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The Squeeze

Why Pediatric Care Is America's Next Healthcare Crisis (and Opportunity)

WHITE PAPER

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America is about to ask its healthcare system to do more with less, and its children are standing in the middle of the squeeze. Four forces are converging at once, and no one alive has seen all of them together:

- **A debt path with no precedent.** The IMF projects U.S. general government gross debt at 138.5% of GDP in 2030 and 141.5% in 2031[1]. The CBO has debt held by the public rising from 101% of GDP this year to 120% in 2036, above the post-World War II record of 106%[2].
- **Health spending heading toward a fifth of the economy.** CMS actuaries project national health spending near $9 trillion by 2034, or 20.6% of GDP[3].
- **A generation entering Medicare.** The Medicare Hospital Insurance trust fund can pay full scheduled benefits only until the second quarter of 2033[4].
- **A children's healthcare system disproportionately dependent on Medicaid.** About 35 million children are enrolled in Medicaid or CHIP, nearly half of all enrollment in both programs[5].

Then layer on a fifth: H.R. 1, signed in July 2025, is expected to reduce federal Medicaid spending by roughly $990 billion over ten years[6].

Our argument is simple, and it has three parts. **First,** American children are sicker and need more care than a decade ago. **Second,** the fiscal pressure created by an aging population will squeeze the programs that pay for children's care, and H.R. 1 is the first visible installment. **Third,** neither government nor the existing delivery model can close the resulting gap alone.

The obvious objection is that a buyer whose budget is being cut is a poor customer. That is true of products that add engagement or cost. It is not true of products that protect revenue or remove cost: a plan paying for an avoidable admission, a hospital losing money on denials. When budgets tighten, those are the purchases that get approved. We invest only in that second kind.

Technology is not a cure-all, but it is the only lever that can add capacity, cut avoidable cost and improve outcomes at the same time.

That is the case for our next fund, focused on pediatric digital health – the Pediatric Emerging Digital Solutions (PEDS) Fund.

[1] IMF Executive Board Concludes 2026 Article IV Consultation with the United States. April 2026. https://www.imf.org/en/News/Articles/2026/04/01/pr-26102-usa-imf-executive-board-concludes-2026-article-iv-consult

[2] CBO, The Budget and Economic Outlook: 2026 to 2036. March 2026 testimony summary. https://www.cbo.gov/publication/62207

[3] US Health Spending Projected To Reach Nearly Nine Trillion Dollars By 2034. Summary of CMS actuaries' Health Affairs article, June 2026. https://healthsystemsfacts.org/2026/06/24/us-health-spending-projected-to-reach-nearly-nine-trillion-dollars-by-2034/

[4] SSA, Status of the Social Security and Medicare Programs. 2026 Trustees Reports. https://www.ssa.gov/oact/trsum/

[5] Medicaid.gov, June 2026 Medicaid and CHIP Enrollment Data Highlights. https://www.medicaid.gov/medicaid/program-information/medicaid-and-chip-enrollment-data/report-highlights

[6] CBO cost estimate of the Medicaid provisions. Oct 28, 2025. https://www.cbo.gov/publication/61837

PART 1

Kids Are Sicker and Need More Care

Childhood illness is rising on nearly every measure we can find, and the fastest growth is in the conditions that are hardest to treat with today's workforce.

The burden is growing. A study in Academic Pediatrics estimates that nearly one in three young Americans, about 25 million people aged 5 to 25, live with a chronic condition that began in childhood. Among children 5 to 17, prevalence rose from about 23% in 1999-2000 to over 30% in 2017-18[7]. A separate analysis found that a child in 2023 was 15% to 20% more likely than a child in 2011 to have a chronic condition such as anxiety, depression or sleep apnea, and that obesity among children 2 to 19 rose from 17% to about 21% between 2007-08 and 2021-23[8].

Developmental and behavioral needs are the sharpest edge. The CDC now identifies autism in 1 in 31 eight-year-olds, up from 1 in 36 in the prior estimate[9]. More than a quarter of U.S. children (26.2%) have a special health care need[10]. Behavioral health has grown from 22.4% to 40.2% of pediatric health spending between 2011 and 2022, reaching $41.8 billion in 2022[11].

Capacity is moving the wrong way. Only about half of children with a diagnosable mental health condition receive treatment, and 72% of U.S. counties have no practicing child and adolescent psychiatrist[12]. HRSA projects general pediatrician supply falling 10.3% between 2025 and 2037 while demand rises about 2%, with nonmetro adequacy at 52.7% by 2037[13]. Children's hospital patients already wait 20 weeks or longer for some subspecialty appointments[14].

