HTRF EP24

Hall T. Martin: [00:00:00] Hi, Kathy. [00:00:20] Thanks for joining.

Kathy: Hi.

Hall T. Martin: How are you? Doing good. Doing good. Just checking, uh, waiting for you guys to come in. Is it just us or is somebody else joining us?

Kathy: Doug will be joining. Um, I, I'm a person that tends to be a little bit early, um, which clearly you are too. [00:00:40]

Hall T. Martin: Yeah. Yeah. We are too. We're both early people, early risers and all.

Katy: Yeah. I found on Zoom, it's quite unusual for people to do that. It seems like on Zoom, people think like it's like an on time thing. But Doug, Doug, usually it turns up exactly on time.

Hall T. Martin: It assumes everything's going to go well with zoom. Sometimes it takes a while and has things to [00:01:00] do to set up.

Katy: Now, feel free to remove my source scribe.

I'm trying to, it's a, it's a little note taking it. Um, but

Hall T. Martin: most, most everybody have one. They have an AI system and otter fireflies, something.

Katy: Yeah. Yeah. I, I, it's hatched to me and I haven't [00:01:20] figured out how to make it go away.

Hall T. Martin: Once you're in, you're in for good. It looks like,

Katy: yeah, where are you located?

Hall T. Martin: We're in Austin, Texas. How about you?

Katy: Oh, um, well I'm kind of unusual in world tree. I'm actually in Canada, um, in British Columbia, [00:01:40] but we are a us company. So Doug will be calling in from California and we have team all over, um, all over the U S, Canada, Costa Rica, Mexico, Guatemala.

Hall T. Martin: Yeah, no, we have a lot of Canadian companies coming through our program as well. Uh, so it's not unusual, [00:02:00] but, uh, yeah, looking forward to it. I looked at what you guys are doing there. It looks pretty interesting. How'd you get into it?

Katy: Well, in my case, I, uh, so I used to be in, so I have a PhD in anthropology, and then I moved to North America, 2001, joined the dot com, [00:02:20] everything, and got involved with computer software.

And, uh, sold my company in 2012 and started doing business consulting with companies committed to environmental change and lots of different companies. Um, but in 2015, I met Wendy Burton, [00:02:40] who's the founder of WorldTree, a little three person company, um, Really great tree, really great energy, but no business model, like none.

Um, so I worked with the, with the team and we redefined WorldTree. We created a completely new [00:03:00] business model for the company. And when that started to take off, which it did very, very fast. Um, I joined the company as a full time staff member in 2016.

Hall T. Martin: Yeah, that's great.

Katy: And since then we've grown to 300 tree farms.

6, 000 acres. [00:03:20] Um, here comes

Hall T. Martin: Doug. Okay. Hey Doug.

Thanks for joining.

Doug: Hi. Good to meet you.

Hall T. Martin: Good to meet you as well. Yeah. Kathy was just giving a little bit of [00:03:40] background about herself and the company. So it sounds like you're doing some good things there.

Doug: Well, we're working on it. That's for sure.

Hall T. Martin: Cool. Well, I looked at the one page or you sent over and you have a convertible note there as well.

So I just was curious to learn more about where you guys are with it. And it's been about your fundraise and glad to tell you about 10 capital. [00:04:00] Where would you like to start?

Doug: Uh, we could just take two minutes and give you an update where we are. Then we'd love to hear more about you and what you're up to and how we may be able to align our interests.

Um, so we're raising money, uh, at the parent company level first time in a while, and [00:04:20] it's to, uh, raise capital to, so we can scale where we're growing a number of things, both on the lumber side. As well as developing large projects to go with our eco tree program. Um, we we've now got 6, 000 acres planted and really ready to scale as we [00:04:40] go from there.

So we've raised about 2. 5, maybe 2. 6 million on a convertible note, and we'd like to close it at 4 million. So we'd like to close that out. And, uh, you know, sometime over the next, uh, two or three, four months.

Hall T. Martin: What kind of revenue do you guys have? [00:05:00]

Doug: Uh, anywhere from 2 to 5 million dollars a year. Um, obviously we haven't focused on the revenue part.

We focused on the scaling and the growth part. This year will be about 3 million in revenue and next year we should be into the 5 million and then continuing to [00:05:20] increase from there.

Hall T. Martin: Okay, and that's just selling the hardwood trees. I read you were doing that and that sounds like that was your business model.

No.

