Hustlers, Hackers, Hipsters and Hassaans: introducing Blackfinch Ventures

In the ever-growing investment landscape, funds are multiplying and diversifying, and for startups there is more to raising investment than the money and the media moment. With #QVCS Maddyness profiles different funds to give founders and entrepreneurs the information they need to choose the right investor. Today we interview Reuben Wilcock of Blackfinch Ventures.

Temps de lecture : minute

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Blackfinch really does thrive in challenging markets, where its 25-year heritage and an ability to quickly adapt has given the firm a tangible edge. The brand as you see it today was launched in 2013 by founder Richard Cook and inspired by Charles Darwin's trip to the Galápagos Islands where his studies of the most highly evolved species – the black finch – confirmed his theory of evolution.

We launched our first tax-efficient product in 2013, the Adapt IHT Portfolios, which drew on Business Relief to achieve Inheritance Tax mitigation. Blackfinch Property was then launched as a provider of financing solutions for developers, followed by Blackfinch Energy which today owns and operates 47 renewable sites across the UK. Blackfinch Asset Management came a few years later, offering a managed portfolio service available exclusively through advisers.

Ventures were launched at Blackfinch in 2018 with its EIS Portfolios service investing in some of the most exciting early-stage technology companies in the UK. My role as Ventures Director began in early 2019 and we quickly embraced the company's entrepreneurial spirit by hiring a talented team of managers and analysts who had all been startup founders themselves.

Before joining Blackfinch, my own career had spanned academia, startups and startup acceleration. A PhD in chip design and a seat on the patent panel at UK's biggest engineering faculty had afforded me an unusual breadth of technical understanding and founding four of my own startups taught me how to grow and exit a company. Later, the accelerator I set up, Future Worlds, saw me mentor and help fund over 50 high tech startups, before leaving to head up the Ventures team here.

Recently, we launched the Spring Venture Capital Trust (VCT), which looks to invest in growth-stage technology-enabled companies with annualised revenues of over £1M, great unit economics and an excellent grasp on the levers of growth. The EIS and VCT intentionally address different stages in a company's journey, with the EIS investing where it sees early product-market fit and the VCT positioned for the scale-up stage that follows.

Which industries are you working in?

Both our EIS and VCT are generalists in the technology space. We tend to avoid sub-sectors which have a very long time to market or high regulatory hurdles since this reduces the chances of our 4-7 year exit horizon. As part of our investment thesis, we diversify across sector and stage. This ensures clients are not overly exposed to one area and that higher risk early-stage investments are balanced with those that are slightly further along their growth curve.

We actively seek opportunities outside of London, with deal flow in the regions typically being better valued and less competitive. Of our investments, half are London-based and the rest spread across the UK in areas including Bristol, Oxford, Lincoln and Glasgow.

True to our sector diversification aims, our 13 investments cover SaaS, Marketplace, EdTech, Wearables, Consumer Electronics, HRTech, FitnessTech and PropTech. We've even made investments in areas that don't have a catchy name yet - one of our portfolio companies designs and installs self-service ultra-pure water dispensing stations, used by the £5B+ UK window cleaning industry, let's go with WaterTech for that one!

What do you look for in a founder?

The easy answer would like to say that a founder should be passionate, driven, have a track record, great vision, strong leadership and an ability to disrupt their market. The reality, however, is that great founders come in all shapes and sizes, different startups have different needs, and it's the combined ability of the whole executive team that really matters. These teams are like complex puzzles with many facets that all have to join together to create something incredible, and our job is to spot these pieces, figure out how they fit together and whether the missing ones are a dealbreaker or not.

So putting the full wish list to one side the bare minimum is that founders must have enough confidence and belief in themselves and their product to be able to quickly move past failures, and enough vision and leadership to hire the best people. If you have the best people and have the mentality to constantly move forwards, then a lot of other things fall into place.

In the whole executive team, we look for four key abilities, the Hustler, Hacker, Hipster and Hassaan. The Hustler is a charismatic salesperson who can charm anyone, negotiate and most importantly close a deal. The Hacker is a talented tech lead who can do the work of 5 developers, make the product scale beautifully and build to a roadmap. The Hipster is a creative who understands how to make customers love the product and knows exactly how to build a brand. Finally, named after our own financial analyst, the Hassaan is a numbers geek who can drive a financial model with their eyes closed and is completely on top of cashflow.

