

Transcript of HTRF 18

Hall T Martin: Hi, Scott. Thanks for joining. How you doing, bud? Doing good, doing good. Looking forward to catching up. See how things are going in your fundraiser.

Guest: Uh, yeah, it's not going. That's exactly what's [00:03:00] going on. It's been horrible out there. And first off, I'm sorry. Like, I was at a conference, and I was, I parked myself on the side, went to go join your last one, and I couldn't get in.

I couldn't get in. I tried. I tried, but for whatever reason couldn't get in because I wanted to [00:03:20] hear the pitches and all that stuff. So, um, but, uh, yeah, no, uh, it's been tough. It's, you know, you know, I don't need to tell you anything. I'm not giving you any secrets out there. Um, I've talked to a lot of people.

I've had a lot of good interest, but I just have not been able to close the [00:03:40] deal simply because people say, well, I'm, You know, you need to go find a lead investor or do you need to, um, you know, I'm willing, I'm willing to come in, but I don't want to be the lead. And I'm like, yeah, I've heard that from now, you know, like 10 companies.

So I've got a great [00:04:00] pipeline of people that'll come in after the fact, but, and then the next thing is, is, and I love this one, this is, it's a constant, let me move the goalposts a little bit further, you know, you know, it's always. Well, I like your idea, it's a great idea, but you don't have a product, or you haven't developed [00:04:20] anything, or, oh, you developed it, oh yeah, but you don't have any traction, um, oh, you don't have, your traction's not far enough along, I need you to be at 250, 000, you know, it's like, uh, you know what, by the time I get to where I need to get to, I don't need you, you know, like, What are we doing here?

So, um, [00:04:40] you know, I saw your email the other day. I don't know if you sent it to me or like AI, if your automated system sent it to me, but I wanted to, I wanted to connect on a couple different levels. One, I wanted to see what is your, what are you experiencing now? What is your, what is your, your, um, [00:05:00] investor audience?

Like, are they still staying active? Or, you know, what are you seeing and, you know, how are, how are some of the deals that have gone through the pipeline and how

Hall T Martin: they've been doing? Yeah, well, you know, it is tougher now than it was a couple of years ago. Uh, we do see deals getting funded, but they're good deals that are getting funded.

[00:05:20] And valuations have to be market rate. And what was three years ago was not market rate. And so some people are hanging on to those valuations. But what you have to do is create a little bit of scarcity in the deal so that there's, um, what I call Good value shares available, you know, low price, low valuation.

And [00:05:40] then there's, there's higher price ones. And so you're raising a million dollars. And so what you want to do is take the first 250. And what valuation did you put on the million dollars, for example? Or valuation cap, if it's comparable?

Guest: No. So let me tell you what I tell you, tell you where I was, where I am.

I was at, I, my original valuation was at [00:06:00] a 24 million valuation. Um, and that is now what I, what I converted that to now is a convertible sa, like a, a safe note, um, with a, I I included a cap rate, a cap rate of 13 million for the first 500,000. [00:06:20] And, uh, again, it's a cap. Mm-Hmm. , like the point of the point, the point of the save was not to necessarily put a cap, but I, I put a cap on there and then I had a tiered structure.

13, and then I had like, so basically I, I cut my valuation. And half almost so I don't know if that sounds good [00:06:40] But I said 13 and then I did like 15 or 16 and then I did 17 And I was giving them a 20 discount for the first 500 Uh 17 and a half for the second tier and

Hall T Martin: 15 for the third Well, I think we're still out of market in this case It what what what revenue do you have or what revenue did you end up with in 2023?[00:07:00]

I know it's not a lot, but what was it? Not

Guest: much. I mean, it's like under 10, 000, you know. Like, it's

Hall T Martin: not enough to move the needle. So, so if you're under 10, 000, you're at the valuation cap. And that's just part of it. You know, we're just, we just don't have, you know, 20X multiples anymore. We have SaaS deals.

You do [00:07:20] have AI. That helps a lot. And so forth. What was the investor, what was the user engagement with the product? When people used it, did you have any beta users? How many daily, weekly, monthly active users was it? What can you tell me about that? Yeah, so we, uh,

Guest: I don't have a ton of [00:07:40] data on like all of that activity, but I can give you some high level stuff.

