

## **nth Venture 2022 Annual Letter**

When you first start dating sometimes it's difficult to pinpoint your anniversary.

First date? First kiss? Going steady?

For nth Venture, you can trace our causal chain back as far as you like.

Michael and I started casually kicking around ideas in the summer of '21. One bright idea was to sell seeds, herbs, sourdough starter, and things like that for the new and bored home chefs starting little home gardens. We still have indie-kitchen.com.

In October, the three original co-founders got together and tried to figure out how to really put ourselves to the best possible use.

In November, we incorporated.

In December, we made our first hires and stated our purpose: to set talented people free through the power of ownership.

Hell of a calling.

### **Why Bother?**

It's a mixed bag when it comes to running a business when the purpose of the company is one that tends towards the inspiring.

What most people would consider boring insurance companies generally make an absolute killing. On the other hand, the road to the mythical startup IPO is littered with impassioned, charismatic founders creating an inspiring vision. Their success rate is less than inspiring.

So why in the world try to blaze your own trail?

I would say don't if you can help it.

I simply couldn't.

### **Why I Bother**

In the Army, there's a ceremony for new officers called a first salute.

My far more diligent best friend and I both joined the Army around the same time - he as a respectable officer and I as a lowly enlisted man just trying to pay for college. When it came time for his first salute, I was asked to travel up to D.C. for the sole purpose of rendering a crisp salute to my friend Zach, now Lieutenant Smith.

Immediately after, I shook his hand on that little stage, pulled him in close and said, "noblesse oblige."

It's an old aristocratic imperative that if you have the ability or privilege to act with honor and generosity to your fellow man, then you incur the obligation to do so.

It's an idea that's been criticized for justifying positions of privilege. The problem is, it should have never been reserved for nobility, instead inviting to anyone willing to live up to the challenge.

To me, the idea that we have a duty to each other to live a life that fully utilizes and exhausts our capacity to contribute is profound, resilient, and deeply motivating. Your mileage may vary.

### **What I've Gotten Wrong**

I can't possibly list all my mistakes and shortcomings as we've gotten nth Venture off the ground. Let me try to hit the highlights.

I've seen the practical evidence and often heartache that most of my approaches and ideas don't work out. We may have a pretty impressive, call it 50% success rate from Cohort 1, but consider the plethora of failed ideas and projects within each one of those businesses. You can be bold and big take risks, but each business should very rarely, if ever, put all their eggs in one basket. In practice, it means you must have the courage and conviction to challenge the confidence of people you trust when you see single points of critical failure, which I've failed to do multiple times.

I have several times given too much weight to candidates' seniority at brand-name companies when identifying leaders with the appropriate attitude and skill set to start a company from scratch. While senior executive work experience is not at all a disqualifier, the strong tendency and tolerance to entrepreneurialism must be in the bones of every new business leader we bring on, a fairly obvious conclusion in hindsight.

I underestimated the time, energy, and lead times required to raise investment. Our regular cadence of commissioning the next tranche of investment in each cohort in the final month of each quarter is far too risky for the size of firm we have now and, while sometimes working extraordinarily well, has sometimes left us in extremely uncomfortable positions due to my poor planning.

I've learned that when making purchase decisions, you can't allow yourself to think you're purchasing the intended outcome rather than what you're actually purchasing. When you spend money on software or professional services, it's easy to take the leap to compare pricing with the intended outcome of what's being purchased, but caution and logical clarity there can prevent some errors of budget allocation.

I've broken the no-assholes rule when I spotted people that I thought would be able to contribute at a very high level or take us to the next stage. The reality is that our working environment and culture is too precious to degrade for the benefit of one high performer or potential high performer. You might be able to deal with Dennis Rodman and win championships, but why not play like the Spurs and build a dynasty?

I have made many more mistakes and learned hard lessons in attempting to rise to the task. I'm hopeful that I will have many more to come.

### **Where We Started and Where We Are Today**

We started with three people, a long meandering email articulating a vision and plan of action, and I wrote a check for nearly everything I had in the world: \$10,000.

Here's part of that email.

“So here's some notes and a few business concepts that I think fit well into the structure of something that might be characterized as a venture talent firm. Especially one that is predominantly concerned with attracting, unleashing, and supporting the best talent as the foundation of its success and is aggressively postured to rapidly take advantage of the possibility - or reality - of a new working paradigm.

