

Show 6 -- The Initial Impact of COVID-19 on Healthcare

In today's show, you'll hear investor perspectives on the COVID-19 impact on the healthcare market.

This is Investor Perspectives, I'm the host of Investor Connect, Hall T Martin, where we connect startups and investors for funding.

It's the time of COVID-19. Healthcare is currently undergoing tremendous change across the U.S. The lockdown has put the spotlight on the healthcare system as an essential service. We have investors and startup founders describe the impact of COVID-19 on the healthcare market.

Our featured guests are:

- [Michio Painter](#), Pain Specialist, Investor, [Joyance Partners](#), 0:39
- [Steve Shapiro](#), Partner, [eHealthVentures](#), 2:37
- [Yousuf Mazhar](#), Managing Partner, [TEAMFund Health](#), 13:06
- [Stefanie Wojciech](#), Investment Manager Life Sciences and Healthcare, [LBBW VC](#), 17:51
- [James Lancaster](#), Managing Director, Texas Branch, [VIC Technology Venture Development](#), 23:30

I hope you enjoy this episode.

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Our first guest is Michio Painter, Venture Partner with Social Starts.

Michio Painter (06:35):

That's a particularly important topic to me because I'm also the founder of a company called Blue Therapeutics, where I've been the CEO there for the last five years trying to develop non-addictive painkillers, so I've kind of been on both sides of the table if you will. From an investor point of view, I think it is really an exciting area because if you look at it, pain as a whole, I think, has the largest

discrepancy between its kind of unmet need, the number of patients that are in pain have various forms of pain, the healthcare burden in terms of the financial cost to society, and a gap in lack of funding. So, actually it's an area that I think is just very primed for new solutions across the board, and I think that extends well beyond the - kind of - opioid crisis that we're all familiar with by now. I think the problem of pain goes back many decades before that, where we just have not had good solutions. We've had sort of broad, not terribly effective strategies, but I think now, you know, we really need to develop better precision in our therapeutics, whether that's treatment for specifically for women in pain, making much better and more rigorous non-drug approaches towards pain is another thing that you're going to hear about, and also there's a huge need for just better diagnostics and _____ here's because right now we're

relying heavily on just patients' feelings of things, which is always hard. So, in short, I think that I'm very excited as an investor by the space, I've helped to lead an investment personally recently in pain, and I'm excited to hear more from these two companies. So, thank you.

Our next guest is Steve Shapiro of eHealth Ventures.

Hall T Martin: [00:01:34] So, let's talk about the healthcare trends. We're coming out of the lockdown from COVID and still moving in various stages of reopening and just wanted to see - and of course, we know COVID-19 has changed many things in the world and no more so than in the healthcare space, but more specifically, we're trying to figure out what has changed in healthcare and what's going to be the new investment thesis going forward. And so, if you had to talk about what was positively moving forward and what was negatively impacted by COVID-19 in the healthcare space, what would you call out?

Steve Shapiro: [00:02:23] So, one of the negatives is with hospitals. Their highest margin is on optional procedures and non-critical procedures, and they've really been delayed. So, [00:02:45] many of the hospitals around the country, their cash flow has been severely hurt by COVID and [00:02:53] they have to rethink, and a lot of them are cutting back and a good example would be on adding new facilities as healthcare is just being reimaged now and a lot of it, as we'll talk about later, it's remote. So, I think the build-outs and the construction in facilities is changing and the hospitals, unfortunately, are suffering, many of them financially, just because they've had to reassess their priorities. [00:03:25] But there's been many, many positive changes. [00:03:29] I mean, you know, we hear over and over again how fast technology has [00:03:34] happened, we're in hyper speed in the healthcare sector. [00:03:38] And, let me give you a personal analogy. For many years, I was in the cellular phone business, and back in the 1980s when I got in, when you think of a phone, you think of a physical location, so when you'd have someone's phone number, you're calling a place, and through cellular phones, they've totally changed the way we communicate. Your phone number is you, no matter where you are or when, you're accessible. And that's what we're seeing happen in healthcare. Where we used to say, "Oh, I have to go to the doctor", you go to his office. Or, "I have to go to a hospital", you go to a physical location. And I think we're seeing some of the evolution happening in healthcare, just like I experienced in the

