SHS issues fourth fund  
Why investors find our investment style attractive

For the fourth time now, SHS has issued a technology fund and once again it is centered around the exceptionally attractive life sciences industry with an emphasis on medical technology and diagnostics in the DACH region. It’s attractive because the medical supply market is largely unaffected by the economic situation, the DACH region is characterized by a high number of innovative companies and thus a good deal flow with relatively little competition, and the fact that global players in the medical technology industry are still on a shopping spree. All of these factors combined with a management team that has extensive experience in the industry and a good track record are important ingredients for the fund’s success and thus attractive returns. But it is no longer just these conventional aspects that play a role for our investors when deciding to invest. Focus is increasingly being placed on other topics such as co-investment opportunities, the innovation radar function, or ethical investments.

Co-investments with an experienced lead investor
Our investors value the fact that we provide them with the opportunity to invest directly in selected portfolio companies in addition to the actual fund investment. This type of co-investment is often requested by family offices, which value direct investment, but would like to partner with an experienced lead investor.

Innovation radar function gains traction
In the US, companies often invest in VC funds. In addition to returns, this provides investors with insight on trends in their established business areas and also serves as an excellent source of entry-level knowledge pertaining to new fields. They can closely follow the market launch of young companies and thus have an information advantage. This option hasn’t had priority for German companies in the past, as they have often lived by the motto “we can do everything ourselves”, but now seems to be increasingly gaining traction.

Alignment with EIRIS principles
Ethical and sustainable investments are playing an important role for an increasing number of investors. We align our investments with the ethical principles developed by the London based Ethical Investment Research Service (EIRIS). For example, our investments in medical products are always based on patient benefits and safety as proven by clinical data in combination with a price/performance ratio that does not overburden the healthcare system.

Yield advantages for smaller VC funds
Larger institutional investors sometimes question the critical fund size (SHS IV: 100 million euro). A closer look at historical data can be helpful in this regard.

As Kevin LaLande (Santé Ventures) has impressively shown, only smaller VC funds with volumes up to 200 million US dollars have historically
Dear Ladies and Gentlemen,

This June we celebrated 20 years of SHS. We would like to take this opportunity to thank you once again for the many kind wishes received on the occasion of this anniversary. Looking back, we can say that we have gone through a lot in this period, with booms, bubbles, crises and capital crunches. We probably did some things right, and along the way we’ve certainly learned how to do even more things right in our investment business.

The purpose of this newsletter, though, is not to look back but to look forward. In it, we report on encouraging developments in our portfolio, introduce you to a new member of our team who is well-known in the industry, and report on our new fund for investing in high-growth medical technology companies. We want to thank Dr. Pascal Schweizer (Carl Zeiss AG) for his informative guest article “MedTech Made in Germany”, Frank Sodha (Spiegelberg) for his article on management buy-ins (MBI) in medical technology, Dr. Christoph Backhaus (Contrium Capital) for the trust he expresses in our team, and Dörte Höppner (EVCA) for her kind remarks on the occasion of our anniversary.

Dr. Bernhard Schirmers, Reinhilde Spatscheck, Hubertus Leonhardt

MedTech “Made in Germany”

Company rankings in the medical technology industry are dominated by American companies. So why aren’t there more big global leaders among medical technology companies in Germany? Financing difficulties for start-ups and their investors are the largest impediment to developing and then scaling innovations. Nonetheless, Germany’s attractiveness as a location of innovation is often underestimated. Germany’s strengths include outstanding research and technological expertise, internationally renowned quality of clinical development, and an attractive regulatory environment. Investors with a strategic approach and corporate buyers are now taking a countercyclical approach and taking advantage of the attractive investment opportunities currently available in Germany.

Advantages when it comes to technology and clinical development

Germany has a long tradition of (precision) engineering, mechanical engineering and natural science. Building on this foundation, over the decades a successful medical technology industry made up of
small and medium-sized businesses has evolved with numerous “hidden champions” and regional clusters. Coupled with strong research universities and leading research institutes, and fueled by attractive state subsidies, the country offers outstanding conditions for future innovation. In addition to this, the country has an exceptional clinical development infrastructure. This permits close collaboration between research institutions, development companies and clinics. In the future, working together along the value chain will become increasingly important as a locational advantage for two reasons: first, future innovations will increasingly pursue a “market pull” logic driven by clinical immersion (versus conventional “technology push” innovation). And second, even in medical technology, an increasing number of young companies are applying the LEAN start-up method in order to integrate new findings into the product-development process more quickly.

