YS UP GOVERNANCE AND BOARDS PODCAST

Episode 34 – Start-Up Capital, Investment Management, Micro-To-Mid-Cap Listed Entities | Martin Pretty

Transcript

Intro:

Welcome to YS Up Governance and Boards podcast brought to you by 3YS Owls Governance Consultants. Covering hot topics in governance, risk, latest regulatory changes and issues keeping directors and executives awake at night. Here are your hosts Ainslie Cunningham and Deb Anderson.

Deb Anderson:

Welcome to the first episode of YS Up Governance and Boards for 2021. We hope that you all had a great Christmas break and that 2021 is a fabulous year. Today we're joined by Martin Pretty. Martin established Equitable Investors and launched its first fund in 2017, after serving four years as an investment manager at Thorney Investment Group. Martin is also a non-executive director of Centrepoint Alliance Limited (ASX:CAF), a non-institutional wealth advice business, Scout Security Limited (ASX:SCT) and MGM Wireless Limited.

Deb Anderson:

Prior to joining Thorney Investments as their investment manager, Martin headed equities research teams at both Bell Potter and Investors First. Earlier in his career, Martin was a finance journalist for the Australian Financial Review and InvestorWeb, and subsequently contributed to publications, including the Australian, Smart Investor and Eureka Report. Welcome, Martin.

Martin Pretty:

Thank you, Deb. Thank you, Ainslie. Happy new year.

Ainslie Cunningham:

Yes, happy new year to you too.

Deb Anderson:

So, tell us a bit about your journey to getting to this point in your career, Martin.

Martin Pretty:

As you've just read out, it sounds better when you write it out, than when I think about it in my head. It's not the standard journey. When I was 18 years old, I probably didn't envisage that I'd be running an investment fund with a bent on small caps, I probably was focused on becoming a journalist and I had an uncle who was a successful journalist and probably influenced me. And he was a financial review writer at one point in time and has gone back there since.

Martin Pretty:

So, my entre into the business and the finance world was through the lens of a journalist, and that is a fantastic way to meet a lot of people to crash course yourself on all kinds of industries, financial concepts, an excuse to talk to anyone and ask any kind of questions. So that was a very important part of the development of my career, which I look back on fondly, and kind of out of that pointed me in the direction of getting more into the doing rather than the reporting, which ended up with me getting into the world of finance, equities research and investments. And that's it in a nutshell.

Ainslie Cunningham:

And how did you find that world, Martin? In terms of equities research and investment manager.

Martin Pretty:

How did I find that world? It's an ever-changing world, and there's always something happening. But so, I guess, compared to journalism, in the world of journalism, today's news story, today's headline is tomorrow's fish and chip wrapping. When you're focusing on an investment opportunity there's a longer, more rewarding element to it where you're doing your homework, you're carefully analysing and picking your investment opportunities, and once you're committed to them, then you're following them, supporting them, trying to maximize the outcome and that can be used in the making at times. And so, the reward is probably greater and the journey is probably more emotional than what you get in journalism.

Martin Pretty:

In terms of the industry itself, there's a wide array of characters. They're larger than life people. Like a director of my company, my original boss, I guess, in a way when I joined stockbroking world as a research analyst Hugh Robertson, he's one of the greatest characters I've ever seen, and has an amazing ability to pick the companies and raise capital and get investors' confidence.

Martin Pretty:

The same goes to my time at Thorney and working with Alex Waislitz and you observe the way he operates and how he can open a 200-page document of a shareholder scheme or something like that, and he can open at the right page and find the problem and leave you looking a bit silly because you hadn't found it yourself. So, you learn very quickly from very sharp, smart people like that, which there are plenty of. And there's also charlatans in the industry. There's plenty of people looking for a fast buck at someone else's expense as well. And trying to navigate yourself around that is always an interesting journey.

Deb Anderson:

And so, what was the catalyst and what's the philosophy, Martin, behind Equitable Investors?

Martin Pretty:

Okay. So my time in both on the research side and working with Thorney Investments, I guess what I learned from working with the people that I worked with was that the best opportunities in the way I see the world, everyone's got a different view, but the way I see the world is when you invest in smaller businesses with a lot more upside in terms of the potential growth and value uplift for those businesses, you can get to know the businesses and get close to the people running those businesses, rather than sitting there at a screen and just reading ASX announcements and not really having the context of what's behind them and the quality of the people with real ambitions driving it.

