Why Early Stage Medical Device Deals Aren't as Bad as You May Think: Interview with Mike Carusi, General Partner at Lightstone Ventures

In this interview with Mike Carusi, General Partner at Lightstone Ventures, we learn why his firm believes the current medtech environment represents an incredible investment opportunity. Here are some of the points we are going to cover:

- Because of the challenges involved with raising money for early-stage med-tech deals, will there be a large innovation gap in 7-10 years?
- For those "bloated" medical device startups that have raised $100+ million, how much pressure are they under?
- Why early-stage medical device companies should look at biotech and pharma in order to discover creative ways to fund companies.
- Is there room left for the traditional model of incremental product improvements at higher market prices? otherwise known as the "fast follower" approach.
- How does a med-tech engineer, physician, or entrepreneur get the attention of Mike and his VC colleagues?
- What are medical device acquirers looking for in pre-revenue startups?
- How Mike's early experience in sales helped him throughout his medical device career.

Scott Nelson: Hello, hello everyone. It's Scott Nelson, and welcome to another edition of Medsider. For those of you who are new to the program, this is a show where I bring on experienced and proven med-tech and medical device experts and ask as many questions as I can fit in in about 30 minutes. And on today's program, I've got Mike Carusi, who is a General Partner and Team Leader of Lightstone Ventures. He focuses on biopharmaceutical and medical device investments out of the firm's Palo Alto office. Mike also joined Advanced Technology Ventures in 1998 and serves as a general partner.

Some of his representative investments include Altura Medical, Ardian, which was acquired by Medtronic, EndoGastric Solutions, GI Dynamics, and several others. Mike was also featured on the 2011 Forbes Midas List of top technology investors. He is of course a recognized thought leader in the industry, a frequent speaker at healthcare-related conferences. He also serves as a faculty member of the Stanford Biodesign Emerging Entrepreneurs Forum, sits on the Tuck MBA Advisory Board, and is an advisory board member of the UCSF/Berkeley Venture Innovation Program. It was a lot to squeeze in. I tried to talk as far as possible, Mike, but without further ado, welcome to the program. Really appreciate your coming on.

Mike Carusi: My pleasure, Scott. It's good to be here.

Scott Nelson: So, let's start out in doing some research, I think you quoted Warren Buffett recently in stating, "The best time to be greedy is when others are fearful." So, with that quote in mind, do you sort of feel like the red-headed stepchild in that your firm or your investment thesis prefers early-stage med-tech device deals?

Mike Carusi: Well, I mean, I do, and in some ways, you've touched on it, but without a doubt, there is certainly a contraction occurring in the industry right now. A number of venture firms are either going away or in many ways shifting their focus to later-stage investments. And you know, I think there's a strategy that can work there, and we may be at a point in time when some of those opportunities are interesting, but I think at the end of the day, our belief is that we want to focus in on kind of novel, big opportunities, early-stage opportunities that really have the potential to move the dial. Our belief is actually that as the capital in the industry shrinks, the demand, if you will, for our companies will go up because the major players will continue to have a need for innovation. They're going to be continuing to look for these sorts of opportunities. So, we actually think it's an interesting time to be investing in the space, but it's a challenging time as well.

Scott Nelson: Right. No doubt. I definitely want to ask you about that supply and demand principle here in a second, but maybe the better question is, do you find it difficult to sell your limited partners on the idea of investing in early-stage med-tech right now?

Mike Carusi: Well, you know, again, I think there's a recognition that money can be made here, and money has been made here, so there's a select group of folks who get that, but those that do are supportive and are behind the strategy.

Scott Nelson: Yeah, and I'm sure your pedigree speaks volumes in regard to the concept, but it's one that I definitely have to ask because I'm always curious as more and more dollars are poured into consumer tech, if some of those LPs are thinking, "Jesus, is early-stage med-tech where we want to be?" But with that said, let's dig into that supply and demand principle because it would seem that because of the challenges in the world of med-tech venture right now, especially particularly to early-stage, it seems like if you would fast-forward another seven to 10 years, which is oftentimes maybe the lifetime of the fund, it would seem like there's going to be a big innovation gap, and can you speak to that, especially in relation to the supply and demand principle you just mentioned?

