



MONTREUX GROWTH PARTNERS: INVESTING IN THE NEXT GENERATION OF HEALTHCARE INNOVATORS

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The healthcare industry has been one of the main drivers of the U.S. economy for years, with the \$3.6 trillion spent in this space making up nearly 18% of GDP. For Montreux Growth Partners, a San Francisco-based growth capital investor focused primarily on healthcare information technology, 2020 is shaping up to be a strong year of performance for the firm.

As it stands, 2020 is already the largest funding year on record for digital health. The \$9.4 billion invested in U.S.-based digital health startups through the third quarter already broke the previous annual record of \$8.2 billion set in 2018, according to Rock Health, one of the leaders in digital health research. "We've seen an acceleration of this space in this COVID world that we're in," says Michael Matly, M.D., a Managing Director for Montreux, "We've seen an increase in telehealth solutions and new ways to virtually connect. That's the ecosystem we're investing in."

As a growth-oriented capital investor, Montreux Growth Partners looks at healthcare software companies that already have commercial revenue and are looking for capital to expand their sales and product development. Portfolio companies typically range from \$5 million to \$20 million in revenue and are typically software as a service B2Bs focused on hospital systems, insurance companies, and other healthcare system organizations. The firm typically invests \$10 million-\$20 million per company and leverages its relationships and expertise to grow sales, identify new markets, assist with strategic acquisitions and develop exit strategies.

Montreux has built a strong portfolio of companies in the healthcare technology space. They include TigerConnect, a provider of cloud-based clinical communications and collaboration tools; Kareo, a provider of cloud-based practice management and billing solutions for independent medical practices, and FinPay, a patient financial management and payments platform. Another investment, Pulmonx (Nasdaq: LUNG), which provides a minimally invasive treatment for patients with severe emphysema, went public in October 2020 and is currently trading at over \$1.5 billion in market value.

A BILLION DOLLAR EXIT

Another alpha-generating exit for Montreux came by way of an investment in Mindbody Inc., a provider of business management software for the beauty, health and wellness sectors. "We are a thesis-driven firm. We look at specific areas within healthcare and healthcare technology that we think have really oversized return potential based on where the market's going," explains Matly. "One of those growth areas was in complementary and alternative medicine – yoga, CrossFit and boot camps. We scanned the market. We were able to find Mindbody, which was the market leader at the time."

The Montreux team found that many complementary and alternative medicine businesses were mom-and-pop shops that were still performing bookings and other office functions on paper. Mindbody provided these businesses was an opportunity to digitalize those processes – scheduling, payment processing, inventory management, retail point of sales. The company, however, had other suitors. "It was a competitive process with primarily software investors," says Matly. "As a healthcare investor, we were uniquely positioned to be a value-added partner for them." Matly, who has an M.B.A. from Harvard Business School, completed his medical doctorate from the Mayo Clinic.

Montreux was able to assist Mindbody with the development of its corporate wellness program and helped prepare the company for an eventual IPO. At the time of investment, Mindbody generated revenues of roughly \$49 million. Over the next few years, those revenues grew to \$180 million. That growth attracted another NAIC member firm, Vista Equity Partners, which ended up acquiring Mindbody in early 2019 in a deal valued at \$1.9 billion. "We weren't in that investment for long, but it created a nice catalyst for us because it demonstrated we had experience scaling and growing healthcare IT companies when we started making subsequent investments," Matly explains.

WELCOME TO THE 21ST CENTURY

Investment activity and overall interest in the healthcare space has accelerated since the onset of the COVID-19 pandemic. As a result, companies in the industry have moved to automation and digitalization at a faster pace than in previous years. "One of the great things about healthcare is it's a defensive industry in the wake of the ups and downs of the market," says Matly. "Having this focus on healthcare IT is creating very interesting opportunities right now."

According to Matly, the firm's portfolio has overperformed during the pandemic. He cites Kareo, a medical billing software provider that benefitted from an increased number of physicians relying on technology solutions to reach patients. "We also saw an increased adoption of the TigerConnect software solution to try to improve patient communication and collaboration. The company also launched a telehealth solution that's also performing extremely well."

While the pandemic may have added fuel to the healthcare IT fire, Montreux expects this trend to continue in the post-COVID world with smaller and mid-size medical practices ramping up the integration and usage of technology. "I think people now are going to be depending on better and more consumer-friendly ways to engage with healthcare providers and systems," Matly predicts. "This has forced the transition from older ways of delivering and experiencing healthcare into the 21st Century, though we still see some healthcare providers using fax machines."

The current environment has created new opportunities in what is traditionally a recession-resistant industry, Matly says. On the back of its recent success, Montreux is planning to raise its next growth fund focused on high-growth healthcare information technology companies. "The thing about healthcare is whether it's a pandemic or it's not a pandemic, people still need to get their healthcare," he asserts. "We're very pumped and excited about this space."