Martin Pretty:

And also, part of that philosophy is to get involved and where you can, assist the company, communicate with the company to ensure that they're focused on the things you believe they should be focused on, or they're aware of the opportunities that you can see. I believe that over time we've seen that that's paid off in spades in terms of being not necessarily an activist investor, not trying to oppose current regimes or break things apart, but to be involved and be constructive and try and collectively work for value maximization. So that's probably the philosophy behind Equitable Investors and our fund, Dragonfly Fund.

Martin Pretty:

As you mentioned earlier, I sit on a couple of boards and two of those are investments in our portfolio where we have got involved and we're constructively engaged in maximizing value and helping those companies on their journey and adding value where we can, which is quite often around capital markets knowledge because entrepreneurs and business founders are not born with an understanding of how the financial markets world works. And there's often, as I mentioned earlier, there's plenty of charlatans and there's plenty of ways you can lose your way in the ASX listed world and beforehand, when you're raising earlier funding as well.

Ainslie Cunningham:

So, talking about smaller businesses, Martin, with the end of 2020 seeing a large run-on of ASX listed entities, I think there was 50 in December alone, and there was quite a significant increase in listing costs of 30 plus percent compared to the prior year. As a small business that cost would sort of be a barrier to entry for some companies in terms of attracting different investment opportunity and other capital. There's obviously other options for smaller businesses. Can you talk us through what some of those might look like?

Martin Pretty:

Sure. So, I guess we're probably talking more start-up and scale-up phase. In Australia, we haven't had a history of long, deep venture capital funding, the way the US has and even Europe has. And you go back in time, we even had a second board of the ASX where earlier stage companies could list with lighter regulation and we do to this day have companies list at a much earlier stage in their development in their life than you would see in some other developed markets.

Martin Pretty:

But there are alternatives, and the alternatives are venture capital funding, strategic investment, family offices, offshore funds. And I guess it's a real hustle. And my experience with unlisted companies is unless they're onto something really amazing that everyone can see without doing much homework, you need to kiss a lot of frogs in terms of investors and find the right investors.

Deb Anderson:

Interesting visual.

Martin Pretty:

It's the same running a fund. You see multiples of the amount of potential investors, as opposed to the investors who end up making meaningful contributions. And that's just part of life raising capital that you've got to accept and adapt to, and just know that you're not going to convert, every investor may not convert 50% of investors, but you hone your story and take on advice and feedback from those you don't convert to learn about what different investors are looking for. And every investor is different as well. You will find investors who just don't fit what you're about, your approach to business, your values, your strategy, and you will find other investors completely in sync with that.

Ainslie Cunningham:

Now from the outside looking in, Martin, what sort of tips could you give to start-ups on nailing their investor pitch? Because it can be quite a daunting task for these start-ups and a lot of them are founders and a lot of them have very lean teams with minimal resources. And so, what sort of tips could you give to them?

Martin Pretty:

Yeah, so every investor is different, but the way I would look at it and my advice generally would be to keep it simple. You don't want to have a 55-page deck detailing, everything you can cram in and put that in front of an investor and hope they'll just consume that and get excited. You want to keep it simple. They want to know who you are. They want to know who they're backing. So you want to put that on the table upfront and who you've got behind you, and they want to know what your vision is, they want to know how committed you are. But obviously they want to know what work to date has gone in into it.

Martin Pretty:

I guess there's various models out there on how to go about it, but it's really, what is the opportunity, and why do you have a solution that will make sense to take hold of that opportunity? And clearly so, if we stick to tech clearly, if there's an opportunity and you're the right person, you've got the right people to develop that platform, or you've got the right strategic partner, but it's also, it's always going to come back to the people. Are you people who are driven? Are you committed? I think that whether you're a start-up or a listed company, that's always key.

Deb Anderson:

So, Martin, with your Dragonfly Fund, you're very ESG focused. How are you choosing the funds that the company's going into that fund?

Martin Pretty:

Sorry, Deb, I missed.

Deb Anderson:

Sorry. With your Dragonfly Fund, you're very much ESG focused. How are you choosing the companies that go into your fund?

