Healthcare Venture Capital for Physicians: Advisory Roles, Investing, and Startup Ecosystems with... Transcript

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Introduction and Meeting at the HLTH Conference

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Hi everyone, welcome back to the Startup Physicians podcast. This is your host Dr. Allison Kerman and I am joined by Dr. Daniel Dao. Thank you Daniel for joining me today. >> Thank you for inviting me. It's a pleasure to be here. >> So, um, we met at the health conference, which I highly recommend for anyone who's interested in this field. There was a actually a very large group of physicians at that conference, which is a fall conference. But Daniel, I was so impressed with all the various things that you've worked on in your career and in particular your role now with the firm Healthc Care Shares. So I would love it if you could share a little bit about your background and how you got started on this path.

>> Absolutely. Thank you, Austin. So I'm radiologist by training. I finished my training in 2004 from UT Southwestern here in Dallas. Uh my father and grandfather were also physicians, primary care physicians. My dad also practiced emergency medicine.

From Radiologist to Healthcare Innovation

uh they owned their own clinical practices and with that they had complete autonomy and control over the way they ran their medical businesses, treated their patients and they had complete control over their schedule. It was the health care system that I grew up with and it's really what I imagined my career within medicine to be like. When I finished my training, the business side of healthcare was already evolving.

However, I was very intentional and deliberate about the practice I joined, believing that I had that same opportunity for ownership. I joined a small group that served rural communities east of Dallas. And it was um a wonderful experience. I recruited, you know, a few of my uh friends and you know, co-residents uh that joined. But unfortunately I never was able to achieve that level of of ownership and and control that I had you know imagined in my career. And after about 15 years um you know I looked around and realized that um between you know 2004 and 2020 we had transitioned from uh you know a medicine a health care system where the majority of physicians owned their own clinical practices to one where the majority of physicians were employees of hospitals, health care systems and corporate entities. Um, you know, around that time is uh when CO occurred. My son, oldest son had just graduated high school and had gone off to college and then returned spring of 2020. Mildly impacted by by COVID with a reduction in volume. For me, it was an opportunity to take time off and spend, you know, more time with my family. And, you know, the more time that I had off, the more I realized that I was interested in doing something different. um and you know really advocating for uh physician and clinician entrepreneurship and ownership. I didn't really know how I was going to do that, but that I knew that that's kind of what I wanted to work on. My wife convinced me to work with a career coach and I worked with Heather Fork out of Austin and she helped me, you know, really realize what the different opportunities and options there were for physicians. I mean, I had no idea what a physician could do. Um, you know, with their MD, um, I decided to join a healthcare startup accelerator here in Dallas called Health Wildcatterters, and I've been a mentor and investor in that program, uh, since the end of 2020. Uh, it's been an amazing experience. Uh, through that uh, program alone, I've had the opportunity to work with over 50 uh, healthcare startups and their their teams. Um, it's been a great learning experience. I also took a role as a director of a diagnostic imaging program for a M company and then had the opportunity to connect with the the founder of Healthcare Shares. So, that's kind of how I transitioned from clinical to nonclinical. >> Yeah. And so many of the things that you're saying resonate deeply with me and I'm sure with a lot of people listening that being a doctor has really changed over the past few generations.

Discovering Startup Accelerators and New Physician Career Paths

And you know, it may not be exactly the way we want it today, but I I personally feel like it's up to doctors to then take the reigns and and create what it is that we think medicine and healthc care should be. A group are sometimes a little more passive. I I don't know. I just think that sometimes we've gotten into the frame of mind that like, well, this is just the opportunities available to doctors, so I guess I have to grin and bear it and suck it up for 30 more years until I turn 65. What your story demonstrates is that when you actually go out and seek external feedback and ideas in like a more expansive mindset in the form of a coach or a community or you know attending events sometimes that opens the door to new opportunities like you said the startup group that you joined in your local community like being able to work with 50 different more than 50 different startups that's that's amazing and I'm sure you've been exposed to completely completely different ways of thinking and started to realize exactly what your value is, what they need from doctors, the more conversations you have. And so I I think that's just such a great story and example to the people listening that there are resources we don't know about, there are opportunities we don't know about, and sometimes it just takes that commitment to go find them.

>> Absolutely. Um, yeah. One of the things that I quickly realized and I'm sure you have, you know, noticed the same is that when you go to like the healthcare tech events and when you engage with or you volunteer for the accelerator programs, the physicians and clinicians are significantly outnumbered by the business executives, the tech specialists, you know, people like that.

