

CP INSIGHT:

M&A in Digital Health

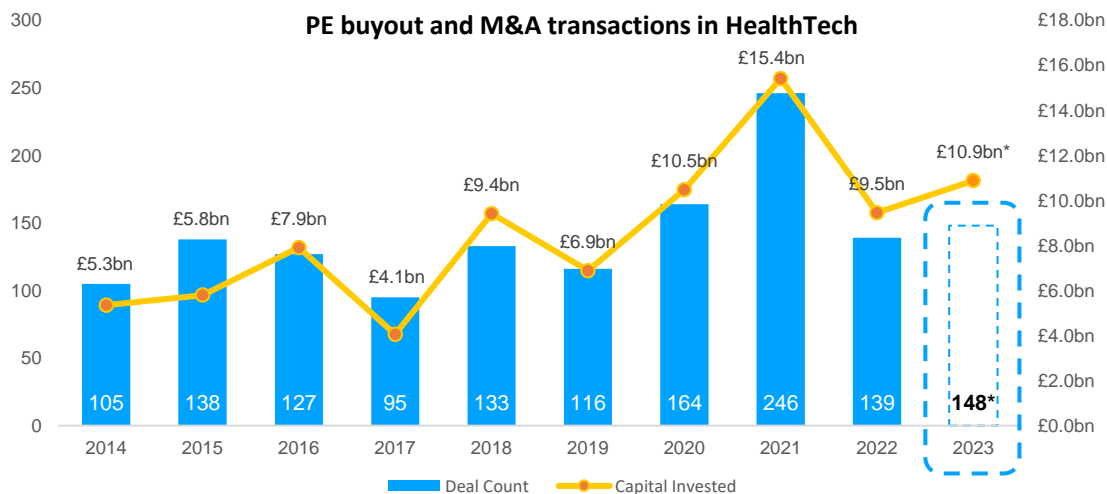
DESPITE TIGHTENING IN VC FUNDING ECOSYSTEM AND SUPPRESSED VALUATIONS, M&A ACTIVITY IN DIGITAL HEALTH REMAINS ROBUST.

LARGER STRATEGIC PLAYERS SENSE AN OPPORTUNITY TO ONBOARD INNOVATIVE HEALTHTECH ASSETS WHILST INVESTORS EXERCISE FUNDING CAUTION AND PLACE GREATER EMPHASIS ON PROFITABILITY.

INVESTMENT TRENDS

THE HEALTHCARE TECHNOLOGY BACKDROP

PE buyout and M&A transactions in HealthTech



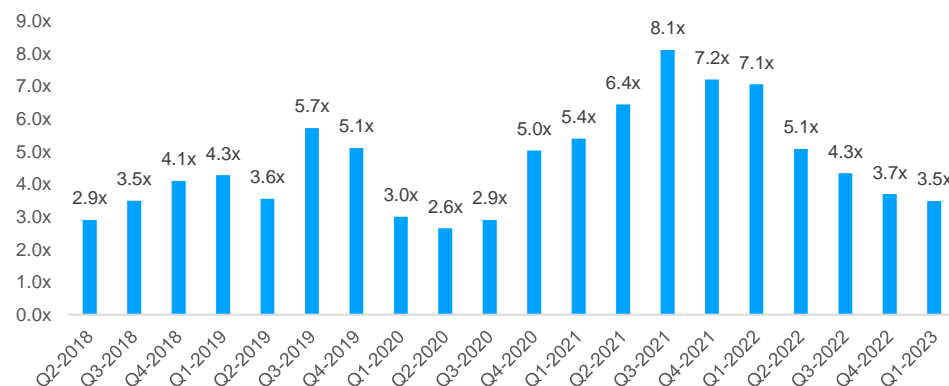
TRANSACTION ACTIVITY

- The wider HealthTech deal landscape benefited greatly from broader digital adoption trends
- Tech-enabled, innovative solutions are highly attractive to institutional investors
- Deal flow peaked in 2021 with over £15bn invested in HealthTech assets
- 2022 saw a drop in deal volume as investors became more prudent and valuations softened
- The trend of more cautious and diligent investments is expected to continue in 2023 as investors navigate the uncertain macro-economic environment

