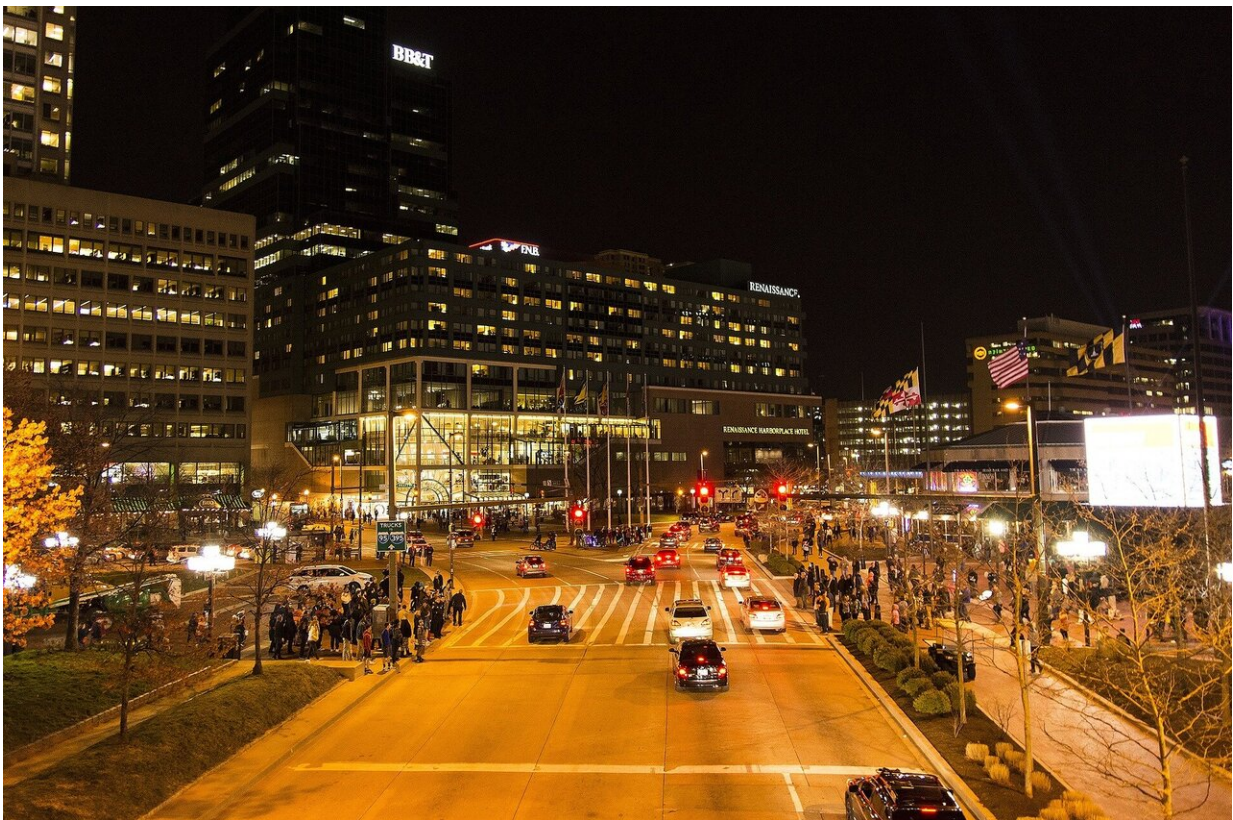


From Silicon Valley to Baltimore: Opportunity zone lures surgical robot maker and opens new investment

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Credit: CC0 Public Domain

The robot looks like a stout, little filing cabinet with one long arm, a simple-looking contraption that belies the precision of the brain, ear and

throat microsurgeries it is designed to improve.

The company formed to develop and market the machine, Galen Robotics, recently moved to Baltimore from Silicon Valley and might represent the future of safer, less-invasive procedures.

"I like to say it will give the surgeons the effect of power steering," said David Saunders, a company co-founder and chief technology officer.

Galen's move to Pigtown, just west of downtown, also kicks off the city's quest to attract significant private [investment](#) to businesses in its many federally designated "[opportunity](#) zones," distressed areas that come with a federal tax incentive. Baltimore officials are poised to announce that Galen secured the first such investment in a city business after it moved here and some believe the tax benefit could be a bigger boon to businesses than [real estate development](#) that has gotten most of the initial attention.

