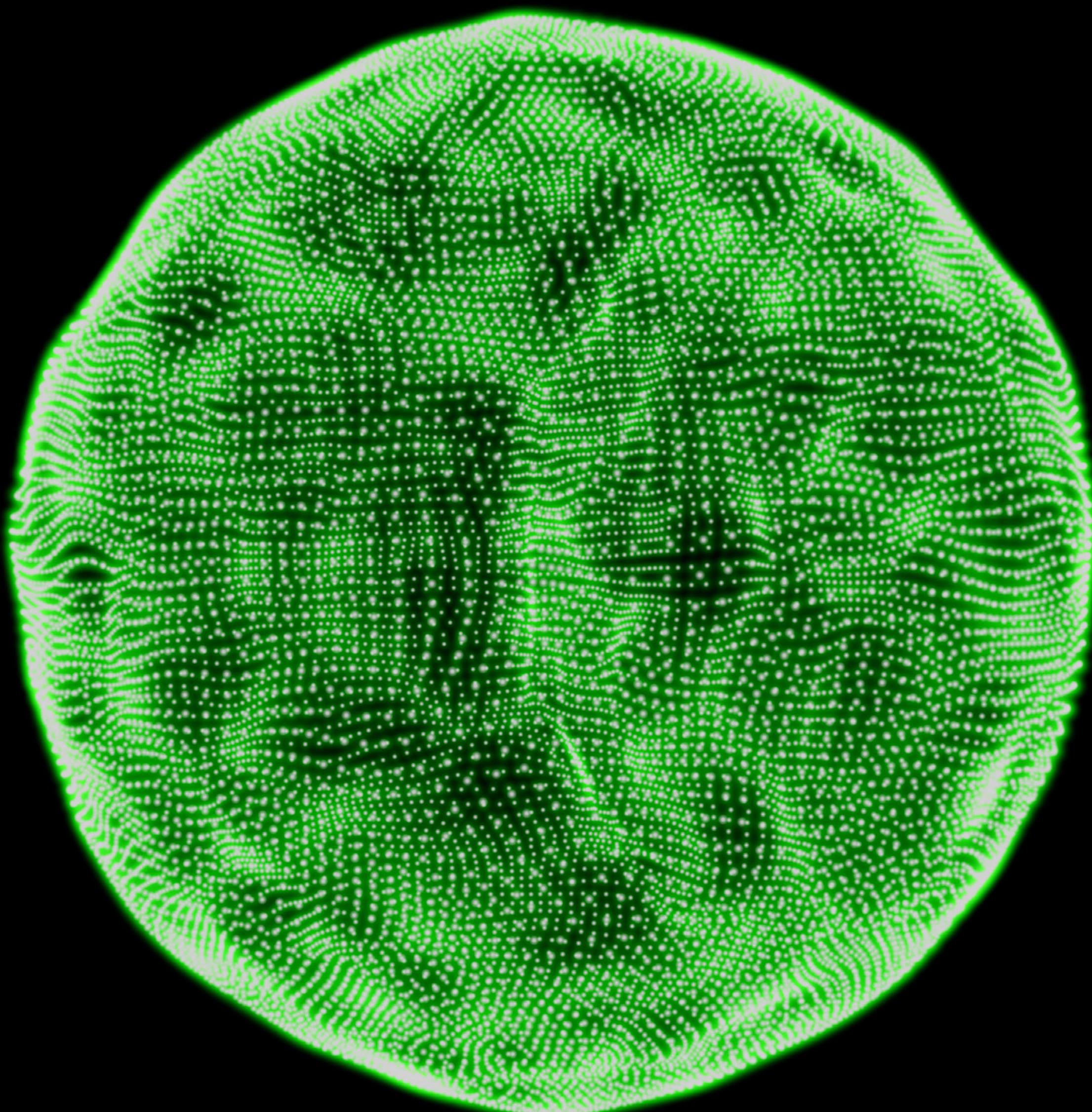
Road to Next



Deloitte.

Data provided by PitchBook

Foreword & executive summary

Health tech stands poised to help transform healthcare throughout the coming decade

Themes & key findings for this issue:

Health tech is one of the faster-growing segments of the expansion-stage ecosystem, in terms of investment: At $23.8 billion invested across 556 completed transactions, health tech has already seen record highs for both deal count and value in 2021 to date.

Rising healthcare costs, consumerization, the ongoing COVID-19 pandemic, and other major factors are encouraging a proliferation of health tech companies that have spread to several niches: Health tech enterprises are targeting multiple end markets, from telehealth to mobile clinic back-end platforms to data analytics platforms that support predictive personalization for patients.

Expansion-stage health tech companies must maintain control over key challenges and risks: Beyond balancing a heated market environment with judicious spending and fundraising, health techs must ensure they are navigating sector-specific regulations and best practices for revenue recognition, data privacy, capitalization, and more.

Deloitte and PitchBook have collaborated to produce a unique methodology for the *Road to Next* series, in order to better analyze a new segment of companies that emerged in the 2010s. Dubbing this segment the expansion stage, the methodology uses investment data restricted to late-stage VC, PE growth, and private corporate financing. In addition, companies must still be privately held by aforementioned investment firms.

Accelerated by the COVID-19 pandemic, dealmaking at the expansion stage rose to new heights in 2020 and 2021 to date. Building off key technical advances and mass adoption of smartphones as well as incremental improvements in back-end healthcare+ IT infrastructure, health tech platforms have proliferated into a wide variety of niches, raising large financing rounds to keep scaling rapidly to meet rising consumer demand. The continuing consumerization of healthcare in tandem with macro trends such as aging demographics have ensured there is no shortage of market opportunities for health tech enterprises.

