The Rise of the Solo Capitalists

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9-11 minutes

Welcome to issue #9 of *next big thing*.

A huge thank you for the kind messages many of you sent me last week.

Unsurprisingly, I'm spending some of my fallow time thinking about the future of the venture capital industry.

I plan to write about this topic for the next few weeks.

First up is the fascinating rise of *solo capitalists*.

Large, Competitive Financings Led by Individuals

When Notion raised a $10 million round of financing in mid-2019 valuing it at $800 million, what I found most interesting was that there wasn't a venture capital firm leading the round.

Instead, the round was led by Daniel Gross, Elad Gil, and Lachy Groom, with participation from existing investors (Felicis Ventures, First Round Capital, Sherpalo Ventures).

In early 2020, Front CEO Mathilde Collin wrote a blog post announcing the company's $59 million Series C in which she highlighted that the round was "led by a group of individual investors, as opposed to a traditional venture fund, which is an uncommon feat for a round of this size."

Fast forward to last week, when a company called NexHealth announced a $15 million Series A round "led by Mino Games founder-turned-angel investor Josh Buckley."

What's going on here?

Angel investors have been very important members of the fundraising ecosystem for a long time.

But over the last couple of years, there's been an increase in individuals investing not just at the earliest stages of companies, but at the Series A and beyond.

These individuals aren't just investing their own capital. They're raising dedicated funds and special purpose vehicles (SPVs) from traditional limited partners (LPs).

And they aren't just participating in financings alongside venture firms. These individuals are often competing against venture firms for the right to lead rounds, and signing term sheets before the companies get to pitch the traditional venture partnerships. Most importantly, founders are choosing to work with them, in some cases in lieu of partnering with firms.

I (and others, privately) call these individuals *solo capitalists* because I view them as a distinct group, separate from angel investors and from venture capital firms, in today's financing ecosystem.

From Angel Investors to Super Angels to Solo Capitalists

A decade ago, the term *super angel* was coined to describe investors "who had once been angel investors and subsequently raised small venture capital funds." In this guide by Business Insider, you can see some of the names of these investors.

Super angels like Aydin Senkut, Jeff Clavier, Josh Kushner, Mike Maples, and Roger Ehrenberg grew teams around them to form what are world-class firms a decade later - Felicis Ventures, Uncork Capital, Thrive Capital, FLOODGATE, and IA Ventures, respectively. Others like Manu Kumar, Michael Dearing, and Steve Anderson (who is somehow not named in the BI piece) have remained solo.

The Wikipedia definition also points out that super angels focus on financing rounds that are "smaller than most venture rounds." But many of the super angels started to move away from this definition over the past decade.

When Twitter went public in 2013, the largest outside shareholder pre-IPO was a relatively unknown entity named Rizvi Traverse, with 17.9% ownership.

It later emerged that the super angel Chris Sacca, who had been an early investor in Twitter, had worked with a friend named Suhail Rizvi and "secretly secured commitments for up to $1 billion" to buy shares from former employees and investors.

As Steve Anderson points out in this piece by Alex Konrad, Sacca "was an innovator with that secondary, structuring a number of vehicles that didn't really exist like that before."

Sacca was branching out from being a super angel to becoming a solo capitalist, investing $1 billion in Twitter before the IPO by leveraging his access to shares in the company. Those investments returned over $5 billion. That's the scale of investments and success that the *solo capitalists* are shooting for.

The *Solo Capitalists*

What are some of the characteristics that define solo capitalists?

- They are the sole general partner (GP) of their funds
- The solo capitalist is the only member of the investment team
- The brand of the fund = the brand of the individual
- They are typically raising larger funds and writing larger checks than super angels - i.e. $50M+ funds, and able to invest $5M+ in rounds.
- They are competing to lead Seed, Series A, and later stage rounds, against traditional venture capital firms

Some of the individuals who I believe fit this definition include Elad Gil, Josh Buckley, Lachy Groom, Oren Zeev (Zeev Ventures), Ray Tonsing (Caffeinated Capital), and Shana Fisher (Third Kind Venture Capital).

Zeev highlights some of the advantages of being a solo capitalist in a recent Twenty Minute VC podcast with Harry Stebbings. They include the ability to make very quick investment decisions (given you are the sole decision maker and don't have to persuade any partners), to focus your time more effectively on new investments and on helping portfolio companies (because you're not spending time on managing internal dynamics at the firm), flexibility in ownership and in taking board seats, and more.

What does all this mean for the fundraising ecosystem?

Back to the NexHealth example above, it means that a $15M Series A can be led by Josh Buckley, a solo capitalist, instead of by a traditional venture capital firm.

Semil Shah of Haystack is one of the few who's publicly discussed this trend. Check out the tweet below and its replies.

There are many solo GPs who have raised capital from LPs, like Semil, who fit some of the attributes of solo capitalists, but not all.

Most have smaller fund sizes than ones that enable them to lead Series A rounds, so they instead focus on pre-seed and seed investing. These investors look much more like the super angels of the past decade.

Others have already gone down the path of building a team around them such that they are not operating solo in the future.

This point highlights one of the key questions solo capitalists face: "how does the model scale?"

As it is, venture capital is a very difficult business to scale. When you're operating on your own, it's even harder.

It will be fascinating to watch how many funds and how many portfolio companies the solo capitalists can manage before they run into bottlenecks.

But perhaps the fact that the model doesn't scale will actually be the source of its success, for in an industry where fund sizes have been increasing, a major attraction to LPs of investing in solo capitalists may just be that their fund sizes have clear upper bounds.

The Biggest Threat to Venture Capital Firms?

I was on a phone call with a very sharp LP several months ago who brought up the solo capitalists and posited that their rise may be the biggest threat traditional venture capital firms have seen in a long time.

Why?

The importance of an individual's brand has been steadily increasing in venture capital for quite some time. Founders are more often than not picking an individual partner who they want to work in a financing round, based on the relationship built with them, and based on their brand and expertise, instead of the firm's.

So it's a logical next step that the firm is the individual, and the brand is the individual, which is the case with the solo capitalists.

Solo capitalists can make much faster decisions than most traditional venture partnerships. Founders only have to interface with one person, which can have its benefits.

Solo capitalists can be more flexible on ownership, on structures like board seats, and more creative in terms as a result of being sole decision-makers.

And because it's unlikely that their fund sizes can balloon dramatically in size, the solo capitalists may generate higher multiple returns on their funds.

We are in the early days of this evolution, and there’s much more to unpack here.

Why is this trend happening now? Has the proliferation of scout programs by venture firms contributed to the rise of solo capitalists? Are LPs just more amenable to backing individuals given the past decade’s rise of the super angels? Are founders more excited to work with individuals because many firms just look the same? Do founders care less about the “services” that firms offer?

For the angel investors and super angels who are becoming solo capitalists, how will the skillset of investing at the very early stage translate into decision-making at the later stage?

Will the solo capitalists operate like traditional firms when it comes to managing reserves, and investing their pro rata in follow-on rounds? What happens in tough times? Will they provide extensions to rounds and bridge companies to exits?

And how will all of this affect the relationship between individual investors and venture capital firms, which has historically been very collaborative?

Of course several of those who attempt to become solo capitalists will fail, and will be unable to back the most transformative companies, and generate top tier returns.

But some may succeed, and the ones who do could become the *next big thing* in the venture capital industry.

Thank you to Lachy Groom, Semil Shah, and an anonymous LP for your fantastic feedback.

I started *next big thing* to share unfiltered thoughts. I'd love your feedback, questions, and comments!

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