

I N S I D E   T H E   M I N D S

**Medical Device  
Venture Capital  
Best Practices  
2008-2009**

*Industry Experts on Establishing Valuations, Deal  
Terms, and Exit Strategies*



**ASPATORE**

©2008 Thomson Reuters/Aspatore

All rights reserved. Printed in the United States of America.

No part of this publication may be reproduced or distributed in any form or by any means, or stored in a database or retrieval system, except as permitted under Sections 107 or 108 of the U.S. Copyright Act, without prior written permission of the publisher. This book is printed on acid free paper.

Material in this book is for educational purposes only. This book is sold with the understanding that neither any of the authors or the publisher is engaged in rendering legal, accounting, investment, or any other professional service. Neither the publisher nor the authors assume any liability for any errors or omissions or for how this book or its contents are used or interpreted or for any consequences resulting directly or indirectly from the use of this book. For legal advice or any other, please consult your personal lawyer or the appropriate professional.

The views expressed by the individuals in this book (or the individuals on the cover) do not necessarily reflect the views shared by the companies they are employed by (or the companies mentioned in this book). The employment status and affiliations of authors with the companies referenced are subject to change.

Aspatore books may be purchased for educational, business, or sales promotional use. For information, please email [West.customer.service@thomson.com](mailto:West.customer.service@thomson.com).

For corrections, updates, comments or any other inquiries please email [TLR.AspatoreEditorial@thomson.com](mailto:TLR.AspatoreEditorial@thomson.com).

First Printing, 2008

10 9 8 7 6 5 4 3 2 1

If you are interested in purchasing the book this chapter was originally included in, please visit [www.Aspatore.com](http://www.Aspatore.com).

Quality and Cost  
Effectiveness as the  
Guideposts to Medical  
Device Opportunities

Lisa Suennen and David Eichler

*Managing Members*

Psilos Group Managers LLC



ASPATORE

## **Introduction: A Health Care Economics Approach to Medical Device Investing**

We founded Psilos Group as a health care private venture capital and equity firm in 1998. While many venture capitalists at that time focused on burgeoning opportunities in the new Internet economy, our group was formed around the idea that the U.S. health care system had become broken, and we had specific ideas about how to help fix it. We have refined our investment strategy and philosophy over the past ten years, but we still focus on two important themes when evaluating new opportunities.

First, we are looking for solutions that have a demonstrated ability to reduce overall costs to the health care system *and* improve quality and outcomes. Second, these solutions must provide for the alignment of financial and clinical incentives among the various constituents in the health care system: payers, providers, and patients. Ours is a *health care economics* approach to medical device investing, as opposed to focusing solely on the latest and greatest technology. Innovation in medical devices is interesting to us, broadly speaking, but if it doesn't contribute to the above criteria, we are not generally interested in the opportunity.

With this chapter, we will describe our philosophy and approach with respect to medical device investing. First, we discuss how we search for promising investment opportunities. Next, we describe our approach in reviewing deals, including factors that are unique to the medical device industry. Finally, we include a discussion of evaluating risk in the context of our unique investment strategy. From initial introduction to ultimate investment, we believe that, for us, the best practices with respect to medical device investing involve quality and cost effectiveness as our primary guideposts.

## **Sourcing the Deal: What Defines a Great Medical Device Investment Opportunity?**

Investment opportunities come to us in a variety of ways. Many business plans come in “over the wall” from unknown sources. However, we are far more likely to respond to ideas that come through our network of industry contacts or people with whom we have worked before. The simple reason

for this is that people who know us (or at least have made an effort to learn about us) are more familiar with our unique investment style and philosophy. Like most venture capitalists, we are reasonably transparent about our strategy and what interests us from an investment standpoint. Entrepreneurs or advisers coming to us cold would do well to review our Web site and portfolio companies before sending something our way. This seems obvious, but we see business plans every week that have absolutely nothing to do with health care—let alone ideas that fit our specific strategic approach to investing within our industry.

