Welcome to the Fintech One-on-One Podcast, Episode No. 362. This is your host, Peter Renton, Chairman and Co-Founder of LendIt Fintech.

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Before we get started, I want to talk about the 10th Annual LendIt Fintech USA event. We are so excited to be back in the financial capital of the world, New York City, in-person, on May 25th and 26th. It feels like fintech is on fire right now with so much change happening and we'll be distilling all that for you at New York's biggest fintech event of the year. We have our best line-up of keynote speakers ever with leaders from many of the most successful fintechs and incumbent banks. This is shaping up to be our biggest event ever as sponsorship support is off the charts. You know, you need to be there so find out more and register at lendit.com

**Peter Renton:** Today on the show, I'm delighted to welcome Peter Frank and Asher Hochberg of i80 Group. Now, i80 Group is a really interesting company, the are an investment firm, but they really are somewhat unique in the fact that they focus on debt capital and they focus on debt capital in significant amounts. They really work with companies that are capital-intensive businesses, lots of fintech companies are, I mean, a lot of big names that you would know of, companies like MoneyLine, like Opendoor, PeerStreet, Capchase, Divvy Homes, these are all companies that they're working with providing collateralized debt capital.

We talk about how they do that, what sort of the risk appetite they have and how they kind of underwrite that risk, we talk about when it makes sense for companies to sort of move on to other forms of capital and what kind of role that i80 Group plays there. They really see themselves as a long term capital partner to a lot of these companies. We also chat about the lending space in general today, what it looks like taking into account some of the pull back with VC capital that's happened, so far, this year, they provide their perspective on that and much more. It was a fascinating interview, hope you enjoy the show.

Welcome to the podcast, Peter and Asher!

**Peter:** Okay. Let's kick if off by giving the listeners a little bit of background about yourself. So, Peter, let's start with you, let's talk about sort of what you've done in your career before i80.

**Peter Frank:** So, I joined i80 Group in 2019 actually and prior to that and just earlier throughout my career, I've been working hard in the specialty finance fintech sector, both in the US and globally. I immediately, prior to here, I worked with a larger private equity fund partners group affiliated fund on growth capital to fintech and specialty finance companies largely focused on emerging markets, but also in the US because of the opportunities here investing in debt as well as equity. Spent the early part of my career doing similar things and also working in microfinance as well in emerging markets.


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**Peter:** Right, got it, got it. Asher?

**Asher Hochberg:** I started my career with a decade on Wall Street, but between private equity and credit at Goldman Sachs and then public equity at a long/short fund and then realized that I wanted to get my hands dirty and build a product I was more passionate about which led me to CircleUp which is a fintech out in San Francisco where I built basically the TPG lending business and ran it for a number of years. After scaling that as an operator, the investor in me realized there was a sizeable gap in the financing market, particularly the credit financing market for fintech companies and that is what led me to i80.

**Peter:** So, that's a great kind of background. Let's get into what i80 Group does, how do you describe the company?

**Asher**: So, i80 is a private credit fund, i80 is actually the road between San Francisco and New York so the vision for the fund is to blend, you know, Silicon Valley innovations with New York's at a more traditional finance, we also have an office in Montreal. We begun investing in 2017 with a mission to drive what we call the kind of "innovation economy" forward. Our customers are a particular kind of fintech company that originates some type of assets, it can be a hard asset like a home or an automobile, it can be a soft asset like a loan or receivable, but if it's an asset, you know, we come out with a deal. We keep it simple, you know, we primarily offer I'd say one product to early stage fintech companies, we call those collateral-backed credit facilities, we do invest by other structures, but that's the predominant one.

We typically partner with early stage fintechs and proptechs at the seed and the Series A stage although we are doing more at the Series B and C stages, we typically offer capital commitment in that early-stage companies growing to over time to do a multi-year capital commitment. They usually range in the kind of $ 30 to 200 Million and besides let's say the entrepreneurs and the companies they run, you know, we believe our primary partners are venture capital firms. You know, i80 capital is highly complimentary to a VC capital and we often invest somewhere between 5 to 50 times the amount of capital a VC would invest in a given company so we can really super charge a VC company's growth, that's the summary.

