Rackhouse Ventures: Interview With Managing Partner & Founder Kevin Novak About The AI-Focused Firm

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By Amit Chowdhry • Dec 18, 2024

Rackhouse Ventures is a global venture capital firm purpose-built to support early-stage founders and firms that sit at the intersection of AI/ML and the real world. . Pulse 2.0 interviewed Rackhouse Ventures managing partner and founder Kevin Novak to learn more about the firm.

Kevin Novak's Background

Screenshot

What is Kevin Novak's background? Novak said:

"I'm originally a nuclear physicist from Michigan (MSU alumni – go Green!) with additional training in math and computer science. I transitioned to startups in 2011 as Uber's 21st employee. I spent nearly seven years building Uber's data culture, inventing surge pricing and various other data products, running the data science organization, and helping to launch Uber Freight."

"Later, I served as CDO at Tala Financial in Santa Monica, solving the math of microfinance and lending to non-traditional financial identities. Throughout my career, I've been a founder or early employee at six startups, including attempts to start a weather data company and an 'AI for trash sorting' company. I began angel investing in 2015 and completed 55+ angel deals before starting Rackhouse in 2020, including investing in the seed rounds of five unicorns and counting."

Evolution Of Rackhouse Ventures' Thesis

How has your firm's thesis evolved over time? Novak noted:

"Rackhouse Ventures' investing model is collaborative by design and empowers founders to build great companies. The fund is a partner in helping them solve problems quickly and make fewer mistakes along the way. The Rackhouse Venture team's deep industry experience empowers the fund to partner with its founders, share industry knowledge, make connections, and take problems off their plates quickly. The team's operational expertise assists founders with hiring, sourcing, on-site interviewing, picking strong teams, capturing user analytics data, closing customers, and sales."

Favorite Memory

What has been your favorite memory working for your firm so far? Novak reflected:

"Probably our summer BBQ this year – we had over 130 friends, founders, and co-investors come together for a great day of family and fun. It's been incredible to see this fund that I started by myself from my house in the depths of the pandemic become a team of 10+ and a true community."

Significant Milestones

What have been some of your firm's most significant milestones? Novak cited:

"We closed a $45 million second fund in December 2023, bringing our overall AUM to over $100 million, while maintaining a top 5% performance threshold according to CB Insights."

Investment Success Stories

When asking Novak about investment success stories, he highlighted:

"One of our notable successes was investing in Nash as their first investor, before they got accepted to YC. I instantly understood their market opportunity as a logistics orchestration layer after years of thinking about how to optimize logistics in rideshare. We developed a close rapport with the founding team, and I have advised them on every subsequent fundraise (we still meet biweekly, years later), as well as helping them hire their first data scientist, engineering leadership, CFO, and other key hires. I introduced them to Andrew Chen and Olivia at a16z, who led their seed and Series A rounds."

Industry Focus

What are some of the industries that Novak's firm is focused on? Novak pointed out:

"As the founder of Rackhouse Ventures, I can tell you that our firm is laser-focused on AI investments. We have no plans to expand our focus elsewhere. I'm fully invested in this space, have no intention of retiring, and view this fund as a 30+ year venture. We're not a generalist fund, nor are we jumping on the AI bandwagon. Our entire team is composed of former operators who share a genuine passion for AI and have a deep understanding of where this industry is headed. I believe that Rackhouse Ventures is the best place for early-stage AI/ML startups that are working to make the world more efficient. This is our sole focus and expertise."

Differentiation From Other Firms

What differentiates Rackhouse from other firms? Novak emphasized:

"Unlike many other funds, Rackhouse Ventures doesn't seek out or finance flash-in-the-pan startups that sound impressive but do not actually have a viable long-term business model. It's allergic to the hype cycle and only focuses on supporting companies worldwide that help solve real-world problems right now."

"We're founder-friendly. As a team of former operators, I believe we're the most founder-empathetic fund in the industry. Within 10 minutes of sitting down with us, founders know they've found a partner, not just an investor. We value candor. We believe in being authentic for the sake of our portfolio companies' success. Our founders appreciate our realness as much as our industry experience."

"We're collaborative by design. We're open to bringing in extra seats at the table when industry-specific experts are needed, making founders feel more like partners. Our domain experience sets us apart. Having a team full of people with prior operating experience, combined with my role as a solo GP, allows us to stay nimble when challenges arise. Lastly, we're purpose-built for AI/ML founders. We're not a generalist firm. Rackhouse Ventures is designed specifically to invest in AI, ML, and data companies. We started in AI, and we plan to specialize and stay in this space long-term."

Challenges Faced

What challenges have Novak and the team face in building the firm? Novak acknowledged:

"I don't have a background in traditional finance or business – my operating experiences have been as a developer or data scientist. While this gives me advantages in terms of diligence and access, it created some challenges when convincing LPs that I could execute a disciplined investing and business strategy. Some of this challenge is simply overcoming through execution – our first fund was right on our target pace and stage (we had a $12 million median postmoney valuation) but we also took pains to structure

our fund in a way to welcome accountability and transparency – for example, we've done an annual audit each year (even for a $15 million first fund) and have full transparency with our LPs around our portfolio companies."

Future Firm Goals

What are some of your firm's future goals? Novak concluded:

"We want to be the fund of choice for the best founders who want to create a company that's going to leverage data or AI in a new and novel way, right from the very first moment they're contemplating becoming a founder. We're going to stay focused on preseed and seed and continue to innovate on ways we can authentically work with the largest numbers of these folks in the most effective way possible."