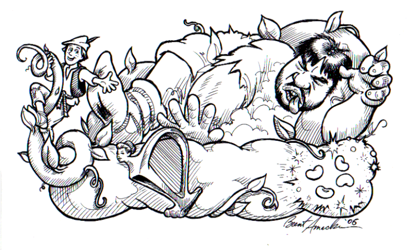
RIM ADVISORS LLC

AWAKENING THE GIANT – AROUSING STRATEGIC INTEREST FROM MEDTECH ACQUIRORS

The situation is all too common. MedTech Co is in the commercial stage or late development stage of a new product, and the board wishes to evaluate a potential strategic transaction – but no real interest has been expressed by potential buyers. What to do? How does one "***Awaken the Giant***"?



While every situation has unique attributes, more often than not, these situations have several commonalities. Excellent execution around the "blocking and tackling" of strategic selling is required. One must:

- *Outline the Process*
- *Re-evaluate the Universe of Potential Buyers*
- *Map Out Buyer's Decision Makers, Key Influencers and Your Relationships*
- *Understand Each Buyer's Business Well – Do Your Homework*
- *Refresh Your Story and Customize Your Value to Each Buyer*
- *Arouse Their Interest in Buying Before You Start "Selling"*

Outline the Process

Start early – Really early. A company that is not already in the crosshairs of potential acquirors should plan for a fairly extensive effort in order to properly attract strategic attention – 6 to 12 months is a reasonable time frame – and that is likely before the actual deal process occurs, which will add another three to six months.

Gather your resources. M&A is highly resource intensive, so one needs to ensure that they have the people in place to execute the tasks. Put a team in place with complementary skill sets that will share the workload. In addition to an inner circle of senior management, consider creating a subcommittee from board members, investors and counsel that will bring experience, relationships and

SUMMARY

Raising the interest of corporate buyers requires advanced planning, as with any corporate activity. Critical planning includes:

- Outline the Process
- Evaluate the Universe of Potential Buyers
- Map Out their Decision Makers, and Relationships
- Understand Each Buyers Business – Do Your Homework
- Refresh Your Story and Customize the Positioning
- Arouse Their Interest in Buying **Before** You Start Selling

judgment to the working group.

Evaluate the Universe of Potential Buyers

As part of initiating this process, management should refresh their view as to the universe of potential acquirors and, why. It is not uncommon in M&A for a target to hold discussions with six or more potential acquirors, but to end up with only one term sheet – driving home the notion that identifying the right universe of buyers (and, at times, beyond the most obvious industry leaders) is paramount to ensure that you receive interest. How should one refresh a thoughtful list of potential buyers?

First, perhaps the obvious – work your network. Seek input from those closest to you --board members, investors, founders, investment bankers, research analysts, customers, consultants, key opinion leaders, and scientific advisors.

Second, less obvious, actively go outside the network. Working beyond your closest relationships can uncover new, valuable ideas. These discussions can be awkward at times. Consider approaching these parties from the perspective of gaining their insight on the industry, potential distribution partners, opportunities to in-license products, etc... Productive sources of information include:

Former management, employees of industry leaders – former management at competitors can provide valuable insights into the industry and potential partners.

Private equity professionals specializing in medical devices and healthcare. Private equity firms often have insight into players off the "beaten path"– closely held companies, international companies, sleepy divisions of larger companies. In addition, as a capital source, there may be a complement between your company and one of their portfolio companies or their stable of management teams that could be the basis for a transaction.

Case Study. A private equity firm wanted to sell a portfolio company in the medical supplies market. While developing a list of acquirors, the private equity firm suggested a family owned, private company as a potential buyer. At the end of our process, the private company was the lead bidder for our client –much to the surprise of all involved (including the private equity firm!). However, the product line was simply the most natural fit with the buyer's US and international distribution The buyer also saw this as a unique opportunity to significantly expand their management team and provide a means for succession planning.

International Players. For most medical technology sectors, US-based companies dominate the industry. However, depending on the situation, international companies could be the best acquirors. However, if you intend to seriously evaluate the potential for international partners, you may be well advised to leverage relationships with individuals who have knowledge and in-country experience abroad. Such experience can ensure that discussions are with the correct individuals at potential buyers and help to minimize the challenges that arise due to different languages, culture, transaction etiquette and securities rules and regulations.

"Out of the Box" Ideas – Leverage Your Relationships. The best deals, and often "out of the

box" transactions, often start with a strong relationship between the principals. Through your own homework, or requests to your board members/investors, keep an eye out for situations where their relationship can be leveraged to advance a unique idea.