> *More children need more complex care, from fewer clinicians, in fewer places.*

The pattern is consistent. More children need more complex care, from fewer clinicians, in fewer places. Before a dollar of Medicaid is cut, the system is already short. Furthermore, kids' care is different than adult healthcare. That's why we have children's hospitals and pediatricians.

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[7] Prevalence and Trends in Pediatric-Onset Chronic Conditions in the United States, 1999–2018. 2025. https://www.sciencedirect.com/science/article/pii/S187628592500035X

[8] Trends in US Children's Mortality, Chronic Conditions, Obesity, Functional Status, and Symptoms. 2025. https://pubmed.ncbi.nlm.nih.gov/40622733/

[9] CDC MMWR, Prevalence and Early Identification of Autism Spectrum Disorder, 16 Sites, 2022. https://www.cdc.gov/mmwr/volumes/74/ss/ss7402a1.htm

[10] HRSA NSCH data brief. Dec 2025. https://mchb.hrsa.gov/sites/default/files/mchb/data-research/nsch-data-brief-cyshcn-2022-2023.pdf

[11] PMC, Expenditures for Pediatric Behavioral Health Care Over Time. https://pmc.ncbi.nlm.nih.gov/articles/PMC12706659/

[12] AACAP, Severe Shortage of Child and Adolescent Psychiatrists. https://www.aacap.org/AACAP/zLatest_News/Workforce_Maps_Illustrate_Severe_CAP_Shortage.aspx

[13] Workforce Projections on the Supply and Demand of General Pediatricians to 2037. February 2026. https://www.sciencedirect.com/science/article/abs/pii/S1876285926000197

[14] Federal Funding Gaps Leave Children Waiting for Specialty Care. March 2026. https://www.childrenshospitals.org/news/newsroom/2026/03/federal-funding-gaps-leave-children-waiting-for-specialty-care

PART 2

The Fiscal Squeeze

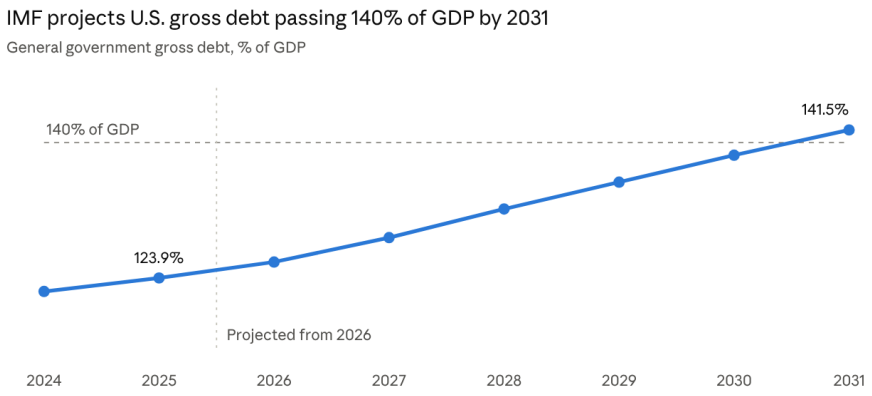
The budgets that pay for children's care are about to be crowded by the cost of an aging country, and the official projections already say so.

The debt path. In its April 2026 review, the IMF put U.S. general government gross debt at 123.9% of GDP in 2025 and projected it to pass 140% by 2031[15]. An earlier IMF vintage had the figure at 143.4% in 2030, and the Fund also projects the U.S. old-age dependency ratio rising to about 40% by 2050[16].

The IMF has said the U.S. needs a clear, front-loaded consolidation plan to turn debt downward, which tells us it does not expect growth alone to do the job[17]. The CBO's measure is narrower (debt held by the public) and its path is steeper over time: 120% of GDP in 2036 and 175% by 2056 under current law[18,19]. Net interest alone rises from 3.3% to 4.6% of GDP over the next decade[20].

This is an issue in almost all Western democracies, because most of them had "the baby boom" after World War II – lots of people had babies between 1946 to 1964. In the U.S. alone, 76 million kids were born in that period, and federal programs from a then-rich government made promises to its citizens around healthcare (Medicare) and pensions (Social Security) during a period in which there were many more workers than retirees.

In 1945 the U.S. had roughly 42 workers per beneficiary; today that figure is around 2.6.[21]



Source: IMF 2026 Article IV consultation with the United States (April 2026), general government gross debt, % of GDP. The IMF's measure includes state and local governments and intragovernmental holdings, so it runs well above the CBO's debt held by the public.

