

FINTECH ONE-ON-ONE PODCAST 337-GEORGE LEIMER

Welcome to the Fintech One-on-One Podcast, Episode No. 337. This is your host, Peter Renton, Chairman and Co-Founder of LendIt Fintech.

(music)

Before we start today's episode, I want to tell you about a new event, Nexus, the Dealmaker Summit, is all about making deals. We'll be bringing together a select group of venture capitalists, bankers, fintechs and debt investors for two days of face-to-face meetings in Miami on February 7th and 8th. Also at Nexus will be LendIt's famous Industry Award Show back in person for the first time since 2019. You can find out more about all our upcoming events at lendit.com

Peter Renton: Today on the show, I'm delighted to welcome George Leimer, he is the CEO of Rally. Now, Rally is a super interesting company, they are all about democratizing access to collectible assets. These are things like exotic cars, talks about a whole range of them, baseball cards, rare books, those sort of things and basically what they do is they allow their marketplace of investors, non-accredited investors, to invest in a fractional ownership of these assets, super interesting.

We talk, obviously, about how the process works, all the different types of assets they have, we talk about the exits and the returns that investors have been seeing. He provides a profile of the typical investor and he talks also about the unique showroom that they have for these assets that's coming up, it's going to be in New York. It was a fascinating interview, hope you enjoy the show.

Welcome to the podcast, George!

George Leimer: Thanks for having me, appreciate you making time.

Peter: My pleasure. So, let's get started by giving the listeners a little bit of background, I'd love to kind of hit on some of the high points of your career to date.

George: I spent the majority of the last 20 years in various consumer Internet, direct-to-consumer businesses. I spent the last seven years before Rally at Disney and five years before that at Apple in two separate stints and eight years at eBay with some early-stage stuff, you know, sprinkled throughout those 20 years so probably about a 60/mix of big company/small company-type opportunities. You know, really when I decided to leave Disney, I looked at a number of different opportunities and I thought what was great about Rally was it was sort of the perfect mix of the direct-to-consumer piece, the two-sided marketplaces experience that had at eBay and, you know, just the overall direct-to-consumer and content piece as well. I thought it was just a great idea in solving an important worthwhile big problem. And so, you know, luckily, I convinced the founders and the board that I was the right guy and been in the job for a year and a half now.

Peter: Alright. So, can you maybe take us back, I know you're obviously not one of the founders, but like take us back to the founding story. We'd love to kind of hear a little bit about that to get some context.

George: So, there are three founders and Chris Bruno is sort of founder zero/patient zero for Rally and Chris was in venture capital. You know, in the early part of the 2010s, I suppose you would call it, crowdfunding sort of became a viable thing and along with crowdfunding, the idea of sort of retail investors investing in venture capital deals also became a thing and Chris saw some of these. At the same time, Chris had an epiphany when thinking about cars and his ability to decide what a great car investment was and what a great car investment might not

be and so Chris realized that the only difference between Chris and Jerry Seinfeld when it comes to knowledge of classic Porches, well, there's really no difference in knowledge, the big difference is Jerry Seinfeld had \$25 Million to go to Monterey and plunk down that money and walk off with three or four cars.

That turned out, over time, to be better investments than purchasing a house or putting money in the market, you know, would have been and so the light bulb went on for Chris. He saw all these crowdfunding and he thought about that problem and he thought hey, you know, what is there is a way for normal people to invest and truly make them investments, right, truly make them shareholders in a collectible asset and it started with cars, that's where Rally was born.

Peter: Right.

George: So, Chris, along with Max and Rob, founded the company and it was founded around classic collectible cars and then over time, the company has expanded into what you see today which is 20 different asset classes, all of them collectible or passion driven.

Peter: Let's just talk a little bit about that because, obviously, investors have been investing in art, obviously, very wealthy people have been investing in collectible cars and wine and those sorts of things, when I go to your site and I look at the different asset classes, I mean, what is it that makes a collectible an asset that may appreciate?

