The Australian Finance Podcast Episode Transcript

Episode: Venture capital 101: from start-up to IPO
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Speakers: Kate Campbell & Jessy Wu
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Episode transcript:

Kate:
Jessy, welcome onto the Australian Finance Podcast today.

Jessy:
Thanks Kate. Fantastic to be here with you.

Kate:
Now, you're a pretty special individual because you are working in venture capital, which you'll explain a little bit for our listeners in a moment, but we've never had someone from this industry on the podcast before. So I am very excited to chat to you today.

Jessy:
Well, very humbled to be your first venture capital guest and definitely a really exciting space. So hopefully the first of many guests you have on this show about this topic.

Kate:
Amazing. And are you able to give our listeners a quick introduction to you and the interesting company you work for, AfterWork Ventures?

Jessy:
Absolutely would love to. So I am a principal and also head of community at AfterWork Ventures, which is a community-powered venture capital fund that invests in early stage high growth technology companies and will dive a lot more into that later. Before I was at AfterWork Ventures, I spent some time at NAB Ventures, which is the venture capital arm of the National Australia Bank, the largest business bank in Australia. And in that role, I spent time making strategic investments for the bank. So investments in technology companies where there was also a partnership opportunity with the National Australia Bank available on the table so that the bank could not only partner to accelerate the growth of these companies, but really align their incentives by having skin in the game in the growth of some of these companies.

Jessy:
Before that, I spent some time in strategy consulting, but actually started out my career as a philosophy and English literature student. So really have a love of the written word of whimsical philosophical questions, and I'm really glad that I actually get to incorporate a lot of those foundations into my job now. And I'm sure we'll dive into that later.

Kate:
Yeah, that's so interesting. So you didn't start originally in finance?

Jessy:
No. I spent my university career thinking about American literature and poetry, thinking about questions of social justice and things like the way that language shapes thought. And I think actually having a foundation in the liberal arts and in asking open-ended abstract questions and learning how to think well and reason in a structured way and communicate really clearly in a manner that moves people I think is actually more relevant to my job as an early stage investor than finance, which is a super important part of the industry, but things I've been really lucky to be able to pick up along the way and have had the help of mentors to do that.

Kate:
I always love hearing about people's career paths into the financial services industry because people come from so many different backgrounds and I guess the conception is we all just start in commerce at university and then go that way, but people come from so many different backgrounds and there's so many ways you can get involved and be part of the industry.

Jessy:
Absolutely. Indeed, my two colleagues at AfterWork, Adrian and Alex, they both studied maths at university. Adrian did theoretical maths and had his first company... The first thing that he did out of uni was an electronic voting company based on the blockchain. And he was doing that in 2016. So long before it was kind of mainstream acceptance of blockchain technologies that there is now. And Alex, my other colleague, studied theoretical maths at university and wrote his masters thesis on chaos theory. I tried to read it and it was like a completely different language for me, but I think those math degrees set up my colleagues really well in a similar way to me in structured thinking, answering hard questions and communicating in a really clear way and

making sure there's not internal inconsistencies in their logic, which is kind of really the same kind of clarity that we have to strive for as venture capital investors.

Kate:
Wow. So interesting. And what we really want to talk about today though, and I am super interested in all of this. So I'll have to talk to you offline, is venture capital and what role it plays in the overall investment space. Because many of our listeners are investing in shares and ETFs. Maybe they've even invested in initial public offering and IPO, but I don't think we've ever mentioned the venture capital space. And I guess the conception is that sometimes it's the getting in early on the ground on companies like Twitter and Tesla before they go public and being one of those first investors, but are you able to explain maybe a bit more about what venture capital is as an asset class and how it fits in the overall system and like why would listeners sort of even want to know about what it is?

Jessy:
Absolutely would love to. So in essence, a venture capital fund is a fund that makes equity investments in high growth, privately held startups. And there's a few things that sets the VC asset class apart from public markets, which listeners might be more familiar with. So unlike the public markets, VC investments are illiquid. That means that on any given day, you can't wake up and decide to sell your holding in a startup the way that you can sell your stocks in Qantas or Westpac. And that also means that the value of your holding isn't constantly changing and constantly being revalued by the market based on new information or based on momentum. Indeed, it doesn't change until the next funding event when another investor may come in and value that company at a higher or a lower price and that reflects what's happened in the company in the time between funding rounds, whether it's grown, whether they've increased their gross margins, whether they've achieved momentum in some way or another.

