Denise Dunlap of Sage Growth Capital

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. Hello, this is Hall Martin with Investor Connect the day we're here with Denise Dunlap, managing partner at Sage Growth Capital. Sage Growth Capital makes revenue based investments in companies that need growth. Capital is their mission to provide a more flexible funding option to growing companies that do not fit traditional equity or lending models. Denise, thank you for joining us.

Speaker2: [00:01:02] Thanks. It's good to be here.

Speaker1: [00:01:05] So tell us more about your background before investing in early stage companies.

Speaker2: [00:01:08] Yeah, so I started out out of college as a data analyst for an insurance company, and I realized pretty quickly that that was not the path for me. I wanted to be a little bit more of an entrepreneurial business and role, and so I ended up working for an IT services company. And I ended up running that company after two years and taking it to a successful exit. And that was when I got involved with Angel Investing. I was sort of looking for the next gig and I was able to join my local angel group. That was all volunteer driven, and I ended up sort of running that group and that was what led me to revenue based finance and growth capital.

Speaker1: [00:01:50] Great, so what say to you right now?

Speaker2: [00:01:53] Yeah, so I'm as you said in the introduction stage, Growth Capital is doing revenue based funding for startups, and that is what I'm excited about. I've been an angel investor since two thousand eight and done a lot of traditional equity investments, and so I was excited to find this revenue based funding model as a complement to equity investing. And it's in early stages of of that. So we're definitely paving the path and educating people about what it is. And it feels to me like the early days of angel investing when we had to spend a lot of time explaining what it was before we ever actually got down to doing it. So.

Speaker1: [00:02:35] That's great, 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: [00:02:44] Their homework gets to know the investor, but the entrepreneur? The biggest thing that I say, so I do actually teach angel investing one on one for the Angel Capital Association and one of the things that I give the biggest piece of advice that I wish somebody had told me when I first started investing was Don't fall in love with the deal, don't fall in love with an entrepreneur. That's probably the most dangerous thing you can do when you're looking at a company. So obviously, you've got a trust in that entrepreneur and want to invest in them. But you if you fall in love, then you're blinded and you may not see the things that you should. So, but you know, that's that's pretty general. I get it

Speaker1: [00:03:24] Right. And on the other side of that table, there are startups. What do you tell the founders to do before they go out to raise funding?

Speaker2: [00:03:30] Well, the first thing I tell founders is definitely understand all of your options for funding. We often hear that companies need to go out and raise equity investors, and they don't often know what that means or why they should do that. That's just what they're hearing or what they're seeing in the news. And that is the sexy thing, right? We're always hearing about this company that raised X billion dollars in venture capital, and so companies think that they have to do that. And in my experience, a lot of times, especially at the very early stages, companies are taking equity investors on way too early without really understanding that that's committing them to have an exit at some point. So when I talk to founders, I like to make sure that they really understand if you are looking to fund your company through taking on investors, you know that those investors expect to get paid back and you have a plan for that because it's surprising to me how often companies really don't understand that. And that's not good for them, and it's not good for the investors if there's not a clear understanding of what that relationship looks like. So my biggest advice to founders of companies is really understand what all your capital options are and understand what those impact the impact is of taking those on.

Speaker1: [00:04:47] Right? Well, let's talk about the state of startup investing. How do you see the industry evolving from here post-pandemic?

Speaker2: [00:04:54] Well, you know, it might be biased, but I do see that there will be a lot more people doing revenue based funding. I see that as a real emerging option for companies as well as investors. I think a lot of investors like getting money back sooner and companies like raising money that is not dilutive. There's a lot of companies trying to figure things out. They've taken ideal loans and PPP loans and and all of those other sources of money. And now they're trying to figure out how they survive in this post-pandemic world with supply chain issues. That's the biggest thing that I'm hearing lately is supply chain and inventory is a challenge. There's no lack of demand, customer demand, it seems like, but everybody's scrambling to to get those products and services out there.

Speaker1: [00:05:41] Great, and so what do you think is the biggest change we'll see in the coming 12 to twenty four months?

Speaker2: [00:05:47] Well, hopefully we see we see some of these supply chain issues resolving themselves. I'm concerned that that this a longer term problem and this is not necessarily limited to the startup world, right? There's a lot of opportunities there in startups to solve some of these supply chain problems. So I think that that is one trend I would like to see. I'm hopeful that we'll see it. And typically, when there are major issues like this, that's when companies start ups step up to solve these big problems. So I'm very hopeful that we'll see a lot of interesting technology and disruptive models come out of this because it's needed. And I think that the pandemic is really highlighted just how dependent we are on certain sort of outdated models of delivery and and getting our business done. So that's my hope. I don't know that that answers the question what I think will happen, but I do hope that that's what we will see.

Speaker1: [00:06:45] Great. And so tell us more about your investment thesis and in particular, your criteria for making an investment.

Speaker2: [00:06:51] Sure. So my investment thesis for revenue based funding, as I said, was it's a complement to angel investing or equity investing. And what we're seeing is companies that would normally go out and raise money as a bridge loan for using a convertible note. They are looking at revenue based funding as an alternative to that convertible note. And the reason for that is they can still get the money for that. They need to bridge that round. But at the end of the day, that money does not. The convertible note does not convert to equity. It just goes away much like a loan. So I think that our investment thesis is that we're a complement to traditional equity investing and the kinds of companies that are a good fit for this are those that have a specific need. Maybe it's staffing up to meet customer demand or they are ready to scale and they just need hire a few more people or they are stocking up on inventory because their supply chains are broken and they need to make sure they've got stuff on hand to meet customer minute customer demand. There are certain things like that that are a really good fit for this kind of funding. Basically, anything that would quickly result in increased sales and increased margins is a good use for revenue based funding. We are looking for companies that have some sort of recurring revenue as a lot of revenue based funders will look at software as a service businesses because it's a subscription model and the revenue is pretty predictable and it's also very sticky once people are in that world.

