Peter Storment of Cedar Street 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.

Speaker2: [00:00:43] Well, hello, this is Hall Martin with the Investor Connect. Today we're here with Peter Storment , co-CEO at Cedar Street Capital. Cedar Street Capital provides top tier services to companies seeking growth, capital and or merger and acquisition services. They also assist institutional private equity investors in identifying, assessing and closing prospective investments. Peter, thank you for joining us.

Hall, thank you for having me on. It's a pleasure.

All right, so tell us more about your background. What were you doing before starting to invest in early stage companies?

You know, I guess I've had a classic, very diversified background. I mean, literally, I kind of started in financial services as a teenager, working as a clerk on one of the exchanges in New York. I've been a lending officer at a bank. I've created options and futures. I've done investor relations. What really led me into the business was equity research. I worked for a couple of years at a mutual fund. I was one of the equity research analysts covering high tech, so I was covering 20 or 30 high tech companies, and this was in the late nineties. Most of these firms have turned into huge monster companies. I was covering people like Cisco and Medtronic back in the days and literally almost like since childhood, I've always been interested in, let's call it new things. I've always followed the development of a wide range of technologies just because I find that stuff fascinating.

Right, so what excites you right now?

It's like an overwhelming buffet out there of good stuff.
Ok. We were already in kind of a, I think, a real technology boom before the pandemic hit. And I was actually in college, a history major, and I kind of studied a little bit. Pandemics and pandemics have this funny way of unleashing a tremendous amount of change. Ok, that kind of builds up often when people are kind of cooped up. So I mean, I'm seeing really, really interesting stuff in biotech medicine, digital health. The whole crypto area is explosive AI, big data, alternative energy, autonomous vehicles. I mean, there's just such a plethora of stuff going on out there. It's kind of is more of a question, I think of what resonates with you and what fascinates you, but they're just endless choice out there. If you're digging into it. I mean, the amount of patents being filed has gone through the roof, the number of new companies being incorporated gone through the roof. Vcs are pulling in more money than they know what to do with it. So it's a fascinating time overall. But I mean, a couple of things that for me, I think essentially the movement of kind of computing and data into almost every aspect of our lives is just a gigantic underlying theme. Ok, and you have new industries that are being spawned by this. But what's also interesting now is now you're starting to see really traditional industries also undergoing digital transformation.
I mean, freight real estate things that you would have thought of is just very, very conservative. They are now hitting a transformation point. So it's just it's all around us, right?

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

I think it really is almost to a certain degree. There's some basic common sense here that I think applies the very first thing. I mean, it's like if you've ever taken a writing course, you know what the first profession will tell you is, write about something that you know, OK? So I think the first thing for a lot of people is to kind of look at their skill sets and look at what they know and start looking for opportunities in that area first. Ok, if you don't have a particular area, then look for something that fascinates you. Do your homework. Find out what's going on. Do your own kind of trend analysis. The thing is, being a good investor is a combination of abstract analytical skills, being able to do analysis and read balance sheets. But a lot of it comes from, I think,

experience. Ok, and I like angel groups. I think that for somebody that wants to start to become kind of a serious investor in the early tech space, probably the smartest thing you can do is to join an angel group and basically make a bunch of friends and start to learn from them.
Ok, listen, ask a lot of questions. Ok, because I was looking at the site of a VC very recently and they gave kind of a matrix that they use to decide to make investments, and it was a pretty good one. And the first thing they put is the size of the opportunity, OK? At the end of the day, if the space is small, that's going to limit your upside. So you want to look for things that have significant upside, then you want to look, in my opinion, for a great team because a great team with an OK product. Again, in my opinion, will do better than an OK or a mediocre team with a great product because from conception to going to market, you are going to have crises, you're going to have problems, you're going to have delays, you're going to have frustrations. The good management teams figure out a way to make those work, the ones that aren't so good, you know, hit the rocks and that's the end of it. You do want a fascinating product or service and ideally you want reasonably good financial foundation. Now again, if you're getting in really early stage when they've only raised a quarter of a million and a half a mil, it may be too early to judge that.
But there are a bunch of telltale signs of what's going to likely be a successful investment versus one that isn't. And the simplest one is repeat. You find an entrepreneur who's done it once. The probability of them doing it twice is a lot higher than the guy that's doing it or the woman is doing it for the first time. Those are just some of the basic things. But I think really learning from your peers and learning from people who've been doing it longer than you is the smartest way to go. It also makes it kind of less lonely. There's risk sharing is a smart thing to do. Don't try to be a lone eagle at the beginning until maybe you've got a track record.