George: I think it's three things, right. I think it's a uniqueness. a museum quality sort of uniqueness, I think it's an asset that people have some sort of built-in passion for or interest in and then, again, I think something that's rare enough that the average person can't necessarily participate in. I mean, at the end of the day, what Rally provides is Rally provides access to the average person who wouldn't be able to have that access otherwise. An access, you know, you talk about people investing in art, right, well, you have to have a lot of money to do that and so what Rally does is provide that access. And so, if you look at those three criteria, there's really no type of asset that on its face couldn't fulfill those three criteria and you could see that on Rally, you know as you pointed out. We think our winning formula is a wonderful diversity of the asset categories that we have and so I think that kind of proves the thesis.

Peter: Right, right. And I want to talk about that for a second, I've got your pop-up on my phone here and you really do have a pretty interesting, diverse range of assets. So, I don't know if you want to go through all 20 but hit on some of the more important ones.

George: Depending on who the investor is, you know, the asset sparks a different kind of interest, depending on who you are and what you're interested in. I was going to ask the question, you know, what's your favorite asset on the platform. You know, we get so many new assets every week or every month that it's always hard to answer that question, but I think they're all important in a certain way. I think, you know, my personal interest and the thing that I love the most are the rare books and the historical documents. I think, you know, holding one of those things in your hand or seeing those things in the room, seeing one of 15 copies of the Declaration of Independence in the room and being in the room with that document, it sounds a little bit corny maybe, but there's power to that.

Peter: Yeah.

George: And that seems to resonate with folks, but, again, I think all the asset classes resonate with someone which is why they're on the platform.

Peter: I downloaded your app a few days ago, transferred some money in, the proud part-owner of a Kobe Bryant rookie card, I don't think it's closed yet, but says it's valued at \$20,000 and \$25,000. You know, you talked about the founder having an expertise in classic cars so how do you get the expertise? Do you hire the expertise like it's a different thing to have expertise in rookie NBA players than it is to have expertise in cars than it is to have expertise in rare books.

George: We do a couple of things, right, so we hire people, for sure, and we've built a team that both looks for assets in an outbound sort of way and then also fields inbound requests for people, you know, to sell their assets to us, but we've also built this network of advisors in each of these categories. I always joke, you know, I'm maybe the only person you'll ever meet that has a dinosaur guy, we have a dinosaur guy.

Peter: (laughs) I noticed that, I saw that was on there.

George: Right. You know, he's a dinosaur guy and he is an expert, he is a paleontologist. We have a rare book person who has been in the rare book business for, you know, 30 or 40 years, I suppose, and so we've built this expertise on our own. We also realize that for some assets they're so specialized that building a network and having those people work with you in that network is really the way to go, right, because they've built these years of expertise. And, frankly, the people that love these assets, they love working with us because they love getting these assets, you know, into the hands of more and more people. It's as interesting for them to see a group of 5,000 investors take the share of the Declaration of Independence and be involved in that, you know, it gives them a way to just kind of spread that with more and more people. So, it's a mix of both in-house and out-of-house experts.

Peter: Right, right, got it. I want to just detail how the process works. I mean, we have a pretty sophisticated audience here who understand a lot of ins and outs of crowdfunding and what have you, but if you could detail how you actually fractionalize this and make it work for investors.

George: It's actually fairly simple to explain. So, when we identify an asset, that happens in two ways, right, we get holders of these assets coming to us looking to get liquidity from the asset and we also identify the asset, whether we find out about it through our network that it's for sale or we see it in an auction or what have you. Once we identify that asset, we secure the rights to offer that asset as a fractional investment from the original asset holder, we go through a process to verify the authenticity of the asset, right, and again we do that both internally and with external experts. And then once we go through the authentication and we secure the rights to the asset, we securitize the asset, we file the asset with the Securities & Exchange Commission under SEC Regulation A or Regulation A+, those become qualified by the SEC and once the SEC qualifies that asset, we offer that asset to the investors, there's a certain amount of shares for every asset that we make available.

The investors invest in those shares and purchase those shares, once that investment is full the asset goes through a very short cooling off period, very similar to what you might see for insiders in an IPO or similar and then the asset trades on our secondary market. The holders of those shares can sell their shares or purchase more shares or totally new investors can come in and purchase shares from the IPO shareholders. So, really the way it works is it's an integrated sort of end-to-end full stack financial market, it goes from qualification, to issuance, to custody, to KYC, to trading, to settlement, etc.

