William Santana Li of Knightscope

Hall T Martin: [00:00:04] This is the Investor Connect Podcast Program, I'm Hall T Martin. I'm the host of the show in which we interview angel investors, venture capital, family offices, private equity, and many other investors for early-stage and growth companies. I hope you enjoy this episode.

Hall T Martin: [00:00:23] Well hello, this is Hall Martin with Investor Connect. Joining us again is William Santana Li, CEO of Knightscope. Knightscope builds Autonomous Security Robots in Silicon Valley (made in the USA) that are patrolling across the country 24/7/365 to secure the places you live, study, work, and visit. With over 16,000 investors and over $70M raised since inception, including $10M+ in lifetime revenue, Knightscope is reimagining public safety at a time when the Nation needs it most. Bill, thank you for joining us again.

William Santana Li: [00:00:52] Hey, good to see you, good to be back. Thanks for having us.

Hall T Martin: [00:00:55] Well, great. Well, we talked previously about Knightscope, can you give us an update since then?

William Santana Li: [00:01:00] You covered a little bit of it in the intro. When we started back in 2013, we've had a lot of challenges getting the company financed and people are like, "You guys are crazy for even attempting to do this", and, you fast forward, I think before we started the last financing, we had maybe 6,000 investors and now we're at 16,000, which is just amazing. I also scare myself wondering like, how many questions have I answered? And I try to go do the due diligence question kind of things like, I think I've answered like 10,000 investor questions publicly, which is good training to be a publicly-traded company one day. But things have been a very unique year. I mean, as you also noted, if you would have said to me years ago that you would be in the middle of a pandemic, the robots are immune, and the whole nation is looking to redefine and reimagine public safety, I would have said that's a science fiction movie plot, but here we are. We haven't skipped a beat and I'm very proud of the team. Most of our clients are essential services, hospitals, law enforcement agencies, security teams. Actually, we're in our 5th hospital, we landed our first federal government

contract with the U.S. Department of Veterans Affairs and actually deployed, super excited about that. We just got a water utility contract, some more casinos, and we're continuing to grow methodically and carefully despite the pandemic. And then lastly, I'm really proud of the team that we've been able to recruit even during kind of more than economic turbulence. So, we've added probably a dozen folks recently and got a lot more openings at Knightscope.com/careers.

Hall T Martin: [00:02:45] Well, great. Well, what was the impact of the COVID pandemic on both your marketplace as well as your company?

William Santana Li: [00:02:51] Kind of a mixed bag. So, we physically build these machines ourselves and you're not going to download these from the cloud, so we've got two thirds to three-quarters of the team kind of working remotely, and then the rest of the team is coming in in very specified times and needing to get pre-approvals to be here, everyone's got their mask, we've got folks cleared out here while I do this chat with you, and we've been able to kind of work through it, we've had to make some couple of material changes on how we deploy the machines, etc., but didn't skip a beat, which is to me fascinating. I thought this was going to be really, really difficult for us, but, when you've got a driven team focused on making sure this all works, you end up doing, making the impossible possible. From a client perspective, a mixed bag. We've had a few where either they are still on shutdown, or we can't be on-premise, or, frankly, their business has gone under, so had a little bit understandably there. On the more positive side of things, people are starting to realize that remote monitoring is the future. I mean, very crudely, do you want to be the security guard at a hospital right now? Probably not, right? So, a mix, I would say neutral to positive overall, but it's a very trying time for obviously, the entire country.

Hall T Martin: [00:04:15] What do you think the long-term impact of COVID is on, say, the robotics industry itself? What's going to happen there?

William Santana Li: [00:04:21] I think it's net going to be positive, but there's one flaw in that logic is - maybe your viewers may or may not know this - but about $100 billion goes into startups every year, approximately 80%/85% goes into software, 10% plus, plus or minus into biotech, and the rest into other, and that other is a tiny little sliver for anything kind of hardware, robotics-related. So, for all those viewers who worry that the

robots are coming to kill you and take your job, I would just say follow the cash, and then that's highly unlikely because the sector is underfunded, massively underfunded for what people's expectations might be, or for the expectations that Hollywood has put forth over the last three decades.

Hall T Martin: [00:05:10] Well, that's great. I recently saw a Merrill Lynch report that said there's over 400,000 robotic jobs available now, and that was just before the pandemic really hit the peak, and wondered how much that might increase over the years, is the need for secure supply chains, manufacturing, re-shoring, and other things are shifting an emphasis back into the space from what it was before, where everything was just software, it seemed like it might be going into another direction here after COVID passes one of these days.

