COALITION FOR INNOVATION

HealthTech
Blueprint for the Future

Coalition for Innovation, supported by LG NOVA

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The views and opinions expressed in the chapters and case studies that follow are those of the authors and do not necessarily reflect the views or positions of any entities they represent.

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Preamble

The Coalition for Innovation is an initiative hosted by LG NOVA that creates the opportunity for innovators, entrepreneurs, and business leaders across sectors to come together to collaborate on important topics in technology to drive impact. The end goal: together we can leverage our collective knowledge to advance important work that drives positive impact in our communities and the world. The simple vision is that we can be stronger together and increase our individual and collective impact on the world through collaboration.

This "Blueprint for the Future" document (henceforth: "Blueprint") defines a vision for the future through which technology innovation can improve the lives of people, their communities, and the planet. The goal is to lay out a vision and potentially provide the framework to start taking action in the areas of interest for the members of the Coalition. The chapters in this Blueprint are intended to be a "Big Tent" in which many diverse perspectives and interests and different approaches to impact can come together. Hence, the structure of the Blueprint is intended to be as inclusive as possible in which different chapters of the Blueprint focus on different topic areas, written by different authors with individual perspectives that may be less widely supported by the group.

Participation in the Coalition at large and authorship of the overall Blueprint document does not imply endorsement of the ideas of any specific chapter but rather acknowledges a contribution to the discussion and general engagement in the Coalition process that led to the publication of this Blueprint.

All contributors will be listed as "Authors" of the Blueprint in alphabetical order. The Co-Chairs for each Coalition will be listed as "Editors" also in alphabetical order. Authorship will include each individual author's name along with optional title and optional organization at the author's discretion. Each chapter will list only the subset of participants that meaningfully contributed to that chapter. Authorship for chapters will be in rank order based on contribution: the first author(s) will have contributed the most, second author(s) second most, and so on. Equal contributions at each level will be listed as "Co-Authors"; if two or more authors contributed the most and contributed equally, they will be noted with an asterisk as "Co-First Authors". If two authors contributed second-most and equally, they will be listed as "Co-Second Authors" and so on.

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The Coalition is intended to be a community-driven activity and where possible governance will be by majority vote of each domain group. Specifically, each Coalition will decide which topics are included as chapters by majority vote of the group. The approach is intended to be inclusive so we will ask that topics be included unless they are considered by the majority to be significantly out of scope.

We intend for the document to reach a broad, international audience, including:

- People involved in the three technology domains: CleanTech, AI, and HealthTech
- Researchers from academic and private institutions
- Investors
- Students
- Policy creators at the corporate level and all levels of government

Chapter 9:
Exit Strategies and Market Opportunities

Author: H. Timothy Hsiao, PhD

Overview of Exit Strategies

For a healthtech venture, "exit" refers to the event in which the management and initial investors sell their ownership or equity in the company. Exit strategies for healthtech companies typically include:

Merger/Acquisition (M&A): This is probably the most common exit for successful medtech startups. Strategic buyers are often established healthcare companies seeking innovation.

Private Equity (PE) Transactions/Buyouts: This is a growing trend for mature medtech companies with stable revenue. PE firms are typically attracted to companies with established revenue streams and scaling potential. This path often involves company restructuring to optimize operations and can provide bridge financing before eventual strategic acquisition

Strategic Partnerships and Licensing: This path involves out-licensing technology or intellectual property (IP) to larger firms in exchange for upfront payments, milestone payments (depending on development/commercialization success), or royalties. Partnering and licensing allows monetization without full company sale.

Initial Public Offerings (IPOs): IPOs are typically viable for companies with proven market traction, substantial annual revenue ($50M+) and growth trajectory. This path requires substantial clinical validation and regulatory clearance. In addition, since the overall conditions of the stock markets can greatly sway the feasibility and outcome of IPOs, this pathway of exit, as compared to the other three approaches, is typically less under the control of the healthtech company management and initial investors.

The specific exit strategies for a healthtech venture will be highly dependent on not only its technology readiness levels and regulatory approval status. Market opportunities that its technologies and business model are anticipated to capture also play a major role, since such opportunities will be factored into the corporate (or technology) valuation when the venture leadership negotiates for any deals with the stakeholders that will pay in exchange for the venture’s partial or full ownership.

Market Opportunities

Healthtech venture leadership needs to be aware that the most valuable assets of their will likely be its intellectual property and scientific/engineering talents. Potential investors may view the physical assets and operational/administrative components as irrelevant (except in the case of an IPO), since those parts of the companies are very likely to be stripped or reorganized in the case of M&A, PE, and technology licensing deals.

