Kapor
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Kapor Capital **Impact Report**

MAY 8, 2019

EXECUTIVE SUMMARY

Since 2011, Kapor Capital has invested exclusively in "impact" startups. While the term has become trendy lately in the venture capital world, and often misused, we've always had a very specific definition for what we consider impact to be.

Quite simply, we are committed to closing the gaps of access, opportunity, and outcomes for low-income communities and communities of color in the US. It is our view that all companies have some sort of impact in the world—some positive, some negative—and that it is our responsibility as investors to nurture only those innovations that make our world more equitable.

When we made that shift, we took a bit of a gamble. Other VCs cautioned that investing exclusively for impact would necessarily come at the sacrifice of financial returns, and while we had some anecdotal evidence to the contrary, we were not completely certain ourselves if our model would hold.

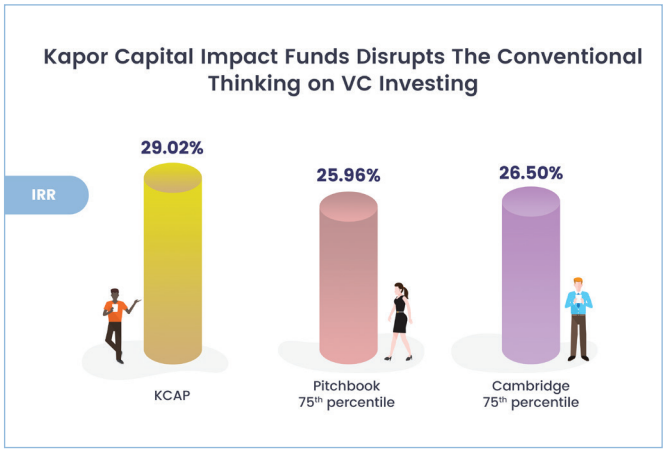
To be sure, we've never believed that financial returns should be the only measure of our firm's success. It is our goal to disrupt the very way that businesses are evaluated. If companies were required to calculate their impacts—good jobs with living wages and benefits created or lost, pollutants pumped into the local community, air or water, shoring up or tearing down democracy—we'd see a different kind of Silicon Valley, one that lives up to its promise to change the world for the better.

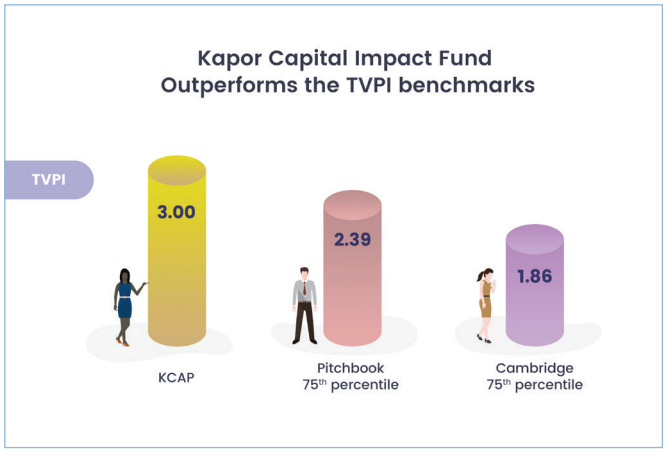
Today, eight years in to our "impact only" experiment, we are making public our financial returns for the first time. We are pleased to say that our hypothesis has, thus far, been proven.

For the purposes of this report, we are using the two best measurements at this stage of our portfolio:

- Internal Rate of Return (IRR)
- The Total Value to Paid In (TVPI) Multiple

We are proud to show that by both measures, Kapor Capital's Impact Portfolio ranks in the top quartile of venture funds of comparable size:





Our Impact Portfolio includes only companies where investment was initiated between 2011 and 2017. That means this analysis does not include major investments like Uber and Twilio, whose inclusions would have pushed these numbers dramatically skyward.

Even more importantly, we are proud to show the specific impacts that our companies are making in the world: closing gaps in education inequality, helping families access healthy foods, disrupting predatory lenders, improving the lives of incarcerated individuals, creating technical jobs in "underdog" communities, helping people access quality health care, reducing carbon emissions in inner cities and so much more.

Kapor Capital companies are changing our world for the better in very specific ways, and they are bringing high levels of returns for investors. We hope that our experience may be a model for other VCs who care about creating a more fair, just and equitable world.

To do so, we need to fundamentally change the values that currently underpin the Venture Capital world. Here is what we believe:

1

Every business creates an impact of some sort—
some positive, some neutral and some negative.

2

Many technologies that widen the gaps in society can be transformed into gap-closing companies with the right business model.

3

Genius is evenly distributed throughout society,
regardless of race, gender or zip code—but opportunity is not.

4

The lived experiences of underrepresented entrepreneurs provide a competitive edge in identifying problems to be solved and markets to be accessed.

5

Silicon Valley's pernicious myth of "meritocracy" actively exacerbates the problem of who gets to identify problems and come up with tech-enabled solutions.

6

"Distance traveled," the measure of how far an entrepreneur has come
and the obstacles they overcame on their path to Silicon Valley, is a far better predictor of long-term success than proxies like schools attended or investments raised from friends and family.

