Prem Bodagala of Michigan Rise

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 and many other investors for early stage and growth companies. I hope you enjoy this episode. The. 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: [00:00:38] Hello, this is Hall Martin with Investor Connect the day we're here with Prem Bodagala, director at Michigan Rise, Michigan Rise Precede Fund three Invest in Michigan tech startups to help commercialize innovative technologies. They are proud to partner with Michigan's best and brightest tech entrepreneurs and further economic development in the mitten state. Prem, thank you for joining us.

Speaker3: [00:00:57] Thank you, Hall, for having me. That's a pleasure.

Speaker2: [00:01:00] Great. So tell us more about your background before investing in early stage companies.

Speaker3: [00:01:04] I started out as an investment banker more than a decade ago, mostly in the furniture, life sciences and oil and gas industry, and our team there started a first time Life Sciences focused venture fund. And I began to be drawn towards venture capital more and more, and I decided to kind of make that my life's purpose.

Speaker2: [00:01:29] Right. So what excites you right now?

Speaker3: [00:01:32] I think more than maybe you're asking about industries, et cetera. I think it's a stage that excites me all I have since the very beginning. I've been working on the early stage and I mean early is precede and the seed stage of of of investing. And our fund is a sector agnostic fund. So we have invested in everything from life sciences, AG tech, space, tech, mobility, et cetera. And just really enjoy the work done at that early hairy, messy stages of

company growth. And I think that's what actually drew me away from investment banking, where in investment banking, it's more about like the final kind of stage you know, you you work with on a transaction by side or a sell side, and then you kind of move on. Whereas at being in venture capital, it's a lot more about the relationship. It's kind of like a marriage, really. And then you're with the company, at least in non coastal ecosystems, for longer periods than stay on the coast. You know, at least, you know, seven to 10 years.

Speaker2: [00:02:43] Right. So you see a lot of startups and a lot of investors with your fund. What's your advice for people investing in startups? What do you tell them to do before they write that check?

Speaker3: [00:02:51] Yeah, I think similarly, instead of like maybe specific industries like just the stage right, I think there is a shortage of funding in the stages that we typically invest. And so deal flow is going to be high, right? And so a quick know with constructive feedback, I think is more valuable for those companies and, you know, constructive feedback. What would you like the companies to do, you know, before they can kind of re-engage? And the other thing would be the whole periods for companies and the stages that we invest in are long, especially in, you know, non-traditional ecosystem. So I think having that staying power right, if you are going with like a five year kind of mindset may not always kind of pan out, especially when you invest across sectors for a fund like ours, we do, you know, several pharma deals. And as you know, they are capital heavy, you know, they have all kinds of risks that they have to kind of break out, including regulatory. And so just the stamina and the staying power, I think, is really important. And also, you know, for the fund or for the investors, if you're an institutional investor teaming up with limited partners that have a returns plus focus at Michigan Rise, for example, we are a wholly owned subsidiary of Michigan State University Foundation, which is one of our backers, as well as the state of Michigan. So both of these LPs have a returns plus focus, and that helps us kind of add fuel to our staying and stamina for for backing these companies.

Speaker2: [00:04:38] Great. And then on the other side of that table, what's your advice for people running startups? What do you tell the founders to do before they go out to raise funding?

Speaker3: [00:04:46] I would probably say pick your investor wisely, you know, as I mentioned, it is going to be a marriage. And so I think especially if you are in in the sectors that need capital and you know, there could be a lot of challenges that may come along the way. So having investors that are aligned with you on things like timing is going to be important. Early stage investors are, you know, not perfect. They often miss good deals as I have several times, you know, in my career. So, you know, don't take that know kind of personally, if there is alignment, if there's a culture fit, you know, staying in touch with them, you know, update them on a on a periodic basis. And so there may be a potential opportunity to collaborate and work together down the road that could be mutually beneficial for both. And I'd probably say lastly, it's, you know, kind of don't fake it till you make it, you know, especially investors that are in the early stages. We are probably, you know, doing four deals, three to four deals a month. So really, really balancing those resources is important. And if the diligence is any good, any kind of exaggeration or misrepresentation, it will come out and honest. I don't know what I need to figure it out is probably better to kind of build on their relationship with investors.

