Hubert Vaz-Nayak of Booth Angel Network

Speaker1: [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. Interested in learning more about investing in startups, launching a new startup need to raise funding, the startup Funding Espresso is a daily podcast and a short, concise format delivered to your inbox every day Monday through Friday, the time it takes to drink an espresso. You can learn about startup funding to subscribe to Disconnect Dog and put your email it to the pop up box. Hello, this is Hall Martin with Investor Connect. Today we're here with Hubert Vaz-Nayak, president of the Chicago Booth Angel Network of Texas, the Chicago Bulls Angels Network. Texas was formed by Booth Alumni in Texas who came together to identify and invest smartly in startups. They focus on early stage companies that are looking for diverse high caliber of investor who can leverage their capital expertise in global networks to the advantage of the companies they invest in Hubert . Thank you for joining us.

Speaker2: [00:01:06] My pleasure. Great.

Speaker1: [00:01:08] So can you tell me about your background before investing in early stage companies?

Speaker2: [00:01:12] So. So I I like to think I've had a lot of varied background in the technology sector and across actually beyond technology in other industries as well. I've been fortunate to be able to work across the enterprise and telecom, I've worked with wireless wireline. Enterprise networks, telecom networks, hardware, software services, kind of all of that makes up the entire gamut of the technology sector and leveraging that into, you know, with my management consulting background, I've been able to work across technology companies, telecom companies, chemicals, agriculture, retail, food, you name it. It's given me a very broad exposure to a broad set of industries. That is knowledge and experience and information I'm able to bring to bear to to help with my investment decisions, especially when the groups I tend to belong to form an angel networking perspective tend to be industry agnostic.

Speaker1: [00:02:23] Well, great. And so what excites you right now?

Speaker2: [00:02:26] So what excites me right now, I think, is the fact that we are starting to see a lot of growth. A lot of investment, not just from what the government's been talking about, but also from from private sources and actually there's a lot of talk in industry and on the public sector side for public private partnerships. And these partnerships tend to be, you know, very large in terms of what the investors are creating opportunities for a lot of start ups. We're seeing a lot of young people, I think we are definitely well into the next dotcom wave of growth, and so there's a lot of opportunities are being presented to people like myself for investment.

Speaker1: [00:03:17] Well, that's great. So you see a lot of start ups and a lot of investors. What's your advice for people investing in startups? What do you tell them to do before they write that check? You know,

Speaker2: [00:03:27] You've got to get into this, putting your ego aside. That's the first thing you really have to do. A lot of people get into this either because they're just following someone into an investment. A lot of people get into this so that they can go around talking about how I've invested in this company. I've invested in that company. That's not what he invested in investors, because first, obviously looking to make a good return. And obviously after that, what what comes next is for you to have fun doing it, being able to make a difference. A lot of people don't have the fortune in this to start their own companies. A lot of people coming especially out of the big companies because of personal circumstances, because of the maybe the their backgrounds, they're not really able to become entrepreneurs. And so for them, they're able to live vicariously through entrepreneurs in this in this process and be able to contribute to the success of these companies. Because when you invest in a company, it's not the entrepreneur's company. It's your company. It's combined the entrepreneurs and you as an investor, as your company, because you own a stake over a small baby in that company and you want to contribute to success.

Speaker2: [00:04:40] Some years ago, very, very wise venture capitalists, me, even the best darn VC funds are never going to get it right. Right. They're going to put their money in 20 companies, out of which ten of them, they're going to lose all the money and bought five out of those 15 or 20. And maybe they'll get back the money they invested. And four out of those 20, they'll get maybe three or four times what they invested. But they're looking for that one moonshot, that hockey stick growth that's going to give them such a high return that it justifies the entire fund rate and all the sweat they put on 20 companies. The other day I was talking to an angel investor out of Portland. He says, look, I enjoy doing this. You know, I invested in this one company that gave me a 40 X return. So you know what I can afford to invest. That is 20 more companies. I still come out on top, right?

Speaker1: [00:05:37] Yeah, well, that's great. Well, on the other side of that table, what's your advice for people running startups? What do you tell them to do before they go out to raise funding?

Speaker2: [00:05:47] Well, you know, the environment is quite different from what it was 15 or 20 years ago, 15 or 20 years ago, especially during the first dot com era. You know, people will be walking around Silicon Valley with a sketch of a business plan, you know, on about five five pages. And you'll find any number of people willing to give you money on a concept that's difficult to do today. You're not going to get a concept funded unless you have only been very successful, know, doing the startup and exiting a startup. So you want to do a startup, you're not done before. The first thing is to realize you're going to have to build it and build some traction. Second thing you realize is that you as the entrepreneur, cannot afford to be CEO and CFO and CTO and head of marketing and sales reason we have those are separate rules because those things require people. They require resources. So surround yourself with like minded but smart people because smart people will learn how to put on multiple hats and smart people will know how to adjust when you need to adjust to starting a startup.

