Joe Raczka of York IE

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.

Speaker2: [00:00:38] Well, hello, this is Hall Martin with Investor Connect. They were here with Joe Raczka, CEO and managing partner at York IE. York IE is a vertically integrated strategic growth and investment firm, helping reshape the way companies are built, scaled and monetized. Joe, thank you for joining us.

Speaker3: [00:00:54] Thank you for having me. Good afternoon and hello to everyone.

Speaker2: [00:00:58] Great. So what was your background before investing in early stage companies?

Speaker3: [00:01:02] Sure. So I actually started my career in financial services, worked at some large firms like Fidelity and Bloomberg, always in sort of corporate finance functions, so financial planning and analysis roles. But the unique part of the beginning of my career was when I joined Fidelity. I actually was in a startup within the larger corporation. So it was the the Fidelity Family Office Services group, and that group was just getting started within the larger corporation. And so, you know, as an entry level straight out of college, I ended up working directly for a CFO, which really sort of, you know, obviously tremendous experience and exposure to leadership and senior leadership at the early stages of my career, but also gave me a taste of a small and nimble organization, even though we were part of the bigger behemoth that is fidelity. So spend time in financial services both in Boston and New York City lived through the financial crisis, actually worked for a small bit at an investment bank that, you know, went out of business pretty rapidly after I joined and I did everything there from from dealing with FINRA and the SEC and the trustees to taking the Bloomberg, you know, desks back

and terminals back and selling the artwork off the wall. So it's quite the experience and probably pretty similar to what a lot of startup founders feel like they do, sometimes right where you have to wear many different hats, some days you're the janitor anyways taught me a lot about failure.
I learned a lot from that experience, did go on and worked at Bloomberg for a bit after that and then found my way back to New Hampshire. So came back, joined a startup called Time, actually had some childhood friends. I grew up in New Hampshire, and at the time it was a small 30 person internet infrastructure company, as I mentioned, based in Manchester, New Hampshire. And Dean was a man DNS offering, so it was naming devices across the internet using the domain name system. You know, early stages of of sort of cloud and edge and IoT. So, you know, right time, right place for sure. I joined as the VP of finance and later turned into the sort of head of Corp Dev VP Corp Dev there. We ended up growing that business. You know, when I joined, it was about five million of RR. We grew it to 100 million a day or we sold the company to Oracle. The company was bootstrapped until about 30 million of IRR. And the reason I mentioned that and we'll get into some of these points later on. But you know, you don't see that these days, and that certainly doesn't always get celebrated the way it should. And it's certainly formed a lot of the way in which we think about company building at York, i.e. we did 11 acquisitions during that run. You know, we grew to four hundred and fifty people at the peak. We opened global offices and we had some of the best web brands as customers. Our logo page was incredibly impressive and it was something we were we were incredibly proud of when we sold the company at the end of 2016. We integrated into Oracle Cloud Infrastructure, so the OCI team, which some of you may be familiar with, this is Oracle's, you know, a competition with Azure and GCP. We had a we continued to manage the business unit within Oracle, you know, work with the dying customers, sort of integrate the technology. And I manage the strategic development team of about 40 people working on marketing, competitive intelligence, strategic partnerships, but most importantly, M&A analysis and strategy. So my team evaluated a lot of the inbound deal flow that came through Oracle corporate development. We'd go think about overall cloud strategy at Oracle. We'd find product ownership and leadership. We with their help build rationales and then bring that up to senior leadership team at Oracle. We were able to complete a few deals and obviously learned a ton about Oracle's been an acquisition machine, as we all know over the last couple of decades. Tons of process. Lots of great process. We've taken some of that process and we use it today and how we think about evaluating startups.

Speaker2: [00:05:24] Great. So what excites you right now?

