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The Mental Health Industry Leadership Report 2024
1 message

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December 19, 2024

The Mental Health Industry Leadership Report 2024

Insider insights on growth, profitability and the challenges of mental health businesses in 2024

Hi friends,

Over the last few weeks I've been surveying our community of mental health founders and operators.

I wanted to get the inside scoop on what's been happening for everyone in the industry this year - how fast they've grown, how they're funding their business, what sort of margins they're delivering, what challenges they're facing, and lots, lots more.

We'll cover;

- **How fast mental health companies are growing**
- **How funding strategy, product type and payer strategy affects revenue and growth rates**
- **What margins companies are achieving and how that differs across the industry**
- **A deep-dive on therapy platform businesses, analysing provider relations, client acquisition strategies and more**
- **A review of the leadership sentiment on the industry**
- **The main challenges businesses are facing in 2024**
- **What leaders are excited about going into 2025**

While I share the headline insights for *all* THR subscribers, the full report including all data, analysis and breakdowns is available to THR Pro subscribers only. To read this full report, consider becoming a THR Pro member today.

These reports take a lot of time and effort, so by becoming a THR Pro member, you'll also be supporting me continue doing this work each week.

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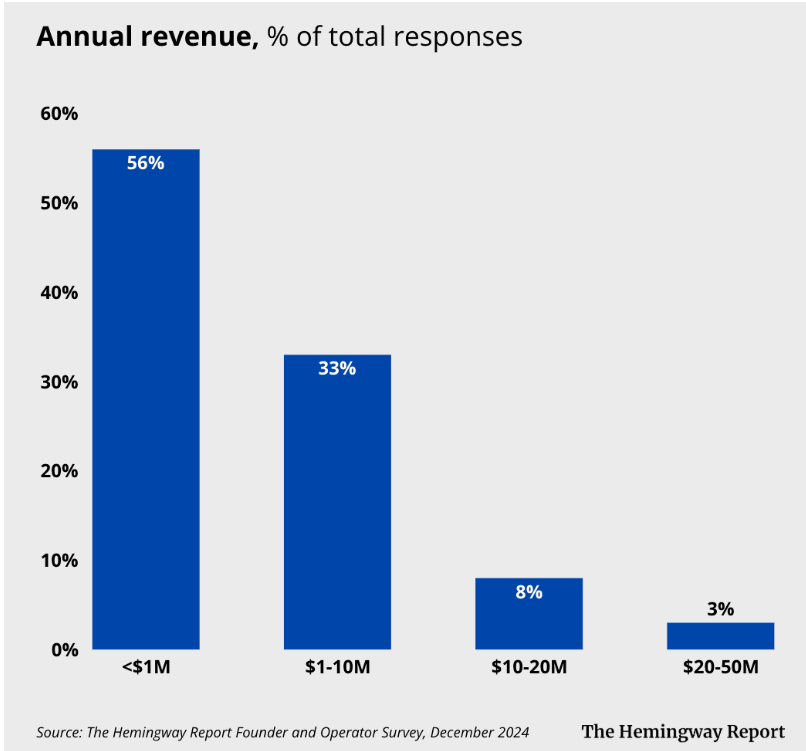
Anyway, let's get into it!

1. Revenue and revenue growth in 2024

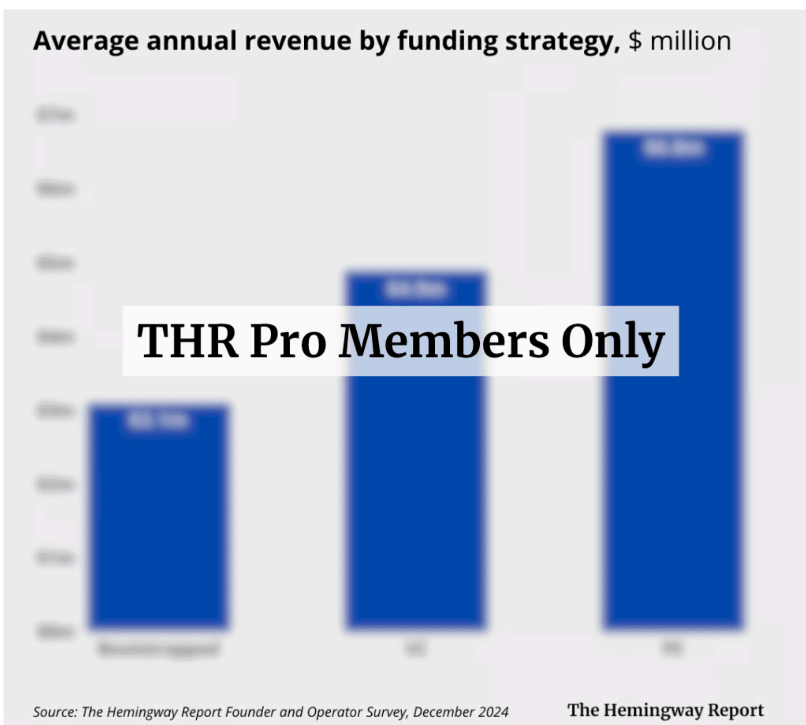
Naturally, there are a lot of early-stage startups operating in the mental health industry and 56% of companies recorded revenue of below $1m.

