Investments in Digital Health:
Lessons from FCA Venture Partners

By: Jordan Cork, Market Research Associate, OBIO

On May 12th, **Grant Blevins** and **Andrew Bouldin** of **FCA Venture Partners**, of Nashville, Tennessee, gave a workshop on the financing landscape of the digital health industry. FCA Venture Partners provides early stage capital for innovative digital health companies focusing on B2B SaaS.

Here is a summary of the important points.

The four most important aspects they look at before investing are: a good management team, quantifiable utilization of the software, sales pipeline and velocity, and a large market size. They also provided feedback on the most common mistakes made during an initial pitch, and the 3 pieces of information every pitch should begin with.

Management Team

Above all else, when investing in a digital health company (or any company for that matter) they must have confidence in the strength of the team. Do they have enough relevant experience in the industry to be successful? Healthcare is a unique beast, and having a solid understanding of how to navigate the ecosystem will be a significant advantage. Equally important is a personal brand (i.e. education, network, past success) that will instill confidence. Investing in someone without that polish, although not a deal breaker, is seen as a risk factor. Age is not necessarily a limiting factor. A young team that is smart and well educated can still be seen as investable if they have the personality and communication skills to match.

Quantifiable Utilization

Utilization is ROI for your startup! Digital health companies that are doing extremely well in their space have sticky products and high utilization. You should start tracking utilization as soon as you sign up your first customer. When possible analyze it at the level of the individual person/patient. Average use per patient will give a much better picture of utilization and engagement than overall usage or clicks at the population level. Knowing that a doctor is using your software for 80 of their 100 patients 2 times per week to check a wound is much more useful (and impressive) than knowing you get 160 clicks per week. While significant software sales are a positive, if there is little engagement on the level of the average user, it is unlikely that sales will recur or the product will see significant growth. Bookings and MRR will be a contributing factor to your valuation, but investors are more interested in seeing utilization data, as this will give a better indication of continued and future sales. They like to see studies or data from 1-2 customers when selling to early health systems, or 3-4 for smaller providers (primary care providers, ambulatory settings, etc.)

Sales Pipeline and Velocity

The sales pipeline and velocity is the metric by which healthcare startups live and die. It's not good enough to have a great product and ROI if a hospital (or your customer) is not going to purchase your product, or it simply isn't a priority. Is your solution at the top of a short list for decision makers or is it at the bottom? How long is the sales cycle? The key is to know who your decision maker is and how to reach them. Make sure you are selling it to the right stakeholder (e.g. if there is a 20X ROI you should target the CEO, if there is a process or workflow improvement in the OR, target a surgeon who is a decision maker). When speaking to investors, make sure you are able to quantify the value of the sales pipeline at each stage.

Large Market Size

Market size is another key metric investors use to analyze an opportunity, and thus you should have supporting data. When sizing your market, make sure to use a "micro approach" rather than a "macro approach". Show the amount that you charge per customer, and the total amount of customers you have or realistically predict you will have. Make sure to be ultra specific and realistic. If your software will be used in hospitals with busy emergency rooms, don't use the total number of hospitals in the US to calculate your market size or projected revenue. Your actual market size would be the % of US hospitals that have greater than x (your threshold) visits per week. Avoid generalized statements like, "US providers spend $9 billion a year on EHRs" or, "The US healthcare market is now $3 trillion". As it is difficult to have multiple billion dollar exits in the digital health industry, FCA Venture Partners consider $300 million a significant market for a digital health solution.

Nailing the Pitch

The single thing that most pitching companies undervalue is the power of a brief demo. People frequently overestimate how difficult it is to show a brief demo or communicate what the software does, leaving investors confused about the product and less interested in the opportunity. If an investor is still confused about what you do 20 minutes into a pitch, they have likely already lost interest. This challenges entrepreneurs to be effective communicators, regardless of how complicated the solution may be. In order to avoid confusion or a general lack of interest, there are 3 pieces of information that every pitch should begin with:

1) The Team – who are you and what is your background? If you have an impressive background (i.e. PhD from Harvard, sold 2 companies) investors will be much more interested.
2) Your Product – what is your product and what does it do? Avoid buzz words and tell it straight up. This is when a demo would be useful.
3) Your Market – who do you sell it to and why would the customer want to use it? Also, how do you make a good amount of money doing so. Include revenue and utilization information when possible.