

John Dalton of Industrial Device Investments

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 in short, concise format delivered to your inbox every day Monday through Friday, the time it takes to drink an espresso and learn about startup funding. To subscribe, go to invest. Connect again through email to the paperbarks.

Speaker2: [00:00:43] Hello, this is Hall Martin with Investor Connect today we're here with John Dalton, managing partner at Industrial Device Investments Idei invest in manufacturers of industrial devices, sensors, machinery and instruments. John, thank you for joining us. Appreciate the envie. Right. So what was your background before investing in early stage companies? What did you do before this? Yes, we probably fit more into your growth profile than early stage. I'm an industrial products guy, an engineer by education. I spent five years at GE and their industrial plastics business. In the early 90s and then went back to school and North Carolina and stayed in North Carolina, Black and Decker in the manufacturing management team and then went to some smaller companies, but always around industrial products. And we're kind of at the eye is at the intersection of rust and technology. We usually don't like it if there's no rust and we usually don't like it if there's no technology. Well, that's a good way to put it.

So what excites you right now?

So, you know, there's a lot of good industry trends. And in investing in companies and you always want to try to keep an eye on those trends and see what can be good. So lot with. Internet of Things and sensors, there's there's just so much going on, and certainly that's in that consumer world for sensors that all of us are using daily.

Speaker2: [00:02:15] But in the industrial world, it's a similar situation that can save money and improve processes by by doing a better job measuring things. And that's a big trend we're from.

So you see a lot of startups and a lot of investors out there. What's your advice for people investing in startups in your sector? What do you tell them to do before they write that check?

So I think for start ups, the key is. Do they have a very clearly defined purpose for the war, for themselves in the world, because they're making a hole right there, something that they're filling a need and that they're not filled now or they can fill differently and for to be able to create a wedge to really get some progress there for a start up. I think it's really clear definition of that vision and what that wedge is that they're going to be able to get to revenue in the near term. Great Britain on the other side of the table.

What do you tell people to do that are running start ups before they go out for raising funding?

Huh, that's an interesting question. I really think. When I look at the most when I'm investing is is the team and there's nothing that prohibits the startup from not having a clear idea of where that team is, what makes it great and where it's going to go.

Speaker2: [00:03:42] You know, you could do that before you get revenue. And so the team, I think they can't brag on their their customer references or or how they've penetrated the market yet because they're still at the startup stage. But they can brag on, you know, what the the team has been able to do and why why it's the strongest team for this particular venture. Right, well, let's talk about the state of startup investing or growth investing where you are.

How do you see the industry evolving from here?

Geographically, we're in Knoxville, Tennessee, which certainly doesn't rival Silicon Valley for numbers of startups, but we see a fair share here. We've got Oak Ridge National Labs and the University of Tennessee, and we do see a fair map coming in different directions there. In fact, the company that I've owned now for 16 years was a startup out of the University of Tennessee's electrical engineering department. And they do do we do image processing equipment. So it's. It's not been a startup for a long time, but I think the model of finding university and national lab and an incubator type capability and direction and talent is well here and is is alive and well here. Yeah.

Well, that's great. We think the biggest change you'll see over, say, the next five years and start up investing.

Speaker2: [00:05:06] I think over over five years. I think you'll see continued growth of crowd funding. That is, you know, is is certainly sort of taking the startup world by by storm and that will continue. But, you know, venture capital and private investing, call it Angel Angel or friends and family, all of those pieces have a place. So the entrepreneur has got to be able to navigate what kind of capital can make sense. And crowdfunding has a place, but I don't think it's in all the cases and understanding what the fit there is and what the what kind of capital makes the best sense for their effort, I think is will be an evolving thing with crowdfunding changes.

That's a good point. Well, let's talk about your investment thesis. What exactly do you look for investing in startups for your fund?

Yes, so we we don't actually invest in startups that often we we're sometimes involved in the earlier stage, we're more involved after there's revenue. So I guess it depends on where you start to define startups. But we like industrial devices where a smaller company can be agile, can shoot with a rifle around where larger companies are in that market place, and because big companies, you know, they really only shoot with a shotgun. So they miss the smaller niche opportunities where they can really make a big difference for the customer.