But what we're looking for is companies that have recurring like revenue. So maybe a consumer products that is consumable. So and as long as the company can show that they've got sell through and that they've got repeat customers, that is a really good model for the kinds of companies we're looking for. We're not necessarily looking for companies that have large one off big ticket items, such as like an automobile because you're constantly having to look for that next customer. Most people don't buy those, but every couple of years, right? So our investment thesis and the kinds of companies we're looking for are really any industry that could be services. It could be manufacturing. We just need to see that they've got decent. They've got standard, sorry, stable and growing gross margins of about 40 percent or more. They've got to have revenue, obviously, because part of what the model is is that they repay us back much like a loan. And so they need to have at least three hundred thousand a year and recurring revenues, and we need to have a good understanding of how they'll use that money and put it to work. So that's kind of the high level of what we're looking for. We are not based on geography at all. We will look at companies anywhere within the United States as long as they're referred to us by an angel group or an angel investor that with whom we have a relationship.

Speaker1: [00:09:48] Greg, can you talk about one or two portfolio steps that fit that thesis?

Speaker2: [00:09:52] Sure. So you can see this on our website. We've got a portfolio page that talks about the companies that we've invested in. We have invested in two software companies, which has been great. As I said earlier, those are great candidates for revenue based finance. But we also invested in two food companies and lucky us, we invested in both of them before the pandemic started. And both of them did really well during the pandemic because everybody was busy loading their pantries in their freezers. And so in both cases, the first company that we invested in was called Killer Creamery, and they make a Cheeto ice cream product and they had been working. They had been basically producing the product out of a commercial kitchen, shared space, and they needed to move to a co-packer. And so when they came to us for funding, our funding enabled them to go get into that co-packer, which greatly increased their ability to meet customer demand, but also greatly increased their margins. And so that's a good example of the kind of funding situation where that really makes a big difference. They were able to increase those sales significantly and go out for an equity round at a much higher valuation less than 18 months after they took our funding. So that's a good example. We actually wrote a case study on that which you can get on our website as well.

Speaker1: [00:11:14] Great. Well, let's talk about the challenges in the startup world. What do you see as the challenges startups face today that you work with?

Speaker2: [00:11:23] I think the biggest challenges, as I mentioned earlier, are supply chain, right, everybody's struggling with that. I do think companies are struggling to regain the growth that they were seeing before the pandemic. Things look very different now, obviously, than they did before that. And so a lot of our methods of delivering our services have been disrupted or changed significantly. And so most companies are still trying to find their footing from what I've seen, and I have no doubt that they will do it. It may just look a little different than it did going in. So finding capital is always a challenge for companies, but those are probably the biggest things is the supply chain issues, right?

Speaker1: [00:12:04] And then on the other side of that equation, what you see is the main challenge investors face in today's market.

Speaker2: [00:12:09] Yeah. I think investors have the same problems they always do, which is fine and quality deal flow and getting outside of their basic networks to find the companies that they're looking for. I just got back from an Angel Capital Association meeting, and there's all of the the same issues of, well, negotiating deals and who's going to lead the round and those kinds of things. And I think those haven't changed much. What I have seen change with angel investors in particular, is more and more deals are being done by Zoom, where it used to be that we didn't want to invest outside of our local area because we wanted to meet and be able to touch the entrepreneur ourselves. And now people are becoming more comfortable with that. So I think the challenges will be different as far as how diligence is conducted. But I do think that our new being comfortable with remote work and and not seeing people face to face other than over Zoom has really changed the face of angel investing a lot.

Speaker1: [00:13:06] Right. Well, you see a lot of different sectors and applications out there, if you had to pick one or two that you think are really good opportunities to pursue, what would you put at the top of the list?

Speaker2: [00:13:16] Well, you know, the hot things right now, I think our food technology, I also think health that, you know, the technology and remote delivery of services, whether it's food or health care or whatever, anything that has to do with remote, I think is really there seems to be a lot of people flocking to that. I keep hearing about cryptocurrency. I've and dipped my toe in that yet, but those are the things that I'm seeing out there. The most probably is definitely health care and food related supply and technology related to food.

Speaker1: [00:13:45] Right. When the last few nights that we have here, what else should we cover that we have in?

Speaker2: [00:13:50] Well, we talked briefly about revenue based funding, which is a little different model, I again, I would encourage people to go out and check it out. I think we've had a lot of interest from investors, particularly those who have been angel investors for a long time and are interested in getting their returns back a lot sooner. And we're having a lot of interest from companies that are looking at a little different model of funding as well. So I'd certainly encourage people to look into that, whether they're entrepreneurs or investors, and happy to talk to anybody at any time about it.

Speaker1: [00:14:22] Great. Well, how best the listeners get back in touch with you.

Speaker2: [00:14:27] You can reach out to me on my website, which is Sage Growth Capital. And that's probably the easiest way to find out more about us and also contact me and we've got a contact us page. There's a form you can fill out, too, if you have specific requests, but that's probably the best thing is just our website.

Speaker1: [00:14:45] Great. Well, we'll include that in the show notes. We want to thank you for joining us today and hope to have you back for a follow up soon. All right, thank you. Investor Connect helps investors interested in startup funding in this podcast series experience, investors share their experience and advice.

Speaker3: [00:15:01] 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.