

## **Exchanges at Goldman Sachs**

**How Europe's tech startups are continuing  
to innovate in the current market**

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**Allison Nathan:** From artificial intelligence and machine learning to virtual reality and wearable technology, disruptive tech has been at the forefront of markets and investors' minds. So how are investors and tech founders alike approaching trends in technological innovation during a time of stress in the markets and in the banking sector?

**Ophelia Brown:** There's still a lot of capital sitting on the sidelines, great businesses are being built, there's true adoption of technology that we all need. I just think we got into some crazy heady heights in 2021, and we're correcting from that and rightly so.

**Allison Nathan:** I'm Allison Nathan, and this is Exchanges at Goldman Sachs.

In this special episode, recorded from Goldman Sachs's Disruptive Technologies Symposium in London, my colleague, Clif Marriott, co-head of the technology, media, and telecommunications group in EMEA for global banking and markets, spoke with Ophelia Brown, founder and managing partner for Blossom Capital, an early stage venture capital firm. Clif and Ophelia explain how founders of tech startups across Europe are navigating the stress in the banking sector, the types of emerging technologies they're most excited about, and how investors are approaching opportunities in the current environment. We hope you enjoy it.

**Clif Marriott:** Welcome to Exchanges at Goldman Sachs, I'm Clif Marriott. Today, I'm thrilled to be speaking with Ophelia Brown. Ophelia, thank you for being here on Exchanges.

**Ophelia Brown:** Thank you for having me.

**Clif Marriott:** The focus of our panel today was investing in a time of constant disruption. The turbulence in the banking sector has certainly been disruptive, especially over the last few weeks. What are you hearing from founders about how this turmoil is impacting their business?

**Ophelia Brown:** I think there was a specific 72 hours, maybe slightly longer, that shocked founders. I think no one anticipated what happened that weekend. I think there were some stark lessons learned about [UNINTEL], about cash management, diversification, cash, and it's a story that ends well, which is good for all of them. But I think there will be some profound lessons taken away as the treasury management, liquidity management, diversification of their assets. And we can talk specifically about Credit Suisse and what has happened since. I think that's less concerning for technology startups.

I think the question is the contagion after that and whether banks stop lending so much, but there wasn't much of a lending product business to technology startups from investment banks. I think SVB was quite particular in its venture debt business, so I don't think that's going to have

so much of an effect on technology startups.

**Clif Marriott:** And you mentioned kind of the 72-hour period, which was very intense and specific for technology around SVB, but the medium-term in back of having that institution so ingrained in technology, is there a medium-term impact to technology and growth as a result of that?

**Ophelia Brown:** I think the answer is quite different in Europe versus the US. I think in the US, SVB was integral to the tech ecosystem. It was a bank that grew up in the '80s, providing not only banking services to technology companies but also the funds. And so it really was the center of the ecosystem over there.

In the UK, a number of accounts with SVB were small. The deposits relative. And also UK is only a fraction of the European startup ecosystem or technology ecosystem, so, with HSBC taking it over and backstopping the deposits, I don't think it's going to have any long stick impact.

I think in the UK, what it highlights is there's nothing particular about the banking needs of a technology startup. It just highlights the lack of innovation in business

banking to SMEs generally in the UK. And I very much hope that this kind of raises awareness. We might see more innovative products come to market in the space.

**Clif Marriott:** That's great. You answered my next question around the European and US impact, so that's perfect. We jumped right into this because it feels very pertinent at this point of time in technology, but maybe we back up a little bit and just talk about Blossom Capital and how you founded the firm and why you started it.

**Ophelia Brown:** So I've been investing now over 10 years. I started my career at a fund called Index Ventures, and I started in 2012. And back then, there wasn't a lot going on in the European ecosystem. I joined Index because they were the only fund investing in Europe and the US, and so I took a view that I would join them in the London office but engineered to spend as much time as possible in the valley.

