

# Veteran Dealmaker Anthony Viscogliosi Discusses Orthopedics' Changing Business Models

by  
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***Margin squeeze across the healthcare industry due to payment reform is forcing change upon the orthopedics industry. Sources of financing for innovation are growing scarcer, putting pressure on orthopedics dealmakers like Anthony Viscogliosi, but also creating opportunities. His firm, Viscogliosi Brothers, has succeeded through a combination of grit, creativity, and the determination to adapt to an increasingly challenging investment and commercial landscape.***

As a founder of nine funds in the musculoskeletal orthopedics industry, and chairman, CEO, or managing member of nearly 15 businesses, Anthony Viscogliosi has an unusually deep and broad perspective on the orthopedics industry.

Early in his career, he worked at several regional brokerage and investment houses as an institutional equity research analyst, and he was among the first Wall Street analysts to identify the orthopedics industry as a separate business niche. In 1999, he and two of his brothers, John and Marc, founded the boutique merchant bank Viscogliosi Brothers (VB).

The brothers have driven some of the sector's most successful start-ups, generally selling their investments at the upper range of exit multiple valuations. In total, the group's portfolio companies have sold for more than \$1.5 billion. The firm has sold 10 of its orthopedics companies, including three in the past four years alone: Small Bone Innovations [SBI], which it founded in 2004, to **Stryker Corp.** in 2014; Knee Creations LLC, which it founded in 2007, to **Zimmer Inc.** in 2013; and Soteira to **Globus Medical Inc.** in 2012. VB has identified and supported the development of numerous



Anthony Viscogliosi

market-leading orthopedics products, including the *ProDisc Lumbar Total Disc Replacement* and *ProDisc Cervical TDR*, both now owned by **Johnson & Johnson**; the *STAR* ankle system, *Elektra* thumb, *Re-Motion* Total Wrist, *Stability Sigmoid Notch* distal radial ulnar joint, and *UNI-Elbow*, all developed by SBI and now part of Stryker; and **Paradigm Spine LLC's** *Coflex* interlaminar device for spinal stenosis and integrated interbody fusion devices. Moreover, Zimmer now sells Knee Creations' market-leading *Subchondroplasty Procedure* for knee pain.

In many cases, the brothers continue to be involved, post-sale, in their

businesses, with the goal of maximizing the asset's potential. While their deals generally consist almost entirely of upfront payments, the concern about post-sale success is a key part of their strategy, enabling the firm to build long-term relationships with the sector's most active buyers. "The biggest embarrassment to us—and a scenario that has happened many times to other entrepreneurs—would be a business that we sold for a giant amount of capital and that did not perform well for the buyer post-sale," says Tony Viscogliosi.

Viscogliosi says his intense interest in orthopedics comes from a life-changing

experience he had when he was 14 years old. While riding his bicycle to work as a caddy on June 16, 1976, 10 days after graduating from the 8th grade, he was nearly killed when he was hit by a car traveling more than 50 miles an hour. "My fight for life and the orthopedic injuries I sustained ultimately led me to find a purpose-driven life—to change the level of care in orthopedics so others would not have to suffer the way I did," he says.

In several interviews conducted in mid-2015, Tony Viscogliosi discussed the course of his career, as well as the impact of the current healthcare environment on the musculoskeletal industry.

### **The MedTech Strategist:** *How did you come to focus on orthopedics and why?*

**Viscogliosi:** The whole thesis of how we operate was formed through the crucible of being an investment analyst and being a Wall Street analyst, analyzing publicly traded orthopedics businesses.

I started my career in orthopedics in 1988. At that time, there were only five publicly traded companies. I had no mentor and I had no one to teach me how to analyze businesses, so I taught myself through the self-education process. I also was not fortunate enough to have a Harvard MBA or a Wharton graduate degree. I graduated from the school of hard knocks. I went to Henry Ford Community College, Lawrence Technological University, and the University of Michigan, Dearborn Campus. So I kind of had an axe to grind when I came to Wall Street. Everybody else was smarter and better educated. But I was a little bit older and I had this thing called grit—an undying perseverance to get it done.

