

Stephen Collins of Luca Partners LLC

[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.

[00:00:24] Hello, this is Hall Martin with the Best Connect today. We're here with Stephen Collins, founder of Loukia Partners. Local Partners provide strategy, finance, operating and transactional advisory services to sea level leadership teams that venture and private equity funded technology businesses. Stephen, thank you for joining us.

[00:00:40] Thanks very much. It's a pleasure to speak with you today.

[00:00:43] So what was your background before working with local partners?

[00:00:47] Well, I'm a career operator. I started my professional life as a CPA with the accounting firm of Price Waterhouse. Now, PricewaterhouseCoopers went on to work for Colgate-Palmolive in Eastern Europe in the early 90s. And then I jumped into tech because one of the founding management team members of DoubleClick, which was acquired by Google in 2007, pretty transformational deal. And I've been in tech ever since, mostly ADTECH and Martek. More recently, I wanted to pursue some of my own interests in terms of entrepreneurial endeavors, working with startups that in some cases that I invest in. And so I went ahead and set up an advisory firm to do that. What excites you right now? Well, that's an interesting question. In fact, over the course of twenty twenty, whatever plans I might have had to work somewhere or invest in something, I really I really took a step back and decided that it would be best to watch what happened. I'm glad I did that because everyone panicked. In March and April, the markets declined quite precipitously, but I decided to kind of sit and wait. And it's been remarkable to see really the time warp that we've been put into in so many respects. For example, I've been involved in lots of e-commerce focused businesses and the adoption of, let's call it leading leading edge technologies in e-commerce has just been dramatically accelerated. So some businesses are just doing amazingly well because of covid. Obviously, they're losers in this equation also. But again, whether it's Zune, whether it's tools to coordinate a distributed workforce, companies, things like a sonna, for example, or even

companies that I'm invested in, companies like Tost, which serves the restaurant industry, you would think that that this would be a terrible time for them. But restaurants are having to completely retool to facilitate a different dining experience. So this is a massively disruptive period. And I think there are tremendous opportunities and they are emerging because of it. So I'm just trying to understand what those are right now, as well as many of my colleagues.

[00:03:05] Great. So you work with leadership teams at venture funded businesses to deal with a lot with investors. What's your advice for people investing in early stage companies?

[00:03:14] Well, it sounds like a cliché, but the people equation is, I think, critical. And when I say the people equation, I do mean that there's got to be a strong relationship both ways. Right. In other words, your relationship is ideal term. And needs to be diligent ahead of time, I think too often people look at the money or the deal structure and fail to really ascertain, is this relationship going to be productive for us? Are we going to be able to collaborate? Is there going to be a cultural fit because culture goes beyond the border of the people working in the business to to the board and to investors. So getting that fit, if you have the luxury of multiple choices, I think is a critical success factor for early stage businesses. Right.

[00:04:09] On the other side of that. What's your advice for people running startups these days? What do you tell them to do before they go out for that fundraiser, that launch?

[00:04:16] Hurry up and go out and raise money right now. I mean, we're living in an historic time in terms of capital market. The market is hot and there's a lot of money out there. We can debate that on a different sort of interview. But I'm seeing incredible interest in all things certainly. Right. But I mean, you've got all these facts that are emerging. So much is going on at companies that I'm involved with. Either as an adviser or director, amazed at what's happening in terms of investor interest in their businesses, so. Right now, I think if you've got if you've got a great idea, this is where you really got to get out there, I would say to people, don't be shy, be aggressive about getting out there and raising capital if that's important to the growth of your business. That's a different sort of answer. I think that's reflective of the moment we're in.

[00:05:16] And it's a rare moment that you get to, say, the stock market at an all time high and you get to see that twice a week for every week.