[15] IMF Executive Board Concludes 2026 Article IV Consultation with the United States. April 2026. https://www.imf.org/en/News/Articles/2026/04/01/pr-26102-usa-imf-executive-board-concludes-2026-article-iv-consult

[16] IMF. 2026. https://www.imf.org/en/news/articles/2026/04/01/pr-26102-usa-imf-executive-board-concludes-2026-article-iv-consult

[17] IMF. 2026. https://www.imf.org/en/news/articles/2026/04/01/pr-26102-usa-imf-executive-board-concludes-2026-article-iv-consult

[18] CBO, The Budget and Economic Outlook: 2026 to 2036. March 2026 testimony summary. https://www.cbo.gov/publication/62207

[19] American Action Forum, CBO projects troubling long-term budget outlook. https://www.americanactionforum.org/insight/cbo-projects-troubling-long-term-budget-outlook/

[20] CBO, The Budget and Economic Outlook: 2026 to 2036. March 2026 testimony summary. https://www.cbo.gov/publication/62207

[21] https://www.ssa.gov/OACT/TR/2026/lr4b4.html

The boomer drain. CBO projects spending on Social Security and the major health programs growing from 11.2% to 12.5% of GDP between 2025 and 2036[22]. Medicare alone rises from 3.4% of GDP in 2027 to 4.2% in 2036[23]. The Hospital Insurance trust fund runs short in 2033, after which payments to providers would have to fall unless Congress acts[24]. Health spending as a whole is projected to reach 20.6% of GDP by 2034, with Medicare the fastest-growing payer[25].

What gets squeezed. Washington already spends about six times more per senior than per child at the federal level[26]. When the budget tightens, programs with the largest organized constituencies tend to be protected, and programs for children, which depend heavily on state and Medicaid dollars, are exposed.

PART 3

H.R. 1 and the Children's Care System

H.R. 1 mostly does not cut children's coverage directly. It squeezes the states, hospitals and programs that deliver it. We take no position here on whether the policy is right. Our point is the arithmetic: the money for pediatric care is shrinking while the need grows.

The size of the reduction. H.R. 1 is expected to reduce federal Medicaid spending by about $990 billion over ten years[27], and the CBO estimates roughly 10 million more uninsured people by 2034[28]. A recent analysis attributes the deepest reductions to three provisions: work reporting requirements, limits on how states use provider taxes, and caps on state-directed payments[29].

Why children feel it secondhand. The work requirements target adults, but states fund their share of Medicaid with provider taxes, and penalties for high payment-error rates push states toward tighter spending and heavier administrative review, such as prior authorizations and denials[30]. Early signs are visible. At least one state has dropped Medicaid coverage for a group of immigrant children it had covered for over a decade, and legislators in other states are weighing cuts to home and community-based services used by children with disabilities and complex needs[31].

Enrollment is already falling. Georgetown's Center for Children and Families counts 2 million fewer children in Medicaid and CHIP in April 2026 than in January 2025, and the CBO expects 3 million fewer

[22] CRFB, CBO Releases February 2026 Budget and Economic Outlook. https://www.crfb.org/blogs/cbo-releases-february-2026-budget-and-economic-outlook

[23] PGPF, National Debt Outlook Gets Worse as Interest Costs Exceed $1 Trillion. https://www.pgpf.org/?p=44174

[24] SSA, Status of the Social Security and Medicare Programs. 2026 Trustees Reports. https://www.ssa.gov/oact/trsum/

[25] US Health Spending Projected To Reach Nearly Nine Trillion Dollars By 2034. Summary of CMS actuaries' Health Affairs article, June 2026. https://healthsystemsfacts.org/2026/06/24/us-health-spending-projected-to-reach-nearly-nine-trillion-dollars-by-2034/

[26] PGPF, How Much Government Spending Goes to Children. June 2026. https://www.pgpf.org/article/how-much-government-spending-goes-to-children/

[27] CBO cost estimate of the Medicaid provisions. https://www.cbo.gov/publication/61837

[28] KFF: spending reduction. https://www.kff.org/medicaid/allocating-cbos-estimates-of-federal-medicaid-spending-reductions-across-the-states-enacted-reconciliation-package/

[29] KFF Brief. July 2025 https://www.kff.org/medicaid/allocating-cbos-estimates-of-federal-medicaid-spending-reductions-across-the-states-enacted-reconciliation-package/

[30] CBO cost estimate of the Medicaid provisions, Oct 28, https://www.cbo.gov/publication/61837

[31] Thousands of immigrants with legal status lose Medicaid coverage as 'big, beautiful' cuts begin. https://thehill.com/homenews/6126910-refugees-legal-immigrants-lose-medicaid-coverage/

Medicaid-covered children between 2026 and 2036[32]. Child enrollment fell in 49 states and D.C. between June 2025 and June 2026[33]. Part of this is a return from pandemic-era peaks; the child share of the population enrolled is still above its pre-pandemic level[34].

