

Mike Millard of Ecliptic 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, and many other investors for early stage and growth companies. I hope you enjoy this episode. Investor Connect is a 501 C three nonprofit dedicated to the education of investors and startups for fund raising. 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 Investor Connect today. We're here with Mike Millard, operating partner at Ecliptic Capital. Ecliptic Capital is an emergent early stage innovation fund focused on Pre-seed seed and series investments. They invest in companies that use science and technology as a lever to disrupt lagging industries and cultivate multiple market adjacencies. Mike, thanks for joining us.

Speaker3: [00:01:04] Thank you for having me. Looking forward to.

Speaker2: [00:01:05] This. Great. So where are you calling from today?

Speaker3: [00:01:08] I am at the wonderful place in Austin, Texas, called My Home. So I'm actually I'm in the man cave. I have a detached office which which everything that my wife does, not one in the house ends up here.

Speaker2: [00:01:20] That's great. There's a place for it to go. So let's start off with your background. What did you do before joining Ecliptic Capital? I think you've had quite a good experience there. Yeah.

Speaker3: [00:01:30] So I did a lot of things heavy with corporate strategy at HP, and Dell did that for a few years. I did tech commercialization at AT&T. So as the guys like to get around and I'm definitely corporate trained. I spent a little time in health innovation at Ascension, did that for a few years, and then most recently I ran Mass Challenge, which is an accelerator here in Austin, also now in Houston and Dallas. So a little bit of everything.

Speaker2: [00:01:55] Great. So what excites you right now?

Speaker3: [00:01:59] A lot of things. I have a lot of interest. I think the biggest thing I was looking at, where would I want to kind of push all my energy if I could? I think it's for a lot of the health care innovations and particularly health tech. I think there's just a lot of things coming through, not just from a telemedicine standpoint, but from a medical device standpoint, wearable tech, all of that, I think, is changing dramatically. So I get super excited about that. We have one in our portfolio, Laser 3D, that's doing exceptionally well. It kind of fits that thesis. I also get excited about a lot of the just the technology breakthroughs for nanotech. We have three companies that are in that nano, I guess, particle space, if you will, and the technologies, the companies that we've seen over the last year or so are really profound. It's a little nerdy for sure, but they're just astounding. And as we have three companies that fit that, one is nanotech, which is fire protection insulation. Another one is Nabucco, which you can spray sort organic spray that you can put on vegetables, fruits and vegetables that extends their life organically for about three x. Another one is search power, which creates graphene from vegetables. So these are things that are just moving the needle because they have lots of market adjacencies and you can put them in a variety of industries and have an impact.

Speaker2: [00:03:16] Right? Well, you see a lot of startups out there working with Mass Challenge and capital. What's your advice for people investing in startups? What do you tell them to do before they write that check?

Speaker3: [00:03:26] Yeah, This is going to sound a little boring, but I'm going to go for it. So this is risky. I know, but I'll tell you, I think the biggest thing that I tell people is just get to know the founders. This isn't a game of always knowing how big the market is and everything about the competitive landscape and all the things we learned in MBA school. A lot of times you want to understand the founders and understand what makes them tick and what drives them and get to know them on a different level. And I think that's where you can de-risk investments because you get to see how they make decisions over time. And I think the best thing to do is a lot of times early stage investing, you are betting on the team and just getting to know that team I think really helps you understand, is this the team that's going to go from A to B to C or not, obviously learning anything about the market that helps. But seeing how a team behaves over

time is really, to me, a key ingredient that a lot of people sometimes miss because they want to get in really super fast.

Speaker2: [00:04:25] Great. Did on the other side of the table, what's your advice for founders? What do you tell them to do before they go out to raise funding?

Speaker3: [00:04:31] I tell them do the exact same thing, but with VCs, and it's a little uncomfortable because they're taking my advice. So they should. You know, when you have an investment, especially in D.C., we're going to get married, we're going to get on the cap table, and we're going to generally be there for a long time. So understand what value do they actually bring. And that's one of the things that I think is really changing is a lot of the startups today are asking those tough questions and saying, what value do you bring? And I want to understand how you guys make decisions and what tell me what you can do in this situation or can I interview some of your portfolio companies to understand how they are working with you today? So it's really interesting. I tell them to get to know the VCs, and the best time to talk to VCs is when you don't need money, just understand what they're doing. As soon as you come in, I think just understand what they do and what they don't do and see if you really are a fit. And if you are, I tell them a lot of times is work with them to understand how to de-risk your investment.

