Tim Marx of Baird Capital

Speaker1: [00:00:04] This is the Investor Connect podcast program. I'm Hall T. 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. Hope you enjoy this episode. Need help in finding investors for your startup fund or Angel group think capital provides funding as a service helping you find accredited investors contacting capital gain access to investors for angel and venture capital funds, family office rounds and syndication raises. To learn more, go to Tin Capital Dot Group. Hello, this is Hall Martin with Investor Connect. They were here with Tim Marx venture partner at Baird Capital, Baird Capital makes venture capital growth, equity and private equity investments in strategically targeted sectors globally. Since 1989, they have raised millions more than three point eight billion dollars invested in over 320 portfolio companies. Tim, thank you for joining us.

Speaker2: [00:01:05] Thank you. Pleasure to be here.

Speaker1: [00:01:07] So tell us more about your background. What did you do before you started investing in early stage companies?

Speaker2: [00:01:13] Sure. Sounds good. Well, upon completing college, I got a Fulbright scholarship, and that took me to Mexico, where I was working in banking for a year. And the idea was to come home after 10 months and look for a job in New York or Philadelphia where I'm from. I met I met someone at the time and my girlfriend at the time, well, now wife of 16 and a half years, so decided to stay. Look for a job. I received a job offer at BCG. And with the exception of business school, wound up spending almost 17 years as a consultant before leaving as a partner and managing director. And the reason I did this was to focus on smaller, more innovative companies, which is where I realized I had a passion. As for Houston, where I live now, I've done a lot of traveling internationally to South America. Europe lives in a couple of different countries. But one of the places I used to have to go, I'm quite a bit with Houston, in fact. And without it's not too far from Monterrey, Mexico, where, you know where we were living and figure we give it a shot. And we're very happy here.

Speaker1: [00:02:16] Great. So what excites you right now?

Speaker2: [00:02:19] I say the most honest answer I can give to what excites me is easily my my three daughters, Alegra million and Allana, who were 11, nine and six. Every day is a blessing with them. But, you know, I'm kind of sure you really want to be talking more on the professional side. Without without wanting to without wanting to narrow it down to just one thing. I would say is the possibilities afforded by the digital age in which we're living. Not all that long ago, we were just another animal trying to make ends meet in the forests for many millennium humans grew our society through language. It is agricultures in the life, but life, generally speaking, was kind of a saying right in. You know, we're just kind of trying to cover some basic needs and not of hierarchy and just kind of move up the the triangle the best we could. For the last 50 years, the pace has changed dramatically. You know, like never before, we just see these realms of possibility, be it health care, tech and tech enabled services like that at the same time, or exhilarating. But at the same time, you know, give us a little bit of relief. Me give me a little bit of anxiety as whether it will wind up using this power for the benefit of people and planet or to the detriment of that. Right. So that's what really I'm focused on and excites me right now, kind of I when I answer this question, I always think about that famous Chinese curse. They used to say that Robert Kennedy made a little bit more famous when he when he said it in a speech he live in, he or she live in interesting times. To me, that's not a curse. It's exciting and it's a blessing. But it's one that we have to really be sure that we're doing the right things with it, because, again, the power we have now has never before been witnessed. And and, you know, it could it doesn't necessarily mean it ends well. We have to make sure that it does.

Speaker1: [00:04:19] Absolutely no truer words. So what's your advice for people investing in startups? What do you tell those investors to do before they write that check?

Speaker2: [00:04:30] Sure, I mean, I think from where investors come in me just to make sure you have a thesis and you stick to it. The idea of I invest in anything. Well, most people, at least myself, I know I can't, you know, cannot properly look at diligence and support any company in any sector anywhere. So I think it has to do with really thinking about where you add value and how you can be helpful to the investments you're going to make. Because capital, as we know, is pretty abundant and a relative commodity. Real investors and investors that people really want on the cap table these days are the ones that are able to add value outside of just the check.

And so I would say, you know, that's number one. And number two, be patient. Write the best deals often come through relationships and entrepreneurs you've met and held relationships with over several years. You know, I'm starting to see this in my own orbit, as it's been three years now with Baird. And I finally feel like you're the deal flow is much more solid and relationship driven. Right. I mean, anybody can have delpha, anybody who's willing to send you deals. Anybody can find deals to invest in. But the real deal is that, you know and can feel comfortable about, you know, that takes time. So I would say just don't rush into it and be opportunistic when you find those opportunities, but don't rush it. I think the best things, best things take time.