Children's hospitals carry the load. State-directed payments make up 38% of the Medicaid funding that children's hospitals receive, and the median operating margin was only 3.3% in fiscal 2025[35]. Phoenix Children's says it stands to lose $172 million a year[36]. Children's Hospital Los Angeles, which draws more than two-thirds of revenue from Medicaid, froze nonclinical hiring, delayed capital projects and raised $100 million through a bond offering to prepare[37].

School-based care is exposed too. The Education Department canceled over 200 school mental health grants in April 2025 and though some have been resumed, their sustainability is uncertain[38]. Hazel Health, once the largest K-12 telehealth provider, has restructured after two rounds of layoffs as pandemic relief funds expired[39].

> *The effect is not a cliff. It is a ratchet.*

The effect is not a cliff. It is a ratchet: fewer reimbursed visits, thinner hospital margins, narrower benefits and more administrative friction, all arriving while demand rises. That is where the gap opens.

PART 4

The Way Out

Technology cannot replace Medicaid, but it is the one tool that can add capacity, cut avoidable cost and improve outcomes at the same time. We believe it is necessary, and we are clear that it is not sufficient on its own.

[32] Georgetown CCF, Two Million Fewer Children Are Enrolled in Medicaid. May 2026. https://ccf.georgetown.edu/2026/05/28/two-million-fewer-children-are-enrolled-in-medicaid-since-trump-took-office/

[33] KFF, Medicaid/CHIP Monthly Enrollment Tracker. https://www.kff.org/medicaid/medicaid-enrollment-tracker/

[34] Paragon Institute, Child Medicaid and CHIP Enrollment Remains Above Pre-Pandemic Levels in 2026. https://paragoninstitute.org/paragon-pic/child-medicaid-and-chip-enrollment-remains-above-pre-pandemic-levels-in-2026/

[35] Chief Healthcare Executive, Children's hospitals see improved earnings, but brace for Medicaid cuts. August 2026. https://www.chiefhealthcareexecutive.com/view/children-s-hospitals-see-improved-earnings-but-brace-for-medicaid-cuts

[36] NPR, Children's hospitals brace for Medicaid cuts. September 2025. https://www.npr.org/sections/shots-health-news/2025/09/09/nx-s1-5532133/medicaid-children-hospital-closure

[37] Connecticut Hospital Association, Children's hospitals' worries show broad reach of Medicaid cuts. July 2025. https://cthosp.org/daily-news-clip/childrens-hospitals-worries-show-broad-reach-of-medicaid-cuts/

[38] Education Department cancels grants that won bipartisan support. https://www.politico.com/news/2025/04/30/education-department-cuts-about-1-billion-in-federal-school-mental-health-grants-00319531

[39] The 74, K-12 Telehealth Provider Faces Uncertain Future as Funding Dries Up. April 2026. https://www.the74million.org/article/k-12-telehealth-provider-faces-uncertain-future-as-funding-dries-up/

Why training alone cannot close the gap. Pediatrician supply is projected to fall 10.3% by 2037, and 72% of counties have no child psychiatrist[40,41]. Even a fully funded workforce program takes a decade to matter. Tools that extend each clinician's reach, such as asynchronous intake, remote monitoring, AI-assisted documentation and diagnostic support, work on the timeline of the problem.

Where the avoidable cost sits. Studies put nonurgent visits at 37% to 82% of pediatric emergency department volume, depending on setting and definition[42]. Children with medical complexity are about 6% of pediatric Medicaid and roughly 40% of its spending[43]. Only about 2% of Medicaid spending for these children goes to home health, while 47% goes to hospitalizations[44]. A multicenter care management program cut total per-member spending 4.6% and ED spending 11.6%[45].

The early proof points

- **Imagine Pediatrics** delivers virtual and in-home care for children with special health care needs under value-based contracts. It reports serving over 70,000 children, a 24% reduction in admissions per thousand and more than $65 million in savings for two health plan partners in 2024. These are company-reported figures[46].
- **CMS ASPIRE** is a new 10-year state model for Medicaid and CHIP youth up to age 21 with complex medical or behavioral needs. Providers take on accountability for quality and cost. Up to five states can join, with a funding notice due in 2026[47]. It is the payment structure that lets a company get paid for keeping a complex child out of the hospital.

