Stefano Gurciullo of Redstone VC

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. Investor Connect is a 501 C three nonprofit dedicated to the education of investors and startups for fund raising. 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: [00:00:44] Hello, this is Hall Martin with Investor Connect Day. We're here with Stefano Gurciullo , partner at Redstone VC. Redstone VC is a Berlin based venture capital firm, managing multiple sector focused venture capital funds and working with corporate venture funds. They feature a strong corporate base behind their funds with the ultimate goal of democratizing access to private capital for a more diverse variety of investors. Stefano, thank you for joining us.

Speaker3: [00:01:07] Thank you. Thank you.Martin

Speaker2: [00:01:08] Great. So tell us more about your background before investing in early stage companies.

Speaker3: [00:01:14] Yeah, with pleasure. I'm actually a bit of an outlier when it comes to venture capital because of my trajectory. I come from academia, attended the University College London, and what I focused on when I founded The Complexity Science, which is a very complicated name for a set of tools coming from physics, ecology, biology to study how things are with each other, whether these things are animals, whether these things are firms. So you can really see how this actually fits in terms of mindset, venture investing, we call it innovation ecosystem for a reason because you have investors, companies that interact with each other. And I definitely took this philosophy into the way I do investing. After my PhD, I worked a lot across data science, finance and sustainability by doing some of the very first quant investment strategies in sustainability, especially in the public markets. And after that, I just ended up on the dark side, really applying what I've learned along the way, academia as an investor in other markets into venture capital. That's how that's how it came about.

Speaker2: [00:02:19] Great. So what excites you right now?

Speaker3: [00:02:23] Yeah. So we at Preston have a very diverse set of funds. Initially, let me set the focus work. Where I'm spending most of my time is in our future industry ventures that is focusing on European tech that is making manufacturing system more sustainable, more secure and more decentralised. So what excites me right now is really deep technology. So technology that is really hard to make, really hard to replicate with some IP or essentially some really strong engineering and scientific feats to be performed that really can change the way we do manufacturing. And this is what I invest. Right.

Speaker2: [00:03:05] Well, there's a lot of work you do with start ups and 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: [00:03:14] Yeah. We always exchange feedback with other peers and investors a long way. Things that I learned and that I try out myself to apply, especially in the fields that I've been mentioning. So the technology for manufacturing is, one, is to make sure that you as an investor offer beyond the ticket, beyond your money, sort of a platform that may help them. They can help those potential portfolio companies to go in. B2b sales in this technology is really hard, especially at the beginning. Finding the right talent, especially at the beginning, is again very hard. And what I'm finding is that many of us investors, I wouldn't say failing, but we need to get better in providing a set of added value behind so that we can not just get get the best deals. Obviously, at the end of the day, it's also about that. But but also becoming a better value to those founders that are really spending time doing some some of the hardest thing.

Speaker2: [00:04:13] Great. Then on the other side of that table, what's your advice for people running startups? What do you tell them to do before they go out to raise funding?

Speaker3: [00:04:20] Yeah, so many things. But if I had to flip the coin, I always appreciate a founder that does their due diligence on that, so they talk to it. It's not always easy. You know, founders talk to potentially hundreds of investors at any single point in time when they need to fundraise. But I think it's really important to show that, you know, what the investor is focusing on, given information you might have available, and also do some due diligence, ask portfolio companies how we behave with them about our track record, about potentially our AMP base. I think we're lacking on our side. Not consciously. Some some transparency towards founders. And now the new market is getting more and more competitive on our side. I think it's only fair for founders to be more proactive and are being more pushy to to ask for feedback. Information. A background of other investors.

Speaker2: [00:05:13] Great. Let's talk about the state of startup investing. How do you see the industry evolving from here?

