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RESI Reflections

By: Klaus Fiebig, VP Strategic Programs



Healthcare IT Investors - Quick Hits

Consolidation: There is general belief that this sector will experience lots of consolidation in the next few years as different solutions to similar problems compete.

Valuations: After much hype in the sector, valuations of classic Health IT – large established EMR firms – remain solid and are similar to those of IT. But for smaller companies, e.g. ones developing apps and speciality solutions where business models are not as proven, things are more difficult. These companies also are having difficulty reaching \$20-30M/year revenues and associated higher valuations.

Deal Flow: There has been a marked decrease in success rates in transitioning from seed to Series A raises, from 50% in 2015 to 6% in 2016. Also, in Canada, there has been less money invested in more companies with most investors only doing 1 or 2 deals.

Reimbursement and Business Models: There are frequent pivots in business models and companies are having difficulty to get payers and consumers to pay for products. Additionally, sales cycles are much longer in Health IT than in traditional IT.

So How Do Companies Land Deals? Relationships and networking are key. Cold calling will only give limited success as investors must see effort on the companies' part in making a connection and must be actively convinced of the opportunity (do your homework). Don't ask for NDA early on and make sure that your deck is clear and self-explanatory. Explain your business model, give an overview of the competition, and clearly show your competitive advantage. It is not expected that you have the perfect team, but it is expected that you know and are open about your weaknesses (e.g. need to hire a marketing associate). What is expected is that you share ~10 slides with investors via email.

Trending Investment Types: Some of the strategic companies such as Telus like to engage in tactical deals to add features to their offerings. They also like to invest in entirely new platforms (e.g. blockchain) which may become dominant in the future. VC's want to see an electric vision and ability to sell.

Over Invested Areas Identified Were:

- ❖ Patient engagement tools
- ❖ Pharma services
- ❖ Agnostic platforms
- ❖ Things that don't scale easily

Under Invested Areas Are:

- ❖ Vertically integrated solutions (e.g. for a specific patient group or process)
- ❖ True AI (don't sell a database + website as AI – investors expect that you have access to big data which means thousands or even millions of records)
- ❖ Where companies have access to large data sets
- ❖ Technology enabled clinical services
- ❖ Things that are difficult to do and integrate into personal cloud and address data intensive solutions around genomics and personalized medicine
- ❖ Solutions that improve best practices and reduce costs. Need to show health economic data!

Overall most investors like to see SAAS and revenues – from \$25k to \$100k MRR, but this depends on stage and business model (B2C, B2B). But for some revenue growth rates are more important than ARR.