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Deborah Gage

Posted on: August 17th, 2009

[Psilos Group](#)



Potentially great scientific advancements, like the gene sequencing technology from Pacific Biosciences that attracted \$68 million in funding last week — along with hopes from venture capitalists for a 10x return — fire investors' imagination, but they're not for the faint-of-heart.

"Rarely does a venture firm produce a 5x return for investors," said Lisa Suennen, a managing member of the Psilos Group in San Francisco. "We try to do things differently."

Psilos is focused on companies offering healthcare services, healthcare IT or medical devices and aims to deliver a 3x or 5x cash-on-cash return on all investments, depending on what stage the company is in, she said.

These are not early-stage startups — companies should have a proof of concept for whatever they're doing and the financial interests of patients, insurers and providers must be aligned.

One Psilos company, for instance, Triveris, has technology that lowers insurance costs for diabetics who follow doctors' recommendations on taking care of themselves so they can live healthier lives.

Really, given the economy, rising costs, fractious townhall meetings and uncertainty over what Congress and the Obama administration are going to do, all investors in healthcare companies are taking big risks.

But Suennen said Psilos hasn't had to write off a company for five years, and the firm sees a big opportunity in healthcare investing over the next decade.

Q: Has the Obama administration's interest in healthcare changed which types of startups are attracting investments?

A: It's not changed investments, but it's changed the quantity of companies in the healthcare IT area. Healthcare IT has been the pariah of healthcare investing since I started in this business. Now it's de rigeur because technology is essential to health reform.

So now every guy and his dog has a healthcare IT company, and every venture fund suddenly has an interest in that area. There were five or six of us in the country until recently, and now it's like Cabbage Patch Dolls. It's not changing us at all — it's good to see innovation spurred in that area — but there are a lot more bad companies.

I wish there was more focus on outcome, not on process. There's all this energy being put into electronic medical records, but not around what people are expected to do with them — what's the result you're supposed to get? You can put a lot of IT in an office and it doesn't do anything. We need to require

evidence that errors are avoided.

Q: What kinds of companies do you see as successful investments?

A: If you look through our portfolio, each one has a story to tell about offering something better clinically at a lower cost to the system. So regardless of the exact form, we can show you a company that reduces the cost of hospitalization or providing benefits.

The healthcare economy is a zero-sum game. We don't know what's going to happen with healthcare, but the kinds of companies we're investing in probably have a place.

Q: What do you want the government to do?

A: The government pays for half of healthcare — Medicare and Medicaid and the VA — and private insurers have a place. I think the distribution system that we have makes sense now, but things can be done to improve delivery of care at a lower cost.

We need focused plans to treat people with major chronic illnesses. Comparative effectiveness also makes sense — to have a requirement that the products paid for do something better. Having clinical evidence of quality is a good thing.

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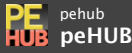
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