

Edward Dugger III of Reinventure Capital

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 Edward Dugger III, President at Reinventure Capital. Edward, thank you for joining us.

Edward Dugger III: [00:00:31] Hall, thank you for inviting me to be your guest today. I appreciate it.

Hall T Martin: [00:00:36] Glad you could join us. And so, maybe you can start off with telling us a little bit about your background. What did you do before this?

Edward Dugger III: [00:00:42] Well, I've actually been in venture capital for over 25 years, and my earlier funds had a similar thesis and strategy approach as my current one, Reinventure does. The earlier funds were a pioneer group of funds that really focused on addressing the inequity and the allocation of risk capital to founders of color. And so, we would be considered today an impact investing fund. In those days we were not, we were just trying to deal with an important inequity that we saw. And so, we were very successful in creating an example of how the sort of conventional wisdom that perhaps founders of color couldn't build scalable businesses, they couldn't do it profitably etc., was simply wrong. In the process we generated internally a return of 32%, which was in the top quartile for any venture fund of its vintage. And so, it's a record I'm proud of and we brought forward in the form of Reinventure Capital today.

Hall T Martin: [00:01:50] So, in the impact space, there's many areas that you can invest in, but tell us about the areas that you invest in and what you look for in these startups.

Edward Dugger III: [00:02:00] Well, first of all, our strategy is a little different because we deal with early-growth companies rather than startups or seed capital. We really

position ourselves to help companies scale. In most instances, those companies are at break-even or better and they're ready to grow. We're agnostic about the sectors in which we invest, and so, in our earlier funds, we invested across 10 different industry sectors, including software, medical instruments, broadcasting - both radio and television - we did environmental services, to mention a few. The general approach we take, though, is that we look for companies that can scale, but began in fragmented markets and have the opportunity through organic growth or through acquisition on their part to grow to be major players in their segments. We look for companies that are going to be addressing real problems and providing real solutions to those as well. And that's all in the context of investing in support of founders of color and women who are largely overlooked these days, often seen as invisible, and yet, we describe it as the bad news, good news. The bad news is that this inequity exists, the good news is that it represents an unusually good investment opportunity as a result.

Hall T Martin: [00:03:28] So, can you talk about the stats behind investing in diversity teams? What numbers lead you to make the claim that it is a better investment?

Edward Dugger III: [00:03:36] Well, I have on our website, which is www.reinventurecapital.com, we have a whole section on that. It's entitled - let me see for a moment - it's entitled Third Party Resources. We make a special effort to have the listings, whether it's from American Express, or it's McKinsey or others that have provided this information. We know that's an important subject, and so, we have put it there for everyone to see. But if you take a look at that, you'll find that the argument for diversity is a very strong one and comes from sources that are highly reliable as well.

Hall T Martin: [00:04:20] Well, great. And so, tell us about the investments you make. What exactly are you looking for and how do you make your decisions on them because there are many, many startups to choose from?

Edward Dugger III: [00:04:30] There are. I mean, in fact, you would probably be surprised at the depth of opportunity there is in this sector. We launched our new fund, Reinventure in March. Since then, we have looked at over 300 very exciting opportunities, some of them too early for us to invest in directly, but represent great investment opportunities for those who want to do it at an earlier stage. These companies are all tech-enabled, they're designed to be very profitable, and when I say

profitable, I mean that their bottom lines or the EBITDAs look like 25% or 30%, as opposed to 2% or 5%. They are either, as I mentioned, tech-enabled on digital platforms, or they are engaged in creating new technology as well. They come from a demographic that is both young and older. In other words, many of the founders that we expect to invest in will be mid-career. They would have had a career in corporate America and are looking to pursue the dream that they've always had to be entrepreneurs on their own. So, we sort of run the gamut in terms of the backgrounds of the founders that we have. As a result, we have a much wider race than one might expect in where the opportunities come from and what they look like. Just to mention a few industries media, but not the next sort of act. We're looking at media in terms of Spanish language - streaming as an example - addressing a demographic that is not well served, particularly Gen X and the millennials who have a preference, even though they speak English fluently, for having Spanish-preferred content that comes not just from America, but from Central America and South America because they're interested in maintaining their ethnic heritage. We have companies that we're looking at in the vehicle-emissions testing, not testing, vehicle-emissions chargers - I don't know why I didn't think of that - but chargers, that's going to be a dramatically-growing area. We expect some 18 million electric vehicles on the road in the next 10 years. The infrastructure for that is not in place, and so there's a huge opportunity for putting EV chargers in place, workplaces, public places, fleets, et cetera. We're looking at things in the music industry that our technology should be. We're looking at things that one would expect not necessarily to see if you come from the sort of the traditional point of view that these are not something that folks of color and women are most likely to be involved in. But what we think is really important and what we do differently is, we say, "You see what you look for". And so, because we have that lens on, to look for this demographic in particular, we find incredible opportunity.

Hall T Martin: [00:07:48] So, you invest in diverse founders, but what's the role of social impact in your investment thesis? Is that your sole thesis or do you do broader than that?

Edward Dugger III: [00:07:58] Yes. I'm glad you mentioned that because we do. We think that if an investor or an LP invested in us just because we were a diverse management team, they haven't taken advantage of the real opportunity, which was to have ripple effects that really go on beyond the investments of their money through us.

And so, when we make an investment, we have what we call an Impact Pact, with all of our founders, which say, "Here's what we want to accomplish. In addition to making a good return, we want to have these kinds of impacts through our investment in your company". That will be, for instance, how are you sharing the wealth? How far are you distributing within your company, accessed by the sharing of profits or sharing of ownership? We encourage that. We look at how they spend their monies with other companies that are founded by women or other founders of color, in other words, supplier diversity. How much of an effort are you making to buy from vendors who have companies run by folks of color or women? What are your diversity goals within your companies as well? So, and essentially what we do is we structured as part of our investment documents this pact that lays out exactly what it is, that once our investment is said and done, it continues being exhibited in the companies in which we invest.

