

PK Pod 111 - Raleigh pt 2

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SPEAKERS

Matt Hunckler



Matt Hunckler 00:14

Hey powderkeg fans. This is Episode 111 of powder keg igniting startups, the show for entrepreneurs, leaders and innovators building remarkable tech companies in areas decidedly outside of Silicon Valley. I'm your host, Matt Hunckler. And today, I'm really excited to bring you a very special conversation. This is from a live event that we did in Raleigh, North Carolina just a couple of weeks ago. In this short sort of highlight, our panelists are going to discuss the sort of ins and outs of raising capital in Raleigh Durham and the surrounding triangle area. But this is very applicable to other tech hubs outside of the valley, very sage and wise advice from real people in the trenches. So you're gonna get to hear from experienced tech leaders such as Sonia ebron CEO And co founder courtroom of five, and they were fresh off of a win at a pitch competition. Mike Schneider who is the co founder and CEO of first raising over \$10 million, they're in the Carolinas doing some really exciting things in the real estate space. other guests include Brandon Martin, who's a principal at CLA, he came in from Charlotte, North Carolina, he talks to dozens, if not hundreds of tech companies around the Carolinas area. So he brought some really good advice and perspective on the financial side. And then finally, Molly Demarest who's the general manager of American underground, which is sort of like the biggest organization for tech startups, large scaling tech companies. They're in Raleigh, Durham, Chapel Hill region, as they call it. They call it the triangle. They're in North Carolina. And this is a really good conversation, lots to learn not just about that particular region, but specifically about how to grow and scale and raise the right capital. If you're in a market that's not Silicon Valley. Are your New York City. So I hope you enjoyed the

episode. And feel free to drop a comment as we go. I'm really excited to talk to all of you about what you're seeing from a fundraising standpoint, it is one of the hot topics in every community around the country. We are seeing is the first time in history that tech outside of Silicon Valley this year grew faster than tech inside of Silicon Valley from the standpoint of venture capital investment. So it's turning but still a 75 80% of venture capital goes in just three states, California, Massachusetts, and New York, Boston, San Francisco area in New York City. How can we kind of help change the trajectory of that and what are you seeing here on the ground? And I'd like to start Mike with you because you've raised 10 million in capital. You're on a tear right now. But I imagine it wasn't as simple as just kind of putting the call out for dollars. No.



02:58

I don't know that. I can speak to the systemic things as well, as you know, some of the other people on the panel before this, I can just speak from my experience. And that is it. You know, I think there's great seed capital opportunities here. And I think there's we've got that covered, we've been really focused there. And I think the next phase is kind of this series A Series B, and there is zero, the triangle. So how did you figure out how to do that for first? Yeah, so from the time I told her board, we're going to go raise our a round and we decided to go go out do that was six months in six days when we closed our a round, talk to 76 different fun partner meetings 76. You know, all across as close as Atlanta but I, you know, I do all the direct flights to San Francisco. I was on them many times, multiple times a week sometimes. So San Francisco, New York, Chicago, we actually ended up raising from Chicago. So we had term sheets from San Francisco fund and Chicago, Chicago. So I'd say you know, Scott window has mentioned the panel before this. It talks a lot about the tweeners. No million to 80 million, and that's where we have a big Funding gaps. So get ready to get on a plane if you're raising venture funding in your area.



Matt Hunckler 04:05

What did you hear? Did you go? Or did you get any feedback from the VCs about being a quarter in the triangle of pros? cons?