However, we are also seeing a number of business reach meaningful revenue, with 44% making over $1m in annual revenue and 11% making over $10m. Nothing too surprising here, this is the sort of distribution we would expect from a sample of startups.

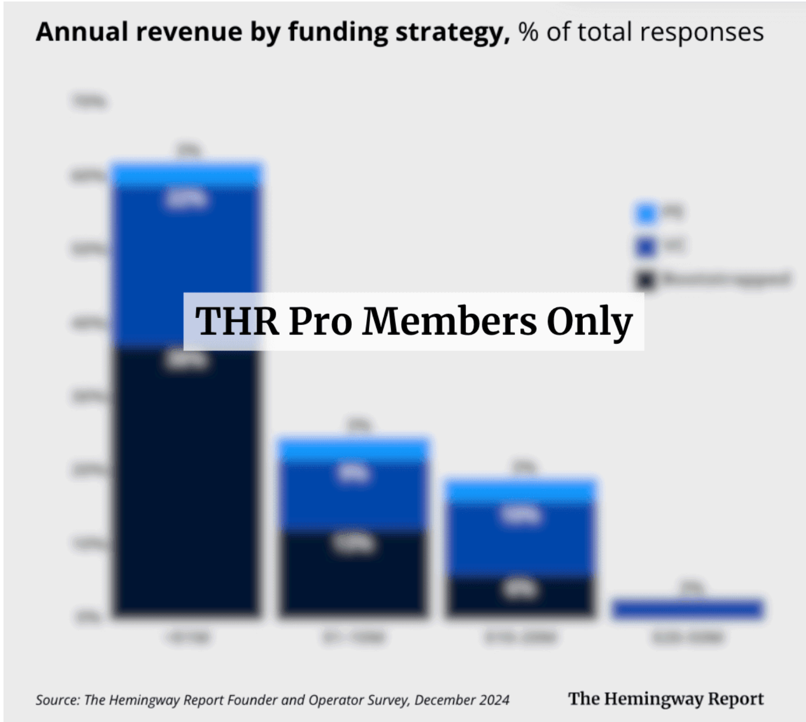


What's more interesting, is to understand what explains the difference between companies making significant revenue and those still struggling to get going.

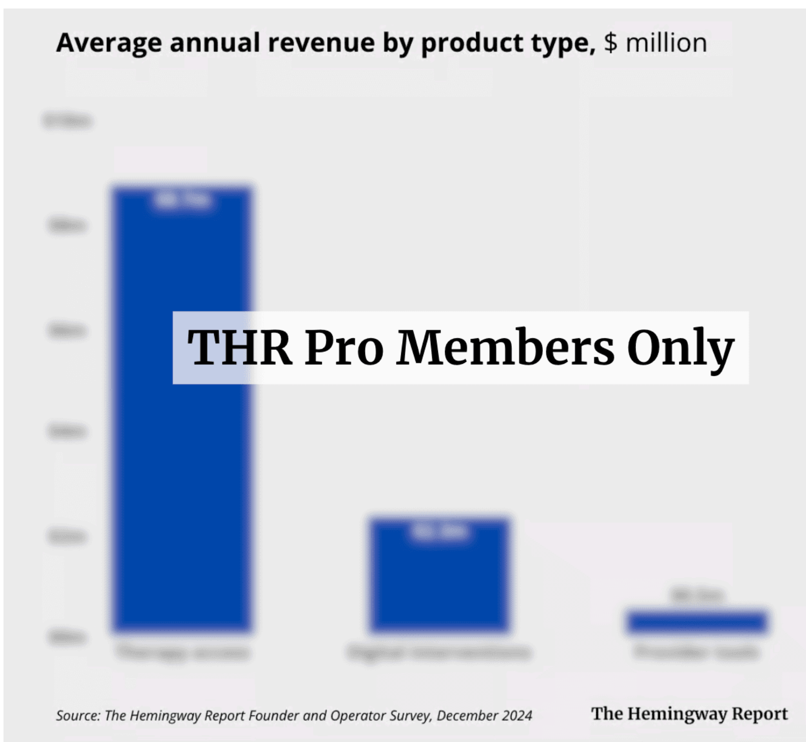
By Funding Strategy: Companies who have raised VC or PE funds tend to have higher revenue.



