LendIt Fintech

the fintech startups podcast PitchIt

PITCHIT FINTECH STARTUPS PODCAST NO. 47-NELSON CHU

Welcome to PitchIt, the fintech startups podcast, one founder, one startup, one investor at a time. I'm your host, Todd Anderson, Chief Product Officer, LendIt Fintech.

(music)

Todd Anderson: On Episode 47, I talk with Nelson Chu of Percent. Percent was founded with the belief that investing in alternative investments should be more transparent, more accessible and more liquid than ever before. You know, this last say five or ten years, there's just been an explosion of interest in alternative investments, especially if traditional assets and low rates have offered investors very little upside.

Percent is helping make these assets more accessible to a wider swathe of investors though you still have to be an accredited investor to invest in many of these assets. Nelson and I talk about his journey from Wall Street to Percent. how they increase access in transparency to alternatives, the accredited investor role, blockchain technology and the Web3 movement, building a culture for a growing team, raising capital and much more.

Before I turn it over to the episode, I just want to remind our audience, on May 25th and 26th in New York City, we have our flagship show, LendIt Fintech USA 2022. It's going to be in-person, back for the first time in-person since 2019, we have a great selection of keynote, great selection of tracks. If you're a startup, we have special programs for you to attend as well as get involved in our PitchIt Startup Competition, same namesake as this podcast and we also just released a new Crypto Nexus Workshop which will help bank and fintech executives onboard to Web3 safely. Check out lendit.comforward/usa for all the great details of the event.

Now, without further ado, I present Nelson Chu of Percent.

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Welcome to the podcast, Nelson, how are you?

Nelson Chu: I'm good, thanks a lot for having me.

Todd: O course. So, you know, to kick things off, can you tell the audience a little bit about yourself, where have you been professionally before Percent and just more generally, a little bit about who you are.

Nelson: So, my name if Nelson Chu, I'm the Founder and CEO of Percent. My background actually is a little bit in traditional finance I think almost out of necessity for what we're trying to do here for private credit markets so I spent about two and a half years in traditional finance. I started my career at Merrill Lynch in 2009 which was a lovely time to be joining traditional finance, Merrill Lynch became Bank of

America very shortly thereafter after that, I think it was about two months or so, give or take, so I stayed at Bank of America for about a year and a half doing private work management and then left that to join the buy side, everyone said the buy side was better than the sell side.

And so, I joined the largest buy side shop on the street, in Black Rock, unfortunately for me, the buy side was not better than the sell side that's why I lasted about a year at Black Rock before I said, you know what, I'm done with finance, I don't want to do finance ever again, it will never happen and here I am running a fintech company so it's funny how the world comes full circle. I left that to really kind of do my own thing, the New York startup scene was really taking off in 2012/2013 and at that point I realized that there was a tremendous opportunity that's really to provide a lot of guidance to founders to help them build products.

And so, starting there, created a consulting company that actually was quite successful, in many respects, giving founders the product, the marketing, the branding, the engineering expertise they need to get off the ground. One of the best case studies we had was a company called BlockFi in the crypto work management space and that was the one that made me go, you know what, we have a team that can build products, we're giving founders' advice, we know a lot of VCs, for the right idea at the right time we should just do things the old fashioned venture-backed way and that's how Percent came to be,

Todd: Now, stepping back a little bit, in terms of entrepreneurship, were you always on the path to I'm going to start my own venture, I'll start my own company, or was it more the path of I'm at a big incumbent, I'm at a company, a problem exists, obviously, I don't find the solution easily, should I start something myself.

Nelson: Yeah. I'd like to think that everything I have done to this point had led me down here, right, and so this actually goes even way back before my traditional finance career, if you will. So, I grew up in central New Jersey, nothing too crazy, right, my Mom was a more traditional parent in that she said, you know, if you get good grades you go to an Ivy League school, you become a banker, a doctor or a lawyer, you'll be set for life and that was her path to success, right, so she made me focus on what, on academics.

My father was actually an entrepreneur in his own right, he co-founded a company with a couple of his friends in the airline crew optimization space which was like super nichey. Well, basically, all you need to know is that whenever you find flights, whichever flight attendants and whichever pilots were on that flight, they essentially helped create a program to decide who goes what, when, effectively. Now, that used to be done via a massive whiteboard with index cards which was horrifying and then now it's done through programs and software and engineering which is fantastic.

