

Zacary Sherman of Cielo24 inc

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 and many other investors for early stage and growth companies. I hope you enjoy this episode. The. 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 Connect org website. Hello, this is Hall Martin with Investor Connect. They were here with Zacary Sherman, director of strategy and business development at Cielo24 inc Cielo24 inc has blended the best of human intelligence with AI technology to create caption transcription and intelligence data at scale to make video and audio accessible, searchable and more engaging. Zacary, thank you for joining us.

Speaker2: [00:00:59] And Hall, thanks for having me.

Speaker1: [00:01:01] **Right? So tell us more about your background before getting involved in early stage companies.**

Speaker2: [00:01:06] Sure. So my background, I'll start back in twenty fourteen after finishing my undergrad at Rutgers University, where I studied finance and economics. My first job out of school was as a research analyst at a special situations and distressed debt hedge fund based in Princeton, New Jersey. There, I learned from the ground up how to analyze companies and securities from a variety of different perspectives in order to perform evaluation and synthesize in my investment thesis. The fund was very generalist in nature, so I was exposed to nearly every company size and industry type, from retail to renewable energy, real estate, aerospace. But I found that my favorite was covering the semiconductors and especially the technology companies, which I thought were very misunderstood from a valuations perspective. After sitting behind six Bloomberg screens every day for three years and passing my CFA exams, I decided to leave the hedge fund world, take a step back, do some solo traveling, and I ended up in Israel on the the last leg of my trip. And as you probably know, the startup and VC scene in Israel is booming. So through cold calling and emailing, I was actually able to get in front of five VC firms.

And through those conversations, landed a role as an associate at Parag Ventures in their New York office. So I can talk a little bit more about Parag and kind of how I got to where I am now. Sure. So peradventure is both focuses on early stage B2B SAS with an emphasis on data solutions disrupting consumer driven industries. So think retail tech, media, tech, logistics, digital health and other applications of AI, machine learning and big data. During my time at PAHAYAG, I spent four years there. I helped deploy nearly a third of the fund's total capital across more than 20 transactions, screened and met with several hundreds of early stage companies from series to Series C. And it was a board observer on five of its portfolio companies as well, where I worked really closely with the management teams and the board of directors on strategic decision making. So come present day, I actually recently moved into an executive position leading strategy and business development at one of those tech companies that I was a board observer for, which is CLO twenty four.

Speaker1: [00:03:35] Right. So what excites you right now?

Speaker2: [00:03:38] So right now, given that I've moved to the startup world to the Cielo Twenty Four World, my focus has shifted on a very interesting subsector within tech, focusing on ASR automatic speech recognition, speech to text and video intelligence and accessibility with the massive acceleration of the digital transformation that I'm sure you've witnessed do the due to the pandemic. Among global, private and public organizations, the amount of video content being produced and consumed is growing massively with an enterprise marketing, broadcast and digital media education and even within government sectors as well. A few statistics that I like Cisco estimates that video streaming is set to be as much as 82 percent of total web traffic by twenty twenty two. Another stat that I also like is viewers retain ninety five percent of a message presented to them in a video, compared to 10 percent when just reading text alone. So with the deployment of 5G and other infrastructure around enabling better video consumption, we're in an exciting time for those startups who are able to enhance the overall video experience for either the publisher or the consumer, and it represents a massive global opportunity within video search, whether it's keyword AdWords topics or categories, video accessibility recommendations, brand safety, sentiment bias, et cetera.

Speaker1: [00:05:15] Well, great, well, you've seen a lot of startups and a lot of investors out there. What's your advice for people investing in startups? What do you tell them to do before they write that check?

