https://doi.org/10.30953/tmt.v1.87

Healthcare Startups: Performing a Comprehensive Appraisal of Prospective Investors in Digital Health

Joe Maristela

Editor's note: This interview is based on a lecture by Joe Maristela presented in July 2016 during the First-Annual Future of Health: Telemedicine and AI Summit in Ho Chi Minh City, Vietnam.

The process of performing due diligence is quite basic and required for any founder seeking investors.

In as much as investors perform due diligence on founders—it goes both ways. Founders should perform due diligence on investors and consider the investor's "whole package". They should not just accept an offer from the first investor willing to put money down. Nor should the founder simply go with the investor that's amenable to a startup's highest valuation, or an investor willing to put the most money down. Cash and capital commitments are only part of the equation.

Profiling the Prospective Investor: Culture Fit

Perhaps the most important question to consider is an investor's track record and background. Is there a culture fit? This is true for any stage of fundraising, be it seed money or the series A round—a company's first significant round of venture capital financing.

From a founder and CEO's perspective, a startup's culture envelops more than its team, internally. It also includes its board of directors and formal advisers—some of whom may very well be their investors.

In telehealth and medicine, it is critical that the investor have expertise in the business niche that the startup is pursuing. Unlike other industries that are heavily regulated (such as finance), telehealth and medicine are especially sensitive niches to pursue. This is because actions taken in these spaces directly affect lives.

Profiling the Founder: Credentials and Experience

What I tried to convey during my lecture is that I require a generalist at the helm of the startup. This is an important characteristic of a founder. There should be no doubt in the prospective investor’s mind that the founder intimately understands and has experience in the business.

If the startup is all about providing telemedical care, I need an MD in the CEO seat to drive that startup. In the case of The Generics Pharmacy in the Philippines,[1] I needed a licensed pharmacist at the helm, with appropriate credentials and experience.

Heads of startups that are not sensitive to the specific needs and requirements of the area served can be problematic. For example, in the Philippines, regarding a medical device that I invested in, leadership came from a tech entrepreneur from Australia. I quickly found that during the FDA review process (FDA in the Philippines) this person lacked the empathy critical to being receptive and sensitive to what was and wasn't working with the device in a clinical setting.

Finding Angel Investors

An internet search can be used to start the process of finding investors. During my lecture I mentioned an angel investors network in Chicago, MD Angels,[2] as an example. This network is an incredible resource for startups that co-work at an incubator called Matter. The startups that work out of Matter attract capital from the best of the best—

corporate venture capitals, and even hedge funds and mutual funds. However, angel groups like MD Angels in many cases provide so much more value. This is because they are an angel network comprised exclusively of medical doctors with tremendous profiles (experience, credentials, etc.). They have a knack for A) angel investing, B) entrepreneurship in their own right, and C) the technologically savvy (with more and more of them showing greater and greater empathy for higher-level tech and science, such as "big data" and “artificial intelligence”).[3]

A founder of a startup in the telehealth and medicine space needs MD-investors, I believe. It is important to hold out for these folks if you feel that you have not been able to find capitalists or investors with this credential.

No Mulligans in Fundraising

The first transaction sets the tone for succeeding funding rounds. So, as in “flipping” a house, once you lock in that purchase price there's no going back on it. “Ya gotta work with it.” There are no mulligans, to use a golfing term.

A founder in this space must realize that, especially early on during the idea stage of the fundraising and funding process, it is important to not only set up the financial model of what is needed from an investor—valuation of your business to-date, capital required to take your business to the next level, etc.—but to also model your investor's track record to identify their “value-add” to the company.

"Value-add" is simply the worth of an investor to the business beyond the addition of capital. When you start out, especially if the founder has not had a success as an entrepreneur, angel investors are a great source for goodwill in your industry. In many ways, good startups know how to leverage their advisor's and angel investor's goodwill. That goodwill will be based on the investor's track record.

Another challenges faced by founders is to become conversant with the terminology of the financial contract. You quickly come across terms such as "first rights." And though

https://doi.org/10.30953/tmt.v1.87

most term sheets are based on a boilerplate, it is super critical to fully appreciate the values that are plugged into the pieces/modules of these sheets.

