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Introduction

Healthcare is a rapidly growing industry, causing many players to allocate more attention and funding into improving healthcare systems across the globe. There are many types of organizations involved in this field, including healthcare companies, intergovernmental organizations and private equity firms. Major healthcare companies like BlueCross are investing in emerging companies within the industry; BlueCross BlueShield has invested $550million over three Funds. These companies have incredible reputations, as well as large amounts of capital and expertise, enabling them to capitalize on some of the most attractive investment opportunities. Yet, they are restricted in their selection of opportunities, as they must invest in companies that align with the firm’s specific strategic needs (BCBSVP). Thus, many emerging companies working on issues unrelated to BCBS’s needs may not receive funding, despite their attractiveness.

Major Players and The Issue

Intergovernmental organizations make many decisions and investments related to improving access to healthcare across the globe. Some examples of this are the World Bank and The Global Fund to Fight AIDS, Tuberculosis and Malaria. While these organizations have an advantage due to their reputation and financial security, their decisions can be influenced by politics. This causes their methodologies and goals to change over time and makes long-term investment plans difficult to carry out.

Private equity firms, both small and large, also make investments within the healthcare industry. The associates and staff at these firms are incredibly experienced and knowledgeable on mitigating risk and designing portfolios that will provide future returns. Yet, these firms oftentimes prioritize profit over impact, causing them to deny many startups that have the potential to make an incredible difference in the lives of many. This can be exhibited through analyzing Altaris Capital Partners, a firm that manages $2.4B in equity within the healthcare industry, but, due to its riskiness, the firm does not invest in health IT companies. Such risk factors involved with investing in an up and coming health IT company is that it demands a trust in the company’s ideas. The value of a Health IT’s company and its respective technology can only be determined after many years. Therefore, there is an amount of risk associated with initial investments in Health IT companies. Next, Health IT stems from algorithms. Because it is easy to create a better algorithm without initial capital, there are less initial start up costs, which cause easy entry into the field and increased competition.
Due increased competition, at any time, any external company can disrupt a given company. Lastly, because Health IT relies heavily on patient information, there may be risks associated with patient privacy. At any time, if consumers demand increased privacy, legal action may be taken that may be detrimental to the standing of a Health IT firm. Health IT does, however, have the potential to transform healthcare, drastically improving quality of care and decreasing costs, thus it is disappointing to see large PE firms deny funding to companies working in this area. However, we do not see private equity firms placing large capital into the Health IT sector.

Lastly, we feel inclined to mention an emerging player in this space, that some argue will revolutionize healthcare while others argue will run into similar conflicts that other major healthcare firms are dealing with. At the end of January, JP Morgan, Berkshire Hathaway, and Amazon announced their plan to form an independent healthcare organization for their employees that drastically reduces costs. While it remains unclear how they plan to do what others have tried for decades, it is important to keep this player on one’s radar in the future.

There are many social and financial benefits that will arise from investing in healthcare, specifically in the IT health sector. Issues related to healthcare are growing in relevance, sparking an increase in the number of startups working in this space. Access to healthcare is now viewed as a universal right by many, which makes these startups more attractive to citizens and activists demanding increased access, as well as corporations and governmental agencies working to reduce the cost of care and improve their reputation. By creating a diversified portfolio and capitalizing on investment opportunities that please these stakeholders, one can mitigate risk while making a profit in the long-term. Not only is there potential for financial gain and an improved reputation, there is potential to impact the lives of millions by reducing medical costs, improving quality of care, and increasing access to healthcare across the globe.

What is impact investing, how can it help?

Impact Investing, is investing in companies which are directly linked to social or environmental impact. This allows us to bridge the gap between financial gains and creating an impact. When we choose to invest in companies which are developing goods and services that directly benefit society, our money works for us as a relevant and necessary catalyst in the development of society and the environment. We think it is important to reiterate that impact investing is very different from philanthropy in that it is coupled with financial returns as well.
Trends in the Pharmaceutical Industry

Though our team has focused on healthcare, we have paid particular attention to the pharmaceutical industry. Impact investing is needed in the pharmaceutical industry for a variety of different reasons. Pharmaceutical companies have large costs associated with research and development of drugs. These incurred expenses are generally paid immediately and before the company receives some sort of profit. Due to these large expenses for pharmaceutical companies, impactful startups need our investment. However, not only is this a benefit to the specific pharmaceutical company, but also a financial benefit to the investor and a social benefit to the world. The pharmaceutical industry has a noticeably higher return on equity when compared to other industries. Therefore, as we distribute our investments out to several companies, we are more likely to have invested in a profitable pharmaceutical company and will benefit from the high return on equity.

After research in the Pharmaceutical industry, a subtle but important trend was made clear: parties within the industry are getting informed. According to Mckinsey and Company, patients are arming themselves with information about product safety and efficacy gleaned from websites and online communities such as PatientsLikeMe, pore over cost and quality indicators from healthcare start-ups such as Castlight Health or HealthGrades, and comparison shop using information synthesized by their insurance providers. The government is beginning to supply healthcare data either directly, through the release of information, or indirectly, by providing incentives for collection and aggregation of relevant clinical data.

