FINTECH ONE-ON-ONE PODCAST – CLARA SIEG

Welcome to the Fintech One-on-One Podcast. This is Peter Renton, Chairman & Co-Founder of Fintech Nexus.

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Peter Renton: Today on the show, I'm delighted to welcome Clara Sieg, she is a Partner at Revolution Ventures. Now, you may know Revolution, it's a venture capital firm started by Steve Case and others, Steve Case being the founder of AOL. Actually, Clara's been there almost from the beginning as well, she talks about how she got involved and why she decided to take her career into venture capital. We talk about the thesis of Revolution which is often being sort of geographically agnostic and making investments outside of the major hubs of the Bay Area and New York City, we talk about why they do that, we discuss a couple of the fintech investments they have made that Clara has driven and we talk about her favorite areas of fintech and her outlook for the next 12 months. It was a fascinating discussion, hope you enjoy the show.

Welcome to the podcast, Clara!

Clara Sieg: Thanks for having me, looking forward to the conversation.

Peter: Likewise. So, let's kick it off by giving the listeners a little bit of background about yourself. I know you've been at Revolution for some time, but can you just give me a little bit of the background on your career.

Clara: So, started my career in investment banking. I joined the Leveraged Finance and Financial Sponsors Group at UBS right after I graduated from Stanford, and that group quickly rebranded to Leveraged Finance & Restructuring. It was right in the 2008/2009 time period so a pretty turbulent time to be doing that sort of work. I left there with one of the managing partners from our group to start our own restructuring firm and the thesis there was there were going to be a lot of bankruptcies coming out of that acute period of time and there were a number of firms servicing mid-market and upstream in terms of the restructuring side of the business. But nobody really was doing the lower end of the market because it wasn't really a profitable part of business and we thought we could apply a little bit of technology and be able to service that side of the business better and really own that piece of the market. Ultimately, Obama was very successful in terms of righting the ship in 2009/2010 and that wave of bankruptcies that we had predicted were really all refinanced out, so that so that just fundamentally didn't work (laughs) in terms of a thesis.

And I went and started working for one of my old bosses from UBS at a fund formation and secondary trading platform where I focused on interim growth managers. And in that capacity I got to know Steve Case and Ted Leonsis and David Golden and Tige Savage who are my partners now at Revolution, helped them raise our first institutional fund back in 2010. I then joined full-time shortly thereafter. Helped launch the San Francisco office and have been focused on the venture side of our firm since then. So, really Series A, Series B opportunities anywhere from, call it $3 to 15 Million as an initial for check-in and partnering closely with founders to help scale their businesses.

Peter: Steve Case, obviously famous through AOL, and did this sort of start out as a family office type thing? Or tell us a little bit about the origins.

Clara: Yeah, exactly. So, when Steve left AOL, he really began Revolution as a family office and largely his capital, but also some of the other principals. We invested about half a billion across a bunch of early-stage companies that turned into follow-on activity that turned into the natural constraints of investing under a family office. And when the recycling portion of the strategy broke down a little bit in 2008/2009 it became clear that in order to continue to support the portfolio companies and still be able to make investments in new opportunities, we should raise a little bit of outside capital. We've done that, we've got close to $3 Billion under management at this point and it's largely outside investors so, you know, your typical LPs, foundations, endowments, pension funds, etc.

Peter: Okay. So then, what was it that attracted you? Was it a specific opportunity about Revolution or was it just venture capital, in general, what made you kind of take this career step?

Clara: You know, as somebody who lives in San Francisco and went to Stanford, venture capital is interesting in that regard, I think. I've always liked the mix of math, (my Dad's a math professor,) and the human and real world applicability that sits at the nexus of early-stage venture, so that personally just fits well with me. And I think Revolution's perspective was particularly interesting to me because they have had a long history of focusing on, in some sense, more legacy pieces of the broader venture ecosystem, financial services certainly being one that we were earlier very early investors, and have continued to scale into that category. It's now probably called disruption, but at the time not very many people were focused on it.

There's more of a focus on tech for tech's sake in the early 2000s when they got going, but, personally for me as it relates to Revolution. I grew up in Pittsburgh, Pennsylvania, that city has transformed dramatically from when I first grew up there. I mentioned before, my Dad's a professor at Carnegie Mellon and I've seen through that lens, a city that's really transformed with education and talent and a focus on technology. I fundamentally believe that that can happen all over the US and that is a big part of what we focus on at Revolution, really finding unique talent in different places. Usually that collides with where there's legacy industry, and so real knowledge of how those industries operate and where opportunities sits in them and then putting capital behind it to help scale leading businesses in those categories.

