THE A-LIST ADVANTAGE: WHY ELITE SEED STAGE HEALTH TECH INVESTORS CONSISTENTLY OUTPERFORM

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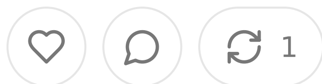

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Abstract

This essay examines the performance gap between health tech startups funded b seed and early-stage investors (Andreessen Horowitz, General Catalyst, Lightspe Venture Partners, Oak HC/FT, Lux Capital, FirstMark Capital, and others) versu those backed by lesser-known firms. The analysis explores three competing hypotheses: superior selection capabilities, differentiated company-building sup and self-fulfilling prophecy effects driven by network advantages and signaling Drawing on performance data, market dynamics, and insider perspectives, the es argues that while all three factors contribute to outperformance, the network ef and signaling mechanisms create the most durable advantages, particularly in healthcare where enterprise sales cycles depend heavily on trust and credibility. piece concludes that for angel investors, understanding these dynamics is critica for evaluating investment opportunities and for recognizing when earlier-stage can capture value before brand-name validation occurs.

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Introduction and Performance Reality

Let me start with something that should make every angel investor a bit uncomfortable. When you look at the top performing health tech companies fro past decade, the cap table concentration among a handful of elite firms is almost comical. Andreessen Horowitz backed Oscar, Devoted Health, and Ro. General Catalyst was early in Livongo, Cityblock, and Commure. Oak HC/FT backed Ale Rightway, and Transcarent. Lightspeed got into Devoted, Sword Health, and Cal FirstMark was in Zocdoc and Nurx. Lux Capital backed Saildrone (not health bu whatever) and various biotech platforms. The pattern is so clear it feels like mar manipulation, except it's not. It's something way more interesting and way more frustrating if you're trying to compete with these folks.

The question is why. And not just why in some handwavy "oh they're smart and good networks" kind of way. I mean specifically, mechanistically, why do compa that get a check from a16z or General Catalyst at seed seem to have dramatically better outcomes than companies that raise the same amount from regional VCs angel syndicates? Because the performance gap is real. According to Pitchbook from 2023, seed stage investments from top decile firms (by AUM and historical returns) in healthcare IT generate median multiples roughly 2.3x higher than th from firms outside the top quartile. That's not a rounding error. That's a structu advantage that compounds over time.

There are basically three explanations that get thrown around in partner meetin over expensive dinners in Palo Alto. First, maybe these firms are just savagely g

picking winners. They see companies earlier, they evaluate them better, they hav some proprietary insight or screening process that lets them identify the next ur when it's still three people in a garage. Second, maybe they're better at company building. They provide more valuable strategic advice, better executive recruitin superior operational playbooks, all the platform services that modern VCs love t about on their websites. Third, and this is where it gets interesting, maybe it's m a self-fulfilling prophecy. Maybe the brand itself creates the outcome because customers want to buy from a16z portfolio companies, follow-on investors want back General Catalyst deals, and talented employees want to join companies tha already have elite validation.

The truth, as usual, is some combination of all three. But the mix matters a lot, especially if you're an angel investor trying to figure out where you can actually value and capture returns in an ecosystem dominated by these heavyweight bran

The Selection Hypothesis: Are They Jus Better Pickers?

Let's start with the most flattering explanation for the elite firms. Maybe they're better at identifying great companies. They see more deal flow, they have more r evaluating companies, they've built proprietary frameworks for assessing marke opportunities and founder quality. This is what every VC wants you to believe b it justifies their fees and their position in the ecosystem.

And look, there's some truth here. These firms do see substantially more deal flc than random angel syndicates. A firm like a16z reportedly reviews something lik 3000-4000 companies per year and invests in maybe 20-30 at seed or Series A. Tl selection ratio that should, in theory, allow for much more rigorous screening. T can afford to be picky because they're not worried about putting capital to work They're worried about finding the absolute best opportunities.

