Carl Grant III of Cooley

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 and learn about startup funding to subscribe to go to invest, connect again through email to the of.

Speaker2: [00:00:43] Hello, this is Hall Martin with Investor Day. We're here with Carl Grant of Global Business Development at Cooley Klein's partner with Cooley on transformative deals, complex IP regulatory matters and high stakes litigation where innovation meets law. Carl, thank you for joining us.

Absolutely. It's my pleasure.

So what was your background before you started doing your current position?

Well, I started out as an entrepreneur. You know, unlike most of my colleagues when I graduated from my MBA. Back in the early 90s, most of them went out and took middle management jobs in big companies. I went out and tried to start a business, and as most of us know, not all these business ventures are successful. So the first one was a bootstrap business. I tried to do with my dad and we got bits and pieces of the business up and going, but not the whole thing. And you know, that that was the main reason was, was that we were not able to raise the money that we needed to build this business. It was a capital intensive business in the cable television industry back then. And so I had to go to work and economic development. I manage the capital interaction program for an economic development authority where I built up a tremendous network of venture capitalists all around the US. Did that for a couple of years, work at PricewaterhouseCoopers for a couple of years, was in the eye of the storm and in the late 90s and the Internet boom.

And then I joined the management team of the first company to put video over the Internet and was an operator there. We raised the thirty six million dollar series around, unfortunately, that money arrived the week the market crashed. You can't time these things. You know, look, we were dead in the water, we didn't know it, it was a great experience. Did that for a year, the market just was not there for us yet. And then I joined a buddy buddy mine early fintech company. After that, we doubled revenues during the time that I was there. And 9/11 happened because some erratic behavior in our investors and, you know, they pulled out of our Series B round, told us to cut everybody's salary in half, put the company into a tailspin. And at that point, my wife, who had four of our five children at that time, asked me, please don't do any more startups while I'm raising these kids. And so I joined the law firm that represented both of those companies. And I've been here doing business development ever since.

Well, was quite a journey, well, given where we are today, what excites you right now?

Like once an entrepreneur, always entrepreneur, and I feel like I was prepared to do my life's work in those experiences and not being able to raise capital early on in my my life. I really set out to help companies capitalize their businesses, and that's what I've been doing, and I have a team of people all over the United States and overseas that help companies do this.
And all we do, we help them build their companies. We help them strategize. We help them get connected to key advisers and employees. When we say business development here is really about developing their businesses and then it comes back to help coulis because there's a legal component to everything that's done.

Great. Well, like, now's a great time to start a business coming out of covid whole new set of care about the markets rocketing upwards at the top of the market right now. So it just seems like now is a great time.

Yeah, so once again, you cannot time markets where we're long overdue for a correction, a covid was kind of an artificial correction. So having launched businesses into bad situations, the tech meltdown, you know, 9/11 started as a county board member of a bank in two thousand seven. We all know what happened in 2008. You never know what's around the corner. So there's never a bad time to start a business. But you really need to think about how you capitalize on that business and be aware of what could be around the corner because you don't know. Nobody could have really forecasted covid in all of the craziness that came this past year. It really, really had to adapt. So you have to you have to think about contingencies when you start a business and you have to think about. Don't assume you're going to raise money six months from now, the markets could be closed six months from now, you've got to build a business that's going to be sustainable six months from now.

Well, you've raised money before and you've actually invested before. What's your advice for people investing in startups? What do you tell them to do before they write that check?

Well, the market has changed a lot since I've been doing this when I started out, you could have a good idea and a Web domain and raise three million dollars with a story, right. Hardly even had to have a slide deck back in the late 90s. Things have really changed over time. You really have to have a fundamental business model. And I say that that's really on the technology side of things, because we do half of what we do in life sciences, but even then, there's certain metrics that you have to hit. And so investors need to look at companies that have a plan, not just pie in the sky stories and SlideShare, but a fundamental business model with real customers, that they're solving real problems where where there's real pain and and it's going to be sustainable. It's not a nice to have.

Well, also, so what's your advice to people who are running start ups where you tell them to do before they go out to raise that funding round?

Well, a lot of startups will go out and they will want to raise their money before they start to execute on the business business plan. And I understand that because it takes capital to do these things. But nowadays, that's not what works. What works is going out and starting to execute on the business plan. I think we've come back a little bit from that million dollars of annual recurring revenue requirement. A lot of the investors I talk to nowadays don't necessarily need to see that. Some of them still do, but they want to see a finished product. They want to see customers using that product reference Apple and saying that they will continue using their products and it's something that they need. So if I were an entrepreneur, I would figure out how to get into the market with your product, with customers, using it, paying you. And sometimes you have to have a second keep your day job. Sometimes you have to be doing consulting work on the side or have some money saved to do these things. I would say it's important to do that even before tapping your friends and family, because you can get undisciplined as an entrepreneur if you go and you raise that money from friends and family out of the gate and you don't start executing on that business plan.