So, he always encouraged me to try to different things and try things that I was personally passionate about and grades were secondary, if you will, give or take. So, the rule of thumb for him was if it's under $1,000 and you're not going to throw it away after a week then I'll buy it for you and that allowed me to really kind of play into a lot of different strengths that I didn't realize I had, especially on the creativity side. So, I bought a Mac before it was cool in 2002. I taught myself Photoshop, I taught myself film making, modified the crap out of my car and really kind of pursued this other side of my brain that really wasn't getting worked through academics. So, I graduated high school, went to college, did not go to an Ivy League school, Mom was very disappointed and then I joined finance, Mom was very happy, quit finance in several companies, Mom was very disappointed and then ultimately, the holding company did quite well, she was very happy. I threw it all away to start another company and go back to scratch and she was disappointed, now she's happy again.

So, you know, I think it's been a long journey, but it's gotten me to where I am today and I've leveraged everything I've learned in the past, started from even when I was like 10 years old, 11 years old and brought it to bear here with Percent. So, I think long way to answering your question, I think I've always been destined for this path to start a company or what the company was going to be, it was really up in the air based on almost like the right place, right time situation.

Todd: Specifically, how'd you get to the idea of Percent and why the name change. If the audience doesn't know, Nelson's company was previously called Cadence and now Percent. So, tell us a little bit about the name change while answering the question of kind of how you came to this idea.

Nelson: So, back in 2008 when we started to see the fintech landscape evolve and courtesy of some of the clients that we had, we recognized that, you know, alternatives was going to be a thing, right. Between crypto and between private credit and all these other different alternative asset classes, we saw a real opportunity to provide that to a broader investor base we thought was going to be very interested in these products going forward. And so, we took a look at what was out there and we realized that it wasn't actually that great in terms of options for investors.

The durations were very long, you had to lock up your investment for three to four years which is not great for the average retail investor. The minimums are super high so it's about $20,000 to $25,000 to even get started which if I don't know who you are, I'd be hard-pressed to give you $20,000 to $25,000 and the yields were fine, right. So, we thought, at the outset, we can create a better mousetrap than what else was out there by creating lower duration or shorter duration products with lower minimums and then comparable yield and that in and of itself would be enough to kind of get more people into the door in the alts space than we could figure out where we're going to go from there.

So, when we think about, you know, short duration, rolling over invest means there is a bit of a cadence to that type of investment style, right, kind of every single couple of months you're going to go back to it and that's why we chose the name Cadence. But, as we start to dive deeper and deeper into the space we realized there was zero tech to speak of in the alts space whatsoever so we were building our own (garbled) systems, we're building our own compliance access station tools and probably scarily enough, we're building our own asset surveillance tools.

So, we were thinking with all these then what is everyone else doing if that's the case. We realized that the real opportunity here was to bring transparency, efficiency and all that into private credit markets through an infrastructure solution that just simply wasn't out there today. And so, when you think about Cadence being the old mentality of, you know, investing in a certain repetition-type style and then now to what it is today which is an infrastructure solution, we felt Percent embodied that name much better than Cadence ever could.

Todd: Interesting. If you could tell the audience exactly what are the offerings that you guys have at Percent.

Nelson: Private credit is actually what we'd like to think of as almost a $7 Trillion asset class, but most people don't even realize it's happening behind-the-scene. So, just a bit of a Private Credit 101 here, after the global financial crisis in 2009, the banks stopped lending to small businesses and consumers because of regulatory requirements, reserve requirements, things like that and so you had this glut of non-bank lenders who stepped up to the plate to fulfill that need. So, you think about non-bank lenders that are pretty well known, Affirm, SoFi, things like that, those are all kind of part of the first wave of lending that happened coming out of this crisis. Unfortunately for them, because they're not a bank, they don't have a technology to work off of, they actually have to raise capital from elsewhere to be able to finance the loan portfolios.