7

Financial returns cannot be the only measure of a company's success.
We aim to disrupt the very way that businesses are evaluated. "Impact" investing shouldn't be the outlier; greed-first investing should be the category getting scrutinized.

A New Model: VC 2.0

Based on this belief system we are proposing a new model, a VC 2.0 that fundamentally understands how old-school investment firms have caused real-world problems—not by merely excluding women and persons of color from their ranks, but by proactively creating terrible outcomes in our world and pretending they are good.

VC 2.0 means a real values alignment between investors and entrepreneurs by inviting new and different people to join the table or sit side-by-side at a new table. We want to encourage varied and diverse entrepreneurs to pitch more gap-closing businesses.

We need to help entrepreneurs:

- Navigate when it is—and isn't—in their best interests to raise as much money as possible,
- Understand why raising at too high a valuation may hurt them long-term, and
- Help them keep their ownership of their companies as long as possible.

We need more impact investors to step up, especially at the Series A and B stages. We cannot be afraid to call out the harmful effects on entrepreneurs and society of a greed-only investing approach.

Let's all be more clear about who we are, and who we aren't.

The numbers are clear: We no longer need to heed the naysayers who told us it can't be done.

"Kapor Capital has long been a champion for bold ideas and diverse entrepreneurs and teams who are challenging norms and creating real, quantifiable impact in the world. The Kapors' commitment to supporting mission-driven founders like myself has been unparalleled. In a space filled with investors motivated by immediate returns, their hands-on, impact-first investment style has truly been a breath of fresh air and key to our success. With Kapor, I know I have a fully committed advocate in my corner as an entrepreneur, behind me to see our mission through over the long-term.

Kapor understands that this depth of commitment is what it takes to build the companies of the future, delivering outsized societal benefit and returns.

Aclima is grateful and proud to be one of Kapor's portfolio companies, as we work together to catalyze action on air pollution and climate change, among the most pressing challenges facing humanity."

Davida Herzl, *Co-founder & CEO, Aclima*

HOW WE GOT HERE

Kapor Capital was originally born a little more than a decade ago at the junction of co-founder Mitch Kapor's angel investing and his wife and fellow co-founder, Freada Kapor Klein's work as an advocate and activist.

Freada urged Mitch to start thinking about the non-financial impacts startups bring about in making his investment decisions. While not all of them are captured on balance sheets or income statements, it was unquestionable to both Freada and Mitch that all businesses make a variety of impacts, some positive, some negative, on the lives and well-being of customers, communities and workers. Why not invest in companies more aligned with their personal values, especially those centering around the importance of closing painful and unjust gaps of opportunity and access faced by many groups? Why not invest in startups that can leverage information technology to help solve real-world problems and improve the lives of millions of people?

In the abstract this seemed to Mitch like an appealing idea, but also one about which he had some initial skepticism. Would it restrict the universe of opportunity as an investor? Would it mean passing on the chance to get in on the ground floor of new technology platforms like the personal computer or the Internet?

The first two years marked a period of experimentation as Mitch and Freada and their colleagues worked to develop an investing practice that accorded gap-closing social impact its own importance in the entire investment process, from sourcing to decision-making to post-investment company support. Out of that emerged a clear commitment:

Beginning in 2011, Kapor Capital shifted our investment criteria to exclusively include impact tech startups. We are committed to closing the gaps of access, opportunity, and outcomes for low-income communities and communities of color in the United States.

For us, the shift was a moral choice. We understand that all companies have some sort of impact in the world which is why we prefer to describe our investing more precisely as "gap-closing". Of late Impact Investing has become too fashionable as a term. Many existing funds and stocks have been relabeled by asset managers as pro-impact, but we see this simply as a response to perceived demand rather than a fundamental shift of mindset among investors. Some companies—such as those that offer premium services only to people who can afford it—end up widening gaps in society, making life easier for the wealthy and leaving the vast majority of Americans further behind. This is particularly problematic when it comes to companies that focus on basic human needs, like health care, healthy food access, or education.

With an intense focus on "gap-closing" tech startups, Kapor Capital is especially interested in companies committed to mitigating the disproportionate opportunities and outcomes for under represented communities of color—particularly African-American and Latinx communities. Our fund invests across numerous sectors including education, justice, employment, finance, food, and health. Our focus on tech reflects our belief in companies that can scale rapidly to deploy their gap-closing products and services to millions across the globe.

We also believe that the lived experiences of founders are crucial to understanding the solutions they create and the markets they serve. Today, most of our companies are fueled by their entrepreneurs' lived experiences. For example, without their own or their family members' experiences with the criminal justice system, it's likely neither startups Pigeonly, the largest independent prison communication services provider, nor Promise, which provides an alternative to the current exploitative and expensive bail system for those in jail, would have started.

It takes investors to recognize the full potential of a business—to be both scalable and to have a life-changing impact. And we're challenging other investors to share the same vision.

We would like to thank the entire Kapor Capital team for their help making this report—and the vision of Kapor Capital—a reality. In particular, partners Brian Dixon and Ulili Onovakpuri have worked tirelessly to build out and support out our portfolio, and our former partner of 5 years, Benjamin Todd Jealous, whose leadership helped us source many Impact deals throughout this period. We would also like to thank our colleagues at Kapor Center and SMASH, as well as our Kapor Capital team members over the years, who have all made important contributions to our evolving thinking and actions.

