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Indie.vc: Unicorns Are Out, Profits Are In

Why a new approach to venture capital is powering more sustainable startups — and funding more diverse founders



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Thompson Aderinkomi was understandably wary about raising venture capital again. Just four months after closing a \$7 million funding round for his first startup RetraceHealth in 2016, Aderinkomi was pushed out of the startup by the new board. This was after he had spent three years and taken on \$1 million of his own personal debt to build the company. “It was the worst time in my life,” he recalls. “I felt like I had failed my employees, my family, and my early investors.”

When Aderinkomi started another company in 2017, he took an entirely different approach to venture capital, with something called Indie.vc. Unlike traditional VC models, founders who take funding from O’Reilly AlphaTech Ventures’ Indie.vc aren’t pressured to make a land grab for market share or grow at all costs. Instead, Indie.vc startups receive a modest funding amount — ranging from about \$100,000 to \$1 million — along with a simple term sheet, and the expectations they’ll grow responsibly and turn a profit. There are no VCs added to the boards and no controlling stakes given away. And founders can even buy back the stakes (ranging between 10% and 15%) by hitting certain revenue targets. “It’s like a magical term sheet,” says Aderinkomi.

Of the 10,000 companies that receive VC

funding every year, only .06% ever become billion-dollar companies.

And it's a model that suddenly seems ideally suited for the current economic environment. Last year capped off a record decade for venture investments: The number of VC deals more than doubled during that time, and the value of those deals grew to \$140 billion, five times the value of 2009. Billion-dollar-valued unicorns became the norm, with around 500 companies attaining that status since 2014.

Then came the pandemic that brought the economy to its knees — and many unicorns with them. Following the longest span of economic growth in history and one of the steepest collapses since the Great Depression, VCs are now telling their portfolio companies the same thing: just survive. Profitability over growth at all costs is the new mantra. “2019 was kind of a peak hubris,” says Tyler Norwood, a partner with Antler, a New York City venture capital firm. “We’ve been long overdue for a refocus.”

Indie.vc is decidedly anti-unicorn — it even has a flaming unicorn head on its homepage. It started as an experiment cooked up by Bryce Roberts, who cofounded O'Reilly AlphaTech Ventures (known as OATV) along with Mark Jacobsen and legendary Silicon Valley entrepreneur Tim O'Reilly in 2005. After two decades of working as a VC in Silicon Valley, making bets on such startups as Foursquare, Bitly, and Codecademy, Roberts says he

was fed up with the myopic mindset of the venture capital world. “Everything became about the billion-dollar business,” says Roberts, who relocated from Silicon Valley to Salt Lake City in 2012 with his wife and five kids. “That changes your filters when you look at a business.”

Some VCs derided Indie.vc as an investment firm for “b team” companies that can’t scale big enough or fast enough to get real VC money or somehow have a “lower bar” for investments.

Of the 10,000 companies that receive VC funding every year, only .06% ever become billion-dollar companies. Too many founders tried to shoehorn themselves into looking like a billion-dollar company to get funding, and too many promising companies either didn’t start or don’t get funded because they didn’t fit that criteria — not to mention the thousands of businesses started by women and minorities who have been largely ignored by a VC industry dominated by white men. Roberts, who is white, believed there was room for another funding model that backed “real businesses.”

How Mormons Built the Next Silicon Valley While No One Was Looking

Welcome to the world of billion-dollar startups, ex-missionary CEOs, and a big diversity problem

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Most companies, he surmised, didn't necessarily need huge outlays of capital to get going because startup costs are exponentially lower than they were even a decade ago. The whole premise behind venture capital, Roberts argues, started because breakthrough technologies needed a big influx of risk capital to even get going. But that morphed into bloated investments like \$650 million for dog walking services (Wag) and \$47 billion for real estate firms (WeWork).

Roberts thought creating a new kind of funding model could close the gap. He also thought it could help fund more female founders and entrepreneurs of color outside of Silicon Valley. Even though about 13% of the U.S. population is Black, Black founders receive just 1% of venture capital dollars. Worse, Black female founders get just 0.2% of all VC funding. "The venture capital is systemically broken for founders of color," says Roberts.

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The Indie.vc model wasn't well received by investors — at least initially. When Roberts announced in 2015 that

OATV's second fund would embrace this Indie.vc model, the firm lost 80% of its limited investment partners and barely hit the finish line in raising the \$25 million fund. Some VCs derided Indie.vc as an investment firm for “b team” companies that can't scale big enough or fast enough to get real VC money or somehow have a “lower bar” for investments.

Indie.vc's mortality rate is 10%. By comparison, about 44% of VC-backed companies die.

But the model is now proving prescient. Over five years, Indie.vc has backed 34 companies — half of which are women-led companies and 20% are Black. And while there haven't been any big exits yet, the companies that receive Indie.vc funding seem to be much more robust than their peers, especially in a challenging economic climate. On average, they're growing 100% in the first year, and 300% the second year, says Roberts. Plus, the fund's mortality rate is 10% — compared to about 44% with traditional VC-backed companies.

Aderinkomi discovered Indie.vc in 2016, not long after he was pushed out of his first startup. When his non-compete expired, he set out to launch Minneapolis-based Nice Healthcare, which would build primary care clinics offering telemedicine and home

visits. But first, he needed capital.

