

Local medical device firm provides a model of consistency for incubators

By Joe Ciolli | 2 Mar 2011



Four of the Foundry's officers field questions during a discussion panel as part of Stanford's E-Week. (Photo: Stanford Biodesign)

The Foundry, a Menlo Park medical device incubator, created in 1998 during the hyperactive, dot-com era. With Internet companies promising investors astronomical returns and quick turnarounds, the device sector proceeded steadily.

Fast forward to the present. The dot com bubble burst over a decade ago, but the Foundry remains an active player in Silicon Valley. The firm has founded and financed over 10 medical device companies, including Ardian, Evalve and Emphasys Medical. These businesses have generated in excess of \$1 billion in value for their founders and investors and employ more than 350 people.

During a panel discussion Tuesday at Stanford's Entrepreneurship Week, four of the Foundry's key officers shed some light on how the incubator has remained competitive.

Like other incubators, the Foundry provides start-ups with office and lab space but also helps guide them through crucial regulatory steps like clinical trials. It also helps with financing with help from Split Rock Partners, where chairman Allan Will serves as a managing partner, and Morgenthaler Ventures. Once this financial foundation is in place, the Foundry aids each company with business and product development, market analysis, recruitment and intellectual property.

Will explained the three different operating models employed by the Foundry during its history. Initially, it received 90 percent of its funding for its incubator companies from serial entrepreneurs, and only 10 percent from venture capitalists.

“That worked fine,” said Will. “But at the end of the project we found ourselves pitching hard to get the venture funding. We then evolved to a second model where we allowed venture funds to have more skin in the game right from the start.”

Now, in its third iteration which started in 2008, the firm incorporated itself as a new company and receives funding from a handful of venture capital shops.

“We evolved to that third model only after we developed the credibility where people believed that we could come up with the next idea,” Will added.

This evolution was critical for the Foundry, which didn’t see immediate results. In fact, no companies started operating independently outside the incubator until 2006 when stent manufacturer Xtent filed for an initial public offering.

The Foundry is careful about rushing companies to exit. Perhaps the best example is Evalve. One of the firm’s start-ups founded in 1999, it was finally acquired in 2009.

While Foundry managing member Hanson Gifford acknowledged that recent successes – most notably the sales of Emphasys and Ardian – have increased investor interest, the firm has continued to refine its financing tactics.

“We’re tending to use larger syndicates,” said vice chairman Hank Plain, who explained that this strategy helps companies all the way through the difficult late rounds of funding. “We’re also going to strategic [investors] earlier.”

Industry experts have noted that the medical device industry has gotten a boost in recent years by the roughly 76 million baby boomers in the United States. With that generation aging and requiring increased medical care, the demand for devices is hotter than ever – and funding for the sector is becoming more readily available.

But despite its success in building the firm, as well as its seemingly bright future, the Foundry’s officers were quick to give credit to the management teams running the incubator’s startups. “If we were to thank everyone it’d be worse than the Academy Awards,” said Will. “We’d be naming hundreds of folks.”

Will also mentioned that because the Foundry’s officers initially head up its portfolio companies, the firm is given more time to find qualified chief executives. He believes that these hand-selected individuals are crucial to success.

One of the most memorable moments of the discussion came near the end, courtesy of Gifford. Discussing his passion for incubation he quoted Thomas Edison, saying, “I don’t invent things to make money. I make money so I can keep inventing things.”