cellular phone business. And, I'd like to give some examples, I've thought about it a little. So one area that I see is growing in importance is triage. So triage is, how do you determine who should be seen, when they should be seen with a healthcare problem? A good example is somebody calls 911 and the operator answers and they say, "I have this healthcare problem". More likely than not, they'll send an ambulance to wherever they are and they'll go to the emergency room. Is that the best utilization of our resources? And so, through triage, we're rethinking that and I'll give you an example. There's a company that I'm working very closely with, a startup called True Triage, and they use software and a whole set of tools to reimagine it. So, if somebody calls 911 and it's not a life-and-death situation, the 911 center hands it off to True Triage and they will have a nurse answer the call, all of the data from the 911 call will get transferred to them, and they'll make the right decision for that particular person in the situation. It may be an Uber picking them up and taking them to a CVS, or somewhere local to treat them instead of the emergency room, or it could be a telehealth call, maybe they don't even have to leave their home. So, that's one example, I think, of positive things that are happening and how we're getting better utilization of our resources and hopefully provide the best healthcare solutions for people. Another area that has dramatically gone up is with mental health, and with the recession going on, with people being laid off, with all the uncertainty that we hear, [00:06:36] a lot of people are going through mental-health issues. [00:06:39] And [00:06:40] I've heard statistics that up to 53% of adults are going through some type of depression or sadness. [00:06:48] So, how do we help that? And, I think another time, technology is helping. There are many apps on the phone, you get biofeedback. I saw one company that can analyze the tone of your voice to see if you're depressed and maybe send an alert out to loved ones, so, that's an area. Addiction is increasing with nicotine, alcohol, opioids, and to really use biofeedback and evidence-based therapy to work with that. Another big area we hear every day in the news is population health. What is this? That's how we identify hot spots through your phone. As you know, there are apps now - and some countries are requiring it - that if you come in contact or you pass somebody, your phone passes somebody that has COVID-19, it'll alert you to that fact. And they're able to track where are the hot spots in this country or anywhere in the world. [00:07:58] We're using a lot of predictive analytics to determine what would be the future hot spot and let's try to get ahead of this thing. So, [00:08:07] this won't go away with COVID. You know, I think this would be great as other things happen and to better control population health in this country and in other countries. Another - I mean, you can [00:08:24] intervene - there's a lot happening here with cybersecurity. So, [00:08:32] it starts with people at home, like you and I are working at home a lot, or large companies are working at home. What type of security do you have? I mean, I've heard countless times where people have been hacked from their home, they've broken into computer banks from large companies, or even a school in Northern Virginia got hacked, and a lot of information's going out that shouldn't be there and a lot of it's because people are working remotely now. And the security there and healthcare, same thing. We're

working at home, we're at home being treated for health. Medical devices, we really have to focus on that and there's a lot happening in that space too.

Hall T Martin: [00:09:21] So, there are many changes coming out now, and if you had to pick one or two that you think are going to be the real game-changers, what would you put at the top of the list?

Steve Shapiro: [00:09:31] Well, that's obviously telehealth. I'll give you a good example. I just read yesterday that [00:09:39] in Ohio, for Medicaid, prior to COVID-19, they had 1,000 claims per month in Ohio, and it has increased to 2.6 million a month. [00:09:57] In the mental-health sector in Ohio, [00:10:00] they had 4,000 claims per month before COVID. Now they're seeing well over a million, a million and a quarter per month, [00:10:09] claims that are going that's affecting millions of people. And I think we're seeing a big explosion and there are so many reasons for it. One interesting reason it happened is under the current administration, they did a public-emergency legislation to promote telehealth. [00:10:35] There have been 31 temporary regulatory changes to make telehealth more accessible. [00:10:42] And, for example, if you're in Texas and your doctor is in Arkansas, you couldn't do that before. There would be no reimbursement or it just didn't happen. [00:10:57] Now they've cut out the State barriers and no matter where you're located, you can get a health provider anywhere in the country. They've relaxed, for good or bad, some HIPPA enforcement. [00:11:11] HIPPA is how secure it is, and so, it's not that they're not secure, but they're not auditing it nearly as strong as they have. Other things are reimbursements for doctors. I went 2 years ago to my doctor and I said, "Have you done any telehealth calls, because I'm in this sector, I know the value?" And he says he hasn't done any because he won't get paid a penny if he does it telehealth. That was 2 years ago. [00:11:42] Now, you know, it's almost all telehealth because now they're getting paid for it. So, I think that's definitely the biggest change. [00:11:50] And then I think of another analogy. When I was very young - a long time ago - if I was real sick, the doctor would come to my house, that was very common, and today it probably is in some rural areas. So maybe we're going back to that, where the doctor's office will be in your house. One company that I'm very familiar with called TytoHome, and they have digital biomarkers at your home, so when you're on the call with a doctor or whomever related to healthcare, they provide an exam kit that allows the doctor to really assess you. And it'll be the thermometer, can do your blood pressure, he can actually look into your ear, and they have the devices that will, through Bluetooth, connect to your computer where the doctor can assess. So, he's able to have all of that. He can analyze your throat, stethoscope. So he has all the tools, not quite as good as in your office, but certainly better than just the video call. So, that's an example. Do you want me to go over some other examples of technology?