04:11

Yeah, I'd say that of those that were interested in getting us a term sheet. almost a third of them said when he moved to San Francisco. Wow. What it is and and we're serious about that, right. I mean, it was a this is a great product company, all the talent ecosystem, we can, you know, we're excited to leave your eight Andrew v. You got to move out here. So

we actually considered it my wife, I considered it we thought about moving, you know, small team at that point. But we really felt convicted that you could build a great team here. We already had a remote Devon data science team where we could hire the best and brightest, whether it was here in the triangle or anywhere. So we felt convicted that we can continue to build right here and and so we found investors that were excited to back that. That's wonderful. But I wanted to I've shared my list of funders that I talked to and the you know, it's very painful to get all the way to that final question. And then have them say I'm not going to get on a plane. And so you need to move. So I think that, you know, I'm happy to share that less for anyone who wants it that's excited to invest outside of San Francisco or New York. There you



Matt Hunckler 05:11

go. Feel free to email me if you want to get connected to that list. I can I can play



05:17

mediator if



Matt Hunckler 05:19

you're busy running a scalar. Sonia, I know you just can't get off the heels of winning a big competition. Congratulations. Can you talk a little bit about what it was like getting that startup off the ground and getting that initial funding?



05:32

Yeah, absolutely. Um, you know, we're still two person. Firm. We do a lot of freelancers we bootstrap. We've raised about \$100,000. So far, family money, grant funded



05:50

to 10 million, right.



05:53

That is all stars. You know, for us. It's really just the commitment, the passion, the story,

making sure that we're able to commit indicate that and really just working 20 hours a day, you know, that's what you have to do when you decide to bootstrap for as long as you can. So it's been very gratifying. We're glad to be where we are. But it's, as everybody knows, it's hard. It's hard work.



Matt Hunckler 06:14

Well, you just want to pitch competition, any any pitch tips, founders out here,



06:19

I talk to investors talk to have as many conversations as you can. One of the beautiful things about being here in the triangle is that, as we've already heard, it's easy to get a meeting. But the beautiful thing is that they also give you great feedback on your concept. And particularly when you're starting small. They have great ideas. Thanks. You just may never thought about that should too deep in the woods. So have a lot of conversations. Try to get yourself on that investor vibe. And that really you find helps you improve your pitch. That's great advice.



Matt Hunckler 06:49

Molly, how about you? I know you work with I don't know if it's 200 or over 300 or if there's an accurate count right now, but ever changing. What are you seeing in American undergrad? I know you've seen lots of times. To start their grow their graduate them to bigger space.



07:04

One thing that's been really surprising over the past couple years, right, really this year is how many companies are focused on revenue and traction more than I think I mean, bootstrapping, like this desire to own their company, they want investment, but they want to have controlled investment when they're ready, like on a level I've not seen before. And it's actually directed some of our approach for how we're supporting team so I guess about a month ago, we shared with the community that we have a goal of connect that all companies would connect to at least one customer investor of the raising employees are hiring the resource through the AAU community by September next year. So all of our programmatic support our partnership approach, everything is going to be around that goal. Partly because customers, that's that's a funder, and we want you to own your

company, when you think about generational wealth, and we want you to get the funding that you need to Scale quickly. And so trying to connect them in all the different ways that they need is definitely an approach. And then part of why founders exchanges here. We did an investor day we had over 20 investors from across the country somewhere regional, somewhere national that came in. And we spent the morning giving them an overview on the history of entrepreneurship in Durham, black Wall Street, black Wall Street homecoming was happening that same week, overview on the region, so it included like idea, fun partners, as well as Motley Fool, or growth backs that were coming in to understand how many flights are coming in out of a day. Why is this a place that you should invest? Talk about the universities, what is the quality of life look like? Because if we can educate them and empower them with the stats on why they should fund a company here, then they might tell their other peers. And so that's another big approach that we're taking right now to educate more investors. We actually have a list of over 10,000 that we've been working with, and it's been really interesting to see on a national level. How They started responding and like we have one common couple weeks ago and \$27 million fun. And she was just like, I want to come meet with companies and she met with eight companies on the spot.



09:11

That's how easy



09:12

Yeah, there was definitely an appetite for it. And



Matt Hunckler 09:16

one of the biggest stats that really make investors eyes light up.



09:21

I mean, there are investors in the room.



