Don Rainey of Grotech Ventures

Speaker1: [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. Hello, this is Hall Martin with Investor Connect the day we're here, Don Rainey general partner Agritech Ventures Project Ventures is a team committed to helping creative and driven entrepreneurs build technology companies. That last strategy is simple. Early investors in high potential technology companies, they initially invest from five hundred thousand to five million dollars and look to continue investing in building value throughout the growth of the enterprise. Don, thank you for joining us.

Speaker2: [00:00:46.81] Thank you for having me. It's great to be here.

Speaker1: [00:00:48.82] Right. So what was your background before investing in early stage companies? What did you do before?

Speaker2: [00:00:53.04] I had done five started to my own. A couple of them are venture backed. I came into venture capital through the back door, which is I didn't go to a great school or come from a great family. I had made the venture capital some money and they invited me to join them.

Speaker1: [00:01:08.82] Right. So what excites you right now? A lot.

Speaker2: [00:01:11.52] I you know, I think there are a lot of opportunities, interesting opportunities. You know, I'm doing a lot in FinTech and PopTech. I'm intrigued by the the blocking possibilities in various segments. But, you know, the processing speed and in some of the other operational aspects limit it. Seeing a lot of innovation enabled by 5G, the capabilities and the ubiquitous ubiquitous nature of smartphones means that there are a lot of knowledge workers and a lot of different types that can benefit from in the cloud systems.

Speaker1: [00:01:50.86] Right. And so you see a lot of startups and investors out there. What's your advice for people investing in startups? What do you tell them to do before they write that?

Speaker2: [00:01:58.59] Check it to know the people, make sure there are people that are committed to the long haul and are capable of situational awareness, ability to pivot a little bit to experiment? I think one of the things just it's part of American culture in the way we deal with failure and in first startup to iterate, you can do it, you should run a lot of experience experiments and have a lot of failures. And and people need permission and even encouragement to fail forward to try things and to try new things and to take the friction out of out of their core competencies, the things that are they know they have to do well, they appreciate they have to do better, but they sometimes don't run enough. Tests against potential improvements, such as it comes where you don't see improvements come from areas you don't expect,

Speaker1: [00:02:58.03] And then on the other side of that table, what's your advice for people running startups where you tell them to do before they go out to raise funding? They have a

Speaker2: [00:03:04.06] Clear handle on on what it is, you know, what it is you believe and what it is you don't know. So that someone can use that to say, OK, this is the areas you have convictions. These are the areas where you have belief but not fact. And these are the areas that you need to explore to to solve for all the above.

Speaker1: [00:03:25.22] Right. So let's talk about the state of investing. How do you see the industry evolving from here for venture capital?

Speaker2: [00:03:31.66] Well, you know, we're a society under pressure, and some of that pressure has resulted in people realizing that we're having the freedom, shall we say, to to operate from anywhere. And I think that you're really seeing that in the venture capital business. In my case, I'm based in Charlotte, North Carolina. I look for deals in the southeast and I find them there are good deals in the southeast, but what's striking is really for the first time. We're seeing bigger name California venture capital firms in market looking around, and so that's. If you're them or you're the entrepeneurs, it's probably good for me, it's not as good. I don't necessarily want these guys hunting the turf, but I think that's one of the big changes underway. The other thing I would say is the, you know, the prevalence of larger seed rounds and people being exposed to investing in seed rounds is really a good thing. People can get a better initial one, two, three million from from seed rounds. And so as an around investor or early investor, the companies are more mature. They may be a little higher valued as a result, and they're looking for more money. And I think that's another big trend

Speaker1: [00:04:56.45] Right now over the next five years. What do you think is the biggest change we'll see in the VC world?

Speaker2: [00:05:01.91] I think it'll continue to fragment, meaning there was a time when it was A, investors, B, investors, C, investors who now have precede seed A, you might even get an eight plus, you know, because the amounts of precede 500 K seed, a million to three million, around five million to 10 million B be round as it is in the world today is a 20 to 40 to 50 million dollar round. I think bees get bigger and something goes in there and a plus that's 15 to 20 for companies are doing really well, but don't necessarily want to take on thirty five million when it's 30, 50 million they need.

Speaker1: [00:05:48.29] Right. They're getting bigger all the time. I agree. So let's talk about your investment thesis at your firm. What what is your thesis and what's your criteria for looking at deals?

