

A New Angle

Episode 111

August 24, 2023

Justin Angle: This is A New Angle, a show about cool people doing awesome things in and around Montana. I'm your host, Justin Angle. This show is supported by First Security Bank, Blackfoot Communications and the University of Montana College of Business.

Justin Angle: Hey, folks, welcome back and thanks for tuning in. Today I'm speaking with Jeff Batton, a principal at HomeStake. HomeStake pursues a variety of business models, all designed around connecting more local investors with more local companies.

Jeff Batton: If you care about community and you care about your community in particular, and you care about the kind of the biodiversity of your local business ecosystem, then you got to contemplate this.

Justin Angle: Jeff and his HomeStake colleagues position themselves as finance redefined, and I'm interested to learn what that means. Jeff, thanks for coming on the show.

Jeff Batton: Yeah, it's great to be here, Justin. Thanks for having me.

Justin Angle: So tell us, where did you grow up and what did your parents do?

Jeff Batton: So I grew up in a tiny farming community in the middle of Illinois, so lots of corn and soybeans in every direction. And I grew up in a family of entrepreneurs, so my dad and grandfather had a two state distributor business in sort of industrial gases and that kind of thing. My mom's family were in the trades. You know, I think at various points in my career, I spent some time when I got out of school in bigger corporations and, you know, I think what I realized through those experiences was I was born an entrepreneur. I didn't know that, or I was raised one. I think, you know, by being raised within the kind of family that I was, it made me realize that my heart is with small businesses, you know, it's not what the big corporation. So that's kind of what led me to be where I am.

Justin Angle: And so you spent some time in Silicon Valley, as many entrepreneurs do, and then was a refugee after the dot com bust, right?

Jeff Batton: Yeah, exactly right. Yeah. It was a kind of a funny outcome for me. I left San Francisco, in carnage really, in 2001.

Justin Angle: As did many folks.

Jeff Batton: Yeah, there were failed businesses all over the place. Moved to Bozeman and come to find out there's a thriving dot com in Livingston, Montana.

Justin Angle: Right.

Jeff Batton: At the time called PrintingForLess.com and yeah I ended up there for about five years as a combination CFO and marketing person, which is maybe helps understand kind of how my brain works. And, you know, I think it sort of gave me this new experience in finance. I have a finance degree. That's where I went to school for. But I worked for these bigger corporations, you know, doing giant transactions with Wall Street and all really interesting and great experience, and then when it came to Printing For Less, you know, we didn't need \$100 million, we needed \$1,000,000.

Justin Angle: Right. Sometimes it's harder to raise a million than it is a hundred.

Jeff Batton: Yeah, exactly right. And so there was a whole bunch of new learning to be done. Through that it sort of made me understand that, especially then, this is 20 years ago now, a little bit more than 20 years ago. I mean, Montana's, access to capital is kind of the norm in the industry, was very difficult. There were not any venture capital funds here. There were really not any angel groups come together. So, you know, sort of started me down this path of like always be thinking outside the box of how are we going to solve the next problem of where's the capital going to come from? Luckily, we were able to, you know, combine different things at Printing For Less to accomplish what we needed. But since that time, like that experience of having a hard time raising the capital for a great business that was growing well and adding new employees all the time and adding new clients all of the time, you know, it really got me thinking about why our venture capital, like true blue venture capital type investors slamming the door in our face? And the reason was is because of our location, and I think it was also because we were not necessarily, we didn't necessarily present as a billion-dollar-outcome kind of an opportunity.

Justin Angle: Sure.

Jeff Batton: The common thread between all these different companies, lots of different industries that I've worked in, common thread is well-run companies, good people, good community members, good business idea, or already a whole bunch of customers, but not necessarily the billion dollar outcome.

Justin Angle: Yeah. Every horse is not a unicorn, but the point being is there are a wealth of amazing businesses here in Montana and throughout, you know, the Northern Rockies. And it sounds like what you're up to at HomeStake is to try to provide mechanisms to support not only those entities, but also people who want to support those entities as well.

Jeff Batton: Yeah, I would say that's exactly what we're up to. You know, the way we think about it is there's a large gap in the middle of the capital markets where if you are not sexy enough or have the billion dollar outcome as a possibility, then you're probably not a good fit for venture capital or even for angel groups.

Justin Angle: Mm hmm.