OUR ROOTS IN SILICON VALLEY

Kapor Capital has roots in Silicon Valley dating back decades. Mitch Kapor is a pioneer of the personal computing industry, having founded Lotus Development Corporation in 1982 and designing Lotus 1-2-3, the "killer app" that made the personal computer ubiquitous in the business world. He went on to be a co-founder of the Electronic Frontier Foundation and the founding board chair of Mozilla, creator of the Firefox web browser.

Many aspects of the Silicon Valley ethos infuses the principles and values of Kapor Capital:

- We believe deeply in the power of entrepreneurship.
- We have a strong commitment to the "Lean Startup" methodology. Startups must be flexible, think small at first then determine whether the business is worth scaling; test hypotheses, collect various data, develop a Minimum Viable Product and get real-world feedback from actual users and customers to find out whether a product is actually valuable.
- We, like many Silicon Valley investors, believe there are tremendous opportunities to use tech in scalable ways to change the world.

Where we differ from others is our specific focus on the changes that must be made.

While we share some of the traditional principles of venture capitalists—raising and managing money for entrepreneurs with bold and daring companies they hope will lead to profits—we reject the strike-it-rich at any cost mentality that permeates Silicon Valley. While it may appear to be riskier, our hypothesis from the start has been that Impact need not come at the expense of returns. Indeed, we believe that a focus on returns while ignoring impact ought to be thought of as "greed-first" investing.

OUR PROBLEM WITH SILICON VALLEY

While we are steeped in the tech and VC worlds, we also understand that it is a fundamentally broken system. Venture Capital, in particular, is a system that:

- Funds a narrow range of entrepreneurs and fails to take advantage of the broad swath of entrepreneurial talent from diverse backgrounds,
- Measures its success exclusively in terms of financial outcomes, rarely accounting for the good or harm done,
- Over-invests capital to fund hyper-growth, which is very often not in the best interest of founders, their companies, or the customers they serve.

Each of these problems, worthy of entire reports on their own, are underpinned by a pernicious myth of Silicon Valley exceptionalism, a self-serving narrative in which most VCs truly believe that they are only funding the best and the brightest.

The sector that fancies itself a meritocracy is, in fact, a mirror-tocracy, made up largely of entrepreneurs who far too often came from the same backgrounds, attended the same schools, and were largely born with a set of privileges that are left unchallenged by a culture that lacks self-awareness.

This mindset has led to the mainstream investment view that investing for impact is concessionary—that one must necessarily sacrifice financial returns in order to invest exclusively in gap-narrowing companies. This leads to the terrible advice that nearly every entrepreneur gets from investors and advisors alike: that they need to forget about making a positive impact in the world if they are to be a serious, scalable company.

Unhappily, some gap-closing companies take this advice and wind up raising funds from venture capitalists with whom they are not aligned, investors who turn on them when adversity strikes, as it often does in the journey of the startup. We heard reports of VC's yelling at founders: "Why are you wasting your time on that mission crap?" We've seen founders thrown out of their own companies for sticking to their vision and values.

OUR CORE BELIEFS

At Kapor Capital we come to VC with a fundamentally different set of assumptions.

We believe that **every business is an impact business of some sort**—recognizing that some of these impacts are positive, some are neutral and some are negative.

We believe that, with some adjustment, **many negative-impact technologies can be transformed into positive impact.** Take, for example, an innovative tech-enabled literacy tool developed and sold a premium price to give children from wealthy families an academic advantage. This is a gap-widening product that fundamentally expands the education divide between rich and poor kids. But what if this same product could be sold to a school district to benefit every student? Same tech. Same profitability. Drastically different impact.

We believe that genius is evenly distributed throughout society, regardless of race, gender or zip code—but opportunity is not. That means that by perpetuating the mirror-tocracry, we inadvertently but fundamentally leave talent on the table along with the real opportunities that stem from that talent.

We believe that **the lived experiences of underrepresented entrepreneurs provide a competitive edge in innovative spaces like tech.** Their experiences inform the questions they ask, the markets they access and—importantly—the problems they identify that give rise to profitable, tech-driven solutions. These offer not only a competitive advantage for us as investors, but opportunities to grow successful businesses that tackle deep social problems.

We believe that **Silicon Valley's pernicious myth of "meritocracy" actively exacerbates the problem of who gets to identify problems and come up with tech-enabled solutions.** It tells underrepresented founders that it's their own fault if their career opportunities are limited, and let's tech bros off the hook for examining their own privileges and limitations.

We believe in the concept of "distance traveled"—**the measure of how far an entrepreneur has come and the obstacles they overcame on their path to Silicon Valley.** This is a far better predictor of long-term success than proxies like schools attended or funds raised from friends and families.

We believe that "gap analysis" should be integrated into all aspects of investment practice: deal sourcing, investment decision-making, and post-close company support. We look to there being unambiguous commitment to gap-closing in the business models as they are pitched and in the founders' commitment to it. Our ongoing support is conditioned on companies and their founders staying the gap-closing course throughout the evolution of the firm.

