FINTECH ONE-ON-ONE PODCAST – MARK FIORENTINO

Welcome to the Fintech One-on-One Podcast, this is Peter Renton, Chairman & Co-Founder of Fintech Nexus.

I've been doing these shows since 2013 which makes this the longest-running one-on-one interview show in all of fintech, thank you for joining me on this journey. If you like this podcast, you should check out our sister shows, PitchIt, the Fintech Startups Podcast with Todd Anderson and Fintech Coffee Break with Isabelle Castro or you can listen to everything we produce by subscribing to the Fintech Nexus podcast channel.

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Peter Renton: Today on the show we continue our series of interviews I did at Fintech Nexus USA in New York City in May. I'm delighted to welcome Mark Fiorentino, he is a Partner at Index Ventures, they're a pretty well-known venture capital firm in the fintech space. The thing that's interesting about Mark is he spent several years at Stripe so he kind of has like an operator lens when it comes to venture capital so we delve into that and we also talk about some of his investments, we talk about Latin America where he's done some deals. We obviously talk about the challenges with the fintech space, we talk about how he is advising his portfolio companies today, in what areas of fintech he's most bullish on and much more. It was a fascinating discussion; hope you enjoy the show.

Good afternoon, everybody and welcome to a live Fintech One-on-One podcast here at Fintech Nexus USA, Day One here in New York City. Delighted to welcome Mark Fiorentino from Index Ventures, how are you doing, Mark?

Mark Fiorentino: Great, Peter, thanks for having me.

Peter: My pleasure. So, why don't we get started by just giving the listeners and the audience here a little bit of background about yourself.

Mark: Great. So, for those who're here, I'm the co-lead of fintech partner at Index Ventures, I've been there for about five years and, you know, fintech for us means a variety of things, right, could be the vertical SaaS with a fintech component, a marketplace with a card attached to it, pure B2B infrastructure on the payments side but anything and everything fintech we'll cover in the purview. Before Index, I was at Stripe for about five years and, you know, started out as kind of this general catch all in 2015, you know, we have a lot of engineers, you know, let's call it 80/90% engineering, not a lot of business folks. And so, my role seemed to be a weird mishmash of sales support, credit underwriting, finance, kind of wherever the fires were, you try to put them out and then spent another maybe four/five years in the private equity banking side at Goldman before that.

Peter: So, why make the jump, I mean, Stripe, obviously one of the leading fintech companies on the planet, why make the jump from Stripe to venture capital?

Mark: Yeah, it's a good question. So, I think, you know, there is a part of me that missed investing to some degree, right, you know, I spent a couple of years in the private equity side, very late stage LBO buyouts so a very different style of investing then I do now. I think there is a part of me that was always a little bit intrigued about investing in early-stage startups but the issue I had before working for Stripe was that, you know, how do I give advice to Series A, Series B, seed stage founder when, you know, I've never worked at a company myself.

So, a big part of that was let me sit on the operating side, try to learn a bunch of the craft in a way from a company that went from you know, a couple of hundred people to 2,000 people and then at least the advice I give to a portfolio company I work with now is likely more meaningful because they are going to be rooted in tangible examples.

Peter: Got you. And so, what attracted you specifically to Index Ventures? I mean, obviously they're based out of London, you know, there's lots of big VCs based in this country, what was the attraction there?

Mark: So, you know, I think a big part of it was I'd say the style of Index, right. So, one big part of how we invest at Index is, you know, we don't separate our team by stage. So, I could go invest in a $1 Million pre-seed, an idea only startup to a pre-IPO $100 Million check in around, you know, a year before it goes public. So, you have that level of flexibility, and it was always about carving our domain expertise that mattered. So, I think for me spending five years at Stripe you go, oh, I know a lot about fintech, maybe I'd want to focus on everything from early-stage fintech to late-stage fintech and that was a good platform for that.

