

May 27, 2014, 11:22am PDT



**Cromwell Schubarth**

Senior Technology Reporter-*Silicon Valley Business Journal*

# Check investor Rebecca Lynn on finance tech, why the number of women VCs is lower than you think



*PR NEWSWIRE*

Rebecca Lynn of Canvas Venture Fund in this Q&A talks about her investment in Check, which Intuit has agreed to buy for \$360 million, and why overestimates of the number of women in venture makes her mad.

Rebecca Lynn, part of the Morgenthaler Ventures team that rebranded as Canvas Venture Fund last year, has been rated as one of the top women VCs the past two years by Forbes, the publisher of the annual Midas List ranking.

That's based largely on her investments since joining the firm in successful financial and health technology startups, including LendingClub, Practice Fusion, Check (previously Pageonce), Doximity, FutureAdvisor and Convo.

But don't bring up the Midas List and Forbes unless you want an earful about journalists not doing their homework when reporting how many women there are in venture, which she says is consistently overestimated.

We spoke after her latest investment in FutureAdvisor but before the Intuit-Check deal was announced. The following Q&A is excerpted from that conversation, altered for clarity.

Lynn's roots in finance tech go back to NextCard, the first online credit card company, where she led product development efforts and later served as the vice president of marketing. It went public in 2000 with a \$1.3 billion market cap.

She then ran her own consulting business focusing on online marketing for financial services and affiliate marketing, before joining Morgenthaler in 2007.

**Tell me about your experience as a woman in venture capital. That's still pretty rare, isn't it?**

I think I got an important number corrected finally that I have seen quoted for years. People have said that about 11 percent of VCs are women.

I have been asking, "Where? That's not what I see." I was really annoyed by that.

I called PitchBook Data one day and said, "I don't feel it's 11 percent. I think it's more like 4 percent."

So I had PitchBook pull a report of the top 100 venture firms, by number of deals. Then I said, "Give me all the partners that have at least one board seat on a portfolio company."

The number that came back was 4.2 percent of that group was women. The reason that really annoyed me was every year, when you would read the Midas List of top investors, something like four women were on there out of 100.

But they would say 11 percent of VCs are women so it made it look like we are really crappy investors. But the right number is 4 percent. In fact, if you take corporate venture out of that mix, like the Intels and Ciscos, it drops down to about 3 percent.

**That sounds like women are underrepresented by a lot.**

I think we have to fix it. We need to have more women in venture capital. I think that needs to be something that our industry looks harder at. We need to pull more women into it. I have encouraged a lot of people to consider that, to start companies and do their own thing.

I try to lead by example, and I feel like that's what I can do. I think women don't want to be given something just because they're women. They want to be there because they have earned it, myself included.

I think it's a fine line to tread, but I do think you have to really encourage women in the field.

Quite honestly, I kind of stumbled into venture. I was very lucky. I was starting a company and went on a sabbatical to get a joint JD-MBA degree at Berkeley. I met the guys here and they brought me in. I just fell in love with the job and the people. I decided it was a great career for me.

But, again, as a woman when you look in from the outside and see there's only 3 percent like you in VC, you might think, "They are not going to pick me. So why should I do it, right?"

What my mom always said was, "They have to pick somebody. So why not you?"

**Finance and banking startups have been a key focus of yours, haven't they?**

The disintermediation of banking is really a core thesis that we have. LendingClub and Check have both been big successes for us. We've been looking at this financial management space for a long time because we felt like it was the next thing to really fall. FutureAdvisor is our newest entrant in this space, and it's typical of the kind of bets I make.

In lending, for instance, Prosper was there first, by probably about two years. Then we came in and funded Lending Club. Prosper proved the market out, but Lending Club came in with a much better model for that same market.

Check is the same thing. Mint proved out the market, then Check came in with solid technology behind it.

So FutureAdvisor is a little bit later in this wealth management space, but I think they have a very clear focus on where they are going and what they are doing and they have a really great team.

### **Why do you think wealth management is ripe for disruption?**

Wealth management is a huge industry. There is \$13 trillion of mutual funds in the U.S. alone that are not advised. This is a massive backlog. If you have tried to get a fund adviser and you have between \$100,000 and \$1 million, it's really hard get on advisers' radars. If they do take you, you are going to pay huge fee.

Even in mutual funds, if you have pop open your 401(k) and look at what the fees are, they are pretty crazy.