Speaker1: [00:06:00] Great. Then 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 that first round of capital?

Speaker2: [00:06:08] Yeah, I think it's a little of the same kind of same same, but different, right, in looking at the patient and where as an investor, they're hone in on her his thesis. Right. An entrepreneur needs to really identify problems that are worth solving, that people really need and that people are willing to pay for. Right. And you do this by obsessing over getting clearer and clearer every day on what a pain point they're solving. Who needs a solution and why and who the buyer is and what she or he really wants and needs to see in their decision making process. Yeah, I think I think there's still all too many instances of great technology looking for a problem to solve. And especially in today's world, it's never been easier to start a startup. And so. Just because you can doesn't mean you should take the time to think about it. And then once you're really sure, go for it and have the resolve to break through barriers in here, No. One hundred times and come back again for one hundred and first. And you'll eventually hear a. Yes. Right. When it comes to raising capital, when it comes to getting that first customer and the like. But if you start too hastily and go down a path, all this could work. Or I kind of feel like, you know, when you get those hard times where you really need the resolve to push forward. It may not be there.

Speaker1: [00:07:37] That's good advice, so let's talk about the state of startup investing. How do you see the industry evolving from here?

Speaker2: [00:07:44] That's an interesting question, especially in these times. I mean, there's a lot of canned answers I could give you from the availability of capital to the pandemic being able to raise over zoom and the like. But is the industry involved and I think we're going to see the pendulum pendulum swing back and forth on this quite a bit before we see the ultimate shakeout. It's still about relationships and the ability to find and connect with entrepreneurs doing great things. All right. So. People that are good at building relationships in person typically are pretty good at that. Over Zoom as well. Right. It's not as if Zoom allows us to be different than who we are and do things differently in the light. So I do think that focus on relationships going forward and again, to hearken back to something we've already mentioned, especially in a world where capital is abundant and everyone's looking for kind of an angle or what makes them special or what is your unique selling proposition better and as a company or as an individual or as an investor. The ability to really identify what you do well and play to your strengths, I think is important. So we're going to see different models evolve. But I think those models will be able to coexist because there's going to be people that are investors that have found a niche, found a way of doing business that works for them, and they do it successfully.

Speaker1: [00:09:13] All right, and so what do you think is going to be the biggest change you'll see in, say, the next 12 months in this space?

Speaker2: [00:09:19] All right. So in this space. Just take a step back real quick. At Baird Capital, we typically invest in both health care as well as tech enabled services. So when I talk about this space, I'm typically referring to those two in health care. I think it's the application of the technology boom over the last couple of decades, because for the most part, if you look at 20 years ago and cost a million dollars or more and took forever to map a genome for the first time. Now, if you get that done for 600 bucks, and if you wanted it done by by the weekend, you'd probably have it done. And so I do think either health care lags in the sense that a lot of this technology needed to be built first and then available for use in the health care sector. So I think when it comes to genomics in know all the all types of big ideas in health care. Now, we're only starting to scratch the surface of, what, the last 15, 20 years of. I would say technology development will be able to do for patients and providers. I think on the other side, the speed at which technology companies are developing, the biggest change is both exciting but also maddening is before you could raise rounds of capital with an idea and a PowerPoint, build an

MVP, take time to figure things out and come back for a little bit more, get lost along the way, find yourself in the light, and you still see that with company.

Speaker2: [00:10:53] You still see companies successfully pivot and and then find success. But now, with all the tools available to entrepreneurs, the ability to bootstrap is so cheaply. It's kind of up the expectation on what a building a company looks like at the earlier stages. And so, I mean, I think that's one of the bigger changes we need to we need to be, you know, have our eyes open to and also recognize the challenges of what that means for non-traditional founders. Because I do think the ability in the information and the accessibility gap might only be getting wider instead of smaller, despite the technology. And that's something we have to address, because we really think that we're going to get the best ideas and best technology and best everything for the world by taking 20 percent of the population, 15 percent of the population, and just listening to them, you know, kind of we're sadly mistaken.

Speaker1: [00:11:58] Well, that's a good point. So let's talk about your investment thesis. What is it? And you talked about focusing on health care and tech enablement, but can you give us more detail about your criteria?

