Texas displays 'Silicon Valley' credentials to lure Brazilian biotechs

VelocityTX and Rio de Janeiro–based Outsource Brazil (OBr) have launched a new program to lure promising tech and biotech businesses from Brazil to San Antonio, Texas. The idea is to prepare Brazilian startups for internationalization, with Texas providing the gateway into the huge US market. The San Antonio-based VelocityTX, which describes itself as part incubator, part accelerator and part investment fund, will support eligible companies with mentorship, capital and access to manufacturing facilities during an initial six months in Brazil, then for a further three months in San Antonio, Texas, at a new innovation center in the east of the city. The so-called 6+3 program is the latest example of Texas' bid to become the next Silicon Valley—but with lower living costs, cheaper talent, and, its proponents claim, a higher quality of life.

Texas is the second-largest state by gross state product, with the lowest taxes in the country. The Texas Medical Center (TMC) in Houston is among the largest in the world, and includes the Baylor College of Medicine and the MD Anderson Cancer Center. TMC recently launched a $25-million venture fund to support early-stage biotech and life sciences companies, adding to significant existing government funding sources, such as the Cancer Prevention and Research Institute of Texas' $3-billion investment into research and startups over ten years, and the Texas Enterprise Fund, which has put over $100 million into life sciences companies since 2004.

VelocityTX is a new initiative, launched in September 2017 by the Texas Research & Technology Foundation, an economic development group. It emerges as various Texan cities, including Austin, Dallas and San Antonio, ramp up their offerings to attract high-growth startups and the accompanying workforce and job opportunities. Texas is "trying to emulate what Silicon Valley has, but with more aggressive incentives [for small companies]," says OBr's CEO Robert Janssen. That means lower setup costs and a "soft landing" for companies arriving from abroad.

Brazil's biotech entrepreneurs, like those in other Latin American countries, need some help. With over 200 million people, Brazil is a big enough market to support company growth in many sectors. But its startup ecosystem remains immature, particularly in biotech. Total venture funding in Brazil was just $279 million in 2016, according to the Latin American Venture Capital and Private Equity Association. Most of that went into IT and financial services technologies companies. Venture investment in biotechs is scarce, and credit is very expensive, too, says Vanessa Silva da Silva, executive director at biotech industry association Anbiotec in Minas Gerais, a state in southeastern Brazil. Despite aspirations to build a science-based industry, government funding for research institutes and universities is limited, leading to a shortage in skilled labor. Incentive programs for startups are emerging, particularly around big cities such as Sao Paolo. But they remain rare for biotechs, Silva says. Of those that do exist, some, like BioRio in the state of Rio de Janeiro, have been temporarily frozen due to the country's recent political and financial instability. "The weak link is funding," sums up Janssen. Investors who do have funds want fast returns, hence the piling into technology and financial services technology, which have seen record-breaking investment rounds. Few investors are prepared to commit to longer-term biotech cycles, however.

Other hurdles to biotech innovation are prevalent in Brazil. Importing research materials—specimens, blood samples, for instance—is expensive and can take years, according to Danilo Andrado, external trade director at Bioclin, based in Belo Horizonte, Minas Gerais, which distributes *in vitro*-diagnostics-related products locally. Real-time PCR technologies, for instance, which flourished elsewhere in the 1980s, have only recently entered the Brazilian market, he says. "It's not an ideal environment" for biotech, says Luis Eduardo Caroli, CEO of Rio de Janeiro–based drug developer Biozeus.

Brazil's universities produce plenty of good science, though. And Biozeus, for instance, funded by Rio de Janeiro–based venture capital firm FinHealth, in-licenses promising technologies from academia and takes them through preclinical and early clinical development, prior to out-licensing them to larger firms. Because few people have development expertise, explains FinHealth's Thomas Gerlach, Biozeus assembles several projects under a single team, which is also a way to reduce costs.

