

# Ashmeet Sidana of Engineering Capital

**Speaker1:** [00:00:04] This is the Investor Connect podcast program. I'm Hall Martin. I'm 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. Investor Connect is a 501 C three non-profit dedicated to the education of investors and startups for fundraising. Please consider donating \$100 to the program to help others in their investor and entrepreneur journey. You can find the Donate button on the Investor

**Speaker2:** [00:00:35] Connect org website. Lot of this is Hall Martin with Investor Connect. They were here with Ashmeet Sidana chief engineer at Engineering Capital Engineering Capital Partners, with great entrepreneurs driven by technical insights and boldly invest before traditional venture firms are willing. Ashmeet , thank you for joining us.

Thank you all. It's a pleasure.

**All right, so tell us more about your background before investing in early stage companies.**

Immediately before venture, I was at VMware, I ran their flagship product brand, product management for ESX Server saw that grow from literally zero to now billions of dollars in revenues. But I really describe myself as an engineer. I'm a geek, a nerd and an engineer at heart.

**Great, and so what excites you right now?**

One of the most exciting things to see right now is that the entire tech stack is being innovated on at the same time. This has never happened before in history. So right now, if you see what we're seeing in semiconductors, at the chip level, at the systems that are being put together, the networking gear that's connecting all of these systems, the operating systems running on them, obviously the cloud and then the applications being delivered through mobile internet cloud together, it's never happened before. So it's just a very exciting time to be in technology when all layers of the stack are simultaneously changing.

**That's great. So you do a lot of investing and you see a lot of startups out there. What's your advice for people investing in startups in the tech sector? What do you tell them to do before they write that check?**

Yeah, so what's happening right now here in Silicon Valley, for sure, and broadly speaking in tech is that the entire venture capital ecosystem is being reinvented and we are seeing some dramatic changes in how early stage investing takes place. And so what I suggest to people is, of course, you have to pick the right opportunity if you're not in the right company, if you're not in the right fund. That's not going to work. But in addition to that, you also have to pick the right form. In other words, how are you going to structure your investment? Is the right approach for you to go into a seed fund is the right approach to going through a multi stage fund, perhaps to make a direct investment early or direct investment late. This is now a mature ecosystem where there are multiple ways at which you can come at it. So in addition to picking the right company, the right opportunity, of course, unless you do that, nothing is going to work. You also have to pick the right structure because when we look at history five years from now, 10 years from now, with the benefit of hindsight, there will be winning structures and they will be losing structures that will come out of this.

**Right. And on the other side of that table, what's your advice for people running startups? What do you tell the founder to do before he goes out to raise funding?**

Well, for founders, what I say is that we are at an unusual time in history where there is a confluence of not just the tech stack innovation that I talked about earlier, but also a market expansion that is taking place and they're happening at the same time. So this is a wonderful time to be investing in tech, especially at the early stages. And so my advice is *carpe diem*. Seize the day. There is not going to be a better opportunity than this to really build startups, to use technology to leverage that tech in a way to change businesses and perhaps even the future of how we get together. So really an amazing time to be working in the startup ecosystem.

**Great. Let's talk about the state of startup investing, you mentioned before that the venture capital model is changing dramatically. How do you see it evolving from here?**

Now, a slightly more serious way of looking at it, the way I summarize it is the barbarians are at the gate, so venture and start up early stage was this little thing. We sat here in Silicon Valley and we walked on only we were the quirky guys hanging out the nerds and really the rest of the world didn't pay much attention to us. That is no longer true. Now we have hedge funds, private equity, public equities, mutual funds. Everybody wants to invest in that for the right reasons because it is such a large market and there is opportunity, and so I do welcome them in. But I do say somewhat facetiously that some of them are barbarians. They don't understand. What was it that made venture work so well? And so some people will make mistakes? And you have to be careful on both sides of the fence who you are choosing to partner with, who you are choosing to invest in and what are their motivations, what are their assumptions about what's going to work? So that's really what you have to think about very carefully.

### **So what is the biggest change we'll see and say the next twelve to twenty four months?**

I think the secret of Silicon Valley is out. And so we're going to see which is why we are seeing this massive influx of dollars. It is also clear now that the market is much larger than people had anticipated. A \$100 million dollar outcome was considered OK and a billion dollar outcome was considered a unicorn. In other words, something that you mythical you imagined it, but you didn't actually see it. And now that would be boring. It would be trivial. A billion dollar outcome became the \$10 billion outcome, and now we're even seeing \$100 billion outcomes happen over here.

