

Berthold Baurek-Karlic of Venionaire Capital

Speaker1: [00:00:04.77] 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. Hello, this is Hall Martin with Investor Connect, they were here with Berthold Baurek-Karlic, managing partner at Venionaire Capital. Venionaire Capital is an independent private equity and venture capital firm which offers a wide range of services in a variety of tech related sectors and industries since its foundation in 2012. The company successfully advised more than 50 startups and closed transactions with an overall volume of about three and million euros. Throughout the past year, venture capital made early stage leads and co investments and managed to build a strong portfolio of holdings. Thank you for joining us.

Speaker2: [00:00:55.53] My pleasure. Great. Thanks for having me.

Speaker1: [00:00:58.05] Great. So. So what was your background before investing in early stage companies? What did you do before this? Well, I

Speaker2: [00:01:03.51] Actually actually started my first business when I was 17. Quite untypical for for an Austrian. Usually this, I would say, less ambition to become an entrepreneur. And I somehow had this, in my opinion. I sold the company when I was 19. This was basically an event company, worked for the central bank in Austria. Then while I was in university, studied management, science, mix between mathematics and economics, and then went into investment banking. And I would say in the good times still, when I started, I made it quite fast. Career started investing in startups besides and then fell back into becoming a founder again, co-founded a tech company, then an lot company. And roughly nine years ago, I decided to fully jump on the start of investing with my own company, Venture Capital Group.

Speaker1: [00:02:02.52] So. So what excites you right now?

Speaker2: [00:02:04.56] That's a that's a that's a difficult question. I think overall, of course, we see that. And especially with this boost out of the pandemic, that software is eating the world. The tech is is moving even faster. Today, we see a lot of players from different industries tapping

into into markets. They haven't they haven't been in before. I mean, obvious examples are, you know, tests are being funded by by Elon Musk, who was actually in software before. And you see a lot of examples like this in multiple industries. We see now fintech that are focused on financial well-being. So kind of like a fitness tracker or a wellness company to enable people to save more money instead of using their credit cards and overspend what they have. So there is a lot of those a lot of those fields that are interesting. And I mean, what I've learned in my years in the venture industry is that you should be focused on on a topic where you really know best what you're doing. And this this is like tax or regulatory technologies, fintech and big data analytics I for myself. So this is my my core topic for other partners in the firm focused on digital health and and industrial related solutions. So I would say, speaking for my for my end right now, there is there's very interesting movement around the whole block chain Bitcoin hype and pump that we see the current way frac techs in this space are, I think, even more interesting than all the brokers and all the solutions that you find out there. I think this is pretty obvious because, you know, there will be tech station, there will be stricter regulations on anti money laundering, anti terrorism financing, etc. There's a lot of funny business still going on in the crypto world, is at least what Christine Lagarde said from the European Central Bank. And I believe also in the US you had similar voices in the media. And so this calls for additional regulation. Also in banking when we see this and we're actually invested in two quite strong companies in this field. And I would say developments here are extremely promising.

Speaker1: [00:04:26.93] We're looking forward to seeing what comes from these new moves and they look exciting as well to me. So let's talk about your advice for startups and investors. You deal with a lot with both of them. What's your advice for people investing in startups where you tell them to do before they write that check?

Speaker2: [00:04:43.80] Well, I think I think there is a there's a huge difference between what we see in the US and much more developed startup markets then than with what we see in Europe. Europe is, I would say, not not developed at the same pace in all the different hubs we see, of course, you know, the very hyped regions like London, Berlin. But there is also other hubs that are seeing unicorns like the like Austria just had under a crypto broker becoming the first ever unicorn of Austria, a company where Peter. He really invested and a number of other, I would say, highly recognized investors today, we have seen activity for more international investors than ever in Europe. And I think this is because there is additional alpha in the market.

So given the large funds like Sequoia have an office now in London does, but also the smaller ones. We have seen Tim Draper investing in more for another Boccaccio based company here in Austria and also from Asian side of the markets. This investors coming in. We've even seen Mubadala Capital from the Sovereign Wealth Fund of Abu Dhabi with their office in London being super active in early stage suddenly in Europe.

