



Bauerle's Bank Notes

Extraordinary Amid the Ordinary

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"Disrupt or be disrupted" is conventional wisdom among entrepreneurs of the Millennial Generation. Like most dichotomies, it has an element of truth to it, but overstates the case. A useful counterpoint is former Steelers coach Chuck Noll's statement, "successful teams do ordinary things extraordinarily well." Noll was both a disrupter and a disciplinarian. He drafted better talent than the competition by using the BLESTO Scouting Combine that the Steelers and three other teams organized. Noll also brought rigor and discipline to his team, whose players in the prior decade routinely prepared for Sunday's game by getting roaring drunk on Saturday night.

These thoughts came to mind recently as we listened to a roomful of blue-jeaned, only-occasionally-shaven Millennials hear from a panel of bankers about what it takes to have a bankable business. Beyond a breakthrough product, one must have positive cash flow, collateral and a track record. The problem, of course, is that many entrepreneurs don't have any of those things. Add to the mix the lead story in Friday's Wall Street Journal, "Big Banks Cut Back on Small Business," and it's enough to make even the most self-confident entrepreneur despair of ever getting financing.[\[1\]](#)

As one way to address the dilemma, our Renaissance Partners boutique investment bank is sponsoring selected entrepreneurs and their products for a novel capital formation strategy we are calling the "soft-launch."

The tried and true path for entrepreneurs is to build a company around a breakthrough product and eventually sell the company to a larger, established enterprise. Examples from the Pittsburgh market include Automated Healthcare (an automated medication dispenser for hospital use, designed to reduce medication errors; the company was sold to McKesson 20 years ago and has since been resold several times, including in the last 90 days) and Respironics (respiratory therapy devices; the company was sold to Dutch electronics giant Phillips).

Following the tried and true path, however, requires the entrepreneur to build and fund the entire infrastructure of a company: sales, distribution, finance, administration and

the like. All too often, the attendant costs and inevitable miscues consume all available capital. The breakthrough product suffers underexposure and lacks market acceptance. Frustration and business failure follow.

Renaissance Partners' "soft-launch" approach seeks to concentrate capital allocation on product design and development, market positioning and acceptance, with the goal of selling the product, not a company, within two to three years. Fortune 500 companies like Pfizer, Proctor & Gamble and Medtronic have shuttered or scaled back their internal research and development in favor of buying innovations they can sell through their well-developed distribution networks. To the "buy or build" question, their answer is a resounding "buy." The value to them of a breakthrough product, and the price they are willing to pay for it, are enormous.

Renaissance Partners' debut of its soft-launch program is centered on a company called TecTraum, Inc., and its patented Neuro-Cool® product. Neuro-Cool® reduces the severity of sports-induced concussions by cooling the blood circulating to a victim's brain. Hypothermia as a treatment for certain medical conditions is clinically well established. When I was hospitalized in 2012, medical professionals cooled my entire body core to keep virus-induced fevers from killing me. TecTraum's invention enables sports physicians and trainers to bring a portable cooling device off the sidelines onto the field when concussions occur. Wrapping the player's head and neck in the Neuro-Cool® shroud immediately begins cooling blood as it flows through the carotid artery to the player's brain. That treatment reduces brain swelling and its damaging effects.

With more than 38 million Americans between ages 5 and 18 playing organized sports, and with more than 3 million concussion injuries per year according to the Centers for Disease Control, the market for Neuro-Cool® is large. Renaissance Partners' role is to introduce its stable of private equity investors to TecTraum so TecTraum can raise \$4 million of equity capital. The money will support product improvement (making Neuro-Cool® smaller, lighter, less expensive and easier to use) and market introduction to the point that a medical device company can purchase the Neuro-Cool® product now ready for prime time sale through the purchaser's established distribution system.

The product improvement work will be completed by Nottingham Spirk Design Associates of Cleveland. This team has a remarkable record of product innovation, including CardioInsight ECVue (single-use, disposable, flexible fabric vest containing 252 ECG sensors for monitoring cardiac arrhythmias), Health Spot Station (free-standing system of remote health care delivery stations that combine convenience of retail location with secure, real-time access to board-certified physicians), as well as consumer products like Little Tykes® (line of children's plastic toys), SpinBrush® (battery powered toothbrush), DirtDevil® (handheld vacuum cleaner) and Swiffer SweeperVac® (line of consumer cleaning products).

The banking opportunity in the Renaissance Partners soft-launch program will come when successful launches of products like these or the TecTraum Neuro-Cool® device create royalty income that will support borrowings to soft-launch additional

products.

The most successful inventions are those that meet needs that are obvious in retrospect. And do so at a price point and with ease of use such that everyone can use the innovation. Thomas Edison famously sold most of the patents he owned to finance electrification of lower Manhattan because J.P. Morgan judged the venture too risky to bank. Once Edison proved urban electrification's viability, Morgan financed the result, which we know as General Electric.

Messrs. Nottingham and Spirk own more patents than anyone in American history except Edison. Our hope at Renaissance Partners is that we can help latter day Edisons bring their inventions to the market. Today's Morgans can then lend confidently to make the inventions common currency in our time.

[i] According to the Journal, "The biggest banks in the U.S. are making far fewer loans to small businesses than they did a decade ago, ceding market share to alternative lenders that charge significantly higher rates. Together, 10 of the largest banks issuing small loans to business lent \$44.7 billion in 2014, down 38% from a peak of \$72.5 billion in 2006, according to an analysis of the banks' federal regulatory filings." Wall Street Journal, November 27, 2015, page A1.

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