PODCAST TRANSCRIPTION SESSION NO. 99: MILIND MEHERE

Welcome to the Lend Academy podcast, Episode No. 99. This is your host, Peter Renton, Founder of Lend Academy.

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Peter Renton: Today on the show, I am delighted to welcome Milind Mehere, he is the CEO and Co-Founder of YieldStreet. They're a company that I've been tracking for some time now, they're a very interesting company offering a range of different investments, all sorts of asset-backed investments so I wanted to get him on the show to talk about the traction that they've been getting, also talk about this new area that we've really never touched on before on Lend Academy and that is litigation finance so we go into some depth about that. We also talk about their approach and their focus on the individual investor and all the kinds of investors that they are attracting here on their platform. We also talk about technology where Milind has a technology background and has really implemented some pretty advance technology in their business. It was a fascinating interview, hope you enjoy the show!

Welcome to the podcast, Milind.

Milind Mehere: Thanks for having me.

Peter: Okay, let's get started. Looks like you've had a pretty interesting career to this point so can you give the listeners a little bit about yourself and what you did before you started YieldStreet.

Milind: Yeah, absolutely, I would be delighted to. So I was a Co-Founder at a company called, Yodle, which was a marketing platform for small businesses and we scaled the company to about $200 Million in revenue and last year we were acquired by Web.com. So I spent about nine years there in a variety of different operating roles, including product, business development. I built and managed large sales teams and built our Canadian business so I have deep operating background. Prior to that, I worked at a number of different startups as well so being a tech entrepreneur has been in my DNA and I always look for interesting projects that are cutting edge and have wide impact. So if you look at my career, as you mentioned, it’s always been trying to make an impact where I can reach a wide range of constituents.

Peter: Okay, fair enough, so then what was it then that caused you to or decided....what was the sort of germinating idea that caused you to start YieldStreet?

Milind: Yeah, it definitely has an interesting story. Being an ad tech guy for ten years and historic data and optimization really well and advertising yields and CTMs really well, I personally feel that investment or wealth management in our country is broken. 99.5% of the population does not have access to good fixed income products and we want to change that by bringing Wall Street to Main Street.

The reason for that was I was one of those 99.5% people. Though I was extremely successful, I was over exposed to the stock market and I loved the concept of fixed passive income, right. However, I had no access and the minimums were too high to really get access to good quality private equity or good quality operators. Then there was no way to judge these originators or operators and no institutional way to buy it.

On the other side, my co-founders, Michael and Dennis, were excellent investment risk managers with 30 years of combined experience and they could not access retail channels because they could not scale it, but they have access to excellent supply and they wanted to consolidate the fragmented market. So Michael came and I think Michael spoke at the recent LendIt Conference as well. He is an expert in asset based lending, has ten years of experience, stellar track record.

Dennis is the Chairman of a federally chartered bank so understands risk and compliance very well. So we thought that this was a perfect harmony to kind of bring back and finance together plus, as you know more than anybody else, you helped create this market. It is a massive market opportunity and our missions were aligned. So that's really where the idea for YieldStreet came about is that when we said, hey, why don't we put this up into a marketplace and when we looked at the overall alternate lending ecosystem nobody was doing horizontal asset-based marketplace and so we thought we could create a service to open access to millions of people.

Peter: Okay, so then you have obviously some complimentary skills, it sounds like. The three founders have got some nice complimentary skills there. So it sounds like you decided on real estate obviously which is the most popular asset-backed investment there is and obviously very well established both online and offline. Why don't you just tell us a little bit about what YieldStreet does, like what sort of deals...you also do litigation finance which is what Michael spoke on at LendIt and I wanted to dig into that in some depth. Why don't you just tell us first about what was the instigation behind the different verticals that you went into.

Milind: Yeah, absolutely. What YieldStreet does is very simple, we generate yield. And we are doing that by providing investors access to asset based investments across different asset classes, like you mentioned; real estate, litigation finance. We do also commercial loans and receivables finance and typically these transactions would have been done by sophisticated PE firms.

So the core of our investor philosophy/our investment philosophy is the focus on principal protection and that we do like asset quality and making sure that we are senior secure position in most of our investments. Also a reminder, like some of these are commerical quality opportunities where individuals would never have access to these type of investments with attractive yields and low market ation.

