

Keynote Address by Mohnish Pabrai at TiECON Southwest on November 9, 2013

The contents of this transcript are for educational and entertainment purposes only, and do not purport to be, and are not intended to be, financial, legal, accounting, tax, or investment advice. Investments or strategies that are discussed may not be suitable for you, do not take into account your particular investment objectives, financial situation or needs and are not intended to provide investment advice or recommendations appropriate for you. Before making any investment or trade, consider whether it is suitable for you and consider seeking advice from your own financial or investment adviser.

Vijay: Regarding our keynote speaker. He's the one who told me about the three things last night by the way. He's hit the Entrepreneurial trifecta. Number one, he started this very successful technology company and sold it. I mean, that alone is not a huge deal in this audience here, but he's done it well. Kudos there. Number two, he took those experiences and started a financial business. He leads one of the biggest hedge fund businesses here in Orange County. In LA, he runs a fund that's more than half a billion dollars. The third thing, which is again, very satisfying to entrepreneurs is he took his experience, and his financial powers, and applied that to philanthropy. He has a foundation called the Dakshana Foundation which helps underprivileged people in India reach their goals of IIT through the joint entrance exam. They've had the foundation between him and his wife, Harina, for several years now. They contribute very generously to their foundation as well as having had such a big impact on the community. With that, I'd like to welcome our keynote speaker, Mohnish Pabrai.

Mohnish: Testing, 1 billion, 2 billion, 3 billion. All right, I think we're good.

Well, thank you Vijay for that generous introduction. It is a pleasure and an honor to be here with you today. TiE is a wonderful organization with a fantastic mission of promoting entrepreneurship amongst folks from the Indus region. Humans are very heavily driven by peers. It is not enough for an Indian to know the story of Howard Schultz, of Bill Gates, of Steve Jobs, or of Sam Walton. Those are important, but he must also know the story of Vinod Khosla, of Sabir Batia, of Navneeth Chugh, of BU Patel, of Desh Deshpande, of Kanval Rekhi, of Kundan Sabarwal. But not only that, he must know the story of Bharat Desai, of Prem Watsa, of Sanjay Kucheria, of Vinita Gupta, of every Indian 7/11 franchisee, of every Indian Dunkin Donuts franchisee, of every Patel owned motel from sea to shining sea, of Singh Chevrolet in Riverside, of Didaar Singh Banes in Yuba City, of Kalyanji Dayabhai Bhindi.

Speaking of Bhindi, he must know the story of Harbhajan Singh Samra, the undisputed king of Bhindi, the largest Bhindi farmer on this side of the Pacific. No other organization has done more than TiE to bring these and countless other stories to us. We need to know that at one time they were just like us, and we can see the path and dream. Their path creates the path for us. No

organization has done more than TiE to light that path, that dark and narrow path with a million floodlights. We can all see the path, we can dream of the path, and we can follow the path to the promised land.

Today, I'd like to share two interrelated thoughts with you. First is some perspectives on start-ups and the second is some thoughts on adding some amazing richness to your lives.

Let's start with start-ups. Every year in the United States, there are more than a million new businesses get started. Of these million new businesses, less than a thousand are venture backed. Venture back start-ups represent less than one of 10, 1% of all start-ups. They are an anomaly that can safely be ignored. In fact, most of those people whose names I just mentioned, never did something so stupid as to write a formal business plan or spend their time chasing venture capitalists. You do not need money or VCs to get a business off the ground. How can that be? How can you get a business off the ground with no money? Well, I like to call it the secret.

Let me share the secret with you. Let the secret be your edge. You likely have a nice job, which delivers a hefty paycheck with some regularity. That job requires you to work 40 hours a week. There are 168 hours in a week. Even after you take up time, take off time for eating and sleeping, and commuting, you still have at least another 40 or 50 hours during which you could do a second job. That second job can be your start-up.

That is what I did in 1990. When I was 25 years old, I had no money in the bank. I used to work on my start-up for one or two hours in the morning before I went to work and after I came back from work until midnight I again worked on my start-up. I was single. I spent all my weekends working on my start-up, gave me long, uninterrupted hours.

