

HOW to raise funding 08

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Welcome to another insightful episode of the Investor Connect Podcast. I'm your host, Hal T. Martin. In today's conversation, I had the privilege of discussing various facets of the startup ecosystem with another guest. In this conversation, our guest shares his experience from a crowdfunding campaign shedding light on the complexities of gaining user traction and the innovative use of AI and speech [00:00:20] recognition technology in education.

We talk about the strategic transition from crowdfunding to private placement, encompassing concepts such as safe notes, convertible notes, and considerations for attracting larger investments. This episode offers a wealth of insights into the intricacies of startup funding and business development.

Let's dive in.

Hall T. Martin: Anyhow Hey [00:00:40] Scott, thanks for joining. How you doing? Good. Doing good. Looking forward to catching up. How are things going for you guys?

Guest: It's good. Good. I'm just, uh, I'm just out in Phoenix actually. So I just got here a little bit ago. I was at a conference for a couple of days and, um, I figured I'd sit outside and then sit by the cactus

Hall T. Martin: here.

Oh, cool. So yeah. [00:01:00] Where are you? Where are you based out of? We're in Austin, Austin, Texas.

Guest: Yeah, yeah, hopefully we'll be there in, um, I think it's March for the, uh, South, South by Southwest conference, uh, conference I applied as a, uh, to do a pitch debate there for, our organization and their, their ed tech conference.

Hall T. Martin: [00:01:20] Okay, great. Great. Yeah.

Guest: Yeah. So tell me about yourself. I like I saw your stuff, saw your website. I appreciate you reaching out. I don't even know how you found me, but I'd love to hear a little

Hall T. Martin: bit more about yourself. Sure. My background is I started three angel networks in Texas back in 2006, seven and eight, C10 was the first, Baylor was the second, Wilco was the third, [00:01:40] had a lot of fun doing angel work.

So I retired from my day job at National Instruments, now called NI, and started working on angel groups and forming capital. We called ourselves originally Texas Entrepreneurs Network and we'll focus on Texas. It just kept increasing. Our investor pool went from 2010 to 15. I was going to the [00:02:00] Bay Area one week, New York the other week to find VCs for my angel led deals.

Then we had a whole bunch of family offices come in in 2016 that wanted to do the deals direct. 2017, I was getting calls from outside of Texas wanting access to our investor network. Time is 5, 000 today is 20 and they, uh, went national with our [00:02:20] program and changed our name from Texas entrepreneurs network to 10 capital.

That's what 10 stands for and started doing a program around the country. And at heart is, uh, investor relations. We help investors, you know, get connected with startups and help tell the story and help follow up to close. And then for angel groups, we helped them find members and for BC [00:02:40] funds. We helped them find limited.

Uh, we only charge the, uh, the startups, the VC funds and so forth. They, they do barter arrangements for us. They give us feedback and they coach our deals and all those good things. So that's how we work. We, we have worked with a fair number of WeFunder campaigns and crowdfunding. Our angels, uh, [00:03:00] you know, are very familiar with that.

And for those deals, they, they punch money in on the portal instead of giving it to the, And so they always ask me which, which way am I doing it on this one? Do I get to the portal or do I give it to the founder? And, uh, so we, we have angels that come in on these campaigns. The VC is not so much family offices, not so much, but the angels certainly do.[00:03:20]

I always ask about, you know, do you have any credit investor rates coming afterwards because. If you do that, then it's better to use this then because you'll get 50 K checks. If you do the refund or thing, which you can do, you get more like 5 K checks. And so I hate to leave 45 K on the table, but if you're only doing this, that's, that's one way to do it.

[00:03:40] So we, we get, we come into a number of these campaigns and run a three month. Program, mail it out to our network, explain what it is, get people interested and see if we can drive it in. We, we do need to figure out how to track our results. Some people just put us into the big bucket and at the end, they, they wonder where, what came from you?

What came from me? And so, [00:04:00] uh, you do have to kind of figure out maybe a separate link or whatever. How do we track where people come from? Cause we've had people, good money from our deals, but not quite know how much or when or where. fee is a monthly retainer 3k a month for a three month commitment after that it goes month to month Uh, so that's that's how we work and what we do Uh, some people, you know been in [00:04:20] the program, you know Five six seven months other people program just three months and they get to where they need to go So that's how we work and what we do.