Heather Gates
Audit & Assurance Private Growth Leader
Deloitte & Touche LLP

With more than 30 years of financial services experience, Heather serves as the national Private Growth leader with oversight of the Deloitte Private, Emerging Growth Company, and Private Equity businesses within Audit & Assurance.

"Health tech is yet another manifestation of how digitization is transforming multiple aspects of operations and models for all businesses."

Heather Gates
Audit & Assurance Private Growth Leader
Deloitte & Touche LLP

Peter Micca
Audit & Assurance Partner and National Health Tech Leader
Deloitte & Touche LLP

With more than 30 years of experience, Peter Micca serves a broad array of clients in all sectors of the health care, technology and life sciences industries.

"Health tech has the potential to lower the unit cost of healthcare and enable consumerism even further."

Peter Micca
Audit & Assurance Partner and National Health Tech Leader
Deloitte & Touche LLP

Market trends

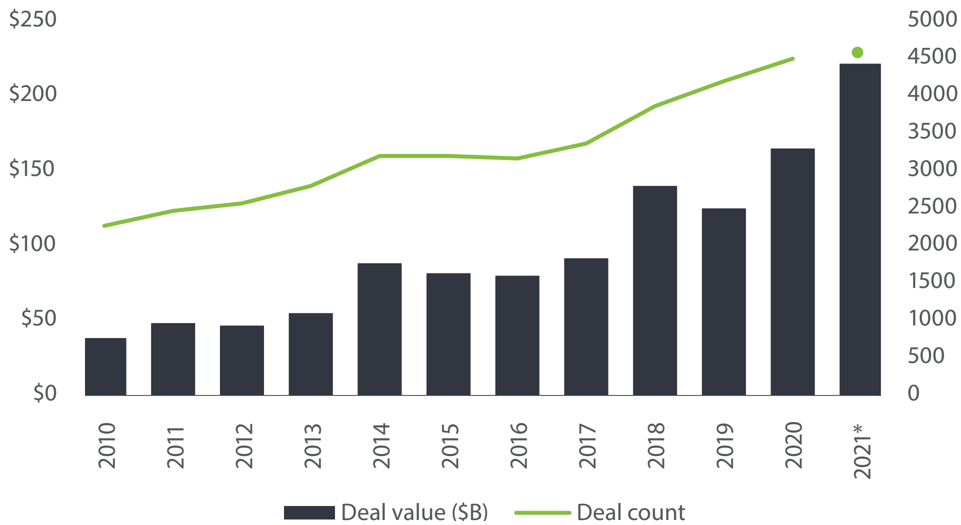
Record levels of funding—with months still to go in 2021

At $221.3 billion invested across more than 4,500 completed expansion-stage financings, the ecosystem has never seen such a wealth of dealmaking. Each quarter of 2021 has observed well over $70 billion in expansion-stage deal value, even as record volumes have persisted relative to any other quarter prior to this year. Health tech stands out—even among the fastest-growing sectors within this space. Between 2019 and 2020, aggregate expansion-stage deal value in healthcare more than doubled—rising from $8.3 billion to $17.4 billion—and 2021 thus far has seen even higher figures, with close to 560 completed transactions accounting for $23.8 billion overall. With a quarter to go, 2021 is clearly on pace to set staggering new heights for health tech transactional activity. Cross-border dealmaking has contributed significantly to those tallies, with corporate players participating in nearly 25% of all 2021 expansion-stage deals to date, accounting for a hefty 59.2% of deal value.

"There is so much dry powder held by private investment firms that multiple companies tackling the same market need may end up receiving substantial capital, which can result in a race to commanding market share."

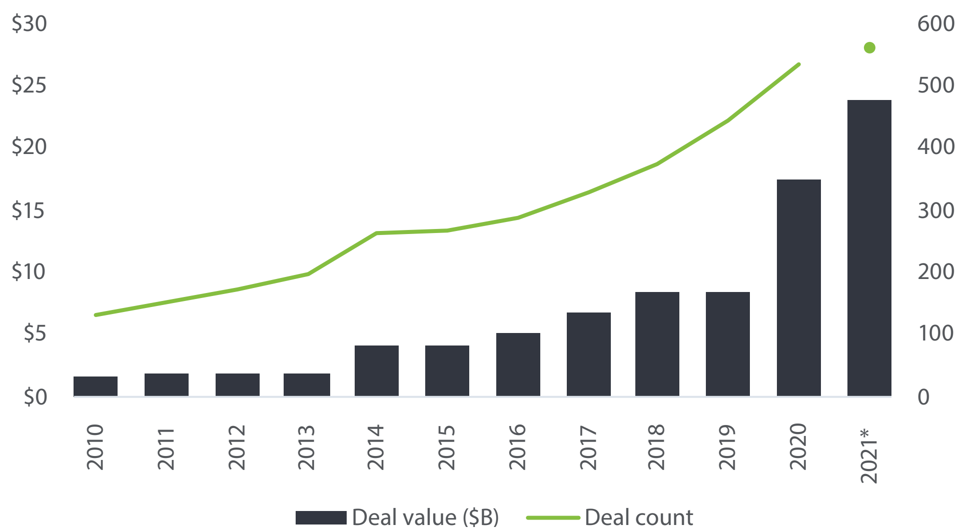
Heather Gates
Audit & Assurance Private Growth Leader
Deloitte & Touche LLP

