Lee Shapiro of 7wireVentures

Speaker1: [00:00:04] This is the Investor Connect podcast program. I'm Hall Martin and the host of the show in which we interview Angel Investors, venture capital, family offices, private equity, many other investors for early stage and growth companies. I hope you enjoy this episode. Interested in learning more about investing in startups, launching a new startup need to raise funding to start funding espresso as a daily podcast and a short, concise format delivered to your inbox every day Monday through Friday, the time it takes to drink an espresso and to learn about startup funding, to subscribe to a dog and put your email into the Pop-Up Box. Hello, this is Hall Martin with Investor Connect. Today, we're here with Lee Shapiro, managing partner at 7wireVentures. 7wireVentures is dedicated to building and investing in early stage digital health companies, supporting an informed, connected health consumer. Lee, thank you for joining us all.

Speaker2: [00:00:59] Thanks so much for having me.

Speaker1: [00:01:01] Well, great. So tell me more about your background. What were you doing before you started investing in early stage companies?

Speaker2: [00:01:08] Well, I've been doing it for so long that it's hard to think about what I did in the past. All my co-founder at Seven Bar Ventures, Glen Tullman and I have been investing together for the better part of 30 years by way of admission and maybe warning. I'm a recovering attorney. So I practiced law for a number of years and also was involved in some other entrepreneurial businesses with some some great partners. But outside of health care, when Glen and I first started investing, we had an idea that you could use technology to address broken business process. But when we came to health care, we realized there was enough broken process to last a lifetime. And we've been focused on health care investing for the better part of the last 20 plus years.

Speaker1: [00:01:54] Well, great. And so what excites you right now?

Speaker2: [00:01:57] Well, it's an amazing market, as I'm sure you and others have seen, there has been investment in health care that's exceeded the pace of even the record pace that we had last year. So just in this year alone, we've seen fourteen point two billion dollars flow into the digital health sector. That's on top of 12 billion for all of twenty twenty in. What you would think of is maybe a slow year from a pandemic, but that was a record over nine billion plus in twenty nineteen and a little over nine billion in twenty eighteen. So we have seen a massive acceleration and at this pace they'll be close to 20 to 30 billion dollars invested in digital health just in in twenty, twenty one. And and so what excites us is and maybe the narrow segment that we focus on at seven WYO is helping address the challenges that we all face as consumers of health care. Our thought is that none of us really want to be patients, but we all want to be healthy. And to accomplish that, you can use technologies and ways that allow us to overcome some of the challenges that exist in our health care system, that the system that we see today and there's wonderful medical facilities not far from you in Austin, Texas. Certainly the Dell Medical Center is is a great place, but it was built to manage acute episodes. When you're feeling sick, you go to the doctor. If you break an arm, you go to the hospital. If you need surgery, you might go to the hospital. You might not you might go to an end of the for surgery center. But it really wasn't built to deal with the leading cause of our health care expenses today, which is chronic disease. And so we see an opportunity to help people better manage their conditions using technologies. And our focus is on supporting entrepreneurs that are building companies to help us address those challenges.

Speaker1: [00:04:03] And it's great. So you see a lot of startups and a lot of investors out there. What's your advice for people investing in startups? What do you tell them to do before they write that check?

Speaker2: [00:04:13] Well, certainly where we sit is in early stage investing, and so it may be different for those who come in and in later stage. But when I commiserate with our peers in in venture capital focused on health care, it starts with the founder and the founding team. We invest in series sometimes and seed. And to do that, you really have to find a team that has conviction and passion for what it is they're doing. Most of the time, we spend a good year, year and a half with a founding team to really get to know them and understand them typically when we're involved in a deal. It's not the first time we've met someone. We've come across them in the past. They might have had an idea that they ran past us right when it was in the Formenti stage for formation stage. And and what we do is we work with them to help them evolve their thinking so that we stay in touch and provide some some maybe some thoughts about what it is they're doing that might help them find a product market fit. And that's really the second element, which is where are they in their development of addressing a meaningful problem. We used to joke years ago that just because you can build something doesn't mean you should we can build a nuclear powered baloney slicer. Not sure there's a meaningful market for that. And so as an investor, you have to think about what is the problem that's being solved and can you solve it in a way that's addressing a problem that somebody has in our situation? It's what kind of problems you solving for consumer, but will that be meaningful to whoever is paying for the cost of care? In our circumstances, we work a lot with health plans at risk, employers at risk provider groups. And so they not only have to see that you're solving a problem, but you're doing it in a way that provides value and a return on investment. And I would say that those are the other elements that you have to see in a in a company before you might stroke a check.

