EPISODE 1134

[INTRODUCTION]

[00:00:00] JM: Investing in enterprise software has become a competitive business. Lots of venture capital firms compete for the good deals at every stage. This level of competition has driven more capital into those early stages. Ed Sim is a partner with BOLDstart, an early stage enterprise investment firm. He joins the show to talk about modern enterprise, investment strategy, as well as his own varied personal experiences in working at funds.

I want to mention that we’re looking for writers and podcasters to work with Software Engineering Daily. If you're interested, send me an email, jeff@softwareengineeringdaily.com, or send Erica an email to erica@softwareengineeringdaily.com.

[INTERVIEW]

[00:00:46] JM: Ed Sim, welcome to the show.

[00:00:48] ED: Hey, thanks for having me. I’m a huge fan.

[00:00:50] JM: Yes. And normally we talk about a lot of engineering subjects. Some of the episodes are more high-level. I think this will be more of a high-level episode in the vein of Software Daily, which is the website we've been building. Kind of the direction we've been going with the podcast. Trying to be a little bit more general than just software engineering. So I think this one is going to be a little more high-level. It will be technical in a different direction, more around the venture investing technicalities. So let's start with venture investing in the 90s, which is when you started your career. What was that like? What was venture investing in the 90s like?

[00:01:27] ED: Well, back in the 90s, there is one rule back then, and it was that the sun rises and sets in Silicon Valley alone. That was pretty much the only place to do real hardcore tech investing. So when I kind of grew up into the venture space, I was doing it out of New York, which at the time didn't really exist. The only thing that we knew about New York was one thing.

When Willie Sutton was asked why he robbed banks, he said that's where the money is. And if you think about New York, that's always been the case about enterprise software and budgets. So we knew that the money was always there. The question was, is how do you build kind of this whole software ecosystem in New York and then eventually how do you leverage that to invest beyond New York in the enterprise software? So that was kind of what it was like back in the day.

[00:02:14] JM: What were the economics like for a venture firm in the 90s?

[00:02:19] ED: I'd say that venture wasn't really an institutional category like it is today. I mean, you have like a lot of your stalwarts, the Sequoias of the world, the [inaudible 00:02:27] of the world back then. But the economics were pretty much the same. It was like 2% management fee, 20% carry on profits, right? That's kind of a percentage of the profits. But I think it's been relatively unchanged since the 90s and today. And even if you look at kind of – There's a great book called, I think, VC. It's a history of VC. It goes back to the whaling days, if you believe or not, where people would actually raise private capital to fund whaling excursions, and very venture-like from that perspective. And there is this kind of profit sharing percentage, etc. So I think that's where the VC kind of really comes from.

[00:03:11] JM: Today, a lot of the investment opportunities are about access. The great deals are widely known and they're highly competitive. Back in the 90s, was it hard to get access to deals? Where they as competitive as they are now?

[00:03:25] ED: They definitely were not as competitive as it is now. But I think, also, Jeff, it really speaks to just the evolution of enterprise software. I mean, who would imagine that today companies – I think back then, the idea was, "Hey, can I get a $500 million enterprise software market cap? Can I get a billion-dollar company?" That's an absolute enormous, enormous return. But today, I mean, you have 5, 10 billion-dollar companies that are private. And then you look in the public markets now, you have 30, 40, and then even Salesforce is probably worth 250 billion. So just the numbers are much different. But back then, it wasn't as competitive. There wasn't as much money. But at the same time, there weren't as many companies either. So I think you got to take a balanced view of the world back then and today.

[00:04:16] JM: Are there first generation companies from that era that you remember that are interesting comparisons to today? So like you always hear about the comparison from Webvan to Instacart, and Webvan was like 1.0 version of Instacart. But I wonder if there are also examples in the vein of enterprise software. Things that have interesting comparisons to today or things in the present moment that are mimicking what happened back in the 90s.

[00:04:41] ED: Yeah. That's a great question. I should give you some personal experiences. So I was a first investor in LivePerson in 1998, which is a public company today. They just released their Q2 earnings and absolutely crushed their numbers. And I think that company sitting at $3.8 to $4 billion market cap now. Back then, I invested I think at a 6 million pre. And the idea was very simple. Rob's idea was there's this new thing called to the Hosted Model, the Hosted Software model. The name back then was the ASP model for application service provider. And his view was that if you can provide a hosted kind of software model, which SaaS is today for live chat, that live chat should be in every website and you shouldn't be on hold anymore calling folks. And this was 1998. That was the vision.

If you look at it today, think about Salesforce service cloud. Think about Zendesk. And then think about our existing portfolio company, Kustomer with a K, which has gone on to raise a couple hundred million dollars and has some of the largest customers using their platform. So that'd be a great analogy of that.