Expansion-stage deal activity



Source: PitchBook | Geography: US
*As of September 30, 2021

Health tech expansion-stage deal activity



Source: PitchBook | Geography: US
*As of September 30, 2021

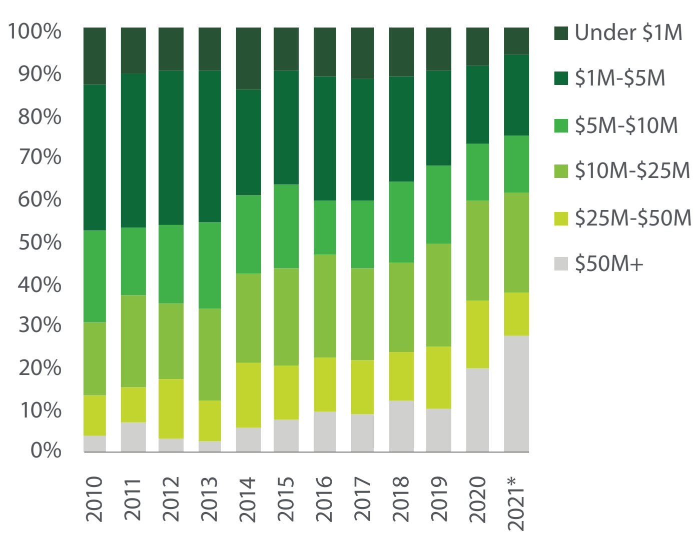
Health tech expansion-stage deal activity by quarter

Source: PitchBook | Geography: US
*As of September 30, 2021

Dealmaking is proliferating into multiple niches

It is easy to trace with hindsight the multiple ways in which COVID-19 accelerated certain trends in health tech—most notable among them the significant funding and initiatives to modernize healthcare provider tech stacks. In January, for example, [Gartner forecast](#) healthcare IT spending to grow by 6.8% in 2021 to reach $140 billion. However, health tech in general has been building atop slow-moving yet seminal changes in underlying technologies for some time. Although challenges remain given the commanding market positions occupied by legacy software companies in many systems on which providers rely, innovative care models by younger companies deploying new, homegrown systems have started to lure consumers away from hospital chains. Those challenges, coupled with increasing expenditures, have resulted in the continuation of hospital mergers, leading to highly concentrated markets across the US. Large healthcare organizations are often slow to renew tech stacks—but they will have to, eventually—which could provide incredibly lucrative opportunities for health tech companies looking to tackle parts of that overall value chain.

Health tech expansion-stage deal count by size



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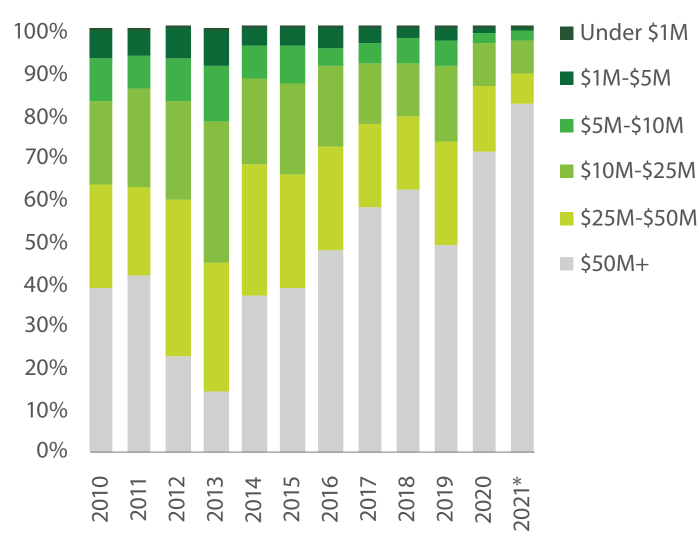
Health tech expansion-stage deal value by size



