Notes by Mike Doyle of Goldin Ventures for 11-11-2021 Ben Franklin Capital Call

Can you give an overview of your investment process at Goldin Ventures?

We see hundreds of companies each year. Some we meet at events, others we are introduced to by our network of other investors or entrepreneurs we know or have invested in, who are connecting us to their friends. Also, companies we met and liked but were too early to invest in and yet we agreed to follow their progress. Direct outreach from entrepreneurs and social media.

Our goal is to get to yes or no as quickly as possible. This honors the companies by having them engaged with only those investors who can get to yes (something I experienced as critical when I sat on the other side of the table).

It begins with a meeting, let's say at an event. That leads to a sharing of an investor deck, followed by a Zoom call. If we agree to continue then there is background work followed by a face to face meeting. Then our first decision point, where a preliminary internal review doc is created. If moving forward that means we are 50% or more likely to invest. Then there is a another Zoom call, this time with my partner. There are follow ups from this session and then another brief partner discussion. If through this gate, then we are 75% likely to invest and we move to final diligence which includes discussions with other new or existing investors, customers and perhaps others. Then a final investment review document is completed with a detailed analysis which leads to a final decision review between the partners.

We tell entrepreneurs that getting to an investment decision is often a 6 to 8 week process from start to finish but there is lots of variability. We are often arriving once a term sheet and lead investor is in place and are part of a syndicate of investors completing the round.

Who does Goldin Ventures co-invest most often with?

Most often with other early stage venture funds, family offices, angel groups and vertically focused investors (segmented by market or for example, B to B SAAS). Because we invest in an extended region from NY to Va and west to Pittsburgh there are some angel groups and funds focused in a limited geography. That means investing in Pittsburgh could mean investing beside small funds such as 412 Ventures while in Richmond there are regionally focused angel groups who dominate the early stage.

How does Goldin Ventures define "Early Stage"?

Our investment thesis calls for us to invest in post revenue companies, yet on rare occasions we will consider pre-revenue. The bar for investing pre-revenue becomes much higher.

What are some red flags when you are interacting with an entrepreneur or what impresses you?

I will say this in the affirmative.

It begins with looking for companies with disruptive ideas, in markets not yet congested with solutions, solving a meaningfully sized problem, inside a larger established ecosystem. So if you were to reverse engineer that statement you would understand what would immediately turn us off.

Ideally suited companies then check all of our objective measurement boxes which are the next layer down.

Yet if we were given truth serum we would tell you it often boils down to people. In the end we are investing in people.

We look for leaders with passion, subject matter expertise, a combination of true north vision/focus along with street smart/adaptation skills. Where our values and interests are aligned and they are capable of leading the company to $20m in revenues.

More specifically we look for those who bring a presence, are self aware, deeply curious, emotionally mature and have people skills. These people will inevitably find a way.

Building a company most often is not a straight up to the right, linear progression. There will be challenges and turbulence both internally and externally. Being an entrepreneur is most like being a pilot. Off course from the moment the plane leaves the runway in a never-ending series of adaptations to weather, wind and traffic while confidently navigating and communicating with the crew and the plane's constituents while protecting the interests of all their families.

What are some guidelines you would offer when it comes to term sheets and valuation?

We are almost never first money in a company. So we cannot advise. The market has shifted over the past year and what was an appropriate size, valuation and stage of the company has changed. What was a seed looks more like an A and the size and valuation of a Series A can look more like a B.

Some money is not worth taking, do your homework on investors.

Markets, in the form of investors, ultimately determine valuation.

Right valuations for all parties enable the capital raising to move forward more quickly and with less friction. Enabling you to get back to your day job, running the business. Make the term sheet negotiation win/win.

Raise more than you think you need, there may be rain ahead.

Approach valuation long term. Investors look for return/value/balance. Take a partnership mindset. This could be the start of what is likely to be a years long relationship and one that may extend beyond the financing of this company. Accomodating reasonableness will be returned in immeasurable ways. Especially important should the business go sideways and the company needs financial support.

Because we are syndicate investors arriving mid-seed stage we frequently arrive at a convertible note stage. This means the business has developed beyond the origin stage yet are not quite ready for a larger institutional Series A. At this stage investors will focus on many things. The cap on the note, the discount and interest rate, maturity date, triggers for conversion to equity etc.

Thought it might make sense to focus on explaining the convertible note cap and discount and how investors may interpret them.

Convertible notes give both the entrepreneur and the investor the ability to avoid the friction of nailing down the valuation of the company. Pushing this off to the Series A or the next equity raise. Convertible notes can happen at almost any time. For example, ahead of a Series B or C etc.

The cap is a term that sets the maximum valuation for this investment when this convertible note converts to equity in the next round.

This cap works in combination with the discount in ultimately determining valuation.

For example, let's assume a cap on this convertible note is set at $10m or 20% discount, whichever turns out to be best for the investor.

When the company completes the Series A, let's say a year later, and the valuation of this Series A is $20m then the investors holding these convertible notes will see those shares convert at $10m, the cap. Not the 20% discount which would have valued their shares at $16m or 20% less than the $20m Series A valuation.

