10.28.20 Why I Invested in Kiwitech

Hall T Martin: [00:00:03] So, hello. This is Hall Martin with TEN Capital, where we help startups and investors connect for funding. Want to welcome everybody today to our presentation on KiwiTech, Why I Invested. Today we'll have with us Neal Gupta, Rakesh Gupta from KiwiTech, and the investor in KiwiTech that will present is Dr. Vipin Agarwal. So, before we kick it off, love to have Rakesh give us a short description of KiwiTech for those who are not familiar with them and we'll then talk with Dr. Vipin Agarwal afterwards. Rakesh?

Rakesh Gupta: [00:00:36] That sounds good. Thank you Hall. So, what I'll do is I'll just share my screen. Are you able to see that?

Hall T Martin: [00:00:53] Yes.

Rakesh Gupta: [00:00:55] OK, so KiwiTech, what I'll do is I'll first start with some background. My name is Rakesh Gupta and I'm CEO of KiwiTech and I'm part of a sibling entrepreneurial team. My brother, sister, and I had founded a company called Aptara, which we scaled, it was a content-technology-services company, which we scaled to 5,000 people, 500 people in the U.S., 4,500 people in India. We sold that company in 2012, Gurvinder Batra was our CTO there, and then as a team, we went on to kind of found KiwiTech and developed an interesting model because we had experience in Aptara in doing technology services, leveraging it back in India, and working with enterprise clients in the U.S., we thought there must be an interesting way to apply this type of skill set to getting equity in startups. And we thought of different kind of ways that we could make it work and we actually stumbled on the methodology because we were working with a startup doing technology development for them and we found that they actually ran out of cash. They were venture-backed and they weren't able to pay all the invoices and we ended up very reluctantly taking a convertible note, and that led to our current model. And then we realized that Neal and I were looking at what we could actually get equity in startups, take part of our fee in cash, take part of our fee in equity and it would be a good way to get equity in startups because we'd be covering our costs or most of our costs, and then getting the rest in equity. And that led to our current model, which is a 50% in-kind model. So, say we're doing $500,000 of development with a startup, we'll take $250K in the form of equity upfront - say their

valuation is $5 million, we'll get about 5% of the company - and then we will take the other $250K in the form of cash over the course of the development. If that development happens over the next two or three years, we'll get that equity as they're doing the development. So, what it does is it reduces the amount of cash that the startup has to raise, it creates a very strong sense of alignment between the startup and us because as we're delivering the services, we have a vested interest in creating value in the startup and we do that through a series of events. We have demo days that we do, these used to be in-person demo days last year. Up to last year, we would do about 6-8 of these demo days every quarter and there'd be about 15-25 investors that would show up. We would do these in New York, Boston, D.C., Chicago, Austin, San Francisco, L.A., so, cities around the country and the major startup ecosystems. And those events were a good way for our portfolio companies to meet interesting investors and kind of create that kind of connection. In early February, we started experimenting with doing these demo days, virtually, using Zoom, and that actually went very well. And the timing was very fortuitous because in mid-March we had a lockdown and we had to take everything online and that led to some experimentation. We then started looking at a variety of events, demo days, and industry panels, and workshops, and venture fairs, VC panels, so a variety of additional events that we added to the agenda, and now we do 20-25 events a quarter. So, that became a way for us to add value to our startups. You know, we're doing their technology development, we're taking part of the fee in kind, and we're also helping them connect with investors and other market participants. In terms of our model, we have a very significant kind of outbound effort. We have about 40 people now working on deal flow out of about 450 people in the company. Last year we reached out to 40,000 startups, about 60% responded positively, it led to 6,000 calls, 2,000 meetings, and 190 portfolio companies. So, today we have over 300 portfolio companies and in the next few years, we expect to have up to 1,000 portfolio companies. In terms of the events that we do, we kicked off our venture capital panel in May, so in addition to the demo days, we started these events. The demo days now, rather than being 15-25 investors, are more like 40-50 investors and about 100 attendees in the virtual online format. And, our venture capital panel, which we launched in May, gets about 300-500 people registered for every event. With our first event, we had Amazon Alexa Fund, we had Revolution, which is Steve Case's group, and a couple other prominent venture funds, and usually our events have about 60% startups, 40% investors. We also did, of course, other venture capital panels, and we launched our family office panel in August. At our family office, first family office panel, we had

