Despite Buyer Slowdown in 2017, Health Systems Still Keen on Digital Health Investments

Many aspects of daily life are so techno-centric that it's easy to take the underlying technology for granted. You'd be hard-pressed to find someone who doesn't believe that the future is digital. The healthcare industry reflects that trend as well; for instance, the steady growth of telehealth platforms and patient accessibility to remote healthcare. With that in mind, the fact that 2017 was a slower year for digital health startup acquisitions might feel at odds with the trends in this sector at large.

Megan Zweig is the director of research for the San Francisco-based digital health investment firm Rock Health. Earlier this spring she authored a report on last year's investment trends in the digital healthcare sector, and the results might be surprising when one imagines digital as equating to a guaranteed sure thing for investors and startups alike.

Rock Health report for 2017: venture funding way up, but no digital health IPOs

The Rock Health report showed that the digital healthcare sector did not see any initial public offerings (IPOs) for 2017 (zero being described as a "surprising" number). The last digital IPO was iRhythm in 2016.

However, money was still flowing in the field: venture funding for U.S. digital health startups soared to the near "record-smashing" figure of $6 billion for last year. But 2017 was the second consecutive year that saw lower numbers of digital health company acquisitions (119 in all).

Zweig noted that many young companies will experience growing pains; she told Modern Healthcare that she wasn't entirely surprised by her report's findings.

Digital health is a young field and "this is a long journey…"

“Though investors are a little wary of these numbers, overall the sentiment is that this is somewhat to be expected,” Zweig said. “This is a long journey and we wouldn’t have invested in healthcare if we wanted a super fast turnaround.”

The Rock Health report sketched 2015 as the record year (so far) for digital health mergers and acquisitions (M&As). Following that high point, there were 36% fewer M&As in 2016, and last year saw a declination of nearly 20% over 2016.

Where 2017 saw a notable increase was in what the report called “mega-deals,” digital health deals involving more than $100 million. Last year included a record number of those deals; the reported theorized that that might be explained by the fact there are now a number of mature digital healthcare companies actively seeking and ready for investor funding.

Healthcare providers have different goals than typical investors

Healthcare investor is not synonymous with healthcare provider, naturally, and the report illustrated that: in 2017, only around 11% of digital health companies receiving funding got their investments from one or more healthcare provider. And providers aren’t like most investors — providers aren’t solely focused on the bottom line return from investment, but instead, are often seeking to lower costs and boost quality within their operation.

Zweig noted that providers don’t need to wait for an exit or acquisition in order to benefit from the use of digital technology innovation. For instance, Zweig referenced Sutter Health utilizing Augmedix, technology that can reduce the amount of time doctors spend on documentation (thereby freeing up time physicians can redirect toward patients).

The Rock Health author acknowledged that the common initial association with digital health is diagnostic or therapeutic innovation. But her report revealed that healthcare providers actually invested most in companies that could improve their administrative workflow (i.e., supply chain, inventory, scheduling).

The digital healthcare field is still attracting investors with “a ton of opportunity”

Rock Health is working on its digital health funding report for this year’s first quarter. Zweig told Modern Healthcare to expect “a lot of big deals” to show up in the report. She does not predict that the 2017 dip in M&As and the absence of IPOs will prove worrisome to investors. “We aren’t really seeing any pullback yet in terms of the venture investment dollars flowing into that space,” she said. “I think that’s just because there is a ton of opportunity.”