Transcript Brett Calhoun

Hall T. Martin: Hello, this is Hall Martin with Investor Connect. Today I'm here with Brett Calhoun, managing director and partner of Scale. VC Scale is an accelerator fund for venture studio investing, monetary and social capital, and early-stage tech founders. Brett, thank you for joining us.

Brett Calhoun: Thanks for having me, hall. Look forward to diving in.

Hall T. Martin: Great. And so where are you calling from today?

Brett Calhoun: [00:31:00] I'm in Columbia, Missouri.

Hall T. Martin: Great. Great. well let's start off with your background. What did you do before?

Brett Calhoun: Yep. So my career, I started out in accounting, finance. I did the CPA route, never did public accounting. I did more evaluation work for, sell side m and a litigations or purchase price allocations, or tax purposes.

And then, uh, when I was in grad school, getting my mva, university of Missouri, had the opportunity to dip my toes into the venture world and worked with an accelerator. Here in Columbia, it's not around anymore. The fund's been since been deployed and fell in love with the opportunity to help other founders build companies and invest in them and help them get the resources, network effects and knowledge that they need to get to the next level.

, from there, I had the opportunity to work with one of our portfolio companies. Umm, an early employee, a company called Patient Technologies, which they just raised about a 40 million round and they're still based here in Columbia, Missouri.[00:32:00] So I worked with operations and strategy there, worked on pricing, get the market, um, and some different product ideas that we were trying to roll out.

then I had the opportunity to work with the first ventured, capital flowing focus on legal technology called the Legal Tech Fund. And, um, we had done our first capital call when I was there and. , we actually incubated a company called Cap Gaines, which is a, um, FinTech building software for complex tax incentives, starting with qualified small business stock, which everybody listening to this call is probably concerned with Q sbs because if you are a shareholder in a early

stage tech startup, but you probably have that, which when you exit that company in five years, you don't pay taxes on those capital gains.

And we're helping people realize, , that tax instead of, and then. Around the same time, I also co-founded a company called Charlie Mike, which is a lending startup for veterans. So we were, , really aligning the entire value chain where we would bring in loan officers and help them close more loans by giving their borrowers more access to capital [00:33:00] for the closing costs.

So VA mortgages or 100% finance, but there still is, , a lot of expenses for the closing costs at the end. , and so we could automate that with no underwriting. And we had quickly within 12 months scaled that to a little over 1 million in a r r. all this leading into what I do at scale now, which is investing in really early stage companies and kind of also working on the front lines with them and helping 'em build the trenches.

Well, that's great.

Hall T. Martin: Well, tell us more about starting a business with venture capital. How is this different from any other business?

Brett Calhoun: Yeah, so most businesses or traditional companies, you're starting, it's at the very beginning. You're really concerned about the cash flows and then taking those cash flows or capital and reinvesting it in the company.

and you might have assets that you're financing, so you have the ability to get some, some lending or, or debt financing from a bank to collateralize those assets. But in venture, , it's a much higher ceiling where you're looking to. built a global company or a national company into a multi-billion dollar [00:34:00] business.

And the capital that you're getting from the operations of the company of reinvesting is just not enough to reach that scale and the amount of time that it would take. And so starting a company venture, obviously you still go back to the first principles of starting a company, which is completely focused on the customer and, and spending a lot of time in customer discovery, and product discovery.

To take it to the next level and really scale that company once you hit product market fit is impossible to do without venture capital. , and so in my opinion, venture capital is one of the greatest things for our economy today. And it's, I

believe 60% of the market share in public companies were backed by venture capital.

And I think 40% of the economic output comes from venture capital backed companies. And so, That's also said, I mean, that capital's being directed towards more than just, you know, traditional, local or regional business. It's, it's international, national company. So that would be the biggest difference in my opinion.[00:35:00]

Hall T. Martin: And what is the opportunity? How much is invested in venture capital and what are the possibilities here?