Speaker2: [00:12:11] Sure. On the health care side, we'll invest in medical devices like science tools and digital health companies. I would say were a series, A series, B, investors looking to write a five to 10 million dollar initial check with 15 to 20 million reserves for a company over the investment cycle on the devices and tools side. We will go pre revenue because a lot of times most of the value or a lot of the value at least, is accrued at the time of FDA approval for a lot of these companies. And therefore, we need to be able to get in early and help them out. We do like to see large animal studies or first in human right in in these cases. So we're still not investing in just science projects, but we will go preve revenue and take on that regulatory risk. You know, when it comes to digital health companies, which is the same as I would say our tech and tech enabled services. Criteria industry agnostic is we look for companies with a million and a half, two million RR at a minimum, I would say our sweet spot is typically two to 10 million and a RR with good customer track record churn, you know, and and references. So, you know, all the typical SAS metrics. Right. But definitely in that milieu and a half to two million R plus range.

Speaker1: [00:13:42] Ok, can you talk about one or two stars that fit that thesis? Maybe a portfolio?

Speaker2: [00:13:47] Sure. I'll talk. If we just invested in a company here in Houston, Taranis and Taranis is is a Medicaid company that FDA approved and looking to raise the commercialization route. So in this case, it already did have FDA approval, but had, you know, a great CEO, a good team behind it and a great technology. And we're we're just happy to be able to support that commercialization round and looking for the company to really be successful over the next 12, 18, 24 months.

Speaker1: [00:14:24] Great. Appreciate that. So you see a lot of startups and investors out there. What do you think is the challenge most started space that you work with?

Speaker2: [00:14:33] So I think the challenge is, you know, we talked to many about expectations, competition, et cetera. I, I think we often talked about the lack of diversity. And so I just think there's a lot of challenges around, you know, those type of things, which are what are the right expectations to have of a startup. Do you really understand your competition? Well, a lot of times we hear that, oh, no, we really don't have any competitors or you look at me. Everybody's got a magic quadrant slide where they're in the far upper right quadrant and everybody else is in the bottom left, you know. And I think it just has to do with recognizing who you are and where you play and being true to yourself. Now, whether or not, you know, I get these decks because I'm an investor. And so I know there's a little bit of jockeying for position here and there and the like. So, you know, I'm not going to just completely dismiss that that angle. But as an entrepreneur, I think I just really need to be true to yourself and do a really. Good job of knowing who your customers are, who your competition is and what your unique selling proposition is. Or else you just kind of get lost in the noise and maybe even start to believe yourself that there's no competition or you're the only one and things like that. And that's it knocks you off your game.

Speaker1: [00:16:02] Absolutely. So then on the other side of that table was the challenge investors face in today's market.

Speaker2: [00:16:09] I think it's just, again, identifying, building the relationships that allows you to get in on the best deals or in our cases, we lead all of our deals, be on the front end and have the opportunity to lead a deal. Right, the term sheet, et cetera. Because there again, there's so much capital flying around and looking just for a check is is not enough. I mean, as investors before, if you had money, you could play. Now that not enough entrepreneurs have are able to raise money from multiple sources and have gotten smart enough that they don't just want a check. They want support. So being able to sell yourselves as investors is important. Which it may not have been. I haven't been in venture capital 15, 20 years ago. But again, I think 15, 20 years ago, if you had a check, you were a player. But now you just have to be able to say, you know what and what value do I bring to the company? And I think that's a major change. I think it's for the better, both for the companies, obviously, and for the investors to make sure that they're investing in things that they really understand. But nevertheless, it's is not an easy, I don't think, as it used to be, to be an investor.

Speaker1: [00:17:29] Absolutely. There's a lot of deals out there. Signal-to-noise can be hard to find sometimes. So when this question is, you see a lot of sectors and applications out there. He had to pick one or two that you think are really good opportunities for investors to pursue, say, in health care and tech naval space that you play in. What do you put at the top of the list today?

Speaker2: [00:17:51] So I would tell you the health care side, if you're looking at devices and the like, we've seen a change over the past couple of years. So this isn't just recent, but before a lot of a lot of the improvements were marginal improvements of technology. And it was easy to get things through the FDA. And you could have the blue state blue vessel feeler and come back and get approval for a red vehicle sealer and charge five to seven percent premium. And everybody was happy because the doctors were had the relationships with the companies and, you know, they would just buy the next gen product. I mean, I also don't want to make it sound as if it were really something as easy as a red state, blue versus a blue state boy. But a lot of the improvements were marginal. But you were still able to sell them a hell of a business out of it with the changes in health care and people looking for more value based outcomes and in the like. And the CFO is getting a lot more involved in the purchasing decision where it used to be, just the physicians and doctors. You really need to see more out of the medical devices and life science tools in the light that are being brought to market.