Mike Carusi: Well, I mean I think that's right. I mean, I think, look, our view is that in reality the sector, and not just devices, the biotech and healthcare, in general, was probably overfunded over the past 10 years. I think there is a need for the funding to come down from what it was in the mid-2000s. There are only so many good opportunities out there and only so many interesting ideas. Ultimately I think that's healthy, but what happens is as the number of companies comes down as the number of opportunities comes down, then the strategic players, the Covidiens, the Medtronics, the Abbotts, they need to compete amongst one another for these interesting and engaging next-generation technologies, and it's kind of Econ 101. It's supply that goes down and demand goes up. Hopefully, the prices follow, and prices go up.

So, that's the thesis. I think we've seen that time and time again in the venture space as a whole, that the pendulum tends to shift too far in any one direction. You either get the money leaving too quickly or you have the money going in too quickly and too much, and so it always tends to find equilibrium over time. But my belief right now is that we've gone from an industry that was overcapitalized to probably one that is undercapitalized, and again, the belief is that that should create opportunities down the road as strategic players need growth. They tend to look at venture-backed companies as their farm king, and that's where they go. So at least that's, again, historically, how this industry has played out, and I don't see any reason why that'll be different in the future.

Scott Nelson: Yeah. I guess it goes back to the original quote I started out with when you referenced Warren Buffett's, "The best time to be greedy is when others are fearful," and that certainly seems like a time that we're in right now. In regards to large strategics and their kind of view of seeing venture-backed startups as the farm system, I really like that analogy by the way. Do you think there's some sort of thought or maybe a mandate within the Medtronics, the Boston Scis, the Covidiens of the world, that they need to partner perhaps more often right now, especially right now in early-stage deals, in order to keep the ecosystem alive?

Mike Carusi: I think that's definitely the case. I was on a panel not long ago at a Minneapolis Med-tech conference and Chad Cornell from Medtronic was on the panel and he basically echoed that point of view, and we've heard it from others. I think there's been a tendency to partner by a number of different firms, but the question is when and how? And so, I think what you're seeing is that traditional model is continuing and the traditional models, some of these firms will invest later, they will come on board in anticipation of potentially buying the company down the road or at least just learning more about the opportunity.

I think you're also seeing all of these players thinking creatively and trying to partner with the venture community in a creative way in terms of how do we work together earlier so that we can support one another earlier in the process, and in so doing help fill the funding gap and help in many ways direct our projects towards things that they need. So, my answer would be, the traditional model of investing or partnering later-stage continues, but I think you're also seeing a willingness to think more creatively and to partner up either with companies or venture firms earlier in the process.

Scott Nelson: Yeah, that's interesting. Almost a little bit refreshing, honestly, to hear that large strategics are willing to sort of consider collaborating more often, I guess for the better cause. I guess, for lack of a better description.

Mike Carusi: Yeah. Well, I mean I think it's partly for the better cause, but I think the reality is it's also selfish self-interest on their part.

Scott Nelson: Yeah.

Mike Carusi: I mean, they do generate obviously new products, new ideas internally, but again, a lot of the big ideas come externally. They still want those products; want those opportunities and I do think they are concerned that the pipeline of innovation is drying up. And again, I would draw a parallel to the biotech and the pharmaceutical industry, where candidly I find the pharmaceutical industry has been more creative and forward-looking in terms of partnering, how they do deals, and how they approach things. I think there's a lesson there to be learned from the major med-tech companies to look at that side of the house and get a little bit more creative and partner earlier. Again, I think folks are starting to do that, or at least consider it.

Scott Nelson: So, playing copycat, to the world of pharma and biotech. That's interesting. Is it just a matter of finding creative financing alternatives? Can you provide a little bit of an example that speaks to that?

Mike Carusi: No, I mean there are different structures that are at least, again, being talked about. I don't know that I can point to specific companies yet where it's been and where they've played through to fruition. One model that is certainly being talked about is this kind of build-to-suit model where a venture firm will work sort of hand in hand with one of the major players actually trying to get an understanding of what areas are of interest to that player, partner up, and maybe actually fund the company where there's almost a pre-structured exit built-in where that major player could have the potential. It's probably going to be structured as an option by the company down the road if a certain milestone is met. Again, it's no guarantee, and it's no guarantee of an exit, but at least you know you're doing something that is of high interest to that strategic player, you're getting some financing along the way. Hopefully, if executed well, you can find your way to an exit, as an investor I can get the kind of return I need, but doing a timeframe that is reasonable and relevant.

Scott Nelson: Yeah.

