What it Takes to Get a Medtech VC to Say Yes: Interview with Lisa Suennen

Enter Lisa Suennen, co-founder and Managing Member of Psilos Group, a healthcare-focused venture capital firm with approximately $600 million under management. She also serves as a Director on the Board of several Psilos portfolio companies, including AngioScore (Chairman), PatientSafe Solutions, OmniGuide, and VeraLight (Chairman).

In this interview with Lisa Suennen, we learn how and why medical device companies will need to adjust and modify their business models in order to succeed in today's healthcare environment. Here are a few of our discussion points:

- What does Lisa think when the goal of physicians is to "dagger historical price lists"
- Why is healthcare the red-headed stepchild in the world of venture capital?
- Key action items for early-stage medtech companies.
- Why Lisa and her partners at the Psilos Group favor late-stage deals in our current economic environment.
- What's more important in the eyes of medtech VCs? Quality improvements vs cost reductions vs. reimbursement?
- Corporate venture capital arms: friend or foe?
- If you're an early-stage medical device company, what is the best way to get the attention of Lisa Suennen and her partners at the Psilos Group?

Scott Nelson: Hello everyone, and welcome to another edition of Medsider. Of course, this is your host, Scott Nelson, and for those of you who are familiar with the program, thanks again for joining us, and then for those of you who this may be your first or second time listening, this is a show; it's pretty simple. The goal's pretty simple. I bring on interesting and dynamic medical device and medtech stakeholders in order to learn as much as possible about their past experiences, what they're doing now, things they have learned themselves along the way. So, we can take these concepts, these insights, home with us and become that medtech, that medical device linchpin in your little ecosystem. That's the goal. It's really simple. Today's guest is Lisa Suennen. She is the co-founder and managing member of the Psilos, the healthcare-focused venture capital firm with approximately 600 million dollars under management. I got that straight from the official bio. So, welcome to the program, Lisa. Appreciate your coming on.

Lisa Suennen: Thanks very much, Scott.

Scott Nelson: Before I forget, Lisa writes a very popular blog, or she blogs at a very popular website, venturevalkyrie.com. Why don't you spell that domain before we get started, Lisa?

Lisa Suennen: Sure. It's venture like venture capital, v-e-n-t-u-r-e, and then valkyrie, v-a-l-k-y-r-i-e.com, all one word, venturevalkyrie.

Scott Nelson: Venturevalkyrie, and for those of you listening, I along with everyone else really despise information overload, but Lisa's email's to her blog is the few that get in my inbox, so I encourage everyone to go check that out. So, Lisa, let's start with this quote from Josh Makower, I think that's how you pronounce his last name.

Lisa Suennen: Yeah.

Scott Nelson: I mean, you probably are familiar with him. Yeah, you probably are more familiar with his work than I am, but medtech entrepreneur does some investing as well. But a recent quote that I picked up is, "The average cost of taking a product through the 510(k) process is approximately 31 million dollars, and the average cost of getting a PMA on a product is currently estimated to be around 94 million dollars excluding reimbursement, sales, and marketing activities, etc." Those two stats, 31 million for a 510(k), 94 million approximately for a PMA. As a medtech VC, does that scare you when you hear those stats when you read those stats?

Lisa Suennen: Well, you know, the stats are interesting. They may be correct. On average they probably are. Josh is certainly well-knowledgeable and educated about this topic, has done a lot of research on it. But I don't know in this case the law of averages is helpful to the analysis because the investments you make are on a one-by-one basis. Nevertheless, there's no doubt that the cost of getting a medical device through the FDA and onto the market to sell has gone up and is going up more and more, particularly as the FDA has become more stringent and as the medical device tax comes to be real. If it does come to be real, it's just a much more difficult time. The thing that most people forget about altogether or underestimate is the cost of operating your business when you don't have a reimbursement code in the US or any other country where you need one. So yeah, it definitely gives one pause about the risk/return profile of medical device deals today versus what they looked like 5 or 10 years ago.

Scott Nelson: Got you. I want to stress. It's obviously eye-catching, those sorts of stats, but you operate within this space and I know your firm, and definitely in medical device companies but also kind of in healthcare IT as well, but with those stats and in relation to all of these forces coming, sort of squeezing the medtech environment right now. Do you find yourself leaning more towards healthcare IT? Especially in light of Instagram, the 1-billion-dollar acquisition of Instagram by Facebook, etc. Do you find yourself sort of biasing and maybe trending towards health IT/healthcare kind of services versus medtech devices?