Yeah, that's pretty cool I mean,

Guest: I I wish I wish I would have connected with you. I mean, there's been so many people that i've connected with After I've kind of gone live and, um, you know, I just, if I would have done this all [00:04:40] over, I would have totally done a different, you know, I think that's just very typical, but, we started out with a, uh, crowd fundraise and, um, it just fell flat on the space.

I ended up, ended up not doing like a big portal. I ended up kind of doing my own thing on, my own Island. Cause I was, was told that this is the best way you can control your [00:05:00] leads. You can kind of control the lead flow. And, um, the marketing agency that told me that this is, this is a great way to go.

And I kind of had all these other people lined up, they ended up walking away from me. they closed their building, closed their shop after taking a bunch of money from me. So I ended up, uh, [00:05:20] My uh crowd fundraise did not go so great

Hall T. Martin: So i'm good. I got you.

Guest: Yeah.

Yeah, so I uh, I still have it out there. Um, Only because i've spent so much money on it I figured I might as well just leave it out there right now but what i've been doing in the meantime is really just I have just been Pumping it out to

so many different [00:05:40] people, uh, on, you know, different investor networks and stuff like that.

And just driving kind of, uh, I spent a lot of money on my own time, , building out the rest of the platform. So it is self funded bootstrap. You know, I've got probably over 350, 000 into it at this point. So, um, you know, [00:06:00] we launched on November 1st and, um, super cool product. I worked with CMU, Carnegie Mellon university, and, uh, we basically have integrated AI and speech recognition to, to build a platform that really, um.

Really has a, make an impact on, on, on a lot of kids, both in [00:06:20] the U S and abroad, in fact, they just, I got a call with another guy after this. He's got access to 15, 15 million, international. Online students that are, that are going through a bilingual, English, English language. So he was really interested in what we were doing, [00:06:40] especially in the generative AI space.

so we're talking to him. So I think if I can, if I can figure out how to put a deal together with some users, cause that's what most of these guys have been saying to me in the last couple of weeks is, Oh yeah, well you, it's great. You got a product, but. where's your users? Yeah. it's always, it's either you're too early or you're not, [00:07:00] you're not far enough along.

And, uh, That's kind of why I mentioned you today on my email. Like, you know, I don't know. Yeah, I got 20 guys we're talking to, you know, and I feel like, you know, something's going to pop, but I don't trust, I just don't trust anybody to come through, you know? And cause I, cause I got burnt. so just trying to figure out what the best [00:07:20] option.

So, so we have, have you ever heard of, um, core connects? Uh, no. Yeah. So core connects basically is our, um. electronic back office for all of our investor portal. So they basically handle the, it's the platform that connects into [00:07:40] the payment rails that handles the investment. they, they manage the cap table.

They manage my 10 K's, you know, all that stuff. spelled with a K K O R. E connects, uh, C O N X, I

Hall T. Martin: think it is. Okay. All right. That sounds cool.

Guest: Yeah. So, so [00:08:00] basically, which is, which is cool because then we basically have a platform that, um, you know, we can bring in any investor at any time.

I assume most of your investor network is all accredited. Is that correct? Ours

Hall T. Martin: are all accredited. Yeah. They can invest as much as they want to in the deal. Yeah.

Guest: Yeah. And so most of your deals, would you say, ranging, what, 50, you know, [00:08:20] 50, 000 plus. Is that kind of what you

Hall T. Martin: said? You mean number of investors or a dollar invested?

Dollars invested. So the angels write, you know, 25 50 K checks and the high net worth write a hundred and the family offices write two 50 and the VCs write one 50 to 500 depending upon the size of the fund. Crowdfunding campaigns, I find they [00:08:40] often come in a lot lower. Five 10 K is what the, you often see 'em come in, which is, for some deals is a good deal.

They'll, they'll do it for five or 10, but they wouldn't do it for 25. So in one sense, you do get more checks out of it that way. So those are the average numbers we see. Yeah, I mean,

Guest: I'm gonna, I was thinking of just dumping my, my reg CF and just move into a reg D. You know, what [00:09:00] are, what are your thoughts on that?

Well, if you're not getting

Hall T. Martin: traction with the Rec CF, I recommend it. I get a lot of people coming to me saying I was spending all day trying to convince people to put in 500 when I should have been spending my time convincing him to put in 50 K because it was the same amount of work. So upfront, we always recommend do the angel thing first, get a market rate.[00:09:20]

Uh, valuation on it. We do get people thinking that they're just worth 50 million because, you know, they're, they're, they're cool and they're on rec CF, but that's not really the case. When you go to angels, they, they, they aren't putting money. You know, most, most crowd funders aren't looking at that, but.

