

Karen Zelnick:

So, here's an unexpected scenario. You've got your startup started up and you're busy and focused on building the best team and raising capital when you're blindsided by a legal battle with one of the world's most powerful companies. This doesn't happen all the time, but it does happen more than you think, and today we'll learn from someone who's faced it all. Major lawsuit, loss, and even bankruptcy, and what it took to bounce back even stronger. Join us as we talk to Neal Harmon, CEO and Founder of VidAngel, and investor Dalton Wright of Kickstart, as they bring us both sides of a Perfect Pitch.

Karen Zelnick:

What is Perfect Pitch? It's a podcast from Kickstart that reveals the minds of both investors and entrepreneurs throughout a startup's journey. So, whether that's uncovering what everyone's really thinking during a startup pitch or learning how entrepreneurs like you have managed their first major roadblock, Perfect Pitch offers an honest, quick and tactical guide to help you on your startup journey.

Karen Zelnick:

I'm your host, Karen Zelnick. Neal and Dalton, thank you so much for being here today.

Neal Harmon:

Thank you, Karen.

Dalton Wright:

Thanks Karen.

Karen Zelnick:

It's going to be a really good discussion, but before we jump in, I want to talk a little bit about you. Neal, you're the Founder and CEO, as I mentioned, of VidAngel, which provides a way to skip or mute things that viewers don't want to see or hear in their movies and TV shows. Correct me if I'm wrong, but you're proficient in 10 computer programming languages. Is that correct?

Neal Harmon:

Something like that.

Karen Zelnick:

Okay, maybe more. That's amazing. And you founded and co-founded several companies. It sounds like that founder streak started when you were 11 years old and you purchased a cow to start a dairy business?

Neal Harmon:

You're bringing back memories.

Karen Zelnick:

I need to hear about these cows. How did the dairy business go?

Neal Harmon:

I saved up money hauling beets and I bought a cow, it was the only business I really knew or understood at that time, because I was growing up in Idaho. I had this plan to grow it to a million dollar dairy, and needless to say, I only made it to nine cows and I moved on from the dairy business.

Karen Zelnick:

Under greener pastures, as it were. Thank you. Well, so excited to dive into the conversation today. Dalton, so glad to have you back on the podcast. For those who are listening, we're going to have a link to his bio in our show notes, but before we move on, for return listeners, Dalton, what's something that they don't yet know about you?

Dalton Wright:

When I was a kid, my dad was in the Air Force, and so we lived overseas in Germany. We came back to Utah when I was in elementary school. We're trying to make new friends and fit in in the new community, and it was my mom's idea to have us wear lederhosen to church.

Karen Zelnick:

Oh, no.

Dalton Wright:

So I'm kind of an insecure kid here, just kind of so shy about my skinny knobby legs walking around in lederhosen at church.

Karen Zelnick:

Oh my gosh, we need to find a photo of that and put it in the show notes, because now everyone is like, "I've got to see that."

Dalton Wright:

Dalton in lederhosen.

Karen Zelnick:

That's the best. You're really giving Kurt run for his money here with these amazing stories that you've got, so keep them coming. We love learning more about you, and again, so glad to have you back. With that, we're just going to jump right in. Neal, I'd love to know what's the story of VidAngel? How did you come up with the solution and how did you grow the company?

Neal Harmon:

So, VidAngel started as an idea between brothers in 2012. We all have young children and we wanted this product for ourselves. In 2013, Google came out with a device called a Chromecast that had an SDK, and we said, "Wait a second, we can connect this idea with the Chromecast, and then we can skip a few things that we don't want our kids repeating at home." So we thought, "Okay, let's see if anybody else likes this idea." We did some research, found out about half of American parents would use a product like this, and we launched a business in late 2013.

Neal Harmon:

The interesting thing was, and what was confusing to me when starting this business is why it hadn't been done, because it wasn't a really difficult technical problem, it was more of a political social problem than it was a technical problem, a legal problem as well. So we did everything that we could to cover our legal basis as a company, and that Chromecast that I said that we built the product off of, well, Kickstart invested in our company early in 2014, because we showed them this product worked really well with a Chromecast. They cut the check, put in the money, and within days, Google shut off the Chromecast capability that made it possible to filter.

Karen Zelnick:

Dalton, what were you thinking at that point, within days of giving the check?