However, if a year from now the Series A is raised and the valuation is $10m then the 20% discount would be more attractive to the convertible note holders and enable them to convert their shares at an $8m valuation (20% discount from the $10m Series A valuation)

While it would seem to be most attractive to a potential investor to have the lowest possible cap and the greatest discount rate, investors may interpret the cap and discount rate differently than perhaps the entrepreneur intended.

For example, most convertible notes begin with a 20% discount rate. When discount rates are under 20% there can be lots of reasons.

Yet when discounts are above 20% it can be a red flag for investors.

While better terms would intuitively seem to be better for investors and become an investment incentive, it is actually something that would make us pause. We then ask ourselves what do we not yet know. I'm not advocating against discounts above 20%, simply having you understand how this seemingly good thing may be negatively interpreted.

What events do you utilize to network with companies?

Events have become virtual, helping investors to be introduced to many more companies. As a result they have become screening events, enabling investors to invest more time in follow up with those best suited to their investment interests. Demo days, pitch events, events conducted by accelerators or organizations such as Ben Franklin conducting Venture Idol and other regional events. But always the best is a warm intro from another investor.

What might be some advantages of seeking an investment from a family office?

From an entrepreneur's perspective dealing with our family office or most family offices in general:

-There is often a flat decision making structure. In our case that means decisions made by the two partners. Clarity for the entrepreneur, often capable of moving more quickly than other investors.

-While it is hard to generalize about segments of investors such as family offices, family offices can often write larger checks than angel groups.

-And unlike small venture funds there are no limited partners. That means family offices often can be more patient regarding the exit horizon because they are not bound by time and the need for returns to limited partners.

What might be some disadvantages?

Small venture funds and some angel groups have limited partners or angel group members who hold high level executive or board roles and are connected in ways that may be of strategic value to a startup. Opening doors, where a family office may be more limited.

Do you have some "rules of thumb" for a company to demonstrate market traction?

We look for revenues of $500k for a hardware company or $500k ARR for a SAAS company. Beneath this traction we look for evidence of technology de-risk, product/market fit, a repeatable sales process, that there is a demand creation flywheel in place, month over month growth in revenues and pipeline and the business operates against KPI's or metrics that enable the company to measure progress and adapt to changing conditions.

Can you tell us about an investment you were most proud of?

I want to respect the confidentiality of our portfolio companies and will not discuss the company name. It is a B to B Enterprise SAAS company who had revenues of $600k ARR when we arrived to invest. This was a first time entrepreneur with a very young team around the CEO. I began as a formal advisor to the CEO and when the business struggled to scale sales I was asked to become more active with the head of sales. Structure and process was introduced where there was none. The business began to flourish and grow to just under $20m over the next 4 years and was sold for over $100m.I was invited to attend the wedding of the head of sales.

Can you tell us about an experience as an entrepreneur or an investor where you learned a lot?

It was when I was an entrepreneur.

I was hired as VP Sales and Marketing by Teleos Communications, a Central Jersey based company, in '92. The business, at the time, was a $5m company. But what I didn't know was that while the company had raised $25m over a 5 year period, the investors were fatigued and the glorious promise when they first invested was clearly over. It was what we would now call the "walking dead", I just didn't know that. Four months after arriving the CEO resigned, the Chairman of the Board was appointed as CEO even though he lived in Arizona and held a similar role with another company along with his VC duties. He would come east one week per month. Zoom and email didn't exist. The investors would have been thrilled to return their $25m had they been able to find a buyer. My role was to hold the business together day to day, there was no such title as COO. We operated with no new capital infusion, factored receivables against new orders to give us cash, didn't take pay for a period, used up all my frequent flyer miles to visit customers and salespeople. We repositioned the company away from the original dream and managed to get the company to $10m when we then got a modest capital infusion. We grew the company to $20m over the next 18 months and now it was time to appoint a full time CEO. The board wanted someone experienced enough to take the business public. A year plus later the business was sold to Madge Networks for $165m. During this time I had a newborn, lived 85 minutes from the office and lived in perpetual fear about making payroll.

With this sale of the company I had a one year contract. When the contract was up is when Allen Organ came calling to ask if I would run their telecom division.

We grew this company from $3m in ’97 to $29.6m in 2000. Then the dot com and telecom meltdown occurred. All companies without indefatigable resources failed. Our business in the first half of 2001 went to a run rate of $8m and lost over $5m. Allen Organ could have panicked but my partner in Goldin Ventures, Steve Markowitz, was magnificent. We were on the path of remaking the company before the market melted down and we adjusted spending and found our way back to profitability in Q3 of ’01, a quarter ahead of our plan. We then went on string of 21 straight quarters of growth and profitability. In Q3 ’06 the company was sold to Sycamore Networks in a public transaction. It was originally for $92m in cash and stock but was subsequently renegotiated at a slightly lower price for all cash.

I learned how important it is to remain present when others have lost their way. How extraordinarily important it is to have backers who are steady and supportive even under incomprehensible strain for them. To honor and transparently communicate with those who got you here and will get you out and finally to invest in strategy development, not as an event but as a way of life.