And to your question about geography, I think the interesting thing with Index is, you know, we started it technically Geneva in 1998 but then, you know, London for about a decade almost until we opened San Francisco in 2011. When I joined it was kind of almost like joining a startup within a venture firm in a sense, right, and then you get to help build the brand, build up, you know, what does Index mean in the US and it sort of showed us, we weren't very close with our London colleagues but it was kind of interesting opportunity to help put the branding out there over the last, you know, almost four and a half years.

Peter: Right, got you, got you, okay. So then, the work you are doing at Index, can you sort of just describe your investment thesis, what's your approach?

Mark: So, there's a variety of them but I think one of the ones worth highlighting is, you know, I think a lot about fintech is sort of this you invest in, you know, we love picks and shovels bets at Index. And I think a big part of, you know, why did I join Stripe, you can actually go back to my time at Stripe that dictates the thesis I have at Index which is Stripe is a, you're almost buying a lower KSI index of the shift from point of sale to online commerce and, you know, as the shift to e-com grows, Stripe grows with that or as in Index's case, we were big investors back in the day.

A lot of what we do now sort of piggybacks off on that so an investment we made back in 2020 called RevenueCat is very similar, right, they provide subscription payments and sort of like customer data infrastructure for consumer apps and, you know, you could point to Duolingo, a very good example of a multi-million-dollar consumer app business, Calm is a multi-hundred dollar revenue consumer app business, as that ecosystem continues to grow, if you're the infrastructure powering in that ecosystem you get to grow, it's almost like an ETF for a basket of those companies.

Peter: Right.

Mark: So, I'd say that's one key tenet of how we invest, is sort of this basket idea.

Peter: Right, got you. And then, obviously, the venture capital space had some, you know, challenges over the last 18/24 months, shall we say, where first you went from the hottest market ever seen to a much colder market, a fintech winter, shall we say. I mean, Nigel Morris, this morning had a slide up that showed it was an average of 20 times revenue at the height and now it's at four times revenue now which is a dramatic drop-off, but how have you navigated that as a venture capitalist?

Mark: Yeah. So, it's a question that unsurprisingly comes up quite a bit and, you know, we had our annual LP meeting a couple of weeks back in London actually and this exact question came up. One of the things we're thinking through is, you know, the way I describe this now is it doesn't matter where you're from, but like I'm from San Francisco so what is the most touristy location from wherever you consider yourself home.

Fisherman's Wharf in San Francisco, New York is likely Times Square, you know, you go back there once and then most of the time why do you not go back to a touristy area. It's hyper crowded, fancy overpriced, tourist traps, sneezing children (Peter laughs), you know, you get a lot of that stuff going on and, you know, that's a lot of how we describe what fintech investing was like in 2019 to 2021. You know, it's sort of like you're stuck in this world where, yes, there are interesting diamonds in the rough, you know, I love Ghirardelli, I love chocolates, I'll go to Fisherman's Wharf just for that, but you have to kind of wade through a lot of noise to get there.

Peter: Right.

Mark: We're in the exact opposite now, right. So, 2023 and even parts of 2022 was sort of, like it reminded me at of the peak of COVID. In 2020, I went through a walk in Fisherman's Wharf and it was the first time in a long time or actually the only time I've ever been there where there were no tourists at all, right, it was completely dead and you realize, why did something like Fisherman's Wharf become a tourist spot to begin with? It's because there's this beautiful ocean view, you see the Bay Bridge, there's, you know, seals playing out in the sea so it brings you back to the fundamentals. So, this analogy for me is, fintech, the fundamentals are still there, right, we're in a ten trillion dollar industry and we're just scratching the surface of technological innovation.

Neobanks have only penetrated about maybe less then 10%, you know, ACH is still the predominant way to pay, especially in B2B transactions so you take all of that together and you go, there's still a lot of interesting technological innovation to be made and now there's just the different demand/supply dynamic. Yes, maybe multiples are compressed or have compressed over time, but with less tourists or investors, you know, they can be off doing AI now and now you have a more interesting supply/demand dynamic that creates better deals. So, it's a different environment but I wouldn't say it's worse, by any means.

Peter: Right, no, that's fair enough. So then, from your perspective, is it like now that valuations have come down, I mean, is this a better time to be making investments than say 2019, obviously, I think it's a better time than 2021, right, but is it better than the before times?