Speaker2: [00:06:11] All right. Well, let's talk about the state of startup investing. How do you see the industry evolving from here? Where do you see it going?

Speaker3: [00:06:18] I think one of the biggest things that has kind of started happening is a recognition of the importance of DEI and diversity, equity and inclusion. I think it had been talked about for a long time. Remember, you know, business school and in a case studies and all that. But I think in the last year or so, it has really kind of taken on kind of a different level. I see a lot of funds bringing on members, team members, investment team members, especially at the junior stages to from communities that are underrepresented, whether it be women, you know, you know, communities of color, et cetera, which I think at the end of the day by making the team more representative, it actually helps you curate your portfolio better. Right. And it's my hope that as these new members are brought on, they are groomed for kind of leadership and are provided those opportunities going forward where they have a chance to, you know, down the road when they have more experience. They have an opportunity to influence strategy and have agency and decision making responsibilities.

Speaker2: [00:07:38] Right. So what do you think is the biggest change we'll see and say the next 12 to twenty four months?

Speaker3: [00:07:42] I think what I'm seeing is valuations are at an all time high. I'm seeing numbers that are even in even in, you know, our ecosystem. And I say our I mean, like, you know what was formerly known as La Fly-Over, you know, parts of the country, the Midwest, et cetera. I think we are seeing on average whether it is convertible securities with caps, what have you. And price rounds, at least, you know, 40, 50 percent higher than before the pandemic. And I think there's going to have to be some correction at some point. And my hope is that it doesn't impact the companies too much when that course correction happens, which I think it inevitably might.

Speaker2: [00:08:28] Right. Well, let's talk about your fund. Is your investment thesis and your criteria for making an investment?

Speaker3: [00:08:34] Sure. So Michigan Rise is a wholly owned subsidiary of Michigan State University Foundation. Like I mentioned, our fund was launched in August of 2020 with backing from both MSU Foundation as well as the state of Michigan. So that thesis is to invest in high tech, high growth potential companies based in the state of Michigan. We are sector agnostic. We work very closely with universities to spin out technologies that have been birthed there and have been spun out, as well as non university based technologies. Our typical check size is about like hundred to one hundred and fifty thousand, so we are not able to carry that around entirely by ourselves. But it can definitely work with the companies and give them that institutional framework that can help them raise that first major round after their friends and family around. And we have invested in about thirty four companies since launching in August of last year, so a very high pace of investing, probably one of the highest in the Midwest. But our goal is to bring the programmatic infrastructure we have as part of Michigan State University, right? So we bring a lot of subject matter experts beyond what a typical venture firm is able to maybe provide. And we provide that support structure so that the companies can get off on the right foot and consistently aid them as they move along the commercialization pathway.

Speaker2: [00:10:17] Great. Can you mention one or two startups that fit that thesis? Perhaps a portfolio?

Speaker3: [00:10:22] Yeah, absolutely. So I think from the university side, we have a company called Vellis Circuits that was birthed out of University of Michigan. They now have the backing of Intel and race data, but it was birthed at a, you know, Michigan University and we continue to work with them as they are making strides in the semiconductor industry. And a non-university spin out are probably that's in Michigan. Rise portfolio would be a data security. It's a cybersecurity firm founded by the former one of the the C-suite members of dual security familiar with that firm that got acquired by Cisco, which was a big outcome for our ecosystem, right? So companies have actually been formed from former employees of D.O.C. security, which is great to see that spillover effects in our ecosystem. And so Rafael Moton, the CEO of IDEO Security, is building a cybersecurity product, and we were one of the earliest backers of that company, which has also received co-investment from several investors in the Austin area.

Speaker2: [00:11:40] Great. So what do you see as the main challenge for startups in today's market? Where do you see your startup struggling with the most?