Dalton Wright:

So on the one hand, I'd like to say, hey, this is just what the normal course of business for startups, that they faced setbacks. That was a pretty significant one, but I was confident we'd figure our way around that, right? So I was so excited by the team really, I think is what it was, that we felt like what we have here is a community and you have people who've identified a need that they have and are passionate and relentless trying to fulfill that need, and they're going to find a way to serve that audience.

Dalton Wright:

So, we didn't really know exactly what the solution would look like. We knew that this team, the Harmon brothers, if they can figure out the right product, there's going to be no question that they can acquire their audience. They are marketing geniuses, and the confidence in the team's ability to iterate quickly and move quickly just went up as we continued to face obstacles.

Neal Harmon:

The flip side of that, for me, VidAngel wouldn't exist today if Kickstart hadn't invested when they did, because if we would've gone the path on our own, because we put in the very first cash and then we got help from Kickstart in early 2014. When we hit all those roadblocks, I think because we're very adaptable, we would have chosen to just move on and do another business, but because we had asked money from people who trusted us and believed in us, turning back wasn't an option at that point.

Karen Zelnick:

So you're moving along, growing the company, and then all of a sudden you face a legal battle with Disney of all companies. Can you tell us about that?

Neal Harmon:

I remember it so well, because it wasn't at this office here where we are today, it was at this hole in the wall place on University Avenue in Provo. This private investigator comes in, finds us, and he's like, "Where's Neal Harmon?" Then he comes up to me with this stack of papers, and I was like, "You kidding me?" Then when I saw the name on the lawsuit, I was like, "No way, Disney?"

Karen Zelnick:

Yes, unbelievable. Yeah.

Neal Harmon:

I'm like, "Disney? No way." We had two weeks before receiving that lawsuit, asked our customers if they wanted to invest in the company, they wanted to invest to the tune of \$62 million. Then we have this lawsuit and I said, "Well, that just turned our world upside down." Disney sued us for the same reason that a dozen other companies got sued out of existence, it was for copyright infringement and the Digital Millennium and Copyright Act.

Neal Harmon:

They sue us in California. We didn't have the resources to fight over venue, so we had to stick out the lawsuit in California. We lost. You remember I told you \$62 million is what our customers wanted to put into the company and investors? The final judgment was \$62.4 million. We had to file for Chapter 11 bankruptcy protection in Utah to give ourselves some time to rebuild the company. Fortunately, the judge gave us a year to redo the business.

Neal Harmon:

Because we had that year to rebuild our business, we launched our own original content studio. We announced Angel Studios in front of the press in front of our whole company when the whole entire world's bearing down on us saying what are you guys doing?

Karen Zelnick:

Dalton, what were you thinking? Disney, how did that change your perspective on it?

Dalton Wright:

When we got that news, I was also participating in conversations to provide additional funding for VidAngel. So right before the Disney lawsuit dropped, I was promoting VidAngel to my investment committee, to Kickstart's investment committee. So to have Disney then within a week or two of that conversation sue, I went from the extreme highs to am I even a good investor? Am I even credible to my investors?

Dalton Wright:

But in my mind, I just anchored around this is a long-term game. If you bet on people who are facing something that they want to spend their lives solving, you have to look past the lowest lows, because any noble journey's going to have low lows, and if you can somehow find the presence of mind in those moments and have that context, then you can kind of breathe through it and say let's just keep going.

Dalton Wright:

I think VidAngel, its story's not yet written, but the chapter that we're on right now is really, really exciting, so I'm grateful to have been part of it so far.

Neal Harmon:

You actually reminded me of something, Dalton. One company meeting we went over favorite memories for VidAngel, and one of the employees that kind of shook me up, she said her favorite memory was the Monday after that trial, or maybe it was Tuesday after that trial. We got out the book, Horton Hatches an Egg. I don't know if you know that Dr. Seuss book, but this bird leaves off to vacation, and then this elephant sits on this egg and takes care of it until this egg becomes the mixture between an elephant and a bird.

Neal Harmon:

Anyway, he just sticks it out and sticks it out, and he says, "I said what I said, and I said what I meant. An elephant's faithful 100%." I know it sounds really stupid that we're reading a children's book after this, but when we read those words as a team, it brought us together. We started this because we meant it. We did this for a reason and the reason still exists, and until we see it through, we're not giving up.

