

## **Rick Grinnell of Glasswing Ventures**

[00:00:04] This is the Investor Connect podcast program. I'm Hall Martin and the host of the show in which we interview Angel Investors, venture capital, family offices, private equity, many other investors for early stage and growth companies. I hope you enjoy this episode.

[00:00:24] Hello, this is Hall Martin with Envestra Connect today we're here with Rick Grinnell, founding managing partner at Class Wing Ventures.

[00:00:30] Class Wing Ventures is an early stage venture capital firm investing in the next generation of A.I. and frontier technology startups that are enabling the rise of the intelligent enterprise. There are laser focused on funding exceptional entrepreneurs who are leading the revolution, capitalizing on the intellectual and talent from the premier academic institutions on the East Coast and fostering growth for our ecosystem. Whether they are helping their portfolio companies build the best teams, acquire their first customers, or brainstorm about strategic opportunities, or scale their operations there for their founders and CEOs and the good times in the bad times and a journey to success. Rick, thank you for joining us.

[00:01:07] Thank you for having me. And I really appreciate the overview. Well done.

[00:01:11] Great, thanks. You did it better than I would have.

[00:01:15] What's sad like you guys are in it for the long haul with great people, and that's probably the place to be to make a good investment.

[00:01:22] So but tell me, what was your background before investing in early stage companies?

[00:01:27] Sure. So I started out like fairly technical.

[00:01:30] So after getting out of grad school at M.I.T., I was a video research engineer for a company called Picture Tell, which at one point in time was the world leader in video conferencing. And while there, we helped create some of the algorithms that are still being

used today and zoom and FaceTime and other video communication platforms. So every day I'm kind of living what I did almost 30 years ago at Picture Tell. But over the years, starting a picture town and moving forward to two other startups, I moved into product management and then marketing. After two years of business school, I did one more startup stand to get in marketing and then had the opportunity to join a venture capital fund back in early two thousand and one. So bubble had burst, the market was in shambles and I had an opportunity to work with two other guys to basically launch a new venture franchise that had one hundred and fifty million dollars of new capital, no legacy portfolio and kind of open field to find great opportunities when many of the top tier players in venture were circling the wagons and protecting their existing portfolio companies, but not putting a lot of money to work in new opportunities. So it gave us a great chance to get a running start when it may have been otherwise to start a new franchise at any other point in time. So from 2001 to two, 2015, I was with that firm and then at the end of 15, one of my partners there were necessary and I decided to start a glass ceiling. So we effectively spun out to some time to raise our first fund. And today we have about two dozen companies in the portfolio.

[00:03:19] Well, that sounds great. So what excites you right now?

[00:03:23] So we're an A.I. and Frontier Tech Fund, and I think the thing that excites me the most is the impact that I will have on transforming businesses and their business models over the next decade or more. I mean, we think of things in terms of 10 year cycles, given most funds have a 10 year life on them. So we think about for the current fund and subsequent funds that this EHI machine learning driven focus is very interesting and at the same time value producing strategy. So we're looking at enterprise focused, A.I. driven software opportunities. I focused primarily on the EHI impact on cybersecurity and physical security products because that's a place where having greater math to drive faster decision making, finding those needle in the haystack exploits that are in progress can be make or break for an organization we think about. We just recently happened with solar winds. It's a case in point where we need better defenses to guard against the next case of that which we know is bound to happen.

[00:04:37] Great. So you see a lot of startups in this sector. What's your advice for people investing in startups? What do you tell them to do before they write that first check?

[00:04:47] Make sure there really is a guy under the hood, and I think that's one of the problems in the market today is because I over the last I'd say five years, has become such a fashionable marketing term.

[00:05:00] Many companies that really don't have next generation machine learning or AI under the hood are still marketing themselves as such. So you can find folks that are still using regression or using very simple behavioral rules.

[00:05:18] And then we'll say, hey, we have advanced analytics driven by machine learning to drive better decision making for your business or to detect those cyber security exploits in progress.

