

Transcript

The Bill Walton Show

Dan Mindus and Brett Gibson

11/2/2017

- Bill Walton: I'm here today talking with Brett Gibson and Dan Mingus, together they are the founders of NextGen, Venture Capital. Welcome, guys.
- Brett Gibson: Thanks for having us.
- Bill Walton: Brett is a job as corporate development at Living Social before he founded NextGen and he's attended Harvard Business School and University of Virginia and he's a major in the reserves and is a U.S. Army ranger.
- Brett Gibson: That's right.
- Bill Walton: Dan, before NextGen, was a new vantage group. He's been named Washington's magazine's list of DC tech titans. Which he holds a BA from Yale and also an MBA from Harvard Business School. Welcome guys.
- Dan Mindus: Thanks.
- Brett Gibson: Great to be here.
- Bill Walton: We're here to talk about Venture Capital and you two have been at it for a while. Tell me about NextGen and where we are with the Venture Capital industry and what you see is different about NextGen.
- Brett Gibson: Well, one astrict on the bio; Dan has been a tech titan three times. So, he has actually been named that less [crosstalk 00:03:35].
- Dan Mindus: It's good to have Brett brag for me, I try to avoid doing that myself.

Brett Gibson: Yeah. So, we're grateful to be here. Thanks so much, Bill, for having us. We co-lead a venture fund called NextGen Venture Partners, which unlike most venture funds has thousands of part-time venture capitalists who we call venture partners, who help us source deals, do diligence on our OCH companies and support our portfolio. We think we're the first to come at Venture Capital in this way and it's lead us to some very interesting opportunities.

Bill Walton: How long has NextGen been in business?

Dan Mindus: Yeah, we've been doing this for about three years and we've grown that network that Brett referred to very rapidly with some exceptional entrepreneurs and executives, who are our eyes and ears on the ground. We think the traditional model of Venture Capital of a handful of individuals sitting around the table, making decisions about which start ups to invest in can work and has worked in a number of cases, but we think they're new and exciting opportunities out there.

Bill Walton: Venture Capital, it's a big industry; what is the traditional model and how big is Venture Capital now and how many deals are being done and who's doing it?

Dan Mindus: It's about a 60 billion dollar annual industry, that is about 60 billion dollars invested in startups on a yearly basis. That number has gone up from about 25 billion; maybe five, ten years ago. The big difference is companies like Uber and Air BNB. A decade ago would have gone public, but our now waiting longer and longer to go public and so more money as a result is flowing into Venture Capital. Even though those numbers sound big, I would actually say it's pretty small compared to traditional private equity, compared to hedge funds, certainly compared to stock markets or bond markets. It's finance innovation, it's financing that next generation of companies.

Bill Walton: About how many of companies receive Venture Capital funding each year?

Dan Mindus: It's a couple thousand that receive it annually. Although, the bulk of that money goes to a very small number, so we might write a million dollar check to a company, others might write a five million dollar check to a company; then there's the occasional that we'll write a billion dollar check to a company and that's what drives the absolute numbers.

Brett Gibson: You had asked sort of, Bill, about the origins of the industry and I think it's interesting to look back at, you know, the last 75 years, where Venture Capital's started in the San Francisco Bay area. Largely, as a game that Dan and I think of as a game of the few. We're a handful of partners, we'll make investment decisions. The investors have lots of leverage and over recent years the entrepreneurs have built more of the leverage. There's a proliferation of

entrepreneurship, it's less expensive to start companies, and investors have less leverage.

Bill Walton: So, it used to be if you had money, you called the shots.

Brett Gibson: That's right.

Bill Walton: Now, if you're an entrepreneur with the good idea you call the shots.

Brett Gibson: The best entrepreneurs have options.

Bill Walton: Yeah.

Brett Gibson: For where to take Capital. The Capital has become more of a commodity and so, the way that we've re-imagined Venture Capital enables us to go to an entrepreneur and say not only do we have capital for you, but we'll surround you with the expertise and help of hundreds of Venture partners who will help you build the business.