Because it is unfamiliar, entrepreneurs may be tempted to skim through the investment contract. However, the legalize and legal jargon used in these documents are a lot like programming software. Options and warrants are similar to “if-then” statements. I believe this is the reason that Silicon Valley and the global startup community on the whole are so efficient, productive, and creative at raising capital. It's just a matter of familiarizing yourself with the local community's way of handling financial contracts, agreements, and other instruments.

In the Philippines, there have been instances in which so-called convertible notes just were not as appropriate as they would have been in San Francisco (California, USA), for example. I founded a venture builder office in the Philippines, Katalyst.ph,[4] which is in partnership to fund startups with Globe Telecom and PLDT (telecom) in the Philippines. Katlyst.ph draws up more traditional loans and chattel mortgages (a mortgage on a movable item of property).

But regardless of the country you are in, it is important to understand that like software, these "terms" are cultural. On this front, San Francisco tends to set the tone in Manila (many venture capitalists are indeed from San Francisco). Because of this, you can find ways to quick-study. At our incubators in Manila, we often have This Week in Startups[5] and other startup shows playing in the background, in the seating areas. Bloomberg has a couple of shows related to startups. Our local news station ANC (an international television news network targeted to Filipino audience) has one. And I'm actually booting up my own radio show related to startups.

Becoming immersed in the culture this way helps to quickly familiarize yourself with the language of term sheets. *Chaos Monkeys* by Antonio García Martínez (HarperCollins**)** is a good resource for this.[6]

https://doi.org/10.30953/tmt.v1.87

Final Advice

Due diligence in this area includes three phase (profile, proposal, negotiation) in seven steps that should lead to realizing the best fit between a founder and an investor.

Profile

1. Learn the track record of the prospective investor.
2. Then, consider what nonfinancial value (value-add) the investor brings to the table for your company.
3. Network to determine what the investor’s social network says about the investor,
4. and what your social network thinks.
5. Confirm your findings by consulting real-world networks, and online networks such as LinkedIn, Angel.co, etc.

Proposal

6. Once you enter the proposal stage, be disciplined and study the terms proposed.

Negotiation

7. As negotiations progress, study the delta between the first offer and the second offer.

Joe Maristela (born Jose Ofrecio Maristela III) is a serial entrepreneur, and prominent angel, seed, and independent investor based in San Francisco, California and Manila, Philippines.

Tags:
angel Investors, artificial intelligence, big data, Chaos Monkeys, due diligence, entrepreneurs, FDA review process, First-Annual Future of Health: Telemedicine and AI Symposium, Joe Maristela, Katalyst.ph, Matter, MD Angels, pharmacist, Philippines, telehealth, telemedical care, telemedicine, value-add, venture capitals, what is telemedicine and how does it work

References

1. The Generics Pharmacy. 2016. URL: http://tgp.com.ph. Accessed 10/8/16.
2. Pletz J. A new source of startup funding: "Doctorpreneurs". *Crain's Chicago Business*. 2016. URL: http://www.chicagobusiness.com/article/20160220/ISSUE01/302209998/a-new-source-of-startup-funding-doctorpreneurs. Accessed 10/8/16.
3. Maycotte HI. Why dig data and AI need each other —and you need them both. *Entrepreneurs*. 2014. URL: http://www.forbes.com/sites/homaycotte/2014/12/16/why-big-data-and-ai-need-each-other-and-you-need-them-both/#4b6480d02dc8. Accessed 10/8/16.
4. Maristela K. Press release: new venture fund Katalyst.ph formed in the Philippines. *The Cointelegraph*. 2015. URL: https://cointelegraph.ph/news/press-release-new-venture-fund-katalystph-formed-in-the-philippines. Accessed 10/8/16.
5. This Week in Startups. 2016. URL: http://thisweekinstartups.com. Accessed 10/8/16.
6. Martinez AG. Chaos Monkeys: Obscene and Random Failure in Silicon Valley. Harper Collins. New York, NY. 2016. URL: https://www.amazon.com/Chaos-Monkeys-Obscene-Fortune-Failure/dp/0062458191. Accessed 10/8/16.