The Digital Health Start-up Journey: From Series A to scaling up

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Foreword

by Tanja Dowe, CEO, Debiopharm Innovation Fund

A variety of resources exist for entrepreneurs looking to pitch their company to investors and raise their first key investment round. But what is more often overlooked in the industry is advice from those with real-world experience on what to do once the Series A round is closed. This crucial step in the growth of a start-up is a transformational phase when scaling up the company becomes the key aim.

The CEO can often experience intense pressure while building the company from a “dream” to a company that delivers on the revenue growth goals. In this paper, we look at the challenges CEOs face and their personal journey during this exciting stage of entrepreneurship.

Debiopharm invests in Digital Health companies typically from Series A (SerA) onwards. A typical SerA case is a start-up that comes to us with a few hundred thousand to one or two million dollars revenue from first customers, a proof of concept for their technology, and a C-team partly in place with 1-2 key members missing. Typically, these companies are raising 10-15 million dollar rounds, sometimes less, sometimes more.

Very often we see that at seed stage the company started from one hypothesis, something that they delivered a proof of concept with, but on the way they learned something very valuable about the market, the customer need, or who is the right target customer. With this learning under their belt, the SerA funding is a means to transform the company to a scalable business model targeted to the sharpened customer problem.

> The journey between closing SerA and having a real 'scale-up' tests both the CEO's capabilities as a leader and whether the company really hit a major market opportunity.

On the SerA business plan, we often see further development of the technology platform, completing of the C-team, establishing a scalable business model (e.g. implementing 'software-as-a-service' model), hiring of a business development team to deliver sales growth, and hiring of operational teams to serve the future customers.

The challenge after SerA is that the CEO has 18-24 months to get the company to the next value inflection point and ready for a typical Series B (SerB) round - this means having their revenue on a clear growth curve and having the technology platform in a more mature state. In other words, if raising SerA successfully requires a proof of concept, SerB requires a proof of scaling.

The C-team faces a fire-test - can they hire, train, deliver and develop operations at the same time? And can the CEO keep the company culture together? Staying 'personal' with key customers while pushing the customer towards more established processes and growth of the account requires good social skills too.

The journey between closing SerA and having a real 'scale-up' tests both the CEO's capabilities as a leader and whether the company really hit a major market opportunity. This is maybe the hardest, fastest moving company transformation phase - and it requires the most versatile, creative CEOs.

We interviewed six of our investment portfolio company founders and CEOs, along with three experienced investors, to collect their thoughts and advice. All these discussions were an incredible plunge into the minds and experiences of these highly talented and successful individuals, and I truly enjoyed pausing from my everyday hustle and reflecting with them on the main success factors and common characteristics of thriving post-SerA companies.

I hope you enjoy reading these insights and that they inspire you as you build your own success story!

Four key success factors

Discussions with company founders and CEO's brought out four general topics that are key to the success of start-up companies post SerA, including a strong team, product-market fit, creativity and persistence, and transparency.

1 **A Strong Team**
"The idea and its execution are symbiotic, one will not succeed without the other," explained Madelyn (Maddy) Trupkin Herzfeld, founder of our portfolio company Carevive, concerning the importance of not under-estimating the team.

Tero Silvola, CEO of BC Platforms, agrees that "with a good team you can succeed even if you have a bad strategy." Things never go as planned, but a good management team makes the company agile and enables a redirection toward right decisions in the heat of the moment.

2 **Product-market fit**
Avi Veidman, CEO of Nucleai, also flags how product-market fit and commercial results are crucial - a key point raised across all our discussions with the CEOs.

"Early on, make sure that someone finds real value in your idea," he says. "It's crucial to have early paying customers that indicate you are on the right track. Especially in digital health - there are zillions of problems technology can solve, but because of the misalignment of interests, nobody will pay for it. This is a huge risk for your endeavor. Commercial results are also a good indicator for your hypothesis regarding the business model, which is one of the riskiest parts of a digital health startup."