Speaker2: [00:06:41] And the smaller companies have a place where that innovation gap take place so that we try to find the innovation. But, you know, we're really in that rust in kind of old boring areas, industrial places that, you know, they're not going to be unicorn's, but they can be great investments. And so we try to try to bring an appropriate mix of equity and a little bit of leverage and a knowledge of industrial marketplaces and the cycles of that capital equipment companies go through or even supplies manufacturers within the industrial space of of sensors. You know, it's usually electromechanical types of products that were involved in. And we we try to find places where where that rifle can can be as much of a sharpshooter as possible towards where that customer value is.

And, Mark. You talk about a startup that fits that thesis.

Yeah, so I think being able to understand I had a discussion with a a startup that probably is not a fit for us now maybe and in future years, but they have a new technology for turbines that improves the efficiency and the effectiveness of turbines in the in an industrial application. So we talk through why their technology was different and and how it might fit. And one of our operating executives. Bob Carroll came from the flow media industry, so he had seen a lot of that type of equipment, and I think we are able to provide a little bit of value and and made a friend, but probably not an investment for us right now, but maybe later as a as a gain, some traction.

Speaker2: [00:08:31] But for this sector, what you find is the main challenge, the start of the space.

You know, I think start ups, the biggest challenge in all areas is that the world is so large and their resources can only be used for a fairly narrow slice. So they've got to really decide what they're going to be great at and focus in on on that greatness and not get distracted by all the other shiny objects that are out there in the world. That can can be a great segment to let a startup can. Only the beauty of a startup is the focus. And when they can really focus in on what it brings amazing things for customers, then I think I've seen him be very successful. Right. And then on the other side, what is the main challenge the investor faces in this space? So, you know, this startups in my mind is it's a little bit more of a crapshoot than investing in an existing company because you don't have any of the data and the markers for many existing success. So. You know, there certainly is how to weigh the opportunity and the risk is a different exercise, I think, for starters, than then for even small existing companies, because at least you have some data with the smaller existing companies.

Speaker2: [00:09:51] And so there is a there's a big difference there at figuring out your metrics on how you're going to do that within a startup. I think it's a it's a difficult assessment.

Right, well, you see a lot of different sectors and applications in this area. He had to take one or two that you think are really good opportunities for investors to pursue. What would you put at the top of the list?

So definitely sensors in lot and being able to get data on both the the customer use of equipment and within a plant environment where you can get data. Now, where five or 10 years ago you had no chance of being able to cost effectively measure that data. So I love it. I love looking at equipment companies that that haven't done that because I know there's an opportunity where if they if they instrument the equipment, then they can bring more value over a longer time period to customers for equipment that's in the field. And customers can in the end get the benefit of that value.

Well, great, when the last minutes that we have here, what else should we cover that we have in? So and we've talked about risk in markets and my analogy of rifles and shotguns, but.

Speaker2: [00:11:12] I think the team is really the basis of any good investment analysis you can change strategy change. People are you can change strategies, you can you can change direction, but it's very hard to change people. And being able to clearly articulate who the team is and what they're trying to achieve and how they're going to get there is is a is a challenge for that startup executive. And I would encourage them all to think of it as a you know, it's a team. Being able to relate how the team can work together, not just the experience and capabilities, but how that team can come together to be successful in the venture that they're doing so that investors can understand that that larger team picture. Well, that's great, but how best for listeners to get back in touch with you the best way is email us, John, and I'd invest that Natanya think you've got in the show notes there. So if folks want to want to talk, we have to set up a call and and talk about where they might be cross over and and their efforts and ours. That's great. We'll include that in the show notes. Want to thank you for joining us today. OK, have you back for a follow up soon. Thanks. I'll have a great day.

Speaker3: [00:12:34] Investor Cadec 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 Alti Martin is the director of Investor Connect, which is a five one seed three 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 opinion of Investor Connect. This podcast is for informational purposes only and should not be relied upon as a basis for investment decisions.