Annaka:

Hello everyone and welcome to Startup Savants. I'm Annaka.

Ethan:

And, I'm Ethan.

Annaka:

If you're a returning listener, welcome back! And, if you're new, this podcast is about the stories behind startups, the founders who run them, and the problems they are solving.

This episode we are joined by Jules Miller, one of the partners at Mindset Ventures. Jules is a former entrepreneur turned venture capitalist.

Ethan:

So, Jules isn't a founder…well, at least not right now. Jules is a VC. That's right, we're switching things up just a bit this week. Instead of getting a founder story, we're going to get some insight from Jules on the Basics of Venture Capital. She talks about who should, and shouldn't be raising venture, what her firm looks for in startups, and common mistakes founders make when pitching investors.

Annaka:
This conversation is a must-listen if you're thinking about raising VC funding or even if you're just curious about what VCs are all about so let's get into it." So we're going to start off, tell us a little bit about your background and how you got into venture capital.

Jules Miller:
Great. So I'm a venture capitalist and it's very interesting. I did not expect to be a venture capitalist. I started as a founder myself. Well, first I was in the corporate world. I actually started a big four accounting firm, so not maybe the most traditional entrepreneurial path, but I was an entrepreneurial person. I started two companies. And just once you get in it, it's very hard to go back and do something different. So the more and more I got into the startup world, especially high growth tech startups, which is what I tend to focus most of my energy on. I just decided that this was the only thing I could possibly do with my life. That it is the most interesting and exciting and fun thing to do. It is also still finance. Right? So I think VC's scary, it's a little... There's sometimes some misconceptions about what VCs do.

We, at the end of the day, are like a service provider. We provide financing to a very particular type of company, and we can talk about what is a good candidate for venture capital and what is not a good candidate for venture capital. But at the end of the day, I get to hear a lot of really exciting ideas. See really incredible founders execute on those ideas, and hopefully change the world in some small, little bit.

Annaka:

Perfect. You've mentioned a lot of things already that we're itching to know about. So excited. And, for anyone who might not know, if you could tackle two of the big finance buzzwords, the difference between angel investors and venture capitalists.

Jules Miller:
Angel investors are individual investors who are usually investing their personal capital. So that could be... And I do some angel investing on the side too. That means I have some money in the bank and I decide that, instead of buying real estate or spending it on other things, I want to invest in high growth startups. So that's an angel investor. Usually smaller check sizes, faster decisions, because they don't have to talk to anyone else. They're doing things on their own. And they also tend to not set terms and lead deals in the way that traditional venture capital funds will. So a venture capital fund will invest a check and we are professional, full-time dedicated people that are doing investment as a career. And we usually also have raised funds from outside LPs. So LPs are the limited partner in our funds.

So, we also have to raise capital and we also feel extremely responsible to our investors, to make sure that we're deploying that capital in the best possible companies. And so it's just a different stage. We usually write larger checks. We can also set the terms. So we would be a lead investor. There's a difference between a lead and an investor who joins a round, that is not the lead. And so these are things that just professional venture capitalists are the next stage after angel investors. Some angel investors end up being full-time venture capitalists. Some do not. Some venture capitalists angel invest, some do not. There's some concentric circles around both of those things, but overall we're both investing in innovation, but venture capitalists are full-time professionals, usually managing other people's money and angel investors are individuals usually investing their own money.

Ethan:
Good explanation. Thank you for that. So you've experienced the founder side of the entrepreneur equation, but you spent more of your time on the investor side. What led you personally to make the choice to go to the investor route? And do you ever see yourself founding another scale company?

Jules Miller:
Great question. So I think that I love being an entrepreneur. I was always very entrepreneurial. I built things. I like creating things. And actually, as an investor, you don't necessarily get to create, you get to support founders doing amazing things. I think that high growth startups are extremely intense to build as a founder. So I was barely sleeping you're doing a hundred hours a week dedicated, especially at the early stages, dedicated to building your business. You literally eat, think, dream, sleep, talk, walk, everything is about the startup. I'm not saying that's healthy, but I'm saying that's typically what you need to do, in that intensity level that you need to do, in order to create something from scratch, and something from scratch that grows extremely fast. And we can talk a little bit more about what that means, but not every business is a startup.

You may be a founder of a company, but it may not actually be a startup. That growth pain, that intensity, that pace of growth, that scale, is something that is really, really important when we differentiate between a typical business and what is considered a startup. I will say that I didn't intend to be a VC. How I got into it was, I felt that there were some opportunities to improve on the VC landscape a little bit. So I was a founder raising capital, and both of my companies that we raised capital for were other females. This was 2012, 13, 14, 15. We were raising capital. It was clearly not a meritocracy. There were not a lot of women on the other side of the table when we were raising capital. And so I ended up joining the venture world because I wanted to fund more women and people of color and diverse non-traditional founders and that was really how I got into this space. I no longer focus on that exclusively as a thesis, but I always do that as just a human who cares about that. I make sure that my pipeline is full of founders that aren't just the typical Stanford dropouts and tech bros. And I make a really concentrated effort to do that. And I think the only way you can change an industry is by being in a position where you can actually make decisions, and in our world, that means writing checks.

Ethan:
Do you feel like the landscape has changed quite a bit since you've got into the VC side?