Brett Calhoun: Oh gosh. Was it 200 billion or, I can't remember what it was. I'd have to hold my, my PitchBook stat book. I just saw this the other day, mul, it was billions of dollars invested in venture, which is just a very small percentage of private equity in general.

but that, that multi-billion dollars adventure results in trillion dollar outcomes. And,

yeah. I would say some of the challenges with starting a business with venture capital funding is one. , you know, if you're a first time founder, trying to navigate the venture network is really hard. So there's a few, especially coming from the Midwest.

if you don't have the network effects starting out, it's very challenging or the knowledge sharing. So if you look at the Midwest, historically there's been massive capital constraints and those capital constraint. Also result in, , people leaving. So [00:36:00] you lose talent because there's a lack of capital here.

Um, then you start losing network effects and which are one of the most important things, because you're losing the network effects. It just, this wheel just keeps turning So it's really important to get access to the right mentors and other founders who have built companies who can connect you to investors and share knowledge with how to, pitch investors and articulate what you're doing and how that's different from articulating it to investors or future employees.

there's other constraints as well. , you know, if you're an immigrant founder or, , you. Founder from an ecosystem that has never really been exposed to venture. the other challenges are pairing this, the need to raise capital with also the need to talk to customers and sell your product and get out there and, and build it.

And a lot of companies get into this chicken and egg problem where depending on the industry of product you're building, , if you get into a position where it's, you know what you need to build, [00:37:00] but you can't build it without the capital, but the investors won't give you capital until you've built the product and shown traction.

so that is one of the biggest challenges and venture. , and then a lot of founders I see will try to build companies or raise capital based upon an idea, and maybe they have done a lot of customer discovery, but they don't have any technical founders on the team. And so they're raising capital to hire an outsource dev.

Which turns into massive problems in the long term with tech debt because you're then raising capital to go hire a dev shop that at the end you might run out of capital and end up with a half done product, or you know the product that is really hard to change and you don't know the ins and outs of it because you weren't the product manager as the founder.

Every company that's been built should be built. The founder should be the product manager of that company. So you have to have somebody technical on the team. other problems I see are, the fact that a lot of people when starting their company envision that you [00:38:00] immediately have to raise capital.

one of the biggest wins to check off on your book is that you're raising capital and this is high profile and you have to get PR and all this stuff. But what that clouds is that you have to go back to first principles and focus on, , talking to customers. and then taking that what you're listening to from customers into a product and building a solution and being really scrappy in the early days, you might even not have to raise capital.

You might tell yourself, you think you have to raise capital because that's what everybody else does, but a lot of times you don't even need to raise capital unit. So, I'm don't, a lot of times I'm talking to founders, it's, let's build out a cash per model. Let's understand what you need capital for, and do you actually need it or do you want it?

Because what is important now is building the right product and getting traction and being able to iterate on what the minimum viable product is. Now, it doesn't mean building a perfect product, it's building something that you can learn from and distribute. because a lot of times it's the person that's always the [00:39:00] innovator and trying to build a perfect thing often loses to the person that builds a minimum product that learns how to distribute that to their community of, customer.

And a symptom of building a really good product and distributing it is the opportunity to raise capital and funding from investors.

Hall T. Martin: That's great. So, so how much your company's selling for it here, what's the potential reward?

Brett Calhoun: How much are companies selling for in venture capital? well after 2022 it was, I think that was our biggest downturn in m and a in history.

Um, I don't know if companies are selling at all in general. but in terms of scale, our companies that we've invested in, we have not had any exits yet. We, we made our first investments September, 2021. So our 2021 vintage is not quite seasoned to the point where there's any exits yet. If there was, that would be insane for our LPs.

So I can't necessarily say we're generalists that we're operating in industries, many different industries, which, you know, if you look at R Tech as opposed [00:40:00] to software or the location, the, the, the valuations that companies are raising at are gonna be fluctuating, based on those data points. So I don't, I don't have a lot of good data right now on what companies are selling for.

it also depends too, like if your acquirer is a strategic acquirer, If it's somebody who's trying to, shut your company down, I mean, it's, it really just depends.

Right. So

Hall T. Martin: there are many, many venture studios out there. What, helps you stand apart from the

Brett Calhoun: others? Yeah, so the studio model, has been around for a little while. It started to become a little bit of a trend and historically the studio model has. , you have an entire army of engineers, branding, marketing, sales people, and you position them on an idea that you do some research on.

