

Navigating the AI Revolution

Fireside Chat with Omega Venture Partners

Stanford University Graduate School of Business

Spring 2024



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The following is a write-up of a fireside chat between Omega Venture Partners and Stanford Graduate School of Business students in Spring 2024 at the Stanford University Campus. Content has been edited for clarity and understanding.

Moderator: In the rapidly evolving field of artificial intelligence, where innovation consistently defies expectations, a select few investment firms have distinguished themselves as true visionaries. Among them, [Omega Venture Partners](#) stands out as a Silicon Valley pioneer whose foresight and expertise have positioned them as vanguard investors at the forefront of the AI revolution.

As the world eagerly embraces the boundless potential of AI, we're grateful to have [Gaurav Tewari](#), Managing Director of Omega Venture Partners, join us today. Gaurav, thank you for being here. We are all really looking forward to learning more about your journey at Omega, as well as your insights when it comes to successfully investing across the AI space.

Gaurav Tewari: Thanks, I am pleased to be here.

Moderator: **How did you realize well before others that AI was the next big thing? What has changed in recent years to catalyze the excitement and energy?**

Gaurav Tewari: My interest in the field of AI began during my undergraduate years at MIT, where I had the privilege of learning firsthand from luminaries like Marvin Minsky and [Patrick Winston](#). This exposure gave me a foundational understanding of AI's capabilities, as well as an appreciation for what still needed to happen.

My initial foray into AI investing began in 2007 with SET Media, a Harvard University spinout. SET Media leveraged computer vision to categorize video content on the web, so that advertisers could place contextually relevant advertisements while ensuring brand safety. Though ahead of its time, SET Media was a good investment and eventually became part of Epsilon through acquisition.

In recent years, it became increasingly evident to me that AI had reached an inflection point in both commercial viability and technical feasibility. A timely validation came from my 2017 investment in [Braze](#), a Series B stage company that had developed an ML-powered platform for customer engagement. Braze stood out for its ability to outperform much larger and well-funded competitors, and it has since flourished into a successful public company. Braze leapfrogged the larger, well-funded competitors present at our initial investment.

My confidence in AI's trajectory increased as I witnessed key technological milestones. The signs were clear, if you knew where to look. In 2016, AlphaGo beat the world Go champion, Lee Sedol. Unlike Chess, the game of Go requires such a massive number of moves, that you can't write a rules-based system to win Go. So AlphaGo was a huge breakthrough, and it was

underappreciated in the U.S. The subsequent introductions of models like Google’s Transformer in 2017, followed by GPT-1 in 2018, and then GPT-2 and GPT-3 in 2019 and 2020 respectively, have been foundational in advancing the state-of-the-art in AI.

For those of us attuned to these developments, the significance of these seismic breakthroughs was unmistakable. This series of innovations reinforced our confidence and conviction to launch Omega; the signs of progress were crystal clear.

Moderator: Besides technology improvements what else has contributed to the rising tide of AI adoption in business?

Deploying AI for practical business applications, such as a customer service chatbot, used to be challenging: you needed an executive sponsor to pay high bills, build up a team to manage the complex infrastructure deployments, and then separately build a dedicated data science team of specialists to train the model. This byzantine AI/ML deployment model was not feasible for most organizations, and the end model was often so customized to a single organization's use case that it would not easily scale as a standalone product in the broader market.

But increasingly, you started to see pragmatic AI solutions in specific domains proliferate, including pioneers like [DataRobot](#), who democratized training models by making Machine Learning accessible to non-specialists. This is representative of a growing corpus of research and development that made AI/ML solutions accessible to the mainstream. Foresight about this coming AI tsunami catalyzed our conviction to thematically focus on transformative business applications that are fueled by data and powered by AI.

Moderator: How did you go about then establishing Omega Venture Partners?

At Omega, we recognized early that AI was not merely a game-changing technology, but a fundamental shift in software development and application — akin to the transformative move towards cloud computing, but a whole lot bigger.

Initially, we found that there was considerable skepticism — some viewed AI through a lens shaped by science fiction, akin to Terminator-esque scenarios, or dismissed it as a trend. However, we focused on [educating investors](#) and backing companies that are applying AI to solve tangible business problems with clear ROI. Our conviction has been validated by the robust performance of our AI-focused portfolio, delivering top-decile performance.

Our approach has been to stay closely connected to the academic and research communities, given how rapidly things are evolving, while strategically investing in practical, real-world applications of AI that offer genuine value to businesses and society. This approach has helped us navigate the evolving AI landscape and will continue to guide our efforts in capitalizing on AI’s potential.

Moderator: We see so many firms opportunistically touting AI messaging these days. How does Omega continue to differentiate itself?

Gaurav Tewari: As you noted, Omega has been prescient in our conviction about the AI transformation. We hold the distinction of having launched the first U.S. venture capital fund thematically focused on investing in AI/ML businesses at the early growth stage; and have

capitalized nicely on our early-mover advantage to create a robust, purpose-built firm.

