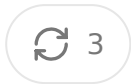
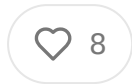


# Function Health's \$298M Bet on Preventive Care: Unit Economics, Competitive Dynamics, and the Quest for Scale

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## ABSTRACT

Function Health recently closed a \$298 million Series B at a \$2.5 billion valuation in one of the largest rounds in direct-to-consumer healthcare history. The company offers comprehensive annual lab testing packages for \$499 per year, promising to track 100 biomarkers with quarterly testing and physician consultations. This essay examines:

- Function's business model and unit economics, including customer acquisition costs, lifetime value projections, and margin structure
- The implications of a \$2.5B valuation for required growth trajectories and exit expectations

- Competitive landscape spanning direct-to-consumer lab testing, concierge medicine, and traditional preventive care
- Market sizing and addressable opportunity in the wellness-focused consumer segment
- Key risk factors including regulatory challenges, medical necessity standards, insurance integration questions
- Growth trajectories and scenarios that could determine whether Function becomes a decade-defining healthcare company or a cautionary tale about late-stage venture excess

The analysis suggests Function's success hinges on three critical factors: scaling multi-million member count while maintaining reasonable CAC, achieving 70%+ annual retention to justify customer lifetime value assumptions that support the valuation, and potentially pivoting to B2B or insurance channels without undermining their DTC positioning.

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## Introduction and the \$2.5B Question

Function Health just raised \$298 million at a \$2.5 billion post-money valuation and the healthcare venture community is either nodding in approval or screaming in denial depending on which chat groups you frequent. This is the kind of round that makes you stop and really interrogate your assumptions about what constitutes a reasonable valuation in consumer healthcare. For context, \$2.5B is more than what many profitable healthcare companies with actual revenue scale trade at in the public markets. It's the kind of number that implies Function isn't just building a nice business, they're building something that could fundamentally reshape how Americans think about preventive care.

The pitch is elegant in its simplicity: pay \$499 per year and get comprehensive lab work done quarterly, tracking over 100 biomarkers that most doctors would never think to order. You get physician consultations to review results, a sleek dashboard to track trends over time, and the peace of mind that comes from knowing whether inflammatory markers are trending in the wrong direction before you end up in an emergency room with a cardiovascular event. It's preventive medicine reimagined as the quantified self generation, delivered with the kind of consumer experience that makes traditional healthcare look like it's operating in a different century.

But here's what keeps me up at night about this deal: at \$2.5B, Function needs to become genuinely massive to generate the returns their Series B investors are underwriting. We're not talking about a nice \$500M exit that makes everyone happy. We're talking about a company that probably needs to get to \$10B plus in an exit scenario to deliver the kind of returns that justify putting nearly \$300M to work at this valuation. That means either going public at scale or getting acquired by someone who sees them as strategic enough to pay a significant premium.

The question for us as potential angel investors or observers is whether Function has found genuine product-market fit at a scale that supports these numbers, or whether this is another example of late-stage venture capital chasing growth metrics with

fully stress-testing the unit economics and competitive dynamics that will determine whether this thing actually works at scale. Let's dig in.

## **The Function Health Model Explained**

Let's start with what Function actually does, because the elegance of their offering masks some genuinely clever business model design. For \$499 per year, members get lab testing done four times annually at Quest Diagnostics locations nationwide. The lab panel includes more than 100 biomarkers covering everything from standard lipid panels and metabolic markers to more specialized tests like vitamin D levels, inflammatory markers, comprehensive hormone panels, thyroid function, liver and kidney function, and even some early cancer detection markers like PSA and CA

After each quarterly test, members get a consultation with a physician to review results and discuss any concerning trends. Everything gets tracked in a dashboard that shows how your biomarkers change over time, with clear flags for anything outside normal ranges and trend lines that help you understand whether things are moving in the right direction. The pitch is that you're catching problems early, while they're still manageable through lifestyle interventions, rather than waiting until symptoms manifest and you're dealing with advanced disease that requires pharmaceutical intervention or worse.

