



Strategic Investment Programs

Options, Tradeoffs, Best Practices & Pitfalls to
Avoid

Roadmap for Discussion



**HEP
Introduction**



**Aims of
Strategic
Investing
Programs**



**Strategic
Investing
Options &
Tradeoffs**



**Key Questions
Driving
Program
Strategy**



**Executive
Perspectives**



HEP Ecosystem – Creating Strategic Capital

We work collaboratively with strategic investors to gain proprietary deal flow, insight, and access

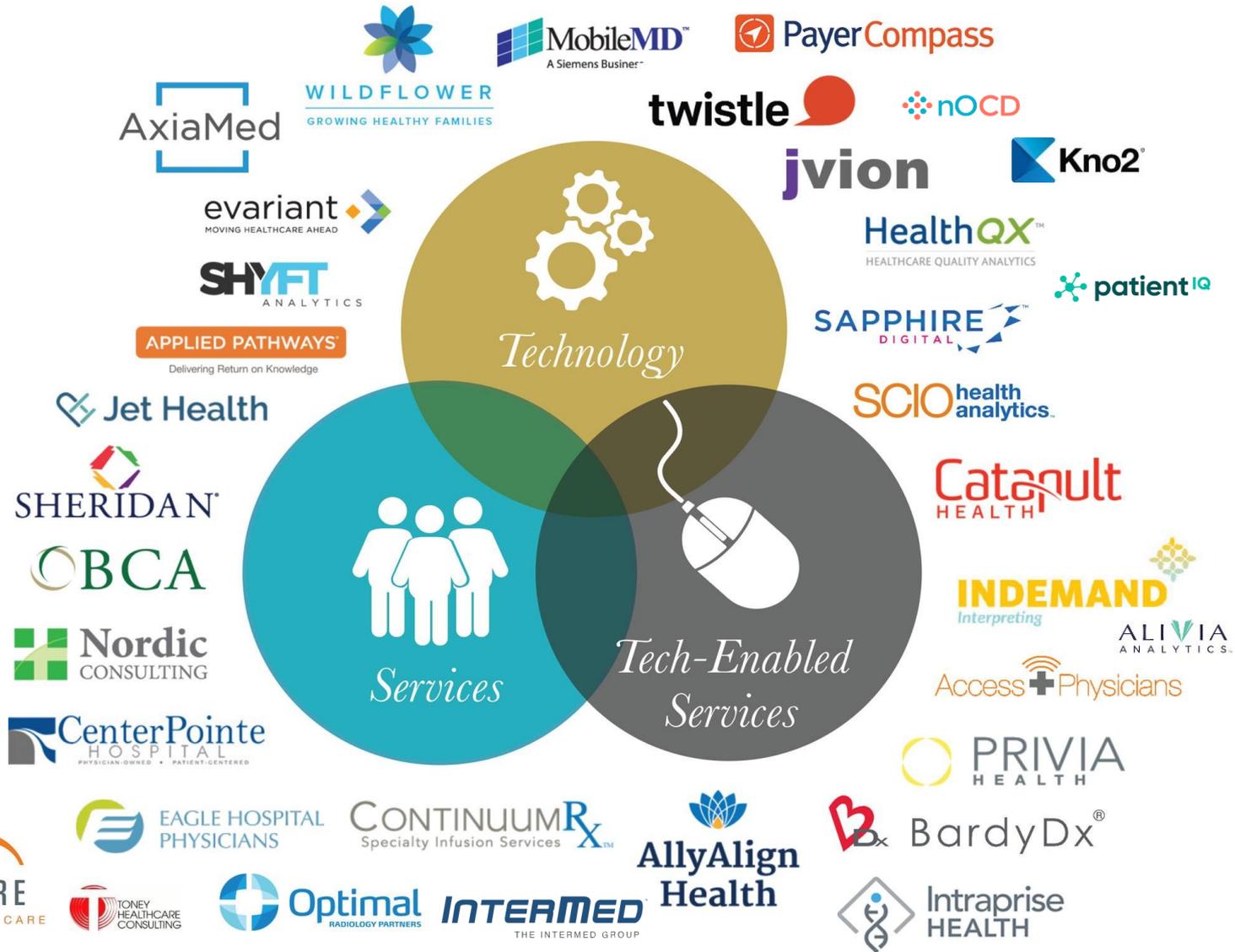


Over 40 strategic
payer and
provider LPs
across HEP's four
funds

- Validation and product feedback
- Accelerated revenue growth
- Strategic partnerships across portfolio companies

