



EXPERT INTERVIEW

UPDATED  
09/09/2020

# Ani Banerjee, co-founder of Andromeda Group, on secondary diligence and companies staying private

## TEAM

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Published on **Sep 09th, 2020**

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By **Jan-Erik Asplund**



## Background

Q Search

### Ani Banerjee

Walter Chen

I'm super excited to be joined by Ani Banerjee, a founder and investor at the Andromeda Group. Ani has an 18-year institutional investing career spanning time as a portfolio manager at BlackRock, Cheyne Capital and

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## Interview

I'm super excited to be joined by Ani Banerjee, a founder and investor at the Andromeda Group. Ani has an 18-year institutional investing career spanning time as a portfolio manager at BlackRock, Cheyne Capital and Citigroup. Ani brings deep experience in investing in technology and software companies. I love talking with him because he has a different perspective from what you might get from typical Silicon Valley VCs. Thanks for joining us.



Thank you, Walter, for having me. Just a quick compliance disclaimer, all thoughts are my own, and this is not a marketing for any funds that I manage or investments I make, this is just purely a general chat on how we think about investing in life.

**Great. Could you talk about how you think about software technology, and investing in those companies and what your approach is?**

Sure. We tend to take a pretty different approach because of my background from public markets. And then I evolved over the years into doing private markets and I had some initial observations as to why we think of it that way.

So the first one is, the general indexation of the industry. So performance problems of large active equity fund managers, of forcing folks to reluctantly move their asset allocation towards indexing and smaller managers.

The second one is big -- the continuing problems for large active managers. There's too much capital short term performance pressures, risk controls, macro sensitivities, cost structures, tax insensitiveness, all of that. And I just saw that over time, many specialized forms of investment strategies can simply not be pursued by larger funds, especially if you are willing to accept a higher potential volatility.

And the final observation was that the longer term success of certain types of companies is generally more predictable versus their short term performance. And associated long holding periods makes compounding really work in the favor of a longterm investor.

So with that in mind, we've always focused on investing in growth companies , secular longterm growth companies. And obviously that effectively ends up being software. And why we went down that route is pretty simple, is A, it's better to be long term than predicting some short term behavior of a company.

And then the longterm secular growth companies, particularly in software, have key common business model traits, which is recurring revenue models with low churn, large market opportunities, dominant to disruptive competitive positions, pricing power, et cetera. And over the last many years, SaaS companies have moved from being more driven by volatile



spending to being more predictable and having general recurring forms of revenue.

And so that's how we look at software as a whole. I don't know if that answered your question, Walter, or do you want to go a little deeper as to why we look at that and how we look at it?

**Yeah, maybe you can talk about the why and the how.**

So software in general enjoys this combination of having growth factors, having interesting valuation metrics, and also, particularly in private markets, there is a general scarcity premium of the stock or of the asset as such. And we tend to usually focus very closely on the scarcity premium element. Because if you think of a world which is flush with capital, and there are so many opportunities all the time, what are the opportunities that one needs to hone down on and look through?

So we don't tend to look for the next Mark Zuckerberg or the next Google. We tend to really focus on industries we know. So that tends to be financial services, to an extent gaming platforms. And then we look for who are the winners that are emerging in that category or in that industry. And then we really focus on our network and our deal making ability to get into the deals where there is an immense scarcity premium for the stock.

And the question always comes down to, why would a founder or why would a company let us into the cap table? And instead of the traditional Silicon Valley angle of, hey, we're going to add value by bringing you a network or by bringing you access to introductions that you don't have, we generally tend to say, we'll try our best to help you learn through your own business model and your own unit economics in a way which traditional VCs wouldn't think of. And because of our general focus on slightly later stage opportunities that tends to be easier because there's a lot more data available.

And founders also like to talk to investors who do not usually sometimes often come from a VC background because then they bring this public markets approach to looking at companies. And it helps them figure out their business model as they go along and as they grow with an eventual eye towards exiting at some point.

Now, the question of how we look at things. Look, we focus on gross margins. We focus a lot on unit economics. We focus a lot on the TAM. We focus a lot on the competition and various other factors. So if you're looking at margin trends, subscription revenues, services mixes, revenue retention rates, CAC, LTV measures, size of the market, current and future penetration, friction to adoption, switching costs, all of the usual stuff that traditional investors will look at.

