Sam Silvershein of Alpha Partners

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. Need help in finding investors for your startup fund or Angel Group, 10 Capital provides funding as a service, helping you find credit investors contacting capital gain access to investors for angel and venture capital funds, family office rounds and syndication raises. To learn more, go to 10 Capital Group.

Speaker2: [00:00:45] Hello, this is Hall Martin with Investor Connect today with heroin with Sam Silvershein , associate at Alpha Partners. Alpha Partners is a next generation growth equity firm that focuses on accelerating private technology companies to these companies and their investors. They offer an option to quickly fill out a growth or expansion stage of financing round in a friendly and rational manner.

Sam, thank you for joining us.

Hi, it's great. Great to talk again, and I appreciate the invite on your show. And I do want to give a shout out to your last guest, Ross Darwin, who was a friend of mine and a fantastic edtech investor. Everybody should go and listen to to his episode. Great. It was a fun one and looking forward to this one as well.

So to kick off, we always ask what's your background before investing in early stage companies? Where did you come from?

Yeah, so I've had a pretty circuitous background similar to a couple of your other guests. I attended Dickinson College for undergraduate, where I studied biology with a pre-med track, and I became interested in yeast and fermentation sciences. And so, like any good college student who's interested in fermentation sciences, I actually began fermenting and experimenting by fermenting beer under my bed. And then immediately after graduation, I turned that hobby into a full time job where I started brewing beer in a professional setting. And over the next couple of years, I ended up working my way from an entry level brewer to the head of production for a chain of brew pubs where I managed beer production and operations for eight pubs around Massachusetts.

Speaker2: [00:02:15] And I helped them open up two pubs in the Logan Airport and then shifted from brewing beer and operations into hospitality and management of a restaurant where I connected with the restaurant owner in Manhattan who was looking to start his own beer label. I spent my afternoons and evenings managing the restaurant, formulating and producing our beer. We also opened up a steakhouse speakeasy and then I got to pause here. Actually halt because for most of the rest of my background makes sense. I must note that my grandfather was a portfolio manager, and when I was 13, he took me to the floor of the stock exchange back when there was a bunch of activity. People are actually down there and I got my first exposure to investing. So fast forward back at the restaurant. During my tenure there, I really honed in on the fact that I like to start brands, build companies, work with entrepreneurs and most of all, invest money. So while at the restaurant, I went back to school, started getting my MBA in finance and operations management and then COVID hit and obviously everything changed, especially in New York. So we didn't close for a single day. But I really started to look outside of the restaurant industry, and I was fortunate enough that one of my bartenders who who used to work for me also works in venture.

Speaker2: [00:03:28] And she had turned me on to a summer associate position with Alpha, which I immediately jumped on, so I continued to work. The restaurant continue to go to school, continue to be a summer associate for Alpha and quickly realized that venture was was the right next step for me. And as they might say, the rest is history.

Hmm. Well, that's a great path to venture. So what excites you right now?

So there's a lot, a lot that excites me. Technology and globalization have had a really marked market impact on the private markets. But more specifically, what excites me is the democratization of the private market and investing in general in this industry. So as many of your listeners may remember, in August of 2020, the SEC amended the definition of an accredited investor, which really expanded who has access to this market. And I think being classified as an accredited investor doesn't mean you're a better investor or have a better understanding of the risks. So I'd like to see them continue to open up this world. We now have platforms such as AngelList Republic Seed Invest that are gaining popularity and really lifting the curtain on this previously closed off market. And I think, you know, in addition to providing angels with pretty diligence companies and stronger deal flows, these platforms have lowered the cheque size required to invest and really limit eliminated the risk of having to write huge checks and potentially overexpose yourself to the risks that come with the private markets.

Speaker2: [00:04:57] So for many of these reasons? I'm excited about the changes in this industry, and following that up, I think there is now a diverse range of founders who are gaining exposure and access to this capital. So for example, in the first half of twenty twenty one, companies with all female founders raised more than $2 billion, which was more than all the funding they had received in twenty seventeen. That said, we still have strides a long way to go, considering that's really only two percent of the VC dollars invested to date have gone to all female founded companies. So I think the tailwinds are growing, and I think democratization of this industry is going to help with that. Well, we got a long way to go.

Right. So you see a lot of startups and a lot of investors out there with what you do. What's your advice for people investing in startups, what you tell them to do before they write the check?

So it's interesting. It's a good question. So where we sit with Alpha, we we focus on series three and later companies. And so investors at this stage are pretty well seasoned. But, you know, I was thinking about it and I think. My first piece of advice, which is pretty identifiable as to use a benchmark to help triage deals.