Another good example would be GoToMeeting. I was a first investor in GoToMeeting in the day when WebEx was kind of the market leader. And we came out with a disruptive pricing model. We came out with an all-you-can-eat model back in the day. And that company grew pretty quickly. We ended up selling it to Citrix. And as of a couple years ago, it was actually generating about $600 million of revenue year for Citrix. What does that remind you of? Zoom. So that's what's is interesting about enterprise software spaces, is that the beauty is that every 10 to 15 years, maybe there's a fundamental re-architecture of how things get built. And there's an opportunity for some to come out and disrupt with already exists. And that's why I think will always happen in the enterprise software business looking at 10, 15 years from now. And you have to ask yourself, "What is out there today that may get disrupted by someone new?"

[00:06:34] JM: A lot of the shows that we do are about software engineering. And software engineering is closely associated with computer science. I think eventually there's a level of abstraction that the product does not require a background in computer science to understand. I'm wondering where that level of abstraction is, because you make investments in enterprise software companies that often are kind of technical, but don't necessarily require computer science or engineering background. What is the modus operandi for somebody who does not have a background in computer science to understand some of these more technical investments?

[00:07:08] ED: How do you actually go about it? Well, look. It's pretty interesting. I mean, when I look at how we do things, when we look at founders. The first thing we look for is a technical founder. [inaudible 00:07:19] folks that will back building some new enterprise category. Second thing is what is their unique insight? What pain have they experienced over 10, 15, 20 years where they need to solve, and they can't stop thinking about it in the shower at night, in the car, in the commute? How do they kind of think about that? And they want to make a dent out there.

So when you actually meet those founders – I'd give you a good example. Like Dimitri Sirota and Nimrod Vax who founded BigID. That was kind of one of the first companies out there to go after the PII, or personally identifiable information space. We funded that before GDPR was passed. And this was a problem that they'd been thinking about for a while. And they had this technical viewpoint about how to build it, right? Their view was that, "Hey, there's stuff called DLP technology out there," which allows large enterprises to see Social Security number going over the wire, or credit card number going over the wire. But the problem was that it wasn't associated. It wasn't associated with a unique ID with the person.

And what if they could actually take all that information that was floating around and tie it to a person? If you tied everything to the idea of a person technically in the database, then you can do a lot with that. You can figure out kind of what data do you have on them. You can figure out who's accessing that data. You can figure out who has the rights, roles and privileges around it and then build a business around it. So that would be an example of understanding the pain. There is a technical fundamental re-architecture of how to think about what was already out there. We could easily identify a Social Security number, but the breakthrough was tying it to a person.

And then what we also did was call around to potential customers. Being in New York, going back to my earlier point about where the money is, we're very close a lot of CISOs, and CIOs, and CTOs, people with billions of dollars of budgets. And we can ping them and ask them, "Hey. This is a problem we have. How are you solving it?" A lot of times, people, A, are trying to build it themselves and just can't. Or, two, is it's a problem that they have and they just haven't found a solution. And, three, you marry kind of a great technical founder with technical insights and you kind of understand the market opportunity a little bit from their very beginning from the buyers of the budget. That's when magic happens.

[00:09:32] JM: It's a very descriptive insight. You said that the sun rises and sets in the Bay Area. That has changed to some extent today. How have the New York and the San Francisco investment communities diverged?

[00:09:49] ED: Yeah. I don't know if it's diverged. But I can tell you kind of us being where we are in New York, many people thought it was just as a New York fund. And look, there are some great New York enterprise companies. Look at Datadog that's out there. Just in our portfolio alone, we have Kustomer with a K, BigID, which is New York and Israel. We have Security Scorecard, which we did the seed, and Sequoia and GV came in and raised rounds afterwards. So there's a lot of great companies in New York.

But looking at our fund 4, which is a $112 million seed fund, I think out of the first 14 investments we made, 10 have an international flair to them. Meaning that we think New York is a great bridge between Silicon Valley and Europe, and we have companies now with founders in Paris and London, multiples in Israel. We just signed a term sheet with a company in Vancouver Canada. We have Halifax, Canada. We have fully distributed teams where people are located all over the world.

So I think the point is that, look, Silicon Valley is great to get deals done. It's great for partnering with tech companies, but the world has become more global. And commensurate with that, there's a lot of value firms now who are hopping on planes or used to pre-COVID doing deals in Europe. I think Europe is a much fast-growing kind of area. In New York, I remember like 15 years ago, it'd be hard to get a Valley firm to pay attention to anyone in New York. And now, before COVID at least, we had a couple of VCs in West Coast in our office every week trying to figure out what was there in the landscape. They are all trying to leave their locale, right? Kind of that the rule of investing within 5 miles of where you, and they've really had expanded their horizons, which is in my mind really wonderful to see.

[00:11:34] JM: There is this term anti-portfolio, which is the list of investments that you could have made, but you did not make. Are there any companies from the 90s that are in your anti-portfolio the you wish you would have invested in?