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> **François-Henri Boissel, CEO, Novadiscovery**

3 Creativity and persistence

Avi also mentioned the need for creativity and persistence. He explained that entrepreneurs often raise their series A 'on a dream' but then must start listening to feedback carefully and understand what investors, customers and markets are saying, before changing and modifying accordingly - or "try again and again," as he puts it.

4 Transparency

François-Henri Boissel, CEO of Novadiscovery, highlights the importance of transparency. "Do not leave skeletons in the closet," he recommends. "A relationship with an investor is a long-term project, and you want to build confidence. It's a bit like a wedding contract that you're signing up for."

From an investor perspective, this is very true. Investors don't drop an investment because there is a challenge, or a risk in a company. Investors manage risks for living. What is important, is that the entrepreneur trusts the investor to help them solve challenges together.

Before Series A fund raising: How do you set yourself on the path for success?

Although the focus of this report is post-SerA life, let's take a short look at some of the thoughts our portfolio CEOs had on strategies that set them on a success path before SerA.

Clear communication of the identity and mission of the company was seen as important across all interviews. This helps the company align team members and find investors that share your mindset. Early proof of concept of the technology helps, but the team composition should be well planned too. Team members with recognized credentials are needed - you need to be ready for scaling, and a combination of entrepreneurs and experienced business people brings huge benefits.

Tero highlights the importance of the management team. "The number one critical success factor was the management team itself, because it's they that will have to convert the funding to actual growth. The team has to have strong stamina to go through challenges when aiming high. It is also a commitment to learn together," he says.

Incubators and accelerators can provide excellent support and new networks - networks allow you to create the work. Different people provide feedback and new ideas, and you create an 'energy' together. Entrepreneurs need to maintain networks, share, ask for advice. "Your network is your multiplier that can help to overcome any lack of resources," as Avi put it.

If you have the luxury of options, choose your investors wisely. When raising funds, you should have a tightly focused list of potential investors, to better understand what each is looking for. Taking a deep look at what the investors want helps to understand where the mutual interest lies.

Perhaps here is the point where investors could envision some room for improvement. Throughout the CEO discussions, it became evident that start-ups struggle to find clear information on the investors' investment focus, such as who they are, the size of the fund etc. The start-up CEOs are looking for investors who understand their market and who have the knowledge to help, and in the process might meet with more than 140 investors face-to-face, as one of our most technical - and most successful - portfolio companies did.

Another point that was repeated throughout the interviews - never underestimate how time-consuming SerA can be! Although the entrepreneurs have a clear target profile for an investor, a big percentage of companies end up with accepting just any investor, as the clock is ticking.

How does the start-up journey change, post-Series A?

OK, so now you've closed your SerA funding round. Be ready for radical changes ahead! SerA is just the starting point for growth but it can be a stressful transition. There is a mindset shift in the CEO role. You've gone from product-market fit to a boutique store that does everything in small scale, and now you're attempting to scale things up.

"In a small company somebody needs to be the glue that keeps it all together," explains Rollie Carlson, CEO of Immunexpress. "When you get larger your glue has got to be more malleable, you got to be able to give this up."

The board dynamics change. Chairs or observers come. There is a difference in the discipline of a board of a seed stage company and post-SerA company, and board transitions can bring tension for the CEO who needs to split his/her time between the board and the team, as well as focusing on the operational side of things.

On the other hand, you now have the funds to staff your senior management. Management team growth means that the CEO will have more time available to work on vision. And although plans never go as expected, and the strategic plan needs constant updating, the SerA funds allow the start-up CEO to recruit the key business development personnel and through them get more customer contracts for growing the revenue.

Mario Huyghe, CEO at Oncomfort suggests "It is a good idea to surround yourself with people, advisors, board members, that understand what the next stage is. An entrepreneur needs to know her/his core competences and see which other competences she/he needs to be surrounded with."

