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INDUSTRIES

Built to sell

One smart incubator has found a clever way around the dreadful IPO market.

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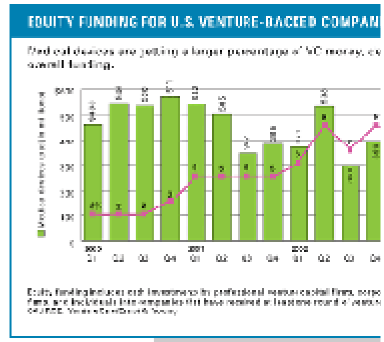
Most dot-coms crashed faster than a five-cent balsa glider. But the lessons gleaned by sifting through their ashes continue to provide competitive insights to smart managers like Hank Plain.



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Mr. Plain, an avuncular former Eli Lilly executive, is vice chairman of The Foundry, a Redwood City, California-based company that incubates startups making medical devices. Tucked away in one of the nameless, faceless office parks that dot the Silicon Valley, The Foundry has little in common with dot-com incubators like Idea Lab, Internet Capital Group, or CMGI - businesses that rose dramatically, rattled on about the untold riches inherent in upcoming IPOs, and then foundered.

Instead, The Foundry serves as outsourced research and development for many of the world's t device manufacturers. The Foundry, founded in 1998 by Allan Will and Hanson Gifford, slowly bu companies that craft innovative, new ways to treat medical problems or that figure out less inva expensive alternatives to surgery – "surgery without knives," as they call it. If all goes according of Mr. Plain's companies will get the nod from a mammoth medical device maker like Johnson & Medtronic, or Boston Scientific.

Mr. Plain knows how lucrative those deals can be. He made a boatload of money four years ago when he was CEO of medical device maker Perclose. In 1999, Abbott Laboratories bought Perclose for $680 million in stock, a decided home run in the medical device industry, where any sale over $100 million is a rare event. Instead of retiring with his millions, Mr. Plains saw a business model.

To date, VCs have invested about $150 million in seven Foundry companies, five of which are now in clinical trial. With each startup, Mr. Plain and his team hire ten to 15 people who share The Foundry's office space. After about a year, the startups outgrow their temporary home and are bumped from The Foundry into new space - typically within five miles of Plain's office door.

Ideas for new ventures at The Foundry flow from both doctors and the inside team. In one case Goar, a Stanford physician who patented heart valve repair technology, founded Evalve with an small clip that fixes a malfunctioning mitral valve by splitting it into two smaller working valves.

received $15.9 million in Series B financing in December 2001 after landing its first round of $6.
September 1999. The device has been tested successfully on five patients, Mr. Gifford says.

The Foundry's incubator strategy is an increasingly common gambit in the medical device indust
split between the Goliaths - corporations that are masters at marketing and selling devices - an
that fuel innovation. There are few mid-cap device companies. The Foundry, which raised its thi
round of $1.5 million last summer, is one of about a half dozen medical device incubators in the
including Accelerated Technologies in Austin, Texas; The Innovation Factory in Deluth, Georgia;
SyneCor, in Portola Valley, California.

IPOs, for now, don't appear to be an option for medical device startups. Not one has gone publi
according to New York-based Dealogic, which follows IPOs. Just five went public in 2002, postin
15 percent return on investment since then, compared to the average market return of 35 perc
the height of the dot-com frenzy, 18 companies went public in a banner year. However, those c
have also posted a negative 35 percent return since 2000 (compared to the equally dreary mar
negative 38 percent).

While The Foundry's coffers have been well funded, other medical incubators haven't fared so w
past several years Scout Medical Technologies, Protostar, Medical Technology and Innovation G
Seedling Enterprises have shut their doors.

Perhaps The Foundry's survival has something to do with its management skills. Mr. Plain and t
team have worked in management at 12 medical device companies. Mr. Will, once Mr. Plain's b
former CEO of device company AneuRX, which was bought by Medtronic in 1996 for about $100
Gifford led a research and development team at Heartport that during the 1990s built devices f
invasive cardiac surgery. Heartport went public in 1996 with a market value of more than $1 bil

One particularly promising Foundry startup is Satiety, which created a device that is inserted th
throat to staple together a small segment of the stomach, and thus induce weight loss. With ab
people in the U.S. that the Center for Disease Control and Prevention categorizes as obese and
obese – a 5-foot 4-inch woman who is 30 or more pounds over her healthy weight is considered
CDC – demand for such a device could be significant, says Mark Wan, a partner at Three Arch P
Satiety investor.

VCs like Morgenthaler Ventures partner Robin Bellas predict that The Foundry will have at least
"We made $1 billion in gains from The Foundry executives in previous companies in the 1990s,"
says. "Our expectations are that we'll see another $1 billion."

Mr. Plain is a lot more simple about his aspirations: "We want to be the tallest among the midge

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