The business model is pure direct-to-consumer subscription, which is absolutely critical to understanding why venture investors find this compelling. No insurance billing, no prior authorizations, no fighting with payors over medical necessity determinations, no claims denials, no accounts receivable aging out to 90 days. You pay \$499, they deliver the service, everyone knows exactly what they're getting. That means Function avoids essentially all the administrative overhead and complexity that makes most healthcare businesses operationally nightmarish and capital-intensive. They're operating like a technology company that happens to coordinate lab work rather than a healthcare company that happens to use technology.

The clinical model is also thoughtfully designed to minimize regulatory exposure. Function employs physicians to review results and conduct consultations, but th

explicit that this isn't primary care replacement. They're not diagnosing conditions, they're not treating diseases, they're not prescribing medications. They're providing information and guidance. If something concerning shows up in your labs, they'll flag it and tell you to go see your regular physician for diagnostic workup and treatment. This keeps them in a regulatory space that's much more favorable than if they were trying to be a full-service primary care replacement or telehealth provider.

What makes this model potentially transformative rather than just incrementally better is the data flywheel. As they accumulate longitudinal data on hundreds of thousands or eventually millions of people, they can start identifying patterns and correlations that aren't visible from single point-in-time testing. They can tell you not just that your HbA1c is 5.8 percent, which is technically normal, but that it's up from 5.5 percent six months ago and 5.3 percent a year ago, suggesting you're on a trajectory toward prediabetes and might want to dial in your diet and exercise before you cross into disease territory. That temporal dimension and the ability to track individual trajectories rather than just comparing you to population averages is genuinely valuable and difficult for traditional healthcare delivery to replicate.

The member experience is also designed to be as frictionless as possible. Quest has something like 2,200 patient service centers nationwide, so most people can get to a lab within 15 minutes. You schedule online, show up, get blood drawn in five minutes, and results are typically available within 48 hours. The consultations happen via video and are scheduled at your convenience. Everything is designed to minimize the hassle and time commitment that usually makes preventive care something people know they should do but never quite get around to doing.

## **Breaking Down the Unit Economics**

Here's where things get absolutely fascinating from an investor perspective, because at a \$2.5B valuation you need unit economics that not only work but work at global scale with margins that support a massive business. Let's work through the math, acknowledging that we're making educated guesses based on public information

industry benchmarks, and what we can infer from similar businesses rather than having access to Function's actual financials.

On the revenue side, it's straightforward. Function charges \$499 per year per member. If they've got 50,000 members right now, that's \$25M in annual recurring revenue. If they've got 100,000 members, that's \$50M. The beauty of the subscription model is that revenue is highly predictable and you can model growth pretty cleanly based on new member acquisition and retention rates.

Now let's talk costs. The biggest direct cost is the lab work itself. A comprehensive metabolic panel might cost \$15 to \$25 wholesale depending on volume discounts. A lipid panel is another \$10 to \$20. A complete blood count is \$8 to \$15. Hormone panels can run \$30 to \$60 depending on what you're testing. Thyroid function is \$30. Inflammatory markers like CRP are \$10 to \$20. Vitamin levels are \$15 to \$20 each. When you're doing 100 plus biomarkers, you're probably looking at somewhere between \$200 and \$300 in actual lab costs per person per year, depending on exactly what tests are included and what kind of volume discounts Function has negotiated with Quest.

At their current scale, they're probably paying closer to \$250 per member per year in lab costs. As they scale to hundreds of thousands of members, they might be able to get that down to \$200 or possibly even \$180 if they can negotiate really aggressive volume pricing. But lab work is a relatively commoditized service with established economics, so there's a floor to how cheap this can get. Let's assume \$225 per member per year as a reasonable steady-state estimate.

