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Investor Eye: Deerfield Management On Fund Building, Philanthropy, And Optimism For The Future

by Barnaby Pickering

Andrew ElBardissi, partner on Deerfield Management's medical technologies team, spoke to *Medtech Insight* about the fund's investment strategy, the changing face of medtech, and how investment in the life sciences sector will continue to change post-COVID.

Controlling more than $13bn of its clients' money, Deerfield Management is an investment firm focused on healthcare investments, including ventures covering the pharmaceutical, biotech, medical device and healthcare services sectors.

Recent medtech-related deals of note funded by Deerfield include *Happify Health*'s $73m series D financing round, the SPAC-enabled merger of *Liminal Sciences* and *Hyperfine*, and *Acutus Medical*'s latest fundraise, which occurred at the same time it sold its left-heart access business to *Medtronic*. (Also see "*Acutus Sells Left-Heart Access Business To Medtronic; Extends Its Cash Runway*" - Medtech Insight, 28 Apr, 2022.)

Deerfield Management describes itself as "sector agnostic" with regards to its investment approach. and "When you're investing across all the sectors of health care, biotech, therapeutics, medtech and services, you focus on early stage, mid stage and late stage," said Andrew ElBardissi, a partner on Deerfield's medical technologies team.

He pointed out that when comparing different sectors, company maturity ranges. For example, if you were looking to invest in a company working on digital therapeutics over the past few years, you would generally not find any targets that had progressed beyond series A or series B financing.

"As opportunities present themselves to leverage data and accelerate precision medicine, the lines between medical technology and pharma will blur." – Andrew ElBardissi

"Instead of defining our investment universe narrowly," ElBardissi said that Deerfield is "focused on identifying the most compelling investments," where the company's stage is only one factor of consideration.

To support this concept, Deerfield manages different investment strategies on its platform. ElBardissi said that strategies include both private and public companies at various stages.

Building Competency To Tackle Tougher Investments

A major challenge faced by any investment fund is due diligence. In the life sciences, the expertise required to make a thorough examination of a product or company can be tricky to source, leading many funds to seek out third-party expertise, including from consultants.

However, according to ElBardissi, Deerfield has internal resources across the healthcare sector including three teams of investment professionals available who can evaluate an investment potential: a therapeutics team; a healthcare services team; and a medical technology team.

This is useful when considering non-pure-play businesses, which are increasingly common as health care companies become more ambitious and capable. "When you think about value-based care and tech enabled services, they run with a services model, but technology is a critical component.

And when you look at precision medicine, that involves identifying the appropriate therapeutic to maximize the given treatment effect, but typically, that's built off a backbone of things like diagnostics, genomics, proteomics, etc, where our medical technology team and core competency is involved."

"We've built up these competencies and knowledge over decades. We believe this allows us to be quite differentiated in our ability to explore non-traditional areas of health care technology."

Medtech Is Changing

One deal that stands out as a multi-disciplinary investment is the five-year partnership between Deerfield and *Illumina* to identify drug targets and accelerate targeted therapies.

In the medtech world, Illumina is often viewed as a diagnostics company, however, ElBardissi said that he views it more as a "tools" company that should be viewed as a "convergence of traditional life sciences tools and pharma."

"I believe it is the leading company in terms of generating data from genetic sequences. Yes, their business model is predicated on selling instruments and consumables, which can feel like medical technology, but when you take a step back and think about what they're doing to generate value, it's the data," he said. "All those genomic sequences are going to be absolutely critical to understanding the biological basis of disease and enriching or increasing the probability of success of new drug candidates."

> *"There is definitely a strong convergence between health care delivery and technology, and I expect we will see the industry bring several exciting products to market in the next five years." – Andrew ElBardissi*

But Illumina is a symptom of a bigger change in medtech. As digital, genomic and diagnostic capabilities grow, technologies that traditionally have been viewed as medical technology are taking on a greater pharmaceutical slant.

"Technology will have a much greater, broader applicability in the health care space," ElBardissi said. "Diagnostics, traditional medical or therapeutic devices certainly have a role going forward, but as opportunities present themselves to leverage data and accelerate precision medicine, the lines between medical technology and pharma will blur."

Benefits Of Philanthropy

Deerfield is also involved in philanthropic activities through its affiliate, the Deerfield Foundation, which has a "long standing primary focus on funding initiatives in the pediatric space."

One of these initiatives is CobiCure, a not-for-profit organization. CobiCure is working on a series of devices targeting unmet needs in pediatric cardiology. The first device it is developing will target functional single ventricle (FSV) disorder, a rare condition in which one of the two ventricles of the heart are malformed, preventing effective pumping of blood.

The interim chief medical officer for CobiCure, Howard Levin, told *Medtech Insight* that conditions like FSV disorder are ignored by big device manufacturers as the total addressable patient market is too small to warrant investment. (Also see "*CobiCure Will Develop Cardiac Devices For Children, Sans Profit Motive*" - Medtech Insight, 27 Jul, 2022.)

For ElBardissi, grants by the Deerfield Foundation to organizations like CobiCure are a "vital" part of the Deerfield Foundation's increasing presence in the life sciences sector, allowing it to help patients beyond those typically targeted by venture financing whilst also enabling grant recipients to nurture fresh talent in the form of engineers and doctors.

"Although these types of ventures will simply never get venture funding, with the right amount of money, they can make an incredibly impactful difference to patients' lives," he said.

Dealmaking Shifts

During 2020 and 2021, life sciences investment was high risk and high value with both new and old technologies drawing billions of dollars. However, as 2022 has progressed, investors are increasingly wary and venture spending is down. (Also see "*Investor Eye: What's Changing In Medtech Deal Making As We Approach The End Of 2022?*" - Medtech Insight, 26 Aug, 2022.)

Potential reasons are hotly speculated. Some blame the economic damage wrought by the COVID-19 pandemic and the high inflation that has resulted from uncapped government spending. Others point out lasting issues facing supply chains, worsened by the Russian invasion of Ukraine. Another argument is a lack of exciting targets.

ElBardissi gave his reasons for the slowdown.

Public market pressure has had impacts on private business. Because market capitalization values have been substantially reduced across the board, the standard cash-for-equity agreement has become less desirable for private companies who may receive a worse deal. This, he said, means "companies are seeking less dilutive ways to raise money to fund R&D projects and commercial activities."

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These deals, which come in the form of debt plus warrants, convertible structures or royalty agreements, have a lower dollar value, but still provide companies with the cash they need, when

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it is needed.

Secondly, previous record-breaking fundraises also have a negative impact. “Many companies raised earlier than they would have, and they are typically funded on a 12- or 18-month timeline,” he said. “Companies need to raise money whether the environment is good or not… We are seeing people raise money, but fewer companies need to right now.”

Ultimately, ElBardissi is optimistic for the future of medtech deal making. He referred to companies like Illumina, saying that “we are just at the beginning of being able to take genomic data and develop novel insights that will be transformational for the treatment of patients.”

“There is definitely a strong convergence between health care delivery and technology, and I expect we will see the industry bring several exciting products to market in the next five years. All this was accelerated during COVID, but I think the trend will continue well beyond it.”