Neal Vail Angel InvestorProgenerative Medical, Inc.

Speaker1: [00:00:04] This is the Investor Connect podcast program. I'm Hall Martin. I'm 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. The. Interested in learning more about investing in startups, launching a new startup and need to raise funding the startup funding espresso as a daily podcast in a short, concise format delivered to your inbox every day Monday through Friday, the time it takes to drink an espresso? You can learn about startup funding. To subscribe, go to Investor Connect on org and put your email into the pop up box.

Speaker2: [00:00:43] Hello, this is Hall Martin with Investor Connect. The Day We're here with Dr. Neal Vail, Angel Investor and chief technical officer co-founder at Pro Generative Medical Progenitor of Medical is a pre commercialization stage medical device company focused on expanding clinically proven reduce pressure therapy into spinal and orthopedic indications. Neal, thank you for joining us.

Speaker3: [00:01:04] Well, thank you. Thanks for having me on today.

Speaker2: [00:01:06] Great. So what was your background before investing in early stage companies and co-founding Progenity Medical?

Speaker3: [00:01:13] Well, my background is I'm an engineer by training, and I've spent most of my career doing engineering based work in a broad number of different industries and so forth, but mainly focusing in medical device and product development in that space. And that's something I've been doing for the past approximately twenty five years at this point.

Speaker2: [00:01:34] Great, and so what led you to start working in this space?

Speaker3: [00:01:37] And while I has to go back to the time when I was in graduate school, I did my graduate work in chemical engineering at University of Texas at Austin. And as you may well know, UT Austin is the birthplace of a technology called Selective Laser Sintering, which was one of the what is now called 3D printing technologies, which was coming into the fore in the late

80s and early nineties. And had the unique opportunity there to be working on some material development and so forth in terms of bringing that process forward and reducing it to practice and learning what it could do with different types of materials and more often looking at functional materials. And I was asked one day by one of the leaders of our research group to go to the airport and pick up some visitors. And it turns out those visitors were from a major medical device company, and they flew in on a private jet and came to visit our organization there to understand how that technology we were working on could be applicable to creating custom implants for orthopedic applications. And so the two things that struck me was, well, these guys are really forward thinking of what they're doing, but they also flew in on a private jet. So there's something I need to understand about this particular market space that potentially has a lot of value. So we ended up doing some work for them and trying to do some feasibility work, but it really interested me in terms of, well, what could I do in my career to focus on health care and opportunities in that space? And so that's really where that start.

Speaker2: [00:03:09] Great. Well, you've been an angel investor for some time and you see a lot of investors and startups out there. What's your advice for people investing in startups? What do you tell them to do before they write that cheque?

Speaker3: [00:03:20] Well, the first thing I asked them to do is make sure you understand what your risk tolerance is. If you're doing early stage investment, you've got to be able to have a high degree of risk tolerance because it's a highly, you know, there is a possibility that that investment may never resolve itself into something of any value. Once you've understood that, then you also need to understand, too, that any money that you're going to be putting into an investment is something that should not be targeted towards anything else that you need to survive on. You have your arm, you already got standing investment capabilities, you've got need to live and survive and so forth. And so any kind of money that you think about doing an investment from an angel perspective is something you've got to be willing to lose and recognize that it's not going to hurt you in some way, should you lose it. But that being said, getting into the actual investments themselves, the things that I look for is that first and foremost, I've got to be able to understand what the opportunity is. Can they describe it to me and I can grasp it fully and understand how is this product work? What need is it addressing? And is there some way that value can be realized from that? So starting off, those are some of the first things that I'm going to be asking myself. And then most importantly, and some of that once you have an opportunity that you're exploring with doing an investment. Who's this team and are they the right team to be bringing that forward? Are those these the guys or are these the individuals are going to be able to execute on their plan? They have market experience. They understand what is needed to get the product through and so forth onto the market. And are they the right? Are they the right team to be doing? So this is something that I consider and my recommendations as well.

