

Gurdeep Prewal of Rocana Ventures

Speaker1: [00:00:04] This is the Investor Connect podcast program. I'm Hall Martin. I'm the host of the show in which we interview angel investors, venture capital, family offices, private equity, many other investors for early stage and growth companies. I hope you enjoy this episode. Investor Connect is a 501 C three non-profit dedicated to the education of investors and startups for fundraising. Please consider donating \$100 to the program to help others in their investor and entrepreneur journey. You can find the Donate button on the Investor Connect org website.

Speaker2: [00:00:44] Hello, this is Hall Martin with Investor Connect. They were here with Gurdeep Prewal, co-founder of Rotana Ventures. What kind of venture partners is an LA based venture capital firm that invests in early stage consumer product goods brands? Gurdeep, thank you for joining us.

Thank you all. Thanks for having me today.

Great. So what was your background before investing in early stage companies?

I am not come from the food industry, so it's it was a big, pivotal moment for me when I changed careers. I spent most of my career in investment banking. Like most people or sort of a lot of like a lot of people who are graduating from sort of business finance in the late 90s and early 2000s, getting a job in investment banking was that prestigious job. To get all these kids at that time, it was a high flying industry, and so it was a great sort of training ground for me in the early years, and I sort of went through the grind of investment banking. But over the years, I sort of matured myself and discovered my own path of what I wanted to do. I really came to the realization that it was really, really missing a mission driven in part to what I wanted to do with my career. And so that's what eventually guided me into angel investing, trying to find my own way. They're investing in a lot of different industries. My business partner and I, we invested in Wind Farm was actually our first investment that actually did pretty well, but we then invested in a mobile banking business, wine distribution business, a couple of restaurants, a hostile business.

We were a little bit all over the place trying to discover our way as angel investors. And then really in twenty thirteen twenty fourteen is when we started investing in this space right now, which is better for you, CPG. And I think it all just start to align for me at that point. As far as finding something that I could leverage my financial acumen, but in a mission driven approach. Right. So what excites you right now? I'm really excited to see that a lot of the early vision that we had in terms of how we wanted to set up and be very mission driven and focused on some of the things that we said, we were going to really drive hard into the time when we were thinking about starting the firm. A lot of people thought what we were doing is pretty niche. I think today you can certainly see that a lot of the stuff we're doing is not so much, even though in the grand scheme of things, a lot of these brands are still small, small market share relative to the bigger incumbents, but they're certainly real threats and real alternatives now. I think five, 10 years ago, you might have said you're like nipping at the heels of big CPG, but not really causing much of a dent.

I think today you could certainly see that many of these brands are going to have a really long life in the market, so that's exciting for me to see.

Right, so you see a lot of investors and a lot of startups out there. What's your advice for people investing in startups in the CPG sector? What do you tell them to do before they write that check?

Well, for us, it always starts with product and founder Ultimate conviction in these two product has a clear sort of mission guardrails. We have to believe that when we're investing in the brand product, that it is doing something truly transformational. But from a nutrition standpoint, it has the potential to be a category creator or a category leader. We have to be able to see that brand actually becoming a market leader within the category. So having the conviction that the product itself can stand on its two feet as being really something that's transformational from an innovation standpoint, and then with the partners building that confidence with the founders that they're going to be able to go and execute on the vision or at least surround themselves with the right people that can help execute on the vision. That's very important for us at the end of the day. We're more minority investors, just like most of my top table, and so we're never really in control, even though we can try and put terms and conditions there to try and protect us in certain ways, we're ultimately really investing in the team and the people who are behind the vision.

So really, buying into the character of the founder and the team and ability to navigate through ups and downs is something to look forward to.

Right? Then on the other side of that table, what's your advice for people raising funding from investors? What do you tell them to do before they go out to start that campaign?

I think first and foremost, it's a competitive market out there, right in food and beverage industry. The barriers to entry are really low. Anyone can really go out startup brand and nowadays direct to consumer. You can you can sell directly to the consumer pretty easily. So I would say to any founder out there is looking to raise money. Be very clear on your story and your vision. What are you trying to create? Don't just get a product. It's a vision for a business what this thing is going to become because I think when you're just talking product or late, you're limiting yourself to a lot of competition. But when you sell a vision for a brand and what this thing can become in terms of branding the platform, then you start to really get investors excited.

Great. Well, let's talk about the state of CPG investing. How do you see the industry evolving from here?

Yeah, we're a really, really interesting time. There's so much that's happened the last few years in our industry. Some negative, some positive.