Speaker2: [00:06:09] There's more deals than ever, as I'm sure many of your listeners know. And the shot clock on those deals have really gotten short. I've seen it my one year, my one and a half years here in venture. When I started, we would have eight weeks sometimes to diligence and deal, and sometimes now we have six days. So keeping pace is difficult and being able to get to a quick know is extremely important. My second piece of advice would be to recommend diversifying investments. As some of your listeners know, about 90 percent of startups fail, but only 10 percent of those startups fail in the first year, meaning the majority of startups will fail within years two through five. Also meaning they've raised formal rounds because investments in the private market, for the most part, are illiquid. It's important to spread around capital, and so even though there are a lot more unicorns today than ever before. Given the amount of liquidity in the market, really only one percent of those startups turn into unicorns, and it's extremely difficult to know who's going to become that unicorn and return your fund multiple times over. My other bit of advice is to really flesh out your diligence process and form a well formed out thought out thesis. It's never fun to for investment to fail, and then you go back and kind of do a postmortem only to uncover red flags that may have been missed because, say, the deal is moving too faster.

Speaker2: [00:07:34] There are a lot of great names around the table and you got excited and rushed your diligence process. And then on our end of things, on the growth side, valuations matter, but only to a certain extent. And so, as again, as you've seen, valuations are growing, it's hard to justify many of those valuations. But at the same time, we're finding that as liquidity continues to grow, those valuations will continue to be outsized. And if you're not paying, you're not really playing. You can't win. Grade 10 on the other side of that table.

What's your advice for startups raising funding? What do you tell the founder to do before they go out to launch that campaign?

Certainly. So I have two bits of advice, but I'm going to keep it short because at Alpha's level, we're positioned to be low touch investors and tend to defer to our early stage partners and leave the advising of companies to them unless some way we can be specifically value added. But I think on the earlier side, there's there's two bits of information or two bits of advice that I would give. The first one is for founders to have thick skin. Just because an investor turns down your round doesn't mean they don't like the company vision. I would ask for feedback and then move on to another investor.

Speaker2: [00:08:49] Feedback can be extremely valuable from investors that turn you down. You don't want to. You also don't want to have to convince somebody to be on your cap table. It's a long relationship, and if you force them into your your business or on the board or on your chat table, it could make for some rocky relationships. And then on that same line, the other bit of advice is to always be flexible and ready to adjust by the time companies get to our stage. That's Series C or later round. We're not seeing the first iteration, the second iteration or even the third iteration of that business. And that's OK. Have the story know that you have to pivot, and most investors are really betting on you and your team and your ability to execute rather than your business plan. And then on the growth side, founders that are raising around my advice would be to choose your partner and your lead wisely, alpha. And with many growth investors, we really lean on the quality of the lead while doing diligence. We see it as a strong signal and it helps us get conviction around an investment. And you know, all the top reasons the reasons top tier leads get us excited is is called the hot hand effect. So unlike in the public markets, in the private markets, because top performing venture funds when they perform well in year one, most likely more than 50 percent of the time they perform well and beat the index in year two.

Speaker2: [00:10:13] So that's why talk to your leaders really gives us confidence that they have done their diligence and the valuations are favourable.

Great. So let's talk about the state of startup investing. How do you see the industry evolving from here post-COVID?

Yeah, hear post-COVID, that's a good question. So recently, there's been a marked increase in early stage funding in the first quarter of this year, funding for nascent startups top thirty nine billion dollars, which was an all time high. It's up from twenty two billion in the first quarter of 2020. And as I previously touched on, this is this pushing up valuations and the pace of play is really speeding up. And then along those lines, Greylock just announced a $500 million seed fund, which recent announced the $400 million seed fund. And my expectation is that these larger seed funds are going to start taking a page out of Tiger Global's book, which is to write huge checks into the hottest companies. So, for example, in 2012, nearly 50 percent of all angel and seed deals were fifty five hundred K or less in size and round size. Last year, that number dropped to only twenty five percent of the rounds were less than five hundred K, and the majority of the rounds were actually one to $5 million. And this is increasing, and I think this trend is going to continue to increase as more money floods into the earlier rounds.

Speaker2: [00:11:39] The other major evolution is that companies are staying private longer, and so I'm going to I'll cherry pick an example for you and nineteen ninety nine. Jeff Bezos founded Amazon in nineteen ninety seven. Amazon went public at eighteen dollars per share at a valuation of three hundred million dollars, which today would just be unfathomable. Pre-revenue companies can raise with a pre-money valuation of three hundred million dollars. If a company says they want to go public at that, it just nobody will listen to them. In nineteen ninety in the early 2000s, companies were staying private for about six years or less, and then they were going to make their IPO. Today, we're seeing companies stay private for 10, 15 plus years. So what this has resulted in is it's forcing smaller pre-seed and seed investors, people that alpha partner with to adjust their fund mandates. And what I mean by that is these early stage VCs are reserving or are being forced to reserve less follow on capital for later rounds or take smaller ownership positions when they make an initial investment. And to combat that, traditionally pre-seed and seed funds had three options they can either one forgo their pro-rata, which is the right to invest in future rounds. They can set up and raise a special purpose vehicle, or they can raise for an opportunity fund and let me quickly break down those three options.

