



FINTECH ONE-ON-ONE PODCAST – TRICIA KEMP

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

I've been doing this show since 2013 which makes this the longest-running one-on-one interview show in all of fintech, thank you for joining me on this journey. If you like this podcast, you should check out our sister shows, PitchIt, the Fintech Startups Podcast with Todd Anderson and Fintech Coffee Break with Isabelle Castro or you can listen to everything we produce by subscribing to the Fintech Nexus podcast channel.

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Peter Renton: Today on the show, I'm delighted to welcome Tricia Kemp, she is the Co-Founder & Managing Partner of Oak HC/FT, that stands for Health Care and Fintech. They are a venture capital firm, very well established, has been around for almost a decade and wanted to get Tricia on the show to talk about the climate today, what are some of the things she's excited about, we go through a whole bunch of different things. We talk obviously about their investment thesis, we talk about what the last 18 to 24 months have been like from a venture capitalist perspective, we talk about the environment from an entrepreneur's perspective, we discuss what fintech companies need to do to really position themselves for growth and for potential M&A, we talk about DeFi and her thoughts on that today, we talk about the outlook for fintech and much more. It was a fascinating discussion; hope you enjoy the show.

Welcome to the podcast, Tricia!

Tricia Kemp: Hi, Peter, good morning, pleasure.

Peter: Okay, Let's kick it off by giving the listeners some background, why don't you hit on some of the high points of your career to date.

Tricia: Yeah. Originally from Los Angeles, undergrad and business school in California and after a brief stint as an investment banking analyst then had an operating role in a company that was providing payments capabilities, enhancement services, banking solutions, you know, in and around the banking and payments ecosystem. And from there, it was very easy to see the opportunities that were already coming in fintech and, you know, join a predecessor fund to launch their fintech effort. And then, about nine years ago now, three of us launched Oak HC/FT focused on health care and fintech.

Peter: Right. So, what was sort of the reason for doing that? Like you said, you were in a predecessor venture, tell us like the founding story of Oak HC/FT.

Tricia: We really saw the opportunity of what was going to happen in these two verticals and is still happening. As we all know, there's been 10/15 years progress, that'll give me another two decades of making use of data, being more efficient, automating payments or processing in health care and fintech, automating back office, automating CFO suites, automating hospital payments. And we just found it very exciting to think about



supporting the entrepreneurs that were looking to move these two verticals forward and saw the need for there to be financial support. You know, we started the three of us, we have approximately 50 employees at this point, 70 plus portfolio companies, we still think we're kind of in the early innings in both of these verticals.

Peter: Is this split roughly 50/50 between health care and fintech?

Tricia: We probably lean on health care, but, you know, we're opportunistic in both.

Peter: Right, right. Well, to this conversation we're going to be focusing on fintech, what's the investment thesis there, what sort of drives the investment decisions?

Tricia: We believe that the ecosystems of payments, banking, asset management, insurance are all going to be automated and made more efficient over time and we like B2B solutions for B2B customers, whether it's consumer or SMB solutions in and around all of that. Those infrastructures that use better data, use better technology, software solutions and we all keep no, no, you know, AI will be supportive of all of these to a greater and greater sense, all of those areas have been lagging, right, in terms of becoming automated. Progress has been made, tremendous progress in the last 15 years, but we believe there's going to continue to be huge progress going forward.

So, you could take something like payments, right, and we all know consumer payments versus the US became greatly digitized over the last 15 years, business payments have not, you know, cross border payments have not and then all the needs in and around fraud, risk, identity are becoming more and more complex as people are using different devices, different locations. You now have AI, synthetic fraud issues and so the needs in and around payments or authentication are becoming increasingly more important, not just to the end consumer but to all the banking institutions and other institutions in the middle.

In addition, we've always liked or continue to like, that thing was very evident here, you know, a month ago or weeks ago what we would call the CFO Suite. You can then step into corporate operations, cash management, AR/AP, you know, collateral management, everything that is needed, right, to run a real-time, data intensive, data authenticated CFO office, whether you are a large enterprise or you're an SMB. You know, we've always believed in those needs that, again, obviously with the banking issues in the last two months it became more and more evident, people tracking their cash and how do they manage it, how do they price yield, there are different levels of capability.

Peter: Right.

Tricia: So, we tend to like cloud-based solutions in and around all those areas. Digital identity, for instance, is one big area that's going to become increasingly more interesting.

