**Ep.1 Eric Engineer**

[00:00:00]**Andreas Penna:** Hello, everyone. Welcome to the very first edition of biz pod.ninja. it's a very special show today. It's my, so my launch, something that I've been meaning to get kicked off for almost a year, but didn't quite have all the pieces and time to get everything done. and, all the creative work, all the process.

I'm really excited to have everyone here today. to tune in and those who aren't live, watching the slide right now, the show will be recorded, in the future. COVID-19 certainly , expedited me getting to, to air on this. And, it's with great honor. I [00:01:00] gotta have my first guest, one of my most dear friends, Eric engineer with me.

Hey Eric, how are you? Andreas. This is amazing. I'm so excited to be an honor to be your first guest. couldn't think of a better candidate as my Guinea pig. actually we did a few trial runs, truth be told before that Erica weathered through. So I owe him dearly for that for, a few of my miss stuffs previously.

Anyhow, we have Eric engineer on the show. Eric engineer, You know, despite his last name, people think it's a creative name, but not only is it creative, it's actually true. Eric engineer is also an engineer by background. at Rice university, he got his comp psy, degree, a master's degree there.

I used to work with, Eric and my first job at Microsoft. where we were both on the same team and product management back in the day before I phone Andrew itself, the very first smartphone creation, windows mobile for all of those Microsoft fans. And I don't [00:02:00] know who remembers that, which one?

Pocket? PC. Oh, pocket PC pocket. PC phone. Yeah, we were, we were certainly bellwethers and are in the industry at the time he went to Harvard business school HBS. graduating to pursue a VC role at a VC role at seven Rosen funds, where he then joined one of his portfolios in Voto, where he was VP of product and partnerships, and then became CEO of in Voto, based in Austin, ultimately, selling the company, in 2018.

two industrial color. he's now back as a, in venture capital as a partner in Esri ventures and, in Texas headquartered in Austin, given his career, he's a masterful business Ninja with truth from the trenches that we, are going to explore on the show. Hey, Eric. Hey enjoy this man. I love to call you depending.

, how is, Texas is these days? I know you guys were the, and I guess [00:03:00] everyone is sick and tired of COVID and Corona talk, but let's just get it out of the room a little bit. Cause I actually am curious to see how all the Texans are, are dealing with Kronos. I have a few friends in Houston who told me as of a few weeks ago, it's been open.

People are out in restaurants and. Out and about how does it feel for you to add text is open for business or opening? you know, and then Austin, you know, is beautiful outdoor weather. it's so duly getting hotter right now. Cause it's a summer, but people have been eager to get out. It's a beautiful place.

So people kind of rush to get out, I think, starting Memorial day weekend and, and she needed to do that. My family, we haven't, we've been on lockdown. well it's cause you're very responsible. Yeah. We also had a, you know, we had a death in our extended family from probate, so, and we have young kids, so we're going to, we're taking it seriously.

You don't need to be the Guinea pigs to let other people do that.

Yeah. I I'm here in, in Los Angeles. so we've been slammed with, you know, of course. COVID like everyone else, but a lot of protests and [00:04:00] demonstrations at some points, some crazy riots are right here in Beverly Hills, in West Hollywood. so anyhow, great to have you on the show. How is, you know, kind of first question I want to ask you for folks, given your, your background.

and I know you, I know you pretty damn well. you know, I want to dig and drill in, in a couple of areas and particularly. You know, I myself are happy, my own VC fund practice. and it's different here in California. I'm really curious. How is venture capital, and sort of work in the sort of deal flow that you're seeing right now, and sort of deals that you're trying to get into.

How, how has COVID and Corona affected you as a, personally as a VC first, and secondly, given your focus as in taxes, how has that changed? maybe your focus or altered in any way. Yep. Well, you know, so I mean, that's three ventures. We're the largest venture capital firm, focused on Texas. And so, really what we invest in, whether it's seed a or B is really always [00:05:00] in companies that are either headquartered in Texas or have a large presence in Texas.

So that's really kind of the world I live in. and I'd say, you know, it's, it's probably the same as it. Is in other parts of the country, as it relates to the impact that it's had on kind of the startup ecosystem. You know, initially we were all scrambling to figure out what does it mean for portfolios?

we were kind of triaging, trying to figure out, what the new world might look like, what cuts they may have to make to their teams. I think the vast majority of our. Companies did make some sort of cuts, whether it was in the form of furloughs or layoffs. but we also had some company, you know, that, really benefited from the environment and, you know, their, pipelines doubled or tripled, and revenue started to go way up and then others went to zero.

and you know, but uncertainty, can you tell me a little bit about those portfolios and companies that benefited. yeah. I mean, you don't have to give specific names, but yeah, sure. No, actually generally enabled some [00:06:00] sort of, kind of. Remote collaboration or a kind of remote engagement with customers, and, or training, things that were like usually like in one case, you know, they enable training that it was kind of a digital version of what you might do in person.