The attract, unleash, and support goals feed each other in a - hold the gag reflex - virtuous cycle that is made possible through

- Radical incentive alignment
  - Compensation in % of profit, negotiated just like a salary. Like Renaissance, you also get a chance to invest in the capital-light business.
- Strong bias to autonomy
  - Using here not only the structure of autonomous network of owned entities, but the shared findings from the greats of management like Buffett, Drucker, Collins, Campbell, and Carnegie rather than Taylor and McNamara. Build safety, trust, honesty, and align the work to people's strengths rather than continually assessing and attempting to correct their weaknesses.
- Environment: Wonderful Teammates and Strong Shared Support Services
  - Regarding the support services: I think this is a more important point than it seems at first. Of course the businesses will be developed into something more reflective of the key strengths needed to address their opportunities, but it also places the central corporate folks into a "support" rather than "control" posture - servant leadership manifested organizationally.

I think endeavors that obviously fit well into such a model

- Revolve around high performing individuals and teams
- Require little capital and are close to immediately profitable
- Are not administrative in nature
- Leverage nimbleness and new technology
  - Extra point here: the entire model is probably only possible from the massive de-capitalization of capability development and sustainment that has occurred thanks to tech firms that deliver just about any business capability you could ask for as a cheap monthly service.
- By nature benefit from cumulative gains and advantage

I have some ideas.”

A year later, our total aggregate revenue stands at approximately half a million dollars and growing fast.

The studio staff is now a team of seven, including myself, and not including our advisory board.

Across the wider nth family, there are now 55 people including 32 advisory board members and 23 staffers, all devoted to building great companies.

In our first cohort of four companies – which was really more like a rapid succession than a cohort - we launched two successful companies, both now with teams of wildly talented people.

We had two failures to launch, Falconer and Stampede Commerce. We're completely redesigning and plan to hit Falconer again with a new president and we shelved the IP of Stampede related to their eCommerce acquisition strategy.

Thankfully in this business, if you do it right, only your successes really count.

One of them, Audily, now has an independent 409A valuation of \$.04/share or \$3.2 million.

By my rough count, Audily has produced around 50 hours of content or just shy of 23 average-length movies.

While we're no longer their most important client by a long shot, they've helped me experience first-hand just how powerful the podcast medium is.

On the podcast they produce for nth Venture, I've gotten to interview folks like the psychedelic venture capitalist Brom Rector right after his big feature in the Wall Street Journal, the Forbes 30 Under 30 founder of Poolit bringing sophisticated asset allocation to the masses, a heroic recovering addict that founded YFYT that now makes hundreds of hot, high quality meals each day for those in recovery, the dynamic duo behind the female-focused VC firm that got lit up on the Nasdaq tower in Times Square following their historic raise, and 20+ similarly impressive folks.

Another early success from Cohort 1 is Merchant Boxes. They're undergoing their first 409A valuation now and I expect it to come in around \$.05/share or \$4 million.

Merchant Boxes has sourced 597,900 articles of packaging for their clients by my count and designed beautiful packaging for all kinds of products. Some for fairly typical products and some for exciting celebrity lines.

In large part due to those early successes, we attracted the capital and talent to start our second cohort, this time all at once.

After a casual get-together of Cohort 1 and Cohort 2 presidents, one of our presidents from the first cohort reached out to me later and said something to the effect of, "Man I sure wish I could have been a Cohort 2 president because it seems like you actually have your shit together now."

There's truth there. Launching companies is a little bit like making pancakes.

We're far better at what we do now as a studio, but the talent in all four companies of Cohort 2 is just obscene. We're talking some of the best operators and executives in the world. What's better: all of them have hit the ground running hard and fast, entrepreneurs to a one.

Here's a quick overview. It's hard to boil most of these careers down to line, but I've done my best.