I think one of the biggest developments we've had in our industry is the opening of the capital markets to many of our brands. So you're seeing in the past you would build a brand and you would really want to try and sell to the strategic. I think now you're seeing there's actually a lot of pent up demand in the capital markets for investing in ESG centric products, like the type of companies that I'm listing recently, like Beyond Me and Oatly. You can see the kind of valuations that they're getting in the past. If you were talking to a strategic you want to sell your business, you're probably going to have to start the conversation with a strategic at two to three weeks of revenue and try to work your way up. But now you have capital markets that are willing to list you at 20 times revenue. It gives you a lot of leverage in terms of negotiation. It gives you another opportunity, another path to exit liquidity. We have seen some correction and there will be some correction in the market as some of that supply demand gap closes in the capital

markets. But I think that's a really exciting development for our industry. Clearly, the supply chain is something that right now, a lot of brands are very focused on this, causing some disruption to the business. But I think that's that's hopefully going to be temporary. But in the long term prospects of having alternate avenues for liquidity from capital markets, I think that's a really good development for our industry.

Speaker2: [00:07:45] What do you think is the biggest change we'll see in, say, the next 12 to twenty four months?

I think you're going to have I think people have been saying this for some time now, it's the sort of day of reckoning with valuations, but I think it's really it's really happening. It's going to happen now. I mean, I think you've seen some brands raising money at really insane valuations with very little revenue. And that correction, I think, is going to happen. I think you have to really sort of fasten your seatbelts and be ready for a bumpy ride. If you're sitting on high valuations to try and raise, I think nowadays if you look at even how the market is evolving in food and beverage, it's becoming tougher and tougher to see where the innovation is coming from. The plant based clean label, low sugar or the kind of stuff that we really call our pillars for our investment strategy is almost becoming table stakes superfoods adaptogens. It's becoming really well known to the consumer. Now it's hard to differentiate so much on ingredients now. I mean, we still have a long way to go, of course, but the beginnings of what is going to be normal in the food system is already starting to appear. And so I do think that as you're trying to raise money and you're trying to raise money as certain valuations, you really have to ask yourself what kind of market you're in as far as your product, your business, your innovation relative to everything else that's out there.

There's going to be a correction from that standpoint.

Great. Let's talk about your investment thesis in more detail. Can you give us some more color around? What exactly do you invest in and what your criteria?

Yeah, so we had a really long, long investment thesis, even though we're a fund, NATO, of course, make investments and try to turn up the folio, but the big picture vision of what we're trying to do. I mean, you could argue that it's a 10 20 year vision. We have a brand name was broken and we have a tagline under our brand name Better Living, and we define better living

as what you put inside yourself, which you put on yourself and what you do with yourself. So we wanted to start with food and beverage, which is what you put on inside yourself. There's a lot of problems to solve with the food system, and we felt like that was the first natural place for us to start. But we're going to be adding starting in twenty twenty two, we're going to be adding two more verticals. We're going to be investing in personal care and beauty and mind body wellness. That's so personal care beauty is really what you put on yourself. And there we're looking to dial into really underserved segments of the market.

So we're not looking to invest in beauty products that are going to reduce your fine lines or make it a little bit more plump. We're looking to invest in products that are, let's say, serving a wider, wider ethnic audience where you can really dive into more personalization or you serve underserved markets or really markets that have been started at all. For example, one that I would put out there is the menopause market. If you look at the menopause market, there's really not been a lot of solutions out there for women in menopause. It's one of those things that kind of sneaks up your sneaks up on you later stage in life, and no one's really prepared you for it. I think there's huge amount of opportunity out there to do something in that space. So that's the kind of personal care we would be looking for those underserved markets themselves and their would mind body wellness. I think we're going to see more tech enabled solutions when it comes to understanding our unique genetic makeup and what makes us function. I think humans are just going to get smarter and smarter about how to personalize our own sort of daily routines to maximize our best selves. There's a lot of tools forming out there that are going to allow us to do that. I also think that when it comes to mental health, as well as a massive problem to solve, I think Big Pharma is going to see, just like we've seen with big food and massive destruction, I think Big Pharma is going to see an equal level of massive disruption when it comes to alternative medicines.

There's a long road to go as far as regulatory environment around that, but I think it's going to happen. And so when you start to put all this together, understanding your unique genetic makeup, maximizing your human performance, giving yourself the right nutrition and feeling good about yourself what you put on yourself, you start to then see really what is forming for us, which is this long term thesis of better living for humanity.

Great. Can you talk about one or two startups you funded that fit your thesis?

