

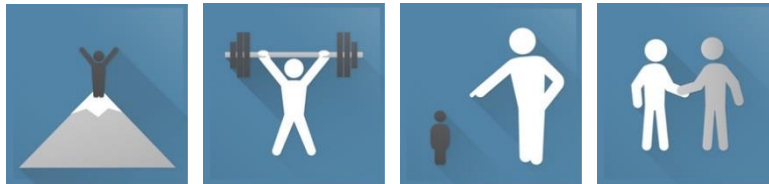
# WELCOME BACK MY FRIENDS!

Some investors are good at explaining the past, some investors are good at understanding the present, and some investors are good at seeing the future. So while back in 2008 and 2009 some of us believed there was value that could be unlocked through the fragmentation of the lending value chain, the general investment community took a bit longer to come around. But come around they did. And as they came around, out of nowhere emerged the LendIt Conference.

So while it may seem silly to talk about the emergence of a conference, it's no sillier than talking about Woodstock or Burning Man. The LendIt Conference is symbolic of our shared beliefs, and the amazing growth in attendance is symbolic of how fast our beliefs are being adopted by the broader community. It's validation for the early pioneers and it's a club that still has plenty of room for newcomers to join.

Having been a participant and attendee at the LendIt Conferences since the beginning, my observation is that each one explored a different general set of themes. While this year's theme isn't obvious, the general theme that I think will emerge is the uncertainty around whether or not this next generation of lending company can and should survive the current funding "speedbump". My belief is that many can and will, but the journey might not be pleasant. In the immortal words of Lao Tzu: "New beginnings are often disguised as painful endings."

So with this, I'll leave you with a few meta-themes to mull over as you listen to speakers and talk to fellow investors and entrepreneurs at LendIt 2016. Let me know what you think!



## 1) In times of uncertainty, managed growth is rewarded more than hyper growth

- A small business has no choice but to focus on growth at all costs because climbing the scale curve defines success or failure
- For at-scale businesses, a period of managed growth allows them to turn their attention to efficiency, infrastructure and cost management initiatives
- Businesses that have grown rapidly over a multi-year period almost always find that there are significant opportunities to do more with less
- The lightbulb goes off that a revenue dollar can only be earned once while investments in cost savings are earned over and over
- Reduced growth often reveals the true profit potential of a business because marginal activities are halted and investment dollars are re-allocated to generate better returns
- Managed growth can catalyze the recrafting of an organization into one that's more equipped to grow when uncertain times pass

## 2) Solid business models can survive shocks

- Shiny new business models attract copy-cats and variations on a theme but when the first major systemic challenge hits a market the weak die quickly
- Sub-scale, unproven businesses will often struggle to explain why they should exist or prove that their models work
- Flaws are magnified during times of stress and many late entrants look pretty bad when examined under a microscope

- Business models that have a single flaw can typically address the issue if the rest of the business is on rock solid footing and they have capital to buy time

### 3) Giants tend to wake up right about when they can say “I told you so”

- Incumbents like to showcase their strengths and there’s no better time to do this than when the new guys are struggling
- While they’re busy pointing out the flaws of the new players, they’re also finally able to open their minds to what the next-gen players are doing well
- It’s no longer threatening to compliment the best features of the next-gen players because on balance the incumbents still feel like they have the edge
- The incumbents might be late to the game but if and when they get religion they can act on it by borrowing good ideas, stealing talent, and possibly even acquiring struggling companies at bargain basement prices
- Picking at carcasses is a tried and true strategy and history is littered with examples of large organizations becoming acquisitive when assets become cheap (or free)

### 4) Survivors are accepted into the club

- After a crisis, the survivors are finally understood and therefore uncertainty is removed
- Survivors are deemed worthy and can grow without the pressure of having to defend themselves all the time
- Survivors emerge stronger than they were before a crisis: Lower costs, higher margins, tighter controls, better service levels, fewer flaws, etc
- Post-crisis the market is less crowded so acquiring new customers becomes easier and is less expensive than it was at the peak
- Scars create grit and leaders emerge that know how to motivate and manage people through change

So, at LendIt:

- If you hear a company talk about consciously pulling back its growth rate internalize that the result could be a leaner and stronger company once they decide to accelerate again.
- Recognize that many business models have flaws and not all of them are fatal. Time, money and talent can overcome issues if most dimensions of a business are on solid footing.
- Nobody likes to hear “I told you so” but if and when you hear it from incumbents don’t be afraid to ask what they think the next-gen players are doing right. I bet that you’ll hear some real compliments for the first time.
- There’s nothing better than a good crisis to separate the wheat from the chaff. While it’s painful during the storm, the resulting environment can end up being quite nice for the survivors.

With these themes in mind, I wish everyone a Happy LendIt 2016!



## ABOUT THE AUTHOR

*Frank Rotman is a Founding Partner of QED Investors. His investments are typically focused on financial services and financial technology companies that are credit oriented or have data analytics foundations at their core. His portfolio of 20+ investments includes many of the emerging next-generation companies in the financial services eco-system such as Credit Karma, Prosper, Avant Credit, SoFi, GreenSky, LendUp and CAN Capital.*

*Look for further writings from Frank in his blog at [www.fintechjunkie.com](http://www.fintechjunkie.com) and learn more about QED Investors at [www.qedinvestors.com](http://www.qedinvestors.com).*