

## Wes Barton of Third Prime

**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. 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. Time it takes to drink an espresso. You can learn about startup funding to subscribe, go to investor Connect dot org and put your email into the pop up box.

**Speaker2:** [00:00:44] Hello, this is Hall T. Martin with investor connect. Today we're here with Wes Barton, managing partner at Third Prime. Third Prime is a venture capital firm focused on identifying and investing in seed stage companies that are using technology to develop business models with the potential to use intermediate incumbents within the fintech and project sectors.

Well, thank you for joining us.

Great to be here.

So tell us more about your background. What did you do before investing in early stage companies?

**Speaker3:** [00:01:10] Yeah, well, I like to joke that I think I'm the first farmer turned venture capitalist who grew up on a little farm in Kentucky, you know, made my way to New York City, started my career as an M&A lawyer with Skadden Arps there, and, you know, practiced law for three years before recognizing I wanted to, you know, get to the investing side, did a short stint, you know, with B of A in their investment bank up up in New York, and then about a decade in sort of private equity and hedge fund work started Angel investing in about 2010. You know, had the good fortune of compiling a track record that I was able to sort of parlay into into launching third prime with my co-founder, Keith Hanlon. And, you know, fast

forward to today. We've got, you know, almost 250 million dollars under management now across three funds. And just, you know, feel privileged to get to do this every day.

**Speaker2:** [00:02:01] Great. So what excites you right now?

**Speaker3:** [00:02:04] You know, continue to think there's a lot of opportunity in fintech, you know, as well as prop tech, which is really where we focus. With respect to fintech, think there's a lot going on with sort of decentralized finance as well that affords a lot of opportunity. So we've actually set up a dedicated crypto fund, as well as our third flagship fund to to capitalize on those opportunities.

**Speaker2:** [00:02:24] Right. When you see a lot of startups and a lot of investors out there, what's your advice for people investing in startups? What do you tell them to do before they write that first check?

**Speaker3:** [00:02:32] Yeah. You know, look, I think it's a real apprenticeship business, you know. You know, what I would say is don't, you know, sort of don't, you know, put all your chips, you know, on this or the first, you know, first interesting deal? You see, I do think that, you know, it's important to build up a portfolio. You know, if you're really sort of going for, you know, companies that can be sort of Dakka Korn's, you know, 10 billion dollar companies, you know, there's there's a lot of risk involved. And so, you know, you got to anticipate there's going to be some losses along the way. You know, and I think it's just going to be important to sort of, you know, make sure that you're, you know, constructing a portfolio that that's going to get you get exposure to this asset class and, you know, hopefully hit a couple of good ones out of that.

**Speaker2:** [00:03:11] Right. Then on the other side of that table, what's your advice for startups where we tell them to do before they go out to raise funding?

**Speaker3:** [00:03:18] It's a good question. You know, what I would say is make sure you're incredibly passionate about sort of going on this journey. It's very difficult to be an entrepreneur. You know, the successful entrepreneurs that we've, you know, had the good fortune to work with, you know, they're just incredibly driven. You know, they it's just their life's mission to solve this problem, you know, for for a customer base or sort of build this product.

And we find that that's just, you know, tremendously important. You know, as you hit these inevitable bumps in the road, and you just have to have the perseverance to to to keep on.

**Speaker2:** [00:03:51] Right, well, let's talk about the state of startup investing. How do you see the industry evolving from here?

**Speaker3:** [00:03:57] Yeah, so it's quite competitive. We started doing this full time in 2016, and I can say that we've seen the number of competitors, you know, increase meaningfully, you know, valuations. You know, as a result have moved higher. You know, the fact that we are generally sort of investing at the earliest stage is, you know, typically going to be the first institutional check, you know, leading seed rounds. You know, I would say that the valuations have not sort of increased is meaningfully in that arena as they have, you know, sort of in the series B and sort of C rounds. You know, in fact, I think there's a decent arbitrage opportunity today. You know, given sort of the you know, the way that the valuations have moved a little bit later stage, that if you get a company that's that's really starting to take off, you know, we've seen that know they can, you know, 15, 20, you know, 20 X sort of in valuations, you know, in a year's time, just because you get out there and you sort of hit that that growth capital, that there's just a tremendous amount of it out there.