Where the evidence says be careful

- **Hybrid beats virtual-only.** Rock Health's pediatric work concludes that fully digital care does not work for most children. The winning models put digital extensions around in-person anchor points[48].

[40] AACAP, Severe Shortage of Child and Adolescent Psychiatrists. https://www.aacap.org/AACAP/zLatest_News/Workforce_Maps_Illustrate_Severe_CAP_Shortage.aspx

[41] Workforce Projections on the Supply and Demand of General Pediatricians to 2037. February 2026. https://www.sciencedirect.com/science/article/abs/pii/S1876285926000197

[42] Pediatric Emergency Care, Low-Acuity Pediatric Emergency Department Utilization. 2024. https://journals.lww.com/pec-online/fulltext/2024/09000/low_acuity_pediatric_emergency_department.10.aspx

[43] Children's Hospital Association, Reducing the Health Care Spend for Children with Complex Medical Conditions. https://www.childrenshospitals.org/content/quality/report/reducing-the-health-care-spend-for-children-with-complex-medical-conditions

[44] BMC Health Services Research, The case for home nursing care among children with medical complexity. 2024. https://www.ncbi.nlm.nih.gov/pmc/articles/PMC11251302/

[45] Pediatrics, Costs and Use for Children With Medical Complexity in a Care Management Program. 2020. https://publications.aap.org/pediatrics/article/145/4/e20192401/36941/Costs-and-Use-for-Children-With-Medical-Complexity

[46] Imagine Pediatrics, 2025 Impact Report; Series B announcement. https://www.imaginepediatrics.org/corporate-resource/pediatric-health-care-report-2025/

[47] CMS, ASPIRE Model. https://www.cms.gov/priorities/innovation/innovation-models/aspire

[48] Rock Health, Next gen innovation: Opportunities in pediatric digital health. https://rockhealth.com/insights/next-gen-innovation-opportunities-in-pediatric-digital-health/

- **Grant-funded models fail when the grants end.** Hazel Health's restructuring shows what happens when revenue depends on relief funds or discretionary grants rather than a durable payer[49].
- **Growth without oversight invites correction.** Medicaid spending on autism services rose from $660 million to $2.2 billion between 2019 and 2023, and federal audits are expected to tighten rules for ABA providers[50].

> *Pediatric technology wins when it sits inside a payment model where someone bears the risk of avoidable cost.*

The lesson for investors is specific. Pediatric technology wins when it sits inside a payment model where someone bears the risk of avoidable cost: a Medicaid managed care plan, a risk-bearing provider or a state program like ASPIRE. It struggles when it depends on a parent's wallet or a one-time grant. That is how we underwrite.

PART 5

Where We Invest

We organize the Caduceus PEDS Fund thesis into five pillars. Each pairs a structural failure with the kind of company that can fix it and a buyer that can pay for it.

1. Longitudinal care architecture

Children are patients across a 20-year arc, and the system loses them at the end of it. More than 90% of youth with special health care needs now reach adulthood[51], yet only 17% of those youth, and 14% of youth without special needs, receive guidance on moving to adult care[52]. Structured care coordination also pays: the care management program above cut ED spending 11.6%[53]. We back care coordination, milestone tracking, chronic-condition management (asthma, type 1 diabetes, ADHD) and transition tools. The buyers are Medicaid managed care plans and risk-bearing providers.

[49] The 74, K-12 Telehealth Provider Faces Uncertain Future as Funding Dries Up. April 2026. https://www.the74million.org/article/k-12-telehealth-provider-faces-uncertain-future-as-funding-dries-up/

[50] Health Affairs Forefront, The Business of Autism Treatment: Private Equity Implications for State Medicaid Programs. May 2026. https://www.healthaffairs.org/content/forefront/business-autism-treatment-private-equity-implications-state-medicaid-programs

[51] PMC, TRAQ in clinical practice: a narrative review for health care transition readiness. https://www.ncbi.nlm.nih.gov/pmc/articles/PMC13590068/

[52] PMC, Health care gap affects 20% of the US population: transition from pediatric to adult health care. https://pmc.ncbi.nlm.nih.gov/articles/PMC10297759/

[53] Pediatrics, Costs and Use for Children With Medical Complexity in a Care Management Program. 2020. https://publications.aap.org/pediatrics/article/145/4/e20192401/36941/Costs-and-Use-for-Children-With-Medical-Complexity

2. The family as the care unit

In pediatrics the parent is almost always the de facto patient. Families that cut work hours or leave a job to care for a child's health lose an average of about $18,000 a year in income[54]. Proxy access to records, which gets harder as children age and state privacy rules differ, has held back digital tools in this area[55]. We back parent-facing navigation, shared decision-making, caregiver-burden reduction and multi-child household tools. We prefer companies sold through payers and employers, because direct-to-parent models leave out families who cannot pay out of pocket[56].

