



TEN HEALTHCARE TECHNOLOGY- ENABLED SERVICES SEGMENTS POISED FOR GROWTH

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Our last article highlighted that U.S. Healthcare accounted for \$3.8 trillion in annual spending in 2019 or \$11,582 per person. That is 17.7% of the U.S.'s Gross Domestic Product. In 2019, Medicare spending had grown 6.7% to \$799 billion, Medicaid spending 2.9% to \$614 billion, private health insurance spending 3.7% to \$1.2 trillion, and out-of-pocket spending 4.6% to \$407 billion. Physician drug spending and hospital expenditures have also continued to rise faster than wages.ⁱ

The U.S. spends over 25% more than any other developed nation on healthcare.ⁱⁱ And national forecasts predict no sign of spending growth abating any time soon. Spending is projected to grow 5.4% between 2019-2028 and hit \$6.2 trillion by 2028. And since healthcare spending is growing faster than the national gross domestic product, healthcare's share of the economy will continue to rise.ⁱⁱⁱ

This article explores which healthcare technology-enabled services segments stand to benefit most from healthcare spending growth. Which segments will be most attractive to strategic and private equity investors? This article highlights ten segments acquisitive organizations should prioritize given each segment's growth and long-term tailwinds. While one cannot predict the future, this article assesses past and current trends to forecast likely growth areas moving forward. This article is the second in a three part series covering healthcare segments poised for growth. Part three will cover tech-related life sciences & drug development vendors.

The following ten segments present attractive opportunities for investors. The second chart displays a 2 x 2 on where these segments directionally fit based on forecasted size and growth trajectories.

