



MADRYN ASSET MANAGEMENT: FOSTERING THE NEXT GENERATION OF HEALTHCARE INNOVATION

The Largest Network of Diverse- Owned
Private Equity Firms and Hedge Funds

Even before the pandemic, the healthcare industry attracted robust deal flow. Valuations for businesses in the sector – noted for its steady growth and resiliency during economic downturns – increased significantly in recent months as investors recognized its importance as well as the acceleration of innovation and new product development resulting from COVID-19.

There's no denying the importance of the healthcare industry – not only for the trillions of dollars it contributes to the U.S. economy but also for the companies in the sector that better society by improving the ability to treat diseases and other maladies. In the midst of the industry is NAIC member Madryn Asset Management, a private investment firm that focuses on providing debt and equity financing to innovative healthcare companies specializing in unique and transformative technologies, products and services. The firm draws on its extensive and diverse experience spanning the investment management and healthcare industries and employs an independent research process based on original insights to target attractive economic opportunities that deliver strong risk-adjusted and absolute returns for its limited partners while creating long-term value in support of its portfolio companies.

For Avinash Amin, MD, Founder and Managing Partner of Madryn, there are also ethical reasons for investing in healthcare. “When we invest in companies who build innovative products, we have to be mindful of making sure that everyone is able to access those products,” he explains. “When we think about Madryn’s mission and NAIC’s mission of advancing diverse communities, the healthcare mission and the diversity mission really go hand-in-hand.” Dr. Amin is an industry veteran who received his doctorate from Washington University in St. Louis, Missouri and practiced as a physician before joining biopharmaceutical company Novactyl, Inc. as Chief Clinical Officer and eventually entering the world of alternative investments.

A HEALTHCARE SPECIALIST

Madryn believes the size and complexity of the healthcare industry create inefficiencies that can be targeted by focused, disciplined investors for attractive returns on a risk-adjusted and absolute basis. At its core, the firm typically provides debt or equity capital to companies with annualized revenues ranging from \$30-\$50 million and have previously received sponsor-backed venture capital funding. In all cases, R&D is already completed on the business’ core product, and there may be FDA approval on the core as well as ancillary products.

“On the debt side of our investment portfolio, our coupons can range from 11%, 12%, or 12.5%, and it nicely complements the debt side of our LP’s portfolios,” says Dr. Amin. “Our strategy, private credit, has a special appeal to certain investors because they’re not getting the returns they’ve been used to in public credit. The Madryn private healthcare credit strategy is one way that our investors are seeking to enhance their returns.”

While private debt may carry higher interest rates than traditional bank financing, Madryn’s portfolio companies are typically not candidates for that type of financing or wish to avoid dilution during their growth phases. “They’re typically at an inflection point where their cost of equity capital at this launch phase, and at this growth phase, is at its highest,” explains John Ricciardi, Partner, Chief Financial Officer and Chief Compliance Officer. “Madryn comes in as a healthcare specialist and provides a capital solution to these organizations who are not really bank financing candidates because these organizations have revenues and high-margin products – usually 60-80% gross margin.”

Madryn lowers volatility on its return streams by making debt investments while providing limited partners with downside protection and high yields. “The debt plus equity is a combination of good defense and good offense producing a low volatility return stream,” says Dr. Amin. “One of the reasons that limited partners are interested in our strategy is because when you think about their portfolios, the public equity side is doing pretty well. However, the public debt side of their portfolio, because interest rates are so low, isn’t perhaps performing as strongly, particularly if they’re overweight treasury bonds, as those coupons might only be yielding 1-3%.”

After vetting the science, medicine, and commercial applications, Madryn adds value by refining certain aspects of a company’s go-to-market or clinical plans as well as apprising management of new developments in the financial markets that may impact exit strategies or efforts to go public. Having been in the space for two decades, the firm’s management has found that building successful relationships with equity partners and management teams is a business imperative. “We are much more than a capital partner. We are in the trenches with our portfolio companies and take seriously our responsibility to provide expert advice and counsel on numerous strategic initiatives and matters that can help businesses over the long-term,” explains Dr. Amin. “We want our companies to succeed, and doing so requires coaching, refining of their messaging, and working with them to develop and implement a business strategy that will complement the capital we provide.”

CUTTING-EDGE MEDICINE

Among Madryn Asset Management’s portfolio companies is Bigfoot Biomedical, Inc., which developed a wearable device for people with diabetes that continuously measures glucose levels, crunches the numbers, and informs the patient precisely how much insulin is needed. The device also reports the patient’s blood glucose levels to his/her doctor, reducing the need for an in-person visit to the doctor’s office. “That convergence of sensors, data, IT, and healthcare coming together is here, and that’s what we’re very excited about,” says Dr. Amin.

Another Madryn investment, SomaLogic, Inc., is a privately held proteomics company focused on discovering, developing, and commercializing life science research tools, diagnostic and therapeutic products. Similar to what the Human Genome Project accomplished by mapping human DNA, proteomics studies and maps proteins to understand how diseases work and develop new treatments. “This data is going to result in a transformation in healthcare,” asserts Dr. Amin. “It’s going to make us more able to diagnose diseases precisely and allow us to treat the diseases more effectively.”

A third portfolio company, Establishment Labs (NASDAQ:ESTA), is a global high-tech medical device and aesthetics company that designs, develops, manufactures, and markets a product portfolio consisting of advanced silicone-filled breast and body shaping implants. Madryn invested in the company in 2017, providing a senior secure term loan, concurrently participating in the company’s equity financing round. Over the last few years, Madryn modified the debt to extend more capital to Establishment Labs, which went public in 2018. The company’s stock went from a pandemic low of \$9 a share as elective surgeries shut down but is now trading in the \$78 range as of this publication.

THE LATEST MEDICAL TRENDS

Looking ahead, Madryn expects to focus on proteomics, as well as several additional areas in healthcare that accelerated due to the changes brought about by the pandemic – particularly remote patient monitoring and telemedicine. “The pandemic has clearly shown us that telemedicine is going to be a large theme. As a result, we’re going through the data regarding proteins, genes, mutations, sensor data,” says Ricciardi. “New investments we decide to make could potentially be more on the IT side with a healthcare angle. It’s an exciting time to be in this space.”

Another big theme going forward is in messenger RNA (mRNA). “Some people may know what mRNA is – a working copy of your DNA. But in the last year and for the first time, we actually turned mRNA into a vaccine,” says Dr. Amin. “The vaccines that came out from Moderna, Pfizer, and their partner BioNTech, are recent examples. It’s rare to have a treatment for a condition that’s 95% effective, but in doing so, it opens up a new category of ways to treat diseases that we may not have been able to treat as effectively. We think it’s a game-changer.”

The firm – whose current fund is 85% invested in debt and 15% equity – also expects to emphasize the equity side more in future deals. But part of the focus will remain on supporting the next generation of medical technology, and ensuring it remains accessible. “We’ve got proof that you can do something ethically good that’s also financially and commercially responsible,” Dr. Amin asserts. “And we believe we need to drive in this area. We are committed to doing our part to make a difference.”