

Health-Care Titans Catch the Startup Bug

Venture deals help insurers, providers gain technology to solve array of problems



Mature health systems have been pursuing startups more aggressively in search of technologies that could improve medical care and help them confront an evolving industry. *PHOTO: LUCILE PACKARD CHILDREN*



By

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When InGeneron Inc. set out to raise its first large venture-capital financing, it didn't have to go far. Research partner Sanford Health stepped in and invested \$20 million in the regenerative-medicine startup.

Sanford and other health systems and insurers have been pursuing startups more aggressively in search of technologies that could improve medical care and help them deal with an array of challenges confronting the evolving industry. And these strategic investors help bring startups added credibility and expertise into how to sell into the medical system.

Whether health systems will maintain their level of activity remains to be seen. To be successful investors they must have a strategic approach, said Rob Coppedge, chief executive of Echo Health Ventures. Echo formed last year through an alliance between investment arms of health-care players Cambia Health Solutions and Blue Cross and Blue Shield of North Carolina.

“You can’t dabble in venture capital and expect to have a portfolio that works,” Mr. Coppedge said. “You’ve got to have a long-term view that can help support companies through cycles.”

A look at 13 top health-care insurers and providers—including Aetna Inc., Kaiser Permanente and Cleveland Clinic Foundation—shows that members of this group have increased their activity. From 2007 through 2012 the combined number of annual investments from members of this group was in the low- to mid-20s, with the exception of 2008, when 17 deals done, according to market tracker Dow Jones VentureSource.

Since 2012, the tallies have been higher, with 25 investments in 2013, 27 in 2014, 36 in 2015 and 24 in 2016.

Today, health-care providers still operate largely under the fee-for-service model. But the medical system is shifting toward value-based payments that reward outcomes instead of volume.

In addition, hospitals face Medicare penalties when certain patients are readmitted within 30 days. As health-care providers take on more risk for the cost and quality of care, they need new ways to engage and track patients, Frost & Sullivan analyst Nancy Fabozzi said.

The Human Body, According to Venture Capitalists



As a result, tools to better-coordinate patient care are drawing interest. Take PatientPing Inc., which recently raised a \$31.6 million round led by Andreessen Horowitz and Leerink Transformation Partners. The care-coordination startup said in January that it had joined with Hackensack Meridian Health in a partnership designed to enable data sharing among the New Jersey system's 13 hospitals.

InGeneron, meanwhile, had worked with Dakotas-based Sanford for about two years before raising its recent \$20 million financing. Patients in InGeneron's feasibility study of its treatment for partial-thickness [rotator cuff](#) tears have been Sanford patients.

Since Sanford is also an insurer it has a broad view of health economics that is valuable to InGeneron, according to President Ron Stubbers.

Sanford has made smaller investments in the past, but as its research enterprise has grown it has made sense for it to make deals of this size, Chief Innovation Officer Rich Adcock said.

Health systems are also scouting technologies through venture funds. A number of health plans and hospital systems have invested in Health Enterprise Partners, which uses relationships with strategic limited partners to gain feedback on opportunities it is evaluating, according to Managing Partner Dave Tamburri.

These groups have several reasons for investing, including a desire to cultivate a culture of innovation in their organizations, according to Mr. Tamburri. Cleveland Clinic Foundation and Montage Health are among the backers of the firm's most-recent fund, closed in 2014.

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