Lisa Suennen: Well, I mean for us we've always trended a little bit more to the IT and services side as a firm. We do less medical device investing than we do the other. I suspect it'll get a little more trended in that direction in the next few years, but it's not really an issue of the statistics that you quote from Josh. It's really a function of the potential returns, the difficulty of the market, the size of the markets, the changing dynamics of reimbursement. It's a complicated set of issues, whereas the market right now is really demanding methodologies to reduce costs in the healthcare system.

If you look at the Health Reform Law, which may or may not survive the Supreme Court, who knows, but probably many of the actual outcomes of it will survive because the economy demands that cost reduction occurs. If you look at that, the place that people with money, and by that I mean customers, are really focusing their energy right now is on ways to improve productivity, improve revenue and reduce the cost of delivering services. So, that lends itself to things like IT and services more than it does medical devices.

Nevertheless, there's always going to be some good medical device investments, and those are going to be the ones that figure out ways of delivering true quality improvement on an evidence-based product quality improvement, at a lower overall cost to the system. It may be not necessarily just a lower price, although that's a plus too, it reduces hospitalization days, it reduces side effects, it eliminates other costs by using this device over that device, what have you. So, there’s always going to be an opportunity there. I think it’s just becoming more clear what kinds of opportunities those are.

Scott Nelson: Gotcha. Okay. Very good. Improvising a little bit as a segue, because I’d like to focus most of this interview on not only the current trends but also these changing business models, some of them you just described, that medical device companies are going to have to be nimble and change some of these models around to fit the current funding and investing environment.

So, one of those growing trends, you mentioned a couple, but one of those is the fact that physicians are no longer, in some cases their opinions definitely count, I certainly don’t want to make light of that, but because more and more the practices of being acquired by the providers, by the healthcare systems, by individual hospitals, their opinion is mattering less and less and that the cost of these healthcare systems is becoming a really big issue. The quotes I think actually that you blogged about in one of your recent posts, was a couple of quotes from Dr. Sperling of the Mayo Clinic…

Lisa Suennen: Right.

Scott Nelson: …some of the things that he mentioned, taking a dagger to historical price lists, reducing the number of vendors, volume purchasing discount, evidence-based decision-making as you just mentioned, thinking twice about using advanced technologies when an older, cheaper version is available. I mean, those are kind of shocking. For those of us who are kind of at the field level within some sort of sales marketing capacity, it may not be news to us, but interesting nonetheless to hear someone like that speak on the stage about issues like that. That's a huge trend and so with that said, what are some key characteristics when a medical device company comes and pitches the Psilos Group on this next new device? What are some of the key criteria that you look at then?

Lisa Suennen: Yeah, I thought those comments by Dr. Sperling were really interesting. You know, he's Professor of Orthopaedic Surgery at Mayo, and Mayo is generally believed to be and I think is one of those organizations that really advances science and tries new things, and yet the fact that they believe their revenue is going to change from a 70% fee-for-service model, or excuse me, 100% fee-for-service model now, the 70% full-risk capitation in the next five years is really interesting because that tells a story there.

My background is from the managed care world before I did this job, and so I come out of a world where thinking about how you balance cost and quality every day when you're delivering clinical services is paramount. For us, this firm, that was sort of the genesis of our investment strategy, is, how do you keep those things very much at the forefront at the same time? So, when we look at medical devices when they come in, the first thing we usually say to them is like, "Let me just assume the technology you have works for the minute. Don't tell me about what it's made of or all that. Tell me how it saves money to the healthcare system while improving or maintaining quality." And the ability for them to articulate the economic story behind their device is the number one gate they have to get through to get us to pay more attention.

I think it's quite different from the way most people look at these deals. It leads us probably to do some different kinds of deals than some of the others have done. But if you walk through our portfolio, I could tell you that story on each one of them because it's what we look at first. We've always believed in—I think the time has caught up with us. It wasn't always true that people cared about that, but now I think the time has caught up with us and if you look at the kinds of things Dr. Sperling said, it's very clear how much that matters and how sort of the development of me-too types of products is just not going to be sustainable.

I teach a class at Berkeley on a healthcare venture capital. One of my colleagues from the field came in and brought a picture with him of six artificial knees from six different companies, put it up on the screen, and asked, "Can anybody tell the difference between these things?" They literally looked identical. It was like one of those kids' games where you look at six pictures of a pig and try to figure out which one is different.

Scott Nelson: Yeah.

