Meet Anamitra Banerji, Managing Partner at Afore Capital

28-35 minutes

Founded in 2016, Afore Capital makes pre-seed investments of between $500k and $1 million

Venture capital used to be a cottage industry, with very few investing in tomorrow's products and services. Oh, how times have changed!

While there are more startups than ever, there's also more money chasing them. In this series, we look at the new (or relatively new) VCs in the early stages: seed and Series A.

But just who are these funds and venture capitalists that run them? What kinds of investments do they like making, and how do they see themselves in the VC landscape?

We're highlighting key members of the community to find out.

Anamitra Banerji is Managing Partner at Afore Capital.

Banerji founded Afore Capital in 2016. Prior to that, he joined Foundation Capital in 2012 as an EIR. He came to Foundation with eight years of product management experience in advertising and social media at Twitter, Overture and Yahoo.

Prior to product roles, Banerji worked as a software engineer in the enterprise space for four years. He also co-founded an internet-healthcare company during the '98-'00 boom-bust.

He joined Twitter in March 2009 as its first product manager and employee number 30. He helped start the company's advertising platform and core revenue engine, leading the team that launched the first monetization products, including promoted tweets, promoted accounts and promoted trends.

He earned an MBA from Cornell University and a degree in Electronics Engineering from the National Institute of Technology, Jamshedpur, India.

VatorNews: What is your investment philosophy or methodology?

Anamitra Banerji: Let me give you some context about how we came about with Afore, and even the name itself. As my co-founder Gaurav Jain and I were working Afore in 2016, we were really looking for a name that symbolized and embodied the stage or the solution that we offer to founders at this very, very early stage. Another way to think about Afore is “aforementioned,” which means things that come before everything else. It’s also the front part of a sailing ship, one of the sails is called an afore sail. That’s the reason why we really like the name, it resonates.

We started Afore because we saw a market shift opening up in venture in 2014. Both Gaurav and I were in venture at the time in two separate funds, where we had been working for about three or four years or so. What we saw is that founders who are just getting off the ground, who are maybe weeks or months into a new project, where code is being written, maybe there’s an early version of the prototype, but definitely very little or no adoption, certainly no revenue, and far from product market fit, they went out to talk to traditional seed investors at time to raise that traditional seed round, and more often than not they would hear, “You’re too early.” And they would be confused. "We’re supposed to be too early, there’s supposed to be capital just for us." Turns out that that used to be the case in 2009 or 2010, but it was no longer the case five or six years later, and it’s certainly not the case almost 10 years later. Seed funds are writing much larger checks, fewer checks, later into the company’s life cycle, about two and a half years after they’ve started. Half the time they’re investing in companies post-revenue. So, we saw that gap from our vantage point at a Series A and a seed fund and asked ourselves, "Why don't we offer, to the founders, the following solution: nothing is too early, we will sit and take product risk alongside you, take market risk alongside you, take traction risk alongside you, and, instead of writing a very small check, we will write a big check, maybe as large as the round you’re raising, whether that’s $200,000 or $1 million. So, we’re going to be all in with you and we’re going to help you get all the way to Series A."

Part of the reason we wanted to do that, beyond the fact that we saw the market opening up from a venture perspective, our backgrounds are also technical. We were both engineers by training, and then we were product managers for the bulk of our operating years, 16 years in total. Gaurav was the first product manager on the Android/Nexus team, and I was the first product manager at Twitter; both of those things happened 10 years ago. A number of times we worked on concepts and ideas, we put teams around them, we got internal funding for them, we secured customers for them, we built products out, and then we launched and we began to help scale. So, we've seen the zero to 1 journey from a product perspective multiple times. Then we also saw that journey on the financing side, so we wanted to bring the combination of those two skill sets to bear, and that's why we're willing to take risk at a stage where maybe others are not willing to take risk. We said, "What's the best way to do this?" and for us it was to raise the largest possible fund at the time and we called it a "pre-seed stage," because the seed name was taken. Nobody really wanted to do anything with pre-seed because they thought it would just go away, so we said, "Why don't we just bear hug that and really provide that as a serious option for high quality founders?" That was three years ago and things have been going well since.

VN: What are your categories of interest?

AB: Our point of view is very specific: we're anti-prepared mind. Prepared mind, for your readers who don't know, is something that venture funds do, especially Series A and beyond, where they have a very, very strong point of view on an area, like Saas or the cloud or IoT. They meet hundreds and hundreds of companies and they pick one or two, and they're really good at that, mostly because they're investing at a later stage.