**Peter:** So, it's 100% debt,right, you're not investing equity at all.

**Asher:** We do have some alignment with warrants, but,yes, it is all debt.

**Peter:** So then, obviously, you know, in the space we've got Silicon Valley Bank that has been established for decades now providing debt on the back of some of these VC deals. How are you guys different to what they're offering.

**Peter Frank:** I think that's really, so what Asher said, debt being collateralized loan facilities. Typically, with a traditional venture debt, like you said, the company raises $10 or 20 Million and


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they get a $ 3 to 6 Million term loan that's call it two to four years or something like that and it's really based on underwriting the recent debt raise and fund the next round is going to be the probability of that round happening and how big it will be.

Whereas, what we do is much more specific for capital intensive businesses that are scaling their balance sheet and whose business really revolves around some sort of capital intensive product. This could, on a really simple basis, just be a simple term loan, right, it could be purchasing property or something like that, but there's always an asset-based element to the company's core business that we're allowing them to scale.

**Peter**: Okay, okay, got it. So then, the whole set of debt facility business has been around for some time, there's been a lot of companies doing various different things so what was the opportunity you guys saw that was needed in, you know, when you're looking at a traditional warehouse line type operation, what was missing that you felt like you needed to really go in and change?

**Peter Frank:** Yeah, absolutely. And to your point, asset-based lending and warehouse facilities is not a new innovation or idea. I'd say what differentiates us a little bit is that we are a pure play credit fund completely dedicated to the venture-backed ecosystem. We're working with companies as early as late stage and scale with then to Series B, Series C and I think what is a little bit different about called the traditional ABS world or the asset-based lending world and where we play is just the uncertainty of the company's track record and how new they are.

There's a lot of nuance into working with companies that are that early and that new in the market and I think what we try to do and what we sort of think of as our special sauce and what makes that a job hard and interesting is structuring a facility that one, gives us security that it's not going over leveraged, that someday we're going to get our money back, but also that it doesn't walk the company into product market fit that they haven't developed yet. It doesn't prescribe them to kind of going after a customer that may not be the right fit and lock them into kind of a debt facility where the market isn't necessarily there for their business.

**Peter:** Got it, got it, okay. So then, what types of companies are you mainly focused on, I mean, you talked about the stage of the company, what about the industry? Can you give us some examples.

**Asher:** In terms of asset classes, we are fairly agnostic if the company is truly tech-enabled and that often means there's a VC backing throughout the critical component. Generally, we want great businesses with strong customer value propositions, differentiated technology and strong distribution channels, essentially, a strong equity story. We believe that where we differentiate ourselves a little bit which is relative to other more traditional lenders, we care deeply about whether a fintech will actually grow and thrive and become a much bigger company over time.


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As much as we care about kind of the downside protection, I think that a lot of lenders just focus on the downside production, they're very collateral-based lenders, we focus as much on that as, you know, the ability for the company to scale. So, when you look at our portfolio, you'll see a number of companies doing follow-on rounds and that's super important for us to give some leeway for some of the earlier companies we've worked with. And so, whether it's companies like Capchase or, you know, others in the portfolio, MoneyLine is now public, you know, we have a lot of companies that have just started with some core technology or data advantage and now, you know growing meaningfully.

**Peter:** Right. So, do you grow with these companies, do you like put more capital than a typical VC would, but then a lot of the companies you talk about are going back for more rounds. Do you sort of upsize your rounds as they grow?

**Asher:** Exactly, yeah. And the way our products works is we offer let's say a $100 Million facility, a company may only draw $5 Million on day one and then for the next two years will draw the remaining $95 Million so we have an ongoing relationship with the company as they go through their investment period with us.

**Peter:** Got you, got you. Are you 100% US-focused or do you look outside this country?

**Asher:** The short answer is we do look outside the US, but we predominantly focus on the US. That being said, we closed our first European deal a couple of months ago, a company called Ritmo in Europe and we're also looking at Latin America, but I'll say, historically, it's been mostly US, we are going outside the US where there are opportunities.

**Peter:** Right, right, okay. I'm interested in the analysis piece because you say you're going and doing a debt facility to pretty young companies that obviously have a different risk profile than what a bank would look at so can you tell us about how you're assessing credit risk for these startups.