Lisa Suennen: So, they all looked the same, and of course, we're all sort of novices in the room, but he said that that chart had been put in front of the CEOs of the companies that sell those six products and very few of them, almost none of them, could identify their product.

Scott Nelson: That's awesome.

Lisa Suennen: I think that's a stunning piece of information really. If these guys can't even tell the differences in their product, the market certainly doesn't want to or care to unless they're really profound.

Scott Nelson: Yeah.

Lisa Suennen: I think they have to be profound from a care standpoint and a cost standpoint for anybody to want to support them as businesses.

Scott Nelson: Right. Right, and I think maybe you were even quoted, I can't remember exactly what quotation, but may be quoted as saying, "True innovation versus these incremental advances that don't really justify either commercialization or even an uptick in the ASP. But that's a great story that even the CEOs couldn't correctly identify maybe their artificial knee that was shown up on the screen. That's an awesome story.

Lisa Suennen: A little scary.

Scott Nelson: Oh yeah. Yeah, no doubt. So, with that said, in an early-stage medical device company that maybe they're still in friends and family sort of angel money. So, they're at the early stages of thinking about this, but what about those companies, and even some of those that are in your portfolio, that's on the Psilos Group website, psilos.com, p-s-i-l-o-s.com, like AngioScore or OmniGuide, etc., Are you seeing it within some of these companies too, having to sort of pivot to a certain degree with their model when it comes to true innovation versus those incremental advances that we just talked about?

Lisa Suennen: Well, yeah. Yes, absolutely have to think about that. An advantage, of course, these companies have is they already started from a place of thinking about how they need to tell an economic story to get ahead because otherwise, they wouldn't be on our website.

Scott Nelson: Right.

Lisa Suennen: So, from a mindset standpoint, they're already thinking about these issues and have sort of been working on them for some time, but things change around them and make that even more poignant. I think for instance of AngioScore, a great company with tremendous success, big revenue now, but they have recently had to think about what changes they need to make in light of the fact that new Medicare guidelines have come out and reduced the number of percutaneous interventions, angioplasties that are getting paid for by Medicare.

Scott Nelson: Yeah.

Lisa Suennen: For the first time now, if you want to have an angioplasty, not that anybody really wants to have one, but if you're recommended to have one, you're going to get required to have a particular measurement, fractional flow reserve it's called, and if you don't hit the right number on that you don't get one, you have to try and fail on a medication regimen first. That's good business for the healthcare system. There shouldn't be unnecessary angioplasties that you can do it cheaper and without either risk of side effects and all the rest.

So, when the procedures get done, when a device gets chosen, a balloon catheter, in this case, they have to be standing there with a story, a convincing story, and they've been able to do that, that tells why their device should be the one picked up off the shelf as opposed to something else when the time comes to actually do the procedure.

Scott Nelson: Yeah, and maybe the better question is, are some of these sales and marketing messages changing and incorporating that cost? Not just the cost of the device, but the cost of how this can potentially reduce cost down the road. Maybe that's an aspect that you're seeing change…

Lisa Suennen: Yeah, well, I think they are finding, and they've done a lot of clinical work to show the advantages of their device. When I invest in companies I encourage them strongly to do not just clinical studies but economic studies. What costs are you offsetting whether it's other tests or other interventions or hospital days or whatever that make your product desirable not just clinically but also financially?

Scott Nelson: Got you.

Lisa Suennen: It used to be that when people came into our office and pitched to us and I asked them that question, what does your product do not just clinically but financially for the healthcare buyer?" they'd look at you like, "What?" Not speaking English, you know.

Scott Nelson: Right, right.

Lisa Suennen: Now, they get that question. I mean, it's starting to become the thing that they need to answer for everybody, not just me, so it's starting to change.

Scott Nelson: Yeah. Is that something that you can early on when you initially getting animal data, maybe beginning to structure a clinical trial. Is that something that's fairly easy to factor into a study, the economic value of a particular device?

Lisa Suennen: It's not easy. It's hard because some of these economic impacts are long-term in nature. Some of them accrue to different people than those who pay for the actual device, which means they're not important to the people who are paying.

Scott Nelson: Got you.

Lisa Suennen: They're complicated thoughts because you have to really convince yourself that what you're doing directly offsets what you think it offsets and that something else wouldn't have the same results. So, that's not simple. It's definitely not simple but it's important and it's got to get done.

Scott Nelson: Yeah, and so this isn't going to be easy, but do you think it's almost a must anymore to incorporate some sort of economic…?

Lisa Suennen: I think it's an absolute must.