Bill Walton: You know, I think Venture Capital being located in Silicon Valley; maybe Boston, maybe New York or in the Washington DC area, it gets to the question; how do you compete with the big guys in those three, those three centers of Venture Capital?

Dan Mindus: We're a national firm as well, we are head quartered here and we do have the largest number of our Venture partners here, but we invest in a lot of San Francisco Bay area companies, we have some Boston companies in our portfolio as well. The way we compete is through this network of venture partners and through having a real footprint on the ground in each of these cities. That said, there are some great investment opportunities outside of those three cities, which certainly are the leaders along with potentially Los Angeles. We have a number of Washington DC base investments, we have Austin based investments, we have Chicago based investments, and in those cities you still have exceptional talent and sometimes the prices, the evaluations that we might as investors pay can be a little bit lower. One of the critiques sometimes of the industry or of New York, San Francisco in particular, is that evaluation of these companies are inflated.

Bill Walton: What is the role of the Venture Capitals with the portfolio companies? I mean you do more than write a check, obviously. I guess, I was in that business for a little bit, so I maybe know the answer to this question, but why don't you tell me and everybody else what, what the value at is.

Brett Gibson: So, I'd say we kind of think of it as old model and new model. Old model Venture Capital implied investment in a company, plus maybe a board seat that the Venture Capitalist would take to be helpful on a quarterly basis and some sort of a setting where the entrepreneur needed help or advise on certain ideas or challenges. I think the new model in Venture, which Dan and I have tried our best to re-invent, realize on helping companies with needs that relate to access to following capital, access to talent, access to new customers and how can new Venture Capital funds not only provide a check and a board seat, but also come alongside, roll up their sleeves, get in the trenches with entrepreneurs and help them grow their businesses.

Bill Walton: Well, traditional Venture Capital funds raise a fund, traditionally passive investors that don't get involved in the portfolio companies. It's almost purely financial decision. You're different.

Brett Gibson: Mm-hmm (affirmative).

Bill Walton: You have some 900-950 limited partners in your fund and they all have expertise in the industries and many of them are CEO's and built their own companies, is that accurate?

Dan Mindus: So, we have our own fund, we have our own pool dedicated capital that we can invest in these companies and then we also have this network of people who are active. Right? People who are finding the companies to begin with, who are saying, Hey, this person was the CTO of my last company, it's the smartest [inaudible 00:09:29].

Bill Walton: Chief technology officer.

Dan Mindus: Chief technology officer, yes. Smartest person I've ever met. They're starting a new company, I've been tracking their progress, you know, NextGen has to take a look and we potentially want to fund this company. So, having this army of people who are finding those companies, but also I think perhaps most importantly to your question about, what do you do after you invest? To Brett's question, this is an army of people who are available to help, who want to support innovation, who want to support the next generation of companies. We imagine at some degree as having a service mentality towards entrepreneurs. It's really hard to be an entrepreneur, the deck is stacked against you, but ...

Bill Walton: And you're isolated.

Dan Mindus: Very isolated, very isolated. A leadership in any role is isolating, but in particular in the fast moving environment of an early stage technology entrepreneur ...

Bill Walton: You're getting at something, we had a tole hold at Caplin down at Venture Capital and we're in Washington DC and the thing that always struck me is that a deal would come in and it would describe some solution to some big problem and it sounded great, yet I didn't know who else in the country who's also working on the problem. Maybe not who else, how many other dozens were working on the same problem and it seems like your distributed network allows you to get out into the industry and see if anyone else has come up with a better solution to what you're looking at.

Brett Gibson: Yeah.

Dan Mindus: That's exactly right. So, I think there's one model of Venture Capital where you would go incredibly deep in a particular industry, you become the worlds leading expert in, you know, internet applications for agriculture and so you might know, but if you're ...

Bill Walton: How big of a market is that?

Dan Mindus: Exactly. The challenge with going deep is maybe there are only three or four companies to invest in versus having a broader view, but then what you need is expertise from other people and other sources.

