

CHARTIS TOP READS

Digital health funding strong in 2024, with AI a key investment area

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<https://www.chartis.com/insights/digital-health-funding-strong-2024-ai-key-investment-area>

The Buzz This Week

Digital health funding in Q2 2024 finished strong, according to the most recent report from Rock Health, released in July. Despite a slow first quarter (with only \$1.1 billion raised), H1 closed out with startups pulling in a whopping \$5.7 billion. If investing continues at this rate, this year could exceed 2019 and 2023 year-end totals, according to the report.

Rock Health identified several trends thus far for 2024:

- **AI is a primary area of investment.** 1 in 3 dollars invested in H1 went to digital health startups leveraging AI. 38% of digital health companies that raised A rounds were AI-enabled.
- **Private equity (PE) firms have been active.** With 10 digital health startup acquisitions in H1 2024, PE has already acquired more companies than the total for 2023. Deals are on track to surpass 2021 and 2022 totals.
- **Intra-sector acquisitions have dropped.** Digital health companies are being more selective this year, with only 34 digital health acquisitions so far, lagging behind the 83 deals in 2023.
- **Early-stage checks are growing.** Seed, series A, and series B checks accounted for 84% of labeled raises in H1 2024.
- **The digital health initial public offering (IPO) market is showing early signs of life.** After 21 months without an IPO, Nuvo, Waystar, and Tempus AI all exited into the Nasdaq or New York Stock Exchange in Q2 this year.

- **The proportion of unlabeled deals is tapering.** 40% of deals so far this year were unlabeled, referring to capital raises without associated round labels. It is down from 44% in 2023, indicating that that market may be stabilizing.

Recent volatility in the market has focused on AI-related stocks. Some of these fluctuations reflect challenges among investors on predicting the impact AI will have across industries. Despite these recent shocks in the market, interest and investment in AI continues.

Mental health again topped the list of most-funded clinical indications in digital health, with \$682 million raised thus far this year. Weight management and obesity was another prominent area of funding for startups, with the category raising \$261 million, just behind the cardiovascular and oncology categories. Reproductive and maternal health came in at the No. 5 spot for clinical indications; companies developing menopausal and pelvic health solutions helped to raise \$214 million for the category.

These top-funding areas for digital health are no surprise as many of them align with primary areas of interest across the healthcare industry at large. Behavioral/mental health was the service line most transformed by digital health, as evidenced in Chartis tracking of telehealth. This supports the ongoing investment trends backing these digital tools in this area. Other service lines like oncology, women's health, and obesity care are increasingly adopting digital health. These service lines may eventually transcend others that were early-adopters, given the consumer-orientation of those care episodes.

Why It Matters

In recent years, the digital health landscape has been shifting from the pressing need created by the pandemic to a desire for increased access to high-quality, affordable, and convenient care. The Rock Health report is encouraging for digital health growth. H1 numbers represent a possible return to normal funding levels after the pandemic-fueled funding boom that occurred from 2020 to 2022. At the American Telemedicine Association's Nexus conference earlier this year, experts indicated that business is picking up from last year's historic low in early-stage and growth-stage investing.

Digital health has established itself as an important part of the US healthcare ecosystem. In Chartis' 2024 digital transformation survey, an increasing number of providers reported generating value from their digital investments. This would raise the stakes for investors looking to back the next big digital company.

But the impact and value of digital health are still under extreme scrutiny. For instance, this year's funding trends indicate that US investors are not interested in digital therapeutics at this time. Investors look for defined and proven clinical outcomes, which many digital therapeutics companies are failing to provide. The boom in AI has also resulted in startups liberally using AI in investment pitches. But experts advise that both companies and investors should be clear on what role AI is playing in the business and what its use case is.

The federal government has been laying the groundwork for regulation of AI tools in care delivery—implementing more oversight of AI solutions, including addressing concerns like the risk of unlawful discrimination and risk to individual data privacy rights. Regulators and industry stakeholders

should remain wary of the distinction between decision support and active decision-making. AI should not replace actual intervention by a treating practitioner.

Additional regulatory decisions are pending for telehealth waivers that were put in place during the pandemic and are set to expire at the end of this year. These decisions will greatly impact virtual prescribing and telehealth utilization for Medicare beneficiaries.

This year's funding reports demonstrate the continued resilience and adaptability of digital health and suggests new "normal and sustainable venture patterns." However, the upcoming US presidential election creates uncertainty around the future of telehealth and virtual care flexibilities. The sector will need to closely monitor and continue to adapt to ever-changing regulations.

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