And so, the consumers to date who interact with student loans, with buy now, pay later, with small business lending, those are all things that are cost saving private credit and they don't realize that there's a multi-trillion dollar economy that is here that is actually functional doing all of that almost like behind-the-scene. And so, we essentially take those assets, whether it's a student loan, whether it's a consumer loan or a small business loan and package up in a way that exposes that investment opportunity to a broader investor base that we have for a credit investor and things like that.

So, when you look at our platform it's a very diverse array of investments, we have things in the US, we have things from Latin America, we have factoring from a lot of developers, we have small business loans, it's a very, very broad mix and it's all underpinned by our infrastructure which provides transparency into how the investments are doing, a structure that is sound based upon all the different things that we put in there, but credit (inaudible) standpoint and all that good stuff and so making a much more approachable, much more reachable to the average investor base than it ever has been before, but through diversity of all the different things you expect in an asset class and in geography.

Todd: Is there one asset that is more popular than the rest, consumer credit, small business credit, factoring?

Nelson: Underwriting consumer credit is a very harsh, just in general. I think you've seen a graveyard of companies that tried to do it simply because the actual criteria to be able to underwriting is not that much, right, so FICO is one thing, but, definitely, it doesn't tell you the entire picture and so you have to find something else to get it up mean, there's not just not that much of information out there.

When it comes to small business, you have a lot more information at your disposal, you have the ability to actually see how it performed over time, you have the ability to see what assets they have, you have all these different things. It's significantly more valuable and makes it easier to underwrite so just from our personal comfort standpoint, from our underwriting standpoint, we felt that small business lending is a much more easier to underwrite model than consumer loans which is why we focused more on that. I would it's about kind of a 3 to 1 ratio between small business lending versus consumer lending on our platform today.

Todd: And how does Percent make money?

Nelson: Pretty standard platform fee, in many respects, so we are an infrastructure solution at the end of the day, right. So, at it's core there's a chance that we may not always be underwriting the future. If you saw one of the press releases we launched in January of this year, you know, we actually have technology now for someone else to come on and take over our role as an underwriter. But, for borrowers to be able to get access to the capital we have in our ecosystem and for investors to get access to these opportunities and get the benefit of the things that we do on our side, whether it's collateral ramification, legal structuring, things like that, we charge both the borrowers and the investor themselves and it's a pretty standard platform fee, if you will. We take it on a monthly basis and it's recurring revenue for us.

Todd: Do you think the definition of alternative assets is clear today?

Nelson: Oh goodness, no. (both laugh) So, I think alts has become almost like all things for all people and it's anything that doesn't fit into the traditional public equities, public fixed income, real estate-type model, right, and alts as a concept is expanding as we're finding more and more assets to put into this asset class. So, when you think about things like collectibles which nobody thought was considered an alternative investment many years ago is now front and center as people are investing in portions of vintage cars or portions of cards, trading cards, things like that.

So, it's a very interesting opportunity now where alts is getting bigger and bigger, but it also makes for some confusion around what constitutes really what alts are. Would it be taken as a face value, not public equities, not fixed income, not real estate then, yeah, I think it kind of fits that criteria, but I do believe they are going to start to see more and more push for mainstream assets or somebody's assets that are considered alternatives like crypto, for example, in which case, you know, it won't be considered alts anymore, it's just part of your portfolio and the remaining things are going to be considered alts, if you will.

Todd: And right now, you guys, you're only accessible to accredited investors today, right?

Nelson: That's correct, yes.

Todd: I know that there's been talk about changing that definition. As someone who's in the space, I mean, what are your thoughts on the definition where it is today and the potential opportunity that's being missed by not including sophisticated investors who just might not have either the wealth or the income requirement yet, for the most part, they might be significantly, more savvy than say someone that just has a big checkbook?

Nelson: Yeah, it's a great point. I think the regulators at its core have the best interest of investors at heart, right, so that extends, they're sometimes incentivized to almost like over regulate, at the very least, to ensure that investors as a whole are protected and they start to see what evolves and then walk it back over time. And so, you've seen the accredited investor regulations be loosened over time to accommodate for some of the things that we talked about, right. So, the ability to be serialized, things like that, now works to your advantage and helps you kind of get that type of status, if you so choose, and the regulators are looking more into other ways to be able to bring more investments of both who may not fit the actual net-worth and/or earnings requirement.

