



FOR IMMEDIATE RELEASE

Media Contacts:

Tim Marklein, tmarklein@webershandwick.com, +1 (415) 999-2006

Zibi Jamal, zibi.jamal@webershandwick.com, +1 (408) 685-0612

**Obama Reforms Could Spark “New Healthcare Economy”
If Investors Increase Funding, Says Leading Healthcare Venture Firm**

*Psilos Group Warns of “Innovation Gap” – Challenges Venture Industry
to Step Up Investments in Healthcare Services and Technology*

NEW YORK, Jan. 28, 2009 – The United States is on the verge of building a “new healthcare economy,” according to a report issued today by healthcare venture capital firm Psilos Group. But the same report warns that despite aggressive health reform plans by the Obama administration, the economics of healthcare will not truly change without a large increase in venture funding for healthcare innovation.

Psilos said the new healthcare economy will depend on innovations that simultaneously drive down costs and improve quality of care, and will also require better alignment of economic incentives across payers, providers and patients. Unfortunately, Psilos foresees an “innovation gap” that may prevent successful reform, due to a lack of U.S. venture capital investment in healthcare services and technologies.

This gap was punctuated by data released Saturday from the National Venture Capital Association (NVCA), which showed just \$195 million invested in healthcare services – less than one percent of \$28.3 billion invested by the venture industry in 2008. Similar data from Dow Jones VentureSource shows only \$354 million invested in healthcare IT and \$357 million for healthcare services in 2008, less than three percent of all venture investments.

“As long-time healthcare investors, we’re optimistic about the incredible growth and opportunities ahead in the new healthcare economy,” said Dr. Albert Waxman, Psilos’ senior managing member and CEO. “At the same time, we can’t ignore the shocking contrast in priorities between President Obama’s healthcare plans and the venture industry’s traditional investment focus. The bottom line: It’s time for ‘change’ to come to venture.”



Healthcare IT and services funding in 2008 was dwarfed by general software (\$4.9 billion), industrial/energy (\$4.6 billion), biotechnology (\$4.5 billion), medical devices (\$3.4 billion), and digital media and entertainment (\$2.0 billion). In fact, NVCA data shows healthcare services in 2008 had fewer deals and dollars invested than any of the past 10 years, and VentureSource shows declining figures for healthcare IT for the last six years. Even medical devices, which posted strong growth from 2003 (\$1.67 billion) to 2007 (\$4.07 billion), fell by 15 percent in 2008 with a steep drop-off in Q4.

Psilos urged the venture industry to step up “health tech” funding in a similar way to “clean tech” investments, which grew 52 percent in 2008 to reach \$4.1 billion. Specifically, Psilos challenged the industry to expand its annual investment rates to more than \$1 billion in healthcare services, \$1 billion in healthcare IT, and \$3.6 billion in medical technology (including both medical devices and diagnostics). Combined, these levels would represent 20 percent of the current annual venture funding rate, well above today’s 13 to 14 percent (including healthcare IT, healthcare services and medical technology, but not biotechnology).

The Case for Healthcare Growth Investment

As part of its first “Annual Outlook on Healthcare Growth Capital,” Psilos acknowledged that healthcare investing “will not be for the faint of heart” in 2009. The combined impact of a tough economy, spiraling healthcare costs and a new U.S. administration will result in significant uncertainty and risk for investors.

As a result, innovation will be driven by smaller companies and private ventures, which can afford to make riskier long-term investments, while larger healthcare providers and payers focus primarily on managing costs and navigating reforms. Longer term, Psilos predicts those innovations will be adopted by mainstream providers and payers as the only way to achieve the dual goals of cost reductions and quality improvements, both of which President Obama cited in his inaugural address as core to his reform plans.

“Healthcare inflation in the United States is well over twice the core inflation rate, and that is unsupportable,” Waxman said. “Plus, changes have to be made to address the explosion in America’s aging population over the next two decades. We’re predicting a 10-year



transformational cycle that will re-define the healthcare economy, and should reward young companies that apply innovation to cut costs and improve care.”

In its Annual Outlook, Psilos detailed several key shifts that will typify healthcare innovation and investment between 2009 and 2014. Briefly, these include:

- Increased adoption of information technology – software, hardware and services – that enhances productivity and reduces costs. This will include evidence-based technologies that minimize errors and redundancies, remote monitoring systems for chronically ill patients, and software systems to create “valued-based” health plans.
- Adoption of medical device and diagnostic technologies that balance the need for breakthrough innovation and sound economics, replacing costly devices and approaches that unnecessarily inflate costs of healthcare delivery.
- Changes in healthcare service delivery models, including consumer-directed services that empower patients, new insurance models that re-balance cost and care, and re-engineered approaches care and disease management.

“We hope the venture industry sees President Obama’s plans as a wake-up call to get serious about the economics of healthcare, not just the science of biotech,” said Waxman. “The risk and reward dynamics of this new environment are tailor-made for venture capital, and our nation needs us as a partner in this important venture.”

For more information on this issue, Psilos recommends the following resources:

- Psilos’ Annual Outlook: www.psilos.com/annualoutlook
- Dr. Albert Waxman’s Biography: <http://www.psilos.com/waxman.html>
- NVCA 2008 Report: <http://www.nvca.org/pdf/08Q4MTRelaseFINALwires.pdf>
- Dow Jones VentureSource Data: <http://sev.prnewswire.com/publishing-information-services/20090117/PH6005517012009-1.html>

About Psilos Group

Psilos Group (www.psilos.com) is a venture firm investing growth capital in the healthcare economy. The firm believes that successful healthcare innovations must reduce cost, improve



PSILOS

quality and align incentives across payers, providers and patients. Founded in 1998, Psilos has \$577 million under management and has invested in 38 companies across three markets – healthcare services, healthcare IT and medical devices. Marquee portfolio companies include ActiveHealth, AngioScore, Click4Care, Definity Health, ExtendHealth, OmniGuide and Triveris.

###