Forbes Family Office, ____ Family Office, and Dupont Family Office. So, we had some really good brand name family offices at the event and we had four of our startups presenting. And from these events, the venture capital panel and the family office panel, what we do is we introduce startups to VCs and family offices. So after the event, let's say there are 300-500 attendees at the event, about 60% of those will be startups and 40% will be investors. So, we'll send the startups a list of maybe about 100-150 VCs that they can connect with, and they can select up to 25 of them. Then we'll send the VCs a list of the startups that want to connect with them, their revenue, the amount raised, and a short description of the startup and the VCs can opt-in, and then we make a double opt-in introduction. So, these events lead to about 50-100 introductions per event, so, they're pretty productive in terms of being a good participant in the ecosystem. And we allow startups that are new to us to participate once without a charge, or without signing up with us, but then after that, they need to be a portfolio company to really participate. Then we have had other family office panels, we have a venture fair, we've done a Hispanic venture fair recently, this is the format of our online demo day. We also have a lot of women founders. We have, I think, about 100 female-founded businesses in our portfolio, and we've been doing this female-founder demo day for a few years and now we're doing it online so people can participate from anywhere. We launched a Black Entrepreneurs Matter Demo Day in July, and we have workshops and other events. And, so a variety of events that kind of create a nice ecosystem. And then in terms of revenue, we're going to do $40 million this year with $25 million in net income. We're running about 37% on last year. Now, our revenue, a big chunk of it is in the form of in-kind, and right now our net income is all in kind, but going into next year, we're expecting to be generating some cash as part of our EBIDTA or net income, and over the next few years, we expect to get to $100 million in EBIDTA, of which $25 million will be cash EBIDTA and $75 million in-kind EBIDTA. So, now we've gotten to the point where we are cash breakeven and starting to become cash positive and we starting to scale the cash EBIDTA and the cash portion of the business as well. So, in addition to getting significant equity positions in startups, we'll have meaningful cash flow. Our objective over the next two or three years is to take the company public, and right now we are structured from an investment standpoint, as a convertible note. We're raising $10 million, it pays out 8% interest annually - it's paid out quarterly, but 8% annual interest - with a 1X liquidation preference, and it converts at $8 per share, which is four times this years' net income plus the value of the in-kind

portfolio at the end of last year. It's got a fixed term of five years with two, one-year extensions. So, that's a quick summary on KiwiTech.

Hall T Martin: [00:09:29] Great. Thank you Rakesh.

Andrew: [00:09:31] Are you taking questions Hall?

Hall T Martin: [00:09:34] Yes, we'll take questions. If you'd like to go ahead and ask one now, let's go ahead and do that.

Andrew: [00:09:39] Ok, this is to Rakesh. In your technology-for-cash model, do you always take on 100% of the startup's development, or will you take a slice of it?

Rakesh Gupta: [00:09:52] Andrew, right?

Andrew: [00:09:53] Yes, that's right.

Rakesh Gupta: [00:09:54] Yeah, so Andrew, so basically what we'll do is we will take on, I mean, we're happy to take on a piece of it. Very often the startup will have an in-house team, you know, I mean, and they'll be doing some combination. Maybe they're developing version one, version two, version three of their product. In some cases, they've scaled. We have some late-stage startups where they have a team of 20 or 25 people with us and they have five or six people internally. So, we're open to different configurations. Software development can be done in a distributed fashion these days.

Andrew: [00:10:25] Thank you.