[00:05:29] And still today, most companies don't have that. So I would say if you don't have the math skills in your firm or your shop. Find some folks to do the diligence for you to make sure there actually is what's being advertised. Great.

[00:05:48] Well, then on the other side of the table, what do you tell investors, tell people running start ups to do before they go out to raise funding?

[00:05:55] Make sure No. One, that you have the technical team inside the company already. You often see entrepreneurs who have the idea and they may have the business experience, but they don't necessarily have the technical chops in order to deliver what they're trying to build. And they think, oh, when I get the funding, I can go off and find those people. And you really need to start the company with those people inside. I mean, it works much better for the company. If the technical team is part of the founding team, finding them after the fact makes it harder and much more expensive, because, as you can imagine, any machine learning talent that's available, whether they're coming out of university or whether they're coming out of another corporate opportunity, can command a pretty steep premium these days because all the big companies that Googles in the face books are looking for machine learning talent. And that puts pressure on startups to have to compete for the salaries that those bigger companies can afford, that a startup typically can't. So the startup has the luxury at the early days of passing out equity to those founders that should compensate for the lack of cash compensation that typically isn't there. So bottom line, I know that was a rambling answer, but have the

technical chops either on the founding team or get them early before you go out and raise the capital.

[00:07:28] Well, great. Well, let's talk about the state of investing today in startups. How do you see the industry evolving?

[00:07:33] So overall, the industry is in an interesting state right now because outside of what we do with Enterprise, a German software, there's this phenomenon that sparks are being raised in. The private equity folks are seeing pressure from those entities and they're coming down market to get earlier bites at the Apple and startup companies and the hedge funds are playing.

[00:07:59] So if anything, there's this downward movement in the larger players to do earlier stages of investment.

[00:08:07] So, you know, on a macro level, it's getting more competitive for what I call it, A and B rounds, which are our company has product. There's some revenue being generated typically in around company has a million or two. And they are at the point in time you're looking to raise your B or in that growth phase five to 10 million or more. And that's where it's extremely frothy with all these different entities coming in to compete with the typical growth stage, venture funds at the earlier stages call it the precede around. You have individuals who have made some money, given the recent set of IPOs, acquisitions and just the general run up in the stock market who are competing with the seed stage would normally have been the seed stage investors. So there's this very narrow opportunity where we sit between the precede and the hay, and that's really what's being called the seed round today, which would have been around five to 10 years ago, where there's an opportunity to really differentiate and add value to these early stage companies. But it's a very different phenomenon than what we would have seen a decade ago, where there were clearly venture firms that did seeds, A's and B's in the private equity folks you didn't see until a C or D round grading.

[00:09:32] So what do you think is the biggest change? We'll see coming up.

[00:09:35] I think I think the question mark is around what happens with the sparks and how they drive liquidity and whether they are long term viable.

[00:09:43] I mean, if you turn on CNBC every day of the week, there are talking heads talking about the viability or lack of viability of these entities long term. And just like everything else, there are those that are quality and there are others that are me, too, that may not produce any quality return for their investors. And you'll see the redemption clauses being invoked. So, I mean, that's one I think looking at liquidity, one of the bigger changes, there's more open options than ever to find an exit for your company because of the sparks coming in and the quantity of them. I think there's three new SPAC IPOs a day at this point. So you have those competing to buy private companies with the private equity firms that have gotten active increasingly so over the last decade, along with all of the strategic players that you would normally see in the world I live in, you would expect Palo Alto Networks and FireEye and Proofpoint and others to be the natural acquirers. But now there's a lot of competition for them as folks look to roll up start ups and multiple startups to create these next generation super companies.

[00:10:56] So tell us more about your investment thesis for the sector. What exactly do you look for?

