

# Transcript of Interview with Alex Rubalcava, Stage Venture Partners

Interview by Aaron Edelheit

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\*Lightly edited for readability

**Aaron:** Alex, thank you so much for agreeing to this interview. I am so excited to just interview and ask you, because I think you're the only person that I know that has successfully transitioned from being a value investor to a very successful venture capital investor. I don't know anyone that's made that leap. And it's endlessly fascinating watching just your progress and your success. And frankly, this interview is for me because I want to learn what you've learned and the lessons you've been able to apply, because I think it's not only applicable in the venture world, but also in public markets. So, thank you so much for agreeing to this interview, and I appreciate it.

**Alex:** Fantastic, Aaron. It's great to be here. And I'm happy to have a fun discussion. Obviously, you and I

**Aaron:** And I've watched your whole progress because we've known each other for what like 15 years. We met at the Value Investing Congress and to see that you're just like thriving in the venture world. You said before that being good at being a value investor can make you good at being a venture capitalist. And that just seems if I have my skeptical value investing hat, that just seems like heresy to me. Like, how can you throw that out? How can you say that?

**Alex:** You know, whether you're a VC or a value investor in public equities, you know, you are a long term analyst and a long term believer in business fundamentals, unit economics, growth, valuation, company quality. All of those things are important. And all of those things are equally as important, whether you're investing in hypergrowth startups or in undervalued public equities. I also think that there's more of a Gulf in people's perceptions between those two worlds than there is in actual reality. You know, I like to always remind people that Warren Buffett is in many ways the world's original SAS investor, which no one really thinks about. But if you look at what was in the Berkshire Hathaway portfolio in the 1970s, you're going to find a bunch of internet style

businesses, newspapers, advertising agencies and TV broadcasters for the most part. And a newspaper is literally a SAS business. It has contractual subscription revenue. It has churn. It usually, even in the 70s, had lower growth rates than software businesses today, but it's the exact same business model. An ad agency like Ogilvy and Mather, which was a part of the Berkshire portfolio in the 70s, was the Google or the Facebook of its day. And they monetized on a take rate on advertising GMV, pretty simple. And then Capital Cities there, Berkshire's big investment in television was basically an online travel agency where they had reoccurring transactional revenue from advertisers. So, what's old, is new and what's new, is old.

**Aaron:** And now be careful because he's looking over your shoulder right now. It's a great picture. But so, when I think about it, when I think about a value investor, when he was investing in those, they were producing a lot of cash flow like you could value them. Now, while the businesses themselves may be similar and the unit economics may be similar and may be the reinvestment opportunity is similar, aren't the valuation differences, isn't there a huge gap in valuations? Like how do you how would you even go about you know, valuing something that's more of a startup that I can't see that historical record, I can't pull up the 10k of the companies you're investing in, right?

**Alex:** Well, I get access to the financials, but I'm evaluating the company. Now they have very little revenue at the time that I'm investing. Many of them have zero revenue. But you can look at the unit economics and you can look at, you know, what do I think it will cost to acquire a customer? You can look at what is the lifetime value of a customer? What are those payback periods? What are those gross margins? What are those growth rates? And essentially work up from an absolute single customer to an overall valuation level of a company. And if you get those unit economics right at a single customer level, they will become attractive as a company grows and scales. And then ultimately, you're making it a question of what is the kind of sustainable growth rate over a very long period of time and over sort of fractal scale invariant orders of magnitude. How many of those orders of magnitude can it grow through? And that will tell you how big of a return you can get.

**Aaron:** And that's probably the biggest difference between now and maybe in the 70s, is that you shared with me and we talked about just how these companies can scale because of the Internet and because of the way that software can work is you can have

and we're watching this in the public markets as well, even as companies at 100 million or a billion dollars in revenue. And they can scale like 10x 100x like businesses have never done before. How do you incorporate that into how you're at least thinking about investing or in your valuations when you're looking at the unit economics or the companies you're looking at.

