# Jeremy Carter of Soterra Capital

**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. Well, this is Hall Martin with  Investor Connect today we're here with Jeremy Carter, managing partner at Soterra Capital, Soterra Capital is a private investment firm with offices in Austin, Texas, and Louisville, Kentucky. We invest in lower middle market private companies with capable management teams and fundamentally strong operations. Most of all, they look to invest with people who share the commitment to excellence, integrity, family and faith. Jeremy, thank you for joining us. Thanks for having me. So what was your background before investing in early stage companies?

**Speaker2:** [00:00:50.76] I've been an operator. I started I started my career in engineering. I worked for a company in San Antonio that was kind of a applied R&D consultancy called Southwest Research and was doing development projects for mostly global automotive, but some government and a number of different kind of global clientele. And then about 17 years ago, I came to Austin to start. I helped start a company called Forbert Technologies and we were doing technology development and licensing mostly for transmission systems, mostly in bicycling, but also cars, wind turbines, just about anything that rotated. And I was there for 13 years and had had a really good time playing every role in that you could in the business, ran an engineering group, set up a production operation in China, ended up there and an M&A and corporate development role, and had a chance to do some licensing and and acquisition deals and just got a flavor for doing deals and moved from there into a little more of a finance investing space.

**Speaker1:** [00:01:52.41] Right. So what excites you right now?

**Speaker2:** [00:01:54.42] Well, what we're doing, et cetera. I mean, I would regard us if we want to try to be the best we can be at anything, it's it's being good capital allocator and finding opportunities to to capture value. And that is really in any any field. Our specialty, my my business partner, who's in Louisville and I both have a similar background in mechanical systems and he's a chemical engineer. I was mechanical, but more than anything, basically finding good operations with good recurring sticky cash flows. One space we've been pretty focused of late is we call it managed services. Historically, it might have been called minutes communication services. It might have been called telecom, but it's a little broader than your conventional telecom. And so we've done a couple of deals there in the last year and we really, really like the space.

**Speaker1:** [00:02:45.12] Yeah, it's great. Well, you see a lot of startups and investors out there. What's your advice for people investing in startups, what you tell them to do before they write that check?

**Speaker2:** [00:02:53.73] Yeah, I am people investing. I mean, to me, whether it's startups or it's blue chips, I have to give a talk at UTD along these lines every year. There's the fundamentals are the same. Let's not pretend that necessarily we get to kind of escape the physics of business, if you will. Businesses still have to. They obviously have to generate earnings at some level, either whether now or are some some statistical level in the future. And if you're investing in the space, you need to have a good view of value of what you're buying. Well, I spent a lot of time in the early the seed stage investing space, really, where I've kind of evolved in the last twenty years of doing this, is basically making sure that I have a really good understanding of how to value businesses and more than anything, make sure you're not overpaying. And I would say the investors job in any sense is to assess the predictability and reliability of earnings and so get a good handle on that and then just make sure you're dealing with good people. I really can't emphasize that enough. That's that's how we operate there. There's there's a lot of people there's a lot of people you don't have to do business with. And it's a terrible thing to waste time on those just because maybe we're excited about some some certain opportunity or something like that. Work with people that you trust and people that are really understand the business model we're investing in. And my investing style has moved very much from being speculative to being a little more value oriented. Hence, that's why I spend my time really working to understand value which can be done. And even for startups, you were not just putting our thumb in the wind and helping people put these businesses together to generate a cash flow. And they should be able to look at that and say, here's what I think it's going to be worth if you do that and then discount against it. That's that's how I think about things as an investor.

**Speaker1:** [00:04:40.94] And on the other side of that table, what's your advice for people running startups? What do you tell them to do before they got to raise funding?