[00:11:49] ED: Absolutely. The one that stands out in my mind the most is webMethods. At my prior firm – I've actually two prior firms before this. I actually knew kind of the founder of webMethods, a guy named Phil Merrick, I believe, was working at a portfolio company that we had called Magma Software. And he was spinning out to create this new company called webMethods. And the idea was that he had this technology called Whittle, where you could actually – I think the first customer was DHS, kind that shipping company. But it was kind of the precursor to XML. You take structured queries across applications and tie them together and make it easy for end-users to access data from anywhere in the website. And that was inkling, and I had the opportunity to put 250 in and like a million or $2 million valuation. And one of my partners mixed it. And I was pretty upset by that actually. You can see where webMethods eventually became at one point in time. I think it was the precursor to kind of a new industry. And that's one that always sticks with me in my mind.

[00:12:53] JM: From1998 to 2012, you manage a company called Dawntreader Ventures. So that one venture firm. What was your thesis? What was your thesis back in the 14 years you were at Dawntreader?

[00:13:06] ED: Yeah. It's actually '98 to 2010 to '12, but the thesis for us was pretty simple. Actually, there're two evolutions. One is that when I started the first fund in 1998, it was a $20 million seed fund. I guess back then it wasn't called seed. It was a $20 million fund for super, super early stage. And in the time, our thesis was that we want to bring a Silicon Valley approach to investing in New York City, which means that we wanted to care about people and product and tech and market opportunity, versus looking at spreadsheets.

Back in ‘98 in New York and all these ex-bankers trying to do venture investing, and that’s not the same. We wanted to take risk on people and technology. And the second thing we wanted to do was leverage kind of relationships with the Fortune 500 and see that can be provided an unfair advantage to the founders that we back? And my partner at the time, a guy named Bob Lessin. He was vice chairman of Morgan Stanley in his past. He was head of the investment bank at Smith Barney. He is my partner help raise the capital. We raised from some the top CEOs from the Fortune 500. And at the time, they kept reaching out to us asking us what is this Internet thing? And they wanted to figure out now how could we, at Dawntreader, fund companies that could help figure out “what the Internet was.” And so that was the first thesis.

And what I learned from that, once again, was going in very early. But also understanding that there are corporates who have a lot of pain, and if you can understand how to navigate them and kind of match them with founders really early in their journey, you can accelerate kind of success. Fast forward in 2001, about three years later, we just had LivePerson go public. GoToMeeting was doing very well. We had a bunch of other companies. And we ended up raising a much larger fund. We raised the $220 million or so. And the idea was to write bigger checks.

We had actually written a check in the companies that were like the precursor of Box and Dropbox and companies like Xbox. I mean, Xdrive. Xdrive I was kind of the original kind of storage in the cloud. And they went on to raise after our investment probably 120 million more. But the problem back then was that there is no broadband. Broadband wasn’t that prevalent, and storage costs were so high.

I mean, I think the trending was right. But that's another thing I learned, is that pioneers get arrows in their backs, right? If you're too early, to ahead of the curve, you may not make it to kind of see what the long term really looks like. But there’re a lot of things that I saw in the past that have become pretty de facto today. But that was the thesis around that time, was continuing to write bigger checks.

When we kind of finished in 2010, I just sold a company that we had backed in the very beginning I was on the board of called Greenplum. You may have had some ex-Greenplumers kind of on your show. But what ended up happening is we sold that to EMC and it eventually spun out as Pivotal Software. And with that experience – And we had a pretty nice exist in that. With that experience, I had all these founders from Greenplum coming to me from GoToMeeting when we exited a few years earlier saying, “Hey, Ed. I just don't need $5 million to start an enterprise software business anymore. I just need like a million dollars or a million and a half dollars to get started, because there’s this is thing called Amazon EC2 that's out there. There's a thing called open source. And I just need a little bit to nail it. And then I need real money when I want to scale the business.”

And I started writing some personal checks myself into some of these startups. One was, once again, a little too early. I wrote a small check into a company called Eucalyptus Software, which at the time was trying to create an open source kind of a hybrid cloud computing platform. Eventually, Marten Mickos because CEO that, the ex-CEO of MySQL. And we sold that to HP. It was, once again, too early, right? But the point of BOLDstart was we saw so many technical founders who actually didn't want a $5 million check. They just wanted a small check, but they wanted the advice and experience that a bigger check would give you, and that’s kind of the Genesis of how we started.

[00:17:08] JM: Interesting. So, I want to get to BOLDstart in second. But you mentioned an interesting point about Xdrive. Basically, a Dropbox, early version of Dropbox that did not work because of broadband, lack of access to broadband. I wonder, is there any equivalents with 5G? Is there anything that did not work pre-5G that will work with 5G?