**Alex:** Yes, so in the old days of value investing, we were taught that you focus on the downside and the upside will take care of itself. And that, I think, was a reasonable set of risk management tools for a world that was cyclical, for a world that did not have shared scale economics, that did not have network effects, it did not have increasing returns to scale, did not have aggregation or platforms or any of the kinds of characteristics of the software driven world. In a software driven world where you have all of those things focusing on the downside is the opposite of prudent risk management. Prudent risk management is much more about focusing on what can go right, how big something can be, and really evaluating it on an ongoing basis to determine whether it's going to achieve those kind of goals. At my level of seed stage startups, which are typically five or six people at the time that I invest, you know, there is no downside protection of any kind. There is only what could go right.

**Aaron:** So, I want to dive into that statement, because you said something that is very provocative, which is that prudent risk management is analyzing in the venture world, or now investing is making sure you understand the upside more than the downside. So why would that be the case? Is it the case that if you're looking at 10 or 20 companies, that at least in the venture model, when they succeed, it's like power law economics, I mean, they go up ten, hundred, thousand X and then if you do enough work on a bunch of them, that your winners will so outpace the losers that it's not as important to focus on the down-side. Can you dive into the prudent risk management?

**Alex:** Right. So that's always been the case in venture capital, where your winners are so big that they outweigh all the losers that you could have in a portfolio as long as you get a few of those winners. And so, you really need to be orienting your portfolio around outliers like that. I guess what I think now, as I think about public market investing, is that that approach to risk management and that approach to portfolio construction is almost certainly just as applicable for public market investing as it has always been for venture capital. There was a famous study maybe 10 years ago by a quant firm called

Black Star, I believe. They called it the capitalism distribution. I think Med Faber is the person who first turned me on to this study, and it basically showed that, like, you know, huge numbers of public companies generate negative returns over their life on the public companies and that all the returns that get captured in the index are driven by like the top 10 percent of companies, some Pareto type of skew like that. Basically, I think that we should all be orienting our portfolios towards capturing that kind of skew, whether we're in the venture world or in the public equity world, and in order to do that, focusing on the downside is missing the forest for the trees. You should really be focusing on the upside. And you think about, you know, the kinds of companies that have driven the value over the last 10 years. And the people who got it right were the people who conceptualized, you know, a tenbagger as it was happening, not the people who were doing better valuation work on, real estate held for sale. You know, stuff like that.

**Aaron:** You know, it's a great, great point and it's been one of the hardest lessons I've had to learn as an investor is to get away from this kind of value, they're really kind of value traps, even when they somewhat work out as, oh, you know, they own this piece and that piece in real estate. And if you valued at X, Y and Z, it's this. And orientating starting to think about, well, if that isn't growing, if those pieces aren't growing ongoing businesses, then you really are missing the forest for the trees and orienting more, you know, I have this small cap that I think is in the beginning of a, you know, huge growth and runway and realizing that even though it's done really well for me, my thesis is playing out and they have another five or 10 years of just like massive growth. And to your point is, I think that they're proving out that they may be this ten, twentybagger and orienting more on that and less on, hey, this is the value of, you know, let's carve up that net asset value. And even when I do net asset value, making sure that that net asset value, that it's growing, that there's growth inherent in there. And I been caught so many times in the value trap of, oh, this is so cheap.

**Alex:** And if you look at, you know, there was a time up until about four or five years ago when a lot of fundamental stock picking public equity funds had just track records that were not strong. And a lot of people who had been good for years were no longer. And then a lot of our friends, a lot of people that you and I know have really reoriented their thinking over the last five or 10 years, really five years or so, I would say. And you

see people just putting up monstrous numbers in public markets. You look at like what Scott Miller at Green Haven Road is putting up. You look at,

**Aaron:** Fred Liu at Hayden

**Alex:** You look at what Fred Liu is doing. You look at what Dan Roller at Maran or Marcelo Lima at Heller House. And I mean, you look at these guys who have really re-oriented their approaches and are making it work now and have developed portfolio construction, have developed risk management, have developed security selection tools that match the modern world as it is, not as it is encapsulated in a 90-year-old book.