Physician costs are the next major line item. Four consultations per year, probably 15 to 20 minutes each if results are normal, potentially 30 to 45 minutes if there's something that needs detailed discussion. If you're paying physicians \$150 to \$200 per hour as contractors, which is reasonable for telehealth consultation work, that's roughly \$60 to \$100 per member per year in physician time. The trick is keeping consultations efficient while still providing genuine value. If average consultation time creeps up because members have lots of questions or concerning results requiring a detailed explanation, this cost could easily double.

There are also per-member platform costs. Every member needs data storage for longitudinal results, ongoing access to the dashboard and app, customer support when they have questions or technical issues, and the general overhead of maintaining the technology infrastructure. At scale, this is probably \$25 to \$40 per member per year. Early on when you're still building out features and haven't fully optimized operations, it might be \$50 to \$75 per member per year.

Add it all up and you're looking at roughly \$310 to \$400 in direct costs per member per year, giving Function gross margins somewhere in the 20 percent to 38 percent range before you account for customer acquisition costs, general overhead, and a host of other expenses that go into running a high-growth startup. For a healthcare business, 30 percent plus gross margins are actually pretty respectable. For a software business, which is probably how Function's investors are thinking about this, 30 percent gross margins are concerning because it limits how much profit you can generate at scale.

But the real question, the one that determines whether this \$2.5B valuation makes sense at all, is customer acquisition cost and lifetime value. The venture math here is brutally simple. If Function can acquire customers for \$200 each and those customers stay subscribed for five years on average, that's \$2,500 in lifetime revenue per customer against roughly \$1,500 in direct costs over that period and \$200 in acquisition costs, leaving \$800 in contribution margin per customer. If they can acquire two million customers at those economics, you've got a business throwing off \$1.6 billion in cumulative contribution margin, which could absolutely support a multi-billion valuation if you believe they can maintain those numbers.

But if CAC creeps up to \$400 as they move beyond early adopters, and retention drops so customers only stay for three years on average, suddenly you're looking at \$1,500 in lifetime revenue, \$1,200 in costs, and \$400 in CAC, leaving just \$100 in contribution margin per customer. Scale that to even a million customers and you've got a nice business but nothing that justifies a \$2.5B valuation.

The challenge with direct-to-consumer healthcare is that early adopters are almost always the best customers. They're health-conscious, they have disposable income, and they're already predisposed to quantified self interventions, they probably read

Function's content marketing and got excited about the value proposition. These people will happily pay \$499 per year and will probably stick around for years because they genuinely value the service. But the marginal customer you're acquiring in three or four is likely to be more price-sensitive, less engaged with the preventive health framing, and more prone to churn when they don't see immediate value or when they need to cut discretionary spending.

My educated guess, based on what I've seen with similar companies and what typically works in DTC at this stage, is that Function is probably running customer acquisition costs somewhere in the \$150 to \$300 range right now through a mix of content marketing, strategic partnerships, influencer collaborations, and paid acquisition channels. That's sustainable if retention is genuinely strong, but it leaves almost no room for error. If CAC doubles as they saturate their initial addressable audience and if retention turns out to be 50 percent lower than projected, the unit economics get pretty quickly.

There's also the question of what happens to the business model over time. Do costs go down as they scale and negotiate better rates? Or do costs go up as they add more biomarkers to stay competitive, as they need to invest more in customer support for a less tech-savvy customer base, or as they expand into more complex diagnostic areas that require more expensive testing and more physician time? The difference between gross margins improving from 30 percent to 45 percent versus degrading from 30 percent to 20 percent is absolutely massive in terms of what kind of business this becomes at scale.

## **What a \$2.5B Valuation Actually Means**

Let's talk about what Function actually needs to achieve to justify a \$2.5 billion valuation, because this is where the math gets uncomfortable if you really stress-test the assumptions. In venture capital, the rule of thumb is that investors in a given round need to see at least a 3x to 5x return on their investment to justify the risk. Series B investors putting \$298M into Function at a \$2.5B post-money valuation

to see the company exit at something like \$7.5B to \$12.5B to generate the return they're underwriting.

