Stage 1 Financial & FOUNDERMADE

Q: How have the cost of equity and debt capital potentially changed from the pre-COVID period?

A: Cost of equity - Yes, I think higher although we are in early innings here. But to the extent that risk premiums increase, technically CAPM indicates higher cost of equity. Regarding cost of debt (and keep in mind that I am not a credit market expert), it feels like it is more available/cheaper. I am not sure how lender underwriting standards have adjusted. There are a lot of moving parts.

Q: Will cannabis become more mainstream due to its designation as an essential business?

A: It sounds like cannabis sales were up significantly in March. I have heard this anecdotally from operators in the delivery space and assume that this is related to self-care/health and wellness needs. I am not sure whether the sales increase is due to new users or existing users buying more or even "stocking up." So it's too soon to say whether this is due to increased "mainstreaming" or not.

Q: What's the best way to seek out angels and package yourself attractively to them?

A: The best angels for a particular business are big fans of the founder, brand, and product. It is much easier to convince those sorts of investors to take a bet on a pre-launch business, versus more generic outreach.

Q: How will restaurants handle the high fees they are currently dealing with third party delivery systems? How can these fees be considered sustainable?

A: Great question! I have wondered about this too. Relatedly, for restaurants and retailers that re-open but with significant social distancing/reduced capacity constraints, does the cost structure even work? How long can those businesses sustain those unit economics; does it even make sense to re-open? All of these things need to be taken into consideration, but we are not sure yet how they will span out in the following months.

Q: Are investors taking a pause on investing in new brands due to the pandemic? Or is it BAU?

A: Things have slowed down given high uncertainty. We are all trying to understand what the "new normal" looks like. What can we extrapolate from current consumer behavior to the future? We are in early stages here and still figuring things out.

Q: With the National GDP dropping to -4.8% and projected -14% for Q2, how do all of you investors look at this? Are we heading into a recession?

A: Yes, we are in a recession (even though we can't "officially" define it since recession technically means two successive quarters of negative GDP). I think the big question right now is what will be the "shape" of this recession and recovery (ie the V, U, Swoosh, L debate).

Q: We're a craft spirits company with 85% of sales in bars and restaurants pre-covid19. What are your thoughts on cutting all marketing and overhead costs and hibernating through this period to operate at a much lower sales level, but profitable vs investing in digital marketing to drive online retail sales and match 2019 sales?

A: Without seeing more data, I'd say it depends on e-commerce KPIs like ROAS, LTV, CAC. If the business has solid e-comm unit economics, then it makes sense to drive online sales via digital marketing. If not, this could be a risky strategy. (Side note - I am not an expert in regulations around online spirits sales.)