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Digital health companies see new 'exit' strategy with IPOs

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Livongo, Health Catalyst and Phreesia received a warm welcome after going public this month after a three-year drought of digital health IPOs.

Livongo and Health Catalyst began trading on the Nasdaq on Thursday, joining a slew of companies to end a nearly three-year drought since the last initial public offering of a digital health company.

The two companies joined Phreesia, a healthcare software provider that went public one week earlier on July 18, and Change Healthcare, a revenue cycle management company formed through a series of acquisitions and a [merger](#) with McKesson's technology business, which began trading in June.

The digital health companies going public this year don't feel like startups. They are established companies led by seasoned executives, said Pam Arlotto, president and CEO of healthcare consultancy Maestro Strategies.

Data warehousing and analytics company Health Catalyst was founded more than a decade ago, while Livongo, a company that tackles chronic diseases, was founded by former Allscripts Healthcare Solutions CEO Glen Tullman and is led by a team of health technology heavyweights, including former Cerner Corp. President Zane Burke. Phreesia, a provider of patient intake software, launched in 2005.

"These are not 'cool, hip' digital startups," Arlotto said. "These are very serious companies with strong track records."

That's consistent with trends across industries, as a company's median age at the time of an IPO has grown over the past few decades. In 1980, the median age for a company at IPO was six years. In 2017, the median age was 11 years, according to an [analysis](#) by Jay Ritter, a finance professor at the University of Florida known for his work on IPOs.

That additional time allows companies to establish successful business models and profitability.

"We were able to demonstrate profitability last year, and that was important to us," Phreesia CEO Chaim Indig said on July 18, adding that going public "provides a level of clarity to the mission and transparency to the organization."

Dan Burton, Health Catalyst's CEO, said Thursday that the company had been discussing launching an IPO for the past several years.

"To use data and analytics to massively improve a really large industry is a decades-long mission," he said. "Going public provides us with the capital that we need to continue to grow and scale."

Livongo, the youngest of the bunch with a 2014 launch, is the only one of the companies that offers a consumer-focused service. Although its customers include health systems, health plans and employers, these groups subsequently cover costs for members who enroll in Livongo's diabetes, hypertension, weight management and behavioral health programs help them stay on track with treatment.

Going public "gives us additional capital by which we can serve our members and clients, whether that's through the existing conditions that we have today or additional conditions," said Burke, the company's CEO.

The IPO also represents a key branding opportunity for the company, Burke said.

So far, all three companies have received a warm welcome in the public markets.

Livongo, which was priced at \$28 a share, closed at \$38.10 its first day of public trading—a jump of 36%. Health Catalyst closed at \$39.17, up 51%. Phreesia, which has been trading for just over a week, closed Thursday at \$24.80, a 38% rise from its initial price of \$18 per share when it began trading.

iRhythm Technologies, the digital health company that went public in 2016, closed at \$81.53 on Thursday.

The IPOs from Livongo, Health Catalyst and Phreesia are ushering in a new era for digital health, testing the waters for going public as a viable exit strategy rather than being sold to give the founders and initial investors a return on investment.

Investment in the digital health sector has been strong with startups raising a record \$9.5 billion in venture capital funding in 2018, up 32% from the year prior. But entrepreneurs have been reliant on being bought out as an exit avenue, according to an [analysis](#) by market research firm Mercom Capital Group.

"The last three years it's been just M&A," said Raj Prabhu, Mercom Capital Group's CEO and co-founder.

Rock Health, an early-stage venture fund focused on digital health, has a "watch list" of 23 startups that might be next to IPO. The list, which includes companies like American Well, 23andMe and HeartFlow, is based on an analysis of the 15 companies that have gone public since 2011 or are rumored to begin trading this year.

On average, those 15 companies raised \$199 million and launched an IPO after 9.4 years, according to the [report](#) from Rock Health.

"We're not saying that we predict that (the companies on the watch list) will go public," said Sean Day, a research analyst at Rock Health and author of the report. "But if another company does go public in the next 12 months or so, our bet would be it comes from this list."

It can be tempting to slip into taking these IPO successes as an indication of the digital health field as a whole, and many have been eying the stocks as a possible benchmark. But in a diverse space, it's important to assess companies by their work.

"It can be easy to hinge, or want to hinge, the fate of a sector on a single story," said Megan Zweig, who leads research for Rock Health. "I think those stories are going to be really specific to those companies."

Inline Play

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