And so, you know, anything that was digitizing real or otherwise was happening kind of offline, just got accelerated since, you know, so that was really beneficial to those companies. And they're actually ahead of plan, for the year. Whereas other ones, like I was mentioning earlier, maybe ones that rely on marketing dollars or advertising dollars, or, or in the healthcare space, we have some investments that, you know, were elective surgeries or like the procedures.

they went to zero revenue in the month of April. and so it's just a really wide variety of situations to deal with and a lot of uncertainty, but I think we kind of got, I wouldn't say past it, but you know, the initial kind of focus on that. Kind of was, was most of April and may. We were also trying to figure out the [00:07:00] PPP paycheck protection program and what that meant for our companies and making sure they secure the dollars that they might be entitled to.

so after we got past all of that craziness, it then started getting back to, okay, like what does investing look like, in this new world? Can we make new investments, you know, where do we feel comfortable? Not only from understanding kind of business plans for the rest of the year. Like, can you invest in.

With all the uncertainty, but then also, what does it look like to invest when you've never actually met the person face to face full zoom relationship, you know, net, net starting from zero. and I think we can, and we have been kind of moving in that direction. Have you done, have you done that right now?

That's actually really, it's interesting because I've had to deal with that myself. To make some investments, whereby you know, I can't actually meet the founders of the team in person that has been by zoom. and there are, M and a, processing and projects that I'm also concurrent working on, and going to market soon.

And for me, it's, I'm like, you know, how does, how does coven and how [00:08:00] does Krone change the environment? Where we can't see people face to face, because I feel, you know, as any, you know, business dinner, such as yourself knows nothing, nothing can replace the face to face interaction of another human.

There's a lot of body language, a lot of excitement. how do you think are people just going to accept that this is the way it needs to be for a little bit? Will they just grow into that or do you think it's going to actually make deal-making more difficult? Well, I feel blow things down because it just maybe takes a little longer to develop some of those relationships.

Maybe some of those meetings, even the diligence process, you know, where you would maybe sit in a room together for multiple hours at a time. as you're diving really deep into diligence, that's kind of tiring to do in a video setting. And so, you know, we'd, that might get broken up into more. Like just separate meetings.

And then, you know, often a lot of the relationship building is spending time. Not only just like getting a coffee and other things like that, but actually we, you know, always go out to dinner, [00:09:00] you know, with the founders and things like that, prior to kind of extending a term sheet and really getting to know people kind of at a social level as well.

cause you know, you're, you're developing, you're starting a relationship that could is multiple years. going forward, where are we going to probably have ups and downs? And so you want to understand how people behave, and, and what their style is like. And, you know, whether it's a good fit culturally with your firm, both ways they're evaluating you and you're evaluating them.

and so we are, you know, trying to figure out what are the substitutes for that interested in, in this, in this environment? So we we've, in one case, I know my partner, Charlie, he, he actually. Did like a two hour like happy hour with a couple of founders, you know, over video conferencing kind of tried to do that, you know?

And, and so those things are things that I think we are going to test out, try see how it works, whether it helps to get, get us there, to get deals across the finish line. But it is a big change for us because we're local. Oriented investors. Right? I I'm pretty sure, like if you're a global investor, you're doing a lot of stuff more digitally, [00:10:00] but almost in our case, like we are face to face.

Maybe the first meeting might be a call or video conference, but pretty much every other meeting after that, from a diligence standpoint is usually face to face. And so we don't get that experience. The other thing that we don't get. which is tough as you don't get to go actually visit the office, right?

Like, you know, usually we're doing a lot of those meetings in their offices. if they have them getting to know kind of what the, kind of the feel of the office is the culture you get so much for any of our, our listeners or viewers who, who dialed in, Eric's talking about making, you know, through due diligence, as it relates to venture capital investment.

So you're saying generally the office, you go on site, meet the team. You can't do that now. Right? Right. I mean, you can maybe meet the team and, you know, through kind of a big zoom conference and you have a bunch of heads in front of you and people take turns talking, but it's not the same in terms of, you know, walking through the hallway, getting introductions, doing the tour, [00:11:00] getting a feel for like, what do the walls look like?

