Transcript of Adam Besvinicki of Looking Glass Capital

Hall T. Martin: [00:00:00] well, hello, this is Hall Martin with Investor Connect. Today I'm here with Adam Benik, founder and managing partner of Looking Glass Capital.

Looking Glass Capital is a pre-seed and seek fund that seeks to invest in and support mission-driven founders during the earliest days of company building. Adam, thank you for joining us.

Adam Besvinicki: Hi Hall. Thanks for having me.

Hall T. Martin: So where are you calling from today? I am calling in from, , Westchester County, New York.

Adam Besvinicki: So just about 40 minutes north of New York City. Great.

Hall T. Martin: So tell us more about your background before joining Looking Glass Capital.

Adam Besvinicki: Yeah, so I've been in Venture now full-time for nearly a decade at this point. I spent the first handful of years at a couple other funds, one called Deep Fork, where I was doing pre-seed and seed investing for about three years.

Then another fund called Anchorage Capital Group, which is a. So about 18 19 billion hedge fund where I was doing series A through series C investing and I started looking glass in 2020. So fund one I raised through most of covid, started investing out of it in [00:01:00] September of 2020, and, recently started investing out of and raising the balance of fund two for looking glass.

Hall T. Martin: Great. So what excites you right now?

Adam Besvinicki: Right now, the thing that I'm most excited about is the number of high quality entrepreneurs that are still building companies despite what the, the market looks like. I think the bar for starting a business has certainly never been higher in the three years since I've started this firm, and probably never been higher in the nine to 10 years that I've been in venture full-time.

Uh, and so I think. The quality of entrepreneur that I've, I've met with and seen over the last 12 months has been extraordinarily high. and that sort of ratio of signal to noise in terms of quality to quantity is at an all-time high. So to me that's at a high level. What's, most exciting to me.

I'd say more specifically, regardless of what the, sort of the, the founder profile or background is, things that I'm most excited about are, [00:02:00] Really a return to and focus on investing in companies that are not just nice to haves, but are must haves. And so that really aligns with the themes that I've been investing in since starting this firm, around healthcare, climate, education, even number of tools and platforms for small businesses that are essential to how companies operated and essential to how, patient's, livelihoods, or patient patient's wellbeings.

And, you know, climate's not sort of a, a nice to have. It's, it's a must solve issue. And so, the things that are exciting to me are the categories that continue to attract capital, kind of regardless of what the, the broader economic climate looks like these days.

Hall T. Martin: Great. Well, you see a lot of startups in 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?

Adam Besvinicki: if it's an angel investor, I would say, Pretend like this money doesn't exist anymore and it's not coming back. I think the, the failure rate of, you know, startups , is so extraordinarily high.

I think we, you know, the collective [00:03:00] sort of early stage venture ecosystem got very, very jaded over the last, you argue over the last several years, if not longer, that there was always someone ready to write the next check to that company, kind of almost regardless of. Of how well that company was doing.

And so, that's one thing that I think , has changed over the last year is there's a lot more clarity around whether this company or a company deserves to raise additional capital.

Being real about investing as an angel investor

Adam Besvinicki: And so if you're just getting started making, you know, investing in early stage venture as an angel, you need to understand that there's a tremendous amount of risk associated with that.

and then also recognize that. Professional investors that are managing funds have portfolios for a reason. and so if you're gonna be a, an active angel, you or whether you're gonna start a firm, et cetera, you have to commit to having a large enough portfolio enough, enough at bats because if you make, you know, three, four investments you know, there's a good chance that none of those are gonna work.

but if you're seeing a hot quality number of companies [00:04:00] and you make. 25, 30 investments, then now all of a sudden you've given yourself much better odds of those companies performing. cuz you could probably take three or four companies out of, you know, my career track record and see three or four zeros for sure.

But this is, a business that's really focused on, outliers. , and so, , you need to make sure you have enough at bats to, to hit some of those.

Hall T. Martin: Great. And 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?

Adam Besvinicki: It's one thing that I've been pleasantly surprised by over the last year is I've increasingly seen more and more founders pressure testing their ideas before going out and raising capital. I think during throes of 2021, you saw a lot of fly by night founders who were. Raising money and then quitting their job, right?

Like, I'm looking for a VC to fund my salary, to convince me to start this company, as opposed to I've decided to start this company. I've evaluated, you know, the [00:05:00] markets, I've evaluated how to build a product in this space. Maybe I built a prototype up for it already, and now I'm gonna go out and raise capital that didn't really exist all that frequently.