A College Park, Md.-based [venture capital fund](#) recently created to invest in opportunity zone businesses gave an undisclosed sum to Galen, part of about \$7 million the company has raised so far from investments, subsidies and tax breaks for job creation.

Galen aims to raise \$25 million as it ramps up development of the surgical robot, based on technology developed at Johns Hopkins University, and hire more than 100 engineers and other professionals as it seeks federal approval for its use.

Opportunity zones, established by the massive 2017 tax law pushed by President Donald Trump, allow investors to defer or avoid taxes by rolling over investment income into properties or businesses in designated distressed areas.

Ben Seigel, the opportunity zone coordinator at the Baltimore Development Corp., the city's economic development arm, and others expect more money will flow into businesses in the zones than into real estate.

"I do think there is a feeling within the industry and the opportunity zone field over time, if opportunity zones really take off the way we hope they do," Siegel said, "we'll see a lot of investing in operating businesses because generally it's where investors can get bigger returns from growth businesses."

Seigel called Galen "a very positive example and case study."

Leonard Mills, CEO of The Verte Opportunity Fund, on Galen Robotics

Galen is the second opportunity zone investment for the Verte Opportunity Fund. The other was on an Indian reservation. The fund's online description says it will look for "high-growth, disruptive businesses with innovative products and services."

Verte CEO Leonard Mills said the just-formed fund looked to Seigel to identify good bets and Galen fit the financial criteria. The link to Hopkins was a plus.

"We believe the upside is enormous," Mills said of Galen.

The technology was developed at Hopkins' Laboratory of Computational Sensing and Robotics six years ago and licensed to Galen three years ago.

The device essentially offers surgeons a steady third hand, preventing a tiny movement of the surgeon's hand from becoming amplified through the long, skinny tools used in surgeries inside someone's head.

"Even rock solid-seeming hands can cause a fleck at the end of the equipment," Saunders said. "And even among the rock solid doctors, no one keeps gifted hands forever."

With the robot, surgeons could more easily and repeatedly snip a cyst on a vocal cord, remove a brain tumor or implant hearing equipment in an ear. It also could allow more doctors to perform certain delicate procedures without jeopardizing patient safety.

Galen hopes to gain approval from the U.S. Food and Drug Administration for the robot next year or in early 2021. Officials say 42 hospitals have expressed interest in the machine so far. And more tools, and procedures, could be added over time, potentially driving up demand for the robots.

Bruce Lichorowic, Galen's president and CEO and another co-founder, said company officials were sure of the need for the technology, based on discussions with surgeons. Robotics are growing part of surgery, but most such equipment is designed for bigger spaces in the body than the head and neck.

Verte's investment is not make or break for the company, Lichorowic said, but the package of incentives the city and state put together for companies moving to opportunity zones was key to Galen's decision to relocate from California.

Many cities and states, including Baltimore and Maryland, have added extra public subsidies to better compete for long sought investment in disadvantaged areas now designated as opportunity zones.

While all of Verte's investors want a return on their money, many also are interested in the social impact of opportunity zones, Mills said.

The state created an extra benefit for investing in Maryland biotech and cybersecurity companies in opportunity zones to compete with other states. Investors can get a tax break of up to \$250,000 on their investment, which "substantially changes the risk profile," Mills said.

If the investors don't owe that much in taxes in Maryland, they can get a rebate for the remainder.

Still, there isn't a clamor yet for opportunity funds focused on [business](#) investments rather than some real estate in opportunity zones. A big reason is that the federal regulations were slow to come out, said John Lettieri, president and CEO of the Economic Innovation Group, a think tank that helps craft the opportunity zone tax policy.

Opportunity zones aim to move investors as a herd to the neighborhoods, he explained. But it takes time to move a herd.

Lettieri believes opportunity zone businesses will end up attracting the most attention from investors, and interest will increase in the next year or two.

"That window is when we really will be able to make a clearer judgment of the scale and scope of the marketplace and what is working," Lettieri said.

For now, Lettieri noted that such investing has been slow to catch on. In Baltimore, the only other opportunity zone investment has been in a mixed-use project called Yard 56. The insurance and investment management firm Prudential Financial said it would invest \$150 million in the project across from Johns Hopkins Bayview Medical Center in East Baltimore.

Lettieri said prestigious anchors such as Hopkins likely will help attract

investment in related businesses or nearby real estate.

Still, he said, the investment is not going to just show up. Cities like Baltimore will have to pursue it.

"This is an experiment," Littieri said. "We're trying to do something new and very hard. ... The status quo is not working for these communities."

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