

# IP Biotech/Life Sciences Show 2

## Primary Trends and What Makes for a Successful Company in This Segment

This is Investor Perspectives. I'm the host of Investor Connect, Hall T Martin, where we connect startups and investors for funding.

In our new Investor Perspectives series entitled "How to Solve the Biotech/Life Sciences Problem", you'll hear about primary trends and what makes for a successful company in this segment.

As the COVID pandemic passes, we emerge into a new world. The biotech space is now undergoing tremendous change as we shift back to a normal way of life. The process for designing and approving vaccines demonstrated a new protocol. Biotech now moves into a new era. We have investors and startup founders describe the changes coming up.

Our guests are:

[Yaniv Sneor](#), Co-founder, [Mid Atlantic Bio Angels](#) 1:17

[Carter Williams](#), CEO and Managing Partner, [iSelect Fund](#) 5:58

[Maximilian Bade](#), Founding Partner, [Nucleus Capital](#) 15:08

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We hope you enjoy the show.

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### **Our first guest is Yaniv Sneor of Mid Atlantic Bio Angels**

[00:07:50] **Hall Martin:** And so, going forward here, post-COVID, what do you think is the primary trend we're going to see in this segment?

[00:07:58] **Yaniv Sneor:** So in some ways, we are victims of our own success, and if I could say that, they – the sector has become so attractive, and there are so many startups, but also so much money that is being collected in order to invest in this area, that you see more money chasing fewer deals, which means valuations are going up. Sometimes companies that would have a hard time getting money in prior or in, quote-unquote, normal times, whatever that means, but in prior what we called normal times, of having it a lot easier time of collecting money, so the valuations are going up. And it means that some of the deals are more expensive, some things aren't being done, it means that some companies might be saying, why should I spend so much time doing diligence with one group, if I could just go somewhere else and get the money much faster and easier, etc. So due diligences might be opting out or not as rigorous and all depends on – we're still going to keep our standard obviously. We're not going to change the way we invest. But I think we're going to find fewer companies to perhaps invest in, in this current time.

[00:09:17] **Hall Martin:** Great. And so, in this post-COVID economy, what makes for a successful company in the life science space, what do they have to do to win?

[00:09:27] **Yaniv Sneor:** The main thing that makes the company win in our industry, I don't think has changed since any time, and that is people. We always rely on the strength of a management team to be successful. It's always been the case in our opinion, I think it always will be the case. You can take an asset that's wonderful, but if you don't give it in the right hands, it will never see the light of day or never see the light of day in a successful way. And you can take less than wonderful perhaps assets, but put it into the hands of a great and competent team, and you'll be able to monetize that successfully. So that's always the number one criteria. Beyond that, there are a lot of technical risks and challenges with life sciences, more than in any other segment. The execution usually tends to be the highest risk, which still is, obviously, as I mentioned, in terms of management here, and market uptake. But there's a tremendous amount of technical risk that's associated with life science companies, and I think that's always going to be an issue, and that's having a path towards successful asset and a path toward this acceptance in the marketplace are going to yield a more successful company.

[00:10:54] **Hall Martin:** Great. So post-COVID, do you see any changes in how companies are going to go forward – how much will remote work improve the quality, efficiency or reduce the cost, what impact would that have on it?

[00:11:08] **Yaniv Sneor:** I certainly think it will reduce cost, I think it – well, you don't have to fly to pitch to different groups and you don't have to do as many in-person meetings, and when more people are comfortable with that form, I think it does make diligence go perhaps a little bit smoother. It does, even though the face to face is important, but the interchange and all that information is a lot faster, the presentation is a lot faster, you can certainly reach many more groups, many more financial sources when you do that remotely. So your reach broadens as a company as well. There's certain things that you have to physically do. You have to have people in the lab doing experiments, you have to be – if you're doing experiments with animals, you have to be in the lab in doing that. And there have been quite a bit of restrictions, because of COVID that had slowed down or stopped that. Also, there have been tremendous effects, negative effects on clinical trial recruitment, because the hospitals in the beginning of the pandemic were occupied exclusively with the pandemic, so you couldn't recruit for clinical trials, it was difficult to find patients, etc. I think that's easing somewhat, but all the companies that we were involved with and other companies we heard of, all their timelines got stretched because of all the pandemic related issues such as recruiting for trials.

**Our next guest is Carter Williams, CEO and Managing Partner, iSelect Fund 5:58**

[00:06:39] **Hall Martin:** So what's the primary trend you think we'll see, especially in the Agtech segment of it?