Martin Pretty:

When it comes to ESG, so we take a holistic view. So, we don't go around advertising that we are an ESG fund, we're a fund that's trying to find the best opportunities, but the way ESG plays into that is that you're looking at valuations of companies. And if a company is not doing the right thing, if the company has a social problem or doesn't have a social license to operate, how much can you value that company at? What's the long-term value of a company like that? You would have to be questioning what the direction is and what could happen to it in the future with regulation, consumer or customer acceptance.

Martin Pretty:

And that's the lens we would look through for every investment, is what is the substance to this business? And if you were doing the wrong thing, you're probably lacking some of that substance. And so, we wouldn't touch. So, for example, we rule out mining and it's not because I have a philosophical view on mining it is because we don't understand it and have the knowledge, we're not Geo's, but obviously a lot of things have been in the press about poor performance by mining companies considering Rio Tinto and the Aboriginal cave situation, or what happened in Brazil with the dams a few years ago with the iron ore companies.

Martin Pretty:

And so, you've got to question what does that do for the acceptance of the companies in regions with those governments, with the people, and what's the cost to them to restitute that and change the perception within the communities that they operate.

Ainslie Cunningham:

I think too, you have to look at that as key learning examples and how going forward, boards can potentially attract more cultural diversity on the board. And would that have happened if there was, say, Aboriginal representation on that board or maybe even down to the subcommittee levels or middle management, would those sorts of things have still occurred? In terms of... Oh, you go.

Martin Pretty:

Oh, sorry. You go.

Ainslie Cunningham:

I was going to ask, in terms of investment opportunities, Martin, obviously we're coming up to the three-year mark with ASIC approving crowdsource funding. And so January, 2018, I think that was, and now that's three years on, how are you seeing that space play out the likes of Birchal etc, with their crowdsource funding campaigns?

Martin Pretty:

Generally, the crowd funding's a little bit below where we would play as investors. So, within our Dragonfly Fund, we probably say that 80% is listed and mostly micro cap, and then 20% is unlisted. And we have some pretty early-stage businesses in there. One in particular is a Queensland based insurance company called UpSure, which is probably the earliest stage business we've got in there. But I do keep an eye on crowd funding and always think of it as a solution. And we do work with some early-stage companies to help them along the journey and keep an interest in what they're doing.

Martin Pretty:

And crowd funding is definitely a very valid option. Not in the fund, just personally, I made a small investment in a virtual crowdfunding opportunity last week because I really like the founder, I really like what they're doing. It's very early for us, but there's definitely a place for it, and it's great that these companies can get the support from a wide community that historically would not have been fully tapped or accessed.

Ainslie Cunningham:

Yeah. So obviously organisations are using that as a capital stepping stone for growth. In terms of board and board establishment, management establishment, how do you find from an investor perspective, what would you be looking for from a start-up in terms of an advisory board versus a governing board and what are the sort of governance and reporting expectations there from an investment perspective?

Martin Pretty:

Sure. For a start-up, I guess the first thing is just open lines of communication, and then that's got to be the underlying principle. I think it's a great opportunity if a company can get an advisory board that includes its investors as key participants in that and that it regularly makes, say, on a monthly basis updates on what the opportunities are, what the threats are, what's going well, what's going wrong. But certainly, don't need to be delivering 100, 200-page documents. It's more about engagement and openness.

Martin Pretty:

And also, it's a two-way street, you don't just sit on an advisory board or as a key investor, just to sit there and soak up information. You're there to contribute because you're interested in the greater good of that business for your own benefit when it comes to valuing that business and growing that business. And so you're looking for opportunities for management to engage with you and help you help them, tell them where they need help. So, have them tell you how you can help drive their business.

Deb Anderson:

And Martin, with 2020 now behind us, what are some of the key challenges coming out of 2020 and into 2021, you've come across on the boards that you sit in on?

Martin Pretty:

Key challenge is going to 2021, I think, so where we buy and what we invest in, it tends to be very company specific. Obviously, we've gone through a crazy year where I guess what's been proven is you can't predict even in 12 months, what the world's got in store for you. I've been involved in businesses that have benefited greatly from what's happened with COVID, and I've been involved in businesses that have had some blips in demand and have recovered quickly. And so, if we look at our fund, what happened with our fund year to date at the end of March, I think we were down 30% and thereafter, up 50 something percent, and in the money for the year.

