Connor Davidson of Atlanta Seed Company

Speaker1: [00:00:04.72] This is the Investor Connect podcast program. I'm Hall Martin. I'm 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. Hello, this is Hall Martin with Investor Connect the Day, we're here with Connor Davidson of Atlanta Seed Company, Atlanta Seed Fund, one aims to expand upon their mission of bringing

Speaker2: [00:00:33.05] Access to high quality, early stage investments to

Speaker1: [00:00:35.42] Their clients funds. Primary purpose is to purchase minority interest and seed trees. Technology companies across the US primarily located in secondary markets. Connor, thank you for joining us.

Speaker2: [00:00:46.67] Yeah, thanks for having me. It's good to be on and chat about what we're doing right.

Speaker1: [00:00:52.67] So what was your background before investing in early stage companies?

Speaker2: [00:00:56.09] So I actually started in the real estate world, so I was at a real estate fund in Dallas, private equity buyside that was straight out of undergrad. After about four years, I realized I was more interested in technology and tried to shift over into either really I was pretty open minded, something more venture or more true, private equity, more growth, capital stage, really whatever. I could find a darvin, but I realized that that shift requires a little bit a little bit more education. So I went back to school and got my MBA at University of Texas in Austin, spent two years there and luckily found my current partner, Jamie Hamilton. I found him and connected with him. He let me work for him part time a little bit. And then I also worked part time for a fund out of Austin, a venture fund, also a seed stage fund called True Ventures. So I spent some time with them as they were getting up and running with their first fund and just really sort of fell in love with that stage, the business. So the early stage seed precedes Teresa. There's just a lot of excitement among entrepreneurs there. There's a ton of really interesting ideas. You can kind of workshop with them and really see how they get off their feet. So that's that's what I love doing, is working with these founders. And it was a bit of a strange path into it coming from a real estate background. But glad that I found my way.

Speaker1: [00:02:23.30] Well, that's great. So what excites you right now?

Speaker2: [00:02:26.36] Yeah. So we we're always really focused kind of hyper. People ask us all the time, do you focus on a vertical? Really? The answer is no. There's certain verticals that we don't really tend to look at a lot either because it's something we don't have expertise in or maybe we've gotten on a on a deal in a certain industry. But the real focus for us is always that early stage. The analogy that we like to use and we're talking to founders at least, is when you have kids, there's a certain set of problems a kindergartener will face as they're growing up. And as a parent, you may be really good at that that stage of a kid's life and parenting them through that and helping them grow through it. And then when they get to be teenagers, it's a completely different set of problems that you're facing, oftentimes a lot more complex. And so I guess we're more focused on that kindergartener stage, if you will. We really like to work with companies that are they've proven out their model. They're they're really getting some some steam and they're starting to see a lot of traction, both from the revenue side and customer side. And that's where we like to jump in. So what I'm interested now, it excites me because we look at a ton of different verticals.

Speaker2: [00:03:34.61] I think the really interesting stuff, obviously, I'm sure you have a lot of other people you interview talk about this, but just how has it impacted different market verticals? One that we like that we've been looking at a few things in sort of the future of work is what I would call it. So the any business that sort of caters to B2B, that really tackles sort of a new paradigm and how people want to work, which is before working from home, was a little taboo. There was some guilt associated with it. So psychologically, people did offer that to their employees. But now it's just a little bit more accepted. And I think that's going to carry forward and have a really big ripple effect. And how people do business is both from a hiring standpoint, from a employee satisfaction standpoint, from a benefit standpoint. And so we're we're looking at a few companies that are in that space and there are some other ones, some other industries that have been affected pretty pretty vastly. So obviously, health care. We tend to look at a bunch of health care stuff, but that's kind of what I would say has been exciting to be now.

Speaker2: [00:04:45.29] But we look at everything. I mean, we're we're pretty open. I mean, we just our most recent investment was actually in a veterinary tech enabled services company out of Dallas called Ready That. And they were trying to capitalize on it a little bit, but they already had the business in place to kind of create a scalable, repeatable model for mobile veterinary practices, to just think of it as like, hey, you've got a mobile vet, but they don't have any technology layered on their service. They may have a bunch of clients, but this company really helps them with their overhead and their technology is to. An on demand that practice where any customer can be at home, they can go on request that they show up at their door, do their check ups, and if they need to be operated on or have an x ray, they they take the pet for you to the hub and they bring them back, that kind of thing. So really high service level tech enabled that practice, but that was one to that covid really amplified their growth because people just didn't want to be out and about and they didn't want to go sit in a waiting room at the vet's office and be exposed to other people.

Speaker1: [00:05:55.31] So what's your advice for people investing in startups? What do you tell them to do before they write that check?