Speaker2: [00:05:32] Well, that's great. Now you have a great fund there. How is it different from other funds, though?

Speaker3: [00:05:37] I think we do a few things differently. And every every fund says they do things differently. But I'll put myself in that camp. So the first thing is I'll call this patient capital. We're an evergreen fund, so we can afford to be a little bit more patient. That doesn't mean that we're not going to seize an opportunity for an obvious exit, but sometimes it takes a while for things to materialize. And our fund, we could take a little bit longer, kind of go into year seven, eight, nine before we have maximum value for a company. That's one. The second thing I think we do differently, which is we lean in to our portfolio companies quite a bit, so we have an operator focus and all of us have done operating kind of things. I'm probably the least cool guy in the team, but we have a lot of guys who've done very entrepreneurial things and we try to lean in and make sure that we help them with sales and marketing and strategy, help them with

their dashboards and really help them in terms of what do they need to do to hit the next set of milestones. And we ask them, Give us assignments, let us work with you. This isn't a hey, we're going to talk to you maybe once a month. We try to meet with them once a week and say, What are the next challenges? Are you facing that depending on the experience of the entrepreneur, some of them are super, super experienced and want to talk more about strategy.

Speaker3: [00:06:53] Some are this might be their first time startup and they're looking for, Hey, let's make sure we understand the sales process. How do I make sure I capture the right IP at the right time? And I think that's where for me it's fun because I've always kind of viewed startups as this cross between it's kind of like poker and chess and a little bit of kind of a maze and a puzzle. If you can put all those together. That's a startup and it's a little bit of all of that and that's what I enjoy, is leaning in and figuring out how to go from A to B to C, because what I did, corporate strategy, wonderful job, but you have a lot of leeway. You can make some mistakes. The company will keep going In a startup, generally they're not as forgiving. So to really understand strategy and go to market in business model, you don't have a lot of leeway and we say, Hey, let us work with you to help you understand how to do that. And I think I learned a lot of that from Mass Challenge for sure, just to make sure stage appropriate guidance to help them on their journey.

Speaker2: [00:07:59] Right. So you're fun. You drive impact in legacy industries that need disruption. How do you how are you structured to do that?

Speaker3: [00:08:06] You part of that is the patient capital. So we've got the Evergreen Fund that allows us to do more follow on than I think would be normal, which is good. And then I think the other aspect is you've got a lot of operators on the team since I'm probably the least cool guy, but we have a lot of operators that have done that, that have actually built companies. And when you look at understanding from a manufacturing or a growth, you need that expertise to help those companies grow. And I think that's what we bring is we have folks that have done that over time at Fortune 500 companies, and we've also had to the founders have started companies and sold them multiple times. So I think bringing that operating focus to these legacy industries with different technologies is really one of the differentiator that we see and what we hear from our startups that like like hopefully like as well.

Speaker2: [00:08:54] That's great. Well, let's talk about the state of startup investing. As we all know, the only constant is change. And so how do you see the industry evolving from here?

Speaker3: [00:09:03] I'll tell you, one of the things that I've seen over the last probably I'd say three years dramatically, is that I think the startups are just getting savvier and savvier, right? So they're actually doing a lot more homework on which money do I want to take? And they're asking us like, what are you doing to provide value? And I think that's healthy. I think the startups should ask a VC, what are you actually going to do? And there's traditional things like, Well, we have a network, but there's also I think a lot of people have a network. I think a lot of people have LinkedIn now, so you have that. But show me examples of how you can really help my startup grow. And that's one I think was becoming a little bit more operator focused. Nothing wrong with the investment model. I think that's fine. But I do think it's definitely the startups are looking for expertise, even the season folks are looking for folks that have been in the trenches because they want to have those conversations.

Speaker2: [00:10:02] Right. What do you think is the biggest change we'll see in this charter space in the coming years?

Speaker3: [00:10:07] I think I mean, I'm 100% biased, but I think the operator focus is going to bleed into. You're going to see a lot of voices. It's going to become more and more global, where I think there was a lot of local because it was easier. You could actually just go see that start up. But now that you're seeing whether it was the pandemic or Zoom, we're seeing I'm seeing a lot more startups that I probably wouldn't see. I see a tremendous amount in Texas, but they may be in Dallas, they may be in Houston. And I'm also seeing folks VMs Challenge and Techstars from around the world that are interesting. You never know. And I think over time what it's going to be is the market is going to be global. It's not just going to be in the US. I think it's going to be truly global and I think startups are going to look for firms that can actually have that impact.