[00:06:45] **Carter Williams:** \_\_\_\_\_ on a global basis, the world population is going from 7.8 to 9.8 billion people. They're also moving into the middle class. And as you move into the middle class, you want to eat better, which means meat. But we have no more farmland, so there's a fundamental pressure point where we've got to increase production dramatically. And so, what that means is, one, we are going to improve productivity on the farm, which has been dramatic over the last 50 years, to begin with, so there's only so much more you can do; and then, two, I think you're going to see more indoor farming, more fermentation. And so, when we think about protein as a food source, do we make it – do we derive it from soy grown on a farm, or, do we do it on a fermentation tank? And so, I think the areas of synthetic biology to address this increased demand for protein globally is really good, and we're going to see some pretty dramatic advances. And I think on the consumer side, things like where maybe that increased population would eat meat is instead going to switch over to plant based food. If you're young and you start eating Impossible Burger or plant based food, you get some of the taste of meat, but you never really build the taste for meat. And so, I think you'll see, especially in Asia, as they enter the market, as people move in the middle class there, you're going to see new foods emerge, you're going to see more plant based foods, and then, I think you're going to see the production of protein continue to grow on the farm, but really, the volume will dramatically increase off the farm in some fashion.

[00:08:41] **Hall Martin:** Great. So in this new \_\_\_\_\_ what makes for a successful company to be successful in the Agtech sector in specific?

[00:08:50] Carter Williams: \_\_\_\_\_ whenever you're creating a new company, it's the same thing, you know, what's the most important thing that every startup needs – a customer. And the reason they need that customer is because if you're going to create something new and differentiated, if you're going to create something that can beat the incumbents, you not only have to have something that's more productive and efficient, but it's more affordable, something that's more pleasing. And the way you build a pleasing product is you pay attention to customers, you listen to customers, you hear their idiosyncrasies, and the people who are good entrepreneurs can listen to that, and then see a pathway through in which they can deliver a better quality product that's also a more productive product, so better and cheaper. And those are the people that are always going to succeed, it's true in agriculture. Some people believe that some of the climate issue will come in and change people's perspective and people will pay more to have a more climate friendly type of solution. I think we still think that our responsibility on the agriculture side is to build a better, cheaper product, and better means that it's a tastier and more nutritious product, but also one that perhaps scores better on the sustainability path, and then it's just inherent to the product and a better, cheaper product that inherently is more sustainable.

[00:10:25] Hall Martin: What do you think the tradeoff is between those two, serving the current client and also maintaining sustainability initiatives that may be coming out from other areas, what challenges do you see there?

[00:10:37] Carter Williams: Well, so \_\_\_\_\_ when I think about venture capital, we think about changing technology that's going to influence the world for the next 20-25 years. I'm an engineer at heart, and I'm sort of a geek in this regard. People would call those orthogonal variables. You can't build a better product, build a cheaper product and make it more sustainable. Just as an engineer, I think my job is just to make it so that all three can be achieved, better, cheaper, and more sustainable. And so, I think that the winners, the people who should be the winners, the people that will be the winners, will be the ones that can engineer \_\_\_\_\_ into the product. There will be attempts and distractions in which we create sort of \_\_\_\_\_ and such, that will pay for it, for a while, but sooner or later, we're going to figure out a way to make them more efficiently, and make them more sustainable. I don't think those are trades that are prominently stuck to be opposing forces.

[00:11:41] Hall Martin: It sounds like innovation is the path forward. Where do you think we're going to find that innovation? Do you think it's going to be at the CRISPR level? Do you think it's going to be at the business model level? Where do you think the gains will come, the biggest gains will come from?

[00:11:54] Carter Williams: Well, I think that the shift in approach will come at the CRISPR level, new science. But the entrepreneur that will succeed will be the one that comes up with a new business model using it. So there's a – I've got the best technology I have patented, I deserve to win. Does happen. I had dinner with someone the other night who invented the test for vitamin B, and was quite successful off of that IP. But that is 3% of the successful entrepreneur market.

They're great, they developed something new, you know, real entrepreneurship value, return on investment comes more from somebody taking a new technology. 100 people develop the same new technology, one person figures out how to come up with a better business model, and they win.

[00:12:54] Hall Martin: In our last meeting, it seemed like data analytics had really come to the fore as a new business model – in addition to doing the service, you could also capture, sell, and monetize data that comes out of it. How do you think that's going to play in here?

