Greg Thomas -- 375 Park Associates

Hall T Martin: [00:00:04] This is the Investor Connect Podcast Program, I'm Hall T Martin. I'm the host of the show in which we interview angel investors, venture capital, family offices, private equity, and many other investors for early-stage and growth companies. I hope you enjoy this episode.

Hall T Martin: [00:00:23] Well hello, this is Hall Martin with Investor Connect. Today we're here with Greg Thomas of 375 Park Associates. Greg, thank you for joining us.

Greg Thomas: [00:00:31] You're welcome, Hall. Good morning.

Hall T Martin: [00:00:33] So, what was your background before investing in early-stage companies? What did you do before this?

Greg Thomas: [00:00:37] Been a long and winding road. So, I started in operations, going back 20, 25 years ago, then made my way into management consulting, and then from there I got into the M&A world, was actually the regional director of a Swiss M&A firm, regional director in Asia Pacific for a Swiss M&A firm, and then we started up 375 Park Associates about five years ago and we provide a combination of investment. Some of it's in early-stage companies, some of it's in more mature businesses and also strategic solutions.

Hall T Martin: [00:01:11] So, how do you see the early-stage funding world evolving these days? We've gone through a pandemic and time is moving forward, but what changes do you see coming up?

Greg Thomas: [00:01:21] You know, it's funny. If we go back to March and April, I think everybody was in - maybe rightly so - panic mode because there were a lot of unknowns at that time, right? And, the companies that we're involved with either as advisors or investors, well, I guess have to break it into two parts. The ones that were advising, what we're seeing from their investors was basically the need to kind of rationalize their cash burn over the next 6-12 months and possibly even putting some things on hold. That's somewhat eased up now as they have more certainty, but definitely back in the early days of the pandemic, there was just a lot of, 'Let's hit the pause button here for a second. Let's reevaluate and see where we're going forward'. In terms of the companies that we're invested in, largely the emphasis has been on, 'Let's stick to our plan. Let's use this as an opportunity maybe to pivot slightly, but to make sure that what we're doing kind of hits the needs of the market today'. And that's been the focus or the message that we've been delivering to the early-stage companies that we're involved with at this point.

Hall T Martin: [00:02:25] Can you describe your investment thesis and what exactly do you look for?

Greg Thomas: [00:02:30] Sure. It's a little bit complicated in that, when we started out, there wasn't a lot of property in our investment thesis, or in our investment portfolio, excuse me, but that's kind of ticked up over the years and it partly has to do with some of our partners that we're working with and where they're looking for returns. But in terms of, let's say, investment in companies, the initial thesis was, we're trying to find large industries that could be easily disrupted by breakthrough technologies. What we found is, we've gone forward from there as we needed to better define what do we mean by 'breakthrough', and for what we've seen is that we're not really, we're gun-shy in terms of idea-stage companies, we're looking for those that have already built their MVP, they've got the data, they might even have some users, so they've got some traction in the market already and that's kind of a better fit for us to come in on.

Hall T Martin: [00:03:28] Can you mention one or two sectors that fit the criteria you're looking for as being in that market?

Greg Thomas: [00:03:34] Sure. So, one of the areas that we're heavily involved in at the moment is cannabis, especially from States on the East Coast where the market is still new and you don't have some of the imbalances that you have in places like ______Be great if it was a national market, but it isn't today, so we kind of have to live with what we've got there. Another market that we like is medical devices, especially those that are non-invasive because there's a much lower R&D cost, and by extension, it's also the regulatory hurdles that you need to get through to get to approval. Years ago, going back a few years, we were really keen on battery technology for energy storage, but what we've seen right now is that it hasn't progressed at the pace that we initially thought it would, so we've kind of cooled our heels there. But we still like investments in wind and solar, and some of it could be projects, some of it could be - we're working with this group out of Buffalo, kind of a novel approach to bringing solar, let's say, to municipalities, or to small businesses or smaller businesses, mid-sized business.

Hall T Martin: [00:04:45] Can you talk about one or two portfolio companies that fit your thesis? Maybe one or two that you've recently funded or are excited about currently.

