

Gili Raanan @Cyberstarts

Gili: [00:00:00] one thing I learned at Sequoia is that we are always as good as our next investment. the moment you're happy with where you are, that's the moment you start to lose.

Liquidity is part of my business. Eventually all my companies are for sale at the right price. I'm not a collector. I'm an investor.

Scarlett 2i2 USB-7: This is 20 VC with me, Harry Stebbings. I couldn't be more excited for the show state stay. We have one of the best seed investors ever from 19 companies. He has a where's seven unicorns and three that have been acquired truly an insane hit rate. He's also one of the kindest and most special people in this business.

And so with that, I'm so thrilled to welcome Gilly run-on founder of cyber stars prior to cyber stars, Gilly spent over 15 years as a general partner at Sequoia capital investing in some of the world's best cybersecurity businesses. I think this is one of the best shows we've ever done.

It's packed with wisdom lessons, and I want to say huge. Thanks to Doug Leoni. He only for providing some amazing questions in preparation for this episode.

Scarlett 2i2 USB-1: But before we begin, I need to [00:01:00] tell you about hive. 2024 is shaping up to be a big year for the markets, with a number of iconic unicorns room and to be going public, whether you're a fund manager or invest solo hive is the best way for you to access the coming wave of IPOs before they hit the market.

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Harry: Gilly, I am so excited for this. Listen, we met on the ski slopes in Mojave a couple of weeks ago, or a month or so ago. I've wanted to do this ever since hearing you speak there, so so much for joining me today.

Gili: It's a pleasure to be here. I'm very excited to have a conversation. And, I'll be even more excited if we can get back to some, skiing together.

Harry: If you'd noticed, I don't ski. I'm like Bridget Jones on the ski slope, Gilly, but I really appreciate that. I would love to start though with some of your early years and move away from my skiing elegantly. I know it's a weird one, but I think childhoods actually inform a lot of who we are. How would your [00:04:00] parents or teachers describe the young Gilly?

Gili: That's a wonderful question. I asked it Many of the entrepreneurs I meet for the first time, and we talk about it later. But, I grew up in a small town in, Israel, probably 15 miles, away from Tel Aviv, but in that period of time.

Tel Aviv, could be on the moon It was so far away for me. my parents would probably tell you that I was a bright, student that never, prepared homework. and the teachers always complained that, whenever they, ask me to read my homework assignment.

I would stand up, very casually read out of my notebook, the complete answer that I was supposed to make last night. And then when they approach my desk, they'll figure out the notebook is empty. And I was just making it up.

Harry: Haha,

Gili: I,

I think that, that, characteristic of a smart and somehow lazy child, was one of the driving forces behind my career because, [00:05:00] unlike young people today, I was introduced to my first, computer.

It was a Commodore 64, computer with, people still, recall magnificent machine. and I had to choose it. I was not born with, computers. when I faced that machine that, I could tell it what to do and it would do it repeatedly without getting tired, without complaining.

As a gifted and somehow lazy person, I really like the idea. And that I think what attracted me to the whole tech scene early on.

Harry: can I be really rude? you think you're still lazy?

Gili: in a way, absolutely. I think that laziness in the right, Combination is a wonderful trait. it makes you think about efficiency. It makes you Think about not repeating tasks you don't like and focus on the things you really like and you're really good at To find combination, you know even forming a [00:06:00] wonderful venture team is all about filling the gaps and making sure that, the different elements are significantly better than any of them, alone.

I spoke to one of the greats the other day, and they said, the most important thing a founder can look for in their VC is a lazy VC. Because truth be told, VCs don't add value, and the best founders build the companies themselves. So if you pick anything, pick a lazy VC. Do Do you agree?

Well, I think that lazy is probably in a different context. As a founder, I wouldn't say you pick the lazy VC. I think that you pick, early on, at the seed stages. if I'm an entrepreneur and I like to build, a large business, I would go after the style of company builders.

And there are many terrific investors who are not. company builders. They are simply terrific pickers. in every successful company there was at least one board member that's he or she the [00:07:00] first call for the CEO and they are in the room whenever the big decisions, important decisions are being made.

That's the type of investor you like to join you for the journey of building an important company.

Harry: Speaking of kind of types of investors, I do want to just follow some form of chronology before I just get lost and peppy with questions. Your first venture role was with Sequoia. how did that come to be and what was that entry like? Can you just take me to

Gili: Yeah, absolutely. I, you know, I was not, an unknown entity for Sequoia. I joined Sequoia in 2009. but Sequoia invested, uh, 12 years, beforehand in my first venture. it was 1997. 27 years old. That was my first startup. and I invested in that business. it was a terrific team.

Pierre Lamont from Sequoia was on the board and we were the first team to build a WAF, a Web Application Firewall. in the late 90s, that was a big thing. eventually the business was acquired by IBM. I went to [00:08:00] start another company and then, relocated back. to Israel. was lucky enough for Sequoia to look for a new partner in Israel.

I met the local team in Israel and then I got to meet Michael Moritz. he interviewed me and that was it. I was becoming part of the team.

