Johner Institute

Financing for Medical Device Manufacturers

With Dr. Andre Zimmermann, Prof. Dr. Christian Johner

Transcript

00:00:05 Speaker 1

Medical Device Insights, a podcast by the Johner Institute for medical device manufacturers, authorities and notified bodies.

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In our last podcast, we learned about the challenges that start-ups in particular have to overcome.

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That was a relatively broad round.

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It ranged from personnel matters, of course, to product development and regulatory requirements.

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But one point also concerned financing.

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And it is precisely at this point that we would like to continue today, talk about the topic of financing, and I have brought in an expert, Doctor Zimmermann, who is now also introducing himself very briefly, so that you know why he is an expert on this topic and how he is currently involved in this area of financing.

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Mr. Zimmermann.

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Yes, wonderful, thank you very much, Professor Johner.

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Which I do, my name is André Zimmermann.

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I am currently a partner at S.R.S., one of the leading healthcare investors in the field of private equity corporate finance in Germany, and I am a banker with a PhD in molecular biology.

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S.R.S.

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Invests

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for more than 25 years in the field of healthcare and life science, which includes sectors such as medical technology, digital health, diagnostics, life science tools or industrial biotechnology, to name just a few.

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Here in our investments, we focus on growth as well as on medium-sized companies in Europe from the above-mentioned areas and we are therefore not an early-stage investor who is just investing in established companies, but rather we support companies

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in expansion, for example in Europe, or in internationalization in the direction of the U.

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or China.

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And in doing so, we see ourselves, I would say, as innovative, as partners of innovative companies that bring a lot of industry know-how and network to the partnership in addition to financial resources.

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And we literally open doors for our portfolio companies, which can save a lot of time and money.

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and the goal is to help the management team in the respective company in the best possible way to achieve the desired goals.

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There is also a close cooperation between S.

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and the respective company management.

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Yes, you have already indicated in which phases you are providing support, what are the main reasons why companies have financing needs and

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Yes, you can probably differentiate between different phases.

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Can you give us an overview?

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Yes, so the reasons why companies need capital are of course very diverse and of course not all of them can be explained in this context.

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In the healthcare sector, the innovative, mostly still young companies need financing in the first step to develop their products to market maturity and to get them through approval.

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The highly regulated healthcare sector only allows the approval of products to be sold on the market, and in the initial phase, young companies finance themselves primarily through subsidies and above all through so-called venture capital, i.e. also known as venture capital.

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And in this phase of the company, one also speaks of seed or start-up financing.

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Is there an approval, which I do and the product is launched on the market,

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then, of course, companies want to grow as quickly as possible in order to gain market share, as long as their innovation offers essential advantages over the competition.

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And for this step, expansion or growth financing is then required.

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The capital requirement here can quickly run into the double-digit million range, because approval and market entry, for example in the USA and or China, is relatively expensive.

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Nevertheless, such an internationalisation strategy can be

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in large and attractive core markets make a lot of sense for the companies and, above all, substantially increase the value of the company in the long term.

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And in this phase, we as S.A.S.

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as an equity provider to the companies, both financially and, as mentioned above, as a door opener within the framework of our network.

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And then we have a third phase, namely a third situation in healthcare companies that have been established on the market for a long time,

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as part of their expansion, for example, they need so-called working capital to pre-finance certain things or need financial resources to develop new product lines and bring them to market.

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And this financial need is often covered by classic loans.

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But there are also other situations in which, for example, equity investments, which I tend to focus on, the German healthcare or medical technology market is very medium-sized

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And most companies are family-owned and very well managed.

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Depending on the circumstances, there may be no successor in the family who wants to or can continue the company into the next generation.

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And in such cases, a sale or partial sale to an experienced investor such as S.H.S.

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be a valid option, as we are interested in allowing the companies to continue to grow even after the acquisition and to work together with the previous management or new experienced people.

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then just to demonstrate it accordingly.

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And this transaction is then called a buyout and that is also the second investment focus for us at S, so to speak.

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Mhm.

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So I'll summarize very briefly like this, you have now mentioned such different phases, first this very early phase, where it was ultimately about product development, then the second, when you have developed the product, the expansion into new markets, that would be more likely to be with young companies, then with established companies that

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might be able to get into the next orbit, maybe want to build up new product lines again, want to expand.