**Eric Engineer:** What are people saying? What's the buzz and the energy level. and then just even the way that the management team interacts with each other in a room. You know, the way people interact in a room is very different than the way they interact on a zoom call. And, you know, especially in like a creative process or, or even a tense situation.

And so, it's just, no, you don't, those intangibles, I think, are things that might be harder to kind of find substitutes for, but I think we still feel comfortable making them investments and kind of have it done like a smaller one and, or gone deep into diligence on several in this environment. Got it.

Got it. you know, for any kind of founders and companies looking for, for investment right now, early in backroom, because they may not have the metrics to prove for series B or Susi onwards. And those we're looking for seed or series a, what would be the one piece of, advice you would give them regarding fundraising, when speaking or approaching a venture capitalist for the first time?

[00:12:00] I'll give two things, two things, cause they're kind of, they're, they're kind of two sides of a coin. One is just making sure that now is the right time to go fundraising. Right? So I think what we're finding is a lot of companies are saying, you know, I don't have visibility or a sense of what the rest of the year might look like.

right now that's getting better now than it was a month ago. Things feel like they're stabilizing a little bit. You kind of understand what the bottom is and you're starting to see things, maybe move in a positive direction again, but you know, you have to kind of feel like, yeah, I have enough data points to where you can actually tell a story about how much cash you're going to need and what kind of results you might generate this year and next.

And so if you feel good about that and yeah, you have those data points, things are going really well or accelerated because of this environment. Like I said, you know, that is also true for a lot of categories. Now's a great time to go out, but. You know, you know, kind of making sure that it's the right time.

And then if it is, I think what I was saying alluding to earlier is important, which is make sure that as part of that process, you're [00:13:00] almost creating time within the meetings, the online meetings and things like that to almost have kind of this. More informal social kind of interaction, build rapport.

So virtual con normally like in face to face meetings, you spend a good amount of five, 10 minutes, whether it's before meeting, after meeting during the coffee break, the bathroom breaks, you know, just having more kind of chitchat kind of sidebar conference and getting to know people at maybe a more personal level, that doesn't happen as naturally.

In, in kind of the, kind of in the zoom environment. And so, you know, so that's something that I encourage people to kind of find ways to do that, be creative about that, because I think that's a big part of getting people across the finish line. Got it. question, given the change in environment, macro environment, covert, what are two sectors or businesses.

or areas that you are particularly [00:14:00] interested, from your perspective at Esri, that you may not have considered pre COVID. Are there any new kind of industries or sectors or areas of business that from a deal flow perspective you're increasingly interested in and as a firm? Yeah. Well, so as a firm, you know, were we, because we're focused on Texas, I have to say our thesis is Texas.

We believe that, you know, Texas is a. Is it pretty unique markets where there's just incredible talents and a lot of, history in terms of entrepreneurship, but, but maybe not as much funding, actually it's some of the later stages like we do in series B. And so we just think of it as there's a great opportunity.

That's going to continue to get better in Texas. So that's our thesis. And so we don't tend to. Build specific investment themes or seek out businesses, beyond the fact that we focus on, you know, generally on business technology and consumer digital experiences or even healthcare, but it's not, but it, it always has like some kind of software or technology bent to it.

[00:15:00] That being said, Clearly, there are things that are accelerated, right? I mean, things that maybe any trends that maybe it took, like when we thought would happen over three or four years, trying to will happen over one or two. and so, and those again, fall in the same categories that I was mentioning earlier that we're seeing in our portfolio where maybe there's essentially digitization of things that.

We're still kind of stuck in a hybrid or pure offline world. and, and, and a lot of industries, there's just a big, and we were doing these investments prior to this. So this is just kind of maybe making us feel more comfortable about that, but, but there are entire industries that were laggards and digitization.

whether it's the construction industry, whether it's still healthcare is a big one, financial services still there. I mean, it's amazing how much still paperwork gets is still part of the financial services world. And so, you know, so there's just a lot of those things that, and I mentioned training earlier too, like, like we have an investment that we do this training for the skilled trades for plumbers, HVAC technicians, things like [00:16:00] that, where a lot of that training is done.

In, you know, in a real world setting as a, you know, where you're, you're basically shadowing a more senior technician and, and learning that way. Now you can do that in virtual environments, right? Almost a video game environments or VR environments even. And so, you know, all of those things that we're kind of, we thought, okay, it takes several years to become more mainstream.

People are testing out and trying now. and, so yeah, I mean, it just, I think it's more acceleration of a lot of digitization that we already knew it was happening versus net new. I'm seeing that as well. I agree with that and have been seeing increasingly more deal flow around that and a lot more interest, in that space.