Scott Nelson: Yeah.

Lisa Suennen: I think it's been a must for some time and now it's like do or die.

Scott Nelson: Yeah, okay. Got you. That's good. I've got to think with your background in managed care kind of before the Psilos Group, and then even in looking at some of your other portfolio companies and healthcare, IT healthcare services do you find it easier to kind of... You could pull from a different angle.

Lisa Suennen: Right.

Scott Nelson: Maybe you're working with these companies and they're trying to disrupt the market to a certain degree in an effort to reduce inefficiencies, reduce cost, etc. Do you find that beneficial to bring that sort of picture in when you're working with your companies on the medical device side?

Lisa Suennen: Absolutely, because, well, companies can get through the FDA eventually unless they really have a flaw. They can't get through Humana or Blue Shield or United without a lot of work.

Scott Nelson: Yeah.

Lisa Suennen: In the end, if you don't get reimbursement, and I don't mean a code because, a code is hard enough, getting an AMA code, getting a CP1 code, that isn't easy. But it doesn't in the end answer the question as to whether you're going to get paid for. It may get to answer the question of whether you're going to get paid for my Medicare, but it doesn't answer the question of whether you're going to the commercial [21:56 inaudible] paid. You have to have both, really.

So, we have really great sort of relationships and access to the guys on the payer side to talk to their medical directors and say, "Hey, is this something you'd ever pay for?" or "What would it take for you to agree to pay for this?" Then you can go back to the companies and say, "Okay, this is what you're going to need to demonstrate." So, it's really helpful I think from our standpoint, is that we spend as much time thinking about the ultimate reimbursement system and it sort of ebbs and flows there as we do about the clinical and the technical and the other stuff.

Scott Nelson: Got you. Okay, so looking at some of the other criteria, late-stage versus early stage, and I know I think you've written and also been quoted as saying that you typically, maybe not even typically, maybe all the time, your focus is on late stage. Is that true, and why?

Lisa Suennen: Well, we in the past have done more early-stage investments, either companies at revenue or in the cusp of launch but really over the last several years we've moved later, and it has a lot to do with this reimbursement issue. You can spend a lot of money sitting around hoping for reimbursement, even with a good product, and you just burn a lot of cash and it's hard to grow. So, we've really, in addition to the fact that the FDA has become more and more challenging. So, back to Josh Makower's thoughts, if something's going to cost a lot of money to get to, you want to be oftentimes the later money.

Scott Nelson: Yeah.

Lisa Suennen: There are some companies that exit early right after the technology's been proven on the bench or on animals or in the few humans, but that is a rare exception, and banking on a rare exception, it's a tough business to be in. So, for us, we'd rather pay a little higher for some certainty and focus on operational and executional and growth risk rather than can this ever get done?

Scott Nelson: Got you. Okay. It really comes down to risk versus reward sort of perspective.

Lisa Suennen: Absolutely.

Scott Nelson: Yeah, you're willing to take a little bit more of a conservative stance, maybe a little bit more funding but it's going to be a little bit more of a certain future for that particular outcome.

Lisa Suennen: Right, I mean we're never going to see an Instagram multiple…

Scott Nelson: Yeah.

Lisa Suennen: …in healthcare. We're never going to see that on anything, but we're certainly not going to see it…

Scott Nelson: Yeah.

Lisa Suennen: …on a later stage of medical device deal, but we're also going to probably see most of our deals make money.

Scott Nelson: Got you. Okay. Then, with that said, I think you were on the same panel as John Ryan with Onset Ventures…

Lisa Suennen: Yeah. Yeah.

Scott Nelson: …and I certainly don't want you to speak for him. Who knows if John would listen to this, but he's going to be like, "What's Lisa talking about? I didn't say that." But no, that's certainly not the intention. But his firm has almost the exact opposite take in that…

Lisa Suennen: Yeah. Sure.

Scott Nelson: …that roughly 70% of their financings are early stage and he's very optimistic about the future of medtech. I'm not saying that you're not optimistic, but they are 70% early stage. What are your two cents about that sort of stance? They're just more risk-averse…

Lisa Suennen: We thank God, they're out there because if they weren't there'd be no late-stage deals. It's all a matter of philosophy. I mean, there's a lot of people who've been very successful on the early-stage side. ATV with Mike Carusi was on that panel, too, and certainly, that's his game as well, and more power to him. They've proven that they can be successful there. That's great. For us, we like where we sit on the risk-reward spectrum. We feel fine about it. I think if you look at the limited partners right now, and that means the people who invested venture funds, their risk tolerance is not that high.

