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World Positive Investing [Entire Talk]

James Joaquin, *Obvious Ventures*

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James Joaquin is the co-founder and managing director of Obvious Ventures, leading the team's investments focused on plant-forward approaches to food (like Beyond Meat), "good for you" consumer goods (like Olly), and companies at the forefront of how people find and do their best work (like Incredible Health). Joaquin has been working in venture capital since 2007. Prior to investing, he served as president and CEO of Xoom.com and president and CEO of Ofoto, and co-founded When.com. In this conversation with Stanford adjunct lecturer and STVP director of principled entrepreneurship Jack Fuchs, Joaquin discusses his commitment to "world positive investing" and his belief that many highly successful 21st century businesses will be devoted to solving the world's biggest problems.

Transcript

Narrator Who you are defines how you build. 00:00:07,450 - Hello, I'm Jack Fuchs, 00:00:09,530 director of Principled Entrepreneurship at the Stanford Technology Ventures Program and I'd like to welcome you to the Entrepreneurial Thought Leaders Series presented by STVP, the Entrepreneurship Center in Stanford School of Engineering, and BASES, the Business Association of Stanford Entrepreneurial Students. Today, I'm pleased to welcome James Joaquin to ETL. James is the co-founder and managing director of Obvious Ventures and a lot of our conversation today is going to focus on his firm's unique investment thesis that a new groundswell of hyper-scalable startups are going to be created by focusing on solving the 21st century's biggest problems and challenges. James has been working in venture capital since 2007, and he's invested in a wide range of mission-driven startups, including Plum Organics, TenMarks Education, Opower, Seventh Generation. Prior to investing, he had a distinguished career as an operator, as president and CEO of Xoom.com and as president and CEO of Ofoto, pretty much from its inception all the way through an incredibly wild ride, until it was sold to Kodak. He's also a co-founder of When.com. Computer science graduate of Brown University, and a whole bunch of other things, but let's turn it over. Welcome, James, let's turn it over to you and allow you to just share a little bit of background and context about Obvious Ventures and its uniqueness. And then we'll get into the Q&A.

James. - Thank you, Jack, 00:01:37,180 and hello to all the students and everyone watching. It's an honor to be speaking as part of this series. I know I'm the wrap-up for this quarter, and I'm excited to tell you more about what we've been building at Obvious Ventures. And I know we're going to have a lot of conversation today, Jack, but I thought I would start with just a few quick slides to set the table and explain what this world positive venture capital is that we're up to at Obvious. So we started Obvious back in 2014, I co-founded the firm with Evan Williams who's very well-known in Silicon Valley for creating Blogger and Twitter and Ev's now on his third act, as the co-founder and CEO of Medium. And my other co-founder Vishal Vasishth was the chief strategy officer of Patagonia. So he doesn't come from the tech world, he comes from the sustainable apparel and purpose-driven business world, where Patagonia, I think is a clear thought leader. And the three of us came together with this shared belief that the biggest companies of our time will be disruptive startups that are building solutions to humanity's biggest problems. These are problems like climate change, chronic disease, income inequality, and that idea seven years ago was not a consensus idea.

People thought we were crazy. We wanted to invest in plant-based meat and lab-grown diamonds and electric buses. And I think they think we're less crazy now because these companies, if you solve these problems, you're solving problems in trillion dollar-sized industries, food, energy, healthcare, pharma, education. These are actually massive chunks of the global GDP. So our idea was that these new kinds of purpose-built startups, purpose-driven startups could actually outperform, that they would deliver huge financial returns and every dollar of revenue that these companies would make would inherently have some environmental or social benefit tied to that revenue. So that's the idea that we started with, and we coined this term world positive to describe that really this kind of new wave of capitalism, starting with these new disruptive startups. And we defined three pillars as the kind of north stars of where we invest. And our first pillar is Sustainable Systems. And that's simply about decarbonizing the global supply chain. This is a huge and daunting task.

And for us, we put our focus in three areas, industrials, mobility, and climate. These are all three big pieces of the climate solution. And, you know, I'll give you one example of a company that we invested in within sustainable systems. And it was one of our earliest investments and it's one of my favorite examples to describe world positive investing and that's Diamond Foundry. This is a company that was started with a radical idea to build plasma reactors that could grow large karat flawless diamond. Think of them as above ground diamonds, instead of diamonds mined from the earth, and the diamond mining industry is well-documented in terms of the negative externalities. Diamonds mined on the African continent have a lot of social issues, even diamonds coming from Canada have huge environmental negative externalities. These are football field-sized excavation mines to mine diamonds. Diamond Foundry said, "Well, we can actually use a technology from the semiconductor industry called chemical vapor deposition. We can lay down single atom layers of carbon and build a perfect carbon lattice and grow flawless diamond." And, you know, when we invested, the technology wasn't even working yet, now the company has two Diamond Foundry's in the United States, and they're building two additional ones internationally to scale the business.