And so, I think there will be de-loosened over time as they start to better understand it, but understand where the regulators came from in the sense that, you know, I want to make sure that the average investor is actually protected here and then we can figure out how to bring more people into the fold when we understand better. I think as more of these assets become mainstream and they start falling out of this alts bucket, there will be an opportunity for them to be able to actually say okay, this asset class, you don't need to be accredited, for example, and we recognize this specifically as an asset class. I do believe, you know, somebody's asset class in alternatives today will fall into that bucket over time.

Todd: In hearing you talk about…a different question came to mind, do you think stuff like legalized gambling, especially state by state, can help with potential rule changes like this because if someone can walk in or download an app and put X amount on a football or basketball or baseball game, whatever it is, then what's the difference between them putting money into a small business in their community or something else equivalent?

Nelson: Yeah. That's something I've always tried to figure out, in some respects, because even, for example, like lottery tickets, right, which the odds are most definitely not in your favor. They are pretty much available for anyone to buy and it is oftentimes viewed as the most likely inherent tax of the poor which is just not correct, right, from a moral, legal, equitable standpoint. I think there are different governing bodies that run these different parts of the country, right so the gambling regulatory body is very different than the financial investments regulatory body and so to that end I think they're going to talk to each other that frequently.

They view themselves as wholly separate in many regards so I think the SEC is doing their job at the end of the day and we have to almost like treat them independently of one another. I think as an outsider who's not in the government it's very easy to say well, these are all the same thing or one's actually less risky than the other so, of course, we should just blend them all together and figure out, address this properly, but the truth is they view themselves and their job, they take it very seriously, very differently at the end of the day and I think that's the reason why you're seeing this story evolve the way it's evolving.

Todd: And in some ways there's, you know, a lot more simplicity to I know that the Yankees are playing Red Sox and I know the outcome can be this. If, for example, a startup is pitching their company, do I know what, you know, IRR means or revenue or kagger (?) or whatever acronym that might be used, probably not in terms of most people. So, I guess there's a simplicity to it as well in terms of the gambling verses, but another question is the last couple of year, obviously there's been this big shift not only in society, but in terms of access and knowledge of digital financial solutions, did some of that hold true for what you guys are building, did you get a large influx of interest in what you guys were doing and how did that play out say from when you began and then this last say 18, 24 even till today?

Nelson: So, that's actually a piggyback to your last question as well. There's lots of transparency in sports betting, right, when you kind of know the stats you know how to read the situation, you know how to read the game, there's an outcome that everyone understands and it's the big reason why public markets are open to anybody, effectively over a certain age obviously which makes sense. You have the transparency around market standardization, you can compare one company across another company based on disclosures they have to provide, right. That's not the case in alternatives, that's certainly not the case in private markets and that's the reason why if there is some restrictions and some concern are on the fact that investors may not know what they're ultimately investing in versus what they're gambling in.

Actually, our hope is that that will change by virtue of the fact that, which we just touched on, the transformation and the digital innovation that's happening in financial services is driving a lot of positive change in the industry, it's making what we are doing today as Percent possible that definitely wasn't possible before, right. So just as an example, with the likes of kind of fintech infrastructure like Plaid, like Stripe, like all these things that process payments and end of banking and all those different things, you have more visibility into underlying asset performance, the underlying power of performance than ever before and it's probably as real-time as you can possibly get.

This is back into Lending 1.0 with the SoFis and the Affirms and the Kabbages of the world, that wasn't the case, right. So, they were actually kind of betting at face value that these things were doing what they were supposed to be doing from a performance standpoint. And so, our ability to kind of bring transparency into the private credit ecosystem through these types of technological innovations is allowing for a more transparent ecosystem that could ultimately make regulators more comfortable with what these things are because the disclosures are there and the visibility into performance is there that just simply wasn't possible before. So, we would not be here without the likes of the companies I just mentioned, but we are better off today because of this as a result.

Todd: Do you think alternatives continue to be as attractive when, you know, rates and things in the more traditional markets tend to normalize? I mean, we've lived in an environment of low rates for geez, I don't even know how long at this stage, but it does seem like the Fed and others around the world are coming to alright, we really need to rachet this up. Part of the appeal of alternatives is the return that you can get on your money, do you think the attractiveness continues even as rates rise?