All angels look at that very hard. So you want to get a market rate valuation. And you [00:09:40] really want to work these guys for 50k checks, not a mass market for 500 credit card clicks or whatever we're doing. So that's, that's why we recommend it to do the angel thing first. So if you're not getting much traction on the.

Rec CF, I would go ahead and step out and do the Rec D thing and then go back to Rec CF on the back end, because I've had people [00:10:00] raise good money on the Rec D and then on the back end, they go raise another 500K. Typically, if you're doing Rec CF, you need a network of 10, 000 to go to. If you have that in your network, that's great.

If you don't, that, that can be very expensive to pay for in social media and email marketing spend. So you gotta, you gotta think hard. [00:10:20] Do I really have the. The network to do a reg cf and the platforms will do something for you But on average platforms like we fund and others it's more like one to two percent of the fundraisers will come from them The other 98 is coming from you.

So, you know where the the load is going to sit. It's going to be on your shoulders That's why reg [00:10:40] reg d you can go work 20 guys a lot easier. You can work 10 000. So anyway

Guest: what are your thoughts on uh doing a save? Uh, versus having to get a valuation. It kind of takes an evaluation,

Hall T. Martin: but mostly it'll start with a convertible note or a safe note with safe notes.

You want to post money safe note because investors have tuned into the fact that [00:11:00] pre money safe note can vary their investment ownership based on how much you raise, which can change from what you start with. Post money safe note is fixed. They know what they're going to get. And Evaluation cap is better for them and safe and convertible node.

I can go either way with those. I like convertible nodes myself, , as well, but, uh, still, [00:11:20] uh, it's up to

Guest: you. Yeah. I mean, I was, I was thinking of kind of going in that direction as I, kind of shift gears here, and just whether it be. My one investor, he's like, he's like a 250 guy, he said that, uh, he'd want to have some sort of cap, because he said he said he just got burned on a pretty big deal that ended up [00:11:40] going to market at like a hundred million versus where they, where they thought I was going to go to market.

so I don't know, I don't know how I feel about that. I don't know if that's hurts me or helps me, but. You know, I think, uh, getting the right capital structure in

place upfront is important. so you have a network and, you typically, do you just email out to your [00:12:00] group?

Is that what you

Hall T. Martin: do? Yeah, we use email to reach out to them. And we, if you joined today. I'll see how to sign up. But if you join today, we would have an onboarding call tomorrow, basically putting an intro mailing together that we're going to put to out to the network in about a week to generate interest.

You when I just did yesterday had 900 people expressed [00:12:20] interest in it. I'll be a cursory. And then we do updates to them. We invite them to hear you pitch on our events. And we just start working that group through the process. It does help to have some, growth story going on. There's something happening in the deal that gets people excited about it.

So if we're sitting there with nothing happening, it can be hard to do for sure.
[00:12:40]

Guest: Yeah, I think, I think the challenge is, is that I, you know, I spent all my money on development. and I built a really cool platform, so it has a great story to it. And I just need to get, I need to get users. so, I'm, that's why I'm talking to this guy.

And if I can, if I get some traction, you know, generate a couple of thousand users, three or 4, 000 users, [00:13:00] uh, that's a pretty good story right there. Just to kind of, kind of get it going. so why don't we do this? I got a lot of calls this week and next week. Let me see how those go. If, um, you know, in timing might not be good with the holidays.

Um, you know, do you usually, is there anything that happens at the end of the [00:13:20] year, tax reasons for these guys? Are they looking for any, any benefit or is there anything that I'm not thinking of that I should know

Hall T. Martin: about? Not really. Uh, in our program, if you have the last two weeks of December are pretty well, everybody's off.

So if your campaign goes over the last two weeks, we'll just give you two weeks on the back end of the campaign. So you don't, you don't [00:13:40] lose that time. Some people use December as a time to get the mailer together, get it out, build a list, and then go after him hard in January. That's fair game to do. So, you can always do that or you wait till January to kick it off.

So either way it works. But you don't lose anything if you go over the holiday.

