

Patrick Polak of Newion 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 and 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. Well, hello, this is Hall Martin with Investor Connect. Today, we're here with Patrick Polak , managing partner at Newion Partners. Newion Invest in early stage and expansion stage technology companies exclusively focusing on innovative business software. Patrick, thank you for joining us.

Speaker2: [00:00:54] Great to be here.

Speaker1: [00:00:55] Really great. Well, tell us more about your background. What did you do for you? Started investing in early stage companies?

Speaker2: [00:01:02] Yeah. You know, like my training, I'm an aerospace engineer, so my colleagues always ask me, like, Hey, can it fly? And, you know, like. But I never I never ended up in that industry. To be honest, I started my own software company back in 1992, a hundred years ago, and and I sold out in 96 and to a venture capital backed company. In those days, I didn't know anything about venture. I didn't know that existed, to be honest. And although we had an office in San Francisco, you know, I never heard about it before three of us until that day that the PC guys did it hold negotiations and BD and the other stuff. And I felt like, Wow, that's cool. And I was like, 31. I want to be on the other side of the table. Yeah. And so we moved back to to to Amsterdam. You know, I was flying up and down to San Francisco twice a month, but I got back in Amsterdam and then I felt like, Hey, you know what now? And and then I, you know, like early 97, I became an investment manager at a private equity venture slash investment firm. And which is nice. You know, I learned a lot, a lot, a lot of things I did tech, I did life science. Those days, you didn't really differentiate too much. And then in late 2000, December 2000, I carved out together with a colleague the IT portfolio I was responsible for from that firm. And that's how Newton started. So like 21 years ago and. Yeah, and in those days, we only invest in

the Netherlands. But nowadays we invest in the Benelux, so it's the Netherlands, Belgium, Luxembourg. Believe it or not, we have three countries companies and then also in Germany and the Nordics, which is Scandinavia, like Sweden, Finland, Denmark. And that's that's basically our geography where you would like to invest. We only invest in business to business software. So it's like nowadays you call a SAS or a service or likes like Bath and things. But we don't we don't touch deals where consumers one way or another pay for the product or service. We don't do gaming. We don't do social media or whatever. It's all boring. You know, B2B software. Now that's what we do. And that's in a nutshell nutshell who I am and what I've done. 56 married and two children, three donkeys and

Speaker1: [00:03:53] Well, great. Well, so what excites you right now?

Speaker2: [00:03:57] Oh, that's a good question. And I, if I'm almost 25 years in this business and during Christmas break, you know, when we try to recharge your batteries, you know, I again, like all the other years, I found it like I was. I was just desperate to go back to work, basically to help these entrepreneurs and get from A to B to C, right? Right. And that's that was drives me to drive my colleagues. And so that excites me, like some people say, like, Hey, guys, you did something like 60 or 70 investments over the years, right? You know? Aren't you tired of seeing it all again? I know and like like, there's nothing better for me. To try to help to materialize the dreams of an entrepreneur, right? We do early stage stuff, so there's a lot of hope and believe and and a lot of vision. And to help these these these big visionary dreamers starters to to transform that into a strategy. And and to to get from you like your first customers to, hey, you know, we're getting a little bit more predictive and there's a reputation. And then you go to, you know, scaling and and to contribute to that. That is cool. And like I tell you, like like when I started my own software company, I didn't know a thing. You know, I'm an aerospace engineer. What did I know about finance and marketing and sales and whatever, right? But I learned it along the way and and I know how difficult it is to get from vision to strategy. You know, I struggled a lot with that in my early years and and now to help entrepreneurs. With that, I think, you know, if you feel like that excites me, that gets me out of bed every morning at 5:30 in the morning before I hit the gym and then like seven o'clock, I'm ready to go day in, day out, right?

Speaker1: [00:05:59] So you see a lot of startups and a lot of investors in your twenty five years there. What's your advice for people investing in startups? What do you tell them to do before they write that check?