**Speaker2:** [00:04:47.71] A lot of the same things. I had a mentor when I was at Fallbrook, the company that that I was I mentioned earlier. He fantastic guy in Paul the art. He was he had been with Jim for 18 years, Harvard Business School grad, and he put it in perspective in me, probably shaped indirectly my career path. He said, you know, you can look at you can look at everybody in these business spaces in one of two players where you have spectators, players or people on the field that. You know, whatever they decide to do, that's what the team's doing, if we're going to run, then everybody's running. If you're going to pass that, then the team starts in there. If you're going to sit down and suck your thumb, you don't get to choose not to not to choose. But the best players are the ones that can see the field kind of from the perspective of the people in the stands. And the flip side, the people in the stands can be they can throw stones and be critical and they don't have to live with it. But the best of them are the ones that knows what know what it's like to be on the field. And so, you know, I shape whether I'm an investor or an operator, and as I moved from being an operator to being investor, one of the things that helped me quite a bit was being able to assess management team to know what life was like in their world and actually try to understand the business to the extent that a lot of deals we've done. I like to say that we want to know it well enough that if I had to step in to be the CEO or CFO, I knew it that well, obviously with with some limitations.

**Speaker2:** [00:06:18.29] But thinking about it that way, you want to be able to see the business the way an investor does or an investor should, and that is particularly how to assess value. And beyond that, it's pretty fundamental to be a student of finance. And I think there's way too many, in fact, as I've gotten into the role that I'm in now, and it's remarkable to me how much I bump into people that just don't really understand how cash flows to a business and most importantly, how to define value, how to capture value. When you've got a cash flow stream, what is your business worth? And when you do different deals, are you adding value or taking it away? It's remarkable how many deals are done that are not accretive to value. We give up more than we bring in. And again, it's finance is kind of the air we breathe in business or maybe the better way of saying it's it's the way we measure the progress to what we're doing. And some people when I when I mentioned the physics of the same, whether it's a blue chip or a startup, people think of blue chips, a big bureaucratic, but cash still flows through each of them.

And in a lot of ways, the startup is trying to be, you know, maybe not big corporate Wall Street type firms, but you've got to have some element of discipline and just operations. Like I said, your job is to make the business as predictable and reliable as possible for those investors. And so, yeah, that's how I would encourage them to think about.

**Speaker1:** [00:07:40.34] Cool. Well, let's talk about the state of investing in startups. How do you see the industry evolving from here? You've moved into value based approach, but where do you think the overall industry is going?

**Speaker2:** [00:07:50.42] Well, I mean, that's a pretty broad question. It probably depends on which industry. I've I was having a discussion with some friends of mine last night about this SPAC revolution. Special purpose investment vehicles or acquisition companies, if you're familiar with that, is that in some ways they're public entities that raise public funds to go buy by small companies. And similarly, they're raising two to five hundred million dollars. And it's striking that the universe of companies that exist out there that would justify that kind of capital infusion is not that big, which means that you've got you've got a lot of money moving to deals that are much earlier stage. All that to say, at minimum there's more money than there is deals out there. And so if I'm in a startup phase and I got a good idea, at minimum, I feel like I should be able to get a pretty good valuation up front, especially with all the stimulus that's been hitting the market of late. And if you can't, maybe some kind of deal. That's that. I mean, again, I think of a lot of these things we do these businesses to create value. So I think it's kind of the financial nature of the market. And facts are one example. But I can point to a whole a whole host of examples, a lot of money flooding the market.

**Speaker1:** [00:09:07.13] So in the next five years, what do you think is the biggest change we're going to see

**Speaker2:** [00:09:11.63] Just in financial markets? You mean or I mean, it's sort of like you say, space startups. I can talk about startups and a lot of different ways,

**Speaker1:** [00:09:19.61] You know, fund raising, more or less funding startups, whether it be seed series A, Series B, venture level, what what have you.

**Speaker2:** [00:09:27.05] I mean, this is a little hard to say. I'm going to say it in very broad terms. I think that it is important for any business at any given time. It's hard to predict kind of the macro future. I think it's a it's a more useful thing to understand where we are in the business cycle and up to cope with it. The last year we had been in the longest bull run in history, I think, and now we're kind of restarting a new economic cycle. And it's interesting cause I know there was a big downturn. But that being said, when you have an environment or your place in the cycle where there's more cash than there is deals, you start to get pretty exceptional valuations, which means it's probably a great time to be buying. But markets can get euphoric, which is kind of my opinion on this back. So we were just talking about. And so if you're fundraising, I'm going to say the same thing, be disciplined. And if you are disciplined and you are you manage risk appropriately, I think there's a ton of opportunity right now to raise some cash and position yourself really well for what is undoubtedly, in my mind, going to be some overvaluation in the next few years, if not already. And quite frankly, returns are hard to come by in this environment, which is which tends to be if you kind of look at just what's happened in the broad market, public public equities are a pretty high valuation. So a ton of money flies into alternative assets and. That even further into venture backed assets. And so it's my general view is there's a point of opportunity to be raising money, raise it smart, and demonstrate that you can tamp down capital and you've got a lot of opportunity right now.