Speaker2: [00:04:57] Good, good and thin on the other side of that table, what's your advice for startups raising funding? What do you tell them to do before they go out for that first pitch?

Speaker3: [00:05:06] Well, the the first thing is the last thing I said before, which is make sure you have a good management team. Who are these people that are going to be the face and find the execution of this enterprise? And do they know the market? Do they know how the opportunity is going to fit? What does it need that it's addressing? How are they going to monetize that in some way, shape or form? That team has to be really strong and be able to tell a cogent story. And then they've got to put together that plan of how they intend to bring this forward and what what kind of capitalization is going to be required to to be able to fully execute and get the product to market. And so there has to be a really good thought process put in place for how do you communicate that to your investors? Because in many cases, as you well know that you're going to be going in front of investors more than once, you're going to be raising some initial round, you're going to do some follow on around. And so you've got to be able to develop those investors over a period of time as well and tell a good story.

Speaker2: [00:06:06] Right, well, let's talk about the state of startup investing. How do you see the industry evolving from here?

Speaker3: [00:06:12] Of startup investing. Oh, that's a really hard, broad question. I guess there's definitely a lot more of it going on. I guess that's been my experience over the past, say, 10 or 15 years is that you see more people wanting to get into it and understand how they can get involved in doing startup investing. With that being said, what's evolving is that there's a lot of educational resources going on out there, like what you're doing here to help people understand what it means to invest and particularly at different stages and so forth. But there's also a lot of education going on from the the entrepreneur side of how to teach them how to think about doing, how do they get investment, how do they manage those investments, how are they structured deals and so forth like that. So I see a lot of more activity and just educating people on what it means to invest and how to get investments. There's obviously a lot more groups and funds and angel groups, and so like that that are coming into existence to play in this space, whether that's a good thing or not can is a questionable is probably some of will shake out over time, but there is a lot more activity going on.

Speaker2: [00:07:25] Great. I mean, let's talk about just the challenges in the startup world. What do you see as the challenges that businesses face in this world today?

Speaker3: [00:07:36] In terms of being a startup and in doing so, I think the May obviously the major challenge is identifying who your investors are going to be. Oftentimes, I see companies that are taking somewhat of a shotgun approach to speaking with investors and not really being focused on the types of investors that are going to be interested in their type of opportunity, especially in the early stages of investment. It's like, where can I get this money and how quickly can I get it? And all money is fungible when it gets right down to it. But there are all sorts of strategic thought given to what types of investors are going to be engaged in. What is my relationship with that investor through the course of my enterprise getting all the way to the end? So yes, you're going to take in some family funds and friends and family types of moneys, but you also take in capital from investors who can potentially be there with you through other investment phases. So you've got to be thinking about that and do it in a structured and strategic way.

Speaker2: [00:08:39] Right? So let's talk about preventative medical. How does it fit into the startup landscape and tell us more about it?

Speaker3: [00:08:45] Well, the Pretended Medical is a startup that I founded with a couple of colleagues. We had the opportunity of working for a major medical device company here in San Antonio that was taken private a few years ago after being public for a number of years, but had developed a core technology that had made them a multibillion dollar company in a very short period of time. And so obviously, in that case, we were exploring a number of different new opportunities for that technology to broaden the portfolio applications of the technology into other clinical spaces. But as a result of that company being taken private. Some of the things that were prioritized were de-emphasized and put on the shelf. And so having direct knowledge of that gave us the opportunity to go back and say, Hey, if you're not going to do this, we'd like to license that. So that was an arduous process, but we were able to do that and successfully bring it into our company. And and that gave us the foundation from which we could go forward in terms of pursuing capital funding to to to realize what we wanted to do.