Right. Then on the other side of that table, what's your advice for people running start ups? What do you tell the founders to do before they go out to raise funding?

Get your act together. Know what you're doing. Know what your strengths are. Know what your limitations are. Be brutally honest with yourselves. I find that when I go hunting for people to work with that, I'm going to try to get them a or a b round. I look for two things at the end of the day. One, you want to be fixated on achieving your goal. Ok, you have to have your North Star, but. In terms of how you get from point A to point B, that's where I look for flexibility.

The deals that have caused me the most grief are with entrepreneurs with a very rigid idea of the path that they're going to take. So don't be flexible in what you want to achieve, but be supremely flexible in how you achieve it. And I mean, I have a client that I'm working with now, I think is very, very bright. But you guys, again, confidential information, I get into it too much, but they came to me with kind of a fixation on getting in a room. Truth of the matter is they have the tech for the a round, but they haven't raised enough money, so they got pushed back again and again from eight round players. And finally, I just kind of reached out and contacted a couple of seed players and the seed players responded to them and I responded to them. So they're going to get that additional check and they're going to get that around, but they're going to do it in two steps, not in one step. Now the way I look at things, if you get to your destination, who cares if there's an extra step involved, you measure success by getting to your destination. But again, some people are flexible on how they're going to do that. Others are not. Those are the ones that I find tend to get into trouble because they have this picture in their head that they've created. And if it doesn't go according to that, they're not happy.
They let everybody know they're not happy. Understood.

Well, let's talk about this data startup investing. How do you see the industry evolving from here?

I got to tell you, and I want to date myself too much, I don't want to sound like, you know, grandfather storm here, but I can remember back in the days when every single startup in the United States of America, for whatever reason, was worth $3 million. Now, was it worth three million dollars? It wasn't worth it. But I recently read an article in the New York publication called Ali Watch, which tracks VC activity in and around New York. People are talking about post money, see valuations of $100 million. Now I got to tell you, that gives me a nosebleed because at $100 million, see post post-money valuation. If you don't have a unicorn on your hands, your investors are going to be disappointed. I think we're at a point where, again, it's all about pockets, OK? Again, if you're working in an area that's not easy to raise money for. And again, I'll mention it like medical devices are tough because it's such a long path to market and don't have that many people that want to fund the early stage ones. But if you're in the stuff where there's a lot of froth or, you know, Elon Musk is tweeting about it, be a little bit careful, is what I would say.

There's definitely a lot of signs to me of kind of market top, and quite frankly, I would rather see my hope would almost be to have a little bit of a correction to take a little bit of that frothiness out of the market rather than have the classic hit the wall and have a really big downdraft, because then everything has to go through a reset and then nobody puts any money to work for a while. I mean, again, the last time we had, I mean, there's the GFC in 2008, and then there was the kind of the big Time-Warner blow up in 2000. Ideally, would be nice not to have one of those. But between this creative energy that's been unleashed by basically sticking people in their houses for two years and not giving them anything to do but work low to zero interest rates and an enormous influx of capital into the VC industry, as well as a huge surge in the number of VCs. There has never been a better time to raise money, and it's the best in the history of the world. And the one thing I've been telling my clients is guys grab the money and run before somebody tells you the party is over.

Right. And so what you think is the biggest change you'll see in, say, the next 12 to twenty four months and start a fundraising?

There's just a lot of intangibles out there, there's so much built up forward momentum.
It's like a train going downhill, you know, at one hundred miles an hour. The main thing I worry about is some kind of like a destabilizing event, which is maybe at some point because we do have some inflation going now. The Fed really taps the brakes, and all of a sudden money costs something. If money costs something, that's when you could get a pretty significant correction of some type. And then you might hit the pause on you invest and you wouldn't stop it. But again, you might reprice a lot of investments. But there's so much going on across so many sectors. There's so much momentum built up that nothing is going to truly stop it. It may just slow it down for a little bit. And I think this is also a cultural thing. A lot of our most successful entrepreneurs have become kind of cultural heroes. I mean, for some people, they're outlaws. But I mean, Elon Musk's of this world that Jeff Bezos is of this world. The amount of people that follow their every word is enormous. All right. And I think they've got a lot of cultural power, not just monetary power. Right, well, let's talk about your investment thesis and what you invest in.