Speaker2: [00:05:24] So my advice for people investing start ups, either within my sector or other adjacent tech sectors probably summed up in a couple of points. First, I like to look for startups. We're solving practical problems that provide clear value to the target customer and an obtainable market that you can measure realistically in order for you as the investor to really be able to actually do this. You really need to talk to many, many startups within the space to really build out your awareness of what's out there and your awareness of both how the problem is being perceived and how they're thinking about other potential alternative solutions. It's rare that I or other investors that I speak with find a company that's truly doing everything unique, even though we too often hear founders tell us that they have no real competitors, which is a big no-no on their part. So I said the first point, the first tip I would give is to talk to as many startups as you can and do your research so you're able to identify opportunities that fit that basic criteria. Second, once you believe you found that company that fits the criteria of large or tangible market and solving a problem with clear value to the customer and it gets you excited, you need to ask yourself if the founders and the management team is capable of following through on their vision and scaling the company to reach critical mass. So typically, founders with a history of prior startup exits and deep industry knowledge and networks and are able to exhibit professionalism and believability in their storytelling, generally have more success in their own business execution, as well as gaining investor trust, which will help them raise additional funds down the road.

Speaker1: [00:07:07] Great. Then on the other side of that table, what's your advice for people running start ups? What do you tell the founder to do before they go out to raise funding?

Speaker2: [00:07:15] For people running startups, I think a lot of what I said that applies to the investor also applies reciprocally to to them. I mean, make sure that you know, the ins and outs of your own business, your roadmap, your customers, your competition, your potential acquirers. And just as importantly, you'll be able to clearly communicate it through your

conversations, through your investor materials, your marketing materials and other content, other content that you put out and through your storytelling as well.

Speaker1: [00:07:46] Right. So let's talk about the state of startup investing. How do you see the industry evolving from here?

Speaker2: [00:07:52] So there are some key themes that I think everyone should be aware of. First, there is more capital being allocated globally to startup investments than ever before. So not only from money flowing from traditional VCs, but now you see non-traditional investors making direct investments in startups like corporations, either on the balance sheet or through a corporate VC. Hedge funds, sovereign wealth funds and even more traditional private equity have moved into earlier stage companies. Not only is there more capital, round sizes at every stage are significantly increasing in size, as there is a trend of investors making larger initial bets and in turn giving companies more runway, allowing them to stay private for longer. And because of round size is getting larger, valuations are also getting larger, even more so than what we've seen recently in the public markets as well. So that trend of larger rounds, increased valuations, staying private for longer. These are some of the main trends that I've seen in the industry at the moment.

Speaker1: [00:08:59] Great, and what do you think is the biggest change we'll see and say the next 12 to twenty four months

Speaker2: [00:09:04] In the next 12 to 24 months? Well, I would say the biggest change I see right now is the increased disparity between actual traction that the company has and the valuations that they're receiving. And by this, I mean that there are significantly more pre-revenue or very little revenue companies today raising tens of millions of dollars from investors that five years ago, probably they wouldn't even bother taking a look at. So in my opinion, the appetite for risk by investors in tech has increased dramatically. And I mean, as they're hunting for those 10x to one hundred x returns seen by many of the earlier investors in those unicorns that we see have emerged today. I mean, and the the lingering question among investors today is, is this sustainable? When will this favorable M&A and IPO environment dry up? What will happen if this unprecedented bull market environment flips and we transition

into a downturn? But for now, from what I see, investor FOMO mentality is overcoming those fears. But over the next 12 months, we you never never know, right? Absolutely.

Speaker1: [00:10:16] So let's go back to your investment thesis at Perry. What exactly is the thesis and what's your criteria for investing in the startup?

Speaker2: [00:10:24] My investment thesis, I guess, around Cielo twenty four and just the video space in general is that there is and will continue to be for the next many years, an increased focus on unlocking the value of video assets and adoption of solutions that that enable it for almost every organisation, big or small. So right now, the market is very fragmented with very disparate solutions, both legacy and emerging, focusing on video management or distribution and hosting measurement, measuring, video making video accessible and the overall video experience. So right now, as these players look for scale, the partnership model is very prevalent. I see a lot of them working together through partnerships, but I think consolidation is eventually inevitable. If the fundraising environment continues to be as favourable for startups as it is right now and they are able to continue raising capital, I think they'll be fine. Continuing this partnership model. But eventually, when that capital dries up, I think there's going to be a lot more consolidation as resources become scarce.

Speaker1: [00:11:34] Ray, can you talk about one or two portfolio startups that may fit that thesis?

