Kevin Kaylakie of Sincera Capital

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 for the startup funding espresso as 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. We can learn about startup funding to subscribe, go to invest connect dug again through email

[00:00:39] Into the paperbarks. For.

Speaker2: [00:00:47] Hello, this is Hall Martin with Investor Connect. They were here with Kevin Kaylakie founder and CEO of Sincera Capital, . of Sincera Capital provides families with access to an ecosystem of solutions and skilled professionals to help bring clarity, confidence and purpose to the financial decision making process. Kevin, thank you for joining us. Paul, thanks for having me. I appreciate you inviting me on the podcast. I'm looking forward to it to tell the eyes a little bit more about your background. What did you do before you were starting to invest in early stage companies? Sure. I've spent all of my career in the wealth management industry, but the bulk of it really working with ultra high net worth families and family offices. I think I was a bit fortunate just to stumble upon a great partner at Merrill Lynch back when I was a young buck, and he was one of our largest client, was a family office that he had been with for years, which he is now runs that family office in Houston. And so getting to just sit in and watch the process, be witness to the thought process of things that happen with large families and family offices when they consider taking stakes in companies, especially startup companies. What does that process look like? What what tools are they employ? Are they using to determine if this is going to be a good fit? And really, what is the thesis? I think every family, at least that we work with as a thesis on how they invest and we try to apply that when we're out searching for opportunities for those families.

Speaker2: [00:02:11] Great. So what excites you right now? There's a lot of opportunity to invest right now. So not only is there a lot of capital out chasing deals, there's a lot of opportunities, a lot of entrepreneurial ventures happening in this country. There's a lot of people who are really thinking differently in different areas. And so for us, I don't think there's any one specific thing that excites us in terms of a sector or even a subsector of investing, because it really has to do with the families we serve. And if it's something that seems to be in the wheelhouse of where they created their wealth, then we tend to get excited about that. Great. So you deal with a lot of startups 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 first check? I guess I always try to remind them that their wall of shame is probably going to be bigger than their wall of fame. I think most startup investors know that you've got to kiss a number of frogs in this process to find what's going on. It's not always the case, but certainly there are. There's never especially with the earlier seed stage company, there's never a perfect clarity because there is no history, there's no financials, there's no anything that's going on.

Speaker2: [00:03:28] But I would say my number one piece of advice is know the team, know the people, because that's where you're placing your bet. You're placing a bet on the people, not necessarily just the idea. Right, and then on the other side of that table, what's your advice for startups raising funding? What do you tell them to do before they go out for that first capital raise? Yeah, I would say in that case, look for partners, not just investors. Look for people who understand your company, understand the problems that you're solving for in those industries and really trying to find those partners who are willing to open their networks to your growth of the company. And because I think one thing we always talk about with our families is that, you know, if you're going to place money in a in an early stage company or even maybe in a round look for a company, that your resources and the companies that you already own can help drive the economics of that business. And so. But as those have a lot of oil and gas families that have a lot of experience in that area, if they have connections and their networks, that can really jumpstart the revenue of the startup by making an introduction or helping them engage in a contract with a company that they really need to engage in a contract with to grow the company.

Speaker2: [00:04:49] That's what we're looking for. We're looking for ways that our families can help drive the economics. So let's talk about the state of investing in startups, we just talked about how frothy the market is right now, but how do you see the industry evolving from here? How you set that question ahead of time. And that's a that's a big question to cover during a podcast there is it's fascinating because a lot of times with our families. We have discussions about differences between public and private markets, and we talk about the ebbs and flows in each of those and what we know through our research in the studies that we do is that the same economic conditions that create elevated valuations in the public markets are the same economic conditions that create elevated valuations in the private markets in general. I mean, there are some industries that are, you know, don't suffer that same cyclical nature. But for the most part, if if money is good in the public markets, there's going to be good money flowing in in the private markets and vice versa. And so I think from our standpoint, it is investors, specifically family offices, and even a lot of the families we serve with the ultra high net worth space are becoming sophisticated.

