

Medical Devices eBulletin

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Industry Insider Interview

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Mona: We have seen so much M&A activity in the medical device sector, especially in 2006 and it really was between both large and small companies in the industry. As an industry veteran you've really had significant experience with M&A from both sides of the fence, from the large company as well as the small company, where do you see the greatest opportunities for tier I medical device acquisitions? When looking for an acquisition target is there a particular segment or company type that is really appealing.

Greg: Well having sat on both sides of the fence of evaluating companies and being evaluated at this point, I think it is really important to recognize that these tier I companies, they bring a certain thing to the larger corporations, which is they in essence mitigate risk. When you look at your large corporation, you have billions of dollars of assets; your risk portfolio is much different than a small tier I company. What you find is these tier I companies; they really do fulfill a need for large corporations. There are countless examples of where it has worked well. There are countless examples of where it hasn't worked so well. I can tell you when I was at Boston Scientific we acquired a company called Enterix and that was a company that I did due diligence on while I was there. It didn't work so well and it was a company that they spent hundreds of millions of dollars for and ultimately was recalled. What happens is that these larger corporations, they look for opportunities to mitigate that risk. I also work in the gastroenterology field with Barrett's Medical and we make a device that is used to treat Barrett's esophagus and we are working in a technology where there currently isn't a technology available. Having said that, our counterparts at Johnson & Johnson, who we don't quite consider peers yet, but they had actually been working on a device as well and they had signed an agreement with Given Imaging to distribute a capsule and then develop an internal technology, which was with a product they call the EndoWindow and the EndoWindow is a device that was used to remove Barrett's esophagus in the esophagus and eliminate the disease. During their clinical trials they found that they had almost a 35% stricture rate and this is a technology that was developed internally with Johnson & Johnson and very quickly the senior management of Johnson & Johnson made the decision, saying this is not something that we can have blemish the outstanding record of J&J and so they eliminated it.

I think what small tier companies do is they can identify needs, determine if those needs are satisfied in the marketplace, and they can develop niche technology to apply to that need and validate the safety and efficacy of that.

And then, as important, the reimbursement side, it is just as important for these tier I companies to also prove out and demonstrate not only safety and efficacy of this technology and unmet need, but also the ability to have this technology paid for.

Mona: I think right now with a lot of the mergers and acquisitions there is a lot of focus on the product recall and the safety aspect. How does the acquirer gain insight into potential problems there before they make an acquisition?

Greg: I think the key thing is working closely with your customers. I know you guys have a session on the voice of the customer that talks about how you get closer to the customer and understand what the customer's actual requirements are, but every small tier I company goes through a period of clinical research and data collection. You are not only trying to demonstrate that you can satisfy the need, but you are trying to prove to the marketplace that your device is safe, and not just safe in the experts hands, but safe in every common user that comes across. In the industry, I know whether you are in the Boston Scientific world or in this tier I world you are always worried about who can actually take your technology and use it in the most inefficient way possible and believe me you can design it ad nauseam and there is always somebody that can use it differently than it was ever intended. As a small tier I company you have to develop this clinical data, and in that clinical data demonstrate clearly that the product can be used by a large majority of the population and be used safely and then that it is efficacious. I know, in our particular company the first person that was hired in our company was the Chief Medical Officer, and that person was hired by the venture capitalists to set up and design clinical studies from the very beginning. And, we have a very extensive clinical portfolio for our technology and most of the tier I companies that have been successful do the same thing. At a corporation, when they are evaluating these companies, they have to peel the layers of the onion back, look at that clinical data, and then meet with the customer themselves and understand what the clinical data says.

Mona: And obviously one of the reasons for all these acquisitions is really to spur growth and gain innovation. So, a company might be looking either to partner or to acquire to get that innovation in house. And, often it is the smaller companies like yours that are going after that unmet need. Do you expect in the future that the larger companies, the J&Js of the world or even Boston Scientific companies like that are going to see a paradigm shift where they are going to not maybe have so much of a focus on blockbuster drugs and blockbuster therapeutics, but really start looking at unmet needs as a new category?

Greg: Well, I think from my own experience with large corporations that they are always looking for those opportunities. I think the difference is their time to react. A large corporation is challenged by the need to mitigate this risk and, I won't call it bureaucracy, because I think it is really necessary in these large corporations, because you have to go through a process because you identify a technology and you introduce that into the market. The downside is much greater oftentimes in these smaller markets than the upside. I think they clearly always will continue to invest. I think the difference is who can do it better faster. Where the tier I

companies have come into play is that they have been able to identify these niches, go out and validate the need and then quickly you will find that product and technology. As an example, our technology was incubated out of a small start up company out of an existing manufacturer. I was hired as the third employee and our focus was really on the clinical data and downstream marketing if you will, but what we did is we rapidly developed internally, through a third party relationship, this technology as the customer gave us feedback. And, I feel like the large corporations, because they have so many constituencies to satisfy it is very difficult for them to do that. I think they will continue to try to, but I don't think they will ever stop giving themselves the opportunity to take advantage of kind of accelerated entrance into the market through some of these tier 1 companies.

Mona: Fantastic. That's great insight and I think it's very helpful for a lot of folks here.