Such challenges explain why Brazilian startups often end up abroad. Brazilian entrepreneur Carolina Reis de Oliveira moved her company, OneSkin Technologies, to the IndieBio accelerator in California. The company, which studies the molecular mechanisms of skin ageing, was founded in Minas Gerais and won early support from both regional and federal government programs in Brazil. But Oliveira soon realized that growth opportunities were limited. "The people mentoring us didn't understand the science. Few investors were interested in biotech." So when the financial crisis hit in late 2015, she left. After six months at IndieBio, OneSkin Technologies closed a $2.2-million seed round and is now focused on skin rejuvenation products. "I could have gone back to Brazil [after IndieBio] but I decided my chances of success were greater in the US," she says.

L. Melton

Rio de Janeiro's Christ the Redeemer on Mount Corcovado.

Oliveira and other Latin American biotech entrepreneurs see the value of programs like 6+3 in helping companies get off the ground. "We are still trying to grow our ecosystems, so external experience adds value," says Emilia Diaz, whose Santiago, Chile–based startup, Kaitek, has developed a portable test kit for shellfish toxins. It used venture capital fund SOSV's Rebel Bio accelerator in Cork, Ireland, to penetrate the European market, and a similar program in Korea to tackle Asia.

Biozeus' Caroli agrees that working outside to overcome some of the challenges facing Brazilian startups is a good idea in many ways. Entrepreneurs gain valuable international experience, which they may later bring home. And success abroad also shows local companies and venture funds that startups, though risky, can bring significant rewards. "Latin American firms tend to be slow to adopt new technologies. They like to see others try it first," remarks Diaz.

So although programs like 6+3 will drain some promising startups from Brazil's nascent sector, "this isn't necessarily a bad thing," according to Diaz. Seeing a local player make it big internationally will give local government

and investors another message: that they should bolster their support for startups at the outset. Oliveira adds, "In Brazil, they still don't see small companies' potential to become big companies. They don't like dealing with risk." Changing that mind-set would help things move a lot faster.

VelocityTX and OBr won't be taking all Brazil's startups. Aspiring companies have to show significant validation to access the program—either sales, or existing "substantial" investment. That would appear to rule out most traditional, discovery-based biotechs. "We expect to see companies that are later in the [development] process…ready for approval," says VelocityTX CEO Jorge Varela. In other words, companies that bring money, and jobs, with them.

VelocityTX in October 2017 announced a similar partnership with Chile's Austral Incuba incubator program in Valdivia. One Chilean startup with a technology to detect Alzheimer's disease is looking to join the Texan program, having already received over $150,000 in grants and non-dilutive investments in its home country.

If VelocityTX and OBr can create success stories—even if those successes happen abroad—this will help boost Brazil's young sector. Oliveira hopes to return to Brazil in the future, and to help other entrepreneurs succeed. She, and others, say things are improving. New seed funds are launching, for instance, from the Brazilian Development Bank, BNDES. For now, though, the challenges at home mean that many startups need to go global early, and access international networks for funding, expertise and the best commercial opportunities.

For businesses with shorter development time frames, spending the time and energy necessary to move to and understand a new country and system may not make sense. Brazil is probably the one Latin American country whose local market is big enough that startups don't all automatically need to expand abroad, as is the case in smaller countries, notes Diaz.