Mark: I'd say it's different and, you know, it could be better if you are……maybe it's said differently, in 2019, one the difficulties about investing in fintech is that every business model was valued the same. So, it could be a lending-based business, it could be an insurtech-based business, it could be a software plus payments business, all of them were trading at relatively high software multiples and that's problematic for a lot of reasons, you could imagine. You know, lending-based businesses are not bad but they fundamentally are a different quality of revenue or type of revenue than a pure 80% gross margin SaaS business and you can't value the two the same.

In today's market, you have the luxury of saying, you know, this is a good business with sound fundamentals but I can appropriately price a book value-based business as such if it's lending heavy and I can appropriately price a SaaS plus payments business as a SaaS company. And so, you can now separate business models with different multiples within fintech, in 2019, that was difficult to do so, I'd say from that perspective it's better, right.

Peter: Right, got you, that's interesting. So then, I've noticed that you have in your portfolio some Latin American companies, I mean, we love Latin America, I think it's one of the most exciting regions in the world. So, what's your geographic focus and maybe talk a little bit about what draws you to LatAm?

Mark: So, I'll start with the geographical focus, you know, you alluded to Index being a European-based fund by heart, we have a whole other team that specializes in Europe. I spend about, let's call it, 80% of my time in the US and then maybe another fifth of my time will be in emerging markets, LatAm is probably the predominant one of such. And, you know that gets into why is LatAm interesting, for a variety of reasons but especially in businesses like fintech where cross border dynamics fragmentation and regulation really matter. You know, it's one thing to say I'm building a SaaS company in LatAm, they're all good ones but you have to be careful, it's easy for a US or European-based SaaS company to go into LatAm, depending on the region you're in.

For fintech it's a lot harder, right, because you need banking licenses in every country you're operate in, the dynamic between, you know, cards are much more prevalent in the US and Europe than they are in LatAm. So, it creates a lot of interesting opportunities for fintech infrastructure companies and if you, you alluded to our portfolio two of the three companies we've invested in LatAm within fintech are payments infrastructure businesses for that reason. So, whether it's Pomelo on the card issuing side you can think of this as a Marqeta but for the LatAm market or Liquido which we just announced last week actually after two rounds of fundraising.

You know, in a lot of ways they're trying to build the Stripe for LatAm but if you dig into what that actually means, there's a lot of differences between how they're building their business versus how Stripe built itself in the US and that's actually why you can separate the two.

Peter: Right, right, got you, got you. So then, the companies that you talk with on a regular basis, maybe you're on the board or, you know, some sort of like an advisory role, how are you communicating with them about the downturn right now and what advice are you giving them to help them weather this challenging time?

Mark: So, right now, a lot of……you know, it's all about ruthless efficiency for a lot of these companies. So, you know, a lot of companies that raised rounds in 2021/2022 had two/three years of runway so they still have cash to go and it's just a matter of we're in the time where understanding your economic engine is increasingly important. What do I mean by that? 2021 really emphasized growth at all costs, in a lot of ways, you know, growth rate is what dictated your next fundraise, it's what got you a higher valuation, etc.

Now, investors, especially at the growth stage, care a lot more about the underlying P&L and unit economics of a business so growth has to be above a certain threshold, right, but it's within reason. I think what I care more about when I worked with a growth company, I think a lot of other people would attest to this, is if I put a dollar into sales operating expenses or a dollar into marketing operating expenses, what is my exact yield or the most predictable version of that yield on that dollar of OPEX. And if I understand a dollar of sales generates me $1.20 of revenue or ARR then that is a business that I feel more comfortable putting an investment into.

And so, what we're pushing a lot of our founders is to understand the economic engine, burn ratios are very important. What's your magic number, think about cut payback is much more and then gross margins. So, all of these underlying unit economics are taking now sort of …that took a backseat in 2021 and now kind of at the forefront.

Peter: Right, right, got you. So, like what's your favorite area of fintech? You mentioned that you're a picks and shovels kind of investor, so you talked about payments infrastructure, there's obviously lots of other types of infrastructure but I'll just ask an open-ended question. What are the areas of fintech that you're most bullish on?