[00:11:01] Yeah, so specific to cybersecurity, I'm looking at a few different subthemes. The first one really involves how I can drive better data security. If you think about all the things that we've done over the years to protect our organizations, they've been firewalls and endpoint technology and everything in between. And then with the emergence of the cloud cloud security plays. But most of those are systems that look for bad behavior on the network or bad behavior on an endpoint, which is a proxy for something bad happening to your data. And obviously what we're all trying to do is protect our customer data, protected, protect corporate IP. And I think there's a whole subcategory of companies that are maturing today that actually look and act on the data itself as opposed to looking at the network or the endpoint as a proxy for bad things happening to your data. So that's number one is the more deeply embedded data protection companies. We've got a couple in the portfolio that fit into that category, if I can name drop one being a lower security and other being terbium. LAMS next subtheme would be around looking at how do you optimize all of the point solutions that you have

deployed within your organization. You think about a typical large business may have two to three dozen different point solutions from a dozen or more vendors. If you think about the endpoint plays, the firewalls, all the network detection, the SIM providers and all of the other myriad solutions that are out there extending all the way to the cloud.

[00:12:45] And then you add to that all of the environments that are out of your control but actually impact your security hygiene. So you think about any third party that has access to your network and some component of your data because they're part of your overall ecosystem to produce your product or do transaction processing for your financial services organization or insurance provider. And any weak link in the chain can propagate back to you and cause you harm. So it's a thesis around how do you look at your internal stack and how it's configured and how that extends all the way out to the third party relationships. So it's one part. Kind of policy and product provisioning. Optimization and third party risk and how that all then produces for you as a CEO or chief risk officer, a better view of what you need to do to keep you or your employees your data and your customers safe. So I've got a company called Naum Shield that started out as just a third party risk player. And it's now looking at that whole kind of global view of how do you optimize not only your own organization, but the third parties that you that are operating with? I'm looking at identity management.

[00:14:12] Obviously, the whole world of identity is being evolved as we speak and everything that we've done around username and password, two factor authentication, multifactor authentication. No one has produced the final answer in that space. So I think there's still wiggle room in that market. And then finally, one that I think is really intriguing because not a lot of people have talked about it over the years. It's the convergence of physical security and cybersecurity, because in many organizations, the chief information security officer is also becoming the chief security officer and being tasked with the physical security incident response, chores or tasks. You want to look at it. And if you walk into a particular security operations center, the cyber security side of the house has all of the greatest technology and dashboards at play. And you'll look at incident response platforms from an IBM or a Splunk or the orchestration and automation product availability from the Palo Alto side of the world. It's all very sophisticated and continuing to evolve. Physical security is still largely driven by video feeds, walkie talkies and some rudimentary technology. And anyone that owns both of those responsibilities wants the physical to evolve quickly so that it maps into the Splunk driven

environment or the IBM key radar or similar elastic. Another option there. So it's how do you converge those two worlds?

[00:15:53] So can you talk about one or two startups that may fit that thesis?

[00:15:56] Yeah. So again, self serving. I've got a company in the portfolio called Armor Things that looks to be an orchestration and automation play for physical security incidents.

[00:16:07] And right now, the covid context that we live in actually is a driver and counterintuitive. And you would think physical security incidents probably are not a market factor given there are crowds. We're not going to stadiums. A lot of campuses are closed. So a lot of the emergency situations one would have to react to in a steady state world are happening now. But these same technologies can be used to analyze crowds, to look at crowd density and how people are flowing and alert organizations to problem areas, whether it's the university realizing that a number of students have congregated in an area where they shouldn't be creating a super spreader, that for a stadium or venue operator that may not have fans in the stands, they still need to provide a safe environment for the players and the staff that are on the court in the back of the arena managing the operations. And how do you make that work?

[00:17:12] So kind of in a covert world post covid world, there's really an interesting set of drivers there.

[00:17:18] Cool. So in today's startups, what are the challenges you see them face the most chase?

[00:17:25] I think things haven't changed that much, even though the world has changed a lot in the last year. I think it's raising money is still the hardest challenge for most organizations. I think even companies that do well driving customer revenue aren't always good at the fund raiser.

[00:17:46] There is an art to it. And how do you impress investors? And it's more than just a good product. It's more than just the numbers around the revenue or our growth, although that's certainly important.

