

Gerald Gallagher of Healthworx

Speaker1: [00:00:04] This is the Investor Connect podcast program. I'm Hall Martin. I'm the host of the show in which we interview Angel Investors, venture capital, family offices, private equity and many other investors for early stage and growth companies. I hope you enjoy this episode. The Investor Connect is a 501 C three nonprofit dedicated to the education of investors and startups for fund raising. Please consider donating \$100 to the program to help others in their investor and entrepreneur journey. You can find the donate button on the Investor Connect org website. Hello, this is Hall Martin with Investor Connect. Today we're here with Gerald Gallagher, venture capital manager at Healthworx. Healthworx operates at the intersection of health care and innovation by creating, co-creating and investing in companies that are improving health care, quality, accessibility and affordability. Gerald, thank you for joining us.

Speaker2: [00:00:57] Thanks for having me.Hall It's good to be here.

Speaker1: [00:00:59] So let's start with your background before investing in early stage companies. What did you do before this?

Speaker2: [00:01:05] Yeah, so I had I think it's kind of almost a cliché at this point, but I had sort of a nontraditional path into into venture capital. So I grew up knowing I wanted to go to law school, kind of got to law school and realized that I did not want to be a practicing attorney, so I didn't want to do the billable hour grind. While I was in law school, I found out about an international MBA program that was offered as a dual degree, where I was going at the University of South Carolina. And it seemed like a good opportunity to. To sort of branch over. Pursue some more business oriented interests. And I was. Initially looking at management consulting. But I actually ended up spending. My summer. At a they. Just raised their series C, I think a company. Called Pitchbook. In there in their. London office. And so it was very much kind of the the computers in a ping. Pong table, about 40 people in. The office at that time. I fell in love with entrepreneurship and venture capital.

Came back, worked for a small fund for the rest of the time. I was in business school and then ended up at. Duke Law School after that for an LLM and law and entrepreneurship. While I was there, I was CEO of a startup that raised a little bit of money and then eventually kind of made

my way to to this side of the table. And so I was. With a fund called Aflac Ventures. Doing kind of heavily regulated. Insurer tech, fintech, digital. Health, and then was lucky enough to join the team at Health Works last summer.

Speaker1: Great. So what excites you right now?

Speaker2: [00:02:40] Yeah. That's part of the reason that I think I made the jump over was there's so much we we make the joke occasionally that in the last two years, everyone has become a health care investor. We had something like 21 billion in 2020 and something like 50 billion in 2021. But the thing that excites me right now is I think technological change takes sort of three ingredients. I think there's the consumer adoption. And then particularly in regulated industries like health care, there's there's a regulatory element and then there's always the technological change, right? And so I think over the course of the pandemic, there was a lot of behaviour. Change, right? A lot of people were forced online and a lot of people were forced to get comfortable with telehealth. And then also being able to access patients closer to their home. Or in the home became even. More important with things like closures and vulnerable populations. So I'm very excited about what's happening in health care. And then even even more broadly, I think there are just so many. So many people pursuing new ideas and new opportunities. So I think there are a lot of ways to work with entrepreneurs right now that are exciting.

Speaker1: [00:03:56] Right. Well, you work with a lot of startups and a lot of investors. What's your advice for people investing in startups? What do you tell them to do before they write that check?

Speaker2: [00:04:05] That is a great question. Wait and listen. I think our are probably the two easiest pieces of advice to give, but more practically, I think what I struggled with for a while and something that I tell people looking to invest pretty often is you have to figure out why you have any kind of edge over anyone else in looking at the opportunity. You're looking at. And so. If that means that you worked at Uber and you got really comfortable with things like network density and mobility, then those are probably the types of things you should you should be looking at, right? And so for me, I found that I could look at heavily regulated industries just because of the combination of my legal background and the startup

experience I had. But also I think you learn to really just get reps. So you end up early. On in your career doing a lot of things potentially for free. Writing smaller checks. Right. And I think as you get comfortable. With. What makes you you as an investor. You can get a lot more comfortable.