Jules Miller:
It has certainly changed. Has it changed enough? Probably not, but venture capital is relatively slow cycles. Right? Our fund lifetime cycles are 10 years. We have five year investment periods. So it is changing and I'm very positive about the change that I'm seeing. There's a lot more, for example, diverse partners on venture capital employee. You're looking at the investment teams at some venture capital funds. Most of them have a little more diversity than they had, but it's not probably enough. And there is real effort and there's real momentum around investing in companies that have more diverse founders. I will say that the check sizes are still much lower. And so while there's a lot of talk about it, there's a lot of enthusiasm, there's a lot of support, I always think that this should be very market driven and there need to be more people going... And this is always where I always came from is, this is a big opportunity.

And not that this is charity, this is not doing something good for the world. This is actually amazing founders who are just not having access to capital, who are going to do big things, and I'm going to have high returns from it, and therefore I'm going to put in a bigger check. That still we have some progress to make there, but I think we're getting there. And I think we'll get there in the next five to 10 years.

Ethan:
So as a past co-founder, what are the biggest lessons that you learned from the founding side that you've taken to Mindset Ventures?

Jules Miller:
Yep. So two things, it's about growth and people. Those are the only things that matter in startups. And so the two things I always look for, from my side, is it the right team? Are they not only smart and capable and can execute on their vision and have executed on their vision? I

don't invest in pre-product companies or pre revenue companies, but have they shown that they can actually execute it? If I put capital in, will I get more capital out? And so that the team has to be really strong, because that is something that... This is not an easy space... Starting a company, building something new, especially something that has a potential to change an industry or change the landscape of the thing that you're working on in some way, it's hard, there's new things.

And you have to trust that not only the team can do the thing that they're doing now, but they can do the 20 things that they don't even know they need to do in the next five years. And I think, for me, as a founder, that lesson was very clear when I was hiring, when I was selecting my co-founders, when I was working through the process, there were some limitations. We had some people on board who were amazing, and we had some people that, maybe this was not the right path for them, or they didn't understand what it meant to be a high growth company. And so I think that there are certainly really lessons that you learn only by being in the trenches with people and seeing what they're made of.

I think the second thing, which is aligned, is that everyone needs to be on the same page, that this is a high growth company and the company cannot grow 10, 20, 30% a year. It has to be growing 200, 300, 400% a year. And that's a very different type of business than most entrepreneurial ventures. And so that type of just intense focus on growth is what makes a startup, a startup, in my opinion. And that is something that, not only, I think, maybe I underappreciated when I was a founder, because we were so worried on getting it right. We didn't necessarily want to grow too fast. But as an investor, I look for companies that are already growing that fast, or if they're not, have the potential to, if I write a check.

Annaka:
That amount of growth, just overall, to me, boggles the mind. But I know that's what we like to see. And you've spoken a little bit about the things you brought into Mindset Ventures from your founder experience. For other founders that are learning about VC and investment, what types of startups, stages, and attributes would be ideal for venture capital investment?

Jules Miller:
Yeah. So venture capital is diversified as an asset class in some way, meaning we're all looking for high growth, we're all looking for big returns in a reasonably short time period. So five to eight years is typically where we'd want to see an exit. Meaning you go from me writing a check to you returning my capital, either through an acquisition or an IPO in a pretty short time horizon. So that's five to eight years. I think, that being said, there are different stages of venture capitalists. So I invest in seed to series B. So typically that means there's some sort of product launched. There's some sort of traction and product market fit. There's some sort of ability to sell. And there's some sort of ability to show that you can scale the business. There are lots and lots of really great venture capitalists who focus on pre seed and seed, which is: idea stage, MVP stage, not as much as I need in order to make an investment for my fund, and then there's growth, so I'm kind of in the middle there.

And then there's growth capital after that, which I only invest in series B, C, D, and onward. And that would be companies that are really on a growth path already and just need more capital to grow and to hit that inflection point, where they can then, either, get bought or sold on the public markets. I think that each stage is venture capital and we're all looking for that growth, but each stage carries different amount of risk. So at the early stages... You always trade off risk for ownership. So at the early stages, if you are investing capital in a pre-launch company, meaning there's no product, you're just investing in the people, you would typically write smaller checks, and there's a high amount of risk. So if you're investing only that in your portfolio, then probably most of those companies will not exist, but the ones that do, you will have a high level of ownership in that company when they eventually go public or get acquired, in which case your returns will be high.

The later you go, the lower risk there is. And as a result of, either, higher price you pay and/or the smaller amount of equity you own after the deal. And so it's all correlated, and everything is basically assessing the risk and providing some value for that risk. And so this is a very, very high risk investment area. So we're in the most risky investment area, whereas you can do pretty much anything else that has real assets. So again, like real estate, public markets, all of those things, there's, of course, risk, but you're probably not going to lose all of your money.

There is a real chance that every single deal that we invest in, we will lose all of our money. We will probably not have a hundred percent return hit rate on our companies, meaning we don't expect that every single one of the companies we invest in will be successful. If we do, it means we're probably not taking enough risk and we're not really venture. So this is an extremely high risk industry to be in. And we do expect that companies will fail, but we expect that the ones that win big will go very, very big, very fast.

Annaka:
I'm learning so much. And then on the flip side, are there attributes or startups that absolutely should not consider taking on venture funding?

