David Blackledge of Grand Canyon University

Speaker1: [00:00:04] This is the Investor

Speaker2: [00:00:05] 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.

Speaker1: [00:00:44] Hello, this is Hall T. Martin with Investor Connect. Today, we hear about David Blackledge, angel investor professor at Grand Canyon University and attorney at Davis Miles law firm. David, thank you for joining us.

Speaker3: [00:00:55] Thanks for having me.

Speaker1: [00:00:56] All right. So what was your background before you started investing in early stage companies?

Speaker3: [00:01:02] Well, I spent 30 over 30 years of startup technology businesses and sales and operations management. And then candidly took a flyer and went back to law school. So I was in business basically helping to raise money and asking for money. And then I became attorney. I specialize now in helping people conduct fundraising. So I went to Arizona State. I started to well in my 50s and I became an attorney about 10 years ago.

Speaker1: [00:01:36] Great. So tell us more about your Angel Network, the Grand Canyon University.

Speaker3: [00:01:42] So Grand Canyon University is relatively new, it's about four years old. We've invested actually several million dollars in businesses so far. But prior to that, I've spent

more than 10 years in Angel Networks with membership in places like Arizona Tech investors in Scottsdale and Desert Angels in Tucson, Arizona. From there to of course, we syndicate is a lot of deals. So I got to know other angel angel groups as well, but primarily the angel groups based here in Arizona. And regarding candid angels at Grand Canyon University. I'm a founding board member of that.

Speaker1: [00:02:29] Great. So let's talk about the state of angel investing. How do you see the industry evolving for Angel Groves post Covid?

Speaker3: [00:02:36] So I think there's a lot of things that are carried forward still. I think that angel groups over the years had become the two things have happened. I think all we have seen a lot increase in the amount of money people were requesting. Ok, so what was five or 10 years ago? A few hundred thousand dollars. People are now asking for a million million and a half for their seed round funding. I think that's going to continue. I don't know how big the numbers can get. I think we're probably at a logical limit for what angel investors will do, even in syndication. I think that the hybrid model is going to continue. When I see a lot of specialization now, and I think that I kind of talk to the available investor pool. So, you know, if you look at certain groups like Sassaman, moral companies, software as a service that probably has the largest number of investors. However, there's a lot of specialty angel groups that are coming to fruition. A lot of people in fintech financial like educational, tech, education and tech, agricultural technology. I've made investments in ag tech before, too. One of the highest tech industries around, although most people don't realize that. So I think that the the circumstances and what's happened in Covid and where circumstances have have kind of driven people more to specialty markets that they understand that they invest in. It used to be much more general in angel groups. And now I think we're becoming more more specialized. Right.

Speaker1: [00:04:30] And so what do you think is the biggest change you think we'll see an angel groups in the coming years?

Speaker3: [00:04:35] Well, the thing I always look at is when we look at two things, we look at the syndication of again, if an angel group might average three to five hundred thousand dollars in a company investment, if they look really like the company and the investors are focused, if they want one and a half million, they need to have a of up to a handful of angel groups to

complete that investment. People don't get Knoller's million dollar checks at first seed funding. Right. So I think that's that's I think that's key. So otherwise, I think we're looking at this the specialization continuing. And I always see kind of a logical limit in how many members are a national group. And again, it's just my observation. I see about a hundred people, and I'm not sure if there's a limit of people that as they look at the deals that they are that they're creating, that their funding is if if it becomes too broad for some investors. But it seems to be that there's a almost a physical limit in the number of investors on the particular group. And again, from my experience, I see about a hundred people.

Speaker3: [00:05:55] You never see angel groups with hundreds and hundreds of people coming up. And I also see that there are and this may be an effective Covid as well. You know, it's all about deal flow and angel groups. Right? Where are the quality deals? And when I look at this, I see more and more people maybe investing on their own. So angel groups are going to still be necessary. But as people invest, particularly in places like real estate, it used to be a lot of angel groups investing in real estate. You see a lot of crowdfunding there as well. But people are still focusing on investments on their own. And I think that might be a trend as well. People might want to do their own diligence and find their own opportunities or they hear about opportunities. So they're used to angel groups as kind of a a source of ideas. But moving forward, they've always invested individually, typically. But I think that's going to become more and more common as as we we do post Covid kind of investing.