Speaker1: [00:05:16] Great. And then on the other side of that table, what's your advice for people running startups? What do you tell the founder to do before they launch that fund raise?

Speaker2: [00:05:24] It's a great I think if you're a good founder right now, I don't I don't have I don't get to tell you anything that's bad. That's kind of the market that we're in right now is it's it's there's a lot of capital out there chasing some really good ideas. And there's others building some incredible companies. I would say. I guess my advice to founders is twofold. One is I heard this advice just on the actual fundraising trail the other day, and it resonated with me, which is again, just get reps, but also kind of stack your meetings and your pitches to have friendly faces or inconsequential faces early on and make sure you refine that. Pitch. Before you. Go to sort of your dream lead investor. And you know, and. Try to try to make that ask. And the other one, I think, is because capital is so abundant. There's a I've seen a trend with founders where. You can you can pick up on a lack of depth about a market or understanding. I think one of the things that we look for as. Investor is. Really what makes you the right person. The same as writing a check is what makes you the. Right person to be building this company. And so I think we love to see someone who really, really, really knows their market. It's hard to see somebody who. Throws web3 in the deck and goes out and wants to. Do something. So I think just be really passionate about what you're building and. Cover your bases and you'll be able to raise capital.

Speaker1: [00:07:06] Let's talk about the state of startup investing. You alluded to it earlier, but how do you see the industry evolving from here?

Speaker2: [00:07:13] Yeah, that's a great question. Over the past couple of years, so when I was in school, it was really, you know, you go out and you raise your your friends and family round or angel round, right? And then you go out to raise a seed and your seed could be a million bucks. Then you raise your series A year, series B, right? And so on. One of the things That's that's been really interesting. Over the past few years is just the. The number of. Sources and the number of creative ways that founders have. To access capital now. So whether that's. Something like pipe

doing kind of R. Based financing or something. Like so I was a venture partner at Republic. So I was a venture partner at Republic and they did some pretty interesting things and are doing. Some really interesting things around things. Like reggae and. Products of the Jobs Act that. Allow more participants to come into. To the fundraising fold. We saw the. Revision of accredited investor laws over the last couple of years. To to be a little. More inclusive. I know there's still some people have problems. With the level of access there, but.] I think there's also probably good reasons. And then what's what's I think what the question that nobody has the answer to at this point is what is going to happen. With tokens. And and with the the mechanisms that are coming in from. That part of the market to. Provide liquidity to some of these. Projects. That that aren't even really projects. Right. That are just good tweets. And so because I know there's just so much liquidity out. There. And I'm very interested to. See kind of the structural changes. Around fundraising, whether it. Comes there's pressure from the regulatory side or or. Whether there's founders that. Get creative themselves. I think it's going to be really interesting to. See sort of how founders working on interesting things get capital because there are so many more options. And then I think there were even a couple of years ago.

Speaker1: [00:09:24] What do you think is the biggest change we'll see in the short term? Say the next 1 to 2 years.

Speaker2: [00:09:29] I think I was I was talking to some some folks about this today. I think. There's. Two probably. Pressures. On on this fundraising environment. And then one is kind of. Specific to what I was talking about was sort of blockchain and crypto and some of these like Dallas projects like That, which is the. Regulatory pressure from somebody like the SEC. I think I could see in the short. Term some enforcement actions. Or possibly a failure there, cooling some of that. Market. And then I think the thing that everyone is trying to figure out is valuations have been accelerating. So quickly for for some of these startups, particularly if you're building something interesting.] And part of the logic behind that, particularly at the growth stage and beyond, was these public market valuations. Right. Some of the multiples of some of these. Companies were trading at. And in the public markets, something around. The sort of. The abundance of unicorns. It's more it's. More interesting to see a company try. To get to \$10 Billion. Right. Than \$1,000,000,000. And so that kind of trickled down through the market and and had growth stage investors series BS right coming. Out at \$250 million valuation things like that because it was justified. Because the companies. Were achieving those types of exits. And I'll be