Figure 1: Ten Healthcare Technology Enabled Services Segments Poised for Growth

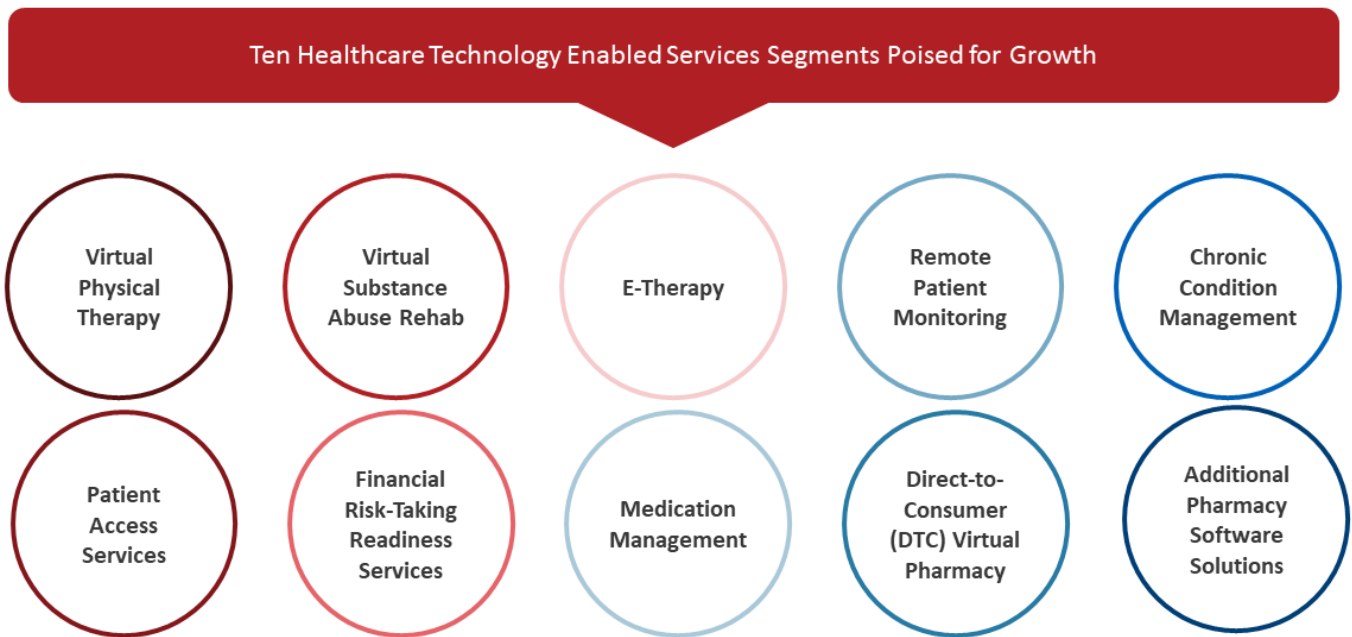
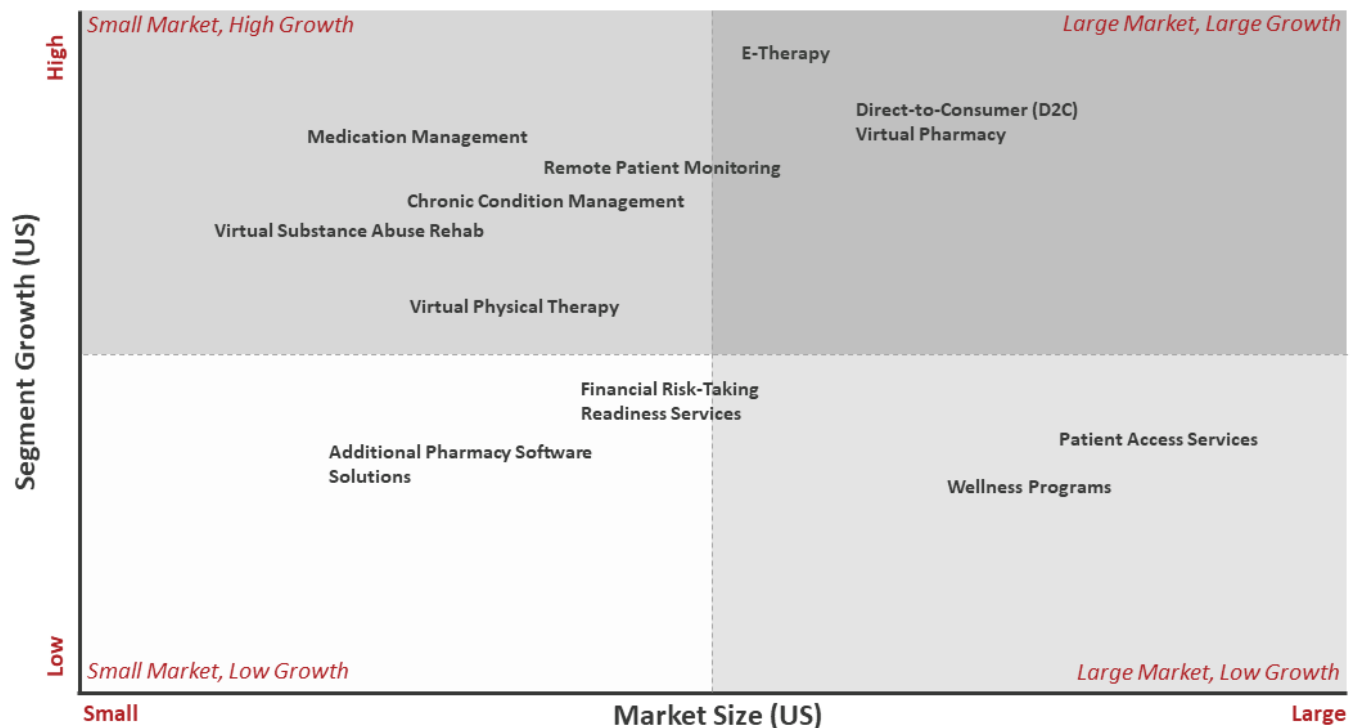