Guest: Yeah, so, so you're, you're gonna collect three grand a month [00:14:00] for three months. And, um, And then you're also going to get paid something on the by the investor. Is that correct? Well, no,

Hall T. Martin: the investors, uh, don't pay us. They're doing the diligence and they're putting in the dollars.

So they, they don't typically pay for deal flow. Uh, some have search funds. They pay for very specific things, but that's, that's not, [00:14:20] not every case. there's no broker. Or anything like that on our deal. It's just a retainer. I looked at the broker model but found out I was gonna lose my angel groups and VC funds 'cause they don't allow brokers in the deal for the most part.

And we want to use those guys a lot. So, and we make good use of angel networks and syndicate funds through our program as well. [00:14:40]

Guest: Okay. So your, so your fee, your fee is just nine grand basically? Yeah, just the

Hall T. Martin: retainer

Guest: is all it is. Pretty straightforward. And then you just help, help get the deal up there and kind of facilitate the

Hall T. Martin: campaign, meet investors, close investors.

We have a process funding funnel and so forth that we use to work people through trying to get to them to [00:15:00] join, uh, and then getting out and, uh, showcasing that they're, they're looking for momentum and traction in the deal. So how do we showcase that? So we had to find ways to show that things are moving forward.

Yeah. What

Guest: is your, um, what would you say your average raise is?

Hall T. Martin: Well, in the life science space is three to 5 million for a seat for tech. [00:15:20] It's really more like, seven 50 to one and a half million dollars. Yeah. The first raise is really the minimum raise. It's not the maximum because

your evaluation's low as you get more sales team and product and traction, you know, you can raise the valuation.

And if you're raising a large amount, like 2 million, we'd break it down [00:15:40] into two or three steps. You know, the first 500 next, uh. Uh, 1, 000, 000 next, uh, 750, something like that. So and you raise the valuation from 1 step to the next is what you do.

Guest: it? And I know you probably can't even answer this question, but what's a realistic valuation in terms of, uh, like that 1st step in a 2nd to the 2nd [00:16:00] step just to kind of get.

Hall T. Martin: So you want to make the first one really, really interesting for investors because you're that's the hard one trying to get people to come in first. So you make that like 3 million dollars. Next one goes to 5 and next one goes to 7 or, you know, you step it up by 50%. It's what you do. And the idea is it creates if you want that really [00:16:20] nice price money at 3 million, you have to come in early.

And that's that's if you structure it that way that can incentivize people to come in early. And once you get the first round closed, you have a win and that helps provide momentum for the second and third round. When you get 70 percent of the way through the round, you declare in six weeks for closing [00:16:40] who wants to be in and then start driving people through, you know, talking about all the interest and committed funds that you have coming in.

Do you get people a sense that, of urgency that goes with it? I

Guest: got it. All right. Well, let me do this. Like I said, let me get through the next, um, let me see how the thing calls go the next couple of weeks. And that [00:17:00] includes, you know, user growth, which I think will feed into the story. And um, you know, I'll reach out to you if, um, if I'm not feeling like we're going to get the traction, cause I, I need to get, I need to get some traction here.

And I also am waiting for a big grant to come in. from a local foundation, [00:17:20] so that's like, uh, you know, non dilutive capital million two. So if that one, if that one hits, that would be great. I mean, is that, is that a good story? That's a great

Hall T. Martin: growth story. There shows validation. People believe in your product technology and space.

So that'd be a helpful thing.

Guest: Cool. So let's do that. And if, uh, [00:17:40] as soon as I get you, get some good information coming in, I'll make sure I keep

Hall T. Martin: you in the loop. Okay. Sure. I'll send you an email about how we work and I'll see any campaign proposal. You can look at your, look at that with your team and decide when the right time is and go from there.

Guest: That's awesome. I really appreciate your time, pal. All right. Thanks so much. Have a good one. All right. Yep. I'll see you. Bye

.

And with that, [00:18:00] we conclude another insightful episode of the Investor Connect podcast. A sincere thank you to our guests for sharing their valuable insights into the intricacies of the startup landscape. From delving into the challenges of crowdfunding to the transformative potential of AI in education.

Our discussion covered a broad spectrum of vital topics. Your feedback is pivotal in shaping the trajectory of our future [00:18:20] episodes. So please feel free to share your thoughts, questions, or suggestions. I appreciate your time and attention. This is Hall T. Martin until next time, stay informed and happy investing.