What exactly is your thesis and what your criteria for making an investment?

I'm in a way or my firm in a way is, I guess you could call us. We're heat-seeking missiles.

And the heat basically starts with really with intellectual ferment, the whole U.S. financial ecosystem in terms of venture capital, all that really a lot of it, it starts within kind of the walls of academia and then it spreads out from there. So this is the reason why San Francisco, Cambridge and places like that, I've been so successful because they've got great universities and so many people there will come up with an idea, then they will want to go monetize it. So, I mean, we're literally looking at the output of patterns. We're looking at where the VCs are putting their money to work and we're looking at certain underlying theses. The big thesis, in my opinion, are basically data data, data, data data. The world is becoming, you know, there's physical objects, but everything is being overlaid with data and then it's being overlaid with things to interpret that data. So it's data, it's high speed computing, it's A.I., it's neural networks. Is all of that kind of stuff. Think of Tesla. People think of, OK, it's alternative energy. It runs on electricity. And really the thing you know, those cars are basically massive computers. If you go under the hood, what's driving everything is an enormous amount of computing power is being put to work. Another thesis that we like very much is asset utilization. The newer generation kind of your thirties and unders, I think, are somewhat less interested in accumulating assets. But what they want are the use of assets.

So Airbnb, a perfect example of that. You're not necessarily building new homes because therapy and b, you're utilizing those homes, you think in American cities. A lot of people don't want to own a car, but they may want to use a car for a couple of hours. So New York, things like Zipcar, and again, you're seeing that idea extended into all sorts of different things getting greater asset utilization in biotech and medicine, which is an area that we really like, where we're finding a lot of kind of sexy stuff that people are working on is bringing what you would call, I guess, dry work and wet work together by wet work. I mean, that's lab stuff that's analyzing tissues, that's analyzing genes. The dry stuff is semiconductors and computing, but it's basically using computing power to accelerate drug discovery, to accelerate getting us through trials and all this kind of stuff. I mean, again, I don't think the average citizen realizes that it was literally like 72 hours from the time that we ran the SARS virus through the really the Defense Department supercomputers, they identified all the spikes, which are the vulnerable parts of the virus. Within seventy two hours of that, we knew how to attack the virus. And the only reason it took a year to develop the vaccine was the physical stuff. But the actual cracking of it intellectually was done within days on a series of supercomputers and that would have taken years, 20, 30, 40 years ago.

So all of these things are being accelerated and pushed to kind of warp speed by huge amounts of data, by super fast computing and by new programs to analyze all of that stuff. So you can pick out what's important versus what's extraneous, and that's just going on everywhere.

Can you talk about one or two strips that fits your thesis?

I'll give you one that I'm working on right now, that's a little bit different than that. There is an area that I like that certainly does involve computing because it involves blockchain and all that kind of stuff. But as we all know, virtually every guy in America under 30 has some bitcoin these days. They've got a digital wallet now. I was a skeptic at the beginning because I was thinking of these things as currencies, not as assets and not as commodities. However, we're now seeing the rise or the beginnings of central bank digital currency. Ok, so this is digital currencies being originated by the governments and by the banks themselves. I have a client in that sector. It's an offshore client. It's a very interesting company coming out of the Bahamas. Their website is connue pays K.A. a wired.com. I don't want to say too much, but these guys are essentially issuing with the government of the Bahamas, the first fully legit central bank digital currency, and they are going to take that to the Caribbean.
They're going to take that to Latin America. They're going to take that all over the place. And I think this is going to be the next wave of crypto. Ok, you will have crypto, which is an asset which is a commodity, which is kind of fun to play with. But when it becomes revolutionary is when the banks and the governments behind it actually say, You know what? This is legal tender, and then you can take advantages of the much lower friction. There's going to be generated by that because lower friction generates more economic activity. So that's one example of something that I like. Again, it's private there by a couple of years away from their IPO. I wish I could get everybody in on it, but maybe down the line. There is a company that I worked with last year again. One thing I did want to mention is that Cedar is very internationally oriented. The concentration of brains and money in the United States is overwhelming, but there is also a lot of talent elsewhere. And one of the things that we've tried to do is pull in to the U.S. ecosystem, non-U.S. companies, because if you really, really, really get into an early stage investing, what you'll see is that there is an arbitrage out there, basically a tech company in the U.S., which will get a $50 million valuation if it's coming out of the U.K.