Peter: Right. So, it's interesting, you said you went to Stanford, you live in the Bay Area, you're still in the Bay Area today, but you're not really focused on Bay Area companies. There's such an ecosystem inside the Bay Area and there's so many tech companies there, there's a reason that other VCs have invested primarily in that area, what's the contrarian view from like a typical Silicon Valley VC?

Clara: Yeah. So, it's not an exclusionary mandate, right, we certainly invest in Bay Area companies, we invest in New York pretty heavily, LA, Boston, other places, where there is a lot of venture capital. But I would say, our mix as it relates to those places where there is more venture capital versus other ones, probably 50/50 which for a typical venture fund is pretty focused outside of those "hot beds." I think there is a dose of reality in the fact that this is a very well worn path out here and there are a lot of players who have great brand names who will win the deal, and so if we're competing against them often it’s on price and that doesn't feel great, to win just on price alone.

And I think from our perspective having an office out here is really powerful on two sides, one, we have better connectivity into talent and thesis development, there's a lot of that that's happening here, as you mentioned. And two, we have connectivity with the later stage investors so after we come in at the Series A, Series B level, our portfolio companies are generally not profitable, they will be needing additional financing, so being able to serve as a connection between places that are a little bit more off the beaten path to investors out here, is really helpful.

Peter: So, has it changed much now because, obviously, the last couple of years we've seen lots of companies become purely distributed, some of them just let go of their lease and don't have an office anymore. Does that sort of change your thinking, you know, you might have someone who might personally live in the Bay Area, but the other co-founders live elsewhere and the rest of the team is all over the place. How has that sort of geographical kind of shift that we've had over the last three years, shall we say, has that changed sort of the venture capital landscape in any way?

Clara: Yeah. I think from a geo perspective it's been a net positive. So, again, our mandate is not exclusionary, we are not solely focused on places that have to be headquartered outside of the Bay Area or otherwise. I think it's been really beneficial to a lot of our portfolio companies because of the fluidity and talent and the ability to get higher caliber folks on their team, distributed or not, so that's been really powerful. I think there's been more openness in investors' minds that it doesn't just have to be in San Francisco, portfolio companies can really be anywhere and can build great businesses in that way. For us, our North Star continues to be what the risk adjusted returns will look like, that has a lot to do with the valuation that you go in it, and the amount of cash that a company will consume to get to the end goal. So, if we now believe that there are better risk adjusted opportunities here that are somewhat distributed in nature, we'll go there.

Peter: Right, right, that makes sense. So, with the sort of crazy kind of world, particularly in the fintech space, of capital, or valuations, I really should say, over.....you know, the run up in 2021 into early 2022, did you pull back a little bit from the fintech space because of that or how did you navigate it?

Clara: We did. I mean, we have a little bit of a different approach as it relates to our pacing, we take a really concentrated approach so we'll invest in, call it three to five deals a year. While we're taking board seats, we're typically leading and we're working very closely with those portfolio companies and that's an average. There are years when we won't put any capital to work, last year is a great example of that, there was a big slow down and correction at the later stage, but Series A, Series B remained pretty frothy.

So, we pulled back dramatically and didn't actually invest in a single new deal last year, we really focused on supporting our portfolio companies and I think that was largely because the level that we invest at the Series A stage, most companies were still pretty wed to their more recent valuations and could get insider support to support those. We didn't think it made sense to take 2021 pricing risk for 2022 market risk.

Peter: Right, nope, that makes a lot of sense. So then, what are the typical check sizes you're doing, you said Series A, Series B, you typically lead, what's the range of check sizes and the average ?

Clara: Yeah. So, range is really anywhere from $3 to 15 Million as an initial check-in, we'll typically reserve about 2 to 3X per portfolio company. If it's a $15 Million entry check, obviously, those reserves are commensurately lower. The $3 Million entry point, that usually means we're co-leading something and it's on the earlier side of the Series A to Series B range, and then scale up behind that initial entry check.

Peter: Okay. Maybe you could touch on an investment that I know you made in 2021, really interesting company. My colleague, Todd Anderson, had the founder on his podcast just a few months back, and that's Sila. Sila is I think a super interesting company and I think you led the Series A, so tell us a little bit about what you saw there and how you feel like your thesis has played out over the last I think 18 months ago, right?