Um, we, we have overall like a little over 83 registrations. I think that was just as of like maybe about three or four days ago, I probably had about 15 paying users and. We generated over [00:08:00] 250 stories, uh, with those, with those groups. Um, I'm in the process of, um, I just signed a, and again, I know this is not attractive to investors, but I just signed a, uh, ad, um, with an ad [00:08:20] agency to do a B2C campaign launch.

For, um, just, just to attract, um, users in the system. So, uh, I'm doing that specifically because I'm like, like, I'm done with all these people. I just want to, I just want to get to break even so I'm not bleeding out [00:08:40] every orifice, uh, on, on my, on my expense line. And. I only need to get to like 2, 500 users, which is not a hard market to get to at 15 a month.

So, um, I think that we're going to, that, that's my plan right now in terms of so to [00:09:00] answer you to kind of do a little follow up to your question, I'll have more data on user activity engagement.

Hall T Martin: Coming up here shortly, right? So what you consider for revenue is user engagement. What you want to do is get a test going I I took five thousand dollars.

I put it through this channel Facebook, [00:09:20] whatever and I got a 150 Interests, I got a hundred signups and I got 70 Daily active users out of it and I did another 5, 000 and I got got the same result. So it's very consistent So it's over and over again. I know I can generate 70 users with 5, 000 [00:09:40] of spend and by 70 divided by 5, 000 is my cost of customer acquisition What you have to do is show that this is a known number is predictable is repeatable I can do this all day Every, every 5, 000 you give me, I'm going to give you 70 users, whatever those numbers work out to be.

That's what you have to [00:10:00] show is that systems are in place for acquiring customers. It may not be big numbers, but it is predictable numbers. Investors don't care about. Size at this point because it's early stage. It's not

gonna be big. What they care about is predictability. We know it's gonna happen and repeatability.

I can do this all day. And [00:10:20] so you want to do maybe 2 or 3 of those tests with ads and come up with the what I call the repeatable predictable funnel. I put this many leads in at the top, I get this many that qualify, and I get this much revenue at the bottom. You tell me how much revenue I need at the bottom, I can tell you what the steps are, I can tell you how many leads I need to put at the top of the [00:10:40] funnel.

That's a slide that needs to be in your deck to show this is a existing system. Because what people are doing is they're trying to use revenue to show, you know, demonstrate the systems are in order. And while we have some, we just need a little bit more. And so what you want to do is do some tests and then show those that funnel to show that this is a repeatable model.

Uh, so [00:11:00] that's, that's one thing you have to show that, you know, it's sticky. People are engaging with it and of the 70. They, they, they, they each, you know, write five stories and they're in the program for at least three months. There, there's something, there's some, you know, continuation of the process that shows how long they stay in the program.

Very high level, very simple, not, [00:11:20] not complicated, but just shows that it's not just one and done, but they keep, they, they use it for a while. So there's some stickiness in there as well. And well, the second thing you want to do is get a market rate valuation on this thing. I take the first two 50 and I put it for 3, 000, 000 and for 30 days, uh, you get this for 3, 000, 000.

And when this two 50 is gone, [00:11:40] we're going to be moving to, uh, the next two 50 and it's going to go up to five and we, and just so work your way up like you were doing before, but you're, you're really not at a 13, 15, 17 million with that. You really need to be at. Uh, [00:12:00] yeah,

Guest: well, again, don't, uh, yeah, I mean, listen, I'm, I'm like on a man on an island that doesn't have a fucking clue, to be honest with you, with where the market is.

You're, you're a little closer to that, to be honest. And, um, but the point of putting that cap in there was [00:12:20] to just. You know, it wasn't, it was to just sort of set a ceiling, so to speak. Um, cause somebody told me that, uh, you know, if you're going to do a safe round, you know, you, you know, they're probably going to want some sort of cap in there.

And I didn't want to give them a cap that was like low, because if I gave them too low of a [00:12:40] cap, it's like, what's the point of doing a safe round? I'm better off just doing, and I got to give them 20 percent off 3 million. Right. I mean, that doesn't make any sense to me.

Hall T Martin: Um, I wouldn't give him 20%. I just did a low valuation cap because that's the number of people focus on.