Speaker2: [00:06:08] They're looking for groups like us to help them complete a due diligence process, to help them evaluate these companies and really to to find out more specifically how would that investment fit within their families asset allocation or potentially even their family's narrative. So they're looking to see how that private investment is going to fit with their other portfolio investments, get the right balance, right asset allocation. And they're getting much more granular. We say they're getting more sophisticated. What exactly are they getting better at? I think a lot of it just comes from. Connecting wider networks is, as I said before, there's really no when it comes down to evaluation of a startup, there's no history to evaluate. It's just the people. And so a lot what I found, especially now running my own firm. Is that most of the deals that we are seeing on the private side? A lot of my competitors, I call them friendly competitors because they're very good friends of mine. Now, other multifamily offices and single family offices are also seeing those same opportunities and same investments. And so we're able to cast a wider net of due diligence by having that interconnectivity between the multifamily offices and family offices in Texas. But I say in Texas, really, that's just around the country. And I even have a couple that are abroad that we we look at deals with. So really more sophisticated in the sense that we've we found ways to connect our due diligence and pair it up together in even if we aren't the actual group that's going to help drive the economics.

Speaker2: [00:07:48] We know what the other family offices are doing and where their area of expertise lies. So we may call them and say, hey, I really like this team, but we are not we're not a pharma group. But I know that your family made all of their their wealth from the pharma sector and you have big connections there. Can you take a look at this deal with us? And so it's more of the networking, I would say, because the sophistication level, the advances around the sophistication actually just comes from tracking, monitoring it and finding the performance and, you know, staying in, plugged, more plugged in with the financials of the company. So what you think is the biggest change we'll see in the space over the next 12 months and start investing? Twelve months, yikes. Well, I am not an economic forecaster, and in fact, I think it was John Galbreath that said economic forecasters lend credibility to astrologers. I think was was the butchered quote from him. So certainly I can't predict the future. But if we fall into some sort of recession, I think we're obviously going to see money pull back. That's the part of the market where most most of our investors will pare back the most.

Speaker2: [00:09:04] That won't make investments in those companies because the risk level increases substantially when the flows dry up. It's talking with a number of startup founders. The number one risk to a startup is running out of money so that the number one reason they fail is they run out of money. And so if we do see a pullback in the overall markets, I think it will affect that. But also, I think it's interesting to see this and we see it more and more with some of the venture capital groups that we talk with. They're trying to take this startup and create an ecosystem around it that allows the statistics, I guess was the best way to say it treated more like an index fund. So have a way to contribute smaller amounts to a larger amount of startups so that you're you're not running the risk of one particular or two particular startups really collapsing the return in the portfolio. Adam, our chief analyst, Adam Becker and I, we started this and beat it around and we're not one hundred percent sold on it. We know a lot of smart people who are thinking that way. But also, at the end of the day, we do know that, as I said earlier in the podcast, it's our clients you will never see in that indexed approach is who is behind the scenes of each of those startups hoping to drive the economics of that startup.

Speaker2: [00:10:26] We see that maybe not 12 months down the road, Paul, but I think there's certainly a lot of people trying to do that. Interestingly enough, I think we've seen on the fun level, people attempt to couple seed stage or early stage investing with a more secure cash flow driven type investment like a real estate, in order to smooth out returns and reduce risk in the portfolio. Again, not sold on that either, but ultimately our families already do that. So we don't need to have it inside of a fund or coupled with a single investment that we're making. Right. Well, let's talk about your investment thesis. What is your investment thesis for startups or how do you coach offices to look at investment thesis as for this space? Well, yeah, I believe I've already covered that slightly when I said that. Really? Look, to invest in something where you can help shape the economics company and for us that is think real estate, oil and gas, logistics, biotech, KPG and FinTech are probably our core pieces where a number of the families we serve have a very, very high level of expertise and have had large exits in those spaces. And therefore their networks are pretty significant in order to help drive the economics. The fact one of the family offices we serve did just that and recently had a large recap on that company.

