Lessons from the GET Funded investment service

Programme connected digital health SMEs with investors

Part of an EU-funded programme, GET Funded targeted European digital health SMEs looking for follow-up investments - typically between €0.5 million and €2 million - and was designed to provide them with training, resources and networking opportunities. In two years, we worked with 50 start-ups, trained them and placed over 30 of them on stage to pitch in front of investors. So, what did we learn?

The GET Consortium started by identifying the European investors that were the most active in digital health: about a dozen dedicated funds plus a mix of corporate, healthcare, technology, and agnostic venture funds. We recruited about 40 that we considered 'active,' a number that will grow as we witness the creation of new dedicated funds every year. 2015 saw the creation of one fund in particular that should be interesting to follow: AXA, already ahead of the game in terms of digital health reimbursements, now has a new dedicated investment fund. By comparison, in the US Rock Health reported 344 investors in 2014 (one or two deals per year), compared to only 121 in 2011 - nearly a three fold increase. Rock Health also identified a growing group of serial investors (three or more deals per year), with 55% of them in 2013 continuing to do three or more deals in 2014.

Venture funding has been growing at such a rapid pace that it has triggered talks of a bubble. Health 2.0 recorded annual venture funding in 2011 of $1.03 billion, which grew to $1.61 billion in 2012, and topped $2.18 billion in 2013. At the close of 2014, Health 2.0 tallied $4.36 billion in funding for digital health. We reported a slight investment slowdown in 2015 with mid-year totals of $2.2 billion, but a few major deals likely to happen before the end of the year may still reverse this curve.

A survey of our European investors helped us establish our SME recruitment criteria and focus our coaching activities, but also gave us a few insights into the European eHealth funding landscape. The industry is still relatively young. We've just started seeing some inspiring examples (again mainly in the US) of successful investments and exit strategies. 2015 has witnessed several IPOs with Fitbit becoming the biggest consumer electronics IPO on record with $732 million raised. After an observation period, European investors have started to seriously look into the space and make their first investments. A few recent notable raises in Europe include: Voluntis ($29 million - one of the ten biggest digital health investments of 2014), TrialReach ($13.5 million), Medigo ($6.2 million), and myTomorrows ($6 million).

Why a slower ramp-up in Europe? First, VCs in the US have deeper pockets. From their point of view it's also easier to imagine a company rapidly scaling up in a more unified market like the US, rather than in Europe where 27 different health systems all have their own reimbursement frameworks. Patients and individuals are also a lot more ready to become health consumers in the US while in Europe we too often believe everything related to our health should come for free.

The result is a little saddening: quite a few EU-born SMEs move to the US to grow and get funded. In Europe, they find themselves in a vicious circle: they need to demonstrate important commercial traction to get financed, while at the same time they need financing to get to this stage of development. At some point, investors need to take a leap of faith. So the first step is to get your pitch right. One of our surprises: SMEs need help with structuring their content.

Investors always ask 'what makes your solution unique and better'? SMEs' answers are often vague and ignore competition. Is it a new and better technology running in the background? Is it the integration and support system already in place? The chances of a given start-up being the only digital solution addressing a healthcare challenge nowadays is very slim, so start-ups need to spend some time thinking about their unique value proposition.

The landscape is changing so rapidly, VCs are investing in teams as much as they are investing in technologies. So a pitch should say three things: we have a promising and scalable value proposition; we have identified our customer; and we are the right team to drive this project to a successful exit.

Finally, looking for the right investor is like dating: it takes time to find your match. So start flirting early (VCs are more approachable than you think: it's in their interest to identify talent as early as possible) but don't expect a quick turnaround. It happens, but it's rare.

The GET Consortium produced a comprehensive Practical Guide to Getting Funded and a list of 250+ active investors in digital health around the world. These and additional resources for digital health start-ups are available online[1].

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1. http://www.get-ehealth.eu/