Finally—and crucially—we believe that **financial returns must not be the only measure of a company's success.** We want to disrupt the very way that businesses are evaluated; if any business ledger had to calculate their impacts—good jobs with living wages and benefits created or lost; pollutants pumped into the local community, air, or water; and shoring up or tearing down democracy—we'd see a different kind of unicorn company.

From the beginning, Kapor Capital has believed that our focus on impact need not come at the expense of financial returns. We knew, anecdotally at first, from the founders that we work with, that startups have the potential to produce both significant financial and large scale gap-narrowing social impact. This was the hypothesis, one that we've tested for the last 8 years.

Our founders come from all walks of life. Their diverse backgrounds give them a competitive edge, not a disadvantage. Their unique experiences fuel their knowledge and help create smart and profitable tech-driven solutions.

Currently, in our portfolio of investments made since 2011*:

- 60 out of 102 investments (59%) have a founder who identifies as a woman and/or an underrepresented person of color,
- 38% of our first-time investments have a founder who identifies as a woman,
- 34% of our first-time investments have a founder of a racially underrepresented background, and
- 25% of our first-time investments have a founder from an Asian group. Of these, two are underrepresented.

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** Reporting on founder demographics is trickier than it first appears. We have chosen with very rare exceptions to report on team demographics at the time of our initial investment, and we use data self-reported by founders.*

We've also decided to report on the % of companies with one or more underrepresented founders; this likely underestimates the % of founders who are underrepresented, as many of our portfolio companies have more than one underrepresented founder. We have chosen not to game the system and count each of our underrepresented founders separately if a company was founded by 2 or more people from underrepresented groups.

We distinguish between founders from racial/ethnic groups which are underrepresented in STEM from those which are not. Those underrepresented in STEM are African American, Chicano/Latinx, Native American as well as Filipino, Pacific Islander, Southeast Asian (i.e. Cambodian, Hmong, Laotian, Vietnamese).

We have not at this point reported on LGBTQ status, age, socioeconomic background or other characteristics that might make being a founder harder or easier, especially when it comes to raising traditional venture capital. We look forward to discussing these issues with our founders at our upcoming Founders' Summit and beyond to help us focus on measuring what matters to our entrepreneurs and their gap-closing companies.

PROVING OUR HYPOTHESIS

Changing the mindset and practices in Silicon Valley are not going to happen overnight. However, Kapor Capital believes that we are off to a very strong start.

For the first time, we are making public our returns from our investments between 2011 and 2017. We are pleased to say that our hypothesis has, thus far, been proven.

This cohort includes 102 companies in various sectors including Education (29.8% of the portfolio), Health (13.5%), Finance (11.5%), People Ops Technology (10.6%), Work (9.6%), Justice (5.8%), Food (5.8%) and other (13.5%)

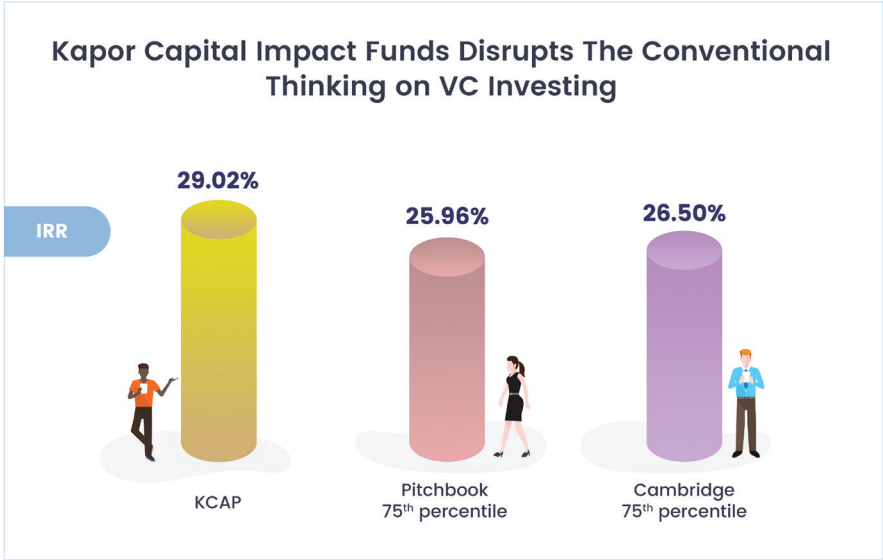
For the purposes of this report, we are using the two best measurements at this stage of our portfolio:

- Internal Rate of Return (IRR)
- The Total Value to Paid In (TVPI) Multiple—the sum of distributions to date plus residual value of the portfolio

For comparison, we held the performance of our Impact Portfolio (companies in which investment was initiated between 2011 and 2017, after we moved to an impact-only investment model) up against two of the industry leading benchmarks: Cambridge Associates and Pitchbook.