[00:05:21] So you just well, you know, when you talk about the stock market, but that's what's on the news. But the venture and private equity markets, if I dare say, are insanely hot right now. And now that's for quality companies. But there's multiple expansion is not just for publicly traded stocks. Right. And these companies that are growing quickly, certainly the subscription model is very attractive. But these companies with big addressable markets that are growing quickly. I mean, there's just investors can't get enough of them right now, and because this is a very disruptive period, if you look, I lived through the dotcom crash in 2000 at DoubleClick, but let's think about we talked to companies that didn't make it, but the company that did come through that phase are the most valuable, powerful companies in all of human history. And the winners coming out of this disruptive phase are going to join that cohort in the next 10 and 20 years. So this is a I think, a make or break moment to build transformational, highly impactful businesses and for people who are starting companies right now. Capital is readily available, but also there are all sorts of partnering opportunities and M&A opportunities they're going to emerge over the next few years. So I think it's a it's an amazing time for entrepreneurs. It reminds me of the late 90s, but it's a different scenario. And of course, there were speculative excesses then, but there always are. But real businesses, real innovation occurred during that period. That's still happening to this day. So I think we're in a special moment for entrepreneurs, whether this decision is I want to start a company tomorrow or I want to raise my series A, this is definitely, in my view, the moment to be ambitious.

[00:07:24] That's great. But we're in various stages of re-opening from the covid pandemic, and it is a new world there. As you look out over the next five years, how do you see the industry evolving? What do you think is going to really take off and go beyond?

[00:07:36] And when you say we're talking tech, right? That's right. Well. Let's let's look at some of the disruptions that are creating opportunity, in my personal opinion, nobody's ever going back to the office five days a week, nine to five. That ship has sailed. It's gone. But. Businesses are still wrestling with how to optimize their operations in a remote, first distributed workforce, first environment. I've seen a lot of businesses and this is from talking with friends and also related to my advisory and director work. Management teams are trying to replicate what they had before. To some degree, but everyone's realizing that they need new tools, new technologies, they've got to rethink how work gets done. Even a simple thing like how do you

hire a new employee and assimilate them into culture and train them? These are all fundamentally have been disrupted and some businesses are rethinking operations, so. There's so many different technologies, workplace technologies that are going to be adopted that are already out there and invented or work, and the new way we're going to communicate, and it's not just as simple as, oh, zoom in, let's have a conference call. More on today. If you think about the first search engines in the late 90s and of course, they're all gone and new things are out there. I think we're just scratching the surface of the, again, the distributed workforce first world that we're living in. That's going to create all sorts of opportunities. Health care, something you and I have talked about in the past, is turning into software. This is this is a huge, disruptive moment for how the world's going to think about health care. And frankly. Personal data, personal health health care data, I think there's a rethinking of that I haven't heard people talk about hippies much when it comes to vaccine passports and things like that. Apparently that's covid is not subject to privacy considerations. And I'm saying that tongue in cheek. But I think this is a transformative moment for health tech and we've been waiting for that. So so those are just two of the, I think, major disruptions that are going to create opportunity.

[00:10:02] So you do some investing yourself in these companies. What's your investment thesis? What do you look for? What's your criteria for personal investments in this?

[00:10:10] Whatever my investment thesis is, it needs to improve. I will tell you the lesson I'm learning over and over and over again. And I'm going to quote a venture investor that I met some years ago and I and a management team were bringing an idea to him. And he said, I believe in this idea. But you're telling me about a potentially addressable market, not an addressable market. And we don't do that. We have a they have a 10 year fund here. We I believe in 20 years this tech might be ubiquitous, but it's just not time and. As someone who jumped into the Internet early in the mid 90s, went to Eastern Europe when the Berlin Wall fell. I personally always loved the idea of the thing that's going to really change the world. Right. And disrupt things. But what I've learned as an investor is my sci fi mindset on this. Star Trek isn't here yet. And and I think it's important to look at companies that when it's time to invest, their market is addressable. They've got a problem that they're solving. That's a real problem now. And then they can go out and demonstrate they have an efficacious solution and that they can deliver deliver that with the appropriate level of support. And in other words, you've got to have something you can sell today, not something that might be for sale five years from now.

