

## How to Fund Medtech Startups in a Capital-Efficient Manner: Interview with Rich Ferrari, Managing Director of De Novo Ventures

**Scott Nelson:** In this interview with Rich Ferrari, Managing Director of De Novo Ventures, we'll learn more about the current state of med-tech venture capital and the corresponding impact on medical device startups. Here are some of the points we are going to cover:

- Novel ways to fund early-stage medical device companies.
- Early-stage versus late-stage med-tech investing- what metrics are most important.
- Why does the FDA "runway" seem to get longer and longer over time?
- How does Rich identify and validate an idea that is truly disruptive?

For you, ambitious med-tech and medical device doers here's your program

Hello, hello everyone. It's Scott Nelson, and welcome to another edition of Medsider, the place where you can learn from med-tech and medical device experts on your terms without going to school. And on today's episode, we have Rich Ferrari who is the Co-founder and Managing Director of De Novo Ventures. So, thanks for taking some time out of your day today, Rich. I appreciate you coming on.

**Rich Ferrari:** No problem. Glad to do it.

**Scott Nelson:** Alright. So, let's start with a quote, or a statement I should say, that I recently read in MassDevice, I believe, if I remember correctly, but it was from Jody Hatcher who's the CEO of Novation, and his quote was something along the lines of, "Hospitals have a burning platform to reduce cost." So, when you first read a statement like that as a storied med-tech VC yourself, what's your gut reaction tell you about a statement like that?

**Rich Ferrari:** Well, I think he's fundamentally right in that hospitals are constantly looking to reduce cost. Now, whether or not that relates specifically to medical devices or relates to, let's call it inefficiencies of the delivery system. Overall I'm not sure what he's referring to but be that as it may, there's always pressure on reducing costs and devices, at least on the device side, and things that are commodity-related, commodity-oriented devices, things that don't really offer significant benefit, you have to ask yourself, why wouldn't those be really scrutinized if you're put under tremendous pressure to, if they all look alike and they all do the same thing, there should be a way to lower the cost of them.

**Scott Nelson:** Right.

**Rich Ferrari:** So yeah, I mean I think the margins for the hospital business are not all that great and a lot of it's due to inefficiencies and some of it has to do with the devices they're buying and why they're buying and how they're used.

**Scott Nelson:** Great. I definitely want to get into some of those aspects when you look at early-stage med-tech companies and some of the different ways to fund some of those companies that are actually producing interesting devices, but we're obviously in an era where exit valuations aren't as high as we've seen a significant rise in the cost to fund some of these early-stage companies. But before we jump to that, when you see some of your VC tech brethren in the social space, if you will, VCs that have funded Instagram, OMGPop, Buddy Media, etc. When you look at some of those acquisitions, does it make you jealous when you compare that to where we're at with the med-tech today?

**Rich Ferrari:** Yeah. Well, of course. I would love to be in a deal that looks like Instagram like 14 people get a billion-dollar return on not that much capital being put in.

**Scott Nelson:** Right.

**Rich Ferrari:** I guess the closest thing that we have to something like that might be like Ardion.

**Scott Nelson:** Sure.

**Rich Ferrari:** Really, if you look at Ardion, not as much money went into Ardion although it took a bit longer than Instagram, the outcome for it was exciting. But those as you know are very few and far between. In reality, they're really few and far between even in the tech space.

**Scott Nelson:** Sure.

**Rich Ferrari:** For the most part although it may seem to resonate really well in the news, Instagram and what Pinterest might get sold for and these other things. But yeah, I mean, there's no doubt that the business with medical devices and the exits have been squeezed. With no IPO market, we've only got one market. That's the M & A side of it and with every startup company that's been funded over the last six to eight years looking to try and get an exit, you know the VC guys have an awful lot of material to be looking at and certainly there's no rush for them to really buy anything in a certain respect.

**Scott Nelson:** Sure.

**Rich Ferrari:** So yeah, I'd love to see "the 10x returns" in venture capital, but they're just not there. They're few and far between.

**Scott Nelson:** Right, and it's definitely a nice topic of conversation. The Instagrams, the Buddy Medias, the OMGPOps in the world. But yeah, I think you said it great. On our side, Ardion was certainly celebrated as one of those big wins, but to your point, they are few and far between and it's easy to talk about them, but they certainly don't happen very often.

