

Expertise

“Venture capital brings a wealth of experience with other portfolio companies that have been through similar challenges.”

Scott Dodson, CEO, AirXpanders.



A female investor saw the potential for a device that reduces the pain and discomfort of breast reconstruction after a mastectomy.

When it comes to finding a venture capital partner that has both the expertise and the vision to back a new company, it can often come down to a mix of skill and luck. In the case of AirXpanders—a US medical device company that focuses on technology aiding in breast reconstruction after a mastectomy—it was serendipity that brought it to the attention of Melbourne-based GBS Venture Partners.

As GBS co-founder and managing partner Brigitte Smith explains, AirXpanders' AeroForm technology was invented by a Californian plastic surgeon who was the next-door neighbour of one of Brigitte's IT colleagues. It was that relationship that brought it to her attention, and once she found out about it, she was hooked.

AeroForm is used to expand the chest muscle during reconstructive surgery and create a pocket for a permanent breast implant. It struck a chord with Brigitte because she knew that in the medical device market there are more products made for men than there are for women. She could also instantly see why it was so appealing to patients and their doctors.

When women have reconstructive breast surgery, they have to stretch the skin of their breast and chest muscle over a period of a few months. This usually involves going to their doctor and having saline injected into a tissue expander via a metallic port to

stretch the skin. It's painful; the breasts hurt for three days and then four days later they have to go back to the doctor. “Women say it is horrible,” says Scott Dodson, Chief Executive Officer at AirXpanders.

With AeroForm, the plastic surgeon puts a device with a carbon dioxide cylinder into the breast and the patient can then self-administer a small amount of CO2 from the cylinder into the breast expander, via a handheld wireless controller. This reduces the pain, cuts down on the number of doctor visits and also stretches the skin faster.

“It is controlled by them, and while the expansion is more gradual, it takes on average 16 days to expand the breast—rather than four months using saline injections,” Scott says. “Women really value being able to play a role in recovering their bodies from the ravages of cancer.”

Patient demand is obviously a key to success for a new device, but it also needs to demonstrate two other qualities: firstly, that doctors are happy to use and recommend it; and secondly, that it fits within the reimbursement scheme of the relevant health systems. AeroForm ticked both boxes. The device doesn't require surgeons to modify how they practice and it fits into the existing range of products the Australian health system recognises.



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.

When GBS came on board in 2010, AirXpanders was already set up in Australia and had completed some human trials. "The product had already been [placed] in women and we could see why it was better for the patient," Brigitte says.

There's a reason Australia has such a booming market in medical device companies and it's partly due to the difference in regulatory regimes between Australia and the US—differences that benefit Australia.

Finally, GBS also brought to the table the presence of a significant female investor. "Women's health companies need women on board," Brigitte said. "We bring a different perspective and understanding of the problem."

"Australia is one of the best places in the world to do these kinds of studies," US-based Scott says.

Some of this is due to all the obvious advantages Australia has as an English-speaking country with a high level of ease of doing business. But it's also due to the specific stance the US Food and Drug Administration has taken with regards to testing on humans. "The FDA has driven the medical device market offshore, which is an opportunity for Australia," Scott explains.

In the US, a medical device company would have to spend millions before it would be able to progress to human trials. This means many businesses go to jurisdictions other than the US for early human clinical work. Australia is particularly attractive for this because its data is highly regarded by Europe and the FDA. "The practice of medicine in Australia is very similar to the US and the data it produces is far better received by the FDA than data from other parts of the world," Scott confirms.

That also means Australian investors are attractive to foreign medical device companies because of the on-the-ground expertise they offer.

When GBS decided to back AirXpanders, it knew it would require a different skill set to take the company to the next stage and it worked with a recruiter to find Scott. With more than 25 years of experience in the medical device sector, in particular at the Boston Scientific Corporation, he brought a depth of expertise to the company. He had also worked with venture capital in the past.

AirXpanders immediately had his interest. "I was intrigued and then I talked to surgeons and they were enamoured [with AeroForm]," Scott says. "I haven't met a doctor who doesn't think their patients would prefer it, and then they do the math with not having to have all those patient injections, and they prefer it too."

GBS has made a \$10 million investment in AirXpanders over three rounds of fundraising and was also instrumental in bringing another investor—Vivo Ventures—to the table.

For Scott, venture capital is about a lot more than money. "They bring a wealth of experience with other portfolio companies that have been through similar challenges," he says. "In medical device companies, the problems are often similar. Where you have experience you can see around corners."

In particular, he points to Brigitte's experience and input when there were some differences between the data collected in the US and in Australia because of different implantation techniques. "She was able to enlighten us as to how to look and account for those differences when we were rolling up the data," he says.

Finally, GBS also brought to the table the presence of a significant female investor. "Women's health companies need women on board," Brigitte said. "We bring a different perspective and understanding of the problem."

AirXpanders has now completed its randomised, controlled pivotal US trial that will lead to regulatory approval there. Scott expects that to come through in mid-2015. "What's doubly exciting is that we now also have approval from the Therapeutic Goods Administration in Australia, and reimbursement," Scott says. The first launch of the product will be in Australia in 2014.

The next step could include listing on the ASX, giving investors access to what is now a growth sector for the country.