Peter: Right, right, okay. What about the stage of a company, what do you look at there, what's your average check size and are you mainly focused on the US, I mean, what's your geographic focus?

Tricia: So, first of all, we're stage agnostic because, you know, you can find, you really have to be paying attention to the early stage projects and new companies being formed because they're going to impact the growth stage companies and majority of what we do are growth stage investments. But we do do 15/20% earlier stage in and around these areas, you know, we write checks anywhere on the low end of \$20 or \$25 up to let's



say \$70/75, primarily US, but in fintech we have a handful of European companies and we have seven at Tel Aviv and then we have a handful out of Latin America.

Peter: Okay, interesting. And so, what's the size of the fund that you're investing from?

Tricia: We have over \$5 Billion under management, \$5.3 Billion, the most recent fund is \$2 Billion closed last summer.

Peter: Wow, okay. So then, let's talk about the last sort of 18 to 24 months in fintech, did you continue to invest in the run-up and then what about in the last 12 months, are you still writing checks now?

Tricia: So, yes, we did invest although at a slower rate and less so because of, you know, valuation issues and other issues, you know, company for instance, JUSTT out of Tel Aviv, operations in the US is post transaction fraud, you know, fraud from a consumer to a merchant, you know, it was kind of right down the fairway of what we like to invest in. So, we found a number of opportunities in and around the space, we are always going to support great entrepreneurs and great teams going after an opportunity, but it is true in the bubble, right, many of the valuations didn't seem to make sense for us so, you know, we're more conservative from that perspective. And we believe now is a great time, you're going to have well-funded startups as well as legacy players have the opportunity to make acquisitions, have the opportunity to tuck in capabilities otherwise wouldn't so I actually think you're going to have winners out of this and it's a great time to be investing.

Peter: Right, right. So, the environment today, obviously we've seen lots of layoffs with fintechs, we've seen some distressed M&A, we've seen some non-distressed M&A as well, I guess, but what are your thoughts on the actual environment today from, you know, you said it's a great time to invest, what about from a fintech entrepreneur's perspective?

Tricia: The opportunity is there. There's still a huge need and I actually think, again, CFO Suite is an obvious example of the need to have the right tools in front of you to manage this. So, you know, I believe that actually, from an entrepreneur's perspective, you're going to potentially lose a lot of the "me too" companies and lose the long tail but the opportunity is there, right.

So, the ability to build a company that can be, you know, marketed and sold to enterprises or SMBs or mid-level companies that is helping them run, whether it's their financial office or whether sending payments or bills or accounts receivable, whatever it might be, I think all the need for all of that has been highlighted. We all know that, you know, profitability needs to be more on the horizon plus a sustainable business model, right, so I actually think, from an entrepreneur's perspective, is great, you can go and take a breath and you can build a sustainable company going after these opportunities. The opportunities haven't disappeared, the needs haven't disappeared.

Peter: Right. And so, if you're one of those companies that's struggling to get to profitability though, I imagine, it's a really bad time for you, you must have someone, I imagine, in your portfolio, no need to name names, that aren't hitting the numbers that they expected, how are they navigating it?

Tricia: Well, first of all, very few, if any.

Peter: Well done. (laughs)



Tricia: Well then, you might have to find a home, right, that you're part.....if you have a solution that's needed and you become part of a larger platform, right, number one. Number two, there are a number of strategic investors who are actually taking the opportunity to support some of these companies, and they might actually be a great investor for a number of these companies because they also help. You know, they might be in distribution, they might be, you know, a potential large customer and I would keep figuring out are those sorts of partnerships what makes sense right now.

Peter: M&A, as I mentioned, it's ticking up in fintech, let's take aside the distressed M&A because there's going to be some acqui hires and different things that really are not kind of a great outcome for the entrepreneurs, but you talked about it as a great time to consolidate into, like how do fintech entrepreneurs position themselves, those that are in good shape for a really successful exit for their investors and themselves. So, what are some of the keys there?

Tricia: Well, it is a little bit of our approach, but we've always believed that the majority of fintech exits are sales to strategics and the way you can position yourself for that is to have those relationships, right, you have relationships as customers or as financial investors and you're known, you're known to the five or six potential acquirors, oftentimes, they have time to get to know you. As always, you have to figure out if you can become more of an orchestration layer that it is an area where you're going to have consolidations so you're going to need a platform that's consolidating others, right, so that you have a bigger platform to be offering any potential buyer in the end, but you would make yourself known and you'd would make your differentiations known.

