

Joe Tonnos of Ketch Ventures

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

Speaker2: [00:00:34] On the Investor Connect org website. Hello, this is Hall Martin of Investor Connect. They were here with Joe Tonnos, co-founder and managing partner at Ketch Ventures, Ketch Ventures Partners, with early stage entrepreneurs and management teams to add value and grow businesses to the next level. Kach focuses on emerging consumer facing businesses that have established a foundation or differentiated end or solve a problem and engage with customers and followers. Joe, thank you for joining us.

Thanks, all my pleasure. It's good to get to reconnect with you and good to be on the podcast.

Cool. So what was your background before investing in early stage companies?

So I started my career in sales and trading. I actually started as a foreign exchange trader after doing an undergrad in finance and pivoted to the investment banking side of the business just to kind of build up my skill set a little bit more, knowing that I wanted to get more to the principal investing side as a longer term focus and having that investment banking skill set seemed, at least at the time, to be pretty critical. So flipped over there I worked at both Lazard and DFA narrow and by happenstance. When I started at Lazard in the investment banking group, I fell into the I got put into the consumer and retail group and kind of fell in love with it right away. And I just thought it was great because it's so tangible, right? You can talk about the deals you're on.

People know the companies that you're working with and obviously you're not disclosing private information. But once a deal gets announced, it's just a lot easier than talking about some metals and mining deal that your friends and family have never heard anything but with this company. So I spent a few years doing that. I had an opportunity with a former client to

move over to the buy side and work at a group called Mistral Equity Partners, which is consumer and retail focused middle market buyout and growth equity. And around the same time, I started at Mistral. I founded, co-founded Cash Ventures and with my partner, Christian Dunn, and so we worked in banking together at BBVA Merrill. We both founded Cash Ventures because we had an appetite to get involved in some of these early stage deals that we were seeing that were being acquired by larger strategics in the consumer space. And so really, it started as a way for the two of us to be able to pool our own personal capital together. And we did a couple of deals that way, and then we had a bunch of friends and family started asking to get in on the deals with us. And so for us, in terms of falling into early stage companies, it was just where we were able to write checks and have a more meaningful role of going in and writing a couple of hundred thousand syndicated check into a massive Series C or D round just didn't move the needle and we were going to be a small player in the cap table. And so we focused more on seed and Series A companies. And that's really how it all came to be. And so we're now a syndicate that has almost a thousand followers. We do. Usually, I'd say anywhere between three and four deals a year. Our typical investment size is around two hundred and fifty thousand dollars. We actually just closed the syndicate or we're in the process of closing a syndicate follow on investment for one of our existing portfolio companies, which is about five hundred thousand. So that's our largest investment to date. And yeah, that's that's really, really it for us. So it's a syndicated model, no dedicated fund. So it's a little bit of a sales pitch. Every time that we go to do a deal where we're not showing up to the company with committed capital, but it's usually a four to six week process for us to go out and raise those funds. We enjoy it because we get to learn and talk with the company and figure out some of the pressure points from what the investors have and so on and so forth. So that's kind of a high level background on in and how cash ventures came to be.

Great. So what excites you right now?

Sure.

Speaker2: [00:04:20] I mean, we're always looking at consumer, obviously, that's just our core focus. I think we've kind of shifted away from what I would call some of the traditional consumers just become super fragmented in categories like food and beverage and personal care and beauty. And it's hard to pick winners. I think there's so many great companies out

there, and I think it's phenomenal from an entrepreneur's perspective because the opportunity to be an entrepreneur and start a company is show amazing and you can grow it in to so many different avenues. But from an investor standpoint, you can't back every single one. And so it's it's getting more and more challenging to pick some of those winners. And so for us, we've actually kind of stayed within consumer, but we've navigated more towards differentiated technologies within consumers. So one of our portfolio companies is called Ether Diamonds, which is has a proprietary technology where they're removing carbon from the air to make diamonds. It's the only company in the world doing so. Remove 20 tonnes of carbon from the atmosphere for every for every carat. So all the diamonds. So it's a pretty unique company and there's a lot of technology and IP behind it and patents and that sort of thing. So we've kind of shifted to that. We recently made an investment in Drop, which is a consumer, more of a rewards platform and things of that nature.

