

# NEWSLETTER HEALTHCARE

Initiated by



## Healthcare Investment Summit 15.-16. November 2010 Schloß Reinhartshausen

The scope of the Healthcare Investment Summit was the following: To bring companies and experts of the medtech industry from both sides of the Atlantic together and to discuss how business can be further developed in the other market. In addition to share each other's experience when trying to step across the Atlantic to do business, a couple of specific questions were raised and discussed: Will companies experience difficulties when entering the US or European market? What problems and pitfalls have they encountered and how did they solve it? Do the participants of the Healthcare Investment Summit see a significant difference between the two medtech markets? If so, what advice can be given to companies before entering the other market, for instance by trying to set up a joint venture, acquire a local business or strive for other business opportunities?

However, during the two days a wide range of topics were covered dealing with issues such as regulatory framework in the US for medtech products or how difficult it is to get a project financed and also the issue was discussed who can I approach? What are the procedures for medtech companies to get a product certified by the FDA which and how many clinical studies have to be provided? Last but not least the cost issue for certification was also a major point amongst the participants.

We are pleased to provide in the following newsletter an extract of some of the presentations given by a number of representatives from their respective country and continent.

As at the beginning of the newsletter mentioned, on 15.-16. November 2010 the first *Transatlantic Healthcare Investment Summit* was held at Schloß Reinhartshausen, which was initiated by the *Transatlantic Business Council* a council where its members provide practical advice and assistance to healthcare companies on both sides of the Atlantic. *Medipex* is the innovation hub for Yorkshire and Humber region in the UK and provides technology transfer services to the National Health Service (NHS) in the UK and *Platinum Partners GmbH* a Corporate Finance firm advising in healthcare related transactions in Germany. The aim was to bring

different professionals with healthcare background from each side of the Atlantic together such as venture capital / private equity companies, representatives of medtech companies, investment bankers, lawyers and tax experts.

**Just to name a few speakers of the Healthcare Investment Summit:**

Torsten Krümmel CEO of BMDSys GmbH founded the company in 2005 and has with his partner Dr. Sergio N. Erné developed and launched “Apollo MFI” system device which is used for cardiac diagnostics. Through a scanning via a Magnetic Field Imaging (MFI) test, it can help by a trained cardiologist to estimate a person’s individual risk for life threatening arrhythmias.

Robert Brown Founding Partner & CEO at Boylan, Brown, Code, Vigdor & Wilson, LLP was educated at Yale Law school is a seasoned lawyer and has advised many companies in the US.

Hubertus Leonhardt, CFA holder and Partner at SHS Gesellschaft für Beteiligungsmanagement a German venture capital company which provides high tech companies in medical devices, industrial biotechnology and diagnostics with venture capital and supports them by developing their business. Mr. Leonhardt has profound experience in the healthcare market and worked in the past on several transactions in the medtech sector.

Dr. Christopher Gayde, Managing Director at Hunter Wise Financial Group Inc, a mid-cap investment banking firm with headquarters in Irvine California. Has been in the practiced clinical dentistry for 20 years and has represented Hunter Wise on M&A transactions in medical and dental device fields, medical and dental laboratory fields and in Biotech and Life Sciences.

Dr. Dennis A. Ostwald received his doctoral degree in 2008 on the topic „growth and employment effects of the healthcare industry“. His doctoral adviser was Prof. Dr. Dr. hc Bert Rürup one of the famous German economists. Dr. Ostwald is CEO of WifOR which deals with economic research and has the focus on the healthcare industry, labor research and cost-benefit analysis.

Dr. Christopher Herbert was originally a Molecular Biologist with an interest in cancer and gene therapy, his focus, since joining Medipex in 2006, has been on identification of promising innovations, evaluation and commercialization and how the development and adoption of innovative products can be accelerated. Chris is recognized for his expertise on the ever-changing NHS procurement landscape and the wider barriers within the NHS for the adoption of innovations, producing a number of reports and presentations on this subject.