In any event, plans that explicitly address how the business opportunity matches with our philosophy (i.e., demonstrating the financial and clinical impact on the health care system) are the ones that resonate with our group. Those that don't do this typically don't make it past a cursory review. We reject far more deals than we ultimately pursue; far less than 1 percent of the plans we review result in an investment. However, one of the advantages of our focused investment style is that we often see proprietary deals—those that are not widely shown to others—because entrepreneurs and/or other investors see a match with our philosophy and a synergy of purpose.

A good example of this is our investment in VeraLight, a company developing a device for early-stage screening of diabetes and the pre-diabetes condition. Adult-onset, or Type II, diabetes has reached epidemic proportions in the United States and is one of the major drivers of cost inflation in our health care system. Diabetes is rarely diagnosed early. Often it is diagnosed many years after onset of the disease, when the patient is already suffering from costly co-morbidities such as cardiovascular, renal, and ophthalmologic disease. Today, there is no simple and reliable way to screen for diabetes or its precursors. The current standard of care, a fasting glucose plasma test, involves an overnight fast and a blood draw that must be sent to a clinical lab for analysis. The test suffers from both patient compliance issues and sample handling errors. Worse yet, even when run correctly, due to poor sensitivity (false negatives), the test identifies only approximately half of the people with disease.

We were approached by investors in VeraLight, which has developed the world's first and only medical device that non-invasively and reliably screens

for diabetes at the point of care (i.e., in the physician’s office). VeraLight’s Scout device offers a highly efficient and cost-effective way of identifying diabetics *before* the onset of disease and its irreversible complications. Unlike diagnostic screening technologies for most other diseases, there is real value in addressing the symptoms of pre-diabetics, since the ultimate onset of the disease can be significantly delayed—or perhaps even avoided—through relatively inexpensive interventions. Therefore, early identification and intervention for diabetes can lead to dramatically improved health status for the patient and significantly reduced costs for the system.

The previous investors in VeraLight knew that we would have an interest in their company because it so closely matched our vision of improved quality and reduced costs for the health care system. We saw this immediately in VeraLight and have since made a significant investment in the company, which we believe will make an important contribution to the U.S. health care system when they launch their device in the next year.

At the other extreme, there are times when we proactively target an area in need of a solution, and then look for a company based on what we have learned. We spend a lot of time together discussing what is going on in the health care industry and where the gaps are in the system—acknowledged but unsolved problems that cry out for meaningful solutions. For instance, it has long been known that simple balloon angioplasty catheters have limitations with respect to their utility in certain therapeutic indications. One such problem is that these devices frequently cannot open highly calcified lesions in coronary arteries, as well as the longer and more challenging lesions found in peripheral artery disease. When we were introduced to AngioScore Inc. and its “scoring” catheter device, we knew we had found an idea that directly addressed the problems of traditional balloon catheters that had existed for more than twenty-five years. AngioScore’s AngioSculpt device allows interventional cardiologists to become more efficient through dramatically reduced procedure time; payers achieve savings both from a lower cost procedure initially and fewer repeat interventions; and patients enjoy better outcomes. When a solution like the AngioSculpt device can lower costs, improve outcomes, and align incentives across the health care system, everyone wins, and business success is likely. In this case, AngioScore is well on its way, having consistently beaten revenue projections since its market launch in 2006.

This chapter focuses on our investment philosophy, and how medical device opportunities fit within our overall vision for the health care system. However, we are also defined by an investment strategy that involves a specific approach with respect to structural criteria, such as stage, investment amount, and valuation. The venture capital industry addresses a wide range of opportunities from seed-stage investments to PIPEs (private investments in public entities). There are multiple entry points for the private equity investor along the risk-reward spectrum, but generally, firms focus on a particular stage of investment that suits their style, experience, and skill set. For Psilos, our typical investment comes at a time after the concept, invention, technology, and regulatory risks have largely been eliminated—a stage we call B-esque.

