DR. BERTALAN MESKÓ

THE MEDICAL FUTURIST'S GUIDE TO INVEST IN DIGITAL HEALTH

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THE MEDICAL FUTURIST'S GUIDE TO **INVEST IN DIGITAL HEALTH**

Dr. Bertalan Meskó
The Medical Futurist,

Dr. Pranavsingh Dhunnoo,
Judit Kuszkó,
Andrea Koncz

Design:

Adam Moroncsik (Studio VAN)

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THE MEDICAL FUTURIST

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Welcome message from The Medical Futurist

Dear Reader,

At The Medical Futurist, and especially at The Medical Futurist Institute, we don't usually deal with investment-related news and announcements. We never share investment rounds or press releases coming from incubators and venture capital firms. However, it doesn't mean that we don't keep a close eye on all these developments.

Moreover, the mission we stand by indicates that we actively support the digital health and artificial intelligence start-up community; we are in close contact with many founders and we do share news and contexts that those incubators use.

The pandemic has just made this involvement even more prominent in our work. Good digital health investments these days cannot only provide a more optimistic vision for healthcare, but paved the way how we could deal with COVID-19 too.

As these past two years saw record investments and interest in the digital health sector, So, it was time to update how we assess the quality and promise of digital health and A.I. start-ups and technologies; how we make a decision whether to feature a report or announcement on our channels; and how in general we try to make sense of all the changes around healthcare when it comes to investments.

We shared those 24 technological trends we find the most promising by also highlighting some specific areas that are worth following. And we included good and bad examples of the past couple of years about investment stories.

I hope you will find our publication a useful addition to the toolset of investors to find the next big thing in digital health and A.I. that can make the lives of patients and the job of medical professionals better.

Kind regards,

Dr. Bertalan Meskó
The Medical Futurist
Director of The Medical Futurist Institute

CHAPTER 1:

Digital Health By The Numbers

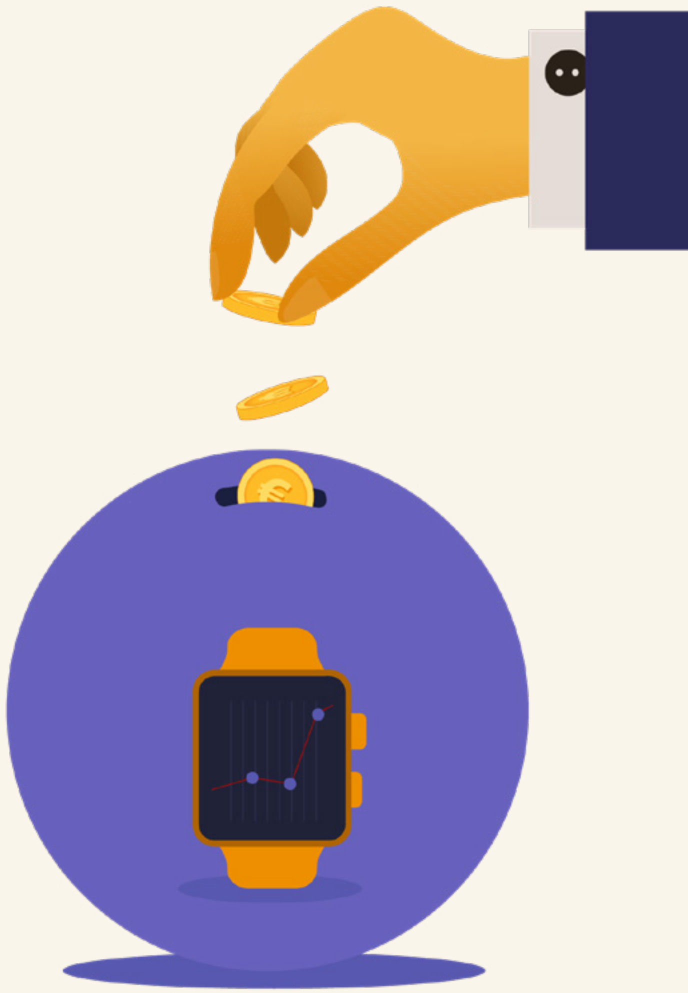
During the decade that lapsed, billions of dollars were funneled into the digital health sector. In investment terms, such amounts are commonplace in virtually any industry. But to put it in perspective, this particular sector saw a 400% increase in investment deals during the same time frame.

This has been a steady trend in funding for digital health startups in the last couple of years, according to data from the full-service seed and early-stage venture fund supporting digital health startups. The record-setting year of 2021 totalled $29.1 billlion in total funding among US-based digital health startups. Overall investment nearly doubled from 2020.