or if it's coming out of Brazil or something like that, their valuation will be half of what their U.S. competitor would be. So for investors that want to dabble their toes into the overseas side of this business, there's some very, very good deals to be done by looking offshore. Now there's a West German client who did some work with last year called Aura Jenness. They're still private. They basically had a technology which would go into patent libraries. They would scan the complete patent library. They would pull down all of the compounds mentioned in that. Then they would analyze them looking to optimize them and either come out with improved compounds or new compounds. So there's a I there's natural language programming. There's all that stuff being used to do something incredibly dry that no human wants to do, which is to scan tens of thousands of pages of patent filings and basically pick up money that's been left lying there. Ok, because the human mind is great at a lot of things, but scanning terabytes and petabytes worth of data to find patterns is there is not something that we're geared up to do as human beings.

Great. So the main challenges for the startup and the investor out there for your startups, what you think is the main challenge they face in launching their business.

I think in most cases, it really again goes back to the people, the people are the X Factor. If you have a good idea, if you know that the size of the market opportunity is reasonably good. You're going to live and die on the quality of the startup team. Their managerial strengths, their ability to recruit and to keep talent. We're in a world of tremendous churn. One of those everybody calling it like the Great Reset or the great resignation or whatever, if you're a talented person in the United States and you wake up on the wrong side of the bed one morning and you think your boss is not treating you well, you could have a job by the end of the day somewhere else, you know what I mean? So team cohesion, I think, is very, very important and also understanding timelines and making the right kind of match between the company and its. Investors, there's one reason why so many businesses love SAS software and stuff like that. That is, quite simply, you can go from conceiving something to selling something in 12 to 18 months. Now, however, if you want to get into biotech and medicine at the end of the day, you're dealing with things that exist in the real world that are very highly regulated, and the clinical trials process is both expensive and agonizingly slow unless you've got the patience for a seven to 10 year haul. Don't do it. So sometimes one of the big issues, I think, is timelines. And what kind of

a commitment are people willing to make? And I'm a big, big, big believer in the importance of basically structured institutional investors.

A lot of my clients will basically say, Hey, Peter, I've got a family office that'll give me some money at a $50 million valuation, but the VC will only give me money at a $40 million valuation. And it's like. I'll have a discussion with them, it's like, OK, if you have already a good institutional investor, OK, fine, take the family off this money. If you don't bite the bullet, take the easy way because they are in the business of building companies now, a lot of managers just don't want to be told what to do. When I get a guy like that that throws a red flag for me because nobody knows everything and a good V.C. is going to help you with your technology, with your recruiting your finance, all this kind of stuff. They're bringing more stuff to the party and because they're bringing more stuff to the party. I think they're entitled to maybe get a better deal now. Ideally, I like to work and help people get blended capital structures. To me, a perfect around for somebody maybe 10 or 12 or 15 from one or two VC, but maybe a family office will get tucked in there for five or seven. That way, you don't end up with the 800 pound gorilla telling you what to do, but you have active investors and you have more passive investors, so you're getting a mix.

And I know I've seen really big mismatches happen between tech companies and family offices. When the family office realizes it doesn't really understand what it's invested in or it decides it doesn't like what it's invested in. And then you really, really, really have trouble. So there's a bit of a black art to it. I hate to say it. It's kind of like dating and matchmaking. You've got to look at the chemistry of it. Eight and 10, what do you think is the main challenge investors face in today's market? Not getting carried away. Realizing that some of your investments are going to fail. Been patient. Learning you want to start by trying to hit some singles and some doubles. You read about the grand slam home runs, but first of all, most of those are going to be skimmed by the well-known people anyway, so you may not get a crack at those. And like I said, you were going to learn along the way and really being what it is. Most people don't like to face the fact that if a million companies are born in the United States in the year twenty twenty one, only two hundred thousand of those companies will still exist in twenty twenty six. It's very Darwinian. The failure rate is very, very high. So if I've got a million to invest because I've been successful at my poor job or they maybe they gave me a big options package, I'd start by making two or three investments of twenty five to fifty thousand just to see how they start to play out.