You build the first product and you start testing in the market and then you say, Hey, let's go out and find an operator, run this company and take it to the next level.[00:41:00] , that's a great, the downside of doing that is that the perks that you're bringing in to be the CEO, founder, comes in when the company's already partially built and it's hard for them to, have a personal connection with that company, similar to somebody who starts a company from ground zero.

, so how we've tried to think about this model is, sure we have internal ideas as a team of builders, and we'll go do some research on our hypothesis for that particular. and then we go source, founders who are operators and technical people to come in and build that company, be the founder of it, and give them the bulk of the equity in that company so they feel like it's theirs and they're incentivized to go through the constraints, the rough nights, the downturns of that company.

And we don't surround them with a team. We say you're gonna get the same investment as our accelerator companies. We want you to feel the same capital. And resource constraints as a typical founder, because those [00:42:00] constraints unlock creativity. And the founders that normalize those constraints, use those constraints as a power, , to build their company and, and produce outsized alpha.

And so we don't necessarily like to arm people with an entire team and have all the resources in the world to start out of a company because, it's, in my opinion, setting people up for failure in the long ball. . So how we've done it too is, you know, we, we do surround those founders that we bring in with really strong mentors.

So, my partners at scale have built a company called Equipment Share, which they started in 2015, then went through yc and it's now, uh, a multi-billion dollar company and they've got, I don't know, four or 5,000 employees. And so a lot of their learnings. Regurgitated back into the founders that we're bringing in through scale.

we're not trying to remove the constraints, but remove some of the necessary barriers that you will face down the road with your company and the insights that you might not gain until your three or four years into building.

Hall T. Martin: And so what advice would you [00:43:00] give to someone entering the uh, VC startup space?

Brett Calhoun: The advice I would give is, when you first enter the VC space, you see all these companies and, everything is, is somewhat new. There's all these technologies. It seems very cool. you just kind of want to invest in everything.

And what I would say is to try to take a step back, and this might be a bad word, but take a more cynical approach. , not be a champion right away with every company and to really, to really dig in and understand why that company's a

good investment. I would also say a big thing that's helped me is, continuously reading in consuming content.

to be honest, like venture capital is a life. . And so it's always reading books, reading articles, listening to podcasts, networking with people, and trying to understand how other people are thinking and how they're approaching venture capital.[00:44:00] and to keep an open mind about it. So you have your own personal opinion and you wanna say true that opinion, but have the opportunity to mold it based upon some of the new things that you're learning, in the ecosystem that's ever changing.

I mean, venture today is completely different than it was 10 years. , and I've seen so many investors who, like to stick with what was happening 10, 20 years ago and just they were very hesitant to change with the market. , and another thing I would do is constantly, be talking to, depending on what industry you're investing in, um, for us, we're agnostic.

So it's, it is somewhat hard, but if you have a focus or a thematic fund, Always talking and doing your own customer discovery as if you're a founder, so that you understand the intricacies of that particular market and you're talking the deeper boots on the ground and listening to those customers.

Because in order to really make sound investments, you have to understand, the products that are being sold to the end customer of those companies. [00:45:00] Or, , you're just flying blind in. .

Hall T. Martin: Great. Well, what online information source do you find most helpful in your work?

Brett Calhoun: It was a lot. Um, I'm always on, uh, I probably have to read, I don't know, a dozen or two medium articles a week.

there's a lot of good authors on there. I've got quite a few newsletters that come through, and one way that. Dig into this content is I do a newsletter every month where we take in probably, I don't know, a hundred, 200 articles and different podcasts and different news sources, data points, and filter through those every single month.

And so, , the newsletter obviously is to get scale's name out there and. you know, provide value to our readers, but it's also a source that forces me to keep constant on what's happening in the market and continue my learning. I would say some pretty good podcasts just throughout their, obviously investor connect.

the full rat [00:46:00] is a good one. I listened to 20 dc obviously you have to everything you're, you're bringing, you do have to keep with the grain of salt though. but particular for markets, I, I would say content that I'm consuming is I do actually, I still take some continued classes on various things, whether it's on AI or financial modeling or whatever it is.