Nelson: I think these are the times where I really love the fact that I'm in credit instead of something else, right. (Todd laughs) I think when it comes to other almost like high risk, high reward assets in the alts space, I think there is going to be probably some diminished interest in that because you can get returns elsewhere that are much more stable, right.

When it comes to credit though, it oftentimes is floating rate, in many regards, and so the ability to kind of generate excess returns of a certain percentage point on top of the rates is essentially what we're looking at here and with credit, especially in the space that we play in, they actually need to refinance on a constant basis and so we react very quickly to market conditions. As rates go up, our yield goes up as a result and so investors can always get that premium that may not be obtained elsewhere with the same level of predictability, transparency and things like that that we provide on a consistent basis.

Todd: In some of your answers before you mentioned transparency, one thing that obviously comes to mind with transparency is the blockchain. It's gotten a ton of attention the last couple of years, I mean, we're in this stage now where I think the conversation has changed from will some of these assets and will crypto be a thing to when it will be a thing, you know, how are you guys….I know that you lodged blockchain technology, how do you lodge it and what are some of your thoughts and kind of what we've seen this last couple of years in just this huge sea change in how people are thinking about the new technology.

Nelson: Yeah. So, I would say we used to use blockchain, not so much anymore, we actually were hopefully using it for what's intended to do which was to provide more transparency into each investment. We'd actually minted a new contract for every single transaction we did in hopes of being able to provide full visibility into every dollar go into the ecosystem, every dollar going to an investment, every dollar coming back as interest on principal and then going back out of the ecosystem. It's almost like a full ledger of our entire platform, sounds good in concept. It reached a point where it was costing us like $1,200 to mint one contract for one transaction and that just does not make a lot of sense at the end of the day.

Todd: Is some of that because of just how overloaded Ethereum is today?

Nelson: Yeah, for sure and I think, you know, when ETH merges and they started launching their new protocol or enhancements to the protocol, hopefully, that gets better over time. When we were doing it there was no chance like it just didn't make any economic sense at that point so we're always keeping an eye on it, but I would say, stay tuned. We're still very much in the DeFi blockchain space and we're looking for innovative ways to use that to our advantage to meet what I consider a very antiquated market and so we have something we're very excited to announce, I would say, in the next couple of weeks. We're going to share more, but it's something that the private credit industry has never seen before and so we're very, very excited about that so stay tuned, you'll be first to know.

But, when it comes to blockchain, in general, we have high hopes for it. right, but you need to really understand and see what's going on here to recognize that so much of this output is being generated is because of the lack of regulation, that's like crystal clear at this point. So, the ability for regulators to understand the space and then finally bring the structure and the guard rail it put in other asset classes into crypto is going to bring yields down dramatically, it's going to bring returns down dramatically, but it's going to bring longevity, it's going to bring maturity and it's going to bring real institutional capital into the door that just has been sitting on sidelines waiting to see how these all shapes out.

So, it will be a net win for the crypto and blockchain industry as a whole over time, but it can't be the way it is today. it is a total Wild West out there in many respects and what's been fascinating though, at the very least, is you see what happens when there is a full free market without regulation and how much of market that's going to evolve in real-time. For example, NFTs, right, sounded great in concept, took off like flew out the gates, a couple of blue chip projects, everyone else followed suit, investors got wiser, everything else is kind of not that great with the exception of a few blue chip projects, right, and so the rest can come down over time.

There was the Hanzenamic (?) model for the daos which sounded great in concept, people are super innovative and they realized that wait, if I'm holding the bags and then I need to get someone else to hold the bags this may not work out in the future and then finally, it will all collapse, right. So, it's reacting in real-time which is fantastic, but, man, what if people lost a lot of money so the regulators are very keen to ensure that they protect over time, they need to see that for this industry to mature.

Todd: It feels like there's this battle going on right now of those that are decentralized enthusiasts at heart and want to stick to that and those that know it's the future…. is a world where decentralization takes place, but with a component of centralization for either regulatory purposes, KYC purposes and safety purposes. It feels like the battle is still obviously playing out today.