- Technology and services solutions addressing real pain points
- Connections to cutting-edge innovation in health care

Portfolio Snapshot



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Why Have Healthcare Organizations Struggled to Fund Innovation?

Structural and budgeting hurdles mean that innovation does not get funded in the normal course of business

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1

Rigid Annual Operating Budgets



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Department running over budget must reduce expenses regardless of next year's consequences

Source: Haas, D et al. "Hospital Budget Systems Are Holding Back Innovation." *Harvard Business Review*. HEP Research and Analysis.

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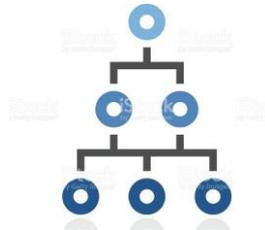


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Department running over budget must reduce expenses regardless of next year's consequences

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Unaligned Budgeting Units



Decentralized departmental budgets = under-investment in innovative cross-continuum care technologies

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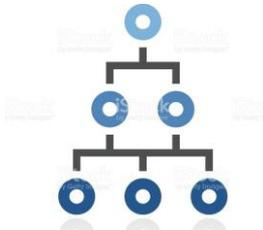


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SaaS funded through operating; licenses through capital. Painful sales cycle for startups

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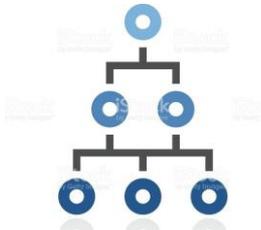


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Persistent Margin Pressure



-0.97% operating margins and a hyper-vigilant sourcing department = not much extra capital to fund innovation

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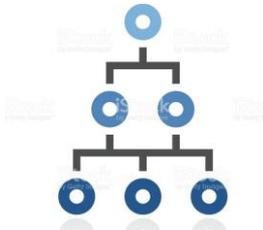


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Overburdened IT Departments



Securing critical CIO buy-in to innovation projects difficult given competing IT priorities (EMR, security)

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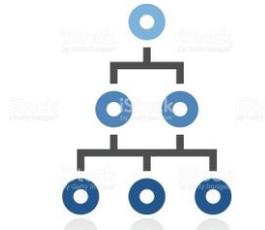
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Healthcare organizations are increasingly setting up dedicated investment and innovation groups to fill a critical funding gap

Source: Haas, D et al. "Hospital Budget Systems Are Holding Back Innovation." *Harvard Business Review*. March 29, 2018.

Aims of Strategic Healthcare Investing

Healthcare organizations are increasingly exploring investment opportunities beyond their core focus areas to achieve 4 key goals

Financial Returns



Secure a favorable financial return by taking an equity stake in a company with which the system has a relationship

Operations Improvement



Leverage portfolio companies to solve own system's challenges

Brand Enhancement



Create direct & indirect value via both brand extension & association with other market players

Foster Innovation



Provide a window into emerging innovations & gain a top-down look on emerging trends

Proliferation of Strategic Investing Programs

The last 10 years have seen an abundance of health system, health plan, and pharma-sponsored strategic investing funds emerge

