

PitchBook Data, Inc.

John Gabbert Founder, CEO

Nizar Tarhuni Senior Director, Institutional Research & Editorial

Paul Condra Head of Emerging Technology Research

Institutional Research Group

Analysis



Aaron DeGagne, CFA
Analyst, Emerging Technology
aaron.degagne@pitchbook.com



Rebecca Springer, Ph.D.
Senior Analyst, Healthcare
rebecca.springer@pitchbook.com

pbinstitutionalresearch@pitchbook.com

Publishing

Designed by **Megan Woodard**

Published on November 22, 2022

Contents

Key takeaways	1
Introduction	2
Playing the long game	2
Affordability, access, and equity	2
Enablement over disruption	3
RIP DTC	4
Alternative payment models	4
What we're watching for HLTH 2023	5

EMERGING TECH RESEARCH

Innovators Place Bets on Healthcare's Future at HLTH 2022 in Las Vegas

PitchBook is a Morningstar company providing the most comprehensive, most accurate, and hard-to-find data for professionals doing business in the private markets.

Key takeaways

- HLTH 2022 drew 9,600 attendees and focused on digital health, medtech, and healthcare IT innovation.
- Attendees acknowledged changed market conditions but expressed optimism that there is still a path for strong, innovative companies to raise capital.
- While regulatory pathways remain uncertain in prescription-grade digital therapeutics, psychedelic medicine, and payment reform, innovation in these areas remains strong.
- Proliferating point solutions are likely to be consolidated into platforms and market-clearing technology that enables greater access to care and has better economic potential for startups.

Introduction

The 2022 HLTH conference drew 9,600 attendees to Las Vegas from November 13 to 16. Now in its fifth year, HLTH focuses on digital health, medtech, and healthcare information technology within the venture ecosystem, with representation from not only venture-backed companies and healthcare-focused VCs, but major payers, tech companies, and the public sector. The conference has grown to become one of the leading healthcare events in the US, tripling in size since it launched in 2018. Below, we highlight key themes and takeaways from speaker sessions and the conference floor.

For additional healthcare analysis, see our recent publications, [Q3 2022 Healthcare Services Report](#) and [PitchBook Analyst Note: Investors Have Put "Bad Blood" from Theranos in the Past](#).

Playing the long game

New fundraising dynamics: Amid optimistic buzz around technological progress, attendees acknowledged a changed market environment. We heard that VCs may be seeing a higher quality deal pipeline as weaker companies self-select out from seeking funding. Startups may need to stretch existing cash beyond the standard 18-month timeline, with downsizing as a possibility. Still, attendees were optimistic about the market correction weeding out companies that may not achieve long-term stability. Additionally, startups that are continuing to hire may be able to get talent at a cheaper rate than in the heyday of 2021. While Jonathan Bush, founder and CEO of Zus Health, shared his view that pruning is the name of the game, Missy Krasner, Venture Chair at Redesign Health, countered that Redesign is planning to expand its portfolio going into 2023 and that there's still investment bandwidth for good ideas.

Exit outlook: Many digital health companies that went public in the past two years have faced declining market valuations. There may eventually be a flurry of exit activity in digital health through M&A and IPOs, and while there seemed to be consensus about the markets stabilizing before 2024, panelists at the conference settled on late 2023 as the most likely timeline for greater exit activity.

Affordability, access, and equity

Site of care innovation: Speakers and attendees coalesced around the view that the future of healthcare delivery is a hybrid of in-person and virtual. In-person healthcare is particularly valuable for underserved populations without consistent access to high-speed internet. Beyond employees, schools and universities could increasingly become platform networks to deliver care, with mental health a clear focus area. For those that prefer virtual care, there could be opportunities to deliver treatment in the metaverse. While Pfizer has led the charge in this arena with the Minecraft-influenced Hemocraft for hemophilia patients, we would expect startups to tackle this space if the metaverse achieves broader adoption.¹

1: "Pfizer Puts Hemophilia Spin on Ultrapopular Minecraft to Educate Young Patients," *Fierce Pharma*, Carly Helfand, September 6, 2017.

Biosimilars on the horizon: The development of biologics has unlocked transformative new treatment options for patients—but these drugs also come with an immense price tag. HLTH speakers were optimistic about the potential for biosimilars to increase competition and lower drug costs. Sales of Humira, a drug that treats rheumatoid arthritis and Crohn's disease, topped \$20 billion in 2021. OptumRx CEO Heather Cianfrocco announced that in 2023 the pharmacy benefit manager will add up to three Humira biosimilars to its formulary at parity—meaning that patients and providers can freely decide between Humira and the biosimilars. Act4Biosimilars, an advocacy group, shared its estimate that biosimilars have the potential to drive \$215 billion in savings worldwide over the next five years.

Leveling up community-based organization (CBO) partnerships: With healthcare providers increasingly relying on CBOs to support population health initiatives, we have been pondering how the healthcare system can fairly compensate the work of CBO employees and volunteers, many of whom are women and/or people of color, and who are performing emotionally intensive work to address vast unmet social needs. Nebeyou Abebe, Senior Vice President of Social Determinants of Health, and Monique Reese, Senior Vice President of Home and Community Care, shared that Highmark Health has created a CBO high-performing network (HPN), with CBOs receiving value-based reimbursements based on measurable outcomes and closed-loop referrals. The CBO HPN has led to more than 80% of referral loops being closed, compared to 15% for non-HPN CBOs.