Karen Zelnick:

I don't think that sounds silly at all, I think that sounds like such a poignant moment where you were able to capture in such simple words the way everyone on your team felt. I could feel the emotion as you talked about that, and I started getting emotional, I'm sure Dalton felt the emotion of that as well, but what a beautiful, beautiful moment and testament to the culture you did create.

Neal Harmon:

We did. That's the thing about VidAngel. It's not about Neal, it's not about Jeff, but though I could never have done this without Jeff, but I never could have done it without Dalton, it's the entire group that is not giving up that has brought us through this.

Karen Zelnick:

Yeah. Dalton, any thoughts on that?

Dalton Wright:

Neal, as you were describing reading the book together, it's so powerful to me, because you were beat down at that point. Each thing got worse and worse. The news got worse as we went and we kept thinking, "Okay, that's a good sign. Okay, and this is where the trial will start to turn each time."

Neal Harmon:

It just kept going deeper, didn't it?

Dalton Wright:

One slap after the other, and finally bam, bam, bam, and then \$60 million. The highest judgment and copyright judgment in history, eat it VidAngel, you're done. You lost and you lost miserably. I just imagine a scenario where that's what the outside world would expect you to be thinking inside, but inside it was this re-discovery of how strong you are, because you're not moving. You are so committed to what you're doing, that no matter what is thrown at you, even the worst judgment that we could have ever forecast or imagined, even on the other side of that, the heels dig in a little bit more and the people who decide to stay are that much more unified and ready to face whatever else will come.

Karen Zelnick:

You obviously have such a passion for VidAngel's tenacity. At one point you mentioned that you questioned yourself as an investor and your judgment. Did seeing VidAngel's response to adversity change that for you?

Dalton Wright:

One thing that this experience and others has helped me really understand is that I'm learning to curb my over-excitement when things are going great. That's the story of VidAngel in a lot of ways, is it just felt like I needed a career to find an investment potentially that was so unexpected, and then it was like, I went to, "Well, you were just wrong and you made a bad investment and you look silly now." That's kind of a negative narrative in my own head, to, "Wait a second, one, this isn't about me as an investor, this is about something that I'm participating in, and so it doesn't really matter ultimately whether or not people think I'm a good investor or not a good investor."

Dalton Wright:

I guess that's how I feel about it, is that it's kind of like any news, it could be good, it could be bad. I've said that a lot, I've tried to use that as a way of not getting too excited or too disappointed about the news that I get. I think it's also, there are some things that are just worth fighting for that they're worth fighting for. That's why I love the entrepreneurs, that's why I love the founders, and in some ways that's what defines them is the ability to continue to believe to push through these things. I'm trying to be more of that type of investor.

Dalton Wright:

If there's anything that VidAngel taught me, I want to be more of the high conviction investor, and if I allow myself to play this thing of what is the perception of me on this investment, I've automatically opted out of being a non-consensus high conviction investor. So, it's more around kind of getting this anchor of what types of companies I'm looking for and what do I want to do with my investments and seeing them through to the end. I love the fact that we're here seven years later and it's like this might actually just be the beginning of what VidAngel's going to do in the world.

Karen Zelnick:

Yeah, so it sounds like it actually was a career-defining investment. Not so much for the immediate instant success of it, but because of the way it changed your perspective on who you are and how you invest. I think that's an interesting insight.

Neal Harmon:

I was just going to add something to what Dalton said. It wasn't long after that judgment that I was at the Kickstart CEO Summit and Dalton said to me, "Neal, I'd invest in you again in a heartbeat." I didn't know the journey that Dalton had been through, but to me that was one of the moments where even though I was struggling as I looked at all these CEOs that were succeeding in their companies, for Dalton to say that, it really [inaudible 00:14:59] me up and made me say, "Wait a second, maybe our reputations can still survive this mess."

Dalton Wright:

Oh, thank you, Neal. I feel grateful that I've been part of this company, grateful for the leadership that you provided, Neal, and also grateful that you've fought so hard for our investment and for the investment of the other people who've gone on this journey. When people ask me about how VidAngel's doing, and when I say, "Yeah, we're out of bankruptcy," the assumption is so you guys kind of got wiped out? [inaudible 00:15:28]. It's like, "Well, no, no."