And over and above that we tend to also do our best in trying to talk to an expert network of a specific industry that we know, and then go a little bit deeper into how there may be changes due to response from legacy players, from new products, from consolidation, from switching costs, all of the above.

And the final thing which we look for is really founder led companies, because we've seen that they tend to generally outperform by a very large margin compared to competitor non founder led companies.

And then on top of that, we overlay valuation metrics, which -- sometimes it's easy to do, sometimes it gives you a false assurance, but we don't tend to focus too much on valuation, as long as it makes general sense, we are okay with it. Yeah, so that's the approach, if that makes sense.

**Yeah, that makes a ton of sense. I know you do the whole range, you do early stage. Can we talk specifically about the more late stage pre IPO companies that you're invested in? Do you do primary and secondary, or do you focus on one or the other? And I'd be curious to hear if there's a different approach or way you think about secondary versus primary?**

Yeah. Look, there's one thing I learned always in my career is there's always a liquidity premium or an illiquidity premium, however you want to put it, whichever side you are, of a later stage company.

So we tend to focus on primary on companies where we're able to really get in along with the best investors in the world. But oftentimes that's very hard. It's very hard for an investor who no one knows about, or a small company in relative terms, to compete with the Tencents and the Temaseks and the Baillie Giffords of the world.



It's extremely hard, right? So as a result of that, on the later stage, we've generally tended to focus a lot more on the private markets, which would generally include secondaries. And how do we think about that is, depends on the region of the world, depends on the industry, there's always this broad spectrum in the liquidity curve. You have early angels who got in and would like to get some liquidity out because companies are staying private longer and longer than they've ever done before at any given point of time in the economic cycle.

There generally tends to be enough demand from the angel community to be able to sell their shares. There's also sometimes demand from earlier investors or seed stage investors who don't necessarily have the mandate to hold on to companies when they are multibillion-dollar valuations and very late stage, because seed stage investing is a different art from late stage.

We tend to partner with those folks to buy secondaries. And we've also looked for the broker market, which is extremely difficult, Walter, because there are misaligned incentives and there's also, from my experience, a lot of bad behavior. Where people tell you they want to do a deal to sign term sheets, and then they get someone else outbidding you, and then there's a lack of integrity, they pull the term sheet. So I've generally tended to focus on going through my relationships, going through people I know, going through founder introductions, going through references. And generally being there to take advantage of what I would like to call in an asymmetric network an advantage. Then there's some value to that, I feel.

**Can you talk about how you think about price specifically when it comes to primary versus secondary? Maybe this connects back to the illiquidity premium, but do you think about it more in terms of a fundamentals analysis or some kind of discount on the latest round of funding or something like that?**

**And you talked about how you work through your asymmetric network advantage. Is it opportunistic in the sense of, you have someone in your network that you can buy a certain block of shares from, or do you think about accumulating a certain amount of shares and that accumulation is important? Just how you think about the price and the size of the block you're trying to get.**





Yeah. Look, I think if I take a step back and tell you what kind of companies we look for, and then I'll segue that into your question.

We generally tend to take -- we're minority stake holders. We don't take massive majority stakes in companies, which tend to try and evolve into business models that we think could become natural monopolies over time or natural oligopolies over time -- I don't like to use the word natural monopoly -- and economic niches with high barriers to entry pricing power, some scarce economic substance, and run by managers and founders and owners, that are playing the long game.

In terms of how do we think about sizing? It tends to be super opportunistic, what kind of sizing there is. In terms of how do we get access to these blocks, a lot of it is through our network. Some of it is through the broker market. If there's a relationship, a substantial amount also comes through founder introductions, because as in a secondary transaction, it's quite important for the founders of the company, management to waive a ROFR if there is one, and to be able to do that you oftentimes have to go and convince the founder, hey, look, I'm a super person to have in your cap table and X, Y, and Z reason why I'm a good person to have, and money is just not the only reason you need me on the cap table. So there's a lot of that deal making ability that comes into play there.

In terms of pricing and in terms of how do we think about valuations versus last round versus discounts, that's a great question. Market standard historically has always been that secondary should trade at 20% discount to last round, et cetera. But then you have to be very careful of that because that's a very general statement.

In reality what tends to happen is one needs to go pretty deep into the capital structure. What has the company issued over the last X number of years? What is the size of the preference shares stack? How much of the company has already been diluted by external investors versus how much by management? Are you buying common shares? Are you buying series A preferred stock when the company is already a series E company. And pricing and valuation tends to really be dependent on that.

