

20 Feb 2024 | Analysis

SVB's Milo Bissin Predicts 'Reckoning In 2024' For Health Care Companies With Sky-High Valuations

by [Marion Webb](#)

VC funding will remain challenging for many in the health care industry, Silicon Valley Bank's market manager Milo Bissin told attendees at the recent DHIS West conference. Companies focusing on promising areas such as AI-powered technologies, women's health and value-based care likely have the best chances to draw investors' attention.

"The feeding frenzy that we all experienced in 2021 where investors had very little time to do any real diligence, those days are gone," Milo Bissin, Silicon Valley Bank's (SVB) market manager, Life Science and Healthcare, told attendees at the recent DHIS West conference.

The meeting brought together health care investors, policymakers, start-ups and health care leaders in San Diego.

Bissin presented findings from SVB's "[Healthcare Investments and Exits](#)" report, published on 17 January, which encompasses life sciences, health care and health tech, and gave his outlook for the 2024 investment landscape.

Many late-stage companies that took valuations when the market was robust during the pandemic will continue to struggle as investors are turning their attention from later-stage deals back to early-stage deals, which "tend to be a little bit more sheltered from the volatility of the public markets and there tends to be less valuation pressure," he said.

The average deal size has fallen from \$35m in the first half of 2021 to \$24m in the second half of 2023. "[That] may seem like an extreme drop, but in the context of VC history, we're really only back at 2019 levels," he said. "This just goes to show how crazy the pandemic-era boom times

were for fundraising and investment.”

Investors are increasingly using inside rounds and extension rounds to “kick the can down the road for companies that would otherwise fail or be forced to take a down round,” he said.

He believes that 2024 will bring a reckoning for companies that raised funding in 2021 at sky-high valuations and they will have limited options to avoid a down round or go out of business, he said.

“Every investor is demanding strong unit economics and a pathway to profitability really before they are prepared to write a sizeable check.”

On the upside, investment in health care companies, in particular, those deploying artificial intelligence (AI) technologies, are “at rates that approach or even exceed historic norms,” according to the report. Venture capital investment in health care AI companies has nearly doubled since 2019.

Large language models such as Open AI’s ChatGPT will likely have a huge impact on health care and have already been adopted by health systems, mainly for clinical documentation and other administrative tasks, but even AI experts agree that these technologies raise major challenges – generating false responses to queries, racial bias in predictions, and other ethical concerns.

The report showed that investment trends varied widely by sector. Health tech companies and diagnostics and tool companies, which received an overabundance of interest during the pandemic, saw investments decline 33% to \$11.8bn (US, EU and UK) and 42% to \$5.7bn (US, EU, UK), respectively, from 2022 to 2023.

The medical device sector is still working through knock-on effects of the pandemic, but investments in 2023 fared “relatively well” reaching \$6bn (US, EU, UK), down 25% from 2022, according to the report.

Health Care Funding ‘Bright Spot’

“VC fund-raising was actually a bright spot for health care in 2023,” Bissin said.

In 2023, US investors raised \$19bn for health-focused venture and growth funds, the third-highest total for any year on record and a 14% decrease from 2022.

Fourteen firms raised \$1bn-plus funds last year, but SVB expects that these funds will be deployed much slower than in past years as investors turn their attention to early-stage deals.

VCs, including Lux Capital, which in 2021 invested 44% of their deployments in later-stage deals,

announced they'd pivot toward earlier-stage deals.

Value-based Care, Women's Health Draw Interest

Healthtech investment dropped from \$20bn during the peak of the VC boom in the second half of 2021 to \$5bn in the second half of 2023.

One sign of the decline is the drop in seed and series A valuations. While many sectors have seen stability in early-stage valuations, healthtech's earliest-stage deals have seen the opposite with valuations falling 33% in 2023.

One bright spot in this sector is value-based care with a lot of activity in alternative care and provider operations. He pointed to CVS Health, which has invested in multiple start-ups.

In January, CVS Health Ventures joined other investors in a \$22.5m series A funding round at [Vita Healthcare](#), which developed a suicide prevention care management platform. Last October, [CVS Health Ventures](#) led a \$40m series D extension in Cortica, which offers virtual and in-person medical diagnosis services and behavioral health therapies for children with autism and other medical conditions.

While acquisitions are accelerating for healthtech, at least 117 VC-backed healthtech firms were acquired in 2023, only about 19% of the deals disclosed the price, suggesting that "many of the deals favored buyers."

He predicted that healthtech deals will go up in 2024, driven by continued interest in new AI-based companies, value-based care and continued interest in women's health companies. (Also see "['High Unmet Need' For Better Treatments Will Drive Women's Health Funding In 2024](#)" - Medtech Insight, 14 Nov, 2023.)

Funding for the diagnostics and tools sector also faced significant headwinds in 2023 with diagnostic tests and R&D tools seeing nearly 50% losses in year-over-year investment dollars. However, SVB expects that AI-driven drug discovery companies will maintain high valuations and see robust growth.

Medical device companies continue to face challenges in selling devices to hospitals with providers facing mounting cost pressures. Yet, there are bright spots. SVB pointed to brain-computer interface companies like Elon Musk's Neuralink, which raised a \$323m series D funding round led by Founders Fund, Peter Thiel's venture capital firm.

With expected declining interest rates M&A deals may also go up, but he expects that initial public offerings won't see much movement until 2025.

He ended the presentation by reaffirming that “Silicon Valley Bank is still here despite everything that went down last year.” (Also see "[News We're Watching – FDA Mammography Update, SVB Collapse, Zoll's Data Breach, And More](#)" - Medtech Insight, 17 Mar, 2023.)

According to *Bloomberg News*, SVB is back in hiring mode a year after its collapse, which rocked the banking world and disrupted many tech start-ups that housed their cash in the bank.