[00:13:09] Carter Williams: I think what data does is it guides, it makes the decision making process more methodical. If you go back to perhaps Steve Jobs, he had the ability to perceive and \_\_\_\_\_ a market and see opportunity. I think when you look at what Amazon now does is they're able to leverage data in a way to understand how to optimize their business model, and optimize it from a standpoint of not over investing in capital infrastructure. So when you build a building, or you build a grain elevator, you buy a tractor, as I was driving by some farms and saw a few \$300,000 \_\_\_\_\_ sitting there that probably sit there all summer long until they harvest, that's an expensive capital to have there. But if you can leverage data, what it allows you to do is it means that you don't have to have Steve Jobs running the show, and more people in the organization can get a perception of where there's opportunity and where there's waste, and eliminate it from the business model. And so, I think data is an important component of that feedback system. When we think about really our investment perspective on agriculture, it really much ties to advancements of the biology. So in 2000, it cost \$2.5 billion to sequence the first human genome, now it costs \$300. You can get a partial genome for \$95, and in five years, it will be a penny, it will be a device in your home. And so, if we sort of say the science is making that happen in the background, then the data that comes off it, you see your doctor once a year, maybe they catch stuff, maybe they don't, maybe they tell you enough information about how you should change or maybe they tell you to change your diet once a year or maybe you listen to them, versus if you take that data and fuse it back into some type of convincing presentation, remind and nudge people on a regular basis, and then people take better care of themselves. And all of a sudden, they've added five years to their life, because they haven't made a dumb mistake in terms of getting fat over 15 years. So the data, to go hand in hand, and often when every business we've invested in, we've invested in 54 since 2014, has had a sort of a very novel technical play, a novel business model change, and in some way, leverages data to keep on course.

**Our next guest is Maximilian Bade, Founding Partner, Nucleus Capital 15:08**

[00:11:40] **Hall Martin:** And so, what is the primary trend in synthetic biotechnology today? What is it focused on?

[00:11:47] **Maximilian Bade:** There's the convergence of two disciplines really. So on the one side, there's computer science in terms of automation, machine learning and AI; and on the other side, there's biology, so the engineering of living organisms. So we've entered a decade of, you know, people call it the bio revolution really, where we are moving beyond just observing

what happens in the lab, and we move towards engineering living organisms, so changing the DNA, kind of modifying it to a certain degree, and also inventing entirely new products and materials.

[00:12:29] **Hall Martin:** Great. And so, what makes for a successful company in the synthetic biotechnology space?

[00:12:35] **Maximilian Bade:** The companies that we are looking at, typically, are still at lab scale. So they have some kind of proof of concept in the lab, and very low yield levels, or very low output levels. But they've proven that the core of science works, they can produce a product – if we remain with the chocolate example, they have an alpha version of the chocolate that somewhat tastes like chocolate, it's a little bit \_\_\_\_\_ but they definitely nailed the chocolate taste already. And at the end of the day, the team is of course what matters. Right? So you have to have a scientific \_\_\_\_\_ who's capable of actually executing in the lab and knowing what he does. And on the other side, you always have to have somebody who's the business mind, commercial mind. And I think if you mix this together, and the timing is right, and you have this killer cocktail, then that becomes a very exciting opportunity for us to look at as an investment.

**Our next guest is Ron Paliwoda, President, Paliwoda Group 17:09**

[00:10:50] **Hall Martin:** So going forward, you mentioned several trends, what do you think is going to be the primary trend that's going to drive this segment post-COVID?

[00:11:01] **Ron Paliwoda:** Convenience. I think that for the consumer facing healthcare applications, consumers really found it convenient to use those applications, and in some cases, they see cost reductions. So I think the ability for consumers to easily access their medical history through these applications will be something that is going to impact us in the short term.

[00:11:36] **Hall Martin:** And so what do you think is going to make for a successful company in the life sciences space post-COVID?

[00:13:08] **Ron Paliwoda:** One of the things that I think COVID highlighted is the importance of the relationship between the entrepreneurs and the investors. Okay? So it's not necessarily what you are doing. So it's not necessarily the idea that you're trying to advance. It's your ability to adjust to different market conditions, to new competitions, to unforeseen events like COVID. Okay? And being able to demonstrate execution to the investor, so they're able to see how you respond to challenge, how you respond to the competitive landscape. And unforeseen events like COVID, for example, investors will be then more comfortable to continue to support you, and I think regardless of whatever sector or whatever service or product that you're offering, that relationship needs to be not only maintained, but become more robust, especially now in the uncertainty that we're facing. So that's kind of important. One of the challenges, especially

with IT in healthcare, is regulatory risk. So with the collection of all this health data, consumer based health data, there are questions about who owns a medical information, who owns your health data, who has access to it, and where that data is stored, literally, what country. So, as that landscape changes, you need to be able to communicate that to investors, and be able to prepare yourself for the next phase of capital support. So that is, I think, the most important thing over the last 18 months that we've seen.