Our next guest is Yousuf Mazhar of TeamFund Health.

Hall T Martin: [00:03:52] We see that some sectors in healthcare are accelerated by COVID and some are de-accelerated or impacted negatively. What can you say is an overall trend out there that is changing it in a positive way?

Yousuf Mazhar: [00:04:28] Yeah, great question. As you mentioned, TEAMFund is very much focused on medtech, and so that's kind of our sector expertise and where we focus. And, given what COVID has taught us, never really in our lifetimes has medtech and diagnostics been so relevant and important. Ever since February, it's really been kind of top of mind on all fronts. Unfortunately, what this has also done is [00:04:56] it's kind of highlighted and made transparent also some of the inequities that exist in healthcare, not only in developing markets within, but within developed markets as well. [00:05:06] So, I'm happy to give you kind of a global perspective on what we see not just in the U.S. and other developed markets, but what we see in emerging markets as well. And again, as you mentioned, TEAMFund's mission is, in fact, to provide access to appropriate and affordable medtech to patients in low-resource settings. So, we are actually looking at things across the globe, and in terms of maybe dissecting a little bit further your question, the subsectors that we think [00:05:41] most notably have been positively charged as a result of this are telemedicine, remote-patient monitoring, and point-of-care diagnostic [00:05:52] tools. I'm happy to get into those segments further if you'd like, but I'll turn it back over to you if there's a follow-up there.

Hall T Martin: [00:06:00] Let's dive into that. I think telemedicine is pretty clear, but can you talk in more detail about the other two and what you see there?

Yousuf Mazhar: [00:06:09] Yeah, so on the remote-patient-monitoring side, there's a whole cadre of different tools that can be used, but really the goal there is, are there medtech tools? Again, they would be digitally enabled, but also often tied to telemedicine. So, things that are wearables that patients or consumers can wear at home to help monitor their health, but things that have more of a clinical orientation so that they can tie back to doctors and physicians and clinical practice versus fitness wearables. And then if you also look into that remote-patient monitoring, you can see technologies that will enable step-down units, outpatient centers, et cetera, that are getting a little bit more enabled with more advanced tools and technology so that they can do more patient care without having to bring patients into hospital environments, and we're seeing this trend globally. It leverages technology, it leverages digital health, and it leverages A.I., which are areas across healthcare that have been around, but as you pointed out, COVID has kind of put a bit of a charge on these and advanced them even further in this environment. And then lastly, on the point- of-care-diagnostic tools, again, that I think very much fits into trying to treat and diagnose and help patients in more points of different sites of care

and point-of-care diagnostics allows for that. So, serum tests, other types of diagnostic tests that can be done through a lesser-trained workforce in a non-hospital or non-clinical environment really helps a lot. So, when we think about U.S. markets, these could be CVS and minute clinics that can now do point-of-care rapid tests and provide your results. And then in developing markets, these could be rural locations or community health sites, things like that.

Hall T Martin: [00:08:22] What sectors did you think got impacted negatively? What are we going to lose because of COVID in the healthcare space?

Yousuf Mazhar: [00:08:32] Yeah, that's a little tricky because I think what we're seeing is obviously a different way that we're all kind of consuming our healthcare today. But, as things slowly go back to normal with a vaccine and so forth, then those things will pick back up. But I think in that interim, where I do see the challenge maybe is not so much sector-specific, as it is stage-specific. So, in other words, if you are a medtech startup that is in an early commercial phase right now, I think it is very challenging to get pilots off the ground, to get your early customers the adoption that you are looking for that's so critical for your next round of financing and to validate your product. So, in my opinion, [00:09:19] I think there's a stage risk there that I see as being a little bit more problematic rather than anything specific in a sector. [00:09:28]

Our next guest is Stefanie Wojciech, Investment Manager of Life Sciences and Healthcare at LBBW VC.