Speaker2: [00:19:02] So, I mean, there's two different pathways in health care. The one is a five 10 K pathway, which means there's a predicate device on the market. And so you're kind of following another. Another is technology in a way, and saying same, same, but different. I have a little bit better angle on this. But then there is a PMA approval pathway which are for never tackled problems or problems are being tackled in a novel way. And, you know, as I outlined before, if I can get pathway, which is easy and people made a lot of money, that's kind of shut off these days, it's not as easy to make money on that and frankly, be strategic before they acquire. A lot of the startups are saying, well, if that's the five 10K pathway, we want it to you commercialize that. Right, because we want to see that you can really sell that before we're willing to acquire the company. The PMA is just so different now. Right now, a lot of them are the ones that are companies that can still get acquired at FDA approval on life, because these are new opportunity areas. These are new revenue streams. These are potentially new markets for the strategic players to get involved in.

Speaker2: [00:20:06] And so, therefore, you know, there's a lot less waiting around because most of them don't even have a competing product. Right. And they can't say, well, they don't have the luxury of saying, well, I'll wait and see. So we see that in the health care side. You know, oddly enough, it's less risky as a startup to go after riskier propositions when it comes to solving problems via technology, again, because of the way things have changed. So I would say that's probably the big thing in in health care. Yeah, I would just say with the tech enabled services, I can't think of one thing where I would necessarily push. There's so much exciting stuff out there. I mean, everything from, you know, Web 3.0, your block chain and centralized finance to so many different markets that didn't even exist a couple of years ago. You can't possibly invest in all of them. And, you know, we clearly don't. But when I get excited about investment theses, I just think there's new markets that are on the cusp of being created. And so being able to learn about them and identify good investment opportunities, I think is key to success for any investor.

Speaker1: [00:21:18] Right. Well, the last few minutes that we have here, what else should we cover that we haven't?

Speaker2: [00:21:23] But I don't I can't think of anything in particular, perhaps one thing that I think is a mistake that I see from a lot of entrepreneurs. So by the time they get to our series, A series B round stage. So, you know, for any entrepreneurs out there listening, hopefully this might help. Is that. It's great and everybody wants to become a unicorn, I think everybody should strive for that if the market can can support it. But that doesn't necessarily mean unicorn valuations come quickly and easily. And it's also not an excuse to be played fast and loose with capital. Early in the company's life cycle, because, you know, we're shooting for a billion dollar market. We're going to be a billion dollar company. Therefore, it doesn't matter if we blow through 10, 15, 20 million dollars in in a year or two as we get this company off the ground. The other companies and teams that can pull that off for sure, the vast majority can't. And so I see a lot of intrapreneurs come and they say, well, you know, yeah, we have a huge market opportunity in this market and we're going to sell this company for a billion dollars.

Speaker2: [00:22:33] And you have to tell them, well, yeah, I understand. But in this specific market segment, the average exit is 250 to 300 million dollars. Right? Not a billion. And so, you know, that's fine. Hopefully, you can be the unicorn. But at the same time, you need to build a company that investors are looking at and saying, all right, well, there is reasonable valuations and reasonable capital targets that I'm willing to put behind this company. And I see that a lot. Right. And so I think, you know, also being on the. Start up side myself with a lot of the other work I do. So I think that caution our team is just saying, hey, look right, this is how you have to build a company that looks like this and feels like this and will likely sell in this range. If you wind up finding and hitting on something and you take that rocket ship to the moon, all the better. But I wouldn't have that as your singular and singular focus and strategy right from the start.

Speaker1: [00:23:34] Well, that's good advice. So how best for listeners to get back in touch with you?

Speaker2: [00:23:39] Should reach out at any time. Always excited about talking to new companies, you know, entrepreneurs. I would say the best way is to Mark's and they are at R.W. Baird dot com. And I'm sure you're going to include in the show notes a couple of their pathways to get to me. So happy to talk.

Speaker1: [00:23:59] All right. We'll put that in the show notes. Want to thank you for joining us today. OK, have you back for a follow up soon.

Speaker2: [00:24:04] Thank you. All applauded for getting up.

Speaker1: [00:24:12] Investor Canek helps investors interested in startup funding. In this podcast series Experience, investors share their experience and advice. You can learn more at Investor Canaccord. Alti Martin is the director of investor Canek, which is a 501 C 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.