Speaker2: [00:06:00.35] That's and there's a lot of stuff. I mean, we work with a lot of angels. We work with a lot of high net worth individuals. We everybody has a different mindset towards early stage specifically. It's extremely high risk asset class that it's it's a tricky one. There's a bunch of different mentalities towards it. One of the common angel sort of. Thoughts is you got to really invest and bulk to hit your returns, but for somebody who who maybe is a high net worth individual, doesn't have the time to go meet with. Fifty one hundred companies that gets really hard, we always tell our Eltis, which is we've got some angels, we've got some institutions, we've got a lot of high net worth individuals and family offices. We're supposed to really take on that job for you, even if you are an angel. It's really hard to hit the capacity you need to sort of reach the returns. And a lot of people look at the public markets and the average annual returns they're getting over the past few years. And they say how is venture a good deal? Right. And so I think that's the big question for us and for other investors in the spaces. How do you really differentiate yourselves as an investor? And the reality is you have to be able to get involved with this business. You've got to be able to roll up your sleeves. And so that's what we try and do. We try. And if you're going to invest in an early stage business, you have to kind of have to be able to provide value to the companies and really guide them and get them to a point where they can grow and then attract that really mature capital and more institutional growth capital.

Speaker1: [00:07:39.86] And then on the other side of that table, what's your advice for startups? What do you tell them to do before they go out to raise funding?

Speaker2: [00:07:45.85] Yeah, start early and take as many meetings as you can. I mean, that's the biggest advice I know in the Southeast. It's a long dating process. Even with us, the quickest turnarounds we see for first meeting to funding, I think is two months. And that's on the very low end. Oftentimes we like to call dating a little bit. So we like to date our founders or three, four or five, six months. And what it really does is it helps us get to know them. You know, if you're going to marry someone and this relationship sitting on a board and investing in a founder becomes a marriage in that early stage because you just work so much together and and you really have to work together well. But yeah, you start early, get to know the money in the markets, get to know the VC funds. You get to know the angels, get to know the later stage firms as soon as you can make sure to ask for those interest from from funds and Atlanta. It's very collaborative. And I would say in general, Southeast, we're always introducing founders to other funds. It's not quite as competitive as it is in the West Coast or maybe in New York. And so, yeah, just start start making those relationships even before you're ready to raise, because it goes a long way. Once you go out to raise that capital, it will it will move much quicker. If you already have the folks who you've been talking to that you can just call on and get in front of. And they already know you, they trust you, and they've been able to track your progress before you even go to raise that money. That's what we love to see.

Speaker1: [00:09:17.45] Right. Let's talk about the state of investing. You focus on the secondary markets around the US. How do you see the market evolving there for venture funding? Yeah, so

Speaker2: [00:09:27.27] I was in any sort of unique position in that I got to be in Austin when things really started maturing there. They had an amazing ecosystem with places like Capital Factory and they had Austin Ventures which then split up and there were a bunch of a number of smaller firms and larger firms that kind of came out of that. So that community, that ecosystem for startups was a pretty interesting case study for me personally. And just getting to observe how that happened. I see a similar thing happening in Atlanta. You've got these sort of tech hubs, you've got Georgia Tech, you have the DC, Atlanta Tech Village, and then the capital sort of starts to come once that ecosystems in place. So I think there's still a little ways to go in markets like Atlanta, Greenville, Birmingham, Nashville, for the capital to really recognize the caliber of companies and startups that are coming out of these markets. But that's what we love is is we want to be on the cusp and find the markets that are that are underserved from a capital standpoint, because we want to back great companies. And now more than ever, with common and remote work, there really isn't as strong. I think there's still a strong argument to being in places like Silicon Valley and New York, but it's not as strong anymore as it used to be. And so if you can run a business like eighty five to 90 percent of a seed stage, companies cost on a monthly basis.

Speaker2: [00:10:53.70] Is there headcount? Is the salaries and wages. And so if you can operate a company in Atlanta and run off half half the wages of a company in California, I mean, that's significant runway that comes out of it. You don't have to raise as much capital, which I think shows up in the valuations. Valuations tend to be a little bit more palatable, but you can still find great talent and you can still grow at a pace that on a percentage basis can can go head to head with some of these other core market companies. So that's that's why we're focused on secondaries. It's for the valuation standpoint. It's more palatable. But really, when you dig into that, why are the valuations for palatal? It's because the. Cost to run these companies is cheaper, and so they don't need to raise as much, they don't need to take as much dilution or they take the same amount of dilution to lower pretty money valuation. So that's why we love it. And obviously, we're we're located in Atlanta. We're located in the southeast. So we're biased, but we've found success and investing in businesses in Dallas, Atlanta, Nashville, Chicago, even, which is another one of those cities that's really starting to emerge as a pretty, pretty awesome spot for talent and technology. So that's that's why we focus on we just frankly, also can't compete in those core markets. It's it's a very dense capital market there.