Mark: So, I think, you know, there's several. One that definitely comes to mind is sort of this proliferation of verticalized fintech and I think that's where we've been spending a lot of time lately. So, the most recent investment we made this year is a company called Loop, L-o-o-p and it's a freight supply chain logistics payments business and so that's just one prime example of how we're thinking about this verticalized thesis where, take a, you know, an industry in this case that's nearly a trillion dollars of cash flowing through it just in the US in trucking alone every year between a shipper so the person shipping goods and the carriers, the trucking businesses, slap an archaic payment method on that, it's either wire transfer ACH-based with long timeframes in between them and there's a proliferation of kind of mismanagement of spend.

A lot of these companies have thousands of carrier relationships in different truckers on a given week and you are, more often than not, being overcharged. So, when you can combine this sort of differentiated software workflow, like I help you identify when you are being overcharged, this concept called freight audit pay plus the moving of the money itself which creates stickiness in your business. It's a very powerful investment thesis when it comes to, you know, workflow software is what I pay for, moving the money is sort of what makes the product sticky and that's sort of how I think about this verticalized thesis.

Peter: Right. And, you know, that is a wide open field right there, so many verticals and so many verticals even today that are relatively untouched when it comes to fintech so I could see that would be really interesting. So then, you said you announced an investment last week, I mean, how active are you in writing checks today and, you know, how active have you been, I guess, over the last three years?

Mark: I'll start with the second question first. The activity is slower across the board right now, but the caveat I'll say is 2021 was an anomaly for a lot of regions, you know, like your average venture fund were being deployed in 12 months which was actually quite, you know, most venture funds are 18 months plus when it comes to deployment pace. And, you know, we were doing that in 30% of the timeframe that we would normally do that, not half the time. So, I'd say 2021, even though it feels like there's been a slowdown was actually more of the anomaly than right now and I'd say at a pace that feels much more similar to 2018/2019 in a lot of ways and I'd consider this more of a supply dynamic thing where there is a lot of dry powder.

A lot of people raise new venture funds, including us, coming out of 2021 and then deployment pace sort of rapidly declined so there's a lot of dry powder to be deployed. The issue is that actually on the, let's call it the demand side, the demand is a founder wanting to raise money, that hasn't sort of caught up to where we are yet because a lot of these companies said, you know, I raised two/three years of runway in 2021, maybe I'm getting to a cliff in the next nine months, but until I get to a point where, when push comes to shove and I really need to fundraise, why would I want to proactively fundraise when multiples are kind of completely depressed right now. Maybe I should wait for interest rates to sort of plateau, maybe the first time we actually bring it back down and then suddenly I'm raising in a better time. So, I think a lot of founders are still thinking that way if you have the runway to do it so there's still a bit of a supply/demand disconnect rather than investors not wanting to invest.

Peter: Interesting. So, you are not getting the number of inbounds that you normally get, it sounds like.

Mark: So, I'd say, yeah, it hasn't picked up quite yet. You know, I've noticed a little bit of a trickle effect because if you kind of do the math you go okay, peak of 2021, two to three years of runway, a lot of people scale back burn, especially given the market so maybe you extend that by another six months but at some point between Q3 2023 of this year and likely maybe Q1 or Q2 of next year my guess is that number is going to dramatically skyrocket.

Peter: Right, right. So, what about M&A, I mean, I imagine there's going to be, I mean, we've already seen a little bit of it, but there hasn't been a boom yet of fintech M&A where maybe there's a founder who's having conversation with people like you and they're just not getting any traction and I see, well, I'm running out of runway and I just need to get something for my company. So, what are your thoughts on that, are we going to see a boom in fintech M&A?

Mark: Yes, it's a great question. I think the answer is likely yes because I think in conjunction with that same runway theory that we just talked about, it's either going to be, I now need to do a fundraise, if I can't get a fundraise done sufficiently I still have a valuable, you know, I built something valuable as a founder and someone's going to value it for some reason, whether it's a strategic acquisition from a large incumbent or maybe a roll up between two equally sized players. But I do think both the number of fundraises in the next nine months as well as a number of kind of Series A through Series C acquisitions in fintech will likely increase quite a bit for the exact same reasons that deployment pace will increase.