Figure 2: Segment Analysis: TAM vs. Segment Growth

Segment Analysis | Market Size vs. Segment Growth



- 1. Virtual Physical Therapy** – Vendors have built systems that enable physical therapy providers to offer virtual therapy through any device. This is important given hospitals and health systems lose an estimated \$2.5 billion annually in patients seeking physical therapy outside a system. Consequently, segment vendors deliver value in helping patients adhere to treatment plans, preventing patient leakage and reducing unnecessary health system readmissions and surgeries. Employers might also be more willing to spend in this space to help avoid surgical related costs down the road. Vendors typically fall in one of two categories—those that employ providers and those that provide tools that physical therapists can use to offer virtual care. Entities such as IncludeHealth have built multiple partnerships with hospitals in recent months. Omada’s Physera acquisition will enable it to target physical therapy. Kaia Health, focused on digital musculoskeletal has raised \$75 million in its latest round with support from Optum Ventures. And Hinge Health raised \$600 million in its latest Series E round. SWORD health is another competitor making inroads in the space.^{iv}
- 2. Virtual Substance Abuse Rehab** – The Covid-19 pandemic has accelerated substance abuse treatment needs. Reduced stigmas associated with virtual care rather than inpatient rehab have also helped. Payers and employers see the benefits of avoiding costly emergency room visits and keeping employees happy. Regulatory easement around what types of drugs may be prescribed virtually as well as federal payment parity rules have further spurred growth and interest within the space. Segment vendors often gain the majority of revenues through payers who offer services to employer customers. But they can also receive sizable benefits from direct-to-consumer channels. Vendors include Ria Health which offers virtual alcohol use disorder support and has contracted with payers such as Highmark, Anthem, Optum, Beacon, Magellan, and others. Boulder Care also offers digital opioid addiction treatment services, and Workit Health, Pear Therapeutics, and Groups Recover Together are other notable companies within the space.^v Lastly, Wayspring recently raised \$75 million and assumes full financial risk for specific substance use disorder populations and shares in savings it achieves.^{vi}
- 3. E-Therapy** – E-therapy or (online therapy, teletherapy, or virtual therapy) services involve mental healthcare offered via e-mail, video conferencing, virtual reality technology, chat technology, or any combination furnished through a licensed mental healthcare professional. One key driver of the segment’s 25% annual market growth is that most patients feel minimal decreased value in conducting virtual mental health services rather than in-person visits.^{vii} A recent Business Group on Health survey found that 84% of 136 large employers surveyed have prioritized augmenting behavioral health services.^{viii} Supply-demand dynamics are also driving growth. Thirty-eight percent of all U.S. adults reported symptoms of anxiety or depression between April 2020 and February 2021.^{ix} The U.S. lacks about 6,500 mental health professionals to meet demand. Current supply can only serve about 63% of the country’s demand needs. E-therapy vendors eliminate barriers physical distances and travel create for in-person service needs.^x More extensive broadband access to rural areas will enable an additional 14.5 million Americans to access e-therapy options. Key vendors include Array, Amwell, BetterHelp, MDLive, TalkSpace, Lyra Health, Pear Therapeutics, Big Health, SilverCloud Health, Headspace, and FasPsych, among others.
- 4. Remote Patient Monitoring** – Remote patient monitoring (RPM) involves the use of digital technologies to collect health data from patients and securely transmit them to healthcare providers in different locations for assessment. The growth of integrated delivery networks and value-based care are driving the need for RPM to support population health management programs. Services offered include anything from providing the devices to managing monitoring platforms and supplying staff for patient setup and billing. Vendors generally contract with provider organizations and receive a percentage of billings or charge a subscription-based fee based on the number of beds and apps used. RPM’s true value derives from lower hospitalization rates and mortality rather than usage. Implementation and

operation logistics present challenges. Examples include potential delivery and set-up fees, lack of connectivity, and potential system failures. Set-up ease and use as well as easily readable monitoring platforms appear to be key differentiating factors among competitors. Several companies offering remote patient monitoring solutions include Resideo, Lively, iHealth, Eko, Health Recovery Solutions, Vivify, Qardio, 100plus, Cardiomo, and Gyant.