Speaker1: [00:12:16.87] So let's talk about your investment thesis. What exactly is it and what's your criteria for looking at deals?

Speaker2: [00:12:23.38] Yes, all of this is a little bit of a repeat of what I said earlier. But really for us, it is about the stage. We've become very good at understanding the kind of roadblocks and hurdles that a seed stage company can run into when they're trying to grow their team from 10 to 30 and when they're trying to grow their revenue from maybe half a million or a million. And there are up to two to five. And that's that's just the growing pains that come at that stage are the ones that we've just become acutely sort of aware of and and able to to kind of work with these founders and advise them and help them get through those. So that's the core of our thesis, is the stage is it a fit from a stage standpoint? And really what that what that means for us is we want to be able to be helpful. We don't want to be dumb money. We want to come in, either take a board or an observer seat, be involved in the relative day to day, not get in the way necessarily, but be able to step in if there are issues and help out and really sit in on strategy sessions, sit in on the product roadmap meetings and help these founders think about where they're going to be in six months, 12 months. How are they going to go to that series? And then also we have a lot of those downstream relationships with other venture fund. So making sure that they're prepped and have the business up to the standards that that are required to raise a really nice series, a series B round.

Speaker1: [00:13:56.92] Can you mention one or two startups that fit that thesis?

Speaker2: [00:14:00.13] Yeah, sure. So one of the ones that I pretty excited about right now is a company called Civic Dinners. They're going through a rebrand, so they'll be launching that, I think maybe this week if they haven't already. But they came out of the social impact. TechStars program in Atlanta on their last class, they are short of a charter and a corporate tool to help either their employees or their customers engage in conversations about really meaningful topics. So the Black Lives Matter movement, gender equality, elections, anything that sort of falls under that umbrella of stuff, that's tough to talk about in the workplace or tough to talk about with your customers. But these are topics that really need to be talked about more than ever. We we have more ways than we've ever had to communicate, and we just still are really bad at it. So they're a company that they've got Facebook as a customer and as a customer, and their pipeline is extremely strong. We let their seed round in October of last year, and I think they're probably going to be in a position to to go out and raise a serious issue here in the next three to six months. So we got into that business because we love the team. We love the founder. The people are really important to us when we go in.

Speaker2: [00:15:19.28] Like I said, you've got to date and end up marrying a lot of these founders because you work with them so closely. And they they were a really good fit culturally with us. They had a product that we could believe in and get behind and really spoke to their customer base. And they've they managed to grow one hundred percent in revenue from 19 to 20. And it's looking like they'll grow maybe even more than that. And in twenty twenty one, so that one, they had some growing pains. They're going through a really massive sort of very quick growth. They took the company from, I think, about eight or nine employees from when we first invested and now they're over twenty for employees. So that's a lot of people to bring on. There's a lot of cultural things that can happen there. There's some growing pains for sure. And so we've been working pretty closely with them to help them get through some of those. But it's a it's a great business that that we love. And then I mentioned already that which is and that was our most recent investment, is a Dallas based mobile veterinary practice, a technobabble practice. So we've got some other ones in the pipeline that are pretty exciting, too. But but those two were the two most recent that we really love.

Speaker1: [00:16:29.75] So you see a lot of startups and investors in the space. What are the challenges? You see your server space the most?

Speaker2: [00:16:35.63] Where we are, I think it's capital. I think the bottleneck still in the southeast is capital, which it has it has a silver lining for us as an investor because the lack of competition does help us see more opportunities than we would otherwise. But when I'm thinking about the ecosystem and what's best for the community and what's best for the job creation and employment, we really need to kind of start attracting a little bit more capital. I'm hopeful that all of the competition that's going on at the series A, B and C stage funds keep raising larger and larger funds and they have to deploy that capital. So we're starting to see some of these larger funds move up a little bit. And instead of maybe first time investment in a they're starting to poke around at the seed stage and maybe cut a little check to just get a seat at the table type of thing. So I'm hopeful that that is starting to really shift because, I mean, we probably meet with one hundred and fifty companies a year that are trying to raise anywhere from a million to three million dollars in the Southeast. And we're one firm. We make five investments a year. And we passed those other deals that we we can't we don't have the capacity on to all of our friends and all of the other investors, but it's just still not quite enough.

So I'm hopeful that that's changing. But there's just a lot of promising opportunities in the Southeast and still not enough capital to really get them off the ground.

Speaker1: [00:18:07.85] Right then to one of the challenges for the investor in this space.