Jeff Batton: On the other hand, you may not be ready to talk to a bank yet either, because you might not have collateral. There's a lot of space between there and there's probably 99% of companies that fit in that white space one way or another. With HomeStake, what we've been trying to pull together and have successfully done is let's find ways to use different kinds of structures rather than, what we always call the exit-based paradigm, that you hear about on Shark Tank and is basically the approach that is used by venture capital and traditional angel networks.

Justin Angle Can I just pause on that?

Jeff Batton Sure.

Justin Angle It is odd to me how that is often the question that founders get asked very early on, right when they're trying to get their business off of the ground, is what is your exit strategy?

Jeff Batton Yeah.

Justin Angle That's just kind of a bizarre way to think of launching a business for the purpose of sale or for the purpose of some public offering or something like that.

Certainly appropriate for some. But as you said, there's this vast space that captures most businesses where that is just sort of an odd way of thinking about it.

Jeff Batton Yeah, I completely agree. It's 99-point-something percent of companies that probably don't have that kind of a story. And I think that that starts to scratch the surface of maybe the bigger philosophical thing that we're trying to address with HomeStake is this idea that the only way that an investor can get a rate of return is through the sale of a company to a bigger company is leading to, in our opinion, a lot of really bad outcomes for our society. You know, like this consolidation, relatively rapid consolidation, of corporate power from the way it was, you know, you want to call it 20 years ago, 40 years ago, whatever timeframe you want to look at. The general trend is for larger companies to buy smaller companies, and they may or may not allow local control to stay in place after that happens. Generally speaking, local control goes away. At the same time, you see that wages have stagnated largely for very many people and you see a lot of main streets, luckily, where we are here, you know, I am I'm here visiting in Missoula today and where I live in Bozeman, like our main streets are doing pretty well.

Justin Angle College towns, that helps.

Jeff Batton College towns help, but you know, a lot of other towns don't see that anymore because a lot of dollars are being, you know, kind of airlifted out of their communities to retailers that deliver by UPS and in some cases just, you know, can no longer compete with the big corporate behemoths.

Justin Angle And it seems like that cycle perpetuates itself. Like look at some of the shocks that have occurred in our economy over the last 20 years, like the financial crisis sort of leads to fewer and bigger banks that are even more bigger and more too big to fail in such a way. Or like COVID hits and Amazon just gobbles up so much more share, right? For a variety of reasons. But the sort of bigness begets bigness, right? And that feedback loop is one that it sounds like you all are not only concerned about and its implications for society, but thinking of ways to maybe stall it or break it up or provide alternatives.

Jeff Batton Yeah, I mean, we'd like to give examples of how we don't have to do it this way.

Justin Angle Sure.

Jeff Batton Right? Like it's all of our money, whether we're buying goods for our family that we need to have or we're investing dollars, it's our money. We get to decide what to do with it. So I think it's that whole vote with your wallet thing. You know, one of the things you just said that that kind of reminds me of is a bit ago you had interviewed Cole Mannix, right, with Old Salt Co-op. Cole and I have known each other a long time, and I found myself sort of shouting at the radio as you guys were talking about how, you know, consolidation, like everybody is aware of the consolidation in the meatpacking industry and how it came to light during COVID, right? Come to find out, having whatever it is, three or five meatpacking companies that control basically the whole supply chain, not a really great resilient way to structure an economy.

Justin Angle Yeah.

Jeff Batton And so while that is absolutely true in the food industry, what I would say is that the data says this is true in every industry that the consolidation effect is harming, really sort of like we actually talk about it as a as a biodiversity type of a thing where, you know, a lot of us know about mono-crops and what it does to the environment. And we know that grizzly bears need X amount of individuals in a population for them to be healthy. We talk about biodiversity, at least in our neck of the woods quite a bit. What people don't really think about is, what is the biodiversity of

our business ecosystem? What I can say through like a some of the data that I mentioned earlier is we're basically consolidating and consolidating and consolidating in a way that's causing that biodiversity to fall. And so, you know, to round it back to HomeStake, like, yeah, we're trying to create examples of ways that you don't have to do that.

Justin Angle Well, so what are some of those ways? I think we had a good sense of the problem. What are some of the solutions that you think are viable?

Jeff Batton So, you know, we've basically recognized, you know, again, 99% of companies let's call it, are not appropriate for exit-based investments. Like to think that Joe's muffler shop is going to get bought out, is kind of silly thing right?

Justin Angle Sure, they're not headed for IPO.

Jeff Batton It's probably not an IPO anytime soon. So what we do instead is we basically, you know, meet with founders and basically, you know, help them understand that it doesn't all have to be Shark Tank. You don't have to give up 30% of your company or whatever the asking price is for yourself to get the growth capital that you need.

