

Transcript of Derren Burrell of Veteran Ventures

Hall Martin: [00:00:00] This is the Investor Connect podcast program. I'm Hall T. Martin. I'm the host of this 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.

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Well, hello, this is Hall Martin with Investor Connect. Today we're here with Darren Burl, founder and managing partner of Veteran Ventures Capital. Veteran Ventures Capital is a veteran owned growth equity investment fund and firm focused on veteran businesses. Darren, thank you for joining us. It's a pleasure.

[00:01:00] **Derren Burrell:** Appreciate y'all having me, hall. Great. So where are you calling from today? Well, uh, right now we're in Knoxville, Tennessee. That's where we're based out of, and not on the road yet, but getting ready to get that way. So, uh, weather's getting better and starting to climb out of the winter doldrums. Right.

That's great.

Hall Martin: So tell us more about your background before

Derren Burrell: creating Veteran Ventures Capital. Yeah, so appreciate that. My background's pretty straightforward. I did a career in the military, started several decades ago, and. Served 21 years active duty Air Force, all of it though, in the financial management career field.

So like to say, I didn't fly the planes, I just paid for 'em and had a great time doing it. Managed some large programs, 15 billion in the Pentagon, 12 billion in Iraq and Afghanistan, and just some great opportunities across the globe. Uh, finished up my time in the White House and managing the president's communications budget and although I just had a great opportunity to transition to the private sector, had a lot of.

A lot of [00:02:00] reasons for making that choice. So came to Knoxville to start the second career also in the financial industry, in the private side. This time. Been doing that for about eight years now. But as I came here and helped, uh, businesses grow and scale, I had a heart to stay in the veteran ecosystem. I was part of the veteran led company and the company was growing like crazy.

We went from a six to about a 35 million exit in just a few. A lot of that was done when I got there. I was a c o of the firm. It doubled in company size and tripled their a u m in just a few short years. But it was through a lot of the military principles that I had learned over the previous couple of decades.

So think, uh, process management, administration, you know, just the abil structure and discipline things that the military does very well. that are somewhat absent in small business. And so I found that to be very, very applicable to the private sector. And so the company was [00:03:00] growing and others were that I was helping out too.

But I hadn't raised 2 million in growth equity for this company. And that's where I became a firsthand aware that veteran owned businesses had a disadvantage when it came to access to capital. And that's really what led me. To start the idea of Veteran Ventures. And so I got together with a couple of, uh, folks, mostly veterans, and said, I think we can raise a fund to help bridge the gap to veteran-owned and veteran led businesses and really make investors a lot of money, but also help these businesses grow and scale.

And so that was about, I mean, nearly four years ago now, but we did start to raise a fund during the midst of. and as we finished out the raise just this past, uh, year, we've been able to raise a, a pretty hefty, uh, 25 million fund to help just really deploy into veteran businesses. And that's, you know, it's morphed over time.

I could tell you about the thesis and why we do it and how we do it and what our value add [00:04:00] is, but you're just wanting to. The intro here. So I'll leave it at that and see, uh, see if that, uh, scratches the itch on my background, cuz I've been doing it now for a couple of years, full timeing in the third year.

And, uh, it's been a blast to see the innovation out there.

Hall Martin: Well, that's great. That's, that's quite a, a history there. So tell us what excites you

Derren Burrell: right now. I'll tell you what excites me is the innovation, the desire, the passion, and the intensity that we see. In veteran owned businesses, they're looking for that next level because what, there's two huge forces at play right now.

One is the, the creativity and the innovation that the veteran has when they're trying to develop and scale of business. That's kind of been throughout history though. You know, you see the federal expresses, the enterprise rental car. You see U-Haul. Even Dominoes was started by a veteran, right? So there's a lot of precedence there.

But today [00:05:00] we see the government pouring billions of dollars into the nation's defense, into high technology, to space, to satellite imagery, to robotics and drones, all these capabilities. So there's a lot more money there. The education that our military has when they transition out is higher than it's ever been.

Lots of great opportunities for the government to pay for advanced degrees. Couple of PhDs on my team that are veterans, and so you have that one component and then you have the awakening that the government has that really defense needs innovation from private industry. Couple those two things together and what do.