3. Neurodevelopmental and behavioral health infrastructure

This is the most acute access crisis. About half of children with a diagnosable condition go untreated[57], behavioral health is now 40% of pediatric spending[58], and autism prevalence has reached 1 in 31[59]. We back intake and diagnostic support, teletherapy built for children rather than adapted from adult tools, school-linked mental health infrastructure and ABA practice management. In ABA we favor documentation, scheduling and compliance software over service roll-ups, given the audit exposure[60]. In schools, we favor models paid through Medicaid billing over grants[61].

4. Pediatric-specific data and AI models

General healthcare AI is trained mostly on adult data. Only 17% of FDA-listed AI devices are labeled for pediatric use, and only about 19% of those reported using pediatric data in development[62]. A newer analysis found 4.4% of submissions carried a specific pediatric indication, using a stricter definition[63]. Data is already a driver of deals: Doctronic cited Summer Health's repository of over 100,000 real pediatric conversations as a foundation for pediatric-specific AI[64]. We back clinical decision support, dosing, imaging and risk models built on age- and weight-stratified data, often through partnerships with children's hospitals.

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[54] Lurie Children's, Families Estimated to Lose $18,000 a Year in Wages. https://www.luriechildrens.org/en/news-stories/families-estimated-to-lose-$18000-a-year-in-wages-when-they-have-to-cut-work-hours-or-leave-a-job-to-care-for-their-childs-health/

[55] Rock Health, Next gen innovation: Opportunities in pediatric digital health. https://rockhealth.com/insights/next-gen-innovation-opportunities-in-pediatric-digital-health/

[56] Rock Health, Next gen innovation: Opportunities in pediatric digital health. https://rockhealth.com/insights/next-gen-innovation-opportunities-in-pediatric-digital-health/

[57] AACAP, Severe Shortage of Child and Adolescent Psychiatrists. https://www.aacap.org/AACAP/zLatest_News/Workforce_Maps_Illustrate_Severe_CAP_Shortage.aspx

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[60] Health Affairs Forefront, The Business of Autism Treatment: Private Equity Implications for State Medicaid Programs. May 2026. https://www.healthaffairs.org/content/forefront/business-autism-treatment-private-equity-implications-state-medicaid-programs

[61] The 74, K-12 Telehealth Provider Faces Uncertain Future as Funding Dries Up. April 2026. https://www.the74million.org/article/k-12-telehealth-provider-faces-uncertain-future-as-funding-dries-up/

[62] PMC, US FDA Approval of Pediatric AI and ML-Enabled Medical Devices. https://pmc.ncbi.nlm.nih.gov/articles/PMC11791695/

[63] PubMed, FDA-Regulated AI-Enabled Medical Devices With Pediatric Indications. March 2026. https://pubmed.ncbi.nlm.nih.gov/41860549/

[64] Fierce Healthcare, Doctronic acquires Summer Health. July 2026. https://www.fiercehealthcare.com/health-tech/ai-doctor-startup-doctronic-acquires-summer-health-expand-pediatric-care

5. Children's hospital and FQHC enabling infrastructure

More than 200 children's hospitals operate on a 3.3% median margin and rely on state-directed payments for 38% of their Medicaid funding[65]. Federally qualified health centers served about 9.4 million children in 2024, or 29% of their patients[66]. As reimbursement tightens, workflow, revenue cycle and operations software built for pediatric practices becomes a way to protect margin. This is the least glamorous pillar and the most immediate source of budget.

PART 6

Capital and Exits

Pediatrics is still a small share of digital health capital, and the exit path so far runs through strategic acquirers rather than public markets.

The funding gap. Rock Health counted $413.6 million across 20 pediatric digital health deals in the first three quarters of 2023, or 4.7% of sector funding. That compares with an average of 1.7% in 2011-2019 and 5.1% in 2020 through Q3 2023[67]. A peer-reviewed analysis of U.S. seed rounds from 2019 to 2022 found pediatric-only solutions received 0.60% of $943 million in seed funding[68]. The figures differ with definitions, but they point the same way: children are undercapitalized relative to their share of need and of public payer lives. The overall market is healthy, with digital health startups raising $7.4 billion in the first half of 2026, up from $6.4 billion a year earlier[69].