[00:17:30] ED: That's a wonderful, wonderful question. I just think that anything with high-bandwidth needs I think are being incredible. Let me give you an enterprise example. I don't know kind of where the investment play is, but I was talking to the CTO of a very large bank. This is pre-COVID. About two months before COVID. And he said that, “Man! You know what? I'm trying to replicate these trading environments for all my traders. And if I just had 5G, I wouldn’t have to worry about it. I wouldn’t have to have all these redundancy. I could let them do whatever they want and wherever they want.”

But I just think that the freedom of doing things even like trading with sub- millisecond kind of needs I think will expand tremendously. I'm not sure where the investment opportunities are, but that's just a good example [inaudible 00:18:16] think about that as an alternative, to be honest with you.

[00:18:22] JM: General question related to fund management. I think a lot of the listeners – Not a lot of the listeners, but there are a good number of listeners who are people who work in investing. And a lot of them are early in their careers. They're associates or maybe principles. How does that role compare to managing a fund? What do you see as a manager of a fund that people at the lower levels might not see?

[00:18:45] ED: Yeah. I like to actually think about myself and my partner, Eliot, as we're entrepreneurs, we're founders. And when people come to me and say, "Hey, I want to start a venture fund." I ask the question, "Are you prepared to not make money for 10 years? To not know if you're any good for 10 years?" And he looked at me with a puzzled look. And the reason I say that is because venture is a long game. I mean, when Eliot and I started. We kind of both started in 2010. That was the second fund that I had started. I started Dawntreader Ventures before starting in '98. But Eliot and I didn't take salary for two years. And people thought we're absolutely nuts. Who is going to kill after enterprise kind of seed back when they're pretty much generalists seed funds in the day based out of New York? Are you guys absolutely nuts?

And we started with a $1 million fund. And then in 2012, we had like four exits. We sold companies to Akamai, and Salesforce, and LinkedIn and others. And we started out with a $10 million fund in the next. And then fast forward 10 years later in 2020, we have $112 million fund and a $50 million opportunity fund. But boy, man, that's been quite a journey. And every time you're taking less money than you would doing something else and you're writing checks out of your own pocket. So first you need to think like a founder. Secondly, there's a lot needed to from "managing funds". You need to think about not just the individual investment. But how do I build a portfolio? Am I going to build a portfolio of 50 kind of scattershot investments? Or am I going to build a concentrated portfolio where I focus on ownership? Those are two questions you need to answer.

Two is how might you allocate my time? Am I going to join boards and, once again, take a higher conviction approach? Or am I going to take more of a spray and pray model? And there're all different kinds of models. Three is how do I raise capital? How do sell that? Sell my vision? Four is how do I assemble the right team around me? So once again, you're just like the founder. You need to think like a CEO. And if you and a cofounder started something, how do I build a business and how do I think about the overall business? It's not just the initial investments. It's more than that as well.

[00:20:58] JM: Most of the companies that you have invested in successfully have gotten acquired. How did the acquisition type exits compare to IPO type exits?

[00:21:09] ED: Well, I would say that IPOs aren't really exits. The sense that you still have to hold on at least six months until after lockup and if you can even sell the shares. So it's more of just kind of another kind of step in the journey to creating liquidity for investors. I would say, overall, if you can take the companies public, then ultimately valuations is going to be much bigger. I mean, let's look at Datadog as example. I don't know what the market cap now, but let's just say it's well in the 20s, that they had some offers to be acquired when they're filing for like 6 or 7 billion, if you remember. And so look at where they are today. No one would've predicted where they are today based on that, and maybe people thought, "Well, they're not turning down six or seven." But a smart investor once told me that every company that has become a billion dollar company probably turned out an offer for 100 million. And every company became 5 billion probably turned down a billion dollar offer. And every company that became 10, turned down on a $5 million offer, right? So I think if you can go public and you believe that you have the repeatable metrics quarter after quarter and you have that machine built, then that's something you should probably go for. But if you're a founder and don't want the headaches, and if you want kind of that into a liquidity event, then an acquisition probably is the way to go.

But the key in any of those journeys, by the way, Jeff, is that you never sell. You're not in the business of selling. Companies are bought and not sold. So usually what happens is a partner reaches out or someone reaches out because you're making an intent kind of in their customer base and they reach out to you to practically try to buy you. And those are the best acquisitions, to be honest.

[00:22:43] JM: So in 2010, you finally started BOLDstart, which is what you're doing today. We've caught up to there. You mentioned that the thesis was to write smaller checks with an expertise of a larger check. Why is that a thesis worth following?

[00:23:00] ED: So, at the time, we're definitely against the grain, to be honest with you. But two, is I think that at the end the day, is that founders still – Look, there's lots of money that's out there right now. But I think that the world is going to eventually kind of move towards either full stack funds, right? Funds that do everything from early to late. And they're also – Or a specialists funds. So you'd put us in this specialists fund bucket. Then I think when you look at kind of where we are in the market, there's pre-seed, there's seed, there's post. There's a lot of confusion, to be honest with you. And the way we think about is that, "Hey, 90% of our investments or pre-product. It's investing in technical founders who have some magical insight."

