

Eyal Lifschitz of Peregrine Ventures Aug. 2020 IP - Healthcare (Show #7)

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

In today's show, you'll hear investor perspectives on healthcare trends, post-COVID-19.

COVID-19 has changed the landscape for startups giving us a new normal. During the pandemic, it became clear the need for changes in our healthcare system.

Joining us again is Eyal Lifschitz, General Partner and Co-founder at Peregrine Ventures. Peregrine Ventures, Israel's leading venture capital fund, invests in promising early-stage high-tech companies with a strong emphasis on life sciences, digital health, and information technology. Eyal also serves on a number of boards, including CardioValve, Memic Innovative Surgery, Restore Medical, Cordio Medical, and more.

I hope you enjoy this episode.

[00:07:21] Hall Martin: Eyal, thank you for joining us again.

[00:07:42] Eyal Lifschitz: Thank you. It's a pleasure to be here again.

[00:07:44] Hall Martin: Since we talked last, we've gone through the COVID pandemic, the lockdown and then the various stages of reopening and wanted to talk today about the healthcare trends post-COVID, what you see coming up, and how do you think COVID-19 has accelerated that sector, in what ways.

[00:08:05] Eyal Lifschitz: Okay. So we are now from the beginning of the winter, which, when COVID really came in the Western world, sometime in early spring, it looked – we thought then or we hoped that it would be towards the end in the winter. We didn't really know when in the winter people were talking about December, February, March, but we thought that at this time we would be at the end. What we learned in the last few months is that this is going to be longer than we thought, and still we'll have to see how much longer. What we know today is that it's really difficult to put a schedule on it, but we know it will take longer, and for this we have to get ready, we have to prepare, we have to prepare ourselves and we have to prepare our portfolio companies. And this we divide in three areas that we work on. First of all, companies did already in the last few months, and they'll have to continue to plan the budgets very carefully. There are things, expenses which companies cannot use now in budgets which they can't use now, mainly on the clinical trial paths. We see that also in pharma, we definitely see them in the medical device space, companies are not able to spend as much money as they really planned, they are just not able to get into hospitals, not able to get into operating rooms and to conduct the clinical trials as they were able before COVID. We also see that even in places which they allow them to come in, the elective procedures, which a lot of the new technologies come to serve

there are much less elective procedures in the hospitals than there were before. So even if you can come into a hospital, you have less patients.

So what happens is that the biggest spend of companies in the middle of their life, which is really the clinical trials, they're just not able to use all the funds which they planned for the clinical trials. So what companies have to do is really to rethink and restructure their budget to make sure that the money which they cannot spend on clinical trials will not only give them this budget at a later time, but they have to make sure that the basic budget, the G&A, which allows those clinical trials also will not be spent. By this, they can cut between 20 and 30% of the G&A budget, which allows them at least a few more months, those few months, which they will really need to come get past COVID and being able to raise money easier again. So that's one thing, that's really planning, going into the budgets, and plan what to do, so that's one thing.

The other thing is, we see now that when funds are careful, but they started to call for money, and they didn't do it. Many funds didn't do it in Q1, also they were careful to do it in Q2, but they saw now that the funds, they have to call, to go to their _____ and call for funds. So we saw in Q3, we saw big capital calls in venture capitals, we saw that according to the statistics which are published in Europe and the States. Also, of course, in Israel, we saw that funds are going actually, in a way, testing the _____ which funds never like in times like this, but they had to call for money. And the third thing is really valuation. Valuations at the beginning, they came down, and what we see now in the last quarter is that you have either rounds of financing which are difficult, or you have rounds of financing which really everybody wants to get in. And it's a little bit of going where the crowd is, it's going and we see it a lot in digital health, especially in digital health, we see it where you have the convergence of where you have the _____ funds and you have also the software funds where they meet each other. We see there that rounds of financing are nicely oversubscribed. We see other areas which are challenging. So, what we see is that the market becomes more selective, there are areas in which it's easier to raise money, areas which it's more difficult, it's mainly on the pharma space, from the earliest stages, this is really where we see that companies have bigger challenges than before. But here you have other geopolitical issues that came in which are not necessarily related to COVID.

