

Tom Wallace of Florida Funders

[00:00:04] This is the Investor Connect podcast program. I'm Hall Martin and the host of the show in which we interview Angel Investors, venture capital, family offices, private equity, many other investors for early stage and growth companies. I hope you enjoy this episode.

[00:00:23] Well, hello, this is Hall Martin with Envestra Connect today we're here with Tom Wallace, managing partner at Florida.

[00:00:28] Funder's Florida Funder's is a hybrid between a venture capital fund and an angel investor network that discovers funds and builds early stage technology companies in Florida exist to involve Florida from the Sunshine State to the startup state by ensuring there is as little friction as possible in the ecosystem that investors have access to meaningful deal flow and entrepreneurs have access to a wide range of equity investors. Florida funders educates and ignites this community of investors and network of partners to drive investment in the most exciting startups Florida has to offer in one of a kind angel investor network provides transparency, fosters communication and empower strategic relationships between the investor network and the founders. Their team is composed of serial entrepreneurs, venture capitalists and experienced angel investors singularly focused on uncovering Florida's next breakout technology company. To learn more, visit Florida Funder's. Tom, thank you for joining us.

[00:01:19] Oh, thank you for having me on your show. I'm delighted to be here.

[00:01:23] Right. So what was your background before investing in early stage companies?

[00:01:27] I pretty much have been a technology entrepreneur my entire career.

[00:01:30] I got to college in the early eighties and the dawning of the micro or personal computer revolution and at the age of twenty three, with being about as green as you can be and not knowing anything about anything. My best friend and I started a company in the PC industry and so we built that company for seven or eight years and then had our first exit and then one one company and pretty much every decade we built and exited since then. So but along the way, which happens with a lot of technology entrepreneurs, I ran into other entrepreneurs that was trying to help out and started writing some checks. And so I've really been an angel investing for the better part of three decades and had a lot of fun with it. I learned the hard way that there is a bit of a science to it, not just in art. And if you do it right, it can be very lucrative and rewarding. And if you do it wrong, it can be very expensive.

Absolutely. So what excites you right now? Oh, my gosh. Oh, there is so much out there. I mean, from a technology that's coming out of covid and you look at there are so many opportunities to covid has accelerated so much of everything moving online.

[00:02:41] People are using against the card the new rates and stuff. It's such a rapid pace. People that normally may have taken two to three years to get there have gotten there. So e-commerce is of great interest to us. Anything that helps everybody else compete against Amazon. So the anybody that has a solution that helps the brick and mortar companies compete against Amazon, the e-commerce world, we love that space. We love edtech. Cyber security continues to be an area that we just think there's a very, very bright future for. And we also like fintech and digital health. We being here in Florida. I know you're in Texas. I mean. Health care is what is first or second largest part of our GDP, and it is only growing and too rapidly and too much inflation. And the only way we're going to really make sense in that and really move the needle, in my opinion, with health care or the best way we're going to do it is through technology and the application of technology.

[00:03:37] Ok, well, you're an experienced angel investor. What's your advice for people investing in startups? What do you tell them to do before they write that first check?

[00:03:45] We call it the five days of angel investing. So, first of all, diversified diversification. The second is deal flow. The third is due diligence. Fourth is domain expertise and the fifth one's diligence.

[00:03:59] I can cover everyone very briefly. So diversification that one of the big mistakes people make an angel investing and I say to myself is you can't go on and do two or three deals or you can.

[00:04:07] But your chances of being successful are about the same as going to a CEO. I mean, you need to build a portfolio. We say at least 10 companies. So early stage tech investing is, I think, you know, is a it's a risk reward game. So the probabilities of success are low. But when they are successful, the returns are very high. So if it's one in 10 deals, two and 10 deals, they're going to be 10 plus deals. If you're only doing two or three, you greatly limit your chances of success. Second thing, deal flow. How many deals do you look at for every deal you do? I use my brother example of this because early on my brother, like I'm not doing any more than angel investing. I did three deals. They all went to zero. I'm like 10. That's my older brother's name. I said to him, How many deals did you look at to do the three deals? He said, Well, three. I'm like, that's part of the problem. So and our business here in Florida, funder's we look at roughly 40 to 50 companies for every one we end up selecting and investing in and then due diligence. There's a lot of research on this. If you do 20 plus hours of due diligence and any angel investment, early stage tech investment, you significantly increase your probability returns. If Florida

Thunder is we do 70, 80, 90 hours of due diligence on every company before we invest in them and then domain expertise to invest in what you know, if you're a doctor, obviously, you're going to be a lot better in investing in medical devices than I am. I'm a software content guy, so in infrastructure. So between me and my partners, we try to stick with what we know, and that's mostly SaaS software, infrastructure, content plays like that and allows you to be disciplined. So with all these four days, you've got to do them over and over again, consistently and consistently. So that's that's very quickly what we've learned in the years. And this is helped us become, we think, pretty good in investing.