And like I said earlier, I would try to maybe cluster them in an area where ideally I know something. There's a reason why most of the angel investors in medicine are doctors. Why? Because it's an area that they know. If you work in high tech, if you work in software, that's a logical place for you to start investing because you're going to be investing in something where you've got a knowledge base, but dip your toe in the water. Learn. Get mentors. Make checklists of things. Positive things. I want to see this red flags. I don't want to see that and be aware of the fact that every day everything changes and the playbook that might have worked on Monday may not work on Friday. Be flexible.

Right, well, you've mentioned several sectors and applications in today's interview. If you had to pick one or two that you think are really good opportunities for investors to pursue today, what would you call out?

I think just because it's such a huge trend, the kind of the digitization or the computerization of medicine, and that is that encompasses everything from e-health to changing the way basically drugs are discovered and tested. I like that because at the end of the day, that is literally the biggest sector of the U.S.economy is health. It's 17 or 18 percent of a $20 trillion economy. And it's also very, very resilient. If there's a sector that you want to be in in a recession, the last place we're spending gets cut is in health. I think some of the other areas, SAS software and all that. My concern there is just again, that a lot of those plays have been the valuations have been boosted so high that the margin for error is. Very, very, very low. Things really have to go right. And what would have been a more than acceptable exit three years ago or five years ago may not look like an acceptable exit today because the entry price that you got was so high. And makes sense.

Well, in the last minutes that we have here, what else should we cover that we haven't?

One other thing that I did, I would mention a little bit, and I kind of touched upon it is like I said, Cedar is a very funny firm and that we're doing 60, 70, 80 percent of our business in the kind of high tech sector in the U.S. and in Europe. But I mean, I had a period in my career for about eight or 10 years where I really became a frontier markets guy. And I mean, I've worked very extensively in Africa, in Latin America. And the thing is we are in fact looking at a global

phenomenon. You actually have now unicorns in, let's say, payment systems, DeFi and stuff like that coming out of that, that part of the world.
The one thing I'd say is Americans tend to be, I mean, almost anybody that comes from a big country does this. So it's Americans, it's Russians, it's Brazilians, it's Chinese. You come from a big, big, big country. You tend to really be very inward. Look, now you come from a little country like Belgium or Costa Rica, OK, you're going to be looking outwards because there isn't enough there. But you look at the world, think about the world, don't just think about the U.S. because there's interesting stuff going on everywhere and certain trends actually don't originate here. I mean, strangely enough, if you and I took a plane ride to Kenya tonight, we would pick up a couple of apps on arrival there for four payments and doing things like that that are more sophisticated than the apps we have here in the United States. That's because they didn't have the previous infrastructure. So sometimes some of these countries that you think, Oh, they're way behind us, they may be in certain things, but in other things, they may actually be leapfrogging us because they didn't do certain intermediate steps that we did. And I mean, literally again, you know, there are a lot of countries that never laid copper infrastructure for all telephony. So when they finally modernize their phone systems, they went straight to the latest generation and they didn't have any of that kind of lagging stuff to hold back their development. So be open minded to the fact that great ideas come from everywhere. Most of them get financed here. I mean, the ace in the hole that the United States has. I mean, this is a big statement, but we have two things that the rest of the world envies. We've got the greatest university system and we've got the greatest funding ecosystem for technology, and that makes us like a vortex. Everything gets pulled in here. But it can originate anywhere. So look at the rest of the world, sometimes, not just us. There's interesting stuff going on.

Right. So how best listeners get back in touch with you?

The good old all Gmail address just is a good way to sweep up anything and everything. So here we go. P as in Peter. Amazon Michael. S as in Sam T as in Tom. Always an Oscar hours and Robert, Amazon Mary is an Edward and as a Nancy T as in Tom PMW Stormont at gmail.com and I'd love to talk to you.

Great. We'll include that in the show notes and want to thank you for joining us today. Hope to have you back for a follow up soon.

Thank you so much. It was a pleasure and I hope I find some interesting information along the way.

It's very good.

Thanks so much. That's all.

Speaker1: [00:32:22] 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. Paul 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.