Speaker2: [00:06:09] You have to have a very strong stomach, as we call it in Dutch help hope the translates directly into English, but I mean, investing in early stage stuff is super risky. And every business plan we invest in doesn't materialize, it's always this, it's always going to be different, you know, like like if you're going to do B.S. and. Of course, there's way more data available and predictability and yada yada, you can do a lot of math and analytics. But if you have five customers and you have a team of six, it's going to be difficult to predict. What are you going to market? You're going to be a market leader. So if you're going, if you're going to invest in early stage, you know, stick to a strategy, stick to a domain, you know, very, very well. In depth, and we have a lot of network. Never invest in those things that maybe sounds logical, but you really can't understand it. And and but, you know, stick to what I say, stick to a strategy and philosophy like if I would invest, you know, yeah, maybe this sounds arrogant and my apologies. You know, this is passion. Passion. Speaking about. I think I'm a pretty good investor. Sorry, this sounds very arrogant, but if I would, if I need to invest tomorrow in a business to consumer tech deal. I don't know it's going to be a gamble when there's a lot of risk. I don't know. Maybe it's this guy or this entrepreneur, he or she. That sounds logical and convincing, but I can't. I can't give context to these three data points. So, you know, like like focus, focus, focus, what I see a lot with with angel investors and I don't know what your experience is, but angel investors, they they they get a lot of money for all good reasons. They sold out a company maybe twice or three times, and now they want to do something back for, like other startups and entrepreneurs and stuff. And so they they started doing early stage investment. But they have to remember this work. I love my work. I eat, drink, sleep, venture. I dream about it, probably, but it's work. It's not just the fun thing, it's it's it's like I have 60 hours a week, at least what I spent with with my work. I love it. I don't count the hours, but it's it's. It's sort of like it's just like selling software or another product or a service or being an accountant or being a programmer or, you know, flying a plane. It's work. And you need I mean, I think I can. You know, I can't fly a plane anymore. But, you know, like you get the point, right, so you got the concept, but you're not sure. Leave it to the pilots. You studied for it. Did it test? Maybe that's that's that's an answer.

Speaker1: [00:09:15] It is. That's a great one. So what's your advice for people running start ups? What do you tell them to do before they

Speaker2: [00:09:21] Go out to race? Oh, yeah, yeah, that's that's that's the question we we have like we see on a daily basis, you know, at the moment that you do see drones. Well, do the age to be so. But we always tell and what we try to help with our portfolio companies. You know, we are a seed and series a investor, right? That's our initial investment. Is to understand what you really want to achieve with it, right? Oh yes, we talk about revenue. How much revenue they want to make. Yeah, right. That is one element. But what type of revenue? What is your ICP, your ideal customer profile? Which markets do you want to become a market leader? Think about it. And yes, we have only four or five customers and the market is our world. The world is our market is large. But start to think about what would you like to achieve and then you build onto that. It's not just about revenue, it's getting the right revenue and building a machine, a predictable machine. There, where you can say, like, Oh, I'm going to raise a B round or C round and and duplicate that machine in really in order to scale. And what I see many times is that entrepreneurs would also suggest they had in, you know, maybe the past the growth they went through all great and nice and they say, Oh yeah, well, now I'm here and I'm going to raise 10 or 20 or five or 50 million. Yeah, but at the moment that we deployed 10 million. I want to see that it's going to be used immediately in the right way. And what's the right way, figured it out first? And today there's a tremendous amount of money available. There's feces getting larger and larger and larger tickets valuation go up. I mean, money is the issue. It's not the issue. Getting the right plans and executing it. And that's that's tough.

Speaker1: [00:11:22] Great. Well, let's talk about the state of startup investing, you talked about it getting bigger and bigger. How do you see the VC industry evolving from here?

Speaker2: [00:11:31] This is an old guy speaking here, right, so I've been through a couple of cycles, like when I started early two thousand one with my own fund, you know, four or five months later, you know, the internet bubble collapsed and you know, I went through a couple of cycles. What I see today in valuations and and how. I hope you don't get me wrong here, hype, you know, investing in startups is today. It reminds me to '99, 2000, you know, when I started, right, so many years ago. The big difference, though, is that today our our ecosystem is 10 times better. You know, the internet in those days didn't deliver what they promised, and today