Another question I have for you is for our listeners and viewers, as it relates to, M and a mergers and acquisitions in this environment, you ended up, helping build one of your portfolios. You joined, as we mentioned before in [00:17:00] Voto where you were running partnerships and business development became CEO sold that company.

and that was a few years back was the 2018 end of 2008. Can you give us like a really like high level kind of thing? What you did in that process to sell that company. but just enough information so that we know how you might change it differently. for during this year as COVID period. So if there's some things from an M and a perspective as CEO of a portfolio, who's successfully transacted that company, what are the kind of the main points you would make and how might you alter those, those conversations or that due diligence process was that negotiation, under this, this new environment, at least for the next year, a lot of companies are gonna are, are, are looking to transact.

Or, or my finest time useful to transact, or they may not have the, the dry powder to see them through for the next they will have to transact. And I think this is a great piece of, insight from your perspective that I think I would love to [00:18:00] hear and everyone else, what might be those differences as it relates to?

Sure. Sure. So we'll they learn through that process and you know, what, in Voto we actually had, a couple of years prior a, we had left at the altar. where we thought we were gonna get a deal done. And then we didn't. And, so I've kind of been through the process twice with one company. And, and I would say, like, I think what I learned from all of that was at the end of the day, it's really awful.

It comes down to at some point in the collaboration. And what I mean by that is if you are only talking to one serious buyer, you know, you're gonna probably land up in a pretty difficult situation when it comes to negotiation, especially if it's very clear that you're selling, because you might be in dire straits, or because of this current environment, things like that.

So, you know, you know, like, you know, you want to buy low, sell high, and right now, you know, it really depends what [00:19:00] market you're in. To understand, you know, whether it's a good time to even sell. So clearly if you're in a hot space where people are kept trying to catch up, around like certain trends, whether it's remote work digitization or whatever, and you're enabling some of that and your help, some of the people that are trying to buy you right now are trying to catch up.

And there's a sense of urgency. Like clearly you have leverage. And even if it's just one party, you know, at least it's something that you could walk away from that negotiation and have leverage. And so, so now it might be amazing time, right? To do, to explore that and do that. But if, if you're feeling like maybe it's just a, you know, it's become too hard or difficult or you're having a hard time raising money.

and, and you're trying to sell because of that. that's going to be a very challenging thing, unless you find multiple parties that might be interested and then the, and then you create a sense of scarcity, right. and maybe create value for yourself that way. But the last thing you want to [00:20:00] be. Is only talking to one interested party and don't, and don't feel like you can walk away.

That's that's, that's something you probably want to try to avoid at all costs. because it's just usually it doesn't end up in a good spot for shareholders and founders. Eric, how, what would be your piece of advice regarding, om, you mention, you can get multiple parties, interests, create scarcity. What would be the best advice you could give, to folks listening, in order to do that, how would you go about that?

What's the best way. And what's the quite frankly the best way, in today's environment. Because as you know, we can't really be traveling people. Can't be traveling to Silicon Valley and New York or Europe to drive into it. Have, well, I haven't really, yeah. I personally tried to do this. We have some portfolio companies that haven't been announced yet.

I actually did go through a transaction a few weeks ago. The [00:21:00] closed can't speak to who it is yet. And then we have another, you know, actually are having discussions right now. So it's, it's definitely happening. There's definitely MNA conversations happening in this environment. and then it really goes back to.

If it's, if you're, if you're in a situation where you're, you're, you're considering an acquisition because, maybe you feel like it's a, it's a kind of thing value maximizing time right now to do that. it's, it's, it's, it's hard to kind of manufacture that, frankly, like, like. You know, from a dead stop, I think you can, and you can hire a bank and things like that.

And they can reach out to interested parties and some folks are going to be in a buying mode right now because they think they can get deals or, or because they're making strategic, like they're trying to catch up. Right. So ideally you're trying to get more of the folks that are trying to catch up, not trying to buy, get good deals.

And then in a banker can, can do that. But frankly, I think the best for an M and a advisor [00:22:00] or banker or anyone. Yes. Andres can do that. But, and I think that that's helpful, that kind of creates, you know, more folks that, that can kind of create that sense of scarcity. but the ones that probably are going to be the highest probability, the ones that are going to maybe even pay the most value are going probably be the ones where you had an existing relationship before, where they, you know, ideally there was even a partnership or some kind of, or they seen you in the market and dealt with you in the market and kind of have for it.

