

McDermott and EY at the 2022 J.P. Morgan Healthcare Conference: Acceleration Capital

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Digital health has never been hotter, and investor interest is surging across all stages. From early- to late-stage investments, lines are blurring with increased disruption in the digital health landscape. Traditional private equity and growth investors are moving earlier in the cycle in an attempt to capture the next unicorn, and venture capital investors are doubling down on their own portfolio. In this forum, private equity and venture capital leaders reviewed the state of the market and shared their approaches to investing in 2022 and beyond.

According to statistics from Rock Health, 2021 was the largest funding year for digital health to date, with \$29.1 billion raised across 729 deals. Not only did 2021 see a record number of digital health deals, but the deals were larger than ever before: The average deal size in 2021 was \$39.9 million, and the number of deals worth more than \$100 million doubled from 2020 to 2021. In 2021, the six top-funded value propositions were research and development, on-demand healthcare, treatment of disease, fitness and wellness, healthcare marketplace and nonclinical workflow. The six top-funded clinical indications were mental health, diabetes, cardiovascular, primary care, musculoskeletal and oncology.

Two key trends are driving this massive influx of capital into the digital health space. The COVID-19 pandemic necessitated rapid healthcare innovation and new solutions to delivery care remotely. At the same time, consumers are increasingly interested in managing their own health. The convergence of these trends has fostered the proliferation and adoption of digital health solutions that connect consumers to the health system and connect the health system to consumers.

Investors are bullish on the value-based care space for 2022. Over the past few years, the first generation of value-based care companies have laid the foundation for what value-based care could look like in the future. While these companies have largely focused on primary care, they have developed the market in many ways and helped the payor ecosystem become more sophisticated about risk transfer. As payors become willing to push out greater forms of risk, value-based care will continue to move beyond primary care and into specialty care.

Areas of investor interest for 2022 include women's health, management of chronic conditions, and behavioral health and mental health. Many digital health companies currently operating in the mental health space are focused on low acuity, so there is ample opportunity for new mid- or high-

acuity entrants. Investors are also interested in opportunities to address access challenges for vulnerable populations (e.g., aging populations, rural communities, dual-eligible individuals) and provider shortages.

While today's high valuations can pressure market participants to move quickly, taking a long view with a focus on delivering value to the end consumer is often more important for success than trying to time the market perfectly. It can be hard for early-stage companies to focus on outcomes and ROI, so key questions to ask early on may include the following:

- How is this consumer experience better than the status quo?
- How is the company delivering value?
- Is the company actually solving a problem?

The enormous amount of funding flowing into digital health reflects a dramatic change in how healthcare is delivered. No matter how COVID-19 evolves or resolves in the future, US healthcare will not return to 100% in-person visits. A new mix of digital health and brick-and-mortar health is here to stay. In five years, digital health will simply be considered a fundamental aspect of healthcare, in the same way that we don't view depositing a check electronically as a separate form of "digital banking."

The 2021 exit market was exuberant, with 272 M&A transactions (double 2020) and 23 public exits (triple 2020). Barring external shocks, exits should continue to drive 2022 and beyond as the digital health market continues to consolidate and mature.

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