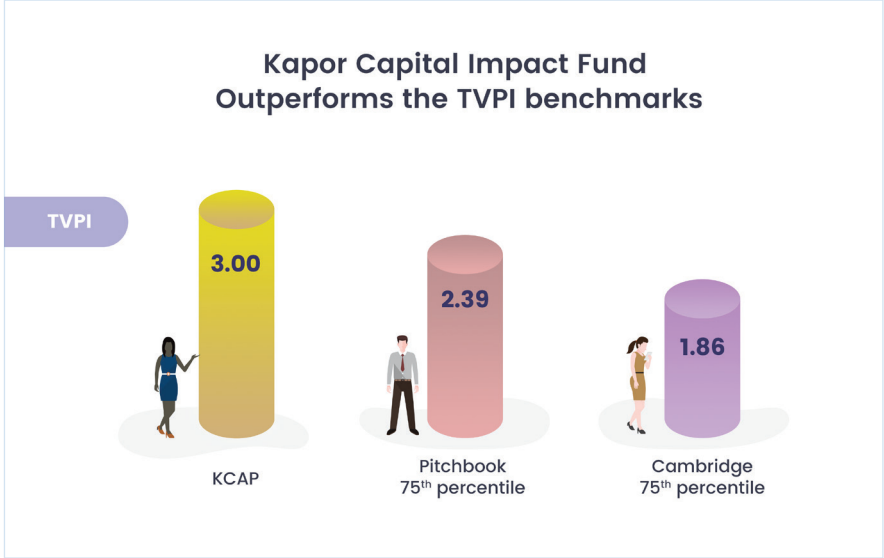
We are proud to show that by both measures, Kapor Capital's Impact Portfolio ranks in the top quartile of venture funds of comparable size (under $100M in assets):

Impact Fund's IRR compared with 75th percentile benchmarks as of 9/30/18



At 29.02%, Kapor Capital's Impact Fund IRR outperforms the 75th percentile benchmarks for both Pitchbook (25.96%) and Cambridge (26.50%) for this period.

Impact Fund's TVPI compared with 75th percentile benchmarks as of 9/30/18



In this measure, too, Kapor Capital Impact Fund's TVPI strongly outperforms the 75th percentile benchmarks for both Pitchbook (2.39) and Cambridge (1.86)

Our Impact Portfolio includes only companies where investment was initiated between 2011 and 2017. ***That means this analysis does not include major investments like Uber and Twilio, whose inclusions would have pushed these numbers dramatically skyward.***

It has long been our hypothesis that there need not be a conflict between gap-closing impact and financial returns, and now, for the first time, we have data to show it.*

"What would a venture firm look like and feel like if its partners truly believed that genius was evenly distributed, but opportunity was not?

Wouldn't that firm work to identify and attract investments that the rest of the market might overlook? Wouldn't it build a team that could analyze and nurture those investments? Wouldn't the most talented entrepreneurs looking to create maximum impact compete to work with that firm? Wouldn't the sum total of all that generate outsized returns?

What makes Kapor Capital so extraordinary is that they practice what they preach. They've disrupted the operational approach of traditional VC and transformed it to optimize the discovery and development of enormously profitable companies creating social and environmental impact, led by our generation's most talented entrepreneurs. The firm's core values permeate every interaction. And they are in it for the long haul.

Working with the Kapor Team has transformed our business. But the bigger lesson may be about how a commitment to integrity, transparency, leadership development, and triple bottom line outcomes can generate outsized returns in business, and in life."

Donnel Baird, *CEO of BlocPower*

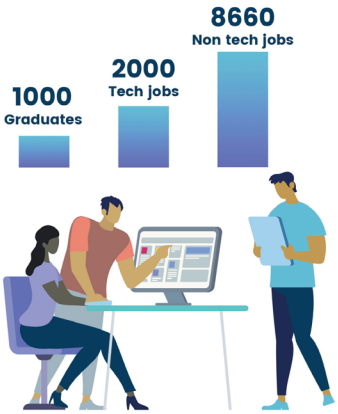
* *The majority of Kapor Capital investments are still illiquid at this stage of our portfolio, which means that these values remain estimates. In calculating IRR and TVPI we have used the valuation techniques that are broadly employed in Venture Capital for this stage (For example, we used the value of the last round of investments for our companies).*

MEASURES OF IMPACT

As noted above, we believe that financial returns cannot be the only measure of a company's success. At Kapor Capital, we define impact through our "gap-narrowing" framework that can take on many forms.

Below are a number of examples demonstrating the quantifiable impact that our companies are having in the world today.

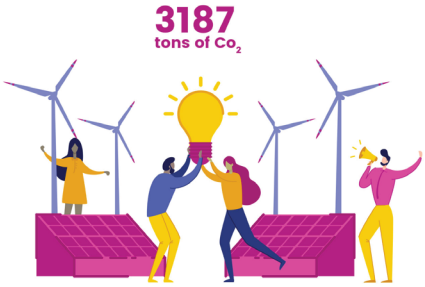
Aclima is addressing the urgent global need for hyperlocal and actionable data about air pollution and climate emissions to protect public health and the environment. Their pollution mapping SaaS platform provides governments, regulatory agencies, industry, researchers, and the general public with the tools to understand and manage local air pollution and emissions. By this summer, Aclima's mapping in California will be measuring air breathed by more than **10 million people** and they are on track to reach over **1 billion people** around the world within five years.