**Our next guest is Orrin Ailloni-Charas, Managing Partner, Global Health Impact Fund 20:09**

[00:10:29] **Hall Martin:** Well, there's many things going on, as you mentioned, what is the primary trend you think we'll see in this segment?

[00:10:38] **Orrin Ailloni-Charas:** I think you're just going to see the continued use of technology to augment the application of healthcare. And I think artificial intelligence is a really interesting space. We're seeing a lot of solutions that are being implemented to help physicians make better diagnoses faster. I also think robotic surgery is, again, it's undergoing a sort of a second wave where you're seeing a lot more sophisticated and specific robotic instrumentation, like robotics for bronchoscopy, for instance; whereas, originally, it was sort of just a general platform for abdominal surgery. So I think you're going to see a lot of lot of things there. Ultimately, the way I look at it is we take the best technology available today, writ large, and apply it to solutions and medicine. And that's where you're going to see the biggest growth.

[00:11:33] **Hall Martin:** So what makes for a successful company in this segment going forward?

[00:11:38] **Orrin Ailloni-Charas:** I think that when I look at a company, I look at three major areas. Number one, I look at their clinical solution and what its application is, and what the growth is, who will use it and who will benefit from it, and who's the decision maker, all of the things around that. And we really try and look deeply at the science underlying the propositions, the value propositions that are being made. If the company's passed through that, then the next step is looking at the actual business, how does it grow, who are they selling to, are there payer codes \_\_\_\_\_ what does insurance think about it. And if they pass through that, then we look at the capital risk, how much capital do they need, what is their valuation, at what point can they exit \_\_\_\_\_ and at what multiple, and making sure that that fits with our investment thesis. I think those are the three main pillars I like to look at. And then beyond that, of course, we have to look at the underlying intellectual property and the team, and it's always encouraging to see a team that has experience and has executed deals before, particularly, if they \_\_\_\_\_ together and have been able to start and exit a company, that's all very encouraging, because otherwise, you're learning as you go. And so, the less you can do of that, the better off you are.

**Our next guest is Eyal Lifschitz, Co-Founder and Managing Partner, Peregrine Ventures 22:57**

[00:12:47] **Hall Martin:** So let's talk about the primary trend in the life sciences segment there. You mentioned the change in the venture funding coming in at earlier stage, can you talk more about that?

[00:13:03] **Eyal Lifschitz:** So what we see in life sciences, in general, is that the main time of investment, which is really interesting is either the late stage or the early stage. This is really where investors tend to make the best profit on their investments. It's either to come very late, just to come on a crossover before an IPO, before \_\_\_\_\_ than they have to know which deal is good, and you have to be able to get into the good deals which is difficult, because they tend to be very crowded and oversubscribed, or you going in very early. You go in very early, and then you come in for an interesting valuation, you buy a substantial part in the company. And the earlier you go, the more interesting it is, because at the end of the day, it takes a company, a life science company anywhere, if it's not something very simple, but if it's a therapeutic single product use device, for example, or an implant \_\_\_\_\_ company, it will take at least seven-eight years from beginning until you will actually get out; in many cases, it can take much longer. So when you come in early, the few areas which are especially interesting, as I said before in pharma, pharma to go early stage that this has to be – these have to be funds which are structured for a long time, because sometimes this can be really a ride of 12-15 years, which in most cases the regular venture capitals are not built for such a long period of time. They dissolve after 11 years, 11 to 12 years, that's the standard really including the two years which can be added to the fund. So that's in pharma, it's challenging at a very early...