Enablement over disruption

Big tech seeks partnerships: We found it noteworthy that only one session out of the many dozens at HLTH had the term 'disruption' in the title, and this session had a critical perspective: 'What Does Disruption in Health Even Mean?' Bakul Patel, a senior director at Google, stated that he'd rather talk about enablement than disruption. This tone permeated other events and sessions at the conference, including Amazon Chief Medical Officer Nworah Ayogu's and Vice President of Healthcare Aaron Martin's showcase of Amazon Clinic and the discussion between Walgreens CEO Roz Brewer and Chrissy Farr of OMERS Ventures. Tech and retail giants entering the healthcare space were eager to position themselves as potential partners of, rather than threats to, current industry players. For more on these companies, read our PitchBook analyst notes, [Walgreens' Value-based Care Play](#) and [Walmart, Amazon, and CVS Make Waves in Healthcare Services](#).

From point solutions to platforms: A recurring theme in break-out sessions and meetings was that healthcare needs to move toward a platform model. With a proliferation of digital health point solutions for specific conditions and wellness goals, it can be hard to stand out from the pack. Too many point solutions can be detrimental to care outcomes if patients have difficulty navigating offerings. One interesting idea that came up was for market-clearing solutions to take concepts from the advertising space to better match patient demographics with the tools best suited for their needs. Examples include employer benefits navigation companies such as Firefly and Buoy Health. The shift toward a platform world could also be accelerated by large companies—for example, the recent launch of Amazon Clinic could be an alternative to existing online fulfillment products that service niche patient needs such as hair loss and allergies.

RIP DTC

Direct-to-consumer (DTC) headwinds: DTC healthcare has some advantages in theory, with fewer layers and easier access to care in certain cases. And there are some areas of healthcare, such as counseling and optometry, that work more effectively in DTC, as these markets already operate with substantially cash-pay models. However, going to direct-to-consumer can pose challenges. Interest may wane when consumers ask, “How many services do I really want to pay for?” and startups often struggle to achieve positive unit economics with higher customer acquisition costs.

Alternative consumer-centric models: We heard from a startup about the importance of building a consumer brand with a free-to-use, science-driven product for areas like heart health, for example, with an enhanced version of the product offered as an employer benefit. Another model that could be used to expand patient reach is B2B2C, which could involve providers recommending a no-cost version of a product—such as virtual reality therapy for anxiety—and having the patient seek out paid options to continue receiving the service if they wish. While there remains opportunity for healthcare startups to directly reach patients and generate pull-demand, the high cost of self-funding care hasn't gone away. The next generation of consumer-oriented digital health products, such as digital therapeutics, are likely to reach patients through a combination of consumer-direct and provider channels.

Alternative payment models

Why aren't we transitioning to value faster? According to the Health Care Payment Learning and Action Committee, 19.6% of US healthcare spent in 2021 was tied to two-sided risk value-based contracts, with most of that progress concentrated in Medicare.² Public-sector speakers at HLTH expressed impatience with the pace of change. Elizabeth Fowler, Deputy Administrator and Director of the Center for Medicare and Medicaid Innovation (CMMI), admitted that there was disagreement within CMMI over how aggressively to push toward mandatory participation in alternative payment models and downside risk. Health and Human Services Secretary Xavier Becerra pointed out that litigation and congressional action often constrain the Centers for Medicare and Medicaid Services (CMS) to “baby steps” in policy decisions around payment reform.

Outcomes-based pricing for cell and gene therapies: We have been wondering when outcomes-based drug purchasing, which is more common in Europe due to the collective bargaining power of regional and national health systems, will take hold in the US. Mercer Partner Raymond Brown and Nico Economides, Principal at Oliver Wyman, argued that the development of potentially curative yet costly cell and gene therapies to treat cancer, sickle cell anemia, hemophilia, and neurological conditions is likely to accelerate adoption of this model. It should be noted, however, that these therapies are typically paid out of medical rather than pharmacy benefits. Outcomes-based models are also likely to spawn third-party businesses in employer risk prediction, stop loss and reinsurance, and long-term outcomes measurement.

2: “APM Measurement Progress of Alternative Payment Models: 2022 Methodology and Results Report,” HCPLAN, n.d., accessed November 17, 2022.

What we're watching for HLTH 2023

Scaling population health: Conference speakers and exhibitors presented many compelling examples of data-driven clinical and social determinants of health (SDOH) interventions materially improving health outcomes on a local scale. Many providers and technology platforms are successfully marrying electronic health records, claims, and SDOH data to enable this. The logical next frontier is inter-provider interoperability and horizontal coordination to improve population health outcomes on a larger regional or even state level, with Maryland's Medicare Total Cost of Care model the vanguard.³

Psychedelics going the way of cannabis: Since California became the first state to legalize marijuana in 1996, there has been a patchwork system of state-by-state legalization, decriminalization, and law enforcement de-prioritization. Even while federal action on rescheduling marijuana remains uncertain,⁴ we are set for a repeat of this confusion when Oregon becomes the first state to legalize psychedelic use in 2023. Ongoing clinical trials could lead other states to consider limited legalization. We may also see more educational tools developed to help therapists guide patients given complexities around interpreting these experiences.

Price transparency for patients: The CMS healthcare pricing transparency rules have begun taking effect. Beginning next year, health plans must offer online shopping tools with price transparency. At HLTH 2023, we expect to hear about how patients are responding to this transparency, and we anticipate there will be companies sprouting up to scrape publicly available pricing data and provide easier-to-understand search and comparison apps for patients.

³: "[Maryland Total Cost of Care Model](#)," CMS, June 13, 2022.

⁴: "[Expert on the Possible 'Rescheduling' of Marijuana](#)," *Spectrum News 1*, Susan Arbetter, October 7, 2022.