LendIt Fintech

PITCHIT FINTECH STARTUPS PODCAST NO. 52-ALEX PORTO

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)

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 52, I talk with Alex Porto of Riverwood Capital. Riverwood Capital invests in high growth technology and technology-related companies in need of capital and expertise to scale on a global basis. The growth stage has seen just this crazy ride the last few years, especially 2020 and 2021, the market just accelerated to this incredible pace, rounds were happening faster and more frequent than ever before.

Alex and I talk through this insane ride over the last couple of years, why Riverwood approach is different, why infrastructure is big focus across their investing portfolio, the differences of investing when you talk about investing in the US versus say LatAm or Asia, making up your board as a founder, Formula One racing, valuations and a whole lot more.

Before we go ahead and start the episode, as a reminder, coming up soon, rapidly approaching is our annual USA event back for the first time since 2019, in-person, in New York City. Get your tickets now, lendit.comforward/usa, more sponsors, more speakers, more attendees, more everything more than ever before. So, don't miss out, get your tickets today.

Now, without further ado, I present Alex Porto of Riverwood Capital. I hope you all enjoy the show.

(music)

Welcome to the podcast, Alex, how are you?

Alex Porto: Good, good, how are you?

Todd: Doing well. So, you know, I'd like to start off if you can just give the listeners a bit of a professional overview, background, you know, where've you been prior to Riverwood and kind of what brought you to Riverwood.

Alex: Thank you for this and thank you for the opportunity. So, name is Alex Porto, I lead fintech investment activities at Riverwood Capital. Riverwood is a growth stage investor in technology companies globally, but with a particular emphasis on the Americas and we've been around for over a decade leading investments in over 65 companies and very excited about what is to come. A little bit about myself, in addition to spending all my time really at the intersection of fintech, software and commerce, I also spend a significant amount of time on emerging environmental and social themes.

My background is I've spent a decade or so at the intersection of growth for mid-sized companies that are seeking to scale up technology and markets, a significant bend on international markets so not only looking at US domestic companies but helping companies in the US grow global or helping companies passport from Latin America to global, Asia Pacific to global and that's a little bit about me.

Todd: So, if you can give us a bit of an overview, you know, the investment thesis at Riverwood and. you know, give us a little bit of a flavor types of companies you target and kind of why you guys target those companies.

Alex: We invest anywhere between $30 Million on the low end up to $200 Million into emerging growth companies so typically that means that they have emerged from out of existential risks that are associated with earlier stage investments, things like what is our product market fit, what is our revenue and monetization model and what does the go-to-market motion look like. Usually, there's some pre-requisites in terms of company building activities that we consider to be the basics and fundamental that are things that we generally sift for and consider to come in afterwards and be management's growth partner, invest the significant shareholder and hopefully, help influence the outcome and then pass that way.

In terms of our overall investment thesis and philosophy, we're focused on markets that have very clear secular adoption trends and so when you're an investor in technology and tech-adjacent fields, you have the wind at your back a lot of times, especially if you're investing in those companies that are really on the attack versus those companies that are on defense. So, what that means is, you know you're investing in a company, for example, that helps accept online payments or if you're investing in a company that helps companies launch cards or accept money or pay-ins or pay-outs. We all know where the future is going and that means that as long as you can be a solid and durable service provider and deliver value for money, the markets are only growing and there's a large tectonic shift from legacy incumbents and existing service providers to this next gen service providers and we really like riding that wave.

I would say we spend most of our time thinking through software, business models and business services, business models and how through the utilization of technology these companies can help banks, payment companies, insurers and other financial ecosystem participants to be better. However, we do spend some amount of time also evaluating those that seek to be full sight players so the combination of technology, regulatory infrastructure and the underlying financial service being delivered, but given that we are predominantly a technology-focused firm, we usually gravitate more towards this infrastructure, the software, this data and business model-type companies.

So, to make this a little bit more concrete, some of our investments have been....we've done four investments in what I'd like to call Office of the CFO or general accounting and general ledger activities which are adjacent to a lot of fintech opportunities and generally have their own versions of embedded fintech opportunities in the United States and in Latin America. Two notable ones in that category are Build Trust where we led the Series E, that company is now a public company and only down in Brazil which is a SaaS ERP or Enterprise Resource Planning software that also has cards, corporate expense management, pay-ins and invoice factoring through third party providers.