Speaker2: [00:11:53] So it was very successful and they are looking to do that again. Great. And so you see a lot of start ups and investors and the challenge they face. What do you think is the main challenge that startups face today that you deal with? The main challenge for the startups, I would say it is really finding those partners, not just investors for the startups themselves. I know that there's a lot of people out there with wonderful ideas and underdeveloped networks. And so using folks like yourself, I do a little plug here for 10 because, you know, what you're doing is you're helping groups like ours that may have a specific niche. And one of the six categories I listed before, you're bringing a lot of people through your network to try to connect people that have those resources and networks to help grow those companies. And a lot of those founders, some of them may have great networks in the industry they're in and some of them may have just had a wonderful idea and are starting a company and they need to build that. And so. I would say that's the main challenge, is just making sure that you've put the right investor base around you who is plugged in, involved in the company and really driven to see its success. And then on the other side of the table was the main challenge investors face in today's market.

Speaker2: [00:13:15] Not having our companies run out of money, so as I said, the number one reason startups fail, they run out of money. You know, it's interesting, there's a number of people who do work studying the qualitative aspects of startups, not necessarily the quantitative aspects. And what we always like to see from our startups is just communication, whether it's good or bad. We need to know the communication on the startups because if it's good and they need some additional help to get to the next level, our investors are happy to provide that because they have a financial interest in doing so. If it's bad and they need something to bridge to get over the hump, then they will happily jump in and make sure that happens for the company. I don't think that happens unless you have the people part in place first. So in other words, our investors are investing in a team and they know that now, especially now, things like covid hit and you have the world can change almost overnight in terms of the companies you funded and how things are working logistically and supply chain wise and financial commitments from other investors. And so if there's a really good connection for the investor to the people who are running the company, they're much more likely to be involved, especially when the company gets in a rough spot. Right? Well, you see a lot of different sectors and applications out there, which areas you see gaining a lot of interest from investors these days.

Speaker2: [00:14:49] I think that, again, goes it goes back to where the investors have an expertise. I see some people really excited about biotech. I see some people really excited about fintech. You know, on the financial world, the majority of the investments that I like to make the personal side are in the fintech space because I know it and I understand it. When I can look at those their board of directors on each of those fintech companies, I generally know who those players are. If they're big enough. You've seen them in the media and if you've seen them in your own specific niche media. And so you know who's involved and who's who's got capital and interest behind those deals. But I think a lot of the really what's fascinating, I think the ESG space, I think people who are helping solve problems on the ESG are getting a lot of attention right now. Good, bad or indifferent? I think all of them fall into play there. But really, the companies that are solving problems that are on the global stage are getting a lot of attention. Let's hear a lot about ESG. And, of course, everyone wants to be good and put forth impact through their investments and so forth. Do you think that's possible to do through ESG funds that are out there, or is this going to be a challenging thing to do, get both a successful financial result as well as Nampak result? Yeah, it's becoming more and more apparent that ESG is a very wide net still.

Speaker2: [00:16:25] In fact, we wrote a piece on our blog about it about a year ago, maybe a little less than that. And we've done a lot of research into the ESG space. I think there are a lot of people what really hasn't happened yet all in the space is there hasn't become a standardized tool of measurement. So there's a lot of different companies that have a lot of different ways of managing what is an EU investment and what is not. And, you know, you look at, you know, companies, some of the big oil companies, the big energy companies, and it's like, oh, jeez, big oil off off the list. But then you look at Exxon put four hundred million dollars into renewable energy in the last six months and they're planning to put a billion dollars over the next 18 months and mean you look at numbers like that and you say, OK, well, what do we do there?

You know, it's like there's still an oil company. The majority of the revenues come from oil, but they're spending a lot of money to try to find a way to get out of it, to try to find a way to do something different.