For us, because we're investing in companies so so early, very often it is the founders who have a prepared mind that is far superior to the VC's point of view. Founders are often describing a phenomenon that they have observed as a result of having worked at Uber or Twitter or Pinterest or Segment, that is far removed from the mainstream. It's that phenomena that we are trying to understand. These are potential categories of the future, so we just listen very carefully to the way they're describing the problem, the opportunity, the market, because they might be pointing us towards a market that may not exist today. So, it's very important for us not to have any fixed biases about spaces and how things should work but rather we listen to what they tell us and follow their leadership.

So, we tend to be category agnostic. We invest across categories, across business models and, hopefully, some of these things that we're investing in one day becomes something big, becomes a big category. That said, the majority of our companies are software; there are a couple of hardware companies, but almost always software. They're always product driven, and they're always very specific in the way they distribute their product. They also have a very strong line of sight, or clarity, on the short term; long term may not be clear, but the short term we can see how they'll get to first base and so on.

VN: You just raised a $77 million fund. How many investments do you typically make in a year? How much is that in dollar amount for you?

AB: The portfolio model is exactly the same for Fund II as it is for Fund I. So, with Fund I, our point of view was: founders who are raising pre-seed shouldn't raise $100,000 or $200,000 or $300,000 because, if you do that, then you are in a quandary, essentially. In three to six months, you've got to go back to the market and raise another $200,000, or maybe you'll get lucky and raise another $600,000 or $700,000, and keep doing that until you get to some kind of traction, and that takes a significant amount of time. So, what we believe is that for this stage our model is that founders should raise anywhere from $500,000 to $1 million right up front, find a high conviction investor, such as ourselves, who is willing to be the only investor, if required; 90 percent of our deals we lead and then we bring in quality value-add angels, sometimes funds also. We're very, very willing and look forward to leading, so the check size is, on average, about $750,000. That gives companies anywhere from 12 to 18 months to run a bunch of plays, to work around the zigzags of getting to early product market fit. At that point, companies have a lot of optionality; if they are really tracking towards traction, and they hit some prepared mind, some thesis that some Series A investor has, they can raise a Series A at that point, or they would raise a seed from a high quality group. Both of those two options are available, having raised $1 million or less early on. It's hard, generally, to raise $3 million off the bat, and it's hard to raise a few hundred thousand, and then raise another few hundred thousand, until you get to a Series A.

So, our average check size was $750,000 out of Fund I and then we reserve half the fund for follow-on. Because it was a $47 million fund we can't protect our positions beyond probably Series B in most of our companies, but with fund II, the average initial check size might remain the same, around $750,000 or maybe $1 million or $1.2 million, and then we can support our companies with pro rata in subsequent rounds, hopefully more Series B, even some Series Cs.

VN: Traditional early stage investors obviously don't typically put that much money into a company at that stage. What results have you seen from your model so far?

AB: I just want to touch on why most investors don't do it. Most investors think of this stage, this pre-traction stage, as a lottery ticket. "It will probably fail, I don't really want to do too much diligence because it will probably fail, and who knows what will happen? So, I don't want to expose too much capital because of my fear of loss. So, I want to invest the smallest amount possible and retain optionality to invest more later on if it should work out." We don't think that's conviction-driven, we don't think that's beneficial to founders. What we want to do is to be able to ask ourselves, "Why aren't we writing a larger check if we truly believe?" And then the question is, "Do we really believe? What do we need to believe? What do we need to get to conviction?" and we have our own process that gets us to that conviction.

The results coming out of what have been extremely good. We've invested in about 38 companies coming out of Fund I; they have gone on to raise about $360 million after us in follow-on funding from really high quality groups like Andreessen Horowitz, Accel, Spark, Index, Kleiner Perkins, so the who's who of Series A and B venture capitalists. The combined market cap of these companies is $1.5 billion and, today, the portfolio companies employ about 1,200 people. That's an important stat for us because if you go back to when we originally invest in companies at the pre-seed stage, it's usually just the founders and they don't even have an office yet. In two and a half years time or so, these companies have not only grown in stature, but they have become mainstays in many tech categories and verticals, and are employing large numbers of people. Hopefully it's just the beginning.

VN: What other signals do you look for when you invest? Team, product, macro market?