## PRreact – Media and social digital listening reporting

- President: Julio Rumbaut - Media veteran, co-founder of Telemundo
- Advisory Board
  - Andrea Priest: Former Head of External Comms, Federal Reserve Bank of New York
  - Deb Wasser: VP of Investor Relations and ESG at Etsy
  - Ken Gesund: Managing Partner of MessageBank, a leader in corporate investor relations communications infrastructure

## SBR2TH Recruiting – Technical talent (ie. data scientists, developers) sourcing

- President: John Light – Senior recruiting executive and multi-time new office opener
- Advisory Board
  - Jenn Congdon: Career CHRO, 1,000+ employee firms
  - Rob Callon: Head of Technical Recruiting at ZipRecruiter
  - Vidya Jwala: Former C-level leader of eCommerce at Dick's Sporting Goods, Michaels, Overstock.com turned PE leader

## Sentius Development – Data-heavy digital transformation shop focused on data wrangling, preparation for processing, and machine learning implementation

- President: Jim Vogt - Electrical engineer turned 30+ year tech executive and multi-time CEO with multiple big exits under his belt
- Advisory Board
  - Srilekha Akula: Amazon, Google veteran product manager
  - Sanjeev Addala: Former Chief Digital Officer at GE, now a technical PE operator
  - Srikanth Raju: GM at Microsoft leading Commercial Software Engineering

## CERTD – Virtual employee onboarding and training provider

- President: Doug Smith - Education and data expert with VC, PE, and operator experience
- Advisory Board
  - David Wan: Retired longtime leader of Harvard Business Publishing, former head of Penguin Publishing
  - Matt Loughran: Startup advisor, TEDx Executive Director
  - Themos Pentakalos: PE operator turned tech CEO
  - Nicole Spracale: Career HR exec turned professor and consultant

## **Why It's Working: My Hypothesis**

The extraordinary growth we've seen is only possible because of our great people but no one, certainly not myself, can take too much credit.

In my view, nth Venture is largely the product of a deep resonance.

We are all creatures of habit but in the shock of the pandemic, people really asked themselves why in the world they needed to go into an office every day and why in the world they were working so hard and sacrificing so much yet generally seeing the fruits of their labor accrue to shareholders they had never met.

There's a reason. It's not easy to compete with enterprise-grade corporates that can leverage their national – and now global – reach even in local markets.

The beautiful challenge at work here is that our progress as a species has made our world exponentially larger and more complex – more so than at any other time in human history by a large margin.

The local nursery rhyme proprietors, the butcher, baker, and candlestick maker, are mostly gone and serious operators knew that starting a business by yourself is a great way to, as the bankers say, get your face ripped off.

Now suddenly, new business formation rates spiked and remained at new highs following the pandemic.

Combine those environmental factors with the ability nth provides to start day one with a team of seasoned specialists at your back with deeply aligned incentives, an inspiring and practical compensation approach allowing you to find the world's best talent, and a powerful network at your fingertips ready to support your mission. With those advantages you can genuinely compete with the nearest large incumbent's reach and volume with superior quality and speed.

### **Our Investment Philosophy**

While we are in the business of launching rather than traditional investment management, we wouldn't launch companies unless we thought they would make for a great long-term investment of our cash, blood, sweat, and tears. It's useful then to know what makes for a good or bad investment.

The practice of investing has nearly infinite depth and is something I suspect you can spend several lifetimes doing without ever mastering.

I don't pretend to have the right answer, but as someone interested in what we do here you should know how we think about this.

Thankfully, as in many arenas, we don't have to start from scratch and learn all the hard lessons here ourselves.