So this expansion of both the dollars coming in. In other words, the capacity for companies to absorb investment dollars and effectively return them at high growth rates with high returns is just dramatic and different. What we're going to see in twenty four months is the winning structures will become obvious. Today, it's not obvious. Right now, there's a lot of experimentation, there's a lot of innovation. You see everything from incubators, accelerators, y c seed funds all the way up to a multi stage, firms reinventing themselves as our eyes, thinking about how they're going to structure themselves. There's rumors that Andreassen wants to go public. Sequoia just announced that they're going to be an RIAA. Obviously, Tiger has been very active, and so the four basic models of investing, which is not changed, by the way, in quite a while, and you can think of them as sort of the four leading firms in those spaces. There's the multi stage firm Sequoia Capital. There's Andreessen Horowitz, which is the corporate approach to venture capital, not a corporate VC, but an enterprise corporate approach to venture capital.

This benchmark, which is what I would call the classic or the boutique approach to venture capital and then De Sutter Hill, which is now pioneering this operator led sort of private equity venture capital merger. If you look at those four firms, you can't sit here today and say one is better than the other.

All are equally interesting. All have a chance. But with the goodness of time, one will pull ahead, the other will change and these structures will become clearer and in a new normal, will develop in terms of how venture capital gets practiced.

**Great. So let's talk about the investment thesis for your fund. What exactly is it and what's your criteria for making an investment?**

I invest very early stage in companies that are taking technical risk, believe it or not, most companies in Silicon Valley don't take technical risks. Mostly, they take market risk. In other words, will the product sell? How much will someone pay for it? Can I build? A sales force that's effective at the gross margin is going to be high enough, et cetera. Technical risk is this is how I define it. If I tell a good set of engineers what I want to build, they would not know how to build it. There is something fundamentally innovative that is something new and there is risk when I invest in the company. Often the question is we're not sure this can be built. We're not sure this will work. Those are the companies that are most exciting to me, and that's where I invest.

Great, can you talk about one or two startups, perhaps portfolios that fit that thesis? Yes, I love all my children, so every single one of my companies, I'm happy to talk about, but I'll pick a few examples.

So I have a company v function fabulous CEO Moti Rathlin, and they have built a technology that can take legacy programs, Java programs, which you've been running perhaps for 10 or 20 years and automatically. And the keyword here is automatic. Convert them into microservices ready to be run cloud native within minutes and hours, something that would have taken you months and potentially years to do, which is the current state of the art. How everybody does it. We can do in minutes and hours. This is rocket science. I have another company, Robust Intelligence, where we, a PhD from Berkeley, Harvard professor, is the founder. We have the world's best technology to build what we call an A.I. firewall. Robust intelligence, in other words, protect your A.I. from the data that the AI is working on itself. And it's a very exciting company. I'm the first investor in the function, first in robust intelligence, and then I have a company evinced again. I'm the first investor. Maybe you're seeing a team here. I tend to be

very early in my companies where we are using AI to read to view web pages, mobile applications as if a human being was looking at it and preparing it for people who have special needs. Very exciting company. Microsoft is a core investor with me.

We are partners with Microsoft. And the reason this is such an exciting company is, of course, because we want to service people with special needs. But equally importantly, our technology makes products better for people who don't have special needs. And the best example of that is closed captioning. All of us have used closed captioning on TVs. We like closed captioning even people like me who are not hearing impaired, but I use closed captioning when the kids are making a racket, the kids are practicing the piano. I'm watching the game. I want to see what's on the news. You know, you turn it on, you watch it. And so great accessibility features make normal products better for everyone in the world, not just people with special needs and events. It has the technology for that. So these are just three examples of where there is some technology that I call rocket science or magic, or some real fundamental innovation. And when each of these three companies was started, the question was not whether there's a market for it. Of course, there's a market if you can make it work. Of course, everybody wants to move their legacy applications to the cloud. The question was How would you make this work? We don't know how to do it. And of course, the engineers cracked it. And that's why they're exciting companies, right?

### **So what do you see as the major challenge your startups face today?**

The challenge is the same that it has always been for the two nerds like me, for the true geeks, for the true heart of Silicon Valley, which is to identify the right problem to solve.