My experience through self-education, via success and failure, has been the pinnacle to our sustainable success over the last 17 years as Viscogliosi Brothers LLC. In my early days as an analyst, every director of research I had told me I needed to diversify out of orthopedics, and I said, 'no, I don't.' Orthopedics has a giant future and I'm going to be

the one to guide it. I understood that there was no one specializing on Wall Street in this area. I built a brand around Viscogliosi and not around the particular investment bank I was with at the time. Not being at a leading brand name investment bank, I had to offer something unique. I ended up writing more than 6,000 pages of investment research and publishing almost a thousand research reports.

I then took my bonus money and invested it in ideas way before they became businesses. I started out with my first investment, in what was Raymedica Inc., in Minneapolis in 1992 [the company was founded in 1990]. Today, we still own that position and a substantially larger investment that VB made in the company now known as **Centinel Spine LLC** [integrated interbody spinal fusion devices]. You must understand that VB never, ever gives up. Further, no company that we ever started has ended in the same way it began. Each company has evolved as we learn more and as the technology evolves to fit the needs of the patient.

**MTS:** *There are a lot of moving parts in this business. As the orthopedics industry changes, where do you see opportunities?*

**Viscogliosi:** Given that 10,000 people are turning 65 every day in the US, and are moving from commercial payor insurance to government insurance, the single

biggest problem in our healthcare economy today is that the volume of demand outstrips the ability to finance that healthcare because of the transition from private to public pay. Therefore, the entire healthcare system needs to move to a value-based profile. Little companies can be extremely successful in delivering that value solution. The value solution does not mean a cheaper product—it means a better delivery, better process, better business model, better technology, which results in treating more people at an equal or lower cost and equal or greater quality than today.

***"Little companies can be extremely successful in delivering a value-based solution. The value solution does not mean a cheaper product—it means a better delivery, better process, better business model, better technology..."***

Secondly, there needs to be shift from healthcare to “well-care.” That needs to start at infancy, with mother’s milk. Those two factors are going to have the biggest impact on how we will deal with healthcare in the next 50 years. That is VB’s framework for everything that we think about.

Thirdly, reimbursement is more important than FDA approval. Whatever technologies come to market, they have to be cheaper, faster to use, easier to use, less invasive, better quality, better efficacy, all at a lower price, and this will result in a higher delivery of value. When we look at anything in orthopedics, we are looking at innovation that combines all of those aspects.

We look to identify an idea that can be transformative in its impact. VB is one of the few organizations in the world that concentrates solely on neuromusculoskeletal healthcare. We are also one of the few organizations in the world that is actively involved from the idea stage through to the proliferation of a technology to an industrial leadership position. Generally, most investors invest by product type. That is how investors decide what they do. VB is religious, never agnostic, about neuromusculoskeletal and religious about participating in the entire investment product range, from start-up to debt, literally every stage of ongoing company development.

**MTS:** *Given that perspective, how would you characterize the current financing climate for young orthopedics companies and the environment for exits?*

**Viscogliosi:** The financing climate for start-up, seed capital, and early-stage venture capital is still very difficult. VB invests our own personal capital, the capital of the firm, in anything we do and we also raise capital side-by-side with our own dollars to build businesses.

Let me tell you about difficulty; SBI is an example of great difficulty and great success. You might remember that between December 2007 and January 2009, we lived through economic hell; I went out to raise money and the financing failed six times during the process.

It was truly brutal. We had run out of money and were operating the company on receivables. We were raising capital. The market was going to hell, the economy was blowing apart, liquidity had dried up, and I got on an airplane and traveled worldwide to bring in capital from Malaysia, the Middle East, Russia, and from Europe to coalesce the transaction and continue to build the business. The story of Small Bone was the series C and D capital raise. It was the story of transforming a company from an upper limb leader to an upper and lower limb leader and it turned out to be the right move. The STAR ankle became the number one ankle globally and the company sold at the highest exit multiple ever for an extremities business, at 7.8 times trailing 12 month revenues [Stryker paid \$375 million in cash for SBI]. And it has turned out to be a great deal for Stryker.