We also have in consumer banking and payments, we invested in and we're the lead outside shareholder in a company called Technisys which is core and channel banking software across the Americas which recently announced and consummated a transaction with SoFi Galileo, Nium in pay-ins and pay-outs and Banking-as-a-Service globally, that's a unicorn that we invested in last year so very high growth, very interesting company, I'm on the board of that one and DAK which is Latin America's leading Banking-as-a-Service provider. Hopefully, that gives the flavor.

Todd: Obviously, you brought it up and doing research for the episode and looking at portfolio companies, you guys obviously invest in the US, you know, Latin America, I think some in Asia as well, but when you think about a market like the US and then an emerging market like LatAm, do you view these opportunities, growth opportunities through a different lens, like how does the market play into how you make a decision when it's a established market like the US versus say an emerging market like LatAm?

Alex: Yeah. That's a very good question, it's one we spend a lot of time on when we're thinking about disaggregating a value chain or an end market, we, by nature, being global and in the US, we get to sometimes see how, you know, what's called the future if we believe that markets in Latin America and other parts of the world and developing parts of the world, we'll react and we'll catalyze in a similar fashion as the US, but then also having the humility to understand that sometimes these markets go very differently and there's different market structures and idiosyncrasies and cultural norms that sometimes lead you to different places.

And so, for us in general, what we're trying to do is from a technology perspective we try and understand how global versus localized the end-market that we're serving is and that gives you some amount of local barriers to entry and defensibility. Oftentimes, we're investing in emerging growth companies and might only risk you $20,30 or 75 Million and we need to be assured that these companies, that they can operate at free cash flow break even if they choose at the end of our investment cycle or even during our investment cycle when you go through moments of shock like we currently are. And so, that means that the technology needs to be differentiated enough and there need to be a couple of other conditions for us to be clear that a local champion in Brazil or Mexico or Colombia or some other part of the world will win the game however we define it versus, you know, what has been a decade long of surplus of capital and amazing technology being built in the United States.

So, that's the dynamic and that's the interplay that we generally go down the path of trying to understand how important is reaching on in local tech and what other considerations, regulatory or just, you know, customer preferences are there that will enable the building of a local original champion that can stand our parity or hopefully above parity to US, our global best in (inaudible).

Todd: When it comes to a global event, like we just are kind of still coming out of, does the impact of kind of how you guys think through investing, does that shift at all in a market like the US versus LatAm? How do you think of the dynamic of what we've just been through and does that change how you view the markets or how you view potential investments through what we've all gone through the last couple of years, like did it play into changing any of what you guys do or at least make you re-think. Is this a market we want to be in, are these the types of companies we want to invest in say LatAm or in emerging markets or does it reinforce some of the stuff that you guys (inaudible)?

Alex: Like many investors I know, operators are really wrestling with this question right now. I would slice it on to a couple of different components. The first is, from an investor perspective, clearly what's happening and what's been happening over the last couple of months when you look at the public markets as a de-grossing and people just getting off the risk curve and just going to whatever their definition of quality is and oftentimes emerging markets carry a risk premia associated with it and so folks in the public markets are reacting accordingly. And you start to see a cascading effect of that go through the private markets first at the very late stage companies, i.e. those companies that in theory would have been public companies or near public companies this year and then it goes down through the venture capital ABCs over a period of time.

This is still being, I would say, legislated, a lot of companies right now and their boards and investors are trying to find this sense of what is the new normal and I think that's going to continue to take a couple of quarters to play out The counter billing trend there is that there's been so much capital that's been raised to this dedicated private pools of capital and the way incentives work are such that managers have an incentive to deploy capital and so these two things will have to play themselves out over the next couple of quarters to see what is a new equilibrium. In terms of how that makes us shift, if anything, in our narrative, we have the benefit of being really long term investors focused on secular trends and not investing and thinking about it in terms of debts, i.e. there's a factor, there's a thesis and I want to spray across seven or ten companies that are broadly playing into that trend and see how those companies evolve.

