Endeavour Vision:
Making Late-Stage Deals Pay

by
DAVID CASSAK

Veterans of the European venture scene, Endeavour Vision has raised a new fund that will focus on late stage deals and, contrary to most VC firms today, on medical devices.

When California-based **PneumRx** was acquired last year by London's **BTG Group**, the deal represented a striking validation of PneumRx's novel technology in interventional pulmonology. It was also a validation of sorts for the investment strategy of Geneva, Switzerland-based **Endeavour Vision SA**, one of Europe's oldest venture capital firms, though a firm relatively new to medtech. Investing in PneumRx's last private round, Endeavour Vision saw its strategy of investing in late stage medtech companies work to perfection: a quick and substantial exit for a company with a promising, white space technology.

With biotech booming and medtech returns lagging, sometimes simply the willingness to invest in medical devices feels like a contrarian approach to venture investing. But last year Endeavour Vision announced that it was doubling down on its play in medtech, raising a new fund that will focus exclusively on medtech (with some digital health related to medtech as well). Following an initial close in December, the fund hopes to raise €180 million before it's done, with up to €15 million invested on average per deal.

So far, so good for Endeavour. PneumRx was the company's fourth exit in medtech in less than a decade. And though it likes to come in late, Endeavour favors an aggressive approach that brings the firm's own entrepreneurial culture and extensive networks to bear to help the companies it invests in build businesses quickly. And as its investment in PneumRx suggests, Endeavour is as likely to back US companies as European.

In the following interview, partners Daniel Bertholet, Sven Lingjaerde, Eric Milledge, and Damien Tappy talk about their approach and strategy to investing and why they are jumping into medtech with two feet at a time when so many other longtime venture funds are heading in other directions.

Editor's Note: This is the second in a series of MTS interviews with leading European venture firms that invest in medical devices. The series, done in collaboration with the medical device group of the European Venture Capital Association, began with an interview with Earlybird Partners, which ran in our March 30, 2015 issue, and will continue over the next several months.

The MedTech Strategist: ***I know you just raised a fund. How did that process go? One of the things we've heard from many of the European VCs we've spoken with is that LPs in Europe have cooled a bit on medical devices. Obviously you were successful in raising a fund focused on medtech. What did you hear from LPs as you were raising your new fund?***

Sven Lingjaerde: We made an intermediary closing at the end of 2014 with €122 million in December. This is probably already the largest pool of capital exclusively dedicated to medtech in Europe. We found investors like the fact that the fund is focused, that the team has a deep understanding of medtech and that we have people in the US and in Europe. And clearly, there's a feeling that the medtech industry is here to stay. Still, we found the number of people willing to invest in that sector isn't as large as it used to be.

MTS: ***So did you wind up finding new LPs?***

SL: Absolutely. It also helped that we've been around a long time—we're one of the oldest venture capital firms in Europe. I've personally been in this industry 27 years. I think the fact that we've been around for so long was important in convincing the LPs to invest in the new fund.

MTS: ***I know your goal is to raise €180 million. How much of that will be for medical devices?***

Eric Milledge: It's all medtech and digital health related to medtech.

MTS: ***That's a huge fund for medtech.***

EM: Yes. I think we'll wind up looking at around 12 deals, with up to €15 million invested on average per deal.

MTS: ***That's a lot for a medical device investment. Do you have a preference for the stage of deals you look for?***

EM: This will be a growth fund, so we're focusing on companies that at least have their regulatory path taken care of – they have a CE mark or 510(k) or PMA behind them. Ideally, we'd also like them to have some early revenue – anywhere in the $5-30 million range.

MTS: ***Where are you finding most of your investment candidates? I know you were an investor in PneumRx, which just had a nice exit to BTG. Are there enough later stage companies in Europe to make such a strategy work?***

EM: Our focus isn't limited to Europe. We also do deals in North America and I would say personally that I think there are a lot of companies that fit that profile. One particular element that European and American entrepreneurs like about us is our capabilities to support them as they go across the Atlantic to develop their business.

MTS: ***So you like to have the company clear its regulatory pathway and be generating at least some revenue. Any other aspects of the ideal profile? For example, do you favor any particular clinical space?***

Daniel Bertholet: We are looking across all sectors in medtech and have expertise across all of them. We also look for opportunities to do build-ups with companies. We also look in white spaces, like interventional pulmonology, which is why we invested in PneumRx.

MTS: ***And was that a late stage investment? What round did you invest in with PneumRx? Where were they in their development?***

DB: We came into the last round and made the investment based on compelling clinical data in Europe and the fact that they had CE mark. Our investment supported this Californian company in its go-to-market strategy in Europe.

I doubt if you'll ever see us making investments in what I call incremental technology gains. Those spaces are too crowded and in the end you wind up with poor returns.