Bitwise aims to build tech ecosystems in "underdog" cities by providing community access to affordable engineering courses, technology jobs, and co-working spaces, all of which attract technology companies which generate additional job opportunities. To date, more than **1,000 graduates** have earned technical employment and **+2,000 local tech jobs** have been created, helping generate an additional **8,660 jobs in the regional economy.**

BlocPower

BlocPower leverages Artificial Intelligence to help efficiently determine what building retrofits are required to produce energy savings at scale. Through their efforts, more than **800 buildings have been upgraded** and more than 1,200 projects have been initiated, with a focus on buildings in the urban core, including churches, schools and community centers. To date, these retrofits have **saved over 358 tons of Co2.**



ClassDojo

Class Dojo is a communication platform for teachers, students, and families. It currently reaches millions in 180 countries around the world. The startup says **1 in 6 U.S. families with a child in primary school use ClassDojo daily** as ClassDojo reaches approximately 3% of primary school students globally.

ethic.

Ethic was founded in 2015 with a focus on building a tech platform that empowers wealth advisors to create personalized, tax efficient and sustainable, equity portfolios at scale. They currently have $80MM in assets under management. Through their investments, they have **saved over 3,187 metric tons of carbon emissions.**

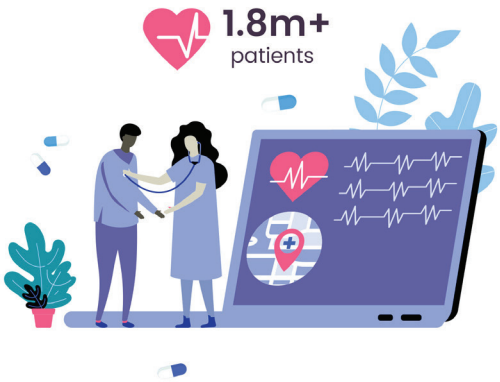
Freckle

Freckle empowers teachers to differentiate instruction across Math, ELA, Social Studies and Science. Freckle is **empowering more than 700,000 K-12 teachers to serve roughly 2.2 million** in all 50 states across the country.

Genius Plaza

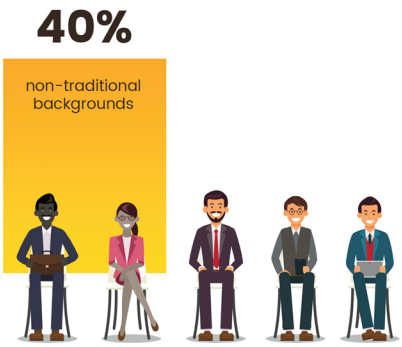
Genius Plaza uses technology to bring high-quality, culturally competent education to underserved communities around the world. The startup currently **serves more than 15 million of the world's poorest children** in more than 100 languages — including native indigenous languages in Latin America and Africa. They are currently in 33 countries on four continents and expanding.

HealthSherpa



HealthSherpa is the largest private Affordable Care Act enrollment channel in the 39 states that utilize the Federal Marketplace. They have **enrolled more than 1.8M patients in ACA coverage,** with 500,000 enrolled in 2018.

interviewing.io



interviewing.io works to mitigate biases in the hiring process by providing engineering candidates free, anonymous mock interviews and using the data from the interviews, rather than resumes, to identify top performers. **40% of their top-performing candidates come from non-traditional backgrounds.** Candidates end up getting hired by companies like Lyft, Uber, Twitter, Flexport, Dropbox, Quora, and more.

LendUp

LendUp is a startup providing loans, financial education, credit reporting access and advice on responsible lending behavior. To date, **LendUp has originated more than $1.8 billion in short-term loans.** They have **saved their customers more than $244 million in fees and interest** they would have otherwise incurred from traditional payday loans. The startup has also provided their customers with more than two million free online financial education courses and has **graduated more than 75,000 users from the subprime loan bracket into the prime loan bracket** resulting in lower interest rates for borrowers.

noredink

NoRedInk assists in helping students improve their grammar and writing skills through internet-based exercises. As a result, **students have answered more than 5 billion questions** through a range of assessments.

Pigeonly

Pigeonly is the nation's largest independent prison communication services provider. It has connected more than 100,000 prison inmates with their families on the Pigeonly platform and has **saved families more than $10,000,000 in predatory phone fees.**

revivn

Revivn collects excess hardware from businesses, secures their data and extends the life of their unwanted tech for a greater cause. Since its inception, Revivn has **repurposed thousands of computers** through partnerships with different schools, nonprofits, and underserved communities.

SWING education

The ed-tech startup **Swing** was founded four years ago with the objective of creating a marketplace for substitute teachers. While still early, Swing is already established as the leader in the U.S. market. Swing has now more than 1,200 school partners and has **filled more than 100,000 teacher-absence days.** The startup has also helped 2,000 substitute teachers get in the classroom in 2018, including financing 400 teaching permits for educators.

KEY LEARNINGS

While we have always believed strongly in our Impact philosophy, we've also learned many lessons since we initiated our impact-only investment model in 2011. Here is what we found:

We've learned that to find diverse talent, it pays to have a diverse investment team. Kapor Capital's team is 55% women and primarily from underrepresented backgrounds. Half of our partners are African-American, and a third of our team is Latinx. We've found that our internal diversity has helped us source underrepresented founders—talent that is more likely to create gap-narrowing companies that will change the lives of many people in the U.S. and beyond.