Jules Miller:
A hundred percent. I think people don't necessarily always understand what venture is and think they want to raise venture and actually do not. So the two things, again, we're hitting some common themes here, but I can't drive them home enough is, if you are not prepared to grow 200, 300 more percent a year, you should not take venture capital. That is what venture capitalists expect. And if your business doesn't support it, or you just don't want to grow the company that way, and that's completely fine. There are great businesses that are built and more solid businesses that are built growing much smaller amounts year on year, but that is not what venture capital is all about. And so you need to understand what venture capital is, and it's to fuel very risky, rapid growth businesses.

And if that's not your path, don't reach out to venture capitalists. I think the other thing is that you do need to understand that most venture capitalists, especially when they're leading a round, will take a board seat. So if you want ultimate control in the business, meaning you don't want

external people to be on your board and have big pieces of equity where they can influence the outcomes, then also do not take venture capital. Part of what we do is, we're clearly not running the business. That is not our job, but we are there to provide oversight and direction. And our job is if the CEO is not performing in the way they need to, in order to make the company a success, then there is real responsibility and accountability for that. So you do need to be prepared to have an external board, and have the venture capitalist that you're partnering with take a board position there and own enough equity to actually have some influence on the direction of the company.

So, that's not for everyone as well. Again, no right answer, but just know what you're getting into. And then the last thing I would say is, if you need to... This is a harder one to articulate, but I would say, if you are not comfortable doing things in a way that you are taking risk and you don't know the answers to everything, and you're not learning every day, if you are someone who likes to know details and make thoughtful, smart decisions over a longer period of time, that's probably not a venture backed business either. You've heard over and over from me, the blistering pace that growth has happened, means that you're making decisions regularly without full information, without the time necessarily to do thorough analyses of every single decision. And that's why it comes back to us, always, for the team.

So if you can't trust, for example, your CTO to do everything on the tech, without your oversight, as the CEO, then that team's probably not ready to scale up this pace, because it's just not possible to do things in this way. If the CEO needs to be involved in every single decision and needs time to process the information that's there, you just have to move fast. And sometimes that means as, very famously Facebook says, move fast and break things. That's not always the right situation, it's not always the right outcome, but that is the general mentality.

Annaka:
Yeah. And I think being an entrepreneur is not on my shortlist, but “move fast and break things,” I think I need tattooed on me somewhere. So.

Ethan:
He's recently changed that. I heard him on the Tim Ferris podcast and his new saying was, move fast and who knows, because it was considerably less sexy than move fast and break things.

Jules Miller:
It was. And I think that the difference is now they're a big company. Right?

Ethan:
Yes.

Jules Miller:
And I think that at the beginning, moving fast and breaking things is how you get traction and how you at least prove the concept. The concept works. When you are a big company, the more

things you break, the more shareholder responsibility you have, and the more liability and all sorts of things. I think with startups, especially in enterprise software. There's consumer and enterprise. Consumer means selling to individuals and enterprise means selling into businesses. I tend to focus mostly on enterprise software. And in that space, sometimes you also can't break things. There's things like compliance, and there's data privacy and things that, also, you don't necessarily want to break. But I think you need to know the things that you can break and move fast at the expense of those things that are not as important, and then focus on the things that are important and don't break those things. So it's a little more nuanced. Yes. And I think Facebook realized that but at the beginning, the mentality and the ethos is partially correct to the degree that you can't do everything perfectly when you're moving at that speed.

Annaka:
Absolutely true. And, you talked a little bit about the relationship between the startup founder and the VC. What does the ideal relationship look like there?

Jules Miller:
It should be more of a coaching or mentorship relationship than anything else. And so part of what we look for also is founders who I want to work with, who I think are responsive. They certainly do not have to take my feedback. And actually, I don't want them to take all of my feedback and suggestions, but I want to form a good relationship where we can talk openly about hard things. We know that this stuff is hard. Right? Every venture capitalist who has been in this space, we're not expecting you to go, everything's perfect. We're going according to plan a hundred percent, everything's great. That means that you don't have a great relationship with your investor. My favorite founders to work with are the ones that we've built trust. We've built a relationship, and they're texting me nonstop and we're meeting on a regular basis and we're talking through some really hard stuff.

So, what happens when someone's not performing? Can you fire them? Do you need to coach them? Do you have time for that? How do we get them to the right position? Can we change their location? There's all these sort of little nuance things that I've seen a million times now, both as a founder. And then also with now, we've got almost 60 portfolio companies. So these are patterns that I can help provide insight on. It doesn't mean that it's the right answer, but having these conversations, getting an opinion from someone who has seen more data points, and seen what works and what doesn't, in some way, is extremely helpful for founders. But it also means being a little bit vulnerable, being able to share those things and working through them together. And so, that is my preferred relationship with founders.

Of course, we have some founders who are just off on their own path and they don't need support and guidance at a certain point, or at least from us, maybe their later stage investors do. The point is we have several unicorns in our portfolio, but what I would say is, this is a people business and it's about relationships. So the best possible outcome is working with someone who is not just a yes, man, is not just a gloss over every hard thing. It's that you have a real business relationship, that we trust each other, and you can talk about the things that are important to the company together and work through solutions.

Ethan:
We recently had another founder on the show, Evan Buist of Melodie, great episode. If you haven't heard it, go check it out. He told us about a lesson he learned when pitching to investors, and that lesson was not to bring a 50 page pitch deck. Do you agree with that? What makes a good pitch deck or just a great pitch in general?

