Darren King of Unbridled Ventures

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 T. Martin with Investor Connect. Today, we hear a Darren King junior partner at Unbridled Ventures and Bruneau Ventures Fund consists of accomplished angel investors who provide funding and expertise to help entrepreneurs fulfill their American dream. Darren, thank you for joining us.

Speaker2: [00:00:59] All thanks for having me today.

Speaker1: [00:01:01] Right. So tell us more about your background. What did you do before starting to invest in early stage companies?

Speaker2: [00:01:07] Yeah. Well, in the beginning, I started out as a CPA back in the mid 90s, and I never thought that being a and in particular an auditor and a CPA firm, and I never really thought that was going to help me become a venture capitalist. But it was very has been very helpful, because in auditing, you're taught to verify information that you receive. And a lot of times I've noticed that angel investors don't verify information that they receive and sometimes they get in trouble. So that was very helpful to me in my career. But I realized I didn't want to be a CPA. The hours were too long and it really wasn't that good at it. So I left that and became a CFO for a start up. Back in the mid 90s. There was a staffing company. And if you remember back at the time in the mid 90s, the staffing business was a very sexy business because everyone thought we were all going to outsource all of our employees. And that didn't quite happen. But we we grew that quite a bit. And then in late 99, I got into a company that we later renamed hosting dot com was a cloud infrastructure business. So I felt like I was in the Internet space early on. So I tell people the modern Internet started in 1996 when Netscape created their browser. So I, I jumped in the space of 99 and did that for a decade. And then we sold that business in 2009 to Bokova Capital. Since then, I've been doing angel investing personally, and

I've been a part of the two angel funds. The first one was a fund called Enterprise Angels Fund, which is here in Louisville, which is a volunteer voluntary fund. And then Unbridled Ventures is my first fund in which I'm the lead GPX.

Speaker1: [00:03:19] Great. So what excites you right now?

Speaker2: [00:03:22] I think there's a lot of opportunities in health care. You know, there's health care costs are spiraling out of control, but you also have this convergence of a lot of between ai'i and just big data, just a lot of a lot of opportunities to take data and make decisions based on it. In the past, we use our EMR systems and and large databases just to collect data. I think what we're going to see in the future is more diagnosing both patients and decision making being done by software as opposed by specialists, which hopefully will drive down the cost of health care. The other area in health care, I think is really exciting, but it's really hard for angels to play in is just the over gene editing and and the therapeutics coming along. And in that area, I invested in the company about six years ago called Beside of Therapeutics that did Kartini, which is basically taking the cells of your body and reprogramming them and putting them back in. You're hearing a lot of people talk about that today. And I think we're still in the very early innings of solving all kinds of disease with with editing one's DNA.

Speaker2: [00:04:45] But that's an area that costs a lot of money to get into. So in health care, diagnostics is, I think, a little bit easier for angels to get into the other area. I mean, we actually just recently made an investment in the we like is is edtech. Partly because it's just a large base, partly because Covid and what that's done and in the classroom is introduce more software and I think we'll see more personalized learning introd be introduced to. In the classroom, in one of the companies we invest in, it's called levered learning, and what they do is they basically teach math to kids, but each kid in the class could be learning at a different level. So we're excited about edtech. And then fintech is another explosive area. But we haven't seen a lot of deals because I think partly because of the part of the country where we are in the Midwest. But there's a lot of exciting things in fintech where people come up with great innovations to take on traditional banks.

Speaker1: [00:05:57] Right. So 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 check?

Speaker2: [00:06:06] Yeah, I think the most important thing is to start slowly, you know, everything sounds good to pitch. You know, people put positive things in the pitch. They don't tell you all the the words on the deal. So for someone just starting out, an angel investing as it takes some time. Joined a bunch of different groups and look at a lot of opportunities before you invest and then when you do start investing. Diversification is key. The biggest cardinal mistake we see with angel investors starting out is they don't spend enough time looking at opportunities and they only invest in a few. So to really. Minimize risk here, dude. Fifteen to twenty five opportunities for the average angel investor to spend time on 15 to spend on time to invest in fifteen or twenty five deals may take, you know, hundreds, if not thousands of hours. And no one wants to do that. So. But it's needed, so if you can't spend the time and you can't do the due diligence. I recommend that investors starting out either join a fund that's like unbridled or other funds. There's thousands of them out there or get into an angel group or other angel investors. And most large cities have them where you have people who are experience who can help you. Learn the ropes of the business.

Speaker1: [00:07:40] That's right, and then on the other side of that, what's your advice for people running startups? What do you tell them to do before they go out to raise capital?