**Speaker2:** [00:04:58] Right, and so what do you think is the biggest change you'll see in, say, the next 12 months?

**Speaker3:** [00:05:02] You know, that's a difficult one to answer. I, I don't know that we're going to see too much change in the next 12 months. I think, you know, we're going to continue to see a lot of capital chasing the best deals. I think we're going to continue to see, you know, a lot of fantastic talent come into this. You know, when I when I started my career, I feel like folks aspire to be doctors and lawyers. And, you know, today they aspire to be entrepreneurs. I think that bodes well for the state of innovation. And so, yeah, I think that given the conversations we're having out there, the way that I think, you know, the market sort of thinking about the space. Yeah. I think it's just going to continue to be competitive. And, you know, folks are going to keep building.

**Speaker2:** [00:05:37] Ok, great. So let's talk about your investment thesis. What is your thesis and what's your criteria for investing in a deal?

**Speaker3:** [00:05:45] I think it's important to be focused. So as a firm, we're primarily, you know, targeting fintech and tech opportunities. We are looking for those businesses that have very, very high ceilings. So, you know, if things go well, they'll be worth billions of dollars. Yes. So so we think about large addressable markets. We think about structural tailwinds, you know, making sure we're investing, you know, sort of in those spaces that that can afford to have some really outsized winners. Also spent a lot of time thinking about, you know, the founders, you know, that that we're going to partner with. You can have the best idea in the world. But, you know, unless you got, you know, a team that can execute on it, you know, nothing great is going to happen. So it's been a lot of time sort of getting to know those founders, really understanding what their motivations are. You know, like if we distill it down, I think, you know, the best founders are going to have very high IQ. You know, they're going to be able to sort of say, you know, have some view of the future. That I think is, you know, it needs to be very powerful.

**Speaker3:** [00:06:39] You know, needs to be somewhat contrarian as well. You know, they've got to have very good IQ because, you know, they're not going to be able to do it alone. They're going to have to go build a team around them. They're going to have to be able to motivate that team. They're going to be able to sell a product. So it is important. And then finally, you know, it's just grit, you know, that tenacity. You know, this is you know, this is a seven day a week. Oftentimes you 18 hour a day type job. And, you know, we see how hard our founders are working, how motivated and driven they are. And they're just tenacious about, you know, about, you know, sort of building a, you know, very important business. So you'd like to see sort of all those things add up. And then, you know, within in the fintech and product categories, we spend a lot of time as a firm just trying to think about, you know, the things that we think are going to be most compelling and and making sure that we're invested behind those.

**Speaker2:** [00:07:25] Right. And so he mentioned one or two startups that fit that thesis, perhaps a portfolio, too.

**Speaker3:** [00:07:30] Yeah. Recently invested in a company called With Those, which is building an operating system for freelancers. So so one of those things that we think a lot about or, you know, just just trend lines, you know, demographic shifts. And, you know, I think Covid has been a real accelerate and getting folks to contemplate whether or not they need to sort of stay with their existing nine to five. You know, you see the freelancer class growing meaningfully. You know, we feel like that's a trend that is going to continue. When you look at sort of the next Gen Z, they're they're targeting, you know, becoming for the creatives, you know, being on YouTube and whatnot. And and, you know, we theosis building, you know, platform where they can come in, they can skip projects, they can invoice customers, they can build what we should define as liquid teams, that folks can come together and collaborate on a job and go apart and form a different team. So we this is really, you know, creating what we think is a really powerful ecosystem for that, that that really plays into some of the structure tailwinds that I mentioned earlier. So so that that's when we're, you know, we're very excited about. Another one is a company called Caffein, which is sort of in the buy now pay later space leveraging sort of, you know, leases as a structure, you know, partnering with merchants, you know, enabling them to sell more product and then able, you know, enabling customers to have a lot of flexibility on how they pay for that product. They have a chance to sort of, you know, take it home and then have 90 days to sort of pay for it, or they can, you know, sort of, you know, extend those payments out over 12 months before they buy a product. So that's just been a space. It's red hot, you know, fantastic team there. You know that it's building a lot of unique technology and we're really bullish on it.

**Speaker2:** [00:09:05] So you see a lot of startups and investors out there. What do you think is the main challenge that started SpaceX in launching their businesses today?

**Speaker3:** [00:09:12] I would say competition. And, you know, there is a lot of capital out there. But but the companies that, you know, sort of get on that venture train, if you will, that are able to sort of be perceived as the winner, a lot of these markets truly are, you know, sort of winner take all or certainly winner take most. And so I think it's you know, it's often an arms race, you know, to sort of align yourself with, you know, venture firms and sort of get that capital in the door so you can go recruit, you know, bring in the best talent, you know, and really go, you know, sort of go hard to market. So so growth is, you know, something that we really focus on. You know, I think obviously, you know, economics are tremendously important. It's something

that we think about a lot. But, you know, first and foremost, you got to go get some scale, right. To build these big businesses. So I think I think it's going to be important for, you know, these entrepreneurs to to acknowledge the competition, figure out what, you know, sort of the value prop is that they've got relative to that competition. And just think about that, that sort of positioning in the market.

