

Financing Growth of Med Tech Companies

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Equity Partners

Equity Partners - Introduction

- EP was co-founded by RG in 1995
- EP specialises in mid-market management buy-outs, management buy-ins, acquisitions and expansion opportunities in Australia and New Zealand
- Investment size \$8-20m, will take minority or majority positions

Why was PLD selected by VCs

- Revision product was “proven”, FDA/CE approved and in the US & Aust. markets
- US surgeon feedback +ve, convincing
- Strong patent position
- Large US market for but widely spread
- Margins attractive
- Perception that \$10m would get PLD close to breakeven; syndicate could share the load
- Distribution model not capital intensive

Reality

- 2x4 rule applies
- Product proved too difficult to use, but learnings allowed next version to be a winner
- Distribution more expensive than expected
- Surgeon kickbacks difficult to overcome
- Need to have volume to justify forging
- Better to have a knee product as well
- Management needed upgrading

Funding

- Self funding from Ron
- \$10+5 from VCs in tranches
- IPO + placements
- Convertible Note

Funding (cont.)

- VCs at end of their funds' investment phase
- Why IPO?- raise \$ at best price, ability to raise more \$, liquidity later for VCs/Founder
- IPO raised ~\$4m, barely adequate after long process
- Disadvantages of ASX – on going costs high, difficult to raise \$ in today's market, disclosure, lack of flexibility

Board

- Located in Aust. but PLD US centric
- VCs + founders initially; indep. chair now
- Has provided assistance with-the IPO+ fund raising, strategy, distribution, appt. of CEO, dealing with ASX, brokers, investors
- Needs to be small, committed and involved
- Difficult to attract NEDs in increasingly litigious environment

Lessons Learnt

- Board should have spent more time in US
- Management changes should have been earlier
- Took too long to uncover poor performance of 1st product
- Too little focus on distribution initially
- Let the marketers guide R&D
- Align interests of key staff & shareholders
- Conservatism reigns in medical profession

Current Position

- Making steady progress with US sales
- US manufacture becoming more routine
- Aust. distribution via LifeHealthcare
- Completing revision product
- Considering additional products