[00:05:59] And so on the other side of that table, what's your advice for people running startups? What do you tell them to do before they go out to raise funding?

[00:06:06] Well, I've been on the other side of it, and I think that what we look for and founders is we look for a lot of this, especially the earlier stage you're investing in, especially if you're doing create revenue deals, which we don't do a lot of here in Florida.

[00:06:21] Funders are most of our companies are what we say.

[00:06:24] They sit between family and friends in series A, our average check size is about a million dollars. So most of our companies have at least a minimal viable product. They have some customers or some pilots. They have some amount of traction. But the earlier this stage, the more important. We believe you're betting on the founder or founders. So first thing we want to see and found that we want to see, do they have the right stuff? Oh, I'm sure you know, building companies is really hard work and it's never linear. When Uber almost went out of business three times, they have what it it's going to get really tough. They're going to get punched in the face. They're going to get knocked down. Are they going to persevere? Are they going to they're going to do whatever it takes morally, of course, to be successful. So that's what we're looking for. Founders and founders is it's a decade commitment. If you're going to do this, you're going to be signed up for a decade and you're going to be all in all, I mean, working your tail off. This is not a four year week. We don't want to hear about work life balance. This is you're going to work your butt off. You're going to work weekends, you're going to work late nights, and you're going to you're going to really put everything you have in this. And as an investor, we want to see that our founders are that committed. The second thing, you know, Intel founders in the biggest mistake we see with a lot of young entrepreneurs, and I know because I used to make all these mistakes myself is is focus really don't try to do five things.

[00:07:45] Don't try to do four things. Don't try to do three things.

[00:07:47] Try to really focus on one thing and do it really, really well and get your team super focused on that. And then the team is the third thing. I mean, business is a team sport is Steven Jobs said you're only as good as your team. Surround yourself with people that are smarter than yourself. You got to be really you got to be really good at sharing your vision, getting people excited about that vision and recruiting people that are going to make less money than they were probably making wherever that you get them from. And they're they're coming. Or equity, and they're coming because they buy into the vision and they're coming because they believe that you're building the next unicorn. Well, that's great advice.

[00:08:26] So so let's talk about the state of angel investing today. How do you see the industry evolving where you see it going?

[00:08:34] I think it's a great time to be an angel investor like no other time, because if you look at what's happened in venture capital and angel investing in venture capital are pretty closely tied together, is most of the big venture capital funds have moved upstream. The raising billions of billions of dollars, third night write million dollar checks. They're running 10, 20, 30 million dollars checks. Andreessen Horowitz is kind of led the way with this. They're even doing later stage deals where they're they're given and companies are waiting so long to go public. Look at Airbnb. Look at these companies were 30, 40 billion dollars before they go public. So that's where a lot of the Silicon Valley money is moved to.

[00:09:10] So there's a really nice niche for angel investing when companies only need to raise five hundred thousand or a million dollars or maybe two million dollars.

[00:09:18] And angel investors can get in really early. And before the valuations are high again, they have to do all the finds because they have all those challenges. But I really believe that this is one of the best times to be an angel investor that have ever existed. And then on top of that, if you look at what's coming on from a technology standpoint, I mentioned I got to college in the 80s and that the personal computer changed everything. Up until then, only universities and large corporations can afford computers with the idea of the personal computer and IBM and one coming out with their PC. Now, every small business can afford a personal computer, every home, and you didn't have to be a geek to program it. There was software available that created a revolution that happens about every 10 to 15 years in the industry, happened again in the Internet with the Internet. Ninety five happened again in 2006 with the smartphone and the cloud. And if you think about where we're at now, I mean, we've got we've got artificial intelligence, augmented virtual reality lockshin body quantum computing, autonomous vehicles, all these game changing technologies hitting us at one time. So from an investor

standpoint and a founder standpoint, the wealth creation opportunity and the investment opportunity the next five years presents is just, I think, unprecedented and incredible.