Speaker2: [00:10:56] Great. So let's talk about your investment thesis. We've talked about it a little bit before, but what exactly is it and what's your criteria for investing in a deal? They need revenue, be a certain stage, etc.?

Speaker3: [00:11:08] Yep. So one of the things that we look for is we're looking for disruptive technology, lagging industries that have great impact or global impact around the world. So what does that mean? We generally find that that falls into about 3 to 4 categories, whether it's energy, tech, climate, tech, health and security. We also look at SaaS platforms. We're not shy from those, but we look for those things that actually have multiple adjacencies. And probably the best way to give an example is if you look at one of our companies, nanotech, that can be classified as climate tech, as well as energy tech, it has a coating that when you put it on the surface, it can actually have fireproofing up to 800 degrees Celsius indefinitely, which sounds like hyperbole, but if you'd see the videos, that's actually true. We've had it tested. But that same ingredient, when you put it on things, you can actually have an insulation and reduce your energy consumption by 50%. So those are things that are definitely impactful. We think it's going to have impact on on on the world as well as there are across a couple of things. And those industries, I wouldn't say fireproofing and insulation is exactly, you know, maybe an exciting industry to look at, but this is disrupting those two industries at the same time.

Speaker2: [00:12:27] Great. What can you talk about? One or two startups, perhaps a portfolio company that fit that thesis?

Speaker3: [00:12:32] I could talk all day. I think we only have 30 minutes, but I could go bananas. So one of them that I'd love to talk about. Also a challenge company. Since I work there, I like to put in the plug for my challenge is Lazarus 3D. So 3D is super interesting because what it does, it creates 3D models from your particular body parts based off of scans from an MRI or a CT scan. So it's got really submillimeter perfection of your particular body part. So a surgeon can actually rehearse the surgery before you actually have the surgery. So it's great for training and it's also great for really complex cases. And what I like about that one is obviously it's going to improve patient care. It also improves the confidence of the surgeons when they're doing these things. But I think the other aspect is it creates a better conversation and a better patient experience because now you can have a model and you can show literally your body part. A doctor could show you like this is what we're going to do when we operate on your kidney. So you have a sense for what's about to happen. And I think what's really interesting is the team is phenomenal, Very, very bright, very, very gifted. And they're super savvy. But when you look at that technology, you realize what if you could do that for every single operation, what would that do over time? That would probably make the surgeons much better.

Speaker3: [00:13:56] And what we found, the state of the current affairs is a lot of times the medical school. Obviously they can practice on cadavers. That's not always optimal because obviously you have obvious reasons. But the other thing is sometimes they practice on whether it's a pumpkin or even a pear or whatnot. They practice on fruits and vegetables. So when we found this out, one, I did want to know that that was a little bit like, really, are you are you practicing on a pepper or a pear? Like, why are you doing that? And when they've used different types of silicone to mimic the different types of skin and muscle and tendon that you may have in your particular case. I like that one because disruptive technology, obviously that market is not changed in a long time. If they're still practicing on peppers and it's changing things for the better because you can have a better patient outcome. And that one we just really like, because the incentives are aligned with the hospitals and the payers, the providers and the patients. So that one is almost a perfect slam dunk for what we're looking for.

Speaker2: [00:15:01] Great. Well, we talked a lot about the challenges in the startup space and for the investor as well. So if you had to say what is the main challenge your startup space in today's world, what would you call out?

Speaker3: [00:15:12] That's a tough one. I think the hardest thing is, is understanding, really digging into the sales process in driving revenue. You've got some headwinds coming. I don't think the market is I don't think anybody knows what the market's going to do, but it doesn't seem to be doing outstanding. So my argument to a lot of the folks is really map out that customer journey and understand exactly what they have to go through and eliminate as much friction as possible. Startups that can figure out a way to eliminate that friction, create the right incentives, and also find ways to drive the revenue with the right business model usually succeed in downturns, right? And they come out stronger when folks don't have it all figured out or don't really know their customer, don't really know why they're purchasing who the influencer is, who the decision maker is. That's when things get tough and that's when it's a little bit from a VC standpoint, we want to see that you've got some of that figured out because we want to fund growth, right? So when you have that and as you go into new markets, especially different market adjacencies, you're going to want to know who those customers are and what that sales process is driving revenue.