By investing after the seed stage, or A round, we may miss out on opportunities to make the kinds of returns that earlier-stage investors can achieve. However, we believe we can add the most value to our companies and our investors alike by investing at a particular inflection point of the value creation curve. As with matters of style and philosophy, it is important for entrepreneurs to consider a firm's investment strategy when approaching them for funding. At Psilos, we may begin a dialog with companies that fit with our philosophy, but are too early in their development cycle for us at a particular time. However, we are always up front about our investment strategy, and often we will mutually agree to stay in touch in the hope of revisiting the opportunity when our stage criterion is met.

### **Reviewing the Deal: Validating a Good Idea**

As we have already discussed in the previous section, our first screen for a medical device deal is whether it meets with our overall philosophical approach. We are probably unique in this regard. When companies come in to present their story, it is common for venture investors to focus primarily on issues related to the technology and market size, and they focus their initial due diligence efforts in those areas. As later-stage investors, we generally aren't seduced by technology. To the contrary, our approach is to initially assume that whatever we are told about the technology is valid: how it works, clinical results, FDA (Food and Drug Administration) approval process, intellectual property protection, freedom to operate, etc. Of

course, all of this is subject to extensive confirmatory due diligence later in the process.

However, our *initial* approach centers on how the product fits with the fundamental economic drivers of the health care system. We come at medical device ideas from the business side of health care and work our way back to technology:

- First, does the product improve clinical quality—or at least deliver equivalent outcomes in a less costly and better way?
- Second, does the product more than offset its cost through reduced overall health care expense to the system, such as reducing costly side effects or replacing or eliminating other expensive procedures?
- Third, does the product offer clinical and/or financial advantages for patients, payers, and providers alike?

If we can answer yes to these questions, the entrepreneurs have piqued our interest, and we want to learn more. But if we cannot understand how the technology will improve quality, reduce costs, and align the incentives of key players in the health care system, it is not a deal that is suited to our investment approach, and we will move on to the next opportunity.

For deals that pass this initial hurdle, we review a number of other important factors in considering the investment opportunity for Psilos. For us, the quality of the management team is in many ways equally as important as the quality of the idea. In the end, every company will have its challenges along the way. We gain a lot of confidence in knowing that our companies are led by CEOs who know what to do, how to be resourceful, and especially how to ask for help when, inevitably, problems arise.

Our real work begins *after* we close a deal because we approach our investments and work with our management teams and fellow board members as true partners in the business. We spend a great deal of time with management at the beginning of our process, just getting to know them. For us, the quality of management and their cultural fit with our group are huge parts of the investment equation. Also key to our decision-making process is developing a sense of collegiality and team dynamics, both among their team and with our group. Like many institutional venture

investors, we know we can add considerable value beyond our capital. We aren't looking for management teams that will work well *for* us. Instead, we want to back people who are eager to work *with* us and value our health care insights and expertise.

Another important trait we look for in management is candor. At the early stage of discussions, we like to openly address difficult issues, such as how we would mutually deal with a situation in which we may need to replace the CEO. We require candor and a management culture that can acknowledge the challenges management face. In our experience, there is no straight line to the finish; there are always unexpected twists and turns. At these moments, we view it as a positive when CEOs come to us with a high degree of honesty and self-reflection. It is critical for them to have the ability to unemotionally recognize the likely challenges and a clear view of their own strengths and weaknesses (and how to address them). Of course, candor during the due diligence process is also critical. We will walk away whenever we get the feeling that we are extracting the truth rather than having issues disclosed readily to us. Conversely, managers who project credibility and consistently over-deliver in terms of meeting or exceeding budgets and milestones go a long way with us.

A final word on management: we have backed many CEOs who have non-traditional and/or highly scientific backgrounds. We have high respect for leaders who project great passion about what they are doing, along with a real vision around the business elements—regardless of their résumés. Interestingly, the last two investments we have made at Psilos have CEOs who are lifelong scientists (physicists, actually) who have not run companies before but who have made remarkable strides beyond invention to get their products all the way to market. Many venture investors believe that the founder CEO can work for only some period of time, but it is inevitable that he or she will need to be replaced with someone who can grow the business to the next level, or perhaps even run a public company. We do not share that attitude as a matter of course; rather, we continually evaluate management on a case-by-case basis.