Speaker2: [00:06:09.57] So what would be my advice? My advice would be, look for Alpha, where you can still get it. There's a lot of markets that, you know, because of hype and because of the supply and demand ratio between good, strong companies and the capital available in the markets, it's harder to find the right companies and to eventually invest a valuation and to have a good chance of returning a fair stake in investing in this. And obviously, I mean, you're investing in startups because you want to return more than what you invest. Right. And you want to do great in that. So my advice would be, you know, search for four alpha, be prepared to say no. We see roughly two thousand five hundred companies a year as a group and we do make investments of roughly 10 to 15 maybe in a year. And so we say very often we say no. We try to say no as friendly and as polite as we can. We try to open doors to other investors, make intro's, give a little advice and try to be supportive.

Speaker1: [00:07:14.97] Yeah, well, that's good advice for the investor. So on the other side of that table, what's your advice for the startup when you tell them to do before they go out to raise funding?

Speaker2: [00:07:23.52] I think for startups right now and I think I mean, this is this is a at least a development that I've that I've monitored here. I think startups today are much better prepared than we were in the early days of these ecosystems, starting at least in Europe. I'm not sure if you see this the same in the US. So now startups actually know which valuation method. They know how to argue and to negotiate the terms sheets. They have templates. You know, there is that British Venture Capital Association standards are similar for different other countries in Europe. Pretty much every startup region has put out templates for standard contracts, et cetera. So they are quite well prepared. And so for a startup founder who a rookie in the game, I would give the advice to prepare as well as you can because your competition is likely to be really good prepared. There is a hand among startups for the best investors, right? I mean, obviously there's Forbes list for the 100 best investors on Earth, but there's thousands of

other investors out there. And some of those might be a great fit for you. Some of them might just be money. Right. And even though everybody says it's smart money, et cetera, we all know it takes a little bit more than just writing a check. So I would say as a startup advice, really look for the right investor for you, prepare yourself so that you can actually win in your competition among peers. And yeah, I mean, lay out a plan, a big vision, and then take one step after the other. And don't make yourself crazy because of use of other things that you see around you as an entrepreneur. You just need to follow your path and you need to be ready to fall down and stand up again.

Speaker1: [00:09:10.33] That's good advice. So let's talk about the state of investing in startups. How do you see the industry evolving from here? We're coming out of covid various stages of reopening. What do you think is where is it going to go from here?

Speaker2: [00:09:22.92] I think I think a lot of industries have had probably more wind than their sales and they have before due to covid. So if we think of everything that supports us in remote working, distributed teams, et cetera, I think some of the developments have come to stay. So I'm not sure if all companies will return back to office. I see more and more international companies being now more open to work with distributed teams globally. I just learned that five really good developers from just around here from this block got hired by an American firm. And this wasn't that wasn't possible a couple of years ago. And now suddenly it's the it's the new normal. So I think there's some developments that we have to keep an eye on and some markets where it might be more challenging if you start now and where maybe. Timing is not right yet or not anymore. Some other industries, I think, open a chance or anything like it travels, hospitality, etc., these industries were hit quite heavily. We see a lot of talent that is that has been laid off, sadly, as that is looking back at the financial crisis when subprime and all that hit the markets, we have seen a lot of financial experts being released to the market and then fintech started to rise. So maybe there is an opportunity in this in this little disaster that we see in this travel industry. And, yeah, if I would be looking for a new for a new venture, I'd probably try to get a macro understanding where I can get the best, the best talent available and where I find a niche, where maybe there is economic trouble and there is room for change or maybe a desperate need and called for change.