Omega’s strong information flow, differentiated access, and the fact that our platform capabilities attract compelling management teams have played a crucial role across our portfolio. Many of our portfolio companies originated from proprietary and off-market investment opportunities; many others originated through financings where we successfully secured access to oversubscribed investment rounds, even as other prominent investors were not able to do so. We think this record illustrates our durable edge and systematic access to attractive investment opportunities that have the potential to blossom into consequential, enduring businesses.

Moderator: How do you think about strengthening and sustaining these advantages?

Gaurav Tewari: We’re continuing to strengthen our foundation through a few key strategies:

First, we’ve been intentional about having a team with distinctive domain expertise and credibility, complemented by curated alliances across an ecosystem of leading practitioners across diverse end-markets and the Omega Strategic Partner Network. Our extended organization catalyzes advantages across the investment cycle. Regular, iterative dialogue with key executives and practitioners, who are making enterprise buying decisions, augments our acumen, heightens our visibility into emerging winners, and expands our reach. In today’s noisy, fast-moving AI market, it has become more important than ever to be able to correctly see around corners and separate substance from speculation when making sound investment decisions.

Second, while we won’t elaborate on this publicly, you won’t be surprised to hear that given the AI talent within our team, we have been successful in developing proprietary systems, which give us a meaningful edge. These systems, informed by our team’s 20+ years of immersion in both venture capital and AI, have become force-multipliers. One such system is our proprietary AI-driven deal screening engine. By training it on our firm’s decades of investment data and integrating cutting-edge AI models, we’ve seen solid value from rapidly surfacing promising opportunities aligned with our thesis while filtering out noise.

Third, furthering our goal to be the preferred investment partner for the most compelling innovators, we’ve taken a deliberate approach towards translating the firm’s expertise, network, and insight into tangible and differentiated investment value-add. Our active partnership approach, focused on collaboratively working with management teams to optimize performance, has been pivotal in shaping positive company outcomes. As an example, we engaged intensively with Tungsten Automation to enable the company to recognize ahead of the competition how both predictive and generative AI needs to be incorporated into their product to increase value and competitive differentiation.

Moderator: From a “big picture standpoint” how does Omega’s purpose-built platform, focus, and immersion in AI translate into advantages on the investments front?

Gaurav Tewari: Many VC firms have started marketing AI on their websites. This creates noise in the market. However, it also means that a lot of uninformed investments are being made. I believe the enduring advantage we have at Omega boils down to several factors:

First, having been completely immersed in this category, I believe we have an edge when it comes to gauging the defensibility and durability of investment prospects. For instance, we passed on

many 'first iteration' GenAI companies last year because we felt that they offered only incremental, ephemeral features and 'nice-to-haves.' We were proved correct in this by the subsequent sequence of progression in AI — the rapid evolution of foundation models as well as adoption of Gen AI by tech incumbents into their existing products. Entire cohorts of startups then found their business models undone in short order.

Second, as you know, top management teams tend to value an investor who demonstrates insight, depth, and connectivity within the category and has the track record to show they are not opportunists or venture tourists. Our long-standing relationships and deep understanding of the field have earned us trust and respect, allowing us to access unique opportunities. We feel privileged to be viewed as the partner of choice by leading innovators. A recent example of this is our investment in [Reken AI](#), founded by an extraordinary serial entrepreneur, where we secured an allocation in an intensely oversubscribed financing round.

Third, it is worth noting that we are a team of builders. The experience gained from building AI systems in-house provides a unique lens for better evaluating prospects and offering pragmatic, actionable guidance to our portfolio companies, helping steer them towards better outcomes.

Moderator: It's remarkable that you had the foresight to invest in companies like ZenBusiness, Otter, and Replicant before AI was fashionable. How did you identify these companies?

Gaurav Tewari: These are great illustrations of how our ability to identify and nurture AI potential early sets us apart from the competition. We invested in several companies before they knew they would become "AI" companies; we did this because we saw the core assets they possessed and saw a clear path towards manifesting substantive AI solutions. Though, we cannot take full credit, since ChatGPT played a significant role in catalyzing the 'activation energy' across the market.

For instance, if you look at [Forward Networks](#) — they have embraced AI fully and are now a unique asset in their space. A recent [press release](#) they put out speaks to this in spades. The story is not dissimilar for other portfolio companies such as [Tungsten Automation](#), [Elemental Machines](#), or [ZenBusiness](#).

Moderator: Do you think some companies are overstating AI capabilities to attract investment?

Gaurav Tewari: Without a doubt. There's a tremendous amount of marketing puffery and speculative messaging from companies who are keen to be perceived as AI companies. We've witnessed a great influx of companies attempting to brand themselves as "AI-powered" or "AI-first," often with little substance behind the claims. The rise of pre-trained off-the-shelf models means that many companies are relying on similar underlying foundational technology rather than proprietary advancements.