Greg Thomas: [00:04:52] Yeah. You know, the first one would be a group of cannabis dispensaries up in Massachusetts that launched about a year ago, started as one location and has grown to three locations, they're doing really well in terms of top line, and we really think that even with some of the regulatory hurdles in Massachusetts, there's an opportunity for growth there, so we're excited to be on board. The other one I talked about is the solar company out of Buffalo, New York, and they're still in the very early stages. They've marketed, but they've just installed their first deal, they've just gone live with that. And then, now we're looking for other potential customers in that upstate New-York area. The third one is kind of a pivot, but it's one we got involved with years ago and it's just gone live. And it's a social media platform for dreamers, and the idea is about getting the community behind your dreams and helping to make your dreams become a reality, and it's kind of odd. When I first started talking to Chris Adams, who is the founder, years ago, one of the things I said to him was, "This thing would be great in a recession", in that, it gives people who are, let's say, on the back foot, but have a great idea, the opportunity to meet up with like-minded people and make it a reality. Since then, it's been a long and winding road to kind of get it to launch and they just launched about six weeks ago. He's currently on a bus tour with some folks and is getting some great traction there. In fact, I don't know how well you know him, but ____to declare your dream is part of it, I'm trying to think of a big, I'm blanking here because I don't follow hip hop all that well. But a hip hop producer out of Atlanta became like - and Charlie Hustle's I think, is his name - became kind of a spokesperson for it, so we've been really excited by that, and it's starting to see some great things happen. And even at a minimum, it's just helping people in this time to believe in what they're doing and know that they're not alone and I think that's a big win.

Hall T Martin: [00:06:51] So, we're coming out of the COVID pandemic, how does that change your investment thesis, if at all?

Greg Thomas: [00:06:57] The only thing would be - oh sorry, not Charlie Hustle, Charlie Rocket, the only, Charlie Hustle's Pete Rose, right? The only thing that kind of changed in our thesis was that any company we're looking at right now has to in some way be inoculated from what's going on. So they have to be delivering a product or service that fits the need in the market today. We're not operating under the assumption that we're going to go back to the way things were, at least for another couple of years, and by the time we get there, the market is going to look completely different just because of the natural evolution, as we're forced to work remotely, as we're forced to do workarounds for other things in life, those are just going to become part of our routine even after COVID. So from that perspective, our pivot's been looking at the companies in the spaces that we talked about to see how they can be resilient in this time of immense uncertainty. That's one reason why we like cannabis, because with a few exceptions, it's been very much sheltered from what's been going on in the broader economy, and there are people that are using it for homeopathic purposes, there are people are using it for pain management, there are people using it for recreational purposes as well, and we think that space is well-positioned to grow. And as a small group, a small investor, now is probably the time to get into it before - and I don't know if it will happen after this election, but before - the government - which I think eventually will have to because so many people in the country are behind it now, and I'm maybe being too controversial, but before the government - kind of gets rid of some of the barriers that limits the industry to let's say a state-by-state basis.

Hall T Martin: [00:08:53] Well, before the pandemic, cannabis was, by most experts, estimated to be fully legal across the U.S. in all forms by 2025. You think that window's going to be pulled up and if so, by how much?

Greg Thomas: [00:09:06] I really wish it would be. The problem is that we haven't heard from either party taking it on as an issue and I don't know why. Maybe it's generational, maybe it's just not on people's radar today, but going into this election - I was actually interviewed about this about a year ago - I thought legalization of marijuana would be one of the wedge issues in this coming election, and I've been proven to be wrong. So, I think, what you've heard from people about 2025 probably tends to be where we are right now. If anything, what we've seen with this - it's kind of unfair - was the previous attorney general in the current administration where they took kind of a step back. I know the House had just passed a bill about two weeks ago, but I don't see in its current form the Senate taking it up maybe before the middle of next year and then it goes to committee and so on. So, at a minimum, we're still two years away and the reality is probably 2025 is a fair bet.

Hall T Martin: [00:10:11] Well it seems like the need for taxes and jobs is going to accelerate it once we get past the elections, whoever's in there is going to have to re-engage all the workers that have been displaced so far, and cannabis is one of the best ways to do it, given the growth rate went from 22% percent last year to nearly 40% this year. And California, I think, has made over a billion dollars in taxes in the last 18 months that is just sitting there. Somebody is going to pick it up and move it forward because they're going to need those taxes and jobs to change over the economy itself. So, it'd be interesting to see how fast that moves.

Greg Thomas: [00:10:51] And you're right on so many levels. There are the jobs both for the retail and the cultivation part of it, and then the retail sector. It'll help to hoover up some of those people that have been cast away because of other retail businesses going out of business. You're right about the taxes because state and local governments are just hemorrhaging cash right now, right? And, they need a way to kind of build up their tax base. The funny thing that we found, at least in - and it might just be some of the property owners that we're talking to - is that not all commercial developers or commercial landlords are keen to have a dispensary on their property. That might change, given that we're seeing - especially in big cities - commercial real estate under tremendous pressure, but we still found some people that have been reticent to kind of take on a dispensary. I guess we'll just have to see what happens with that. Oddly enough though, as we talk about that, what we found is that the real money in cannabis - dispensaries, I think you have to have - but the real money is more in the licensing, or even better the branding of the product, which then can be sold through multiple dispensaries or different channels, whatever is allowed in the State where you are. So, the retail's a great business and it's a great tax generator. The cultivation, I think, goes hand in hand with the retail, especially if you're looking to have better cost control. But it's the branding. I think the companies that are investing in developing brands, those are the ones that are going to stand out once we get to a point where there is true consolidation in the industry.