Martin Pretty:

And probably at the start of the year, you would've thought we'd predict equities returns 10%, and we want to do better than that, after March, you're probably going to cut your wrists. So, I guess the moral in there is that you don't know, and you've got to be prepared. And one key point I've been making recently is about capital. So, if you've got to March, you probably, as a small company, we're a bit worried about how you would raise money. Certainly, as an investor, I was looking through my portfolio and trying to make sure I had businesses that could be resilient when capital markets are closed.

Martin Pretty:

And you saw the big companies come in with deeply discounted raisings, soaking up all the capital in the market in April, May, and you were probably becoming even more aware as a small company that capital was not going to be there, necessarily. It's certainly not at an acceptable price, but the time mast on, the market sentiment recovered, you get to December, and I think we've now had 40% more ASX capital raisings than we had a year ago. I think it's over a thousand companies, so there's been over a thousand raisings. So, when you've got about 2000 listed companies, that's a fair amount of the market that has been able to access capital and should have put that issue to bed for now, if I took their opportunity, and I've been involved with the companies I am on the board of, we've raised money in June, July, and again, in a few months ago from one of the other companies to position them well for the year ahead. So, I guess the lesson going into the new year is you just don't know, you need to be prepared for all potential outcomes. Hopefully, you are coming into the new year with a good capital position given what's transpired over the last six months or so, and you're ready to take advantage of the opportunities that are available to you.

Ainslie Cunningham:

Yes. Great advice that strength of the balance sheet going forward is really where organisations need to reprioritise. In terms of the strategic plan, Martin, there's a bit of debate around the five-year plans now out the window, and that there's sort of not really a place for them anymore. And that three-year strategic plans are a lot more palatable. How are you seeing that in your roles?

Martin Pretty:

It depends on the business, again. I mean, for a small start-up business, five years is probably what you strategically want to get to, so you'd have your objectives about what the end game is. And I think that's important to have in your mind. And if you're confident enough to communicate it with your investors, that this is our goal, this is where we want to get to and map backwards how we plan to get there. But in terms of more detailed strategies, I think three years is probably going to be a more realistic approach to actually a detailed strategy on what the execution is going to be and tracking that execution to see if we're behind or ahead. I'm just trying to think of an example.

Martin Pretty:

So, I sit on the board of the company, Scout Security. Scout Security is based in Chicago, and they created a software platform and hardware for you to have DIY home security monitored by professionals. So, you have a real security company on the backend that you control from an app on your phone. And that company probably entering 2020, was probably running as lean as it could on a small capital base. It's now taken advantage of the markets and added some good institutional investors that we're really pleased to have on board and put the company in a position where it now has the capital and it needs to go ahead with confidence for the next few years.

Martin Pretty:

Now what's on their horizon is they've got large white label customers, so a global security company called Prosegur, that you will see their security trucks driving around Australian cities they're listed in Spain. They're big in most of the Latin Spanish speaking world, and so they're poised to start rolling out Scout's products in the first Spanish speaking market soon, and that has been publicly announced. And they've also announced a deal with US Telco to roll out. And there's some other things that they've discussed, not necessarily naming the partners, but there are a pipeline of opportunities that they need to execute against.

Martin Pretty:

And so, the timelines for that are not very easy, the timelines for that basically next year. And success against those timelines will dictate probably what happens next and the two years after that. So, I guess it can be company specific. I mean, five years is great to have a vision of where you want to get to, because it helps set your mindset and your approach. But when you get into the nitty gritty, it can often be a shorter time frame.

Ainslie Cunningham:

And how, like in a global go-to market strategy like that, Martin, that you mentioned, how are you ensuring from a board perspective governance around that in terms of where there may be a disconnect at the middle management level?

Martin Pretty:

One of the great things about small companies is they're pretty flat. So, I can't say I personally know every single person in the company, but there's not much distance between the board and the guys who are executing. And we will hear from them in board meetings from time to time, and the responsibilities and the disciplines, they're not so detached that you can't track them, you know who's responsible for what, the CEO will be the intermediary of course, but he's ultimately responsible, but you can very quickly draw the lines of accountability from him to the next layer as well. I can imagine that when you're on the board of a large multinational though, that's going to get much more complicated.