So if you think of like in our investments we have hundreds of investors investing. People who are putting $5,000/10,000 investing alongside with people who are writing high six figure/seven figure checks. These type of things have never happened in the past and so they're getting the same access regardless of the size of their investments and we feel great distribution of investor type and things like that. And so the types of investment we've done is you could invest in a New York skyscraper or a group of condos in Brooklyn or you could participate in financing a portfolio of Uber cars or participate in a loan to...and be at REIT and do litigation finance, as you said, like a portfolio of litigation finance. At the core, again, it's all about understanding the asset quality and principal protection.

The second part of your question is the reason why we chose that asset class is obviously we wanted to start where we have a competitive advantage and a significant (inaudible) and litigation finance is something where Dennis and Michael are pioneers of that asset class. It's been done for the last two decades with institutional investors, hedge funds, etc., but was never done in a retail way the way YieldStreet is doing it so that's our core competency so obviously it makes sense to do it.

Along with that, my co-founding team has experience in real estate as well as commercial loans. So there are asset classes that we chose really have two criteria where we have core expertise that we could use to kind of build our technology and data and number two is we have access. So as an example, we have looked at close to $700 Million of opportunities in the last two years since we launched this so we have tremendous access to supply in these asset classes and that's why it made sense for us.

Peter: Okay, so I just want to talk about litigation finance for a minute because the listeners....there'd be many that would not know anything about it. I mean, I knew virtually nothing about it until about a year ago and since I found out about it I'm actually very intrigued. It's a fascinating opportunity, but can you explain what it is because I know there's different types of litigation finance so explain what it is, what you guys focus on and maybe provide some examples so that we can really better understand exactly the kinds of deals that you do.

Milind: Yeah, absolutely, Peter, that's a great question and you are along a lot of people that don't....a lot of people don't know about it. So litigation finance in the simplest way has two or three different categories. The easiest way to understand it would be pre-settlement financing. So this is a case where let's say a messenger was coming down the street, got hit by a cab and he got injured and is out of work and he needs money for his life needs and his immediate choice is to settle with the insurance company for a fraction of the price versus he letting the whole process evolve through the legal proceedings.

Because he does not have money for life needs, he could settle for a much lower amount versus if he had an advance that could pay his bills, help get him back on his job and then let the case or the legal proceedings proceed for six months till the insurance company paid what was rightfully his for the injuries that were caused to him. So in the simplest form there are funding companies that fund plaintiffs in anticipation of settlements that happen so that's pre-settlement finance.

Full settlement is something where the judgment has already been given. So some high profile example is NFL concussion cases, it was a long running battle. About a year ago the National Football League (NFL) agreed to pay all the billion dollars to a variety of different players, but even now, the checks have not started because there is a long process between the time the judgment is awarded till actually people get paid. So, in the meantime, these players are already in dire financial situation because average life in NFL is less than four years. So in full settlement financing what you do is you essentially give an advance to the plaintiff and bridge that time before he gets paid from the obligor or from the defendant. So, you know, you can think of it almost like a bridge loan, if you will.

The last category is law firm financing and this is.....law firms many of the times work on contingency, as you know, and they need financing to work on complex litigation such as expert witnesses, investigation, things like that and so you're financing the law firm and so when they get paid your loan will be paid as well.

Peter: Okay, so then which of those three categories does YieldStreet...or do you do all three?

Milind: We do all three, but we do a lot of pre-settlement financing.

Peter: Okay, so that's where.....for me just to give my perspective, when I first heard it I thought it sounded a little dubious, to be honest and I spoke with several people in the course of that session together with Michael at LendIt and really became a very big proponent of it because you've got...let's just take that messenger who's lost his livelihood, he can't work and he could settle, as you say, for a fraction right off the bat and that was when the insurance company wins and he loses.

What you're saying is get an appropriate amount, an amount that's commensurate with the actual damages incurred and then he's going to go off and be able to live...he's got an advance basically and he's able to live while the process works its way through. I think where it sounded dubious, I think the whole thing is ...I mean, it's a lot more admirable than I think at first glance. I think it really much more of a "win win."

The other thing that was also mentioned at the LendIt sessions is this is a non-correlated asset class because a messenger is going to get injured on the streets of New York or any other city for that matter. It doesn't matter whether there's a recession, whether there's a stock market crash, whether the economy is booming; those things will always happen. I mean, I guess when you're pitching it to investors, is that part of the appeal?