Recent activity

Company	Event	When	Amount
Zarminali Pediatrics	Series A[70]	Jan 2026	$110M
Imagine Pediatrics	Series B[71]	Sep 2025	$67M
Brightline	Series C, reported valuation $705M[72]	2022	$105M
Summer Health	Acquired by Doctronic[73]	Jul 2026	Undisclosed

[65] Chief Healthcare Executive, Children's hospitals see improved earnings, but brace for Medicaid cuts. August 2026. https://www.chiefhealthcareexecutive.com/view/children-s-hospitals-see-improved-earnings-but-brace-for-medicaid-cuts

[66] HRSA, Uniform Data System national data, 2024. https://data.hrsa.gov/topics/healthcenters/uds/overview/national

[67] Rock Health, Next gen innovation: Opportunities in pediatric digital health. https://rockhealth.com/insights/next-gen-innovation-opportunities-in-pediatric-digital-health/

[68] PMC, Allocation of seed-stage investments for paediatric health technology. https://pmc.ncbi.nlm.nih.gov/articles/PMC11883554/

[69] Fierce Healthcare, Digital health funding hits $7.4B in H1 2026. July 2026. https://www.fiercehealthcare.com/digital-health/digital-health-brought-74b-vc-funding-ai-powered-rebound-fuels-market

[70] Fierce Healthcare, Zarminali Pediatrics lands $110M. January 2026. https://www.fiercehealthcare.com/finance/zarminali-pediatrics-clinches-110m-continue-aggressive-footprint-expansion

[71] Imagine Pediatrics, 2025 Impact Report; Series B announcement. https://www.imaginepediatrics.org/corporate-resource/pediatric-health-care-report-2025/

[72] MobiHealthNews, Brightline raises $105M. 2022. https://www.mobihealthnews.com/news/pediatric-mental-health-startup-brightline-raises-105m-and-more-digital-health-fundings

[73] Fierce Healthcare, Doctronic acquires Summer Health. July 2026. https://www.fiercehealthcare.com/health-tech/ai-doctor-startup-doctronic-acquires-summer-health-expand-pediatric-care

Company	Event	When	Amount
Kismet Health	Telehealth platform acquired by Kooth[74]	Nov 2025	Undisclosed
Family First Homecare	Acquisition by Aveanna agreed[75]	Mar 2026	Not disclosed

What buyers are paying for. Acquirers are telehealth and AI platforms extending into children (Doctronic), digital mental health companies adding younger users and new payers (Kooth), and care operators adding pediatric home care (Aveanna). Mergers and acquisitions were 97.6% of digital health exits in the first half of 2026[76]. The largest nearby behavioral deal, Universal Health Services acquiring Talkspace for about $835 million, is not pediatric-specific[77].

The honest read is that the buyer ecosystem is emerging, not established. The pediatric deals we found are early and mostly undisclosed in price. That is the case for investing now, before the category has a clear set of comparable exits, and the reason we underwrite each company to a payer, not to a multiple.

PART 7

What Could Prove Us Wrong

The thesis survives only if we price its weak points honestly, and several of them are real.

Risk	Why it matters	How we underwrite it
Medicaid shrinks faster than technology helps	Child enrollment is down about 2 million since January 2025, and the CBO expects 3 million fewer Medicaid-covered children by 2036[78]	Back products that save a payer or hospital money in year one, and diversify toward commercial and employer payers
Budget-constrained buyers	Children's hospitals run a 3.3% median margin[79]	Lead with revenue protection and cost avoidance, not engagement
Grant and relief-fund dependence	Hazel Health restructured after relief funds expired[80]	Require a durable payer behind every school-linked model
Regulatory and audit exposure	Federal audits of ABA billing are under way[81]	Favor software and compliance over service roll-ups

[74] CB Insights, Kismet Health. Acquired by Kooth, November 2025. https://www.cbinsights.com/company/kismet-health

[75] Xtalks, Healthcare M&A in 2026: A Roundup of Deals. https://xtalks.com/healthcare-ma-in-2026-a-roundup-of-deals-4615/

[76] Fierce Healthcare, Health tech M&A accelerates. https://www.fiercehealthcare.com/health-tech/health-tech-ma-accelerates-firms-chase-scale-and-profitable-growth

