





MidMarketCapital, Inc.

could also be applied to great advantage in the Healthcare Information Technology industry. The giant networking company, is a serial acquirer of companies. They do a tremendous amount of R&D and organic product development. They recognize, however, that they cannot possibly capture all the new developments in this rapidly changing field through internal development alone. Cisco seeks out investments in promising, small, technology companies and this approach has been a key element in their market dominance. They bring what we refer to as smart money to the high tech entrepreneur. They purchase a minority stake in the early stage company with a call option on acquiring the remainder at a later date with an agreed-upon valuation multiple. This structure is a brilliantly elegant method to dramatically enhance the risk reward profile of new product introduction. Here is why:

For the Entrepreneur:

1. The involvement of Large HIT Investor – resources, market presence, brand, distribution capability is a self fulfilling prophecy to your product's success. The halo of the big secure company helps you cross the chasm to the conservative majority institutional customer.
2. For the same level of dilution that an entrepreneur would get from a VC, angel investor or private equity group, the entrepreneur gets the performance leverage of “smart money.” See #1.
3. The entrepreneur gets to grow his business with Large HIT Investor's support at a far more rapid pace than he could alone. He is more likely to establish the critical mass needed for market leadership within his industry's brief window of opportunity.
4. He gets an exit strategy with an established valuation metric while the buyer/investor helps him make his exit much more lucrative.
5. As an old Wharton professor used to ask, “What would you rather have, all of a grape or part of a watermelon?” That sums it up pretty well. The involvement of Large HIT Investor gives the product a much better probability of growing significantly. The entrepreneur will own a meaningful portion of a far bigger asset.

For the Large HIT Investor:

1. Create access to a large funnel of developing technology and products.
2. Creates a very nimble, market sensitive, product development or R&D arm.
3. Minor resource allocation to the autonomous operator during his “skunk works” market proving development stage.
4. Diversify their product development portfolio – because this approach provides for a relatively small investment in a greater number of opportunities fueled by the entrepreneurial spirit, they greatly improve the probability of creating a winner.
5. By investing early and getting an equity position in a small company and favorable valuation metrics on the call option, they pay a fraction of the market price to what they would have to pay if they acquired the company once the product had proven successful.

MidMarket Capital has created a Healthcare M & A practice that combines 20 years of industry experience with the investment banking experience to structure these successful transactions. We