Bill Walton: Yeah.

Dan Mindus: And that's where this network of venture partners that we've put together is so valuable, because they know and in fact often our venture partners are the buyers of technology and will say, oh yeah, I've looked at that company and I've looked at four of their competitors and let me tell you about the pros and cons. That information is invaluable to us as investors, but we believe helps accelerate innovation, because what you want as an overall economy is to put money behind the best companies to put more resources behind the entrepreneurs with the best solutions, with the best technology, with the most determination to make it work. That's our job to pick these companies, but ultimately, we all want the next, you know, great company to come along that employees thousands of people, that drives innovation, that helps pay down our national debt, and so we think it's good for everybody.

Bill Walton: I think of the most successful Venture Capital firms, I don't think anybody in these firms have IQ's under 150. I mean, they're very stacked with talent, very stacked with deep, deep subject matter expertise. How do you compete with

someone like at Sequoya or NEA or some of these other ones that already this talent embedded. You're an upstart and I'm sure you've got a good answer.

Brett Gibson: Yeah, we've been fortunate so far in our first 20 investments to invest alongside several of those top funds and what we're learning is they have noticed that our model is different and see us as a different type of investor to add to cap table alongside of their investment. So, they might invest with their capital plus their board seat, but they don't have this army of part-time help that we bring along with our capital and so they've seen, I think, and their heads have turned to our new model and said, I'd love to connect to my portfolio CEO to a network of nearly one thousand functionally experts with industry expertise, with been their experience, it's relevant during the last several years and to them at Sequoya, Benchmark, Greylock, Founder's fund. To them as a top tier fund, they see that as a value added partner at building these early stage companies.

Bill Walton: We hear a lot of gloom about the economy, less so now, but I think we're still looking for more growth, yet where you are, you're looking a lot of interesting new industries, a lot of exciting entrepreneurs, it's a very positive experience, I would bet. What industries do you like? Where do you want to spend your time; which will you be following?

Dan Mindus: There are a lot of industries that are really exciting; I'll mention two. First, is transportation, so we think there's a revolution going on from first you see these new fleets of cars, like Uber and Lyft, but autonomist vehicles are coming I think faster than most people expect. You're seeing supersonic planes, you're seeing hyper loops that are high speed trains going up to 700 miles an hour, you're seeing drones that can carry packages from point A to point B, better, faster, cheaper. So, I think there's a revolution going on in transportation.

Bill Walton: Now, are these being backed by Venture Capital or they being backed by corporate Venture Capital? I mean, is it both or?

Dan Mindus: Yeah, in many cases they're being backed by traditional Venture Capital. So, for example we invested in a company called Virgin Hyper loop one, we named Virgin after Richard Branson invested and joined the board and that's ... Up until that investment it's been traditional Venture Capital like ours that have supported the growth of that company.

Bill Walton: What's it do?

Dan Mindus: So, they're commercializing Elon Musk concept of a fifth mode of transportation, which is effectively; it looks like a high speed train.

Bill Walton: What are the first four modes of transportation?

Dan Mindus: Right, so ...

Brett Gibson: Land, air, sea ...

Dan Mindus: Yeah.

Brett Gibson: Water.

Bill Walton: Paul Revere.

Dan Mindus: Yeah, exactly. First by land; car, train, plane, and boat. The ideas, this is number five.

Bill Walton: Okay and number five is?

Brett Gibson: Hyper loop.

Dan Mindus: Yeah. Imagine ...

Bill Walton: What's a hyper loop?

Dan Mindus: A vacuum tube, sort of like a pneumatic tube and you push a pod through it and because there's no friction in a vacuum tube, you can get it up at an incredibly high speeds.

Bill Walton: Oh, well that sounds interesting.

Brett Gibson: There going to transport cargo, before they start transporting humans to just sort of test on a lower risk passenger class.

Bill Walton: I was hoping the fifth mode might be the star trek mode where we could just beam ourselves up or over.