Milind: Yeah, absolutely, so you nailed it. I think just to act to what you just said, so that is one reason why it is non-correlated because accidents and injuries or any types of these legal cases happen irrespective of the external economic factors. But the other thing is think of the obligors, the defendants, these are big insurance companies, pharma companies which are Fortune 500 companies or local municipalities or government agencies and they don't carry the same default risk as a small defendant would. For them it is more cost efficient to do the right thing by the consumer and settle versus an expensive legal proceeding.

So those are really the two main things why litigation finance is perceived to be very non-correlated or low-correlated to the broader markets.

Peter: Right, so obviously from.... both Michael and Dennis, you said, have expertise in these areas. I feel like, you know, I'm an investor, how am I going to assess the risks because I've no idea. I've got no idea whether this is a good case or the person is trying to scam the insurance company or what so how do you underwrite these advances and how should an investor really assess the risks?

Milind: Yeah, absolutely. That's a great question, Peter, so this is where it gets really interesting so just taking litigation finance as an example. Our philosophy is to work with originators that have deep expertise in their asset classes so for litigation finance, as an example, we work with low cash amongst others who have a proven track record. They've been in business 16 years, funded over 120,000 plaintiffs close to the tune of about half a billion dollars so they have audited financials and history and they have a very solid underwriting process and they look at a variety of different factors and they're confident that they're funding these on their balance sheets.

So they're closing and giving money to the messenger as we discussed earlier and their underwriting criteria depends on where the case is originated, who the obligor is, who's the law firm representing the case, what's the value of the case, what's the jurisdiction, all of those things, and they've considered all of those factors in their underwriting criteria.

Now what we do then is we do a second level of underwriting and so what we are doing is we are not taking one case at a time. What we do is we take hundreds of cases, between 50 and 400 cases, and put them in a portfolio and we use historical data and we are beginning to use concepts of data science and machine learning to really understand what would be the outcome of this portfolio if we consider taking a combination of different case types, different jurisdictions, different obligors to almost kind of create, if you will, a basket of ...you know, if there is a balanced equity market it would be a basket of like ETFs where there are different cases.

So I think that's really where this is getting very interesting and we are now trying to productize this using data science and so that's really a...from an investor perspective, to answer your question, because these are put in a portfolio that are cross-collateralized even ....so let's say you have a portfolio of 100 cases and you lose five cases, it does not really matter because it is cross-collateralized against the other cases. So our investors will get their fixed return or coupon first so if it is a 13% portfolio they'll first get their principal and interest back before the originator or anybody else makes any money. So that’s really where it is very fascinating with the innovative product that we have created in the marketplace.... is one of the first products of this kind that you will find in any of the peer-to-peer lending ecosystem.

Peter: Right.

Milind; So that talks a little bit about how we do the underwriting.

Peter: Okay, so you've got….on your website, on your home page it says quite prominently zero dollars in principal loss so that's obviously a great track record, Can you just tell us how like how long would you underwrite your first loan and how long have you been doing this?

Milind: Yeah, so this is a great time to have the spot cash because we just finished two years. We launched in April of 2015 so we are just two years into this and yeah, so we've been doing this for the last two years. We have done over $100 Million so we are at around $106 Million off, you know, loans originated on our platform.

Peter: How's that broken down between like the litigation finance, the commercial real estate, other real estate...I mean, what is or commercial financing I should say, how's it broken down?

Milind: So, Peter, right now, I think broadly speaking, it's about 50 to 60% in litigation finance, about 20% in real estate and then 20% in commercial kind of small business loans and receivable finance and some other categories. That's really the breakdown.

Peter: Okay, so let's talk about the investors because it sounds like this is really been the impetus and when you really talk about....on your website you talk a lot about the investor, you mentioned earlier in this podcast that the whole idea was to democratize this access to alternative fixed income investments. So who are the kinds of investors that you're working with today?

Milind: Yeah, so, Peter, I'm really proud to say that all the money that we have raised on our platform is 100% retail so the $105 Million that we have raised has no institutional capital so these are mostly accredited investors and a few family offices. Just to do a little bit of a favor, we have over 10,000 investors from all the 50 states and 66% of them are in multiple investments. Our average investor portfolio is about $160,000, but 75% of our investors are less than $100,000 so there is a lot of diversification.