curious to see if cooling the public market shakes out anything downstream in the private markets. I think that would be interesting whether valuations and liquidity sort of continue to escalate or if there is sort of a cooling effect at some point in the near future. Great. Well, let's talk about your investment thesis. What exactly is it and what's your criteria for making an investment? Yeah, absolutely. So we are a strategic investor, so our values are aligned with those of CareFirst, first Blue Cross Blue Shield, which is the blue that covers Maryland, D.C. and Northern Virginia, one of the network of blues across the country. We function as a payer or CareFirst does so. So our thesis is aligned with basically a payer's improving the lives and access and outcomes of their patients. So we looked broadly at series A and Series B investments in digital health. We don't really do life sciences. We like to play to our strengths and we don't do devices. What gets us excited, I think right now, is playing at that series A, Series B stage. And with the through the lens of a strategic right, we're looking a lot at kind of industries that are driven by tailwinds from the pandemic. So things that I mentioned earlier, things like getting care closer to the home. We invested in a company earlier this year or late last year called Shift Med, which was led by Panoramic Ventures. Great team over there that really accelerated through the pandemic. They're doing nurse staffing, which everybody knows about the burnout and health care and the staffing shortages that we're seeing. So that's that's been a really exciting business for us. We're also looking at I believe this has been announced. We invested in something called Get Labs, which is in-home phlebotomy. So going into the home, getting some of those some of that data from patients that may not be able to travel or may have a hard time getting those tests done. That's very exciting for us. And then I think the other area where everybody is trying to solve or find a solution for right now is behavioral health. Health has become incredibly important. Mental health, looking at things like substance use disorder, that's very important to us. And then we're also looking at areas where costs have really kind of ballooned out of control for a variety of reasons in health care. There's a lot of innovative entrepreneurs out there trying to solve those problems, too. So those are some of the areas we look at.

Speaker1: [00:13:44] Great. Can you mention one or two more startups that fit that thesis?

Speaker2: [00:13:48] Yeah. So one of the companies that we invested in is socially determined. So social determinants of health. What's interesting about an area like the one that CareFirst operates in, so Maryland, D.C. and Northern Virginia. Is we have a lot of federal employees.

There's there's a great, I think, variety demographically in that region. And so it's really important for a health care organization to know. More about what's really driving the outcomes and. The health of their members. So Social Determinants is a pretty, pretty incredible company in that space. And then just one other that I'll highlight is it's really interesting how. Much of health care boils down to getting someone to getting getting a patient to just to follow the plan, frankly. Right. And so along those lines. We invest in a company called the MOCA, which does medication adherence virtually. And so just making sure that people are getting the medication they need. And I think that that fits into kind of the preventative care bucket for us as well, which is obviously a point of emphasis. We want to keep people out of out of the hospital. And and. Some of those other areas.

Speaker1: [00:15:12] Right. Well, there's a lot of challenges in the start of space. What do you think is the main challenge startups face in today's market?

Speaker2: [00:15:19] That's an interesting question. I think growing responsibly is, I think, a challenge that some entrepreneurs might be facing right now. And what I mean by that is there's a lot of capital and there's there are a lot of good ideas out there. So I think there are a few ways that. An entrepreneur can sort of achieve escape velocity. Right. And so we've seen in the past, I think we're talking, I guess, a couple of weeks. After the Sereno's. Verdict. Right. Or the outcome of that trial. Which is obviously a famous example of growing maybe irresponsibly. But the the options that I think founders have to get a whole lot of capital in the door and the promises that they have to make in the. Process of raising that capital. I think what is really. Refreshing is talking to a founder who not only for financial reasons, but just because for for good business reasons who is being realistic about the valuation and the capital needs that they have right now? Right. That's that's. That's something that I think in this. Market Specifically. Is encouraging as an investor to see. And I think it's easy to say, Oh, that's selfish. Yeah, we'd obviously love to pay less for for for a great entrepreneur. But it's more about when you when you raise the series A, you're. Making promises about what you're going to look like at Series B and so on. And so I think in this environment, that's always good to keep in mind.

Speaker1: And then what do you think is the main challenge investors face in today's market?