Peter: Right.

Tricia: Customers, partnerships, everybody that makes sense.

Peter: Right. So then, I mean, the IPO window has been pretty much closed for a while, from what you're saying. It sounds like the IPO window will remain closed for the foreseeable future, do you think, I mean, you're talking about strategic acquisition, obviously we had a number of IPOs in like the 2020/2021 timeframe, but what's your thoughts on that for today?

Tricia: It may come back, who knows, right, but I wouldn't bet on it. And if you kind of go through history or recent history, most fintech exits are to strategic acquirors so I would position.....if I was an entrepreneur team, and this is what we check with our teams all the time, I would position yourself for them.

Peter: Right, right, okay. I want to switch gears a little bit, I want to talk about crypto and DeFi and I want to go back and re-visit an article that you wrote, it was in Forbes, I'll link to it in the show notes. You know, you were quite bullish on DeFi as a technology, this was 2021, so we've come obviously a long way from that, what are your thoughts on that today?

Tricia: We still think it's going to happen, it's more a question when, not if, Peter. We believe assets, financial assets, are going to be digitized over time and that's not just what's happened with stocks and bonds but you go down every asset class that over time, they're going to be digitized and a decentralized financial ledger is a tool to help with that, right, and to help with smart contract.

We are still believers that this is going to happen over time, it might just take longer given what's, you know, happened the last 18 months. The use cases are evident, the support, I think it's going to take longer to come and you need the correct regulatory environment and hopefully, that will come along, but Decentralized Finance



and decentralized ledger technology is useful in a number of scenarios and we believe in the digitization of many assets. You know, we have a company, Paxos, right, basically that's their mission.

Peter: Right, right. So then, you would consider in the future making more investments in the space?

Tricia: I think that, yes, we would. I do believe we all need to figure out how the regulatory framework shakes out, you know, you don't want to put yourself at risk, the regulatory framework changing and so, you know, hopefully there will be greater direction in the United States over the course of time. But as we all know, decentralized finance is cross border, but you do want to be fully regulated, you know, as Paxos is, and so I do believe that hopefully there'll be greater clarity here over the next 6 to 12 months and then companies could be positioned.

Peter: We're recording this, you know, on April 20th when there was a development today in Europe where they actually passed some laws, the MiCA laws, so you know, hopefully that will help jumpstart things here, it still feels like we have a long way to go. So then, when you look at fintech more broadly, is it fair to say that fintech is struggling, I mean, is your expectation that we will see a flood of failures through between now and the end of the year?

Tricia: You know, I don't know particularly what companies obviously, right, particularly private. I would say, and you see this in the public indexes of published stock prices, you know, I think payments companies, enterprise software companies, generally, are all doing well. I think that you see certain verticals, you know, buy now, pay later, but we have a great company that's based, Aplazo, down in Latin America, but the other players, lending companies, direct to consumer companies are going to have a harder time, right, and any company that's sort of a "me too" company that didn't get scale velocity and didn't get themselves on the path to profitability may have a harder time.

Peter: Yeah, that makes sense. So then, have you touched on the payments space too because, you know, we had this sort of wave innovation a decade ago with wallets that came out that was slow to adopt. Within payments, I feel like we're just most likely re-creating the payment system right now. I mean, Visa, Mastercard, American Express have had an oligopoly for a long time in the western world, not so much outside of that, but how do you see sort of payments evolving over the next few years?

Tricia: Well, like what I said earlier, we believe B2B payments will greatly evolve, Peter, and it might evolve via a vertical, you know, in certain different ecosystems and you might have those payments tied into other platforms, our P platforms, for instance, so there's greater control out of the CFO office. The opportunity outside the United States is enormous and we have a company, Rapyd, which does payments, 150 plus countries, there's enormous need and social need to automate, digitize, track, make it fully compliant, 75% of the payments of the world outside of the United States. So, we believe there's going to continue to be huge progress in and around all that and we believe there are going to be verticals with specific solutions for an enterprise, mid-level or SMB player in the B2B ecosystem.

Peter: Right, right. The CEO of Rapyd, he was the previous episode on the podcast hasn't been published as we're recording this, but it will be by that time.

Tricia: Alright, great.



