Breakthrough Tech Profits

How to Invest in Two Private Hyper-Growth Companies That Could Make You Rich

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by the Analysts at Breakthrough Tech Profits

We're thrilled that you've decided to profit from startup investing. In this report you'll learn about two opportunities and receive a step-by-step guide on how to invest in them. You'll also understand why many of the wealthiest investors in this country carve out a significant portion of their portfolios for such high-potential startups. The investments described here are hand-picked by me and my team from thousands of opportunities available.

Startup investing differs from public stock investing. So before delving into the opportunities in detail, let's briefly touch on the differences:

Your money goes directly to the startup's bank account When you buy a stock, you use a public market where shares are bought and sold among millions of investors. When you invest in a startup, you buy shares directly from the company, and the company uses your dollars to build its business. For instance, your money goes to hire top talent, develop innovative products and market.

Space is limited; speed is imperative. The best startups, which are the only type we've selected for you, raise as little money as possible. But when the company needs fresh capital, it needs it quickly. The low-volume of money raised together with the fast-moving nature of the market means opportunities to invest in the best startups are scarce. So we need to be ready to act quickly when great opportunities appear.

Once in, you are committed. Shares in a startup can only be sold in certain circumstances, which are most often when the startup is acquired. Until such an event occurs we're locked in to our investment. More on this below.

The upside must be enormous. Startups are risky. Our downside is always a 100%

loss. So for risk to be worthwhile, the upside potential must be enormous. A mere 50% or 100% potential return is not good enough. We need to see a clear path to a return of 500%, 1000% or more.

People rule. We spend more time studying the team than we spend on anything else. This is because the startups that make it are those that can adapt, and their strategy will likely change more than once. And executing such changes is all about having the right people in charge.

How do we get paid?

With no public market for our shares, we can't just sell them online or call our broker to cash in. So let me review the different ways we can collect on our investment.

In startup investing, we typically sell all our shares at once in an event called an exit. For the types of startup investments we favor, the most common exit is an acquisition, in which the company is bought by a larger company in its industry or by a private equity group. You'll see that even before initially investing in a startup, we devote considerable research effort to determine the most likely acquirers and the dynamics that would make the startup ripe for an acquisition.

The next most common exit is via an Initial Public Offering, or IPO, in which the growing startup lists shares on a public stock exchange. We can sometimes participate directly in the IPO, selling our private shares to new public stock investors, or we can register our shares with the exchange and sell some or all if we like, because now those shares are identical to any other stock in a brokerage account.

There are a couple other ways to exit. For example, if a startup becomes profitable quickly enough, the founders may decide to buy out early investors at a premium. This used to be rare, but we've seen it a bit more in recent years as more founders keep their successful companies private.

So those are startup basics. I hope that you will join me in the pursuit of great investments in the greatest investment category of all: The American startup.

Keen Home

Recommendation: Reserve preferred shares in Keen Home's Series A round. Buy the shares you reserve as soon as the funding round goes live.

Only a few years ago the smart home concept seemed remote. Yet 36 million smart home devices will ship this year, and those sales are climbing 52% every year, on pace to reach $490 billion in 2019. That's four times Amazon's annual sales.

The worthiest of the smart home device bunch—and it's a big, convoluted bunch—is **Keen Home**, which is about to open its Series A preferred stock round.

Keen Home's first product, on the market now, is a smart vent. The device fits around the vents in each room of your house, opening and closing to keep each room at the optimal temperature and occupants comfortable while cutting a home energy bill $300 a year, on average. The vents are connected wirelessly and do their job using machine learning and artificial intelligence. You can also control room temps from your smartphone.

The smart vents work with any heating and cooling system. If you live in one of the 90% of homes with a single HVAC zone, you'll immediately understand the appeal. Instead of hiring an HVAC contractor to install a zoned temperature control system, which costs thousands, you can get comfort and savings for $350 to $550, depending on how many rooms and how many vents your home has. Plus, there's no contractor: Anyone can snap on the vents in minutes.

But Keen Home is much more than a smart vent company. To see its potential we need to look at the big picture.