Speaker2: [00:05:58.25] Sure. Some of the things that we do, you know, to oversimplify, we do enterprise B2B software within that. We like to say marketplaces, logistics, fintech PopTech, cybersecurity. So there are segments within that software market that we really look at.

Speaker1: [00:06:22.43] Great many portfolios you can talk about.

Speaker2: [00:06:25.73] You know, we had a couple of companies, Chipmunk, notably in Florida, that really benefited from covid had a great year. As people turn to a lot of shipping. We have the mom project there in Chicago that enable women that are returning to the workforce typically after having a child or two to get back on the executive track. We really like with that's companies doing. We have PAISER, which is a I alluded to this type of company earlier. It's a field service management part. But for U.S. companies, Sprint particularly has a financing and payments platform so that. That business in the United States is typically one where AC technician rolls in Monday morning, says hello, it's dispatched via a smartphone app appointment after appointment. Heretofore, they would collect payments and credit card, write down numbers and checks and come in on Friday and dump that on the administration desk. Paiser enables that same check to take a payment on phone almost like Stripe for for multiuser, enabling the company to be clearing payments overnight instead of a week later. We have a lot you know, this has been a very a paraphrase Dickens or maybe to quote our best of times and the worst of times. You know, we had companies that were hit very hard by covid anything that. Had a consumer nexus or a lot of segments with consumer access really got hurt, but other companies got helped. I think right now we're preparing for the covid slingshot, which is the moment when the the country opens again and people can move around. And there's a lot of pent up demand for a lot of things.

Speaker1: [00:08:11.55] I agree. So let's talk about the challenges for the startup and the investor in today's market. What you see is the main challenge for startups are facing aside from the covid situation.

Speaker2: [00:08:21.06] Well, I think it is the transient, transient nature of kind of the changes we have of the changes that we've seen in society in the last year. What will remain and what will go away? What aspects of the current marketplace will continue? One company that offered a sanitisation service, they do Terrans for multifamily rental apartment units. So they enable that software to enable apartment manager to coordinate five vendors in three days to do five services without having to manage and schedule, so on, so forth. But they added say there's sanitisation service and so does that continue? Who knows? So I think there is the macro environment presents larger. Uncertainties that are typically does on the other side of that, if you look at the 2008 and the 2000 crashes that we had there, neither of the preceding ones had any kind of unlocking or end of crisis mechanism like the vaccine represents. So, you know, this is different in the sense that at some point when it's 50 or 70 percent of the population is vaccinated, the crisis is over. You know, a crisis is typically don't end with such finite clearcut moments. And so I think that presents an uncertainty if you if you know, you're going to benefit, so to speak. Economically, from the end of this, when is the end of this, you know, normally you would advise somebody, don't think it's over till it's over and you just got to wait, wait, wait here, because, you know, these things taper off or taper up. But this one has a different unlocking mechanism. And it's a it's a bit of uncertainty. You know, it's coming and, you know, it'll be dramatic, but you don't know when it is.

Speaker1: [00:10:19.39] Yeah, it could be big or it could take longer. We'll see. What are the challenges the investor faces in this time frame?

Speaker2: [00:10:25.75] Well, it's hard to get to know people. I mean, you know, obviously a lot of what we do is based on trust. And, you know, before we invest in somebody, we want to spend a lot of time in their physical presence. So affecting that relationship development of resume is a partial solution. But if you've been working around startups. You know, for 10, 20, 30 years, there's nothing like walking into one to know what's to feel the vibe, so to speak, to know what's going on. Is this something with energy and are the people really dedicated to it and believe in it? And, you know, I've joked that you can smell success and to some degree I think you can. So that's harder to get that get over those obstacles of trust and awareness and feel on the person

Speaker1: [00:11:15.49] After the pandemic. You expect me to go back to the traditional model of face to face meetings with partners and portfolios, or do you think you will continue online?

Speaker2: [00:11:24.74] It's so much this is such a relationship business, I think to be a real push to get back and in person go well.

Speaker1: [00:11:33.94] There's a lot of new sectors and applications out there on the market today. If you had to pick one or two that you think are good opportunities for investors to pursue what you put at the top of the list.