They also tend to have better information networks. When you're General Catal and you've backed a dozen health tech companies, you're hearing about new mar opportunities from your portfolio CEOs before they become obvious. You've got

operating partners who came from Epic or Cerner or UnitedHealth who can eval technical feasibility and market dynamics with real expertise. You're plugged in academic medical centers, pharma innovation groups, and CMS policy teams in that regional VCs simply aren't.

But here's where I start to get skeptical about selection as the primary driver. If actually talk to partners at these firms, most of them will admit, after a few drin that their hit rate isn't dramatically different from other sophisticated investors. They're not batting .400 while everyone else is hitting .200. They might be at .28 while other good firms are at .240. That's meaningful, but it doesn't explain a 2.3 performance differential. Also, there's a dirty secret in venture that nobody likes talk about: a huge percentage of the returns come from a tiny number of outliers you're a16z and you backed Devoted Health at seed, that one company probably returned your entire fund. So the question isn't really whether they're better at picking most companies. It's whether they're better at getting into the companie become true outliers. And that's a very different question.

There's also the issue of timing and competition. Elite firms often don't actually companies first. They see them when founders are shopping for lead investors af building some traction. At that point, multiple sophisticated investors are all evaluating the same company. Why does a16z win the allocation over Sequoia or Bessemer or whoever else is in the mix? Sometimes it's valuation, sometimes it's terms, but often it's the perception that being backed by a16z will make it easier raise the next round, close enterprise customers, and recruit executives. Which r we're already starting to blend into the self-fulfilling prophecy territory.

The most compelling evidence against pure selection as the driver is what happe when these firms do platform deals or opportunistic investments outside their sw spot. When General Catalyst decides to put 500k into a random company becaus limited partner made an introduction, those deals don't meaningfully outperforn market. It's specifically the deals where they're leading or co-leading and bringir their full platform to bear that generate the alpha. Which suggests that somethir beyond just picking the right company is going on.

The Company Building Hypothesis: Platform Value Beyond Capital

So maybe it's not just selection. Maybe these firms are genuinely better at helpin companies execute after they invest. This is the big pitch that every modern VC now. We're not just capital, we're a platform. We've got talent recruiters who ca you hire a VP of Sales. We've got PR teams that can get you into TechCrunch. W got operating partners who've scaled companies before and can help you avoid mistakes. We've got customer introduction programs where we connect our port companies to potential enterprise buyers.

And again, there's real value here. I've seen it firsthand. When Oak HC/FT inves health tech company, they don't just wire the money and show up for board mee They're making intros to health system CIOs, they're pressure-testing your prici model against what they've seen work in other portfolio companies, they're help you think through regulatory strategy. When a16z backs a consumer health com they're plugging you into their network of growth marketers, they're advising or product positioning, they're making sure you're thinking about defensibility fro one.

The question is whether this support is actually differentiated enough to justify performance gap. Because here's the thing: every decent seed fund tries to provi some version of this now. Even sophisticated angel groups have started building platforms with executive recruiters, go-to-market advisors, and customer intro programs. So what makes the elite firm platforms actually better?

Part of it is just resources. A firm like General Catalyst can afford to employ ful recruiters, marketing strategists, and operating partners because they're managi billions in AUM. An angel syndicate or a 50M seed fund can't match that level o dedicated support. But resources alone don't explain everything because plenty well-resourced firms outside the top tier also provide extensive platform service

The more interesting difference might be the quality of the specific advice and t pattern matching these firms can do across their portfolio. When you're Oak HC

and you've backed 30 health tech companies, you've seen what go-to-market stra
work and which ones burn cash without generating pipeline. You know which h
systems are actually willing to be early adopters versus which ones just take mee
to seem innovative. You understand how to navigate payor partnerships, how to
about value-based care model integration, how to price for self-insured employe
versus health plans. That institutional knowledge is legitimately valuable.