It is not only important to have a great exit for investors, but it is also important to have a great transition for the strategic buyer. Today, I am chairman and CEO of [SBI]. The assets were sold to Stryker. So I am responsible for the wind down of that business.

But let me talk about the struggles in that greatness. It was not a perfect outcome for every investor. Because, prior to 2007, there was not the focus on liquidation preferences that evolved subsequently. So, the early investors did not fare as well as the later investors. That is a real dichotomy.

**MTS:** *Can you elaborate on your comment on liquidity preferences and how you have built companies to maximize exits?*

**Viscogliosi:** We built SBI with equity and debt. We had started in 2006 with a \$15 million credit facility. By the time



we sold it, we had up-sized that credit facility to \$87 million. As the economy blew apart, it got more difficult to get capital and those with capital got better deals. There are several lessons to be learned.

*Lesson one:* It is impossible to build a company today without the grit and vision of an entrepreneur.

*Lesson two:* It is impossible to build without the grit of the financiers and their belief in the management's ability to execute and to solve the problems as they come.

*Lesson three:* It is important to try to manage the amount of capital that you raise and the terms and conditions of that capital during the course of the capital raise because in today's world, later investors get liquidation preferences.

*Lesson four:* Therefore, early investors should be prepared to invest in every round of capital that the company needs.

*Lesson five:* There is no question that it takes longer to develop a company today than it did yesterday—more time and more money. And, it will take even longer tomorrow and there are fewer buyers.

*Lesson six:* Expect the company to evolve as it grows and as the market realities affect the business direction of the company (see Figure 1).

Two other important lessons: It is more valuable to the strategic buyers to have a business headquartered outside of the US because the big businesses have a lot of assets outside the US that they cannot repatriate without a lot of taxes. Secondly, it is more valuable to have an LLC, due to both investors and buyer tax benefits.

Today is still a difficult financing environment and we are living through an extinction process in the financing community. The old way of venture capital is going away and a new way is emerging. The new way is essentially a rebirth of the origins of venture capital. VC has its origins in dynasties that existed and ruled the world a few hundred

years ago, when a king financed a company to explore the new world. Today, governments and sovereigns are lead financiers in the world.

**MTS:** *What has been the impact of the rise of sovereign funds, in your opinion?*

▶ **Viscogliosi:** Sovereign wealth funds and state agencies are investing much earlier in business life cycles—such as start-ups and early VC—than they had before and they are the sponsors of innovation, which was not the case years ago. The old style of venture capital, in which a group of people got together and formed a fund to raise money and invest in 20 companies, then hope that a few are successful and return more money than was invested in them, and the rest go to zero, that model does not work.

The returns were not sufficient to attract additional capital, so many VC funds have closed. It is a dead model. The go-forward model is the model of investing directly in one business at a time and coalescing the right investors around that business and its entrepreneur.

**MTS:** *So you build a syndicate for each business investment? Isn't that more work?*

▶ **Viscogliosi:** Yes, it is much more work. However, this is the direction the market is going. VB has had a unique syndicate for each business it has ever built and we have similar partners in many of our businesses, but not every-

Figure 1

### VB's 5 Tenets to Maximize Success

1. Be Laser Focused
2. Be the Most Knowledgeable
3. Commercialize Surgeon-Centric Products
4. Establish Global Relationships
5. Leverage Scope, Depth & Breadth of Expertise



Surgeon Led Innovation + Industry Expertise = Corporate Success

Source: Viscogliosi Brothers

one, because every business has unique aspects to it. We have a long litany of partners from GE Capital to sovereign wealth funds to very small individual investors. Each investor we select must bring something unique to the table, not just money (see Figure 2).

One thing that is important for medtech investing, because of the view of the US Department of Justice on physician-owned distributors [PODs], in today's world it is a disadvantage to have physicians who are investors and also using products. That's having a giant impact on how medtech businesses can raise capital.