Demonstrated passion for gap-closing in a founder. We look for founders showing a commitment to the impact they are trying to create. We know that pivots happen, and that there will be a tremendous amount of pressure to drop the mission-focus in the name of faster profitability. We look for founders who are going to stay the course over the long haul.

We need to find new ways to identify and evaluate talent. Degrees from "top schools" are often a proxy for familial wealth, not talent. Instead, we use a concept we call "distance traveled" in order to test for tenacity and hustle. For example, an entrepreneur who navigated poverty or language barriers or other struggles and attended a community college or local state college to be close to their family demonstrates a level of perseverance that will prove helpful as they face the daily challenges of growing a startup—a grit that is more valuable than an Ivy or Stanford degree.

As is currently being understood with respect to diversity, **it is far easier to bake impact in to a company from the beginning than to retrofit it down the road.** That means starting with the big questions up front. Questions like who benefits from the technology? Not just "is the company good?" but "good for whom?" Does the technology reduce inequality or expand it?

CASE STUDY: Uber

Kapor Capital has had a famously complicated relationship with our investment with the largest valuation, the $80+ billion rideshare mega-startup Uber, headed for its public offering soon.

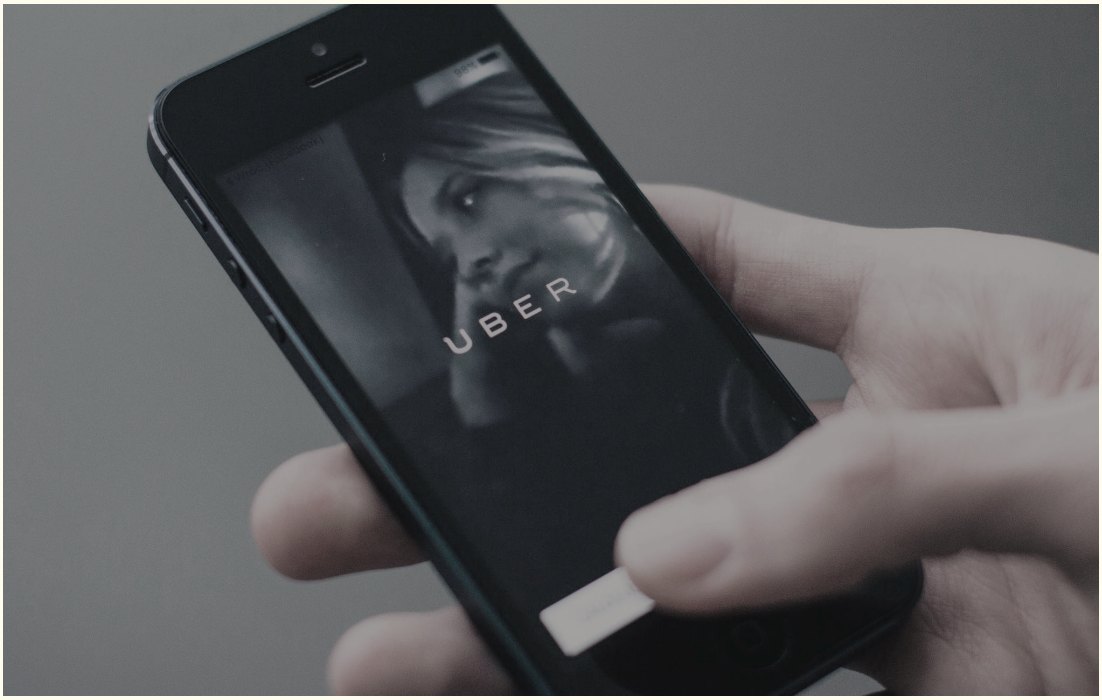
Mitch was intrigued by Uber founder Garrett Camp's idea after previously investing in Camp's earlier startup, StumbleUpon. He was excited that Uber aimed to push the edge of the envelope in technology, merging high-speed mobile access, GPS, and online maps as a way to get around in urban areas. In 2009, Mitch committed to the very first round of funding, prior to Travis Kalanick joining the company as CEO.

It quickly became apparent to Mitch that Uber, even in the embryonic form of its earliest days, was going to be broadly transformative with large-scale effects which were both positive and negative.

UberX is a far superior solution in convenience, safety—particularly for women)—and access—particularly for people of color—than taxis in most cities, but the disruption to the taxi industry has had an enormous financial impact, and in some cases human, cost to taxi drivers.

Being an Uber driver has been extremely empowering for millions of part-time drivers who can choose when and where to work in a way that is compatible with family obligations and other commitments like schooling.

While a great second job for many, as primary employment it doesn't consistently provide a living wage and adequate benefits. The company still must reckon with this.



The relationship between Kapor and Uber began to strain as word of the company's toxic "tech bro" culture began to emerge—first in tech circles and eventually in the press. Early on, Mitch and Freada engaged in quiet behind-the-scenes work to help the company build a positive culture, including leading diversity and inclusion trainings for Uber leaders—but it was an uphill battle.

Things came to a head two years ago, after former employee Susan Fowler's blogpost exposed the deep levels of sexist dysfunction behind the scenes. In response, Mitch and Freada wrote a highly critical open letter, published on Medium in February 2017. They wrote that Uber had "countless opportunities to do the right thing," and challenged the company's board and fellow investors to demand changes. Nonetheless, they remained optimistic about the company's potential to move forward.