We have about 500 companies that pitch us a year that are looking for capital, and a lot of those people are going after governmental incentives and contracts and opportunities of where they did when they were active duty. That's exciting cuz you have people [00:06:00] that have a great business plan, great leadership cuz that's what the military gives to you.

And then you have the ability to take some of these programs that the government has set aside to help these businesses scale further and faster. And take advantage of so many different of the, the current events at play and the dynamic that we're at in, in just a, the economic uncertainty that can be bolstered and countercyclical through, uh, governmental initiatives.

So, long story short, I like veterans. I like entrepreneurs. I like the idea of backing entrepreneurs. They make a great business case, and that excites me and it should excite investors. . Well, that's great. Well, you work with

Hall Martin: a lot of veteran run

Derren Burrell: businesses and you work with their

Hall Martin: investors. What's your advice for people investing in veteran run startups?

What do you tell them

Derren Burrell: to do before they write that check? Yeah, so the age old, I guess mantra is true that you, you, you are early stage, you're investing in leadership, you're investing in the founder and [00:07:00] that personality. That ability for them to get things done. Well, nobody knows about execution better than a veteran, so that's why we think the veterans make better entrepreneurs.

So I would tell them to invest in the leadership like you normally would, but do it with someone who has the skillset that has the ability to. Perform under pressure that is used to having razor sharp mission focus that can adapt and overcome. I mean, we call that pivoting in the business world. Well, that's something that the veterans been doing their whole career.

So you have these different things that you look out for in a regular investment opportunity that I think are amplified. And so I tell them to look at the business case, but look for the veteran as well that it, who is directing the strategic nature of that company, and that's a winning combin.

Hall Martin: Great.

And sit on the other side of that table. What's your advice for veterans running startups? What do you tell them to do before they go out to raise funding? It's

Derren Burrell: hard. Okay. It's so hard because it's, it was a challenge for us to get [00:08:00] this, uh, first fund to the, to the goal line and over the goal line. And so I was a startup just like they were.

I was pitching people left and right for years just like they are, and I got lots of nos just like they do. And so that's just, it's a probability game, right? You gotta get out there and you gotta keep. , don't be discouraged because so many people say that the investment community ignores ignore. They ignore me.

You know, they come through and they say that well just realize that, you know, we're a small firm and we get 500 deals, uh, a year, right? That they come across our desk. The larger ones, they're getting thousands, you know, thousands a month even. It's just a small percentage. One to 3% of people are gonna invest in your company.

So you have to have a large, a large denominator there for in order for that to make sense. So I see a lot of discouragement in the startup space in general. And so that doesn't just apply to veterans, that applies to any entrepreneur, right? Because it's hard. [00:09:00] So I just tell them to keep at it. That's what we do.

We have been trained to take that hill no matter what, and that can be hard. and it's same thing in the private sector too. Just keep pushing.

Hall Martin: Well, that's great. Well, you know, the startup world continues to change and evolve. How do you see it evolving from

Derren Burrell: here? Well, I think we're in a different, uh, level setting.

You know, it's not 2020 and 2021 valuations anymore. So there's a reality that's starting to hit even some of our portfolio companies that are doing good in the face of economic uncertainty. , but there's a, a reality coming through that capital, which was never really easy to begin with. That got easier during the last couple of years.

That is now seeing the pendulums shift right back to the challenging areas that it used to be years ago. And so people have to have a long-term view. Okay? They can't talk about my loft evaluation right now. . What they have to do is get [00:10:00] the capital they need to survive and to thrive and think long term on how this is gonna get through this period of uncertainty, which could last, you know, the next couple of years.

And then they'll come out stronger than before. If you tighten your belt and you do the right thing and you stay, stay the course, I I did that answer your. . Yes.

Hall Martin: Yes. And I agree. You know, some people call it the new normal I, I call it the old normal. We're simply going back to the way business used to be before the pandemic where interest rates weren't zero and valuations had to be real.

And so I agree, it's a change in the market for sure.

Derren Burrell: Yeah. And what a better way to do that though, with those people that have dual use technologies that can help offset some of the uncertainty in the economy. By utilizing, you know, government procurement and contracting opportunities. So that's why we like the veterans in the national Security and defense space.

because they can kind of have these, you know, it's dual use, so it has public and private use, but you get a [00:11:00] couple of government con, I mean, the government's gonna spend more money in periods of uncertainty as opposed to what happens in what we're seeing in the private sector where all these layoffs are occurring.