And they're up to large sizes where they can actually grow diamond wafer to enable diamond semiconductors. Diamond's a miracle material in terms of 22 times the heat transfer of copper. It can actually solve a lot of the carbon footprint issues of data centers, where we use a lot of fossil fuel energy to run cooling, to move the heat off of these chips. And if we can move to diamond semiconductors, we can actually dramatically reduce the greenhouse gases that come from all of the cloud computing that we all know and love. So that's one example of the work that we do in sustainable systems. I'll move to the second of our three pillars. We call it Healthy Living. This is simply about making healthier humans, right? And we do that across investing in food, in healthcare, and biopharma as well. So these are all huge trillion dollar industries. I'll give one consumer example.

It's something that I think we're now known for. We were very early investors in a company called Beyond Meat. I'm hoping a lot of your students and your viewers have tried the Beyond Burger or the Beyond Sausage. This was a very contrarian idea when Ethan Brown, the founder, started the company, he wanted to make delicious, nutritious alternatives to eating animals. It turns out that eating animals, specifically cows, is a huge contributor to human-created greenhouse gases. And if we want to solve climate change, decarbonizing food and agriculture is a big part of the solution. So this is a big part of our investment thesis. Beyond Meat is now a publicly traded company. It has a market cap in the billions of dollars, it's doing, I believe, over 400 million in annual revenue. So now it looks like a success story.

It was a spectacular financial success, but just as importantly, it was a really important proof point for us around this idea of world positive venture capital. The third pillar that we invest in we call it People Power. And it's really about helping humans and small businesses find and do their best work. And we do this across big categories like marketplaces and FinTech and software as a service for businesses. I'll give you one example here, which is a company that we invested in at the seed stage called Incredible Health. Incredible Health is on a mission to help nurses and hospital professionals do their best work. What they've created is a labor marketplace, and many of us are familiar with websites like LinkedIn, or Indeed. We think of those as horizontal marketplaces, it's where a business can try to recruit for employees, but they do that across a broad range of industries. Incredible health is a radical idea to say, hey, we can actually build a vertical labor marketplace and they're starting with healthcare. And in healthcare, when a hospital wants to hire a nurse or an anesthesiologist, there's a lot of specialty details that they need to know about that candidate, their credentials, they need to check malpractice databases, work history, specialty training.

And so Incredible Health built all of that and they flipped the script so that the nurses don't actually have to apply for a job at the hospital, the hospitals actually apply to the nurses, and we think that's an amazing world positive example of people power where now we can help nurses find and do their best work. And by doing that, we help hospitals make those hires so much faster that they can fill those positions, which means they can treat more patients. The nursing shortage in the United States is three times larger than the software engineering shortage. It causes hospitals to actually close beds and turn away patients. So again, back to world positive, this is a incredibly fast growing profitable business, but it also has this positive externality of actually helping the healthcare system work better in the United States. So those are my quick overview slides just to set the table and give you a taste of the cool companies that I get the pleasure of working with every day at Obvious. - That's wonderful, James. 00:10:03,503 And we do like when our students, when they start companies that they set the stage and let people know ground people in what you do. So that makes the question so much more rich. Can you take us back to the beginning of this particular chapter in your career and your life and how you and EV Williams connected and decided to create Obvious Ventures in 2014? And as many of the folks on this call are thinking about instilling values and principles in their own companies, share a little bit about how you went about aligning your values and instilling them into your firm.

- Would love to, you know, the story goes way back. 00:10:47,910 I met EV at the TED conference in 2004 in Monterey, California, and we became friends. And that led to a multi-year conversation about entrepreneurship, about venture capital and what we thought was missing in the equation that we didn't see mainstream venture investing in solutions. And that led us to say, hey, maybe we should start our own purpose-built venture fund to do that. And Jack, we started with climate change as the area of focus. So the initial idea that EV and I were riffing on in 2013 was really about starting a green fund, if you will. You may remember earlier, there was a wave of clean tech investing and clean tech, exactly, went way up in terms of dollars and expectations, and then crashed and burned in terms of poor investment results. And so 2013, a lot of investors were hiding under their desk. They didn't want to come anywhere near renewable energy or sustainable investing. - And a lot of LPs were telling those investors 00:11:53,530 do anything but clean tech.