Martin Pretty:

You're going to see multiple lines of command, and you're going to lose some of that and I have seen that in other businesses I've been involved in where it's not always clear what's happening several layers below the C-suite, and the C-suite obviously, they have their view of the world and it can be the case from time to time that the C-suite wants the board to see-through rose-coloured glasses because it suits them. And I guess one of the roles of the board, in my view, is to ensure that you can see through that and you get access to other people in the business, and you get different points of view to give you a more rounded view on where the business is at and what successes and failures and opportunities and threats there may be that you are not seeing in board packs or hearing about every other week.

Deb Anderson:

So, what's 2021 got in store for you, Martin?

Martin Pretty:

Where can we start? So, I've been in Melbourne in 2021, now, hopefully has in store for me, not one of the world's longest lockdown. So that'd be a fantastic start. We're looking forward to a much better year, touch wood, than last year for friends, families, communities, businesses, being able to interact with each other. I spent most of the year on Zoom and Teams, and that's great and functional, but nothing beats being able to sit over a coffee or even a cold beer or a lunch or whatever it is, and actually talking face to face with the people that you're engaging with and looking to invest with or looking to have invest in what you're doing. And it's also a lot easier than trying to convince someone something over Zoom or Teams.

Martin Pretty:

So, I've got an associate who's establishing a venture capital fund with this really great special niche, and he was probably going to launch six months ago, but because of all the issues that were just said, he's basically put on the back burner until the new year. And so, I'm looking forward to everyone in what we do, having a much more open communicative community minded opportunity next year, to link with people and connect with people. For us as a business, our fund has been starting to hit it straps slightly, so we're entering the year with a bit of steam behind us. We've got some exciting things we believe in terms of what's in our portfolio.

Martin Pretty:

Particularly for you Queenslanders, we've got an unlisted company called Ellume, which has got a bit of press in Queensland lately, the Queensland government's just given it some money, the US government has just given it 30 million US to ramp up its COVID tests and that looks like a really exciting opportunity for us and we hold it at cost, but we think it could be worth a lot more than what we invest in, in the first place. Even based on the fact that those, the US government's been so committed to it, and they're currently accessing FDA approval to get their home COVID test. So, it's basically something you can buy off the shelf and take it home and test yourself, going soon.

Martin Pretty:

So, we're excited. That's the case example of something we're excited about. We're excited about Scout Technologies, which... Scout Securities, which I just mentioned to you for the reasons that roll up. So, we think there's a lot of good things in our portfolio to be excited about. And we're analysing businesses themselves that are on the board of the other one, which you mentioned at the start, was MGM wireless, which is now named Spacetalk. And Spacetalk's a great story. We don't own enough of it for a few reasons, and it's hard when you're a director to find opportunities to buy and buy more. But Spacetalk is an Australian company that has developed an app and wearables solution to help families be secure with monitoring their children or the elderly.

Martin Pretty:

And so, it's had really phenomenal growth with its Spacetalk watch, it's first-generation watch which kids can wear and use as a phone and keep in contact with their family and friends, depending on what their parents... Basically, the parents have control over who they can communicate with and visibility on it, which one of my kids has, and we've just launched the next generation of that watch, we announced last week. And we've also recently announced one for seniors, which there's a lot of interest in. So, we're really excited about where that could go as well.

Ainslie Cunningham:

Yeah, that's a really great idea. Isn't it?

Deb Anderson:

We need one for the dog as well.

Ainslie Cunningham:

Well, the husband at five o'clock on Friday that just disappears after golf. So, in terms of ESG options out there Martin, obviously there's different things like WAM's future funds and all those sorts of things. And you've got Larry Fink with these BlackRock letter every year that kind of talks to those. ethical investment opportunities, the emergence of younger retail investors that are looking for more ethical investment opportunities, how are you seeing that affect your space?

