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*Joël Jean-Mairet, general partner of Ysios Capital, discusses the major trends impacting the venture capital ecosystem in the life sciences sector and the complexity of attracting new investors to the market. Furthermore, he highlights the firm's success stories and the key steps required for Spain to be a biotech hub in the future.*

**What are the major trends affecting the investment sector in relation to life sciences?**

It is no secret that the pharmaceutical industry is not as productive as it should be. If you compare the billions of dollars dedicated to R&D versus the amounts of drugs they bring to the market, there is a productivity gap.

What pharmaceutical companies have traditionally done is acquired biotech companies to fill-up their pipelines, and today many of the drugs on the market were originally discovered by biotech companies. Having said that, the question is when are these companies acquired? Historically, it has been the later stage when there was a strong proof of concept with phase 2b clinical data. Though with these types of deals the competition has increased over the years, and so pharmaceutical companies have found novels ways to enter into the acquisition game much earlier.

Firstly, they are acquiring at an earlier stage, which is less risk-averse. For example, gene therapy companies with drugs not even in the clinical area are purchased for hefty sums. Always the theme

in these deals is unmet medical needs with a clearly differentiated approach or drug. Even companies with no clinical data but with information in peer-refereed journals are being bought. This early buy-in strategy is across the board and across the globe, not country specific.

Secondly, companies are putting in place a build-to-buy strategy. This when they invest in off-balance R&D for a company, with the option of acquiring the company later on. This is external of investors, so as to not dilute the investment share of current contributing investors, though will have this option to purchase in the form of possibly a predetermined price or a defined negotiation period.

All this makes it very interesting for venture capital (VC) investors as by investing ourselves we take the risk out of the equation for pharmaceutical companies, who then must pay a premium down the road for the acquisition. Historically, investment in Spain was drip fed to companies, though we have noticed a shift towards larger funding rounds reaching tens of millions. This is for early-stage companies, sometimes even from scratch, and gives us the opportunity to professionalize the company from the very beginning.

In our future funds, we are looking to have these larger rounds with a company building approach while utilizing a build to buy strategy.

**How do you determine which companies to invest in?**

When we started back in 2008, we were a new team with a first-time fund which brought about its own challenges. Now, ten years on, we have received some 2200 qualified opportunities that are within our investment strategy. Today, we are sent 10 to 15 qualified opportunities per week, so we have in place a filter to determine propositions for us. This is important as we are constantly evaluating companies from once we set-up the deal, until six to nine months down the track when financing is closed.

We are not looking for companies with incremental innovation, but rather the aforementioned classes of an unmet medical need that truly differentiates. For example, breast cancer is a field that is well serviced, while pancreatic cancer still has a lot of room for improvement.

Therefore, to understand what is best we talk to pharmaceutical players. These are the companies that down the line may be interested in acquiring such companies, so we must know what whets their appetite. They give us a good perspective of the data we need for the future success of a particular company, and the amount that will be needing to be invested to achieve this success.

**You have already closed two funds. Are there plans in the near future to open a third?**

In 2019 we are going to launch a new fund focused exclusively on drug development.

Life science is a sector that is quite complex and requires a long-term outlook. What challenges do you face convincing potential investors it is an area to look into?

Once you explain all the complexities, the major barrier is the liquidity of the industry as it is not like a public equity fund with multiple equity companies. Therefore, there is a long period with no distribution to investors and they must wait until we mature the investment, obtain the required data, and then sell the company.

Even if you look at our history, none of our initial investors had ever been present in the biotech industry, so there was quite a lot of education to give. We do this by publishing quarterly and mid-year reports, which educates investors and builds their trust.

**What types of investors do you look for?**

Private Investors, large family offices, banks, and pension funds. In the second fund, we also had commitments from the European Investment Fund and a pharmaceutical company.

**Spain is putting in place plans to grow its life science footprint. What steps must be taken to really make it a biotech hub?**

More success stories are key as they will attract more venture capital to the market, and we welcome more funds entering the Spanish market. In terms of human capital, Spain faces the same challenges as other European countries. In our experience, professionals enjoy Spain, and once you can guarantee large funding rounds and disruptive innovation the top talent will follow. In the last few years, we are getting more and more calls from VC firms abroad asking if we are looking at top local companies, indicating that Spain is on the VC map for life science.

**Any examples of success stories?**

Oryzon Genomics, which has now gone public and has 5 clinical development stage programs. Minoryx Therapeutics is also doing well and is conducting a phase 2/3 clinical trial for rare diseases, with Roche and Chiesi as part of the investment group. Aelix Therapeutics is a clinical stage company developing a functional cure for HIV. He we invested with Johnson & Johnson Development Corporation and La Caixa. They have recently signed a very interesting deal with Gilead.

STAT-Dx is a really interesting story. An engineer came to us with the idea of developing a high multiplex Point-of-Care diagnostic device with a turnaround time of 30 to 60 minutes. One of their first panels is for pneumonia. Normally, to determine if a pneumonia is of viral or bacterial origin, a swab is taken, and bacterial culture examined. This can take up to four days, while in the meantime the patient can get worse or die. With this quick diagnosis, patients can be treated quickly. We helped finance this company from scratch and last April it was sold for around USD 200 million to Qiagen.

Another clear success was the sale of Cellerix which we reverse-merged with NYSE Euronext quoted Togenix and sold it to Takeda for USD 520 million in July 2019. These examples are just some of the many achievements over the last decade.

**Does this sell-buy strategy of such unique companies prevent the next wave of companies, like Almirall and Grifols, coming out of Spain?**

If companies have excellent data and receive a high value offer, it is hard for them to reject it. VC is based around the strategy of going to the public market or being sold. Creating companies in Spain that could be for example the next Amgen is possible, however, this can only happen with a sophisticated public market and long-term institutional investors.

A good example is Germany. Around the early 2000s, the government put in place a life sciences plan to attract capital to the biotech scene. With this effort, the Munich region became as strong as Cambridge. The attraction of investors created a biotech ecosystem, which in turn birthed commercial companies. Of course, the ultimate goal is to sell a product, but first, you must create a life sciences environment with top talent.

**There are many VC firms around Europe. How does Ysios Capital differentiate itself?**

Really, there is no clear differentiation, and we are co-investing with most of the large venture capital firms across Europe. The VC business is not the traditional buy-out model of private equity where you roll up your sleeves, change management, grow the company and then pass it on to the next groups of investors further down the road. VC is all about syndication and co-investing, and all of the large VC firms share this mindset.

The one edge we might have is being in Spain, a relatively untapped market with top science. Out of the 25 deals we have done over our first two funds, 11 have been in Spain. This allows us to get a first look at what is on offer, and then lead funding rounds with other groups when opportunities arise.

**What is your vision for the future?**

On a broad level, Spain must understand that the driving force and key ingredient behind any success will be top science. This will catalyze a new wave of investment, not linearly, but exponentially, but again top science is the key for Spain in the future.

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