However, being bootstrapped doesn't appear to stop mental health businesses getting big. **Of the businesses making more than $1m, 40% of them were bootstrapped** (i.e., they had not raised VC or PE funding). So if you don't want to raise VC or PE money, this shouldn't necessarily hold you back.

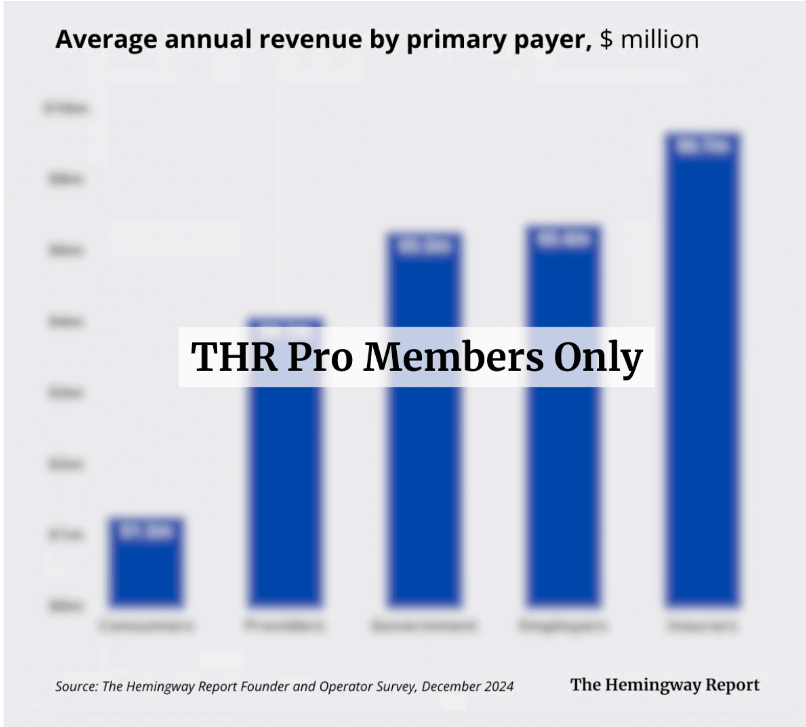


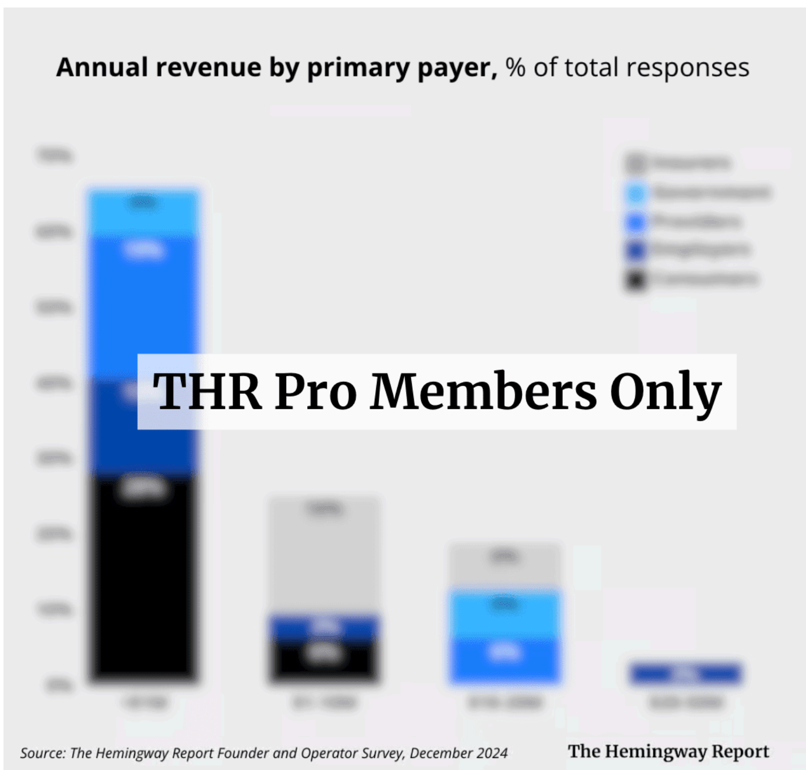
By Product Type Therapy platform businesses the highest average revenue ($8.7m), followed by digital intervention businesses ($2.3m) and finally, provider tools ($500k).



By Payer Type: Business who sold to insurers as their primary customer tended to have higher revenue, while consumer focused businesses typically had lower revenue.

Private insurers, government and employers control the vast majority of spend in the mental health market (in the UK, 93% of all mental health spend is by the NHS) so this is not surprising. It also validates the D2C bridge strategy that I've talked about previously, using D2C as a GTM strategy to break into bigger payers like insurers and government.





