

Gary Nacht of Sterling Advisory Services, dba CAFÉ Central

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] Hello, this is Hall Martin with the Connect the day im here with Gary Nacht , co-founder at Sterling Advisory Services DBA Cafe Central Sterling Advisory Services Cafe Central advises troubled and underperforming companies helping them return to cash flow positive, acquires corporate orphans and helps pre-revenue and early stage small and medium businesses use the café to raise capital. Gary, thank you for joining us.

Glad to be here, how

great so what was your background?

I graduated from Wharton back in the mid seventies. That seems like a very long time ago, started a very traditional finance career. I went to work for what then was one of the big eight accounting firms. Deloitte became a CPA and then as happens with so many of those folks that follow that path, I was hired into private industry. I was either CFO or VP. Finance for three separate companies privately owned took the third one public. And then I was recruited by a gentleman who was in the turnaround business, he had acquired some very large distressed companies and was looking for someone to partner with him on his next deal. And I was still very young at the time, very excited about the opportunity, and I joined up. I became a partner of his. And we went after our first deal, which is what was a \$1.2 billion retail chain, and we acquired Kmart Canada back in nineteen ninety seven. And that put me into the turnaround business. Right, so what inspired you to create this new investment structure? Well, I've been doing the turnaround stuff for, gosh, over 30 years now, and about a year ago, my brother, who was a securities lawyer and a commercial attorney, was approached by a young startup

company that had developed a new type of convertible equity security that nobody had heard of before.

It's called a cafe. It stands for continuous agreement for future equity. And it's a remarkable security. Essentially took all of the good parts of convertible debt safes and crowdfunding, and crafted it into a new security that avoids all of the pitfalls of those other forms of fundraising. And my brother was invited to be the conduit between this belgica that invented the security. And my brother asked me if I would join him in teaming up to help clients do that.

Great, so can you tell us how the cafe works?

It's a unique thing. It's a convertible security. But unlike a safe which has unknown dilution until a future financing round, a cafe has fixed dilution that's set up front. Another especially valuable feature of a cafe is that it has a liquidity component. You know that if you're an investor in a safe or a convertible note, you're basically waiting for a future conversion event with a cafe. If you buy into the cafe tokens and you hold them for 12 months, they actually are on an automated secondary market trading platform and you can sell them so investors have the option of holding on onto their cafe units or if they choose to, they can sell them to other investors.

Speaker2: [00:04:34] Right. Who is the primary user for it?

These are so far these have all been early stage companies or businesses that are either pre-revenue or mostly in the one to \$10 million revenue range, a common denominator so far is that they all are in some way related to or built on modern tech. So some of our clients, for example, have developed live HD streaming platforms that bring a lot of people together. We have companies that are using modern tech to help traditional companies that want to be involved with cryptocurrency and blockchain. They've developed applications that allow traditional companies to bring in crypto and blockchain into their normal accounting and finance system. So most of these companies wouldn't come and trade. Is there something modern, very modern about them? The other thing is that they typically have some sort of following either a large customer base or a large social media presence, because one of the unique aspects of a cafe is that, unlike a safe or convertible note that essentially is designed to bring in a small number of large dollar investors. Cafes are designed to be widely held.

And who else can benefit from using it?

It's really I mean, there's two sides to the coin here. Investors, if you go to our website Cafe Central U.S., we've designed this to be a bit of a marketplace. And on that website you can see, for example, nine companies that have already launched the cafe.

You can see what kinds of companies they are, how much money they've raised, how whether a cafe is doing. But it's also designed for investors investors who are curious about the cafe, maybe even looking for what kind of companies an investor could invest in. You remember, from an investor's point of view, whether it's an angel investor or even a VC fund, that liquidity feature is pretty powerful. So if they're looking at a series of alternate things to invest in having a liquidity or exit option on a cafe, I think serves a good purpose. Schwartz surprised you the most when you implemented it. I think the most difficult part of it is that some of the components of it are upside down thinking. So for example, we're accustomed to thinking that the more money that's invested in a security company, security, the larger dilution follows. So with a safe, for example, you know that while you may expect the money raised to dilute the owners 10 percent, it could be as much as 20 or 30 percent because you don't know what that conversion rate is until there's a follow up round. One of the things that's surprising it takes some getting used to is that regardless of how much money is invested in a company's cafe, the conversion or that dilution percentage stays fixed and it can. It can take some business owners a bit to get used to that. And so what was the most important benefit you found in it? Well, for starters, it's a quick process, not so much early on.