**Rich Ferrari:** Yeah. You know, it's like everything. It comes down to comps, and the comps in the tech area seem to be out of orbit and ridiculous but they're there as real comps, and the comps in the medical device area are much more bounded. I mean, we've got a long history of a

collection of data, and that data points to the fact that 80% of transactions are 250 million and below.

**Scott Nelson:** Wow.

**Rich Ferrari:** And 55%, 58% of them are 100 million and below. So, that's the state of affairs.

**Scott Nelson:** Just to review, 80% is 250 million or below? 80% of the exits?

**Rich Ferrari:** Absolutely.

**Scott Nelson:** Yeah.

**Rich Ferrari:** Yeah. You track the exits for the last decade, 80% is 100 to 250 million, and about 58%, right at about 60 or so, certainly in the 50s, is 100 million and below.

**Scott Nelson:** Got you.

**Rich Ferrari:** So, you only see, there's only a small number greater than 250.

**Scott Nelson:** Wow. That's a really interesting stat considering I think Josh Makower wrote a piece recently where he stated that the average cost of a PMA approach is 100 million dollars these days, and when you look at the start that you just mentioned, 80%...

**Rich Ferrari:** Well, it does, depending upon the technology. There's no question. If you're in a space in which a PMA is required, generally speaking, by the time you get through that PMA, that clinical trial, the follow-up period, all overhead costs, and all the development costs that went in getting there, he's right. It's between 70 and 100 million. If you've got a neurostimulator or a new wireless pacer or something else, what I would call very high technological demands, you're going to be closer to the 100 million versus something that might be closer to the 70 million, but nonetheless, it's a big number.

**Scott Nelson:** Sure. Yeah, no doubt. I interviewed Rudy Mazzocchi not too long ago and he actually mentioned that some of his counterparts in the VC world won't even fund a device that's going to require a PMA. Do you find that to be true, that statement?

**Rich Ferrari:** Well, yeah. Again, I think that generally speaking, the prevailing thought process there, most VCs would say, "I don't want to get involved in a PMA."

**Scott Nelson:** Mm-hmm.

**Rich Ferrari:** It's just too costly, too long, the follow-up. I don't want to go there. So, I think that's probably true. But I have to tell you, I've seen some 510(k)'s that are beginning to look like PMAs. I mean, we just got done with one in an orthopedics company. They did a 300-patient randomized controlled trial.

**Scott Nelson:** Wow.

**Rich Ferrari:** That was a 510(k).

**Scott Nelson:** And so, the lines between a 510(k) and a PMA are starting to blur.

**Rich Ferrari:** It depends, again, on the area. They can become awful blurred.

**Scott Nelson:** Right.

**Rich Ferrari:** So, again, everything's relevant. So, you can't have a blanket statement that they wouldn't fund a PMA, because if you had a PMA in which it only was 120 patients and maybe one-year follow-up, it might not look so bad.

**Scott Nelson:** Sure. Yeah.

**Rich Ferrari:** Right.

**Scott Nelson:** Got you. Great point. So, let's use that as kind of a springboard to jump into the next topic. That would be if an early-stage company, whether they're in the orthopedics space, the cardiovascular space, you mentioned neuromodulation just a little bit ago, whatever disease state they're looking at, what are some of the novel ways that early-stage companies are using to drive capital in order to get to that point where they can de-risk an investment for potential M&A acquisition?

**Rich Ferrari:** Well, again, as you know, there's no perfect pathway to this, but there are a number of folks, entrepreneurs I've dealt with that have gone the path of super angel start, trying to get angel dollars in early and then look for government grants. I'm involved with a company right now that's actually done quite well on the government grant side, a million dollars. And for a small early-stage startup, you couple that with some angel dollars, maybe with a million, that's 2 million. Depending on how they structure it, 2 million for an early-stage transaction should be enough to have you prove out the method of action, get all the quality work done, all the GLP work done, actually file. In this particular case let's call it a 510(k), and actually have human clinicals on 2 million dollars. That's pretty good if you got half of it from grants. That's a pretty good deal.

