HTRF 17

[00:00:00]

Guest: Sherry. Thanks for joining. Hi, Hal. Nice to meet you. Nice to meet you as well. Are we Yeah. Where are you coming from? We're in Austin, Texas. How about you? Oh, amazing. ~~Um,~~ I'm in Hawaii. Hawaii. Great. Great. And what's your role there?

~~Um,~~ yeah, I'm joining Julia to just help support her in the fundraising. So she'll be kind of, you know, watching that soon. So, ~~um,~~ [00:00:20] just joining the team for that and supporting her and all of those efforts. So I've, you know, have, ~~um,~~ Accelerator background worked at, ~~um,~~ elemental accelerator also, ~~uh,~~ green biz, ~~um,~~ organized, you know, everything that's kind of related to startups and investors there, ~~um,~~ now supporting Julian and a couple other accelerator programs.

So, well, how's the startup scene in Hawaii these days? ~~Um,~~ you know, [00:00:40] it's not as, as big as the Bay area. I recently moved home. Hawaii is home for me. So I just moved back last year and I was in the San Francisco Bay area. So, ~~um,~~ a lot smaller, but it is definitely. ~~Um,~~ and there's a lot of, ~~uh,~~ programs kind of, you know, supporting early stage entrepreneurs, ~~um,~~ and looking at our university here, University of Hawaii, kind of, ~~um,~~ growing their [00:01:00] efforts as well.

So, ~~um,~~ yeah, hopefully it'll, it'll grow even more. You know, Shinoa Farnsworth does the blue startups. ~~Uh,~~ that's right. Yes. Yeah. She's a partner of, ~~um,~~ elementals too. So she's, yeah, definitely big in the scene here. Yeah. I've supported some of their projects in the past. It might've had some cool stripes there for sure.

Oh, good. How did you [00:01:20] get connected with her? ~~Uh,~~ I did a project where I needed to connect with about 20 different angel groups, and she was in Hawaii and was on the list. So I got a chance to talk to her, talk to, and kind of raise the awareness that there was a nice group there that she was working with.

And then it seemed like she spent a lot of her time on ~~uh,~~ the incubator blue startups itself. ~~Uh,~~ I think they have a [00:01:40] smallish group there. I don't know how big it is at this point, but, ~~uh,~~ that's two or three years ago, but I'm on a list now. So I keep up with what they're doing. Well, it's good to hear that here. You're connected with her and you're kind of in the scene here to see all you have a little bit of a insight as well. A little bit. Yeah. Hi, Julia. Thanks for joining.

Guest 01: Thank you. Sounds like a small world collision already. [00:02:00]

Guest: Yeah. Yeah. Just catching up on people we know already and what's going on.

How are you doing there, Julia? Are you in New Orleans?

Guest 01: I'm not right now. I'm normally I'm in Florida for the holidays. We just came in like at 4 a. m. last night. So I'm pushing pushing through the last last of the meetings. ~~Uh,~~ just saw Dimitri Sherry. Oh Lord. [00:02:20] Anyway. ~~Um,~~ but yeah, no, I'm glad that we reached out.

~~Um,~~ I think I was listening in on one of your SBAR ~~um,~~ meetings and like being punchy in the chat . ~~Um,~~ so I appreciated you following up and um, ~~um,~~ yeah, I'd love to know more about, about your fund and kinda how you work with

Guest: companies. Sure, sure. And so [00:02:40] you're not raising now, but you're going to be raising, are you a for-profit or a nonprofit?

We're for profit. Okay. I thought I saw a org on one of the URLs and just wanted to make sure because

we.

Guest 01: Yeah, it's an old URL, ~~uh,~~ trans, you know, we've had it when we couldn't get com and so we had to like force it from somebody's, you know, knuckles. ~~Um,~~ we use org in the [00:03:00] meantime, but yeah, nowhere. com,

Guest: we're for profit.

Okay, great. So at heart and capital were, uh, ~~uh, uh,~~ investor relations introductions program. We help you find more investors. People come to us because they're halfway through their raise and they run out of investors. We started in Austin back in 2006. I started three angel networks here. C10 in Austin and Baylor and Waco and [00:03:20] Williamson County had a hyperlocal angel group as well.