Jessy:
And the life of a venture capital fund is generally 10 years, which means that funds hold these investments for a really long time. And venture capitalists often like to call themselves patient capital. On the day of recording, Netflix's stock dropped overnight by 25%, which is a big ouchie. And that was in reaction to them significantly underperforming how many subscribers they would grow in the last quarter. And a big chunk of that was because they withdrew from Russia. Now, the public markets are in some ways quite crucial and they'll immediately price that in. A patient investor may think about things slightly differently and think about the long term growth horizon and whether, for example, Netflix or a company that they're holding is still on track to meet that rather than immediately price in news and information that's happening in today's day. So there's maybe less heart attacks involved in holding VC because you don't get to see the price for many intervening months.

Jessy:
The other thing to note is that unlike most public companies, the companies that venture capital funds invest in don't have everything figured out. Most of the time, they're not profitable. Sometimes they haven't found product market fit, which means they haven't proven that there's

deep market demand for what they're selling. And sometimes they don't even have a product in market where investing at the ideation stage when the founders are working on a problem area and trying to figure out a product and iterating that with their early customers. And venture capital investors are betting that the founding team will figure things out in time.

Jessy:
And so venture capitalists are investing in these super early stage companies, some of which don't even have product market fit. The natural question is isn't that a great recipe for losing all of your money? So in VC, there's a really important concept called the power law. And that's the notion that in a fund of 10 investments, most companies will fail, but the ones that succeed will succeed on such a massive scale that it'll offset all the failures and then some. So hopefully, for every startup that fails before they even reach escape velocity, for every nine of those, you manage to invest in a Airbnb or an Uber or a Canva that just knocks that out of the park becomes a multi-billion dollar company and that can offset all of the losses and then also return the fund many times over.

Jessy:
And that is a really important thing that structures how venture capitalists make decisions. We often talk about investing in the possibility, not the probability. Every company that we invest in has to have the potential to become a billion dollar company and therefore deliver their outsized return. So it would be difficult for a venture capital fund to make an investment in something that had a capped upside. And by that, I mean that they have a limited number of customers for whom their product is relevant. We need to invest in companies with a really large potential addressable market and a really great executional team to be able to occasionally back some unicorns that manage to return the fund.

Kate:
Wow. I can imagine it would be quite difficult to hold a portfolio where you've potentially got nine companies that fail to launch and end up after a couple of years just sort of winding up and you're putting all the bets on the one that's going to go to the moon. Seeing that in your portfolio, just thinking as an individual investor, if I had nine companies that were severely like 80%, 90% down, and then I have one that's doing well, that would be quite hard to handle emotionally and just like managing that.

Jessy:
Yeah, I think that what's really important is to not stigmatise failure and to really celebrate founders who have the courage to take that moonshot. Because a lot of the founders that we are backing are really credentialed, experienced technology operators who have a lot of different options open to them, whether that's to be an exec at a large tech company. And the fact that they have the courage to go all in on their one idea I think is something that we are privileged to be alongside them on. And we are there cheering along every company and doing our best to manifest all of their successes.

Jessy:

And to be fair, generally these days, it's not the case that a lot of the companies in the portfolio fail really quickly. Often some of them achieve some kind of exit event in that they're acquired by a technology company, for example. So some of them might exit before they reach a really large exit event, like an IPO, but in the majority of cases, they find product market fit. They create value for their customers although not all of those outcomes are necessarily as big as the ones you see in the headlines.

Kate:
Yes, you only see probably very few companies in those headlines and most of them are just going along about their everyday business and creating a great product and a company, but we probably don't hear about a lot of them.

Jessy:
Yeah.

Kate:
And just talking about some of the key players in this space. So we've got you as the venture capitalist, but how do all the different players operate together and what does an individual need to know about like who's operating the venture capital space and how it all interacts?

Jessy:
Yeah. So perhaps it would be helpful for your listeners if I gave a little bit of a who's who in venture capital.

Kate:
Yeah.

Jessy:
So a lot of people would think about venture capital perhaps like shark tank where there's founders-

Kate:
I was thinking of shark tank before.

Jessy:
Yeah. Where founders come and they pitch to a scary panel of venture capitalists in their suits. And we say yes, no, yes, no and we kind of sit there on our throne and allocate the capital. But in reality, it's not quite how it works. So I'll talk about a few players in Australia. I'll talk about some of the large institutional VC funds, some smaller funds, corporate venture capital funds, family offices, international funds, and ecosystem enablers as well.

Jessy:
So in Australia, there are three funds that have more than $1 billion of funds in management and that's Blackbird Ventures, Square Peg Capital, and AirTree Ventures. And I'll talk about

each of them in turn. So Blackbird Ventures was founded by Niki Scevak and Rick Baker in 2012. Most famously, they were one of Canva, the graphic design companies earliest believers and today is Canva's largest investor owning about 15% of a $30 billion US company that's still privately held. They've also been investors in companies like Culture Amp, which creates tools that help corporates survey their employees, Eucalyptus, a house of direct to consumer brands, including Pilot for men's health and Software, which is prescription skincare, and Vow, which is creating lab-grown artificial meat and a whole bunch of other portfolio companies.

