

Tom Wisniewski of Newark Venture 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. Investor Connect is a 501 C three non-profit dedicated to the education of investors and startups for fundraising. Please consider donating \$100 to the program to help others in their investor and entrepreneur journey. You can find the Donate button on the Investor Connect org website.

Speaker2: [00:00:44] Well, hello, this is Hall Martin with Investor Connect Day, we're here with Tom Wisniewski, co-founder and managing partner at Newark Venture Partners. Newark Venture Partners identifies, invests in and supports the best in class B2B software founders from all over the country as they build innovative solutions for some of today's most complex business challenges. They lead or participate in seed rounds with investments of up to \$2 million. Tom, thank you for joining us.

Oh, thank you for having me.

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

Yeah, it's I reflect on that question every time I get asked it, and I've done a lot of different things. Kind of an eclectic background, really. You know, we're all very good at this at this age, and I'll I'll bucket you there to it, putting a great spin on our our backgrounds, but. I started out as a tech guy in banking, investment banking, I joined a startup that was a management consulting firm in the nineties. That's where I cut my teeth as a business person. This is internet internet boom times. We did a fair amount of that, but more McKinsey style stuff. Then after that exited, and I worked independently for a while in and around venture capital and private equity as an operating guy and. Helping those firms do turnarounds and such invested money, they're invested time there and eventually became a full time investor.

Speaker2: [00:02:13] About 2010 and kind, I haven't looked back about five years ago. I, along with the founder and CEO of Audible, launched a new fund called Newark Venture Partners, or B to B seed stage venture, and we're based in Newark, New Jersey. So our second bottom line is getting some of our companies to lay down roots here and bring economic change to Newark, New Jersey. Right. Well, that's quite a journey. So here we are today.

What excites you right now?

Yeah, that's so it is an interesting environment we're in, and I think we'll probably get to some of that later in the discussion, but I have been doing a lot of thesis work recently on B2B marketplaces and we're going to be focused. I think there's a huge revolution going on in B2B commerce. All those things that have happened in consumer commerce are going to happen in B2B. It's slower moving, but there's a there's still a lot of movement depending upon what vertical you're in. There's lots of opportunity. The B2B marketplace model is one that I've worked with for a while, and I just see some fantastic opportunities. And the great thing about the model is that once it catches on, it can really grow scale quite quickly. There are a lot of catches. It's not for everybody, which definitely kind of gives us a little bit of an edge in looking at deal flow because it's something everyone does.

Speaker2: [00:03:38] Oh, so you see a lot of startups and a lot of investors in what you do. What's your advice for people investing in startups? What do you tell them to do before they write that first cheque?

Wow. Stop, right? You know, don't do it, Tom. You know, I think I would I would probably echo what you're going to hear from other experienced angels that are trying to help, which is you've got to go into it with a long time frame. You've got to go into it knowing, believing that you're going to be doing getting a portfolio of them because one or two is unlikely to move the needle. You got to it's got to be at least 10. I would say investments. Now, if you're thinking more than that than investing in some funds as well, angel groups are a great way of getting in there to pool your knowledge and skill with a bunch of other people and then realize probably the first few that you do are going to be kind of warm ups, you know, other things. And you know, it's great to stick to things where you have an advantage in the background in to begin with. Right. So you can bring something to the table initially. But it's a fun world, and it's one where I think

as an angel, you're thinking about that. Then it's. You know, it's not just investing, it's full contact interaction with founders and building helping them build things, which I think is very rewarding.

Great. So on the other side of that table, what's your advice for startups? What do you tell the founders to do before they launch that fundraising campaign?

