Francisco Jardim of SP Ventures

Speaker1: [00:00:04.77] This is the Investor Connect podcast program. I'm Hall Martin and 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. Hello, this is Hall Martin with Investor Connect today. We're here with Francisco Jardim, managing partner at SPX Ventures, founded in 2007. Espe Ventures is one of the most traditional venture capital managers in Brazil. They temporarily acquire equity interest in small and medium sized companies with innovative technologies and high potential for non mid-term growth. Cisco, thank you for joining us.

Speaker2: [00:00:44.04] It's an honor to be here. Well, thank you very much for the opportunity.

Speaker1: [00:00:47.75] So what was your background before investing in early stage companies?

Speaker2: [00:00:51.03] I come from the dark side. I worked in the traditional finance. I worked in a wholesale banking and hedge funds.

Speaker1: [00:00:58.02] Great. And so what excites you right now?

Speaker2: [00:01:01.83] When I worked in hedge funds, we were very focused on small caps and long short strategies. And I saw, I think, a couple of things that that really sparked my eyes and led me to start Aspy ventures first. When you work with illiquid assets in emerging markets, the opportunities in asymmetry, pricing and assets is fantastic. So that was one of the first points that that sparked my attention towards working with alternative and illiquid assets. The second point was the hedge fund that I worked at was activist. So we were talking about activist investors. They really got their face in the face of management and influence them towards being better managers and respecting more minority investors, being more transparent, meritocratic. So this also led to outsized returns. And well, when I saw these two things, I started to wonder, where could we start a business here in Brazil, in the financial services sector where I can exploit these two verticals, you know, illiquid assets of a lot of a symmetry in pricing and where can I influence managements towards best practices? And that's one venture capital really sparked my attention. Brazil had a pretty much nonexistent venture capital industry in 2007. There are few illiquid assets, has the liquid as that's early stage tech. And last but not least in venture capital, especially here in Brazil, in the beginning of industry would basically call right the governance rules with the founders so we could really determine what would be the best practices in terms of transparency and meritocracy and the best way to create a thriving long term winning company. So this is what led me to start Risky Ventures back in 2007.

Speaker1: [00:02:48.66] Oh, great. Well, you see a lot of investors and a lot of startups out there. What's your advice for people investing in startups? What do you tell them to do before they invest?

Speaker2: [00:02:57.09] Well, first of all, know what? Your secret sources don't try to compete where you don't have a very strong competitive advantage. And when we started doing venture capital in Brazil, we made a very serious mistake. We basically tried to replicate the V.C. model from California, from Israel over here. So we were looking for companies in the medical device sector and the I.T. sector that the science of these traditional vesi areas of interest. And after a couple of years, we realized that, well, in Brazil, the closest thing that we have to a Silicon Valley is agribusiness. It's AG. I mean, almost a quarter of our GDP is agribusiness. It's where we thrive. It's where we need globally on several verticals. We produce a lot of frontier science and we have a very strong entrepreneurial spirit. So we decided to focus in ag tech from a very early point in the firm. And I'm very happy to say that today we are probably one of the five best ag tech investors in the world. So we found our vocation and then we went straight a little bit following the DB strategy of Normandy. Focus on the beach. That's where you're going to exert your energy and that's really going to make a green.

Speaker1: [00:04:09.27] And then on the other side of that table, what do you tell startups to do before they go out to raise funding?

Speaker2: [00:04:13.59] Wow. First of all, know your milestones, right? Know what points you need to reach, whether it's team, whether it's revenue, whether it's products, whether it's validating scalability. So know your milestones, which ones you got to reach to be able to be on the level of investor best ability of each investor. And that brings the second priority that I also recommend. Do your diligence on your investors. The worst thing is when the founder hits A, B, C and doesn't have a clue what he has invested or his failure stories or success stories, so do your diligence. The diligence is a core obligation between investor and entrepreneur.

Speaker1: [00:04:54.15] Well, great. Well, let's talk about the state of startup investing. How do you see the industry evolving from here?

Speaker2: [00:05:00.30] Wow. Speaking from my ecosystem now, I'm based here in Sao Paulo, Brazil, which is the, let's say, ground zero of entrepreneurship and innovation in Latin America. I see that Brazil for the very first time in my generation and I think in the country's history, we are at the very forefront of a global technology revolution. The. We call the fourth agricultural revolution, right? So where do we see this specific tendency going? We see AG becoming more digital, more biotech oriented. We think that being an entrepreneur in the ag tech space right now is an outstanding opportunity to do something that we've only seen in places like China and India do, which is to innovate simultaneously with technology and with new business models. Right. So specifically in farming, what are we seeing or seeing entrepreneurs that are launching great digital solutions that solve very specific agronomic or operational challenges, but they're transforming that solution into a customer acquisition strategy with a healthy lifetime value, which later they can monetize and sell through different services such as financial services. So what are we seeing right now in farming in Brazil and Latin America? We're seeing the new ag tech companies becoming what we hope to be the future digital banks of farmers.