That's not our thesis, we lead investments, we join the board and we hope and aspire to be management's growth partner as well as, you know, their first call helping them actually build. And so, what does that mean? That means human capital and time on our side is our biggest constraint in terms of how many new deals we can do per year and that means that we've always been incredibly selective and we will continue to be because there are only so many people that will join the board and help influence the outcomes of these companies. We think this will be a fertile ground in 2023 and 2022 in terms of really interesting opportunities as different folks take different views on how long to stay out of the risk curve and we continue to seek to invest in these companies because oftentimes it is small enterprises.

That's a little bit cliche, but there's great founding moments here, there's great moments in time where if the capital flows, especially in emerging markets, can get hampered for one quarter or two, those companies that perhaps were less capital efficient and more along the momentum curve of grow at all costs or grow into a sustainable business versus operating a little bit more incrementally, but knowing that you have assurance around the long term sustainability. You know, we're going to see which of those two theses in different parts of the world and different company approaches, which ones of those are going to play out to the benefit of the company.

And so, from our perspective, we continue to be excited, we look at companies in the United States, Latin America and opportunistically in Asia Pacific and other parts of the world and turtle-bound. The momentum is high and in these moments where folks can perhaps take a step back, as long as we're committed and the thesis hasn't been impaired in any way which we don't really think to be the case, especially when you're investing in software, data and processing companies, our views remain unchanged.

Todd: Through your answer there, you mentioned joining the board, leading rounds. Do founders do enough to make or construct the board that they really want or do you see founders, at times, saying alright, we should take this check or we should take this financing and we could maybe deal with so on that we might not be a perfect fit for the board.

Do founders take control of hey, this is the makeup and board, we really want to get this company in the vision that we see versus no, we really need this capital, I think we maybe need to take the check regardless of the board seat that might come with it, like do founders take control of that enough or do they potentially make mistakes there and take money that maybe put them in a little bit of a lurch say sometime down the line that they might not have envisioned when they first took the check?

Alex: Well, of course, it's a very broad market and you see a little bit of everything, but especially when we're having these conversations early on with founders, it's a mutual fit. We're telling them what our brand of investing is and what it entails, what are pros and cons of taking more money and knowing that we will be an active board member and what are the different alternatives that they have and there's been a lot going on in the press and Twitter and various articles about the various types of new approaches and de-coupling investment from advice and I think it's all fair game as long as it’s a considered and it's a decision that's being made by the founder hopefully, in consultation with his existing investors and board to understand the various pros and cons.

You know, if you're going to take money from someone who perhaps will be a little bit more hands off, perhaps you can couple that money with an independent board member and perhaps that's enough. The long and short of it is we have our way of doing things, it's been relatively successful for us, but I think it really depends on, you know, what a founder is looking for in a capital provider and hopefully, they do have, whether it's a solid board that is predominantly investors or independent board members or just a series of advisors. There's various ways that you can accomplish having people in your corner when you have to make tough decisions or when you have a question on have you seen this before.

And I think our approach is to bundle all that together with capital and I don't have all the answers, but we tend to think that our broader firm and ecosystem hopefully, we can help. So, in short, I think founders are getting smart on this issue, I think that there's a lot more work to be done and you just hope that the capital provider that you're choosing gives you the right set of tools and if not, to supplement them.

Todd: Looking at your guys portfolio, clearly, there's an infrastructure theme, you mentioned the companies, Technisys, DAK, Nium, a few others, what makes the infrastructure investment right now so exciting that you guys keep going into the space and on the backside of that answer, what other areas of fintech are exciting for you guys and can see as a potential area of interest if not now then sometime in the future, you know, potentially DeFi, crypto, more on the payment side. Tell us a little bit more about, you know, the infrastructure angle and then what else is exciting in the space.

Alex: Why so much infrastructure investing, it goes to back a little bit of our cultural heritage and our selection around the best technology service provider. We feel that that's a core competency of ours to evaluate the senior management, evaluate the product, the technology, the vision as well as the go-to-market approach from a B2B perspective and say, we think, what we reasonably conclude that this model will work and this company will go from let's say a marketplace where there's two or three competing vendors for that lead spot, that that vendor will become the number one or the de facto and we've had good success in that.