[00:10:36] And so what do you think is the biggest change we'll see in the next few years? The biggest change?

[00:10:41] Wow, that's a tough one. I think there's so much capital out there. I've always believed that. I've always believed that the great technology and innovation comes from small companies, the big companies, the Googles, the Apples, the Facebook, the Fang's. They're not going to be the innovators. But I think what they're doing and we're seeing this is they're going to be acquiring technologies earlier on. So you saw this with Facebook, with Oculus, and you saw it with Instagram, where they acquired those companies when they were pretty young. And I think that trend is going to continue because they have to be innovative. And there's these companies are so powerful. They're sitting on so much cash. And it's very difficult for those companies innovate. So it's good for investors and it's good for founders because the exit opportunities are going to be plentiful if you have a great product and a great market and and a really crushing it.

[00:11:39] Right. So. So what's your investment thesis for startup funding? What do you look for?

[00:11:44] Well, again, we the stage we look for is we call early stage, as I mentioned, that between the family and friends and say we look at we look for really, really good founders. And the team we looked at, they're solving a problem, a real problem that their solution is we interview those early customers that it's not a nice to have or it's kind of cool what we want here. We love this product. We don't know what would do without it. We ask a lot of detailed questions and we want to know that this solution is really different than anything else. Doesn't mean they don't have competition. We're not effective. They don't have competition. Sometimes it's a little concerning, but they are clearly different and have something that's unique. And their secret sauce is something that is not easy to replicate, that their chances of success are going to be increased because somebody is just not going to be able to come along and knock them off. And this isn't easy to do. And if they're solving a big problem and they have that unique selling proposition, tremendous value add for the customer, and then they're in one of the spaces that we like, like cybersecurity, like fintech ed tech, digital health.

[00:12:57] That's that's what we look for. Great. Can you mention one or two startups that fit that thesis?

[00:13:02] Yeah, sure. I'll mention a couple new ones we've done recently. Stylist is a really cool e-commerce product.

[00:13:08] It's basically shopping by text, started by a really sharp young lady named Melissa Bridgford who who's a Harvard grad. And you think about this all, you take a picture of any. With your phone, you texted the stylist and they they basically have a frictionless shopping transaction that's easier than Amazon, they'll find that they send you back a picture with a price or they send back to the price. Here's where he found it. Yes, it's on its way to you. It's a really awesome product. We love stylists. We love Melissa. So we're very excited about that. As we know, e-commerce has just gotten so accelerated by the whole covid and people being locked up in their houses and not being able to get out. Another product we really like on the e-commerce space is client book. This company we back, they basically allow brick and mortar retailers, mostly high end luxury products. They've done very well in the jewelry industry. Again, this is manages the tech's relationship between that retail sales clerk and the customer so that texting go back, send me a picture of five different engagement rings and I pick one. And that texting that goes back forth is now all controlled by the store, the store itself, and not people using their personal. They're still using the personal cell phone. But the software is coming from the store. The salesperson leaves the jewelry store, owns all the data. They have all the transactions, they make it. They make it, again, easy to shop virtually for an industry that's been traditionally very brick and mortar. Those are two two examples. Right.

[00:14:39] So you see a lot of startups out there. What do you see as the main challenge they face in running their business these days?

[00:14:45] Well, I think it's it's kind of a it's two two sides of the same coin. The main challenge is there's so much competition. When I started my first company, the early 80s, there were no incubators, no accelerators, no universities doing on degrees and entrepreneurship. There were no rock stars like Bill Gates. And even jobs didn't exist yet, let alone Elon Musk and Jack Dorsey. Now, it's become really hip and cool to be an entrepreneur. And in the state of Florida, I can't speak the Texas state of Florida. We have forty five incubators and accelerators alone. So there's tremendous competition from being an entrepreneur standpoint. And so for people like me, the writing checks, I get the cherry picked, the very, very best deals. So they've really got to have a solution that's special and unique in solving that problem and they've got to have an impressive team. So that's that's all the challenge that it's so competitive out there now.

[00:15:42] And on the other side of the table, what was the challenge you face as an investor in today's scene if you had to pick one at the top of the list?

