

News Release

FOR IMMEDIATE RELEASE

New Study Addresses Challenges, Solutions to Reinvigorating Early-Stage Medtech Innovation

Deloitte Center for Health Solutions and AdvaMed uncover potential strategies to overcome challenges facing the decline in venture capital investment for medtech

SAN JOSE, Calif., Sept. 27, 2017 — The Deloitte Center for Health Solutions and AdvaMed today unveiled a new report, "[Out of the Valley of Death – How Can Entrepreneurs, Corporations, and Investors Reinvigorate Early-Stage Medtech Innovation?](#)" detailing investment challenges facing early-stage medical technology companies and potential solutions to recharge the medtech innovation ecosystem.

Unveiled at [The MedTech Conference](#) powered by AdvaMed in San Jose, California, the report found that due to recent declines in investment, early-stage medtech companies have less chance of surviving key development milestones, meaning potentially life-changing innovations may never benefit patients.

"The proportion of VC investment in medtech companies has declined from 13 percent in 1992 to 4 percent in 2016, and this decline has begun to threaten innovation," said Glenn Snyder, principal, Deloitte Consulting LLP, and medical technology practice leader. "Teaming with large medtech companies, alternative funding sources, and tax policy changes could help solve the financing issue currently facing early-stage companies."

The report's findings were based in part on interviews with 23 executives from large medtech companies and startups, venture capital funds and incubators, followed by a roundtable discussion with a similar cross-section of industry experts. The report found that medtech innovation was at a crossroads, challenged by:

- The financial downturn in 2008, which reduced venture capital funding, followed by declining returns in medtech.
- The push for health care reform, signaled by the 2010 passage of the Affordable Care Act, which includes a 2.3 percent medical device excise tax.
- A cost-constrained health care system, driving mergers and shifting purchase decisions for medical devices from physicians to hospital purchasing committees.

- A longer and more difficult path to collect enough data for Food and Drug Administration approval and receive insurance coding, coverage and payment for new devices.
- Industry consolidation and risk aversion, with more startup acquisitions occurring after or near successful product commercialization.

Despite these challenges, medtech innovation is strong, fueled by advances in digital health technology. The convergence of digital and medtech is spurring new types of organizations to invest in the sector, including health care providers and consumer technology companies that bring digital, design and marketing prowess to medtech's regulatory knowledge, health care industry experience and credibility with clinicians. Still many entrepreneurs struggle to obtain early-stage financing, especially Series A investments, which declined from 19 to 10 percent of total VC investments in medtech from 2006 to 2016.

Investment by large medtech companies is likely to make the biggest impact in advancing early-stage innovation, but alternative funding sources and tax policy changes could also play a role.

"This report lays out in stark terms the challenges facing not only medtech startups but the entire ecosystem that supports innovation in our industry. But more importantly, it also provides clear and concrete potential solutions to these challenges – for entrepreneurs, larger medtech companies and investors – so that we can help reverse these troublesome trends and ensure a rich pipeline of future innovation for the benefit of patients and our economy," said Ashley W. Wittorf, executive director, AdvaMed Accel, and global head, investor relations.

At the AdvaMed Medtech Conference, Pedro Arboleda, managing director, Deloitte Consulting LLP, medtech strategy, will moderate a panel titled "Breaking the Mold: Effective Strategies and Partnerships for Fostering MedTech Innovation," Wednesday, Sept. 27, from 11:15 a.m. to 12:30 p.m. PT, and will discuss the new report in-depth.

The source for health care insights: The Deloitte Center for Health Solutions (DCHS) is the research division of Deloitte's life sciences and health care practice. The goal of DCHS is to inform stakeholders across the health care system about emerging trends, challenges and opportunities. Using primary research and rigorous analysis, and providing unique perspectives, DCHS seeks to be a trusted source for relevant, timely and reliable insights. To learn more about the Deloitte Center for Health Solutions and our research, please visit www.deloitte.com/centerforhealthsolutions.

About AdvaMed

AdvaMed member companies produce the medical devices, diagnostic products and health information systems that are transforming health care through earlier disease detection, less invasive procedures and more effective treatments. AdvaMed members range from the largest to the smallest medical technology innovators and companies. For more information, visit www.advamed.org.

About AdvaMed Accel

AdvaMed Accel is the division within AdvaMed dedicated to addressing the unique needs and challenges of smaller medical device and diagnostics manufacturers – the lifeblood of the medical technology industry. The only organization of its kind focusing specifically on the needs of the medtech industry’s emerging growth companies, AdvaMed Accel works to create a policy environment more conducive to capital formation and innovation. For more information, visit www.advamedaccel.org.

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Contacts

Kori Green
Public Relations
Deloitte Services LP
+1 617 437 2470
kogreen@deloitte.com

Mark E. Brager
VP, Communications
AdvaMed
+1 202 434 7244
mbrager@advamed.org

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