Mike Carusi: I think that's one model that's certainly being explored, and there are many, many offshoots, and variations for that kind of a structure, but at the end of the day I think it requires folks who are doing early-stage investing to think about who our customers are. We always think of our customers as the clinicians or the payers or the patients obviously, but in many ways, our customers are also Medtronic, Covidien, Abbott, because at the end of the day there are times when we take our companies public, but more often than not they're acquired. So, we really want to get an understanding of what those folks want, what they feel they need in the pipeline, and try and direct our efforts as best we can to those interests. That's again just more of helping the ecosystem work better and direct our efforts to things that are worthwhile.

Scott Nelson: Got it. So, almost like that built-to-suit model would be similar to almost like a…would a fair analogy be almost like an exclusive incubator kind of where that particular strategic…?

Mike Carusi: Well, yes, except the caveat to that would be around a specific idea or company.

Scott Nelson: Got it.

Mike Carusi: So, you wouldn't partner away the whole incubator, if you will. You wouldn't partner away from the whole fund, all the investments we're making. You would do it deal by deal.

Scott Nelson: Got it.

Mike Carusi: And you would do it one at a time. Again, there are variations to that model. Yes, you could do it by partnering away a whole incubator, but I don't know that you'd want to.

Scott Nelson: Got it. Got it. Before we move on to talking a little bit more about your investment psychology. For those startups that I like to sometimes refer to them as sort of bloated startups, maybe they were funded in the early to mid-2000s and maybe have raised over 100-plus million dollars…

Alright, we're back live. Lost connection there, Mike, but let me finish that question that I was just about to ask you. For those bloated startups—I like to refer to them as kind of bloated startups that maybe were funded in the early to mid-2000s with perhaps may be over 100 million dollars in investment dollars. Are they under a certain amount of pressure right now? What do you think happens to those sorts of med-tech startups?

Mike Carusi: Yeah, I think it's a great question. So, look, I think any existing company right now is under pressure to raise money. It's hard to raise capital right now, and in some ways, it doesn't matter if 100 million went in or 10 million went in. I think you have to take a step back and ask what happened. Some of those companies that raise a lot of capital, there may be a good reason for it. For example, they were progressing, they were making good progress technically, clinically, and for whatever reason, they weren't acquired early, and now maybe they're out trying to fight the battle to get reimbursement, to get code, to start to drive revenues. It all takes capital. So, the reality is some of these companies are going to take a lot of capital hoping to drive revenues on a successful commercial enterprise.

Scott Nelson: Yeah.

Mike Carusi: The question becomes, is that product, and that idea still a viable one? And then as an investor, I would ask the question, is there an opportunity there? Can you invest in that company at a valuation that's very favorable? It may in part recapitalize the company. Some of that money that was invested previously might get washed out. Some of these companies, it may be the most opportune time to invest if the underlying technology thesis, the problem that you were trying to solve, remains intact.

Scott Nelson: Yeah.

Mike Carusi: I think that's where you're just going to have to really pick through the carcasses, be very thoughtful, very careful. There are going to be a lot of dead bodies on the side of the road, but I do think there'll be some nuggets in there as well.

Scott Nelson: Yeah. Picking through the dead carcasses, I like that. I like that sort of picture. But let's transition here into more of your investment psychology. We learned a little bit more about the idea that actually you and your firm prefer early-stage deals, at least pertaining to med-tech. In contrast to that, we're seeing like Fred Khosravi almost more like hit some singles, win, I guess, with some singles and doubles with some of those recent exits. I think the most recent one was maybe Maya Medical to Covidien

Mike Carusi: Yeah.

Scott Nelson: From your standpoint as an investor, is it possible to win with singles and doubles, almost like a money ball approach to it?

Mike Carusi: It is. I mean, look, Fred is a great entrepreneur and he's done very well, and we have the highest regard for Fred, and I think that model can work. Part of it depends on who you are as an investor. So, if you're an angel investor or you're investing a smaller fund, and let's say it's a 20 or 30-million-dollar fund and you put a million or two or three to work in, it's called a product, not a company and you're able to turn around and sell that product for 15, 20 million, you can do very well. As a venture firm, we're putting larger amounts of capital to work and we're looking for bigger ideas and bigger outcomes.

I think, using the Fred example, what's interesting with Maya and some of his companies is he's gotten very nice outcomes, 100 million dollars or more on a modest amount of capital. That's ultimately the best way to drive a good multiple, is to get the numerator up and keep the denominator down. So, our view is that there are multiple ways to make money here, but what we try and do is look to pioneer space, look for things that are highly novel, highly disruptive, with the belief that if we demonstrate that novelty, hopefully through clinical data, not through having to drive revenues, that that company will get taken out early and that we can make a very good return, and I think that Ardian is an example of that.