To make an investment in a neobank or a full stack bank, I think it's just as important that you understand the psychology of that end consumer, how you're going to reach that end consumer, the design aesthetic, there's so many aspects there that really flip into consumer investing, Internet investing and oftentimes investors that do that tend to be kind of consumer Internet (inaudible). We certainly have some of those skills and have made great investments in that category, but ultimately, technology alone is necessary, but it's not really sufficient for a successful investment in a neobank, for example. We've seen countless examples of very solid technical infrastructure, really interesting stuff being built, but for whatever reason and I say for whatever reason they haven't been able to capture the lightning as some competitors.

And so, for those reasons, we tend to find the infrastructure thesis as long as it's a market that is going to be where there's more than one or two financial institutions that are, you know, it's not going to be an oligopoly or a monopoly in market, but this infrastructure investment pieces provides you perhaps a lower volatility, but more durable and a little bit more margin of safety on an investment. So, that's why infrastructure for us, and it's worked for us thus far and we'll continue to chase after infrastructure opportunities, that's also some of the other new areas that we're spending time around. You know, in the United States there's a lot of attention being placed upon this concept of Pay Fact enablers and Pay Fact-as-a-Service, we find these very interesting because it opens up this embedded fintech opportunity, why that software company's becoming a payments company, a marketplace and what have you, you know, who better than that service provider to actually own that merchant relationship.

We think that's very interesting and we think it's further developed in the United States and we think in the large markets, we think there's similar pieces to potentially be built out. I also think there's a ton of work, especially in emerging markets, on B2B marketplaces where if you can combine aspects of a traditional marketplace thesis, but there's just more infrastructure to be built so you can also embed payments, wallets, insights, supply chain visibility and even lending, you can create a really interesting ecosystem. So, in general, this Pay Fact enabler, Pay Fact-as-a-Service mostly in emerging markets but also domestically and this B2B marketplace where you can provide more than that supply/demand matching are some thesis that we find very interesting and we're evaluating companies globally.

Todd: Last couple of years, the money that flooded into fintech has kind of been obscene, I guess, in some ways (laughs), I mean, there's been a ton of capital put into the space, do you think the last few months, in talking to both investors and founders, it feels as if, from what they've told me, is that things have started to kind of come back to earth a bit. You know, there's been some famous flameouts most recently that the company passed, but have founders started to understand that things are coming back to earth a bit and do you think founders got a bit ahead of their skis the last couple of years because of how much money flooded into the space and it kind of changed the dynamic and, you know, founders were kind of just grabbing large sums of money and maybe not running their companies as capital efficient as they might have or they should have been.

Alex: Well, I would say that and I think there's much of this activity in terms of soul searching that's been done broadly, but this was a …in some ways it was a collective illusion that this is not only founders, right, I think we all, as we think about all of our investment activities in 2020 and 2021, we can all look back and perhaps examine that we got a little bit too far ahead of us. Luckily in our case, we don't believe that to be the case, again, because we don't make a lot of different bets, we do a lot of diligence and our underlying investment thesis is more aligned with high growth companies, but that have compelling businesses today where we are investing because the business today works and there's a very interesting upside opportunity.

So, in our case, we're feeling really good, but I would say, overall, you know, it's certainly the case that there should be some soul searching done about what can we learn from the last 18 to 24 months of collective behavior and it certainly does feel like we are back to and we all need to collectively forget any learned behavior, unlearn them from 2020 to 2021 and realize that we are back to some semblance of what was normal which is between 2014 to 2019 where multiples were X or Y and there were established themes around when you raise, how much you raise, why you raise and this idea of skipping and pulling together two cap raises in one because there's such an availability of capital, it's risking the company, right.

And so, (inaudible) the company from 2% is one which is you pre-suppose the valuation that you're going to need to eventually potentially grow into and the second is you probably made a certain set of commitment around your expected growth rates and your capital consumption because of how much money you took in and so now, you have to go re-look at your business plans and perhaps have more of a capital efficient growth curve which could lead to a much longer path to overcoming that perceived valuation gap and that can create interesting and challenged dynamics in the board room and with investors.