I've also noticed that elite firms tend to be more willing to be honest and direct
founders about problems. When you're a no-name seed fund, you're worried abo
reputation and founder backlash, so you might sugarcoat feedback or avoid toug
conversations. When you're General Catalyst, you can tell a founder their VP of
is underperforming and needs to be replaced, and the founder is more likely to
actually listen because they know you've seen this pattern before. There's a cred
that comes with the brand that makes the advice more actionable.

But here's my skepticism about company building as the primary driver: if platf
value were really the key differentiator, you'd expect to see more variation in out
based on which specific partners and platform resources were engaged with a
company. And you don't really see that. An a16z seed investment where the part
super engaged doesn't seem to perform dramatically better than an a16z seed
investment where the partner is stretched thin and mostly delegating to princip
Which suggests that something about the a16z brand itself, independent of the
specific support, is driving outcomes.

The Self-Fulfilling Prophecy: Network Effects and Signaling

This is where it gets really interesting and, honestly, a bit depressing if you're tr
to compete with these firms. I think the dominant driver of outperformance is a
the self-fulfilling prophecy created by brand signaling and network effects. Onc
have a check from a16z or General Catalyst, you're playing a different game thar
seed stage companies, and the advantages compound in ways that have almost n
to do with how good your product is.

Let's start with follow-on fundraising, because this is the most obvious mechani: When you're raising a Series A and you tell investors that a16z led your seed, the conversation changes immediately. Other VCs see that as validation. They figure did serious diligence, they had their pick of companies, and they chose you. So n the burden of proof shifts. The question becomes "why shouldn't we invest" ratl than "why should we invest." This dramatically increases your odds of raising fo on capital and usually improves your terms because you've got multiple firms competing to get into a validated deal.

Compare that to a company that raised from a regional seed fund or an angel syndicate. Even if the company has identical metrics and traction, they're going face more skepticism in the Series A fundraise. Investors are going to wonder wl they didn't attract elite seed investors. They're going to assume there's some pro or red flag that explains the absence of a brand name on the cap table. And that skepticism translates directly into lower probability of raising and worse terms they do.

The data on this is pretty stark. According to Pitchbook, seed stage companies b by top decile firms have roughly an 80 percent probability of raising a Series A v 24 months. Companies backed by firms outside the top quartile have closer to a percent probability. Some of that is selection effects (the top firms backed better companies to begin with), but a huge chunk is pure signaling value. The brand c the outcome.

This gets even more pronounced in enterprise sales, especially in healthcare whe buying decisions are deeply risk-averse. If you're a hospital CIO evaluating two workflow automation tools with similar functionality, and one is backed by Gen Catalyst and one is backed by angels you've never heard of, which one are you bu You're buying the General Catalyst one, because if it doesn't work out, you can t your CEO "well, General Catalyst backed them, they seemed like a safe bet." Bu the angel-backed company fails, you look like you took an unnecessary risk. Thi: classic "nobody got fired for buying IBM" logic, and it applies to early-stage hea tech in a big way.

I saw this play out brutally at Datavant when we were evaluating channel partne opportunities. We'd have companies pitching us that had real traction, solid pro reasonable economics. But if they didn't have a brand name investor, our BD tea would be much more hesitant to commit resources to the partnership. There wa: always this lingering question: if they're really that good, why didn't they raise f top firm? And that question, even unspoken, killed deals.

The talent recruitment dynamic works the same way. If you're a VP of Engineeri deciding between two seed stage offers, and one company is backed by Lightspe one is backed by angels, you're strongly inclined toward the Lightspeed deal. Nc because you think Lightspeed is going to help with technical decisions, but beca you know that company has a better chance of raising follow-on capital, scaling successfully, and ultimately giving you either life-changing equity or a credentia helps your next career move. The brand attracts better talent, which improves execution, which validates the investment thesis, which reinforces the brand. Se fulfilling prophecy.

There's also a really interesting dynamic around portfolio company cross-selling ecosystem effects. When General Catalyst backs 20 health tech companies, those companies can partner with each other, refer customers to each other, and create integrated solutions that are much harder for non-portfolio companies to replic: I've seen this with companies like Cityblock and Commure, where being in the s portfolio created natural partnership opportunities that probably wouldn't have happened otherwise. These ecosystem effects are exclusive to large, well-known with concentrated health tech portfolios.

