Pano Anthos of XRC Labs

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. In raising money for your startup, for your next fund raise, consider Tenke Capital Syndicate platform and online portal using a special purpose vehicle syndicate platform allows for online investment access to over 12000 accredited investors. Log into the King Capital Syndicate platform to find your next investment. To learn more, go to 10 Capital Group slash SPV for.

Speaker2: [00:00:49] Hello, this is Hall Martin with Investor Connect toDay, we're here with Pano Anthos , founding and managing director of XRC Labs. XRC Labs is a startup accelerator and venture fund dedicated to fostering the next generation of disruptors in the retail, technology and consumer goods sectors. Pano, thank you for joining us.

How nice to be here. Thank you.

All right, so what was your background before investing in early stage companies?

I was a multi time founder, I started my career, I'm a little bit older than most folks. I started my career in the eighties, late eighties in supply chain and trademarked the term global logistics systems. So I actually own that trademark. Masayoshi Son was actually one of my investors. And around ninety nine, we raised a lot of a lot of capital in the supply chain space and we were building the then global trade solutions that would automate e commerce, lending, cost analysis and all the dropship, some issues that we'd have with e commerce back in ninety nine, two thousand. And then I shifted to deep technology, object oriented technology around integration. Then I saw that move to gaming. I was unities first customer enterprise, customer software as a public company today. I didn't get stock. That was my big mistake because that would be worth a lot of money right now. But you learn and I'm an early, early adopter. Early investor, so. That gaming company completely failed in 2010, and then I consulted for a while, realized I really didn't like consulting, I also didn't want to work in a venture fund.

Speaker2: [00:02:21] It was too boring, too slow. And so I had been helping out some accelerators in Boston and realized that there was a wide open gap in the retail and consumer goods fields and felt that we were headed for a cliff in 2012. You could see that consumers were highly mobile, retailers were not consumers were really ecommerce oriented, retailers were not. We were overstored. At the end of the day, when you look at it, you just knew we were going to hit the cliff. Now, covid really accelerated that. But when we started the fund in twenty fifteen, our predilection was if we were really early, early, early, early investors first money, we could watch the wave of innovation take place. And so we became known for being really early investors and a kind of the canary in the mine. People could see with our startups what the future would look like, which is actually been the case. That's great. So what excites you right now? What excites me right now is the reinvention of retail. The e-commerce is the most practical explanation of the change in retail, but there's a lot of other changes going on in retail if we start with new channels. So we were the first investors in live streaming in the US with shop shops. We believe that's going to only continue to grow dramatically. We love the use of drones for supply chain.

Speaker2: [00:03:40] So we're a big investor and gather AI, which is a supply chain. So the idea that drones can actually do a lot of work. We like low investment thresholds, we like to see where we can put a little bit of money and have a big impact. Robotics, for example, is high money, high impact. That's a tough one for us because we don't have a lot of money to give us accelerators. So we look for those situations where we can have high impact and put a little bit of money to work at. The startup is very, very capital efficient and doesn't require a lot of capital for the business to new channels of reach. We love a lot. We love the consumerization of health care. We think that the doctor's office is outmoded as a lot of retail stores. We don't need them. Why not just go remote and we're seeing more and more of that happen. We believe food is going to go through a major transformation, much like the transformation the retail went through and the Warby Parker and that and the direct consumer model for apparel is not coming to food. And you're seeing more and more food companies selling direct with an omni channel perspective as well, but delivering a lot more value in a direct indirect mode. So supply chain, future of food, consumerization of health care and retail channels, these are all some of the things that we're focused on.

Speaker2: [00:04:57] Great. So you see a lot of start ups and you see 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?

Know thy founder, the founders are at this point in the early, early, early stage of a company's life, everything. The ideas are a dime a dozen. I can't tell you the number of companies where I hear the same idea. We look to the founder and we ask the question, will this man or woman or both drive, change and bust through the walls? That would otherwise stop most entrepreneurs? Because it is not a pretty picture. Starting a company is bloody. It is really hard. So the founders everything. The idea is second we look at macro trends is that are they coming into a tailwind or a headwind? So we believe e-commerce is a and we were very early investors in commerce back in 16, but now commerce is really coming to the fore. The idea that rental or resale of product is as important as the original sale and that requires founders to be really a lot smarter than they used to be and think differently. So sometimes we're too early and will invest two or three times. We'll say we tried that once too early. We'll do it again because we can. We're running relatively small checks.

And then on the other side of that table, what's your advice for startups? What do you tell them to do before they go out to raise that first round? So I actually was just on the phone with one of our startups today and I would recommend one having a co-founder.

Speaker2: [00:06:29] This is a very tough business and one of the top accelerators that their list of the top one hundred of their one hundred startups and ninety two percent of them had a co-founder. And I can't tell you how difficult it is to run a company buyers at this early stage later on, when you've got 10, 20 million of revenue, no problem. You don't need a co-founder. You're the CEO. You've got people working for you. It's great. But in these early days, there are only two things that matter in the startup, building the product and selling the product. That's it. Nothing else matters. Legal MHR. No offense to all those great people in the world, in the room and the world, but they just don't matter to those early stages. So if you're a founder, pick one lane and hire for the other and make that person the co-founder. You can't do both. Very rarely can the same person themselves build the product. It's highly unusual and it's actually not. It's optimal. Sound efficient.