I think if you look at Maya, Maya was a fast follower to Ardian, nowhere near the same level of exit in terms of the number that was paid but an equally attractive multiple because of the amount of capital that went in. So, both made money. Both were good exits. It really depends on what your goal is at the end of the day.

Scott Nelson: Right, and the whole renal innovation space is really interesting, and it seems they've got a lot of fast followers there.

Mike Carusi: Well, yeah, and this is now where I think... So, Fred, to his credit, was one of the winners, but look, this is where I come back to. We as an industry keep making the same mistakes time and time again. I said that I think the industry was overfunding over the past 10 years, and when I say that I think there have been too many incremental ideas that got funded, and as a result, there are things that nobody cares about. When I say nobody, that's patients, payers, strategics, FDA. It's just kind of stuff that is incrementally better but isn't going to move the needle. I now look at the whole renal denervation space and you keep hearing there are 40, 50, 60 companies.

Well, three or four of those are going to succeed but the other 46 or 47 are going to fail. I'm not smart enough to figure out which three or four. So, I'd rather pick the first one and help pioneer the space, and then you sort it out from there. I think if I look at that space my comment would be, you know, everybody thinks they know what’s wrong with the Ardian and Medtronic product, but they don’t really. It really hasn’t even hit the market yet in a big way. So, you don’t know what you’re shooting at yet.

So, our thesis is you can be too late to be a first mover and too early to be a fast follower, and I would ask the question, is that where that space stands right now. You actually need to let the first movers pick the arrows a bit, found out what works and what doesn’t, and then you can see where you can improve on those products. Then when you improve you can’t do it incrementally. You have to do it in a way that is a leapfrog. So, once you have that played out, as I said, I think there have been a couple of winners in that space, but I don’t think there are going to be 50 winners, and there are going to be again a lot of failed companies along the way and it’s going to be unfortunate.

Scott Nelson: Right, and you have to think, I think Omar Ishrak, the CEO of Medtronic, was recently quoted about their unexpected troubles in launching Ardian in Europe primarily because of reimbursement. I have to think, geez, the other 30 or 40 early-stage renal denervation companies are probably thinking, “Oh, what the hell did we get ourselves into?” But with that said though, I want to look maybe at like two examples in regard to this idea of fast followers versus truly disruptive technology, which seems like over your career you’ve really done an outstanding job of being able to identify. Let's look at one of your recent investments, maybe not so recent but Holaira, and then maybe contrast that with Kona Medical. Kona Medical is in your portfolio as well, correct?

Mike Carusi: Well, it’s in the Morgenthaler portfolio with Hank Plain, so it’s not one that I know as well, but I’m certainly familiar with the company.

Scott Nelson: Got it. I certainly don’t want you to speak on behalf of a company that you’re not involved with. Kona Medical, for example, I mean they’re using ultrasound to deliver energy to the renal nerves. How do you differentiate that from being a fast follower versus Holaira? I think you’ve kind of described Holaira as using RF energy and just applying to a different disease state, I guess. So, can you maybe speak to that a little bit?

Mike Carusi: Yeah. So, when I mentioned that you could be a fast follower but then in a disruptive way. I think you can look at Kona, they’re successful. What they’re doing is now taking an approach to do renal denervation but to do it ultimately noninvasively. That's a very different approach and product than coming up with another catheter-based product that's got three or four RF baskets or tips on it than one. The latter is incremental. The former to me is very disruptive. If ultimately that company can do that, that's a very different way to do renal denervation. Now, the next question will be, and again I’m not directly involved with the company, but you would think that that would be a better solution, but you’re now potentially going to have a different channel. Where are those patients going to be treated? Who’s the referring doctor, etc., etc., etc.? So, there will be a lot of go-to-market nuances I think around the two approaches, but you can see that they’re very different products.

Scott Nelson: Right.

Mike Carusi: In the case of Holaira, I'm not going to get into a lot of details on the company, but yes, in some ways we have described it as sort of an Ardian-like approach, in this case going after various pulmonary diseases. So again, what the novelty there is a physiologic aha, a physiologic breakthrough. Our job is to prove that in fact, that thesis around that novel physiology will play itself out. You'll answer that with clinical data. So, as we start to generate clinical data, we'll be able to determine whether or not we're right or wrong in terms of the mechanism of action that we're trying to address.