I don't know if you have been tracking our platform, but since last two quarters, demand is reaching fever pitch and we're really excited. I mean, we have closed $2 to 5 Million investments in a matter of minutes so demand is really, really high. In fact Q1 I'm just about to pull data, but I think for almost 75% of the time like calendar time in Q1, we have nothing open because whenever we used to open a deal it would be sold off in like minutes or hours.

Peter: Right.

Milind: So we're really excited about that is to be able to make this available broadly to people.

Peter: Right, I can see that's the first part of your mission. So will you make yourself available to institutional investors or are you still focusing on building it up with retail?

Milind: Yes, so investor segment will go from retail all the way to institutional so we are actually in the process of onboarding our first financial advisors in Q2 and those will essentially come in. We have a product that they'll buy on the platform, but they're buying on behalf of their clients so these are registered investment advisors or FAs so that would be our first step. And then we are talking to several hedge funds as well as institutional funds to do an asset purchase and hold it so that would mean that they would buy in conjunction with the retail investors and just hold that paper for their fund.

Lastly, another way that we are going to work with institutional investors is for obviously regional warehouse line so one thing that YieldStreet does is that we close all these investments on our balance sheet before we put it up on the platform. So we will be raising our warehouse line and so I think that's really another area where we will collaborate really with the institutional investors.

Peter: Right, right, and so as far the investors go...on your website you show 14.8% return, is that sort of your expectation? I mean, what do you tell investors when you're having a conversation with them as far as yield expectations?

Milind: Yeah, so, Peter, generally what we look for is about 8 to 20%, that's the general range and so our investors should expect that. The lowest deal we've done is at 9% on the platform among the 52 transactions that we have done. The other thing also is a slight correction that I want to make. So we are not talking to investors (Peter laughs) so we have a very small investor success team and the idea here is to make everything so transparent and so easy and so we have put in a lot of tech resources and effort to make the process extremely seamless.

But at the same time appreciating the fact that this is people's hard earned money so obviously that's why we have people on the investor success team, including myself, who are always available to investors, but that idea is to make it so transparent that...like you should get 90% or 95% of everything through the online interface and then obviously there'll be some investors who would obviously want to make sure that there is a warm body, especially as we are building trust and credibility....

Peter: Right, right.

Miling: ....there are real people behind it and we are always obviously available for them.

Peter: Yeah, that's what I mean. When you're taking investor money and even if it's a $10,000 check from an individual investor then you....you know, sometimes those people want to know that you're not some Nigerian scam that has put up a website.

Milind: Correct, yeah, absolutely.

Peter: So I wanted to just talk about your business model, I mean, how are you actually making revenue?

Milind: Yeah, absolutely, so just to round off your previous question, that's the one thing I wanted at this point to talk to our listeners. We are, in fact, an SEC-registered investment advisor and we've been one since April of 2016 so obviously we are under the purview and governance of the SEC.

Now in terms of the revenue model, Peter, currently, the revenue model is fairly straightforward, we have two types of fees. Again, we transfer and then open on the platform and in all our docs. We have a moderate 2% management fee on the declining principal balance so that's a recurring revenue model and we also charge an upfront listing fee sometimes and it's a flat fee.

Peter: Okay, that's similar to the other platforms out there. So I want to focus a little bit on technology because obviously that's your background and you make it clear....you've said it a couple of times in this interview and it's clear on your website, you know, you're powered by technology, driven by expertise so could you just talk about...what are some of the things you've implemented on the technology side and how are you using technology in your business?

Milind: Yeah, absolutely, I think this business, Peter, fundamentally would not have been possible had it not been for technology and data. The amount of transparency, the amount of the ease that we can offer, this could never have been done. There are a variety of different ways where technology is so critical for the success.

Number one is investor side, we have thousands and thousands of people who are logging in and as I said earlier, like you have investors that have put in $5,000/10,000 alongside with family offices and high net worth guys who have put in a million dollars in the same investment. This would not have been possible if it wasn't for how we had our investor engine built. To date, Peter, we have made 26,000 payments to thousands of people so as you mentioned 0% loss rate. We have also returned over $40 Million in principal and interest back to our investors.

Again, like we have this incredibly automated loan engine that does all of these calculations and you should appreciate because this is asset-based lending; all the deals and I gave you the flavors for the deals. They are slightly so different so the technology is able to comprehend that and bake all of that. We have various types of investors, different deal terms, different interest rates. Some interest rates get paid monthly, others get paid when (inaudible), sometimes principal gets paid monthly, sometimes it gets paid at the end of the term so all of that is built into the loan engine. Again, possible only because of the technology.