Speaker2: [00:06:58] The challenge is that the vision and the path you forge for yourself will change drastically, constantly. The only constant is going to be the need for change and be able to pivot and do it quickly. And when you surround yourself with smart people who can do that, you'll be able to make those changes easily. Now, why am I telling that smart people are really important? Because that in my my experience is the biggest factor that investors look at, look for when they make a decision to invest in the company personally. I almost never will invest in a company unless I've been able to have quite a few dialogues with the management team. So however great the product, maybe I will get the idea. If I'm not comfortable with the management team, that's I'm not going to be investing. When I done my first very large private equity backed startup. The private equity investors told us they said 60 to 80 percent of our decision is based on the management team, not the company or the business. So the bigger the deal, the more important the.

Speaker1: [00:08:06] Right. Let's talk about the state of startup investing. How do you see the industry evolving from here?

Speaker2: [00:08:12] Well, you know, like we've seen with the VC industry, when I got out of business school many decades ago, there were maybe fifteen hundred voices, not VC funds. Fifteen hundred voices in the whole in the country today. They must be fifteen hundred venture capital funds just in Silicon Valley. So the same way with angel investors as people have gotten more affluent. As more and more people start retiring and wondering what they need to do themselves and they have the disposable income, you know, everyone is becoming an angel investor. The question is, do you do it on your own or do you affiliate yourself with groups and organizations? When we started the Chicago Board Angel Network of Texas, you know, most other Chicago board Angel Network members tend to be city based, New York, Chicago, Silicon Valley, London, Hong Kong, in Texas. It's just something about our state that we find that people tend to work more cohesively. And so when we said, let's create a large organization across the state, all our alumni who were interested in doing the same thing, the cities jumped on the bandwagon. That's great. We love it because not only do we get access to more opportunities, but we have a greater pooling of dollars to invest and a greater number of people to tap into for the due diligence. So the reason I bring up due diligence is because to me, apart from the management team, that is the absolutely most critical thing to do when you're investing. There are two schools of thought in my observation are two approaches that people or organizations used to angel investing. The first is to do a whole bunch of these deals as quickly as possible.

Speaker2: [00:10:01] When I call the crap on the wall strategy. Right, let's throw a bunch of crap on the wall and see what sticks and you know what I mean. Looking at startups sometimes that that is what it is. That's what it is. And especially when you've got a lot of very hot startups, those guys don't have time, right? They say, hey, you're not going to invest in me right now. I'm walking down the street and talking to five people. And out of those five, one of them is going to jump on the bandwagon, write me a check by tonight so you don't have an option. Sometimes you've got to jump. The other school of thought is we'd rather do fewer and better deals, I learned this from being a day trader, currency trader. When you make a lot of trades, a lot of crappy trades, and you never really make money, in the end, would you make a few judicious trades and you start coming out on top? And the way you get to make a judicious trade is by doing an inordinate amount of due diligence. It may sound irritating when you say that to an entrepreneur, but you know what? It's a dating process. When you think your organization has a lot to offer the entrepreneur, the dating process gets them excited about your money coming in smart money, and they like that, especially when you have a network like the Chicago Booth Business School behind you. Believe me, we bring a lot of quite a lot of muscle, but we need to tap into to help these entrepreneurs so they see a tremendous amount of value in doing great.

Speaker1: [00:11:31] And so what do you think is the biggest change you'll see in, say, the next five years in this industry?

Speaker2: [00:11:36] I think we'll see a squeeze. I think we'll see a squeeze. We're seeing a huge spurt in investments. And I think there's going to be a lot of. I think people are. Who don't have the stomach for this? We'll get burnt, for example, if you look at what's happened with Robin Hood and stocks and GameStop and a few of those shares, you have people who have absolutely no experience doing this. And while the market's going good at one hundred dollars and minute ten thousand, but guess what? They're going to get down to fifty dollars. Very quickly, you know, we know that unless they're smart enough to cash out at ten thousand and they're going to get burned and they will think twice about getting into this market, we'll see that a lot of I think, in the next five years.

Speaker1: [00:12:24] Great. Well, let's talk about your investment thesis. What is it then? What's your criteria for investing in a startup?