You know, 18 to 24 months ago. now, particularly over the last 12 plus months, you've seen a lot more founders that are actually self-funding their companies

for a little while. They're bootstrapping them to make sure that this is something that they actually wanna dedicate the next 6, 8, 10 years of their life, life building.

And so if I look at the companies that I've invested in over the last seven months, out of fund two, all three of them had a product. That was live and in market in some capacity already. A couple of them were generating revenue, you know, not millions of dollars of revenue, but meaningful revenue.

That was clearly an indication that someone of note was willing to pay for this product. And these were companies that had been around for four or 5, 6, 7 months. These weren't founders that [00:06:00] said, woke up one day and said, Hey, I'm gonna go and raise venture funding to start this company. They actually had sort of s.

Sanity checked their ideas and tested whether they made sense. and to me that's sort of the, that's one of the pleasant sort of benefits of this, you know, tougher economic, sort of tougher fundraising environment is that, founders are spending more time evaluating whether this is something they wanna devote.

The next, you know, half decade to a decade building and early stage VCs are the beneficiaries of, , Sort of that momentum that founders might have even before they go and raise capital.

Hall T. Martin: Great. Well, let's talk about the state of startup investing. How do you see the industry evolving from here? Where are we going?

Adam Besvinicki: Yeah. Kind of alluded to a little bit of this, but I think we've seen a return to what, you know, early stage investing looked like. When I started investing, you know, almost a decade ago, which is, a. $2 million round was a, or a $3 [00:07:00] million round was a relatively high bar for founders to clear. And yes, there's certainly plenty of companies that can go out and raise that much money with very little or, or frankly, even more.

but I think we're seeing a lot more rigor applied to evaluating companies at that stage. I think the pace of investing and the, the length of fund, , Sort of deployment periods is lengthening significantly, and that's a function of two, you know, main things. One is more diligence being done by by VCs, and the other is VCs extending their deployment periods and doing fewer deals per year.

And so now you've got, you know, more diligence and slower investment pace, which those two things compound and you have extremely long fundraising

processes ahead for founders, even for. A first round of capital that they might be raising when those processes would, you know, in some instances lasted literally days you know, in the peak of 2021.

So I [00:08:00] think all of this is a, a healthy, you know, reset and refresh for the broader ecosystem. one that, I wouldn't say VCs have significantly more leverage than founders did. I would just say it's been a, a rebalancing where investors can now actually credibly take time and do work. And in my mind it's a benefit for founders because now they really actually have to know their investors and get to understand who they're, sort of getting in bed with, so to speak, for the next decade.

as opposed to, the midst of sort of the hype cycles of 2021, where. you had investors at getting on the cap tables and the founder had hardly spent any time with them at all, and now all of a sudden you don't really know who you've signed up to work with for the next, 6, 8, 10 years.

Hall T. Martin: Well, that's great. So let's talk about your investment thesis. What exactly is it and how did you come to it?

What is Looking Glass Capital investment thesis?

Adam Besvinicki: So I'm investing, In a way that I feel like is differentiated from a lot of other pree funds, which is I wanna take a much more [00:09:00] institutional approach to pre-seed investing, and for me that means being much more disciplined around check size and ownership and valuation and portfolio construction.

Then that really comes from the institutional experience that I picked up during my time at Anchorage, where I was the sort of weird, exotic, you know, VC investors surrounded by a bunch of public markets and credit investors who were. Ruthless with portfolio construction and portfolio management and pruning positions and adding to positions and, you know, things you could do with a liquid market.

But I got to witness what it meant to be, you know, a truly institutional oriented investor as opposed to a lot of other, you know, a lot of early stage pre-seed VCs who I would say don't necessarily apply the same level of rigor and diligence to their own processes. And so that's sort of the fundamental.

Sort of strategy that I'm, I'm bringing to market. the next piece is that I'm taking a very thematic and sector oriented approach to what I spend time on. So I invest in [00:10:00] healthcare, climate, education, and tools and platforms, specifically serving small and medium sized businesses. And within healthcare, it's largely software and tech enabled services, either healthcare infrastructure or.

vertical specialty care for patients. I don't do devices. I don't do life sciences. I don't do biotech or pharma. And then similarly, within climate, again, it's all software and software driven solutions. I'm not investing in things that might look like frontier tech or deep tech in our, eons away from commercialization and look more like science projects than, than near term revenue generating businesses.