"If we believed it was too late for Uber to change, we would not be writing this, but as investors, it is now up to us to call out the inherent conflicts of interest in their current path," they wrote.

Tech insiders and curious onlookers took notice, and Kapor Capital received plenty of pushback from other investors. Some believed that our outspokenness was disloyal and undermining their returns. Others reached out to our founders, encouraging them to distance themselves from Kapor Capital as an investor.

In June 2017 Uber's board unanimously voted to make a series of tough changes. Ultimately Kalanick departed as CEO. There was more independent oversight from the board, mandatory inclusive leadership training, increasing the role of the company's head of diversity and a much clearer process for escalating issues of how people are treated.

"Our stated hope all along was that Uber could leapfrog other companies to be a real leader in diversity and inclusion," they wrote. "At this point, we believe that the company deserves some room to put the plan into effect and show us what can be done."

Kalanick was replaced by Dara Khosrowshahi who made great strides toward building a healthier workplace: implementing the recommendations of an outside cultural audit, embarking on a trust-building "apology tour," ending mandatory arbitration, and taking leadership on sexual assault classification and transparency for drivers and riders globally.

TOWARD A VC 2.0

Today, our challenge is to create a new model, a Venture Capital 2.0, that fundamentally moves beyond the way VC's have exacerbated real-world problems—not by merely excluding women and persons of color from their ranks, but by proactively creating more bad things in our world and pretending they are for good.

Venture Capital has got to address its role in all of the issues ailing tech today. This role includes, but is certainly not limited to: contributing to income and wealth inequality, eviscerating privacy, and undermining democracy.

We have got to reject the funding of more and more entrepreneurs and companies that continue to widen the gap between the haves- and have-nots. Venture Capital has not been just blind to these problems; we have amplified them. We need to emphasize mission instead of growth.

We've seen too many examples among our portfolio companies to ignore:

- Startups pressured to raise so much money so quickly that they don't have the ability to grow sustainably—they become so capital intensive that they inevitably crash and burn,
- Entrepreneurs who give up too much ownership to investors, who promptly fire them as the company grows,
- VC's who coerce founders to scuttle their mission, de-emphasize impact, and move full speed ahead toward profit maximization.

VC 2.0 means a real values alignment between investors and entrepreneurs by inviting new and different people to join the table or sit side-by-side at a new table. We want to encourage varied and diverse entrepreneurs to pitch more gap-closing businesses.

We need to help entrepreneurs:

- Navigate when it is—and isn't—in their best interests to raise as much money as possible,
- Understand why raising at too high a valuation may hurt them long-term, and
- Keep their ownership of their companies as long as possible.

We need more impact investors to step up, especially at the Series A and B stages.

We cannot be afraid to call out the harmful effects on entrepreneurs and society of a greed-only investing approach.

Let's all be more clear about who we are, and who we aren't.

It's time for us to be more about what we authentically believe.

CASE STUDY: twilio

Although not included in our Impact portofolio, Twilio has been one of Kapor Capital's most successful investments to date—and a model of Impact.

Kapor Capital invested in Twilio prior to our 2011-2017 cohort, which is why it is not counted in our Impact returns, but as our portfolio's first successful IPO and with a current value of $15B, our financial returns would have been dramatically higher had it been included.

The 11-year-old company provides services to more than 30,000 businesses ranging from Uber, What's App, Coca-Cola, Salesforce, Lyft, Nordstrom, Expedia, and the American Red Cross. It's the platform that many of us use, but rarely know that we're using it.

Sharing the Kapor philosophy, Twilio is also using its platform for social good. Long before achieving profitability, the company launched twilio.org. More than 3,000 nonprofits use the Twilio platform to help accomplish its missions. The company has provided $5 million in grants and investments. It's also providing funding to organizations helping 250 people from underrepresented backgrounds in tech become developers. Both Mitch Kapor and Freada Kapor Klein serve on the twilio.org advisory board, and CEO Jeff Lawson has become one of Silicon Valley's top advocates of doing good and "baking in" diversity as the company grows. He has been an outspoken leader for tech taking responsibility and action for many of the consequences of its success in the Bay Area such as rising income inequality and homelessness.

In that spirit, Twilio has set a goal to ensure that women make up 50% of the Twilio employee population globally by 2023, and that it's US workforce is made up of 30% underrepresented populations in the same timeframe.

Their apprenticeship program, Hatch, has become a model for the industry by providing access to software engineering roles for underrepresented talent with nontraditional educational experience,

Additionally, Twilio.org has reached its 10-year goal of powering "1 Billion Messages for Good" five years early by helping people connecting to elected officials, those improving education, helping people in crisis, and more. In other words, for every second on Twilio, 16 people raise their voices to elected officials, six students get knowledge and encouragement, and two people receive life saving support.

Want more? Twilio also powers the communications of Crisis Text Line which has trained thousands of volunteers and responded to over 100 million messages helping people struggling with suicidal thoughts, addiction, and other crises.

As a model of diversity and inclusion, as well as social responsibility, Twilio stands as an example of what public companies can and should do.

Kapor
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