Keeping corporations healthy is good business for Livongo

Livongo Health, which launched a highly successful IPO in July, claims to be one of the fastest-growing companies in Silicon Valley. Can it keep investors happy as growth rates slow?

Digital health group Livongo has pioneered a new business model, convincing multinationals, government bodies and pharmacy benefit managers to pay for its technology, which enables users to manage chronic conditions. This approach seems to have worked, at least so far, with its third quarter revenues topping expectations.

Its investors are as keen as its customers; this summer Livongo conducted one of the largest IPOs in medtech history, going out at a premium to its preannounced range. But it has yet to turn a profit. Perhaps as importantly, it could struggle to maintain its current growth trajectory.

Applying themselves

Several companies offer apps intended to help patients manage various disorders - Glooko’s diabetes-focused software, for example, or Pear Therapeutics’ addiction management apps. But Livongo’s technology, which covers conditions including diabetes and hypertension, is paid for by employers – and even then, only if the employees actually use it.

“In the US, the person with the chronic condition doesn’t always pay for it, so they don’t have a huge incentive to reduce that cost,” Glen Tullman, Livongo’s executive chairman, tells Vantage. “The person who pays for it in the US is either large self-insured employers – big businesses – or the government.”

Livongo’s pitch is that its technology can keep a company’s workforce healthier, reducing the insurance costs incurred by sickness and boosting productivity since staff will require less time off. Mr Tullman says it has signed up more than 770 organisations, including “almost 25% of the Fortune 500”.

The technology itself is a combination of hardware – continuous glucose monitors for diabetes patients, sphygmomanometers for the blood pressure programme – and smartphone and tablet apps. Users are monitored and receive “nudges” to take their medication, for example, and they can also talk to or message coaches, who advise on nutrition and lifestyle as well as disease-specific matters.
“We’re taking information from people’s bodies, we’re aggregating all that information,” says Mr Tullman. “It might be from our meters [or] from a watch, from their pharmacy, from their electronic health record. And then we’re putting it back to them in the form of digital insights and nudges.”

The tech will also monitor patients’ use of consumables such as glucose test strips, and re-order them automatically when needed. And there is one further step: it tracks whether the nudging and advising actually improves users’ health. If it doesn’t, a new approach will be tried.

Livongo’s customers, the corporations and government groups, are only charged for active users.

“It is a subscription model, customers pay a monthly fee, but they only pay when people keep using it. We call it per participant per month, not per member per month,” Mr Tullman says.

The Amazon of healthcare?

The popularity of Livongo as a technology provider seems to be looking good, at least for now. Its popularity as an investment proposition has been more easy to track.

The group’s public debut was little short of spectacular; it started out by boosting the size of its IPO from an initial figure of $246m to $278m - and then beat even that, realising proceeds of $355m (Livongo enters the medtech float hall of fame, July 25, 2019). It closed its first day of trading up 36%.

Since then the stock’s value has slid, though a rally over the last month or so has left the shares slightly up from the IPO price. Mr Tullman says that one thing that drove investors’ demand was the prevalence of chronic conditions: in the US they for 90% of US healthcare expenditure – more than $1tn per year.

Livongo has certainly grown strongly: its revenues expanded 122% from 2017 to 2018, and 134% from 2018 to 2019.

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Source: EvaluateMedTech.

The pace is forecast to slow, however, according to data compiled by EvaluateMedTech. Then there is the small matter of translating revenue into profit. The group is loss-making, and will remain so for some time, Mr Tullman says.

“If today we stopped investing ... we would be highly profitable, because it’s a highly profitable business model. But because we’re growing so fast, that requires us to deliver great service, and that requires us to invest.”

He says the company expects to become profitable on the Ebitda line in 2021. Its investors, keen as they are, might not want to choose between growth and profit.