They focus on the valuation. Yes, [00:13:00] discounts can come in and help and so forth. And maybe use those as a sweetener from time to time. But for the most part, they're looking at the valuation cap and the valuation cap needs to be. If you were doing a price round, what would be the valuation need to be the same thing.

So if you're thinking that 17 million is just giving you lots of headroom, but really your valuation is going to be [00:13:20] at five, well, you'll communicate that better if you make the valuation cap five, because now they know, okay, this is what I think the deal is worth. It's worth five. The point of making it two 50 is that you want to go out and do all your curtain guys and say, I am now raising at two 50 at a.

Three million dollar valuation cap. And [00:13:40] when that's up, I'm going to go to the next two 50 at five. And, and then what you do is you calculate the interest and committed how much money is floating around your funnel. You have quite a few investors. Have you ever added up how much that money would be if they all came in?

They won't, but how much would that be? Dollar wise?

Guest: Uh, these are big funds. I mean, [00:14:00] these are all, you know. Minimum of, uh, you know, half a million. Um, the other ones, the other ones were mainly like at a million to 10 million in their seed routes. So they were pretty big groups, but I, uh, one, you know, the one in particular, they were very interested, but [00:14:20] then they came back and told me they had a competitor, uh, in their portfolio that, uh, that just wasn't going to work.

And, uh, And I have another meeting. Well, I have another meeting with Andreessen Horowitz next week. And I have a meeting with, um, um, another, another top ed tech firm. [00:14:40] Again, I don't know, like, if any of these guys are going to do anything, because I think they're probably just sitting around. And, uh, you know, waiting and waiting and just sort of seeing what's going to happen.

So, I mean, I'm not holding much hope out, to be

Hall T Martin: honest with you. Right. Well, the VCs want to see a 1 million revenue run rate. So when you get to 80K [00:15:00] monthly, they're going to start to get interested. Between here and there, it's angels, it's individual angels, not even angel groups. How many angels do you have on that list of 80?

Not.

Guest: I, I, I may I, not any, not any. I mean, I have family offices. That's the only other area I was in.

Hall T Martin: Yeah. There's still a little bit [00:15:20] later stage. You really want to go after individual angels. You wanna go out and you'll be amazed at how many people when they hear your story will pull out a checkbook and say, I'm in for 25.

Who do I write the check to that Yeah, I know. That's diligence right there.

Guest: Yeah. Yeah. No, I, I really believe that. Like, there's like a great, we got a great mission here and that like, I just have to get the [00:15:40] word out. So that's kind why I wanted to connect with you and, um. Figure out what, what, what, what might be the best strategy here to go forward?

And I, and listen, the number, I, I don't even care if it's 3 million or 1 million or 5 million or 20 million. It, that, like, to me, that doesn't matter. What matters is continuing to [00:16:00] progress forward and taking the thing to where it's gonna go. You know what I mean? Right. I mean, it matters to me. But you like, it, it, it's, it's worth nothing right now.

Hall T Martin: Right, right. So lemme say it. A safe note at 3 million for the first 250, 000 and then what you do is you tell your angel guys, okay, I've calculated the interest and [00:16:20] committed of all the people and there's 700, 000 worth of interest for that 250, 000. First come, first serve. If you miss that boat, you know, you'll be on the next 250, 000, no problem, but be at 5 million is what it's going to be.

And people are going to look at that and say, well, there's some scarcity here. There's, there's a timeframe here. I got to, got to go there. I might lose it. You get, so you [00:16:40] can start to build some of the FOMO into this. You're just not in the game for the VCs yet. They're, they're really on the next round, but I'll be candid.

You know, it doesn't go pre C, C, series A, series B. What it's gonna do is go Pre Seed, Seed, Seed Seed another 250k bridge round, and then a Series A. And [00:17:00] so, just be aware of that, you know, it's not gonna be a tiny step from Seed to Series A, it's gonna be leaping the Grand Canyon. So, we're gonna have to, you know, think about that, and start with the Seed, which is where you are, you're in the market, you're selling it, that's good.

But this is Angel round, it's not VC round. Uh, there are some Pre Seed VCs out there. [00:17:20] I have yet to meet a pre seed VC that doesn't come back to me and say, well, I really want you to sell 100K first. Okay, well that's, that's not true pre seed, is it? But you know, when it comes down to it, they, they just really want to get in at an early valuation, a very good valuation, and then they're going to come in.