Katy: Oh, Doug's cutting out. So I'll answer that. So we have three, we have three, you're cutting out Doug. You're [00:05:40] like frozen. And then we hear a word every 10 seconds. All right. I'll turn off your video,

Hall T. Martin: Doug, and see if that gets better bandwidth.

Doug: Yeah, don't know what the issue is. That's kind of crazy. Um, anyway, so we um, [00:06:00] uh, we've got two to five million dollars in revenue.

This year should be around three million. Next year five million, five million and up. The revenue comes from management fees for managing our ecotree program and when investors invest money they pay for the trees as well [00:06:20] as for us to run the program manager. market lumber and so on. Um, unfortunately, we can't go into a factory and manufacture lumber.

It takes 10 years to grow. And we're about two years away from harvesting our first fields. So [00:06:40] we, we do go out and purchase Harvest and mill some small independent growers out there, you know, 1520 acres, but we won't start to do our larger amounts and for until two years from now.

Hall T. Martin: Okay. All

Doug: right. Yeah. So there's management fees and then

Hall T. Martin: there's lumber sales, I [00:07:00] guess.

Doug: What's

Hall T. Martin: that? So there's management fees and then there's revenue from selling the lumber itself.

Doug: And, uh, you know, we've got about 300 million worth of lumber that's in the ground right now. So it's very rare that you get a company like ours, sort of between, uh, seed and [00:07:20] series a that has that level of assets ready to perform.

So anyway, we're kind of an anomaly when, when we look at it that way.

Hall T. Martin: What's the valuation on your convertible note or valuation cap?

Doug: Yeah, we put a market cap of 35 million in, which our board and us [00:07:40] thought was very fair and reasonable. It's high given where we're at, but it's when you have this much, You know, this value of assets already in place.

It was anyway difficult for us to do much lower than that. Um, so, and also would love your thoughts about it [00:08:00] because we're open to modifying that if we need to in the future.

Hall T. Martin: Well, you, you eliminate a fair number of angel investors, which is usually who we're going to at this stage. Cause, uh, otherwise we're really going to venture PE firms.

And if you have that much in assets, you can probably make the case that some, you [00:08:20] know, institution, family office will come in and put in money because you've got assets to back. Click to collateralize it. You could take out revenue. You could have loans with that as a collateralization as well for some portion of the raise.

If you want some venture funding, you know, seem like there would need to be a venture component here as [00:08:40] well. And I was curious, why are you going after angels and family offices and VCs in this case?

Doug: You know, uh, we've, you know, we've spent the last couple years in the institutional side, um, raising project money for our large project.

So each large project that we develop is like a [00:09:00] 20 million dollar project. I've got some commitments to get those up and go in and funded. Um, and I tell you, I just, uh, you know, that there's so much risk aversion on the, on the institutional side, meaning they don't want to be [00:09:20] first. They don't want to invest in anything until there's offtake agreements for tens of millions of dollars worth of lumber, you know, a host of things like that, that have led us to think that we're still better off with, um, the family office venture high net worth individual as [00:09:40] opposed to institutions.

Hall T. Martin: Where you found the most traction so far in the initial raises.

Doug: Well, for us that the 2. 5, 2 point, I think we're at 2. 6 million have come from our ecosystem, meaning people that know WorldTree that have invested on the retail side and the EcoTree [00:10:00] program. They've done that for several years. And then they, you know, we have a couple of 500, 000 investors into the convertible note, and then a number of one to 200, 000.

And then Number of 50, 000, but they're mostly all people that we've known or have known WorldTree in the past. This is our [00:10:20] first, you know, venturing out with, um, um, you know, uh, us angels is our first sort of venturing out of our own ecosystem. And that's when John said, Hey, we ought to talk with you. And, uh, so so we're finding

Hall T. Martin: interest from [00:10:40] angels or family offices, which were more prevalent.

Doug: Well, again, with their own network, it's a mix of both. It's, um, it's angels and family offices, mostly individuals. Um, and we haven't, um, again, we're just really newly into the phase [00:11:00] of reaching out at the corporate level. U. S. Angels was really one of our first key events and we had about nine or ten people from that call want to follow on with another call.

But I mean those are early in the conversation stage. Right.

Hall T. Martin: And would you characterize them as impact investors that were really coming [00:11:20] in? Was it the impact or was it more the, uh, the financial return? Or I know it's always a mixture of both, but what was weighing you? I mean

Doug: the people on our network are very much impact and return return.

People in John's network at U. S. Angel is it was all return. I mean, I think we, we haven't spoken to them individually yet, but [00:11:40] I think that was the bulk of it.