Dan Mindus: Coming soon.

Bill Walton: Yeah. Are you working on that?

Dan Mindus: We're trying. We're trying. We're trying.

Bill Walton: So, one of the issues that you have to deal with in this industry is there's 90 billion, 100 billion sitting out there ready to be invested, so there's a lot of competition. I don't think people quite appreciate how hard it is to get into deals and I think you've gotten in through your distributed network. Is there any other value add, I mean you got a portfolio support team, what do you do with your companies once they're in the portfolio?

Brett Gibson: We curate introductions to the most important stake holders for that business. So, we'll actually go to the CEO of our portfolio company and say, what can we do to help. Typically, they'll say one of three things; I need help with following capital, so help me find and follow on an investor to raise more capital later, help me find customers, or help me find talent and we've built essentially this network with expertise on demand and those three key areas; actually we track this very closely over the last quarter we've made what we call 96 impact connections for our portfolio company. So, 20 different CEO's have asked us over 130 times for help and out of those 130 times 96 were actually converting on a successful connection that promotes their business. That's really unheard of in this industry, to be that service minded as Dan said.

Bill Walton: How big is your regular staff? You've got your investors; how big a firm is it?

Dan Mindus: There are eight of us full time.

Bill Walton: Eight full time. So, you've really done a lot with ... You've leveraged a lot of resources with your platform; how does your platform work?

Brett Gibson: We've built an effectively an internal Facebook that also facilitates these investments and so, our venture partners can connect with one another, can access resources, article, webinars, podcasts; can learn about the investments that we're making, can communicate about them, can share ideas about investment opportunities and it's something we've built in house, but it allows a team of eight to be much more effective and do what we think otherwise would be a team of sixteen.

Bill Walton: So, we talked a little bit before going on the air that you've had a lot of success investing in regulated industries; since we're here in Washington we talk a lot about regulations. What's that involve?

Brett Gibson: So, we look at investing regulating industries in an enormous opportunity, because you can go in and back a disruptor, who's going after typically a large highly regulated industry and they're coming at it in a more efficient way. So, couple [inaudible 00:18:05] and Dan spoke that transportation, another area where we've attacked is healthcare. We have a portfolio company that allows patients in the comfort of their living room to test themselves for high blood pressure, for high cholesterol, food allergies; enormously eruptive large lab industry that's owned by two large players, multi-billion dollar industry and this founder happens to be going after this enormous industry with a very disruptive approach.

A telehealth company that we've recently invested in is our most mature company that's making it better, faster, cheaper to get healthcare on any device at any place in the world at anytime. You know, a doctor can be in the palm of your hand using telehealth. Fascinating industry disrupting a large, you know, 17 percent of our economy industry of healthcare.

Bill Walton: So how does telehealth work? You've got a, you've got a device and you ...

Brett Gibson: Yeah. So, one application just ... You mentioned the military background and so when we were deployed overseas you couldn't get the best treatment for traumatic brain injuries, let say, because the best treatment was at the Mayo Clinic. Well, in our embassies and in our forward operating bases at the militaries around the world, they use telehealth to enable doctors from the Mayo Clinic to treat soldiers, airmen, marines using an Ipad and this is the technology of the future that we get to invest in.

Bill Walton: So, with this, how does it disrupt the entrenched company? I mean, you've got a big company; how do they get away with not being the same regulations the entrenched company does or what am I missing

Dan Mindus: Well, I think in the case of telehealth, what you're allowing for is a better use of resources where the top, you know, neurosurgeon or stroke doctor in the world can see patient after, patient after, patient wherever they happen to be around the world. That's better for patients and ...

Bill Walton: Oh yeah.

Dan Mindus: It allows for training, because people can watch the doctor, you know, get the recording and watch the doctor in action. So, the innovation that we're privileged enough as Venture Capitalist back, you know, we think improves human health. It makes our economy, you know, run better. It gives, you know, sort of energy to, you know, to young talent all over the world. So, there're a whole host of ways in which solving [crosstalk 00:20:29].

