

Amsterdam's potential and invisible SaaS: Q&A with Notion Capital's Stephanie Opdam

Stephanie Opdam, Principal at Notion Capital, discusses why she sees Amsterdam as a city with a lot of potential, the impact of higher interest rates on the VC market, and the importance of targeting sleepy incumbents with software solutions.

We understand you're a specialist in the Benelux countries, and are particularly excited about Amsterdam as a city: could you talk us through why you think so?

I have always seen Amsterdam as a city with a lot of potential: it has always been extremely multicultural (we all know the research on diverse teams) and has excellent links to the rest of Europe. More recently, we see a massive tailwind in the form of serial entrepreneurialism. In our portfolio, Micha van Leuffen previously built Wercker (sold to Oracle) and now Notion is investing again in his new venture called Fiberplane. In a similar vein, the Co-Founders of Adyen just launched Tebi and June.global. The ripple effect is not limited to Founders. Everyone who has worked in a fast-growth startup for several years can take these learnings across and influence a new generation. As Amsterdam keeps producing an unfairly high number of unicorns per capita (Mambu, Mollie, Adyen, to name a few), these effects will only accelerate.

Many individuals are less optimistic than you about the ‘VC Winter’. Why do you think higher interest rates will bring discipline to the market?

Higher interest rates means that Limited Partners will more closely compare the returns offered in VC to that of other asset classes. It will hold us, as VCs, more accountable to show both the returns we have realised (DPI) and the holding value of companies (TVPI) in an environment with additional scrutiny on this subject. Eventually this will limit capital influx into some funds that haven’t been performing, and thus capital influx into companies that are expected to do less well. The bar goes up and I believe that brings back the skill in the game.

Equally, the limitation of capital will better self-select Founders. Only those entrepreneurs deeply convinced of their bright idea, will start a company in this environment. Is it worth the risk of quitting a well-paid corporate job?

18 months ago you told us the future was “More ‘invisible SaaS’ (automation running in the background), a greater emphasis on data handling and new revenue streams” Do you still think this is the case?

Absolutely. In fact, we are currently working on new investments that focus on ‘*invisible SaaS*’ including a pricing engine, an AI engine focused on humming in the background to detect fraud, and an investment that I sponsored in the DataOps space.

Notion recently published the *Cloud Challengers Report for 2023*, where we aim to identify Europe’s top 100 early stage B2B SaaS/Cloud companies. Of these, 34% rely on automation and big data. This suggests that this is the year that tech innovation focuses on efficiency fed by large lakes of data and heralds the consumerisation of AI in the months to come. The arrival of GTP-4 further accelerates the use cases.

Your investment thesis centres on targeting sleepy incumbents with software solutions that have been around for decades. Could you go into some more detail, and give some illustrative examples?

The attractiveness of sleepy incumbents comes from a classic risk-reward perspective. As VC’s we are looking to invest in start-ups with a large total addressable market. It is difficult to predict market size when we are assessing a completely novel product. If we can find a large, sleepy incumbent in a market with low barriers to entry, then a better product will take over the existing market (and more). Take SHL, which provides candidate assessments. The company was acquired (again) in 2012 for \$660M at around \$200M in revenue. When I was considering investing in TestGorilla, I saw that the product

was a lot easier to consume for both recruiters and candidates. We not only see large companies such as H&M, Sony, EY and Revolut using TestGorilla, instead of SHL, but the product is also consumed by many SME businesses, including at our fund.

Another example is Mews Systems, which provides the backbone software on which hotels are run. Traditionally, hotels often operate on Oracle Opera (their revenue numbers are private but certainly substantial). Mews Systems in our portfolio started building a cloud-based, API-enabled, and flexible system early on and have since been rapidly gaining market share.

Do you have any comment on how the SVB situation and the unravelling of the wider banking sector affects your work?

The SVB situation came (and luckily went) as a shock. In hindsight this was a large, systemic risk for our fund. Not only for the first order effects of seeing some of our portfolio companies with a frozen bank account, but especially for the potentially large second order effects. This includes whether your customers have their bank account frozen (at any bank – Credit Suisse/SVB/other) which causes late or no payments into our portfolio companies. After all, we invest in B2B software and everyone is buying from and selling to each other.

At Notion, we give more active guidance on diversification of funds. I do believe that new regulations are needed too. In the case of SVB, companies were required to move all their banking to SVB to be able to take out a venture loan. You can see how the industry was pushed to put all eggs in one basket.

Stephanie Opdam is Principal at *Notion Capital*.