And so that's something that we've been focused on of late as well. So some of those more what I'll call more consumer services differentiated aspects. We still look at a ton of food and beverage deals, personal care, household products, that's all that always was our core focus, our initial focus. And so really, for us, it's still remains a focus for us. It's just we've done fewer investments recently in that space. So I think what we're looking for right now is a lot of disruptive trends and new frontiers within consumer. We made a small investment last year and more of an advisory capacity in a pet food company called Chip In, which is cricket based protein, which may be some of the listeners have heard of and start looking at some of those new frontiers within consumers, really where we've been focusing our time of late.

Right, well, 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?

Yeah, I think it's it's really scouring the competitive landscape and seeing who's in the mix, who your who, the company that you're looking at and doing diligence on is competing with. What are some of the consumer surveys look like? What is customer churn look like? Is there a category where consumer desires are still going to be there in a few years to still want that product? Is it where consumer loyalty sits with a particular brand or product? I think we've seen consumer loyalty at an all time low recently.

Speaker2: [00:06:58] So do you feel that that company in the consumer base they have is going to be sustained for a long period of time and continue to grow that base? Or do you feel that a me too product can come out in three months and consumers decide to shift to that?

Another thing I'm always cognizant of is more regional based products, right? One of the trends in consumer that we've seen over the last few years is consumers love to buy regional and support local companies and products. And whether that means in your city, whether that means in a region like Southern California or Southeast or something like that. Does that company have the ability to scale? Because I think as an investor in earmarks to to the entrepreneurs listening to this, but as an investor, you're always trying to figure out what your actual opportunity is and how you're going to make money. And so I think looking at it from the other end and saying, OK, how am I going to get my money out of this investment? What is my return profile look like over a period of time? Does this company have the ability to scale to the size that the founders believe it can and what they're pitching to you and their deck early stage businesses is a lot of projections.

Everybody knows there's bumps and bruises along the way. I've never met a company who's nailed the projections that they showed me the first time they showed me projections, and that's just part of the game and everybody understands that. But are the projections realistic? Is this company believe that they're going to go from five hundred thousand of revenue this year to 30 million of revenue next year? I mean, in most instances, that's extremely unrealistic. And so just being mindful of what the growth profile looks like and what the real opportunity, total addressable market, all those things is or some of the critical things that we focus on. But I think it's really about what is that exit opportunity look like and can the business scale because for for that exit, I mean, you're really looking at acquisition or an IPO because in the consumer world, very rarely do you have late stage rounds, like in the tech industry as an example, where you're doing a \$500 million Series C or D rays and some of the early stage investors have the opportunity to take some money off the table. That doesn't exist very often in consumer. And so trying to figure out what your exit looks like, I think is pretty critical and what that timeline looks like, right?

And what's your advice for people running startups? What do you tell them to do before they go out to raise that round of capital?

I think you've got to cross all your t's and dot all your eyes. I think there's a lot of folks that go out looking to raise capital because capital is a critical piece of their business. They can't open their doors tomorrow without capital, and everyone knows that. But I think having a succinct business plan in place, knowing how you're going to spend those dollars and not just having five buckets on a pie chart that says, here's my use of proceeds, but being very strategic of saying This is what my business plan is. This is how I'm going to make this \$2 million last over the next 12 or 18 months or whatever the case may be. I think there's a lot of dry powder out there. There's a lot of investors looking to put capital to work, but it's becoming more and more competitive. Just especially, you know, I speak about consumer, obviously, as I say this, but given how fragmented consumers become, there's so many opportunities in so many great companies. And like I said at the onset, it's getting harder and harder to find some of those winners. And so really making sure you stand out and differentiate yourself and explaining why you're going to be the next best product and what type of ride investors are coming along for, are they coming along for an opportunity to be a partner of yours for seven to 10 years? And you're going to be an amazing entrepreneur? And, you know, maybe it becomes a cash flowing business where they can get some dividends or something like that out every so many months or annually or something.

