

LendIt Fintech



Welcome to the Fintech One-on-One Podcast, Episode No. 332. This is your host, Peter Renton, Chairman and Co-Founder of LendIt Fintech.

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Before we start today's episode, I want to tell you about a new event from LendIt Fintech. Nexus, the DealMaker Summit is all about making deals, we'll be bringing together a select group of venture capitalists, bankers, fintechs and debt investors for two days of face-to-face meetings in Miami on February 7th and 8th. Also at Nexus will be LendIt's famous Industry Award Show back in person for the first time since 2019. You can find out more about all our upcoming events at lendit.com

Peter Renton: Today's episode was recorded at LendIt Fintech LatAm 2021. It features my interview with Angela Strange who is a General Partner at Andreessen Horowitz also known as a16z. The title of this conversation was *The biggest untapped opportunities in Latin American fintech* and that gives you a pretty good idea of what we talked about, but we also go also kind of in-depth into why Latin American fintech has been so hot the last couple of years, what's driving all of the venture capital investment into the area.

We talk about the Andreessen approach, what they bring to the table beyond just capital, obviously, we talk about what areas of fintech Angela is most excited about right now, we go in-depth in that and we also talk about how a young fintech entrepreneur can get on Angela's radar. It was a fascinating interview, hope you enjoy the show.

Welcome to LendIt Fintech LatAm, Angela!

Angela Strange: Excited to be here, thanks for having me, Peter.

Peter: Okay, my pleasure. So, let's kick it off, why don't you just give a short intro. People probably know who Andreessen Horowitz is, but give a little intro to yourself and what your focus is there.

Angela: I grew up in Canada, grew up doing our family finances, I was one of these very young kids that wanted to be an accountant followed by a tax lawyer, luckily I got talked into during the kind of engineering, broader sort math and sciences degree and then I went to work for a consulting firm that was doing consulting for financial services mostly so that they would pay for me to go to business school down in the US which is what brought me down to Stanford in California.

And then I'll give the fast tour, I took a slight detour by trying to be a professional runner, I was trying to make the Olympic team for the marathon in Canada. I did not get there, but that helped me discover venture because my part time job when I was running was working with lots of

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different entrepreneurs and helping build their case studies for the business school on entrepreneurship. From there, I decided that I wanted to get a job in venture. I was lucky I got hired at a firm, I did that job for a couple of years and realized why everyone says, it's better if you have some operating experience and something to offer the teams that you're going to be backing which led me to leave and help start a company on the product side.

I had originally left so that I'd be a better venture investor, I discovered I loved product management, to grow that company. I got hired into Google, I got to run products for Global Chrome at Google and then everything kind of came together when a recruiter from Andreessen Horowitz found me. This is now seven years ago and they were looking for someone who'd done product, who had investing experience to come on over to their team. What used to be an accounting and tax lawyer had now become a little bit of an early space called fintech and that is where I've been for the last several years investing in all things financial services with the primary focus on infrastructure and trends, a little bit of real estate.

Peter: When did you get interested in Latin American fintech and what brought you there?

Angela: The credit for this mostly goes to my brother, the other Strange, who moved down to Brazil and was on of the very early employees at Nubank and started their product team there. It's kind of an interesting story so I think I better stay at Andreessen and Horowitz maybe a year and this is interesting.....everybody in the U-Pass is generally unhappy with their financial services, but then when you look at the customer acquisition cost they're really, really high.

So, if they're unhappy, but they're not actively looking in a lot of ways to switch... and so I wrote this article with my partner, Alex Rampell, around inflection points. It was like how you catch people at a moment in time in their life like either they're getting a new job or they just left college and they just had a kid or a point in time when they might be thinking about changing their financial services and, therefore, you can dramatically reduce your customer acquisition costs.

Talking to the folks down at Nubank, they're like or, you can find the market with hundreds of millions of people that is dramatically underserved and build a 10X better product and then it's just going to spread. This was you know, still very, very early days, but Nubank had a million customers all of which they've gotten through word-of-mouth which was unheard of in the American market. And so, this is what triggered, large market, very underserved, tons of opportunity and me and my partners have been investing in Latin America ever since.

Peter: The Nubank story is amazing. I was looking through their S-1 or the equivalent of their S-1, just a \$5 customer acquisition cost that's what struck me.

Angela: Amazing, amazing, right, yeah.