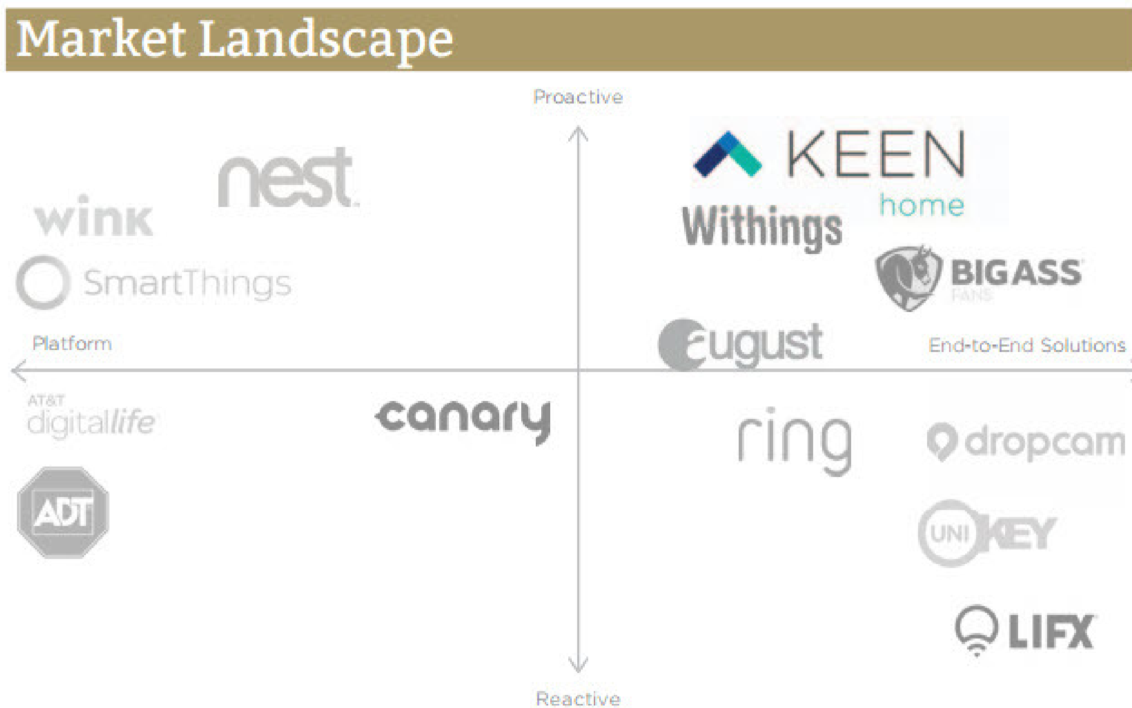
A Convoluted Marketplace

The smart home market mixes hardware (the devices) with software that controls the devices. It is also thick with startups, many of which are mainly hopes and dreams. They compete with the largest tech companies in the world, most of which

can afford to wait years to make money on smart home systems.

Generally speaking, startups make devices, while the big boys make platforms—which combine devices and systems that control them. Startup devices generally are reactive devices that do things such as turn lights on as you enter a room, tint glass on command or adjust the thermostat when you leave for work in the morning. These are impressive but tend to be discretionary purchases loved by early tech adopters more than anybody else. Repeat sales can be a challenge for these startups.

Meanwhile, the world's largest tech companies are racing to create the dominant smart home *platform*. Google Nest and Google Home, Amazon's Alexa, Apple's HomeKit and Samsung's SmartThings are in a vicious war. You may have seen some battles in this war via major add buys during primetime NFL slots this season. A tiny startup would be cannon fodder in this war.



Smart Home Meets Smart Strategy

The Keen Home founding team looked this competitive landscape in the eye and came up with a plan that avoids its hazards. Instead of gee-whiz gadgets that lend themselves to one-time purchases, the company would make devices that proactively improved the home, rather than reacted to it, making its wares more necessity than luxury. And Keen Home would avoid the tech titans' war by making devices that integrated with the tech giants' smart home platforms. So the company is basically selling arms to all sides. It zeros in on the most crucial, least

sexy parts of the house: HVAC, electricity and plumbing.

But what sets Keen Home apart the most is what it isn't: only a hardware company. Yes, today it produces a smart vent, which is definitively hardware. But after I did some digging into its filings and talked with the founders, it's clear that hardware is just a stepping stone. The company is after recurring revenue via software and—finally—data. More on this in a bit, but first let me review the company's success.