**Scott Nelson:** Yeah.

**Rich Ferrari:** Now, those I must say, you don't see those very often. You see those few and far between. So, more often what you see is some sort of combination of angels in the beginning, and then those VCs who like to play in the early stage, generally raising a more modest amount of money, let's call it in the 1 ½ to 2 ½ -million-dollar range, so that you reduce risk, you get through those early risk reduction components, and then you go out and try to raise the bigger round.

**Scott Nelson:** Right. So, with that said, and I'm not sure exactly where you guys are at De Novo, but it seems like most med-tech VCs, when you look at their portfolio, I guess in today's economic environment they much prefer late-stage deals versus early-stage deals. Do you see angels as the main bridge from early-stage to later-stage when folks like yourself can make a significant investment?

**Rich Ferrari:** Yes. Well, yeah, generally speaking, and there are some other models out there. There are "the incubator sort of models." There is a model, believe it or not, I'll put a plugin for myself, that I had just put together with a group out of Switzerland and a group that I put together here to kind of bridge that exact phenomenon, which is if you've got an entrepreneur or a doctor who's got a really great idea and has done actually some work on it that's having trouble getting the money, this particular structure that I put together is if that technology passes the due diligence process, the funding is taken care of for it up to first-in-man.

**Scott Nelson:** Okay.

**Rich Ferrari:** And the engineering is all done in Switzerland.

**Scott Nelson:** Okay.

**Rich Ferrari:** So, that's an alternative to having to go out trying to get angel dollars, setting a valuation. This doesn't even set a valuation. It just parses out ownership pieces to the entrepreneur and to my group and to the group in Switzerland. That's actually quite economical, and it's all funded to first-in-man and then you go out and raise dollars. So, there are different approaches to try to do this. I think you're right, most VCs today would prefer to do a later-stage de-risked transaction, but you've got to remember why. The reason they want to do that is they need a return. They need to score a goal. Otherwise, the likelihood of them raising another fund is very difficult. So, the prevailing thinking today is, "I don't want to take on any risk. I just don't want the risk."

**Scott Nelson:** Got you.

**Rich Ferrari:** But you have to find those who are still interested in taking on a little bit of the risk.

**Scott Nelson:** Yeah. Yeah. Those VC companies are those few and far between that are willing to take on risk? I mean, is De Novo considered one of those firms?

**Rich Ferrari:** Yeah. Well, we were when we were making new investments, and now we're at a stage with our third fund where we have reserved the cash, the capital for the current portfolio, which by the way is where a vast majority of all VC firms are. So, if a firm hasn't raised money let's say in the last two years or three. Two years let's pick that. They're most likely going to be reserving their capital for the current portfolio they've established. So, the number of early-stage guys clearly has dwindled down.

**Scott Nelson:** Got it. Okay. That different model that you just referenced a few minutes ago, I'd like to dig into that a little bit. Do you refer to it as a certain model? Help me understand how it's different than the incubation model that most people on this call are familiar with.

**Rich Ferrari:** Yeah, it's a good question. It's really not an incubator. We call it a medical device generator, and the reason we call it that is because, like for the first one that we're running through this program, these are technologies that have already been developed to a certain level. For example, there is so much coming out of the Stanford Biodesign program where they have developed and run through a series of tests all under the program specifics.

So, they would have done animals, they would have done all the methods of action, how it works, but as they graduate they don't have a way to fund it. Many of the graduates or post-docs, they go on to doing their surgical residency. What do they do with that technology? Or this could be a doctor who developed technology far enough along in his garage as you know many of them to do or wherever, but they can't get the funding done.

This model, we look at it and say, "Okay, we like the space. We like the clinical rationale behind it. We'll now take it all the way to first-in-man for you and you maintain a nice position with the company." So really it's not an incubator. We're not incubating it. We're taking it and finishing it, generating it through all of the different steps.

**Scott Nelson:** Got you.

**Rich Ferrari:** Through a very methodical process and the funding's there for it. So, it's all-encompassing, so to speak.

**Scott Nelson:** Right. I see. So, are novel sort of models, like the medical device generator model, your model that you just mentioned, is that what we're going to have to get to in order to see some of these disruptive technologies actually get to a point where a large strategic would actually acquire them?