Dalton Wright:

Because of the way that the Harmons managed to actually grow their business and uncover new revenue streams while they were in bankruptcy, while they were facing judgments, they actually produced more opportunity than they had beforehand. The cap table stayed intact, our ownership stayed intact and we're going to raise at an increase in valuation coming out of this.

Dalton Wright:

So, it's remarkable that we're in this position and it's remarkable that we're even able to look forward to what is coming still knowing that all of this what we've done wasn't wasted energy, it wasn't wasted effort. It's been frustrating at times, but high expectations for our stake in this company is going to be a meaningful ownership stake for that fund for many years to come still.

Karen Zelnick:

I think, Dalton, that goes back to what you were saying at the beginning about you were just excited by the team and the fact that you knew that no matter what they would find a way. Neal, I'd actually love to talk about the way that you found. So you've settled with Disney, you've exited bankruptcy, and now you're creating original content. Tell us about what VidAngel's doing now.

Neal Harmon:

That's a great question. So we have never been so excited about the future, and I think by the end of first quarter, I don't think it, I'm very confident by the end of first quarter the whole world is going to see what we've done in a totally different light, and they'll say, "Oh, that's what these guys have been up to."

Neal Harmon:

We see the gap in the market, the gap is wide open and we're films like It's a Wonderful Life for our century. We as a studio intend to create a home that in 10 or 50 years, when people think of a place where they go to experience entertainment or stories that just amplify light in the world, they'll think of our brand. That's where we will be.

Neal Harmon:

We just successfully launched, after The Chosen, The Chosen was crowdfunded by 19,000 people. We just launched and funded by over 3,000 people, Tuttle Twins, and another 3,000 freelancers, and there's a lot of changes coming. Rather than trying to skip over stuff that we find objectionable and great stories we respect and honor Hollywood for the amazing craft that they've done, but we've become a place, and we have the kind of scale and the opportunity to create stories that are as good and as well-made as Hollywood, but that reflect more the hearts of our movement.

Karen Zelnick:

So Neal, I know that we're on Zoom and this is all virtual, but your passion is overflowing and so inspiring, and I just cannot wait to see everything that VidAngel does and the success that you're going to become. I have just one final question for you. I'd love to know what's an effective practice you've implemented in your work or personal life that's had a great impact on your success?

Neal Harmon:

You've never failed until you quit. I've felt like I was a failure so many times throughout my career, but just because I kept stepping forward, trudging through, you eventually get through it. You will. It's the state of the world, it's the way the world works, so you've never failed until you quit.

Karen Zelnick:

Yeah. Dalton, any thoughts on that?

Dalton Wright:

We're pretty simple creatures sometimes as seed investors, and oftentimes it's enough just to know you have a really great founder. You don't have to know what the end story looks like, you just need to know that you're going on a journey with a really great person or a really great team. I definitely knew that I had that with Neal and Jeff when we first invested, so it's been my privilege to basically be along for the ride and help where I can, but really kind of celebrate the leadership and the success of the team that really puts it all on the line.

Dalton Wright:

Another thing I'd just say maybe in closing that stands out about Neal in particular, I love this quality of ownership. There are some founders, they actually become stronger because they manage to pick up things that nobody else really could do, and that's the mindset of an owner. So, just one of the many things I value about Neal's personality, character, and leadership.

Karen Zelnick:

I could talk to the two of you all day, and my biggest takeaway from the discussion, Dalton's point about that no snapshot is an accurate view of what's actually going to happen, so don't judge something on a snapshot. So, thank you for those insights. Thank you so much for joining us on the podcast today. Dalton, thank you as always for being here.

Dalton Wright:

Thank you.

Neal Harmon:

Thank you for the great interview, Karen.

Karen Zelnick:

Of course, thank you for listening as we dive deep into what it takes to create the Perfect Pitch. If you want to learn more about our investor Dalton Wright from Kickstart and our founder, Neal Harmon and his incredible team at VidAngel, we'll have a link to the company and a longer bio in our show notes at kickstartfund.com.

Karen Zelnick:

You can listen to more episodes of Perfect Pitch wherever you listen to your podcasts, and if you like what you're learning, leave us a review or rating. We'll be back next time with more insights from entrepreneurs and the investors who fund them, so be sure to subscribe so you don't miss a thing.