Jules Miller:
Yes. Never bring a 50 page pitch deck. I want nothing to do with that. And also it shows me that you can't prioritize the information that's important. So, like it or not, a pitch deck is a proxy for how you think and how you articulate your business. And, who was it? Was it, Mark Twain said, "I would've written something shorter if I had more time." This is having even very complicated businesses articulating and being able to share the key points that are important in a short amount of slides. And a short amount of discussion is really your first challenge as an entrepreneur. Right? Can you articulate what you're trying to do clearly, directly and in a concise way? And the pitch deck is the mechanism that we use for that. So, I would say 10 to maybe 20 slides max, no more than 20 slides.

I tend to see 10 to 12 is probably it, at least for the first presentation. You probably have a lot more information than that. They go find in an appendix or a data room. So the typical way you would approach a VC. So again, this is a relationship business. It's about people. So you don't go into a first date, for example, sharing everything about your life in all sorts of minute detail. You don't bring your parents to the first date. You don't do all of those things. So, what the intention is, is this a company? And is this a founder that we are interested enough in, not writing a check then, you will almost never get a venture capitalist who will write a check after you've walked them through your deck for 30 minutes. But is this someone that I want to learn more from? And that I'm interested enough to do my own homework? Because the steps for raising capital are, number one, you get an introduction.

Number two, you usually do your pitch and the pitch should be able to be done in 30 minutes. Right? My intro calls with people are usually 30 minutes. Sometimes an hour, but very rarely. And I find that the last 30 minutes are not particularly useful. Usually in 30 minutes, I know if I'm interested enough to look further or not. Then we go and do our homework. It's called due diligence. And what that means is, you usually have a data room, meaning Google drive or Dropbox folder somewhere where you have other information about the company. That can be all the other slides, all the other details. There's usually a pretty rigid format of the stuff we look for: Cap table, financials, sales decks, go to market strategy, backgrounds on the founders.

It's the five Ts, Team, TAM, which is the total available market, Technology, so a little bit more about your product, Traction, so what have you sold or how many users do you have and what does that look like, and what's the projection on that? And then Terms, so what kind of deal are you looking for? So how much are you raising? Do you have deal terms, that type of thing. So those are the five things we really do deep diligence on, and then there's multiple phases after that. It ends when... So usually there's back and forth, Q and A, all sorts of things. And then the

final stages, usually there's a full presentation to our investment committee. So we have a five person investment committee.

Every founder comes in and presents to us, and then we do a discussion afterwards, and we vote, and we decide if we want to do the investment after that. So the pitch deck is not the end all, be all. The pitch deck is the door opener. And if you come to the door with too much information, it's usually not appropriate for that particular meeting. And it probably won't progress after that, because I also see that you don't really understand the process and you don't really understand the game. So step one is really just understanding that this is a multi-step process, and what is appropriate for each step along the way.

Ethan:
I feel like you could probably write a book on those five Ts. So we'll wait on that. And then, whenever that comes out, we'll scream it at the top of the rooftops. But moving on to the next question. What does your... Excuse me. When your firm decides to invest in a company, what is the general target of return that you're looking for, in kind of a percentage of growth and timeline? And you've already said 200, 300, 400% per year over five to eight years. But when it's to the end, to that point where they're IPOing or selling, what's the overall percentage growth that you guys are looking for?

Jules Miller:
Yep. So it's more based on valuation of the company. Right? So what we're looking for, typically, is at least a 10x return. Meaning if I invest $1 now in your company, that's valued at $10. In five to eight-ish years, you will be worth at least a hundred dollars. Right? So that's a 10x return. Obviously the numbers are much bigger when you're talking about valuing a company. And I think the multiples are different too, depending. So, it's not just about revenue. Right? Because in each industry, the revenue multiples are different for acquisitions or for IPO. So in some industries, it might be, if you make $5 million, you would be valued at $10 million. So there's a 2x multiple on revenue. In other industries it's a 20x. It depends on what it is, but what we're looking for is a return on our ownership value.

Meaning, so whenever we invest, the way venture capitalists invest is, I pay you for a percentage ownership of your company. So I'm giving you cash, and in return, you are giving me equity. Meaning you're giving me a percentage of your company. And that equity needs to appreciate in value by 10x, at least, in order for me to feel excited and good about the investment so that's the path. There's lots of different details around that, but every investor will be looking at companies that they think they can get a 10x return on that initial investment.

Ethan:
And is that over that five to eight year period or any different than that?

Jules Miller:
Yep. That's about the time period, because those are our fund cycles. Right? So there's real tactical reasons for that. Number one is just, you have to grow that fast in order to really have a

high impact on the industry, and get to the scale that you need in order to do big things. But more importantly, it's because, just on a tactical level, our fund cycles. So when we raise a fund, we have a five year investment period, and then up to a 10 year period that we can still manage that fund. After that we actually don't really manage that fund anymore. And any investments in that fund, if they're not exited by that point, it's actually very complicated for us to figure out what to do with them. So, there's some real issues with that.

And so you just have to know... And also, so when we invest in the fund cycle, it is also really important. So if I just raised a fund and closed it yesterday, and then I invest in you tomorrow, you probably have a little more time before I'm going to start pushing you to a really fast exit. If I invest at the very end of my fund, you're going to have a shorter period of time to invest. So it also influences the types of companies that we invest in, depending on the fund cycle.

