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Digital health's big players' valuations rocket



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The heaviest hitters in Europe's digital health market have valuations at an all-time high: Babylon is valued at \$4.2bn, Kry at \$2bn and Alan at €1.4bn. There remains, however, a huge disparity between the M&A and the fundraising markets, with most buyers of these start-ups opting for early-stage acquisitions. HBI gives an overview of the market.

Click here to [read a report on Europe's digital health sector](#), it is currently being expanded to look at all digital health subsectors.

The first six months of 2021 have been a turning point for the sector. It has doubled the number of unicorns to four, more than doubled the average funding round size, and has started to consolidate with a handful of strategic acquisitions. The COVID-19 pandemic plus new routes to reimbursement mean that most start-ups across the continent are now 2+ years into commercialisation – and that's driving more investment into the sector.

“That's largely because the exit market is somewhat more validated going forward,” says a VC working in Germany. “Frankly, if you looked at the space two years ago there wasn't too much there. Everybody thought ‘oh wait a minute’ after the Teladoc and Livongo merger”.

Valuations and funding

Valuations in the digital health space have been in the 10-15x revenue range even pre-pandemic, albeit at the lower end.

For example, French booking platform Doctolib was valued at 11x when it raised €1.1bn back in 2019 but this year health insurance tech company Alan, also in France, was valued at 14x with a €1.4bn fundraise and Babylon was valued at 13x its \$4.2bn equity value in a recent SPAC merger.

These companies are, however, the exception to the rule with many smaller companies coming in much closer to 10x revenue.

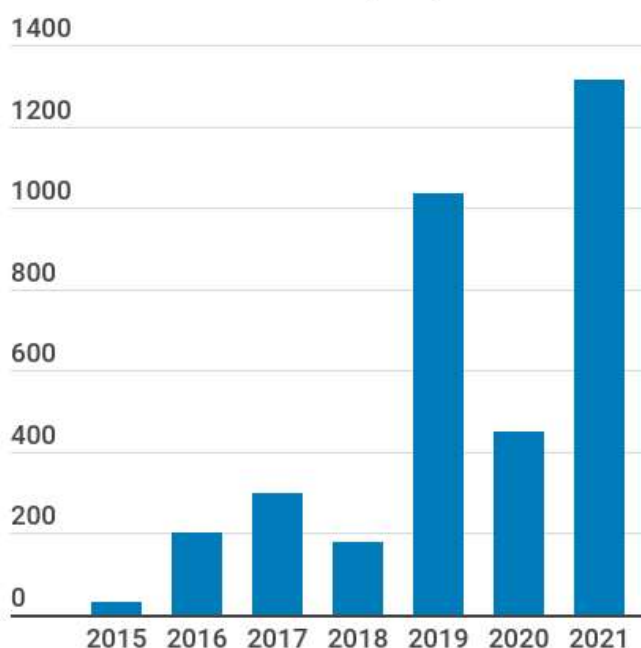
Examples of valuations

		Type	ARR	Valuation	Multiple
Babylon	2021	SPAC merger	\$320m	\$4.2bn equity value/\$3.6bn enterprise value	11-13x
Alan	2021	Private placement	€110m	€1.4bn	14x
TeleClinic	2020	M&A		€50m	
Babylon	2019	Private placement		\$2bn	
Doctolib	2019	Private placement	€100m	€1.1bn	11x
Mon Docteur	2018	M&A		€50m	
jameda	2015	M&A	€6m	€47m	8x

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For this report, HBI tracked around 50 digital health companies across the telehealth, digital therapeutic, booking platform, symptom checker, acute care monitoring, and digital mental health and health insurance space in Europe. It does not cover the elderly care and telemonitoring space but more information on those is available on our website.

Total amount raised (€m)



Average funding round size (€m)



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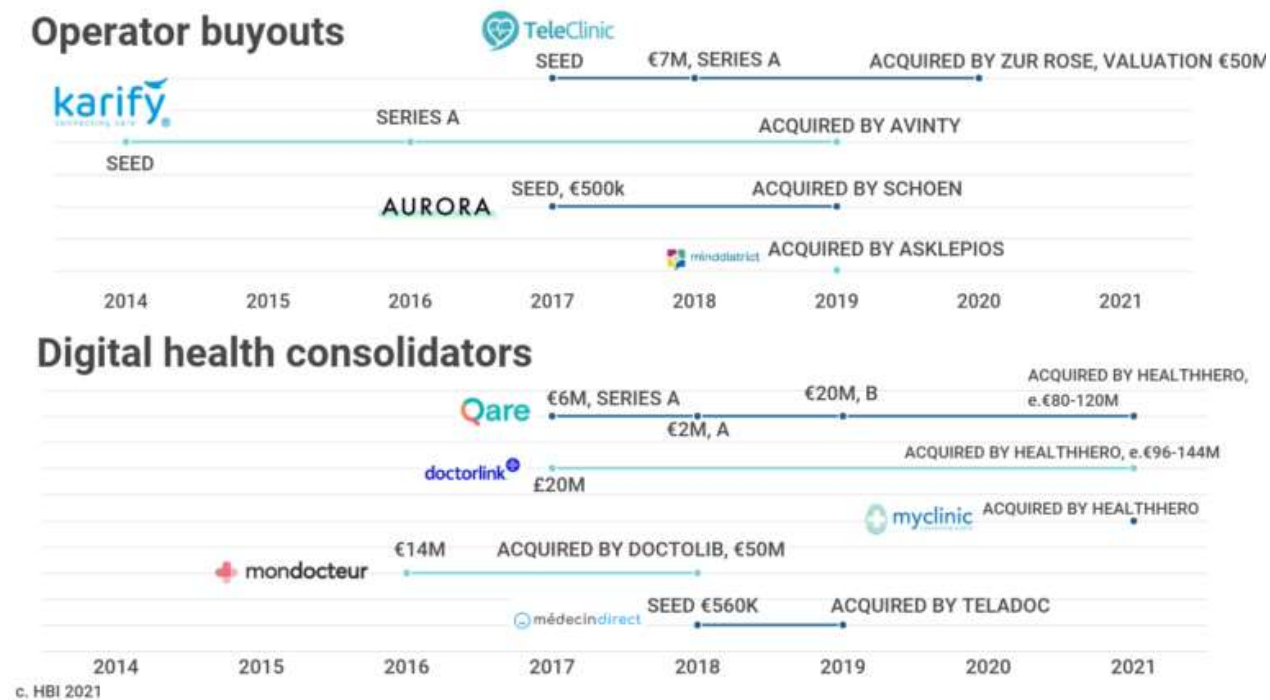
Europe is now home to four digital health unicorns – start-ups valued at over \$1bn – with Doctolib the first, earning the status back in 2019. Two of those, Kry and Alan, joined the ranks this year with more knocking on the door. Acute care telemonitoring platform Huma says it will be valued at \$1bn+ if it exercises the right to raise an additional \$70m on top of the \$130m it raised in May.