Bill Walton: So does this make being a top doc ... Make it almost like a superstar business where you've got just a hand full of people, the best in the world and you can really have them serve thousands, millions more people and maybe as an exaggeration, but is that ...

Dan Mindus: It does [crosstalk 00:20:47].

Bill Walton: Think about this.

Dan Mindus: It does have that potential, so for example, if the best Mayo Clinic doctors or Cleveland Clinic doctors or [inaudible 00:20:53] doctors can see more patients, can line them up back to back can see that the patients that have the highest need, where their unique talents are most appropriate, then yes, that could lead to more revenue for the doctor or the hospital and with all the companies that we invest in have to have a business model, they have to make money. So, that's one of the ways they can make money through telehealth.

Bill Walton: Well, we say all the companies you invest in have to make money, but we know they do not. So, what's the typical success rate in the industry and what are you shooting for with your portfolio?

Brett Gibson: So, you know, I'd say we've talked about this a little bit before we went on the air.

Bill Walton: Yeah.

Brett Gibson: This is business is a business of the power law, meaning there's a handful of outcomes that produce a disproportionate amount of the success. So, you have in every single year, you have a company that stands out whether it's air BNB or an Uber, you know, what's next; Dropbox. These companies that really define particular vintage year of Venture investing. We just happen to think we've found a way to find those winners sooner and allow our investors to get access to them, because we use the collective intelligence of this network, but I think to your question, it's tough to say what the target is. I think we target, you know, high 20 percent IR for our investors.

Bill Walton: Yeah. On average.

Brett Gibson: On average.

Bill Walton: Yeah.

Brett Gibson: Which would be a nice healthy return.

Bill Walton: Which might mean one or two companies out of ten ..

Brett Gibson: Yeah.

Bill Walton: Are fantastic and everything else as mediocre or down the tubes.

Brett Gibson: That's right.

Bill Walton: But, that's the business, I mean that's been in the business for 60, 70, 80 years.

Brett Gibson: Yeah.

Bill Walton: I'm rusty on some of these math, but I think at one point some of the top ten Venture Capital back companies represented well over 100 percent of all returns in the industry.

Brett Gibson: Yeah.

Bill Walton: Is that still [crosstalk 00:22:42].

Brett Gibson: That's a game of outliers, it really is. It's a game where one or two companies will drive the returns of an entire portfolio.

Bill Walton: So, I have to ask the question, are there any outliers in your portfolio that I can [crosstalk 00:22:53].

Brett Gibson: We love all of our children equally.

Bill Walton: Okay, at this point you'd have to say that. One of the things we've talked about before coming on the air, I was struck by where Venture Capital is done. It's the most successful states hosting Venture Capital either Venture Capital firms or companies are California, New York, and Massachusetts and I don't think of those as necessarily business friendly states. Is there just an exception there or is there anything going on that would be interesting to know about?

Dan Mindus: The way we think about it is actually where's the concentration of technical talent.

Bill Walton: Okay.

Dan Mindus: And so, I think that Boston and the San Francisco Bay area have historically been the top two cities for entrepreneurship and for Venture Capital at least World War two and that's really because the best technical minds in the world were brought there; the large part actually for the war effort. Right? So, it was MIT and Stanford in particular, where you brought scientists, engineers, [crosstalk 00:23:55].

Bill Walton: Boston.

Dan Mindus: And out of that talent came the semiconductor industry.

Bill Walton: Yeah.

Dan Mindus: That's why Silicon Valley is called Silicon Valley is the conductors made out of silicon. At the time it was called mini computer industry, which originated in Boston, which led to the PC and the laptop and so forth.

Bill Walton: Yeah.

Dan Mindus: But, it came out of really these universities and all the money they poured in to develop weaponry and beating the Nazis. So, it's less about state level policy and more about city level talent. I think now you have more and more cities that are centers of Venture Capitals and that includes Austin, that includes Washington DC. That includes Las Angeles increasingly. The driver it is often, where's the talent and especially the technical talent, where do they want to live and are there companies that have brought in large amounts of talent like Amazon or Microsoft have in Seattle; once you get the training and you get to meet other talent of people, you go off and you start your own company.

