

HEALTH INDUSTRY

MAY 26, 2010

Device Firms Draw Venture Capital

By **BRIAN GORMLEY**

Biotech venture firms have long seen opportunity to fund spinouts from major pharmaceutical companies, and now the spinout idea is catching on with some medical-device investors.

Medical-technology accelerator Coronis Medical Ventures, for one, is talking with multiple device manufacturers about spinning technologies out into start-ups, said managing director Mark Klopp.

Like their drug company counterparts, many device manufacturers have amassed more products than they can develop. Instead of fearing a backlash if a spinout turns into a success, they are starting to see non-priority products as an opportunity to create value for patients and themselves, some investors say.

"Medical-device companies have generally thought they could get to everything they needed to. Now, there's more demand for growth and they're looking at options to create more growth," Mr. Klopp said. "We're optimistic based on the discussions we're having."

Spinouts can enable venture firms to capitalize on the investment a corporation has made in a product. In one of the few examples of a venture-funded device spinout, Inspire Medical Systems Inc., investors saw opportunity to back a sleep-apnea therapy that had been in development since 1996.

Inspire spun out of Medtronic Inc. in 2006 and has raised about \$23 million from Medtronic, Kleiner Perkins Caufield & Byers, Synergy Life Science Partners and U.S. Venture Partners. Medtronic management decided that it wanted to see the implantable technology be developed, even though it wasn't a strategic fit, said Timothy Herbert, who worked on the product with Medtronic before becoming Inspire's chief executive.

"They could have said, 'Forget it, it's going to sit on our shelves,'" Mr. Herbert said. "That's not what Medtronic chose to do, and that's very commendable."

To find opportunities like this, venture firms have to connect with someone inside a big company who knows what technologies may be available, said Jan Garfinkle, managing director of Arboretum Ventures. She said she has considered a couple of device spinout prospects.

"It definitely takes an internal champion to have the spinout occur and be successful," Ms. Garfinkle said. "We're definitely open to doing something like that."

As with pharmaceutical spinouts, however, investors must research opportunities carefully.

"You're always saying, 'Why are you willing to let this go?'" Mr. Klopp said. "You've got to do your due diligence and make sure there is something real and there's a legitimate reason for spinning it out."

Printed in The Wall Street Journal, May 26, 2010, page B7