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And then the fourth thing was the transition, then possibly from one generation to the next generation or from management.

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These would be 4 typical reasons and situations in which companies have a need for financing.

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In your answer you have already said the first

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yes, financing types had been called.

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I think you once talked about seed capital or something like that.

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If we take a quick look at it again, what forms of financing are there and yes, how do they differ?

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So perhaps the conditions that the respective investors then set, and perhaps with what interest could they give us an overview of the financing?

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Yes, of course, very much.

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Basically, you can actually roughly calculate the forms of financing

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distinguish between 3 categories.

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One is equity, so to speak, which means that you invest money directly in the companies and also acquire shares in the companies through it.

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Then the second, the second big category is debt capital, for example classic loans or perhaps something in the case of mainly younger companies, something like venture debt, but that is purely debt capital, which means that you do not acquire any company shares in the respective target company

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And then there are mixed forms, which are also called mezzanine capital.

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And in the, let's say, classic equity financing, which I include in non-listed companies, the so-called private equity.

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And depending on the phase of the company and the occasion for which the private equity is invested as equity, different subforms can also be distinguished.

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In the early phase of the company, this is primarily the seed capital or the and the startup capital, so seed financing is made to found a company, in the next phase then the startup capital and then, of course, there is the growth or expansion capital, so to speak, that I had already briefly outlined above and in the case of succession situations, for example, something like buyout capital.

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These are, I would say, the rough structures and shapes

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and we, what I had done with S.

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focus mainly on growth and expansion capital and also on buyout capital.

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That means with companies that are already somewhat, let's say, more advanced in their development, which I already have on the market, what I do.

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And this is, I'll say, also one of the, I'll say, large fields, in which also, I'll say, a relatively large amount of capital volume is needed, because it is already here, say, to

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Internationalization plans and or or around, let's say, the takeover of complete companies, which I do in the first or second step.

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Mhm, you said earlier that there are actually 2 main groups without deformity, if just maybe using the example of Buyout Capital or Expansions Capital, to which of the would that belong, would be equity or debt capital or deformities.

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Exactly, so what I do with

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Pension financing, what I or growth capital is usually, I'll say, it's equity, that is, you participate in the companies, you just become a co-owner, with what I do, so to speak, owner and that's also something that we, whatever I strive for.

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It's a bit different in buyout situations, for example, when companies are completely taken over in succession situations,

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then both elements often come into play, so to speak.

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On the one hand, equity, sometimes you acquire shares in the company, either completely, i.e. 100% of them, or at least in larger parts.

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And at the same time, what I do, the whole thing is also co-financed by a part of equity, debt capital, so that here, I'll say, both elements come into play there.

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Mezzanine financing can also come into play there, i.e. the classic mixed forms that I just mentioned above, but what they come with buyouts, usually both pillars, equity and debt financing, which I think comes into play in different constellations.

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Mhm, you also mentioned something in your short bio earlier, which is a quality that fewer can unite, namely to be a banker on the one hand, and a molecular biologist on the other,

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probably they are now also in exactly this area of the health care of medical devices.

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If you look at this industry now, what are the special features, how does it perhaps differ from other industries in terms of financing?

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Yes, so it's certainly what I do, I'll say what I do, the medical technology market is just very heavily regulated and there are many, let's say, stakeholders in the healthcare system who

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have a significant influence on the success or failure of a product or company.

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And you have to know this, let's say, complex relationship and decision-making network in order to be able to correctly assess whether a medical device can be successful on the market.

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And you need a clear idea of what is needed to be able to enter certain markets at all and which technologies are of interest to large medical technology companies, for example, so that they can start the innovations at a certain point in time

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myself, let's say, or ultimately want to buy it at an attractive price afterwards.

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And all these elements must be taken into account in advance, let me say, an investment decision in order to be able to assess the chances of a successful development of the company well.

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And if you don't have this know-how, it can quickly lead to companies in which you have invested, which will remain in the red much longer than expected, or possibly even become a total failure.