We have owned several companies where the founder CEO has been incredibly effective as the business evolves, having the raw talent to lead and think strategically despite the absence of a prior CEO role or even

formal business training. We have also owned companies where a CEO recruited to the opportunity with a gold-plated résumé has turned out to be utterly unsuited to lead the business to success. In the end, we look for people who have the personality, the skill set, and the passion and who can stay with the business for the long haul because we ourselves are patient, long-term investors. Someone who comes in with a like mind and demonstrates the skill, passion, and patience to build the business in concert with their investors appeals to us.

Another factor we consider in evaluating medical device opportunities is whether the technology presents a platform approach, making it applicable across multiple clinical areas. Some groups are comfortable and quite skilled at making binary bets, focusing on devices that have one particular use. This is a similar approach such as that used in the bio-pharma space. When investing in a novel therapeutic compound, the drug will either work or it won't. If it does, the returns can be phenomenal—if not, the investment may well be written down to zero. At Psilos, we like investments that create multiple shots on goal, so if an idea is narrowly focused, we probably will not be as excited about it.

A very good example of a platform approach is our recent investment in a company called OmniGuide. At the time of our investment, OmniGuide had already developed a carbon dioxide-based laser flexible-scalpel system that can be broadly used in otolaryngology applications. This initial focus area represents a large market; however, OmniGuide's technology also has obvious applications for neurology, spine, and other areas. We *liked* the deal because its technology enables higher-quality clinical interventions in the otolaryngology area at lower costs; we *loved* the deal because the same basic platform could deliver high-value products across a variety of clinical segments and because the management team is first-class.

Ultimately, our goal is to provide superior financial returns for our investors, so we spend a great deal of time exploring the company's financial model and understanding the key drivers for growth. Before we invest, we have to be able to convince ourselves that we can achieve our objectives from a financial standpoint. Can the company reach a certain size in revenue and/or profits (and in a reasonable timeframe) that enables us to achieve liquidity and meet our return requirements, given traditional exit

multiples? We perform sensitivity analysis of sales growth assumptions. We dig into manufacturing costs, headcount growth, general and administrative expense, and everything else from the bottom up to understand the likelihood of achieving key financial milestones, particularly positive cash flow and EBITDA (earnings before interest, taxes, depreciation, and amortization) profitability.

We also understand that, in an effort to minimize dilution, entrepreneurs are reluctant to raise more capital than they think they need. This is a fine line, but we will not make an investment unless we believe there is enough cash to sustain the company until the next logical valuation milestone. In our review of the financing strategy, we try to account for the inevitable delays and other contingencies. We also make sure to reserve capital for future follow-on rounds and our returns analysis reflects this while assuming we will maintain at least our pro rata ownership of the company. Our financial review culminates in an evaluation of various exit scenarios—acquisition or IPO—and how competition and other industry dynamics may affect those outcomes.

Finally, we work with scientific and clinical advisers and attorneys to validate the technology and intellectual property. It is relatively simple to determine whether a technology does what the company says it does. We spend more time on the business and clinical considerations: Do the company's claims about need for and efficacy of the product align with what doctors think? Does this technology represent a real and sustainable competitive advantage? It's not necessarily important that the product is based on a technological breakthrough if the resulting advantage is not meaningful. For instance, we often see "me-too" products made of new materials, or that have slightly different mechanisms of action versus existing commercial products. But if the clinical advantages are negligible, or the cost of applying a new technology to achieve equivalent outcomes is higher, it is hard to get excited about it.

Evaluating intellectual property is also a critical part of our due diligence process. Clear evidence of freedom to operate and, to the extent possible, ownership of blocking patents that prevent other entrants from competing, are often essential to a company's long-term value. Especially in medical technology, many of the battles between competitors for market share are

played out on the intellectual property front. (See Appendix A for a sample due diligence checklist.)

## **Reviewing Medical Device Deals: Special Considerations for Our Industry**

The previous section discussed a number of important issues we evaluate in reviewing investment opportunities; however, these could apply to virtually any industry. Health care, and the medical technology industry in particular, is different. Accordingly, both our new investment review and ongoing management of existing portfolio companies address a range of other critical areas that are specific to medical devices.

