Investment

"The challenge all CEOs have is continuing to ensure we have enough capital to be able to solve problems. Access to capital is always a challenge but our investors were very supportive."

Mike McCormick, President and CEO, Osprey Medical

OSPREY™ MEDICAL

BRANDON CAPITAL PARTNERS

TALU VENTURES

"We're a medical device company that is focused on helping patients with bad kidneys undergo a heart procedure without further damaging their kidneys."

Every year, millions of people with kidney conditions take an enormous risk when undergoing heart imaging and stenting procedures.

Most people can handle the large quantity of dye that is injected to locate heart blockages when putting in a stent. But for people with bad kidneys they are at risk of developing contrast-induced nephropathy (CIN)—an acute kidney injury that can lead to death or life-long dialysis.

ASX-listed Osprey Medical was formed to develop and commercialise technologies aimed at minimising the chance of contracting CIN. Based in Minneapolis, Minnesota, in the United States, the company came about due to ongoing investment of Australian venture capital. Its products are now cleared for use in the US, Europe and Australia.

President and CEO Mike McCormick says the company would not have succeeded without the support of Australian venture capital funds Talu Ventures and Brandon Capital Partners.

"Osprey is a product of the venture capital market in Australia," Mike says. "We wouldn't have made it to where we are today without their assistance."

Osprey Medical was formed in 2008 based on technology developed by Dr David Kaye at Melbourne's Baker IDI Heart and Diabetes Institute. Venture firms Brandon Capital Partners and CM Capital (now Talu Ventures) participated in the company's first investment round. They put together a strong Board and in 2010 hired Mike as CEO who brought in a seasoned management team.

Mike had an affinity for Osprey's CIN reduction products, after seeing his father-in-law suffer from debilitating kidney issues following a heart procedure. Two days after the 45-minute procedure to put in a stent, his already-weak kidney failed. The dye had killed the rest of his kidney cells, and he spent the rest of his life on dialysis.

"Patients with bad kidneys shouldn't have their kidneys fail from having a heart procedure," Mike says. "There has to be a technology for that."

Mike has more than 20 years of experience in medical device businesses. He was previously president of Centerpulse Spine-Tech, which specialises in spinal surgical solutions, and he was involved in its sale to Zimmer in 2003 for US$3.2 billion.

AVCAL

Building better businesses
avcal.com.au/bbb

Who we are

AVCAL is a national association which represents the private equity and venture capital industries covering early stage, expansion and management buyouts. Our members include fund managers, investors and advisors who support the industry.

AVCAL members build better businesses

The investment model used by the private equity and venture capital industries supports the building of stronger businesses that can deliver sustainable increases in enterprise value over the long-term.

AVCAL's core objective

To ensure that the business community and other key stakeholders understand the benefits of the private capital model of business ownership, and the role that it can play in contributing to investment and employment growth across the Australian economy.

Mike says 20 per cent of heart patients undergoing a dye injection procedure with a kidney condition will have a CIN event. That adds up to a huge number of people that could benefit from Osprey's products.

"When we talk about heart procedures, looking at the United States and five primary Western European countries, there are 2.7 million patients per year who are at-risk of CIN," Mike says.

The company's original idea was for a device called CINCOR that would use a catheter in the vein exiting the heart to collect as much dye as possible during the procedure and prevent it from reaching the kidney.

But as is often the case when developing new technologies, testing threw up some difficulties. Due to differing anatomy, CINCOR proved hard to use the device on every patient.

Mike says input from Brandon and Talu was crucial in helping the company's team of 16 executives change their strategy at this point.

"They gave us a lot of advice," Mike says. "This wasn't one meeting where we said, 'this is what we want to do and why'. This took three to six months, where we told the board of the problems we were having and they would give ideas to solve them."

> "Osprey is a product of the venture capital market in Australia—we wouldn't have made it to where we are today without their assistance."

The board and the venture backers were, he says, outstanding. "They partnered with Dr Kaye and management to help reach an understanding of the issues."

Ultimately Dr Kaye, and Osprey engineers came up with a solution in the form of a new product, the AVERT System." This required Talu and Brandon to support an overhaul of the project "even though it required additional funding and extending the timeline to get to clinical trials by over 12 months," says Mike.

The company changed tactics and developed the AVERT system, which demonstrated in a pilot study to reduce an average of 40 per cent the amount of dye that is injected into the body in the first place, without compromising physician visibility of the heart anatomy.

"The original CINCOR device we had did work, but it was hard to use so it had limited commercial value," Mike says. "This AVERT is a fast, simple and safe solution that has a much broader commercial application."

The collection device with the CINCOR was not abandoned. The company developed another product using it to treat chronic limb infections related to diabetes. These infections, often at the base of the foot, can lead to gangrene and amputation. But Osprey is running human clinical trials using the original CINCOR technology to give a high dose of antibiotics targeted at the infected area.

At this stage Osprey needed more capital to conduct clinical trials and the venture backers once again proved their worth by partnering with Mike to fundraise. Stephen Thompson, the Sydney managing partner of Brandon Capital used his contacts in the venture community in Europe. "As an American CEO who had never raised capital in Europe I did not know this community," says Mike. "Stephen set up a week-long multi-country European roadshow and traveled from Australia to accompany me on all the meetings."

Eventually after successful trials Osprey looked to debut on the stock exchange. Again Talu and Brandon's local expertise was invaluable. They introduced Mike to multiple bankers and came with him on all the initial meetings.

In addition, both venture capital teams also supported Osprey financially through the whole process, participating in Series A, B and C funding rounds, as well as the company's 2012 IPO and a subsequent private placement last year. In particular it played a crucial role in the initial listing, stepping in after an institutional investor backed out at the last minute.

The company's initial public offering on the ASX in April 2012 successfully raised $20 million. This was despite weak investor interest in medical technology companies at the time, which had caused a string of failed IPOs.

AVERT is now cleared for the controlled injection of dye in the US, Europe and Australia. But while Osprey is already selling its products in Texas and getting early adoption feedback, it is also doing randomised clinical trials that would allow it to add the claim that AVERT reduces the chances of CIN.

This claim would greatly improve the product's appeal. Mike says a CIN event costs a hospital an average of $15,000 per event, which is recovered from neither the government nor the patient. The company is working with a range of hospitals in the US to do some economic modelling to prove its products reduce this financial burden.

Chris Nave, managing director of Brandon Capital Partners and Osprey board member, says there are no plans to exit Osprey and he plans to retain an active role.

"We still see tremendous upside in the company and are not at this stage looking to exit," Nave says. "The second generation AVERT system has just received FDA clearance and targeted sales of this system will soon begin in the US."