**Speaker2:** [00:10:09] Dan, what do you think is the main challenge investors face in today's market?

**Speaker3:** [00:10:14] To that competition point? Prices are going up. You know, we you know, the deals that we are doing generally have multiple term sheets. So we have spent a lot of time with those entrepreneurs talking about why they should choose their prime, know why we think we're going to be the best partner. You know, fortunately for us, we've now got, you know, about 50 companies in the portfolio. We generally sit on the boards. We've got deep relationships with those, you know, those founders and teams. And, you know, we sort of let them, you know, really, you know, do a lot of a lot of the work, you know, the heavy lift for us. You know, we invite, you know, founders to talk to, you know, the companies that we're invested in, the entrepreneurs that we work with, you know, and hopefully that enables us to prevail on some of these highly competitive deals.

**Speaker2:** [00:10:56] We see a lot of different applications in sectors out there today. If you had to pick one or two to put at the top of the list that are good opportunities to pursue, what would you list up there?

**Speaker3:** [00:11:06] Yeah, look, there's a reason we're raising a dedicated crypto fund. I think block chain technology is it's truly transformative. You know, we we are talking to entrepreneurs every day. I can tell you that there's just some tremendous talent, you know, building in that in the crypto space. You know, I generally say, you know, if you're sort of following the talent, you know, you're going to do quite well as an investor. So, so really excited about that. I think these are just some some really interesting opportunities out there that that didn't exist prior to sort of, you know, the block chain technologies and and whatnot. So we're really, really excited about that.

**Speaker2:** [00:11:41] That's great. Well, the last thing is that we have here, what else should we cover that we haven't?

**Speaker3:** [00:11:46] I think we've covered a lot of ground in a short period of time. You know, I'll be happy to address anything else you've got. But, you know, I think I don't know that I've got anything meaningful to add.

**Speaker2:** [00:11:59] Right. Well, you know, I had a few questions about the block chain world. I remember back in twenty seventeen and the era of the icon white paper mania that it was that it was just really hard to figure out what was going to be a winner and what was not. When you look at crypto, how do you determine today what you think is going to have legs and gain traction and what is not? Because it still seems like it's still a fairly frothy market.

**Speaker3:** [00:12:24] It is. It is. Look at its very fluid market. I think when you're trying to determine which sort of, you know, layer one, all the applications you're going to get built on, you know, there's there's still, you know, sort of, you know, debates around that, you know, despite the theory being the clear leader. Now, you know, what we're doing there is taking a pretty diverse approach. Right. So so we're you know, we're on the flagship side. We're normally getting a portfolio of 20 companies. You know, here we're putting 50 companies in this portfolio because, again, we feel like that it is a bit more difficult to sort of determine who's going to be the winner in this space. You know, we don't want to over indexed in one geography here, so we're investing internationally on the crypto fund. We've already got investments out of the Philippines, Thailand, Africa, Portugal, you know, just just recognizing there's still a lot of regulatory risk. You know, China just dropped the boom on crypto, you know, a month or so ago. So so we're very mindful that I think there's going to be a lot of volatility in the space right now. And so so what I would say is, you know, for us, the way we think about underwriting, you know, again, trying to bet, you know, the best teams, folks that are very well, you know, well aware from the compliance obligations or the where the regulatory landscape might shift and then looking for those large addressable markets and really stuff that that is going to be, you know, truly enabled only by block chain technology. Yes. So, you know, a lot of sort of greenfield opportunities have us very excited, sort of Web 3D stuff, you know, creator economy stuff there. We're sort of value can accrue to the creators we think is, you know, it's going to be very attractive.

**Speaker2:** [00:13:55] Great. So how best for listeners to get back in touch with you?

**Speaker3:** [00:13:59] Yeah. So I'd say the easiest way would be, you know, to reach me on Twitter at @Farmer underscore v.c. You know, LinkedIn is also a means to get in touch and, you know, look forward to meeting great entrepreneurs.

**Speaker2:** [00:14:14] Right. We'll include those in the show notes. Want to thank you for joining us today and hope to have you back for a follow up soon.

**Speaker3:** [00:14:19] Absolutely. Thank you all. If you haven't.

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