Ask the Expert

Craig Weiss

Flagstaff Ventures

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With these fast-growing, consumer-focused companies, it’s often better to fund the next round of growth through private credit than to dilute the value of outstanding shares.

Craig Weiss, Founder of Flagstaff Ventures, is a former patent attorney turned serial entrepreneur.

As the former CEO of NJOY, he led the company to a $1B valuation, raising $200M in equity.

Recognized by Goldman Sachs as one of the 100 Most Intriguing Innovators and a Forbes Disruptor, Craig’s expertise in scaling consumer brands makes him an invaluable partner for startups seeking growth and long-term success.

Dustin Burleson:
Welcome everyone. I'm so excited. We've got a great episode for you tonight. I've got Craig Weiss back on the program. Craig, thanks for being here.

Craig Weiss:
Thank you for having me. Always a pleasure.

Dustin Burleson:
I got to meet you through Doctor Blair Feldman and Retainer Club. That was many years ago. We've been back on this show several times. Every time I get to hang out with you, I learn something, I make money. So I'm wearing green and in honor of that tonight. So I should say none of this is financial advice, right?

But I do know that you've always got your finger on the pulse of what's happening. I read an article recently that private funds like venture capital, private equity are really displacing investment banks. This is how America is moving the needle on the dial when it comes to innovation, when it comes to capital investment. And I think really the future of how we get things done.

So, for those of you who somehow were hiding out under a rock and have not met Craig or don't know who Craig is. Give us the short story — don't go all the way back to birth, but give us a short story, how you got to where you are today and let's talk about what's new in venture capital and the world that you live in.

Craig Weiss:
Sure. So, like many of your listeners, I was a professional service provider. For me, it was legal services and not dental services. I was a patent attorney for a decade. Then I became an entrepreneur. I took this company and, with a lot of help and a very strong mentor, from eight employees, we were in litigation with the FDA and we're going to be out of cash in two weeks to raised a couple of 100 million in private equity — Peter Thiel, Sean Parker, Founders Fund, Cater and Fidelity, Warren Stanley Bain. Got the company a billion-dollar valuation in 3.5 years. That was its own crazy story.

I founded a few other companies after that, one of them with one of my best friends, Doctor Blair Feldman, Retainer Club. Retainer Club, when we started it seven years ago, was really kind of ahead of its time. No one was really talking about post-orthodontics or this idea of making money from patients beyond the two years of treatment. And actually, you know, being able to provide them with the ability to maintain the results of their treatment. So Retainer Club has been a very exciting company, which is actually, of course, this intersection.

I went out to raise more capital for Retainer Club in 2021. A friend introduced me to 10 VCs. The my tired old joke is I forgot how much I hated VCs. All the cliches were true. Ten young dumb guys who had never run a business in their life and thought the world runs like an Excel spreadsheet. So I was complaining to a very sophisticated friend of mine and he said, "Well, if you think they're all idiots, why don't you do it yourself?" So I launched Flagstaff Ventures as an early-stage consumer venture capital fund three years ago. Invested, of course, in Retainer Club. That was our largest investment in fund one, invested in a few other companies.

One of those I invested in at a $21 million valuation. It's now a $1.2 billion company. So that was great because I invested 100 grand. I've sold $1.75 million of that position and I'm still sitting on a $600,000 position. So that's been fun. Getting ready to launch fund two here on June 30th.

But what happened with private credit and why we're here talking about this is maybe many of your listeners have heard about private credit. It is like all the rage now if you go to financial conferences, everyone's talking about private credit. We went out to the marketplace for Retainer Club to try to secure private credit. Basically, when Silicon Valley Bank collapsed, they were doing about 70% of the private credit in the United States. The remaining 30% just got overwhelmed with so much quality deal flow that they basically said, "Unless your company is so profitable and so huge and so big that they don't even really need this, don't even talk to us." So it dawned on us, why don't we do it ourselves? Back to the same reason why we launched Flagstaff Ventures.