What we really did is that partnering with these founders being patient, and thriving them with experience. People have been there before, that have exited before, that built big businesses before, but also remember what it's like kind of in those early days. And to help them kind of accelerate that path to product market fit.

What they really means is that maybe we saved three months or six months or nine months. That means less delusion for them. It means less headaches for them, and it means them getting a better kind of follow-on round or their first round, like an A round. And so that's kind of what we're geared towards. That thesis of kind of being there always for these founders I think has resonated well with kind of the enterprise community that we've worked with. And in particular, developers, right? You deal with a lot of developers and a lot of engineers. And I'd probably say that even if you look at a portfolio today, probably three quarters is more developer-first. Oriented investing and the other quarters application stack investing.

So, it's worked well. And I think that if you look at the results of our portfolio, mean, companies like Snyk, which is a developer-first security company most recently publicly announced that there were $500 million dollars, and that's happened in four years. And this area now is pretty exciting overall.

[00:25:00] JM: What expectations do you have for the fund performance?

[00:25:03] ED: Look. I mean, at the end of the day, we're targeting literally like a minimum of 3X net return, but more likely, more like a 5X net return of investment is physical that we set out for ourselves. And if you think about the early-stage aspect, if you can have the courage and conviction to buy kind of double-digit ownership early in a company's lifecycle, you're obviously paying a lower price. But then if you have a big enough fund to maintain that ownership, maintain the pro rata over time, and you have kind of a $2, $3, $5 billion company, it's much easier return 5X net on a 100 million or $150 million fund than it is on a $1 billion fund, right? The return profiles over time change based on the size of the fund, because it's much harder to deliver that much value – It's harder to deliver a 5 billion of equity value than it is 750 as an example, million.

[00:25:58] JM: So you went from Dawntreader to starting BOLDstart. Why not just do this under the auspices of BOLDstart? Why did you want to start an entirely new fund?

[00:26:09] ED: Most of our investors are at Dawntreader at the time. This was time I left in 2010. But I kind a new kind of early 2009 that I would have to start something new. A couple of things, one is most investors were corporate investors at the time. So you can imagine the Lehman collapse happened, September, October of 2008. So there is no corporate money. So there was an institutional base. Two is the fund at the time was $220 million or so in size. There are a bunch of partners around. None of them showed the conviction as I did about going super, super early. I mean, going early is not for the faint of heart. It takes a long, long time to invest in two founders with a slide deck to figure out if you're good or not. And I was just passionate about it. As I said, once again, you got to be founder and be passionate. And for my partner, Eliot, and I, we're very passionate about helping founders take that first step of their journey and building a great enterprise business. And that's what attracted us and then my other partners were interested in it.

[00:27:11] JM: And how did the founding of BOLDstart compare to the founding of Dawntreader? How did the early days compare?

[00:27:18] ED: It kind of happened by accident, to be honest with you. As I said, I was writing some personal checks into some enterprise founders. Some repeat founders that I knew. And one of my friends, a guy named Jim Pitkow who I backed previously, he had actually started a company at Xerox PARC and spun that out in the search space. He ended up eventually selling some of the assets to Google. But he introduced me to Eliott, and Eliott was working at a family office at the time and writing some checks in the valley. And Jim's like, "The two of you should get together." So that's kind of how we got started in a serendipitous way.

Eliott, it's like, "Look, we'll love to co-invest with you and partner with you. And here's a $1 million. Let's see if we can write 10 100K checks together and see how that works." And I just said, "Okay. Why don't we do this? Let's just call it a fund. We'll call it BOLDstart fund one." And for me, Jeff, the idea was eventually that I was going to do that for a year and then try to figure something else out. And fast forward 10 years later, Eliott and I still had it and really having a blast.

So you can almost liken it to kind of that was our seed round. It was very experimental. We had a hypothesis. Our hypothesis was that we could find 10 really good enterprise founders who needed our help and money in the very earliest days. Back then, the pre-monies were to 2 to 4 million pre-money for these enterprise companies, believe it or not. And yeah, lo and behold, here we are still doing this "experiment", and adjusting a model along the way, which is quite fun.

[00:28:43] JM: What is it like to be in that check size? Because like I do some very early stage investing at this point. And what's nice is that companies can almost always slot you in. If you're writing just a very small check, 10K, 25K, even up to 100K, you are going to be welcomed into the round, if you have some remote chance of adding value. And I wonder how that compares to when you're writing – What did you say the average check size is for BOLDstart? Like 500K to 2 million or something?

[00:28:43] ED: Yeah. For now, it's about 500 to about two initial check size, right? And we'll stick with the company throughout at lease for the series B. So it could end up being 6, 7 million+ into one company over time.

