



Attracting Venture Capital Funding To Your Medical Technology Firm©

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About This Special Report

This special report is designed to help your firm learn about venture capital investment activity in the medical technology industry in 2010. More importantly it is presented to help your firm prepare itself to successfully attract and acquire venture capital financing.

Eighteen Ventures

Eighteen Ventures is a business advisory and consulting firm. We offer consulting services, publications, and workshops for small high technology firms, especially SBIR award winners, interested in acquiring private sector financing. You can learn more about how Eighteen Ventures at:

www.Eighteenventures.com

A Review: Venture Capital Investment In Medical Technology Industry 2010

During the first three months of 2011, venture capital firms invested **\$602** million dollars in US Medical Devices & Equipment companies. The investment represents a **34%** increase dollars over the last three quarters in 2010.

Although the first quarter of 2011 numbers highlight an exciting beginning to the new year, the previous year saw venture capital financing fluctuate in terms of the amount money invested and the number of deals per quarter. **Table 1** illustrates the total venture capital investments in each quarter of 2010.

While the medical technology industry brought in over **\$1** billion in venture capital money during 2010, it was far less than the **\$2.86** billion invested in 2009. The shift in financing from 2009 to 2010 was mainly due to short term conditions (i.e., new health care law passage, regulatory proposed changes and economy); it had nothing to do with investors' belief in the industry's ability to produce sustained profitable results in the future.

The 2010 statistics reflect venture capitalists' affirmative view in financing medical devices & equipment companies. Specifically, they recognize the upside of a rapidly growing market for medical technology solutions that meet the needs of a chronically ill, maturing US population. Moreover, they see acquisitions (i.e., larger companies buying smaller firms) as one pathway in realizing a significant return on their initial investments.

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TABLE 1: Venture Capital Quarterly Investments In 2010

| | <u>Q1</u> | <u>Q2</u> | <u>Q3</u> | <u>Q4</u> |
|--------------------------|-----------|-----------|-----------|-----------|
| Amount Investment | \$517 M | \$755M | \$573M | \$400M |
| Number of Deals | 61 | 95 | 82 | 71 |

Source: PricewaterhouseCoopers/National Venture Capital Association MoneyTree

Selected List of Medical Technology Companies Acquiring Venture Capital Financing- 2010

| <u>Firms</u> | <u>Investment Amount</u> | <u>Funding Stage</u> | <u>Fiscal Quarter</u> |
|---|--------------------------|----------------------|-----------------------|
| Puslar, Vascular, Inc <i>Seattle, WA</i> | \$1,121,000 | Early Stage | 3 rd 2010 |
| Materna Medical, Inc. <i>San Francisco, CA</i> | \$980,000 | Start-Up/Seed | 3 rd 2010 |
| Bioconnect System <i>Ambler, PA</i> | \$500,000 | Early Stage | 4 th 2010 |
| Advanced Orthorpedic <i>Guilford, CT</i> | \$50,000 | Start-Up/Seed | 3 rd 2010 |
| KCBioMedix, Inc. <i>Shawnee Mission, KS</i> | \$750,000 | Early Stage | 3 rd 2010 |
| Vital Access Corporation <i>Salt Lake City, UT</i> | \$2,021,000 | Early Stage | 4 th 2010 |
| KSpine <i>Minneapolis, MN</i> | \$5,000,000 | Early Stage | 3 rd 2010 |
| Endostim, Inc. <i>Saint Louis, MO</i> | \$6,000,000 | Early Stage | 3 rd 2010 |

SOURCE: PricewaterhouseCoopers MoneyTree™ Report

A New Device for Venture Capital- R&D Magazine Feb. 2011

| Stage of Development | 2010 Data | |
|----------------------|-----------------|---------------------|
| | Number of Deals | \$Billions Invested |
| Seed | 363 | \$1.7 |
| Early Stage | 1,147 | \$5.3 |
| Expansion | 1,021 | \$8.5 |
| Later Stage | 746 | \$6.3 |
| Grand Total: | 3,277 | \$21.8 |

Source: PricewaterhouseCoopers/National Venture Capital Association MoneyTree Report.

Data: Thomson Reuters.