VALUATION MULTIPLES

- Tech markets have seen valuations fall from record highs in 2021. Systemic risk in the banking sector, slowed growth in the VC ecosystem and a tightening of debt markets have all contributed
- With valuations cooling, M&A in HealthTech is once again becoming highly prevalent as corporates seek cheaper assets to create end-to-end solutions for patients and providers
- Positive underlying drivers remain, with funding commitments from the UK government to support the digitisation of the NHS, as well as significant market opportunity to address existing backlogs through efficiency-generating digital health applications

HealthTech – Median EV/Revenue multiple by quarter



Source: Pitchbook, Cooper Parry analysis

(1) Deals & capital investment across all PE buyout and M&A transactions <£500m where data disclosed * - Cooper Parry estimate of deal volume and value, 2023

VERTICAL OVERVIEW

DIGITAL HEALTH

DIGITAL HEALTH ECOSYSTEM

TELEHEALTH



CARE MANAGEMENT



CHRONIC DISEASE MANAGEMENT



MARKET DRIVERS



- Incidence and cost of chronic disease management is rising, with almost half of the UK population reported having a long-standing health problem. This large addressable market creates opportunities for larger players to execute roll-up strategies downstream

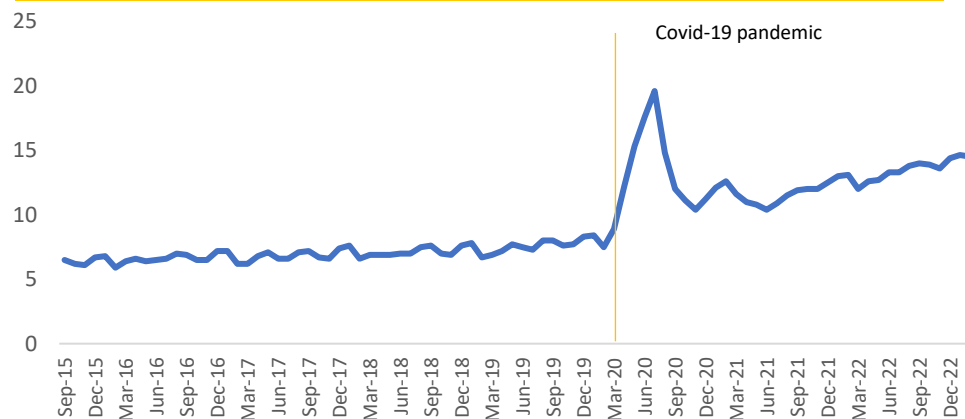


- High care complexity and the growing acuity of care is changing the landscape of care management at home and in residential settings. The demand for integrated, end-to-end care management software that holistically navigates the care pathway is fuelling tech startups looking to take advantage of the growth curve



- Increasing NHS waiting lists and slowing referral to treatment times is creating a market opportunity for innovative digital health companies. Digital triage and remote consultation provides a more efficient delivery of care, allowing faster access to medical professionals and treatment