Speaker1: [00:06:30.48] Cool. And so in the next five years, what is the biggest change you think we'll see in this space?

Speaker2: [00:06:35.95] Wow, we're going to see a lot of changes. First of all, there's a perfect storm for financial services in AG. So we're going to see interest rates. We're going to see access to capital much more favorable to farmers. And there's something that's very important to understand in financial services for farmers. It is a major source of farmer empowerment. Today, the decision to adopt or not adopt a technology, whether it's a new fertilizer, whether it's a crop protection, whether it's a farm equipment is driven more by the access that the industry is offering. The farmer of financing that acquisition at the moment that farmers have independent access to credit, they become empowered to choose the input or the capex that will bring the greatest productivity for farmers. Now, when you apply that with the transparency power of digital technologies, remember that farming is probably the last major vertical to be this intermediated by digital technologies. When you bring that aspect and farmers start to understand and have access to what what are the best yield producing technologies and they have access to the family, then you eliminate two barriers that you had previously. So we think that farmers will be very much empowered. They'll have a much larger access to the right technologies and they'll be much more informed to make the decisions on the right technology at the very end. This means productivity. And remember one thing, we are on track for 20 50 years to reach approximately a 10 billion human population on planet Earth. We continue to enrich emerging markets India, China, Indonesia, Vietnam, all these other places. What does it happen when people leave the line of poverty in these countries? They radically change their diets.

Speaker2: [00:08:26.29] They start eating a lot more animal protein. Animal protein means consume a lot more grains because animal feed is growing. So there's a lot more pressure on food production and the planet. And it'll it'll increase by 60 to 80 percent by 2050. Now, given our audience a little bit of an idea what this means, this means that in the next 30 to 40 years, we are going to have to produce more food than we produced in the past 6000 years. We have a bigger population eating a lot more. So the mathematics makes sense. What's the crazy thing? We're going to have to produce this incredible leap of food in an environment that is much more risky than it was depressed. Why is the risk here? Because the primary risk variable in farming is climate. Climate is changing. There's an interesting concept by the UN, which is called CCRA Climate Resilient Agriculture, which is farmers that are resilient to these climate changes via floods, via droughts. And what does this means? This means farmers that are much more dense in technology. So we're going to be seeing a lot of technology, adoption and farming. Farming is going to change radically from what it is today. It's going to be a very high tech operational matter where you are. And we feel that much as Thomas Maltose was proven wrong when he projected that we would enter famine because population growth was growing quicker than the production of food, I think we humans are going to achieve the same dilemma now until 2050 as digital technology and biotechnology will give us great leaps in productivity.

Speaker1: [00:10:04.16] So what is your investment thesis for the agricultural sector? What specifically you look for to invest in startups?

Speaker2: [00:10:10.30] Yeah, so we break on investment categories into six major boxes and each one of our investment has to fit into at least three of these boxes. So first of all, which Verdell. Is the startup inserted, whether it's the animal protein or the grain and vegetable protein, so whether it's agriculture or livestock, second, we categorize the startup by which kind of technology enables scale and competitive advantage, whether it's biotech or whether it's digital and just deep dive into that one by biotech. We can be talking about CRISPR, recombinant protein, anything that really involves life, technology. When we talk about digital, we could be talking about drones, which are flying robots with remote processing cloud connection. We could be talking about block chain, we could be talking about cloud mobile. So it's a pretty broad spectrum. So those two major categories. And third, we also separate in two different two different categories of where in the value chain that startup is attacking a problem, whether it's inside the farm gates or whether it's downstream all the way to where food is delivered to and consumers basically the farm to for it. So that's how we look at our playground. We categorize by the value chain, by the technology and by where they are in the value chain.

Speaker1: [00:11:28.24] Can you talk about one or two startups that fit that thesis?

