NOVEMBER INSIGHTS PAPER – MEDTECH

MEDTECH PROVES ITS FORTITUDE AND RESILIENCE IN 2023

Market overview

MedTech businesses prove operational resilience in economic downturn – global revenues from MedTech companies are expected to grow by 4.2% in 2023, outperforming GDP growth.

Cash-rich strategic MedTech acquirers continue to focus on M&A to achieve longer term growth plans.

High technological barriers to entry and clarity on exit opportunities to large strategics make small and medium MedTech businesses attractive to Private Equity (PE) investors as they look to deploy high levels of dry powder.

Underpinned by interest from strategic and financial investors, MedTech M&A deal volumes and valuations have outperformed the wider market.

Anticipated macroeconomic improvements will increase the competition for capital from other sectors. This coupled with potential for a change in government may impact transaction timing decisions, bringing exit planning into focus.

MedTech revenues resilient to the 2022 economic hangover

Against a backdrop of prevailing macroeconomic headwinds, including high energy prices, constrained global supply chains and a 40-year high inflation rate, the MedTech industry has continued to demonstrate resilience with revenues forecasted to increase by 4.2% from 2022 (Statista, 2023). In contrast, the UK's GDP is only expected to grow 0.6% in 2023 (HM Treasury, 2023). MedTech's (and indeed the broader Healthcare and Life Sciences sector's) superior growth is being driven by the following key trends:

- Populations are aging globally, driving greater demand for MedTech products to address clinical and non-clinical needs.
- An increase in MedTech R&D expenditure globally, spurred on by the pandemic, has led to more advances in the sector, with a focus on innovation to address healthcare needs.
- Continuing shift in the site of care closer to the patient's home opens new markets and product offerings, expanding the MedTech sector.
- Society is continuing to view health as a priority with rising consumer demand for wellness and healthy aging products driving growth in Medical Aesthetics.

MedTech M&A activity steadfast in 2023

Whilst the challenging economic climate has impacted M&A deal volumes overall, MedTech M&A activity has remained stable, demonstrating the sector's attractiveness to both strategic and financial buyers.

With a high base rate and uncertainty persisting in the debt markets, deal volumes across all sectors in aggregate have reduced as access to leverage has been restricted. Non-sector specific deal volumes in total have further reduced due to differences in valuation expectations between buyers and sellers which became apparent as a result of the macroeconomic shocks in 2022 that persisted into 2023. As a result, in the first 9 months of 2023, 26,608 M&A deals were completed across all sectors - a 29% reduction year-on-year from 2022 (A&M Analysis, 2023). In addition, aggregate deal value for all M&A transactions in the first nine months of the year fell by 29% from 2022 ($2.97tn in 2022 to $2.1tn in 2023) (A&M Analysis, 2023).

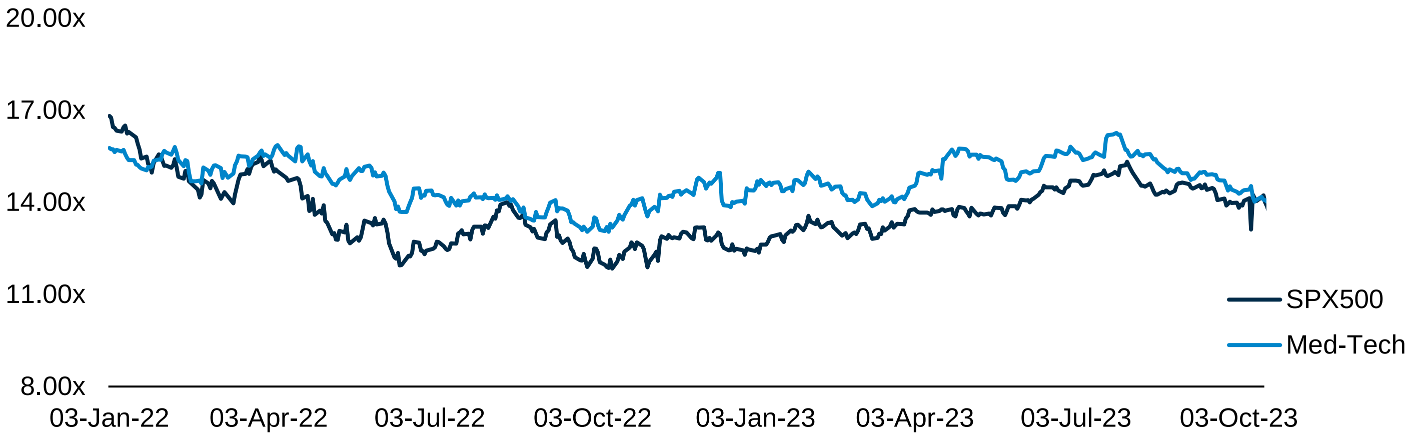
In contrast, A&M analysis shows that MedTech deal activity only decreased by c.1% in the first 9 months of 2023 compared to the same period last year, a considerable delta from the 29% reduction seen by the market as a whole. MedTech's M&A resilience is a result of continued interest, particularly in the small and medium cap market, from both strategic and financial buyers.