Hall T Martin: [00:10:27] Well, great. Well, thank you for that question and if anybody else has a question, let's put them in the chat box as we'll move now to Dr. Vipin Agarwal and be glad to answer those questions as we go along. So, Dr. Vipin Agarwal is President and CEO at Northeast Biolab and is an investor in KiwiTech. I want to thank him for joining us today. And, Dr. Agarwal, can we ask you a few questions?

Vipin Agarwal: [00:10:53] Sure. Love to.

Hall T Martin: [00:10:57] Great. So, we're all very interested in your experience with KiwiTech and also as an investor, but before we do that, what is your background as an investor? What have you, what do you normally invest in?

Vipin Agarwal: [00:11:08] So, before I tell you about my background as an investor, I would like to tell you about myself. I'm the founder and president of a biotech company Northeast Biomedical Laboratories and that's where I pretty much invest most of my time right now. And I also have a small real estate company, _____Associates, which we also manage with my family. By profession, I'm a scientist and I have my doctorate degree in chemistry and also my MBA. So, because of my science background and being used to, you know, _____

Vipin Agarwal: [00:12:18] So, as I mentioned that I have my Ph.D. degree and an MBA, so because of my background, I kind of dig deep into things before I invest, and I take the same approach while doing some investments and I have researched, I would say, over the last 15 years, you know, several opportunities, and finally I did invest in about five companies besides my own business. And I always take a long-term perspective when I'm doing the investments because, you know, when you're doing a startup, you don't expect like a stock market, you know, turning around in the next month or so. So, it has to be a really long-term approach. And I made an investment in I.T. businesses, I made in biotech, and four of my investments so far have done very well. One of the biotechs just went public about two years back, and within five years of our investment, we made over ____in that one. The second investment was an I.T. company, which grew very well and up for sale right now, and we expect to close that with about tenfold return in 10 years. Third one is, of course, KiwiTech which we are talking about it, and this company has grown about 15 fold since the time of my initial investment. We expect this company to grow fairly well and hope to reach to a $1 billion mark in a few years or have an exit prior to getting to that.

Hall T Martin: [00:13:55] Great. And so, what made you decide to invest in KiwiTech?

Vipin Agarwal: [00:14:00] Ok, well, it's like I said before, that I do dig deep into before I do any investment, and this happened to be one of the investment [00:14:10] where what I liked about the company was primarily, I would say the team first and [00:14:19] I

can point out a couple of things with regards to the team. One thing when I focus on my investment, I look at the team. Are they fully dedicated to one single business, or they're running multiple businesses where they're like all over? And, if you see them work in one entity, which KiwiTech's team is, they're fully dedicated to run this business and make it successful. And that was my prime reason and of course, along with that, [00:14:49]their model has been a phenomenal model where they invest into startups and get equity as well as cover their cost. So, [00:14:58] that's another reason why I thought this was a good opportunity.

Hall T Martin: [00:15:03] Great. And so, why do you think this company will be successful?

Vipin Agarwal: [00:15:08] Why do I think this company will be successful? OK. I wanted to see the company heading towards _____actually. This valuation has gone up almost tenfold. When I invested it was about a $10 million valuation, right now we are raising the money at what, I think $150+? The management team has _____the business model a couple of times and with the time, they changed the model and like Rakesh mentioned, that initially they were investing equity models in startups. So, what I noticed that in the beginning there was really not a very great selection process and in time, we have come along and now we're very selective in choosing the companies where they would invest into equity, otherwise they would_____cash more. So, they're on the right path to continue growing the business. That's what I feel at this point.

Hall T Martin: [00:16:13] Great. And so, what challenges do you see the company overcome in the last few years that you've been watching them?