Strong Start

For a company that recently hired its 9th member, what Keen has accomplished to date is astounding.

It launched the smart vent in 2015. The choice of HVAC as the first market to tackle was savvy. About 50% of a home's energy bill is spent on heating and cooling, and the average home has two to four rooms that are either too hot or too cold. That's 360 million U.S. rooms that could benefit from Keen's smart vent.

Since the product's launch, Keen has sold 33,000 vents. It locked up distribution deals with Lowe's and Best Buy. It also has partnerships with both Google's Nest and Samsung's SmartThings, integrating with both platforms. To date, Keen's smart vent has the highest click-through rate on Google Nest's website. Existing Nest customers, a particularly juicy target market, testify that they find the product compelling.

With the early success of the smart vent, Keen looked for another product that could generate recurring purchases and landed on a smart filter. Respiratory illnesses are on the rise in the U.S., up 28% since 2001, according to the Centers for Disease Control and Prevention. Indoor air is the source of most issues and, according to the Environmental Protection Agency, is the U.S.'s number one environmental health problem.

Keen's smart filter fits inside the smart vent. The filters remove pollen, dust mites, mold spores, common household toxins such as benzene, formaldehyde and trichloroethylene, and remove offensive odors. At $15 each, the filters are both competitively priced and high margin. Smart filter customers receive refills automatically based on their HVAC usage, creating a perpetual stream of revenue to Keen.

Home air flow is just the beginning for Keen. The company has already announced its next product, a smart sump pump monitor that integrates into the 50 million

smart utility meters that utility companies have already installed in American homes. These sump pumps will give emergency warnings before water tables rise, basements flood or mold spreads—none of which are covered by homeowner's insurance. The average expense bill from flood damage runs $38,000. Keen's $5 per month preventative system, to be released in 2017, is a clear value.

The Endgame: Data

Keen's aim is to not just save money and improve home health, but collect data on how homes operate. Given that homes represent the largest chunk of net worth for most owners, this data will be valuable to them.

But the data is even more valuable to others. Insurance companies will pay big bucks for a home health snapshot before underwriting a policy. Banks want to know how well a home is maintained before accepting it as collateral. Real estate agents and homebuyers crave data on a home's hidden health—think Carfax for houses.

Keen Home is creating a proprietary data set that can prove tremendously valuable and highly profitable.

Team

When analyzing a startup team, the main question we seek to answer is can they execute?

Not only have Keen's team members fired on all cylinders in just the last few years, but their backgrounds are the ideal mix for a smart hardware company. The three co-founders are a mechanical engineer and Forbes Under 30 honoree who previously founded a smart glass company (he exited via acquisition in 2015); the co-founder of a waste solutions startup and former Fortune 500 consultant; and a former Prudential finance leader turned real estate fund manager with hands-on experience improving distressed properties. The team hired software developers to fill out that skill set and is just beginning to bring on data scientists in preparation for a long-term data play.

Deal Terms

Keen is about to open its Series A funding round. On offer are Series A preferred shares. These are convertible into common shares on a one-toone basis. The main benefit of the preferred shares is their anti-dilution clause. That means if Keen

raises more money at a valuation lower than what we paid, instead of getting just one common share, we'd get more so our stake in the company wouldn't be diluted.

Keen is raising up to $6 million this round at a pre-money valuation (the valuation of the company before it receives the $6 million) of $15 million. This is a good deal for a startup as far along as Keen, with sales approaching $2 million, two products already launched, and partnerships sealed with Lowes', Best Buy, Google and Samsung.

The worst case scenario when investing in startups is always a 100% loss. So to compensate for that risk we need major upside potential. At its current $15 million valuation, we can see our path to a massive return on Keen. An acquisition a few years down the line for $160 million, which is small compared to the size of this market and only one-twentieth what Google paid for Nest, would net us more than a 1,000% return. That's the ratio I like.

How to Invest

Keen Home's round is available on SeedInvest, one of my favorite startup investment platforms and one of the easiest to use. The whole investment process takes less than five minutes.

Keen is currently taking funding reservations. Making a reservation guarantees you a place in the round, but it does not obligate you to invest. I expect Keen's funding round to fill quickly, so I suggest making a reservation now.