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Peter: Yes. All the American fintech companies are jealous.

Angela: It's kind of interesting, right. If you think of like distribution, infrastructure, regulation.... like in the US distribution's really, really hard, infrastructure easier because there's all these as-a-service companies, regulation is defined ...say it could use improvements in various ways, but you go down to somewhere like Brazil, infrastructure is hard, you have to build it yourself, but distribution, if you can get the product out of the door, accelerates very quickly.

Peter: Right. Are you focused primarily on Brazil and Mexico? What geographies are you really looking at?

Angela: All of LatAm. I think, you know, as an entrepreneur you have to decide on a large enough target market such that you can build a really big company, right. So, if you start in Brazil or Mexico so 210/130 million people, arguably, you don't need to leave that country to build a very large company. The best company is, you know, even.....start in Mexico, they move to Brazil, start in Brazil, move to Mexico, but, you know, there are 650 million people in the region and great companies already have come out of Uruguay, population 3 to 4 million.

You're not going to build the neobank of Uruguay or you might, but you're probably not going to go for a whole lot of venture funding. And so, when I think that is intriguing about entrepreneurs starting in smaller markets is that by definition, they have to have a plan to go to a much bigger market so they're already thinking multi-country right from the outset, we very much look at both.

Peter: Looking at the LatAm fintech market, it's really been an interesting last 18 to 24 month. What do you think has changed when you're talking to entrepreneurs in the region, what is driving the momentum that LatAm fintech is seeing the last couple of years?

Angela: It's interesting and I'd be curious that you were never going to mention opinion and ecosystem. Like to anyone who's been in the ecosystem, there has been a steady momentum that's building, right. Whereas if you haven't been spending time then it looks like, all of a sudden, everybody is looking to invest in Latin America, specifically Latin American financial services so I break this into three parts.

First on the demand side and I mention this like Latin Americans are dramatically underserved. Take Brazil, for example, the top five banks have 80% market share and they maybe serve the top 10 to 20% of the socio economic pyramid, that's very, very possible like some of the highest ROEs in the world. There's not a lot of chance they're going to be changing what they're doing anytime soon and the entire incumbents do that. And then you just look and there's half the population is generally underbanked, fewer than a third have credit cards, right, so large, large population that doesn't have access to financial services.

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But, to your point, like this has been the case for a long time and so why now. I think it's primarily two reasons. Demand has been pretty much the same, supply and that's.....you know, many of the people in the audience here, smart entrepreneurs who deeply understand these markets who are willing to startup de novo companies and I think it's a couple of things. Like now, there are some large new fintechs in Latin America that show what's possible and then two, there's an increasing number that we just talked about, ecosystem maturity of people from Colombia that might have moved to the US or moved to Asia and they've grown and scaled fintech companies in other regions of the world and they're taking that learning and they're bringing it back to markets they understand really well.

And I think the third piece is just the supporting infrastructure is growing like there's more off-the-shelf infrastructure companies that you can use to get started and then there's an increasing amount of support of regulation in Mexico and Brazil, right, like it's possible to get early licenses. So, I think all of those things coming together are starting to create more momentum to more new companies.

Peter: Right, right, it makes sense. It's a lot easier to get started today as an entrepreneur than it was five years ago. So then, how is Andreessen sort of changing its approach given the new market dynamics where there's more money flowing into the region, you've got more competitors, shall we say, going after the same entrepreneurs.

Angela: So, we think that there's a lot of opportunity in the region and are investing aggressively and even more. I think some of that is a continuation of our existing strategy like when we first started investing in the region it was like alright, what do we have to offer entrepreneurs given that we're new investors in the region. Our strategy was very much well, let's take business models that we understand very well, where we've been early backers of a company that have scaled from zero, you know, hopefully through IPO and then find entrepreneurs that are doing regional adaptations of those models and have a thesis about why those models would be even more successful and get in very much on the ground floor there.

An example of that is we're investors in Affirm "buy now pay later" in the US, one of our early investments in Latin America was Addi which is "buy now pay later," started in Colombia and now Brazil. If you think, well, it would make sense that that model would work in Latin America and it works even better for one of the reasons I mentioned, there's just a larger underserved population. One of the stats I like that really accentuates this is in Colombia there's 80% smart phone penetration, there's 14% credit card penetration, very, very difficult to pay.