Vipin Agarwal: [00:16:21] Challenges, of course, like any other businesses, I'm sure Rakesh would vouch with me that they're a lot of challenges. The company has dealt with a number of challenges in terms of finding a differentiated business model. Their initial fundraising was tough backing because you've got to convince the investors that you want to grow your money, it's not going to go down. So, now they have a great marketing tool in place to bring the new clients onboard, these include virtual events to bring investors and the startups together as we are doing one of these events right now. And, you know, typically these events cost to a lot of _____, but here, thanks to TEN Capital as well, these investors and startups, everybody, you can bring at a low cost.

So, this is a little unusual. And the screening process for the startup companies have streamlined to pick good companies, as I mentioned before. So, in-kind business model is working out very well. And since now, the cash flow is pretty good at this point_____ point. [00:17:34]I feel that right now the company is doing very well and it's on a good growth path. [00:17:40]So, that's what I feel that, you know, [00:17:43] even though the challenges are there in the company, but we have the right direction at this point. [00:17:48]

Hall T Martin: [00:17:56] And, for those in the audience, if you have any questions, feel free to put those in the chat box, we'll get to those here shortly.

Hall T Martin: [00:18:04] So, next question Dr. Agarwal is, how are you helping the team?

Vipin Agarwal: [00:18:11] Ok, how am I helping the team? Well, you know, what should I say about that part? I mean, team is a great team and obviously anybody can use help, but I try to do my two cents over there. I've been involved with this business since 2010 and have been providing my support as needed. Sometimes it could be financial or some advice. I've been actively involved in major decisions. Our team has been very, very good at listening and with an open mind. And, right now for the last six months, I've joined the board now, so I'm fully engaged with the company now. So [00:18:50] my primary goal is to have a long-term strategy for the business and ensure that they're able to deliver on the potential of the company. [00:18:58] So, we're focusing on really seeing what we can do in the next 3-5 years' time frame. So, I've been focusing on cost management, marketing strategy, acquisition, and providing my honest feedback to the management company. There are differences, we go back and forth and try to figure it out on a medium ground where we know that it's in the best interest of the company, and that's my input right now.

Hall T Martin: [00:19:27] Great. And so, what excites you most about this opportunity that you think will eventually come to fruition?

Vipin Agarwal: [00:19:35] So, when you say what excites me from an investor's perspective or, you know, can you give me a little bit more clarification?

Hall T Martin: [00:19:45] What do you think is the most exciting part of investing in KiwiTech? When you invest, what do you feel the most excitement from?

Vipin Agarwal: [00:19:55] Ok, so, I mean, what I would say from my excitement point of view, what I see is it's a model where, it's a shared-equity model where I see that what KiwiTech is doing is, they're convincing the companies where they're putting the equity model there is they believe in that company. So, they're more like partnering with the companies and helping those startups to grow as well. So, I mean, I would say at this point, there are probably about over 400 companies in the portfolio, and I would say about 20 or 30 of those companies are doing fairly well. And some of them are now really being come to the point where I would say even half a dozen company, if they do very well, our investment in the company will pay off multiple times. So, [00:20:54] it's not only the gain for the KiwiTech, the way I see it, it's really helping those startups as well. So, it's like a really nice way to work together and appreciate those companies and gain some value out of it as well. [00:21:08]

Hall T Martin: [00:21:09] That's great. Sounds like you have a good portfolio there at KiwiTech. Our last question is, what else should investors know about this deal that we haven't covered yet?

Vipin Agarwal: [00:21:19] I think we kind of covered most of it I would say. You know, a lot of stuff we have covered about KiwiTech, you know, about what their model is, what their cash flow at this point is, what we see in the future. I think right now the company is on the right path, they're cash positive. We are looking for some acquisitions at this time to grow even faster. There are different ways to invest in the company right now, and it could be a convertible note or it could be direct debt with a fairly good return, about 12%, which in this market you're probably not going to get anywhere, and those debts are pretty secure because they're like a secondary. So, any downturn also there's those debts are guaranteed to pay at this point, because the company doesn't have much debt, so, you know, I feel very confident that those will be very secure. So, [00:22:18] I think it's a very minimal risk to invest in the company, but the growth potentials are huge. [00:22:22]

Hall T Martin: [00:22:24] Great. Well, thank you for your information. For those on the webinar, if you have any questions, go ahead and put them in now. Rakesh, would you like to give us any updates about the detailed terms of the investment itself?