Ethan:
That's an interesting concept. I don't think I've ever heard that in any of the VC conversations that I've been privy to.

Jules Miller:
It's always great, by the way, for founders to ask, how much money? When was the last time you wrote a check? Where are you in your fund cycle? How much do you typically invest? This should not be a one way conversation. Founders can and should be asking investors more about their fund, more about the check size, more about where they're in their fund cycle. Because all these things are important to figure out the fit. Venture is not a reflection of whether you're a good company or not. Ventures a reflection of are you a fit with this investor's thesis, with their expectations, for what you're planning to do with their own fund dynamics, whatever that means.

And so this should not be, if you're pitching VC after VC, after VC, and they're not interested, don't take that personally. Take that as, that's just not the right business for that particular investor, for a lot of reasons. It could be that it's not good fit for venture capital overall. It could be just that that investor has different ideas of the things that they want to invest in. And it's not a reflection on you at all. It's about fit.

Ethan:
Once a company takes on venture capital, is there any other path to, quote, success, other than selling or going public?

Jules Miller:
Those are the two traditional paths. And honestly, the outcome is that you have to return capital to the hands of your investors. I guess there potentially are other ways to do it, but I haven't seen it. Right? So it is really about getting liquidity for your investors. And that means how do you convert their equity ownership into cash for your investors? And that usually means that someone is buying that equity from them. And that's either, a bigger company who's acquiring you, or the public shareholders for an IPO that they're buying that stock from you. So, you could

do things like, the founders could buy back shares or something like that, but then that almost never happens.

And usually the returns are very low. You could do a secondary offering, meaning, sometimes early stage investors, as the company grows, will have the opportunity to sell off a piece of their shares to later stage investors. Like if SoftBank comes in, or Tiger comes in, sometimes they'll buy stock from the earlier investors at a pretty good return, but those are not necessarily unusual, but those are not the best possible outcomes. So, it really is almost exclusively going to, either, the public markets or to be acquired by a bigger company.

Ethan:
What is the most common reason that, the startups that gain VC investing, what's the most common reason that they, either, see their growth slow or just stop entirely?

Jules Miller:
So I think a lot of the reason that startups don't succeed, generally, is people reasons. This gets minimized, the bigger the company is. But at the earlier stages, so there's inflection points. Right? At the earlier stages, and it's all about the team, can your team work together? Problem solve? Are the bright people in place to do the right things? We try to invest in things that we think have the potential to be big. So if they did not get big, it's usually a people problem, especially if it doesn't work at the early stages. At the later stages, there are other things that could happen. So it could be competition, it could be things around the customer base, and could be pricing. Are you charging the right price for things?

It could be your renewals process. It's usually something around sales. It could also be the ability to scale technically, which is also a problem. I could go on and on about this. I think the answer is, there are a lot of reasons startups don't quite work. The norm is actually for them not to work, it is more unusual for a startup to reach a billion dollar valuation and go public, than it is for a startup to fail. It's a lot more common for them to fail, because there are just so many potential issues for it not to work. So it is not for the faint of heart. There will be challenges and issues all along the way. And that's why it always comes back to, is this team the team that can solve those challenges and navigate those waters? And if something is not working, be honest about it, and either change it or figure out how to make it better. Right? That's what we're looking for. But almost too much to count, too much to articulate, what could possibly go wrong. A lot of things could go wrong.

Annaka:
Yeah. Just when you think it might go well, there's going to be something else.

Jules Miller:
It's always like that too. Just when you think things are going well, something horrible happens. And then in the opposite, just when you think the company's about to die, something amazing will happen. It is a roller coaster. It is an emotional and physical roller coaster, going up and down on a daily basis, and you learn a lot. You learn way more in a startup than you can,

especially a high growth startup, than you can in other jobs. But it's a lot. And there's a lot of burnout. There's a lot of divorces in the founder community. There's a lot of depression. There's a lot of really crazy things that happen, as a result. It pushes you to your limit and you see what you're made of. And sometimes that's good. And sometimes there's some scary stuff there.

Annaka:
Yeah. I can only imagine. I am such a creature of habit and like, yep. Nope. I'm comfortable. It's fine. Leave me alone. You've got this. But I want to come back to, you had talked about questions that founders should be asking VCs. Do you have more? Because we want to make sure that you're getting the right fit on both sides. So, how do founders find that out?

Jules Miller:
Yep. Again, it's by asking questions. I say that I'm basically a professional question asker. That's kind of my job, at least at the investment piece of it. There's a lot more we do to support our portfolio. But I think, in return, founders should make sure they're asking questions. If this is a one-sided conversation, it's not a good conversation. Meaning if they're only talking about their business and themselves and what they're doing, then you're not getting the information you need. So I think we talked about asking about generally about the fund, about what they invest in, what's the thesis, what size checks do they write? What types of things do they like investing in? Are there things that they won't invest in? And it's totally fair to say, based on what you've heard about my business, is this a fit with your thesis?

Is this the right fit? I think the other thing that founders don't ask nearly enough is about process. Right? How long does it take for you to make an investment? What's the next step? What can I expect if we get to the end with you of this process? How long does that typically take? What's your check size? Do you lead or follow? So leading a deal would be setting the terms and taking the largest position in the company, meaning writing the biggest check, taking a board seat. That's a very different investor conversation than someone who follows or participates in a round, meaning they're just adding a check to the terms that someone else sets. They usually don't have a board seat or much influence, although, can certainly have a great relationship with the founders still, but those are very different conversations.