A product's regulatory pathway is a key consideration in any medical device investment decision. Companies must balance what is required to achieve FDA approval versus what is most advantageous to foster market adoption. These are not always the same thing. Often companies can achieve 510(k) approval with a small, data-limited trial. However, once commercialized, the product may prove difficult to sell because of skepticism and a “show me the data” attitude among physicians. In contrast, the decision to undertake a large, multi-center trial may be prohibitively expensive and time-consuming, making it harder to attract investment capital at a fair valuation before FDA approval—a major investment milestone—is met.

Striking the right balance between doing the minimum it takes to get regulatory approval and undertaking broad clinical research to engender physician support is a key strategic responsibility of management and the board of directors. It is also a major factor in evaluating medical device investments. If we determine that the FDA approval process is likely to be onerous, or a positive outcome is relatively uncertain, we will wait until the process has concluded or make our investment contingent on final FDA approval.

The importance of insurance reimbursement and the length of time it can take are other critical investment considerations for medical devices. Unlike most other industries that do not rely on third-party payers, medical devices can live or die based on their ability to achieve an insurance code for reimbursement, which is generally necessary for commercial acceptance by

clinicians. Achieving payment for a device is not a straightforward exercise, and the process is wrought with challenges. [Note: We recognize that an exception to this is products that prosper in a private-pay environment, such as those that address cosmetic procedures; however, these investments do not fit with our vision of lowered cost and improved quality for the health care system and thus we do not invest in them.] Sometimes a product may be able to use an already existing coverage code for reimbursement but this is not always the case, particularly with cutting-edge technologies. Therefore, an important element of our process in identifying good investment opportunities is an analysis of what it will take to obtain insurance reimbursement.

Both Medicare and private reimbursement need to be reviewed for U.S. sales, and a similar evaluation needs to be undertaken around the company's foreign sales plans (particularly given the complexity of reimbursement in the European Union and Japan). While it is often much easier to gain regulatory approval in Europe than in the United States, it is very difficult for medical devices to realize significant gross margins in many European countries because of their unique insurance and purchasing requirements. Further, the United States represents approximately 50 percent of the total worldwide market opportunity for medical devices, so of course an effective reimbursement strategy for the United States is crucial to the success of the businesses in which we invest.

Similar and related to reimbursement, insurance coverage plays a critical role in device company success. Unlike any other industry, by and large, there is a disconnect within the U.S. health care system between the payers for health care (insurance companies, employers, and government) and consumers (patients and providers). It is for this reason that we focus so keenly on the alignment of incentives when evaluating medical device investments.

In our system, patients have been conditioned through decades of employer-funded health insurance benefits to resist paying for health care out of their own pocket—even if such an expense could help save their lives. The result is that there is a very limited market for therapeutic medical devices that require patient self-pay. This is not what happens in other parts of our economy, where consumers consistently make value-based

purchasing decisions every day. Ironically, elective cosmetic surgery, which is always excluded from insurance coverage, is a booming business! Consumerism is developing as an important trend in health care services, as evidenced by the proliferation of defined contribution and high-deductible health plans. However, this dynamic will be slow to translate to the medical device world outside of cosmetic and other voluntary procedures.

The result is that medical device companies have to execute on a strategy, virtually from their inception, to ensure that insurance coverage will be available for their products when they are ready to come to market. This may require individual negotiations with private insurance entities, and market-by-market negotiations with CMS (Centers for Medicare and Medicaid Services), until the AMA (American Medical Association) grants them a code and CMS endorses reimbursement on a national scale. For this reason, we tend to favor opportunities that can piggy-back on existing reimbursement codes and/or that can achieve coverage through existing DRG (diagnosis-related group) reimbursement mechanisms in hospitals, rather than those that have to find their own way to a new code.

On the other hand, a new product that is differentiated to an extent that it must acquire its own code may also be one that best addresses a large, untapped market opportunity. This set of trade-offs must be thoughtfully balanced as one considers medical device investment opportunities.