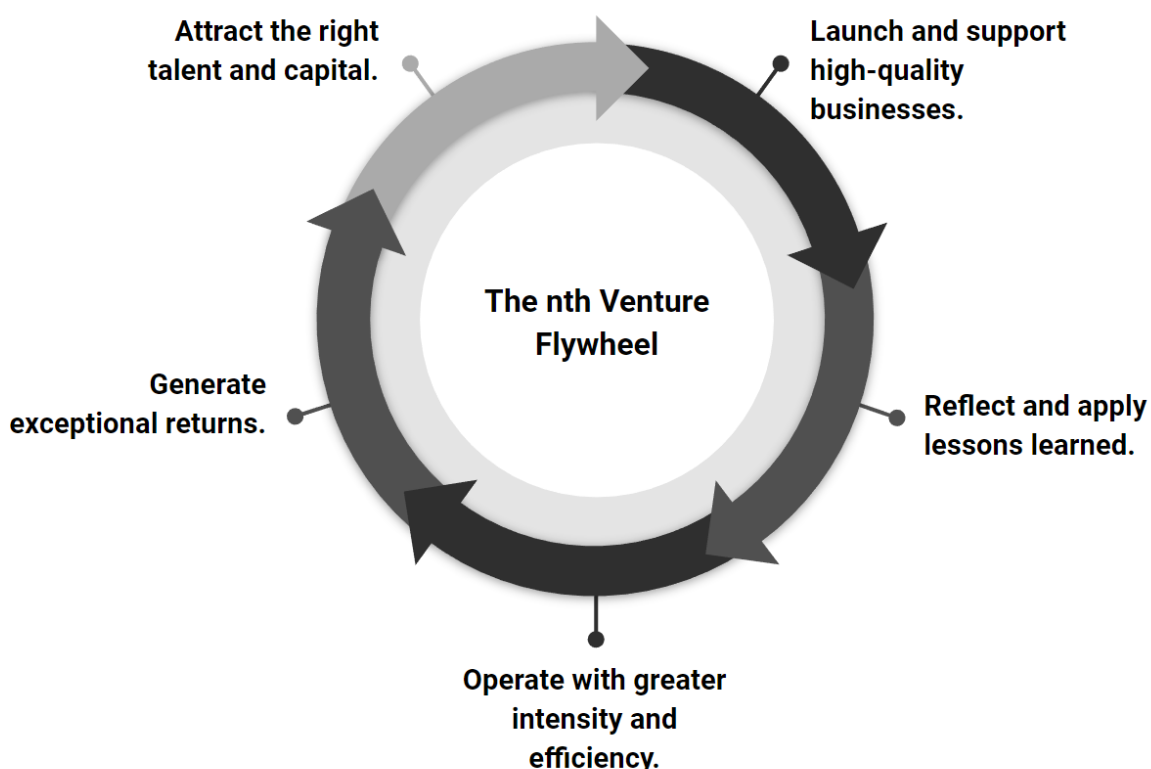
The principles of our investment philosophy are derived from what I view as the surprisingly consistent results of decades of academic work and practicing exemplars like Berkshire Hathaway, Markel and DFA that can be expressed in a single sentence.

- Invest for the long-term,
- minimize fees,
- ensure proper – but not excessive – diversification
- in straightforward businesses
- with passionate, effective and high-integrity managers.

Much like the Ten Commandments, learning them is one thing, living them is another, far more interesting challenge.

### **Where We're Going**

While our path will appear to the outside to be winding and our process and structures will change dramatically over time, being a firm with a clear purpose makes it easier to make difficult decisions and focus on making consistent improvements to support the underlying flywheel driving the business.



Earlier this year we were approached by a very well-regarded law firm that wanted to help us raise a massive fund to deploy across the portfolio of companies we currently have and will continue to generate.

The fundamental issue I saw was a debilitating conflict of interest between the equity we held created by launch and the equity we would manage by deploying other people's money into the companies we already hold interest in ourselves. Firms do this all the time, but I certainly wasn't excited about it.

We made the hard choice to focus where we actually have a competitive advantage, the brutally challenging world of 0 to 1, rather than administering growth capital.

Our mechanism of Cohort Commissioning is unique and an absolute slam dunk for investors, but there's a constant life or death aspect to it for the firm that isn't sustainable for the long term.

It appears we've found a beautiful solution to both problems by raising not a traditional venture fund, but a rules-based fund focused exclusively on creation by consistently investing in the next round of Cohort Commissioning.

It means fund investors will get the benefit of being able to continuously gain interest in each successive cohort we create through one vehicle.

For the firm it means we can continue to focus on 0 to 1 and take another step to reduce our risk of being able to launch and support high-quality businesses.

To add some cash ballast to the firm's equity-heavy assets ahead of launching the Creation Fund, we plan to open our doors for the first time ever to traditional venture investment in nth Venture itself. I'm nervous and excited to give professional capital allocators a perch from the firm to be able to deploy direct investment efficiently across current and future portfolio companies to support their growth. Wish us luck.

For those of you new to the firm, welcome.

For the advisors, staff, and investors in the nth Venture family, it's an honor and a privilege to be your partner.

Best,



**Samuel G. Sawhook**

nth Venture | Co-founder & CEO