I used to eat a Subway sandwich every day for dinner. Life was great. Any time I had a client meeting, I used to take a day off as a vacation day and go meet the client. After 10 months of doing this, I had my first two clients, and I resigned. My boss, he took it in good stride. He tried to get me to stay, which I turned down. Then he offered that I could come back any time after my business failed. I would get significantly more money and I'd have my same position back. I had thought, "This is fantastic." If things don't work out, I don't need to look for another job. I can just come back here and make more money. What a country, I must admit.

I had two venture capitalists who backed me to the tune of \$70,000. I loved my two VCs. They never took any board seats. They never tried to give me any advice on how to run my business. They did not even take an equity stake in my company. My two VCs were called Visa and MasterCard.

About a year after I quit my job, I met a wonderful banker who set me up with a low-cost line of credit. I said goodbye to my two VCs. About four years after

that, we were recognized as an Inc 500 Company, one of the 500 fastest growing businesses in the United States. That is the secret. You can walk and chew gum at the same time. If your business does not compete with your employer, you can keep your full-time job and get your business off the ground. The fatal mistake is to quit, try to live off your savings and spend your time chasing VCs. The way I went about it, I had no pressure. It did not matter if it took three months, or six months, or 18 months to get the business off the ground. The cash was coming in, the rent was current. Life was good.

Let's fast forward and let's say you built yourself this beautiful sandcastle and you're now drowning in dollars with lots of time on your hands. What's next? Well, how about if you took those amazing business and entrepreneurial skills and decided to help a few less fortunate humans? You cannot change the world, but you can change the world for one person, for 10 people, for a hundred people, and maybe even a few thousand people in a few years.

It dawned on my wife Harina and me that we had already accumulated vastly more assets than we could possibly consume in our lifetime. Because I compound money for a living, those numbers were likely to get a lot larger over time. Warren Buffett says that passing on large inheritances to your children is not a gift, but a burden. He has a wonderful saying, "I'd like to give my kids enough money for them to do anything they want, but not enough money for them to do nothing." I reached the conclusion that passing on large inheritances was going to be counterproductive for my kids. In fact, I discussed it with them, and they had zero interest in the money. We decided that the only logical thing to do was to try to efficiently recycle it back to society. Most charities and foundations are run by people with great hearts, but they are all heart and no head. Most of them have never run a business before. They have never met a payroll and they have never had 99% of their network tied up in a teething business on the edge of bankruptcy.

I studied many different charities and non-profits. I read many of their annual reports and I came away deeply disappointed. Not one of them ever discussed anything that they had ever failed at, or more importantly, the lessons they may have learned from those failures. They were set up as marketing machines focused on maximizing the dollars. They could put out stories and pictures that were from the heart. They did plenty of good work, but I thought they did it quite inefficiently. I thought to myself, Mohnish, you have all these strange ideas about how there is no difference between running a for-profit and a non-profit business about how non-profits should not be run by humans with great hearts, but businessmen with great hearts. And about how non-profits should narrow their focus down to one or two narrowly defined causes that deliver the highest parcel social return on invested capital to humans. These thoughts are just thoughts. They have no meaning without action and without execution.

In 2007, when our net worth crossed 50 million, Harina and I decided to set up the Dakshana Foundation. We decided to give away 2% of our net worth every year to the foundation that meant Dakshana would get at least a million dollars a year. That gave it enough money to start doing some meaningful experimentation and put these weird ideas ahead to a real-world test. We decided that we wanted to focus on education towards the alleviation of poverty. Give a man a fish and you feed him for a day. Teach a man to fish and you feed him for a lifetime. We had no interest in giving fish. We wanted to teach fishing. Then the question becomes, what type of fishermen should we try to create?

I was trying to answer this question, I heard about this amazing person, Anand Kumar in Bihar, India. He ran an incredible program called Super 30. Every year, Anand took in 30 super smart and ultra-poor kids from rural Bihar and brought them in and provided them boarding, lodging, and IIT coaching at no charge. All for free. His mother cooked all of their meals for them, and for one year, he gave them very intensive IIT coaching. He is a gifted math teacher. Over the last 10 years, somewhere between 80 to 100% of those Super 30 scholars have been accepted by the IITs. It's an incredible return on invested dollars.

