

## Christopher Ladd of NewRoad Capital Partners

[00:00:04.77] 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.

[00:00:23.48] Hello, this is Hall Martin with Investor Connect . Today, we're here with Christopher Ladd, partner at NewRoad Capital Partners, New Road Capital Partners LLC, headquartered in northwest Arkansas. In SEC, registered investment firm, Investing in growth, equity and growth, buyout opportunities in select U.S. PLI chain logistics, retail and consumer packaged goods sectors in the lower middle market. Thank you for joining us. Thank you. All right. So so what was your background before investing in early stage companies? What did you do before this?

[00:00:49.31] Yes, I was in private equity and then in DEVE at Wal-Mart in northwest Arkansas. I worked at TPG Capital and Cassill Capital.

[00:00:59.09] Great. And so what excites you right now?

[00:01:01.91] So we're we're focused, as you mentioned at the intro on transportation and logistics companies. There's a lot going on in the space given the pandemic and lack of it on before that. A lot of the investment across the board has been accelerated. We're focused on particular subsectors within transportation, logistics, so in particular, telematics, asset product visibility, warehouse automation, visibility within the warehouse and inventory management, and then ocean and marine freight. It's a fairly large industry globally in the States, it's about a billion a half trillion dollar business. And so there are pockets in there that that we're focused on.

[00:01:44.61] Right. So you see a lot of companies and a lot of investing. What's your advice for people investing in startups in these sectors?

[00:01:51.38] Yeah, I think, you know, much like fintech fintech predated logistics and transportation in terms of dollars coming in by about four to five years. And so there's been a

big push from small and large investment firms into transportation logistics over the last, you know, namely five, six years. And a lot of these mass market general plays have been funded. And so, you know, we're seeing that quite a bit recommendation would be to focus on key subsectors that still have a fairly large TAM's of a billion, sometimes two, three, four plus billion dollars in TAM and find a solution or two that that makes sense and, you know, understand that space and then, you know, pick a winner or two guys depending how you invest. And so that's how we're approaching investing so far.

[00:02:40.31] Right. And so what's your advice for people running startups in these sectors? What do you tell them to do before they go out to raise funding?

[00:02:46.16] Yes, we do a series A Series B, we need a strong product market fit. Often we see companies jumping the gun, coming to us for a series or series B capital with a product that is somewhat developed, doesn't quite have a market fit, or they have a product or many products and many markets. And that scares us. You know, a startup that is a jack of all trades has a higher probability to fill margin points. And so my advice would be to for us to develop the product as much as we can and then find that product market fit. Namely, this is how we invest on this everybody. Right. But we want to find Fortune 500 companies that are customers, existing customers, but also customers that we can help.

[00:03:34.19] Great. Let's talk about the state of investing in these companies. How do you see the industry evolving from here? We're coming out of covid in various stages of reopening. But where do you think the industry is going to go at this point to be interesting to see?

[00:03:47.51] I think the key question we're asking ourselves is as the economy reopens, what happens to the forward that we've seen in e-commerce, depending on who you talk to, some people argue it's a three year pull forward, some as much as seven or eight years of demand. We've benefited from that and some of our companies. And so we're spending a lot of time with our PCs to understand, you know, not just next year's budget, but the long range plan and how they grow and the investments that we're looking at, whether it be in transportation that justice or peace know.

[00:04:20.00] And so that pull forward, as you know, I guess, sharpen the focus of large companies, whether you be a shipper or retail like Wal-Mart, to repeal or transportation logistics company, a digital solution for various parts of your operations. Right.

[00:04:36.68] And so that could be more focus on efficiencies inside of the truck delivery and the operations of last mile delivery to the warehouse. Right with that product comes from all the way through to the ship that may bring it over from another market. And so, you know, I don't know where it's headed. I think over the next ten years, it's going to be more and more a continuation of a focus on digitization of operations across the board.

[00:05:03.02] And I think there's still a lot of room to grow that we think is the biggest change we'll see in the next, say, five years. We think it's going to be robotics or supply chain visibility or manufacturing recording. What where do you think it's going to be the biggest mover?