As for the surreal year that was 2020, one might have to assumed that the pandemic, the lockdowns, the global economic slowdown would hit hard. But contrary to this prediction, investments did not falter. And 2021 could exceed all expectations.

2021's total funding among US-based digital health startups amounted to $29.1B across 729 deals. Overall investment nearly doubled 2020's $14.9B former record haul. Driving these numbers in 2021 were also larger deals than before. Rock Health reports an average deal size of $39.9 million in 2021 up from just $30 million a year earlier.

If there's one thing that speaks to investors, it's the numbers; and here, the numbers speak for themselves, and they've baffled even experts. "While it may feel like old news to share just how momentous 2021 was, our updated funding graphs—with extended axes just to capture 2021's growth—speak for themselves Rock Health noted in their year end report.



And while interest in the sector does not seem to disappear, 2022 definitely has its own challenges. "Supply chain and energy disruptions, market corrections, and the Russian invasion of Ukraine are new variables entering public and venture funding equations—changing the calculus for startups and investors who extrapolated a path based on sector activity in 2021." – the Q1 2022 report noted.

Q1 2022 U.S. digital health funding closed with $6.0 billion across 183 deals, with an average deal size of $32.8 million. This is not only behind the Q4 figure of last year – which is expected, as the last quarter is always extremely strong -, but also somewhat below the Q1 figures of 2021 ($6.7 billion).

Venture capitalists are seen to back innovators left and right that come up with either elaborate technologies or untested products, in the hopes of getting a hold in the next unicorn.

As such, these numbers might only be indicating hype. But in healthcare, this might not hold true. Investors interviewed in a Deloitte report emphasised their backing of innovative businesses "that align their value propositions to the present and future of health, with technology being the bedrock." They further highlighted the need for these companies' products to improve quality of care, diminish costs and improve access to care

" 2021 will likely go down as one of the biggest years ever for digital health-tech investments and revenue growth. And 2022 may be bigger. " – the annual report of Deloitte says. The 'Technology Fast500' list, published by Deloitte for the 28th consecutive year ranks companies based on percentage fiscal year revenue growth from the previous 4 years.

“The median growth rate among these 500 companies was 521%. Over 20% of this year’s companies have (or are developing) innovation in the broader health care and life sciences industries, and 40 are specifically focused on health tech. That number is up sharply from what we saw just five or six years ago.” – Deloitte noted.

“Between 2019 and 2020, aggregate expansion-stage deal value in health care more than doubled—rising from $8.3 billion to $17.4 billion, according to our research. That trend continued to accelerate throughout 2021…and there are no signs that it’s slowing down as we head into the new year.” – the 2021 year-end analysis added.

However, as we already noted, Q1 2022 figures don’t look especially promising. “It’s been massive amounts of money going into young companies ill-equipped to swallow it,” said Lisa Suennen, managing partner at Venture Valkyrie and adviser to several venture funds to Politico. “There is a return to rationalism happening. Whether you call it bubble bursting or anything else, I don’t know, but … instead of an arms race where you shoot first, ask questions later, it’s turning the other way around where you ask questions and then shoot.”

The market is frothy — meaning valuations are unsustainably high — said Steve Tolle, general partner at HLM Venture Partners in the same Politico analysis, who added that it’s still early to say whether the bubble has burst.

“The frothiness will come down a little bit,” Tolle said. “We’re starting to see [that the] average deal size has come down.”

Analysts seem to agree on an important point. The overall size of the health industry ($4.3 trillion in 2021) is on an upward trajectory. However, this growth and more importantly, its share related to GDP seems unsustainable – as it is projected to reach $12 trillion, 26% of the GDP by 2040. And here is when digital health is seen as the greatest promise.

Although somewhat more slowly, but eventually the health care sector seems to be catching up with other, more consumer-focused areas, like banking, consumer finances, retail and so on, which have already gone through paramount changes in efficiency. Analysts forecast similar landslides in many, health related areas, including ‘bordering’ sectors, like fitness, wellness, prevention, mental health and nutrition among others.

Healthcare is a slow-moving animal, but it is in dire need of change. This could open the door to health tech companies that have the capability to tackle specific parts of the value chain.

Which are the niches health tech can address? Many! Deloitte’s report names appointments, logistics, virtual care, the development of at-home testing kits. All these have seen significant upticks in funding as a result of the pandemic.

Recent years have been also filled with cautionary tales from digital health startups that over-promised but grossly under-delivered; even from major players and coveted unicorn startups.