Scott Nelson: Right.

Lisa Suennen: Their patience for liquidity is really not that high. I mean, this is not a favorite sector right now

Scott Nelson: Okay.

Lisa Suennen: The way to improve its welcome in some of the halls of these folks' offices is to remove some of the risks, speed the time of liquidity, etc. Like I said earlier, you may swing for the fences on an early-stage deal and get really lucky and get a quick exit, like in Ardian, you know, before it even hits the market but it's not the typical experience. So, for us, we're heads down building big businesses, companies that are going to get positive cash flow of their own volition, hopefully, and become very valuable as a result of that. We're comfortable with that. Again, you may not get the same multiple on it but you're going to feel pretty good about most of your deals.

Scott Nelson: Yup. Yup. It's interesting because looking at the tech world, for example, the kind of the social media tech world, and what was it like a month ago or something, it was announced that Facebook acquired Instagram for a billion dollars.

Lisa Suennen: Right.

Scott Nelson: Then, in my mind, I'm thinking, that's got to impact. Those are the kinds of [27:08 inaudible] on the early-stage medtech deals already are probably going to look at that and think, "Where's my return?"

Lisa Suennen: Well, if that's true.

Scott Nelson: But with that said—yeah. Yeah, I mean, they have to think that you may even have been hearing it from the folks that you work with. But on the flip side, you look at Facebook and there's, I mean, it's being widely reported that their stock is slowly, slowly, instead of going up in to the right it's down into the right. Do stories like that help medtech a little bit more and say, "Hey, this is still long-term. This is still a very safe, very barely recession-proof sort of industry to be in.

Lisa Suennen: I don't know. I think there definitely are some folks out there that think about it that way, and while the Facebook IPO may be heading down or settling in at a lesser price in the IPO, that is not the same as saying the early investors didn't make a lot of money and they're still rolling around naked in it. They did.

Scott Nelson: Yeah. Yeah.

Lisa Suennen: The limited partners who backed those guys are really happy with that IPO. They're fine, as long as they're not long-term holders. Even if they are at some of the prices they came in on, they made a lot of money.

Scott Nelson: Yeah.

Lisa Suennen: I do think there is a tradeoff that investors in funds make between the tech sector and the healthcare sector to a certain extent. These things are somewhat cyclical. Right now, I would definitely say that healthcare's not in favor, and I think that's in part, kind of itty bit because of what has happened on the tech side. Certainly, it feels like it's easier to make money on the tech side, although I bet it's not. I bet you it's not that much easier.

It's hard. For every Instagram, there's a not Instagram.

Scott Nelson: Sure.

Lisa Suennen: But I think there's more to it than that. I think there's a lot of uncertainty in regards to the healthcare reform lobbying in the hands of the Supreme Court. I think if you're not intimately knowledgeable of the healthcare system that really freaks you out that there's this level of uncertainty. I think if you are intimately knowledgeable it probably doesn't scare you that much because a lot of these things are happening anyway, changes in insurance, etc. Changes in the hot he health providers are behaving. Nevertheless, that's a worrisome thing to some investors. I think this whole highly publicized amount of drama there's been around the FDA and how difficult it is, the medical device tax and on and on and on, it gives people pause, and who can blame them?

Scott Nelson: Sure. Sure.

Lisa Suennen: They think they can make safer, easier money. They don't get paid for taking risks. They get paid for making money for their institution and you have to respect that.

Scott Nelson: Yup. Yup. Then moving to another criterion, and we talked about a little bit about this earlier, but when you put the improved quality, reduced cost, and reimbursement under the same umbrella; when you look at this from a venture capital perspective, does one of those get your attention more so than others? Is it reimbursement or is it reducing cost? If you had to rank those three, what would they be in terms of importance to you?

Lisa Suennen: I don't really look at it that way. The way we look at it more is the thing, whatever it is, has to align financial incentives firstly, and clinical incentives also. So, we look at, what does this thing do for the payer? What does this thing do for the provider? What does this thing do for the patient? If neutral to positive for all three parties, that's a green light to move forward into getting serious about it. That's probably the most accurate way.

To my prior comment, what I will also say is that while the healthcare sector is somewhat out of favor right now, the companies that have been able to meet those criteria around aligning incentives, particularly financial incentives, are killing it. They're doing really, really well. I mean, we just exited a company called Extend Health for over 435 million dollars. We made 10 times our money, and it was because it was a company that met those criteria. While certainly, the point that healthcare is a little out of favor on the VC side is true, I think it's unfortunate because it's a time in the industry where there's a lot of upheavals, and upheaval creates an opportunity for innovation.