Peter: Right, right. And then I noticed when I was going through the Kobe Bryant investment, you know, it came up and said, you guys are partnering with DriveWealth and it's interesting, I just had the CEO of DriveWealth on the podcast like two weeks ago, like are they providing that fractionalization technology?

George: No. We have a network of brokers/dealers, as I said, we built this sort of full stacked financial marketplace, if you will, for lack of a better word.

Peter: Right.

George: We are not a registered broker/dealer, but we work with registered broker/dealers to effectually, you know, the movement of the cash and custody and movement of the securities and that's what DriveWealth helps us with.

Peter: Got you. I also was reading about the fact that you have a showroom, I believe, in New York City, tell us a little bit about that and what are some of the assets you have there?

George: Sure. Well, technically, we had a showroom and we're about to have a showroom again.

Peter: (laughs) Okay.

George: So, we're in-between showrooms, if that's a phrase I can call it. We're opening a new showroom on Broadway in Soho in New York City and I'll let the suspense build a little bit for the exact assets that will be in the space, but, you know, we're going to showcase the best of the best of those assets in that space and it's quite a decent size space. So, when you consider the fact that we have probably upwards of 80 cars and, you know, things as big as a car to as small as maybe the smallest trading card, we're really going to be able to have a good diversity in the space. So, we have at least a few cars, I'm sure dinosaur will make an appearance there (Peter laughs), you know, lots of trading cards, a lot of the other physical memorabilia.

You know, we did an event in Hollywood in October which was sort of a dry-run of what this could be and it was fantastic, we had everything from a megalodon jaw to the Declaration of Independence to a Honus Wagner baseball card, to the floor that Kobe Bryant played his last game on at Staples Center so we're just kind of replicate that and, you know, we will rotate assets through there.

And then, the other thing I'd say is that more and more we are partnering with institutions or brands to show these items to the public as well. So, for example, our vintage Apple Tech investments are on display at the Franklin Institute Science Museum in Philadelphia, as an example, you know, we have some other examples to that. So, I think what we're going to try to do as much as possible is we come out of COVID and emerge into a world where we're actually going to be in real life with people again, is to get those assets in as many places as we can so that people who are investors can kind of see them and interact with them and, to the extent possible, touch them.

Peter: Right, right, it's super interesting. I also noticed on your platform, you actually have branched out into NFTs, I see you've got a Bored Ape, you've got a CryptoPunk so tell us a little bit about the movement into NFTs.

George: The process is exactly the same, they're not physical assets, but they are assets. You know, we have a methodology and storage for those that I won't reveal here, but very similar to the way that we secure and insure and make sure the physical assets are secure, we do the same thing with the NFTs. And, really what we've done with the NFTs on that is treat them just as we would any other asset. We actually think NFTs are one of the things that is a powerful proof point for Rally. If you think about the cycle of NFTs having gone from something that a few people know about to a skit and a meme on Saturday Night Live, right, like that happened in like three months. (laughs)

Peter: (laughs) Right, right.

George: And at the same time, NFTs went from ...basically get an NFT for a couple of hundred bucks, you know, to now people are spending a million dollars on a Bored Ape and whatever it is, right. And so, we think in that respect, it proves the thesis for Rally, right, it's yet another asset that has become the playground of the rich and our particular innovation allows the normal person to, you know, have access to them.

Peter: Right, right.

George: And then, I think what we found is really interesting is that we've created companion NFTs as a sort of commemorative items to go with both NFT investments and physical investments. So, for example, along with our first CryptoPunk we created Rally NFTs that were sort of commemorative with that. We had a ticket to Wilt Chamberlain's 100-point game and we created an NFT that looked like the ticket stub to that and our investors and our users love those, those usually sell out in a matter of seconds with people clamoring for early access to them. What we've learned is, we are an on-ramp to crypto for a lot of folks who haven't been in crypto before.

Peter: Interesting.