[00:15:49] Yeah, I mean, it's again, it's the flip side of the same coin. It's just like when when I go in to buy a watch these days and I've always I was a triathlete and I'd wear these tritely watches and you go in and there'd be like three watches to pick from. Now you go look at your watches. There's like a zillion. It's like I have to do research, just figuring out what watch I'm going to buy. And that's true of everything across the board. So we have so many companies that come to us for funding. We have 50 a month coming just on our website, not to mention deals are being referred to us and everything that's sifting through all that deal flow is a good thing, as I said earlier. But it makes it makes a lot of work on our side to try to find those gems and to really cherry pick those best companies and best teams. And and and it's competitive on our side. There's a lot more capital out there than there's ever been. I mean, it used to be early stage tech capital outside of Silicon Valley in New York, maybe Austin, a few places like that. We're working hard to change that here in Florida. Florida funder's is and we're not the only ones. So there's more capital chasing these deals as well, too. So that's the other challenge we have. Right.

[00:16:53] Well, if you had to pick one or two applications that you think are great opportunities to invest in today, what would you put at the top of the list?

[00:17:00] I don't know if it's an application, but it's an it's really applies to a lot of different applications, anything involving real artificial intelligence. I think artificial intelligence is going to have a tremendous impact on so many industries and so much software that's out there. The words overused a lot. And when a pilot comes up and says, we're using A.I., we really dig deep on that because there's a lot of kind of there's a lot of faking it when it comes to A.I. But true artificial intelligence with machine learning applied to almost anything. We're looking at company right now that does is for legal contracts and it makes it very easy for any corporation to turn around legal contracts, specifically customer contracts with very little human intervention. And it gets smarter as it reads these contracts. So we're very excited about artificial intelligence. We think it's going to make it a very meaningful difference across. I was in Israel two years ago at a tech conference and they had MRI software that was being read by an artificial intelligence or MRI is being read by an artificial intelligence application.

[00:18:06] A lot of people think that A.I. is just going to affect things like truck drivers and and jobs like that in here is it's reading my eyes. And every time it reads one, it learns more. We get smarter and smarter. And it's just going to have. I think there's just a lot of opportunity in the whole artificial intelligence space and can be applied to many different vertical markets, to many different industries.

[00:18:27] So we're very excited about it. Right.

[00:18:30] Well, in the last few minutes that we have here, what else should we cover that we haven't?

[00:18:34] Well, I would just encourage I love to encourage people to angel invest, because I think it's something that not only and I know I'm preaching to the choir here. Not only is it a lot of fun, I mean, I like we like to say we get to go to work every day and work with these bright, young, talented people who are trying to change the world. What could be more fun than that? Not only is it a lot of fun, but it's really rewarding, especially when you get involved as we do.

[00:18:58] We don't just write checks, but we mentor and coach the founders and we try to help them be successful. We increase the probability of their chances of creating the next unicorn. So I would encourage your listeners. I would just say, hey, if you're not angel investing, tried and it doesn't need to be a large portion of your, like, asset allocation model. It shouldn't be a large portion, less than five percent. But if you do it right and there's a lot of data on this, you can Google and research yourself as it can outperform really almost every other asset class.

[00:19:27] That's great. Well, so how best for listeners get back in touch with you.

[00:19:31] The best way to reach me is just Tom at Florida Funder's Dotcom.

[00:19:34] If you want to learn more about Florida Funder's and what we do and we do invest in companies outside of Florida, we'd like to keep at least 50 percent of the companies we invest in are based in Florida. We're very active in the Southeast as well. So just go to our website, Florida Funder's Dotcom, and we have a portal out there and we have companies out there all the time for investment. And we also have a place of your founder and entrepreneur. You're looking for funding. We have a way for you to apply online and get into our process. And who knows, maybe it will be your your next capital race.

[00:20:05] Right. Thank you for taking time to join us today and hope to have you back for a follow up soon.

[00:20:09] Right. Well, thanks. I really appreciate all the best for you and all the best of your listeners. Investor Canek helps investors interested in startup funding. In this podcast series, experienced investors share their experience and advice. You can learn more at Investor Connect, Doug.

[00:20:32] All Martin is the director of Envestra Connect, which is a Fiber One C3 nonprofit dedicated to the education of investors for early stage funding. All opinions expressed by Hall and podcast guests are

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