**Rich Ferrari:** Well, again, I don't know if it'll be what will create the vehicle for a large strategic to acquire it. I think the large strategics will always have to require disruptive or new innovative products because their structure prevents them in a way from doing this kind of stuff internally.

**Scott Nelson:** Right.

**Rich Ferrari:** So, the startup world and the acquisition world are really a structural component, because the big guys, what are they spending their money on? They're spending their money on those franchises that are carrying the bulk of the revenue. So, they took their top guys on those programs and are constantly innovating around, like the perc valve business.

**Rich Ferrari:** But the perc valve guys really aren't developing the ancillary products that the perc valve business needs, like embolic protection, femoral...

**Scott Nelson:** Sure.

**Rich Ferrari:** How do you close the hole in your leg that's 18 French?

**Scott Nelson:** Right.

**Rich Ferrari:** Right?

**Scott Nelson:** Yeah.

**Rich Ferrari:** What about new balloons for a valvuloplasty? So, they're not developing those because they're not going to put their resources to work on that because it's an ancillary component. So, what they'll look for is the startup world to develop those and then swoop in if they think it's really important to the franchise and buy it.

**Scott Nelson:** Got you.

**Rich Ferrari:** So, it is structural.

**Scott Nelson:** Got it. That's a great point. I mean, when you look at the perc valve ecosystem, or I should say the ecosystem that's kind of being built around perc valves with closing large holes in the common femoral artery. I think there are some other devices, clips, and whatnot in embolic protection for those patients that may potentially be at higher risk for stroke and that kind of thing. That's a great point.

**Rich Ferrari:** Yeah.

**Scott Nelson:** Yeah.

**Rich Ferrari:** Yeah, exactly. If that perfuses from where it is today to more mainstream.

**Scott Nelson:** Got you.

**Rich Ferrari:** You're going to have to provide tools for let's call it the more common interventions to control that procedure. You'll see the same thing that's going to come out of all of the technology for treating hypertension as well. Even though it's a simpler approach dealing with the arteries, you're going to see a variety of different technologies try to tap that, from noninvasive to invasive to different energy forms. The big guys aren't going to develop that.

**Scott Nelson:** Right.

**Rich Ferrari:** They're just going to buy it a la buying Ardion. Buy the position, buy the IP.

**Scott Nelson:** Right. So, with that said when you look at companies like AccessClosure and CSI or Cardiovascular Systems. I'm not sure exactly how you want to describe these companies. I wouldn't necessarily describe them as startups anymore. Bloated startups. I'm not sure if that's a good description.

**Rich Ferrari:** There are clearly let's call them mature startups because they're generating revenues.

**Scott Nelson:** Right.

**Rich Ferrari:** 50 to 80 million in revenue. So, yeah, I can't really call that a startup in that case.

**Scott Nelson:** Right. If we rewound five years ago or maybe seven years ago, do you think companies like AccessClosure could be where they're at today? Moving into this new world of healthcare, do you see a company with a closure device? I don't want to pick on AccessClosure, it's just coming to mind. Do you see them getting to a point where they're at right now? Would be they be able to pull that off in today's economic environment?

**Rich Ferrari:** Yeah, it's a good question. I think it would be tougher. It's a long PMA path to get US approval and a large development effort. Now, at the time that they did come along, that was sort of after the Perclose acquisition which spurred that on and there was a lot of activity in the area of femoral closure, and still is a nice market but I think it would be really tough to do today because of that. I think the approach might be, let's call it large bore closure. We were just talking about the perc world and the perc valve. I think there'll be some companies that will get bought in that space because that's a unique space, you've got to close that hole, but I don't think they're going to take it through a PMA. They'll take it through the CE mark, show its clinical relevance, and get it acquired. That kind of approach would likely be 10 million and less in on the investment. But to do an AccessClosure today, I can't see it getting funded unless it was so incredibly novel what it was doing.

**Scott Nelson:** Yeah.

**Rich Ferrari:** I mean, it would have to be, without question, disruptive in every way, shape, and form.

**Scott Nelson:** Got you. If we have time, I'd like to come back and ask you how you validate or how you identify what you believe to be a truly disruptive technology. But before we jump to that, let's take an example of a company that may be using your medical device generator model. Are you recommending that company actually pursue a CE Mark first before they would ever even entertain a 510(k) or even a PMA in the US?