Can I ask you, what was that interview with Mike like? Mike is a

terrific, Deep, thoughtful, human being. and I still

consider him a friend and try to speak with him as I can. the interview with him, I came in charging forward, eager to tell him about all my amazing accomplishments as an entrepreneur. Oh. he was simply interested Not in what did I do, but why did I pick to do that.

I had to slow down. I realized this is a different type of interview. had to focus and talk about, what drove me and what's my motivation. it was a very different interview. and it taught me a lot about, what's [00:09:00] important when you like to get to know someone.

You get to know someone not by looking at what, the inventory of their doings of their accomplishments. You get to know someone when you understand why they pick to do that. That would tell you much more about that person.

Harry: is there any wrong answers to the why? And sorry, I know we're jumping around, but I'm just intrigued. Often we demonize, I really want to make a lot of money. Or I really want to be very powerful in a sector. And we demonize that. Is there a wrong

Gili: I don't think this is the wrong answer. It just, depends what the goal of the interview, but typically, I think that Mike like to get to know me better. And when I talk to entrepreneurs today, I like to understand them and You know that understanding would help me predict their behavior going forward.

gave the example of I like to make a lot of money, one of the questions I try to understand is are you after fame or [00:10:00] fortune and You can get to real greatness By chasing fame and you can get to real greatness by chasing fortune. But understanding what's driving you would help me better understand you, would help me better help you and become a better partner to you.

You can have both. And some people have both. But what's driving you? Typically, you know the answer.

Harry: In terms of like, that being a lesson from Mike, in terms of lessons from Sequoia before we dive in, it's a very transformative place in terms of how one thinks, especially as an investor. Are there one or two takeaways that really impacted your mindset that you took with you to CyberStars?

Gili: I spent, more than a decade with Sequoia and it's a terrific team. It's a terrific, uh, venture, uh, uh, I learned so much. for me, you know, I, I told you about my early days at that small town in Israel where, playing a football was the one thing that kept us alive.

so becoming part of Sequoia for me was like playing for Manchester [00:11:00] United. It's the same game. The same rules, the same 11 players chasing a ball, but it's a whole new level the combination of quality, tradition, and performance. if you look just for one element of that, if you look for quality, if

you look for tradition, if you look for performance, There are many clubs that, you can follow.

But if you look for that unique combination, probably Manchester United is the team you like to play for. And I really felt I'm playing for them. I learned the power of Brent.

Harry: Can you just unpack that? if we just do one by one, learn the power of brand. In what way?

Gili: the venture business is a service business. You provide services. and it's very hard to tell, if service provider A is significantly better than service provider B, because, what you sell is cash. But once you manage to, create brand for yourself and Sequoia is probably the biggest brand in the venture business, you create an amazing cycle where [00:12:00] the, the best entrepreneurs like to work for you or partner with you.

The best executives like to work for your portfolio companies. All other investors like to invest in your portfolio companies and the game becomes easier and faster and allows you to do great things just because of brand. before and I spent, 10 years working for the Israeli NSA, and in two small startup companies I've, founded, I never worked in a, for a terrific brand.

And working for Sequoia, you felt the brand. You felt the power of, tradition and quality.

Harry: completely, hear the same from friends inside Sequoia. I want to touch on the performance element too. You said about the level of performance. Can I ask specifically, what is it about the performance? Is it how they structure meetings, how they structure discussions, the intent? What makes Sequoia's performance premier above others?

Gili: think it's something I take with [00:13:00] me to cyber stats today, it's, endless hunger, you're never, you're never satisfied. You could pick Google, you could run the biggest IPO the day, you run a meeting and ask yourself, how can I do better? You're never happy. So maybe it's not a lazy investor, maybe it's the investor that's never happy.

Harry: that you? that sound like a nice way to live? And like, can you win and not be that? respectfully, I think you should appreciate your wins if you want to be in this business for 40 years. Just beating yourself for 40 years is hard. There

are moments when Wiz bought IPO and you can sit with our staff and say, Yeah, that was great.

well done to both of us. I don't know, I do struggle with this one personally, Giddy, because I don't know what the right answer is

Gili: respectfully disagree, you know, I, was spending time with Asaf till 1 a. m. this morning and I was giving him crap about something, the moment you're happy with where you are, that's the moment you start to lose. The [00:14:00] moment you start to believe that you are, you know a lot, and you are experienced, And you're simply amazing in what you do.

That's the moment you start to make mistakes. questioning yourselves and, beating up yourselves anything that you could do better and chasing real greatness. I think that's the only ways to stay on top of the game. And the moment I'll be happy with WIS goes public in, a year, in two years, in three years, and it's a 50 billion business, the fastest growing company, ever created.

If I'm happy about it, I should retire.

Harry: We mentioned Wiz there, you mentioned being on the phone to Asaph until 1am. we've spoken before, you said you invest in people, not in products. I wanted to double down on that one and just unpack that. Why people, not products? And how does that lead your thinking when investing?

Gili: Yeah, that type of thinking changing me considerably since the early days for me as a venture [00:15:00] capitalist. Because in the early days, I was looking at markets and total addressable market time and technology and differentiators. And I simply realized that all of that is bullshit.

It's not important at all. You know, when I meet a team of entrepreneurs Whatever they tell me even if they tell me the truth Often they don't but even if they tell me the truth about The market they want to go after and the technology they've built in eight weeks that would change considerably and in another eight weeks that would change again.