There is another school of thought, which says, it doesn't really matter because if you're buying a late stage secondary, at one

point, the company is going to go public sooner than later, and then everything just gets converted to the common. They're over thinking it. There's no right and wrong answer there.

We tend to take a stance somewhere in the middle. There has to be some general discount and there has to be some adjustment for the capital structure. However, sometimes there are companies which are incredibly strong businesses. A large one being a very large US gaming company, which is very well known. Stock in those companies sometimes even trade at a premium to the last round.

And oftentimes you have to be careful because when you go into later stage secondaries, for better or for worse, they tend to track public market information quite closely. So let's say you and I agree on a secondary transaction today, but from today and the next two weeks, the underlying market, i.e. the NASDAQ, rallies 50% and then the sector is all rally even more. It would be very hard to stick to the deal that we agreed two weeks ago. There are all these nuances that come into play, where it becomes really difficult to balance.

And one of the main reasons is the friction and the transaction costs of buying. In a normal secondary market, if you're negotiating, getting lawyers to do term sheets, getting agreements from all parties, getting management to waive a ROFR, getting the transfer agreements in place, that may take three weeks, it may take a month. Then in the meantime, if the market rallies hard, what happens then?

So it's tricky, it's tricky. Did that answer your question? Do you want to go a little bit deeper into any other point?

**No, that's helpful. It seems to be a lot of factors at play. And one of the things I find interesting is, in a lot of these deals, I guess it's not dissimilar from early stage where, the harder you have to fight to get into the deal, it seems like the potential less opportunity there is to actually dig in to the capital structure and the fundamentals of how the business is actually performing. Do you find that's the case that, if on the one hand, you're trying to convince a founder of your value add and what you bring to the table, then it's also hard at the same time to do this type of diligence, and you might end up more on the general kind of valuation versus a company specific look. Is that the case?**



Yeah, that's right. So look, that's a very good point.

Generally speaking, negative selection is something one has to be very careful of. The whole world is coming in, pitching you a deal, too many brokers are telling you, hey, we've got this deal. Even though it's a marquee company, we tend to look at it quite skeptically. You are like, wait, why are there so many sellers suddenly? And why are they trying to hustle the broker market to get out? And you're right. There's always this friction and there's a lack of data.

So for example, recently I looked at a deal where a seed stage incubator was in that deal. And then, it's become a very big company now. And we were trying to buy some shares from this incubator, and they legally could not give us any data or information on the company. So we literally had to dig into as many sources of information as we could publicly and research available through our network to try and make a general overview of the company, what the company is, what the company is doing and where it may go from here, and make a judgment call based on that.

And one just needs to be quite careful, quite comfortable with that level of ambiguity at times. And what I said in the early part of the interview today was that, we dig into all these factors. In those cases, it becomes incredibly hard. You can't dig into anything -- like you said, you have three days to pull the trigger at most and then you have to just be comfortable as an investor with a high degree of ambiguity of information. And it can get challenging. But if it's sufficiently late enough and if it's sufficiently marquee enough, and if there's enough scarcity value and scarce economic substance in the company, then you just need to pull the trigger and adjust your risk through portfolio construction. I.e., if you just feel you're taking more risk than you're comfortable with, but yet you think the company can go somewhere, it's always better to size it small than big and then observe it.

And that removes a lot of psychological biases too. Because that's literally what is going to differentiate one investor from the other in the long run. And, as someone very close to me, recently said to me, is that, the last man standing -- and I think this is a Joel Greenblatt quote -- the last man standing is going to be time arbitrage, i.e., the single greatest edge you can have as an investor is a longterm orientation, and take a long term view of the business in a way no one else can. In that way,



you're extending your time horizon. Through that, you'll be more competitive because the world is engaged on a very short term timeframe.

So you have to balance all these different factors and make sure that you can take a long enough view in a company that you are fairly comfortable with, and then if you're doing that, you can adjust that in bigger sizing of blocks. And if you are taking a longterm view in a company that you are not very comfortable with, but yet you have good instinct about the direction it's going, and you have enough information to make a decision on that, then you just adjust that in your portfolio construction. So that's how we think about it at least.