**Peter Frank:** It's really in two prongs, there is the traditional asset-based credit prong where you're looking at similar things that you would maybe see in a securitization much later on in companies like, but in traditional credit analysis, right, you're looking at full liquidity, profile, the underlying assets, their income generating capacity, right, how much excess credit or debt service coverage ratios and so on and so forth, kind of what you would typically see from a credit fund. But the second part and a bit of what we've been talking about is are they going to be able to develop a good business, are they going to be able to scale and develop a financially sustainable business for the long term and that's in a lot of ways a venture capital underwriting process as well.

We're going in and saying yeah, this is a good idea on paper, but is this the right management team to execute it? Do they have the right partnerships and customer acquisition, does the


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lifetime value and the stickiness of the actual product substantiate how much they actually have to pay to acquire these customers. And, I'd say that depending on the situation, right, we can look at those prongs, they carry similar weight depending on the opportunity. They both have to be there, we can't do a really good credit deal that's never going to scale and we can't do a credit deal where this company is going to scale incredibly quickly, but we're looking at potential deterioration in the actual quality of the assets. So, both of those, I think, both carry a lot of weight within our process.

**Peter:** Right, right, okay. So then, you say you do debt facilities, $100 Million facility, I mean, are there kind of metrics they have to hit along the way? You're talking about companies that are unknown as far as how they can scale, I mean, do you make the $100 Million available no matter what or are there certain criteria they have to hit to keep that facility in place?

**Peter Frank:** The company has the right, we'll scale our capital as they scale their asset base so there's sort of a natural limitation and the natural liquidity components that have to be there with the company. So, as the company goes, right, a company that's only raised $5 Million, it's really going to hard to generate an asset-based $100 Million to scale the debt facility so the two go hand-in-hand, but we're very focused on the companies having proper liquidity on their balance sheet, acting responsibly in terms of what does their burn and runway look like, how is their shareholder support, all these more traditional credit metrics as well.

**Asher:** Yeah. And just to jump in there, it's important to realize that when we lend, we always lend a certain percentage of the asset base. So, if the asset-base is $10, we're maybe lending $8 or $9 on that so we make available $100 Million to the company, but if the asset base they present us is only $10 at any given time, the max that we can have out the door in terms of credit will be $ 8 or 9.

**Peter:** That makes sense. So then, where does your deal flow come from?

**Asher:** I'd say three buckets. The first bucket is company in themselves, what we call originators, other fintech, other op-tech companies who have worked with us or have had conversations with us and say, you'll be great for my friend/colleague/peer over here. You know, we only think it's a really good sign of our relationship in what we're trying to build as people that our customers want to refer us to other customers, of course, that's the first pocket effect. The second pocket surprisingly are VCs and we try to  work with all different types of VCs and try to, you know, everyday meet more and more. Third, I would say, all the others so whether, you know, service providers, lawyers, accountants, any other professional that we have in our network that knows what we're doing.

**Peter:** Right, got it. So then, do you have any formal arrangements with VCs, how do you kind of work with them?


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**Peter Frank:** We find our product is very complimentary with VCs and we don't have any JV partnerships and I don't think it's really necessary to have things that call it contractual arrangements of that extent. I mean, realistically, we want to work with all VCs, we're very open to meeting groups that have kind of very similar views or focuses on fintech and similar views on quality of company and go-to-market approaches and so on and so forth. So, we want to cast a wide net and work with a variety of groups.

**Peter:** Right, okay. So then, what happens as the company that you're providing the facilities as they scale, they get more established and clearly, you're going to be more expensive than bank capital. What do you do once they get to the stage where they really could get a bank credit line. I mean, do you help them do that or how does that transition happen?

**Asher:** Philosophically, we actually believe that more mature companies should lower their cost of capital as their track record develops and we absolutely want to help them on that journey. It could mean a lot of different things, we could bring in a bank and, you know, be a partner with a bank and lower that kind of blended cost to the company, we could offer them an upsize as we talked about earlier and give them more capital than our initial commitment and do that on different terms. We really believe that we want to be a long term partner to these companies and find the right capital solution for each part of their life cycle. We've worked with companies at a very, very early stage at the seed and A round, but we're also really proud that our company has gone kind of full circle and you know, one example of that is MoneyLion who went public last year and still a customer of ours.

**Peter:** So, even though they could get credit elsewhere you've maintained a relationship even when the company is really established, it sounds like.