- That's right. 00:11:57,240 But, you know, there's often opportunity at the same time as there's fear, right? So Evan and I just had a contrarian view. And the initial work we did was really focused on this sustainable systems pillar. And, you know, during that journey and conversation, I introduced EV to Vishal who had just moved back from India. He had built an emerging markets venture fund in Hyderabad, India, which he ran and grew for five years, but wanted to with his family returned to California. And I had met Vishal through my former partner at an earlier venture firm and was a fan of the work that he did as the chief strategy officer of Patagonia. He had spent 10 years with a bunch in our building, that incredible company and Evan, Vishal, and I started brainstorming. And we really said, you know, because Vishal and I both had existing experience and track records in venture, we said, you know, just doing sustainable systems is not enough, that's necessary, but not sufficient to get portfolio diversity. We believe one of the secrets to success in venture capital is to invest in a diverse range of industries. And so we started to expand from that first pillar to think about human health, how are ways that we could invest in for-profit businesses, you know, transforming the healthcare system, which is more of a sickness care system in the United States, there's a lot of work to do to improve it all the way to re-imagining the food system around plant-based protein, and then people power, thinking about, it's expensive to be poor in the United States.

How do we build new financial services that are equitable around lending, around insurance, around banking? And as we started to put those on the white board, that's where the three pillar strategy came from. And that's when we kind of crafted this umbrella that we call world positive. And I have to give credit to Biz Stone who's a co-founder of Twitter, back in the day with EV. And it was really a Medium post that Biz Stone had written when he and EV were first working on Medium, that he used that term world positive. So he coined that term and we kind of latched onto it and said, that's a wonderful way to capture this idea because we're looking for startups where the impact, the benefit is baked into what they're building. So it's about intention. And this idea of world positive is about moving humanity forward. Those are the kinds of companies we wish existed. And so those are the kinds of companies that we want to invest in and help build. - Thank you.

00:14:38,977 James, you described that in a sense, you gravitate to counter-intuitive things. One of the students asks why you called yourselves Obvious Ventures, which seems counter-intuitive to be calling yourselves Obvious. - Well, I'll give you a two-part answer to that question. 00:15:01,120 Chapter one is that the term obvious, the brand Obvious is something that Evan Williams has been building his whole career. So after EV sold Blogger to Google, he was working at Google, that's where he hired Biz Stone, and when the two of them left Google, they started a business called Obvious Group. And that business first launched a podcasting product called Odeo, that was a miserable failure, basically right after they launched it, Apple built the feature into iTunes. And so they knew, okay, this is not going to work. They offered to give their angel investors all their money back. And they said, we're going to just work on some other ideas. And along with Jack Dorsey, inside Obvious Group, they hatched this idea for Twitter.

And so chapter one of Obvious turned into Twitter and then roll the clock forward after Twitter was a public company and EV and Biz had left their full-time roles on the management team, they said, let's get the band back together and start doing some interesting incubation. And they called it Obvious Corporation, that was the new company was Obvious Corp. And that's where they incubated a company called Jelly that Biz went to be CEO of. And they incubated a company called Medium, and Obvious Corp actually, the entity, actually turned into Medium. So that was chapter two. So when EV and Vishal and I were working on this fund, I had the marketing idea to go to EV and say, look, I think there's just so much brand value and there's just so much to like about the brand Obvious, let's make it Obvious Ventures and make that chapter three. And the second part of my answer, Jack, is more of a maybe a marketing class than an engineering class, but much has been written about branding in terms of being different in a crowd. How do you stand out? And Seth Godin, a great marketing author, calls this the purple cow strategy. You want to be a purple cow in that field of black and white cows. I use the term sea of sameness.

When I look at just the venture capital landscape, it's a very boring sea of sameness. I mean, half of Silicon Valley VC firms are named after trees. So when we wanted to do something authentically different, we also wanted a brand that was authentically different. And we love that about Obvious, it's very memorable. There's often a pun that's made in the first meeting whenever we're meeting with entrepreneurs. And we like to say all great ideas are obvious in hindsight. - Very cool, thank you. 00:17:36,390 And when you were establishing the values of your firm, did you go through any kind of process or did values evolve? - Values came naturally for us 00:17:49,150 because it's so integral to our investment thesis, but we have our philosophies about how we invest, but we also have internal values in terms of the culture. For example, transparency is one of our internal values. And, you know, that means amongst our team, we share a lot of information.