I spoke a little bit about risk engine and I think we are now starting to use machine learning and data science to really understand historical performances of asset classes and really use that data to underwrite portfolios which I think is going to really be a key strategy for us in the coming year. This is how we can take industries like litigation finance, like hard money loans and bring them to the main street because what we could do is use data and share all these things.

Like, for example, one of the projects we are currently working on is if you are part of a portfolio, you will get real time alerts on how the portfolio is performing in which case it's got settled, how did that settle and how did it do compared to the predictive model that we had as to how this portfolio will evolve over time. So those are the types of things that are only possible because of technology and so we are very excited to be using some of these concepts and being one of the first to market to do that.

Peter: Sure, so I know we're almost out of time and there's a couple of more things I wanted to touch on here. Can you talk about the equity funding, your fund raising you've made, how are you funded? Are you going out and raising another round, I mean where are you at in that funding cycle?

Milind: Yeah, absolutely, so we have raised $3.7 Million in seed round about two years ago and so that's only for funding (inaudible). The business is clearly really well first so I am, you know, as a tech entrepreneur I don't know if I should be happy or not so happy (Peter laughs) with what I'm going to tell you right now which is in Q1 we were actually profitable a couple of months and to be profitable this early was really a great validation of our business model. In terms of growth, we are very excited so we did in Q1 of this year 75% of our entire 2016 revenue so I think we're super excited about that. So that's about funding.

In terms of what's happening the next step...so as I mentioned earlier, Peter, one of our big challenge right now is that we need warehouse line because we have so much supply that we want to close and we want to have consistent product available on the platform. One of mine and Michael's big focus is to close a $100 Million warehouse line shortly. In tandem with that, we will also do our series A and we'll figure out how that works, but I think for us warehouses are important because that's something that will help us to keep up with the investor demand.

Peter: Right, right, for sure. So I just want to be clear, right now you're open to accredited investors. Do you have plans to open for individual non-accredited investors?

Milind: I would love to. I mean, again, going back to our mission, I think we would love to. As you can imagine, we have so many projects to do and limited resources so that is definitely on our roadmap. I don't have a timeline, but I'm hoping by the end of the year or early next year, but, ultimately we definitely want to open that up. As you know, Fundrise and others have been like lead them to win in different ways. We could do that and I admire them a lot, it's really the way they are doing stuff.

Peter: Okay, so what else are you working on for the rest of this year, what's on your plate?

Milind: Yeah, absolutely, so I think I spoke a little bit about this and how we want to use data and use machine learning to understand the past historical performance on these asset classes that was not readily available and use that to create portfolios. I think that's what we are very excited about.

We are also rolling our new products such as what we are calling as Auto Invest which is....a lot of our investors say hey, we want to auto invest without having to choose one investment at a time so we are rolling that out as well. I think we have a lot of demand for it so that would be an interesting evolution for us. We will also launch some new investment products such as diversified fund and that could be based on asset class, it could be across asset class where you could......you know, participate in 10-15 deals by making one investment so that's something that we will do. And then I spoke a lot about onboarding some institutional investors such as financial advisory channel and I think we are building technology to make that seamless and we will have some early customers onboarded in Q2 so we're excited about that as well.

Peter: Great, well on that note, we've run out of time, but I really appreciate you coming on the show today, Milind.

Milind: Thank you so much, Peter, for having me.

Peter: Okay, see you.

Milind: Thanks.

Peter: I think it's great that investors today have more and more opportunities. Admittedly, it's mostly accredited investors that have these opportunities, but we are still moving towards a world where even non-accredited investors.....we just did a post on Lend Academy a little while ago, have much more opportunities than they used to have and sounds like YieldStreet may be adding to that list. It certainly has changed a lot since when I first started investing coming up on eight years ago now where it was Lending Club and Prosper and nothing else. I feel like today investors are far better served and I think only going to become more so in the future. Anyway, on that note, I will sign off.

Before I go though, just another reminder. We've done 99 episodes now. I'd love to get some more reviews on iTunes or Stitcher so if you haven't done so and you've been listening for a while, please, please, please go and put an honest review on iTunes or Stitcher. It helps other people discover the show and helps spread the word.

Anyway, thank you very much for listening and I'll catch you next time. Bye.

(closing music)