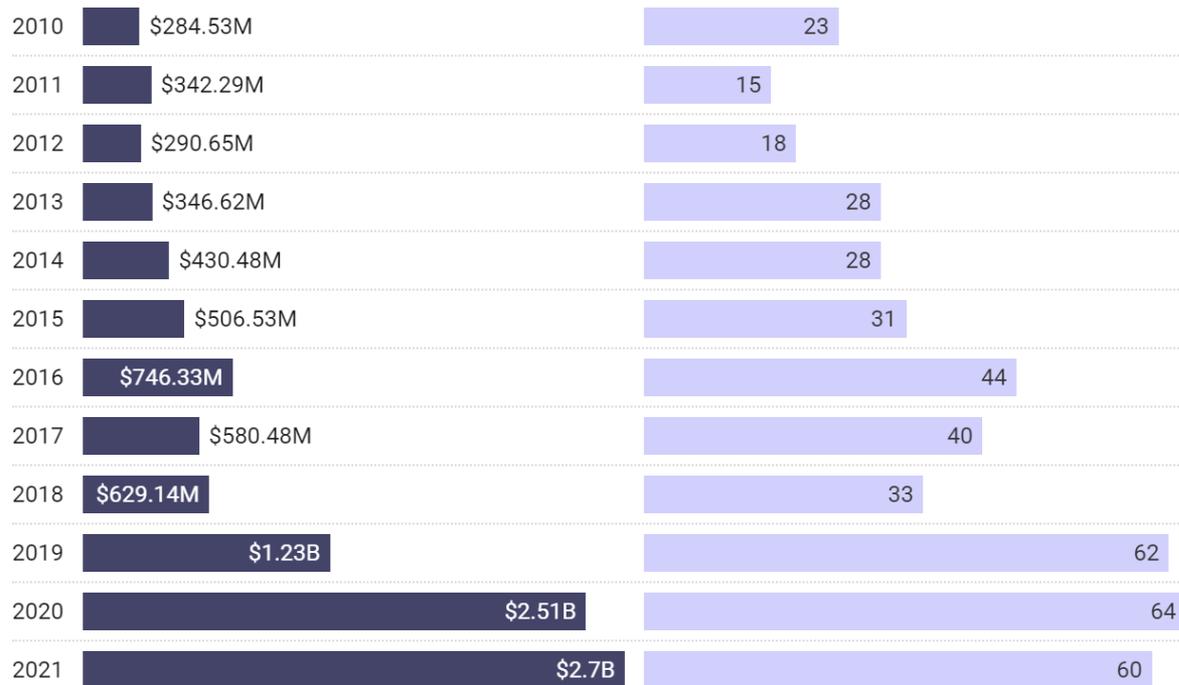


Healthcare Strategic Funds are an Important Venture Capital Asset Class

Steady increase in the amount of capital committed to the strategic investing category; 1 out of 3 HCIT financings involves a strategic investment fund

Strategic VC Investing Accelerated During the Pandemic

Dollar total and number of rounds participated in by select hospital VCs 2010-2021¹



By the Numbers

Increasing Role of Healthcare Corporate VCs

38% Of all HCIT VC financings involved a corporate VC ²

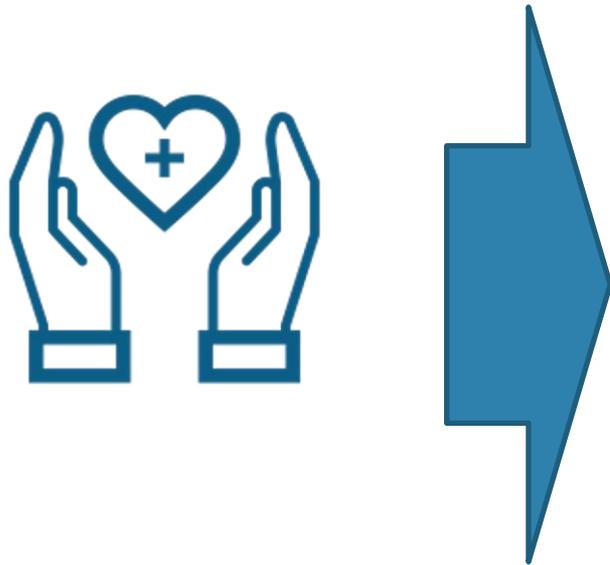
150+ Healthcare-focused corporate VC entities ³