Bill Walton: What do we call this? Clusters? Didn't Micheal Porter have a lot to say about that? That, that was one of the source of advantages where you can get a critical mass of people, whether it's in your business or Hollywood.

Brett Gibson: Yeah.

Bill Walton: One of my favorite examples is the Northern Italian metal working business. Turns out at one point all the best metal workers in the world live near Milan. So, that became the Silicon Valley of the 19 century.

Brett Gibson: Yeah. You're seeing that pop up in the U.S. today and I think Dan and I have the fortune to travel around the country and see some of these different hubs and recently we were in Detroit and what you're seeing in Detroit is there are surgeons of technology that was born out of the auto industry, but today is being transferred to automotive, navigation, autonomy as Dan said driverless cars.

Dan Gilbert, founder of Quicken loans, is really underwriting a lot of that growth in Detroit. You're seeing that in other cities as well.

Bill Walton: So, if you're mayor or governor of a state and you're trying to drive economic growth; what other elements do you put in place? You got to research university, hospital to build something around?

Dan Mindus: I should say it's very difficult.

Bill Walton: Yeah, that's my impression.

Dan Mindus: I think Micheal Bloomberg did something very important for New York City and bringing basically a new university to Roosevelt Island and that was a collaboration between Cornell and technion, basically the MIT of Israel. So, research universities are key. I think probably the single most important thing the government has done anywhere in the world to foster Venture Capital and to foster entrepreneurship is in Israel. They had 20 years ago, actually it was two things. One was when the French cut Israel off from arming them after the six day war; Israel said we had to create our own military industrial complex. So, ton of technical talent went into that and then as over time become commercialized technology. The second thing they did was the state in a very serious way subsidized Venture Capital. I think they invested two dollars of tax payer dollars for every one dollar of private money. Israel is now the second leading of technology, you know, country in the world. Probably second to Silicon Valley, I think, globally is Televiv.

Otherwise, it's really difficult to manufacture this. It really has to do with, did Jeff Bases, actually Jeff bases decided to move to Seattle partially because of tax rights in the state of Washington and now as a result you have this incredible version of entrepreneur ecosystem in technology ecosystem in Seattle. You know, the legislatures in Washington state know what they were getting? Maybe, maybe not.

Bill Walton: Coming back to your model though, you were able to operate inside all of these clusters, because of the distributed investors and support system. What other companies should we talk about in your portfolio? I know all of your children are your favorites.

Brett Gibson: Yeah, yeah. You know, there's one company that really like that we're following closely that's out in the bay area, that focuses on the 10-99 workforce. So, they focus on the gig economy, meaning people who work part-time for companies like Uber, air BNB, Lyft; essentially what they're doing is enabling that workforce to get paid faster. When you work for one of these part-time companies you may or may not get paid for 30 or 60 days and they may not be perfect for you if you're supporting a family at home and things like that. So, this company Quill has enabled the workers to get paid faster and they pay a percentage on the transaction. What Quills doing is underwriting the credit worthiness of the company like the Uber, like the drone base, like the air BNB rather than the individuals. So, they're taking a risk on the company, not the individual, which is enabling them to underwrite these basic [crosstalk 00:28:57].

Bill Walton: What are the rates they charge?

Brett Gibson: It's low. It's favorable to the employee; it's a competitive rate for them.

Bill Walton: So, this isn't a payday lending ...

Brett Gibson: It's not predatory.

Bill Walton: Stay away from that. Highly recommended. That's very valuable advice, I'm sure. I'm sure you didn't know that.

Brett Gibson: Yeah

Bill Walton: What else do we like in the portfolio?