Speaker2: [00:07:48] Yes, so the advice we have for startups is to spend a lot of time. Making your first impression? Impressive. So I recommend pitch coaches for entrepreneurs raising money for the first time. I also recommend that they try to hire someone who's a professional at putting together a pitch deck. You know, venture capitalists and early stage angel investors like us are starved for time. We look at hundreds of deals a month. So the average pitch deck is only reviewed for three minutes. So you don't have a lot of time to capture the attention of a venture capital or so spent time putting together a. Well, put together deck and then. Once you do get the investors attention and you're negotiating the deal. I tell people. It's not an us versus them. We're on the same team once I invest in your business. I want the same thing that you want, which is to maximize shareholder value. So. Try to make sure that your investors have enthusiasm. You know, the way I put it to the folks is on a scale of one to 10 with 10 being this is

the greatest deal I've ever been in, and one being I will never invest it. You want me to be around a seven or eight? If someone I may invest if I may be a five point one on the scale of 10 and I may invest in your business. But if I don't have enthusiasm, I'm not going to tell other people about it. I may not help you that much with your business because it was a mediocre deal. So don't try to extract maximum value out of your investor base. Try to do a deal that's reasonable and that will pay off in the long run and treat your investors. As as people and don't view it as a transaction and then after. Your investors put money into your company. Make sure you update them frequently. So it's the number one most avoidable mistake that we see. If you do it right, if you invest, if you update your investors regularly. Raising additional capital is a lot easier.

Speaker1: [00:10:21] Good advice. So let's talk about the state of angel investing. How do you see the industry evolving from here?

Speaker2: [00:10:30] Well, I think it's changed a lot over the. The last decade, you know, 10 or 20 years ago, the only way you could be an angel investor of any size was to either have gone to an elite school like an Ivy League school, or you had a big exit. And now things are changing. Now you're seeing a lot of people jump into angel investing who are just really good at promoting themselves through social media or through podcasts. And that's and some of them are very successful at it, because really the key is deal flow and. We're seeing now. Early stage venture capital groups hire social media directors instead of analysts just so that they can get more exposure to the deals. So I think you're seeing that you're also seeing a lot more people get into angel investing now, partly because I think the markets or the public markets are kind of frothy. But I also think I call it the Shark Tank effect. You know, people watch Shark Tank and they think, oh, that's great, and you can do that and become a millionaire. So I think you're seeing the asset class is really exploding. And, you know, all the data backs it up. The amount of money going to this alternative asset classes is very high.

Speaker1: [00:12:02] What do you think is the biggest change we'll see in, say, the next one or two years?

Speaker2: [00:12:07] Well, I think I hate to predict this, but I think we're going to see valuations come down. I think the economy is going to eventually soften up. I mean, it can't continue at

this pace forever, and that could have detrimental impacts in the marketplace. You know, obviously in a recession, it's hard to raise money. But there's a lot of convertible notes. You didn't see convertible notes that much 15 years ago. Now you're seeing a lot of convertible notes, which is basically a way to punt on the valuation. And if you you get a lot of people in it, a high cap, and then you have to raise money at a much lower valuation down the road. That is a huge disincentive to the entrepreneurs to take on additional capital. For example, I saw a deal about. Two months ago, where the entrepreneur had raised money out, a 15 convertible note with a 15 million dollar cap and. I told you, I thought at most this business could be valued to five or six million, and he said he agreed with that. But his concern was he had two or three million dollars of convertible notes sitting out there. It's now going to be priced at five to six million. And he was reluctant to raise money, but he realized that he needed it and he actually did it. Now, a lot of entrepreneurs aren't going to do that. So I think it's going to be a challenge when things go south. If and when that happens in. But the other thing I'll say about valuations is it's more on the entry point. The investors are getting into a round where the valuations are absurd. It's less on the exit when you're selling the PCs. People are still going back and paying more than they were five years ago. But there's still a cash flow metric that comes into the equation at some point.

Speaker1: [00:14:12] Now eventually reality raises its head, and you have to deal with it in on the exit, it's kind of the time that eventually comes home. Right. Well, great. Well, let's talk about your investment thesis. What exactly is your criteria for looking at deals and funding them?

Speaker2: [00:14:30] So we invest everywhere in the US. We don't have any particular. Sector focus, I think we like most of the same things that. Other investors, like we want strong management teams, people who have done it before, preferably people who have put money into the companies themselves to show some commitment. We don't like investing in deals where we feel like the entrepreneur can leave the first sign of adversity because all startups have adversity. So large market opportunities. That's important because this asset class is so risky. You can't just invest in lifestyle businesses and expect to get a positive return on your portfolio, you've got a swing for the fences against some outliers. We like post revenue companies. You know, companies that have some market validation delighting the customers, high margin businesses with high growth rates, which would give the entrepreneur room for

error. And then in this kind of speaks a little bit about, you know, the. Thoughts regarding the future and potential recession down the road, we want to make sure that. The entrepreneurs not burning a lot of so much cash that the runway is too short. So so basically I think the same thing everyone's looking for.