You need to hedge your bench.

Hall Martin: Right. And so what do you think is the biggest change we'll see for veterans startup businesses in the coming two or three years? What trends do you see coming up that may

Derren Burrell: change things? Well, I, I think that there is gonna, A mindset adjustment in terms of valuation. Okay.

Because it's, it, there is a, like you said, the old normal is coming back and a lot of people that have started businesses during Covid never saw that normal, right? They're used to these high multiples. Those multiples are just gonna come down. And so people need to be prepping for that because, you know, the people like me that run a fund and, and that have a, a set up investor bases.

We're in the business of trying to make a return for those folks. And so there's gonna be a, a level setting on both the investor side as well as the entrepreneur side. And so I think that's gonna be something that's [00:12:00] affect the startup ecosystem and also the follow on opportunities. They're not gonna see huge jumps in valuation from one round to the next.

I'm not so sure you'll see declines if you, uh, if you price the first round. , but you may not see a hundred percent growth in one year, just like you, like you have seen over the last several years. And so I just think the, the multiples will come down. They'll contract and we'll see. We'll see that right now.

I think a lot of the businesses that we're seeing, they haven't fully realized that yet. They're coming around. They're maybe not jumping as high as they feel they could. But we're, we're still hearing this is a bargain right now, and, and it may not be a bargain yet. You know, it may be worth, uh, continuing to sharpen the pencil and, and finding the right valuation to help both you and the better and the investor succeed.

I hope that

Hall Martin: makes sense. It certainly does. Well, let's talk about your fund in more detail. What exactly is your investment [00:13:00] thesis?

Derren Burrell: Yeah, so what we do, I kind of start off by saying it's like military shark Tank, right? We have veterans that come in and pitch us. They submit an application, but really what it comes down to is there's a lot of details when it comes to getting access to venture capital, right?

What we like to focus on and where our biggest value add. Is in our experience as veterans in dealing with the governmental bureaucracy when it comes to procurement contracting, non-dilutive funding like SBIRs and S sttr and the new Stratify and T five programs that the government has that help inject non-diluted funding.

into companies looking to do business with the government to really get over what they call the valley of death, you know, which is getting involved in, into government contracting that can sometimes take a while to pay off. Once it's there, it's a very lucrative proposition. It's just getting over that hump.

So they have programs to help you do that. So we invest in [00:14:00] veteran owned and veteran LED businesses. That's the bare minimum. , but we have specialty with about 80% of our portfolio that's gonna be in that national security and defense space. So you think you know security, whether that's cybersecurity, data security, physical security, those things like another subset would be logistics, think distribution, and even those areas like space and aerospace, drone technologies, high technology is where we, we like to focus and that's 80% of what we.

And again, what we want to help them do is they have to be post revenue. Typically, we're in the late seed early Series A. A lot of the companies as of late, over the last eight months, they've had about a million in revenue when they come to us. And so we invest in them to help them take that from a million in revenue to 10 million in revenue, and then on up.

So still early on in the, in the cycle to where more than likely the liquidation events are gonna be [00:15:00] mergers and acquisi. But we try to get in them, find out where their sweet spot is, and then find the right contacts across the the federal government, typically in the d od space as well, and get them opportunities for non-diluted funding on top of our equity investment.

And it's proven pretty lucrative because we've been able to double the equity investments through non-dilutive means year today. Great.

Hall Martin: Can you describe one or two portfolio companies that fit your thesis?

Derren Burrell: Yeah, so, um, couple of them. So we've deployed just over 5 million across 11 companies, and what we've seen is there's a, I'll go through the last couple that we've done.

Phase four is a satellite propulsion technology company. And so it's not building a satellites, it's building the engines that help those satellites stay in orbit longer, which helps give them a, a, a larger useful life using different. Different fuel than your typical satellites do. So this has got [00:16:00] tremendous applicability, both in the defense space is where Space Force, air Force, NASA has a great, uh, set of, uh, properties that allow it to compete better than, uh, some of its, uh, some of the other folks in the space.