Speaker1: [00:07:04] Great. And what do you think is the biggest challenge angel groups face today?

Speaker3: [00:07:08] I think the biggest challenge is still going to be things like deal flow, OK, where are the quality companies? So if you look at the next level up from angel groups, private equity, then they invest in fewer than one out of 100 deals they see during the year. So there's a lot of people that that they literally take out. Seventy five percent of the companies is not ready for primetime. We have this similar circumstance on a slightly different scale. But if you have an angel group that gets, say, 30 applications, they may present the three or four people. So when I went down, a large number of applications to the types of things that investors want to see within the parameters of that angel group up and get quality companies, people that are good stewards of their money. I think that's I think that's going to be key. I think entrepreneurs come

to the table wanting to talk a lot about their technology. And I've mentored literally dozens and dozens of student startups, and they want to talk about the technology. And I always say no, the first meeting, all you're trying to do is get the second meeting with investors and they're just checking boxes.

Speaker3: [00:08:31] Ok, generally, the business can support investor Wilbur returns. The industry itself is a multi-billion dollar industry. Ok. Check that box. Now, this company is a business makes sense and they check that box. So basically, they look in safety of the entrepreneurs are going to be good stewards of money. So the phrase we like to use is we're betting on jockeys, not horses like a great manager and can push an average business over the finish line to get investor lower returns. And I think that that understanding comes through things like if those people were not funding, maybe get them to incubators and accelerators where they learned basically the fundamentals of how to present their business, but basically to how to run the business. So I think that's a big challenge. It's always been about deal flow. And I think that continuing it's going to be about finding those deals. And I'll give investor level returns for people, or at least have a good chance of differential.

Speaker1: [00:09:38] Great. So what's your group's investment thesis? What exactly are you looking for in startups and what's your criteria?

Speaker3: [00:09:45] We're looking at early stage businesses, of course. We really look at the diligence that the students are doing at Grand Canyon University through the Canyon Angels. We're looking at a business plan and we're looking at rational forecasting. Ok. So I think that the overall thesis or is getting within our investment parameters. And by that, I mean, we're primarily looking at, I think, software companies. Again, there's other specialty businesses that do things in in with specialty angel investors. But I think the majority of the angel groups, I think now in our investment thesis is we're looking at people that can produce recurring revenue. I think that's the big thesis for us. Ok, so we always want to look, too, at the the market generally. And again, we hear this and it's counterintuitive. I think we hear people say we are unique. There's no one else doing this that actually scares investors and scares our group as well as anyone else. We never want to be the first one on the market. We never want to be the only one investing in a market. And that's because and it's I think it's correct still, if it's a great business idea. Why aren't a hundred other companies trying to do the same thing right now? So

we never want to be alone. So we look at those kind of things, too. We don't mind extensions to a current industry or current product line or current investment opportunity. But when people come in and say that no one else on earth is thought of this, it's one of our parameters that we go as kind of a red flag. Right. Why aren't others? Why isn't a lot of smart money trying to solve this problem? So, you know, I often joke that you don't want to have solutions, desperately seeking out problems. It's the other way around. We want to be able to have a problem that exists and it's well known and then a company tries to solve it. So I think those are the those are the basics I think that we're looking at for our investments.

Speaker1: [00:12:08] Right. Can you mention one or two portfolio companies that fit that thesis?

Speaker3: [00:12:12] Well, one of my personal investments was my land. It's a agtech company, agricultural technology company. And a worldwide problem is decertifying soil people. China, for instance, loses something like a couple of million acres of arable land a year because they're over farm. And that's how the dustbowl occurred in America. We over farmed it. There was no regulation of farming and the soil basically died. So my land produces a super algae with a patented technology that can actually recertifying soil that had been basically a decertifying. It was not arable anymore and they could make it work again. So that, to me was impressive in the technology. But the social need to be able to recertify soil that had been overused, I think is is a huge market. And it's absolutely a worldwide problem. There are dozens of countries and countries around the world that are had basically ruined their industry because they just simply are letting people out. We see this in America. You know, you look at the second industry outside of Massachusetts, it literally died through overfishing. So the government stepped in, put in licensing and put in limits of catch and restock the fishing industry. And now everyone gets their licenses making good money. So you have to have some government regulation on these things. Basically, you have to have also the technology to perhaps correct the problems that existed before. And my land, I think, is doing that well. But they're getting money now at a fairly significant valuation. And that's one industry that I invested in personally.

