Larry Uhl of Pasadena Angels

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: [00:00:24] Well hello, this is Hall Martin with Investor Connect. Today we're here with Larry Uhl, Vice Chairman of the Pasadena Angels. The Pasadena Angels were founded in 2000 and it's one of the longest-running angel investing groups in Southern California. They've invested over $75 million in 190+ companies. Larry, thank you for joining us.

Larry Uhl: [00:00:42] Well, thank you for having me.

Hall T Martin: [00:00:42] Well, great. So, what was your background before investing in early-stage companies?

Larry Uhl: [00:00:48] Well, my background, I was an investment banker primarily at Merrill Lynch for 19 years, and then I ended up joining and becoming a financial advisor for UBS and managed individual money for about another 15 to 20 years. So, I thought the second job was going to be a bridge, but it ended up being a separate career. And then about two years ago, I retired.

Hall T Martin: [00:01:17] Ok. Well, tell us more about the Pasadena Angel Network.

Larry Uhl: [00:01:21] Well, Pasadena Angels are comprised of about 100 individual accredited investors. We historically have invested individually in companies, so that it's not a special-purpose vehicle, it's individuals going into the cap table of a founding company. Our typical size is probably around $250,000. We've done as much as $600,000 and as little, literally as little as less than $100,000, depending on the company. We also have a fund that we're finishing up and my call earlier today was working on the second fund for the Pasadena Angels, where if we have at least $100,000 invested by individuals, by at least four individuals, the fund will add another $100,000 to that investment. So, an entrepreneur who comes in and who makes that

first threshold of at least four investors with $100,000, will know that he's able to probably get as much as $200,000. So that's a nice number to be shooting for, it's a meaningful number for a lot of these startups, and we're looking forward to moving forward.

Hall T Martin: [00:02:43] Well, great. Well, you've seen the industry change and grow over the years, how do you see the industry evolving now for angel groups? Where do you see them going?

Larry Uhl: [00:02:52] That's a really interesting question and I don't think we know, but the reality is that it has changed tremendously. I was at a conference before COVID where it was really clear that a number of the people that we historically thought were the second stage of this investment track were coming down into the startup phase. So what we're seeing is more and more small VCs coming into our space, we're seeing accelerators accelerate, if you will, there's more and more of them that are developing cohorts, that are developing individual companies that they're trying to foster and get to a point where they can attract capital. So we're seeing both this tremendous amount of new participants, as well as the evolution of accelerators being more and more important to our process. I think five years ago, virtually all the seed companies were funded by individual applications. Now, more and more of our deals are being sponsored, if you will, by someone else. There's already a lead investor, there's already somebody who is the champion for the startup, and in many cases, I would say now in probably half of our deals, there is already a lead investor. We like it when we are the lead investor, but more and more of the situations we're seeing are ones that are already partially funded.

Hall T Martin: [00:04:27] So, what's the biggest challenge you face today?

Larry Uhl: [00:04:30] I would say we are very happy with our current flow. We're seeing a number of very high-quality companies come to us, we're still seeing those true startups that are coming out of nowhere, that have good leadership, good prospects. So, we're seeing very strong companies. The challenges are really, as they've always been, to try to evaluate the prospects of the company to make sure that we're able to evaluate what they're doing, but I think that maybe it's because the accelerators have been so involved in helping coach these startups. We're seeing companies come

through that have already done a lot of the due diligence, have already prepared a lot of the due diligence material. So I think we're seeing more complete applications than we've ever seen before, and I think that may be a challenge because people kind of know what to present in the presentation that's going to attract the angel investor. Most of us are sick of the hockey stick where the company projects that they'll be ruling the world in four years, and I think it's up to us as angel investors to really dig into that and to test whether or not that's accurate or not.

Hall T Martin: [00:06:02] Sure. So, tell us more about your investment thesis. What are you looking for when you see a deal?

Larry Uhl: [00:06:08] Well, the first thing is, we will do pre-revenue deals, but it's rare. We typically like to see a company that is evolved to a point where it has a product that's relatively well fleshed out. We like to see the prospect for there being a very large market that they can tap into. Maybe they're just beginning to get their first revenue, but the potential, if it takes off, is large. The third area is really trying to understand who the management team is, who their advisors are. There's the old saying that, "You bet on the jockey, not the horse", having a skilled, quality management team may be the most important item. And the last area that I think we are all remiss and not spending enough time on is really understanding what the exit strategy will be over time. Everyone thinks, "Well, gee, if I get $50 million in revenue, people will flock at the door", but I don't think that we as angels or the next-stage investors spend enough time coaching the startup companies for what is not necessarily the exit, but how are you going to evolve? Are you going to be acquired by somebody? Everyone says, "Well, maybe I'll go public". Well, the number of companies that go public is, I don't know, you can probably count them on one hand, right? Most of them get acquired. We don't do enough coaching about how to help people evaluate when and how to move out of this stage of a startup into the next stage.