Hall T Martin: [00:02:44] What would you think the overall impact of the COVID-19 has been on healthcare?

Stefanie Wojciech : [00:03:12] It turned out to be or to have a positive impact on investment in the healthcare sector. I mean, of course, in the beginning, when there was this uncertainty and everybody didn't know what was going on or what was going to happen, of course, we also had a lot of uncertainty for our portfolio companies or for also other companies that we were following for potential investment, principally due to the fact if they are on therapeutics or medtech, how COVID-19 would affect their clinical trials. So, this was the uncertainty and I think the first negative impact we were seeing wondering whether clinical trials would be delayed, would be interrupted, or anything else. But, this has been a thought for most of the companies I think, after two months they could start again with their clinical trials, so, this negative part was solved. I mean, currently, of course, it can happen again that clinical testing will be interrupted, but, yeah, it was only a small and short-term impact and I think everything in the world was kind of, what's going to happen next?

Hall T Martin: [00:04:54] Well, so for the short term, everybody wants a vaccine as fast as possible, and I'm sure it'll come out in a safe way. What impact on vaccine development, positive or negative, that you think COVID-19 has on future vaccines? Are there tools coming out that are going to make it better, more efficient? Do you think the regulatory agencies are going to become more streamlined in making approvals, recommendations? What can you say about the overall result for improving vaccine development that may come out of it?

Stefanie Wojciech : [00:05:27] Yes, [00:05:28] I think it's really the case that COVID-19 will speed up vaccine development and will allow much quicker tests, different approaches that are existing and that have not been tested in humans before. [00:05:43] So, this is really a good advantage for science in general, that, for example, as you see all the RNA vaccines, be it Moderna, be it BioNTech, or be it CureVac - I'm citing all the German ones - they have completely new products that have not been tested in humans so far or have not been successful. So, we will much quicker come to a proof of concept or not, be successful or not of these new technologies. So, this will be really great, hoping of course that these new technologies will also turn out to be successful, or otherwise if they are not successful the first time, that there are ways to quicker adjust these new technologies in order to make them successful.

Hall T Martin: [00:06:32] Well, then on the negative side for vaccine development, if they rush this out and it doesn't have too many adverse implications, do you think they might do that with future vaccines, where they're, in most cases, tremendous downsides or negative impacts from it? What do you think the risk is there?

Stefanie Wojciech : [00:06:52] Yeah, of course, as you say, there is a huge risk because everybody wants to rush and maybe they do not think through clinical trials thoroughly. So, this might be the case that in the end, those clinical trials either will be negative, just because they haven't been well thought through which you would do otherwise if you had more time. And on the other hand, of course, what you say, if, for example, we have those vaccines and they're going to show some negative effects after like one year, this is going to be, of course, terrible. So, it's a tough balance to find, especially for the regulatory authorities to make things happen quicker than before because it's required. And on the other hand, of course, also be able to still ensure the security of everyone who's taking it. So, I mean, there are some strategies like saying, OK, you start with giving it to people in risk population that only can win if they try new medications as it is the case for cancer patients, for example. Yeah, but still, it's an important balance to have. I mean, yeah, as we know healthcare in general, is bearing a lot of risks and to try to make things slow, now we see a little bit of difference. But [00:08:15] I think still the authorities are doing a good job to ensure that safety is still the priority. [00:08:21]

Hall T Martin: [00:08:22] Well, you see many companies and countries competing to be the first with the vaccine, I don't see many collaborating, maybe they are, but what's your take on that? Which is better, to have strong competition or stronger collaboration? And, based on what we're doing now, which way would you want to move it between competition versus collaboration?

Stefanie Wojciech : [00:08:45] Yeah, I think it should be more collaboration, of course, because [00:08:49] in the end, it remains a human goal to find a vaccine against the coronavirus. [00:08:57] But yeah, unfortunately, this is not completely the case. But I mean, we still see a lot of collaboration and we always have, like big pharma companies that align with those biotech companies, so still, there is some collaboration, but it's, I wouldn't say the usual collaboration. So, I haven't seen any changes in the way of collaboration. I mean, we always had this before that a small biotech company and a big pharma collaborate together to test a new drug, but we do not have a lot of collaboration between the biotech and between the pharma so.