Some of the VCs may come alive if you put a 3 million [00:17:40] valuation on it for the first 250. They may, may, may pull off, they may throw 50 at it just to get in the deal. And because right now, you know, 12, 15, 17, you know, we're, we're, we're just off by that. That's pandemic valuations is what that is. And that, that, that, that day's gone.

We're now in a new world here. And like I say, the, the first round is what I call the [00:18:00] minimum round. We're doing minimum viable product, minimum team, minimum fundraise, because the valuation is very low. When you start to get up to a million dollars of revenue. Well, now we're going to start talking about 12, 15, 20 million.

What doesn't come through on the slide deck is the value of the AI. And that, that's a question that comes up a lot now with [00:18:20] investors. How, so how, what kind of moat do you have around the AI? Are you doing a vertical SaaS play? Are you doing a simple chat bot on the front of it? How, how deep is that AI platform?

It doesn't really come through on the deck itself.

Guest: Yeah, well, that's a great question. And, [00:18:40] uh, no, we, we have. When you say a moat, I mean, you know, did I build, do I have a, um, yeah, I have a patent pending on it.

Hall T Martin: Proprietary data is a moat. I've trained it on proprietary data that other people don't have.

That's worth [00:19:00] something. Yeah, I scraped it off Google. Everybody and their brother has that. This is gonna be no different about a month. No, so, so, we have, we

Guest: will have, one, we have proprietary, we have 130, 000 words in our database, which is huge. Um, we know every grapheme phoneme relationship to those words, [00:19:20] which is not something, we had to build that.

That wasn't available. Um, and, um, the second part that we're going to have of super value is going to be, um, non fluent speech data. And, um, What that means is, is that, um, there's a lot of fluent speech data [00:19:40] out there to train AI, but we will have, we'll have, um, uh, a special set of data that's, that's done at the phoneme level that, uh, that's never been available in the marketplace.

So, I think there's, there's value there. I'm not really sure how to play that, that at this point, but, [00:20:00] um, that's that one. Um, the, uh, the last part I'll tell you is that, um.

I have, I'm waiting, I'm going to hear this week or early next week, I'm going to hear back from a foundation here in Pittsburgh that, uh, I filed [00:20:20] for a grant for 1. 2 million. Um, I have a high degree of confidence that we're going to get something. Let's call it a half a million at the minimum to a million to I think I'd be surprised if they don't

Hall T Martin: at a

Guest: minimum [00:20:40] 500, 000.

Um, and and a way I structured the deal. And the reason why I think we'll have a chance to get the whole thing was the, the grant was really about how do you deliver to low, low economic, um, in, you know, families and stuff like that to, to help lift them up and, um, [00:21:00] you know, my, obviously my focus is on literacy and, um, we're giving away free license.

One third is going towards, you know, product development, marketing, and sales. And the other two thirds is going to free

Hall T Martin: licenses. All right. So that's, that's great. So it's great to have that, uh, [00:21:20] family, uh, foundation behind you. If that comes through, you know, big logos all over the deck about their supporting you and they put money in, whatever it is, it's big, big, big to put in there.

You do have proprietary data. I find, uh, almost every deck I come across has AI in it. Now, a year ago, that was [00:21:40] unique and special today. It's just table stakes. Everybody's got AI. So now we have to go to the next level and explain how our AI is better than just the plain vanilla kind. And proprietary data is one.

And then if you're a vertical SaaS play, that's a very known business model. It means we've narrowed the space very tightly. And that allows us [00:22:00] to go very deeply into the space without breaking the bank. It's more capital efficient, more I can get a better solution out of it because I'm not trying to take care of every case in the world.

I've got a very specific area I'm going in. And you might want to position yourself as a vertical SaaS play. That's a known business model. People can appreciate that. [00:22:20] They see the value of that, and that could attract more people. Google Vertical SAS Play and see if that's something that really does fit what you're doing, because you can do a lot of very interesting things.

One of them is, if you win a, an account like a school, you can then potentially use your technology to go to other applications in the school, you [00:22:40] extend out to their partners and channels and their vendors and suppliers and get into other areas. It can be very Um, uh, viral in that case. So that's one advantage.