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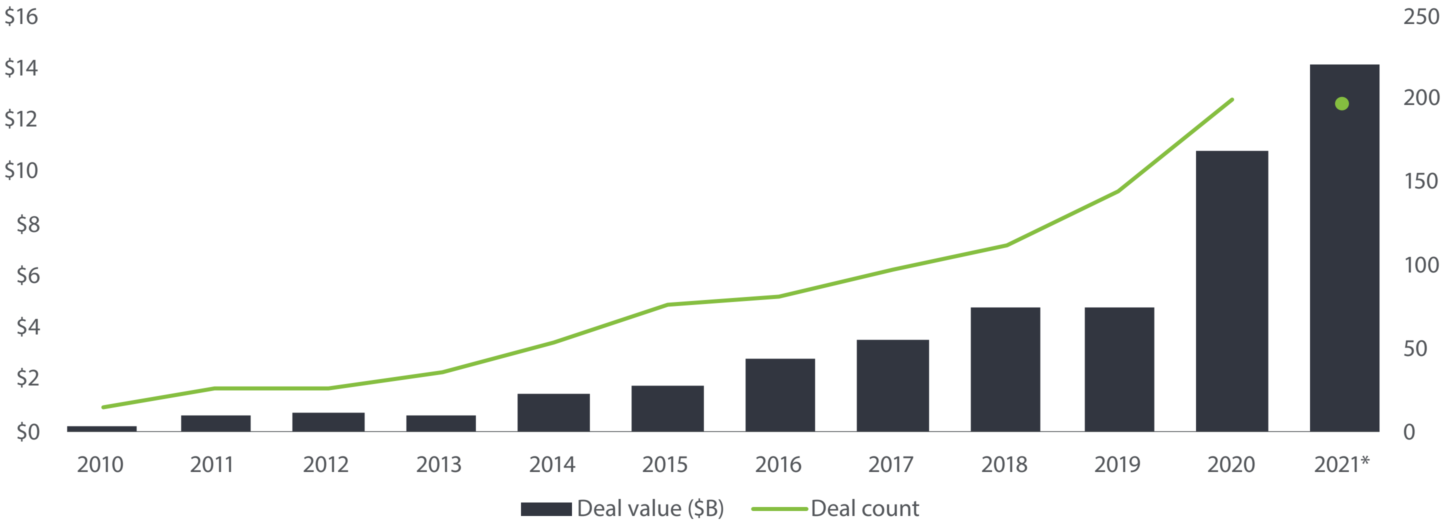
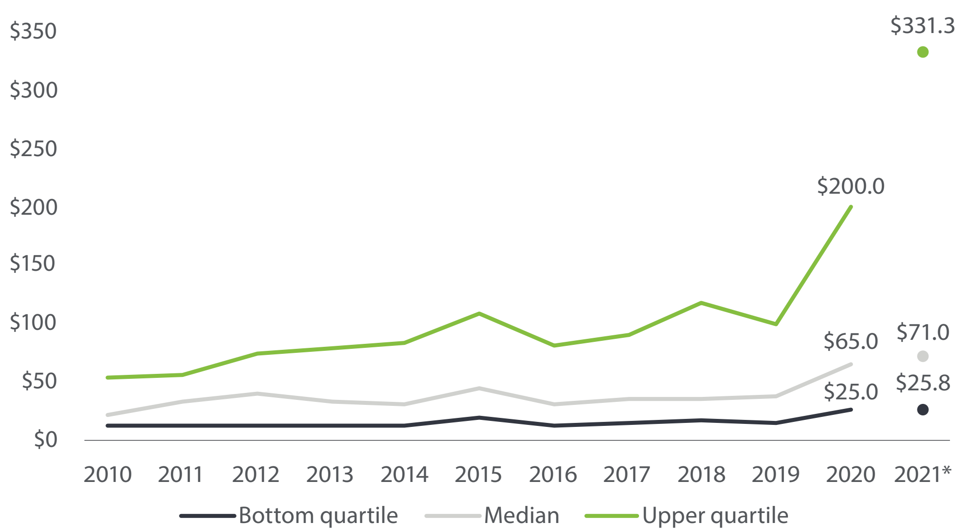
Health tech cross-border expansion-stage deal activity



Source: PitchBook | Geography: US
*As of September 30, 2021

Beyond healthcare back-end infrastructure and records systems, brand-new digital health programs have resulted in much outsourcing to private companies, which has produced a slew of investment opportunities. From appointment logistics to virtual care to development of at-home testing kits, many such niches have seen significant upticks in funding as a result of the pandemic. Many of these businesses' products and services only became truly viable over the past decade, thanks in large part to the increasing reliability and ubiquity of wireless communications and high-quality video, the reduction in costs of common tests, and declines in computing costs, among others. Health tech companies are now tapping the flood of funding to scale rapidly during favorable market conditions. These capital infusions are timely because many companies need the capital for funding operations as they reach phases of rapid growth yet still must cover the costs and the complexities of health tech accounting (which is elaborated in greater detail in Deloitte's recent 2021 Health Tech Industry Accounting Guide). From revenue recognition that depends on service offerings to proper capitalization of software contingent on methods of delivery, health tech companies have to invest considerable resources to ensure sound business procedures that can sustain growth.

Quartile range of pre-money valuations ($M) for health tech expansion-stage companies



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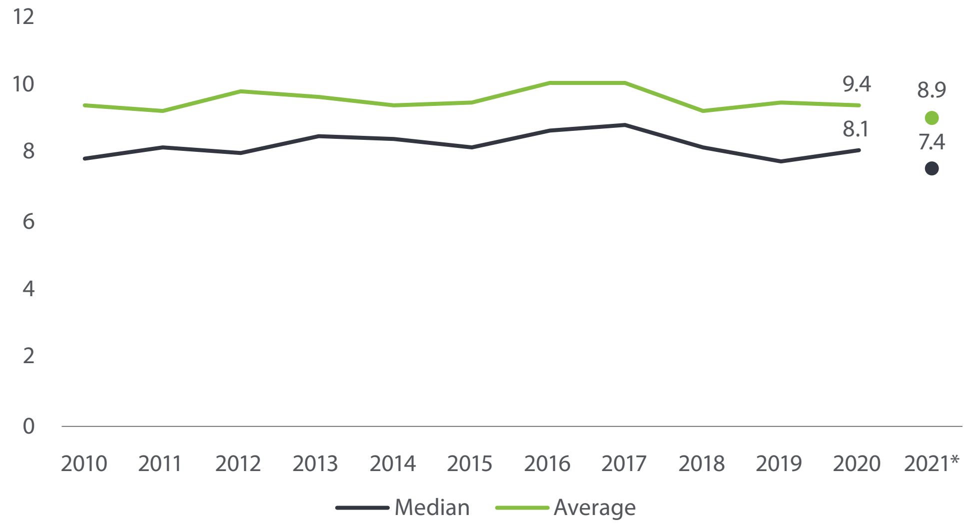
"Often when it comes to health tech companies, there is a question of what's really getting valued. Is it the core tech or the full array of potential applications potentially addressable by the platform? What about unique datasets? All these questions come into play."