Or is this something that you believe is a true exit opportunity? I think far too many times we see in Dex, especially in seed stage companies and Christian and I always look at each other and when they have a page that says, here's our action opportunities, here's all the amazing deals that have been taken out that are in our category. I mean, people still are talking today about Justin's almond butter, right? I mean, that was one of the greatest transactions back in 2015. I think it was or whatever. And that's great. But to sit there and say, here's the six outliers that are probably the six highest multiple deals in consumer over the last seven years and say This is what our potential is. Yes, that's everybody's potential. But I think being a little bit more realistic in, you know, letting investors know what what you think. They're the ride that they're coming on looks like. Do you think you can have an exit in three years, five years, seven years? Likely to sell to private equity, what does that look like is the advice that I would give to entrepreneurs because I think far too far too often you have to shoot for the stars.

As an entrepreneur, I mean, everybody does, and I never argue when we see that happen. But I think at the same time, there's an element of being realistic and knowing, OK, what is the marketplace look like? What are my competitors look like? If you've got that competitive landscape chart, like, are you certain that you're in the absolute top right and everybody else is

way down in the bottom left, is there truly that much differentiation between whatever your bottom left grouping is and you being stand alone in the top right? And do you believe that you can sell at the highest multiples? That consumer has sold that in the last seven years. So those are some of the things that I think about. It should always shoot for the stars. I would never say, don't do that, but making sure that you have realistic expectations, so you're not sounding like you're just trying to get money out of investors and knowing what your game plan is.

All right. Well, let's talk about the state of the startup investing. How do you see the industry evolving from here?

I think it's it's changed a lot recently, and when I say recently, probably the last 24 to 36 months, we see things like Angel List, which we leverage for some of our syndicates, has become an extremely powerful tool. It's created an access point for individuals to get in on early stage deals that they otherwise didn't have access to.

Because you had to be an accredited investor with the ability to write a \$500000 check into a VC fund to have access and pay ridiculous fees and so on and so forth. So I think that startup investing has become more competitive because there's so much access to capital right now. And I think that there's been this trend where the stock market's been around for so many years. He's been around for so many years, but that access wasn't there for a lot of investors. And now that the access is there, it's created a new environment that I think is really setting things up for success. Because, as we've always said from day one at tech, not day one, but once we started syndicating deals that catch beyond just discretionary myself. But we always felt is, you're creating foot soldiers, right? People have pride, whether they write a \$5000 cheque or a \$50000 check into a deal. And so you're creating an ecosystem that those people, it's a ripple effect. So when Jimmy invests in our one of our deals and he's super passionate about clean calls, the direct to consumer cleaning company that we're invest in, he's going to go and tell his network. And that's going to help build a loyal consumer following as well, because you have folks that are passionate as investors and everything.

And I think that's really what's changed. The landscape is just the access to capital. But I also think to the flip side of that, there's because of that opportunity, investors have a lot more opportunity, too. So you've got to be a stand out company and you've got to show that what we're creating has the ability to scale. And so I think that the access is the biggest thing in terms of how it's changed recently. And I think just the sheer number of investors, whether it's

individuals through syndicates or a number of VC funds. I saw a startup a few weeks ago around just a number of new VC funds and since the beginning of 2020, and it's crazy whether they're dedicated funds or syndicates. The number of new funds that are popping up is crazy, and so the landscape is just changed by sheer volume of participants, in my opinion. Right. What do you think is the biggest change we'll see and say the next 12 to twenty four months? I think it's going to be something where we're going to see a little bit of a cooldown. To be perfectly honest with you, because there's just there's so much dry powder right now, and I think that that has to be put to work. And I think that it's actually going to create a more challenging environment for entrepreneurs a little bit because I think a lot of a lot of dry powder is being put to work right now.