That's good advice. Let's talk about this data startup investing. How do you see the industry evolving here? Post covid how?

It's nuts. I just I don't like what I see.

Speaker2: [00:07:35] I feel bad for the startups. They're getting crazy valuations, which means what's going to happen is when the market corrects, it's going to be bloody. And if I don't know the term ante dilution protection, they need to learn it because what investors do in these documents is they protect themselves. And the anti dilution protection really means that when there's a down round, the people that get squeezed are the entrepreneurs, not the investors. The investors maintain their their equity threshold and their value. And they and basically the entrepreneur gets stuff. So it's not my biggest recommendation is don't chase valuations, don't go after them. It's going to be a losing proposition at some point. And and when and Bill Gurley is a great entrepreneur, investor and a benchmark, he said basically this is a game of musical chairs. You do not want to be the last investor standing. You want to have sold or gotten out of the business or for the entrepreneur. You don't want to be the last one standing and you will get hammered. Just don't chase the valuations. I got you. It makes sense.

And so what you think is the biggest change we'll see in, say, the next 12 months? Well, I think there's going to be a correction in the market. It is inevitable. Public markets cannot continue at this pace forever. There's going to be a correction to when it happens. It will ripple all the way through private valuations because a lot of the private valuations right now are pegged to public.

Speaker2: [00:09:04] And so literally, this is going to be this chain reaction and there's going to be a reevaluation of the growth stage funds. Right. The stripes or the all these players that are by Tiger putting in crazy amounts of money at ridiculous valuations. They're going to get reset and they're going to reset all the way down the chain. So it's as if a founder really wants to chase that valuation. God bless them, go for it or. But I we're not going to play that game. We've had one company approach us. Great company. We loved it. They want to do it on cap safe. Basically, it's a it's a rationale for me to basically give me give them all my time and my money and get nothing in return. It's bizarre. So we're not going to do that.

So tell us more about your investment thesis and in particular your criteria for looking for startups. What exactly is it?

So the vast majority of the waiting is around founders, as we talked about earlier, it's probably 50 percent. The second biggest is not the idea itself, but the. Trend that they're marking against. So when we found a company that's in commerce, we asked the question, is commerce really going to be an emerging trend or is it a dying trend? I mean, you'd be amazed at how many founders go after trends are dying that are not growing.

Speaker2: [00:10:22] And we think that's a really bad idea. Market size doesn't really matter to us much at this point. I mean, it's got to be big, right? You want to know that it could be big, but you're really after the trends and what's going to be five years from now. So, for example, we know that somehow autonomous driving, some sort of economy is going to come down the pike. So we've invested in a number of computer vision companies. But will we see autonomy first, as in drones and then maybe later on? Maybe, maybe in cars, although we're very negative about the the car market, because the cost of a car that goes off kilter is much higher than a drone going off kilter. So we look at that kind of military, we say, alright, let's let's think about the future and where it's headed. Supply chains, constant iteration, constant improvements. We're big believers and on demand manufacturing, we believe that we're going to see much more manufacturing come back to the US with highly automated on demand capabilities. And we're big, big fans of that. We've invested in that pretty deeply. We believe that, as I said, the retail channels are going to continue to change small stores, showrooms, no big stores or Costco or but the vast majority of brands will have to have stores and they'll be tiny. So we're we're excited about the future. Have to answer that question.

Speaker2: [00:11:45] But so we look at these macro trends. We kind of plot them out. We see what's going on, and then we look at the micro trends, which is, OK, what's going to get in the way of this? What's the competitive landscape look like? That's a secondary issue for us. It's important, but we want to understand if this person has a chance to win. And lastly, valuation. It's the final thing. It's not the most important, but it really can stop a deal that's tracks. You talk about one or two startups that fit your thesis. Yeah, bunch, actually. So I was mentioning on demand manufacturing nimbly, which was in our cohort for has built robotic knitting machine capability software. Basically they're building the eight of us for knitting. Now knitting is a 12 billion dollar industry. Your shirt is not a net, but sweaters. Anything that's knit is done on knitting machines today. And those new machines are all over the world and there's mass produced. But you can do a lot of this now on demand and your inventory demands dramatically. So we love that company a lot. The logic was the one I mentioned in terms of supply chain. They've built these logistics hubs inside malls and are completely changing what same day delivery looks like. They can basically deliver same day delivery day to day prices because of the way the reengineering supply chain. We love the consumerization health care. So ortho effects, which is the next generation aligner platform we can smile direct on steroids, is really interesting.