So why would they spend calories on something that's so temporal in the life of the venture? While I could spend time on the most stable element in the venture, which is the team. You know, The team would change, but it would not change as dramatically as the market and technology. When you meet a young teen, young for me now [00:16:00] is embarrassingly old age. But, when you meet folks that are 25, 27, 28 years old, , they've done Two, three jobs in the market.

They haven't been senior executives in any business. To really expect them to come up with brilliant market analysis justify why they are getting into a Five billion dollar market.

I think that's setting the bar way too high.

Harry: Do you? Like, I mean This nicely I'm 27, you should slam me as an LP if I'm not incredibly honed on where I sit, market analysis, where the future venture market is going, just in terms of thoughts, by no means comparing myself to any of these names, but the Collisons, your Alex at Scale, the best do, no?

Gili: That's not my experience. My experience is that many times those young individuals, they make horrible assumptions on the market or [00:17:00] on, go to market. And that's not the right, measurement to pick the best teams. as time went by I became more and more purist my approach to the point where I started Cyberstarts in 2018.

I decided that I would not even ask them about market or technology or product, you know, so I meet with a team, a new team, which I don't know. And we spend an hour. Speaking about their childhood and their mother and not about products or technology. that's enough to pick amazing teams.

my assumption is that if they have a terrific idea, that would be a nice bonus. If they have an okay idea, mediocre idea, I'll help them improve it. if they don't have an idea at all what to do, that's even better. I'll work with them we leverage the entire CyberStarts platform to really help them pick a [00:18:00] significant pain point they can go after and build an important company.

And we've done it, multiple times successfully.

Harry: Mutual friend of ours, Doug Leoni, says, a very similar thing in terms of how he really evaluates people, especially when hiring them. And he says he looks for the, the kind of misadjusted children, the ones with the chips on their shoulders, who were bullied at school and got beaten by their older brother or sister.

That's his signals of someone that, excites from a potential perspective. In that conversation on childhood, mother, family, father, what are your signals that excite?

Gili: I, I listen to their life story, And I try to understand why, why they did what they do, why they moved from station A to station B in their life. I'm looking for early signs of them being unique or simply excellent in something. And it doesn't have to be tech. the other thing I'm looking at [00:19:00] is whether they've gone through real life difficulty.

Have they gone through something that's really difficult and managed to be successful, although they faced that difficulty? in many cases, I meet brilliant people, amazing, top notch individuals, and they Tell me how brilliant, you know, students they were, and amazing officers in the intelligence forces, and the best, Java developer in their company.

And I listened to that patiently. And then I asked them one simple question. Hey, I listened to your story. It's amazing. You've done so well. It sounds like everything was easy for you. You have been that brilliant kid, brilliant student, brilliant officer, straight A student. What has been difficult for you?

you know, they think for a while, and typically their first answer is, at college, at the first year, [00:20:00] I got B minus in physics, And I said that's not really hardship. So I'm looking for the individual whose parents went through ugly divorces.

I'm looking for the individual who lived in a closet for a while. I'm looking for the individual who was a socially isolated child. I'm looking for people who went through real difficulty in life and became successful.

Harry: Can I ask you, so am I. The challenge is, those are painful memories to regurgitate. My parents getting divorced, my mother getting multiple sclerosis, seeing the pain, hearing her cry in her sleep every night when I went to bed, it killed me as a son. I don't particularly feel like sharing that with everyone.

And, I do more now because I'm not in a job interview, but if you're in a job interview or if you're in a fundraise meeting, how do you make people share some of those very hard memories?

Gili: That's always a challenge, how to create that level of [00:21:00] intimacy and comfort. That's one of the reasons uh, CyberStats, we don't have offices. And I take meetings in my backyard, which is conveniently located. Fifty minutes ride from Tel Aviv in a suburb. It's very quiet, it's very different.

Than any VC office in the world. I sit in a, converted shipping container where I took off all the walls and put glasses, so you're sitting in the middle of my

garden. It's very peaceful. It's quiet. I typically don't. Dress up flashy clothes for meetings.

Everything is tuned down. I tell them about my own journey and my own difficulties and my own failures. as an entrepreneur and individual, then typically I get to connect with them. And it's not about investing. I meet people when their company doesn't exist, when there's no company. It's all about [00:22:00] partnership. It's almost like picking another co founder for their team. if we are not open and transparent with each other, then we won't be able to be terrific partners.

Harry: Can I ask a hard one, Gilly? When you think about your painful memories that, think shaped you, what would you say was the most prescient or noteworthy one that really shaped how you are and who you are today?

Gili: personally, I went through a, a real um, a real tragedy in my real, real pain. My um, daughter uh, died five years ago, that was a real um, tragedy that changed my life. Now people know that and I talk about it Sometimes it's brought up in conversations that memory, that experience and others, I think that people understand I'm not coming to the meeting with, I'm the strong fleshy VC who's going to abuse you. I really like to get to know you

Harry: Can I ask in terms of like the ideas, if they do have you mentioned the kind of different frameworks, if they do, if they don't, if it's bad, if [00:23:00] they do, do you like them to be an insider to the problem?