Speaker3: [00:05:20] I think right now we are experiencing lots of very, very interesting changes. Some of them will remain. Some of them will not. I just mentioned two of them. One is what I'm noticing is what I call a boom in diversity. What I mean by diversity, sadly, the rest in say, say gender. I think we get in there, but not quite. What I mean is the rise of wide variety, especially in Europe, for new fund managers that I incentivize by local political pushes and incentivization coming from national governments about investing in their own markets, new technologies that require specialized knowledge such as climate change. Right. You have new sponsors just doing that, just focusing on climate and decarbonization. We see a lot of that coming, which private capital that is coming in, flowing into this new fund managers. Will this last? I'm not sure. Obviously, what we've learned in the past probably 20, 30 years is that you have this waves of when you have a couple of new fund managers that then fade away as long as soon as they don't manage to build the right portfolio. So that's one thing. I think we really upped the wave of this new diversity in funds. The second thing that I'm noticing and here are probably not many will agree with me yet, but in five years I'm sure there will is the rise of Southern Europe already now Europe with hubs such as Berlin, such as London. Paris is booming. We know with the latest state of European tech report by Atomic, one of the major European research firms. Right. Southern Europe is still in the shadows. We already started to invest in the countries such as Italy, Spain. There is amazing talent out there, amazing entrepreneurial talent, amazing science. So especially for those people interested in the tech. What's lacking is really the processes to to to bring these things up. And that process is also include investors. So that's really one big way that is starting now, in my opinion, that we will see quite evident in the next five years.

Speaker2: [00:07:23] And what do you think is the biggest change you'll see in, say, the next 1 to 2 years?

Speaker3: [00:07:28] The biggest change in the next one two years is a change with regards to the scope of of funds. What I am noticing right now is that things like ESG, environmental, social and governance and this focus on climate, is these a special thing right now? Fund managers only focus on that is becoming a great value proposition. I think that in two years it will become I wouldn't say the norm, but every single fund will have to have some sort of ESG strategy to push on. And this strategy will have to be applied also for every single portfolio company that they want to have. And this comes in two ways. One is the LPs are pushing more and more. Api's I see, are getting more interested in ESG matters. And two is regulation. In Europe right now, we have new regulation that incentivizes or whether one size fund manages to classify ourselves with respect to values, ESG dimensions. This is something that is happening very, very fast. There's going to be some changes in European regulation up in already this year, and that will become the norm in the next few years. Great.

Speaker2: [00:08:37] Well, let's talk about your investment thesis for your fund. What exactly is it and what your criteria for making an investment?

Speaker3: [00:08:44] Yeah. As I said before, we focus on companies that are using deep technology to make manufacturing more sustainable, more energy efficient, more secure and more decentralized. That's a big business. How do we translate that? I can give you an example. The way we think is through risks, right? We notice and we try to quantify what kind of risks are likely to disrupt in a negative sense, the manufacturing chains, manufacturing value chains and so on and so forth. And then based on that, we create investment places, just to mention a few very, very to actually that are very, very exciting for us right now. One is, not surprisingly, all the concept of securing the value chain. Cybersecurity is always been on top of everybody's mind, but I am surprised how we still are so far behind, especially in industrial applications when it comes to solutions on cybersecurity, we still are not. Your laptop is more secure than a set of industrial assets in a manufacturing plant, and this is amazing. So we're really seeing that happening together with an increase of cybersecurity attacks coming from some various groups around the world. This is something that we heavily invest in, and we have a company already in our portfolio called Exane out of Rome, Italy, for example, addressing this. So this is one. The second investment thesis that we are currently working on is the future of the semiconductor world. The country's in two ways. In the past year or so, we saw disruptions in the supply chain for chips because of COVID, because it was hard to get things safe from China.

Speaker3: [00:10:31] And this is affecting not just the big players, but even more so our portfolio companies. Our hardware companies had some delays of months or even more sometimes in creating in assembling their product. So the question becomes, how can I make how can I go and mitigate supply chain risks? And at the same time, how can I use new types of semiconductors that are more powerful, computationally speaking, but at the same time more energy efficient? Because we can just expand the same amount of energy we do right now for data centers, it's too much. So what this is, is focusing a lot on what kind of new product or new solutions do we need in order to make computing more energy efficient, less less dependent on supply chains of the kind we are now? And again in Europe, we have a massive amount of very interesting players working on it. Just to mention a couple of companies, this is just the generosity. This is not our portfolio, or rather not yet. One is in a Tesla, which is a Belgian company. Spinoff from my university is addressing these other issues. There is another one in the UK called Intrinsic, also addressing these issues and not a matter. The markets are huge, they are still not getting enough investor interest and this is why we want to contribute them. Right.

Speaker2: [00:11:51] So you see a lot of challenges out there. What's the main challenge your startups face when they're launching their business?

