

Show 5 -- Investor Perspectives: Impact of COVID-19 on the Healthcare Market, Updated Investment Thesis

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.

I hope you enjoy this episode.

Our featured guests are:

- [Steve Shapiro](#), Partner, [eHealthVentures](#), 0:39
- [Yousuf Mazhar](#), Managing Partner, [TEAMFund Health](#), 4:09
- [Stefanie Wojciech](#), Investment Manager Life Sciences and Healthcare, [LBBW VC](#), 8:51
- [James Lancaster](#), Managing Director, Texas Branch, [VIC Technology Venture Development](#), 11:08

I hope you enjoy this episode.

Our first guest is Steve Shapiro of eHealth Ventures.

Hall T Martin: [00:19:17] So, how have you updated your investment thesis for the sector since COVID came through? What are you looking for that's different now than you did, say, a year ago?

Steve Shapiro: [00:19:27] Well, we don't want to go through our base premise, we're not going to alter from that. But, what it's really shown us is the importance of the

entrepreneur, you know, how flexible are they? So, many of the companies had to pivot directions pretty fast due to COVID. Maybe they're not changing their technology, their supply chain may be different, access to people is different, or it could be there's a change in their technology. So, how well can they adapt? So, that's the first thing that sticks out to us is to really assess the people side of it and what is their flexibility, and how rigid are they, and how adaptable are they? So, that's certainly key. Another - which everybody's looking at - is the bottom line. So, we really have to have bottom-up budgeting and to really understand the cost, the time to market, what they really need to succeed. And it also falls into the supply chain. How they reach their target market? The efficiencies of reaching their target market. And because people aren't going into stores nearly as much, maybe that changes how you market it and how people can access the technology. [00:20:54] So, I would say our premise has not greatly changed, we have a strict way that we assess companies [00:21:04]. One, you have to look at the person, as I talked about. Number two, are they really solving a problem? Some of this stuff is really need. Like, when we first saw Olive Diagnostics with peeing in the toilet, "Wow, that's really cool!", but is there a market for it? Is it usable? Is that something people would have? And so, we really reach out to stakeholders, and people that would use it, and doctors to really understand, is this a need? Is it really solving a critical problem? So, we certainly want to reinforce that side of it too.

Hall T Martin: [00:21:41] I used to hear many investors had the thesis that healthcare was moving to the home, you just couldn't do everything in a hospital, and you should outfit your home with all the necessary equipment and convalesce there. It sounds like with COVID, healthcare is moving to the mobile, so it's not at the home, it's just wherever you happen to be with your mobile device. How much do you think that's going to play out?

Steve Shapiro: [00:22:04] Well, obviously, coming from the cellular phone industry, I can truly understand that. Well, we'll start with the home, because where you'll have some devices like the example I gave earlier, you know, that'll certainly be in your home. Yesterday, Apple, I don't know if you saw their announcement with the new Apple Watch, that now they're enhancing greatly, different health aspects of it, and it'll be able to tell the oxygen in your blood, and do an EKG, so, that's certainly wherever you are you can have that done. And it will send an alert if they see I'm going through depression, or I'm having a heart attack or something. You know, I think that is a good

example of how companies are evolving. And, to fit in with your point, it's mobile, it's where you are, they'll be able to assess that.

Our next guest is Yousuf Mazhar of TeamFund Health.

Hall T Martin: [00:13:23] Has COVID changed your investment thesis or have you updated it somewhat because of COVID and if so, how?

Yousuf Mazhar: [00:13:34] Yeah, and I think it's in two ways, again, TEAMFund as you know is focused on identifying medical technology for the emerging markets, but a lot of the emerging market technologies that we see that are getting proliferated and used are, in fact, leveraging A.I. and digital tools and all the things that we've talked about, and so, [00:14:00] we're seeing an increased ability for transfer of technologies from developed markets to developing markets and vice versa. [00:14:11] And if you look at that historically, it's really been more of a one-way street. Things are kind of developed in the developed world, and then they transfer over. But here, because we're using software, cloud infrastructure, things like that, we're seeing that they can actually come out of places like India and then eventually get adopted in places like the U.S. or Europe or other geographies. And so, that's one I think, change, is that there's a lot more transferability of innovation across global areas and across borders. The second way that I think it's changed our view is that you know, even though stock markets are great, you're seeing good IPOs, Snowflake had a fantastic IPO yesterday, we still think that there's uncertainties in the marketplace that are kind of baked in there, and specifically with medtech. Most exits occur through M&A, which means that the larger potential buyers, whomever they are, they could be medtechs, they could be diagnostic companies, they could even be tech companies in some respects, but they are also conserving cash and going into their own conservation mode, so they are slowly unlocking that, but we think that if there's still more time for things to settle, that those exit timelines will also be extended. So, the way that we've altered our view with investments is that we want to hold more in reserves, we prefer going in with syndicate partners who have the ability to write bigger checks and or more checks, and we're adding a round to each of our companies as they are rolling forward just to bake in a little bit of a cushion for what may take an extra year or two in terms of an exit timeline.

Hall T Martin: [00:16:11] I remember about five years ago, I talked to many venture firms and private equity and the predominant theme was healthcare is moving to the home, and today when I talk to people, I get the sense that shifting to healthcare is moving to the mobile. Wherever you are, in whatever way, we're going to use the mobile to connect you back to the cloud, and to your physician, and to your provider, and transfer data back and forth and, it just seems like it's going to be more mobile-centric. Do you think that's the way it's going, or do you think there's another investment thesis that's going to predominate?