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Post-Series A challenges

In digital health, the SerA is often raised on the back of a proof of initial market traction, and the use of funds is to mold the company to a scale-up story. Doing that, you are signing more deals with new customers, expanding current customer relationships, expanding geographically, scaling up the team - scaling up in so many dimensions.

You might have a headcount of 21 in January and 65 by August, like in one of our portfolio companies. You need to win deals and deliver at the same time. You have to think of today and tomorrow at the same time and build an organization that realizes the current step and is ready to make the next step.

As customer deliveries get bigger, it is a learning process to maintain solid delivery capability and accuracy. Tero also pointed out that, "If the engine is too dependent on a few key individuals, they are a bottleneck for rapid and accelerated growth."

The company must have an aggressive attitude towards scaling up, sticking to the expansion plan and executing it as flawlessly as possible, while being conservative on cash. Things often take longer than you expect. Cash is moving. There is the challenge of making your plan, and when you don't, finding a solution to get around that. You have to protect your cash in the process because it's all about getting to the next inflection point before you need to raise again.

"You need to be aggressive and make sure you execute the plan, in particular with regards to the headcount growth, by making sure that the company doesn't blow up because you're scaling up too rapidly," says François. "Scale-ups tend to cut in half, middle management suffers the most. It is an intense 18-24 months where not all operations are structured yet but growing. This creates strong tension - you must pay attention to middle management and spend a lot of time with them."

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François-Henri Boissel, CEO, Novadiscovery

From A to B: Taking a start-up to the next level

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> **Tero Silvola, CEO, BC Platforms**

Just as there are many common challenges in the post-SerA life, so there are common success factors that our portfolio CEOs shared for navigating the start-ups towards a growth company. A fundamental success factor is the company culture. Crystallize the company's culture, values and DNA as early as possible. "Culture is king, you cannot discount that," as Maddy pointed out. When hiring, you need to make sure that the people you work with are aligned with your culture, whether you're 10, 200 or 500 people.

One should be prepared for a substantial change in governance. You have to go from running the shop to reporting to a board and formalizing the process, solid and standardized. It is recommended to do your study on corporate governance so that you understand how a board is supposed to function and how it's supposed to contribute. This way you can also prepare your management team and the communication becomes easier.

Another piece of advice is to put models together to bring clarity on use of proceeds and the milestones you need to reach. "Things happen - you should be optimistic but not over-optimistic. Then stick to the plan. It's so easy to chase the next shiny thing but you have to deliver on a plan," Rollie explained. Remind yourself of your targets, expectations and what you want to deliver, and then be transparent. What often goes wrong in companies is expectation management. Don't hide anything, proactively think of what the risks are and communicate them. This helps to create alignment and trust between the investors and the management.

Trust within the company is elementary from day one. "It saves a lot of energy, keeps the energy at the right place, and people sense it, which contributes to a calm working environment. There is a lot of drama in every growth company because of the market, but the internal trust ensures that the energy is used outside," as Tero puts it.

Series A is a homegrown company, Series B is maturing as a real company. You must understand the core processes of the company, the product process, the delivery process. These processes become the glue holding the company together. When new people join the company, it makes it easier to train them when you've done your homework with process descriptions. Until those processes are in place, it's a start-up. When you scale up, you bring the processes.

"This is a period where, as a CEO, you still struggle with the everyday demands and customer cases," says Tero. "Maybe you'd like to focus only on the sales part, but you also need to think of the scalability in that moment, otherwise it will be difficult to fix later. You recruit the best growth talent, but also try to bring in people who have done it before. And when developing the operating models, one should always remember that organisation is not developed for an individual, instead make sure you have the best person for each role."

Preparing for post-Series A life

So, if you have read this far, you have very likely found this report useful. Maybe it has opened your mind a bit, brought some new thoughts that you want to try. Keep reading. There's some pretty cool thoughts from the investors and our portfolio CEOs' on how you can prepare for the post-SerA life, or entrepreneurial life in general.