**Rich Ferrari:** Yeah, well, it depends. If it's a 510(k) from the start and we know that what we would do, and in this particular case we haven't yet crossed that bridge, we actually know in this particular project it is a 510(k) and we're thinking about, now what will we do? Will we just go with the 510(k) route or will we go the CE Mark route? So, when it's a 510(k), I think again it's easier to say, I'm probably just going to file a 510(k). So, I get it approved. I'll do all my clinical work here in the States. It's when it's a PMA or a more involved clinical thing where the CE Mark I think really has some greater value because you can get through that system faster, get human use, and clinical data up to speed before you ever get here in the United States.



**Scott Nelson:** Sure.

**Rich Ferrari:** So, in that particular case it's an easier decision to say no, we're going to go and get CE Marked and get it in Europe and collect the clinical information necessary to validate our US position, and hopefully attract a buyer.

**Scott Nelson:** Got you.

**Rich Ferrari:** But if it's just as easy to get the 510(k), I'd say let's get the 510(k) because we're here in the States.

**Scott Nelson:** Yeah. Yeah.

**Rich Ferrari:** For you to have control of the clinical work.

**Scott Nelson:** Got it. So, in review, I mean, it obviously depends on the particular device, on the disease state that you're going after, or the market you're going after I should say. But if a 510(k) was the likely scenario your preference would probably be to get that 510(k), but if a PMA were involved you'd maybe be more apt to go CE Mark or something along those lines.

**Rich Ferrari:** Yeah. Actually, for example, like that reference I made before, this one company that I'm involved in where the 510(k) required a 300-patient randomized control trial. That's a 510(k), but clearly, we went to Europe first.

**Scott Nelson:** Sure. Yeah.

**Rich Ferrari:** Right?

**Scott Nelson:** Yeah. Got it. Cool. While we're on kind of this regulatory topic, what is your opinion on, I guess it's really two things, why the runway is so long now and why have we seen the cost of the 510(k) and PMA increase so dramatically? Do you have a couple of opinions in regard to that?

**Rich Ferrari:** Well, why is the runway taking so long is really a great question and I think the system itself needs just fundamental rework in terms of you have a system where the manager, unlike an operating company, can make decisions and could push pressure down on the workers that are below them. You don't have that in a government system. It's the government, so these people don't take real risks. Their jobs are at risk. They're worried about somebody blowing the whistle on them. So, you have a system that doesn't really promote the internal benefits of moving things faster or taking some risk on a decision process. So, that whole system in a lot of ways to me needs to be looked at on how do you make organizational change.

Now, putting that in perspective, I have been involved with the FDA on a number of activities where when the work was thoroughly done and presented at the highest caliber of work, it goes through relatively smoothly. There are a number of submissions and there are a number of companies that don't go through the requirements in a really scientific way that's satisfying the

FDA. The reason that happens is because they're venture-backed companies. They don't like the answer, so they try to skirt around the answer and come up with other ways to try and get it through the FDA. I think whenever you're involved in that, you are putting yourself a little bit at risk. It's kind of a dice roll.

**Scott Nelson:** Yeah.

**Rich Ferrari:** It might get approved, it might not. So, I think it's a system that needs to change and get more efficient. I also think that everyone submitting the work needs to think about the quality of the submission and how much of the data they have really done well, meaning more data is generally better, good clinical results are always better. So, I don't think it's entirely on the FDA. I think this is a combination of the industry and the FDA. But when you get caught in a snag with them, it takes a long time.

**Scott Nelson:** Sure.

**Rich Ferrari:** You can chew up a year easily to a year and a half trying to outsmart them. Remember, when you're doing that, generally speaking, those companies, the size of them and their burn rate at around that point in time are running somewhere between 350,000 and maybe 600,000 a month. So, if you have a year delay, you've got a 4-million to the 7-million-dollar problem.

**Scott Nelson:** Wow. Wow.

**Rich Ferrari:** Right?

**Scott Nelson:** Oh yeah. That's a great point.

**Rich Ferrari:** That's why it adds up pretty fast.

**Scott Nelson:** Yeah. That's really fascinating when you put it in that light, at the monthly burn rate times nine, 12, 15 months, etc. Whatever the time delay is.

