AdvaMed Investor Insights

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Re: AdvaMed Conference October 17-19 2016

AdvaMed: The MedTech Conference is the leading gathering of medical technology professionals in North America. The conference brings together more than 1,000 companies and offers world class educational opportunities and networking. We highly recommend attendance for MedTech companies as it is an efficient way to meet investors and get up to date on the latest hot topics and issues in the industry.

Last week's blog focused on health economics in the Medical Device Space and as promised, for those of you who were not able to attend, the following is a summary of the investor insights gleaned from the conference.

Investor Insights

What investors are looking for

Raising money is harder than it was 10 years ago. Most funds are focused on the later stages. Many funds, are looking for companies that need "one last round". Many will only consider early stage technology if it is disruptive.

Given the intense focus on health economics, it is not surprising that investors have put an intense focus on clinical outcomes and evidence of cost savings. This is now the most important value driver for companies. ***If you can find value, you can find capital.***

A must is a great team and meeting an unmet need. Good science is a given, but not sufficient. In most cases, you must have data now to access capital.

VC's want to see companies that are done prototyping. Many want to be able to get proof of concept data in the short term.

If you are in an area where failures persist and investors have become gun shy, your only option is to understand why previous companies/technologies did not work, and understand how you are different.

If you are selling a component to an OEM (Original Equipment Manufacturer), VC's are less likely to be interested since it is not something they are knowledgeable about.

The typical exit in MedTech is now in the $175-200 million range. If VC's want a 5x return, the exit must occur after <$35 million has been raised. You must demonstrate that this is feasible.

Typically, a company must spend $30-35 million from inception to commercial acceptance for a 510k device with therapeutic intent. For a 510k device with diagnostic intent, only a few million will be needed for approval, but the spend required to gain acceptance can range widely. It can be as low as $10 million, but it can be even higher than for therapeutic devices in some cases.

The soft side

Management and boards need to evolve, and thus, an investor will look for flexibility. Investors like to see management that is open to taking advice. Having a strong ego will make it difficult to find investors. It is important to admit that you don't know everything. Having practical experience is key.

Fundraising in 6 to 9 months is not viable. You need to build a relationship and start a dialogue. Dialogue leads to relationships which leads to investments. This takes longer than 9 months. 12 months from first contact to close is the average these days.

Family offices and strategists are more active than VC's. Getting warm introductions is increasingly difficult because many of the usual intermediaries don't know the new players (family offices, angels).

Focus your efforts on people that have strong relationships with other investors. You will need a network of capital to be successful.

If you are too early for an investment, it is ok to keep people informed, but don't be a pest.

Post investment

It is important to keep investors informed after an investment. You will need to raise more money and the easiest targets are those that have already invested. If you have many angels, a good way to do this, is to have a yearly open house, send out quarterly financial statements as well as any press coverage. Investors become anxious if you do not communicate and keep them in loop. You must take the attitude that you are selling to them repeatedly. Do not hide bad news because it will be too difficult to regain their trust.

Look to your board members for mentoring and support, you should not have more than 5 people. You should have an independent board member as soon as you can, they will look at issues differently than founders and understand issues from the investors' perspective. An independent board member will also help with in-fighting, as will a strong chairman. Use new financing to change out and refresh boards.

Initially, you will want successful entrepreneurs on your board, or people who write cheques. They will transition out eventually.

Don't' jump right into selling once you get your 510k, power test the economics with different health care systems, and test the selling technique. This is balancing act with investors as they will want you to start selling right away. Educate investors that you can't just launch following approvals.