Jessy:
Square Peg is led by Paul Bassat, who is one of the co-founders of SEEK. They're an international fund and they have offices in Australia, Southeast Asia, and Israel. And they've invested in Canva as well, in Airwallex, in ROKT, in Stripe out of the US, and OwnHome, and they've had some really impressive exits such as Fiverr, which listed on the New York Stock Exchange, and Vend, a New Zealand company that was acquired by Lightspeed.

Jessy:
And lastly, AirTree was co-founded by Daniel Petre and Craig Blair. Some of their big investments are Immutable, a blockchain-based gaming company, Linktree, a set of social sharing tools for creators, Go1, a corporate learning platform, and Zoomo, which makes the electric bikes that a lot of delivery riders use.

Jessy:
And then after the big three funds, you have your smaller funds, which have about $100 million to $500 million in funds under management. So some of these include Folklore Ventures, Rampersand, Our Innovation Fund, Equity Venture Partners, and AfterWork Ventures, which is where I work. And you see these funds differentiate in a few ways. So some of them will have specific focuses. EVP for example are really focused on B2B vertical SaaS and marketplaces and AfterWork Ventures differentiates by having a community-powered strategy where the core team is augmented by a group of 100 tech operators who support every part of the VC value chain. And we'll dive into that a little bit later.

Jessy:
You also have corporate venture capital funds, such as NAB Ventures, where I used to work, Salesforce Ventures, and Telstra Ventures. And these corporate VCs make investments that are more strategic in nature, as well as delivering that potential financial return. So at NAB Ventures, we would invest in startups where the bank had an opportunity to become a distribution partner or a key enterprise user. Then some other key players include family offices. So the two Atlassian founders, Mike Cannon-Brookes and Scott Farquhar, both have their family offices called Grok and Skip and their mandate is more shaped by things that really resonate with the leaders of those family officers. So for example, Mike Cannon-Brookes's family office is very focused on climate and not only do they invest in technology startups and fintechs, like for example, Brighte, which is financing transition to renewable energy for individual households. They also invest in massive infrastructure projects like this huge solar project called Sun Cable,

which is going to cost billions and billions of dollars to make solar power more accessible to certain parts of the world.

Jessy:
And then really importantly, you have ecosystem enablers. And these are entities that make Australia a more fertile and vibrant and nourishing place for startups to get off the ground and continue to get funded. So you have accelerators like Antler and Startmate that can take an ideation stage startup and wrap some kind of structure and support around them to accelerate them to, for example, product market fit. You have co-working spaces which bring together founders and you have government-operated entities such as LaunchVic down in Victoria that provides grants to founders, particularly underrepresented founders such as women and that provide kind of support as well.

Jessy:
And increasingly in Australia, because we've had success stories like Atlassian and Canva and Airwallex and the world is waking up to the fact that we are a really talented country and there's a lot of innovation happening here and the ecosystem has matured to a point where there's enough talent to really nurture a company all the way up to a scale phase, we have your big international funds that have billions and billions in dollars under management come in and making active investments in the Australian landscape. So this is Tiger Global, Accel, Insight Partners, Andreessen Horowitz. For example, Tiger Global led some local rounds recently like Mr Yum, which your listeners may be familiar with as the QR code in restaurants that allows you to order without having to speak to a waiter. So that's a bit of a summary of some of the key players in the ecosystem.

Kate:
Wonderful. And I think it's good to understand some of those names because if you start reading about these companies, especially the startups in the Financial Review or some of the newspapers, you actually start to notice some of these names of the players in the venture capital industry start to pop up and then you can go, "Oh, I recognise that company. It's a venture capital company." So they're raising money or they're doing X, Y, Z. And it's good to get a bit more understanding of the whole ecosystem in terms of why do people like to invest in venture capital or be venture capitalists and invest so early on in these companies? I know you mentioned before about the potential for the [inaudible 00:20:11] or the exits or things, but are there some other advantages to this asset class potentially beyond just putting your money in an ETF?

Jessy:
Yeah, absolutely. So I think what's really special about VC funds is they have a unique form of access to the wealth being created by the tech sector. And importantly, by the wealth that's created when a company goes from zero to one. Because they invest early on in the journeys of tech companies, VCs capture the value that's created during a startup's hypergrowth phase. So to use an Australian example that we've mentioned a few times already, graphic design startup Canva is tipped to be valued at $30 billion as of its latest fundraise. And that's a valuation that's

on par with the market capitalization of ASX listed juggernauts like Coles and Transurban and Rio Tinto. And despite that valuation, it remains privately held.