Dan Mindus: Well, we were talking about Washington DC and we were talking about regulated industries. So, another example is Vimeo education. Which allows universities to get paid with a percent of future student earnings. So, in addition to debt and addition to grants and in addition to tuition, universities now have this new way of getting paid and what it does is aligns the incentives between the university and the student. The university says, hey we're gonna take a bet on you, we believe in our education, we believe you can go out and earn a good living. So, this way you don't earn a good living, we won't get paid as much. If you do and you're successful, at least financially, then we'll get paid a little bit more.

Bill Walton: So, how does that work? If you make 100,000 you pay what percentage, if you make 200,000 [crosstalk 00:30:07].

Dan Mindus: You're paying the same percentage regardless of how much you make. So, it's progressive in that way whereas debt, if you make 20,000 dollars a year or 100,000 dollars a year, you have the same obligation. Whereas with Vimeo education, if you make 20,000 a year maybe they pay five percent of that and you could make 100,000 a year. You're gonna pay five percent of that. So, what it means is these universities do best by their students at least with regards to financial outcomes are better positioned to say, you know, we believe in you, we'll just take five percent [crosstalk 00:30:39].

Bill Walton: We'll take a lower tuition from you in return for a piece of your future income.

Dan Mindus: Exactly right and in some cases, no tuition at all.

Bill Walton: Interesting and is there a cap on that?

Dan Mindus: Yes, so typically you're capped out at maybe a couple times the amount that you effectively borrowed. So, you're not ... If you earn a million dollars a year, right, they're not gonna take five percent of that. Right? It comes down over time.

Bill Walton: That is very interesting. So, what else do we have in the portfolio that a ..

Brett Gibson: There's a company that we're really excited about in the bay area that was sourced by one of our Venture partners; he happened to know the founders before they started this company when they sold their last company to Facebook. The company is called Limbix Health and what they're doing is they're applying virtual reality technology as a solution for behavioral health challenges. So, lets say you suffer from a fear of public speaking, which I would assume is a person that leads a video, an online video production, you wouldn't, but if you had a fear of public speaking ...

Bill Walton: You mean this is going to be in the public? I thought we were just talking in the [inaudible 00:31:43]. Oh my god. I was misinformed.

Brett Gibson: That's right.

Bill Walton: Anyway continue.

Brett Gibson: So, the virtual reality enables you to essentially go into an immersive environment into a scenario where you might be fearful of, lets say a conference room and essentially un-wire your fear of public speaking by being in a virtual environment using a virtual reality. They [crosstalk 00:32:04].

Bill Walton: That's fascinating.

Brett Gibson: They apply the same behavioral health solution to people who have addictions, post traumatic stress, different scenarios where it's helpful to be in an environment that would help you un-wire fear. The two founders started their last company, they sold it to Facebook and our Venture partner knew they were starting this company and we got to get in at the very early stage alongside Sequoya.

Bill Walton: What the evaluation for something like that?

Brett Gibson: At this stage it's low, but we thought high.

Bill Walton: Okay.

Brett Gibson: Their bay area company with two founders that sold their last company to Facebook, so there is an enormous amount of value in them.

Bill Walton: Right. Right.

Brett Gibson: Without any traction, we were just grateful to be along for their journey.

Bill Walton: Right. One thing I forgot to touch on, we've got different stages of Venture capital and there's seed, there's early, there's, you know, late, there's expansion growth capital. Where do you operate in the cycle?

Dan Mindus: We're at the seed stage.

Bill Walton: At the seed.

Dan Mindus: So, that is quite early.

Bill Walton: Yeah.

Dan Mindus: And quite risky, so as you noted many of these companies don't make it, but when they do the financial returns can be extraordinary and that early stage is where that spark of innovation and creativity is at its highest where the trajectory of the company often matters the most. So, it's an exciting place to be and opportunity while the companies do well to do also do well with them.

Bill Walton: How many of your companies are pre-revenue?

Brett Gibson: When we invest ...

Bill Walton: Sorry, technical term means they're not ...

Brett Gibson: Yeah. [crosstalk 00:33:33]. They've not earned a dollar. [crosstalk 00:33:37].