Our next guest is James Lancaster of VIC Technology Venture Development

Hall T Martin: [00:04:45] We've gone through COVID lockdowns and then in various stages of reopening now and, just wanted to talk with you today about the impact that you saw and particularly on the healthcare market. And so, I just wanted to get your initial take on what was the impact that you saw coming out of it at a high level.

James Lancaster: [00:05:06] Certainly. Well, I think everyone is aware of how the all-hands-on-deck routine went, where [00:05:13] a lot of current activities were shut down, a lot of new activities like massive refocusing on vaccines, massive investment and trying to accelerate supply chains and personal protective equipment [00:05:27] and so forth. So, [00:05:29] there was a whole lot of redirection that involved literally moving assets and money from one effort to another, which always creates a disruption. [00:05:37] And of course, the general shutdown has affected the economy as well. So, companies that were unrelated to COVID-19 have been massively affected, and venture investment, and venture capital, and investors. Of course, in Texas, we feel the pain of investing any time the oil and gas industry revenue is impacted, but [00:05:59] there's a whole bunch of other industries that largely got negatively affected and it affects all kinds of businesses, not just direct healthcare-related stuff. [00:06:08]

Hall T Martin: [00:06:09] Great. Well, you know, COVID had the impact of accelerating some parts of an industry and de-accelerating other parts. In the healthcare space, what sectors did you see change positively and what parts changed negatively from it?

James Lancaster: [00:06:26] Well, certainly vaccine development and scale up, both in the investigation and identification of vaccine prospects, but scale-up manufacturing, vaccine trials, anything heading or related to vaccine development and preparing for deployment was huge [00:06:45]. A large impact, probably an unusual amount of business opportunities for otherwise commodity products. Never in my 20 years as an entrepreneur has anyone told me that there's a significant opportunity in hand sanitizer, or face masks, or gloves, or office cleaning, or sanitizing, [00:07:05] or anything like that going on, much less training companies of how to handle those things of, you know, checking employees as they come in the door and stuff like that. So, it's crazy how many general commodity products and services that have never really been huge-growth business opportunities are now a direction; a huge impact on some businesses. Some companies pivoting to fill that gap, some companies doing it to overcome what they're not actively doing on their core business, but, that's kind of usual. But what's going to happen though, at some point this is all going to come to an end and there's going to be warehouses and warehouses full of hand sanitizer from 50-500 companies that never existed before, and it's going to be interesting to see how that is set aside, or ignored, or disposed of when companies have to redirect back to their normal business or get out of the hand sanitizer business, which may be their business for a year, year and a half or something like that at the time.

Hall T Martin: [00:08:06] Well, great. And, what else do you see coming up as far as sectors that are, you know, going forward and what's going to happen here with the impact on particularly healthcare itself?

James Lancaster: [00:08:17] Well, I think the recession that we are obviously in, COVID-generated or not, is going to be a challenge. The general economy is suffering, certainly, people in the toilet paper business will have a lot of work to do to restock their shelves and supply chain. But, [00:08:34] what usually happens is when you have slowdowns, and you have layoffs, and you have people sitting around the house, there ends up being fewer opportunities immediately, but you have a big peak of activity six, nine months, or 12 months later [00:08:50] because all those people, those talented people, smart people that were sitting around, laid off, start thinking about a new opportunity and they may end up launching a startup six to nine or 12 months from now, instead of going back and getting a day job, or they may just lose faith in their day job and do something else. So, of the two or three recessions I've been involved as an entrepreneur, the unexpected new activity and innovations that came out kind of have an echo effect, so I think that'll be great. And that's what helps pull you out of the recession, which is when those startups that came out of it, you know, start operating.

Hall T Martin: [00:09:27] And there are many benefits in starting a new company during a recession. You have a whole new set of careabouts, there's low-cost labor around, and you tend to have a much tighter business model if you start in a recession than if you start at the top of the market. So, but what do you see out there for that?

James Lancaster: [00:09:45] Well, I love working in recessions because as much challenges you may be going through, your competitors who, hypothetically you think aren't as well managed as your venture, are probably feeling it worse. Maybe they're less prepared, maybe they didn't see it coming, maybe you're just more nimble. So, I love recessions as an opportunity. Number one, to sit back and think of new ideas. Number two, to take advantage of the fact that your competitors may be more hindered or slowed than you getting through that recession. [00:10:16] It's a great opportunity to clear the deck, perse, and get a fresh launch.