Where? They've worked in the space for years and they've seen the pains. What do you prefer them to come at it fresh, naive, but optimistic?

Gili: I don't really care. I don't really care. I care about their enthusiasm. I care about, their energy level when they think about it. And I've done both. when I met the Wiz team in the previous company in Adelon, it was 2012. came to me with an idea of securing Microsoft business applications.

I thought it's a terrible idea, but I invested in a team and then we went to do a product market feed process, which is called Sunrise. we ask potential customers, Is that a real pain point? you know, after a few conversations, it was clear that the pain point is in the cloud. And securing cloud applications so [00:24:00] much more important, or perceived to be important by those customers than Protecting the on prem Microsoft products Adalong became a cloud security company.

Now, did Asaf know anything about cloud and cloud security in 2012? I guarantee you not. you know, it took them two iterations, Adalong was the first iteration, sold that business to Microsoft eventually and then started Wiz. And now Wiz is, is a 10 billion business. you don't have to be an expert to the field to really innovate in that field.

different example is another company called uh, ALO. It's a small series, a stage company. And the two founders, ran and, and fear. They came to me and they never dealt with cybersecurity. they've built data products and they were part of a company that was sold to Salesforce for \$800 million and we decided that they are the data experts [00:25:00] and cyber starts knows cybersecurity.

So let's build a data platform for cybersecurity. And Avalor seems like a terrific company in the making. You don't have to be an expert to really build amazing companies.

Harry: I think market timing is so crucial to building amazing companies. How do you reflect on the importance of market timing when partnering with founders?

Gili: First of all, when I make the investment decision, At the seed stage, I don't think about markets, and I don't think about market timing, and I don't think about all of that. I make a very simple decision. Do we like to partner with those individuals? Do we like to be their partners? The way at Cyberstarts we deal with market timing question, which is super important, is by running our sunrise process.

And the sunrise It's almost like a counterintuitive, process for most entrepreneurs. Cause instead of going and chasing your ideas [00:26:00] and, dealing with prospects, objections, and really getting to engagements and closing deals, you do just the opposite. You go and talk to a significant number of, representative customers, large fortune, 500 companies, chief information security officers.

Those are the customers of most of the companies CyberStars invest in. And you tell them, Hey, here is a new team. You don't ask them. What's your biggest Pain point or what's your biggest need because again, you'll get so many BS answers. It's not even funny

We ask them. Hey, this is a new cyber starts team That is going to spend about a hundred million dollars in the next three years on engineering alone to solve one

paper four That's the average for a cyberstarts company, And we like to give you those 100 million dollars to solve one pain point for your organization.

What would that be? What's the one pain [00:27:00] point you like us to solve? to solve for you. And that makes customers focus and listen to you cause you change the equation of power. You're not asking them for any favor. You are making them a favor. You're giving them a hundred million dollars. So whenever I give you a hundred million dollars, you listen.

And they share with us that thing that guarantees we are not going to face a market timing issue. That's something they're going to spend money and budget now. And that, for cyberstarts companies, solves the whole market timing issue.

Harry: I love that in terms of the phrasing, the shifting of like favour for them, not favour for you. How many of those conversations do you have before you find a discernible pattern which you're willing to bet against, versus an anomalous company that has a strange requirement or request?

Gili: We typically run about 60 to 70 conversations like that, in the first three months since inception. And then, we cut. come back [00:28:00] and have a second set of 60 to 70 conversations with our solution thesis. So the first batch of conversations is all about, the pain point that helps us figure out what's the one big pain point we like to go after and build an important company. We come up with a solution thesis and then we come back to those, potential customers and tell them, Hey, We listen to you.

This is the concept for solving that one big pain point you told us about. What do you think about it? And if they like it, we'll go build it and then come back to them in three or four months ask them to try it out, and then they become our first

customers.

Harry: When you go

through this process, how are you and the founders

interacting? Are you on these calls with the founders? Are you doing them for the founders? I'm just trying to understand. Because it feels like you're founding the

Gili: Now I don't babysit founders. I'm not in the meetings. But we do follow up on, each conversation. We have a [00:29:00] system where we rate those meetings together with the founders. And we would meet weekly to discuss, what we've learned and how we should, Go forward with our with our process.

The sunrise process is an amazing process. It's a super hard experience to go through because unlike the traditional first year experience, you take all the hypothetical objections you might face as a company in the next three or four years and bring it to present. So you ask all the tough questions yourself. If potential customer says, I like your solution, you'd respond with why wouldn't you buy it from Palo Alto Networks? Why wouldn't you buy it from Wiis? Why do you need us? And then we would ask them, how would you, we price it?

And why it's so high? Why it's so low? What's the right channel? And how would you technically evaluate that type of solution? Even before we, we [00:30:00] have written the first line of code, we don't have a product. But we ask you, how would you evaluate that product? How would you run a POV for that product?

Essentially, we ask all the tough questions in the first few months for the venture. And then, that then allows our companies to accelerate. If you look at Companies like Wizz, Island, Fireblock, Sierra, Avalor, all those companies, they managed to get to, significant revenues, significant ARR in the first 12 months, in the first 24 months, thanks to that process.

Because you simply get a better functioning and streamlined businesses. by asking all those hard

questions.