Speaker3: [00:05:28] Yeah. You know, I guess I should just say, right, Jeffrey, I'm not sure. Oh, great question. I think, you know. For me, I think it's still early days of cloud, right, although there's been tremendous success, large outcomes, you know, main brand companies now that are public companies that we know that are in cloud, there's still so many workloads on Prem, right? There's just tremendous amounts of room for growth here. And at the earliest stages, you know, we still think there's there's the element of outside terms that's still available to us. The market is still young. It's still you're seeing new, great companies get introduced all the time. And I think obviously the big factor of that is the cost of starting a business has never been lower right or easier. You can have small teams now create big things and that's, you know, at the end of the day, as simple as that sounds, that's what's really exciting us. We are B2B enterprise software investors and we think again, we're still in the early innings of this transition to cloud.

Speaker2: [00:06:35] Great. Well, you see 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?

Speaker3: [00:06:45] Great question. Don't know. No, it's listen, it's a risky asset class, right? So I think unless you have experience here, you know you should be careful. The earliest stages of investing where where we're focused, right, precede seed seed. Plus the definitions have slid around a little bit these days. It's just risky. And also, there's tremendous amounts of deal flow, right? There's a lot of noise. And I think so much about sort of the early stages of investing is about access. Deal access is critical. You know, the days you're seeing, you're seeing these tier one VC shops now, you know, have their own PR arms and do a lot of their own kind of marketing and social media. And and there's something to be said about that. And, you know, a big piece of what your guy does is we've differentiated, right? We think about the model differently. We've tried to disrupt the traditional VC model and I can get into more of the details about that as well. But you know, I think that's what's opening up. Some deal access to us founders are now seeking out investors versus investors seeking out founders, right? So there's this whole little little flip side to it. Or I should say that the inverse right founders are now picking and choosing which investors they want to work with right versus just whatever cash comes their way.

Speaker2: [00:08:10] Right? Well, then on the other side of that table, what's your advice for founders looking for funding? What do you tell them to do before they launched that fundraise?

Speaker3: [00:08:17] Yeah, great question. You know, right now, as we've all seen, founders need to focus on team building and hiring and building a pipeline of people, right? I think it's never been more critical hiring culture. You know, you need to be an attractive company in order to be able to hire. You could be the most intelligent subject matter domain expert on your particular space. But if you don't have a team of complementary parts to put around you, you're going to struggle to build a business, right? I think that's the that's the most challenging part today is that we see with founders and entrepreneurs as sometimes it's, you know, single threaded head down. I've got this problem. I'm creating a solution, but I haven't thought about sort of the market around me. What's happening? What's the competitive landscape? What are my strengths and weaknesses? And then how do I build a team around me to go, you know, to go attack this market and create something of meaning impact? And you know, again back, I'm obviously biased with with the stage in which we invest. But talent determines winners and you're seeing companies get funded these days just based on the team, right, based on experience based on the complementary parts. And I think that's so critically important for four founders and entrepreneurs to continue to focus on, but also never lose sight of right. It's a continuous it's a continuous challenge to continue to bring in the right people.

Speaker2: [00:09:54] It's great. Well, let's talk about the state of startup investing. How do you see the industry evolving from here?

Speaker3: [00:10:02] Great question. You know, there's never been more capital, you saw the Crunchbase stories about how much funding happened last the last half of last year. But what we're seeing is more of a need for active capital, right? Smart money. I like to say there's plenty of passive money coming into early stage companies. But, you know, is that valuable to a founder and entrepreneur, right? Thank you. Thank you. Thank you for the check. Here we go. I'm off to the races, but sometimes that's a lonely feeling, right and back to the talent piece and putting complementary parts together. A founder should think about his team, her team, just as