**You talked a little bit about brokers. I'd love to hear you talk a little bit about different platforms. Have you tried Forge, EquityZen, some of these other platforms? Also, we talked in the past a little about CartaX -- just love to hear what you think about the potential for CartaX as well.**

Yeah. Look, I've dealt with quite a few of those platforms that you mentioned just now, and there are pros and cons. The pros are that they have a pretty good sense of what the market is, and who's doing what, and who's got what block, and who's got how many shares.

The cons are oftentimes they have to syndicate it first before they can go back to their client to see how much there is. So there's always this, hey, we've got access to 5 million of ABC, but we need to know tomorrow how much you're in for, because they themselves are syndicating that 5 million block through their SPVs, whatever you want to call it.

And that becomes extremely hard. Also, what's very hard to ascertain is sometimes these things are structured in ways through forward contracts or through common shares or a co-mingled version of everything, which, it's not good from an investor's point of view because there's just not a lot of transparency. And there's a bit of this FOMO mentality of wanting to get into the marquee companies as a result of that. I'm not a huge fan of that. Also the fees tend to be really high and, look, I don't mind paying fees, but it has to be for the right reason .

And in terms of CartaX, I've been an investor in Carta and I'm a huge fan of what they've done over the years in general.

But I do think what CartaX is doing is going to really change the way the secondary market investing landscape works, because you have this completely new financial layer that's arising and there's a really good piece of data that someone from CartaX shared with me recently, which shows that the private markets raise almost two times more capital than the public markets every year, but yet 330 times less liquid, which I think is a really stark point, right? Because if you go from a market which is 330 times less liquid, to even 300 times less liquid, the rate of change, i.e., the second derivative that's changed is huge. Because chances are, that second derivative of change is probably taking place in some of the most marquee names.

Therefore, access becomes a lot more normalized or frictionless as opposed to what it was before. And also I think the good thing that the platform does is, it's issuer centric. It's the founder or the company or the management or the issuers that are going to determine who they want on the cap table. The platform in theory could create this revolving door of private buyers who buy from other cap table participants in a controlled auctions manner. An older one may argue it's not really totally a quote unquote free market. It is still a market where price discovery is more normalized than dealing with a bunch of brokers running around with long incentives.

And I think the other advantage of the Carta platform or the CartaX platform is that, it's not like a bank where you are incentivized as a banker to sell shares to an investor and therefore on a fee from the company. It's pretty conflict free because there are so many companies on Carta, and if the management or the issuers of a bunch of these companies want to have a liquid secondary market, it's their prerogative and Carta is completely conflict free in that process. It's just creating a platform. I think that's very powerful in my opinion.

And the other thing which it does is, it normalizes what I just mentioned earlier called time arbitrage, because one pension fund has a different time horizon to another pension fund. They can just do a trade between each other on the CartaX platform. Or if someone's been at a company for 10 years and the company doesn't want to really go public and stay private for another 10 years, they could just sell their shares to a sovereign wealth fund, for example, who can hold it for as long as they want, because they don't have any time horizon as such.

And that removes a very important barrier to fragmentation of capital, which means it creates a much better frictionless marketplace. And here you can't think of absolutes, if you think of relatives, so the second derivative here, the rate of change. And I think that's where CartaX is going to be creating some very incremental outcomes in my opinion.

**One of the things that we've talked about is the importance of issuer centrality and how companies restrict access to their stock and create scarcity. I'm curious to hear you talk about, when it comes to issuer centrality, tender offers versus CartaX, which has a competitive dynamic. Because one of the things we've talked about is how important issuer centrality is, and tender offers are in the sense more issuer centric because they give the issuer much more control. How do you think about overcoming the barrier from, and what incentivizes companies to move from, doing tender offers to actually creating competitive auctions on CartaX?**

Yeah, tenders are very interesting processes. I'll give you a very simple reason why tenders are not great. And I think it's because generally most tenders tend to have a bank involved, so therefore the bank is just going to go and give the allocation to the people they know best and therefore extract their fee, and therefore it's not conflict free from what I've seen before.

You're right tenders do give the issuers a lot of control. But that control needn't just be from the point of view of the biggest and the deepest pockets out there. The CartaX platform, I think what it would do a better job of compared to a traditional tender process in my opinion is the ability for the company to actually see investors on the platform they would not be able to see otherwise.