So if you look at the opportunity there to come in and disintermediate what's going on, you find a kind of cottage industry investment adviser space where it's just a one-to-one kind of thing. I actually think about it in terms of what technology did for the real estate world. Look at what Zillow did to help facilitate knowledge across the real estate community. It's a little similar.

If you look at what they call the "mass affluent community," there are not a lot of good products out there. You don't have a lot of great choices. What these people really need is diversification for risk. And they effectively want to do what everyone wants to do, which is minimize the fees they are paying and maximize returns. What companies like FutureAdvisor have shown is that you can do that via algorithms and software.

### **What is it about the team that attracted you to invest?**

Bo Lu and Jon Xu have worked together for years. They came out of Microsoft where they were some of the best talents in their class and really impressive guys. I can't speak about this, but they have a couple hires on deck they have signed who haven't started yet that are also really amazing. The other person that I just think is terrific is Sam Yount (the company's VP of marketing). He spent a number of years at Scottrade running their acquisition marketing. Then he most recently spent three years at Personal Capital.

But Bo and Jon are the founders. They are terrific. They came out of Microsoft. They were a Y Combinator company and then they were backed by Sequoia for both the seed and the Series A.

### **What about the business model there attracted you?**

When you look at the spectrum of other companies in the space, a lot of them make customers liquidate their assets in a very tax-inefficient way and then transfer that cash into an account that the wealth managers take over.

I'm an old consumer-oriented person. I came from Proctor & Gamble in my early days. I just believe that the consumer experience is really what matters. Expecting consumers to liquidate and incur taxes and do things like that is just not what's going to win at the end of the day.

FutureAdvisor likes to say they have the algorithm build your assets. They can sort of lay over the top of, say, your Fidelity account and manage it from there without you actually having to liquidate the assets. Because of that, FutureAdvisor has very high average account sizes that they manage. On average, their account size is about \$150,000, which is very impressive.

I just think they have the right consumer model here, which is really very important. They have the right overall model.

There are other people in the space, too. There are couple of competitors that have a different approach. Those others really have the high touch investment advisory service that connects people to personal advisers. I didn't think that was quite the model we were after. We really wanted something that was truly disruptive.

**I noticed that you are also investing in health space. What interests you there?**

We actually were one of the first VCs to really dive into the health space. I stepped in in 2009, and we started formulating this thesis around healthcare IT. The department here really encouraged me to go after big opportunities, and at the time a lot of people were focusing on cleantech. We didn't believe that was a big opportunity area, for venture at least.

Healthcare, though, at that time was about 16 percent of the GDP. Now it's almost 20 percent. But it was incredibly inefficient. It was a big market and ripe for disruption, much like financial services. There were a couple of important things that were happening. We had the HITECH Act (Health Information Technology for Economic and Clinical Health Act) rolled in in 2009 and the Affordable Care Act was already clearly coming in 2010.

The reason that was important was because healthcare money flows was changing. When the way money flows starts shifting, you can actually have real change. The entrenched incumbents are forced to change.

I think people believed in the past that things were going to change in healthcare, but it didn't happen for different reasons.

But in 2009 and 2010, the HITECH Act was happening, the Affordable Care Act was happening, and costs were going out of control.

Beyond that, starting a company had certainly become a lot cheaper to do and mobile was really important. Mobile has been really important for a number of years now in the medical industry. Look at the success of Epocrates, for example, in the first wave of dotcoms.

**So what did you invest in?**

The initial foray we made was in Practice Fusion, and that came after looking at over 100 companies in healthcare IT. Most medical decisions today too often are not really made with all the data they could be. Medicine is really often more of an art than a science in more ways than we would like.

So we thought to really make change happen you have to have access to the data. The way to get data was to be in the cloud with the patients, and you have to have a lot of it. We thought companies we would back had to be in the cloud and they had to, quite frankly, be free to really gain doctor adoption and find unique revenue models.

Practice Fusion aligned with that for us perfectly. So we led their Series A in October '09. I know that because my son was born right after that. I was actually eight and a half months pregnant when I did that deal.

We figured out pretty quickly that we needed follow-on investors and there were just a couple other firms even considering healthcare IT deals at the time.

So we actually started a conference around healthcare IT called "D.C. to VC." We brought out Aneesh Chopra, who was the U.S. Chief Technology Officer at the time, and Todd Park, who is the current CTO of the United States, among others. The audience was mostly venture capitalists and entrepreneurs. We also had a bunch of corporates there to talk about their key points.