Hall T. Martin: Okay. Um, yeah, no, uh, impacts a great, great place to be. I find the challenges aligning the impact that you have with the impact the investor wants to have.

Um, United Nations has like 16 different impacts you could be after. And those are very broad based education, poverty, [00:12:00] wealth, water, et cetera. But, um, you know, getting alignment was always the challenge in that to make sure that you had a one out of 16 chance of connecting with the investor. There are funds out there in this space that would be interested in this, I think, because it's, uh, environmental.

And it has a, what I would call a sustainable business model behind [00:12:20] it. Uh, some impact is they're really just a nonprofit. They have no way to make money except for taking donations. And investors are a little bit leery of those, even if they don't call it a nonprofit, they, their business model kind of predicts that here, it looks like you have a good business model that you can actually make money and you can actually collateralize it with.

The assets that you [00:12:40] have, which are increasingly getting more valuable, of course, and then, of course, it has a great environmental impact as well with the carbon sequestration and the fast growth, et cetera. So it seemed like a great opportunity for sure.

Doug: We think so.

Hall T. Martin: Okay. So what we would do is go out to our [00:13:00] network and emphasize the impact Cortion of it.

What? One way we I've done this in the past is instead of trying to find impact investors that align with us, that try to find angels and family offices that, uh, they like the financial side of it, but, but they, they appreciate. There is an impact on the other side and it doesn't [00:13:20] have to exactly align with their interest in water or whatever.

It's just, it's just a good, uh, Good benefit to society. You know, the old saying about angel investors is they want to have a little fun, do a little good, make a little money. And so we're checkmarking all the boxes for him, so to speak with this, because you got a great impact there as well. But if it's pure impact, I find that [00:13:40] sometimes can be hard to get.

You know, complete alignment with all the investors in our network, but we would put it out there to our network. We take your deal and deck and put it in a warm mailer, send it out to our network, build a list of initially interested people. And then we go out to our, uh, Those guys and invite them to hear you pitch and our online events.

And then [00:14:00] we do in person roadshow events. We found, uh, Zoom is a great way to open the dialogue, but getting out in front and people directly really takes the conversation to the next level. And our next roadshow will be June 12th in Chicago. Then we'll be in Austin, July 11th. It'll be in Dallas, August 22nd, and this is a 10 to [00:14:20] 6 p.

m. type event. You pitch, answer questions, have two hours of networking time throughout the day with the investors. So it's a great way to get up and meet with them. And then we have dinner events to close. Uh, like I say, online is a great way to open the dialogue, but it's hard to pick up checks that way.

And so we have to go and get people back together and dinner [00:14:40] events to do that. So that's what we're working on. Uh, we're 3k a month for a three month commitment. That's a retainer model. We're not a broker. My background is I started three angel networks and back in 2006, seven and eight, and then started this in 2009, been doing this for 12 years, raised over a billion dollars and have found that, um, uh, brokers [00:15:00] don't, are not allowed in the deal by VC bonds or angel groups, and we didn't want to lose our, our network, so to speak.

So we went this way with it. We have a good, uh, impact network here in Austin that we go to. And then there's many, many around the country as well. That would be a. So we would go after the impact ones for sure to see how we could play with them. I don't know if [00:15:20] you already approached them or not, but we could do a reach out to them and make, make sure that's a component of the campaign.

Doug: Yeah. Um, and let's see, what would you need from us early on to, if we decided we wanted to work together and get started?

Hall T. Martin: We usually the pitch deck. In this case, you've [00:15:40] got the one pager. We could use that. Uh, pitch deck could be a little bit more expansive and thin around it. We put the, the, the deal highlights like the terms of the deal, short elevator pitch, call out some of these key value propositions, like the value of the trees in the ground, the value of the trees that are coming to harvest soon.[00:16:00]

Uh, you do have to justify the 35 million. That's a, that's a bit of an outlier. But then the vast majority of startups don't have those level of assets either. So it's a lot, you have to kind of explain that to people up front.

Katy: You should have got a pitch deck on that first link. Um, but we'll certainly have [00:16:20] that sent to you and make sure you've got directly the link to the.

Hall T. Martin: Okay, sure. Sure. We, we, we, we can certainly use that. And of course the pitch decks are always being updated. We always like to keep up with the latest one.

What was your question, Doug?

Doug: I was going to say, what's the typical kind of valuation or market cap that you see for a convertible node or people that I [00:16:40] mean, just on average, I know it varies, but on average, what would you say?