Dan Mindus: You mean they're supposed to make money?

Brett Gibson: Yeah. At the time of our initial investment about a quarter of the companies in are pre-revenue.

Bill Walton: Okay.

Brett Gibson: So, having brought in a dollar [crosstalk 00:33:50]

Bill Walton: So, how do you, I come from a role of investing and cash flow, private equity, lending, that sort of thing. How do you decide whether a company deserves a shot?

Brett Gibson: There're a lot of factors, but the most important is team. You want to bet on the individual or the group of individuals who you think can be successful, whatever the circumstances; who have the determination, the industry expertise, the intelligence, the often charisma to bring a team together to sell partners and subsequent rounds of financiers on the vision. At an early stage, if the founders leave, if the founders quit, if the founders get hit by a bus, the company dies. At a later stage, at a more mature stage of company; if you have a 100 million dollars in revenue and 20 million dollars in profit, if the CEO gets hit by a bus you'll find another CEO. Right? At the early stage, that's not the case.

Bill Walton: So, how much personality evaluation do you do? How much digging? How much research and you know, checking background of people and what they've done and I have a better idea. Have you guys thought about a software package that evaluates CEO's and Venture Capital teams?

Brett Gibson: I think that we can sort of do one better, which is that we can typically get first hand experienced on the founder from our Venture partners and there isn't a software silver bullet that we've found yet. The best thing we've found is somebody who's worked with that founder before and can give you an account from first hand experience of what it was like to work with them, what their integrity level is, what the work ethic is, what the competency is, and that's what's so beautiful about our network driven model is that nearly everyone of our companies, the founder has worked with one of our venture partners. We can get first hand knowledge and sort of an arbitrage on private information about that portfolio founder.

Bill Walton: Well, it sounds like you guys are going to have a lot of success and Venture Capital sounds like a lot of fun most the time, but I know it isn't all the time. What's the hardest part of your job?

Brett Gibson: I think, geez Dan.

Dan Mindus: Answering that question.

Brett Gibson: We've developed these nonverbal cues and I thought Dan picked up that I was hoping he would answer that.

Dan Mindus: I picked it up, I just didn't have a good answer.

Bill Walton: You guys have been distributing these answers very well.

Brett Gibson: Yeah.

Dan Mindus: We try. We try, we're both trying to avoid that question.

Brett Gibson: I think the question, you know, the question from ...

Dan Mindus: See how I got Brett to [crosstalk 00:36:25] to answer that one.

Brett Gibson: It's slow money in and slow money out, so when you think [crosstalk 00:36:30] about the asset class, it takes patience and I'd say that's the hardest part.

Bill Walton: It can take five to ten years.

Brett Gibson: Easily, if not more.

Bill Walton: Yeah.

Brett Gibson: Some of the greatest success stories in Venture are still private companies where investors invested over a decade ago and the founders and the teams [crosstalk 00:36:47].

Bill Walton: I'm in a couple of those teams.

Brett Gibson: Yeah. So, you're watching the clock.

Bill Walton: They keep telling me it's going to be great, so.

Dan Mindus: To test your patience.

Brett Gibson: And you're so excited about these companies and you know they're will be financial success, but you go home to your spouse and they may say something like, you know, you can't spend paper equity at the grocery store. So, lets get these things moving, but there's patience involved, this is an asset class that requires patience.

Bill Walton: Exactly. Dan, a final word?

Dan Mindus: This has been great and fun and most of the time when we have conversations like this there's a lot less laughter. So, I appreciate the opportunity.

Bill Walton: Well, I'm glad you guys are here, hope to have you back when we get our first Equity event, which will be great. You can find our team at NextGenVP.com and it's a very robust website with a lot of information about the people and the investments and I'm looking forward to following you guys and your success.

Dan Mindus: It's great talking to you, Bill.

Bill Walton: Thanks, great.

Brett Gibson: Thanks, Bill.

Bill Walton: Bye.