

Riding the Waves Through Choppy Waters: Scaling Your Company in Today's Market

May 12, 2023

Healthtech executives and investors gathered at [Cooley's 13th Annual Healthtech Conference](#) in early May to discuss market trends and dealmaking, as well as celebrate CEO success stories. In an opening panel addressing top of mind issues around fundraising and scaling in the current market, [Lynne Chou O'Keefe](#) (Founder and Managing Partner at Define Ventures), [Greg Grunberg](#) (Managing Director at Longitude Capital), [Sean Lynden](#) (President, Venture Banking at Pacific Western Bank), and Cooley partner [John Sellers](#) addressed best practices for CEOs to navigate current market uncertainties.

Transparency, honesty and effective communication are key to success. Be honest with management, your board, investors and customers. Take stock of your current and future business, and build leadership through consensus. "Focus on who you are, and articulate that [position] with clear transparency to your board and investors ... Your investors are your biggest supporters," shared Chou O'Keefe of Define Ventures, which recently closed on a \$460 million pair of funds to invest in healthcare-focused companies. She reminds executives that their investors often will dig deep to support the company in these choppy times, but it's important to have a consistent and accurate narrative on the issues, paired with laser-focused execution.

Keep your friends and customers close to drive business and partnerships. Ensure you are delivering value for current customers. In some cases, there may be opportunities to leverage customers' strategic venture arms or leverage your existing investor relationships to tap into business opportunities.

In this environment, now more than ever it's critical to use debt wisely. Ideally, debt should be a supportive component of your capital structure as opposed to a last resort. The best course of action is to raise debt when you are at your strongest point, such as after a successful equity funding or a major customer win. In more challenging situations, Lynden emphasized "talk to lenders early and often ... the sooner you can bring lenders into the conversation, the better." Typically, the CEO and CFO will drive conversations with lenders and keep the board informed, but lenders may also want to speak directly with your investors and board members. Lynden also advised executives to be transparent with their lenders about anticipated challenges to help avoid surprises – and to consider the equilibrium between equity and debt.

"While investors in the VC business on the early to mid-stage are of course trying to make money, we succeed when companies succeed," shared Grunberg, who invests in early to growth-stage companies at Longitude, which invests across Health Solutions, Biotech and Medtech. "In this environment, many companies have some level of debt, but with the right frame of reference, you can have a number of stage and risk appropriate capital partners supporting your company."

The fundraising environment has shifted from growth as the highest priority to sustainability and looking toward profitability. Sellers highlighted that [Cooley's Q1 2023 Venture Financing Report](#) reflected deal volume, invested capital and up rounds continuing to decline, while deal terms remained relatively stable. Grunberg noted he has not seen major changes with regards to deal terms, but "for later-stage opportunities, it starts with an honest conversation around pricing." Lynden shared that he anticipates venture debt terms will get more aggressive, and Chou O'Keefe noted a return to a more historical venture norm: A Series A in 2021 may have been \$40 million, but that Series A today may be a \$10 million to \$15 million round.

For companies who are fundraising, be prepared for investors to dive deep into your go-to-market strategy, future P&L and

customer base. Management should be crystal clear about your product, as well as the timing of key commercial milestones. Investors want to ensure that companies have done their homework.

The bottom line is that not all capital is sitting on the sidelines. "Capital remains for fundamentally sound companies," Chou O'Keefe said.

Are you interested in attending the 14th Annual Cooley Healthtech Conference next year? [Fill out this form](#) to be added to the invitation list.

Key Contacts

John Sellers Palo Alto	jsellers@cooley.com +1 650 843 5070
Ilana Brand San Diego	ibrand@cooley.com +1 858 550 6264

This information is a general description of the law; it is not intended to provide specific legal advice nor is it intended to create an attorney-client relationship with Cooley LLP. Before taking any action on this information you should seek professional counsel.

Copyright © 2023 Cooley LLP, 3175 Hanover Street, Palo Alto, CA 94304; Cooley (UK) LLP, 22 Bishopsgate, London, UK EC2N 4BQ. Permission is granted to make and redistribute, without charge, copies of this entire document provided that such copies are complete and unaltered and identify Cooley LLP as the author. All other rights reserved.