And then on the merchant side, cart abandonment rates, right, are some of the highest in the world up to 80% just because it's so difficult to pay. And so, we got in very early with Addi, could use the learnings from Affrm and some of the other fintechs that we've scaled and that company is scaling up very well. You know, another analogy we're in Opendoor, you know, we're not insider in the US, but we're investors on Casai because the founder, Nico, had a very frank

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piece why that business model works even better in Mexico and Brazil around being able to sort of lock-up improve landlord relationships, get better economics.

So, that's strategy one and we're still doing that very aggressively across the region. Two, you asked what's changed. Now that we've spent even more time there and we've got better networks, we've got better understanding, we're starting to go even earlier. And so, we've done several really early seed investments in entrepreneurs that we got to know over the years that are ...you know, mostly a presentation hasn't built much yet, but are pursuing business models and ideas that we understand, that we think have a lot of potential in the region.

Peter: What's the smallest check size you typically write for those young entrepreneurs?

Angela: I've written everything down to 2.

Peter: \$2 Million?

Angela: Yeah.

Peter: Wow, okay.

Angela: Like if you're really, really early, right, like I think the question I always ask early teams is we're going to be partners over the long life of your company and so, yes, you want to optimize this fundraise, but you actually want to optimize fundraising over the course of your entire company. And so, what is the amount of capital that you need to raise such that when you go out to raise your Series A, you've proven what you think that you need to prove and then given that it always takes a little bit longer add call it 20/30%. So, I very much drive my check size off of what does the business actually need on a given stage.

Peter: Right, right. So then, when you look at the whole LatAm fintech landscape, where do you see the biggest opportunities today and what were you most excited?

Angela: Infrastructure. The more boring your business, the more excited I am about you. So, we go back like what did it take to start a neobank in Brazil seven years ago. It's very different than what it looks like say in the US today, right, like oh, I just want to grab my know your customer off-the-shelf, well, you can't really do that. You're building ID verification yourself, you're building fraud yourself, you're building all the payments, you're building the ledgering, who's issuing your cards. You're probably using an old provider, maybe you need to build that yourself so what is that entire stack and how can we provide that as a service and the reason why now that's pretty interesting, right, is initially, the customer present theirs at the stack, we're just financial services companies and new fintech companies and they're starting to be more.

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But, the trend we're trying to see even more in Latin America that's already exploded them in many regions around the world is consumer companies, other enterprise companies are adding financial services to better retain their customers, better monetize them. The example I often use is, you know, Lyft and Uber have bank accounts for their drivers, makes them stickier, makes them stick around longer, they can get paid earlier so the customers that has infrastructure companies could potentially be pretty much any company around.

Peter: Like here in the US, it's different, but I see in Latin America, it seems, that fintech companies get into completely unrelated areas like e-commerce or something like that and vice versa. We've seen a little bit of it in this country, but mostly the financial services companies seem to stick to financial services and vice versa like the technology companies. Although they've made some inroads, they certainly haven't done much in the way of gaining a foothold in financial services, maybe that will change in the future, but do you see that as something that makes it more interesting in Latin America?

Angela: 100%, it's a little chicken and egg, right. I'm very fond of saying that every company will be a fintech company, it's a bit tongue-in-cheek, right, because it's probably not 100%, but it does make sense for most business models to think of layering on some form of financial services. How do you do that if that's not your core competency?

And so, if there were very easy ways to add...like we have a company that's going to help add lending and it's a very heavy lift right now to do that in Brazil. If you could get that as a sort of package with all of the compliance, with all of the licenses tailored to your needs in a box, you might see companies that are a little more incumbent-like less tech-forward to start to view things like that so both of those things are happening.

Peter: Are you surprised that we haven't seen more fintech companies focus on Latin America? It feels like look at all the big names in fintech and you've got, apart from sort of the infrastructure-type plays, it feels like the "buy now, pay later," you know, the lenders, the digital banks, none of them are really trying to go down there yet. Are you surprised or you think it's such a different market that they should still focus on the US?

Angela: As I am often talking to our limited partners when I'm explaining, you know, why financial services in Latin America, I'll ask, alright, would you invest in the Google of Brazil like no, that doesn't make sense like Google is just the Google of Brazil. But, would you want to invest in the, you know, "new bank" of Brazil? Well, definitely, right, because to your point like Chime is in the US, doesn't make sense for Chime to be in Brazil, probably not because regulation is entirely different, the payment preferences are entirely different and how consumers want to interact is entirely different.

