



COPENHAGEN LEGAL TECH LAB — PODCAST

EPISODE 09 – VCs AND INVESTMENTS IN LEGAL TECH

In this episode, Nick Hawtin, Legal Tech expert, and Peter Egehoved, General Partner at Seed Capital Denmark, discuss the financial and business opportunities within legal tech and the upcoming possibilities that technology can bring to the legal field.

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Intro music

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Nick Hawtin

Hello and welcome to the Copenhagen Legal Tech Lab podcast where we address innovation and the law from three angles people, technology and business.

I'm Nick Hawtin. And today we're here at the Law, Innovation and Vulnerability Conference at the Faculty of Law at the University of Copenhagen. And I'm here together with a venture capitalist, Peter Egehoved, who I'm fortunate to call him friend. And we've had some interesting conversations about legal tech, from the money side, which is why we invited you to this conference. But a couple of quick words who you are and why you're here.

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Peter Egehoved

Yeah, sure thing. Um, So as Nick said, my name is Peter Egehoved. I'm a general partner at Seed Capital, one of the largest Danish venture funds. I've worked in software for 20 years, the last seven or so predominantly in venture capital. Always interested in so the up-and-coming areas, of where to invest.

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Nick Hawtin

Super. One of the reasons why we invited you was we saw each other at an event last autumn, November, December, right up to Christmas, right before everything closed again with the latest round of the pandemic and you had a great line. We asked you, you've been asked to speak about legal tech from the investor perspective. I remember you grabbing me, because we are working for a long time with the same coworking space, and you said "Hey, this legal tech thing, what exactly is it and where can I find out more about it?".

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Peter Egehoved

Yeah. So, I think the thing that triggered me I was invited to speak at this event, and I was asked to explain legal etch. So, what is all the fuss about? I was like, OK, yeah, I sort of I understand and can sort of guess what it's about. I've seen maybe couple of investments globally. But I wouldn't say like there's a ton of fuss about it in the venture industry. I'm sure there's a ton of fuss about it in the in the legal industry, but in venture capital, not so much.

And then I looked it up. I found this massive graph with all the sectors that were invested in the last three years and at the very tail end was legal tech. I think half a billion or \$1 billion out of trillions, right?

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Nick Hawtin

Exactly, it was a slide that made an impression in a world where we see thousands of slides a year. I still remember this, it was one of those long tail very, very long tail, that's it was that graph. But then it had to cut where you can see, like the extended, just to show how far away it was. It was 1.5 billion or something, but nothing compared to a trillion dollar so small business. And yet, you said despite this, you had actually made an investment in this space.

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Peter Egehoved

I think a lot of you know, a lot of stuff we do in Venture Capital is figuring out what's next. What is coming. What's trending. What can become the next you know, the next multibillion dollar company. And if you look at various industries, there's a lot of things to like about the legal industry because, you know, it's predominantly manual work manual in the sense that people write contracts, not with a hammer and stuff.

It's a really big sector, its only becoming bigger right and with more compliance and a lot of other things influencing it. It is actually growing significantly.

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Nick Hawtin

It passes Google's toothbrush tests, especially in the world of business.

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Peter Egehoved

Yeah, for sure. And also, it's very traditional. Can you automate it? Yes, you can. A lot of it, right? I work with a lot of lawyers, and I have a ton of respect for what they do. But where I respect them is the advisory services more than their ability to type contracts. Their analysis and judgement. Shortly after that conference, I met with a company called Comply Cloud, which essentially automates your GDPR documentations and a lot of others interesting stuff. Fabulous business, growing significantly. Boost trapped, meaning they haven't taken any outside money before. The CEO was a former lawyer. Absolutely knew his stuff. And a really great CEO. So that actually became my first investment into legal tech, which I'm super excited about because it works extremely well, right? The thing with legal tech and law in general is that it tends to follow geographical borders or national borders. Whereas with something like GDRP is pretty cross national.

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Nick Hawtin

So bigger market.

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Peter Egehoved

Exactly. Which makes it a lot more attractive to someone like me.

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Nick Hawtin

So, and we take a pretty broad, big holistic view to legal tech. And one of the definitions use here is anything that analyses, applies, or interprets the law. And so legal tech isn't something that technology helps lawyers, but something that works with the law.

With compliance we see a certain amount of absurdly small subdivisions, so reg-tech or sup-tech. Anyway, but taking this compliance side, where do you see the growth? Is it a GDPR tool, or is it, once you've learned to apply technology to one rule, then there are lots of other rules that things can be applied to.

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Peter Egehoved

Absolutely. I mean, we'll probably stick within compliance, but GDPR is definitely our first one. So, there is many frameworks. GDPR is one of them. There's one in California. Canada is introducing something. So, a lot of a lot of stuff going on there with GDPR being the first framework.