Rakesh Gupta: [00:22:39] Well, you know, I think the way we structured this, we structured this in a way that is appealing to individual investors, family offices, and because with the current pay on the convertible note of 8%, along with the upside on the equity, it creates a nice balance, you know? You get kind of like a current pay, some current income in a very low-interest environment today, that current pay is attractive and there's also upside on the equity. So, I think that's good. In terms of where we are, our target was to raise about $10 million. Things have picked up for us, we've raised $3.75 million so far. We have $2.4 million in additional [00:23:21] commitments, so we're, I think, tracking well, especially given the environment in terms of raising this round and excited about what it can bring in terms of acquisitions. [00:23:35] As Dr. Agarwal was mentioning, we have some interesting acquisitions that we're looking at. We're looking at acquiring a finance and accounting company, we've made an offer on a company, it's a small finance and accounting company. So, our plan is to acquire, start with one small acquisition, about $3.5 million in revenue is one we're looking at right now. And then next year, we'd like to acquire a larger marketing services company, so that would be more on the order - and Hall, if I could just share a couple of slides on this, if you like, in terms of...

Hall T Martin: [00:24:11] Sure, if you'd like to share the screen, we have time. Go ahead.

Rakesh Gupta: [00:24:13] Yeah. So I'll just do that and give a little more background, but I think that's additive to our model and it's an interesting addition. So, basically, we have our technology development services, which is the core KiwiTech model, right? And we have an LOI out on a finance and accounting company, so we're hoping to close this transaction in the next 30 days or so. And then next year, we'd like to acquire a larger digital marketing company, probably $20-25 million in revenue and $5 million in EBIDTA. And, what we'll start to do is really start to build up the cash EBIDTA along with the in-kind EBIDTA. And it leverages our offshore capability because we can use our offshore capability to drive better gross margins on these businesses. And also what it does is it, we can drive their top line with our portfolio of companies and not just

offering technology development, but also finance and accounting and digital marketing, almost like a shared services for startups. You know you have a lot of large companies that offer shared services to enterprises, this becomes shared services for startups with collaboration on equity and collaboration in terms of capital formation. So, this is part of what we're looking at in the future to really scale this business and get it kind of IPO already.

Hall T Martin: [00:25:39] So, my next question is, can you talk a little bit about some of the portfolio companies that are doing well? Dr. Agarwal talked about the number of companies that were at the top of the funnel which sounded great. Can you talk about one or two that are good representative examples of your portfolio and who you've been working with these past few years?

Rakesh Gupta: [00:25:59] Good question Hall. So basically, to give some examples, as Dr. Agarwal mentioned, there's some companies that are doing quite well, Urban FT is an example of one of these companies. We have $2 million of equity, in-kind equity of book value over at FT now, and we've invested from a $10 million valuation up to a $100 million valuation. Today, our equity is worth about $3 million. The company this year is projected to do about $20 million for 2020, and we believe upon exit, our equity will be worth about $9-11 million. So this is a place where we started with a company, you know, pre-product, pre-revenue a few years ago, they've now scaled and we think they can scale up to about $80 million over the next few years. They're a digital-banking-SaaS platform, so they'll get multiples of 5-10 times revenue on exit. So, that would give us a nice, you know, probably 4-5X on our investment. Another interesting company is a company called Hungry, this is a technology platform for catering. This company, we invested $150K at an $8 million valuation. Invested, meaning our in-kind equity - when I say invested - and, they raised money at $100 million earlier this year, they had a $14 million run rate at the end of last year, and we think this company is tracking and they had a very nice pivot during the pandemic, actually are on track to double by the end of the year. So, we think this company is on a path to being a unicorn over the next few years. So that would give us about a 50X on our investment if that works out. So, these are just a couple of examples. You know, there's another Uber-for-buses company, which is doing an interesting transaction right now that will put them on the path to significant growth. We have about $1 million in equity of book value. We believe over the next few years that could be worth more like

$12-$18 million to us. So, these are some interesting companies in our portfolio that have exit potential.