Speaker2: [00:16:20] That's right. And on the other side of that table was the main challenge investors face in today's market.

Speaker3: [00:16:26] You know, I'm going to be a little biased because I think part of it is in Austin, you just have a lot of the the landscape has changed dramatically. I think for us, it's being open to the new technologies that may not be in your backyard. Right. It may be somebody that's in the middle of the country and your comfort zone is to say, I'd rather have them be in Austin. But I think the challenge is going, hey, let's not be lazy and let's make sure that we look out and look at these different technologies that could change the world all over, even though they may not be a fit today. Making sure we're tracking them for when they are a fit, we can still make that investment.

Speaker2: [00:17:10] Well, great. Well, you see a lot of technologies and a lot of startups with cool new business models out there. If you could start a business tomorrow, what would that business be?

Speaker3: [00:17:19] I'll tell you, I think this is going to be a little bit close to home because of my parents. So my parents are older. They've moved into independent living and assisted living, and I just moved them in into a place in Iowa in August. I really believe with the great tsunami that's coming, it's upon us now is something that allows you to connect to your mom and dad in an easy way and also make sure they're okay and everything's fine in some way, that you can keep track without being intrusive and find ways to make sure they get the right kind of care that they need. There's other solutions in the market that are doing that. I'm not saying that there's not people doing that. But he said, What business would I do? Probably that because I'm seeing that problem right now.

Speaker2: [00:18:06] It certainly is a need we have in the marketplace today with the boomer population. So it's probably a very good one to be a part of as well. In the last minutes that we have here, what else should we cover that we haven't?

Speaker3: [00:18:17] I'd like to know a little bit. I'm going to turn around just real quick. What do you see? I know you get to ask all the questions, but you get to interview all these cool people. I'm not that cool, but I'd like to know what you see.

Speaker2: [00:18:29] Today I see many, many people starting businesses. I was in Austin. I came to Austin back in 1984. There were 450,000 people in town. And so it has changed quite a bit, as you mentioned. And even I started working in a startup to be around the early 2000 and we only had two accelerators in town and no co-working spaces. But today everybody wants to be an entrepreneur and there's the cost of starting business is very low now. What it used to be. I used to go to the Angel group we had here back in the nineties where they stood up and they asked for \$5 million to start a web business. Today you need 5000 to start a web business. It is so much cheaper because of the services. So everybody wants to be an entrepreneur and the key is just finding a good market fit for your product and finding the right business model for what you want to do. And that's the challenge in it. There's just a lot more people doing. It is much more acceptable now than it used to be as well. And there's many more investors. We used to have three VCs in town, we used to have one, but now we think we have three. And then now we have so many more. And I remember going in the 2010 to 15 era when we get go to the Bay Area next week, I go to New York because that's where most of the VC money was located. And today but today VCs are everywhere.

Speaker2: [00:19:42] So money is everywhere and startups are everywhere, so they're almost ubiquitous. And so we're seeing a lot of interest in starting a businesses in so many spaces that we didn't even consider before. So it's becoming more and more the norm for work. I can actually start a business and make a living out of it as well. I'm looking at Web three. I think there's going to be a lot of promise with distributed autonomous organizations where you put everybody into a network to customers, vendors, investors, providers, and then apply tokens and incentives to them to push the technology forward. So seeing that kicked off in a big way and gain a lot of momentum and it solves a lot of the problems we face in raising funding and starting businesses because now you go out to your network to do all that as opposed to scrounge around for each \$4 here and there. And so. Right. So it sounds very promising. And I think it's early days. I think there's still a lot of regulatory to work out. I learned in the crowdfunding days, 2012 to 15, you don't jump in before the regulatory is figured out because you'll be spending a lot of time on stuff that will probably change. But when the regulatory gets figured out, I think that's going to be the next stage for. So I'm looking forward to that aspect as well, where you actually have better corporate structures, incentive structures and so forth to move these technologies forward.

Speaker3: [00:21:03] I like it. I agree.

Speaker2: [00:21:05] That's great. Well, appreciate your sharing your information as well. And so how best for listeners get back in touch with you.

Speaker3: [00:21:12] The best thing is email, such as my email at Millard and Ecliptic Capital dot com. That's the best way to get hold of me.

Speaker2: [00:21:18] Right. We'll put 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.

Speaker3: [00:21:23] You bet. Thanks so much. It's awesome.

Speaker1: [00:21:27] 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 dot org. Martin is the director of Investor Connect, which is a 501 seed, three 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.