AB: Team is very important, but team alone is not enough. We can't invest in resumes, we can't invest in celebrities in the hope that because they're smart they'll figure it out. To us, that's speculation, that's not investing. There's nothing wrong with that, that's just not our path. We care a lot about the founder, we care about the fact that they're underdogs. What we look for in the team is their ability and authenticity around what they're trying to solve for; is this something they came up with having read something on TechCrunch or looking at another competitor, or is it something they truly believe in? There are ways to gauge that. On the margins, for sure, it's the team that matters, and any day a better team, with everything else being equal, is a good investment.

We obviously look at the market potential, the big vision, what this could be in the future. Those are table stakes, but they're also very unknowable, they've very theoretical. A person who can market well can sell those things really well, and that may be an attribute we look for in the team but, specifically, what we look for first is product. It doesn't need to be fully built out, and it can even be just a feature, but a level of clarity in founders thinking around what they are building and why with a lot of depth is what we look for. They're very thoughtful about the choices they've made, the trade out decisions they've made, other things they've considered, and how they've prioritized, and that demonstrates a level of thoughtfulness. What we look for is that entrepreneurial instinct around product, not necessarily looking for the data to come back to decide what features to build, but knowing the user and end customer well enough to decide what they truly care about, what their alternatives are. It's generally something you have been thinking about for quite a while and not just recently. So, essentially, think of it as we ask a lot of why questions until there are no more answers, which means we've to quite a bit of depth and which means the founder has thought through a lot of those things. Usually we look for engineering and product-oriented founders in the first place who can build on their own. So, the first thing is basically: what is unique and compelling about the product?

The second thing is what distribution will look like early on. Who will use it and why? How do you get at them? Basically, what is your market entry tactic? And we aren't looking for scale, by the way, we aren't looking for things that will work forever; we're looking for things that might work immediately. Who would buy this if it's an enterprise product? Why will they buy it? How will you get at them? Is it going to the CFO or is it going to be bottom up, so anyone can swipe their credit card and buy? And how well do they know who the user will be? That's what we look for. Are they thoughtful about what they're building? Are they thoughtful about how they will take it out to market?

The third thing we look for is, will it work? Can we predict what will happen in the next six months? Will this get to traction in the next six to 12 months or so? And traction can be that the product will launch on time, and if it launches on time five people or customers might use it and here's who they are. And if five customers use it, and a few of them could be references, then we believe there are hundreds and hundreds, maybe thousands and thousands, of customers behind them. So, the best way to think about this is we look for clarity on product and distribution, and we look for clarity in the short term. We don't care as much about the long term, which might be odd to say as a VC, and it's counter-intuitive, but what we care a lot about is can this get to traction in the short term? That's essentially the risk we are underwriting, the risk we are taking, so we have to have confidence this is going to work in the short term based on what the founders are describing.

VN: What do you think about valuations these days? What's a typical Seed pre-money valuation and Series A?

AB: Valuation is obviously very company dependent. Some companies have built out more when they raise a pre-seed, some companies have built out less, some companies have a lot of demand, some companies are more competitive, so valuation is a little bit arbitrary.

Across the portfolio, without divulging specifics, our valuations are materially lower than seed round valuations. If you think of seed round valuations being anywhere from $10 to $15 million, ours are significantly lower than that across our companies, keeping in mind that about 65 to 70 percent of those companies are Bay Area from really, really high quality founders. Partly it's us getting in front of companies faster and first, before others, and sitting alongside them, dreaming alongside them, and demonstrating that this is not a passive check, but that this is a very active investment and our reputations are tied to their reputations. So, we are essentially business partners with them, co-founders alongside them. We will work really hard and that is something that we've proven time and time again with the recruiting, customer acquisition, financing, follow-on financing help. Beyond just being able to write a large check, we're able to so much work that we are able to get into companies at attractive valuations.

VN: There are many venture funds out there today, how do you differentiate yourself to limited partners?

AB: In the beginning, in 2016, pre-seed was something controversial. Many LPs would call up their seed or Series A managers and say, "I've been hearing about this thing called pre-seed, what do you think? Is this a thing?" And the feedback would be, "Not really, we do pre-seed, everybody does pre-seed, it's a passing thing that will go away." So, there was a lot of skepticism from the LP community back then. The groups who invested in us, the institutional LPs, they took a chance on us, partially and potentially because of relationships we had coming out of prior funds, which always helps.

That situation has changed quite a bit in 2019, when most of our most of our existing LPs raised their hands wanting to re-up, then we invited a few new groups in. When we spoke to LPs last year, they were actively carving out pre-seed only investments. They're very knowledgeable about pre-seed. That has significantly changed and we benefited from being early, and we benefited from being bold, and, if you look at the total amount of capital raised by funds that do exclusively pre-seed investing, which is about $200 million, $124 of that has gone to us. That's an honor for us, and a lot of responsibility.