That's not the case at all venture firms, but we have this, you know, and that applies to our internal philosophy. We call it in the clear where we just think, you know, the truth will set you free. And we would rather be transparent and be direct internally amongst our team. - And you coined or you adopted the phrase world positive 00:18:29,260 or popularized it, which is wonderful. There's so many companies today that talk about being mission-driven. Is mission-driven a useful term for the companies that you're looking for, or how would you compare your thesis of world positive with the common vernacular of mission-driven? - That's a great question. 00:18:50,170 There's so many terms out there, there's mission-driven, there's purpose-driven, there's ESG, there's impact. You know, I think terms like mission-driven for us are not enough because every company has a mission. And, you know, there are electronic cigarette companies that have a mission. There's one that was launched by Stanford alums, you know, in our subjective point of view, we don't see that as a company moving humanity forward, it doesn't meet our kind of higher bar of a purpose-driven business so we tend to use the word purpose, but whatever language you're using, I think it's important, you have to look past that, you have to look deeper, you have to ask questions and seek to understand, well, what are these entrepreneurs trying to build? And for what purpose? What is the journey that they're going on? And we try to understand that journey before we buy a ticket on the train.

- Very good. 00:19:55,810 The foundation of your firm and world positive led over a period of time to an even more formal sense of how you implement values and share values between your firm and your portfolio companies. And I'd like to focus for a moment on what you developed in 2017, a few years into your firm called the World Positive Term Sheet. At Stanford I teach a course called Principled Entrepreneurial Decisions and in that class, we're constantly exploring ways in which companies instill values and principles and understand those values and principles. And through that, they make better decisions. The question for you is, could you share some perspectives about that World Positive Term Sheet, which seems to me to be kind of along those lines of helping everyone just sort of understand where you're going with things and how you see those kind of play into the decisions and the behavioral norms of your portfolio companies. - I hope the World Positive Term Sheet 00:20:59,200 makes it to the reading list for your class, Jack. We published that back in 2017 and we open-sourced essentially a template. We use it in our investing, but we put it out there. We want all investors, and more importantly, all entrepreneurs to know about it, and we encourage them to use it.

And here's the backstory behind that. So roll the clock back in time, both EV and I are repeat founders where we've raised a lot of venture capital for startups that we've led earlier in our career. And we both found that, you know, raising money from investors, we were very shy about talking about the mission and purpose of the company because we at least had the perception. And I think it was also the reality back then investors didn't want to hear it. Maybe they viewed it as a negative. They wanted to hear about what's your CAC versus LTV, and what are your unit economics and just the numbers. And if you agree with our thesis that, hey, these new kinds of purpose-driven startups are actually going to deliver better numbers. Well, then the purpose is really important. And so with that insight, we looked at how the partnership between an entrepreneur and investor starts, and it really begins at the term sheet. It's the earliest document where you're starting to codify how an investor and a set of founders are going to work together.

And there's probably 100 years of legal work that's gone into a term sheet and it codifies two things, economics and control. Those are really the two components of a term sheet. How much am I investing, at what valuation, what percentage do I own? And then the control stuff is like, what kind of shareholder rights do I have? And do I get a board seat? And you know, all of that. And now all of that stuff is really important. But what we said is maybe there's a third leg to the stool, and that's about mission and purpose and values so that we have alignment. So the World Positive Term Sheet is like an addendum that you add to a legal investment term sheet. And it's not legally binding, it's not meant to have teeth. It's meant to drive alignment and understanding. And we ask when we have co-investors in a financing, we ask them to just initial the World Positive Term Sheet, and our template has things like, how are the founders going to approach sustainability? Maybe they want to spend a little bit more in their supply chain to make it carbon neutral. And maybe they want to put that intention on paper to make sure that their investors are aligned with that.

How are our founders going to approach diversity, diversity on their management team, diversity on their board? Is that something that's of critical importance to them? Maybe they should make sure they have alignment with their investor before they go on a 10 to 12 year journey with that VC on their board. I think it's really important to really codify those values. And so we ask our founders to write that down, and I think it's been a raging success. We've had other firms tell us that they've used it. Kimbal Musk who runs a food business in Boulder, Colorado got so excited about it that he used it with his investors and Obvious is not an investor in his business, but he's a friend of the firm and put the World Positive Term Sheet into practice. And one of the examples I opened with, Incredible Health, that labor marketplace, the founder Iman Abuzeid, she's a very, very practical entrepreneur. She was so busy, you know, trying to build the service and launch it. She said, "James, I don't have time for this." And I really pleaded with her and her co-founder Rome. And I said, "Look, I guarantee you, this will be time well spent." And they took the time. And by filling out the template, it actually helped them codify their mission, their core values.