[00:29:29] JM: Right. So how does – Do you feel like it's competitive? Is it often competitive? Or can you usually get in 500 to 2 million in the competitive deals?

[00:29:40] ED: I think that's a great question. So, the evolution of writing a 100K – So first of all, just from your perspective. When we started writing these 100K checks, the round sizes were like 500K to a million. And now the round sizes are upwards of – I've seen seed rounds upwards of like 7 or 8 million dollars in size. I think that 100K might have like a 10% to 20% of the round so you have much bigger impact. Then that would even be in today's round size.

Two is I think as you kind of move up and write bigger check sizes, I think for us it's even more important for us to be there first. When we meet these founders before they start their companies and help kind of socialize the idea with them and think through some questions, problems, what's exciting, like the issues. I think if you can get there earlier and you can show up and be like, "Hey, look. If you want to raise $2 million, why take 250 in all these chunks? Why not take 1.5 from us and let's say 500K open for angels like you and a bunch of others?"

So I think it really depends on two kinds of deals. One is there is some of those opportunities where you've just known the founder for a long time and they're just happy to kind of work with you. And you can kind of write the check size you want. Another is, yeah, they've definitely become more competitive when you want you to write $1.5 million or $2 million attitude out of a $2 to $3 million round. It definitely because more competitive over time, and that's where kind of experience and knowledge and understanding and patience all come in when working with the founders.

[00:31:11] JM: Is there more LP appetite for venture capital these days? Like the LPs that actually invest in the venture capital firms. How do the returns compare from their point of view? Are they hungry needed invest in venture capital that works? Or do they still see it as overly risky? What's the LP appetite like?

[00:31:34] ED: Yes. So that's a great question. I would say there's two different kinds LP appetite. LP appetite for new funds right now just nonexistent because of COVID. They want to spend time with people and beat people in-person. So if you're a new fund, I think it's much tougher to get "institutional piece".

On the flipside, if you're a fund that already has institutional LPs and you've got some proven performance, there's more than plenty LP capital out there, because look at this environment, a zero interest rate environment. A lot of this LPs or capital allocators, rights? So they need to think about where do I get my best returns? There's public stock market, which by the way has been on fire lately and some respects from the tech side. But then there's this asset class called venture capital. And I would say that there's probably more interested in venture capital these days for longer-term returns and helping these larger kind institutions built out of balanced portfolio, because – I mean, the performances has been pretty good. Look at the stock market. Look at the IPOs coming down the pipe. Look at the acquisitions. There's probably more interest overall in the category than there was before because of the overall financial industry and where returns are.

[00:32:43] JM: How has your perspective on venture changed since the beginning of your career?

[00:32:48] ED: It's funny. I actually tweeted recently about someone once told me when I was getting to venture capital, that's all about the people. And I didn't really understand what that meant, right? Is it what school you went to? Is it kind of what you did? I think the answer is, is today, it's still all about the people, right?

First of all, I think you need to index for good, honest people with values. Two is, from our perspective, partnering with mission-driven founders that care the most about product and getting that in the hands of everyone out in the world. And three is, is just kind of finding that tenacity and that growth mindset in founders. So, I think my understanding of what it for it's all about the people has changed over time based on experience. And I'm learning every day from people, even people like you and everyone else. If you can take every interaction as a learning experience, and how do you use that to make a new investment or help other founder out? Then I think you can go a long way in the business. It sounds [inaudible 00:33:47] in a way, by the way, but it's really, really true.

I'll give you one last example that TechCrunch came out with something called the TechCrunch List. I'm not sure if you saw that.

[00:33:56] JM: I did not see that. Oh! Wait. Was that the list of like every single investor?

[00:34:01] ED: Based on surveys from founders. And the founders were the ones that said, "Hey, who are the best first check investors at the very beginning for each round? The people that set the terms for the round and then attract all the other capital and do the most work. And who are the most loved kind of VCs around that. So their approach was to build a different kind of list, because there are so many investors out there.

[00:34:23] JM: I guess there's a leading question. So who is near the top?

[00:34:27] ED: Well, yeah, that is a lead question. But we were, I guess, one of 11, that we're selected as kind of the VCs who founders love the most. And the point once again is just it's about the people. That's not just an overnight thing. It's been, for me, 24 years of a journey of partnering with people through thick and thin. With my partner Eliot, and with Shomik, and Natalie and the rest the team, it's been a 10-year journey. So that's something that is super, super important to us and goes back to my earlier point.

[00:34:56] JM: Do you invest in consumer companies? Or is it exclusively enterprise software?