\$45M Average annual corporate VC investment budget ³

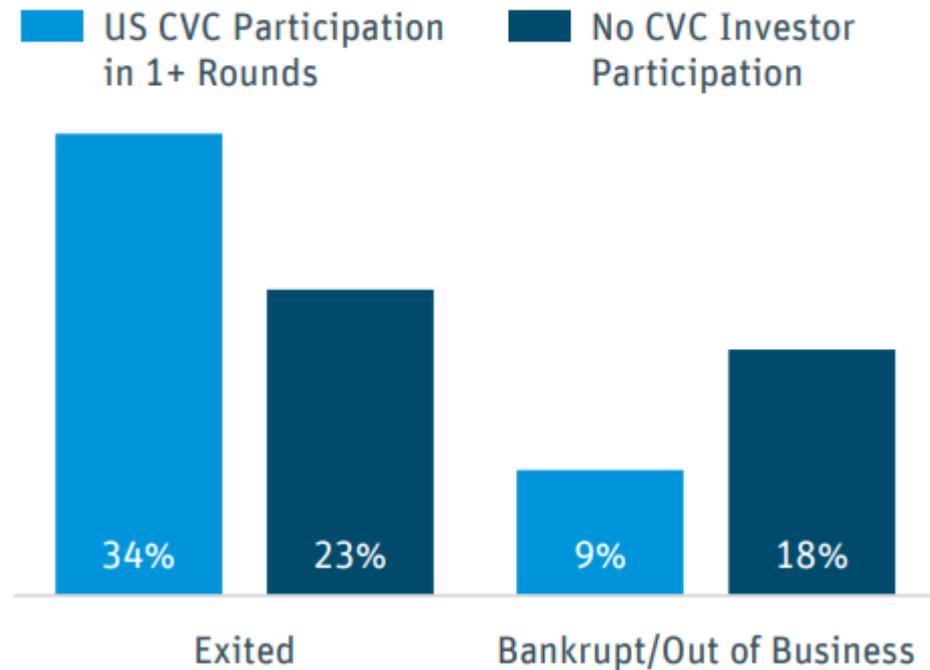
Source: ¹Healthcare Dive, "Hospitals Bet Big On Venture Capital Amid COVID 19 Revenue Flux," March 30, 2022,, ²HES Corporate Venture Action Group Survey, ³Crunchbase

Evidenced in the Results

Strategic Investor-Backed Companies More Likely to Exit and Less Likely to Go-Out-of-Business



Cohort Analysis: With/Without CVC Investment¹



Source: ¹SVB 2021. Cohort is companies first seeded between 2008 and 2014 that raised at least two rounds.