That's a very different approach to device investing because you're not just coming up with a better widget, you're actually trying to introduce some level of novel physiology and that's been a risk that we have been comfortable taking over the years. It doesn't always pan out that you're successful but when it does I think you then have an opportunity to really create a new category and really own that space.

Scott Nelson: Got it. So, as a follow-up to that question, and there's going to be a med-tech engineer, a physician perhaps that has what maybe they would think is a novel idea or potentially disruptive technology, how did they get the attention of Mike Carusi and Lightstone Ventures or ATV, and then on that same note, how do you begin to really think can this be a big home run versus another widget or a single or double?

Mike Carusi: Yeah, well, I mean in terms of getting the attention, and you've probably heard this in the past, but it's best to try and find an introduction or way into a venture firm. So, if you're approaching myself or my partner Hank Plain or Jason Lettmann or others, you could very quickly go on our website, see what deals we've done. You'll get a sense of who we know and who we've interacted with. Just from doing a little bit of legwork, hopefully, you can make a connection or two, reach out for that individual, and say, "Hey, would you make an introduction on my behalf to Mike or Hank or Jason?" The reality is a deal that's been introduced to us will get more and attention than something that comes in over-the-transom, because a big part of what we're investing in, in these early stages is the entrepreneur, is the individual, and it's important if we don't know that individual that they come highly regarded and highly vetted. So, I would always try and find a qualified leader, a qualified introduction. So that's kind of number one.

Number two is then I think you just start going through the process, and we'll start off with an introductory meeting or a pitch, and there'll be many meetings and many discussions after that. Again, part of it is us "diligencing" the idea, but it's also us "diligencing" the entrepreneur, trying to get a sense of how they think. Can we work together because we feel this typically takes four, five, or six years? Are they realistic in terms of what they know and what they don't know? Do they have the right expectations on what their role should be now and in the future? All of that is a process, and one that takes time, and I think one that requires an entrepreneur to be patient, thoughtful, and mature in terms of what it takes to ultimately build out a big company and a successful outcome.

Scott Nelson: Got it. So, in regard to that first step, that's just a matter of doing really some fairly basic research, looking at your portfolio companies, potentially trying to get to know maybe some of the founders at your portfolio companies and maybe potentially, if it works out, leveraging that into a referral of some sort to you. Then the second step would be getting that meeting, and I guess to get more specific, Brad Feld, who's a fairly well-known kind of consumer tech VC is kind of well-known for saying that he doesn't even like to see a pitch deck in an intro meeting. He prefers to actually see the product. That's a little bit harder to do in med-tech. But what's your take on that? In order to even get a meeting with you, do they need to have raised some angel money? Do they need to have a prototype in place? What does that look like?

Mike Carusi: Yeah. So no, they don't need to have raised the angel money and they don't need a prototype. I don't need to see a full prose business plan, but I do like to see a pitch deck because, again, I think what often happens is the entrepreneur will come in and say, "Well, I've got a better product," but that's only part of the battle. So, you want to see that they've thought through everything, the market, reimbursement, who the competition is, what it's going to take to succeed. The product is only one part of it. So, I do like to see a pitch deck at least to start. It's a good way to frame a discussion.

The reality is, I think I said this before, we'll see 500 or 1,000 business plans over the course of a year, we'll fund four or five. So, the bar is very, very high in terms of what we do, and part of it is, again, through a little bit of legwork, I think if you look at the companies that we as a firm and then even we as individuals have financed, you'll see a theme. We tend to do things that are similar. That'll give you a sense of whether or not your company is one that might fit with us or not. I'm trying to think of an area.

For example, we do not really do healthcare IT here, and so if you're a healthcare IT company, probably coming to us is not a good use of your time. Trying to find an introduction to us is probably not a good use of your time. So, again I think it's just a little bit of legwork to get a sense for who we are and what we do, and we're pretty transparent about that. That'll help direct your search as an entrepreneur as to who the right groups are to go to.

Scott Nelson: Got it. Got it. For the sake of time, I think we'll move on to another kind of subtopic. I mean, there are certainly a lot more questions I'd like to ask you, but let's move on and focus a little bit more on M&A or mergers and acquisitions, that being probably the most likely exit. In your opinion, are there certain disease states or therapeutic areas that large strategics are looking for, whether it's a Covidien, a Stryker, a Boston Scientific, a Medtronic? Or is it just a matter of... I interviewed Rudy Mazzocchi. He was on the program maybe a year ago. He said that one of his sort of best practices is to look at a current portfolio at a large strategic and see where they're missing, where are the large gaps. Do you take on that same sort of mindset or are there certain disease states that are just more attractive to you and potential acquirers?