much as the investment in the advisors, the investors and the advisors that you're putting around the company. It's a critical piece. We've seen tremendous mismatches, which lead to conflict. You know, again at the earliest stages, and it's just a shame where you might have a tremendous market opportunity, a tremendous solution, a tremendous product, great customer feedback, but a mismatch of of strengths and weaknesses amongst employees, amongst investors, amongst advisors can really be detrimental to a startup. So, you know, again, we're seeing, as you mentioned, the industry's evolving valuations have increased, round sizes have increased. I think you're going to see a period of time, maybe this year, maybe next, where many companies have raised above and beyond the amounts and valuations they probably should have. I have not been able to deploy capital with a discipline, right, because it's been it's been so plentiful.
And so I think you're going to see some more downgrades the industry will shift to. You know, you're seeing the strategics come down market, the Tiger Global's the vistas, the Thomas. Everyone's coming down into these, you know, earlier stages where they didn't invest previously and there's good deals to be had. Don't get me wrong, but that's not always beneficial to founders and management teams and employees. And that's a little bit, I think, of the of the scary part. But back to back to what I mentioned earlier about the dying story and how we were bootstrapped until 30 million. We fundamentally believe that your key in this pragmatic fundraising strategy and capital plan and don't raise too much too early, be thoughtful about your cap table. Maintain optionality again. As as the economy changes, perhaps interest rate environment changes, valuations change. Some of this stuff is going to become more and more important. The going has been good. Going has been great. But being aware of what's on the horizon and how that might impact your business and your capital strategy, I think is critically important. But at the same time, you know, there's there's more deal flow, there's more quality deal flow. People are being thoughtful about milestones and achievements and how to build businesses with maybe there'll be some more focus on on profitability versus just growth. I don't know. We'll see how this evolves over the next 12 to 18 months, but still remains an incredibly exciting time to invest in early stage technology.

Speaker2: [00:13:31] Right. And what you think is the biggest change we'll see and say the short term, say the next 12 months.

Speaker3: [00:13:37] Yeah, I think I do think that the you know, you're seeing already in the public sector, the valuations change and come way down and multiples compress. So I think there'll be a little bit of a valuation play here and change here. But there's still tons of capital, right? And it's still cheap to raise in the private markets. So I think, you know, I think that will continue. I just think that founders and entrepreneurs are taking the reins and becoming more thoughtful about what kind of capital they take. And that's, you know, that's going to be better in the long run for companies. So, you know, hard to say what's on the horizon. There's so much innovation. There's so much happening. You know, I joked earlier about the sort of web three thing, you know, really cool stuff. We're not focused there yet. You know, obviously, I see tons of upside, but you know, we're we're still focused on the sort of boring B2B enterprise software market. And I say boring. It's not, but it's predictable. We know the metrics. We know how to build companies there. We know what go to market strategies work well with particular types of businesses and we're going to at York, i.e. we're maintaining that disciplined approach. So I think, you know, many firms will will struggle to maintain discipline as there's a lot of shiny objects out there in the market right now.

Speaker2: [00:15:03] Great. Well, let's talk about your investment thesis. What exactly is it and what's your criteria for making an investment?

Speaker3: [00:15:10] Great question. So investment thesis as I mentioned where core B2B enterprise software companies all software as a service that we want recurring revenue business models where precedes seed seed plus kind of up to Series AG depends. Listen, we're focused on teams, good teams, good products, large market opportunities and and repeatability and a go to market strategy or at least a path to it, right? Traction is one of those things. I think what you see these days, we laugh when our portfolio companies laugh, sometimes where they're still raising a pre-seed or seed round and talking to early investors. But the early investors are like, Well, come back to me when you have more revenue. Ok, well, then in theory, you're not really a super early stage investor. If you're looking for more and more traction. But you know, we think about that and sort of perhaps sector by sector, right? So we bias a bit towards infrastructure, cybersecurity, cloud native DevOps tool and just given our dining backgrounds and our OCI background. But we go all the way up the stack applications, vertical stack plays. We love vertical SAS and tech laggard industries, right? So that's how we sort of think about the world. And I think, you know, when I mentioned the traction piece. Now, it depends sort of where you are right on the infrastructure side, so much is is heavily weighted on product.