Hall T. Martin: Well, given the revenue, you're kind of at the series a level. So you would see, uh, uh, 10, 15 million is what you see in most cases.

Those are usually technology deals. Uh, here it's, uh, not, you know, there's an impact component [00:17:00] instead of a technology component, but still it's, uh, has kind of some technology built into the tree itself, I would think. Uh, so that's, that's why a lot of angel groups have rules about not investing over 10 or 15 million.

Dollars. Here you're at 35, but you know, the, the value in the ground is, and there's, there's a risk reward to that as well. That, you know, [00:17:20] that's, that's the current valuation today. Who knows what it will be, uh, five years from now, 10 years from now, when it really starts to come to harvest. So there is a risk reward component that people have to take on as well.

Uh, so, but yeah, it's, uh, that's what you normally see.

Doug: Yeah. Okay. Fair enough. I just wanted to understand how much of an outlier [00:17:40] we were. So I totally get it.

Hall T. Martin: Right. Uh, so angel groups, some, some angel groups probably would not take it, but we would go with individual angels and family offices. Did you get any venture capital going after this in any way, shape, and form?

I would not think so, but I'd be curious.

Doug: Yeah. I mean, again, we haven't looked, we haven't looked at it for the [00:18:00] corporate level. So this is really our first venture outside of our network.

Hall T. Martin: You ever go after any ESG based funds?

Doug: Not any funds. No.

Hall T. Martin: Okay. Uh, there for a while, you know, environmental social governance funds were all the [00:18:20] rage.

I think they've come down a little bit. I don't think all of them had great returns, but still, there are some good ones out there that would be of interest in this that we could go after. Uh, so there might be something there for it. Uh, what, one thing I found is that what gets. The impact investor excited is if you can show them an [00:18:40] impact metric where every dollar we make in revenue, we do X amount of good.

For example, we, you know, we can graduate 10 more students and you can plug that into your financial model and then roll it up. And so at scale, it's a, it's a very substantial impact you're having. If you can boil it down to a [00:19:00] metric that fits into your current financials. Do you have an impact metric now in mind?

Doug: Uh, you know, one of the biggest things is carbon, you know, the carbon sequestered as we scale. It's, uh, it's easy to measure. Um, it's easy for an investor to see the difference that they make. [00:19:20] Um, so that, that's one of the simplest ones.

Hall T. Martin: For every dollar of revenue you make, but how much carbon are you sequestering?

Doug: I don't know about every dollar of revenue we make, but, um, You know, if we scale the way we want to over the next two years, we'll offset the entire [00:19:40] carbon footprint of San Francisco.

Hall T. Martin: Okay. And so what we want to do is somehow capture that you have to really, because people say they're doing good. And then I dig into it and well, they graduated three people last year.

Well, that's, that's good, but that's, that's not a lot of good. It's just a little bit of good. And so we have to quantify it for people. And [00:20:00] like I say, if you can map it back to a financial 10, 000 revenue, we, we sequester. Uh, 100 metric tons of carbon, what, whatever that might be. So, uh, or cubic tons, I guess, uh, would be the number, but the idea is you want to get it back to, you know, how much that is for San Francisco, how much that is to [00:20:20] your revenue.

Okay. That's, uh, X dollars. Uh, that, that's the, that's some, something that we can start to get a sense of what that is and how, how, and over time, how big that can be as well. And like I say, if I, if I map it onto my five, five year financial pro forma, then as you map out the pro forma and go [00:20:40] forward with it, boom, there, there, there goes the, that there is included your impact metric.

And that's, that's where you want to be is right next to the financial numbers, so to speak, not separate from

Katy: Well, I've got a few questions. I'd like to just go through the different because it sounds to me like you have like [00:21:00] a, a number of different companies that you're representing on the, on the zoom calls and then this road show. And then the dinner event so on for each step so like online event, how many companies are on there, how many attendees.

If you could give me an idea of what that looks like. [00:21:20] Okay.

Hall T. Martin: So in the online events like the quick pitch and life science syndicate, we have 3 to 5 investors on the panel. You have 8 to 10 investors in the audience. On average, we do 5 of these a month. One's a quick pitch for tech. One's the life science pitch.

One's an AMA. Ask me anything. One's a hot topics. And one is a family office panel. So [00:21:40] the idea is we have different formats and different structures, because sometimes you have content, it gets a different group. And so we do it that way. So those are the online events, the in person event. We were just in the Bay area.