And to get some of those Follow-On investments, I think you're really going to have to perform as as an entrepreneur and as a startup company to achieve the interest for those guys to follow on on their investments. And so I think that we might see a little bit of a cooling off over the next 12 to 24 months. And I certainly don't mean to sound negative, but I think we've just seen such robust activity over the last 24 months or so. There's got to be a little bit of a slowdown, but you know, people thought the stock market was going to crash for the last four years. And so what we saw a blip during COVID, that certainly hasn't happened. So we've got the Dow at over 36000 now. And anyway, so I don't have a crystal ball. Obviously, I think I'd be sitting in a different seat right now if if I did, my background might look like a cliff off of Hawaii or something like that versus my home office. But nonetheless, I think that I think that this dry powder aspect is going to all be put to work, and I think it's going to be continue to remain competitive from the investment standpoint. But I think you're just going to have to stand out a little bit more as an entrepreneur to get those follow on investments for folks.

Speaker2: [00:16:11] Great. Let's talk about your investment thesis. You talked a little bit at the beginning about what you guys invest in and look for, but can you give us a little bit more color on it?

Yeah, so I think for us, we we invest people first. So for us, it's all about the founders as kind of the first bit of criteria. Do we believe this founder founding team has the ability to to take this business to a multiple levels higher than where we came in and not from a valuation standpoint, but from scale of business to the point where there's an excellent opportunity in some way, shape or form. So that's really what's critical to us, I think. We're also looking for things that are

differentiating, right? So I mentioned Ether and some of the IP behind Ether clean call. I mentioned zero waste, all natural household cleaning products. Yes, there's other brands out there like that, but nobody has the refillable zero waste packaging. And if you follow back our supply chain, even our refills come in cartons, right? And there's cartons when we ship them from where the cartons are produced to where they're filled are flat boxes and so we can use rather than filling a plastic bottle. We're actually using one truck full of cartons for what a comparable company to fill the exact same amount of fluid and plastic would need six vehicles to do the six trucks to do the exact same thing.

So there's like an environmental aspect all throughout the supply chain. So I think looking at things from multiple levels as opposed to just saying, Hey, this is a cool product that sits on the shelves consumers are going to want to grab it is really something that we're focused on, right? We we made an investment two and a half years ago in a lifestyle tequila brand called Low Sundaes. And at the time, you know, there's been a lot of tequilas, the fastest-growing category in the spirit space. There's been a lot of change in that category and spirits more broadly, especially with the surge of RTD products over the last couple of years. But we took a look at the landscape when we met the founders, when we literally sat there and Chris, Christian and I look at each other and said, there is no company doing what these guys are doing. You look at every single other tequila ad out there and it's dark. It's male dominated. It's serious. And if it's not serious, everybody has the same agave colored palm tree on the bottle as their logo. And so, you know, we sat there and we said, like, you even look at something that's been uber successful in Casamigos with George Clooney and Randy Gerber backing it and or founding it. And that's like a fun loving brand. But you look at all the ads and it's George Clooney and Randy Gerber riding motorcycles, wearing Schuchat, right? And it's like, Show me something more fun and loving and sort low son is very focused on the female consumer, the millennial and Gen-Z consumer, and really kind of taking an upside down approach, social media driven approach, which is completely different than what the industry has done traditionally.

And so we looked at it as two guys, the two founders, Ollie, which are phenomenal visionaries, saying like, Look, we're just going to take a completely inverse approach to what the industry has done for the last couple hundred years. And let's see if it works and they will. Terms like tequila kills the boredom. We're selling about half a million dollars a year worth of hats and T-shirts because people love to wear our brand that acts like secondary marketing. I walked down the street and wear my shirt or wear it to a bar and people are like, Oh, that's a cool shirt, where'd you get it or whatever and sort of looking for different things like that? Or kind of some

of our a lot of what lines up with our thesis. I think it's not just about being another as one of my old bosses used to say, it's not about being another canopys on the shelf, right? You want to be something differentiated that resonates with the consumer and is a feel good feeling right? I think Coca Cola is one of the best examples you can ever get, like Coca Cola ingrained in their consumer from day one.