[00:05:16.67] Yeah, I think the next five years, I'm not sure. You're going to see more and more automation instead of a warehouse, for example, you'll see a lot of vehicles in controlled environments like a yard outside of a warehouse or yard next to a port. I think, you know, maybe 10, 15 years down the road. This this is our viewpoint is you'll start seeing more and more of that in more complicated settings. Mid mile or from a warehouse to a store is more controllable so that maybe the next entry point for automation or autonomous driving, autonomous trucking, we're looking in those areas. They'll be a step change inside of the warehouse, the packaging and the movement of goods, the tracking of goods inside of a warehouse. I think there'll be more and more automation there.

[00:06:04.40] Track and trace is growing rapidly. We've seen this step change, as I mentioned before, a lot of that track and trace companies that we have an investment in that space. Yet we've been monitoring a few companies. And it's been interesting to see a series, a company or a seed company almost kind of skip over the series and stage that as we just because the demand from their customers. We've been watching a company that mainly deals in the automotive space and automotive manufacturers are trying to take a lot of inventory out of their system. And so basically skipped over what we can invest in the group three or four X and we're expecting to grow one to two X, I think from automation to autonomous driving and track and trace. And I think it's one of those three.

[00:06:47.78] Right. Well, let's talk about your firm. What is your investment thesis for this sector? What exactly are you looking for?

[00:06:53.21] Yeah, we we are there's a number of things right. But we look for tenured founders and see sweeteners that companies that have had success prior to our investment, whether it be inside of a company being in a division or, you know, actually raising money and seeing an exit, a successful exit. And so most of our management teams and founders, they have 20, 30 years of experience. It's not their first rodeo and they have a strong supporting cast underneath them. We also want that that team to be coachable and open to collaboration. We manage about one hundred and seventy five million in our third fund. As mentioned before, we invest in series and big companies and we don't take a highly diversified approach like some early stage investors investment funds. And we we offset that risk by heavily focusing our operational team and making sure that each company performs well. And a key question we ask ourselves is, how can we help this company grow top line and bottom line? So we have operating partners that ran large divisions at Walmart, behind General Mills, Kellogg's within transportation to just exclude the former head of logistics and transportation from Walmart and on our team for about three years now and the former SVP of I.T. from JB Hunt. And so in this vertical transportation logistics, we work through those operating partners, the source, diligence, and then most importantly, at operational value post investment. And so we really need to make sure that the team is there, it's coachable. They want to collaborate. We can help them grow through our network. We can drive operational efficiencies. And this is, you know, aside from kind of all the more standard things that you that you look at and diligence like market size, growth rate margins, things of that nature. So I think those are two key things that we really focus on.

[00:08:41.39] Great. Let's talk about challenges for the startup and the investor for the ones you work with. What's the challenge you see that they face in launching and running their company in today's environment, not finding capital?

[00:08:53.15] I think it's finding capital that can truly help you grow. As I mentioned before, it's pairing the operational expertise with the capital. So we try to bring and we try to augment the round that we're investing in and then subsequent rounds with strategics that can bring some

of that operational talent that we might have a gap in. For example, I think I would urge any any entrepreneur to go out and try to find that capital, if they can type of capital within transportation, logistics. That's a slow to change industry. And it has been under invested a technology standpoint over the last twenty years or so. So it's playing catch up much like FinTech started, you know, ten years ago. So there's just a slow it's a slow process to form a pilot, develop a contract with a large customer, even a medium sized customer. There's often, you know, generational roadblocks, change of control issues. You kind of your classic problems that you see that large, large companies. And then I mentioned this before, where there's been a lot of capital coming in and there's a lot of solutions that overlap, a lot of technologies that do similar things, and they do similar things as well.

[00:09:59.27] And so proper communication with those customers is key. We know that a Walmart, for example, or some of the groups that were having looked into may take an approach. They try, you know, eight to ten solutions. Right. And then they pick a one or two less model. It was a case study. Wal-Mart's, you know, working with a number of customers across the U.S.. Right. And now they've been slowly whittling those partners down. And so clearly, you know, communicating your value proposition to the customer seems to be another challenge that I see in this space right there on the investor side was a challenge I think investors face and working in this space. Yes, that's sort of the opposite end, right? It's finding the solutions that Wal-Mart's within transportation logistics via the shipper and the carrier. And so understanding their market gaps and finding solutions that actually provide a cost savings or enhance revenue to some extent that are everlasting is kind of the name of the game for us, that we use our our network as much as as much as anything else to really understand those those problems and then go out and source accordingly.

[00:11:08.93] But having that knowledge is key, making sense of valuations in today's market. This is the challenge for nearly every industry in every stage of investing.