William Santana Li: [00:05:38] Yeah, I think one of the interesting things it's the creation of new jobs that didn't exist before, so a production specialist to build robots, OK, that's going to continue to grow. Well, how about the deployment specialist to actually get these things deployed? What about the network operations center specialists to make sure that the machines are running 24/7? And you end up creating new things that kind of didn't exist before, so, there's certainly always opportunities and chaos I'll say.

Hall T Martin: [00:06:07] Well, we're hearing a lot about that. Now I hear the term manufacturing and re-shoring come up in many of these podcast interviews and secure supply chain becomes now the watchword. And so, people are changing how they organize and design their supply chains for robustness, et cetera. So, it seems like it's going to be a different world when things get back to standard. But tell us more about your products there. How long have these robots been in the field?

William Santana Li: [00:06:34] We're actually entering into our fourth winter. The machines have operated well, well, well in excess of a million hours, so we've got a lot of field experience or lessons learned, got a lot of experience on how to operate 24/7 in the rain, at night, with people, cats, dogs, trucks, 18 wheelers and the like. And a lot of the stuff I'd like to say, you can't build and deploy in a laboratory, you need to physically be out there in the field making mistakes and fixing them because there's so many _____ cases, so many things you never would have thought you'd encounter until

you're actually out there. And that to us gives us some pretty significant competitive advantage to actually been in the field. Maybe it might be helpful for the viewers - over $80 billion has been invested in self-driving technology, there's about 200 companies working on it, I believe Knightscope's the only company in the world that's actually shipped something that's commercially viable, with real clients, in the real world, operating 24/7, fully autonomous, with no human intervention. Most of the other stuff out there is a lot of great stuff, but it's all R&D projects and very dubious commercialization plans probably are really not going to go into real production for another decade or two.

Hall T Martin: [00:07:55] Where you are operating now? Are you still in California or are you spread further now?

William Santana Li: [00:08:01] We have contracts in five time zones. We're operating literally from Alaska to Rhode Island - the team's working on the Hawaii contracts. But, yeah, it's been an interesting challenge that Alaska deployment actually we did during COVID, which gave us a unique opportunity like, okay, how do we get this machine that's here over there and deployed in a seamless manner that the client would be OK with. But, we figured it out and now we're off deploying a few more before the year's out.

Hall T Martin: [00:08:37] Well, great. Well, tell us more about the platform itself. What's the core technology behind it?

William Santana Li: [00:08:41] There is no one thing, it's the combination of everything to work together. A lot of investors like to say, well, "What's the one thing that really makes the whole thing?" That's not how the world works. That's like asking a race car driver, like, what's more important, the steering wheel or the brakes? You kinda need the whole thing to work together. So, I like to say it's a unique combination of the self-driving portion, the navigation, being able to operate 24/7 in a crowded area with lots of people, or lots of vehicles, or up and down a nine-story parking structure, but at the same time being able to grab as much information from the environment as possible. So, the machines behind me, they generate over 90 terabytes of data that no human could ever possibly process and a lot of folks like to focus on the shiny objects there, but what's really interesting is the browser-based user interface that we've built for our clients to utilize so they can interact with the machines. So, give you a quick use case. So, we have several Fortune 1000 clients, let's say they terminated someone last

week and it didn't go well and they're worried that that person might come back. They can blacklist their license plate, their face, as well as all their mobile devices, and then the machines are literally on the lookout for those detections, again, giving the guards and officers really smart eyes and ears for them to cover a lot more ground than they normally would be able to. So, it's that unique combination of robotics, self-driving technology, and A.I. that makes, literally providing magic at a guard's fingertips.

Hall T Martin: [00:10:12] So, what surprised you most about this sector, what was a surprise to you?

William Santana Li: [00:10:17] Probably two things. One was back in 2015 when we put the first one out in the real world and we didn't know what was going to happen, I was genuinely scared, like, will society allow us to do this, and are people just going to go nuts?Like, there's a robot roaming around by itself, there's no one remote controlling it, but after we saw the, you know, the hugs and kisses and selfies and all kinds of shenanigans on the positive side of things, I thought we're going to be OK. And then the second thing I think for the entrepreneurs out there, the stuff that you worry about when you're innovating and, oh, my God, this thing's going to go wrong, that thing's going to go wrong, none of that stuff ever goes wrong because you're focused on it. The things that go wrong are the things that never occurred to you to even have that conversation, much less call a meeting and come up with an action plan. And that's why I'm a big promoter of getting yourself out in the field in the real world and getting punched in the face, basically, and understanding what that impact might be, and then going back to the drawing board and figuring out how to fix that problem.

Hall T Martin: [00:11:21] Great. Well, we have quite a few investors that listen to the show, what's your advice for people investing in this space?

