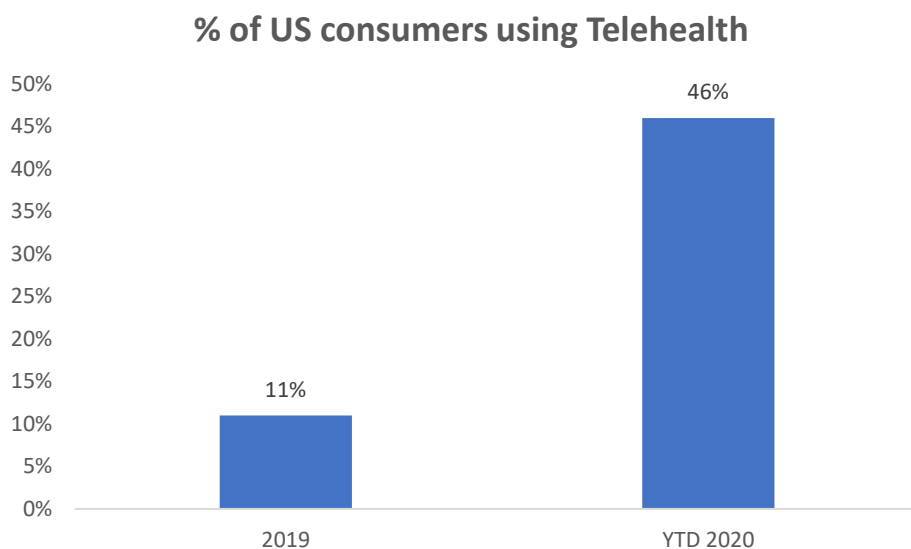


Medi-Tech Insights

Digital Health: Golden Opportunity or Mirage?

HealthTech or Digital Health, encompassing areas like Telehealth, EMR/EHR, AI-ML enabled clinical & non-clinical services for Payors, Providers & Pharma/MedTech companies has been in the news since the outbreak of Covid-19, even more so than in the past.



For example, telehealth has seen peak adoption rates jump from 11% to 46% (for US consumers) in a span of few months¹. Consumer reluctance to visit healthcare facilities, physician adoption to new situation all have been contributing factors, in addition to positive changes in reimbursement.

Growth facilitated by Regulatory Changes






Government agencies like, CMS in US & most EU national regulators, have moved quickly to temporarily allow reimbursement for virtual care. Temporary payment mechanisms for an episode of virtual care (e.g. a primary physician consultation) have been put into effect quickly. How this will change after the crisis, remains to be seen, but most stakeholders expect a normalization which is more conducive to faster adoption of virtual healthcare delivery. Providers, looking to better manage costs & to provide a better continuum of care, are also expected to adopt digital technologies faster; though their ability to deploy significant Capex will be limited after the severe impact of the crisis has had on their balance sheets.

Increased Deal activity

Investors have been closely monitoring these shifts in the healthcare market & Venture Capitalists have voted with their feet with VC investment in Digital Health up a staggering 37% vs 2019². McKinsey & Co. estimates that digital health maybe a trillion \$ opportunity.

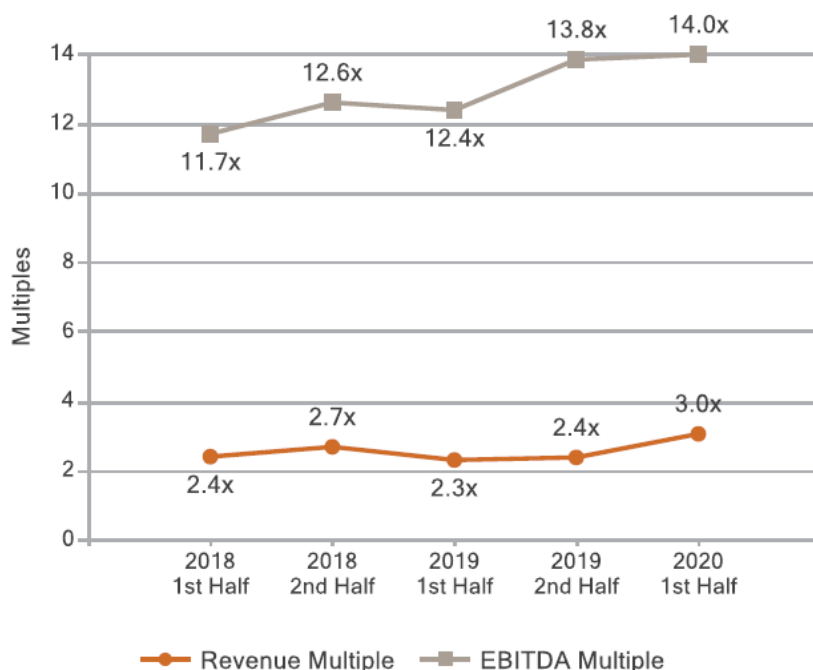
Medi-Tech Insights

Notable deals of 2020 include:

Company	Date	Deal Value	Remarks
	Sep-20	\$742 mi	Amwell completed an IPO with the share price trading 42% higher on day of listing
	Aug-20	\$18.5 bn	Teladoc, the leading telehealth player in US acquired Livongo. Joint value of the 2 companies has jumped 4x since Jan 2020. Earlier in Jan-20, Teladoc acquired Intouch Health, a telehealth provider for \$ 600mi
	Jan-20	\$950 mi	Clarivate acquired DRG, a provider of analytic/research service to pharma/healthcare companies
	Mar-20	\$665 mi	CD&R acquired Huntsworth, a leading player in healthcare communications & PR
	Jan-20	\$1.09 bn	Ardian backed Dedalus, a key HCIT player in Europe, acquired the IT business of Agfa Gevaert

Growing Valuations

The below chart based on analysis of all private transactions disclosing valuations (246 out of 1260) since 2018³, shows that the high EBITDA multiples have got even higher but have not increased dramatically compared to pre-crisis levels. This in the context of stronger tailwinds of reimbursement, increased adoption as described above.



Medi-Tech Insights

What does this mean for investors?

With this background, we think it makes sense to understand the long-term, sustainable trends in digital health. Most astute investors would be looking at these secular trends rather than riding the current wave. As a part of our deep dive, we looked at the sub-segments in digital health, past/current challenges to adoption, geographical nuances & track record for investors in this space. We share our key findings below:

1 Different Digital Health applications have varying levels of maturity

In the long term, applications which add value or reduce cost to stakeholders in the healthcare system are likely to prevail. Some nascent applications like disease-specific clinical decision support may seem attractive but require careful evaluation.

2 Investors need to identify attractive niches without overpaying for assets

Applications like EHR platforms, Payor Analytics offer scale but may be overvalued due to high interest from strategic buyers. Niches with proven business models but offering at-scale in mid-tier markets like e-clinical trial outcomes, regulatory/compliance management may offer opportunity to consolidate a fragmented market.

3 It is imperative to have a value creation plan; for best/worst case scenarios

The new normal will depend on multitude of external factors, including consumer willingness to move to digital applications, reimbursement outlook, physician adoption & appetite of providers to invest into digital transformation. All of these factors need to be carefully simulated in an investment thesis.

1. McKinsey & Co. TeleHealth: A trillion Dollar post-COVID reality? May 25, 2020

2. S&P CAPIQ 2020 data

3. Berkery Noyes- M&A trend report, H1 2020