That means Function either needs to go public at that scale or get acquired by a strategic buyer who sees them as valuable enough to pay a significant premium. Going public at \$10B plus requires being a genuinely massive business with hundreds of millions in revenue and a clear path to profitability. For context, companies like Allstate and Hershey's, which have similar direct-to-consumer healthcare models, are trading at market caps in the \$5B to \$7B range with revenue approaching \$400M to \$500M annually. Ro, another DTC health company, raised at lower valuations despite having a similar scale.

Let's work backwards from what a \$10B exit might require. If Function can command a revenue multiple of 8x to 10x, which is aggressive but not insane for a high-growth healthcare subscription business with good margins, they'd need to be doing \$1.25B to \$1.25B in annual revenue. At \$499 per member per year, that's roughly two million to 2.5 million paying members. That's a massive scale. For reference, Peloton at its peak had around three million subscribers. Weight Watchers has historically had around four million to five million subscribers at peak. We're talking about building one of the largest direct-to-consumer health subscription services in the United States.

The path to two million members probably requires reaching something like 10 percent penetration of the wellness-focused consumer segment, which we can loosely define as people earning over \$100K annually who are already spending money on fitness, nutrition, wellness services, and preventive health. That's maybe 20 million to 30 million households in the US. Getting 10 percent of them to sign up for Function is an enormous execution challenge that requires not just great product-market fit but also massive brand awareness, sustained marketing efficiency, and retention rates to keep the flywheel spinning.

Alternatively, Function could pursue a B2B model where they sell to employers as a wellness benefit or to health plans as a value-added service for high-risk or high-cost members. This could dramatically accelerate member acquisition and reduce CAC but it fundamentally changes the business model and likely means lower revenue

member because you're selling at enterprise pricing rather than consumer pricing also introduces all the complexity of enterprise sales cycles, contract negotiation and the general messiness of selling to large organizations.

There's also the question of whether Function can expand revenue per member over time. Do members who've been on the platform for several years start upgrading to more comprehensive testing panels for \$699 or \$899 per year? Can Function layer on additional services like nutritionist consultations, personalized supplement recommendations, or connections to fitness and wellness programs that increase revenue per member without proportionally increasing costs? If they can get average revenue per member from \$499 to \$750 over time while keeping costs relatively flat, that dramatically improves the unit economics and makes the path to a \$10B outflow more realistic.

The valuation also implies that investors believe Function has something of a defensibility, some kind of moat that prevents competitors from replicating their model and commoditizing preventive lab testing. The data network effects are one potential source of defensibility. As Function accumulates millions of longitudinal health records, they can provide increasingly personalized insights and benchmarks that new entrants can't match. Brand is another possible moat if Function can establish themselves as the trusted name in preventive health testing.

But realistically, the core service of coordinating quarterly lab work is not that hard to replicate. Quest or LabCorp could launch competing direct-to-consumer offerings. Larger healthcare companies like CVS or Walgreens could bundle similar testing into their existing health services. The question is whether Function can move fast enough and build enough brand equity and customer loyalty that they become the category leader before competition commoditizes the market.

## **Competitive Landscape and Market Positioning**

The competitive landscape for Function is more crowded and complex than it might initially appear. On the surface, they're competing with traditional preventive care

delivered through primary care physicians. But realistically, they're competing with a whole ecosystem of direct-to-consumer health services, concierge medicine practices and specialized testing companies that are all trying to own different pieces of the preventive health value chain.

On the direct-to-consumer lab testing side, you've got companies like Everlywell and LetsGetChecked that offer at-home testing kits for specific panels. These companies typically focus on narrow use cases like food sensitivity testing, fertility testing, and sexual health screening rather than comprehensive longitudinal tracking. They're operating at lower price points, usually \$49 to \$199 per test, but they're also delivering less comprehensive results and generally don't include physician consultations or longitudinal tracking. Function is positioned as premium relative to these players, offering more comprehensive testing and ongoing clinical support.