She now says it's the best thing she ever did. It helped her with recruiting. It's helped her with retention of her leadership team. So it became like just a part of the DNA of the company. So you can tell, I get very excited, I think that was a great piece of work that my team and I crafted, and we use it to this day. - And when I think about the values and principles 00:25:33,158 of investment firms and the values and principles of their companies, I agree it is so wonderful when those are jointly understood. As you're entering into that partnership, everyone around the table understands that from the beginning. I think the idea that you share about how your values are demonstrated in that term sheet, even if you don't have a separate section, sometimes based on the provisions you have in that term sheet, you're actually signaling some of your values and principles in either a positive or a negative way. In the MS&E organization and STVP, our colleague Riitta Katila is doing some research on how investment firms and their portfolio companies influence each other's values among other things that she's doing about responsible technology research. I wonder whether you could share some examples or some ways and processes that you have, one of which is this World Positive Term Sheet, that's the beginning, I guess, of the journey of trying to align those things and understand them, but how do you continue that as an advisor and a mentor, as an investor in a company, and how do maybe your principles and values and those of your portfolio companies kind of interact? - Yeah, I'd love to share maybe two examples there, Jack.

00:27:07,320 One is around the earliest stages of setting up a startup. There's something called the corporate form, which is just the corporate entity. And I would say 99% of startups have been formed as what's called a Delaware C-Corp, that's the gold standard. You don't have to know what that means, if you're watching, it's just, you know, Delaware C-Corps are kind of the scaffolding that you build a company around here in the U S. And when we started Obvious, one of our earliest investments was in a company called Olly. They're a consumer products company. They make gummy vitamins. They've since been acquired by Unilever, but in the early days of Olly, the founder Eric Ryan who's now a two-time CEO in the Obvious portfolio, he said to his investors, he said, "Listen, I want to make this company a Delaware Public Benefit Corp" or PBC, which is a new kind of corporate form. And back in 2014, it was relatively new and not very well understood. And, you know, no offense to any lawyers that are watching but a lot of the corporate lawyers that startups would work with in 2014 were saying, "Oh, don't do that.

You know, there's no case law." All they would do is point out the risks without necessarily pointing out the benefits. And, you know, Eric took the risk and we took the risk and it was a very, very successful journey. And the benefit of a Public Benefit Corp or a PBC is that the founders get to actually file their mission into the charter, into the Delaware Charter of their company. So their mission, their purpose, their reason for wanting to care for all stakeholders, not just shareholders and the selfish reason founders should want that is it protects them from a future shareholder lawsuit. So if a shareholder says, "Well, you spent extra money on renewable energy in your data center, and you cost me a 10th of a penny earnings per share, I'm going to sue you." If you're a Public Benefit Corp, you have more protection to say, "You actually are not because that's in our charter. We said from day one that we're caring for all stakeholders. And we think that the environment and the communities that we and our employees live and work are part of the stakeholder community and we want to care for them by not polluting that environment." Things like that. You get more protection with a PBC. And we've now seen over the last seven years, that influence subsequent portfolio companies where more and more of our investments are choosing to become a Delaware PBC as opposed to a Delaware C-Corp and having those early case studies and success stories trickled down and paid it forward and influenced the portfolio. The second example I'll mention really has very little to do with my team and I.

It's not an influence that we're making in a governance role on the board, it's more about forming a community amongst our CEOs. So as we've now raised four funds, we have over 80 investments, we have a community of CEOs that help each other and talk to each other. And we host an annual CEO Summit where we bring them together. One of the things we do at that CEO Summit is a luncheon that we call Pain Points, where we group the CEOs often by the kind of industries that they're in and we leave the building and we just let them do a round table where each one talks about a pain point, either personal or professional that they're struggling with. And then everybody else at the table spends 10 or 15 minutes brainstorming solutions. And then they go around the table and we get consistent feedback from our CEOs that that's just like a life-changing experience for them because the CEO job can be a very lonely job. You can't always talk to your investors about what you're struggling with. You can't always talk to your VPs, your management team, about what you're struggling with. So to have a peer group of other people that are in your shoes that are maybe struggling with the same stuff, gives you a little bit of ground and gives you a lot of support. We think that that's a really important cross-pollination influence that we see happen across the portfolio.

