



Anthony Viscogliosi

Viscogliosi Bros
505 Park Avenue
14th Floor
New York
NY 10022
United States

Tel: 00 1 212 583 9700
Email: aviscogliosi@vblle.com



VENTURE CAPITAL

USA

At its inception in 1999, New York-based Viscogliosi Bros. LLC – ‘VB’ – was the first VC/PE and merchant banking firm dedicated to the orthopaedics and musculoskeletal sector of the health care industry. Today, VB is an accomplished leader in the creation, development and financing of life changing technologies that have re-shaped the sector by supplanting ‘fusion’ with arthroplasty in the repair and preservation of joint function - especially in the spine and small bone and joint anatomies. VB was founded and continues to be operated by Anthony, Marc and John Viscogliosi whose combined background adds up to 67 years of experience in global health care investment and merchant banking.

Q Tell us about VB’s model and examples of recent transactions.

During our formative years – pre-VB - we began investigating and analyzing what we saw as a marked trend towards the development and acceptance among surgeons of evolutionary methods of joint treatment that were fostered by then emerging names such as Zimmer, Synthes, DePuy and Stryker. Through hip and knee joint replacement technologies these companies have since helped to create a \$41 billion global marketplace in orthopaedic devices.

This market growth has been the sum of thousands of transactions involving the

transformation of surgical innovations into truly life changing technologies. We knew that if VB could become immersed in this field by attending conferences, talking to surgeons and absorbing clinical research, we could create a unique business discovering, developing and selling the technologies focused on restoring form, function and motion around arthritic joints.

To date, VB has founded 40 companies that in aggregate have yielded more than \$1.2 billion in exit proceeds and extremely healthy returns to investors in our various funds. We can claim to have helped commercialize over 90 products and have secured more U.S. FDA pre-market approvals than any other single entity in our field. We have also raised more than \$620

million in investments in our portfolio companies since 1999, including \$450 million during the past five years.

Q We note that there has been recent decline in the number of funds participating in VC transactions of all types and an apparent concentration of new funds among the top five or so VC groups. Does this indicate a major change in the dynamics of investing in start-ups compared with follow-on investments in more developed companies?

There is no doubt that the climate has changed and will continue to do so for the literally thousands of startups in the

orthopaedics sector. The levels of funding and lead time – usually several years - needed to bring even clinically exciting ‘winners’ to market are becoming prohibitive. Even the major orthopaedics companies are exercising extreme caution.

Q How has VB altered or modified its approach to the market when evaluating investments?

We are fortunate to have been a significant player in the market during the last decade. We’ve learned that promising technologies are only as good as the willingness or ability of insurance companies, hospitals and surgeons to bear the costs involved in adopting them. We have had to invest heavily in clinical studies, for example, to demonstrate categorically to the FDA the comparative superiority of technologies such as SBI’s STAR™ Total Ankle Replacement and Paradigm Spine’s Coflex© interlaminar spine stabilization device over the existing ‘Gold Standard’ of care. Both these products have been widely and successfully used outside the U.S. for many years.

Q What are the major drivers in medical device development and business strategy?

On the upside, people are living longer and seeking to remain active as long as possible. That translates into millions of future joint replacements or tissue repair technologies to preserve mobility and joint durability. The challenge is how to pay for these – the rate of growth in government and private funding for health care – as we all know – is going to decline or at least become much more selective.

Q Where are you looking for opportunities to meet this challenge?

We have secured business alliances in Europe and Asia that will help expand sales growth for our portfolio companies. Also, it is extremely interesting to note Israel’s recent emergence as a sophisticated developer of orthopaedic technologies. We’ve spent a lot of time and energy developing relationships and negotiating funding vehicles. These could eventually open the door to several innovative technologies that could prove more effective and economical in treating musculoskeletal problems.

Q Finally, do you intend to remain focused on the device sector and, if so, why?

As noted, there is obviously massive growth potential in demand for orthopaedic health care worldwide. If you extend the market definition to include therapeutic bone and joint solutions, the current market size balloons to over \$80 billion in annual sales and that is forecast to reach \$194 billion by 2024, according to a study done by Brandeis University and corroborated by various other sources. We are well positioned to aggressively participate in this growth through the VB “ecosystem” comprising a global network of surgeons, industry specialists and existing distributor relationships. When you combine this ecosystem with our track record of operational leadership and financial expertise, the outlook is very exciting – especially for patients.

We have a saying that the only certainties in life are death, taxes...and arthritis.

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