That conference is now held every year and it's actually evolved. The first year when we held it — just to give you an idea how nascent healthcare IT was — there wasn't a single incubator in the U.S. on healthcare IT. Last year, I think there were something like 15 or 17. That is a crazy number, I guess, in such a short period of time.

### **What other health tech companies have you backed?**

Doximity was our second bet in healthcare IT. Again, we felt that for real change to happen the doctors have to be connected and linked in a professional network. With that you have the opportunity to really affect the ecosystem. That investment has done quite well for us. We led the Series B in Doximity.

Then we really thought that communication between doctors and patients is absolutely critical to effectively reducing risk and costs in the healthcare profession. So we invested in HealthLoop. We think it is the best thing out there to actually facilitate that engagement.

With HealthLoop, patients can know when they show up for a surgery what it is that they need to do ahead of time. Then they are followed up on by the doctor. I don't know about you, but I've had medical procedures and I can't remember when the doctor ever called me the next day to see how I was doing.

And so that's the problem. HealthLoop automates that process. If there is an issue with the patient, that can be sent out to the doctor. If there is not, the patient is still checked up on and they know that there is somebody at the other end that can help them. What it does is to actually reduce the calls and the communications into the doctor's office. But when there are significant problems, they get sent up to the top very, very fast, so that the doctor can take action.

### **You got started in venture right around the end of the tech bubble. Do you worry about a new one forming?**

In that period, people were getting funded on vaporware. You would go in with a PowerPoint and people would neatly write a check. What we are seeing right now is some really solid companies being formed. And we are seeing investors react in the marketplace letting off steam gradually when things get a little frothy, like you've seen happen recently with software-as-a-service (SaaS) companies. We didn't see that in the dot-com bubble.

I actually think we're in a fairly healthy market. But I'm actually relieved when we see some rationalization in segments, like we have seen in SaaS.

The ecosystem for venture is still very healthy. And so the more we can grow and tap the brakes as we go, I think the better off we are. I don't think that's what we saw in the past bubble.

I think there are a lot of dissimilarities between then and now. A lot of the investors that are investing today lived through that past bubble, myself included, although I was on the other side of the table. Investors are a lot more focused on revenue and business models and growing scalable companies, and I think that's very different than it was.

### **Startups now have so many different choices as far as where they get their money from and maybe they don't need so much money, either. Some people argue that means maybe they don't need VCs so much. Do you think the role of the VC and the need for venture has changed?**

I think founders have always had choices. I think there is a little bit of missing perspective in terms of the pre-2008 time versus the post-2008 times.

Pre-2008 there was a pretty healthy angel ecosystem. That was decimated in '08, but it came back and now it's really thriving. The angels for us are terrific. They are a great ecosystem for early stage people. Up until, I would say, the \$2 million to \$3 million round size, they are terrific.

I know there is an argument that it's cheaper to start a technology company and that is true. But it's not cheaper to scale marketing, right? It's not cheaper to scale acquisitions. So startups need a lot more money if they're going to go really big.

Quite frankly, venture is not for very many companies and it never has been. It has been just for a select sliver of companies that really need a lot of capital to grow into their markets.

So I think there is definitely a place for venture on the early side. Angels pick up a lot of the risk and I am proud that our firm never dived into funding a lot of angels deals. We saw companies up and down Sand Hill Road that were doing 30, 50, 70 or 100 angel deals in a year.

The guys here have been around for 40 years. They've seen a lot of cycles and they said, "Don't do it. You will be competing with the angels. That isn't our business model. We are going to be able to help some of those companies later on in their Series A and Series B."

That's exactly what we saw play out. We have seen our brethren who really dove in full bore on an angel strategy pull back from that. Most of the venture capitalists who were doing a lot of angel deals a couple of years ago have totally stopped.

We send a lot of early, early stage companies to the angels. We tell them, hey, you're too early for us but here is an angel we think can really help you. So that's our relationship with those early stage angels.

On the other hand, when you start needing \$5 million, \$10 million or \$15 million to scale the company and you don't want to deal with a cadre of 10-plus investors, that's where venture sets in. We help them with their hiring, with their marketing for scale and growth, and we help with the strategic piece of their business. That's really where we are needed.

On the other side, we're bumping into private growth people and private equity people a lot. We are seeing the growth stage of venture and the private equity people kind of bumping up against each other pretty often right now. I think eventually private equity will probably pull back a little bit again in that realm. But that's not what we are seeing now.

That's why we really like where we are at, backing Series A and Series B rounds. We feel like that's where the opportunity is right.