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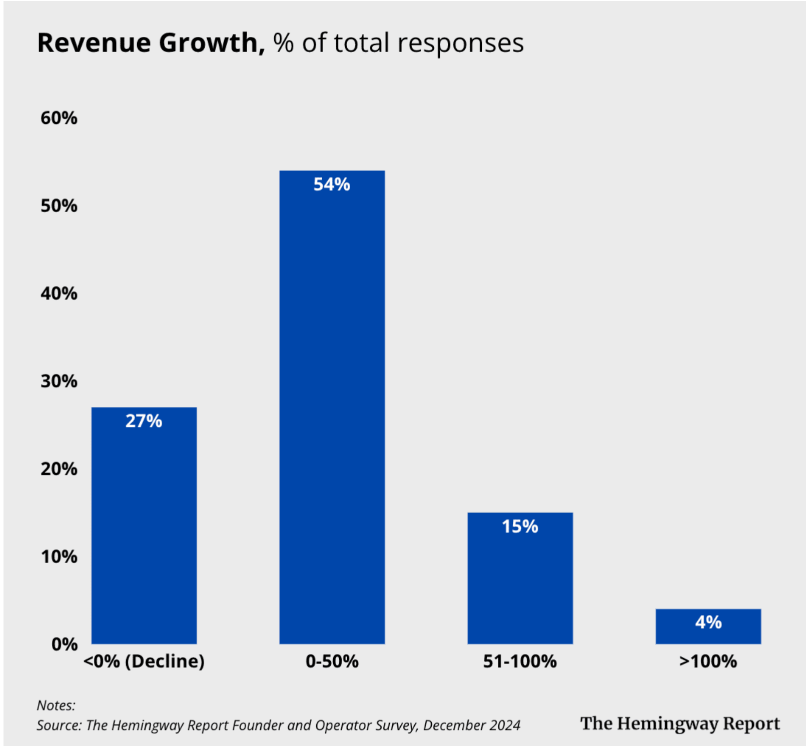
Revenue Growth

When it comes to revenue growth, a couple of things stand out.

Firstly, **there are hardly any breakout growth companies in mental health**. In other industries like SAAS, Fintech etc. we often see companies achieving “hyper-growth”. When I was at Wayflyer (a fintech), we grew by 900% one year. In SAAS, investors often talk about the Treble-Treble-Double-Double growth strategy - trebling in your first two years, then doubling in the following two years.

With only 4% of companies growing more than 100% year on year, this kind of hyper-growth just tends not to exist in mental healthcare.



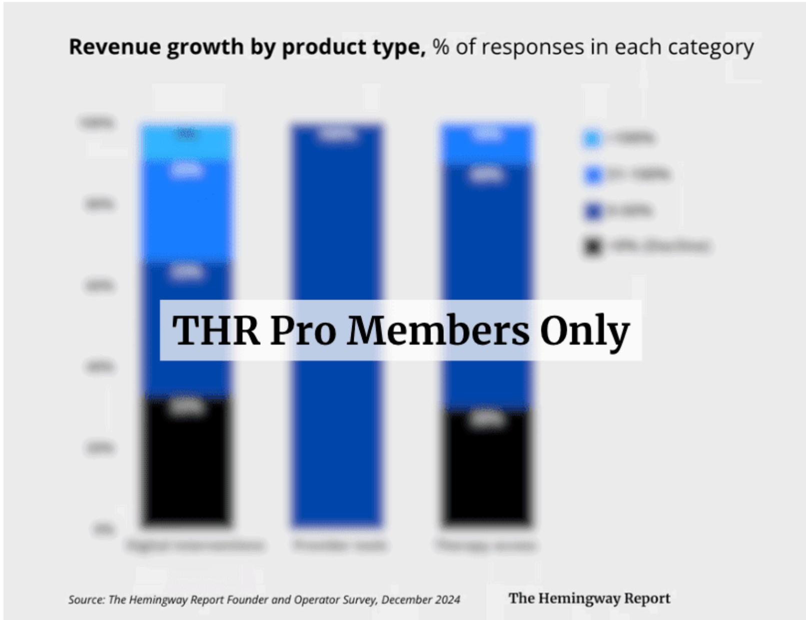
This is largely a function of industry dynamics. Large insurers and employers are the main source of revenue in mental healthcare, but sales cycles are long and challenging.

Slower growth rates are not necessarily a bad thing. Healthcare requires more thoughtful growth than other industries. There's more at stake. You just need to make sure your plans take these kinds of growth rates into considerations and, if you raise money, you align investors with these expectations.