Nonetheless, whether a healthtech venture plans to pursue IPO directly or chooses to not operate in the late-stage, scaling, and maturing phases of the business, the venture leadership will always need to have a clear vision on how their products or services eventually will be adopted and disseminated into the market for revenue generation. Healthtech companies have a wide range of opportunities across seven different categories:

Care Delivery Transformation: This category includes opportunities in virtual care platforms, hybrid/telehealth solutions, hospital-at-home programs, and care navigation. Chronic disease management (e.g., diabetes care innovations, heart failure monitoring, and COPD/respiratory management) are also expected to offer growth opportunities.

Digital Health Integration Through Data Analytics and AI: This category includes opportunities in predictive analytics, clinical decision support, population health management, real-world data/evidence, AI/ML diagnostic and monitoring solutions, remote patient monitoring technologies, and digital therapeutics with clinical validation.

Consumer HealthTech: This category includes opportunities in wearable health monitors, digital therapeutics, health and wellness apps, and personal health records.

Infrastructure Modernization: This category includes opportunities in interoperability solutions, healthcare cybersecurity, cloud-based EHR platforms, and workflow automation.

Value-Based Healthcare Solutions: This category includes opportunities in hospital efficiency technologies, risk-sharing technology, quality measurement platforms, care gap identification, cost transparency tools, and preventative care technologies.

Minimally Invasive Technologies: This category includes opportunities in surgical robots and navigation systems, advanced imaging-guided procedures, and single-use instruments for infection control.

Personalized Medicine: This category includes opportunities in point-of-care (PoC) diagnostics, genetic testing and companion diagnostics, and custom implants and prosthetics.

Stakeholders and Potential Buyers

Before entering into any "exit" negotiations, the venture leadership must also acquire a clear understanding of the stakeholders that might become the buyers of their ventures or proprietary technologies. Relevant stakeholders for healthtech ventures may include:

- Large healthcare corporations (e.g., UnitedHealth Group, CVS Health, and Kaiser Permanente)
- Tech giants (e.g., Google, Microsoft, and Microsoft)
- Pharmaceutical companies (e.g., Eli Lilly, AstraZeneca, Sanofi, Novartis, Roche)
- Medical device manufacturers (e.g., Siemens Healthineers, Johnson & Johnson, Medtronic, Boston Scientific)
- PE firms
- Investment banks
- Partners/technology licensors.

Different stakeholders will have various reasons (business tactics and strategies) to buy healthtech ventures, and their capital standings will heavily impact the negotiations for pricing and terms.

Challenges for Healthtech Venture "Exits"

IPOs are typically considered the gold-standard or ultimate success of exit for technology investors. However, public markets nowadays are increasingly scrutinizing the validation of the path to profitability. Special Purpose Acquisition Company (SPAC) used to be considered as an accelerated pathway to IPOs, but recent statistics indicate that the financial performance of most SPAC deals are not impressive.

For strategic partnerships and licensing, revenue-sharing models with established healthcare providers might be difficult to build. Integration into larger health platforms can also be time-consuming and politically sensitive.

Our New Vision

As informed by history, the most successful exits typically occur for companies addressing significant unmet medical needs and market potential with solutions that demonstrate clear health benefits, integration with the clinical workflow, interoperability with the electronic health record system, cost savings, existing or early reimbursement code approval, and strong intellectual property protection.

Therefore, our new vision points to the following best practices for healthtech business creation:

- Engage with health care systems, practitioners (the whole care team), and payors early, even starting at the stage of ideation.
- Co-create continuously with the key stakeholders throughout the product development journey and pivot quickly with frequent stakeholder feedback and market updates.
- Before investment is needed, begin to connect with and provide quarterly updates to build mutual trust and understanding with investors and potentially strategic partners.
- Monitor the policy environment of reimbursements. For example, bills such as the Health Tech Investment Act might create a new reimbursement pathway for AI-aided health care services.
- Evaluate the product's competitiveness frequently against the market landscape and be willing to abandon failing projects to adapt with agility.
- Prepare a backup/shadow pipeline of new development projects to minimize the impact of technology, market, regulatory, and competitive risks.
- Use strategic collaborations nimbly to capture synergies in complementary capabilities.

Author (In order of contribution)

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H. Timothy Hsiao is passionate about developing deep tech-solutions to address public health needs. His current focuses are radiological, quantum, and digital/AI technologies.

For more information about the Coalition for Innovation,
including how you can get involved, please visit coalitionforinnovation.com.

View the Next Chapter