Selected List of Venture Capital Firms Investing In Medical Technology Companies In 2010

| | | |
|---|---|---|
| Sanderling Ventures <i>San Mateo, CA</i> | Split Rock Partners <i>Eden Prairie, MN</i> | Rain Source Capital <i>St. Paul, MN</i> |
| Pittsburgh Life Science Greenhouse <i>Pittsburgh, PA</i> | Brooke Private Equity Assoc. <i>Boston, MA</i> | Radius Ventures <i>New York, NY</i> |
| Aberdare Ventures <i>San Francisco, CA</i> | Accuitive Medical Venture <i>Duluth, GA</i> | PTV Sciences <i>Austin, Texas</i> |
| Elm Street Ventures <i>New Haven, CT</i> | Versant Ventures <i>Menlo Park, CA</i> | Oakwood Medical Investors <i>St. Louis, MO</i> |
| Hamilton BioVentures <i>Solana Beach, CA</i> | Village Ventures <i>Williamstown, MA</i> | North Coast Technology Investor <i>Ann Arbor, MI</i> |
| New Enterprise Associates <i>Chevy Chase, MD</i> | Toucan Capital <i>Bethesda, MD</i> | iNova Capital <i>Montréal Québec (Canada)</i> |
| ProQuest Investments <i>Princeton, NJ</i> | Solstice Capital <i>Boston, MA</i> | Intersouth Partners <i>Durham, NC</i> |
| Bluestem Capital Partners <i>Sioux Falls, SD</i> | Rocket Ventures <i>Toledo, OH</i> | Medica Venture Partners <i>Herzlia, ZF</i> |

How To Prepare Your Firm To Acquire Venture Capital Financing

Convincing venture capitalists to invest their money in your company usually requires using three presentation approaches: a Business Plan Executive Summary, a PowerPoint Presentation and a Business Plan.

Business Plan Executive Summary

Before venture capitalists read your company's business plan, they prefer to review a two-page executive summary. The summary represents a short introduction piece designed to entice investors and invite them to request a meeting and/or a complete copy of the business plan.

Quick Tips:

- It must be no longer than two pages.
- It must be clear, concise and persuasive.
- Make sure the owner's and/or CEO's contact information is included.



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Venture Capital Investment Process

Although each venture capital firm has its own investment methods, most firms typically utilize six industry recognized steps as they implement the decision-making process. The six steps are:

- ◆ Business Introduction
- ◆ Initial Screening
- ◆ Presentation Meeting
- ◆ Due Diligence
- ◆ Term Sheet Offer

Business Introduction

This beginning step involves your company making contact with an identified venture capital firm. Forwarding a two-page executive summary of your company's business is the traditional way of making the first business contact. Another way involves having a third party (i.e., your firm's lawyer or accountant) refer your company to a venture capital representative.

Initial Screening

Once a venture capital firm receives your company's business information, they will review it to see if your firm is a fit. This protocol focuses on determining whether or not your company matches the venture capital firm's stated investment criteria. For instance, the venture capital firm will evaluate your company's funding request amount, type of business, geographical location, product market size, and market niche.

NOTE: The initial screening is designed as an elimination process since venture capital firms receive approximately 500, or more, submitted business funding proposals. Typically, 99 % of submitted business proposals are rejected.



Presentation Meeting

If your company's business information meets the venture capital firm's screening criteria, then a meeting will be scheduled so that your firm's management can make a live presentation and answer questions about the company's business strategy. The meeting is an opportunity for your company representatives to (1) explain how the company intends to dominate a market niche and achieve profitability and (2) clarify your company's plans to work through unintended situations.

Due Diligence

Due diligence describes the venture capital firm's comprehensive investigation of your company. The venture capital firm reviews your company's internal records, visit the company's office/facilities and use outside experts to verify the business proposal claims. The examination, more specifically, attempts to confirm the company's assertions about its product, target market, competitors, management team, financial projections, legal status and intellectual property status.

Term Sheet Offer

Drafted and issued by the venture capital firm, a term sheet is a letter of intent to invest. It, specifically, sets forth the terms and conditions of a proposed investment agreement. Also the document articulates the rights and obligations of the participating parties. Moreover, the term sheet is a non-binding proposal used as the basis to prepare and sign a legally binding investment contract. Finally, it contains provisions designed to maximize the upside and minimize the downside of the investment for the venture capital firm.