I retired from my day job in 2009 and started doing what's called Texas Entrepreneurs Network, helping startups find investors for their deal. And we basically did it online and in person. And then we just kept growing our investor network and our company. We went national in 2017. We now have 20, 000 investors on [00:03:40] the list because we've been doing it for since 2006.

And we basically changed our name to 10 capital and started working with angel VCs and family offices from around the country. And so they're mostly us, some Canada, Canadian based and some European based, but primarily we're us based. And what we do is we take your pitch deck, go out to our network and build a list of [00:04:00] interested people.

And then we invite them to come here. You pitch in our online events. ~~Uh,~~ we do five a month now moving and setting up a hybrid in person event series for 2024. Once a month, we'll be in a city. We'll start in Austin, go to Dallas, go to LA, go to Francisco, Seattle, Chicago, New York. ~~Uh,~~ we found that most of our list is in the major [00:04:20] cities anyway.

So that's where we start. And we just go around and we do a hybrid event where they can either zoom in or they can meet you in person in that room. And we're basically going and running an event relations. So once you have an introduction, you pick it up and carry it forward to close. And we can help with that in some ways.

And then we go through angel groups. We [00:04:40] have You know, 3040 in our network right now that we go out and go through the application process to go through and get in front of them. We help them find members. So they give, ~~um,~~ precedence to our companies coming through because we're helping find members and then VC funds for those that are still actively, ~~uh,~~ funding these days, we've not many are, but many.

~~Uh,~~ are going to get back into it. I [00:05:00] think in the spring, we help them find limited partners. We do a family office panel series in five different cities around the country. And those guys look at startups as well. We're a monthly retainer. It's 3k per month for a three month commitment. After that, it goes month to month.

~~Uh,~~ if we need to redo decks, we can, ~~uh,~~ if we need to help with the documentation, we help with deal structuring. [00:05:20] If you haven't started the raise, it's something we should talk about how you structure it before you go out to raise the funding. And then, ~~uh,~~ We help in putting data rooms together if you don't have one already.

So that's how we work and what we do.

Guest 01: Okay. ~~Uh,~~ so it's a retainer fee, three month commitments, ~~uh,~~ 3k a month. Okay. ~~um,~~ in your kind of, your network, what kind of [00:05:40] percentages does it break down to in terms of angel groups or angels versus family offices

Guest: and things like that? It's about a third each, a third are angels, a third are VC, a third are family office.

Angel groups, if you look at it number wise, only 3 percent of angels are in angel groups. So of those 30, you know, there's each one represents a, you know, [00:06:00] 75 to a hundred because they're large groups in some cases. ~~Uh,~~ so the vast majority of angels are, are by themselves. They're not in a group as well and they just make their own decision.

Guest 01: And then what are your, if you've been at this for a while, what if kind of, what are your percentages in terms of, you know, successful raises for these founders who come

Guest: to, to work with you on average is about 70 percent [00:06:20] raise funding through our program. 30 percent don't the 30 percent that don't do so for one of three reasons.

~~Uh,~~ first and foremost, the evaluation is out of market. They come to us from the crowdfunding reg CF world, and they just think they're worth 50 K of revenue. And, uh, ~~uh,~~ That works in the crowdfunding world, but it does not work in the angel world. They do look at [00:06:40] valuations and they do look for market rate valuations.

We did have people raise money like that during the pandemic. And then post pandemic, we had many, many down rounds to get back into market rate. Uh, second reason is there's something wrong with the deal. We have lawsuits on the books. We have other things that make it difficult to engage investors. So we have to stop, go [00:07:00] back and fix that and then continue the raise.

And third is, ~~uh,~~ people don't follow up. They just simply don't go all the way through to close an investor. It, ~~uh,~~ emails great for communication, but in following and closing investors, ~~uh,~~ you have to move to phone calls. You have to, and in person, you have to get out and really go close because people are not going to write a check because, ~~uh,~~ it's a cool [00:07:20] idea.

And you do get 25k checks over Zoom. Find when it gets to a hundred K or more,~~ uh,~~ you really don't need to go meet people and pick up the check. They want to know more about you. And most people want to know more about their investors coming in. Who are these guys and what are their expectations? So it just takes more to close than some people want to put into it.

