

Coronis: Creating Virtual Companies

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Summary: The earliest-stage device projects need more than design and prototyping, they need the wisdom and guidance that only experienced company creators can provide. Indeed, even the most clinically valuable new technology can be under-realized, from a value creation perspective, if the company doesn't have the right pieces in place in the right order from the very beginning. It is to provide precisely that kind of guidance that Coronis Medical was formed.

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Coronis: Creating Virtual Companies

Because the technology risks of medical device development are so much lower than those of, say, biotech, most venture capital firms can afford to invest as early as possible. And since exits also tend to be smaller in devices, they have to—it's only by investing early that investors capture the maximum value for their capital. But precisely because of those lower returns, investing too early can be a problem if the technology ultimately doesn't pan out.

Would-be entrepreneurs therefore often find that VCs who preach the benefits of investing early generally turn a cold shoulder to their particular projects. Hence the rise over the past decade of device incubators or accelerators, entities that provide an array of early prototyping and development services to start-ups before a company is actually created and money is invested. But such services are really only the half of it. What the earliest-stage device projects need aren't just design and prototyping, they need the wisdom and guidance that only experienced company creators can provide. Indeed, even the most clinically valuable new technology can be under-realized, from a value creation perspective, if the company doesn't have the right pieces in place in the right order from the very beginning. It is to provide precisely that kind of guidance that Sunnyvale, CA-based Coronis Medical Ventures was formed.

Launched in early 2006, Coronis is the brainchild of four device industry veterans, Mark Klopp, Wil Samson, Carl Simpson, and Roger Stern. Each of the four had worked closely together in a variety of capacities—Samson and Simpson were early employees of angioplasty pioneer Advanced Cardiovascular Systems Inc. and key figures in that company's development, and both had over the years worked closely with Stern who ran Stellartech Research Corp., a contract research and manufacturing company. In addition, Klopp and Simpson served together on the board of **Uptake Medical Corp.**, which is treating emphysema. In many ways, the incubator's launch is a kind of natural culmination of both philosophies—about company creation and technology development—and relationships that have been in place for years. (The name Coronis comes from Greek myth: Coronis was the mother of Aesclepius, the father of Greek medicine.)

Carl Simpson is an industry veteran and was the first person hired by ACS. Simpson spent the last four years at Versant Ventures where he says he had begun to notice what he calls "a gap" in the venture funding model. "Many people who came in to present their product ideas were incomplete in terms of what they needed to do in order to get serious consideration by a good venture capital organization for their Series A financing," he says.

And it's not just the entrepreneur's fault. "A lot of VC firms, with their larger funds, can't really work closely with the entrepreneur the way they used to in the past," Simpson goes on. Wil Samson points to a similar dilemma for large companies in their efforts to wrap their minds around new technologies and the companies that are behind them. "One of the things I saw early on at ACS and Guidant was that as large corporations try to maintain their existing businesses and keep them competitive, their ability to work on new concepts outside of their core business is limited."

Too often, Samson goes on, such projects can only work if they're psychologically and physically removed from the larger corporation. "There were numerous times when we agreed to pursue new technologies at ACS by breaking away an entity so that it would not compete with internal priorities while it was under development," he says. But even when such an entity was created, finding the focus and management attention was difficult. "Even though there was interest in a certain technology, the fact of the matter was, we had to focus first on our core business priorities and many of these innovative new projects never made it to commercialization," says Samson.

Coronis was formed to fill this gap between investors and large companies—as much a gap in technology and company development as funding. The company's goal: to create a vehicle by which new device companies

can run as kind of virtual companies until their technology is proven and they can, realistically, approach even the most sympathetic early-stage investor.

Key to Coronis' model is its ability to leverage its relationship with Stellartech, another Sunnyvale company, launched 18 years ago by Stanford University PhD Roger Stern, which provides device start-ups with a wide range of basic technology-related services, from research, design, development, and manufacturing of sophisticated medical systems, typically involving both capital equipment and disposables. Over the past nearly two decades, Stellartech has helped nearly two dozen companies in their efforts to develop their proprietary technologies, everything from catheters and ultrasound devices to RF and Doppler X-ray generators. Stellartech also has a team of regulatory experts that can help its clients to file 510(k)s and IDEs and work through other regulatory issues.

If Stellartech provides a wide range of incubator-like services, it does so on a contract basis; much of what it does is turned over to its clients. Coronis was created to capture the value of that work by actually creating the companies themselves. Asked why he doesn't just do what Coronis will do through Stellartech itself, Simpson replies, "In order for us to have appropriate ownership in the companies we're working with, we needed to have a different structure."

Then, too, notes Roger Stern, not all of Stellartech's clients are necessarily candidates for Coronis' incubator. For one thing, they often already have made significant progress in technology development and have raised some capital or are sometimes large, public medical device companies. "They typically have a product concept and funding; what they want us to do is to provide execution capability from design and development all the way through manufacturing," says Stern. Coronis' projects will most likely be at even earlier stages than that. "They're going to be pre-funding, seed-stage companies," he goes on. "They may not have their ideas quite figured out yet and they probably need some management help. They need a source of creative thinking to optimize their product."

In fact, in about a half a dozen cases, Stern himself played a more central role in the launch of companies that came through Stellartech. More than contract service provider, he was co-founder of **Thermage Inc.** and GI start-up, **Barrx Medical Inc.**, to name just two. "In those cases, we did what Coronis does, except we did it on an *ad hoc* basis," says Stern. "With Coronis, we are duplicating and scaling that model much more efficiently."