Justin Angle Mm hmm.

Jeff Batton There are other ways. And, you know, back to that sort of lack of access to capital that I mentioned earlier, like, this is where we have innovated is to say, all right, how about we find a way to be patient and be equity investors, but at the same time kind of structure our exit of our investment from the beginning and have it not tied, like specifically not tied, to the sale of the company. We don't want those founders to exit their businesses and all of the great causes that they support in their communities and the employees that they have. Like, we'd rather set it up so that if they want to do that, sure, that's your decision. But capital should not be deciding that for you.

Justin Angle Okay.

Jeff Batton Right? So a lot of the times, the way we invest is we tie our return to the revenue of the company.

Justin Angle Okay.

Jeff Batton And so if the revenue of, you know, let's be an extreme example, next quarter, you have zero revenue for some reason, then there would be no payment due. If the following quarter you have a great quarter for some other great reason, then there would be a payment due, right? So, it's a more intuitive way of investing. And I think that's what we hope to be able to do with HomeStake. You know, right now we're building our second fund to really target the Northern Rockies. I mean, I say that I'm sure, you know, we want to hear from businesses all across the Northern Rockies. My guess is that we'll probably deploy most of our investments in Montana just because that's where our personal networks are, right? And this is a relationship-based investment. It's not transactional like it's more about do both sides get a fair deal here? That's what we're always seeking to create, is that the business gets a fair deal and the investor gets a fair deal and so does the community therefore.

Justin Angle We'll be back to my conversation with Jeff Batton after this short break.

Justin Angle: Welcome back to A New Angle. I'm speaking with Jeff Batton of HomeStake about the importance of community investment.

Justin Angle: So what does it look like from the investor side of the equation? Does an investor sort of have to share your value system? Do they want to support that ethic?

Do they do so sort of expecting a lower rate of return or more volatile rate of return?

Or like how do you kind of conceptualize it from the investor side?

Jeff Batton: Our point of view is that we are almost a new asset class. We are definitely not looking to create subsidized rates of return, like we think that if this is really going to work and if we can really make an impact on a larger scale than just our little community, it's going to have to be market rate, right? Investors have to get compensated correctly for the risk that they're taking. But they don't have to have outsized Facebooks or Google type returns in order for the risk paradigm to be right. So the way we think about it is instead of doing the typical VC approach, typical venture fund makes ten investments, they really expect one or two of them to be successful. And so the one or two that need to be successful have to be very, very successful in order for their fund to actually make a fair rate of return.

Justin Angle: High, high potential.

Jeff Batton: Right.

Justin Angle: You know, just to correct for all the zeros.

Jeff Batton: Correct. So we approach it from, I would say, the opposite end of the spectrum. Instead of thinking about, you know, trying to hit a homerun every time and therefore striking out a lot. We want to hit base hits.

Justin Angle: Sure.

Jeff Batton: You know, singles and doubles are a fantastic thing.

Justin Angle: And even walks.

Jeff Batton: And even walks. And let's do that nine or ten times out of ten. And all of a sudden, the rates of return are market, right? Like you're back to a great rate of return. Investors are happy for it. So to your question of like, do they share our ethos, I think a good share of the folks that we've been working with so far absolutely do. But I don't think it's a requirement. And I think that that's the key of us you know, if we can successfully sort of share this with other communities, get other communities to follow in their footsteps, that's part of this is this needs to be a market based solution, right? Are there things in policy or whatever that maybe would help this succeed? Maybe. But that is such a tangled web of, you know, politics and lobbying and we don't have the money to be able to go toe to toe with Blackstone.

Justin Angle: To your point, however, like the whole world of consolidation favors the large in the lobbying space.

Jeff Batton: Absolutely.

Justin Angle: Because they can deploy their high paid lobbyist.

Jeff Batton: To write the laws.

Justin Angle: Exactly. Yeah, exactly.

Jeff Batton: We're not going to be able to do that.

Justin Angle: Nor do the folks that I think you represent benefit from those laws, right? Those laws favor the large.

Jeff Batton: That's right. And so, you know, from our point of view, what we want to do is instead create a situation where lots and lots of investors can rethink how they invest. And, you know, I don't at all think that somebody should take anywhere close to

100% of their net worth and invest it in this way. But what I do think is that if you care about community and you care about your community in particular, and you care about the kind of the biodiversity of your local business ecosystem, then you got to contemplate this. You got to think about how many of my dollars might I do in this way and really make a difference, because that's ultimately that's the thing, right? Like in our first round of activity, we invested a little bit more than \$4 million and we impacted a lot of companies doing that.

