ALLEN & OVERY

Lessons learned from "Health Tech Innovators"

Allen & Overy was delighted to be involved in the recent London Technology Week event called "Health Tech Innovators". Organised by Tech London Advocates, MedCity and DigitalHealth.London, the event brought together representatives from "big business", the NHS and some of the UK's most innovative digital health start-ups to discuss the critical question of how collaboration can drive innovation. Panellists included representatives from Janssen Healthcare Innovation, Konica Minolta, Aviva, Cardiocity, Silicon Valley Bank, SilverCloud Health, NHS England and Invention for Innovation (i4i NIHR) among others.

Exponential technologies such as sensors, robotics, artificial intelligence, synthetic biology and 3D printing are reshaping and improving every aspect of the healthcare journey from innovation in the lab; to people-centred technologies to foster engagement between patients and healthcare professionals; through to data-driven analyses on the performance of medicines to contribute to outcomes-based pricing negotiations. The potential is vast, but we can only capture the promise that these technologies offer us if we also manage the organisational and emotional aspects of bringing innovation into our workplaces and healthcare systems. This is no easy "ask". The change offered is transformative rather than incremental and, as one panellist at the conference rather beautifully expressed it: "…this is not about building a new kind of mouse-trap, this is a completely new way to control the rodent problem".

In most cases, transformative change requires collaboration not only between multiple stakeholders within an organisation, but also with other external organisations. As an example, Johnson & Johnson has announced a collaboration with HP, Inc to use 3D printing technologies to create better healthcare outcomes at reduced costs. Aviva is bringing digital technology in-house by partnering with Babylon, a mobile health company. (The deal involves rolling out a virtual health service to some of Aviva's UK customers starting with key corporate healthcare clients. Through Babylon, customers will have quick and convenient access to family GPs, specialist consultants, and state-of-the-art health monitoring and treatment.) The NHS meanwhile, through its Academic Health Science Networks (AHSNs), has an initiative centred on what it describes as "combinatorial innovation". One live example from the West of England AHSN is the "Diabetes Digital Coach". This project is bringing together mobile health self-management tools (using sensors, apps and cloud-based infrastructure) to encourage people with Type 1 or Type 2 diabetes to self-manage their condition. The programme will also facilitate timely and appropriate interventions from peers, healthcare professionals, carers and social networks.

Below we draw together some observations on collaborations from the conference along with some of our own thoughts based on practical experience of working with clients on commercial arrangements in the connected health sector.

WHAT FORM MIGHT YOUR COLLABORATION TAKE?

From investments and sales arrangements through to full-on commercial partnerships or even mergers and acquisitions, there are many routes by which companies can share technology, expertise and innovation. The route you choose will be determined by what you want to get out of the relationship, and where your partners' interests lie. Increasingly, for example, we are seeing the rise of corporate venturing or corporate-backed technology incubators and accelerators, where participant companies may receive anything from training and mentorship through to office space, investment and contracts. GlaxoSmithKline, Qualcomm, Medtronic, AstraZeneca, Roche, Nestlé, Merck and Novartis are among those with funds aimed at healthcare innovation. For other market participants, collaboration might be more about working with a peer to bring in new expertise or build scale.

CHOOSING SOURCES OF FUNDING THAT MATCH YOUR PROJECT

"All money is not fungible", claimed one of our panellists, and by this he meant that companies in fundraising mode need to be aware that different sources of capital come with different types of strings attached.

In the field of health, for example, there are any number of grants available to entrepreneurs and scientists. With no capital to pay back and no shareholder dilution, a grant may seem an ideal funding route for any growing company eligible for one. Applying for grants, however, and reporting on how the money is being spent, is time-consuming and eats up valuable management time. Grants are also often closely aligned to specific activities, leaving very little room for manoeuvre in a company that may wish to pivot a number of times before settling on a final value proposition for its business model or product. Corporate venturing vehicles or venture capital funds do come with shareholder dilution, which may not be desirable. The potential upside is that they often bring expertise to the business that can be highly valuable. A further consideration will be the length of the investment runway – ie the period of time during which an investor will leave funds invested before expecting a return on capital or, at least, before expecting to see an investee company starting to generate revenue. The length of the investment runway is a particular consideration in R&D intensive projects, which may require significant investment before they turn cash positive. Meanwhile a co-development arrangement with a larger partner may see the junior player compromising on the speed with which they can build and scale their own business because they must instead focus on customisations for the commissioning partner. Partnering and commercial alliances between peers may also throw up other questions – for example, around exclusivity.