**Asher:** The short answer is, yes. It's always unclear exactly what the cost of capital is for different folks. So from our standpoint, we want to work with partners who value our firm and our relationship and what we're doing, not just the cost. You know, honestly, capital is a commodity, but we do believe that we help these companies in a variety of different ways that makes it not only the most important facet.

**Peter:** We see that there's really a lot of benefit even though, right, you look at us compared to a bank and we're going to be higher cost of capital at the early stage for fintechs where typically a single source of capital and they grow into getting big capital over time, but I'd say, we always still have some level of the value proposition there in one, just having a diverse group of capital partners, not having groups that don't have the quality or rigidity and the same time horizons for decision making as a bank. They can move fast, they can help fund new products, they can work in different, newer, more innovative areas of their product suite, so to speak.


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**Peter:** Right. So, Asher, I want to get back to something you just said there. You talked about you provide more than just the capital, can you give a sense of how you're working with your portfolio companies beyond just providing capital.

**Asher:** Yeah. I find that there are certain areas and Peter Frank can chime in as well. I'd say the first one is actually designing the financial product or the product that the company is, you know, essentially selling themselves. I think a lot of the companies are still early in their product roadmap and are thinking about different features of the product and how to build them and how customers will respond to them, how to attract them, how to monitor, how to report out.

And so, we really are getting our hands dirty almost every day with our portfolio companies to help them design a better product that they are more successful. In the end, we are monitoring that product on an asset level and so we're very keyed in to what they're saying, what's going on, the trend so we are very much an advisor and almost essentially...well, it comes down to like a board member-type relationship although we're not always on the board, it's that level of kind of feedback that we have. Peter Frank, would you add anything to that?

**Peter:** Yeah. No, I think that's right. I guess especially early on because for a lot of these bank financing is so important. It's easy for early-stage companies to, in some ways, get carried away and find themselves especially developing a product for banks rather than their underlying customer base. One of the things that by being very focused on helping design a product that scales we try to bring companies back to the product has to work for your customer, it has to work for your business and then you can figure out a way to make it work for the right pockets of financing after that. You don't want the tail wagging the dog, so to speak.

**Peter:** Got you, that makes sense

**Asher**: We also have a lot of relationships with VCs and VCs, of course, want to see high quality companies and so one other benefit that we provide our companies is when you're in our network we want to introduce you to, you know, the VCs that may be interested and help you get equity fundraise because actually equity is very critical to the debt outcome as well so that's another area.

**Peter:** Right. That's another thing I want to ask because, you know, last year and 2020 was just go-go years for fintech with venture capital just available, it seemed like it was infinite for a while there. You know, things have tightened up a little bit more this year, you see the mega rounds are not as common as they were in 2021 and 2020. So then, how has that sort of changed the market from your perspective, is there more interest in debt as equity capital has become like less available.

**Peter**: I'd say, yes, we're still seeing, right, there is a bit of a time like here so the valuations go down, the next day we don't see more demand or less demand, it takes a number of months,


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right, especially as companies that raise at the end of 2021 may not be in market for a little while either. That said, specifically between us and big companies, where the rights are lending towards the assets of, we have not seen a lot there yet and part of that is if you have an asset and intensive workup or intensive product, you're going to need our type of financing whether or not you're in a really active VC market or a slower VC market.

That said, we are looking through, because we work with quite a few groups that work on small business financing side, we have seen an uptick and increase in demand for capital there. That said, it will have to be determined how much that grows or how crazy that goes, right, how much VCs actually pull back. We've definitely seen a lot of noise and heard a lot in the markets about valuations going down significantly which leads to smaller rounds and so forth.

**Peter:** Would a company come to you and say, we don't really want to do equity because they don't like the valuation I'm getting, let's just do more debt. Is that because you're sort of collateralized debt, are you seeing situations like that or has that not really happened yet?

**Peter Frank:** That was in the conversation with us, we will have those conversations with companies that in terms of we're trying to delay cash burn, you would only come to us to discuss that to the extent that they want more leverage on their underlying assets or they are thinking about a different type of commitment size.

**Peter:** Got you, got you, okay. So then, can you give me some sense of the scale you guys are at today, I mean, how much are you funding?