Today, when you try to get hospitals to use a new product, the hospital will have the company fill out a questionnaire and they want to know how many physicians are invested in the company; if any doctors who operate at that hospital are investors in the business and how much was invested; and the percentage of revenues coming from those surgeons. This is part of a changing mindset over the last three years. That has dried up a source of funding for start-ups, not for us, but generally in the industry. At VB, for many years, we have not focused on physicians as a core investor base due to the

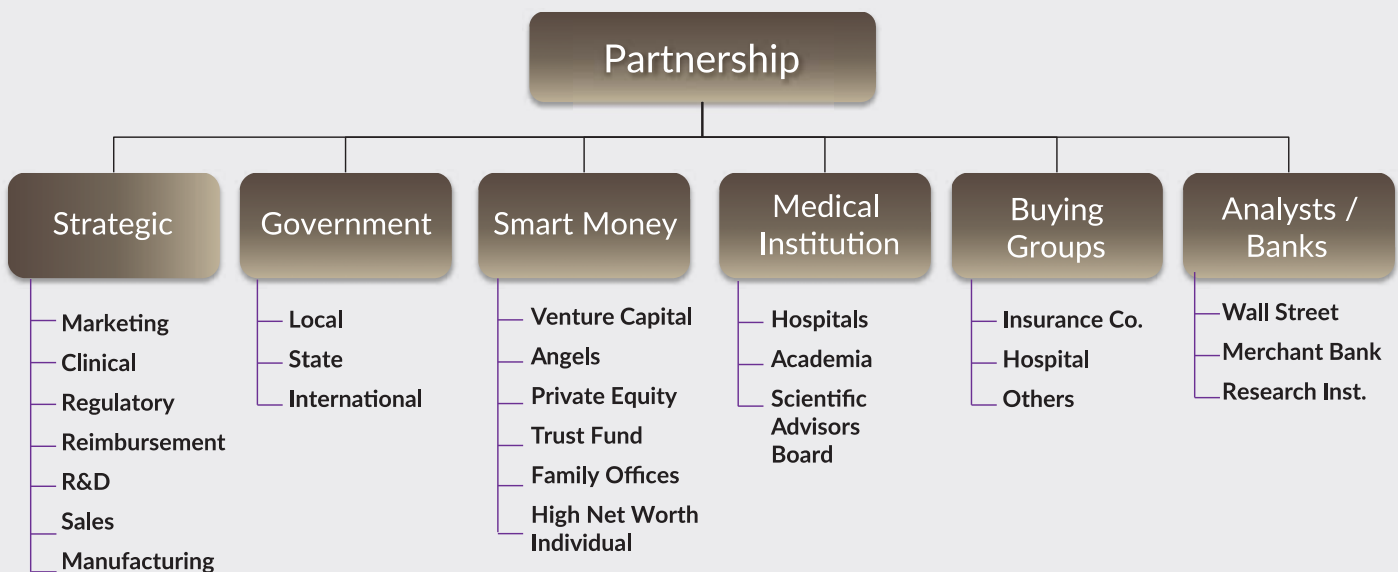
way hospitals view that potential conflict. Long ago we avoided going in the direction of POD-like activity.

**MTS:** *You've said that "macro choices are much more relevant and important than micro choices." Can you delve a bit deeper into the framework for VB's investment decisions and how the changing structure of the US healthcare system impacts those decisions?*

▶ **Viscogliosi:** So let me be the Donald Trump of the orthopedics industry and say some bold things. The first underlying dynamic is that new medical devices should be doing more, costing less, and delivering higher value. The orthopedics industry should be ashamed of itself for not relying on the development of long-term quality data to demonstrate success through superiority in clinical benefit and lower cost through higher value. The cardiovascular industry and every other industry relies on intense clinical evidence of safety and efficacy. The orthopedics industry, on the other hand, has done everything it could possibly do to avoid spending the money to do that. Well, I'm here to tell you—and I'm talking to the indus-

Figure 2

### Types of Partnerships Preferred by VB



**VB Chooses its Partners Based Upon Ability to Benefit the Unique Technology & Company Dynamic**

Source: Viscogliosi Brothers

try—it's time to change. The time to change was long ago and those who made the change are going to be the winners going forward. Because the game is being played out right now. It is going to be about new technology. It's going to be about superiority based on clinical evidence that is mid- to long-term. In order to do this, money has to be invested.