And so really focused on backing, You know, the software opportunities within these spaces that I'm spending time on. and I don't make exceptions for these categories, you know, I don't deviate from these themes as an individual investor, a single gp. I have no other employees. I'm, you know, working with the portfolio.

I'm deploying capital, um, I'm fundraising. I [00:11:00] don't have time, frankly, to be chasing deals in all sorts of other categories. And so, I pick these themes. One, because I think I can build a firm for the next 20 years investing in these categories and never have to change them. I think these are categories that are timeless in that way.

Certainly the, sort of subcategories might ebb and flow, but healthcare, climate, education, small business, these are sectors that will always matter from a capital sort of attraction perspective. As long as I'm building this firm. and these are areas that I've been investing in for the last decade.

I was investing in companies that you would call Climate Tech now in 2015 that I didn't think of as climate tech at all. I just thought that they were really smart founders building a cool product, solving a large problem, a company called One Concern, which is in the resilience space and sort of mitigating, you know, climate disaster space.

But I didn't think of it as climate tech in 2015. I just thought of it as a. Really [00:12:00] awesome product and a huge market, just happened to be something that fell into climate, right? It was just a, it was just a software investment at that point. It didn't really feel like a climate tech type deal. and then the other

element of these themes beyond being sort of timeless is I think they were relatively economic, economically resilient.

As I mentioned earlier in, in our conversation, you know, healthcare, climate, education, these are, these are areas that are must haves. These are not, take the analogy. These are painkillers, not vitamins in terms of solving problems in these spaces. and I think they attract a founder that is naturally more resilient than maybe founders in other categories, right?

If you're building in healthcare or climate or education, these are fairly fraught sectors. They're regulatorily challenging oftentimes, and it really usually requires having very relevant operating. Experience in the space to know how to navigate a lot of the existing incumbents and convince them to engage with you.

And so I think they self-select for a founder that really knows, you know, [00:13:00] these spaces inside and out, and, gives them an unfair advantage compared to maybe an outsider who's trying to build in these categories.

Hall T. Martin: We used your term resilience several times. You would, you call this the age of resilience.

It used to be the age of growth, but, uh, interest rates are not gonna let that happen anymore. But, uh, what do you think about resilience being the,

Adam Besvinicki: the watch word? I couldn't agree more with that. I mean, I think it's resilience in the face of attracting capital, right? Like, you know, healthcare companies and climate companies and others are still growing despite the fact that.

Other categories are not, and then entrepreneurs themselves need to be resilient, right? There's a lot of talk that a flat round is an up round, and a down round is a flat round in, you know, 2023, right? And an up round is exceedingly rare. Um, and so, being able to, I think Fred Wilson wrote in his like year, you know, prediction for the year.

Surviving is thriving this year.[00:14:00] and so figuring out ways to extend runway, figuring out ways to pull rounds together that even, that don't look like traditional sort of priced rounds with a regular lead and, you know, follow on investors. All of these sort of, all of the scrappiness that is required to build a company, I think is, you know, that much more valuable.

At this point. And so, I mean, I see it with myself fundraising for fund too, right? Like I need to naturally be resilient and figure out all sorts of ways to make sure that the fund is properly capitalized to execute the strategy that I want. So, yeah, I think. Resilience might definitely be the word of 2023 , and maybe 20, 24.

Hall T. Martin: Yeah, it could be a while. Can we get back to the, uh, growth again, but this is just part of the cycles, I guess, but what are the challenges you see your starters facing most these days?

Adam Besvinicki: I think the biggest challenge that almost every company faces these days is figuring out [00:15:00] ways to grow while also being capital efficient.

Right. You have sort of, founders are being pulled in two different directions right now. They're being told like cut costs you know, keep your burn rate down. Oh, but by the way, like, keep growing though. Like, you know, right. Like to your point before it was like growth at all costs. Who cares about profitability?

You know, grow as fast as you possibly can. There's always gonna be another check behind, behind mine to fund you. Now it's like, Still grow very quickly, maybe not as, maybe not growth at all costs, but still grow very quickly while also cutting all of your costs. And I've heard multiple founders in the portfolio sort of like bemoan this over the last few weeks and it is a really difficult tension.

I think there is sort of a very nice, sort of coincidence, at least for a number of companies that I've been talking to recently where their current monthly burn. Is actually at a level that they could hit from a [00:16:00] revenue perspective and figure out how to get to cashflow positive in the not too distant future.