Clara: We have long believed in embedded finance, we're not unique in that belief, and Sila was a great entry point for us as it relates to that. I think there was a lot of momentum at the time in terms of BaaS solutions that were really rip and replace, and we believed that there was a real opportunity to, in some sense have a point solution that made it easier to get regulatory compliant payments up and running on short order and build a platform around that. So, the Founder there, Shamir, was one of the original founders of Simple which was a very early neobank acquired by BBVA, he found himself at BBVA in charge of their APIs and quickly realized he didn't have much of a job.

Peter: Right.

Clara: Got frustrated with the slowness and lack of innovation there and left there to start. We were really interested in the fact that they were able to do KYC, KYB effectively in a box, and get customers live on ACH rails in record time, right. So, if all goes well, you can get a customer up and running from MSA to go live in as little as two weeks whereas traditional banking it's 12 to 18 months on a good day, and they've really built momentum behind that I think because they're not a broader platform or a "BaaS solution". They have targeted mid-market and enterprise from the very beginning so they both collect SaaS fees and transaction volume and haven't seen the same sort of churn that a lot of those

BaaS solutions have because they were focused on earlier stage venture opportunities and SMB businesses.

Peter: Right, right, that makes sense. You know, I'm a big fan of what those guys are doing. Another one that’s in your portfolio, Paro, just tell us a little bit about that company.

Clara: Paro's a labor marketplace focused on financing accounting professionals. It's really premised on the fact that every company needs finance and accounting help, it can often be really, really expensive particularly if you're going to one of the Big Four and it's reoccurring in nature. So, while you can sometimes think of it as more services revenue, really a book of good business, greater than 50% is just on a recurring schedule that scales and has unique points of acquisition throughout the year, whether that's audit, you're into facts or just monthly bookkeeping. We really like this category because from a supply perspective, labor supply perspective, that is, you've got a relatively risk-averse cost of labor that doesn't want to dis-intermediate.

They just want to have consistent work and tooling to support efficiency. Paro provides that and has built a really unique platform that enables, better, faster work products and then from a demand perspective, as I mentioned, its really a recurring tool and business. You need to close your books on a monthly basis, you need help developing a financial model and particularly in times like these, you need help potentially doing restructuring work and every year you've got to pay your taxes and every year, for the most part, you've got to do an audit.

Peter: Right, right. There is job security there for everybody if you have that kind of background. So then, when you look across to the broader fintech landscape, are there certain areas that you're interested in specifically or do you kind of take it on a case-by-case basis with the deals that are coming to you?

Clara: We go deep on specific segments when we think it's worthwhile, I think we've got some broad stroke themes that we continue to pursue. When we first got started at Revolution it was really focused on digitization so one of our first investments was in a company called Revolution Money which was, you know, really migrating credit card swipe fees via the Internet, cutting those down. It was ultimately acquired by Amex, that was a great purview into that first bucket of companies.

The first check I wrote before I was even at Revolution was into a company called Blend which was really moving the mortgage process online, they’ve since gone public. It's been a really, really fun company to watch, grow and scale. And so, those are some of the companies that we've think to as it relates to digitization in the earlier stages of fintech. As I mentioned embedded finance is an important one, we tended to focus on the B2B side, but we also believe that most consumer products will end up, consumer brands and products will end up having some level of financial services embedded in them over time and we continue to look at opportunities related to that.

Insurance has been a category that's been pretty negatively impacted over the past 12 months as it relates to the public markets. When you look at Lemonade and Hippo and others, but it's a category that we still really believe in. We’re investors in a company called Wagmo which is in the pet wellness and insurance category. They have differentiated themselves in terms of a really unique claims process that's great for the consumer, but importantly, have a big B2B business through the employer channels, which we think is a real (indistinguishable) forward for them.

And then, to your top question, we do a lot of work around kind of niche or underserved markets where we see real opportunities. So, a great example of that is a company we invested in a number of years ago now called SRS Acquiom which is in the shareholder rep business basically, they own most of the market of post-closing VC and PE, M&A stuff (Peter laughs) broadly defined. So, you close the deal, there's an escrow, nobody wants to be the shareholder rep, these guys have built a really nice services business on the front end, that's profitable, that serves as a sales engine into the business that we really invested in which is an escrow management business go forward. So, you can think of them as having a profitable sales channel that drives into a massive escrow business that, obviously, with interest rates adjusting has proven to be wildly profitable. And then we've worked on expanding a slew of services around that whether that be rep and warranty insurance or otherwise.

