Adam Smith of Big Sky Partners LLC

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.

[00:00:24] **Hall Martin:** Hello, this is Hall Martin with Investor Connect. Today, we're here with Adam Smith, founder and CEO of Big Sky Partners. Big Sky collaborates with companies and their brands to develop, grow, and maximize their potential. Through expert advice and extensive networks, Big Sky Partners helps clients to build brands and businesses that are respected, unique, global, profitable, and leave a legacy in today's crowded marketplace. Big Sky assists clients through brand positioning, executive and board resources, product distribution opportunities, corporate development, strategic partnerships, and capital and M&A affairs. Selective in its collaborations, Big Sky takes a meritocratic approach to client relationships, utilizing traditional client/advisor engagements as well as revenue-sharing and equity upside arrangements. Adam, thank you for joining us.

[00:01:05] **Adam Smith:** Thank you. It's a pleasure to connect with you today. I've enjoyed your podcast series, and it was great to be guest with you.

[00:01:10] **Hall Martin:** Great. And so, what was your background before you got involved with early stage companies?

[00:01:14] **Adam Smith:** Well, I began in early stage around 2010 actually when technology was a little less advanced and we were in a digital marketplace. I was an investor, and so, the last 10 years we've been growing that business as both an investment business and an advisory business. So nice to have both sides of the coin that we're involved in. But now, we began what was an optimistic investing business into more of a governance and founder advisory company. Our focus is mostly strategic planning and corporate governance support and putting deals together for the founders at Big Sky Partners, and that also leverages some other businesses that we own as well, that are within the broader private equity and venture capital community. I was in private equity before for about 15 years doing middle market buyouts and recaps in some billion-dollar funds, and then before that I started on Wall Street.

[00:02:10] **Hall Martin:** Great. So what excites you right now?

[00:02:13] **Adam Smith:** Particularly I'm interested in the evolution of sustainability and impact investing in the early to mid stage venture companies. We have a very strong expertise in consumer products, so the ancillary areas that are exciting, take into account a product or service which is sustainable, can be a decor that can be something

that's upcycling, recycling, something that's unique in terms of impact, whether it has specific ESR protocol or whether it's just creating a fantastic product that's good for the world. We don't take a huge amount of risk in the seed level like others do, but as the companies get a bit more scaled, more sophisticated, more capital, then we can really make a difference I'd say more in the Series A, Series B. So that can be wellness, exercise, fitness, mental wellness, sustainable product, upcycling, even art design collecting, and also some nonprofits that are also _____ for profit model. _____

[00:03:19] **Hall Martin:** What's your advice for people investing in startups, what do you tell them to do before they write that first check?

[00:03:24] **Adam Smith:** Well, you've heard this story probably 1000s of times, I think there are different opinions, but the general themes relate to doing diligence and evaluating both the horse and the jockey to understand who you're backing as the founder or founders. So I personally like companies that have more than one founder. But if there needs to be additional resources, then it is nice to see the early stage companies have several founders or board of directors or advisory boards or some sort of adults in the room that support the hectic and stressful lifestyle that a founder needs to go through for several years; also, the size of the market, and is it scalable, is there enough room left, what is the market share capture that the company is seeking to acquire within a reasonable period of time, three to five years; I also like to understand how many rounds, how much capital, what's the, how realistic are the founders, how much capital and how much time are they looking to build a company and how that relates to the business model. So it's important to have, for investors typically, anywhere from angel up to institutional venture capital, I think to understand, is the business model going to be sustainable in terms of cash flow, and when is that going to occur. And therefore, I like to see that the founders are realistic about their timing the needs for additional capital. I think also understand your competition looking at a SWOT analysis _____ analysis is kind of a minimum, but really going deeper into these direct competitors, and understanding metrics on those companies, not just their names, not just it exists, they have relevant products that really it's nice to have more data around those competitors from a science standpoint, the metrics of those companies. Because ultimately you're going to be either creating a market share, creating a new demand or are going to be taking the share from those competitors.

[00:05:27] **Hall Martin:** So for the startups, what do you tell them to do before they go out to raise funding?

[00:05:31] **Adam Smith:** Have some funding before you raise funding.

[00:05:34] **Hall Martin:** Good point.