[00:35:01] ED: What's a consumer company? Just kidding. No. We don't. I just can't even – Look, I'll be honest with you. Fund too, kind of our $15 million fund. We have like a 10% kind of side pool where you kind of experiment with different kinds of companies and investments. We did a few kind of consumery things thinking that if we learned about viral marketing and consumer interfaces and swiping and that we can bring into the enterprise, that's a terrible experiment. We lost all the money in that 10% pocket. That was 2013, 2014. And we never looked back. We never touched another one since then, which is been the best thing ever that happened to us.

[00:35:47] JM: I don't know if you follow the crypto space much at all, that there is also some – There are some crypto companies that are becoming more and more like enterprise companies, I think, just because of what is happening in the decentralized finance world, I suppose. That's another area where you're not spending any time.

[00:36:05] ED: We're not spending much time there. Although we do have – As you know, one of our big themes is developer-first. And hopefully we can talk about kind of developers, because I know that's a big kind of audience of yours. But we have a company called Blockdaemon, which reminds me of kind of a Heroku meets New Relic for blockchain. Basically, if you want to create a node on a network, either you have to learn how to build on that node, or you can go to Blockdaemon, and we'll get it set up for you in a few clicks. Host on any cloud provider and then connect you to the main net without much coding at all.

And then we have a monitoring layer as well, kind of like New Relic, or Datadog, that tells you how those nodes are performing and when you may need to add new things. So that one was less of a crypto finance play than is a pure developer kind of infra play overall.

[00:36:53] JM: What keeps you up at night regarding BOLDstart? Regarding the firm?

[00:36:58] ED: What keeps me up at night is whatever happens during the day or the week where founders have a reason to call us and ask us for help. That could be anything from over the weekend we're helping a founder out with her story and their deck and reaching out for their potential series B, to interviewing kind of engineering candidates for a two-person company where they want kind of an investor to provide the thumbs up for the vision and why we invest and why we think it's going to be big. For me, it changes every day.

Luckily, just to be honest with you, we're in the spot where I don't have to worry about where our investor capital comes from. I've got some really good institutional investors that are kind of with us for the longer terms. That's not a worry of ours. It's more about how do we support our founders? How do we help them through tough spot? Because every founder journey has multiple tough spots through their process.

[00:37:53] JM: So you mentioned developer-first is one theme. What are some other themes you have around what you're investing in BOLDstart?

[00:38:00] ED: So developer-first is definitely a big theme. I'd say another big theme for us is kind of – And we touched on earlier, is kind of reinventing kind of SaaS that's already been out there in a better, faster way. So for example, Kustomer with a K is something that we seeded – I don't know. Four or five years ago, and the founder is Brad Birnbaum Suriel had sold their prior company, Assist.ly, to Salesforce and it became the first customer service platform at Salesforce called desk.com. And they are there for a couple years. I had the experience from LivePerson, as you know. And they came to us with this idea and they said, "Hey, look. We have this idea that right now if you look at Zendesk and Salesforce, everything is treated as a ticket." If you, Jeff, reach out to a retailer or kind of a software provider, then if you reach out by email, you're a ticket. If you reach out by chat, you're a ticket. If you reach by Twitter, you're a ticket." And they said, "What if I can finally change the architecture of the database and the fundamental unit should be the person? And if I could start with the person, then everything gets appended to that. So that if you reach out to me, there could be almost like a newsfeed where I see everything about you."

And then secondly, on top of that, I can allow you to add any type of data structure you want. For example, like a ring, which is one of our customers. You could add kind of all their IoT data in so that when you reach me, Jeff, you could figure out that my Wi-Fi is slow, or my Wi-Fi was down, or that I didn't upgrade the firmware, or things like that, all on one interface.

So while it doesn't seem so technical on the frontend, kind of a SaaS application, the underpinnings of the backend was a highly technical scalable infrastructure that is supporting billions of objects now. But that's a way of kind of re-architecting, reimagining kind of what was already out there, and they've been off to a pretty could start.

[00:39:48] JM: And what else has been difficult about managing BOLDstart? What have you learned about improving yourself as a manager?

[00:39:57] ED: I think it's practicing what you preach in terms of – One thing I like to tell cell founders is that hustle is not a strategy. Hustle is a great way to kind of maybe get your first 5 to 10 customers, but doesn't scale. And so, if you're only as good as the people that you hire on board or that you team up with. And so I think just scaling the team. Going from just me and Eliot and doing everything to bringing on folks like Shomik as a principal; to Natalie, our head of people and platform; to Charlotte, who kind of manage their office; to Max, whose our associated. And getting them up to speed and teaching them and spending the time with them and letting them run with the ball and kind of make their own mistake, just like founders would do. I think that's something that I've been learning over time and I think getting better at and getting better at kind of who those hires are and kind of what those unique insights are.

The best thing about this business is that you need someone that cares about not a venture capital, but that cares about creating that next big and find that next big enterprise software opportunity. Find the next great company in the next great category. And I know that you know Shomik, and Shomik is kind of like that. He's intellectually curious. He's always out, asking questions. If you can have that mindset of always learning and looking for the next thing, I think that is kind of something and we've honed as well as kind of an important trait of any one that joins us.