- Yes, it's odd to think that a CEO 00:31:42,730 of a 500 person organization is incredibly lonely, but it can feel very lonely as you probably know a bit from your early career as well, or not so much early career, but from your first set of chapters. A lot of investors talk about their operating jobs and sometimes they had a summer associate position with somewhere, but you clearly have deep operating legacy with so many companies and I guess I'd like to think the students would like to know a bit about whether anything you experienced as a leader there helped influence how you carry yourself as a leader in the venture community, or how you carry yourself with your portfolio companies? - That's one of my favorite topics, 00:32:33,280 because I think operating experience makes you a better investor. Number one, you have empathy for your founders, but number two, like you've done it before and you probably made some mistakes that you can help them avoid. You probably know some shortcuts that can save them time and money, right? So you're bringing some real wisdom to the table. To your question about my past journey, I mean, there's been quite a few chapters, but I'll mention a couple of lessons learned. I think one on the kind of mistake trip and fall lessons learned, you know, four of my six years at Apple, I was working on a project called the Apple Newton and I affectionately call it the iPhone Alpha now, this was the first personal digital assistant. It had a stylus, it would recognize your handwriting. It would fit in your pocket, just barely, but it was ridiculously ahead of its time. And we actually co-designed the ARM processor as part of that project. So what most people don't know is that the Newton was a success for Apple in terms of Apple's ownership in the ARM processor.

And that's now the core of Apple's custom chips, but the Newton product was not a success in the market. And the lesson I learned is that we approached that product as a set of research projects. It was as if the advanced research group turned into a product group. And that's literally what happened with Newton. So it was a new processor, a new operating system, a new display, a new touch screen, a new battery technology, new handwriting recognition. And, you know, as scientists, we were all just over the moon, excited about all of those breakthroughs. But what I learned as a product manager, as a business person is that we were stacking risk. We were creating n squared risk in terms of our chance of this product being a success, because each one of those areas had a risk of not working the way we wanted or not being ready for prime time. And so I took that with me later in my career to avoid what I now call technology in search of a market. So I think it's really important for investors and for entrepreneurs to really understand what's the problem you're trying to solve, who's your customer, what's their unmet need? And if you're building something new, no matter if it's 10x better or 100x better, it has a set of jobs to be done, right? This is a Clayton Christensen framework around think of your product as having a set of jobs to be done and make sure that you do those jobs really well for the consumer.

And if you can't clearly articulate those jobs to be done, well, maybe, maybe you have a bunch of technology that the consumer doesn't really need. - Thank you. That's thoughtful. 00:35:27,970 Switching to some questions from students, we've received some very cool questions from them, we've already folded a couple into the discussion. But when you think about the world positive aspects of your companies, there's a couple of students, I'm going to do a mesh of a couple of their questions. You've got the core questions that any venture capitalist would ask about any company such as product market fit, as you described such as is it the right time, all those things. - Market size, (indistinct). 00:36:05,990 - And then it's all around, you know, can we make money? 00:36:08,270 Are these the people that are gonna make us the money, those kinds of IRR stamp in our forehead questions. And then you have the aspects of the world positive aspects of impact. How do you balance and how do you think about your, you know, whether you're going to make an investment and how do you balance the aspects that are core to traditional venture and these aspects of world positive? - Well, I think we do, 00:36:38,570 I think we do three things.

The first thing we do is seek to understand. So we try to ask a lot of questions. I think, you know, some investors show up with such a strong point of view that they're trying to convince the founders to maybe put their square peg in a round hole or go after a certain angle of the market. But we try to first listen and understand why are these founders doing this, of all the things you could do for 10 years of your life, why this, and what's their plan? So we try to understand that. And then internally we have a lot of discussion and debate as an investment team about whether an investment is world positive, right? That's not a black and white answer to that question. So it's very nuanced and that's good. We have, I think, healthy debate because for a given Obvious Ventures fund, we can invest in 30 companies out of that fund. So unfortunately, most of what we do is say no, right? We'll look at 2,000 investment opportunities a year. We'll invest a fund over three years. So that's 6,000 to 30 is the funnel.

So we have to be really, really choosy. And we want to make sure that we do it with authenticity so that when we back a company, it has great financial opportunities to drive venture capital returns, and it has world positive impact in the company. So we have a lot of investigation that we do around that. And then the third thing that we do Jack, is we ask the question, what could possibly go wrong? We look for what are the potential unintended side effects of this new technology that this company is building? And it doesn't mean we won't invest because of that. That's a question that we keep asking after we invest and we have a governance role on a board of directors as well. We think it's such an important question because all technology is a double-edged sword and has different applications and different uses, but we think we can help our founders stay true to the world positive intention that they have. And by asking that question, maybe we can uncover some edge cases where, hey, this is an unintended use that could be really bad. Well, maybe we should put 10% of our engineering resources on building a safeguard against that to help prevent that. And if we do that, it's good for shareholder value. If we can help prevent a disastrous, you know, side effect or application of a new synthetic biology technology, that's good for shareholders.