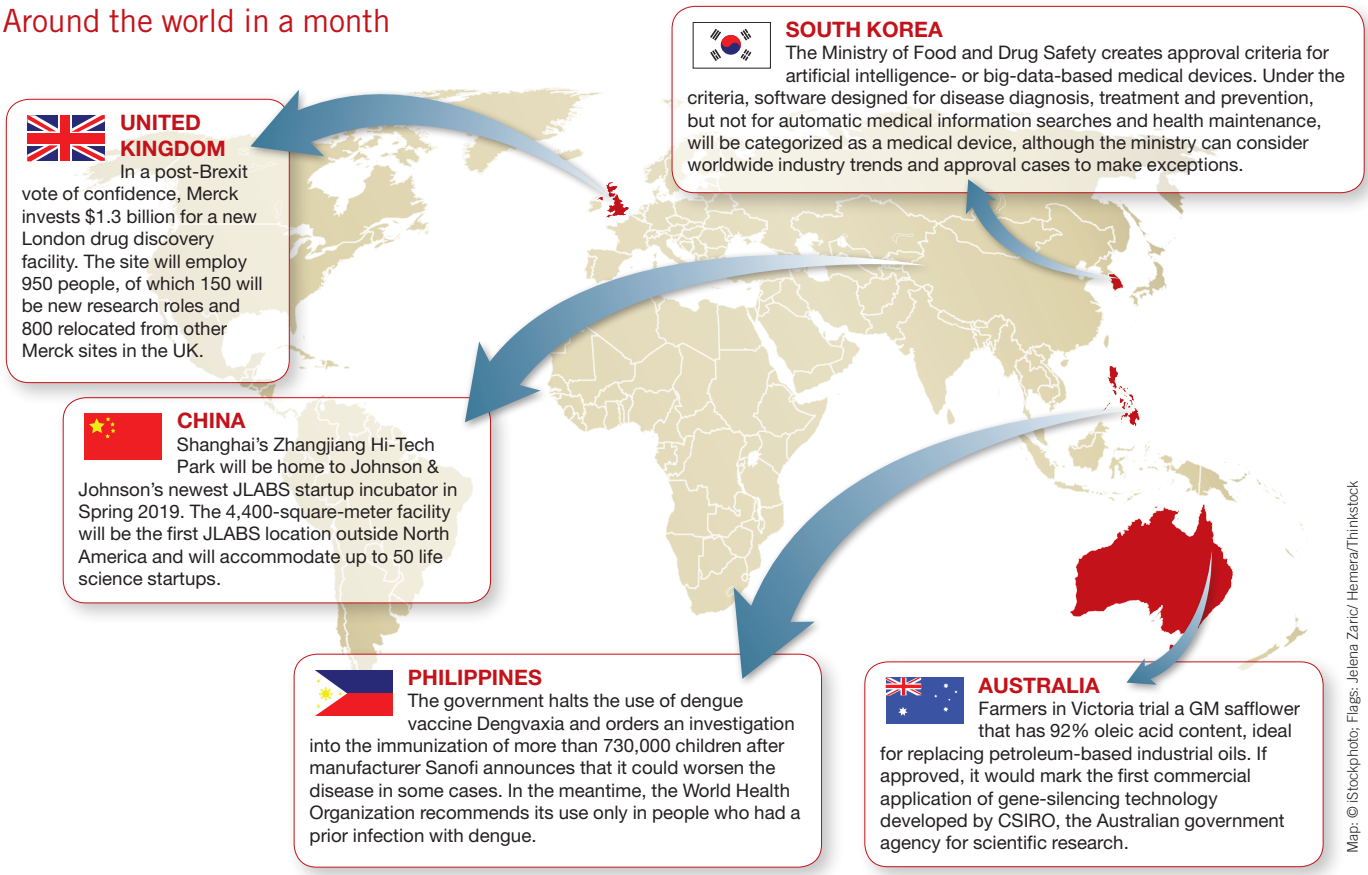
Belo Horizonte-based Detechta Biotecnologia, a spin-out from the Brazilian National Institute of Vaccine Science and Technology, was founded by academics who had helped develop, and transfer to industry, a vaccine for canine visceral leishmaniasis. That vaccine is marketed in Brazil, and Detechta is working on a new formulation. International expansion may happen in future, but for now "we see our role in building up the biotechnology sector in Brazil," says Detechta's co-founder Ana Paula Fernandes. Detechta, like Biozeus, hopes to spot diagnostic and vaccine technologies from Brazilian university research and take them through development, with funds from various state and federal seed programs, and an industrial partner. These programs could go some way towards reversing the country's innovation deficit, in part by offering jobs to returning PhDs. "We have a huge number of well-qualified researchers returning to Brazil, from programs such as Science without Borders," says co-founder Ricardo Gazzinelli. "We are taking small steps in the right direction."

VelocityTX also manages the Alliance of Texas Angel Networks, which includes over 640 angel investors in the state, and works with family offices, high net worth individuals and angel groups in Brazil to facilitate access to capital for domestic startups, according to Varela. OBr also encourages international businesses to invest in Brazil, which, Janssen says, "is large, but not easy for outsiders to penetrate" because of local legislation and ways of working. "You need people on the ground" to fast-track foreign businesses in Brazil.

It's a two-way street, in other words.

Melanie Senior *London*

Around the world in a month



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