And that revenue number is actually a very good milestone for being able to raise, you know, a Series A, right? 150, 200 K, maybe a little bit more in monthly revenue is a pretty good figure still in my mind for justifying a series A round despite what the broader sort of like, Venture market looks like, and it just so happens that a lot of companies that are approaching that level of, you know, revenue are also at that type of burn rate.

And so you have this sort of happy coincidence where, my burn rate might be the revenue number and hopefully I can get to a default alive state, take take sort of my destiny into my own control, and then have the choice of raising a series A or not, depending on how much more quickly I want to grow.

And so I would on that point, I think, at least to your original question, to me that's the number one challenge that I think most [00:17:00] companies are facing right now is that tension. But I definitely think it's worth sacrificing, you know, grow 3% month over month instead of 6% month over month if it's gonna allow you to keep your burn rate, you know, at the same level, if not lower.

Right. You know, if you can keep demonstrating some type of progress month over month to me. That's a clear indication that you've figured out a way to not sacrifice growth for the sake of, you know, cutting, burn. But if you just start to grow , entirely linearly, then at that point it becomes a little bit more challenging to compel an investor.

Well,

Hall T. Martin: great. My next question is, what online information source do you find most helpful in your work?

Adam Besvinicki: And I still think despite all of. Twitter's, you know, foibles. Um, to put it mildly, I still think Twitter remains one of the most sort of insanely useful, tools for what I do on a day-to-day basis. Um, whether it's, [00:18:00] you know, sharing information about companies that I've invested in, you know, discovering new companies, I've backed multiple companies across fund one and fund two that I've discovered through Twitter.

Having a presence on Twitter is increasingly valuable. and for me, being accessible to, to founders and other investors and putting thoughts out there and, you know, demonstrating what I care about, , and being able to build, you know, quote unquote personal brand for attracting capital, and attracting deal flow.

Twitter still remains, you know, insanely valuable as a, as a brand building source and an information source, from a pure plate, you know, news. Or sort of industry insider, you know, information site. I think Eric Newcomers sub is one of the few sub stacks. Might be the only sub that I pay for. and I would definitely pay more for it.

Um, like I think Eric has incredible sources. He puts out incredible interviews with a really great, [00:19:00] investors and founders, and has delivered from day one. On what he's set out to do. And so I would encourage, you know, anyone listening to this to describe to, it's called the newcomer, sub. And, he does an awesome job with that.

Great.

Hall T. Martin: Well, the last minute minutes that we have here today, what else should we cover that we haven't?

Adam Besvinicki: I think I did a great job of sort of running through the, the gambit of what's on my mind from a venture perspective, both across the categories I'm investing in and, and the broader landscape.

I think maybe the only thing that I would, that I would add to the conversation is just around, you know, sort of the, what I'm seeing right now resembles a lot what we saw at the beginning of Covid, in terms of a bifurcation of where capital is, is being concentrated. so I still see preceded and seed investing being a place that's attracting lots of investor attention. Both pree and seed focused investors and later stage stage investors who are willing to write a [00:20:00] seed check because they get the same amount of ownership that they normally get with putting less capital at risk, and it feels like a call option for them.

And then the series A and series B sort of, you know, no man's land even seriously, to an extent is sort of just not seeing anything or very little. And then later stage investing where it's very clear that those companies are going to be the anointed winners, and it's just a matter of how big they get.

You know, at the beginning of Covid it was Stripe and Figma and Canva and all these guys continued to attract capital. , you know, even when deals were getting done over Zoom and people were apprehensive about that. and so I, I feel like this barbell sort of very bifurcated approach is what we're seeing now and a.

To me, it looks a lot like what we saw in April, may, June of 2020 before things, you know, got nuts in the back half of 2020 through most of 2021. so that's, one thing that I would, I would call out , that we didn't talk about.

Hall T. Martin: Yeah, it's, it's a different market and it's changing again [00:21:00] just like it did back then.

So it's good to, you know, see that come back around at this point. how best for listeners to get back in touch with you?

Adam Besvinicki: Yeah, I'd say the number one way to, to get in touch with me is to send me an email. So it's, uh, it's Adam Looking glass.vc. Um, that's the, my website. That's my fun name. I read and respond to every single email that I get, uh, which is a blessing and a curse.

Um, but, um, it's the easiest way to get in touch with me by far.

Hall T. Martin: Great. We'll put your contact details in the show notes. I wanna thank you for joining us today and we hope to have you back for a follow up again soon.

Adam Besvinicki: Great. Thanks all. Really appreciate it.