Hall T Martin: [00:07:56] Well, great. Well, can you talk about one or two portfolio companies that fit your thesis that you're interested in?

Larry Uhl: [00:08:02] Well, I can talk about a couple. One is Ready, Set, Food! which is a company out here in California that is developing a mechanism to add product into baby formula at as early an age as four months. It dramatically reduces peanut

allergies, milk allergies, egg allergies, and it's had tremendous traction in the past year and a half. They have been extremely successful not only in their first raise, which was on a safe note, but also now on the second raise. And, they have a very large market that they could tap into as people realize that this is a way to reduce the serious allergies that people have. Another company that we're just now completing - and I think, it's not public, so there's no privacy guidelines here - but we have just finished investing in a company called _____, which is trying to address the fact that colleges aren't preparing students for sales positions, so they have gotten white label created a matrix, a 12-week course that's now accredited, you get three credit hours and they're rolling it out across the country. They've got 10 universities now, they hope to add a large number of universities, community colleges, continuing ed, to help students really understand how important it is to be able to present themselves well and to be involved in sales. Something like 30% of all the jobs in the country are sales-oriented, but only 3% of the universities actually provide any support for sales. So, that's an example of a company that if it does well, it has a very large market that it could tap into. And we like the management teams of both of those companies a great deal. So, those are just a couple of examples. I could go on forever, but I won't.

Hall T Martin: [00:10:20] Well, those sound like good companies. A moment ago you talked about your fund and how it works. So, what is the role of the fund for the group? How do you see it fitting in with the individual angels writing checks?

Larry Uhl: [00:10:33] That's a great question. I think I'm going to come back to this later, maybe, but we think that angel investing first and foremost is also about diversification and that if you decide to put a whole bunch of money on one particular startup, it's a little bit like trying to decide whether you put all of your money in Enron or whether you put all of your money in Apple. And we think that diversification in angel investing is absolutely critical. We strongly encourage people to try to build a portfolio because as one of my mentors in angel investing has said, he's convinced you can't identify the winners or losers on day one and that what you need to do is to create a portfolio that gives you a reasonable opportunity to have one, two, or three companies that truly have a 20 to 30 exit strategy. And so, we see the fund as being that for our angels. We are going to strongly encourage all of the Pasadena Angels to participate in the fund really on the basis of making sure that we are providing an opportunity to be well-diversified within angel investing.

Hall T Martin: [00:11:59] That's good advice. It's very hard to pick out the winners, it's almost impossible at the very beginning, so I think that's a good strategy. So, what excites you right now?

Larry Uhl: [00:12:09] I think what excites me, well, first of all, there's just the explosion of internet-related, COVID-related opportunities, from telehealth, to consumer marketing, to anything. I think we're at the beginning stages of people not going out to stores. Now, I'm not sure I want to be a mall operator today, but I think that we're going to see a huge number of opportunities, successful companies that are tapping into doing exactly what you and I are doing right now, which is having a meaningful dialogue and a process that's driven exclusively by the internet. And five years ago, I don't know if you were doing this, but you were probably doing it in person across the table from somebody. Well, everything you can imagine, work at home, shop at home, get healthy at home, ride your Peloton at home, all of that is changing and it's changing incredibly quickly. So that's probably the most exciting area. I also think that we're at the beginning stages of seeing healthcare change dramatically. And we're looking, I'm just now investing in a fund that's focused on healthcare, other funds are coming up. It's hard to pick in medical device areas the winners from the losers and the timelines tend to be very long, so, it's even more important that you have that portfolio effect. So, I think there's some tremendous opportunities out there.

Hall T Martin: [00:13:58] Well, you see a lot of deals and a lot of investors, what's your advice for people investing in startups in the sector? What do you tell them to do before they write that first check?

Larry Uhl: [00:14:07] What we tell our members, our new members is, don't feel pressured to do anything initially. Sit back, watch, participate, go to the due diligence sessions, listen to the management, listen to the pitch, try to find out why certain people like certain companies and why they don't, but don't be in a hurry to write a check. Participate, get involved, do your own due diligence. And then after you've done that, think about writing your first checks. I wrote my first check, the company, within moments of joining the Pasadena Angels, and I shortly thereafter wrote a second check. The first company is still alive, that's good. The second company died within about 12 months. So, had I been a little more patient, had I taken a little more time and not gotten

in such a hurry, I think I would have been good advice for me and for anybody else who wants to be an angel investor.

Hall T Martin: [00:15:11] Great. So, what's your advice for people running startups?