But now that we've had so much experience with a cafe, we can have a client up and running in four to six weeks. That's pretty quick. And the cost of it also is pretty low, depending on whether you go with the boilerplate version or you go with a fully featured version. The brackets on that cost start as little as eight thousand five hundred and doesn't go higher than nineteen thousand five hundred. And the difference between that high and low haul is really mostly having to do with how many features you want to bundle into your cafe. That's one of the nice aspects of it, which is you can go boilerplate or you can add features to it. Things like using Catholique tokens as an alternative to a stock option plan or using cafe tokens to pay professionals. We're starting to see growing acceptance on the part of professionals that say to take some part of their fees and cash and some part in tokens because they get an upside attached to it. So again, if you want the more features like that that you add to your café, the more costly it gets but never goes above 19. Five. What changed the way you thought about it, so you came up with these

non-conventional features? Well, it was designed that way from the start. The fact that it is a convertible security with fixed dilution because it is filed under a ready exemption, a safe harbor exemption as long as you meet the rules of the SEC, you can incorporate as many features and characteristics as you like.

In fact, a lot of what we do and we work with clients is we walk you through each of the individual options. We present the alternatives, the pros and cons of each. And eventually we get through all 15 or 20 of those discussions and you have a café that works exactly the way you want it. The quick example with a safe and I always go back to compare it to the safe because it's its closest relative with a safe. Typically, the conversion events or the trigger triggering events or an IPO or a sale of the company or liquidation dissolution with the cafe. You can have all kinds of creative triggering events. You can have subsequent financing rounds, you could have change of control. You can even have anything that changes the cap structure of the cap table if you decide to do a cafe and a safe. You can make the safe event a triggering event for the cafe, meaning that that safe investors can convert into cafe tokens if they prefer the liquidity option. So what kinds of very creative solutions like that?

Well, so based on this experience, what do you consider doing next?

Well, we're just starting to grow. We built our website. We're starting to get a lot of traction. We just recently started to begin a more serious campaign to let everybody know about what a cafe a cafe is and what it can do for them. And so what we've done is we've bundled our services really into a business advisory component where we walk entrepreneurs through the cafe and the structuring of it, the valuation that needs to be done. At the same time, we are making it an easy process for an entrepreneur. Unlike other convertible notes and safes which have a lot of negotiation involved for each individual instrument, things like preemptive rights, dilution rates and so on. A cafe is quite simple. We make all those decisions up front with our help and then you launch it and it's done. It's very low maintenance. Just so you know, the cafe doesn't have, for example, any financial reporting obligations. There's no 8-K, 10-K 10-Q filing this necessary. Nothing like that. And unlike say, sure convertible note, there are no you don't have safe investors with preemptive rights or approval rights on certain things that you want to do with your company.

Right. Well, the last few minutes that we have here, what else should we cover that we have in?

Well, just to let folks know where they can get a hold of us. I mentioned the website Cafe Central U.S. We also hold quite frequent small group presentations about the cafe. We have a webinar that runs between 30 and 40 five minutes. It's like this is interview style. But of course, we go much more in-depth than we talk about the mechanics of it. We talk about a lot of the features that you can choose to incorporate into your cafe. So that's one thing. Reach out to us. Sign up for one of those webinars, and we'd be happy to talk to you about it. I would also encourage people to think about it as a supplement to anything else they're doing. If a company is already down the path looking at a convertible note or a safe. That's OK. Keep down that path. But because that's again focused on a small number of large dollar investors, we think that a cafe is highly complementary to that because it will typically be the reverse. You'll have lower dollar investments, typically in the five or six digit range, but you'll have a wide investor base that will be following you. I interviewed yesterday one of a cafe with a company called Guided. They just crossed the \$900000 range. They just raised nine hundred thousand with their cafe and still growing. And he told me which I was thrilled to hear, which is that most of their investors are their customers. So it's really an extraordinary way for your community, your followers who love your product or services to also become an owner.

He will include your contact details in the show, notes, I should say. Want to thank you for joining us today and hope to have you back for a follow up soon? Be happy to. Thank you.

Speaker3: [00:14:14] Investor 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 All. Tim 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.