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Is the digital health SPAC frenzy dead?

Article

The news: Rock Health's Q3 2021 digital health funding report included a ton of data about digital health investments—we're breaking down two key data findings: The simultaneous rise in mental health funding and slowdown of digital health SPAC deals.

The data: Digital health startup funding slowed down in Q3'21, hitting **$6.7 billion** from a high of **$8.1 billion** in Q2—but this year's investments have already surpassed the collective **$20 billion** raised during 2020.

- **Mental health** was the top-funded therapeutic area in Q3—telemental health startups scored **$3.1 billion**, with startups tackling substance use disorder like **Quit Genius** earning more dollars than ever.
- And **womens' digital health startups** saw a YoY funding boost: Startups in this category scored 2.3X more funding in Q3 thanthe same time last year.

What's next? We predict investors will place their bets on more niche mental health areas (like pediatric telemental health) through the rest of the year, simply due to the high demand of these services.

There's a dire shortage of pediatric mental health professionals as kids' US mental health declines during the pandemic—and there are a few digital health startups raising cash to address this gap in care.

- For example, near the end of Q3 2021, investors poured **$13 million** into pediatric telemental health startups like **DotCom Therapy**, which is teaming up with in-school telehealth providers to make therapy services accessible for kids where they're spending the most time: school.

Since there aren't a ton of kids' digital mental health startups, the handful that do exist are likely to nab attention from investors that want to stake their claim in this underdeveloped but high-demand space:

- We could see startups like **Centene-backed Hazel Health** (which operates virtual clinics inside school nurse offices in over 40 US school districts) score another funding round, for instance.

Other new data: Q3 also saw a slowdown in digital health SPAC deals, likely due to increased regulatory scrutiny.

- There were three completed SPAC mergers and one announced SPAC deal in Q3, compared with four completed SPACs and seven announced SPACs in Q2, per Rock Health.

How we got here: In August, the SEC drafted a report recommending more disclosure rules for SPACs amid an IPO frenzy.

- The SEC took this action shortly after it began investigating SPAC deals like insurtech **Clover Health's** on allegations that the company misled investors about critical aspects of its business prior to its SPAC transaction.

What's next? A crackdown on SPAC deals could slow down the digital health SPAC frenzy, but the number of digital health SPAC deals likely won't return to pre-pandemic levels.

- For context, In 2019, there were **fewer than 60 SPACs** formed (including non-digital health companies), but there were **nearly 300 SPACs** formed by the end of Q1 2021, per Crunchbase.

While the rate of SPAC deals could decrease, digital health startups likely won't quit going public via SPAC altogether anytime soon:

- Namely, SPACs could help startups raise more capital than a VC funding round alone.
- For example, Telehealth company **Hims & Hers** received **$280 million** as a result of its SPAC deal this year—far higher than any of its previous funding rounds.