09:25

Other people perspective, what I'm hearing is they want to know, traction, they're investing in the individual. I think what you're seeing with the wework stuff and other

things is making people will question where their money is going in their approach to that. But they're ultimately an investment in your company and investment in you. And the other thing when I think about our approach with au is how can we help the founders we work with be the best, like the highest functioning individual, healthiest individual, their companies will be a result of that which will make them a better candidate. For investment,



Matt Hunckler 10:01

which is often what we're hearing, absolutely. But Brandon, you and I talk a lot about traction. We talk a lot about what kind of metrics companies need. You work with tons of companies out of the Charlotte office, but across the Carolinas, what are you? How are you coaching entrepreneurs to get their financials ready, besides pay their taxes? To get their financials ready for that next, or first or next round of funding?



10:25

Why don't we start off first, let's say this is a really humbling space to be in I feel very inadequate and small being here with all you guys. So I want to acknowledge that on the front end. So appreciate you having me here. You know, the the biggest thing that I find to being the the core of a conversation is that we can't be reactive, right? You got to be proactive. You know, you mentioned Brendan having that conversation with with an attorney. Hopefully you're not having that after you get some kind of notice that says you're deficient or something right. You want to have those personal advisors, that audit advisors, whatever that is that started having that conversation early on, because all of this stuff, you know, if done in the right time in the right place can be done in a pace that's more of a marathon versus the disrupter. Because the last thing we want to do as a, as a firm or a CPA is just to come in and just totally turn your world upside down, so that you're doing the exact opposite of what it is that I'm trying to coach you against, which is, you know, being the weeds of the fight. Right. So, you know, that, to me is always the challenge, right is to, yeah, we can help you with the detail stuff, right that most CPAs can do. But what we really want to do and what I really enjoy doing is helping you and getting a 30,000 foot look at what's going on with the business telling you maybe here's a blind spot, have a candid conversation about something that maybe you aren't thinking about, and they connect you to other folks that were that are in the ecosystem, they might be able to help you with that some of those folks might be on my bench. Some of those people might not but at the end of the day, I just Wanna help you out? And I think most folks, and we already talked about that just about the ecosystem and it's not isolated to the triangle in Raleigh. It's all the way down to Charlotte. It is the Carolinas, it's a spirit

that's here, that I can attest to going into other offices, even within our firm going to other offices and other regions. And just there's a spirit here giving and leaning in and starting from, how can I help you and then the rest of it just naturally kind of takes care of itself.



Matt Hunckler 12:27

Mike, when you were raising that growth round, what kind of metrics were investors honing in on? Mostly, because at that point, you certainly weren't pitching on idea. Founder pedigree,



12:39

right. Yeah, I think that I think that it varies. I think one of the things that the SE funds will be all about sales and efficiency and growth, right. Which is a very different conversation from the A rounds in San Francisco. They're looking at how's the product doing? How are people engaging? How big can this be? Be not assuming you figured out your growth yet. So if you're in San Francisco talking about a \$10 million a round that is to build your growth engine, assuming you have the product. If you're looking for a \$10 million route in southeast, you'd better have some great revenue and margins. And it's just it's fascinating how different those conversations are. And I think it's important that you know, what kind of company you're building, and if you're building a product driven company and start those conversations at your seed round, so you've already built relationships and tracking.



Matt Hunckler 13:26

Yeah, I mean, I know when we raised our friends and family round, it was like, what's the model? How much money are you putting in and how much is coming out? And it's just a different? It's a totally different paradigm. Glad we had. Molly, how about you? How are you coaching entrepreneurs on the ground, when they're looking at preparing a pitch to your network of 10,000 plus investors?



13:52

And I think it varies on the entrepreneur. So part of what I think that we as an organization can do well is build a curated audience. When a company's ready, and that's a big focus of ours, even more recently is how do we engage with the audience so that the minute that you're ready to raise and when we know what your profile is, we can get you

connected with that investor immediately. We're actually working with some local angel investors right now, to do an understanding funding option, but also to create like a quarterly process for our founders to upload their pitch decks, to then get it to the regional local investors and try to automate that a little bit more. And hopefully, some of those processes will kind of spread the wealth a little bit. I think one of the things that we can also do is make sure we're connecting people with the information that they need so that they're empowered to make the decisions. And so I don't, I don't want to be in a position where I'm like, you need to raise funding, this is exactly what you need to do. But if you can get connected to the people that you need to talk to, that you can understand what this I mean VCs like one form of investment But you've got to understand how the asset class works to know if you actually want to take that on. And I think a lot of people assume that that's exactly what they want to do. But that's just because it's like VC talk in the community. And that may not be the path for them.



