# Hector Jirau of Jirau Capital Management LLC

**Speaker1:** [00:00:04] This is the Investor Connect podcast program. I'm Hall T. 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. Interested in learning more about investing in startups, launching a new startup need to raise funding, the startup funding espresso is a daily podcast and a short, concise format delivered to your inbox every day Monday through Friday. Time it takes to drink an espresso. You can learn about startup funding to subscribe, go to investor Connect dot org and put your email into the pop up box.

**Speaker2:** [00:00:44] Hello, this is Investor perspectives and the host of Investor Connect call, Steve Martin, where we connect startups and investors for funding. Today we have joining us Hector Jirau , chief investment officer at GIRoA Capital Management. Jirau Capital Management is a scientist led investment advisory firm at the intersection of Breakthru Science, providing exposure to the latest advancements in health care and innovation. Hector, thank you for joining us.

**Speaker3:** [00:01:06] Thank you all. Really appreciate you having me here. I'm very excited to share something with you.

**Speaker2:** [00:01:12] Great. Well, tell us more about your work and what you do.

**Speaker3:** [00:01:15] Definitely so let me give you a little bit of insight of my firm. So you're on capital. Like you mentioned, is a scientist led and evidence based investment advisory firm based in Puerto Rico with subsidiaries in all over the United States. Our firm offers advisory services to both high net worth individuals and institutional clients and investors. We, to my knowledge, are the only health care focus of Basra firm in Puerto Rico. Of course, we have been receiving a lot of new advisor firms moving from mainland us to the island, but has been born and raised in the islands, is the first of their focused firm. And we do have a focus on biotechnology and niche areas in the field. We offer services ranging from business valuation, wealth management, separate Menasche account and access to different pooled investment vehicles, both for public investment and also private markets. All of them focus on the health

care sector. So if you like, I can give you a little bit more of info exactly what we do on how we do it.

**Speaker2:** [00:02:18] Yes, please tell us a little bit about what you do and how you do it.

**Speaker3:** [00:02:21] Yes. Awesome. So I think one of the most important things to mention is these are theme. We're comprised of biomedical scientists. All of our team has an education both on the undergrad lever and the graduate level, up to ranging from biochemists all the way to experts in drug design, experimental therapeutics and even an electoral kind, you know, being has what I do. Well, as you mentioned, I'm the founder and the chief investment officer at the firm. And to the most recent events I can think of that could actually benefit today's talk. We are currently launching a crossover fund to provide access to both early stage private companies in the health care sector and also invest in publicly traded companies. Likewise, I currently serve as the investment fund manager of the first early stage venture capital firm in Puerto Rico, FOHN. It's pretty much dedicated to both technology, disruptive tech innovation, but also it's the only one that actually provides access to capital, to small biotech firms. Those are way to preclinical stages all the way up to a series around. So. Being in Puerto Rico, being a small island, I dare say, really, we are the ones that are leading investments in health care here.

**Speaker2:** [00:03:47] Great. Well, let's talk about the growth in the Biotech Lifesciences segment today. What do you see happening here?

**Speaker3:** [00:03:54] Well, as you may be aware, during the last few years, giving Covid biotech and a health care persay has exploded. I mean, he has basically emerged as a beacon of hope for most of the investors. I'm, of course, the population. So last year, per se, you could see there were more than 30 billion invested or more than a 1000 deals. That's basically if you take 2019 or 2020 data, it's almost six percent a year increase. And that's, of course, after investors recognize the importance of vaccine development and treatments for such major diseases such as the Covid pandemic. Likewise, you could use as examples the three vaccines that were produced by Pfizer, Dorna and Johnson and Johnson, and together with more than 10 drugs that have been actually ran through emergency use authorization by the FDA in the last few years. You could say the sector is growing. Biotech is exploding. And there's a lot of interest in the sector. Of course, if you focus on public markets right now, biotech, this is not doing its best. But

that's, of course, to be expected after a year full of growth for the sector per se. But, hey, the FDA has approved more than fifty three new drugs in biological products in 2020 all the way to today. So you could say the growth is quite significant. We're talking about more than twenty five. Thirty billion dollars in funding per se, or for private companies per say.