Even at the smaller end of the market, where valuations are a lot less transparent, we see much bigger rounds being raised. Excluding Babylon as an outlier, the average funding round in the year-to-date is €70m compared to €30m in 2019. Including Babylon, Europe's digital health start-ups have already raised a collective €1.3bn so far this year.

M&A

This report comes as many traditional healthcare operators including outpatient groups, hospitals and dialysis groups are trying to understand how digital health fits into their wider strategy, and then whether to buy or build those capabilities.

So far we've seen a mixed approach with valuations being remarkably different to the private funding space. Hospitals from Asklepios to Schoen dabbled with a handful of acquisitions in 2019, but busied by the pandemic have since been absent from the scene.



Deals are quite rare with just a little under a quarter of the 50ish start-ups being acquired since 2015. Most of the deal flow has happened since 2019 with three that year, two in 2020 and four in the year-to-date.

Here, we rarely see valuations peak above €100m largely because healthcare operators and digital health consolidators have been opting to acquire start-ups at a very early stage. German telehealth start-up TeleClinic had only raised a Series A when it was acquired by Europe's largest pharmacy group Zur Rose at around a €50m valuation. On the consolidation front, buy-and-build telehealth platform HealthHero has been buying up Seed-to-Series B start-ups with estimated valuations of up to €140m.

Global dialysis player Diaverum bought a medical tourism booking platform in early 2021 but none of the large hospital or outpatient groups have made major plays since 2019 when Asklepios acquired Minddistrict and Schoen acquired Aurora Health, who both work in the digital mental health space.

Valuations this early on are more difficult, according to one investor. "The use of multiples only really kicks in at Series B. Before that, the thing that we're investing in is first and foremost the team. It's probably 65% of our decision early on."

Exit by healthcare operators is a route that looks increasingly shut off. Acquisitions are either not happening at all or are commanding valuations unlikely to suit the expectations of return from private investors.

As one VC says: "The valuation is more about the speed at which an investor can get to a return, so I think we look at it from a very different perspective compared to an acquisition. If you're looking to acquire then for us you're looking at businesses that might have plateaued or be distressed. You wouldn't acquire a business 18 months into its gestation."

All of the acquisitions so far have been strategic, rather than financial.

Buy-or-build

It seems that, for now at least, many operators are instead opting to build technologies or partner, rather than acquire them. Finnish outpatient group Mehilainen has helped owner CVC's other portfolio companies digitalise their patient pathway. For instance, French hospital group Elsan's app, called Adel, has proprietary algorithms to manage 12 different pathways and is downloaded by 5,000 patients every week but it uses external partnerships for some appointment bookings (Doctolib), medical tourism (France Surgery) and telehealth (Maiaa).

Important valuation KPIs, from investors

- **Market opportunity: addressable population x price**
- **Market status: penetration, customers, retention (40-60% very good)**
- **The product / its data / its IP**
- **Science: peer reviews or real-world evidence**
- **Ability to scale**
- **The team**
- **End goal of your investment.**

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That iterative process cost around €10m in total and Elsan expects an investment payback in 1-3 years

A bloated market?

This whole discussion then leads to the big question about whether valuations are bloated. As it's such a new phenomenon in Europe it's hard to say. Babylon didn't reveal the annual recurring revenue (ARR) on which it raised \$550m on a \$2bn valuation in 2019 but it made \$20m in sales that year, suggesting it fell short of a sales target.

Elsewhere, where markets are more developed Teladoc is trading at a forward p/e ratio of 55x (for comparison, UnitedHealth is trading at 26x) but has 12.8% of its float shorted (compared to 0.7%). Digital health players in India and China have also been commandeering high valuations for a while.

"We have to be able to make sense of the valuation. China five or six years ago had these huge valuations because players had a lot of users but weren't getting the revenues to justify that valuation. Huge valuations in digital health are not necessarily a new problem. There's a lot of capital on the sidelines," another investor in the market says.

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