The dirty secret is that once these network effects get established, they're almos impossible to disrupt. If you're a talented founder with a great idea, you're goin try to raise from a16z or General Catalyst first, before you talk to smaller funds. if you can get them to invest, you're going to take their money even if the terms : bit worse, because you understand the signaling value. Which means the elite fir get first look at the best opportunities, which reinforces their ability to pick wir which strengthens their brand, which makes founders want to work with them e more. It's a flywheel that's incredibly hard to break into.

Healthcare-Specific Dynamics That Amplify Brand Effects

All of this applies broadly to tech investing, but healthcare has specific characte that make brand and network effects even more important. I'd argue that in healthcare, the self-fulfilling prophecy is actually stronger than in other sectors, few reasons.

First, healthcare is an incredibly relationship-driven market. Enterprise sales cy are long (often 12-24 months from first contact to signed contract), involve multi stakeholders (clinical, IT, finance, legal, compliance), and depend heavily on trus When you're selling into a hospital system, having a brand name investor signals you're a real company that's going to be around in three years when they're final ready to fully deploy your solution. Without that signal, you struggle to even get meetings with senior decision-makers.

Second, healthcare is highly regulated and risk-averse. Health systems and payor don't want to be early adopters of unproven technology. They want to see validat from credible sources before they commit. A16z or General Catalyst backing pr that validation in a way that angel money or regional VC money simply doesn't. not rational, but it's real. I've been in customer meetings where the first questio "who are your investors" before we even talked about product functionality.

Third, healthcare has particularly high barriers to scaling. You can't just spin u cloud infrastructure and scale horizontally like you can in SaaS. You need to nav different EHR integrations, varying state regulations, complex payor contracting structures, clinical workflow differences across organizations. Companies that t scale without serious capital and expertise tend to hit walls. Elite investors understand this and structure their investments accordingly. They're not lookin companies that can get to profitability on 2M of seed funding. They're looking f companies that can raise 50M-100M and build the infrastructure to actually scal complex market. That orientation attracts a different type of founder and create different outcomes.

Fourth, and this is subtle, healthcare has a lot of fake traction. It's easy to get a c
hospitals to pilot your solution. It's incredibly hard to get them to actually pay y
real money at scale and integrate your product into core workflows. Elite investo
have seen this pattern enough times that they can distinguish between real tract
and pilot theater. They push their portfolio companies to focus on true economi
value and deep integration rather than shallow deployments. And because they h
credibility with enterprise customers, they can make intros that lead to real
partnerships rather than just pilots.

The combination of these factors means that in healthcare, the network and sign
effects from elite investors are probably worth more than in consumer internet c
enterprise SaaS. Which is why you see such concentrated outcomes among a sma
number of firms.

Implications for Angel Investors

So what does all this mean if you're an angel investor trying to build a health tec
portfolio? The easy answer is "only invest in companies that have elite seed inve
but that's not actually practical or useful advice. Those companies are generally
oversubscribed and often don't have room for angel capital by the time the bran
names are involved.

The more interesting question is how do you compete in an ecosystem where bra
and network effects create such durable advantages for established players? I th
there are a few strategies worth considering.

First, you can try to invest earlier, before the elite firms are involved. If you can
identify great companies at pre-seed or friends-and-family stage and get in befo
they're raising institutional seed rounds, you can capture value that would other
accrue to brand name investors. The challenge is that you're now competing on
selection and company-building support, which is hard. But if you have genuine
domain expertise in healthcare (clinical, operational, regulatory, commercial), yo
actually provide differentiated value at those earlier stages when companies are
figuring out product-market fit and initial go-to-market strategy.

