

QUARTERLY HEALTHCARE FOCUS: MEDICAL DEVICES

February 2020

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INDUSTRY AT A GLANCE

- UK healthcare, specifically the medical devices sector has become a rapidly growing market that has seen technological development and a changing demographic driving growth. With the third largest medical equipment market in Europe, behind Germany and France (ref 2.), and with global annual sales expected to rise by over 5% each year to 2030, the UK is poised for further growth.
- Recent transactions in the market are evidence of anticipated future growth with some huge deals internationally, including the £3.8 billion acquisition of Wright Medical Group by US-based manufacturer of medical devices, Stryker Corporation. The financials of the deal demonstrate the size and anticipated growth of the market with an EBITDA multiple of 62.4x and a revenue multiple of 5.2x.
- The EU is the UK's biggest trading partner for medical devices, the latest data showing a significant trade deficit with around £2bn of goods exported each year and £3.3bn of European medical products imported. At the time of writing, the UK's long term relationship with the EU is unclear, however the transition period will artificially extend business and trade conditions likely to the end of 2020.
- Short-term, implications will be minimal with manufacturers, distributors and importers preparing largely for the legislation change. From a long-term perspective, the most likely outcomes are increased costs – for UK manufacturers who export onto the European market – coming in the form of tariffs and taxes, creating protracted Brexit uncertainties that could undermine the UK's medical device market outlook.

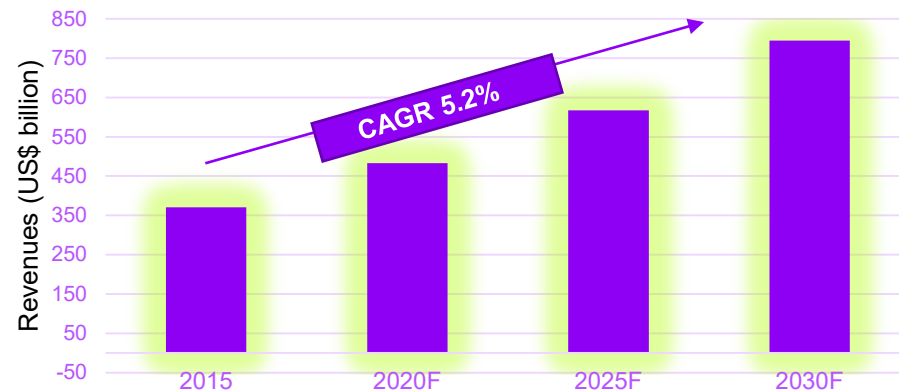
Real-terms NHS spending and capital expenditure expected to increase again in 2019/20.

Market drivers

Companies increase R&D investment as they target most efficient products in restrictive spending environment.

UK ageing population and rising cases of chronic illnesses underpinning demand for intensive healthcare.

Global medical device revenue forecast to 2030 (1)



Source: World Preview 2016 – Outlook to 2022

MARKET DRIVERS

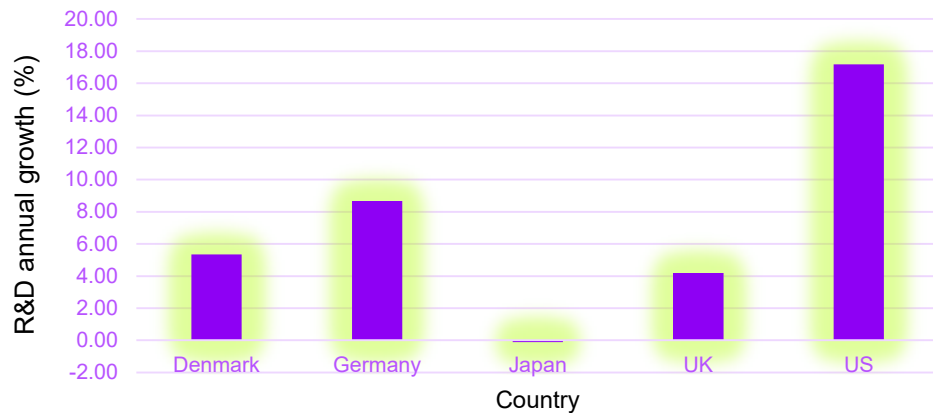


R&D INVESTMENT

R&D investment has seen year-on-year growth with evidence indicating that almost half of all corporate research and development spending in the UK was carried out by the pharmaceutical and healthcare industries in 2016.