Peter: Right. I imagine the IPO market is still closed the whole year, you think, are we going to see a fintech IPO this year?

Mark: That's a good question. My guess, if you put a gun through my head, I would say not this year.

Peter: Hopefully, 2024, shall we say.

Mark: We're holding out hope.

Peter: Yes, indeed, okay. So then, if look at the fintech industry in general, you know, there's so much innovation coming, it feels like when I talk to seed stage investors there's never more companies being started than there are today. You know, it's a lot easier to start a company, you can get an AWS account and hire a couple of developers and away you go, how bullish are you on fintech as far as where we are today and the work that still has yet to be done?

Mark: I mean, you know, the short answer is I wouldn't be here if I wasn't incredibly bullish on fintech. You know, I do think, yes, it might not be the darling from an industry perspective right now, but, you know, I kind of alluded to this earlier but there's so much room for innovation. If you just look at macro data, right, we talked about, consumer banking, ACH, you know, even those Stripe and Adyen are very widely successful businesses, if you can look at the penetration of point of sale to card operation transactions, we're still in like the, you know, 90% to 10% of ratio. So, there's a lot of innovation yet to be done across whether you're B2B or B2C payments company. So, you know, there's not a lack of opportunity, let's put it that way.

Peter: Right, right, interesting. So then, when you look at your firm, I mean, how much are you talking with your fellow venture capitalist, how much are you......I mean, are you really collaborating more than you were before because it feels like we are in unusual times, right, and it felt like in 2021 it was just who the hell can get the deal done fastest, right. So, what's it like now when you're talking with your fellow VCs?

Mark: You know, I think in VC there will always be a variety of mutually beneficial relationships. You know, the variety of seed funds I work closely with, the variety of growth funds we're close with on the opposite end of that and even, you know, we've collabed plenty of deals with Sequoia, Andreessen. You know, I wouldn't say collaboration is either more or less than it was three years ago, there is more collaboration though around thematic ideas, I'd say, maybe the lesser one on the deal front, that's kind of the same.

On the thematic idea side through you kind of go hey, you know, here's some interesting themes we're looking at, what do you see in the market, are there, you know, are you incubating anyone right now given the pace of the market. So, there's more creativity around company incubations, collaboration of thematic ideas, but I'd from a deal perspective it's kind of the same as always.

Peter: Okay, interesting. So then, I want to go back to geography a little bit. You know, you talked about Latin America, you know, we had a Latin American event, doing it now since 2019 and I love that event because everyone is so enthusiastic about what they're doing down there. Are there other regions, are you looking at Africa, are you looking at Southeast Asia, are there any areas of the world that you think is as interesting as Latin America?

Mark: You know, separate my interest so I'd say from an activity perspective, we've done a lot, I mean, done a C/D on Africa but we don't really have, you know, we haven't really taken the time to build the network out there. And I do think, at least, our thesis is you have to take a year, two years, three years to build a network and a market before you can start deploying meaningful capital into it. Latin America was the first of those markets we chose, I do think per se Southeast Asia is very interesting, we just haven't really done much in the region yet.

Peter: So then, how have brought up a network in Latin America, do you have anyone on the ground there or you going down there to visit, what are you doing?

Mark: So, I'd say it's a combination of, step one was sort of just meet a lot of people in the region, right, so, I mean, Stripe in and of itself, we had a team in Mexico, a team in Brazil that I got to know over time and that was a nice starting point. We have great relationships with some of the key funds down there like Monashees and Kaszek and Canary, etc. so that's sort of step one. Then in step two you start with the network you know and then you make a couple of investments and know these founders and introduce you to other founders so that's sort of the steppingstone process into it.

Peter: Right, okay. So then, you know, we're here at Fintech Nexus and there's been a lot of talk about AI, you know, the sessions that aren't about AI somehow managed to bring in AI into the conversation and it reminds me, like there's just a lot of hype. Are you jumping on the AI bandwagon or what are your thoughts on the hype that is happening right now?