Regulatory environment
In contrast to many other regions, in Europe the hurdles for approval of a new product in the field of medical technology are considerably lower and can be cleared more quickly. This is especially apparent in comparison to the US, where rules in the medical technology field are more closely aligned with the pharmaceuticals sector. This is why many new products go through the approvals process in Europe first before being approved for sale in other markets several years later (if at all). As a result, experts expect just a fraction of the products approved for use in Europe in the next five years to actually reach the US market. Recently, in fact, due to higher regulatory hurdles and in response to the Medical Device Tax introduced in the US in 2013, American companies are increasingly relocating portions of their value creation to Europe. While European approvals procedures were recently the topic of much discussion in the wake of the PIP breast implant scandal, alignment with approvals procedures in the pharmaceuticals industry is seen as unlikely.

Financing difficulties
In spite of the favorable general conditions described, many innovative start-ups in medical technology in Europe, and in Germany in particular, have considerable financing difficulties to contend with. According to the investment bank Burrill & Company, venture capital funds invested around 12.4 billion US dollars in life sciences industries worldwide in 2012. 76 percent of this amount was invested in the US alone, whereas just a tiny fraction was invested in Germany. To address the specific problem of lacking seed financing, the Federal Republic of Germany together with major corporations now numbering around 20 (including ZEISS) launched High-Tech Gründerfonds (HTGF) in the middle of the past decade. While the balance sheet for HTGF in the start-ups area is positive overall, today many start-ups, particularly in the capital-intensive healthcare sector, face the major challenge of obtaining follow-on financing. The seed financing gap has now, with some delay, become the “Series A/B” financing gap.

Implications for investors
While this trend has alarming implications overall for Germany as a business location, it also offers considerable opportunities for investors and strategic buyers to act countercyclically. The high demand for and the low supply of (risk) capital in the life sciences field make Germany a buyer’s market at the moment. But negative past experiences with venture capital investments make many institutional investors reluctant to invest. Nonetheless, alternative investments such as venture capital could prove prosperous again in the future. To begin with, investors are increasingly running out of alternatives at times when money is cheaply available. Second, buy-out funds are losing their appeal within the private equity investment class due to heightened bank regulations and the resulting lower leverages. And third, solid company balance sheets and low interest rates are an incentive for companies to step up their credit-financed M&A activities.

Dr. Pascal Schweizer is Director Corporate Strategy & Venturing at Carl Zeiss AG. He seeks out new business opportunities for the medical technology unit at ZEISS (Carl Zeiss Meditec AG) among others.
SHS – a very special company
Greeting by EVCA Secretary General Dörte Höppner on 20 years of SHS

The German venture capital sector is still relatively young – so a company celebrating its 20th birthday is among the senior players in the industry. And this particular group of senior players is a very special species: a highly innovative, tough, extremely adaptable and successful enterprise. First of all, the venture capital business is a very special challenge in its own right. You invest in an idea. In people. That’s a major risk for an investor, a risk you have to be prepared to take. And then the German venture capital sector was swept away, practically overnight, when a huge bubble burst. Only a handful survived the explosion. And even fewer emerged from it stronger than before. All this makes SHS a very special company indeed.

When SHS was founded in 1993, Austria hadn’t yet joined the European Community and Steffi Graf was still world’s top-ranked player in women’s tennis. It was a time in which Germany was still reeling from reunification. Lots of Germans were on the brink of a new beginning, and Germany was still in search of its role in a European market that was growing more relevant each day.

Seen in this light, it’s actually logical that the three SHS founders Bernhard Schirmers, Klaus Hentges and Reinhilde Spatscheck risked a personal new beginning of their own. Instead of a permanent position with McKinsey, they chose independence with an investment business. It would be interesting to know how often, since that time, the three founders have secretly asked themselves why they didn’t opt for something less demanding – say, an intergalactic mail-order business for extraterrestrials. After all, anyone who knows the VC industry knows how difficult this business can be.

Right from the start, it was clear to SHS that the investment business cannot be understood as financing and controlling, that instead it was about acting as an entrepreneurially contributing shareholder to promote value development in companies. This central theme has driven the development of SHS, and the management at SHS has remained faithful to this principle.

While it’s true that the venture business thrives on innovation and every venture capitalist has to have a very flexible mind, long-term success also takes a healthy dose of conservatism. Because VC is also about exposing short-term trends for just that, and refusing to follow every hype that comes along. This requires an in-depth grasp of markets and the way companies work.

The industry focus SHS selected early on is to its credit, too: life sciences, and then, increasingly, medical technology and diagnostics. These are areas that generate not only short-term multiples but long-term value.

SHS remained true to itself and bucked the trend in its selection of location as well. Munich had long been the hot spot for the venture scene. The decision to locate SHS headquarters in Tübingen has clearly paid off. The core region of Germany if not the entire European sector for medical technology catapulted the SHS team into the heart of a cluster that is a portrait of health.