Leading companies in the medical device industry are investing in R&D to target the most efficient products in an environment where keeping costs to a minimum is crucial. R&D investment not only drives technological improvements but is a key factor in boosting productivity and economic wealth.

Average R&D investment annual growth (%) by medical device companies (Mintel report, 2018)



Source: Mintel Report, 2018



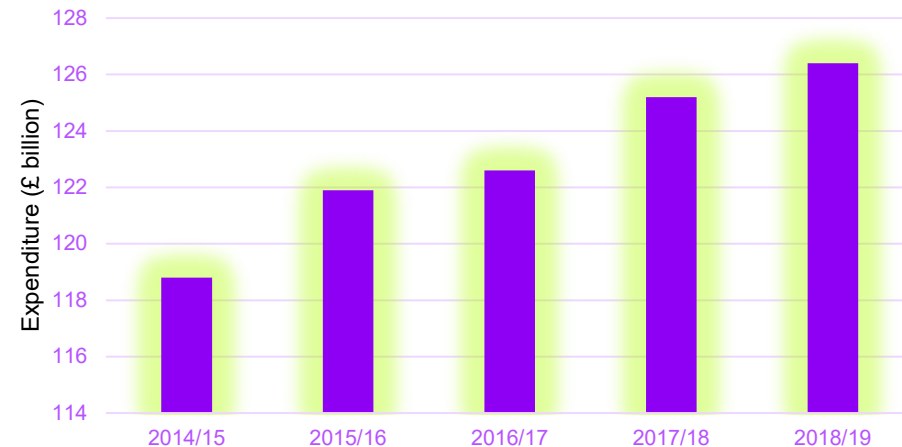
NHS SPENDING

NHS investment and capital expenditures expected to increase year on year, alongside commitments to deliver £22 billion in efficiency savings by 2020/21. The NHS is the main customer for the medical device sector, with investment providing further demand for efficiency-focused products.

Working with the NHS in England offers significant market opportunities for MedTech companies as well as a globally respected ecosystem for conducting research and development. There was £6bn of NHS funding spent on medical consumables and complex devices in 2018/19.

The challenge in the sector is for SMEs (47% of the total number of life science companies) to compete with the multi-national medtech companies for NHS contracts.

NHS Expenditure in England in real terms (Mintel report, 2018)



Source: Mintel Report, 2018

MARKET DRIVERS



POSITIVE DEMOGRAPHICS

Life expectancy has steadily grown over the last couple of decades due to remarkable advances in science and technology, including in the health care industry. As a result, the UK demographic of an ageing population promises growing demand for medical equipment.

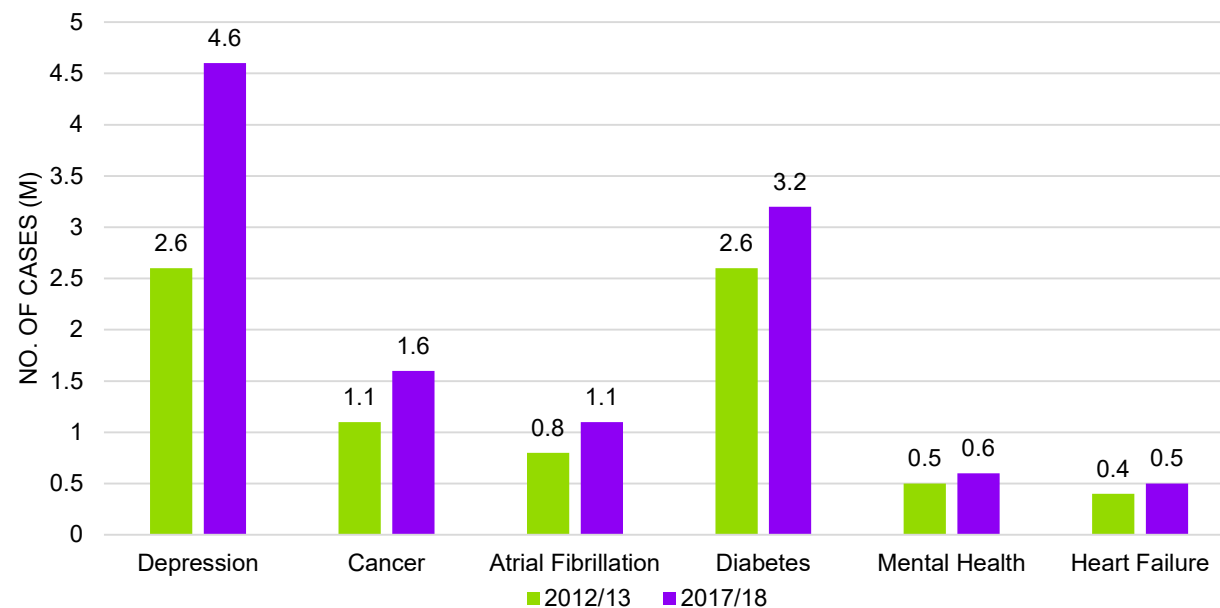
Ageing populations, coupled with extended life expectancy, create sustainable demand for medical equipment. Government subsidisation of elderly healthcare is creating a sizeable market for healthcare technologies that can be utilised in a home-care environment, where budgets fail to meet demand for services and products.