I, personally, don't foresee a decentralized world only, I think there's a lot of decentralization that can help and that can level the playing field in many different areas in fintech and financial services, but it still feels like a lot of that is to be played out and I think sometimes the crypto industry does itself a disservice by talking about transforming financial services in such a small period of time. I mean, this is a generational-type transformation from where we are today to what the Web3 futures.

Nelson: I don't disagree and I think it's interesting, I'm sure you poked around on Crypto-Twitter, they are a very noisy bunch, but I don't think they're actually indicative and represents the broader crypto community who would recognize that there is a lot of innovation happening here and I'm very interested into seeing it to success, but it probably will not look like what it looks like today in many respects.

To your point, you know, centralization helps with so many different things and you really can't build communities that can solve and answer everything. It just doesn't work that way, you can't fully separate that out, there needs to be vision, there needs to be a path forward, there needs to be all these different things and I'm with you on this one. I think a decentralized, but slightly centralized future is where it's going to go and it's the only way they're going to be able to reach true adoption of where it is today is effectively just a bunch of people that are making money off each other, that are taking advantage of things, these overcharged opportunities that exist that will just disappear over time as you start to bring more structure to this industry.

Todd: I want to shift our conversation a little bit back to what you guys are doing, you know, what's been the biggest lesson that you've learned about your company since you've launched?

Nelson: When I was doing my consulting company, I also obviously made a bunch of angel investments that I was supporting a family office to make investments and I always thought, you know what, with the right idea at the right time like it's all going to be able to do very well. Throughout this process building Percent, I fully recognize the power of what a good team can do and how they can react to situations. Our company has gone through an interesting time, we were founded at a time which we'd like to think as a boom per se then run right into the pandemic which is interesting for, you know, a small business lending-focused company during the pandemic and we're now in the midst of a geopolitical crisis, like inflation's going up, like rates are going up, it's just one thing after another, right.

The good and strong team that come together that are unified in their mission, their vision and all working for the same ends and who are incredibly talented, incredibly hardworking and just incredibly nimble and adaptable, that's what makes it all work, right. And so, I've grown to appreciate and I feel so privileged to be a part of this team that is doing what they're doing to transform private credit markets for the better and we will not be where we are today without them. And it's not just about the idea, it's not about the timing because, frankly, our initial idea was terrible than what it is now and so we've been able to adapt today to get there and it's all credits to the team that has helped get us here.

Todd: Best piece of advice you received since launching.

Nelson: Surround yourself with people that are far smarter than you. That has always been consistently been the case, that's been the case for the team that we've hired here. I think I'm still the youngest person on the team, if I'm not mistaken, by a couple of years (Todd laughs) and there are people who have many, many more years and experience than I do and I am very keen to delegate things out and give them their responsibility because they know a lot more than I do about their area of expertise and so I want them to have the autonomy, the freedom to get there.

On top of that, our board is extremely established and they've been instrumental in providing the guidance that we need to get to where we are today. All of our board members has taken six startups from pretty much series seed, Series A to unicorn status, hoping we're seventh, but, you know, let's see how it goes, but I hope to not disappoint on that one and walk that track record, but his advice in giving us guidance along the way has helped us make less mistakes. When it comes to a startup, it's all about putting the right team together, make the least mistakes, having pattern recognition to know when to adopt and evolve the vision and the model and being able to execute at the end of the day. If you can do those four things well, the chance of you succeeding is extremely high.

Todd: We've talked about a number of different things, you know, on this episode. You're a CEO, you're a Founder, how do you keep uptodate with what's going on, how do you prioritize? You mentioned one thing is obviously surrounding yourself with the right people, but on a day-to-day basis, you know, kind of how do you keep yourself focused on that mission and not get distracted by, you know, falling down on Web3 rabbit hole or something along those lines.

Nelson: Very easy to do when you start seeing, you know, what goes on out there.

Todd: Exactly. (laughs)

Nelson: Yeah, I know, I totally understand. It's interesting in 2020, I think mid-2020, we were doing lunch and learns with the team just so everyone can understand what each other was working on and it got to me because there were a lot of people asking, what am I doing all day, my answer to that really was fill the gaps. That's consistently been the role of the CEO no matter what stage of the company that you're in, where is the area that has the biggest pain points is the most strategically important and that's where I'm going to have to go, right. So, when we first got started, because of my background on the consulting side, I was doing product design work, I was managing the budget and hiring consultants, you can't bring them onboard fulltime, I was essentially seeding the conversation to get borrowers onboard and it's kind of a little bit of everything.