And in the startup world, it's easy, [00:07:40] easy to get distracted by building. product and,~~ uh,~~ you know, finding customers and hiring team and all the other stuff that's going on. So it's not unusual. Three months goes by pretty quick. That's the other thing you think you have all the time in the world until you get halfway through month two and then realize,~~ uh,~~ six weeks to close.

That's, that's going to be a challenge. So from when we, once you make an introduction, we're really expecting you to start [00:08:00] calling the investor every week,~~ uh,~~ give them an update, build a relationship. That's the thing most people miss about fundraising that I learned in starting angel groups is that you have to build a relationship at some level.

~~Uh,~~ I had many people come in and pitch to my room full of investors, 90 percent would pitch, go away, we'd never hear from them again. ~~Uh,~~ no money. 10 percent though came back, gave us updates, reminders, built that [00:08:20] relationship. On fourth update, out came the checkbooks in most cases. So it doesn't take a lot to build a relationship, but there has to be an element there.

We have put in an in person dinner event series. We found that with zoom, it's great to. Open these dialogues with investors, but it was hard to close and partly because people had questions that they weren't quite [00:08:40] getting answered, but they weren't writing it down and telling us. And so we would hold dinner events in Austin and now the Bay Area, New York, where we, you know, get 10, 12 investors into a room, spend two, three hours, go through every slide in the deck, answer every question.

20, 25 percent close rates at the end of that. Nobody wrote a check, but many did. And. You can then pick [00:09:00] up and move on to the next group, which is something I found many people coming to me with three, 400 investors on the list that they're still hanging around. we often offer a closing function.

We're going to go out and we're going to close those guys. We're going to be in your area. And if you get them to come out, hear the pitch and then make a decision and then move on and start working our way through that list.

[00:09:20] And you know, 20, 25 percent is going to close. You just don't know which 25 you just have to go out and do it.

So we do those as well.

Guest 01: And is there like a timing that makes sense for most people? I mean, there's like to jump on with you, like, you know, is it like the beginning of the quarter is kind of what I would

Guest: imagine. Well, there's three cycles, you know, January to May, May to August, [00:09:40] September to October or September to.

December. ~~Uh,~~ so those are kind of the three seasons of fundraising. So if you want to be on the beginning of it, it's fine. We've had people join last week and we're with us. We have to take it. If you signed up today, we'd have an onboarding call tomorrow. And the goal is to get the intro mailer out in one week.

And the goal with that intro mailers to [00:10:00] start building that list of interested investors. So some people signed up in December because they're using that December time to build that list. So starting January 2nd. We're now, you know, going after the people that are expressing interest, so it really doesn't matter when you sign up.

There's a process to go through and we just go through it. Not much is going to happen, you know, later [00:10:20] this week and next, but, you know, January 2nd is going to pick back up and some people just push it to January to join as well. We have a limit at 20. We have 23 right now. So we have two slots open and so we'll, I'm sure we're going to get filled up, but we do have other people that are cycling out.

So whenever you're ready, most likely it will be ready [00:10:40] as well.

Guest 01: ~~Um,~~ and what's your process like you onboard, you get a mailer out. Like, do you walk, walk me through the whole, your whole, uh, ~~uh,~~ three months kind of

Guest: outline. ~~uh,~~ after this call, I'll send you an email that shows how we, ~~uh, uh,~~ how to sign up, you put in the first payment, ~~uh,~~ we'll set the onboarding call tomorrow and walk through.

The intro mailer that we have to put together is a [00:11:00] summary of the deal, get the updated deck. I haven't seen your latest deck, but we usually use what people have. If we need to redesign it, we'll, we'll spend, we'll go and mail what we have, but then we'll work on the redesign because it really comes into play when we're Pitching to investors.

We want to make sure it's a good deck. And the idea was we in one week We want to get the mailer out [00:11:20] the door And then it takes about a week and a half to go through all the lists And then at the end of that time we will have a list of 200 to a thousand Investors on it and you go through and you look to see if there's anybody you know on there already You look to see if there's anybody you want to know on there And we prioritize the follow up on that.

We have two internal investor relations [00:11:40] people who get on the phone and call these people and talk to them. They can't call everybody, but they can call a good number of the, of the interested people that are coming in, get feedback on the deal and what have you. We then have five online events a month.