Understanding your own goals and having a clear route-map for reaching them will help you choose the partner who best suits your needs.

WHAT DOES SUCCESS LOOK LIKE AND HOW WILL IT BE REWARDED?

Understanding the scope of the collaboration is also critical. Being clear about what is in and out of scope, defining "success", and aligning incentives (including financial incentives) is essential. Economic terms will likely depend on stage of activity. At product development stage, financial incentives might be based on a fee for services, FTE reimbursement or a "cost plus" model (typically direct material/labour and overhead costs plus mark-up percentage). Other options might include some sort of shared risk/reward model, or a model where pricing is based on hitting milestone or other performance-related markers to trigger payments. Later on, when an innovation is being commercialised, financial incentives might be based on revenue sharing, royalties or value or outcomes-based pricing.

ALIGNING THE TIMETABLE AND USING PILOTS

It's not just investment timetables that need to be aligned – understanding project timetables is critical in all collaborations. According to the NHS Innovation Accelerator (NIA), it takes, on average, 17 years for an innovation to be adopted at scale within the NHS. This is a very long sales cycle indeed! Even between big pharma and smaller digital health players, management styles and governance processes are likely to be very different, with large numbers of sponsors with different levels of sign off and pre-agreed processes governing the decision making in the former and small fast-moving teams characterising the latter. Aligning these styles and timetables is not impossible – but it does take understanding on both sides. Partners in a collaboration need to set a timetable for key decisions and deliverables that reflects the reality of the decision-making process within the business of each party, and economic considerations also need to be matched to this timetable.

One more manageable way of attempting to do this may be to engage in a pilot or prototype, rather than negotiating a term sheet before trying to take a project to scale. A pilot may provide a safer testing ground in which to assess the sustainability and scalability of an idea. It also has the clear advantage of being able to build in space for feedback and user engagement. Panellists did, however, suggest that free pilots are undesirable – projects benefit from all parties having "skin in the game".

REMEMBER WHO YOU ARE DOING THIS FOR

The success of a digital health project will always depend on its adoption by end users – patients and/or clinicians. In all collaborations, keeping the focus on end-user outcomes – and specifically, on the problem and how to solve it – is critical. Not only does goal-directed, user experience design help partners in a collaboration shape the terms of their engagement, it should also help parties reach the holy grail of being able to clearly articulate the value proposition. This clarity of vision is critical between partners and between companies and their investors. In due course, it will also be at the heart of the product sales message.

BENEFITING FROM CROSS INDUSTRY POLLINATION

A final word from the conference was to be open to cross-pollination from other industries. Innovation doesn't only come from within the healthcare and technology spheres. One example, taken from the conference, was how a health authority learnt about just-in-time staffing models for nurses on the hospital ward by considering parallels in the retail sector related to stocking products on the shop floor. A great example of a formal cross-industry collaboration is the strategic partnership between GSK and McLaren Technology, which aims to align McLaren's high-tech innovation with GSK's strengths in manufacturing and R&D. Among other projects, McLaren's pioneering work on telemetry (the remote and continuous assessment of physical and physiological characteristics) in Formula 1 motor racing is being adopted and used by GSK to assist with assessing and improving the effectiveness of medicines.

The key takeaway from both this conference and our own experience is that, in all collaborations, communication is vital. Parties need to agree clear objectives and goals, and understand each others' interests and incentives, so that both sides can make a fair assessment of the suitability of a prospective partner and can be clear on those points of negotiation which are deal breakers versus those which are just "nice to have".

Filip Van Elsen
Partner, Head of TMT
filip.vanelsen@allenovery.com
Tel: +32 3 287 73 27

Jim Ford
Partner, Co-head of Life Sciences
jim.ford@allenovery.com
Tel: +44 20 3088 4797

Rose Hall
Head of BD, Life Sciences and TMT
rose.hall@allenovery.com
Tel: +44 20 3088 3618