Speaker2: [00:17:06] Yeah. I think the fear of missing out is alive, alive and well right now. Yeah, I think there were a lot of debates. Going through 2020 about things like price discipline. You know, chasing deals. And that's a challenge even for us. As investors is we have our process. We know. What we're sort of comfortable. Working with or underwriting. Or where we're comfortable investing. And you're seeing some of these bigger funds go earlier and earlier. And earlier. And they have a great process that they run and they've got the manpower and the dollars behind it. And a lot of those firms are great investors. But it's you know, it's moving fast and deals are hot.] And so I think being doing your homework and diligence are are incredibly important for us. And I think. Are are some of the challenges that some investors are probably facing right now.

Speaker1: [00:18:10] We see a lot of subsectors and applications in the health care space. If you had to pick one or two that are really good opportunities to pursue. What would you put at the top of the list?

Speaker2: [00:18:20] Yeah, great question. The first is kind of near and dear to my heart. I spent a lot of this. A lot. Of time in this. Space. Earlier in a previous role and. Also this year. I think interoperability is something that has been. Thrown around so many times and it's probably gone through a couple of different iterations. We had all seven a couple of years ago. We have fire now. You know, we're also talking, I think, a couple of weeks after. The the an acquisition in that space that that drew some headlines and so in the space. And so I think one of the things. That the health care system desperately needs is for for every. Every one all these we talk about coordinated care. A lot. And care. Management with multiple stakeholders trying to deal with the same patient. I think interoperability is an area where the three factors that I mentioned, so the consumer behavior, the regulatory environment, the technology, I think they're all kind of there. And there's. There's a couple of companies that I think are hopefully working to kind of crack that code and and.] Can can really open up that space. And then the other one we already kind of talked about. Right, which. Is behavioral health. I think. There's there's always going to be a service component. There's always going to be human touching another human in health care for a company to really be successful. We see very few truly digital solutions just because of the nature of the business. And so I'm excited to see kind of the rush in to telehealth and virtual. You know, some of these some of these behavioral health companies that are combining approaches. Or are finding a way. To interact with patients in a

really kind of sticky way, virtually, and solve some mental health issues or is also a great area to be in right now.

Speaker1: [00:20:13] Great. When the last few minutes that we have here, what else should we cover that we haven't?

Speaker2: [00:20:18] Yeah, I think, I think we've covered. Covered a lot. I, I was curious about when you talk to other investors or the appetite. I've been spending a lot of time, I think. I mentioned this on the sort of the legal the structuring side of fundraising. And and I think the Dow is a concept is super interesting. But I don't think anyone's quite cracked the code. There yet as well. So I was actually wondering if you come across any investors who are who are leaning into that space or that's a topic that you guys come across frequently. We hear some people starting to look into that particular area. Back in 2017/18, we did a lot of ICOs and white papers and that type of thing and it was interesting, but not much engagement here in this time frame. We see a lot of investors engaging and we're seeing some substantial networks being stood up, some interesting applications going forward. So there's a lot of investors that are now moving in, engaging in that space. It's still early days, but like it looks like there's something meaningful to invest in with the DAOs and they hold a lot of promise for different capabilities and and different values they can bring to the table.

Speaker1: [00:21:36] Yeah. No, that's interesting. I would I would I would agree with all of that. I think it's a really exciting time. And yeah, I'm excited to see how the next couple of years go in that space. Right. Well, so how best for listeners to get back in touch with you?

Speaker2: [00:21:52] Yeah. I'm on LinkedIn. Gerald Gallagher and then Twitter at that. Gerald. Both. Both places that I frequent. So, so feel free to reach out to me there. Great.

Speaker1: We'll put that in the show notes. I want to thank you for joining us today and hope to have you back for a follow up soon.

Speaker2: That's great. I really appreciate it. Thanks, Paul.

Speaker1: [00:22:17] 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 dot org](http://InvestorConnect.org). Hall Tim Martin is the director of Investor Connect, which is a 500 1c3 nonprofit dedicated to the education of investors for early stage funding. All opinions expressed by hall and podcast guests are 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.