Yeah, I mean, it's almost the same advice like, stop, don't fundraise, right? Because fundraising is brain damage, right? It sucks the life out of you. As a founder, I come from that background having raised my own money and help founders raise money and now raise money as a as a fund. If you can bootstrap just a little longer, if you can raise a bit of money, kind of simply easily. Almost always, that sort of the right decision. That said, obviously good ideas can consume capital and grow quicker. But you need to hit some milestones that are just going to make sense that open up opportunities early on if you're just a plan. It's probably friends and family and hopefully you've got some friends and family who can give you tens of thousands of dollars or whatever it is at that stage, or you're totally literate in tech and you can build your own prototype or your partner is. And then moving on up the ladder to angels and such. So I think it's you're going to learn along the way. Before you start pitching, you've got to learn how to pitch right. There's a lot out there online about how to do that. Well, it's it's a question of becoming kind of a student of it. You know, and it's a great skill to have because you're going to be pitching for the rest of your life if you're heading in as an entrepreneur.

Right, well, let's talk about the state of startup investing, what's happened in the last few years and how do you see the industry evolving from here?

Well, first of all, I mean, if you're if you're at all active in the market now is an entrepreneur or a VC, there's been, you know, going into the COVID crisis. My sense was, hey, we may be heading into another financial crisis, but it's just going to be a real dip in capital, going into venture or people backing off. It's been the absolute opposite, right? The stock market's boom. The IPO window has opened up just frothy enthusiasm in a bunch of different sectors, in particular in venture capital. So as someone who's been around and hoping to be around for a lot longer, we are very much in a bubble at the moment. Sort, how long will it last? I think we have to be realistic, but I think these what I've seen in the inflation of valuations in the last six months, nine

months has just been incredible. Something that would have been hey, raise two million on 10 is now eight million on 30 or 40. There are. Big time. I venture capital funds, you know, like a sequoia raising seed funds where the minimum checks are going to be 20 million. That's that is already distorting the market. So I think that. You got to you've got to be careful or pick your pick your deals. But realizing that you're going to you're in a very valuation rich and dangerous investing cycle. Oh, great. Then what do you think is the biggest change we'll see and say the next twelve to twenty four months in this space? I am an optimist. I think that I don't think that crash is going to come. I think there'll be adjustments. I think that there's unbounded possibility and B2B, which is where I'm active, because I think if you just take that software, the software eating the world thesis, it's got just so much left to eat on the B2B side. And we're just talking you that that theme is going to be going on forever. So I see a lot of exciting things there going on where I think there's just opportunity. It's going to be vertically based. I kind of like it because it's not sexy. So I think a lot of those, those kind of kind of opportunities are going to be out there for the investor side. What we've seen is the the institutionalization of venture capital reaching farther and farther down where I've even heard of an institutional angel fund. More people are getting into the business. So I think at the angel stage, you're going to see a lot smarter people out there. Many more of them funds out there. I think that environment. I mean, one way of saying is it's probably never been a better time to launch a tech startup doesn't mean you're going to succeed, but it's a very positive environment for that. And I think that. A lot of reading to launch great companies and have them succeed, even if we do see a readjustment in the next, you know, in the next 10 years.

Right, well, let's talk about your fund. What is your investment thesis and you focus on B to B, but or is there any particular sector you go after?

Yeah. So we're we're going to be as I said, we invest. We look to invest one to \$2 million in seed stage funds, seed, having taken on a bit of a different meaning these days. But that kind of defines where we'll play. We're will lead, we'll co-lead. We'll participate. You know, it's software, so we don't do a lot of hardware or device or B2B that would be in other things like that for software investors. So then there's a few areas industries and theses were mining. Health tech is a big one. We have a bit of a unique model in that our largest LPs are corporations that are in the New York area. Two of them are very large health health organizations, a big provider or largest hospital group, largest health insurer. We're able to mine that very effectively to

understand what's going on in the market, what those institutions want to buy, and that given the deal flow that's out there in the world health tech, that's been great. Similarly, in supply chain, I would say, or supply chain logistics, you know, maybe industrial, you could tack on that. So what are the changes that are going on in that in that market? It's something we have a background in and we just been seeing interesting deal flow. It fits within that B2B thesis. There's just a lot of change going on. It's been supercharged by all the problems changes in the supply chain due to COVID. Those are three. And then as I was, I think I mentioned before, B2B marketplaces just made an investment actually earlier in the year in marketplace called Gear Flow, and they do parts for heavy construction equipment, so it could be tires or treads or whatever market is totally fragmented. You know, suppliers, distributors, customers just dying for a solution that even provides some of the benefit that's in, say, Amazon we've all gotten used to. And, you know, kind of a gray market like that. I'd love to see some more of those kind of B2B marketplace opportunities.