So in my early venture career, I kind of split my time in half between Europe and the US, and I got to work with some phenomenal companies like Robin Hood and Mobile Brokerage from really early days. So got to see the rise of

how you build for hyper growth, how you build a world-class product and engineering team, but also grew up in the European ecosystem where it was very visible that great talent and ambition wasn't confined to the West Coast, that there was a next-generation of entrepreneurs in Europe that was just as ambitious, just as talented.

And if you fast forward to 2016-2017, they were no longer choosing to uproot and move to the valley. You know, the [UNINTEL] story of going over and leaving Ireland, while it was incredibly competitive for talent and for capital out on the West Coast, that next gen of entrepreneur was starting to stay in Europe, and I saw a significant funding gap for them.

And the most ambitious entrepreneurs wanted to raise capital from the West Coast funds. The West Coast funds didn't have bandwidth or expertise to be doing early stage in Europe, and there just weren't enough venture funds in Europe supporting those founders at the Series A stage. So I guess like any founder spotting a problem that needed solving or a gap in the market, that's where I felt excited about building my own.

And so I launched Blossom in 2018 with another partner who joined me from Index. And we raised that first fund and closed it in 2019. That was an \$85 million fund focusing on Series A. And our strategy has remained the same since. So each fund, pretty concentrated. We make five investments a year. We target 15 to 20 companies per fund, which is quite different from the average venture fund that's normally 30 to 40 companies. And we're now investing out of our third fund, which is 475. We've raised about a billion dollars in total.

There's some quite high-profile companies in our checkout and the payment space [UNINTEL] also in financial services. And there are a lot of software businesses as well like Pigment [sp?], Times [sp?], or Space [UNINTEL]. And so 24 companies. And the strategy remains the same. We've really found our constant at Series A. That's our core focus.

**Clif Marriott:** Let's switch gears back to the market environment. There's a broader theme going on around rising interest rates, rising inflation, impact on the consumer, and then obviously impact on stock valuations or private company valuations. How is European tech -- or

maybe I'll make it more specific. How are you advising your companies to behave in the current environment in terms of cash burn, growth versus profitability, those type of trends?

**Ophelia Brown:** We grew up in Europe where capital was never abundant. There's always been the lamenting that, you know, European growth funds aren't really there, the capital comes from the US. It was never a given in those years that growth funds were going to come and invest in European startups. I think that changed in 2019 to 2022. We obviously saw an influx of capital from the US.

But you don't know how long that capital is going to last, and so our advice to companies has always been grow efficiently, be in control of your own destiny. But I equally don't think the right advice is just preserve cash, be conservative, but we're investing in industries where there should be great tailwinds of growth. And you should be playing into that. And if you have a competitor that is cash strapped and can't afford to invest for growth or you have a new market ahead of you, you shouldn't just be slowing down because of concerns over the economy. I mean, early stage venture is not correlated necessarily to how the



economy is performing.

And I would argue that there will always be capital for great companies. The dollars that flow into venture funds are not disappearing overnight. Institutional investors will continue to invest in the best venture funds. And those best venture funds will continue to gravitate towards the best companies.

And so I think the founder needs to recognize am I building a successful and viable business in which I should continue to grow and continue investing? Or if the founder has concerns over the viability of their business, then they should be more focused on cash preservation.

**Clif Marriott:** What are some examples of companies in your portfolio that have adapted especially well to the current environment? What do these companies have in common that are different than other companies out there?

**Ophelia Brown:** I mentioned before that all of these companies should be paying into secular trends, where, you know, if you're disrupting an existing industry or creating a new market. Those tailwinds should surpass or

outstrip any economic headwinds.

From the outset, we had very clear investment criteria.

When we started in '18-19, we'd already had a decade of nominal growth at that point. It was evident to us that a recession was going to come at some point. And so we laid out these six firm investment criteria to be very specific on the types of companies, founders, and businesses that we would invest into, where we could believe that these companies could be huge potential outliers and they would generate hundreds of millions, they had a possibility.