Yet, we saw huge inequality of information with the Pharmaceutical market. But this situation is rapidly changing and is being led by the platforms which supply the sufficient information to every party.

Observable player in the market: Castlight Health

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with the Pharmaceutical market. But this situation is rapidly changing and is being led by the platforms which supply the sufficient information to every party.
Profit Model

The player we found is “Castlight health” - a San Francisco Pharmaceutical startup which is building a platform among the participants in the Pharmaceutical industries; patience, medical institutions, and doctors. Described in figure 1 in detail

Financial Statement
In order to decide whether Castlight Health is worth investing, we went over their main financial information as our due diligence process. From figure 2, we can see an observable increase in gross profit and the unit here is thousands.

**Major Indices**

<table>
<thead>
<tr>
<th>Company</th>
<th>Market Cap.</th>
<th>Enterprise Value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$500.51M</td>
<td>$444.15M</td>
</tr>
<tr>
<td></td>
<td>$566.28M</td>
<td>$509.63M</td>
</tr>
<tr>
<td></td>
<td>$541.63M</td>
<td>$485.01M</td>
</tr>
<tr>
<td></td>
<td>$384.69M</td>
<td>$328.49M</td>
</tr>
</tbody>
</table>

**Efficiency Ratios**

<table>
<thead>
<tr>
<th></th>
<th>Return on Equity (ROE)</th>
<th>Return on Assets (ROA)</th>
<th>Gross Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-35.02%</td>
<td>-24.21%</td>
<td>63.72%</td>
</tr>
<tr>
<td></td>
<td>-39.98%</td>
<td>-27.17%</td>
<td>62.34%</td>
</tr>
<tr>
<td></td>
<td>-40.69%</td>
<td>-26.97%</td>
<td>61.06%</td>
</tr>
<tr>
<td></td>
<td>-50.66%</td>
<td>-32.98%</td>
<td>70.32%</td>
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</table>

**Valuation**

<table>
<thead>
<tr>
<th></th>
<th>Earnings Per Share</th>
<th>P/E Ratio</th>
<th>Book Value</th>
<th>Book Value Per Share</th>
<th>P/B Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-0.05</td>
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<td>$175.32M</td>
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<tr>
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<tr>
<td></td>
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<td>-7.30</td>
<td>$93.34M</td>
<td>$0.89</td>
<td>4.12</td>
</tr>
</tbody>
</table>

From figure 3, at the moment, both, ROE/ROA which are the main indices whether the company is worth investing shows negative number. However, considering its size and the market situation, these numbers are natural, since pharmaceutical market is filled with bluechips. Also judging from their increasing trend in gross margin, It is rather a good opportunity since we can invest in undervalued timing.

**Conclusion**

Impact investing differs from traditional investing in that it equally values impact and financial return so it targets companies intending to directly generate environmental or social change, and more specifically within the health sector, a healthier, safer, and more informed society. Such investments can thus generate both financial returns and positive social impact. We have decided to focus on pharmaceutical and health IT companies, which are committed to developing and manufacturing drugs to both improve and save lives and better the healthcare system by increasing public knowledge regarding their individual health. As previously described, because pure for-profits do not have impact directly linked to their mission, ROI takes precedence over social outcome, which can end up having a negative impact on society. This also means that somewhat riskier startups with potentially revolutionary healthcare missions may not receive the funding they need to take off. Impact investing in this area also differs
from charity in many ways. While charities are dependent on donations and are limited in their sources of funding, impact investing has access to far more capital through various sources. Impact Investing has the ability to capture a larger audience as a wide variety of investors are a part of this growing market including banks, pension funds, financial advisors, wealth managers, institutional and family foundations to name a few. A larger source of capital would allow for such companies to expand their reach and mission. This is especially important in the healthcare industry because pharmaceutical companies are very resource and capital intensive. They need continued and ongoing support from investors to deliver these life-changing products. Additionally, because both governmental and philanthropic grants can often come in the form of a one-time payment, they are simply not as sustainable. A relationship is also formed that can be mutually beneficial to both the impact investor and the company. Quarterly guidance and communication can provide consistent updates that inform the investor of the company’s progress and ensure that the mission statement continues to be adhered to. Both parties want the company, and the social impact, to grow and succeed. This can be symbiotic in the best of cases. And charities can have their own narrow mission scopes and limited resources. Although governmental funding can support the pharmaceutical industry, any social impact may be dependent upon the values of the administration. Executive orders can fail to materialize or be repealed and Congress can remain deadlocked on many issues making this an unreliable resource. Impact investing in the healthcare IT industry thus has a unique ability to not only create financial gains but to also impact the evolving trajectory of the healthcare system.
References