Martin Pretty:

Yeah, it's very interesting especially the micro caps. So, in our fund we can invest in the largest company that we're excited by, but most of the companies we're investing will be quite small and that could be sub 10 million market cap. And when you get down in that area, there's not a lot of institutional buying and selling. And the marginal buyer basically is quite often the retail investor. So when you get these new platforms with low brokerage, potentially leverage especially in COVID lockdown times where people don't have as many things to do and start to get engaged in trading and the opportunity to make profits in a frothy market like we have seen in 2020, they can dictate the day-to-day price of your stocks and they can dictate, to some extent, what your performance is for the month, if they move some of those stocks around, because they've got excited by some of them or the... so a great example for us is a company called Identitii (ASX:ID8)

Martin Pretty:

ID8 is a reg tech and they have a technology solution for tagging financial transactions with the information you would need for anti-money laundering and know your client. And in fact, today they've just announced that they've received a US patent for the technology. But that stock price, we participated in a placement, I think from memory it was 8 cents since early in the year and thought that that's a very low price. We were really excited about that. Not too long later, it suddenly had 40 odd cents, 40 plus, and there are good things happening, but for that kind of surge, clearly retail clients had got on to the story of reg tech, financial transactions, and really got excited and driven it up high. And it was unsustainable when it came back to the 20s and then the teens. So, we obviously took advantage.

Martin Pretty:

We did the right thing because we took some of our profits at the top, we maintained a core position. When it came back, we've reloaded and re committed to that investment. But you can't always execute like that, and you can find yourself in situations where it goes the other way if you've got into a stock and it turns out that that was full of retail investors and they jump out because things haven't quite panned out the way they thought. And I'm just trying to think of an example of that. It was a battery technology company where I believe... not one we're invested in, but I believe there was a great hope that they would announce something with Tesla as a partner, on Tesla's great battery day. And that didn't happen, and the stock just imploded.

Martin Pretty:

And no reasonable person who had done their homework, I believe, would have (a) expected that to occur on that day and (b) expected the valuation to change so dramatically, but when you have retail investors who are trading based more on what everyone else is saying and on the sentiments and the momentum, rather than what they understand about the business, you've got to be wary.

Ainslie Cunningham:

So how can businesses control that sort of messaging better, Martin, so that they're trying to eradicate some of this miscommunication at the younger retail investment perspective?

Martin Pretty:

Yeah, well, I think regular communication, but so there's probably too much communication in the case of some businesses. And there's probably some cynical advisors who push companies to over-communicate and potentially exaggerate, which I think we've seen the ASX in the last 12 months really try and clamp down. We're seeing companies put into multiple halts or have to revise their announcements or add to their announcements to clarify what they really mean when they announce something. My view would be that you tell your story, and you tell your story regularly and you use the same metrics, and you use them... You don't change the metrics you use; you stay consistent in the message. You tell people when something significant has happened, when something material has happened. And there's a great debate, I've experienced as a director, about what is material and it's not always a number.

Martin Pretty:

Maybe your revenue's not going to jump 10% or more from an announcement, but if it's a strategic partner, even if it's a small contract, that may be meaningful and you should be reporting it to investors, but you also shouldn't be exaggerating the meaning of it either, because ultimately it will backfire on you. Maybe you'll be able to get a capital raise in a way based on pumping up some news, but it will backfire, and you'll find yourself with a stock price that's abandoned in the future if you behave like that. So yeah, honesty, openness regularity, that would be my key.

Deb Anderson:

It's just about getting that balance, right? Isn't it?

Ainslie Cunningham:

Yeah. Sometimes I think management confuse the ASX platform as a marketing tool.

Martin Pretty:

Yeah.

Ainslie Cunningham:

So, in terms of investment in some of these companies, Martin, is there a preference over debt versus equity model?

Martin Pretty:

Oh, sorry, are we talking about start-up businesses using debt or equity?

Ainslie Cunningham:

Yeah. Whether it's a start-up or whether it's actually taking a position in some of these companies from a fund perspective, is there a preference over whether you take a debt or an equity position?

Martin Pretty:

As an investor, I like to invest in companies that have low to no debt. I think having no debt or having cash on the balance sheet gives you options. And some people will say to optimise your capital structure and your cost of capital, you should have an allocation to debt, especially when interest rates are as low as they are, but I would argue that there's an optionality value in not having debt, but you should consider when you're looking at a company, the fact that you don't have debt means that you can, or if you have a really good opportunity to buy a business or invest in expansion plan, that you would not be able to do if you were already geared.