Speaker1: [00:11:22.33] All right. Well, let's talk about your investment thesis and what you look for. What is the thesis and what are your

Speaker2: [00:11:27.25] Criteria for funding startups? Is it actually actually a quite simple strategy. We always look for the shovel in the gold rush. So what that means is, for example, we looked at the fintech space and realized we're too late and we felt, OK, FinTech is a little bit like embitterment. If the large banks decide that they want to be more tech than they would throw billions at the space. And it might be hard to be one of the winners in this space. We could have been one of the first challenger banks. You obviously had timing, right. And you came to stay, so you will make your exit. But what we saw is that regulations are picking up and regulatory solutions were not out there. Incumbents just did not see what's coming and didn't prepare for dynamic data. They didn't prepare for KYC unchained. They did not set up structures to do fraud prevention, Age-Based, etc.. And in this field, for example, we see this is shuffle of a gold rush. We see that there is a desperate need. There is superhigh fines. Banks have to pay if they are not compliant. So this is actually a field where they seek the painkiller and they are willing to pay really high rates for solutions to help them. And we think we think in this space, this this this strategy actually fit quite well. Another topic, different field, a company, one of my partners covers in the microbiome space.

Speaker2: [00:12:59.53] So in your gut, bacteria, the microbiome is basically, as we know today in medicine, is one of the one of the key sources that we still try to understand for our well-being. We try to analyze this bacteria and find out how we can do precision medicine. And everything was hyped around precision medicine, precision medicine and everything. We looked at this space and a very smart professor came to us after a panel discussion and said, Guys, you said shuffle in the gold rush. I've heard only precision medicine today. Is anybody doing precision diagnostics? Have you ever heard that? Right. So, I mean, how can you do precision medicine? If you can do precision diagnostics, why not check if a certain medication for a cancer patient would actually work on this cancer patient? And this is actually what a company we invested in does. They're about to become the world's first medical diagnosis, bioinformatics, software. So use data can be used then for immune therapy and colorectal cancer and some some other indications. Company's name is biomimetics. If you want to look it up, spy on minus the dot com. And the mainland lifestyle product is pretty similar to what biome does. The big difference of my biome, that's their lifestyle product is that they took the

data of the healthy patients as a control group for actually a medical product that they wanted to develop. Yeah, sorry. I don't want to be too long for answering

Speaker1: [00:14:35.68] Your

Speaker2: [00:14:35.89] Phone. I can go on forever. And those topics.

Speaker1: [00:14:38.82] No, I understand very clearly the thesis and I think it's great in the gold rush is those who sell the picks, shovels and Levi's are the ones that make all the money and we're consistent money. And so this seems like a similar strategy to it. So let's talk about the challenges for the startup and the investor. When you work with these companies, what are the challenges you find? Most of your startups struggle with this?

Speaker2: [00:15:02.14] Again, I think is something that is different in Europe. We have we have so many different countries with different legal systems, different languages, smaller markets. So not one unified market like the like North America, right. Where you have one language, one legal system, pretty much. Right. And it can scale. And the gigantic home market. So what we see is that our companies have to scale into other markets really fast and they have to be much more flexible to do so. A second thing is there is less capital available venture capital in the markets. There is higher public grants to kick off in the very early start. And so if technology transformation like out of universities and stuff like that, this is sometimes really well supported by governments. But then, you know, business angels, early stage investment with work scale capital is rare. Right. So then you have to be among the best of the best of the best to really have a chance. And you have to attract international investors. You won't find too many local investors that can give you a 10 to 15 million rounds. So it pretty much is a dead end and anywhere about five million, you could pretty much say, and then you start syndicating, etc. and funny enough, very large amounts pre-IPO. That would work again because we have the Swiss market, there's a lot of investment bankers, etc., ultra high net worth individuals, foundations, family offices.

Speaker2: [00:16:29.72] But in between in the scale capital, there is definitely a huge gap. You could see a canyon. So what is it? What is a huge challenge? The companies have to basically jump over to pond, at least to have to make it to the U.K. U.K. obviously now with Brexit is not

European Union anymore. So it's not as easy as it used to be to go to the US without people on the ground, with all the network on the ground and without owning your home market is really difficult. Right. So that's a big challenge. And sometimes it's a decision for founders to then move to full team, to basically work on a bigger market, wants to have a first proof of a product in the local market in Europe and others. And we see more of that try to be very cash efficient, try to generate revenues fast at very early stage and even at early stages, become profitable before around again and again and again, which sounds a little crazy, right, in talking about venture capital. And then you have companies that are technically cash flow positive. So if they will turn off a growth rate, they could be. But that's a necessity because it could easily take you nine months longer than expected to raise this growth round in Europe.