Speaker1: [00:14:17] Right. And so does your group have a fund?

Speaker3: [00:14:21] What we do, we have a we don't have a fund as such. We run as an angel group, which means we present businesses to people to do a to investors. They will. But we also do sidecars, which has. Automatic triggers and the theory there is, of course, if there is a a group of experts in a particular industry. Desert Angels is big about this. There's a lot of life sciences and bio sciences people in Tucson from the University of Arizona, and they understand it. And so the theory is, if a number of experts in that world have invested this kind of good enough for the rest of us who don't necessarily understand that particular industry, that's one example, is that that particular fund and we also do single purpose. Well, seems like a lot of other angel groups are. If there's not if people want to have a minimum of, say, 50 or a hundred thousand dollars as an investment and you want the number of small investors, we'll collect those into a single purpose LLC and give the company a check or a hundred or two hundred thousand dollars, which combined a number of angel investors money.

Speaker1: [00:15:45] Right. So what excites you right now?

Speaker3: [00:15:49] You know what I'm seeing a lot of there's a lot of focus on socially conscious businesses, conscious capitalism, so doing well by doing good people that are setting up incubators and accelerators. I'm a long time mentor of Sweet Spot. It's now a national organization there. I think number one socially conscious incubator ranked in the country. I see a lot of that. I see a lot of people, young people that do the vast majority of business formation. I see them as coming up with a lot of ideas that are profitable, but can help society help a lot of problems like like the my land investment, recertifying soil. There's a lot of opportunity out there. Financial technology, education, technology. I see one example. You see the ads on television. People can buy fractional shares with new financial startups for as little as five dollars. Wow. The idea of fractional shares didn't exist even five years ago. But in all, the big companies now are starting to copy them. They're having funds that copy what the startups are doing. So it's kind of like the big guys are realizing if you can get customers early in their investing career and allow them to invest and you get to keep them for a long time, as long as you take care of them properly.

Speaker3: [00:17:20] So that's one example of exciting new occurrences in an industry, conventional technology. We had we stopped the regulation of financial stocks, sales and the commission rates, what, thirty five, forty years ago. Right. That all went away and things that

kind of go forward and haven't changed much. But here's a bunch of start ups changes in the marketplace. You see this in real estate as well. A lot of people having startups, the real estate that are allowing people to basically get involved in real estate. And that's where most people in America have made their money. So there's a lot of changes like that. And I consider them to be what I would call a lot of people were called conscious capitalism, allowing imagine that people that couldn't invest in Arkansas. And now you have kids in college. A lot of my students, they're putting in five or ten dollars a month. It's a fractional shares of businesses. It's used to start people that are doing it. I think it's it's a wonderful thing for our economy.

Speaker1: [00:18:28] Right. So what's your advice for people investing in startups? What do you tell them to do before they write that check?

Speaker3: [00:18:35] It all comes down to the diligence, right? They have to have a number. They almost have to have a questionnaire for the company to start talking to. And they want to talk to advisors and experts in those fields of study as well. Again, I think that's why people tend to think about themselves as maybe liking software, because everyone uses software, but it's not that easy. I think that people have to be aware that the. Angel investing. Five or six out of 10 times, you lose everything, you lose your entire investment. Two or three out of those 10 times, you get your money back, she put in ten thousand, you might get ten thousand back. One out of 10 times you make a decent return on your money. So you have to be aware of that and you have to have a share in your portfolio. You have to understand that those losses are not unique. They're actually average. So you win one out of 10 times a year and then the angel investing all the same. Right. So I think that that's one I think you have to be able to do the diligence on the market itself. Is this a real problem? Does it exist and are people willing to pay? So solve the problem? And are they willing to pay that much? And so there's a lot of people trying to get users on freemium models. We give it away. But you have to you have to basically price up if you want to have the enhanced versions. And you look, you have to know the metrics of the industry. If you're looking at software, for instance, how many users have downloaded your software? This company software, rather, Raposo Industria looking at out of all the downloads. How many people were using it? How often are they using it? How many minutes a day are they on the software? What's the churn rate? How many people have deleted? And you can tell how many people have deleted your software. So you look at all these metrics of the industry you're looking at, and it becomes pretty clear who is being successful and who's not so great.