Peter Micca
Audit & Assurance Partner & National Health Tech Leader
Deloitte & Touche LLP

Strong liquidity flows are driving capital recycling and record investment rates

Many health tech companies have been able to pull off such a balance, however, between high growth rates and maintaining operational quality—despite how lofty valuations have grown; especially for the upper quartile of expansion-stage companies, the upper quartile of late-stage pre-money valuations has surged at an incredible rate in the past two years, from $100 million in 2019 to $200 million in 2020 to a staggering $331.3 million so far in 2021 to date. However, such strong valuations may only have expedited exiting. As evidenced by the linear increase in exit rates over the past few years, health tech companies have been able to achieve significant liquidity through exits, with 2021 in particular setting a high-water mark of $57.9 billion in aggregate exit value across just 77 completed exits, relative to 2020's tally of 99 exits for $38.8 billion. The unique market environment of the past two years, which saw multiple records for public equities shattered, doubtless aided such a massive flood of liquidity. No less than $48.3 billion in exit value was notched across public listings in the first three quarters of 2021, across just 21 debuts. That sum is nearly four times the previous high of $12.9 billion last year. Although strategic acquisitions still account for a plurality of exit volume, persistent favorable market conditions likely would encourage health tech companies to keep going public, especially firms with business models similar to those of biotechs, which can facilitate readier access to large, liquid, public capital markets to ensure ample funding for the lengthy pathways to commercialization. As noted in other Deloitte publications, multiple high-profile current and former health care executives have launched special purpose acquisition companies or joined established investment firms in their formation, which will also likely help support liquidity for health tech companies going forward.

Median and average age (years) of health tech expansion-stage companies at time of deal



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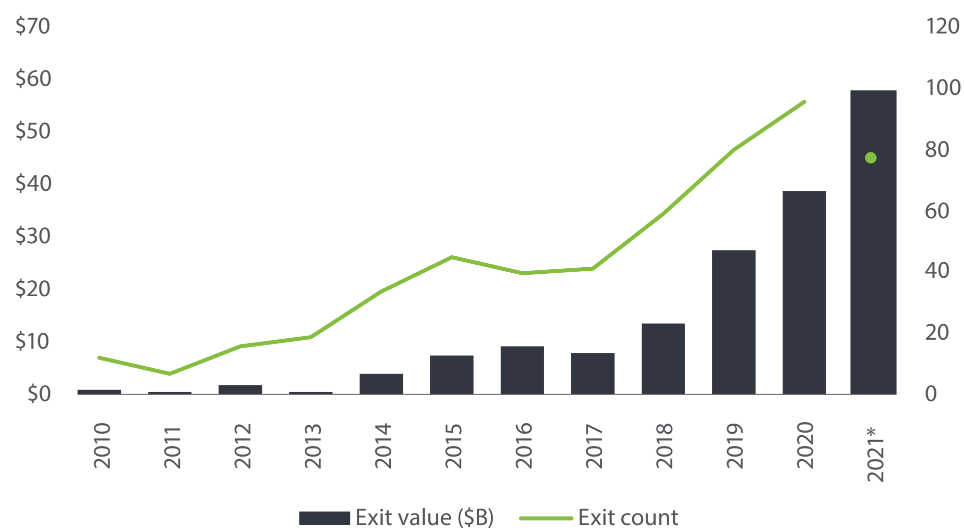
Health tech exit activity by expansion-stage companies



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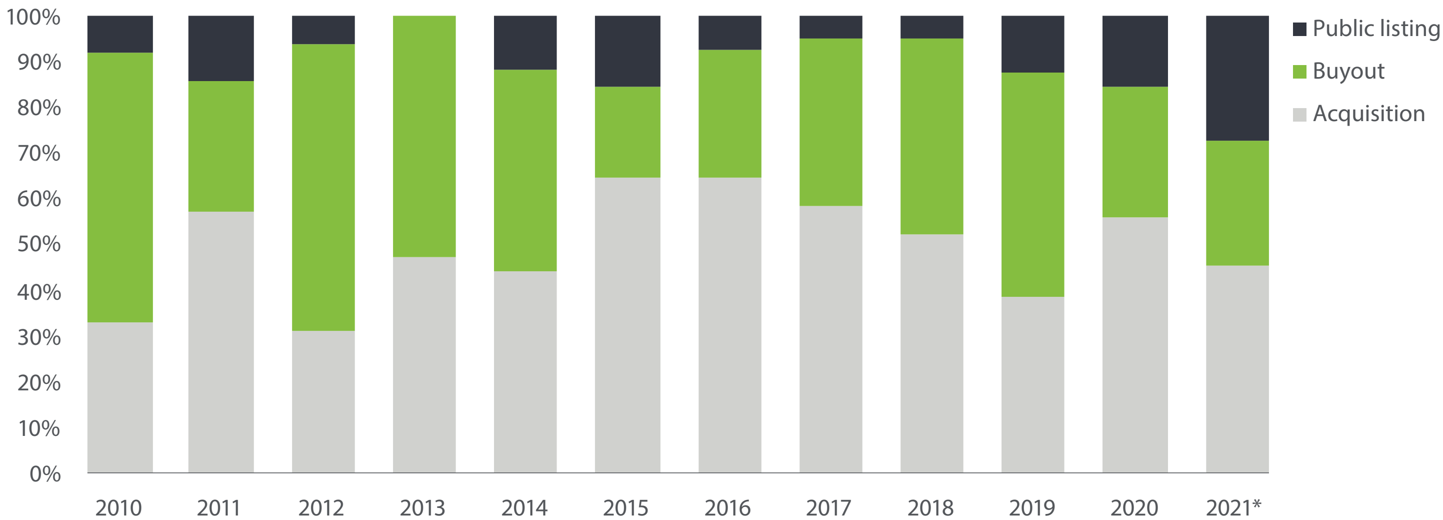
Health tech exit count by expansion-stage companies and type