Scott Nelson: Yeah.

Lisa Suennen: I mean, if the whole world's going to change, then you have to figure out a way to change it, and how you change it is through the companies and new products being there to serve a new market. So, from my standpoint, it's almost the best time ever to be investing in this space. God knows I never thought the kind of change that we're seeing rapidly occur in our industry would ever happen like this. It's profoundly quick considering how long the whole industry's been sitting around not taking care of business, and it just creates a great opportunity for us. We feel great about our portfolio right now.

Scott Nelson: Yup. I keep thinking about, you mentioning those three questions that you ask, the neutral positive for all three points of that triangle, the payer, the provider, and the patient. I have to think that the fact that you've got other focuses within your firm like I just mentioned, healthcare IT, healthcare services, and the fact that you have a managed care background. In doing my research, I initially didn't think of probably how important that was, but I have to think that's really valuable.

Lisa Suennen: I think so.

Scott Nelson: Yeah.

Lisa Suennen: I mean, certainly, when we go talk to the providers and the payers, they care a lot about that. If a particular device isn't going to make provider money or at least be neutral, God helps you if it takes money out of their pocket, they don't like that.

Scott Nelson: Yeah. Right.

Lisa Suennen: And the payers are the same way. I mean, they are in business to be in business. It's not charity. For the patient, it's a little bit of the same thing. Patients don't want to pay for stuff. There's all this consumer engagement and discussion of how consumers are getting more accountable and all that. To a certain extent, some of that's true, but most patients don't like to pay for stuff.

So, if it's going to disadvantage them, that's a real problem too. Probably they're more concerned at the moment about clinical considerations, so you've really got to think about that as well. For some financially advantageous thing but it's clinically inferior, well, that's not good either. They've both got to stand up there and be counted.

Scott Nelson: Yup. Got you. Then, kind of moving beyond sort of that criteria, when you look at your competition to a certain degree when it comes to actually the financing portion, the actual funds, what's your take on the corporate VCs? It seems like you're being a lot more, I mean that's definitely a trend, it seems a little bit more popular.

Lisa Suennen: Yeah, they're filling the void. Yeah. Yeah, they're filling the void that the VCs are leaving. Yeah.

Scott Nelson: Yeah. So, do you see that trend evolving, probably especially with more early stage sort of deals, what's your take on corporate VCs?

Lisa Suennen: I think it really depends. It's very circumstantial whether that's a good thing for a company or not.

Scott Nelson: Sure.

Lisa Suennen: I mean some people firmly believe that you never let these guys into the tent early. It always compromises your exit, stuff like that. Some people that it gives a huge advantage because it conveys credibility. They might help you with manufacturing and God only knows, distribution, whatever. I think the truth is somewhere in between. It depends. It depends on the deal. It depends on the stage. It's probably something that's better for later-stage companies than earlier stage companies because they're not in there from the very beginning where you're trying to figure out what the hell you're doing and how you're going to get there.

Scott Nelson: Yeah.

Lisa Suennen: So, they don't see all your warts. It really depends on the terms. If they have no board right, no voting rights of any significance, they can't force you to let them buy you first, all the things with strings attached, then it could be a really good thing. When there are strings attached, it's a really mixed blessing. It can work out phenomenally well or terrible depending on what happens, and it's hard to predict sometimes what's going to happen.

Scott Nelson: Yeah. In fact, I did an interview, this is probably a couple of months ago now, with Rudy Mazzocchi and he actually recommends when he does some mentoring/consulting to be very strategic when partnering with your large strategics. I guess that's how you form strategics and he mentioned a couple of really interesting insights in regards to looking at that large strategic medical device company, looking at their current franchise, and making a determination on can you replace a certain franchise, or can you fit alongside it? When looking at whether or not to partner with that large device company perhaps from a venture capital standpoint.

Lisa Suennen: Yeah.

Scott Nelson: So, interesting point. In regards to the angel side of things, with websites like AngelList, Kickstarter, sort of the crowdfunding model of the angel investing, do you see that making its way over into the medtech/medical device world?

Lisa Suennen: I don't know. I mean, I have really mixed feelings about that whole thing. I think it's one thing for you to have an angel investor who has a lot of their cash, who has direct experience in what you're trying to do, who can help you with your business, and who's there throughout. That's a good thing. When you're talking about crowdfunding and crowdsourcing of money, you're talking about lots of people with small amounts of money who don't know much about your business. They can't really help you except for money.