[00:13:39] Hall Martin: So, which sectors you think are going to be moving positively and which are going to be moving negatively, because, of course, COVID accelerated some things but de-accelerated others?

[00:13:52] Eyal Lifschitz: Yes, I think there's another issue which we should look at, and one thing is COVID, and the other one is the change of government in the States. And the main thing which we should look at there is in the pharma space is on orphan drugs. Orphan drugs, there's a reason why investors really like orphan drugs is that it's easier to get them through the FDA and the special routes for orphan drugs, and then the pharma companies really like buying orphan drugs and pay high prices for them because they were able to get high prices for the drugs. Now, with the change in the government now in the States, one of the issues which already the newly-elected President discussed in the past is to look on orphan drug prices. What we have to admit, all of us, is that orphan drug prices are extremely high, sometimes price levels which are difficult to explain. But we will see that this sector, and it's a big sector, mainly in early-stage pharma investments, is this sector, things will change there. So that's a very important shift, which we already see, which we saw in the last month, but this now will become

more substantial. So what will happen, there's two things which will happen. One, orphan drugs will be less in the sweet spot of funds to invest, which means they would have to put money on other areas, especially funds who invest only in pharma, don't do also other areas of life sciences. So there we would see that they would have to direct amount of money which they plan to invest in orphan drugs and other areas, mainly on the cancer drugs, which will bring a lot of money into this space which might change prices on that space. So that's an interesting aspect to look at on top, of course, of COVID. But it's going to be an important trend.

[00:16:20] Hall Martin: And what new applications do you think we'll see come up in the healthcare space?

[00:16:26] Eyal Lifschitz: So, in the healthcare space, we will see a few trends. We will see, one is that - as we briefly discussed before, just want to touch this now - but what we see now all over the world, we see it in Europe, we see it in the States, we see it in Israel, we see it in other places of the world, we see that the medical infrastructure, we see now, how underfinanced it is, and we see now how much is missing there in number of beds, doctors, nurses, and, of course, everything around it. That's the main reason why we see the big med tech and pharma share – many of the med tech and the combined med tech pharma players, the Johnson & Johnson, the Medtronics - we see how well their stock did in the last few months. This is not only, it's not that they sell so much COVID-related technology, it's really that the market will see that within the next decade or maybe even two, there's going to be much more spending of governments in infrastructure in the medical systems, which means good news for the big med tech companies; that's going to be an important trend. And there they will divide their expenses into two areas. One, there's going to be a little bit of more funds that the government will really put into the medical systems, but there's going to be enormous pressure to get, for a little bit more money, much better results, and this can only be done with technology. This can only be done in technology in two ways. One is to keep the patients as long as possible, and as healthy as possible, outside the hospitals. Treatment at home, treatment in designated clinics with technology which will allow to monitor them from far, heart failure patients, other areas which cost a lot of money, patients don't really have to get to the hospital, you really want to keep the patients out of the hospital. It's very expensive if they come back to the hospital. You want to keep them at home, you want to bring in smart and reliable monitoring. The technology will cost a bit but will save a lot of money. That's one thing.

And the other thing is really if a patient has to get into hospital, you want him to have him as fast as possible out of that. There's going to be a big pressure towards procedures which do the same but are much less invasive and patient has to stay for less time at home. So technologies, which you can do the same procedure, but instead of a cut of a few inches, it's going to be less, half an inch or an inch, doesn't matter if it's in the knee, in the spine, in the heart, wherever, and you can have a better, smaller and safer procedure, you take the patient out from the hospital faster. These are all technologies which are going to be – there's going to be an enormous pressure to bring them _____ faster.

