

Alexander Borschow of Semillero Partners

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 nonprofit dedicated to the education of investors and startups for fund raising. 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 Day. We're here with Alexander Borschow, managing partner at Semillero Partners. Semillero partners is an early stage venture capital firm, investing in purpose driven, sustainable food and food tech companies. Alexander, thank you for joining us.

Speaker3: [00:00:54] Thanks for having me. It's great to be here.

Speaker2: [00:00:56] Great. Tell us more about your background before investing in early stage companies.

Speaker3: [00:01:01] Yes. So I guess my background I was trained actually as a chemical biological engineer to MIT, so definitely not a traditional background for investing. But then I spent six years in banking at BNP part by learning about investments and more importantly, how to build long term relationships primarily with institutional clients. And it was a great experience and a lot traveled. And the thing that was I was most passionate about was food and sustainability and environmental conservation. And that's why I decided to go back and get my MBA to MIT Sloan, which had a really strong program in sustainability. That's where I started investing as an angel investor. And when I finished there, I was a director of finance at Eataly, got some great operational experience working with the fast growing startup. And and that's when I was invited to join as a founding partner for four year.

Speaker2: [00:01:51] Great. So what excites you right now?

Speaker3: [00:01:54] So it's it's been really exciting to see the amount of interest globally from investors, from consumers looking at sustainable food and food tech, how they can eat more sustainably. They want to greater transparency, knowing where their food comes from. The rise in alternative proteins, everything from plant based alternatives to cultivated meat to fermented meat. This is really driving a increased awareness and conversation about how our food and our food system impacts the world we live in. Because if you think about the food industry globally, it's responsible for about a third of global greenhouse gas emissions. And everybody is really aware these days about climate impact. And I'm actually excited that food and the food industry is front and center in how not only consumers, but investors can be making an impact and driving dollars and awareness to things that can really move the needle. So that's what's really exciting right now.

Speaker2: [00:02:50] Great. We see a lot of startups and a lot of investors in your sector. What's your advice for people investing in sustainable startups? What do you tell them to do before they write that check?

Speaker3: [00:02:59] Yeah, there's just a lot of excitement and I use the word hype a bit on valuations and funding rounds, and there's great PR and what I would say it's all about people, especially startups, right? You're investing in people that are going to be executing and leading, right? And unless you plan on stepping in and doing their job, you're going to really do a lot of diligence around the people. And that means talking to former employers, former employees, or people who reported to them and talking to not only customers, but also vendors and suppliers. And I would really recommend that I'm just looking for a great people that are humble, coachable, but ambitious and a big vision. And we really talk about sociability as being a key factor in when looking at people and how we evaluate people. And then the second thing is looking for great businesses that are really purpose driven. And I say that because it's kind of an overused trope talking about a ambitious or passionate founder, right? Or passionate. It gets thrown around a lot. We we think that purpose driven founders and teams are really the ones that are going to make the world a better place. And that's a key kind of a check mark for us, because it's not just about trying to make a better flywheel. It's really about thinking about how we can improve the world for all stakeholders.

Speaker2: [00:04:25] And on the other side of that table, what's your advice for people running startups in the sustainable food tech area? What do you tell them to do before they go out to raise funding?

Speaker3: [00:04:33] Yeah. So I'd say the number one thing is be authentic, right? Don't try to oversell. As an investor, we see a lot, a lot of pitches and a lot of hockey sticks. Jacob Roasters, the ones that I am most interested in, are the ones who are more authentic and realistic and honest and sober about where they are, where are they going and how they're going to get there. And also the ones that ask questions, they're not just trying to. I recommend not trying to share and put as much information out on the page. I really like the the entrepreneurs ask questions and are curious and open and really thoughtful about the feedback that they get. So in my world, an example is what kind of value you're creating really. It's not about getting your groceries in 15 minutes that's not really making the world a better place. But how you're thinking about impacting the way food is produced, the way consumers experience their food, and the way consumers are educated about where their food comes from. So those are kind of the things that I advise founders and entrepreneurs to think about when they're communicating to investors.

Speaker2: [00:05:42] Great. So let's talk about the state of investing in foodtech companies. What do you see happening here? How is the industry evolving?