So, at a high level, there's this sort of reality which is that early-stage companies, they need capital to grow. And in Flagstaff Ventures, we only invest in early-stage companies. So we've made 13 investments so far, 11 in the first fund and we've made two out of our second fund. We haven't technically launched our second fund yet, but we kind of passed the hat with our existing LPs to make a couple of investments before we officially launch. And

When we started Retainer Club seven years ago, it was really ahead of its time. No one was talking about post-orthodontics or this idea of making money from patients beyond the two years of treatment — and being able to provide them with the ability to maintain the results of their treatment — so Retainer Club has been a very exciting company.

half of those companies were pre revenue. So it was just like a great idea, great team. So they really need capital.

And so there's sort of two ways to get that capital. You either can get sell equity, which would be someone like us at Flagstaff Ventures who would write a check and take a percentage of ownership in the company or you can try to get debt. But the problem with trying to get debt is if you're an early stage company, you know, the joke I always tell is, you know, 100 years ago, you could walk into the bank and you could say, hey, I have an idea, I'd like to start a business. Here's my business plan. Will you loan me money to start my business in the bank? If there was, if you had a good relationship with the banker, here you go. That you would be laughed out of any bank over the last 50 years if you tried that, it's just not how banks work anymore.

And so if you're an early stage company, these are your options. If you need capital to grow your business, you can either sell equity, which is, is both dilutive, but also who are you going to sell equity to? You've either got to find a venture capitalist like me. If it's an early stage company, if it's very early stage pre revenue, there aren't a lot of people like me out there who are writing those types of checks. The best way to get debts from a bank. But as I mentioned, you know, good luck. That's, that's just not going to happen. Especially now with Silicon Valley Bank's collapse, you've got credit cards, but that's not a super great way to borrow money. Just because of the interest rates and there's only so much credit card debt. So that, that sort of leaves private credit as, as an option. But what we found was *if you can get it* because private credit now is just sort of similar to the banks very hard to obtain today.

So what's really the whole point is it's private lending. So what does that even mean? Well, it's basically, it used to just be banks that would loan money. And now the cliche which I actually find to be very accurate is banks will only give you money if you don't need it. Right. That, I mean, I've, I've yet to meet someone who's like, no, no, no, that's not my experience at all. They're, they're always there right when I need them, you know, it has not been the case historically.

Dustin Burleson:
Unless your name is Jeff Bezos.

Craig Weiss:
Exactly. So, you know, now that, that with, you know, Silicon Valley Bank sort of out of the game, the remaining players are like they have unlimited quality deal flow. So for them, it's like I want, I don't even want to touch a company unless it's just so mature that you, you know, they probably should be going to a bank. And so, so what we realized was so it's just caused the demand for private credit to explode because there's so few people doing it.

And what we realized is when we went out to the marketplace and we did this for Retainer Club. What we heard from everybody who was doing private credit was if your company is not doing at least $5 million in revenue, don't even talk to us. And so it started to occur to me, well, we're early stage investors at Flagstaff Ventures. And uh that means there's no private credit available for any early stage company that has less than $5 million in revenue, which is a lot of our companies and, and I started to think about it more and I just finally realized why don't we do it? Why don't we do it for our portfolio companies? And the thought was the way I was framing private credit from, from my perspective is if you're Wells Fargo, for example, and Craig Weiss defaults on his mortgage to Wells Fargo, it's really not that big of a deal. They probably did a 65% loan to value mortgage. Even if there's a dip in the housing market, they're gonna get their money back. There's a robust marketplace for houses. There's real estate agents, there's supply and demand. There. There's a very easy pathway for them to sell your house and get repaid and get their money back if you somehow default. But if I defaulted on my hardware store loan to Wells Fargo, that's a disaster for Wells Fargo.

They, they don't wanna run my hardware store, they don't know how to run my hardware store. They don't want to liquidate my inventory. Like it's just all bad news.

But what I realized is that is actually not the case for us because of course, you know, we're, I'm, you know, very heavily involved in Retainer Club with Blair. This is a company I know very well and we're helping operate Retainer Club already. So, for us, this isn't like, for most people, if you're gonna be loaning money, you have to go through underwriting and this whole process. And at the end of the day there's always a risk or a fear. Well, what if they're lying to me? What if the numbers aren't what they say they are? What if you know what if there's some, you know, the CFO is not very trustworthy or whatever, but in this case, there are numbers, right? Like it's, it's, it's the business that Blair and I are running together, like there's no concern about the numbers of the business. It's, it's a business we could not be more intimately familiar with.