**Due to the limited space in our newsletter, only a short summary of a selection of speeches by the participants will be briefly summarized in the following passages.**

The German Medtech Industry – “Setting the Scene”

An overview of the German healthcare sector respectively the German medtech market was given by Karl-Michael Krüger, Managing Partner of Platinum Partners GmbH. Key points mentioned: The Medtech sector is an important part of the German industry. Germany is the third largest export nation after the USA and Japan. About 4.6 million people are employed in the German medtech industry and c. € 263 billion was spent on healthcare in Germany this is equivalent to 10.6% of GDP. The structure of the German medtech market: C. 11.000 companies employ 170,000 people thereof only 1,250 companies (c. 11%) have ≥ 20 employees and only 550 (c. 5%) have ≥ 250 employees. We noticed that there are a tremendous number of very small players from which only a few will survive in the long-run since the majority are not able to finance their R&D activities and other operational challenges limiting their growth. In addition to this they are facing difficulties in finding equity investors which support their respective vision.

A wider perspective on the EU healthcare market was given by Dr. Christopher Herbert, Business Development Manager at Medipex Ltd who talked about the similarities and differences in European healthcare systems and markets and what this meant for companies trying to enter the market. He focused in particular on the English NHS and how the way the system worked could make it difficult for medical technology companies to sell products into the system. He discussed briefly the changes that are currently happening in England with the shift to healthcare service procurement being led by consortia of GP’s, but discussed in detail how providers make decisions about what devices to use in a service and what is going to be driving those decisions over the next few years. A common feature across all EU healthcare systems are EU procurement rules which mean procurement exercises take time and are highly bureaucratic. He concluded that whilst there was a broad similarity in medical device regulations and procurement rules across the EU, understanding the culture and how products fit into services was vital for companies trying to access the market.

Torsten Krümmel, founder of BMDSys GmbH, developed a Magnetic Field Imaging System for cardiac diagnostics spoke about “funding a medtech venture and its difficulties”. During his speech he outlined and described his personal experience first as an investor and then as founder of an innovative medtech company, how difficult it was to convince venture capital or private equity investors to invest in his project. Furthermore, he stressed that entrepreneurs have a different mindset because they are prepared to take high risk and are willing to improvise whereas investors try to keep their risk as low as possible and primarily decide on the basis of an assumed financial performance i.e. limit very often the investment case purely on the

reasonableness of a financial plan and do only look at the project / investment case as such with second priority. This obviously makes it for entrepreneurs difficult since the parties have different perceptions about the project. Given that founders / entrepreneurs very often experience that investors are very hard to convince because for an innovative product which has still to be established on the market it is very difficult to provide a solid forecast business plan, which satisfy venture capitalist or private equity firms. Mr. Krümmel said "The dialogue is often very difficult characterized by suspiciousness and the supposition that one party wants to fleece the other". In order to succeed, he recommends a more honest and open communication between investors and founders / entrepreneurs. Both parties need each other.

Robert Brown, Founding Partner at Boylan, Brown, Code, Vigdor & Wilson, LLP, lectured on how to plan an exit strategy for European shareholders of US based firms in the US market. He gave from a lawyer's point of view three options which a company can follow: IPO, Private Equity Buyout or Mergers & Acquisitions. In doing so European companies have to bear in mind several laws and procedures, which also differ from state to state in the USA, such as regulatory issues, e.g. federal or state licenses and permits, approval of CFIUS (Committee on Foreign Investment in the United States) or possible restrictions on the part of universities regarding license transfer. Mr. Brown also pointed out that the current state of the US financing market makes it especially for small acquisition transactions difficult to come through due to the present economic environment and thus depressed valuations. This also led that venture capital companies are financing fewer deals. And private equity firms however are increasingly looking for medtech companies with potential growth. He sees a great potential in the US market for medtech companies.

