The Rise of Subscription Healthcare

Lower costs, improved customer experience drive investment in membership-based healthcare startups

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Publishing

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Published on January 24, 2022

Contents

Key takeaways

- Startups focused on offering subscription-based healthcare are attracting significant venture capital.
- To differentiate, healthcare membership startups are investing in proprietary technology offerings to raise the bar of service and focusing on specialty and niche market opportunities.
- Despite notable public exits and growing membership among leaders in the space, business models are struggling to achieve profitability.
- While direct-to-consumer membership models will continue to grow, they will also face competition from health insurance startups focused on value-based care initiatives.

Overview

Healthcare membership models appear to be gaining traction as venture capital flows into new startups focused on offering relationship-based care paid for through a fixed fee arrangement. While startups typically focus on providing primary care, some specialize in specific health conditions such as menopause, or on specific market segments within primary care such as Medicare Advantage (MA). In 2021, we tracked 21 such startups that raised a total of $7.7 billion from VCs, a significant increase from $594.08 million in 2020. To provide high-quality service at a lower cost, several of the startups in this space are investing in proprietary technologies, including member engagement software, risk prediction techniques that can proactively engage high-risk members, and other clinical and social products and services including transportation, remote patient monitoring devices, and home visits. To help augment their platforms, providers are also seeking partnerships with secondary care providers such as specialists.

Despite these innovations, we believe significant scale will be needed before these models can generate profits. For example, One Medical—the largest provider in the space—has about 730,000 members yet still is not profitable. While these models represent a relatively niche sub-segment of the primary care landscape, we expect they will become more mainstream as operating models improve. However, competition from health insurance startups developing their own consumer-centric, value-based care initiatives may limit market potential for direct-to-consumer (DTC) membership-based care providers. However, we expect the market for membership-based care providers partnering with MA insurers to continually increase as MA enrollment rises and insurers seek to offload risk and decrease health care costs.

Industry drivers

The senior population is expected to reach 80.8 million by 2040—up from 39.6 million in 2020.

- Enrollment in MA plans doubled from 2010–2020, with 39% of all Medicare beneficiaries on MA in 2020.[1]
- Chronic disease has grown to account for 96% of Medicare spending.

Patients and primary care providers (PCPs) are dissatisfied.

- The average PCP has a net promoter score of three.[2]
- Family medicine and pediatric primary care providers are the lowest-paid doctors
- The average patient waits 29 days to see a PCP in large cities.[3]
- PCPs are the least satisfied in their work when compared with their specialist peers.[4]

1: "A Dozen Facts About Medicare Advantage in 2020," KFF, Meredith Freed et al., January 13, 2021.
2: "Corporate Presentation," Oak Street Health, May 2021
3: "PCP and Family Physician Wait Times increasing 50% in Many Markets," Lab Soft News, January 28, 2019.
4: "What's the Biggest Source of Job Dissatisfaction for Primary Care Physicians?" Medical Economics, March 28, 2013.

The current system is inadequate.

- 45% of recommended preventative services are not delivered.
- There is limited care between visits.
- The fee-for-service business model is problematic.

There are some promising outcomes.

- Oak Street Health reports a 51% reduction in hospital admissions, a 42% reduction in 30-day re-admission rates, and a 51% reduction in emergency department visits versus Medicare fee-for-service.[5]
- Privia Quality Network has delivered total shared savings of more than $519 million across government programs and commercial payers since 2014.[6]

Market size

Annual US healthcare spending is $3.8 trillion, with about $260 billion spent on primary care and $1.25 trillion spent on Medicare.[7] Although primary care accounts for 5%–7% of total healthcare spending, and only 2% of Medicare spending, it has the potential to drive broader savings.

One Medical believes its acquisition of Iora Medical has increased its national potential addressable market to about $870 billion.[8]

Oak Street Health and Agilon, which focus exclusively on MA patients, estimate their total addressable market size to be about $325 billion and $253 billion, respectively.[9]

Business model

Startups in this space use a membership-based payment structure rather than the traditional fee-for-service-based billing method. Membership-based relationships may occur through employer sponsorships, partnerships with MA insurers, or directly with consumers. MA insurers receive a monthly per-patient fee from Medicare to manage the risk and health of their consumers. Relationship-based care providers such as Oak Street Health develop partnerships with MA insurers, who pass on to them part of the stipend they receive from Medicare when patients sign up with a relationship-based care provider. Oak Street believes it can provide better health outcomes at a lower cost, enabling profits.