Speaker3: [00:05:51] You know, 2021 was really a breakout year on top of a breakout year. So we saw all time highs in terms of investing in food and food tech. You saw billions of dollars invested across early stage and now you're seeing growth stage companies and even late stage companies we're all familiar with. Beyond Meat. Beyond Meat's IPO a couple of years ago really put plant based alternatives on the map. There are hundreds of companies now that have seen that model be successful and and are following in their footsteps. And that's really leading about the next wave of innovation in plant based innovation. It's not just about making a burger. It's making about a crab cake or a shrimp alternative or a fish alternative. And that's that's really where technology is is really getting interesting in innovation, technology, changing the way that food is being produced. Now, you have cultivated startups, see huge innovation happening in Israel, in Asia, in how you can actually grow a muscle tissue, in vitro, and it have 100% no growth hormones, no antibiotics, no pesticides. Right. It doesn't require millions of acres of land

for feed. So it's a it's a very interesting evolution in the way technology is being applied to food production. So I'm really excited about that. The digitalization of food as well has been a very interesting trend. It's bringing in other investors. You're seeing SoftBank investing in vertical farming agtech startups like Plenty. I'm not going to comment on the valuations and the prices that are being paid in that space, which are definitely frothy. But but it's just also broadening the types of investors that are investing. So now you see not only early stage VCs that are just dedicated focus to food and tech, but you have more generalist VCs, your Bessemer Ventures and Khosla and others who are seeing this as a largest global industries finally getting a an injection of technology. And and that's changing the pace of innovation in the space.

Speaker2: [00:08:02] Great. So what do you think is the biggest change we'll see in the short term, say, 1 to 3 years?

Speaker3: [00:08:07] Yes. I think one, two, three years. I think you're going to see. More acquisitions in the space because. I'll talk about cultivated meat. Cultivated meat I mentioned about meat that's grown in a in a petri dish or in a fermenter or reactor or bioreactor. What you're seeing in the next 1 to 3 years is massive investment from established global meat companies. Your Cargill's or Adams Archer-Daniels-Midland your JBS is right and they're investing hundreds of millions of dollars into companies like Israel's Future Technologies because. You know, globally, meat consumption is rising as middle class rises, but consumers are becoming more and more aware of where their food comes from and the global industrial production of meat is it's not a pretty industry and it doesn't have a great footprint. So if you think about the long supply chains of having to grow, feed corn or soy in Brazil or the US and then move it, process it over thousands of miles to then feedlots for cattle and then have to process that and then move that meta to the end consumer all around the world. The future, right, is going to be about being able to produce 20, 30, 50% of that. Right in the same country, in the same city where this was, rumors are with a fraction, a tiny fraction of the footprint from a land footprint, a water footprint and energy footprint. So I think the next one, two or three years is going to see a lot of money continue to be invested in cultivated meat for beef, pork, seafood, chicken. And that's something that's the biggest change over the next couple of years.

Speaker2: [00:09:52] Great. So let's talk about your investment thesis. What exactly is it and what what's your criteria for making it an investment?

Speaker3: [00:09:59] Yeah. So our thesis is we're looking for purpose driven entrepreneurs in the food and tech industries that are really just not making products that are better for people but for the planet. And when we talk about better for the planet, we really walk the walk. We really measure impacts. And one of the easiest metrics is to give out your carbon footprint, but also land use, water use, energy use. And what we look for, we're focused on early stage companies that are kind of around their series stage. They're doing a couple million in revenue, say call it 2 to 15 million revenue, and they're looking to grow to that next stage. Right. And we're pretty selective in the companies we invest in. We're not high volume investors or more low volume types of investors. So we really look for building relationships with founders value our input and our expertise and our our partnership more than the capital that we're bringing on board. And that takes time to develop. So that means that we don't have one intro call and maybe one follow up and then write a check. We tend to get to know companies and entrepreneurs over a period of many months, if not years. And that means getting to know them early means getting to know them when they're raising their seed or pre-seed rounds, getting to see how they communicate with investors. How coachable are they? How curious and open are they? How many questions do they ask? Are they just asking, just sharing information? And when we look at companies, we're looking at companies that are going to be growing somewhere, the revenue somewhere around ten X over the next 3 to 5 years, that's kind of a good multiple. It's very important for companies that were aligned on the plan of that subsequent round of funding, because that's an important milestone of survivability and success in early stage companies is how do we make sure that we hit the milestones to make sure you get the capital you need for the next round of funding?

Speaker2: [00:11:54] Great. Can you talk about one or two startups, perhaps a portfolio company that fit that thesis?

Speaker3: [00:12:00] Yeah, I definitely can. So we we invested in a company out of Colombia looking at Latin research in Latin America called Robin to Robin. Food is the largest kitchen restaurant company in Latin America. They operations in Colombia and Mexico, Brazil, and founded by previously successful entrepreneurs with exits in the food, tech space and delivery space. And and when we think about when we met Jose, the founder, we were introduced and got to know that we had a couple of conversations. More importantly, we saw that there was a

consistent execution of what he said he was going to do. So when you think about the growth that he was expecting, the new stores of every opening. Right, he consistently communicated expectations in a realistic way and then met those expectations. And the mission of Robin Food was about making healthy, fresh food available and affordable to all. So that's a really interesting mission because it's not just about being healthy and fresh for people, but also about using sustainable packaging, increasing the consumption of vegetables and plant based foods in the diet. So working together, we saw they were when we started, they were doing about five 600 K a month revenue. In the last seven months, they doubled their monthly revenue to 1.3 million. And that's kind of the execution and growth that we like to see. And we consistently talk on a every 2 to 3 weeks catch up. And and it's a good example where we invest initially in in a safe note of a financing and then saw the execution and then had capital reserve following and invested more capital in cigarettes.