Coronis doesn't have to use Stellartech for every company it hopes to launch. "We're technically separate organizations," Stern goes on. "We'll look at things on a case-by-case basis; where it makes sense for Coronis and Stellartech to work together, we will. Where it doesn't, there's no obligation." But given the early stage of the projects Coronis will nurture, Stellartech is likely to play a major role in the companies Coronis launches. Interestingly, Coronis, which hopes to create virtual companies through leveraging capabilities and skills, becomes as a result of its relationship with Stellartech, a kind of virtual incubator, since it won't itself have to make investments in infrastructure to do R&D, design, and prototyping work on behalf of its companies.

The ability to capture equity aside, Coronis brings other things to early-stage projects that Stellartech doesn't. One is broad-based, functional experience—as noted, all four of Coronis' founders are industry veterans—and expertise in areas that are not found in Stellartech, such as financing, patents and intellectual property, early clinical studies, market research, and even a kind of technology development. "A lot of times, people come to us and because of our experience, we see opportunities for additional inventions that they haven't seen," says Wil Samson.

The object, as noted, is to create what Simpson and Samson call "virtual companies," relying on the development expertise of Stellartech and the resources of Coronis until the technology has been proven—or at least developed to the stage where venture investors feel comfortable. "The venture community wants to see

risk reduction," Samson goes on. "When you walk in the door, investors want to see that you've done as much work as possible—prototypes, proof-of-concept, patents, possible animal work, [regulatory] filing strategies, reimbursement issues, revenue models, to name a few. So much has to be done that a lot of people don't make it past the first meeting with the venture groups."

Carl Simpson insists that though Coronis is targeting companies that are really only at their earliest stages, finding projects to work on won't be a problem. "We find ourselves already swamped with ideas by inventors," he says, mostly from people that one or more of the founders have gotten to know over the years. "There aren't many medical device companies in Silicon Valley that don't have someone who once worked at and graduated from the University of ACS," he goes on. In addition, Coronis executives have close relationships with the Bay Area academic community, also a source of new technology ideas. Just one example: Simpson was a mentor for **Kerberos Proximal Solutions Inc.**, recently acquired by **FoxHollow Technologies Inc.**, which came out of **Stanford University**. [W#200610131]. (See "FoxHollow Makes First Acquisition, Buys Kerberos," IN VIVO, September 2006 [A#2006800160].)

Screening those opportunities is the challenge. Mark Klopp, who has experience in corporate venture capital and medical device angel investing, notes that Coronis will look for a number of things: a clear, simple regulatory path, with a bias toward 510(k) devices; a reasonable, if not quick, time to market; manageable capital and labor intensity; and, where IP is concerned, clear freedom to operate. "Those kinds of things are important," notes Klopp. "In situations where there's going to be a huge amount of capital needed or a long time to market, there's a lot more risk for dilution downstream."

Coronis will also focus on therapeutic devices rather than diagnostics and, like all device entrepreneurs and investors, the company is looking for "big clinical problems that haven't been solved yet," he goes on. Cardiovascular devices are a logical target for Coronis, given the expertise of its founders. But they insist that cardiovascular is only one opportunity. "At one time or other, I've probably played in every organ system in the body," notes Carl Simpson, who's had a hand in launching 16 companies during his career. "We'll look at almost anything that has a large clinical need."

Mark Klopp notes that one advantage Coronis has is that it's been able to look at the experience of other device incubators "and take a fresh, clean-sheet approach" to Coronis' strategy. That means combining the R&D/manufacturing skills of Stellartech with the mentoring and operational expertise of the founders with, as the final piece, seed stage financing. Toward that end, Coronis has developed a relationship with Research Corporation Technologies (RCT), a Tucson, AZ-based biomedical technology investment and development company that will provide the capital the incubator needs to help other companies reach the point where they can be funded. In addition to sustaining Coronis, RCT may also do some early seed investment in Coronis companies, though they would do so through their existing investment in Coronis, not as a separate investor. At seed stage, all investments in companies Coronis creates will be made through Coronis itself, though RCT will have an option to invest in the companies' Series A financings. "They're providing a majority of our operating and investment capital," says Klopp.

Klopp calls RCT's involvement "the real kicker for our incubator." The company has a strong track record investing in pharmaceutical and biotech companies "and really understands how to attack a disease from a drug perspective." The collaboration with Coronis not only brings that expertise to Coronis, but opens a path for RCT into the device world, which has been an objective for RCT. (Chris Martin, CFO of RCT, and Carl Simpson met each other while serving on Kerberos' board.) "Together, we'll take a comprehensive view of how to solve clinical problems," notes Klopp.

Of course, by the time the new company is ready for its Series A, Coronis will turn to other VCs to help fund the company through syndication. Klopp says it may also form relationships with select VCs to serve as an incubator for ideas they like but are too early for a typical Series A financing. "We may see some opportunities where the VC finds an idea compelling, but too early and too small for them realistically to put

their money to work," he says. "They may feel the concept needs more work. In that case, they'll ask us to do that work and bring it back at Series A after we've helped to develop it for a while to meet critical milestones."

For its founders, Coronis represents an opportunity to nurture companies, to provide both the early prototyping and development expertise of traditional incubators and the mentoring and company development of traditional venture investors. "We'll be doing everything," notes Carl Simpson. "We'll make sure the IP is in place; we'll establish proof-of-concept and do pre-clinical animal studies; and we'll conduct market research and formulate the regulatory and reimbursement strategy." The goal: to create companies that other investors have confidence in and value highly. "And of course, we're going to provide the seed capital and then go out and raise a larger round of capital for these companies," Simpson goes on. "We want that presentation for a Series A financing to be as tightly wrapped as possible."

David Cassak