So for example, if there are a hundred investors in the world that are very active in secondary markets, chances are, if you are tendering your shares through one of the top banks, not all hundred of those investors would get a look and maybe five of those hundred can sign half a billion dollar checks or a quarter of a billion dollar checks and only they would get the look.

So it also creates this kind of weird unfairness in the process because the issuers cannot always control who they are tendering their shares to, particularly because you're not going to have the management or the CFO for a company going and speaking to a hundred investors for a tender offer. They'll



probably just hire a bank and say, hey, we're going to do a tender, you guys go and find the right people and we'll pay you a fee for it. And that process is definitely not conflict free from the point of view of the bank. And hence, I think it's not always working in the favor of the company.

I do think where CartaX becomes super interesting is, if you just think beyond tenders and beyond liquidity and what it does for the employees of a company. So for example, if I'm working in a company and I have \$10 million worth of vested stock and I want to buy a home for \$5 million. I'm just giving you some random examples of numbers here. My only choice is to go and participate in the tender and sell it. What CartaX would do -- I think CartaX would allow me an additional ability to not only sell the shares for liquidity, but maybe even post it and get a margin loan at a certain haircut. Particularly if you put in lending dynamics behind CartaX.

So I think there are pros and cons. You don't necessarily need to sell your shares in a tender offer as an employee of a company to get money out. You could even lend them out, if you have enough demand for credit on the Carta platform.

So I don't know if I was very clear or if I need to rephrase that a little bit, but I think it unlocks way more than purely cash liquidity for employees. It controls the financial services layer that you can extract from illiquidity, which is not just linked to selling your shares.

And hence, I feel it's just a better process and also conflict free of course. And hence, it's a better process than just tendering. Does that make sense or did I convolute that a little bit?

**Yeah, that made sense. To get into some of the nitty gritty, thinking about it from the company's perspective, I'm doing tender offers today, and as a liquidity solution for my employees, there are some issues with it and not necessarily ideal, as some of the things you pointed out. But to move to CartaX or some form that opens it up and brings more investors in, reducing the amount of conflicts, I have to do a series of disclosures that give my competitors a bunch of information on how we're performing, I have a lot of administrative overhead, I have ongoing management of this new kind of process. How do you think about the benefits of that versus all of this increased administrative**





**overhead, transaction costs and disclosure, in terms of the balance of cost versus benefit?**

I think that's a tricky one. From an investor's point of view -- are you talking more from an investor's point of view or from the company point of view?

**More from the company point of view, because as an investor, obviously you benefit from getting access via something like the CartaX platform, but one of the big pushbacks is just from a cost benefit perspective from the company. How do you see them thinking about it?**

**You referred to this before, the stark binary nature of public versus private liquidity, and a lot of people are envisioning that there will be more of a gradient of liquidity or a continuum of liquidity and that something like CartaX would unlock it. But is the benefit of private market liquidity, big enough to overcome the additional burden that it's going to put on companies? The big one being disclosure -- disclosure is a huge mental and administrative barrier to overcome , but it's absolutely critical for facilitating liquidity.**

I understand where you are going with this. Look, you're totally right. As CEOs of some of the biggest companies in the world before they go public, when they are late stage, they tend to be really reticent of sending out data.

That's because they don't want their competitors to know what they're doing or what their plans are and all of that. And hence, the point about disclosure you made, they don't want to say too much. They want to say enough that makes people get over the line, but they don't want to say too much that the competitors would use that against them or the incumbents would use that against them.

It's a very interesting point. Look, transaction cost wise, I'm pretty confident that the transaction cost on the CartaX platform would be way cheaper than it would cost if you went through a broker or a banker. I'm pretty confident about that. Both from the issuer's point of view, as well as from the investor's point of view. I think I do know what CartaX will be charging, but I don't want to disclose it here because I'm sure that's private, but I think it's very competitive, is the point I'm making here.



In terms of disclosures -- look, I think the trick here and the key here is to go for companies which are sufficiently late stage and sufficiently advanced in their roadmap and their path that them giving out some information or some disclosures is not necessarily going to hurt or derail their plans of going public in the next X months or X years.

The main thing where CartaX I think will do a really good job of is filtering the investors that go on the platform. And I do think that process is super important. So if you say CartaX is going to launch with a hundred investors and these hundred investors have been highly vetted because of X, Y, and Z. And that can be because the capital they bring, the expertise they have, because of the name they have, and probably more importantly because of the integrity they have. And that's a conflict free process, of course. Because it's in Carta's best interest to have good people on their platform, such that the CEOs and the issuers of these companies, when they want to sell their shares in the CartaX platform, actually have the pick of the crop.