Harry: Does an efficient outcome always come

from sunrise? And what I mean by that is, does it ever happen where we say, hey, that didn't actually produce anything meaningful for us to go after? And yes, we disqualified [00:31:00] a lot of ideas, but we don't have something concrete to actually do.

Gili: hey, first of all,

one thing I learned at Sequoia is that we are always as good as our next investment. So who knows? But if you look at the current CyberStarts portfolio,

we are at, 21 companies. Four are still running Sunrise, so who knows? But out of the 17 who went for Sunrise and raised Sirius A,

Seven are unicorns. Uh, One is a decacorn and three got acquired. So I think the hit rate for Sunrise is pretty good.

Harry: does it get easier then? with that hit rate, every single multistage fund will just go, We have to invest in CyberStars companies, we'll pay double, but we have to be in them. Like the Sequoia brand makes it easier to raise more money, to get deals, does it get easier now you go, look how good we are?

Bluntly.

Gili: Well,

It gets easier to raise money and recruit talent. And fundraising for [00:32:00] cyberstars is a pleasure. You know,

I think the last seed fund, it took me like. 90 seconds to raise the fund, nine WhatsApp messages and it was done. But the sunrise process itself and the company's journey themselves, that doesn't get easier. That's as hard as it was in the first sunrise. it's an ego, destroying process. You die like dozens time during the process. It's so difficult you get all the reasons. People are not going to buy your product. They're all the reasons. People are not going to like you.

All the reasons people are going to pass on you. And that's hard, really hard.

I've done it, by now between Cyberstarts and Sequoia 35 times, and probably more than most people on Earth, Each time I'm getting into a new sunrise process with a new team, I have to [00:33:00] prepare myself mentally.

It's super

hard.

Harry: Everyone gets hit down? I was talking with a, billion dollar founder today in the park and he said, Harry, you will get punched hard. It's just about getting back up every time. How do you get back up when you're punched? What do you tell yourself?

Gili: I don't tell myself anything. I just feel the energy. That I think something we spoke about, you know, the moment I don't have the energy, the moment I don't have the drive, the moment I have to talk to myself and convince myself that I need to, recover, that's the point I should retire.

But when I simply, stand up and walk just because I'm stupid, that's a good sign that I should stay in the game.

Harry: Gilly, I've run a marathon every weekend for a year. So like, 52 marathons in 52 weeks. And I can tell you one thing. I have to fucking convince myself. If I just didn't feel it. Christ. Like, everything is a fight against my own mind in that way. it's really interesting to hear.

[00:34:00] you mentioned some of the incredible successes there when you analyzed the Dekicorn, the 7 Unicorns. Respectfully, I think we learn a lot also from losses or from not having success. When you review maybe a biggest loss, how did that impact your mindset and how you think about investing and founders?

Gili: It always goes back to the team, if it wasn't clear so far, I'm a big believer in the um, you know, human element here. So you think about the team and you think you know, where Have I been wrong about the team what I missed about the team and I try to analyze that and learn from that and at least not repeat my mistakes It's fine that i'll make new mistakes, but it's stupid to make the same mistake again and again so I try to learn and move move move forward and it's also a business where You have to focus on the things that do work, because so many things are fucked up, so many things do not work [00:35:00] well.

And so you simply have to focus on the things that work well, and then do more of them. if you've successfully able to focus and repeat the things that you are doing well, and do a little bit less of the things you don't do well, then On the long run, over 10, 20, 30 years, you'll be like a god.

You'll be super successful.

Harry: If we focus on doing the things that we do well. and a little bit less on the things that we don't do well. If you were to apply that to yourself, today, what do you think you do well? And what do you think you should do a little bit less of that you don't do so well?

Gili: Pick the right teams and go after important companies. Those are the things we do very well at CyberStars. What we are not doing well? Coming up

with ideas. Running teasers on markets. CyberStars you ask me what I think about AI security, I spent only 30 years plus in cyber security, and what do I know about it?

But, we are not good [00:36:00] at matchmaking between founders. That's something that, I see other investors do and that's a miracle to me. How do you do that?

Harry: at the matchmaking between founders?

Gili: first of all, if I knew why I would fix it and I'll become great at it. Even if I know why it's probably the wrong answer. wrong answer I have in my mind it has to be an organic process. It's very hard to create real connection that would last for, a decade plus.

If you're thinking about a long term business, it simply works better when it's organic.

Harry: You said there about the thesis, we have a lot of, large multistage funds, Gilly, and they like to have these prepared minds. I favor an unprepared mind being open to whatever the entrepreneur is willing to build to be courageous enough to pursue. I think prepared minds confines your imagination and allows you to be a BCG, you know, associate in a large fund and lose your humanity. How do you feel about the prepared minds movement and the [00:37:00] importance of it?

Gili: I have lots of appreciation for that. I appreciate People and organizations that learn, that adapt, that prepare themselves, that's all fine. My business is different. I'm a seed investor I have to come in for a process with a new team completely unprepared, have my mind not be poisoned by any thought about, what they can build and what they can go after. it's slightly different profession and slightly d and and and a different mindset.