And in devices, you really have to know in what areas you go into, because there, when a company starts early, it takes a long time until it gets to the market, and you will have to help and steer the company to go towards something which is really something which the market needs. The way that we work is that we will not invest in a technology which we find interesting or doctors find interesting or regulatory people find interesting or engineers find interesting. We meet on a regular basis with the big strategics in the space, that's the J&J, the Medtronic, the Abbotts, and we discuss with them portfolio companies which we have \_\_\_\_\_ all the time, at least four-five times a year. But then we discuss with them what technologies they look for in three to five or 10 years, and according to that, we invest. So we will only invest in something which we got very strong input, and it has to be \_\_\_\_\_ than one strategic that this is really a space which they are interested in, and this in particular is a technology that they are interested. So after we write the initial patents, we go back to them and ask them if really this is something which they meant at the beginning. Now, if you do that at the beginning, you have a good chance to start something interesting, but still, you have to continue and steer the company, because during those seven-eight years sometimes, the taste of the market will change, competitors will come in, regulatory hurdles will change, and you will have to change where you take those companies according to a very clear input from those strategics. So you have to be sure if you invest early, that the company is getting this input from those strategics early and not only at day one, but ongoingly through the lab work, animal work, first in man, and then beginning of FDA, and through FDA you have to be sure that it \_\_\_\_\_ goes

according to what the market is looking for. And what the market is looking for will sometimes change a bit, and the difference between a good investor and someone who's less experienced and will have results which are not as good are that a good investor knows how to work together with management of the company and help them get this input ongoingly so that the company can continue and steer itself towards a little bit the moving target.

[00:17:26] **Hall Martin:** So what makes for a successful company in this segment, is that this management experience you're talking about or is it something else?

[00:17:35] **Eyal Lifschitz:** We always discuss what is really the right – what is the most important and the right combination between a good team, an interesting technology, and being with the right technology at the right timing. And at the end of the day, it's a combination, sometimes, especially if you invest early, you will have an excellent research and development team which will not be the same team which will take the company to the more advanced stages in regulatory and then sell the company, you will have to bring in more experienced management, which will be able to take the company into the next stages, and sometimes it works very well. So this means that it's not really the management from day one, which – the management which should actually sell the company which is really needed to be there at day one. So if you are an early stage investor, and you're looking for the wild management which would be able to take a company public, and be at odds with management, at odds war with CEO, CFO, etc., it's tough, you won't find a lot of interesting companies because you won't have the management that you will need.

From the other side, it's very important to have strong R&D capabilities at the early stages. And the presentations, the PowerPoint doesn't have to be as nice as the patents, as the IP, as solid research and development capabilities which go fast, because at the end of the day, in every space, it's a race. You will never be the only one in the space, and even if you leave that space, if you want to move very fast and very accurate with as little mistakes as possible, there will be others around. So it's a combination between strong research and development capabilities. Those people managing the company at the early stage, they have to be ready for late stage to accept additional management that will come on top of them. So it's something as an early stage investor, you really want to prepare the ground for that as early as possible. In addition to that, you need to have the input from the market all the time, and it has to be a technology, which is really not only interesting on the R&D side, but it has to be something which regulatory wise, FDA, and then you can really get through FDA, not something which is going to be possible. And not only go through FDA, but something which also has to get reimbursement later. So all of these, it's a combination between the technology, the team, the team at the beginning, and the team which you will add on, and the market which has to be something – there has to be a clear market for the product which you develop quite early.

**Our final guest is Mark Groper, Chief Executive Officer, Orion Biotechnology 30:45**

[00:08:08] **Hall Martin:** And so, what do you see as a primary trend in this segment today?

[00:08:13] **Mark Groper:** Well, the primary trend is to trying to basically develop immunotherapy which can modulate your immune system, so as opposed to trying to treat drugs, treat diseases by targeting and killing cells, we're now trying to essentially learn how the immune system works in detail, and modulate it to prevent progression of serious disease.

[00:08:47] **Hall Martin:** And so, what makes for a successful company in this segment with the areas you're talking about?

[00:08:53] **Mark Groper:** Well there's a few things that are very important. First off, you have to have a value proposition that includes something that has proven to be able to be effective in terms of treating serious disease and modulating the immune system. Orion's precision engineering platform is the first of its kind in the industry, and we have demonstrated success through the drug candidates we've developed and the completion of a phase one clinical trial of our lead candidate that we can effectively target these very complex receptors that are in high demand. So a value proposition that includes a unique science, demonstrated success, and, of course, from an investment standpoint, and for our shareholders, we like to see risk mitigation, because drug development is a high risk proposition. And we effectively have provided very strong risk mitigation for our shareholders through the multi asset portfolio that we have. We've got multiple drug candidates, we're not a one-trick pony; and, as such, we have the opportunity for multiple shots on goal. So risk mitigation is very important. And then, lastly, I would mention that recognized leadership, scientific leadership and management is key to success, and Orion is very fortunate to benefit from the scientific leadership of a Nobel Prize winner Sir Greg Winter, and a very experienced management team that has a lot of proven track record in the space.

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