**Speaker2:** [00:05:26] That's quite a bit. Well, so what is the primary trend in this segment today?

**Speaker3:** [00:05:32] Great question. Also right now, if I were to give you a little bit of insight on the trends. I would start by targeting specifically which Miach are being targeted right now. So that would be drug discovery is a very hot topic right now in biotech and also health care overall. Gene editing. There's a lot of money on cash flow to precision medicine, on bio manufacturing. And a I like to target one specifically, which I'm very excited about, and that is synthetic biology. There's so much hype going right now on synthetic biology, such as, I don't know, so free protein expression systems. Two years, three years ago, this was not a possibility. But thanks to artificial intelligence advances in big data, the Internet of Things, now, this is a possibility and you may be expecting people are just pouring money all over it. So I'd say all of these trends are very hot right now. You could also add bioprinting and microfluidics, tissue engineering, you name it. But to be brief, venture backed biotech companies, have you seen VR gaining a lot of traction per se and gaining access to public markets earlier into company life cycles? Or do you believe companies are going public now? Earlier in the drug development lifecycle? I've seen so many preclinical companies doing IPOs right now, which is something you wouldn't see back in the days like in 2012.

**Speaker3:** [00:07:02] A company going public with a preclinical stage product that was not a huge one and definitely not easy either. And you were seeing all these flow to describe both early stage companies that actually flagging that there's a lot of interest in the sector and in the industry per se. Now, you could even see startups providing axillary functions to pretty much drug discovery platforms now, not necessarily even having their own problem. You're basically looking to help other other companies. And with the new financing structures, those facts, which, as you may be aware, are a very hot topic as well. There are so many Spags sponsored by biotech and life sciences right now. And you can see very prominent biotech investors such as Hardan Deerfield Livestock Capital, 5:00 a.m. venturers on Raw Perceptive. All of those

sophisticated investors are currently pouring a lot of cash, being able to raise money enough to actually get this company sponsored by Sfax. So. I dare say there currently is a lot of love for Zygi Hopley, and I feel it should stick because honestly, we have seen the importance of bioassay thanks to the last few years and the pandemic. So it's it's really a great time to be in the field. I'm definitely grateful to be able to have this type of exposure to health care per se, and looking forward for this trend to continue.

**Speaker2:** [00:08:35] Right. So what makes for a successful company in the biotech space today? What do you find is unique about the winners versus the ones that are also rans?

**Speaker3:** [00:08:43] Wow. This is a great question. So if I were to pick where to start, I'd say partnership agreements. One of the main things I see of successful biotech companies moving forward is to actually have solid collaboration agreements and solid partnership with industry leaders, particularly in research and development. So I've seen a lot of early stage venture backed startups that have been developing. I know gene sequencing platforms, which sound very interesting, but they do not have, let's say, a an industry grandfather. They are they are not able to actually move forward as fast as they should. And as you may be expecting biotech companies to burn a lot of cash in a month by month basis. So they really depend on having access to platforms, having access to a lot of all the R&D instrumentation and R&D consultancy that requires for a robust platform in biotech. And they usually like that. And that ends up being their demise four to five years after. Now, if I've seen something that has led successful biotech companies, it's they have from the start a solid partnership with a leader in R&D. I don't know Amgen, Pfizer or even Nestlé. And that actually helps them push forward. And most of them actually get acquired by these partners. So it's always a good, good idea to have this type of collaborative agreement. The second thing I'd say, and I like to emphasize this, realistic valuations. Now, there is a lot of intangibles and it's quite difficult to value an early stage biotech company.