Speaker2: [00:11:31.09] For sure. I'm going to talk about a startup that is in the news today, Agastya, an Internet of Things Iot company that delivers remote sensing. So soil sensors, weather stations to farmers, they collect data on soil weather and a whole bunch of other in in farming local data. You send that data to the Internet. We transform and process that data into actionable insights for the farmer, ranging from his ability to plant seed harvests, apply his agrichemicals or his biological inputs across the board. And what we're seeing is as we deliver this intelligence of this monotremes technology, what we're also seeing happening is that these guys are becoming more eligible for AG Credit and ag insurance. So this is the fusion between ag tech and financial services, creating an entirely new, exciting asset class called AG FinTech. Another company that we have backed, which is a great example, is a company called Shanika. It's a biotech company that produces microorganisms that in turn attacked the primary caterpillars and diseases that attack our crops. So these guys, they have a technology that involves identifying microorganisms in the field, bringing these microorganisms to our collaborators, developing technology to mass produce these microorganisms, and then developing technology to apply in large scale these microorganisms in the farmland in order to reestablish an equilibrium and attack the pest. Now, let me give a step back and explain the general dilemma of that technology. When we're talking about a natural ecosystem, a forest, for example, there is an equilibrium between the pest and its natural predators when we came and we destroy the forest, planted crops, creating a monoculture, introduced GMO, introduced agrichemicals. What we created is a of an imbalance, an imbalance where the predator was destroyed, but the pest overpopulated. And basically what Biola biological inputs do is we identify which predator for those pests were obliterated by the monoculture. We bring it back to the laboratory and we re-establish that equilibrium through a massive production and distribution of that microorganism. So those are two examples of how we're using digital technology and biotechnology to solve some of the most basic problems of farming in Latin America.

Speaker1: [00:14:07.72] Great. Well, you see a lot of startups and investors out there. What's the challenge for startups faced most these days?

Speaker2: [00:14:14.86] Quite a few. And I think those challenges are quite universal. I think generating scalability go to market. I think in farming go to market was probably the biggest challenge possible, because especially in Latin America, the distances are very large. So you cannot consider having key accounts that actually visit your customers. You need to be able to distribute your technology from an inside sales or in marketing perspective to really gain scale. So the distribution is a serious element. And when you create a second barrier to this, which was the lack of connectivity in farmland, then you had a very serious issue. Now we have been working in our portfolio in building inside sales and marketing strategies for farming to discover how can we break through this this barrier. And I must confess, we were successful until twenty twenty. But when could that happened? And all of the agricultural fairs have been cancelled here in Brazil and have been canceled again this year. What happened is farmers are home. They're much more concerned about. Our Internet connectivity, they've leapt in terms of digital literacy as they become more and more proficient and started using these tools like Zoom meets teams, etc., participate in lives. And another consequential input was as the dollar has soared among emerging markets and farmers, incomes are dollar denominated because the work of global commodities, they become richer. They're already more digital and their home so we can find them on the phone and make sales. So we've had an explosion of growth and distribution kexin in Latin America directly as a consequence for covid. So what used to be a major challenge for us until March of twenty twenty? I'm very happy to inform that it's been solved.

Speaker1: [00:16:05.66] So what are the challenges for the investor in the startup space in Brazil,

Speaker2: [00:16:10.38] The challenges for the investor in the startup scene in Brazil or quite a few? I would say until very recently, one of the biggest challenges was there was very little liquidity on the way out. So until maybe 2017, 2018, we had a lot of angel investors and seed investors, but we didn't have Series B, C, C, C, C, we didn't have a multi-stage financing value chain in place. So you could really grow companies to be very big. And if you don't grow companies to be very big, you must sell those companies at a very early point. And when you sell high speed, successful companies early, what you're doing is believing a lot of money on the table. And when you talk about venture investing, where usually one or two companies end up paying the bill because of the outliers, you have a huge risk of selling the potential outlier before it becomes an actual outlier. So I'd say that was the biggest concern and the biggest risk. What I can tell you now is that we've had a revolution in terms of multi stage financing. We've had funds like Softbank pledge of five billion dollars to our system, not just pledging symbolically to make it investments every week as a new Softbank investment. Over here, we had never had a unicorn, a billion dollar company until 2018, since 2018. So today we must have 20 unicorns, whether it's fintech SA's consumer tech across the board.