Hall T Martin: [00:12:29] And also during the pandemic, we saw a shift to e-commerce, people being able to buy exactly what they wanted and have it delivered to their door. Dispensaries were part of an essential service so they maintained operations, but now they're having to put on masks and come out and do curbside delivery and those type of things. So, it seems like that teases them a little bit, if I could just order it from home, boy, it seems like that's going to be the way it's going to go in the future itself, but we'll see, we'll see how the cannabis thing works out. So, going on from there, what's your advice for people that are investing in startups in cannabis or any other sector today? What do you tell them to do before they write that first check?

Greg Thomas: [00:13:09] I think the number one, you've got to really know the investors and this is even before COVID. I'd give an anecdote of a group, we haven't really worked with them, but I know the GPs really well. And they're more of an early-stage investor out of Wisconsin and they have like a nine-month due diligence that they go through with any company that they're investing in. And part of that is so that they can get to know the founders, and they can get to understand their thesis and how they look at the market, and then what they think about the market. And that probably brings me to my second bit of advice. And, for an investor, it's dangerous when you start investing in markets that you don't really know. And I think beyond the cash, which is obvious, the one thing that an early-stage investor brings to a company, is his knowledge of the market, either how to get and win customers, or potentially they have connections that can help the company scale faster, or even just to help them in their next round of fundraising. But for that reason, I think you need to have some knowledge in what you're investing in. Some things are sexy. If we go back a few years ago with ride-sharing, right, everybody would love to be an early-stage investor in Uber or Lyft, right? But you can't let FOMO kind of guide your investment. You've got to be comfortable with the investors, know the market, and I think the last piece is just be prepared to be in a position to add a little bit of additional value beyond just the check that you're writing.

Hall T Martin: [00:14:43] Well, great. Well in the last few minutes that we have here, what else should we cover that we haven't?

Greg Thomas: [00:14:47] That's an interesting question. Maybe I'll flip it around, I'll become the interviewer. As for you, I mean, what are you seeing? What's the mood from the investors or even the startups that you're talking to?

Hall T Martin: [00:15:00] So, it was interesting when the lockdown came, what we found is most investors were hunkered down for about four weeks working on their portfolio and many startups looked at that and said, "Well, there are no investors investing". Well, there are plenty of investors investing. VC funds have raised their money, it was in the bank, but for four weeks, they're filling out PPP forms and triaging those who are going to make it, those who are not. You know, in our program, half our companies did very well, a quarter did OK, and another quarter had to go change, they just were not in the right sector. And so, you have to go triage that, and some who were giving follow-on funding six months from now, decided, well, I'll just go and give it to you now because you need the money and I think you're going to make it. If you're not going to make it, let's go ahead and either pivot because there's still time or shut it down and start again somewhere else. So, then after that happened, we had a whole bunch of people in the investor side rush in because they were looking for a good deal in stock markets, down by 20%, valuations will be down by 20%, let's make a deal and we saw a fair number of those things happen in the late spring. And then in the summer, the stock market turned around and started coming back up. You know, the economy - if you look at the news - is going away and never coming back, by the way the newscasters put it. But the stock market's going up, and investors were looking at that going, "Well, something's going on here, things aren't going away". And then to your point, they were looking for COVID-proofed businesses, just like you were looking at something that was inoculated, they were looking for something that was doing well in this time frame. And then over the summer, the market just kept going up, started to do some corrections there recently but started taking off. And companies that are in that part of the economy, online content, engagement, tech, that type of thing, are doing very well, and my personal view is that there are two economies out there. There's the old economy, brick and mortar and what have you, and the new economy is online content and engagement, and strangely enough, those six big tech companies outweighed the rest of the S&P 500 and people piled into that in a big way.

Greg Thomas: [00:17:14] I would add, there's a third layer to that which is - and it probably mimics what you're seeing with the tech companies, but it's the part of the economy that the Fed is willing to backstop. We actually got very lucky in the stock market this year and we very rarely play in the public market, but we just saw what was going on and we felt it was time to jump in. So we jumped in in late April, early May, took a little bit of a hit, but we basically_________ our positions from there and we probably kept them longer than we normally would have because I don't really like the public market. But it was a risky bet at a time when probably asset preservation was first and foremost, but, just seeing what the Fed was doing to backstop the public markets, it seemed like there was limited downside.