George: When people invest in one of our NFTs or buy a physical NFT from us as a commemorative, about 70% of those people, it's the first NFT in their wallet.

Peter: Right.

George: And so, we've really become an on-ramp there and now those folks are branching out, you know, into other investments, both on Rally and other crypto investments outside of Rally so it's pretty gratifying to see.

Peter: Right, right. It strikes me, you've got an active secondary market that obviously trades with supply and demand and so you've probably got a pretty good insight into the returns that these different assets are returning, the investor returns. So, what can you tell us about that, not every asset is going to be a huge windfall, but I want you to touch on the Super Mario Bros. game which was a huge windfall, do you have stats on the returns of the assets you're providing?

George: There's a couple of things I would say there. To the secondary market, the current incarnation of the secondary market has only been live since November 30.

Peter: Okay.

George: It's very, very early to draw too many conclusions about the returns in that particular incarnation of the secondary market and we don't even have all of our assets trading on that secondary market yet. About 120 of our 400 plus assets were trading so, as you point out, those assets perform on an asset-to-asset basis and on a category-of-asset to category-of-asset basis are like any other financial instrument, right, they're all over the map and, you know, obviously they're more thinly traded than an equity like Tesla or Apple, right, which means the returns can be a little bit lumpy. So, you know, early, but we think the market is pretty healthy and if you look at the order books has good balance on both the buy side and the sell side.

So on exits, in general, right, so we've 20 plus exists off of the platform and the last I remember looking at this, the average return on those exists was about 41% and the average time to return was about 80 days, meaning 80 days from IPO to exit. So, those are less unsure returns, right, those are actual concrete cash in peoples' pockets returns, right and then, of course, you bring up the Super Mario Bros. game which was sort of the poster

child for the exit, right. And so, the Super Mario Bros. game is really interesting so one of the things that I think that Rally has done is Rally has looked at things as assets earlier than others have and in some cases often in a very contrarian way, right.

So, you know, Rally was the first to fractionalize a set of Pokemon cards and that was a \$125,000 market cap and everybody thought, me included by the way and I wasn't the CEO yet, I thought, how's this going to go. I think it might have been the convincing moment for me when \$125,000 worth of investment in a set of Pokemon cards fully subscribed in about a minute and 42 seconds. (Peter laughs) I'm pretty sure that convinced me, I think, to take the job, but when you look at Super Mario, Super Mario was first offered on the platform in August of 2020, I think \$120,000 market cap, you know, it traded up on the platform and then in the spring/summer, video games in general went through a period of pretty rapid appreciation.

You know, we got this offer for \$2 Million and what we do on the platform is we put the governance in the hands of the shareholders of those assets, right. So, we conduct a vote of the shareholders' vote and in all cases, we go with what the shareholders vote, yes or no, you know, on a share we need it basis. We do, by the way, have the ability to sort of go against the shareholders if we think there's something that's being done that's, you know, not in their best interest, but our shareholders are smart.

And so, that became the single, at the time and I think still is, the single biggest sale of a sealed video game, you know, in the history of sealed video games and so that went from a completely nascent asset class that nobody knew anything about, it was a hundreds and some thousand dollars in August of 2020 to a \$2 Million exit, a thousand percent plus return for anyone who had been in the IPO level so it's pretty exciting.

Peter: I want to switch gears a little bit and talk about the investors who are on your platform, can you give us.....like who are these people? I presume you don't have to be accredited, what is the typical investor?

George: You don't have to be accredited, this is one of the advantages of SEC Regulation A and A+.

Peter: Right.

George: They don't have to be accredited investors. They look very, very similar with Rally investors, in fact, almost down to the day. So, our average investor is about 28 years old, the most common age range is between 26 and 35, they're about 75% male, avid collectors, lots of cross over with crypto and very much a part of the community-type feel that we see more and more in investors of all stripes than investors in pretty much any investment, right, very opinionated, very smart, do their homework, very willing to make their opinion known to us and to their fellow investors.

