

What do tech investors want?

In this challenging post-pandemic economy, startup companies and entrepreneurs seeking capital are asking if investors' priorities and goals have changed. What are investors in the tech space asking for—and what are they buzzing about? Three veteran investors addressed those questions at Bank of America's recent Triangle Innovation Summit in Raleigh, NC.

A focus on efficiency

In the current economy and with interest rates at a 22-year high, investors' focus has shifted to efficiency, they say. Especially in a startup or early growth environment, companies need to find a balance between growing revenue and working to have as little cash burn as possible. "When money was free, you weren't worried about how much money you spent—you focused on growth. You knew there was more money behind the money you were spending," says Mark Rostick, VP and senior managing director, Intel Capital. "The minute money got more expensive, multiples compressed. It got more expensive to run out of money. Everybody had to react to that and say, 'Well, now I have to talk about efficiency. And how much does it cost to buy \$1 of growth now?' As money has tightened, we've shifted from a growth to efficiency focus."

Michael Sorensen, partner at QHP Capital, says a few years ago, management presentations and business plans typically offered a "huge list of all the different things they were going to attack and do—some of that because there were endless sources to do it."

"Now companies are focusing down on one or two ideas, to see if they stick and if they can execute and get traction in the space."

Michael Sorensen, Partner, QHP Capital

Rostick says frankly that unless you're a company in the hottest of emerging technology areas—like generative AI—"It's a very, very tough market to raise money." It's been a tough environment for investors as well. "Times have

Key takeaways

- Post-pandemic, both companies and their investors are focusing on efficiency while balancing the need for revenue growth.
- Venture capital is flowing more broadly to parts of the country outside California, including the North Carolina Research Triangle.
- Veteran tech investors are excited about the potential of "moonshot" technology like generative AI and quantum computing.

changed," he says. "Our companies look to us and the other investors to understand where the guardrails are now, because the rules have changed. Performance benchmarks are different today. And that means I've been Darth Vader a lot more in the last 18 months than I was in the previous 18," he says.

Just a couple of years ago, the market hype centered on companies pursuing "unicorn" status—a billion-dollar valuation. Now the talk is about which of those companies will end up as "zombiecorns"—once-hot, now dying unicorns—because of the recent market pullback by investors.

Scot Wingo, partner in the Triangle Tweener Fund and CEO of Get Spiffy, says part of the shock to the system has been that "the world changed literally overnight" and many younger entrepreneurs hadn't experienced anything like it.

"Our biggest concern has been that 80% of the investing partners had never lived through a downturn."

Scot Wingo, Partner, Triangle Tweener Fund/CEO, Get Spiffy

Sorensen also says that especially in a tougher economic environment, honesty is key to a good investor relationship. "As an investor, you hate it when you feel like you're a detective," he says. "We appreciate it when companies are upfront about the challenges they're facing today, when they look at you as a partner—and know that you're focused on making their company successful."

Finding opportunities

On the bright side, investors are still looking for opportunities. As Wingo's North Carolina-based firm knows, the venture capital world is not as focused on California and Silicon Valley anymore; capital is flowing more broadly to other parts of the country. That includes emerging markets like the North Carolina Research Triangle. Wingo's Tweener Fund has focused on local companies with revenue between \$1 million and \$80 million, across "the widest possible spectrum of Triangle-headquartered high-tech companies," he says. "We have a good MarTech (Marketing Tech) cluster of companies here, and e-commerce — now we have an awesome GreenTech cluster too, and a lot of cool hardware ideas." He says entrepreneurs are choosing to base their startups in the Triangle because of the availability of land for farms or factories, and because the area is more affordable than heavily hyped areas like Silicon Valley or Austin.

And what opportunities are investors excited about?

The three panelists say technology investors are buzzing about generative artificial intelligence (AI) and its potential in many different industries, including applications in healthcare, corporate efficiency and information management. Does generative AI represent a "smartphone moment"? "I think it's a seismic shift," says Rostick. "I think it's here to stay."

He also says battery technologies and quantum computing are places where "a ton of money is being invested to see if they can change the world."

"That's what's cool about venture capital in the U.S. economy. It reinvents itself all the time, and if it takes a beating, it comes back for more. I'm excited about how these technologies could change how we live."

Mark Rostick, VP/Senior Managing Director, Intel Capital

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