Mike Carusi: Yeah, it's a great question. So, I mentioned earlier about we try and meet with the strategics and get a sense of what they're looking for. If we're doing white spaces, they don't always know. So, for example, if we had met the strategics, nobody sat there and said, "We want a device to treat hypertension." So, there's an element of understanding these companies but also bringing them something that they don't know they needed.

I think Ardian again is a good example where what's interesting about it is it is a novel device for hypertension. A new market, a huge market, a market that has not been historically targeted by devices. But if you look at that area, where it was a good fit with the strategics was the approach that we came up with fit within the existing interventional cardiology businesses. We know that those are huge franchises for all the major players. So, that was very appealing, the fact that this actually slotted into the interventional cardiologists and into that business. If you look at technology, it was catheter-based, it was RF-based. Again, technology and a product that these groups understood. So, in many ways, it was a good strategic fit even though it was a novel kind of white space type of product. I think there are probably other examples like that.

So, that's one approach. The other approach is a little bit more, as you pointed out, blocking and tackling where you just kind of look at the company, you look at their franchise, and you say, "What are they missing?" and "Do they want to get into triple-A or do they want to get into the peripheral?" Then you're starting to get into probably a better mousetrap sort of product, and that may or may not be what we openly do, but you could take that approach as well.

So, I don't know if there's any right answer to your question. I think again it's through a conversation with the strategics and trying to get a sense of what moves the needle through acquisition. Different companies and different spaces have different thresholds. Cardiology, at least historically, those acquisitions are often driven by strong, clinical data or early revenue uptake somewhere. If you look at orthopedics, sometimes you need more sizeable revenues before those companies are acquired, and so that's also part of the calculus in terms of what are the triggers for acquisition. It does vary by therapeutic area and by the nature of what you're doing.

Scott Nelson: That's interesting, especially your point about the different therapeutic areas and what those strategics are possibly looking for in terms of clinical data versus commercialization or revenue. Let's a little bit more about the idea of clinical evidence versus reimbursement versus having an actual approval of some sort whether it's an FDA approval or a CE mark or something along those lines. You mentioned clinical evidence earlier in the interview, I should say. Is that the most important sort of metric in your mind when looking at a potential exit or is it all three? How do you sort of differentiate between those three?

Mike Carusi: So, in my mind, it is the clinical data. Now, again, a lot of what we're doing is very novel from maybe a physiologic point of view, so you might also look at it and say that's the biggest risk. Will it really drive dynamics? Will that really affect HbA1c and diabetes? There is a physiologic unknown there. When you show that it is, that answers a big question. Now, there are lots of other questions. Can you get reimbursement? What will the market adoption look like, etc.? But you have to answer that first fundamental question first. I think the strength of that data is what then starts to feed some of those other things. So, if you've got a really compelling therapy that is really moving the needle on HbA1c or on blood pressure, then there's a presumption that you're going to get reimbursement.

There's a presumption that the doctors and the patients are going to use it. If on the other hand you're kind of hitting your butt on the hurdle and you're just showing an improvement, then you can start to look at that and say, it's going to be harder to get reimbursement. I might have to show other things. I might need more data. So, at the end of the day, I think what's changed most in our business over the past 10 years is the demand for data and the demand for compelling data has gone up by an order of magnitude. It's gone up from payers, it's gone up from clinicians, even gone up from patients. It's gone up from the FDA. So, I think our job and job one is to generate that kind of data and do it right, and that starts to answer a lot of questions in terms of the value of our product.

Scott Nelson: Got it.

Mike Carusi: Does that mean we'll get acquired on that data? Well, a lot of times the hope is yes, but the reality is it doesn't always work that way. I think your earlier comment is we know about these companies that have 100 million in. Well, sometimes those are the companies that for whatever reason they didn't get acquired early. Again, it doesn't mean it's a bad idea, and my investment thesis my break down a little bit if it doesn't get acquired early, but it doesn't mean that you can't make money and it doesn't mean that it isn't going to be a good product. That may be an opportunity for that late-stage investor to sort of come in and ride that next wave of value creation. They may ultimately do better than the early-stage investors, and that may be the best time to invest, and that's why I think multiple strategies work in this market. But again, you're picking through a lot of those other companies that failed for other reasons, like their product wasn't very good, like it was too incremental, etc. So, you really have to just pick through all the companies that are out there and find those rare gems.

