A Dinner with Missy Krasner, EIR, Morgenthaler Ventures—What is up with VCs and Health IT?

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For our most recent Tableside Chat, we decided to invite a guest that is active in the area of healthcare IT (HIT) and digital health. Missy Krasner is currently looking for good opportunities for series A investments in this space as an EIR at Morgenthaler Ventures. She also consults with Box on their healthcare vertical, which supports HIPAA-compliant cloud storage and content collaboration for healthcare and life science customers. Missy was also one of the founding members of Google Health and has over 20 years of marketing, communications, and business development experience in health IT and consumer health.

Missy started out by telling our group that health IT and digital health seems to be in vogue right now, in fact in Q1 of 2013, roughly $495M went into digital health deals. But as a cautionary tale, Missy also pointed out that in health IT we are still figuring out "who pays?" In healthcare, there are four possible answers to this question:

- **Providers:** Hospitals, large integrated delivery networks (IDNs), Accountable Care Organizations (ACO), and any other provider of care. These tend to have longer sales cycles and require heavy integration layers with other incumbent systems.
- **Employers:** with healthcare premiums increasing due to Obama care reform expansions, employers are interested in products or services that can help contain their healthcare costs and help employees make better insurance procurement and point of care decisions.
- **Payors:** insurance companies are also interested in leveraging IT solutions to manage the cost of their claims, elevate patient engagement around new ways of disease management, and keeping stickiness and brand loyalty with members (mHealth apps)
- **Consumers:** While patients are much of the focus of the health 2.0, digital healthcare space, traditionally, they have not directly paid for healthcare, so entry into this market is not as straightforward with regard to monetization strategies (e.g. freemium, subscription, advertising, PMPM, etc)

On the the provider side, the market can be further divided between acute care and ambulatory care solutions. Acute care—meaning solutions that are sold to hospitals and large integrated delivery networks (IDNs)—are documentation heavy and dominated by large players who have legacy systems. They generally require point to point integrations to work with each other—examples include scheduling, admissions, billing, lab order entry, and patient portals. In contrast, products sold into the ambulatory care market (to doctor's

offices) are moving downstream to lower price points in order to compete for physician dollars. They are also moving to more web-based and cloud services backends. In the ambulatory space, Missy described three major changes to the market:

1. **The Accountable Care Act (ACA):** There will be significant change over the next 2-5 years as the ACA rolls out. Consumers will be made more accountable for out of pocket costs and premiums may rise due to the changes in access to coverage and the insurance exchanges. Primary care physicians will be overwhelmed with more and more Americans receiving health insurance (15-30% more Americans getting insured through the State or Federal exchanges), who could not get insurance before.
2. **EHR Adoption:** Many practices will adopt EHRs to get their $44k financial incentive from the federal government as part of the $19B HITECH Act. While this means that EHR adoption will increase, it also means that many practices may regret their decision after the incentives dry up. They may have chosen an inferior product or made a hasty decision to meet federal deadlines to attest to receive their money.
3. **Physician Consolidation:** An increasing number of physicians are moving out of private practice into employed models or shared risk arrangements. This will require a whole new set of solutions that are more enterprise focused given that physicians will be moving out of a small business practice and into a larger enterprise setting.

Missy also shared 5 areas within health IT and digital health that are getting the most attention right now from Venture Capitalist and strategic investors:

1. **Patient engagement:** Using technology to better engage patients to partner with their clinical teams to better take care of their health.
2. **Big data:** Includes population health, risk scoring, predictive analytics and bioinformatics. In many cases, this also includes analytics and business intelligence solutions that already have a bit of maturity in the healthcare industry.
3. **Data federation:** Solutions that aggregate data from multiple sources or data silos while still protecting the privacy rights of original database owners.
4. **Transparency tools:** Solutions that drive transparency around pricing and quality in healthcare (e.g., Castlight Health)
5. **mHealth:** A number of companies that have developed apps that leverage the power and ubiquity of smartphones to change the way care is managed.

One of Morgenthaler Ventures' thesis areas is analytics. While there is a lot of innovation in this area, Missy said that the ROI is still early for the newer solutions coming out in the market (like risk scoring and predictive analytics). In order for predictive analytics to be valuable, they must be actionable. For the product to be successful, the action must be identified and the user must be willing to execute the recommended action or intervention.

Missy also described what Venture Capitalists look for in companies seeking series A financing:

- A minimally viable product (MVP) is in use or in beta
- Free or paid pilots with customers (or initial engagement or downloads if the startup has a consumer business)
- A ripe pipeline of additional sales leads (beyond pilots) if the startup offers an enterprise solution; a strong distribution and marketing channel strategy if the startup offers a consumer app
- A great team that knows how to work together or may have a history with each other in previous companies
- Defensible IP or an ability to execute fast or get to market first

Missy mentioned that revenue and defensible IP are important to VCs, but it's not a "must have" to do a financing round.

We had a robust discussion about the differences around raising money for medtech startups vs health IT and digital health startups. Many people shared their past entrepreneurial experiences and current startups. The evening was both inquisitive and expressive.

Thanks again to Missy for sharing her insights in the health IT and the digital health space with members of Biodesign Alumni.