

**Show 4 -- Investor Perspectives:  
Impact of COVID on the Healthcare Market  
COVID-proofing your business**

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:

- [Steve Shapiro](http://www.ehealthventures.com), Partner, eHealthVentures: [www.ehealthventures.com](http://www.ehealthventures.com)
- [Yousuf Mazhar](#), Managing Partner of [TEAMFund Health](#)
- [Stefanie Wojciech](#), Investment Manager of Life Sciences and Healthcare of [LBBW VC](#)
- [James Lancaster](#), Managing Director, Texas Branch of [VIC Technology Venture Development](#)

I hope you enjoy this episode.

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Our guest is Steve Shapiro of eHealth Ventures.

**Hall T Martin:** [00:23:06] So, one of the things that I find many investors look for today, even outside of healthcare is, are startups COVID-proof? Is their business going to continue in a lockdown? Is it going to work in a pandemic going forward? And, we could see resurgences here in the future. And so, what do you think startups need to do to COVID-proof their business in the healthcare space going forward?

**Steve Shapiro:** [00:23:29] I don't know if it's unique to healthcare, I think any company has the basics. One is, you have to [00:23:36] reassess your financial projections and [00:23:40] I always like to look at expenses bottom up to really see what waste you can get out, how to do things more efficiently, and that certainly has been really emphasized through this. [00:23:54] We have to adapt to working remotely now. [00:23:57] I mean, this was a big change. You know, we used to have meetings all the time where you sit around and have a cup of coffee and you're talking and exchanging ideas. It could be in the office or in healthcare, a lab, where you have to be at the lab all the time to do your research and your readings. So, you have to really assess when you're accessible to it, and, it could be that you're going to be going to the lab at night when there's not other people around, and we've seen some of our companies doing that. And so, I think the physical location of where you are and how they can adapt to that. I think [00:24:41] you need tight control on your timelines and your roadmap. [00:24:46] So, when people are remote, you're not on top of them all the time seeing what they're doing. So, [00:24:52] we have to really make people accountable, we have to understand what our goals are, what are the specifics that we need to do to achieve it? Are [00:25:04] they accomplishing it? Are things happening on time? Are there any red flags? You could see somebody sweating at their desk, go up, "Oh, what happened?" But now, you know, you're absent from them. So, I think it's really important for project management to assess that. Another is clear communication with all stakeholders. So, I'm part of a venture fund. This morning we had a meeting, all done through Zoom, we probably had 50 people on it, and we had investors on it, we had portfolio companies, we had our team from around the world there were people. And, you know, we've got to have this connection, we have to have this open communication, we have to be transparent now more than ever. And then people build the confidence and we're all moving in the right direction. In fact, one of the comments, the CEO of our fund said that he

quit watching the news. He wants to keep focused on what we're doing, not get distracted, and he wants to create our own news by our own successes, rather than get hung up with everything going on. It can be depressing, it can get you out of your element, so you've got to keep your focus. So, those are a few things that I see.

Our next guest is Yousuf Mazhar of TeamFund Health.

**Hall T Martin:** [00:20:46] What do they need to do to COVID-proof their business in case we go through another lockdown or a resurgence in the pandemic, what should startups be doing to position themselves for that next round?

**Yousuf Mazhar:** [00:21:04] Yeah, so I think a couple of things. I mean, one - which is not terribly brilliant and very obvious - is just for startups to really conserve cash, and that's easier said than done, because startups, almost by definition, are operating in lean contacts. But, to really look carefully about how you can reduce burn, putting non-essential projects on hold. One of the hardest things for a startup is to prioritize, what are the most important and least important things that you have going on, right? Usually, everything is most important, but [00:21:39] you have to force rank those things and put things on back burners and reduce unnecessary expenses. [00:21:47] That is just number one, it gives you more runway ahead. The second is, what we've seen is, to the extent possible, get early commitments from your insiders to bridge as much as possible. You may think you don't need it, but get those conversations going, make sure you understand where all your investors are parked, if they have their own challenges with their LPs, or general partners, or whatever it is, get that out there, make sure you understand it, and if possible, start to flesh out what a bridge round or a note could look like with insiders. Part of the reason that you've picked the investors that you have is because they're there with you for thick and thin. Well, this is thin and you're going to need them, and this is a good time for founders to reach out and make sure that those investors are there for them. And, if you wait too long and you start to lose a little bit of leverage and the terms may not be as ideal as what you'd like. So, again, getting early conversations with insiders is key. I think the third is that because of these areas that we've talked about that are getting charged up in terms of telemedicine and remote monitoring, etc., if there's a way to kind of weave your story and approach to tether to some of those categories, it gives your company a different angle or a different lens to look through as well, and because those are hotter sectors that are attracting