Scott Nelson: Got it. Yeah. I guess going back to your point, the idea that you prefer clinical evidence, probably it's that way because it fits into your overall thesis in that you prefer early-stage, really novel disruptive technologies. Maybe if you were of a late-stage investor, reimbursement, and regulatory approval, and then the corresponding reimbursement would potentially be a little bit more important to you.

Mike Carusi: Well, yes and no, although again, even there I think we've all sort of been a part of it and we've seen over the past 10 years, and again there's been a change. Those companies that got 510(k) approval may be without a lot of clinical data. They went out and started trying to commercialize their products, and ultimately, either they didn't have enough data for market adoption or didn't have enough data for reimbursement. Given that, I think even in those kinds of situations where you can get an FDA approval with less clinical data, it doesn't mean that you don't need the clinical data for commercialization. So, I just think again that the need for clinical data has gone up in any kind of product that we pursue, and having that is what lays the foundation for growth. If you don't have that, that may make growth harder. So, even as a late-stage investor, I think you want to make sure at least that that foundation is in place.

Scott Nelson: Got it. On the topic of reimbursement, in doing some research I think I read something along the lines of where you mentioned something about dealing with some of the medical societies that in effect control reimbursement. Can you speak briefly to your experiences in dealing with some of those may be conservative, maybe that's a good way of putting it, societies that do in fact act as gatekeepers for kind of the reimbursement arena?

Mike Carusi: Yeah, and again they each have their own personalities. So, sometimes it may be the conservatives, sometimes it may be conflicted There's a challenge to that system, and I think, I forget who it was but I was meeting with a congressman or woman who said, “Why don’t you just come up with devices that take half the time?” Well, on the surface that sounds good, but what’s the advantage of half the time? Well, half the time ultimately means that it’s going to save money and it’s going to save money because the doctor gets paid half the price. But doctors don’t like to get paid half the price. That plays into the psyche of these societies. It shouldn’t but it does.

Again, I think as we as venture capitalists deal with more and learn the reimbursement process more, we’re becoming more aware of this process of what it takes to get the societies on board with these new technologies. We need to do a better job of working with them earlier, educating them earlier, thinking of them as a customer just like I mentioned strategics is a customer. Ultimately I do think those products that are better, however, you define that, will win, but again it just requires a level of sophistication in your team and in how you approach the market that our companies probably have not had historically and they’re learning that they need to have that.

Scott Nelson: Got it.

Mike Carusi: So, it goes with societies, it goes with everybody that we touch.

Scott Nelson: Yeah. I love the fact that you brought up that piece because it would seem I guess fairly small in nature, that bit of information about the fact it would seem that it would be good that it would take half the time, but yet, in fact, the answer would be, well, it’s half the time, it should be half the cost, hence, physicians are going to get paid half the reimbursement. But that's interesting that you bring that up. One more question on this topic. In coaching some of your portfolio companies for potential conversations with acquirers are there certain best practices, or maybe the better way to ask that question is, are there pitfalls to avoid in some of those conversations with acquirers?

Mike Carusi: Yeah, it’s a good question. I think the days of showing up with a banker and saying you’ve got 60 days to buy the company or decide if you want to buy the company, I think those days are gone. I think it’s a game of building relationships at all levels, venture capitalists with the strategics, CEO with the strategics, other board members with the strategics. So, there has to be a willingness to engage earlier and educate folks along the way, and build that relationship and build that credibility. The challenge with that and the pitfall is that you’re opening up yourself to the strategics seeing all the sausage making and it’s not always pretty. You don’t always hit the timelines that you thought you were going to hit. There will be setbacks along the way.

So, there's a balance that you need to strike between the old adage of under promise and overdeliver. That's true in these discussions. You want to show enough so that you get folks interested and engaged, but you don’t want to make too many promises that you fall on your face because you’ll lose credibility, and if you lose credibility it’s very hard to get it back. So, I think it requires a certain level of transparency, honesty, integrity. Don’t oversell because strategics are very good at sniffing that out as are the venture capitalists. It's what we do. I think you want to be honest and direct and forthright, and at the end of the day what it takes is a product that is truly differentiated and better to get the attention of these folks.