So, it's created this really interesting opportunity and there's been some misconceptions about venture debt, which is another, there's a lot of words that are interchangeable, private credit is also called venture debt. You may have also heard mezzanine financing and then the that that term comes from this clever expression that you may have been to the old banks used to have the ground floor, the second floor and then in between was the mezzanine, you know, and it's essentially because it represents the fact that it's not, it's not really equity, it's not really debt, it's kind of in between because it has some features of both.

So typically these are loans that are 2 to 4 years in length and they typically generate a 15% to 20% net IRR return and there are actually a lot safer than people think they are. It's not that there's no risk. Nothing is risk free in this world. It's just that a company is very unlikely to default on their payment because the consequences are now I own the company, right? And so you really, you're gonna skip payroll before you miss a loan payment because the consequences are just so severe. And so typically companies are not defaulting on private credit loans for that reason. And essentially the, the way it's set up is it's, you know, it's prime plus 10%. And so that creates a very high return and there's also an equity component.

And before I jump into that, I love this sort of Venn diagram because it actually highlights something that, you know, is very near and dear to my heart, which is like, I, I've always believed in win, win situations and even better when you could have win, win, win, everybody wins. I don't like situations where someone is losing. I like situations where everybody wins. So if you're the start up, in this case, Blair and Craig who do Retainer Club and you're growing really fast and you know, record revenue, which is the case. Thankfully with Retainer Club, you, you're much better off scaling that growth with debt instead of equity because it's less diluted to the company. And if you sold for equity, you're not gonna capture that uh value. That's that is this fast growth that's happening.

So it's better for the founders to do private credit. It's better for my equity investors that have invested in Retainer Club. Many of your, you know, the people who are tuning in fellow orthodontists who have been equity investors because I'm protecting their equity from further dilution because now the company is gonna grow with debt instead of selling off more chunks of equity which dilutes everybody.

And then it's better off for my investors in private credit because it's 15 to 20% you know, net returns. And the other feature is, you know, venture capital, as you know, as we've discussed before, generates the highest return of any investment. It's better than private equity, better than real estate, better than the S and P 500 on the whole as a category venture capital, that it's been that for 25 years.

The trade off though is it's the most illiquid. So that's the reason why only high net worth people can participate in venture capital because most normal people can't part with their capital for, you know, 5 to 7 years. And so they don't get to participate in these big outsized returns. So everybody who is essentially not invested in venture capital for the most part, they either don't have access to it. But anybody that I've spoken to is not investing because of the illiquidity because they just, you know, they, they, they can understand that the returns could be very high, but they just don't want to part with their money for that many years.

So private credit is in many ways the opposite. Um in that it, it provides um this sort of 15-20% net IRR return. So you're not gonna get this possible 200% re return that you can get in venture. Um But what's interesting about it is that it pays out quarterly. So it's the opposite of this illiquidity. So I, I wanted to provide an example that because a lot of times I'm using a lot of terms, we're

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Private credit has become a significant source of capital for fast-growing companies because banks are willing to take essentially zero risk – the cliché is that banks will only lend you money if you don’t need it.

throwing out a lot of numbers, people tend to want to say, yeah, but how does it actually work?

So I wanted to give this kind of illustrative example based on like $100,000 investment as just an example, but the way we structure, we're gonna structure this private credit. Um And we're gonna do this for a retainer club and I'll be more specific about retainer club in a second is it'll pay out over four years. The first two years or the first eight quarters are interest only payments and then the last eight quarters are principal plus interest.

So what's interesting about that is a couple of things, I think the more likely than not scenario, no guarantee, but I think most companies retainer club included will likely pay off the entire note before it goes to principal and interest. So at the end of the eighth quarter, either if retainer either retainer club might have been acquired by then and you know, may have gone public, but if not, they may have raised more equity and if not, they're almost certainly going to refinance at a lower interest rate.

So, um now what's cool about that is there's a, there's, there is like a uh you get the time value of money. So you get your money back in two years instead of four, with also a potential, there's a prepayment penalty. So there's a little bit of a kicker there as well. And then there's another piece to this. I mentioned that there's a, there are features of both debt and equity. So the equity component is 3% warrant coverage, meaning 3% of the size of the investment.