Well, that's great. That's good advice. It's always good to have validation of the product in the market before you go out to investors, because I look for that as well. How much validation do you think investors would need to see before they'll write that check?

So it varies with every investor I talk with. I have been going through and updating investment criteria with investors. So during the covid shut down. I'll tell you a little venture that I worked on. I got overrun with the deal flow, really. I would typically help about two companies a week with their capital raises. Well, all of a sudden, all of these companies that used to be able to get out to conferences and fairs and be able to meet investors face to face and bypass the these warm introductions weren't able to do that. And so many, many of these companies ended up in my inbox and in my team as well. And so the way deal flow has been referred. From people like me to investors has not changed since the late 90s, I mean, it's been over 20 years and I realize that this has to change and and covid exacerbated the problem. And so I worked with a team of people and we put together a platform called Venture Raise that that is kind of like a LinkedIn platform that helps companies identify which investors are a good fit for their company and who they need to get to know to get properly referred to those investors. And so we pulled this thing together, collaborated on this, and I've been using this now to get these proper referrals into venture funds. And it's starting to get adopted by others out there. So it's dangerous that if you want to go visit the.

Well, great. So how does that help starts and growth companies and specifically gives them the introduction and what else?

Well, what it does is it it levels the playing field. So if you think about it, the venture capital industry has been kind of a clubby industry over the time that I've been in. And if you're a disadvantaged person coming out of some Midwest state, you really don't know even where to begin. You could Google venture capitalists and try calling one of them good luck. I mean, you know, it's really hard to break into. And the venture industry has suffered as well during this period because there's increased pressure, greatly increased pressure for them to diversify their investments into women founders, minority founders, underrepresented entrepreneurs. And what this platform does is it allows these entrepreneurs to be able to come on and figure out what this world looks like, who invest in what, and then who do I need to get to know? Who do I need to build relationships with? Is it somebody at a bank or a law firm, an accounting firm? These are the the trusted sources of deal flow, the connectors in the world. This really opens it up. In fact, there's even boxes you can check when you're setting up your profile to say that I am a female entrepreneur, I am an underrepresented entrepreneur. And investors can also check if if that's an investment criteria, then there are funds set up today to invest solely in female entrepreneurs. I talked to one last week that is focused solely on female entrepreneurs in half of their fund is set up to invest in underrepresented entrepreneurs. So those are minority female founders. And so this is new. This is not something I've seen in the two plus decades that I've been in this industry. So this really helps to navigate those entrepreneurs into the sources of capital that are sympathetic to their stories.

Well, that's great. So Inventure raise, you're actually helping the entrepreneur figure out how to get the connection to the investor and then the offer goes and actually makes that connection themselves and follows it up and carries it forward, is that right?

They get the introduction by getting the relationship with that trusted source of deal flow. So if somebody comes to me off the street, I don't know them, that that network of mine is something that's highly protected. I'm just not introducing just anybody off the street. They've got to convince me that they have a good business, a good business model, and they're the right person to execute it. And so that's that's what it's opening up. It's opening up my inbox for those individuals to come and get to know me or one of those other trusted connectors.

Well, that's great. So you see a lot of start ups and I guess what is the main challenge you finally face today in this very exuberant stock market? What's the challenge that startups have to overcome to get to the top of that list for investors?

So naive startups, naive founders, I should say, come in hearing these unbelievable valuations that in these stories they read about it in the tech press and that you can't enter the market and say, oh, this guy got a 50 million dollar valuation or whatever. I mean, a billion dollar exit. You can read those stories, but that's not their reality. If you haven't done this before, you're not part of that yet to come out and get an unreal valuation. That's usually somebody who's done it before. So I would say that as a startup entrepreneur, sometimes it's a good idea to try to team with others who have had successes in the past because that will rub off on you. It'll help validate what you're doing. And so if you haven't done it before, you're going to have to pay your dues before you're able to go and get those kind of valuations and raise that kind of money. So you can't buy into the exuberance. You still have to prove that your business model and build a good team, surround yourself with people who have had success in the past, that the community really is a little misleading.