Speaker3: [00:11:57] Our companies tend to be not the standard B2B businesses to be sorry, at least not all of them. Right. Because again, there is this very strong engineering, scientific challenge. When you provide something so new, you have a major risk in terms of go to market. This is really our major risk, right? How can I make sure that I sell to my potential customers as fast as possible so that I can generate revenue that I as an investor expect? This is the main challenge that our companies have, and that's where, again, I go back to my advice to the investors was working with our founders as a platform when I was founded and I'm a very well aware of this sort of go to market risks. I try my best with the help base that we have with with our own tools to help them in this journey, by helping them becoming more and more closely integrated with corporate customers, by hiring and setting up the right team and setting up the right processes for the sort of sales. That is not easy. It is not easy at all. It is not B2C. It is not simple to be SAS. It's more complicated at the beginning. Once you go past that step, then you grow and then you grow very fast.

Speaker2: [00:13:16] But then on the other side of that table, what's the challenge investors face in today's market?

Speaker3: [00:13:22] I would say that probably this is something that occurred in this podcast is becoming even for top tier or whatever you want to call this fun. It's harder to get into into certain deals. I think that is a good thing. Why? Because we masters tend to have among all the, let's say, the sectors in finance in we see quite a herd mentality. Right? Everybody gets excited about the same thing at the same time and everybody wants to invest in the same farmers. Which I find it funny. But that's how the word is, right? So now that we have lots of investors that are looking all at the same founders, this is pushing our community to really say, okay, maybe I can figure out a way and find those those assets, those founders that are maybe undervalued by others. This is the main challenge that a first. First you say, oh, wow, I cannot get to this deal even though I'm that good. Maybe I should not follow the herd and coming up with the targets. And I think this works well. Some of our best investments have been really detaching ourselves from what everybody else was doing and finding the amazing people, amazing things that nobody else or rather less people will do.

Speaker2: [00:14:39] Great. We see a lot of different sectors and applications out there. If you had to pick one or two that are good opportunities for investors to pursue today, what would you put at the top of the list?

Speaker3: [00:14:49] I think I already mentioned two that are really, really interesting for us. Maybe another one that we are really going deeper is the entire concept of decarbonizing the resources that you need in a built world. What do I mean by that? We build things. Humans are very good at building things. We mainly use concrete, we use metals. This stuff creates an enormous amount of CO2, an enormous amount of emissions. That is partly the reason why we are experiencing climate change right now. That is, if you ask me, a massive investment opportunity for two reasons. One, we are looking at technologies that are ready now. Ten years ago there was not the case. Five years ago that was not the case. Now, as of consciousness, Switzerland, Germany, the UK, you have amazing science coming out of university, being commercialized by former PhDs or just very capable entrepreneurs. The technology risk is being mitigated. To the market. The buyers are out there. I'll give you an example of how concrete, concrete the problem has been so far that, you know, to have less carbon intensive concrete. It's like buying a bio product on the supermarket because you are a bit more. If I want defensible the as nor insecticide and there obviously someone that uses concrete doesn't want to spend their money. This is changing how we see technology that is just as cheap, if not even cheaper sometimes than current incumbents products in concrete, for example. And now you have an investment opportunity. That is one thesis that I spent a lot of my time on, and I would invite other investors to also spend the time.

Speaker2: [00:16:34] Well, in the last few minutes that we have here, what else should we cover that we haven't?

Speaker3: [00:16:37] Yeah, well, very interesting question that makes me stay awake when I said times is the following. So the last 15 to 20 years, venture capital has been really geared towards the successful story of pure software, the software that in three years gives you orders of magnitude more of a return on investment. And this is amazing. And this is still happening at the same time, as you probably noticed during my chats, I'm extremely excited about the tech, which takes longer to go up to add that exponential return that we want. And it seems to me that venture capital as an asset class as to maybe rethink partially itself in order to accommodate the sort of assets. So perhaps one question that I also invite all the peers in my community is really what kind of modes of investing, what kind of doing investment, what kind of funds can we create, do we need in order to accommodate this right know very interesting new assets out there. But is the tech that is still not enough well served, in my opinion.

Speaker2: [00:17:43] Great. So how best for listeners to get back in touch with you?

Speaker3: [00:17:46] Probably the best way. Everybody says Twitter. I don't use Twitter that much. I'm really sorry for that. So probably the best way would be through LinkedIn. And I guess you can find my profile on the on the Web page.

Speaker2: [00:17:59] Great. We'll include 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: [00:18:05] Thank you. Thank you so much. Have a great day.

Speaker1: [00:18:09] Investor Connect helps investors interested in startup funding. In this podcast series Experience, investors share their experience and advice. You can learn more at investor connect dot org multi. Martin is the director of Investor Connect, which is a 500 1c3 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.