Speaker2: [00:11:43.84] I think that A.I. is finally going to deliver value in repetitive processes and. Enbridge's to broader set of data. I'll give you an example there, I have a company that I work with, Nashville, excellent technologies. They use a I to do two thing. So they present article artificial intelligence to see technicians on the commercial side. So the A.I., they take a photo of the nameplate. On the machine, this is a, you know, 40000 or 20 ton air conditioner and the A.I. can pull all known data manual's parts and other things about that and presented it to the tech. But more importantly, they can enable the tech to point the phone at the operating. AC unit and listen to it and diagnose from the audible record what's wrong with it. So then it gathers this, it's the third fan belt, here's a video on how to change the fan belt. Here's the part you need. Here's what you do. So I think Aiyaz is exciting. Where its scope and focus are very limited. That's what I would look at, things that are making Youmans and making life easier for people to do their jobs, making them smarter as a result. Cool.

Speaker1: [00:13:25.48] Well, great. Well, in the last few minutes that we have here, well, should we cover that? We have it.

Speaker2: [00:13:29.23] I think it's a very there's a very interesting, interesting and broad based movement for people to form ad hoc syndicates to support. Startup S.P.C.A. Investments, and it's presented when you see it talked about on Twitter and on Twitter and other places as a threat to venture capital, and I guess I think it's quite the opposite. I think more money, more people, more interest in the asset category of startups is only going to beat the people in the venture capital business. So I see it as more of a persistence than a threat.

Speaker1: [00:14:09.77] Right. You think we'll see a lot more Spivey's SPV tools in just forming of different groups out there based on affinity or like interest in the technology or what have you?

Speaker2: [00:14:22.26] Yeah, I mean, I think that it's it's part of a larger term trend in venture capital started out as an inherently regional business and money was there and they invested in Silicon Valley is the best example. They had money, the VCs, and they invest in local companies. And I think what you're seeing is this whole and thus with that geographic focus, focus, which has been diminishing over time, we've now flipped it completely where these syndicates can form anywhere to support companies anywhere. The asymmetric advantage of being local is is going away. I think that's good for everybody.

Speaker1: [00:15:03.37] We need the role of Title three crowdfunding is you think that's going to come up and grow and become an asset class, so to speak, or do you think that's simply a blip?

Speaker2: [00:15:12.15] I do. You know, one of the things is kind of funny in that regard is if you're a seasoned investor in startups, you know about the Section 12 to IRS code and Kuzbass treatment, which simply put for those that are not familiar with it, is if you buy stock in a startup that's under 50 million in total assets, which all are any holder for five years and you sell it, you can get a special capital gains exclusion, paying no capital gains tax on that thing up to 10 times your basis, which is fine. You know, and in a world where the capital gains taxes may be rising for a lot of folks, the value of Kuzbass, which is not well understood, is it's going to become more valuable. It's if the capital gains rates rise by 25 or 30 percent. I kuzbass capital gains exclusion is even more valuable. So I think people are going to look at it and say, if I'm saving for retirement, I can put a small amount in these alternative assets. I can get preferential tax treatment on them. And if I don't need that money or five or 10 years, that's a great outcome. It's a great part of anybody's investment strategy.

Speaker1: [00:16:41.10] Absolutely. I think the they're not very well known, you know, the twitcher or the other two that are out there saving you actual taxes on your startup investments. And more and more people are going to recognize the value of that. We do see a lot of people invest out of their IRA anyway because it's typically long term money and its long term strategies are typically longer term investments. And so they could be a good fit there as well. So I think people are getting smarter about that. Part of it used to know much about. But we see a lot of services popping up to facilitate doing self directed IRAs as well.

Speaker2: [00:17:17.98] Yeah, I think that's really that's great news for those investors in the Lords are, you know, making it easier for them to make these investments. And they need to understand that as an asset class, this is some very preferential treatment from the IRS.

Speaker1: [00:17:34.69] Yeah, it is different and very, very much needed for innovation as well. So how best for listeners to get back in touch with you?

Speaker2: [00:17:43.14] Yeah, just email me. It's dirani agritech. These are ehi any anyway at grotesque r o t h dot com.

Speaker1: [00:17:53.04] Right. We'll put those in the show notes. Want to thank you for joining us today and hope to have you back for a follow up soon.

Speaker2: [00:17:57.78] Thank you so much.

Speaker3: [00:18:00.16] Investor Connect helps investors interested in startup funding. In this podcast series Experience, investors share their experience and advice. You can learn more at Investor Connect, Doug. Paul Martin is the director of investor Canek, which is a 523 non-profit 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 opinion of Investor Connect. This podcast is for informational purposes only and should not be relied upon as a basis for investment decisions.