RISE IN CHRONIC ILLNESSES

Demand for medical equipment has grown alongside the rising number of people with chronic illnesses, while early diagnosis and treatment has become a greater priority to reduce long-term costs on the healthcare industry. Other factors increasing demand for medical equipment include better-informed patients, and greater accessibility to enhanced equipment.

People with long-term and chronic illnesses (Mintel, 2018)



Source: UK Mintel Report, 2018

TECHNOLOGY IN MEDICAL DEVICES

ARTIFICIAL INTELLIGENCE

Government recently announced £250 million of funding for a new NHS artificial intelligence laboratory. It wants AI, data and innovation to "transform the prevention, early diagnosis and treatment of chronic diseases by 2030", with the UK to be "at the forefront of the use of AI and data in early diagnosis, innovation, prevention and treatment" (ref 6) .

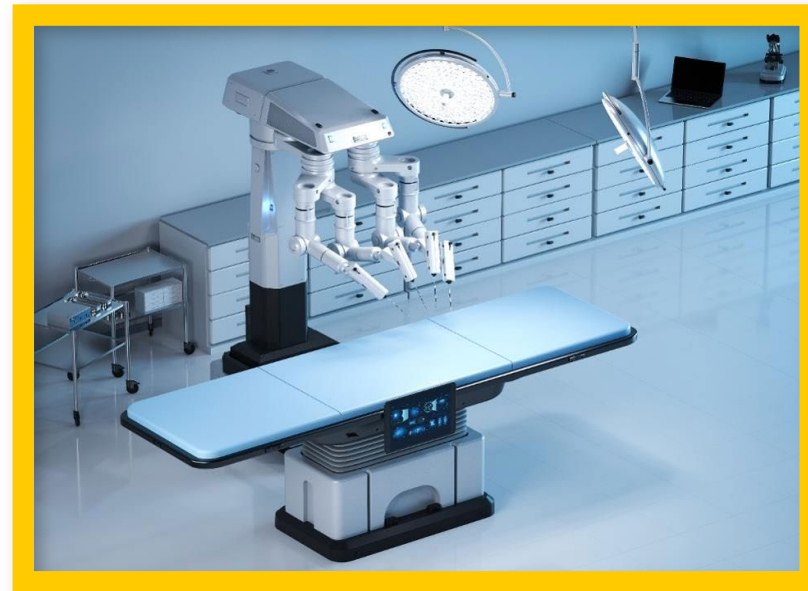
In the private market, healthcare AI start-ups have raised \$4.3B across 576 deals since 2013, topping all other industries in AI deal activity.



SURGICAL ROBOTICS

Driven by ageing populations, a rising trend in the number of minimally-invasive surgeries, and expanding demand for value-based healthcare, the 'global robotic surgery market will expand to \$7.4bn by 2028, at a compound annual growth rate (CAGR) of 9%' (ref 10).

Increasing adoption of robotics systems will be fuelled by a growing body of clinical data, as well as a growing number of indications. As robotic systems serve to improve surgical procedures, this will, in turn, increase the patient population eligible for treatment, as well as reduce complications and negative outcomes.



3D Printing Medical Devices

The global 3D printing medical devices market is expected to witness considerable growth as demand for 3D printers in manufacturing surgical equipment rises.

The 3D printing market is set to exceed \$1.7bn globally by the end of 2022, and technologies are likely to grow in popularity over the course of this year.