And I noticed that the focus is typically much more around the um the technology itself and the business model and whether or not it has an opportunity to be significant return whether it's a 10x return 100x or or thousandx return much less attention is is given towards whether or not it's uh going to be clinically useful clinically viable for you know the physicians and and and clinicians that are going to use that to treat their patients. So, I think there's a great opportunity for physicians and clinicians, like I said, to become much more involved and engaged with health care in general, whether it's the startup uh and the venture capital ecosystem or clinical practices um or even, you know, like the pharmaceutical industry, medtech, things like that. I think there's a lot of opportunities to see significant improvement in, you know, the products, the devices, and the services that are being created if physicians and clinicians are are more involved and engaged with with those companies. >> I think sometimes when we seek coaching or like you mentioned with Heather Fork, we start to realize some of the limiting beliefs we have about ourselves and our potential and what we can contribute to.

And then as we gain experience, we we really start to recognize more of our own value and opportunities. Did you feel like that was an experience that you had like kind of confronting some of the things about like what you could actually do as a doctor? >> Yeah, absolutely.

Why Physicians Are Underrepresented in Healthcare Startups

For me, before I went through the coaching, I didn't really think there were many opportunities. I was aware of, you know, some of the opportunities within the corporate side of healthcare, especially utilization management. And so for me that was an easy kind of transition to kind of test out what it's like to work for a corporate healthcare company. But beyond that I really had little to you know little very minimal information on what other opportunities were out there.

And the more that you work with, you know, your career coach or the more you start to listen to podcasts or look at different groups, you realize that it's more a matter of trying to figure out, you know, where you want to spend your time and what you want to do rather than trying to find something, you know, to do. So that was very, you know, definitely a very rewarding experience for me. And as you've worked with more and more budding companies, have you developed more of your unique value as a doctor or do you think you've been able to understand more of how you're able to help these these companies and and how you can contribute value? >> Yeah, absolutely. As I mentioned, I quickly realized that there's significantly less physician and clinician involvement. But then I also realized that the focus, especially within venture capital, is on finding companies not necessarily that have the best products, but have the best returns. And so, you know, I realized that there was a lot of startups that weren't really receiving funding, not because they didn't have a great, you know, tool that was going to improve healthcare, but more because it just didn't have that opportunity for that that large return. So as I began to learn more about kind of the venture capital ecosystem and different models, I realized that there are actually models that do really support smaller, more sustainable companies like venture studios. So a big part of what we're building at healthcare shares

is really looking for opportunities to do venture capital differently. We're very different from a traditional VC firm in that a traditional VC firm raises capital from a few institutional investors that are silent partners.

We're raising capital from hundreds of individual investors that are subject matter experts. Not only physicians and clinicians, but the healthcare executives, the founders, the consultants, advisers, the attorneys.

The goal is to bring together all of the stakeholders that support healthcare startups into a community to really be able to deploy intellectual capital alongside the financial capital when we make the investment. And so we really look for opportunities to leverage that collective, you know, subject matter expertise and networks of the membership to find the best companies to consider investing in through warm introductions and then collectively do the best due diligence and make the best decisions about what companies we want to invest in and then collectively to support them postinvestment once they become a a portfolio company. So that's one of the biggest differentiators is that a traditional VC firm typically they make that investment and the level of engagement significantly decreases. We really want to look for opportunities to extend that level of engagement for as long as possible. And when you think about like the venture studio concept where you're not only you're not investing in an existing healthcare startup, you're designing that company, building it and launching it and you're essentially a co-founder and a partner with that company from conceptualization through commercialization and exit.

How Venture Capital Works in Healthcare

It really increases the probability of success. So most people know that the majority of startups in general and healthcare startups as well are going to fail. However, with venture studio companies, the success rate is around 65%. And so trying to incorporate that venture studio concept and that community support into all of our investments, you can think of I like to kind of analogize that to the long-term patient physician relationship. So really having that level of of long-term commitment, long-term partnership. Um, and I think that, you know, that's where a real opportunity is to do things differently and really improve, you know, the quality of the products that the healthcare startups are building.

>> Yeah, thank you so much for describing the organization. I think it really demonstrates that there's no one way to do venture capital. And I think that I actually I get a lot of questions about healthcare shares. I have a lot of people that actually come to me and they say like, "Hey, I was looking on LinkedIn. Did you see that this group has advisory roles?" And I do think it takes a little bit of a different perspective because what you're describing is not just working capital, but what you called knowledge capital.

