

Transcript of Nitin Rai of Elevate Capital

Hall T. Martin: [00:00:00] Well, hello, this is Hall Martin with Investor Connect. Today I'm here with Nitton Rye Managing partner of Elevate Capital. Elevate Capital is a diversity, equity, and inclusion focused fund that invests in US-based early stage startups, led by underrepresented entrepreneurs including women bi bipo, L G B D Q, and Veterans Nitton.

Thank you for joining us. Thank you. Good to see you. So where are you calling from today?

Nitin Rai: Today I'm in New York City.

Hall T. Martin: Great. Well, tell us more about your background. What did you do before Elevate Capital?

Nitin Rai: So my background is, um, immigrant from India, engineer, software engineer. Uh, started my career in, Silicon Valley, working in AI in 1987, and subsequently, moved to Oregon.

Uh, worked for a much larger company as a software engineer. And then in 1994, I quit my job and started a company called First Insight. Which is my 30 year old startup now. and we developed a software, EHR software, management software for eye doctors[00:01:00] that's what I did before Elevate.

Hall T. Martin: Great.

And so how has your entrepreneurial journey shaped your fund?

Nitin Rai: I am the most, non vc VC you'll ever meet, entrepreneur first. , so I bring the point of view. I raised a lot of venture capital and, and in the middle of the.com bust. The company almost got killed by the VCs that invested in me and the company.

And so I take an entrepreneur first approach, and we, you know, bring a lot of value to, we means me and my partners, there are all, many of them are ex entrepreneurs, in terms of having, that lived experience of an entrepreneur to these founders that we're investing in.

Hall T. Martin: Great. Well, tell us more about starting a VC fund. What's that like these days?

Nitin Rai: today I think it's rather hard, , with the, macro economic climate. , a lot of the, institutional capital funds, fund of funds have kind of pulled back and it's really hard for emerging managers to raise money. I got lucky. I raised it. you know, two years ago, my second fund, and we have deferred [00:02:00] actually our third fund for that reason because of, what's going on in the stock market and how it's affected the cascading effect to VC funds as well as startups, uh, that are having a hard time raising money right now.

Hall T. Martin: And so what's the opportunity with starting a VC fund? What, can you do with it that you cannot do without a VC fund?

Nitin Rai: I think the, you know, prior to being a vc, I was actively investing my own money as an angel. I helped launched Thai, Oregon Angels in Portland, which is basically a, a group of investors that are investing and mentoring.

And I was quite successful, doing that. But you run, against sort of, You have limited pool of capital, it's difficult to do follow on into those companies. And because you're angels, you really only want a very small piece. So you don't have much influence, over, the entrepreneurs once they've taken your money and they start, taking money from other VCs.

And I find that, you know, our value add. Substantial enough that we needed a larger pool of capital. , I was not interested in becoming a vc. I got [00:03:00] approached. and uh, when somebody comes to you and say, Hey, love your track record, love what you're doing. if you'd be interested in starting a fund, we'll invest in you.

that's how I got me started. Otherwise, there's no way I would've gone out and raised money. It's hard.

Hall T. Martin: Well, great. And so what's the challenge in, uh, starting a business in today's market? What do you find your start struggle with the most?

Nitin Rai: I think two things. One, startups that have already raised money and have shown progress, you know, many of them had targeted this year as the year to go raise the next round of funding.

And, a lot of that has dried out. there's not a lot of, you know, VC money available, so, they've delayed that. And so what they're doing is coming back to

investors like me. There are existing investors for bridge rounds. , that's sort of the name of the game right now is a lot of the companies are going back and raising bridge rounds because two things, a less capital B stock market is down, what, 30, 50%.

So there's pressure on valuation and some of them raise money at much higher [00:04:00] valuations. Sort like all the bubble valuations. So now they're gonna, get down rounds and, you know, that's a hard, a hard apple to bite, you know, to take a a dilution. Great.

Hall T. Martin: And so what is the potential reward for startups a day? What kind of exits are we seeing out there?