Aderinkomi, who is Black, heard about Indie.vc and applied for funding, but was initially rejected. Later, he started following Roberts' flurry of tweets about venture capital, startups, and diversity. He started up a conversation with Roberts on Twitter, asking him to reconsider his application, paying close attention to the company's projected profit margins. There was no pitch deck, no travel, no face-to-face meeting — just a phone call that ended in a term sheet. "It was easy," says Aderinkomi.

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Indie.vc uses an investment instrument similar to a convertible note. If the founder takes another round of funding or sells the company, Indie.vc's ownership is converted into preferred equity shares. The company can choose to buy back up to 90% of Indie.vc's investment. The only catch: It's not exactly cheap — they have to pay back three times what Indie.vc put in.

Indie.vc wound up putting \$1.1 million into Nice Healthcare — and is the firm's only investor. Since then, Nice has experienced 300% annual revenue growth and earns 50% margins on \$5 million annual revenue. Aderinkomi knows of just two other Black founders who have raised more than \$2 million in his home city of Minneapolis, which has been rocked by the horrific death of George Floyd under police custody. "The bar is set so much higher for Black founders," he says.

Major VC firms have condemned racism following George Floyd's death, donated to civil rights causes, and pledged to "do better." Some VC firms, including SoftBank, launched new funds to invest in founders of color. Aderinkomi says he likes the fact that Indie.vc makes diverse investments without being a self-professed diversity fund. "You don't need to be a specialized fund to do the right thing," he says. "Just do the right thing."

Silicon Valley's Demo Day Is Racist and Sexist

Aspiring founders spend months preparing for a moment that is inherently biased against anyone who isn't white or male

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For entrepreneur Angelica Nwandu, Indie.vc's biggest selling point may have been the connections and mentorship that OATV offered. When Nwandu met Roberts, her media startup, the Shade Room, was a "side hustle" with 500,000 subscribers and no profits. It's dedicated to Black entertainment and fashion — a market few VCs claim to understand. She didn't even consider trying to pitch traditional VCs until she met Roberts.

Five years after Indie.vc's investment, Nwandu says she's grown her business to "eight-figure revenue and seven-figure profits." Shade Room's 18 million subscribers check their feeds an average of 30 times a day, and the company has been dubbed the "Black Entertainment Television for Instagram." She talks to Roberts regularly, and turns to him for advice.

To widen its net for promising entrepreneurs, Indie.vc started a “scout program” last fall, and has enlisted 200 successful founders, CEOs, and C-level executives at technology companies who refer applicants.

“I was from the hood, and here was this white man investor from Silicon Valley introducing me to people and teaching me how to grow a healthy and profitable business,” says Nwandu, who grew up in foster care in Inglewood, California. OATV’s commitment to investing in Black women is key, she says, but more people like herself need to be counseled on how to grow a profitable business.

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To widen its net for promising entrepreneurs, Indie.vc started a “scout program” last fall, and has enlisted 200 executives at companies such as Tripadvisor, Twitter, Slack, Women Who Code, Kickstarter, and Techstars who refer entrepreneurial applicants to the Indie.vc program. If OATV invests in a referred startup, then the “scout” receives a \$10,000 referral fee, which can also be invested in the startup. (The company recently created another scout program with the Rockefeller Foundation and the Kauffman Foundation, which

support diverse entrepreneurs.)

Indie.vc isn't the first to start a scout program, but most others are secretive and closed. "Our goal was to make ours as open as possible," Roberts said, and create new co-investors and advocates for the model.

Others have already started following Indie.vc's approach, now part of an emerging movement to address the 81% of entrepreneurs who aren't served by existing capital markets.

"It's really a beautiful way to allow you to become an investor and participate," says Aniyia Williams, the executive director of Black & Brown Founders, a nonprofit that supports minority founders in the Bay Area. Last year, she made seven referrals — and Indie.vc backed one of those startups, ReadySet!, an inclusivity consulting firm. "Bryce has always been thinking about things through the lens of equity," says Williams. "He's trying to build an entirely different class of investors."

Indie.vc's scout program has quickly become one of the industry's largest. Roberts says as many as three-quarters of OATV's funded

companies have come through those kinds of referrals — and there are now 3,000 people on a waiting list to be scouts. He's also seen interest by limited partner investors grow too. "We've made a lot of noise," says Roberts. "We're going to be right about this. This will be a thing and be a meaningful category."

Others have already started following Indie.vc's approach, now part of an emerging movement to address the 81% of entrepreneurs who aren't served by existing capital markets. The Greater Colorado Venture Fund, which uses state money to invest in startups in rural areas of Colorado, has borrowed Indie.vc's model for giving entrepreneurs the opportunity to pay back the equity stakes. Roberts regularly blogs about his experiences, hoping to create a playbook for other firms to follow.

"I've always thought the model made sense," says Seth Levin, manager of the Greater Colorado Venture Fund, as well as a partner in the Foundry Group, the Boulder VC firm behind Techstars. "I'm a huge fan of Bryce."

Aderinkomi is too. While it helps that his latest company Nice Healthcare runs clinics that specialize in virtual visits — ideal amid lockdown in a pandemic — Indie.vc ensured his company is in a strong financial position heading into a recession. He's not burning cash or desperate for new investors. Instead, he's focused on building the business. The other added benefit: He doesn't have to worry about getting kicked out of his own company.

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