Speaker1: [00:16:06] Right. You talk about one or two startups that fit that thesis.

Speaker2: [00:16:12] Yeah. So a couple of the companies that we've recently invested in is a company called Allotropes. Medical is actually our first investment, and they make a product to help surgeons diagnose the uterus. So that's when a surgeon is is performing a surgery. If you cut the uterus, that's a huge problem. So. They it's a high margin business is a recurring revenue business. The entrepreneur has been in the. The business for five years, so it was pre revenue where we invested in it, but had FDA approval and we knew the entrepreneur wasn't going anywhere because he was a surgeon. He saw a need in the marketplace and he hasn't hasn't given up on the business. And now it's post revenue and it's doing very well.

Speaker1: [00:17:10] Great. So let's talk about the challenges that you see startups and investors face. What's the main challenge? You see your startups, Bazen, launching and growing their business today? Yeah.

Speaker2: [00:17:22] So I tell people, you know, across all startups that we that we see that the. Three simple things that I look at or can they build it, can they finance it and can they sell it? And I think the entrepreneurs usually focus on building it. Usually it's a. You have at least one of the co-founders is a tech co-founder, and it's it's amazing some of the products and services that people build, the innovation and the difficulty of which they could build it. But building it is it's not the hard part. And then the second day we look at is can they finance it in this market? That's very easy. The hard thing is always where people get tripped up is can they actually sell it? And that's the that's you know, we love seeing management teams. We have a very solid VP of sales or a CEO with the sales background. So especially, you know, we look at a lot of health care deals. There's a lot of innovation in the health care. But at the end of the day, to make money, you have to sell something to someone. And so that's what I encourage startups to do. If you don't have a strong sales and marketing person, try to find one and put them on your team.

Speaker1: [00:18:45] Right. And then what do you think is the main challenge investors face in today's market?

Speaker2: [00:18:51] You know, I think valuations, as we discussed earlier, you know, at the end of the day, at what price you get into the the company, what price you get out, and valuations are a somewhat crazy. And the other thing I've seen just in the last, say, three to six months or so is the due diligence that's being done on companies is very light compared to what it has been historically. So not only are people paying high valuations to get into deals, they're not even really spending any time on the deal itself. So I think that could come back to hurt people. And it's going to. And unfortunately, the person is going to hurt the most is the the rookie angel investor who hasn't done a budget but who just relies on someone else, who tells them about some hot deal. You know, in a rising market, we all look very smart.

Speaker1: [00:19:50] Absolutely. So you see a lot of different applications and sectors out there. If you had to pick one or two to put at the top of the list, is good opportunities for investors to pursue today. What would you call out?

Speaker2: [00:20:01] You know, I think it really depends on the individual, I would say. For the for the most part, for an individual angel, investors try to get into those areas where you have domain expertise and try to get into capital light business models. You know, a company that's trying to cure cancer may be great and B, could be a great opportunity to invest in, but it cost two billion dollars to get to it and they take it public. You still may not get a very good return on your investment. And then I say the other thing is of. Angels to try to avoid lifestyle companies like restaurants, for example, retail, those types of businesses, because it's it's hard to ever get a an attractive exit or an exit at all.

Speaker1: [00:20:58] Absolutely. Well, in the last few minutes that we have here, what else should we cover that we haven't?

Speaker2: [00:21:03] Well, you know, we we talked a lot about the financial risk reward and angel investing, and I think one of the things that sometimes people overlook is the nonfinancial benefits to angel investing is the cool thing about what we do is we get to see the future. You know, the people are changing the the the world today or in startups that are doing disruptive

things. And by investing or just exploring those opportunities, you get to see what's coming. There is a company I'm I'm based in Kentucky. There was a company here or is that is making parachutes for flying cars. Ok. And the first time I heard of that, I thought it was nuts. And I told her I to maybe half a dozen people. And we all laughed. And then I did research on it and I realized, you know what, it's not nuts. And we will see flying cars probably over the next decade. So, you know, if I were an angel investor, I would I would not know that. So it's kind of cool to be able to see the future. And if you. If you get to know the SEALs personally, some of them can be really good assets for you down the road. You can become very good friends with several of the companies that I've invested in. So the CEO. So I think it's about it. I don't know if there's anything else you'd like to cover, but

Speaker1: [00:22:33] No, that's very good. So how best for listeners get back in touch with you?

Speaker2: [00:22:38] Just go to our website, Unbridled VCI, and go to the Contact US page or look me up on LinkedIn.

Speaker1: [00:22:45] Right. We'll put that in the show notes, and thank you for joining us today. Ok, back for a follow up soon.

[00:22:50] All right. Thank you.

Speaker1: [00:22:55] Vestre 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. Hello. Martin is the director of Investor Kinect, 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 Kinect. This podcast is for informational purposes only and should not be relied upon as a basis for investment decisions.