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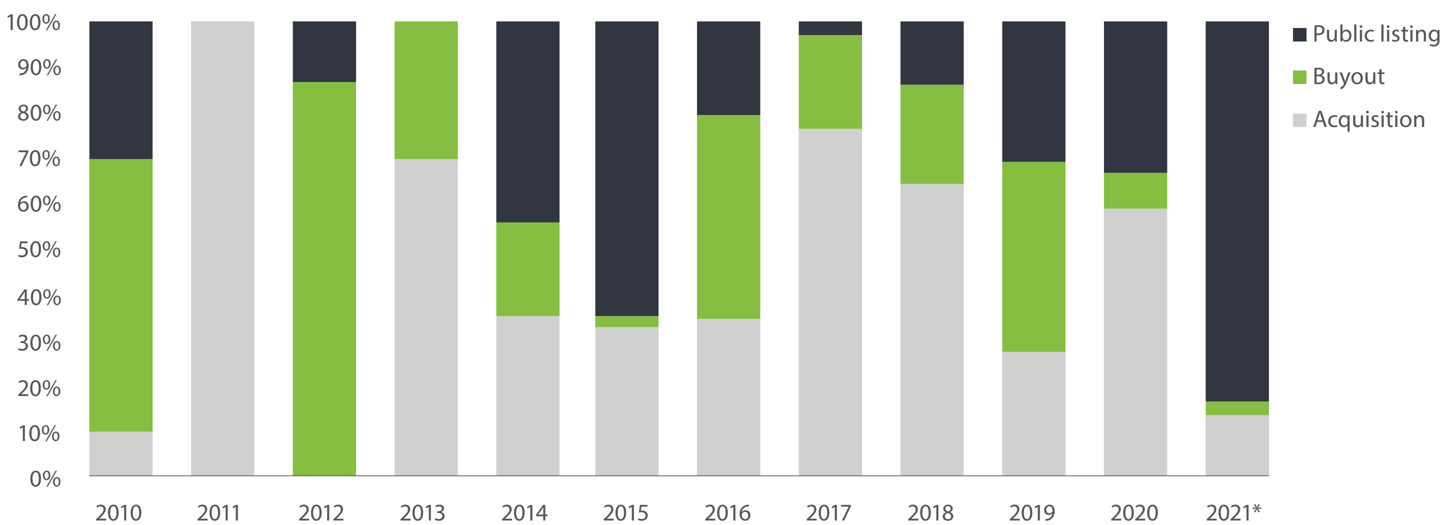
Health tech exit value by expansion-stage companies and type



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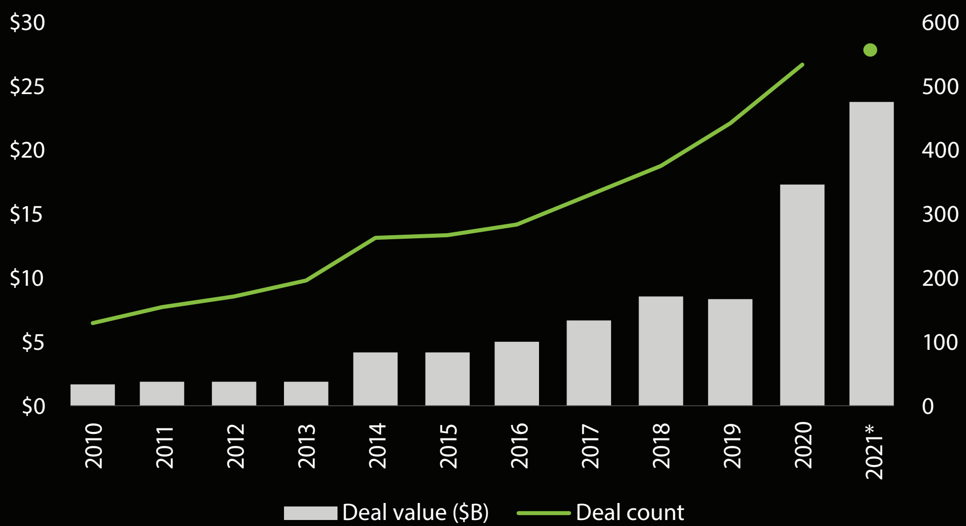
Highlights across investment trends

This edition of Road to Next explores the record-breaking surge in health tech expansion-stage activity this year, which has already seen deal value and count exceed all previous highs. Health tech benefits from a wide array of macro and key market conditions, spanning demographics, the effects of COVID-19, increasing viability of important underlying technologies such as batteries and scalable lab testing, and more. Looking forward, if companies within the space continue to mature, dealmaking should remain strong, and liquidity will keep flowing.