Harry: I agree. It's a different business, actually, in many respects. And I think that also very much applies to price and price sensitivity. I remember having Peter Fenton on the show, and he said that price is a mental trap, Harry. How do you think about price sensitivity when doing deals today and when to pay up versus when not to?

Gili: I think there's a lot of, a lot of tools in that. and the best companies, if you look at it where. Selling [00:38:00] expensive at seed, insane expensive at CS a,

insanely expensive at series B and so on. it's like almost part of their DNA to be expensive companies.

Luckily, we invested seed even expensive seed is not that expensive if you're building a multi billion dollar business in valuation.

But I agree most investors mistakes were not to invest in the right company because they thought it's too expensive. By the way, it it goes both ways. When I speak with entrepreneurs, I always tell them, the CyberStarts money is the most expensive money you can buy for your equity. Because it's a deal, they buy cash and they pay with equity. And we are the most expensive cash they can buy. So the price trap is not just for the investor, it's also for the entrepreneur. Would they pick, the best investor for them paying a higher price in their equity?

Harry: Do you think you have [00:39:00] pricing power now, Gilly? Which is, founders want you so much, they will choose you at a lower price.

Gili: Potentially, but I really don't know because, most of our deals at the seed stage look the same. We don't try to twist the arm and get one or two points more for the sake of making a little bit more. maybe the answer is yes. We haven't

tested it.

Harry: How do you advise founders

on how much to raise for? for me as an outsider to Israel in particular, I see large seeds, like six to ten million dollars, and they'll dilute thirty percent, which is quite different to a European company, which will raise less and dilute less. How do you think about and advise founders on the right amount to raise and how much to

raise for?

Gili: It really depends on the domain.

in most enterprise software companies, cyber security included, I found out that you need at least five or six million dollars just to get team product build.

a small go to market team to, to win few [00:40:00] deals. That's what it typically takes to build an enterprise software company or cyber security

software company in, in the early days. And that's typically what we do. You know, if you look at, the cyber starts, Pretty serious.

A company, if you like, a Sunrise graduate uh, company, you'd see a terrific team, that solves a huge pain point as validated by dozens of, US Companies. With technology that works in production, where few of those customers already paid, few hundred thousand dollars for the solution.

And that's the point we go in and raise Series A. To get to that point, it takes about five million dollars. So it's not bad that you have seven million dollars as seed. It's

not

Harry: Is speed of execution the single most important trait in scaling in that first zero to seven million dollar range?

Gili: Not necessarily. you know, [00:41:00] I think that cyber security is a market where being first to market is not necessarily an advantage. Sometimes it's better to be number two, number three to market. And come in with more knowledge, more context, and simply, deliver a better product.

And better product would, not just make customers happier, it would attract better channels and would translate to faster sales velocity, in go to market. Speed by itself, you know, is not bad, but that's not the most important thing. The most important thing is really figure out product market fit.

Understand the pain point. Who has that pain point? How do you explain that pain point to that individual? What's the right demo to convince them to take your product for technical evaluation? How do you run the most efficient technical evaluation? For that individual to get conviction that they like to procure your [00:42:00] software.

And what's the right pricing your solution for the pain point it solves? If you figure this out, you have a repeatable process that you can simply execute again and again successfully. You can raise a lot of money, put, as many account executives and channels around that, and you've got a beautiful company.

In my view, that's way more important than just sheer speed.

Harry: Gilly, can cash ever

be used as a weapon? And what I mean by that is, your competitors raise a lot of money, you need to raise a lot of money too to compete, whether it's on paid marketing, whether it's on sales team expansion, whether it's on R& D. Is cash a weapon that can be used and leveraged, or actually is it the short term play and

the long

term is different?

Gili: Cash is

very

important,

Building a large substantial company is a very expensive exercise. I didn't find, unfortunately, a cheap, inexpensive way to do it. It takes a lot of [00:43:00] cash. It means that, our companies need to raise a lot of money. It means that, valuations should be high because no founder would like to get 50 percent dilution just to get the cash they need.

We support that and we provide the platform to run fast Get faster to product market fit, which means that you create a repeatable sales machine earlier, you get to higher valuation earlier, and you are able to raise more money than the competition.

Harry: Speaking of cash as that weapon and raising more than the competition, prices seem high again. And we've chatted before, and I wanted to ask, are 2021 valuations back, Gilly?

Gili: 20, 21 is back

period.

the past. or five weeks. at least in private markets we are in a new run, valuations are high skyrocketing

Harry: Do you think it's a tale of

those that have and those that have not?

Which is like, for

the half [00:44:00] a percent, it is a bull run. And for the 99.5 percent, it's hell.

Gili: No, I think that once you start a bull run definitely the one percent would have. But that would have impact on the rest of the pack. And if I look at my own, our own portfolio at Cyberstarts, our companies are in the process of raising probably more than one and a half billion dollars in the next few weeks. The impact is not just for the 1 percent company. You see the impact across the whole

pack.

Harry: Does this make you happy?

I know that sounds like a strange question. Obviously, your company's getting well funded is a good thing,

but 2021 valuations created a ton of problems downstream. It created a lot of very difficult situations for companies to have to live into those valuations, option pools being set so high, the list goes on and on.

These were not good. Are you worried?