Then there's the concierge medicine market, where patients pay \$1,500 to \$3,000 annually for enhanced access to primary care physicians, same-day appointments, longer consultation times, and generally more attentive care. Some concierge practices include comprehensive lab work as part of their offering. Function is cheaper than concierge medicine but also offers less in terms of ongoing clinical relationship and ability to diagnose and treat conditions. The question is whether Function can capture people who are interested in more proactive preventive care but aren't ready to commit to full concierge medicine pricing and relationship intensity.

There are also specialized preventive health companies like InsideTracker, which focuses on using biomarker data to optimize performance and longevity. InsideTracker charges similar prices to Function but positions more toward the biohacking and human optimization crowd rather than general preventive health. Wild Health and other precision medicine companies offer comprehensive genetic biomarker testing combined with personalized health coaching, typically at much higher price points of \$3,000 to \$5,000 plus annually. Function sits below these in price but above basic DTC testing companies in comprehensiveness.

The biggest potential competitive threat might be from traditional healthcare incumbents if they decide to move into this space. Quest and LabCorp have dire

relationships with millions of patients and could absolutely launch consumer-facing preventive testing programs. They have the lab infrastructure, the national footprint, and the existing relationships with physicians and health systems. What they lack is a consumer brand, the product design sensibility, and frankly the willingness to potentially cannibalize their existing B2B relationships with physicians and health systems who might not love labs going direct to consumer.

CVS, Walgreens, and other retail health players are also potential competitors or acquirers. They have physical presence, existing consumer relationships, and increasing ambitions in preventive and primary care through their MinuteClinic and Walgreens Health initiatives. They could bundle comprehensive lab testing into existing services relatively easily. The question is whether they have the focus and execution capability to build something that delivers the kind of consumer experience that Function has created.

Amazon is the wildcard. They've been making moves in healthcare for years through Amazon Pharmacy, Amazon Clinic, and their acquisition of One Medical. If Amazon decided that comprehensive preventive lab testing was a strategic priority, they could bundle it into Prime, offer it at cost or below cost to drive engagement, and use their operational excellence and customer obsession to create a genuinely competitive offering. That would be an existential threat to Function unless Function can establish such strong brand loyalty and network effects that Amazon's scale advantages don't matter.

The reality is that Function is probably competing less on the clinical value proposition, which is relatively straightforward to replicate, and more on brand, experience, and the specific customer segment they're targeting. They're going after wellness-focused consumers who want to be proactive about health, who are comfortable with technology, who have disposable income, and who respond to Function's specific brand positioning around longevity and optimization. If they own that customer segment, they can build a sustainable business. If competitors fragment the market or if a much larger player decides to compete aggressively on price, Function's path to scale becomes much more challenging.

# Total Addressable Market and Growth Constraints

The total addressable market question is where things get simultaneously exciting and concerning. On the optimistic side, preventive health is genuinely underpenetrated in the US healthcare system. Most people only get lab work when their doctor orders it for a specific reason, which means they're often catching problems late rather than early. If Function can convince even a fraction of health-conscious Americans that proactive quarterly testing is worth \$499 per year, the market is enormous.

Let's try to size this reasonably. The US has roughly 130 million households. Of those, maybe 40 million to 50 million earn over \$100K annually, which is probably the minimum income level where \$499 per year for preventive health testing feels accessible rather than prohibitively expensive. Of those higher-income households, maybe half are already somewhat engaged with preventive health and wellness, spending money on gym memberships, nutrition coaching, wellness apps, or other discretionary health services. That gives you an addressable market of 20 million households.