When we are willing to take on the risk of developing a product that cannot use existing reimbursement codes, we look for elements of the story that strongly suggest insurance reimbursement would be based on an impact for CMS or commercial insurers. Not by coincidence, these elements are usually consistent with our overall investment approach, which prioritizes health care economics issues over the “coolness” factor of the technology. In our experience, the surest path to a positive reception among payers is the introduction of a product that contributes to improved outcomes and higher quality of care, offers a safer and/or more efficient method of intervention, and results in a clear offset to the overall cost of treatment. Again, we boil it down to improved quality at reduced cost. By demonstrating that it is possible, medical device companies increase the likelihood that they will succeed on the reimbursement and coverage front.

Finally, the third factor that is specific to the medical device industry is the issue of how a product or technology affects physician income. Medical devices are a real contrast to pharmaceuticals, which generally have a negligible revenue impact on the physician. For most practice areas (oncology being a notable exception), it costs a doctor the same amount—nothing!—to prescribe one drug over another. However, medical devices can actually result in reduced income for the physician. For instance, tools that are costly to adopt and add time to the workflow in a doctor's office will generally find that adoption is compromised by the adverse financial impact on the physician.

Diagnostic imaging technologies often fall into this category. These machines can be very expensive for the doctor to use, take up valuable office time and space, and, in the end, may not be reimbursed at high enough a level of make it worthwhile for the physician. Complicated surgical tools may fall into a similar trap. Even when a device can produce better clinical outcomes, if new technology adds time and cost to an existing surgery, the physician is unlikely to embrace it, since his reimbursement may be the same for a shorter procedure based on his or her old standby and perhaps less expensive device.

We think about the economic issues for physicians and hospitals differently when considering medical device opportunities. For physicians, efficiency is defined in terms of enabling them to perform more procedures during a standard work day, for which he or she can get paid. This is a subtle but very meaningful difference from efficiencies that are focused on cost savings versus revenue enhancement. We find that the latter generally drives physician adoption, while the former is usually not as large a factor in their decision-making.

This equation is a bit more complex in a hospital setting, but not by much. It is much easier to convince a hospital to adopt technologies that attract more patients (more patients = more revenue) than sell a return-on-investment story that is based serving the same number of patients with lowered costs. Of course, hospitals are motivated to achieve increased profits, but it is difficult for hospitals to connect the dots between the adoption of new medical technology and the potential overall organizational savings that a device may impart.

For example, a new product may theoretically reduce the number of nursing hours necessary to perform a particular task. But even if potential savings to the hospital are intuitively obvious, the reality of today's nursing shortage has made staff retention a top priority, so the hospital may not be open to achieving savings from staff reduction. Certain advances in quality of care and clinical outcomes may dramatically outweigh the added cost, but it takes an overwhelming driver to cause adoption among physicians or hospitals. We see this as an exception, not the rule—and proving overwhelming clinical superiority is a long, expensive road.

### **Evaluating Risk: a Matter of Taste**

Everyone evaluates risk differently, and venture capitalists are no exception. The evaluation of risk for venture-stage investing is based on a fund's specific strategy and charter. Over the years, we have developed a style with respect to the types of investments we like (industry, markets, stage, etc.), as well as portfolio management discipline that takes into account such factors as financial returns targets and investment time horizon in analyzing risk and pricing our deals. But we fully appreciate that our approach may be different from those of our peers—not necessarily better or worse, just different. We recognize that there are multiple inflection points along the development curve where medical device investors can help drive real value creation and generate positive returns—initial invention, working prototype, animal and human clinical trials, market launch, and ultimately, growth equity. Over the past ten years, we have developed a good sense about what works for us in terms of risks that are worth taking and risks we choose not to accept.

Our firm's investment model focuses on commercialization and growth-stage opportunities, when companies are typically raising capital to fund market launch and/or expansion. We rarely invest in companies that are in the research and development phase. While valuations at the earlier stage are generally lower, and there may be an ability to earn considerably higher returns for taking on development risk, we have found that *for us* the potential rewards are not justified. This is based on our investment philosophy, which is driven by economic and business factors, as well as a clear understanding of where we can add value and where we don't.