[00:05:35] **Adam Smith:** I think _____ and, of course, the founders need to have tons of passion. That passion should be directed with a sense of realism and also with patience which can also be augmented if there is money in the bank. I say, somewhat jokingly, that I've seen way too many compelling or passionate founders that really should be supported, should have the time, the resources to support them, but whether it's extra resources like ours or lawyers or trademarks, occasionally patents, hiring people for creating a spec, MVP, even a beta site or some form of wireframes, I don't often see startups that don't take at least $25,000 to get to the finish line for actual funding. And even better than that would be that the founder would already have some capital, their own friends and family round before they hit the road. I think also having a nice presentation across all mediums helps, so not just a teaser, not just a deck, not just a website slash page or some Instagram handle, but really trying to have everything lined up and consistent around the brand name, the social media, intellectual property, not to mention trademarks that should be either prepared and fully diligence, if not started already, if not completed prior to hitting institutional capital. Of course, I come back – I come from more institutional investing. So if you're coming in as an angel, sometimes you can take more risk and you're willing to be a bit more lenient on where the company stands. I think the final comment would be there is such an explosion of entrepreneurialism and creativity, innovation, technological advancement, empowerment, tools that the more that this _____ ecommerce digital revolution continues, the pace will speed up and the barriers to entry will be changing. So having just an idea to run with and get investors, capital is increasingly tricky and it's insufficient I think.

[00:07:47] **Hall Martin:** Great. It's good advice. So let's talk about the state of investing. How do you see the industry evolving, and where's it going?

[00:07:54] **Adam Smith:** Well, fortunately, it's here to stay, America and the world needs risk capital other than emergency loans from the government or family capital or institutional capital. It's essential that the venture capital ecosystem is vibrant and supported both from policy and tax, but also philosophically and capitalized, so I don't see that changing. But I do you see that technology and digital tools will start to explode I think and both cannibalize and also complement the traditional venture capital funds, source of funds into a bit more of a digital landscape. So the development of marketplaces, way back to looking at Kiva, looking at FundersClub, to Oxa Market Sharenet, iCapital, of course AngelList, and there's syndication model, there's 10s and 10s of online incubators, accelerators, marketplaces. I personally find some of these larger platforms to be very inspiring and very important, including Kickstarter, Indiegogo, Oxa Market, GoFundMe, these are really powerful tools as well as AngelList. So I think the digital access and platforms will become more and more vital, which raises the question of how they use their artificial intelligence, and what type of diligence is incumbent upon the investor versus the platform itself.

[00:09:23] **Hall Martin:** And so what's the biggest change you think we'll see in the next five years?

[00:09:26] **Adam Smith:** Well, let's say, non-traditional venture capital funding now in terms of using online platforms, particularly since the JOBS Act has been created and both improved as well as the SEC accredited investor definition has also improved recently again. So those create more agency risk, more risk for the broader investor community, but I think it's also a democratic model and people need to take responsibility for their own actions, they can't rely upon the government's safety net to provide risk protection but also the empowerment at the same time, those don't necessarily coexist well together. So I think the online platforms will take 20%, maybe 30% of total angel and early stage venture capital funding, let's say, if you cap it at Series A, I could see that being 20-30% of total funding in the next couple of years. Analogy could be, for example, if you look at the IPO market, which is completely down the road from venture capital's investment which is pretty much the end, the ultimate goal really is to monetize the venture capital investment into an exit, not particularly an IPO would be that analogy could be relevant to look looking at the stock market right now. So stock market was, had its fits and starts, it's been around a while, but there was a strong period 10 years ago when the markets were soft after the first credit recession, the Great Recession, and then it kind of went quiet as the markets became more normalized. Now, the markets are not normal and specs have been embraced in many ways, and I read a stat showing that the IPOs have been over 50% specs, 60 to 70% specs this year, it's incredible. So yet you could look at that reality, which is a very risky IPO of a concept funded as a call option, essentially. Look at that model as what venture capital can do online with investors that are willing to take much more risk than its back. They could be willing to go more self-empowered, more investing in a curated model, I think the Angel's syndication is really the first mover and as I've shown that people are willing to follow some intelligent herd and make decisions on their own without having to lock up into funds. So that does create a concern for venture capital funds, I think.

[00:12:01] **Hall Martin:** Good point. So what's your investment thesis, what do you look for in a startup?

[00:12:06] **Adam Smith:** Some of the things we talked about before, I look for significant passion, combined with realism, trying to find founders that are determined, focused clients or partners or colleagues or collaboration that depends on the _____. But we want to make sure we understand them. We can empathize with them, get along with them, support them for months at a time or years. And also that they have a mind towards creating appropriate governance and leadership to expand leadership team, in terms of different people, different gender, different diversity, different skills, creating a board of directors, and then, of course, running that board of directors. Well, we focus on the governance through a different company, as you know, called Wisdom Board, wisdomboard.co is a governance, digital leadership community really focused on excellence for those boards, that can include venture capital and early stage family

office investments. So there is a growing chasm of governance skills and knowledge and willingness resources. So we are increasingly focused on early stage family office and super entrepreneur holdings at Wisdom Board to make sure that they can get consulting services, they can get connections with experts, they can get content and learn, they can network to make their governance resources as strong as possible. And in turn, not only protecting themselves, but also empowering their role as a fiduciary and making the company stronger.

[00:13:43] **Hall Martin:** Is there a particular startup you can call out that fits that thesis?