Nitin Rai: I haven't, at least in my portfolio, seen any exits. this year. We did have an exit last year, which was, you know, kind of the beginning of the meltdown and they had to sell for 50% of what, they were originally offered. So, I think there is an opportunity because a lot of these funds are looking to, not just, What I call private equity funds that do a lot of secondaries and they do majority buyouts.

but also, , strategics are looking for deals, , that are value deals that could be great add-ons to their business. So of course, they're out there, uh, but the valuations are low and so people, and people are being very selective on who they wanna buy.

Hall T. Martin: Well, great. And how is your fund different from other diversity funds in the market?

Nitin Rai: We are [00:05:00] different because we take a, a more, I would say a smarter approach to liquidity. I won't say smarter, but just a different approach. , we consider ourselves as a micro PE fund. Our thesis is around generational wealth creation and we feel you can't create generational wealth in a lot of these companies that we're investing in if we have to wait 14 years for a liquidity event.

So we invest in companies very intentionally that kind of fit the model where they can build, let's say, 5 million ARR. , in the next three to five years, and at that point we socialize them with private equity funds, growth equity funds or strategics that might be willing to do either a secondary or a full buyout where we can get out.

Get our money out, maybe three to five x in three to five years, and then also offer secondaries to these founders so they can get a first bite at the apple and eventually, you know, they might get a second or third bite at the apple. But our approach is we wanna return capital back to our investors [00:06:00] at a much faster rate because all that money then gets recycled.

And re invested in future funds. So for, for instance, our first fund, which is a 10 million fund that we launched in two 16. we've already returned 12 million back to our investors. And what's the more important, metric there that we look at is generational wealth creation. There's about 200 million of generational wealth created from seven exits.

60 million has already been returned. Average return per founder, 12 million. and they are whole period, three years return 4X. So that's how we're different.

Hall T. Martin: Well, great. And so you talked about being entrepreneurial friendly. How does Elevate Capital take a hands-on approach with the portfolio companies?

Nitin Rai: I. Sure. We, come on board as either advisors and board members. We take a lot of board seats. know, pretty much every other company we have a board seat. Uh, some of our LPs that are venture partners, become advisors to these companies. And, some of them actually join forces with them.

They might join their C level team. So [00:07:00] we've done a number of these sort of things. from that perspective then, you know, we have a network of other investors. So when we're. When they're raising a round, and if we're leading in, we might bring in a syndicate. When they're doing bridge rounds, we might invite other people into it, so we become their spokesperson.

Obviously, performance is important, so if you're performing, we're in supporting you. If you're not performing, then we're still there to help you. If you want our help to get you out of any message that you get into.

Hall T. Martin: Well, great. Well, what are some of the most important factors in mentoring portfolio companies?

Where are you spending most of your time?

Nitin Rai: I think we spend most of our time in strategy. With the founder. and the second part is, is the fundraise. So those are the two most, most important things. And the founders that, you know, we don't force ourselves on any of

these companies. So, you know, we like founders who are transparent, who lean in, and the ones that lean in, you know, we, we get together as frequently as they need to on any kind of problems that they're facing.

Whether it's resources, whether it's dealing with, angel investors who [00:08:00] might be difficult with them, but most importantly on the go-to market side and growth, we add a lot of value in terms of strategizing with them and helping them see through what the best paths are to grow the business.

Hall T. Martin: and so what's one thing about your fund that happened that you didn't expect?

Nitin Rai: well, I never expected that I could. Raised 40 million that I did raise in the middle of the pandemic. That was, that's a fun surprise, you know, getting 21 million of first clothes and we thought we were dead for fun too.

I think that was, completely unexpected. The fact that I got approached by, Adams, this lady Aya Adams from Meyer Trust. , she changed my life, like the fact that somebody would grab my wrist and pull me aside and say, I want to talk about your next career move and, and then offer me money.