So, bringing in investor advisors that can put in a portion of funds to also then be included. It's similar to like I uh I've interviewed other people on the podcast who are limited partners in venture firms that they it's they're looking for an investment and they're looking for exposure to this world. So being able to do diligence and have visibility to deals and to to different companies and um understand how venture capitalists assess companies and support them. Um, and I actually know several founders who have fundraised with your organization and um, how this model allows um, a greater chance of success because you're when you're trying to raise money as a founder, you don't just want money, you need a team. You need a support around you. You need people that are going to be available for you to call when you have a weird problem that you couldn't have predicted. and and just having um a lot of expertise in your corner. So kudos to you for helping develop this uh this firm. What is your role at the firm?
>> So I mean I'm one of the core team members. My title is chief innovation officer and I mean essentially like a venture partner in healthcare shares but you know it's it I love healthcare shares. Love the mission. I'm not the CEO. I'm not the founder. I'm not the ultimate decision maker. So I do definitely do my best and you know when you were talking about like the the campaigns the LinkedIn campaigns obviously that's a core piece of of healthcare shares and we did not initially launch as a venture capital firm we evolved into a venture capital firm and the concept for healthcare shares actually came from requests by healthcare entrepreneurs from the founder to help them raise capital the way he did. So with his first healthcare startup he launched in 2014 he raised capital exclusively from individual investors and between 2014 and 2022 he raised over 35 million from over 600 individual investors and during that time he had several healthcare entrepreneurs reach out to him to get help raising capital that same way. So we actually launched, you know, with a model that was designed to replicate what he did did for himself for for our clients. And we we have had success since June of 2023. We've helped over 25 uh healthcare entrepreneurs and startup raise over uh 30 million. Our most successful client has raised 6 million. And then, you

know, basically building on that success, we decided in the end of 2024 to launch the the venture fund and the venture studio to go along with that. So it's been an evolution. I love the concept. I love the, you know, philosophy of bringing together all of the stakeholders and all and the intellectual capital.

The Healthcare Shares Model: Investing With Intellectual Capital

Again, at the end of the day, I'm part of the team. And I've taken that concept. I'm very passionate about independent physician and clinician practices. So I've essentially taken that concept and applied it to my own venture community that I, you know, started building as well.

>> That's awesome. And I mean it it just shows how like all sorts of things evolve over time. You start doing one thing and then you find value another place and you're like hey let's do that too and make some strategic pivots. And yeah it it actually it makes me think of uh with you know the election year coming up like all the politicians that are like I I raised an average of $10 per donor from you know thousands of people as opposed to you know one person giving me 25 million. kind of reminds me of that getting like a very broad contribution base and and then being able to call on those people in the future. >> Yeah. No, absolutely. I wanted to point out when you were talking about uh the companies, so we the the venture fund itself is raising capital that way, but then we also have clients. So, you have to really look at, you know, the campaign to determine if it's for the venture fund or if it's for one of our clients. And then also there, you know, there are others out there that have duplicated or attempted to to duplicate and replicate the model. So sometimes people ask me, it's like, is this one of your campaigns? Like, no, it's not. Having said that, uh, you know, for the venture fund, um, you know, we're recruit we're recruiting not only investors, but adviserss. And so there's no obligation to invest to become an adviser. And so I always want physicians um to know that especially if you're just starting to learn, you know, about this space. Um I think there's, you know, great opportunity to to join the board of in advisors and investors and to join the community. So our board is um like I said, it's over 300 members.

Um about 15% are investors, 85% are advisers. Some of our adviserss have joined um and then become investors. And then some of our investors have decided to invest a second time. But I always I always advise caution and know with with investing in venture capital, it's you know very risky. People ask me uh you know about what what advice was I given when I first started investing in healthcare startups. Uh I had invested since 2003. I've invested in private equity, a lot of distressed commercial real estate, you know, opportunities, oil and gas, things like that. Obviously, the stock market, you know, venture capital is is very risky. It's very it's illquid, meaning that once you get your you put your money in, you know, they tell you you're going to have to wait 10 years to get the back in the return. I always tell people I was advised to invest in at least 25 to 30 companies to be appropriately diversified and only to invest up to about 5% of my, you know, investable dollars. And I think, you know, those are all great points. What I love about, you know, the the healthcare shares venture fund is that, you know, for an investment, you know, as small as $25,000, you will have exposure probably to over 50 companies. We've already invested in 16, but the goal is to invest in over 50. And some of those companies will be, you know, venture studio companies, which statistically should have a higher success rate. >> Yes. And I mean, I think that when it comes to startups, I've heard the phrase that you're you're betting on the jockey. So, like it's, you know, sometimes the concept itself may evolve and you're really betting on the the founder that you're trusting in and and obviously with a fund like what you've put together, you have more distribution across multiple jockeyies. So, that that sounds like such a good opportunity. I actually have when people ask me about, you know, having seen your LinkedIn ads, a lot of people that I work with are looking for advisory roles and looking for paid advisory roles. And I think that then when they come across the thing, they're like, "Oh my god, this company wants me to invest to be an adviser." And I um I think it's just a very different mindset.