Speaker1: [00:06:21] Great. And then on the other side of that table, what what's your advice for startups? What do you tell them to do before they go out to raise that first round of funding?

Speaker2: [00:06:30] Clearly, they have to be in a position where they've done the work to understand the market need and how their offering is going to address that need and to be clearly able to articulate what their thinking is around that. The other thing I would say is for them not to be worried about what their exit strategy is. We often see people come forward with decks and say, well, here's a list of all the companies who are going to buy our business. We don't really advise thinking that way. Think about how you build a great and enduring company, and if you do that and if you can find a path to growth, then you're going to have a lot of optionality about what happens with that company down the road. And maybe a suitor will come along that you want to partner with. Or maybe you decide that you've been doing this long enough and you want to exit, but you really need to think about doing this for the long term and not just building it to sell it and to run off and go to the next.

Speaker1: [00:07:30] Great. Well, let's talk about the state of startup investing. How do you see the industry evolving from here after covid?

Speaker2: [00:07:38] Well, startup investing has been pretty robust during the time of covid, and I think there's some macro issues to be considered as well as what I'll call micro issues related to early stage investing at a macro level. This is a pretty heady time, as I played out early in our conversation about the amount of capital that's flowing into investing just in the sector that we focus on. I think that changes. I can't tell you how quickly if I can do that, I might be down at the track and predicting which horse might win today. But I'm not great at predicting the time. But we've seen so many cycles in the industry that we know that this time of relatively high valuations in comparison to the past as well as availability of capital is going to change. So I would say that for those who are early stage in in this marketplace, the time for them to start acting on raising funds would be sooner rather than later. Because as interest rates rise, as capital finds, alternative sources to make a return on investment probably is going to put a little bit of a damper on the amount of capital available, especially for early stage companies that the micro level is that with regard to a company that's being started during during covid, we saw a tremendous number of companies get started.

Speaker2: [00:09:09] I think that as people had more time away from commuting, away from travel, they were able to focus in and start to think about what new opportunities they might address. People who move to great places like Austin are thinking about ways that they might be able to leverage their newfound mobility and to build teams that are mobile and start companies with teams with like minded people. So it's been a great time to be starting businesses. I think that continues. There are now just to mention the health care sector, there are probably well over three hundred and fifty thousand apps available for health care. So not all of those are coming from just a few companies. It's a really large market. And yet there's still room for other offerings that are focused in interesting areas where there's still growth opportunities. And I think that finding areas that, again, is founder you're passionate about to bring that forward would be a good time to do it.

Speaker1: [00:10:14] So what is the biggest change you think we'll see in, say, the next 12 months in this space?

Speaker2: [00:10:19] Well, in our space in particular, I think that we've already started to see a meaningful amount of capital moving into areas that became much more prevalent during the course of the pandemic. Let me start with mental health. There was a large number of people who felt that they were lonely, that they had anxiety, that they were depressed and that was exacerbated by the pandemic. And certainly loneliness is a meaningful issue. But access to mental health services was always a challenge when we were able to go into offices and meet with a mental health professional. But with the advent of telehealth and asynchronous services, chat based offerings that allow for people to manage their mental health, there's been an expansion of access into mental health services. So not only is there been more investment in that area, but we also think that there has been some meaningful needs that have been addressed. Another is a solutions that are providing access to care in alternative care settings. So think about being able to get urgent care services at home as opposed to going into an urgent care center. Think about the ability to recover at home after a surgery and not to be in a hospital. And in fact, only the sickest of the sick, we believe, will be in the hospital long term, that the ability to recover at home, where exposure to other types of infections to be in your own bed if you can, and recover there and eat food, that's appropriate for the type of condition that you're managing, I think leads to faster recovery.

Speaker2: [00:12:10] And there's been studies that have done that. Two other areas just to talk about quickly that we think of is maybe areas that we will come forward over the course of the coming months. Women's health, again, an area that we've seen growth in investment. And part of the reason why is because in the past of the investments that I was describing, there may have been three billion or so that's gone into women's health. We've seen over one hundred companies started in the women's health space this year and a number of female founders that have struck out to build companies in the space. I think that's another interesting area for investment. Lastly, vulnerable populations. What the pandemic highlighted for us is that our friends in black and brown communities were adversely affected disproportionately by the pandemic, and part of the reason was a lack of access to care. There have been a number of investments made in this arena, and the use of telehealth services and technology to reach into those populations is an area that I think we'll see more investment as we spin out of this public health emergency and go into the coming years.