Health tech expansion-stage deal activity



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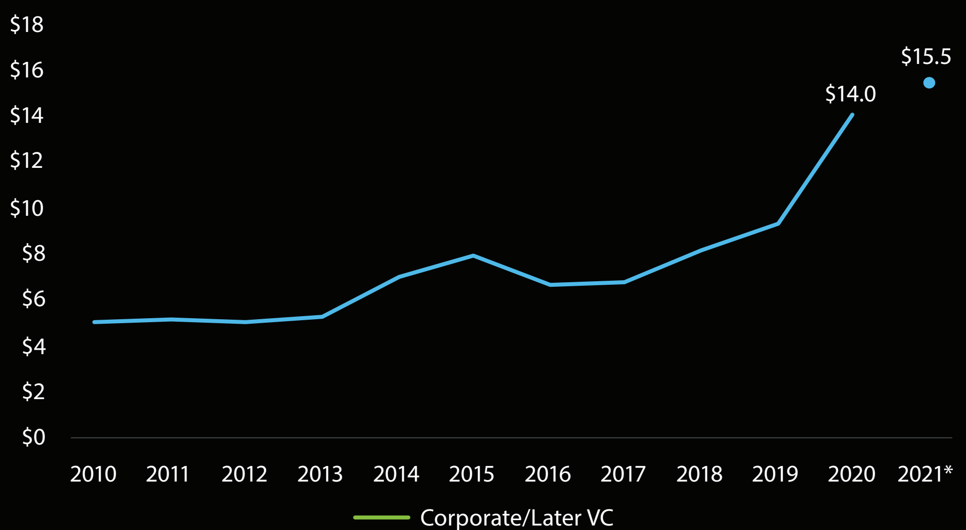
Median health tech expansion-stage corporate/late-stage VC deal size



Source: PitchBook | Geography: US
*As of September 30, 2021

$23.8B

2021 has already seen an all-time high in health tech expansion-stage deal value.

7.4

The median age of a health tech company at the time of its expansion-stage deal has never been lower.

24.6%

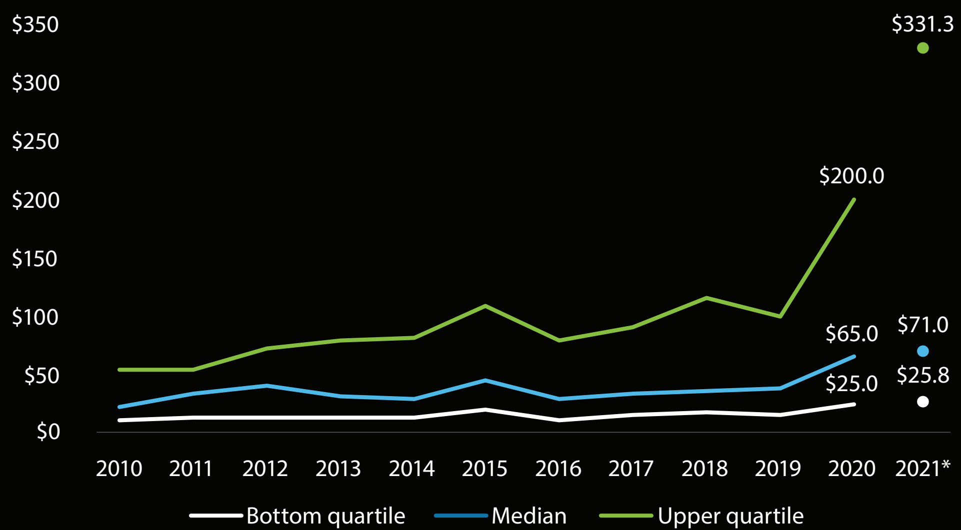
Corporate players have joined in nearly a quarter of all 2021 expansion-stage deals to date.

All callouts - Source: PitchBook
Geography: US

“Investors are looking not just for health tech enterprises with a unique technology, but also a platform to address significant health care issues. Just interesting tech isn't sufficient anymore.”

Peter Micca
Audit & Assurance Partner & National Health Tech Leader
Deloitte & Touche LLP

Quartile range of pre-money valuations ($M) for health tech expansion-stage companies



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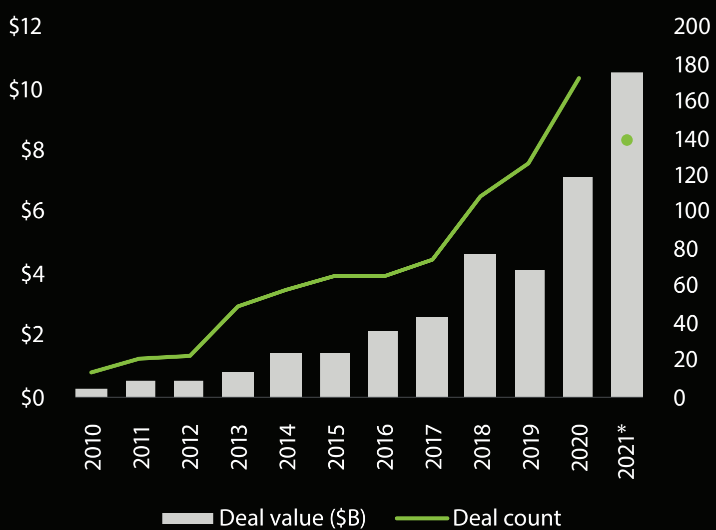
Health tech expansion-stage deal activity with corporate participation