Hall T Martin: [00:09:46] Well, great. So, of course, all investors want a return on their investment, but I find the great investors have a goal beyond that. I call it the "why". Why do you invest? Why do you invest beyond just making a return? How would you answer that question?

Edward Dugger III: [00:10:01] Well, that's a really good question, because all of my professional life, I have been trying to address or shift the flow of capital to founders of color and those who have been overlooked by the traditional financial markets. The situation we have right now in the venture industry, is that the way in which it invests in a few elite founders who are generally young and white, that come from a few institutions in a few cities, has resulted in the concentration of capital, of power, of wealth, and privilege, really to the detriment of our economic well-being as a nation. As we begin to shift to become a multicultural nation, we have to have institutions, particularly our financial institutions, that doesn't just focus on a small group, it has to become more inclusive. Otherwise, we lose the opportunity to have our nation benefit from the innovation and entrepreneurship of large segments of our population. So, the "why" has to do with, that goes well beyond certainly making money or having a few entrepreneurs who are of color, or women, create businesses. It's really intended to create the foundation really for tightening and strengthening our social fabric longer term.

Hall T Martin: [00:11:41] Well, this is a timely discussion. We've seen a lot of social inequality in the last six months with the various things that have happened that led to the Black Lives Movement and others and so - the Black Lives Matter mantra - and so, how do you see that playing into your investment thesis and how do you play into that whole movement?

Edward Dugger III: [00:12:02] Well, ironically - and I do think of it as being ironic - because the sort of underbelly of our country has been exposed through the killing of George Floyd and the movement of the pendulum swinging back toward issues around racial equity, we find ourselves the kind of investment company that is exactly suited for this time. In other words, we have from our very beginning, identified this as an issue, something that needed to be addressed. We represented an investment vehicle that could deliver on it, and prior to this shift if you will, we found it somewhat difficult, frankly, to get folks to focus on this as an issue, and so, in order to create a sense of urgency around it. But with the shift, with that swing of the pendulum, we find that the urgency in this ironic way has been created for us, so now we have a lot of inbound interest on the part of our fund as a result of the fact that we have been solely focused on addressing this issue, which is so important to our nation.

Hall T Martin: [00:13:19] So you talked about investing in diverse teams you have a better outcome. Can you tell us why that is so? Why are diverse teams much better investments than non-diverse teams?

Edward Dugger III: [00:13:30] I like to think about it a little differently than that, that they are not necessarily so much better inherently, I think that they represent overlooked talent. And so, when I look at my earlier portfolio and my earlier funds and my most successful founders_____had a black female as part of the management team. The founders did not go to Harvard or Princeton or one of the IVYs, they went to Morehouse or one of the historically black colleges. Their route, their life path has been more circuitous. It did not look like the typical founder who was not of color. And so, they have in many instances, had to overcome a lot more in their life. And so, we look at those who have had this more circuitous path and give that a value. We look at what they've overcome, how they've been knocked down and gotten back up. And so, they bring more diverse experiences and perspectives and understanding of a lot of things to the table. And that in and of itself, that life experience by different

demographic sectors of our economy, this multicultural mixing, if you will, just adds more opportunity to get things right, to get to see more perspective, to understand more deeply.

Hall T Martin: [00:15:09] Well, great. So, what do you tell your limited partners and other investors about this space as far as investing in diverse teams? What's your coaching and guidance to them about it?

Edward Dugger III: [00:15:21] Well, in this moment where we are free to have open conversations about what's really important and what has been the practices before, we can honestly say to prospective LPs that, you can now have an opportunity not to be complicit in supporting a very elite group of people that represent this concentration of capital, opportunity, wealth, and privilege, and to share it. And so, those who want to have an impact, those who want to have their money do more than make a return, therefore have an alternative. They have an alternative to invest in a way that strengthens the well-being of our society moving forward.

Hall T Martin: [00:16:20] Well, in the last few minutes that we have here, what else should we cover that we haven't?

Edward Dugger III: [00:16:24] Well, you've done a good job of sort of touching on some of the most important issues and I thank you for sort of allowing this conversation to happen. My experience is that throughout the country - I'm in Boston - the conversations around what is to be done in this moment is an important one, and certainly, that conversation certainly needs to happen within the financial community, whether it's venture capital or whether it's other areas that access capital as well. So, I don't know if there's anything else we need to cover right now, but I do thank you for bringing this to the front.

Hall T Martin: [00:17:04] Well, I appreciate having you today. How best for listeners to get back in touch with you?

Edward Dugger III: [00:17:09] Yeah, to get in touch with me, please go to our website, which is again, www.reinventurecapital.com. We have designed that website, not so you can learn about us, but what you'll find is that it is a real resource for learning about

what can be done in this moment. We not only talk about why diversity makes sense, we try to connect you with peers that you might want to get to know as well. And we have a whole listing in fact of other venture capital funds that have a similar purpose that you might have an interest in as well. So, we're trying to build an ecosystem of community, and I think our website might be a great place to begin to build that for your listeners.

Hall T Martin: [00:17:56] Well, we'll put that in the show notes so people can get back in touch with you. I want to thank you for joining us today and hope to have you back for a follow-up soon.

Edward Dugger III: [00:18:03] Thank you so much.

Hall T Martin: [00:18:06] 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: [00:18:22] 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.