And so you'll get signed up to watch one, and then you'll get signed up to pitch at one. These are 15 minute pitches. [00:12:00] We want the nine, 10 minute version of the pitch because it's pitch and answer questions. We want to leave five, six minutes for answering the questions that are there. We pull all the investors in the audience, see who wants to learn more about it.

Then we share all this with you on a campaign tracker. Here's a spreadsheet and we just keep track of what we're doing. What investors came, how many came from the [00:12:20] event, how many came from the mailer, et cetera. So we see where people are coming from. And after that, we start going through angel groups. We start filling out the applications.

They use DLM, Gust and Spark. And we just start, we identify what might be the best three angel groups to go for. And we do three at a time. We go and fill out the application and then [00:12:40] put it in. We do need a fair amount of content from your side for those, but once you fill out one on each of those platforms, you can reuse a substantial amount of it for subsequent ones.

But we have a person that will help do a lot of that work for you as well. And then we have syndicate funds. We have some micro VCs that we go to, and it just depends upon where your deal is at as to who we're going to. [00:13:00] Most often we're going after angels and family offices because people are just at the C, C plus series A range.

They really aren't at series B or C. We have some, but not many of those. So that's, that's our program is just walking our way through the network, trying to get interest from those who are out there. We do look for updates from you, ~~uh,~~ sales team, product and fundraise. Are you generating your [00:13:20] revenue right now?

How much are you generating?

Guest 01: ~~Um,~~ we're going to be closing 700 close to 800 K this year. ~~Um,~~ but we're deferring some of it due to the contracts not starting on time. So

Guest: working through that right now. Well, there's an interest in the 500 to a million dollar range. A lot of investors are trying to get in before you hit a million because [00:13:40] oftentimes the valuation skyrockets at a million dollars.

So. People try to get in before the skyrocketing effect happens. So there is some fair interest in that as well, but that's not like it's good traction also. So, ~~uh,~~ anyway, that's our program. we will at some point in month two, we'll reach out to everybody on the list and say, we're going to have an in [00:14:00] person event near you soon for your deal and see who expresses interest.

And then we figure out. We're how to go about that. If there's 10 people in a city, it's worth a dinner. It's five people. It's worth a lunch. If there's three people, you just go there and have a coffee here, lunch there, whatever, to meet people. And like I say, I find that it can be an effective way to close.

The majority of these interests are in [00:14:20] Texas, Bay Area, Chicago, New York. We do get people in other spots, but those are the concentrations we have now.

Guest 01: And, you know, it's not just who's on the cap, I mean, for me, it's not just the amount of money that I'm bringing in, it's also who's on the cap table and who's attracting more, ~~uh,~~ going forward into other rounds, like kind of banner name funds that you've worked with, or, you [00:14:40] know, family offices that you feel like are kind of along

Guest: those lines.

We see them all on there, you know, we get Kleiner Perkins, we get Sequoia, you get Benchmark. We get NEA, lots of NEA people on there, ~~uh,~~ so that's the beauty of the spreadsheet, you get to go through and say, I want to know these people, and we can target those guys. You do have to have a deal that would get [00:15:00] them interested if you want the marquee VC names, but they are on there, and there are contacts that we can go pursue.

We just have to have the story that would, would close. ~~Uh,~~ there's this tremendous amount of interest in the VCs that want, you know, everybody wants a VC, but. We just have to be able to win that business, but you, you get to, ~~uh,~~ we can do some targeting work to go after them.

Guest 01: The other [00:15:20] thing I would say is that we're pretty specialized.

We're an adaptation technology within the climate tech vertical. So do you have experience in that space? Do you have networks in that space? ~~Um,~~ clean tech, sustainability

Guest: tech, climate tech. so we say adaptation. What exactly are you talking about?

Guest 01: ~~Um,~~ adaptation. So our ability to [00:15:40] manage our climate risks.

Is a very specific niche within

Guest: climate tech. So we have had some climate tech deals come in, be honest. They've been general, ~~uh,~~ EV tools, carbon sequestration, a number of different wind and alternative energy sources that come in, but I don't think we've had any in that particular space as well. [00:16:00] And we do have some VCs in the climate tech space that we go to that might be encompassing of that.

But up front, we'd have to do some research to figure out who might be the right people. So we could target them, but we be candid. I think maybe. 3 to 5 percent of our business has been climate tech so far. I would have thought it had been more by now with all the IRA money that went [00:16:20] out, but it has not.