Now, that gets to the second underlying dynamic; which is the underlying premise of how Viscogliosi Brothers looks at the market. There are six Ps: the patient, physician, provider, payor, producer, and the policymaker. Each of these six Ps wants to shift risk to someone else, which has resulted in a whole different healthcare dynamic. Understanding how they relate is a key part of Viscogliosi Brothers' view.

The first part is that the new healthcare economy is changing and focusing on reimbursement. That's one. The second is that you have to understand the relationships, and whatever you do has to benefit all six of the Ps. The third is that the underlying premise of the structure of the orthopedics industry, definitionally, has to change.

It has to change for one key reason. There's not enough money to pay for the amount of care that needs to be delivered in the current delivery system. So we look at technologies and businesses that are changing that model of the current delivery system. The 510(k) clearance process, the preference of the orthopedics industry, is to make something, hope that it works pretty well, get it to market as fast as possible, spend as little as possible, and try to get a bunch of doctors to use it. That is, the aim is to increase sales and drive incremental innovation. The model should be: define the problem, analyze what the best solution sets are, test those solution sets, and evolve a technology that addresses that need. That is exactly what one of our businesses, **Woven Orthopedic Technologies LLC**, does. (See "Woven Orthopedic Technologies: Enhancing Orthopedic Screw Fixation in Poor Quality Bone," *The MedTech Strategist*, October 16, 2015.)

But let me explain. VB has developed what I call the structural model approach to the orthopedics industry. VB invests in companies and builds businesses that change the structure of the industry. We changed the structure of the extremity market and foot and ankle industry by first of all defining it as a small bone industry. Secondly, we are interested in transforming industry segments from fusion to motion through the introduction of superior arthroplasty technology. We have done this in ankle, finger, thumb, wrist, elbow, and shoulder. In should-

er, we are doing this through our portfolio company **FX Solutions SA**. We did that also in spine, with Spine Solutions and Spine Next. Spine Solutions sold to Synthes Stratec in 2003 [now part of Johnson & Johnson], where we changed the dynamic of the industry from fusion to motion. Spine Next was sold to **Abbott Laboratories Inc.** [in 2004]. In Paradigm Spine we are doing the same: moving the industry from fusion to motion.

***"The time to change was long ago and those who made the change are going to be the winners going forward. Because the game is being played out right now. It is going to be about new technology. It's going to be about superiority based on clinical evidence that is mid- to long-term."***

The third structural change we are implementing is about focusing on long-term outcomes and leading technology transformation. With Centinel Spine, we are focusing on long-term success, not just the next sexy thing. We're in the business of orthopedics and married to that industry. We're married to the model of successful business development through transforming the industry structural model.

We have completed, through the companies that we've owned, more PMAs than any other single orthopedics company in the world that we're aware of. Our products have been premium priced in the past, although that's going to be changing because we all have to do more for less. But what's not going to change is delivering premium value.

**MTS:** *Can you define premium value and how its growing importance is affecting the industry?*

▶ **Viscogliosi:** Premium value is when a company's actions benefit all the six Ps.

In addition, what's going to happen in the orthopedics industry is what transpired in the auto industry. The auto industry used to make 80% of the content of an automobile and sub out 20%. Zimmer Biomet makes 80% of what it sells. That's going to change.

Over time, the industry, just like every other industry on the planet, will concentrate on what it is really good at. What you need to be really good at [in orthopedics] is clinical research, product development, and distribution. So, a company like Zimmer Biomet or Stryker or even **Nuvasive Inc.** has to be good at distribution and bringing products and technologies through that distribution organization,

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not smarter at making something (i.e., manufacturing). Leave 'smarter at making something' to the guys who concentrate their life on making something. Over the next ten to fifteen years, I believe that the orthopedics industry will transition to 80% of its stuff being made out-of-house and 20% of its stuff being made in-house.