**Aaron:** No, that's exactly that's exactly right. So, I want to go back to one of the things that scares me as a venture, and I play at it, I'm not a professional at all. But when I make a mistake in the public markets, I feel like, you know, what we were just talking about, I can limit my downside and that it's rarely a zero unless it's a fraud or, you know, and especially if I'm not investing in levered companies. But when I invest in a private company, you know, and it doesn't work out, it's a zero. And when I've talked to you and I talk to other successful people in venture, they're not worried about that at all. And to me, I would want to dissect what did I get wrong in making that private investment and try not to do it again. And I would like your thoughts, because I think you have a very different, you probably think that's the wrong approach.

**Alex:** Yeah. So, my approach is that you should try to learn from your winners, not from your losers, and that you should almost try as hard as, you should try as hard as you can to avoid learning lessons, because the more lessons you learn, the more boxes you paint your self into. And, you know, it reminds me of sort of the premise for Seinfeld, where, you know, they always said no lessons learned, like they're never going to grow as people. They're all going to be jerks, you know, and that was sort of the premise of Seinfeld, they were all a bunch of jerks and they never got any better. And as investors, I think that if we're going to be exposing ourselves to things that can be asymmetrical, then we should not try to learn lessons from the ones that don't work. We should try to learn all of our lessons from the ones that do and then bring those ideas and techniques to the companies that you're investing in subsequently. So, for example, you know, one of the most important lessons I've learned over the last couple of years is that product led growth, which I had thought of as only appropriate for horizontal, low-cost office

productivity software, you know, Zoom, Notion, Airtable, Slack and the like. I thought that would never work for the kind of software I invest in. For the big technical mission-critical, expensive software that, you know, historically Stage has invested in companies doing that kind of stuff at really high annual contract values. And I never thought we would get a sort of like Freemium model to work for that. And then the last company that I invested in, in my Fund 2, First Resonance, where I co-led the pre-seed round in 2019, pioneered a product led go to market approach for highly technical software for aerospace customers. I would never have guessed you could do that. And as I see the tools and the techniques that they apply, I'm applying it to my subsequent companies in space tech and in e-commerce and in unstructured data warehouses and in health care. And it's working and it's fundamentally changing the risk profile of the kinds of companies that I invest in, where the fundamental risk, and the most important risk, for a seed stage investment is will this company find product market fit? Every loss that Stage Venture Partners has ever taken has been a loss of a company that did not cross that chasm, that did not make that transition. And if you can change the speed and the likelihood at which a company crosses that barrier, you can fundamentally change the shape of the portfolio.

**Aaron:** Gotcha. And this is probably a good time to just, you know, at your firm Stage Venture Partners, you're investing solely in software. Is that right?

**Alex:** 100 percent. So, Stage exists to invest in enterprise software at the seed level, usually rounds of one to three million bucks, where we're investing in highly technical enterprise software, all application layer or just below it in data warehouses. So, what that means is that we're investing in companies where there is product risk, where there's technology risk, and where there's new market risk. And in general, we are avoiding companies where there is competition risk. And that sort of long, short skew of risk in the portfolio is very deliberate, because I believe that that aligns the portfolio around risk parameters that are improperly priced at the seed level.

**Aaron:** So, this is really fascinating to me because when I think about in venture cap, I think about trying to hit all these grand slams, but I really am enjoying hearing you describe as how much you actually think about risk. You're just not thinking about it in the way that I was, you know, as an old value investor would think about risk. You're thinking more in terms of, probably the technical team. You're looking in terms of

making sure that it sounds like there's a lot of green space, there's not a lot of competition, but it's a technical problem as opposed to a bunch of companies competing. And I'm really enjoying just listening to you think about how much risk comes into your analysis. And this probably leads into like you probably I mean, you would have to say no all the time. Right? Companies are coming to you all the time. What is causing you to say "no"? If I come to you with my latest and greatest software company that I just started, what stops you? What is the risk that you see that makes you say "aw, this isn't for stage"?