So, I don't put this on founders, I think there is blame to go around and I think, you know, we, as an industry, that are backing and helping to scale up these emerging growth companies, you know, we have some indigestion to go through over the next three. six, nine months of helping our companies and helping the industry to get past this and get back to real business building versus some of the ephemeral actions that you saw in 2020 and 2021.

Todd: You think in some ways it was a blessing that it was only in 2020 and 2021, it's kind of an18-month period versus like a five-year period because, I mean, the damage could have been significantly worse, whether for founders or investors had it been this extended period of time. It seemed like it was kind of out of control and snapped back relatively quickly versus maybe like a five or seven-year period.

Alex: Well, it's the typical answer on exponential curves and exponentiality, right, when it hits, whichever way it hits, it hits fast, right, and so, you know, slow then fast and certainly this has felt…January, February started slow and then it certainly started to really pickup in terms of how aggressive this re-set has felt and how fast the narratives are changing in the market, not just the public market but also the private markets.

Todd: So, we have just a few minutes left here, first, what's the best advice that you've received from either a fellow investor or a founder?

Alex: I've also received this advice from my sister-in-law who is a doctor, she says, first do no harm so if you first do no harm you're starting off in a pretty good spot. Joking aside, my objective with my career and where I'm spending my time is to be part of interesting growth stories and trying to contribute in a positive way and if you start with that mindset and you're willing to have open and honest conversations and explore and learn, I think you're going to end up in a pretty good spot.

You're going to make mistakes and you're going to have to learn from them, but if you start from the mindset of I'm going to try and help, you're going to be doing quite well and that's something that's certainly helped me build real relationships that's not just about a capital transaction with some of the founders I backed and, you know, you get system participants. It's a life you lead and your professional life is an integral part of your entire life so if you treat it with the respect it deserves, it's going to work out well for you.

Todd: So, I'd like to end with some lighter questions. Do you have a favorite book and the last book that you read.

Alex: This is going to make me sound like a financial markets nerd, but I recently read "The Outsiders" and I was reminded of this as I was preparing for Berkshire Hathaway Annual Conference which is, you know, a mecca for capitalists and about the different ways and the different types of founders and outsiders and how they can do things that are let's say outside of the Overton window of this is how you build a business and certainly what you see in Silicon Valley.

So, you know, I went back to read "The Outsiders" and it's a reminder that just because there's a standard operating procedure and there's a perceived way to do things, there are those that operate on the fringes, they continue to challenge those cultural and business building norms and they can generate really meaningful outcome so "The Outsiders."

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

Alex: Well, right now, I'm fascinated with F1, I have to say that I've been very interested in car racing and activities,

Todd: Do you have a favorite vacation spot?

Alex: Why, I took my first vacation over two and a half years in Turks & Caicos a couple of weeks ago so right now, it's my favorite because it's frankly all that I can remember because the last two years have been a whirlwind.

Todd: No, I had my honeymoon there so I'm a big fan of Turks & Caicos.

Alex: The beaches are quite nice.

Todd: Yeah. How do you unplug or relax, step away from the intensity?

Alex: Well, I always kind of joke and say, I never do (Todd laughs) and I think my wife would agree with that, but spending time with family is generally the way. So, my background is I'm Latin American so family is quite important to me,

Todd: You know, I appreciate your giving me a few minutes here. If someone, a founder or a fellow investor wants to find you or find Riverwood, how do they do that?

Alex: It's easy, my email is alex@rwcm.com so if you can find me there. You can find me on LinkedIn, you can find me on Twitter although it will be difficult to find me because I'm not very active, more of a lurker.

Todd: Well, I appreciate a few minutes, thank you, continued success. You know, hopefully, we'll get you back sometime in the future.

Alex: Thank you, Todd, thank you for everything that you guys do.

(music)

Thank you for listening to the latest episode of PitchIt, the fintech startups podcast. I encourage you to take a few minutes to write a review or rate the episode. Ratings and reviews both help us to improve the show for future episodes. If you're interested in learning more or would like to be considered for a future episode, please reach out anytime to Todd, T O D D @lendit.com and until next time.

(music)