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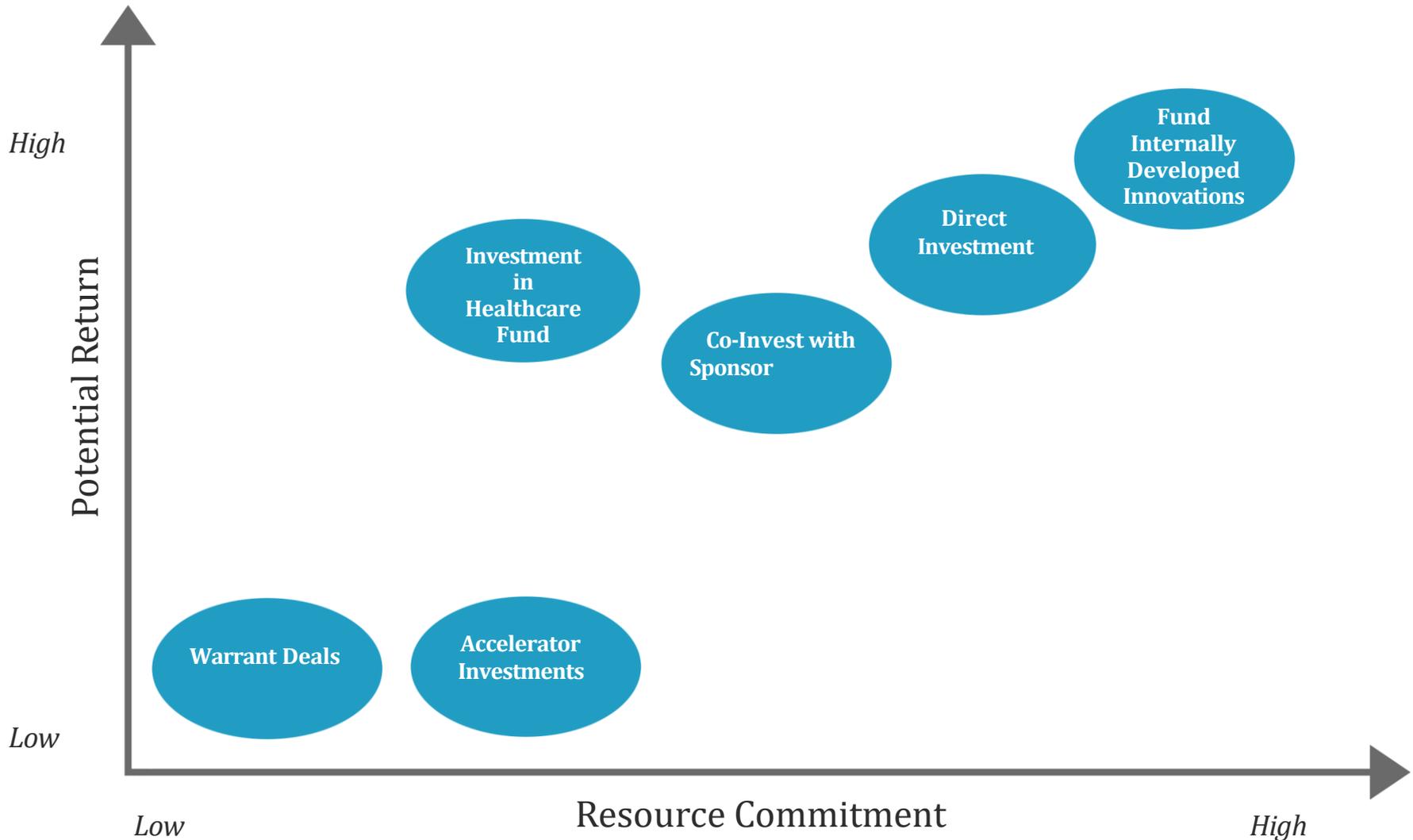
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Multiple Options, Multiple Tradeoffs



Investment Approaches

Organizations are pursuing multiple approaches to investing in and partnering with emerging companies.



Direct Investments

Make direct equity investments in companies



Fund Investments

Make investments in healthcare funds



Accelerators

Participate in an external accelerator program to identify new companies

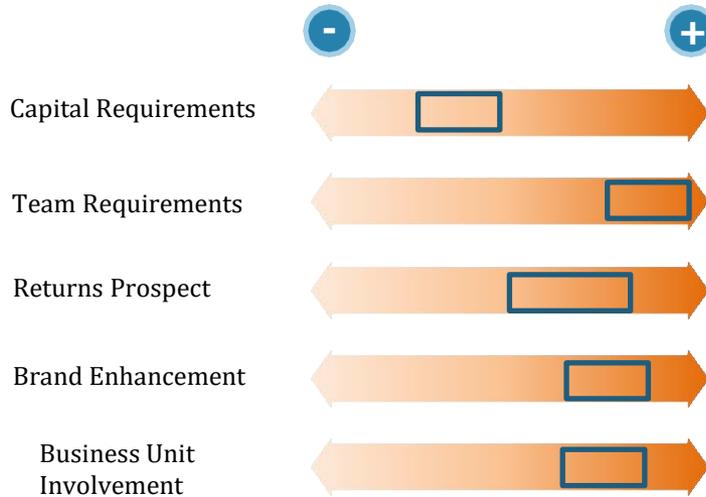


“Innovation Center”