**Speaker3:** [00:10:42] And that's something we can all agree on. But nonetheless, most of these companies and the you know, for some reason, not actually sticking to conservative valuations. And after a while, they get devalued. And that's like the worst thing that could happen to a company being devalued. And in biotech, that's fairly easy. Most of the outcomes are binary. So you either make it or not. And if you're just pushing yourself to, you know, you'll say, oh, my

company is worth one hundred million dollars, is my idea, I believe would be able to generate 2.5 billion in three to five years. Well. You better hope you actually do and reach that target, because otherwise you your company is going to get the value and it doesn't get better after that. And that's a very important point. I like to make whenever I see a successful company and compare to an unsuccessful one. Realistic valuations. Another thing I like to I like to see whenever I'm going to make an investment, I'm usually works for successful companies. Is diversification of their assets. Now, I do know there are many companies that like to focus on a single small molecule or go big. For some reason, they believe their drug for targeting breast cancer will make it to the next level, and maybe it does. But that is a completely binary outcome. And binaural outcomes rarely work. I mean, if you were to take the probability of success, different phase one to phase three, clinical trials and the probability that no other company actually beat you to it, you will see that actually making it lead to the next slide.

**Speaker3:** [00:12:30] It's it's it's very difficult and costs a lot. And investors know this. They rarely take this type of risk unless they are certain they're they're about to make a great investment. But otherwise, if you only have one asset by your company, your pipeline is based on a single target for a single drug. I, I don't really think you will be able to tither secure funding or you are on to a rough patch. You actually make it to the other side. But it's something that a lot of companies aren't aware of. And this brings up my next point. So one thing is actually diversify your assets, but having the right partners for the right company, it's very important. I've seen many lifesciences companies, early stage biotech companies that have a brilliant team of scientists. But that team of scientists is not leading the research and development. They're actually managing the company. And one thing is doing research on a lab. Another thing is actually managing a business. And this ultimately leads to their demise. And it's fairly common to see that you get a group of three scientists that managed to actually develop a small molecule that on animal models works perfectly fine. Low toxicity rate of efficacy. They believe they can take this to the next level and initiate clinical trials. They actually managed to secure two to three million somehow. And that's where it gets fun because they believe that, oh, we get a drug in our pipeline to the next level.

**Speaker3:** [00:14:17] And it's all done right. I make a lot of money, but it's not that way. It's a company you need to manage a company. And for that purposes, you need to get a management team, someone that's business savvy, that snow that knows how to raise capital,

that knows a lot of marketing strategy and knows how to communicate. I mean, whenever I go to an investment conference, that's the first thing I notice about a company. How solid is their management team? Why am I investing? I mean, they might have the best scientists in the world. And next, graduated from Harvard with a lot of recognition from the National Institutes of Health or or the DOD. Everything looks beautiful, but the management team is not solid. Maybe I get in the next capital raised, I might get diluted on a way on a scale unimaginable and I might be actually getting the worst deal in my life, even thought I believe the science was actually working fine. So that's another thing I really like to see. And I've seen that successful biotech companies actually achieve. They have a solid team of scientists. They have a solid management team. They have great partnerships with big companies. They diversify their asses. They have different pipeline, Stargardt's in different tissues, different different organ, different deceases, different ways to actually deploy their territories. And at the end, it makes for a successful company.

**Speaker2:** [00:15:51] That's great. So tell us more about your participation in the life science segment. What are you guys actually doing it? Zero Capital.

**Speaker3:** [00:15:59] Awesome. So we we actually I always like to introduce me in a two part statement, so initially we mostly focus on public company investments. Has most of our investors really like exposure to health care? And in a diversified way. But we have recently been focusing more on private investments with the idea of actually launching a crossover fund. Right. We do public investments. We also do private investment. It's a lot easier if we pretty much do both and actually benefit from the diversification point that we get from doing private investments. Right. So in the private area, we not only invest in health care, but we also produce bellone technology investments. And we have participation in e-commerce. We have participation. A lot of either ifh platforms since, you know, up to we say optimization of maximization. Algorithms are the hot stuff right now. We we try to actually we have a very diversified investment portfolio by actually are taking this type of sectors. Likewise, I am recently we have been trying to get exposure on the more niche areas of biotech, such as orphan diseases. Orphan diseases are usually very difficult to actually fund. Most of the pipelines right now in this type of area are based on the gene therapy, which, as you may know or heard of, it's actually very difficult to get. Right. There's a lot of toxicity issues.