Yousuf Mazhar: [00:16:49] Yeah, again, I think that's a great question. And the trend was certainly accelerated because of COVID, and I think one of the biggest things that happened was that the reimbursement pathways covered it, they allowed for it and they covered it. And so, obviously, that is a pretty big contributing factor to that. Now, so long as those reimbursement pathways continue to exist and they compensate physicians for their time and effort that they're spending with patients, then I think everybody in that whole ecosystem is still properly incentivized to engage, and communicate, and so forth. I think if the reimbursement starts to get pulled back or if it's viewed as just an emergency use type of a situation, then I think that's going to be a challenge, for as convenient and efficient as it is, the reimbursement rates will matter, and so, I think that's a risk factor. But I think in terms of how well has it worked, how efficient is it, I would say that most people would say that it's worked quite well. Now, clearly, there's still no substitute for you still have to go in for certain things, for certain checkups, obviously, to get tests done and so forth, so those things will always have to be there, but the fact of the matter is there are a lot of things, including follow-ups, that can be done quite quickly and efficiently that benefit both patients and providers. So, I do think that there's an efficiency gain for the whole system for that, as you say, mobile healthcare to continue to grow.

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

Hall T Martin: [00:11:54] So, have you updated your investment thesis for the healthcare sector since the pandemic began, and if so, how?

Stefanie Wojciech : [00:12:01] Yeah, I think this applies especially for digital health, so when in the beginning we were questioning hypotheses of market penetration, especially due to the adaptation of the practitioners to new digital methods, I think this will be much quicker now. So we're seeing less impact on seeing the adaptation, while, of course, we should not forget that what is changing, of course, is the sales process that is mainly digital, and, we as investors realize it's going to be the same for any salesperson or business-development person, that still, [00:12:45] the human interaction counts a lot for making any deals. [00:12:49] So, just much more openness to adopt digital solutions in your daily business. It's going to be still difficult to find solutions for appropriate sales processes.

Hall T Martin: [00:13:07] Ok. So, the market's going to be much more open to taking a digital solution because they understand the need now to be online with these tools.

Stefanie Wojciech : [00:13:17] Yeah, of course, it's going to help them also to continue practicing, this is also important for them. I mean, for a physician or for any other healthcare people, it's their business and they also have to respect everything that is covered. So be it also like connection to elderly people and elderly people's home or whatever, by respecting the distance rules and so, digital solutions can help a lot. And I saw a lot of 3D printing or decentralization of things from time to time where you need less humans. So, there are a lot of applications that can really benefit and are required anyway. And since for a long time, I mean, it's more than a half year now, we are getting used to this type of behavior, so people have to, it will be much easier to convince them also.

Our next guest is James Lancaster of VIC Technology Venture Development

Hall T Martin: [00:12:51] So, based on all that's happened, have you updated your investment thesis and what you focus on for the sector?

James Lancaster: [00:13:03] Well, I think like a lot of investors right now, we're focusing on our existing portfolio, nurturing it and making sure that they have the funds the support they need, and we haven't updated our thesis because we're spending a lot more energy on our core portfolio and keeping it fresh as the recession starts to, you

know, either stabilize a little bit and in the panic mode of keeping your portfolio alive is less a factor. I think there'll be more time to look forward a little bit. So, right now, we're just kind of theorizing, not actually sitting down and changing our plans quite yet. I think there's, unfortunately, I think there's new surprises to come and I don't know, not necessarily COVID-19 related, but certainly, I've seen some increases on how education deployment is done and how failed distance education is being done. Certainly, the mental health and physical health of a whole group of the population, whether it's kids and how they're handling isolation, or even cancer patients and how they've handled not going to get a concerning health issue [00:14:12] addressed, there's a whole lot of healthcare activity, mental and physical, that has largely been put aside for several months now. [00:14:18]

Hall T Martin: [00:14:19] Do you think we'll see changes in the regulatory? I was surprised to find out that you could not use Skype in a medical process or a healthcare process because it wasn't HIPPA compliant, and that Medicare never reimbursed anything that had to do with telehealth and, it seems like it's time for a change, those things have been around for quite some time.

James Lancaster: [00:14:40] Absolutely. And I think even the [00:14:43] FDA itself has been pressured to accelerate the deployment of, you know, kind of reviewing technology, speeding things up, rapid deployment of vaccines and stuff. I would like to think some of those policies, procedures, and processes that the FDA was forced to accelerate might stick, [00:15:05] I don't think they'll all stick, but it'd be nice if some of them stuck around a little bit. There's also a lot of emphasis to move more quickly in getting NIH grants in certain areas and other federal funding done in certain areas. So, I would like to think enough of those stick that affect regulatory issues, speed up regulatory processes and approval processes. Like I said, I don't think they'll all stick, but, you know, there's a few things. Like, [00:15:31] very recently, the FDA had deployed breakthrough-technology designation to try to accelerate devices' access to the market, [00:15:41] in some part to compete with European pace and standards, but they've already been doing some of those things in relation to competition with other countries, but I'd like to think that we have, I think we'll see in hindsight a few months down the road, that some of those things become standard operating procedure, as opposed to exceptions handled during the COVID-19 crisis.