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Venture capital is in for a 'world of hurt,' says investor: 'We're not sure that venture capital is an asset class that will endure'

BY NICHOLAS GORDON

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Venture investors at Fortune's Brainstorm Health conference agreed that investors will be reassessing the digital health sector.

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A painful correction is coming in both venture capital and digital healthcare in the aftermath of the tech bubble bursting last year, says one venture capitalist.



"It's going to be a world of hurt for the next couple of years," Aike Ho, a general partner at ACME Capital, said during a panel about venture investments in digital health at Fortune's *Brainstorm Health* conference in Los Angeles on Tuesday.



The surge in venture funding in digital health, Ho noted, tracked the surge in venture funding more broadly. Venture investment, both overall and in health startups specifically, at

least doubled every year between 2019 and 2021.

But higher U.S. interest rates and a lower appetite for risk have punctured the tech bubble that developed over the past decade. Venture capital funding in the first quarter was [down over 50%](#) year-on-year, according to Crunchbase—and that’s even counting Microsoft’s [bumper \\$10 billion investment](#) in A.I. startup OpenAI.

“We’re not sure that venture capital is an asset class that will endure in the next few decades at the height that we experienced in the last few years,” Ho said, later predicting a “drastically lower number of investors and investment firms in the next decade.”

“There’s just not going to be enough capital going into the asset class,” she said. “A lot of people who raised their first fund or their second fund will not be able to raise their third.”

Other venture investors at Brainstorm Health agreed that digital health is due for a reassessment by investors who were recently giddy about it.

The sector is having a “digestion problem,” said Ann Lamont, co-founder of Oak HC/FT, suggesting that the flood of money led some investors to back “business models that didn’t make sense.”

“Probably not everyone’s going to stay in the space,” said Kareem Zaki, a general partner at Thrive Capital.

Yet both Lamont and Zaki saw opportunities for those wanting to invest in healthcare, despite the investing downturn. “Consumers are much more active participants in healthcare” after the COVID pandemic, said Zaki.

Healthcare providers are struggling with a labor shortage of doctors, nurses, and other care providers numbering in the hundreds of thousands. That and higher labor costs is pushing providers to consider using new technologies to make up for the shortfall and to cut costs, Lamont suggested. “Automation—it’s like a new word that’s coming to healthcare,” she said.

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Ho said she was cautious about whether artificial intelligence—the buzzword *du jour* in the tech and venture capital space, thanks to the viral success of OpenAI’s ChatGPT A.I.-powered chatbot—will necessarily provide a straightforward benefit to healthcare.

Ho said she had a “15-point question list” when startup founders come to her seeking money for an A.I.-related healthcare business idea, including whether the startup would run out of money before it can get the massive amounts of data needed to train the underlying model powering its technology.

“The reality is that healthcare, unlike many industries in this country, has its own laws of physics of how things work,” she said.

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