As we raised our first round of financing saying okay, I don't need to talk to, you know, investors anymore, I don't need to do design anymore, thank goodness, nobody wants to see that (Todd laughs) and I need to start managing investors and our board, right, and then it just keeps evolving and evolving and evolving until at this stage of the company that we're at today. It is very much about long term strategic vision, what's the priority for 2022 specifically and for us, in particular. It's going to be about launching a key enterprise product we have to get out the door, how are we going to get people to pay for it and building a culture that can last so that what we had done, that work for culture for five people doesn't work for 15.

What you did for 15 doesn't work for 25 and now, we are 55 close to 60 people, what we're going to do here is not going to work to get us 100, 120 so what needs to change around that and we've adapted accordingly. So, our culture of accountability and transparency is in full force when it comes to the objectives and key results that we set, right. So, all that is allowing for anybody in the company to see how they're contributing to the overall objective of the company and they can see what I'm doing as well in terms of, you know, helping us to get there and what my focus in on which may not be what they're focused on, but they understand why I'm doing it and what it's purpose is going to be for the rest of the year to help us achieve the strategic goals that we have set for ourselves.

Todd: You mentioned the size of the team, it is at 55, you know, what does the team generally look like? What's the makeup of the team in terms of engineers, sales, I mean, how does Percent look today?

Nelson: Yeah. We're a little bit funky in that we kind of look like a tech-enabled investment bank which has made it interesting to fundraise from VCs, no VC ever wants to back a tech-enabled investment bank, (Todd laughs), but it's out of necessity, right, because our entire premise for this is to be the infrastructure provider for private credit markets. And the only way to really prove that it works is to do the deals yourself, ultimately, improve that there is actual infrastructure to be had here. So, we have a pretty decently-sized capital markets and credit team that's responsible for doing transactions, structuring them, things like that and really being the learning engine for the company to feed that information back to product and engineering to build features that are suitable for our borrowers, for our investors and for our underwriters, at the end of the day so that is a decent chunk of the team.

And then we also have a very large product and engineering team that is the core focus of the company and hopefully, to become a true tech company that we support with marketing and servicing and things like that so that's going to be how it all rounds up, but I would say the bulk of it is definitely in product and engineering, that's about, I would say, 50% of our team size and then the remaining

25%/30% is capital markets and credit and the rest is sort of everything else that supports the business in how it operates.

Todd: You mentioned raising some outside capital, clearly fintech has gotten a lot of money the last couple of years, was there a big difference in raising the first round to the most recent round? You know, how was investor appetite, you mentioned no VC wants to back a digital investment bank, so to speak, so how was investor appetite and fundraising?

Nelson: I think for the first $2 Million round of financing in 2019, it took six months and 160 VC conversations, something like that and we had maybe a 5% conversion rate so it's a lot to know that you….it's a burden off your back, to a certain point, it's like you know what, that's fine, moving on, next one. no, okay, move on, next one, it's fine so it's all part of the process, but throughout that process you start to learn what type of investor you're looking for as a result and we're very specific in many ways. We are obviously a fintech company so that's a narrow sub-set of VCs, but you also want investors who understand how to build companies at an early stage and get them to the next level, agnostic and regardless of what sector you're in.

And so, we have a couple of those and that was the one who led our seed round and that was Rebel, they're a bit of a generalist fund with a tremendous track record in building companies. And so, you have the fintech audience and you have the fintech audience that understands capital markets which is a very, very narrow miss and we've learned that a lot of them that understand capital markets have moved on to Web3 and crypto so we've actually seen a lot of interest in what we do on that side of the equation of (inaudible), a web-free crypto company, it's just funny to see how all that evolved.

But, each round that we've done, we've gotten smarter about who we target, why we want them in our cap table and we have a fantastic group of investors who come with the industry experience, come with the startup broke experience and have a lot of things to add in terms of helping us, give us the guidance that we need to get to the next level with a capital market lens which is super, super important as we do and continue to grow.

