



Stanford eCorner

The Unique Relationship Between Morgenthaler and The Foundry

Hanson Gifford, *Morgenthaler Ventures/The Foundry*; Robin Bellas, *Morgenthaler Ventures/The Foundry*

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While Morgenthaler funds The Foundry, they are also, in essence, funding each new venture that The Foundry incubates. Bellas and Gifford describe the details of this relationship, including the reasons behind establishing it and how they successfully maintain it.



Transcript

Over the years starting in '85, we developed a life-sized platform and we've been financing medical devices since that period. And we're fortunate enough to finance a couple of companies luckily that produced great returns. And those companies obviously were run by management teams that a few got success with very little coaching on our part. We found that we wanted to go forward and see more medical device deals but we had a dilemma. The CEOs who were so successful now had a reputation among all of the budding entrepreneurs in this room and elsewhere that they got to see the deals first. And so, we thought why not create a partnership because of how the partnership far exceeds the power of any individual and yet those executives haven't been special in the past due of free screening by us on these very attractive deals. We have a higher chance of being successful. So it's a no brainer to join in partnership with the guys that we had previously financed now successful, and joined with them in looking at these deals together. Just to speak for a moment in more detail about the mechanics of the relationship, you can find an incubator different ways and we've had three or four different models just in our six-year lifetime as we've evolved. You can have the investors put a pot of money in and then develop new companies and agree to split the equity that's created from that.

You can have the investors put some money in and then when the new company gets funded try to pay back that initial pool of money, or you can have them put some money in as we do now and then we work together to see what that new company is going to be and do it on a one company by one company basis. And that has just been the easiest, most flexible, and efficient way for us. But again, we've gotten to that by building trust. Robin is willing to invest in us upfront before we decided what project is going to be. And we are willing to run our business one company at a time knowing that if we screw up that it may be harder to get funded next time around. Yeah, I would second that. Over the years, we've a group of limited partners that give us, you know, chunks of money in each new fund that we create and develop trusting relationship there. The same trusting relationship exists with Foundry. So we create a blind pull together, if you will. A new co.

without a name, without a technology, and together we screen 150 proposals and ideas and concepts to find the "one." Such that by the end of the year of the new co., we will have tee up a serious B financing and second round of financing, given it a name, and started to recruit the management team that will replace Hanson and the other gents of The Foundry. And move on to the next new co. So it's a once a year new company startup because we're confident that there are so many unmet

medical needs out there that we could find something very exciting for the new co.