Speaker3: [00:09:53] The advantage that we had over a traditional medical device startup, which some of you may know, which is in most cases, you're typically licensing maybe a provisional patent from a university somewhere and there's some limited bench data. In our case, we had several years of product development history and some significant preclinical data. And so we entered into this this company with already an existing patent portfolio of several hundred patents, including preclinical data, to support clinical deployment of the product. All we had to do is reduce it to practice. So we were in many senses, a nontraditional medical device startup because we're pretty far along when we actually became a startup. So that put us in a position where the time to market was fairly short with respect to what we are intending to do compared to a traditional medical device startup. So it's attractive from an investment standpoint from that situation because it doesn't it's not going to take very many rounds of investments to get us to to to to market, as opposed to something more traditional along the lines of a traditional startup in the medical device space.

Speaker2: [00:11:00] Great. So you're an angel investor. What is your investment thesis for funding startups? What's your criteria to look at?

Speaker3: [00:11:08] Well, I'm going to go back to what I said previously, which is that there has to be a clear understanding of what the startup is pursuing in terms of its product and what it is intending to solve as a, as a, as a need out there and that that's not specific to medical device. We've made investments in a number of different market spaces, including medical device and other things. But if we don't understand when I say we, I say the world, we in terms of my wife and I, if we don't understand what the business is and what the product is being offered, then we're definitely not going to be someone who's going to be interested in that. The other part is going back to the team, is this the right team to take this enterprise forward and be successful? Does the management team have the right capabilities? Do they have the market understanding? Do they have potentially some experience already in this space and now they're putting it to practice in a startup environment? So those things are going to be really important. And then there's always that question of, OK, you get this started, you get some investment, you reach some sort of a minimally viable prototype, you've got some market traction if you're able to get to the marketplace. How do I get my money back? What is the exit strategy, if at all? So if they can articulate to me an exit strategy and some potential opportunities for acquisition or going public or things like that, then that's also going to play well to.

Speaker2: [00:12:38] Can you talk about one or two portfolio companies that fit that thesis?

Speaker3: [00:12:43] Yeah, well, I would say that any of the portfolio companies that that we have invested in fit those criteria, but in terms of getting into some specific examples. Again, we've invested in a number of different startups that address needs in different spaces, everything from financial services to other types of personal services and things like that, even some food companies. And then obviously, some more longer term things like medical device and things like that that have a little bit longer time to market with regards to regulatory requirements and things like that. Again, it really comes down to is it clear to us what they're trying to do? Can they articulate it in a cogent fashion? And is this the right team to be doing?

Speaker2: [00:13:32] Great, and so you're part of an angel group, can you tell us more about your angel network?

Speaker3: [00:13:37] Yeah, the Angel Group here in San Antonio is called the Alamo Angels, and they've been around for not too long. They're fairly young group. They're probably at this point about four or five years old. And I was one of the founding members when they first got started, when they were initially called the San Antonio Angel Network, but they've since changed their name. And so, you know, it's like I said, it's a fairly young group and it's it's got a good group of people that that are involved in overseeing the the function of that organization they have. I would say they have a good deal flow going on with respect to the types of deals that they look at and they look at a diverse number of deals, different types of deals, I should say, in different market segments. And they recently partnered with one of our local incubators to be co-president with them as an opportunity to for those companies that are that go through the angel network, maybe there's an opportunity to residents that the one of the incubators that's here in town as well to.

Speaker2: [00:14:43] Great, well, you know, the world is changing these days is going online, how do you see the industry evolving for angel groups? Where do you see them going in this new online world?

Speaker3: [00:14:53] Well, in my experience to date, there's obviously a lot of pitching that's going online, which has its pluses and minuses. I think for the most part, it is a little bit of a detriment to pitch online because it's just not that opportunity to read the room as well as you possibly can. If you're face to face type of situation and beginning to see some of the angel groups that I'm familiar with, particularly the one local here and others that I'm aware of across the state of Texas, are starting to move back towards in-person pitch events in terms of where they're evolving to. I think they're all trying to figure out how best to manage their deal flow. There's lots of different platforms that I've seen the angel groups use in terms of how they manage their deal flow and the information about different deals. And quite frankly, I haven't seen a good method for that yet. So I think there's some opportunity there in that space for how to manage the deal flow of information and make it available to the members.