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Nick Hawtin

And just for lawyers, because most of this people new to this will not necessarily understand the kind of bets you guys are making. You guys are making big bets super early, looking for a very, very large returns. You're looking for 10X. You're looking for 10 times the money that you put in.

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Peter Egehoved

Yeah, absolutely. As a minimum. So, when I looked at this industry the first time in depth, I think it was pretty similar to the financial services industry and to the banks. So, fin-tech is another really big investment area.

And I think legal tech has a lot of the same characteristics. We can easily build something very big, very meaningful in legal tech. And I think it's an industry where the older partners are sitting around laughing a little bit about what this technology gizmo can never replace me and all the banks' CEOs thought at the same thing 10 years ago, right? They're not exactly laughing anymore because, you know, it's death by 1000 paper cuts.

So, I think it's obviously the legal industry I would think a lot about. Maybe start thinking about actually, where is it that you add value that can be done by a computer and focus on that? And for me, it's like advice and the great work that they do in in a lot of these areas.

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Nick Hawtin

If we stick with what you're doing, you invest. And I'm interested in your analysis of your take because, like you, I'm an outsider you know, we're both outsiders.

But what other opportunities do you see in this space? You know, it's the compliance, you're applying rules, which is a very manual task, and it's still today, It's an awful lot of, you know, filling in spots in, you know, putting up Xs into a spreadsheet, which is obviously something you can automate.

Where do you see the opportunities in this field? And then what are you excited about five years down the road about watching and seeing develop?

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Peter Egehoved

So, I think right now it's a lot of automation, a lot of contract generation based on. You know, 99-98% of a contractor is standard, right? So, a lot of that is just pretty automatable. And we're seeing a lot of smaller companies doing that. In Denmark there is something called Legaldesk that generates a lot of contracts for stuff that is relatively easy to automate. And similar in Sweden, Germany and so on, so forth.

I think, over the next five years, what's really exciting is the increased use of AI. You can you automate much more stuff than you think. And ultimately, the lawyer has to be accountable for it, and they have to trust the work and so on. But it's going to be interesting to see what's possible. Because I think today you have computers that are better at doing chip design, like computer chip design than humans could ever. You have computers that are made are better at discovering new drugs? So, if that's automatable, maybe a lot of what a lawyer does can be automated as well.

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Nick Hawtin

We got a couple of minutes left.

When I just gave a talk last night to the Copenhagen Bar Association, and I was asked about robots and I was asked about AI, and my advice was that's not what they should be worrying about right now. They should be worrying about automating really simple, straightforward tasks, like renaming files in a data room for M&A. There is an app for that. You don't have to have human beings, let alone human beings with law degrees, sit down and rename all those by hand.

Now, with this AI thing, sometimes I feel like we've been watching it come for so long that we've missed that it may actually get here, you know, it's been right around the corner.

So where do you see it in this space? Where do you see it coming in this space? Where would you see a couple of areas that are coming first? And how far away do you think it is?

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Peter Egehoved

So, I think it's already here in certain areas, right? Like due diligence, for example, scanning million pages of paper. I think that is probably going on right now.

But I would probably encourage the audience not to see it as a binary event. It's more like to, what you were saying last night, is use the tools now, augment the capacity of your staff right now because there's a ton of really good tools out there that can help them be much more productive, work much faster to the benefit of you and your clients. Because by doing that, you will actually be well prepared, and you will end up with people that are much closer and much more skilled in using technology. Because it's not going to be some day you wake up and all of sudden M&A lawyers are replaced by an AI, right? It's going to be a lot of small little things.

Start using it. What's the downside? There's no downside. But the risk of catastrophe is pretty high, if you're just going to sit around

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Nick Hawtin

I always tell that bankers are still among the best paid people we know, even though what they do has changed a lot.

So, if you're looking at AI, which piece do you see it? OK, so you mentioned, for example, that it's already due diligence scanning vast numbers of documents. I've seen it in DPA analysis, very similar contracts where its great at spotting the differences. What is it that AI does that it does better than somebody? Is it noticing patterns?

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Peter Egehoved

Yes, patter recognition. I don't think we should go to the different kinds of AI. Pattern recognition is something that computers have always done. They're great at automating, repeatable stuff. They will do it better and faster and with fewer errors and so for you.

When we talk about AI, it will be a lot of little things that will just you know, it will make your work easier. And someday maybe you don't have to watch the contract being generated because it's just going to happen. It probably won't go to court for you, though.

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Nick Hawtin

Cool. It's been a great discussion. Thank you, Peter from SEED for joining us.

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Peter Egehoved

Thanks for having me.

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Nick Hawtin

Thank you for listening. This has been the Copenhagen Legal Tech lab podcast. My name is Nick Hawtin. Thank you very much.

00:15:21,710 - outro

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