Jessy:
So if you were to, for example, invest in Canva when it first listed on ASX or more likely the NASDAQ, all of that value that's been created in the first eight years of its journey as it's grown to its first $1 billion in annual recurring revenue, you are not really privy to it's these private investors who have had access to that wealth creation opportunity. So that's one thing that I think makes it attractive. And once again, Blackbird who's first [inaudible 00:21:55] million dollar fund put initially 250K into Canva and then I think doubled down many, many times over. The return profile of that first fund is 47X on paper over I think it's been 10 years now. And yeah, I think it would be difficult to find an ETF that was returning 47X on paper over 10 years.

Jessy:
And the reason I say on paper is that the investment hasn't necessarily been realised yet. They've realised some of the investment, but the money hasn't actually hit their investor's bank account. So that number could change, but still undeniable that that has represented a fantastic return for some of those early believers in Blackbird's fund.

Jessy:
And then the other thing that your listeners might find interesting is that historically, VC fund performance has been uncorrelated with public equity markets and they represent a true form of diversification from listed equities. Now, I don't know how many of your listeners are punters in the stock market like myself, but in 2021 when tech stocks were on fire and everything was going up 8%, 10% in a day, I was picking stocks and fancying myself a little bit of a Midas because I was picking all of these tech stocks that were on paper doing really, really well. And it wasn't until the tech route that I realised how correlated the performance of a lot of these companies are.

Jessy:
So I thought I was picking stocks in different industries in so far as there's enterprise SaaS in there and there's consumer SaaS in there and there's music and there's health. So no way they're going to all move in the same direction at once, right? But learn the painful lesson that in the public markets, sometimes it's really macros or it's momentum that drives stock performance rather than individual company performance. So it's really hard actually to put together a truly uncorrelated diversified portfolio if you just invest in, for example, shares.

Jessy:
So I think VC in investing in tech disruptors, so agile tech companies that are challenging and displacing incumbents, including those that comprise the ASX 200, these are companies that are potentially taking market share from the banks, the telcos, the retailers, the traditional enterprises of the world, and in investment in VC can represent a really good hedge and therefore form of diversification against investments in the public indexes.

Kate:
And I guess the challenge in Australia, it's very hard for small retail investors to actually get involved in VC from what I've seen past. The government sort of protects the individual consumers if they don't have much money from actually investing in these higher risk businesses.

Jessy:
That's right. So the context is that in Australia, there is the sophisticated investor requirement, which means that you have to qualify as a wholesale investor to actually invest in a venture capital fund. And currently, it's quite a blunt instrument that tests whether you are a wholesale investor. It's really based on wealth rather than knowledge. So the threshold at the moment is that you have to have either more than $2.5 million in net assets, or you have to have made more than 250K per year for the last two years. And I think that's probably about the top 10% of Australians. So a lot of people are actually excluded from investing in the venture capital asset class.

Jessy:
There is a lot of sentiment in the tech industry that those restrictions aren't necessarily the right ones because it seems idiosyncratic that any punter can go and put their life savings on a meme coin like Dogecoin or on a meme stock like GameStop, but they're not allowed by the government to put their money in funds run by really thoughtful individuals who have a track record of delivering some fantastic returns for their investors. Yeah. So there's people lobbying for that to change and for the threshold to be turned into a knowledge test, which is more making sure you understand the risk profile of what you are invested in, the liquidity of the investment, and that you are at a point in your life where if you were to lose that money or not have access to that money, you wouldn't be in a position of financial despair. Yeah.

Kate:
Yeah. I can imagine there's probably a few listeners that fit into that test, but for most people, I think even if we don't, still it's a good ecosystem to be aware of and how that plays in because you're going to hear about initial public offerings and you'll hear about these firms that are involved. So I still think it's worth knowing about, even if you can't invest in it right now, and it might be something you invest in when you get a bit older.

Jessy:
Absolutely. And indeed, one of the things that we are trying to do at AfterWork Ventures is democratise access to the venture capital asset class. So where a lot of funds have minimums that are $0.5 million, $1 million, which does truly feel out of reach, we've kept our minimum them at 100K called over a three to five year investment period to make it more manageable for people who are quite high income earners but don't have kind of generational or family wealth.