–Eric Milledge

MTS: ***That really seemed like a white space opportunity. Are there clinical spaces that you favor or clinical spaces that you stay away from? Cardiovascular and orthopedics are probably the two biggest clinical spaces in terms of device development. Do you bias for or against either?***

DB: No. We see merits in all sectors, provided that the products/technology can demonstrate very compelling clinical data and changing the standard of care. What we're looking for is a big market opportunity. We want to see companies that can grow quickly to €100 million in sales, with an experienced management team and technologically and clinically superior products. Outside of that, we don't come in with any preconceived ideas. It's all about finding the right management team to back and helping them to make it a global success.

EM: To name one, I think diabetes, in addition to cardiovascular, is a field we'll continue to focus on. But to build on Daniel's point, we're looking for large markets, markets with the potential to be a billion-dollars plus, with technology that meets a well-defined unmet need and ideally is transformational in some way. I doubt if you'll ever see us making investments in what I call incremental technology gains. Those spaces are too crowded and in the end you wind up with poor returns. Beyond that, we want technology with strong IP, where reimbursement is not going to be an issue. And based on everything I'm seeing, I'm very confident that we will find many companies that meet those criteria.

MTS: ***Based on those criteria and the model you've adopted, do you have a sense of what percentage of your investments will be in European versus US companies? Europe has historically lagged the US in company creation, just in terms of sheer numbers of companies launched. Of the twelve or so companies you think you'll invest in out of this new fund, will most be in Europe?***

Damien Tappy: It will probably be around 50/50. We have no strong stake in whether it winds up being 30/70 or 60/40. Where the company is located isn't the issue. The issue is finding the right companies in which to invest. We have made great investments in both Europe and the US.

MTS: ***Your LPs aren't putting any pressure on you to find European companies?***

DT: Zero. Absolutely zero. They have understood that we are after the best deal possible, no matter where they are.

MTS: ***Given your focus on late-stage deals, how do you view the IPO window in medtech right now, in both Europe and the US?***

DT: That's an interesting question. When we invest in companies, we build them to last. For us, an IPO is just an event; we don't see it as a goal by itself. If the market is there and we see an opportunity, we'll take it. It can clearly support a market leadership strategy and help in build-ups. Our team has done about 12 IPOs in Europe and the US. The market for medtech IPOs is clearly improving and we see a lot of interest from the investor community.

EM: Damien, it might help to understand our strategy if we talk a bit about some of the medtech companies in our portfolio, just to give some perspective on the types of deals we've done and the exits we've achieved.

DT: We have invested in several subsectors of medtech including cardiovascular, metabolic diseases, pulmonary, diagnostics, and digital health.

MTS: ***PneumRx is one investment that everyone knows by now. Can you share the names of some of the other companies?***

EM: One of our portfolio companies is **Symetis**, which has a third-generation transcatheter valve, with both a transfemoral and transapical approach. Both are approved and on the market, generating revenue and doing very, very well.

Another company that you've probably heard of is **CeQur**, which has developed a three-day disposable basal bolus insulin delivery device for type 2 diabetes patients. That's a company with a phenomenal market opportunity. We went into the investment thinking this might be a $1-2 billion market; it's probably more like $4-5 billion, and our technology eliminates needle sticks.

MTS: ***Neither of those has exited. Besides PneumRx can you give us some idea of some of your portfolio companies that have exited?***

DB: Of course. There was EndoArt [gastric bypass band], which was sold to **Allergan** [in February of 2007]. NFocus Neuromedical, which was sold to **Covidien** [in February of 2013; Covidien is now part of **Medtronic Inc**.], and Thommen Medical [dental implants], in which we sold our interest [in 2006].

MTS: ***You mentioned a digital health investment. A lot of medical device investors are moving, in part or in whole, to digital health. Can you talk about your digital health strategy?***

SL: Digital health today reminds me a little bit of the Internet at its beginning. Basically you have a lot of companies being created, with a lot of me-too technology, on both sides of the Atlantic. I believe the US will lead the march in digital health. In the US, you have a large, homogenous market, and you can start a company with not a lot of money and quickly deploy the technology.

Today, I don't think the first thing people look for in digital health is to make money quickly. It's more to provide a service that people are using and to deploy very fast. Making money will come later. That's why it's like the early days of the Internet. One of the strengths of our team is that we have strong experience in both IT and life sciences. And I think if you want to be successful in digital health, you have to understand both sides. You need to understand the cloud and big data and high processing power and security of IT, but you also need to understand the regulatory aspect of life sciences, the interaction between medical doctors, providers, hospitals, and patients.