Peter: So, I want to switch gears a little bit and I want to talk about women-run companies and venture capital flowing to them, it's still a tiny, tiny fraction of what male-run companies receive. As a woman in the VC space, I wanted to get your perspective on how you sort of view that, is that something that you are actively trying to change or does that come into play when you're looking to invest in a company?

Clara: Sure. So, we're not impact investors, we're returns oriented, I know that first and foremost because, you know, we're not the female-focused venture fund, right. But that being said, my portfolio companies where I'm on the board, over 80% of them have at least one female executive team member and over half of them are female CEOs. That's not because I take a lens of okay, I actually weight having a female founder and CEO team more so than I do than having a male founder and CEO team. I think it's really because when females are investing their network tends to be a little bit more female-oriented, right, I get proportionately more female founders that are introduced to me than my male partners.

So, I think the crux of the problem is in part solved by shining a light on it and having examples of success. I think that has happened through the past cycle and in part giving more dollars to deploy to female allocators, but because of the natural point of one, network and two, biases. No matter how much you're trained in it, you tend to like things that feel more like you so it is helpful to have more perspectives at the decision making table, for sure.

Peter: That's a fair point, and something that we're continuing to try and shine the light on. So then, there's much been made in the fintech space, especially about the dry powder that is sitting on VCs' balance sheets because, like you said, you made no investments last year and you're not alone in that, there were several other prominent VCs that publicly said the same thing. So, I'm just curious, I mean, you're a little bit different, maybe you don't have the same sort of LP base that a typical VC has, but is there any kind of pressure to start deploying your dry powder in the near term?

Clara: Again, last year was super frustrating. We looked at hundreds or thousands of opportunities at the Series A level, there wasn't an appetite for most founders to reset and appreciate that they had raised at values that didn't make sense. I think a little bit of that was a COVID overhang so when COVID first got started and everybody was pressuring our companies to extend runway because there were predictions of doomsday, you know, there was maybe a month, a month and a half.....

Peter: Right, it was short, I remember.

Clara: There was a little bit of a dip in valuation and then it went to the highest level at first. I think, last year, folks were kind of waiting on the sidelines and extending where they could at the Series A level and avoiding raising, if they could. So, what we saw was most of the portfolio companies that were raising outside external rounds kind of had their backs against the wall because they didn't have insider support. And, I think this year, that's going to start changing and there's going to be a greater recognition that this is a longer cycle, that this is not a blip in the roadmap and that you can't extend forever and I think there's really going to be some really interesting consolidation and opportunities that come out.

Consolidation in the sense that there are a lot of portfolio companies across the ecosystem that raised at crazy valuations versus their revenue and are in some sense trapped in their cap tables. And maybe it makes more sense for them to consolidate with another company that did so similarly and they can start to, you know, build a business that is more rationalized and similar on the valuation front as these portfolio companies go out to market and kind of have to take the medicine now. You know, last year we saw that shift at the later stage, for sure, where the massive mega rounds which we typically define as over $100 Million were down about 80% year-on-year, a new unicorn creation was cut in half, but we didn’t see that same sort of shift at the early stage. We actually saw valuations go up at the Series A level by about 27%.

Peter: Interesting.

Clara: And we think this year it’s going to be that shift at the earlier stages. Insider rounds dry up a little bit because you mentioned the dry powder, but there’s also concentration limits on peoples’ funds. So you just can’t continue to support the same valuations forever.

Peter: Right. Then so, as you sort of look ahead to this year, you know, we’re recording this in late January, I’m curious I mean, I presume you don’t expect to be out of market the whole of this year, right. What’s your kind of ….I’m obviously interested in fintech, but even more broadly, are you confident that you’ll be in market multiple times this year?

Clara: Yeah. Can’t perfectly predict the future and I certainly wouldn’t have said in January last year that we would be out of the market the whole year. But, just seeing where we are right now from a top of funnel perspective and in the deeper diligence conversations that we’re having, where there’s an openness to a more rationalized valuation and structure go forward with a lot of these companies, I think we can pretty confidently say we’ll be deploying a fair amount of money into this market this year.

Peter: Okay. That’s a great place to leave it, Clara. Thank you so much for coming on the show, really appreciate you sharing your thoughts with us today.

Clara: Yeah, it was great to connect, thanks for the time!

If you like the show, please go ahead and give it a review on the podcast platform of your choice and be sure to tell your friends and colleagues about it.

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

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