So do they lead? Do they not lead? Or do they lead sometimes? And if so, when? I think also ask about fund cycles. Where are you in the cycle of your fund? Does that make a difference to how you think about investing? I think, also, the other thing, it depends on who you're talking to, is, who is the right person in the fund that would be the biggest advocate at this? So for example, if you're talking to an associate at the beginning, the associates are wonderful and they're great entry points very often. Usually a lot of times our associates will take the first pitch before they pass it on to me, but they're not ultimately the people who put on the deal, and there has to be one partner who is really advocating for the deal.

So, if you're not landing at that partner, then you're not at the right person. So making sure that you're connected to the right person, who's really going to own this deal for their fund, advocate for you in the investment committee, and then be your main point of contact after the

investment. And so there's a lot of questions, but I would just say, be curious, ask questions, ask about them personally, too. What do you personally like your relationship to be with founders? I like to have a pretty hands on relationship, some investors don't. And they like to be passive investors and that's fine too, but understanding what that means. And then the last thing I would say is, always get references from their portfolio company. So I would say, don't do this at the very beginning, but if it looks like the investor is very likely to make an investment or to offer to make an investment, ask for two or three other CEOs that they have invested in the past, where they have a relationship, it doesn't matter.

I actually prefer people hear the negative things too, so that you understand what it's like working with that VC. I would also probably make a big effort to reach out to other founders who they don't suggest, just like we do when we get references for the founders. If the founder gives us a list of three references, we will certainly call those references. But then I'll also reach out to three other people who also know that founder, because, of course, when you give references, you only give references to the people who you know are going to give you a good reference. I want to hear the other references also and I think you should do the same for your VCs.

Annaka:
Yeah. Ugh. A little money background check. And then you had also talked about not taking rejection personally. We hear that pretty often from founders. “Yeah, getting your funding rejected, it stings. I take it personally. I think, maybe my business isn't going to survive or whatever.” But do you have any tips, from your side, to keep their momentum going and keep the fire in the search to keep looking?

Jules Miller:
Yeah. So again, this is not necessarily a reflection on you personally. It's hard sometimes. I've been there. Right? When you get into business, as I said, you eat, sleep, drink, everything is about the business. And so when someone says no to something that you actually want, you can take it personally. But I think it's really important to not think like that, and get feedback on these things, so that you can either adapt or ignore that feedback. Right? So I think that there's no other way to do it other than just be really confident in yourself, know that it's not coming with malicious intention. It's really just about fit for thesis. And then also know that this is extremely difficult. Right? I don't know what the numbers are recently, but I think less than 10% of startups raise venture capital.

So, it's not like every company out there, every startup out there, raises venture capital, it's an extremely hard thing to do and give yourselves some credit for even getting the conversations. A lot of people never get to that stage. Right? So if you're even speaking to venture capitalists, they seem interested in what you're doing, you're going through the process. Then that's something that most people don't actually get to that stage. Taking no for an answer is something that I really think is important to do well, because it means, if you're not getting nos, when you're trying to do things, you're not being ambitious enough. Right? If you're getting yeses from every single person you sell to, it means that you should be selling to bigger companies or more companies or something like that.

You need to be really pressing the limits of what is possible. And that means getting yeses sometimes and getting nos sometimes. If you're not getting any yeses at all, it means that maybe there is something in your business that is not quite right for venture capital as an asset class. Which again, does not reflect on you personally, it does not necessarily reflect on your business, but it means that maybe this type of capital is not the right capital for you as well. And there is no problem with that too. All of these things are... I think every no you can learn from. And so take no as a, what can I learn from this experience?

It might very well be that person's an idiot and they're missing out on a big opportunity. Great. But if I didn't land my vision, if they don't see my vision, that's also a reflection on how I'm communicating. So maybe I can learn how to communicate my vision better. So next time I'll see how exciting the thing is that I'm trying to do. So I would just say, take every no as a learning opportunity, both for yourself and for understanding the industry and the type of thing that you're doing, and learn from it. And you're going to get stronger and do better every single time.

Annaka:
I need you to pep talk me in the mornings now, because I feel better about my life and it's not even my money. And as far as industries, we are in a tech first, there's tech all over the place. But are there industries that you're seeing, receive or secure VC funding more frequently than others right now?

Jules Miller:
We are still in the business of funding technology companies and that means that company has to have tech margins. And so what I would say is, the companies that are more challenging to fund from a venture capital perspective are companies that have margins, meaning the cost of doing business versus the revenue that you get in, is less than something like 80%. So we're looking for real software margins. So if you're not making, on everything that you sell, if you're not making 80% of that in profit, or at least operating capital. Right? If your costs to sell that widget, whatever the thing is, are more than 20% of the actual cost, then it's probably not a software business that is going to be appealing to venture capitalists. There are, of course, some exceptions. There are some funds that look at different types of businesses, but what we typically want to see is very strong margins and what that means is that it's scalable. Right?

So it's not, I put in one hour and I charge a 20% uptick on what my hourly rate is. And therefore, every time I'm making a little bit of money, I have to put in more. We want to see companies that can go from here to here, logarithmically, not linearly. And that means having really, really strong margins and being able to sell in a more bulk way, meaning that, the bigger you get, the more you can sell with fewer team members. And so those margins might not be 80% gross margin at the beginning, but they certainly should be able to get there if you have the right amount of capital, and it should be higher margins, the bigger you get.