We are not clinicians or biomedical engineers, so we are limited in our ability to help overcome negative returns when a product just doesn't work clinically. As a result, we do not invest in companies that have not demonstrated meaningful clinical proof of their concept in human subjects. Bench prototypes and animal models may often be predictive of what will work in the human body, but the correlation is not perfect. We prefer to wait until the clinical development risk is largely eliminated, when we know the product is safe and highly likely to work in humans. We then provide the capital that supports the final stages of product completion, regulatory approval, and/or commercialization.

Ultimately, as a firm, we are much more focused on assuming *business execution* risk that matches our group's entrepreneurial experience and operating background in health care. This is a stage at which we believe we add a fair amount of value to the company, as strategic partners and board members, which is important to us because we have found that a certain level of activism on our part is highly correlated with positive returns for our fund.

Aside from the risks associated with seed-stage investing, we also do not (intentionally) take management risk. We are in the business of supporting strong CEOs and management teams and not creating them. Sometimes our investment will help finance the addition of key team members at the senior level, but if we believe the company needs different people than are currently around the table to achieve success, we prefer to move on to the next opportunity. We are investing in companies, not concepts or products, and those companies need to have strong and high-quality leadership. A great management team can overcome a failed product or business model. However, in our experience it is extremely rare that a superior technology or product can overcome poor management.

It is very important for companies seeking capital to understand the level of risk and the stage at which investors will invest, or they may become frustrated with the fund-raising exercise. Venture investors can be successful at multiple points of entry, but the mid- to late stage is what we found works for us.

## **Conclusion: Achieving Success in a Changing Health Care Landscape**

We believe the evolution of the health care market over the past decade has validated our investment model and approach. The impact of near double-digit health care inflation in the United States, along with the present economic recession, is forcing all players to seriously consider the cost/quality equation. These issues will increase in importance as health reform comes to fruition and as the momentum of consumer-directed benefit models builds. For new medical technology ventures, this will also affect investment considerations, valuation, and ultimately exits. In the current environment it is becoming much more difficult for companies to sell me-too products, and reimbursement for incremental solutions will prove challenging. Indeed, the collision course we are on with respect to escalating health care costs makes it all the more important for investors to strongly consider the economic basis for medical technology opportunities.

Finally, while venture capital investors (including us) are clearly focused on delivering superior investment returns, we believe there is more to the measure of our success. Along with fund performance, we endeavor to leave a legacy of truly great companies and significant advances in medicine because of our investment activity. This job would not be as exciting and rewarding as it is if we did not feel we were contributing to meaningful improvements in the health care system. Our partnership has a shared vision around this ideal, as well as a commitment to be perceived as good actors.

The managers of our portfolio companies are equally committed to that outcome. We have and expect a high degree of integrity in what we do, and in looking back on our legacy, want to know that we have left behind not just good investments, but good companies that have had a positive impact on the world in which we live. Investing in medical devices specifically and health care generally offers a unique ability to do well by doing good, and for that reason, we continue to seek those great technologies that enhance clinical excellence, improve people's lives, and do so in a financially responsible manner.

**Lisa Suennen** is a co-founder and managing member of Psilos Group, a health care-focused venture capital firm with more than \$550 million under management. Ms. Suennen has headed Psilos's West Coast office since the firm's founding in 1998 and focuses on the medical device, health care information technology, and health care services sectors. She serves as a director on the board of several Psilos portfolio companies, including *AngioScore Inc.* (chairman), *InSound Medical Inc.*, *IntelliDOT Corp.*, *Navitas Cancer Rehabilitation Centers of America Inc.* (chairman), *VeraLight Inc.* (chairman), and *OmniGuide Inc.*, and is a board observer for *Endoscopic Technologies*.