In start-ups, time is of the essence. It is good to have a pre-plan on scaling on the R&D and commercial sides of the business - in other words, organize for growth before you have growth.

We are in a digital world, where exposure to opportunities happens fast. If you can anticipate and learn fast, you can dare more. "What you can do today, do it," explains Avi. "For example, hiring and onboarding people is a long process, so set up the rails early. Establish relationships with headhunters, talk with your network. Recruitment is an extremely important topic - someone good can really be a game changer."

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The investor perspective

What are the common challenges and success factors to getting from Series A to Series B?

Joni Karsikas, Investment Director at Tesi, says that "Health is, by default, a slow-moving industry and in venture capital you should be able to show traction and development at quite a fast pace, so this is a challenge for health-related companies."

"The problem is, should companies optimize the technology and the evidence and show the scientific impact of what you are doing, or should they optimize the revenue? You should do both, but in a wise way."

Philippe Chambon, CEO of EG427 and Venture Partner at LBO France, advises that "a successful Series B round implies two things: a proper build-up of the senior management team, and secondly, evidence for a scalable business model."

Flexibility of the management is also critical because, as Emanuel Timor, General Partner at Vertex Ventures explains, "in reality, things change, and they may change relatively fast. So, is there something you need to react to and have you reacted to it or are you reacting fast enough?"

He goes onto discuss the ability to scale-up. "Have you built the infrastructure for growth? Because the company that has 20 people and is selling for 1,000,000 and needs to grow within a year to - let's say 5,000,000 and 50 people, and then the following year 15 or 20 million of revenue and 100 people and continue to double it - it's not the same company. It's the same DNA, but it's different processes."

What is your advice to entrepreneurs preparing for post-Series A life?

"Re-think hard how to use your time best. In the post-Series A world, you must delegate and find ways to achieve the results with an expanded team," says Joni.

Phillippe goes onto say that "it's really surrounding yourself with people that are much better than you are in their own verticals. The make-or-break stage for founders/CEOs is this stage of team build-up. A good number of them don't make it because they are not able to assemble a team that complements them."

Emanuel explains further that "you need to show that the team you have gathered around yourself can take the company all the way, or at least a significant part of the way. And you need to have traction - a story backed with facts."

What are the characteristics of a successful CEO?

Joni believes that "every founder makes mistakes. The best CEOs will always seek advice early enough - every problem can be fixed, if it doesn't escalate too quickly."

Philippe Chambon adds that "it's the person that's pragmatic enough to understand what skill sets they need to attract to their team, in order for them to be successful."

Meanwhile, Emanuel explained that "you want the CEO to be a leader, a person that can build a good team around them, that can help define the DNA of the company, be (in a good way) a storyteller. That unique combination of being a visionary and being an executor. Ideally being a smart and nice person too. Life is too short. I think it's good that today people value this a lot."