Annaka:

Gotcha. Are there any industries that you're like, “man, I want to work with them all the time?” Anything that really excites you that you want to just invest in?

Jules Miller:
This is a personal thing for every investor, but I have gone extremely deep down the web three rabbit holes. And so I get very excited by blockchain and crypto companies now. And it is kind of hard. I invest in a very diversified group of companies that are all enterprise software, but I've been working in the blockchain crypto space and investing in that space for six, seven years now. And right now is a really, really interesting moment. And so it is-

Ethan:
It sure is.

Jules Miller:
It is both good and bad. I love investing in a down market and right now, we're in kind of an interesting place, but I think it's something that a lot of investors have come on board with in the last few years. I remembered being very early as a professional investor in the space, and not all investors understood it or were interested. Almost every VC fund has at least someone looking at the space now, which is exciting.

My particular interest is always enterprise blockchain, which is also not everyone's cup of tea, but it's where I think the most opportunity is. And when you see things that are truly industry changing, and not just industry changing, world changing in some way, meaning the way we do things in web three is very different than the way that we do things now. And it is an improvement, meaning, I am able to capture ownership in the things that I participate in. That's a big concept that actually has some pretty radical downstream impacts. And it's hard to look at companies that are doing incremental changes when you see things that could potentially have a really, really massive change. So for everyone, that's different, but for me, it's focused on enterprise applications for blockchain.

Annaka:
Ethan loves blockchain and crypto.

Ethan:
Oh, for sure.

Annaka:
Meanwhile, I don't know what that means. So, first of all, if I could just congratulate you on just the never ending knowledge that you... Wow. I knew you were a subject matter expert, but this is just... It's amazing. All right. So what are some common mistakes that you see startups make when seeking venture capital?

Jules Miller:

Again, a lot of mistakes. I think our industry is full of, call it rawness. Right? Again, we're not expecting fully formed businesses or even fully formed founders. Right? This is a work in progress. The one indicator we like to see is, can you grow and develop and get more sophisticated quickly, both you and the business? I think a lot of mistakes happen when there is a lack of understanding of what venture capital is, or secondly, and this is part of it, that this is a human relationship. Right? So, for example, Never feel bad for your VCs, but just for some context, I sit and listen to, some days, to pitch calls for six hours straight on Zoom. That is not necessarily the most glamorous or fun day for me.

It's not that companies aren't interesting, but if it's not engaging, then I'm probably not going to be interested in your company. Meaning, ask questions, let's have a real conversation, figure out how to make it interesting. Because I get really excited by companies and people that I think are interesting. But if you're going to sit there for the 30 minutes that we have, and I ask you, hi, can you tell me a little bit about your business? And then you speak for the next 30 minutes without asking a question, and you go through slide after slide, after slide in a robotic way. That's not fun for me. I don't want to work with you. So there's a real human... It could be the most amazing business in the world, but this is a people business. And so make sure that you're appreciating that there's a person on the other side of the pitch, and it's not just about the pitch, it's about the relationship.

So, make sure you are really focusing on that relationship. And sometimes that means not even talking about the business, talking about your story, and what you care about, and why the industry means changing, and not doing a robotic pitch. I would say, just be really conscious of how, what you're saying and what you're communicating is being received by the person on the other side of it. And if they're sitting there looking like they're multitasking on Zoom, where they're not really engaged, it's probably not landing, so either change what you're doing or just end it, because it's not working.

Ethan:
At the beginning of the relationship between founder and VC firms, it seems like everyone is in alignment. Make the company grow as fast as possible. The check is cut. The bottles are popping. Everyone gets to celebrate the future prosperity that's just right now being born. But a few years down the road, if the goals fall out of alignment, for any number of reasons that this could happen. Is there any way forward that doesn't lead to destruction for the company or a loss for the VC?

Jules Miller:
Of course, there's plenty of ways to pivot or to repair something that's not working. So, I think, number one is, if it's a people problem, you change the people. That could be head of sales. It could be the CTO. There are certainly people that are really good early stage founders or early stage executives that don't scale with the business and so they hit a personal maximum point where they just aren't the right person for that thing anymore. Sometimes you can bring in a new executive and have some fresh energy and fresh experience. And then the company can really take off. Sometimes it's pivoting what the product does or how it's sold. Right? You can go from,

for example, a direct sales model to channel partnership. So instead of selling directly to the customer, you go through a variety of third parties who are already selling into that customer.

And you do partnership agreements with them. That's on the enterprise side. Of course, there's other ways to do that on the consumer side. There's also, fundamentally, is the technology being applied in the right way to the right problem and the right business? I've seen companies, and there's lots of examples of this, where they start with a tech product that does one thing in an industry, but then actually pivots and is much better served doing something else. And I think that there's... Again, all of this is about fit. So I think there's certainly ways to revive. And like I said, the startup world is a roller coaster. And when you hit a down point on that roller coaster, I think having a real hard self-reflection on, is this just a normal down cycle and we'll come back up or is this really problematic and we have to change something?

And if we change something, will it go back up? I think that those are just not only one time in the life of a company, that happens on a monthly, quarterly, annual, maybe even daily basis. And so it's about problem solving. And if something has plateaued and something's not working, the responsibility of the founders, with their investors as coaches, is to figure out how serious that problem is and how you fix that problem.

