bar is higher and it takes more time. So because of all these things, we immediately. Helping our entrepreneurs building relationships from day one, right after we funded them. just to, so people can start tracking the progress and, it, it definitely feels like we have returned to a place where, how things were

seven, eight years ago, where things were far more collaborative, but they took longer to materialize.

Hall T. Martin: Well, [00:09:00] great. When I always ask this question, what online information source do you find most helpful in your work?

Pedro Sorrentino: In terms of consuming, news and, and being informed.

Hall T. Martin: It could be, or evaluations, or trends or what have you?

Pedro Sorrentino: Got it. Okay. I definitely think that Twitter is by far the best place. if you follow the right people, , I think you can learn tremendously there. It's also not the best for your mental health. So I think you gotta be mindful of, um, Of using it, but it's quite a helpful too. being a part of a few private WhatsApp groups is also helpful because there's some sort of level of curation there towards what's happening and what's important and what's not.

And lastly, in terms of something that anyone can come in, buy, subscribe, I think that there's this newsletter called The Daily Shot, which consists of basically 200 plus graphs. I don't know if you've seen that. it's fantastic. Yeah, the daily shot, I highly recommend it, and I think it's the most neutral data driven way for one to be informed about [00:10:00] macro on a global level.

I read it every day. , I subscribe to more than 70 newsletters, but you know, I don't read them every day. But the daily shot, I do take a look at it every day.

Hall T. Martin: That's great. I have to check out daily shop. It sound like an interesting one. now in your place you see a lot of different technologies, new technologies and new business models. what do you find is one of the most interesting technology business model plays out there these days that, uh, treat.

Pedro Sorrentino: Well, I think one that we are all surfing right now is artificial intelligence in terms of how much that's going to just queue and eliminate. Multiple jobs, that should, they require a human on the other side, but, you know, have quite a lot of repetition or just have a certain level of behavioral standard.

so it's the most interesting one, but it's also the most over-hyped, overpriced one as well. And we are, significantly valuation, sensitive. But key here is that, it becomes a [00:11:00] portion of, uh, just like how we ask how you met your co-founders or how does the cap table looks like?

Have you raised money in the past? If so, when? Under what turb, what's your cash and burn? I fundamentally believe that all venture capitalists are gonna have to have a base level understanding of artificial intelligence and ask their companies what's their AI plan. because if they don't have one, then it's probably.

It's going to catch up with them pretty soon. so that's the one that I think, you have the highest amount of noise, but also the highest, uh, probability of, you know, transformational change over time.

Hall T. Martin: Great. Well, in the last few minutes that we have here, what else should we cover that we haven't.

Pedro Sorrentino: I think that one aspect that we didn't talk about it was just, what happens on the aftermath of the banking crisis and how to, you know, understand that. we were fortunate to. Because of the community, because of the aor, we previewed the crisis [00:12:00] and we actually managed to run from the bank a couple of weeks ahead of the actual, I guess, the official bank run.

and there's still a, pretty significant gap in the market that's being covered now by Mercury and Brax. Fortunately, they're. Companies led by great management teams that are executing fast, but we certainly need a few more banks that are very startup, uh, friendly, and just become a small portion of the client base on a diversified basis in order to provide and take the types of risks that as we be to, not on the bond portfolio, but just in terms.

Managing to understand how to deal with a clientele like ourselves and the entrepreneurs that we fund. So I I suspect they were gonna see quite a lot of innovation on regional banks, going forward, and most likely with, wrapped around software layer, product layer, how Mercury and Brax and, Meow for instance, [00:13:00] are, are working.

And the last thing is that it's really exciting for us to. Return to a place in which we can build relationships with entrepreneurs versus having to, you know, make a decision in a week and a half with a gun to our has where deals are exploding. So it was a much necessary correction, although it's quite painful, you know, to just see so many colleagues and friends, being, uh, laid.

The opportunity to continue to partner with incredible founders is, is very much, out there.

Hall T. Martin: Do you think they could have avoided that? Uh, bank run? And some say they actually precipitated it with their way they handled it. Do you think that was unavoidable or do you think that was just fade to complete? all they could do was just, uh, ride it out.

Pedro Sorrentino: Oh, I think it could absolutely have been avoidable. what they didn't understand is that, you know, our asset class is commanded by 5,000 individuals or so that are at the top of the chain and kind of like, and, and we all talked to each other. So, you know, there was [00:14:00] one WhatsApp group that I was a part of that just on that group, you know, in one day they took 1.4 billion out of the bank.

So it's a sophisticated undiversified client base. Has the best interest towards talking to each other, right? So, they did the most stupid thing ever, which was just, jump on a call and say, don't worry, everything's fine. whenever someone is doing Hannah not providing specifics, you know that the house is probably on fire.

the answer is yes. They, I think they could have done much, much. And it could have been avoidable, but, uh, it would've required a whole nother level of, uh, vision and management that frankly, they didn't have because the bank really didn't have a chief risk officer for a long time. And again, it's sad because it was an important partner for industry.

Hall T. Martin: All right. Well, I predict it'll be a business case study for crisis management and future classes, cuz , a lot of lessons came out of that. And, it was pretty clear how it went down and, it's now a new day. [00:15:00] But, and glad everybody got covered and survived. But, like I say, I, I wonder if it could have been avoided and, uh, appreciate your answer on that.

Pedro Sorrentino: Of course. No, my pleasure.

Hall T. Martin: so how best for listeners to get back in touch with.

Pedro Sorrentino: Oh, ab yeah. So, uh, my, uh, email is the best way. So p just a letter P at admin vc. Very easy email. , I am also, I think, uh, online on every platform out there. So you, you know, it's not harder. Get ahold of me. Uh, you can ping me on Twitter as well. Pedro Sorin at Pedro Sorin, but p vc, and we can go from there.

Hall T. Martin: Great. We'll put that in the show notes. Wanna thank you for joining us today and hope to have you back for a follow up soon

Pedro Sorrentino: Absolutely ho. I appreciate the opportunity. Always a pleasure.