

Brom Rector of Empath Ventures

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 non-profit dedicated to the education of investors and startups for fundraising. 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. Well, hello, this is Hall Martin with Investor Connect. They were here with Brom Rector, founder of Empath Ventures. Empath Ventures is a venture capital fund focused on psychedelic medicine. They invest in pre-seed and seed stage psychedelic companies. Brom, thank you for joining us.

Speaker2: [00:00:53] All right, thanks for having me.

Speaker1: [00:00:54] Great. So what was your background before investing in early stage companies?

Speaker2: [00:00:58] Yeah, so I actually got my start in the hedge fund world. I spent about seven years as a quantitative researcher and portfolio manager, most recently working at a pretty large hedge fund out here in Los Angeles called Kraybill Capital Management, where I was a quantitative global macro portfolio manager. And like many people do, that work in the hedge fund world kind of eventually got a little bit burnt out and disillusioned and ended up quitting my job in 2020, right when the psychedelics industry was starting to become a legitimate thing that you could actually get involved in. And I had personally been using psychedelics for my own sort of mental health purposes for most of my adult life. And so when I was kind of looking for the next thing to get involved with, it just seemed kind of like a natural progression. So I started out actually with a podcast similar to what you do where I sort of analyzed some of these companies from like a business and investing perspective. And the podcast kind of got pretty popular in the psychedelic investing niche. And from there, you know, I started getting people reaching out to me saying they wanted to invest in the industry. You know, they had, you know, a couple of hundred thousand dollars they wanted to put to work and they asked what I recommended. And I also had a couple of startups reaching out to me, asking if I could help

them raise money using my podcast. And so I sort of realized, Oh, I have like LPs and deal flow coming my way, you know, maybe I should start a fund to take advantage of this. So that's sort of how I got from the hedge fund world to where I'm at now running an early stage psychedelic venture fund, which is quite quite a different thing than what I was doing before.

Speaker1: [00:02:31] Great. So what excites you right now?

Speaker2: [00:02:34] You know, the thing that's very interesting about psychedelics is just that this is kind of one of those industries that, you know, 18 months ago, if you started telling if you told people that you were going to start a company and the psychedelic space, people would look at you like you were a crazy person, right? Like the industry basically didn't exist. It was entirely underground. And now the amount of companies that have been started in the space doing like fully legal above ground work has exploded. There were over fifty five private companies funded just in twenty twenty one. And that number is up from, I think, a total of five companies that were funded in, I think twenty eighteen. So like it's growing by an order of magnitude since then. And so this is the beginning of an industry that didn't exist just a couple of years ago. And you know, it's always exciting to be involved at the foundations of things, right? Because when you get in early, you can kind of help sort of form the shape of the industry going forward. You know, five years from now, the same opportunities won't be available in psychedelics. And so it's very exciting to be involved at such an early stage.

Speaker1: [00:03:39] Right? Well, you see a lot of investors and a lot of startups in the psychedelic space. What's your advice for people investing in this space? What do you tell them to do before they write that check?

Speaker2: [00:03:49] Yeah, I think it's, you know, when you're in any new industry, there are always people, there are these sorts of types of people that just like to ride the hype and get involved in new industries just because they're wanting to get involved in a new industry. And you want to look out for these people and make sure that they are actually in the psychedelic space for the right reasons, right? They have a personal passion for either psychedelics or mental health or helping people. And you want to avoid the companies that are founded by these, you know, sort of hype riders and promoters and people to just kind of jump from one thing to the next one year. They're doing this the next year in crypto, or maybe they're

doing cannabis before. So I think it's important to make sure that, like the founders of the companies that you might be investing in, are really much more of like the missionary archetype than maybe like the mercenary archetype.

Speaker1: [00:04:37] Right. Then on the other side of that table, what's your advice for people running startups in the psychedelic space? What do you tell them to do before they go out to raise funding?

Speaker2: [00:04:46] With start ups, the way that you really create a startup that is going to scale in the way that you want to start up to is by adding real value to whatever the thing that you're doing is. And one of the things that's very difficult about psychedelics is that the raw psychedelic compounds like psilocybin and LSD, MDMA, they're so powerful on their own and so effective on their own. It's very hard to come in and say, here's a 10x improvement on what's already there. And so I think that when you're trying to start a company, you need to really evaluate what you're doing and ask like the hard question which is like, is this thing that I'm doing in the psychedelic space, really adding a significant amount of value above and beyond what is already available. And I think if a lot of the founders in the space ask themselves that question and I answered, honestly, they might have chosen to not start some of the companies that are out there right now.

Speaker1: [00:05:37] Boy. So let's talk about the state of investing in psychedelics. How do you see the industry evolving from here?