**Peter Frank:** So, we're working with about 30 borrowers right now and we have about $1.7 Billion active commitments. As Asher mentioned, we were launched in 2016, started lending in 2017 and had really been scaling up our platform the last few years. We are of the belief that we're chasing kind of an opportunity in the tens of billions of dollars, like we saw $100 Billion go into fintech funding last year alone. To your point, that was a pretty crazy market, it may not expect that this year and that's not necessarily a terrible thing. We definitely see a very durable large opportunity set here.

**Peter:** What about like when you look at the lending space, I'm curious to get a sense if you sort of take a step back, you're seeing these fairly early stage companies and, you know, lending went through this huge boom in the mid-2010s where there was lots of new companies started and lots of money and then it seemed to slow down, what's your sense of the state of fintech lending today? Are you still seeing good, new ideas coming through?

**Peter Frank:** Yeah, absolutely. I think it came to shape a little bit differently and to some extent it's market is a little bit different, right, sort of one point in all of these was a lot of the marketplace lenders groups that had very high customer acquisition cost and that's where they sort of ran into some issues down the road. I think in part as the response to that and just


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because it's an interesting business model, we're seeing a lot of not so much innovation in peer-to-peer lending or we're seeing it much more on the go-to-market side, right, people developing interesting partnership opportunities for going-to-market. I'm sure you've heard a lot about embedded finance in that idea, but, ultimately, this is sort of a flavor of buy now, pay later, right, how do you develop partnerships that can lead to zero cost acquisition channels and, right, sort of natural credit enhancement through the products that people are buying.

**Asher:** Just to jump in on that, I think in the end a lot of it is compounded data. There's got to be a product experience like a Robinhood who has actually an incredible product for a lot of people to use, but I think a lot of the products that we see are really fueled by better data that's coming from more of the source like data source that could be like an Amazon marketplace or a Shopify app or could some type of elective subscription management tool that's managing that revenue. So, there's always new applications that are essentially spitting out new sources of data and the fintechs are basically finding new ways to plug-into that data and underwrite and assess risk better and also on top of that make a much better user experience.

**Peter:** So then, how are you funding these facilities, where is your capital coming from?

**Asher:** So, we publicly stated that one of some of our anchor investors is a firm called Iconiq, it is a large family office of successful technology entrepreneurs on the West Coast. They have a great reputation in the industry so we wanted to publicly talk about that, but we have many other investors, we just don't talk about them publicly, but they're mostly institutions and, you know, I think we have killed the people who really understand that there's more to credit than just a, you know, a high yield bond fund or anything like that.

**Peter:** Right. So, you have capacity yourselves to continue to grow pretty rapidly?

**Asher:** Yeah., that's correct.

**Peter:** Okay. So then, let's close maybe with sort of looking down the road, what are working on that's exciting, I mean, what's next for i80 Group?

**Asher:** So, we are still proving our time and our model so, you know, it's Steady Eddie for us. One is just seeing our portfolio companies thrive to get more financing to get a larger and help more customers, that's one. Second is offering more mature fintech companies a more holistic capital solution, to your point, Peter, about whether we can work with banks or how the cost of capital journey goes, we want to be there for all parts of that and continuing kind of partnering through the life cycles of these interesting new products or mechanisms to do that.

And then, the third and the most important is we want to continue to build our brands with our customer and our reputation. You know, anyone who knows the VC world understands reputation and what you put out into the world is really, really important so doing this podcast


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and other more public settings we just want to share what we're doing, you know, make sure that we're staying top of mind for folks.

**Peter:** Right. Well, everyone's going to know about you now, you've been on this podcast. (laughs)

**Asher:** Indeed.

**Peter:** Anyway, Asher, Peter, thank you so much for joining us today, it was a fascinating discussion and good luck.

**Peter Frank:** Thank you.

**Asher:** Thank you, Peter.

**Peter:** Clearly, there is a need in the market for companies like i80 Group because so many fintech companies that are launching, that have launched in the last couple of years, they have unique capital needs. Unlike traditional tech companies, these are often very capital intensive and, you know, companies like i80 Group is really filling a need, as you just heard. These companies, you know, they need sometimes massive amounts of capital, particularly in the real estate space, you're talking to even scale to a few hundred transactions, you need massive amounts of capital so they really have I think filled the niche here pretty intelligently and I think they've got a bright future ahead of them.

Anyway on that note, I will sign off. I very much appreciate you listening and I'll catch you next time. Bye.

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