Speaker2: [00:12:31] So what I didn't mention was actually down to two sizable internetworking. So while I head up the Chicago Board Angel Network of Texas. I'm also a board member and part of the Tyee Houston Angels Network, TY was 10 cents of the entrepreneur is the world's largest entrepreneurship organization. And again, that what we're doing is we're consolidating our chapters across Texas and we're building out the tie Texas Angel Network. So we tend to work a lot with universities, for example, with the Rice Business Plan competition. We got a lot of opportunities from there and we shared opportunities across state chapters around the globe. And so our investment criteria tends to be pretty similar across both these organizations I work with. We do not typically invest in precede companies. Listed companies again, are these ones that are looking to for money to continue building on the product and get to the first pilot. We expect you to have actually built out most much of your product and we expect you to have at least gone into one or two companies of customers and proven yourself that you actually have what we call a proof of concept product ready. And so when we're looking to invest, we're looking at the caliber of the management team, we're looking for the money coming in to drive growth, and we're also looking for companies we can align ourselves with where we are members on network and actually come and help them make a difference.

Speaker2: [00:14:08] I'll give you an example. Last year in Houston, we invested in a company called Orridge that is in music software. They, in fact, won the rights business plan competition, which, as you may know, is the world's largest business in a business. Good business plan competition. And we we've enjoyed working with them, you know, a couple of things that have really helped with this company is, for example, a critical part of building the legalese into the software. Right. Entertainment legalese. And one of our members just so happens to be a lawyer and a partner in the Silicon Valley law firm that actually has a whole department does that. And so we were able to contribute. Tens of thousands of dollars worth of legal dollars to help build out this product. We made a difference over there and, you know, we've got plenty of examples like that of companies, we help experience that your typical D.C. phone is not going to get you so.

Speaker1: [00:15:10] Right. Well, you see lots of stars and investors out there today

Speaker2: [00:15:15] With the train of thought. So we look for companies and companies that have moved past the proof of concept. We are a typically industry agnostic, but we tend to limit our investments to companies based in the United States. On a rare occasion, we may consider a company from Europe like we are doing right now, coming out of the rice business plan competition. But that's because our organization mentored this company from Germany and Brotherman. But we love what they're doing, but those are exceptions, not the norm.

Speaker1: [00:15:48] And so what are the challenges that you see startups face in today's market?

Speaker2: [00:15:52] I'm sorry to repeat the question.

Speaker1: [00:15:53] So what are the challenges you see startups face these days?

Speaker2: [00:15:58] I think it depends on the industry if you look at the dominant industry in our backyard, oil and gas. The biggest challenge oil and gas industry startups have is getting to their first pilot attract. It just maybe, you know, for entrepreneurs, bad luck is that we have to a very slow moving industries that dominate the Houston economy, health care and oil and gas, both those industries are extremely risk averse and very slow to decide when, especially when come to new technologies. The typical response an entrepreneur gets is, I love you and I love your product. But, you know, you go somewhere else. And when you succeeded, then then you come back to. But it also means the industry is quite incestuous, so if you have a success in one company, you've got. So landing that first pilot is always the challenge. The second thing, and by the way, that also is an issue across most other industries is just that oil and gas and and it is a challenge. The second is finding the right management. OK, fact is that most startups are started by techie people like. In fact, most startups are started by people who have encountered the particular problem in their own lives. I'd say 80 percent of startups are a result of that. And so when they're looking to do a startup. They tend to be very technical in nature and are not necessarily. CEO material, and if you're not a CEO material kind of person, that can actually be a massive negating factor when it comes time to receive funding. So the challenge is finding somebody who not only have a meeting of minds with the founder, but be able to realize that they are not going to be the biggest shareholder of the company and build that business for the shareholders. Oil and gas. The bigger challenge challenges that there are. I mean, the number of executives who have successful started experience. I could literally count them on the fingers of one hand. That that tends to be a challenge here.

Speaker1: [00:18:17] So what are the challenges that you see the investor faces in today's market?

Speaker2: [00:18:25] I think the challenge they face is sometimes the drinking from a form of a fire hose in terms of opportunities. So when you're looking at a lot of really good opportunities. How do you make a decision within that that's one and I'll come back to that point. The second is being able. To sift through many similar companies and I'll give you an example there. First, let's get back to my first point. The first is really from a fire hose. Right now. Across just the two organizations I'm working with. We're looking at about seven companies. They are not really good investment opportunities, investors have only so many dollars available, and the question is, do I get an all seven or five and dilute myself? I do. I really focus on just a couple of the main. But along with that, evaluating six or seven companies is finding enough people to go do a deep dive to drive that due diligence. That's a lot of legwork. You're asking the company for a whole bunch of documents, you know, legal documents, financial documents. And then you you want to talk to the management team over and over. You want to talk to the customers, the existing investors, the Minter's tech, in one case, even talk to their faculty. Right. And when the faculty said, you're investing, we're going to invest, too. And we knew this was pretty cool. Right. So that is one is one challenge. The other challenge. And refresh my mind in my memory here, what was I second point was.