Scott Nelson: Yeah.

Lisa Suennen: If you're talking about a company that's going to need 31 to 94 million dollars to get to the endgame, these guys are not going to be able to stay in the continued investment in your rounds as you move through that spectrum. So, what happens to these guys, I mean, sure, money's great, you need it, that's great. But I fear for these people because I think you get to round three, it's a down round because a company hasn't done as well as it hoped, which is unfortunately what happens these days. You don't get rewarded much for early-stage risk at the current time…

Scott Nelson: Okay.

Lisa Suennen: …and they get wiped out from the capital structure. I think it's really because they can't continue to invest and they [37:18 inaudible] a share over time. So, I think it's really risky for the investor, and it's a mixed blessing then for the company. If they need capital, they need capital, they have to do what they have to do, but I don't know. That whole thing makes me uncomfortable.

Scott Nelson: Yeah. Is it one of those things where maybe it's a little bit easier to pull off with something like Instagram, for example? But a medtech or medical device company that's looking at an exit 7 to 10 years down the road, it's nearly impossible for that to really work?

Lisa Suennen: I think it's the same for all sectors. I think it's a highly risky proposition.

Scott Nelson: Yeah. I've heard some people discuss Kickstarter that it's one deal away from just completely falling apart. One very largely publicized deal gone bad and that could be the end for Kickstarter. Not to knock them.

Lisa Suennen: I don't know. I don't have any intimate knowledge of any of these organizations. I just think in theory it's high-risk. I wonder sometimes if you might not be better off going to Vegas and putting it all on the hard eight.

Scott Nelson: I knew Lisa would have an opinion on that, on angel investing and crowdsourcing funding. As we reach towards the conclusion, Lisa, if I'm an early-stage device company, maybe I'm going to open up this question beyond the device. Maybe I've got a cool health IT product. I guess I'll leave that up to you whether you want to advice based on health IT versus device. Do you have any recommendations for people coming to you and trying to get your attention from that standpoint?

Lisa Suennen: Yeah, bring chocolate, for starters. Beyond that, I think, like I said, for us, it's all about being able to tell a good healthcare economic story.

Scott Nelson: Okay.

Lisa Suennen: First of all, look at our website. I'm amazed by how many people come to us with things that don't fit our investment criteria that are well-publicized on the website.

Scott Nelson: Yeah.

Lisa Suennen: Second of all, really come prepared to answer that question because, well, you may have the best technology in the world and you may have a great clinical outcome, but if you don't have an economic story that ties to those things, it's not going to work, for us at least. Maybe you'll make it work, but we aren't going to believe it. Unfortunately, we've been right more often than we've been wrong on that one. So, please come prepared to talk about how your device not only improves the delivery of care but how it improves the flow of money and the cost per procedure or what have you in the marketplace.

Scott Nelson: Yeah. It's amazing to see how much of an impact that is, that economic value and I haven't really dug into it personally but I think it was the story I just read about Omar Ishrak, CEO of Medtronic, recently partnering with Aetna, I believe it was, and looking at developing therapies for chronic diseases. That's interesting, a large medical device company, the biggest probably pure-play device company, partnering with a payer. That, I guess coincides with what you just said, the economic story is huge.

Lisa Suennen: Yeah, I mean, it's like the Grim Reaper story for a lot of these medtech companies. Oh my God. I'm sure. I think the other interesting trend that you start to see, employers, and I think it was Kraft, I can't swear to it, but I think it was Kraft Foods that did a deal with Johns Hopkins to do all their cardiology procedures. Now, they're not in the same state. So, Kraft figured out, I think it was Kraft, that by directly contracting with Johns Hopkins in Baltimore they could save money. Even when you factored in the cost of airplane and hotel, by getting Johns Hopkins, a very reputable organization, to agree to a fixed rate for various procedures that they couldn't get in their local community. That's really interesting. I mean, not only have they cut now probably numerous costs on the medical device side, but they're also cutting out the payer intermediary, which they usually have in that scenario, creating a network of their own.

Scott Nelson: Wow.

Lisa Suennen: That's an interesting trend. It's not the first one I saw or the last one I saw, but it was the one I saw that was most profoundly stated.

Scott Nelson: Yeah.

Lisa Suennen: You're going to see more of that. You're either going to see employers getting very aggressive about what they'll pay for or you're going to see them dropping out of the healthcare benefits system altogether through the healthcare exchanges which I think are going to happen whether the Health Reform Law stays in or not.