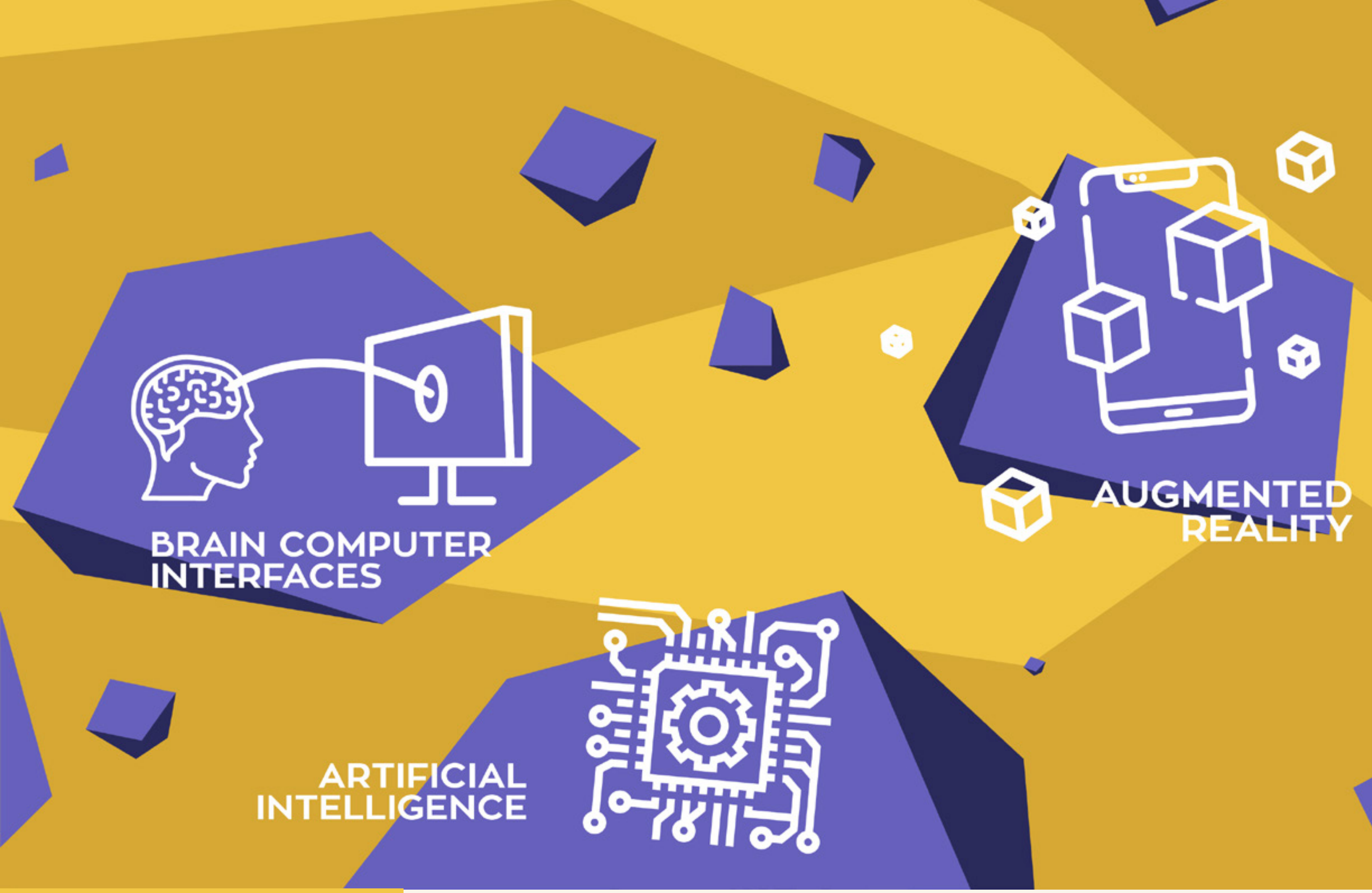
But despite these failed ventures, reasons do abound to bring in funds in the sector.

Chapter 1 key points:

Digital health investments are steadily on the rise

The pandemic has given rise to digital health investments

Big Tech companies are also taking interest in digital health



CHAPTER 2:

Why To Invest In Digital Health

Despite all the money talks, newly interested parties might - and rightly should - ask why they should invest in digital health in the first place. For one, deals in this sector are relatively scarce, especially outside of the United States. McKinsey reports that during the period from 2015 to 2018, healthcare tech deals amounted to only 7% of both European and U.S. healthcare deal volume; and that during this window, 83% of global healthcare tech deals occurred in the U.S. alone.

But as we saw in the previous chapter, investors are not backing down but steadily fuelling capital into this field. According to a forecast from Statista, the global digital health market size is expected to increase almost six-fold by 2026 to nearly $640 billion, with an expected compound annual growth rate (CAGR) of 28.5% from 2020 to 2026. Market players will want a piece of this growing cake, and so might you, before those pieces get limited.