Interrad lands $10M in private placement

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Katharine Grayson
Staff writer
kgrayson@bizjournals.com
(612) 288-2106 | @graysonk

Joe Golberger is thrilled that his growing med-tech firm, Interrad Medical Inc., managed to raise about $10 million in capital despite a tough economy. The fact that those dollars didn't come from venture-capital firms makes the victory even sweeter.

"What I'm most proud of is that every investor stands to make an equal share if this company has some type of liquidity event," said Goldberger, whose company is backed entirely by about 200 angel investors, about half of whom are physicians. "We preserved the opportunity for even our original investors. There were no onerous terms."

To raise money for Interrad, Goldberger, CEO and president of the company, turned to RBC Wealth Management Group's Minneapolis office, which is dipping its toe into the business of rounding up capital for startups in the Twin Cities and elsewhere. RBC pitched Interrad to wealthy clients who could qualify as angel investors in a transaction known as a private placement.

The approach allowed Interrad to avoid some of the terms venture-capital firms place on their investments. For example, some VCs ask that in the event a company is sold or goes public they receive two or three times their investment before common stockholders get any proceeds. Interrad did pay RBC an undisclosed fee for the service.

The capital raised for Interrad is RBC's first such deal in the Twin Cities market. However, it's already working with another company in Maryland, and if deals continue to go well, RBC will ramp up its private-placement business, said Tom Sagissor, RBC Wealth Management's north regional director.

"We've seen a void in private companies being able to get financed," Sagissor said, adding that many of RBC's clients are interested in angel investing. RBC wants to focus on raising rounds worth between $7 million and $20 million.

In the late-1990s, there were maybe a dozen firms in the Twin Cities that handled such private placements for startups. Their numbers dwindled after the tech bubble burst. Still, RBC will face some competition in the private-placement business from Twin Cities firms such as Minneapolis-based Feltl & Co. Inc. and Golden Valley-based Oak Ridge Financial.

For Interrad, the private-placement process worked well partly because the company's product is easy to understand, Goldberger said. The firm is marketing an anchor-like medical device, called SecurAcath, that holds catheters firmly in place. The product is an alternative to sutures and adhesives that are now used to keep catheters from dislodging during lengthy treatments.

"The device is very straightforward. You don't have to have a clinical background to understand it," Goldberger said.

Interrad has regulatory approvals to sell its product in the United States and Europe. It recently completed a clinical study that demonstrated the effectiveness of the device. It's now showing off the technology at trade shows, and plans to steadily grow its staff of 14 employees.

The company has raised a total of about $20 million in capital. Its ability to line up funding through a private placement helped the company avoid making a choice that Goldberger says many startups are facing: "You either have to make a less-than-optimal deal with an institutional investor or you die."

INTERRAD MEDICAL INC.

Headquarters: **Plymouth**
CEO and president: **Joe Goldberger**
Business: **Medical technology**
Employees: **14**
Web: **interradmedical.com**

PROVIDED BY INTERRAD MEDICAL INC

Interrad Medical's SecurAcath helped the firm land funding from angel investors via a private placement.

VCs shy away from med-tech

A survey released last week paints a grim picture of the future for venture-capital investment in med-tech startups, which routinely win the lion's share of venture investment flowing into Minnesota.

Conducted by the National Venture Capital Association's MedIC Coalition, the survey found that about 39 percent of VCs plan to decrease the amount they invest in med-tech and pharma companies over the next three years. The same percentage of the 156 firms responding to the survey said they already have reduced investment in those sectors.

About 61 percent of investors said regulatory challenges were the biggest factor in deciding whether or not they continue to back life-sciences companies. The med-tech industry has argued that the U.S. Food and Drug Administration is making it more difficult for device companies to receive approvals needed to sell their products. Meanwhile, 36 percent of VCs said they will invest more in European startups, while 44 percent expect to increase investment in Asia-based companies.

The survey also found that firms plan to continue to invest in health IT and other health care startups that aren't regulated by the FDA.

SURVEY SAYS

Why will VCs reduce investment in med-tech and pharma startups?

- Regulatory challenges: 61 percent said this was the No. 1 reason
- Reimbursement concerns: 38 percent
- Financial markets/availability of capital: 45 percent
- Capital requirements: 28 percent

Source: National Venture Capital Association

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