Today, Turkey is knocking on the EU’s door, and Serena Williams is the top-seeded player in women’s tennis. SHS has made good use of its time and invested in 42 companies, half of which are in the life sciences sector. Many companies have since been successfully sold and two of them have even been listed.

I wish SHS all the best for the future, and the requisite helping of good luck. I believe its new tack of occasionally looking to mid-cap financing in the future is a good indicator that SHS has once again correctly read the signs of the times.

On behalf of my colleagues at EVCA, I can say that as a trade association, we’re proud to represent a company like SHS.

Dörte Höppner is Secretary General of the European Private Equity and Venture Capital Association (EVCA).
Dr. Backhaus, what is your personal background, and what does Contrium Capital’s business activity comprise?
“I’ve been a business consultant for over 20 years. In this capacity, I’ve often worked for companies in the private equity and venture capital industries. It was based on this experience that my partners, Hans-Rudolf Dicke and Michael Thöne, and I founded Contrium Capital in 2006.”

What investment field has Contrium Capital selected, and why?
“We now have four funds that have invested in venture capital. We are drawn by the current favorable climate for investment – especially the comparatively low entry-level prices – and the fact that we are dealing with equity financing. This has been very reassuring, particularly in the last few years.”

What opportunities do you see when it comes to investing in medical technology?
“To begin with, the large market volume. Second, the strong growth – in industrial and developing countries alike. Third, the huge demand for innovation due to cost pressures in the healthcare field. And particularly in Germany, this is compounded by the comparatively attractive regulatory environment and the successful tradition of research in medical technology.”

What criteria do you apply when selecting target funds?
“We expect a good track record, a clear investment strategy and the kind of contractual basis that is characteristic of the market. But more than anything else, we look at the team, with which we are entrusting our investors' money. Have they been working together for long? Do team members complement one another’s strengths? Are we persuaded by the expertise and human qualities of the people in charge?”

Why did you choose SHS as a partner for growth capital in medical technology?
“Because in our view the team at SHS does a very good job of fulfilling the criteria I mentioned. We’ve known SHS for more than five years. We’ve watched the performance of the SHS III fund since then, and we’re very satisfied with our investment thus far.”

Will you be on board again for SHS IV?
“Yes, we’ll be investing with Contrium 3 in the SHS IV fund.”

Mr. Steinbacher, you’ve been with SHS now since January 2013. How have your first months been?
“My first months have been excellent. You quickly realize that the emphasis here is on teamwork, and true professionals are on the job here. I’ve had the opportunity to familiarize myself with a variety of funds and investment firms in my career. The in-depth knowledge and the professional monitoring of the portfolio companies at SHS are outstanding.”

How would you describe your role at SHS?
“As part of the team, my tasks include strengthening and further expanding the position of SHS as one of the key players in medical technology and life sciences. My particular focus is on current fund-raising for the SHS IV fund. For the portfolio of the current fund, I especially want to contribute my experience in exits from portfolio companies. Since we want to keep the pipeline for the new fund filled with attractive targets, I’m already busy looking for interesting investment opportunities.”

What perspectives do you see for SHS?
“We’re operating in one of the strongest, most interesting growth markets of the future. We have an outstanding team, tremendous experience and a broad and superbly functioning network. Combine this with successful fundraising, and we will have everything we need for successful investing. We also want to add smaller buy-out transactions to our portfolio in the future. This will lead to an even more balanced risk profile. In my view, we are well-equipped for the future.”
numares: Diagnostics 2.0

Diagnosis of many diseases is still unsatisfactory today. Promising new approaches are not entering routine clinical practice because health-economic benefits are not sufficient. This is where numares comes in: for one, providing better, i.e. more sensitive, more specific results; and secondly, making this added value affordable for the healthcare system.

numares was created in 2004 as a spin-off of the Institute of Biophysics at the University of Regensburg, which is headed by the acclaimed physicist and physician, Dr. Hans Robert Kalbitzer. Dr. Fritz Huber came up with the idea of using nuclear magnetic resonance to measure metabolism in organisms. Based on this idea, a technology platform was implemented that develops diagnostic metabolic patterns and uses these in automated diagnostic tests for the patient. In 2009, SHS and then Dr. Volker Pfahlert invested in numares. Prior to this, Pfahlert had been a top manager at Dräger and managing director for laboratory diagnostics at Roche. A decisive factor for him was that numares is capable of solving an entire set of challenges in human diagnostics: “There are lots of diseases today that still cannot be satisfactorily diagnosed. Any biomarkers found are often too nonspecific. New methods are often expensive and can only be performed by specially trained experts in the laboratory. For a range of diseases, numares provides an opportunity to use new tests that provide physicians and patients with a basis for deciding which therapies to use. These tests fit perfectly in routine operations in clinical labs without placing undue strain on the healthcare system.”