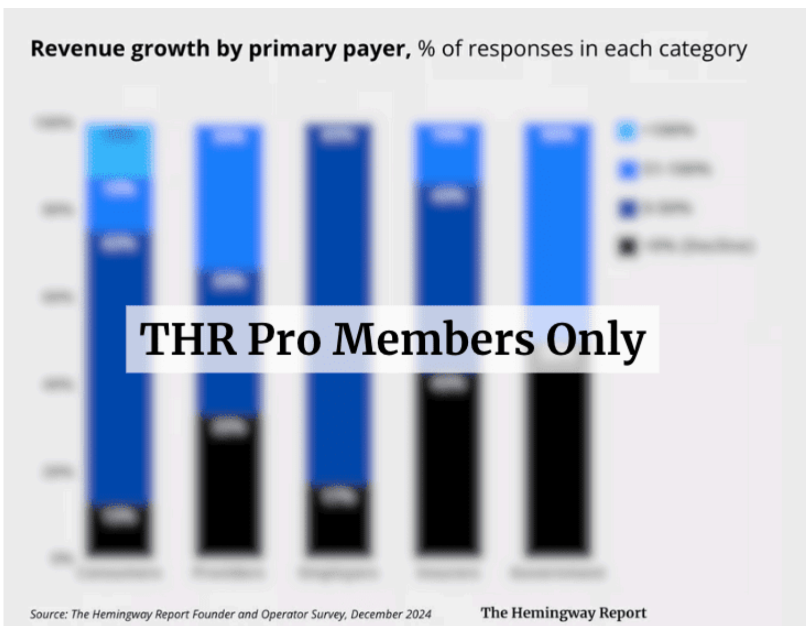
Again, let's break down this data to see what is driving different growth rates across the industry.

By Funding Strategy: Interestingly, the choice of funding strategy didn't seem to have too much impact on growth rates. Bootstrapped companies struggled a bit more this year (with 35% of them experiencing revenue shrinkage). However, they also had some of the faster growing businesses, with 59% off them growing by more than 50% year on year.

By product type: Digital intervention businesses had the highest growth rates in 2024, followed by therapy access businesses and finally, provider tools.



By payer type: Companies selling to consumers and providers grew fastest this year, with those selling to insurers and governments growing the slowest. This is likely a function of the fact that as businesses get bigger, they tend to start selling to these payers and naturally, their growth rate tends to slow due to their maturity.



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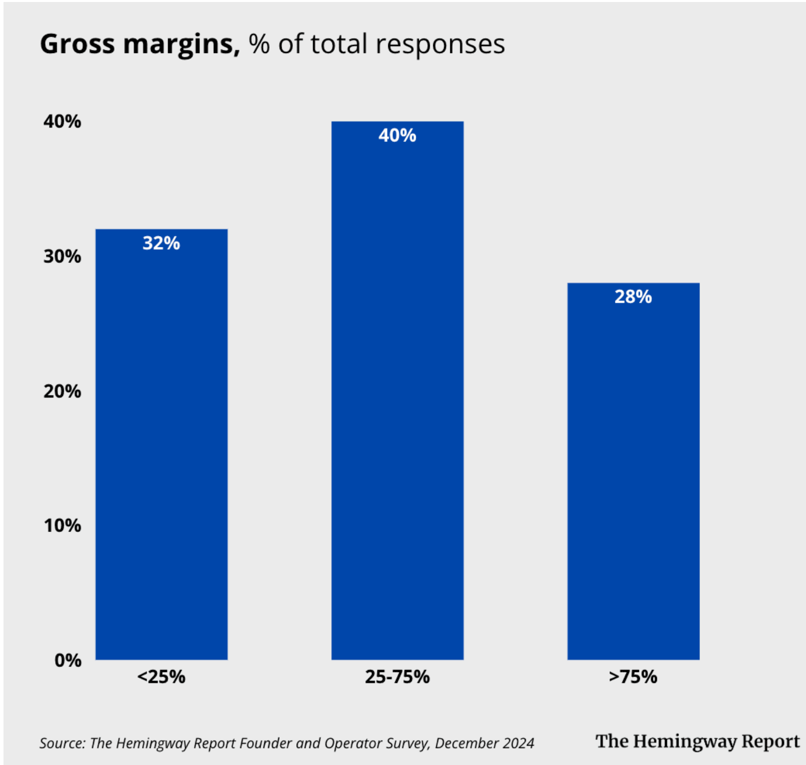
2. Margins and Profitability in 2024