But check to see if vertical sass fits what you're doing. But I wouldn't make case of it. The other thing is, um, you have AI. Well, what I [00:23:00] like to see are branded marketing names. If you have, uh, technology base that's uniquely yours. You want to put a branded name on it and you, it will land a lot stronger with the investor.

AI sounds like I just got plain vanilla ice cream off the shelf and I've got what everyone else has. If I call it the XYZ [00:23:20] AI system and so forth, well now it's mine. It's unique. It's something special. It's something proprietary and investors. Put a lot more weight on proprietary than they do plain vanilla.

So you might want to think about using some branded names, and that's one rule we have is for every platform, every product, every technology, every data set, [00:23:40] we have a name for it. And you will get credit for it. If you don't have a name for it, you don't get credit for it. I can be selling the data for millions of dollars, but if I don't put a name on it, nobody knows.

Nobody cares. Yeah, so,

Guest: so, uh, yeah, that's a great point. And I, um. Uh, well noted. I did like give you an example on 130, 000 words. Um, we, it's called, it's [00:24:00] called the Luca dictionary. So, um, we, we have, uh, yeah, so it's something that's very unique. And yeah, you can even go to, um, You can even go to our website.

We launched 352 pages of content, uh, with a click of a button, and, um, we [00:24:20] are, we launched all these words, um, for kids to learn that on these different age groups, and that's called the LUCA, um, LUCA, um, Oh, my gosh, uh, word adventures and, um, and the whole point is for, it was really an SEO play and, uh, we've already [00:24:40] started getting, gaining traction.

So we're going after 1. 5 million searches a month and, um, uh, we've already started to start to climb, um, the search engine rankings, which is cool. And, um, so, so yeah, so that, that's the next play that, uh, I've been working on, uh, [00:25:00] that's gonna be huge and scalable. And, um, the other thing, uh, just, and I'm, I'm kind of spitting a lot of stuff at you just because I've done a, I've done a lot since we've talked in the last month.

I, uh, I'm gonna sign a deal with, uh, an international, um, firm. Who's done EdTech or done technology and education with an [00:25:20] international groups for the last 30 years. He, uh, he is going to, um, you know, kind of do, sell my product. And, um, he feels conservatively that he can generate somewhere around one and a half to To 2, 000, 000 in annual [00:25:40] revenues within 18 months.

So, um, so that's that's another big play that we're doing and I'm going to sign another deal with another guy that's been in the ed tech space for 20 years. That's going to be able to turn around and help. Sort of market and sell to his [00:26:00] vertical industry, so I, you know, so we have some channel partners for the B2B stuff and I'm working on the B2C side, so we're generating revenue and, um, you know, as far as kind of your last comment about AI being generic, um, the thing that makes us unique here is that [00:26:20] the only way the AI works is with through our speech recognition technology, and that's

Hall T Martin: very hard to

Guest: build, you Um, to give you a, uh, example, to give you an example, like, right now, um, and I, I don't tell too many [00:26:40] people this, but, um, our speech recognition, um, platform is about 60 percent accurate.

Okay? That sounds really low. Okay? Um, but to give you a, uh, the best in the world is at 85%. Okay, so, um, we are in the [00:27:00] process of refining all of our speech recognition to, um, the goal is by, by the time we get to May, by the time we get to April, May, we will the target is to be at 85%. Um, and I've got 7 developers from CMU that are going to be working on that along with [00:27:20] like.

World class like speech recognition technology people so like I would you know in order for the platform to really work and be totally different than anybody else speech recognition is what makes the AI.

Hall T Martin: Tech, so, okay. Yeah, [00:27:40] that, that'd be great to put it in there. You know, you know what you have in the deck now, right?

Speech recognition. Oh, yeah, I know. Speech recognition, recognition. I have no idea all that's in there. All I know is that you have that functionality, but that could be, you know, a a, a sound spell out of ti you know, it could be something. Any, it could be anything. But you have a, [00:28:00] you're, you're underselling it basically.

You don't that the name speech recognition doesn't capture it. You need a bigger name that. Really captures what the proprietary nature that it has the last thing I have is the, uh, the logo review. I see some logos in here around Pearson and so forth, but you know, the family [00:28:20] foundation, where's that logo?

Is it in here anywhere?

Guest: Uh, the one that I felt the one that I just am waiting on the grant for. Right. Uh, I didn't put that in there. I didn't put that in there because, you know, like. We didn't do anything with them at that point. So like, I, uh, we're, we're, we're,

Hall T Martin: we're applying for it is [00:28:40] what we're doing.