**Speaker1:** [00:11:03.75] So let's talk about your investment thesis. What is it and what's your specific criteria for pursuing a deal?

**Speaker2:** [00:11:09.51] So we again, when I left Fallbrook, my role there, we were doing the licensing and M&A deals. And while I was enjoying technology quite a bit, it's one of those that's it's challenging to predict when you put a thesis together that has to invent something that's a hard thing. And so we moved to what I do now, etc. I look for a very proven, I'll even say, often boring and predictable business models that are generating a lot of cash flow. So I mentioned what we're doing in the managed communications space. We are buying companies that are essentially brokerage agents, their indirect sales channels for communication services to think like AT&T or RingCentral or Windstream or even Verizon and any of your big communications carriers. They sell about 20 percent of their business into an indirect sales channel. And that that indirect channel, these are mostly sellers. When they sell them, they get a commission on what they sell and that that is on a typically a three year contract. That

October news, we find that those commissions streams tend to stick around for five to eight or nine or 10 years. So it's sticky, really profitable revenue. And we're in the process of trying to roll those up. We just closed one transaction about six weeks ago. We did one late last year and have plans to go by five to ten of them over the next 12 to 18 months. We like that space a lot and we're buying them from various from small, small agencies if whether we're just buying a book of business or we're buying their whole company and integrating. And we formed I mean, it is technically a startup. We formed a parent entity called Single Point Communications Group. That is that is Vinings. And the goal, again, is looking to compound keep capital in the business and compound it as much as we can and progressively use that as a vehicle to allocate into other sectors, whether it's early stage businesses or similar free cash flowing entities.

**Speaker1:** [00:13:10.85] Right. Well, you see a lot of the challenges that startups and investors face was the main challenge. You see your startup space and launching their business and growing it. Yeah, it's

**Speaker2:** [00:13:19.86] Interesting. You know, I probably didn't it's closer to a private equity market than than let's call it a venture market. And again, the structures are similar. And one of my one of my struggles in this industry, I think is even more so in in venture capital is when you start something relatively new, you don't have a track record by definition to an investor base. You're you're riskier than someone that's been around for 20 years doing the same thing. And as such, when you go to raise money, whether equity or debt, it's interesting how this industry is very focused on liquidity events, whether at a five or 10 year horizon or if you could get into the private equity space. The typical model is maybe a 10 year fund that they're going to deploy with, with almost a mandate that they're going to sell instead of 10 years, which in some ways almost makes them for sellers. What it also does is it along the way you've got debt terms that are maybe five or 10 years and you've you've got distributions that they want to come out of that. And if you're going to do a deal, that's let's let's say you buy a deal for five times, be done and somebody wants a six percent distribution or there's 30 percent of your EBA going out the door and you've got taxes going out the door. And if you do debt, a debt deal, depending on the nature of your fund amortized over, say, five years, if you're paying if you're actually paying down that principal, most of that cash leaves the business. If you're trying to build something of enduring value, you want to keep that cash in the business, you want to let it come combat. And so that's a it's a bit of it. It's always this is not necessarily now this is always the challenge in business and some but finding ways to finance deals that allow you to keep cash in the business and maybe have a little bit of a longer term horizon is a great way to do it. And that's very much how we focus on what we're doing.