For More Detailed Information

Check-out **A Primer: Understanding The Venture Capital Funding Process**. The publication can be found at www.eightenventures.com



Cover Story: Venture Capital Investment Review Continued from Page 1.

In terms of industry sector investments, venture capitalist poured lots money into the cardiovascular area in 2010. As **Table 2** indicates this was true in 2009 as well. Granted the number of deals and the amount of money decreased from 2009 to 2010, venture capital investors, still see this sector generating a consistent demand for innovative, clinically needed technology products.

Before the 2011 first quarter investment statistics were released, a National Venture Capital Association survey (NVCA) revealed no clear consensus, among venture capitalists, on investment trends for 2011. Thirty-five percent of the survey respondents believed the funding level would remain the same; while thirty-three percent believed investment activity will actually decrease. Another thirty-five percent of the survey respondents saw investment levels increasing. Early on, the third group appears to be correct.

TABLE 2: Medical Technology’s Most Active Private Investment Areas, 2009-2010

| Sectors | Number of Deals 2010 | Total Private Money Raised 2010 (\$ Millions) | Number of Deals 2009 | Total Private Money Raised 2009 (\$ Millions) |
|----------------|-----------------------------|--|-----------------------------|--|
| Cardiovascular | 21 | \$350 | 38 | \$632 |
| Orthopedics | 15 | \$224.05 | 37 | \$506 |
| Ophthalmology | 10 | \$142.15 | 14 | \$319 |
| Diagnostics | 5 | \$37.6 | 14 | \$92 |

SOURCE: Elsevier’s Strategic Transactions (January 2011 START-UP)

It is worth noting that the first two groups based their opinions on three problematic issues confronting the medical technology industry: (1) the US Federal Food & Drug Administration’s proposed regulatory changes to the 510(k) approval process, (2) the new 2.3% device excise tax created under the new federal healthcare reform law and (3) the reduction in payor reimbursements. Venture capital investors view these issues as impediments to growth for the medical technology industry. In fact, industry experts believe that some investors will be hesitant or reluctant to provide future investments in medical device companies.

Notwithstanding these concerns, many venture capitalists are ready and prepared to finance the growth of medical device companies. They are, in particular, looking for companies with a solid business model and a medical technology product that simultaneously satisfies payers (i.e., government and private insurers), providers and patients. Many small medical device companies, like the ones listed on page 2, met the venture capitalists’ criteria and received funding in 2010.

How To Prepare Your Firm Continued from Page 3.

Presentation

Utilizing 12 PowerPoint slides, your company will be given an a chance to present a compelling case why the venture capital firm should invest in the company. The presentation, more importantly, is one the most effective ways to communicate with and influence investors directly.

Quick Tips:

- Treat the presentation like a normal conversation- more dialogue, less monologue.
- Use non-technical terms.
- Use no more than three bullet points per slide.
- Practice, practice and practice some more.



Business Plan

Few companies receive venture capital funding without presenting a written business plan. In fact, investors are interested in reviewing the business plan to identify how your company plans to succeed in its industry, what type of customers will purchase your company's product, who will lead your company, how your company's product will be manufactured, promoted and distributed and who your company's competes against.

Quick Tips:

- Should be 30 pages or less.
- Emphasis management team experience and capabilities.
- Include a section on company's strengths and weaknesses.



For More Detailed Information

Check-out *Getting Your Point Across: How To Develop Effective Investment Presentation*. The publication can be found at www.eighteenventures.com

How Eighteen Ventures Can Help Your Company Succeed?

Consulting Services, publications, workshops and Connect With Capital™ are the things Eighteen Ventures offers small high technology firms, especially SBIR awarded companies, to help them attract private investment dollars.

For example, Medgraph, Inc., a Rochester, NY and SBIR award winning company, used Eighteen Venture's Private Capital Fundraising consulting service to gain an audience with WFD Ventures, a New York City venture capital firm. Download and read more about Medgraph's success story at our **Client Profile** web page at www.Eighteenventures.com

Contact Mr. Darrell Williams today, at darrell@eighteenventures.com or (207) 347-1214 to learn how we can help your company succeed.