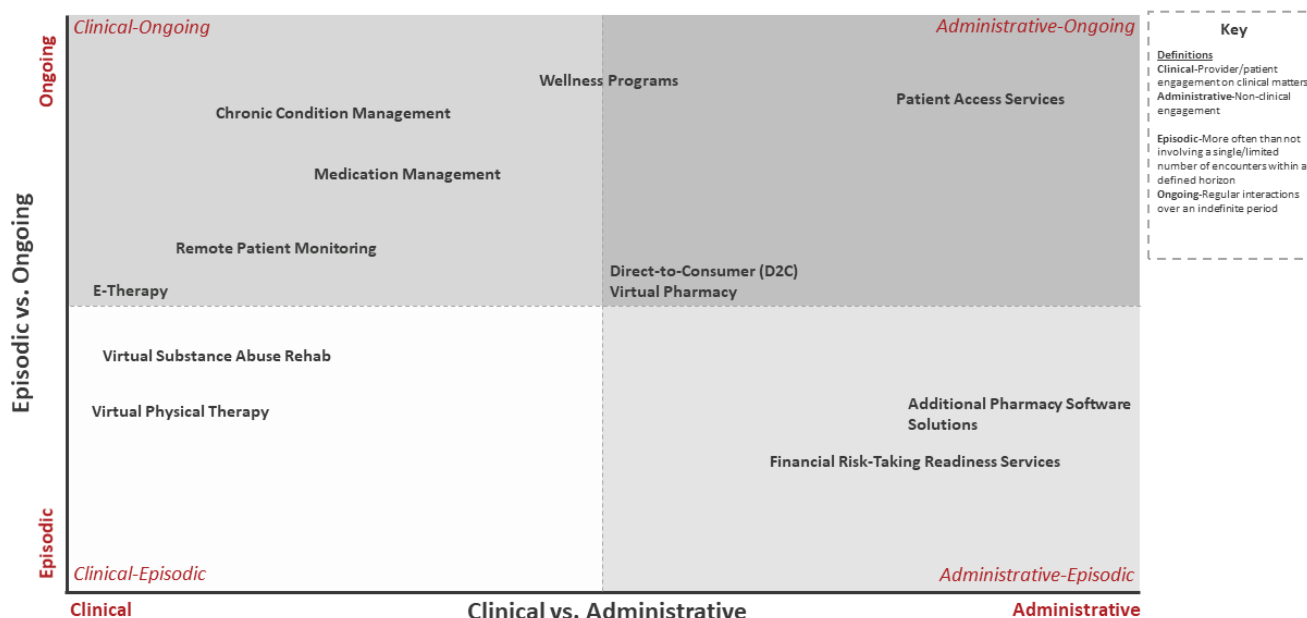
5. **Chronic Condition Management** - Over 16 million more Americans were diagnosed with chronic conditions this past decade than the previous one. Chronic condition management (CCM) involves an integrated care approach to managing illnesses such as screenings, check-ups, monitoring and coordinating treatment, and patient education. Vendors in this space coordinate with provider teams to ideate on customized care plans and support the care teams with staff and software. Contracting entities target all ranges of provider groups but often prioritize primary care practices given they generally quarterback care coordination efforts. Growth drivers include new revenue streams from CCM reimbursement, improved patient satisfaction due to provider interactivity, greater physician and staff time and resource flexibility, and improved health outcomes. Notable service providers within the space include Livongo, Omada, HGS AxistPoint Health, Virta, Welldoc, Glooko, and Wellbox, among others.
6. **Patient Access Services** - Patient access services help enable front-end patient interactions, including scheduling, registration, benefits verification, and point-of-service (POS) collections. These services lighten administrative staff's load and can help improve care continuity. The best vendors integrate their platform with a provider's scheduling and EHR systems to successfully navigate insurance benefits and provide excellent patient experiences. Health systems and hospitals are the largest customers followed by other segments such as ambulatory service centers, physician groups, and post-acute care facilities. Several factors explain the 8.5% market growth this segment is experiencing: (1) increases in patient volumes driven by chronic disease increases the need for effective patient access solutions, (2) providers wanting to maximize collections and minimize denials must start with patient access, and (3) the government is supporting stronger healthcare communications infrastructure. Successful vendors in this space include Cedar, Solutionreach, Patient Pop, Phreesia, AccuReg, and DocASAP, among others.
7. **Financial-Risk Taking Readiness Services** - Vendors in this segment provide actuarial automation solutions that enable providers to accumulate health insurance capabilities, ACO-specific insights, comparison metrics, and clinical oversight. Services include shared savings estimation, risk score calculations, physician-level benchmarks, contract review and electronic load, and contact negotiation support. Additional services to improve performance quality and outcomes and track, measure, and analyze data pertinent to STAR/HEDIS scores deliver meaningful value. Risk adjustment coding support also allows providers to normalize medical risk and avoid missed or incorrect codes. Key vendors in one or more of these spaces include Optum, Change Healthcare, Signify Health, Health Catalyst, Meddecision, Cotiviti, Advantasure, Acusis, CIOX, EXL Health, Apixio, Lightbeam, and Health Fidelity.
8. **Medication Management** - Medical staff and pharmacists use medication therapy management systems to ensure patients obtain optimal outcomes from their prescribed medications. The value-based care movement is increasingly driving the need to integrate medical and pharmacy benefits. Consequently, vendors offer technology platforms to connect patients with their providers on their medications with an eye toward reducing medication non-adherence, healthcare costs, and adverse reactions to medications. Vendors often have features that send alerts to users and caretakers at medication times, enabling the medical providers and the patient to stay organized. Payers, providers, and pharmacies all serve as channel targets. A key success factor for companies in this space is