**Rich Ferrari:** Exactly.

**Scott Nelson:** That's a great point. In a conversation, I had with Sheila Hemeon-Heyer about a year ago, she referenced something similar in regards to the regulatory side that she said that if the time is invested upfront with the submission, you shouldn't have too many issues. There, of course, can be a lot of issues when those submissions are hacked or tweaked or...

**Rich Ferrari:** Yeah, I mean, there's no doubt. There's no doubt. You have to go back and forth. That's why they have a system of a pre-IDE meeting. You go in there; you try to find out kind of where things are. I do think you can get stuck sometimes with a reviewer who's just a real pain. It can really make lives miserable. But generally speaking, you go in early, you start talking to them, you really figure out, okay, this is the plan. This is where it's going and really deliver the goods. It will run much smoother.

**Scott Nelson:** Got you. Let's see here. One other question in regards to this topic of regulation. I think the piece you wrote back in 2008, I believe. I think that's the year approximately. You mentioned something. I'm pulling up my notes now, but you mentioned something along the lines of that a lot of FDA reviewers are reaching retirement age and so you've got a lot of newer, inexperienced reviewers that are coming in and taking on some added responsibility. Do you still think that's a cause of why some of these issues and these backs and forths may arise in...?

**Rich Ferrari:** Yeah, I do. Absolutely. I still think you have a staffing problem fundamentally there.

**Scott Nelson:** Yeah. Do you think something like the New User Fee Agreement, do you think that is going to help to look forward?

**Rich Ferrari:** Yeah, I think it potentially can be a benefit to moving things along better.

**Scott Nelson:** Got you. Okay. Let's see here. There's a whole host of questions but I know we're kind of running short on time here.

**Rich Ferrari:** Yeah.

**Scott Nelson:** But there's one question here in regards to disruptive technology. That's obviously a huge aspect in, one, getting investment and actually positioning for a potential M&A exit, but when you look at, let's say, someone from the Stanford Biodesign program has a meeting with you and they pitch you on their idea, their device, I'm not exactly sure how that works or what the process is. Are there certain things that you look at in trying to determine whether this technology is truly going to be disruptive or it's just going to be viewed as another me-too device?

**Rich Ferrari:** Yeah, well, I mean there are certain things that speak to something being more disruptive now. For example, we really love to see those technologies that would be in white space areas. Let me give you a couple of examples though so it doesn't sound so esoteric. Ardion would be one. There was nobody really in the hypertension space. It was a gigantic space.

**Scott Nelson:** Yeah.

**Rich Ferrari:** With a technology that could answer a clinical problem. Okay, that's a beautiful example of a disruptive-scenario white space. I'll give you another one, the treating of emphysema. That's a huge white space here in the United States.

**Scott Nelson:** Okay.

**Rich Ferrari:** And I'm involved, not to put a plug here, but it's a good example, I'm involved with a company called Pulmonx, which is a combination of the Pulmonx technology and then when Infosys went under. That's a white space that's now looking to become extremely promising, where you can put an endobronchial valve into the lung and completely alter the treatment pathway and the clinical way, I should say, for emphysema. That's a white space because there are no interventional pulmonologists and it's a gigantic market worldwide.

**Scott Nelson:** Okay.

**Rich Ferrari:** So, when you see things where it's not riddled with competitors. For example, if someone brought me a new femoral closure device like we were talking about before...

**Scott Nelson:** Right.

**Rich Ferrari:** ...it would be hard for me to imagine how that would be disruptive, how it wouldn't be just another one of 20 different ways of closing it. By the way, there's no reimbursement for it specifically, so who's going to buy it when Perclose has been bought and Kensey Nash has got its thing. Where is it?

**Scott Nelson:** Right.

**Rich Ferrari:** Then you take another example, like drug-coated balloons. You could argue, well, not entirely a white-space area, but certainly a novel application to treating a peripheral vascular disease that seems to be burdened with recurrent restenosis, a la Lutonix being bought for 220 million.

**Scott Nelson:** Right.

**Rich Ferrari:** So, what you have to do I think ultimately and that's why it's difficult to be a good investor actually because all of those things I just told you are really patent recognition activities. The longer you're in something and you see those patterns and can differentiate these things into the categories so to speak, which I just did, likely the better off you're going to be able to identify something you think is going to be a winner versus just going to be another commodity.