Scott Nelson: Okay.

Lisa Suennen: So, the financial pressure is growing, and not heeding that warning is a real risk to your business.

Scott Nelson: Wow. Those are really interesting. So, you don't think that's just a wild story. There may be potentially more large companies like Kraft pursuing not necessarily the same model but doing some of those...

Lisa Suennen: They already are.

Scott Nelson: Yeah, wow.

Lisa Suennen: I mean, companies like Cisco and others have built in-house clinics, medical clinics that they want their employees to go to for basic care, and so they're going through the benefits system to access their benefit. I mean, there's a lot of stuff going on out there to try to avoid cost on the employer's side.

Scott Nelson: Wow. Yeah, and with a lot of these margin players sort of self-insured, I guess I could see where that potentially would make a lot of financial sense. So, very cool. The other last question I had for you was, your blog is obviously, as I mentioned, venturevalkyrie.com, it's wildly popular and you started it back in 2010, correct? Is that right?

Lisa Suennen: Yeah.

Scott Nelson: Middle part of 2010. So, you're still consistent at it. You look at like the social media high-tech world and there are quite a few well-known VCs that blog on a routine basis.

Lisa Suennen: Right.

Scott Nelson: Ted Wilson would be a good example of that. You're one of very few that I know of that consistently puts really good information out there kind of on the healthcare/medtech base. Why is that the case, and do you see more VCs doing this?

Lisa Suennen: Well, thanks for the compliment. I really appreciate that. I'm surprised there are not more healthcare folks talking out there. I wish there were. I don't know that there's any good reason for it except for maybe since they're on the health side, not the tech side, they're a little less versed in social media. I had a particular friend, Jennifer Jones, who's sort of an extraordinary marketing and public relations person who has helped advise us and really encourage me to do that. It's really paid off I think for our firm in terms of his ability and in interesting deals that have come through the door. So, I would encourage my colleagues to get out there and talk more to the rest of the world because it has been a great opportunity for me to talk to and learn from other people that I didn't know before. It's a lot of fun as well, so I really hope that the profile of the healthcare world expands. It would be a good thing.

Scott Nelson: Very good. So, there you have it, advice from Lisa Suennen about why you should blog. But no, that's great stuff. As I said in the very first part of the interview, your blog updates via email that I get are one of the few that I actually subscribe to because I love hearing what you have to write about what you have to say. It's really fascinating stuff, plus I learn a ton from it.

Lisa Suennen: Thank you.

Scott Nelson: So, I'd encourage everyone to definitely check it out—I'm not just saying that to brownnose or anything like that. Those are my honest, candid feelings. So, check out venturevalkyrie.com, and then also be sure and check out psilos.com. But any lasting advice for any medtech/medical device ambitious doers out there that are listening to this interview that you'd want to impart on them as they move about in their own individual journey?

Lisa Suennen: Yeah, I'd say, Scott, that if you're an entrepreneur and you're driven to innovate, do it. Don't let those horror stories of the FDA or reimbursement, all these things, or my hand waving, scare anybody off. I mean, I think if you've got something to add to improve the marketplace, go for it. Be cautious. Remember the things that I've said about healthcare economics and clinical improvements and how important it is to improve those things. But if you can and you believe you can, then go for it. The world needs innovation and improvement to address the problems of our healthcare system.

Scott Nelson: Got you. Very cool. Very cool. Well, thanks a ton, Lisa, again for doing this. Really appreciate it. Again, those websites, check them out, folks. psilos.com, p-s-i-l-o-s.com. Lisa's the co-founder and managing member of the Psilos Group. Then also check out her very popular blog, venturevalkyrie.com. They could probably also Google your name, Lisa. I imagine Lisa Suennen, S-u-e-n-n-e-n, they'd probably find it there as well. That's the easier way to go. But thanks again for doing this. I really appreciate it, Lisa.

Lisa Suennen: Thank you for your interest. Take care.

Scott Nelson: I'll have you hold on the line real quick. But that's it, folks. I highly recommend checking out Lisa's work. Again, for those that are listening that haven't actually jumped on iTunes, all these interviews that you maybe have listened to in the past, obviously, you're listening now, just do an iTunes search for Medsider and that'll pull up. It's totally free to subscribe to the Medsider podcasts and all those interviews will be automatically downloaded to your iTunes account. It's a really easy way to consume this audio content. Anyway, that's it for now. Until the next episode of Medsider, everyone take care.