Advisory Roles vs Investor Roles for Physicians

I know that one of the like benefits that was offered to me at my firm was co-investment rights as as part of my offer and in addition to founder equity. It's it's like sometimes if if there's a really good deal, it's um it's a privilege to be able to invest in certain companies. So, um it's a it's different mindset, but I think the fact that you have this community of adviserss that don't all have to be investors is also something that everyone should check out.

>> Yeah, absolutely. And I wanted to when you talked about the founder, the importance Absolutely. Uh I also

completed a Columbia Business School venture capital private equity executive program and that program highlighted the importance of you know the founding team. The CEO and founder of health wildcatter same thing everyone that you talk to is uh really highlights the importance of the founding team as you mentioned that importance there's a at least two examples in the health wildcatterers portfolio. So they've health wildcatterters has been around for, you know, I think 13 years. They're on their their 13th or 14th cohort. They've actually had two founders where the companies have gone completely belly up, bankrupt, shut down. And the founders through that experience launched a second company and they took the equity that the investors had from the original startup and rolled it in to the next startup. so that the those original founders instead of just having a complete loss of their investment, they were invested in the next startup.

So I think that you know for me it really is important to really have that that level of of trust and confidence in you know the founder and the founding team. That's the most important part of analyzing the the healthcare startup.

The other thing I was going to say is uh for sure most of the healthcare startups that we work with are you know too too early stage where they can afford to actually hire consultants. That's always a big request. You know the vast majority of the the physicians and the clinicians and even the non-clinians that are in the group they are looking for those opportunities. Many are already serving as advisors, consultants, fractional officers, fractional CTO, CMO, CFO, CEO, and they're all looking for, you know, healthcare companies to engage with. You know, for me, you know, I have always, you know, just volunteered my time. Um, I I have actually not been paid much, if any, as an actual consultant. Most of the opportunities that I've had have come through volunteering my time, you know, with the company for sweat equity and then the the investment piece. Yeah. I mean, some people have different feelings about that. From the founding team, you know, perspective, it's obviously a huge boost of confidence or vote of confidence when your adviserss believe so strongly in what you're doing that they're willing to invest in the company. And so I think it helps to really identify if you know this is a company that really has the potential for success when the adviserss are you know believe strongly enough in the company that they're they're willing to invest in it and then you know beyond that the advisers now they have you know essentially skin in the game and they really want to see that company succeed.

Why Venture Capital Bets on Founders

So, one of the challenges that founders have is when they onboard advisors, making sure that they're actually going to, you know, add value to the company and put in the time. And, you know, so many times with with founders, they um they, you know, allocate or designate equity to a team of adviserss and then a year or two later, they can't even get the adviserss to show up to meetings. is they can't get them to answer emails and so you you end up in a situation where you know you have this equity on your table that you've given away that doesn't have value is not providing value. So I definitely think it helps you know from that perspective. >> Yeah. No, that's all all really good points and I think that anyone listening if they are interested in joining your community or even considering investing in your fund it is uh I would double check it's he healthcareshares.com correct?

>> Yes. >> Awesome. And also anyone looking to connect with Daniel we can put his LinkedIn in the show notes as well. Daniel, as we're wrapping up, I was gonna ask you if you have any last thoughts or encouragement for people that are exploring a new route or trying to uh find new ways of being a doctor. What would be your advice for them?

>> Yeah, I I think focusing on, you know, just trying to understand what you really want to, you know, work on, what provides you, you know, purpose, meaning and and fulfillment. I think that's really the the most important, you know, thing. I mean, you know, for me as physicians, you know, we're we go into this because we really are, you know, tend to be compassionate people that want to to help others. And unfortunately, we enter into a health care system that's very restricted because of the business leadership and the investment objectives that really govern what we can and cannot do. So it it really creates a situation where we know what we need to do for our patients but we're unable to do that because of the constraints of the system itself and it creates a lot of stress and anxiety leading to to things like moral distress. So, I think it's really important to understand yourself and what's going to align with your beliefs and what's going to provide you purpose, meaning, and fulfillment. And then look for an opportunity where you really have, you know, autonomy and control over that.

>> Well, thank you so much, Daniel, for your time. I know how valuable it is, and I hope that everyone listening has learned something about uh some more opportunities available to you. So, thank you all for listening and we will see you next time. Thanks for listening to the Startup Physicians podcast. This community was built for doctors who want to contribute to the future of healthcare. We offer support for physicians who are ready to make the next step towards building the career they've dreamed of. Visit startupfysicians.com to learn more. And if this episode resonated with you, share it with another friend who needs to hear it.

Let's change the future of healthcare together.