~~uh,~~ in the last market, it's been, which I think is closing now. It was predominated by biotech and AI. If you're half, it was a biotech and the other half was AI. And

Guest 01: we are an AI company as well. And that is something that we, whereas a climate. VC network is reasonable. I'd say, I think on [00:16:40] my AI side is a little weak.

Guest: ~~Um,~~ you can do multiple positioning. So if you have the ability to be AI, let's be AI. If you had ability to be climate tech, let's be climate tech. Cause you can, ~~uh,~~ appeal to different investor groups with different positionings. I find in most cases, the deck is the same, but. How you contextualize it up front.

You know, you say we're an AI company. We say we're a climate tech [00:17:00] company. We'll help land, the message will land stronger with them. We have had done custom events with micro VCs in the climate tech space. And so there's a good group right now. A lot of the Houston funds turned into, ~~uh,~~ you know, energy transition funds, which are mostly climate tech funds.

So there is a group of people that are doing that right now. We just have to have a compelling [00:17:20] deal for them.

Guest 01: ~~uh,~~ yeah, thank you so much. I, you know, again, I, I, I thought you were more traditional VC. I actually hadn't like done my diligence. ~~Um,~~ so thank you for like kind of letting me kind of walking me through your services.

Definitely send me some follow up emails with attachments and the, and the like, I'm not in a position today to say yes to doing this. ~~Um,~~ we are going to be raising in [00:17:40] Q1, ~~um,~~ wanting to close, ~~um,~~ you know, three mil in this kind of first Period of the year. I'm curious what you're saying when you when you say, you know, things are going to look up in spring and spring count as January or does spring count like as March.

~~Um,~~ is that is that something that you kind of know a little bit more [00:18:00] about in terms of

Guest: like timing. Well, you know, if, if you want to kick off in January with a fundraise round, that's, that's a good time. You have a good window there, ~~uh,~~ to take it forward. ~~Uh,~~ it takes six months to close. How much are you trying to raise at this point?

Three, 3 million. And how much of it do you have so far?

Guest 01: Oh, I mean, we're starting from [00:18:20] zero. I mean, I have some folks who will follow, but I don't have a lead.

Guest: Okay. And I do want it to be small. So, so if you're raising 3 million, what we're going to say, tell you to do is let's break that down into two, maybe three tranches.

And the first tranche is going to be 750, 000. And the next tranche is going to be ~~Uh,~~ [00:18:40] 1 million, next tranche will be 1. 25 million. Maybe that's too much. Maybe just do two tranches, 750 and then, ~~uh, uh,~~ 25. And the idea is what you're trying to do is put a low valuation on the first round to get people in the deal, kick it off, get momentum, and then raise the valuation on the next round.

So people, you create some scarcity for it. There's only so much of that [00:19:00] low cost of funding up front. And people really want a good price. Well, then they have to come in early. And that's, that's the challenge. If we make the valuation the same all the way across, then everybody wants to be the last one in the deal.

And we just can't all be the last one in the deal. So that's why you try to break it down and structure it so that people who, ~~uh,~~ you can get in to come in early, get a [00:19:20] better price. And there you get a win. When you close that first round, when you get two thirds of the way through the round. We declare, okay, we're closing in six weeks.

Who wants to be in? And then you calculate all the interest and committed money, not just invested. And you say, there's only 200K left, but I've got 700 of interest committed. First come, first serve. If you don't [00:19:40] make it in, no problem. You'll just go to the next round. You don't mind paying a higher valuation.

So that usually incentivizes the interest of people to come on in and take, get, be a part of the deal. So structuring is something we do a lot of to help incentivize people to move forward on it more quickly. And

Guest 01: do you, like, talk about, you know, your ways in, in [00:20:00] threes? Like, hey, right now we're doing the first tranche of three.

Like, do you, are you transparent? I think, how do you kind of articulate that in

Guest: the very beginning? Well, you want to put the big number out there raising 3 million in total, because some people come and say, I'm raising 500k. And then the answer is, well, you're not raising enough to get to where you want to go.