So, It's a constant, if you're gonna exceed in this industry, you can never stop learning. I mean, that's, said for any industry, but particularly at literature capital, when things are changing, like within seconds, it feels like, the continuous learning is even more crucial.

Hall T. Martin: Well, you see a lot of new business models and new technologies out there.

If you could start a business tomorrow, what would that business be?

Brett Calhoun: if I could start a business tomorrow.

This is hot boy. I would say if I could start a business tomorrow, it would be something within, physical infrastructure. And that said, [00:47:00] because I think we're probably a hundred years behind in physical infrastructure as we are with software, I mean there's still so much opportunity for advancements in software, but with infrastructure or software for infrastructure.

That has to do with construction and, property technology is so far behind and that's, you know, the largest industry in the world. It's a 14 trillion industry, so at least construction is. and I think with the new improvements with, going towards clean energy in, in existing buildings, like there is so much opportunity.

And then if you just look at particular niches, for example, buying and selling a home, it is still napkin paper, like operations. And, whether a real estate agents will be replaced in the future, I don't know. . What I do know is, is that a lot of their work is, very monotonous and has had little innovation.

Um, I'd say like [00:48:00] greatest innovation in that space has probably been just having a Google spreadsheet where you can put your borrowers that you're talking to. And so it would probably be something operating within, , tools to enhance real estate agents and buy the buying and selling home process.

Great.

Hall T. Martin: Well, last question is in the last minutes that we have, what else should we cover that we haven't?

Brett Calhoun: Um, yeah, I mean, I can, I can talk a little bit about some of the initiatives that we're doing at scale, right? and the first one is we're putting on Missouri Startup Weekend on March 10th, and historically it's originally was called Columbia Startup Weekend, now rebranded it the Missouri Startup Weekend.

And historically it's been a very successful event where people come in and pitch ideas and then you form teams and work on those over the weekend and pitch it to judges, and then there's a winner at. the winner goes through our, our next cohort. But anyways, some of, there's some very high profile winners.

[00:49:00] previously at Columbia Startup weekend, one being Zappier, which started in Columbia, Missouri. It's now a top 25 YC company, multi-billion dollar company. The second is a equipment chair. It's a top 25 YC company as well. Dollar company. And last year our winner, pitched our idea, went through scale and within eight months, got.

double digit m r r and also had turb sheets from multiple VC funds. So we're putting that on in March 10th and trying to break together, , a community of, builders from across Missouri and beyond. Another thing is we started a, a community called Flyover Tech. And if you think about all the under capitalized or flyover markets across the us, they're very fragmented.

And so you think you Silicon Valley. What makes it so great is that there's a constant feedback loop with investors, founders, customers, and there's always growing network effects, growing knowledge. . Now, if you look at flab states, it's like you [00:50:00] take, , Silicon Valley and just stretch it out, okay? And you start, once you stretch this out, you start losing this feedback loop.

You start losing the access, the quick access to knowledge sharing. And so you have all these nodes across flab states that are disconnected. And so we started flyover tech to try to connect people in Columbia, Missouri, to Columbus, Ohio, to Chicago, to Wisconsin. , and create a better feedback loop, a better ecosystem where people are collaborating together.

Cuz there's a lot of great ecosystems within these fiver territories. But alone, they're not great, they're just good. , to get to the point where you're like a Silicon Valley in New York, you have to work together. So we started that and

then we've got, we've also got a talent network. couple hundred people in it for our companies.

So we source talent from across the US for our companies and scale because we're investing, you know, pre-product, pre-revenue in most cases. And, these companies are really early trying to look for their first engineering hires. And so we've, we've done that as [00:51:00] well, built that up. That's about it.

Hall T. Martin: Well, great. So how best for listeners to get back in

Brett Calhoun: touch with. . Yep. Best way to get in touch with me is through my email, which is brett@scalevc.com.

Hall T. Martin: Great. We'll include that in the show notes. Wanna thank you for joining us today and hope to have you back for a follow up soon.

Brett Calhoun: Awesome. Thank you

Hall T. Martin: all.