Invest internally in built-for-purpose companies & spin-offs

Direct Investments

“Scorecard”



Sample Direct Investment Groups

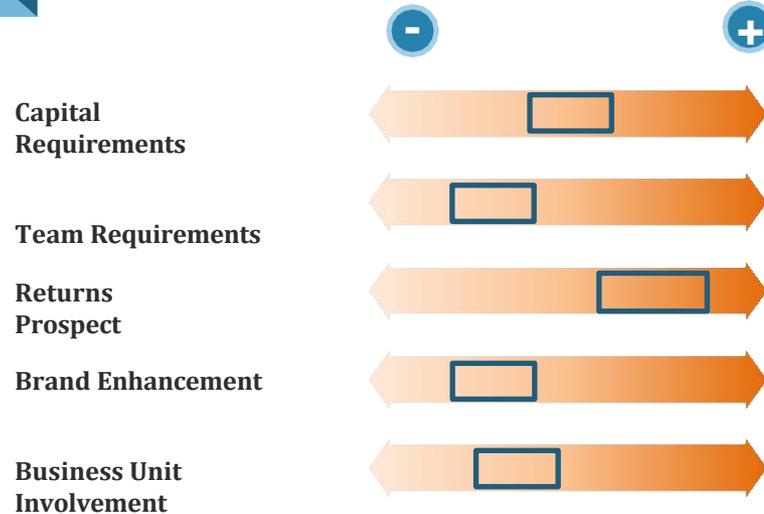


Advantages / Disadvantages

- Greatest upside potential
- Control over investment selection and company strategy
- Higher brand awareness opportunity
- Greater risk and liability than fund investment
- Need for internal investment execution and management expertise
- Potential customer/investor conflicts
- Significant competition for deals

Third-Party Fund Investments

“Scorecard”



Sample Third-Party Funds



Sample Investors

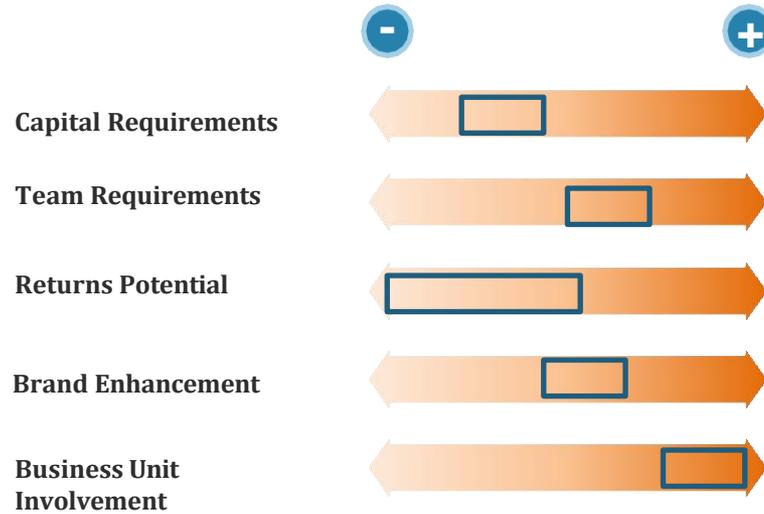


Advantages / Disadvantages

- Minimal internal resources needed
- Exposure to numerous companies
- Higher absolute return potential
- Less direct control/governance
- All investments may not be system applicable
- Capital is captive/committed for the fund life
- Limited brand enhancement opportunity

Internal Innovation Center

“Scorecard”