I think the way to think about these folks is they may come to the platform because of a passion for a specific asset, but they very quickly turn from someone who is there because they love trading cards or Birkin bags, watches or whatever it is and they very quickly turn into an investor and move to thinking about the next category and thinking about it as an investment as opposed to something that they're just passionate about because they love baseball or whatever it is.

Peter: Do you have any plans to make this available to IRA investors? I couldn't see it when I was on your platform opening up my account, but what's the plan there?

George: We don't have anything specific at this point other than to say that we think as we grow, as we get more and more assets under management and as we get more and more investors, we think the institutional piece of

this is really interesting, right, and people making us a part of their portfolio, as a part of their allocation is really, really interesting.

Peter: Sure.

George: So, whether we do that through partnership and exactly how we do that is still somewhat up in the air, we are very, very focused on the retail investor side of things, you know, right now and the direct conversation that we have with them. But, I think, for sure, you know, at some point in the future and an indeterminate period of time, making this more of an institutional product than it is today which is to say some institutional participation will be something we absolutely need.

Peter: Right, interesting, that makes sense. So then, what about equity investors? I was looking at company's....inside your last round, you've got some big names. Tell us about some of those names and how did you get them on board.

George: So, I think one of the things our founders did that I happily was able to sort of inherit and draft off of is they were very intentional about the cap table and very intentional about people that had good networks of good people and, you know, are able to make high quality introductions for us. And, you know, looking at this at the last round, that's where it was the entire....as our existing investors, setting up the right meetings and us having the right conversations and the way the business is, you know, is growing, it was a very easy story to tell in a space that people are very, very interested in.

And so, I don't want to say it was easy because it's fundraising and it never is and you know, everybody oh, fundraising is so hard and it is, but it makes it a heck of a lot easier when you're talking to good people from great introductions from other good people and you have a good story to tell. So, it was very straightforward and, you know, in that respect and I think when you look at Accel and you look at the companies that are in their portfolio, when you look at a company like Wheelhouse and Wheelhouse's ability to sort of help amplify a business through content for television and everything that they've done and when you look at the marketplaces experience and a company like UpFront, it's somewhat of an embarrassment of riches for the types of intros and people, you know, we talk to. We just have to run the business and, you know, tell the story clearly.

Peter: Right, right, okay. We're just about out of time, but last question then is what's on top in 2022 for Rally?

George: You know, look, I think largely more the same, right, I alluded to the fact that we launched this new secondary trading market on November 30th, we're going to keep adding assets to that and watch it grow and keep adding features to that and then look, I think the success formula has been the next asset class, the asset class where everybody (inaudible) wow, that's an interesting addition, I would have never thought of that.

And, you know, a year ago at this time, it was dinosaurs, this month it will be domain names and then it'll be interesting things after that. So, really our winning formula is just make the trading straightforward and effective for our users as possible and keep adding new and interesting asset classes and telling the stories of the assets. If we do that then I think everything else will take care of itself and that's what we'll do.

Peter: Okay. George, it's a fascinating story and really I think it's great. You're democratizing access to assets that an everyday investor would never be able to it so congratulations on what you've achieved, so far.

George: Thanks and thanks for having me, I appreciate it.

Peter: Okay, my pleasure, see you.

You know, one of the things I love about Rally is it really is democratizing access as we talked about democratizing access to an asset, an asset class, shall we say, because when I first got involved in fintech it was actually through peer-to-peer lending 12 years ago and that's really what appealed to me. I was able to access an asset class that was previously unavailable, consumer loans, and that's what Rally is doing. They're providing access to the collectibles asset class which really, when you think about it, is lots and lots of mini asset classes that they've kind of combined on their platform. So, I think what they're doing is phenomenal and I really appreciate that they make it really easy, the minimums are low, we can build a diversified portfolio of collectibles pretty easily on their platform.

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

(music)

Before we go, I want to remind you about a new event from LendIt Fintech, Nexus, the Dealmaker Summit, is all about making deals. We are bringing together a select group of venture capitalists, fintechs, bankers and debt investors for two days of face-to-face meetings in Miami on February 7th and 8th. Also at Nexus will be LendIt's famous Industry Award Show back in person for the first time since 2019. You can find out more all about all our upcoming events at lendit.com