Mr. Hubertus Leonhardt, Managing Director of SHS Gesellschaft für Beteiligungsmanagement mbH, a German Venture Capitalist for midcap high-growth and high-tech companies in Tübingen near Stuttgart gave an introduction of what venture capital companies usually look for and which criteria are important for them when investing in medtech companies. Some selection criteria he mentioned were the following: Professionalism & sympathy, good reputation of the management or does the fund actually fit the project. He also pointed out that of 41 exits in that industry taken by a survey thereof 54% were write-offs followed by IPO (18%), buy back (17%) and others (11%).



Business opportunities across the Atlantic were outlined by *Dr. Christopher Gayde, Managing Director at Hunter Wise Financial Group Inc*, located in Irvine/CA, an investment banking firm for the mid-cap market. Dr. Gayde sees opportunities especially in the telemedicine, medical retail and dental business. Hunter Wise has experienced an increase in medical tourism business and a need for providers of temporary medical staffing. A great potential are cost reducing technologies and innovations, including EMR (Electronic Medical Record) systems.

*Dr. Dennis A. Ostwald, CEO of WifOR*, gave a review on the macroeconomic topic of whether the healthcare industry in Germany can be seen as a promoter of growth and employment or rather as an automatic stabilizer. He began his speech by challenging his audience to see the healthcare sector in a different light and gave examples of the "old" and the "new" understanding. He stressed that, instead of speaking about healthcare, people should think about it as health economy. Healthcare should not be seen as a cost factor but as a growth potential in marketing and job opportunities. Dr. Ostwald also showed the immense contribution of the healthcare sector to Germany's GDP. A very interesting aspect was the economic and fiscal impact of Sanofi Aventis as an example on the German economy. In this connection, Dr. Ostwald differentiated between direct and indirect effects. For instance, the fact that the company employs 8,800 people in Germany has a direct effect on the German economy, whereas the indirect effect is that on account of the employment of these 8,800 people, around 19,150 people additionally benefit from full employment. Since other companies settle around Sanofi-Aventis for instance suppliers to Sanofi-Aventis and hence their suppliers. For this reason the increase in full employment can be explained by the indirect effect. Dr. Ostwald also highlighted the point that the German economy benefits from this domino effect due to a higher income tax and corporate tax paid by the companies and people.

## Summary and looking forward

The first Healthcare Investment Summit was a great success. Attendees were able to exchange their experience and could give each other good advice how to deal with typical pitfalls and hurdles in the other market. Due to the various background attendees could socialize new networks especially with people from the other side of the Atlantic or with peers, for example other senior board members. We believe to have started a strong network of business professionals who are able to give qualified advice to any query regarding medtech issues either in the USA or Europe.

*Words from the Chairwoman, Mrs. Ann Starkey, Deputy CEO of Medipex Ltd.:* We are delighted that the conference was judged to be such a success. We have received very positive feedback from the delegates, who made the most of the opportunities to network with each other. Everyone contributed to the conference, particularly during the interactive sessions. We saw this Conference as the first step to building a healthcare network that can really achieve things, and as I write this, my colleagues in the TBC are working on the next event to be held next year in Princetown, New Jersey.



*Words from the Chairman of TBC Healthcare Advisory Board, John Baldwin:* We are extremely grateful to

Platinum Partners and Medipex for their sponsorship and support which contributed considerably to the success of the venture. The interaction between international investment bankers, lawyers, accountants and clinicians with their counterparts in the medtech field made this a most valuable contribution to the world of healthcare investment. The success of a summit of this nature is measured by the number of international deals that were made – on this front alone the post summit feedback has been most positive.

Please feel free to contact us if you require further information either on medtech topics or on the speakers and participants.

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**Transatlantic Business Council**  
The Transatlantic Business Council, together with Medipex has founded a Healthcare Development Initiative to provide practical advice and assistance to healthcare companies on both sides of the Atlantic.

**Medipex Limited** is based in Leeds, UK, assisting and providing technology transfer services to the National Health Service in the Yorkshire and Humber region and is interlinking the NHS, companies and investors.

**Platinum Partners GmbH** is a Corporate Finance firm with focus on the German mid-cap market with experience in the healthcare market and is based in Bad Homburg near Frankfurt.