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and that's why as an investor in this area, now especially in medical technology or in the healthcare market, you need, I know, a lot of know-how and around all these elements, what I can take into account, that starts with approval regulations, goes over to what I think about reimbursement issues, but also includes what I can do in certain elements, what I can do in markets, where they are developing and also what competitors there are, what I and

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you just have to know all this know-how and this whole network very, very, very well, because otherwise, which I run the risk of, I would say, making investments that don't make much sense.

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And on the other hand, from the entrepreneur's point of view or from the company's point of view, an investor who brings this know-how and this network and experience is extremely important, because only he can also help the companies and help them to

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I'll say, to move forward accordingly, if possible, I'll say, to avoid mistakes that can also be very costly, for example in the context of an approval, which I, if you choose, let's say, the wrong partners in clinical trials, what I can do then, the whole, the whole study afterwards fail in the end and approval does not come about and you have to start again from 0 and many can do that, cost many millions of euros in money, which I took us several years of time.

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That's why it's so important to find, I'll say, the right partner there, yes.

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Yes, you have probably already answered the next question for me.

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That's exactly where I wanted to go, also what do you have to pay attention to when you choose such a partner.

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I have already learned that this should be someone who does more or can do more than just give money in quotation marks, but someone who also advises and accompanies in a certain way.

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In these crucial questions, you have now mentioned technological issues, you have mentioned regulatory issues, you have also mentioned reimbursement issues.

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So that this partner can support with this, I have just learned, either directly or even that just came with me via the networks he has.

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Are there any other points that go beyond this that you should consider when looking for such a partner

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on board.

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Definitely.

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And you mentioned an important point about what I should bring to the table beyond the capital, what I should, so to speak, the investor, so to speak, smart smart capital, that means also certain experience, intelligence, what I have about the market, what I have about it.

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And what is definitely important, which I, if I say, such a partner as S.

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is suitable for someone

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He must be aware that we can deliver these accesses, that we will definitely deliver Smart Summits, which is why we have been exclusively active in this market for over 25 years.

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But another important point is that the company and we as investors are aware that we are a temporary partner anyway.

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That is, what I am doing here, we invest from funds that have a, let's say, limited term, which is relatively long, namely 10 to 12 years, but nevertheless we are a temporary partner.

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This means that we have to get out of the companies at some point and that is something that is usually done by selling the companies to larger corporations, sometimes also via an IPO.

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Both elements we are, which I experience very much.

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However, the decisive factor is that it is a temporary partnership and the company is usually sold afterwards at the end.

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And that, of course, is something that an entrepreneur must be aware of that this time component exists and that it is also wanted on both sides to follow this path together, to develop the company as successfully as possible and also to increase value, and then look for the so-called exit, i.e. the sale of the company to a third party or

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maybe an IPO.

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And if that, I'll say, there is a common, common understanding that this is wanted, then I think this partnership can be very, very, very good and I would say successful.

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If someone says more, no, I'd rather build up a generational company, then we're not the right partner.

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But that can also be clarified very quickly, I would say, in the context of the discussion.

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That is, the tip in general would be to get clarity about what is the time horizon with which you want to work and then use that as a decision criterion for the dream or ideal partner.

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And you have already let us know for which special situations, namely this time limit, companies of a certain maturity, your company is now above all specialized and particularly likes to get involved.

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That's exactly what I and I think you can bring with us exactly the expertise that the companies need and because we have been operating there on the market for a very, very long time, we also understand, I would say, to take into account the interests that the entrepreneurs have in each case, regardless of whether it is I'd say family businesses that may be in the succession situation or, let's say, innovative companies that

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are in their growth phase, expansion phase and would like to have a partner at their side who also has Internet internationalization experience.

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Mr. Zimmermann, that was fun.

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I learned a lot again, hopefully our listeners too.

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We'll get a little insight, of course into a big world, it's clear, they've been doing this for 25 years.

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I will link their contact details again at the bottom of the show notes, so that all companies that

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are in exactly such a situation, as Mr. Zimmermann has described, have direct contact, can turn to him.

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Yes, all that remains for me to do is to thank you very much, Mr. Zimmermann.

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Yes, also from my side thank you very much, it was a lot of fun what I have here and yes, we are open, definitely for conversations, for those interested in what parties are doing.