Speaker2: [00:13:12] I think know which is a way for you to analyze your anemic levels with your iPhone and the power of that. The amazing power of that is that cancer patients need to understand their blood levels before they go in for chemotherapy. When they go wandering into an office, they figure out that they can't do it and they have to go home. And so it's a terrible experience to not have their treatment. So that's a great area. We're in a lot of this kind of diagnostics and consumerization health care. I shop shops very excited about live streaming. We stay very committed to that. And then in the coffee business, cafe is killing it right now. There's been a cup of espresso capability that does lattes, cappuccinos at half the price of Italian machines. I could go on for a while. We have one hundred companies now and I think you want to hear from all of us. Well, that's a good example or a good sampling, I should say. And so appreciate that. So you see a lot of startups and a lot of investors out there. We see is the main challenge startup space today. I love this quote, I wish I could say I came up with that I didn't first time founders of stress over product, second time founders stress over distribution. Distribution is far more the issue today than ever before.

Speaker2: [00:14:33] It's not just Facebook ads costing more and such, it's the overall market is changing pretty dramatically. And so you're flooded now with products from so many different consumer landscapes. And we have looked at easily for hundreds skincare companies that have launched in the last year and a half. Four hundred. What do you do with four hundred skincare companies? Right. They're not all going to survive. So distribution is everything in today's market. Much more so product. I mean, really one skin care versus another. I'm not just saying skin care. Founders don't get me wrong. I know you're special and what you're building is unique, et cetera, et cetera. But let's be candid here. I mean, we just don't need for hundreds of companies. And so distribution is really everything. And same thing in enterprise software. I mean, you build your product, you've got to have customers using it and the customer adoption. So we we're we're telling founders, focus on distribution, focus on the customer, make sure your customers are really happy with the product. Then we obsess over the quality of the product afterward. So I use the MVP minimum viable product. That's really not my point. My point is make sure you've got customers who love what you're doing, even if it's a small circle. And then what you see is the main challenge investors face today. Deciding I mean, it's just so much volume, it's ridiculous every we are we are getting I can't tell you how many inbounds a day right now and we're not even and we kind of like our selection process is over.

Speaker2: [00:16:05] So as an investor, your ability to sift through all this deal volume, we have a sourcing team that's quite large now strictly because of the volume that's come in. We can't simply rely on partners to just source their own deals or manage themselves. And you run the risk of missing the winners. I mean, I'll give you a great example, Billy, which is a great company, doing extremely well, came in. They had no product. Their founders had no previous experience in the industry. And it's a guy, CEO running a women's razor razor brand and shaving like that doesn't like jive easily. And yet it's been a blowout here. So the ability to spend time and and research his company a little more depth requires personnel staffing level. That is nothing like we've ever seen.

Well, you mentioned a lot of sectors and applications today that you had to pick one or two that you put at the top of the list for being really good at media opportunities for investors. What do you put up there?

Oh, I put up the consumerization of health care. We're talking about a multitrillion dollar industry that's being shaken. And it's very it's not the doctors won't go away, but doctor's offices will go away. The ability for remote care to take place.

Speaker2: [00:17:22] Self care is growing exponentially. And we have a company actually that that basically is building the building blocks for which doctors connected to patients through brands asynchronously in a really interesting way. So we just think that the future is really about flattening the cost of health care by efficiency and and technology as opposed to government policy. It's a big one. Supply chain will never will always be big and it's only going to get bigger.

My first company was in supply chain, but I can tell you that it is crazy right now how important supply chains are. When I started, it was called physical distribution. We didn't use the term supply chain. Now it's all about supply chain. So it's I find it ironic and interesting at the same time. So I love the fact that it's strategic now. Thank goodness you're back in vogue. That's good to hear. Well, in the last year that we have here, what else should we cover that we have it? So my encouragement to founders is have two ears and one mouth. And by that, I mean, listen carefully, speak. Don't be shy. You need to have conviction, but you have to have a big dose of humility and humbleness with confidence. And you usually see one and not the other. You see other people who are too humble and are afraid to execute and just take it out of their own way. Or you see them so cocky and confident that they make time to make mistakes.

Speaker2: [00:18:50] The other thing that we're I would recommend is and we're very excited about this is we have been emphasizing what we call the underrepresented founders, direct knowledge founders, the minority founders that really do need and can excel if they get the chance. And so we're both for investors and for ourselves and for our entrepreneurs. We're elevating them. We want them to have a much more opportunity. It doesn't cost us anything. And actually we're seeing results from it already. So we're excited by the ability for underrepresented founders to get time and attention. And they are listening very carefully how they are listening. They're really working hard and they're executing extremely well. So we're excited by that that program and believe that every venture fund should be effectively doing the same thing. Great for how best listeners get back in touch with you. So my email address is panel, and that's Piano Without the Eye at Sarsae Labs dot com. I welcome any type of founder. As we said, you can have an idea. You don't have an idea. We love underrepresented founders. We want to give you our time and be supportive. And we're always we're always in business. Twenty four, seven. So please, by all means, reach out to us. We'd love to chat. Right. We'll include that in the show notes. I want to thank you for joining us today and hope to have you back for a follow up soon. Thanks.

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