Mark: I mean, I think, you know, first off I'll say in Index we've been big believers in AI, you know, I've been saying this just for marketing materials, we have made of investments in AI long before this year. You know, Scale AI which is one of our successful portfolios was that sort of, you know, it started out with AV vehicles and can kind of tag that as a tree, that's a biker, that's etc. and work from there. That's one of the many investments we've made on AI, we invested in a company called Cohere a few years back that is sort of a LLM competitor to open AI, so I guess the short answer is the belief we've had in AI hasn't changed necessarily just because the market hype has gone up. So, do we believe it's real, yes, I do think there is so much innovation that will come from the world of AI.

I think the question though is when is AI a feature versus a company in and of itself, it's going to be an interesting process, right. The payments parallel is not exact but it's an interesting one to think about in the same way that, you know, you take any vertical SaaS company in existence, they likely have some form of a fintech-related monetization model attached to it that could be powered by Stripe, that could be powered by an Adyen, that could be powered by someone else.

A lot of these companies going forward will have an AI-based component, it could be GPT, it could be Cohere, it could be someone else but most companies will have some form of AI into it but it's a feature that is a sub-set of a broader SaaS tool or workflow tool. You know, at the LLM level I'd consider a lot more like a parallel, like AWSGCP and Azure are right now. You're like we have all value at the LOM level accrue to maybe two or three big players, everything else is going to be an infrastructure or middleware layer on top of that.

Peter: I mean, valuation seems like they're starting to, well, not starting to, they've been going through the roof, I mean, not necessarily fintech companies but AI, it just feels like it's the flavor of the month again where people are driving up the valuations, people like you, not necessarily Index Ventures but venture capital is just driving up the valuations again. I mean, are you looking at this with kind of, you know, some sort of skepticism or what?

Mark: I'd say you have to be curated with how you approach this and I think this is again, you know, you ask the question, several questions ago, why did I choose Index four and a half years ago versus a lot of other firms, it's really that domain expertise that I think differentiates the way we view the world and it's sort of we have a sub-set of three/four people that are I'd consider, you know, AI experts. I think we're so cross collaborative that if I look at a company like the logistics company I talked about, they are more of a payments vertical SaaS company but there is an AI component, right. They have to use NLP to extract data off of invoices and then this will tell you if you're overpaying or not, that is, at the end of the day, still an AI component of the business.

I brought in one of the people from that team to help evaluate that piece of the tech which, again, was sort of, it's core to the investment thesis but it's only 25% of the investment theses. So, I think what my push is to other people and VCs is to leverage the people that know this technology the best and then formulate that into a broader thesis around what you're doing. So, I think skepticism comes from high-driven investment and so I think when people can avoid high-driven investments then, you know, valuations are appropriate but it's when hype sort of dictates what you're doing that valuations might be disconnected.

Peter: Right, okay. So, last question then, thoughts on the funding environment as we get through the 2nd half of the year into 2024, do you see, like you said demand might come up as more fintechs look to raise money, is supply going to meet that demand?

Mark: I think the short answer is, yes, and this kind of goes back to the point I've made earlier where a lot of VCs raised funds over the last year and a half and from a deployment percentage perspective most people are likely behind their forecast from when they raised those funds. So, the moment the demand skyrockets there will likely be a lot of supply waiting for it and just a matter of kind of finding that middle ground, you know, from a sort of middle point. But I think the answer is yes, we will likely see a funding boon in the next, my guess will be nine months but don't quote me on that.

Peter: (laughs) Okay, okay. Well, Mark, thank you so much for coming on the show today, really great to chat with you here today.

Mark: It's great, Peter, and thank you so much.

Peter: Okay.

Mark: See you.

Peter: I hope you enjoyed the show, thank you so much for listening. Please go ahead and give the show a review on the podcast platform of your choice and go tell your friends and colleagues about it.

Anyway, on that note, I will sign off. I very much appreciate you listening. Bye.

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