**Alex:** So, we can talk first about base rates and then we can talk about sort of how you get through the base rates. So, in terms of base rates, I'm going to get 1,600, 1,800, maybe 2,000 decks in an average year these days. That's the top of the funnel. At the bottom of the funnel, I'm going to invest in six or seven or eight startups. And so, you know, in terms of what goes through the funnel there, it has to be the right kind of company. It has to be, you know, the right phase of its growth, it has to be super early, all those kinds of things, but once you clear the ones that aren't, then I'm looking at some very basic things. And, you know, if I think about the primary risks that I face of the companies that I invest in are either going to find product market fit and then are going to enter scalable growth or not. The questions that determine whether they're going to be successful about that are almost always about the people and they're really simple questions. Can you ship? Can you sell? And can you hire? And those questions help me to evaluate the companies and filter out the ones that I want to focus on. From the perspective of finding product market fit, what I have learned is that shipping software is actually probably the hardest risk to get right there. And what I mean by that is it's very common for me to see a team that pitches me and they spend four million bucks to try to get a product out the door, and they have not yet got it out the door. And then nine weeks later, I see someone trying to do something very similar, maybe directly competitive, maybe not, where they have spent twenty-five thousand bucks on a credit card. They've got products shipped, out the door being used by paying customers who are willing to pick up the phone and talk to me about why they like the product so much. And I look at this over like four million bucks versus 25,000. That is more than a 100-fold difference in terms of engineering productivity.

**Aaron:** And what accounts for that?

**Alex:** Some people are just good at it. You know? Some people just can ship software and other people can't. Yeah, there are a few things that are important about it. Having training at a really rigorous engineering culture, whether that's they went to a certain school or work for a certain type of company before is really valuable. In general, the best possible environment is that they were in a rapidly scaling startup. You know, someone who worked at Google in 2019. That's nice, but I would prefer someone who worked at Google in 2003, you know, or the equivalent today. You know, someone working at Stripe in 2016 would be pretty interesting to me. Always making sure that the technical team is in-house and is the core of the founding team is critical. You can have a founder who's not a developer who is focused on go to market and bizdev and things like that. But there always has to be someone who's just a rock star developer. And when you don't have that, you don't really have a software startup. And I get pitched by a lot of companies that want to, you know, use money to hire a dev shop. And dev shops are perfectly appropriate if you are an insurance company that wants to build a claims app, you know, just as part of your normal course of business. And that's what you need if you've got a budget and a scope and a timeline and all that kind of stuff. For a startup that needs to pivot a zillion times, it needs to reorient its product. It has to move fast, it has to do all the things. There's no dev shops that can handle that. And, you know, I've come to develop very fundamental and black and white views of that. And it's just like, you know, I think they're like drunk. I think they rot startups like Methamphetamine will rot an addict. And I just I, I really believe that all startups that want to scale should stay away from them.

**Aaron:** And I got to think that the founder or at least the management team, you know, when I think in my head, they've got to be able to really be effective at hiring people. Right. Because especially in this environment where it's so hard to you know, if I take what you just said about the teams that can ship software, the teams that can't, having that awesome engineer, those employees who are, what, 10 or 100X the other employees, is a critical, competitive, you know, advantage. And so, I've got to think that as part of your due diligence, the founders or the management team have to just be able to tell a story well. And be able to hire.

**Alex:** Yeah, if I am approached by a non-technical founder who does not have a technical co-founder, then I tell them, look, job number one for you is go recruit a



technical co-founder and come back and pitch me when you have that person, because I cannot evaluate your company in the absence of that.

**Aaron:** Yeah. No, that makes perfect sense. You're currently and just as a disclosure, I am an investor in your fund.

**Alex:** That is true.

**Aaron:** I have no other financial relationship. I'm an investor in Fund number two. And I'm like a huge fan of you. And we've been friends for a while. But, you know, you are invested in a couple of monster successes. I know at least three Balto, Soundcommerce and Placer. And I'm curious of the companies where you've invested in the seed stage that are in the process of being monster successes, you know, what have you learned or what are some of the commonalities between those three companies? Or just, you know, if you want to just use one as an example or talk about all three, I would love to know what has made them so successful.