So if this is $100,000 example here, so you'd have $3,000 of basically retainer club shares, $3,000 worth of retainer club shares at, you know, today's valuation. So then if the company becomes far more valuable in the future, using this debt to scale and grow, which obviously isn't guaranteed. It's what I would hope and expect would happen.

Um Well, then in scenario one, I just put that at zero. So let's just pretend I'm wrong. It doesn't happen. The company doesn't grow as much as we'd like and the 3% is just still worth zero. Ok, fine. So you've still made this, you know, essentially in this scenario, um you know, $40,000 on the 100 grand, if you've spread that out over the, you know, 44, it says 4.25 years because the first quarter is actually quarter zero where there's no payment. Um You're looking at essentially a 14% call it net IRR if there's no equity upside and if the equity, if the company is worth significantly more, those 3% warrants could be worth $10K, $20K possibly even more.

And that's where you can get into that 15 to 20% range from a net irr perspective. And so that's why it has sort of a feature of both. But again, quarterly distributions, this is not a liquid for, you know, the 5 to 7 years that you're gonna see in venture capital. And we wanted to, to launch this with as a special purpose vehicle or an SPV for private credit specifically for retainer club.

So, you know, retainer club, obviously a company that we all, you know, everyone on this call probably has some familiarity with, founded with uh my doctor Blair Feldman 20 plus year orthodontic Express List. And um uh we also have this quote from this very handsome fellow in the lower left hand corner of the screen about some of the benefits that he's seen from a retainer club.

And, and, you know, for seven years, we basically offered orthodontists cost savings, the ability to save money. And, you know, one of the things is that there's, there's, there's this thing that everybody who has not used retainer club for seven years has given us the same, you know, reason, which is, that's great. But I make money when I sell retainers and I, I'd like to not lose that revenue.

And so that's put us in a position where we thought, well, wait a second, what would it look like to be able to provide an ability for orthodontists to actually make money? And so we've spent the better part probably over, over a year now, building out a custom software platform that essentially says you charge what you want.

Oh, you're in Kansas City, you can charge, you know, $400. 0, you're in New York City charge $1200. We have a fixed fee for doing all of the work, making the retainers, shipping, the retainers, sending the retainers. And now you as a doctor get something and you tell me, you know, Dustin if you've ever received passive income uh as an orthodontist um where you're, you're, I mean, you did it as a marketer but like as a practicing orthodontist, I, I'm not aware of any vendor that is just sending you money passively while you're asleep at night.

Um But in this case, your patients can be ordering replacement retainers during Thanksgiving dinner and you get money for that and, and you're not doing the work, we're, we're doing the work. And so um we're super excited, we've got an enormous amount of interest in this new platform and, and you know, the numbers sort of support that. So um our revenue has been increasing significantly.

Um Our margin has been increasing and we've essentially built a business that, you know, is, is, is, is done now, a couple of million dollars in revenue on a very low base of docs. Um And we have a very exciting strategic partnership that I uh we have assigned term sheet, but we don't have uh the official documents. So I don't iii I won't share the name but a very exciting strategic partnership that I hope to be able to announce at the A AO coming up um in which we will potentially get access to a very large number of doctors, both orthodontists and GPS to offer a lot of these benefits.

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So typically these are loans that are 2 to 4 years in length and they generate a 15% to 20% net IRR return and there are actually a lot safer than people think they are. It's not that there's no risk. Nothing is risk free in this world. It's just that a company is very unlikely to default on their payment because the consequences are so severe.

Uh So it's kind of an amazing time to invest in private credit in retainer club because I, I'm actually very hopeful, those 3% you know, warrants will actually become worth something, you know, material. So, um so I'm gonna, I'm gonna do a quick little stop on the screen share so we can uh see each other full, full screen to answer any questions that you may have about it.

Dustin Burleson:
Yeah, I just want to highlight, I think that a couple of things in our industry, these sorts of opportunities historically have not been available. So, you know, there weren't a lot of venture capital backed, you know, investments in, in dentistry and if they were, they were at a very high level where orthodontists like me weren't invited to participate.

So one thing is this unique opportunity. Second is it really um it is important to understand the industry in which you're investing, right? And so there's so many opportunities in real estate or I remember one, came to me they were making some unique airplane part and I thought, what the hell do as the Warren Buffett? Like, what the hell do I know about airplanes? Right.