Scott Nelson: Got it. Got it. I wanted to get your take on the 2.3% excise tax as well as the FDA in the long runway, but I really don't want to end this conversation on a sour note or on a downer. I'd rather ask you, to conclude, a little bit more about your background, and certainly, I would encourage everyone to just do a Google search for Mike Carusi. We'll of course link up to your bio in the show notes. But I'm curious, your first gig, correct me if I'm wrong, but your first job out of college or post-undergrad wasn't sales right?

Mike Carusi: Correct.

Scott Nelson: I'm curious because I'm a sales/marketing guy by nature, I'm curious how that's impacted. You've had a tremendously successful career. In 2011, you were on the Midas List. I'm not sure what your take on the Midas List is, but nonetheless, it's a nice list to be on. How have sales impacted your career thus far?

Mike Carusi: Yeah, I know. It's a great comment. I'm a mechanical engineer by training, and then yeah, I went from engineering into a sales role. At the end of the day, I think if you're not selling it or you're not making it, you're probably not adding a ton of value. So, I mean, I think you look at our company, those are ultimately the key roles. I think everything that we do is sales. We're always selling, and so I think there's an element of that, that's very important to the business. I think you kind of want to marry that.

From sales, after business school, I went into consulting because I wanted to sort of try and develop the other side of my brain so that I wasn't just selling but I also had that sort of strategic piece and that marketing piece, the big M along with the big S. I think marrying those two skill sets, sales, and marketing, strategic along with that execution piece, that starts to differentiate you from a lot of other folks in the field. It's a unique combination and it's something I try to develop. I don't know if I was successful at it, but it's certainly something I try to develop. It's kind of trying to figure out where you're strong but also where you're weak, and then go work on both.

Scott Nelson: Got it. That's good stuff. Before I ask my last question here if anyone's listening to this and wants like a good…just thinking, oh, sales, I don't know about that." You heard it here first, a tremendously successful med-tech VC says that selling is involved in almost every process of the game. But a good book to start out with is actually Dan Pink's recent book, "To Sell is Human." That's a little bit of a different take on sales. But anyway, that's a side note. Last question I have for you, Mike. Is there one thing that stands out that you now know that you wish you knew 20 years ago or earlier on in your investment career?

Mike Carusi: It's a great question. Yes, everything will take more time and more money.

Scott Nelson: Patience then, I guess, right? Maybe?

Mike Carusi: It is patience. I was talking to somebody today about Elon Musk and Tesla and what differentiates Elon and why he's been able to succeed on these big, big projects. I've never had the pleasure of meeting him, but my guess is that he is extraordinarily persistent, just has an incredible amount of perseverance, beliefs, tenacity, doesn't give up, and when things are short of looking bleak, and they always do in a startup. You always go through a downtime, he powers through it and he does it with such force of personality that he brings the team, his investors, his customers, everybody along with him. I think it's a credit to his success in doing these very difficult projects like at Tesla.

I think it's true of all successful entrepreneurs. Again, these things don't go in a straight line, and perseverance is probably, in my mind at least, the most important attribute of a very good entrepreneur. My job as a VC is sometimes to take those that just don't want to give up, and there is a time to give up, and sometimes these things don't always work. But you don't always necessarily want your CEO, or at least the entrepreneur, to be the one to say that. Perseverance is probably critical to anything we do, and certainly in this business.

Scott Nelson: Yeah. You brought up Elon. I'm glad you brought that up because if anyone is not familiar with Tesla or Elon Musk, certainly do some research there. It's an amazing, amazing story. And in fact, I think while he was building out both SpaceX, is it?

Mike Carusi: Yeah. Yeah.

Scott Nelson: ...and Tesla, I think he personally almost like was not technically bankrupt, but he almost bankrupted himself personally ramping those two companies up, and now you look at Tesla is an incredible, incredible company. The barriers that they're breaking in that world is incredible. That's good stuff. So, persistence is the one thing that you point out. Awesome. Thanks a ton, Mike, for your willingness to come on the program and allow me to kind of pick your brain. I'm certainly hoping that everyone listening thus far has gained a ton of insights from your experiences. So, thanks a ton for your willingness to do it.

Mike Carusi: Well, I appreciate it. I think it's great what you're doing, and I appreciate being able to contribute.

Scott Nelson: Yeah, absolutely. I'll, of course, link up to your bio in the show notes, but is that the best way for people to learn more about you, is to just to check out Lightstone Ventures or ATV?

Mike Carusi: Yeah. That works great.

Scott Nelson: Got it. I'll have you hold on the line here real quick, but thanks everyone for your listening and attention. Until the next episode of Medsider. Everyone take care.