Kate:
Yeah. And I guess the other thing to be aware of if you are a budding entrepreneur listening is knowing all these players and how the system works is a good starting point. And if we talk a

little bit more about some of the challenges and the risks of... I guess the main risk is like losing all the money, but some of the other challenges of risks of investing in venture capital, are you able to share some of those with the listeners?

Jessy:
Yeah, absolutely. So two challenges that are front of mind. One is that it's really long feedback cycles in VC. In most jobs, you can tell within a few quarters whether you are on the right track. If the project that you've led grows your company's revenue or reduces your costs or moves the needle in another manner that's relevant for the business, then you're probably doing the right thing and you should keep doing it. Even in public market investing, it's quite clear over the period of a few years whether your portfolio consistently outperforms benchmark, but in VC, it can take a decade to complete one feedback loop, i.e., return one fund.

Jessy:
And you can get little signals in between like valuation markups from other investors or the companies that you've invested in growing its revenue, growing its team, but it's still really hard to tell until the money hits the bank account whether you're genuinely good at your craft because there's many points in the cycle that you have to be good at, not only making the investment at the outset, but also supporting those companies to grow, helping them to manage subsequent funding rounds and deciding when to take some of that money off the table either by selling secondaries or exiting your stake in some way or another. So there's a lot that's involved in it and you don't truly know whether you are any good at it until you've had quite a few years for those investments to stand the test of time or not.

Jessy:
And the other thing that's challenging is access to the best opportunities. So in the public markets, anyone can go out and buy 1,000 shares of BHP if they have a hot take that iron prices are going to soar. In VC, access to the best opportunities take a lot more work. First, you have to build relationships with the early stage ecosystem at large so that people see you as somebody that's relevant for them to come and talk to if they are thinking of building a company and raising around, you have to meet with a whole lot of them to understand their ideas and build conviction on investment, and you probably have to be decently good at understanding how a business is built, the really critical components of certain types of businesses and business models and build conviction that this is a company that has the possibility of return the fund outcome.

Jessy:
And then you often have to convince the very best of one of those founders to take your money over somebody else's money and let you play a cameo role in their journeys. So once again, some people listening might have that vision of VCs as shark tank, but really it's often, especially with the best founders, VCs going and lining up around the block and pitching the best founders why they are deserving partners and collaborators in a certain journey. And with the proliferation of funds and different kinds of funds, family offices, angel investors, VCs are

having to work harder and harder to earn that place at the table and differentiate from one another.

Kate:
I thought that was so interesting when you mentioned when we spoke earlier about how much the tables have turned and venture capital is actually competing to invest in these great companies rather than the other way around, which is quite interesting.

Jessy:
Yeah, the tables have well and truly turned. And I think that's for the better because now founders are centre stage, as they always should have been, and brilliant founders have a lot of choice when it comes to who they want to partner with and they can find a funder that is really aligned with their mission and values.

Kate:
Absolutely. And if we're looking at that next big success story and what are some of the characteristics you as a venture capitalist look for, are you able to chat about that a little bit more and maybe even tie it in with something that you've invested in yourselves?

Jessy:
Absolutely. So at AfterWork Ventures, we've tried to distil this thinking and we've defined a few investment principles, which name some of the characteristics that we think are common to all startup success stories. And we can include a link in the show notes to that piece about our investment principles. I'll just spotlight three of them. So one of them we've called making a dent in the universe, and that is referring to a really big market size that is experiencing some tailwinds. The first investment principle we've called making a dent in the universe. And what we want to see here is companies that are solving a really deep pain point and creating deep value for customers where there are a lot of those customers or where there's a lot of people who could become customers because you solve a pain point for them.

Jessy:
So for example, let's think of something like Uber. At first, the addressable market was limousines, and therefore the customer was people who might otherwise order a limousine, but they were really able to grow that market and now the addressable market is anyone who's looking to go from point A to point B, which is everyone essentially. So the fact that they are creating a lot of value and easing a pain point in the lives of a lot of people make that a really attractive investment opportunity.

Jessy:
The other thing that we look for is an alignment between the superpower of the founder and the kind of company they want to build and a leading signal that they're a magnet for talent and that other people are really drawn in and excited by their vision and want to work for them. So what I mean by alignment of their superpower and the kind of company they want to build is for example, let's say they're building a very technical computer vision startup where their

proprietary technology is that they are the best in the world at recognising objects with a camera and then matching that up to a label.

Jessy:
Now that's a really technical problem to be solved. You both have to be really good at computer vision engineering and really good at attracting others who are very good at that and working on a hard problem in that space. So therefore, if we were looking at investing in that kind of startup, we would really look for signs that the founders are world-class in that technical thing. In another kind of company, maybe the superpower is your ability to market your product. So it's a reasonably commoditized product and you just need to tell a story around your product that makes people really want it and creates demand and allows you to command a prestige pricing point because of your brand rather than because of your product. Then you are looking for a founder who's an incredibly compelling storyteller who is able to come up with creative that cuts through, who understands the science of digital marketing and is able to rally a group of people who can create a well-oiled marketing machine.