technology is way better. There was way more knowledge and experience. However, valuations today corrected for inflation is so many times higher than 25 years ago, 20 years ago. So. The abundance of capital. Is a is great for entrepreneurs who can get it. But it's also worrying, you know, like like we are racing our new fronts now as we speak, like in the middle of a race, it's going to be 125 million euro fund is all great super. It's not big. I mean, we're not we're not indexed and in what have you, right? So it's like, we're in this together. And I tell my LPs, my investors that, hey, you know, has in the past we did IRR of 30, 50 percent in 12 years. You know, my new in two fund year 2001 vintage, it's going to deliver 20 times the total investment. Surely we're not going to make it with a new fund. It's not going to happen. You know, maybe I'm lucky, but then you and I will go to a casino in Vegas and have fun, right? But but don't don't count on it. It's it's, you know, today valuations are high. Like in my new in two funds, you know, the 2001, sorry, 2011, sorry, 2011 vintage. We had a in our shareholder agreement. We agreed that we would not take any stake less than 20 percent in a company smaller than 20 percent. If I would have that close, am I in my shareholder agreement today, I would do totally or no investment at all. Right. So it is like most of it is like 10 percent, 11 percent. So valuations are very, very high and we need to have a five six x on the investments. Wow. That's going to be tough anyway. I'm not complaining. Totally not right. We're in the super shape and you know, the industry is way more mature. There's a lot of good players out there. I mean, I think the total industry is in this super, super shape.

And yes, there will be a correction. How large will be the correction? Maybe 10, 15, 20 percent? I don't know. Do I care? I don't care. Because, you know, as long as the companies are growing, they will outgrow the correction. So I have to stick, you know, a few years longer in a company, right? So not exit at five years, maybe seven years. So we'll make them multiples. But, you know, the current entry level valuations are very high for exits, though. At this, you know, like the other story, the other side of the story today, that's great. And like like, you know, we had a number of fantastic exits and which were very happy and the buyers are very happy. And so everybody's like, thumbs up and go for it. But they're like, what? I said, like, I've seen many cycles and the funny thing with my team, you know, we have 10 people team together with my colleague mentioned partner. He and I are the only ones who lived through a couple of big downturns. And the rest of the team, the only thing like, Oh, the only way is going up. You know, life is beautiful. We're growing. How difficult can it be? Yeah, yeah. I've been also in other situations.

Speaker1: [00:15:49] So what do you think is the biggest change we'll see in the next 12 to twenty four months? You think we'll see the correction by then? Or you think it will be longer?

Speaker2: [00:15:57] I think it will be a slow correction. It will not be a collapse like bang. I mean, look, I mean, in a way, we are following the stock markets like like our multiples are somehow related on Nasdaq and you know, those. And, you know, if there's a heavy correction on Nasdaq or, you know, stock markets, it will take some time before you see that in the other markets. So I think it will be slow. Decline. I know my crystal ball, which is on my desk behind me. It doesn't work right, so I can look in it, but it doesn't tell me the future. But I think for the next. I mean, as long as there's so much dry powder in the market. Hmm. I don't see it going very bad. And people will become cautious, I mean, there's there's a lot of things now. You know, reports on Pitchbook and whatever just this weekend wrote something about correction of markets and officials are looking at it. Yes. Let's see. I mean, it will. I don't expect it's going to be higher, to be honest and is a safe bet. It's going to be lower.

Speaker1: [00:17:17] I so. Well, let's talk about your investment thesis for your fund. What exactly is it and what your criteria for making an investment?

Speaker2: [00:17:26] Oh, it has to become a unicorn. No, no, I mean, in a way like we hope for market leadership or market leadership potential. Right. So if we look at a company, we we really follow the philosophy of Eric Rees and Steve Blank and like this lean startup philosophy? Steve Blank, my bible and I'm not a religious guy, but book what Steve Blank want, they wrote. Was like the startup owner's manual. If Steve will look at the sales throughout the world, you will see that the Dutch market, you know, there's a spike in his sales of his book. So every entrepreneur I met like, you have to buy the book, otherwise I will not talk to you. What we follow is like we want to we really think about value propositions and how to prove them, find improvements, kill them. But in the same way, we also think like, is there a product leadership potential? And from that, how do we build a market leader, which, you know, takes and consumes a lot of cash and you need to have a lot of luck and right people in your party? But the first thing is thought, leadership and product leadership. We think that we can still steer that in a direction.

