

Will Health IT VC Funding Ever Slow Down? Expert Weighs in

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Healthcare IT companies are receiving so much venture capital (VC) funding these days that Raj Prabhu has a slight problem.

“The last three quarters have been record-setters, we’re like, ‘What other words can we use to describe it?’” reveals Prabhu, the CEO of the Austin, Texas-based market intelligence firm, Mercom Capital Group.

Joking aside, the second quarter of 2013, healthcare IT companies raised \$623 million in VC funding, according to Mercom’s latest report. That number represents a bump up from \$493 million in quarter one, and thus far 2013 is on track to overcome 2012, which was the biggest year to date for VC funding in the industry.

In the second quarter of 2013, Mercom found that consumer-focused companies, with the rise of apps, wearable devices, remote monitoring, and patient engagement, overcame practice-focused companies in terms of VC funding. Consumer-focused companies received \$416 million in 112 deals compared to practice-focused companies’ \$207 million in 56 deals. The largest amount of money went to Proteus Digital Health, a digital health feedback system provider, which raised \$45 million.

Other companies that received a large amount of money were lifeIMAGE, a network for securely sharing medical images and related health information, Blue Health Intelligence, a healthcare data and analytics company, and WorldOne, a healthcare data collection company.

Healthcare Informatics Associate Editor Gabriel Perna spoke with Prabhu about why healthcare IT has received such a boon in VC funding lately, if it will ever slow down, and what innovators can take away from this report.

Below are excerpts from that interview.



Raj Prabhu

What’s fueling the record growth of VC funding for healthcare IT?

Funding used to be very negligible. In 2010, there was very little funding. It started taking off in the second half of 2011 when we saw more than \$100 million into the sector for the first time. It’s a natural progression. Meaningful use and HITECH (the Health Information Technology for Economic and Clinical Health Act) really kind of got things going.

The first part of funding, we saw a lot of electronic health records (EHRs) and practice management software, clinical decision support, revenue cycle management; these practice-focused technologies were getting funded. Now that EHR [electronic health record] adoption has picked up in most hospitals, the progression is towards consumer focused technologies. This is where it’s really taken off. We’re seeing more

money into mobile health, telehealth, some of it's going towards social media. They are looking at technologies that interact with consumers. At the same time, it's coincided with the release of the government data that's spurred these technologies.

Why are venture capitalists showing such big interest in consumer-focused technologies when it's a less proven revenue source than clinical technologies?

That's what we love about the U.S. and venture capital, private equity investors. They're willing to take the risk. That is the main reason we have so many industries that weren't there before. Everyone knows the market is huge— this is not a niche area. And we all have the hardware for it.

Even though they've taken a back seat in investment to consumer-based technologies, what are some of the clinical-based technologies that have gotten some love from VC funding as of late?

There is money going to the EHR guys, we saw some money going into medical imaging, we saw a few in clinical decision support, data analytics, and practice management. It was kind of across the board, some of the main ones. One thing we didn't see a whole of was revenue cycle management.

At what point will this increase in VC funding slow down?

It's very difficult question to answer. I personally think this year will continue to be great. We have to wait and see when these applications become official, meaning they are approved by the Food and Drug Administration (FDA) and the insurance recognizes and reimburses them. If they don't get beyond that, a lot of them will fizzle. That adoption by hospitals, government, insurance, and doctors is something I will be watching. Without that, the market won't open up and funding will be affected. Like a wearable device, you might get \$10 million for it, but when is it you can officially use it? When can patients use it transmit data securely, and get insurance reimbursement for it? If that doesn't happen, the adoption won't there.

What should innovators who are trying to get money from venture capitalists in this industry take away from this report?

The big thing is knowing the trends. One of the big things I see, because we look at so many companies and their deals, a lot of companies in this health IT sector still lack the ability to articulate themselves. It can be difficult for us to understand what it is they do. Some of them are simple, but a lot of them have 10 things they do. I can't tell where they make money. The industry has to do a better job, especially the newcomers, to know what they do, what their place is, what their technology does and then be able to articulate that and keep it simple.