But the pitch hasn't changed, which is: it is very hard for founders just getting off the ground to find a conviction-driven, active investor who is willing to lead and write a big check, who is willing to do 90 percent of the round. That just doesn't happen with frequency. Everyone does it here and there, but no one has that as a business model. In fact, even at the seed stage, very few funds lead deals where they do 90 percent of a round; it's usually 30 or 40 percent and they syndicate those deals, which really works well for them, but if you contrast what with what's going on at the Series A stage, there is no syndication, the lead does most of the round and that's it. Very rarely there's syndication. That's what we are bringing to the pre-seed stage, essentially, which is to enable founders to go back to building product and building out the company without the distraction of fundraising within months.

VN: Venture is a two-way street, where investors also have to pitch themselves. How do you differentiate your fund to entrepreneurs?

AB: Obviously the market dynamics have changed significantly, and the description that was true in the 80s and 90s is no longer true, which is a great thing, and rightfully so. Founders should be in charge, they are taking all the risk, and they should benefit from the power being on their side. There should be checks and balances, but they are the ones who should be in the driver's seat, not the financiers.

We are founders also. Our fund is three years old, we started from scratch, neither of us had raised a fund before, we're both immigrants, we had to work hard to get here, and we know how it is hard to fund raise. Fundraising for a fund is more complicated and harder by a multiple over what it's like to raise for a company. When you're fundraising for a company, all you're looking for is one lead and you're pretty much done; fundraising for a fund is looking for multiple leads, all simultaneously, none of whom have an interest in investing early and everyone is looking for social proof. There's no easy way to navigate who is an actual investor and who is not. So, having been through that process ourselves, we empathize with founders greatly, we understand what it's like to be on their side of the table. The very first step is to treat them with amounts great respect and honor, and we're fortunate that they'd even consider us, that we're able to have a conversation.

The way we explain what we do to them is very similar to the way I've described it to you: name us another group today who will do 90 percent of your round and will give you an answer within a week. And who, after that, is going to help you recruit your first engineers, maybe your head of sales, going to help you recruit a few customers, and who will help you fund raise for the next round. That's not a marketing message, we actually strongly recommend companies, startups and founders to reference us aggressively. We're actually quite product of that, and that's the best way for founders to figure out what's marketing fluff versus what's real is to reference check investors. We feel very good about where we will stand coming out of that.

VN: What are some of the investments you've made that you're super excited about? Why did you want to invest in those companies?

AB: There are 38 companies and the list will grow with Fund II. Some companies are early, some companies are further along, there are no favorites, but I can talk about a few that have been the longest running.

One of them is a company called Overtime, which we invested in three years ago. It's based out of New York, started a senior product leader at Zynga who founded OMGPop, or Draw Something before, which Zynga bought. Dan and his co-founder Zach, who's a chess prodigy, their essential insight was that a lot of high school basketball players who end up going to college or the NBA, their games are not covered at all outside of their local communities, but their friends are always taking Snapchat videos of the best dunks and plays. They asked, "Could we build an experience, an app, which would allow their friends to create highlight reels and then put in video game-like effects? Then we'll allow them to take those clips and then share them broadly across YouTube, Snapchat, etc." That was the original idea.

The reason it was so exciting and interesting is because sports, broadly, is a connective tissue to mainstream lifestyle content. So, the path for something like this being a very big company was clear. The second thing is that, unlike the NBA or college sports, where there are content rights that ESPN and other companies have spent billions to acquire, there are no rights associated with high school sports, so the content acquisition, is very, very low. That was pretty attractive for the economics of the business. So, the vision was to, in the short term, focus on basketball, focus on one or two geographies and blow it up, then, over time, go into multiple sports, go overseas, go across the U.S. and become a distributed media network, essentially, to build up a community and brand. When we invested they barely had a prototype app, but in 2017 they finished the year with about 1 billion views, and Andreessen Horowitz invested a $9 million Series A. A year later, in 2018, they ended the year with about 8 billion views, and Spark led a $25 million Series B, and the company has gone from strength to strength since then.