Speaker2: [00:11:39] Well, you know, I definitely like to talk about my current company, CLO. What we do really well is give our customers an insane amount of customizability when it comes to integrations. We have large universities from all over the world who all use different VPNs and content management systems, using us to provide compliance and professional quality video captions and foreign subtitles of highly technical video content and a streamlined, user friendly way. And we're seeing an explosion of demand from customers, with archives of video content looking for a caption and transcription and data data tagging capabilities. I would also add another trend I've been seeing more and more lately is organizations looking to expand their audience to different international markets through the increased digital transformation and everything migrated to the cloud. It's becoming easier for organizations to justify enabling foreign language and foreign subtitles to their video and marketing content so that they can

access these other large groups of customers that they weren't able to reach before. That's something that Cielo specializes in doing at scale, that no one else was really doing well right now.

Speaker1: [00:12:48] So let's talk about challenges in the marketplace today. What do you see as the challenge startups face in launching their business?

Speaker2: [00:12:56] The biggest challenge that I've seen recently and that I see among almost every one of these startups is finding affordable talent and leadership on the engineering and data science side. It's really hard for most early, mid and even some of these late stage startups to compete with, like the Amazons and the Googles and the Facebooks of the world, who are offering from what I hear sometimes million dollar comp packages to engineering heads and individual data scientists. And yeah, it's a real problem that almost every startup I talk to is experiencing. I think one of the best ways that my company and a lot of others have tried to battle this is looking internationally for talent. And there are there are so many smart people in Waterloo, Canada, looking when you're thinking about data scientists and even Brazil, there's a lot of tech smart tech people out there as well. And there's so much internationally that I think that's where startups are looking to combat these increasing and rising costs of engineering and data science talent.

Speaker1: [00:14:08] And then what's the challenge the investor faces in today's marketplace?

Speaker2: [00:14:14] A problem I've heard among the few VCs, more than just a few is finding the highest quality deals. I mean, if you're a Lightspeed or Sequoia or Andreessen or Greg Croft or any of the other top tier VCs, you don't really have this problem. But some of the mid-tier or lesser known VCs work very hard and aggressively to get on the get in on the deals that those top tier VCs are involved in. And I think it sort of makes sense, you know, as those top tier VCs have huge potential strategic value for the startups, do their deep network and platform of prior investment successes, whereas a lot of those other mid-tier lower VCs don't bring as much to the table from that strategic standpoint and are more just financial backers.

Speaker1: [00:15:03] Right, we see a lot of sectors and applications out there in today's marketplace. If you had to pick one or two that you'd think are really good opportunities for investors to pursue at this time, what would you call out?

Speaker2: [00:15:14] There are so, so, so many, so this is a hard question for me, but the most interesting companies I find are doing something really interesting or unique with data. The amount of data being produced and captured online in store or at home, on devices, in the warehouses, on the roads, at the airports, there's just so much that can be measured and captured that isn't right now that you know, and also by applying AI, machine learning, new insights and intelligence off of that data is created. You know, processes are improved to reduce costs. Productivity gains are created. And there's also a huge increase social impact possibilities as well. There's just so many startups that fit in along that data supply chain that have enormous potential to either take existing market share from legacy, less innovative players or either or rather create completely new submarkets themselves.

Speaker1: [00:16:11] Great. Well, in the last few minutes that we have here, what else should we cover that we haven't?

Speaker2: [00:16:15] I think I covered pretty much everything that I'd like to cover.

Speaker1: [00:16:19] Great sound like you did as well appreciate the feedback and so how best for listeners to get back in touch with you?

Speaker2: [00:16:26] You should be able to find me on LinkedIn. I'm pretty good at responding to messages there, but you can also email me as well. Zachary Sherman at Cielo. Twenty four z ac r y. There's no h and my first name, right?

Speaker1: [00:16:41] We'll put that in the show notes. I want to thank you for joining us today and hope to have you back for a follow up soon. Thanks, AI. 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 Canaccord.

Speaker3: [00:17:04] Paul T. Martin is the director of Investor Connect, which is a 501c3 nonprofit dedicated to the education of investors for early stage funding. All opinions expressed by hall and podcast guests are 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.