So it's in the, it's in the game. And so one thing I say is go through for every logo, every channel partner, every company, every big name customer, every partner put their logo in there. Their logo, not their name, their logo, and you'll find that logos land very hard with investors [00:29:00] because it's a real company that is validating your work.

The more logos you have, the more validation you have, even if it's coming or we're in discussion or talking to or whatever. Uh, put the logos in there, load up

all the logos you can and sprinkle them throughout to show because every logo is a [00:29:20] validation point. If I'm here and I have 20 logos and you have 200, you probably have a stronger deal than I have because you have more validation points than I have.

So I would do a logo review and don't be afraid to use them. Don't oversell it. You know, don't tell us you have the money from the foundation if you don't but if you're talking to them or you're applying for it or in the game for it, you know, [00:29:40] just put the right right positioning on it and you'll still get credit for it because they wouldn't be considering you if you weren't in the game, I guess.

Well,

Guest: no, that's a great point. And, um, since I sent that to you, our, um, we won, um, by the South by Southwest, um, Accelerator. We won the South [00:30:00] by Southwest. Yeah.

Hall T Martin: Can you hear me? Yeah. Yeah. I, I used to judge the accelerator, so, uh, I, I can see this deal being in that category. Yeah.

Guest: So we won the South by Southwest semi-finalist, uh, for top educate, you know, startup.

I won the, uh, Innovator, uh, for the, for a regional EdTech conference, [00:30:20] and I am in the, uh, second round of the Tools Competition, which is, uh, a global competition against 1, 700 applicants. We made it to the second round, and that is

Hall T Martin: some, uh, to give you a

Guest: perspective who's in that, that's, uh, Uh, the foundations behind that include the Walton [00:30:40] Family Foundation, Bill and Melinda Gates, like, they're major players that are in there.

So, um, yeah, all those people are in that one, and just the fact that we made it to the second round is pretty huge. And, um, and then we'll, we'll, we'll find out where we're going in the next couple months on that. Cool. Alright. Now we're, we're moving in the right [00:31:00] direction, so let, you know, from your perspective, Do you feel like you have Your audience would be, would be a good candidate for what we're

Hall T Martin: doing.

You have to be in the market with revenue. We really have to sell it a little bit stronger [00:31:20] with all the value props. I think the deck undersells it a little bit. If you came in our program, we would. Probably redo the deck with a better design. Most live content is good there for sure, but I think we're under underselling some of it, so it doesn't really come across as strong as it really is.

When I dig into it, I'm finding all these great value props in the AI [00:31:40] to speak recognition, proprietary data plan to monetize the data. We need to have a slide about monetizing data. I don't know if you do that or not, but that's that that lands hard with the investors and other revenue stream, even if it's just a visionary statement or roadmap slide to talk about how we plan to monetize, it still counts.

And most people can't launch a [00:32:00] business and, you know, sell data at the same time they're building it. They're going to do it usually 2 years later. But if you put a roadmap slide. That that you get credit for it, so to speak, and you're already there with the A. I. For sure. So you might think about the data aspect of this because I didn't see that come through, but that would make this a lot stronger as well.

Guest: [00:32:20] Yeah, no, it's I don't know how to monetize the data to be honest with you. But yes, absolutely. There's a data monetization strategy. I've updated that deck since I sent it to you. Um, and, and there, and I do have data monetization as a, as a talking point, um, in, in that deck.

Hall T Martin: So. [00:32:40] Okay. Well, great. Well, we're at, at the end of our time.

Uh, send me the updated deck and let's just stay in touch for next steps.

Guest: Yeah. Can you, um. Yeah. Can we, uh, yeah, let me know. And then if we think, uh, if you think there's still the right candidate, you know, like I'm going to start generating some revenue and we'll, we'll kind of come back [00:33:00] and see if we can make something work with your group.

I mean, what do you think we need? Like about

Hall T Martin: two months prep. Uh, that's that's about right. Yeah. I'd say at least a month for the deck and so forth, but, uh, yeah. Send me the updated deck

and let's see what we can do. I appreciate it. Thanks for your time. All right.
Have a good. Yeah. We'll see you. Bye.