Speaker2: [00:13:39] It looks like everybody's raising funding, but the reality is it's less than 15, less than 20, maybe even 15 percent. If you include angels in there, actually fund startup deals, the rest have to bootstrap or do something else. Is that what you find?

Absolutely. I would say it's even less than that number you just threw out. It's a very small fraction and. I tell you, when you're raising angel money, my experience has been that I have a long list of angels that I've known over the years and, you know, they're not those angels are not just parting with their money for some idea out of the blue. You have to really think about it, you're not competing with other entrepreneurs, with angel angels money, you're competing with a vacation home, with college education for their kids. For whatever their hobbies are, right, I mean, they that's their money, they don't have to part with it. It's not like a venture fund that's raised money and says they're going to invest this money and they've told limited partners are going to invest it. So you need to think about when you're going out to raise angel money. Really, you need to talk to people you already know because or people who know the people you already know if they've already committed to invest because the build up time and the get to know your time is reduced by about six months. I have actually had angels say to me. If I'm going to do a deal, I'm going to spend six months getting to know this entrepreneur. Six months is a long time. Just think about, you know, if you don't know that as an entrepreneur going into the process and you've got a six month get to know you process, rather than focusing on pitching that angel, you could be out selling your product, you know, getting companies to to agree to pay you to develop a custom solution to some problem that they have. I mean, there's a lot of things you can do to be getting money in the door other than waiting on that angel who may or may not be the end of six months, invest in your company. Whereas if you're talking to a friends and family, they already know you and they're going to invest in you for reasons other than it's the best thing they can do with their money. Investing in a startup entrepreneur is risky. And, you know, there's a lot of other things you can do with your money that's a lot less risky. But they're going to put that money in what you're doing because they believe in you. They have a a sense of belonging and what you're doing. And they want to be part of it. And usually they're close by to they're not far away. Just keep in mind that most of the angel investing I've seen throughout my life is within a two hour driving distance of where that entrepreneur is.

Right, so with angel investing and most investing, there's a relationship there, you have to build a relationship. They say it takes seven touches to close the sale, so it takes at least seven touches to close an investor, depending upon how much the funding is going. So how does it start to prepare for that challenge?

So what I tell startups to do is when you go out, you're and you're talking to friends and family and people who might want to put money in your company, don't go ask ask them for money. Go ask what you're doing and ask them for advice. That's a that's a great way to get advice. But oftentimes when you ask for advice, sometimes it turns into money. Right. I've shown. What we're working on at Ventura is to do some friends and they've said, you know what, when you're ready, I want to put money in this. And so we've got to develop a team. We have to put a team around this. I'm not leaving my day job to do this. This is something that was built as a solution to a problem that I had and others. And so there's there'll be a team brought on board in going and asking for advice. It causes people to step out and say, I would put money in this when you're ready, when you have a team, when you have customers. And so that's a good way to do this. If you go out and ask for your money, sometimes you just get advice and it puts the people you're talking to on the defensive. If you're just doing a hard pitch for money, so so I would go on advice, gathering tour and then take notes of who says they're interested and don't circle back with them right away. Circle back with them when you're ready to put that round together. That's what the angel money, if that helps.

And who should the startup recruit to help him with that process as well? People that are Connector's or perhaps others.

Yes. So when you're when you're starting a business, there are certain service providers you're going to have to engage over time. You're going to have to engage a law firm. You're going to have to engage in accounting firm. You have to have to have a bank. There's you're going to have to have an insurance provider. These these are these are must haves if you're going to be going to be successful. And what I would do is I would not think of these relationships as vendor relationships. I would think of these relationships as business partners and and really think about what they can do based on the services that they will but one day charge you for because a lot of these firms will pay it forward. And I've been I've been a business development professional with PricewaterhouseCoopers and coulis in both of these roles. I had the type of role where I tried to pay it forward and help entrepreneurs in the hope that one day they would be successful and need to use our services. And so you'll find that with with a certain venture banks, you'll find that throughout the services industry. What we're trying to do with that platform I talk to you about is kind of kind of capture that network so people know where to go find these people. It's in the early stages right now, but it's going to be a software representation of what happens in the regular world. So a lot of the things I've been talking about. Leveling the playing field. These are things I've been doing all along. My team has always tried to help the underrepresented entrepreneur in the female entrepreneur and and give them a leg up in the process because it's the right thing to do. And one of my favorite techniques so not to do is he came to me and said, I'm not raising money now, but in six months I will be. Can I keep you informed of our progress? And he basically gave himself six months of free runway to show progress and out notes build relationship before you ever asked for any money or had to show any real substantial validation behind the product. And I thought that was a great idea, to go and build the network first and then ask for funding. Second, what have you seen in that direction?