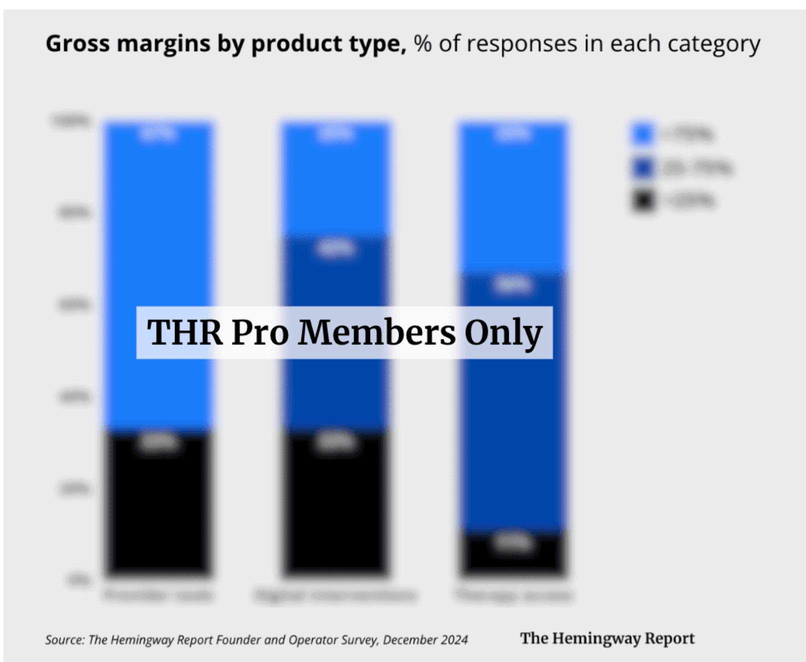
While growth is a big challenge for mental health businesses, so is profitability.

What we found is that 32% of mental health companies are operating on gross margins of less than 25%. That said, there are a handful of companies (28%) who have achieved software-like gross margins of >75%.



So what types of businesses achieve these higher gross margins?

Product Type: Provider tools have the highest growth margins, with 67% of business reporting gross margins over 75%. These businesses build software and software has great gross margins. 25% of digital intervention businesses reported gross margins >75%, 45% reported margins of 25%-50% and the remaining 30% had margins less than 25%.



We did also find that businesses selling to consumers and providers tended to have higher gross margins, but this is better explained by their product type than the customer they focus on.

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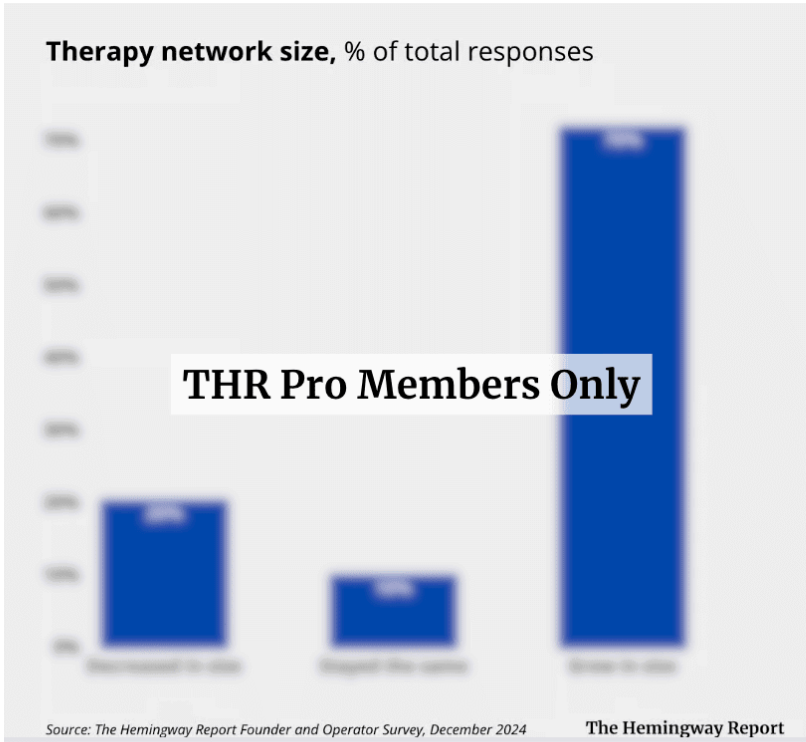
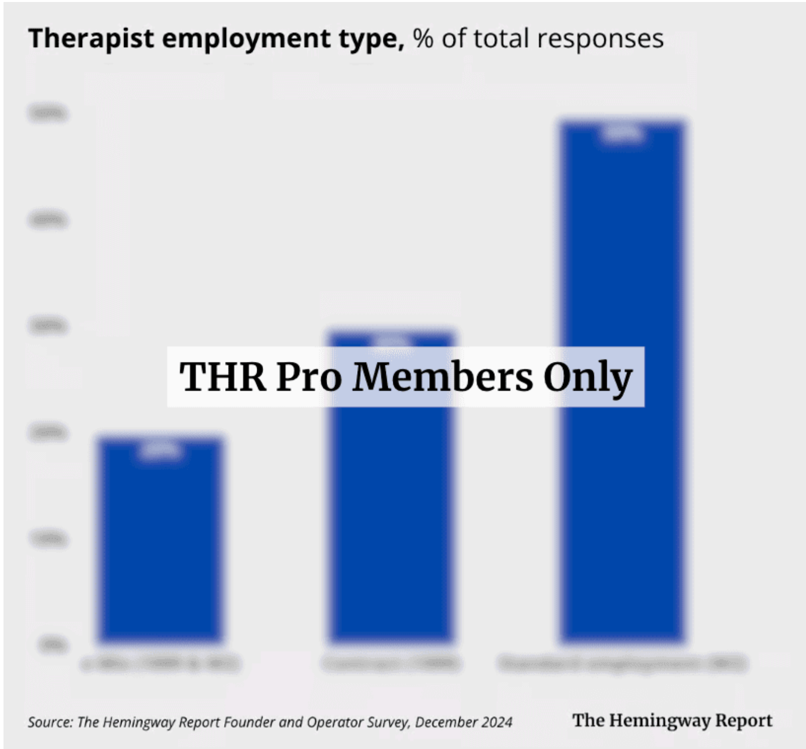
3. Therapy Platform Deep-Dive