**Alex:** Well, so we've already talked about how important it is to ship early and quickly. You know, just a quick story on that Balto. One of the standout companies in Fund 2, builds coaching software for call center agents. So, they are listening on every call and helping the agent know what to say next in order to have the best chance of converting a prospect into a customer. To get that product to work they had to integrate with some really janky old softphone systems. They had to get it to work with sub second latency, and they have to get it to work at a 99.5% service level agreement for uptime. And they have to do that for their first customer. All of that had to be there for the project to have any value, you know, Balto,

**Aaron:** That sounds hard!

**Alex:** It is hard! They got that working before I met them on \$60,000 of capital from angel investors.

**Aaron:** Wait, how much?

**Alex:** \$60,000.

**Aaron:** Wow.

**Alex:** And I called up their customers at the time that I was leading the pre-seed round in 2018. The customers were delighted. The customers had no idea that this product that they were already spending in aggregate, far more than \$60,000 in ARR for had been built on only 60,000 bucks. And of course, you know, now 50 million bucks has gone into Balto and the company's much larger today than it was then. But they got it out the door. They got it working for real enterprise customers for 60K. And you know, that, you know, that's the kind of thing that you stop and pay attention to, especially for a product that has to work in real time, fully synchronous.

**Aaron:** That's capital, really. I think what you're really describing is, at least in the early days, being hyper efficient with your capital.

**Alex:** Yeah. Capital efficiency in a startup means that you have a quality engineering team. Those are synonymous.

**Aaron:** I would think that you would be under, that the first thing that pops into my head is, oh, you've only put in \$60,000 in the start-up, you've under invested.

**Alex:** Well, that's why that's why they're coming to me to raise more money.

**Aaron:** Gotcha. Gotcha. But they've proven they can do something. I think the key is what you're saying.

**Alex:** Yes, exactly. You know, they did not spend a hundred million dollars on a giant press machine to squeeze bags of juice. You know, like Juicero. You know, the other thing that's important for the companies is that they have to begin the process of prospecting and managing a sales pipeline immediately. And that there is just no waiting for that. You have to just be out there and in contact with customers. You have to learn how to get it through all the steps of procurement, whether it's buy-in from a business user to legal review, to security review, which is, you know, ever more important, and then get the product used and get expansion going. And there are different ways of doing that. The Balto guys were 23 years old when they started the

company and they had no Rolodex. No one knew who they were. And so, their approach was just outbound, and they built an outbound oriented culture of prospecting and of contacting a huge volume of potential buyers until they found people who were excited about what they were doing. Soundcommerce, by contrast, is started by a four-time founder, a guy named Eric Best, who every company he's touched has been successful from selling his first company to Amazon in 1998. And he has not needed for his first couple of dozen customers to do a huge amount of outbound. He has sold software to pretty much everybody in the world of e-commerce for a long time. He simply has a Rolodex. He can call up people, have a conversation and find his way to qualified customer leads entirely on his own reputation. And you know every company has its own strength at that.

**Aaron:** Gotcha. Now, we're both invested in Till and I just interviewed and posted an interview with David and I have a history with David, and that's why I invested. And I'm you know, you're invested as well through the fund. And so, I'm invested personally and through the fund. But I'm curious in your opinion or what attracted you to Till as opposed to my own view? And what do you see in the company? And if you could also mention the interview with the product lead as well.

**Alex:** Absolutely. So, you know, first of all, thank you for the intro to David. You are still the only investor in Stage Venture Partners who has introduced us to two portfolio companies Till and TrackStreet. So, you are the undisputed record holder.

