

## Great Works are Performed not by Strength but by Perseverance\*

### Financing Growth for Medical Device Companies

For small-to-mid-sized companies, financing growth is often a significant hurdle. These companies face unique challenges, including capital-intensive R&D, lengthy regulatory approval processes, and fierce competition. Here, we explore strategies and funding sources that medical device companies can leverage to fuel their growth, particularly when traditional financing is difficult to secure.



Growth in the medical device sector demands substantial investment in various areas:

#### 1. Research and Development (R&D):

To move from a functional model or proof-of-concept to a real product requires extensive additional work for industrialization. In addition, clinical trials, and extensive testing, are needed, often stretching over several years.

#### 2. Regulatory Compliance:

Securing FDA approval or meeting CE mark requirements involves costly documentation, data collection, and compliance checks. With the change to the new MDR, requirements have increased and are often hard to fulfill.

#### 3. Market Penetration:

Scaling production, establishing distribution networks, and educating healthcare professionals about the product are resource-intensive processes.

### Key Financing Strategies for Growth

These factors can lead to cash flow challenges. Medical device companies have several financing options to consider, depending on their growth stage and financial needs.

\* (Samuel Johnson)

## 1. Venture Capital (VC) and Private Equity (PE)

Venture capital is a common funding source for growing medical device companies. VC firms specialize in high-risk, high-reward investments and can provide not only capital but also strategic guidance, industry connections, and operational expertise.

Private equity can be an option for more mature companies looking to expand rapidly or enter new markets. While PE funding typically requires giving up equity, it often brings access to large sums of capital and seasoned advisors.

## 2. Debt Financing and Venture Debt

Debt financing, though less common for startups, is viable for companies with stable revenues or approved products. Venture debt is a subset of debt financing tailored for startups. It typically involves less stringent collateral requirements and provides cash without significant dilution of equity.

Venture debt works well for companies that have already raised equity financing and need additional funds to bridge the gap until the next funding round or product launch.

## 3. Government Grants and Non-Dilutive Funding

Many governments provide grants and subsidies to encourage innovation in life sciences. In the U.S., the National Institutes of Health (NIH) and the Small Business Innovation Research (SBIR) program are examples of funding sources that don't require equity dilution. The European Union offers similar opportunities through programs like Horizon Europe.

Non-dilutive funding is particularly attractive because it supports growth without relinquishing ownership or control.

## 4. Strategic Partnerships and Licensing Agreements

Collaborating with larger companies in the medical device or pharmaceutical industries can provide funding and open doors to new markets. Strategic partnerships may include co-development agreements, licensing deals, or distribution agreements. These partnerships often involve upfront payments, milestone-based funding, and revenue-sharing agreements.

## 5. Crowdfunding

While less conventional, crowdfunding platforms can provide additional capital. New platforms like MedStartr or traditional equity crowdfunding websites allow companies to connect directly with investors and healthcare enthusiasts.

## Conclusion

Financing growth in the medical device industry is no small feat, particularly for companies with limited resources. However, by strategically leveraging a mix of funding options — ranging from venture capital to non-dilutive grants — medical device companies can overcome financial hurdles and accelerate their growth trajectory. The key is to align funding strategies with the company's development stage, market objectives, and risk tolerance.