Gili: I'm always optimistic, Harry. I'm not worried. I'm [00:45:00] optimistic. You know, the market is the market if you can raise significant cash and build a business, you should do that.

That's the right thing to do. Now, it's our responsibility as investors and board members and entrepreneurs to really look at the way we spend money. And have the systematic approach of building companies that shouldn't change just because you have more cash in

the bank.

Harry: It always does. Yeah. Like, Oh, I put it aside for a rainy day. Every great founder pulls forward a new product, hires the new data team, hires the new sales team because they can.

Gili: There's definitely bad behavior,

attached to it, but there's bad behavior attached to using TikTok or Facebook. And still, as far as I checked an hour ago, they're

still up and

running.

Harry: If 2021 is

back, it means we should be thinking as early stage investors about liquidity in some respects, because in a lot of ways, the price to value ratio [00:46:00] is brilliant if you're a seller. Are you actively looking at liquidity options then, given 2021 pricing is back?

Gili: You know,

Liquidity is part of my business. I like to say that eventually all my companies are for sale at the right price. I'm not a collector. I'm an investor.

Harry: What have been some big lessons for you in when the right time is to sell, and not to hold?

Gili: as an early stage investor, I think it's smart to look for liquidity opportunities and consider the context, the company, your fund, the many other elements in your

business.

Harry: I am intrigued, you know, you scaled up CyberStars fund size. Quite a lot over time. Can you just take me to that decision making, given you said earlier, my business is seed, and it's that really early why on people. Now you have funds that are significant. I mean, really significant. can you tell me about that decision making process and why you decided to scale in that way?

Gili: Sure. I'll explain it and you'll figure out immediately why I [00:47:00] said that we are simply in the seed business and that hasn't changed. So at Cyberstarts we have two type of funds we are now investing out of Cyberstarts seed three You Our seed funds are 60 million dollars in size, and we write first and last check to new teams.

No follow on investments out of the seed funds. And then we have, 500 million dollars opportunity fund, where we invest in follow on. Rounds in our own portfolio companies. we didn't transform the business. We didn't shift it to late stage or multi stage investments.

We are seed investors with a big wallet to invest in follow on rounds. In our own companies where we do not set the price So we do not set the price

out of the opportunity

Harry: a couple of questions. One, how do you avoid signaling to prevent others from going, huh, ha, [00:48:00] Cyberstarts aren't doubling down from their 500 million fund. Can't be a good one.

Gili: So far we invested in all series a and

series

bfr companies

Do you get check sizes

Harry: that you want? Because when you don't set the terms and you don't set the round, your check size is really at the whim of someone else. How do you ensure you get the check size you want when you don't own the round?

Gili: Typically, it's very easy for us

to take prorata and we have lots of friends in the industry and they respect our partnership.

Harry: In other words, they're fucking terrified to not give you what you want.

Gili: we have terrific

Harry: That is

Gili: partners

Harry: want to ask one more before we do a quickfire, but, and it's, I'm sorry it's, a weird one, but you're optimistic, you have a wonderful way of looking at

the world. respectfully, and I hope it's okay, but like, personal finances do shape a lot of one's mindset.

It makes one upside inherent, not fearing downside protection. Do you think rich investors make better investors?

Gili: the answer is [00:49:00] rooted somewhere else. It's not around net worth. It's around terrific instincts, knowing your game, pattern matching, terrific network, and

other elements. Thank

It definitely made my life more comfortable.

Harry: What was the single biggest thing that changed?

Gili: I stopped worrying about that. One less thing to be worried about.

Harry: Is there a number at which point that happens?

Gili: Probably each one of us has a different number. I'm sure that there is a number that would make you not worry about it anymore. And probably my number and your number are different.

Harry: Go on, I'll tell you mine. Listen, it was worth a try. I would, I would be remiss if I didn't try it. Gilly .

Gili: And I respect that. I, I, I didn't

expect

you not to

Harry: listen, I would love to move into a quick fire around Gilly. So I say a short statement. You give me your immediate thoughts. Does that sound okay?

Gili: Perfect.

Harry: So let's start with what if you

changed your mind on [00:50:00] most in the last 12 months?

Gili: Product

I

was a

Gili: big believer in product marketing in the early stage. And I lost faith.

Yeah.

Harry: Why? This is a, this is like a grenade in the quickfire round. That's a very bold statement. Why did you lose faith?

Gili: When they look at the early stage companies, the common thread among all of them is, once they start to sell software is that they don't have enough opportunities and they don't have enough pipeline. previously I spent a lot of efforts within marketing around product marketing and not around demand generation.

You asked me a year ago who would be the first hire at a marketing organization that would be product marketing my mind changed My answer today is dementia that can make a huge impact on the business early

Harry: some wisdom bombs, hey? Getting, that's a,

that's a, quickfire answer and a half. what's the biggest misconception of the Israeli tech ecosystem?

Gili: Selling

early

Harry: You don't think you do so early?

Gili: that's the misconception. I think that [00:51:00] anyone who sells early has a reason for that. It's not an ecosystem trade. It's not an Israeli trade. If you have

a terrific product selling amazing to a huge market and everything in the founders

Relationship is amazing. Why would you sell? I see more and more teams, repeat entrepreneurs, but also first time entrepreneurs that are doing amazing job and eager to build sustainable

companies.