We had 50 to 60 people in the room of which 35 to 40 were investors. And we had three rounds of pitches. We had four in the morning, [00:22:00] four in the early afternoon, and four in the late afternoon. And people kind of came for different sections. They came to the morning, went to lunch, or they came to lunch, went to the first round, and they came to the third round, and then they stayed for happy hour.

It's hard to get somebody there for all day, given other things going on. But we had a good turnout and always had 50, uh, Plus people in the room. [00:22:20] And so we have 25 companies in the program. Uh, it goes up to, 20, up to 30. And so we're, we're always hovering in that range there. We don't go past 30. It's too many to cover, but that's, that's what we're doing.

Katy: And then the, the dinner events, sort of the closing bit, is that just, just for how [00:22:40] many companies, that's just

Hall T. Martin: you, that's just your company. And we go back in. So if we did the. Came to our Bay Area pitch for May 15th. We would want to June 15th, go back to the Bay Area, invite those who heard you pitch to come out for a dinner event.

You either be a formal dinner with the private dining room, steakhouse type thing, or it's an informal dinner where we're just sitting out in the [00:23:00] main lobby room with six, seven people around us, and we're just going through and giving them an update, explaining how it is and just having dinner with people.

Yeah, you can bring handouts, but usually by that time, they, they kind of know what the deal is and they're just trying to get their questions answered and see More about, well, if I joined, what exactly am I joining here? So, and getting to know the people is a big part of [00:23:20] that. Dinners work out really well with that.

Katy: Right. Interesting. Cool. So the 3000 a month is just covers whatever activities happening at that time, and we sort of meet with you to. Figure out which things are appropriate for us when,

Hall T. Martin: right? The three K is the standard fee covers everything. The only other [00:23:40] costs is if there's, uh, we do have to pay for the food at the room and some people opt for the 60 head restaurant, that's fine.

Or they want to go for the 5, 000 steakhouse with. All the great stuff that, you know, that's, that's another option as well. And there's everything in between we can pick out the key areas. We find we do most of these are in Austin, Dallas, San Francisco, [00:24:00] Bay area, Chicago, New York city. Those are kind of our large concentrations, although we can do them anywhere else.

We've done Seattle, we've done other Houston and other places also. It just depends on where the interest is.

Doug: Okay, super

Katy: excellent.

Hall T. Martin: Uh, well, what I can do is send you some details about how we [00:24:20] work campaign proposal guys can look at that. And if you have any questions, we can jump back on a zoom. If you wanted to join, you put in the 1st payment, but then after that, we would set up an onboarding call the next day.

And the goal is to get the intro mailer out in one week. Once you had the mailer out, it takes about a week to go through all the lists. And then you start pitching in our online events. And then we started, uh, [00:24:40] we can do other things like come up with valuations to justify the valuation you have. We come up with other tools to like, we would sit down and maybe work out your impact metric.

Well, how do we quantify it? How do we put it on the finance? Financial projection and make, make hay with that. Here's what we're going to do, because that's a, that's a big [00:25:00] part of it. And figuring that out, it takes a little bit of work. We have to go do a little bit of math, a little bit of, uh, structuring and figure out what we think we're actually doing out there.

And they have to be able to look at that and see that, you know, not, not just guess it, but we, we, we can see how a connection between your business and what you're doing, And the impact you're making in the market, but it, [00:25:20] of course, it's a big, big topic today, uh, climate change. So I think you have a very interested audience and how you're doing it.

Doug: Yeah, right.

Katy: Very good. And then I have one more question at all. Do you notice any sort of seasonal variation in investor activity? For example, you know, does it go quiet [00:25:40] over the summer months or stay stable? Or what do you notice on that?

Hall T. Martin: So if you're tied to the angel group world, they, they don't do a lot in December, July, if you're not tied to the angel group world, just about, you know, age, individual angels are always looking at deals and family offices are always looking at deals and VCs are always looking at deals.

Uh, so there's, there's that [00:26:00] aspect of it. So. We, we run year round. Uh, we really don't do much the last two weeks of December. So, uh, anybody, anyone whose campaign goes over the last two weeks of December, we just give you two weeks on the end of your campaign to make up for that. Cause there's just no getting around it.

But every other week of the year, we're at, you know, we're at work doing [00:26:20] something at some level.

Katy: All right. Cool. Great.

Hall T. Martin: All right. Well, I'll send it over to you guys. Thanks so much for taking time and, uh, we'll go for the next steps. Thanks so much and have a good day. Okay. Bye.