Speaker2: [00:05:44] I mean, one of the big changes is that when the industry started off, you know, for the first maybe year, 18 months of the industry, people were afraid to get involved. And so the only people that were willing to invest were, you know, kind of the same types of people that invested in the early stages of cannabis, right? These are very different than the types of people that invest in, you know, more mature industries. And what we started to see over the last couple of months is an increasing interest from, you know, traditional biotech funds from traditional tech accelerators like Y Combinator getting involved in psychedelics companies. So I think that it's starting to leave sort of this weird, esoteric, weird world of like fast money and moving to the more traditional biotech tech style like, you know, serious investor types that are getting involved. So I think that will not that is not only a shift in the type

of people that are investing, but I think that will also lead to a shift and sort of like the caliber of people that are starting companies in the space as well.

Speaker1: [00:06:46] And so what we think is the biggest change we'll see and say the next 12 months in this space.

Speaker2: [00:06:51] I think the biggest change that we'll see is that right now, if you look at at least the publicly traded psychedelics companies out there, if you kind of create an index of them, you'll see that the that index is down quite a bit from its all time highs. There was a ton of hype going into the beginning of this year, and a lot of that hype has died down, and a lot of these companies that are publicly traded are trading well below 50 percent of their all time highs. And so I think we're sort of in one of these shakeout phases where a lot of the weak hands are going to fold. A lot of companies are going to go bankrupt. But what will be left are the strong companies. And this is where that, like serious, disciplined institutional money is going to come in and boost up the survivors and also invest in like new, more high quality companies that will be sort of the psychedelics industry 2.0, kind of.

Speaker1: [00:07:37] Great. So let's talk about your investment thesis for this space. What exactly is it and what's your criteria for making an investment?

Speaker2: [00:07:44] Well, so I sort of see the psychedelics industry. You can kind of divide it up into about three different categories. The first category are the companies that are taking classic traditional psychedelics like psilocybin and LSD and MDMA and trying to get them approved by the FDA as drugs. I think that what these companies are doing is very important, but I don't really see how they're going to create long term sustainable businesses because at the end of the day, they don't really have any intellectual property protection over these traditional psychedelic drugs, right? These things that existed for decades, if not hundreds of years. So that's a that's a type of business that I generally avoid. What is interesting to me are the companies that are taking a more biotech drug discovery approach that are actually trying to invent new novel psychedelic compounds that are better than the traditional psychedelics in some ways. And in what ways might you ask? Well, you know, traditional psychedelics take oftentimes take a long time to to work. You know, mushrooms take six hours, LSD can take eight to 12 hours. So, you know, maybe you want something that's a little bit more quick, quickly

acting so that a busy parent doesn't have to take off all day to do their psychedelic assisted therapy. Maybe you create a novel molecule that's that doesn't raise your blood pressure as much so that someone that has like a pre-existing heart condition can safely consume it. There are all sorts of reasons why you want to create like a novel psychedelic compound. But from the business perspective, the benefit is that you actually can patent a novel compound. So I'm very interested in the companies that are creating these novel compounds. Then I'm also interested in the companies that are developing to sort of use the investor term, like the picks and shovels, you know, the accessories, the tools, the infrastructure, the tooling to help scale the research, development and delivery of psychedelic medicine.

Speaker1: [00:09:28] Can you talk about one or two startups that fit your thesis, perhaps in portfolio?

Speaker2: [00:09:32] Yeah, I can talk through the portfolio a little bit. So on the the picks and shovels side, one of the most interesting companies that I've invested in. They were all. They were also the first company I invested in there called microdot therapeutics. And one of the things that they sort of realized was that if you create a better delivery system for the existing psychedelics, you can enhance the patient experience. And when I say delivery system, I mean something other than a traditional like oral tablet consumption. So maybe a nasal spray, maybe a transdermal preparation, maybe some sort of biodegradable implant, something like that. So they are creating all of these different novel delivery mechanisms that can help improve the patient experience of psychedelics, either by eliminating some of the length of time that it takes for the drug to kick in, you know? Oftentimes, you'll wait around for an hour or more for the drug to kick in, whereas you can have a kick in instantly if you have the right delivery mechanism. Also, by delivering a more consistent level of the drug into your bloodstream, you can have a much more sustained even keel trip rather than the naturally occurring like sort of ebbs and flows of blood plasma concentration level that you get with, like oral consumption. So that's sort of a very interesting example of sort of these. Like novel delivery methods in terms of novel drugs. Most of the companies that have invested in so far are kind of in stealth mode, but I have invested in a couple of companies that are doing very interesting research on novel psychedelic compounds that, you know, seem to be better than some of the traditional compounds in some ways.

