# ANGEL INVESTORS:
# A Basic Orientation for Medical Device Entrepreneurs

**FDA/OOPD Pediatric Medical Devices Workshop**

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LSA

# Speaker background

- Principal and founder at LSA (2004-
  - Reimbursement consultancy focused on early stage technology and diagnostic companies
- Member, Mass Medical Angels (MA2)
- Past President (2009-2012), Medical Development Group
  - 400+ member professional development group
- Health tech senior executive (1983-2004)

# Angel investing is a business

- Motivations vary, but earning a return is always an important consideration
- Fill the space between “friends and family” and venture capital
  - $ 1-5 mm
- Invest their own money
  - no Limited Partners, (usually) no closed fund
- No management fees, no or minimal infrastructure

# Angels want a clear, simple and practical path to a liquidity event

- Long time horizons have little appeal
- Unwilling to accept significant regulatory or reimbursement risk
- Investment should allow achievement of a significant “value inflection” point
- Seek to avoid potential of being “crammed down” in follow-on financing

# Resource constraints limit Angels' options

- No professional staff to perform diligence
  - Rely on investor/member volunteers
- No ability to "reboot" projects that are failing
  - Even groups that operate as a fund have no reserves for follow-on or remedial financing
- Need to limit risk favors near-term "singles" over long-term potential "home runs"

# Angel investing is a largely passive activity

- A function of both investment size and limited resources
- Angels don't typically …
  - Take a Board seat
  - Build or replace a management team
  - Provide active operational assistance
  - Stay involved for sales/marketing startup
- Need high level of assurance of an entity's ability to execute its plan

# Angels don’t like …

- Science projects
  – Need “proof of principle” prior to investment
  – Want preclinical (animal) data in hand if possible
- Long term “company building” projects
  – Look for a product, product line or platform with near-term appeal to a class of acquirers
- Need for follow-on financing before a significant value inflection

# Angels like to see …

- Technologies that straightforwardly address unmet clinical needs
- Evidence that…
  - potential users want the product
  - “strategics” see the competitive value
- A clear and simple regulatory pathway
- A straightforward reimbursement scenario
- Management capable of executing a concrete and realistic plan

# Does and don’ts of the pitch

- DO be clear, practical and realistic
  - Provide a well organized and believable narrative of your clinical value proposition, technology solution, market, operational goal, timeline, use of funds and potential exit
- DON’T exaggerate, over-reach, ask to be taken on faith, or rely on assumptions lacking empirical support
  - Grandiosity is practical evidence of managerial shortcomings

# Some concluding observations

- Angel money is an excellent funding resource for projects that fit the profile
  - Short time-line projects with defined and limited risk, cost < $5 mm, a clear and simple plan, and predictable liquidity event
  - *De Novo* pediatric device development is likely too uncertain/risky
  - Adaptation of proven technologies for pediatric use may fit – but are markets large enough to attract acquirers?

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# Thank You

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