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What is the State of Digital Health Funding in 2023?

Louis Lehot
13 March 2023

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With the pandemic, there came a digital health explosion, with companies working swiftly to bring new technologies to light that would pave the way forward in telehealth and other critical areas. We saw an incredible interest in this space then, but what is the state of digital health now? In this post, we look at data from public and private financing markets in the digital health space in 2022, and look forward to what to expect in 2023.

Public Markets

According to a report from BTIG that relied on commercial databases and publicly available data, digital health indices returned less than the S&P last year by a wide margin, with notable bright spots in payor (+12.4%) and distribution (+3.8%).

Forward reenue multpiles fell to multiyear lows (2.3x) as of Q4 2022 and revenue estimates dropping 5.4% on average.

New issuances in digital health saw an uptick in the second half of the year, with follow-on offerings from Certara, Oak Street Health, R1 RCM and Alignment Healthcare in Q3 and Privia Health, Amerisource Bergen and Nextgen in Q4. There were no IPOs in the space in 2022.

With valuations near five-year lows, will buyers see opportunities for growth and will sellers capitulate and transact in these conditions?

Will the IPO window and offer an exit later in the year?

Time will tell…

Private Markets

CB Insights has released their State of Digital Health report – a recap and analysis of dealmaking, funding, and exits by private market digital health companies in 2022. It is of course no surprise that overall, global digital health activity in 2022 was not as robust as 2021. This has been the result in just about every sector across the board, so this is on par with what we are seeing globally and not specific to digital health.

Below, we look at some key findings from their report and where this sector stands today.

First, as stated above, global digital health activity dropped in 2022, with their data showing a drop of 57% year over year and total global funding coming in at $25.9 billion. Deals dropped to a five year low. They were down 33% year of year, and the total for global digital health funding last year was $25.9billion.

When looking at any sector in 2022 compared to its results in 2021, it is so important to remember that 2021 was literally a blockbuster, record setting year. Those kinds of numbers cannot be expected to be replicated, and some normalization is expected. There are of course numerous outside factors impacting deals, valuations, and exit plans, which are also adding to the decrease in funding.

While funding to US-based startups did decline by 26% last year, they did seem to fare better than others, accounting for 68% of total funding in 2022. In fact, three US companies raked in the top equity deals in Q4, raising mega-rounds of $100million+.

We have previously discussed the disruption to exit plans for startups throughout 2022, and it was no different for the digital health sector. M&A deals saw a 50% decline year over year, IPOs fell by 84%, and SPACs by 78%. As with just about every other tech sector, digital health founders are finding themselves in an environment where they are needing to be more flexible and shift their exit strategies as we continue to face economic concerns.

It's not all bad news in the digital health space. While we did not see any unicorns in Q4 of last year, 2022 still saw the second highest number of unicorn births in the past five years. There were 21 digital health unicorns last year, which is still quite impressive.

As we continue with our return to normal post-pandemic, digital health is still an increasingly important part of healthcare on a global scale. Digital health is what is driving healthcare forward, and there is amazing innovation in the areas of generative AI, AR/VR, and digital biomarkers. A turnaround for this sector is coming and will likely be driven by these kinds of transformational technologies that will fuel the future of healthcare.

Meanwhile, our advice for digital health startups is to focus on accelerating revenue growth as much as cost cutting to make it through the dip and be poised for better times ahead.