Therapy Platforms are one of the biggest and most competitive segments in the mental health market. So I wanted to do a deep-dive on this segment and understand some of the trends at play.

Therapy Network Size: Businesses are still expanding their therapist network in 2024, with 70% saying they had grown the size year over year.



Provider relations: I also wanted to look at employment type and understand how businesses are approaching working with therapists. I found that 50% of platforms are working with therapists on a W2 basis (standard employee), 30% use 1099 contracts and the remaining 20% use a mix of 1099 and W2.



I asked about the trends these therapy platforms have seen amongst the therapist community this year. The common themes across almost all responses were;

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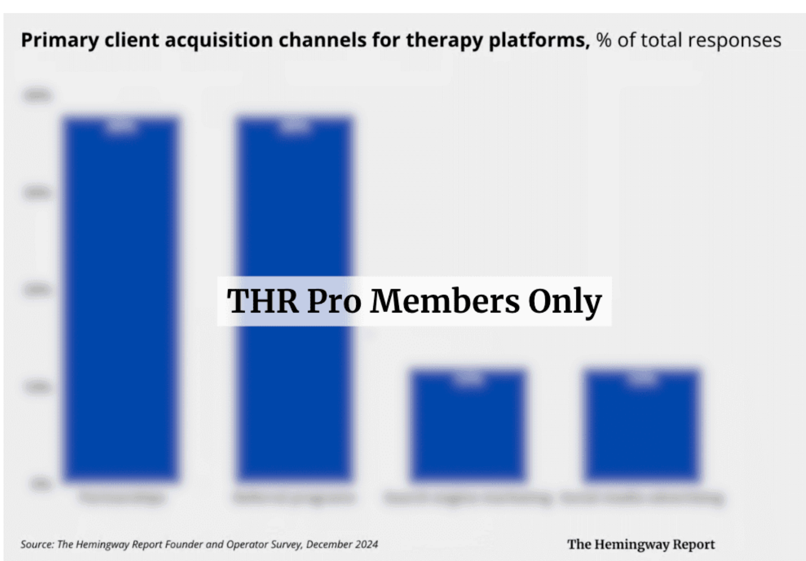
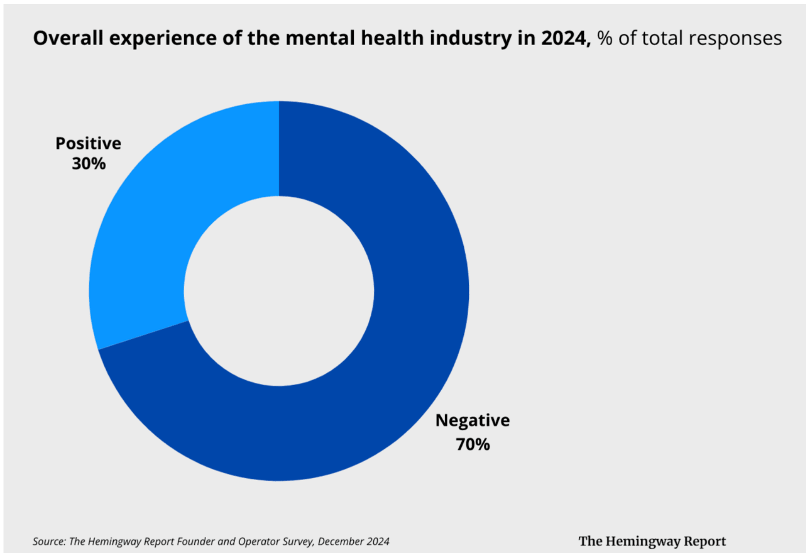
Finally, we explored therapy platforms' client acquisition strategies. One of my predictions for 2025 is that finding profitable strategies for client acquisition and increasing capture rate become a major priority. We can see evidence of the problem by looking at the data on platforms' primary acquisition channels.