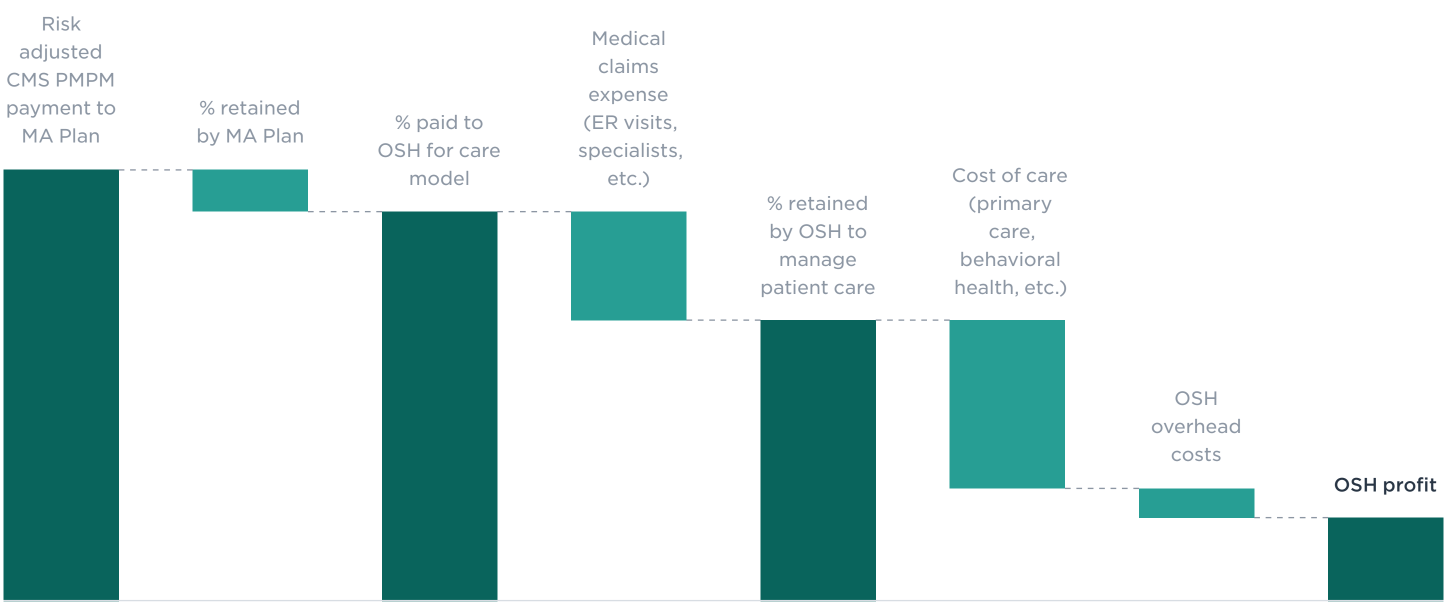
5: "Corporate Presentation," Oak Street Health, May 2021.
6: "Privia Health Reports Results in CMS' Medicare Shared Savings Program (MSSP)," Privia Health, August 25, 2021.
7: "Corporate Presentation," Oak Street Health, May 2021
8: "One Medical Completes Acquisition of Iora Health," One Medical, September 1, 2021.
9: "Medicare Center Oak Street Health Goes Public, Raises About $328 million," Chicago Business Journal, Ben Miller, August 6, 2020.