Speaker2: [00:11:15] Great. Can you mention one or two more portfolio companies that fit your thesis and what you think may be just more about the B2B marketplace? I hear this coming more and more. Maybe you can describe a little bit more that that model and how that's coming into play?

Yeah, yeah. So another flipping around it to mix it up a little bit and health tech sphere, we have a company called, well, sheet. It's a AI driven interface that's for physicians at the point of care. So giving them exactly what they need, it learns from what they want, learns from their particular specialty to provide this stuff, and it's particularly valuable because the underlying systems that the doctors have to use are these legacy ERP systems say like an epic or a Cerner, and there just were not designed with medical practitioner use in mind. Right. So you got all 16 places to find things. They've put this fantastic interface on top of it, and it's just gaining really good traction as this Stipe's together all of those things, you know, using data to create better outcomes. Flexible light piece of cloud software that can go in easily. It avoids some of the problems of trying to work in health care. Or you got the IT department being blocked. Not an issue there. So really exciting to see a bunch of ideas like that and in that have a data aspect to them and that are directly addressing one of the, you know, front and center two for for health tech.

Speaker2: [00:12:48] Switch over to B2B marketplaces it's been around for, I mean, well, it's not a new thing per say. One of the most successful investments I made back in 2007 was in a marketplace for stock video footage and pictures, kind of like what Getty Images did early on. Videos coming online. These guys figured out how to create a model where the rights were B2B. A much, much simpler place. And. They were able to explode, so there's know the the complexity of it to flip on the other side is you have supply and demand and you've got to figure out how to how to move those up in sync and keep both sides of the market happy in order to pull things off. So it's a more complex build as a seed stage company to get things off the ground. And you know, there's there's a lot of things you need to get right with quality and with creating actual transaction volume and things like that. But I find it a fascinating challenge and you can bring to bear kind of what you've learned in other marketplaces to try and help founders build something great.

Right? So you see a lot of startups and investors starting their business today and making investments. What do you think is the main challenge startups face in today's market that you see?

Yeah, I mean, I think that it's. In a way, it's never been a better time to start a company because I just think that's out of what is ahead and the opportunities that are out there. That said. There's the problem with starting a company, you know today is that there's so much information out there about what you could be doing can be doing, what's the best pitch in the world for you to do that? It's easy to get overwhelmed with that, especially if you're coming from kind of outside the industry where you had your first time founder and you don't necessarily have exposure to this from a prior job. That can be kind of bewildering, right? To figure out how to do that. No lack of. You need to pitch. You need to learn how to pitch. No lack of pitch advice. But you know, that's over. It's sort of overwhelming. Need to figure that out. And you just need to. You need to learn how to build your company and build the network of investors and other people out there that are going to going to be able to, you know, going to be able to help. There's so many different. I think if you alluded to earlier, different sources of capital that are now crowdfunding angel groups syndications, you know, now institutional seed and lower than that.

Speaker2: [00:15:17] That's complex and knowing the subtleties of how each one are different, what does an angel look for versus, you know, a seed stage fund versus an angel group? Those subtle differences in how they work make a lot of difference of whether you're going to succeed in being able to to raise capital.

Right? Then what's the challenge the investor faces in today's market?

Well, let's see. Covid has thrown up a wrench in kind of meeting with founders, the typical early stage investing where I'm at in a borderline angel seed, it's kind of a contact sport. So you use the meeting with people that's been more challenging. I think we've kind of gotten over that. There are a lot of repeat ideas out there. You know, this isn't a new trend, but but it's it's one where you just see the accelerators churning out kind of ideas that all kind of look the same as something you saw in the past. Which makes you less interested, but you have to dig deeper in order to kind of figure out whether there is something kind of new there. Then I would say as an investor what we got into before valuations have just gotten out of control, right? And just to bring it down to earth, right? You know, it's helpful to kind of put a revenue multiple on what you're investing at, right? I mean, 10x revenue sounds pretty like crazy.