**Speaker1:** [00:15:09.45] Right then on the other side of the table, what's the challenge you see most investors struggle with these days for those same deals,

**Speaker2:** [00:15:16.02] Finding deals that are good valuation? That's fundamentally it. And the second then would be an ability to diligence them and and really kind of model them out. I mean, there's some really, really smart people out there. I observe the closer you get to the startup space, it requires more than just analytical thinking. I mean, there's a you know, look, you've got some incredibly ingenious startups there, but they're going to be a long way from making money. And you got to have a lot of vision and you got to hope you're right, which is why that venture model tends to look. With money to a lot of different deals, because it does become kind of a statistical game, how do you how do you discount for however many you're going to be wrong on? And so we will tend to default to ones where the cash flows are a little more proven. And in that case, I think the biggest challenge is, is negotiating deals that are a fair price.

**Speaker1:** [00:16:08.07] What do you see? A lot of different applications out there in different subsectors and so forth. If you had to pick one or two to put it at the top of the list of being good opportunities. What would you choose?

**Speaker2:** [00:16:18.66] Well, like I said, we're doing quite a bit in this telecom segment, communications space covered with a big tailwind to this. And it helped. I mean, we owned a business in this space and this rural what we're doing is underneath the company that we already owned. But, you know, we're fundamentally where we're selling and building a company that provides the resources, that allows us to do what we're doing right now for me to work from home. And it looks like you're working from home and we're all communicating with each other. That is very much it. Beyond that, I kind of think I mean, I am very bullish on technology, as is the whole rest of the world. But it's just it's remarkable to me how efficient our economy has become and a lot of different ways. Amazon probably being maybe the biggest example of that, but those type of technology businesses that are allowing us to fundamentally make people's lives easier, which is kind of the proposition of any business in the world that's worth existing. So telecom has been a big focus for us right now.

**Speaker1:** [00:17:19.05] Well, in the last few minutes that we have here, what else should we cover that we have it?

**Speaker2:** [00:17:22.65] You know, I mean, I I've alluded to a decent bit of it. It just kind of looking at my notes. Like I said, I think that that as as in this environment, investors and in entrepreneurs need to work really hard to understand value. And to be going back to your question of what advice do you give to operators? A very simple piece of advice that that I think is is really relevant is how to make money on paper. First, in a lot of times, we we have a tendency to go mistake activity for productivity. I started this business. I want to show something and we get real busy and then realize we're not necessarily following a plan or that plan can move around the system, focus and discipline and understanding operation and understanding how it's going to make money. We spent a lot of time really breaking down business models to get down to the two or three kind of key KPIs that say, OK, every time I talk to a business that looks like this, I can kind of measure them on these two or three things. And once I have that, I can get to the valuation pretty quickly and then thinking strategically about how what that looks like when we pull it in. And I think there's a lot of smart people doing exactly what I'm saying. But it's remarkable to me, again, how much I bump into operators and even investors that don't think quite as quantitatively as I think you need to to make money in this environment. And the other thing on that, I mean, you alluded to a little bit in our kind of our ethos at Satara, I've talked an awful lot about of financial mechanics and we model a lot of things, building strong cultures, cultures of discipline and cultures that care about human beings with a view to say, hey, I'm going to I'm going to work in this business for a very long time. Whether you're going to or not, I think those are pretty critical to building some long term value.

**Speaker1:** [00:19:16.38] Oh, well, how best for listeners to get back in touch with you?

**Speaker2:** [00:19:19.50] I suppose LinkedIn is probably the easiest way to do it. I've got a profile out there. Software Capital has a has a profile out there. Either of those you can kind of check us out. We are going to be looking to acquire in the space. And while we feel that our equity is incredibly valuable, there's a few deals that we may be issuing some equity on. So if there's an investor that's looking for what I believe will be a pretty stable and predictable return, would love to talk to him, or if there's some of these communication services businesses out there that are looking to sell, we'd love to talk to them. And quite frankly, we're always looking for people that might be useful to join the team or kind of help out in any way. So I would love to hear from some folks,

**Speaker1:** [00:19:55.37] But I want to thank you for joining us today and hope to have you back for a follow up soon.

**Speaker2:** [00:19:58.98] Yeah, sure. Thanks for the time. Really appreciate it.

**Speaker3:** [00:20:00.94] Did Investor Connect 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. Paul Martin is the director of investor Canek, which is a five Wannsee three 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.