Peter: Really great, great company. So then, what about regions? Companies like Rapyd are global, but operating in places like Latin America, maybe what are your thoughts on Latin America, specifically, you've got a couple of different companies, are you bullish on that region over others or how do you sort of view the different regions that you invest in?

Tricia: We're very bullish on Latin America, I mean, there are other regions in the world to be bullish on, you know, many people talk about Africa, for instance, but from what we cover, you know, Latin America makes tremendous sense. I mean, we all know the stats, a much higher percentage of people unbanked in Latin America, you know, you see anywhere from 30 to 50% in publications, you know, a higher percentage of people without credit and why we're excited about our company, Aplazo, down in Mexico City and the pandemic highlighted the need for people to become digitized and for businesses to become digitized.

So, in a place like Latin America, we believe that there is sort of a social need, and you now have government backing to sort of push many of these solutions and fintech companies forward. We all know, we've all read all the discussion about Mexico being the supply chain to the US and Canada, etc. and, again, the need for B2B payments, the need for it to become more digitized is very evident and how to get from here to there. We believe it's an opportunity and we believe it's going to happen.

Peter: Right, right. And then what do you think about the funding environment? We went through, like the 2010's, fintech became more and more popular and it just exploded during the pandemic and now, it's sort of gone back. The pendulum has swung all the way back the other way, I guess the question is, when do you expect to have a normal funding environment, what is a normal funding environment for fintech?

Tricia: This might be getting closer to a normal funding, I mean, first of all, does the entrepreneur and the management team, you know, no benefit to where it is at enormous valuations very quickly. I mean, you really kind of want a process and the time for both investors to get to know companies for the valuations to make sense so companies don't end up underwater, where there will be a real plan to a potential exit. And so, we believe it might be setting its own back to normal, you know, we'll see is the answer, you know, there'll be shakeout of companies as we discussed earlier over the course of the next 9,12,18 months and I think that you will have core investors like us.

I mean, there are a number of investors that focus on fintech, the fintech investor believe in fintech and, you know, we believe in the management teams so we believe in the solutions. And so, the opportunity to support those entrepreneurs and those efforts is still there, you might lose some of the investors who may become tourists, right, who are kind of swinging in and out of fintech, but the true believers, I think, are going to be here and be here to support the ecosystem going forward.

Peter: Right, right, okay. So last question then as you sort of view, look at the fintech landscape in looking at the investment opportunities that you've talked about, there's a lot of opportunities but what's the most exciting to you, do you think, right now?

Tricia: If we're going to pick one vertical, you know, I mentioned it earlier, it's fraud and then what I call identity, right, and, of course, these has all been enhanced by AI and not been enhanced by GPT, right. And so, identity and fraud are going to have an enormous arc over the next ten years, right, as everything is becoming more and more digitized and whether it's a consumer or a business, the ability to identify who is on the other end of a communication or a transaction or an engagement is critical, right.



And as the world is becoming more digitized, that need is going up into the right and something like GPT actually makes it more complicated, right, because the ability for, you know, fakes, synthetic IDs, the ability for a fraudulent player to be able to answer the question of who is your childhood best friend, you've got to multi factor that with authorization tools. You know, their ability is getting better and so the ability to kind of define the identity of who you're dealing with is getting harder and harder, you know, we all know that through fake photos and videos.

But in the fintech world, again, you can read different stats but even, you know, what we call the phishing and what we would call the fake email sent to CFOs to say send the transaction and actually that wasn't coming from who says it's coming from, all of those needs are going to be more and more credible. That might not be terribly exciting but it's a huge, huge need for both banks, processors, asset managers and then it affects, it affects consumers or the business on the other end, right, it greatly affects what's happening. And so, as everybody becomes more digitized, the ability to have an identity and a protected identity is going to become more and more interesting and compelling.

Peter: Yeah. I completely agree and we've had several guests on the show that are focusing on fraud because it's a growth industry, right, the anti-fraud space because the bad guys are going to continue to evolve, and you've just got to.....

Tricia: It's unfortunate but the bad guys are good, right, so you know you need to do this. (both laugh)

Peter: Anyway, we'll have to leave it there, Tricia. I really appreciate you coming on the show today, thanks a lot.

Tricia: Absolutely, thank you, Peter, enjoy your day.

Peter: I hope you enjoyed the show, thank you so much for listening. Please go ahead and give the show a review on the podcast platform of your choice and go tell your friends and colleagues about it.

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

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