

## To back, or back away from, digital health?



[Elizabeth Cairns](#)



### **Some medtech venture investors are taken with the promise of digital technologies, while others find them easy to resist.**

Accelerated by the Covid pandemic, when telehealth and disease management apps came into their own, digital health is sparking great interest from venture funders. Some, like HLM Ventures, specialise in digital health, attracted by the speed of development and lower regulatory risk versus conventional devices.

But not all VCs have been won over to the digital world. France's Truffle Capital eschews this space entirely, solely backing developers of implanted medical devices. Intriguingly, though these two investors have taken opposing stances, their understanding of the advantages and disadvantages of the digital world align perfectly.

That digital health is increasingly appealing to VCs is undeniable; the biggest round in medtech so far this year went to the virtual care specialist Biofourmis, and Mindmaze and Viz AI both pulled in nine-figure rounds, for their digital therapeutics and [AI-based diagnostic tech](#) respectively.

## Digital health vs "classic" medtech - 2022's biggest VC rounds

Date	Company	Investment (\$m)	Round	Technology
<i>Digital health</i>				
Apr 26	Biofourmis	300	D	Virtual care and disease management software, including for heart failure
Feb 17	Mindmaze	105	Undisclosed	Digital therapeutics, including a video game for stroke rehabilitation
Apr 7	Viz AI	100	D	AI-enabled diagnosis and triage of stroke, aortic disease, pulmonary embolism and cerebral aneurysms
May 2	Hello Heart	70	D	Heart health management app
Mar 24	Osso VR	66	C	Virtual reality for training surgeons
<i>Traditional medtech</i>				
Jan 27	Enable Injections	215	C	Wearable subcutaneous drug delivery technology
Mar 30	Billiontoone	125	C	Molecular diagnostics, including non-invasive prenatal testing
Feb 17	Nalu Medical	104	Undisclosed	Neurostimulation for neuropathic pain
Mar 1	Visby Medical	100	E	Infectious disease testing
Jan 10	Memed Diagnostics	93	C	Crispr-based molecular diagnostics

Source: Evaluate Medtech, company communications.

HLM has not invested in these groups specifically, but it does play in these segments. It was an early investor in Teladoc, leading that group's series B round in 2013. Teladoc's stock soared during the pandemic and it bought Livongo in the summer of 2020 ([Teladoc bets \\$18.5bn that Covid-19 will change the world for good, August 6, 2020](#)).

"Pre-pandemic, the usage of telehealth was still very low," Steve Tolle, general partner at HLM, tells *Evaluate Vantage*. "A lot of people had access to it in theory, because their employers had it as part of their benefits, but very few people used it."

Now that "the horse is out of the barn" on telehealth, one of the pressures on HLM, as an investor in digital health, has eased: the commercial path for virtual care providers is now clearer. On the minus side, the market is vastly more crowded.

"In the digital health world, there's less risk from regulation because there is very little regulatory oversight. The biggest risk is competition and scale, and adoption," Mr Tolle says.

### Quick vs thorough

Antoine Pau, a partner at Truffle Capital, agrees - despite Truffle's policy of avoiding investing in digital health. "We like therapeutic devices. You can measure a life-saving clinical outcome with clear endpoints. [These devices] will ultimately command higher prices, higher reimbursement and faster market access."

Naturally, developing a medical implant is a longer and more expensive business than launching an unregulated app or other software. Truffle's portfolio includes Carmat, the maker of the Aeson artificial heart which [finally put itself on a commercial footing](#) last year, after a [long and tortuous journey](#).

Mr Pau admits that Aeson is "probably one of the most complex devices ever developed". But he says the time and expense is justified since Aeson's complexity provides a very high barrier to entry for potential competitors, enabling Truffle to recoup its investment.

He also downplays the regulatory risk for traditional devices, pointing out that breakthrough device designation can smooth the path to market.

And, partly because their developers might not seek formal approval, digital health products have a harder time obtaining reimbursement and achieving widespread market access. A developer of a more familiar medical implant will know exactly how to demonstrate its worth compared with the standard of care, and if the clinical data does back the new device, doctors and payers will be much more easily persuaded of its value, Mr Pau says.

### **Bigger and later**

Historically, both HLM and Truffle started investing in companies at an early stage – HLM in series A or B rounds and Truffle even earlier, essentially helping found the companies it backs. But both are now going later.

HLM is now active in series C rounds too, investing anywhere from \$2m to \$50m. Citing market dynamics, Mr Tolle says that these days, backing a series C-stage, revenue-generating digital health company with a path to an exit makes sense.

“You’re not going to have a massive stake in a company, you’re not going to have 10 or 15%, you’re going to have 2%. But it’s an investment that’s more likely to have a positive return in an unpredictable market,” he says.

Truffle, meanwhile, is raising a new fund that will invest in pre-commercial to early commercial medtechs, providing significant investments to see companies at this stage of development through until profitability.

“It will be covering a very strong need, especially in Europe, for funds that are experienced in medtech but have the capacity to invest more, such as writing €30-50m cheques in those companies that are having difficulty raising substantial funding at this stage,” Mr Pau says.

The fact that HLM’s investments are, on average, smaller than Truffle’s indicates the relative cheapness of developing digital health products compared with more traditional medical devices. If that is an advantage, it is one that must be balanced with the risks when assessing the promise and pitfalls of digital health.

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