dollars, if you can get into those currents, that will also help to the extent it will provide some tailwinds, et cetera, and some momentum. And then I think finally and again, this may be a little bit more specific to kind of some of the Indian companies that we see, but they've taken some very creative measures. And so, to give you an example, in the Indian-medtech ecosystem, we've seen a lot of companies there look internally and say, "Look, we've got this fixed cost which is talent, we've got this fixed cost of these facilities", they're ISO certified, they're able to be used to produce medical technologies and medical equipment, and they have shifted what they're doing and they've started to produce PPEs, or other disposables, or medical equipment that would otherwise normally have to get imported from other foreign markets. And, there's one company that produces a diabetes test and they have actually shifted their manufacturing to produce PPEs, and now they're the second largest provider of PPEs in the country. So, you know, those are very specific examples of things that people have done, but it's [00:24:50] that outside of the box thinking, it's creative ways to leverage your facilities, and your human resource and your human capital in ways that you can maybe monetize in non-obvious ways, [00:25:04] let's put it. So, that's kind of just the last and final point, really a smaller point. But, I just like the fact that by nature, startup founders and entrepreneurs are creative. And so, to leverage that creativity into creative ways to keep the business, as you say, COVID-proof, you don't necessarily always just have to stick to the core of your business to do that.

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

**Hall T Martin:** [00:14:13] And so, what does a company need to do to become COVID-proof in case there's another lockdown? What do they need to do to change their situation in order to maintain their business during a pandemic?

**Stefanie Wojciech :** [00:14:24] So, I think a lot of companies that we have been talking to did rather well, they were all going into remote, which was working really, well, and as I said, [00:14:34] the most difficult thing, what is applying to companies that sell, is really to digitize the sales process and so on. [00:14:42] So, in terms of - we have this also in our investment firm - become remote, I think it's not such a big problem for companies so they can prove it. But then, of course, what we have to see is or what we have to analyze is, in the first lockdown,

how quickly did they adapt their sales process, and how did the numbers change in their sales, or did they even change for the positive or whatsoever? And, I think this is something that really matters. And that now, if there would be a second lockdown, we would now be in a better position that we would be able to compare what happened during the first lockdown and giving us a hint about how agile and flexible the company is.

**Hall T Martin:** [00:15:34] Well, during the first lockdown there was a great need for PPE equipment, personal protective gear, and it seemed like they needed masks, and gloves, and coats, and so forth in the millions, I mean, it was a huge number. And, I wonder what do you think will change to or what must change in order to provide that kind of equipment for pandemic-level actions in the healthcare space specifically?

**Stefanie Wojciech :** [00:16:06] It's difficult to say I mean, [00:16:09] probably we are now at a level where a lot of things have already been produced, so, we are already at a good level of being adaptive and knowing how to produce, [00:16:21] and I think we have probably also some spare stuff that probably we currently forget about it because we are a little bit more leisurely about it and we do not have as much \_\_\_\_\_.

**Hall T Martin:** [00:16:35] Well, some countries in Europe, for example, Finland actually had stocked up on X million units of masks and protective gear for other needs, and so, when this came along they were prepared. Do you think other countries will stockpile those type of materials, or do you think they might come up with maybe more automated solutions like robotics and manufacturing that can produce those type of things quickly when needed? Which way do you think that might go?

**Stefanie Wojciech :** [00:17:03] Yeah, as I said before, [00:17:05] I think robotics, in general, will also be a part that's becoming much more important, [00:17:10] that during the pandemic we were realizing - or during the start of the pandemic, we're realizing - OK, [00:17:15] we have to see that we reduce human contact and reducing human contact means also if you can automate things by robotics, of [00:17:23] course, this will be helpful. But the thing is, we don't know. What I see is that this might be only a short-term impact, a requirement for masks and other things, so, I don't know if there's really a use in finding long-term solutions only for this application. So, I just feel like more a change of the mindset that is happening, that is having a

long-term impact in the healthcare sector in the way things are developed and innovation is called for.

Our next guest is James Lancaster of VIC Technology Venture Development

**Hall T Martin:** [00:16:04] So what does a startup have to do to be COVID-proof in this world in case we go through another lockdown? How can companies get ready for that?

**James Lancaster:** [00:16:15] Well, certainly, any startup at any time - and certainly in the 20 years I've been around - has to be nimble on their feet and ready for a surprise at any time. They rarely, if ever, have funding to throw money at problems. They've got to be creative and reactive and react to opportunities as well as negative surprises. But certainly, there's been a more flexible work arrangement kind of situation available, coworking and other creative real-estate opportunities. I think that creates some health isolation issues, but that may change a little bit. They may have to be a little bit more creative with having fewer real estate options for startups. In the first 10 or so years when I was first getting involved in startups, no one really cared about startups, and you struggled to find space, and people worked out of their garage because no one would give them a lease or anything like that. So, I think some of that, not all of that will come back, but the reality is, the companies need to be able to adapt quickly to customer changes, even if it's not a matter of them being able to access their customers, them being able to access them in a different way, and with separation of, you know, people leaving their work arrangement, just going and cold calling, for example, is not even available nowadays, not a lot of people do that, but they're just some business practices that are not available now and you got to be nimble and be able to react to it.