And so it could have given them 100 grand. It looked all great on paper, but it's like, I don't understand this industry at all. And, um, luckily that turned out to be a wise choice to avoid that investment, right? So in and just highlight for our listeners, the unique opportunity for private credit in a company that's growing really quickly, that's at that kind of 5 million or below mark, right? Like you're right, banks take zero risk nowadays. They, they're literally, I mean, like in a lot of that, as a result of Frank Dodd, a lot of the a lot of regulation came down, I talked to a regional banker. He said we have like 38 full time employees that are regulatory and this was not a large bank. So they're really tied up in what they can invest in.

And so now, you know, someone like Flagstaff comes along and says, well, we can serve this interesting part of the market because no one's serving early stage consumer in VC and no one certainly serving them in private credit. Now that SVB is gone. And I don't know if the bank that acquired them, who was that bank, that acquired Silicon Valley?

Craig Weiss:
First Citizens.

Dustin Burleson:
Yeah. Thank you so much. I actually knew a guy there and they were, they were great. I don't know if they're going to continue that or not, but they're, you know, they're certainly conservative. Yeah. This is not, I guess this is a

very long rambling question. This is not something that comes along very often and almost never in an industry that we understand. And so looking at, we all know every patient needs a retainer. We all know most orthodontists are managing that. If they have their own retainer program, they're managing it with an Excel spreadsheet or a clipboard. And patients truly can't order online at night and can't add new products into the car and can't be reminded, it's time to get a new retainer.

It's impossible to do. And we're the only business in the world that only wants a consumer for two years, right? So Retainer Club is wisely flipped that model and say, like, wait, wait, wait, what if you kept them forever? What if 10 years from now people were still keeping their teeth straight through new retainer orders through your practice.

So I think it's just a neat opportunity and I think obviously, I think our members will be interested and, you know, through a special purpose vehicle that goes into other early stage consumer private credit. But, I mean, retainer club to me seems like a no brainer again. I'm not giving financial advice, but we know that market we live in it every day and we know that it's just scratching the surface on what's available. If you just get 10% of your patients to sign up or even 5% of your patients to sign up. In 10, for 15 years. I mean, you've got a whole other practice that's just passively bringing you revenue.

Craig Weiss:

And I'll tell you, and I totally agree and I'll take it a step further, you know, Jesse, our chief strategy officer had this idea of what comes next for Retainer Club. And so it's this little sneak preview for, for those of us who are interested because the audience is in this space and, and, you know, this idea of what would it look like to have sort of a marketplace for the mouth? And, and as we started to think about it more, I kind of came to this really interesting conclusion, which is normally you think about a company like Amazon or a company like Walmart and you think, well, how, how can I compete? Right? It's Amazon and it's Walmart, like, how could I possibly compete?

And I finally had this realization, which is OK, 100% of the people who come into your office, care about their teeth, right? If they didn't care about their teeth, they wouldn't be in a, in a dentist or orthodontist office. So, ok, that means 100% of your patients are purchasing presumably toothpaste, toothbrushes, Sonicare water picks, you know, teeth whitening, you know, all of these products, right?

And what occurred to me is Amazon and Walmart really only can sell one type of product which I will call generic, a generic product. You can sell a custom product, for example, a custom fitting retainer or custom fitting night guard, mouth guard, you know, all of these teeth whitening trays, all of those things based, for example, on a 3D scan.

And then I realized that means though you can actually do something that Amazon and Walmart cannot, which is you can provide your patients with both generic and

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You can actually do something that Amazon and Walmart cannot, which is you can provide your patients with both generic and custom products. They can only provide generic.

custom products. They can only provide generic. So where, where this is going is the sneak preview is we now go to the 200,000 dentists in the United States. And we say Doctor Burleson, what is your preferred floss, water pick, electric toothbrush, all of those things. We are going to have a partnership that will allow you to offer those products at the same price as Amazon and you're also gonna get your patient, their custom fitting retainer and all of these other things. And Blair used to always joke with me that he always had a stack of like Sonicares in his office at all times because he was great at selling orthodontics but not so great at selling toothbrushes. And so now imagine you don't have a stack of any of that stuff in your office. We handle everything. We're the fulfillment center.