Larry Uhl: [00:15:14] I think the first thing, I think the reality is that accelerators help tremendously and the first thing I would do is try to find a company that believes in you, that will help participate in your success at a very early stage, really when you're in the concept stage. Without that, you're just sitting in a living room somewhere with a couple of your buddies trying to figure out how to do this, that used to be the model. I think a better model is to identify a place where you can grow, you can evolve, you can develop your products. LACI, which is the L.A. Cleantech Accelerator in L.A., does a wonderful job of taking people at a very early stage, bringing them in, giving them some space, helping them foster and develop their ideas so that they can create a company that will come out and approach the angel groups within three to four months from that initial process. So, I think that's the first piece of advice I'd give to any entrepreneur. The second is, you really need to identify what your product is and how it fits, what the competition is, and how it fits into the bigger marketplace. You really need to understand the market you're trying to serve incredibly well before you start approaching angel investors. So that would be the second piece. The third piece is intangible. You better be good at what you're doing and you better have tremendous drive. One of the things that we like to see, we want the entrepreneur, the founder, to be all in. We want the founder to have not only his own skin in the game, but to be totally committed. To think of this as a weekend project, that's not what we want, we're not interested. You need to be all into this. Emotionally, financially, your family needs to be involved, your friends and family need to be involved. We really like to see that in early-stage companies.

Hall T Martin: [00:17:38] Well, that's a great point. Well, in the last few months that we have here, what else should we cover that we haven't?

Larry Uhl: [00:17:43] Well, I think that one of the things that I wanted to talk about is kind of a corollary to what I touched on earlier, which is angel investing to me, is part of a diversified portfolio, and not only within angel investing should you be diversified and have many multiple bets in the space, but we've got a few people that have said, "Oh,

angel investing is a superior asset class than anything else". I don't believe that. I think that you should carefully look at your aggregate resources and identify what portion early on of your aggregate net worth - and maybe that's my old financial adviser hat being worn - but you ought to think about how much of your total assets should be dedicated to this space. I think that for most people if you're in the 5-10% range, that's a pretty reasonable number. If that is a relatively small number, maybe you ought to be looking at a fund as opposed to being individually investing in companies. But I think that whether it's real estate, or whether it's stocks, or whether it's bonds, this is just another asset class and you need to treat it not as the savior for yourself as an angel investor as an investor, but part of an overall portfolio. So, I would strongly encourage people not to back up the truck and invest everything in this space, but to set limits, set limits per deal, set limits in terms of your aggregate net worth, because the time frames - we haven't touched on it - the time frames are very long. I've had, I think three or four companies fail already out of the 40 that I've invested in. The good news is I've got 36 that are still alive in one way or another. So that, what you want to do is that you want to be able to withstand those early losses and to keep the portfolio intact, keep adding selectively and within the confines of your overall asset allocation, and to over time, create a mechanism where you're still around seven years from now. I'm hoping that in five or six years, those 36 companies will dwindle down to probably, if I'm lucky, 20, and a couple of those will do really well. But it's not something that has an immediate return to it, you've got to be very patient and you have to be prepared to have early failures because there will be early failures in any portfolio of startups. But over time, you should be able to have very reasonable rates of return. And the last thing I would say is this is an illiquid market. You need to understand that when you're investing in these companies, you tend to be an investor for a very long period of time, and my ability to say, "Hall, would you buy my interest in this company?" You're going to say, "Thanks, but no thanks. Why would I buy it on any basis?" So, when you write the check, you need to assume that you're writing, that there is no exit until the guy shows up at the door. We just had a company that a year ago did a financing, they just have done the second financing, it's doing incredibly well. It's a sea drone company called Seatrec and they're just closing their second round, and the interesting thing is that on paper, we've all had a 50% + return, but all we've done is exchange convertible notes for preferred stock at a cheaper valuation than what the next round came in at. So, we haven't got any cash in the bank and we're not likely to. I mean, I think the company is a great

company, but it's still another three to five years before there's an exit. So, even though on paper I can pat myself on the back, there's no cash in the bank.

Hall T Martin: [00:21:56] Well, that's a very good point and good advice for all investors out there. So, how best for listeners to get back in touch with you?

Larry Uhl: [00:22:03] Well, I'm happy to field calls. I think the first thing if you're really interested is that you should look at our website, which is Pasadenaangels.com. Tells us about who we are, we like to think that we're more than just about the money. We're hoping that we can provide some guidance to startups as well. I'm happy to talk to people. The best way to do that is either through the website or you can contact me via email. My email address is leuhl1@gmail.com. But I hope that you've got 50,000 listeners on this podcast, and I'm hoping that only three or four contact me.

Hall T Martin: [00:22:58] Well, great. Well, I want to thank you for joining us today and sharing this with us and hope to have you back for a follow-up, and appreciate your taking time.

Larry Uhl: [00:23:07] Well, thank you. This has been great. I appreciate it and very happy to do it. Thanks so much.

Hall T Martin: [00:23:15] 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: [00:23:30] 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.