Direct-to-consumer providers and fees

Company	Membership fee	Details
Gennev	$85 per month	Menopause focused
One Medical	$199 per year	Video appointments, online appointment booking. In-person visits have additional fee
Forward	$149 per month	In-person and virtual visits, genetic analysis, mental health support, biometric monitoring, blood testing
Parsley	$175 per month	Five clinical visits and five health coach visits annually, unlimited messaging
Tia	$15 per month	Care coordination, access to same day appointments, community programming, messaging with care team, does not include cost of appointment
Crossover	$200 per month	Primary care, physical therapy, mental health, health coaching, fitness and care coordination
K Health	$12 per month	Unlimited messaging with providers
Sollis	$3,000 per year (under 45), $5,000 per year (over 45)	Unlimited access to ER medical centers, virtual care, routine bloodwork, care navigation

Source: PitchBook | Geography: US

Oak Street Health's plan for profitability



Source: Oak Street Health

Outlook

Comprehensive offerings are critical for success: Providing a full set of service offerings to engage a larger percentage of the population enables individuals to receive care for all their conditions in one place and allows employers to provide a benefit that serves the needs of all employees. Developing a one-stop shop for healthcare requires startups to deliver various care types such as primary care, physical therapy, mental health, and health coaching, and through multiple channels including in-person visits, online virtual visits, and chat sessions. In addition, it is essential that startups ensure providers are continuously monitoring health signals from remote patient-monitoring devices and proactively engaging patients.

Comorbidities among Oak Street Health's patient population 2014[10]

- **86%** of at-risk patients have multiple chronic conditions, with the average at-risk patient suffering from three or more.
- **~40%** of patients have behavioral health diagnoses.
- **~50%** experience multiple social risk factors.

Starting point among Crossover Health's patients[11]

- **50%** of patients start with primary care.
- **20%** start with physical medicine.
- **15%** start with behavioral health.
- **15%** start from other service lines.

Providers must integrate external health data: By aggregating data from RPM devices, patient surveys, claims, and more, care providers will be able to diagnose patient conditions and develop "condition management" plans to monitor conditions and engage patients in proactive care.

Increased focus on patient touchpoint frequency is needed: To increase the level of holistic and preventative care, startups are focusing on boosting the frequency of clinically significant, low-touch interactions between patients and providers. These interactions often occur virtually but may also occur in-person. New technologies and the proliferation of mobile devices have enhanced providers' ability to virtually provide care via video chats and chatbots.

10: "Oak Street Health, Inc.: Form S-1 Registration Statement," Securities and Exchange Commission, July 10, 2020.
11: "An Integrated Primary Health Approach to Virtual and In-Person Care," Crossover Health, n.d.

Patient touchpoint frequency

Company	Touchpoint frequency
Iora	Avg. 19x per year[12]
One Medical	Avg. 10x per year[13]
Oak Street	Aims to see vulnerable members every three weeks Encourages healthy patients to visits every three months[14]
Firefly Health	Avg. 48x per year[15]
Gennev	Avg. 12 per year with a nutritionist, 4x per year with a doctor[16]

Consideration

Insurers developing in-house primary care services: Some innovative health insurance startups are developing their own care maintenance and coordination programs. For example, Firefly health provides health plans for self-insured employers, using its own team of physicians, nurse practitioners, behavioral health specialists, and health guides to provide virtual advanced primary care. Firefly believes its virtual primary care platform, which engages the average patient 48 times yearly, will replace the need for annual, in-person primary care checkups. Oscar Health provides every member with a dedicated care team to help members find doctors, understand their plans, and prepare for appointments.

12: Amir Dan Rubin and Bjorn Thaler, Video Interview by Ricky Goldwasser, Morgan Stanley, n.d.
13: Ibid.
14: "One Health-Care Company's Audacious Plan to Lower Costs—and Still Turn a Profit," Bloomberg Businessweek, John Tozzi, July 14, 2021.
15: Fay Rotenberg, Telephone Interview with Kaia Colban, November 4, 2021.
16: Jill Angelo, Telephone Interview with Kaia Colban, November 9, 2021.

Company highlight: Sollis

Founded:
2016

Raised to date:
$38.6M

Post-valuation:
$135.1M

Sollis is a members-only medical concierge delivering on-demand treatment for emergencies and everyday care. Its centers are equipped with in-house labs and imaging equipment enabling Sollis to provide a full set of services, although it does not replace a PCP or offer annual physicals. Its membership doubled to 4,500 patients when COVID-19 hit and currently has offices in Los Angeles and New York.