There's a good feeling when you have a sip of Coca Cola. And so yes, that's consumable. Yes, Coca Cola has a proprietary method to it or formulation to it, but that's really what we're looking for is like that kind of all encompassing aspect as to what makes this company different at multiple levels as opposed to just again, just to pick on a category saying, Hey, we have a really nutritious protein bar that's better than these other 14 protein bars sitting beside us on the shelf. What makes that special? Right.

Well, let's talk about the challenges in the startup market today. What do you see as the main challenge startups space that you work with?

Yeah, I think it's it's just it's the it's the competition is really what it comes down to, kind of what I be talking about a little bit. And so it's it's something that I think is not going away anytime soon and consumer, it's just the nature of the industry. I think with the evolution in consumer over the last kind of seven to 10 years of the better for you movement and people being more cognizant of labels and all natural and organic and things of that nature, it's created a lot of new opportunities, and I think it's created a lot of regionalized brands, niche products, and I think it's becoming harder and harder for brands to scale.

I think you look back to using Justin's example when they were acquired five or six years ago and the large consumer CPG companies were saying, Hey, look, these guys are doing something completely, not just in specifically, but a number of these brands that were acquired. These guys are doing something new, innovative, not something we've ever done. They've got 20 million in revenue. Let's scoop this up, and we can take it from 20 million to 300 million in two years and plug it into our distribution channel. I think the larger CPG have created a lot of venture arms and innovation, arms and stuff now, so they're doing a lot of the innovation themselves. And so there's got to be a true point of differentiation for them to acquire you. And I think if you look at if you were to go down, plug report or say who's been acquired by large CPG over the last 18 to 24 months, I think that pace of acquisitions has slowed down a little bit. And you can see that the ones who are acquired either have been able to achieve significant scale or they have

something truly differentiated with their product. I think being there's a lot of companies in the risk right now as you scale to that, like fifteen to twenty five million of revenue and in any consumer category and you kind of get stuck there and a lot of companies do, and that's a great place for an entrepreneur.

You can have an amazing business and live a very prosperous life if you get your business to profitability and that kind of scale. But I think with the emergence of DTC and customer acquisition costs and so on and so forth, it's getting harder and harder to do that. I just saw a Bombardier commercial last night on TV watching the football game, and I'm sure it wasn't cheap to advertise during Monday Night Football and have offered 20 percent off. And yes, there are amazing, mission driven business that donates a pair of socks for every pair that they sell. But at the same time, I have no idea what their financials look like, but is that financial profile sustainable to be continuing to offer 20 percent off discount codes, acquire customers, so on and so forth? So I think you've really got to, as an entrepreneur, figure out and say, like, OK, can we scale? Can we? What are the challenges? The challenges are winning consumers and having a loyal consumer base because consumer loyalty is at an all time low right now in customer acquisition, costs are at an all time high. And then on the other side of that table, what's the challenge the investor faces in today's market? I think it's kind of what I was saying before.

There's so many amazing companies and startups out there right now, and it's getting in front of the right ones. And I think it's getting harder and harder to find proprietary deals because there's so many new investors looking to invest in. So I remember I think actually three years ago when we would meet a company and it was like, Oh yeah, we're talking to you in like two or three other guys that do like sea level investments and write similar sized checks. And like everybody was like fist pumping at doing a million dollars seed round. And now you've got seed rounds that are like seven million bucks and guys are throwing money at them if you're if you're the right company. And so I think for from an investor side, it's just getting in front of the right companies at the right time. And for us, we're always trying to find there's more proprietary deals that aren't being heavily syndicated and shopped around and that sort of thing. And so I think it's doing your homework as an investor because there's so many great companies looking for money and we get inbounds on our website probably six or eight a week from new companies looking looking for looking for capital from us. And that's amazing. But. We met a couple of great companies through that, don't get me wrong, that we have invested in, but at

the same time, I think you're always going to find the better deals when as an investor, you're on the aggressive and going out to try to find those proprietary deals.