**Hall T Martin:** [00:17:46] I remember in the early stages of the lockdown, especially out of New York, we heard calls for literally millions of PPE materials and then thousands and tens of thousands of ventilators. How do you handle something like that? Because the systems really aren't set up to generate that volume of material or equipment in that time frame, what can be done about that?

**James Lancaster:** [00:18:10] Well, I certainly think - one thing we hadn't touched on - [00:18:12] I certainly think there's going to be a redirection to bringing manufacturing and other

operations back to the U.S. [00:18:22] Part of the problem is not just the manufacturing capacity and the manufacturing knowledge, but the supply chain. Even if a factory in Shanghai can ramp up production double or triple in a short period of time, that doesn't mean you can physically get it here very quickly. So, I think some onshoring in manufacturing capacity, even if it's as a backup capacity, locally will change a lot. The ability to produce toilet paper is one thing, the ability to ship it and stock it and get it on store shelves is another, but you can't make trees grow faster. So, do you create more toilet paper from recycled paper, for example? I mean, there's a whole bunch of things that I think will cause a rethinking of how we deal with simple things like toilet paper, but the toilet paper shortage is just an example of the type of thing that was dramatically affected. PPEs, I've seen several companies that are trying to create new membranes, membranes that are cleanable, different shapes that support different body and shape sizes. The number of PPEs used for kids in the past several months is a bigger issue than what's used for adults and stuff. So, there's a whole bunch of things that I think will become more flexible, probably brought back at least some redundant or support of capacity to the U.S., and I think supply chains need to be rethought. [00:19:46] Massive distribution centers that can be out in a pinch and not restocked carefully -doesn't matter whether it's overseas or in the U.S. - creates a big problem. [00:19:54]

**Hall T Martin:** [00:19:55] We haven't seen much innovation in supply chain for a number of years. I remember the '90s, there was quite a bit of a change going on with the promotion of the PC and going to the corporate, but since then I don't really see a lot going on with supply chains itself. And then, there is the element of robotics that comes into this as well, where, I remember six months ago people were holding podcasts about how robotics were coming to take your job, be very afraid, and today, I think people look at robotics very differently because of the need for supplying equipment with quarantined workers.

**James Lancaster:** [00:20:32] Absolutely. And supply chains, certainly 20 years ago is around optimizing supply chains and then outsourcing or optimizing in a different way to take advantage of labor costs and stuff. A lot of the work after that went into logistics, so you can't take advantage of offshore manufacturing if you haven't solved the logistical issues. I think the scope of supply chain and logistics and material supply, and the ability to predict, or even if you don't predict something like COVID-19, the ability to adjust on the fly quickly without taking months to accommodate will change. And, some would say that AI will help solve that problem,

but big parts of AI are still largely dependent upon what questions and what design concepts the programmers and stuff put into it. Reality is, nimble manufacturing, where someone can, you know, a plant, for example, can redirect from newspaper production, to toilet paper production - and that's a silly example a little bit - but being able to react quickly to shifting conditions and retool manufacturing without totally disrupting it may be part of the answer as well. And, you know, people talked about 3D printing would bring that five years ago, 3D printing was going to solve all those problems, supply chain logistics, and that's just not quite there yet for all applications. But, you would think paper is paper. The same plant that produces newspapers or toilet paper, produce school paper. If kids are not in session, they don't need as many school paper, so maybe they can produce more toilet paper, but it's just not that easy.

**Hall T Martin:** [00:22:10] Well, you bring up a good point. What is the status of AI? In the beginning of the pandemic, it was touted as being a solution to the vaccine by combing through all the clinical data and helping choose the right one. How far along do you think AI is in the healthcare space?

**James Lancaster:** [00:22:26] The healthcare space is interesting. There are certain applications like AI has been very effectively applied to things like image management, cancer detection, radiology. AI is being deployed to help with vaccine identification or small molecule, stuff like that, things that involve large amounts of data, correlating data and trying to get useful outcomes or analysis out of it. But, I think, what I feel, I have a couple of friends in the AI space and they're finding - or at least they're telling me they're finding - that it's only as good as what you predict the problems or answers that you need. So, if you're not good at predicting that you will need a solution in a month's time period to handle a full lockdown from COVID-19, the model is not going to produce results that deal with that as well. If you assume that every six months you're going to have a COVID-19 shutdown, then the model may actually, you know, happen too often. Now, what happens when a hurricane hits? You're already out of toilet paper, you're already out of protective masks, and then the supply chain is hampered further from the COVID-19 shutdown for hurricanes or tropical storms or something like that happening. Well, you start stacking the problem and it gets increasingly complicated to build a model that handles that. Will they get better and better, more sophisticated over time? Of course they will, but you sort of got to predict the best and worst outcomes and figure out a way to elegantly combine them together to get a useful outcome. You know, it's just as easy to

have the supply chain and software tell you that you don't have enough toilet paper and you end up with a shortage, but in the process of thinking you don't have enough toilet paper, you get massive amounts of it delivered to your doorstep, so it's just as easy to have shortages as it is overages and misallocation of materials and supplies in the process.