Well, no, I'm really raising [00:20:20] 5 million. Okay. So you want to put the big number out there. So people know you're raising enough, but you want to break it down into steps and stages. So you can run deadline campaigns. You can put financial incentives with low valuations up front, but higher ones on the back end.

to get people to move forward with it. So this is always going to be a three million dollar raise, but round one is going to be [00:20:40] 500 and round two is going to be 1. 5 and round three is going to be another million or whatever. Typically, if you're making the, and each one has milestones that go with it, so it justifies raising the valuation on it for the five 500.

We're going to do this next 1. 5. We're going to do this and you just keep raising it up until you get to, ~~uh,~~ complete the raise as well. For [00:21:00] 3 million, maybe just 2 steps, something like that.

Interesting. ~~Um,~~

Guest 01: yeah, I hadn't actually thought about doing it that way. ~~Um,~~ do you sit in on deal

Guest: conversations? We're often brought in to be a part of the discussion with the investor. Investor wants to ask us questions or you want to ask us questions. We're We're happy to be in there as well. If you need help with us, vast majority though, once you make an [00:21:20] introduction, you go and you talk to the investor and then you come back and tell us what they said or what they're doing.

And we figure out what the next step is from there, you know, they want more information or they need to do diligence or what have you. And then we have a process of angels for how you do diligence, which is basically you don't let them do diligence on their own. You do it with them. ~~Uh,~~ because most of them don't know what to [00:21:40] do.

They just, I'm supposed to do diligence. What, what is, what, what am I going to do here? So, well, let me walk you through and let's just look at everything in the box and answer your questions. Okay. We've done our diligence and move on. So we call it the due diligence walkthrough, but you'll, you'll see that a lot out there.

Guest 01: Sure. Do you have any questions? ~~Um,~~ the due diligence walkthrough is, is interesting. Actually, I've never heard about doing diligence, like [00:22:00] we're holding their hands.

Guest: That's nice. That's right. That's right. Let's let me show you where everything is in the box. And what questions do you have? Because what you're trying to do is they all have three to five questions to answer, but they don't sit down and write them out to ask you.

They just procrastinate. So in a due diligence walkthrough, you're surfacing those questions. What is on their mind? And once you answer it, it's You get to the end and say, well, [00:22:20] what other questions do you have? Well, I guess you answered it all. Okay. Well, I guess we've done our diligence. Let me send you the wiring instructions.

Let me docu sign the term sheet. You know, you're always removing friction from this process. And once they sign the term sheet and wire you the money, it's a done deal. Now, these are mostly convertible notes that we're kicking off with. So round one is convertible. And at some point we are looking for a lead investor.[00:22:40]

You just don't know if they're the First, the fifth or the 25th investor through the door.

Guest 01: Right. That's an important wrinkle. I can't raise on convertibles. I have two. trying to raise an equity round, price round. I can't take debt on top of my NSF SBIR

Guest: grants. Well, then you just go straight to a price round, and we just have to figure out how to get a price on [00:23:00] it.

if you just set the price unilaterally, Hey, I just think I'm worth 20 That's just not a compelling argument to an investor, but if you get the first five angels coming in and they say, you know, just informally among them, it may not be one person, but five guys coming together to 20 million.

Yeah, we think this is all worth 5 [00:23:20] million. We'll, we'll offer a B for 5 million. You now have a price round. You can come up with a 5 million equity term sheet. They'll, said they would do it, and they go. I don't think I have any other major questions, Julie. But the idea is if you, you need a lead investor to kick it off, but if you're truly an investor that can come in and do all the diligence [00:23:40] work, ~~uh,~~ that's a lot of work. And so most people would just want to kick the can down the road and just use convertible notes.

But the way you get around that is you go find five guys who want to do. ~~Uh,~~ the raise, and they want to be in for 50k each, and they, they all collectively agree that it's going to be 7 million dollars, whatever it is. You can then go get an attorney to probably, you know, put a [00:24:00] document together that says it's worth 7 million, five guys put it in, and there you go, you have a price round to kick it off.

but there's investors behind that, so to speak. It's not, you're just doing it by yourself. So we have to get creative with some things like that. But anyway, any other questions for me guys?

Guest 01: I think that's it. ~~Um,~~ I think just send us over [00:24:20] what you can and, ~~um,~~ we will

Guest: be in touch. Okay. Sounds good. Thanks so much.

Have a good one.