And I think that's my biggest life lesson as an investor. And when I when I've invested too early. And you lose your money.

[00:11:46] That's right, that's right. There's a there's a window there and you have to estimate that window.

[00:11:50] There's a window. But again, it's it's hard because we depend on these entrepreneurs to go out and work their way through problems that need to get solved some day. And that money's got to come from somewhere. So I joke my version of angel investing is probably closer to charitable donations than than investing is probably not the right word. But that's here again, I think it's different. I think angels are called angels for a reason. I think we help entrepreneurs get going and work out their ideas. And and maybe it's wrong to expect that that's the kind of thing that should have predictable returns the way we think about investing more generally. Right.

[00:12:36] So you do a lot of startups out there. What is the biggest challenge you see most startups facing today?

[00:12:41] If you had to boil it down to one or two issues, lack of focus, lack of discipline, too much of a sandbox which may be necessary in some cases if you're trying to figure out what it is you want to be. But just and that this could be said of larger companies, too, but just not following through and finishing things, just chasing too many things with too little capital and spreading themselves too thin instead of focusing on being successful at a critical deliverable and getting it done and proving that they can execute so they can raise another round and then be more ambitious. I see a lot of that just squandered capital, squandered energy from companies.

[00:13:23] I think that relates to personnel. I was going to say maybe that's the second thing, but but that certainly number one and number two, I think, are not enough companies of all shapes and sizes truly, truly, truly put the customer first and go out and talk to the market and validate their ideas face to face with customers. We try to guess what the market wants, guess what customers want, and we don't look them in the eye and validate our assumptions. And as company scale, I see it over and over again. They really just not in touch with their customers

the way I think they should be. And asking the fundamental question, are we creating value for our customers? Can we verify that we're creating that value? Is it measurable? And do they agree with us? Right. Do they see it the same way? And I see that gap all the time. And when companies sit around talking about churn and retention, I'm wondering what the problem is. And they want to do surveys.

[00:14:27] It always comes back to they really don't have a handle on are we creating the value that we're supposed to be creating for our customers? They don't know how to measure it. And I think that's something that has to start culturally at the very beginning of any business endeavor. So focus, focus around operational execution and what's important and a customer, true customer first mindset from the other side of the table, the investor.

[00:14:54] Let's talk about the angel investor who the challenge they face in the space today.

[00:14:59] I don't I probably don't have the best perspective. I can only say that we don't see we don't see the full picture. We don't see as much deal flow as a venture investor is going to see. And we don't have the capacity to do diligence and do things that somebody with a team is. Really the times I've been approached for Angel Investments, it's a pre-existing relationship. I wouldn't even consider it otherwise. Even if that secondary I know somebody they introduce me to somebody and you just you're not necessarily the number one investor or lead even at that point. And you just don't have access to all the information that you probably ought to look at. And even if you do, it's a matter of time and focus. I think it's tough to go in and really get all the facts that you need.

[00:15:53] Great. So there's a lot of new sectors out there and applications that one can invest in. If you had to put one or two at the top of the list as good opportunities today for investors, what would you put up there at the top?

[00:16:05] Well, I've already mentioned I'm very bullish on tools and technologies that are going to support the remote, first distributed workforce first world. I mentioned the company, Asthana, thanks. A really interesting company. There are others. I'm on the board of a company called Lupino. They provide the software that helps businesses with the RFP request for proposal process. These sorts of tools are particularly important now.

[00:16:36] In terms back to my sort of Star Trek point of view, I think that you really got to look at driverless technologies. I think that's got to move forward. That fascinates me, although I'm not qualified to invest in it. But self-driving vehicles, maybe not. Maybe not cars down the highway. But you think about the covid post covid factory, people are going to look for more opportunities to automate.

[00:17:05] And I think some of these technologies are going to driverless technologies. Perhaps they're going to get deployed in more pedestrian ways as the factory floor. Gets revolutionized because it isn't here again is another catalyst for these sorts of moves.