Jessy:
So we're not looking for any specific kind of superpower. We are not necessarily just looking for the best software engineers or the best marketers, but there has to be strong alignment between what they're really, really good at and the company that they want to build.

Jessy:
And the last thing that we look for is a compelling why now? So there are some problems that have existed for centuries, millennia. A lot of modern problems have existed for at least decades. And sometimes when we made a company that is solving a problem that has been entrenched for a really long time, the question that we ask is if this is such a big problem and you have the opportunity to create so much value for your customers, why is it that no one has come and done it before?

Jessy:
And sometimes the answer is nobody has had the courage to tackle this really hard problem and I'm just the first one that's foolhardy enough to run at that brick wall, which is an awesome answer. And I love meeting founders who have that kind of self-belief and tenacity, but often there's a compelling reason why we are approaching a juncture in time, which makes this problem or the solution more possible than it was previously.

Jessy:
So to go back to the Uber example, Uber was launched following the widespread adoption of mobile phones, of smart phones rather where it was reasonable to expect that most people had a smartphone that they could order a car through the Uber app and that the maps on those smartphones and the GPS was good enough to kind of match riders and drivers really effectively and show that driver where to go. So there was a compelling why now and Uber and Lyft and DiDi and a lot of similar companies were created in the wake of that tailwind. So as

venture investors, we're also looking out for what are the inflexion points that are occurring right now, and therefore, what are the companies that are really well-positioned to ride that tailwind?

Kate:
Yeah, I think Uber's a really interesting example because people have always needed to get from A to B, but it wasn't until we had iPhones and as you mentioned, maps, to have the whole system with drivers and booking and cancelling and ordering food actually work.

Jessy:
Exactly.

Kate:
Yeah. And are you able to share... So with these principles are you able to share a company that you have invested in that you've actually applied these principles to?

Jessy:
Absolutely would love to. So I've been AfterWork's lead investor on OwnHome, which is a company that has a mission to improve housing affordability for young Australians. They've identified that the single largest barrier facing young Australians trying to get their foot on the property ladder is the massive 20% deposit that you have to front. So on a $2 million family home, that would be 400K. And at the rate that property prices have been growing in the last 10 years, house prices were growing faster than people could save for their deposit. So in many, many cases, people were behind in their saving every year even though they were putting a third of what they were making towards saving for a deposit.

Jessy:
So what OwnHome does is it allows people to identify the home that they want to make their forever home. OwnHome then buys it for them and leases it back to them so they can start living in it straight away as if they were a homeowner. That means they can make renovations and modifications and they can start to put their roots down locally and start planning for a long term future in that home and in that area. Every month, the customer pays OwnHome a fee and a portion of that fee goes towards building their equity in the home. So in five to seven years time, that customer will have accumulated enough equity, roughly 12.5% in the home to move the title over to a mortgage in their own name. And OwnHome pre-agrees a price for which they'll sell the home back to the customer. And that's kept at a growth rate of 3.8% per year. So that means that customers are protected in the event of a runaway housing market.

Jessy:
So for example, in 2021, house prices in Sydney rose by more than 20% in a single year in some suburbs, which means that by the time you have been saving for five to seven years, you could be right back where you started in terms of the proportion that you've managed to save towards a deposit. OwnHome gives people that safety and that peace of mind that they can factor in a kept growth rate of 3.8% and have enough after the five to seven years to be able to have enough of a deposit to move that mortgage over to their own name.

Jessy:
So we met the founders of OwnHome, James Bowe and Tim Harley, when they were still employed in their previous jobs and were working on ideating on OwnHome after work. James was a senior manager at Bain & Company and Tim was leading the Europe and Middle East expansion of Wise, formerly known as TransferWise, the foreign exchange company. And we were really impressed by how these founders were thinking about the problem and the way that they were methodically de-risking different paths of the business. They had built a really good customer wait list of people who were high income, had high credit worthiness, and were looking to buy a home that was out of what they could afford of their own accord, but who had the ability through their incomes to service the fees on that home and to also put a portion towards that equity accumulation in the home. They had secured expressions of interest on a debt facility to finance the purchase of these initial homes and we were among the first believers in them and invested in their pre-seed round.