Hall T Martin: [00:18:03] Yeah, and so, as the market came back during the summer, the IPO market took off and everybody that was planning an IPO before COVID is now actually running one and doing very well with it; they're all coming out in good shape. And so, valuations went back up, investors went back to business and started coming back in a big way. When the pandemic first hit, I did have some investors saying, "Where did all the startups go?" And, one thing I found was if you rated the startups from 0-100, 0, they don't have anything but an idea, 100, they have everything they want, everybody from 50 down was out of the playing field, they just knew they weren't going to raise funding, and so, they weren't even in there. And so, for a while, every deal that came through was a real quality deal and then I wondered, "Why is that?" Well, it's because you know, the field has been cut down because a lot of people have left - for a while - they'll be back later, for sure, and then now it's just business as normal. And then to your point is, you have to have a COVID-proofed business. If you're doing well now, you have to do even better after the pandemic's over, one of these days, and so, that's kind of how the market's going right now. And, what we're now looking at is, well what is the new investment thesis that's coming? And, we see a lot of interest from investors on supply-chain visibility systems, manufacturing software. I remember a year ago, listening to many a podcast talking about robotics and AI were the evil thing that was coming to take your job, be very afraid, you're going to be out of a job in a year. And then when you go into the pandemic and workers are in lockdown, and by the way you want millions of PPP equipment, well the only way you're going to get that is through manufacturing and robotics and a higher level of automation. And so, this is now saving us, not hurting us and so I think the world turned a little 180 on the view of AI and robotics and how it was impacting the world. And so, we see those segments accelerating very fast, it accelerated some segments and de-accelerated others. But the most who weren't accelerated were the ones that were going away anyway. We just don't need any more Bed, Bath and Beyond, or retail shops or what have you, we have plenty of that and you can do it more efficiently online. So, it just moved everything by some estimates, by about three years, it moved it forward, the market in three or four months. So, in the short term, it was a challenge because of the impact of COVID on people's health, but the long term, the impact was positive because it was moving it to the next generation more quickly.

Greg Thomas: [00:20:40] Now, it's interesting, you brought up supply chain - and I know we're almost out of time - but we're not invested in this company, they're just about to launch their MVP, but we've been tracking them closely and developing a relationship with them and they're doing something along the lines of AI and analysis in supply chain and more focused on _______ or distribution companies. So, it's funny. Supply chain is an industry that has a lot of data, but if you look at distribution itself, it's still very much done by brute force in terms of getting your product from the factory to the shelf. There's a lot of data there and you're going to say to me, "Amazon, they've automated a large portion of it and they've got heaps of traceability and heaps of data that they're collecting", but if you look at other businesses or other business models, even, take beer, or the Coca-Cola that sits on the grocery shelf, or as we see now because of the pandemic fruits and produce and those sorts of things, there's still just a lot of brute force lifting that goes into that ______mood optimization, and forecasting, and planning are still problems for these companies. And this company like I said, they're still in the MVP stage. Maybe we can touch back in a few months or I can put you in touch with the founder. They believe they've got a solution that can help those distribution companies reduce their costs and improve their efficiency.

Hall T Martin: [00:22:05] Sounds great. Yeah, I'd love to see how they move forward, because I think we're going to see a lot of movement in the supply chain industry as we shift from just-in-time inventory to a more robust supply chain. Used to be nobody wanted anything, any extra cost in the chain, but now, people want to have security that something will be coming from somewhere just to cover basic needs, and so, if you have a different shift and then nobody wants to be reliant upon another country or another supply chain, so they're going to want to see second and third sourcings and, I think we'll see a lot of movement in that direction as well.

Greg Thomas: [00:22:39] Yes.

Hall T Martin: [00:22:40] So, it's been good talking with you. How best for listeners to get back in touch with you?

Greg Thomas: [00:22:44] So, probably the best way is my email, and that's greg@375parkllc.com.

Hall T Martin: [00:22:52] Cool. I'm going to put those in the show notes. Want to thank you for joining us today and hope to have you back for a follow-up soon.

Greg Thomas: [00:22:58] You're welcome. Thanks for inviting me to join you and have a great day.

Hall T Martin: [00:23:03] Investor Connect helps investors interested in startup funding. In this podcast series, experienced investors share their experience and advice. You can learn more at Investorconnect.org.

Hall T Martin: [00:23:19] Hall T Martin is the director of Investor Connect, which is a 501(c)(3) nonprofit dedicated to the education of investors for early-stage funding. All opinions expressed by Hall and podcast guests are solely their own opinions and do not reflect the opinion of Investor Connect. This podcast is for informational purposes only and should not be relied upon for the basis of investment decisions.