[00:17:59] It's a multi what are we going to call multiple vectors that we look at and the team? And a lot of that goes into the story, storytelling of the CEO and the other executives on getting us excited about investing and working with these folks, because as you can imagine, when we make an investment and often join the board of these companies, it becomes an eight to 10 year marriage. And there's got to be a resonance with the personalities. And I think that's oftentimes the hardest is finding the right investor entrepreneur fit on the personality front? And there's an art to getting the investor excited, not only about the company, but the people in the company great.

[00:18:49] Well, you see a lot of different applications in the space. If you had to take one or two out that you think are good opportunities for investors to pursue today, which ones would you call out?

[00:19:00] You know, I haven't talked about the other side of our house outside of cybersecurity, which I think is obviously a very critical area for Guy to play a role. Given that the attacks are accelerating dramatically, especially with the work from home scenario that we're living with today, but there are many other areas that one would see driving a lot of value. No one is just on automating what I would call mundane tasks that are typically done by humans. So whether it's augmenting call center support or doing inventory management for a manufacturer, how do you optimize your inventory around the production process and the like? There are places within an area that we don't touch within the last thing, it's really in the pharmaceutical and health care arena where I can have a big impact. Obviously small fun like ours. We can only cover so much territory. So we stay out of health care and pharma arena, but there's a huge opportunity for a guy to drive value there. And I think we will see many of the existing enterprise software, what you call a lot of categories, whether it's sales force, automation, marketing, automation, even with the service and support. So the sales force, ServiceNow or KEDO, those types of companies workday. Certainly are doing great things and they will have their own level of innovation around I but I would assume there will be upstarts

that are driven from day one that will start to make some headway in that market or in those various markets. Right.

[00:20:42] Well, the last few minutes that we have here today, what else should we cover that we haven't?

[00:20:46] I think one of the trends that's interesting to cover, both as part of our discussion probably with some of your other guests, is just the geographic shifts that we're seeing right now. We are a firm that's based in Boston. And for most of the venture capital industry history, Silicon Valley has been the pinnacle of what we do and.

[00:21:13] We're seeing a shift today, and covid certainly has helped drive the belief that people can work from anywhere.

[00:21:20] I mean, we believe from day one that you can build valuable businesses in Boston, New York, down through Atlanta and many other cities, Pittsburgh, that there's obviously great universities, great corporate talent in the backyards in these geographies, and that particularly with A.I. as the driver for this next generation of software company, it's a lot of the talent given it's coming out of universities. This is not something people have been studying for 20 or 30 years. It was niche back then. It's becoming mainstream now. And if you think about most of the university talent is on the East Coast, just sheer numbers of A.I. programs or math programs, electrical engineering programs or East Coast versus West Coast. So you combine that with the nuances and iRobot and other companies that and even some of the West Coast companies have their teams sitting in Boston, in New York and Pittsburgh and Atlanta. So it creates, I think for the first time, an opportunity to see kind of the eastern half of the US and you could argue North America, because Montreal and Toronto are also pretty solid hubs for this type of talent, that not everything has to emanate of Palo Alto or Mountain View or Menlo Park. And with some of the public announcements in the last couple of months of Oracle leading into Elon Musk moving and Palantir and others and venture firms are putting people in Denver and Salt Lake City and other places, I think there's going to be an interesting shift here as the next few years evolve.

[00:22:58] Well, that's a good point.

[00:22:59] Tech can come from anywhere now. It just doesn't have to come from one place or the other.

[00:23:04] It's moving out in. Being dispersed and so be interesting to see where the next great companies come from, exactly how best for listeners to get back in touch with you.

[00:23:15] Sure, anybody that would like to talk, please contact me most easily on email. I guess it sounds old fashioned, but Rick Glass winged ABC is the easiest way to reach.

[00:23:26] Be great for those in the show notes. Want to thank you for joining us today and hope to have you back for a follow up soon. All right. Well, thank you very much. Thanks for having me.

[00:23:36] Investor Canek helps investors interested in startup funding. In this podcast series, experienced investors share their experience and advice. You can learn more at Investor Connect, Doug.

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