

Growing globally meaningful enterprises, a profile of DN CAPITAL

In the ever-growing investment landscape, funds are multiplying and diversifying, and for startups there is more to raising investment than the money and the media moment. With #QVCS Maddy Ness profiles different funds to give founders and entrepreneurs the information they need to choose the right investor. Today we interview Steve Schlenker, founder and partner at DN Capital.

Nenad and I met in 1993 at business school and by 1994 we were running the HBS venture capital club. In 1995 we were two of about 35 or so students, out of 900, who went to London, Nenad with a firm called Advent International and myself with a family office called SUN Capital Partners. By end of 1999, Nenad had made partner at Advent, but found Advent was moving away from venture capital to mid-market buyouts and eventually growth equity buyouts, whereas he wanted to focus on venture. At SUN, the family office had made a number of successful venture capital investments including one of the first major acquisitions by Amazon, but by 1999 the family wanted to double down on its emerging market activities including real estate funds and industrial investments, whereas I wanted to focus on technology investing in developed markets.

Nenad found an anchor investor in Bill Comfort of Citicorp Venture Capital, who was willing to back a new fund for European venture provided Nenad could put a team together. I was catching up over coffee one day with Nenad around this time saying I was thinking of leaving the family office to start venture investing on my own, and he recommended I join forces with him. We quit our jobs in the late spring of 2000 as the public markets were tanking around us, lived the life of entrepreneurs watching our bank accounts go down week after week while we funded lawyers, trips to meet with our anchor investor, office space, etc. until we were able to secure a firm commitment from our anchor in fall 2000 and launch our fund in 2001.

That first fund was €47.5M; today we have raised $\frac{3}{4}$ of a billion euro of capital, have 8 companies that have been valued at over \$1B apiece and manage about \$900M of NAV. We went from Nenad, myself, an EA, an analyst and a junior partner to now 23 team members with offices in 3 countries.

Which industries are you working in?

We focus on four technology verticals: software (principally delivered as software-as-a-service), financial technologies, marketplaces, and consumer internet. You will note all of those are technology verticals focused on either software or applied software. Occasionally we will look for these verticals inside specific industrial sectors. For example, we continue to invest in the real estate sector, looking for either software, fintech or marketplace businesses that drive new applications or higher profits inside or real estate. More recently, we have been looking at similar tech vertical plays inside of the healthcare industry. Other industries where our verticals apply have been Retail, Music, Transportation, and Travel.

What do you look for in a founder?

We look for leadership skills, the ability to attract great talent, understanding of a business from personal experience, passion, raw intelligence and grit. A great founder should know the fundamental unit economics of their business and of their competitors' businesses and why their business's economics will improve with scale. That same founder should be able to articulate their business proposition in a way that a non-technical person, or person from outside their sector, can easily understand, but still be comfortable enough with their sector to be able to talk deep details if needed. The founder should have global ambitions, yet be willing to listen and learn from those with different experiences. Finally, a great founder will often be a contrarian in that they know something about their business that, to the outside world, might seem particularly risky or crazy, but with inside knowledge is actually quite clever.

Because there is so much money available for start-ups or from large incumbent competitors, there is always a risk of replication of anything new, so a great entrepreneur is capable of finding ways to make their business seem unviable to others until the entrepreneur has built sufficient scale and scope that they are unassailable.

Can you talk about your current portfolio?

Our portfolio is spread between pure software, fintech, marketplaces and consumer internet, the same sectors we have focused on for the last 20 years. On the software side one of the companies we are particularly excited about is Leapwork, out of Copenhagen. The Company is closing a substantial B round this month from a top tier firm and has become the leading “RPA” (robotic process automation) company for test automation. RPA is one of the major software themes of the last decade, with companies like UiPath, Automation Anywhere and Blue Prism already valued in the billions, and in the case of UiPath tens of billions, of euro, and we believe Leapwork is on a similar trajectory. On the fintech side, we are very focused on financial inclusion especially coming out of the pandemic, so are excited about our company Brigit, where we did the Series A round with Lightspeed Ventures. Brigit helps people avoid paying overdrafts while building up their credit scores. In the last 24 months, Brigit has saved its customers roughly a quarter billion dollars of bank overdraft fees. On the marketplace side, we recently closed a substantial (<€200M) round for our company Job&Talent, which helps companies in the warehousing, logistics and food delivery sectors rapidly onboard hundreds of workers, including undertaking background verification, setting up monthly salary payments, etc. It is the largest tech company in Europe in this space, and we will be helping them with their global expansion.

Finally, on the consumer internet space, we are thrilled to be investors in GoStudent, the fastest growing company DN Capital has ever invested in, the European leader in on-line tutoring for under-18 year olds. GoStudent increased its contracted revenue over 10x in 15 months and went from a €20M valuation to a €1.4B valuation in that time. There are many other great companies in our portfolio, but this is a representative sampling.

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How has COVID-19 changed the way you operate?

Of course we have had to adjust to more activities over videoconferencing, just like our portfolio companies. Our annual Limited Partner meetings are now over Zoom, and to be honest our attendance at these meetings has more than tripled. In some cases we have invested without meeting a management team in person prior to our investment, which we never would have considered pre-Covid. For example, we only just physically met the CEO of our company GoStudent 1 year after our initial investment and after the company had increased in value 50x. That said, there is something to be said for meeting people in person, building rapport and camaraderie, which can never be fully replaced by digital, so we are excited to be gradually returning to in person and in office activities.

What does the future look like?

Post Covid we have seen an acceleration of what is widely referred to as “digital transformation” – the move from off-line activities to on-line, whether education, entertainment, shopping, communication or healthcare. This has always been part of DN Capital’s DNA – the original name of our firm, the source of the “DN” in “DN Capital” was “Digital Networks” indicating the move from analog communications and networking to digital. A few other trends we are seeing: the movement to on-line transactions necessitates better identification and authorisation of who you are interacting with, so a rapid adoption of technologies to provide this; the demand for rapid delivery of goods and services, previously planned out days in advance to now minutes in advance; and the movement in software towards low-code and no-code so that anyone with any background can use technology to solve immediate business needs.

What makes DN Capital different?

We are one of the few European venture capital firms with a proven track record of helping entrepreneurs expand their business out of their home markets, both across Europe and across the Pond. This experience enables us to help companies avoid the pitfalls of too rapid expansion while not minimising their opportunity to build globally meaningful enterprises.

What one piece of advice would you give founders?

Surround yourself with the best and brightest, as well as people who have “seen the movie play out before” – this applies to both your team members, your investors and your board members. The key to scaling amazing companies is to attract, manage, motivate and lead A-players. Ensure, whether you are selecting team members or venture capital, that everyone you bring into your company is an A player and can attract other A players.

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