What I always ask entrepreneurs, people who haven't yet started companies, which is frankly where I spend most of my time because I'm so early. All of my time is spent with people who haven't even started a company yet. And what I tell them is, let's find the right problem that you go you want to go after. And that is really half the battle in terms of building a great startup. So finding those problems is hard. Often they're hiding in plain sight. You know, the example I give of Google obviously built a great business doing advertising on the internet. The problem that Google solved, which is to make online advertising much more efficient using AdWords, is an old problem. I mean, Ogilvy talked about, you know, I just don't know. You know, I know 50 percent of my ads are wasted. I just don't know which 50 percent are wasted. So this problem has existed for decades at VMware. We solved the problem of virtualization, increasing the

efficiency of the CPUs in data centers. Today, it's \$100 billion company. That problem has existed for decades. People have been working on this problem for years and decades.

I was a student at Stanford and we talked about it when I was still a student over there. So IBM had virtualization working in the 60s, but nobody had captured it to build a business in the way that VMware did. And so finding that right problem is really the magic to get a great company started, and that's where I spend my time.

### **And so what's the challenge the investor faces in today's market?**

I think for investors, what has happened is the speed of innovation continues to increase. There is no question that we are going to innovate faster and we are going to innovate in ways that are not well understood. For example, how will I evolve? We know artificial intelligence is very powerful. We don't even know today how it works. There's lots of research being done in terms of explainability of AI or removing bias from A.I., et cetera. All of these are research topics. These are not solved problems. We don't know how AI is going to evolve. How do you invest in a market where we don't even know how it's going to evolve? Yet I can assert with a fair amount of confidence that five years from now, we will not be using five times the number of models, but 50 times the number of models and maybe even 500 times the number of models that we are in A.I.. So that's the conundrum that I think investors face.

There's a lot of noise out there. You can probably sift through the noise, but getting to the heart of what are the true underlying trends, where is the technical innovation really occurring? That's a hard problem.

### **Well, you see a lot of sectors in applications out there in today's market. If you had to pick one or two that you think are really good immediate opportunities to pursue, what would you call out?**

Well, I referred to one already a couple of times, which is I obviously huge trend, obviously transformational in terms of how software works. So that's a that's an obvious one. I personally am a believer in crypto, even though I'm not focused on that as an investor. I think the core inside of solving the Byzantine generals problem that Satoshi Nakamoto or whoever the person was who actually published it, I mean, it's a well-known computer science problem and it is dramatic. It is radical. And the implications of the solution to that are not well known.

Obviously, today we see a lot of fintech, cryptocurrency etc at work, but I think there are other ramifications that will come from it. Then the other problem that my former Professor Hennessy, president of Stanford, talked about when he got the Turing Award is at the end of Moore's Law. Moore's law is something that Silicon Valley was built on. It has clearly slowed down. Arguably has ended.

### **What are the software implications of that?**

You're having a lot of people talk about the hardware implications of it. What about the software implications of that? And Professor Hennessey, if you're a real nerd, you can go online on YouTube and watch his during a world lecture. By tradition, the professor who gives a lecture on what he thinks about some interesting topic, and he talked about the end of Moore's law, and he's very insightful, and he talks about where real innovation comes from. What are the changes that will be forced upon us because of the slowdown of Moore's law? And I believe not a handful, but many handfults of interesting companies will be built just because of those ramifications, because it is such a central piece of the entire tech ecosystem. When the last minutes that we have here, what else should we cover that we have in? The big open question right now is, is Silicon Valley the right place to go start a company? The last decade I saw people just coming here and really this being the epitome of where you wanted to build a company and now because of COVID work from home, some of the geographic dispersion that occurred. We are seeing this question of where should I build this company? Again, I face this with my entrepreneurs because often they are the first. They're literally laying roots and trying to get started.

And here's the way I answered the question. What I tell them is the World Championship, the Olympics. The World Series for startups is played in Silicon Valley. So if you really want to build an absolutely world class top of the world game, this is still the place to be. But we will see much more geographic dispersion. No question about that. Can you build a good, amazing tech startup in New York? Of course you can. You've already seen some build. Will you see more of them come out of Boston? Yes, I do believe you will. In fact, I've seen some companies come out of there, which I'm really intrigued by, so we will see much more geographic dispersion. Silicon Valley is no longer as dominant as it was, but it is still the number one.

**Right. Well, how best for listeners to get back in touch with you?**

I'm easy to find I've only lived and worked here in Silicon Valley since I graduated. Lots of people know me. The best way to reach me is get a warm intro. Lots of people know me and it'll immediately get my attention. And if all else fails, you can always find me on Twitter or on my website. [Www engineering capital dot com](http://www.engineeringcapital.com).

**Right. Well, and put that in the show notes, want to thank you for joining us today and hope to have you back for a follow up soon.**

Thank you. Hall, it's been a pleasure.

**Speaker1:** [00:17:32] Investor 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.

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