**Aaron:** And a third one coming. But that's going to be anonymous for now.

**Alex:** I'm looking forward to that as well. And with regard to Till there were a few things that were interesting to me. The question of "why now" is always a really important question for me as I evaluate startups. I believe that great technology startups are creatures that are deeply rooted in time. And what I mean by that is that they exist only in specific times that they can exist and that there are, you have to get the market entry timing right, and that's almost always driven by changes in technology, primarily, or secondarily changes in customer needs or regulatory frameworks or other environmental factors. With regard to Till the idea of offering tenants flexible rent to benefit both tenants and landlords in workforce housing would not have been possible without Plaid and without other sort of banking API tools that allow you to securely,

anonymously and at scale get essentially general ledgers of individual consumer financial statements and thus run machine learning models on them to generate flexible payment plans. There was no possible way to do that. Till could never have done that on their own. But then integrating that tech via API allows them to build this incredible application layer technology on top of that, that's really, really important. If I don't see a good answer for something like that, I don't invest in a startup. There has to be something that has changed recently that unlocks the opportunity and the problem, because the problem has always been there. People being unable to afford expensive rent when they don't make a lot of money has been a problem for a very, very long time. So, what is changed to enable Till? That's part of it. Part of it was also the incredible operational experience that David basically gained from working for you for all those years at The American Home and seeing the scale of the problem and knowing how to go from a very small business to a very large business very quickly, as you guys did. And then I think, you know, you asked about the interview that I did with Karen. Karen Ellenberger is a VP of Product at Till. And I like to do interviews with team leaders at portfolio companies of mine about scaling. And I focus on VPs and team leaders who are not the founders, because so much of the attention in startups is on the founders. And there's an incredible layer of leadership at all the best growing software startups below the level of the founders that I don't think is paid attention to sufficiently. And my interview with Karen, where she talked through how she thinks through product management decisions, how she thinks through a timeline, how she thinks through commitments, and the orientation of the future product goals to the company when you have to balance the interests of both landlords and tenants simultaneously, which is not easy. You can see the caliber of the people that David is hiring. When you speak to people like Karen, I posted part one last week and I'll be posting part two of that interview ideally tonight. And today is August twenty third. So, it will be out shortly.

**Aaron:** And that's great. No, that's wonderful. Are there any other companies or trends that you can talk to you on, on a high level that investors or just people that are interested in the venture world that we should be paying attention to, that maybe isn't in the consciousness of what people are talking about or reading right now?

**Alex:** Yeah, I would say there's a few things to keep in mind. You know, we have seen technology and software attack a lot of incumbent industries successfully over the last 25 years and others less successfully. And, you know, we think about what's happened

to media or to newspapers or to, you know, other legacy industries that have been fundamentally transformed and reoriented by software. And then there's other areas that haven't been touched. One of my favorite areas that has not yet been touched, but where I believe that there are big things coming is aerospace and defense. I think that, you know, we have allowed two things to go terribly wrong in the United States over the last 20 years in our aerospace and defense posture. Number one is that we simply allowed our aerospace companies to consolidate too much and we failed to enforce antitrust. And now we find ourselves with Boeing, which can't get rockets into space. We find ourselves with Lockheed, which cannot get a working F-35 done on any kind of budget. And we find ourselves with these giant monolithic cost plus, you know, vampires on national security budgets. So that's problem number one. And problem number two is that we spent the last 20 years worrying about counterterrorism. And I think we underestimated the ongoing threat that Russia presents to our country and the growing threat that communist China presents to our country. And as we've seen what happened in Hong Kong over the last year and the saber rattling around Taiwan. You know, great power conflict is not over. And I think that our country needs to be more prepared for the great power conflict. And then if you believe that and then you look at the record of shipping product that Lockheed and Northrop and Boeing have. You should be terrified. And I think that Lockheed and Boeing and Northrop and Raytheon and the like of them are the biggest security vulnerability to the United States of America. And I think that the faster that we disrupt those companies from below, with American startups powered on American software, the more secure we will be. And I have been investing very aggressively in aerospace and defense and space technology on the belief that what happened in the 90s, the 2000s, the 2010s to a bunch of old industries that are now gone is about to happen to the aerospace and defense companies.

**Aaron:** Wow. That's really fascinating. And I'm assuming that you're doing that you're about to have Fund 3 right now that you're raising money for and investing. And this is your focus for Fund 3. Or is this just one focus, one area that you're focusing on?