Hall T Martin: [00:28:02] Well, great. Our next question is, what's been the impact of COVID on your business? Did it impact it in an adverse or positive way, and if so, how much?

Rakesh Gupta: [00:28:11] Well, I mean, actually, a couple of companies that are just showing here are good examples of this. ____, this is like an Airbnb for billionaires, very high-end vacations, and as you can imagine, in April and May, nobody was traveling to these locations. And, so the revenue kind of bottomed out in April and May. And then, of course, once the lockdown ended and people could travel, everybody was anxious to travel and they had a record Q3. So, they were actually from an $8 million revenue run rate last year, they were at about a $15 million revenue run rate in Q3. So, interesting that they went from a good run rate to very little because they're in the travel business as a result of the lockdown and now they're scaling again. And, another example is a company b.well, this is in the healthcare space. This company raised a significant round earlier this year, and healthcare is getting a lot of focus with the pandemic. You know, healthcare technology companies, telemedicine, these are interesting areas. There are obviously companies that are having a challenging time, so it's a mixed bag. You know, you have some companies such as these that are doing well, and then you have some companies that are facing challenges that may or may not make it as a result of the pandemic, because capital raising, other things become more difficult for them. Maybe they're in the travel and hospitality business, cannot figure out a way to pivot. So, there are companies like that that will have trouble.

Hall T Martin: [00:29:45] Well, great. And so, the next question is, going forward are you changing the companies you're focused on? Are you looking for COVID-proof businesses? Are you maintaining the same posture of helping anybody that's a quality company?

Rakesh Gupta: [00:29:58] Yeah, we're in general helping companies that are quality companies and we want to continue to improve the quality of companies that we invest in. I mean, as a, using our model with in-kind across lots of companies, we're not going to be venture quality, but we can be kind of, we're kind of maybe more at an angel level

with a very broad-based portfolio. We know angels that have invested in a smart way across lots of companies do very well. So, the returns can be very good in that category. We do like healthcare, fintech, areas that have benefited from this new environment. Workforce collaboration, Zoom, for example, a virtual type company, so we like these categories of companies, but we're investing across all software companies.

Hall T Martin: [00:30:45] You see quite a few companies, do you ever capture data, and at some level use the data for decisions or for monetizing in some way?

Rakesh Gupta: [00:30:55] We haven't done much of that yet, but it's something that we're now putting together an investment analyst group to, you know, study our companies more closely and look for trends, and we're probably going to be publishing articles on this as well. So, we're looking at developing some content around it too. So, an investment analyst group and developing some content around what we see in the startup space.

Hall T Martin: [00:31:21] And after this business, what would be the next business you would like to start after KiwiTech is acquired and gone? What would you do next?

Rakesh Gupta: [00:31:28] I think I'm kind of done, you know? Two entrepreneurial ventures in a lifetime, I think is pretty good.

Hall T Martin: [00:31:36] It's quite, quite a run there. Congratulations on that. Are there any other questions at this point? If you have questions, go ahead and put them in, we'd love to answer those right now. If you want to get in touch with us afterwards, we'll be glad to connect you with the KiwiTech team and have them tell you more about the opportunity and about their program in case you have a startup that needs help there as well. So with that, let's go ahead and close it. And, if you can fill out this quick survey form, appreciate you guys taking time to join us today and looking forward to seeing you on the next one as well. Thank you to our guest speakers, Dr. Vipin Agarwal and Rakesh. Thank you guys so much for joining us today, appreciate your information.