My point is that focusing on what you are good at—distribution—results in premium value being delivered to each of the six Ps.

**MTS: At the heart of this shift is the reality of pricing pressure.**

**Viscogliosi:** That's the point. If prices are declining, you have to make the stuff cheaper. Now Nuvasive is attempting to bring manufacturing in-house. They have to spend a lot of money to get property, plant, and equipment to do that and develop new skills. I'd rather give it to someone who already has the skill so I can spend the money differently. And that is going to happen. That will keep your gross margin the same as it used to be, in the 68% to 72% range. The average gross margin in the industry now is about 67%.

Now, another thing has to change in this model. As prices come down, and the struggle with costs of goods sold is being managed, the equation of how much a salesman is paid is going to come down dramatically. That's because

the sales rep is going to become less important as clinical evidence becomes more important.

**MTS: But some other kind of selling process has to go on to deliver that, to educate on that clinical evidence. Won't they have to be paid well to do that?**

**Viscogliosi:** No, because they've got to actually sell as opposed to manage a relationship, and selling is communicating information. It's going to become more of a pharma rep model, where the compensation is much lower.

**MTS: Right now, when I listen to spine companies, or speak to executives, particularly in the spine market, that does not seem to be happening—there is a grab for spine sales reps.**

**Viscogliosi:** Sure, because that grab is for an existing relationship. Good spine reps own a relationship. It's not going to be that way tomorrow, because the relationship is going away. Ultimately, the relationship has to be with the provider—that is to say, the hospital—as the reimbursement model shifts from physician preference to superiority in efficacy.

It's coming. We, as an industry, have got to be smarter than that and build the ark. And the Noah's Ark of success means doing the right things that will cause providers to choose your products over another's. That is value-based medical technology. Not premium price, not the cheapest price, but better value to the provider. The provider is where the squeeze is going to come in the six Ps. And the provider is trying to move the risk away. The three changes are: one, clinical evidence, two, the physician is becoming less important as a decider of what device to use, and, three, the provider is becoming more important because the physician is becoming an employee. Therefore, the distribution business model has to focus more on education-based clinical evidence—just like the pharma industry—and less on the relationship.

**MTS: I understand what you are saying but...**

**Viscogliosi:** Let me say one thing: in the past months, \$100 billion in healthcare business value has agreed to change hands with [US insurers] Aetna acquiring Humana and Cigna being acquired by Anthem. I predicted that. We are going in the direction of a small number of accountable care organizations controlling the delivery of healthcare in



the United States and one major payor, the government. Secondly, we're heading from per-item to per-procedure to per-category to evidence-based pricing. This is the model of risk transfer. We're going to one payor—the government. The customers are going to be the Aetnas and the Cignas, not the patients. So to prepare for this model, you have to do more for less, just like in the microprocessor industry.

In the next ten years, today's rep won't exist.

**MTS:** *That's an enormous shift, which is only in its infancy now. How will the industry have to react to this evolving payor landscape?*

▶ **Viscogliosi:** New glory days will arise. And, if you're not going to emphasize data, if you're only going to sell a low-price commodity, which is the direction that Medtronic-Covidien or maybe a very big company might go, then we must not spend too much money on product development. Don't develop new stuff, but clinically prove the old stuff. There was a very funny advertisement I saw by a competitor when SBI introduced the STAR ankle. The advertisement showed somebody talking on an early model brick-sized cell phone: 'The 80s called and they want your ankle back.' Because the three part, mobile-bearing STAR ankle was something that was developed 30 years ago, and there are several "new" ankles on the market today that are two-part ankles. New does not mean better. New could end up being much worse.

The competitor used the false thinking that our STAR ankle was old and therefore outdated. This was so wrong. In fact, the reality that developed is that the STAR ankle, with its 30-year heritage, was tried and true—it worked. That competitor's "new" product simply didn't have significant published long-term evidence. Clichés don't sell to smart payors. Facts do.