So we deployed capital into them. They've since been able to get non-diluted funding on top of the fact it looks like they're gonna get another round of that too. , but that's what they're doing is they're looking at some of the commercial vendors to help outfit some of those satellite companies that are going up the, you know, just, uh, some of the big names and as well as some of the smaller ones as well.

But they're also engaged with, uh, the different service components in the military to help bring this technology into the government as. That's one phase four. Another one is N V T S. Uh, night Vision Technology Solutions. So that's a company that does a lot of really, when they came to us, they do a, this is not the night vision, like the [00:17:00] night vision goggles.

Think it's a little bit bigger, like, uh, on Humvees and the displays and the different, uh, even goes on. Navy ships and things like that. They have a lot of sales, but they had 'em more or less in the international scene because it's so hard to sell to the, to the d o d. So when they came to us, we helped 'em in getting their service disabled, better known status, which qualifies them for certain set of sides with the government.

We help them and, and are helping them get, uh, registered into, uh, the different procurement. That will allow them to sell back into the government cuz they've had millions themselves every year it's just a matter of getting them from a, you know, a 2 million year company to 20 million a year. Right? So we're helping them traverse those somewhat arduous contracting channels and uh, and help get them.

To the right people, the right program offices, the right conferences in front of the right people to [00:18:00] make sure that they know that they are a really good second order

Hall Martin: part supplier for,

Derren Burrell: uh, for these type of technologies. So I can keep on going on if you want, but uh, those are just two. And we have, again, just a robotics companies, a drone company, and we're pretty excited about the different technologies that, that are showing.

Great promise in the private sector, but also have a desire to bring this technology to, to the D O D that is looking for these types of things.

Hall Martin: Great. Well, let's talk about the challenges in this space. What do you see the veteran

Derren Burrell: founders struggling with the. There's a couple of ways you could kind of break this down and it, and it's an interesting dynamic problem.

Okay. Part of it is when I could tell you that the first six months that I was doing this several years ago, I had to convince people that Veteran Ventures Capital wasn't a nonprofit, because when I told 'em what we're doing, we're invested in veterans. They're like, oh, that's so great. You know, you're helping out veterans.

And I'm like, no. Look [00:19:00] at the history, look at what they've done over time, I mean, 60% of all CEOs in the eighties were, I think it was 80% actually were veterans in some capacity. You had an amazing run of World War II veterans came back and at started a businesses at the rate of 50% or higher. , all this great stuff, veterans are gonna make you money, Mr.

Investor. And so that was a little bit of an education because a lot of times when you think of, you know, how are we gonna help veterans, it turns in to be a, a nonprofit discussion. And while that's certainly noble, I'm glad we're that there are organizations out there that are doing that. You know, those people that need those help and the transition issues that they come with.

That's not the majority of the military. In fact, it's a really small minority. Most of them come out with an incredible skillset. With abilities of the same Fortune 500 c e o, they just don't have the same level playing field. Cuz you and I know that veteran-owned businesses are 30% less likely to receive venture [00:20:00] capital, even though statistically they outearn their non-veteran counterparts.

So there's this arbitrage there, getting in at a reasonable evaluation, scaling them up and seeing that exit event. Well, this is something that there's a, there's an education gap there. . And so I think that that's something that why that's their biggest limitation right now is access to capital and access to the same networks.

While someone was spending 20 years building up their Wall Street contact list, the veteran was out serving their country and defending their nation, so they come out of a service. Lacking the same networking capability. So we're trying to partner with, uh, light firms like ours, building out that ecosystem and making sure that they all have the same types of opportunities and access that some of the more seasoned professionals in the private side for longer periods of time have.

So that's a challenge. That I think veterans are starting to overcome because we're building out this ecosystem. There are more players in what I do than there ever has been [00:21:00] before, and we wanna partner with them. And I think that there's a sense there that there's more of a connection in the the VC space of veterans than there are maybe in others.

Hall Martin: And then what's the challenge the investor faces in working with veteran

Derren Burrell: based businesses? Very similar, right? It's this education piece. Some of the biggest companies on the planet were started by veterans. Still, there's a problem because it is a challenge to raise money for veteran entrepreneurs, veteran businesses, and although we've traversed it veteran funds, right?