MTS: ***Getting back to medtech, how do you view the M&A climate in medical devices today? In Europe, we're hearing from a lot of VCs who think the big companies are sitting on their hands; they're not being very aggressive when it comes to acquiring companies. M&A must be important to you as a later-stage investor.***

EM: I think it's clear that the companies have become a bit more risk averse over the last several years. That's true of just about every company we talk to. But one of the reasons we're focused on later stage is that at that stage, the companies usually have the clinical data to back up their claims and the regulatory process behind them. A lot of the big companies today are looking for strong clinical data. The days of getting acquired with just a 510(k) in hand are over. We really do push our companies to put together strong clinical programs. The big companies also want to see that you have your reimbursement in place, that you know how you're going to get paid. Depending on your technology, they also want to see that you have your manufacturing strategy in place, that you have a scalable plan that allows for a cost-of-goods that generates strong gross margins. Finally, they want to see some early market penetration. If you have all of those pieces in place – you're capturing the market with a manufacturing scale-up plan that delivers on the margins and is supported by strong clinical data – you have something big companies want. But you have to have those elements down to move to an exit.

DB: I agree. While it's true that the strategics are conservative, they really want to see early adoption and strong clinical data. The thing I find encouraging, in our experience, is to see new players coming in to make acquisitions.

MTS: ***Like BTG with PneumRx.***

DB: Yes, like BTG. But there was also another pharma company that was really far along in due diligence on that deal. So there are a number of new players coming in.

MTS: ***As a rule, what role do you see yourselves playing once you've made an investment? And given that you usually come in in later rounds, are you typically leading the investment?***

DT: We usually like to lead the new round of financing and work closely with other medtech investors. What we try to do with each investment is to offer our experience [as managers] in service to the company. Our firm has a unique combination of experienced venture investors and world-class medtech executives, actively working in the firm. As a consequence, medtech entrepreneurs and managers usually like to see our team well involved and represented on the board of companies. And we bring a lot of operational experience. Take Eric, for example, who was with Johnson & Johnson for 36 years. With that experience, we hope to accelerate the market penetration and leadership of the companies we invest in.

SL: This is a very important point. In addition to the money, our team brings real expertise and networks. Smart entrepreneurs realize that very quickly during the first meeting we have with them. This can make a huge difference in the development of their companies.

We think that the medtech market has some tremendous and somehow predictable opportunities. If you have the right team and the right strategy, you can do extremely well.

–Damien Tappy

MTS: ***I want to get back to the question of syndicates in a minute. But to speak to your point about your operational expertise, as a late-stage investor, how do you typically relate to existing management? How engaged are you with them? How often do you look to replace the CEO? And finally, several years ago, one concern among investors in European companies was that there weren't enough seasoned managers in Europe with the experience of running start-ups. Are those concerns still relevant? What's the state of the talent pool for executives in Europe, particularly among later-stage start-ups?***

DT: Endeavour was founded by entrepreneurs for entrepreneurs. Still today, many of our investors are coming from entrepreneurial roots. We really like to partner with entrepreneurs and managers to develop their business. We like to identify the critical factors of their success and help them in being successful. We are not investing to replace management, but we are carefully selecting investments and the entrepreneurs behind these companies to support and coach them towards success. We like to be involved in companies to understand all critical issues and help management to make the right decisions, all along the way.

MTS: ***Let's get back to the issue of syndication. Have your syndication strategies changed at all over the past several years? In the US, there's at least anecdotal evidence that strategics are investing more and earlier in companies. Are you seeing more corporate investors in your deals? Who typically do you like to invest with?***

DT: We're as careful about the people we co-invest with as we are about the CEO we invest in. We want to build syndicates of strong and smart investors, with the same views on the way to develop a medtech business. This is rare and we are very diligent in choosing partners. We have a group of people we really like to invest with, and like us, they are very pragmatic with strong experience, and bring a lot to the table.

MTS: ***Do you find many US VCs willing to invest in European companies?***

DT: Very few. We've been able to form some interesting relationships with groups in the US who share the same world view that we have, which is more entrepreneurial than financial. We have been very excited about that and we'll see how those relationships grow. But our intent is to be able to come to the table in any investment with a full syndicate in place. We really don't want the CEOs of our investments spending time and money trying to pull a financing together. We really want them to focus on building the business and creating value.

MTS: ***I think it's interesting that at a time when a lot of investors are pulling out of medtech, you raised a fund that will focus on medical devices.***

DT: We think that the medtech market has some tremendous and somehow predictable opportunities. If you have the right team and the right strategy, you can do extremely well. One of the keys to our investment strategy is that we want to invest in things that change the standard of care for patients. That's basically driven everything I've done since I was a student and I know it's what drove Eric in his career. That's a very strong motive for us. Given that, we're very excited about what we're seeing today, especially in the US. There are tremendous opportunities to completely change the landscape in medtech. I'm confident that if we have this same conversation four or five years from now, we'll see even more people doing what we're doing, investing in medtech.

EM: I would just add that one of the reasons I'm excited to work at Endeavour Vision is that this is one of the first venture groups I've met that is passionate about the patient and about advancing the standard of care. I love the passion people here have about the impact of what we're doing on patients in the future. This really is a chance for us to do well by doing good.