[00:41:22] JM: The venture rounds seem as competitive, as dynamic, as aggressive as they were 12 months ago. It feels like coronavirus has almost no effect on venture capital. Has it changed the venture market at all?

[00:41:40] ED: You've really highlighted it. Are you seeing tremendous deal flow coming through your inbox these days?

[00:41:46] ED: Not really. But I would say it hasn't really changed. The volume of companies hasn't really changed.

[00:41:53] ED: I can tell you one thing, is that I think there's a lot of pent-up demand, where after the first couple months, people were managing their portfolio, and then all of a sudden kind of got used to COVIT for the longer term. And I was talking to [inaudible 00:42:04] the other day, one of our investors. And I said, "Look –" We asked how he's doing. He said, "First of all, thank God the family is happy and healthy and I've got time with my children that I would never had before. On the flipside, I think the world has been turned upside down. You have a madman as president. You have COVID raging and people still not paying attention to kind of the masking laws. And you have the Black Lives Matter Movement. And we have a lot of unemployment." He said, "It almost feels criminal, because right now I'm busier than I've ever been. I mean, it's like we're closing. We just had our fourth term sheet during this COVID time. So that would be before deals closed since we entered this process. And just nonstop new pitches, new ideas, great founders ever seeing. So there's a tremendous amount of energy. In fact, I don't think it slowed down. I think it's accelerated in the enterprise space at least. Even the first check space in the last kind of, I'll say, 45 to 60 days, then even before we entered this phase. Mind-blowing to me, actually.

[00:43:08] JM: How long should it take to deploy a fund like that? You said the most recent fund is 120 million.

[00:43:17] ED: It's 112, yeah. And end we have an opportunity fund of a 45, which is for after series B. So how long it takes to deploy? I think everyone goes on various cycles. If you look at some of the larger fund, it seems like they're raising every 2, 2.5 year. For us, our pacing is every 3 to 3.5 years is typically what we've done in our history. And I think that'll be no different, right? Because, technically speaking, our first close was held in September of 2018. Our second cause was held September of 2019. So we started investing actually in the middle of 2018 before actually are fund was closed. So I think every three years is a good timeframe to balance out diversity and diversification not only in terms of companies, but also timeframe, right? So our investors can capture three different years of where the markets may be, right? Some markets may be hotter one year, maybe less so another year. So it also gives time diversity as well, which is important to LPs.

[00:44:15] JM: What should engineers know about venture capital that they might not know already?

[00:44:21] ED: I think it's funny, right? I mean, engineers should not be afraid to venture capitalists. I think they should find partners in crime, right? I mean, I'm just really specifically talking to engineers who have open source projects and are starting kind of their journeys. I think the second thing is, is that not every copy should have venture capital, right? The second you take venture capital, I mean, you have to think what the investors are thinking. They're thinking about how do I generate at least 10X on each investment? And maybe there are certain categories where you're better off not raising venture capital, maybe just some friends and family. I think when you understand and partake of that journey, you have to think through that. I think the second thing you think about is don't think of venture capitals as money. Think of them as a partner. How do you find a partner in your journey? There's this movie. I'm not sure if you saw *Into the Wild*, or read the book.

[00:45:10] JM: That was a pretty influential book or a movie for me actually.

[00:45:14] ED: Why so, just curiously?

[00:45:16] JM: Well, it's like the of the established path from basically the age of teenager, the time of his death. And for those who don't know, it's this kid who basically rejects society and he goes and travels around. He's extremely happy until he dies. And I saw it when I was in college. And I was like, "Huh! That's interesting. Here I am doing this kind of prescribed thing. Maybe I should be doing this other thing."

[00:45:42] ED: I think that's why I brought it up, because I feel the same way. And the second thing is the last part of the movie, he writes before he passed away, happiness is best shared with others. So talking to engineers, the best thing that we love is when that engineer calls us [inaudible 00:45:59] saying, "Hey, we just got our new kind of product design mockup up in Figma. We just got a new hire. We just got our first customer, right?" So find a partner where you're going to want to pick up the phone or just reach out to that person and treat them as a partner and not as an investor, right? So I think if can find that kind of relationship, that will carry on with you over and over again.

And so who is that first call you're going to make? And if you feel comfortable calling that investor, then they're not really an investor. They're your partner. And I think that's kind of the magic that you should look for when you're embarking on this journey, right? Because it's not easy, and you need someone that will be there with you through thick and thin.

[00:46:38] JM: Okay, Ed. Well, that seems like a great place to close off. I appreciate you coming on the show. It's been great talking. And I hope to talk you soon.

[00:46:46] ED: Yeah, thank you. It was great. Thank you for having me.

[END]