I went to Bihar, and I met Anand. Anand is an amazing guy. He is a philanthropist, entrepreneur, educator, all rolled into one. I suggested to him that Dakshana could fund him so he could grow and scale the Super 30 model. He turned me down. He said he had no interest in taking any outside money. He had no interest in scaling. He liked his program the way it was, and he just wanted to keep running it. We became good friends. I asked him if he would have any problem if I copied his model and scaled it on my own. He not only had a problem, but he also strongly endorsed that idea. He said he would help us in any way. That's what we did.

From a standing start in 2007, Dakshana has sent 457 impoverished kids to the IITs. Out of a total universe of 1,033 kids that we took on, 44% of the kids were accepted by the IITs, whereas the IITs typically accept only 2%. Most of our kids, their parents were manual laborers or marginal farmers, most of them were illiterate. In fact, most of them did not even understand what we were trying to do with their kids. No one at Dakshana has had any experience. None of my senior management has any experience in ever working at a non-profit or in the education sector. In fact, we specifically reject people who have any such experience because they have a lot of stupid ideas. It takes us a long time to deprogram those stupid ideas. We'd much rather start with a blank slate. The blank slate really works well. I made my first trip to Dakshana trip related to India in 2007 when I visited Anand Kumar in Bihar.

At that time, Bihar was famous for kidnapping capital of India. I was so paranoid that I took two-armed security guards with me. One of them was a former Indian Army commander. He told me that the former position of being

completely asleep to taking a guy out between the eyes was less than a second for him. I felt good. I had so much baggage to give up.

When I visit Dakshana Scholar homes deep in rural India, there is usually only a two star or three-star hotel within a hundred-mile radius. My daughter and I have slept in rooms infested with mosquitoes during the monsoons, rooms with no hot water, with dirty toilets. I'm constantly worried about our passports getting lost because none of these hotels have any safes. I have so much more baggage to give up, and I must be honest, all these things bother me. But they bother me less than they did six years ago. All the rest of it has been so amazing that I don't want to give it up. In fact, it has added a dimension to my life that I cling on to very precious. The journey I'm on is to try to get to the point where a one-star hotel doesn't bother me, where lost passports, or dirty toilets, or any other creature comforts become irrelevant. I don't know if I'll get there in this lifetime, but I can see that I'm getting closer with every passing trip that I take.

This year, Dakshana took on 434 new scholars, and next year we hope to take on a thousand. We have a stretch goal that we call 2020. In the year 2020, we would like to send 2,020 impoverished kids to the IITs. I don't know if we'll get there in 2020 or if we'll ever get there, but if we do get there, one in seven IITs would be the son or daughter of an impoverished farmer or manual laborer. The journey is the destination and it's all about the journey.

I encourage all of you to add some color and flavor to your journeys. If you're procrastinating on that start-up, get off the horse and get going. Along the way you might think about helping a few less fortunate humans. I am reminded of these beautiful words by the poet Robert Frost, "Two roads diverged in the woods, and I took the one less travelled by, and that has made all the difference."

Just one other thing before I leave, you're going to hear from an amazing lady soon, Anita. I read many books every year. It is one of the best books I have read this year. I think it is one of the best research books. It reads like a thriller. I would strongly encourage you to read *The Billionaire's Apprentice*. Thank you.

Vijay:

Thank you, Mohnish. Just a couple of other titbits, when he was talking about teaching a man to fish, there are a few things that, we didn't address. He's a mentor, a fan of Warren Buffett if you can't tell. You might have seen on the news a few years back; he was the one who won the bid to have a lunch with Warren Buffet. I think it was a bet of about \$600,000.

Now, Mohnish didn't take that. He didn't end with that. He started auctioning himself off. Just yesterday he auctioned a lunch with him for \$17,000. That's the kind of knowledge that you got in this room today. Hopefully next year for TiE, he'll be auctioning himself off to benefit TiE.

Once again, thank you Mohnish on behalf of all our charter members and TiE.
We'd like to award Mohnish this.

The contents of this transcript are for educational and entertainment purposes only, and do not purport to be, and are not intended to be, financial, legal, accounting, tax, or investment advice. Investments or strategies that are discussed may not be suitable for you, do not take into account your particular investment objectives, financial situation or needs and are not intended to provide investment advice or recommendations appropriate for you. Before making any investment or trade, consider whether it is suitable for you and consider seeking advice from your own financial or investment adviser.