Justin Angle Yeah.

Jeff Batton And with our next fund we'll probably impact twice as many or so companies through what we do. And when you look around like that, actually in our state, it's a lot of impact. When we invest, we often partner with banks and what are called certified development financial institutions, CDFI's,.

Justin Angle Like MoFi here in Missoula?

Jeff Batton Exactly. You know, we partner with those folks to get a total deal into a company a lot of the time. So even our, you know, call it \$4 million that we invested last time around, a total of \$36 million flowed into the companies we invested in. And

so, you know, a lot of the times we're sort of that piece of capital that unlocks the whole deal and makes the whole deal possible. Coming back to kind of the education of the investor, you know, I think there's two sides of it. I mean, this is the challenge of what we do. The challenge of what we do is we have to educate entrepreneurs as to why jumping on the bullet train is what I always call it, you know, taking venture capital or a convertible note or whatever to get your first money in the door, you really want to be sure that you are actually a bullet train, because if you're not, you're likely to just kind of hit the end of the railroad and you're going to have to go start your next company, right?

Justin Angle You've just run out of time.

Jeff Batton Right. And if instead you're a regular business is what we always call them in air quotes, you know, that's just going to grow 5, 10, 20% a year and you've got a reasonable path for doing that, maybe get yourself educated about what kind of money you ought to take. On the other hand, the education component that we have to attack is getting investors to understand that the consolidation game, while when a big deal happens, right like people celebrate and they made a nice payday that day, you got to think about what was the downside of that outcome. If you did a local investment that did that, are those jobs still going to be here? Are the executive team

that drove the ethos of that company still going to be in charge? Like all of those kinds of things really matter to the outcome for a community.

Justin Angle So I want to get a sense for how accessible this is to investors. Is it for somebody like me who's not like a big fish? Can I portion a portion of my investment, of my, you know, my income that I can afford to invest into something like what you're describing?

Jeff Batton There's a lot of kind of crowdfunding has become a new thing in the last few years.

Justin Angle The Kickstarter and those sorts of things?

Jeff Batton Yep, there's a variety of them. And you know, in general for the health of democracy and for the health of biodiversity and business ecosystems, I think those are a great thing. The challenge that we face is, one of the challenges that we have is, that in order to do what we're doing, which we're a small team trying to show this new paradigm, we haven't chosen to take that piece of the pie on. So what we do is we work with accredited investors is what it's called. You may very well be one Justin, a lot of people are, and they don't even realize that they are. You can find a definition online

and find out if you are. But I think that sort of also begs the question or points out like what we're really trying to do, which is to start the conversation and start the thinking within the investor community to say, wow, those HomeStake guys are doing something cool, right? Obviously, we hope that's what people think, but why can't I choose from five of those or ten of those or 100 of those?

Justin Angle Right.

Jeff Batton Because that's really what we need. Like we don't want to be the next giant manager of money. What we want to see happen is individual communities have their own little version of what we have. I think that over time, if that kind of traction can be had, then I think we have a, we being that the citizenry of our country, have a good leg to stand on to go back to Congress and basically say, hey, you know, those rules that you passed in 1920? They're really kind of dumb for the modern world and they don't fit what we all want to be doing in our communities and how we want to invest, we need these to change. And then all of a sudden everybody can be involved in this, you know? But it's a long play. But we got to start somewhere I guess is how we think about it.

Justin Angle And so flip it around to the perspective of the entrepreneur or the existing business owner that needs financing of some sort, whether it's from a bank or they're thinking that a venture investment might be appropriate or they just kind of don't know what's available. What sort of business is appropriate? What sort of stage in a business lifecycle is a sort of entity that you want to be talking to?

Jeff Batton Yeah, so it's a funny question because we've really invested in all kinds of businesses. You know, our approaches have worked for organic farms to an eating disorder center, to a mature software company, to an almost-just-started software company. In general it's better if there's an existing client base and some amount of revenue coming in the door, like it's probably not the greatest thing for truly a pre-revenue high tech startup. But the good news is there's other players in our marketplace that want to talk to those folks, right? You know, so I think the breadth of how we can adjust, you know, we always think of those different levers in the deals that that we construct. You know, we can pull a lever and push a different one and make it fit a different industry. Largely, I think the thing for folks to be thinking about is do I want this opportunity to partner with somebody for a, you know, a relatively I don't know if it's short term or long term. You know, most of our deals are kind of expected to run 5 to 8 to 10 years. In the grand scheme of things that's kind of a short time in most businesses. You know, but does that founder see why being able to

essentially buy back their investment from us and leaving them to be the majority holder always of their business, if that's attractive, then it's something to think about.