As seasoned investors and operators, we've seen this movie before. Expertise matters more than ever to be able to look under the hood effectively and correctly in order to correctly assess a management team's aptitude and the strength and defensibility of the product. We have a good sense of which subsectors are saturated, where incumbents are well positioned, and which markets are being overlooked.

Moderator: What's the key to success for companies building AI-powered applications in this new paradigm?

Gaurav Tewari: Cultivating proprietary data assets tailored to specific verticals, combining deep domain expertise with acute customer insights, and developing sophisticated, curated AI workflows for high-value use cases. For us, all these factors underpin long-term success potential.

This rigorous approach means that we are highly selective — our investment committee greenlight rate is under 2% of opportunities evaluated. That is a good thing. Our investors expect us to construct a portfolio consisting of thoroughly vetted, high-potential AI companies poised for outsize returns.

Ultimately, compelling product-market fit and demonstrated customer traction are the true proof a company has potential for success. A good example is our investment in [Otter.ai](#), whose knowledge graphing and querying capabilities for meetings far outpaced simple AI-based transcription. We look for companies that blend powerful AI with a sound business model — for instance, a product-led go-to-market motion and quantifiable ROI. It is also very important to critically evaluate the true AI capabilities of founding teams and validate that the business can leverage AI as a real differentiator not just as a feature.

To that end, our diligence process is structured to assess the intersection of technical innovation, visionary leadership, and tangible customer value creation. Effective AI investing requires real expertise to assess core data assets, novel IP, and differentiated applications.

Moderator: We've heard a lot about NVIDIA's growth lately. Can you discuss the AI infrastructure and hardware layer, and the trends you're observing?

Gaurav Tewari: NVIDIA has established a powerful position through their GPUs tailored for the computing demands of AI training and inference. Their [CUDA](#) software platform is a true force multiplier, emerging as the de facto standard that the AI ecosystem rallies around. Startups face an uphill battle overcoming CUDA's entrenched position and rich developer community.

The major cloud providers like Amazon, Microsoft, and Google are powering the voracious appetite for compute in this space. While entrants like Lambda Labs and Coreweave aim to challenge the incumbents, they require massive capital and currently rely on NVIDIA's hardware dominance.

The current supply crunch for GPUs has inflated pricing, but I anticipate the market will rebalance as supply ramps up. The cloud giants will likely persist as leaders, though opportunities remain for startups enhancing the developer experience and optimizing cloud infrastructure.

Moderator: What about foundation model developers? There seems to be a new model every week.

Gaurav Tewari: Foundation model development is an extraordinarily capital-intensive endeavor. [Anthropic](#), [OpenAI](#), and [Cohere](#), along with the tech giants, require very large investments in specialized hardware and expert teams. While we're seeing diminishing returns in model enhancements — with GPT-4, Claude 3, and Gemini Ultra showing comparable performances — the increasing number of foundation models benefits the broader AI ecosystem by reducing costs

and enhancing accessibility.

A space to watch is companies developing layers of reasoning and intelligence on top of foundation models. While the core models themselves are impressive, they are often inefficient, unreliable, and not optimized for specific use cases. We see opportunity for companies focused on building layers of orchestration, abstraction, reliability assurance, as well as integrating proprietary business information with these models, to shine.

Two rapidly developing areas we are keeping an eye on are fine-tuning and model delivery. Fine-tuning involves customizing a pre-trained model, while model delivery focuses on enhancing the model's response efficiency and speed. In the 1700s, James Watt significantly improved the efficiency of steam engines by fivefold through his research, like what some startups are attempting with AI models today. The best models currently have substantial operational demands, even after training. If highly customized, smaller, and possibly open-source models, such as [DBRX](#), can match the performance of much larger models, then the competitive advantage for the current dominant players could diminish.

Moderator: Any final thoughts about AI for future founders and investors here?

Gaurav Tewari: At Omega, fostering an organization that possesses best-in-class technical and business capabilities has been critical to our execution. The distinctive skill sets and perspectives we've built allows us to spot differentiated opportunities ahead of time. Our strengths in identifying and accessing leading companies stem from the fact that we are much more than a source of capital — we bring the market knowledge, network, alignment, expertise, and relevant relationships to be strategic, active partners in the growth of the companies that we invest in. We remain intentional in our approach towards continuing to cultivate unique capabilities, acumen, and a sound investment strategy.

As the AI landscape continues to evolve, a thoughtful investment strategy that balances fundamental analysis with prudent creativity and flexibility will be key to long-term success. Omega's journey in the AI realm is just beginning. We continue to enhance our capabilities to continuously sharpen our edge. The success we've had so far is a tailwind as we seek to grow our footprint in harnessing this transformative wave. We are just at the beginning of the AI era. I could not be more excited for what the future holds for all of us.

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