8 Tips for Medical Device Companies Seeking Funding

The amount of capital invested in startups and growth-stage companies has rebounded, albeit unhurriedly, since the nosedive of the recession in 2008. But the portion of those venture dollars dedicated to medical devices has yet to experience such recovery. Funding for device companies reached only $2.1 billion in 2013, down from $3.7 billion in 2007 and at its lowest point in nine years. Startups fight the hardest battle as capital is coming in later after companies gain both regulatory approval and substantial sales. Investors today expect to see far more than innovative, promising ideas – they're demanding irrefutable results.

The first step toward developing a successful pitch to the now markedly cautious investors is to know what you're up against. The rapidly changing healthcare industry coupled with a more modest growth environment has impacted not only how dollars are spent, but also what technologies are being developed and funded. A greater emphasis is being paid to initiatives aimed at delivering cost savings for healthcare consumers and systems alike, while demanding evidence-based improvement in patient outcomes.

The landscape of medical device investing is as competitive as ever before – putting pressure on companies to present stellar, "better, faster, cheaper" solutions. Here are eight qualities that investors are looking for in potential portfolio companies to ensure that you're putting your best foot forward when presenting to these ever-vigilant investment teams.

1. **Real problem and clear solution:** Assume the investors you pitch to have varied knowledge about your business – some around the table may be experts, while others have never been exposed to the field. Provide a complete, yet succinct overview of what your device or technology accomplishes to cater to all levels of understanding. Investors want to know what problem your solution solves and what gap it fills in the market. Is this problem relevant enough to build a substantial business?

2. **Superior clinical results at lower costs:** With the economic pressures experienced today by healthcare systems, it is imperative that your claims be supported by evidence that your solution does, in fact, save money while improving outcomes. Case studies are often the most impressive slides in a presentation.

3. **Ability to pass through the Value Analysis Committee:** Criteria include: Is the product unique, not merely a commodity? Does the device have strong physician support? Investors expect you to have doctors who will really go to bat for your solution. Is there a solid economic rationale for the healthcare system to purchase your product? Hospital systems must be convinced that utilization will not increase costs.

4. **Large, addressable market:** Paint an accurate backdrop of the market. Be open and honest about the competitive landscape – be willing to tell not only where you offer credibility, but also where your rivals shine, as well. Don't get caught not knowing one of your prominent competitors. If an investor asks, "Have you heard of so-and-so," your answer should never be "No." I am most impressed when a presenter is able to say, "Yes, I know them well. Here is how we're different…"

It is important to keep estimations regarding market size fair and realistic, as overstatements can be perceived as naivety or worse, incompetence. A clear identification of market opportunity should always accompany potential risks and how you plan to mitigate each of those threats.

5. **Reimbursement:** Management teams need to have a solid grasp around the complex nature of the hospital (provider), payor, and physician economics. Angels and early-stage investors expect to see a well-defined path to reimbursement, while growth-stage investors, unwilling to take on the risk, consider reimbursement a must-have.

6. **Attractive business model:** With the transition to value-based healthcare, tougher regulation and limited resources, investors are seeking companies willing to experiment with new business models and deliver value in creative ways. Investors are looking for companies that offer services and solutions beyond the core product to improve outcomes and lower costs. Prevention and remote monitoring solutions are becoming more relevant, as are technologies that enable patients to manage their conditions from home.

7. **Quality management team:** Highlight the results-driven, industry-oriented accomplishments of your management team. What skills does each member uniquely offer the company? Investors will also look for the following qualities: honesty, credibility, resourcefulness, logic, drive, humility, leadership, critical thinking, commitment, patience, agility. Try to introduce your team in a manner that showcases these strengths.

8. **Realistic financial forecasts:** Be sure that you thoroughly understand your company's finances and communicate a fair and accurate financial picture. Nothing speaks louder than results, so emphasize your growth rate in the last six months to help substantiate your forecasts.

For earlier companies, the complicated process of approval is longer and more expensive than ever before – be realistic about how much money you need, how you will use it, and how much cash you are currently burning. Detail the timing of projected milestones, estimated return on investments and when you envision exiting the business. To support your assumptions, use data from comparable companies when available. For example: "This company took three years to reach $30 million in revenue with $12 million in capital raised." Give the seemingly jaded investors reason to believe.

What Can't Be Taught

For me, a company that typified all of the above characteristics is Alpharetta, GA-based EndoChoice, a platform technology company focused on gastrointestinal (GI) endoscopy. When I first met the company back in late 2007, I was blown away by the management team. The simplicity and effectiveness of their business model coupled with the favorable dynamics of the GI market, which was fragmented and poorly served, drew me in instantly.

Among everything that EndoChoice was doing right, two characteristics in particular stuck with me that I now look for when evaluating potential portfolio companies:

A. **CEO Walk**: Perhaps nothing puts the CEO "X factor" to the test like walking a major industry conference floor. I like to take laps with the CEO to gauge just how well they are networked within the industry – who do they know, and more importantly, who knows them. A high score here indicates a strong likelihood that the CEO will be able to form effective and fair partnerships, attract top industry talent, and when the time comes, pick up the phone to call strategic acquirers or lead the company through a successful IPO process.

B. **Culture**: You can't define culture or understand the value of it until you have experienced it. When you walk into the corporate headquarters of EndoChoice, you can feel the positive energy and passion. Everyone is rowing in the right direction with the same vision in mind. Failure is not in their vocabulary. It was a culture that existed with the first 10 employees and has strengthened with every new hire.

Hiring for talent and intelligence is important, of course, but hiring for cultural harmony is arguably even more important. It is the strength of this culture that enables employees to push each other, celebrate successes, learn from failures and run through brick walls to get the job done. It is this intangible that exists in less than 1% of companies that I wish could be bottled and sold. Now, that would be a great business!

Since our initial investment, EndoChoice has grown 50x in revenue and is now one of the fastest growing medtech companies in the world, positioned to lead a $6 billion market. Today, the company is a global business with R&D in Israel and manufacturing in Germany and China. Most recently (and most importantly), EndoChoice launched a truly disruptive imaging technology that will undoubtedly save thousands of lives.

Preparing for Tomorrow

To succeed as a medical technology company today means preparing for the inevitable transition of tomorrow. A $2 trillion industry is undergoing seismic change. This presents an incredible opportunity for newer, disruptive models to become industry-leading trendsetters. While funding may be scarcer than in recent years, innovative, efficiency- and results-driven companies will certainly be able to secure investors and experience momentous success.

By Rik Vandevenne, Director of Capital Funds, River Cities Capital Funds
SEMDA Board Member
For the SEMDA January 2014 Newsletter

SEMDA
Southeastern Medical Device Association
Medical devices. For life.