They're not learning about you for the very first time through kind of some cold outreach to corporate development. So those are probably. Best right. Like if you could, you know, but beggars can't be choosers always. And so sometimes you're going to do things more option, kind of try to set, set up, but you know, again, it's trying to be positioned.

In a way and a position of strength. And so you want it kind of create that sense that people are pursuing you? Not that you're bias across all areas of life. Yeah, of [00:23:00] course. That's what I think. I mean, in this environment you really want to be approached. I don't think you want to be going out as much as would you then maybe if you're getting approach and then you want to build more people around.

The process. That makes a lot of sense to me, but I wouldn't try to initiate right now unless you feel like there's like a, you know, you're a very valuable kind of addition in this kind of environment. Now the timing right now is special. Right? Okay. You're going to get value at this time. I agree with that.

you know, the show is meant to be 25 to 30 minutes. We're at the tail end. I have two, two questions. I've got one from our community. So one of our viewers is asking me, you live, Maritsa from, from Berlin right now. he he's asking, will July or August, be active or dead months in the investor community this year.

A typical summer, typically in the summer, we always find, especially in Europe, but in the U S I always say, you know, early July and end of June, early August [00:24:00] dead monks, it takes three times longer under this new Corona and COVID situation. What's your thoughts there? I have, I have the belief we're still going to be, yeah.

Active because people are still hooked up. There's no sense of summer this year. What's your thoughts? Well, I'd say, yeah, it's going to, it's kind of like, there's two countervailing things, right? So there's like all this pent up deal activity that didn't happen maybe over the last couple of months, you know, that people are at some point, especially when you're raising money, you know, you can only maybe bridge to a certain point and then you have to really start thinking about outside investors.

So, I could see some of that. Maybe, you know, and it has, that has started to happen for sure. You know, I think that we're seeing a little bit of that, but yeah, frankly at the same time, you know, you do have the same kind of summer vacation effect. I mean, people, I keep hearing of people, you know, they're getting the Airbnbs and going for two weeks with their family somewhere it's starting to happen.

And so I think you'll still have that kind of vacation period. kids are home from, you know, [00:25:00] from school and things like that. And so. that will still also be something that can slow things down. And the third piece is just the general uncertainty around, you know, is there a, I don't know, feel good.

Yeah. Is there, is there a real slow down or we use the worst yet to come kind of thing, you know, all of that is like, you know, what's the benefit of doing a deal now versus later it's really company and market specific and in some cases it totally makes sense. And in other cases, it's like, Now it's not the right time.

So that's, you know, those are all things that make me feel net, net. I don't think it's going to be faster than last year. Right. It'll definitely be slower than last year. And just how much slower. Got it. Final question. you know, where's the, where's the first restaurant in Austin. You're going to go to when you can, when everything, what are you most craving?

Cause I've been asked a lot of times, this is kind of a religious statement in Austin, Texas, the home of, you know, we love our barbecue and [00:26:00] our tacos and, taco deli. Which I will claim is the best in Austin. People will disagree with me on that one, but, that's definitely one that I am eager to eat multiple times.

And what exactly would you order off that menu? What's your, what's your goal? for those who want to go, been there, who want to check it out? Yeah, they have this great Molay sauce. chicken taco green or green or red. Ooh, excellent choice.

Hey everyone. Thank you. That's hard to do at home. So that's hard to do at home. We all know good moly. The home is in Wahaca, so Southern Mexico. And that's, if you're saying it's, it's the best model in town. That means that I don't know. It's the best Molly taco. That's the only taco. Okay. Hey, Eric, thank you so much.

I really appreciate you. you know, persisting through the struggle of doing multiple test runs with me and my podcasts and video and me screwing up everything at first. And now we kind of got [00:27:00] to this, ah, to this space and thank you to the team I socialize and Tori specifically for, being in the back end right here, helping us produce this first show to, you know, put on my, what do you call it?

Wheel trainers. for bikes, we're training wheels, training wheels, training wheels. I'll always remember that I can pull them off for subsequent shows. thank you so much here. I love having you here. You are true business Ninja. Keep safe, tell your family, you know, hugs and kisses. love to see you guys soon in the future.

And for those who have, have listened or dialed in, or watch a show. Later, this will be a weekly, 25 to 30 minute show, where we have, business ninjas from around the world, truths from the trenches, venture capitalists, top tier VCs, M and a advisors. . Founders from world class companies.

And, and generally people I like. So it's going to be a good time and hopefully provide, some information insight into the industries of technology, media, [00:28:00] and entertainment. And, at least give us, provide us some, you know, comic relief here and there as a little bar on the show where we're all cooped up at home.

Thank you everyone. Thank you, buddy.