Click here to reserve your spot in Keen Home's round . After you complete the reservation form, SeedInvest will walk you through setting up your account.

SeedInvest is a broker-dealer regulated by the Securities and Exchange Commission—one of the reasons I greatly prefer investing through this platform—and is required to collect information similar to what you would provide when opening a brokerage account such as at a Schwab or a TD Ameritrade.

You'll also say how you'd like to fund your investment. You can pay directly from any bank account or set up a wire transfer, all done online and directly through SeedInvest. Your investment won't be funded until Keen begins accepting investments and you give a formal go-ahead. You must prepare the funding method in advance, though, because once Keen opens the gates, they may close quickly.

A special note: SeedInvest will ask if you are an accredited investor (a measure of wealth and net income—you must meet certain thresholds to be accredited). But you don't need to be an accredited investor to invest in Keen Home. Be sure to answer honestly, as your response will be verified later.

The Naked Dog

Recommendation: Reserve preferred shares in The Naked Dog's seed round. Wait for further instructions from our team when the funding round goes live.

My second recommendation is one of my favorite startup breeds today— the digitally native vertical brand, or DNVB. Don't worry if you haven't heard the term.

But you should recognize one or more of these DNVB success stories: Dollar Shave Club, Warby Parker, Casper, Bonobos, Harry's Razors, Pact, and Tuft and Needle. So what is a DNVB, exactly?

- It is a brand born online, but it does not stay there.
- The company makes a tangible product, and the brand becomes synonymous with the product.
- The company is maniacally focused on the customer experience and developing an intimacy with its customers.
- The company handles all aspects of sourcing, manufacturing, selling and delivering product to customers.

DNVBs are a breed of retail that is thriving in the Amazon era. They take a real-world product, ideally mundane, low-tech and unchanged for many years. Then they create a better version infused with values that speak to their narrowly chosen target customers, who become fanatical about the brand and buy the products over and over.

Dollar Shave Club Meets Purina

The Naked Dog is the first significant DNVB to enter the dog food market. It is a brilliant space for this business model. Within our investment team, we joked that in the rankings of Least Rational Customer, dog owner is edged out only by new mother. There is a subset of dog owners who will spend almost anything on their pups. If a healthier, safer product is out there, they'll pay for it.

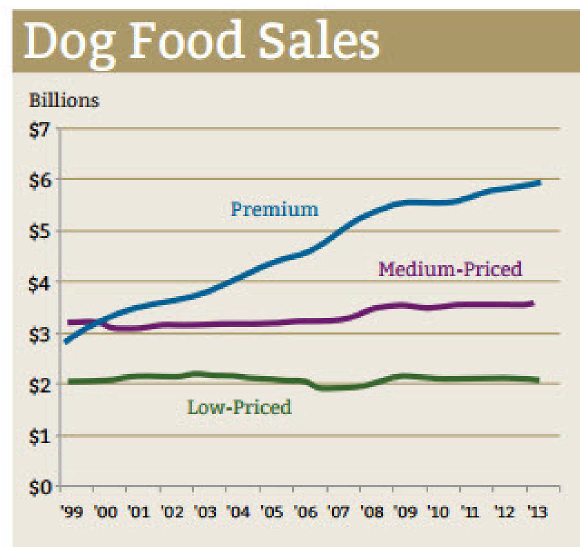
Data proves this. There are 78 million dogs living in 44% of U.S. homes. Their

owners spend $60 billion annually on the dogs. The greatest share of that—40%, or $24 billion—is spent on food. And within food, higher-priced premium food is the fastest-growing segment by far.

Team and Execution

The Naked Dog is the latest pet food brainchild of Marco Giannini. In 2004, Marco's dog needed to take medicine for an ailing hip, but the medicine didn't sit well. So he invented a dog treat that his dog found tasty and included the drug. From that Giannini founded Dogswell, which later expanded from supplement-infused treats to a full line of dog food available in 7,000 pet stores. Marco sold Dogswell to TSG Consumer Group, a well-known private equity firm, in 2008.

Marco's co-founder at The Naked Dog is Bere Giannini, his wife. Marco brought on Bere, an accomplished asset management professional and chartered financial analyst, in the early days of Dogswell. It was under her operational lead that the company grew to over $80 million in revenue and the private equity buyout was orchestrated.