Yeah, you're absolutely right. That is a good process as long as you're not asking for money, because if you ask for money too early, a lot of times you'll get turned down. And these bigger funds out there, they keep a CRM system and they will put, you know, rejected. And a lot of times you don't get a second chance to go back. I've seen this happen where you go back and you said we've already seen that one. And so make sure you're not going out with the pitch to in and ask. With with respect to I think if one entrepreneur situation, I won't name the person or the company the company has already exited, they're required. But when the founder was going out. To raise the money and start the company. This is a founder who had already had two or three significant exits, and so I worked with this entrepreneur to put together a message to certain. Venture capitalists that he wanted to target for his future race, just like what you were talking about, and I said, look, this person is is starting up a new company. It's in stealth mode right now. This is what he's done. And I showed the exits. He's going to be in Boston in your in your geography when he's there. Do you want to meet with them? And every one of them said yes, just based on the track record. And so he went and met with these investors and built the relationship and then. But didn't ask him for any money, he didn't even tell them what he was doing, to be honest with you. And so when he was ready to raise, like you said, it was about six months later, he went and called those worm contacts, erased it in no time at all. He raised over three million dollars. And I don't think he needed a second round to get to accept. So that was there was a beautiful, beautiful plan and it worked perfectly. And I was happy to be part of that.

You find second and third time entrepreneurs are able to do that every time it's the first round was successful or had a positive exit at some level, you think that's universal or do you think there are still other issues that come up?

There's still other issues that come up. I had an entrepreneur who had two fantastic exits and had a had a cool idea for a new business and went back to his existing investor. To pitch it for a seed investment and was turned down. Not one hundred percent turned down, but now we're not ready, not yet. We want to see it out. So it's it's not universal. It's much more likely than it would be if if they hadn't done it before, they'll get the audience, whereas you might not even get that audience if you haven't done it before. But it doesn't guarantee that you're going to get the money. When he came in, he literally had three previous companies go out for nine figure exits each, and he was now raising his fourth one. And of course, he had a waiting list and we were able to raise the money, substantial money in about 30 days. You don't see that very often. I found the clincher was the fact that it wasn't just the entrepreneur, but it was the entrepreneur and his team, the very same team that had done those other ones for the most part. And so I found that was the clincher. That would work every time. If you had the same team working in the same space, it worked pretty well.

Have you seen anything in that direction? Yeah, you're absolutely right. That's that is the that is the number one predictor of future success is a team that has done it together before, as I had one investor in New York. So if you if you have this scenario when the band is getting back together, that's as I said, show me those. In fact, those are the only emails you response from me. I send them a message. I say the band is getting back together and he responds and says, yes, I want to meet them. Any other scenario, he doesn't it doesn't even respond to the email. So, yeah, you're on to something there for sure.

Right. Well, the last units that we have here, what else should we cover that we have in.

Well, look. If you're thinking about doing a startup, it's not easy. These things are hard. You've got to be prepared for. You know the rejection. The letdowns, the discouragement. If this were easy, everybody would do it. And so you've really got to think about what you're getting yourself into when you're doing a startup. All right. It's not for the faint hearted. And you've got to you've got to realize that just because of your business, you started out doing one thing. Don't be so sad on that on that one thing you might find out doing the thing that you were planning to do, that you've solved another problem that is much bigger than the thing that you started out to solve. And so you got to be willing to to to pivot when that happens. You've got to be willing to change your team when necessary. You just got you got to be flexible investors. The same thing. You're really betting on the jockey or the racehorse, if you will. You've got to know that this person, while they started out doing one thing like that one company, I mentioned to you that the company I mentioned to you that went and raise that money after pitching it to those investors before his first board meeting, he had to change the business model drastically. And so he raised the money and realized that he had assumed one thing and the market had changed. But he was a good entrepreneur. Right? That's what that's the thing about a good offer. He had to change the whole business model and he was able to convey that to his board and and get them on board. And so you got to be ready for changing markets, changing scenarios, and you've got to be flexible.

Last great information, so how best to get back in touch with you?

Well, so it's best to reach me on email, but my inbox is usually full. And so don't be don't be upset if I don't get back to you right away, I'm at sea. Grant that dot com. And if I'm not the right person to help you, I've got a big team. It's growing. We've added four people this year. I will get you to the right person on my team to help you because we are specialized. We focus on different geographies and industries. But we're here to help you.

We'll put that on the show us. I want to thank you for joining us today and I'll call you back for a follow up soon.

Thank you so much.

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