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1/19: The most disturbing trend I'm seeing in the early stage fintech ecosystem is the raising of 2-3 back-to-back rounds with minimal progress in-between. Unpacked:

2/19: I think of venture investing as a very simple thing. VCs invest in Founders who are building businesses that solve big problems.

3/19: Founders pitches describe a large profound problem, their solution to the problem, and the financials the business will generate over time

4/19: Investors need to ask: "How much can you learn how quickly for how much money".

5/19: When a business puts money to work, it gains insight into the assumptions underlying the business. If the insights are "positive" then the business has made progress towards de-risking the outcome.

6/19: If the insights are "negative" or "mixed" then the business might have the same or more risk than it did before the money was put to work.

7/19: Many VCs and Founders believe that size is the main determinant of valuation but this is sloppy thinking. If a company grows but proves it's more difficult or expensive to grow than anticipated, it might be a negative vs. a positive signal.

8/19: There's been a recent trend in the fintech early stage ecosystem for companies to raise a lot of money and then very quickly add more capital at higher and higher valuations

9/19: The critical questions to ask are: "What has the company learned since the last valuation?", "Has the company been de-risked?", and "Does the most recent view of financial outcomes describe a good investment outcome?".

10/19: If very little time has elapsed since the last raise, how is it possible to feel good about the answers to these questions?

11/19: One justification would be to assume the last investor under-paid for the company and we know that this is laughable given the environment

12/19: Another justification would be that the newer money has lower return expectations than the previous money but this is bad investing if the risk/return equation has moved in the wrong direction

13/19: The unfortunate answer could be that some VCs are incented to put money to work because in they're playing the AUM game and need to show they have access to all the "hot companies"

14/19: Fintech is particularly hot right now so some of the bigger generalist funds don't want to explain to their LPs why they missed out on a wave of Unicorns

15/19: The implications are profound. Great teams will have access to lots of capital which is both a blessing and a curse.

16/19: Discipline and focus will be essential because a company can easily fly off the rails with too much easy and cheap money in their bank account

17/19: Investors will have to get in very early or be willing to accept terrible risk/return investments and therefore fund performance. Investors can still succeed but it won't be easy.

18/19: There are exceptions to this trend but the more I think about it the more I want to put undisciplined VCs in a timeout corner. LPs have the power to do this but they don't.

19/19: Final thought: FML

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