[00:19:43] Hall Martin: So, how have you updated your investment thesis for this sector?

[00:19:49] Eyal Lifschitz: So, we continue to invest aggressively in the early stage, it's an area which we like a lot and we look for interesting opportunities in Israel, in the States, and other places of the world. And so, since the beginning of COVID, we made almost a dozen

investments, but we also see extremely interesting opportunities in very late-stage companies. So, we just kicked off a few weeks ago, a crossover fund, from which we're starting now, this week, we will conduct the first investment. From this fund, we will invest \$20, \$30, \$40-million checks in companies which are just before an IPO, or before an M&A. Extremely interesting opportunities, IPO window is opening and closing, and there are a lot of interesting companies which start their phase from which it would really make very much sense to wait with the IPO for maybe another few months or maybe another year or two. And these are the opportunities which we look at, especially in the States and in Israel.

[00:21:08] Hall Martin: So what does a startup have to do to COVID-proof their business in case we go through another lockdown or through an extended period further like this?

[00:21:20] Eyal Lifschitz: So, I would divide my answer, if it's a digital-health company or very much it's a medical-software company, or if it's an actual device company, if it's really engineering which is the developer medical device. There are going to be more lockdowns and we have to get ready for that, companies cannot allow themselves to lose time, to lose important R&D time during those lockdowns. So what we will see companies will prepare themselves and the medical-software companies or the digital-health companies, people will really be able to work from home. They will have to prepare themselves properly, they have to make sure that their data is safe, that they can work from far and this is really what companies all over the world invested in the last few months is really to be able to work from home, to work from far using critical patient data from a distance. So, these are mainly safety protocols and procedures which those companies have to work accordingly and there's a lot of interesting work which we've done. On the medical device companies, the challenge is bigger, because they actually need engineers to really get into a lab, they have to really work on machines and it's challenging to do it from far. So here we see companies work in different ways, if it's possible, companies work in smaller capsules, they divide themselves into capsules of two, three people which are able and allowed to work in each place according to the legal constructions and this is probably the easiest and most effective way. If also engineers cannot come to a designated lab, even in capsules, then there's just no other way than to just work from far and try to be as effective as possible from far is challenging.

[00:23:35] Hall Martin: Very good. Well, in the last few minutes that we have here, what else should we cover that we haven't?

[00:23:42] Eyal Lifschitz: I think what we really have to learn is that COVID is going to be a long story, and by being here for a long time, it's not that they can really – no one really knows when we'll be able really to get back together again. It's difficult to know if it's going to be in a month or two, or if it's going to be in half a year, but we know that the idea of COVID will still be here. Even if there's going to be a vaccine which we will use within the next few months, we don't know how much people will really rely on it. If it's going to be a vaccine, which is going to be effective for 60%, 70%, 80%, or even 90%, will people really rely on it? Will people really be able to go back and meet again? Will they be able to go and fly again? We don't know. We don't know how much we will really rely on it. If it's going to be a vaccine which is effective by 70%, will I really allow my parents to come for us for Sunday dinner? It's difficult to know. Same as in the office, same as at work, same as traveling for work. It's still difficult to know. That's one thing. The other thing which is important, we know that this COVID or this virus, we call it here in Israel, we like to play soccer, it's a yellow card. The next virus might be a red card, so we have

to take as much as possible which we learn from this virus, implement it, and be ready for the next one. Another one might be much more dangerous.

[00:25:43] Hall Martin: Very good. Well, how best for listeners to get back in touch with you?

[00:25:52] Eyal Lifschitz: By email would probably be the easiest or LinkedIn, also my phone numbers, please feel free to contact us. Probably email would always be the easiest and we'll be glad to answer any questions.

[00:26:09] Hall Martin: Great. We'll put that in the show notes and I want to thank you for joining us today, and hope to have you back for another follow-up soon.

[00:26:15] Eyal Lifschitz: Thank you very much, Hall. It was a pleasure.