Company highlight: Maven Clinic

Founded:
2014

Raised to date:
$201.97M

Post-valuation:
$1.0B

Maven Clinic is a virtual clinic for women, offering care for fertility, pregnancy, and parenting. It sells long-term health care plans to both employers and health plans that includes ongoing care with a dedicated team and unlimited messaging with doctors. Maven offers one-off appointments and sells messaging bundles directly to consumers but does not offer ongoing care nor accept insurance for its DTC services.

Company highlight: One Medical and Iora Health

One Medical is a membership-based primary care clinic that charges consumers $199/year. The membership fee includes unlimited messaging with healthcare providers, help scheduling appointments with external specialists, and access to same/next-day in-person and video appointments, although an additional fee is charged for the appointment. One Medical acquired Iora for $1.4 billion to extend its reach across 28 markets and expand its addressable market. Iora health provides primary care to adults 65 and older on Medicare. It charges sponsors—either self-insured employers, unions that pay for health care, or progressive health insurers—a monthly fee for maintaining the health of the members. It aims to improve health outcomes by using a collaborative care platform to maintain individual and population-wide health, provide behavioral healthcare services, and provide members with health coaches.

One Medical

one medical

Founded:
2007

Stock symbol:
ONEM

Enterprise value:
$2.95B

Iora

iorahealth

Founded:
2011

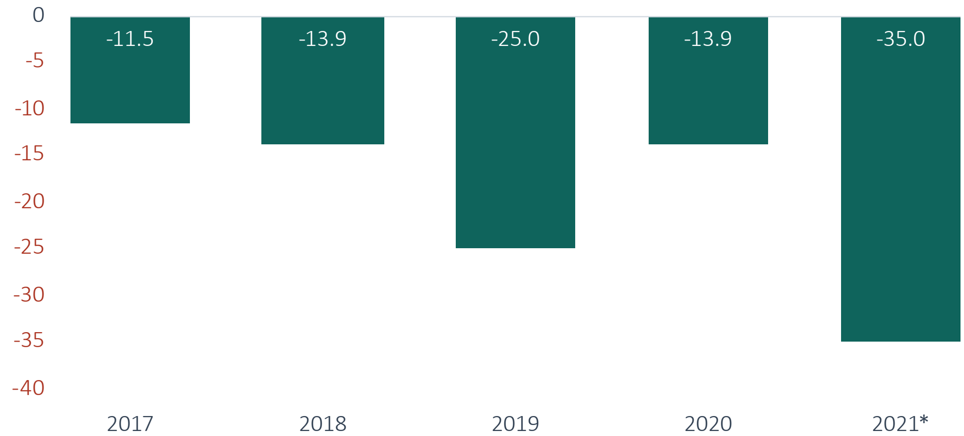
Raised to date:
$383.3M

Acquisition amount:
$1.4B

Post-valuation:
$1.9B

One Medical is currently unprofitable. Its adjusted EBITDA has continually declined, from an $11.5 million drop in 2017 to an estimated $35 million decline in 2020. Long term, One Medical seeks to increase its care margin, which was 38% in 2020, to 15% and decrease general and administrative expenses to 15% of revenue from 33% in 2020. Management has not laid out any specific plans detailing how it will increase its margin. One Medical's recent acquisition of Iora Medical could provide a positive boost to its margin profile given the opportunity to partner with MA providers—further evidence that pure-play membership models may struggle to be profitable on their own.

One Medical adjusted EBITDA ($M)



Source: One Medical
*As of December 31, 2021

One Medical long-term target operating model (non-GAAP)

		2017	2018	2019	2020	Long-term goals
Net revenue growth			20%	30%	38%	Mid-20%+
Care margin		32%	36%	39%	38%	45%
Operating expenses	S&M as % of rev	11%	12%	14%	9%	10%
	G&A as % of rev	28%	31%	35%	33%	15%
Adjusted EBITDA margin		-7%	-7%	-9%	-4%	20%

Source: One Medical
*As of January 12, 2021
Note: At-risk members are members on Medicare advantage for which Iora health is responsible for managing a range of healthcare services and associated costs.