Now, I think one of the investments that we are really proud of, which is close, the funding round for that now is all we bought their beverage brand. I think if you're in the industry, you probably already know about some of the success of owning. But I think for us, it really epitomizes. This brand really epitomizes everything that we look for at record for a brand, and that is a very deep, mission driven approach to what they're doing. Their formulation is is deeply rooted in science, and I know they're going to be doing some pretty exciting things to prove the efficacy of the formulations. They have a very dynamic, engaging branding packaging design that's exciting for consumers. Have a taste profile that really suits mass market, so you have the ability to really go out to a wide audience.

And so when you put all those things together, a product that has real functional benefits of product, it can add mass market and appeal and a brand that actually can gain mindshare with the consumer. You start to have the makings of something that can be truly disruptive in the soda space. Great. So there's a lot of challenges out there in the startup space. What do you think is the main challenge your CPG strategies face when they launch their business? I think scaring is really the biggest challenge, and I think many entrepreneurs come up with great products, but they're taking that product and being able to scale it at the right margins. It's almost so clear that actually that's where things go wrong. Most of the time is being able to scale the product with with healthy margins. If you're a CPG business that has the sort of benefit of just receiving unlimited amounts of capital, you tend to not focus on profitability too much. But what we have seen is that some of the best brands will obviously deliver that high growth, but really dialing to their margins really hard as well and do everything you can to just constantly improve those margins so that you can be a sustainable business. And that's really what it takes to take a product and turn it into a business that's being able to scale it and with healthy margins and really make that sustainable. So getting the supply chain right, getting your full band right and constantly being on top of where you can save and improve margins and also just really getting serious about what you have in your deck because you can sometimes have an ingredient deck that is just stellar and it's super clean.

But if you can't build a business around it, it's just not going to be sustainable.

So what's the main challenge the investor faces in the CPG space in today's market?

Well, I would say finding the innovation at attractive valuation is probably the toughest thing to do. We often face situations where we're looking at a deal and like, Wow, this is amazing. I

mean, everything just ticks the box. It looks great, but the valuation is just, like, really astronomical, right? And then on the flip side, you just see a ton of stuff all the time that just really does not, in my own mind, just not clear my innovation hurdle. 90 95 percent of stuff I get. I can't even clear my mental hurdle when it comes to this really innovative, and it's just going to be something we need in our system, right in our food system. And so I think that's really the challenge right now. I think going back to a point I made earlier where so much of superfoods and functional ingredients becoming table stakes and commonly known, now that's really where the challenge is finding that innovation, that attractive valuation.

So you see a lot of sectors and applications out there in the CPG space. If you had to pick one or two that are really good opportunities for investors to pursue, what would you call out?

Yeah, and that's a great question. There's obviously many categories out there that have already seen disruption. But if I was to zero in on one, we're taking a very close look at the dual category right now. That's a global category with a value of over 40 billion in the category and a very high consumption. You have around one hundred and sixty or one hundred and seventy billion servings of noodles consumed a year. And so you're talking about a category that's actually feeding a very large part of the base of their medical world. And so but when you look at the product offerings out there, it's just empty calories. There's zero nutritional value in many of those products is facing water, sodium and wheat. And so we really think that there's tremendous opportunity to disrupt that space and bring better nutrition to our categories from the basis of government.

Great. Well, in the last few minutes that we have here, what else should we covered that we haven't?

I think one of the challenges that we're going to face in our industry is that so much of the innovation that we see happening primarily in sort of Western markets and especially in the U.S., we see innovation happening in our space. But the problems that we face is a global problem with the food system, right? The stress that's being caused in the food system is a result of global demand.

And some of the issues around industrialized factory farming leading to very cheap animal product consumption within our system or diabetes, for example. These are global problems, not just sort of U.S. centric problems. And so how do we take all of this innovation that we're seeing and deploy it everywhere else in the world so that everyone can benefit and sort of really solve the issue on a global level? That's something that we think a lot about. We have a lot of investors in our fund who are international. Many of them have a vested interest in the food industry in other parts of the world. And so we're always doing that. We're constantly thinking about how to connect the dots and bring better nutrition to the rest of the world as well. And I think that's something, you know, I'd love to just challenge the industry to do that more so that we're really thinking about this solution being a global solution.

Right? So how best for listeners to get back in touch with you?

Yeah, my LinkedIn profile is open and public, so certainly want to contact me there. That's probably the best way.

Great. Include those in the show notes. We want to thank you for joining us today and hope to have you back for a follow up soon.

Thanks a lot.

Thanks for your time. Appreciate it!

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