**Alex:** It is one focus area for my fund. And so, you know, in aerospace and defense, I've invested in First Resonance, which does build materials tracing and collaboration software for precision manufacturing companies. I invested in Epsilon3, which does auto-mated mission management software for space missions. I've invested in my Fund

2 in Slingshot Aerospace, which does collision detection and avoidance for satellites. And I've got one more company that is not yet disclosed, in space tech. And then I've got GrayMatter Robotics, which is a company that does robotic surface treatment for large composite and metal parts. So, think about sanding and grinding helicopter blades or wind turbine blades or the body panels for trucks and RVs and other types of vehicles like that.

**Aaron:** That's great, I love how you think. I literally have not heard that thesis anywhere else, I think Josh Wolf has been talking about just kind of the defense industry and doing some of that, but I hadn't heard it articulated that way. And that's really great. You will not only have now three funds and I'm sure you'll have even more in the future but you've started to do special purpose vehicles, SPVs. And I'm just curious, from a money manager perspective, why choose to do an SPV? And in a weird way, why wouldn't you do one for every company that you're with? What causes you to say, oh, my gosh, I not only need to have my venture fund but I need to create an SPV for this.

**Alex:** Yeah. So, I'll talk about why I'm doing SPVs in general and then I'll talk about my algorithm for picking which companies to do SPVs into. So why in general, is because pro-rata rights have value. And as the lead investor, most of the time in the companies that I invest in, I have pro-rata rights, but I also have relatively small funds. You know, the fund that you're invested in, my Fund 2 which I raised from 2017 to 2018 is only a nine dollars million fund. It's not the biggest funded in the world, by any stretch of the imagination. And so, it has run out of money. Fund 2 does not have additional capital to put into the breakout companies that are continuing to grow and scale, but it has pro-rata right. So, I use the pro-rata rights. They're transferable to any stage related entity. And so, I can create an SPV to invest in this. And then the question becomes, which one do I choose to invest in or which ones? And the way I think about it is pretty simple. I only want to do ones that are a couple of rounds past my initial entry point. I only want to do ones that are already at product market fit. I only want to do ones where the rounds are being led by a very high-quality firm. I'm never going to lead a deal myself with my own SPV because that's basically using new money to get my old money a markup. And I don't think that's super kosher. So, I try to be on the right side of the line of that kind of stuff. And I only do it when I think that the upside that is still present, even though the company might be past 100 million in valuation and growing nicely, I will only do so if I think the upside is in excess of 10x. And so that's why I put these SPVs

together. In the long run, I will probably evolve the strategy into an opportunity fund, which will capture all of these and will mean that I won't have to have 50 LLCs on my tax returns in three years. So, I'll get there eventually. Well, we'll see how long that takes.

**Aaron:** I know we started in the beginning of this, but it's been really amazing as your friend and I was really proud of how you built Stage and how you started literally from scratch. And I can't imagine how hard it was to try to convince people like, hey, I know what I'm doing. And I have an idea that there's an opportunity here in software, which everyone knew, but that I could make good decisions and that you built the firm now that you're on your third fund and the success that you've had. And as an investor, I'm also thankful. But it's been it's been awesome to watch you build Stage. And I tip my hat to you.

**Alex:** Yeah, it is it is definitely a, you know, the base rates are not high. You know, if you look at the newly formed venture firms, the vast majority fall in one of three buckets. You either are spinning off from a big firm where you have institutional LP relationships already and access to deal flow and deal sheet and attribution and all that stuff. Or you're a founder of a successful tech company and you have all of the personal financial resources and prestige and network centrality that comes with that. Or you are, quite frankly, somebody with a father or father-in-law who sets you up. And there's a lot of those in business with family money. If you're not one of those three things are sort of what I refer to as a type four firm launch. And I am a type four firm launch with none of those things. I had a little bit of an angel track record, which I thought was super impressive when I was launching stage, because I have made decent money on my angel track record and had had shockingly few losses. No one cared. No one cared at all. There's not a single human being invested in Stage Fund 1 or Fund 2 because of my angel track record. That took me three years to learn that lesson. Oops. But in Los Angeles, of the people like myself, who were a type four fund launch of just sort of coming out of nowhere. There were probably four hundred or so type four fund launches, firm launches in Los Angeles in the last decade, and I believe that only Wonder Venture is run by Dustin Rosen and myself, got to fund number three. Only two out of 400 got to Roman numeral three.