Coined by Rei Inamoto, this Hustler, Hipster and Hacker theory (plus our Hassaan addition) makes surprising sense, and when we turn down companies we often reflect on which of these were missing. Granted, sometimes one of these characteristics does not exist in the companies we do go forward with, but at least the concept helps us spot that in advance and plan how to address it.

Can you talk about your current portfolio?

Our investment thesis sees us consider opportunities right across the technology sector, and we've ended up with a fantastically diversified portfolio as a result. One of our earliest investments, Tended, is a wearables company that detects and prevents accidents at work. The sensors in its wristband detect your arm's movements, and proprietary algorithms can spot when you've had an accident, sending your location to an emergency contact.

Large enterprises have a duty of care to their lone workers, factory workers and staff out on the road and the Tended device ensures they are taking this obligation seriously. What I particularly like about Leo and his team is how quickly they responded to the COVID-19 crises by developing one of the most accurate social distancing solutions on the market. This new product has already received an incredible response from organisations big and small.

Movebubble is another great portfolio company of ours, which offers a frictionless experience for renters in major cities. Its app allows users to view slick video walkthroughs of apartments, talk directly with agents through text chat and even place deposits with just a few taps. Aggregated anonymised data is then used to help build-to-rent developers optimise their upcoming projects for demographic, increasing yield and reducing time to rent.

One of our SaaS investments, Cyance, is a B2B intent marketing business that uses its technology to provide laser focussed leads for its clients. Gone are the days of mass emailing thousands of contacts and getting a fraction of a per cent conversion rate. Cyance is able to monitor the intent of buyers very closely so that its clients can approach the right people at the right time, cutting down spam emails and increasing the efficiency of their sales teams.

Spotless Water is our most intriguing investment and has been doing incredibly well during the lockdown. This innovative tech company has developed self-service ultra-pure water dispense stations for pole-based window cleaners all around the country. Operatives can drive up to a station and use their credit card to fill up the water tank in their van, rather than having to operate their own filtration system from home. The numbers for this company are surprising and growing fast.

Kokoon is a sleep technology consumer electronics company whose headphones contain biosensors that are able to monitor your brain activity, heart and breathing rate. Smart algorithms use this data to determine sleep state, allowing the companion app to figure out over time which audio tracks are most effective at sending you off to sleep. Once you do drift away the headphones fade out the audio and introduce white noise to mask distracting noises nearby.

How has COVID-19 changed the way you

operate?

Luckily the Ventures team were set up to work from laptops from the very start, and we use so much cloud technology into our processes that working from home was a frictionless step. We've found Zoom to be more efficient for internal meetings, as it reduces transition time and they tend to conclude more quickly. Our infamous 3-4 hour pitch sessions are now run remotely, which also makes it possible for more members of the pitching team to be present.

Of course, the lack of in-person meetings does reduce the more intangible cues that we pick up on from founders and makes it logistically more difficult to perform technical due diligence, but we've adapted quickly. Indeed, the team successfully closed 3 new deals and 4 follow-on investments at the end of March under full lockdown conditions.

The practical impact of COVID-19 on our portfolio has been varied, with companies like Tended reacting fast with products that meet the needs of the new normal and others having to reduce costs whilst weathering the storm. Remarkably, Spotless Water has broken its daily water dispensed record many times over, and Cyance continues to grow convincingly despite our expectations it would be hit. As with all VC's we've been working with all our companies to control their costs and cash flow during this time and to help them benefit from the government support available.

One of the positive impacts that Blackfinch has made during the lockdown period is to launch isolationintern.com, a platform that connects startups to talented university students and researchers through internships. The initiative has 7 leading universities and 13 investment industry firms as partners, and we've seen internship listings attract over 100 high-quality applicants. The best bit is that it only costs £20 to list a position and all of that goes to charities like the Access Project that helps talented young people from disadvantaged backgrounds gain access to the UK’s top universities.

What does the future look like?

Historically the UK’s success has been built on innovation developed during challenging times. As the saying goes, necessity is the mother of all invention and we’re seeing this in our portfolio and the companies that are pitching to us. Companies that adapt will emerge stronger, fitter and leaner than ever before and because overall portfolio returns are typically driven by the biggest winners, only a few of these are needed to maintain fund performance.