Speaker2: [00:15:46] Great. And so what do you think is the biggest change we'll see in angel groups in the coming years?

Speaker3: [00:15:52] I think there's always going to be flux in angel groups because you have members who come in and maybe get disillusioned with the time frame of investment and so forth, which is as an investor, you've got to be prepared to have your money and an investment for a pretty significant amount of time, more so than maybe some people are more comfortable with once they get into it. You also get into a situation where people have made investments in angel groups and because it takes a while to realize returns on those, they may back away for a while before getting involved in some more investments to see how things are going to pan out. So I think the challenge for a lot of angel groups is keeping their members engaged and keeping a significant enough number of groups of people involved to make it worthwhile for entrepreneurs to come to them and pitch and ask for funding. The other thing that I see in angel groups that is continuing to involve is how they handle their interactions with their members and their organization with the investors. And I've seen lots of different models for that, meaning that a lot of times angel groups leave it to the membership to have one on one conversations with the entrepreneurs and discuss how to proceed with an investment. And I've seen other angel groups who do it more as a group activity where they make a lump sum investment into an opportunity based on some diligence that the group has done as a whole and as an entrepreneur coming in and asking for money. And what is the most expedient route? The second model is usually the preferred one because you're dealing with only one entity at that point, as opposed to trying to hurt cats of all the membership of the Angel Group. So I think there's some possibility for evolution to how they handle their deal flow, as well as how they handle the investments themselves between the Angel Group and the the entrepreneurs in the company.

Speaker2: [00:17:47] Good point. So does your group have a fund?

Speaker3: [00:17:51] Um, they don't they don't have a fund per say, I will say that when in their early days of their incarnation, in addition to the membership, they did have a syndicate investment fund, which was minimum investment that was pooled and provided a fund that when entrepreneurs came to pitch to the group, then they could say that in addition to the membership, there's this syndicate fund where if we bring you before that syndicate, then we would evaluate and do the diligence and so that there was a recommendation to fund, then there would be a guaranteed amount that would come in addition to any monies that they came from the the membership of the Angel Group as well. They did one round of that and we made 10 investments based on a pool of funds of about a million dollars. And so the typical investment in those cases was about one hundred K. And that was something that we could say to potential companies that if you pass the diligence of the syndicate, then do that. And that would also provide a platform for the membership to say, well, the syndicates investing, then maybe we should invest on site car deals and things like that. The organization here has gone through some changes in leadership and so forth, and so there is intent to do another syndicate like that, but there hasn't been one.

Speaker2: [00:19:12] So what's what excites you right now in this day and age?

Speaker3: [00:19:18] Well, what excites me right now has to do with the company that that that I'm involved with now, which is that we fully anticipate being able to do our first in human experience with our product later this year. So that excites me a great deal. With with respect to going back to you investing and and angel investing. I haven't seen anything that's excited me a whole lot yet this over the past year or so. So I can say with all honesty that I haven't seen anything that just jumped up and down.

Speaker2: [00:19:49] Ok. So in the last few minutes that we have here, well, should we cover that we haven't.

Speaker3: [00:19:54] I don't know, I don't have an answer to that at this point.

Speaker2: [00:19:57] Well, maybe we've covered it all it. We had we did cover a lot of ground today. Appreciate your taking time. How best for listeners, get back in touch with you.

Speaker3: [00:20:06] I would say the best is to just go through LinkedIn at this point. All my contact information is there, so you can send me a private message or email or otherwise through LinkedIn. I think that's probably the best way at this point.

Speaker2: [00:20:17] Great. We'll include those in the show notes. I want to thank you for joining us today and hope to have you back for a follow up soon.

Speaker3: [00:20:22] Yeah, sure. Absolutely appreciate the opportunity to chat with you.

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