Case Study – A commercial-stage private medical device (Medtech Co) company was having a difficulty raising financing from traditional venture sources (not a new story). During the financing process, a board member suggested that the company approach a public biotechnology company (Biotech Co) that was evaluating strategic alternatives as a result of having failed its pivotal clinical trial for its lead product. The biotechnology company was evaluating a means to best deploy its significant cash balance. After several months of due diligence, Biotech Co. concluded its evaluation of strategic alternatives and agreed to merge with Medtech Co. The merger occurred despite that Biotech Co. lacked any experience in the medtech market. The management and board of Medtech Co. assumed the operations of the merged company. The transaction was made possible primarily through the creative thinking and relationships between the two companies' board members.

Map Out Each Buyers' Decision Makers, Key Influencers and Your Relationships with Each Buyer

To hold meaningful discussions, one must (i) have dialog with the people who make and influence decisions, (ii) understand the process they use to make decisions and (iii) appreciate what most influences their decisions.

Speak with Those Who Know. Contact individuals who have worked with the potential buyers as management or on a transaction and find out how the buyers' working teams operate. Who drives the transaction process and how they make decisions? Ensure you are working with the right people and, if not, find an introduction to the right people.

Learn from Prior Deals. Speak with a former CEO, board member, banker, counsel, etc… of a prior target for such buyer and understand how the initial courting and transaction process progressed. Who was involved in the transaction? What influenced their decisions? How did the process unfold?

Leverage Your Relationships. Be sure to know where you have relationships with the potential buyer and understand how to leverage these relationships during the courting and transaction process. Review not only the business relationships among your management and board, but those of your scientific advisory board, clinical trial investigators, consultants, etc. Develop a strategy to have these parties share their views with the right contacts at the potential buyers, and ensure that the message is consistent across these parties (e.g. keep your contacts up to speed on the business and the key messages).

Understand Each Buyer's Business Well – Do Your Homework

It is always important to really understand your buyer. However, when inbound interest is lacking, the importance is magnified.

In general, there are four key areas to understand:

First, the basic facts – organizational chart (management, board of directors, scientific advisory board), product lines, market position of key products, financial overview and performance, historical transactions and deal structures, balance sheet strength and access to capital. Use these facts to understand the top level fit of your products within their product line, the financial impact, and what a transaction could do for their market position.

Second, understand the pressure points in their business and how these issues may affect the opportunity for a transaction. Which product lines have performed well and which have performed poorly, and why? How does the company market their product lines – what are the competitive features or attributes that distinguish their products from the competition? What is the company's current experience competing in the market – pricing trends, reimbursement and clinical paths, manufacturing and quality, competitive momentum? How would an acquisition of seller's product line fit with this marketing message? Where are sales people having challenges and success in their sales calls? For public companies, how do analysts measure the company and what are the expectations? How would a buyer anticipate that a transaction would meet these expectations and how would it be positioned?

Third, understand the nuances. This is really the good stuff. How stable is the internal organization – who has increasing/decreasing personal equity? How well is the division hitting its budget – are bonuses at risk? How is management being measured internally? How stable is the leadership within the company or division? What has been their success with prior transactions – which ones were successful or challenging, and why? How successful has the organization been at integrating past transactions? How important is corporate development for a division/company to hit budget? What is the corporate development process? How well known is your organization within the potential acquirer? How willing is the organization to take risk – what does historical behaviors say about their risk aversion?

Fourth, if an acquirer has previously "kicked the tires", why the apparent lack of interest? Is a lack of interest a comment on the seller's specific product features, market opportunity, other competitive opportunities, regulatory risks, internal biases, negative diligence, etc? Are there internal issues that have delayed or impacted decision-making? How can these issues be addressed?

In order to consummate a transaction, the proverb "the planets need to align" is often true. For a seller, a thorough understanding of a potential buyer may enable one to assist the buyer to see/create these alignments. At a minimum (and an important minimum) a seller may be better equipped to recognize when a these alignments exists in order to further advance discussions with a Buyer.

Refresh the Story and Highly Customize Your Positioning

As you head into strategic discussions, take a fresh look at your management presentation, positioning and delivery. A few thoughts –

Take a new, fresh approach. Wonders can be accomplished with a fresh approach to a management presentation. Revisit the positioning, the value points, the look and feel and the actual verbal delivery. This can make a substantial difference in the message you send to potential buyers. Be sure to:

Solicit input. Get input from board members, investors, former colleagues, bankers, analysts, and other experienced entrepreneurs. Require a candid evaluation of your presentation and messaging.