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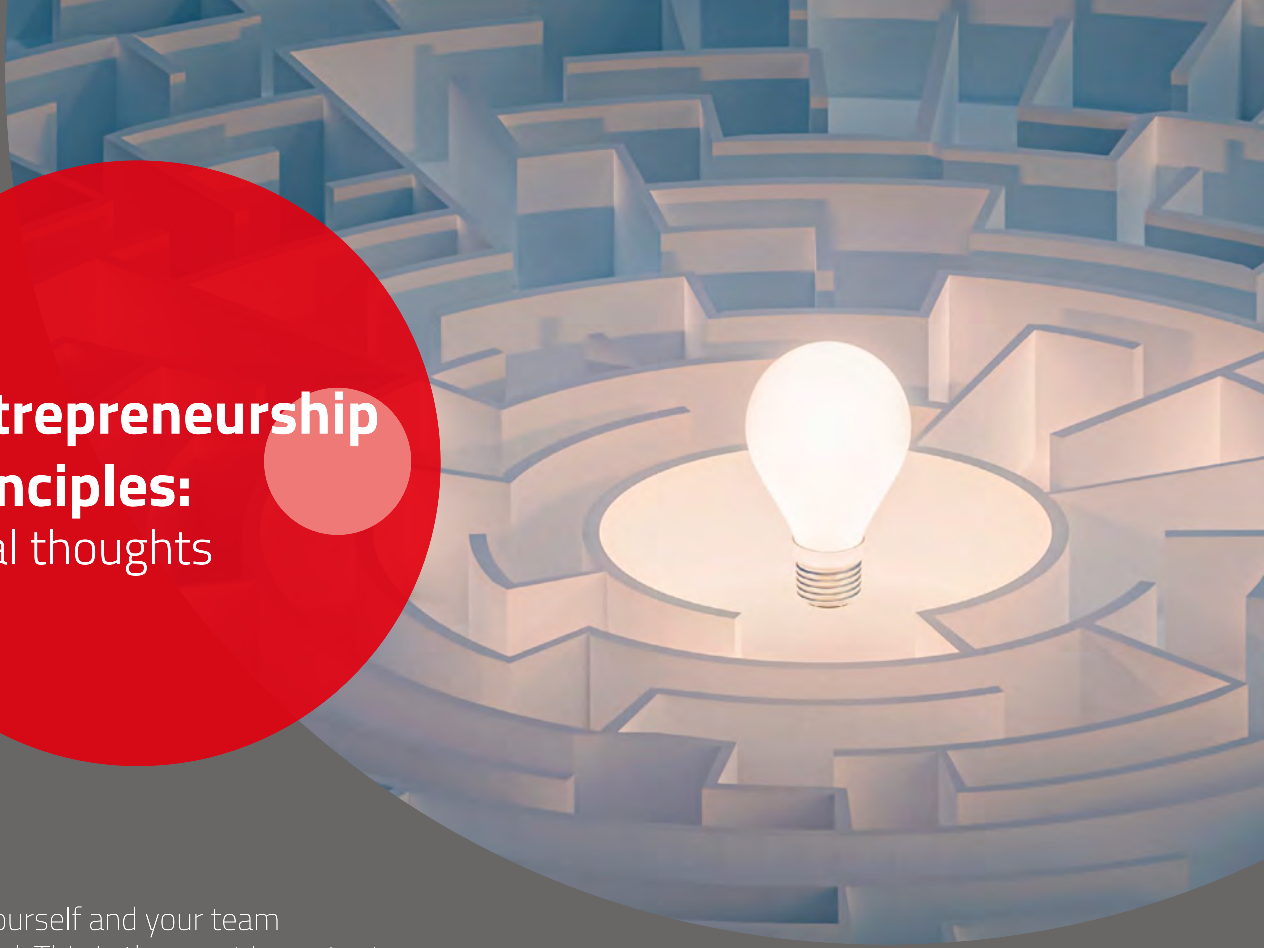
Emanuel Timor, General Partner, Vertex Ventures



Entrepreneurship principles:
Final thoughts

"Keep yourself and your team energized. This is the most important thing. Entrepreneurship is a rollercoaster ride. You need resilience personally and as a team. Find what energizes you and maintain your energy level. You can only push forward if you're energized, an empty bucket can't fill an empty bucket."
Avi Veidman, CEO, Nucleai

"Do this for the right reasons - not to become your own boss and to get rich, but because you have a firm belief in your company's mission."
François-Henri Boissel, CEO, Novadiscovery

"At some point you need to put the pencil down and jump in. The critical balance of having enough plans to know your North star and that you can't be scared to jump in. You have to plan, but then you have to jump in."
Maddy Trupkin Herzfeld, Founder, Carevive

"Try to recruit people who are value driven and have a good self-awareness. If they have strong personal values, in difficult situations you can trust that they behave in a predictable way."
Tero Silvola, CEO, BC Platforms