Applications of the technology are already being seen. Conformis have used 3D printing to produce patient-specific implants and single use instruments tailored to those implants, and Stryker have used their 3D-printed cages in spinal fusion surgeries. As 3D printing becomes more commonplace and the materials become cheaper, we can expect to see these technologies being used more and more.

Some of the latest developments in the 3D Printing of medical devices has come from Stratasys who have ventured into the niche area of human anatomy in medical models. Their 3D printers have the capabilities to replicate the feel, responsiveness and biomechanics of human anatomy in order to improve surgical preparedness and training, while helping bring new medical devices to market faster.

A word from Andy Parker – Head of Healthcare



“Market conditions, increasing investment and a changing demographic are facilitating buoyancy within the medical device sector. The undoubted potential of the UK as a leading global player is understandably attracting M&A interest, particularly from the US. With a reputation for innovation and cost-effective solutions that do not compromise on quality, the UK medical devices market continues to fuel international investment interest.”

KEY MEDICAL DEVICES TRANSACTIONS

2018/2019 proved to be an active period for M&A in the medical device sector, below are a select few:

Date	Target	Target Activity	Buyer	Buyer Activity	EV (£m)	Revenue multiple	EBITDA multiple
08/01/2020	Attune Hearing Pty Ltd	Australia -based hearing healthcare specialist	Amplifon S.P.A	Italy-based company engaged in the distribution of hearing aids	£29m	1.9x	14.7x
06/01/2020	Parcus Medical LLC	Parcus Medical LLC is the US-based company designing, manufacturing and distributing implants and instrumentation to operate the shoulder, knee, hip, and distal extremities headquartered in Sarasota.	Anika Therapeutics Inc	n/d	£26.6m	n/d	n/d
24/12/2019	Ellex Medical (Lasers and Ultrasound business)	Engaged in manufacture and sales of medical devices	The Lumibird Group	France-based company engaged in the design, manufacture and sale of scientific laser solutions	£53m	n/d	n/d
20/12/2019	Wright Medical Group N.V	UK-based manufacturer and supplier of high-quality healthcare equipment	Stryker Corporation	UK-based company engaged in manufacturing and marketing medical equipment and related services for the mobility disadvantaged	£3.8b	5.9x	62.4x
18/11/2019	Consort Medical Plc	Listed UK-based healthcare company focused on medical device technologies	Recipharm AB	Sweden-based pharmaceutical company operating as a contract development and manufacturing organization	£627m	2.1x	15.6x
30/10/2019	Viol Co. Ltd	South Korea-based medical device producer	Leeeum Private Equity and DMS Co	DMS - Korea-based company engaged in the manufacture of display manufacturing equipments. The Company provides display equipments, semiconductor equipments and solar cell equipments.	£16.64m	5.8x	37.3x
10/10/2019	AV Medical Technologies	Israel-based medical device company	Medtronic Plc	listed US-based company that provides products and therapies for medical professionals	£24.39m	n/d	n/d
06/08/2019	NeoMed Inc.	US-based medical device company engaged in developing neonatal products	Avanos Medical Inc.	listed US-based medical technology company engaged in delivering clinical medical device solutions	£23.02m	n/d	n/d
22/05/2019	Puls AS	Norway-based company involved in distribution of capital goods and consumables to healthcare sector	Mediq BV (from Handiacre Group AB)	Netherlands-based international retail and distribution company for pharmaceuticals and medical supplies	£9.5m	0.6x	26.9x
09/11/2018	Northwest Medical, LLC	US-based provider of respiratory equipments and services for both the pediatric and adult population	Great Elm Capital Group, Inc	US-based holding company that operates through its subsidiaries	£51m	1.5x	6.0x
04/09/2018	Complete Care Network Ltd	UK-based online retailer of disability equipment and mobility aids for adults and children	Nottingham Rehab Ltd	UK-based provider of daily living aids, mobility equipment, disability equipment and therapeutic resources	n/d	n/d	n/d
07/03/2018	Blink Medical Limited	UK-based manufacturer of single-use medical instruments for the ophthalmic surgical practices	Katena Products, Inc.	US-based company engaged in the design, manufacture and distribution of ophthalmic surgical instruments, biologics and devices to hospitals, surgical centres, and ophthalmic and optometric offices	£8m	0.8x	10.0x

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