[00:11:18.89] And so we we struggle over this. And I think a lot of investors do. But that's a challenge for us right now. And as I mentioned before, you know, one of our key investment thesis criteria is defined tenure management teams that truly understand the problems because they were VP or SVP or a president of a company or a division, and they operated a

business and they saw a gap in the technology offerings that they had or the technology that third party providers providing them. And so that's those are some some challenges that I see.

[00:11:52.55] Right. We see a lot of applications in sectors out there. If you had to pick one or two to put it at the top of the list for investors to pursue in your area, would you put there?

[00:12:01.15] Yeah. So if you look at over the road trucking in the US, that's probably a couple of years ahead of marine and ocean freight across the globe. So we're spending a lot of time and money in an ocean freight tech. As a ship comes to a port, the next step is drayage. And so the movement of a container to a truck, to another warehouse, and then that goes to other warehouses and eventually feeds into the retailers and markets. And so we we see a lot of opportunity there. And one of our best investments was in Maryland, Ocean Freight Tech. We're looking outside of the US as well. We're looking at Europe primarily. They seem to be two to three years behind. And, you know, there's a lot of a lot of interesting companies over there that track and trace in warehouse track and trace and automation, inventory management. And they have a in some cases, a solution not just for Europe, but for the US. And so we're we're spending a fair amount of time there. And that's the areas that are top of mind for me.

[00:12:59.12] Right. What's your take on black chain? I've always thought that was a good solution for supply chain logistics. Whenever I talk to people in the space, they're almost up on the table jumping up and down saying, I want that, I want that. But what do you think about it from your point of view?

[00:13:11.90] Yeah, we we haven't spent a ton of time there. We one of our operating partners, she she's at Johnson and spent a fair amount of time on it. She's a technologist computer scientist by background. And so she's talking to her. There's opportunity in contracting on smart contracts for sure, tracking payment flows, things like that, execution of agreements. I think, again, we haven't spent a ton of time on that because the area is mainly the block chain would help are quite vast. And so I think yeah, I think it's an area that that's interesting for sure in those many of them in the contracting and financial payments.

[00:13:52.25] When the last units that we have here, what else should we cover that we haven't yet?

[00:13:55.52] So we reinvest in transportation and logistics companies, but also CPG companies as well. You know, we're kind of looking ship to store effectively, as is our mandate. And it I think what I mentioned to the group here is there's a lot of innovation going on, not just in transportation and logistics, but in the back of the store, for example, in-store operations. We think retail isn't going away. You know, it'll continue to drop in percentage of retail sales, but I think it'll flatline at some point, you know, especially with grocery, you know, high volume consumables, pharmacy, health care. I think there's a lot of interest there. And the convergence of retail and health care for us and how we invest in that from a technology perspective inside of a store like Wal-Mart and things like that. So there's a lot of interesting opportunities there, aside from just the products that go on the shelves, which we look at as well.

[00:14:49.64] So what's your take on turning local stores into local film centers? Do you think that's going to take off and people will use the space for that? Or do you think they'll just downsize and shrink and ship more to e-commerce?

[00:15:02.94] Yeah, we've spent a fair amount of time on that. We think there's a there is an opportunity know we started seven, eight years ago and a lot of these technologies companies are past our investment mandate. We're looking kind of around the fringes of that for opportunities. But it's real stores like our companies like Wal-Mart. Target, Home Depot, right? They have a lot of fixed assets right on their balance sheet. They need to the utilization of those assets as continue to drop. And so they need to repurpose those assets. So they're looking in the back.

[00:15:34.98] They're looking to repurpose parts of the store to make it more of a warehouse of sorts to enable last mile delivery and pick up. I think Wal-Mart is now the kind of switch on and off of it first and second largest grocery online retailer. And so they have been spending a lot of time trying to repurpose their back of their store, also the store, the quasi warehouse. And I think there's still a lot of opportunity to enable that. One of the companies that was recently funded in our area has developed a set of glasses. Right. That enables more efficiency for the picker. And they just launched the Wal-Mart, just got their seed funded. And so solutions like

that, I think, are going to become more and more common to enable a picker. I think anything that's going anywhere anytime soon. And then, you know, the back of the house for more core items will be there.

[00:16:23.73] Well, great. But how best for listeners to get back in touch with you at LinkedIn is great, Dennis. Great. We'll put that in the show notes. I want to thank you for joining us today and hope to have you back for a follow up soon. That's good. Thank you.

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