**Aaron:** So, and correct me, I saw it and I should have written it down. But you were just voted at it like one of the, was it the top 50 or what? You just got honored on a list?

**Alex:** Yeah, totally. Dot.la put out a list of top VCs in L.A. as voted on by peers. And every other person on that list has 10 to 100 times the assets under management that I have. So.

**Aaron:** Oh, don't worry, you'll get there. Last question before I let you leave. Let's say I told you, Alex, you're not allowed, it's illegal, you're banned from venture investing anymore, but you can go back to public markets and you can raise money and there's investors, including myself, that would invest with you and say, OK, Alex, go invest in the public markets. How would your investment strategy, and with what you know now, differ from the past and what lessons or advice would you have for investors like me who want to learn from you?

**Alex:** I guess I would say that I would be much less doctrinaire about concentration and that I think that the proper way to think about portfolio concentration in both public markets and in venture, is to think of concentration as something that's desirable as an output rather than input. And what I mean by that is, you know, I remember a lot of my friends would sort of get into like, you know, macho type of contests of like, oh, I'm more concentrated than you, you know, I've only got eight portfolio companies. Oh, that guy's only got six, you know. And every one of those macho dudes blew up at some point, because if you've only got six portfolio companies, you can't be wrong twice in a row on your investment decisions. It's a really hard thing to recover from. Whereas one of the things that if you believe that the public markets are scale invariant and that a \$100 billion company today might have Apple's market cap of 2.5 trillion 10 years from now, when 2.5 trillion will be a very prosaic amount as opposed to the biggest company in the world, you don't need concentration. You simply need exposure to as much asymmetry as you can find. And you can buy more every day. In fact, when, you know, I have a small personal account. And so, what I'm looking at investments to make in public equities, I often start with a very small position and then with very specific triggers, I think what would cause me to want to double the number of shares I own in this company. And as quarterly results come in, as I evaluate, is the base case could be achieved here or are they going to achieve my upside case? I often add very aggressively as the company goes up in value. And, you know, that used to be really



hard for me. I used to hate paying a higher price for shares than whatever the first, you know, tax lot I had in any particular CUSIP. And now I see having a ladder, layered set of tax lots at progressively higher prices as a sign that my security selection and my portfolio management is working.

**Aaron:** No, I love that it's one of the hardest lessons and I've written about it, talked about it before, just learning to buy higher. When a company is executing, when there's a long re-invested runway, when your thesis is working or starting to work, you know, in the past, I would be like, oh, I made my money. I made 50, 75 percent or whatever. And then you just watch these companies go on to do 10, 20, 30 X over 10 or 15 years.

**Alex:** Yeah. I mean, I bought United Rentals, you know, 12 years ago at five dollars and twenty-five cents a share. I think it's 300 now or something like that. You know, I bought Fiat Chrysler at essentially a net of all the spin offs, a negative price at this point. And, you know, every single order that was a sell order on those CUSIPS was a mistake. And, you know, I'm very cognizant of the fact that, you know, we should all be just aligning ourselves around optionality wherever we see it and asymmetry wherever we see it. And asymmetry and diversification on the way in can lead to a concentrated portfolio as an output. And again, that's something that I see very few, you know, people, at least in the old days of value investing, talking about.

**Aaron:** That's wonderful. That is really great. Now you have me really thinking! Alex, thank you so much for this. This has been a wonderful interview. If people wanted to get in touch with you or just ping you with a bunch of questions about your firm or your fund, how would they get in touch with you?

**Alex:** My email is [Alex@stagevp.com](mailto:Alex@stagevp.com). And I can also be found on Twitter @Alexrubalcava or at @stagevp

**Aaron:** Okay, great. I'll include them in my post as well. Alex, thank you so much. This has been awesome.

**Alex:** Thanks, Aaron.