The opportunity, as we all know, is huge, but perhaps there's a couple of small posse type opportunities. But as you move up stack, I think from the application world, like more customers, more revenue, more traction is a bit more meaningful and immediate that part. So that sort of feeds into our thesis as well. So our core components, as I mentioned, team number one, market opportunity number two, we think about go to market strategy as mentioned and then a core piece is how is the founding team going to think about milestones in raising and capital? And are you just chasing valuations and funding rounds for the sake of chasing valuations and funding rounds? Or are you saying, Hey, my milestone is to hit x J.R.R on x date with these sort of metrics so that I can open up the opportunity to go, raise another round and be capital efficient along the way. So our thesis, you know, that was a long winded way of sort of walking you through that. But York, we've got a portfolio right now, 30 companies, sort of a good spread amongst the space, as I talked about, and we've already seen a good amount of markups in the portfolio. We've had one exit and this is all within two and a half years. So we're going to stick to our thesis and stay disciplined as mentioned, right?

Speaker2: [00:18:02] Can you talk about one or two startups that fit your thesis, perhaps your portfolio?

Speaker3: [00:18:07] Certainly, yeah, let's see, we've done a lot of good ones in there, which one should I? Should I cherry pick? So one was a vertical STARZPLAY actually came out of a GIS mapping consulting practice companies located in Portland, Maine. Again, geographically where I'd say when we started out, we said, Let's focus on the Northeast. And then this sort of whole global pandemic thing happened in our geography expanded quite a bit, but this was one of our earlier deals. It's a SAS GIS mapping platform for for broadband laying fiber in the ground, state infrastructure, state and local infrastructure, rural expansion of broadband. And so, you know, again, vertical STARZPLAY at the time, perhaps limited TAM, but we love the team. These were subject matter experts who knew their market cold. They had some tremendous proof points and understanding of their metrics, you know, tons of customer feedback, and they had built and adapted the product and feature set and roadmap based on that customer feedback. And again, this was over a number of years of sort of being on the consulting services side of the business and how can they productize that and turn that into a modern SAS app? They've since gone on to raise a subsequent rounds with another great firm, and they're off to the races. Obviously, from a market perspective, tons of tailwinds with infrastructure spending. Everyone's at home broadband, rural broadband initiatives, et cetera, et cetera. So sort of a slam dunk there in terms of team market opportunity, the ability to expand that market opportunity, some early traction as mentioned, and then just sort of pragmatic, thoughtful way company. So that's one of the one of the ones we're quite proud of. Right?

Speaker2: [00:20:00] Yeah. Well, there's a lot of challenges out there in the market today, as always in the startup space. But what do you see as the main challenge startups face in today's market from your point of view?

Speaker3: [00:20:11] Yeah, if you think about it in the in terms of the from the founder seat, right, I think even though there's there's so much capital out there, an abundance of capital. I think that the tendency of traditional venture is still to pattern match. Right. And so you're still seeing again, even though there's tons, a lot of money go to repeat founders right at the earliest stages, there's tons of deal flow. I don't know if folks are are doing less diligence or what have you, but you're seeing I think it's quite difficult still today for a first time founder to really raise the capital they need without having more metros, having a network, having past experience that checks the box. So I think that's that's certainly a challenge. And then secondly, obviously, talent. I'll go back to that day in and day out. We're hearing from our portfolio loud and clear. Recruiting remains a tremendous challenge. Wage increases. The big companies are paying tremendous wages, the public markets and our use and plentiful. So and in this world and day and age, you know, what's it worth to go take a risk on a on a small startup? It's a challenge. You know, I've done it a couple of times now, and it's tremendously rewarding and impactful. And there's so much more meaning to sort of, I think, controlling your own destiny, as we like to say. But it's there's certainly a massive talent struggle right now and finding the right people.

Speaker2: [00:21:53] Great. And what do you think is the challenge the investor faces in today's market?