So when we see a company, we still look, we really look for where is that that the domain where you can play that game from a thought leadership to product leadership and slowly market

leadership. And if you and I were in person now and of course, there's a 12 hour flight between Amsterdam and Austin or something like that with startup offers, I would I will take my left hand, flat hand and push against your shoulder and say, like, Hey, if I don't, I try to get impact in the market. Your shoulder is markets, and if I do with my left hand, with my flat hand, I will not get any impact. But if I take a pen out of my jacket or pencil and with my same left arm, I will push against your shoulder. You will see it like it's going to hurt because with the same force on a smaller surface, I will get impact. And therefore I say, like, I look for the niche markets, I will look very closely ICP I I do customer profiles and try to get market leadership market penetration in the most efficient way. And from then on, I will try to crossing the chasm, you know, try to branch out and from maybe, you know, leadership or potential leadership in hospitals, market or whatever airlines or hospitals or hotels or whatever try to branch out through the other financial industries or et cetera.

And and we we really use that. Philosophy, thanks, Eric. Steve Blank ADHD. And take that approach so we never go Big Bang. Let's take the whole market. That's not our approach. I'm not saying that it doesn't work. I mean. Look at Uber. The reason that Uber exists is because they had a fantastic vision. And even more money. And they basically rolled up the market. They made the markets. I'm jealous, yeah, right. So they're made to market fantastic. That's not that's. We don't have the resources. It's not in our philosophy really like like looking at things. However, we do have global market leaders. I mean, Calibra is a original. Belgian company is now New York based. And that's really a market leader. They raised, like in October to five billion US valuation. They raised another 250 million. And we have another Belgian company, which will be announced next week. Also, unicorn status like in euros, you know, market leaders. But it's I know I don't gamble on that.

Speaker1: [00:21:41] Well, that's great sound like he had some great wins there, but you also see the challenges in this space for both the startup and investor. What do you think is the main challenge your startups face today?

Speaker2: [00:21:51] Yeah, so so if money is not the challenge, money's there and money's everywhere. So there's only one thing that's left that is experience in human capital, like like human resources capital. There's a difference between the U.S. market and the Dutch market or the European market. Like, I'm not saying that it's easier in the U.S. compared to the European market, but if we're going to do a if we do a U.S. expansion, the number of experienced sea

level or sea level people who've had experience in other fast growing SaaS companies is. Ten fold compared to Europe. European companies. So my challenge in Europe is not to grow from 10 people to 70 people. Because that's something we can do. But to grow from 70 to 200 with the right experience and background, it's not about the talent. I mean, talent is sometimes a given. But it's like, Oh, I've been there, I've done it. I've seen it before. I've been in another company that grew from two hundred thousand. So, you know, I made some mistakes there, but I'm going to do it right in this company. That experience is so many times more and better in the US than than than in Europe. So the war on talent is a cliché is is massive and of course, also in the US, but especially also in Europe because it's not available. So that's one of the big reasons why we try to get our companies as soon as it's. Makes sense to move to the other side of the pond.

Speaker1: [00:23:38] Then on the other side of that table, what's the challenge your investors face in today's market?

Speaker2: [00:23:44] It more than ever competition money valuations. I mean, let's face it, if you're an entrepreneur, how you know, like you have a great idea, great company and and you can get five million from me at a valuation of, let's say, 20 and somebody else gives you seven million at a valuation of twenty three. Although the other investor doesn't know about your business and we are more like specialists in your domain. You know, I think you're going to take the other one right? And you should. So let's face it. So like like the availability of capital, that capital is nowadays really a commodity. It doesn't matter whether it comes from Europe or us. You know, our competitors, especially in France, is international play. You know, even on seed and Series A is already international for us. And and but, you know, I don't care. I mean, we can we can we where we're specialists, we have a tremendous track record. This is not a commercial here for new. I mean, but you know, we we've been there for 21 years as a firm. Many good. A tremendous track record. But still, you have to compete every day. Right. And and I don't mind, I mean, it's like our our portfolio companies as well, right? So it's fundraising is a breeze, getting the right entrepreneurs. That remains a challenge. I mean, there's four or five times more money, but not four or five times more or better entrepreneurs.