Marco and Bere have also opened 14 pet stores in Southern California that have eclipsed $6 million in revenue in the first two years. Again, Marco is the CEO and visionary, Bere the operator and financial strategist. It's a combination that works.

Those 14 retail stores have also proven the perfect testing ground for The Naked Dog's early products.

But it's the online presence (and the traction there) that will dictate The Naked Dog's future. Compare the economics: A retail store customer will spend an average of $261 with the brand, and the company will realize a 26% gross margin on that revenue. The same customer online will spend $295 cumulatively, and the company makes a 46% gross margin. That's the power of the online, direct-to-consumer channel. While I expect that 46% gross margin to remain steady, I believe the $295 lifetime value figure will continue to climb.

Exit

One reason well-executed DNVBs can make enticing investments is the clear path to exit. DNVBs disrupt established vendors, moving nimbly while the big competition lumbers. Those big, well-capitalized vendors aren't thrilled about having their lunch eaten by a tiny startup they can't outcompete. It's cheaper, easier and faster for the big retailer to buy the disruptor.

The dog food industry is a classic example. Most of the major brands are owned by massive consumer goods companies:

- Nestle owns Ralston-Purina. One of the largest companies in the world, Nestle currently has over $5 billion in cash.
- Mars owns Pedigree Petfoods. With 75,000 employees and an estimated $33 billion in annual sales, Mars is one of the largest private companies in the country.
- Procter & Gamble owns Iams. P&G needs no introduction. The consumer goods behemoth has $13 billion in cash.
- Del Monte Pacific, a major Asian conglomerate that in 2014 acquired U.S. Del Monte Foods, owns Milk-Bone and has demonstrated a penchant for growth by acquisition.

Deal Terms

The Naked Dog is raising its seed round on CircleUp, a specialized startup investing platform that exclusively handles consumer and retail companies. The only drawback is that CircleUp is limited to accredited investors. If you do not have a portfolio worth over $1 million (excluding your residence) or averaged less than $200,000 in income over the past three years ($300,000 if married), you don't qualify for this investment.

CircleUp has an unusual funding process. CircleUp's team hand-selects startups, creates a preliminary offering and then opens it for reservations. Only after reservations hit a critical mass (for The Naked Dog, $1 million) does the team formalize the offering and finalize the deal terms. This keeps costs low for both CircleUp and the startups, allowing it to attract more and better deals.

The Naked Dog is in the reservation stage. Reservations are nonbinding, which means making one gives us the right to invest but not the obligation. Based on history, if we don't make a reservation, we might not get a piece of the deal. Reservations tend to come in big chunks, with a lead investor, usually a venture capital firm or family office, taking the primary role. For that reason, it's smart to make a reservation early.

The final deal terms have not yet been worked out. We do know that The Naked Dog will issue preferred stock and will raise between $1 million and $4 million. Based on my conversations with the founder Marco Giannini and the CircleUp team, I learned two other important things:

The company is planning to include the 14 retail locations in the offering, so our investment would be in both the chain and the DNVB. The two have a symbiotic relationship, so I think this sweetens the deal. The Naked Dog brand can test out new products in the stores and then launch them to a far wider audience at far better economics online.

The target is a $5 million pre-money valuation (not the $10 million CircleUp is currently advertising). This is almost surprisingly low. The retail chain alone will clear $6 million in revenue in 2016 from a standing start two years ago. Adding in the digital brand, the founders believe they can reach $90 million within three to five years. If they can get anywhere close, our investment at a $5 million valuation will pay off many times over.

We like these preliminary terms. Until we see the final terms, though, we will not recommend investing. For now, I recommend reserving shares and locking in the right to invest if we like the final offer. After that, stay tuned. We'll issue a formal recommendation when the final term sheet is released.

How to Invest

Click here to reserve your spot in The Naked Dog's seed round . Then click Join to View Full Raise. Following the prompts, you'll create a quick profile, including verification that you are an accredited investor. Like all professional startup investment platforms, CircleUp will require proof that you are accredited.

After finishing the profile, you'll land back on The Naked Dog's page. Feel free to poke around, look through their slide deck and check out the founding team biographies. When you are ready, click **Reserve Now**.