Try to be, you know, it's hard for us to do this as managers because we're syndicates and we can't really lead around. But as an investor, if you do have a dedicated fund being the one to get in their lead around, maybe negotiate terms sheet whatever the case may be and solidify yourself in the cap table and as a partner, as opposed to just being another name on the cap table.

Great. Well, you see a lot of sectors and applications, and you talked about several today. 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, I would say anything in these lines have continued to blur more and more over the last, probably three to four years, but anything in kind of what I call consumer technology in improving the consumer experience. So I mentioned drop loyalty earlier, which is basically a three tiered reward system that links up with your credit card or debit card. You're still picking up your loyalty points at XYZ restaurant or retailer. Make it up McDonald's and Lululemon, and then you're also picking up drop rewards points, which you can use to buy Amazon gift cards, Starbucks gift cards and a whole host of other things.

And so I think driving some of that consumer experience with technology and loyalty and things of that nature are is something that we're really focused on and excited about in the future. And then the second category, I think, is disruption from an ESG standpoint of stale categories so that I come back to Ether, which I mentioned and being able to take what's inherently a very, very bad industry for the environment in mining diamonds and actually taking carbon out of the air to make diamonds and having some really, really unique opportunities with this mobile system that the company is going to be launching in the first half of twenty twenty two, where they can take their carbon capture technology to any place in the world. Essentially, we're going to start with a mobile version that will be based out of New York, so it'll kind of be focused in like the Northeast or East Coast at first, but you can essentially capture the air and make bespoke diamond. So to say a couple fell in love in Paris. And so gentleman wants to go and buy an engagement ring and he can buy it with air that was captured in Paris that went into making the actual stone for the engagement ring or some of the aspirations of the team there to say

that they put the direct air capture machine at the Super Bowl and all the diamonds that go into the Super Bowl.

Rings are either diamonds with air captured directly from the actual game that was played. So I think not to put a plug on Ether on that unique aspect of it, but I think that's a prime example of disrupting an industry that's been inherently bad for the environment and finding a better solution. Because I do believe that not only I think every generation is becoming more and more focused on their environmental footprint, and so consumers are increasingly becoming focused on that as well by nature. And so finding opportunities to improve that, I think, is beneficial as well. And it's more than just recyclable packaging and recycling it can instead of throwing it in the trash. So great. Well, last units that we have here, what else should we carry that we have in? I would just say that there's so much opportunity out there would continue to push investors to find great opportunities that would continue to push entrepreneurs to start amazing businesses, and we're always available to shop. We love to have dialogue and say of our 20 or so portfolio companies, we have active dialogue with the management teams of about 15 of them where we're talking with them, at least probably biweekly or monthly. And so we're always happy to talk with companies we're invested in or otherwise and see how we can be helpful. We've done some advisory stuff as well, where it's a very small, more personal check from Christian to myself.

But we come in in an advisory capacity with the founders at an early stage and do some stuff from that standpoint. And so you always have to have some of those conversations as well if it's helpful, right?

So how best for listeners to get back in touch with you?

I think easiest way is on our website. Ventures, which is Ketek ventures, and we have a submission form on there that you can drop in any details and you can also email me directly JT at cash registers and have a chat. Have a look at deals, whatever the case may be. Reference investors that are listening. And you guys are looking for others to come in to a round with you or something like that. We're always happy to take a look and see how we can be helpful or participate. As long as you're up and having a syndicate, join it so we can be flexible as well to investors. We, you know, I think our low end cheque size has been about 50000 in our high end cheque has been five hundred thousand as of last week. So we can be flexible kind of within that range. If you guys are looking for partners,

right, well, we'll include those in the show notes. We want to thank you for joining us today and hope to have you back for a follow up soon. Perfect. Thanks, Paul. I appreciate it.

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