Median referral to treatment waiting time for consultant led elective care

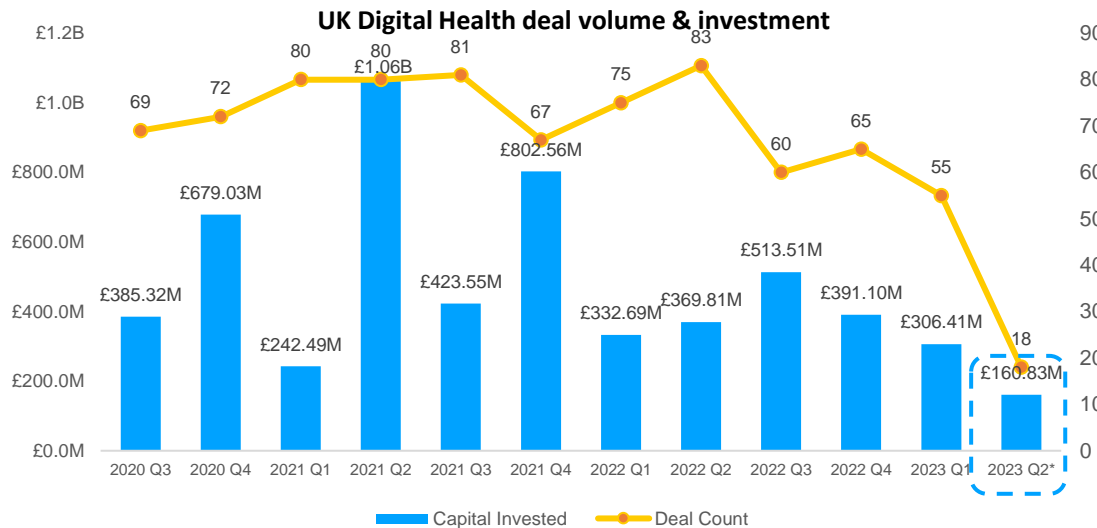


Source: Pitchbook, NHS Digital, Cooper Parry analysis

VERTICAL INVESTMENT TRENDS

DIGITAL HEALTH

UK TRENDS

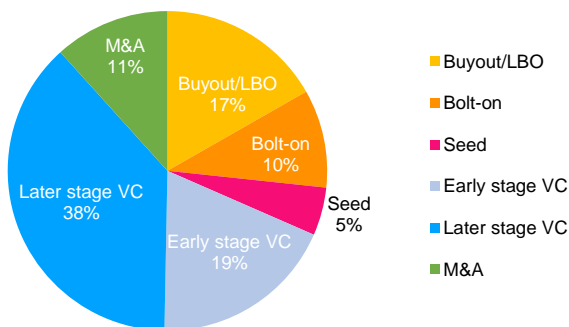


TRANSACTION ACTIVITY

- UK deal volumes have stabilised following highs in 2021, although overall capital investment has been on the decline since mid-2022; signalling trepidation from investors amidst significant systemic uncertainty
- Investment in UK Digital Health companies was at its lowest quarter since early 2021 with 55 deals raising £306m in Q1-2023
- 2021 stood out as an anomaly for investment as investor sentiment now seems to be turning to smaller cheques and early-stage startups
- Care Management remains the most resilient area with a number of deals at the smaller end of the market - CareLineLive (£3m) and Log my Care (£3.25m) both secured series A funding in the last 6 months

GLOBAL TRENDS

Capital invested by deal type



VC & Early Growth Capital deal volume

	2020	2021	2022
Angel & seed	83	96	70
Early-stage VC	99	124	84
Late-stage VC	122	175	116
Venture growth VC	26	53	48
Overall	330	448	318

DIGITAL HEALTH: RIPE FOR M&A

- VC activity in digital health had been elevated following the heightened appetite for efficiency-driving digital health solutions
- The VC funding environment has dried up compared to its heights in 2021, with startup valuations declining and the IPO market remaining unfriendly
- Therefore, market conditions are paving the way for a wave of Digital Health M&A as companies seek to expand their product offerings and shore up liquidity
- Huge amounts of innovation, adoption and elevated valuations during the pandemic has created a bubble of HealthTech companies in that late-stage VC segment of the market, primed for consolidation by larger players and private equity-backed platforms

Source: Pitchbook, Cooper Parry analysis

(1) Deals & capital investment across all transaction types <£500m where deal data disclosed

STRATEGIC M&A

DIGITAL HEALTH

KEY STRATEGIES IN DIGITAL HEALTH M&A

Consolidation for inorganic growth



- With investors taking a more prudent approach and niches within the digital health ecosystem saturated with startups, many are looking to acquire competitors
- Despite the upfront costs of acquisitions, a well-executed M&A strategy speaks to greater fundraising potential down the line – in the current climate, consolidation might be a risk worth taking

M&A to grow core operations and generate efficiencies



- The strategy of acquiring digital health companies that enhance or streamline core operations is becoming increasingly prevalent given the backdrop of cost pressures
- Healthcare services businesses impacted by surging staff costs and an ever-widening funding gap are looking to M&A to generate bottom-line savings that outweigh the cost of investment

Buy and build for care delivery integration



- Buying Digital Health companies with features that are complementary can strengthen an acquirers value proposition to users
- Integration of upstream or downstream innovative companies can help capture market share in adjacent types of care

