

# What's the Flavor of the Month? Medical Devices.

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**LUKE EVNIN** contends there is money to be made giving people with fading vision a poke in the eye.



Michael Nagle for The New York Times

**RESULTS** Thierry Thauere, chief executive of EndoGastric Solutions in Redmond, Wash., which makes medical devices to treat conditions like obesity and acid reflux.

Mr. Evnin is a venture capitalist at MPM Capital, which in December contributed to a \$41 million financing round for NeoVista, a Silicon Valley company with a novel idea for treating the wet form of macular degeneration, an eye disease that can lead to blindness. The idea is to stick tiny probes into the eye to irradiate the retina and stem the growth of blood vessels that cause the condition.

Such an investment is emblematic of a trend among venture capitalists to pour money into medical-device companies, at the expense of past favorites like computer-related start-ups or drug-development companies.

In the first quarter of this year, seed investors put \$1.1 billion into such businesses, a quarterly record for the medical-device industry, and a 60 percent increase over the same period in 2006, according to the National Venture Capital Association, a trade group.

These investments in recent years have financed a range of technologies, including devices designed to unclog arteries, rebuild heart valves, monitor body functions from within, limit chronic pain and spinal problems and treat sleep dysfunction, acid reflux, epilepsy and diabetes.

“The venture-capital-backed boom in medical devices has delivered extraordinary new technologies,” said David Cassak, an editor at In Vivo, a monthly publication for the medical-device field. “There’s virtually no sector of medical devices that hasn’t been given a tremendous boost.”

Medical investments are by nature high risk, and devices take time and millions of dollars to develop. They must also be tested for safety and usefulness and then receive regulatory approval. It is a business that generates sales of \$15 billion to \$20 billion a year, and the venture capitalists are betting on its expanding into new niches.

Part of the lure, analysts and executives said, is that medical devices feel like a smarter gamble than investing in computer technology, which has fallen out of favor with public-market investors. Interest by these investors is critical for venture capitalists who want to profit by selling shares of their start-ups on [Nasdaq](#).

At the same time, venture capitalists and entrepreneurs who are attracted to life sciences are wary of investing in pharmaceuticals, which can typically take 10 years and cost several hundred million dollars to come to market. Devices typically can be developed in half the time and for much less.

Meanwhile, demand for new health care solutions continues to rise, particularly among the baby-boom population, which generally has deep pockets and is fascinated with technological advances.

“We are all used to the idea that our BMW tells us when our tire is flat,” said Paul S. Kedrosky, executive director of the William J. von Liebig Center for Entrepreneurism and Technology Advancement at the [University of California](#), San Diego. “The idea of a device telling us that our blood glucose is low is pretty appealing to people.” A device’s function, he added, is also easier for venture capitalists to grasp than, say, the workings of a new drug, which can require a background in chemistry and biology to understand.

“Devices are much easier to understand for a repurposed venture guy,” like someone who used to be immersed in the computer industry, Mr. Kedrosky said.

Still, the devices can be complex. The NeuroVista Corporation (formerly BioNeuronics), a Seattle business that recently received \$34 million in venture money, has engineered a gadget that can be implanted in the cranium to monitor brain signals and recognize a possible onset of an epileptic seizure; it then delivers its own signals to try to prevent the attack.

EndoGastric Solutions, another company in the Seattle area, has developed a surgical device designed to cure acid reflux. It is inserted through the mouth to repair a faulty esophageal valve by stapling a piece of stomach to it.

The innovations are making surgical procedures less invasive and risky, thus creating alternatives to drug therapy, said Mr. Evinin of MPM Capital, which focuses on life sciences and is based in San Francisco. It has also invested in EndoGastric Solutions.

The new developments “reduce the chasm between a surgical procedure and taking a pill,” Mr. Evinin said. “There’s been pretty creative thinking about what used to be pharmaceutical markets, and now we’re bringing engineering solutions.”

But Mr. Evinin and other investors say the development periods are long, and new devices often require testing on patients and approval from the [Food and Drug Administration](#). For instance, NeoVista, the start-up that

says it has a treatment for macular degeneration, has good safety data and is in clinical trials, but is still two to three years from the market, Mr. Evinin said.

“The investment and time required, while substantial with devices and frankly longer than it used to be, is still modest compared to what you need for drugs,” he said.

Another challenge is that when problems arise with products, they can take a major toll. For instance, the publicized concerns that drug-coated arterial stents can cause blood clots created an uproar last year among doctors, patients and investors.

There is also a general concern that these markets are cyclical. Medical-device investing was also strong in the mid-1990s, but crashed later in the decade as public-market investors turned to information technology. The current record investment in devices has spurred some to say that the market might be overfinancing technologies.

“It could create overheated sectors and put too much money to work,” said Mr. Cassak of In Vivo magazine, though he added that the influx of investments into medical-device research was a big net positive so far. “It’s hard to see the current interest as anything but good news.”