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Current Look at Digital Health

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There have been exciting advancements in the digital health space over the past few years that are truly changing lives, but the sector seems to be experiencing a reset as investment drops off. Below, we look at some current investment trends in digital health and what investors are looking for moving forward.

CB Insights has released their report on the State of Digital Health in Q3, taking a look at the global data and analysis on dealmaking, funding, and exits by private market digital health companies. It should come as no surprise, based on current economic conditions, that digital health funding slowed down in Q3, dropping 14% since Q2 ($3.5 billion in Q2 vs. $3 billion in Q3). They note this is the lowest level of funding since 2016, and it is counter to broader venture funding, which increased 11% from Q2.

Q3 also saw a drop in digital health deals by 33% QoQ, hitting 247 total, again, the lowest deal count in about ten years. This is also a more significant drop than the broader venture market, which experienced an 11% decline. In terms of exits in the digital health space, Q3'23 saw no digital health IPOs, and M&A exits fell 44% QoQ.

The report does have some brighter spots, with some encouraging news for early-stage deals and mega-rounds. Median deal size in the digital health space was only down 5% YTD vs. 2022. This is partly due to early-stage funding, which has remained relatively stable and comprised about 64% of total deals.

Mega rounds for digital health startups are also on the rise for the second quarter, with 6 in Q3. Mega funding was flat QoQ, but mega-round funding share rose 29% to a 5-quarter high. $100M+ mega-rounds.

The Q3 data highlighted by CB Insights is a bit of a mixed bag, and of course, many factors influence investor's decisions when it comes to investment in this space. Our colleague, Christopher Donovan, recently published an article, “HLTH 2023 Conference: Key Investing Takeaways,”providing insight into how investors view the current state of digital health markets.

He highlights a panel discussion from the event, “The Great Leveling Out,” in which the panelists outlined a new investment paradigm in digital health where investors will be looking to the following:

1. Does the service or product solve a persistent long-term issue?
2. Does the company have hard, predictable, scalable, clinically verified data to show a return on investment (ROI) that supports the valuation?
3. Does the team have a focus on a large and growing market?
4. Does the company have favorable unit economics (i.e., margins)?
5. Does the company have a solid multilingual team with clinical, operational, development, legal/compliance, and financial acumen?

The panelists agreed that a leveling out in the digital health space might not be a negative thing as it will allow the survivors to scale and access capital. It is something to watch closely as we move forward – which startups have the right pieces in place to survive this digital health reset and capture the interest of investors in this difficult time.

We will monitor closely as this sector is certainly one to watch for the long term.

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