Speaker1: [00:25:28] That's that's that's a mismatch for sure. Well, you do see a lot of subsectors and applications out there in your market. If you had to take one or two that you think are really good opportunities to pursue today, what would you call out?

Speaker2: [00:25:41] Oh, that is the billion dollar question. I mean. And maybe this sounds crazy and maybe dumb as well, so if you get off of this, this podcast, you get replies and feedback from your listeners. And this Dutch guy doesn't make sense, but. Every industry has its niches, every domain has their market opportunities and like and like in ERP, for instance. Erp is what they're like, well, like, like late 80s, mid 90s, right? I bomb and whatever. Sap started really, you can say, like a 25 year old technology. Yes. So there's a lot of changes there as well. Yeah. But it's I mean, you're just not sexy. I don't care. You can still make good returns in non sexy stuff. And like like if you have a vision, if you if you really know your business, if you if you can solve a real pain for your customer, it really desperately want to solve that pain. Cure that pain. And they have a chance, so I'm not saying like, oh, you have to invest in whatever AI machine learning, whatever. I mean, what else? Ip name can we find? I like the moment that I said, Oh, this is the new hot thing, it's already too late. I mean, we are seeing serious investors like we invest today or we have invested in the last two or three years and things that that now are starting Forrester and Gartner to write about. Oh, this is interesting to me. It was a very niche, and all of a sudden there's a magic quadrant or a first wave, right? So I don't know if I would, yeah, if I would know what's going to be the next big thing, I would not tell you. He said with a big smile on his face. So I don't know. I live by the day. I got a great proposition. Some things like, Oh, I don't see it or I don't see the team or I don't know. I don't see the market size. I don't see the market dynamics. All those things you look for. But you know, if you if you want there, there can be success.

Speaker1: [00:28:09] Great, when the last minute that we have here, what else should we covered that we haven't?

Speaker2: [00:28:14] Now, the problem with me is like, I can talk for days about my industry and my love I have for for entrepreneurs and how grateful I am to be in this industry. And I and I like like I encourage every entrepreneur listening to follow their dreams. He learn, read Future Network. Did I say learn? Yes, I'll say it again. Learn and and keep your eyes and ears open and do your work very diligent and don't focus on the things you read in the newspaper, in newspapers or read on blogs and whatever about this billion dollar valuation here and the

trillion dollar investment there. It's about you. And like just before Christmas, I talked to an entrepreneur who wants to raise capital and and and I said, how much do his plans, how much do you raise? And it's like seven. They're like, Well, you just have four customers. Seven million, right? Said, I just four customers. How do you get to your seven million? Yeah. Well, a friend of mine. He just raised AIDS and like, yes. But why would you raise seven? Yeah, well, there are, I think eight is a little bit too much, but seven. Sounds nice. And like, I need to have a coffee then, right? So guys really like step by step. Read the book Start up the owner's manual from Steve Blank and Eric Reece. And you know, if you all have a discussion with me and if even though we don't invest in the US, you know, happy to follow up on calls or emails or have a discussion, you know, I don't have the truth. I have an opinion. And, you know, happy to help entrepreneurs, you know, no matter where they are on the planet. You know, if you want to have an opinion on something, I will give it biased. But I mean, human being great.

Speaker1: [00:30:10] So how best listeners to get back in touch with you?

Speaker2: [00:30:13] Some email Patrick at Newton dot com and y o n dot com and I will reply on that thing and just refer to this this podcast and and I reply always, always. Like every entrepreneur reaching out, they will get an honest answer.

Speaker1: [00:30:31] Good to hear. We'll include that in the show notes. I want to thank you for joining us today and hope to have you back for a follow up soon.

Speaker2: [00:30:37] Absolutely. Hey, well, I have a great one and

Speaker1: [00:30:40] A very good. Investor Connect helps investors interested in startup funding. In this podcast series, experienced investors share their experience and advice. You can learn more at Investor Connect. Paul T. 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.