M&A for disruptive innovation



- Cash-rich, largely sponsor-backed Digital Health players are also looking at ways to differentiate their offering and create new business models
- Depressed later-stage VC valuations and a rich pool of talented management teams creates a market ripe for larger enterprises to buy innovative solutions at lower multiples

Source: Rock Health: Digital Health M&A trends 2022, Cooper Parry analysis

NOTABLE DEALS

CALYX™ CAPVEST

Target: Calyx **Buyer:** CapVest Partners

- Calyx, the UK-based provider of clinical technology services, was acquired by CapVest Partners for an undisclosed amount
- This deal allows the growth and development of Calyx to accelerate, to be a global leader in eClinical services

CHAMPION HEALTH 

Target: Champion Health **Buyer:** Physitrack

- Champion Health the UK-based provider of a digital wellbeing platform, was acquired by Physitrack plc, the UK-based virtual care technology business
- This deal will allow Champion Health to roll-out workplace support services to new geographies and continue to expand

 **OLYMPUS®**

Target: Odin Vision **Buyer:** Olympus

- Odin Vision, the UK-based cloud-AI clinical procedures platform was acquired by Olympus, the listed Japanese imaging company
- This deal aligns with Olympus' digital strategy to improve care by transforming clinical and procedural workflows

TICTRAC
by Dialogue



Target: Tictrac **Buyer:** Canadian Dialogue Health

- Tictrac, the UK-based developer of an interactive health platform intended to offer health insights, was acquired by Dialogue
- The consideration was £35m, which consists of £15m paid in cash, £20m paid in earnout. The transaction provides an exit strategy for multiple parties

NOTABLE DEALS



Target: Clevermed **Buyer:** System C Healthcare

- Developer of patient data management solutions, Clevermed, was acquired by System C Healthcare, via its financial sponsor CVC Capital Partners
- The acquisition provides System C with product differentiation by entering the maternity market



Target: Log my Care **Investor:** Mercia

- Log my Care, the UK developer of care management software, secured series A funding of £3.5m from Mercia Asset Mgt.
- The funds will be used to strengthen the company's foothold in the UK market, enhance the platform further and explore new opportunities internationally



Target: CareDocs **Buyer:** Grafenia

- CareDcos, the developer of a cloud-based digital care planning and management software was acquired by Grafenia
- The initial consideration comprises cash of £2.975m to be paid on completion, together with deferred consideration of £0.525m



Target: Top Doctors **Investor:** Mars Capital

- Top Doctors, a Spain-based healthcare software company, raised EUR 8m from the Singapore-based capital provider Mars Growth Capital
- Proceeds will be used by the company to carry out acquisitions and improve the company's product offering

COOPER PARRY CORPORATE FINANCE

GET IN TOUCH



NIALL CHANTRILL **ASSOCIATE PARTNER**

Niall joined Cooper Parry in 2011 and has spent the last 10 years working with entrepreneurial businesses and private equity clients operating across the mid-market.

Niall has a strong focus on working with businesses and entrepreneurs in the B2B software space.

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LOREN DOCKSEY **SENIOR ANALYST**

Loren joined Cooper Parry Corporate Finance in 2020 as an analyst, reviewing market behaviour, trends and analysing M&A activity within our sector specialisms.

Loren is a Trainee Chartered Accountant and holds a first-class honours degree in Economics from The University of Derby.

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JACK CLEMMY **ANALYST**

Jack joined Cooper Parry Corporate Finance in July 2022 as an Analyst, undertaking a year in industry as part of his BSc (Hons) Finance and Management degree at Loughborough University.

Jack has experience mapping markets, creating valuation pieces, originating acquisition targets and assessing buyer pools.

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OUR DIGITAL HEALTH DEALS IN 2022



LIVINGBRIDGE

- Nourish provides digital care planning software to the UK social care sector
- Founded in 2011, Nourish is a cloud-hosted Digital Care Planning Platform supporting care providers and carers in the evidencing, and accessing of care records
- Livingbridge's investment will enable Nourish to further develop its best-in-class platform and continue to innovate in the use data to improve care outcomes



AUGUST
equity

- Tri.x provides subscription based on-line policies and procedures manuals to the UK social care sector and has been part of Birmingham-based Anster Group since it was acquired in 2019
- August is a long-term investor with a particular emphasis on businesses with technology-led applications