Speaker1: [00:20:53] And then on the other side of the table, what's your advice for people running startups where you tell them to do before they go out to raise funding?

Speaker3: [00:21:00] They need to have focus, I see a lot of a lot of entrepreneurs come in and talk about we have six different revenue streams. No, we we're counterintuitive. We want to have your best revenue stream for the next 12 to 15 months that we're funding. We're actually worried if you if you're looking at half a dozen different revenue streams, are a few people, a handful of people can't possibly make that successful. So we want to we hear a lot of from people talk about how great their business is going to be. I think that they are unaware that hockey stick sales projections and revenue projections actually scare us. We want to have the most conservative numbers. And I as a kind of as a curmudgeon now, people present the outrageous forecast numbers. And I ask the question, so if you miss your forecast in any of the following quarters coming up, I get to fire you. Right. And they go, oh, let me go back and revise these forecasts. Right. And they've got to get some real serious about that. But they also need to understand these skill sets they don't possess. So if you have a team of engineers and you've made a great product, it's great to see. And I've seen this just in the past week. Someone say I'm not a numbers guy.

Speaker3: [00:22:30] I need to have at least a part time numbers guy. And there are fractional CFO, for instance. I don't know how to do sales and marketing. I need to have that. And they budgeted for it. I consider that a very mature. And I've actually talked to someone in the past month that said, I know I'm not a CEO. I don't have the stomach for it. I know the I'm the I'm the idea person. However, I'm not going to be able to run the business. So if an investor comes in and says, we want to put in a board member and we probably want to replace you as a CEO, they would actually welcome that because they know that they don't have that skillset and it would probably just take it too long to develop that chain. I also think that people don't understand the amount of time it takes to truly scale a business well, to grow the business properly to a point of where they can say we can now handle the next level of users. So to go from one thousand ten thousand users and your software and then go to one hundred thousand users, that may take an entirely different team of people and need for different skill sets. It's good to see people that understand that those are the common things I see with

entrepreneurs that they should understand before they ask people for money and looking at those counterintuitive things.

Speaker3: [00:24:01] And I actually have published I don't know if I've told you I published my fundraising 101. And it's it's not me being smart. It's just after a dozen years of looking at fifteen hundred pitches, I looked at people who got some money, who didn't get money. And what did each side do to have them investors walk away or have investors write checks. And there's just a number of commonalities. And I think those are the types of things people that understand their business. They understand their lingo on the business. They understand the marketing challenges and they understand the skill sets that they need. So there was a person doing a non-traditional product and they were wondering what skills that they should have in their business. You know, the University of Arizona and Arizona State have incredible talents in health care and nutrition departments. They should be speaking to and trying to get an advisor in that group. And they did. So it's great to be able to make suggestions to company entrepreneurs, have them go, oh, that's that's a really good idea. I'm going to investigate that. So those are the types of things we look for in in the business side.

Speaker1: [00:25:19] Great. Well, in the last few minutes that we have here, what else should we cover that we haven't done?

Speaker3: [00:25:23] Well, I think that, again, people need to understand the risks of angel investments. You never want to bet. And this is why we have accredited investors or people that have a million dollars worth of investable cash on accredited investors. I think they should look at their risk assessment and see what risk that they can stand. For instance, investing in real estate usually is safer than investing in software startups, things like that. So people should look at their their own personal risk analysis and how much. Money they can afford to potentially lose before they jump into angel investing, but they're going to be welcome. It's a very inclusive set of people. They're very approachable. And the more knowledge the people can gain before they actually start writing checks, the far better off they're going to be. Right.

Speaker1: [00:26:23] Appreciate you joining us today. So how best for listeners to get back in touch with you?

Speaker3: [00:26:28] The best way to do it is to send me an email blackledge. Want to Cox Dot Net? Or if they're looking for advice or legal support or funding support. Just deep blackledge at Davis Smile's dot com. And I responded. I check those emails constantly, and I'd be happy to respond to anyone who has further questions or wants to have a discussion, a consultation of what their business is about or what they should be doing.

Speaker1: [00:26:58] Very well 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: [00:27:04] Thank you. I appreciate the chance to speak with you before those stations.

Speaker2: [00:27:12] Professor 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 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 Connect. This podcast is for informational purposes only and should not be relied upon as a basis for investment decisions.