My takeaway from this is that acquisition strategies are very fragmented, with no channel offering a home-run for companies to get new clients. Considering the amount of companies relying on this in 2025 (Kooth and Talkspace are two examples I've written about) this is a major challenge for the industry.

4. Leadership sentiment

I wanted to get a sense of people's experience this year. High level, what's it been like for people running mental health businesses? Here's what I found.



Unfortunately, people felt that 2024 was pretty rough, with 70% reporting a negative sentiment on the year that was. The primary challenges people mentioned were:

1. **Frustrations with insurers:** Leaders were frustrated with the percentage of claims insurers are paying out on - one business only got paid out for 50% of their claims in 2024 . On top of this, people were annoyed with the time taken to pay out claims and some cited frustrations with a lack of leadership and vision from insurance companies in driving the industry forward.
2. **GTM and client acquisition:** Figuring out a sustainable business model and acquiring the customers and clients to drive growth remains a huge challenge for businesses. Landing payers remains a long and expensive process and there are few channels that work well to acquire clients right now. Nikhil Krishnan predicts big changes in Healthcare marketing in 2024, hopefully it opens up some new GTM opportunities for mental health businesses.
3. **Increased competition:** Things are heating up in the mental health market. Many leaders noted an in increase in competition in 2024, putting pressure on sales and margins. This is most evident in the therapy platform market.
4. **A challenging funding environment:** Many businesses are struggling to raise the capital they need. Despite a slight resurgence in capital markets in 2024, they are still below the ZERP-era highs of 2021. Mental health businesses are feeling the pinch. Hopefully the rise of some new mental health specific funds launching in 2025 coupled with some liquidity events for the market will encourage further flow of capital into these startups in 2025.
5. **Profit pressure:** GTM challenges and increased competition put greater pressure on profitability. But with restricted funding opportunities, reaching profitability is not a nice-to-have, it's a must. Going into 2025, "profitable growth" remains the name of the game with several leaders citing this as their primary objective.
6. **Staff recruitment (especially with providers):** As mentioned above in the Therapy platform deep-dive, recruitment remains a real challenge, especially with clinicians.
7. **Frustrations with political leadership and regulators:** Finally, leaders were frustrated with lack of leadership from both government and regulators. They felt a need for more clarity on regulation and want a clamp down on unregulated "mental health" businesses (like Character AI) who are causing much more harm than good.

OK, lots of challenges. But we knew that would be the case. Right?

I won't let us end on that note however. Oh no. I'm an eternal optimist and want to make sure we have good reasons for hope going into 2025.

So here's what's getting mental health leaders excited about the upcoming year:

1. **Finally getting past stigma and stereotypes.** While the job certainly isn't done yet, it finally feels like we are getting over the idea of stigma in mental health. There has never been a time where it is more acceptable and encouraged to talk about your mental health and to ask for help. In 2025, we'll hopefully start to see the downstream effect of this stigma reduction and leaders are excited about that.

2. **New funding sources.** Leaders are also excited about new funding flowing into the ecosystem. Early next year, Wellcome will announce the recipients of their funding grant for digital mental health organisations. KHP Ventures also just announced a brand new £20m Innovations in Mental Health fund. Existing mental health focused VCs like PsyMed ventures, evio, reMind, Grey Matter Capital and more will continue to write cheques. On top of that, non-mental health specific VCs are showing an increased interest in the space. Hopefully this increase in available capital finds worthy businesses and accelerates the progress in the industry.

3. **Innovation goes main-stream.** Leaders remain very excited about how much impact we can have through the innovation they are working on. From using AI to support clinical decision making, to developing a new generation of psychedelics, people feel there is a bunch of pent-up innovation waiting to meet real world applications at scale in 2025.

Finally, there was one response that I thought was specifically worth sharing. When asked what they were excited about coming into 2025, they said;

"Healthcare moves at a snail's pace. [I'm excited about] Small improvements over time."

It's worth remembering that fact.

If we want to make a real impact here, we need to be in this for the long run, to realise that each month or each year might be challenging and that it might seem like we aren't making progress. But we must judge our progress not on a specific months or even a specific year, but over several years. Over decades.

As long as we have smart, passionate people working on this problem, there is great reason for hope. And from speaking to many of you throughout 2024, I know that that is the case.

That's all for this week. Many thanks to everyone who contributed to this survey, I really appreciate it. And f you filled out the survey, are not a THR Pro member but would still like access to the full results, please just email me.

I'm taking a break next week for the holidays but will be back in your inboxes very soon.

Hope you have a fantastic holiday season!

Keep fighting the good fight!

Steve

Founder of The Hemingway Group

P.S. feel free to connect with me on LinkedIn

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