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DEVICE DEBUTS

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A couple of Orange County medical device makers are hoping Wall Street casts a favorable eye on them, profits or not.

In this case, not.

SenoRx Inc. of Aliso Viejo and Alsius Corp. of Irvine filed plans for initial public offerings in the past two months, hoping to raise \$125 million between them.

Alsius, maker of catheters and a monitoring station to cool the body after injury, is seeking to sell up to \$40 million worth of shares.

SenoRx, which makes breast biopsy devices, wants to raise up to \$86 million.

Neither company has set a date for an offering.

Alsius and SenoRx are looking to raise money for sales, marketing and research and development. Alsius also would use some of its proceeds for manufacturing, the company said in a filing with the Securities and Exchange Commission.

The two are rolling the dice on a hit-or-miss market for public offerings.

Alphatec Holdings Inc., a device maker in Carlsbad, saw its shares fall 2% in their June 2 debut. They've done little since with a recent market value of about \$300 million.

Two other recent device debuts, Restore Medical Inc. of St. Paul, Minn.—a maker of treatments for snoring and sleep apnea—and Franklin, Tenn.-based Bio-Mimetic Therapeutics—a maker of a drug and device to promote tissue and bone growth—are trading below their May opening prices.

Why Now?

So why are Alsius and SenoRx going public now?

Lloyd Malchow, SenoRx's chief executive, and William Worthen, Alsius' chief executive, declined to talk in the run-up to the offerings.

Losses don't necessarily scare off medical device investors, said Roger Zickfeld, a managing director at B. Riley & Co., an investment bank with offices in Newport Beach and Los Angeles.

"I don't think the informed institutional investor is going to be clouded by recent losses," he said. "They're going to understand what's in it, where the money's going. They'll see through that."

The offerings should attract "knowledgeable device investors," said Dennis McCarthy, a B. Riley managing director.

The Markets

The key for Alsius and SenoRx is market opportunity, Zickfeld said.

Here, and in other areas, the nod goes to SenoRx.

The company is going after a sizable market—breast cancer screening. It has some 1,000 customers and 37 patents.

"There's been plenty of med tech companies that have come into the public market when you've got some potential to satisfy some type of unmet clinical need out there," said Matt Dolan, a senior medical device research analyst for Newport Beach-based Roth Capital Partners LLC, which isn't part of either offering.

In 2004, SenoRx received clearance for its EnCor device, which allows doctors to obtain multiple breast biopsy samples in a single probe insertion. SenoRx started selling the device in November.

Last year, SenoRx had sales of \$20 million and lost \$8.6 million.

Alsius' market is narrower.

Its main product, CoolGuard, is used to keep a patient's temperature below normal after a head injury to prevent further damage to the brain.

The company's offering "is one that probably will not be priced as attractively or highly as SenoRx," Zickfeld said.

B. Riley isn't underwriting the Alsius or SenoRx deals.

Alsius has made inroads with hospitals but only has a fraction of the customers of SenoRx.

According to Alsius' filing, the company has placed 230 systems in 140 hospitals as of March 31.

Big Price Tags

The products of both companies are big buys.

Alsius' CoolGuard sells for \$28,500 a unit. Catheters used just once go for \$550 to \$1,250.

SenoRx's device, a biopsy instrument and station, goes for about \$35,000.

Last year, Alsius lost \$10 million on sales of \$3.2 million. The company hasn't been profitable in its 15-year history. Revenue has grown, but operating losses have held steady for the past few years.

Alsius started selling CoolGuard in 2004.

Both companies have a large shareholder in common: MPM Capital LP, a healthcare venture investor with offices in Cambridge, Mass., and San Francisco. MPM owns about a third of Alsius. It owns 24% of SenoRx.

MPM led a \$20 million venture round for Alsius in 2000. The firm led a \$19 million round for SenoRx in 2001.

Both investments are near the usual 5-year mark when venture investors start looking to cash out.

Officials at MPM didn't return a call for comment.

Other Alsius investors have included ev3 Inc., the Minnesota device maker that just bought Irvine's Micro Therapeutics Inc.

The Early Days

SenoRx was started in 1998 and known first as BiopSolation Medical. The company has raised an estimated \$37 million in funding.

Alsius started in 1991 under the name Neuroperfusion Inc. and switched to Alsius in 1998.

The company has raised \$76 million, including a \$9 million round a year ago.

SenoRx had 94 workers at the end of March, mostly in sales and marketing.

Alsius has 60 workers. Besides its Laguna Canyon Road corporate headquarters, Alsius has a European service center in the Netherlands.

IntraLase Experience

Orange County's last healthcare public offering took place in late 2004, when IntraLase Corp., an Irvine maker of laser devices for eye surgery, raised \$86 million.

Robert Palmisano, chief executive of IntraLase, has an idea of what the guys at Alsius Corp. and SenoRx Inc. are going through as they gear up for their offerings.

"I knew what I was getting into," Palmisano said last week from New York, where he was presenting at an investor conference held by FTN Midwest Securities.

IntraLase's board was mixed about whether the company should go public because of the market's choppiness, Palmisano said.

But he and other executives felt IntraLase "had such a high trajectory in terms of revenues and a clear path towards profitability that we would be able to talk to investors with enough specifics that they would be able to make decisions regarding whether they would participate or not in the IPO," Palmisano said.

IntraLase posted its first profitable quarter in early 2005, shortly after going public.

Timing was key, Palmisano said.

"Had we tried to do that six months earlier, it would have been a lot more difficult," he said. "The proximity towards when you're going to be profitable is important. The longer out, the more difficult it is."

Also needed: a strong business model that shows how a company plans to make money down the road, and a solid executive team, investor relations professionals and some bankers who "are going to work until exhaustion for about a month," he said.