Speaker1: [00:13:26] Well, you've talked about your what you've invested in and where your focus is, but can you give us more detail about your investment thesis and in particular your criteria for looking at deals?

Speaker2: [00:13:36] So we have an idea that to solve that hassles that we all face as consumers, that we will support companies that are building offerings to make us all better informed and connected health consumers. And each of those words has a bit of meaning behind it. By better informed, we mean access to the type of information that allows us to make better decisions and to better manage our health. So think about what Facebook has done for community or what Amazon has done for commerce or what Google has done for content or Netflix. Yet health care hasn't had its Internet moment yet. So we need to have Amazon for care. And in fact, there is now an Amazon killer. We need Google for care. We need Netflix for care. And so by putting us in a position where just like Netflix knows what you like to watch will and will send you suggestions and Amazon will tell me other people like you have bought this type of product or this type of service. We can do better in terms of providing better information to allow us to navigate our health. When I think about connected, it doesn't mean going out to the Internet, as happens probably a billion times a day. There are health care searches, but it's also the Internet connected to us. We walk around with powerful computers in our pockets, our smartphones. We have access to the Internet from connected devices in our homes. And so we think about all that connectivity. Wherever we are is being able to provide ubiquitous health experiences. The next point is around health. And you notice I didn't say health care. It's about health because health is what we aspire to. And we don't want to be patients. We want to be healthy. And so how do we help create informed and connected health consumers? And lastly, that point is about us being empowered to do the things we want to do as a consumer and not having something done to us as a nation.

Speaker1: [00:15:44] You talk about one or two startups that you funded that fit that thesis.

Speaker2: [00:15:48] So, too, to talk about in particular, one is called Dirigo Health, and they're focused in the dermatology space helping individuals with psoriasis, vitiligo and eczema. The standard of care for individuals with those conditions is that they'll see a dermatologist and they might be prescribed a topical cream, but depending on where your condition manifests, having a cream on your arms or legs is sometimes embarrassing and not always practical. And the creams don't always work. The standard of care says that for individuals with those conditions, the next level up from using some type of topical ointment would be to have UV light there. Unfortunately, only 15 percent of dermatologists have UV light boxes in their office. And as a patient, you need to present multiple times a week to get that UV therapy. And lastly, that UV light isn't very targeted. If you're sitting in a in a box, think about a small room, a closet where you're getting this UV light treatment. It's not necessarily focused in specific on where your condition is. So Zerai has created an offering that is a hand-held UV light wand that you use in the convenience of your home. So it's everything that a consumer wants. And because of that, our net promoter scores, which is a measure of consumer like for this type of offering, is off the charts. It's like well beyond where Apple is with your iPhone. It's in the nineties and great consumer products are in their 60s. And and the reason why this is important is because when UV light isn't available, a dermatologist will likely prescribe you a biologic that's really expensive but also have side effects. So when you think about it from a consumer standpoint or from a health plan standpoint, you're not only paying for the medication, but you're also paying for the downstream side effects of that medication.

Speaker2: [00:17:52] And this type of therapy in the home can be provided at a fraction of the cost that the biologic costs. So great consumer experience. Great outcomes that leads to a massive return on investment for the sponsor. So that's one that we've got great hopes for. Another is new early stage investment that we made in a company called Jaspar Health. Jasper's CEO is a terrific founder that joined us after having spent six years with the American Cancer Society helping them to build out Cancer Dog, and he's also spent a lot of time in the consumer health space with great companies like Walgreens and Fitbit and Microsoft Health and most recently at CBS, a fellow by the name of Adam Pellegrini. And what Adam is doing is helping individuals with cancer. And their families better navigate their cancer journey, and the idea is to help them as they experience treatment and to help them manage whether it's side effects or their activities of daily living that they need to still manage while they're going through their cancer treatment, as well as subsequent to treatment to improve survivorship. What we've done with the medical advances that we've made in this country is we've now found a way to make many cancers, chronic conditions. But as I mentioned earlier, to do that, you need to equip the individual who is suffering from that condition with the tools necessary to better manage it. And that's what Jaspar setting out to do. So we're quite excited about both of those.

Speaker1: [00:19:38] That's great. So you see a lot of starts and investors out there. What's the challenge you find most startups face today?