Sample Innovation Groups

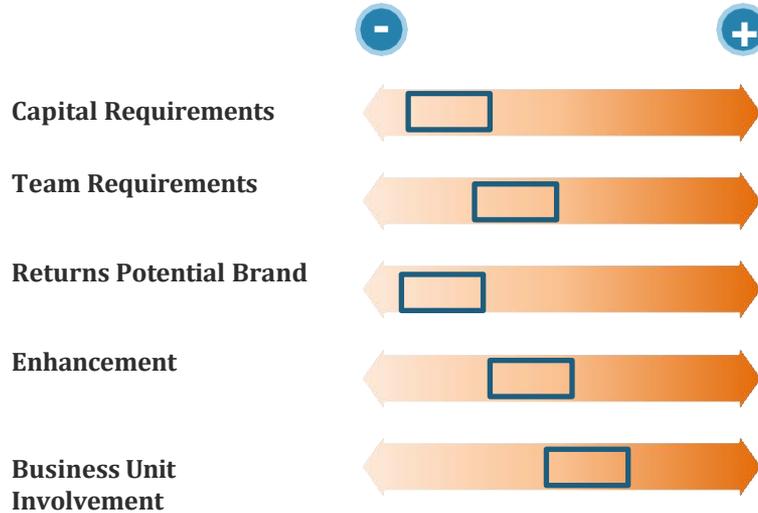


Advantages / Disadvantages

- High degree of control
- Leverage existing internal resources
- Flexible capital requirements
- Opportunity to strengthen brand
- Significant execution risk
- Human capital constraints
- Investment return impact is relatively minimal
- Long timeframe to realize results

Accelerator Partnerships

“Scorecard”



Accelerator



Advantages / Disadvantages

- Significant deal flow
- Networking opportunity with like-minded executives
- Co-branding opportunity
- Relatively straightforward execution
- Companies frequently lack proof of concept
- Requires meaningful investment of time by internal team to generate results
- Lower risk-adjusted returns

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Key Considerations Shaping Strategy Decision



What are our investment goals and risk appetite?

- How do you weigh capital appreciation vs. obtaining greater access to new technologies and ideas in structuring your program?
- What is your investment horizon?
- Are you comfortable taking greater downside risk in exchange for a higher potential return?



How are you sourcing and evaluating new opportunities?

- Is your current pipeline sufficient?
- How do you best mine internal intellectual capital?
- Are you deploying internal resources efficiently/appropriately?



How will the program be governed and staffed?

- What will be the metrics to define program success and how will reporting be coordinated?
- Who will maintain ultimate oversight over the program?
- Will you repurpose existing team members or recruit and build full internal investment team?



How can you differentiate your program?

- With many intelligent investors chasing the same companies, how can we provide something uniquely valuable?
- How do we drive commercial value for prospective portfolio companies internally?
- How can an investment program further an organization's ESG and DEI-related objectives?