It's good for business, but we look at it from that angle as well. - So just to put a finer point about it, though, 00:39:26,583 is there a minimum requirement on the world positive side and a minimum requirement on the financial side, or do you make trade offs? The more it is on the world positive, the more you'll give them a leeway, give us a little bit of a window into the back room after you dismiss the entrepreneurs and how you talk about these things? - I would say, look, we don't trade values for value. 00:39:50,330 So we're not going to say, wow, this fracking company just has got explosive revenue. Why don't we just justify it as, you know, less greenhouse gases than coal? And maybe we should invest in fracking, right, to use an extreme example. So we don't make that trade off, instead, we're looking for, and these are hard to find, but we have demonstrated we can find them, the companies where it's inherently an and, not an or, that there's actually a flywheel that turns that says, hey, you know, Sami Inkinen who was a venture partner with us early on, he said, "I want to build a company that will reverse type two diabetes in 100 million people by the year 2025." That was literally the cocktail napkin mission statement. And we were his first check. We said, you know, if you do that, diabetes it's top four healthcare spend, it's such a massive problem. And when Sami was starting Virta Health, diabetes could only be treated, the idea of reversing it was actually laughed at by mainstream medicine. Roll the clock forward, his company is now valued over $2 billion. They've got three year peer reviewed studies where they are successfully reversing diabetes.

They're now finding positive side effects, their doctor supervised nutritional system is also reversing other, I don't want to make claims that I can't back up, but let's just say there's a roadmap of other conditions that they think their system is going to work for. So those are the kinds of companies we want to invest in where there's no trade off. It's the world positive benefit is baked into the disruptive solution. - Great. 00:41:35,500 Thank you for indulging us with that additional answer to that question. You and EV, you started the firm and the three of you were relatively in lock step, it sounds like, in your values and your approach to Obvious Ventures. How did you maintain those values or what do you do to instill those values as your firm has grown? This is another question from a student. What's your advice to students who are potentially going to be forming and building and growing their own teams and lead their companies, or what would your advice be to other venture capital firms about how to instill those values throughout the organization as they grow? - Well, this is maybe a glib answer, 00:42:30,470 but it comes from my days as a CEO, which is better living through repetition. You have to communicate it and then communicate it again, and then communicate it one more time and then write it down and then make it part of your new employee orientation to the point where you're almost as a founder, you're tired of hearing it, but you've got to repetitively communicate. And we do that with our values, with what we call our philosophies.

We wrote down, and it was a team effort to craft these different philosophies within each department. So our admin team has a set of philosophies. Our marketing team has a set of philosophies. Our investment team has a set, and we write those down. And we'll put them on the wall and we'll put them on T-shirts and we really try to document and repetitively communicate that. I think the other thing specific to venture that has helped us is that we're thematic investors. It's a lot easier to be authentic when you have a very, very research point of view on where you're going to invest versus not invest. There are very successful venture capital firms that are not thematic, they're horizontal or opportunistic, wherever there's a new market and wherever there's revenue growth, they'll go chase it. And, you know, trillions of dollars have been made doing that. So it's a proven strategy, but I think it's harder to do with authenticity, what we started the firm to do, which is to really invest in solutions.

- Great. Thank you. 00:44:04,520 You mentioned unintended consequences and part of your evaluation process sort of world positive could turn into world negative, and that you try to help highlight for companies where that might exist and how they might go about offsetting or mitigating that potential. One of the students talks about a company like Juul, where their mission might have initially been to make it easier for nicotine addicts to wean off of cigarettes and then it evolved into some other consequence. I wonder, have there been, it may be less dramatic examples that caused you to start doing some of that unintended consequences work, or do you have some examples where people started down a certain path and strayed from that path, or either intentionally or unintentionally? - Well, two thoughts on that, Jack. 00:45:06,240 I mean, the first is with Juul, as an example, if you were a founder of that company, or if you were on the Board of Directors and you started with that mission that your student described, how would you end up launching a whole series of candy-flavored nicotine pens, right? At some point you have the data to say, even if you didn't realize there was this unintended consequence, once you have the data that maybe, you know, teens and tweens are buying your product, maybe they've never smoked a traditional cigarette and they're now becoming addicted to nicotine through your electronic cigarette. Even if it was unintended, I think you have a responsibility. If you have values-based leadership at the board, you need to do something to change that. And there's been a lot of recent headlines about that, about companies that are, unintended consequences are showing up through whistleblowers. And the question is, okay, well, what's the leadership team? What does the board you're going to do about that? So that's one general comment.