Speaker3: [00:21:57] Yeah, it's I think it's always going to be quality deal access, right? And thinking about how to differentiate and find different deal flow and stand out amongst the others. Listen, we're a we're an investor out of New Hampshire like the diamond oracle. Story is a good one, but it's it's no unicorn. So we had decent reputations, but nothing that should be driving the quality of deal flow that we kind of have today. And I think we just we thought about the model differently and we're basically we're operators that invest. We built advisory services business alongside of the investments business. We don't have limited partners. We have investment partners, right? We don't have a management fee like we're a very different type of investor who's saying, Hey, you know, Mrs. Startup, like, we're going to help you out at the earliest stages of your growth cycle. We're going to be smart and active money. We're going to be a complement to your team. We're going to plug in in the areas that we know. We've got a series of modules from an advisory perspective that we can help out, and we've created this aligned incentives model where founder and entrepreneur love it, right? Because we've got skin in the game. If we're writing a check, plus we're X operators, right? Our service providers, our consulting team, they know we've invested, they've got skin in the game. So their incentive incentivize and then our investment partners, we're de-risking the investment by rolling up our sleeves and getting super involved, right? So I think, you know, continuing for the investor to to rethink the model, to try to not just do what's been done over the last couple of decades and try to stand out and be helpful to founders and entrepreneurs and think about it more as company building versus financial engineering.

Speaker2: [00:23:46] Great. We see a lot of different sectors and applications out there. If you had to pick one or two that you think are really good opportunities to pursue right now, what would you put at the top of the list?

Speaker3: [00:23:56] Yeah, great question. So, you know, I think there's many spaces that remain hot. Obviously, infrastructure. We see a ton of work. We spend a ton of time there. I think there's you continue to see the developer focus on developing and abstracting away sort of the infrastructure layers. You're seeing serverless plays, etc. Multicloud is going to be an important sort of next stage. And how do people think about, you know, not having all of their all of their stuff in one cloud and having some vendor lock in? So how is that done easily? Cybersecurity, you know, as you know that that goes without saying it's always front page and tons of spending is headed that way. So there's tremendous, you know, I think, innovation happening there. And then automation, right? Ai Ml continues to be sort of top of mind for every startup. We see it in every startup. There's some really cool things happening with the amount of data that's out there, how to process that data, how to make things learn continuously, right, whether it's devices or different models that you've built into your workflows. So there's a lot of exciting innovations happening across verticals, across sectors using automation, and we're going to continue to see that. We've also we've got a really cool portfolio company that's in the AR VR space, right? So that's been a hot thing as of late. I was reading some of these articles this morning, but we've, you know, you're going to see more and more of that used in B2B applications, right? One of our portfolio companies is a safety and training application, but all using VR and the engagement metrics are through the roof. So, yeah, probably too much to talk about on a half hour call, but there's a lot of exciting things happening.

Speaker2: [00:25:51] Great. Well, the last few minutes that we have here, what else should we cover that we haven't?

Speaker3: [00:25:56] Great question as well. I think, you know, the startup environment continues to just be a challenge. I think for founders and entrepreneurs, right? It's it's never too early. So hop in and take that plunge. I think there's lots of folks like us in the environment who want to help and be helpful. I think you're seeing more collaboration across founders, across startups, across investors, and I think it's more of a rising tide lifts all boats type of mentality here in this market now, and it has to happen naturally, right? Integrations APIs SDK is like the openness open source, right? Everyone needs to figure out how to work together in this ecosystem. And I think the times never been better to sort of lock arms and think about who can you collaborate in your market and your space and how do you make yourself better and others better at the same time?

Speaker2: [00:26:56] Great. How about best listeners to get back in touch with you?

Speaker3: [00:27:00] Yeah, we're we're an open book, right, so, you know, Joe Yaukey is my email address, that's probably the best way to touch base with us. We've got our own growth platform called fuel a Yorkie, so it's a great way to track start up track portfolio track competitors. So it's for both the founder and entrepreneur, as well as the as well as the investor right to track a portfolio. Tons of market insights and research. And it's really the go to place to get fast and efficient information about your market. So, you know, that's a great way to to touch base with your guy. And then, you know, in terms of founders and entrepreneurs looking for capital. Feel free to reach out directly to me.

Speaker2: [00:27:43] Great. 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.

Speaker3: [00:27:48] Likewise, thank you so much for having me and I look forward to speaking with you again.

Speaker1: [00:27:55] 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. 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.