And one of the one of the other companies that I invested in that is always interesting to talk about is this company called wave paths. And their whole idea is that when you're doing a psychedelic therapy session, one of the most important components besides the drug itself is the music that you're listening to while you're consuming the substance. The founder of Wave Pass is this guy. His name's Mendel Cailin. He did his PhD at Imperial College London, and the focus of his PhD was the impact that music has on psychedelic therapy outcomes. So he's like the world's expert on how music can impact, you know, psychedelic therapy. And what he realized was that like the right music for you is not necessarily the right music for me, and that you can actually create these different types of psychedelic experiences by manipulating the music. So he has created a very interesting software platform that can sort of auto generate optimal music for you based on the drug that you're taking based off of the type of emotional experience you went to have and based on your historical musical preferences. And it can also be adjusted in real time, depending on how the patient is sort of like interfacing with the drugs. So like there's a there are sort of these different knobs that allow the trips that are the guide to maybe adjust the level of intensity or the level of calm that the patient is experiencing based on, sort of like the patient's reaction. So very interesting like accessory to the psychedelic experience.

Speaker1: [00:12:24] Right. So what are the challenges in this space for the startup? What do you see them struggling with the most?

Speaker2: [00:12:30] I think the biggest challenge is for the start of kind of what I was talking about earlier, just finding something that is novel and actually a value add to the end user. You know, the space is crowded. There are a lot of companies that are kind of pursuing very similar ideas, and I think it's getting harder and harder for companies to really innovate in the space unless they have very deep science backgrounds. That's kind of one of the biggest challenges.

Speaker1: [00:12:56] And on the investor side, what do you find is the biggest challenge for them in this space?

Speaker2: [00:13:01] Well, I think that, you know, it's the same problems that investors often face, especially with the new industry, is like, how do we know which companies are legit? And then if you're trying to get access to those early stage deals, you know, unless you're someone

who has, like, immersed yourself in the psychedelics industry, if you're just, you know, some normal family office or something, you may not get the right deal flow to get involved in these like pre-seed and seed stage companies. So that's one of the reasons why so many of my investors had decided to invest with me is because I am a guy who's spending, you know, full time psychedelics industry focus. So I get access to all those interesting pre-seed and seed stage deals, which then I allow those people to go invest.

Speaker1: [00:13:43] So you talked about a couple of subsectors and applications, if you had to pick one or two that you think are really good opportunities to pursue, what would you put at the top

Speaker2: [00:13:50] Of the list? Yeah, I think, you know, I think the real big money to be made long term is in those companies that are taking a real biotech approach and really developing novel drugs. I think that's just like in the regular pharmaceutical space, that's where the money is made. And I think that will also be the case in the psychedelic space. In the long run, psychedelics is just at least from an investment perspective. It's just another component of know pharmaceutical industry, the health care system and that sort of thing. So it's probably best to treat it with that with that same approach.

Speaker1: [00:14:23] Great. Well, in the last few minutes that we have here, what else should we cover that we have in?

Speaker2: [00:14:28] You know, I think one interesting thing to think about is the on the one hand, you know, you have the FDA trying to approve these drugs as medicines, but there's another thing happening, which is, you know, decriminalization and recreational legalization. Now, I think that regardless of what your personal opinions are on the usefulness or the, you know, the ethics of decriminalizing or making these things recreationally available based on what's happening in Oregon and cities like Denver and Seattle, I think it's kind of inevitable that it is going to happen. And so if you are a business that is trying to create some sort of like pharma, you know, play in the psychedelic space, you should be aware of the fact that you're going to be competing not just with other pharmaceutical companies, but you will likely at some point be competing with a decriminalized or possibly like recreationally available psychedelic market. And that's another one of the reasons why I think that these companies that are

pursuing FDA approvals on just traditional psychedelics like psilocybin and LSD are going to have a very hard time sustaining a business because I think like, you know, five to 10 years from now, there may you may be able to at least in California and Oregon, you know, walk to the dispensary and buy your own psilocybin and not pay for this pharma great stuff. So I think just thinking about how your business interfaces with the potential decriminalized and recreationally legal market is a very important thing to do. Whether you're a startup founders, starting a company or whether you're an investor evaluating a startup company.

Speaker1: [00:15:56] Right, so how best for listeners to get back in touch with you?

Speaker2: [00:16:00] Yes. You know, you can check out the website, it's empathetic and you can email me at hello at ABC. I'm also pretty active on Twitter at the real problem.

Speaker1: [00:16:11] Great. We'll include 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.

Speaker2: [00:16:16] Hey, thanks so much. All. I really appreciate it.

Speaker1: [00:16:23] Investor Connect helps investors interested in startup funding. In this podcast series, experienced investors share their experience and advice. You can learn more at Investor Connect. Paul T. Martin is the director of Investor Connect, which is a 501c3 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.