And then in terms of a specific example, I have an example of values-based leadership in action that I like to share with my CEOs and I'll share it with your audience today. And this goes back to, it was probably 2015, is that company Olly that I mentioned where we're making these vitamin supplements delivered as these chewy gummy, easy to take gummies. And we took an approach of stacking ingredients to deliver a particular benefit. So there was a beauty gummy that helped your hair and skin and nails. There was an energy gummy. There was a gummy called restful sleep, and that sleep gummy had melatonin, it had elthanine, it had citrus botanicals, a set of ingredients. And the team, the product team at Olly did a beautiful job of creating that product and it became our runaway bestselling product. And one of our large retail partners came to us and they said, "Hey, you know, you guys are now our number one sleep supplement on the shelf. And we'd like to hand you this additional purchase order and give you another X million of business if you'll make a children's version of that restful sleep product." And I was on the board of the company at the time, and it was the easiest board discussion I've ever seen where Taryn who was running product for us, she came to the board and she said, "We got this request. We consulted our scientific advisory board," because we had a set of doctors, including pediatricians, and at the time, I think 2015, she said, "there's not a lot of research yet on this.

And so the science is mixed. Some doctors are saying this is completely safe for kids. Others are saying we should use a precautionary principle." And so the management team said to the board, based on that, we recommend not launching this product yet and turning away this purchase order. And to me, hat was values-based leadership in action. And because the investors were values aligned with the founders, it was like a 10-second discussion. Everyone was like, yep, we agree. Now roll the clock forward, I think the science has gotten much clearer now. I think pediatricians have deemed melatonin safe for kids, but at any rate, at the time, there was enough lack of clarity that we said our purpose as a company is about, you know, accelerating health and wellness for humans. So we're not going to take a risk of making a product that might go against that purpose. - Great, and by the way, note to our audience, 00:48:52,540 that the management team made the recommendation, right, the management team practically made the decision.

The board was governing that as opposed to a CEO going to a board asking them what to do, right, or putting it to a board decision. As students are thinking about starting, or anybody in our audience is thinking about starting companies, you're part of a group of investors that invest in world positive companies. There are other investors that do that, right, but they're venture capital investors. But people need to think about, is this actually a venture opportunity or is this a not-for-profit, or is this a... Maybe it's still for profit, but it's not a venture opportunity. How would you give advice to these folks about whether or not to seek venture for what they do? Are there criteria that you would say, hey, this is what makes it somebody that I'd want to see come to me versus something that's a wonderful thing to do, by all means, go do it? I'd love to be helpful, but we're not going to invest. - I think there's a spectrum of businesses. 00:50:09,190 There's nonprofits, there's kind of low-profit, new kinds of corporate forms for low-profit entities. There are family businesses. I mean, I think the backbone of the American dream was built on a lot of family businesses that been incredibly successful, but make zero sense for venture capital.

So if we put venture capital, and by the way, there's also something called private equity, where investors actually own your business and they buy, you know, a controlling over half of your business. And that's very different than what I do as a venture capitalist, where I take a minority position in a business. And so maybe I'm on a board of directors supporting the founders, but it's still the founder's business. But to your question, you know, figuring that out is hard. So you have to wear the shoes of a VC and thankfully this thing called the internet has so much information about VC blogs and how VCs think and venture capital math. There's a lot of prior art out there, but you have to remember that you have to convince an investor that you're building something, that number one is in a really, really big market. So you've heard the acronym TAM or total addressable market that needs to be really, really big because a venture capital investor needs to get conviction that this business can grow to 500 million to a billion in revenue. So there are a lot of very successful businesses, but they're in a small addressable market. They're never going to get that much revenue. So they may not make sense for venture capital because venture capital is so high risk that you have to understand that any investment a VC is making, if it's an early stage investment, they want to be able to squint their eyes a little bit and see a chance that that investment could be worth 100 times what they're investing at.

So, you know, if you take a million dollars from a VC for 10% of your company, you better build a billion dollar business or more right, and not all companies are going to be able to get to that kind of exit scale, but that's how venture math works. We need to invest in big ideas that can become very large and potentially publicly traded companies. - You know, we don't think much about founders 00:52:36,070 having to have empathy for their investors. It's that kind of empathy of understanding what they're after, and that helps you make those decisions, I think. James, just ask you a one catch-all. Is there anything else that you would like to share, advice or other aspects of what we've talked about? Any last words for our group? - Well, I'll mention that every year at Obvious, 00:53:06,380 we publish what we call the World Positive Report. This is a little sneak preview of this year's. This was last year, this one's up on the web. So if you want to learn more about these kinds of companies, just head to obvious.com and click on the Credo section. And in that section, you can get a digital PDF of our World Positive Report.

The 2020 is up there, the 2021 report is coming soon. So I think that's a great place to find some inspiration and some learning about who are the people behind these startups that we backed, and what is the impact that they're making. (quirky electronic music)..