[00:17:24] All right. Well, in the last few minutes that we have here, what else should we cover that we haven't?

[00:17:28] Well, let's see. And this is from a contextual point of view, it's it's we're talking about startups here right now. Companies going public, correct?

[00:17:38] Yeah. We're on the early stage side of the window there.

[00:17:41] Well, I think I think we talked a few minutes ago about the capital markets and how much liquidity there is out there. I think that startups. Should all be thinking about how to take advantage of the market conditions. I think that can be challenging when you don't have a lot of resources, you probably you probably don't have a CFO who knows how sophisticated your investors are, et cetera. But I still would encourage everyone who's in your audience who's starting a business and has some momentum and is moving forward to sit down with their investors and their board and say, how can how can we be more aggressive?

[00:18:22] How can we take advantage of the markets right now? How can we think about partnering cetera? And also, I think that is sort of the darker side of that is.

[00:18:39] Some some planning around, let's call it war roaming around, bad things that could also happen.

[00:18:47] We went through an incredibly volatile year. We don't know that we're out of the woods. A lot of businesses got caught flat footed in terms of the strength of their balance sheet. One of my friends described the twenty, twenty or twenty twenty as the battle of the balance sheets. If you had a capital, you made it. And if you didn't, you might you might not have. And so thinking about. These sorts of black swans even and even as in early stage companies start up, what happens if something else comes along because. It probably will, I think, planning for rainy days, which again connects back to the point that you should be accessing the capital markets right now and strengthening your balance sheet, I think is a mission critical decision for every entrepreneur and every early stage company. And I think the capital is out there to accomplish that, whereas maybe three years ago, no one would let people park cash on the balance sheet because why would you do that? But I think things are different, so.

[00:19:53] You know, that that's something that's certainly been on my mind, is a key topic of discussion at all. The board meetings I attend is how do we strengthen our balance sheet? How do we make sure that we can take any future punches that come along? That's a good point. So how best for listeners to get back in touch with you? Well, you can certainly find me on LinkedIn. I believe you have my email address, which is Collins at Looka Partners dot com. And I will mention that one of the fun projects that we, my wife and I took on as we bought a bed and breakfast and we're trying to come up with a new sort of boutique hotel model. And so we're having fun with that, trying to apply technology to that that that Destil business model and see if we can build an e-commerce business around that. But here again, travel has been massively disrupted. Travelers expectations of what they want have been disrupted. We've also done some board meetings and management meetings at the property. And so people are looking for smaller, more intimate venues. I've been a member of Soho House for many years and I only say that because I value that relationship so much, because it's my home away from home. It's my office when I'm traveling in cities that visit often such as New York and think that travelers are going to value that. But I'm not saying that as a promotion. I'm saying that there are all sorts of interesting opportunities out there for entrepreneurs to think about if there's a disruption. So anyway, Collins at Local Partners dot com. And if you want to come out and brainstorm around how to accelerate your startup, come, come visit us at the bed and breakfast.

[00:21:37] That sounds like a plan. I want to thank you for joining us today and hope to have you back for a follow up soon.

[00:21:42] That's very nice of you to invite me. I hope your listeners will find conversation useful. And I have to ask you, did you freeze to death?

[00:21:51] No, it came through. We're now eighty four degrees today here in Austin, a week after we were seven degrees in Austin for seven days, we were below freezing. So it was we get one of those every 50 years. And last week was our turn.

[00:22:07] So we were thinking about all our friends in Austin. So I'm glad you got through it. So again, thank you for the gracious invitation. And again, I hope this conversation is useful to your audience.

[00:22:21] I'm sure it will be. Thank you so much. All right. 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.

[00:22:42] All Martin is the director of Envestra Connect, which is a five one C3 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 opinions of investors. Connect. This podcast is for informational purposes only and should not be relied upon for the basis of investment decisions.