Speaker2: [00:19:45] Think it's focus hall, I don't know if you have children, but I have three and I coach soccer for them and I started at an early age with something called micro soccer. And what would happen is when you put the ball on the field, all the kids were like they viewed that ball as a magnet. They would always want to run to where the ball is. No one would ever hold your position. And wherever that ball goes, that's where they want to go. And I'm afraid that a lot of startup founders are the same way. Whatever the shiny object is, they want to continue to chase it and add on. And so if they start in one area and the customer mentions something else they might want, they really want to be accommodating and they're pursuing that as well. I think maintaining focus and doing something well and demonstrating that it creates value gives you the license, the permission and builds the customer trust to allow you then to do something. In addition, we built a company. My co-founder, Glenn Glenn Tullman, was the founder of a company called the Bongo Health, and we started to help individuals with diabetes manage their health. And over time, we earned the right to work with those individuals to help them manage their weight and to help them manage their hypertension. Because seventy five percent of the time, people with diabetes have high blood pressure. But we had to earn our stripes by doing something really well and to get them to engage with us using our tools for diabetes. And that company was remarkably successful. And it merged last year with Teladoc in the largest merger ever in digital health at eighteen and a half billion dollars. So we think that focus can help you grow, but you need to start somewhere and prove it. And then you have the right to continue to expand.

Speaker1: [00:21:37] Reagan, on the other side of that table was the main challenge the investor faces today when dealing with startups.

Speaker2: [00:21:43] Well, I think one of the challenges is certainly understanding how to help those companies grow. There are a lot of investors who I think take the position that they can spray and pray. So having a really highly diversified portfolio, you might get one or two companies that do really well. And that will make up for the mistakes of investing in a lot of companies that don't do well. Our focus is a little bit different. At seven, we're out of our one hundred and fifty million dollar fund, our current fund. We will probably make somewhere between 12 and 15 investments over the course of the next few years. And we have a concentrated portfolio because we spend a ton of time with the founders we work with. In fact, our approach is often to say we need to find founders who will tolerate us because we're really going to be there with you every step of the way. And that doesn't mean micromanagement, but that means getting involved in helping you hire and with business development, with your strategy. And so to do that, you really need to have high conviction about the bets you're making. And and that approach is one that I think has served us well in our prior funds and also will do well with this fund as we go forward.

Speaker1: [00:23:04] We see a lot of different applications in sectors out there with what you do. If you had to pick one or two that you think are the top of the list for investors to pursue today, what would you put their.

Speaker2: [00:23:16] Well, again, my my focus is in in health, it's now approaching. But just under 20 percent of our gross domestic product, it affects all of us and it's a global issue and we think there's a double bottom line from investing in health as we do, because you can do well by doing good. If the companies that you work with succeed and they can have impact, then there's a benefit in terms of helping all of us improve our health. And we see great opportunities to start companies here in the US that can still have a global impact. I mentioned Le'Veon Bell earlier, and part of the industrial logic behind the Teladoc merger was a way to take our offerings to other countries where there's significant challenges with diabetes and hypertension. So what I would say is invest in things that you feel good about investing in. It's great to generate a good return. We have avoided investing in things that that may be things that we view as being profitable, but but may feed into other challenges that we face. We don't want to prey on people with our investments. We want to find ways to help people and and feel good about what we're doing and sleep well at night.

Speaker1: [00:24:36] Well, great. Well, in the last few minutes that we have here, what else should we cover that we have haven't.

Speaker2: [00:24:41] Well, hello, I'm I'm so pleased that you asked us to to join you today, and my message for the entrepreneurs out there is it's lonely sometimes doing that lonely work is is tough, but take the time to build the company the right way. Oftentimes you'll find that your conviction is strong and you want to continue to do the things that you're doing. And I would say follow your gut, but also find good mentors along the way. And hopefully your investors are ones that that can mentor you as you continue with your journey and in building the company that you're going to be proud of. So stick with it. Hang in there and do it with a team that you love doing it with and you won't think about it. This work, you'll love what you do every day.

Speaker1: [00:25:27] Well, that's great advice. Well, how should listeners get back in touch with you?

Speaker2: [00:25:32] Please feel free to contact me at seven WYO ventures or visit our website seven where our ventures dot com and we're always happy to connect with you. Thanks again for having me on.

Speaker1: [00:25:42] All right. Well, thanks for joining us today. We'll include those in the show notes and I'll be back for a follow up soon. Thanks again, Laport. Investor Connect helps investors interested in startup funding. In this podcast series Experience, investors share their experience and advice. You can learn more at Investor Connect. Doug Alti Martin is the director of Investor Connect, which is a 5.1 C3 nonprofit dedicated to the education of investors for early stage funding, all opinions expressed by Hall and podcast guests or solely their own opinions and do not reflect the opinion of Investor Connect. This podcast is for informational purposes only and should not be relied upon as a basis for investment decisions.