Jessy:
So to tie it back to the investment principles, there's a really large market in so far as residential property in Australia is a $1 trillion asset class and there are many, many young Australians who want to get their foot on the property ladder and are currently being locked out. There was a clear alignment between James' and Tim's superpowers and the problem that they were solving. So James had previously a private equity experience and had worked as a kind of support for funds such as Tiger Global. So had a good understanding of the capital markets and what those capital providers, i.e., debt facility providers would want to see from someone like OwnHome and was really good at negotiating and getting the right funders in place for that.

Jessy:
And Tim, as a kind of expansion manager was really good at project management and sales and able to build the initial customer journey for people to buy homes and actually gave the first customers the white glove experience of him being the person who sat beside them as they were going on this homeowner journey. So we thought that the founder brilliance was there and the alignment to the problem they were solving was there and then the why now. So this context of growing house prices, a sense of frustration that people are renting for much longer than they want to be and an entrenched problem that was getting particularly frustrating for a segment of the population that could service the fees on a product such as OwnHome meant that kind of we saw the compelling why now as well.

Jessy:
And we invested in June, 2021, and in less than eight months, they've really accelerated their progress. They've now bought about 20 homes for really happy customers and maintain an NPS of 100. And they have early this year raised a series A led by Square Peg, which I mentioned earlier, and Commonwealth Bank's venture arm, x15, they raised $30 million in that round and cracked $100 million valuation. So we're really delighted to be among their first believers and to have seen them really strike a chord with young Australians and to continue to go from strength to strength. So any listeners who have ambitions to kind of start living in their forever home

sooner rather than later and who could potentially be a good fit for what OwnHome are offering, would really encourage people to check that company out.

Kate:
And that's a really interesting Australian case study. And I think that's one of the reasons I like following VC firms and companies that work with startups so much on Twitter and LinkedIn, which is actually how I came across you and AfterWork and even on Substack on their newsletters is because they come across so many... Even if they're not investing, they're sharing the stories of so many interesting innovative companies and different ideas and concepts. And even as just a retail investor that's just investing in companies on the market, it does give you a lot of ideas into different trends and industries and concepts as well. And I think that must be a really exciting part of working in VC, just coming across all these cool ideas.

Jessy:
Yeah, absolutely. A privilege to make founders who are dreaming really big and a privilege to play a small role in helping their dreams come true.

Kate:
And if listeners want to learn a bit more about the venture capital asset class and some of those firms, apart from just Googling the websites of all those companies you listed before, what are some other places they can go to learn a bit more?

Jessy:
Yeah. So firms are really good these days at telling their stories. Let's see, there's other podcasts that I think do a really good job of telling the stories of founders and venture capitalists. There's an Aussie one run by a guy called Rohit Bhargava, who I really respect called The Startup Playbook, and he has the founders of some awesome Aussie companies on his show and has also interviewed partners at the various VC funds. So that's a great thing to listen to if you enjoy listening to podcasts, as you probably do, because you're listening to this one.

Jessy:
And then otherwise, VC funds are always publishing investment notes that tell the story of the companies they've backed and also share a little bit of how those VCs are thinking about the world and why they were excited by a particular opportunity. So we have two sets of investment notes on OwnHome, for example, both the pre-seed investment that we made in July last year, and also why we doubled down on them in the series A. So if people are interested in reading that, you can find that in show notes. And then if you look through that same blog, we have lots of other articles such as our perspectives on the future of talent, the future of sex, and other things that we are seeing that we are really excited to be potentially making investments in.

Kate:
Jessy, what makes a good VC fund manager and how do they really set themselves apart in the overall ecosystem?

Jessy:
Yeah, great question. So we talk about VCs needing to be good at four things, and they all start with S. So sourcing, selecting, sealing the deal, and then supporting portfolio companies after you invest. And I'll talk about each of them in turn.

Jessy:
So in terms of sourcing, VCs need to be good at what we call generating lots of deal flow. So looking at a lot of companies and understanding who is who out there, which therefore earns you the opportunity to invest in some of those companies. We as VCs need to be able to see a lot of companies because we invest in so few of them. In any given month, our team might collectively look at 100 companies and take just one or two of them all the way through the investment process. So sourcing looks like being embedded in all different parts of the ecosystem, accelerators, coworking spaces, tech companies where there are operators who are seeing hypergrowth around them and getting an itch to maybe go out and do it on their own.

Jessy:
And one of the ways at AfterWork we enhance that is we have this community of 100 operators who are embedded in all different parts of the startup ecosystem in their own personal and professional networks and also at these companies so that they can be our eyes and ears on the ground and introduce us to operators that they really respect founding companies that excite them.