If Function can achieve 10 percent penetration of that addressable market, that's 2 million to 2.5 million customers, which gets you to the \$1B in revenue that might support the valuation. If they can get to 20 percent penetration, you're looking at a \$2B revenue business, which absolutely justifies a \$10B exit valuation. The question is whether 10 percent to 20 percent penetration is realistic or wildly optimistic.

For reference, Peloton at its peak had penetrated maybe 5 percent of fitness-focused households before growth stalled and the business contracted. Weight Watchers historically reached maybe 10 percent to 15 percent of people actively trying to lose weight. The most successful consumer subscription services like Netflix or Spotify have achieved 50 percent plus penetration of their addressable markets, but those are entertainment services with much broader appeal and lower price points.

Healthcare is complicated because willingness to pay is tied to perceived health benefits and health consciousness. The people most likely to sign up for Function are pro-

already relatively healthy and health-conscious. They're doing this for optimization and peace of mind, not because they have concerning symptoms. That's actually a good thing for Function's business model because healthy people are cheaper to acquire and have better retention. But it also means you're not capturing people who might benefit most from early detection because those people often aren't prioritizing preventive health until they have a scare.

There's also the age demographic question. Function's value proposition probably resonates most with people in their 30s through 60s who are old enough to start worrying about age-related health decline but young enough that prevention is still relevant. That's a large demographic, but it's not everyone. People in their 20s generally don't worry much about preventive health. People in their 70s and beyond are often already dealing with chronic conditions and are more focused on management than prevention.

Geographic expansion could extend the TAM. Function currently operates in the US where Quest has national coverage, but they could theoretically expand internationally to other high-income countries. However, healthcare systems vary dramatically by country, lab infrastructure varies, regulatory requirements vary, consumer willingness to pay out of pocket for preventive care varies based on how robust public health systems are. International expansion is possible but would require significant investment and adaptation.

The real growth constraint is probably customer acquisition efficiency. Function will definitely acquire their first 100,000 customers by targeting the most engaged wellness consumers through content marketing, partnerships with health influencers, and relatively efficient paid acquisition. Getting from 100,000 to 500,000 requires reaching a broader audience that's less predisposed to the quantified self framing and might need more convincing. Getting from 500,000 to two million requires achieving genuine mainstream awareness and acceptance, which typically requires either massive marketing spend or some kind of viral growth dynamic.

## **The Path to Venture Scale Returns**

Let's talk about what success actually looks like and how Function gets from where they are now to an outcome that delivers returns to their Series B investors. There are really only a few paths that work at this scale.

Path one is the classic hypergrowth to IPO. Function scales aggressively, gets to \$500M plus in revenue by 2028, demonstrates a clear path to profitability with operating margins in the 15 percent to 25 percent range, and goes public at a \$8B to \$12B valuation. This requires maintaining high revenue growth, 60 percent plus annually, while steadily improving unit economics and demonstrating that customer retention remains strong even as they move beyond early adopters. It also requires favorable public market conditions for growth companies, which has been challenging over the past few years but could improve.

Path two is strategic acquisition by a major healthcare player. CVS, UnitedHealthcare, Elevance, or another large health system or payer decides that owning the preventive health relationship with millions of consumers is strategically valuable enough to pay \$5B to \$10B for Function. This probably requires Function demonstrating that it can eventually integrate with insurance and create value for the broader healthcare system, not just operate as a standalone DTC subscription service. The acquirer would see Function as a way to reduce long-term healthcare costs by catching conditions early and shifting care upstream.

Path three is the Amazon or Apple acquires them scenario. A big tech company with healthcare ambitions decides that Function's preventive health platform and member base are valuable assets worth acquiring to accelerate their healthcare strategy. Amazon has been building health tracking capabilities into the Apple Watch and iPhone. Amazon has been expanding in healthcare. Either could see Function as a way to add longitudinal lab data to their health ecosystems. This path probably requires Function being far enough along that the acquirer sees a mature platform and real traction, not just early validation.