Harry: I hate memos. but everyone is like, to me, where's your memo? And I'm like, well, I think it gets in the way of a lot of decision making. gi. Do you write

Gili: memos and what's the thinking there?

don't write memos at cyber starts. I rarely go to industry events. don't spend time mostly out of portfolio companies. I probably spend two, three hours a week on non portfolio matters. So nearly all my time is spent on portfolio. I don't spend time [00:52:00] on fundraising. I don't spend time with LPs.

I don't do LP gatherings. we are a hundred percent close to a hundred percent focused on portfolio and very little documentation as little as possible.

Harry: What's the best investment

advice you've been given?

Gili: Focus on the team.

Harry: I see a common thread here. BS advice that you often hear or see being given out that you don't agree with?

Gili: Whenever entrepreneurs tell me that customers love what we do. Every customer we spoke with liked to get our product, liked to get their hands on our product. You probably misunderstood the customer. You probably didn't listen well in a conversation. That's impossible. That's a Ha ha ha.

Harry: What's the most memorable

first founder meeting you've

had?

Gili: that's easy. It was a meeting with Asaf Rappaport at Adelon where he didn't show up.

Uh,

we set a meeting and his two [00:53:00] co founders showed up and said that Asaf didn't think meeting with investors is important. Or something

along those lines.

Harry: you think founders should always be raising?

Gili: No,

FOMO is your biggest friend as founder.

Harry: Um. I'm like, yeah, you know, it's important to build the relationship, the trust. nah, FOMO, it's great. Um, tell me, you know, the many reasons why I love Doug Leoni. You have a much longer history with Doug than What's, your biggest lessons from Doug?

Gili: many lessons from Doug. I learned a lot from him. I think that Doug is Not just fast thinker and someone who knows the business amazingly well. He simply cares about the founders and the companies he partners with. And many people are even intimidated by Doug and, I know founders that are scared by Doug. Doug cares about The founders and investment and that I think that the combination of [00:54:00] the,

Knowing your business so well and caring about what you do, makes it, makes him very special.

Harry: Penultimate one. What do you think was the biggest sin of the zero interest rate environment? The biggest investing mistake that you saw of the zero interest rate environment?

Gili: Attaching Unicom valuations to, million dollar in revenue companies?

Harry: Which we as investors benefited from.

Gili: Partially,

yes.

Harry: Ten years time.

Where's Gilly then? Where's Cyberstars then? what do you want the next ten years to be for you?

Gili: CyberStarts that's easy, best investor in cyber security worldwide. The one go to place for entrepreneurs when they think about starting their next cyber security Gili I never make, long term plans.

as I told you, I wake up every day and I make sure that I have the drive and energy to go forward.

Harry: Giddy, listen, I've loved

doing this. I can't thank you

enough to you for putting up with my prying ways, but this has been fantastic, so

Thank you

Gili: [00:55:00] Thank You

so much. Really enjoyed it.

Scarlett 2i2 USB-4: I mean, my word that was such a special show for me to do. So you can watch that episode actually live in the studio on YouTube by searching for two zero. VC. I always love to hear your thoughts and feedback that, but before we leave you today,

Scarlett 2i2 USB-5: As your company stays private for longer, it's crucial to enable a robust secondary market for your stock. Whether you are looking to sell your heart and equity or set up a liquidity program for your value shareholders, you have to speak to the team at hive hive enables companies to offer their employees flexible liquidity in a compliant environment with

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So what are you waiting for? Create an account today@hive.com forward slash two zero VC. That is hive with two eyes.com/two zero VC and see why they are the fastest growing marketplace [00:56:00] for pre IPO secondaries in the world.

Scarlett 2i2 USB-1: And if hive provides incredible levels of access, secure frame, secure frame provides incredible levels of trust your customers through automation, secure frame, empowers businesses to build trust with customers by simplifying information security and compliance through AI and automation.

Thousands of fast growing businesses, including NASDAQ angel list doodle and Coda trust, secure frame. To expedite that compliance journey for global security and privacy standards such. Such as SOC two ISO 2,701 HIPAA, GDPR, and more backed by top tier investors and corporations such as Google Kleiner Parkins.

The company is among the Forbes list of top a hundred startup employees for 2023 and business insider's list of the 34 most promising AI startups for 2023. Learn more today@secureframe.com. It really is a must.

Scarlett 2i2 USB-3: And finally a company is nothing without its people. And that's why you need remote.com. Remote is the best choice for companies expanding their [00:57:00] global footprint, where they don't already have legal entities. So you can effortlessly hire, manage and pay employees from around the world or from one easy to use self-serve platform.

Plus you can streamline global employee management and cut HR costs with remote it's free HR. I S and Hey, even if you are not looking for full-time employees, Remote has you covered with contractor management, ensuring compliant contracts and on-time payments for global contractors? There's a reason companies like get lab and door dash trust, remote to handle their employees worldwide.

Go to remote.com now to get started and use the promo code 20 VC to get 20% off during your first year Remote opportunity is wherever you are.

Scarlett 2i2 USB-6: As always, I so appreciate the support and stay tuned for an absolute banger of an episode. This coming Wednesday.