Prior to Psilos, Ms. Suennen was at Merit Behavioral Care (formerly *American Biodyne Inc.*), where she held various senior executive roles including senior vice president/general manager of the Public Sector Division, senior vice president of Pacific Region Operations, and senior vice president of Sales and Marketing. Ms. Suennen joined Merit in 1988 while still in its early startup period and, during her nine-year tenure, played a key role in its growth to an \$800 million per year company. While at Merit, she also participated in the acquisition and integration of regional managed care companies, the company's IPO in 1991, and the company's sale to Magellan Health for \$800 million in 1998.

Previously, Ms. Suennen served as worldwide product manager for *INGRES/Relational Technology Inc.*, a relational database company, where she had responsibility for development, marketing, and distribution of the company's UNIX PC software product. Prior to *INGRES*, Ms. Suennen served as director of U.S. Market Development and as manager, U.S. Government and Industry Relations, for *X/Open*, an international computer industry standards setting and lobbying consortium. Earlier, Ms. Suennen spent several years at *Regis McKenna Inc.*, an international high technology marketing and public relations firm, responsible for government relations and public relations strategy for client companies in the software and health care areas.

Ms. Suennen holds an M.A. in political science, a B.A. in political science, and a B.A. in mass communications, all from the University of California, Berkeley. Ms. Suennen also sits on the National Advisory Council of the Institute of Governmental Studies at the University of California, Berkeley.

**David Eichler**, managing member, joined Psilos in April 1999 and has focused on investments in the health care services and medical technology areas. He works directly with many Psilos investments as an adviser on finance, strategy, and business development, including recently as acting chief financial officer of *Caregiver Services Inc.*

*He also has extensive experience as an adviser to senior management and boards of directors on M&A, financial restructuring, and capital raising transactions. Mr. Eichler currently serves as executive chairman of Caregiver Services and as a director of Mauna Kea Technologies and SpineMatrix.*

*Prior to joining Psilos, Mr. Eichler was an investment banker at Wasserstein Perella & Co., where he worked on numerous mergers and acquisitions and restructuring assignments as a member of the firm's Healthcare Group. Earlier in his career, Mr. Eichler worked as a defense policy analyst for DynCorp, focusing on issues relating to nuclear nonproliferation and export control.*

*Mr. Eichler earned an M.B.A. from the Darden Graduate School of Business Administration at the University of Virginia, where he received the Faculty Award for Academic Excellence (top 10 percent of class). He holds another master's degree in national security studies from Georgetown University and an undergraduate degree in government and international relations from Cornell University, where he graduated magna cum laude.*

***Dedication:*** *We would like to acknowledge all of our colleagues at Psilos Group for their many years of support and camaraderie.*



ASPATORE

[www.Aspatore.com](http://www.Aspatore.com)

Aspatore Books is the largest and most exclusive publisher of C-Level executives (CEO, CFO, CTO, CMO, Partner) from the world's most respected companies and law firms. Aspatore annually publishes a select group of C-Level executives from the Global 1,000, top 250 law firms (Partners & Chairs), and other leading companies of all sizes. C-Level Business Intelligence™, as conceptualized and developed by Aspatore Books, provides professionals of all levels with proven business intelligence from industry insiders – direct and unfiltered insight from those who know it best – as opposed to third-party accounts offered by unknown authors and analysts. Aspatore Books is committed to publishing an innovative line of business and legal books, those which lay forth principles and offer insights that when employed, can have a direct financial impact on the reader's business objectives, whatever they may be. In essence, Aspatore publishes critical tools – need-to-read as opposed to nice-to-read books – for all business professionals.

## **Inside the Minds**

The critically acclaimed *Inside the Minds* series provides readers of all levels with proven business intelligence from C-Level executives (CEO, CFO, CTO, CMO, Partner) from the world's most respected companies. Each chapter is comparable to a white paper or essay and is a future-oriented look at where an industry/profession/topic is heading and the most important issues for future success. Each author has been selected based upon their experience and C-level standing within the professional community. *Inside the Minds* was conceived in order to give readers actual insights into the leading minds of business executives worldwide. Because so few books or other publications are actually written by executives in industry, *Inside the Minds* presents an unprecedented look at various industries and professions never before available.



ASPATORE