15:14

That's really great advice.



15:15

Sorry, VCs, you have a role and just



15:19

buy everything.



Matt Hunckler 15:20

Oh, absolutely. You want to raise VC dollars for VC scale type of businesses?



15:25

Sorry, one more thing. Yeah. board seats is something that we talked a lot about founders exchange was with money can come a board seat, which can lose control, how do you negotiate through that to also maintain control where you can and that's a whole nother level of all the other things that come attached with funding that people often think about.



Matt Hunckler 15:44

Any advice on that friend Sonya that you took away those conversations?



15:48

Oh, yeah, times. You know, at our stage, it's really impossible to value the company particularly that we're a legal tech company. There's a lot of flux in the in the legal industry, we have no idea what this company is going to how it's going to be valued in a very short period of time. So we're trying to avoid those valuation conversations with convertible notes, convertible securities and that sort of thing. And it's a difficult conversation to have here in the triangle, it's still fairly new. So, you know, in terms of having board seats and stuff, we're trying to, again, just avoid those conversations as a whole with some of the newer financial instruments.



Matt Hunckler 16:27

Yeah, that's a great opportunity for founders starting out to raise that first round and just defer that conversation. Key move at speed is everything right?



16:35

Yes, that's right.



Matt Hunckler 16:37

Absolutely. Any Any closing advice? Michael Brandon, on raising capital in the Carolinas that you learn, either through the school of hard knocks or from advice that you got externally.



16:51

I think it's tangential, but similar to what Chris was saying is that this is becoming a great place to recruit to, and I'm really excited about that when you do have something proven has has venture scale, there are a lot of people sitting in San Francisco with families crammed into an 800 square foot house, that they're paid up \$1.6 million for that would love to move here and have a great growth opportunity for their next career move as well as a life and real estate. So we've actually been very successful recruiting people that

have, you know, scaled companies before. And I think that's a huge asset, if you can bring those people on the team early, because you've proven that you are better basketball and, you know, we're at great success with that.



17:31

Absolutely. How about you version.



17:32

So maybe two things, one that I continually hear out in the, in the market as you work with entrepreneurs is, is at some point, they have this epiphany that their idea may not be as unique as they thought it was. So they're sitting there hiding it and not wanting to have a conversation with with somebody that they think is gonna go take their idea and go back to a lab and start coding that that evening or you know, whatever it is that they think they're going to do. So they miss the opportunity to come with folks in their ecosystem that can help them take their game to the next level. So so to get out there to have those conversations, figure out what it is that you're trying to do and allow folks to help you when they really are trying to do that would be a great thing for you to do. The second thing is, as you kind of go through that process is figure out what you need to get to that next mark, and your journey, whatever that may be. You had conversations with folks and they say they're bootstrapping this thing, or they're gonna go out and get some money. And they're pre, you know, pre design, and they're saying, This is what we think it's worth, we're gonna go out there and get up to a million dollars to do this. I said, Well, within a day, where's that lead you? You know, you're going to go and get all this money and your pre development, let alone pre revenue, and you want all this money? Where is that going to put you on the cap table? So taking a step back, figuring out what it is you're trying to do, and say okay, maybe all I need is this 250 or this three or 500 grand to get me to where it is. I tried to go and Then have another conversation is always something that is a pretty candid conversation but to bring in it's one thing here for me as a service provider Sai, CPA guy David's created to talk about, but to go bring another player that's in the market and say, No, I learned that lesson myself and then not only have that person but maybe another one that helps bring that all together and makes it a lot more tangible and real. It's a good conversation. Those two things, I think, continually hear that people need to be thinking about,



Matt Hunckler 19:29

it's great advice. I appreciate you all sharing your perspective on raising capital in the

Carolinas and beyond. So can we give it up for all of our speakers