**Speaker3:** [00:17:40] There's a lot of severe adverse events going on in most pipelines right now. So it's a very niche area, but definitely very rewarding. I mean, you're basically targeting a segmented site, population, people that are actually really need some type of health care attention, and they usually don't really get noticed. And the fact that these diseases are so rare and and you don't really actually get to see most of them, nonetheless, is a very worrying area. Actually, I'd say tushies, a little bit of precision medicine on it as well. And we we have been trying to get as much exposure as possible to that site, per se. You'll soon to mention are a few of the things that we have been working on. So given the fact that this type of private investment in private companies are doing this type of specialized research and specialized development, we have been working tirelessly to actually develop a quantitative model to be able to diversify and allocate capital the proper way. We are actually sticking to our liquidity requirements and allowing our long, short equity strategy to work at the same time as holding all of these illiquid positions. Which leads me. And then I brought I bring it up again. The fact that we are looking to launch a crossover fund for this purpose of dispersing.

**Speaker2:** [00:19:12] So what else do we know about this segment that we haven't covered so far?

**Speaker3:** [00:19:17] What can I say, I'm biased because I'm a scientist by nature, so I'll always say health care is one of the most beautiful sectors out there to invest in. It's one of the most rewarding in terms of being invested on. Yes, there is a lot of risk. There is a lot of volatility involved if you're into public markets and there is a lot of failure risk if you're into private markets. But at the end of the day, one successful outcome changes so many lives. And likewise, you actually get a very decent return on investment. So if I were to encourage both sides of the coin, you know, investors and startups, I'd say, hey, if you're starting right now in biotech, you're trying to develop your own firm or trying to develop your own small company, even though you have a single pipeline. Go for it. Go for it. Access to capital has never been better in this sector, to be honest.

**Speaker2:** [00:20:22] Right. Well, my final question is, what changes do you expect to see in the life science base, say, in the coming 12 months?

**Speaker3:** [00:20:28] Well, I wouldn't actually know exactly what to expect in the next 12 months. I'm always a very optimistic person. But I can say we have been consolidating in this sector for the last few months. So I expect a lot of upside on it. So I wouldn't really find it. We actually more cash inflows was occurring or we've been more access to capital for private companies, both in mainland us, but also in emerging markets. There's a lot of action in biotech in Korea. There's a lot of action in biotech. South America, likewise. And you usually get a beautiful discount if you invest in those companies. Well, of course, you may like us by the sector is booming. There's a lot of opportunity. I'm invested both private and public, so. All I see is positive.

**Speaker2:** [00:21:24] Well, how best for listeners to get back in touch with you?

**Speaker3:** [00:21:27] Hey, you can always reach out to me on my email hacked or add your own capital dot com. You can always reach out to our Web site and your capital dot com. You can find me on LinkedIn. Hector URod, that's Gyari. You and hey, you can always reach out to Halling. He made sure that I'm able to reach out to you as great.

**Speaker2:** [00:21:46] Well, I appreciate you joining us today. We'll put that in the show notes and hope to have you back for a follow up soon.

**Speaker3:** [00:21:52] Most definitely. Always do. Let me know. How can I help? Be more than happy to. Very good.

**Speaker1:** [00:22:03] Vestre Connect helps investors interested in startup funding. In this podcast series Experience, investors share their experience and advice. You can learn more at Investor Canaccord. Alti Martin is the director of investor Canek, which is a 501 C three 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.