Ethan:
Cool. I like to hear that it's not just, well, shut it down. Couldn't work.

Jules Miller:
The other thing you see on a regular basis is early acquisitions. Right? So, if there's something interesting there, and we've seen this too, where a founder who goes, okay, this is really interesting. The tech is really valuable, but it's probably not going to scale in the way we need it to hit those 10x returns. We're probably not going to be able to go and raise another round of venture capital, just because the growth isn't there. But it's still a good business and we're still making money, and there's still really interesting opportunities for the tech. Then you see an early acquisition. Right? It might not be a 10x return. Maybe it's a two or three x return, but that's okay.

It's better to do that than to try to burn through the cash you have in the bank and run out of money and shut the business down. So there are certainly, again, all of this is kind of decision making and, there's decision trees at each stage, but if you hit that point where the company's just not working at the scale that you need it to, you have options. If something's working right. If nothing is working, yes, the company's probably going to shut down. But if something is there, that's actually working, there are multiple different paths to go with that.

Ethan:
So Mindset Ventures is based in Nashville. Are you seeing a shift in where startups are located post the height of the pandemic? And if so, is there a shift toward virtual pitches? It sounds like you said you spend six hours a day on Zoom sometimes. So maybe the answer to that is yes.

Jules Miller:
So this has been a really interesting change in the industry. So just to be really clear, my fund is actually an international fund. Most of our team is based in Brazil. We also have an office in Israel, and then I'm the US partner, and I cover the US and Canada. However, I was in New York, I was in San Francisco before that. And then I moved to Nashville personally. So I'm the only team member here actually, although I am the head of the US. So I guess, technically based here, and I came here for personal reasons after the pandemic. I didn't want to be in New York. I was pregnant at the time and did not want to be having a baby in a one bedroom apartment in New York when everything was shut down in the middle of a pandemic, that was not exciting to me.

So I moved closer to my family in Nashville. That would not have been possible two or three years ago. That was really a result of COVID. This is an interesting ecosystem, but is certainly not one that I would've ever selected to be in for my career. But the beautiful thing that happened with COVID, and I will be ever thankful for that, is that people have learned that you don't actually need to be in New York or San Francisco in order to run a good startup, to be a good investor, to do most of the things we do. That being said, there are still some things I like to do in person. I do like to meet the founders before we make an investment. Sometimes we don't, and they've gone just fine, but a lot of times it is... You get a lot of good information and you build a better relationship with at least a little bit of face time.

That doesn't need to be the first pitch. That can be before we make an investment. Maybe I'll go visit you in wherever you are, see your team, see the office and check it out. I also do a lot of traveling to conferences and to other things that are where we might start a relationship. So meet someone for the first time, have a coffee, and then go down the path after that but I've already met you in person. So I have a little bit of data there too. So I think we are all learning how to navigate in this new world, but I am fully taking advantage of it by moving myself to a non-traditional city, where you wouldn't normally see a lot of VCs.

And actually, I think in the last 18 months, there have been quite a few investors that have moved here, since then, for similar reasons. So what's happening is that you're seeing a little bit more of a diaspora in the startup world, where people are working from everywhere. And I think that works to a degree. I will say, there are some challenges with it, and it's not always ideal, but there are enough good things about it that I think it's not going away.

Annaka:
Yeah. Well, and Nashville's gorgeous. So I would be with you on that one and you've had a lot of advice throughout this entire interview. Can you boil it down to your number one piece of advice for young founders starting their first company who are looking to raise venture capital?

Jules Miller:
If you can show growth, you can raise venture capital. So if you can grow at those paces that I've talked about, which is a hundred, 200, 300% a year, then there will be interest from venture. And if that is sustainable, then for several years, there will be interest from the venture industry.

And then it's up to you. Do you want to take venture capital or not? It's not always the right path. And so really understand it, and make sure that it's the train you want to get on. Because once you get on the train, you're on the train, you can't get off. You either smash into a rock or you hit your destination, and you need to understand the train that you're getting on. But if you get on, it's going to be a really interesting ride. You're going to learn a lot. And maybe at the end of the day, have some just personal wealth experiences that are going to completely change the direction of your life, but it could also fail. And you have to understand that risk.

Ethan:
All right. Well, thank you very much for coming on today. I think your answers have been supremely excellent for all those founders out there who were like, maybe venture capital, maybe not. And now I think they know, and we have you to thank for that. So we really appreciate it.

Jules Miller:
I don't think anyone really knows, but if I could help people know just a tiny bit more, then we've done our job here. So thanks for having me. And hopefully this is the beginning of a much longer conversation for the folks who are listening, and good luck.

Ethan:
All right. That's going to be all for today's episode of the Startup Savants podcast. Thanks for hanging out with us today. So as you heard, today's episode was a little different. We'd like to hear your opinion on the show, featuring some industry experts alongside the awesome founders that we normally speak with.

Personally, I think it was awesome, but we really want to hear what you think. So let us know your thoughts by sending an email to podcast@startupsavant.com. Of course, I'll beat my normal drum as well, head on over to Apple Podcast and leave us a five star rating. We love that. Do it. Thank you very much. We appreciate you just so much more than you know. For tools, guides, videos, startup stories, and so much more, head over to truic.com, that's trick.com, T-R-U-I-C.com. See you folks.

Annaka:
Bye everyone.