Speaker2: [00:17:36.09] So liquidity has exploded. Now, I must say we have similar challenges as an investor, as you have in Silicon Valley, which is the biggest challenge is convincing entrepreneurs to take them on because there's so much capital available for solid founders, there's so much competition, there's so many term sheets flying. He was that his way that you really need to work hard to demonstrate to founders that you bring something unique and important and valuable to the table on top of your money? And how did we solve this situation? From the venture side? We specialize. We made a promise to ourselves back in two thousand eight nine that we're going to become the best venture ag tech venture investors in the world and specifically in our ecosystem. And I'm very happy to say that today, from the feedback of our founders, feedback of our ecosystem and the profile of our limited partners, I mean, we have limited partners. We have investors like Syngenta, like BASF, like the World Bank, the Inter-American Development Bank and across the board. So I think that we've been able to surpass the challenge of being reminded or called to every single transaction by ag tech entrepreneurs because of our specialization. But for new investors in our ecosystem, it's very difficult to gain access to the best deals.

Speaker1: [00:18:49.80] We see many applications in the ag tech sector there in Brazil. You had to pick one or two to put at the top of the list that are good opportunities for investors to pursue. What would you put there?

Speaker2: [00:18:59.62] Yeah, so I would definitely say it's it's not an easy decision, though. A lot of great companies going around. I would say one fantastic company is I agree it's an FMC, the farm management system. And it may seem like a simple solution because I know it's softer for farm management, but the impact that this is having is way beyond initial comprehension. What we have in farming and this is anywhere in the world, but in Brazil, it's more true than ever is farming is a tough business. It's a manufacturing facility with exposed to weather, exposed to biological attacks around the clock, whether disease, whether weeds, whether caterpillars, grasshoppers with a very long working capital needs six, nine, 11 months with a strong need for capex investment and exposed to exchange rate and commodity price volatility. So, I mean, it's a very complex business. And the way it was run was basically with an Excel spreadsheet, if you're sophisticated or with a notebook, if you were the traditional farmer. So when we have an estimate, the farm management system, a very simple SaaS based software to manage that operation, it becomes a Trojan horse towards the digital revolution of farm and for. That you can build APIs, you can integrate the rest of the industry, the rest of the value chain, and you can really create farmers that understand what's going on their farm real time, make real time, important managerial decisions in the business where if you sleep a few days and you miss an infestation, if you miss a problem with irrigation, if you miss a Windlab selling your grains because the dollar has spiked, you could really lose the entire year. And maybe, as they say in the US, you could lose the farm, right?

Speaker1: [00:20:49.32] Well, in the last year that we have here, what else should we cover that we haven't?

Speaker2: [00:20:52.62] Well, I would like to point to a very specific opportunity here in the tech sector in Brazil, which I have been preaching as a perfect storm, which is the ag fintech opportunity. So there are four factors that are creating a perfect opportunity for investing in ag fintech companies in that region. First, there are regulatory changes. So the central bank and Congress, they've been changing the laws to make it easier to issue agricultural debt and do it 100 percent from a digital perspective. How happy to go to notaries all these things. Second, we have record low interest rates. So you have all these money managers in the country desperate for finding new sectors that are healthy, that they can put their money to work in those sectors. So there's money flowing into different spaces. And AG is definitely coming out of the of the Colbert situation as the healthiest sector. Third, there's the digital transformation, as I just mentioned, of our previous company in the Brazilian agri space, which is reducing the transaction costs of lending in the region on all four sectors where the sourcing, whether it's pricing, whether it's doing the actual credit concession and whether it's monitoring, collecting the loan, once you've made it right, when you're going to digital and you do it digitally, it's much cheaper, quicker, much smoother.

Speaker2: [00:22:09.96] And last but not least, the fourth reason that we have a perfect storm in the AG FinTech space is that there used to be a big subsidized credit industry here led by Bank of Brazil and two other state owned lenders. And these guys were already planning to leave the ag sector so that they could give rise to a private credit market. But what happened was of covid, the government had to lend its balance sheet to help the most vulnerable people in the country and no longer has a balance sheet to really be able to subsidize credit for farmers. So there's a big vacuum which can be filled by a new thriving tech, intense industry in the financial services sector. And we've been backing this across the board. Our new fund, I'd say, is maybe twenty, twenty five percent ag fintech. So we are very bullish and we're putting our money where our mouth is.

Speaker1: [00:22:57.18] That's great. Well, how best for listeners to get back in touch with you.

Speaker2: [00:23:00.69] My email Franscisco at Espie Ventures dot com that are my LinkedIn, Francisco Jardín and any other smart hacking way they can find out.

Speaker1: [00:23:10.50] Right. 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 call.

Speaker2: [00:23:15.51] It's been an honor investor.

Speaker3: [00:23:18.00] Canek helps investors interested in startup funding. In this podcast series Experience, investors share their experience and advice. You can learn more at Investor Connect, Doug. Paul Martin is the director of investor Canek, which is a five one seed three non-profit 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.