Tried and true is always superior to new and inexperienced. So you compare something that has been implanted 28,000 times in a patient, that has more than 20 years of clinical history, with the fact that every other two-part ankle that was ever introduced in clinical use was withdrawn from the market. The story has already been written of what will happen to the "new" two-part ankle—they simply do not have the long-term historical evidence to support the benefit of their use. If a company is not going to invest in getting a new PMA, then they have to find old stuff that they have that continues to be used, that is very safe, that is very successful, and sell it successfully without a lot of the PMA research.

**MTS:** *Does this mean companies should invest in putting together new evidence for old products? They should supplement it with clinical evidence that the market and payors now want, and then they can come in with a better position with payors and providers?*

▶ **Viscogliosi:** Exactly. Develop the historical evidence.

**MTS:** *But if it's a commodity –*

▶ **Viscogliosi:** Hold on, a commodity hip joint that's been implanted for 20 years and the darn thing still works really well, with all that evidence, why should someone pay for the new design hip joint that has no evidence? A payor is going to say 'no, I won't, unless you do a comparative value analysis that shows the value is better with long-term evidence and the safety is, at a minimum, the same.'

**MTS:** *Isn't that a gamble? Because maybe it won't be better.*

▶ **Viscogliosi:** The answer is yes! Companies must take the "gamble" or, rather, make the investment in developing long-term superior evidence or lower-cost comparable benefit, therefore resulting in delivering a better value-based solution.

**MTS:** *How does R&D figure into this new model? Right now, the industry average for R&D is about 5% for the big companies.*

▶ **Viscogliosi:** In the orthopedics industry, R&D as a percentage of the sales metric used to be in the 9% to 11% range in the days when I was an analyst. Today, it's in the 5% to 7% range. That has got to, by definition, change because the companies have got to spend more money on clinically demonstrating relevance and value. Now where are they going to get the money to do that? The money will come from changing the sales commissions significantly and changing the historical sales model significantly.

First, we should expect ASPs to go down and manufacturing to shift outside the company to lower cost and maintain or grow gross margin. Then, G&A expenses must go down as the businesses work to reduce overhead. Most importantly, then comes a significant change in sales expense as commissions will eventually come down because the physician is becoming an employee, and is losing economic decision-making power. At the same time, the



C-suite becomes more powerful, leading to the shift to a value-based care sales model, where clinical evidence and reimbursement dominate. Therefore, R&D spending must rise to meet the shift in the business model.

So, when VB builds a business, we build a business in the new model. Tomorrow, price is still going to come down, cost of sales is going to come down, gross margin is going to go up, sales expense is going to go down, and R&D expense is going to go up.

**"There's been a gigantic change in the amount of potential exit opportunities for investors. For us, it's an opportunity because that means the less successful businesses aren't going to be bought."**

The second thing is, how do you change the inefficient distribution model? You've got to redefine the distribution structure focus—and that's where I say change the business model. That really means change the distribution structure—to educators rather than sales people.

**MTS:** *Based on what you've said, what is happening with the business development at large companies, especially given the disruptions at Medtronic/Covidien and Zimmer Biomet, for example?*

**Viscogliosi:** The short answer is they're all over the place. In big organizations like Medtronic/Covidien and Johnson & Johnson/DePuy Synthes Global Surgery, these big businesses are behemoth machines that generate revenue and profit somewhat regardless of the environment, or regardless of one person's impact. However, it is vital for company managers and investors to understand that it's not the BD [business development] person who drives the show. It is the business unit manager, at the end of the day, who has to want the business you are trying to get them to buy as part of their franchise in order for the effort to sell the business to be successful.

Now, there's something else that's very important, speaking about a lot of deals. In the last 12 months, Medtronic and Covidien have merged. Biomet and Zimmer merged. Tornier and Wright Medical have merged. So, six former buyers have turned into three. That is a problem for the industry going forward because there are a lot of little com-

panies and fewer big companies. And let's add DePuy and Synthes. Three years ago, it was eight companies. Today it's four. That's a gigantic change.