Path four, which is less talked about but possible, is that Function becomes a profitable subscription business throwing off \$150M to \$300M in annual cash flow but never gets to the scale that justifies a \$10B exit. In this scenario, the Series B

investors might get 2x their money back instead of 5x, which is fine but not what I underwrote. The company either stays private indefinitely as a cash flow machine or gets sold to a strategic acquirer at a more modest valuation. This is still a good outcome for early investors and employees, just not the home run that late-stage investors need.

The key variables that determine which path materializes are retention, CAC, and whether Function can find a second act beyond just the core \$499 per year subscription. If retention is genuinely 75 percent plus annually and CAC stays below \$250 even as they scale, the economics work and hypergrowth is achievable. If retention degrades to 60 percent and CAC climbs to \$400, growth stalls and they have to find strategic alternatives.

The second act question is critical. Can Function expand into employer wellness and generate \$2M to \$5M contracts with large companies who want to offer this as a benefit? Can they partner with health plans to provide preventive testing to high-risk populations and get paid on a per member per month basis? Can they develop proprietary biomarker algorithms or early detection capabilities that become genuinely defensible IP? Can they become the data platform for longitudinal health and monetize that data for research or drug development?

Each of these expansion opportunities could dramatically increase the value of the business, but they also introduce complexity and risk. Enterprise sales are slow and expensive. Partnerships with health plans require navigating regulatory complexity and proving ROI. Becoming a data platform requires building entirely new capabilities and probably requires overcoming significant privacy and consent challenges.

## **Risk Factors and Ways This Goes Sideways**

Let's talk about how this investment thesis breaks, because at a \$2.5B valuation the margin for error is razor thin. There are several categories of risk that could derail Function's trajectory.

The most obvious risk is that unit economics don't hold up at scale. CAC increases as they saturate the wellness enthusiast market and need to reach more mainstream consumers who require more convincing and more marketing spend to convert. Retention drops because the marginal customer is less engaged and more price-sensitive. Costs increase because they need to add more biomarkers to stay competitive, because physician consultation times creep up, or because they face unexpected operational challenges. If the economics degrade even modestly, a business that looks promising at 50,000 members starts looking shaky at 200,000 members.

Regulatory risk is always present in healthcare. Function has designed their model to minimize regulatory exposure by not diagnosing or treating conditions, but regulators could still decide that what they're doing constitutes practicing medicine without appropriate oversight. Individual state medical boards could create barriers. They could decide that certain aspects of their testing or algorithms require regulator approval. Any of these would increase costs and slow growth.

There's also the insurance wild card. Right now Function operates entirely outside the insurance system, which is both a strength and a potential weakness. It's a strength because they avoid all the administrative complexity and revenue cycle challenges associated with insurance billing. But it's a weakness because 90 percent plus of healthcare spending runs through insurance, and if payors eventually start covering comprehensive preventive lab testing, consumers might expect that their insurance should pay for what Function offers. If that happens, Function either needs to figure out how to integrate with insurance, which destroys their elegant business model, or they need to convince consumers to continue paying out of pocket for something insurance might cover.

Competition could intensify quickly. Right now Function has a first-mover advantage in this specific niche of comprehensive preventive lab testing delivered through a subscription model. But there's nothing structurally defensible about coordinating quarterly lab work. Quest or LabCorp could launch competing services. Larger healthcare companies could enter the market. If competition drives down pricing and fragments the market, Function's ability to scale at their target economics gets much harder.

There's execution risk around scaling operations. Going from 50,000 members to 500,000 to two million members requires building operational infrastructure, hiring teams, maintaining quality of physician consultations, keeping the technology platform reliable, and handling customer support at scale. Lots of companies struggle with this transition. If service quality degrades, customer satisfaction drops, and retention suffers.