Speaker2: [00:17:45.86] And you will need to access Japanese, invest in Abu Dhabi or I don't know what or a US Canadian to to to get you out there in the rest of the world. So I think this is a big challenge for us as investors. This means we need to build global networks. We need to go and, you know, connect on a global scale. Usually I travel a lot with the pandemic. I do a lot. I enjoy very much to be virtually in Texas today on a on a podcast with you. And yeah, I mean, I see basically my personal mission. I try to connect everybody in the world with what we do here in Europe and bring some great technology, some amazing founders, some amazing talent into the rest of the world. And I do also support the opposite routes. And because I think, you know, it's a give and take play. If I know there is a friend of mine, investor in New York, invested in a great company, they already have significant traction. They want to start in Europe. I will help to help them to to get food on the ground, to connect them with the right people, to get them access to to hire some some good talent and to basically start off. I think it's a give and take.

Speaker1: [00:18:57.59] Great. We see a lot of applications in sectors. If you had to pick one or two that you would put at the top of the list as being best opportunities to pursue today, what do you put at the top of the list?

Speaker2: [00:19:08.09] I would personally put on top of the list, and that's maybe biased because I just looked at it today. I would put a top of the list market making for crypto. I think this is a is a phenomenal space. I just learned today that there is roughly 40 new tokens being issued every day. So there is so many exchanges globally now. Of course, they're the largest ones that everybody knows, but there's so many little brokers' exchanges, et cetera, and new

ones are popping up all the time. And if you want to get your token out there, right, I mean, first of all, it shouldn't be a scam. Right. But let's say you have a serious project. You need people to actually sign this and then you want this tradable. And there's a big, big problem with that because a lot of tokens are just not liquid. And if you want to get your token liquid, you will need a market maker. And this might sound easy, right? But if you look at it, there is a couple you could say kind of hedge funds like prop traders that basically take a take an investment risk in providing liquidity to your token. And there is a very small amount of. Really smart liquidity providers that I would say play to the play at standards that we're used to from from developed markets like the classical equity exchanges and yeah, I've actually found one today. Happy to share this one. If somebody wants to, it wants to look at it. It's a company named Flarf Tech, F.L. Obed TSG from Switzerland, where I'm leading around. And I think I think it's phenomenal. And I think they will they will have a good chance to be a very, very fast unicorn.

Speaker1: [00:20:56.34] Very well in the last few minutes that we have here. What else should we cover that we have?

Speaker2: [00:20:59.82] What else should we care? I would say let's look let's look across borders. Let's let's learn from each other. Let's exchange ideas, feel free to reach out to me. The best way to reach out is always LinkedIn. I'm I try to be as responsive as possible. I think there is no stupid questions. I think there is nothing that can be stupid to reach out. I always try to help or somebody in our team. Like I said, I think it's a two way street. And if you're kind and tried to be helpful to people, then this usually comes back. And in the end, I mean, we can make the world a better place through technology, through innovation, hopefully also a more healthy place and maybe also a cleaner place, which is also something that I personally look at lately is the whole topic of climate change, waste, etc.. But to be honest, I haven't figured out what to do in this space yet personally.

Speaker1: [00:21:59.49] Well, very good. Well, we'll put your contact details in the show notes. I want to thank you for joining us today and hope to have you back for a follow up soon.

Speaker2: [00:22:06.12] Would be my pleasure. It was great being with you, Martin. Thanks very much for the invitation and have a great investor.

Speaker3: [00:22:13.11] Connect 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. Paul Martin is the director of investor Canek, which is a five Wannsee three non-profit dedicated to the education of investors for early stage funding, all the opinions expressed by Hall and podcast guests or solely their own opinions and do not reflect the opinion of Investor Connect. This podcast is for informational purposes only and should not be relied upon as a basis for investment decisions.