There's a company called Petal, which was co-founded by three friends, one of them used to work at Amazon. They're Millennials and their main gripe was when they wanted to get a credit card, they couldn't, even though they had cash flow, because their FICO was not high. Credit card companies defaulted to FICO to determine who is risky or not, and they found it odd that while they had jobs, while they had cash flow, banks could easily see that they're good for their money, they're good for credit, they could not get it. So, they built a credit risk model, which would look at cash flow data. It really became possible to do this because they collect transaction information, bank account information, for consumers. So, Petal's vision was, "We will build a credit card that would not require a FICO score to evaluate how much credit to give." These are folks who are essentially invisible, 65 million people or so, including many Millennials and many immigrants. That was in 2016, and since that time the company launched a credit card last year, the adoption has exceeded expectations, they've beaten almost every quarter. It's a very high quality card that comes with a companion app, and default rates are low. It's a high quality alternative for folks who are beginning to build up credit, and the pace at which they're executing, with customers they're bringing on, and the potential for them is massive. They've raised about $35 million in equity over a Series A and B, and most recently they announced a $300 debt line from Jefferies that allows them to become even more aggressive.

Another company is called Modern Health, which solves the problem for businesses that are trying to offer mental wellness services to their employees. So, whether an employee needs to talk to a therapist or whether they need to do some cognitive-based testing or whether they need to do some self guided meditation, today most businesses have to look for individual vendors to fill those needs. As the stress of life and work builds up it impacts productivity, impacts the retention of employees, so Modern offers all three of those products as a platform as a benefit to employers. This insight came out the founders, both of whom are female; Allison, who's the CEO, was at Collective Health, which is a company that sells insurance, and she found a demand among many businesses who wanted to offer mental wellness products. They're one of the very first companies trying to do this, and they've done exceedingly well since we invested. Earlier this year, Kleiner Perkins leds a $9 million Series A and the company has been crushing it on customer acquisition and sales.

Finally, a company called BetterUp that was one of our very first investments. They provide executive coaching over video. Normally, executive coaching is a very highly valued benefit that is only offered to the C-level staff, like the CFO or the CTO, etc because the price of coaching sessions runs into multiple hundreds of dollars an hour. But if you could take the coach who is sitting in her living room in Virginia, connect her to an up and coming manager at Facebook and allow them to have a 30 minute session over a Facetime-like interface, she's now able to provide high quality coaching to many, many more people outside of the executive. It's something that was not scalable before but now it is scalable, and that's what this company does. So, beyond executive coaching, they're offer a whole bunch of coaching-related experiences. Essentially, what they're trying to do is solve the problem of self actualization of employees; what that basically means is that each employee has potential, however they aren't able to reach that potential, for a number of reasons. Coaching helps bridge that gap, as do many other services, and that's the opportunity for this company. This is an example of a company that you couldn't really categorize; it wasn't a learning and development company, it wasn't a mentorship network, it's a new category, so it's hard to come up with a name for that. They built it from the ground up and earlier this year they raised a $100 million Series C from Lightspeed.

VN: What are some lessons you learned?

AB: I'm still in learning mode, especially when it comes to founders, so very rarely am I in advice mode. But, essentially, I've learned from making a lot of mistakes, both as a product manager, and the way I worked with teams and the way I worked with people above and below me, and also as an investor, having made investments that didn't go well.

The most important lesson is to always seek the truth, and that means being transparent, being upfront, being direct and sometimes being aggressive, while knowing that everyone's best intentions are to help one another. Second, seizing the opportunity, meaning the moment we find out that something might be working, then we put the pedal to the metal as fast as possible because those opportunities fade away quickly. So, momentum, speed and a propensity for action is what I've learned. Those are the two things: one is a passionate search for truth in whatever the founders are saying, or whatever the market is saying, or whatever we're saying. Then, second, when we find the truth and find growth potential aggressively going forward.

VN: What excites you the most about your position as VC?

AB: Part of it might be cheesy, but I'm just in jaw gaping awe at founders and the risk they take. A good day is when a founder is able to articulate their vision and conviction behind something they're starting; I find that like an adrenaline rush, it's a thrill to just be in the same room as a founder like that, whether or not we invest. That's the joy and the privilege of the profession I'm in. And being able to do that multiple times in the day or the week is just extremely satisfying and hopefully we're making some right decisions along the way.

For me, switching contexts like that works really well for my personality. I like speed, I like competitiveness, and I like winning, to some degree. There's a curious nature in me, so I like to search, to figure out why things are happening the way they are, and being able to dive deep into one area and then an hour or two later dive deep into another area feels intellectually very stimulating. Being able to do that where someone pays me is out of this world.

VN: Is there anything else that you think I should know about you or the firm or your thoughts about the venture industry in general?

AB: We think pre-seed is now an entrenched part of the venture ecosystem. We have an opportunity at Afore to build a firm that defines this category.