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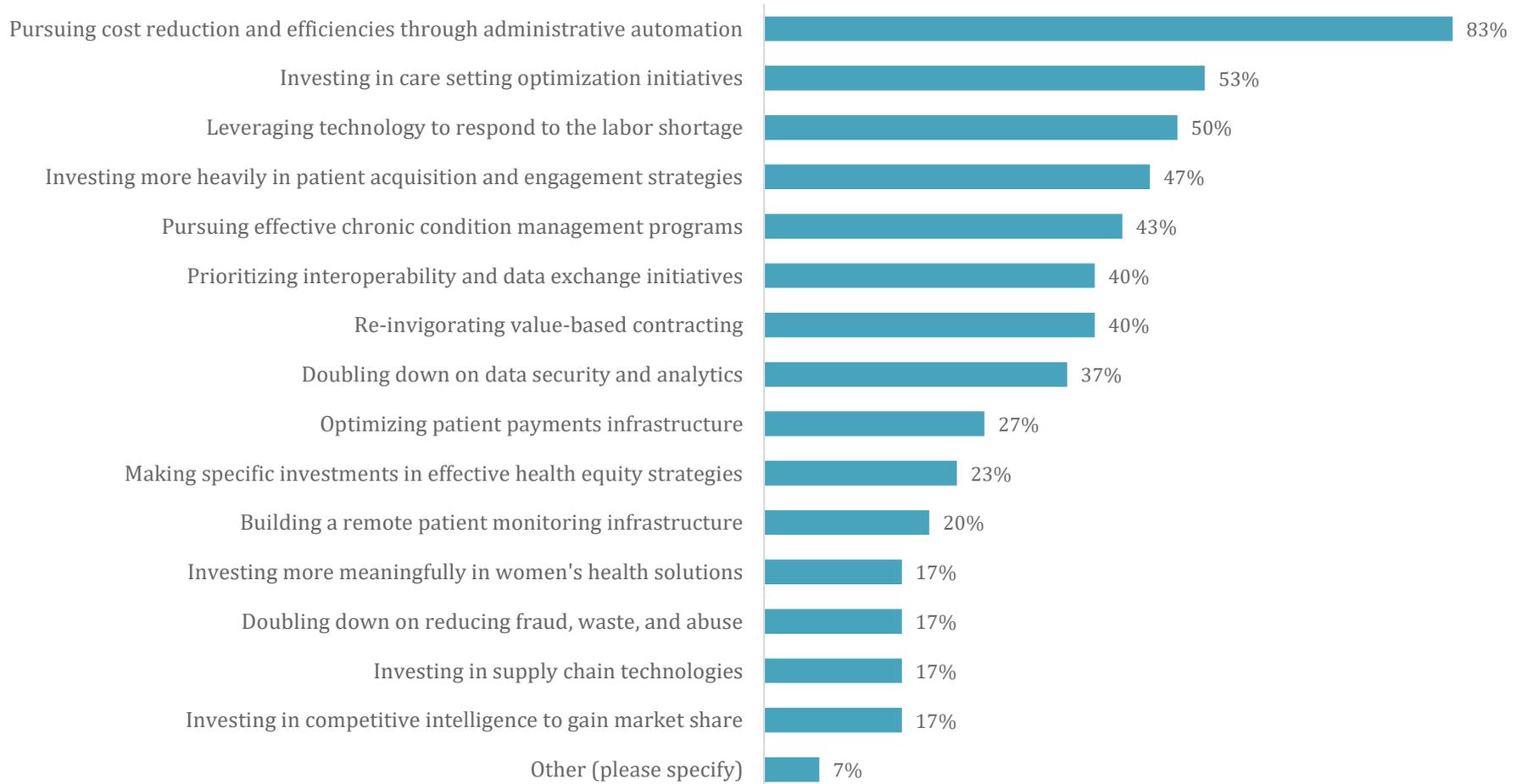
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2023 Strategic Investment Priorities

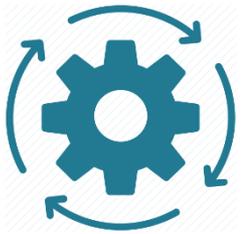
Question (Payers and Providers Only):

Which of the following are in your organization's top 5 strategic initiatives for the next year?



2023 Areas of Focus

Administrative Automation



Behavioral Health: IT & Services



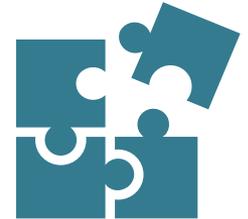
Care Setting Optimization



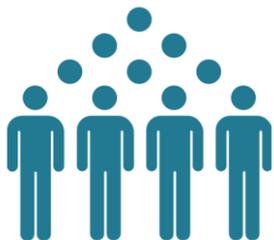
Culturally Competent Care



Data Interoperability



Patient Engagement



Specialty Pharma: IT & Services



Tech-Enabled Disease Management



Outsourced Non-Core Services



Supply Chain Improvement



Questions?

Ezra Mehlman
Managing Partner
Health Enterprise Partners
emehlman@hepfund.com

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