Customize the message. Every presentation should be customized to a certain degree for each meeting, and some presentations more than others. Be sure the presentation reflects the knowledge gained from homework around each buyer. While customizing the materials, put the proverbial "shoe on the other foot". Reflect in each page the answer to the questions that they buyer should be asking versus just the information we have to tell the buyer. Critique each page in terms of:

- What questions do we answer?
- What benefits do we provide?
- What problem do we solve?
- What opportunity do we create?
- What questions/issues may we actually be raising?

Be thorough. Be sure your analysis and materials can withstand that level of experience and knowledge that a savvy potential buyer will bring to a meeting. For example, when estimating market size, spend the time to understand and analyze the market segmentation, patient exclusion criteria and other nuances that really define the market opportunity – the buyer will likely have assumptions that go well beyond gross total available market estimates.

Simplify the message and brush up the graphics. Focus your efforts in order to make the message on each page clear and simple – both cognitively and visually. Ensure the presentation materials are clean, uncluttered and highly professional -- wonders can be accomplished with great PowerPoint design, digital imaging and well-placed video.

Consider hiring help. An experienced consultant can bring a new perspective and message, which may be difficult for those mired in the details to conjure up. Also, an experienced graphic artist, for a very modest investment, can substantially improve the visual presentation and crispness of the message.

Arouse Their Interest in Buying Before You Start Selling

The adage "technology companies are bought, not sold" is as true as ever today. Plan a corporate development process with the goal to develop the right relationships. Gather information and heavily seed interest in your company. A few thoughts:

Give the buyers time to develop an interest. High value strategic transactions are rarely opportunistic – most often, a target has been on the watch list and coveted by a potential buyer for some period of time. As such, your initial effort is critical to engage potential acquirors and be placed on the "coveted list".

Schedule your meetings. Actively utilize society meetings, clinical conferences, investment banking conferences and other forums to meet with potential buyers. Expand your network at future conferences or through meetings at the buyer's or the seller's offices. Ensure that you are able to meet once or twice a year with the most interested parties.

Be open and prepared to facilitate diligence. Be open to some degree of diligence within the courting process. While not actively engaging a sale process, be open to allowing potential acquirors to perform certain diligence with customers, physicians, etc. Be prepared to respond to the most common diligence requests (even if the response is "not at this time" – at least you have developed a view). Depending on the seller, certain information will be highly sensitive and may require a non-disclosure agreement. However, have a view as to what information you are willing to provide without an NDA and what information requires an NDA.

Have a plan. Have a plan as to how you will respond to diligence requests and what information is appropriate to provide. Have a sound basis for what information you are willing, and not willing, to provide at different stages of the courting process. Seek guidance from your counsel, advisors and board members as to when increasingly sensitive information should be provided to interested buyers.

Be patient…if possible. Corporate development takes time and planning – often years. A management team should be actively engaged in order develop the right relationships, generate real interest and move discussions forward to a transaction at the right time.

Summary

Successfully arousing interest from corporate acquirors requires a well planned and executed process. In some situations, corporate buyers expressly exhibit interest in a potential target throughout the course of the target's development. However, such interest is more the exception than the rule. For most potential targets, their management team will need to develop a plan, and invest substantial time and effort in order to attract the right attention from the right strategic at the right time. A company will be most successful in this process if they follow RIM Advisors's recommended approach:

- Outline the process
- Properly evaluate the universe of potential buyers
- Identify the decision makers and your relationship with the individuals
- Invest the time to understand their business
- Refresh your management presentation and customize the positioning
- Allocate sufficient time to educate buyers before pursuing a sale process

RIM Advisors

RIM Advisors provides strategic advisory services to high growth companies in the medical technology and life sciences sectors. Founded in 2008, the firm provides a range of services to its clients, including strategic sale and buy-side advisory, corporate partnering, strategic planning, in-depth assessment of product market opportunity and other strategic advisory services.

RIM Advisors offers senior level experience and a service level that is unique to today's marketplace. Based on two decades of experience in investment banking and advisory services by the principal and founder, Richard Innenberg, the firm reflects its expertise through a significant portfolio of strategic relationships and industry partnerships.

Richard brings a strong and expansive breadth of services having previously served over 100 healthcare, medical technology and growth companies through a broad range of investment banking and corporate development transactions. Specific activities include: exclusive sale transactions, buy-side transactions, division buyouts, corporate partnering, private and public financing, liquidations and corporate restructuring.

Richard is also a Managing Director with New Century Capital Partners Inc., a member of FINRA and SIPC.

Recent clients advised by Richard Innenberg include:

PATHWAY MEDICAL TECHNOLOGIES®	ARAGON SURGICAL	Incept BioSystems	FLOWCARDIA
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BAYER	B BRAUN	origio	BARD
September 2011	September 2011	January 2011	April 2010

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