Speaker2: [00:13:02] If you let your pro-rata rights expire, you're leaving returns on the table. There's no way around that. If you want to set up an SPV, this can be difficult given, like I mentioned, prior deals are moving faster than ever. There's you might only have one week to raise an SUV and take down your allocation, so that's difficult. And then on the third front, it's hard to raise an opportunity fund. If you're, say, a $50 million seed fund, why would an LP give you a larger check for an opportunity fund it? It's difficult and time consuming. And so this is where where we play, we actually offer fourth option, which has been pretty lucrative for our early stage partners. And they've leveraged our growth, our capital, our ability to move quickly, our ability to set up SPVs to exercise their pro rata in growth round deals, stay on the table, key board seats and retain ownership of companies as they continue to scale. Great. So what do you think is the biggest change we'll see in the next 12 to 15 years? I think I think it's going to continue on this trend. I think we're already seeing the changes. It might speed up deals, more deal flow, more companies getting getting funding, higher valuations and it's really a matter of. Of where the breaking point is, and I'm not a betting man and I'm not going to make a make a guess because I'll most likely be wrong, but I think we're going to continue to see to see these trends for the time being and for probably a while into the future.

Speaker2: [00:14:33] Right. Well, let's talk about your investment thesis. What's your criteria for making an investment? What exactly are you looking for?

Yeah. So our fund for for a little more background, we're industry agnostic. We're not geographically constrained, which gives us the ability to to move with market trends. But what really gets us excited, as I had mentioned prior, was is the quality of the lead. It's hard to do diligence as an industry agnostic investor when you might only have four or five or six days. So we really lean on the lead and we lean on our early stage partners who have been with the companies since they may have been the first check in in the majority of the cases. And so given the speed and the valuations of current rounds, we're able to lean on their expertise when diligence and investment.

And can you mention one or two stars that fit that thesis?

That's a good question, so not really, because it really depends on who raises who has extra allocation that they source to us. But what we're excited about is really the financial space fintech, and as I initially touched on, just the democratization of the financial industry and the ability to invest in new sectors.

Speaker2: [00:15:46] We think globalization, the onboarding of, say, Africa and Latin American infrastructure. Any startups that fit into those spaces are really exciting to us. Right. Well, you see a lot of startups and investors out there and the challenges they face. What's the main challenge you see startups face today? The the main challenge here is is going to be picking the right partner as these better as these top tier funds are raising these larger and larger funds. And they all start moving faster. And you know, you might even be presented with a term sheet before you're ready to raise, you need to get a good grasp on why you're raising money. What did don't mean to bring on a new board member and what valuation you can really want? Because the worst thing you can do is have a really excited investor lined to preemptively lead your round. You raise at a at a premium and you don't grow into it in time before you need to raise your next capital. And if you have to do a down round, it's really bad signal, especially in this market. It might not be an issue with your company. It just may, you know, you may have jumped the gun, but down rounds will put significant pressure on your ability to raise. Right then we think is the main challenge the investor faces in today's market. Similar so at the growth stage, our capital is mostly additive.

Speaker2: [00:17:11] We don't take a proactive role in our investments. And with valuations becoming outsized deals with investor less information, it's difficult to do a deep diligence and really get comfortable with an investment. Then you have to trust the other people on the cap table. And for investors at our stage, it's important to try and preempt around the best of your ability. Have a deep understanding in the markets that you're you're looking to invest in, but really trust in the diligence from prior rounds. We love to see old investment memos, things that we can leverage to get a better understanding of the business, how it's progressed over time, how the team operates and where it might move into the future.

Great, we you see a lot of different applications and sectors out there, if you had to pick one or two that you think are really good opportunities to pursue today. What would you put at the top of the list?

Yeah, all that's that's interesting considering and I keep going back to the democratization of this industry, the ability for invest in any sector. And so, you know, I recently read an article about defense startups are gaining interest from investors again, and previously they really didn't return that much. But you can find any company in any industry, and you can most likely make an investment into that. And so an immediate opportunity for investors to pursue it really is what interests you.

Speaker2: [00:18:36] And that's what I love about this industry is there's so many great companies out there and they might not all succeed. But if you put your your trust in a founder and you and you help them along their way, if they don't succeed with the first idea, they might succeed with the second idea. Apologies for that work from home life, right? And so I think that's what's interesting. That's what the immediate opportunity is to figure out what you're good at and what you like and go and chase it down.

Great. When the last few minutes that we have here, what else should we cover that we haven't?

I'm really excited to see how this continues to play out, something that we continually talk about internally, which again, I've mentioned is these valuations speed of the rounds, outsize seed rounds, the ability for angels to continually to have more influence over the industry. And so I'm just excited to see how everything plays out over the next couple of years.

Great. Well, how best for listeners? Get back in touch with you.

Certainly. So you can go and find me on LinkedIn. Named Sam Silverstein should be in the show notes, and I'm pretty responsive on their.

Right, 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. Appreciate it all.

Speaker3: [00:19:55] Foster Connect helps investors interested in startup funding in this podcast series experience investors share their experience and advice. You can learn more at Investor Connect Talk. Martin is the director of Investor Connect, which is a 501c3 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.