That's not always the case if you're going through a banker or a broker, because the banker or the broker is always going to optimize for the biggest check writer who pays the biggest fee, as opposed to the best investor. Does it make sense? So there, the company has to really make a judgment call on, hey, I want this investor on my cap table and I would like to approve him to be in this auction, and then if this specific investor needs more information than a company is willing to give, then that's a one to one discussion, but that's still better than having just a data room and a deck and a bunch of other things, which is more generic, which is what you would get from the bankers and the brokers.

So there are pros and cons. Is it frictionless? No, it's not. But I think what's important to note -- you made a very good point on gradient -- is that, as stressed, it's not the absolute, it's not the first, it's not the delta, but the gamma, that matters, i.e., the second derivative. The gamma is very important. The second derivative, the rate of change off liquidity that you get on CartaX than you would have gotten otherwise. That's the key point. That's the point you have to literally nail in on. And that's how CartaX needs to encourage both its issuers and its investors to think, i.e., the second derivative, the gamma, not the delta, if that makes sense.



**What you were saying about private placements reminds me of the conversation taking place when it comes to IPO versus direct listing. There's a similar dynamic where obviously doing a capital raise before a traditional IPO has conflicts, and as a result, you may not get the most competitive price versus through a price discovery that happens on a direct listing. It's a similar nature to working with a banker versus something like CartaX, where there is price discovery. So that's an interesting point.**

Yeah. And it's not all negative . Look, there is a reason why IPOs exist, and there's a reason why IPOs are good for the ecosystem, I think.

I think one of the main reasons why IPOs are good is because there is a really strong and formal underwriting process that happens from the investment bank, including having this defense fund, which allows them to be able to keep the prices stable or to make sure that there is no wild price action after a company goes public, et cetera.

But like you said, the conflict point is a super important point, and that's where everyone stumbles. Because over the years, entrepreneurs and builders have trusted rent seekers and middlemen less and less, i.e., the bankers. And banking formed a very important part of capital formation in what I would like to call the pre 2008 era. And then post 2008, you had a lot of change in the banking industry, a lot of lack of trust in the banking industry. Then you have this whole swath of entrepreneurs building amazing companies, and then they feel really shortchanged when their IPO gets priced lower, just because a banker is giving the allocation to their best friends and getting prime brokerage business in return for getting and giving an allocation, all of that stuff.

I do think there is a balance there. The direct listing element is very powerful, but I think the CartaX settlement is even more powerful because this is an open option. If I want to pay 10 and someone else wants to pay 12, that's a market, and there is no single person determining what that market should be. So I do think there is value to it.

The other point I would make as an extension of what I said is now this massive rise of the world of SPACs, which is also creating this new liquidity channel for entrepreneurs, although I'd argue that some of the best companies in the world don't



necessarily want to SPAC because, to an extent, the founders and the management team still want to control who they want in the cap table over time.

**That's a good segue to talking about -- we've talked about price discovery on one of these platforms as a potential stepping stone to going public. Do you think there's a world in which companies will be both private and liquid and the best companies will choose to stay private? Or do you think that the best companies will always want to go public and be in the public markets? How do you think about that?**

I am a firm believer of the first point, that the best companies will choose to remain private and will tend to be privately traded hybrid organizations. Let me take a step back. The reason most companies want to go public, or the reason why companies wanted to go public or want to go public, is because of accountability and access to capital markets.

If you remove the access to capital markets barrier and say, there's enough access to capital in the secondary markets or in the private markets, the only other reason why you want to go public is if you want to have greater accountability to your investors. And that's fine. But greater accountability also comes at a price, which is short termism, right? Because you, as a public company, will have to report every quarter, as in the US, or every six months, as it is in certain European countries. And that tends to put a tremendous amount of pressure to the management team to deliver results quarter after quarter. And that also tends to make them oftentimes make decisions which are not really conducive for the company or for the investors.

Stock buybacks is one example. The pressure to create growth in the company oftentimes makes companies buy back their stocks over time by taking advantage of zero rates that have existed in the world for the last decade or so. Is that good? I really don't think so.