Speaker2: [00:16:37] That's the old world right now. Deals are going out and \$1 million of revenue, which would be a baseline for a used to be, you know, a series, a round, you know, could be 40 X, you know, get a for \$40 million valuation. And that's as an investor, you got to really pick and choose where you're going. And then finally, I would say, look, it's like like it's always been. It's about building network in the industry, finding good partners. There's so many additional. Seed funds out there, I know that SPAC's funds generally, but we've just seen a golden age of of smaller seed and series funds coming into the market and that's a, you know, a fun challenge, but but a challenge nonetheless. There's just just being a lot of you know. A lot of smaller firms around, right, it's not it's not as easy to get a comprehensive network.

Right? Well, there's quite a few sectors and applications we've covered today. If you had to pick one or two that you think are really good opportunities for investors to pursue at this time. What would you call out?

Well, let's see, I mean, I talked about B2B marketplaces, so I'll I'll I'll skip over that one. I see embedded finance as a really interesting place. You know, there's neo banks that have been coming along figuring out how to offer financial services and beat out banks, some of them not even banks anymore.

Speaker2: [00:18:01] And then you're seeing this trend where some of the roles that banks and other traditional financial institutions have made. You know, companies being created that are just specialized in that and getting really close to the point of need. So for instance, you know, at the point of sale doing these pay pay over time kind of loans, not a new idea, but a specialized company. Just does that mean great figuring out how to be there and lend money or provide a financial service specialize? I see huge growth in that sort of disaggregation of the bank. There are a lot of it going on in consumer. I think there's a similar trend going to go out there and in B2B, you know, I've seen a bunch of deals like, for instance, in financing of construction and, you know, real estate in a way that avoids people needing to go to banks or traditional syndicates that company Gear Flow. I spoke about equipment and parts for that stuff. They're not touching embedded finance, but it's there and it's going to be an opportunity for going forward. So I think that's another one.

I really had a great one the last few minutes that we have here. What else should we cover that we have in?

Yeah, I think it's important for for me and BP to talk about kind of our mission, if you will, right? We're here as a great venture capital for a startup and ourselves.

Speaker2: [00:19:24] We're on fun too. We are. We raised in total about one hundred and thirty million. So we want we want to be a successful fund, we're building a franchise, but we're also here on a mission or based in Newark, New Jersey. It's a challenged urban city like many others. People have been doing good things here, but we believe that using business, using, I'll say, capitalism and companies and that sort of thing can be a real driver of change here that will benefit the whole city, the whole set of people. How does that work? Well. Venture capital, by its very nature, is about investing in high growth companies. So if you are successful venture capital, you are in the business of economic development. And it's about where that company is going to be and who it influences. So it doesn't even need to be a social impact company, a

great software company. It's adding jobs will create economic benefit through its taxes through the people that grow there for every tech job, to someone living in the city of Newark or some other place that we a lot of our colleagues are in. It supports four to five additional jobs. There's really a multiplier effect. So we're trying to harness a proven model driven by capitalism. And I think in the right way to create social impact in a place that really deserves it.

Speaker2: [00:20:44] And I call comes together because we have. You know, great partners here. The universities are LP's, large corporations, a bunch of. Family offices and people from private equity and such, and given we have a mission, we're able to leverage their help and make our venture capital that much better because they're interested in this because we have a second bottom line. So it's sort of a reinforcing virtuous circle that, you know, is both our mission and a key to our success as a venture capital firm.

Well, that's great. So how best your listeners to get back in touch with you?

So one, go check out the site. I think that's the easiest place to sort of find us all the other places you'll find us to and Twitter and such. But the site is you can get there w w w DC, right? Pretty simple on. And if you think you're in my zone as an investor or as an entrepreneur or investor from B to B seed stage kind of software company, just send me a blurb in a business plan I'm easy to get to. I'm T.W. my initials, Tom So T.W. at mCRPC. Right will include those in the show, notes one, thank you for joining us today and hope to have you back for a follow up soon. Great. Appreciate the opportunity.

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