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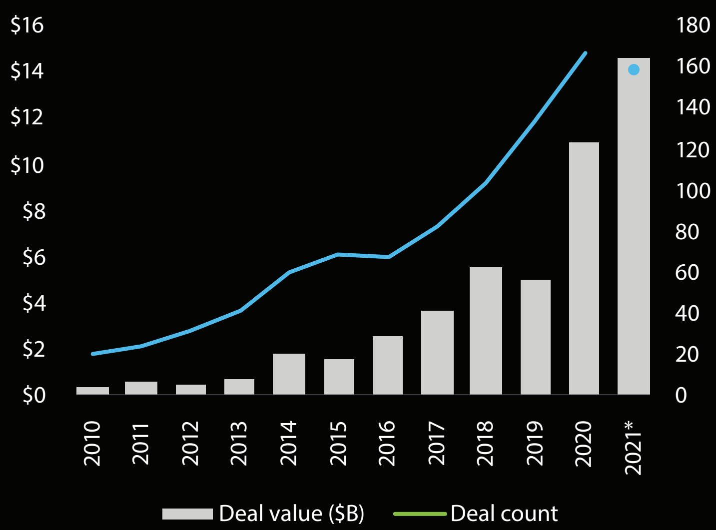
Health tech expansion-stage deal activity with nontraditional investor participation



Source: PitchBook | Geography: US
*As of September 30, 2021

“There aren't significant regulatory hurdles for many health tech plays, so well-established, richly capitalized companies can be quite competitive quickly. Corporate venture investors in particular can help.”

Peter Micca
Audit & Assurance Partner & National Health Tech Leader
Deloitte & Touche LLP

Spotlight: Consumer empowerment

The consumerization of healthcare advances rapidly

In the 2010s, the term "consumerization" came into broad usage across the healthcare sector. Used to describe the growing push toward putting the tools, incentives, and information in individual healthcare consumers' hands as opposed to broader market or population considerations, consumerization was viewed as potentially empowering for consumers and a route to cost savings for healthcare providers. Consumerization was doubtless driven by the sheer costs of healthcare and different delivery models, which spurred people to become more directly involved in their healthcare. UBS Investment Bank estimated last year that the addressable market for consumerized products and services in healthcare by 2025 would be approximately $600 billion, which would imply a CAGR of 5.5% between now and then.

Consumerization clearly represents a huge opportunity for healthcare. The craving by healthcare consumers for empowerment and transparency is clear, as evidenced by the increasing popularity of not only wearables but also company programs that reward healthier activities with insurance discounts. However, easy access is likely the most appealing feature health tech companies can emphasize. Whether it be for telehealth appointments with primary care providers who can rely on mailed at-home test kit results and emailed diagnostics data from wearables, or for live physical therapy guidance, consumerized healthcare can reduce the need for onerous travel and wait times.

Expansion-stage health tech companies must focus on partnering with incumbents that need specialized digital health experiences to retain customer loyalty. Customer segmentation, which requires actionable data on healthcare users and a seamless, user-friendly experience, will be key. Health tech companies can also use more sophisticated data analysis packages, perhaps even employing machine learning techniques on large pools of patient data, to help prioritize desired outcomes from a given set of prescriptions and services. Key concerns around data privacy and ownership will have to be balanced with transparency as individuals' data is increasingly leveraged to provide them with personalized care; however, as healthcare costs remain high and patients demand increasing specialization, health tech companies will be able to capitalize on these opportunities.

"Health care companies can learn a lot from advances in other industries, particularly around client satisfaction, access, registration processes and connectivity to third-party payers, among others."

Peter Micca
Audit & Assurance Partner & National Health Tech Leader
Deloitte & Touche LLP

"Especially as larger tech companies acquire health tech enterprises, there is ongoing discussion around additional regulations of health tech; as offerings get closer to direct to consumer, the potential for oversight grows."

Heather Gates
Audit & Assurance Private Growth Leader
Deloitte & Touche LLP

Methodology

Geographical region: United States

Sector: For defining health tech, PitchBook's industry codes and verticals of healthcare technology systems or digital health or health tech were used.

Capital overhang: Calculated as the sum of capital yet to be deployed that is available for investment. This report includes US-based VC and PE growth funds.

Cash flows: Aggregate capital called (known as contributions) by funds and aggregate capital returned (known as distributions) to LPs from funds by year. Only cash flows from US-based VC and PE growth funds are included in this report.

Assets under management (AUM): Aggregate dry powder (uncalled capital), as well as aggregate NAV (net asset value, i.e. the value of underlying fund investments) by year. AUM is restricted to US-headquartered VC and PE growth funds.

Active investors: The number of active investors is calculated by including either investors who have raised a venture or growth fund in the trailing five years, or those who have made four or more VC or PE growth investments in the past three years. There is no exclusion on investor type apart from angel investors. All investment data is restricted to late-stage VC, PE growth, or corporate financing types as defined by PitchBook.

Nontraditional investors: Defined as hedge, mutual, or sovereign wealth funds.

Exits: Defined by PitchBook's primary exit types: buyouts, acquisitions, or IPOs. The underlying companies are those that have at minimum achieved any of the investment data under restrictions.

Company inventory: Calculated by tallying the number of companies that achieve either late-stage VC, PE growth, or corporate financing by year and have not recorded an exit event as of the year in question.

All exits unless otherwise noted were made by companies that fall under the aforementioned criteria for expansion-stage companies. The number of sellers was based on the count of investors classified as PE by PitchBook within the IPO event. This report was written in the middle of October 2021. All data is as of September 30, 2021.

Deloitte.

Data provided by PitchBook