Todd: Before we end with a little bit handful of lighter questions, what piece of advice would you give to a fellow founder that might come across this episode?

Nelson: I think the mantra that I've always lived by is that nothing is ever as bad as it seems, nothing is also ever as good as it seems so you've got to stay level throughout the way. So, for example, you may have lots of contracts that you're going to get, you thought it was at the finish line and it's like ready to go, you're ready to pop a bottle of champagne and somehow at the end they just said last minute, eleventh hour, it's not happening, sorry, can't really explain why, it's not going to be there. The truth of the matter is your company is still going to be here tomorrow, your team is still going to be there tomorrow, the sun will still come up, it's going to be okay.

You'll find other opportunities to get there, right, but at the same time, don't get too excited about things. Most of the time, it never goes according to plan, it's the same contract that you thought was going to be closed and that's fantastic, they may change their mind a week from now and say, you know what, we looked at it, it's not that great, sorry, we want our money back. The startup journey is a perpetual cacophony of catastrophic events non-stop that are not co-related to one another, effectively and so how do you navigate that? It's by maintaining and keeping a level head and just letting it all roll off your back because it will be okay.

Todd: A few questions on the lighter side, do you have a favorite book and what's the last book that you read?

Nelson: The last book I read was called "The Culture Code," it's the best part of trying to figure out sort of how we adopt our culture to fit a large organization, a lot of insights in there that I highly recommend.

In terms of the favorite book that I've read, I think it's part of the required reading for everyone who joins the company, one of them is "Powerful," told in the Netflix story, the other one is "Measure What Matters," and that's kind of helping to figure out objectives and key results. The most recent one that I think is very valid although a little more mathematical than the average person is "7 Powers," by Hamilton Helmer which is really, really interesting in terms of helping to figure out just because you have a flywheel, just because you have product market fit doesn't mean that you're going to win, like how do you actually develop a competitive advantage that persists and survives and thrives in the events of all the things that could get thrown your way.

So, it's a very powerful and very useful book for anybody who's looking to join an early-stage company or even a late-stage company to help to develop that defensibility that I think a lot of people who are just, you know, constantly grinding away you lose sight of over time.

Todd: Do you have a favorite sport or sports teams that you root for?

Nelson: Yes. I'm an avid Formula One fan which I think is starting to get more publicity in the United States which is great, it's awesome to see. I'm also a Chelsea fan which I think is not great as of yesterday based on the score they had with Real Madrid. Yeah, that came through one of the non-profits that I was a big supporter of called Right to Play, and Chelsea was a big backer of them as well so it naturally kind of fell into my world, but it's been a good run for them, at the very least, it's been a good couple of years.

Todd: Do you have a favorite vacation spot?

Nelson: I scuba dive on a regular basis so it's anything tropical island-esque. I think Hawaii is beautiful, I think we're very lucky the Caribbean is so close here in New York so all of those are good spots to go to just have a little bit of a escape from the day-to-day.

Todd: And then, final question, biggest inspiration in life?

Nelson: I think the motivation that drive to be at a world better than when I came into it is what pushes me forward in doing things that I do. It's my hope that Percent does really well, for sure, but there's obviously other passion that love to give, dedicate to after all that's said and done and Percent does really well, whether it's, you know, solving things like the micro plastics problem that we're all facing today, whether it's cleaning up the ocean. Obviously, as a diver, it's really sad to see what we're doing. So, you know, those are things that I hope, when all is said and done, I could look back and everything that I've accomplished is that I was able to, at least, in a small way, in my small way, make the world better. That really would be I think leaving a good legacy and I hope that more people can aspire to do that as well, saving the world to be better as a result.

Todd: Nelson, I appreciate your giving me a few minutes and coming on the show. How can the audience find you and find Percent?

Nelson: Yeah. So, we're pretty easy, it's just percent.com so if you're going to take a look and I'm also always easily reachable at nelson@percent.com, nothing too crazy there, I would love to hear from you, would love to hear feedback about what we're doing here today and encourage you all to check it out, let us know what you think.

Todd: Alright. Well, thanks again, Nelson, I wish you and the team continued success, hopefully, we'll get you back sometime in the future.

Nelson: Thanks so much for having me.

Todd: Yeah, thank you.

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