It started, and you talked about the founders and the types of founders. Obviously, you have to play in those very big markets. You have to believe that these markets can hold businesses of that size. And we're not talking about market sizes of one, two, five billion. I mean, you're literally talking about market sizes of trillions, and we look at, for example, payments is a market size of that size. And you see, when you have limited TAM, how fast a business can grow.

And then there are some specifics, especially investing in Europe, that you have to see how these companies can

scale cost effectively and fast. So you're looking at network effects or economies of scale. You're looking for distribution advantage, by which I mean you're not just reliant on paid spend as some kind of organic or [UNINTEL] adoption.

And critically, that you can take this product and internationalize. You can be global without almost restarting a business every time. I think that's been one of the challenges of European ventures is that the companies got very stuck, focused on their domestic market. But if you think about products like Airbnb or Uber, those apps or platforms look exactly the same no matter what country you're in. They're not having to rebuild a product for a different market. And so we're very focused on that.

Which means actually, if you follow all of those criteria, then those businesses don't need to look dramatically different in times of recession or economic slowdown. And our final point was they have to be recession-proof, and that you shouldn't be playing into very cyclical industries, like construction, for example. But what we see now, it's not a type of business that's doing well, but, especially for our software businesses, it's that you really have to prove

your worth. And so ROI on your spend or value-based selling where you can say, if you spend 100k or even 500k on our software, we're saving you X in headcount or we're driving more efficiency or we're driving more revenue as a result.

And these can't be high-level arguments anymore. They have to be very specific, very granular, and detailed so the champion [UNINTEL] and the org and the buyer can actually go to wherever they need to get budget from and their finance and procurement have a lot more power these days. And they can really give the rationale why they need sign-off for the software.

**Clif Marriott:** When you think what we're going through right now -- and you've been investing for a long time and in technology here in Europe but with a global lens -- what's the best analogy of where we are in the cycle? In 2013-2014, so before the advent of some of the late-stage capital that came around in 2017-2018, are we further back? How would you think about where we are if we wanted to draw a point in history in technology, access to capital, and strength of technology companies?

**Ophelia Brown:** I think it goes too far to say that we're back in '09 or even kind of the early 2000s or that level. I think we're more -- and we saw this in '15/16, we course corrected. Before those years, everyone had been told to go for growth, and then told not to and we're having a repeat of that. There's still a lot of capital sitting on the sidelines, great businesses are being built, there's true adoption of technology of real need. I just think we got into some crazy heady heights in 2021, and we're correcting from that and rightly so.

**Clif Marriott:** One of the things I've observed is how much governance in Europe can be helpful and/or hurtful to technology. How has recent government policy in various markets in Europe helped the European tech market and encouraged growth? Or where can it get better?

**Ophelia Brown:** Well, I think the European Investment Fund has been a big champion of venture capital and a big commitment to a lot of funds over Europe. And then if I look at particular countries, Macron has done a stellar job in France in terms of enabling a startup ecosystem and now being a champion of tech, whether labor provisions,

whether it's BPI that provided a lot of loans and equity funding to companies, you can barely find a French startup that doesn't take that funding at the beginning.

And so I think that governments generally in Europe, they appreciate the value and the potential of SMEs and the growth of SMEs and what they can deliver in terms of jobs and what they can ultimately deliver in terms of contribution to GDP. And I think that has been a real change over the last 10 years in terms of supporting initiatives that will accelerate growth investment.

**Clif Marriott:** One thing I'm particularly focused on is Europe as a tech center and how it's developed. We've talked about this a little bit during this conversation around the development of Europe. Where would you rate it on a scale of 1 to 10 today versus where it was 10 years ago? You've been investing through that whole period and seen the evolution of the company formation. Where do you think we are now and where were we?