Jessy:
The second thing is selecting. So once you have sourced all of these amazing deals, you need to take a few and really build conviction that this is a company that has the ability to become a really big one. And that requires a venture investor to be able to accelerate to a robust understanding of the drivers of value, the main challenges and barriers, the size of markets, the regulatory hurdles. In lots of different sectors, the partners really back themselves to know, for example, marketplace businesses inside and out because they have founded and scaled one of them in the past, or to know things in the construction industry inside and out.

Jessy:
For example, Leigh Jasper, the founder of Aconex, makes a lot of construction tech businesses as he rightly should because he knows what matters and what drives value in those industries. We at AfterWork take an industry agnostic approach. And one of the reasons that we are able to do that is because once again, we have a community that individually have different functional and sector and business model experience so that when we are, for example, looking at a marketplace company, we can pull in people who've worked at Uber or Airbnb and get their eyes over it and get them to help us to accelerate to that robust understanding of what matters.

Jessy:
Last penultimately is sealing the deal. So, as we talked about earlier, now capital is increasingly commoditized and the best founders have choice of funders that they want to work with. So

sealing the deal means being the preferred partner. And in order to be the preferred partner, you both have to make sure that the founders have a really good experience when they go through your process, but also that they see the ability for you to continuously add value after you make the investment.

Jessy:
And last, that brings us lastly to supporting companies after you invest and developing a value proposition for those companies. So for us, no surprises, once again, it is through our community who have experienced scaling functions across sales, marketing, tech, who are able to lean in and help startups on various points of the journey where they become relevant. So for example, one of our community members is called John. He was one of the founding engineers and first VPs of a company called A Cloud Guru. He's part of the community now and is leaning in to help our companies make their first senior head of engineering appointments. He has interviewed loads of engineers and knows what good looks like and knows what good engineering leadership looks like. So he's able to go in and supplement the founders to be able to make sure that they make a hire who is prepared to take that company to scale.

Jessy:
VCs also need to be able to help manifest the success of their startups by opening doors to media, for example, by opening the doors to partnerships. So we are kind of building that capability as well. So yes, once again, the things that a VC fund manager needs to do really well are sourcing, selecting, sealing, and supporting, and we are super lucky to have built a community that helps us to do all of those things.

Kate:
Yeah. Yeah. And I definitely recommend subscribing to AfterWork and any other firms that you're interested in just to hear about these companies and have them come across your radar just to expand your worldview a little bit more about the different industries. And I know you guys have some really interesting pieces about different industries that I was having a good read of, and I'll make sure I include all of that in the show notes. But if people want to maybe follow along with your journey, have a look at AfterWork, where should they head to?

Jessy:
Yeah. So as Kate said, we're pretty active on LinkedIn. So AfterWork Ventures on LinkedIn. We have a Twitter as well, but I'm less good at tweeting.

Kate:
It's hard.

Jessy:
I haven't mastered the right way to tweet. We also have our own podcast called Conviction Hunting, and that is hosted by our fantastic creative director, Annabel Acton. And as the name suggests, what we do is we tell the stories of how founders built conviction to take something that they were working on after work as a side hustle and turn it into their life's work. And what

was the moment or series of moments that unlocked that courage to go all in on something? So you can check that up. Our website is afterwork.vc.

Jessy:
And one of the ways in which we are leaning into a really strong tailwind around what people are calling Web3, which is gamut of things that are enabled by blockchain technologies. One of the parts of Web3 that a lot of people have found really exciting is NFTs, non-fungible tokens, which is a unique claim to a digital asset. Most commonly right now, it's visual images. It's kind of profile picture-esque images that you can use as your Twitter profile picture as an example. There's also NFTs in music and video, but the images are most common right now. We have our own NFT project called Astronauts After Work. There's a collection of 999 of them and they are still minting. So you can buy them for two Solana. A Solana is about $100. It changes every day, every second in fact.

Kate:
It'll be a surprise price.

Jessy:
Yeah. But if people are interested in becoming part of the AfterWork community and learning more about all of the concepts that we've talked about in this show and a lot more content that we haven't covered, particularly around Web3, would love listeners of this podcast join our humble astronaut community. You can find that by going to afterwork.vc/astronauts, clicking through to the mint page, and there's a pretty detailed set of instructions on how to mint potentially your first NFT if you haven't done it before, and then joining our discord community and getting involved. So would love to see listeners of this show join us on our voyage to the [inaudible 00:58:27].

Kate:
Oh, well, plenty of touchpoints and resources if you are an investor, an entrepreneur, or just want to know a little bit more about what's going on in the world at the moment. So Jessy, thank you so much for coming on the show today and sharing a bit of your knowledge from working in the VC industry with my listeners.

Jessy:
Thank you so much for having me, Kate. Really enjoyed this conversation.