Larger MedTech companies remain overexposed to low-growth markets as a result of legacy businesses and are resultantly looking to acquire innovative small and mid-cap companies in attractive fast growth sectors to expand their product offerings, acquire innovation pipelines, reach new markets, diversify supply chains and gain access to new technologies. Strategics continue to consider M&A as a quicker and more cost-effective route to attaining these objectives than attempting to achieve them organically. Research from McKinsey supports this idea, evidencing that active acquirers outpace their peers and that acquirers following programmatic approaches to M&A outperform organic growers (McKinsey, 2021). Examples of this trend include Halma plc's recent acquisition of AprioMed AB, a designer and manufacturer of medical devices used in bone biopsies. The acquisition bolstered the capabilities of Halma's diagnostics manufacturing business, IZI Medical Products, which allowed for synergistic enhancements across its interventional radiology portfolio. AprioMed's turnover in the year to 31st Dec was approximately £3m. At £10m total consideration, the business was effectively valued at approximately 3x FY23 Turnover.

MedTech M&A also remains engaging to financial investors. The PE community, attracted to the high technological and regulatory barriers to entry enjoyed by innovative MedTech businesses, is conscious of the large strategics' continued interest in the small and mid-cap MedTech market. These factors, coupled with MedTech's operational resilience in economic downturns as discussed above, gives PE confidence in achieving profitable returns from MedTech investments. Evidencing PE's continued interest in MedTech, December 2022 saw a record investment by Bridgepoint Capital into French aesthetic injectable devices business Laboratoires Vivacy SAS for €900m. Vivacy is reported to have been put on the market with an adjusted EBITDA of approximately €40m, giving rise to an implied valuation multiple of 22.5x EBITDA.

The continued interest in MedTech from strategic and financial investors has allowed the sector to demonstrate pricing resilience compared to other verticals, with MedTech companies exhibiting relatively stable multiple-based valuations since the start of 2022.

Historical EV/EBITDA multiples



Source: A&M analysis

Whilst valuations across several indices have fallen from the post-pandemic highs, MedTech quoted peers have maintained EV/EBITDA multiple performance over the reference period, declining only 9% versus a drop in the S&P 500 of over 17%.

Included below are selected relevant public company trading multiples and illustrated precedent transactions within the MedTech sector.

Selected Public Comparables (as at 10 November 2023)

Company	Market Cap (£bn)	Enterprise Value (£bn)	Implied EV/EBITDA multiple
Abbott Laboratories	132,232	139,451	17.1x
Stryker Corporation	83,774	92,936	22.4x
Medtronic	75,930	89,969	13.0x
Becton, Dickinson & Co	54,857	66,626	15.9x

Source: A&M analysis

Selected Precedent Transactions (as at 10 November 2023)

Date	Target	Acquiror	Enterprise value (£m)	Implied multiple
Oct-23	AprioMed AB	Halma plc	10	3.0x Rev
May-23	Kolplast CI SA	ADDvise AB	33	2.2x Rev
Feb-23	NuVasiv Inc	Globus Medical Inc	3,120	17.2x EBITDA
Dec-22	Laboratoires Vivacy SAS	Bridgepoint Capital	787	22.5x EBITDA
Jul-22	Natus Medical Inc	ArchiMed SAS	870	12.6x EBITDA

Source: A&M analysis

Sector outlook

Despite signs of continued economic uncertainty and with the effects of high interest rates on fixed term debt coming up for renewal yet to be truly felt, UK inflation has fallen below 5% in October 2023 (Bank of England, 2023). With inflation trending towards more traditional levels, interest rates should fall, increasing the availability of affordable leverage. The opening up of the debt markets should help PE deploy their considerable dry powder (S&P Global estimate PE's undeployed capital to be $2.5tn at H1 2023) (Thomas and Sabater, 2023), leading to an increase in deal activity. As time progresses, we also expect the valuation expectations of buyers and sellers to become acclimatised and converge, leading to a further uptick in deal activity. These improvements in general economic conditions could divert capital towards non-MedTech assets, as other sectors more dependent on favourable economic conditions become attractive once again and PE look to diversify their portfolio across sectors.

In addition to the anticipated improvements in economic conditions, the potential of a General Election in H2 2024 should create a surge of deal activity across all sectors in H1 '24 as business owners look to catalyse their disposals before risking any change in the tax environment.

The innovative MedTech sector, underpinned by favourable trends and high barriers to entry, has proven itself resilient from a deal volume and valuation perspective in times of economic downturn. However, with MedTech businesses expected to face increasing competition for capital from other sectors as the economic environment improves, the focus on exit planning for MedTech asset owners is being brought into the spotlight.

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