So now every patient who signs up with Doctor Burleson. Well, here's our welcome package. Here's our preferred, you know, Colleen is Blair's wife. She's a GP, I've been going to her as my dentist for 20 years and I'll never forget. I, I went in one time and she said, do you floss? I said yes, of course. I floss. She goes, what brand do you use? I said I use Glide. I buy it at Costco. She goes, stop doing that. You know, it glides right over the plaque. You want reach floss. It's got more texture to it. It's going to do a better job. Never in a million years, would it have occurred to me to say you don't know what you're talking about? What are you a dentist? I know better. Right. As soon as she said that I'm like, oh, that's the last time I'm ever going to buy Glide at Costco, I'll just go get this one that she recommended.

So imagine now all of those recommended products you can get. It's easy. It's simple. It's the same price as Amazon can I get my custom stuff and now it's all done for you passively and you just collect that money. A percentage of that as a doctor. II, I don't wanna just do this for 200,000 dentists. I wanna go to every podiatrist, uh, for orthotics. And what shoes do you recommend? And dermatologist for skin care? I mean, this is to me the, the grand vision of where this is heading. Um, so yeah, I mean that if there's so much to unpack there in terms of lifetime customer value and referrals and the trust and authority that's established as a professional. When you're their resource, their go to person, you don't go to your favorite mechanic with a car problem and say, hey, what do you think? And then go order all the parts on Amazon yourself and put it together, right? You just trust the mechanic to do their job.

So when ad or an orthodontist makes a specific recommendation for, here's the floss or I would use, here's the floss and here's the mouthwash and here's the desensitizing agent. Oh, by the way, you can put all those in your cart to scan the QR code that's bolted to the side of every chair. You know that whether or not you make a lot of revenue on those product sales and you will make some revenue on those product sales. You're keeping a customer for life when they go, this is my expert. This is my guru, this is who I go to. This is who I trust with my dental care and it gives you something to refer. I said this is a sad little bag. They give every patient with a little sample crest and the shitty toothbrush, right? And it's like we've got to do better and this is a platform that does it.

Dustin Burleson:
So you're right. I mean, we're just getting started with Retainer Club. I'm obviously an excited as an orthodontists in using this but also as an investor, I think it's really, really smart.

Craig Weiss:
Well, and, and I appreciate the opportunity because what, what you're right, I think most, most professionals don't have access to venture capital. They don't have access to private credit, they don't have access to these al alternatives and the alternatives outperform typically the public markets and, and also it's just a diversification piece, right? Like I would never tell anyone to give me 100% of their money, nor should they put 100% of their money in the stock market. I mean, you know, you want to diversify across, you know, lots of different things to protect your, your, you know, the money that, that people spent their lifetimes earning.

And what's great though about this opportunity, what you've called out is for me putting my hat on as the person who's putting together this investment. The challenge for me is, is talking to investors and getting them up to speed like this is what this is called, it's called Private Credit. And this is this business, it's called Retainer

Club. But, but your audience at least half of that has already been accomplished because they're dentists and orthodontists, they actually understand the Retainer Club business.

Dustin Burleson:
And, and I think the advice of investing what you know is typically good advice, right? Um People get into trouble when they veer too far from that typically. Yeah, I I really appreciate you always coming on and, and helping us learn new things, but also super excited for all the continued announcements at Retainer Club. So uh how can people reach out to you? I know we'll put links in the show notes below, but what's the best advice you have for them if they're interested in learning more about Flagstaff and about this opportunity?

Craig Weiss:
Yeah, just Craig at Flagstaff ventures.com. This is probably the cleanest, the easiest way. Um Also Craig at Retainer club.com also works. And obviously it's easy for them to get in touch with you and, and you can provide any contact information uh that you see is appropriate but happy to talk to anybody and and if anyone wants to talk about Retainer Club more with, with Blair as well, that's of course uh you know Blair at Retainer club.com.

Dustin Burleson:
Yeah, I say it every time but I just want you to know how much I mean it. I really appreciate you taking time out of your busy schedule to come and educate us and also super excited about this opportunity. Um obviously I'm going to be investing in it and, and uh looking forward to

seeing all of us create some wealth for our families and ourselves. So thank you, Craig. Always a pleasure.

Craig Weiss:
Awesome. Thanks so much. Alright. Have a good one. Bye. Bye.

ASK THE EXPERT

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