Martin Pretty:

So, my preference as an investor coming in is I prefer an equity funded company. In terms of what we would take as a position, we do do convertible notes and we invest in convertible notes from time to time because we like the equity opportunity. But the convertible note, as an investor, gives us some security on the downside that we may see that there are risks that we'd hope to avoid and you benefit in the upside, limit the downside, and hopefully everyone wins. I see that from a company perspective, that can work when your share price is below where you believe it should be. And I can go back to that Scout Security example, where Scout had a particularly low share price mid-year, lower than we would like it to be.

Martin Pretty:

And the way we raised money was for a convertible note that I participated in. And that was before I joined the board of Scout. And it was structured so that the conversion price was substantially higher than the current share price. And so, from a company view, we weren't diluting shareholders at a low price. From the investor view, we were accepting that the company's position at the share price was lower than it could be, but we were getting the payoff that we were protected on the downside as well.

Martin Pretty:

And I think that can be a win-win when it's structured correctly. There are times when convertible notes are structured clearly in the favour of the investor, and you hear the term death spiral occasionally thrown around, and those type of instruments, you just want to stay a million miles away from if you are a company or if you're an investor in those companies. So, I guess the answer for me is, equity is bread and butter, but convertible notes and debt style security, definitely have a place.

Ainslie Cunningham:

And in terms of founders, start-ups, etc, how are you finding their remuneration model in terms of, are they incentivising through equity, etc?

Martin Pretty:

I guess every case is always different, but in most cases I would come across, the founders are not taking large amounts of money in salary. In fact, they're generally taking very low amounts or in some cases, none off the table at all, depending on their stage. And from an investor, you admire that, and you see the conviction they have that they're committing their time and energy and resources in growing the equity value of the business.

Martin Pretty:

There is a point though, where you also want to make sure your executive doesn't have to worry about eating and providing for their families and being able to enjoy a bit of downtime. So, there's a balancing act there. So, you want to see your executives remunerated in early stages, enough that they're not worried about their next meal or their next ticket to the movies or the next holiday. But you definitely love to see founders and entrepreneurs and executives who are committed to the equity value.

Ainslie Cunningham:

No worries. And do you have any sort of, I guess, top tips for start-ups that might be looking to attract different investment opportunities? How should they be positioning themselves, and what's the pre-planning works that they need to be doing before actually hitting the market?

Martin Pretty:

So, I guess going back to some of the comments we made earlier, very few people are experts in all fields. And if you're a founder of a tech business or a consumer products business or whatever it might be, you're probably not an expert in finance and capital raising and funding and investment. And so, my first bit of advice would be to find someone you trust, who you can actually bounce things off. And that doesn't necessarily mean it's in a professional capacity where they're a corporate advisor or whatever it is, it just means you find someone you are comfortable with; you believe has your interest at heart in what they say and talk to them about your plans and how realistic they are and how they should go about it.

Martin Pretty:

You need people who understand the markets, or you can waste a lot of time not going anywhere or ending up with the wrong people. I've seen plenty of cases in the past, of companies that have ended up with the wrong people on board, and maybe they got the first raise away or they didn't raise the amount of money that they were hoping for. And they probably could have if they'd gone around in a different way. So absolutely trusted advisor is key.

Martin Pretty:

Assuming you tick that box and they're helping you, it comes back to having your message and your value proposition and presenting who you are and just doing it as many times as you can. Every opportunity to present your business is valuable, no matter how negative or positive the response is, because you get the opportunity to practice, you get comfortable doing it, you get feedback. And as I said earlier, when you chuckled, I think it's about kissing a lot of frogs as you go around trying to work out where the best sources of money will come from for you.

Ainslie Cunningham:

Great advice. All right. Well, thank you so much for joining us today, Martin, and hopefully 2021 is a lot kinder to you than 2020 may have been. And yeah, good luck with the fund for the future.

Martin Pretty:

Thank Ainslie. Thank you, Deb. And good luck to yourselves in 2021.

Deb Anderson:

Thanks, Martin.

Ainslie Cunningham:

Thanks, Martin.

Outro:

That's all for today. Until next time, happy podcasting. And remember if you're enjoying the show, check out our other episodes and all things governance at www.3ysowls.com.au.