Speaker1: [00:20:13] Well, they're drinking from a fire hose, and they could either invest in seven companies or just one of the seven companies, and this combination, many, many investors tell me there is out there there's many companies in each sector to go after. Which one of those seven can you go for?

Speaker2: [00:20:29] Yeah, that's that's the other big problem is that when somebody comes up with a mousetrap, it's not like they're the only ones that came up with the solution, you know, the best mousetrap. Typically, when when you when you listen to a pitch from an entrepreneur, it's most likely, you know. One off four or five similar ones have come across. Right, and then you have to figure out, well, how many others am I missing out there? Which of them is going to be a potential winner, given an example of we listen to two pictures recently of the Rice business plan competition. Which talked about providing tools to in-home. Yoga and exercise, weight loss, trainers and mentors. And that was to and all of a sudden earlier this week, I get pinged by an executive order somewhere in Europe saying, hey, you know, we've got a product that does this and we think we're the only ones doing it in England and Australia and Hong Kong. And you know what? That's what I heard from two others. Wow. And that's the thing. So the story that I came across and it's not like I read, is so phenomenal. So there must be another dozen such companies. And I came across the same thing in real estate software as well. So so the question is. It is always a worry, do I pull a trigger with this company or do I have to look for that competitive potential component? Which of all of these companies out there is the best one? Finally comes down to. The management team and the management teams ability to operationalize their plan the quickest.

Speaker1: [00:22:23] Good. So you see a lot of different applications and sectors out there, if you had to pick one or two that you think are really good opportunities for investors to pursue today. What do you put at the top of the list?

Speaker2: [00:22:35] Know, my answer is going to be a little biased because of my technology background, what's happened over the last few years is that across industry, no matter what the industries and even. Across industries in dozens of functions like supply chain and product development and blah, blah. We have seen an explosion of data. What's happening is this all this data is becoming very specialized and stored in silos. So these massive, relatively narrow, deep silos of data. And you've got people in these companies. With industry expertise pulling this thing from these various repositories and then creating insights to intelligence from that to labor intensive manual process, and so what I'm seeing a lot of it is front end interface is being built now, something to help extract this data very rapidly. And help you rapidly create insights, things that would normally take days to now be done in a matter of minutes or seconds. But where that really evolves is in artificial intelligence being attached to these engines. It's very, very critical, and if you look at this, extrapolate it and say, well, where does this go? If you use create these specialized functional industry front ends and attach a human being to some level of artificial intelligence to help you create. New gyms, new insights that give you an advantage and your company advantage. Where does this go? The next thing is at some point, Ordovician Dungeon going to be a lot smarter than this human beings. And an artificial intelligence that is is able to look beyond just that functional area or that industry specific capability. Think of it as. As a Google or Aleksa, that's a lot, lot smarter pulling in data from a broad range of databases and data sources. So. That's why I see kind of going, you know, do I think it's going to happen sooner, I think is going to happen sooner or later. Our ability as a species to stay ahead of our ability to imagine the fantastical. The gap is narrowing. So we're just accelerating our development as a species technologically.

Speaker1: [00:25:17] So in the last year that we have here, what or should we cover that? We haven't?

Speaker2: [00:25:21] You know, I think for people looking to get into angel investing. Do not get into this. As a means to get rich. OK, angel investing is not about getting rich, getting rich. If you do is a lucky byproduct of investing, get into it because you want to enjoy it when you put money into a startup. Remember, there is a very, very high probability you're never going to take that money out. And even if you do, it could be years before that happen. And it usually is years before that money in there that you can kind of play with money you're not going to need or depend on getting very quickly. I know people who when I made an investment about a couple of years ago, the company got acquired a year later and I made a couple of I made about one hundred fifty two point two hundred fifty percent return on that. It's good. But that's something that's not the right plan on your exit, about seven years on average. Well, that's my advice to people wanting to get into Egypt.

Speaker1: [00:26:34] It's good advice, they say angel investors want to do a lot of good, make a lot of money, have a little fun in my experiences. If you could get all three going, that's going to be a good experience. If you have one of those going, that's not quite as satisfying.

Speaker2: [00:26:49] And then also, of course, as I said earlier, I used to live vicariously through you point.

Speaker1: [00:26:56] Well, how best for listeners to get back in touch with you?

Speaker2: [00:27:00] Well, you know, the easiest way is if you go to the Boot Angels Texas dot com website and say contact, click on the contact, will send me an email.

Speaker1: [00:27:10] Ok, right. 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.

Speaker2: [00:27:16] Absolutely. My pleasure. Thank you.

Speaker1: [00:27:21] 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 Alti Martin is the director of Investor Connect, which is a five Wannsee three nonprofit dedicated to the education of investors for early stage funding, all opinions expressed by hall and podcast guests or 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.