There's probably, you know, real, there's less than 10 out there that do what we do in the same well then none of 'em do it in the same manner, but we do it. that have that focus on veterans. And so I think that there's an opportunity there, right? Because there's not a lot of people doing what we do. But there's also a challenge there that, that trying to get folks to, to see the value there.

It's a long-term play. And so [00:22:00] it's, it's an opportunity for us to continue to see the different, uh, you know, the billion dollar evaluations that come. You know, ID, me or Black Rifle coffee with their I P O and the different veteran businesses that are, that are, are making headways. We need to see more of that because then, you know what happens.

We see that military service could come the gateway to entrepreneurship. People could see that and say, you know, I wanna be like those guys. I better go serve my country. And they get there and they get the skillset, they get the tools, they get the education, the leadership, and they can come out with the same skillset to build these incredibly successful enterprises that are happening right now.

Hall Martin: Great. Well, you see a lot of different technologies, business models and opportunities in the, uh, the world there. If you could start a business tomorrow, what would that business be based on those new technologies. Wow, that's a great.

Derren Burrell: So one of the things that we do at V D [00:23:00] C is we look to see where we think the puck is gonna be and we skate there to it, right?

That's what Wayne Gretzky used to always say is, is, uh, I go to where I think the puck's gonna be. So we do that. We try to find out where the government is gonna allocate resources cuz they build a plan five years in advance and we see where they're gonna be allocating resources for the next five years or.

and we see current world events that are gonna help accentuate some of those areas. So what I would do is I would see that, you know, I see that there's a huge opportunity in cybersecurity. Okay. And building out the defense of the nation's energy grid and safeguarding the new frontier of space and space.

So I would probably focus in those two areas and in the cyber realm and in the space realm if I was to start a new uh, company right now. Cuz we know that the government [00:24:00] is looking for those types of requirements to come into the world. That's great.

Hall Martin: So a great new opportunity there in the last few minutes that we have.

What else should we cover that we haven't?

Derren Burrell: Well, I think the network is growing and what I would like to say is if you have, um, great opportunities from both the entrepreneurial. , like I said, the ecosystem is growing around us, but we would love to be a part of seeing these companies scale. We obviously can't invest in every one of them, but we still try to help out every, every business that comes across the desk, right, in some way, shape or form, building out their network and bringing in a couple more people that may take them.

Cuz typically the, you know, a lot of people pitch when they're not ready for venture capital. They're more or less in the angel investment stage and things like that. So we can help them in those area. So I would encourage those people to reach out. Sure. You're gonna talk about our website and the, the application process there, but also, you know, as we can, we certainly wanna see [00:25:00] a fund two and a fund three and start building out that Rolodex, if you will.

So if there's people that wanna invest in what we do, By all means have them also get in contact with us. We're gonna see some really nice exits in our our first fund and it's gonna set the foundation for future opportunities for investors to get engaged with us. Well that's great. So

Hall Martin: how best for listeners to get back in touch with you?

Derren Burrell: Well, again, better. A Ventures Us is the website and they're more than welcome. There's plenty of contact information from that website. Follow us on LinkedIn. That's our chosen mode of getting the word out on opportunities on investments on. Trends and just the, you know, our thought content we've published there pretty routinely, couple times a week.

So those are the two main ways to do that, and I'm certainly happy to talk with folks after listening to the, to the podcast who I'm sure that they can always get, uh, to me through you as well.

Hall Martin: Great. We'll include those in the show notes. Wanna thank you for joining us today and hope you have you back for a follow up

Derren Burrell: soon.

Thank you [00:26:00] so much again, Paul, I appreciate what you're doing. Spreading the word about the different opportunities that come across your desk, what you've done, and the amount of, I guess, catalyst that you provide to the startup community through 10 capital is truly, it's noteworthy and I just really appreciate, uh, you allowing us the time here to kind of tell our story.

But on the bigger, bigger side is that you've done that for so many people and, and it's greatly appreci. Well, thank you so much for

Hall Martin: that. And with that, we'll go for now. Investor Connect helps investors interested in startup funding in this podcast series. Experience Investors share their experience and advice.

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Derren Burrell: Hall Team Martin

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