So, I think there's a dynamic in financial services where it's much more default local whereas other consumer companies and other enterprise companies tend to be more default global

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which sort of ties to your point of it's harder for a company that's very successful in the region, totally outside of Latin America, that had nothing to do with those consumer preferences, to come into that region versus a de novo company that's starting up that is steeped in all of the local nuances to build a really, really big business.

Peter: It seems like when I talk to the Latin American entrepreneurs these days, everyone, they want to attract the attention of Silicon Valley VCs or American VCs in general, but I feel like that's been something that is actually becoming more so as the region grows like every time you see a new funding round it seems like there's an American VC that's either leading it or a major player in there. Do you feel like that's a good thing for the region, I mean, what are you providing, apart from capital I guess, that's just going to really help these companies?

Angela: I think it's great. I think CEOs and entrepreneurship teams should look to get obviously the best people around the table, the best investors and we partner with local VCs, right, and so they're very strong and bring different things to the table. And so, where a seed fund in Mexico would have a deeper network of local talent, probably help better recruits, right, whereas we will bring obviously capital, but still do them. And so, what do we bring?

Knowledge of these business models and how they've scaled in different regions, this general company building expertise across a very large portfolio oftentimes scale from zero to one, one to ten, one to a hundred, how do you find that level of executives that has done that before. There's an increasing number that are starting to be in the region, but oftentimes you find that you want to report them around the world bringing back network expertise, that's something that other VCs also bring. So, I think that there's an increasingly good partnership between venture capitalists in the region, venture capitalists in the US and around the world that are very much focused on LatAm.

Peter: So then, our last question. You know, if there's an early stage entrepreneur in the audience, they really want to raise funding, they want to get on your radar, how is it best for a new entrepreneur to get on your radar?

Angela: angela@a16z.com (Peter laughs). Here's the thing, venture, like the classic adage in VC is well, you need to find a referral and network your way in and get someone to refer you in, sure, that's helpful and actually that's more helpful because like if you're building the company, you probably want to be a historian and student of exactly like your space and the best people in your space, the best people that can help you grow and so you want to meet those people, anyways. And then oh by the way, they probably know a lot because they've done it before, they probably know a lot of VCs and that can be another helpful angle, but I think that's the advice that everybody knows.

I would say don't underestimate the power of a really well-crafted cold email like I've met some of the best people that have just dropped into my inbox or Twitter, whatever, just out of the blue

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and like what have they done really well. It's just like succinctly like who are you, what are you doing, why are you doing what you're doing, right, because at the earliest stages what VCs are thinking about is like okay, can this person convince people to work for them, can you be able to attract best employees and then are you going to be able to raise capital over the long term. And then, is there just a reason like endemic to you about why you're pursuing this idea. If you can just demonstrate that in a clear and succinct way then you will get lots of people's attention.

Peter: Okay, we'll have to leave it there, Angela, thank you so much for joining us today. Next year, we'll have to get you here in person.

Angela: Most definitely, I would love to, thank you.

Peter: You know I always enjoy chatting with Angela. As you can tell, she's really approachable, down-to-earth, I mean, she's very much open to being contacted. We didn't touch on this in the interview, but I think it's important to know that, you know, really the capital and expertise that VCs like Andreessen bring to Latin America, this wasn't always the case.

If you talked to Latin American entrepreneurs five or ten years ago, you could not get any of the American venture capitalists to come down and invest, but that has now changed. It feels like, particularly in the fintech side, pretty much every VC, if they're not investing today, they're looking to invest because the reality is there is so much opportunity in Latin America, probably more opportunity in this region than any other place on earth. Fintech is hot and it's only going to get hotter.

Anyway on that note, I will sign off. I very much appreciate you listening and I'll catch you next time. Bye.

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Before we go, I want to remind you about a new event from LendIt Fintech. Nexus, the DealMaker Summit is all about making deals, we'll be bringing together a select group of venture capitalists, bankers, fintechs and debt investors for two days of face-to-face meetings in Miami on February 7th and 8th. Also at Nexus will be LendIt's famous Industry Award Show back in person for the first time since 2019. You can find out more about all our upcoming events at lendit.com.