

# ROI, clinical validation will determine digital health startups' success in 2023

## Article

**The news:** Digital health startups will need to recalibrate their business strategies as [VC investors](#) predict company valuations will continue to shrink in 2023, per a new survey from GSR Ventures.

**Digging into the data:** The survey of **50 digital health VC investors** was fielded in late October. Respondents overall had depressed expectations for digital health startups'

valuations given the state of the financial market.

- **Nearly half (47.2%) of investors** said the current market has **cut the number of new health tech investments** they expect to complete in 2022 **by at least 20%** from 2021.
- **Most investors (over 80%) believe that digital health startups' valuations shrunk** this year compared to 2021.
- **More than two-thirds (67.3%) project valuations to keep falling** in 2023—most anticipate around a **20% drop** from 2022.

**The opportunity for startups:** Digital health startups received a record-setting **\$29.1 billion** in 2021, per Rock Health—but the market is now resetting. Health tech companies that reeled in **big funding hauls** last year are tightening their belts, focusing on profitably rather than growth.

This strategic shift will require startups to demonstrate to B2B customers that their platforms **generate a return on investment (ROI) and deliver clinical outcomes.**

- B2B buyers like hospitals have dealt with negative operating margins throughout the pandemic, driven by labor shortages, rising expenses, and low patient utilization. Now they're looking for products that deliver the best value proposition.
- **94.4% of investors surveyed said measurable ROI is either important or very important** for the success of digital health companies, per GSR's survey.
- **83% of investors** said that as digital health keeps evolving, **clinical evidence and clinical trials will be important or very important** in determining a startup's success.

**The problem:** The burden of proof is on digital health startups to show employers, health plans, and providers that their solutions will help both patients and the purchasing entity.

The challenge is that most startups don't have enough data proving their platforms actually work.

- A recent study of **224 venture-backed digital health startups** revealed that **98 (43.8%)** had a **clinical robustness score of 0 (out of 10)**, as measured by researchers. The average score was only **2.5**.

**Importance of the Role of Clinical Evidence and Trials in the Coming Years for the Success of Digital Health Companies According to US Digital Health Investors, Nov 2022**

% of respondents



Note: n=53

Source: GSR Ventures survey as cited in press release, Dec 6, 2022

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