

Healthcare IT News

Show them the money!

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NEW YORK – “There has never been a better time to be innovating in health and wellness,” Steve Krein, CEO of the just-launched StartUp Health, said last month.

The program, a new part of the White House's entrepreneurship-promoting Startup America Partnership, aims to improve access to capital, education and resources for health and wellness entrepreneurs – as Krein put it, to "connect the dots" between all the "like-minded people" seeking to transform healthcare.

It's only the most recent and high-profile program seeking to break down the barriers to – and fill the coffers of – smart young companies that have great health IT ideas to spare, but might be lacking the access and the funds to bring them to full fruition.

A central plank of Startup America is the "DC to VC" program, whose most recent "HIT Startup Showcase" was launched in May, offering the chance for nascent healthcare companies to be matched with seed or Series-A funding.

The event, organized by Morgenthaler Ventures, alongside Health 2.0, Practice Fusion and Silicon Valley Bank, was inspired after Will Yu, the special assistant for innovations within ONC, opined that "it would be really nice to have direct access to ... the VC community," says Morgenthaler partner Rebecca Lynn. Her response? "I can do that for you. No problem."

Lynn says she's "very excited about what's going on in healthcare IT." Other venture investors are intrigued too, she says – but wary.

"I think there are a lot of VCs that have lost a huge amount of money trying to fund health IT companies. There are a lot of people who have walked away from that space."

This is now

That was then, though. Now, with mobile technology revolutionizing patient-driven healthcare, with consumer sentiment changing as people realize their health is in their hands, and, especially, with the sweeping changes ushered in by HITECH and the Affordable Care Act, "there is a lot of money to be made."

The HIT Startup Showcase is open to both early-stage companies (under 2 years old, having received less than \$500,000 in funding), and Series A-ready firms (under 3 years old, having received less than \$1.5 million).

Applications are due by Aug.9, and finalists will be announced Aug. 15. So far, says Lynn, she's "seen a ton of cool ideas." While historically, health IT "wasn't really a very sexy space," she

adds "that's changing, and we're seeing the quality of the engineering teams really greatly improve, over even the last year."

Pursuing new and different

One of DC to VC's many partners is a brand new nonprofit called Rock Health. Launched this past March at the South by Southwest music festival, the San Francisco-based seed-stage incubator offers funding (\$20,000), targeted mentorship in areas from finance to design, and legal and operational support to high-potential digital health entrepreneurs.

Having already established partnerships with heavy-hitters such as Mayo Clinic and Harvard Medical School, the group offers crucial advice to start-ups looking to make an impact on healthcare.

To that end, Rock Health recently tapped 10 developers of mobile applications as part of its inaugural accelerator program. They were chosen from more than 350 submitted entries, by representatives from Silicon Valley VCs and top-tier hospitals.

Halle Tecco, Rock Health's managing director, previously worked as business development manager at Apple, focusing on health and medical apps for the iPhone and iPad.

"Being in Silicon Valley, I realized that the level of creativity found in (the healthcare) segment wasn't nearly as robust and exciting as what was happening in some of the other segments in technology," she says. "It was just a different type of developer and entrepreneur approaching these problems."

Healthcare is the largest industry in our country, "but it's still rather isolated," Tecco says. "There's a perceived barrier to being a healthcare entrepreneur." Uncertainty around HIPAA compliance and FDA clearance mean "a lot of people are scared away."

Rock Health, she says, aims to bring in the sort of talent that's building Web 2.0 successes such as Facebook and Zynga and has them infuse health IT with new ways of thinking. "Hospitals also want access to talent and ideas that are cutting edge and new and different."

The key is to bring those ideas to fruition, but so far there has often been a "strange investment gap," says Tecco. "Digital health is halfway between the healthcare investors and the technology investors – folks that have ideas that lie in that nexus expressed to us that they didn't know how to appropriately pitch this to VCs. The best software investors don't have experience in healthcare so they might shy away from that investment. Traditional life science investors don't know enough about technology, so they shy away as well."

‘Where do we invest?’

That said, "There are a lot of investors that are interested" in healthcare. At Apple, she says, forward-thinking funders were "knocking at my door saying, 'Where do we invest?'"

Rock Health wants to help position newborn companies for larger VC infusions down the road. "A startup might just need \$50,000 to test an idea and get it up and running," says Tecco. "That's

where we're playing – helping to build up a vital product so they can then go out and get real Series-A funding."

Some individual vendors are taking it upon themselves to foment and support creativity.

At a recent "IBM SmartCamp," held in Austin this past May, three of the five startup finalists were focused on empowering patient-driven healthcare. Neither ended up winning. But each probably got on the radar screen of funders who otherwise might not have heard of them.

With the Obama administration driving a "mandate for innovation," especially in areas such as patient-centric care, says Drew Clark, director of strategy for IBM Venture Capital Group, health IT, healthcare has recently been enlivened by "a real explosion of bright young companies."

Matchmaking

At the SmartCamps, which are part of the IBM Global Entrepreneur initiative, those small and innovative companies, that might "need a little help in the mentoring and nurturing process," can be matched with venture funding that might not otherwise find them.

Moreover, winners are given access to industry experts and, potentially, deeper partnership opportunities from IBM. With luck, says Clark, "IBM would provide the analytics platform and these companies would build their unique value capability on top. Together we would perhaps go to market."

Industrywide, Clark says, he's noticed "a lot of bottom-up interest from VCs and investors" who are wowed by the transformative potential of the recent "combination of ubiquitous Internet access, availability of broadband, and the explosion of portable mobile devices."

The key, then, is simply to help clue those investors into all the "very innovative things that are being done under the radar."