Speaker2: [00:17:24] And so there's really no way to screen that in the sense of what you're what you're trying to do. But also, I mean, fascinatingly enough, the we've looked at a number of different environmentally focused private equity funds, and I won't mention the name because of India's, but it was fascinating. They actually took the stance around, said, OK, our goal in the first is to make this. Let me rephrase that. Our first order of business is to make an R above X. Our second order of business is to do something good for the environment. And so I think what's happening is, is the people who are taking a very realistic stance are saying, let's go make some money and then let's figure out how to how to do that. Is ESG conscience as we can. Well, I can sympathize. I see a lot of startups going through, and I find that there are those with a great financial impact and there's a great social impact. But the intersection is not always very robust. And so came to the same conclusion was just find a good financial impact that happens to be doing something good at the same time, because if they're doing something good but doesn't have a financial impact, that that could be a tough road to hoe there because you've got to take a company and change this whole business model to get to a financial impact.

Speaker2: [00:18:42] What's your take on trying to approach it from that point of view? You mean financial first or first, financial first, because you can usually go and work off a successful financial company to a good conclusion versus the other way around is harder to do. Yeah, I think on our end there's the obviously the environmental, social and governance is our ESG and we're going to have a joke where if someone says we're the Toms shoes of blank, we generally run for the door because that's kind of a social model that everyone's trying to do now. It's you know, it's like, you know, buy one, give a pair, do this, donate here. We think that's just almost corporate responsibility at this point. You know, it's it's if you're a corporation, you should be giving back to your community. And our thought process is the closer that community is to your business, the bigger the impact you're going to have because you see it as a corporation. So but what we're really looking for is in that particular fund I was talking about, there was a company that had figured out a way to recycle cash to try to say this without breaking the NDA, to recycle a certain plastic that was very common and they were able to do it with an 80 percent margin. Yeah, and it produces cars in excess of 30 percent.

Speaker2: [00:20:06] And that was through covid and everything else. And so they were really reducing a huge volume of plastic waste. And I'll say this because maybe it's fresh on my brain. Just came back from vacation down at the coast and I took the kids and the family to the Texas State Aquarium. And there's an entire exhibit there about levels of plastics in the ocean. And it's it's mind boggling. And so when I thought about what this company was doing in the tons upon tons of plastics that stayed out of landfills or potentially flowed into rivers, lakes and oceans because of this work, that was like that was something to me that really stuck, especially after seeing the scale of plastic in the ocean and just hearing the raw number in terms of tonnage of how much plastic was floating around in the ocean. Wow. Well, great. Well, in the last year that we have here, what else should we cover that we have in. Well, I think you and I talked about this a number of years ago over coffee one time, but I'm not going to go into the details of it, but qualified small business stock. Kuzbass I think investors and companies need to know this and understand this. It is a huge part of the tax code that's often overlooked by both investors and companies, especially when companies are establishing themselves. Just understanding the impact that a safe note would have or a convertible note would have on Kuzbass status for their investors.

Speaker2: [00:21:31] When that clock starts understanding, Kuzbass is 12 to and also for investors who were more cyrille in their approach to startups is just understanding ten forty five. Understanding that small business stock rollover on how that works. I think more often than not, a family just doesn't have the right counsel in place. They will miss that, pay a tax on something that they didn't have any tax due on. And so really, I would say for investors and companies, pay attention to Kuzbass, it's a wonderful part of the tax code that that is geared towards helping small companies and startups get off the ground and get investors into the companies. Well, that's great advice. It's a very useful tool that not many people know about or use. So that's worth looking into. So how best to get back in touch with you? Easiest way to find this is on the websites capital dotcom essi in e, c, e, r, a capital dot com. You can find us there, email us. All of our partners are on the website. Easy to get a hold of us and learn more about our company. They're great. We'll include those in the show notes. Want to thank you for joining us today. OK, have you back for a follow up. It sounds great. Thank you. I appreciate you having me on.

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