Speaker2: [00:18:13.01] That's a good question. I think it's. Hand in hand a little bit is if you make an investment in early stage company, how do you get them in front of more capital down the line? Because if they can't raise I mean, then we do this a lot. We have connections with VC funds in New York, California, even like places like Chicago and Salt Lake City and in Dallas. And I mean, we all the time are having to take these companies and share them with these series A and B investors outside of the Southeast, because it's just not that there's not enough appetite down here. So that's a challenge for us. And we're always sort of looking for those those partners and and folks that we can get to know that are they don't invest that seed or a maybe, but they're looking for other venture funds that can provide them some deal flow for their pipeline. We're always interested to talk to those kind of folks because I think that just has to happen, right? Those relationships have to be there so that these companies can continue to raise money. If they do, great.

Speaker1: [00:19:17.87] Well, you see a lot of different applications and sectors in your area. If you had to pick one or two as good immediate opportunities for investors to pursue, what would you put at the top of the list?

Speaker2: [00:19:28.55] Yeah, I think future work I mentioned I like that. We also have traditionally had a focus on we don't do a ton of consumer stuff, but we do really like sort of parenting tech. So we've invested in a company called Circle that's based out of Portland. And then we have another investment in a somewhat similar company out of Atlanta called Barch. And they both have technology that is consumer facing. They have some B2B elements. But they these are we're entering an era where I would say the millennial generation being being one of the first generations that has used technology since their childhood. And they expect a certain level of quality in the technology they use and usability and utility out of it. They're starting to become parents. And so, you know, seeing how that unfolds and finding the right pieces of technology to protect our children and help those parents raise their kids and then monitor them and do all kinds of stuff like that, that's, I think, going to be a really interesting vertical for us to follow and continue to look at deals. And and then the the future of work.

Speaker2: [00:20:39.17] One, as I think I've brought a couple of times, just more immediately coming out of this pandemic and the whole work from home thing is going to be super fascinating. I mean, it seems like yesterday that we were all talking about we work right. And now who knows how they're doing. It doesn't seem like all that well. So so, yeah, I think just the the way people work, how they work, where they work, we look at also even some real estate tech stuff as people have to start really seeing their properties and finding tenants and figuring out how to differentiate as property owners. I think that's going to be pretty interesting as well, because obviously occupancy is this on significantly. We also have an investment in a hotel technology like sort of made and cleaning management technology. So they've struggled a little bit because the buying just sort of slowed down among that market and hospitality. But, yeah, just sort of from a timing standpoint, starting to see those markets recover, I think there's going to be some interesting opportunities.

Speaker1: [00:21:39.77] Great. When the last few minutes that we have here, what else should we cover that we haven't?

Speaker2: [00:21:43.82] I think it'd be great just to take a second and talk to sort of direct a comment to the founders out there that are thinking about raising money. And we're in a pretty frothy environment right now. Valuations are good. This is not going to sound super genuine coming from an investor because it sounds a little self-serving, but we're seeing a lot of founders go out and get offers to raise a lot of money at really high valuations. I think it's important for founders to remember that more money isn't always good and a higher valuation isn't always good. I mean, if there's a if there's a turnaround in the market, those valuations can come back to bite them and create a situation where they may be heavily diluted down the line. And also, if you're offered a lot of money and you don't need it, I always think it's just really wise to just raise the amount of money you need. Often there's been a mentality of growth at all costs for such a long time, but I think there's a lot of merit, at least at the seed stage and early stage, to to look at the budget really accurately, try to predict what your needs are and only sell that because a necessary dilution is only going to end up hurting the common shareholders from a financial standpoint. And I think that just gets lost. Right. There's a lot of sort of celebratory things that happen when these companies raise big rounds and they think it's a big win. But if you took out a three million dollar loan from a bank, you wouldn't be going out and celebrating it. Right. And so there's always something you're. Up for that money, and I think that just gets lost, so I just just sort of a quick reminder to some of the founders out there that are trying to raise money and then and going out and thinking of it as a win. I just I just hope that the market and how frothy and crazy it is right now doesn't create any difficult situations for those founders.

Speaker1: [00:23:36.04] But how best for listeners to get back in touch with you?

Speaker2: [00:23:38.74] Email is great. I mean, I'm on LinkedIn, but rarely sort of check my messages there. I get a lot of spam and so my email is the best. It's Conoco and I know our Atlanta seed company dot com and we will respond to those emails in a day or so. And then that's it.

Speaker1: [00:23:56.78] Great. I want to thank you for joining us today and hope to have you back for a follow up soon. Sure. Thanks for having me. Investor Canek helps investors interested in startup funding. In this podcast series Experience, investors share their experience and advice. You can learn more at investor egg. Paul Martin is the director of Envestra Connect, which is a five one three non-profit dedicated to the education of investors for early stage funding of 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. It should not be relied upon for the basis of investment decisions.