Speaker2: [00:13:45] Great. So there's lots of challenges in the food tech space. What are the main challenges you find startups face when they go out to run their business?

Speaker3: [00:13:55] I would say the challenges in the space for startups in the industry. There's a lot of excitement around anything that has a tech component, be it delivery or cultivated meat, and it pushes up the I would say the valuations have been pushed up in that space, which a lot of investors have been chasing that and it's a hot space to invest in that has drawn the attention of investors away from some really good companies in other categories within the food industry. And it's consciously or unconsciously, they're benchmarked against a company that's raising a massive round and has huge growth revenues, even though they're highly unprofitable. So instant grocery delivery companies, I commend them for the way they have grown. But if you think about the fundamental business model, I'm not really sure how that is really going to work and scale, and I don't know what kind of impact it's having on the world, but they've commanded huge valuations and raised multiple rounds within one year. And it's it leaves the other startups in space kind of being compared to that. So it's a that's a that's a challenge.

Speaker2: [00:15:14] And then on the other side of that table, what's the challenge the investor faces in this sector?

Speaker3: [00:15:20] Well along the same lines of valuation is being pushed up in interesting companies. A. Don't chasing valuations, right? You want to be part of a company. But the truth is, as an early stage investor. You know, investing one, two, three, \$5 in our sweet spots, really? The 2 to \$5 Million initial investment. You're not getting the same percentage equity when you're investing in a much higher valuation. Right. So if you look at the the the return scenarios on it or whatnot, it's a it's a it's a different value proposition because the the the economics have changed when you're investing 2 million and you were getting 10% of the company. Now you're looking at companies that are raising it \$8,000 million. And instead of getting a 10% company, you're getting anywhere between two and maybe three and a half, 4% of the company. So it's a different equation. So that's been a challenge in certain spaces where we want to deploy capital, but just finding the right partner and the right price.

Speaker2: [00:16:28] We see a lot of different sectors and applications in the food tech space. If you had to pick one or two opportunities that are good to pursue today, what would you call out?

Speaker3: [00:16:37] One space that we would deploy capital significantly from on one and on two is in the plant based alternative space. We think that that is going to continue to be an interesting space and really the next wave of innovation in that space. It's like I mentioned, it's not just about a a burger that is made from plants that taste almost similar to something that might be me. Excuse me. It's about getting all those other form factors sausage links, crumbles, crab cakes, fish filets, but also, most importantly, giving the experience for the consumer to be identical or even better, with a product that's actually healthier for them. So using a whole plant's plant based foods, not highly processed foods with a bunch of additives, but actually making it a healthier and better experience for the consumer. That's kind of innovation we're seeing. We call it version 2.0 and 3.0 and plant based alternatives. And the other one I mentioned earlier is about cultivated meats. I think over the next 3 to 5 years is going to be a game changer. There's a lot a lot of. Room to grow and a lot to come down to the cost curves and also the scale of production. But you're already seeing just having their cultivated chicken nuggets proved to the market in Singapore. Singapore has been a forward thinking, innovative regulator and the first to approve a cultivated meat product in the market. You're going to see the US and Europe probably 12 to 18 months behind that, and that's another really exciting space to see.

Speaker2: [00:18:14] All right. Well, the last few minutes that we have here, what should we cover that we haven't?

Speaker3: [00:18:19] So from an investor perspective, we talked a lot about how excited we are about impact and sustainability. I wonder what percentage of investors out there be it family offices or teachers actually have exposure to to food and sustainable food and industry? You think it's a \$7 trillion industry globally, but I would say that most investors don't have much exposure to it, and it's one of the ones that are changing most rapidly. And if there's one thing that we try to do, at least two, maybe three, sometimes more times a day, it's eat food. So I think it's something that we I think getting more exposure in portfolios to to food is something that all investors.

Speaker2: [00:19:03] So how best for listeners to get back in touch with you?

Speaker3: [00:19:07] Well they can email me Alex at semi-pro partners dot com and that's similar with two L's. That's the best way to get get through to me and then also happy. If you log into our website to our website reporternews.com. There's a form for you to fill out as well.

Speaker2: [00:19:23] Right. We'll include that 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: [00:19:29] My pleasure. Thanks so much for having me. All.

Speaker1: [00:19:36] Investor Connect helps investors interested in startup funding. In this podcast series Experience, investors share their experience and advice. You can learn more at Investor Connect dot org. Paul Martin is the director of Investor Connect, which is a 500 1c3 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.