"Draw on your network. Understand what you're good at, and what you're not, and know who you need to bring in to help you."
Rollie Carlson, CEO, Immunexpress

"You are doing something innovative that not many people have done and the path to success is not written in stone, you need to create it. 'Entrepreneuring' is a rat race for innovation, you need to move at a pace that other people don't move at."
Mario Huyghe, CEO, Oncomfort

About the contributors

- **Madelyn Trupkin Herzfeld, Vice Chairman and Founder, Carevive**
  Maddy is an oncology nurse with more than 20 years of experience building oncology-focused companies. Before founding Carevive, Madelyn (Maddy) was Founder, President and General Manager of the Institute for Medical Education and Research Inc. (IMER), where she led the development of accredited oncology medical education programs for nurses, physicians and other healthcare professionals specializing in oncology.

- **Tero Silvola, CEO, BC Platforms**
  Tero is CEO and Board Member of BC Platforms, and owner of Riverpark Oy, an investment and development company co-operating with five IT and healthcare start-ups. Tero is a serial entrepreneur and founder of companies such as Mawell Oy Ltd, Optomed Oy Ltd (HEL) and Hospital NEO, which has become one of the leading orthopedics hospitals in the Nordics (Mehiläinen Group).

- **Avi Veidman, CEO, Nucleai**
  Avi has more than twenty years of experience in heading multi-discipline AI and 'big data' organizations. Before founding Nucleai, Avi served in the Israeli Intelligence Forces in the Machine Learning and Data Science departments in various leadership roles.

- **François-Henri Boissel, CEO, Novadiscovery**
  Before founding NOVA, François-Henri spent four years with investment bank Lehman Brothers in London and Tokyo, where he developed expertise in financial engineering, deal structuring and execution.

- **Mario Huyghe, CEO, Oncomfort**
  Mario has over 25 years' experience in healthcare medical systems business both in small healthcare companies and international healthcare groups. In 2009, he started his own consulting company managing business transformation and moving into digital health innovation. In 2018, he transitioned into full digital therapeutics with Oncomfort.

- **Rollie Carlson, CEO, Immunexpress**
  Rollie has over 30 years' experience in business and new product development, and global commercial and general management in biotechnology. Before joining Immunexpress Rollie held leadership roles in pharmaceutical and diagnostic business with a particular focus on oncology and infectious disease.

- **Joni Karsikas, Investment Director, Tesi**
  Joni brings financial and strategic expertise in the development of portfolio company growth plans. He has board experience from several VC backed companies, out of which majority are health tech focused.

- **Philippe Chambon, CEO, EG427 and Venture Partner, LBO France**
  Philippe joined LBO France in early 2018 after a distinguished career in healthcare venture capital in the US. He started his business career in 1987 in the pharmaceutical industry, with Sandoz Pharmaceutical US affiliate and has made numerous investments in the digital health sector over the years as part of his broader investments activities.

- **Emanuel Timor, General Partner, Vertex Ventures**
  Emanuel Timor has more than 20 years of experience working with start-up companies and emerging businesses. He joined Vertex Ventures Israel in 1998 and is focusing in the areas of enterprise software and infrastructure and digital health.

About the author

Tanja Dowe is the CEO of Debiopharm Innovation Fund, the strategic investment arm of the Swiss pharmaceutical company Debiopharm. A former entrepreneur and strategy and transaction consultant, she steers the fund to invest in start-ups with disruptive digital health technologies that transform the healthcare and pharmaceutical industries. Over the course of her career, Tanja has worked with more than 80 companies from pre-incorporated start-ups to large global corporates, all of them on the quest of improving healthcare through innovation (see more on LinkedIn).

About Debiopharm Innovation Fund

As Debiopharm's strategic corporate fund, the Debiopharm Innovation Fund invests in digital health, smart data, and innovative tech start-ups. Find out more about seeking digital health start-up funding.

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