**Ophelia Brown:** So if we talk about Europe, I think we actually have to divide up UK and Europe. And I would say that the continent has greatly accelerated in terms of

potential and actually outstripped the UK, especially hubs like Paris or Berlin just in terms of the level of talent, in terms of regulation, in terms of we just touched on some of the government measures. And if you just look at the dollar funding that goes into European startups, that's more going on the continent than in the UK.

People don't talk about it enough, but I truly feel that Brexit was damaging for the tech sector in the UK and specifically London. If you look at the founders that have built the outlier businesses or the businesses of value from the UK, you know, it's Estonians for TransferWise. It's Nick from Revolute [sp?] It was Wilshire Firm [sp?] It wasn't Brits growing up in the UK and going to the universities here. It was people who traveled over, decided to set up their business here, and then attracted a lot of foreign talent.

And it doesn't really matter what the government does in terms of visas, etc. If your country has publicly said, "We don't want you here anymore," if you've got other options where to go to build your business, you're not going to come to London. It's just like building a startup is hard enough. Like, you're not going to fight the red tape.

So I think overall, like, we're very positive on Europe. We hope the UK does more to enable the ecosystem here because I think that we might fall out of losing our position. But in terms of what Europe has achieved over the last 10 years, the companies speak for themselves.

**Clif Marriott:** We couldn't have this conversation right now and not talk about AI and generative AI and other types of technologies in that vein. What are you seeing in terms of making new investments in those types of companies? And then if you can, a little bit around what your companies are doing to incorporate those types of services into their operations to increase efficiency.

**Ophelia Brown:** There's obviously a lot of excitement about the potential applications for generative AI. I think a lot of that is early. It's at the ideation stage. It's at the potential of what this technology can do.

I think the more interesting thing you just asked is how that can be embedded into existing products. And so I think there are a lot of founders who have anticipated the rise of Gen AI and have thought about kind of product road



maps in terms of what they can do. And so I think the first use cases are going to be in existing software products. You're going to see it in tools like Intercom or in Salesforce. You're going to see it in Zoom, Microsoft Teams, Google, etc. And it will be another at least 12 months, I'd say, before you see the startups with brand new applications using this technology.

**Clif Marriott:** One of the questions that comes to mind when I think about technology -- and you mentioned software and fintech being 70% of your portfolio, and I completely understand why you would want to focus on those applications. Do you think there are certain parts of the economy that are being left behind because of a focus on software and fintech such as decarbonization and other things that are, quote/unquote, good for the world?

**Ophelia Brown:** I wonder whether VC funding and venture capitalists are the right ones to provide capital to those initiatives. And I think VC investors are brilliant technology investors. Certain industries call for experts. And so you do have a few venture funds who are experts in those markets and will build dedicated funds just to invest into those things.

But broadly, VCs I think should stick to software, Internet, mobile, even crypto. And people who are experts in their field should be funding those types of projects. And one questions whether VC funding is the right method of funding when you have government money, you have institutional grants, and you have private equity for the much more capital-intensive businesses.

And so there is risk of these industries getting behind, but I'm not sure that it's necessarily the VC's job to fund those initiatives.

**Clif Marriott:** Have you seen any progress in diversity in technology during your career, either in the venture capital firms themselves or in the companies in which you're investing? And how much are you driving that at Blossom in terms of how you're investing and running your team?

**Ophelia Brown:** I think we've seen significant progress in that it's top of mind for everyone. When we invest in founders, the first things we talk about is how to build a diverse team, how to build your recruitment engine, and

your talent function such that you can optimize for that?  
How do you think about the broader composition, etc.?  
Questions and topics that weren't necessarily so prevalent  
10 years ago or more.

We can always be doing more. And at Blossom, we just say  
we lead by example, we lead by doing. And that's really I  
think how you make change.

**Clif Marriott:** Ophelia, thank you very much for  
joining us.

**Ophelia Brown:** Thank you so much.

**Allison Nathan:** Thanks for joining us for another episode  
of Exchanges at Goldman Sachs, recorded on Wednesday,  
March 22nd, 2023. If you enjoyed this show, we hope you  
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