And nobody has ever done that. that was totally unexpected. , all other things you expect, you know, you expect entrepreneurs, not everyone can make it, but you know, one thing that is very different about us is that more of [00:09:00] our, companies, Are surviving and thriving than less. So the very first cohort that I invested, and I was, I was in a talk yesterday about this surviving to thriving.

especially in these times. , the first six investments we've made, only two died. Four made it, two are surviving and thriving. Two already provided liquidity in 2016. So I never expected it, but it happened because we're intentional about it.

Hall T. Martin: That's great. Well, in the current market, what sectors do you think are safe havens for investors in the current, uh, landscape?

Nitin Rai: Well, a few climate tech. I think climate tech has a huge potential. Anything with the government, anything essential. Right. So healthcare, which is something that we invest in, some FinTech, you know, , I think education has huge potential. And with the. Finally the realization of ai, which I think ChatGPT is, sort of the foundational technology now that is gonna drive a [00:10:00] lot of new ideas and new companies that are gonna be built on that platform.

I think that's an area to invest in, uh, whether you have an existing product, or you have new ideas. I mean, yesterday I saw a pitch of a number of really great companies and 22 year olds with great ideas using ai. I think that's the future and I. Dreamt of that when I was a startup engineer working for an AI company.

And some of those ideas are now coming to fruition. So I think there's huge opportunity there, during this time.

Hall T. Martin: Great. And so what advice do you give to someone founding a company in today's market?

Nitin Rai: Be nimble. Be really nimble and, and be, uh, be humble. You know, if you've got an idea, your skin in the game is just do the work.

Like don't come up with some idea and, go to the bro club and think you're gonna get funded. That's not gonna happen anymore. So, you know, have an idea that's wealth synthesized. Bring in some mentors and advisors who can give you guidance on how to [00:11:00] take the next steps because money is scarce.

But money is there, and I think this is the time when angel investors really shine. And so go find some good angels. or get connected into an angel network. Like I, you know, I, I'm part of, Thai Oregon, Thai Global, some of us funded some really great companies in Oregon during the crisis. And I was just reading up an article on Airbnb that, you know, Airbnb raised money in 2008 in the middle of.

by getting accepted to yc. just go in that direction and don't think you, you know, with your idea, you're gonna raise 10 million for a 50 million pre money valuation with a piece of paper. That's not gonna happen.

Hall T. Martin: Well, great. Well you see a lot of new technologies and business models.

if you could start a business tomorrow in this space, what would that business be based on? What you know,

Nitin Rai: I think there's gonna be a lot of AI and climate tech. Those are the two that I think have huge opportunities. And certainly healthcare, cuz healthcare there has so much room for [00:12:00] improvement. , so those are the three that come to mind immediately.

Hall T. Martin: Great. Well, in the last few minutes that we have here today, what else should we cover that we haven't?

Nitin Rai: I would say, just what's going on right now, right? I think, uh, the, there's a lot of doom and gloom. Uh, people talk, you know, a lot of media is talking about doom and gloom, and I just wanna say that this isn't anything new, right?

Every 10 years we go through this cycle, , there's a bubble that the bubble bursts and then, you know, a lot of companies go away. A lot of disruption happens, but in the disruption is when a lot of the new ideas get formed and. The next generation of great companies are created. So my advice out to the entrepreneurs or to community at large is like, don't think the world has come to the end.

I think there's, there's more to happen and I think the US is the best place to start a company. And this is the best, best time to start a company. So take a risk, you know, That's

Hall T. Martin: great. Well, so how best for listeners to get back in touch with

Nitin Rai: [00:13:00] you. Uh, they can reach to me at my email, nitin@elevate.vc.

Great. Oh, and one more thing I wanted to add one more thing. Sure. To the investors, to the institutional investors, this is the time to invest in funds like us. So, you know, now is the time because there's a lot of great companies at great valuations. Uh, lot of new ideas gonna pop, so don't hold back, get back in the game

Hall T. Martin: again.

That's great. Well, great. We'll put the, uh, contact details in the show notes. I wanna thank you for joining us today, and we hope to have you back for a follow-up again soon.

Nitin Rai: Sure. Thank you Hal. Have a great day