Tests are now in clinical development for the study of lipometabolism and for use in cardiology and oncology. A test scheduled for approval this year provides early detection of a threat of kidney rejection following transplantation. The company maintains partnerships with a number of medical laboratories in the US and Europe and is currently growing rapidly: from 1.5 million euro in turnover in 2012 to around 8 million euro in 2013. And numares will reach the break-even point in cash flow at the end of 2013.

MBI at Spiegelberg together with SHS

Article by Frank Sodha, managing director and shareholder at Spiegelberg

In 2011, together with a business partner and SHS, I purchased Spiegelberg GmbH & Co. KG as part of a succession arrangement with founder Dr. Andreas Spiegelberg. The company is the technological market leader in a neurosurgery market niche. We see good opportunities to develop the company considerably in the years ahead by intensifying market cultivation and working with an innovative product pipeline.

Why did I make the transaction together with SHS? After many years in medical technology and the successful sale to a large US corporation of the company my business partner and I established, we were not very inclined to return to work in a corporate group. It made sense for us to slip back into an entrepreneurial role. We were looking for a partner that would not act as a pure financier and controller but would contribute business expertise. The partner should also have an understanding of the industry. Even though medical technology offers attractive returns, the large number of stakeholders calls for the kind of special approach you shouldn’t first have to explain to a business partner. By the same token, this partner should bring ideas and contacts of its own. SHS meets these requirements perfectly, as I had already seen as a supervisory board member of an SHS portfolio company, TNI medical AG. In addition to this, the realities you encounter are always at least somewhat different from the business plan in place. Then, too, you have to be able to rely on your partners. This was another area in which my experience with SHS had been thoroughly positive. This is another reason I enjoy working with SHS.
March 13, 2013, Handelsblatt: “A reliable partner for a defined period of time”
In a guest article, Hubertus Leonhardt discusses the factors to which growth investors pay particularly close attention in their selection of a young company, and what a company that has received financing can expect of a good investor.

March 2013, portfolio institutionell: “Growing out of puberty”
The magazine points out: “Private equity has grown up.” Many joint ventures have problems, though. In the venture capital field, SHS is one of the exceptions: for the fourth fund, SHS expects not only commitments from funds of funds and from family offices; it also expects to be joined by pension funds, as Hubertus Leonhardt explained in an interview with “portfolio institutionell”. On the Alternative Investment Fund Managers (AIFM) Directive, he noted: “We already meet 70 percent of the requirements today. Besides, we’re not located in the Antilles but have been in Tübingen for 20 years.”

May 2013, FINANCE-TV: “VC investor wants experienced CFOs”
What’s important to young companies is not just technical expertise: having an experienced CFO at the company founders’ side is crucial. In the interview, Bernhard Schirmers discusses a CFO’s role in a young company, and what CFOs can do to promote the growth of young start-ups.

June 2013, GesundheitsWirtschaft: “Calculated risk”
“GesundheitsWirtschaft” reports on the role of growth capital for medical technology. The healthcare industry and medical technology in particular are among the most sought-after sectors. Nonetheless, only young companies with promising products have a chance at landing financing. SHS applies strict standards as well: “We cultivate exclusively innovations with the potential for a “breakthrough technology”, Reinhilde Spatscheck told “Gesundheits-Wirtschaft”. One company that managed to persuade SHS was TNI medical AG of Würzburg.

August 13, 2013, manager magazin online: “High hurdles for approval in the US block innovations”
SHS-partner André Zimmermann talks with manager magazine online about growth drivers in the medical technology industry and indicates that high hurdles for approval in the US block innovations and hinder patients’ access to new treatment options.

Would you like to learn more about press coverage of SHS? Don’t hesitate to contact us!

TNI medical: Improved treatment for COPD patients

Experts estimate that 3 to 5 million people in Germany suffer from chronic obstructive pulmonary disease (COPD). COPD ranks fourth among the causes of death in the US. Of the ten most widespread diseases that result in patient death, COPD is the only one that is growing worldwide. To this day, COPD cannot be cured. The only treatment alternative is to alleviate the symptoms and improve the patient’s quality of life. TNI medical AG develops products for COPD patients that are designed to permit effective and agreeable treatment in the patient’s own home surroundings. The latest generation of the TNI 20 high-flow respiratory support system is a pioneering innovation in home care. High-flow therapy provides a significant step up in patient comfort compared to conventional systems. The device is lighter and easier to use, and it can be operated without distracting noise.

Several clinical studies are currently underway to demonstrate the effectiveness of the therapy. Initial results have already prompted three of the ten largest health insurance companies to provide reimbursement for the cost of the device.

As Ewald Anger, CEO at TNI medical AG, points out: “With the new generation of TNI devices that we want to present next spring and introduce to the market in mid-2014, we have succeeded in further improving home care for patients considerably, markedly improving their quality of life in the process.”