Clinical risk is subtle but real. Function is betting that comprehensive biomarker testing leads to better health outcomes by catching problems early. But there's a legitimate debate in the medical community about whether more testing is always better. Overdiagnosis and false positives can lead to unnecessary anxiety, additional testing, and interventions that don't actually improve health. If research emerges suggesting that comprehensive preventive testing doesn't meaningfully improve outcomes for generally healthy people, Function's value proposition gets harder to defend.

Macroeconomic risk matters for discretionary consumer spending. At \$499 per year, Function is definitely a discretionary purchase. In a recession or period of economic uncertainty, consumers cut discretionary spending. If unemployment rises or household incomes stagnate, Function's target customer might decide that proactive health monitoring is something they can live without for a year or two. That would show up as declining new member acquisition and potentially higher churn, both of which would crater growth projections.

There's also founder risk, though this is harder to assess from the outside. Has the leadership team built and scaled a business of this magnitude before? Do they have the operational chops to navigate the challenges of hypergrowth? Are they thinking strategically about long-term positioning or just focused on growth metrics? The best venture outcomes usually have exceptional founders who can adapt as the business evolves. If Function's leadership isn't up to the challenge, execution will suffer.

## **Conclusion and Investment Framework**

So what's the bottom line for healthcare angel investors or observers trying to figure out whether Function's \$2.5B valuation makes sense? The honest answer is that depends entirely on which assumptions you believe about retention, customer acquisition efficiency, and addressable market penetration.

In the bull case, Function has discovered genuine product-market fit with welln focused consumers who will happily pay \$499 per year for proactive health monitoring. Retention is strong, 75 percent plus annually, because the service de real value and peace of mind. CAC remains below \$250 even as they scale becaus brand and word-of-mouth drive efficient growth. They reach two million plus members by 2028, generating \$1B in revenue with improving margins, and eithe public at a \$10B plus valuation or get acquired by a strategic buyer who sees the the definitive preventive health platform. Series B investors make 4x to 5x their and everyone is happy.

In the bear case, retention is closer to 60 percent because the value proposition is sticky than hoped once the novelty wears off. CAC climbs above \$400 as they sat early adopters and struggle to reach mainstream consumers. They top out at 400 to 500,000 members and \$200M to \$250M in revenue, which is a nice business b nowhere near what's needed to justify the valuation. The company either raises r money at a down round, finds a strategic acquirer at a modest premium to their B, or limps along as a profitable but subscale business that never delivers the ret investors expected.

The reality will probably land somewhere in between. Function has clearly built something people want and has validated that there's demand for comprehensive preventive lab testing delivered with a great consumer experience. The question whether that demand extends beyond the initial wellness enthusiast customer segment and whether they can maintain attractive unit economics as they scale.

If you're an early-stage angel investor looking at this sector, the lesson is probab to try to compete directly with Function in comprehensive preventive testing bu look for adjacent opportunities. Can you build specialized testing services for sp conditions or populations that Function doesn't serve well? Can you create tools

help people act on the insights from services like Function? Can you tackle the market that Function hasn't fully penetrated? There's a lot of room for innovative preventive health beyond what Function is doing.

If you're already an investor in Function or considering participating in their next round, the key diligence questions are retention curves, cohort analysis showing whether older cohorts maintain high engagement, CAC trends over time, and whether they're seeing early signs of second-order network effects or data advantages that could provide defensibility. You want to see that the business is getting stronger scales, not just bigger.

For the rest of us watching from the sidelines, Function is a fascinating test case on whether consumer-funded preventive health can work at venture scale. The clinical logic is sound, catching problems early is better than treating advanced disease. The business model is elegant, high-margin subscription revenue without insurance complexity. The execution so far has been impressive, they've raised nearly \$400 million total and clearly have strong investor conviction. But the valuation is demanding a requiring level of scale that few consumer health companies have achieved. The next 24 to 36 months will tell us whether Function becomes a generational healthcare company or just another well-funded startup that couldn't quite deliver on its promise. Either way, it'll be educational to watch.



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