whether their platforms can effectively integrate with medical and pharmacy benefits and other healthcare IT solutions. Several notable companies include Omnicell, Nimble, Talyst, Truepill, and Medisafe, among others.

9. **Direct-to-Consumer (DTC) Virtual Pharmacy** - Vendors in this segment often deploy telemedicine alongside their D2C platform to obtain medical histories, symptoms, current medications, and allergies and use evidence-based guidelines to give and send prescriptions. Common services can include end-to-end management of ordering, filling, and hand delivering prescriptions—streamlining processing through automation where users no longer need to visit a doctor or hospital. Some D2C vendors charge \$15-\$40 consultation fees, others charge monthly subscription fees, and others contract with carriers. Segment entities include Lemonaid Health (to be acquired by 23andMe), Nurx, Blink Health, PillPack, Capsule, Truepill, UpScript, and several giants such as Amazon, CVS Health, Express Scripts, and Walmart.
10. **Additional Pharmacy Software Solutions** - Several vendors offer data analytics platforms that manage prescription drug inventory for pharmacies and suppliers and support them in prescribing and locating medicines they need to report adverse drug reactions. This process can help pharmacies deliver on their need to make drugs available and affordable. Vendors help address point of sale, document management, delivery and eSignature capture, inventory management, workflow management, specialty, and web-portal needs. Key companies include Asembia, PioneerRx, McKesson, Cerner, ARXIUM, Change Healthcare, Oracle, Keycentrix, and Allscripts.

Figure 3: Segment Taxonomy

Segment Analysis | Taxonomy



CONCLUSION

In conclusion, these ten healthcare technology-enabled segments outlined above show great promise over the next decade. Each of these categories has strong supply/demand fundamentals independent of the pandemic. Most of these areas have become even more relevant during COVID. Irrespective of COVID, it is important to map the strategic importance and patient-benefiting opportunities each of these segments presents for your organization and the growth impact they will have on the healthcare industry and broader economy in the coming months and years.

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 - ^{vii} Grandview Research. "Telepsychiatry Market Size, Share & Trends Analysis Report," (July, 2020). <https://www.grandviewresearch.com/industry-analysis/telepsychiatry-market>
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