[77] Xtalks, Healthcare M&A in 2026: A Roundup of Deals. https://xtalks.com/healthcare-ma-in-2026-a-roundup-of-deals-4615/

[78] Georgetown CCF, Two Million Fewer Children Are Enrolled in Medicaid. May 2026. https://ccf.georgetown.edu/2026/05/28/two-million-fewer-children-are-enrolled-in-medicaid-since-trump-took-office/

[79] Chief Healthcare Executive, Children's hospitals see improved earnings, but brace for Medicaid cuts. August 2026. https://www.chiefhealthcareexecutive.com/view/children-s-hospitals-see-improved-earnings-but-brace-for-medicaid-cuts

[80] The 74, K-12 Telehealth Provider Faces Uncertain Future as Funding Dries Up. April 2026. https://www.the74million.org/article/k-12-telehealth-provider-faces-uncertain-future-as-funding-dries-up/

[81] Health Affairs Forefront, The Business of Autism Treatment: Private Equity Implications for State Medicaid Programs. May 2026. https://www.healthaffairs.org/content/forefront/business-autism-treatment-private-equity-implications-state-medicaid-programs

Risk	Why it matters	How we underwrite it
Company-reported outcomes	Savings figures from companies such as Imagine Pediatrics are self-reported[82]	Require payer-validated results before follow-on rounds
Slow policy pathways	ASPIRE is limited to five states[83]	Build for Medicaid managed care and risk-bearing providers that move faster than state programs
Thin exit comparables	Pediatric deal terms are mostly undisclosed[84,85]	Underwrite to cash flow and strategic fit, not to a multiple

One more point belongs here. The thesis does not depend on the debt scenario. Under the CBO's published baseline, with debt at 120% of GDP in 2036 and Medicare and Social Security growing faster than the economy[86,87], the pressure on children's programs still grows. The scenario raises the urgency. It does not carry the argument.

Conclusion

The pressure on children's healthcare is not a forecast. It is already visible in waiting lists, thinner hospital margins and falling enrollment, and the fiscal arithmetic says it will intensify through the next decade.

We do not expect Washington to solve it alone. The same aging population that is driving Medicare toward its 2033 trust fund date is competing for the dollars that pay for children's care, and the states and hospitals in the middle are being asked to absorb more. We also do not expect the existing delivery model to scale. There will not be enough pediatricians, child psychiatrists or subspecialists to meet the need, and training more of them takes a decade.

That leaves a narrow but real path. Companies that extend clinicians, route families to the right level of care, document and bill accurately, and are paid by someone who benefits from avoided cost can improve outcomes and lower spending at the same time. History suggests that when a system's costs rise faster than its funding, new models do not tweak the old one. They replace parts of it.

> *The next decade of pediatric healthcare will be built by the companies willing to start now.*

[82] Imagine Pediatrics, 2025 Impact Report; Series B announcement. https://www.imaginepediatrics.org/corporate-resource/pediatric-health-care-report-2025/

[83] CMS, ASPIRE Model. https://www.cms.gov/priorities/innovation/innovation-models/aspire

[84] Fierce Healthcare, Doctronic acquires Summer Health. July 2026. https://www.fiercehealthcare.com/health-tech/ai-doctor-startup-doctronic-acquires-summer-health-expand-pediatric-care

[85] CB Insights, Kismet Health. Acquired by Kooth, November 2025. https://www.cbinsights.com/company/kismet-health

[86] CBO, The Budget and Economic Outlook: 2026 to 2036. March 2026 testimony summary. https://www.cbo.gov/publication/62207

[87] CRFB, CBO Releases February 2026 Budget and Economic Outlook. https://www.crfb.org/blogs/cbo-releases-february-2026-budget-and-economic-outlook

Children have always been a bad fit for a market that rewards the largest, simplest patient population. They are also the most valuable one: a child whose condition is managed early can cost the system less across a lifetime. That is why we invest in this area, and why we believe the next decade of pediatric healthcare will be built by the companies willing to start now.

About Dave Vreeland and Caduceus Capital Partners

Dave Vreeland has spent more than 30 years in healthcare and is a recognized voice on digital health, healthcare IT and where the industry is headed. As senior managing partner at Caduceus Capital Partners, he leads a venture capital firm that invests in digital health startups and helps them grow.

Caduceus Capital Partners has raised two successful funds. Its leadership team brings deep healthcare experience to every stage of an investment: finding promising companies, helping them scale and guiding them to a successful exit. That track record has made the firm a trusted partner to founders building what comes next in healthcare.