Increased remote working is likely to shape several industries beyond the pandemic. The impact could be considerable – we’ve had many debates about whether city workers will move to the suburbs, what will happen to empty office blocks and whether internet buying behaviour will persist at lockdown levels once high street stores open back up. What is clear is that a number of new sub-sectors have emerged to help enterprises prepare themselves better for the impacts of a pandemic, and we expect to see these grow quickly.

COVID-19 aside we remain excited by the number of FinTech startups that are building innovative solutions around Open Banking as these look to really shape how consumers spend, invest and manage their money. AgriTech similarly is yielding exciting growth as consumers explore new food sources, and governments put pressure on food wastage and farming efficiency. My team are actively looking in both of these areas for investment opportunities right now.

What makes Blackfinch Ventures different?

Blackfinch has an unusual breadth of experience as a fund management house with a significant track record in EIS, AIM, property and energy investments to name a few. This is useful as it gives my team a unique ability to plug into those areas of expertise when required, which, in practice happens a lot. The processes for EIS investment are well established at the firm as is the network of BDMs that raise the inflows into both investment vehicles.

In 2018 we constructed the early stage Ventures process and had the luxury of cross-fertilising tried and tested elements of a VC flow with innovations in areas we felt were lacking. A dedicated pipeline team gather the key details for new opportunities and present them at daily deal flow meetings to the more senior members of the team. This approach reduces the personal bias that can creep in early on, making sure we assess companies in a much more balanced way.

Opportunities iterate around this data gathering process a number of times and move from long-list to short-list if successful. The key next step is to invite founders for one of our infamous 3+ hour-long pitch sessions. These are intense, covering all areas of the business, but we make it clear that typically at the end of this session we'll know whether to move to Term Sheet or not. Founders often comment afterwards just how useful these are, whether or not they get the investment.

We use technology everywhere, a VC specific CRM platform, cutting-edge research tools, video platforms, and cloud-based data rooms to make the process as slick as possible, often moving from pitch to completion in around 6 weeks. An external tech specialist spends a day with me in the startup to go through everything from the architecture to security, documentation, even down to the code level so we really know what we are dealing with. These reports are shared with the founders once the deal is closed.

One of the key differences between Blackfinch and other VCs is that we put an UltraNED onto the boards of the companies we invest in. These are not managers from my team but experienced entrepreneurs and industry leaders who have been there and done it before - people like Seb Chakraborty, CTO of GoCompare, and Ashley Unitt, co-founder of NewVoiceMedia. During due-diligence, we work out which gaps need filling and begin to select the perfect UltraNED for this role.

Our relationship with Amazon Web Services also means that our portfolio companies get up to $100,000 of AWS credits, which can dramatically increase the value of the investment. Being based in the South West, our lawyer fees are less than most and we talk founders through all these details early on so there are no nasty surprises. Transparency and fairness are extremely important for us and we've made a commitment to this by signing up to the www.unpri.org

A recent development that we are very proud of is a new group-wide ESG mandate which extends into every investment product that we operate. The Blackfinch founder and CEO Richard Cook, and the company as a whole feel a strong responsibility for making a positive impact in the world through our investment activities. What this means for Ventures is that every deal is scrutinised on its ESG merits which receive a similar level of due diligence attention as product-market fit or company financials. Once invested we also use our board seats and governance levers to continue to operate this mandate.

What one piece of advice would you give founders?

Like it or not, the process for most VC's starts with a pitch deck, and shortly after that a request for your financial model. You really need to get these right – whether you have the world's best product at this stage or not, the way you communicate this to an investor is everything. Be super clear: what problem does the product solve, what is the roadmap, the addressable market, the monetisation and unit economics, what the superpowers of the team members, and who are your competitors.

Most of all what is the traction, the growth, what KPIs are you tracking and crucially, where is the evidence of product-market fit. We only have a very short time to look through decks at first glance so this information needs to be very very clear. If the design isn’t your thing, find someone on Upwork or Freelancer to help you make it look great. Focus on evidence and real data if you want us to take you seriously, the pipeline is important, but we are more interested in the historical traction as this tells us a much more concrete story about where you might be heading.

For the financial model, it’s a breath of fresh air when we get a P&L which shows the past 3 year’s actuals as well as the forecasts. So many companies only want to talk about the future when the detail we really want to see is in the past as this gives us comfort in your direction. Salaries, revenue assumptions, debt, tech and marketing costs, and an accurate cash flow forecast, ideally with a few scenarios, are all needed to get our attention. We review around 3000 opportunities a year so you really do need to make sure you stand out!

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Article by Reuben Wilcock