Justin Angle So I think one question that is reasonable is how do you all make money in this model?

Jeff Batton You know, the way we work is we earn a relatively small amount of management fee for the dollars that are in our fund. And then if our investors make a profit on the investments, not a really big if, because we're doing well and all the ones that we've made in the past, if they make a profit, then we share in that profit. So, you know, we're mostly motivated by helping companies to succeed and, you know, make their revenues, in our case, a lot of times, like keep them steady. That actually works fine for many of our investments or in some others it's like we need to help you grow your revenues. But it's pretty aligning, right? When it's a simple thing, it's about the revenue. If we can introduce you to another customer or even our investors might introduce you to another customer, then we're all pulling in the same direction, right? I mean, that's the example of our organic farm that we invested in was our very first investment. Many of our investors are members of their CSA program and many introduced their friends to the CSA program because of, you know, knowing like, well heck, I'm invested in this now, you know? So it's that kind of dynamic that really brings

it full circle to a community thing where the business is benefiting from the investor being involved, the investor is benefiting from having struck a good deal and the community is retaining that wealth, but also being introduced to these new businesses that maybe they didn't know about before.

Justin Angle Sure. You know, as we close Jeff, you know, not everybody's an accredited investor...

Jeff Batton Right.

Justin Angle But I think a lot of folks listening can kind of buy in to the concept that you're describing and maybe hadn't thought so much about how their spending habits, how they vote with their dollars, how that affects their local economy. Just remind us, like maybe if you're not an accredited investor, how can you still participate in the vision that you're describing for a healthier sort of local and regional economy?

Jeff Batton Yeah, I mean, there's the real straightforward one of really thinking about your consumer dollars and looking at locally-owned, I mean even better employee-owned companies, as the place that you maybe frequent as opposed to having something shipped from afar. And then when it gets to the investment side I

mean while we have this, we're using the simplification of using accredited investors, there's plenty of opportunities in our state of people doing true crowdfunding type things that allow you to invest locally. So you can look around for those. I mean, there's not exactly a clearing house that at least I know of that you can quickly go to and find. But I know, for example, Old Salt Co-op that we talked about earlier, they did a crowdfunding campaign. You know, there's opportunities you kind of have to pay attention, right? I think that's the one thing that I understand I'm asking people to do. Most people kind of have compartmentalized investing into, you know, a small part of their lives. And I think that that's maybe the favor that we're asking everybody to consider, is using your dollars as an afterthought to perpetuate exactly what the system is doing now, something maybe everybody should will stop and think about, like, how can I make a small difference? And yeah, I'm going to have to use my brainpower to figure that out. But what I can tell you is our group of folks that are involved with us have really enjoyed seeing, you know, the results of what they have done to be able to see a company succeed in your town because you helped support them in the early days? It's a pretty big payoff, right? Like it's a good investment, but it's also a really great psychic payoff. Yeah, I think that's where looking for the opportunities, trying a little harder on it maybe is worth the effort.

Justin Angle Yeah, and as a lot of communities in Montana kind of grapple with growth and what that means and the changes we're all experiencing, I think allocating the mind power, as you'd put it, to these sorts of issues and opening up your mind to how you can influence the system on a variety of levels you might not have previously considered is wise advice. So Jeff, applaud what you all are up to, if folks want to learn more about it and maybe get involved, where would you point them online?

Jeff Batton Yeah, the easiest thing is just our website, which is HomeStake.com. And you know, you can feel free to email us or get in touch any other way that's on the website. And you know, we're always happy to visit and and share what we're up to.

Justin Angle Awesome. Jeff, thanks so much.

Jeff Batton Thank you, Justin. It's great to be here.

Justin Angle Thanks for listening to A New Angle, we really appreciate it. And we're coming to you from Studio 49 a generous gift from, UM alums Michele and Lauren Hanson. A New Angle is presented by First Security Bank, Blackfoot Communications, and the University of Montana College of Business. With additional support from Consolidated Electrical Distributors, Drum Coffee and Montana Public Radio. Keely

Larsen is our producer, Ella Hall is our production assistant. VTO Jeff Amnet and John Wicks made our music. And Jeff Meese is our master of all things sound. Thanks a lot, see you next time.