**Scott Nelson:** Got you. Yeah. So, in that respect, if there's a physician, and I'm sure there are, there are going to be physicians that listen to this interview that is entrepreneurial. But those physicians that are involved in a program like a bio-design program, what is your suggestion? If they truly think that they've got a really good idea, and of course ideas are a dime a dozen, it's all about execution, but if they feel like they've got a disruptive sort of white-space idea, what is the best way to approach a venture capitalist like yourself?

**Rich Ferrari:** Well, remember, the interesting thing about the Stanford Biodesign program is the way in which they have you think about what you're doing. So, before anybody starts anything, they have to do a fundamental clinical needs analysis. So, they look for those areas in medical delivery, whatever you want to call it, medical devices, where there is an unmet clinical need. Now, some of those will be very small. Some of those will be bigger. But you have to fundamentally start with, gee, it's not just a cool idea and I can make some nuance of a device. It's really trying to say, what is the unmet clinical need that exists here where technology could be applied to actually improve upon it?

**Scott Nelson:** Right.

**Rich Ferrari:** Now, some of those will be really big markets and some will be really small, but most of those guys for sure know that once they work through that program, their part of that program is to get them out in front of venture capitalists to make those contacts, talk to venture capitalists, talk to angel investors about what they're doing and the steps that they're going through and what they're looking for through financing.

**Scott Nelson:** Mm-hmm.

**Rich Ferrari:** It's not hard to get to a venture capitalist per se, but the best way to get to a venture capitalist, generally speaking, would be through some introduction.

**Scott Nelson:** Right.

**Rich Ferrari:** You know, the doc knows someone else who has gotten funded and consequently can make that intro.

**Scott Nelson:** Got you. Yeah. That makes a ton of sense. So, when you look at what would appear to be a good product or really nice technology versus the team that's going to be running the show, do you have a bias towards which you prefer? On obviously both, good technology, great team, etc. But do you [38:26 inaudible]?

**Rich Ferrari:** Well, I mean, again, my own experience really has been you bet on the team because the team will figure out very quickly whether the current technology or approach they're using is going to make it or not. If it doesn't they'll figure out a way to make it, but you could have really great technology run by a mediocre team and there'll be so many doggone mistakes, so much cost associated with that, it'll be much more problematic.

**Scott Nelson:** Sure. Yeah. Great points.

**Rich Ferrari:** Ultimately, the investors would replace the team.

**Scott Nelson:** Right. Yeah, sure. Sure. As I'm sure you've got a few stories that you could probably tell in regard to that. I won't ask you about it on the call now.

**Rich Ferrari:** Definitely. Definitely. Well, listen, I have to run actually. So, are we good?

**Scott Nelson:** Yeah. No, we're good. Thanks a ton for your time. For anyone that's listening to this, do you want to make any other plugs about where they can find your work or where you'd like people to go that are interested in learning more about De Novo or what you've got going on, Rich?

**Rich Ferrari:** Well, again, they can always take a look at our site, [denovovc.com](http://denovovc.com), see what we're doing. At this point in time, what I do a lot of is I do a lot of coaching and mentoring for entrepreneurs because my goal really now in this business, having built a number of companies myself, is to try and see and help people get to where they want to go. So, they're always free to

contact me. I'm pretty easily accessible and will be glad to share my thoughts and put them in the right direction if I think they've really got something.

**Scott Nelson:** Got you. Very cool. I'll definitely link up to De Novo VC but like I said before, thanks a ton for taking some time out of your schedule today, Rich, to talk to us. It was some great insights that you shared, there's no doubt.

**Rich Ferrari:** Okay, well, have a good one.

**Scott Nelson:** Alright. Thanks again, Rich. Take care.

Okay, folks. That's it. I really hope you enjoyed the Interview with Rich Ferrari. One last reminder. These interviews are on iTunes. Do a search on iTunes for Medsider and you'll find this podcast. You can then subscribe for free and all the interviews will automatically download to your iTunes account. If you prefer to listen to these interviews vs reading the transcripts online, I highly recommend subscribing to the Medsider podcast for free. Until the next edition of Medsider radio, take care!