**MTS:** *Given the turbulence, how do you stay on top of corporate preferences—are you closely in touch with the C-suite at the big companies and the business development people at the big companies when you frame these decisions and work on your companies? Is your perspective one they share, because I must say when I talk to big companies, at the top level, the CEO of Medtronic might get this, but I do not think necessarily the people below him do.*

**Viscogliosi:** Absolutely. I totally agree with you. For example, I recently had dinner with Bill Hawkins, the former CEO of Medtronic, and we talked about this dynamic. So I would say that VB regularly meets with the leaders in the orthopedics industry, and we regularly engage in, let's say, liberal conversation about the business. The stuff we talked about today is Wharton Graduate School stuff. It is the stuff of McKinsey Consulting. VB does no McKinsey-like consulting.

We're in the business of building sustainable, credible, market-leading businesses. It has been the history of VB that those businesses get acquired at the right moment. They usually get acquired for very good values and very good situations. But it's not a plan. We've never had a plan to take a company public for the sake of being public, or to sell a company for the sake of selling it. We never sell a business. They get bought. This happens because we have built them with everything in mind and practice as we have discussed in this interview today (*see Figure 3*).

**MTS:** *And there's not much hope for a midsized company making it into the ranks of the top.*

**Viscogliosi:** Right. But I'm saying that there's been a gigantic change in the amount of potential exit opportunities for investors. For us, it's an opportunity because that means the less successful businesses aren't going to be bought. We have a reputation for delivering number-one products that continue to be number-one, and a reputation for those buyers then developing those businesses into major franchises and major brands.

VB engages in long-term relationships with its buyers. We don't just trade money. Investors trade money from one company to another. We like investors who partner with us all the way to help us grow our businesses, because we

don't have all the capital we need within our own four walls. So we always require partners, always require smart money, and always require, let's say, value-added capital.

Let me say a couple of things about value-added capital because I think this is really important. We seek to have different investors based on the direction of the business. We regularly use both equity and debt as a form of capital to grow the business, depending on the time in the business' life cycle and the market opportunity. We also always seek regionally valuable investors. We have had wonderful investors in Small Bone Innovations that were located in Europe, in the Middle East, in Russia, and in Asia. Each of these investors

found wonderful ways to help the company achieve greater success through their relationship as a financial investor and as an interested investor. Many venture capital funds could care less whether it's an orthopedic implant or a Dixie cup. We want investors who are going to bring value, not just capital. It's tougher to find, but better to have.

I would like to leave you with three final thoughts we like to share with each of our key stakeholders. For our capital partners and investors, we ask them to 'do what they should do, not what they must do.' For employees, we ask them to 'do more than the minimum.' For our business leaders we tell them 'if you think you can or you can't, you're right!' ■

Figure 3

**VB Portfolio Company Exit Values (\$M)**

11 Exits; Companies that VB, its Affiliates, and its Funds Invested in Were Sold for \$1.5B

Acquirer	Company	Product	Role <sup>1</sup>	Exit Date	Exit Value	Rev Mult
	Surgisoft		B,I	2015	ND	NM
	Small Bone Innovations		F,C,B,I	2014	\$375.0	7.8x
	Knee Creations		F,C,B, I	2013	ND	6.0x
	Soteira		I	2012	\$6M	NM
	K2M		F,I	2010	200.0	4.8x
	Ascent Healthcare		F,B,I	2009	525.0	5.1x
	Biorthex		I	2009	0.20	0.2x
	Spine Next		B,I	2004	80.0	7.3x
	Spine Solutions		F,C,B,I	2003	350.0	116.0x
Investor Group	Hospitec		I	2001	0.4	NM
	Cortek		I	2000	6.5	4.0x
					<b>\$1,543.0</b>	<b>13.75X</b>

Role Key: F - Founder C - President & CEO B - Board Representation (including Chairman) I - Investor or Financier NM - No Meaningful Revenues ND - Not disclosed

Source: Viscogliosi Brothers