[00:13:48] **Adam Smith:** We see about 500 a year, so I won't pick one right now. But I would say, I can give you an example of one that we invested in that I would do again, for example, in a good for you unique branded space, in this case, in accessories. Although I'd say, now, we're more focused on wellness and the consumable products for your health and your beauty, food, beverage, mental wellness, content. But accessories and fashion and clothing, they can have a cause, they can be _____, they can be sustainable, and they can also make people happy, of course, through our traditional _____ shopping. So koio.co is a five-year-old, affordable luxury footwear brand here in New York. We were the seed partners initially in a Series A, 1.3 million. It was just a concept with a couple of _____ made out of Italy and using a dropship model directly to the consumer. So essentially virtual drop ship DTC of the Koio shoes, both for men and women, and they have proceeded to build a strong cause in their brand. They have raised four rounds over $8-9 million and assume they're pushing over 25-50 million valuation. And they really care about their people, their product, their returns. They're starting to move a bit into the TOMS Shoes model of sustainability and supporting social causes, but also a bit of the, let's say, the first edge or the rebag model of vintage as well, which you see other brands, Patagonia, of course, I think _____ Ghurka. It's a very interesting development to see brands take the effort to incorporate social good into their product which does not necessarily create more business, but it creates a stronger brand and connection with customer.

[00:15:56] **Hall Martin:** So you see a lot of startups out there, what do you think their main challenge is in launching their company these days?

[00:16:02] **Adam Smith:** Unfortunately, capital is number one, seems 60-70% of startups fail because of capital, followed closely by the scalability and actionability of the actual product and service itself. I think that there will continue to be a meaningful imbalance between the quantity of startups and the quantity of capital. So there will continue to be a Darwinian landscape for many years to come, but that's the way life is and it results in the stronger one surviving. That doesn't mean it's necessarily the best businesses, but I think those remain the challenges. Also, like I said, having strong governance, having adults in the room, having opinions around the table, having a diversity of thought is important, and those are also challenges, another challenge. I think, a third challenge is just the prototypical need to run fast and hard and to get things done quickly, both

because of scarcity of capital, but also the ego and energy and drive of _____ at the table, and the concern that there is a constant ecosystem of competitive activities going on. So that speed is, of course, motivating and realistic, but it's also a concern for founders, I feel like they have to make decisions too quickly, and I think that can be risky.

[00:17:28] **Hall Martin:** On the other side of the table, what do you see investors struggling with these days?

[00:17:33] **Adam Smith:** Same thing, too much deal flow. Too little time, too many deals, too many ideas, a lot of ideas aren't worthy, they are selfishly created, they don't have a core purpose, they're not going to work. And that's just reality, because there isn't a way for many people that, especially those that are less experienced or just maniacal about their concept is very difficult for a lot of startups to get outside input to change the course of their direction, they won't know or _____ willing to change the course of direction until it is necessary, which is typically when they hit a pivot or they run out of money or they have founder _____ concerns. So I think the same, that's how it exists and will continue to be the primary challenge in venture capital.

[00:18:28] **Hall Martin:** Great. We see a lot of deal flow out there with 500 a year. What sectors or applications do you think are good _____ opportunities for investors to pursue today?

[00:18:37] **Adam Smith:** Yeah, I know, you see probably 1000s of angel and seed situations that need mentorship, need connecting, need to access a platform that I'm glad to see there are people like you creating empowerment and the democratization of access without a tricky or overly complex investment banking model that does empower a lot more founders and there should be more of that as well. I like the Series A and Series B level myself, and also the secondary opportunities at that stage.

[00:19:10] **Hall Martin:** The last few minutes that we have here, what else should we cover that we haven't?

[00:19:13] **Adam Smith:** I think it's been a great talk, I would encourage founders to balance their desires and passions with seeking continuous diversified advice from others in this circle and outside this circle to push yourself past your comfort zone, not just in the company itself, but also in the input and resources around you. That can include core development advisors like us. It can be augmenting your lawyers. It can mean creating advisory board. It can also mean having a co-founder for two or three that you weren't anticipating. It can also mean a joint venture if you want to accelerate your timing to create a B2B partnership. All those things are opportunities for founders.

[00:20:03] **Hall Martin:** Great. How best for listeners to get back in touch with you?

[00:20:07] **Adam Smith:** I think LinkedIn is the best. I'm at R. Adam Smith. In LinkedIn, we own four different companies, but all of them are listed there, and all of our websites have emails and phone numbers as well like most venture capital funds, you can actually find my email.

[00:20:22] **Hall Martin:** Great. We'll put those in the show notes. I want to thank you for joining us today and hope to have you back for a follow up soon.

[00:20:27] **Adam Smith:** Thank you. Nice to talk to you today.

[00:20:30] **Hall Martin:** You as well.

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