Second, you can focus on geographies and niches that elite firms tend to ignore. and General Catalyst are mostly looking at companies based in SF, New York, or Boston raising at least 2-3M in seed rounds. If you're willing to back companies secondary markets (Austin, Denver, Chicago, Seattle) or companies raising small rounds (500k-1M), you can find good opportunities that aren't going to get picke by the big brands. The tradeoff is that these companies may have a harder time s and attracting follow-on capital, but the entry valuation is lower so your risk-adj returns can still be good.

Third, you can try to build your own mini-platform with enough resources that y can credibly compete on company-building support. If you're running an angel syndicate and you can offer portfolio companies access to health system custome relationships, go-to-market expertise, and executive recruiting support, you star provide some of the value that founders would get from an elite VC. You'll never replicate the brand signaling effects, but you can narrow the gap enough that so founders will take your money, especially if you're offering better terms or more flexible structures.

Fourth, and this is maybe the most important, you can try to syndicate with elite rather than competing against them. If you can get allocation in rounds led by a General Catalyst, you get to ride their coattails and benefit from the network eff and signaling value they provide. The challenge is that these firms are increasing doing concentrated rounds with smaller syndicates, so it's harder to get pro rata allocation unless you bring something specific to the table (customer relationshi technical expertise, operational support). But if you can position yourself as a va add investor who complements what the lead provides, you can sometimes get in these rounds.

Fifth, you can focus on situations where the elite firms made a mistake or passec company that later attracts top-tier investors. Sometimes a company will raise a friends-and-family round, then a small seed round from regional investors, and t eventually attract a General Catalyst Series A after they prove out initial traction you can identify these companies early and invest in the pre-elite rounds, you ca benefit from the eventual validation effect even though you didn't have the bran

from day one. The key is being right about companies that the elite firms either
see or initially passed on but later recognize as high-quality.

The hardest truth is that as an angel investor, you're mostly betting on a combin
of getting earlier access (before elite firms are involved) and being right about
companies that elite firms overlook or underestimate. You're not going to beat a
General Catalyst in a head-to-head competition for a hot deal where both of you
evaluating the same company at the same time. The brand advantage is just too s
But you can carve out spaces where you have differentiated access or insight tha
you find companies before they're on the elite firms' radar or after the elite firms
made an evaluation error.

Conclusion

The reason companies backed by elite seed stage investors outperform is
fundamentally about self-fulfilling prophecy effects, though selection and comp
building support both contribute at the margins. The brand itself creates access
follow-on capital, enterprise customers, top talent, and ecosystem partnerships t
dramatically improve the odds of success independent of the underlying quality
company or product.

In healthcare specifically, these effects are amplified by the relationship-driven r
of enterprise sales, the risk-averse culture of health systems and payors, the regu
complexity that requires serious capital to navigate, and the difficulty of
distinguishing real traction from pilot theater. A16z and General Catalyst and C
HC/FT have built flywheels where their brand attracts the best founders, gives t
companies advantages in the market, generates outperformance that validates th
brand, and makes the next generation of founders want to work with them even

For angel investors, this creates a challenging competitive environment. You can
replicate the brand effects, and you probably can't match the platform resources
you can compete by investing earlier, focusing on overlooked geographies and ni
building your own support infrastructure, syndicating with elite firms when pos
and being right about companies that the top firms initially miss. The returns ar

there, but you have to be much more strategic about where you're competing an
differentiated value you're providing.

The bigger question, which I don't have a great answer to, is whether this concentration of outcomes among a small number of elite firms is good for the ecosystem or not. On one hand, it creates efficiency because the best companies matched with the most resources and expertise. On the other hand, it creates pa dependency where founders feel pressure to raise from specific firms even if oth investors might actually be better fits, and it makes it incredibly hard for new fu to break into the top tier even if they have great investment strategies. I suspect stuck with this dynamic for the foreseeable future, which means as investors we need to understand the game we're playing and position accordingly.

If you are interested in joining my generalist healthcare angel syndicate, reach o treyrawles@gmail.com or send me a DM. We don't take a carry and defer annual for six months so investors can decide if they see value before joining officially. Accredited investors only.

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