William Santana Li: [00:11:27] I think in general, I'd probably focus on three things. People like to do all kinds of analysis and everything, to me, for us, for Knightscope, I think it's three things. One, fundamentally, do you believe that robotics, A.I., and autonomous technology are going to change the world dramatically over the next 10-20 years? Yes or no? Kind of a binary question. Second, investors usually worry, is the market for that product or service that you're offering going to collapse? Are flip phones going away? Are station wagons going away? Is that innovation that you have not going

to be needed later? I can pretty much assure you that the market for crime is never going away, it's not like tomorrow people are going to wake up and all start behaving. So, you need to think and ask yourself, do you believe that crime is ever going to collapse, yes or no? Again, binary question. And then the last thing is, do you trust the management team to execute what they said they're going to go do? Do they have a track record of executing? And when things go wrong, not if, when things go wrong, are they smart enough and driven enough to fix the problem? That's it. Three basic simple questions: yes or no?

Hall T Martin: [00:12:37] Great. And, can you tell us more about the use case that people use robotics for at these different sites like hospitals? How exactly are they working?

William Santana Li: [00:12:46] Every client's different, so, in some cases it might be patrolling the parking lot, in some cases, it literally is an empty building. The insurance company says you have to have security, they don't want to pay a security guard $28 an hour to stare at an empty building. In some cases, they're just looking for that physical deterrence. That's one of the most fascinating things that people who are not around security and don't understand. Maybe two quick analogies would be if you're driving down the highway and you see a police car, it doesn't matter what speed you're going, you're going to hit that brake pedal, right?

Hall T Martin: [00:13:19] Absolutely.

William Santana Li: [00:13:19] Or, if you're a criminal and you're looking to steal a vehicle, if you pull into a parking lot at three o'clock in the morning and there's a 5-foot-tall 400-pound machine roaming around on its own, no one's remote controlling it, the strobe light's going, it says "SECURITY" on it, you have no idea what it does, you are going to go steal that car somewhere else and then not there. And that's cut across from our corporate clients, to the hospitals, logistics facilities, manufacturing plants, casinos, basically anywhere indoors or outdoors you might see a security guard, is a unique opportunity for Knightscope.

Hall T Martin: [00:13:56] Great. So what's coming up next for Knightscope, either new products, or technologies, or markets? What's new on the horizon?

William Santana Li: [00:14:03] Execution, just growth. Now that we've got things working and pretty much every issue that we have in the building, I can fix with people, cash, and time, it's just scaling up and that's our primary focus now. And, you know, there's always growing pains where you kind of hack something and there's maybe some technical debt, some process debt or something like that, so, we need to kind of fix some of those issues as we continue to add more and more clients across the country.

Hall T Martin: [00:14:33] Great. Well, in the last few minutes that we have here, what else should we cover that we haven't?

William Santana Li: [00:14:37] Probably the crime-fighting winds. If most people, I think I still find it fascinating that the technology works - as silly as that might sound - but we've helped the law enforcement agency issue an arrest warrant for a sexual predator, we helped another law enforcement agency end a domestic abuse situation, another one was apprehending an armed gunman, helping a security officer apprehend a retail thief, stopping a corporate vandal, and the list just goes on and on and on and we're just getting started. So, if you want to know more, go to Knightscope.com/crime, there's a nice long list there, including data from a law enforcement agency - that we didn't ask them to put together - that shows that we were basically effectively able to cut crime in half in the area that we've been patrolling. So, we've got a unique set of technologies to help society with the recurring revenue business model for a recurring societal problem.

Hall T Martin: [00:15:33] Great. So, how best for listeners to get back in touch with you?

William Santana Li: [00:15:36] If you go to Securityrobot.com, you can learn a little bit more about the company. And then at the lower bottom right, there's a little blue icon for instant messaging, that is not a bot, that is me answering questions during normal business hours and I always end up having these silly conversations where people are like, "This is not the CEO", "Yes, it is the CEO", "Prove it." I'm like, I don't have time to play the bot game, it's me. "What is your question? How can I help you?" So just be nice, I might be exhausted, I will answer the questions. So sometimes I'm on a call like

this and may not be able to respond instantaneously, but I will respond. So, hopefully, that is helpful to folks.

Hall T Martin: [00:16:15] Well, we'll put those in the show notes. I want to thank you for joining us today for this update and hope to have you back for a follow-up again soon.

William Santana Li: [00:16:21] All right. Thanks so much, Hall. Be safe out there.

Hall T Martin: [00:16:23] You too.

Hall T Martin: [00:16:25] Investor Connect helps investors interested in startup funding. In this podcast series, experienced investors share their experience and advice. You can learn more at Investorconnect.org.

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