Because you can be a loss making company, you can have terrible unit economics, you can have terrible culture, terrible -- actually, I wouldn't say terribly, I would say relatively bad, terrible is a bad example here -- and still your stock may go up because you've just chosen to buyback your stock over time.

And one example I'll give you here as a private hybrid organization -- and this is truly an asset class that I think you



guys should really write about too in my opinion -- is how the biggest family owned enterprises manage their companies. So there are lots of public companies in the world where the majority of the stock is still owned by the founding family or the controlling family. They operate very differently because they're thinking in generational terms, they're thinking legacy terms. They're thinking in a 30 to 50 year horizon, they're not thinking of the next quarter. And if you observe very closely on how those companies trade and how those companies behave during times of bull markets and bear markets, that should give you an extremely good cue of how privately traded hybrid corporations that are high quality should trade in the long run.

And that I can tell you to a large degree of confidence is going to be very different to how a company that is obliged by law to report every quarter. Their decision function is going to be very different.

So I do see this world where you will have the privately traded corporation and the creme de la creme and the best of the best of the companies will evolve into that top of the triangle. And as a result of that, by definition, over time, you will have this negative selection going away.

And hence the majority of capital that is ready to be deployed in private markets will go to those companies, hence further fueling their growth. Did I paint a good picture there or did I over dream?

**No, that was pretty vivid. The point about the family run businesses was really interesting. So this question about the evolution of public versus private, if this occurs, where a lot of companies decide to stay private, and that creates a self reinforcing cycle and these companies are in the hands of -- one analogy is generational family -- but it might be in the hands of the top VCs or whatever, and the public in general doesn't have access to it. How do you think that the regulatory environment might change or adapt to that, to give the public or public funds access to the amazing value creation that's happening in the private markets? So that companies have some accountability to the public, in a sense of the public good, and the general public can be still be exposed to the vibrant economy and the great businesses that remain private.**



Yeah. And look, I think there are two parts to that question. Number one, even if you remain a private company for 25 years or 30 years, you can still be producing goods and services that is good for the public. Which also means that that will be a positive feedback loop for innovation because, if you are the CEO of a company building product, which you know has got immense traction and which the public loves and comes back for more, that's a good thing. And if you're able to have the capital behind you to continue to sustain that path, that's a good thing for the public, right?

To your point about whether the public will have access to these companies, that's an interesting point you raise. I do think there is some truth to the fact that, if the company stays private for too long, it'll only go into the hands of the very strong, i.e., the family offices and the large VCs or the large investors, and then it'll that'll tend to crowd out the smaller investors.

But maybe that doesn't need to happen. I'll give you a great example. There are lots of companies who only want to float 20% of their cap table, and only 20% of the company is floated. The remaining 80% is still controlled by the founders or the founding families or whoever they may be. You can do a similar thing. You can have a privately traded corporation. And you can have a small percentage of your cap table public so that there is some access to the public and the majority still can remain private and have private transactions in different sizes than blocks.

I don't know, this is TBD and something I'm sure will evolve over time. But that's the way I'm seeing it, at least for the moment.

**It's interesting how one of the reasons we're interested in exploring this is just because people don't know what the outcome will be. There's a lot of interesting, I'm sure unintended, consequences of what's going to happen, and it's an exciting time to be participating in all of this.**

Yeah, totally right. And I think, look, this is a very exciting time to be in. What a great time to be alive, Walter, because we're in the middle of this secular structural shift happening, where we've had the last 10 years of extreme quantitative easing, we have seen this year that, whenever the world is in turmoil, the central banks and the governments have your back. I think the Federal Reserve, just from a purely macro angle, is making a very big statement later today at Jackson Hole about some consequential



speech about how they view inflation. These things will have very far reaching consequences for valuations in both public markets and private markets and in what I would call assets with scarce economic substance.

I do think the wave that is going to be created going forward is going to be extremely exciting to be part of. And I do think that privately traded hybrid corporations, will become a thing, will become an asset class of its own. And I think anyone with a strong hand, who's able to take a longer term horizon than most, will benefit from that. And maybe over time, that means that even smaller accredited investors will also have a percentage of their portfolio going into that. And that can only be good in the long run I think.

**Thanks so much for joining us, and really appreciate you sharing all your knowledge and experience on participating in the private markets and sharing where you think things are going.**

Thanks, Walter. It was a pleasure to help you.

## Disclaimers

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