Speaker3: [00:11:47] You know, I can give you the perspective of our kind of community and ecosystem, and I think this is probably not unique to us. It is probably endemic to startups across the country, but I think it's accentuated in our ecosystem. The first one is is capital at that earliest stages, right? It is still not as abundant as it could be. And so there are kind of finite resources with a significant demand. So I think that is a challenge for, you know, the companies in our area and even more so. The second one is the the talent and the personnel. I know that's a huge, you know, issue on the coast as well. And you know, folks are getting poached on a regular basis from companies. But you can imagine when I graduated from University of Michigan and the next day, I think about 90 percent of my graduating class just went to the coast, you know? And so I think I think talent is is a challenge. But I think what's happening now, the positive, I suppose, of COVID is you companies are able to work with talent irrespective of geography. They can just go, you can work remotely and there are certain functions that kind of lend themselves to that type of a setup. So that is kind of mitigate a little bit, but I think personnel would be the second the talent component of the second largest challenge, right?

Speaker2: [00:13:26] And what do you find is the main challenge for investors in today's market?

Speaker3: [00:13:31] I think, you know, I mentioned the valuations aspect of it, you're getting less of companies for your money that's going to be, you know, a challenge, at least in the short term. How do you, you know, I mean, we have a return plus philosophy. So it kind of we can be a bit more amenable to that situation. But like angel groups, I can imagine, you know, if your valuations are really, really high, then it would make an investment decision that much harder for them because you're not, you're getting a smaller piece of the pie.

Speaker2: [00:14:08] Great. Well, you see a lot of sectors and applications out there. If you had to pick one or two that are really good opportunities for investors to pursue today, what would you call out?

Speaker3: [00:14:17] We are seeing great opportunities emanating in the space tech area, Michigan, believe it or not, is has several companies, including a few of our portfolio companies in the space tech that are making, you know, maybe I shouldn't say waves given the context, but they're making big strides in that in that area or beyond. Spacex is one of our portfolio companies based in the Upper Peninsula of Michigan. And there are several other companies there and thereabouts. So in general, I think space tech, I mean, it's an entire we're just in the early, early stages of it and launch is only a small component of space tech, right? I mean, launch gets a lot of the attention in the media, but I think there's several other aspects of space tech. I think we are in the early stages and some great companies out there where investors can find great opportunities.

Speaker2: [00:15:14] Great. Well, in the last minutes that we have here, what else should we cover that we haven't?

Speaker3: [00:15:19] I think you've covered like pretty well that the major area is I think the one thing I'd like to maybe point out is and I began in the space just over a decade ago and the diversity of companies that I'm seeing now, like even within Michigan, but in the broad Midwest, right, is phenomenal. Like mostly at least in Michigan's DNA, it was mostly life sciences based, you know, Med device pharma. But now, because of success of companies like Rivian, like Stock X, like Duo Security, there is a lot more diversity and the state of Michigan is doubling down in certain areas like mobility, for example. So that's kind of encouraging, you know, entrepreneurs to kind of start enterprises in those areas. And like I mentioned before, the

spillover effect from the success of companies like Deal, where people, the top employees there are kind of starting their own, you know, startups. And so that's driving that creativity and diversity.

Speaker2: [00:16:25] Great. So how best listeners get back in touch with you?

Speaker3: [00:16:29] The best way would be for reaching out to us from our website. It's Michigan Ryzhkov. The pieces, as I mentioned, is companies that have kind of a Michigan oriented focus that need to be kind of based in Michigan. That's the kind of thesis investment thesis of our fund, but they should be able to reach me through our website, right?

Speaker2: [00:16:56] We'll put those in the show notes. I want to thank you for joining us today and hope to have you back for a follow up soon.

Speaker3: [00:17:01] Thank you all. Appreciate it.

Speaker1: [00:17:07] Investor Connect helps investors interested in startup funding. In this podcast series, experienced investors share their experience and advice. You can learn more at Investor Canaccord. Paul T. Martin is the director of Investor Connect, which is a 501c3 nonprofit dedicated to the education of investors for early stage funding. All opinions expressed by hall and podcast guests are solely their own opinions and do not reflect the opinion of Investor Connect. This podcast is for informational purposes only and should not be relied upon as a basis for investment decisions.